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Macro Research

Weekly update 50/2019

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The elements on the the page "In this report" <u>are linked</u>
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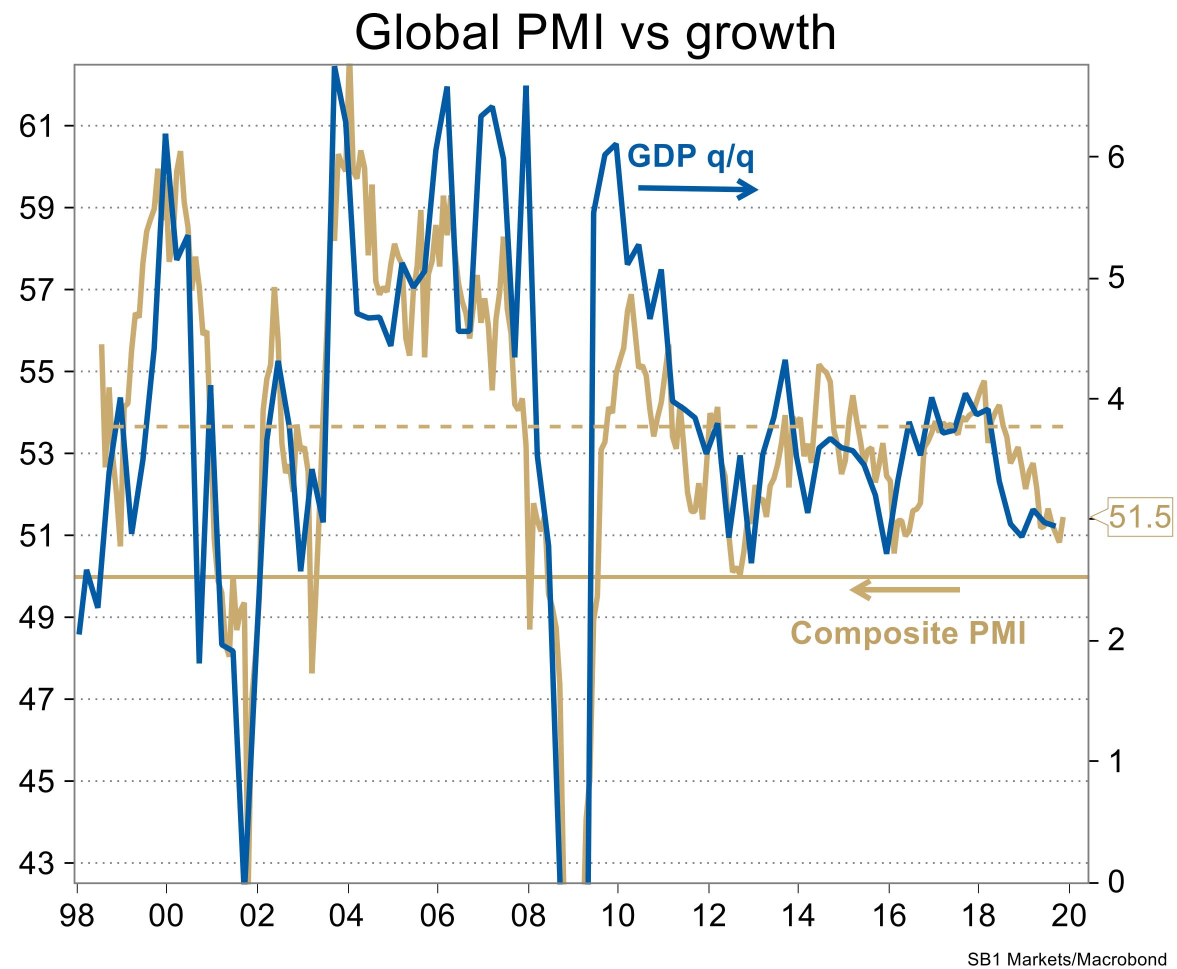
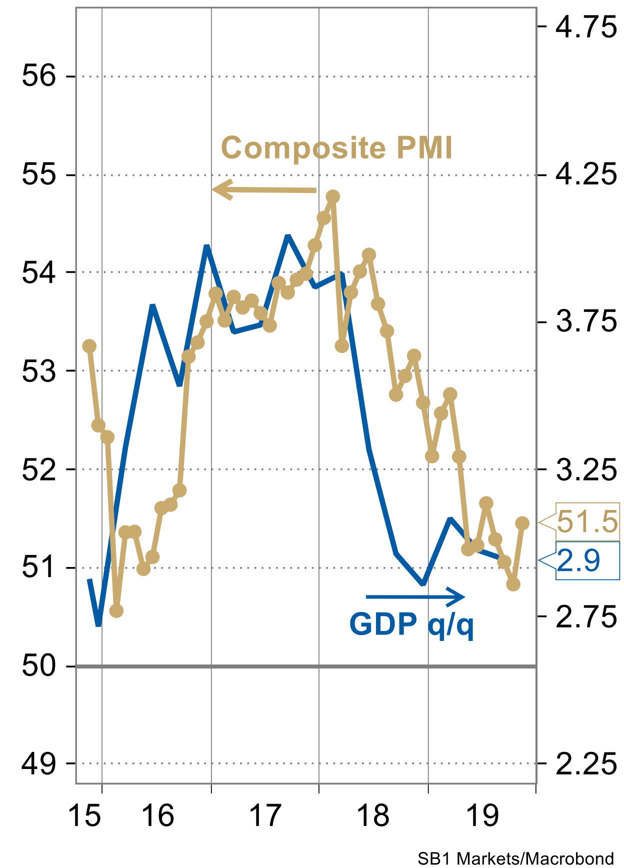
Last week – the main takes

- Bad 'news', good 'news' on the China/US **trade war** took markets up and down – as usual – last week. At Sunday 15^{th} US tariffs may be lifted further, if a phase 1 deal is not reached or somebody decides something else. Time will show
- **Global composite PMI** jumped 0.7 p in Nov, to 51.5, better than expected. The current PMI level points to somewhat higher global GDP growth in Q4, after holding steady at approx. 3% the past quarters. The upturn was broad**; China** was the big winner, the **US** and **EMU** (marginally) noted increased activity. **Global manufacturing** is recovering and points to a slight increase in production. The discrepancy of the two US manuf. surveys is increasing, the ISM surprisingly weakened to 48.1, whereas Markit's PMI climbed 52.6. The **Norwegian PMI** remains surprisingly strong, the **Swedish PMIs** are plummeting
- **US auto sales** rose in Nov but the direction is not impressive. Sales in the **EMU** rose marginally too but the trend is probably down here too, albeit heavily distorted by new emission regulation
- **Chinese exports** fell marginally m/m in Nov, imports rose more – both are close to record high in volume terms but nobody seems to recognise it, check our simple graphs
- **US employment** soared by 266' in November, some 80' above expectations (where the 45' due to the end of the GM strike must have been included), and the past months were revised up. Unemployment inched down to 3.5%, due to lower participation. Wages rose 0.2% m/m and 3.1% annually, down from an upward revised 3.2% in Oct. Thus, there are no signs of a cooling labour market now, which was also confirmed by **new jobless claims** falling close to a 50 y low, and the **small business survey**. **The US trade deficit** shrank in Oct as imports fell substantially for the 2^{nd} month in a row, probably on softening demand. **UoM sentiment** rose more than expected in Dec, and has recovered the late summer losses
- **Eurozone GDP details** were not that bad; household demand boosted activity, while investments fell marginally. **Retail sales** fell more than expected in Oct, yet the moderate upward trend is still intact. **German manuf. production** slipped in Oct and does not confirm the easing downturn which the PMIs suggest. Still, **manufacturing orders** may have bottomed out
- The **Japanese** government announced a much larger **fiscal stimulus** than expected, of approx 2.5% of GDP over 15 months, to be spent on natural disaster recovery, infrastructure, and technology. Net new spending will probably be far less (and some is new lending) but the stimulus could still counterweight the drag from the VAT hike in October. The problem however, is that there cannot be much spare capacity, as the unemployment is at 2.4% and the employment rate is record high. And the budget deficit is at 2.5% of GDP, and the public debt is high
- **Norwegian house prices** rose by 0.2% in November, as we assumed. Prices keeps rising moderately, the upward speed has slowed somewhat. Stavanger prices are dropping. The number of unsold houses has peaked but only due to a decline i Oslo. **Households' savings rate** rose to 8.5% in Q3, from 7% in Q2, as disposable income increased. **SSB** nudged up the 2020 Mainl. GDP f'cast to 2.4%, from 2.2% in, however working day adjusted (as most forecasters prefer), the GDP forecast is 1.9%. **Manufacturing production** is flattening out, as growth in oil related sectors cools

Global PMI recovered more than expected in Nov, up 0.7 p

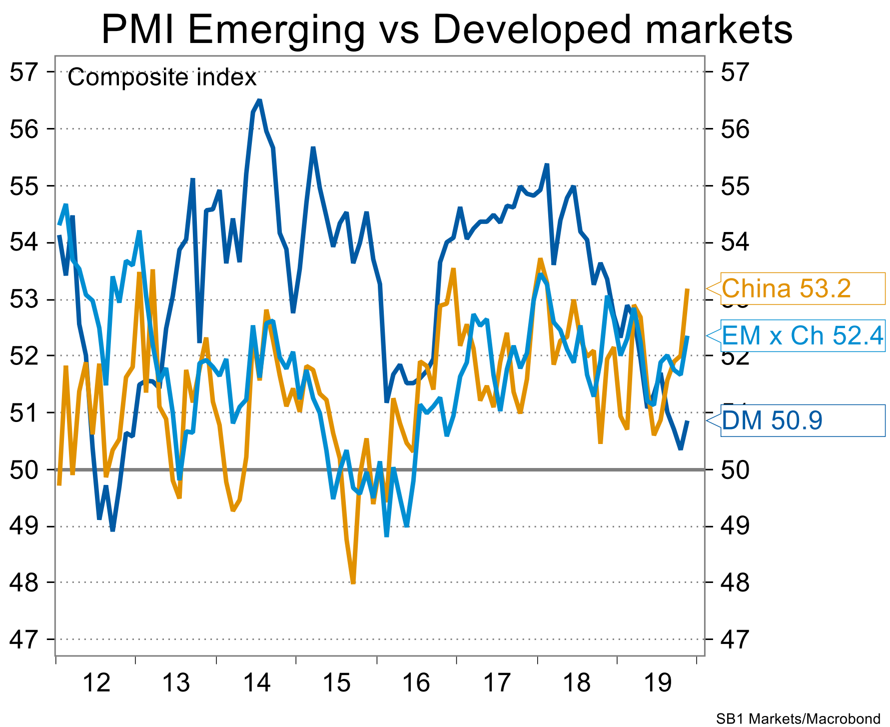
Composite PMI rose to 51.5, pointing to a slight upturn in global GDP growth, to just above 3%

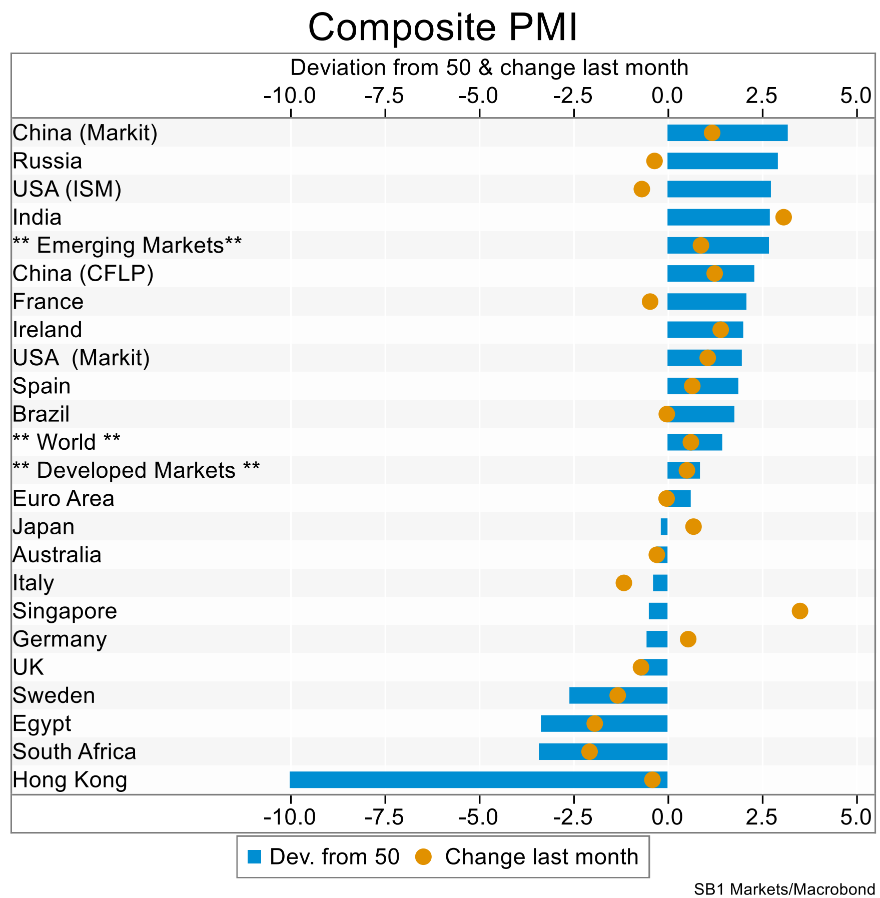




A broad uptick; China PMI spiked, other EM and DM improved, in average

Most countries are reporting growth but DM have been slowing rapidly. EM & China on the way up



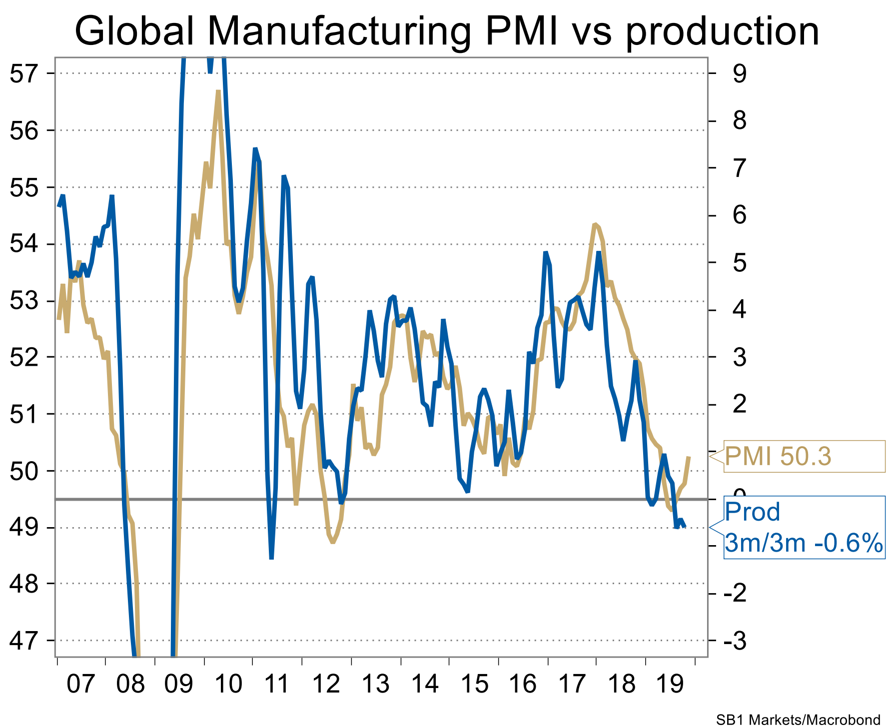


- 12 countries/regions reported an increase m/m (thus, activity accelerated or fell at a slower pace), from 9 in Oct. 10 countries noted weaker activity (from 13)
- Most countries/regions are still reporting growth; 10 countries below the 50-line, 13 above
- DM average down 0.5 p, EM up 0.9 p, China up 1.2 p (Markit)

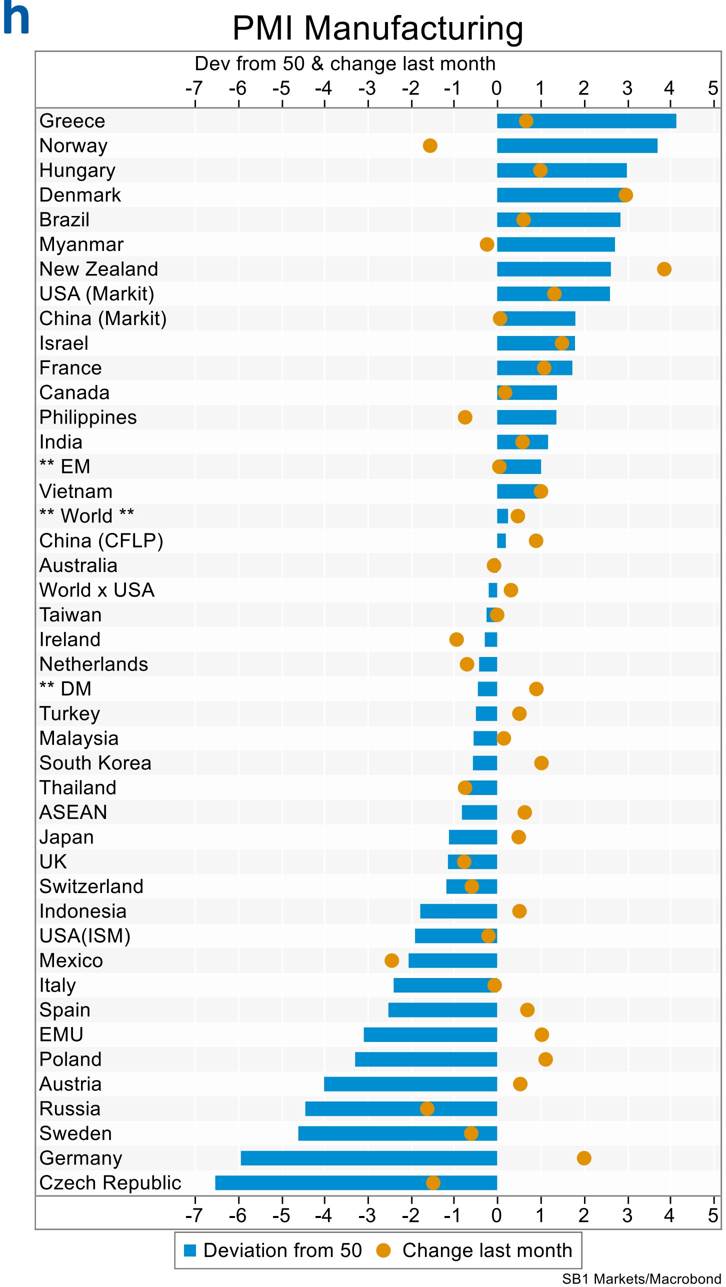
Hong Kong services are collapsing, of course due the protests, composite PMI at 31.9 in Nov (the scale above is too narrow)

Manufacturing PMI is recovering, signals 1% growth

PMI rose 0.5 p in Nov to above the 50-line, the highest in 7 m



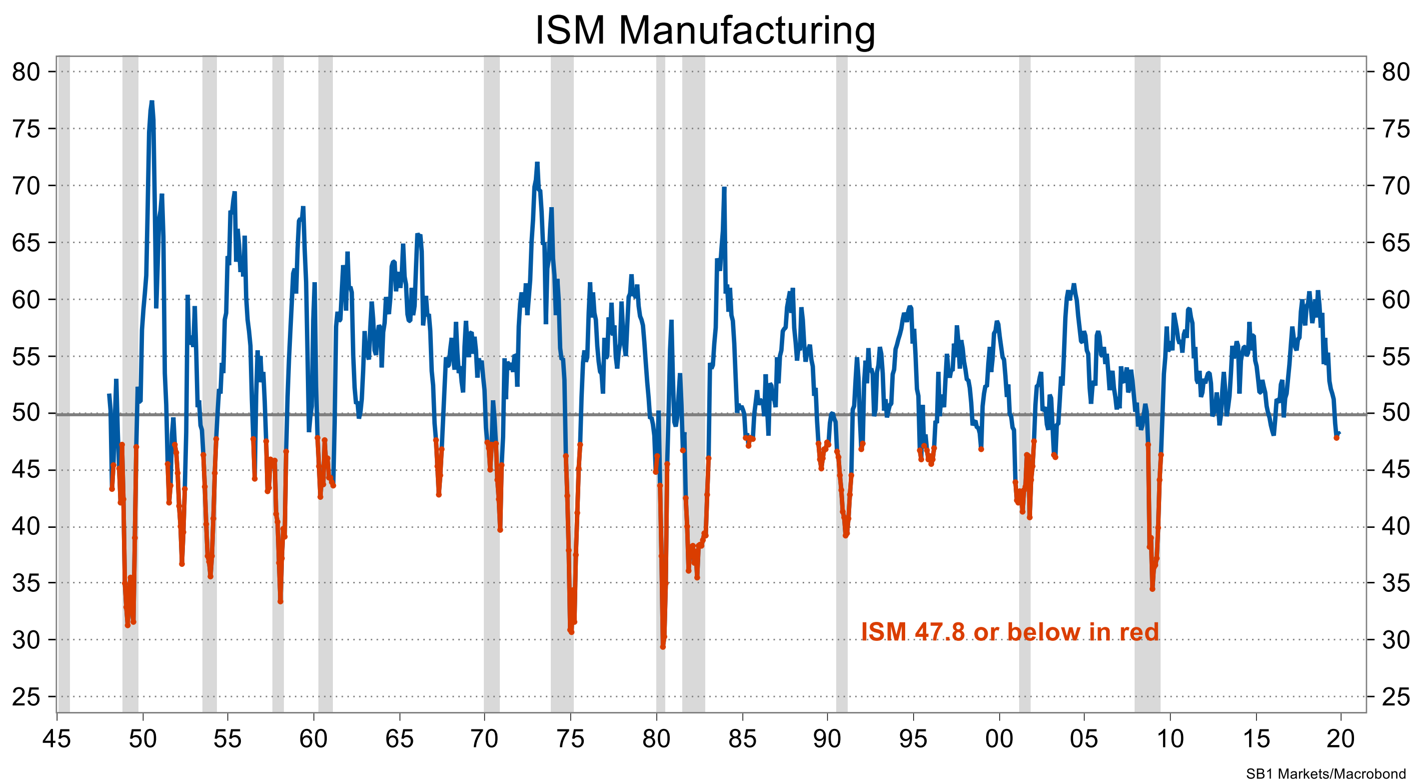
- PMI rose 0.5 p in Nov, to 50.3, vs our est. at 50.2 (based on the prelim. results). This is the 4th month of increase and the highest level in 7 month, reflecting a recovering sector. The PMI points to some 1% increase in global manufacturing production, vs a 0.6% decline now (measured 3m/3m)
  - » 25 (from 21) countries/region PMIs rose in Nov, and 13 declined (from 18)
  - » 24 of 43 countries/regions are still below the 50 line
  - » Developed Markets increased by 0.9 p, Emerging Markets up 0.1 p



SpareBank 1 MARKETS

Manufacturing ISM failed to recover in November

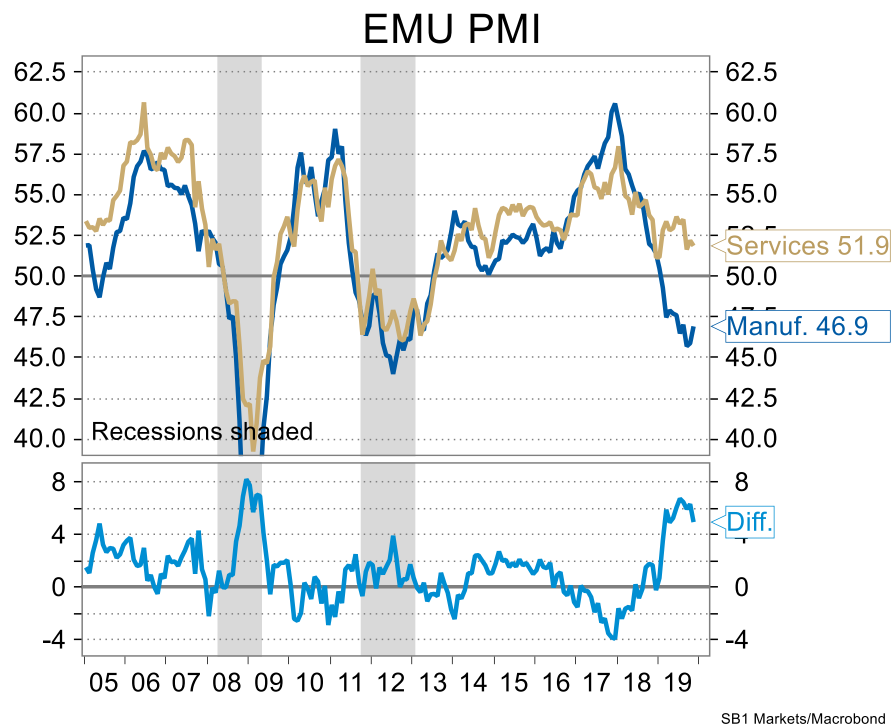
At present level, a 70% recession risk, based on (a manufacturing heavy) history

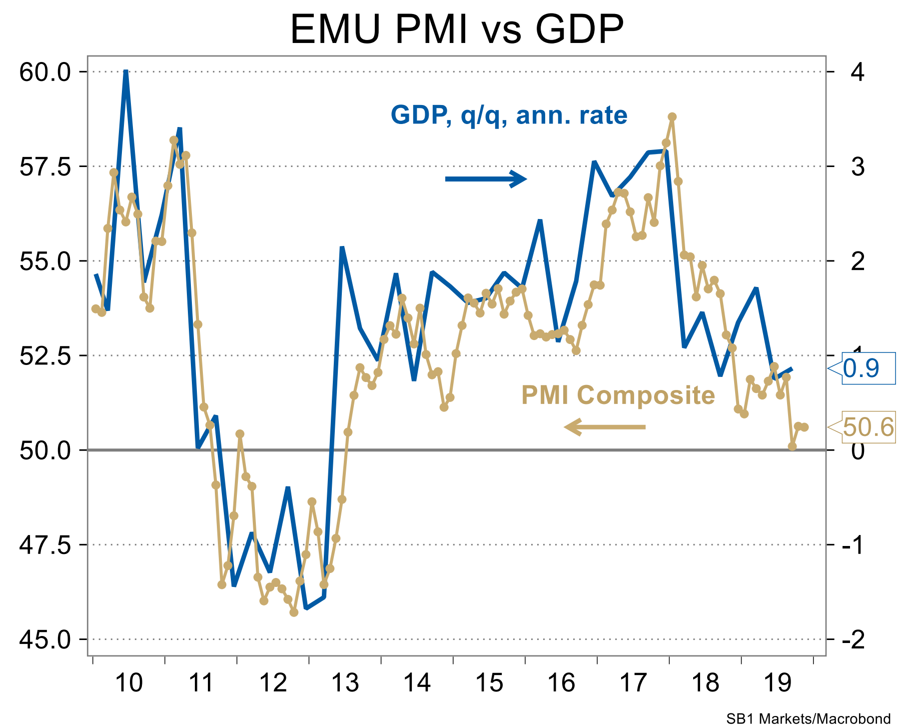


- Manuf. ISM fell 0.2 p to 48.1 in November, an upturn to 49.3 was expected. The level of the ISM the past 3 months is the lowest since the Financial Crisis. Other surveys are not that downbeat, and Markit's PMI noted a 0.9 p spike to 52.6 in Nov!
  - In the ISM survey, 5 out of 18 sectors reported growth (unchanged from Oct) and 13 (from 12) sectors reported a contraction, a weak mix
  - Weaker global demand is stated as an important reason for the slowdown but the demand weakness must be quite wide spread, domestic orders are tumbling
- <u>The manufacturing ISM has fallen to the present level (or below) 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions, and 6 times without any outright recession. Thus, the odds are not that attractive anymore. In addition, GDP growth slowed substantially every time the ISM fell to the present level</u>

Eurozone final November PMI flat, signals close to zero growth

Composite PMI 0.3 p higher than the first report, unchanged from Oct. Manuf. downturn moderates?

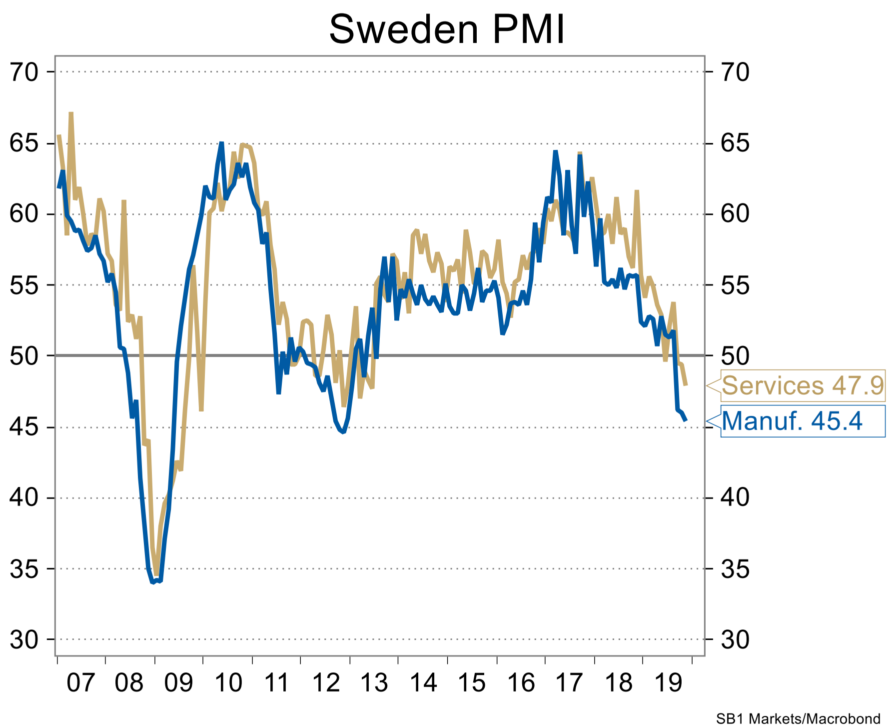


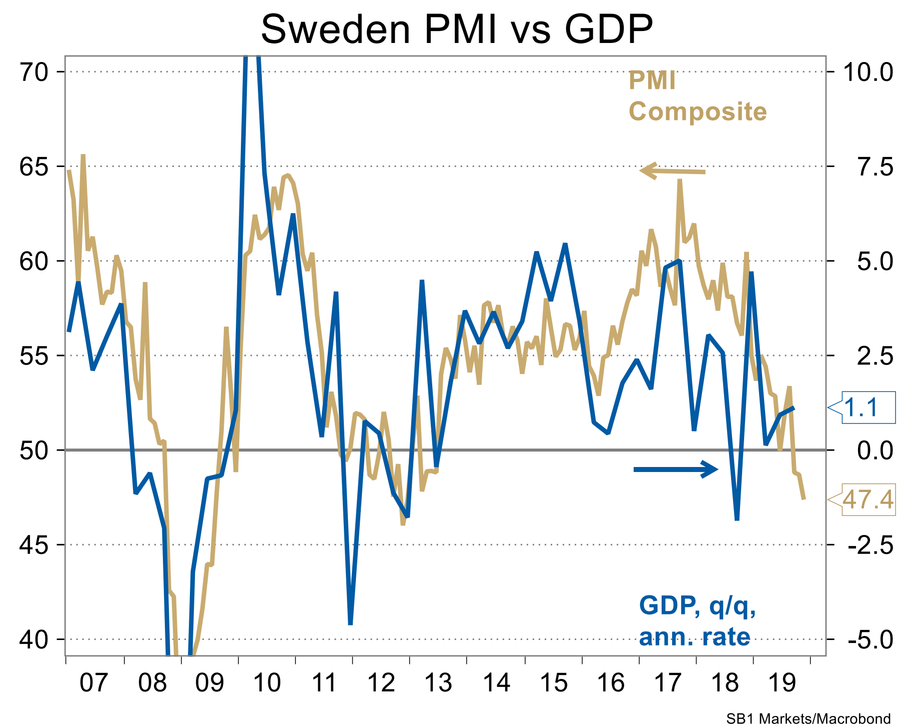


- The final EMU composite PMI held steady at 50.6 in November, 0.3 p better than the preliminary estimate. Thus, PMI have not fallen further the past two months (its marginally up from Sept). The survey still point to very low GDP growth, at some 0.25%
  - » Manufacturing PMI has edged up the past 2 months, indicating that the contraction in production may been easing. Services slowed just marginally in Nov, at the index remains at a decent level (51.2)
- **Is the Eurozone economy about to rebound?** Too early to tell but the businesses are at least not signalling a faster downturn in the manufacturing sector, in line with better manufacturing surveys in the rest of the world, along with improved global export. Consumer confidence is still strong and consumption is increasing moderately. Some signs of softness at the labour market, unemployment is flattening out. Credit growth is rising, although there is no boom

PMIs down the drain, pointing to a GDP contraction

Both manufacturing and services are heading steeply down, adding to signs of a rapid slowdown

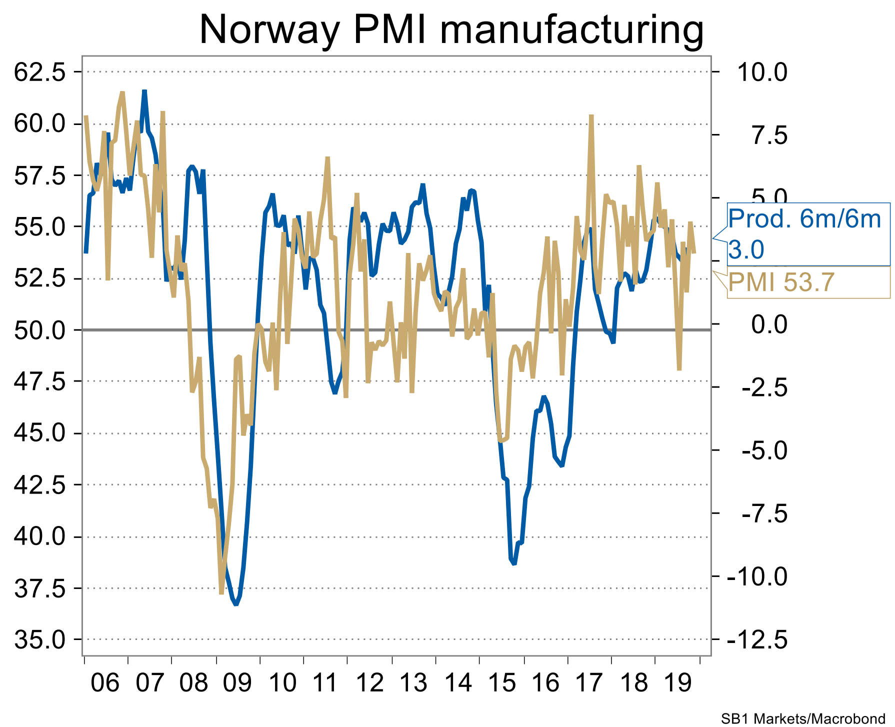


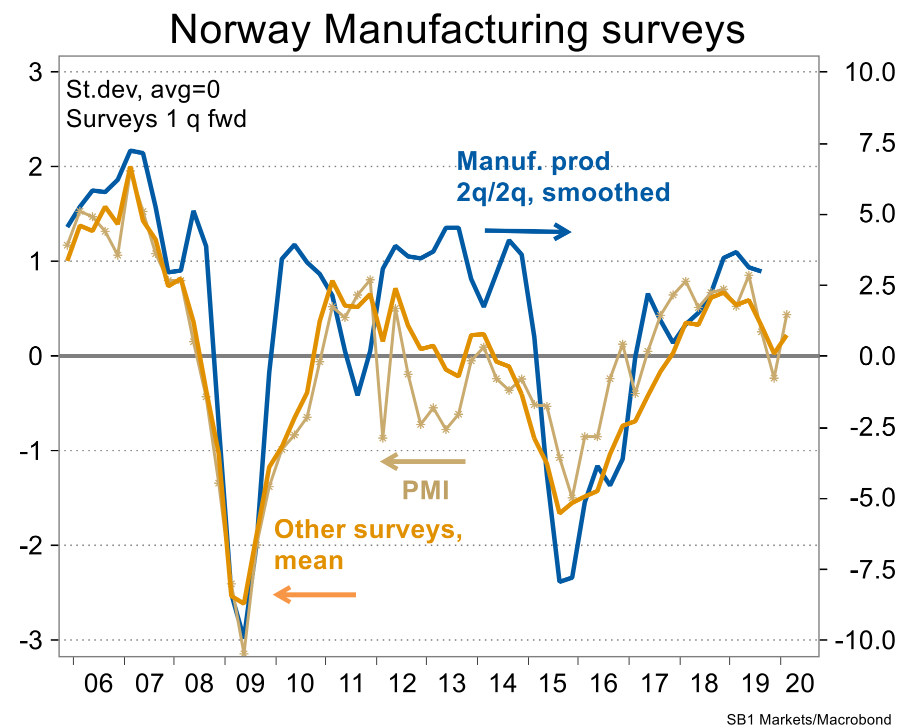


- Manufacturing PMI at 45.4 points to a steep decline in production, vs the 3% annual rate now
  - Export orders recovered in Oct (albeit orders are still declining), while domestic orders tumbled. The Swedish economy is hit by global uncertainties but also sharp deterioration of domestic demand, as several other data points indicate
  - Check actual order & production data here
- Services have been following manufacturing down, the composite PMI at 47.4 points to a decline in GDP (vs 1.1% growth in Q3)

Manufacturing PMI holds up surprisingly well

The volatile PMI fell to 53.7 in Nov. Barring the July dip, the direction is just marginally downwards

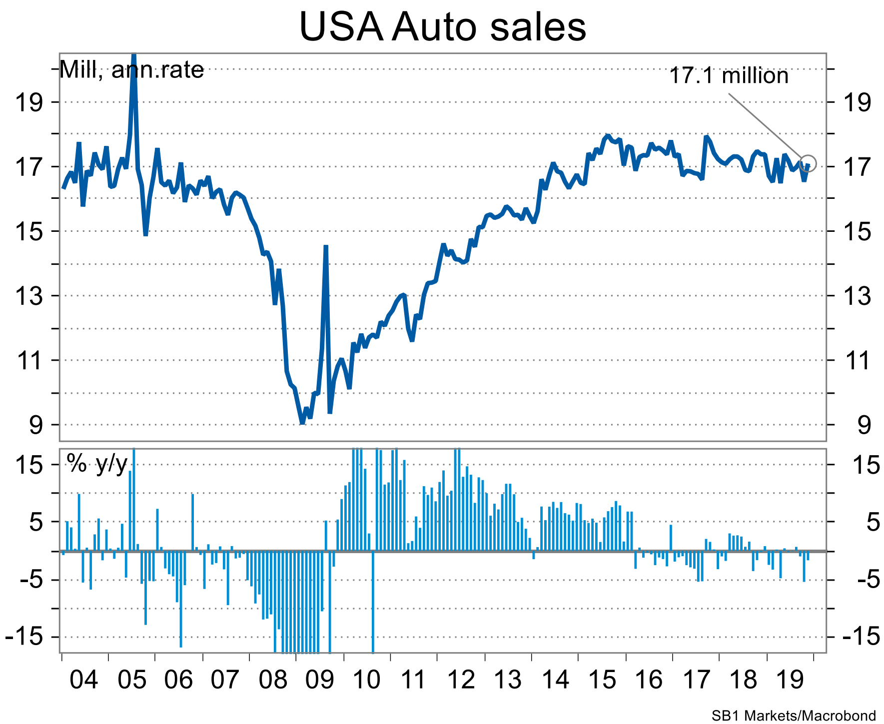


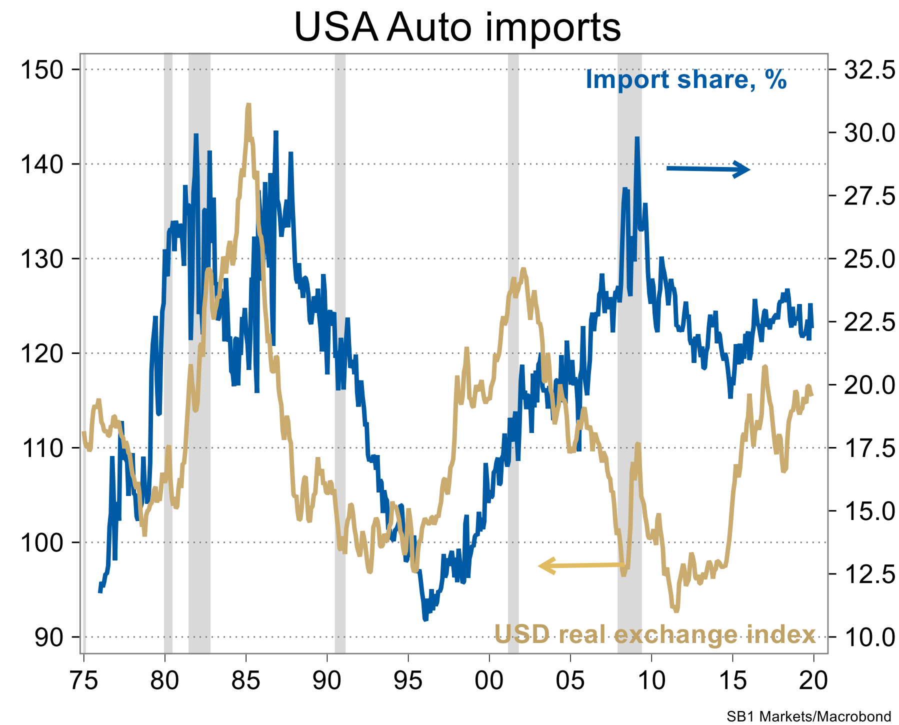


- The PMI came down 1.6 p in Nov, the level at 53.7 was slightly above expectations. The Norwegian PMI is far too volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 53.6, still a decent level
  - » The PMI slipped in July, data collected during the summer vacation are not trustworthy. The PMI recovered in Aug and has been more or less steady since then
- The PMI is more volatile than other business surveys – the survey is now somewhat more upbeat then the avg of other surveys. The Regional Network is still reporting growth (albeit slowing) in manufacturing, Statistics Norway's manufacturing survey is signalling zero growth
- Taken together, manufacturing surveys no doubt signals a slowdown

Auto sales up in Nov but is still trending slowly down

Sales up 4% to 17.1 mill, slightly higher than expected

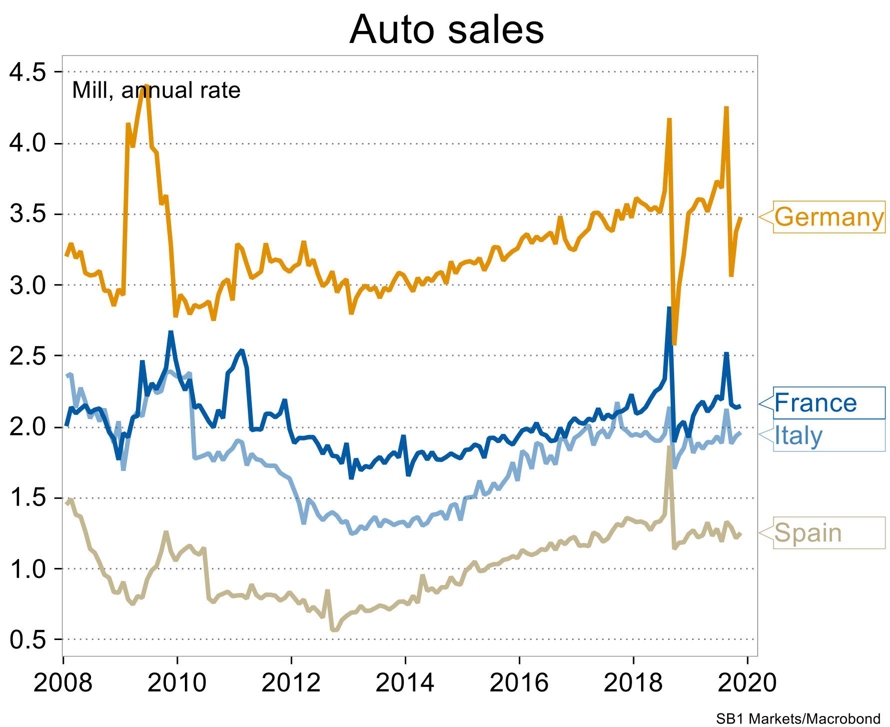


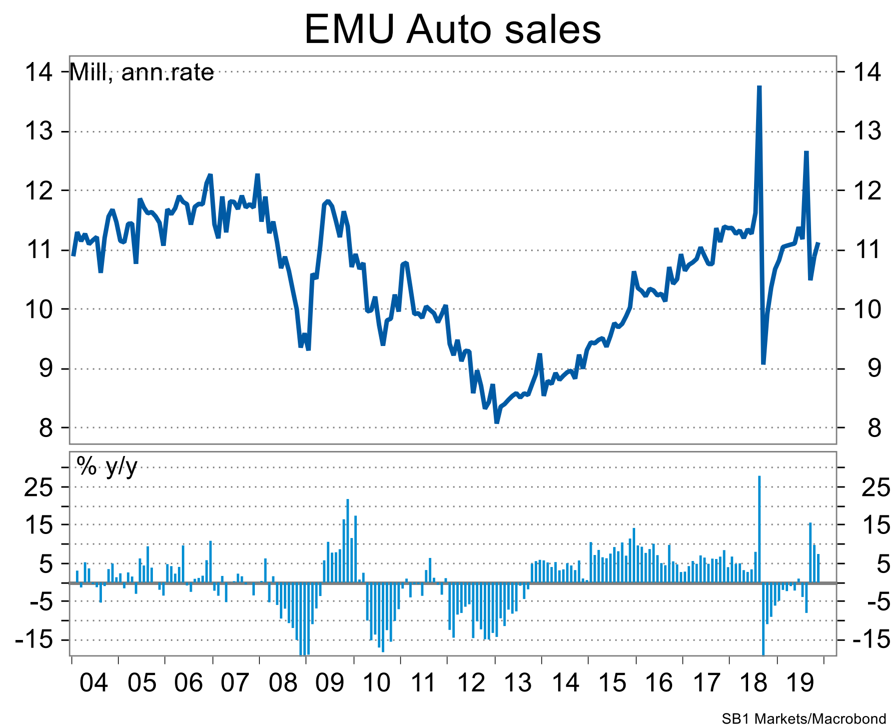


- Sales are trending slowly down, from the local peak in 2015 (!)
- The import share has stabilised or increased somewhat – following a small decline from early 2018.
  At 22% the import share is above the long term average – but it has been far higher several times before.

Auto sales probably up in Nov but still below par

German & Italian sales visibly, French & Spanish just marginally. Producers are holding back EVs?

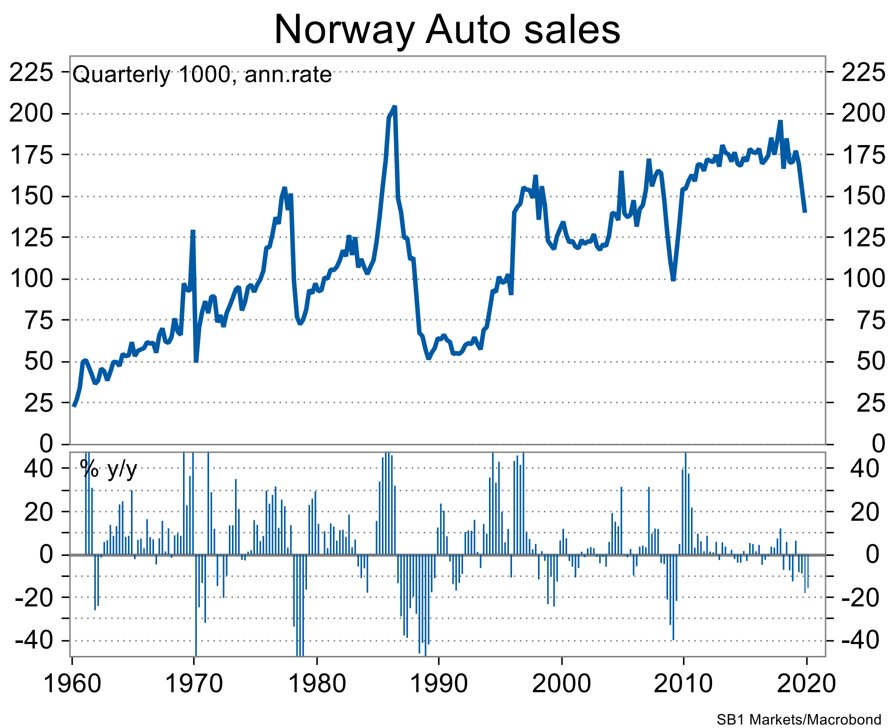


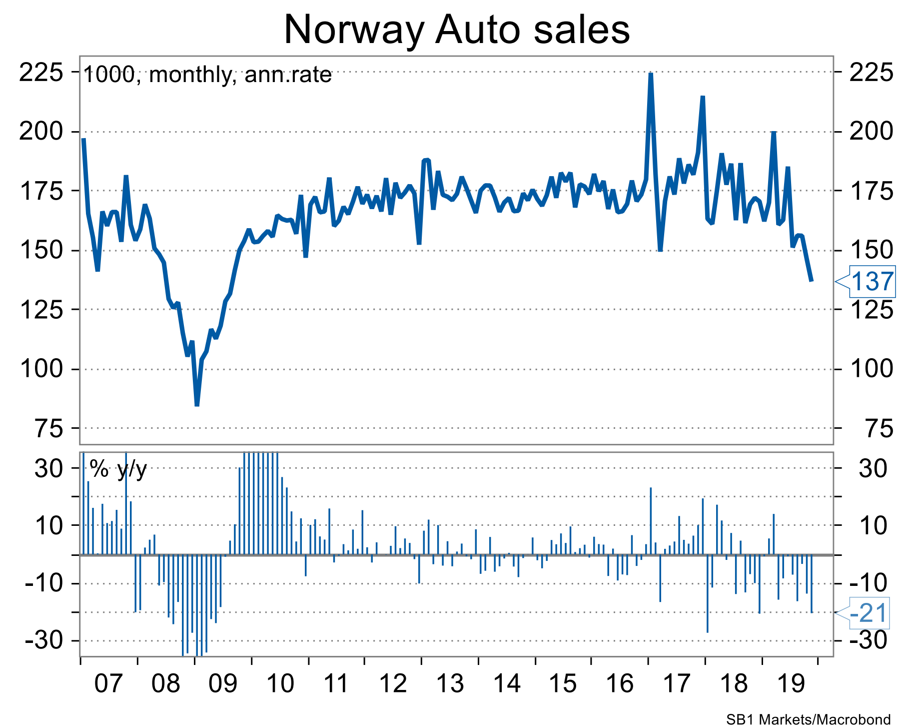


- German sales rose far less in Oct than we estimated in October but rose one more tick in Nov. Italian sales rose somewhat too. We expect total EMU sales to climb further (and up 7% y/y) but to remain below a 'normal' level, at least below the level before the previous regulation adjustment, in Aug/Sept.
- From January 2020, new EU emission regulation will be implemented; the max avg emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. Thus, auto producers (except Tesla) have large incentives to postpone deliveries (and thus registrations) of new EVs to next year

Full stop in auto sales. Tighter 2020 regulations at least partly to blame

Sales fell to 137’ in Nov, a 10 y low, down from 146’ in Oct – and a 173’ sales level in 2018

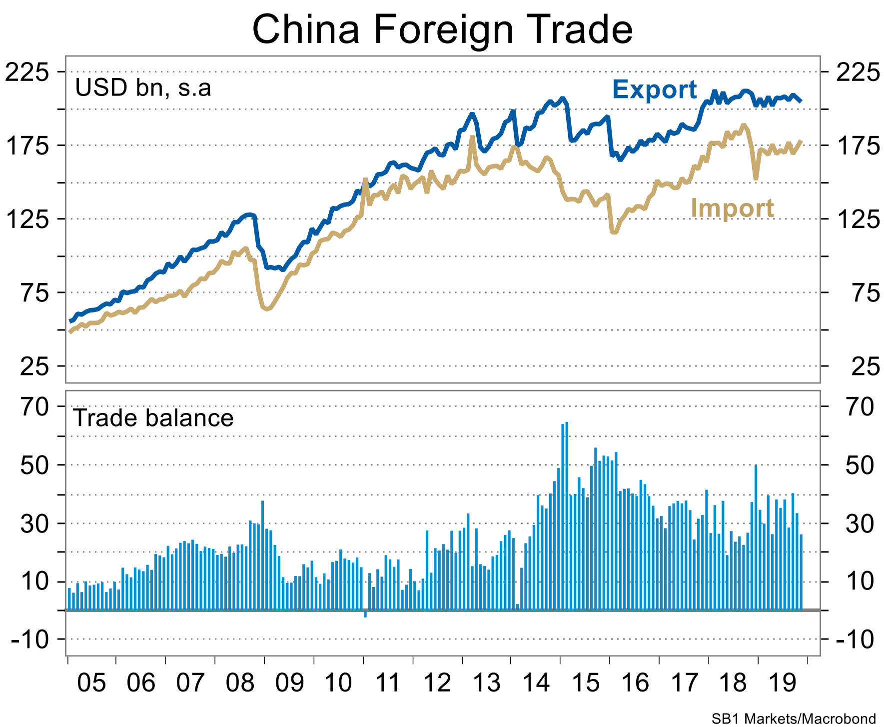


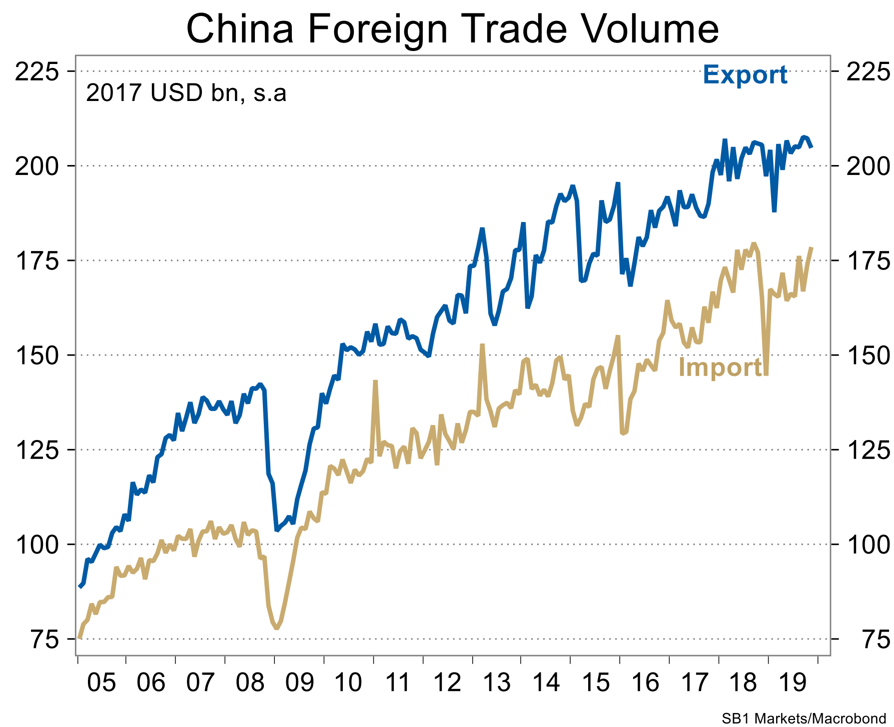


- From January 2020, the new EU emission regulation will be implemented; the max avg emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. Thus, auto producers (except Tesla) have large incentives to postpone deliveries of new EVs to January. Many buyers have been reporting delayed deliveries this autumn
  - In September, more than 50% of newly registered autos were electric, the share fell to 35% in October
  - Similar adjustments are made in other European countries, hampering sales in Q4
- In addition, expiring auto leases of hard to sell gas/diesel cars may have led to too large 2. hand inventories among dealers, keeping new car sales down
- <u>Thus, the dip in sales may not be due to lower auto ‘real’ demand</u>

Import volumes on the way up, exports still strong. Both close to ATH in Nov

The trade surplus is shrinking. Taken together: Not a signal of any slowdown in China

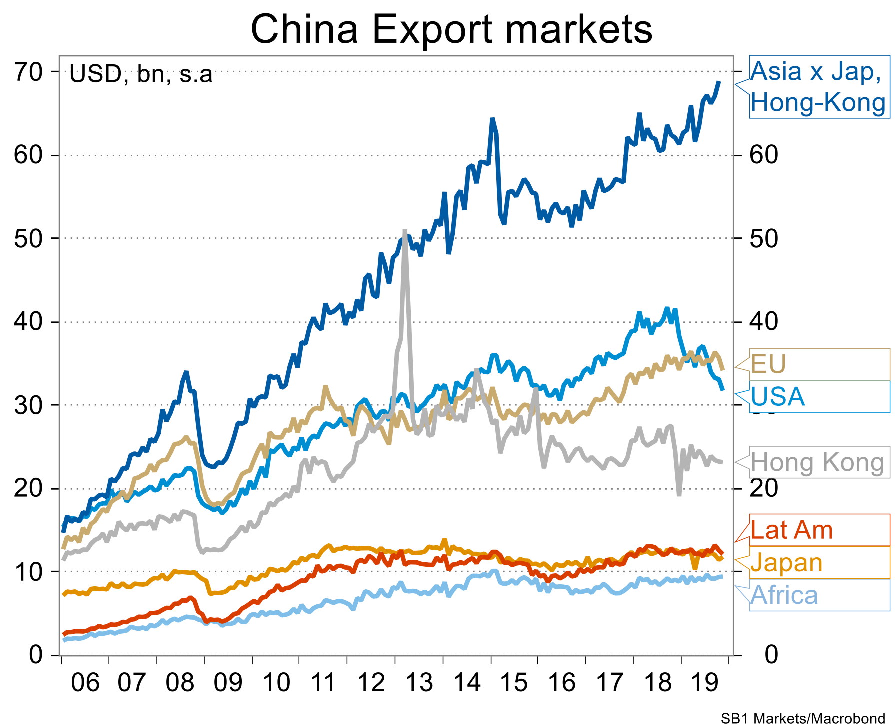


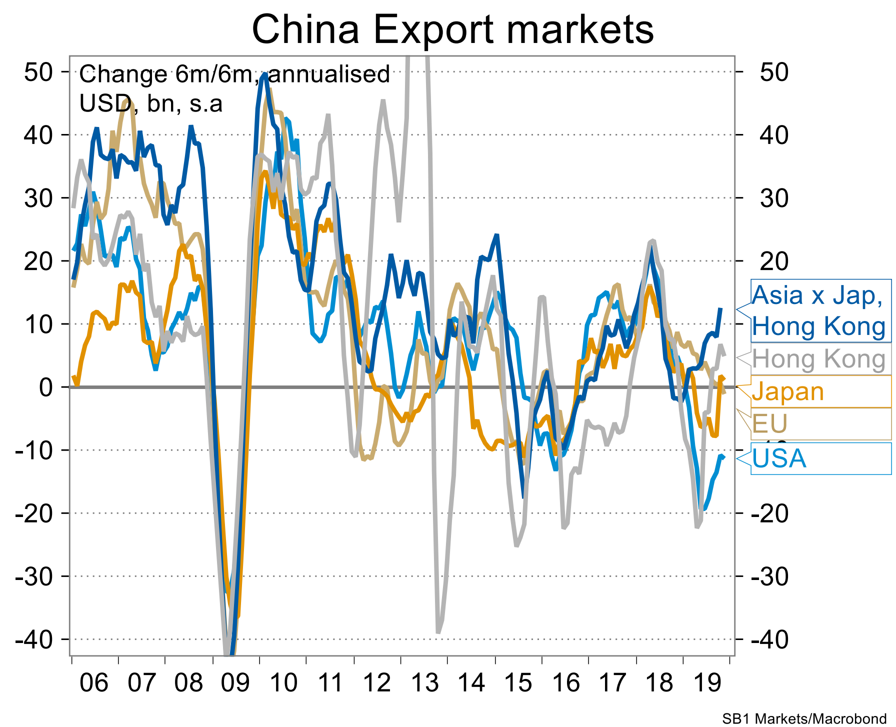


- Exports were reported down 1.1% y/y in USD in Nov, expected up 0.9%. Exports fell 1.2% m/m, like in Oct but have been trending up since the local bottom last Dec. If exports keep up at Nov level in Dec, exports will be up 1.6% y/y. Export volumes probably fell as well, trending up since last Dec (or Feb), and was record high in August and Sept (but nobody new…).
  - » Exports to the US decreased further and have fallen 25% since 2018 (equalling 5% of total exports). Exports to other regions have compensated for the decline in export to US, especially to the rest of Asia. Still, growth has slowed in most other directions
- Imports were up 0.3% y/y in Nov, expected down 1.6%. Imports rose by 2.7% m/m (and 2.6% in Oct), and are heading slowly up, in value terms. As prices are falling, in USD terms, volume is heading straight up – and is close to record high! **NO SIGN OF ANY SLOWDOWN IN CHINA**
- The trade deficit was smaller than expected, down by USD 8 bn to 27 bn (seas adj). China is running a small current account surplus, check next page

Exports to the US down 25%, but there is a ROW; exports to Asia up

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



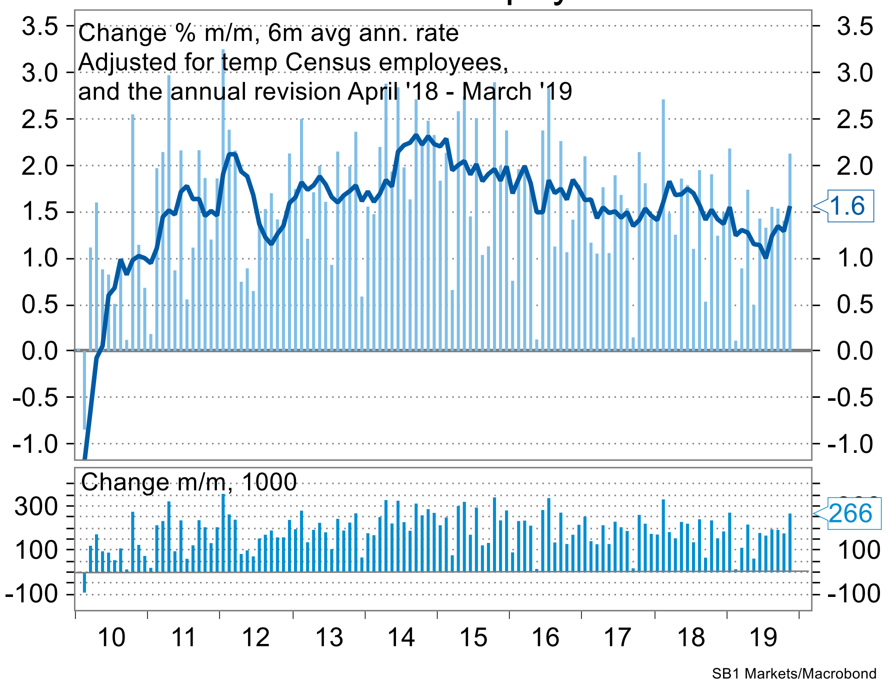


- Exports to the US are hurt by the tariffs, and are down almost 25% from the peak in early 2018, equalling 4% of all Chinese exports. Most likely, exports to the US will decline further, as the full impact or tariffs already implemented are not recognised
  - Exports to the US equalled 18% of total Chinese goods exports before the tariffs (now 15%), and exports to EU 16%, rest of Asia 48%
  - Total exports equal some 20% of GDP, exports to the US 3.6% of GDP – now down 25% from the peak, subtracting 0.9 pp from GDP growth . However, the impact is dampened by lower need for imports as inputs for these exports. In addition, exports to other Asiad countries have increased, and the net is close to zero!
  - The real economic risk for China & elsewhere: Trade rule uncertainty is hurting investments as companies may postpone investment decisions until the dust settles – and both Chinese and foreign company are reallocating from China to other countries. Some households may become worried too

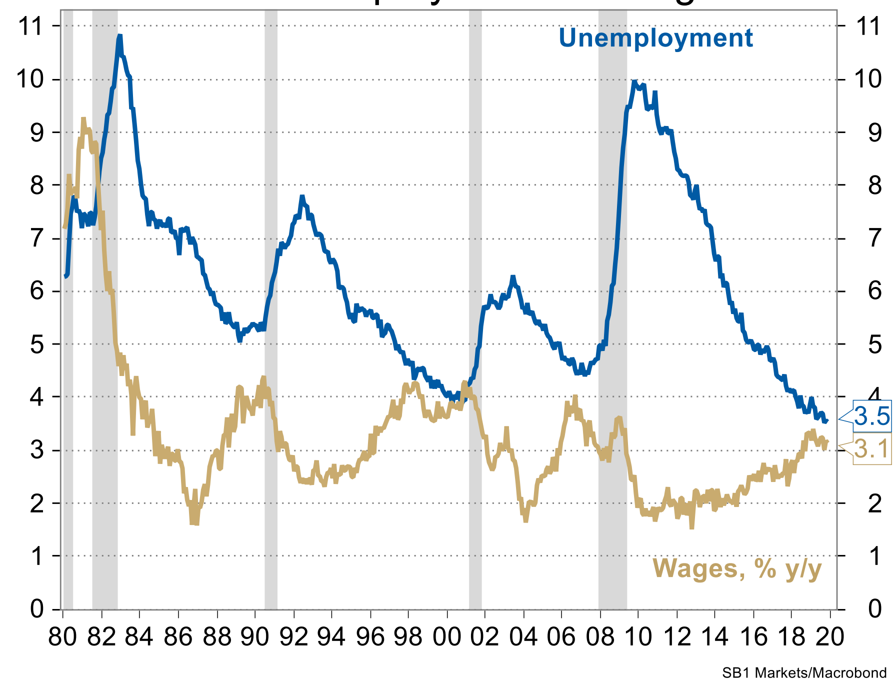
Employment soared in Nov, unemployment further down, and wage growth up

Employment jumped 266’, far above expectations

USA Nonfarm payrolls



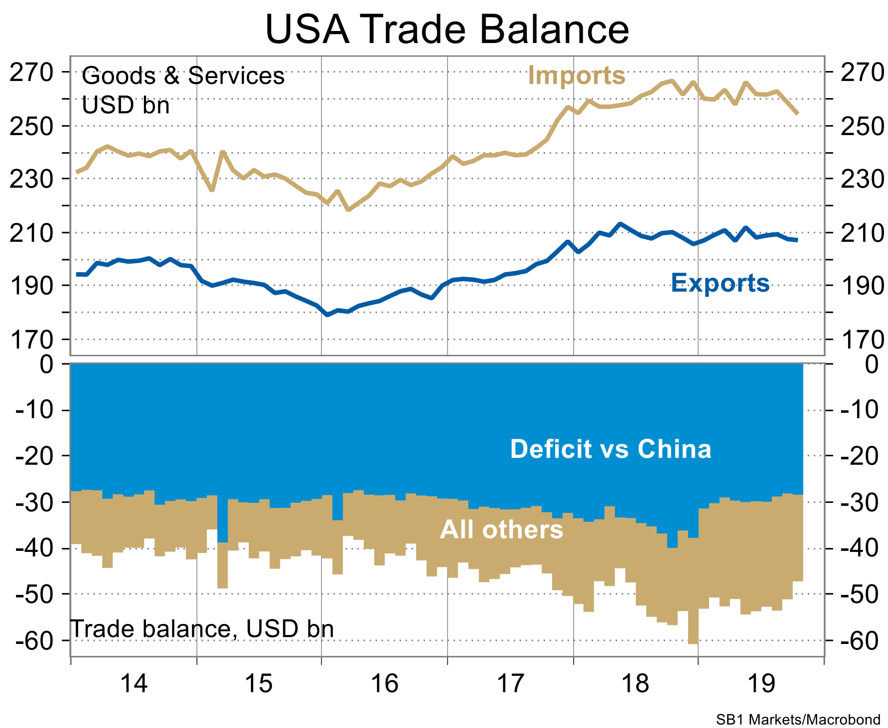
USA Unemployment vs. wages

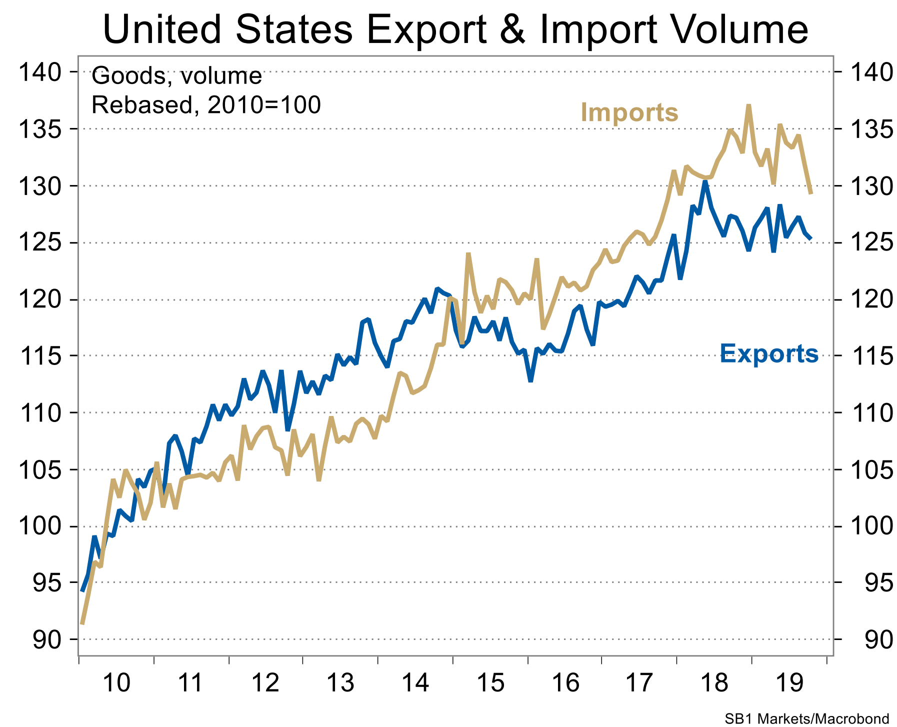


- **Employment** rose by 266’ in November, far above the 183’ f’cast, and Sept/Oct was revised up by 41’! (and far above 67’ in the ADP report) Thus, employment growth has accelerated the past months, the 6 m avg to a 1.6% pace, from 1% in July
- **Unemployment** inched back down to Sept’s 3.5% rate , from 3.6% in Oct. The participation rate fell by 0.1 pp to 63.2, the employment rate held steady at 61.0% (hence, the LFS survey did not confirm any surge in employment). Participation is heading slightly upwards but too little to suggest that the supply side is now responding to the brisk demand for labour
- **Wages** rose 0.2% m/m, 0.1 pp below expectations but October was revised up by 0.2 pp. The annual rate inched down to 3.1% from an upward revised 3.2% Oct (previously reported at 3.0%)
- <u>Overall, these data reflect a tightening labour market, calming recession fears, and the Fed will surely not signal any rate cut</u>

The trade deficit at a 1½ year low as imports drop

Imports have been heading down recent months, probably on softening demand. Exports are flat





- The overall trade deficit of goods & services shrank to USD 47 bn in Oct, the lowest since June 2018. The deficit has been declining recent months as imports have slowed more than exports – chiefly due to easing domestic demand (and higher domestic oil prod)
  - » Imports slipped 1.9% m/m in volume terms, following a similar decline the past month. Imports are down 5.8% y/y, the steepest decline since 2009. A sign of crumbling domestic demand or tariffs effects? Mostly domestic demand, the deficit to China is shrinking, but deficits vs many others are widening. In addition, net petroleum exports are up by USD 5 since the early summer, out of a total 7 bn cut in the deficit – driven by higher shale oil production
  - » Export volumes came down 0.4% m/m in Oct. Exports have flattened out since mid-2018, the annual rate is up ay a marginal 0.8% pace
  - » 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 substantial positive net trade contribution
- The deficit vs. China is reduced substantially, no doubt due to the trade war. The overall US deficit is still widening vs most other trading partners

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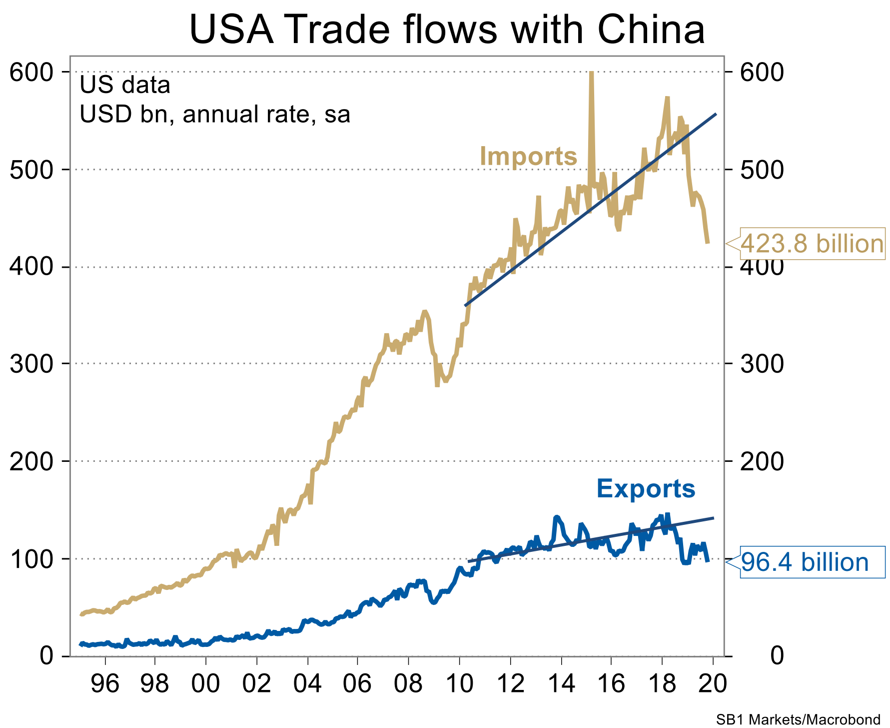
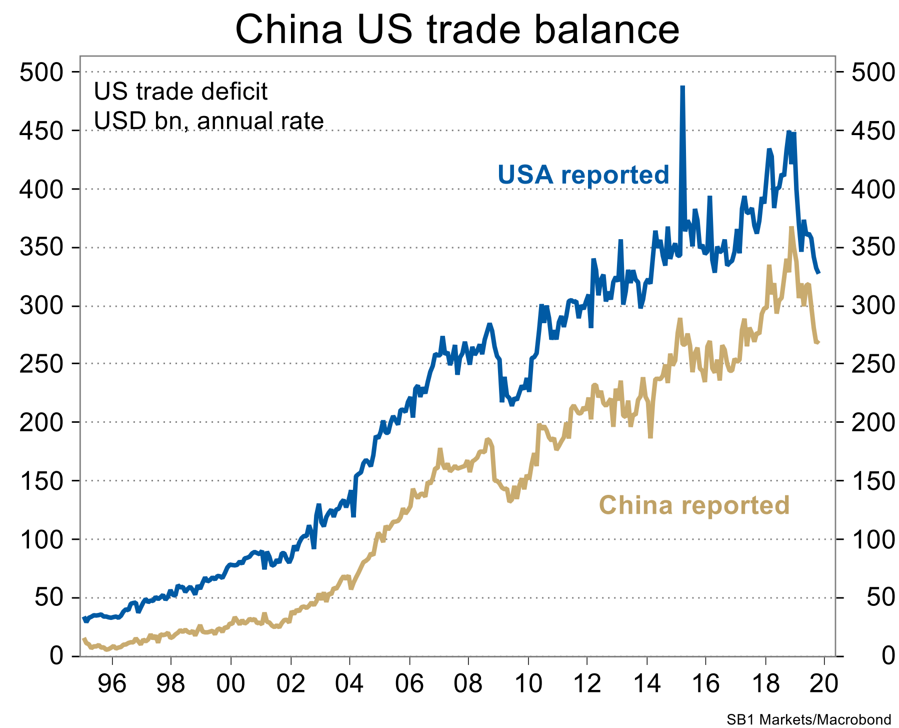
US imports from China have fallen more than exports to China (in USD)

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

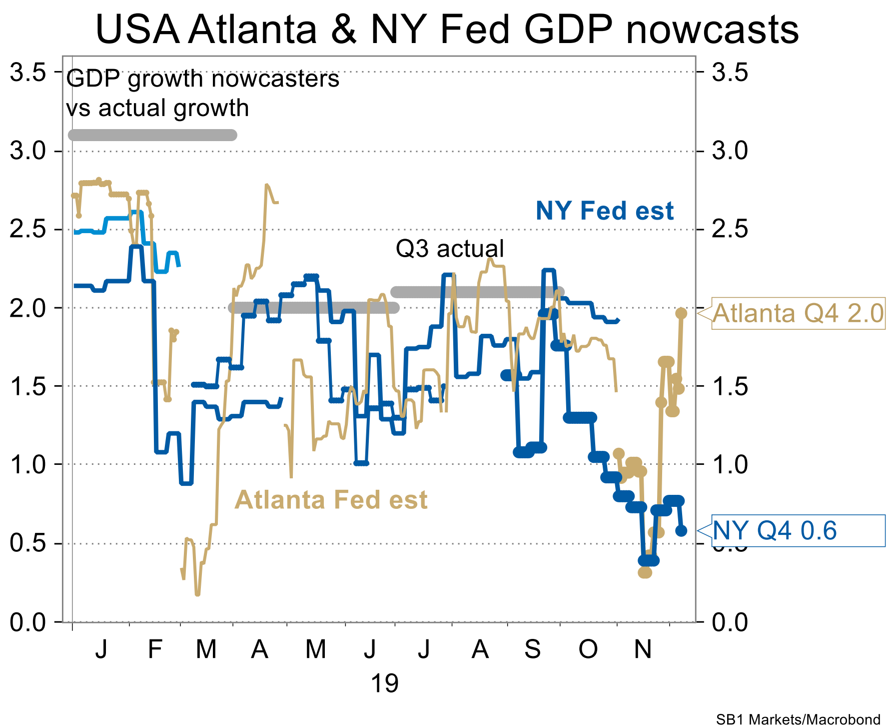


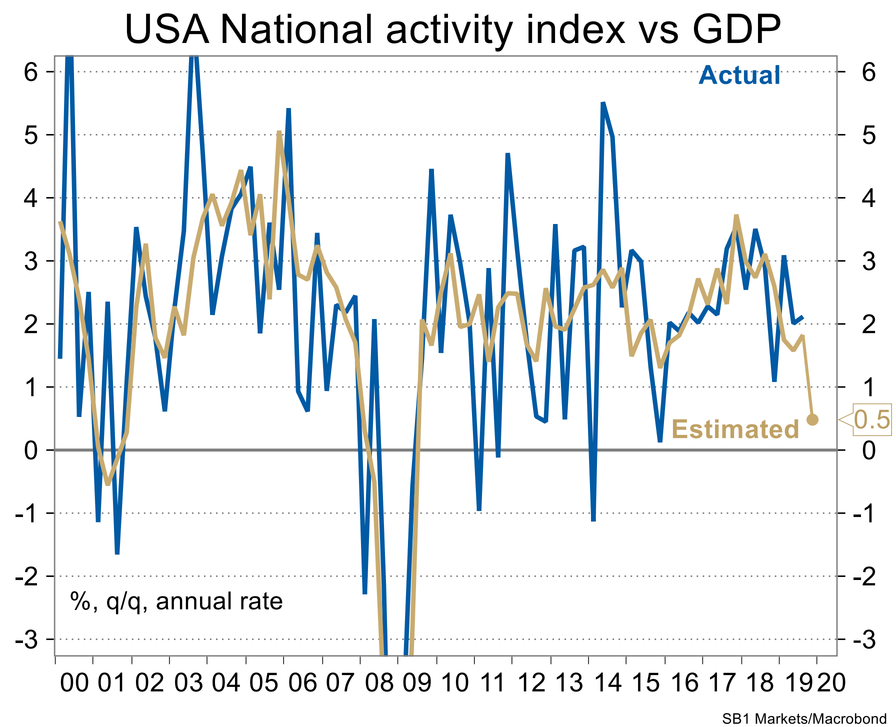


- According to US data, imports from China have fallen by 20%, and exports to China have fallen by 27% since January 2018, before the first tariffs were implemented. Measured in USD, the decline in imports from China is far larger the decline in exports – and the US deficit vs China has fallen by some USD 115 bn, to 330 bn. However, the US deficits vs. other countries have increased just as much…
- China has always reported a smaller surplus vs. US, than the US figure for deficit vs. China. The discrepancy has been stable over time and is very likely due to exports reported FOB and imports CIF included. (Their respective bilateral export/import data are also very similar, no fake news here)

One nowcaster signals 2.0% Q4 GDP growth, the other 0.6%

Atlanta Fed's Q4 estimate further up last week, to 2%. NY Fed does not agree, the est -0.2 pp to 0.6%

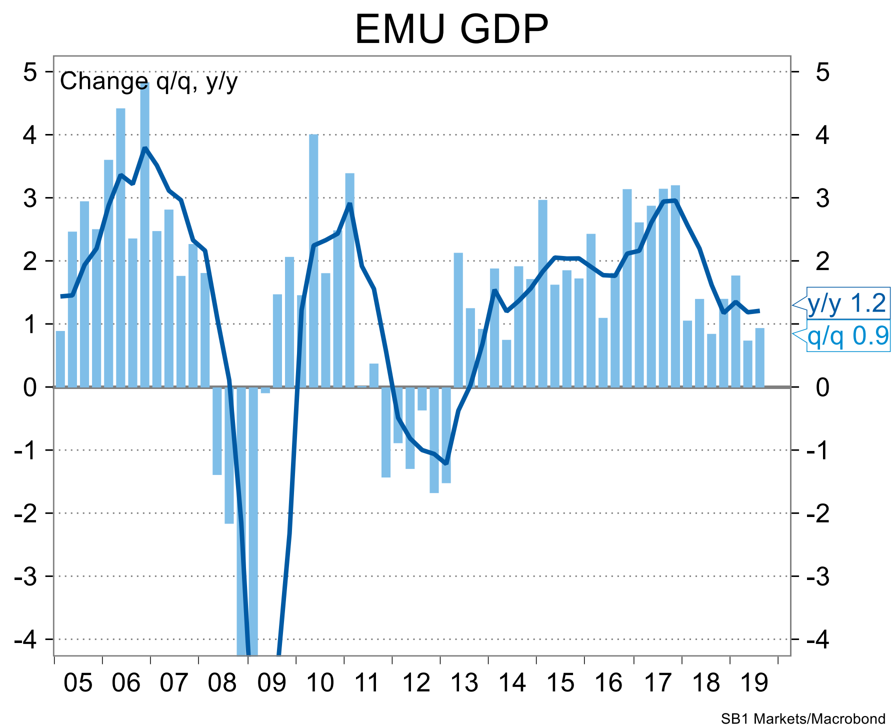


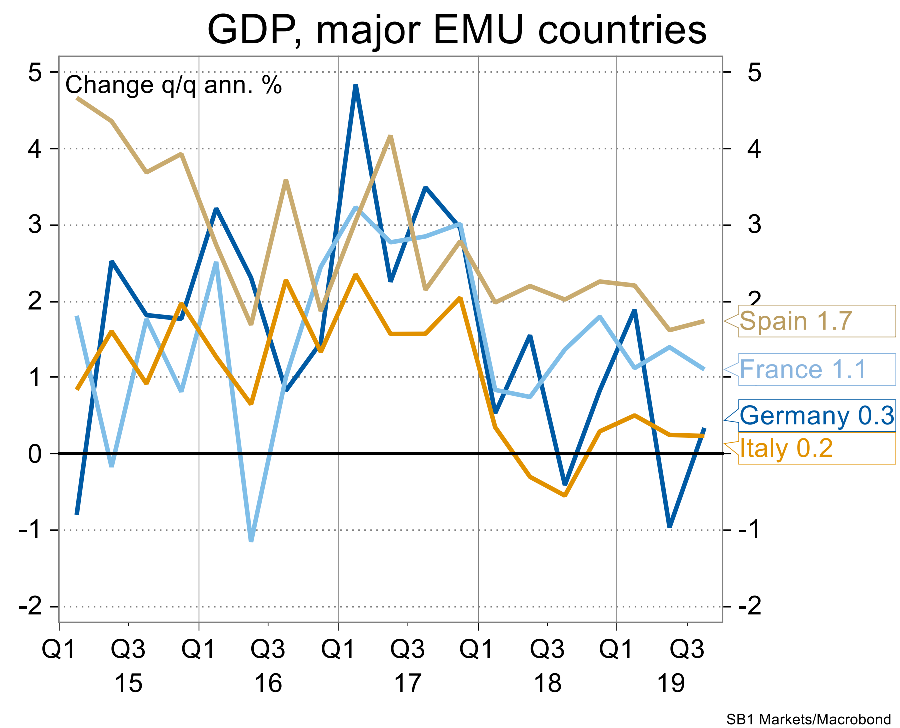


- Atlanta Fed's forecast shot up to two weeks ago, supported by strong net trade and housing data. The employment report lifted the forecast further at Friday, to 2% Q4 growth, from the previous week's 1.5%
- However, NY Fed's nowcaster estimates a 0.6% growth, down from 0.8% last week. The truth may be something in between?
- 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)

GDP growth steady at 0.9% annualized in Q3, 1.2% y/y

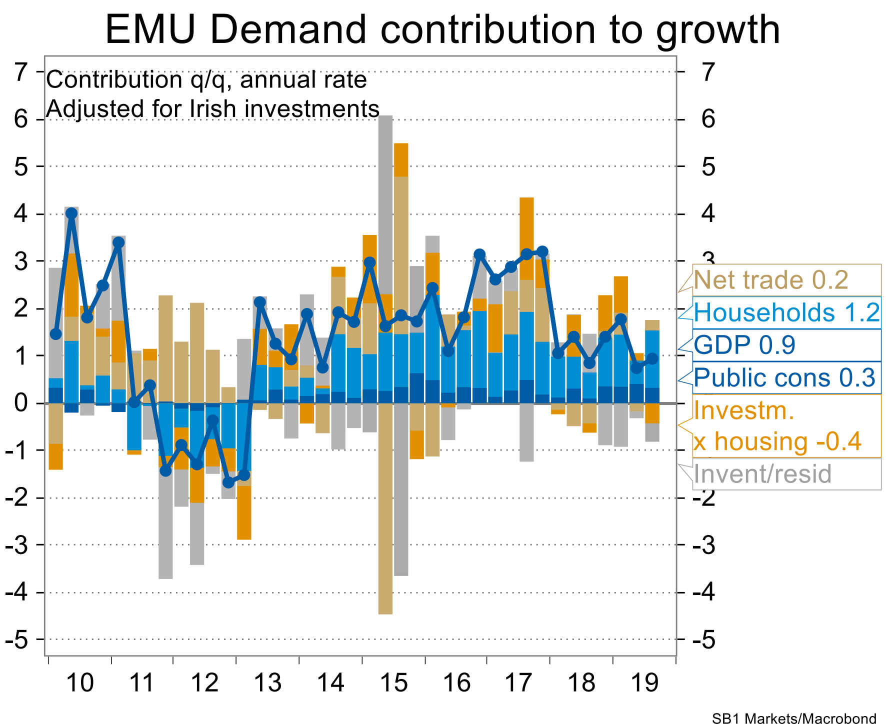
GDP rose 0.2% q/q, or 0.9% annualized, unchanged from the first estimate

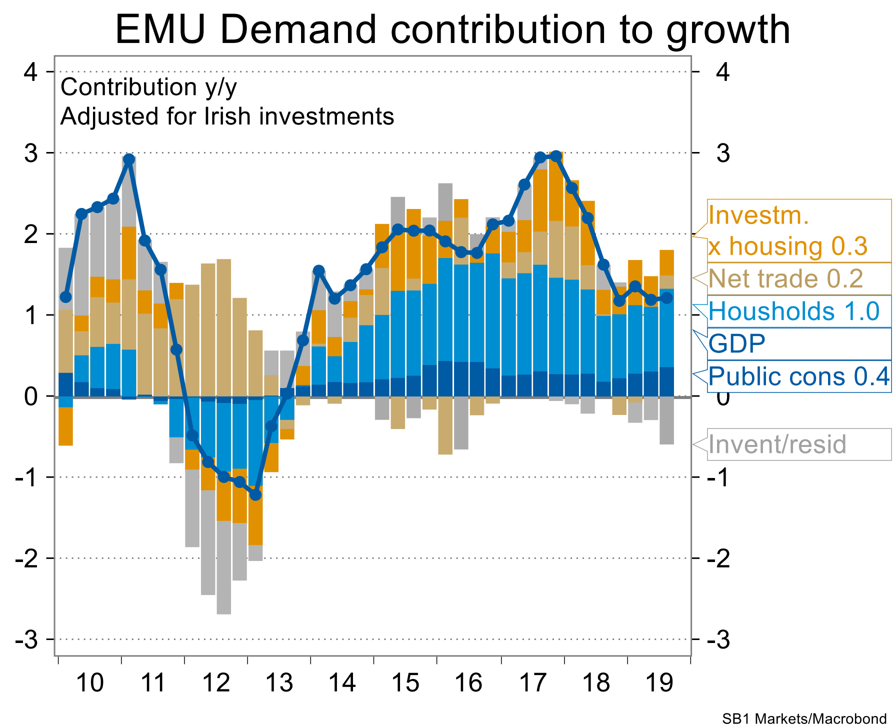




- GDP rose 0.9% q/q annualized, thus, a marginal uptick from Q2, in spite deteriorating manufacturing data
- Germany reported a mild rebound to a 0.3% q/q annualized rate. Spain accelerated marginally to 1.7%, France slowed to 1.1%. In Italy, growth remains meagre, up just 0.2% this quarter
- Household demand was the major contributor on the demand side, flip to the next slide for more details

Household demand supports GDP growth – investments have peaked



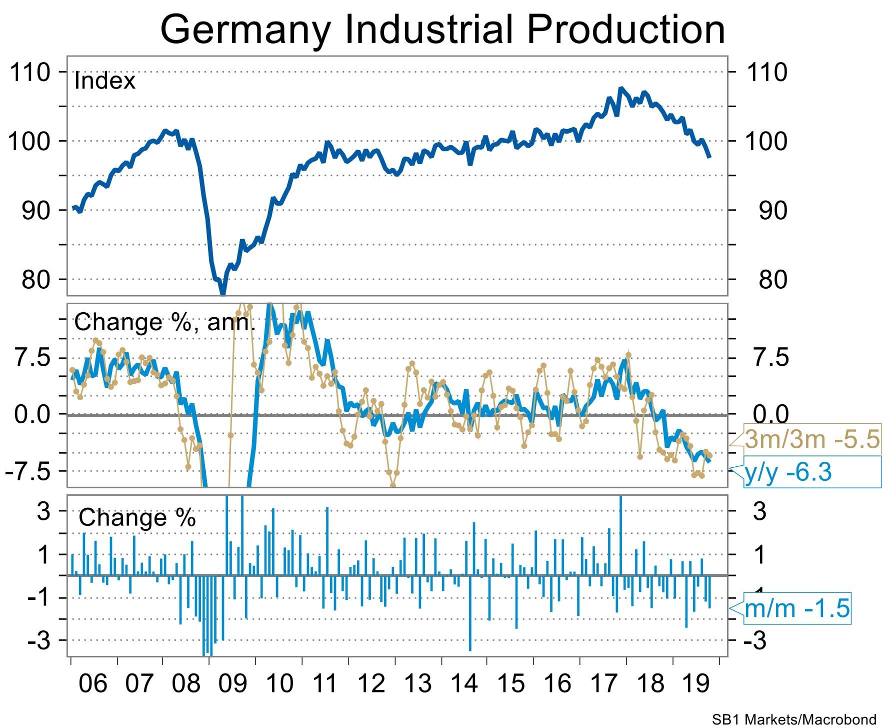


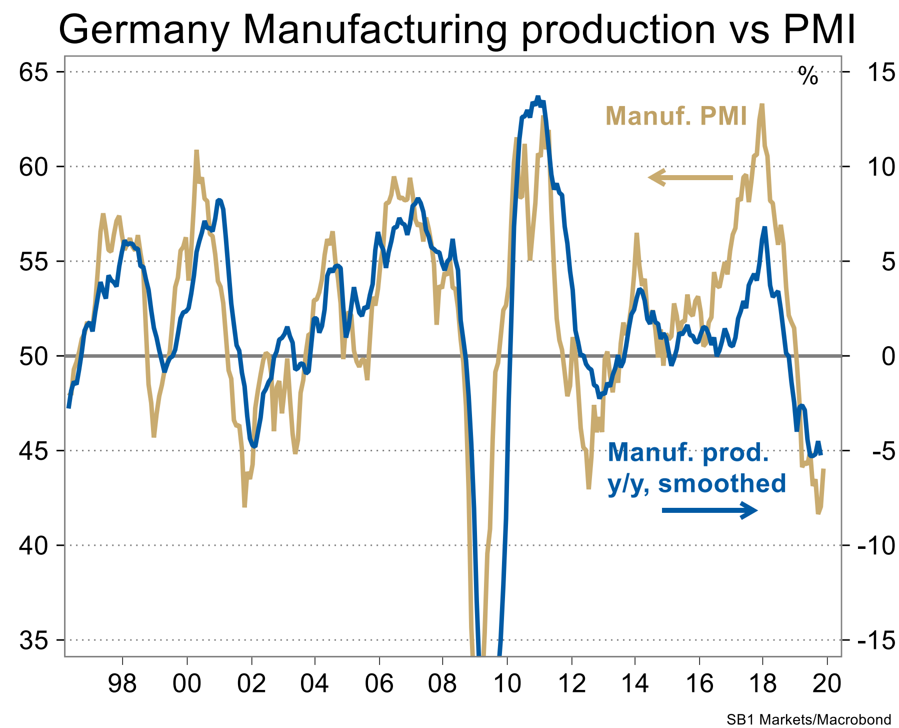
- Private consumption & housing investments lifted q/q growth by 1.2% annualised, close to the avg contribution the past 4-5 years
- Investments fell in Q3, following a small lift in Q2. Investments are still up y/y but growth has slowed
- Net trade fell slightly in Q3 and dragged growth down by 0.3 pp, after a steep decline in Q2
- Inventories have dampened growth the past 4 quarters, which is good news. At some point, inventories are small enough

On the charts above, and on the next page we have adjusted total EMU investments and net trade data for animalities in Irish national accounts. Huge, and highly volatile imports of immaterial goods, at times just as large as GDP itself (equalling 1% og EMU GDP!), and parallel lifts in investments in such goods creates trouble for European National Accounts (!). These transactions are not 'real' activity, just due to accounting adjustments within some huge global software companies. Hence, we adjust EMU data by applying modified data, supplied by the Irish Statistical Office

The manufacturing contraction continues

Production slipped 1.5% in October and is down 6.3% y/y, no signs of any recovery

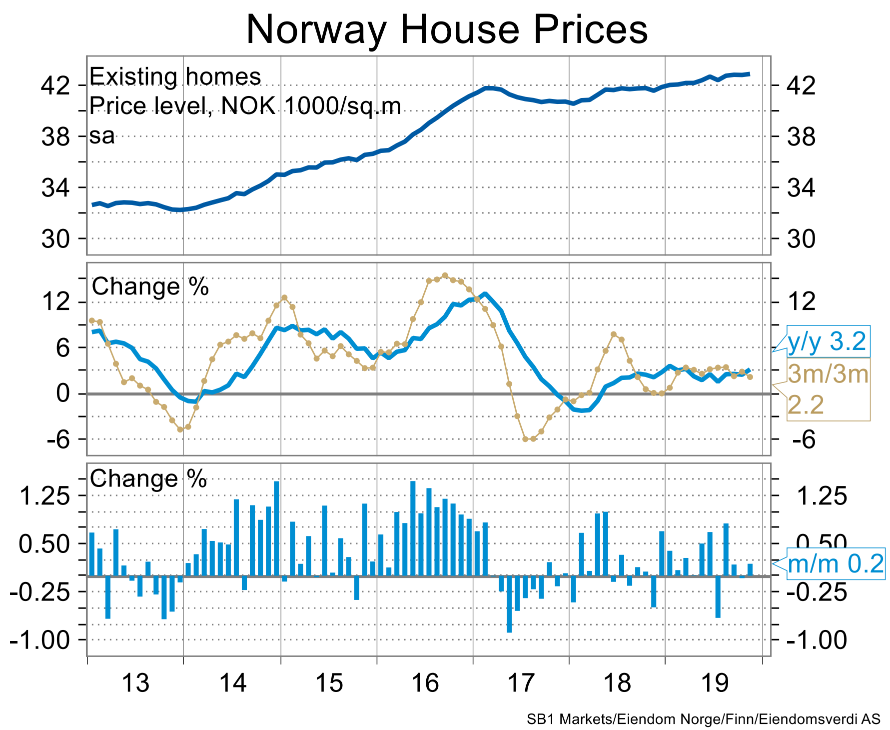


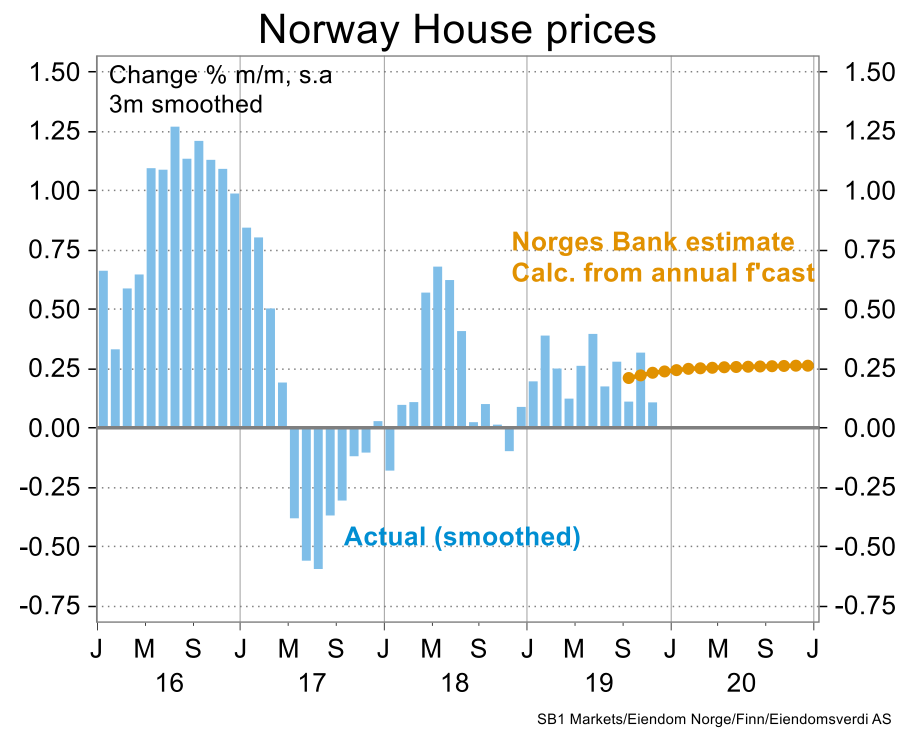


- Industrial (as manufacturing) production has been contracting since last summer, speed of decline now 6.3% y/y. Production fell 1.5% m/m in October, a modest increase was expected
  - » Trouble in the auto industries just partly to blame, production drops in several sectors, check the next slide. The trade war and Brexit uncertainties are most likely dampening demand, too, and slowing domestic demand due to a mature manufacturing cycle?
- Production in other EMU countries stagnates, not many countries have reported October data yet. The ones published this far (Germany, Spain, Ireland) suggests some 0.8% decline in total EMU production
- Some hope? PMIs and manufacturing orders are showing signs of recovery, check this slide for the PMIs and orders here

House prices keep rising moderately, in spite interest rates and high supply

Prices rose 0.2% m/m in Nov, underlying growth has slowed marginally. Demand must be strong

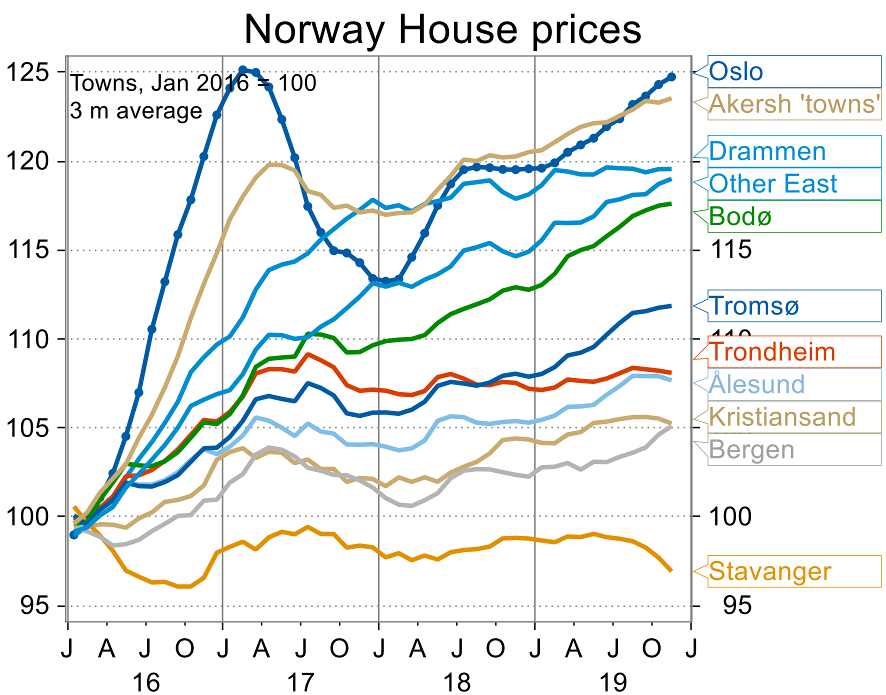




- **House prices** rose 0.2% m/m (seas. adj), as we expected. Prices fell 0.8% not s.a. Growth has been modest the past 3 months, the 3m avg cooled to 0.1%. Underlying growth has slowed a tad to 2.2% while the annual rate rose to 3.2%
  - » Price inflation is marginally lower than Norges Bank's expected growth pace (implied, from annual f'cast)
  - » Prices are still climbing in most regions, Oslo and Bergen in the lead. In Stavanger, prices are falling steeply, and flattening out in Trondheim, Ålesund, Kristiansand
- **The number of unsold homes** is high but has fallen marginally recent months. The elevated inventory is not due to lack of demand but of a high number of new listings of existing homes (which has now flattened out). The number of transactions has flattened at a high level
- **Short term dynamics signal a price acceleration the coming months, yet, the risks are tilted to the downside**

Recent months: Prices are increasing in most cities, falling faster in Stavanger

Prices are soaring in Oslo and Bergen. In Drammen, Kr.sand, Trondheim, Ålesund, prices are flattening



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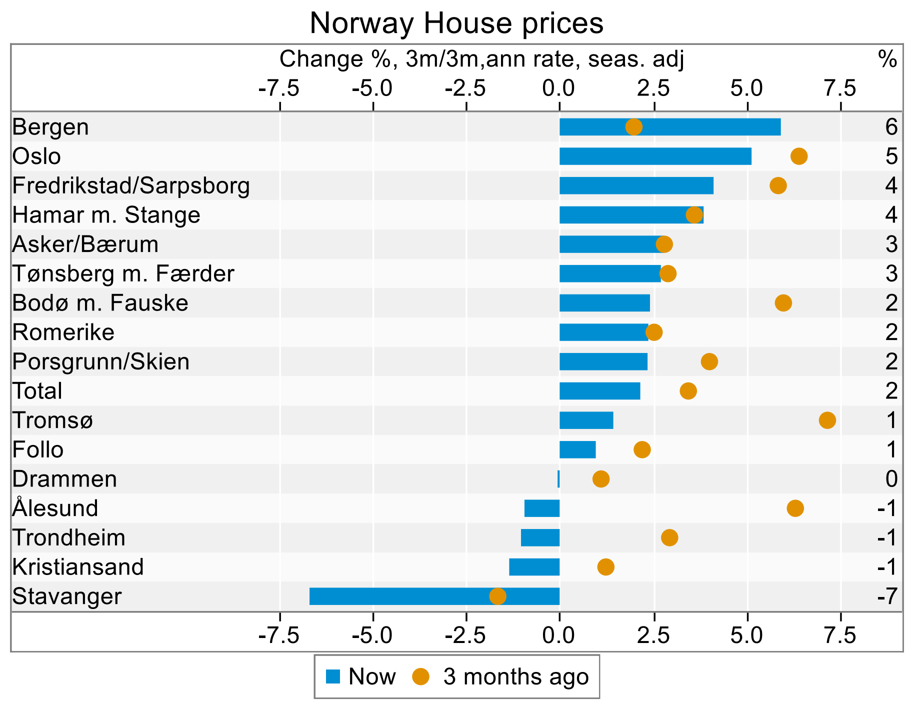
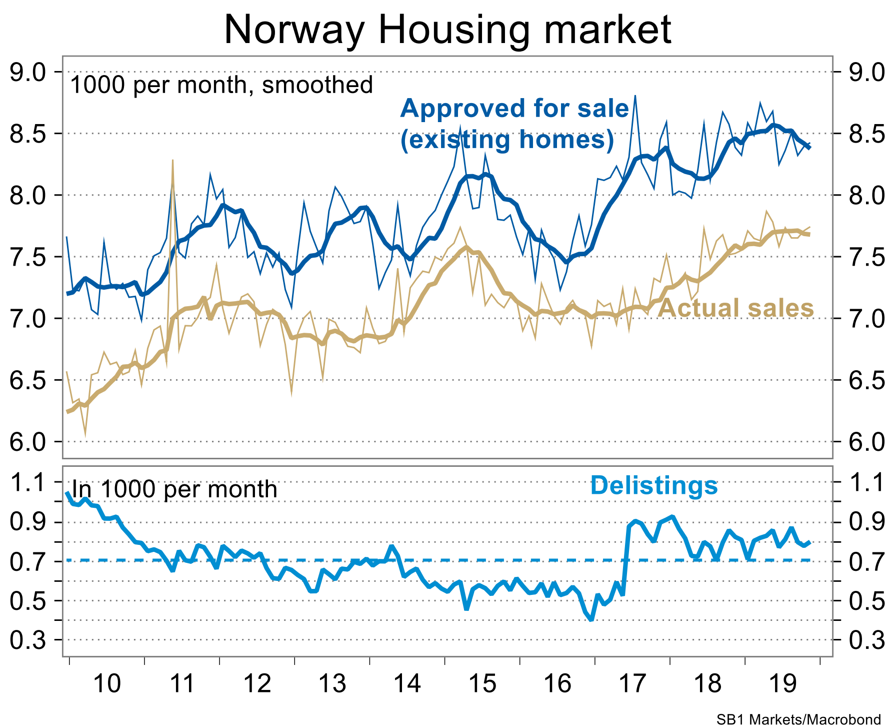


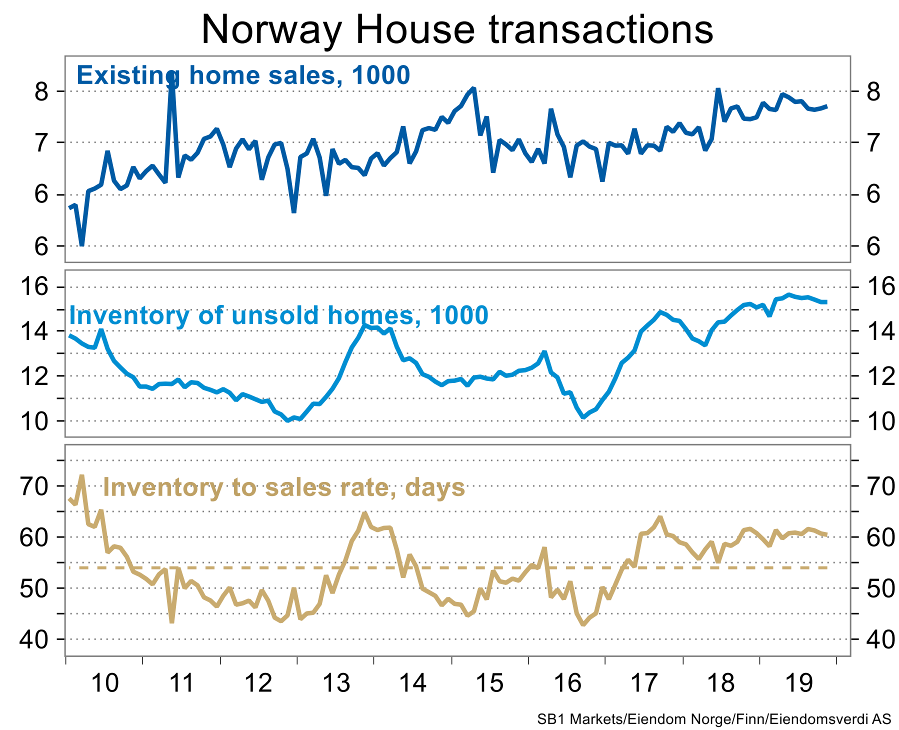
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Measured 3m/3m, prices are now rising in 11 of 16 cities. Prices in Bergen have gained pace, up 6% 3m/3m, and Oslo prices are up 5%. Kristiansand, Ålesund and Trondheim may have peaked? Prices have stalled recent months. Stavanger down 7%
  - » Compared to 3 months ago, prices are accelerating just in Bergen, slowing in 10 (but still increasing) in 7 regions, and falling in 4
- Prices in most cities are now above the local 2017 peak level
  - » Oslo prices are back at the (very high) 2017 peak. Bergen is above the peak level. Stavanger is 13% below the 2013 peak. Housing starts is reduced by some 50% since, but still many homes are built, we assume because 2.hand prices are still high enough to make building profitable

The inventory of homes for sale has peaked but remains high

An elevated number of sales is offset by a high (but no longer increasing) number of new listings





- **New listings of existing homes** have turned down from the peak in early summer. Still, the level is very high and will most likely remain elevated for some time, partly because many newly built homes are being completed
- **The number of sales** has flattened recent months, at a high level. Until some months ago, demand has not been sufficient to absorb the high supply of homes. Following a revision of our season adjustment method, **number of homes for sale (inventory)** has been revised down recent months, and it is now falling slowly, however only due to a lower inventory in Oslo.
  - » The inventory to sales ratio (turnaround) is quite high, at 60 days, vs avg at 54. The number of delistings (implicit) is somewhat higher than normal (but so are sales and inventory too)
- The flow balance on the housing market indicates somewhat higher price growth the coming months, check next page

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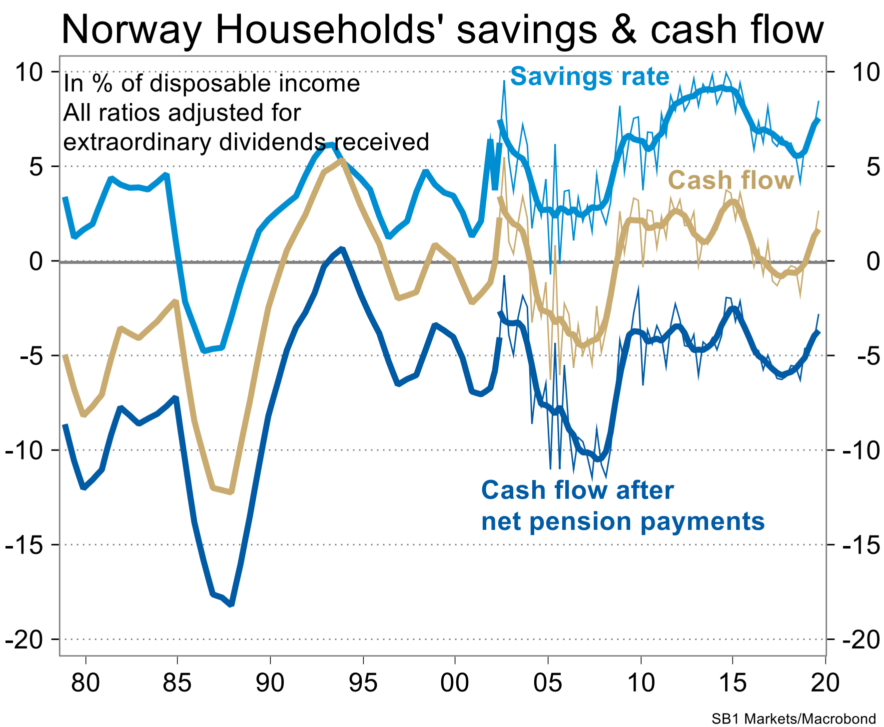
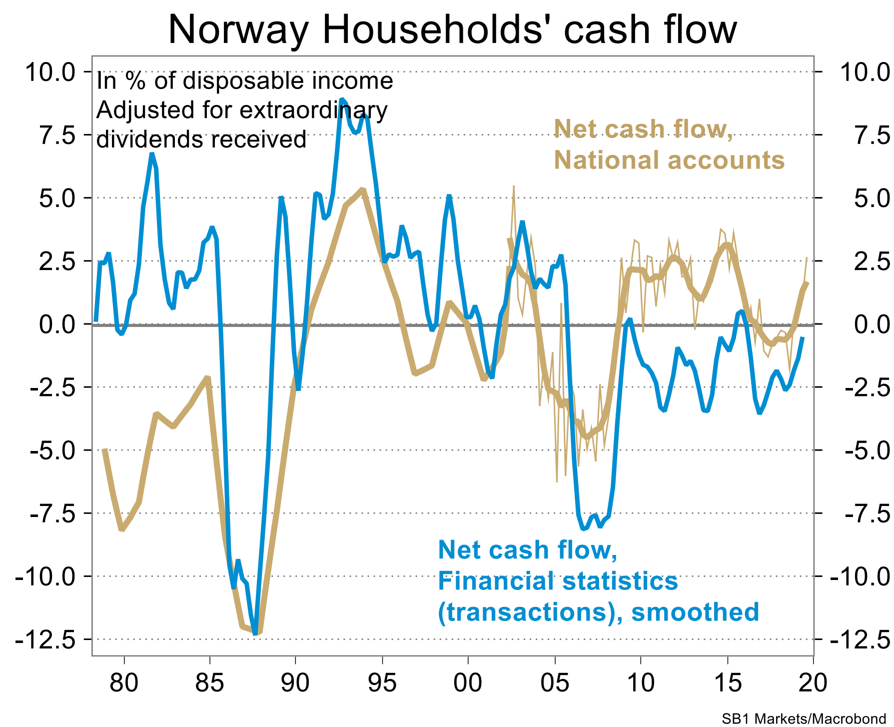
Households' savings are climbing, lifted by higher growth in disposable income

The cash flow has turned positive, at least when including net pension savings

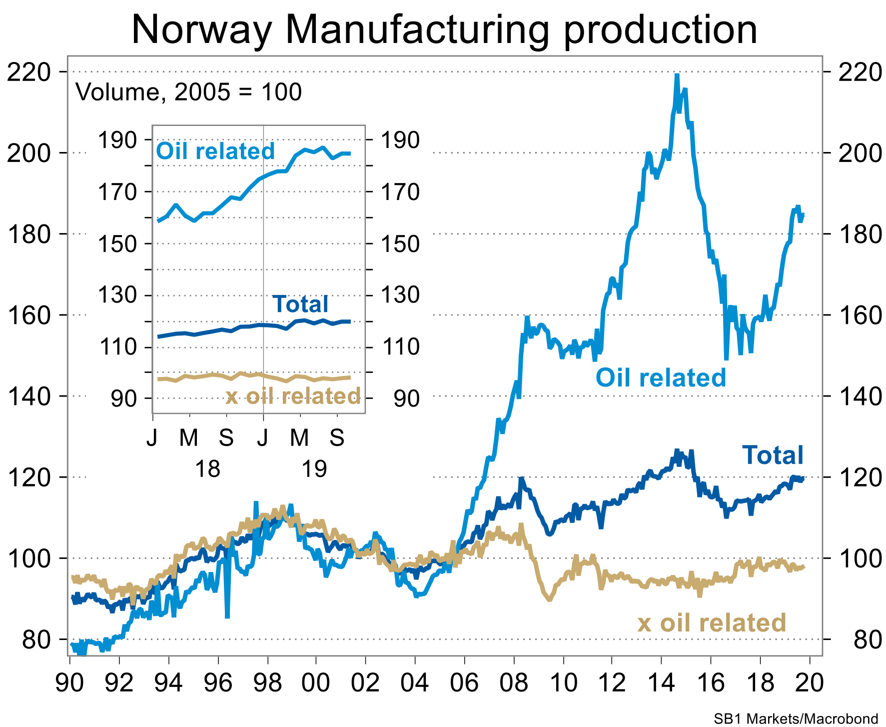


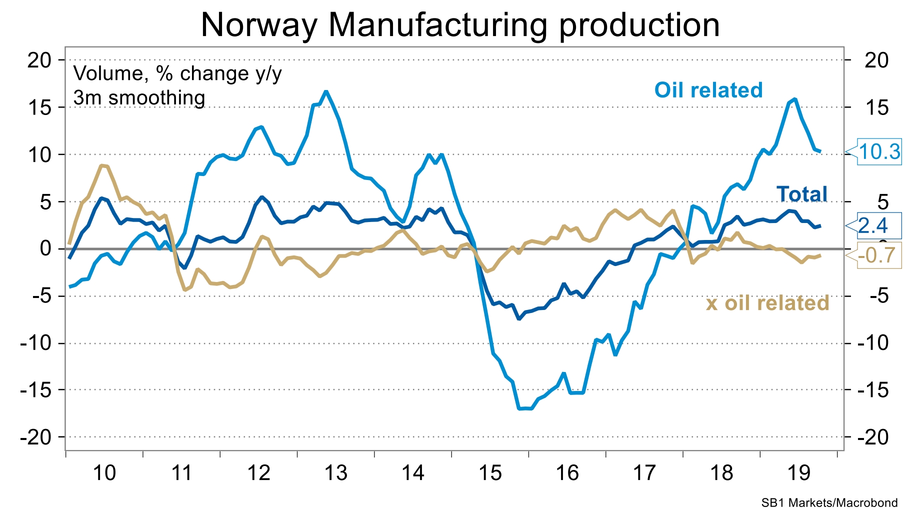


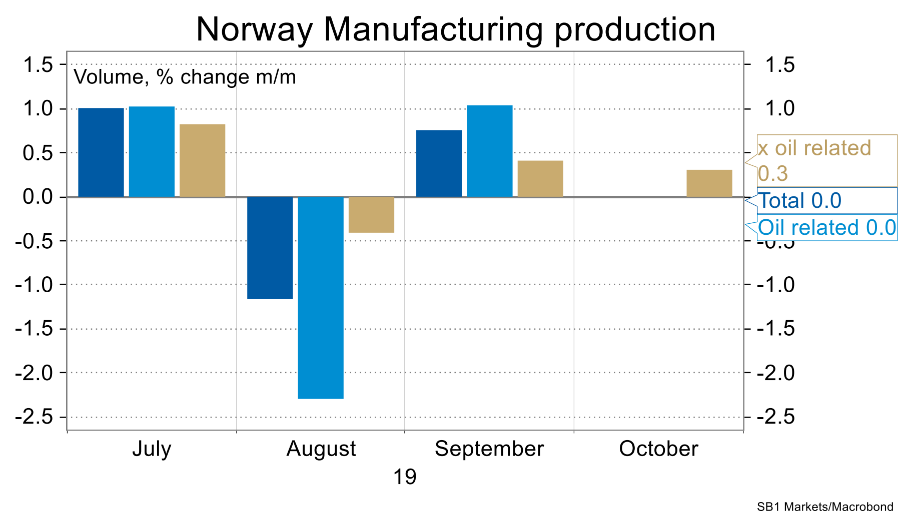
- The savings rate rose by 1.9 pp in Q3 from Q1, to 8.5% of disposable income. Both Q2, Q3 published now). Savings have turned up since late 2018, after a downturn since 2015, reversing most of the decline from 2014
  - The savings rate fell more than 3 pp from 2015-2018, funding some 1/2 of cons. growth. Now, some 2 pp of the decline is reversed and consumption is softening
  - Consumption rose 0.4% q/q in value terms in Q3 (1.5% annualized), while disposable income rose 1.8% q/q. Disp. income adjusted for pension savings rose 2% q/q Interest rate payments have not yet increased, somewhat surprising.
- After deducting for still high housing investments, net financial investments equals 2.7% of total disposable income, it was negative in 2017-2018. When deducting net pension savings (which are not visible or at least not available for households), the cash flow is still well into red, at -2.8%
- Financial accounts reported a negative cash flow (incl. pensions) at -0.5% of disp. income in Q2, reduced from 2.6% in mid-2018. The gap between the Financial Accounts and National accounts has been wide since 2010, as SSB has not been able to 'find' the households' money in banks, funds etc which the National accounts report they have saved. Now, the gap between the reports has closed somewhat

Manufacturing production flattens as oil related sectors are cooling

Total production unch in Oct, oil related down from peak, and no contribution from others







- Total manuf. production was unchanged m/m in October, 0.2 pp below f'casts. Production has fallen recent months (3m/3m at -1.3%) and the annual rate has slowed to 2.4%, from 4 at the peak in June (smoothed)
- The upturn the past 2 years has merely been driven by oil-related manufacturers, but production has flattened since the summer. We expect higher oil related production in Nov & Dec, but then the recovery is over
- Non-oil related sectors have been flat the past couple of years (and the past 25 years!), no reason to expect any upturn
- Surveys have softened and point to a slowdown, to some 2% growth

The Calendar

In focus: Fed & ECB meetings, Norges Bank's Regional Network. The UK election

Time	Country	Indicator	Period	Forecast	Prior
TBA	CH	Aggregate Credit CNY	Nov	1470.0b	618.9b
Monday Dec 9					
08:00	GE	Trade Balance	Oct	19.1b	21.1b
08:00	NO	GDP Mainland MoM	Oct	0.2% (0.2)	-0.1%
Tuesday Dec 10					
02:30	CH	CPI YoY	Nov	4.4%	3.8%
08:00	NO	CPIATE (core) YoY	Nov	2% (1.9)	2.2%
10:00	NO	NoBa Regional Network: Output Next 6M	Nov	1.23 (1.15)	1.35
10:30	UK	Manufacturing Production MoM	Oct	0.0%	-0.4%
11:00	GE	ZEW Survey Expectations	Dec	0	-2.1
12:00	US	NFIB Small Business Optimism	Nov	103	102.4
14:30	US	Nonfarm Productivity	3Q F	-0.1%	-0.3%
14:30	US	Unit Labor Costs	3Q F	3.4%	3.6%
Wednesday Dec 11					
09:30	SW	CPIF Excl. Energy YoY	Nov	1.7%	1.7%
14:30	US	CPI Ex Food and Energy MoM	Nov	0.2%	0.2%
14:30	US	CPI Ex Food and Energy YoY	Nov	2.3%	2.3%
20:00	US	FOMC Rate Decision	Dec-11	1.5-1.75%	1.5-1.75%
20:00	US	Monthly Budget Statement	Nov	--	-$134.5b
Thursday Dec 12					
00:50	JN	Core Machine Orders MoM	Oct	0.7%	-2.9%
06:00	SW	Unemployment Rate, Registered	Nov	--	3.8%
09:30	SW	Unemployment Rate, LFS	Nov	6.8%	6.6%
10:30	NO	Homebuilders' Survey, starts	Nov		27'
11:00	EC	Industrial Production MoM	Oct	-0.5%	0.1%
13:45	EC	ECB Deposit Rate	Dec-12	-0.5%	-0.5%
14:30	US	PPI Ex Food and Energy MoM	Nov	0.2%	0.3%
14:30	US	Initial Jobless Claims	Dec-07	215k	203k
18:00	US	Flow of Funds, households net worth	3Q	--	$1830b
Friday Dec 13					
14:30	US	Retail Sales MoM	Nov	0.4%	0.3%
14:30	US	Retail Sales Control Group MoM	Nov	0.4%	0.3%
Monday Dec 16					
01:30	JN	PMI Composite	Dec P	--	49.8
02:30	CH	New Home Prices MoM	Nov	--	0.5%
03:00	CH	Investments YTD YoY	Nov	5.2%	5.2%
03:00	CH	Industrial Production YoY	Nov	5.0%	4.7%
03:00	CH	Retail Sales YoY	Nov	7.6%	7.2%

- **China**
  - » In October, both **industrial production**, and **retail sales** came in on the soft side, while investments rose steadily. In November, both manufacturing and services PMIs rebounded strongly, signaling no further slowdown. Data out next Monday
- **US**
  - » **The Fed** announced that it will pause it's rate cutting at the October meeting, and expectations of a cut are now muted indeed. The 'dot plot' will most likely signal flat rates through 2020 but higher rates from 2021. The bank is contemplating a more flexible inflation target (or moving towards a price level target), implying that inflation may be allowed to run higher than 2% for a while if it has been below 2%. We do not expect news on this front now
  - » **Core CPI inflation** is trending slowly up and 3m/3m growth is just below 3%. The annual rate will probably remain unch at 2.3%
  - » **Retail sales growth** is slowly cooling, after soaring in the spring/summer but growth is still brisk. Neither consumer confidence nor wage incomes signal any rapid slowdown
- **Eurozone**
  - » **The ECB** will most likely make no changes at this meeting, markets are expecting an unchanged interest rate through 2020. Still, all eyes will be on Christine Lagarde at her first ECB press conference and for hints on the strategic review
  - » **Industrial production** is contracting, PMIs and surveys suggest the downturn may be easing. However, German production slipped in Oct
- **Norway**
  - » **NoBa's Q4 Regional Network** will be a crucial indicator ahead of the Norges Bank meeting on Dec 19. We expect the Network to note a slowdown the next six months, as most other surveys and macro data suggest. We forecast the growth indicator to drop to 1.15, from 1.35 in Q3, signaling 2.3% Mainland GDP growth the coming 6 months (which we think will turn out to be too optimistic)
  - » **Core CPI inflation** has been running just above the price target. We expect the annual rate to inch down in Nov, due to base effects

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

SpareBank 1 MARKETS

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 slowdown, especially in the manufacturing sector. Rich countries (DM) in the lead, more to go in most EM. Unemployment is low, wage inflation on the way up, not low vs. productivity. Most emerging countries (EM) x China are in recovery mode. Some hotspots EMs will get burned, as usual – but there are fewer EM imbalances than normal. The global PMI is still trending down but improved broadly in November. Barring policy mistakes, the global economy is not rigged for a *hard* downturn. Investment rates are not far too high, few debt bubbles this time. **Growth has slowed to 3% from 4%, but has stabilized since Q4 2018. We expect a modest slowdown to 2.7% in 2020, even if trade conflicts are 'solved', if ramped up, more downside risk**	Global composite PMI rose 0.7 p in Nov, better than expected. The PMI points to above 3% growth, an upturn from the past 4 quarters. Manufacturing is in recovery mode, boosted by China and the US. EMU still weak but the pace down may now be slowing
China	The governments' stimulus measures may have boosted the economy, and data do not point to a hard downturn. Rather, the PMIs suggest an upturn recent months. The invest/GDP ratio is still sliding down. Debt growth has slowed, and will not accelerate much even if authorities are trying to stimulate credit in order to compensate for the negative impacts from the trade war/previous tightening. Fiscal policy is also activated. Exports to US approx 2% of GDP, and a (so far) 10 % decline here is manageable. **However, a full scale trade and even more a tech/world hegemony war will hurt the Chinese economy**	Markit's composite PMI was far better than expected in Nov (as the NBS PMI), at the highest level since early 2018. Both export and import volumes are close to record high. No signal of a weakening Chinese economy
USA	Growth has slowed, from well above trend. The employment rate is still trending up (steeply recent months), and unemployment down, but wage growth is not accelerating. Price inflation is close to target. No serious overinvestments but most sectors at/above trend and corporate debt is high. Business investments have softened amid weaker growth in profits and trade war uncertainty. Recent consumption data are solid but slowing now (and partly funded by lower, although still high savings). Housing positive. Fiscal stimulus continues but not by much. The deficit is far, far too high, given the low unemployment rate. Recession risk is not overwhelming, short term, and further rate cuts are unlikely, barring a much weaker economy. **Risks: Trump/trade/business invest.**	November nonfarm payrolls far above f'casts, reflects a very upbeat labour market. Diverging manufacturing surveys; Markit's PMI points to a modest acceleration whereas the ISM indicates a steep contraction. The service sector is still growing according to both. Imports have fallen steeply the past months, exports flat.
EMU	Growth has slowed and manufacturing is contraction, while services remain rather resilient. The manufacturing downturn may now be easing, at least that is what the PMIs/other surveys are indicating. The labour market is tight, and labour cost infl. is back to a normal level. Investment ratios are above trend. Credit growth is increasing, but still muted. Household savings are high, still consumption has kept up well. Policy: ECB turned dovish but does not have that much ammunition left, barring a huge QE, and the ECB policy makers are split. Fiscal policy debate has turned, some stimulus possible. **Risks: Trade war (but less risk for a US/EU war after G7). Italy. Weak short term data signals a substantial further slowdown risk**	Composite PMI has stabilized just above 50, still suggesting very low growth in the EMU. Manufacturing PMI signals that the downturn may be bottoming out, even in Germany. German manufacturing production tumbled in Oct, orders may be stabilising. EMU retail sales weak in Oct
Norway	Growth is still above trend but at/close to peak. Unempl. is declining at a much slower pace, probably flattening out now. Wage inflation is accelerating. Oil investments are peaking in H2 2019. Mainland business inv. are not low anymore, will probably slow in '20. Mixed signals from the housing market, starts probably slowing. Electr. prices have taken the headline CPI down but core still slightly above target. Credit growth slowing (households) and underlying growth is now finally lower than income growth. **Risks: Debt, housing. A harsh global slowdown**	House prices rose 0.2% in Oct, in line with our f'cast. Price inflation is moderate and steady. The savings rate increased to 8.5% in Q3, as disposable income climbed. Manufacturing production cools, as surveys indicate

In this report

Global: PMIs, Auto sales

- Global macro data slightly more negative vs expectations so far in Q4
- Global retail sales hit by the Japanese VAT hike, Oct level probably too low, ind. prod down too
- Global PMI recovered more than expected in Nov, up 0.7 p, signalling 3% global growth
- A broad uptick; China PMI spiked, other EM and DM improved, in average
- Global Manufacturing PMI is recovering, signals 1% growth
- US ISM says 48.1, 'the others' at '51' – and Markit's PMI at 52.6
- Eurozone final November PMI flat, signals close to zero growth
- Norwegian manufacturing PMI holds up surprisingly well
- US Auto sales up in Nov but is still trending slowly down
- EMU Auto sales probably up in Nov but still below par
- Full stop in Norwegian auto sales, new 2020 regulations at least partly to blame

China

- Both exports and imports volumes are close record high, no signs of a Chinese slowdown

USA

- Employment soared in Nov, unemployment down and wages growth up
- Jobless claims dropped to a 6 month low, no signs of weakness
- The trade deficit at 1 ½ year low as imports dropped
- Univ. of Mich. Consumer sentiment up in Dec
- One nowcaster mixed: signals 0.6% - 2% in Q4

EMU

- Household demand supports GDP growth – and investments are not declining
- Retail sales cooled in Oct, 2% trend still intact
- The German manufacturing contraction deteriorates, steepest decline since 2009
- Manufacturing orders may have bottomed out, offering some hope

Sweden

- Manufacturing production and orders (probably) have peaked

Norway

- House prices keep rising moderately, in spite interest rates and high supply
- Households' savings are climbing, lifted by higher disp. income
- Manufacturing production flattens as oil related sectors are cooling
- The Financial News Index a tad down in Nov

Highlights

The world around us

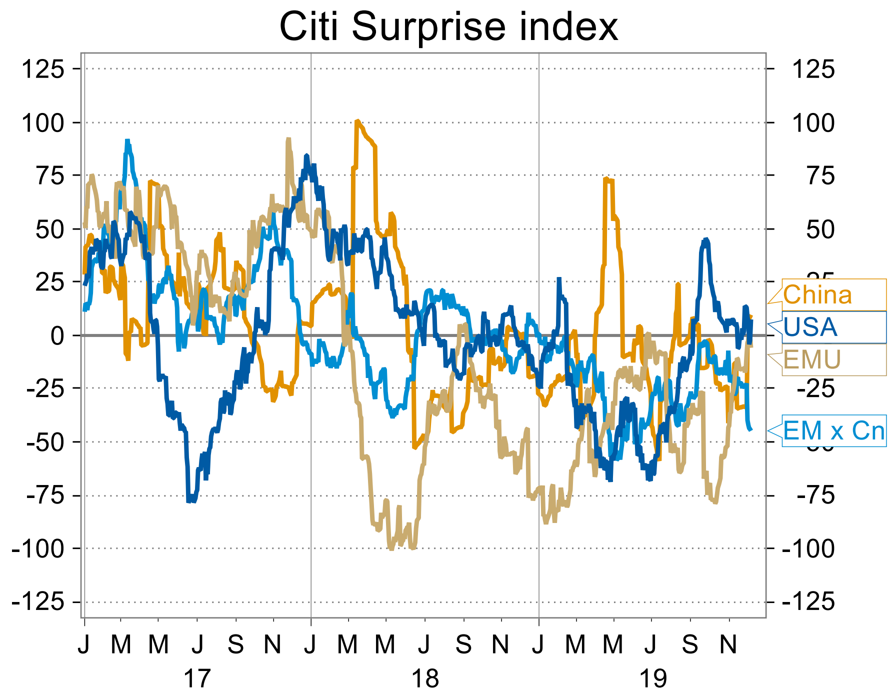
The Norwegian economy

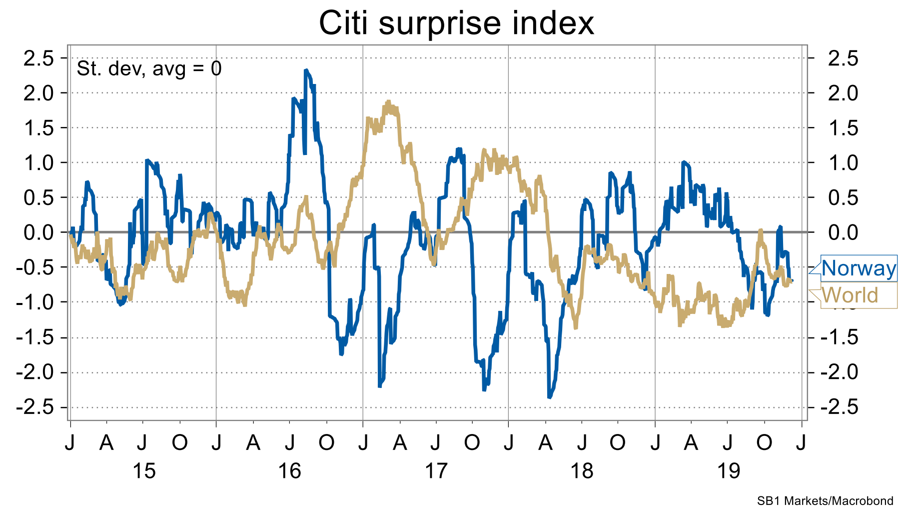
Market charts & comments

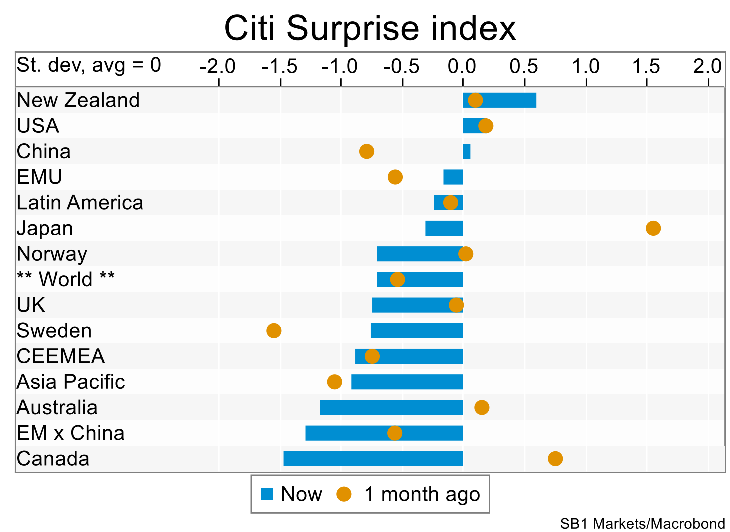
SpareBank 1 MARKETS

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

Data from the US back to neutral, China above expectations and other EM down, EMU at 6 m high





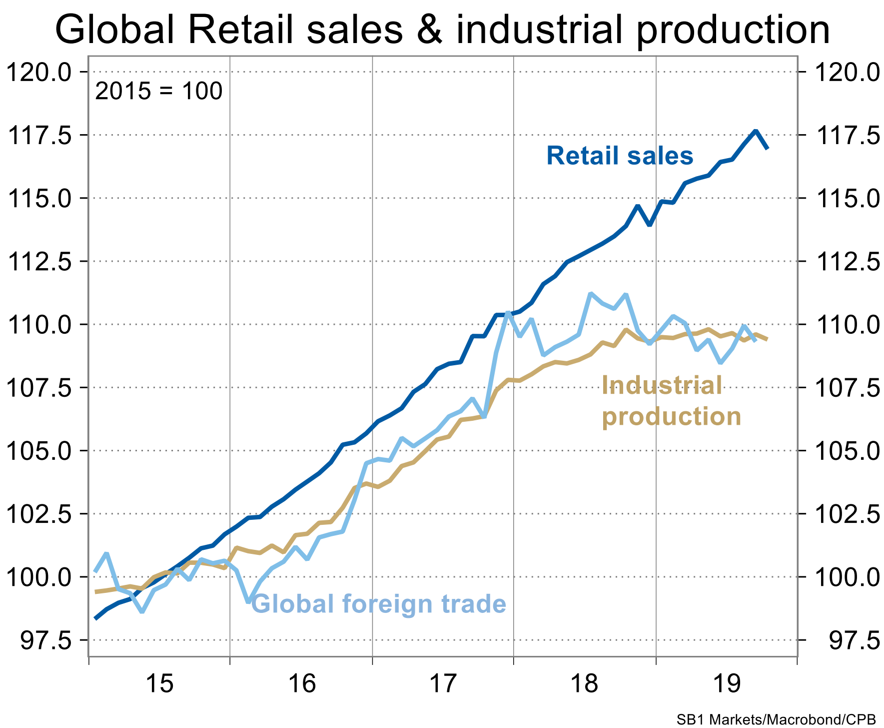


- The global surprise index climbed to a ‘neutral’ level for the first time this year in mid-Sept. Since then, data have been more disappointing, in sum
- US data flows have been upbeat the past months. Last week, a weak ISM pulled the surprise index back to ‘neutral’
- EMU data have been much less disappointing recently – and expectations adjusted?
- China spiked on strong PMIs, back in positive territory. Other EM much weaker
- 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

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

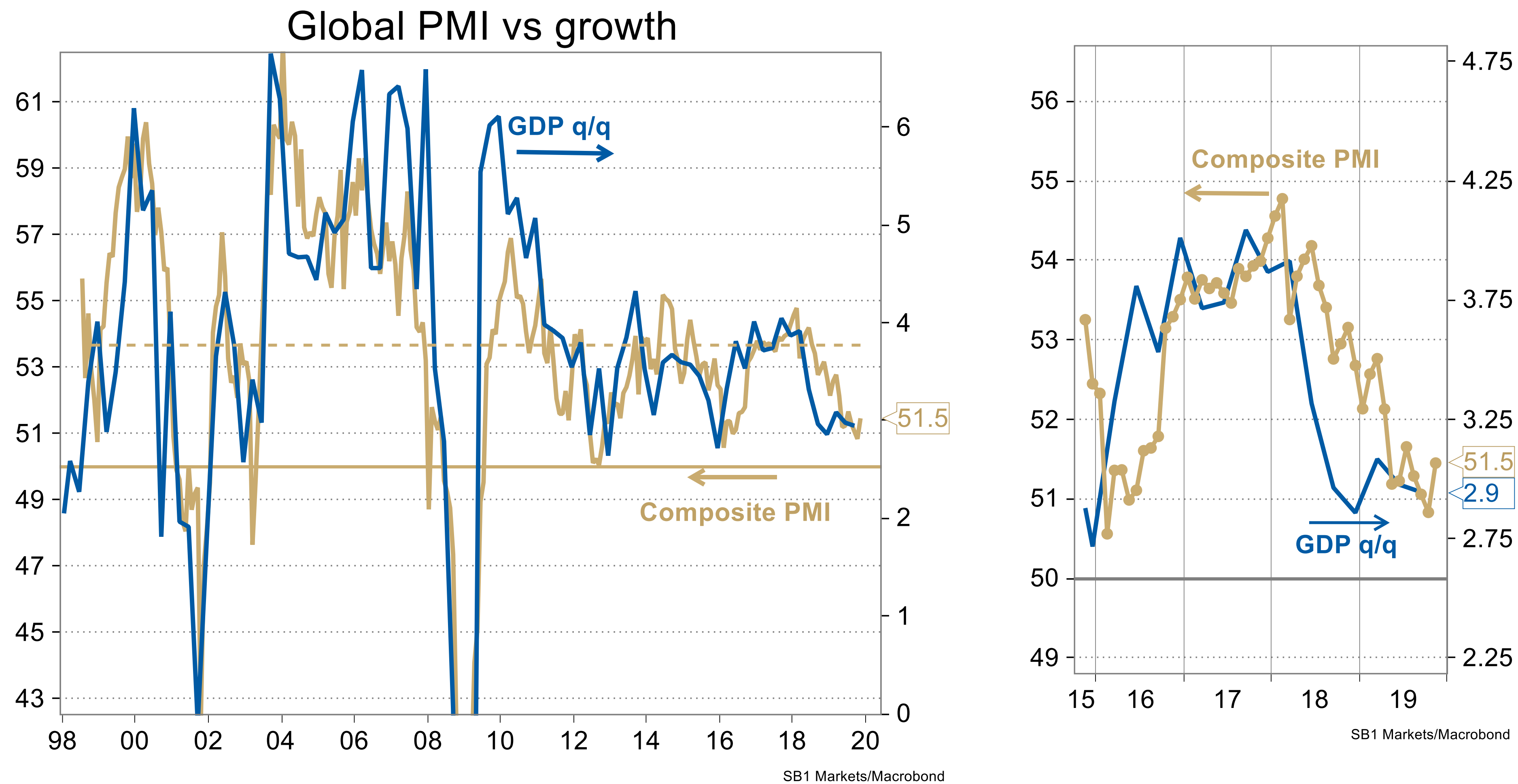


Memo: Keep in mind the different scales at the chart above

- **Retail sales** fell by 0.6% 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** probably fell marginally in Oct (our prelim. est), and it is still heading slowly down, and the annual rate -0.4%. 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!

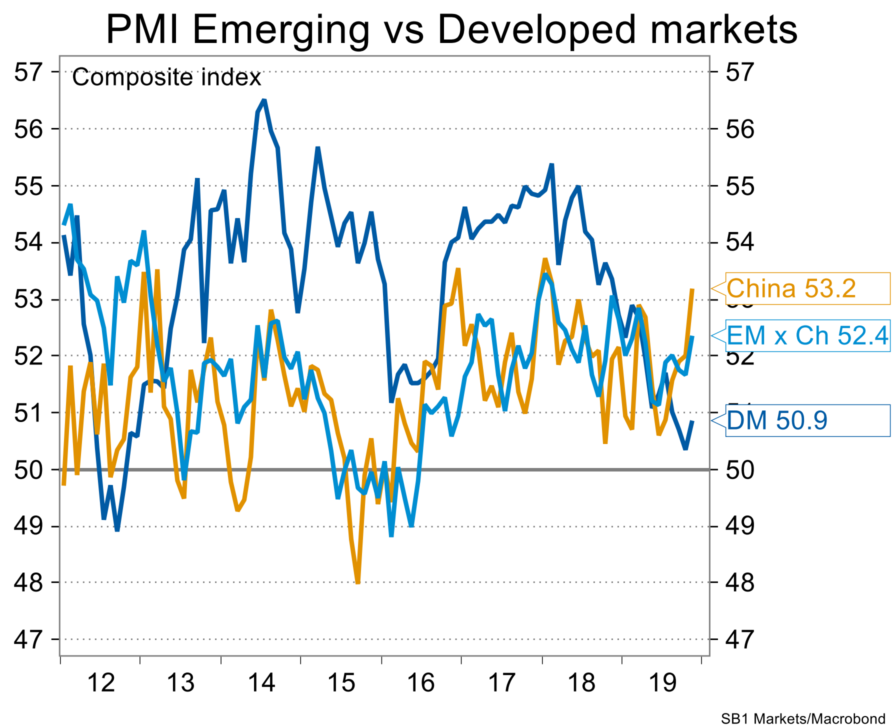
Global PMI recovered more than expected in Nov, up 0.7 p

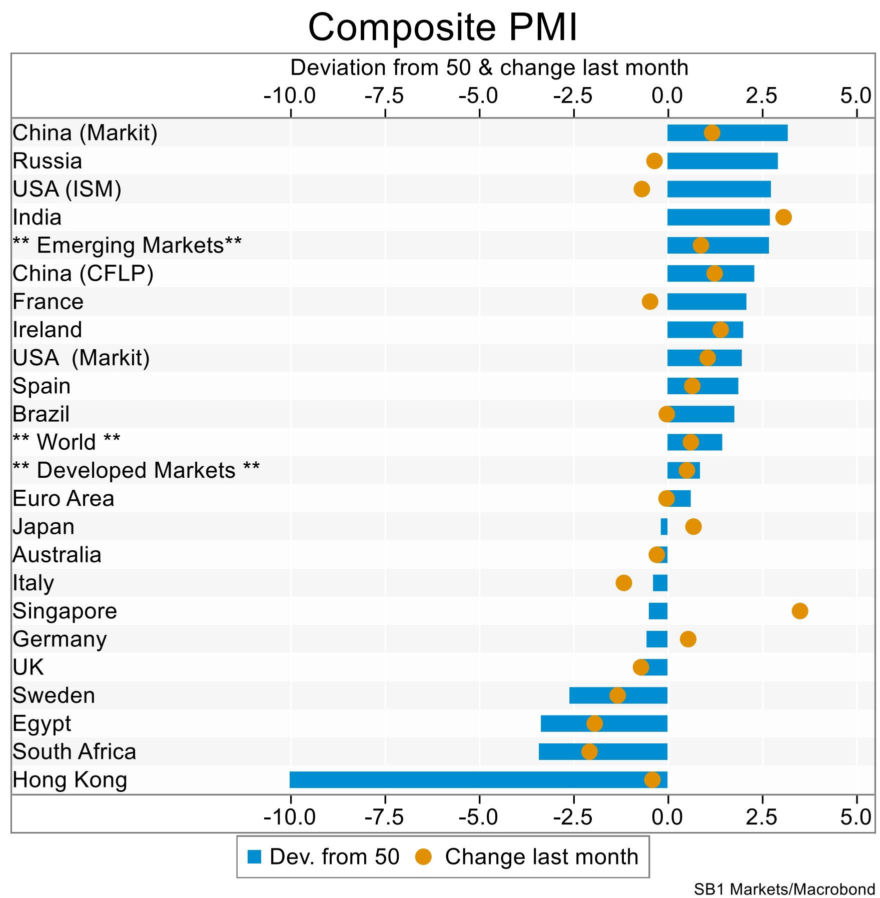
Composite PMI rose to 51.5, pointing to a slight upturn in global GDP growth, to just above 3%



A broad uptick; China PMI spiked, other EM and DM improved, in average

Most countries are reporting growth but DM have been slowing rapidly. EM & China on the way up





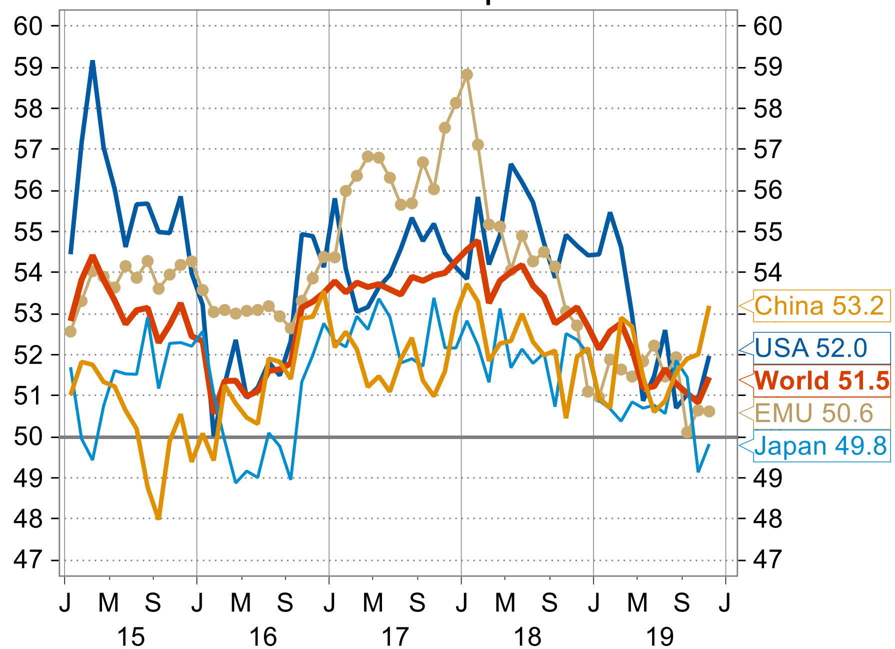
- 12 countries/regions reported an increase m/m (thus, activity accelerated or fell at a slower pace), from 9 in Oct. 10 countries noted weaker activity (from 13)
- Most countries/regions are still reporting growth; 10 countries below the 50-line, 13 above
- DM average down 0.5 p, EM up 0.9 p, China up 1.2 p (Markit)

Hong Kong services are collapsing, of course due the protests, composite PMI at 31.9 in Nov (the scale above is too narrow)

US, EMU, China and Japan are all edging up, China at top (composite PMI)!

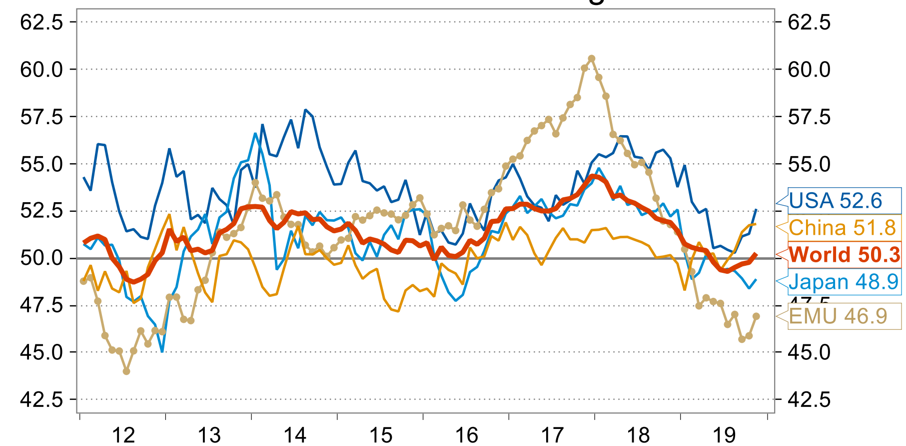
Manufacturing is in recovery mode in the US, China, EMU still weak. Services at decent levels, x Japan

PMI Composite



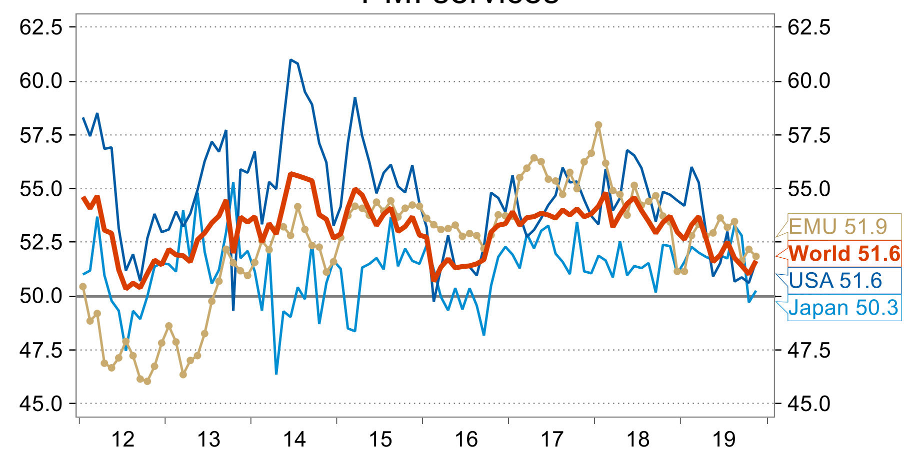
Source: IHS Markit, SB1 Markets, Macrobond

PMI Manufacturing



Source: IHS Markit, SB1 Markets, Macrobond

PMI services

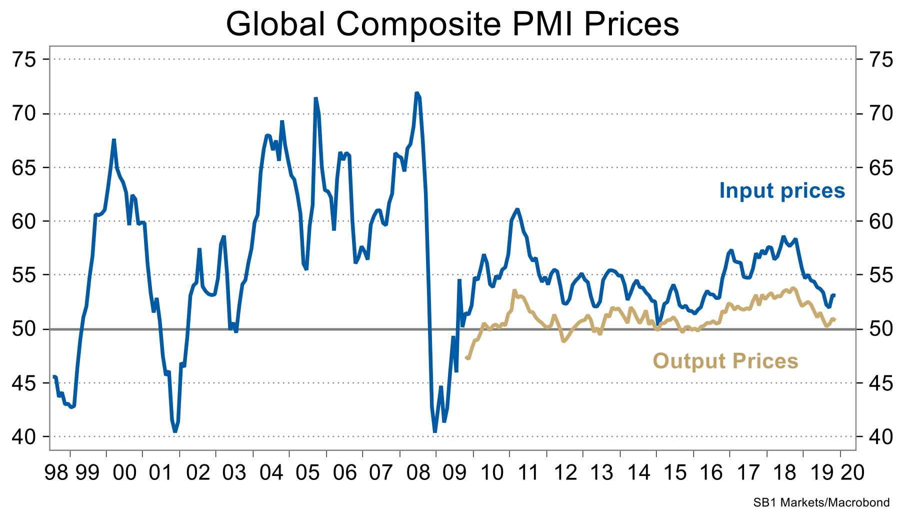


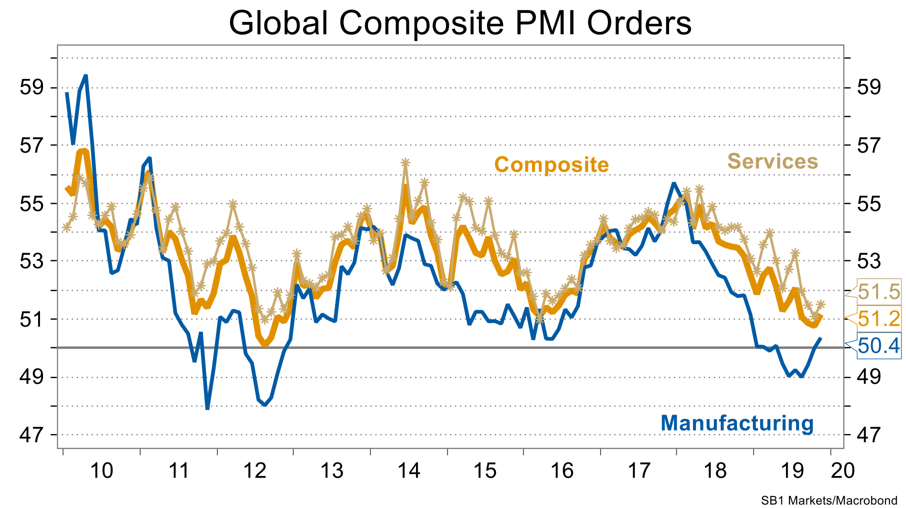
SB1 Markets/Macrobond

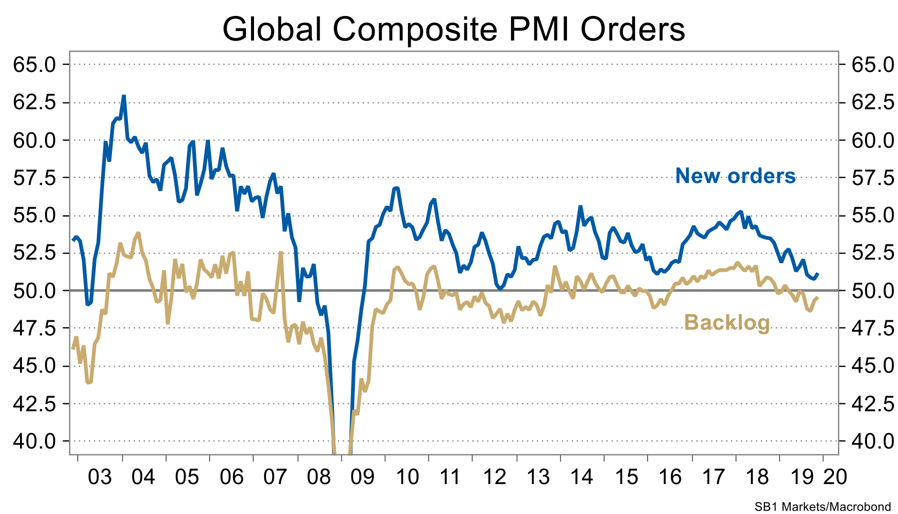
- The composite China PMI (from Markit) spiked in Nov, to the highest level since early 2018, as both sectors reported an acceleration. Markit's PMI from the US recovered swiftly too, both sectors. EMU flat in Nov, after an uptick the prior month. Manufacturing still struggles but the downturn may be easing
- The service sector is slowing but still growing moderately most places
- Services PMI from Japan slipped 3.1 p in Oct, and recovered just marginally in Nov, due to the VAT hike on consumer goods in October. A rebound is likely the coming months

Composite orders and prices are slowing but improved in Oct/Nov

Manuf. orders at 11 month high, service orders are trending down, increased in Nov



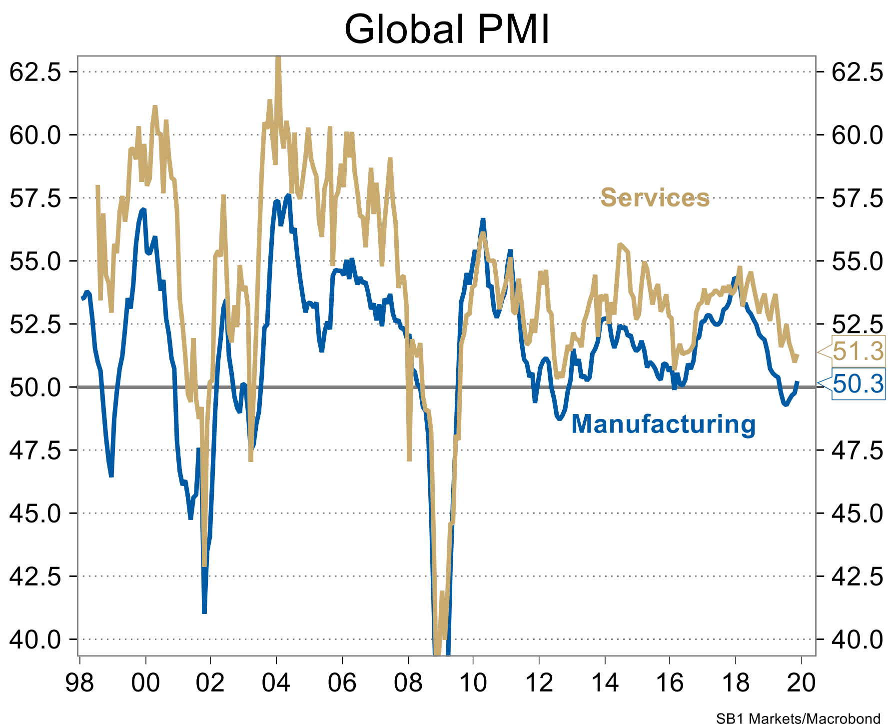


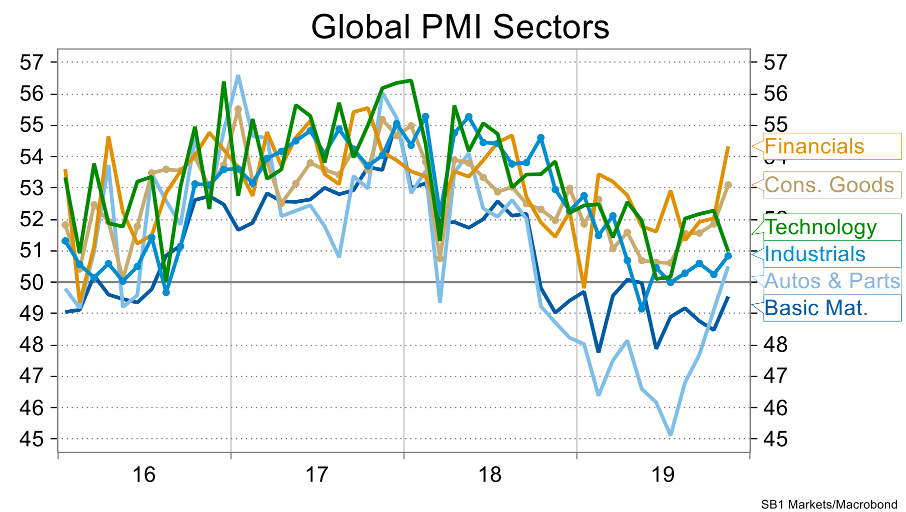


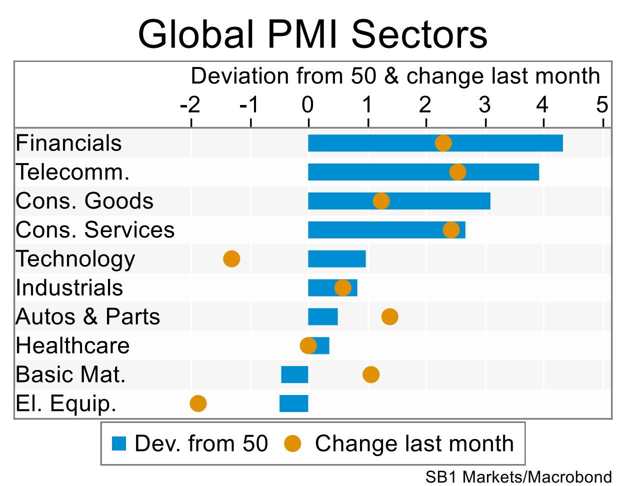
- The PMI manufacturing orders index has stabilised the past months and rose to 50.4 in Nov, the best since Dec 2018. Services orders are still growing, by a gradually slower pace the past 1 ½ years. Thus, composite orders are trending down as well
- Both input and output price inflation is easing. Prices accelerated a tad in Oct & Nov, adding to signs of a demand upturn

The manufacturing PMI is recovering, services is still trending down

The auto industry is reporting higher activity, for the first time in more than one year!



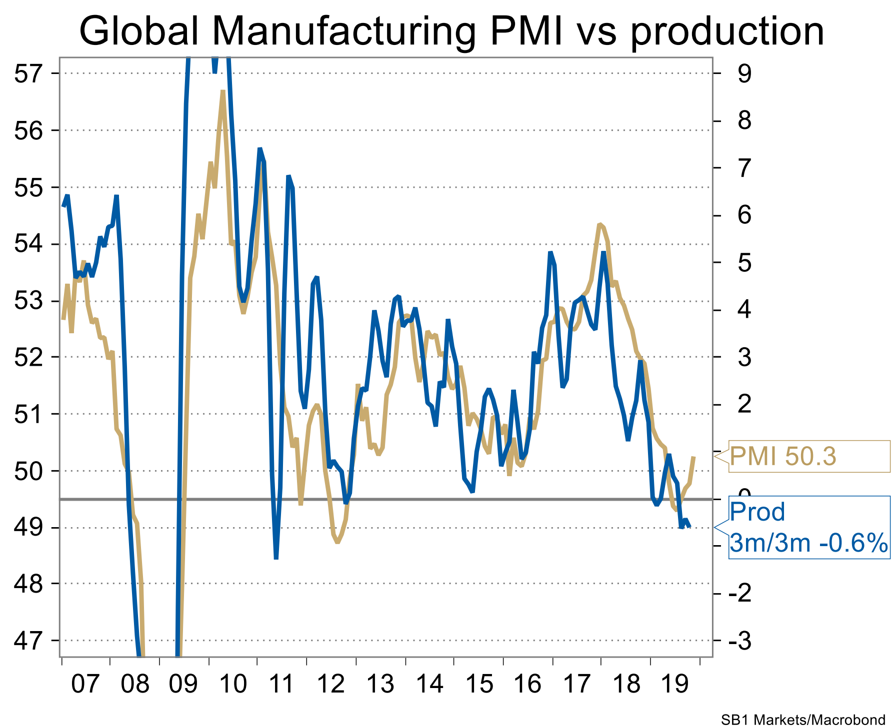


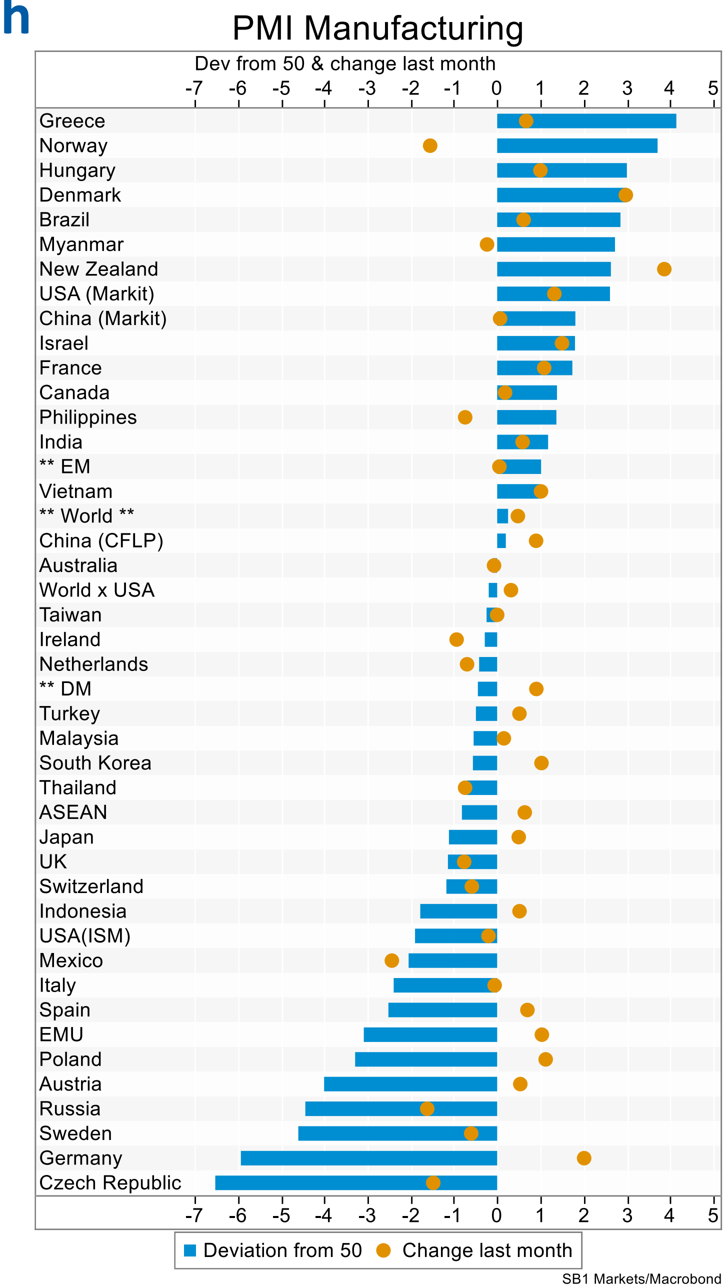


- The manufacturing PMI has ticked up the past 4 months, now to 50.3
- Services are slowing, but so far the downturn has been much moderate vs manufacturing industries
- In November, the technology & electrical equipment PMIs fell, others rose – autos to above 50 – and the important – and leading consumer goods PMI has strengthened sharply since the summer, the index at 53
- Basic metals is still the weakest link in the chain (regrettably also a leading sector

Manufacturing PMI is recovering, signals 1% growth

PMI rose 0.5 p in Nov to above the 50-line, the highest in 7 m

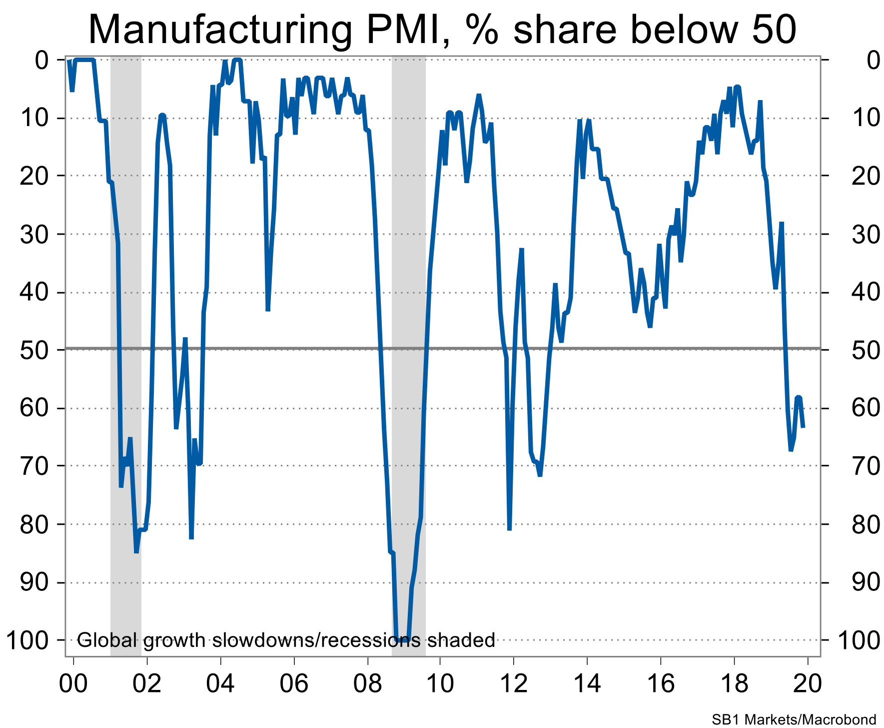


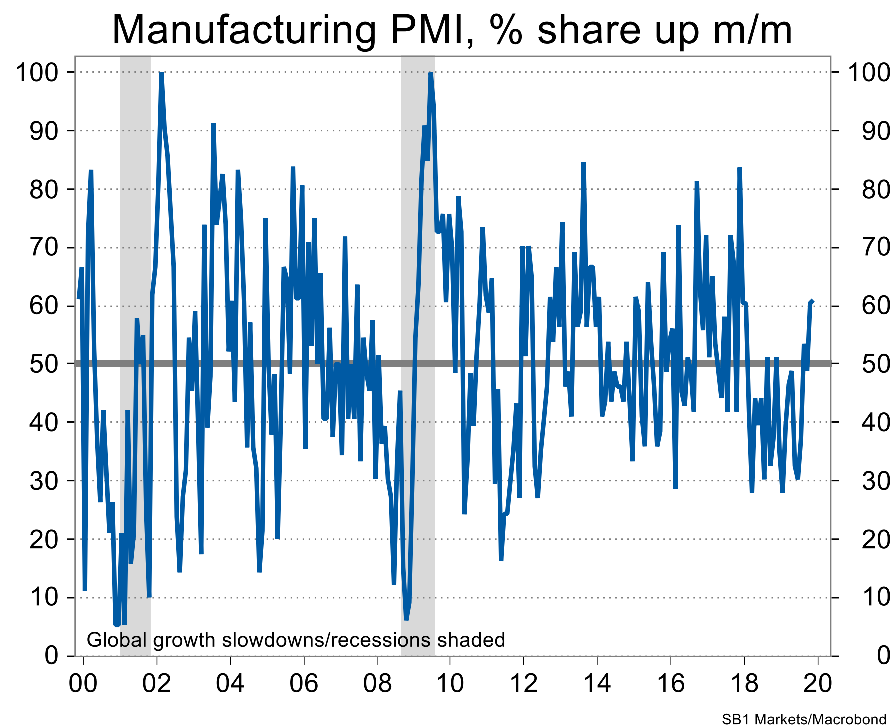


- PMI rose 0.5 p in Nov, to 50.3, vs our est. at 50.2 (based on the prelim. results). This is the 4th month of increase and the highest level in 7 month, reflecting a recovering sector. The PMI points to some 1% increase in global manufacturing production, vs a 0.6% decline now (measured 3m/3m)
  - 25 (from 21) countries/region PMIs rose in Nov, and 13 declined (from 18)
  - 24 of 43 countries/regions are still below the 50 line
  - Developed Markets increased by 0.9 p, Emerging Markets up 0.1 p

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

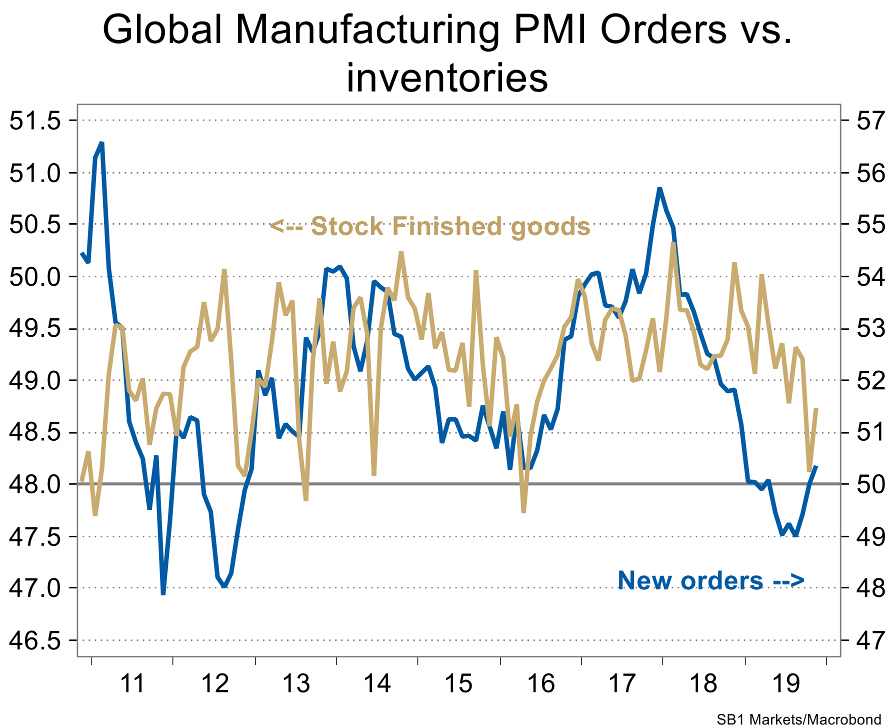
The m/m balance is the best in 2 years!





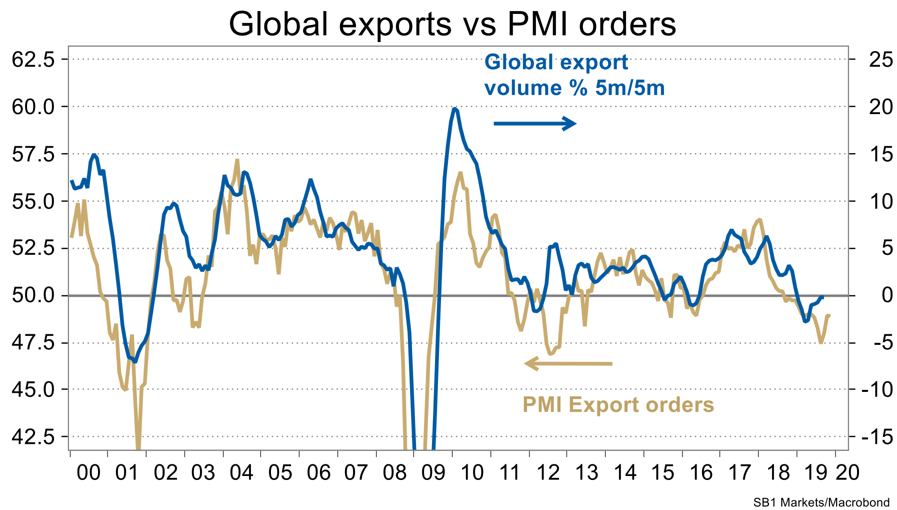
The inventory build up has slowed substantially, orders are increasing again

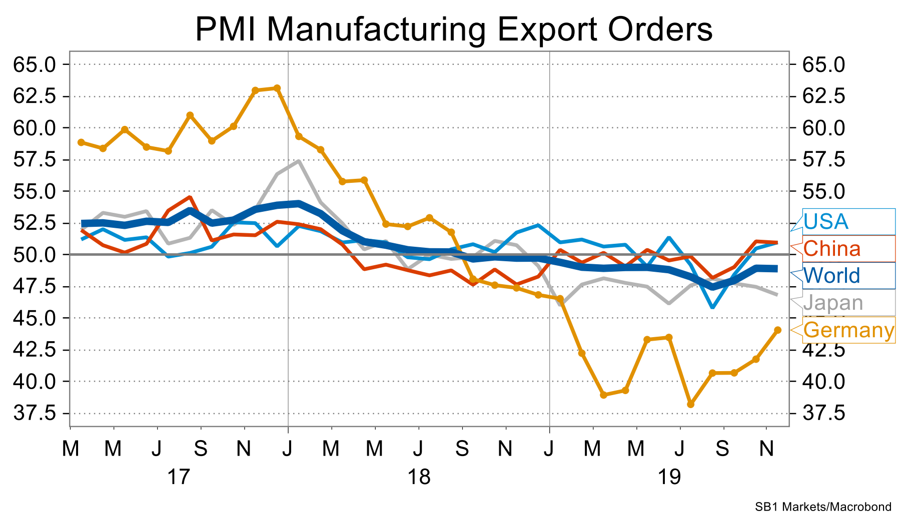
Normally a good omen ☺



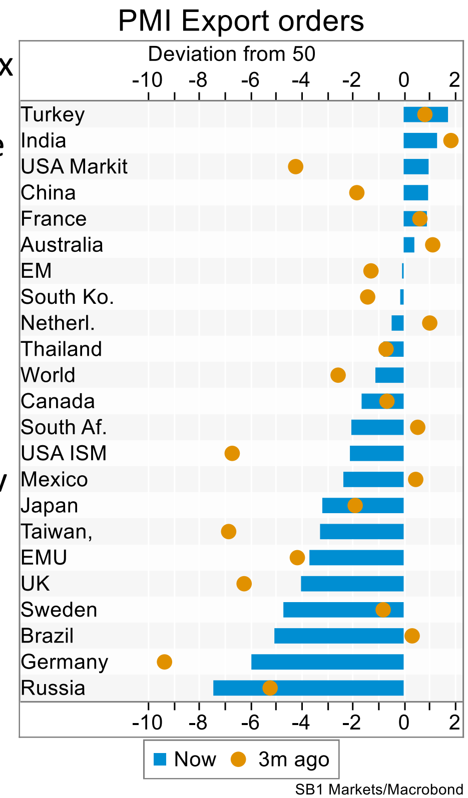
PMI export orders suggest a stabilization in global trade

Export orders PMI steady at 48.9, still pointing to a decline but less than in June-Sept



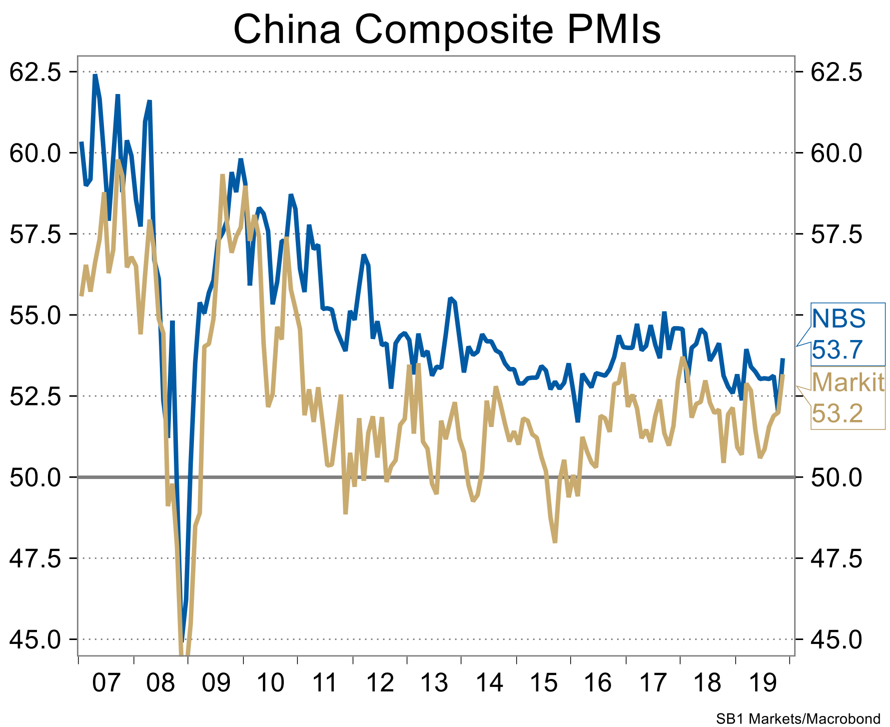


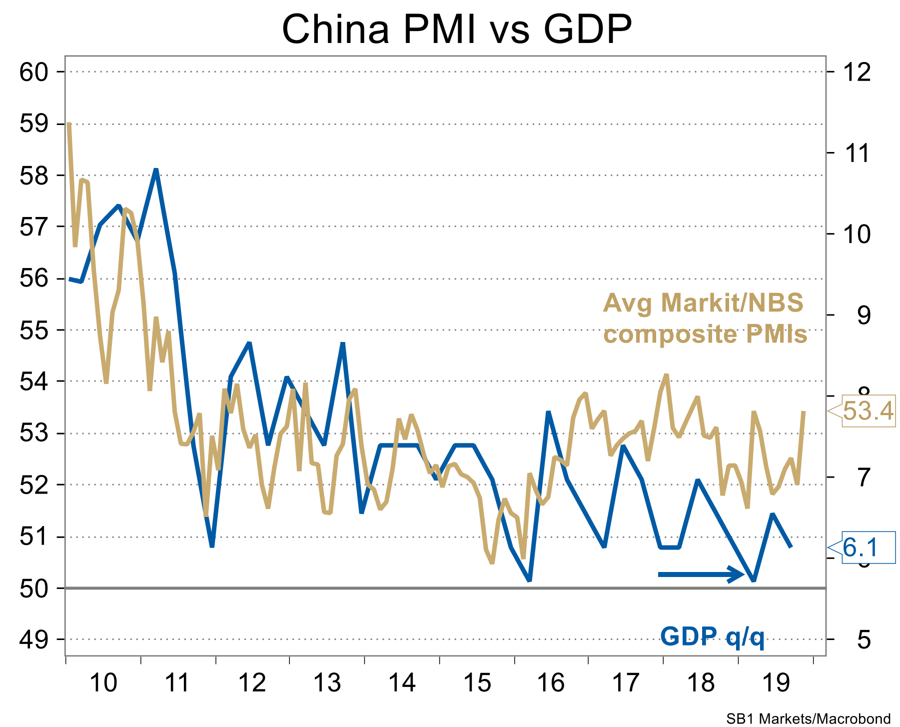
- Actual global export volumes have more or less stabilized recent months, the 5m/5m rate is down just 0.2%, from 2.9% in the spring. The PMIs confirms a stabilization, although the level is somewhat 'lower'
- A small majority of countries is now reporting declining export orders (it was a large majority a few months ago)
- Germany export order index is weaker than most others (x Russia), country, however, the index has stabilized since early 2019 and improved recent months
- Chinese exporters are reporting increasing orders, the PMI was unch at 51
- US exports orders are improving too, at 51.0 in Nov
- Hopes of a US/China trade deal and a soft Brexit have probably helped, and some recovery in the auto sector?



Both composite PMIs spiked in November

Manufacturing recovers strongly and services even more, the PMIs suggest a growth rebound





- Markit's services PMI (released this week) jumped 1.2 p in Nov, to 53.2, the highest since Feb 2018. The manufacturing index inched up after soaring the prior month, and services rose 2.2 p
- NBS' composite PMI (CFLP) spiked 1.7 p, to 53.7, more than reversing the Oct downturn. Both sectors improved rapidly
- The avg of the two composite PMIs rose to 53.4, the best since March. The PMI does not signal any halt in the Chinese economy, rather, a soft growth rebound
  - » The governments stimulus measures might have boosted activity, however, the export order indices are improving too (as in several other countries), suggesting a broader upturn

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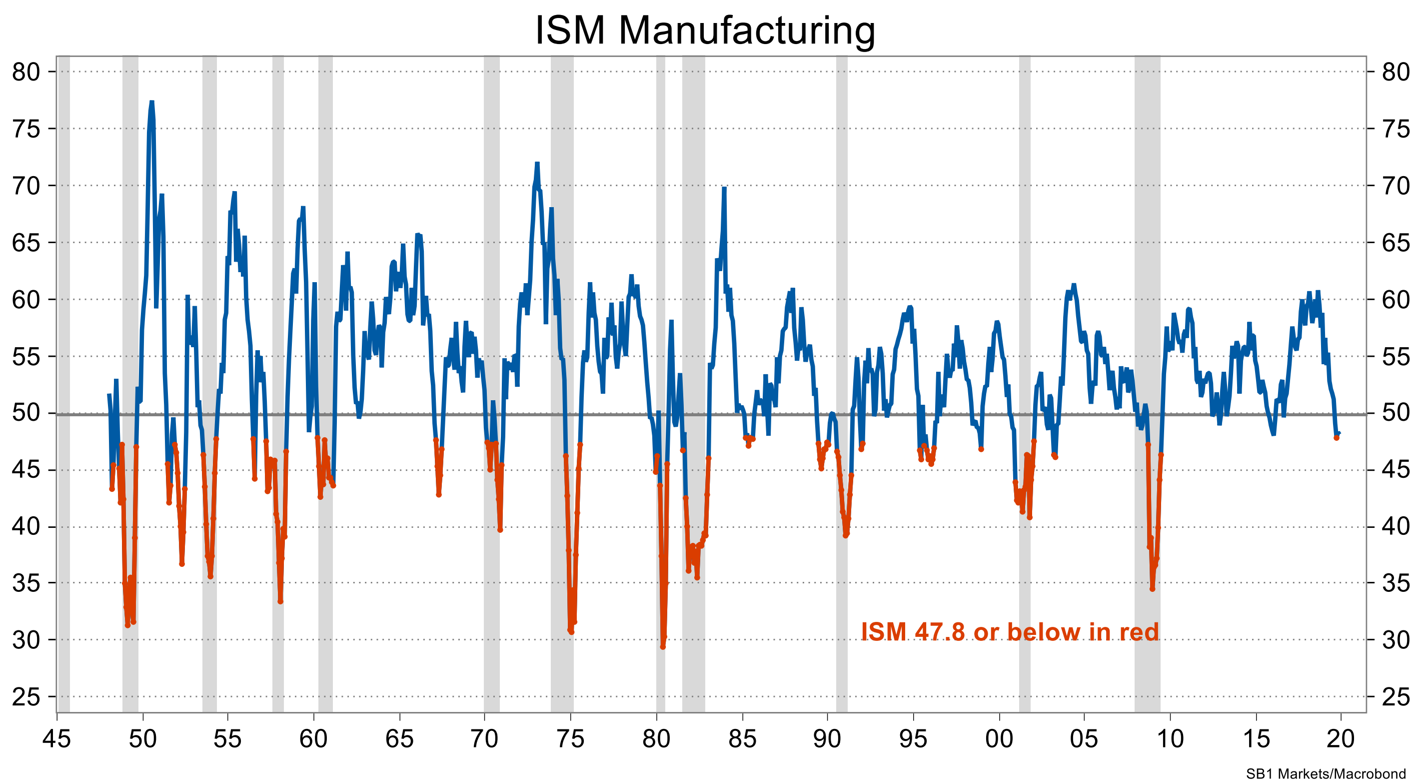
Manufacturing ISM failed to recover in November

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



- Manuf. ISM fell 0.2 p to 48.1 in November, an upturn to 49.3 was expected. The level of the ISM the past 3 months is the lowest since the Financial Crisis. Other surveys are not that downbeat, and Markit's PMI noted a 0.9 p spike to 52.6 in Nov!
  - » In the ISM survey, 5 out of 18 sectors reported growth (unchanged from Oct) and 13 (from 12) sectors reported a contraction, a weak mix
  - » Weaker global demand is stated as an important reason for the slowdown but the demand weakness must be quite wide spread, domestic orders are tumbling
- <u>The manufacturing ISM has fallen to the present level (or below) 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions, and 6 times without any outright recession. Thus, the odds are not that attractive anymore. In addition, GDP growth slowed substantially every time the ISM fell to the present level</u>

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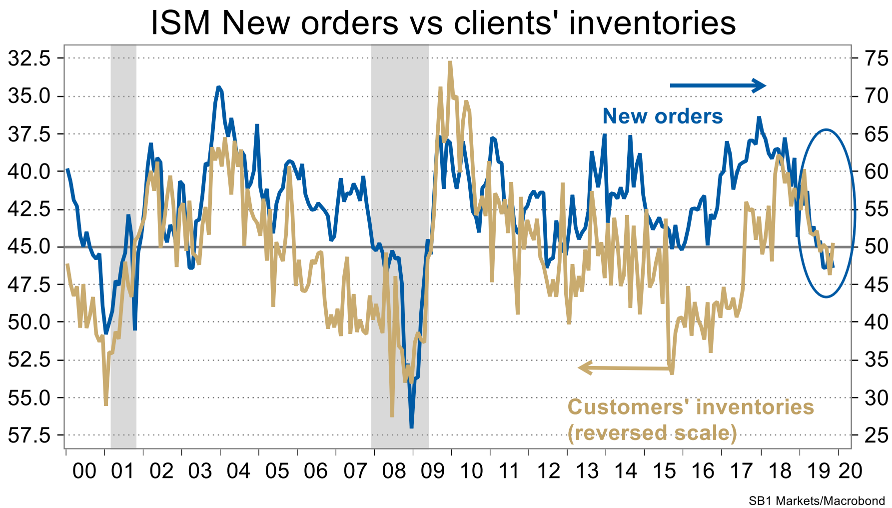
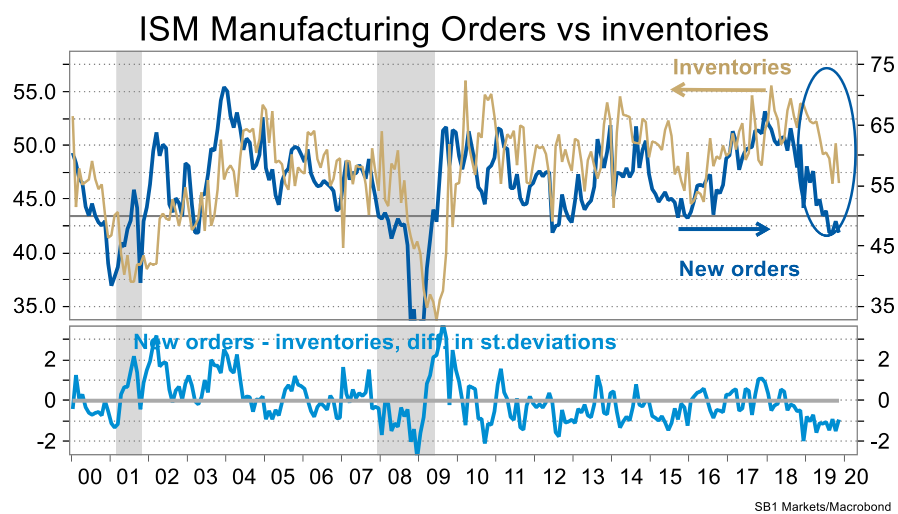
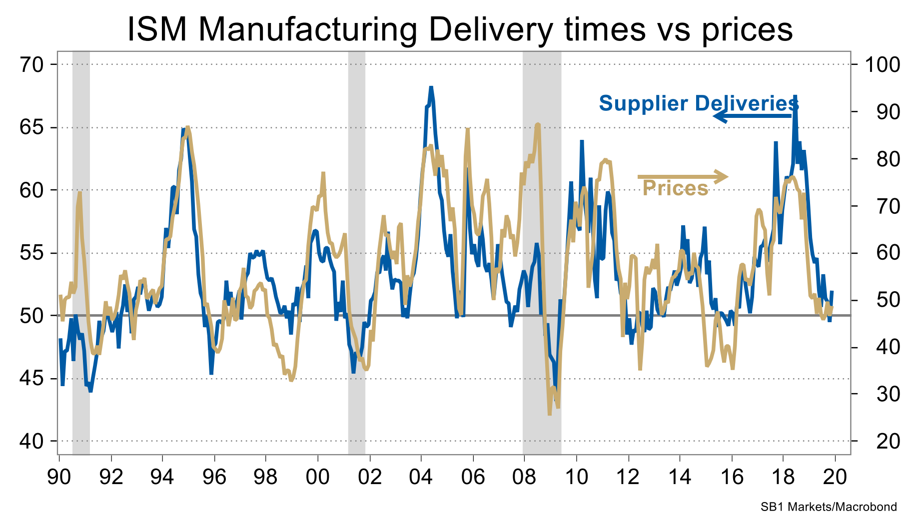
Orders are declining but inventories are not built up anymore, some hope?

Still, short delivery times & lower prices are signalling weaker demand and capacity utilisation

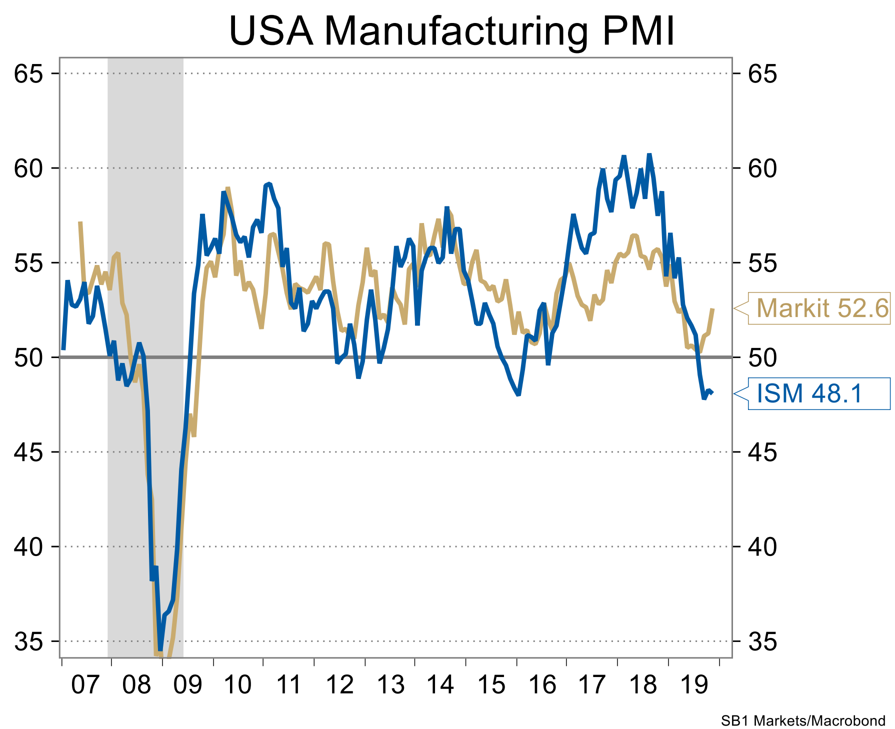


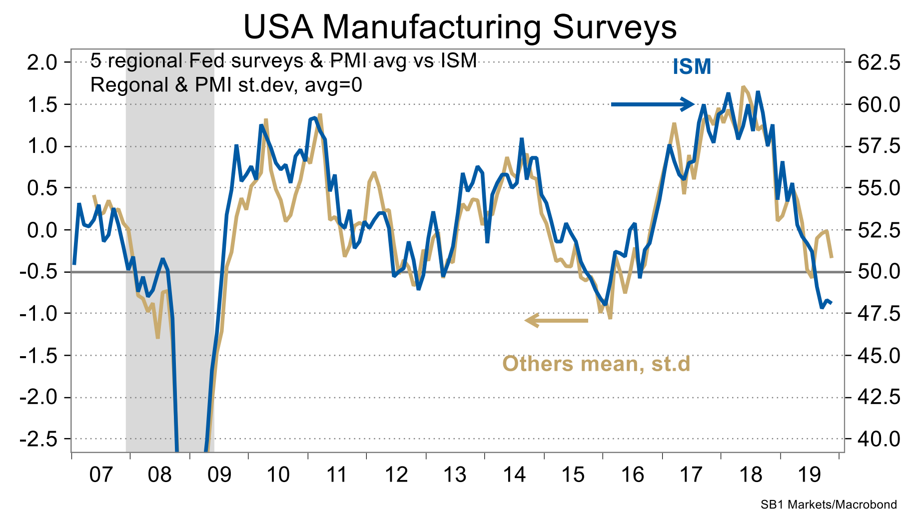


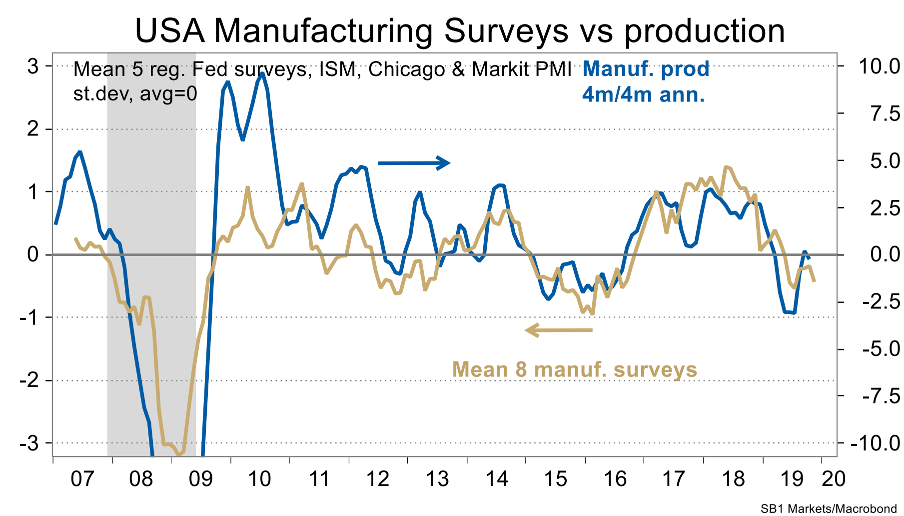


ISM says 48.1, 'the others' at 51 – and Markit's PMI at 52.6

The average of 7 other manufacturing surveys equals a 3 p higher ISM, at 51



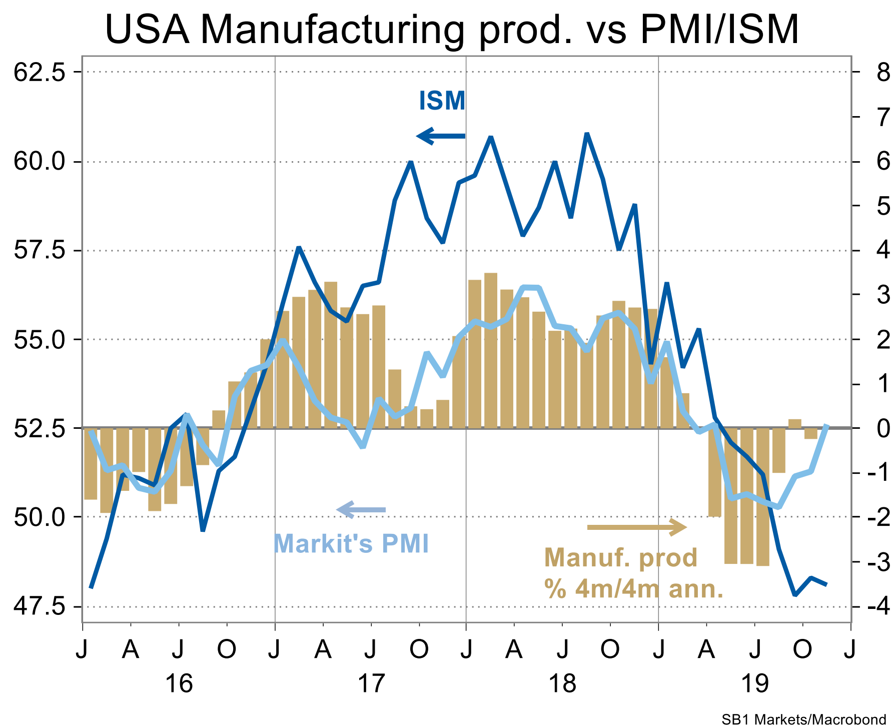


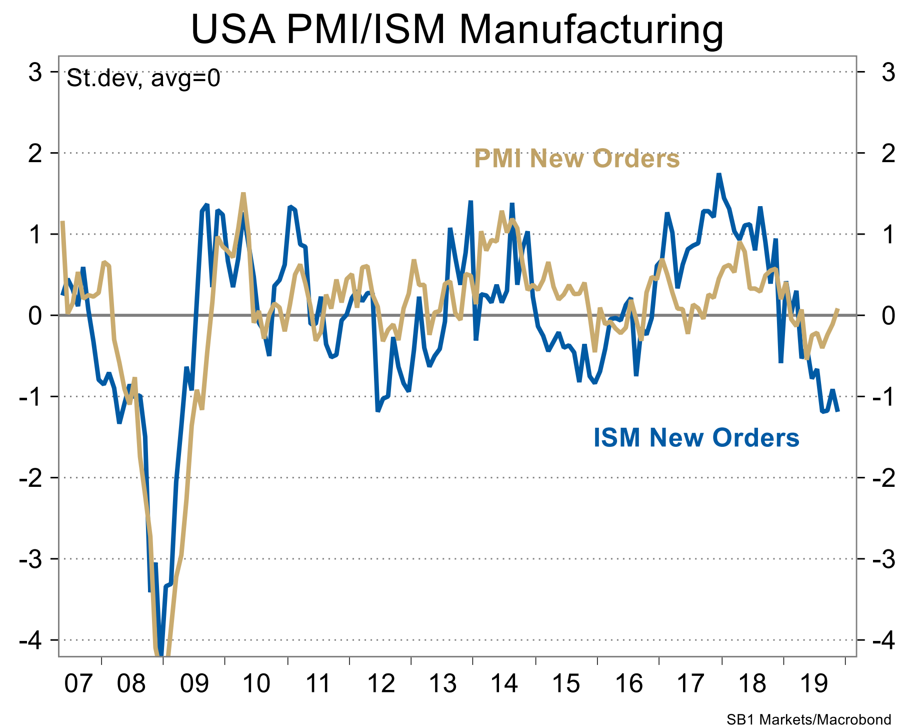


- Markit's manuf. PMI rose 0.4 p more than first reported in Nov, up 1.2 p. The level at 52.6 signals a recovery
- Most of the regional surveys weakened in Nov but the avg level is at '51' (rebased to an ISM level)
- The past two years, the manufacturing ISM was much stronger than Markit's PMI. However, Markit has been closer to the ball vs actual production recent years

Markit's PMI has been closer to actual manufacturing production the past years

The ISM is the 'classic', however, it is more volatile than Markit's PMI





- The past months, the PMI order index has recovered, to a level at 53.6, which is marginally above average. The ISM total order index, on the other hand, is much weaker than normal, at 47.2
  - » Both surveys have been reporting a recovery in export orders recent months, although the ISM is weaker than Markit

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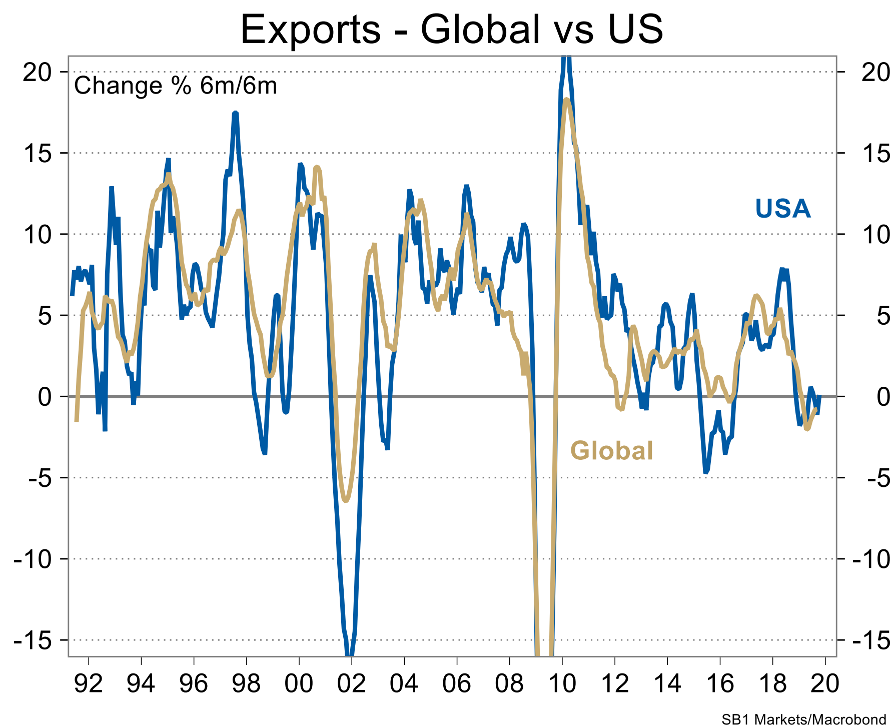
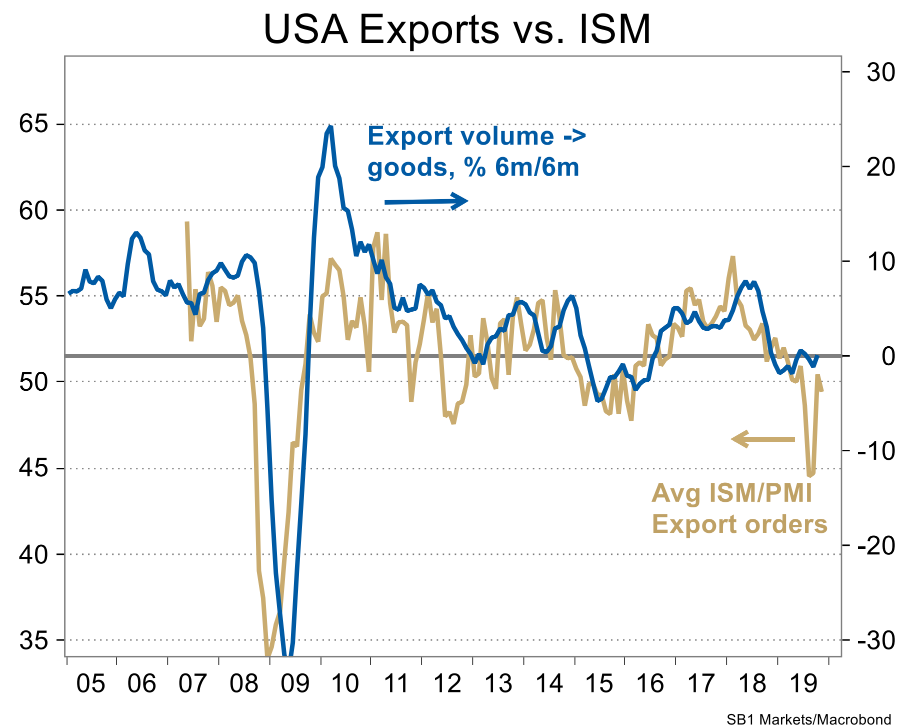
Export outlook has stabilized – globally as in the US

US exports are closely correlated to global exports (it's not the dollar!)





- The ISM export index has recovered along with other export surveys recent months, although the level still suggests a (marginal) contraction.
- US exports are closely correlated to global exports, it's just a tad more volatile (and a little slower growth rates over time). The slowdown in US exports now, mirrors the global export setback (as normal), nothing more, nothing less
  - » The strong USD has some impact on exports, but less than 1% now - and a miniscule impact on GDP growth

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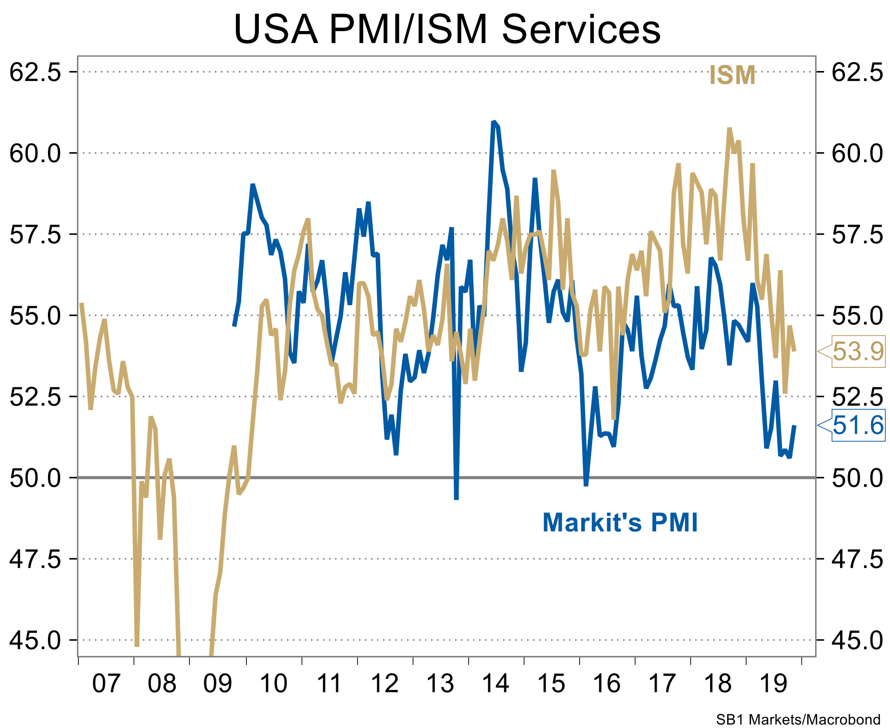
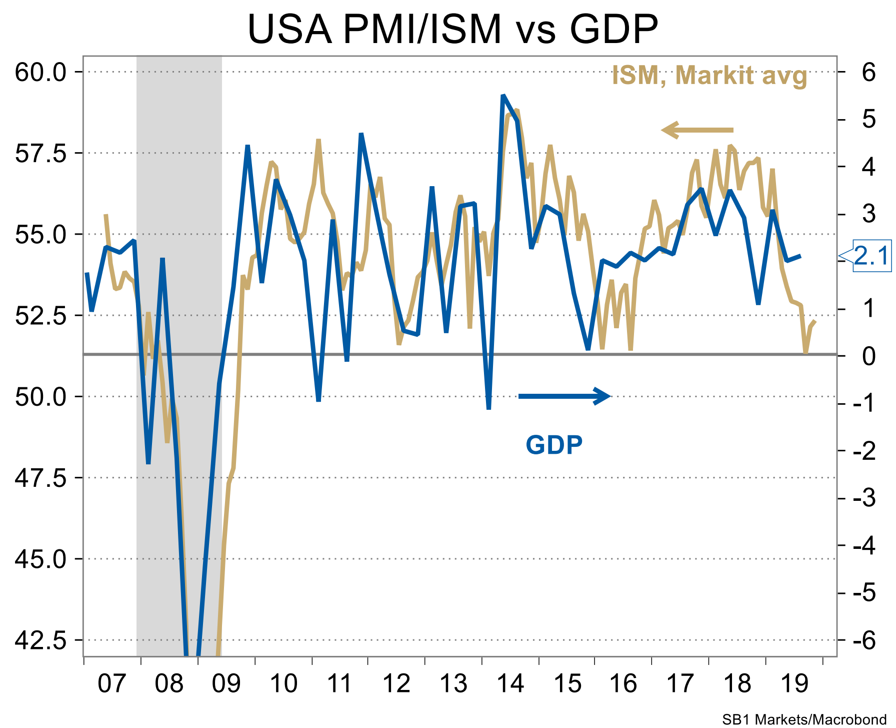
Non-manufacturing ISM edged down to 53.9 in Nov, still a decent level

The 'composite' ISM fell to 52.7, Markit's PMI rose to 52, the avg signals just below 1% GDP growth

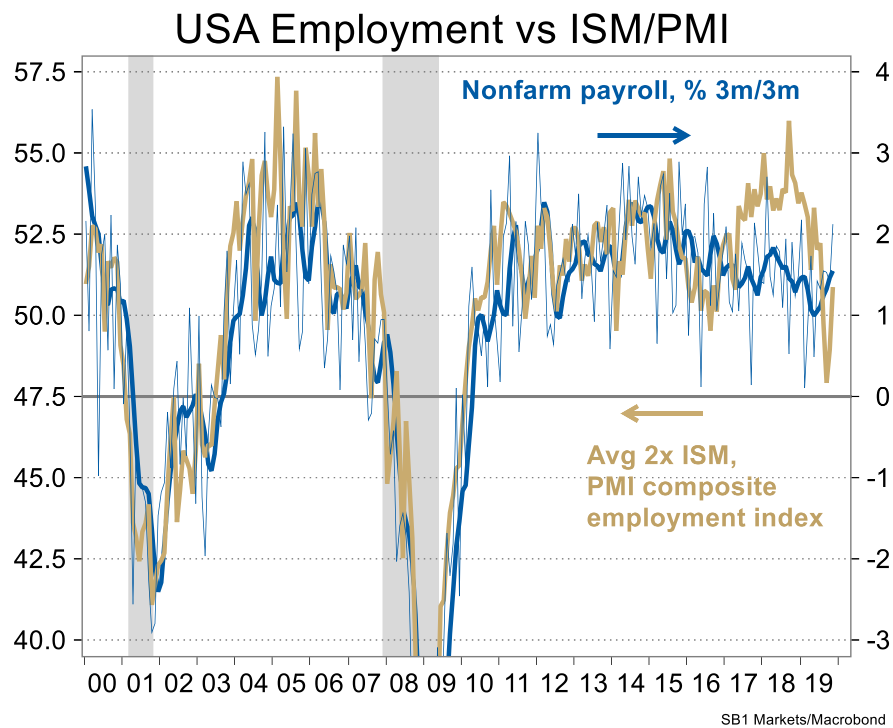


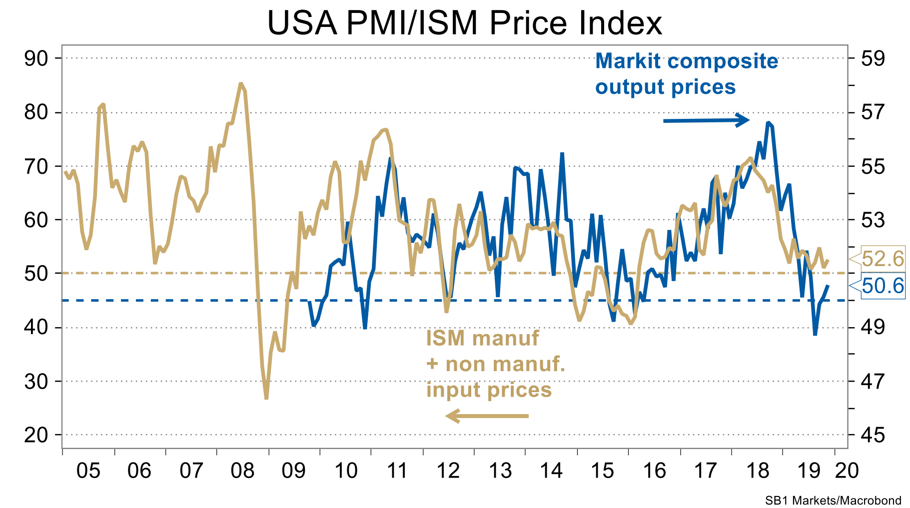


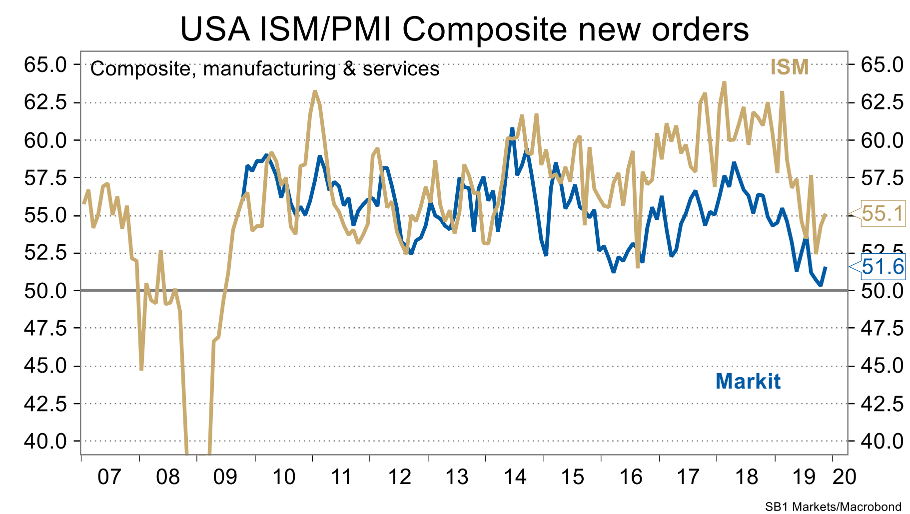
- Non-manuf. ISM fell 0.8 p in November, 0.6 pp weaker than expected. The level at 53.9 still signals a decent growth rate, although the speed down no doubt reflects a slowdown. The 'composite' ISM (manufacturing weighted 20%, services 80%) fell to 52.7, down from 60 in late 2018
  - » 12 of 18 non-manuf. sectors reported growth, from 13 in Oct, and 5 reported a decrease
  - » The details were not weak; the new order index improved to 57.1 and the employment index continued to recover
- Markit's service sector PMI spiked 1 p in Nov, unchanged from the prelim. report. Composite PMI rose 1.1 p to 52, stabilizing recent months
- **The avg of the composite PMI/ISM still points to weaker growth in the US economy, to just below 1% GDP growth**

PMI/ISM employment indices rebounded but signals slower empl. growth

Composite orders are expanding marginally and prices are increasing, at a much slower pace







- Both Markit and ISM employment indices are recovering, after a steep downturn in Sept/Oct. The avg of the two surveys does not signal much weaker employment growth anymore. However, these indices are volatile, a 3m smoothed avg points to just above 0.5% growth, vs 1.4% now (3m/3m)
- Composite orders are still expanding, at a much slower pace
- Both ISM and PMI reports marginally increasing prices

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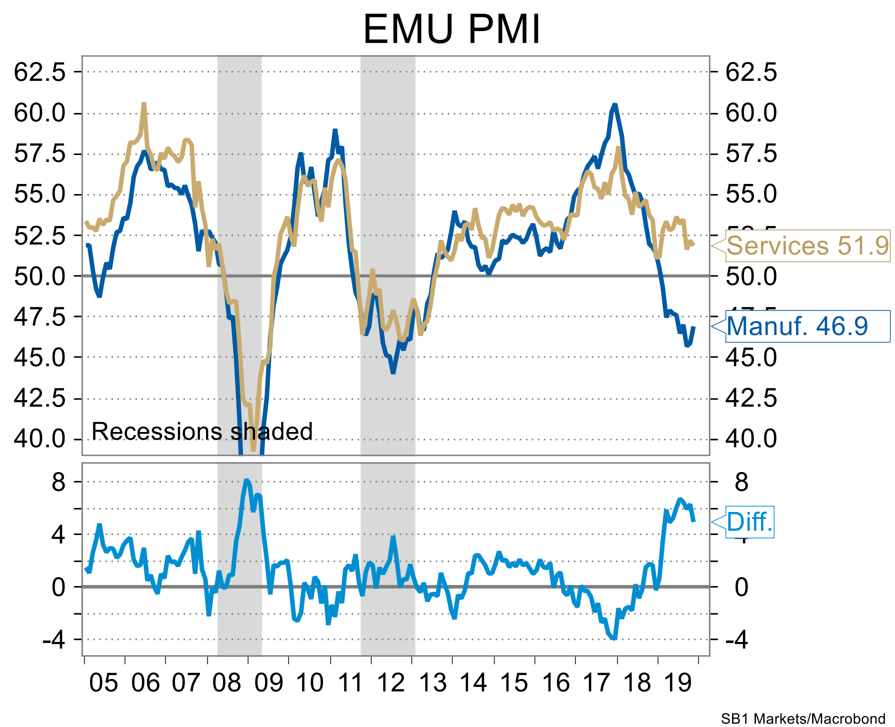
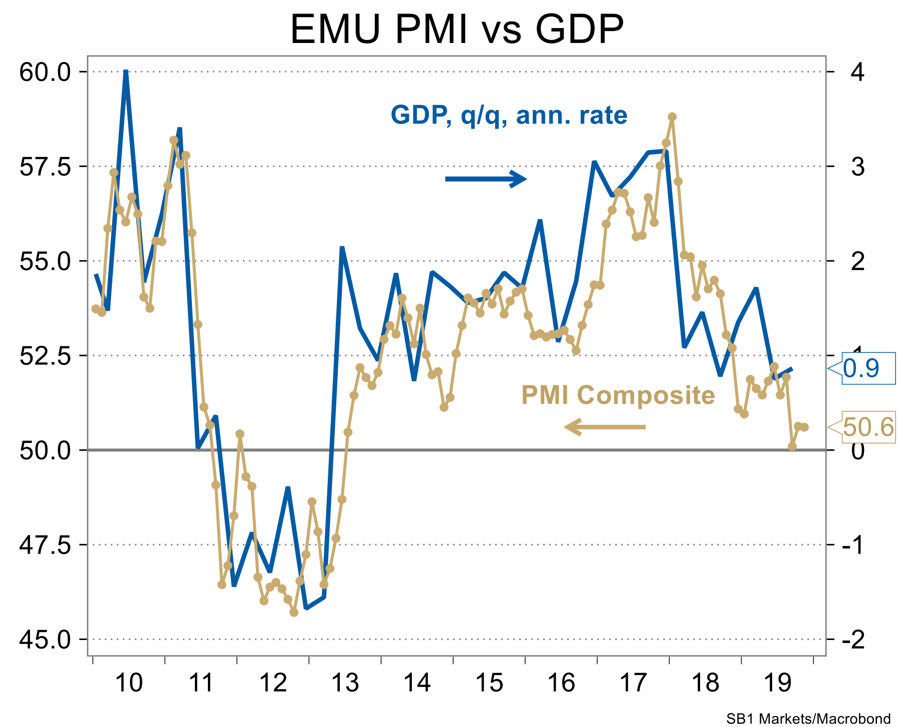
Eurozone final November PMI flat, signals close to zero growth

Composite PMI 0.3 p higher than the first report, unchanged from Oct. Manuf. downturn moderates?

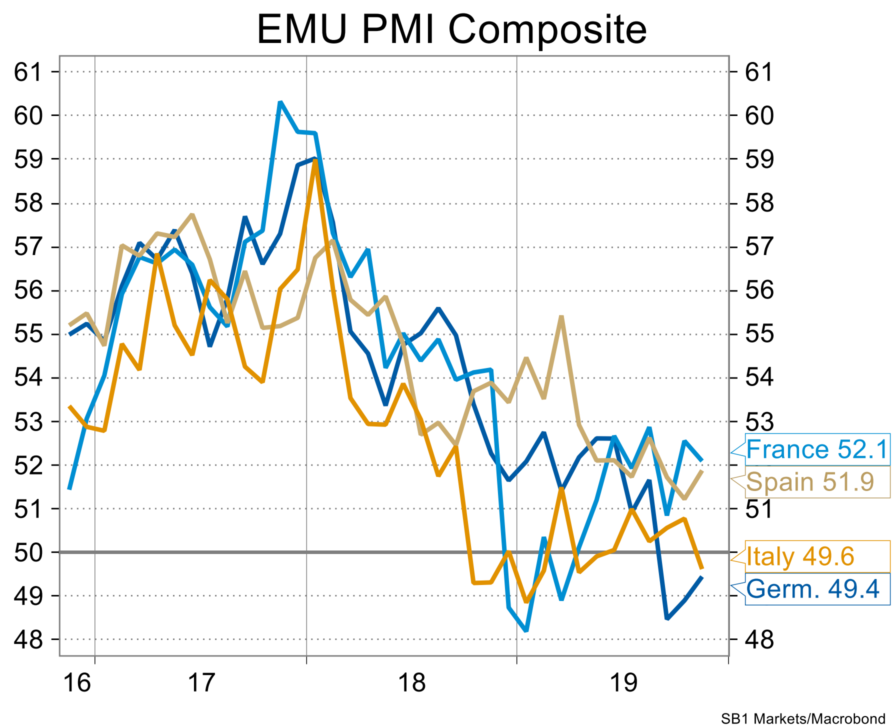


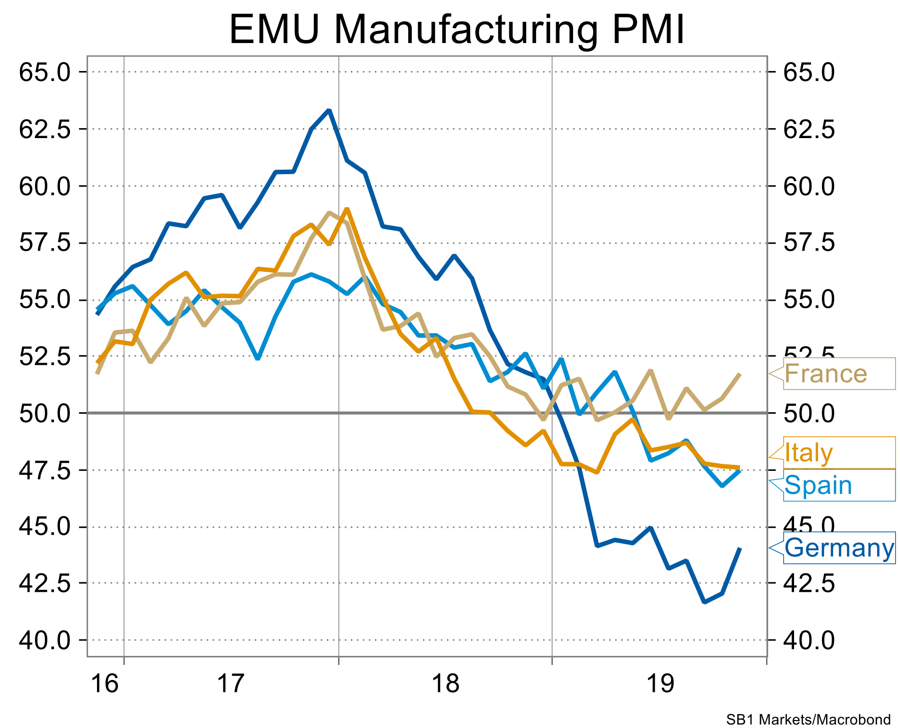


- The final EMU composite PMI held steady at 50.6 in November, 0.3 p better than the preliminary estimate. Thus, PMI have not fallen further the past two months (its marginally up from Sept). The survey still point to very low GDP growth, at some 0.25%
  - » Manufacturing PMI has edged up the past 2 months, indicating that the contraction in production may been easing. Services slowed just marginally in Nov, at the index remains at a decent level (51.2)
- **Is the Eurozone economy about to rebound?** Too early to tell but the businesses are at least not signalling a faster downturn in the manufacturing sector, in line with better manufacturing surveys in the rest of the world, along with improved global export. Consumer confidence is still strong and consumption is increasing moderately. Some signs of softness at the labour market, unemployment is flattening out. Credit growth is rising, although there is no boom

German manuf. still the main drag but there are some signs of recovery

The decline in manufacturing orders is easing – and composite orders are not falling anymore

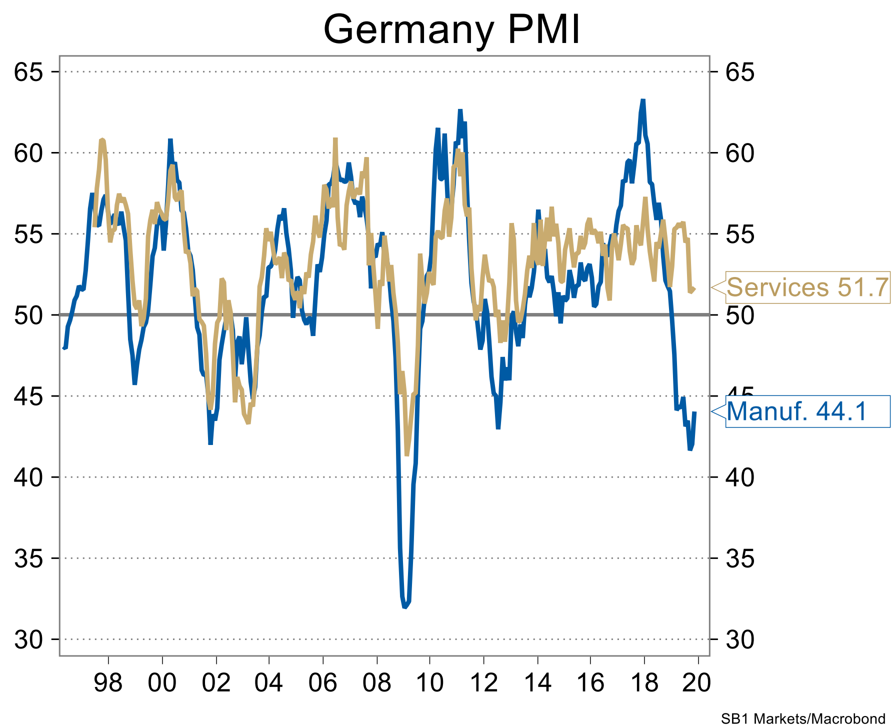


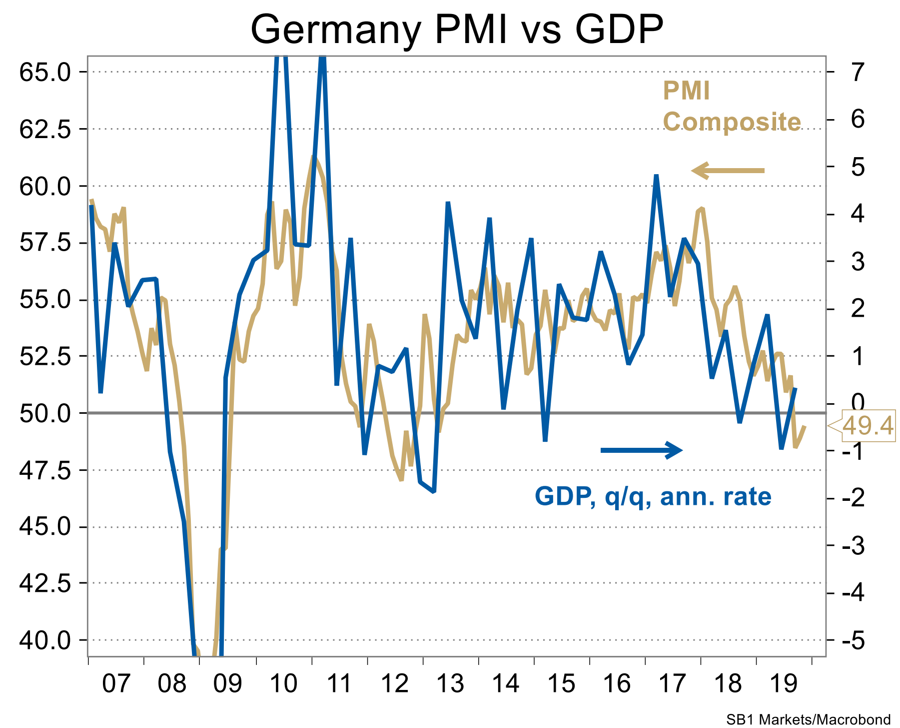


- Composite PMI recovered for the 2nd month in Nov, the level is still weak. Spain gained pace too. France slowed slightly and the level has stabilized the past months, after a solid recovery in H1. Italy is still struggling
- Manufacturing orders PMI has improved in Oct and Nov, suggesting that the manufacturing dip has bottomed out. Composite orders are have stalled, service orders are still increasing

The manufacturing contraction may be bottoming out

Manuf. rose to 44.1, 0.3 p above the prelim. PMI. Services a tad up, better than first reported

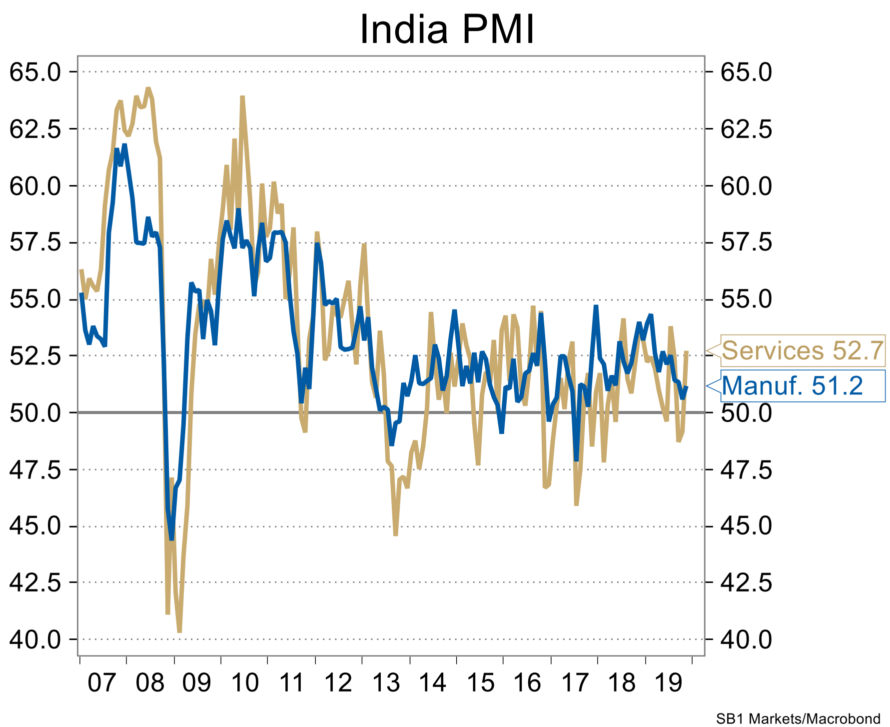


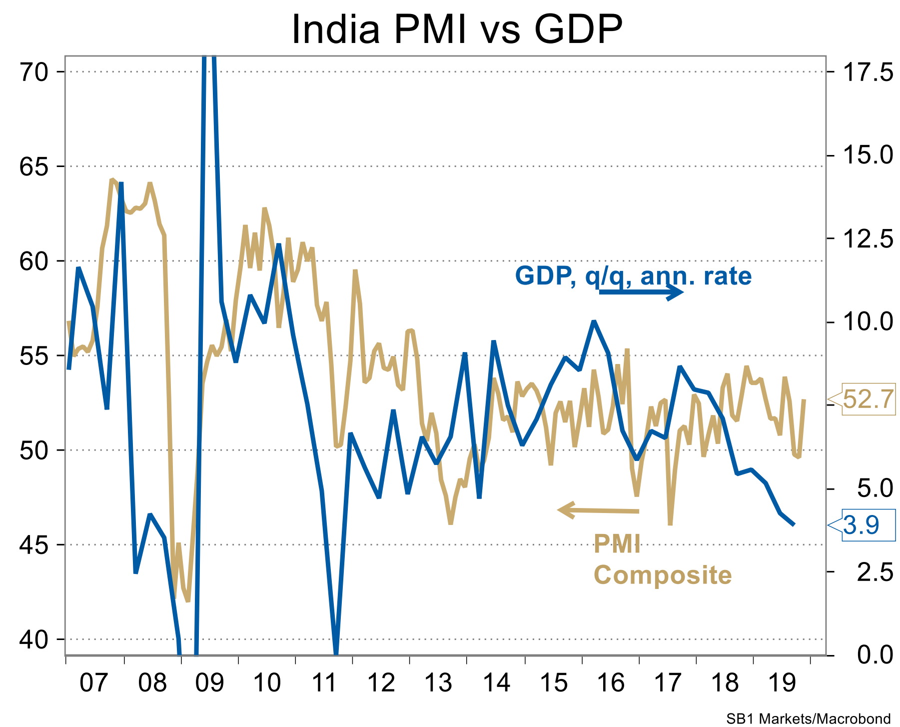


- The manufacturing PMI rose 2 p in November, the steepest rise in 2 years. Nonetheless, the level at 44.1 still points to a continued contraction in German manufacturing, albeit at somewhat slower pace (production fell further in October, check here)
- The services PMI inched up 0.2 p in Nov, 0.4 p above the first report, to 51.5. The composite PMI still signals a modest decline in GDP, and weaker than the 0.3% growth in Q3

Composite PMI rose on a rebound in services in Nov, far away from actual growth

PMI is trending just slowly down, and has not recognised the significant decline in actual GDP growth





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

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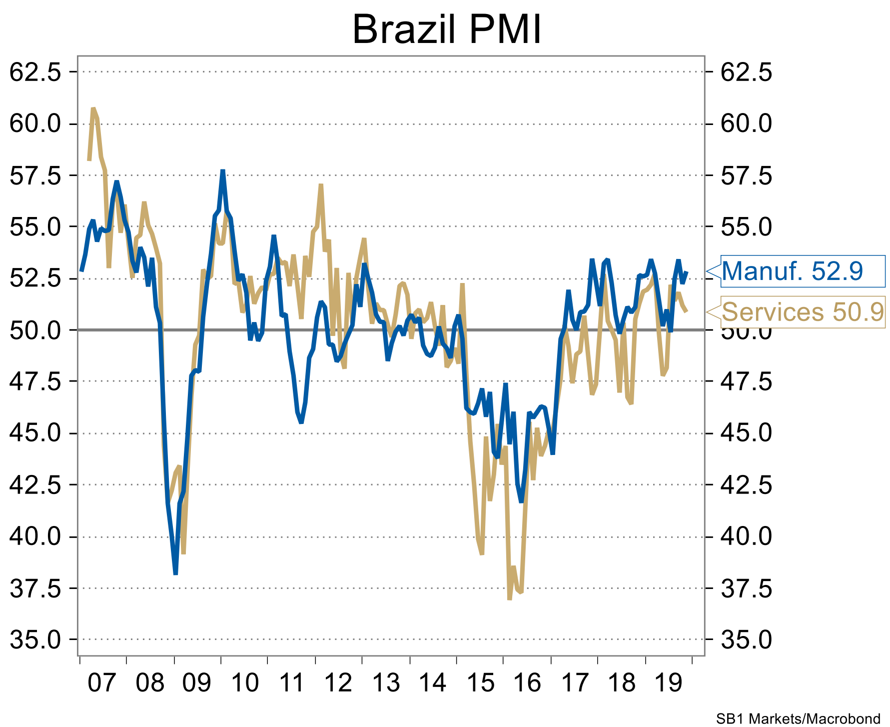
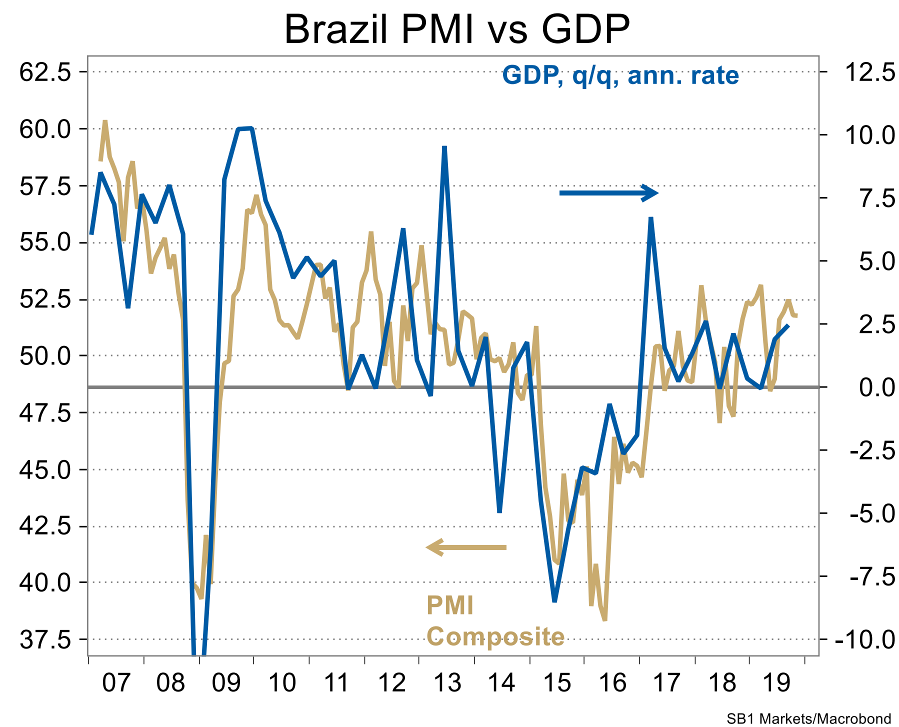
Composite PMI flat in Nov, points to steady GDP growth

Both manufacturing and services have recovered to decent levels

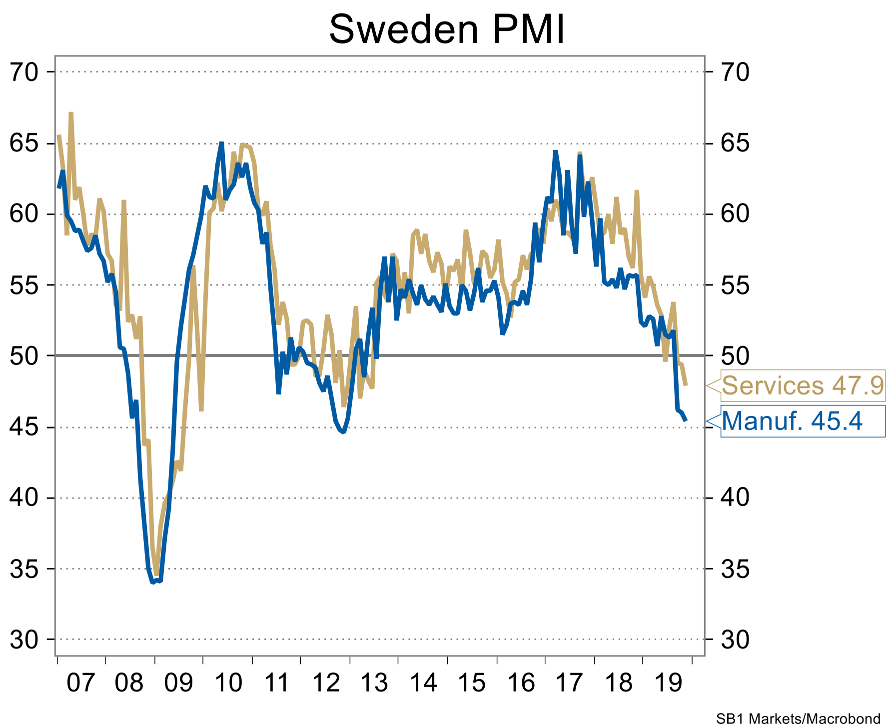


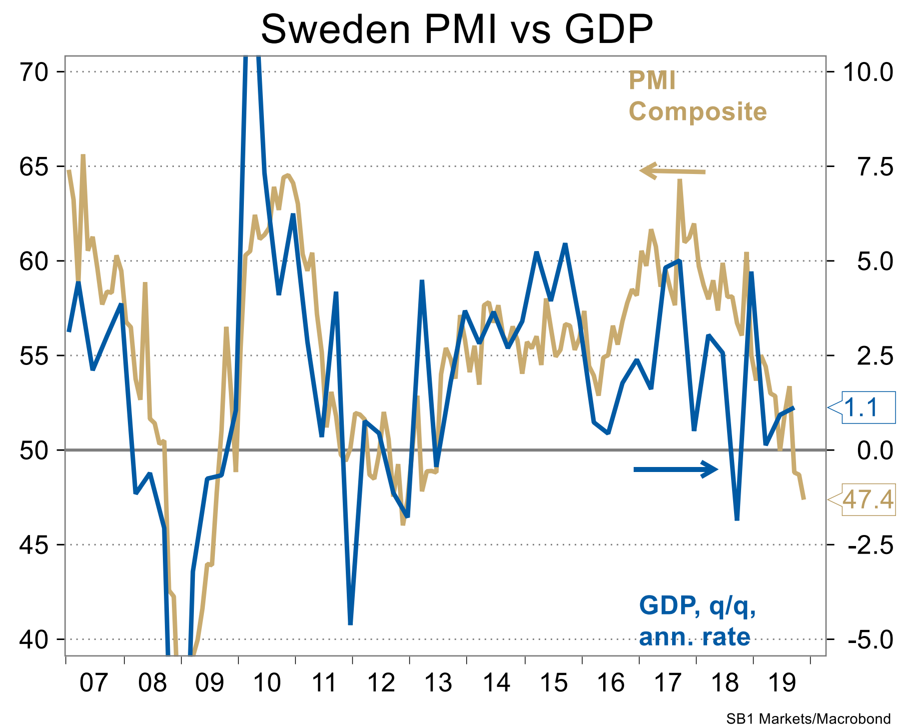


- GDP growth was up 2.5% in Q3, the 2nd quarter of recovery from a weak Q4/Q1
- Disclaimer: The Brazilian PMI is rather volatile –and does not predict quarterly GDP particularly well but the growth cycle is well represented by the PMI

PMIs down the drain, pointing to a GDP contraction

Both manufacturing and services are heading steeply down, adding to signs of a rapid slowdown

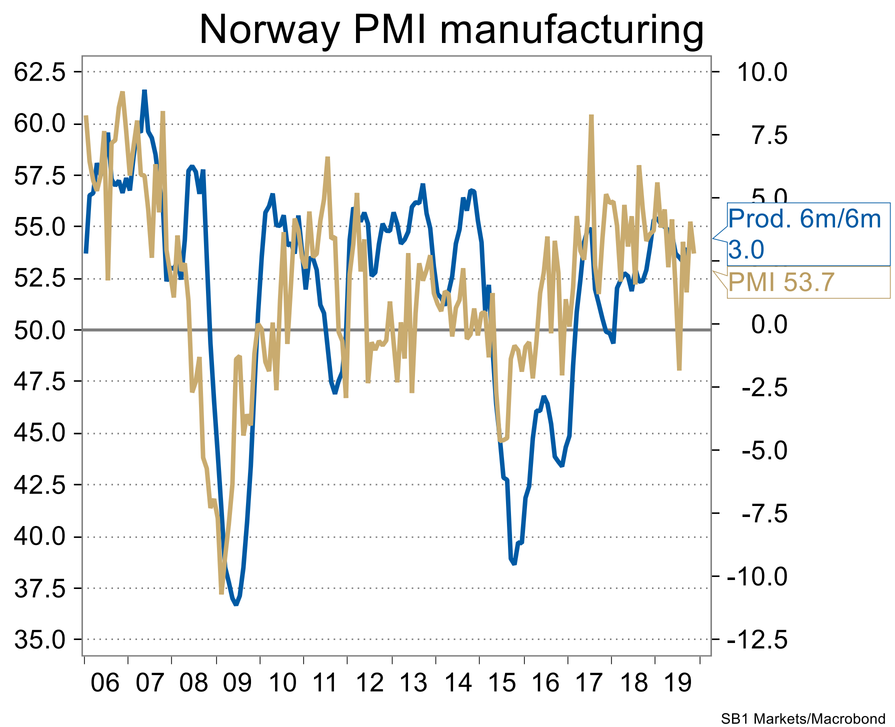


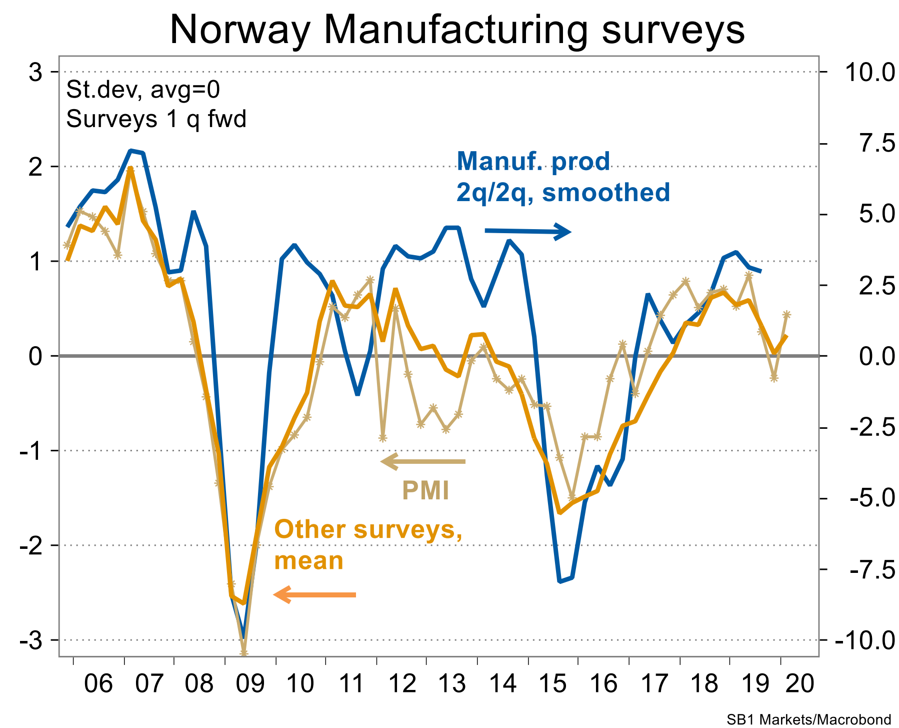


- Manufacturing PMI at 45.4 points to a steep decline in production, vs the 3% annual rate now
  - » Export orders recovered in Oct (albeit orders are still declining), while domestic orders tumbled. The Swedish economy is hit by global uncertainties but also sharp deterioration of domestic demand, as several other data points indicate
  - » Check actual order & production data here
- Services have been following manufacturing down, the composite PMI at 47.4 points to a decline in GDP (vs 1.1% growth in Q3)

Manufacturing PMI holds up surprisingly well

The volatile PMI fell to 53.7 in Nov. Barring the July dip, the direction is just marginally downwards

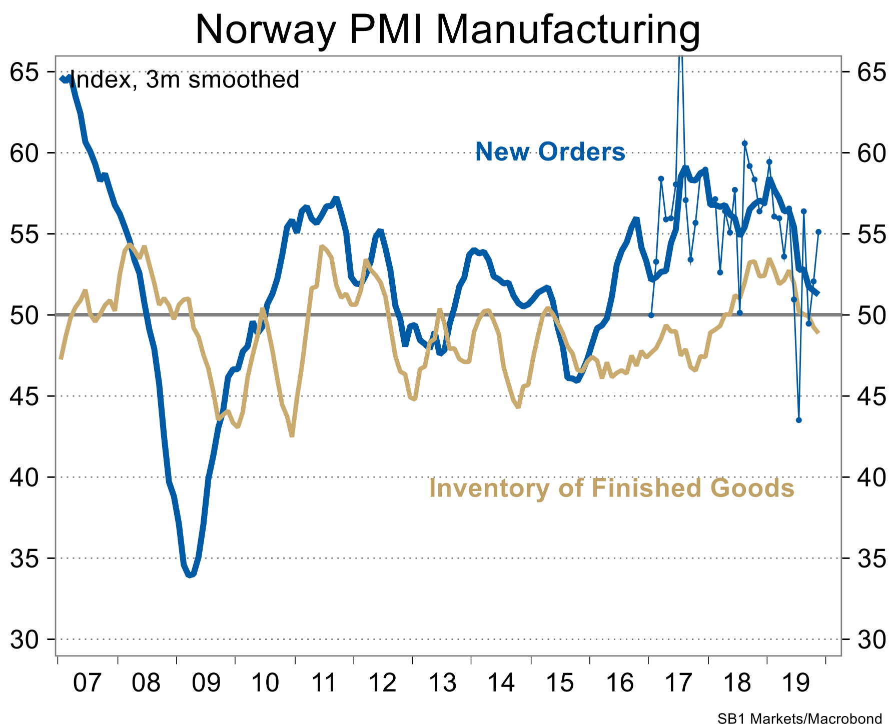


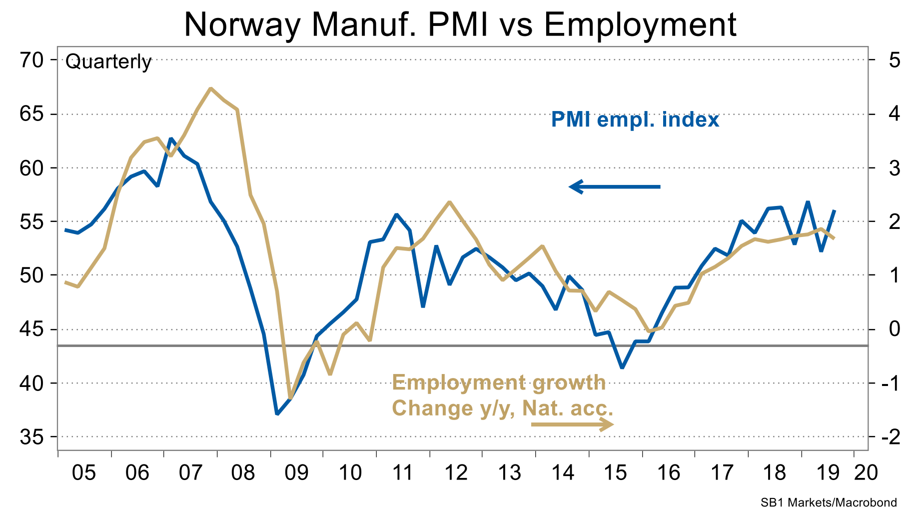


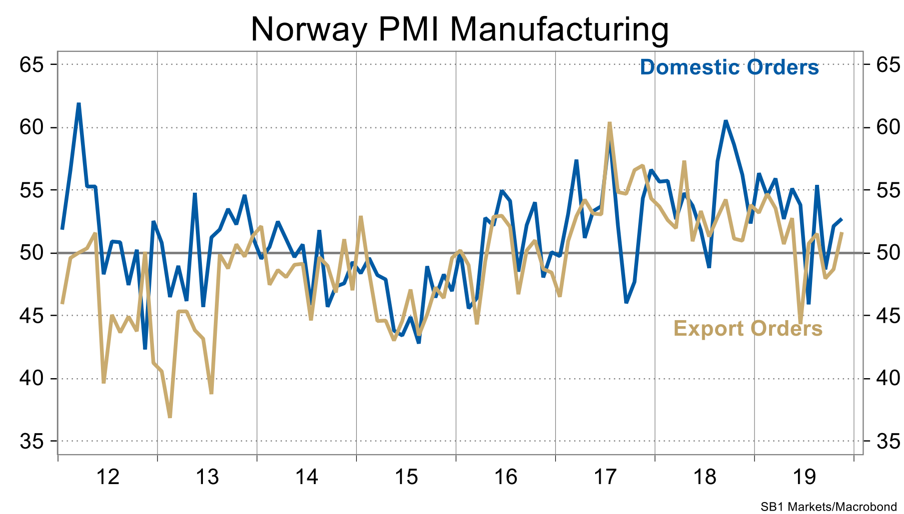
- The PMI came down 1.6 p in Nov, the level at 53.7 was slightly above expectations. The Norwegian PMI is far too volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 53.6, still a decent level
  - The PMI slipped in July, data collected during the summer vacation are not trustworthy. The PMI recovered in Aug and has been more or less steady since then
- The PMI is more volatile than other business surveys – the survey is now somewhat more upbeat then the avg of other surveys. The Regional Network is still reporting growth (albeit slowing) in manufacturing, Statistics Norway's manufacturing survey is signalling zero growth
- Taken together, manufacturing surveys no doubt signals a slowdown

Orders are softening, employment steady, according to the PMI

Both foreign and domestic orders are increasing at a moderate pace



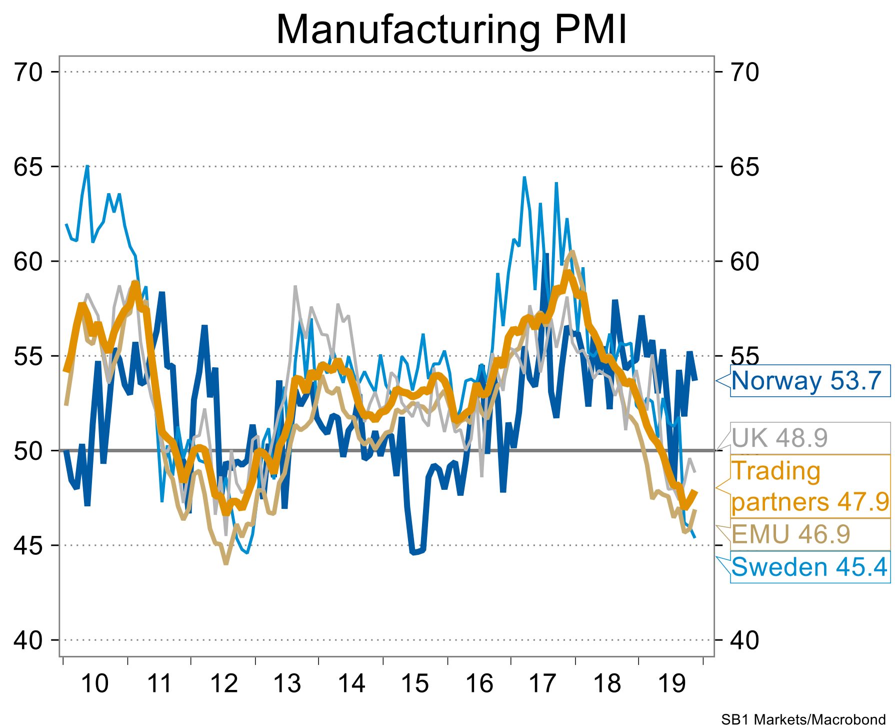


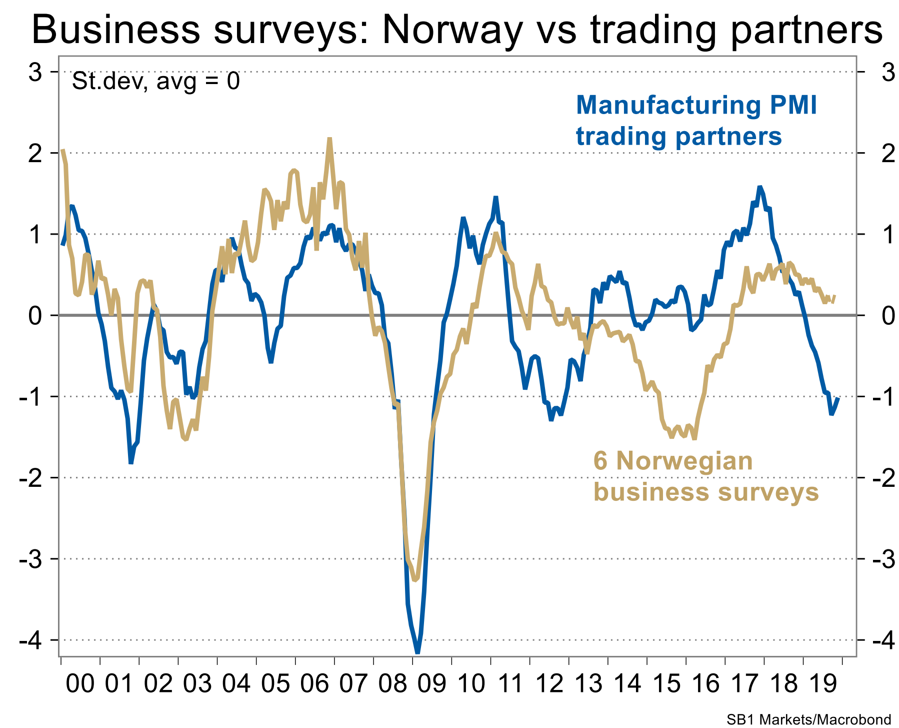


- The new orders index jumped 3.1 p in Nov, however, orders PMI is trending down, pointing to modest growth in orders
- Both export and domestic orders have increased recently

Norway is slowly following its trading partners down

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

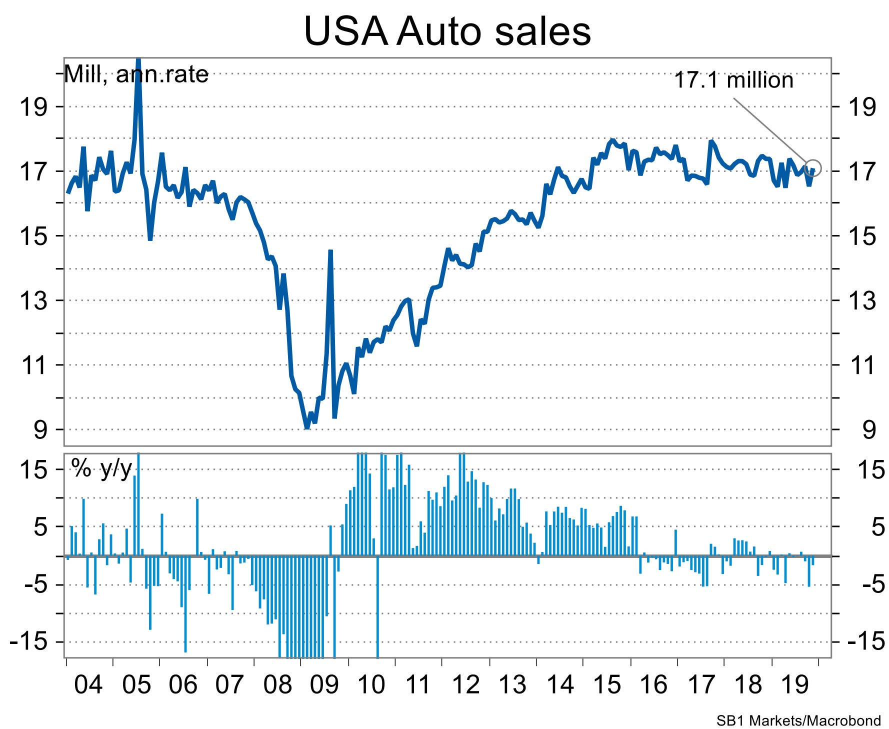


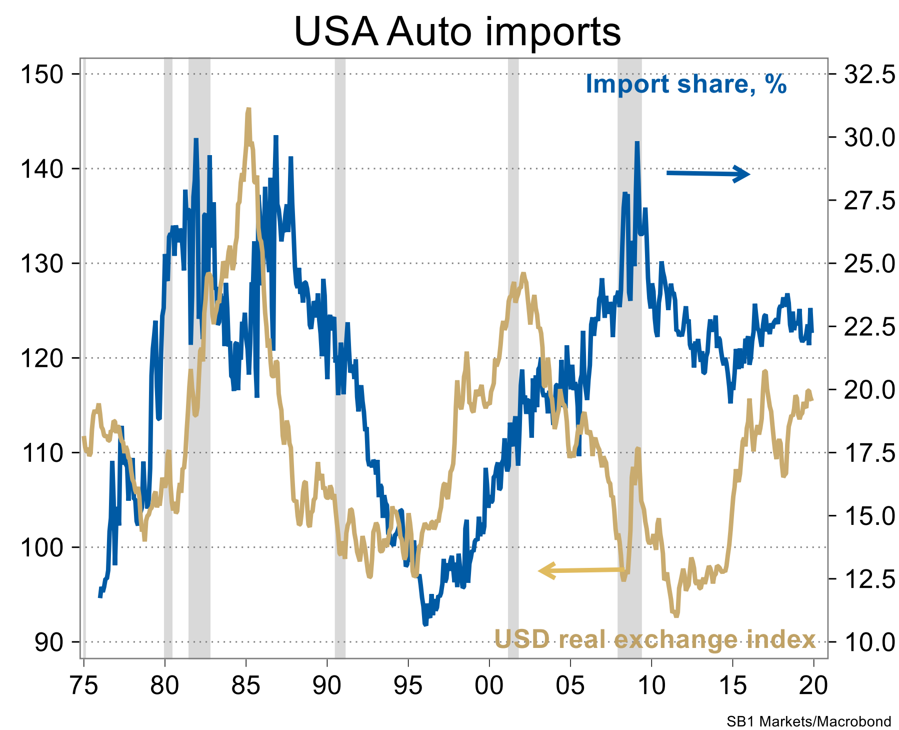


- Well, the Norwegian PMI is still less downbeat than among our trading partners. The PMI is normally lagging our trading partners by close to one year. Other surveys are slowly turning down too
- The boost from oil & gas investments will most likely subside into next year – and we expect growth in production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

Auto sales up in Nov but is still trending slowly down

Sales up 4% to 17.1 mill, slightly higher than expected

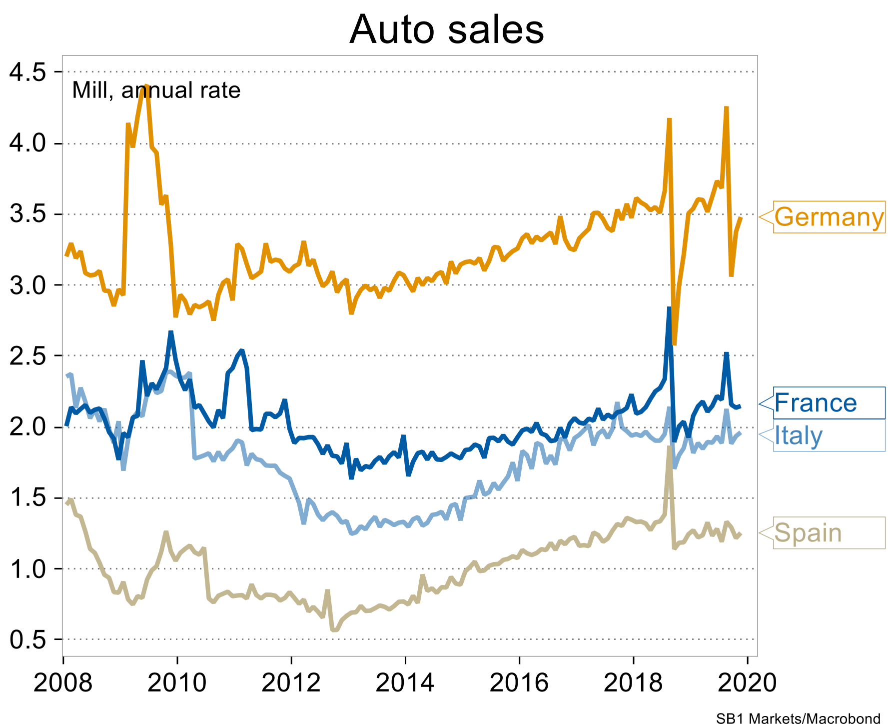


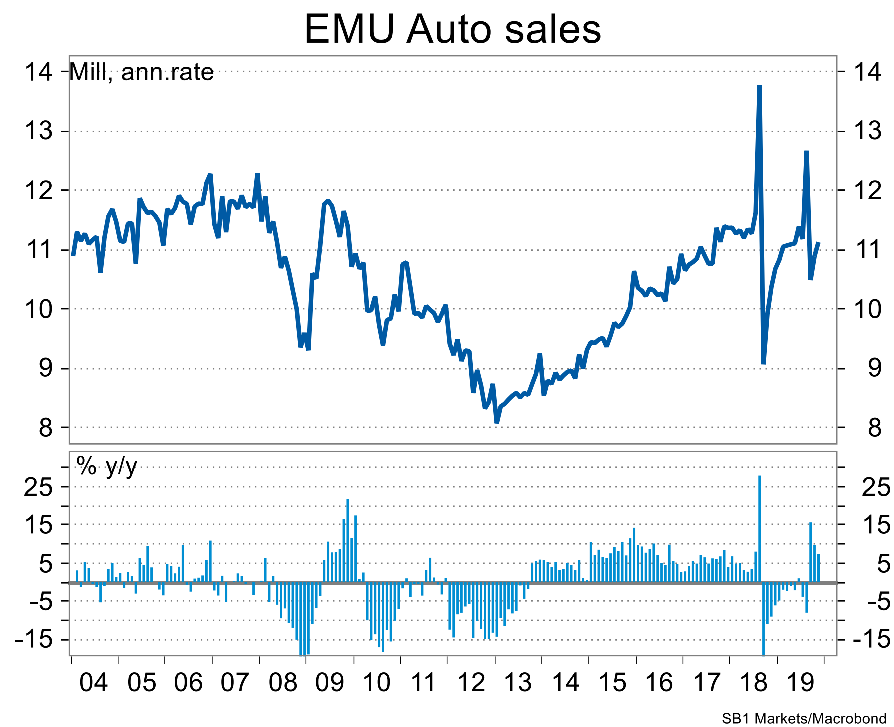


- Sales are trending slowly down, from the local peak in 2015 (!)
- The import share has stabilised or increased somewhat – following a small decline from early 2018.
  At 22% the import share is above the long term average – but it has been far higher several times before.

Auto sales probably up in Nov but still below par

German & Italian sales visibly, French & Spanish just marginally. Producers are holding back EVs?

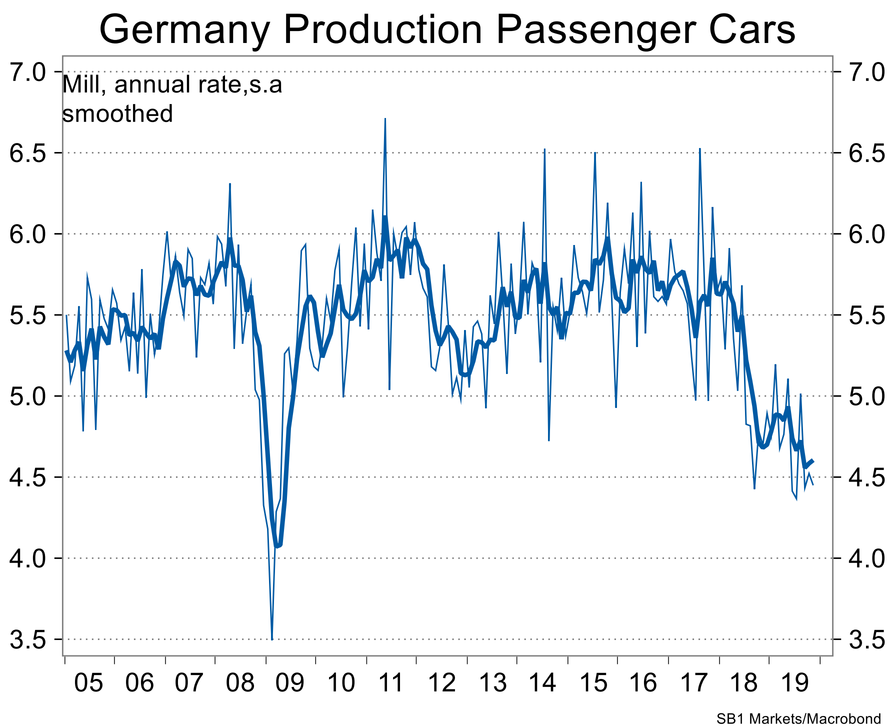


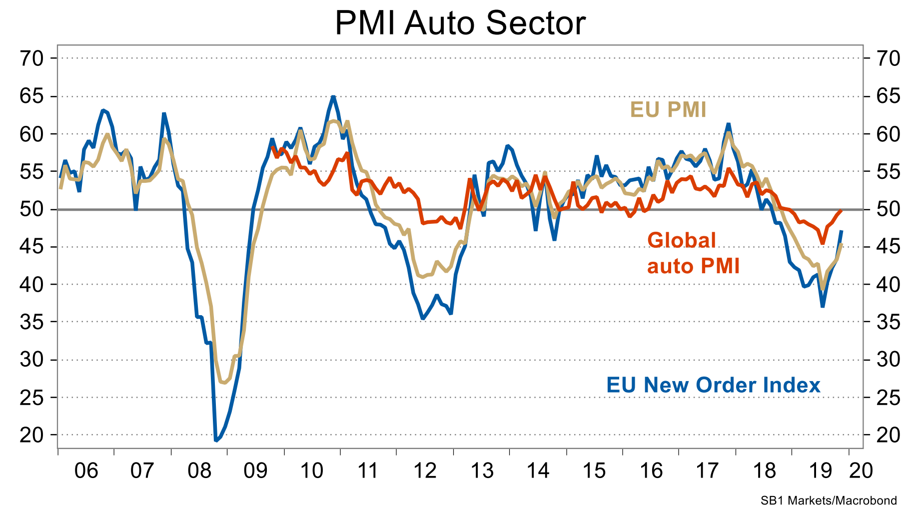


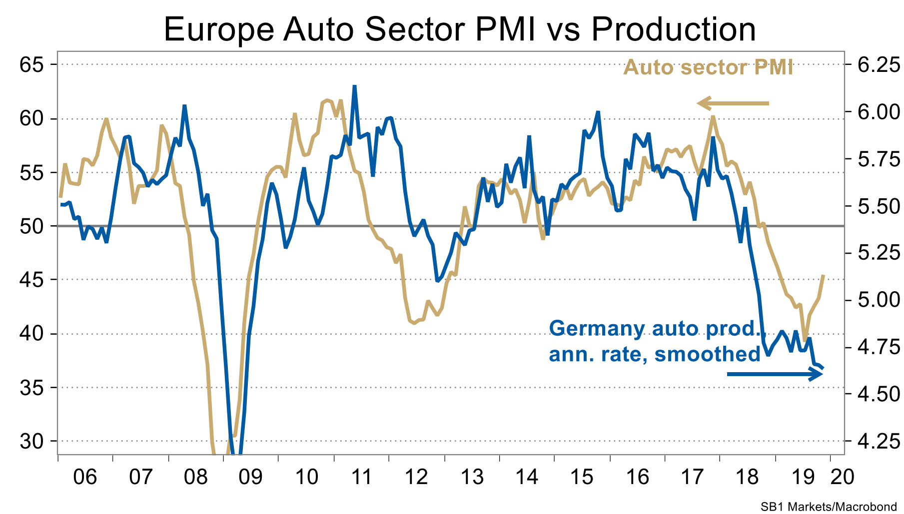
- German sales rose far less in Oct than we estimated in October but rose one more tick in Nov. Italian sales rose somewhat too. We expect total EMU sales to climb further (and up 7% y/y) but to remain below a 'normal' level, at least below the level before the previous regulation adjustment, in Aug/Sept.
- From January 2020, new EU emission regulation will be implemented; the max avg emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. Thus, auto producers (except Tesla) have large incentives to postpone deliveries (and thus registrations) of new EVs to next year

German auto production weak in Nov too, but the auto PMIs are heading up

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



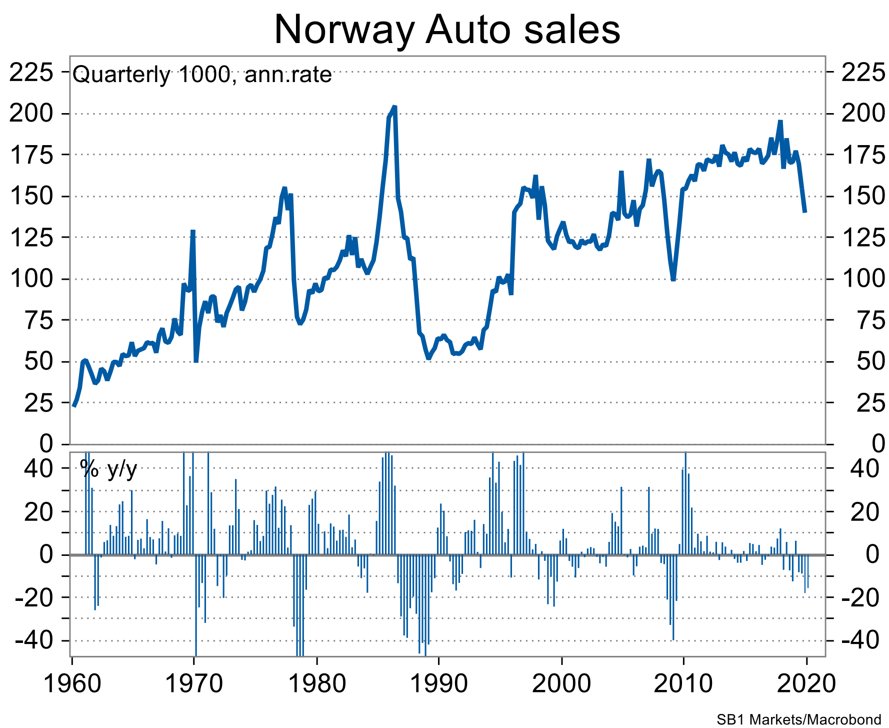


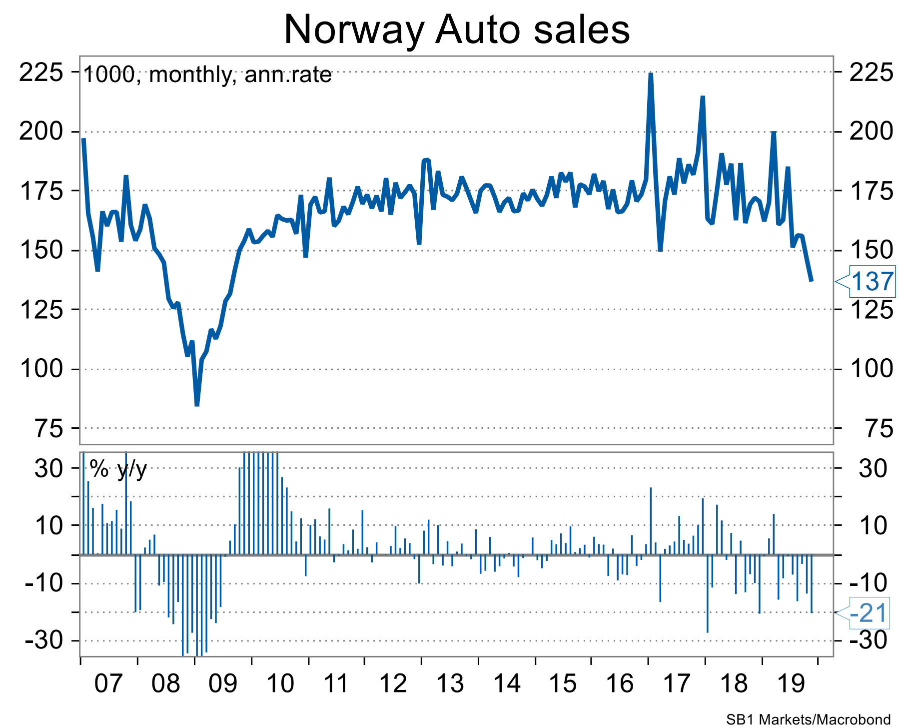


- German auto production is down approx 20%, an incredible number, given auto sales in Germany, EMU or even the world, which have fallen far less than 10% from the peak
- The European auto sector PMIs have recovered recent months, hand sharply in Nov. The level is still below 50, but is probably signalling higher production the coming months (the PMI is leading the production level by some months, and is not that closely correlated to growth in production)
- The global auto PMI rose to 50 in November

Full stop in auto sales. Tighter 2020 regulations at least partly to blame

Sales fell to 137' in Nov, a 10 y low, down from 146' in Oct – and a 173' sales level in 2018

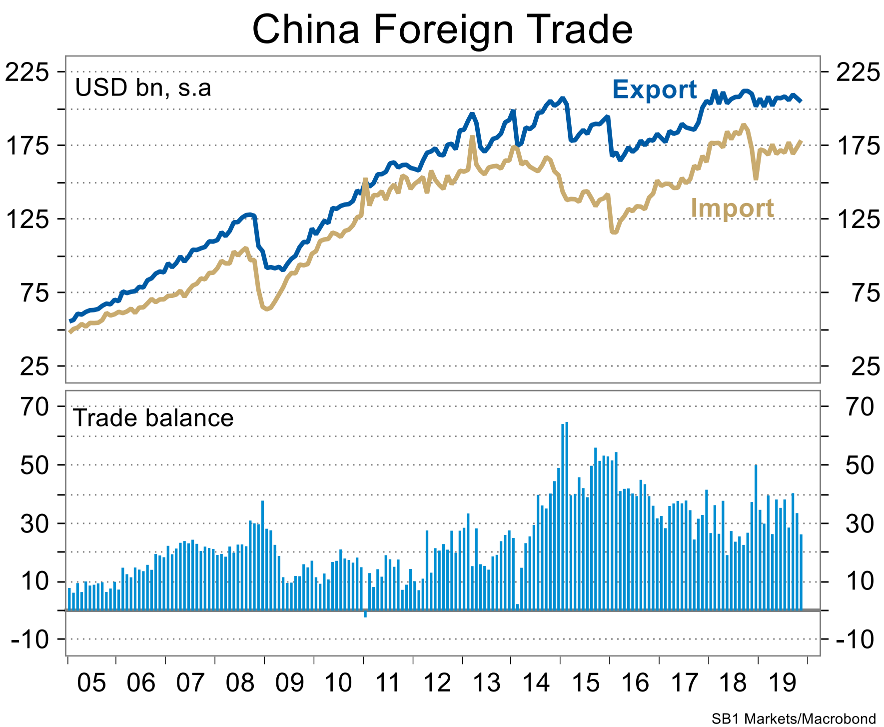


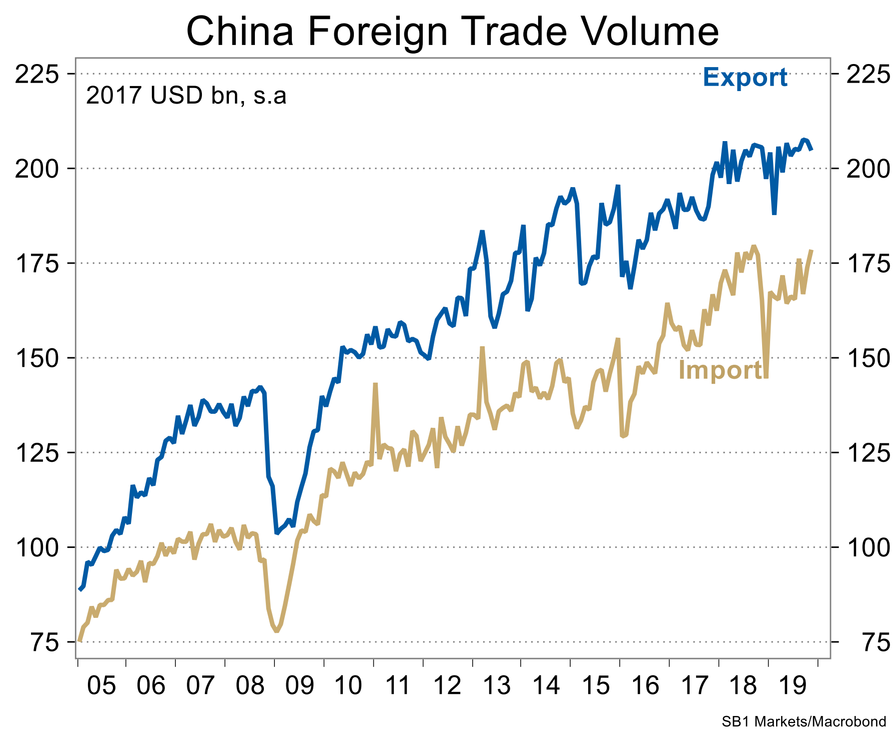


- From January 2020, the new EU emission regulation will be implemented; the max avg emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. Thus, auto producers (except Tesla) have large incentives to postpone deliveries of new EVs to January. Many buyers have been reporting delayed deliveries this autumn
  - » In September, more than 50% of newly registered autos were electric, the share fell to 35% in October
  - » Similar adjustments are made in other European countries, hampering sales in Q4
- In addition, expiring auto leases of hard to sell gas/diesel cars may have led to too large 2. hand inventories among dealers, keeping new car sales down
- Thus, the dip in sales may not be due to lower auto 'real' demand

Import volumes on the way up, exports still strong. Both close to ATH in Nov

The trade surplus is shrinking. Taken together: Not a signal of any slowdown in China



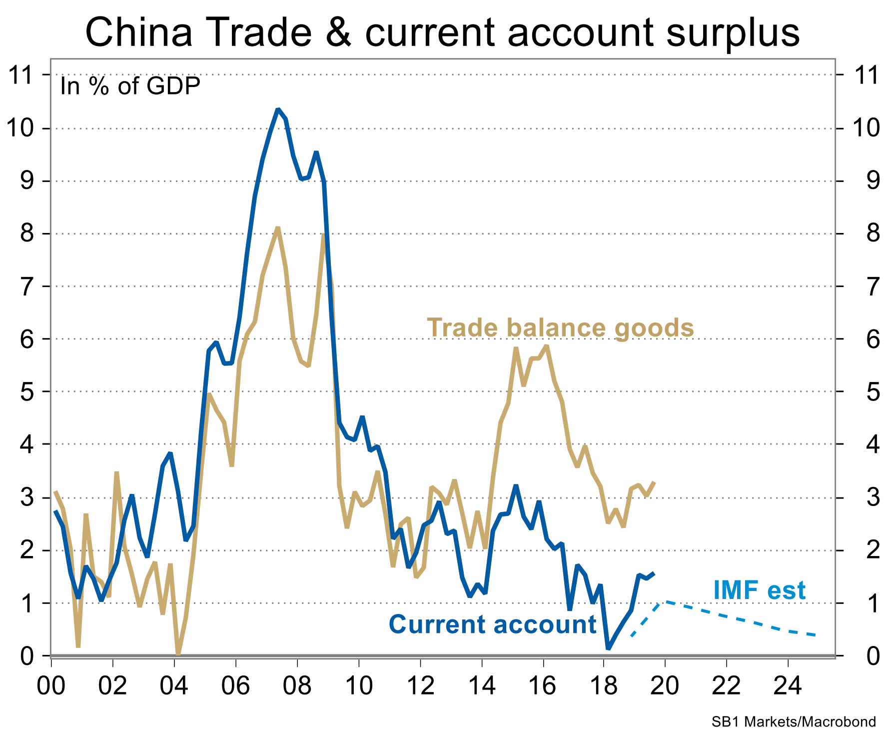


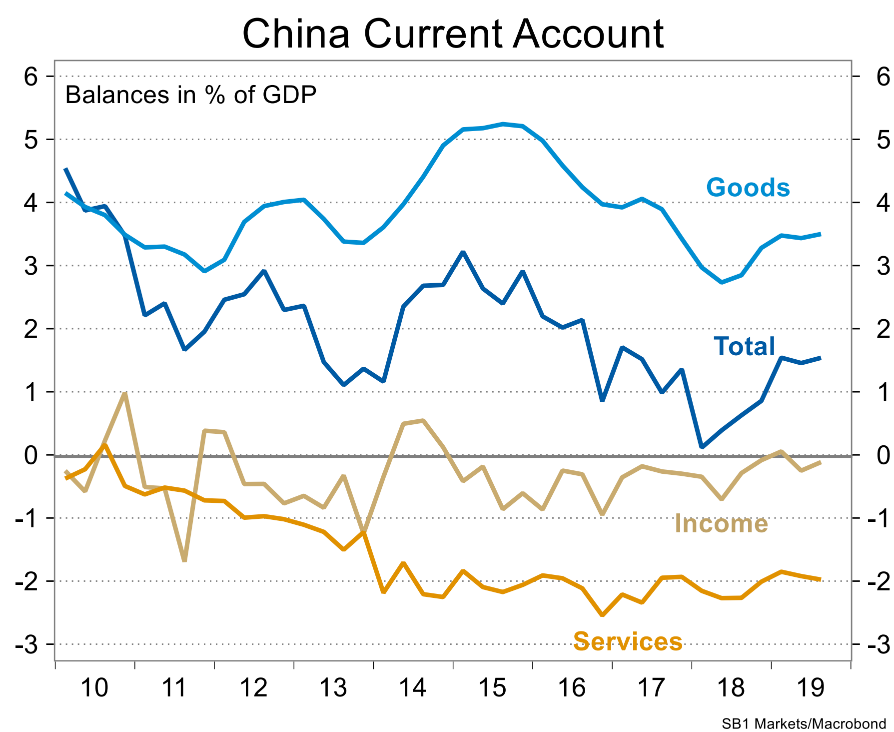
- Exports were reported down 1.1% y/y in USD in Nov, expected up 0.9%. Exports fell 1.2% m/m, like in Oct but have been trending up since the local bottom last Dec. If exports keep up at Nov level in Dec, exports will be up 1.6% y/y. Export volumes probably fell as well, trending up since last Dec (or Feb), and was record high in August and Sept (but nobody new…).
  - Exports to the US decreased further and have fallen 25% since 2018 (equalling 5% of total exports). Exports to other regions have compensated for the decline in export to US, especially to the rest of Asia. Still, growth has slowed in most other directions
- Imports were up 0.3% y/y in Nov, expected down 1.6%. Imports rose by 2.7% m/m (and 2.6% in Oct), and are heading slowly up, in value terms. As prices are falling, in USD terms, volume is heading straight up – and is close to record high! **NO SIGN OF ANY SLOWDOWN IN CHINA**
- The trade deficit was smaller than expected, down by USD 8 bn to 27 bn (seas adj). China is running a small current account surplus, check next page

SpareBank 1 MARKETS

A small surplus at the current account

The C/A surplus was above 10% of GDP in 2007. It was zero in early 2018, now at 1.5%





- The trade surplus in goods is hovering just above 3% of GDP. Still probably too high vs a balanced world economy but still down from 7 – 8% 10+ years ago
- In services, China runs a 2%+ deficit, down from zero 8 years ago – mostly due to a huge increase in Chinese tourists going abroad
- China runs a deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

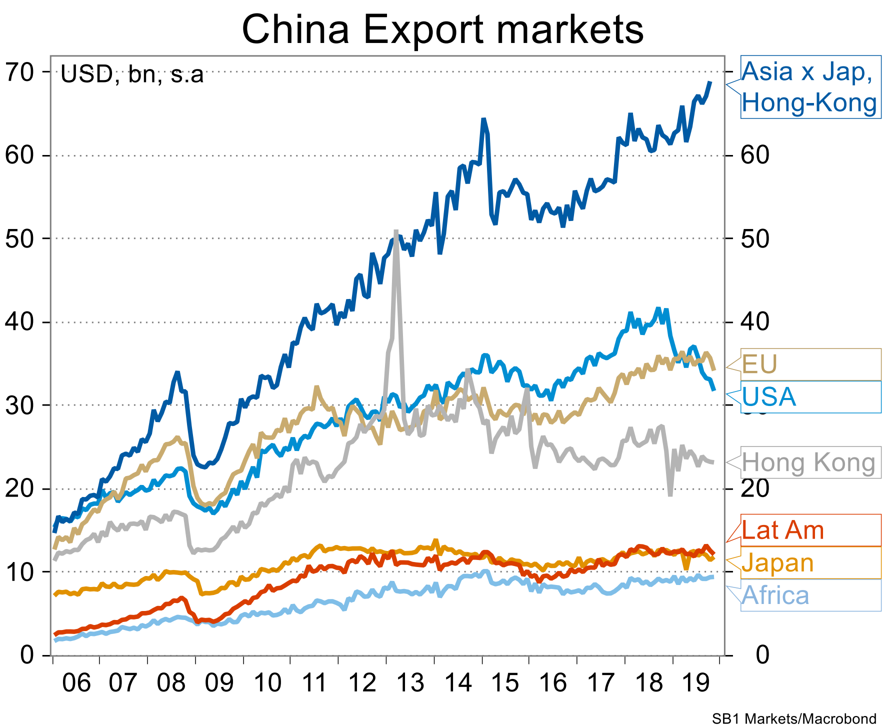
Export surveys are signalling a modest decline in exports, no collapse

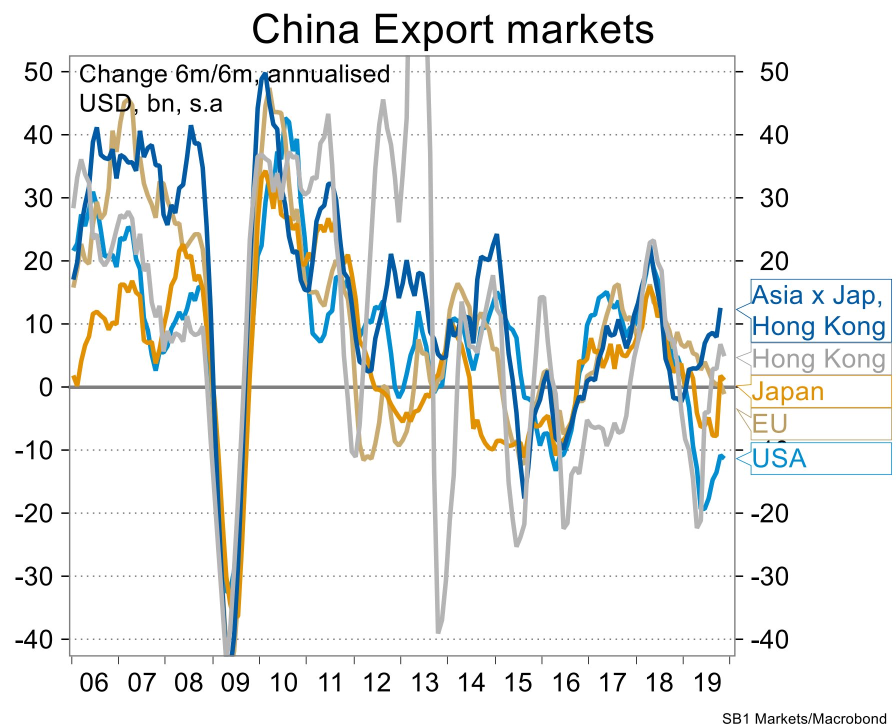
A slowdown/marginal decline has been signalled, as in 2011, ’12, ‘13, and ’15/16. But that’s all

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

Exports to the US down 25%, but there is a ROW; exports to Asia up

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

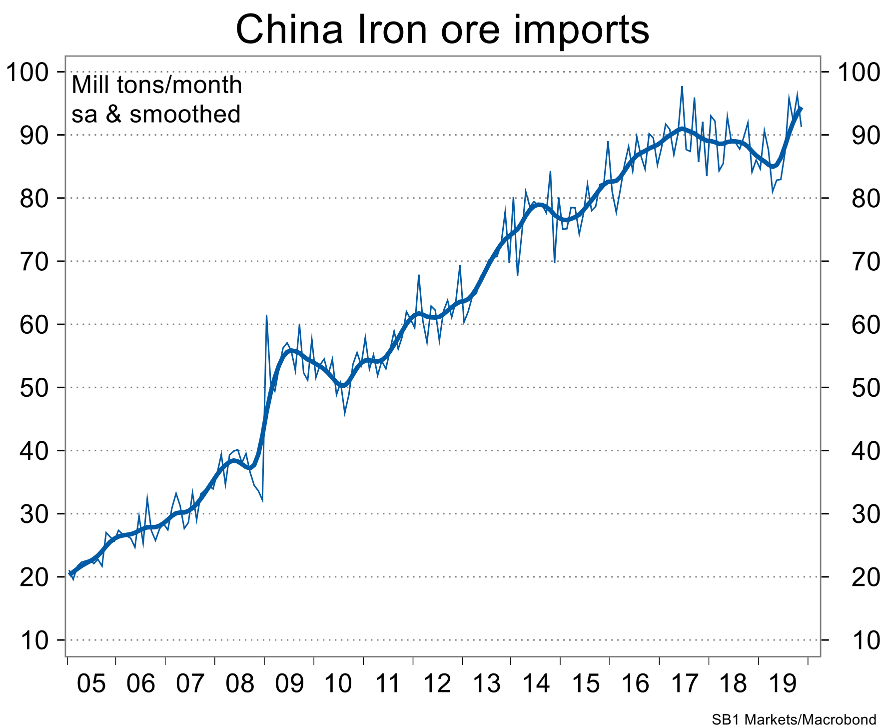


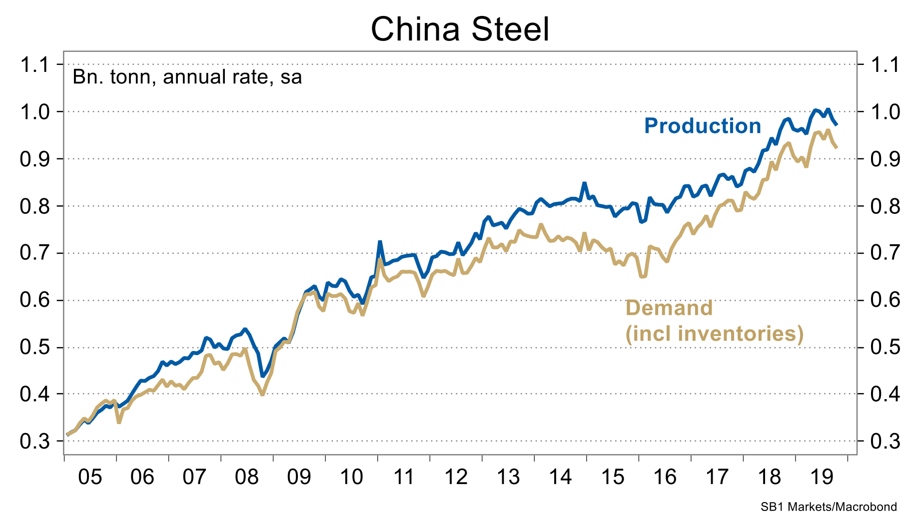


- Exports to the US are hurt by the tariffs, and are down almost 25% from the peak in early 2018, equalling 4% of all Chinese exports. Most likely, exports to the US will decline further, as the full impact or tariffs already implemented are not recognised
  - Exports to the US equalled 18% of total Chinese goods exports before the tariffs (now 15%), and exports to EU 16%, rest of Asia 48%
  - Total exports equal some 20% of GDP, exports to the US 3.6% of GDP – now down 25% from the peak, subtracting 0.9 pp from GDP growth . However, the impact is dampened by lower need for imports as inputs for these exports. In addition, exports to other Asiad countries have increased, and the net is close to zero!
  - The real economic risk for China & elsewhere: Trade rule uncertainty is hurting investments as companies may postpone investment decisions until the dust settles – and both Chinese and foreign company are reallocating from China to other countries. Some households may become worried too

Iron ore imports down in Nov but still close to record high

Ore imports slowed in 2017&18, while steel production rose. Since April, ore imports have recovered

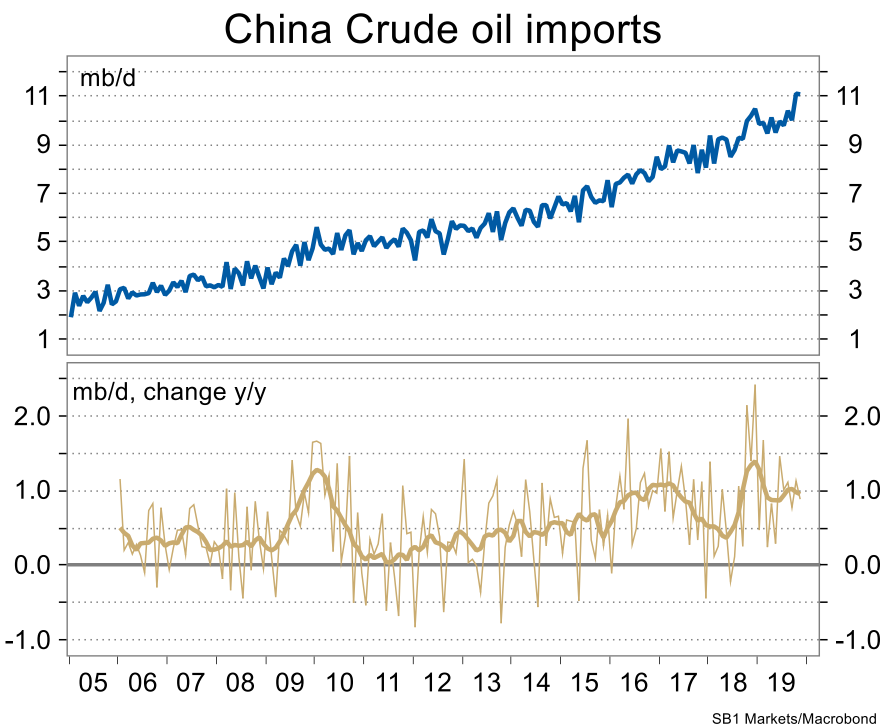


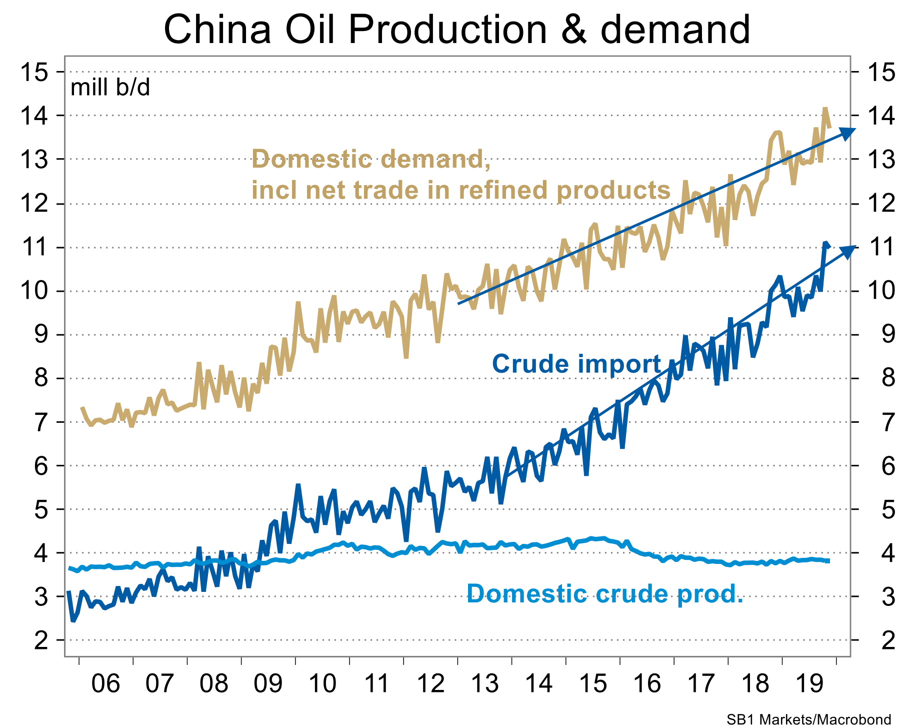


- Iron ore imports were dragged extra down during the spring, due to production problems in Brazil. Following a 15% surge in the summer/autumn, imports are at a record high levels
- Steel production has flattened recent months as have domestic (apparent) consumption. Limited upside for ore imports?
- Net steel exports equals some 6% of Rest of World production, probably too high. However, 3-4 years ago it equalled 13%!!

Oil imports (and 'demand') remained very high in Nov, says Chinese stats

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

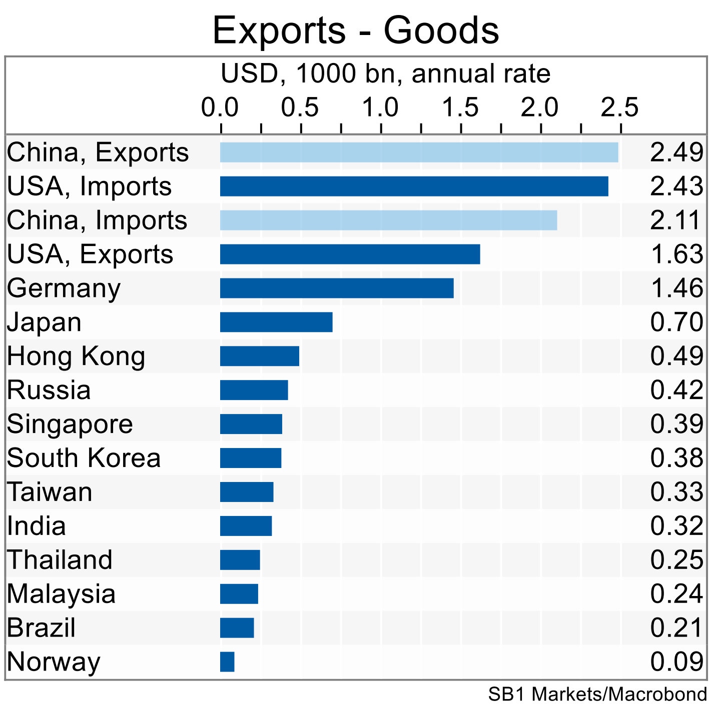


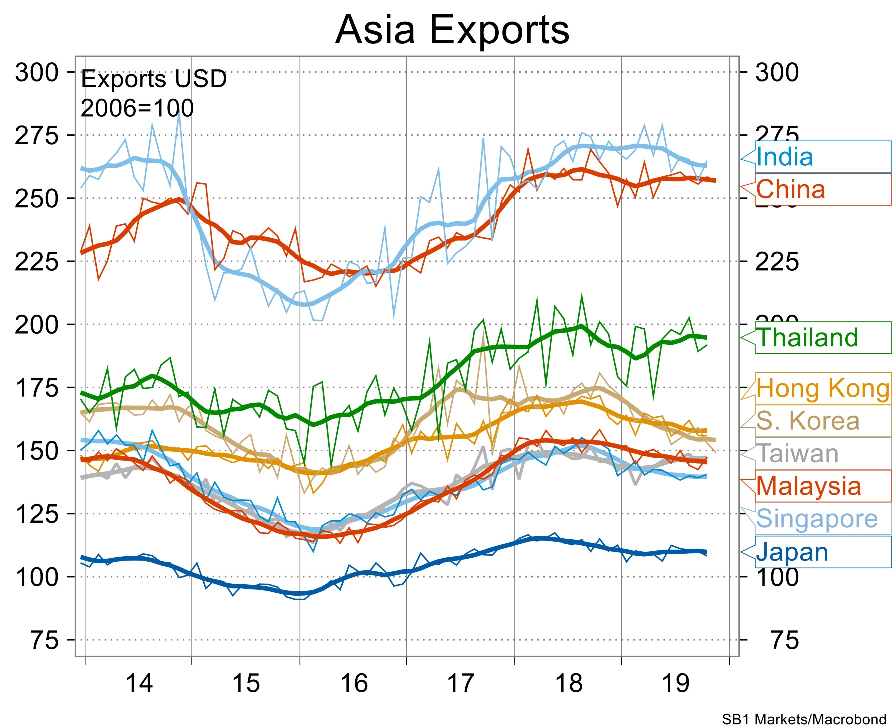


- Crude oil imports rose further from the Oct ATH, at 11 m/b. No signs of any slowdown in domestic demand
- China is of course by far world's biggest oil importer

Still not many bright Asian export spots, just Taiwan, Thailand slightly up

Exports from other countries are either flat (Japan, Singap.) or still trending down (but none faster!)

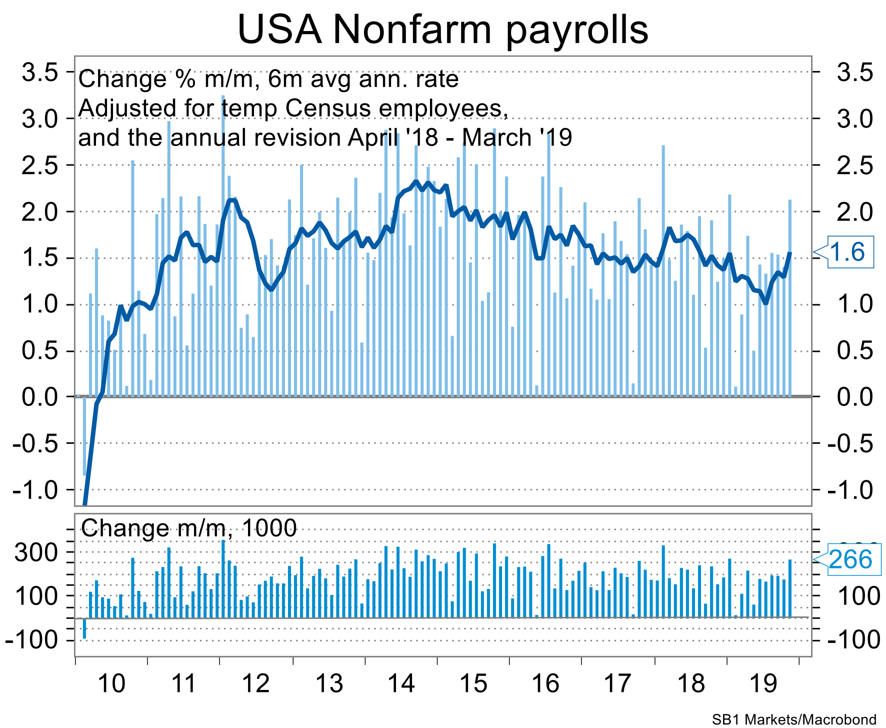


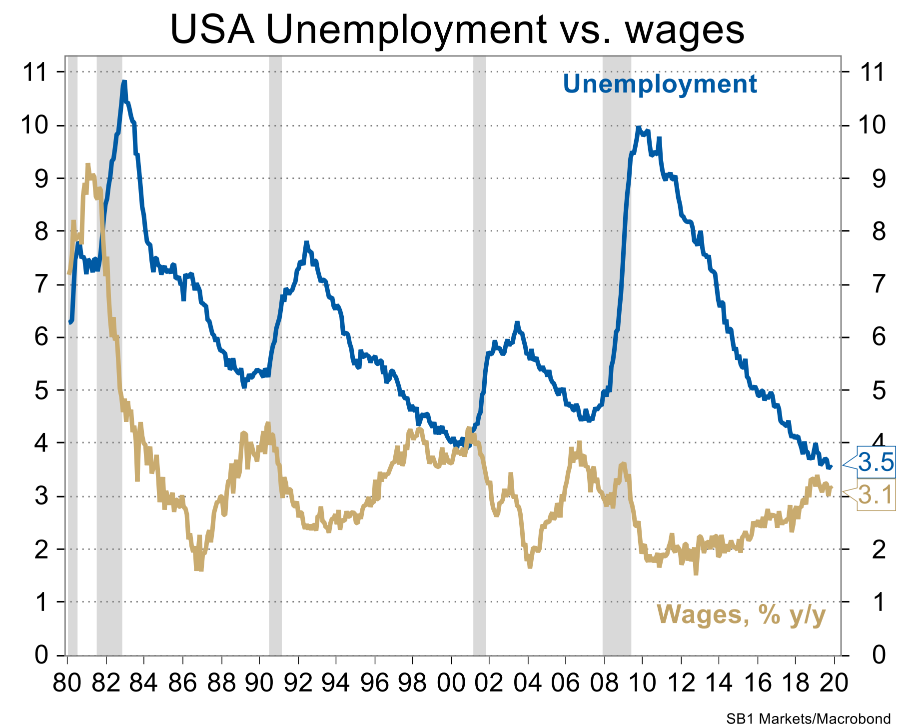


- Taken together: Some signs of stabilisation recent months
- China is of course the world's biggest export country (55% larger than the US!) – and the 2nd biggest importer!
  - » China will probably take the pole position in imports too, in some few years time

Employment soared in Nov, unemployment further down, and wage growth up

Employment jumped 266', far above expectations

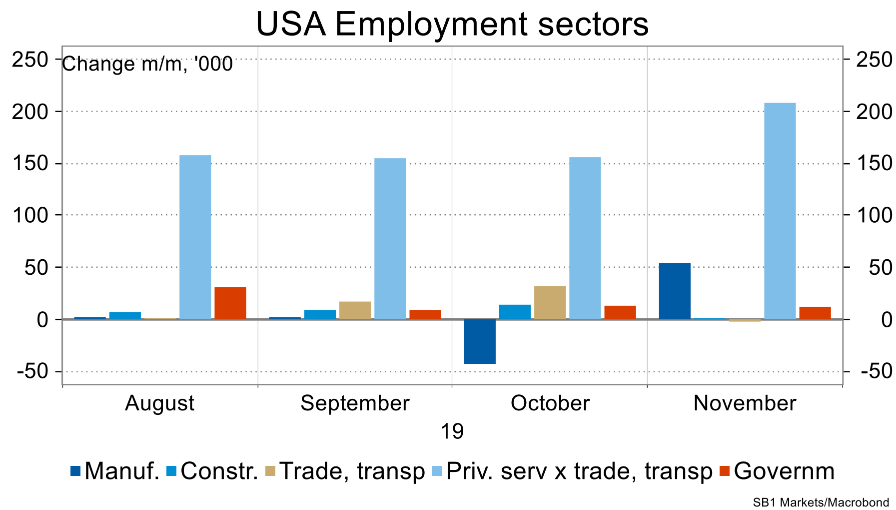


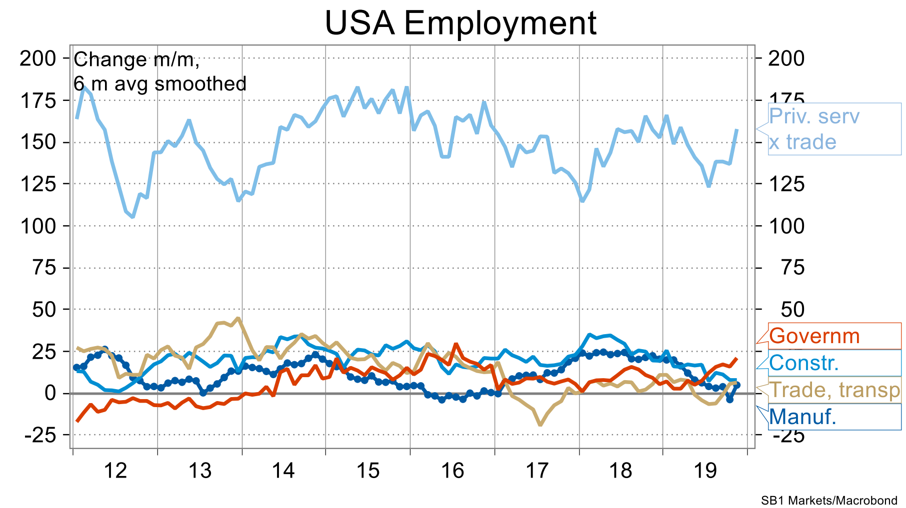


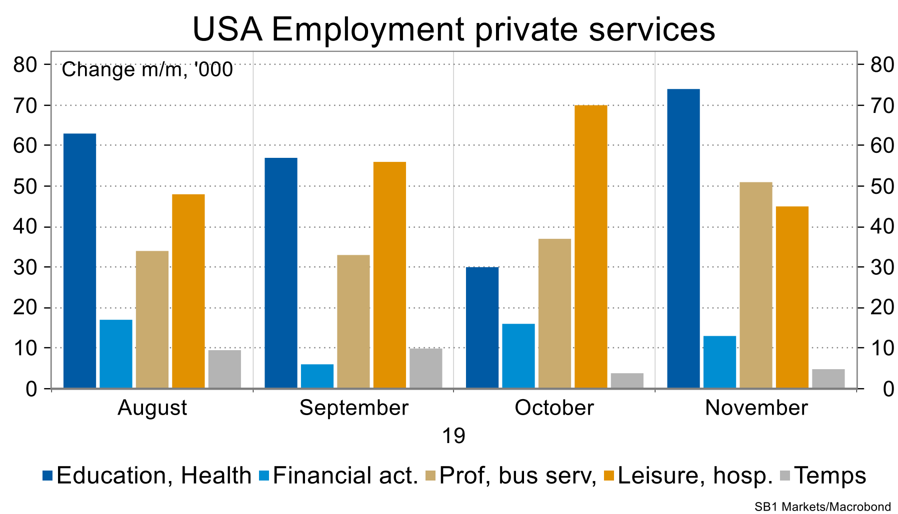
- **Employment** rose by 266' in November, far above the 183' f'cast, and Sept/Oct was revised up by 41'! (and far above 67' in the ADP report) Thus, employment growth has accelerated the past months, the 6 m avg to a 1.6% pace, from 1% in July
- **Unemployment** inched back down to Sept's 3.5% rate , from 3.6% in Oct. The participation rate fell by 0.1 pp to 63.2, the employment rate held steady at 61.0% (hence, the LFS survey did not confirm any surge in employment). Participation is heading slightly upwards but too little to suggest that the supply side is now responding to the brisk demand for labour
- **Wages** rose 0.2% m/m, 0.1 pp below expectations but October was revised up by 0.2 pp. The annual rate inched down to 3.1% from an upward revised 3.2% Oct (previously reported at 3.0%)
- Overall, these data reflect a tightening labour market, calming recession fears, and the Fed will surely not signal any rate cut

Employment is increasing all sectors, private services spiked in Nov

Employment accelerates in private services, government, slowing in construction, manufacturing



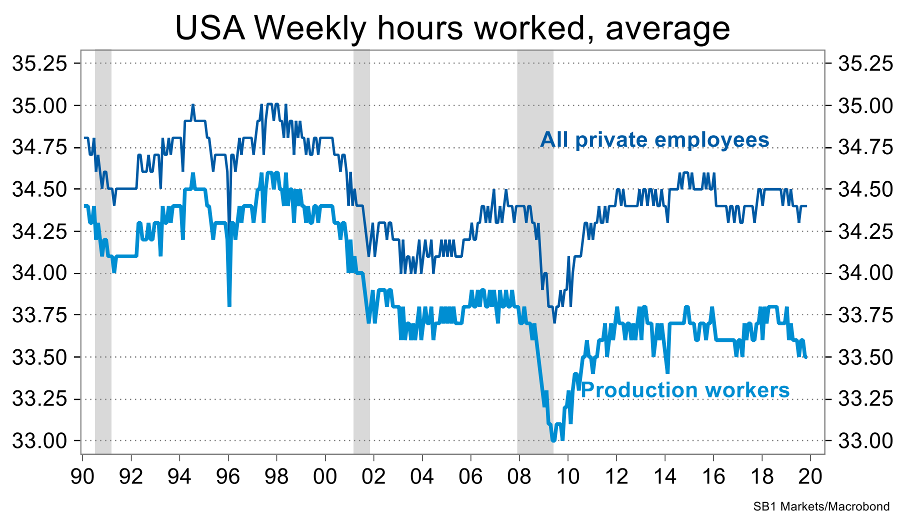


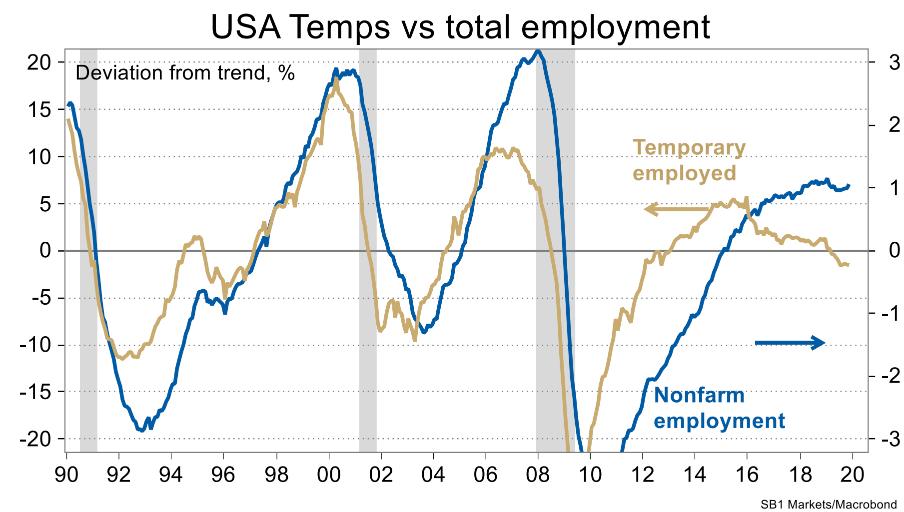


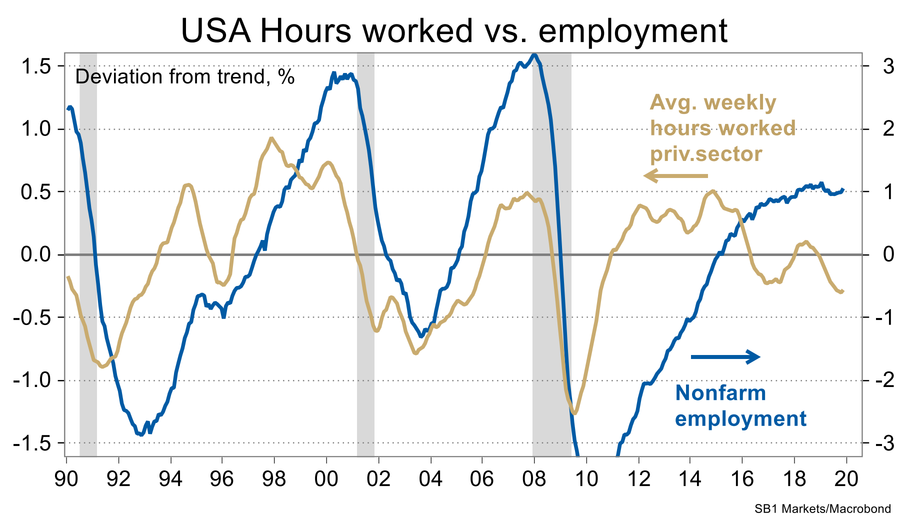
- **In November:** Private services empl. rose by 208', the steepest since Oct '18. Manufacturing 'recovered' from the GM strike drop in October, the avg of the two months is a modest 5.5' increase (but Nov was a manufacturing blowout, D.Trump retweeted). Construction and trade both flat, government rose modestly
- **Recent months:** Employment growth slowed in manuf., construction and trade in early 2019. The past months, both manuf. and trade have gained pace and are rising 6m/6m. Construction still slows marginally. Government empl. is accelerating
- **Big picture:** Manufacturing, construction both peaked in H1 '18. Manuf/construction activity signals lower employment. Private services x trade empl. recovered last year. Trade has been soft since 2016
- <u>The annual revision is not yet included in these sectoral data</u>

Weekly avg hours have flattened, trending down, normally a ‘first response’

Demand for temps has been slowing too, usually not a good sign, but not by more recent months







- Average weekly hours worked (in the private sector) has been trending down, <u>an argument in favour of the weaker-demand-for-labour-story.</u> Now, some comfort? Hours were unch in Nov, and is marginally up measured 3m/3m
- In addition: Employers are still reporting aggressive hiring plans and unprecedented problems filling positions, and the number of unfilled vacancies is very high
- The number of temporary employed is waning (but steady since July), usually a steady leading indicator for future slower total employment growth

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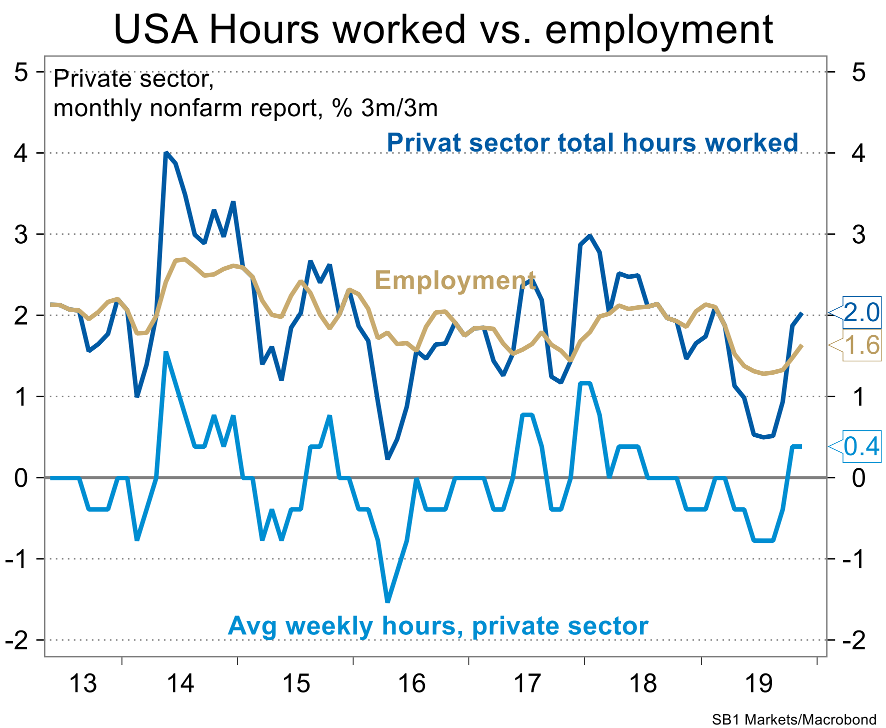
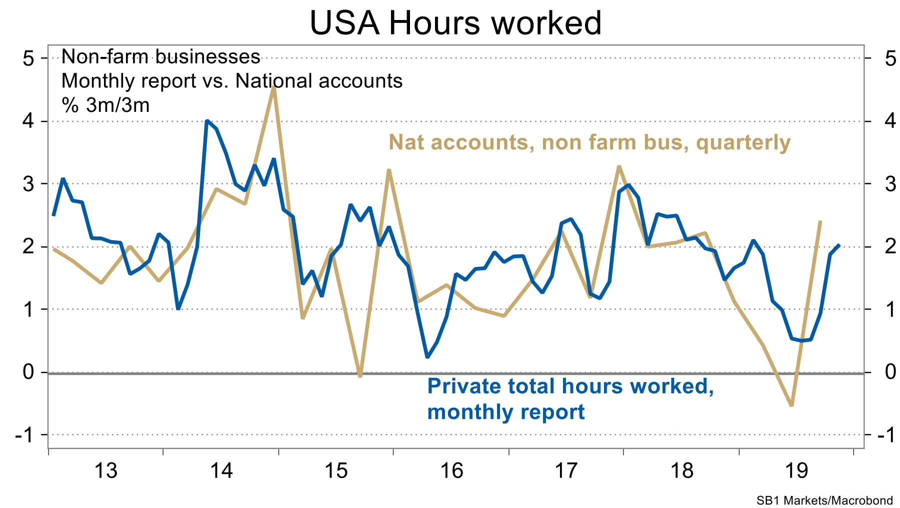
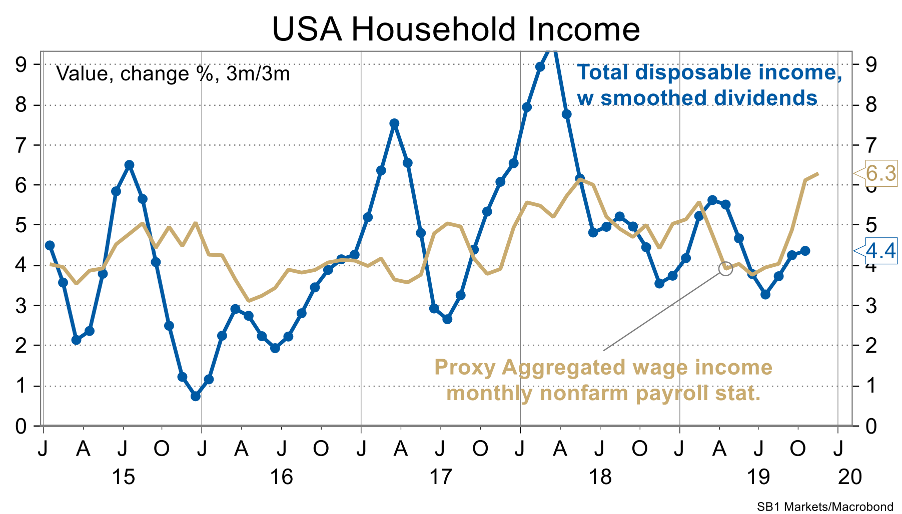
Avg hours worked are picking up, total hours & total wage income is accelerating

However, productivity growth is most likely still close to zero, and corp. profits are still under pressure



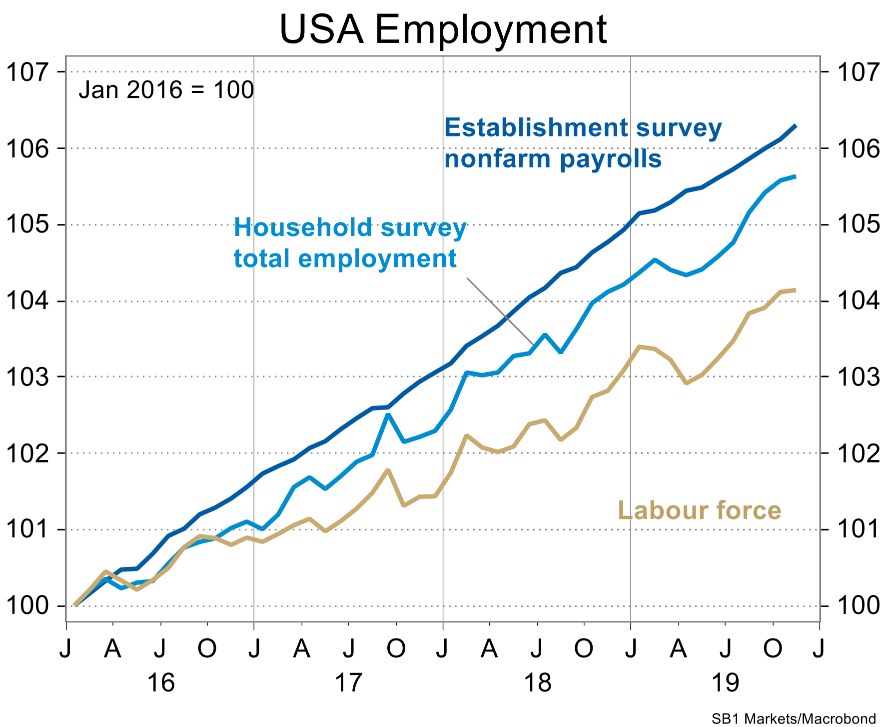




- Underlying growth in total hours worked in the private sector rose to 2.0% in November, an acceleration from 0.5% in August. Employment growth was then slowing, but is now gaining pace, and average weekly hours are rising by 0.4%
- Growth in total wage income has picked up the most recent months, to 6.3% in November, the highest since 2007. Total growth in disposable income is slowly turning up, to 4.4%
- Given present estimates for Q4 GDP growth, a 2% growth in hours worked implies low or negative productivity growth

The household survey has been reporting strong growth in employment too

The survey did not confirm the November spike but it reported an acceleration the prior months

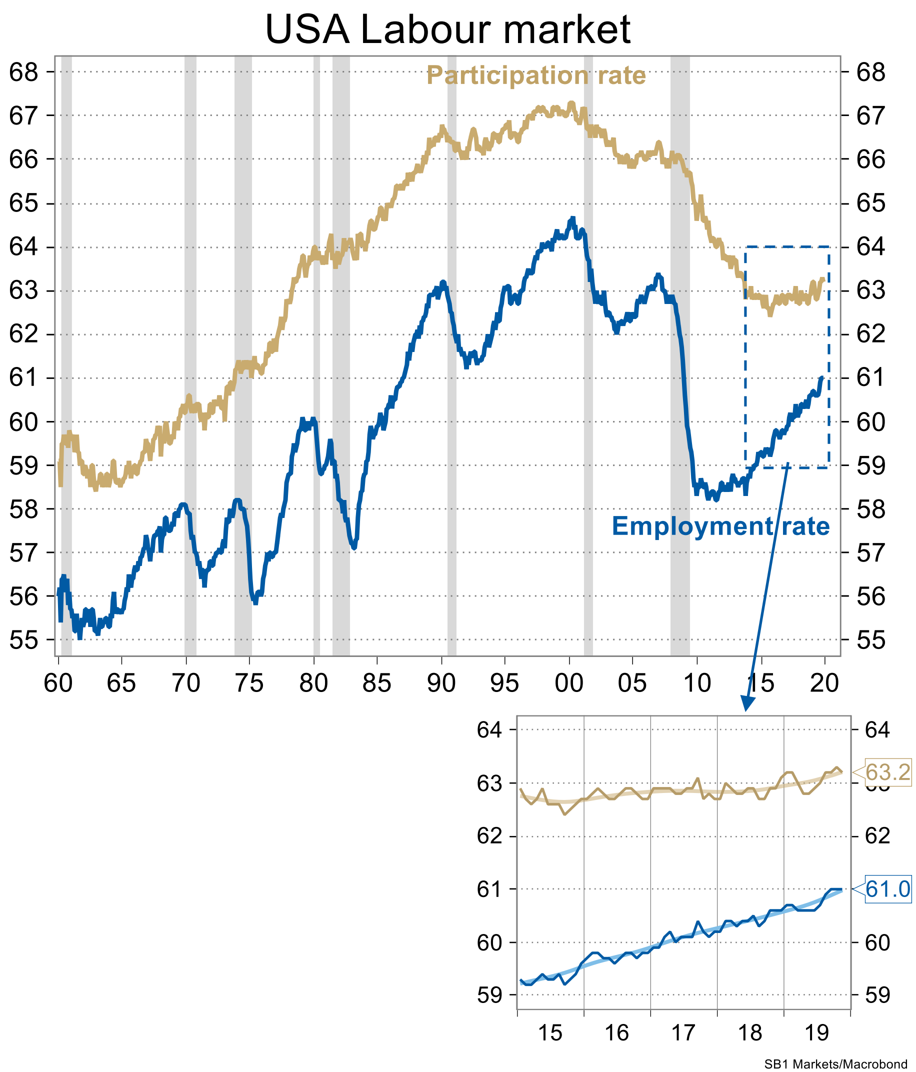


- The household Labour Force Survey (LFS/'AKU') reported slower growth in employment than payrolls during the spring. During the summer, employment growth gained pace, according to this survey, although it slowed again during the autumn
  - » Total employment grew by just 83' in Nov according to the LFS ('AKU'), while employment defined as in the payroll report rose by 113' (vs nonfarm up 266')
- The labour force rose by just 40' in November. The participation rate inched down to 63.2%, while the employment rate was steady at 61.0% (thus, the unemployment rate edged down)
- The monthly household LFS survey employment data are much more volatile than nonfarm payrolls data, and are close to useless from month to month

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

Participation trending too slowly up, creating a tight labour market

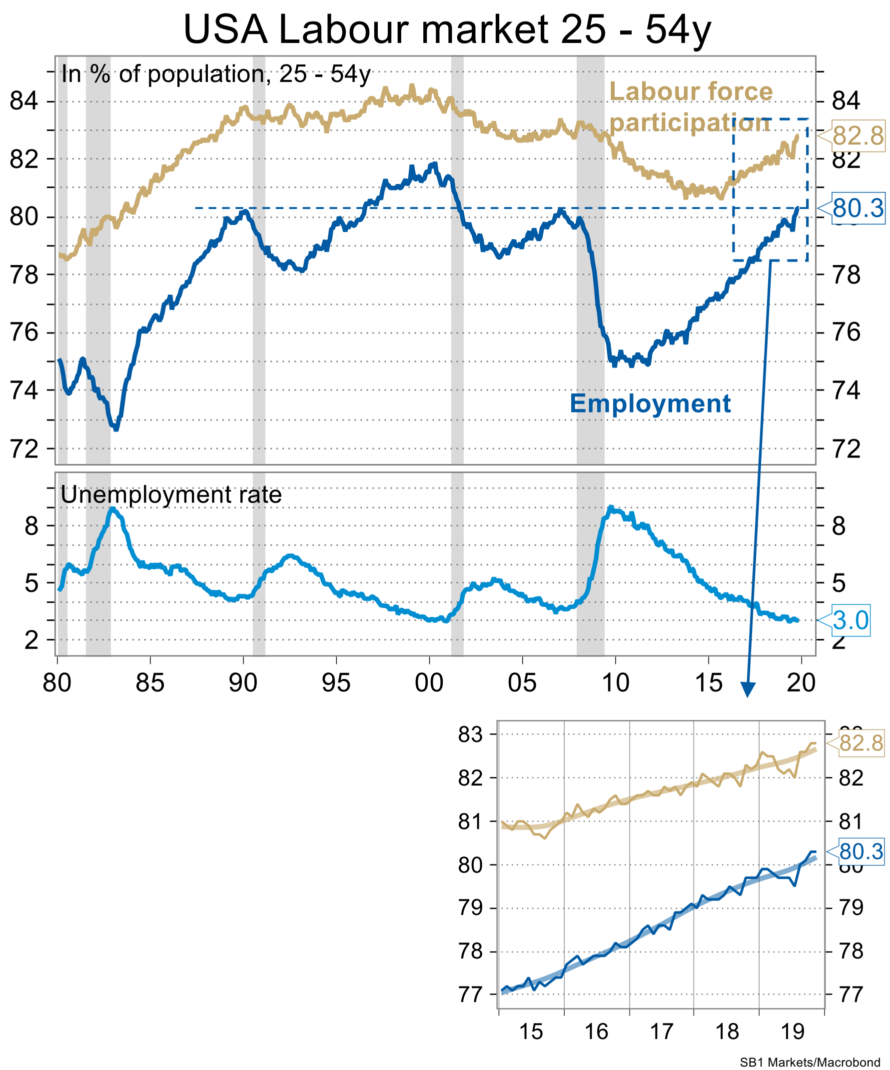
The participation rate may be heading slowly up, the level is low. Employment rate faster up



- The employment rate was flat at 61.0% in November too, but is trending steeply upwards. The level is well below the pre-financial crisis levels.
  - For the core age group, employment is back to a normal level (*see next page*). Youngsters (their employment rate is down) and the oldies (there are more of them, and fewer of them are working) have contributed on the downside on the overall employment and participation rates recent years
- The participation rate declined marginally, to 63.2%. The trend is very slowly upwards and clearly less steep than the employment rate – that's why the unemployment rate is still trending down
- Participation & employment rates do not signal any weakness on the demand side of the labour market but rather a tightening labour market, due to a meagre supply side (participation) response

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

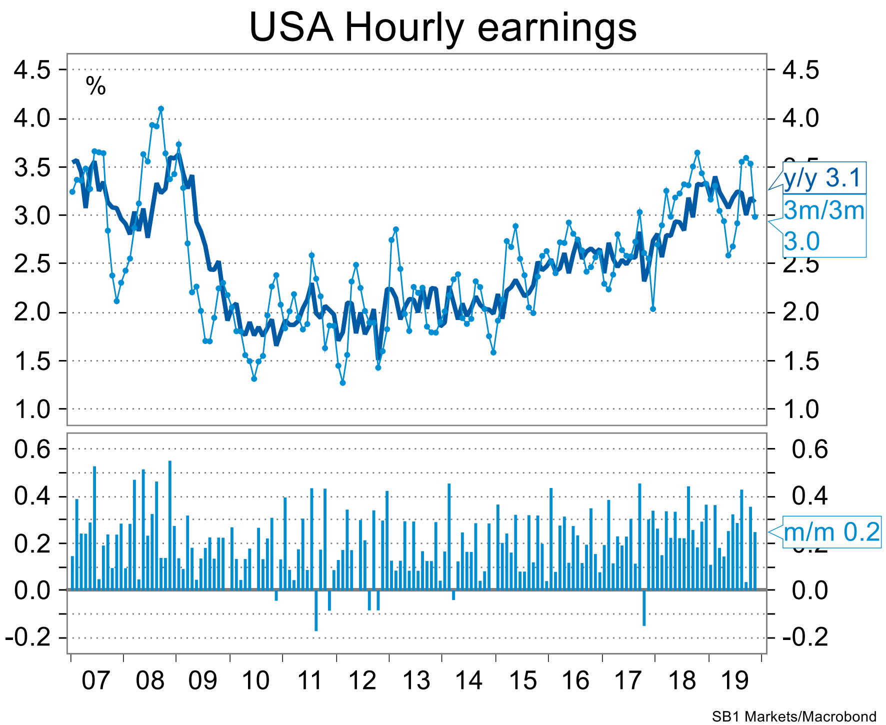
Is this the most relevant employment rate? Most likely. The trend is up and level not low anymore

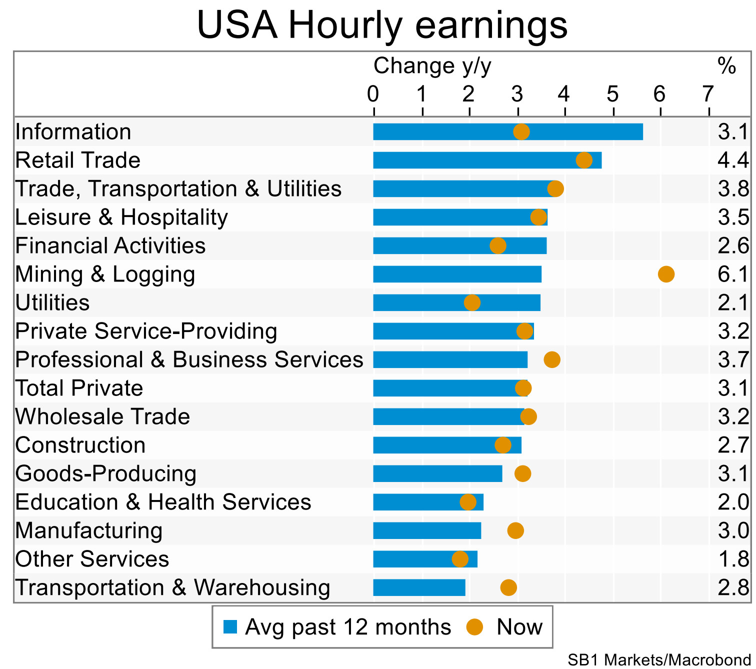


- While the total employment rate (over 16 y) is well below the pre-financial crisis level (more than -2 pp), the core age group (25-54y) employment rate is back at the 2007 peak level
  - » The core employment/unemployment rate most likely gives the most relevant measure of the tightness of the labour market
- In November, the 'core' participation rate was unchanged at 82.8 and employment flat at 80.3
  - » The 'core' unemployment rate was unch at 3%
- The good news is that the participation rate is inching up, implying that there <u>may still be some reserves left</u>

Wage growth above f'casts, but trending down the past year. For how long??

Wages rose 0.2% in Nov, annual rate inched down to 3.1%, after a 0.2 pp upward revision of Oct





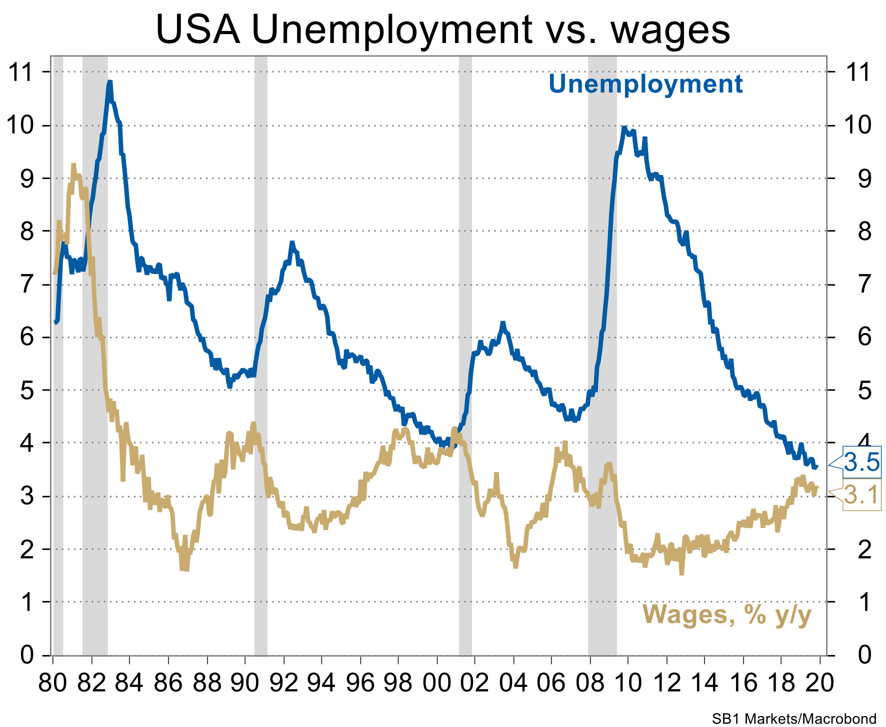
- Wage inflation is not high vs historical standards but it is not low vs. underlying CPI inflation, and not vs productivity growth, see three pages further out.
- Small companies (NFIB) are reporting the highest wage compensation plans since 1990

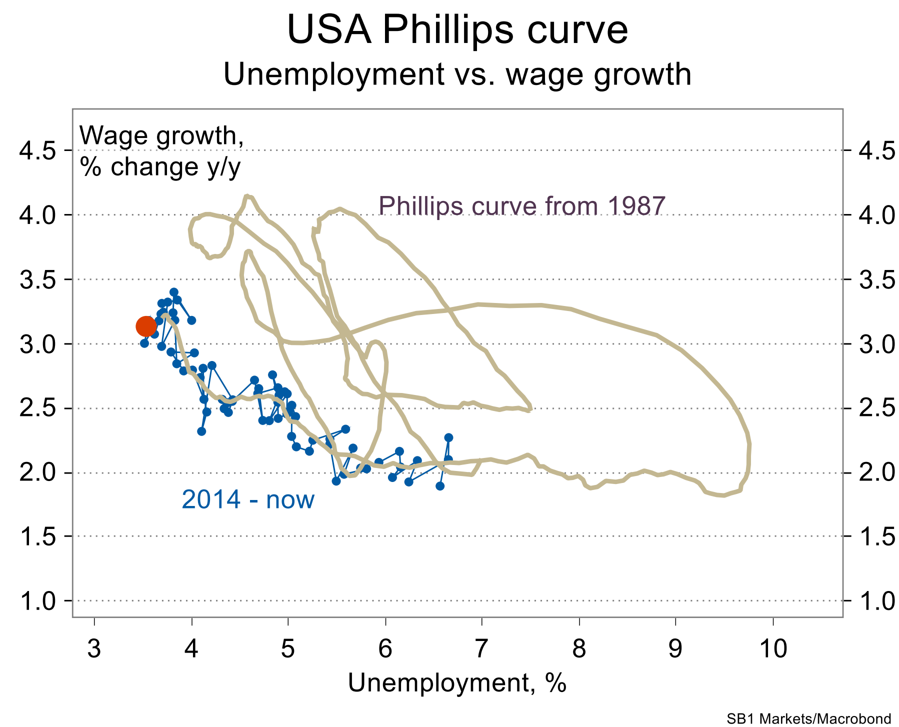
- Wage growth rose 0.2% m/m, 0.1 pp less than expected. However, the prior month was revised up to a 0.4% pace, from 0.2%, bringing the annual rate up 0.2 pp to 3.2% in Oct. In Nov, the annual rate inched down to 3.1%, it was expected unch at 3.0%. Underlying (3m/3m) growth fell to 3%
- All indicators are pointing to a tight labour market, hence, there are no reason to expect wage inflation to ease now?
- Annual wage inflation is decelerating vs. the past 12m average in 9 out of 17 sectors. Wages are still increasing the most in information activities – and retail trade as advanced on the ranking, to the 2nd place!

SpareBank 1 MARKETS

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

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

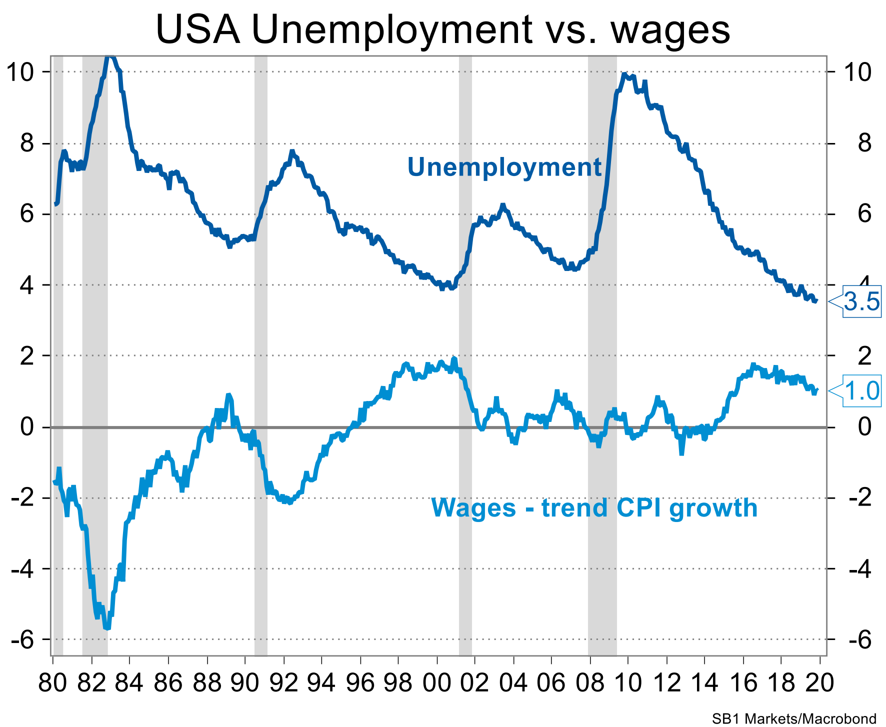


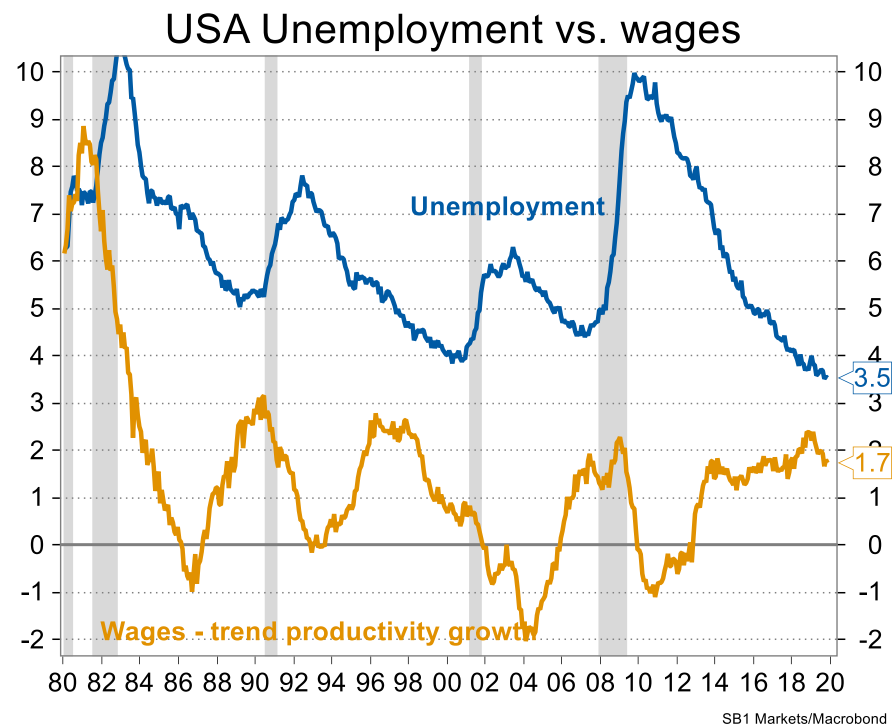


- However, we would not have guessed told in early 2019 that the unemployment rate should decline to 3.5% from almost 4%, and that wage inflation should decrease to 3.1% ,from almost 3.5%
- On the other hand, if we calculate the Phillips curve using the employment rate, or the core (25-55y) employment rate, the Phillips curve is either far to the 'right' (and not to the 'left' as at the chart above) or just pretty normal

Wage inflation is not low vs. prices or productivity

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

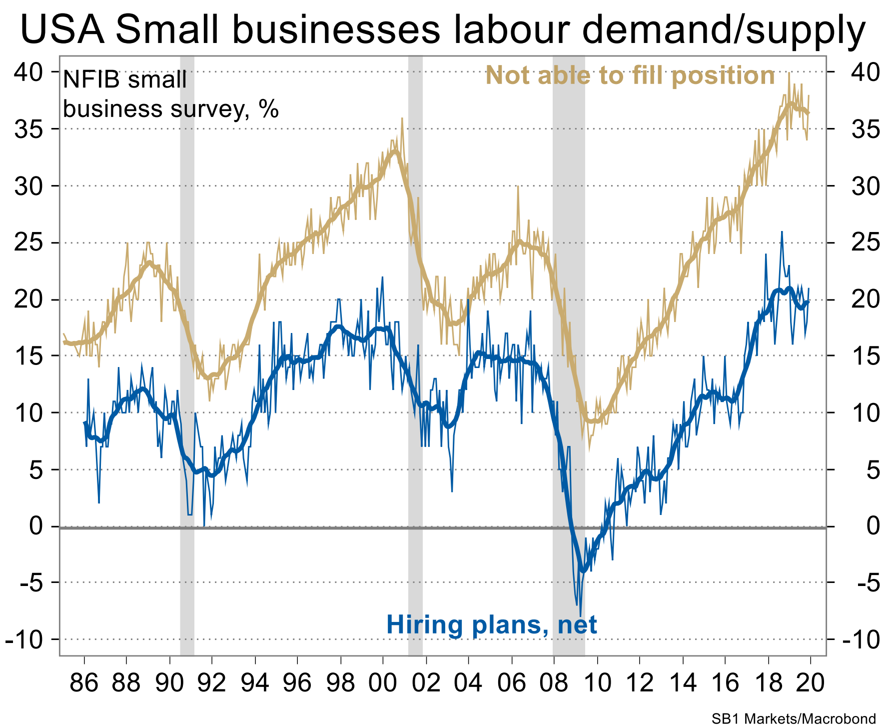


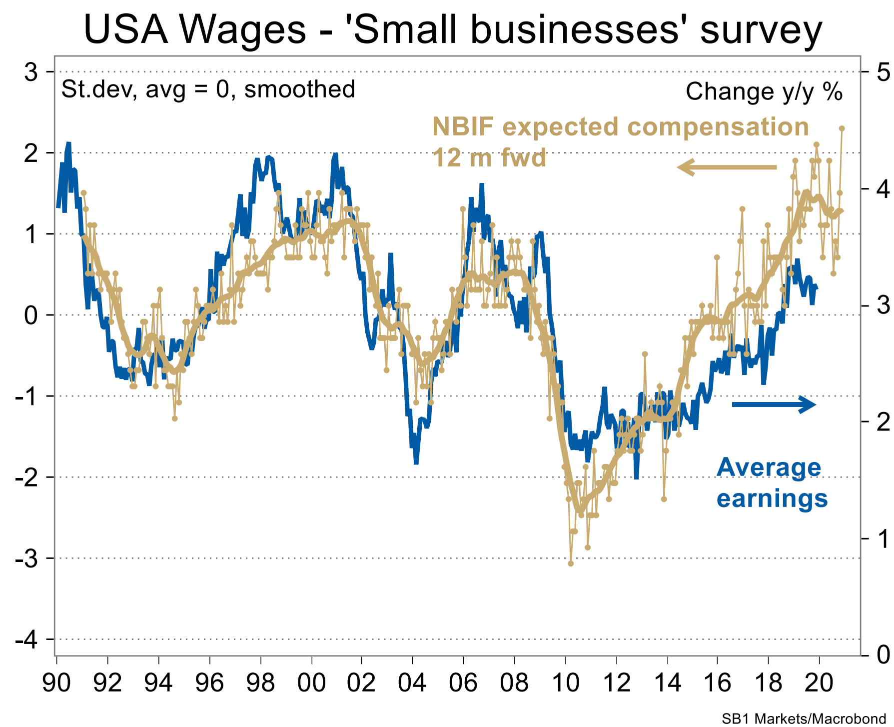


- The Wage inflation – Productivity growth gap, or labour cost per unit produced (ULC, unit labour cost, using the monthly wage data vs the underlying trend in profits) came at 1.7% in Nov, slowing from above 2% in early 2019, but higher than usual (avg since 1964 at 0.7%, or 0.6% since 2000)
- Another indication: The corporate profit share has fallen sharply the previous years because cost inflation (=wage inflation – productivity growth) has been higher than inflation, as normal when the labour market tightens
- Real wages have been increasing faster than normal too

Small companies are reporting tight labour markets, record high wage increases?

Hiring plans and the share of businesses not able to fill positions rose in Nov, but may have peaked

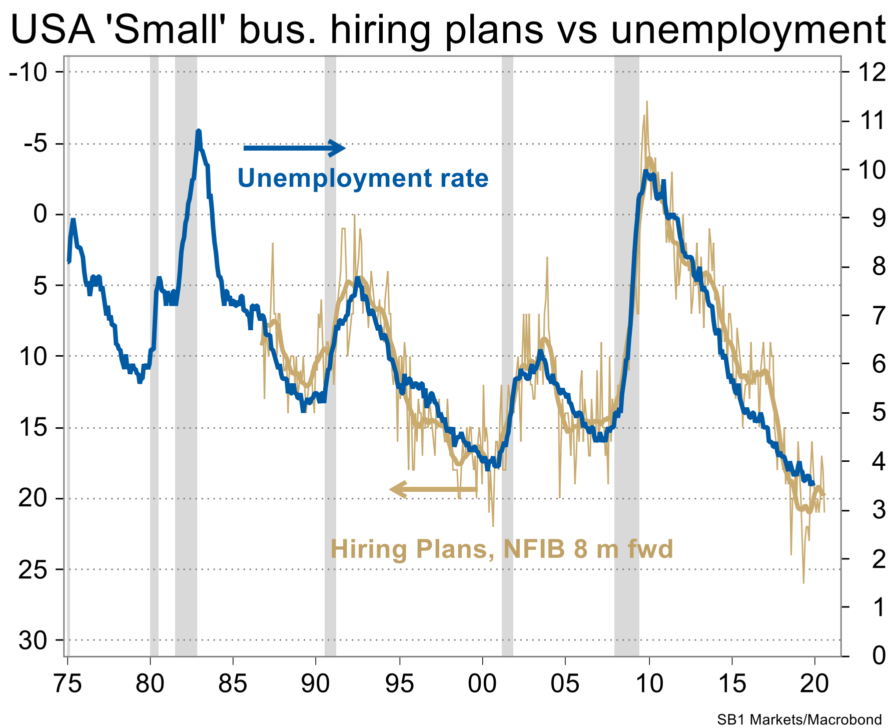


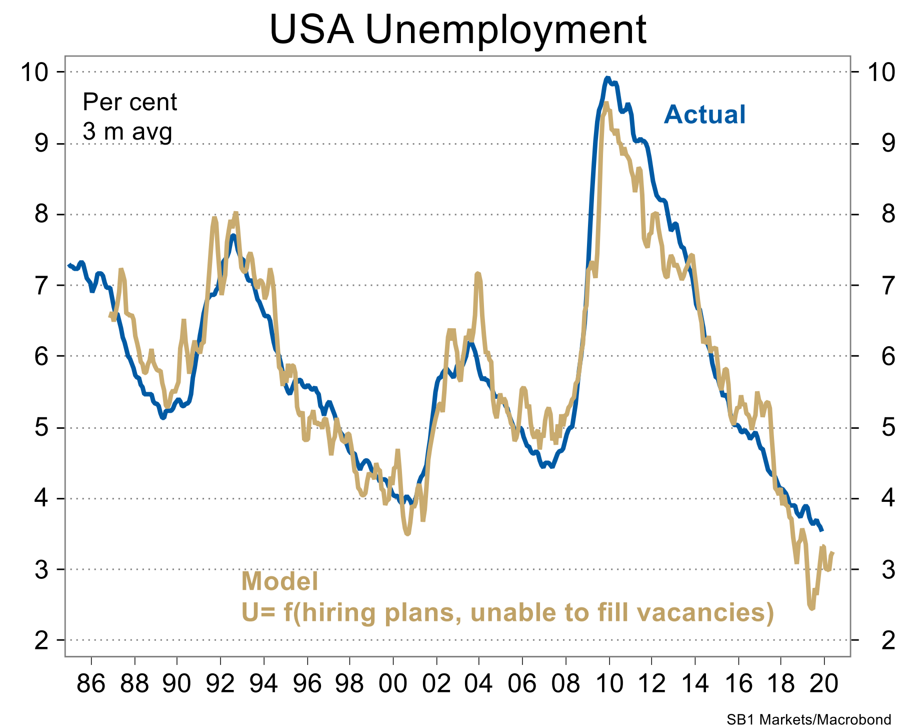


- SME companies have been reporting somewhat less aggressive hiring plans the past months. May be an early sign of demand weakness, or just difficulties attracting labour. However, in Nov, hiring plans rose again, and the level is anyway very high
- The companies are still not able to fill their vacancies, and the share of companies rose strongly in November. Companies are also reporting unprecedented problems finding qualified labour (check next page)
  - » Hiring plans are leading unemployment approx 8 months, unfilled vacancies by 6 months. As both a no worse than just flattening out, we do not get any indication that unemployment will turn up, near term. On the other hand, these survey data confirms a tight labour market
- Compensation expectations soared in November, after an uptick the prior month, and the level is the highest on record! Must be a sign of an acceleration in wage growth??

Hiring plans, unfilled vacancies confirm a very tight labour market

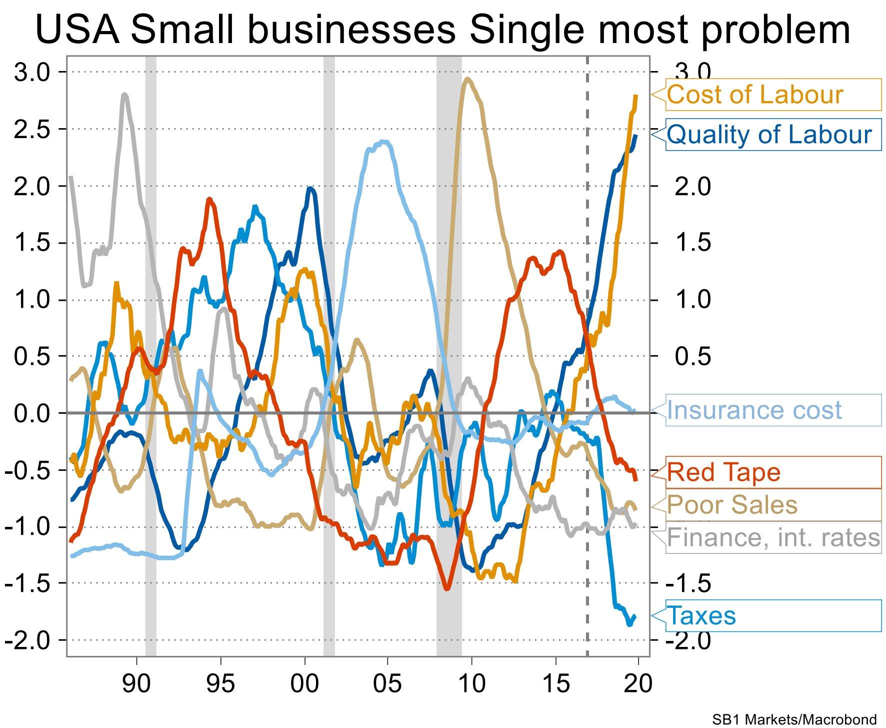
.. But does not signal any weakening of the labour market near term

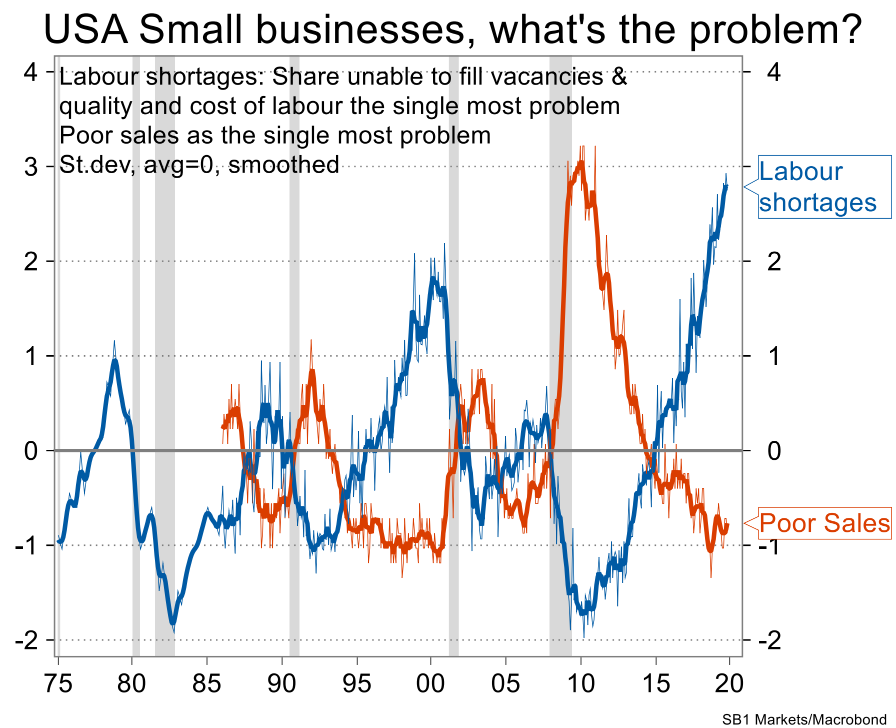




So, what’s the problem?

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

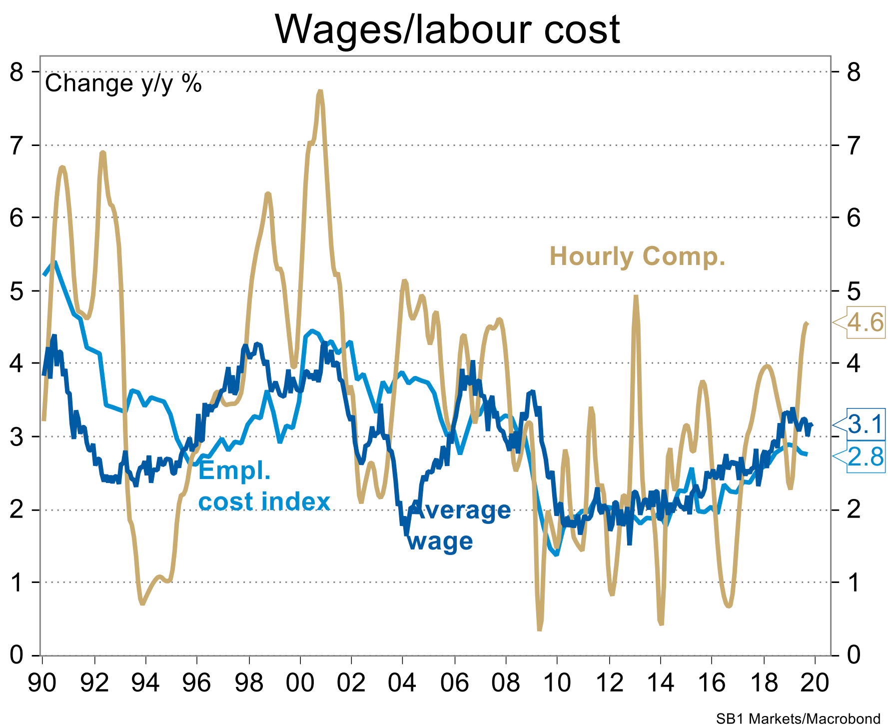


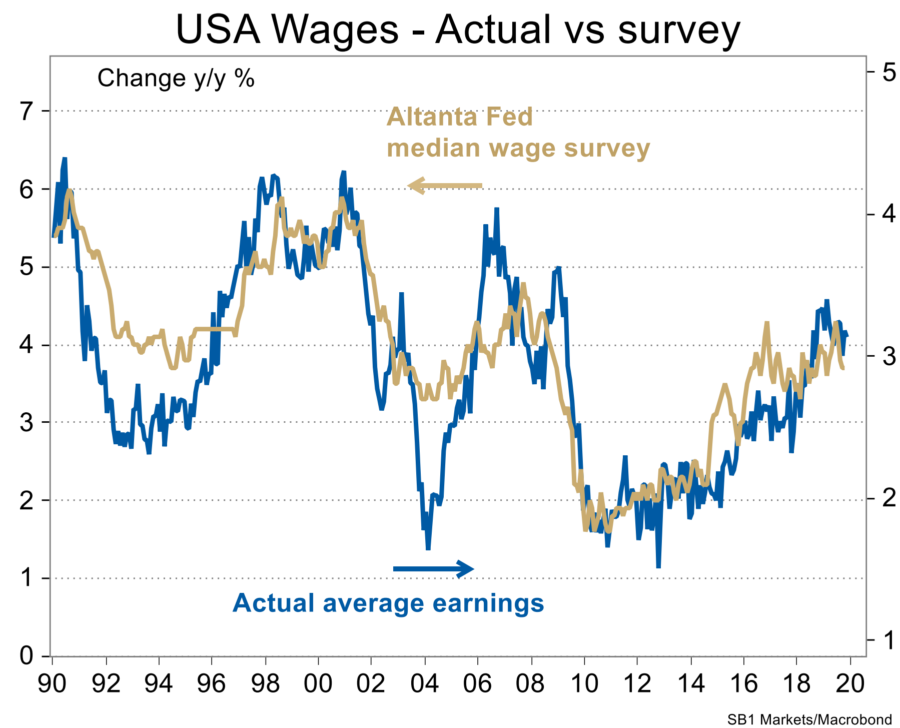


- BTW, households are reporting that it is unusually easy to find a job. Confirms that the labour market is very tight

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

Still, wage inflation has probably not accelerated in 2019

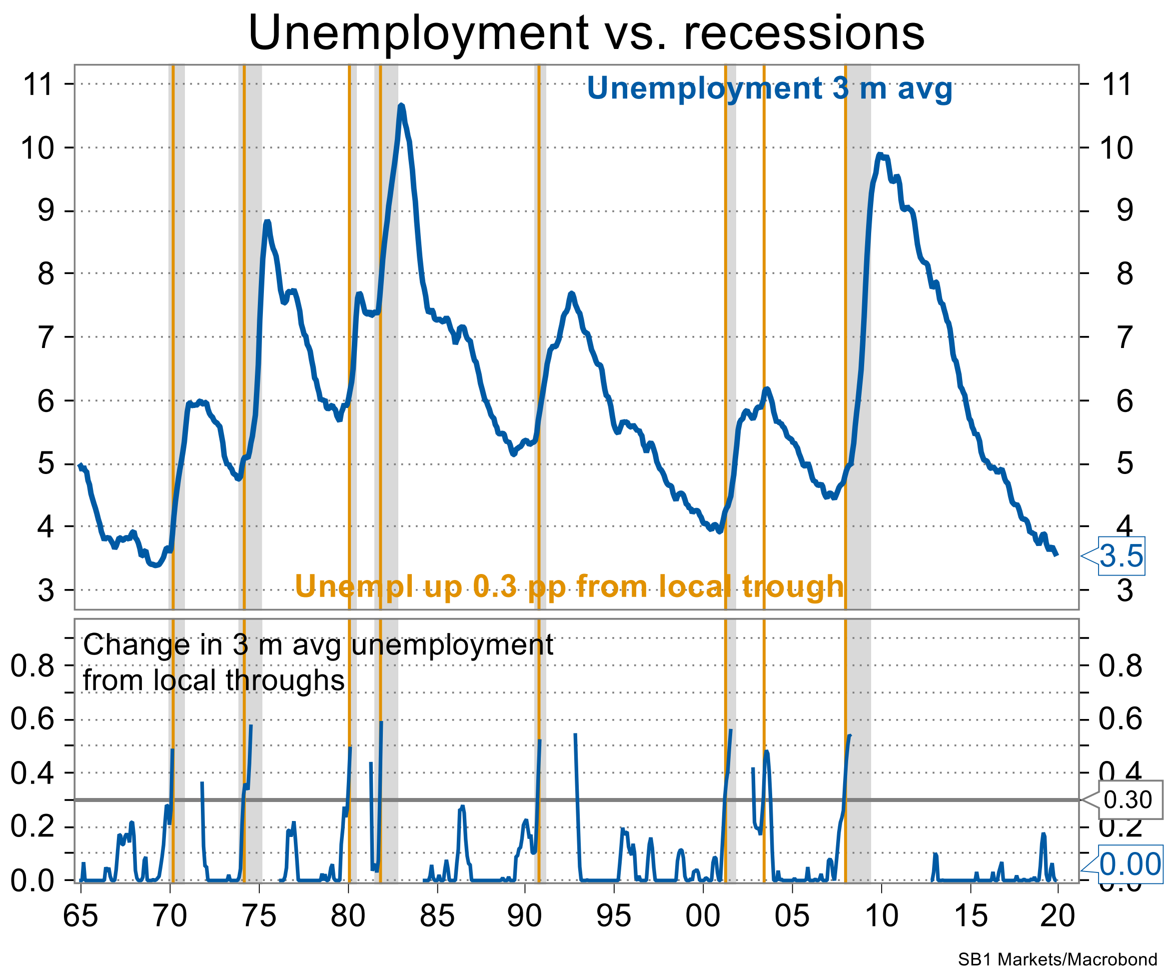




- In the monthly employment report, wage inflation inched down to 3.1% y/y (from an upward revised Oct)
- The Employment cost index ticked up to 3.0% q/q annualised in Q3, from 2.4% in Q2. The annual rate was flat at 2.8%, it peaked at 2.9% in Q1, but is trending up over the recent years
- Hourly compensation (from National Accounts) is the final assessment of all sorts of labour compensation. It is much more volatile than other labour cost measures. It rose 4.6% q/q in Q3 (smoothed) and by the same pace y/y, the highest since 2013
- Atlanta Fed's wage survey reports 3.7% median wage growth in Oct, slowing since June but probably signalling slightly higher average wage inflation

Unemployment not up yet, no recession now?

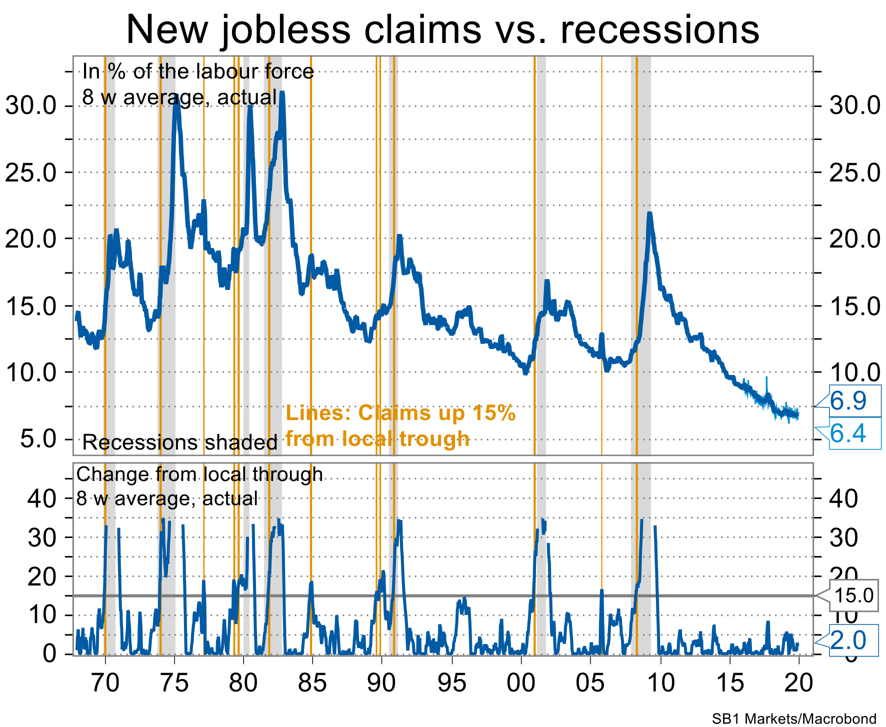
Unempolyment usually turns up as the recession hits (but not before)

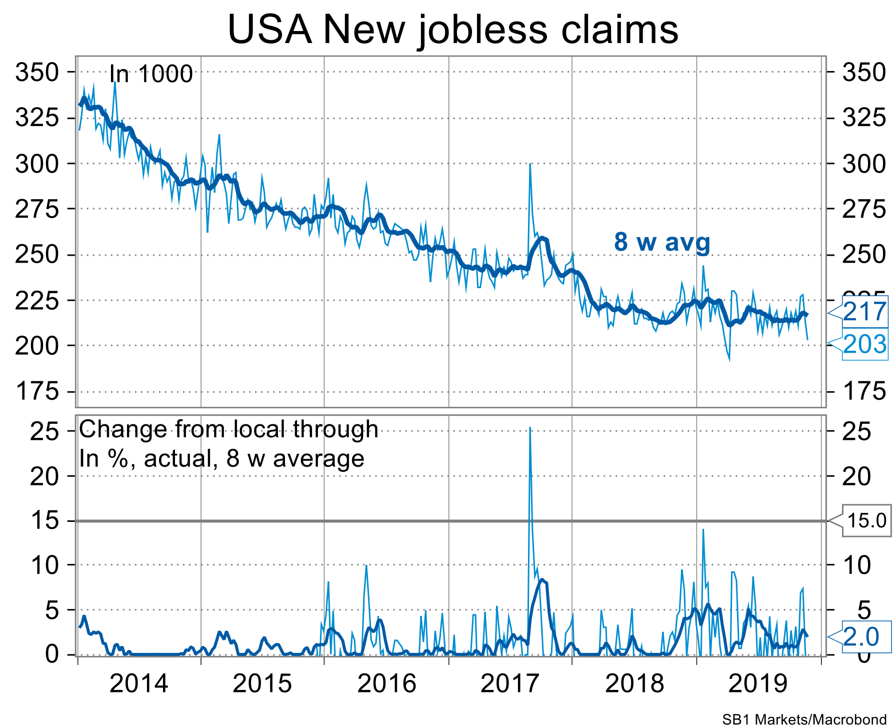


- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession confirmation, but has not been a good recession pre-warning, because it happens 'too late' – because unemployment is not a leading indicator
  - » Unemployment always increases substantially during recessions
  - » An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

Jobless claims dropped to a 6 month low, no signs of weakness

Jobless claims slipped to 203' last week, the 3rd lowest in 50 years

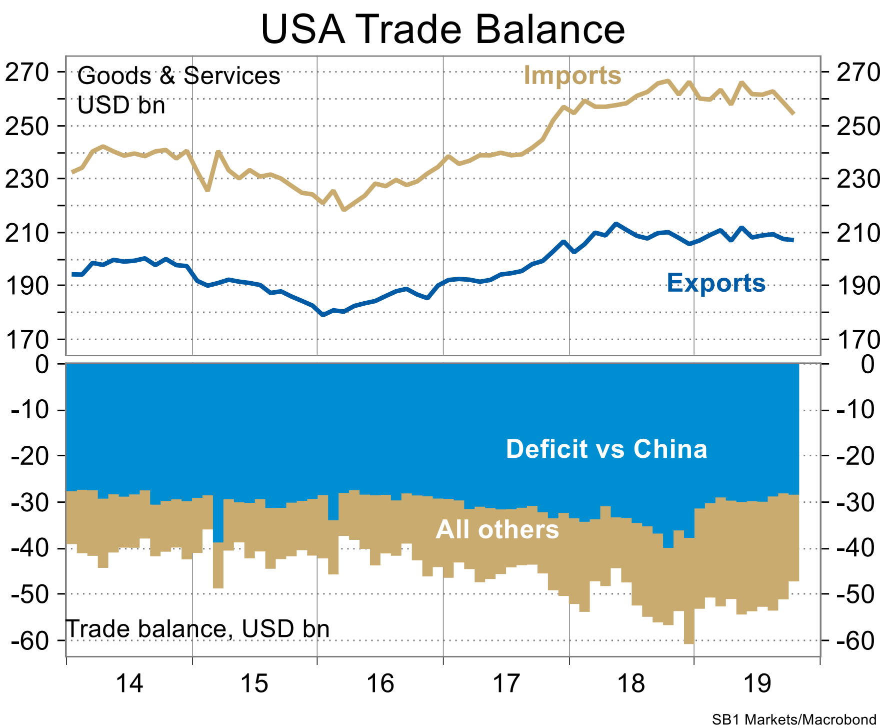


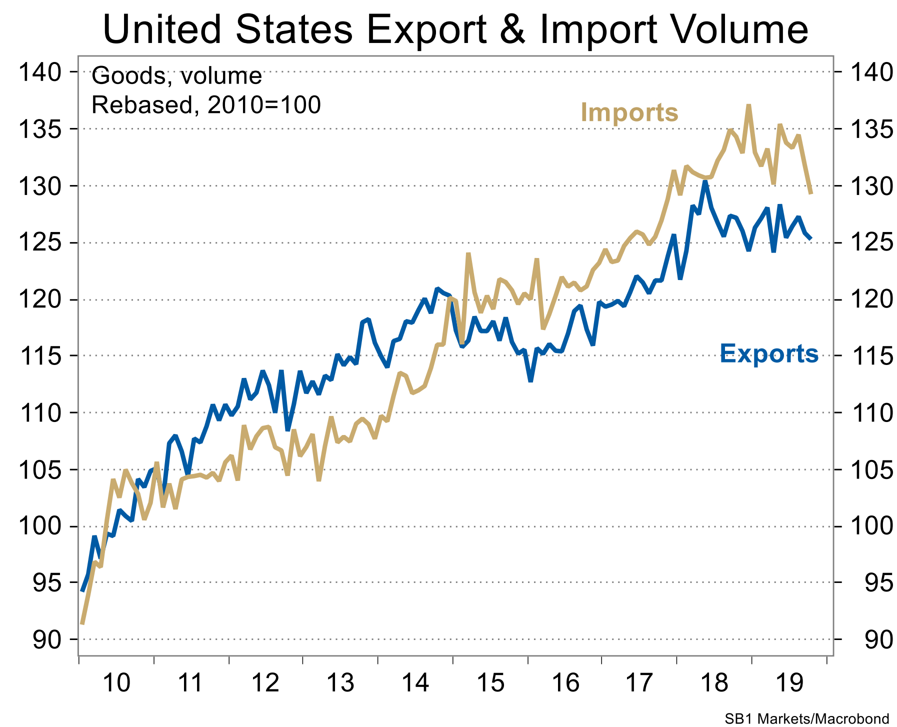


- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

The trade deficit at a 1½ year low as imports drop

Imports have been heading down recent months, probably on softening demand. Exports are flat

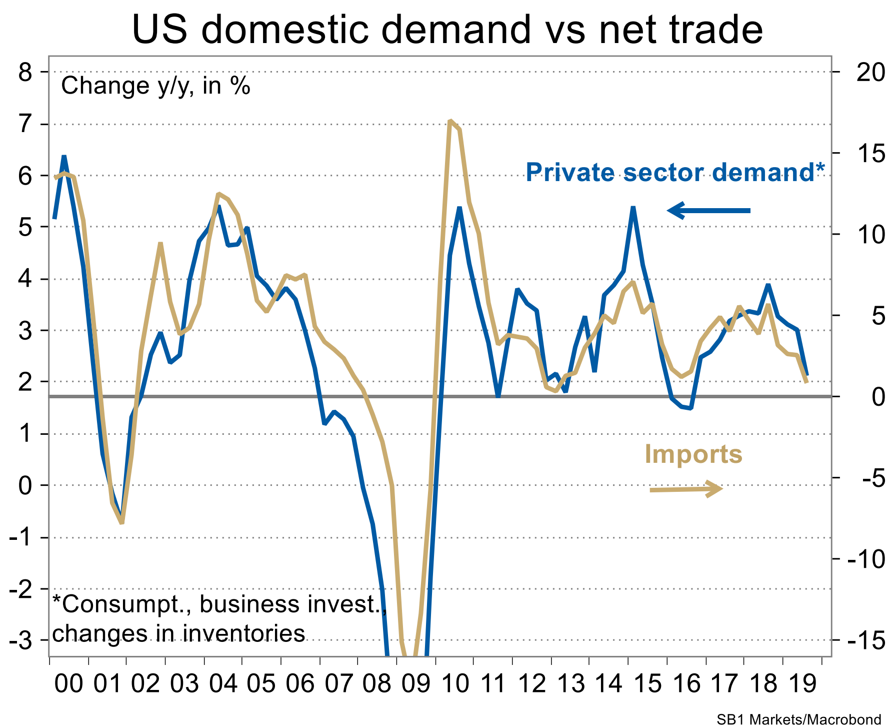


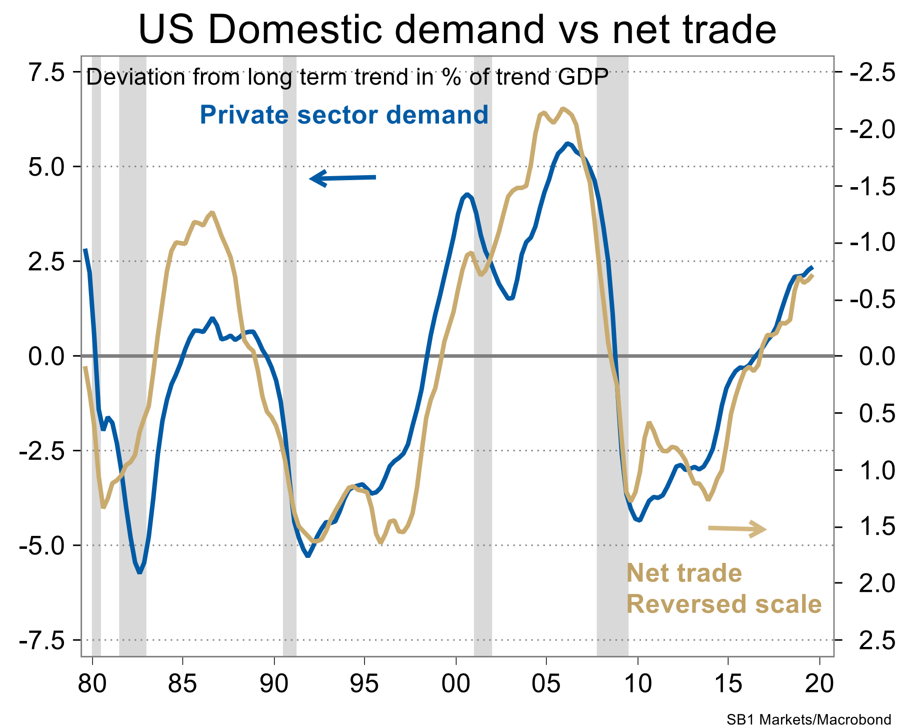


- The overall trade deficit of goods & services shrank to USD 47 bn in Oct, the lowest since June 2018. The deficit has been declining recent months as imports have slowed more than exports – chiefly due to easing domestic demand (and higher domestic oil prod)
  - » Imports slipped 1.9% m/m in volume terms, following a similar decline the past month. Imports are down 5.8% y/y, the steepest decline since 2009. A sign of crumbling domestic demand or tariffs effects? Mostly domestic demand, the deficit to China is shrinking, but deficits vs many others are widening. In addition, net petroleum exports are up by USD 5 since the early summer, out of a total 7 bn cut in the deficit – driven by higher shale oil production
  - » Export volumes came down 0.4% m/m in Oct. Exports have flattened out since mid-2018, the annual rate is up ay a marginal 0.8% pace
  - » 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 substantial positive net trade contribution
- The deficit vs. China is reduced substantially, no doubt due to the trade war. The overall US deficit is still widening vs most other trading partners

Imports are slowing along with private domestic demand

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

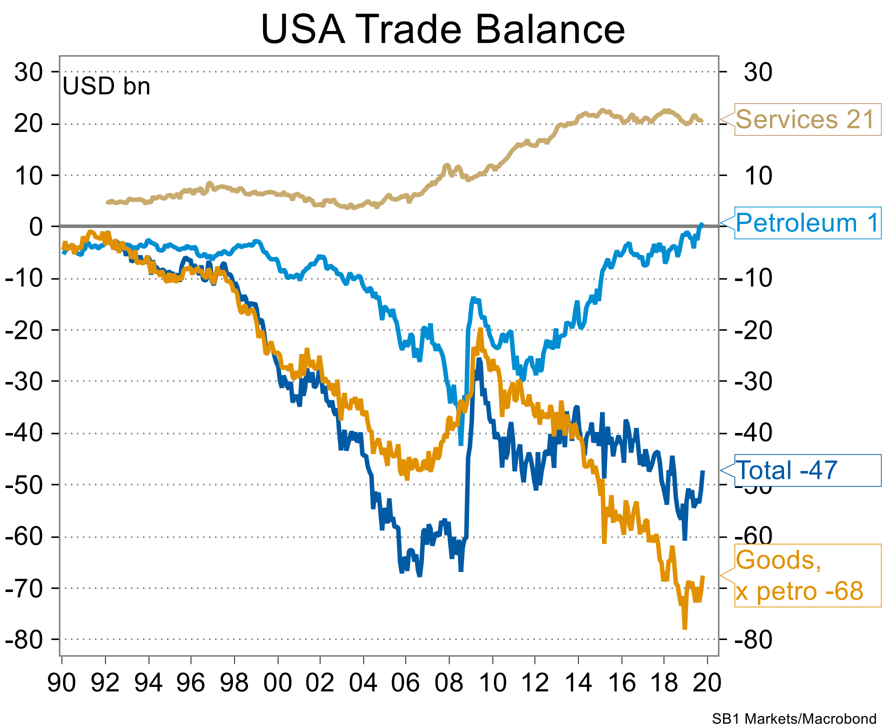


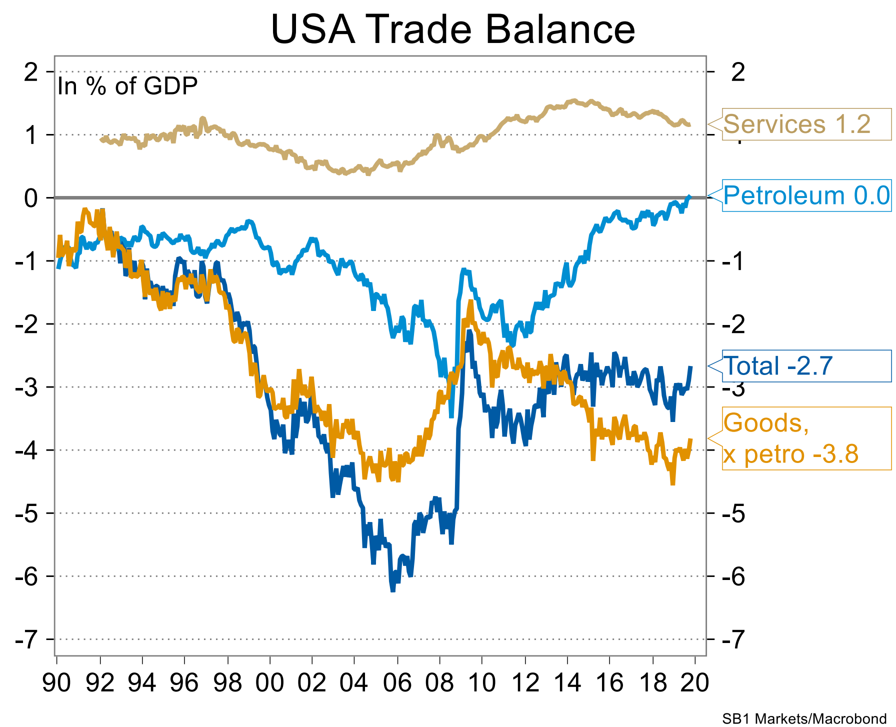


- The trade war may of course have dampened US investments and consumption. However, imports have not been reduced due directly to the tariffs (just to China, but other deficits have increased), global uncertainties probably more important

If not for petroleum, a ‘catastrophe’, total deficit at 2.7% of GDP, it was 6

The goods deficit ex petroleum is still high, even in % of GDP, at 3.8%

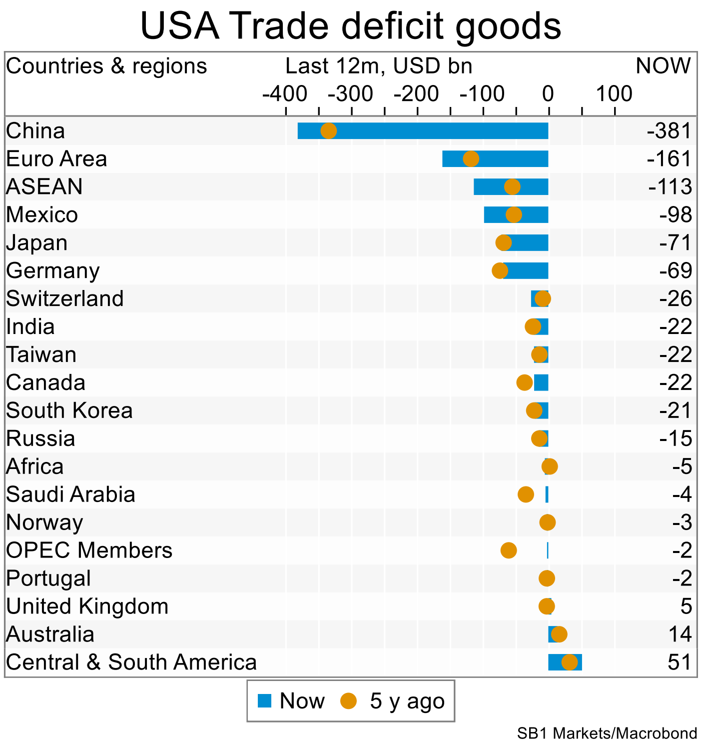


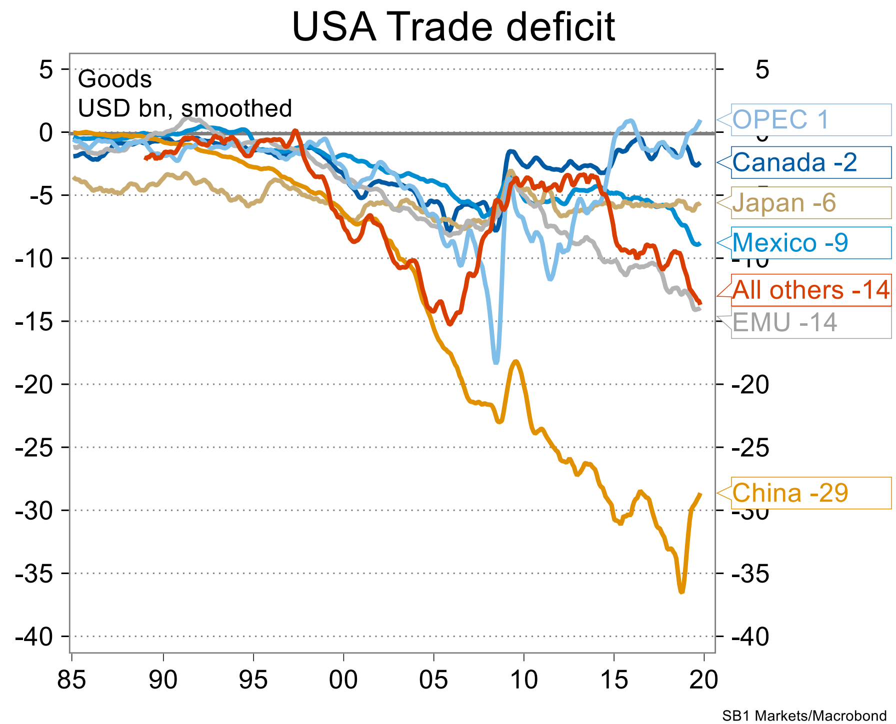


- In Oct, the goods x petro products deficit shrank marginally to USD -68 bn, or 3.8% of GDP. The deficit reached ATH in Dec ’18 and has slowly been shrinking since then. The total trade deficit, including petro., declined to 2.7% of GDP
- The petroleum trade deficit has disappeared, from USD 30 bn/m in 2012 to +1% now
- The US is having a <u>surplus</u> in services at USD 21 bn, equalling 1.2 of GDP, trending very slowly down now

The deficit vs. China is narrowing, due to lower imports from China

The deficit vs OPEC has turned to a small surplus. Deficits vs Mexico, Canada, Eurozone trending out

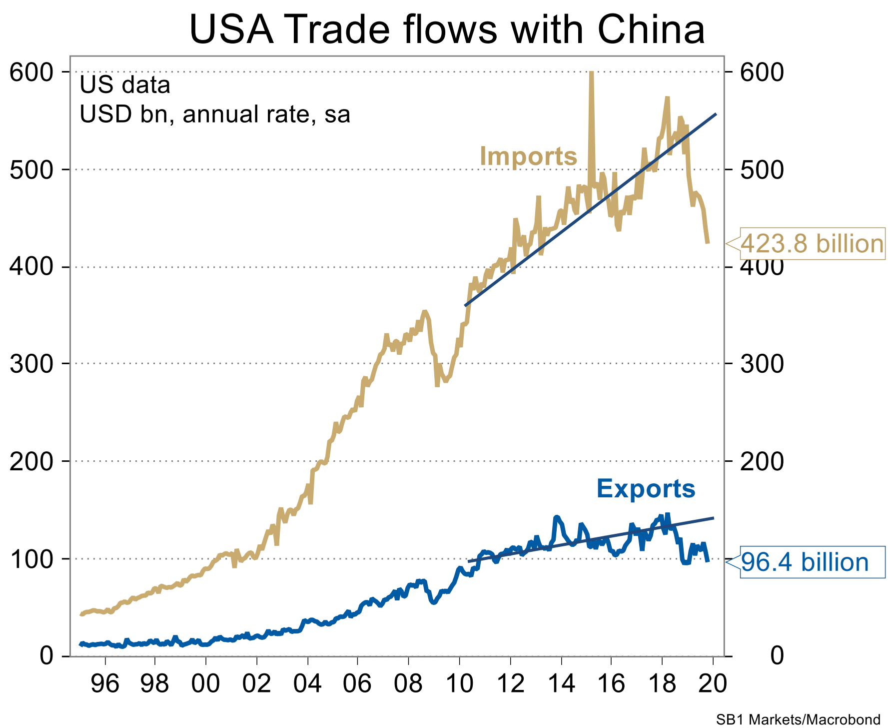


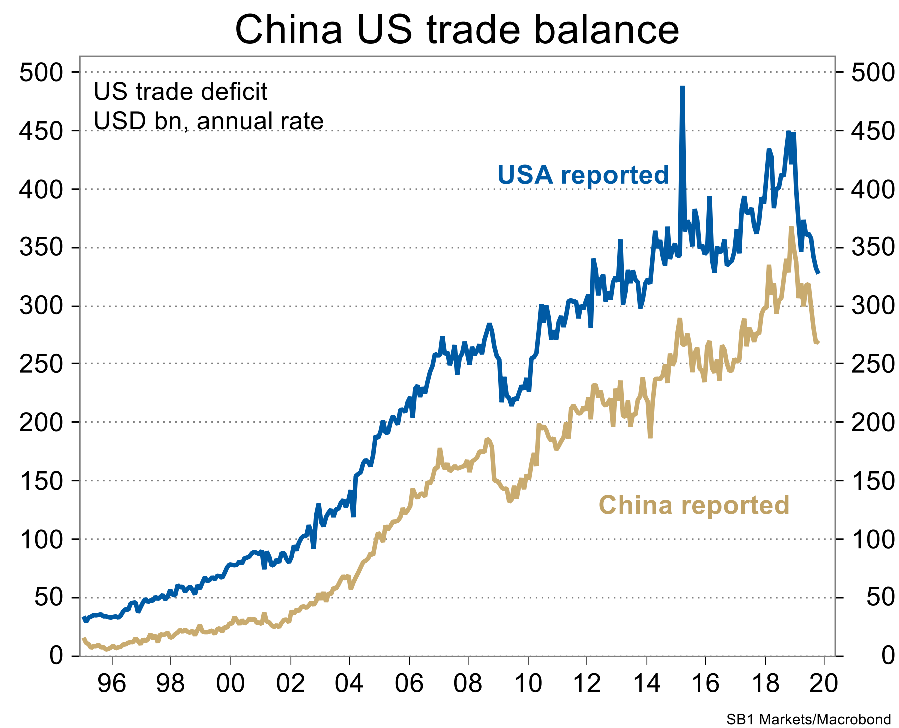


- The US deficit in goods (no services in these country stats) vs China equals close to 45% of the total deficit in goods
- The deficit vs Mexico has widened markedly the past 1 ½ year, vs EMU it trending out too
- The deficit vs Canada has widened recently, trending flat over the past years, close to balance
- The US run a surplus vs OPEC countries, +USD 1 bn surplus in October!
- The deficit in goods vs. all other countries have been widening sharply recent years

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

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

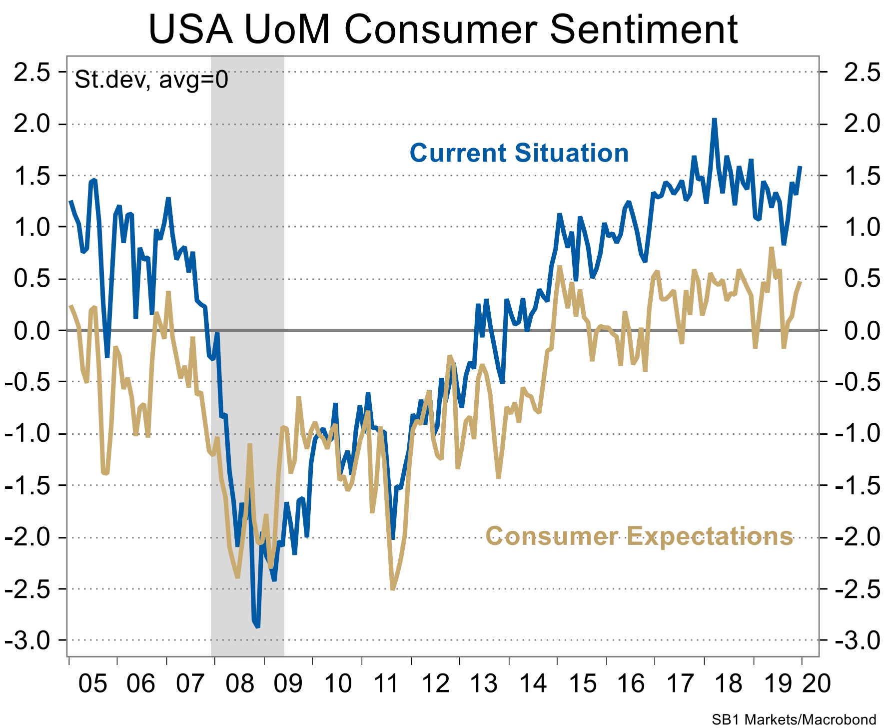


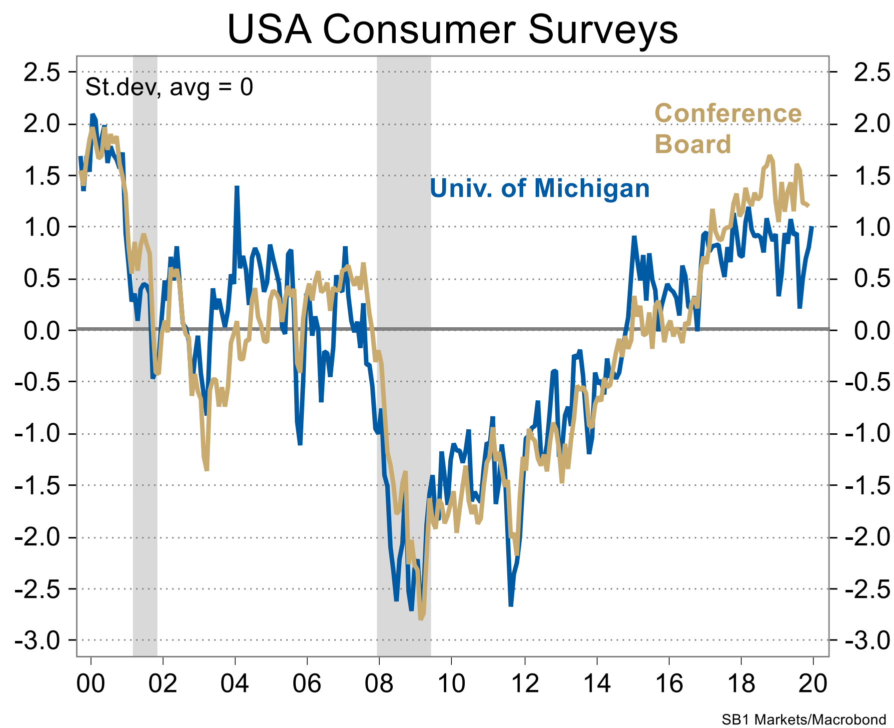


- According to US data, imports from China have fallen by 20%, and exports to China have fallen by 27% since January 2018, before the first tariffs were implemented. Measured in USD, the decline in imports from China is far larger the decline in exports – and the US deficit vs China has fallen by some USD 115 bn, to 330 bn. However, the US deficits vs. other countries have increased just as much…
- China has always reported a smaller surplus vs. US, than the US figure for deficit vs. China. The discrepancy has been stable over time and is very likely due to exports reported FOB and imports CIF included. (Their respective bilateral export/import data are also very similar, no fake news here)

Univ. of Michigan consumer sentiment further up in Dec, the setback is reversed

Both the current situation & expectations indices rose. No signal of consumer retreat, of course

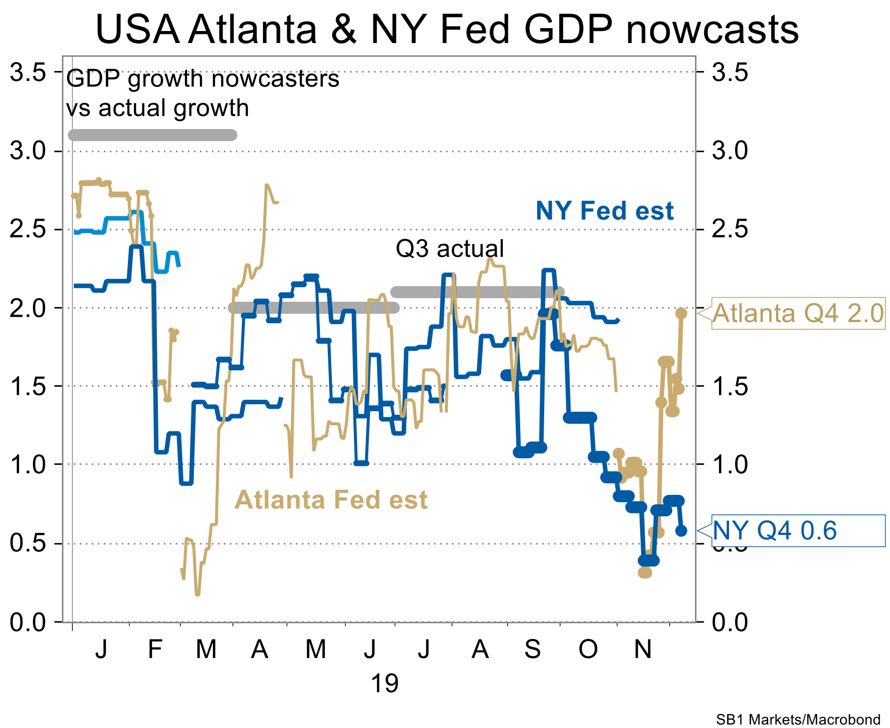


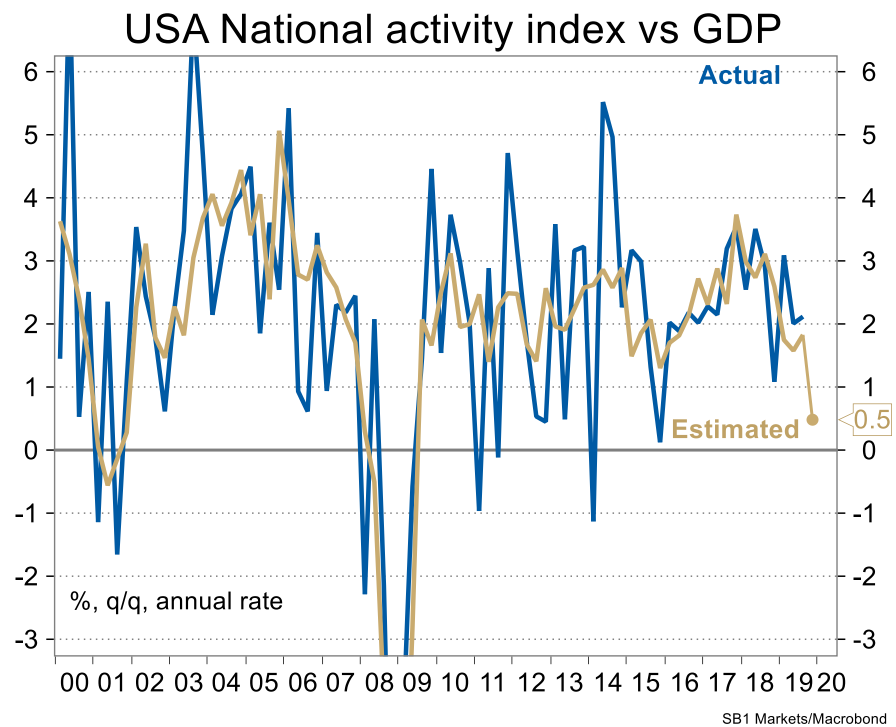


- The total index rose to 99.2 in early Dec from 95.7 in Nov, expected up to 96.5
  - » The index is some 1 st.dev above avg (and the lift in Dec equalled 0.2 st.dev)
- Univ. of Michigan's consumer sentiment is marginally weaker then Conference Board's consumer confidence index
- BTW, republican voters' expectations are far higher than among democratic voters. There is even a substantial difference in the assessment of the current situation…

One nowcaster signals 2.0% Q4 GDP growth, the other 0.6%

Atlanta Fed's Q4 estimate further up last week, to 2%. NY Fed does not agree, the est -0.2 pp to 0.6%

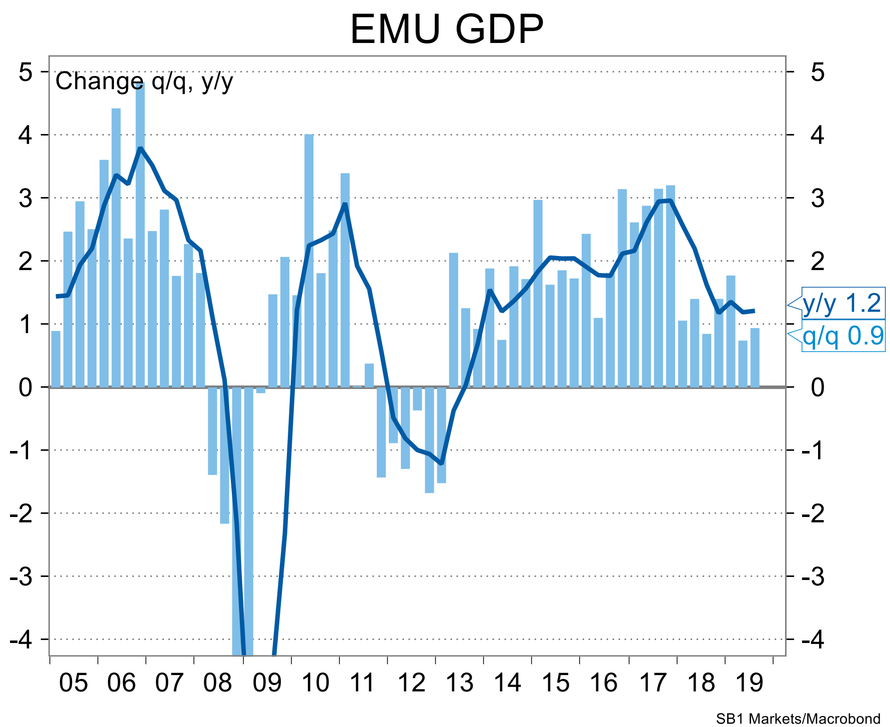


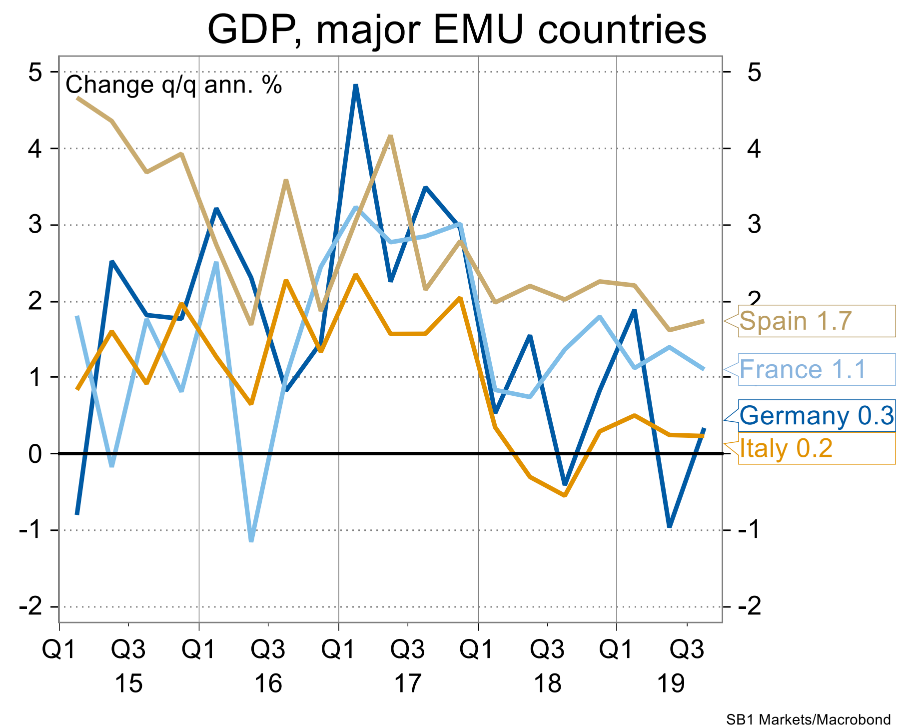


- Atlanta Fed's forecast shot up to two weeks ago, supported by strong net trade and housing data. The employment report lifted the forecast further at Friday, to 2% Q4 growth, from the previous week's 1.5%
- However, NY Fed's nowcaster estimates a 0.6% growth, down from 0.8% last week. The truth may be something in between?
- 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)

GDP growth steady at 0.9% annualized in Q3, 1.2% y/y

GDP rose 0.2% q/q, or 0.9% annualized, unchanged from the first estimate

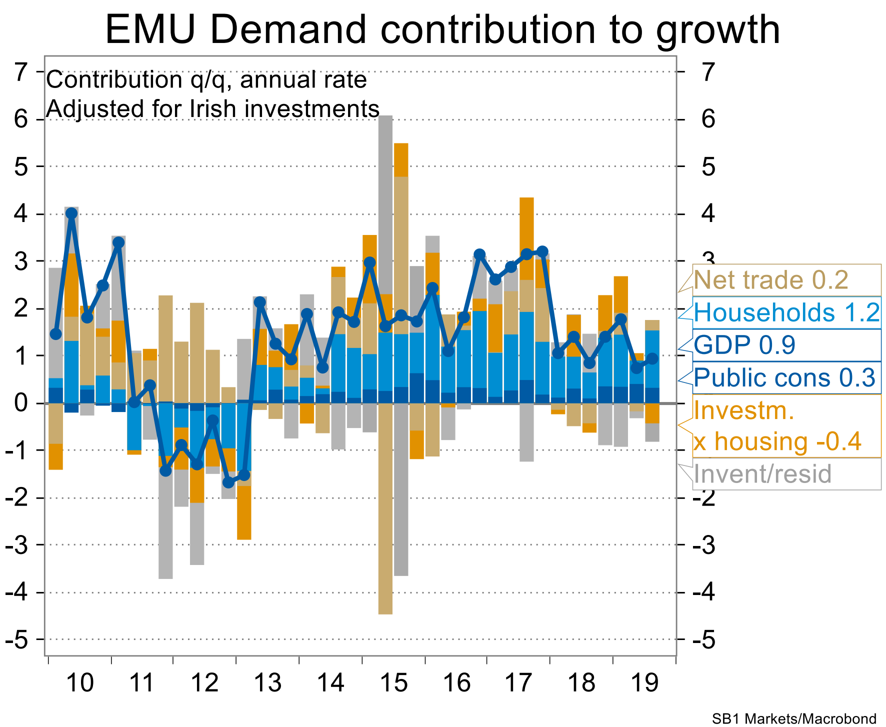


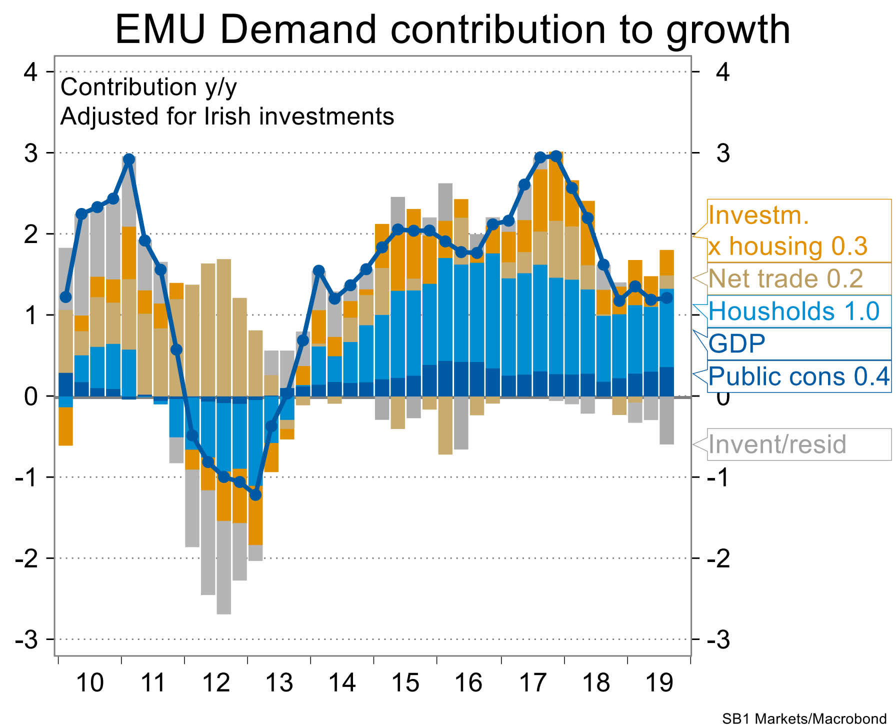


- GDP rose 0.9% q/q annualized, thus, a marginal uptick from Q2, in spite deteriorating manufacturing data
- Germany reported a mild rebound to a 0.3% q/q annualized rate. Spain accelerated marginally to 1.7%, France slowed to 1.1%. In Italy, growth remains meagre, up just 0.2% this quarter
- Household demand was the major contributor on the demand side, flip to the next slide for more details

SpareBank 1 MARKETS

Household demand supports GDP growth – investments have peaked





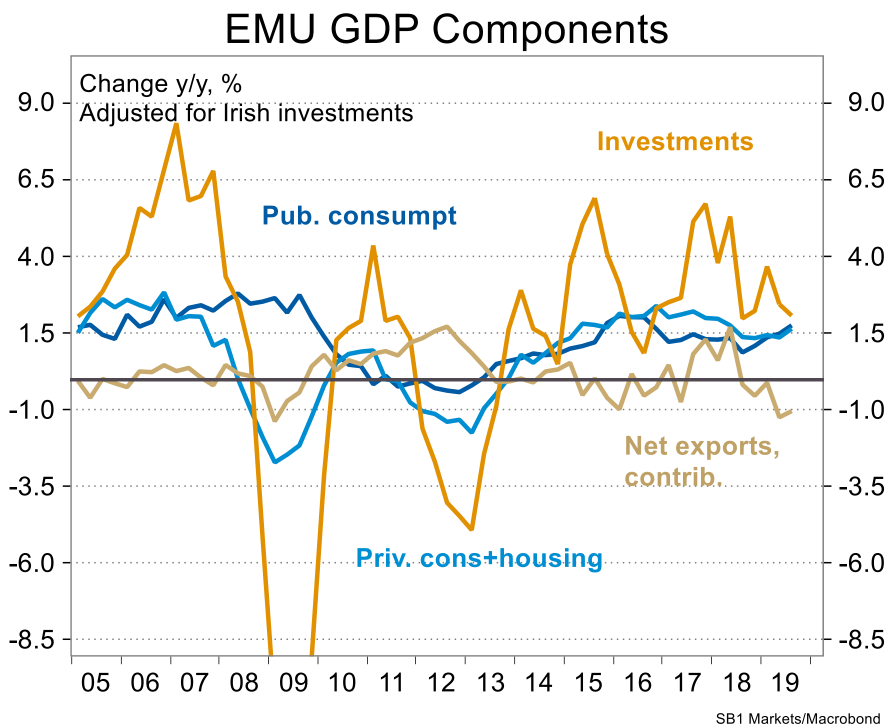
- Private consumption & housing investments lifted q/q growth by 1.2% annualised, close to the avg contribution the past 4-5 years
- Investments fell in Q3, following a small lift in Q2. Investments are still up y/y but growth has slowed
- Net trade fell slightly in Q3 and dragged growth down by 0.3 pp, after a steep decline in Q2
- Inventories have dampened growth the past 4 quarters, which is good news. At some point, inventories are small enough

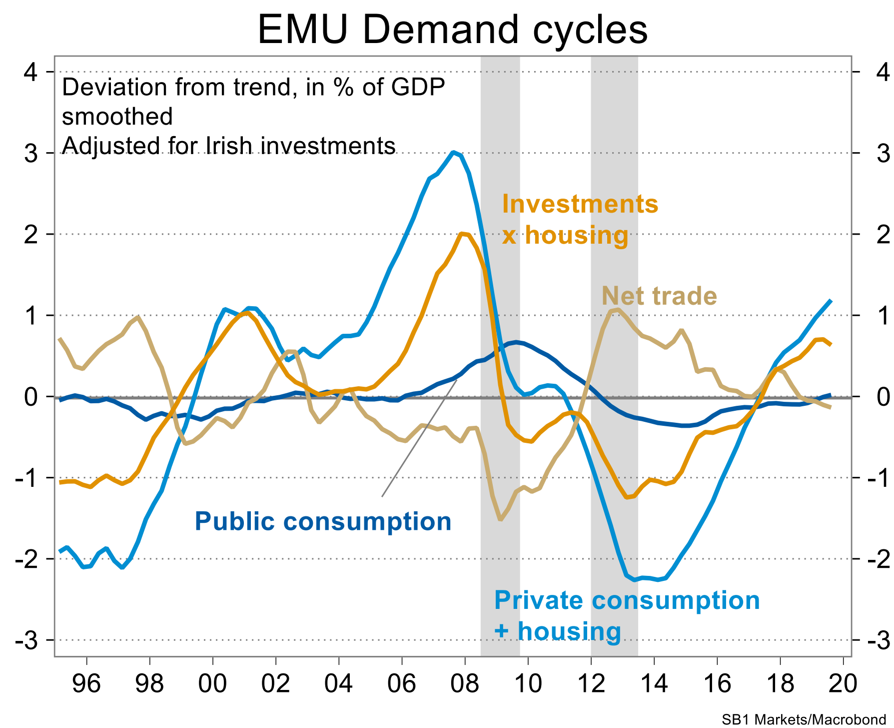
On the charts above, and on the next page we have adjusted total EMU investments and net trade data for animalities in Irish national accounts. Huge, and highly volatile imports of immaterial goods, at times just as large as GDP itself (equalling 1% og EMU GDP!), and parallel lifts in investments in such goods creates trouble for European National Accounts (!). These transactions are not 'real' activity, just due to accounting adjustments within some huge global software companies. Hence, we adjust EMU data by applying modified data, supplied by the Irish Statistical Office

SpareBank 1 MARKETS

Household demand now the only game in the Euro zone town

Investments have peaked, net trade is heading down

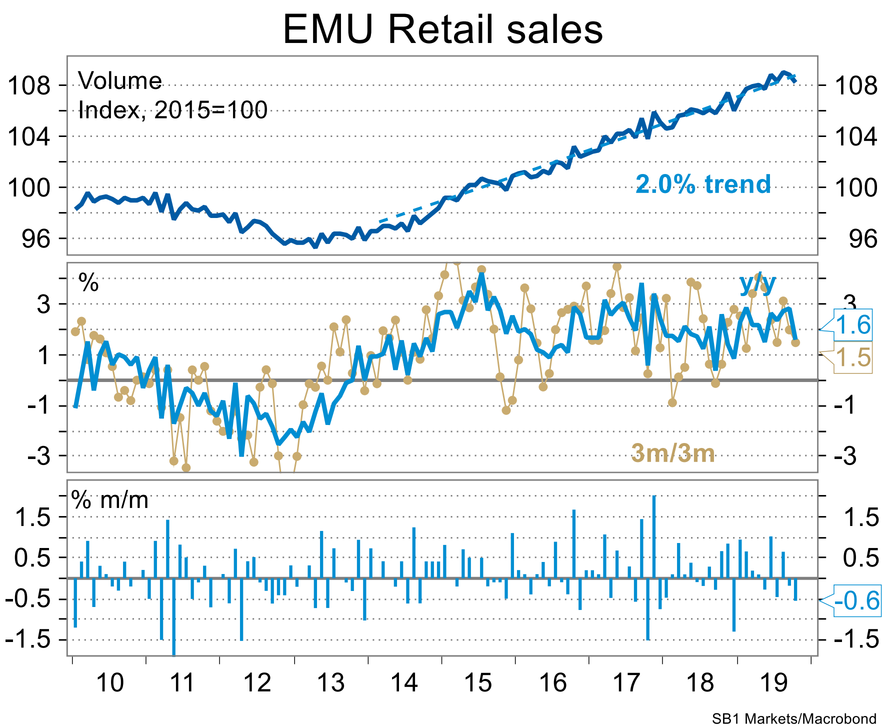


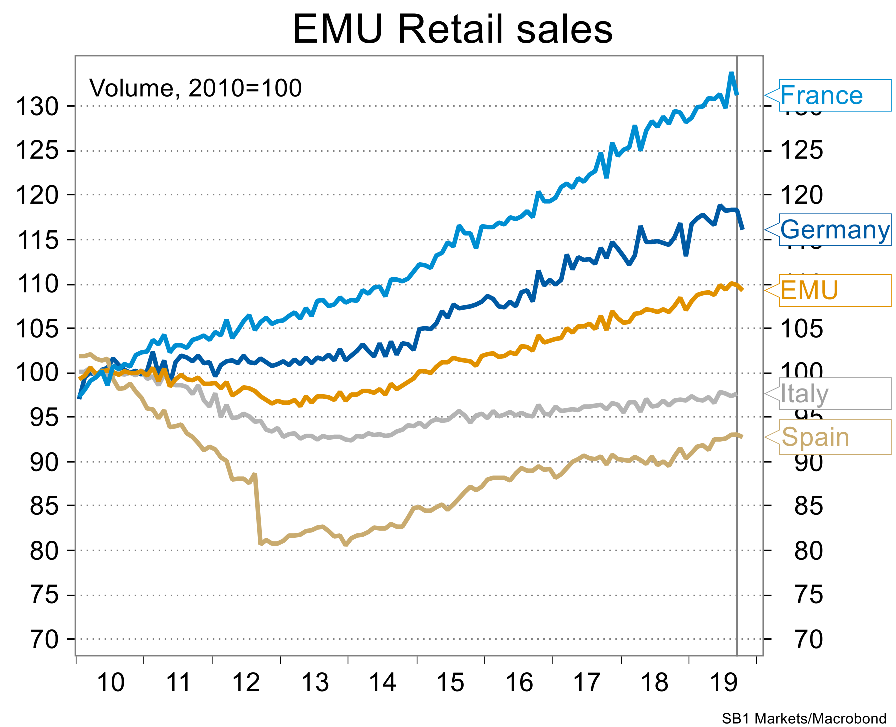


- Investments well above trend, an obvious downward risk the coming quarters

Retail sales cooled in Oct, 2% upward trend still intact

Sales fell 0.6% in Oct, weaker than expected, dragged down by a (too?) steep decline in Germany





- Retail sales volume declined by 0.6% m/m in October, expected -0.3%. This is the second month of disappointing retail data, however, the 2% growth trend since 2014 is probably still intact. Underlying growth slowed to 1.5%
  - » Germany reported a 1.9% drop in October, an unusually large decline. Such sudden dips are usually reversed, and sales were heading up until this month. Sales in France reversed the spike the prior month, trend still straight up. Spain is heading up to, and Italy, marginally?
- Our take is that retail sales will keep growing the coming months, there are not many other signs of a waning household demand now, in spite the setback in the manufacturing sector. Muted price inflation is likely to supporting consumption
  - » Regardless, the upside is limited as employment growth and thus, total wages are slowing

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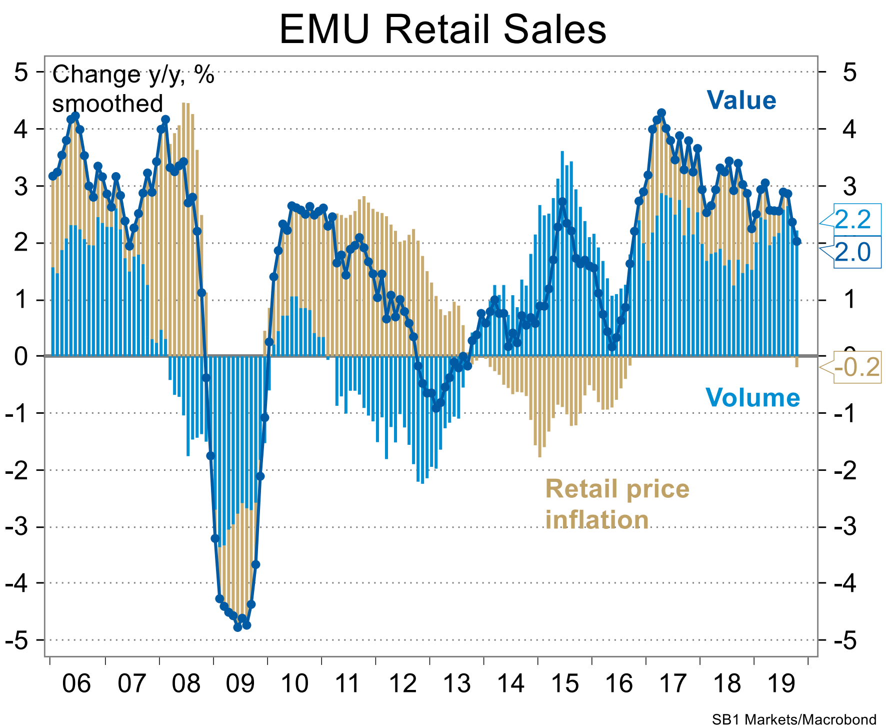
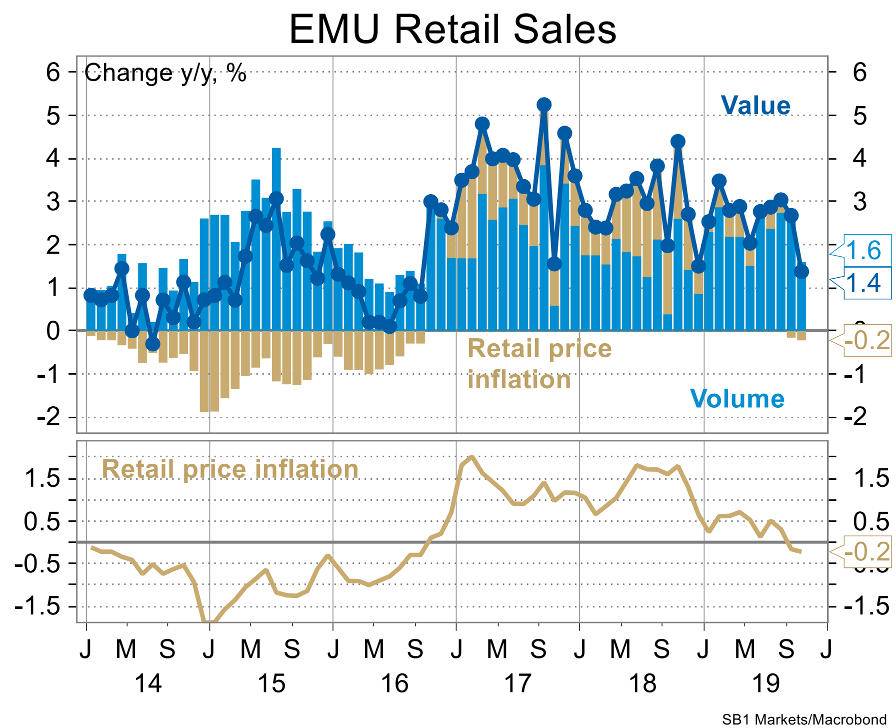
Price inflation has vanished, supporting volume growth

Retail price inflation has fallen from almost 2% to -0.2% now



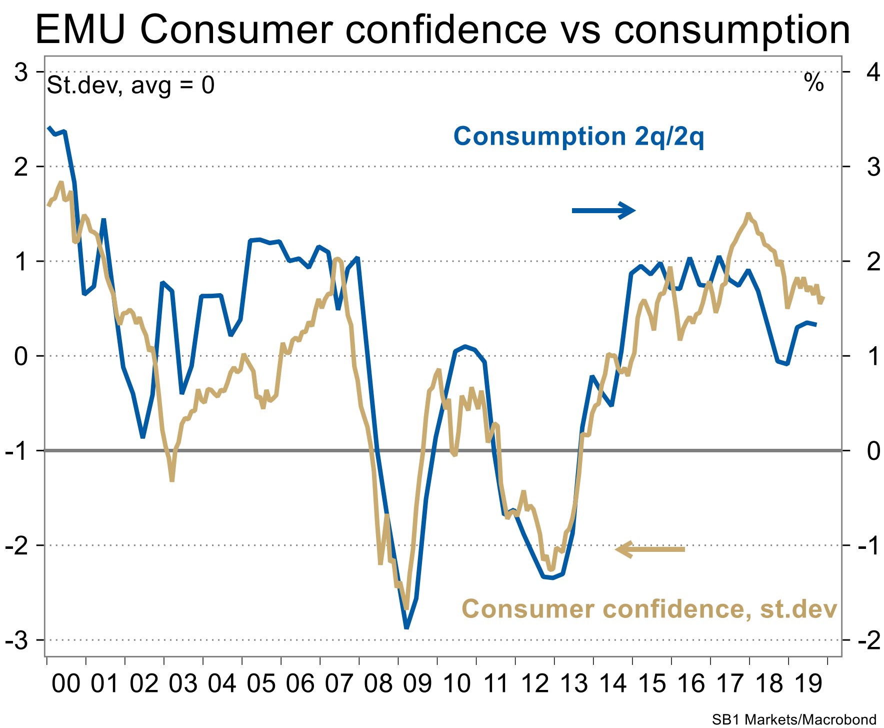


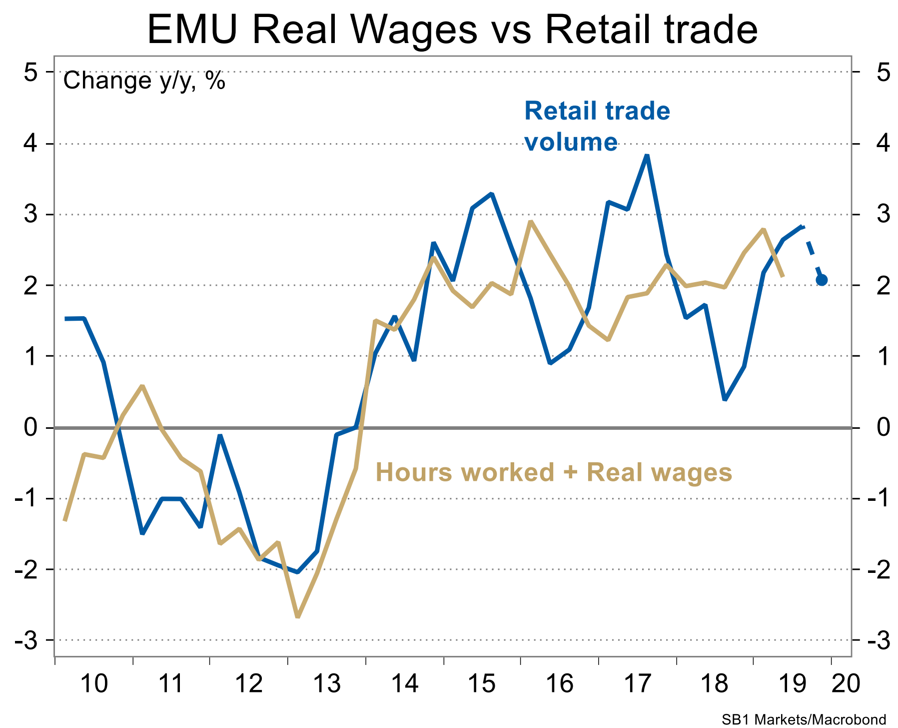
- Total inflation has been subsiding too, due to lower energy prices, thus, supporting growth in purchasing power. Now, total inflation may have bottomed out, it rose to 1% in November

SpareBank 1 MARKETS

Consumer confidence, income do not signal a consumption pullback

However, the upside is probably limited, total disposable income is not accelerating

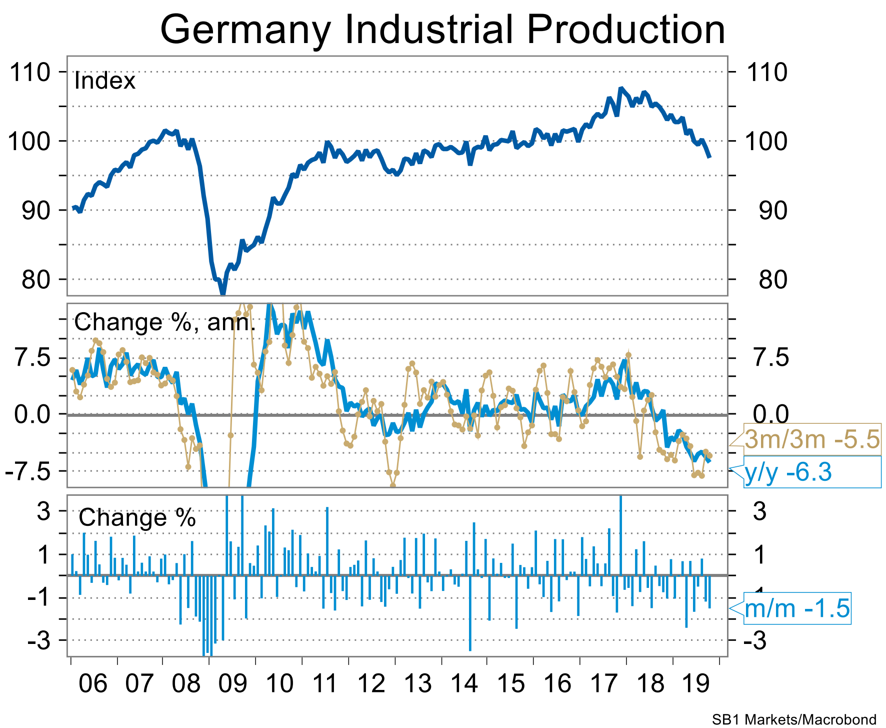


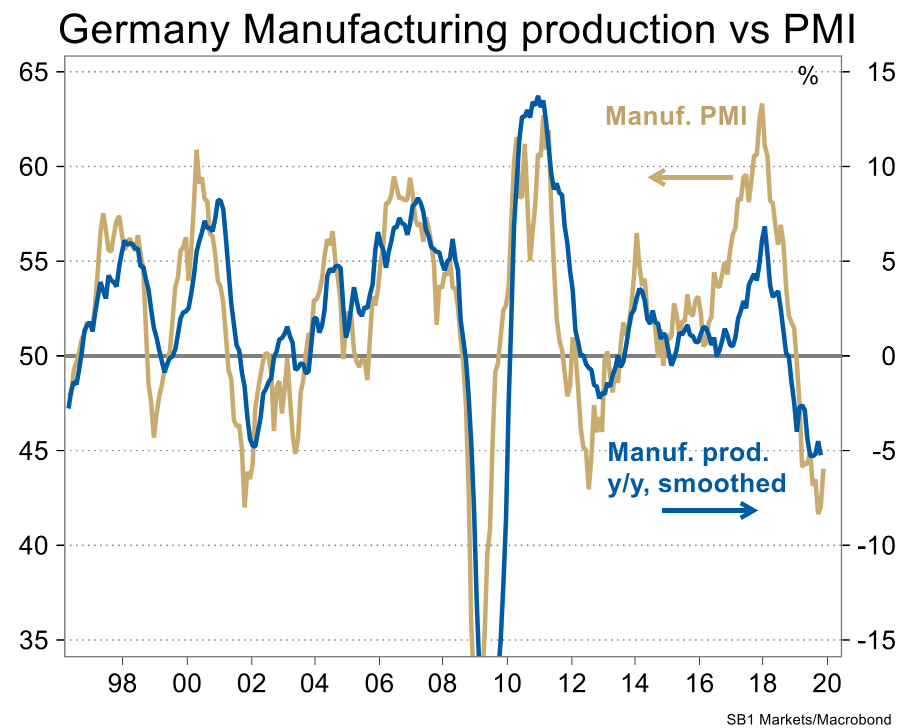


- Consumer confidence have been sliding just very slowly down recent months, at a high level
- Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed than sales

The manufacturing contraction continues

Production slipped 1.5% in October and is down 6.3% y/y, no signs of any recovery

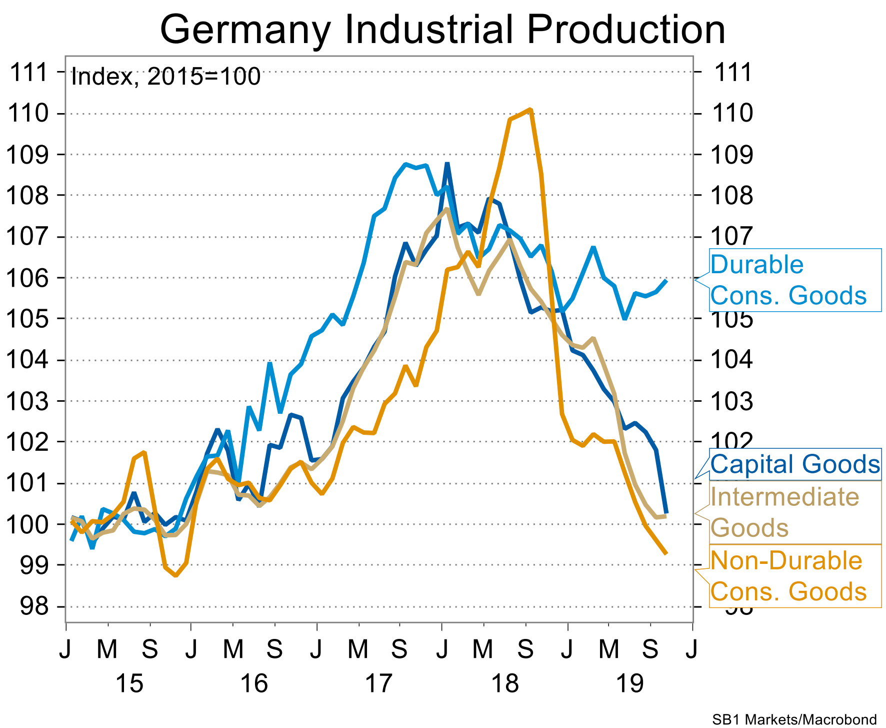


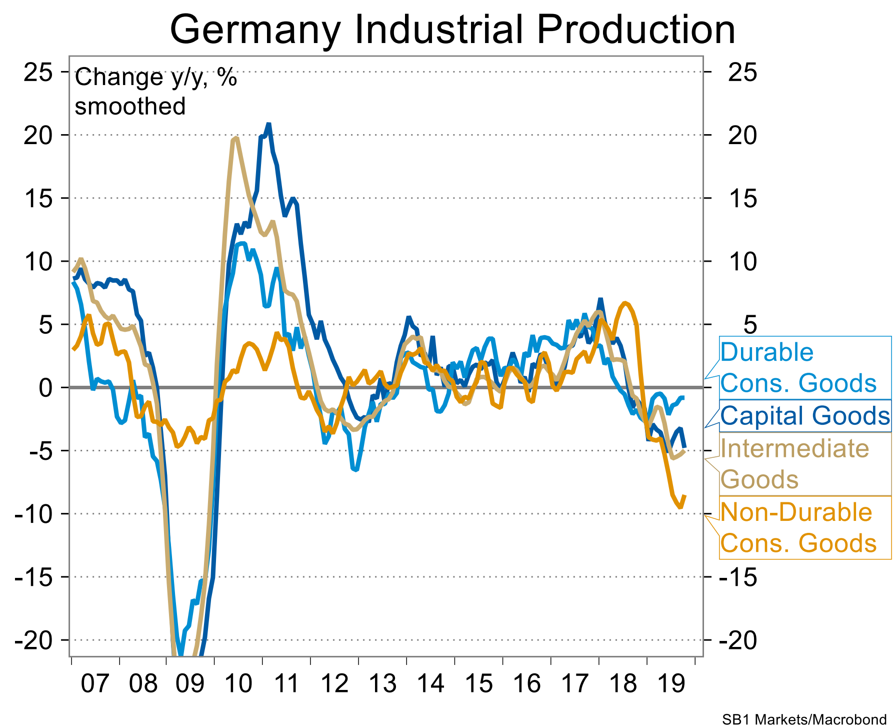


- Industrial (as manufacturing) production has been contracting since last summer, speed of decline now 6.3% y/y. Production fell 1.5% m/m in October, a modest increase was expected
  - » Trouble in the auto industries just partly to blame, production drops in several sectors, check the next slide. The trade war and Brexit uncertainties are most likely dampening demand, too, and slowing domestic demand due to a mature manufacturing cycle?
- Production in other EMU countries stagnates, not many countries have reported October data yet. The ones published this far (Germany, Spain, Ireland) suggests some 0.8% decline in total EMU production
- Some hope? PMIs and manufacturing orders are showing signs of recovery, check this slide for the PMIs and orders here

Just durable consumer goods are holding up, others fall steeply

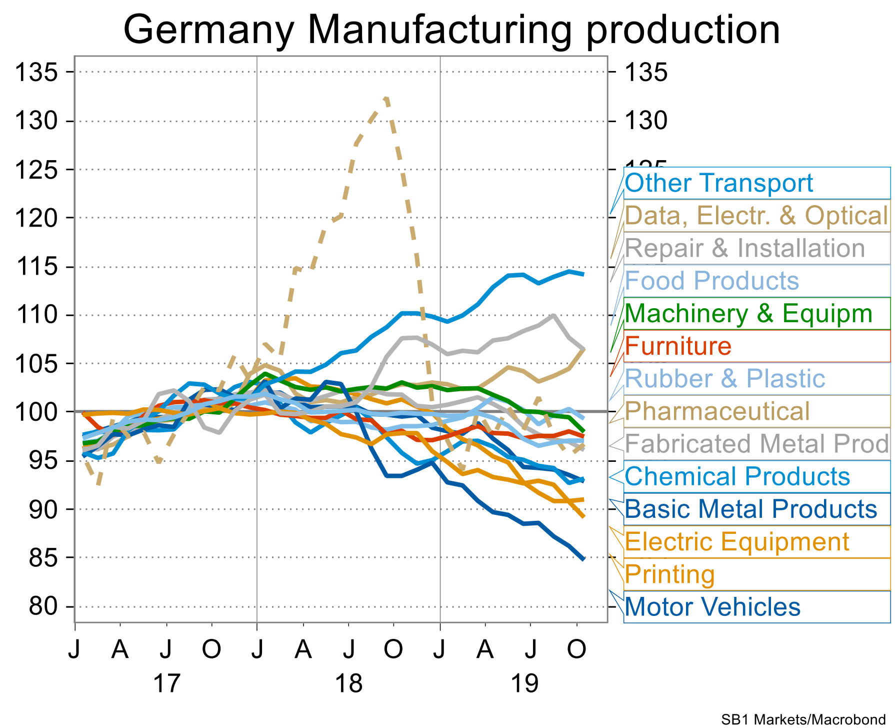
.. The auto sector alone cannot be blamed for the downswing, other sectors are struggling too

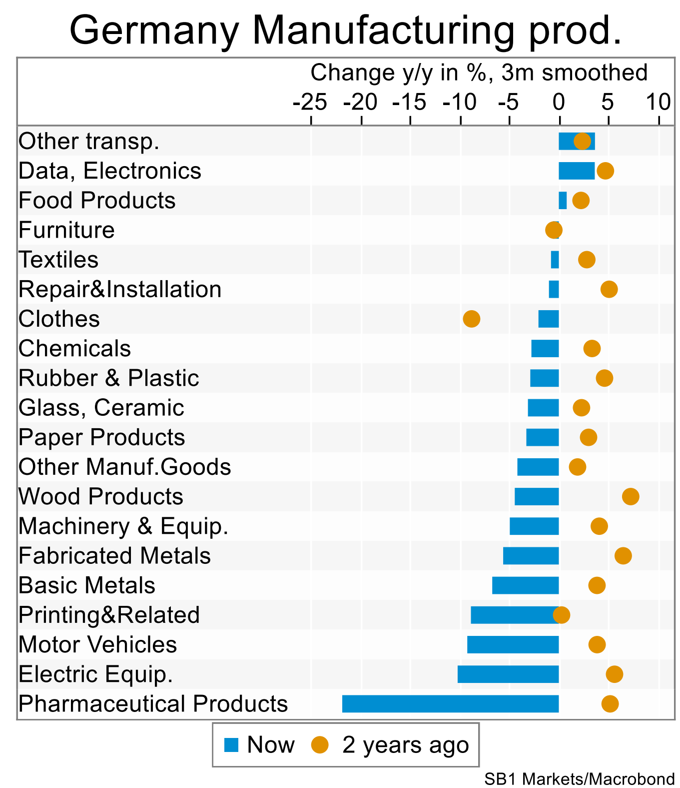




It's more than cars; A broad based manufacturing setback

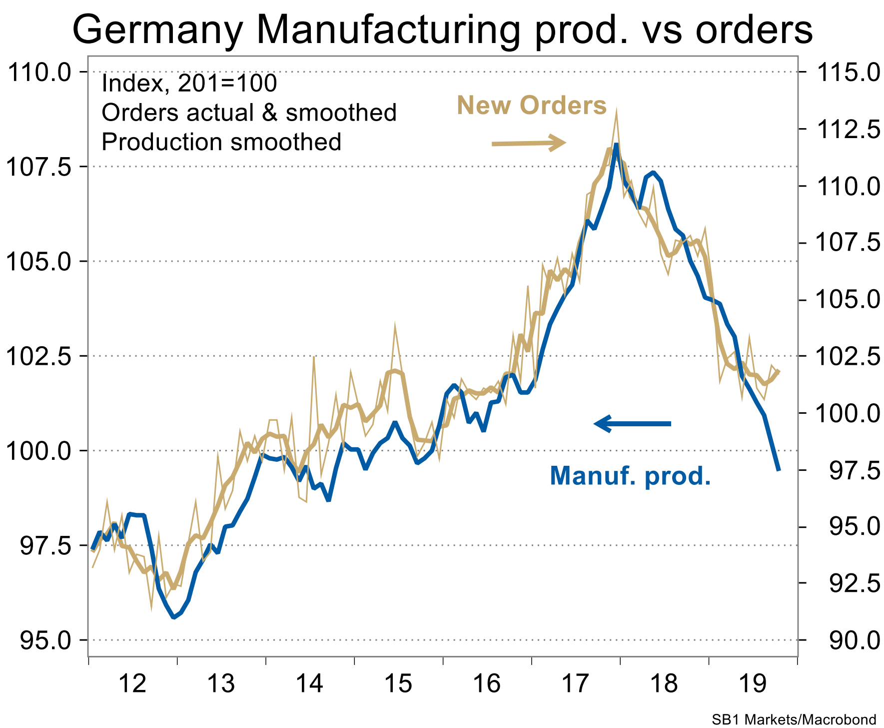
Almost all sectors are cutting production, just data & transport x vehicles up

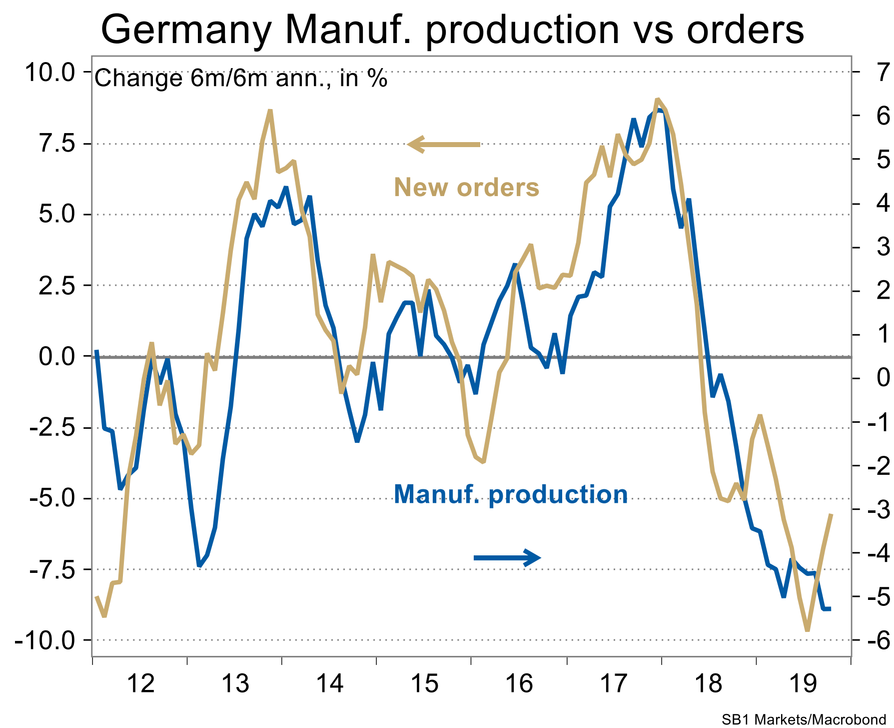




Manufacturing orders may have bottomed out, offering some hope

Somewhat better order inflow the two past months, the first sign of a bottom??

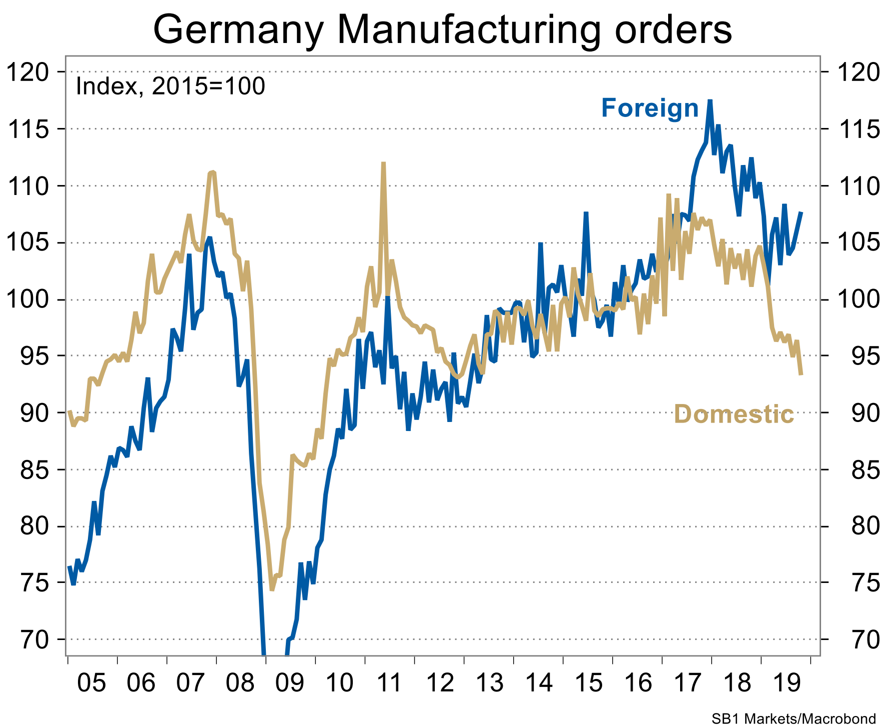


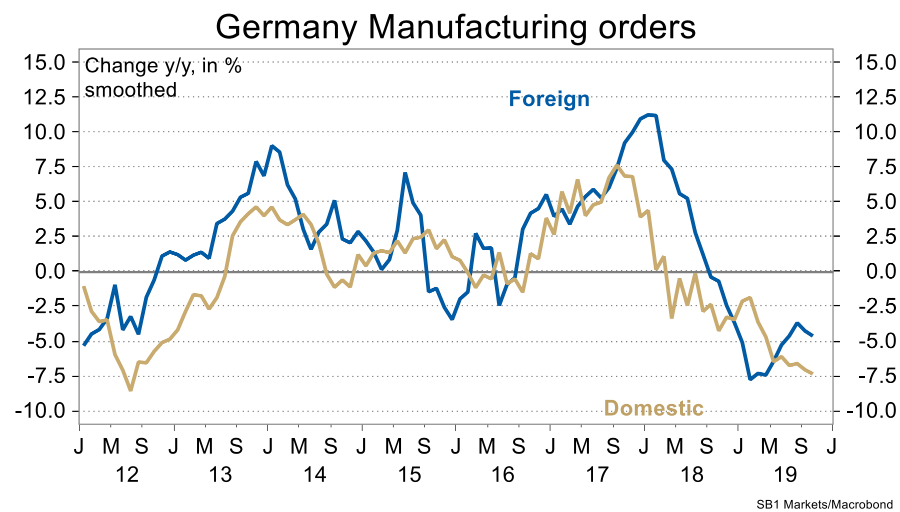


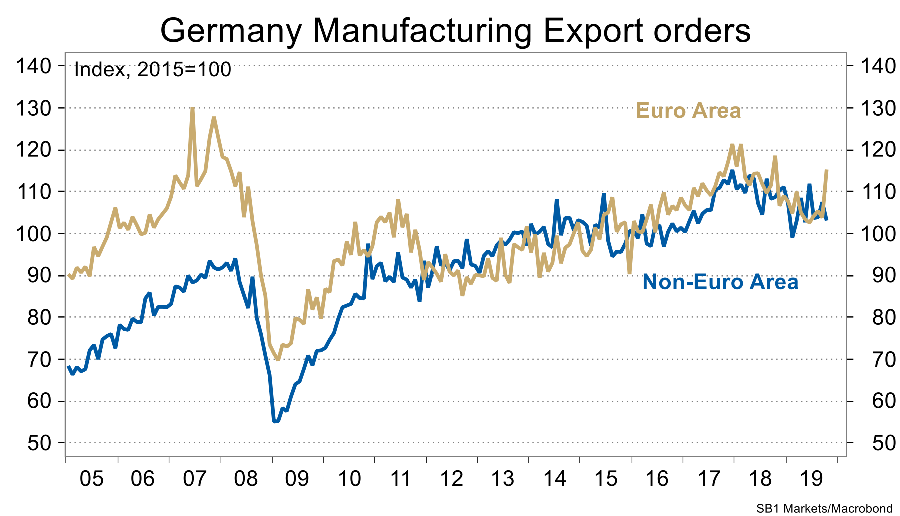
- Total manufacturing orders fell by 0.4% m/m in October, after an upturn in Sept. Orders have been declining rapidly the past year, along with production. Now, orders may be recovering softly. Underlying growth, measured 3m/3m, is down just 0.9% annualized, from a 16% decline in the spring. The decline is easing measured 6m/6m too, check the chart above
- If orders do not fall back again, production will very likely soon stabilise too
- The increase recent months is driven by stronger export demand, while domestic orders are falling steeply, check next slide

Domestic orders are dropping, foreign orders are recovering?

Orders from within Germany are still falling steeply, while export orders have improved recently



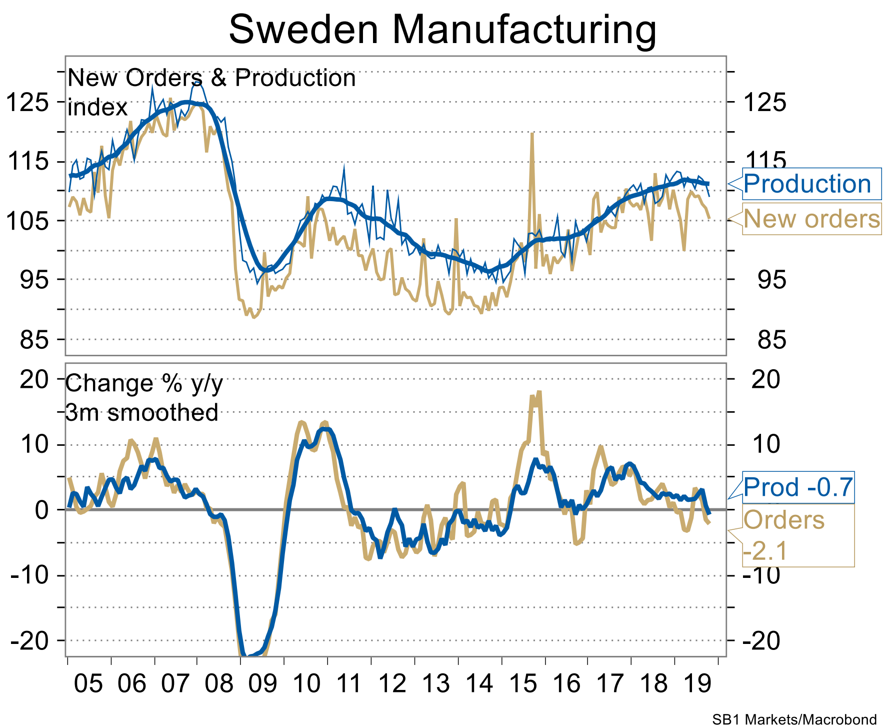


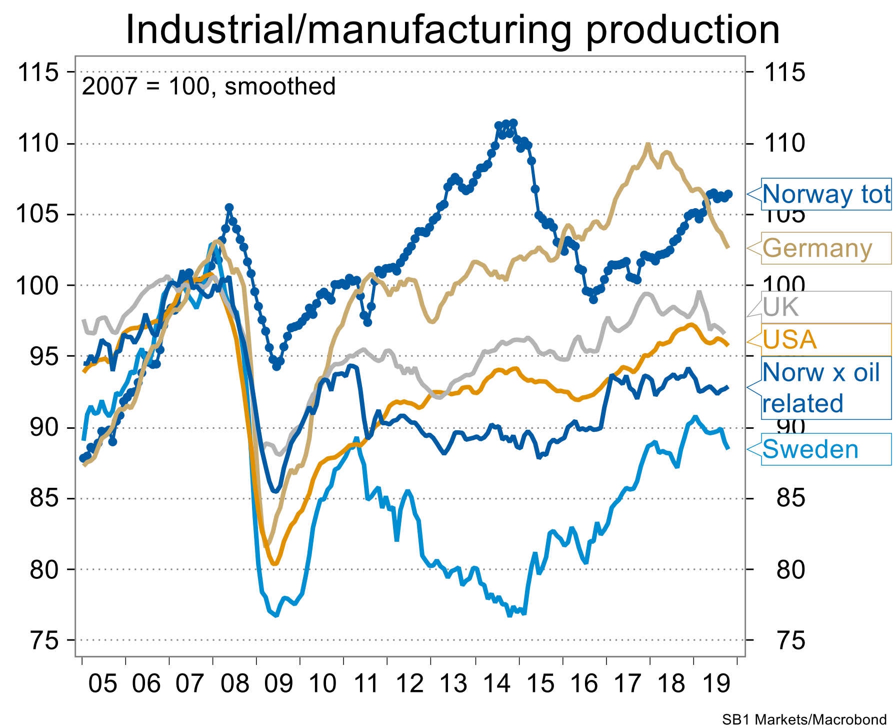


- Soft domestic demand is a reflection of both a mature German growth cycle, challenging adjustments to new auto emission standards and also impacts from uncertainties regarding the future global trade regime
- Export orders from within EU are turning up, orders from other countries have been flat the past months

Manufacturing production and orders (probably) have peaked

Production slipped 1.9% m/m in Oct and orders down 1.7%, both are declining y/y

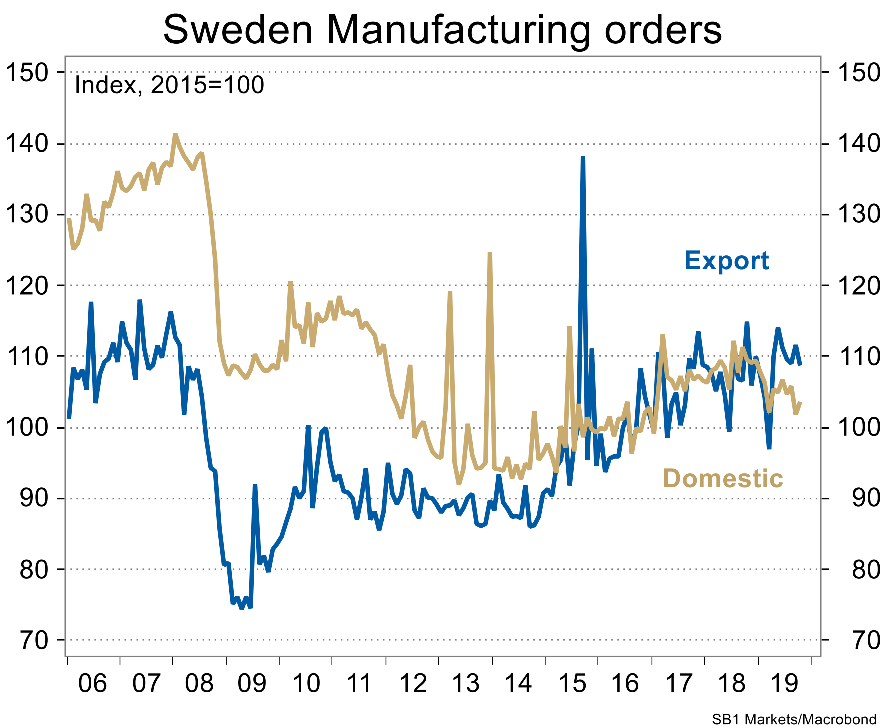


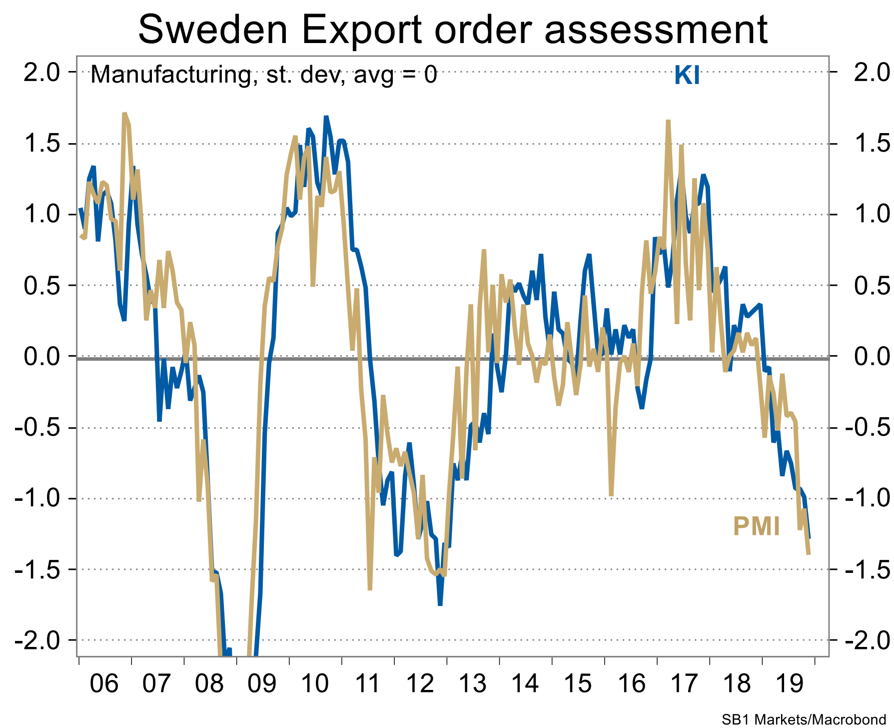


- Swedish manufacturing production is down 0.7% y/y, after adding a 3m smoothing (without any smoothing, production fell 3% y/y in Oct, but these monthly data are volatile)
- Manuf. orders are down some 2.1% y/y. The weakness is mostly due to weaker domestic orders, not foreign
- The manufacturing PMI at 45.4 signals a steeper contraction, even as the PMI is very volatile. Downside risk!

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

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



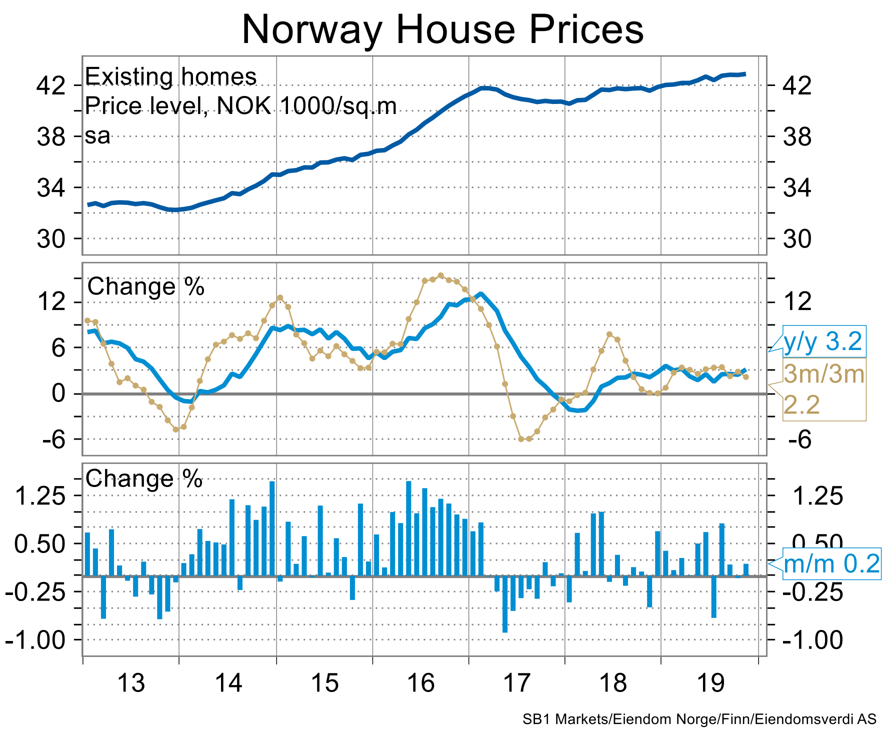


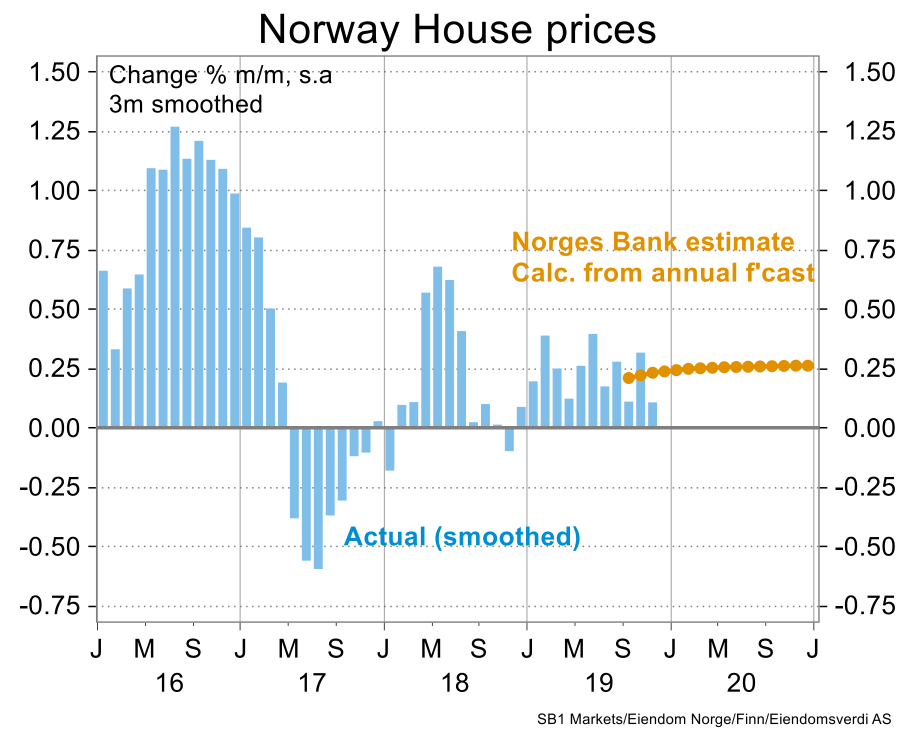
- Domestic orders are down 6% from the level last autumn, and the trend is still down
- Export orders have recovered (without any pre warning from surveys!)

SpareBank 1 MARKETS

House prices keep rising moderately, in spite interest rates and high supply

Prices rose 0.2% m/m in Nov, underlying growth has slowed marginally. Demand must be strong

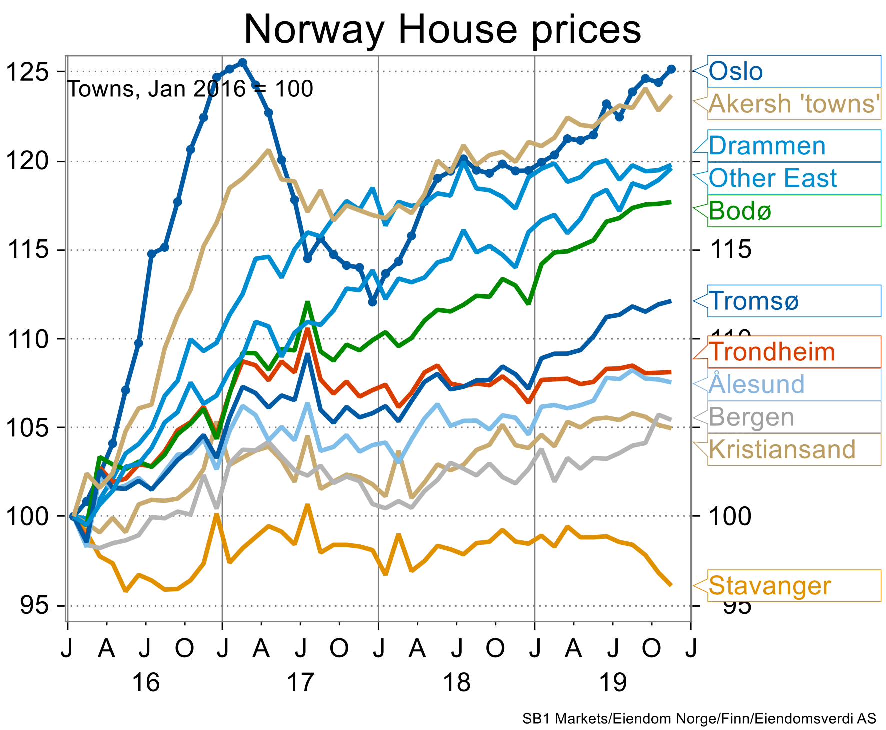


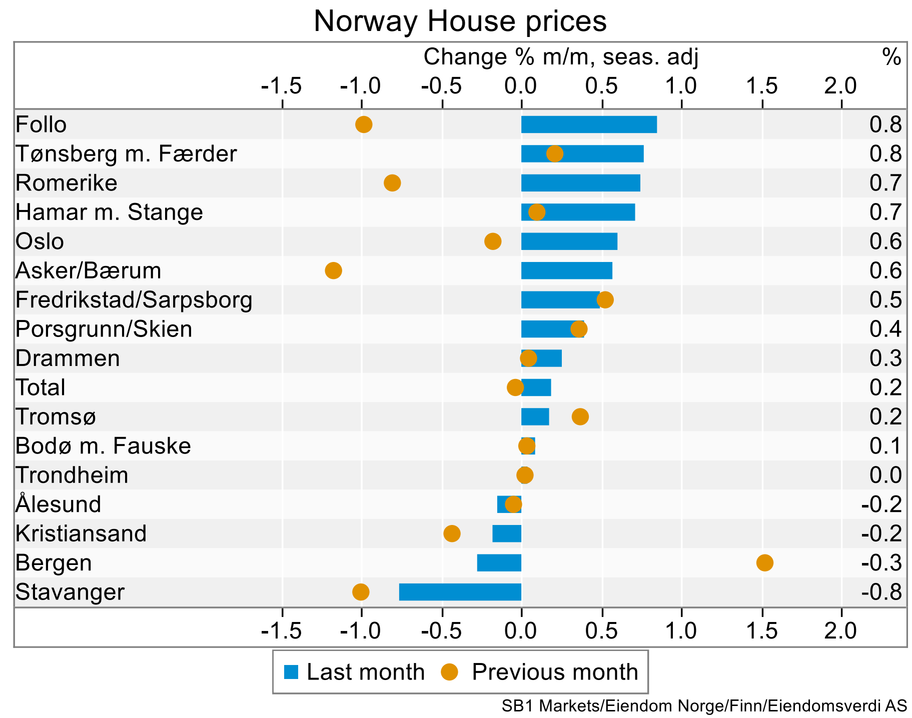


- **House prices** rose 0.2% m/m (seas. adj), as we expected. Prices fell 0.8% not s.a. Growth has been modest the past 3 months, the 3m avg cooled to 0.1%. Underlying growth has slowed a tad to 2.2% while the annual rate rose to 3.2%
  - Price inflation is marginally lower than Norges Bank's expected growth pace (implied, from annual f'cast)
  - Prices are still climbing in most regions, Oslo and Bergen in the lead. In Stavanger, prices are falling steeply, and flattening out in Trondheim, Ålesund, Kristiansand
- **The number of unsold homes** is high but has fallen marginally recent months. The elevated inventory is not due to lack of demand but of a high number of new listings of existing homes (which has now flattened out). The number of transactions has flattened at a high level
- **Short term dynamics signal a price acceleration the coming months, yet, the risks are tilted to the downside**

Prices rose in most towns in November, just Stavanger fell substantially

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

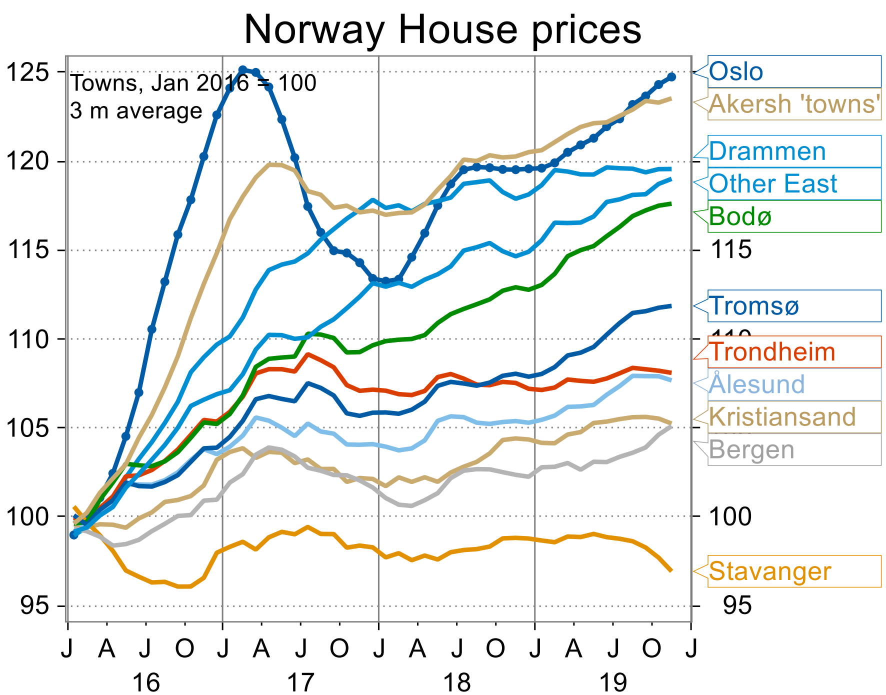




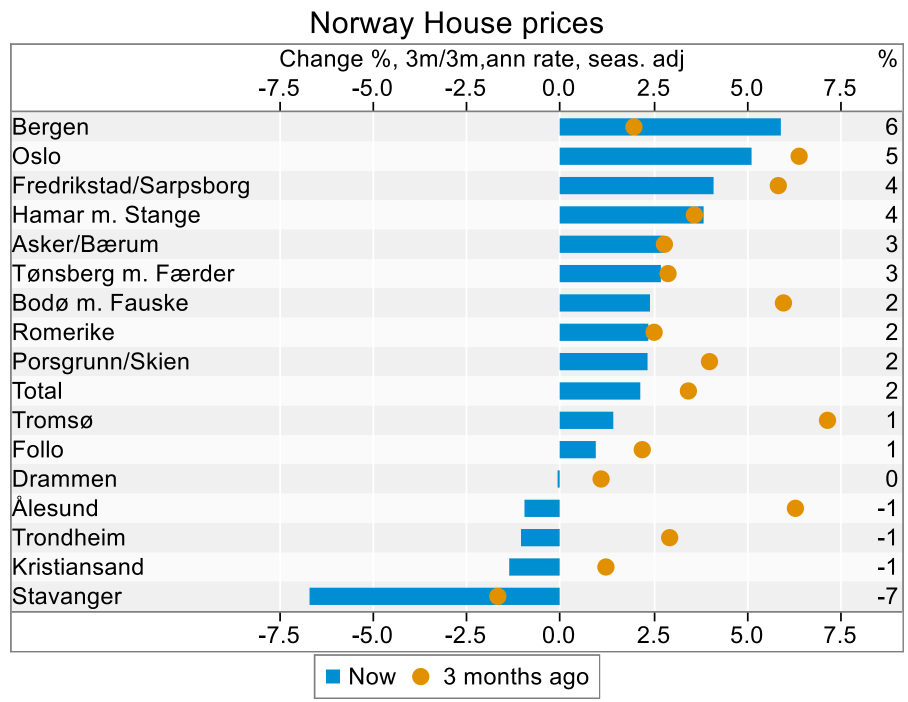
- The monthly data are too volatile, check the much more ‘relevant’ 3 month averages next page

Recent months: Prices are increasing in most cities, falling faster in Stavanger

Prices are soaring in Oslo and Bergen. In Drammen, Kr.sand, Trondheim, Ålesund, prices are flattening



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



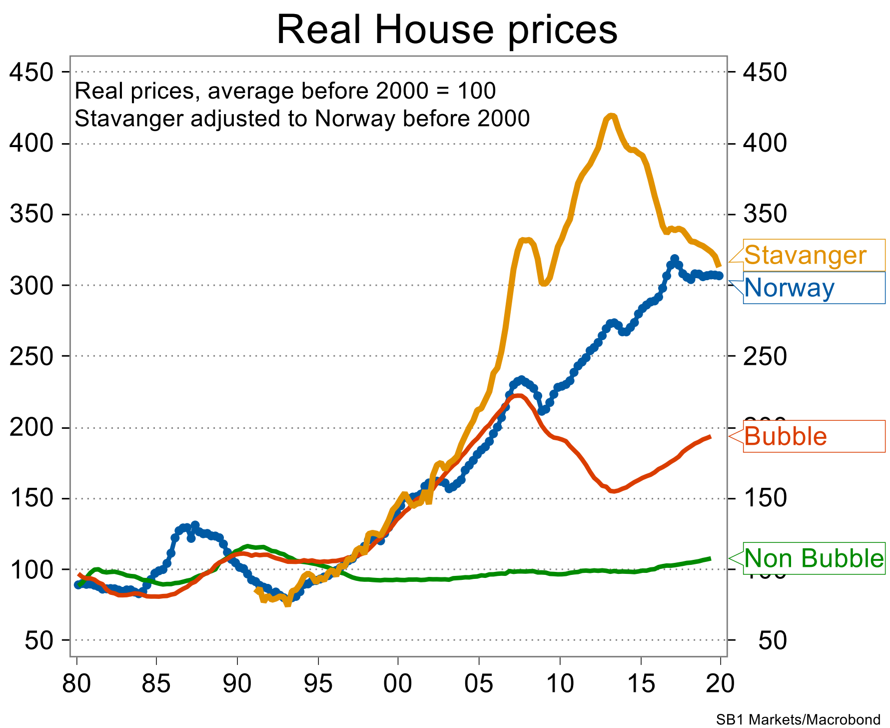
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

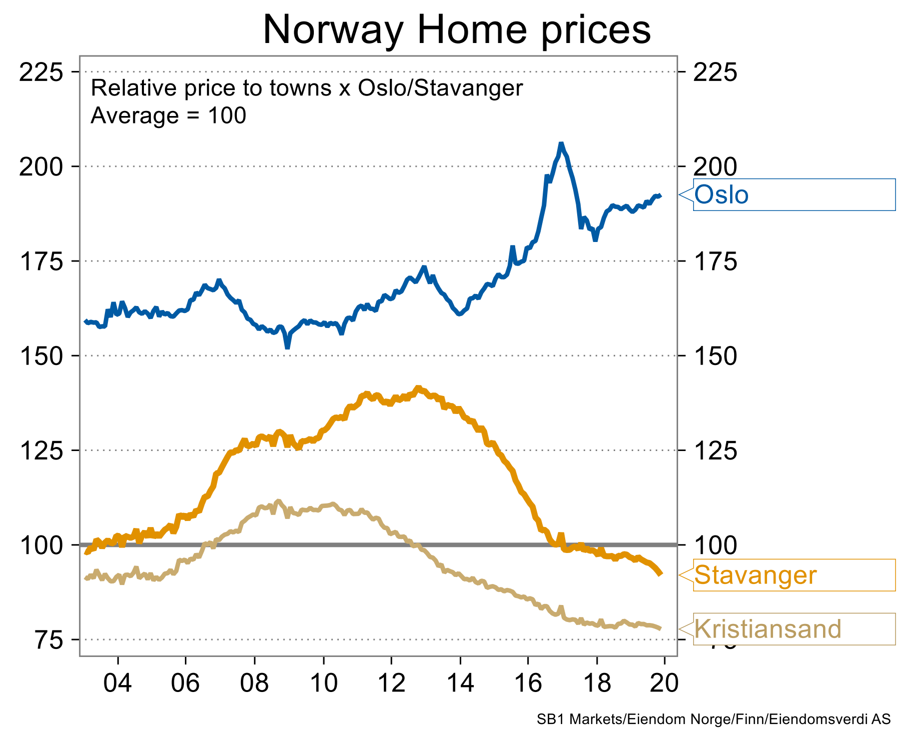
- Measured 3m/3m, prices are now rising in 11 of 16 cities. Prices in Bergen have gained pace, up 6% 3m/3m, and Oslo prices are up 5%. Kristiansand, Ålesund and Trondheim may have peaked? Prices have stalled recent months. Stavanger down 7%
  - » Compared to 3 months ago, prices are accelerating just in Bergen, slowing in 10 (but still increasing) in 7 regions, and falling in 4
- Prices in most cities are now above the local 2017 peak level
  - » Oslo prices are back at the (very high) 2017 peak. Bergen is above the peak level. Stavanger is 13% below the 2013 peak. Housing starts is reduced by some 50% since, but still many homes are built, we assume because 2.hand prices are still high enough to make building profitable

SpareBank 1 MARKETS

The Stavanger bubble has burst?

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

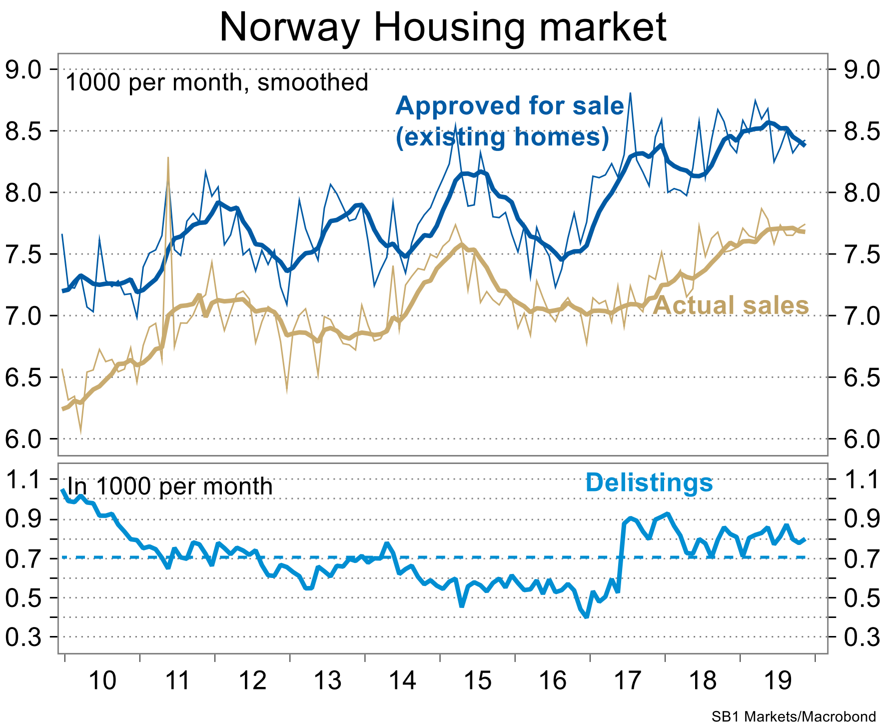


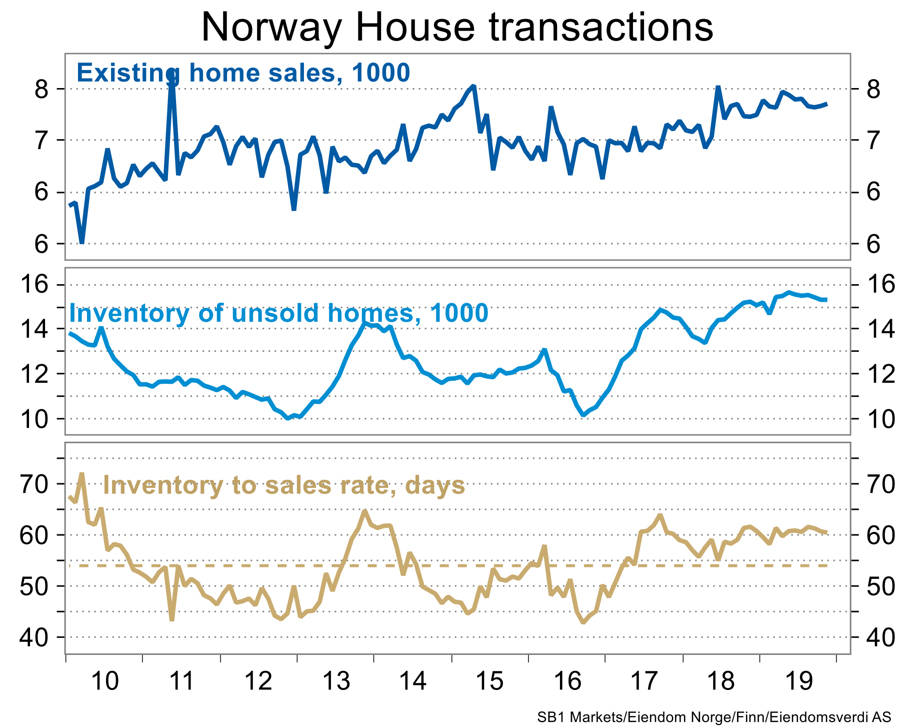


- Stavanger real prices back to the 2007-level. Prices are below the national average (prices are between level in Bodø and Hamar)
- Housing starts in Stavanger/Rogaland have fallen but are still above the past 25 years' average, indicating that prices are sufficiently high to support the market with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

The inventory has peaked but remains high

An elevated number of sales is offset by a high (but no longer increasing) number of new listings

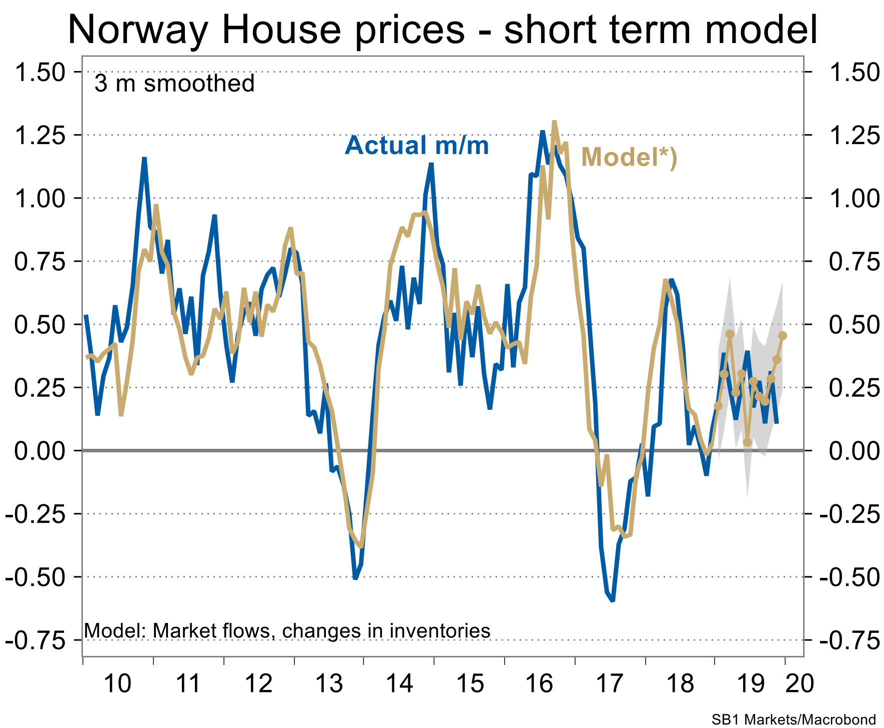


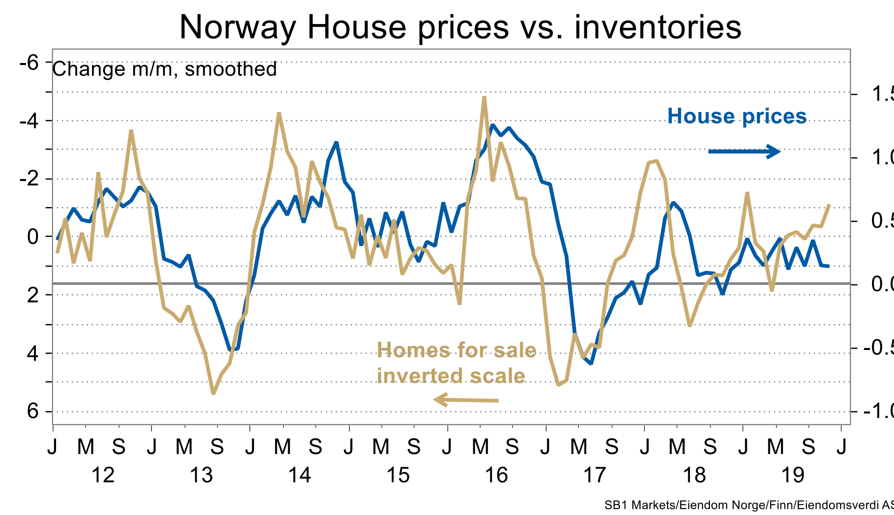


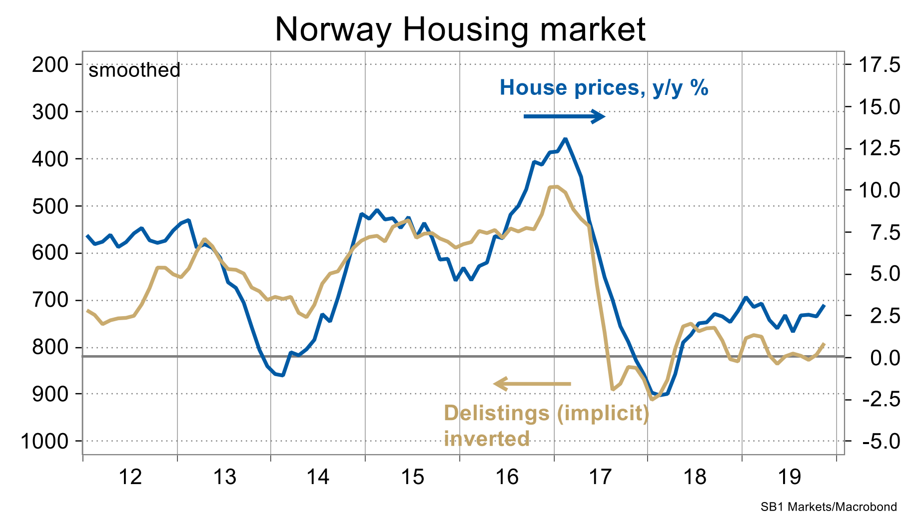
- **New listings of existing homes** have turned down from the peak in early summer. Still, the level is very high and will most likely remain elevated for some time, partly because many newly built homes are being completed
- **The number of sales** has flattened recent months, at a high level. Until some months ago, demand has not been sufficient to absorb the high supply of homes. Following a revision of our season adjustment method, **number of homes for sale (inventory)** has been revised down recent months, and it is now falling slowly, however only due to a lower inventory in Oslo.
  - » The inventory to sales ratio (turnaround) is quite high, at 60 days, vs avg at 54. The number of delistings (implicit) is somewhat higher than normal (but so are sales and inventory too)
- The flow balance on the housing market indicates somewhat higher price growth the coming months, check next page

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

The inventory has turned south, suggesting higher growth. But interest rates have been hiked…





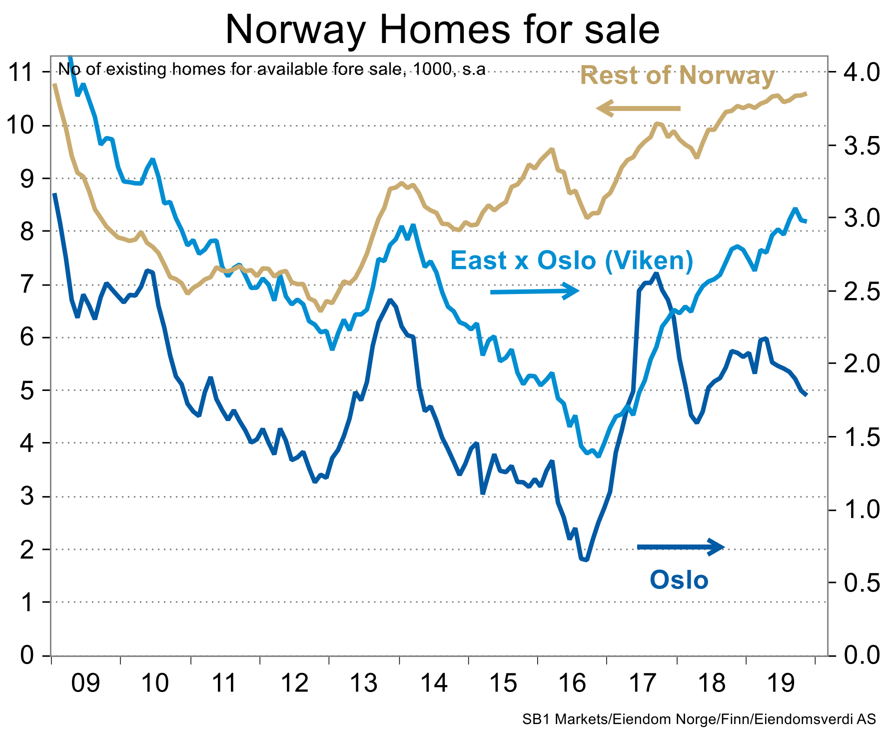


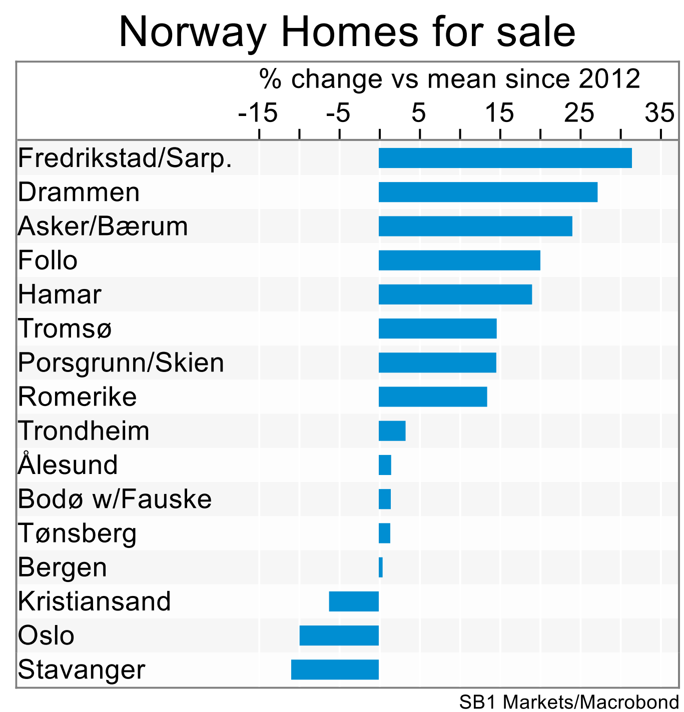
- The supply of new homes for sales and the inventory suggest some 0.4-0.5% m/m growth the coming months, higher than the recent price inflation
- On the other hand; other factors indicates lower growth; interest rates have been increased and credit growth is now slowing
- *This is <u>not</u> a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

SpareBank 1 MARKETS

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

… Expect from Oslo, in which the inventory is declining and far below the 2017 level

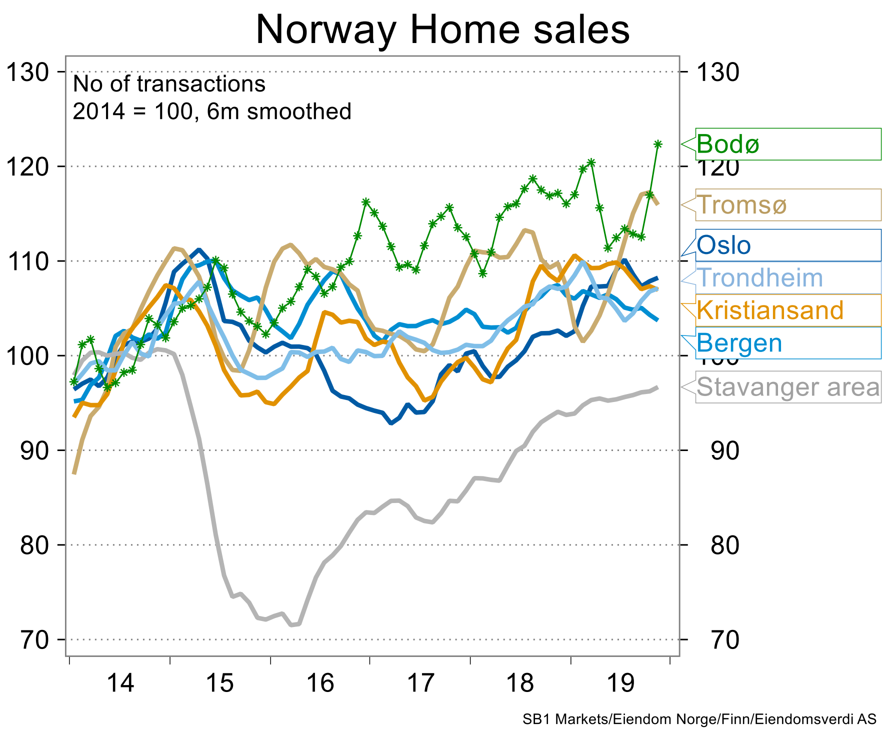


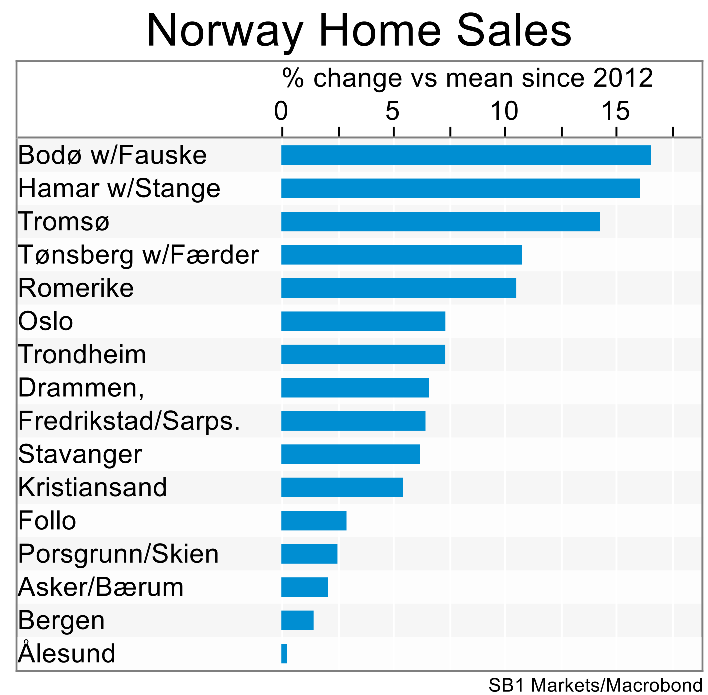


- The number of homes for sale have been increasing rapidly in most regions, except for Oslo since the spring
- Norway outside Oslo & Viken (Akershus, Buskerud, Østfold; or East x Oslo) is still reporting a larger inventory of existing homes for sale, the highest since 2009. The inventory in Viken (East x Oslo) has increased rapidly too, but has fallen marginally in Oct/Nov
- The Oslo inventory has been reduced by almost 20% since the spring but is still larger than the average since 2009 but below the avg since 2012)
- Inventories are reduced in Stavanger too, chiefly due to a lower number of new listings, not thriving demand

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

Sales are soaring in Bodø and Tromsø, trending up in Oslo, slowing in Bergen, Kristiansand

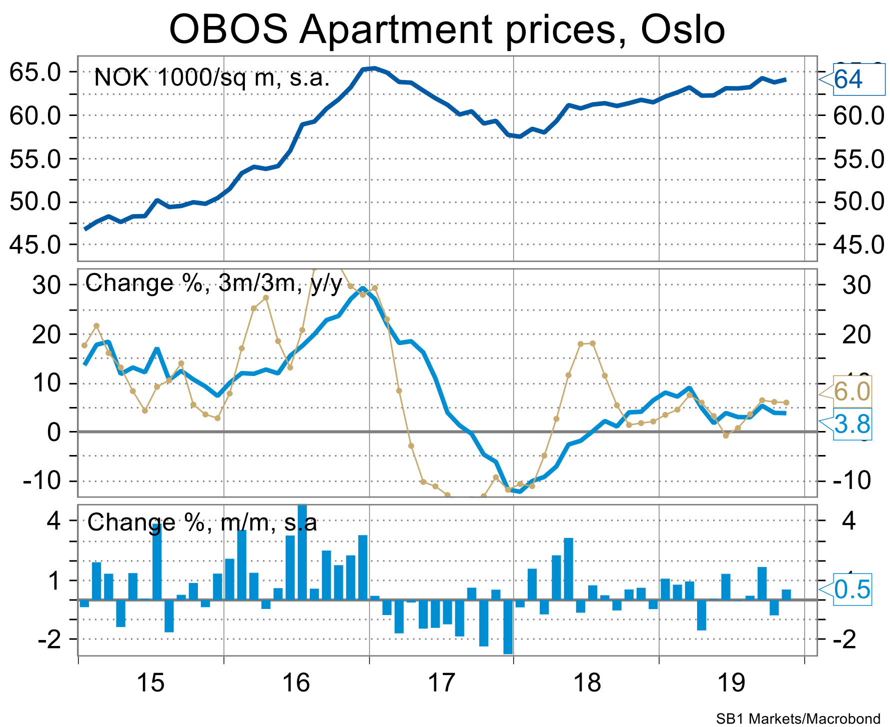


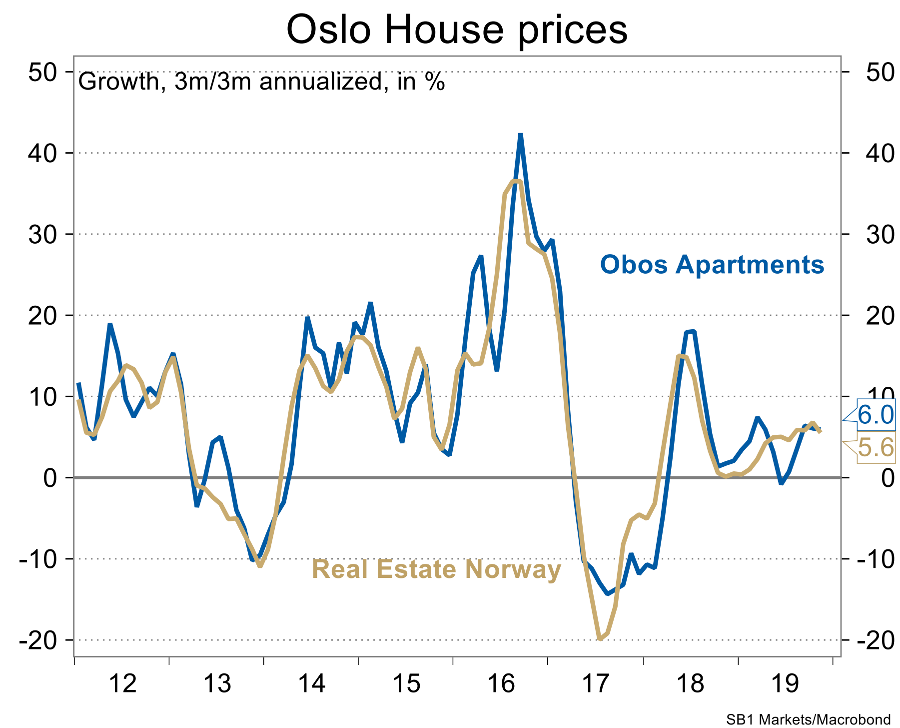


- In Tromsø and Bodø, sales are soaring and prices are increasing, no doubt due to strong demand
- Oslo demand is solid and sales are trending up, although softening somewhat since the summer
- Sales were declining in Trondheim but have picked up recent months. Bergen is slowing, we assume on supply factors, as prices are soaring. Sales are heading down in Kristiansand, too
- Sales in Stavanger are on the way up, at it is almost back to the peak level in 2013. Still, prices are falling rapidly

OBOS confirms higher Oslo prices

OBOS apartment prices rose by 0.5% m/m in Nov, vs Real Estate Norway at 0.6%

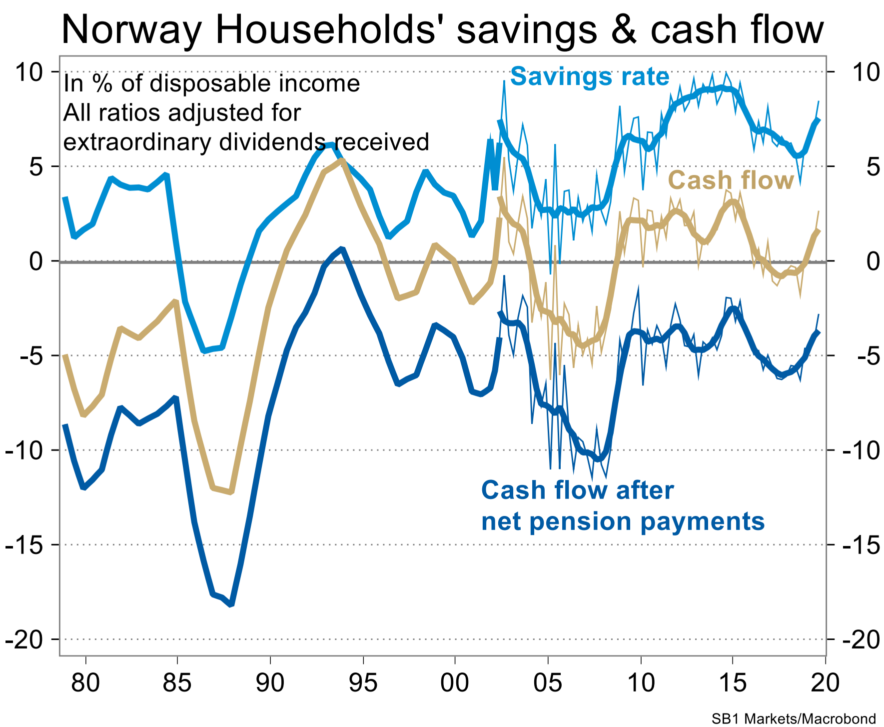


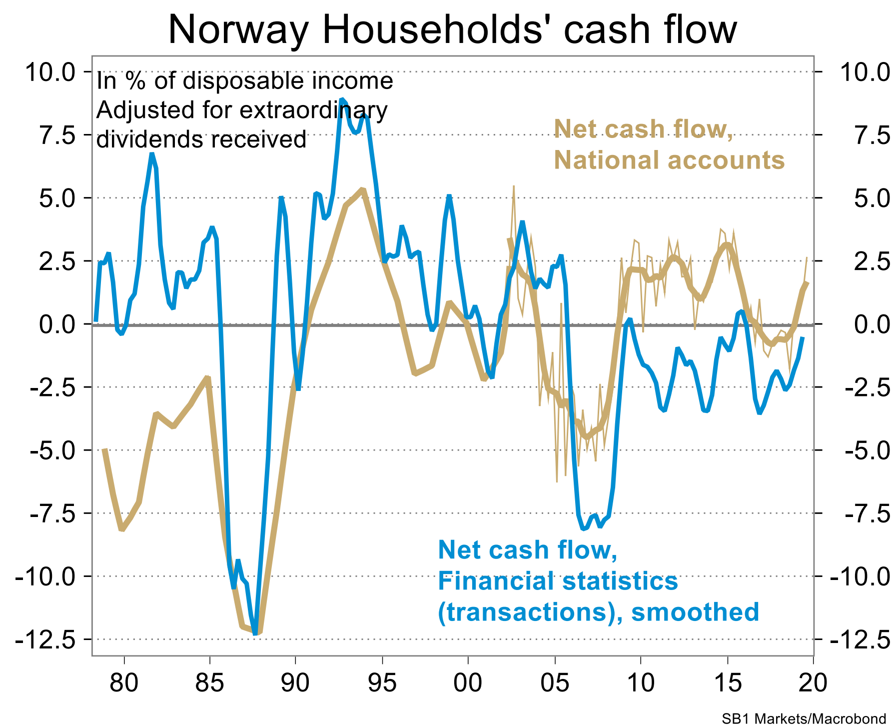


- OBOS Oslo apartment prices increased by 0.5% m/m seasonally adjusted in November, following a 0.8% decline in Oct. Prices are up 6% 3m/3m annualised, just marginally faster than Real Estate Norway, and are up 3.8% y/y
  - » Prices are still 2% below the ATH in January 2017 but have been heading steadily up the past year
- OBOS' monthly data are somewhat more volatile than Real Estate Norway, both are reporting strong growth

Households' savings are climbing, lifted by higher growth in disposable income

The cash flow has turned positive, at least when including net pension savings

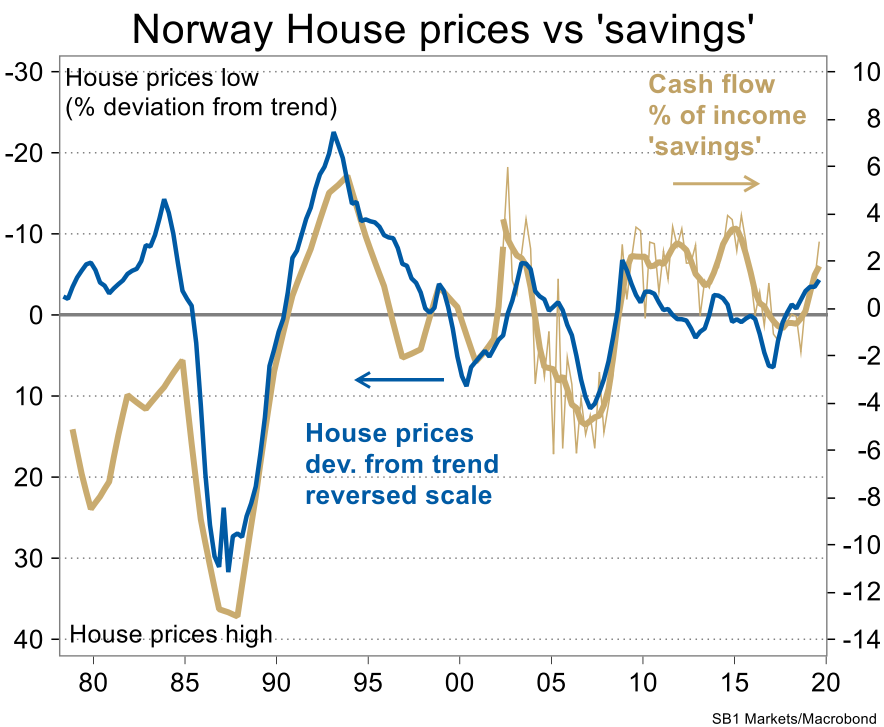




- The savings rate rose by 1.9 pp in Q3 from Q1, to 8.5% of disposable income. Both Q2, Q3 published now). Savings have turned up since late 2018, after a downturn since 2015, reversing most of the decline from 2014
  - » The savings rate fell more than 3 pp from 2015-2018, funding some 1/2 of cons. growth. Now, some 2 pp of the decline is reversed and consumption is softening
  - » Consumption rose 0.4% q/q in value terms in Q3 (1.5% annualized), while disposable income rose 1.8% q/q. Disp. income adjusted for pension savings rose 2% q/q Interest rate payments have not yet increased, somewhat surprising.
- After deducting for still high housing investments, net financial investments equals 2.7% of total disposable income, it was negative in 2017-2018. When deducting net pension savings (which are not visible or at least not available for households), the cash flow is still well into red, at -2.8%
- Financial accounts reported a negative cash flow (incl. pensions) at -0.5% of disp. income in Q2, reduced from 2.6% in mid-2018. The gap between the Financial Accounts and National accounts has been wide since 2010, as SSB has not been able to 'find' the households' money in banks, funds etc which the National accounts report they have saved. Now, the gap between the reports has closed somewhat

House prices and savings are usually correlated

Now, the housing market is soft, compared to trend, and savings are increasing

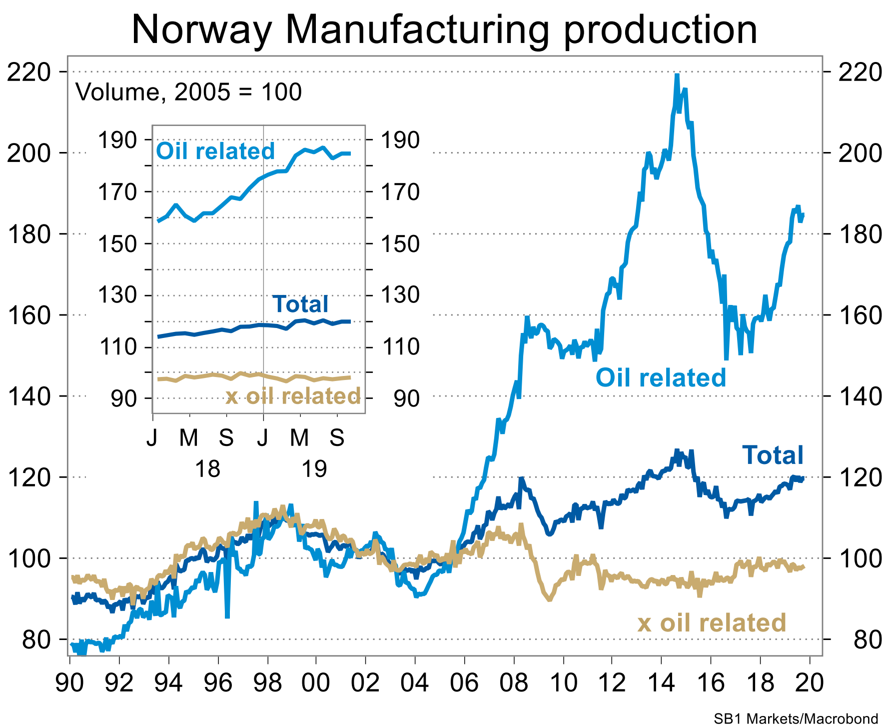


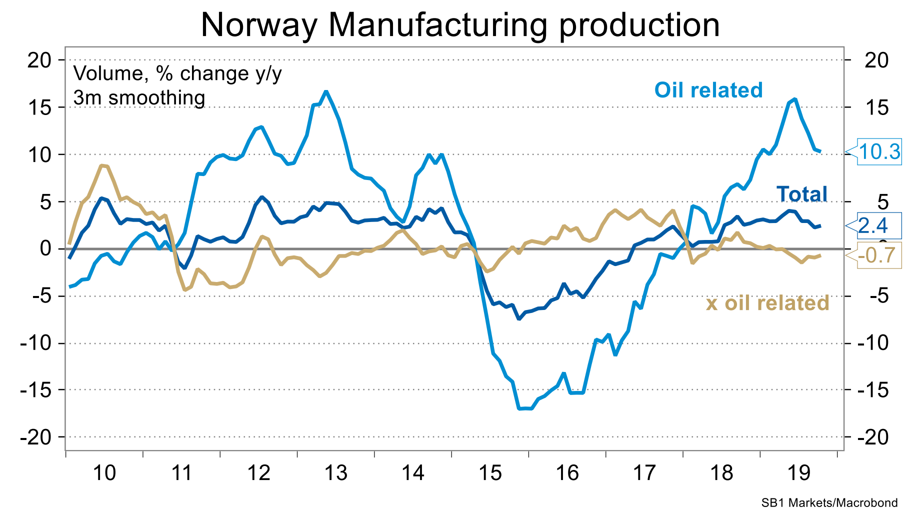
- House prices usually impacts
  - » The savings rate
    - ▪ You normally spend less and saves more when your net wealth falls – but that did not happen when house prices fell through 2017 (and the savings rate fell further)
  - » Housing investments
    - ▪ It is less profitable to build/buy a new home when house prices are low. Housing starts fall when house prices declines
- Now, house prices are rising at a lower pace than 'normal' the past decades, which may explain the lift in savings.
- Consumption growth is low, but the upturn in the savings rate (without consumption waning) offers some comfort?

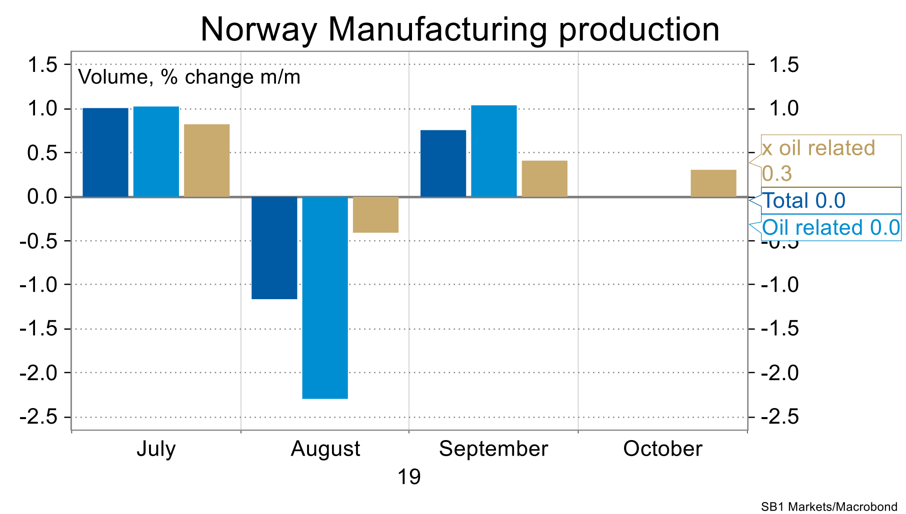
SpareBank 1 MARKETS

Manufacturing production flattens as oil related sectors are cooling

Total production unch in Oct, oil related down from peak, and no contribution from others



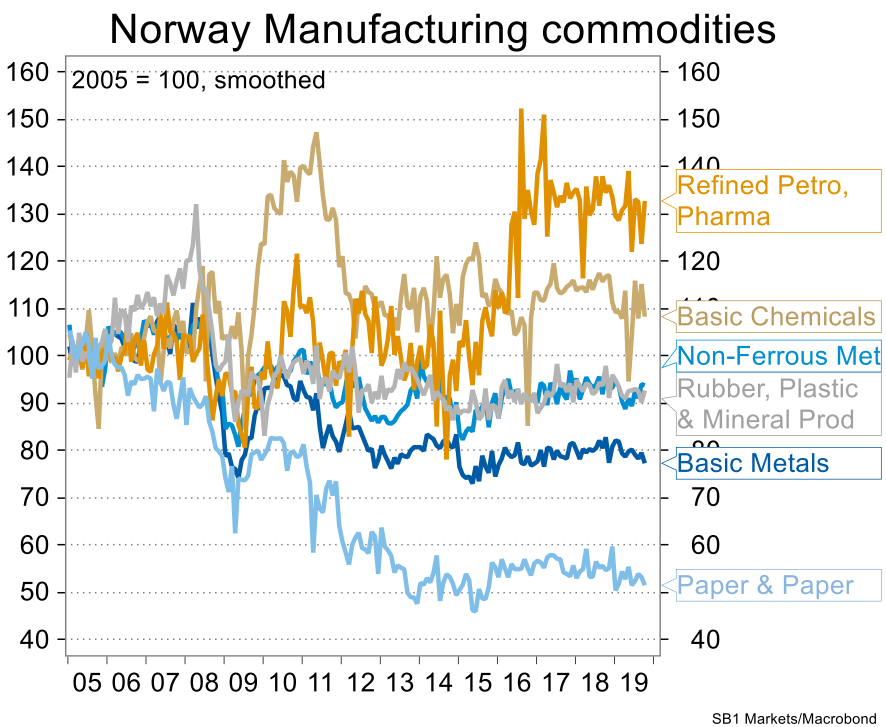


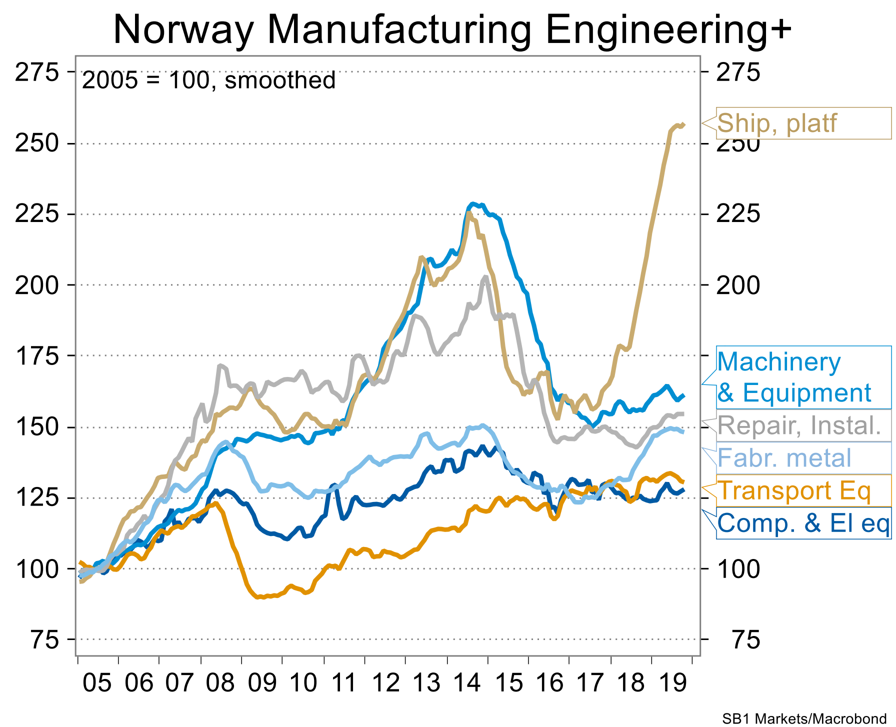


- Total manuf. production was unchanged m/m in October, 0.2 pp below f'casts. Production has fallen recent months (3m/3m at -1.3%) and the annual rate has slowed to 2.4%, from 4 at the peak in June (smoothed)
- The upturn the past 2 years has merely been driven by oil-related manufacturers, but production has flattened since the summer. We expect higher oil related production in Nov & Dec, but then the recovery is over
- Non-oil related sectors have been flat the past couple of years (and the past 25 years!), no reason to expect any upturn
- Surveys have softened and point to a slowdown, to some 2% growth

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

Most engineering sectors have softened, and production of ships/platforms is peaking now?



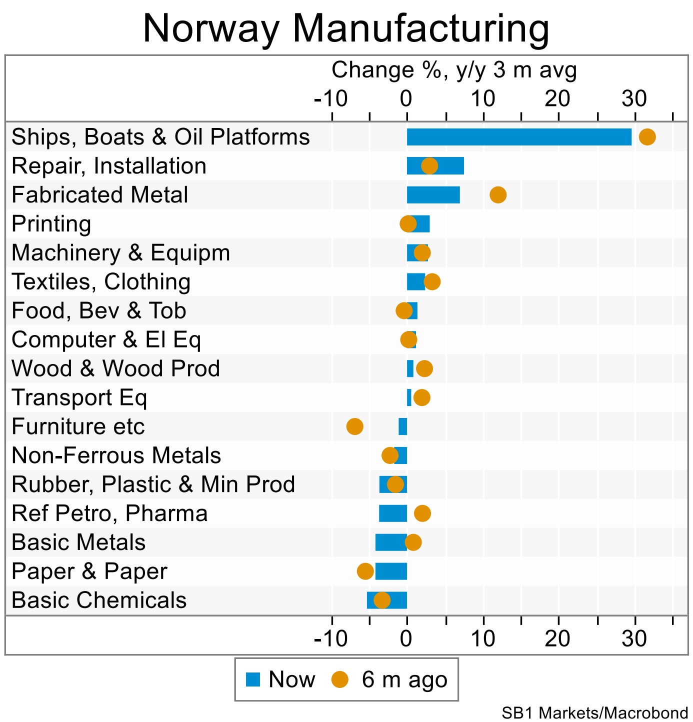


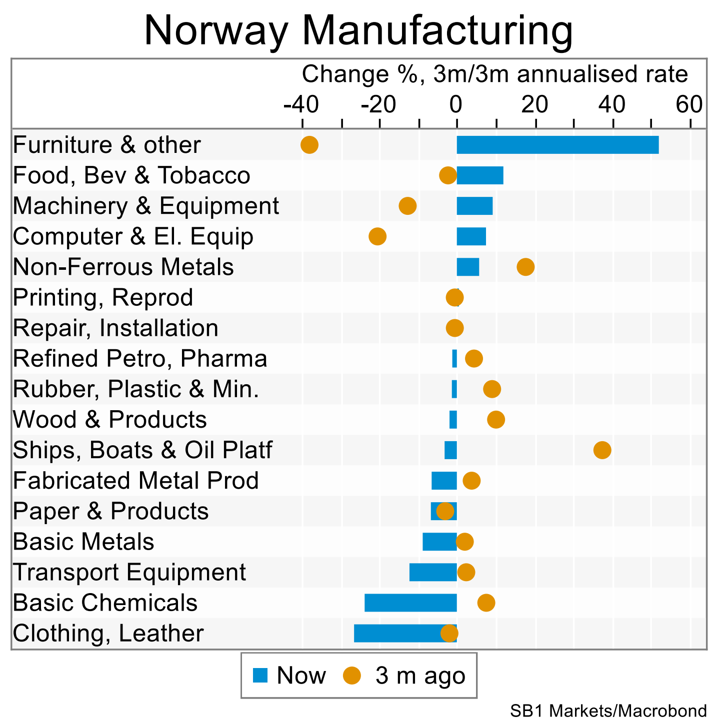
- It's almost as we do not believe it, production of ships and platforms is almost 15% higher than at the 2014 peak, in volume terms. However, overall petro related manufacturing and support activities are down some 15% from the peak in volume terms
- Engineering sectors: ships & platforms may be peaking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

SpareBank 1 MARKETS

11 of 17 sectors are slowing, just 4 gaining pace

Production is up y/y in half of the sectors, ships & platforms +30% y/y, a tad lower than 6 m ago

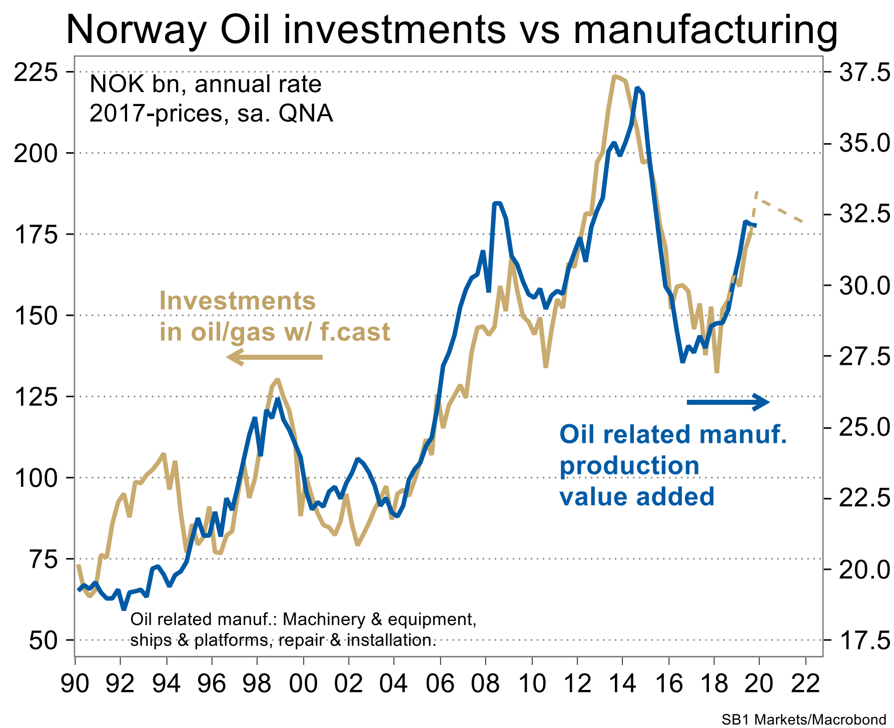




- Ships/platforms production is up 30% y/y (smoothed), vs 33% 6m months ago (and an acceleration from 22% one year ago). The entire upswing took place up until 6 months ago, growth has not increased the past 6 months
- Not that impressive in other oil related sectors; machinery up just 2.8% y/y, repair & installation up 7.5%
- Fabricated metals have been growing strongly, up 7% but slowing now
- Production is declining y/y in 9 of the sectors

How large is the upside in oil related industries? Probably little after Q4

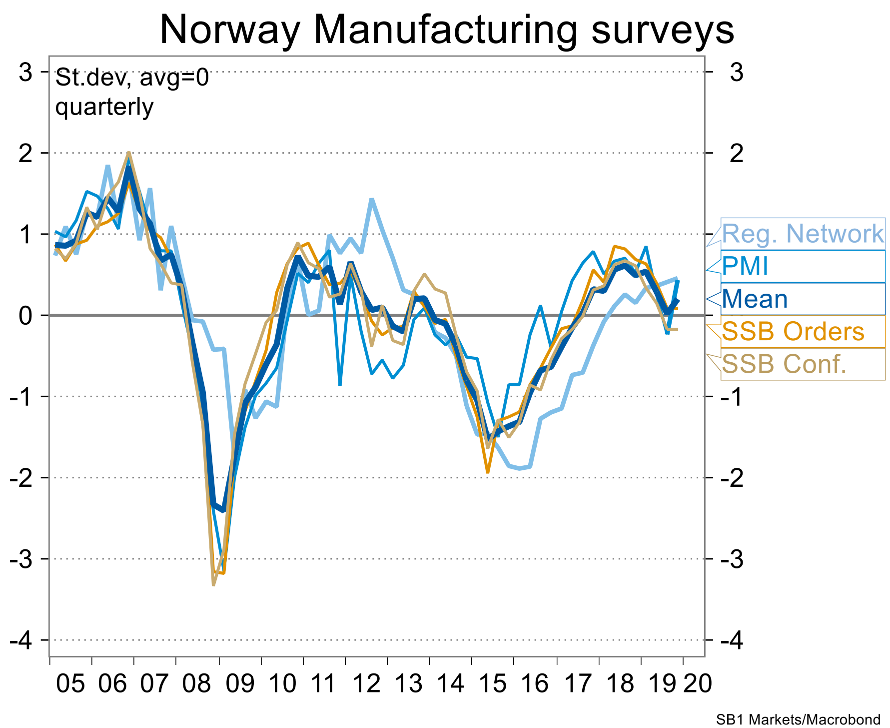
Oil investments will probably be higher than our 2020 estimate in Q4 this year

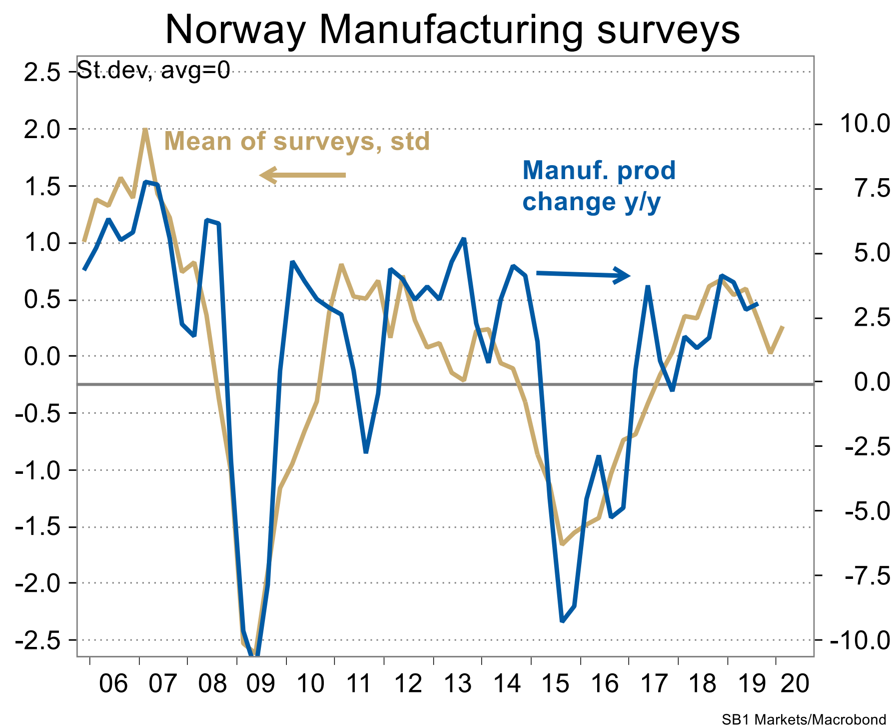


- Production in oil related industries have soared since late 2017, closely correlated to the increase in oil investments, as reported in the National accounts
- Oil investments are probably peaking now, we expect strong growth in Q4 but not much thereafter
  - » We f'cast a 6% lift in Q4, if the 2019 f'cast is correct (which is based on the companies' investment plans), 2020 level will be some 2% lower than the Q4 annualised level. The recent weakness in oil related manufacturing may indicate that some of the activity might be carried over to 2020
- The big picture is still that if Norwegian manufacturers do not gain market shares from foreign competitors – oil related production is now close to the peak
  - » Neither Norges Bank's regional survey (in Q3) nor SR-bank's regional survey (Q3) signal an immediate halt in growth. However, SSB's manufacturing survey points to a decline to zero growth the coming months
- A modification: Non-oil related shipbuilding have become more important recent years due to the decline in oil investments. An upside potential, of course, also given the weak NOK
- However, some extra negative signals: Both manufacturing and power supply investments are expected sharply down in 2020

Manufacturing surveys signal a slowdown but still a decent growth path

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

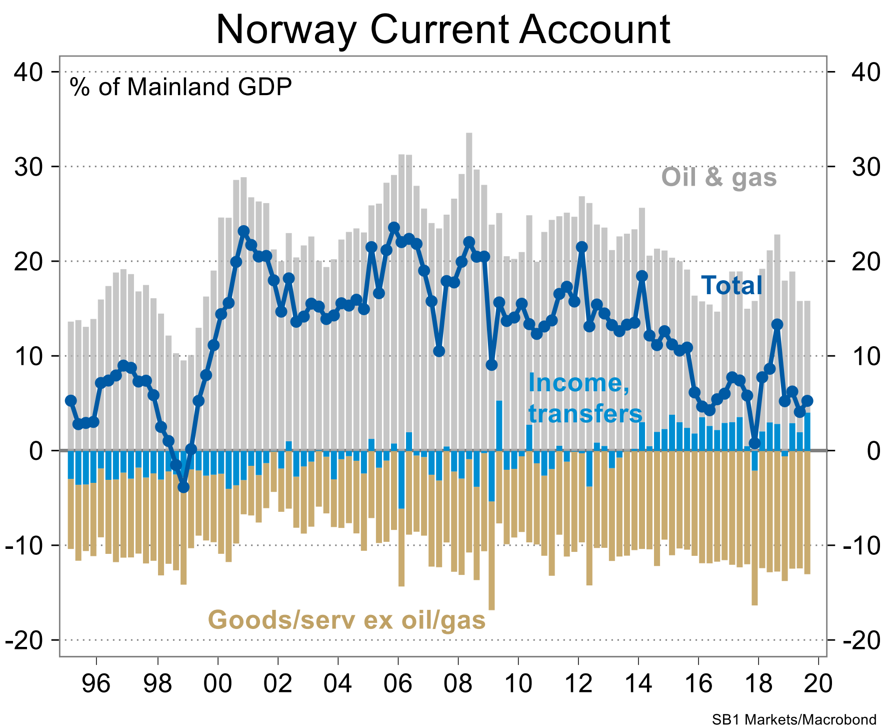


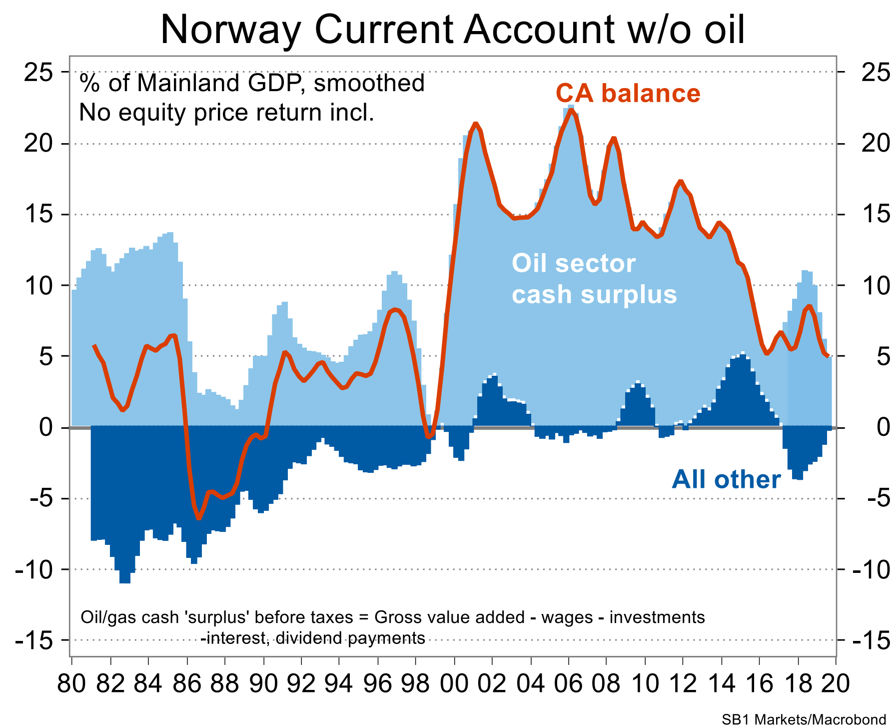


- Surveys are somewhat mixed, with the Regional Network and the PMI as the most upbeat and SSB's industrial confidence survey at the bottom. In sum, the surveys suggest that the growth peak is behind us, signalling 1 – 2% growth
- SSB's industrial confidence survey points to a downturn to zero growth. The PMI is the most volatile of surveys, the level as been kept up surprisingly well recent months
- Norges Bank's Q4 Regional Network is published this week, we expect this survey to confirm a slowdown

Current account surplus a tad down up in Q3, on higher capital income

Oil & gas exports stabilised in Q3, the deficit in other goods/services almost stable

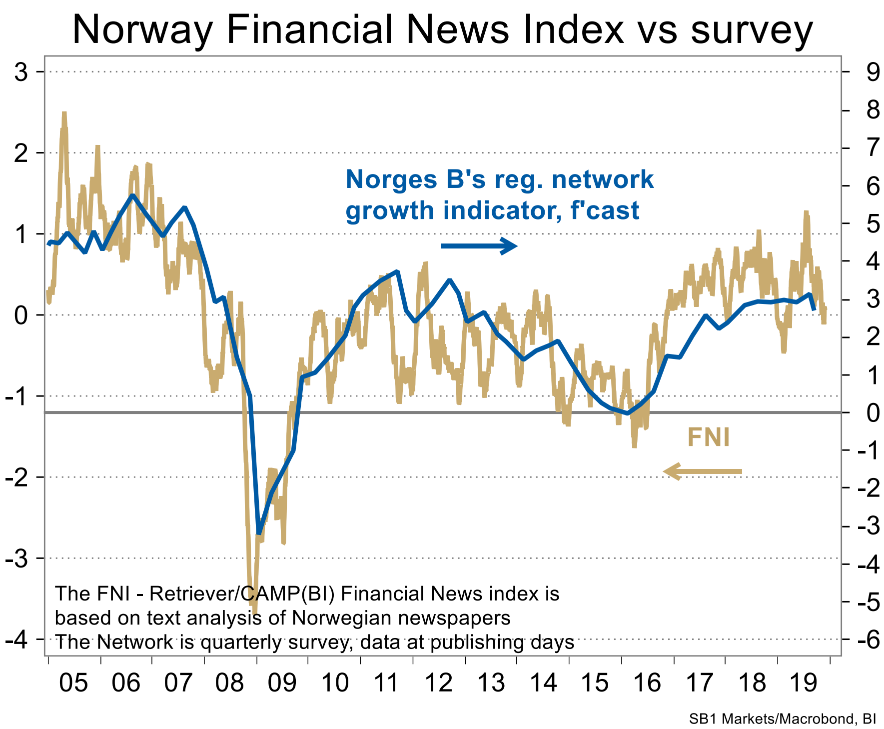


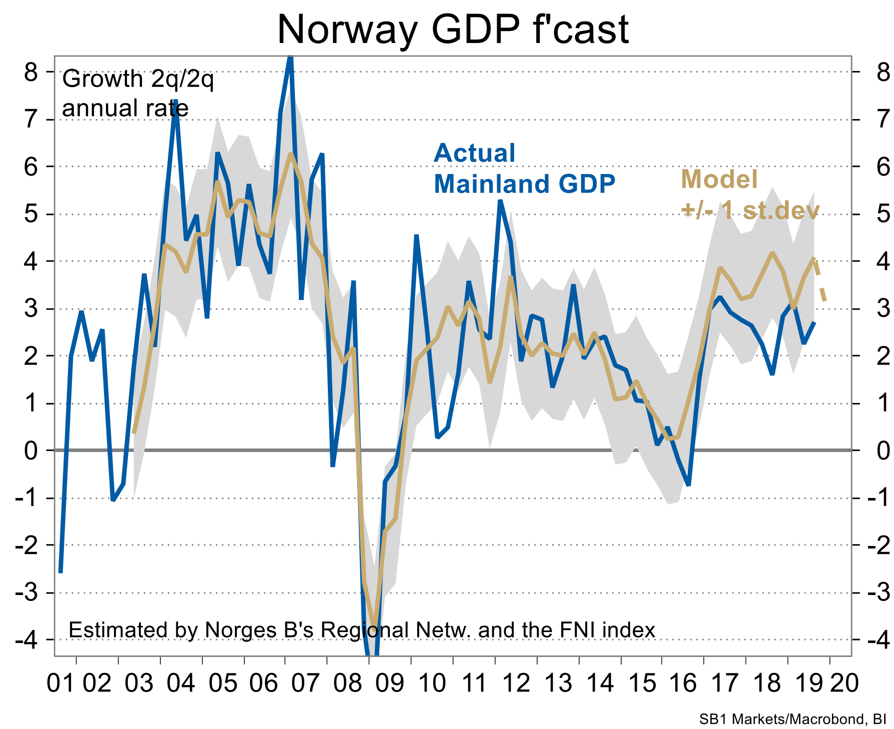


- The trade balance ex oil & gas has gradually weakened recent years (but it almost at the same level vs Mainland GDP as in 1998!). In Q3, the trade deficit ex oil & gas was marginally higher than in Q2. Oil & gas exports were stable. The surplus at the current account equalled 5% of GDP
- The balance of income/transfers is trending up mostly due to higher capital income from the Oil fund. The income surplus rose in Q3
- We have tried to illustrate the non-oil balance: The oil sector is running a large cash surplus at 5% of GDP, equal to the overall surplus at the current account. Thus, the rest of the economy is in balance – if the resources used in serving the oil sector has alternative uses with the same return as when serving the oil sector – which they probably not have. (when oil related industries, labour must produce something else)
  - » However: If some 3% long term nominal capital gains on equities in the oil fund are added, another 7% of GDP in 'income' could have been included. On the other hand, this amount is close to the cost of inflation on the Oil funds assets, so it is probably best just to forget them

The Financial News Index a tad down in Nov, signals 3% growth? We doubt so…

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





- The FNI tracks media reports on the economy. Trade tension, market turmoil, and a few softer key macro indicators have created more negative news flow in financial media since mid-July. Recently, trade war news have been mixed, but Norwegian data have been weaker, may have sent the index down
- The index (together with NoBa's regional network) signals 3% GDP growth, probably too optimistic (as it has been the past 2 years). The level may be more accurate, pointing to a modest slowdown now

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

Highlights

The world around us

The Norwegian economy

Market charts & comments

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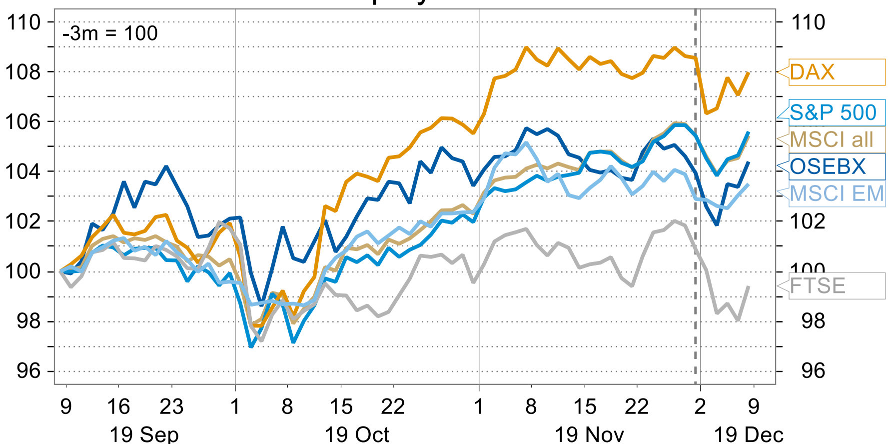
Another week with pessimistic/optimistic comments on the trade war…

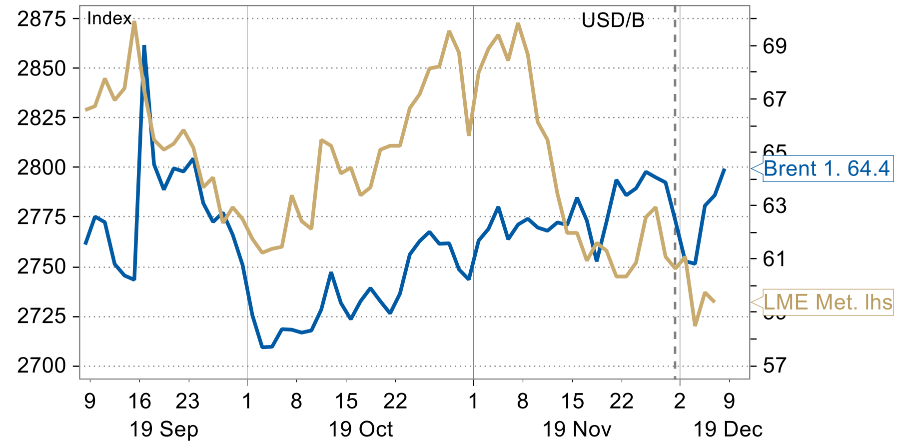
+ some good news from the US labour market. Equities mostly mixed, yields up. Oil up on a large Opec cut

Equity Indices



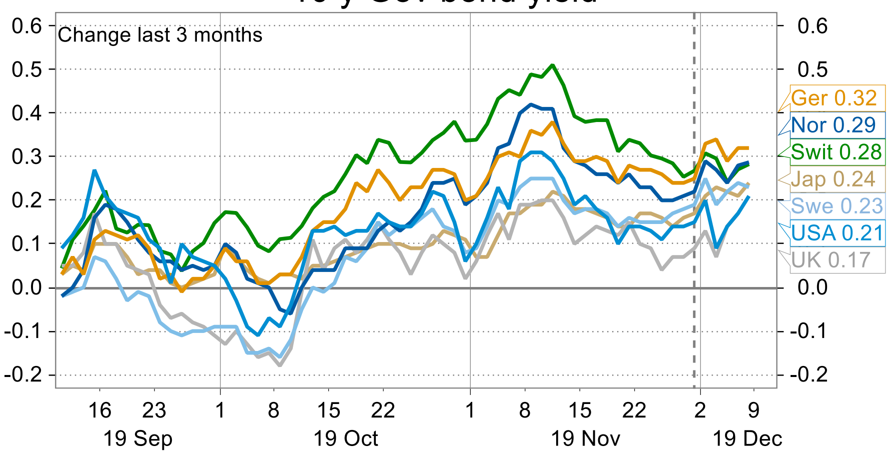
Stock markets plunged Monday/Tuesday after a weak US manuf. ISM, + Trump's comments that a trade deal could wait until after the election

Oil vs. metals



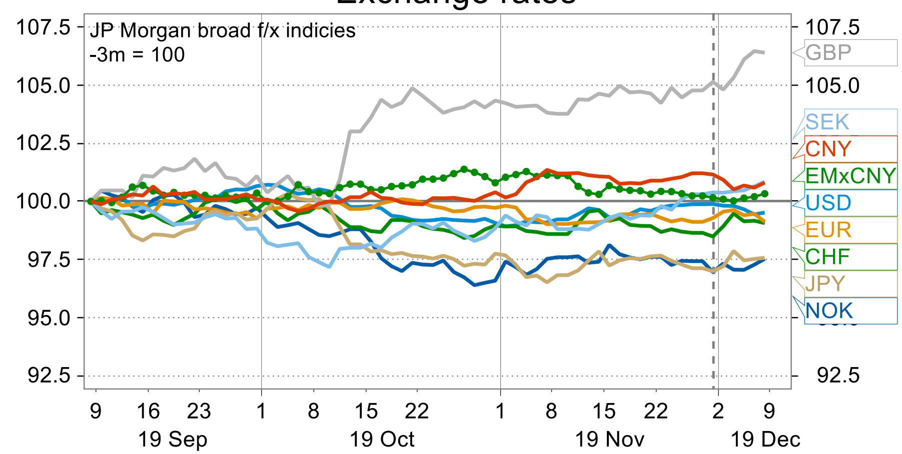
Oil up a larger OPEC cut than expected. Metal prices further down

10 y Gov bond yield



Bond yields fell all over early last week but then recovered, most in the US, partly due to strong labour marked report

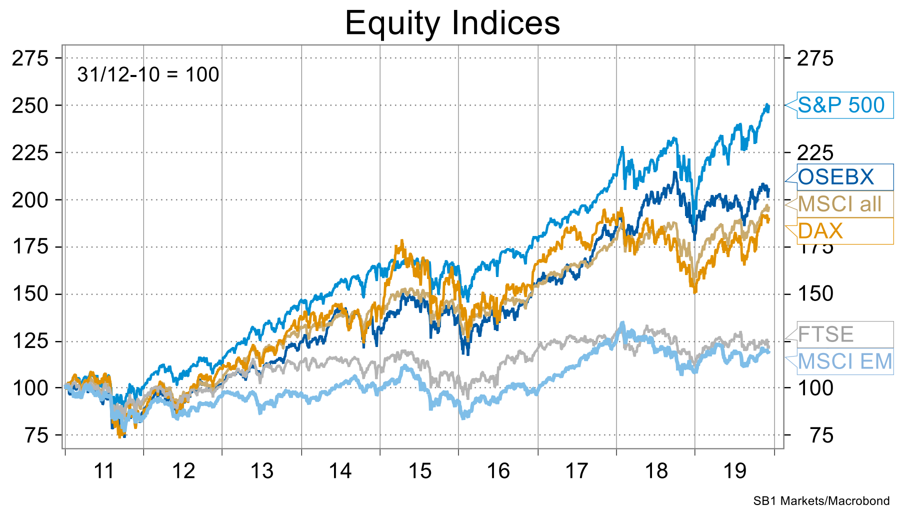
Exchange rates

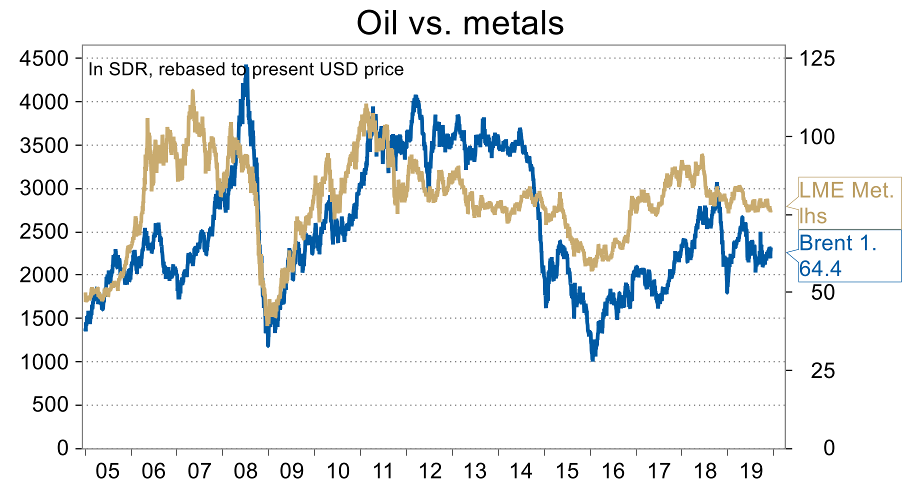


GBP climbs ahead of the Dec 12 election, as markets expects a Conservative victory and divorce deal with EU (next, a trade deal…). CNY weakened even if data were OK, and less trade war angst at the end of the week

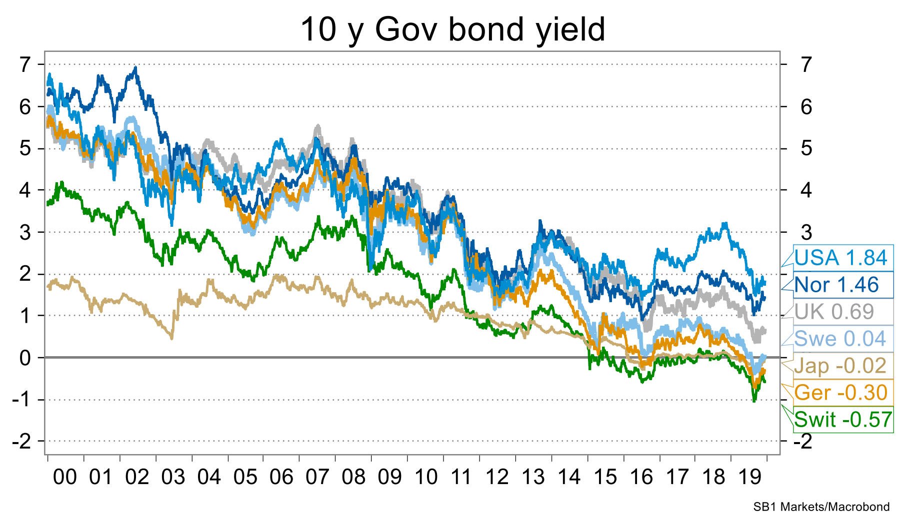
In the long run: US stocks at/close to ATH, bond yields not that far above ATL

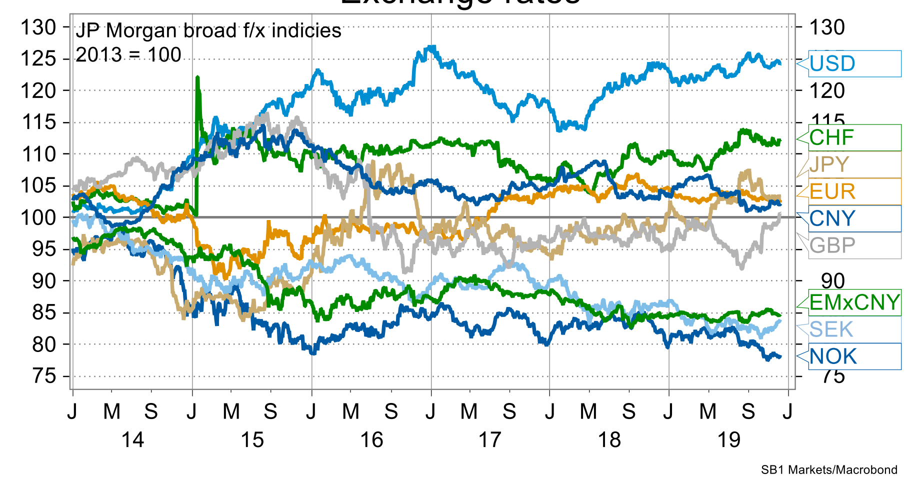
Oil, metals are trending slowly down. The trade war rules. And then some economic data





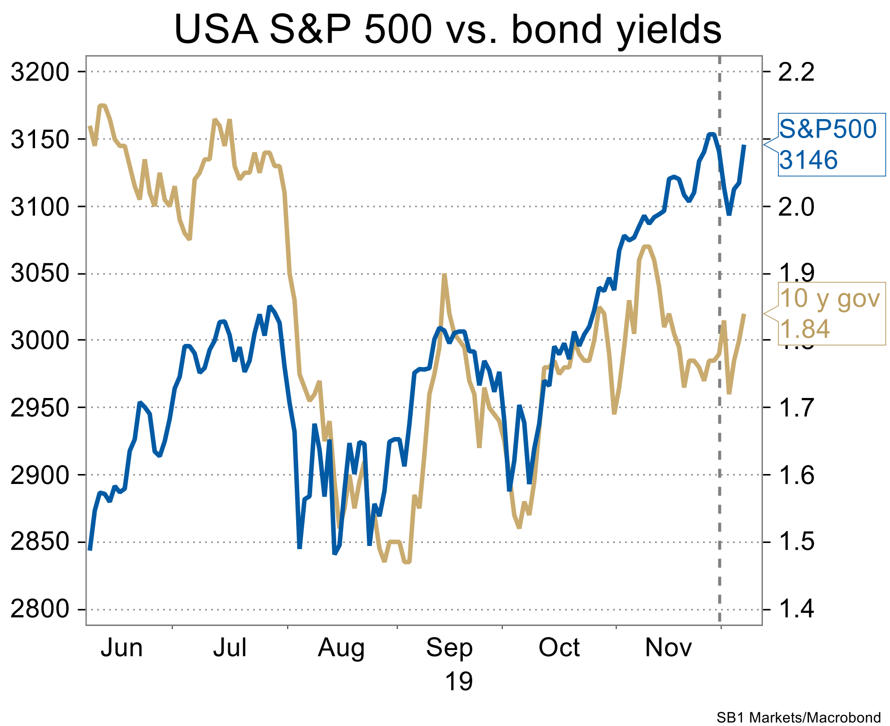
Metal prices may be trending down but slowly and the decline from the local peak is not large

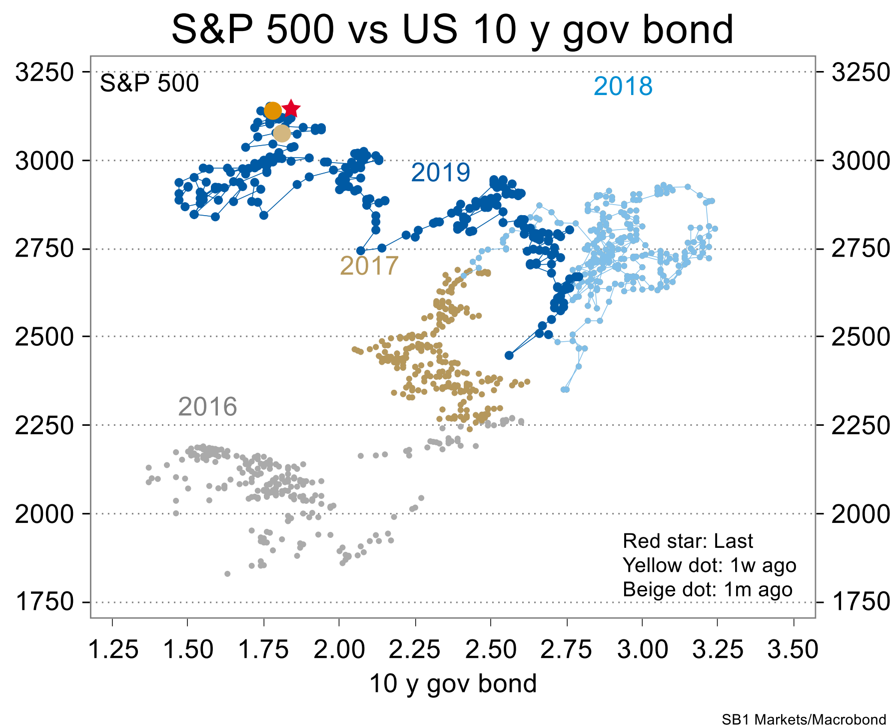




US: Markets down/up on trade war news, mixed data

US markets will probably remain choppy until the US/China strike a trade deal (or not)

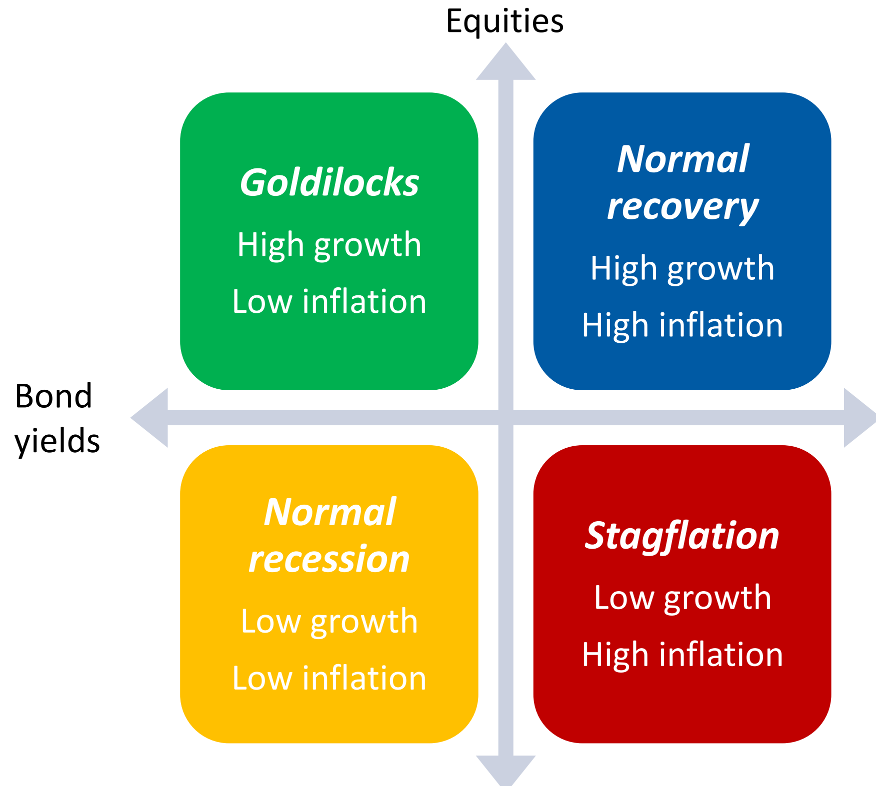


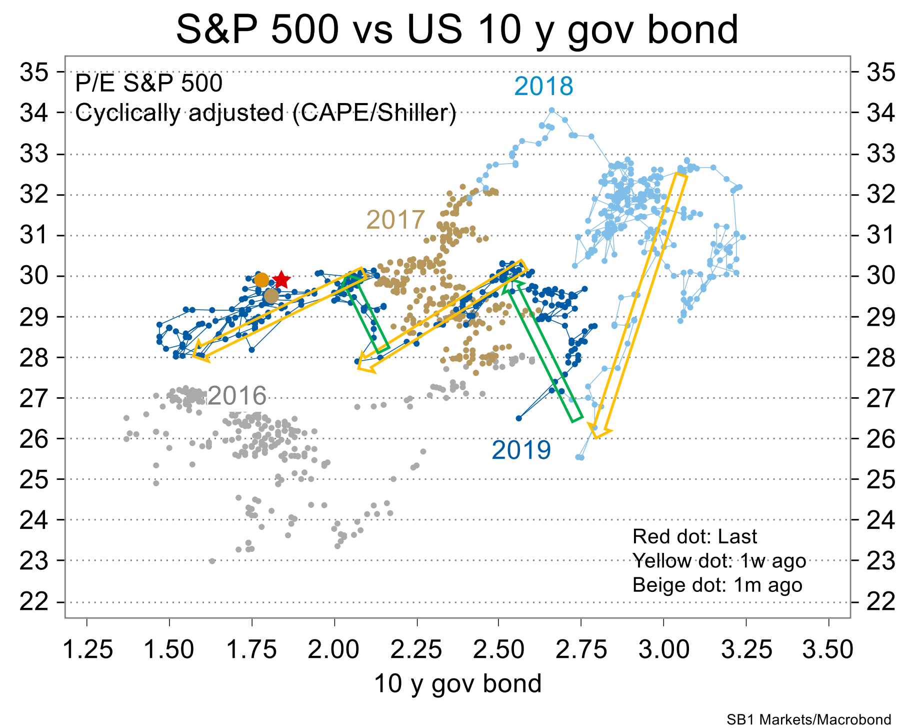


- The stock market surge has been paused since late November, triggered by fears that the US and China are struggling to strike a deal. Last week, Trump commented that a trade deal might as well wait until after the 2020 election, and a disappointing ISM lowered stocks/yields. Then some positive comments from the White House, and a strong labour market report - and both stocks and yields ended marginally up

US markets are moving towards the normal recovery corner

Well, last week the markets took a step toward the 'stagflation' corner, probably not a lasting move

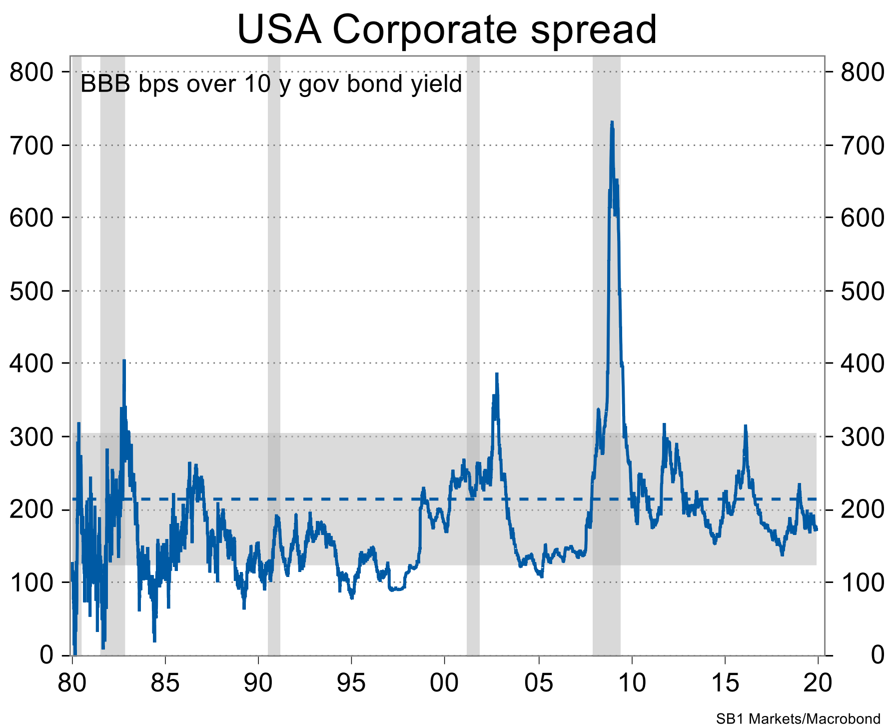


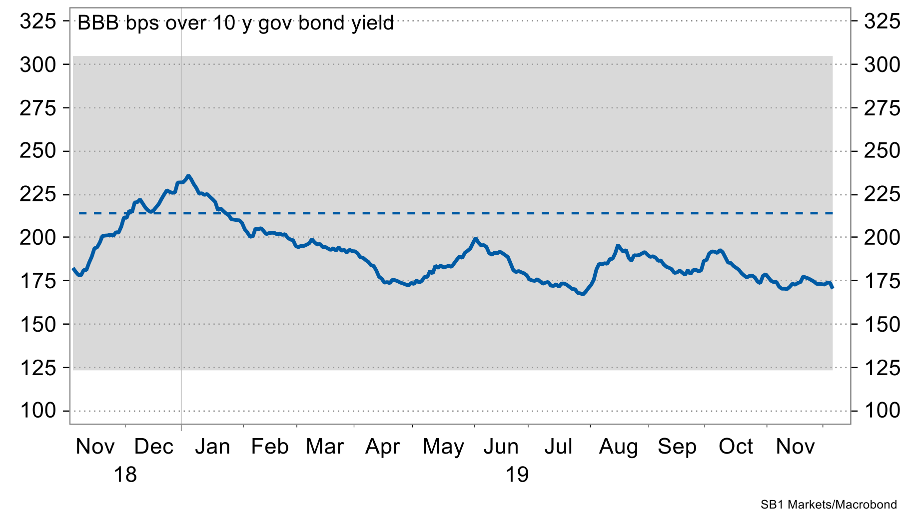


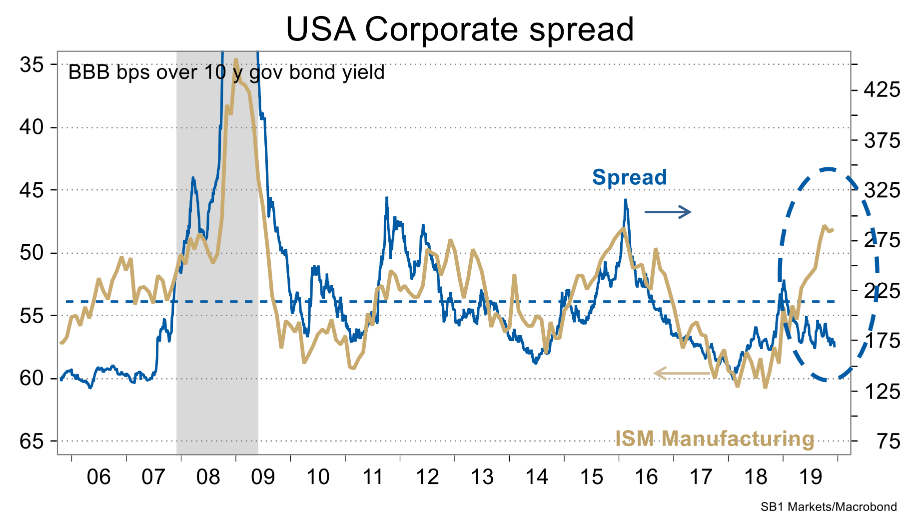
- Recent months, markets have been zig-zagging along with news on the trade war. In October and early November, trade news have been positive and markets have moved towards the 'normal recovery' corner. Later, doubts on the trade deal have sent bond yields down/flat, while stock markets were soaring. Last week, stock markets turned down, while bond yields rose softly
- 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>

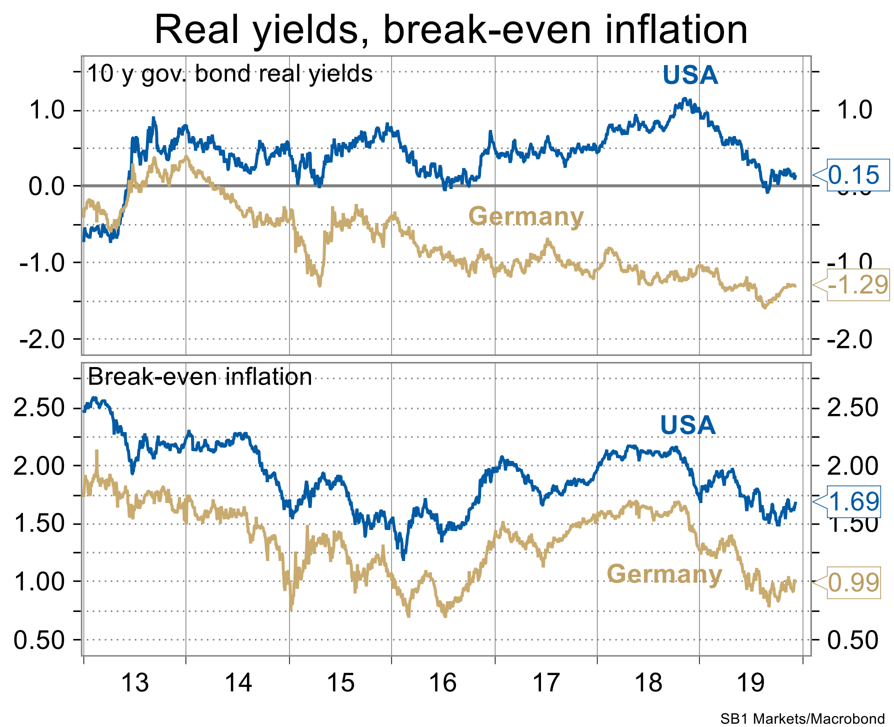


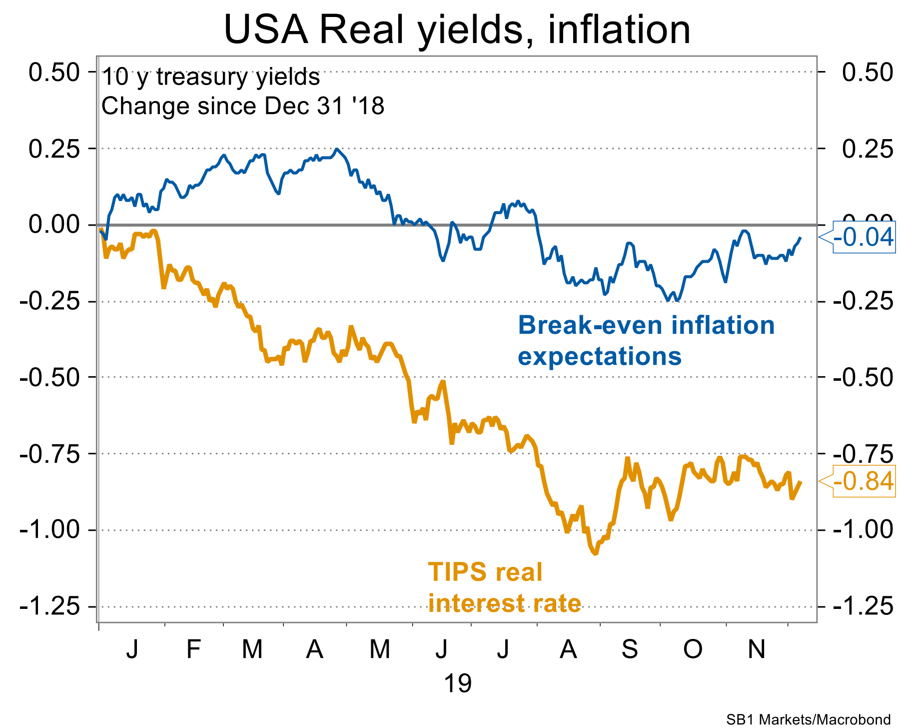




US real rates have fallen recent weeks, inflation expectations edges up

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

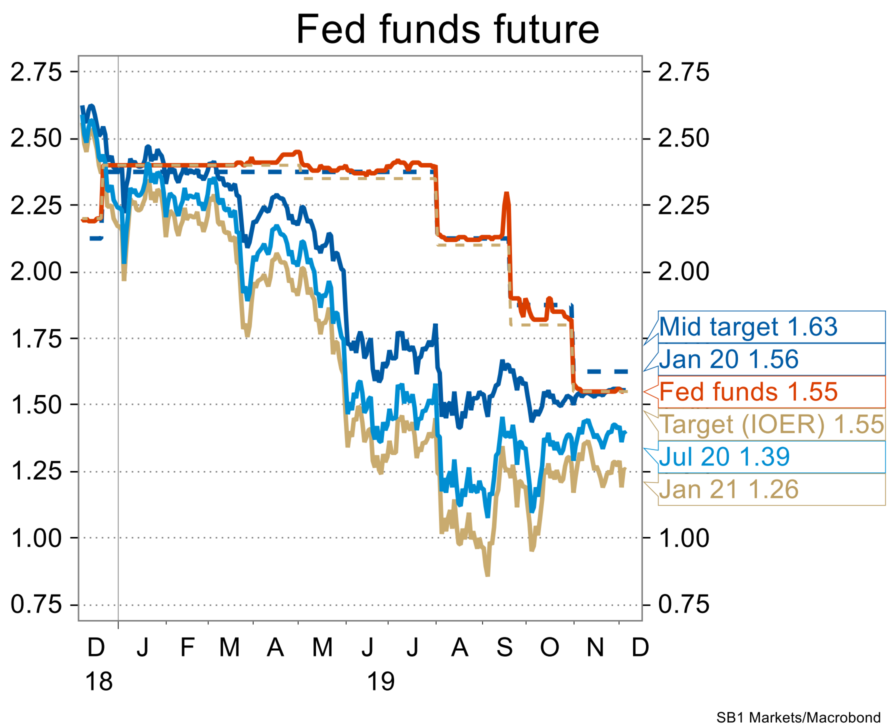


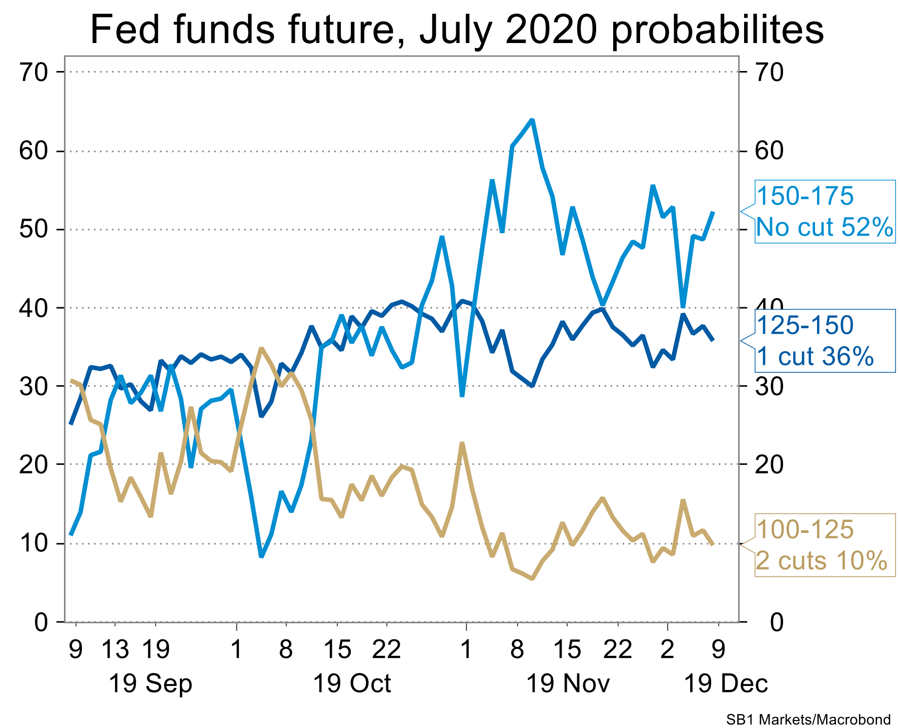


- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. In September and October, both real rates and inflation expectations turned up, primarily due to hopes of a trade war solution. Both components have flattened out/turned marginally down through November and early December
- Last week, US 10y inflation expectations inched up while real rates fell (driven by trade war fears, we assume). Inflation expectations at 1.67% seems reasonable. The real rate remains very low, at 0.15%
- German inflation expectations improved last week too, real rate muted. Both have probably bottomed out. However, the real rate at -1.29% is still too low, in the longer term. Inflation expectations at 1% does not seem that far off, although below the ECB's price target at close to 2%

Expectations of a Dec cut subdued – and less than 50% for a H1 cut

Fed funds futures rates have been flat the past month in the long end, slowly up in the short end

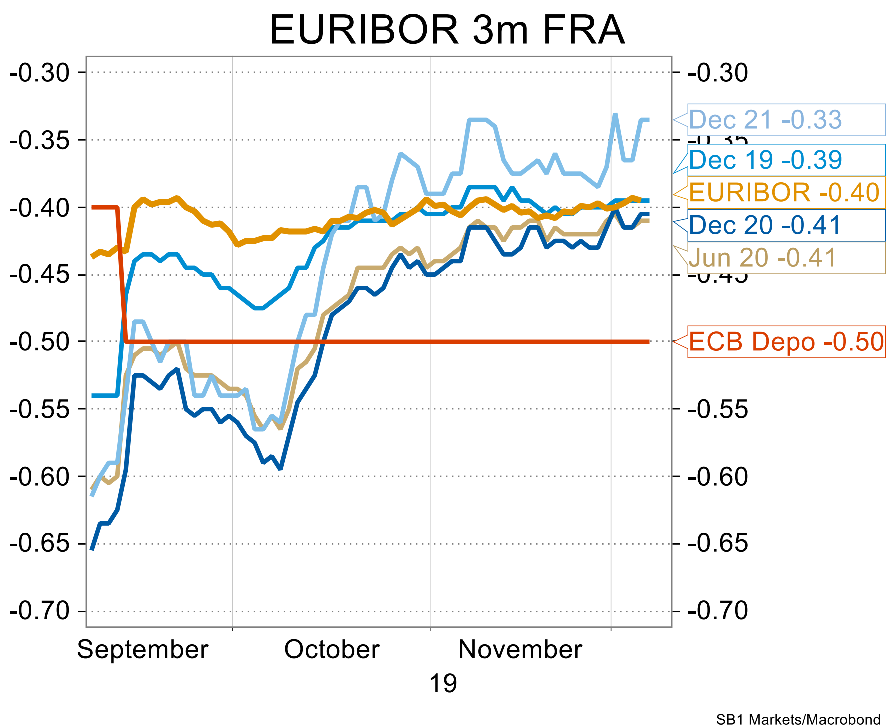


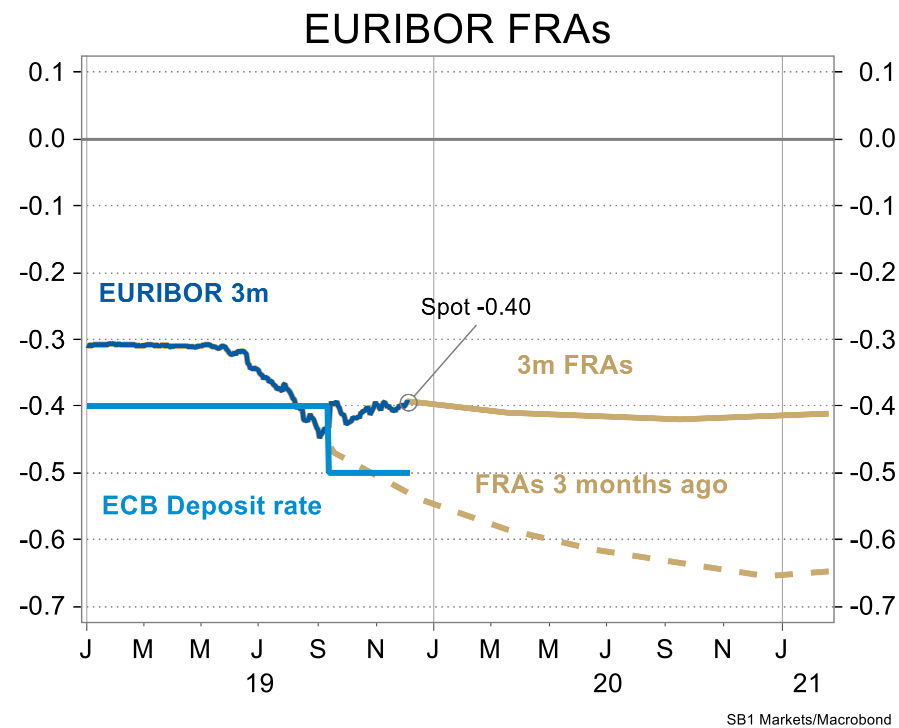


- The Fed funds rate remains close to the IOER (rate on bank's excess reserves at the Fed) at 1.55%
- Markets are more in line with the Fed's plans than in a long time (as the FOMC members will acknowledge that the policy rate was cut in October, even if they did not say so in September…) Probabilities of a Dec cut have been reduced to zero
- Longer term FRAs ended close to flat last week, The Jan '21 contract at 1.26% indicates that the market is fully pricing just one interest rate cut by the end of 2021 (and some 15% prob of two). Probabilities of a cut before July 2020 are just below 50%

EUR FRAs climb, interest rate cut expectations have vanished

Markets are betting on an unchanged interest rate the coming year – and a hike in 2021?

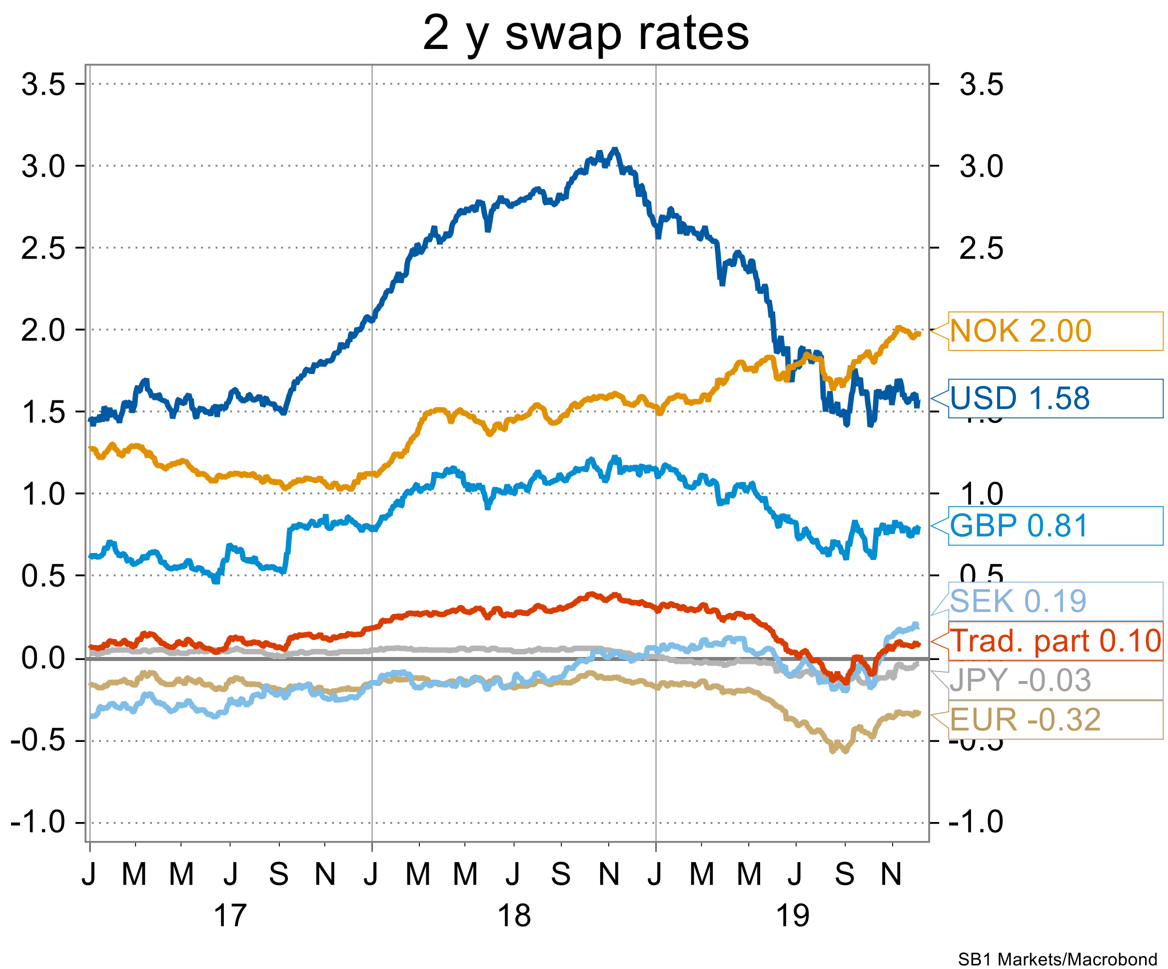


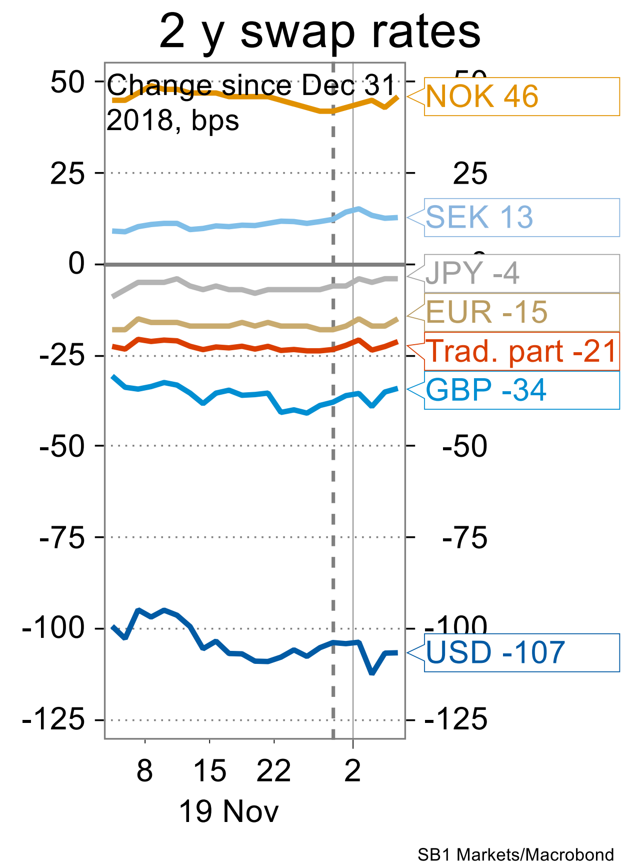


- Since early October, the FRA rates have turned up all over the curve. Several rounds of positive news from the US/China trade talks turned the mood, as well as hopes of a soft Brexit. A divided ECB has no doubt lifted interest rate projections, as the ECB board is split on the appropriate level of monetary easing
- FRAs have moved upwards since late November, after flattening out for a few weeks., and fallen somewhat in the long end. Markets are pricing an unchanged interest rate this year and in 2020, and some 80% probability of a hike in 2021

Short term rates have flattened/turned down the past month

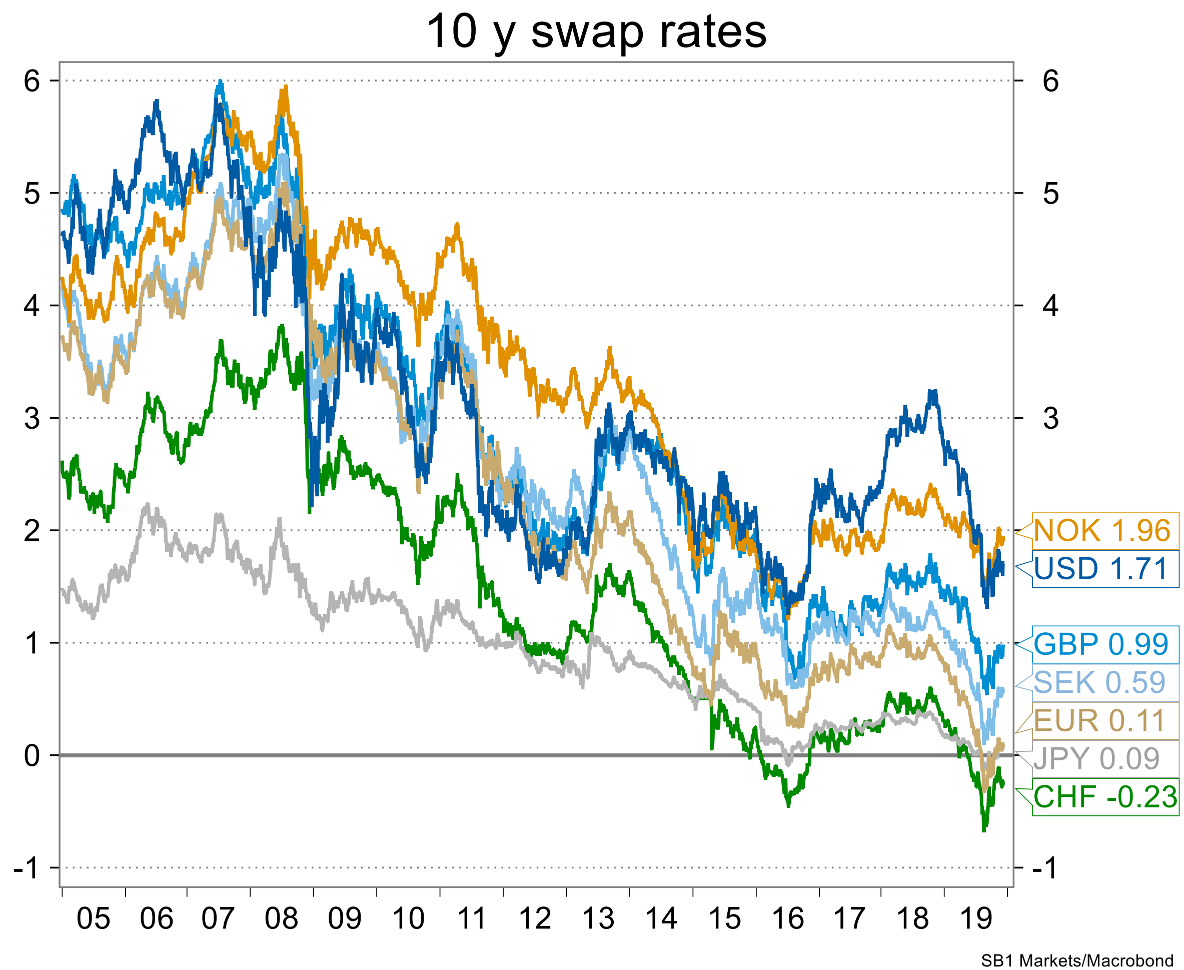
Last week, USD short term rate inched down, EUR marginally up and NOK rates a tad more

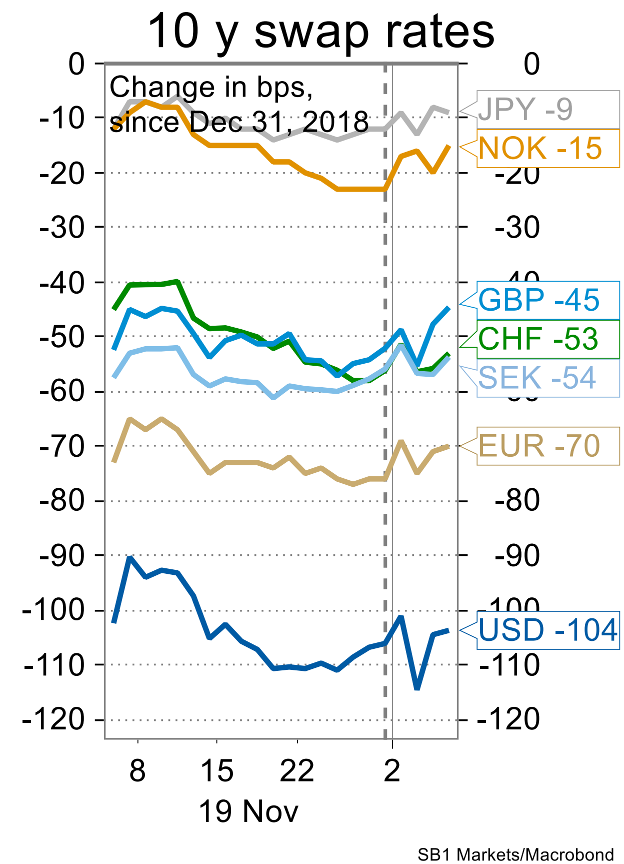




Long term swap rates recovered all over, at least until November

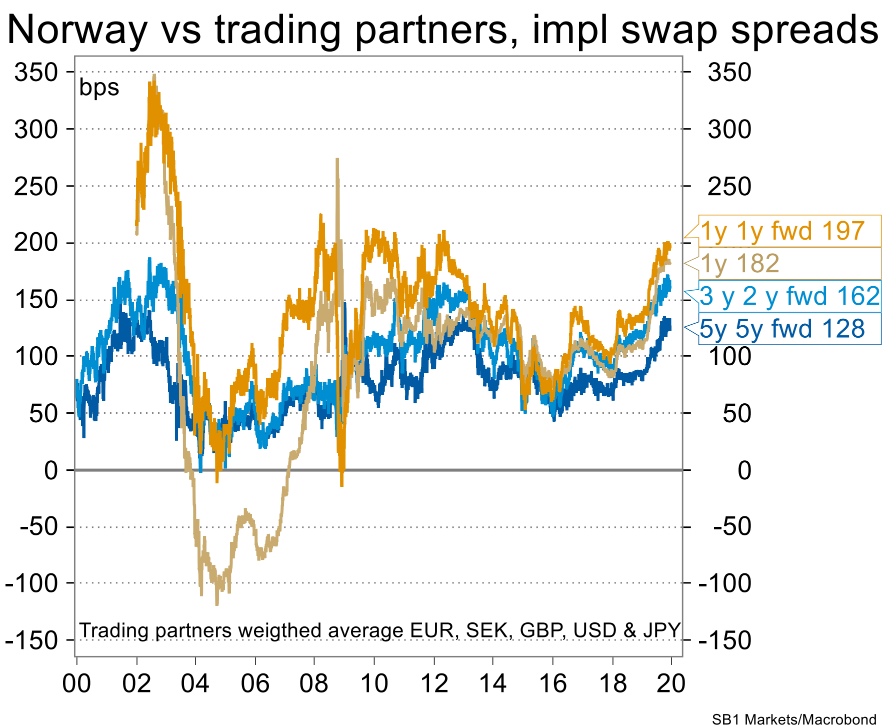
Last week, rates edged up everywhere, after a soft (trade war related) downturn

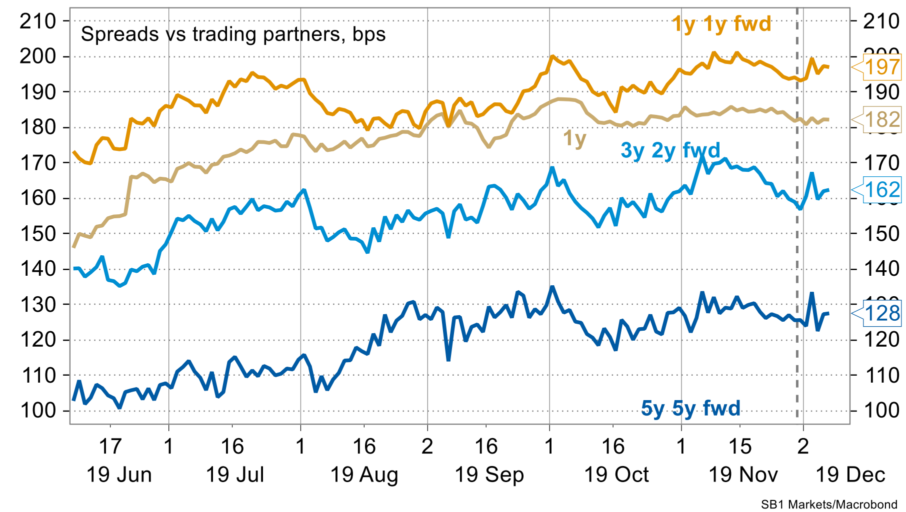


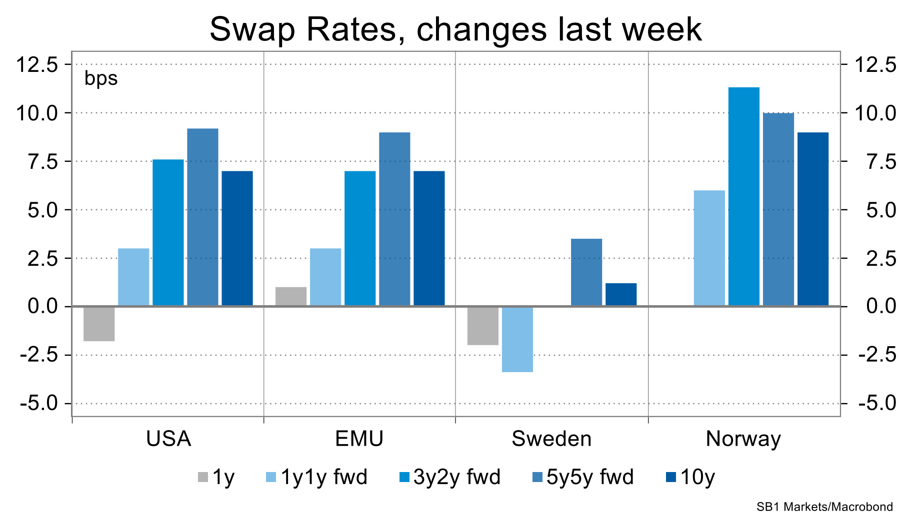


Swap spreads vs trading partners have been shrinking, a tad up last week

Spreads have widened steeply the past year. Last week, NOK rates rose more than trading partners’







- 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 127 bps is still far too wide, long term

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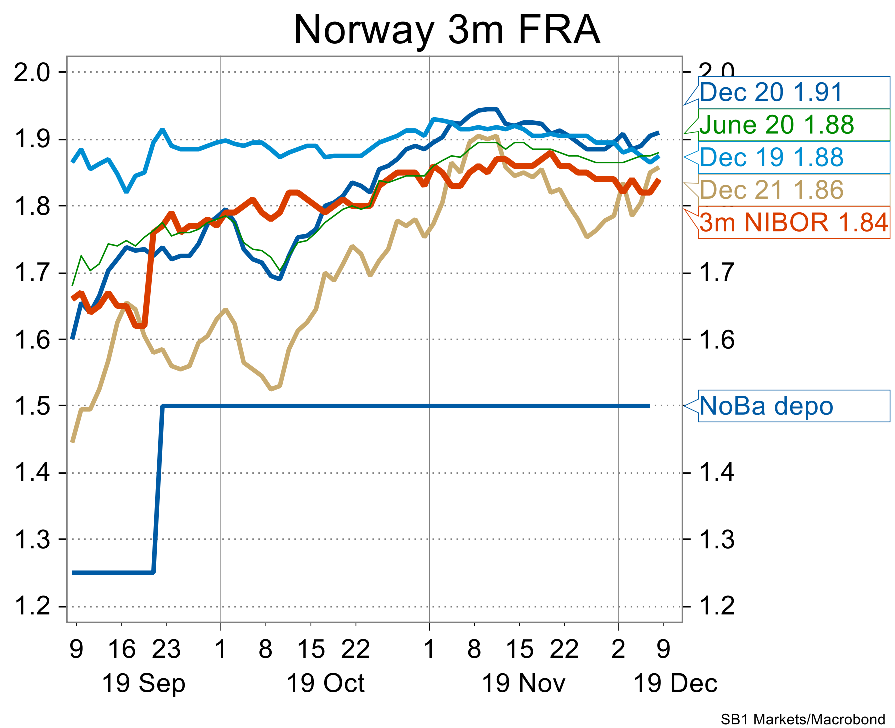
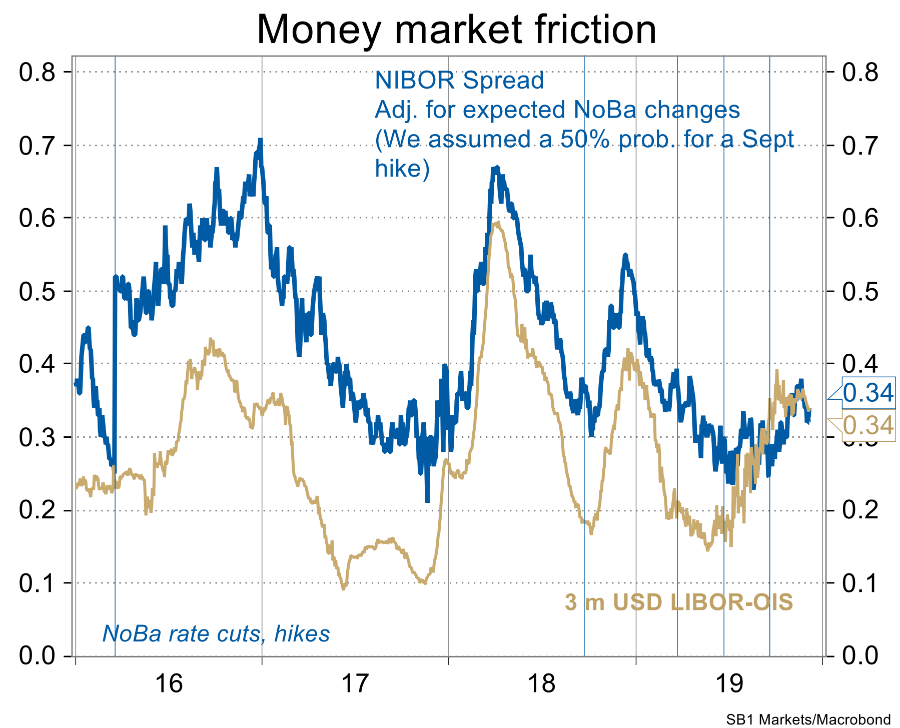
NIBOR/FRAs up again

Interest rate expectations are drifting up again, no cut expected





- The 3m NIBOR ended unch at 1.84% last week. The Dec '19 3 m FRA fell 2 bps to 1.88% (implying a 38 bps spread)
- The US the LIBOR-OIS spread is 34 bps, like the actual NIBOR spread (assuming still no expectations of any NoBa change the next 3 months). Historically, the NIBOR spread has been significantly wider than the LIBOR-OIS spread
- Longer dated FRAs rate have recovered more than half of the decline from early Nov to late Nov/early Dec. <u>The FRA path reflects expectations of an unchanged interest rate through 2020 and just some 1/6 probability of a cut in late 2021</u>

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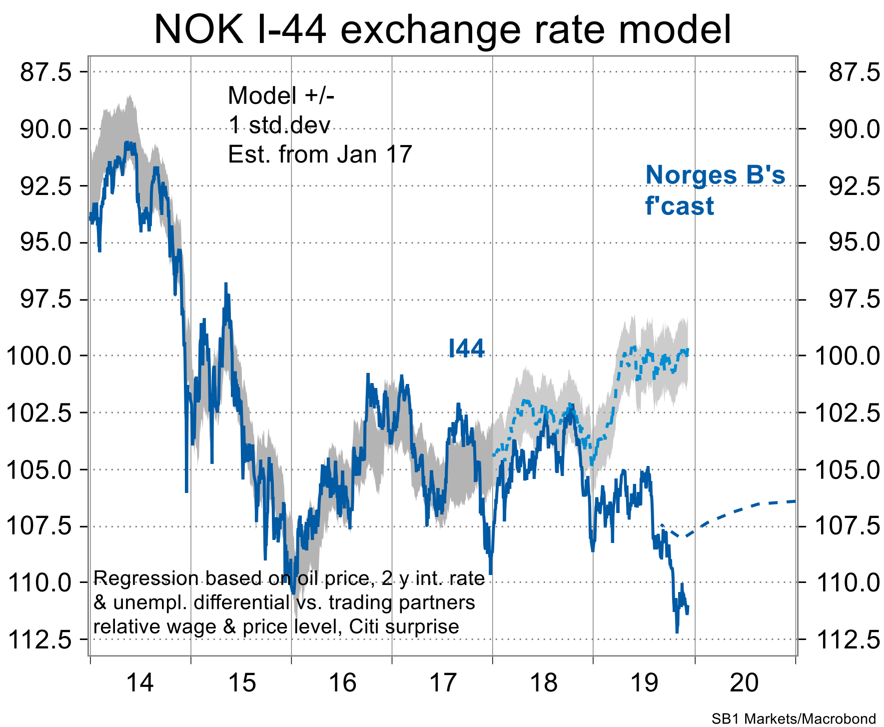
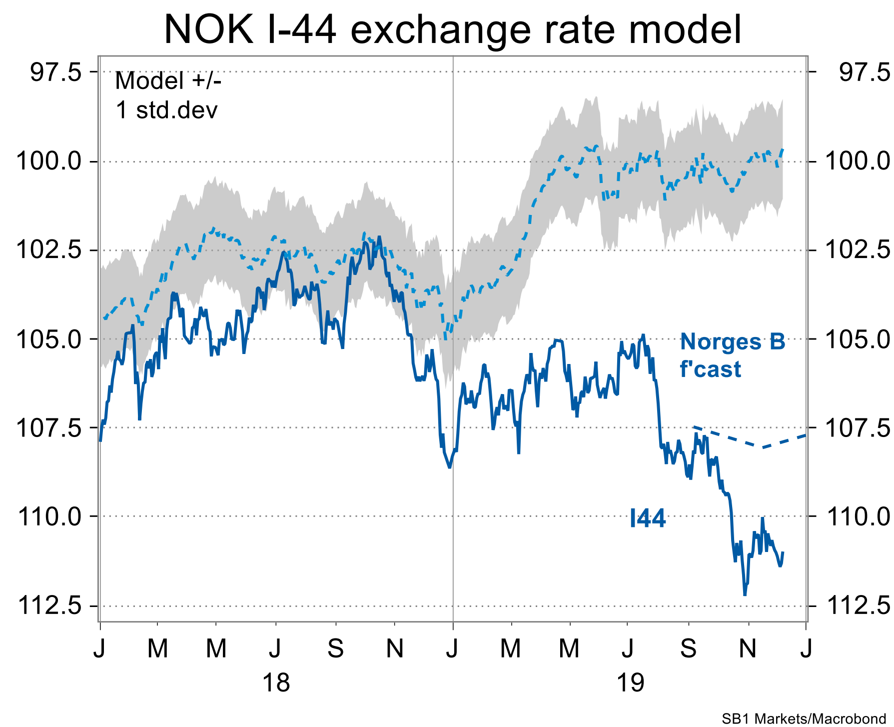
NOK weakens again, after a soft recovery

NOK is 12% below the standard model and 4-5% below the oil stocks & the supercycle models

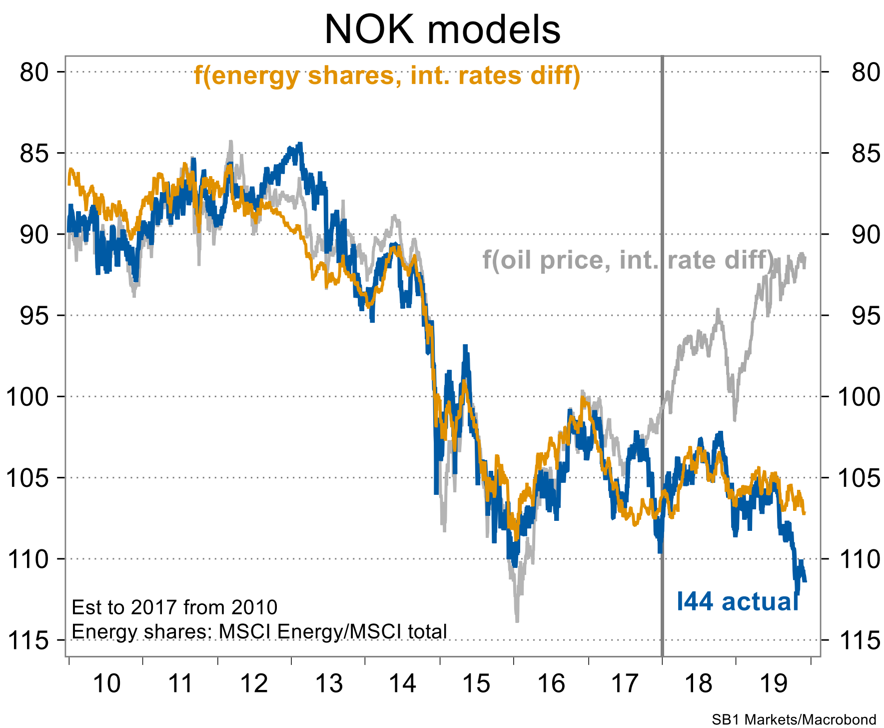


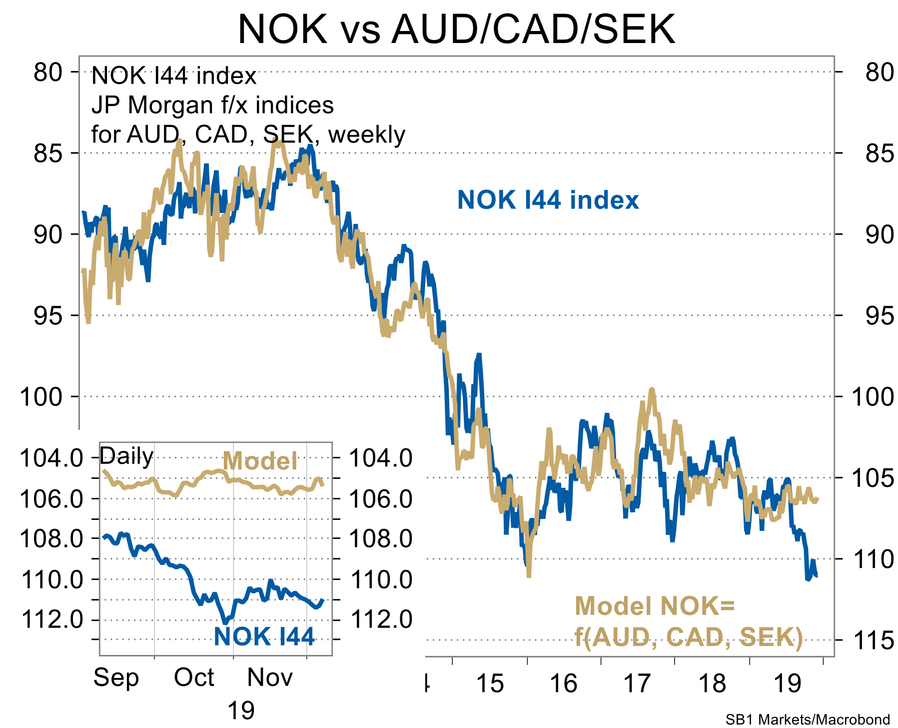


- NOK depreciated 0.3% last week, and is up just some 1.1% from the record low bottom late October. The gap between the our 'old', standard model estimate and the actual I44 index is 11.6%, still extremely high
- Our 'new' models, based on the other super cyclical currencies or energy (oil) equities 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

NOK is 5% too weak vs the other ‘supercycle’ currencies and 4% to weak vs the oil stock price model

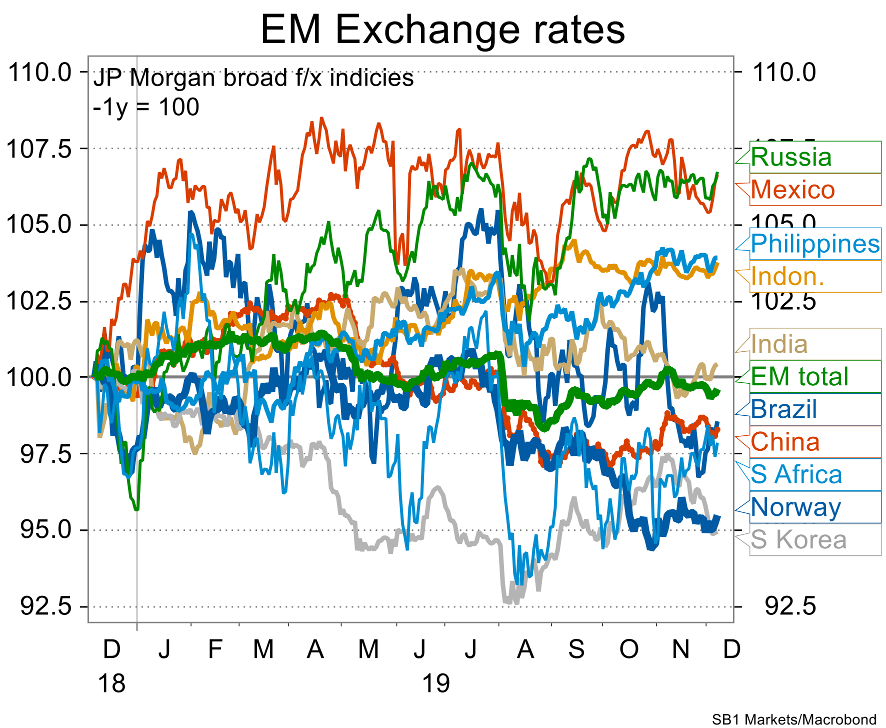


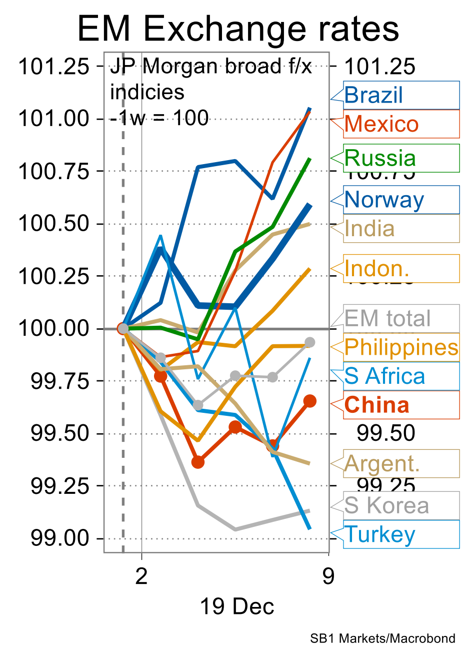


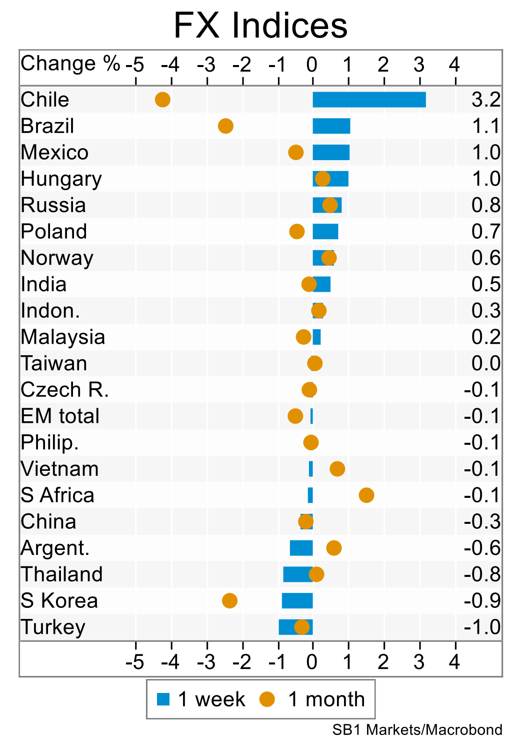
- Our NOK model based on pricing of oil companies has ‘explained’ the weak NOK much better than our traditional model since 2017, as have our ‘supercycle’ currency model (NOK=f(AUD, CAD, SEK)
- Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook
  - » CAD, AUD and SEK have been much stronger than the NOK since September, and SEK has been recovering swiftly (without any obvious macro explanation). Last week, the other three supercycle currencies all turned up, while the NOK weakened marginally

EM f/x weakens modestly – trending slowly up this autumn

CNY and other currencies weakened on fears of a trade deal delay last week







- Most EM currencies have stabilized/recovered this autumn, trade war de-escalation probably the best explanation. Last week, CNY depreciated again, after Trump said a trade deal may be delayed until after the 2020 election. Then, towards the end of the week, a deal was just around the corner, the president said

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