23 December, 2019

Macro Research

Weekly update 52/2019

We wish you all a Merry Christmas and a Happy New Year!

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Highlights

The world around us

The Norwegian economy

Market charts & comments

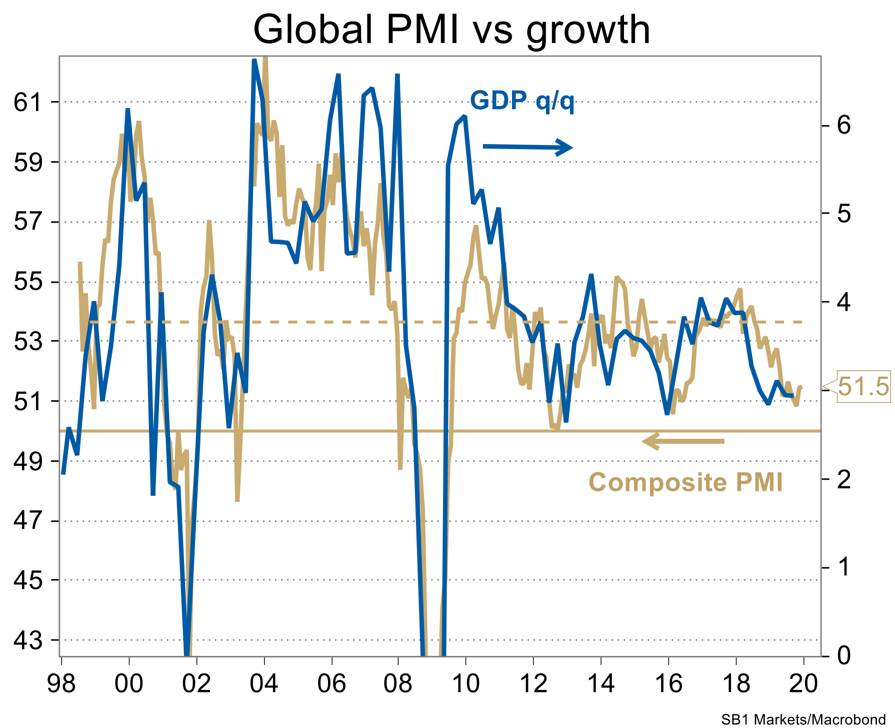
The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

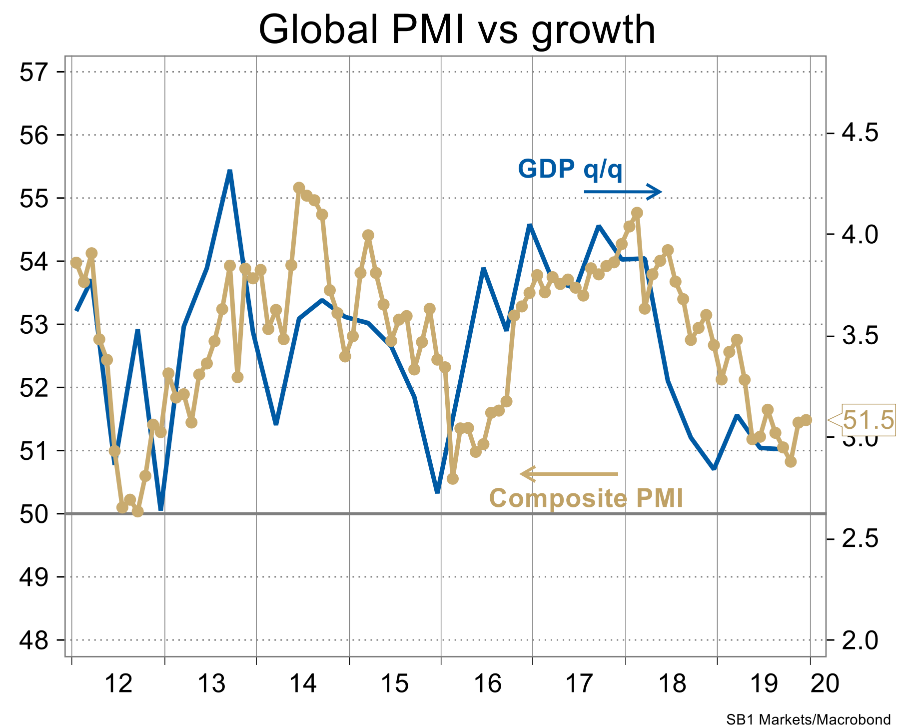
Last week – the main takes

- **From the trade war front:** No major news, seems like it is most likely a 'skinny' phase 1 deal will be signed early January. At Friday, Trump said he had a 'very good talk with Xi concerning our giant deal', while Xi expressed concerns about US interference in internal affairs, according to Chinese media. And BTW, **Trump was impeached** in the House. In UK, the **Brexit separation** is underway, while markets are somewhat anxious about Johnson's hard time limit for a new trade deal with the EU (Dec 31, 2020, probably too short time to negotiate a new deal)
- **Global composite PMI** was probably unchanged at 51.5 in December (our est), thus, the 7th month of stabilization. PMI points to a slight upturn in global GDP growth, to just above 3%. Composite PMI from the US improved, EMU and Japan both flat. We estimate a 0.3 p decline in the global manufacturing PMI, back to 50.0 – but the index is still trending up
- **The US housing market** has rebounded strongly in 2019; both housing starts and permits are soaring, and the Homebuilders' confidence index jumped in Dec. **Existing home sales** fell in Nov, but is still trending up**. Manufacturing production** spiked 1% m/m in Nov, as the impact from the GM strike was wiped out. Production has flattened out the past 6 months. Both the **Phil Fed & NY Fed manufacturing surveys** inched up in Dec and are at/above their respective averages. **PCE inflation** slowed marginally in Nov (core at 1.6%), while **private consumption** did not slow further
- **Eurozone labour cost inflation** was flat at 2.5% y/y in Q3, and growth has been flat the past 2 years. Unit labour cost inflation is slowing as productivity growth has picked up, marginally. **The German Ifo survey** adds to sign of an easing downturn, noting the 3rd month of improved expectations. **Consumer confidence** fell in Dec and is trending slowly down, from an elevated level
- **Bank of England** kept the interest rate on hold at 0.75% but signalled that its ready to act if the economy should fail to recover or Brexit uncertainties continue to weight on the business activity
- **Bank of Japan** signalled no changes to its monetary policy. A large fiscal stimulus package was announced earlier in Dec
- **The Swedish Riksbank** nudged up the interest rate to zero, as communicated in October. No substantial market reactions, the hike was fully expected. **House price inflation** is accelerating, demand must be thriving. Limited upside, given growth softness?
- **Norges Bank** kept the interest rate unchanged, of course, and lifted the interest path marginally in the long end. The path signals a 40% probability of a hike in 2020, unchanged from the September report. **NoBa** sticks to its forecast of a sharp growth slowdown in 2020, we agree**. Registered unemployment** inched up for the 2nd month in Dec, unemployment has flattened out. Norges Bank expects a stable unempl. rate the coming year**. The mainland trade deficit** shrank in Nov as imports declined, data so far suggest a positive net trade growth contribution in Q4. **Housing starts** have turned downwards, according to SSB, confirming some of the softness which the Homebuilders have reported

Global PMI probably steady in December, still points to a modest growth uptick

We estimate an unchanged composite PMI at 51.5 in Dec, signalling 3%+ global GDP growth





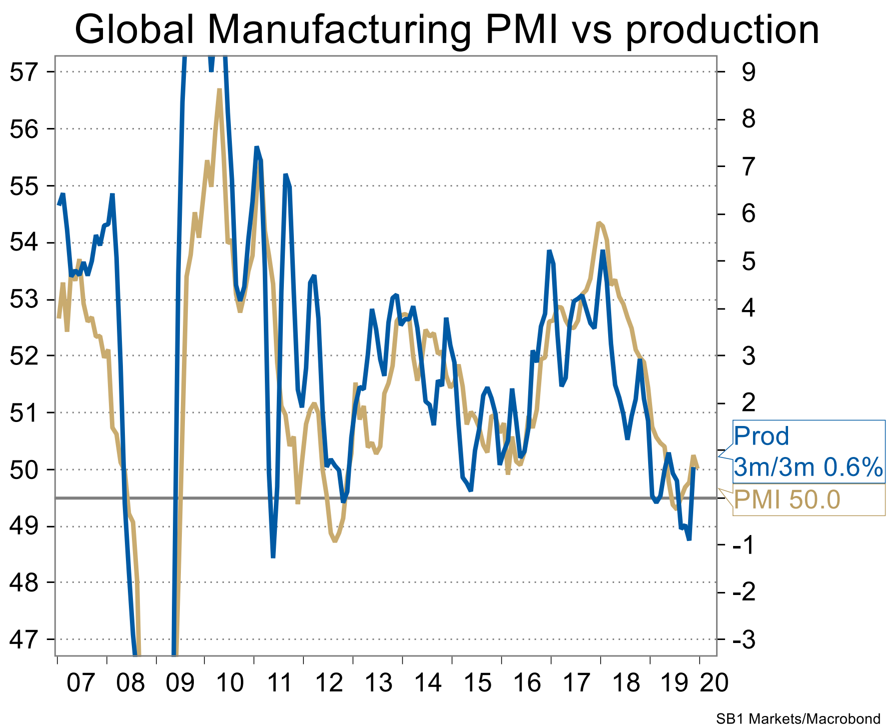
- The composite PMI was unchanged at 51.5 in Dec (our estimate). The index has stabilized since the spring and suggests just above 3% global GDP growth, a small uptick from the 3% pace in Q3 – which by the way has been the (rather stable) growth rate since Q3 2018
- The PMI has fallen by more than 3 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 8 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

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

SpareBank 1 MARKETS

Global manufacturing PMI down to 50 in Dec? Still points to growth in product.

We estimate a 0.3 p downtick to 50.0, signalling some 0.5 - 1% growth in global production

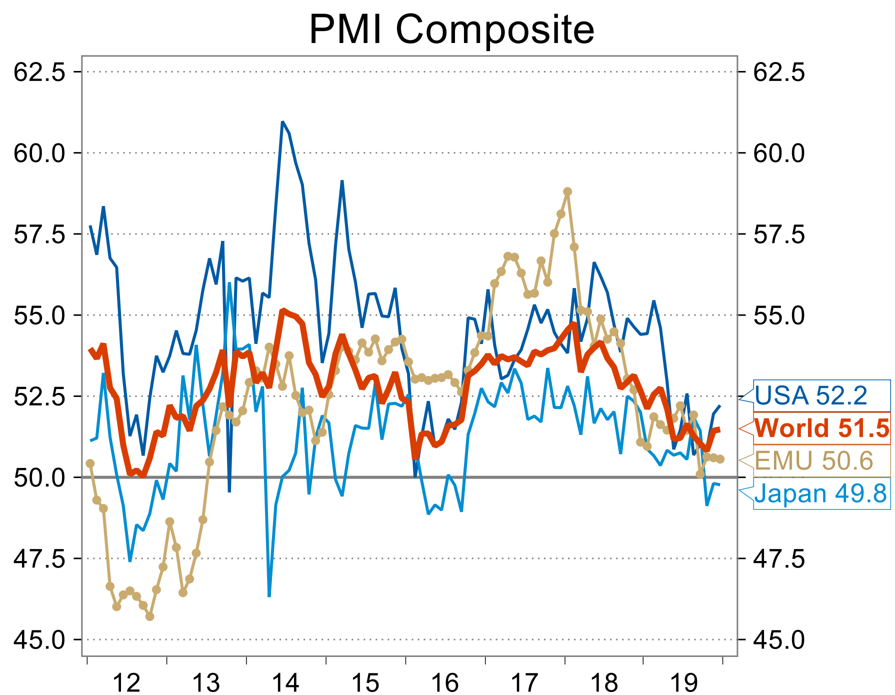


- The global manufacturing orders index was probably unchanged in Dec, at least based on the countries reporting so far. Since August, orders have been recovering, while growth in inventories have slowed, a favourable mix. Thus, the order/inventory ratio has climbed (but stabilized the past 2 months), normally a good signal – however not a leading indicator

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

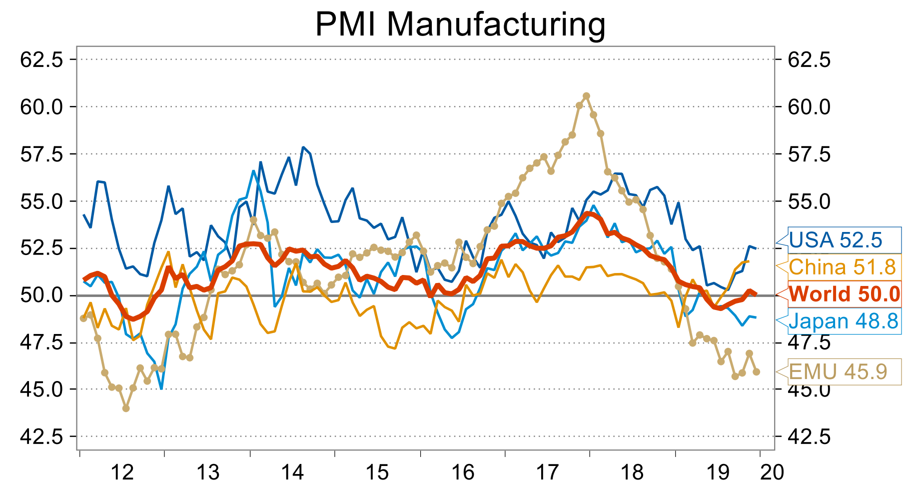
US composite PMI up; EMU, Japan flat – services up, manufacturing down

Manufacturing PMIs inched down in all 3 countries while services improved for the 2nd month



Source: IHS Markit, SB1 Markets, Macrobond

- Most manufacturing PMI have stabilised/recovered the past few months
- The composite PMI from the US (Markit) climbed 0.2 p in Dec, manufacturing weakened marginally while services noted a brisk upturn. Both sectors are expanding but do not signal brisk GDP growth
- The Eurozone composite PMI was unchanged, as services improved and manufacturing fell back down, the latter not an impressive signal (45.9)
- Japan failed to recover, businesses struggle with the Oct VAT hike
- Memo:
  - » The last obs for world PMIs are our estimates, based on preliminary data from the US, EMU, Japan and UK. Markit has not yet reported December PMIs from China



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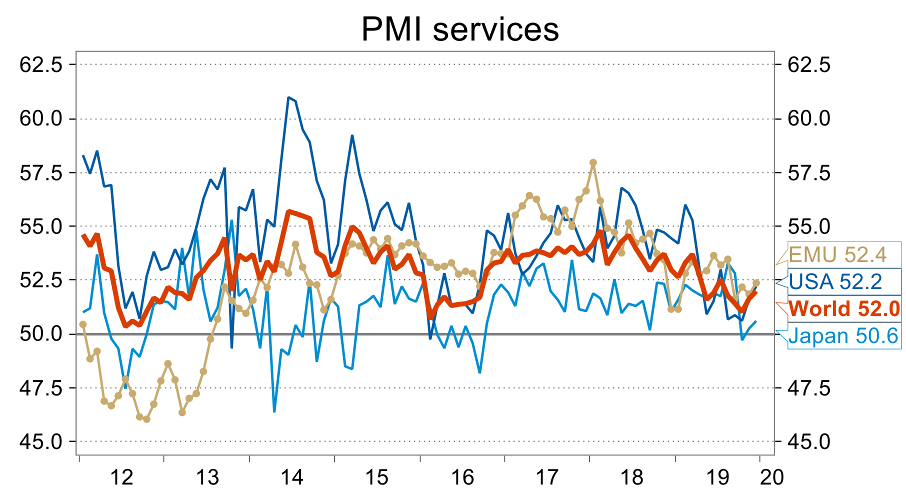
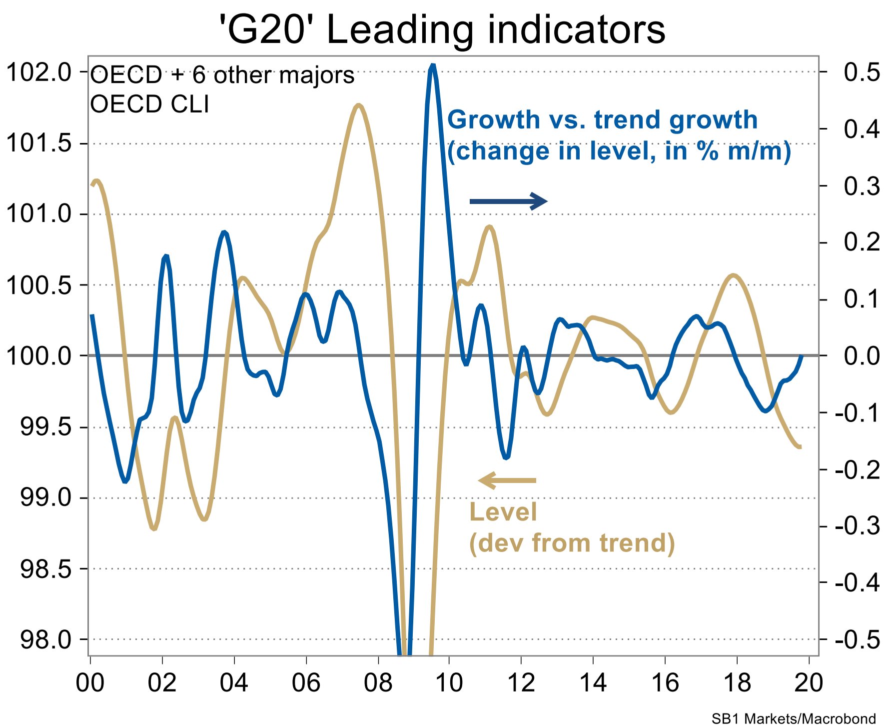
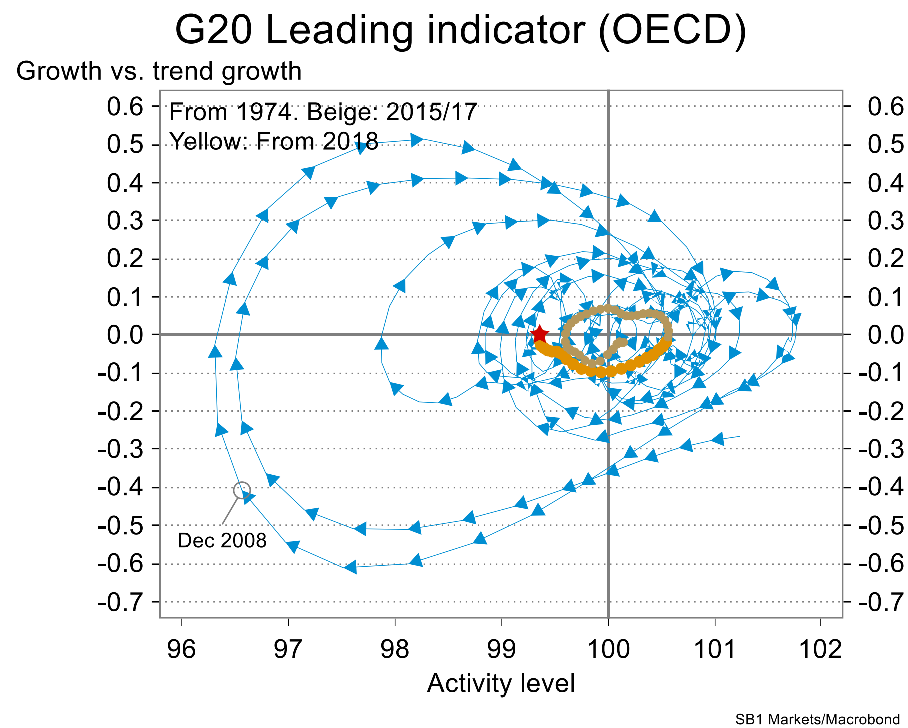


SB1 Markets/Macrobond

OECD confirms a stabilization of the global economy

OECD CLI still reports a low activity level vs trend level but growth is no longer below par

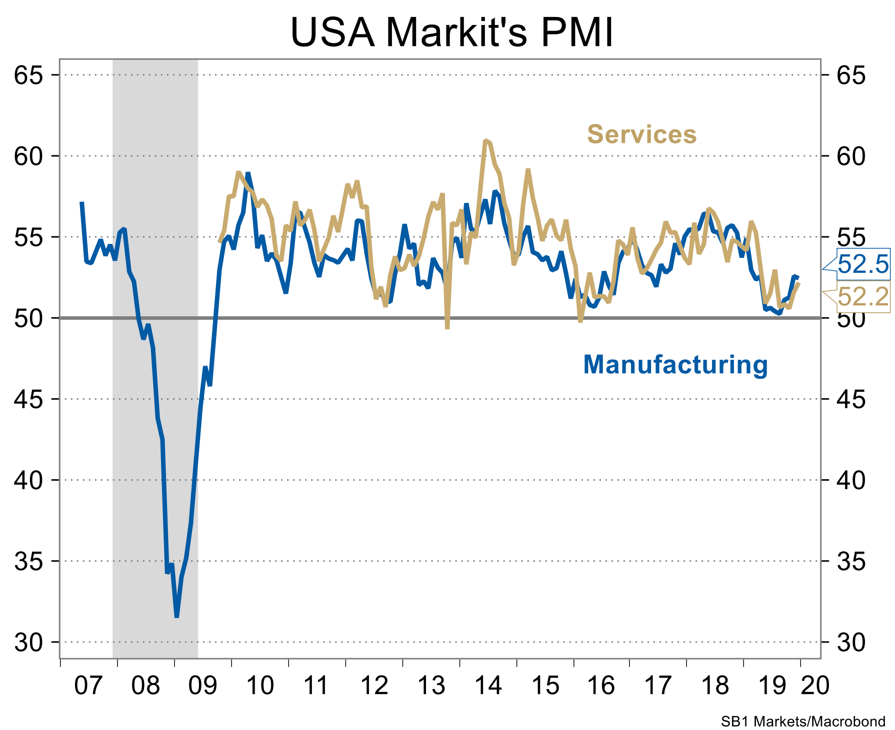


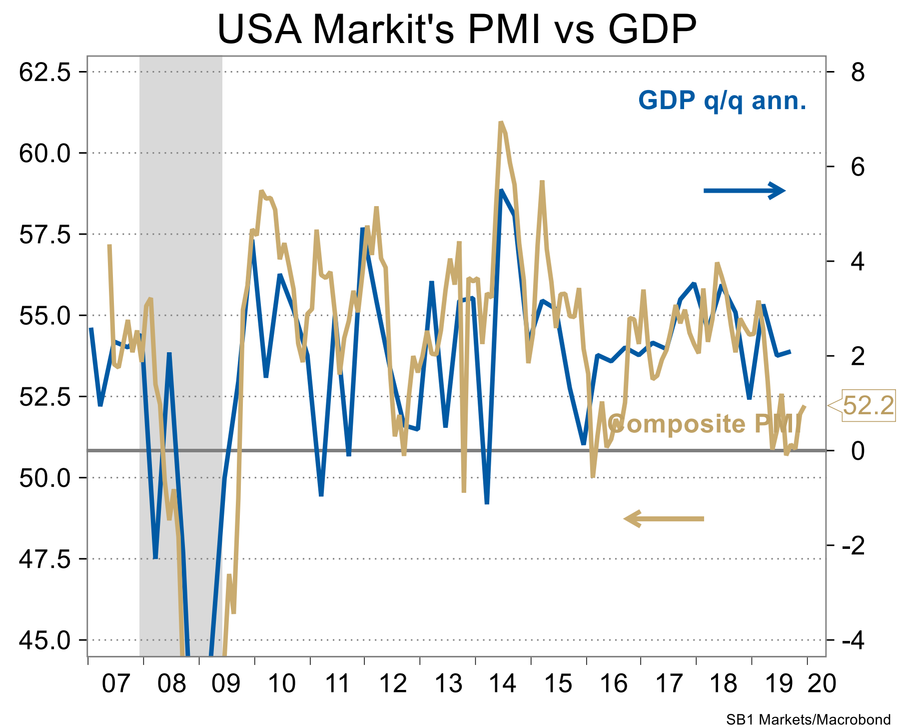


- OECD has reported a moderation of the slowdown since late 2018, and now growth rate has climbed to trend growth, following 22 months with growth below trend
- Warning: OECD's CLI (leading indicators) are often subject to substantial revisions. The present 'comeback', growth recovering up to trend growth, has is fact been announced for a long while

Services PMI bounced back in Dec, manufacturing marginally softer

The composite PMI edged up 0.2 p in Dec, still pointing to just 1% GDP growth

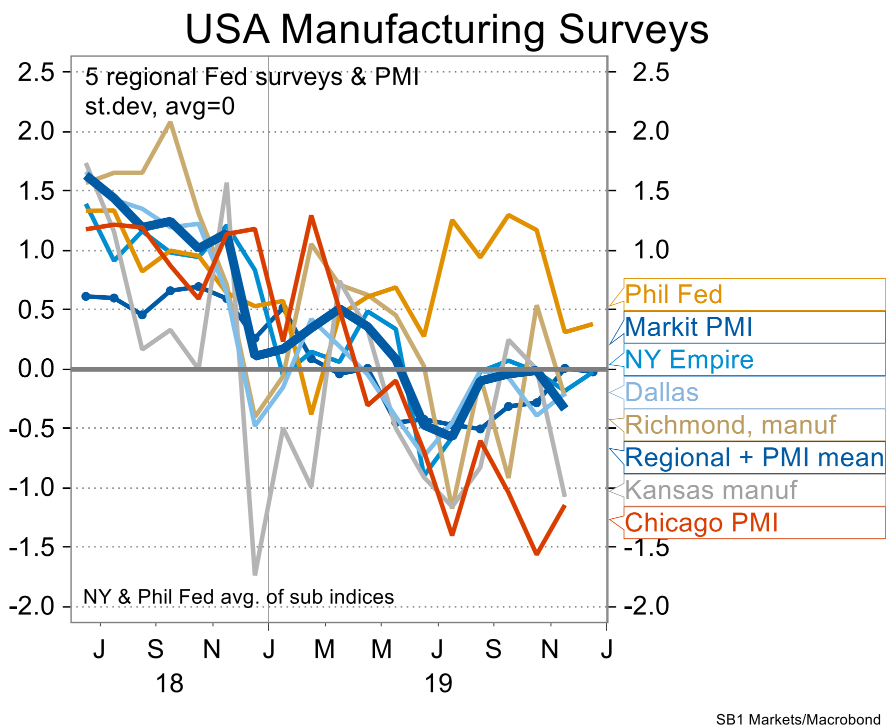


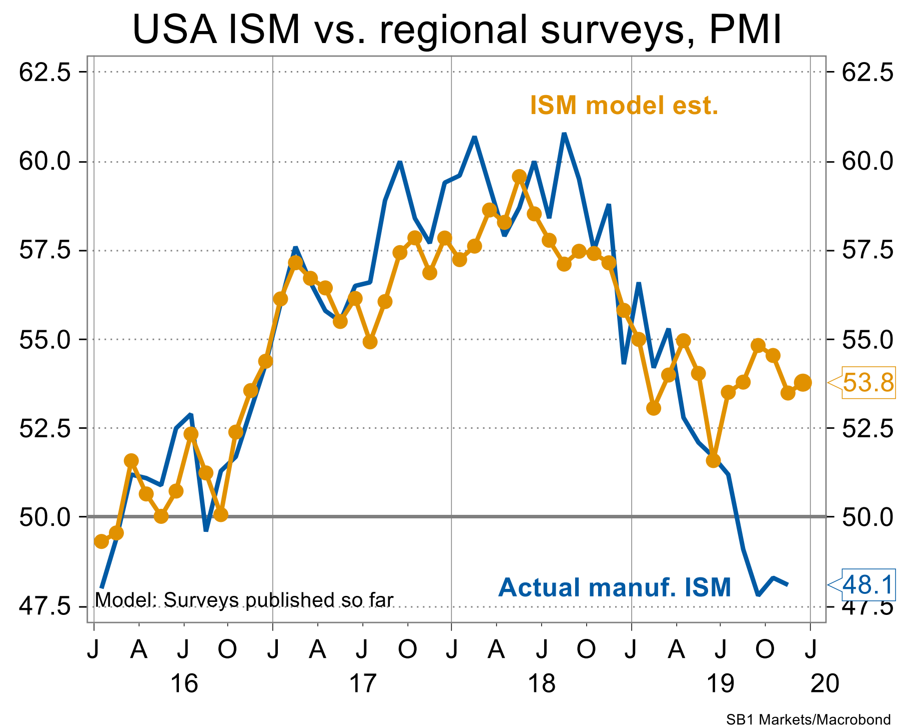


- The preliminary composite PMI rose to 52.2 in Dec, a 0.2 p increase, close to expectations. The index has stabilized since May and do not point to any steep downturn in the US. However, the level is signalling growth at just some 1%
- The manufacturing PMI inched down 0.1 p, the service sector index rose 0.6 p. Both sector PMIs are at decent levels
  - » Both service and manufacturing orders have picked up the past months. Manufacturing PMI points to a stabilization in production
- The manuf. PMI is much more upbeat than the ISM (no Dec data yet) but services ISM is not weak

So far: 2 December manufacturing surveys up, 1 down

NY Fed & Phil Fed edged up, Markit's PMI a tad down; pointing to a marginal upturn in the ISM

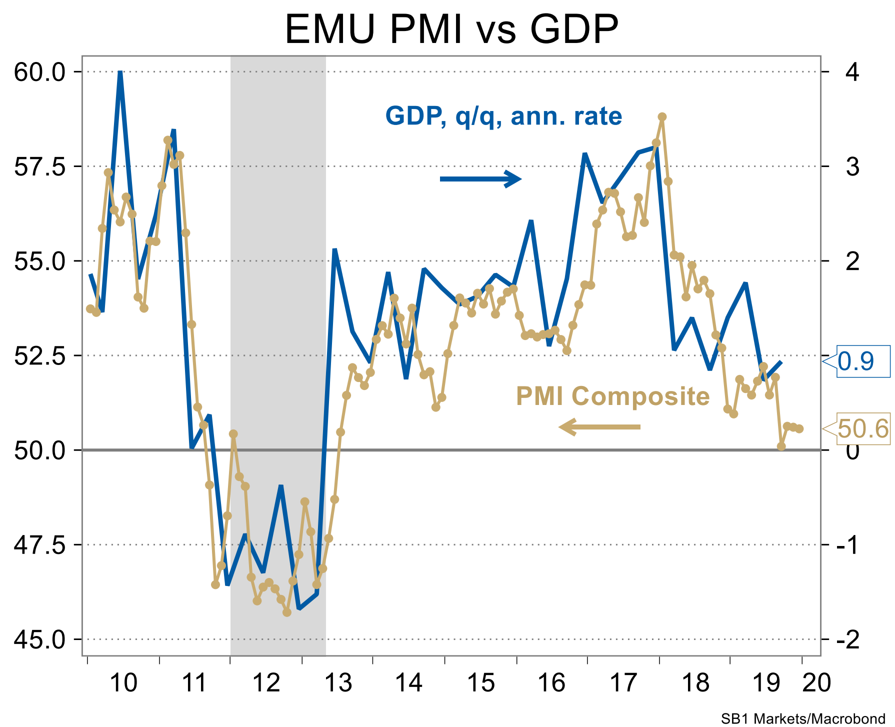


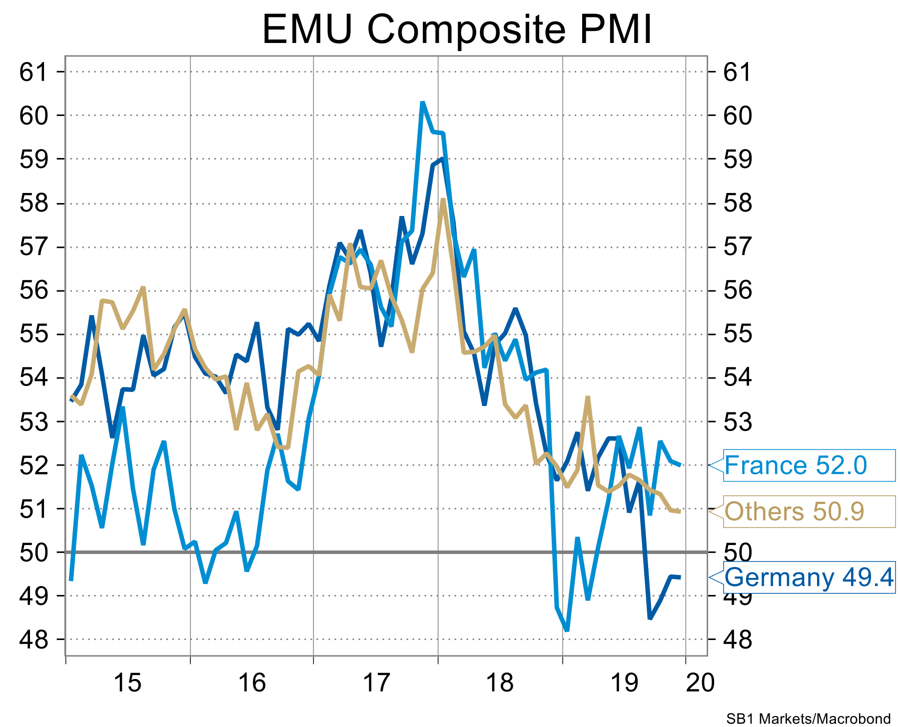


- The Philadelphia Fed index rose marginally in December. The index remains more upbeat than most other surveys and is still above the avg level, probably too elevated. The NY Empire increased slightly more and is back at the avg level, just as Markit's PMI, which came down 0.1 p in December.
- Taken face value, these indices (including the more upbeat PMI) signals 0.3 p increase in ISM index in December. The ISM index has been far weaker than other surveys past months, the large gap to the other surveys suggest a substantially higher ISM. And actual manufacturing production has flattened out and is no longer declining, ISM must soon improve?

Eurozone PMI steady in Dec – no recovery signalled

Composite prelim. PMI unchanged at 50.6, Germany flat at 49.4, France & others marginally down

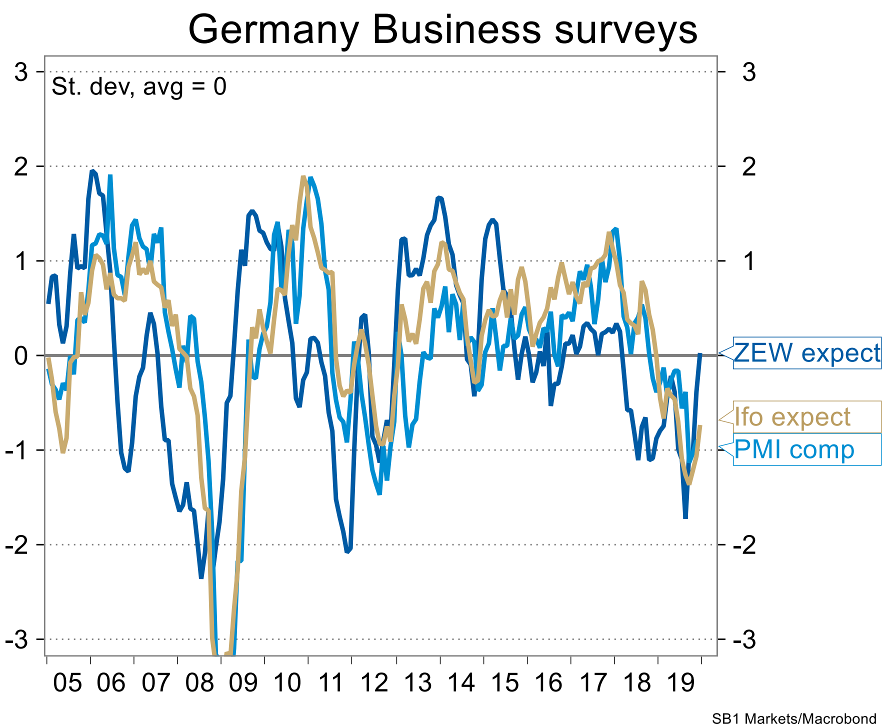


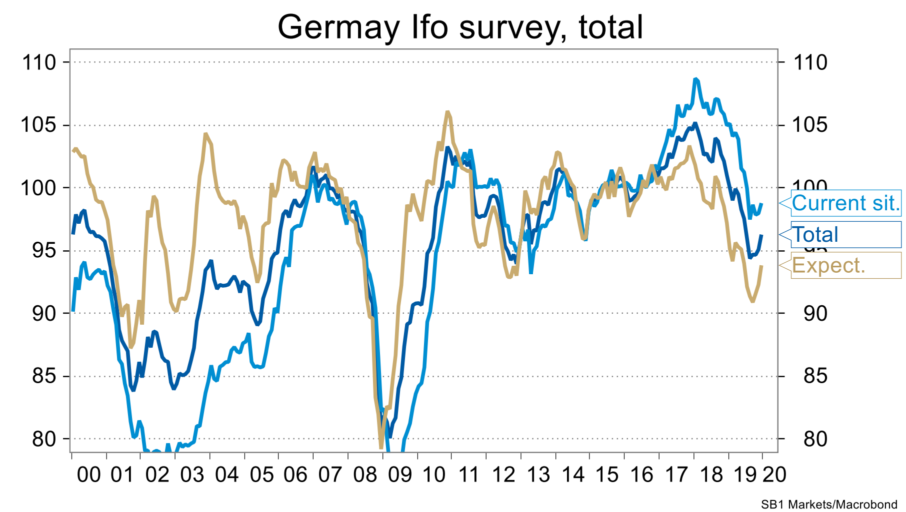


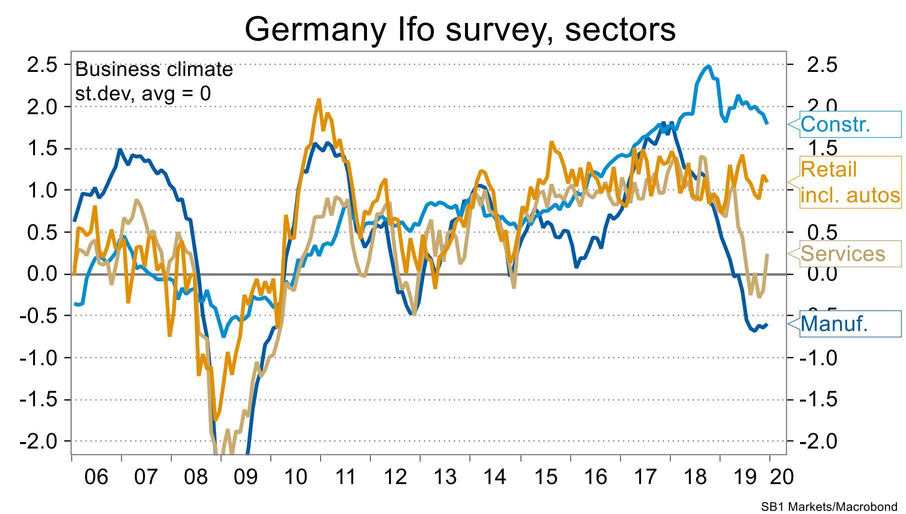
- The preliminary EMU composite PMI was unchanged at 50.6 in Dec, vs a 0.1 pp expected increase. The PMI is pointing to muted GDP growth in Q4, a substantial slowdown from the 0.9% Q3 pace
- The German composite PMI was flat at 49.4, still weak, as the manufacturing contraction intensified marginally, while services gained pace. France one tick down, together with the implicit average of the other countries
- Manufacturing PMI fell by 1 p, thus, reversing the November upturn. Services PMI rose 0.5 p, stabilised the past year

Ifo expectations are recovering, adding to signs of stabilization

Expectations inched up for the 3rd straight month, view of the current situation has stabilized



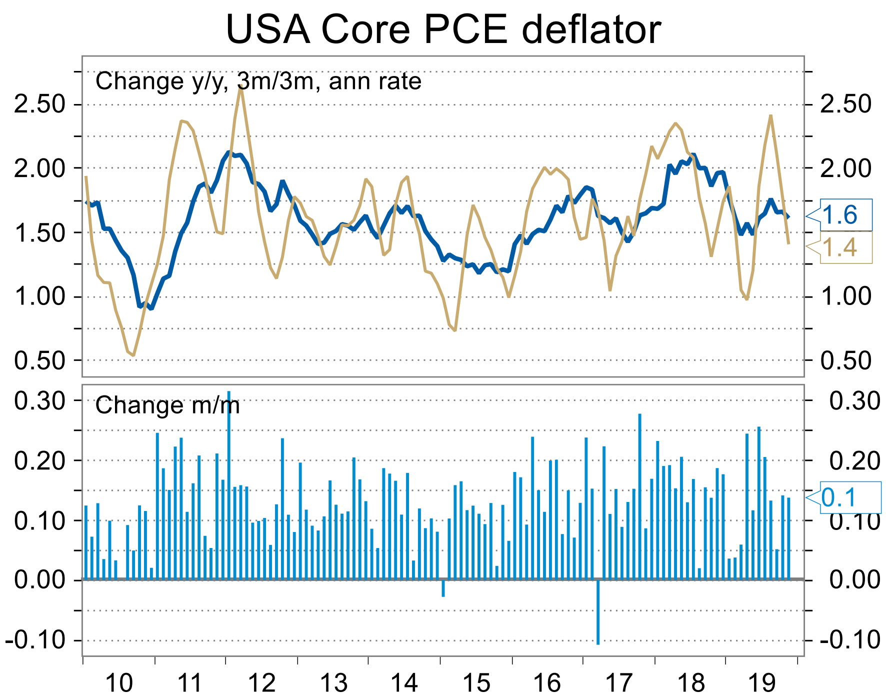


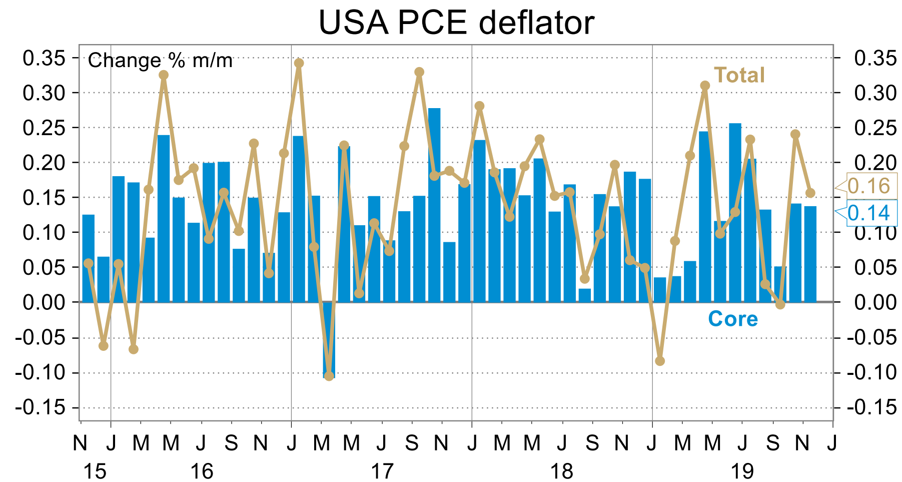


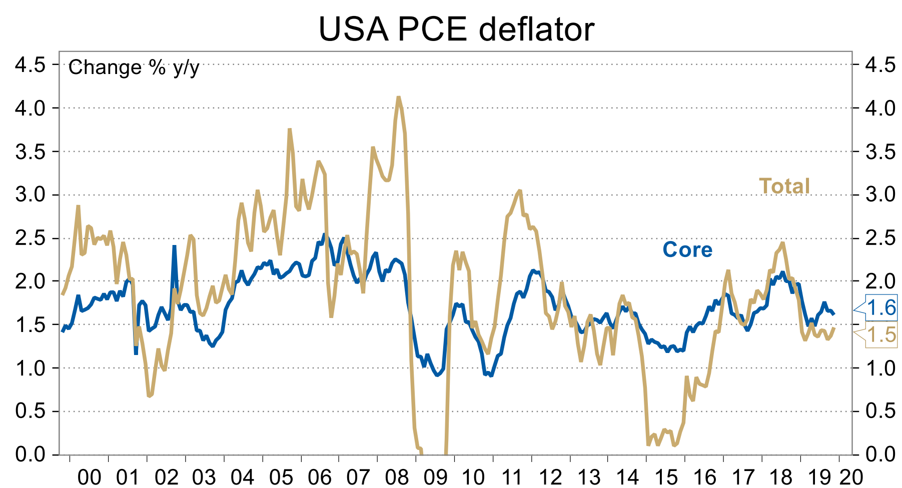
- Ifo business expectations recovered for the 3rd month in December, slightly more than expected. Businesses' view of the current situation inched up and has stabilised the past 5 months, after a steep decline
- All surveys signal that the German downturn may now be easing. The composite PMI was flat in Dec, inching up the prior months. The ZEW survey is more upbeat than Ifo & PMI (and less reliable)
- Services are recovering strongly, manufacturing steady, at a low level. Retail remains strong, and construction activity is elevated

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

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



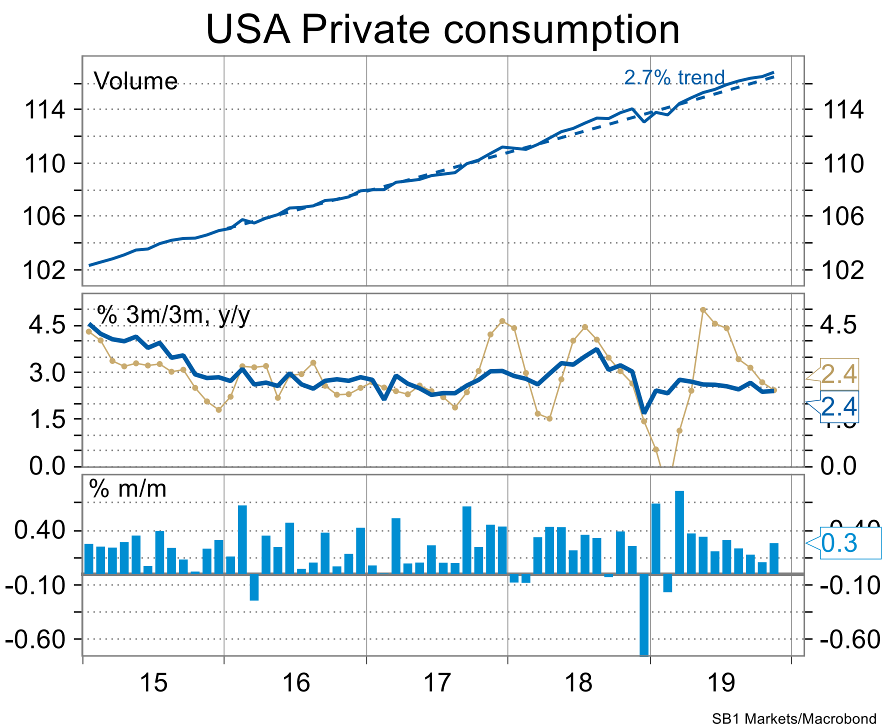


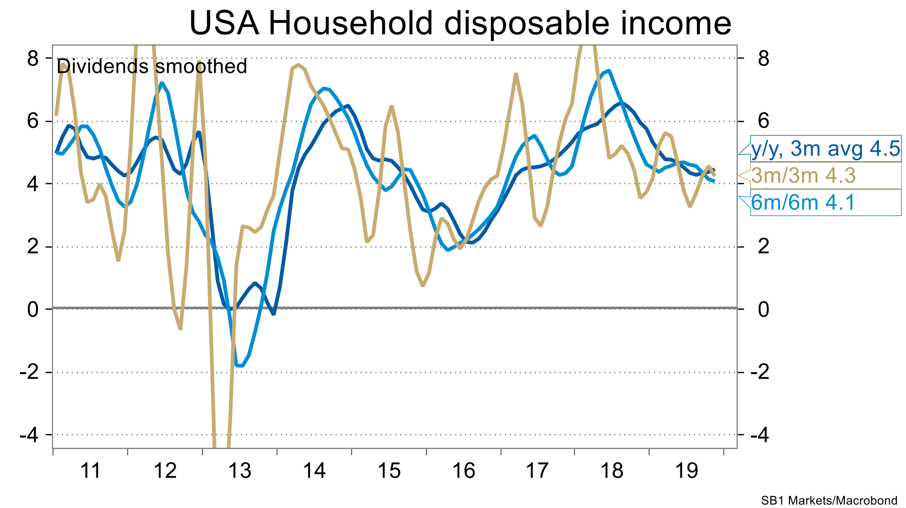


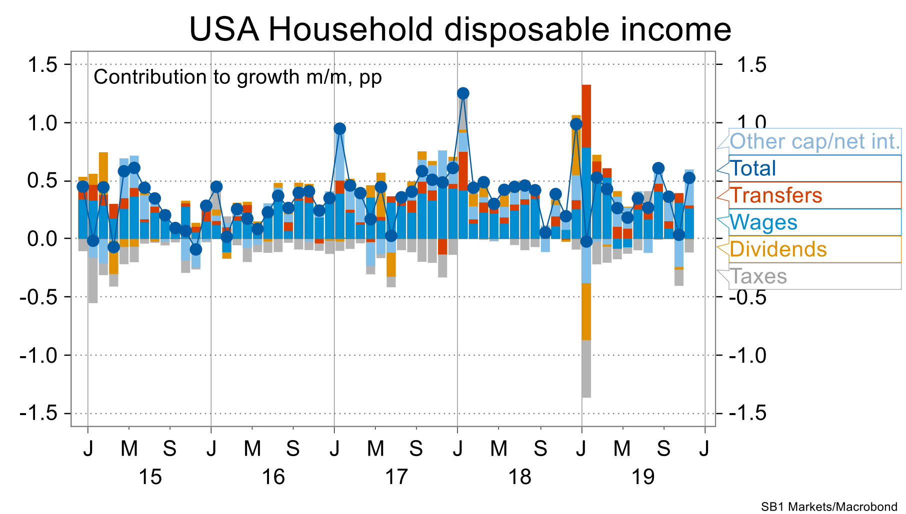
- The core price deflator rose by just 0.14% m/m in Nov, in line with expectations, but Oct was revised . Underlying growth has slowed the past 3 months, to 1.4%. Annual rate at 1.6% (down from upw. revised 1.7% in Oct, 0.1 pp above expectations. Trend recent few months down
- Total PCE inflation rose 0.2 pp to 1.5% y/y, has been stable in 2019
- Core PCE is 0.4 pp below Fed's price target, which is not sufficiently low to alter the Fed's stance on keeping rates on hold unless the economy weakens substantially (and other data have been on the strong side)

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

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



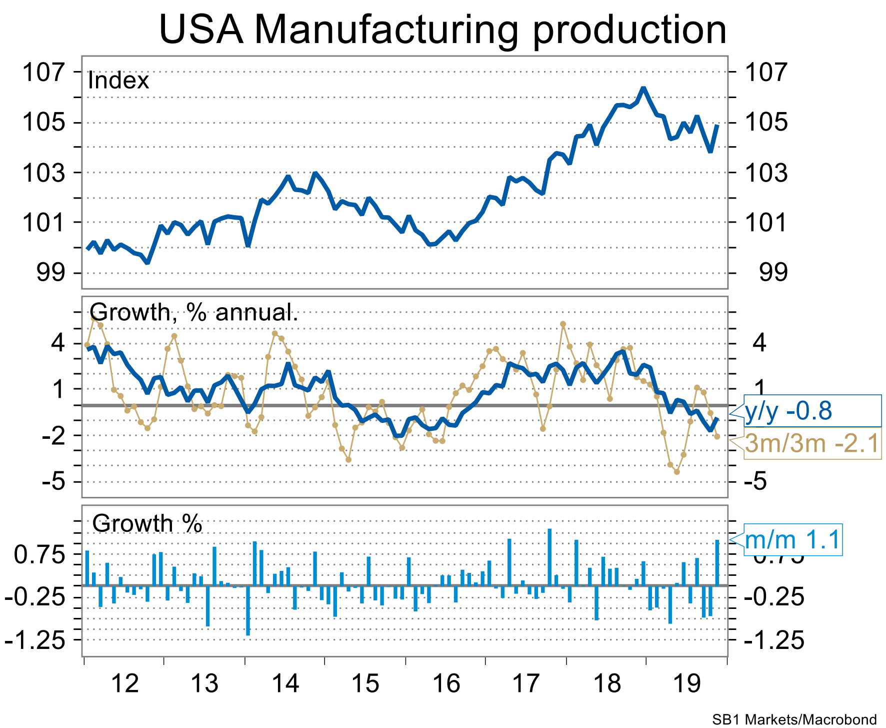


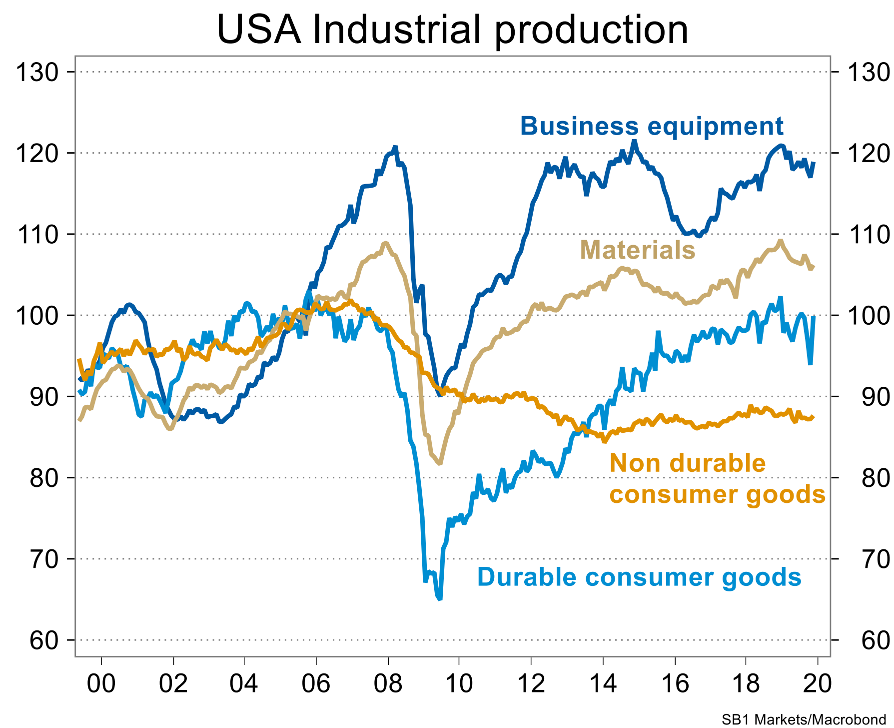


- Private consumption rose 0.3% m/m in Nov (volume), 0.1 more than expected
- Underlying growth has slowed to 2.4% annualized, from 5% in the spring
- Households' nominal disposable income rose 0.5% m/m, 0.2 pp more than expected and Oct was revised up 0.1 pp to 0. Underlying growth is slightly above 4%. Total wage & salary income up 5.3% y/y (volatile data)
- The savings rate rose 0.1 pp to 7.9% - a rather high level for Americans

Manufacturing production recovered in Nov, from the GM loss

Production up by 1.1% but trend still no more than flat

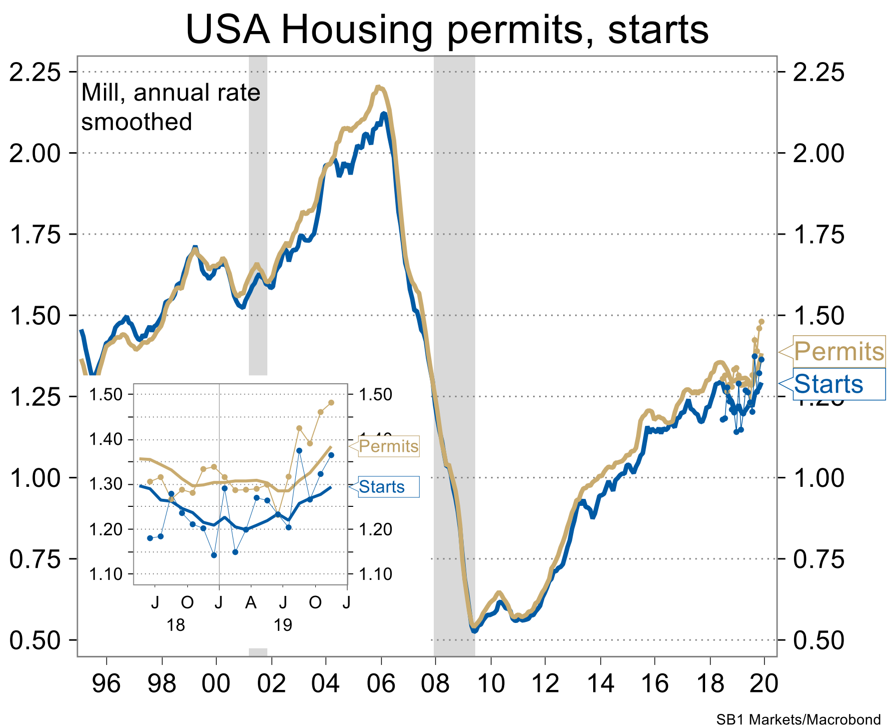


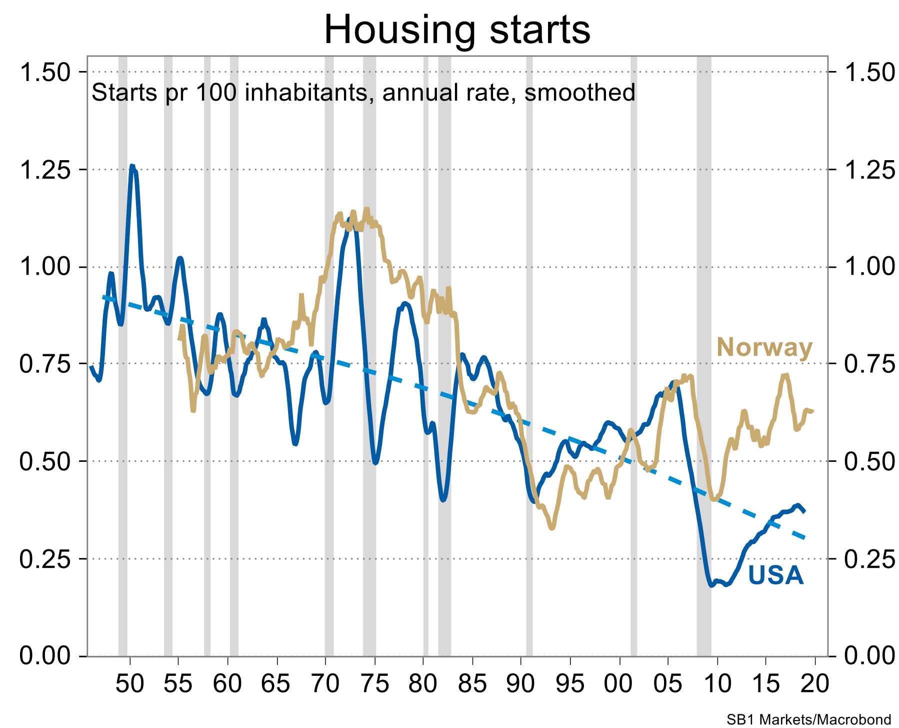


- Manufacturing production recovered in November, as the impact of the GM strike disappeared, expected up 0.7%. If production is unchanged in Dec, production will decline 1% q/q (annual rate)
  - » Total industrial production including energy & mining rose 1.1% as well
  - » Production has slowed in most sectors recently, including business equipment & consumer durable goods - in sum weaker than signalled by durable orders, which has just stalled
- Manufacturing surveys are mixed but in sum they signal modest decline in production
  - » The average of 3 Dec surveys published so far is marginally up, but not enough to signal a lift in production

Housing permits & starts are soaring, highest level since 2007

Both housing permits & starts have perked up recently, demand must be thriving. Limited upside?

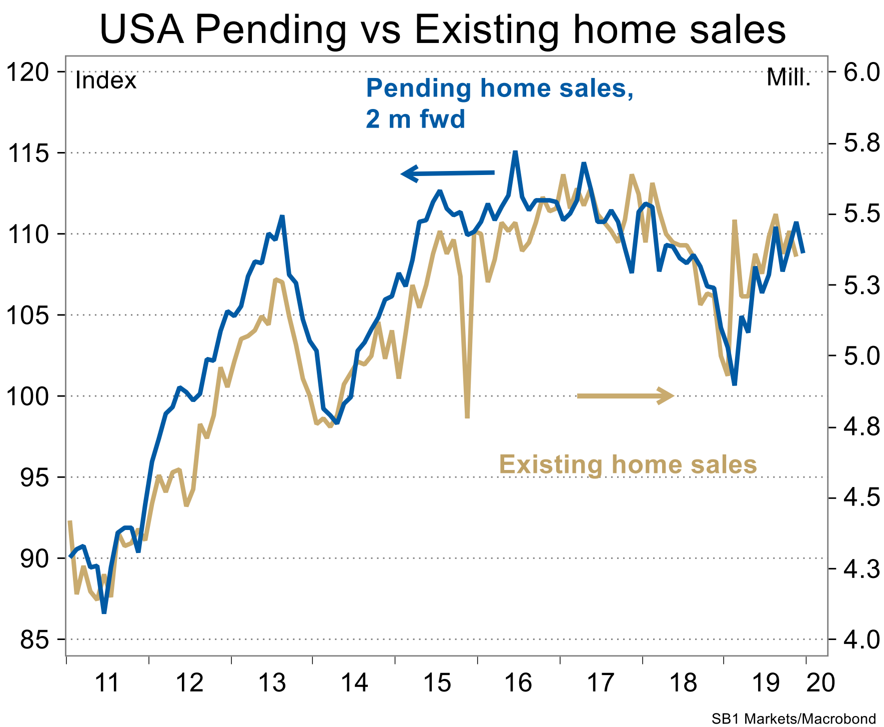


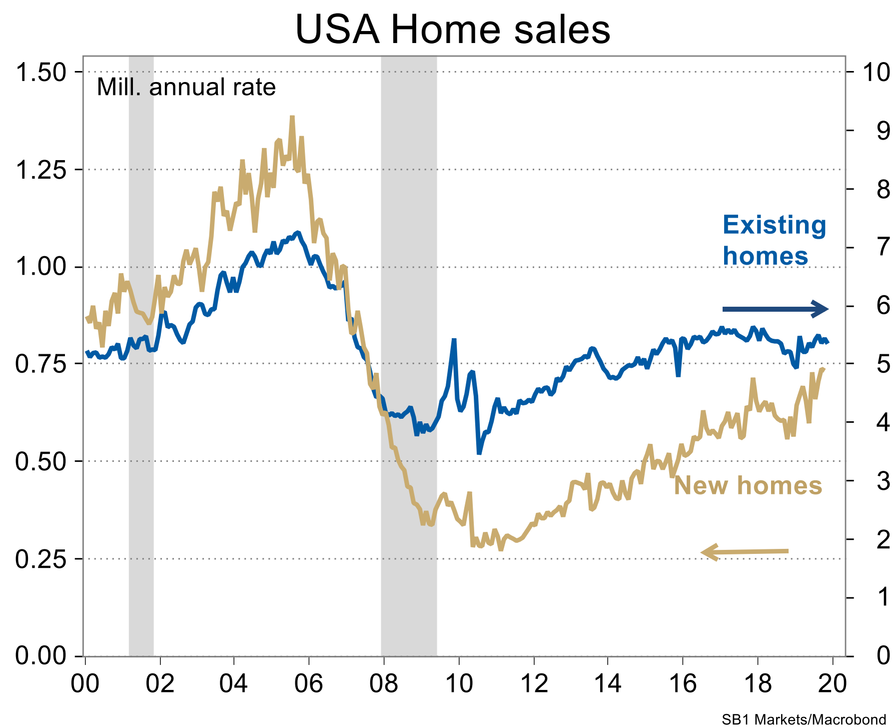


- Housing starts rose by 3.2% m/m in Nov, to an annual rate of 1.37 mill, a tad below expectations. Starts have climbed since last winter and the smoothed index is back at the 2018 peak level
- Housing permits increased by 1.4% m/m, following a spike in Oct. The annual rate of 1.48 mill is above expectations and the highest since early 2007! Permits usually are less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts. The smoothed rate is just 2% above the 2018 peak
- Housing starts/permits reflect a solid housing market upswing, boosted by low mortgage rates. The Homebuilders' index confirms brisk demand but does not suggest another lift. The level of starts is not high, and the downside is modest compared to '06-'09

Existing home sales down in Nov, trending up (most likely…)

Existing home sales are up 8% from the trough, a slower upturn than new home sales

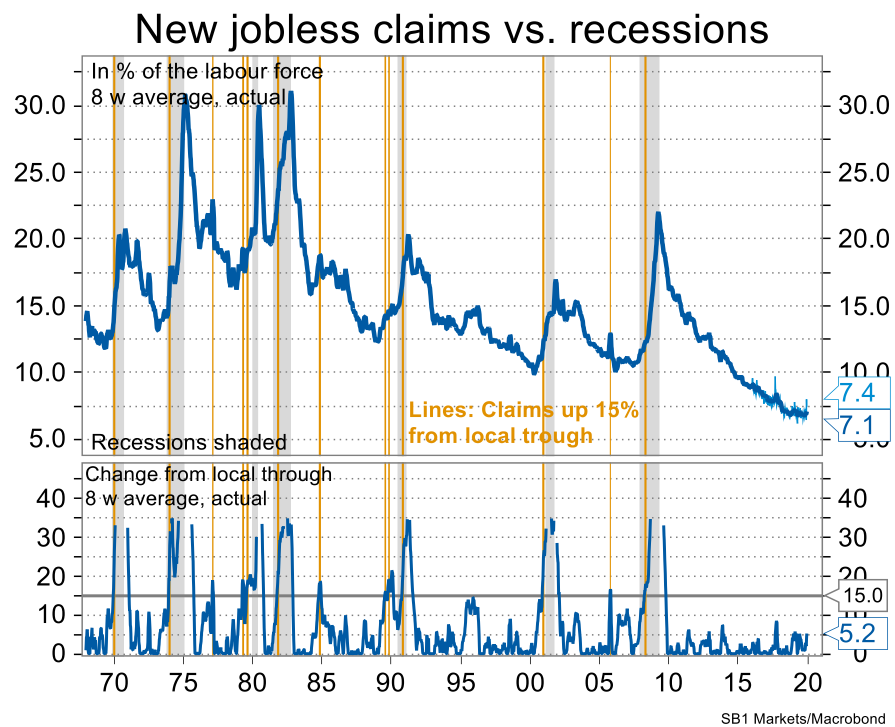


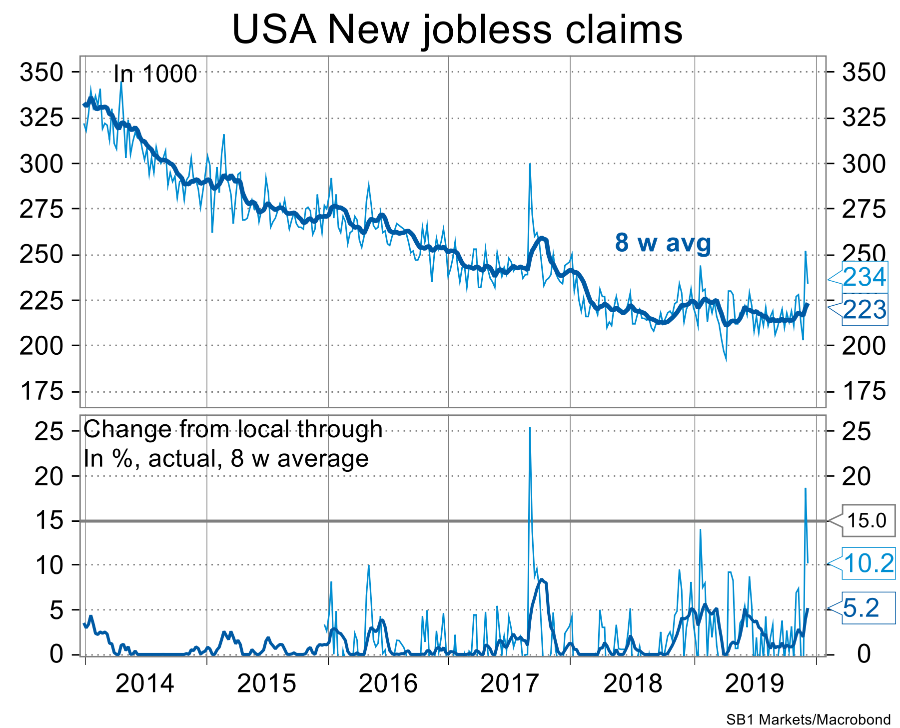


- Existing home sales fell 1.7% m/m in Nov, slightly weaker than expectations – and the recent months have not been that impressive
- Pending (existing) home sales are heading steeply up, reversing the early 2019 downturn. Pending sales are pointing to steady existing home sales, these are usually quite well correlated. New home sales have been soaring recent months
- Other housing data are upbeat, demand must be booming

Jobless claims remained 'high' last week, as seasonal distortions persist

Claims fell to 234', far above the 8 w avg. However, the pattern is equal to that of the previous years



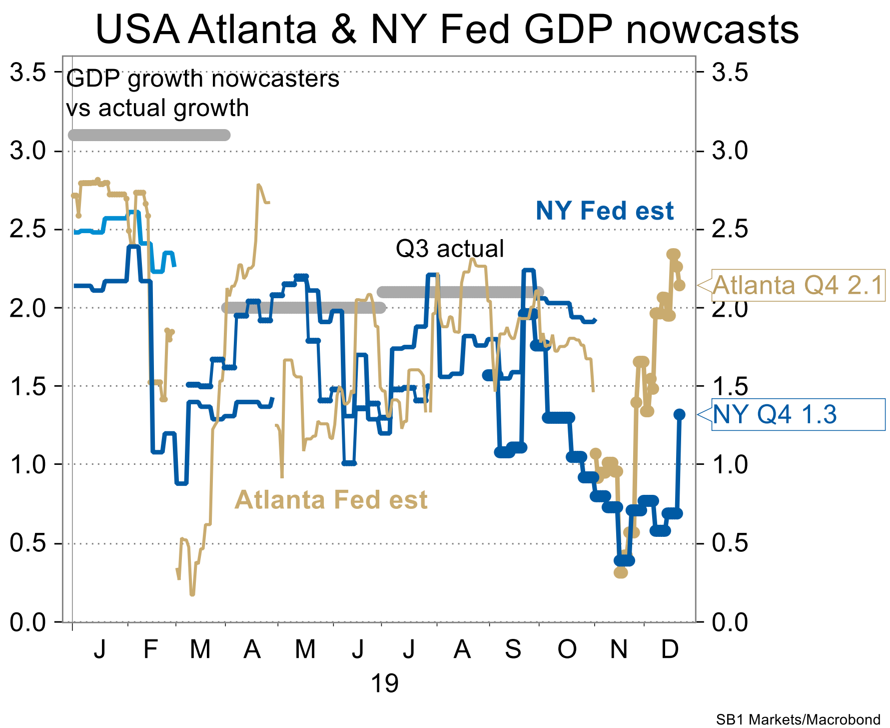


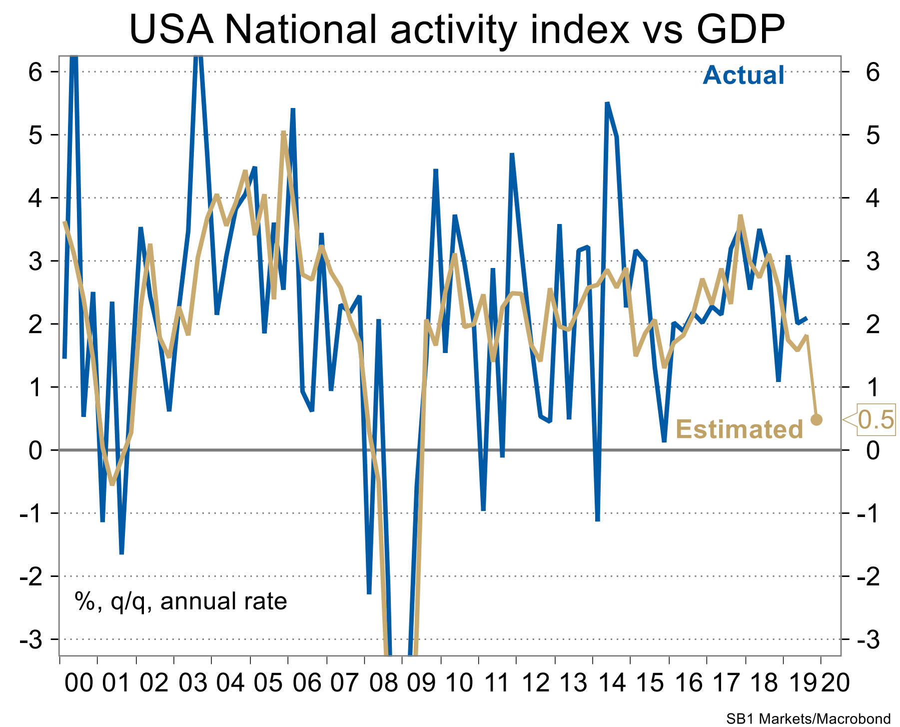
- Jobless claims have been distorted by a later than usual Thanksgiving holiday. During the holiday, fewer are filing their claims, and the next week, claims tend to soar. As Thanksgiving falls on different weeks, the seasonal adjustments are troublesome. Looking at the unadjusted data, the spike 2 weeks ago was equal to that of the past years and the meagre decline last week was just 'as usual'. Thus, the recent uptick probably does not reflect an actual unemployment upturn
- The 8 week average inched up to 223', still a very low level and just a marginal increase
  - A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

SpareBank 1 MARKETS

Nowcaster converged before Christmas, now signal 1.3 (0.7) – 2.1% (2.3) growth

The NY Fed's model is still well below Atlanta Feds nowcaster

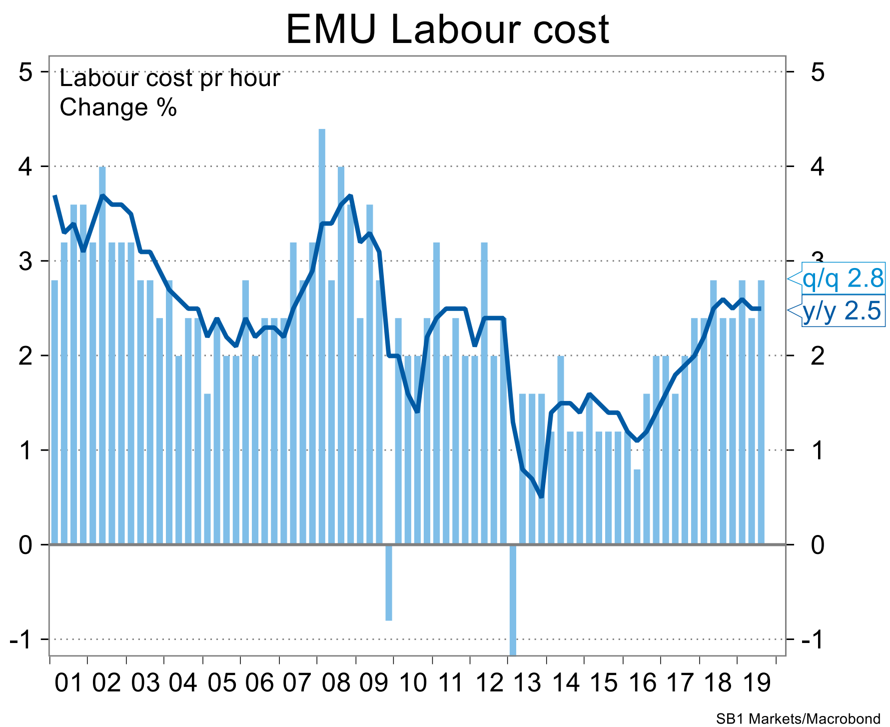


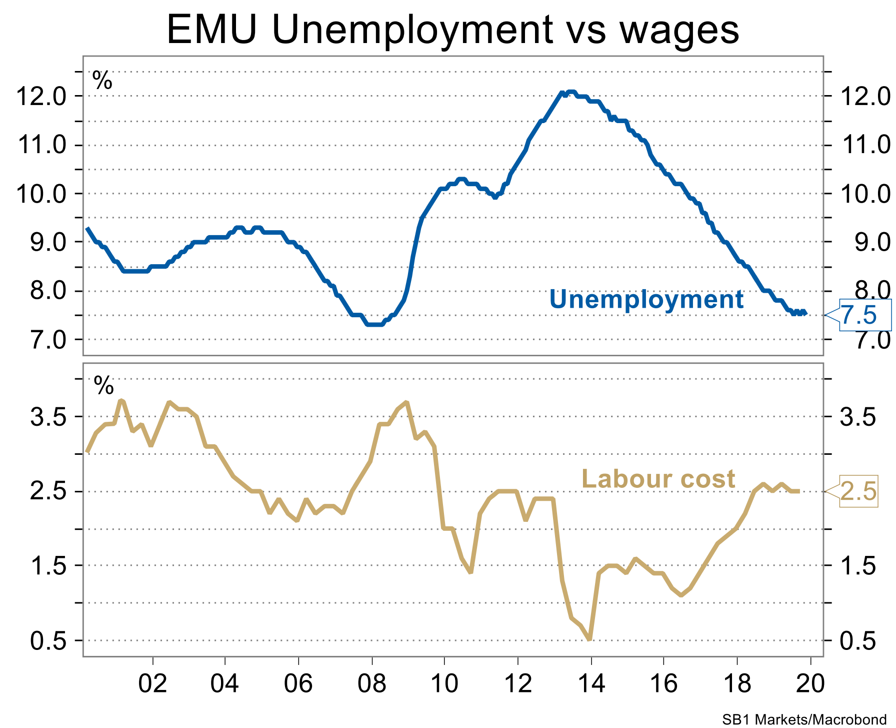


- The National Activity Index, which suggested 1.8% GDP growth in Q3 (0.3 pp below the actual number), now points to a slowdown to 0.5% into Q4 (Oct data)

Wage inflation has flattened along with unemployment

Labour costs rose 2.8% q/q in Q3, up 0.4 pp. Growth has flattened out, annual rate steady at 2.5%

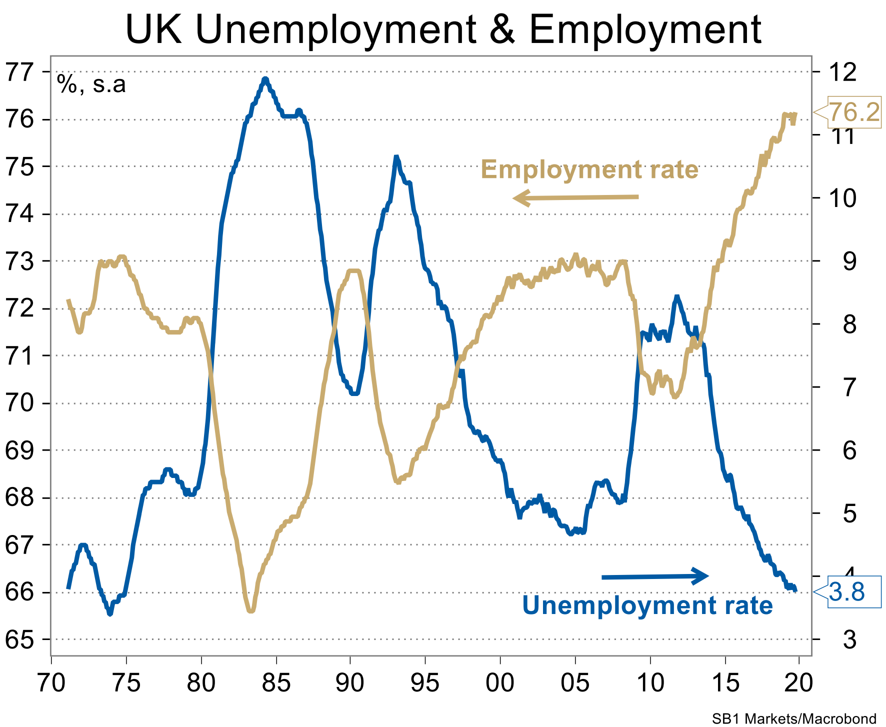


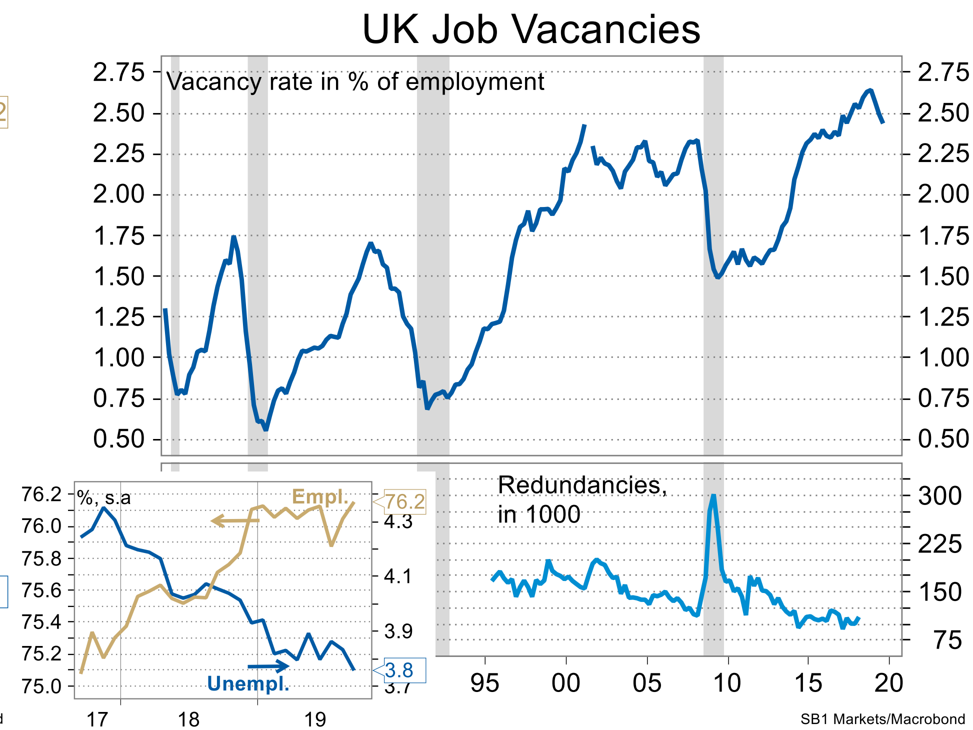


- Wage inflation was unchanged at 2.5% y/y in Q3, flattening out the past year. Growth q/q ann. rose to 2.8%, from 2.4%
  - » Unemployment has flattened out the past months, at a low level, and employment growth is sliding slowly down
- Stalling wage inflation is not a strong argument for higher CPI inflation. On the other hand, a 2.5% pace is not low and should have translate into higher inflation at one point. And unit labour costs are high. Business profits exposed?

Unemployment inches down but employment has stalled

Unemployment at 45 y low, employment flattens out, vacancies down. And wage growth cools



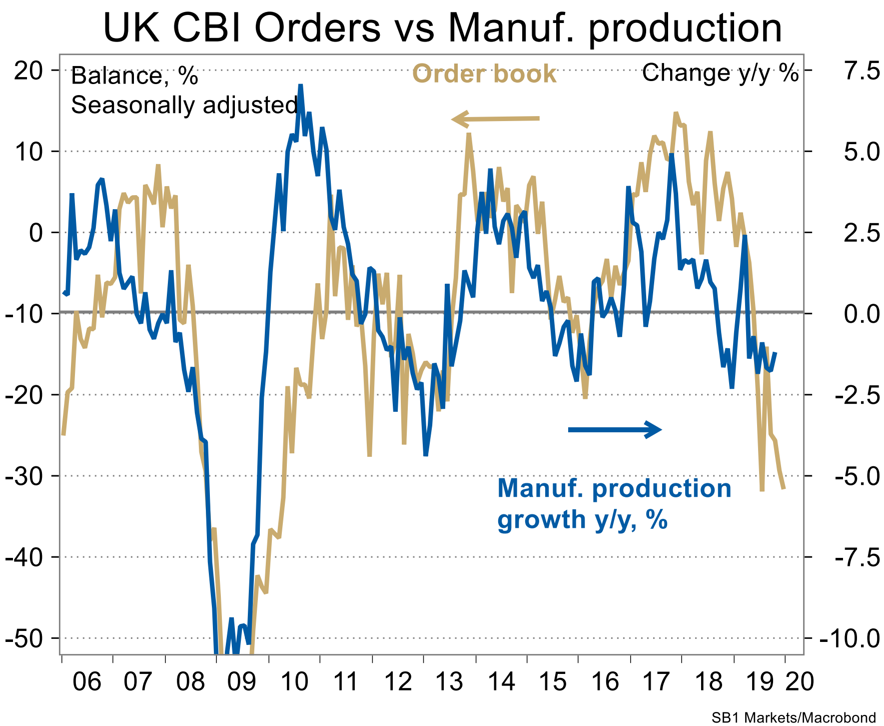


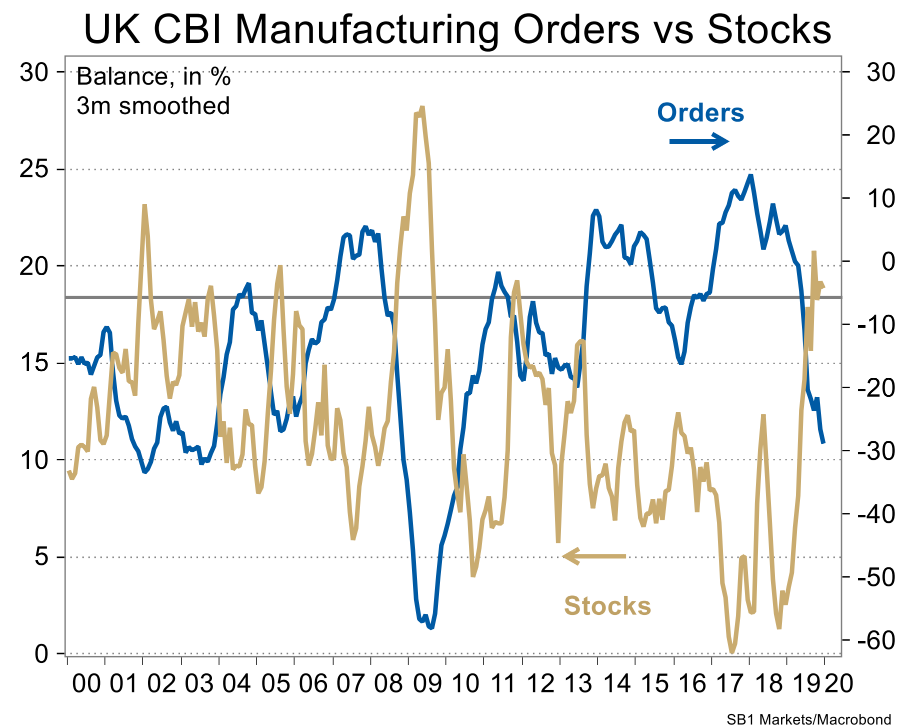
- Unemployment (LFS/ILO) fell marginally but was flat at 3.8% (on the 1st decimal) in Oct (avg Sept-Nov). An uptick to 3.9% was expected. Unemployment has flattened out since early 2019, at the lowest level since 1974
- The employment rate climbed to 76.2%, up 0.2 pp. Employment has flattened out this year, at a high level. Supply constraints most likely to blame, not lack of demand, the labour market is tight
- The vacancy ratio fell to 2.4% in Q3, down from 2.6% in late 2018.
- Wage inflation has eased recent months, more on the next slide

SpareBank 1 MARKETS

Manufacturing orders stumble and inventories are elevated

UK businesses are struggling with Brexit inventory build ups, orders have been slashed

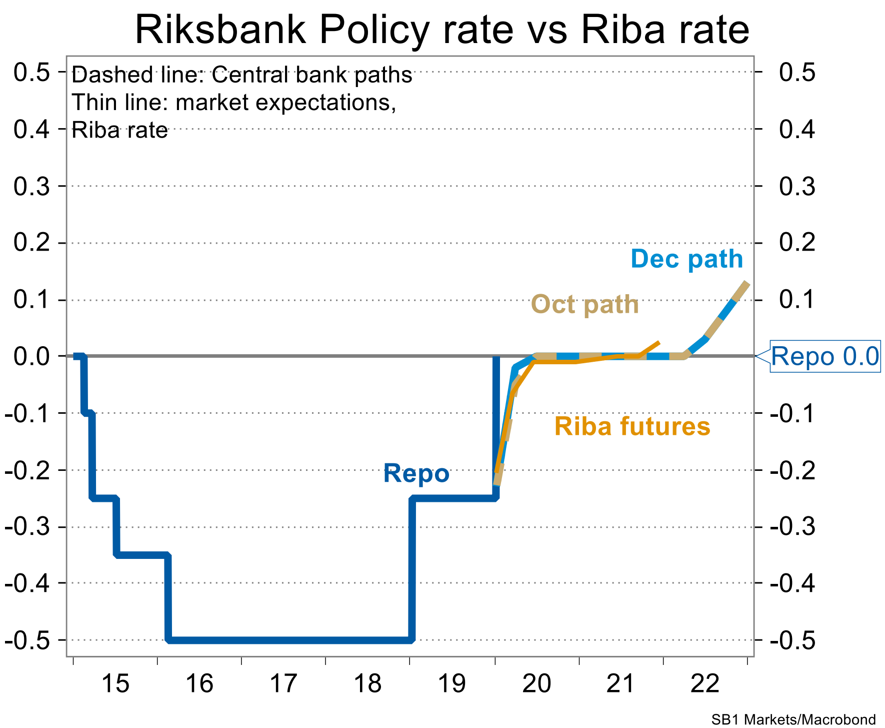


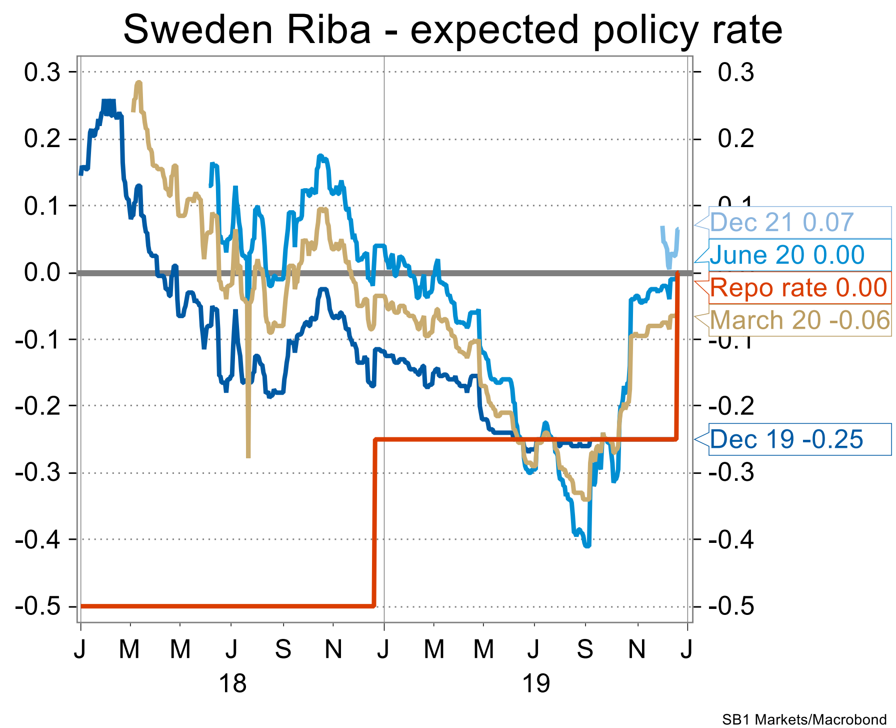


- The CBI order book index fell further to -32 (-28 not seas. adj) in Dec, the 2nd lowest level since the Financial Crisis, mirroring a steep decline in manufacturing order inflows & in actual production
  - Ahead of the previous March and October Brexit deadlines (particularly the first one), demand has been boosted by emergency stockpiling, as businesses have prepared for Brexit. In the aftermath of these build ups, businesses have reducing new orders significantly. According to the CBI, inventories are still being built up quite rapidly, at one point they will have to be trimmed!
  - Both domestic and export orders are falling
- The CBI is reporting a much more rapid inventory build up than the PMI, flip to this slide for the PMI

The Riksbank abandoned negative interest rates, signals an unchanged rate

The bank delivered the 25 bps hike to zero, as most expected. No changes to the interest rate path

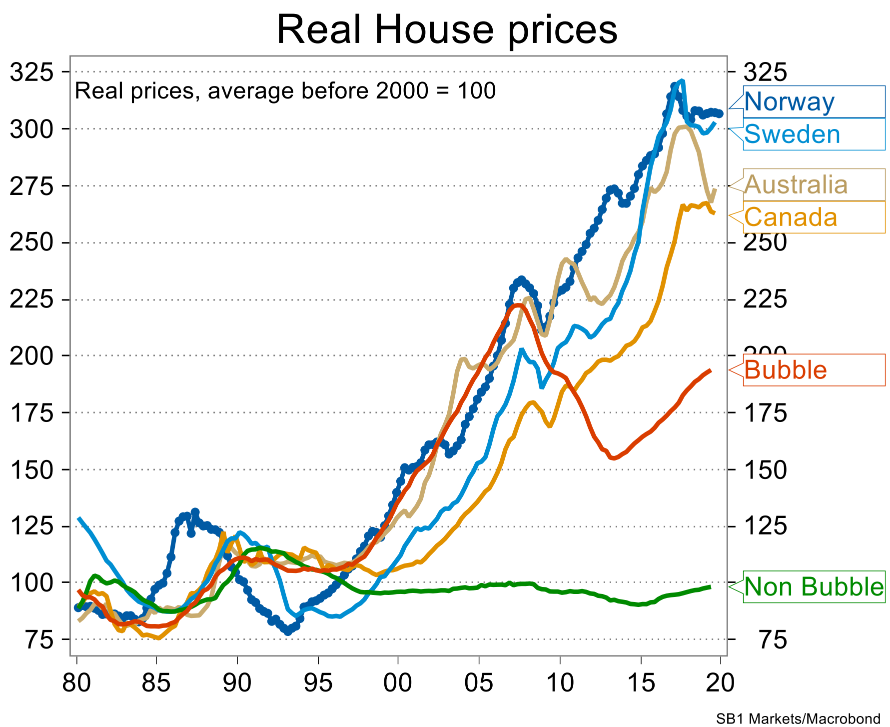


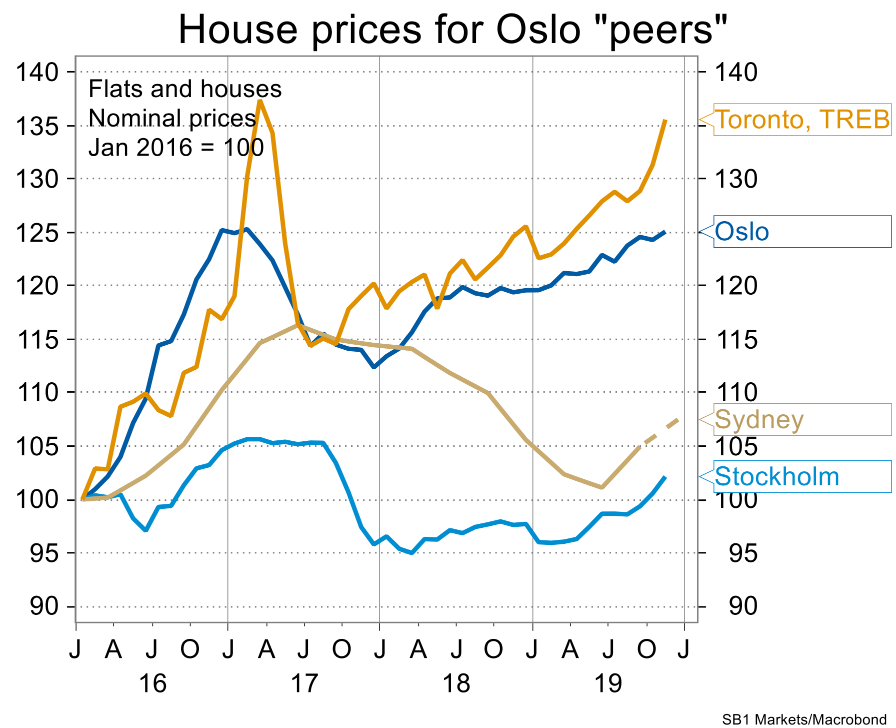


- The hike was broadly expected, as it was explicitly communicated the October meeting. The Riba futures priced some 70% probability of a hike. The Bank signals that it plans to keep the interest rate at zero through 2020 and 2021 and signals a possible hike in late 2022. The path was held unchanged from October
  - » was probably eager to exit negative interest rates,
- No substantial market reactions; RIBA futures on the Riksbank rate rose some very few (1-3 bps) on the Riksbank message. The SEK was volatile before and after the announcement, but fell just marginally later in the day. The market is pricing an unchanged interest rate in 2020 and 2021

Supercycle home prices in the way up again?

Following weakness in 2017/18, prices are now on the way up again. Real prices still well below peak



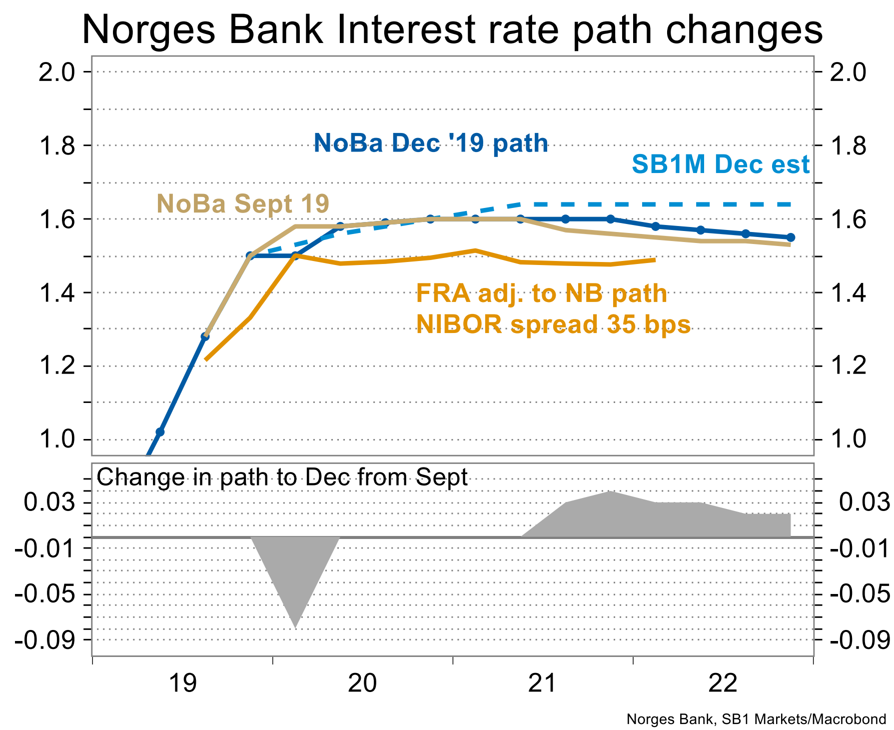


- Price growth have picked up among the supercycle guys recently, Oslo and Stockholm prices are increasing, Toronto soaring, and Sydney has sharply gained pace since the summer (interest rates have been cut, and lending standards eased)
- Still, household credit growth is slowing in all these countries, and unemployment has flattened out (and it is increasing in Sweden and Australia), the upside on the housing market must be limited?
- New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – probably created 'some turbulence' in 2017 and 2018, prices slowed or decline in all countries

Norges Bank signals an unchanged rate, keeps the door (half) open for a '20 hike

NoBa nudged up the interest rate marginally, continues to signal a 40% prob. of a 2020 hike

- **Norges Bank held the interest rate unchanged at 1.50% at the December meeting, as everyone expected**
- The interest rate path was held unchanged in 2020 and lifted by up to 4 bps in 2021 and 2022 (and reduced by 8 bps in Q1 2020, just a technical adjustment as a Q4 hike was excluded). The interest rate path signals a 40% probability of a hike in 2020, with some 30% prob. of a March hike, the same as in the Sept report
- Factors behind the changes in the interest rate path:
  - » The very weak NOK was the major contributor, with some 15 bps. A somewhat higher oil price than projected and a lower money market spread lifted the path marginally
  - » Weaker domestic demand pulled the path down by approx. 20 bps, and a small negative contribution from the judgement component
- **Our view:** We judge Norges Bank's assessment of the interest rate path to be appropriate, given that the economy is probably at a cyclical peak. The changes were close to our expectations, we f'casted a 9 bps lift in the long end

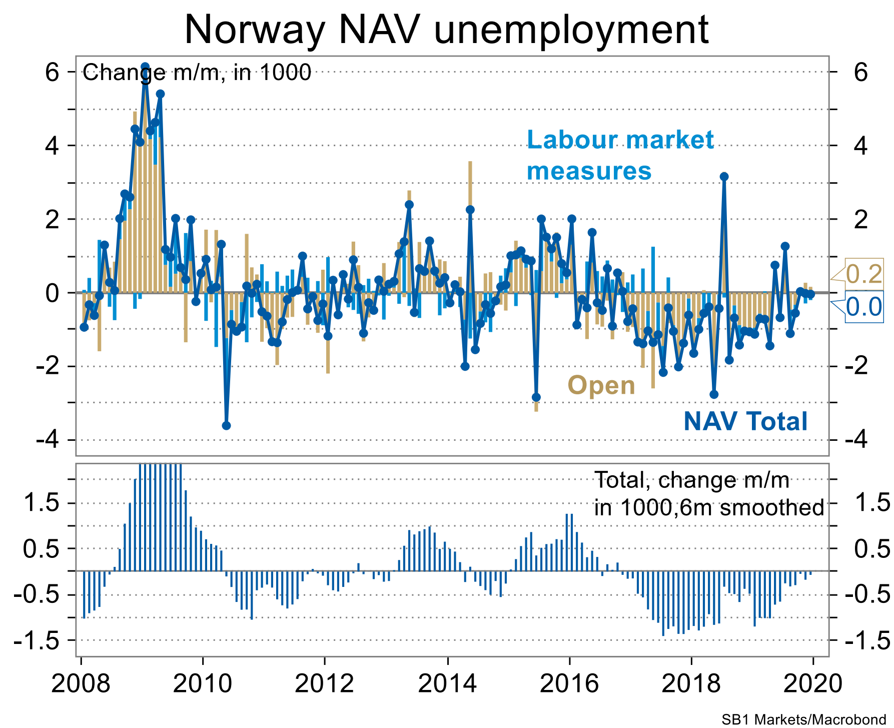


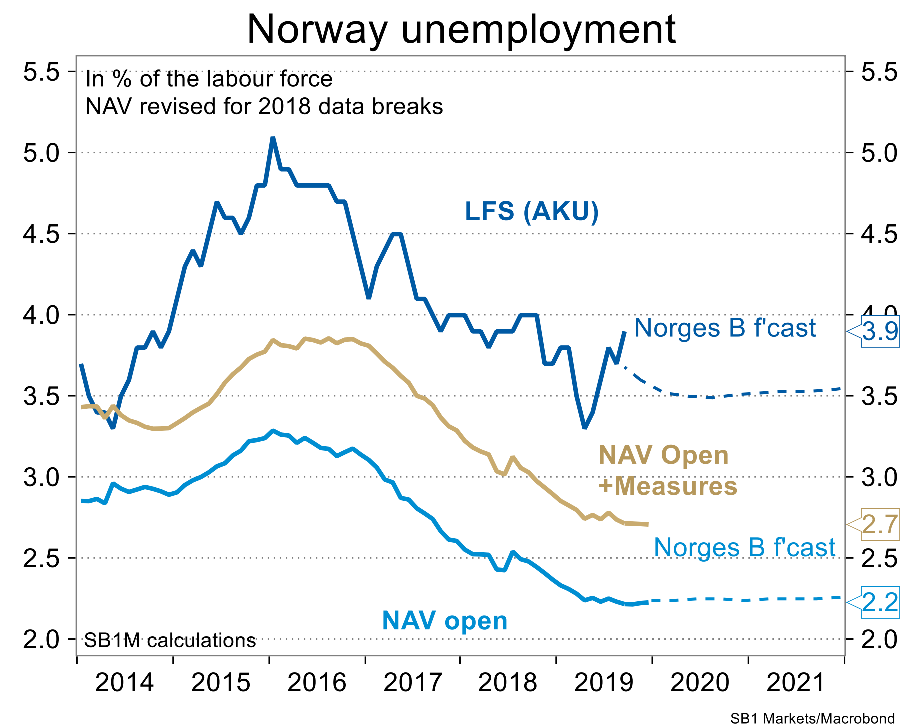
Market implications

- The interest rate path was probably marginally on the hawkish side vs expectations, the Dec '20 FRA was unchanged at 1.85%, Dec '21 contract up 2 bps and the 10 y swap rate rose 4 bps (but rates rose abroad too). Market expectations are some 10 bps below Norges Bank's path, the FRAs indicate an unchanged interest rate through 2020 and 2021, with less than a 10% probability of a cut in 2021, and not much more in 2022
- The NOK initially strengthened but later depreciated and closed down 0.4% (vs EUR) on Thursday!

NAV unemployment remained flat for the 3rd straight month

Open unempl. rose by 200 persons in Dec, total unchanged, confirming a softening labour market

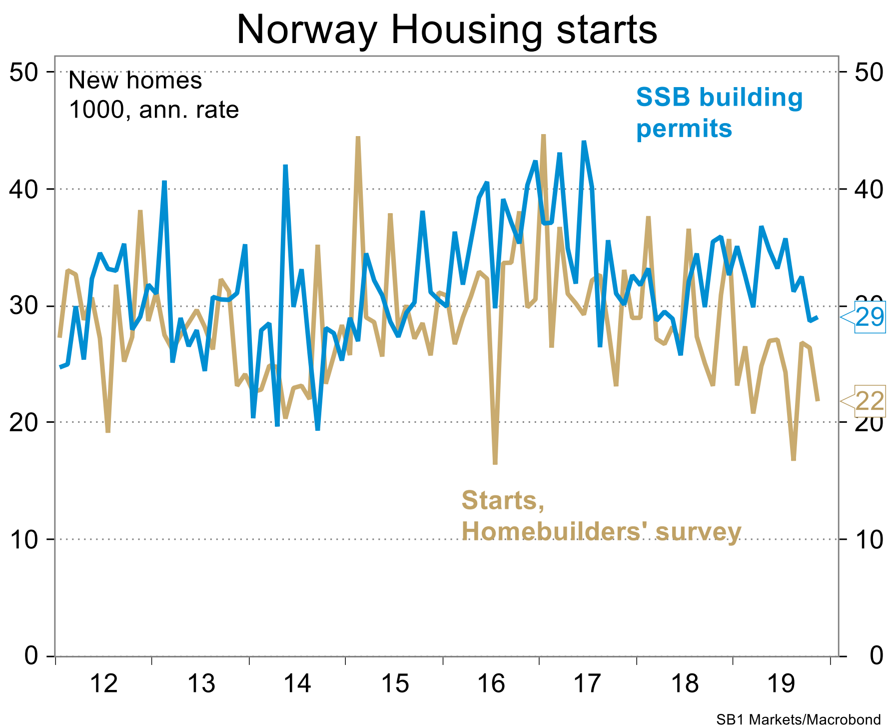


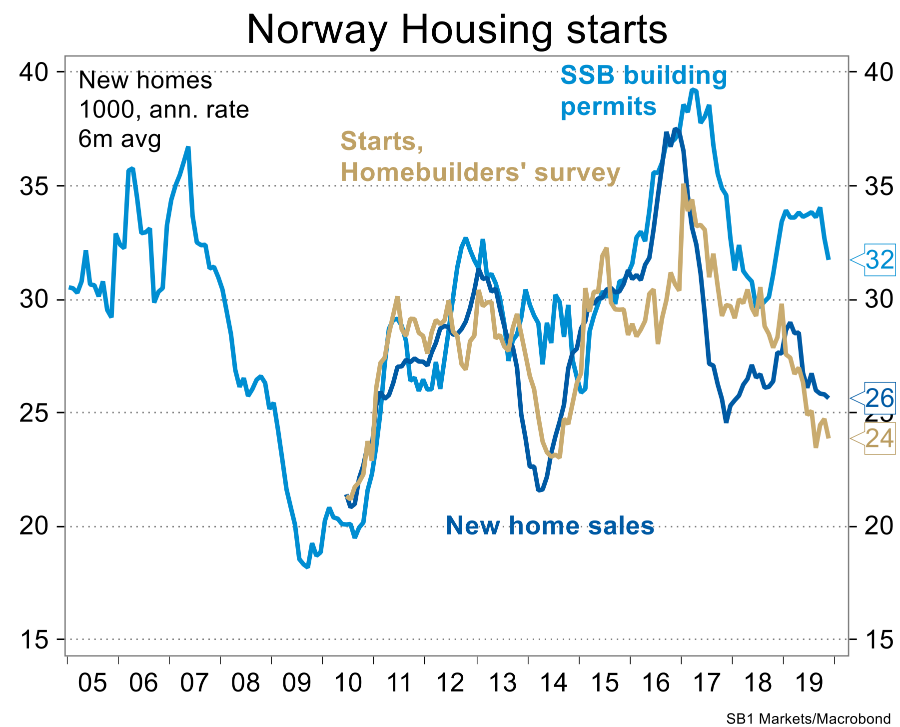


- NAV open unemployment increased by 200 persons in December, the 2nd month of a small uptick. Total unempl. (incl measures) was unchanged. The pace of decline has almost vanished, the 6m average decrease down to just 100 persons m/m, from 1000 in early '19
- The open unempl. rate held steady at 2.2%, marginally below NoBa's newest f'cast
  - » Other indicators confirm a softer labour market: New jobless claims are heading marginally up, and the number of vacancies is slowly declining
- LFS unemployment has increased the past months, chiefly due to a rising labour force. These data are much more volatile than NAV, our take is that a stabilization of unemployment is more likely. As long as employment is still growing at a decent pace, we are not too worried, short term
- A stabilizing unemployment is in line with Norges Bank's projections. NoBa expects NAV unempl. to hold steady at the current rate through 2020

SSB confirms the Homebuilders' reports; housing starts have peaked

SSB housing permits was unchanged at 29' in Nov, sliding down the past months





- SSB reported housing starts (building permits) at 29' annually in November, unchanged from Oct, and the lowest in more then a year. The 6m average fell 32' from 33'. Housing starts probably peaked in Q2
  - The Homebuilders have been reporting declining starts since early 2017 – and the gap to the SSB data is unusually wide. Student homes, which is only included in the SSB figures, explains some of the difference. In Q3, student housing starts dropped after a steep rise in Q2. New home sales are still sliding down (according to the homebuilders), and do not signal higher starts
- Our take is that housing starts have peaked, indicating a muted/no growth in housing investments. Starts are not running at a low level, although well below the '16-'17 peak. The level is above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too)

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In focus: Manufacturing PMIs/ISM, US durable goods orders, housing, Norwegian unemployment

Time	Country	Indicator	Period	Forecast	Prior
Monday Dec 23					
05:30	JN	All Industry Activity Index MoM	Oct	-4.3%	1.5%
14:30	US	Chicago Fed National Activity Index	Nov	-0.13	-0.71
14:30	US	Durable Goods Orders	Nov P	1.5%	0.5%
14:30	US	Capital Goods Orders, Core	Nov P	0.2%	1.1%
16:00	US	New Home Sales	Nov	730k	733k
Tuesday Dec 24					
15:00	WO	CPB World Trade Monitor	Oct		-0.6%
Wednesday Dec 25					
Thursday Dec 26					
14:30	US	Initial Jobless Claims	Dec-21	220k	234k
Friday Dec 27					
00:30	JN	Jobless Rate	Nov	2.4%	2.4%
00:50	JN	Retail Sales MoM	Nov	5.0%	-14.4%
00:50	JN	Industrial Production MoM	Nov P	-1.1%	-4.5%
09:30	SW	Retail Sales MoM	Nov	0.7%	0.2%
Monday Dec 30					
08:00	NO	Retail Sales MoM	Nov	0.5%(1.0)	-0.8%
14:30	US	Advance Goods Trade Balance	Nov	-$68.8b	-$66.5b
16:00	US	Pending Home Sales MoM	Nov	1.5%	-1.7%
Tuesday Dec 31					
02:00	CH	Composite PMI, NBS/CFLP	Dec		53.7
02:00	CH	Manufacturing PMI, NBS/CFLP	Dec	50	50.2
15:00	US	CS 20-City House Prices MoM	Oct	0.4%	0.4%
16:00	US	Conf. Board Consumer Confidence	Dec	128	125.5
Wednesday Jan 1					
Thursday Dec 2					
02:45	CH	Manufacturing PMI, Markit/Caixin	Dec	51.8	51.8
08:30	SW	PMI Manufacturing	Dec	45	45.4
09:00	NO	PMI Manufacturing	Dec	53.4	53.7
10:00	EC	Eurozone Manufacturing PMI	Dec F	45.9	45.9
10:30	UK	PMI Manufacturing	Dec F	47.5	47.4
14:30	US	Initial Jobless Claims	Dec-28		234
15:45	US	Markit Manufacturing PMI	Dec F	52.5	52.5
17:00	WO	Global Manufacturing PMI	Dec	(50.0)	50.3
Friday Dec 3					
08:00	NO	Unemployment Rate, LFS	Oct	3.9%(3.8)	3.9%
16:00	US	ISM Manufacturing	Dec	49	48.1
20:00	US	FOMC Meeting Minutes	Dec-11		
	US	Total Vehicle Sales	Dec	17.00m	17.09m
Monday Dec 6					
01:30	JN	Manufacturing PMI	Dec F		48.8
02:45	CH	PMI Composite, Markit/Caixin	Dec		53.2

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

- **December Manufacturing PMIs**
  - » We estimate a 0.3 p decline in the **global manufacturing PMI**, back to 50.0. The PMI points to 0.5 - 1% growth global manufacturing production
  - » **Chinese** manuf. PMIs have noted strong rebound the past months
  - » **Markit's US PMI** inched down to 52.5 according to the preliminary data, much more upbeat than the manuf. ISM at 48.1 in Nov, well below other US manuf. surveys
  - » **Eurozone PMI** remains in the doldrums but may at least have bottomed out?
- **US**
  - » **Durable goods orders** are sliding just very slowly down and do not signal a decline in business investments into Q4
  - » **The housing market** is thriving, confirmed by another lift in housing starts. **New home sales, pending sales and house prices** out this week
  - » **Chicago Fed Nat. Activity index** will give another indication on Q4 growth
  - » **Auto sales** increased in Nov but are heading slowly down
- **Norway**
  - » The **LFS unemployment** rate has increased substantially recent months, due to higher participation rates. According to the NAV, registered unemployment has flattened out. We assume the upturn in LFS unemployment has been too steep, and expect a modest retreat
  - » **Retail sales** are sluggish but Black Friday may have lifted November sales, as it might have contributed to the past two years (not yet recognised by the formal seasonal adjustment)

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. The trade conflict has no doubt contributed to the slowdown, especially in the manufacturing sector. Unemployment is low, wage inflation on the way up, and not low vs. productivity. Most emerging countries (EM) x China are in recovery mode, but have been slowing somewhat too. Some hotspots EMs will get burned, as usual – but there are fewer EM imbalances than normal. The global PMI has stabilised. Barring policy mistakes, the global economy is not rigged for a *hard* downturn. Investment rates are not far too high, and there are few debt bubbles this time. **Growth has slowed to 3% from 4%, but has stabilized since Q4 2018. We expect a modest slowdown to 2.8% in 2020, even if trade conflicts are 'solved'**	Global composite PMI probably was unchanged at 51.5 in Dec (our estimate). The PMI has stabilized and points to just above 3% GDP growth. We estimate a 0.3 pp decline in the manufacturing PMI, as both US, EMU, Japan and UK inched down. The manuf. index still suggest a recovery in global production
China	Growth has slowed just marginally, and will most likely not collapse in 2020 either. Surveys signals a mild recovery at the end of 2019, even without much extra policy stimulus, especially on the fiscal side. Exports to the US is down but total exports not. The invest/GDP ratio is still sliding gradually down. Debt growth has slowed, and the authorities do not want to push the accelerator barring a serious economic downturn. **A de-escalation of the trade war is fine but the real risks are the high debt level & possible over investments**	Nov data better than expected. Industrial production rose sharply and retail sale volumes are not killed by high CPI inflation (pork prices). Investment growth is stable. Credit growth is slowly accelerating, this time from bank lending.
USA	Growth will most likely not accelerate in 2020, from the 2% speed in H2. Unemployment is low, profits under pressure, investments are above trend, and corporate debt is high. Business investments are exposed, and have yielded in H2. Households are in a much better shape, the debt burden is sharply reduced, and the savings rate is 'high'. The housing market seems balanced. Fiscal stimulus continues but not by much. The deficit is far, far too high, given the low unemployment rate. Price inflation is close to target, and the Fed can focus at the real economy. Recession risk is not overwhelming, short term, and further rate cuts are unlikely, barring a much weaker economy. **Risks: Trump/trade/business investments &debt, not household demand or debt**	Markit's PMI rose 0.2 p in Dec, due to a lift in services. Manufacturing production spiked in Nov, as the GM strike impact disappeared. Both Phil and NY Fed manuf. surveys improved modestly in Dec. Housing starts and permits are soaring and the Homebuilders' are upbeat. Consumption growth is slowing, but slowly
EMU	Growth will remain muted in 2020 but there a few signs of hard landing. The manufacturing downturn may now be easing, at least that is what some surveys are indicating, while services have been quite resilient. 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 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, as always**	Composite PMI remained weak in Dec, manuf. softened, services increased. Labour cost inflation has flattened out but is not low, at 2.5% y/y. Productivity marginally up the past 2 quarters. The German Ifo survey noted another recovery in Dec, although the level is still below par.
Norway	Growth has been above trend but will slow substantially in 2020. Unempl. has flattened. Wage inflation is above 3%. Oil investments probably peaked in Q4. Mainland business inv. are not low anymore, will slow substantially in '20. Mixed signals from the housing market, starts probably slowing. Electr. prices have taken the headline CPI down, core is still at target. Growth in households' debt has slowed to close to income growth. **Risks: Debt, housing. A harsh global slowdown**	Registered unemployment has stabilized, no decline the past 3 months. Norges Bank signals an unchanged interest rate until 2022, with 40% probability of a 2020 hike. Housing starts are sliding down from the peak, broadly

In this report

Global, PMIs

- Global macro data slightly more negative vs expectations so far in Q4
- Global PMI probably steady in December, still points to a modest growth uptick
- Global manufacturing PMI down to 50 in Dec, still points to growth in production
- Most PMIs steady in December; US up; EMU, Japan flat
- US Services PMI bounced back in Dec, manufacturing marginally softer
- Eurozone PMI steady – no recovery signalled

US

- Core PCE inflation eased to 1.6% in Nov and underlying growth is ebbing
- Consumption has slowed but not further in Nov
- Manufacturing production recovered in Nov
- Housing permits & starts are soaring, highest level since before the FC
- Homebuilders' confidence spiked to a 20 y high
- Construction spending has stalled
- Existing home sales down in Nov, trending up
- Unfilled vacancies down from peak, but no signs of rapidly cooling labour market
- Jobless claims remained 'high' last week, as seasonal distortions persist
- The current account deficit unchanged in Q3
- The Leading indicators slide down but do not signal any abrupt slowdown
- One nowcaster signals 2.3% Q4 GDP growth, the other 0.7%

EMU

- Wage inflation has flattened along with unemployment
- Consumer sentiment slides down slowly, but remains far above avg
- German Ifo expectations are recovering, adding to signs of stabilization

UK

- Unemployment inches down but employment has stalled
- Manufacturing orders stumble and inventories are elevated
- Core CPI inflation inched down to 1.7%
- Retail sales growth is losing speed

Japan

- Core CPI inflation remains low, total CPI a tad up. No VAT boost?

Sweden

- The Riksbank abandoned negative interest rates, signals an unchanged rate
- House price inflation is speeding up
- Consumer confidence steady just below avg, points to decent consumption
- KI business survey points to a steeper slowdown

Norway

- Norges Bank signals an unchanged rate, keeps the door (half) open for a '20 hike
- NAV unemployment remained flat for the 3rd straight month
- SSB confirms the Homebuilders' reports; housing starts have peaked
- Imports down and exports moderately up so far in Q4

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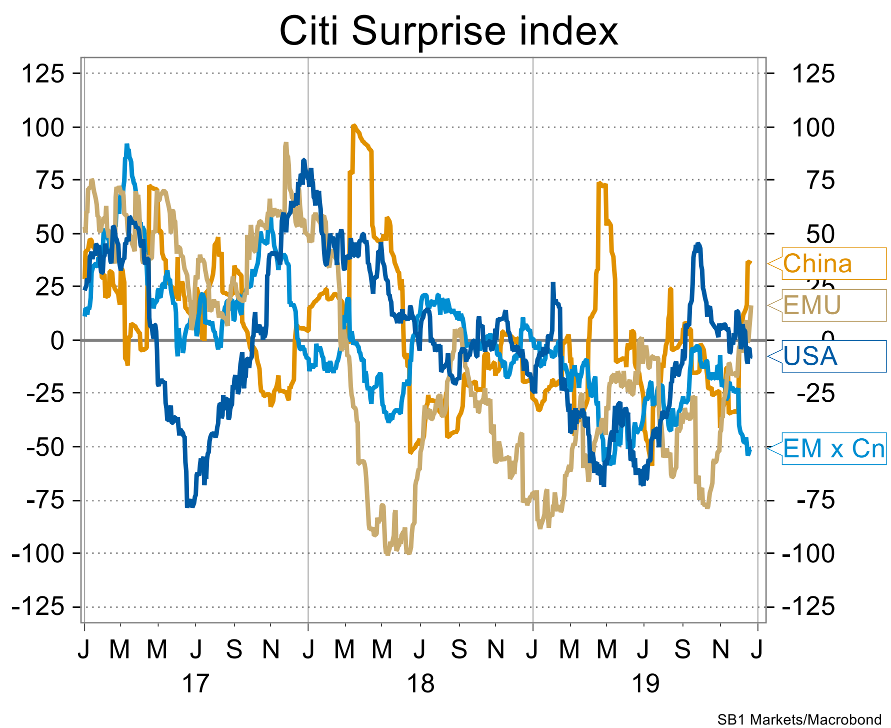
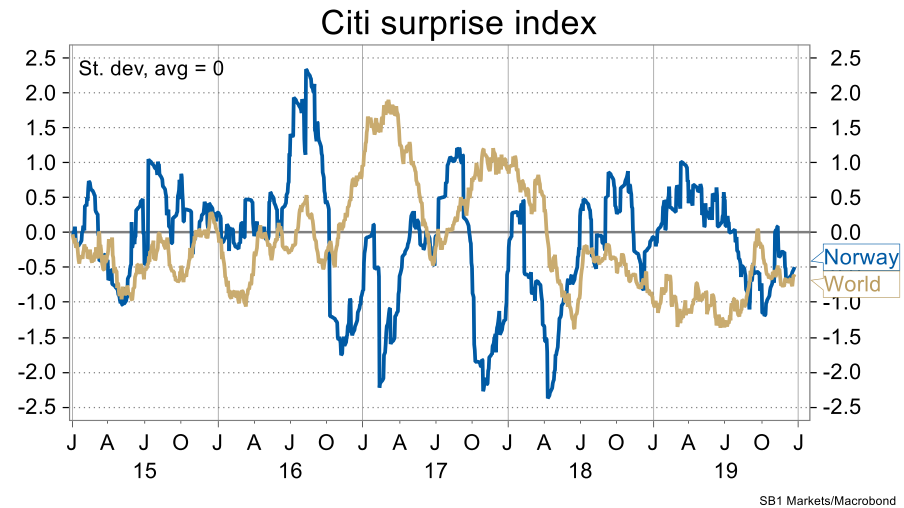
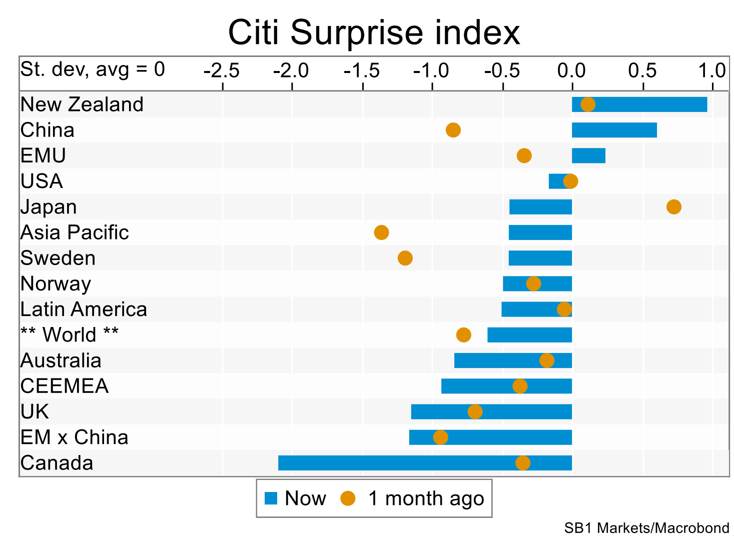
Global macro data slightly more negative vs expectations so far in Q4

US data a tad below neutral, China far above expectations, EMU at 1 ½ y high! Just EM x China down





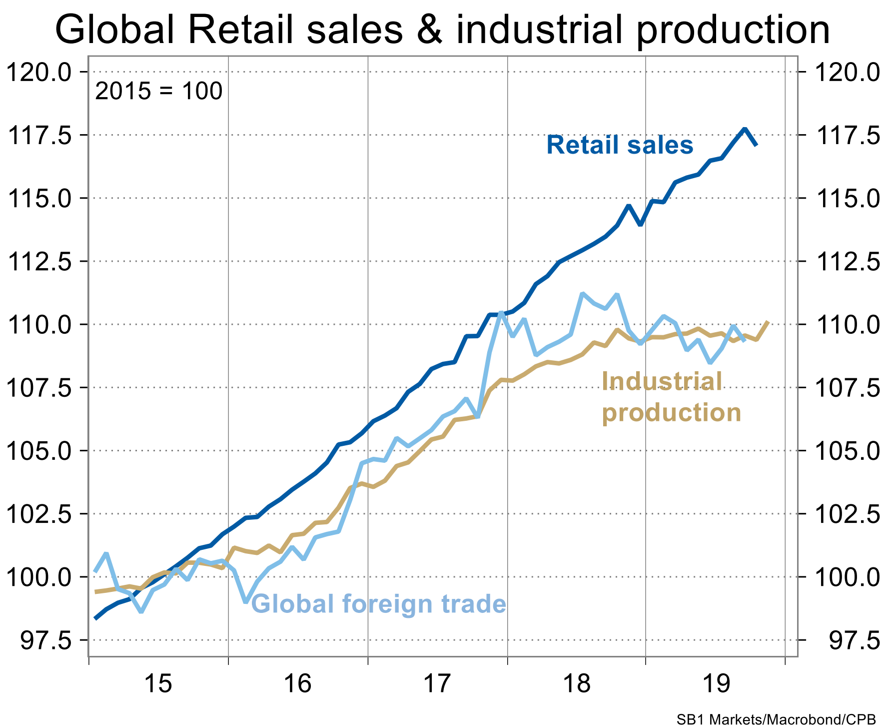


- The global surprise index climbed to a 'neutral' level for the first time this year in mid-Sept. Since then, data have been more disappointing, in sum, and steady recent weeks
- Since late Nov, the US surprise index has turned back to 'neutral', and fell marginally into negative territory last week. Strange, as data were upbeat
- EMU data are beating expectations by the most since early 2018. Due to somewhat better data – and adjusted expectations?
- China spiked on strong PMIs and Dec data, well into positive. Other EM much weaker
- Norwegian data are negative again, and Sweden too, 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

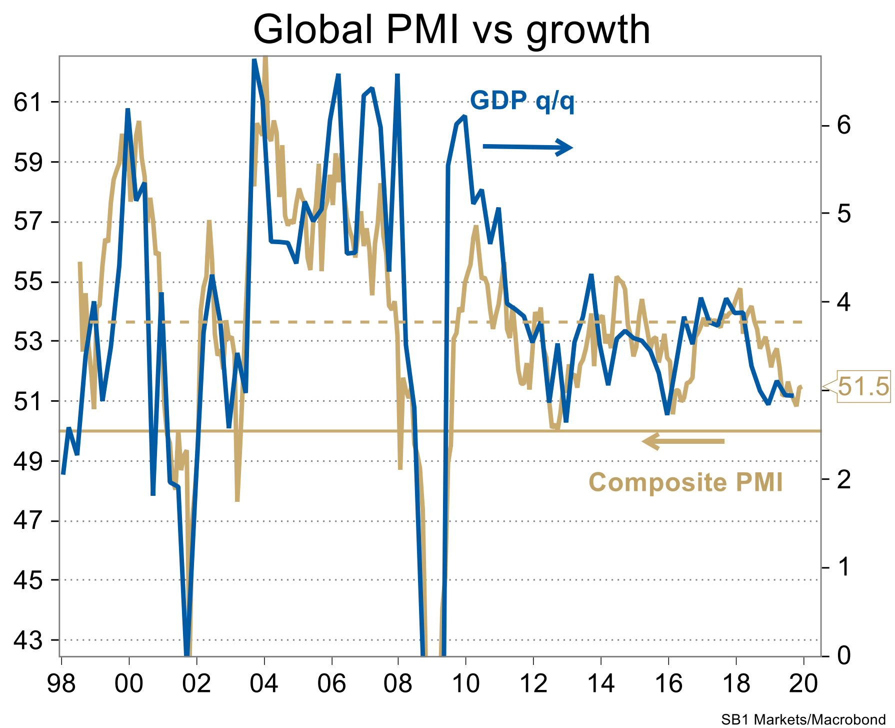


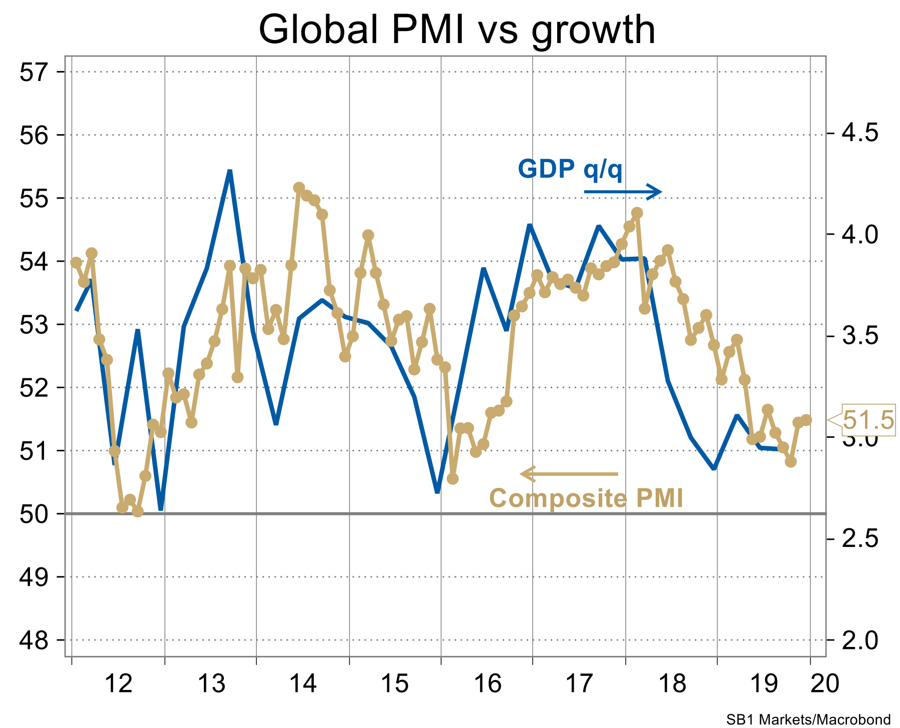
Memo: Keep in mind the different scales at the chart above

- **Global industrial production** probably rose 0.7 % in November (a very preliminary est), yielding the highest production level ever (which is normal most months…) If production remains unch in Dec, Q4 will be 2% above Q3 (annualised). At the same time, the global PMI has recovered the past 5 months (albeit not further in Dec), and is now signalling a 0.5 - 1% growth pace
- **Retail sales** fell by 0.6% m/m in Oct reversing half the 1% Aug/Sept lift. The volatility is mostly due to the hike in VAT in Japan, that pushed sales forward to Aug/Sept, before 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 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 probably steady in December, still points to a modest growth uptick

We estimate an unchanged composite PMI at 51.5 in Dec, signalling 3%+ global GDP growth



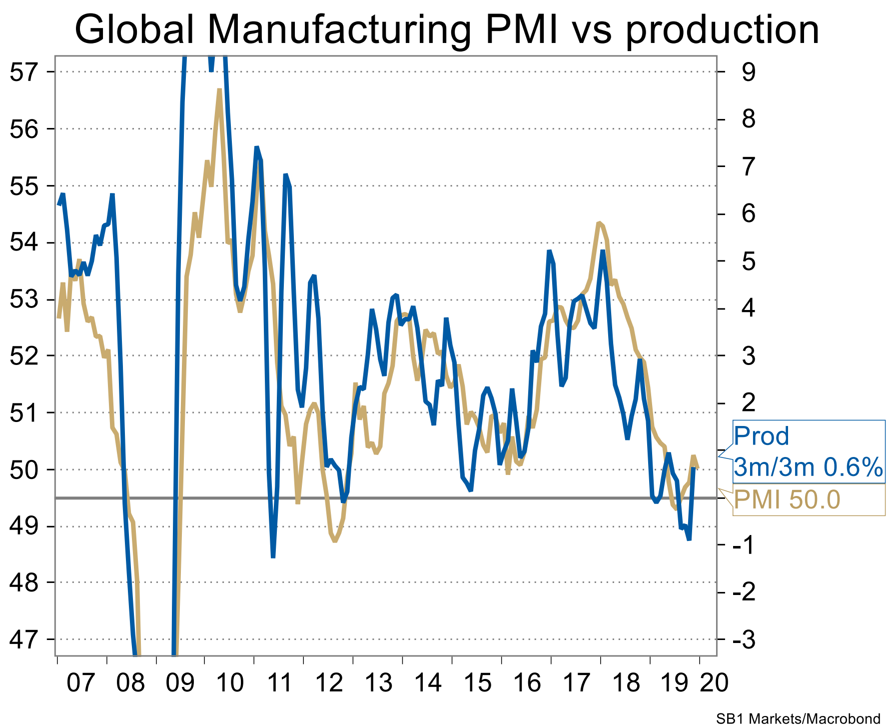


- The composite PMI was unchanged at 51.5 in Dec (our estimate). The index has stabilized since the spring and suggests just above 3% global GDP growth, a small uptick from the 3% pace in Q3 – which by the way has been the (rather stable) growth rate since Q3 2018
- The PMI has fallen by more than 3 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 8 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

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

Global manufacturing PMI down to 50 in Dec? Still points to growth in product.

We estimate a 0.3 p downtick to 50.0, signalling some 0.5 - 1% growth in global production

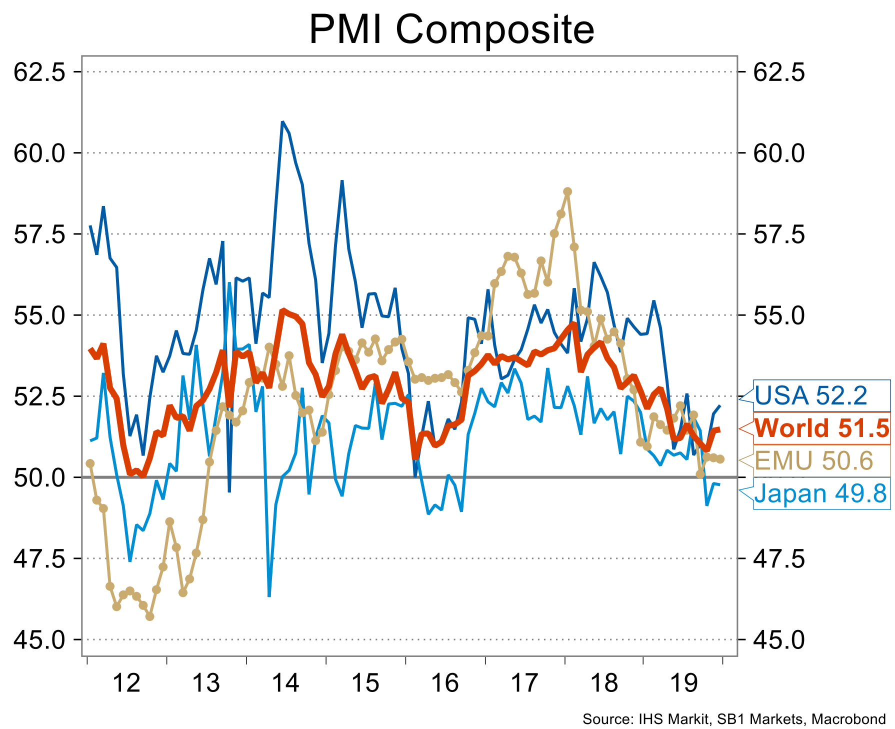


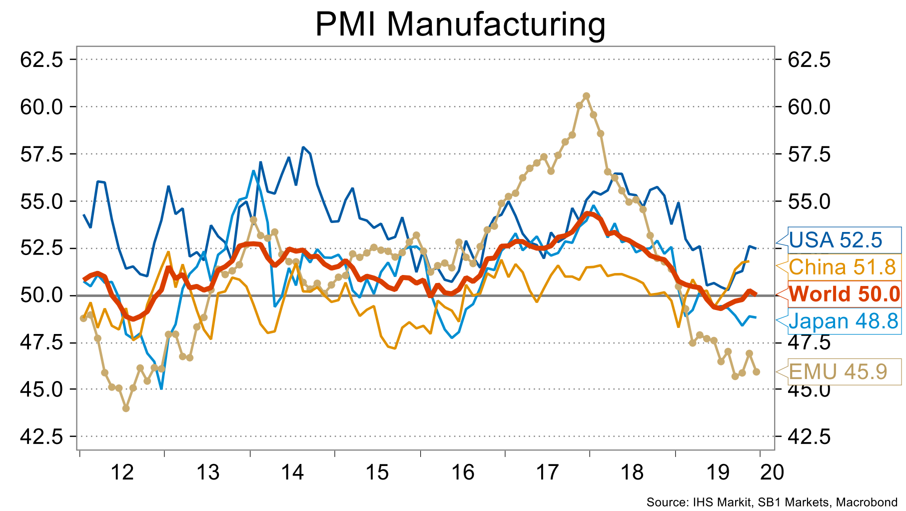
- The global manufacturing orders index was probably unchanged in Dec, at least based on the countries reporting so far. Since August, orders have been recovering, while growth in inventories have slowed, a favourable mix. Thus, the order/inventory ratio has climbed (but stabilized the past 2 months), normally a good signal – however not a leading indicator

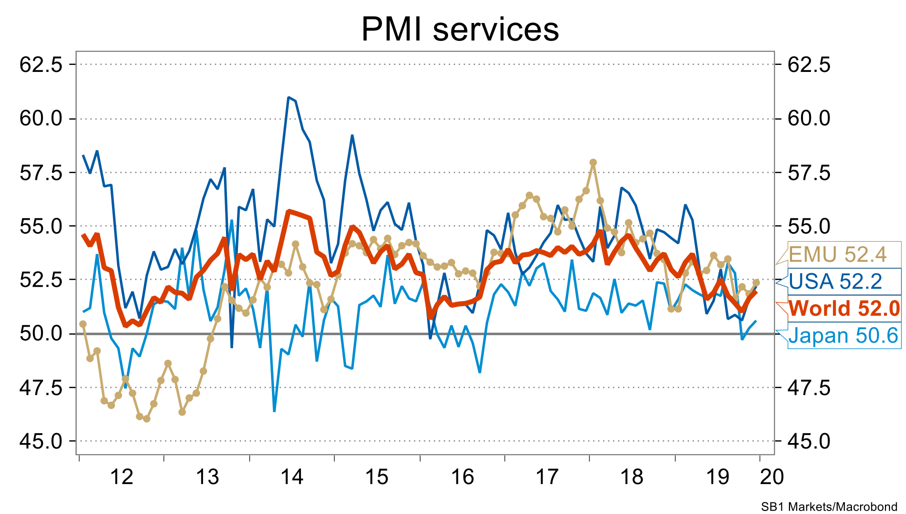
Memo: the last PMI data are our estimates on November PMI

US composite PMI up; EMU, Japan flat – services up, manufacturing down

Manufacturing PMIs inched down in all 3 countries while services improved for the 2nd month



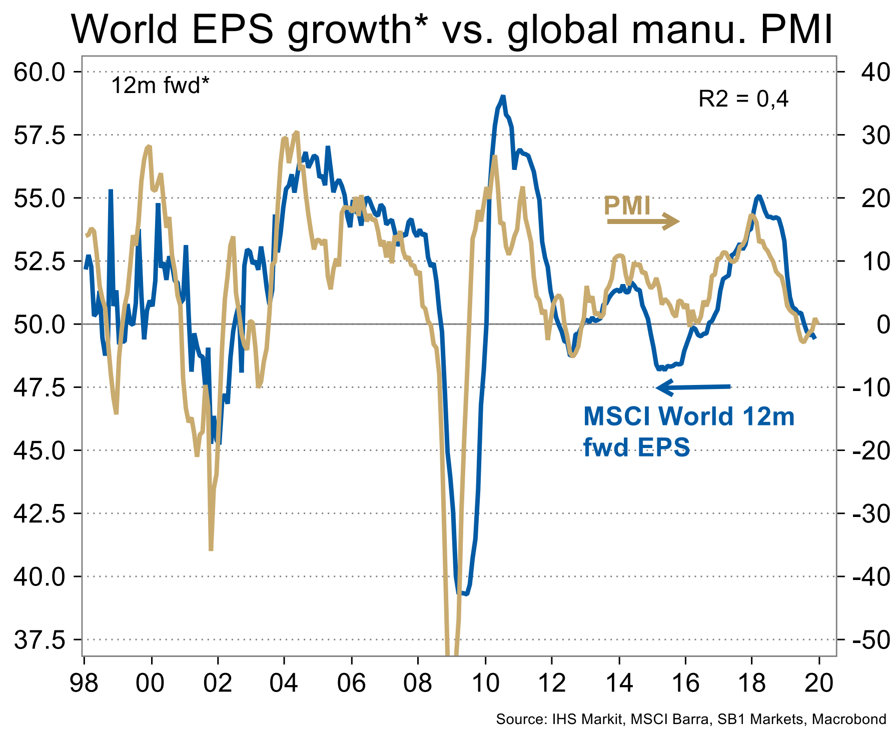


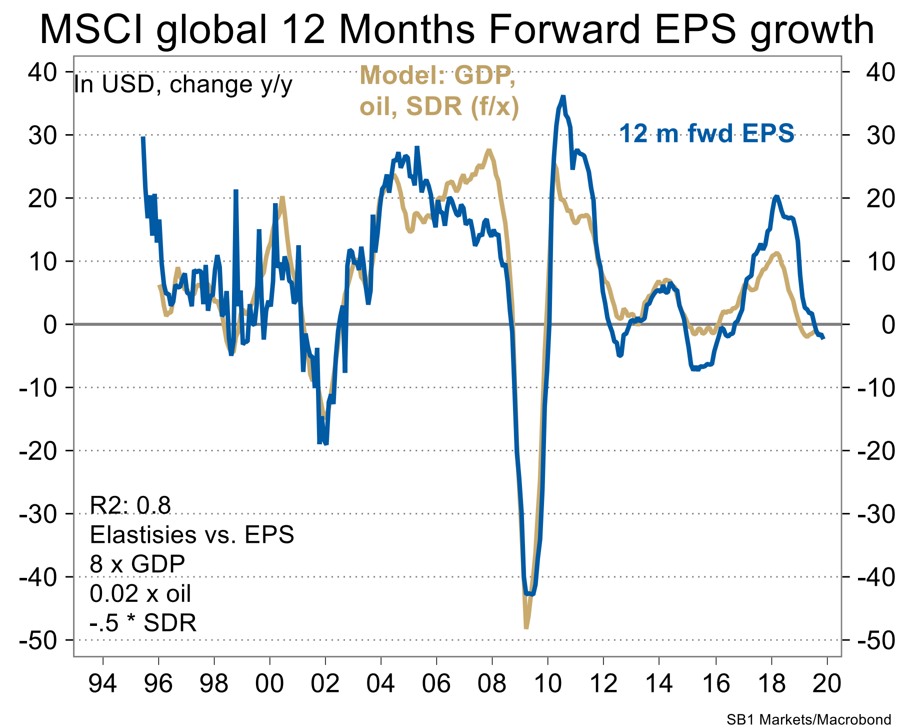


- Most manufacturing PMI have stabilised/recovered the past few months
- The composite PMI from the US (Markit) climbed 0.2 p in Dec, manufacturing weakened marginally while services noted a brisk upturn. Both sectors are expanding but do not signal brisk GDP growth
- The Eurozone composite PMI was unchanged, as services improved and manufacturing fell back down, the latter not an impressive signal (45.9)
- Japan failed to recover, businesses struggle with the Oct VAT hike
- Memo:
  - » The last obs for world PMIs are our estimates, based on preliminary data from the US, EMU, Japan and UK. Markit has not yet reported December PMIs from China

A cycle is a cycle is a cycle

How to make a forecast (macro or micro): Listen to what companies said about the <u>previous</u> month

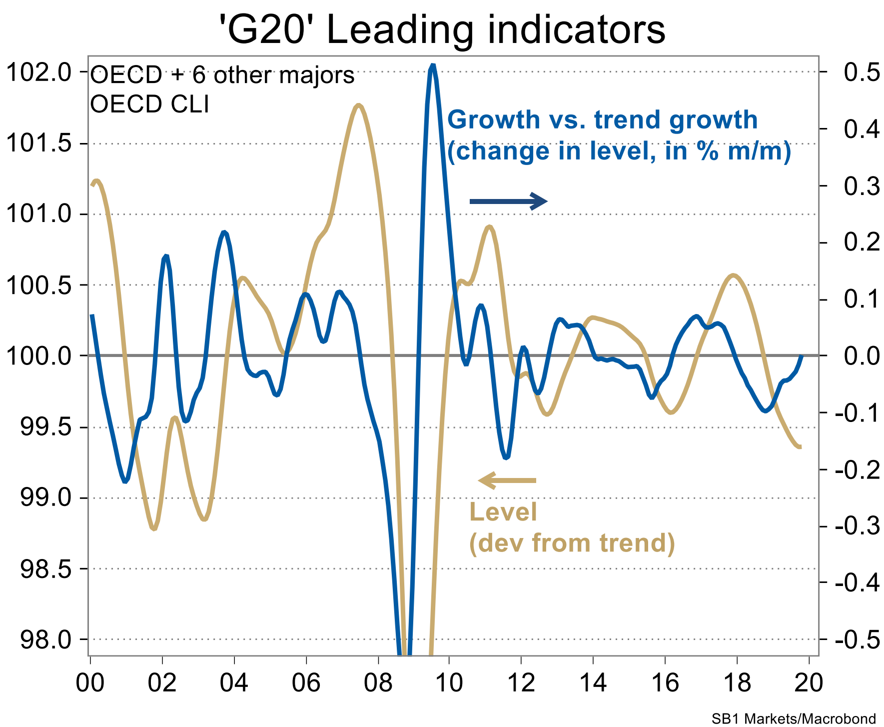


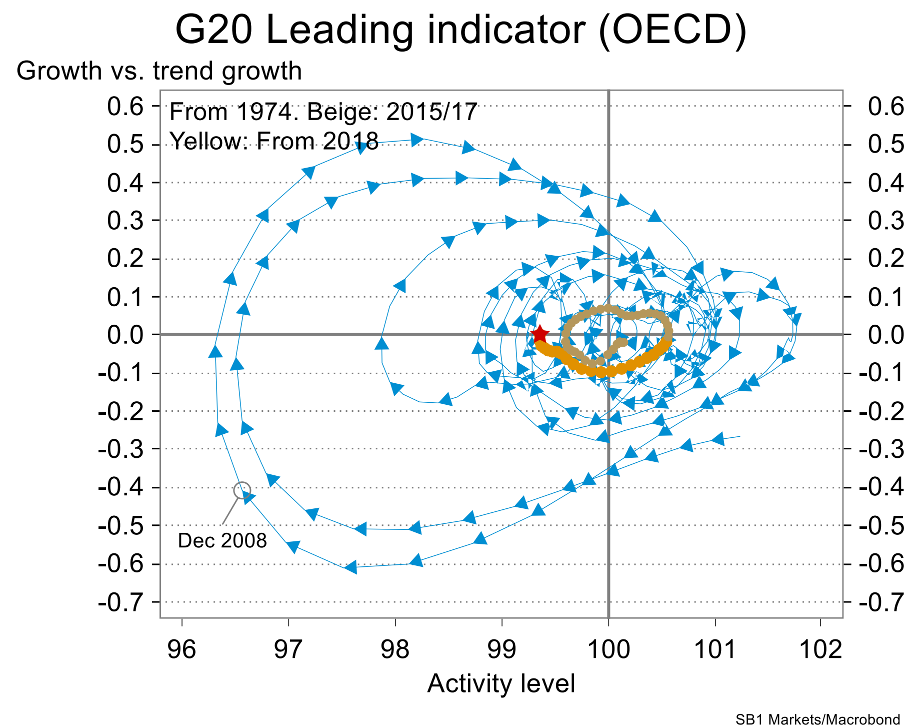


- A 1 p decline in the global PMI 'equals' approx ¼ pp slower growth in global GDP
- A 1 pp decline in global GDP 'equals' almost 10% decline in global corporate earnings (EPS) growth
  - » Thus: A 1 p decline in the global PMI 'equals' approx. 2.5 pp decline global EPS
- A model including global GDP, the oil price and the SDR/USD rate (to include f/x impacts), explains 90% of the global EPS cycle
- The PMIs (like the ISM) are <u>not</u> sentiment surveys. In the Purchasing Managers' Indices, companies are asked about actual changes in activity (orders, sales, employment etc) from the previous to the present month

OECD confirms a stabilization of the global economy

OECD CLI still reports a low activity level vs trend level but growth is no longer below par

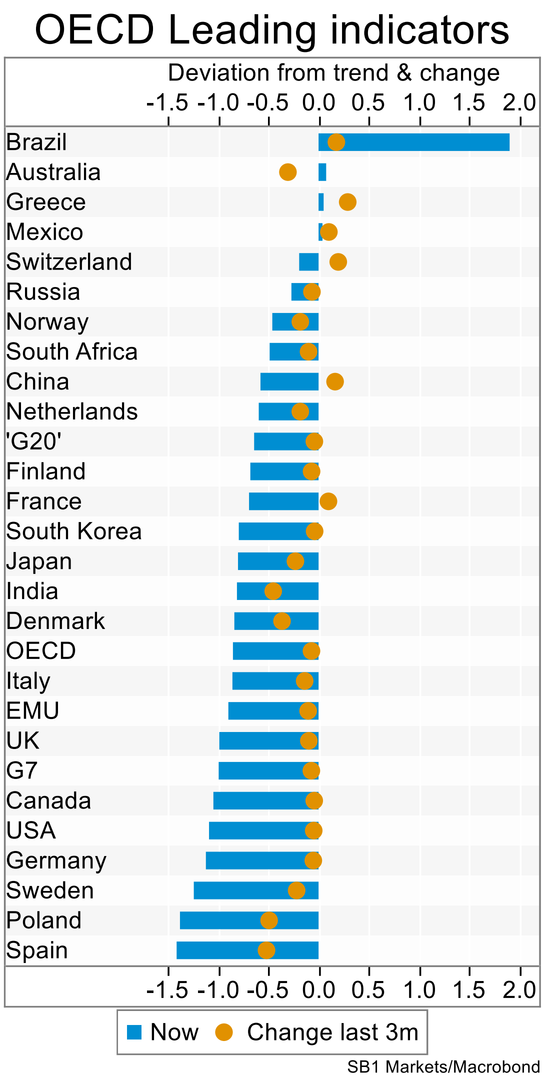




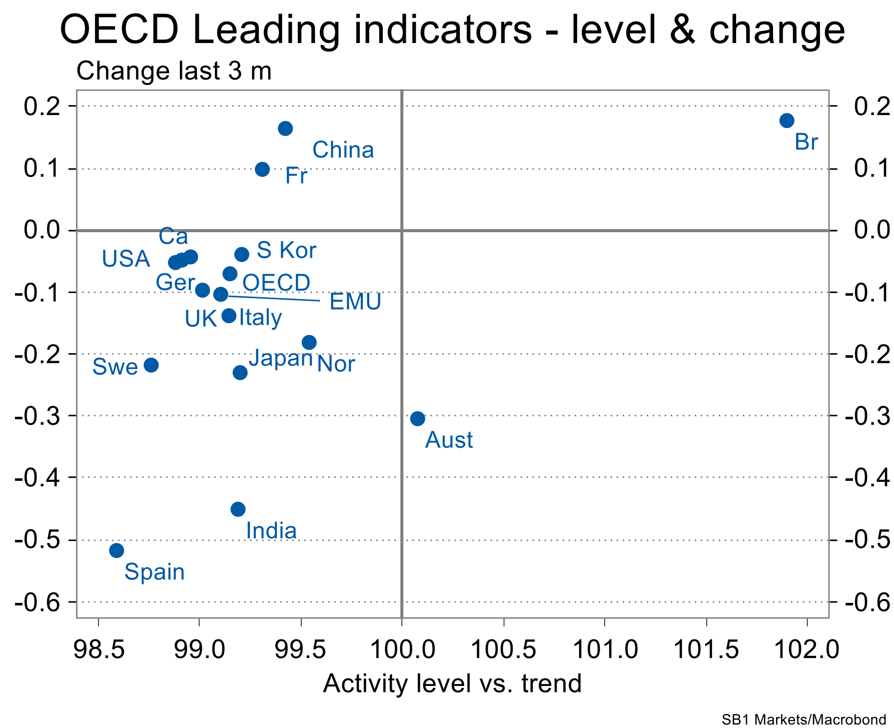
- OECD has reported a moderation of the slowdown since late 2018, and now growth rate has climbed to trend growth, following 22 months with growth below trend
- Warning: OECD's CLI (leading indicators) are often subject to substantial revisions. The present 'comeback', growth recovering up to trend growth, has is fact been announced for a long while

OECD CLI: Most countries are below trend

Just 4 countries are operating above trend, 6 are growing faster than trend (vs 2 one month ago)



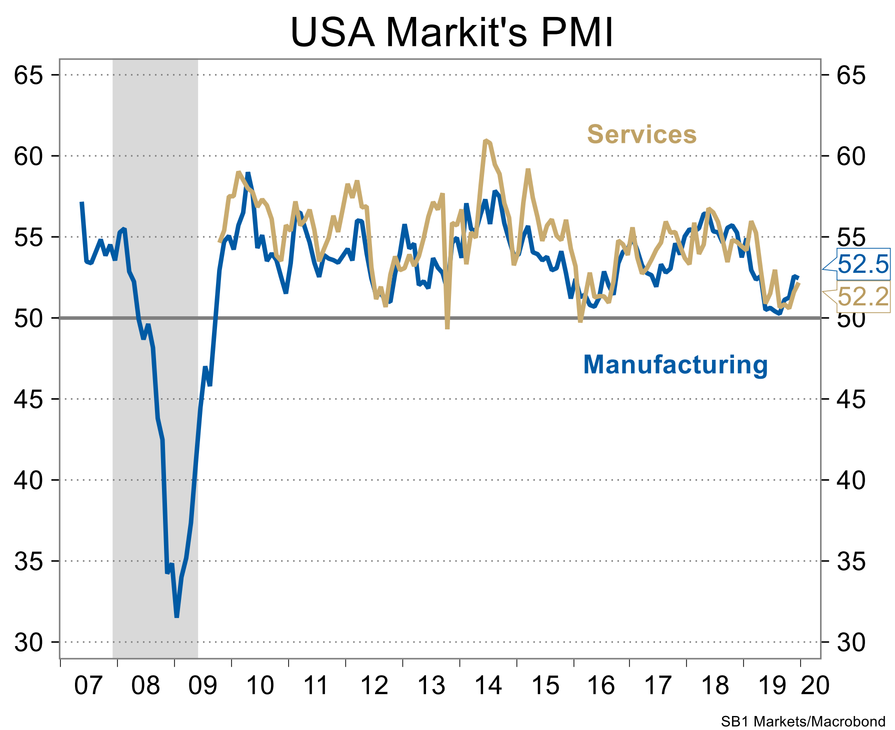
- Almost all countries are operating below trend level, and growth is still slower than trend growth
- Just 4 countries are above trend; Brazil, Greece, Australia, Mexico (marginally)
- Spain and Poland at the bottom, level wise
- Spain is slowing at the fastest, before Sweden, Germany and the US

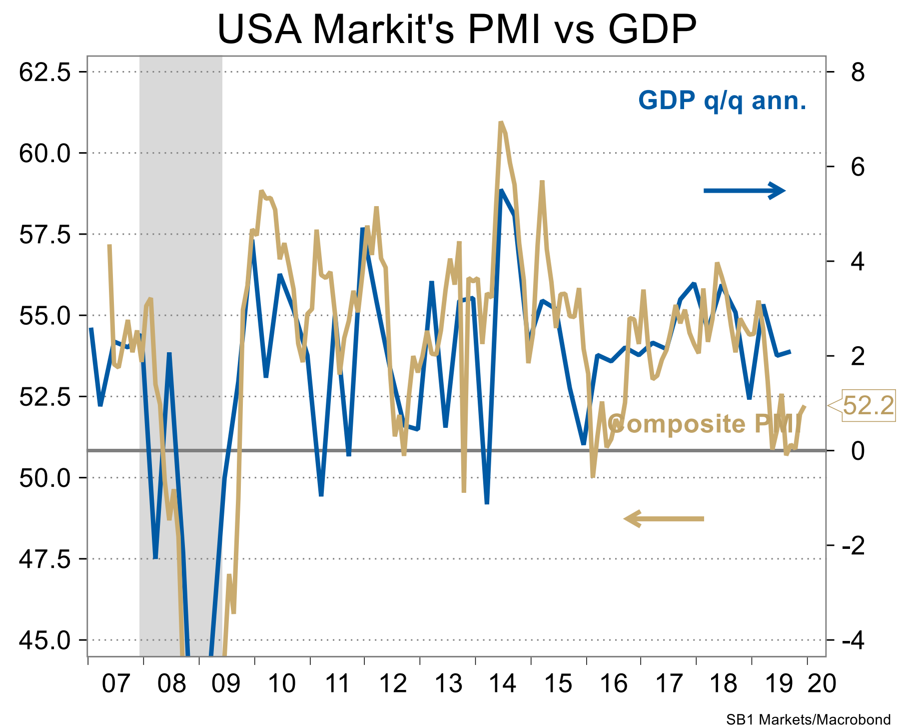


- The OECD composite leading indicators are tracking the short term cycles in the economy. It consist of different indicators, including both real and financial data
- Regrettably, these indices are often revised, and are only reliable for analysing previous cycles, not the present

Services PMI bounced back in Dec, manufacturing marginally softer

The composite PMI edged up 0.2 p in Dec, still pointing to just 1% GDP growth

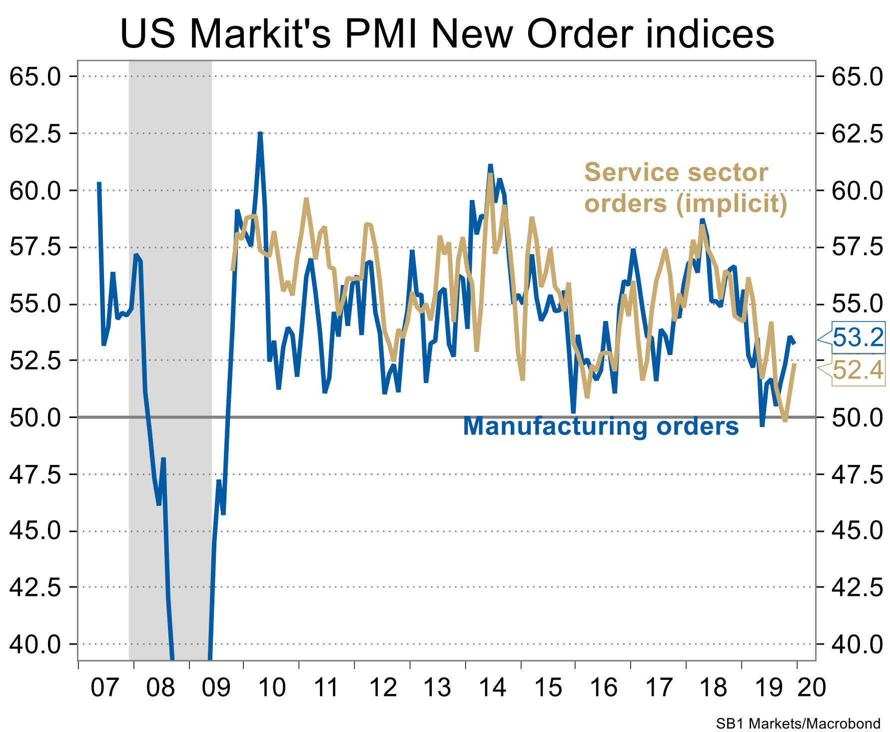


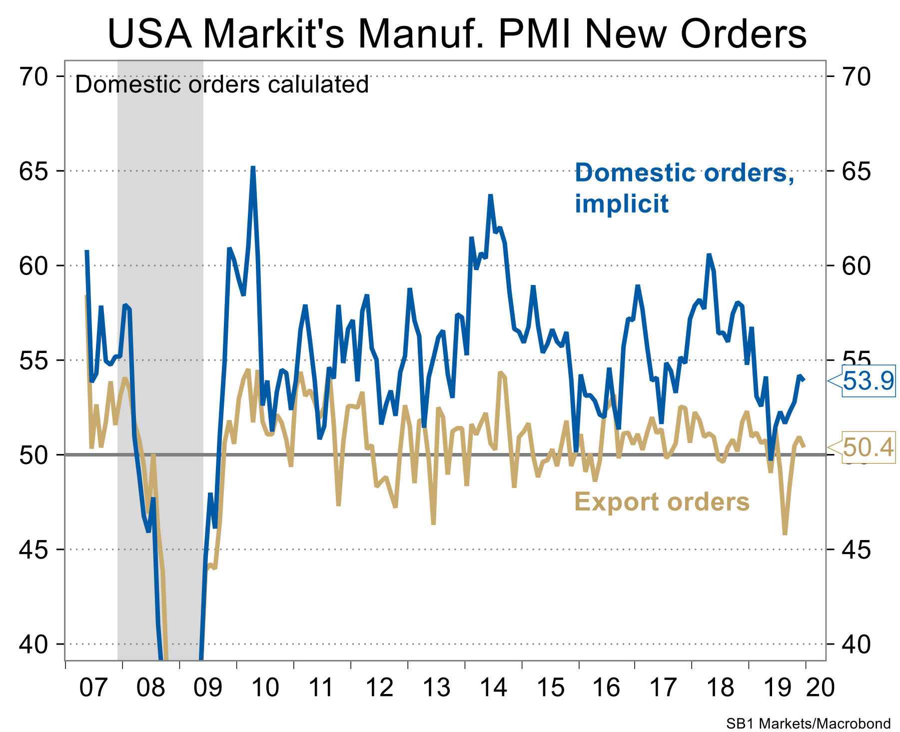


- The preliminary composite PMI rose to 52.2 in Dec, a 0.2 p increase, close to expectations. The index has stabilized since May and do not point to any steep downturn in the US. However, the level is signalling growth at just some 1%
- The manufacturing PMI inched down 0.1 p, the service sector index rose 0.6 p. Both sector PMIs are at decent levels
  - » Both service and manufacturing orders have picked up the past months. Manufacturing PMI points to a stabilization in production
- The manuf. PMI is much more upbeat than the ISM (no Dec data yet) but services ISM is not weak

Both manufacturing and services orders have rebounded

Export manuf. order index are increasing marginally, domestic has recovered to 53.9, from 50 in May

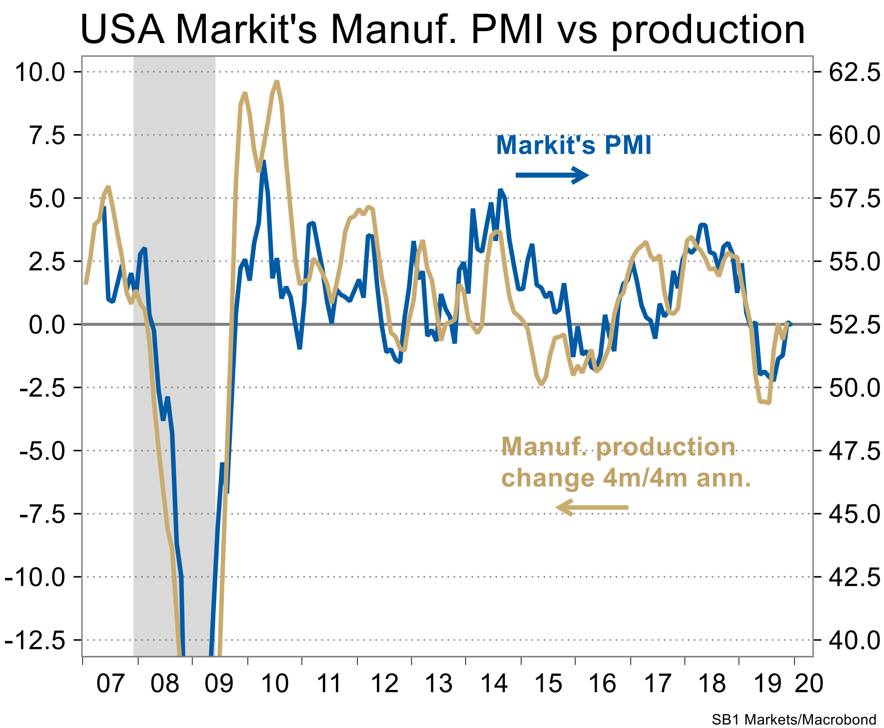


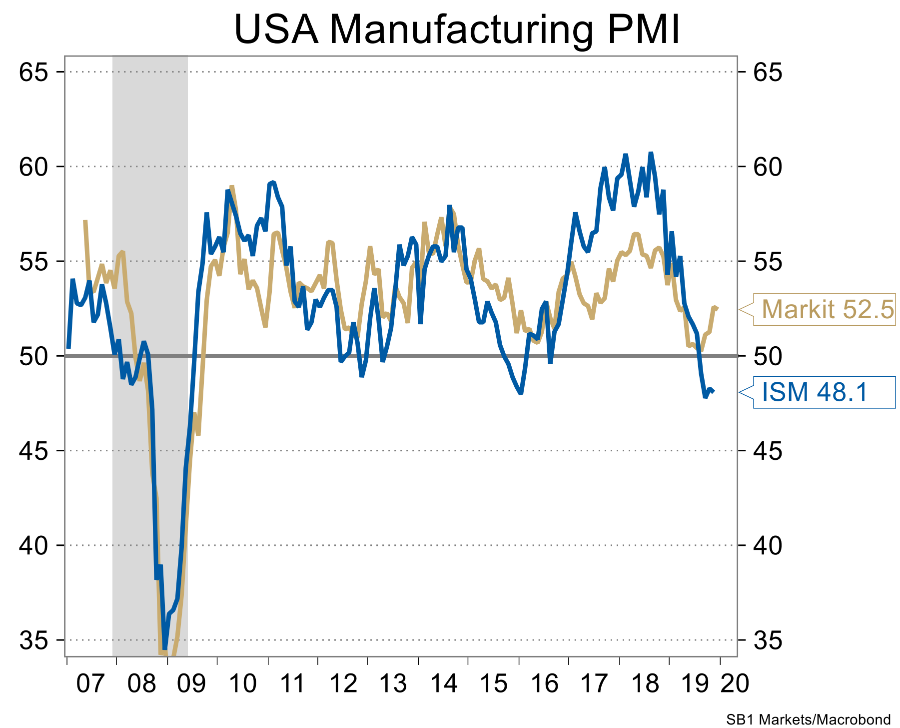


SpareBank 1 MARKETS

Manuf. PMI confirms a stabilization in production

Still, based on the usual correlation to production growth, PMI does not yet signal an increase

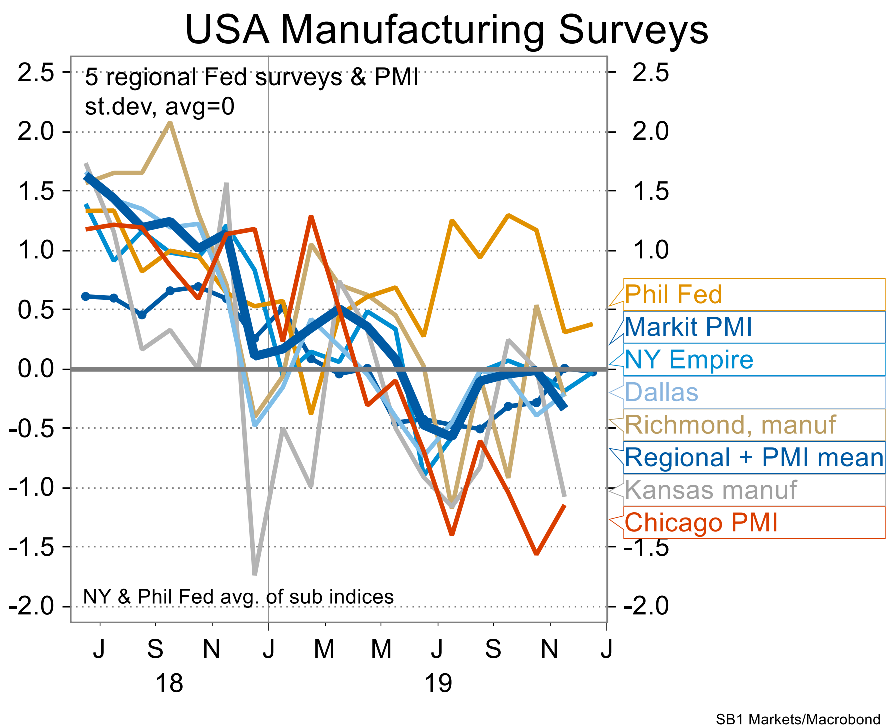


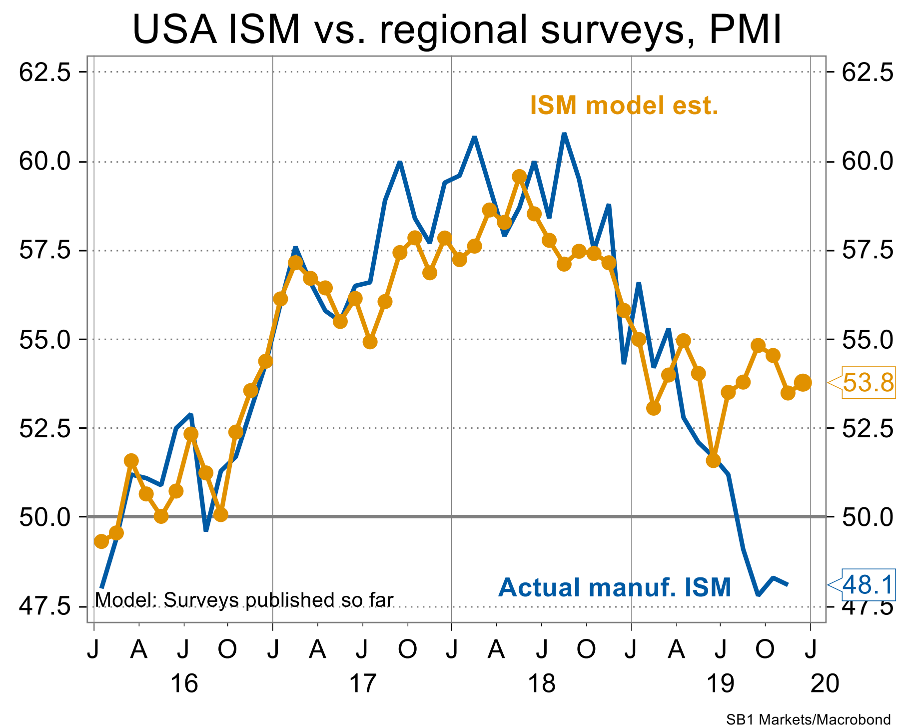


- The manufacturing ISM is much weaker than Markit's PMI and points to a steep decline in production. Markit's PMI has been closer to the ball vs actual growth in manufacturing production the most recent years

So far: 2 December manufacturing surveys up, 1 down

NY Fed & Phil Fed edged up, Markit's PMI a tad down; pointing to a marginal upturn in the ISM

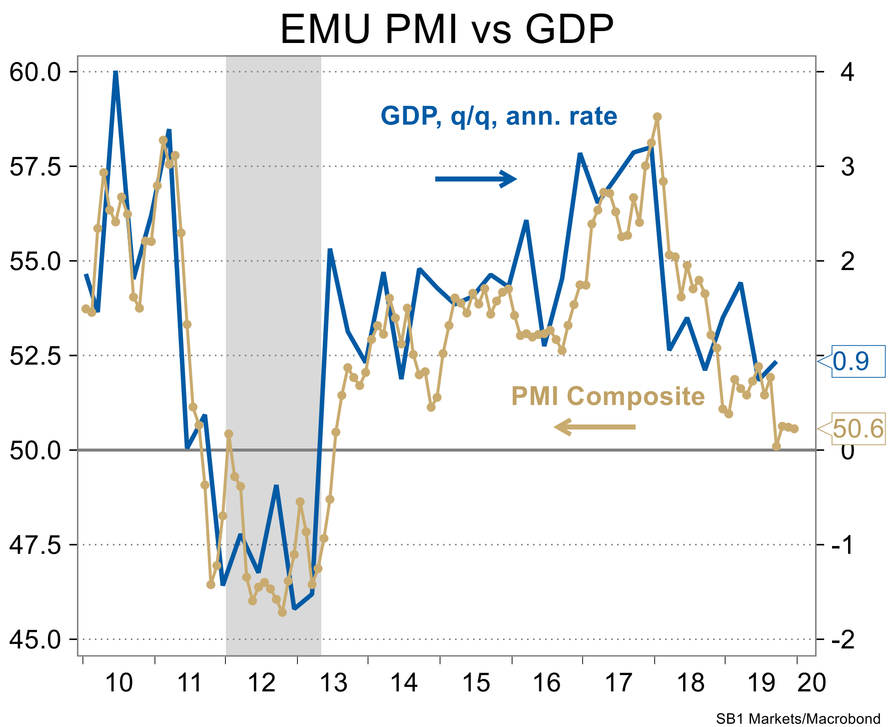


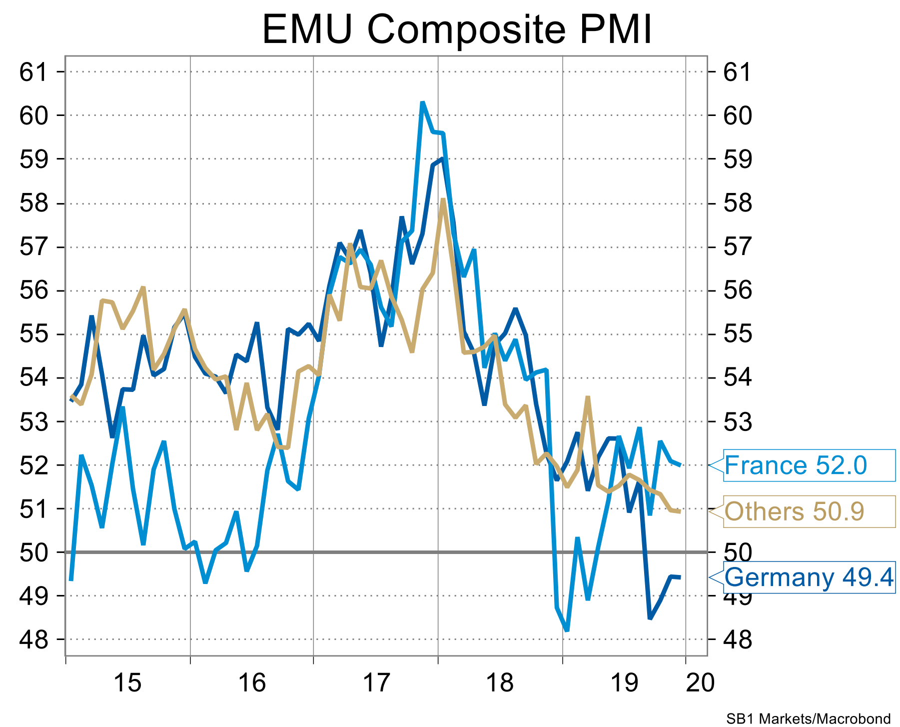


- The Philadelphia Fed index rose marginally in December. The index remains more upbeat than most other surveys and is still above the avg level, probably too elevated. The NY Empire increased slightly more and is back at the avg level, just as Markit's PMI, which came down 0.1 p in December.
- Taken face value, these indices (including the more upbeat PMI) signals 0.3 p increase in ISM index in December. The ISM index has been far weaker than other surveys past months, the large gap to the other surveys suggest a substantially higher ISM. And actual manufacturing production has flattened out and is no longer declining, ISM must soon improve?

Eurozone PMI steady in Dec – no recovery signalled

Composite prelim. PMI unchanged at 50.6, Germany flat at 49.4, France & others marginally down

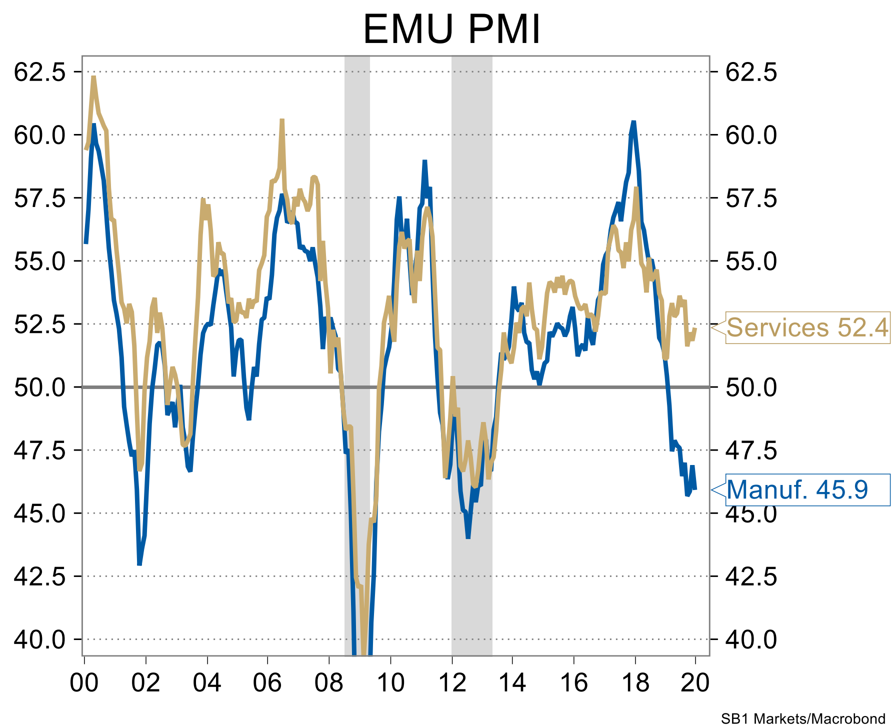


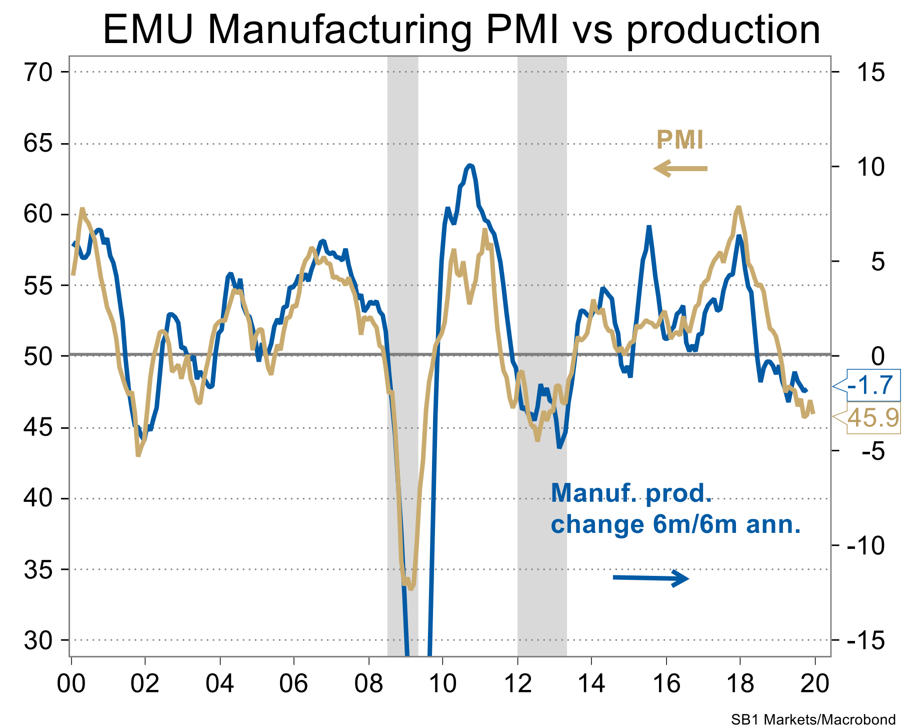


- The preliminary EMU composite PMI was unchanged at 50.6 in Dec, vs a 0.1 pp expected increase. The PMI is pointing to muted GDP growth in Q4, a substantial slowdown from the 0.9% Q3 pace
- The German composite PMI was flat at 49.4, still weak, as the manufacturing contraction intensified marginally, while services gained pace. France one tick down, together with the implicit average of the other countries
- Manufacturing PMI fell by 1 p, thus, reversing the November upturn. Services PMI rose 0.5 p, stabilised the past year

Manufacturing still falls steeply but may be bottoming out, services stable

Manufacturing PMI fell back down to the Oct level, both sector PMIs have been flattish the past 3 m

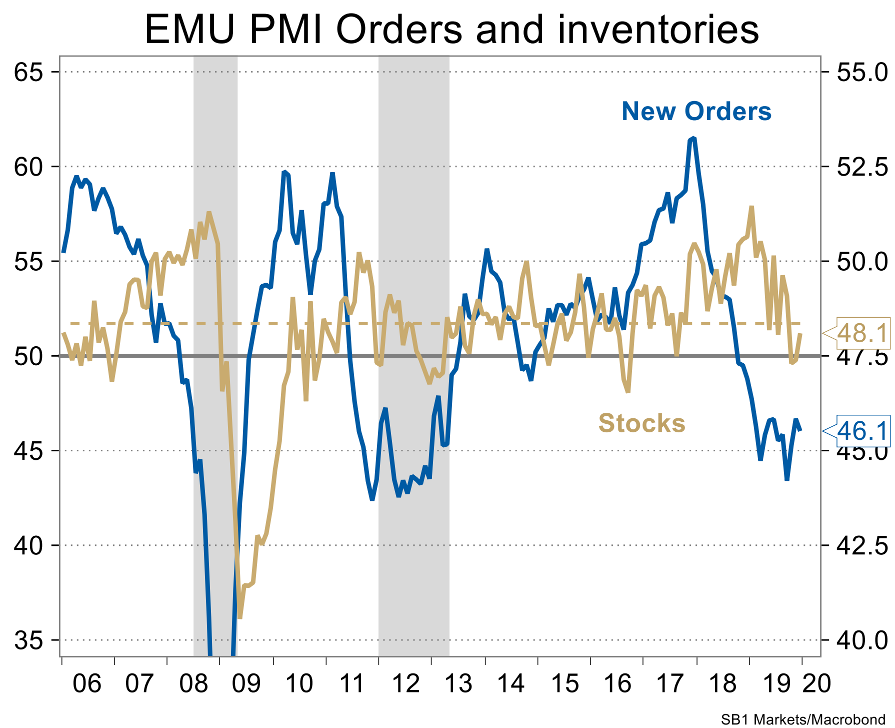


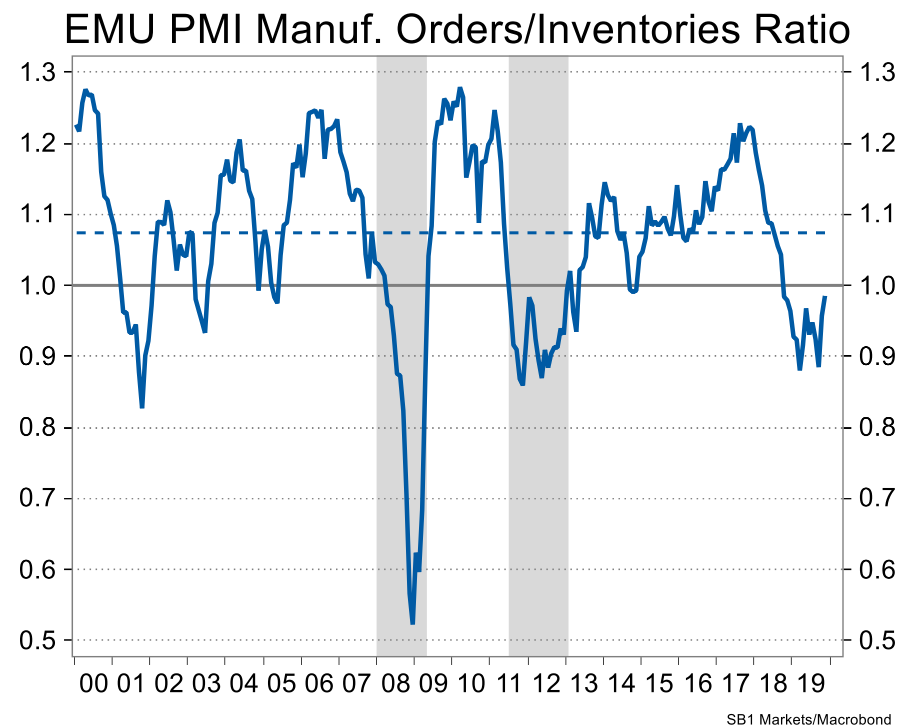


- Manufacturing PMI fell 1 p in Dec, thus, reversing the Nov upturn. The contraction may be bottoming out, at least the decline has not accelerated the past 3 months. Nonetheless, the level at 45.9 points to close to a substantial decline in production, by close to 3% measured 6m/6m (or y/y)
- The services PMI rose 0.5 p in Dec, inching up since Sept. The level at 52.4 is not that weak and businesses are reporting somewhat higher growth than they did one year ago. Hence, no sign that the manuf. contraction is dragging services down

Some hope? Maybe, the orders decline has stabilized and stocks are reduced

New orders are still falling steeply, but inventories have been adjusted (although less so in Dec)

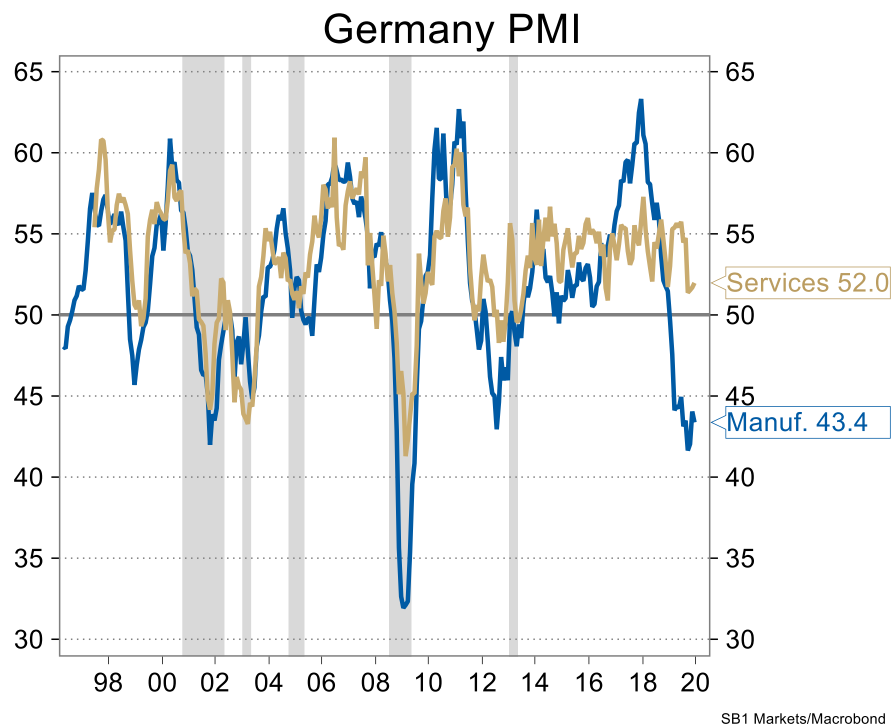




- The decline in total orders accelerated marginally in December, however, the pace of decline has eased somewhat since the bottom in September. The level at 46.1 still reflects the steepest downturn in orders since the Euro crisis
- The inventories of finished goods index ticked up to 48.1. The inventory PMI has fallen substantially since early 2019 and . Inventories have been reduced modestly, suggesting that the inventory adjustment cycle may be underway

Composite PMI flat in Dec, still suggesting a GDP contraction in Q4

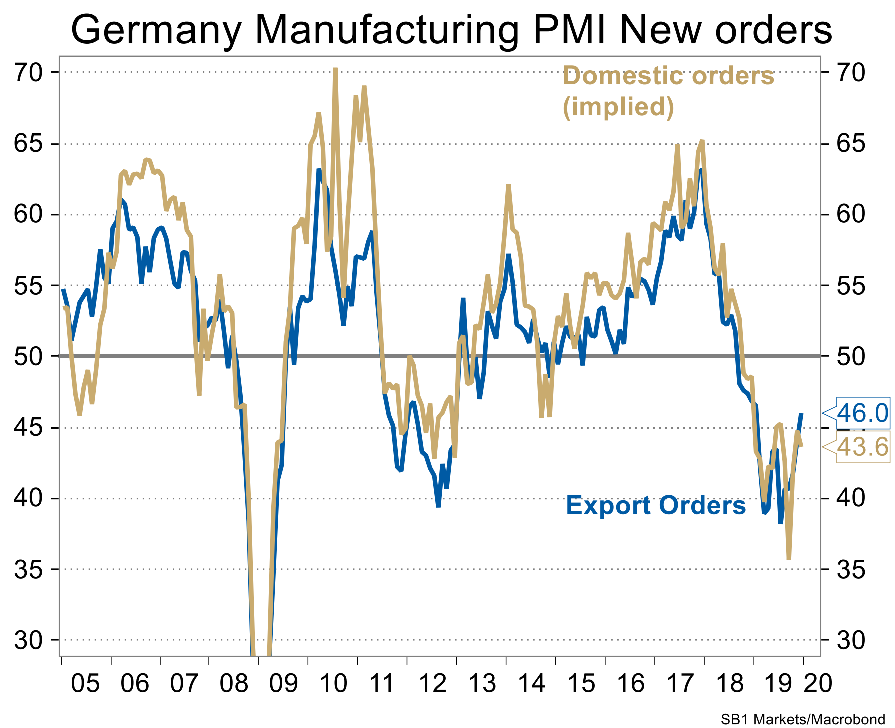
Manuf. inched down to 43.4, the speed down has slowed slightly recently. Services a tad up, level OK

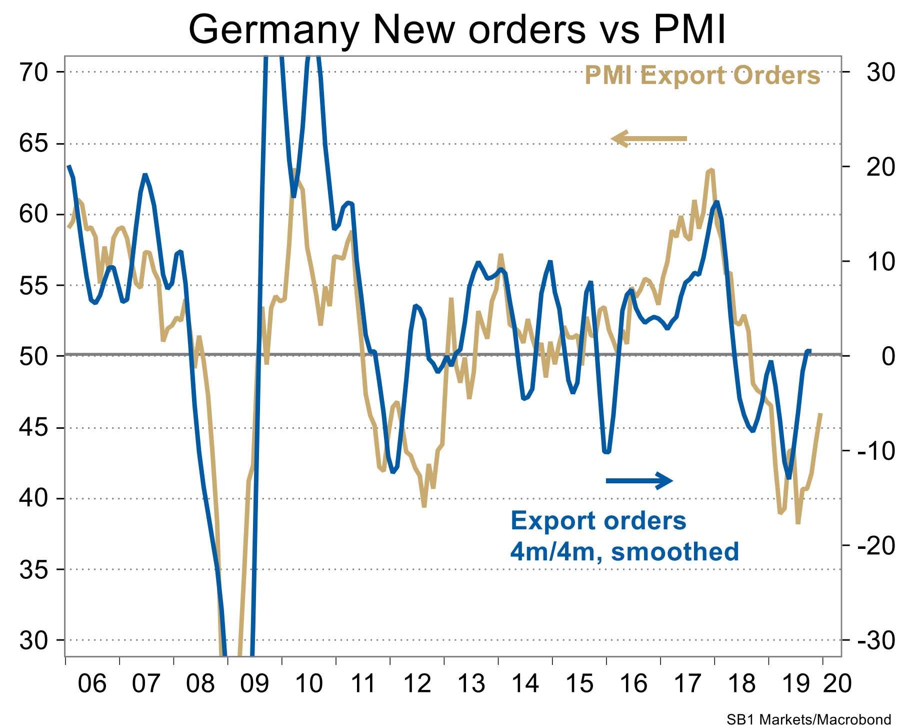


- The manufacturing PMI fell 0.7 p in Dec, reversing the last months' increase. The PMI bottomed out in Sept and have inched up since, however, the level at 43.4 still points to a deep contraction in German manufacturing. The most promising sign at hand is probably the new orders PMI, flip to the next slide
- The services PMI ticked up 0.3 p and has been almost completely flat the past 3 months, after a steep decline in the summer. The level at 52.0 still signals modest growth
- The composite PMI at 49.4 points to some 0.5% decline in GDP

Orders are falling at the slowest pace in 11 months

Both domestic (implicit) and exports orders PMIs have edged up. Actual export orders flat

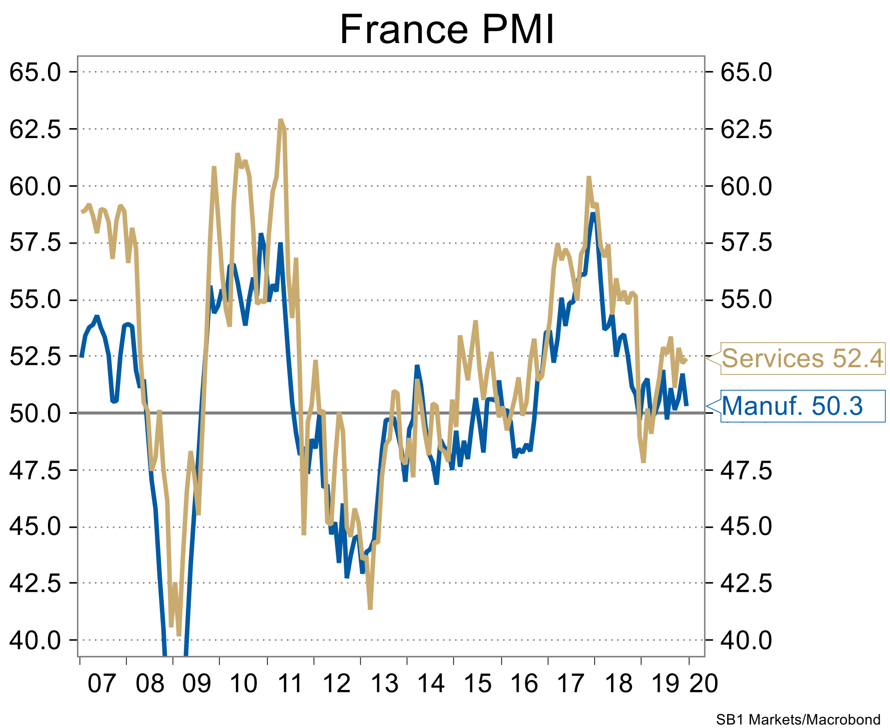


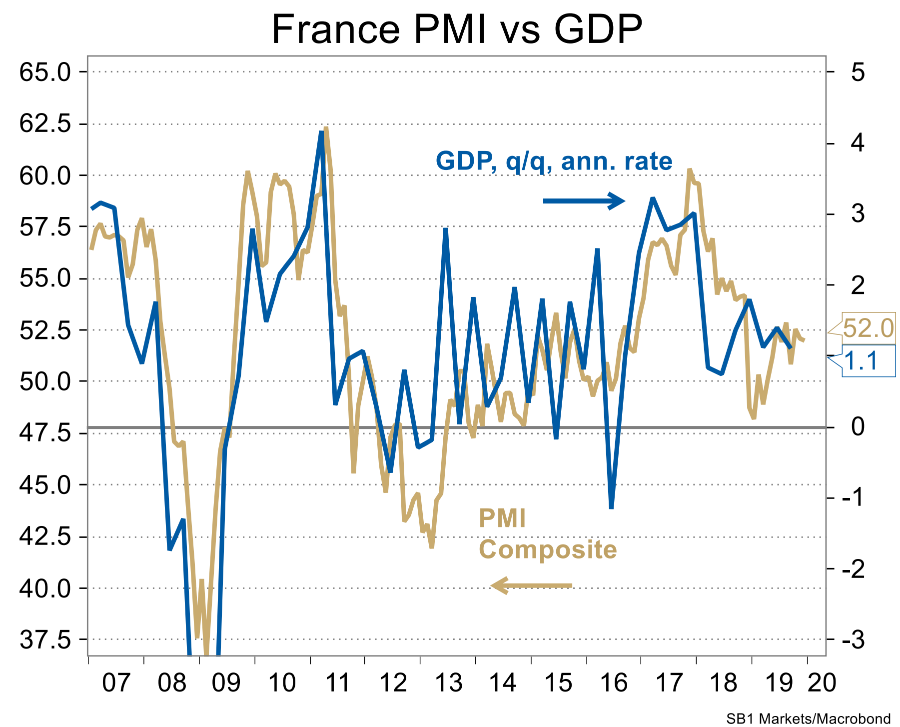


- In December, total new orders PMI came in at 44.8, a 0.4 p increase, and up from 38.2 in Sept
- Export orders are signaling a steeper decline in actual export orders. Actual orders have fallen but much less than the PMI indicates, and even stabilized recent months. On the other hand, the direction of the PMI may confirm a soft recovery
- The most plausible explanation of the German dip is probably a mix of a maturing German manufacturing cycle, trouble in the auto industry and global uncertainties stemming from the trade war and Brexit influencing domestic demand. Now, global uncertainties have eased somewhat and the auto industry is showing some early signs of a turnaround

Both PMIs are holding steady, composite a tad down in Dec

Manufacturing PMI fell back to 50.3, services marginally up. Composite PMI signals steady growth

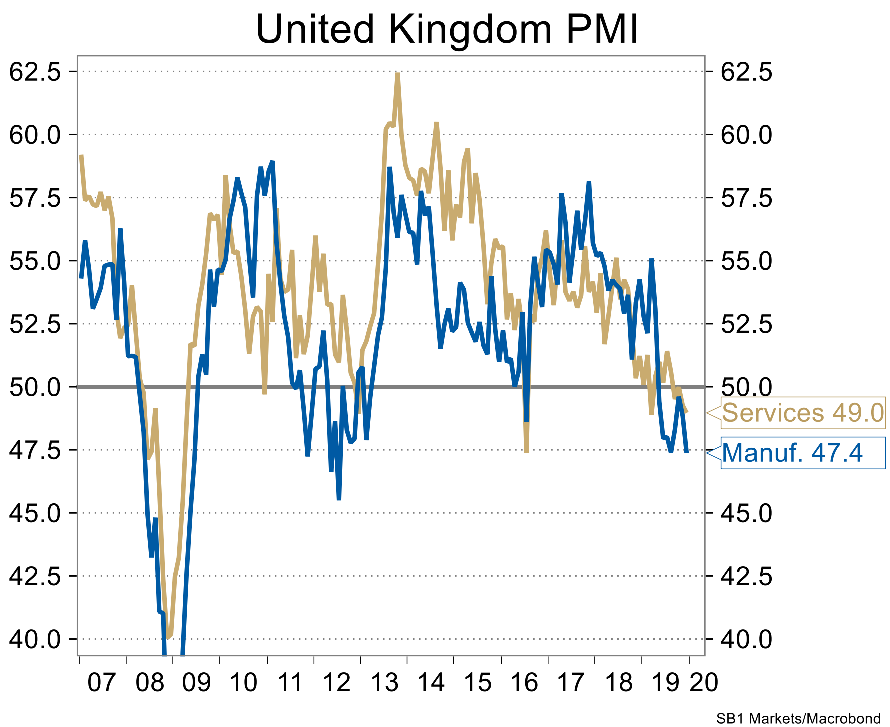


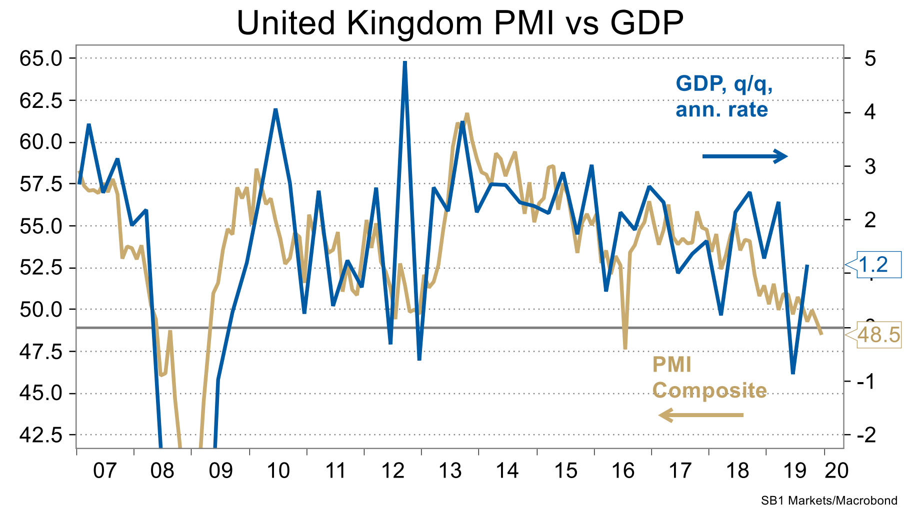


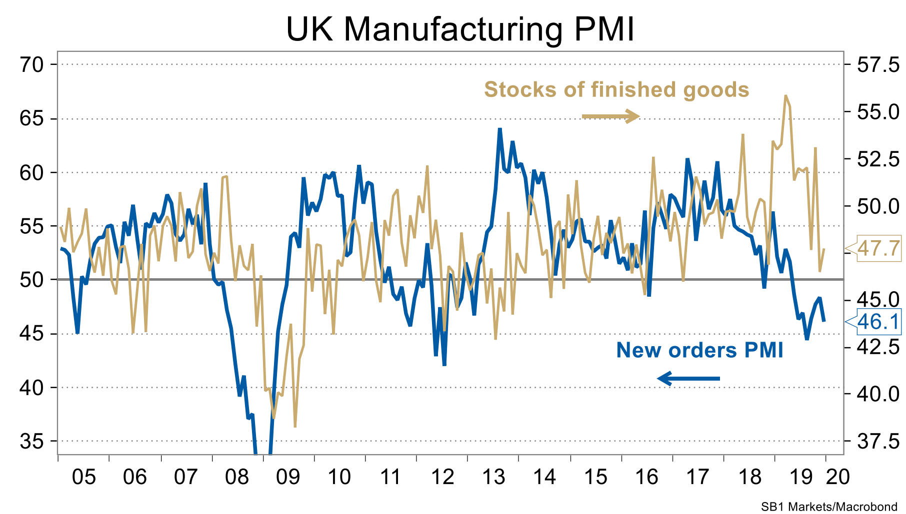
- Businesses in the service industry reported a marginal increase in conditions in Dec, reflecting moderate growth
- The manufacturing PMI fell 1.4 p, after climbing the 2 prior months, and the level now indicates muted growth. Still, French manufacturing has been holding up much better than the other ‘major’ Eurozone countries
- The composite PMI came down one inch in Dec, pointing to a decent, stable 1.5% GDP increase

PMIs drop as efforts to trim inventories act as a headwind

The composite PMI slipped to the lowest level since the Brexit referendum in Dec



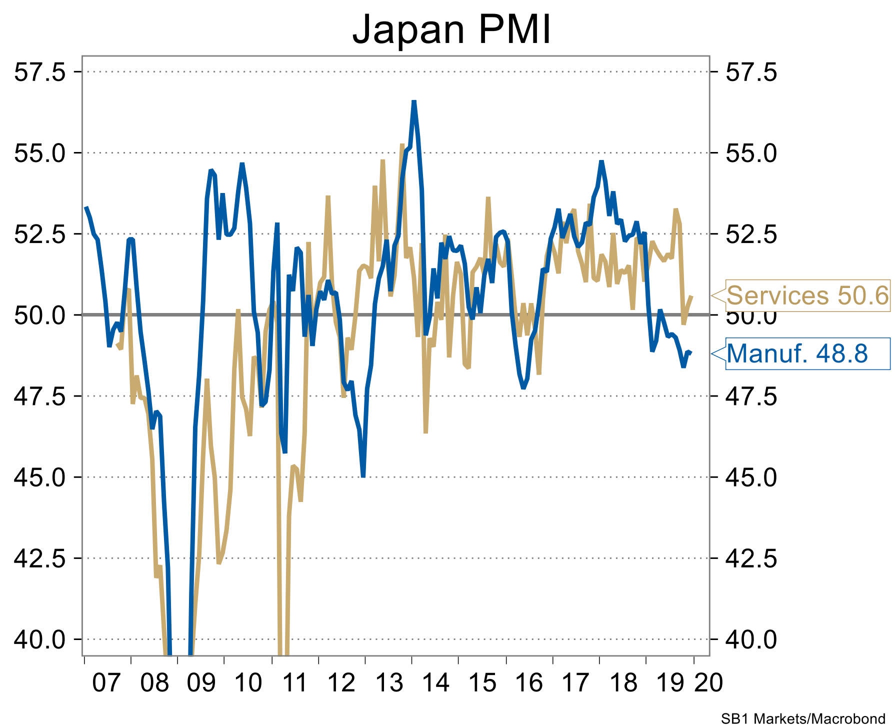


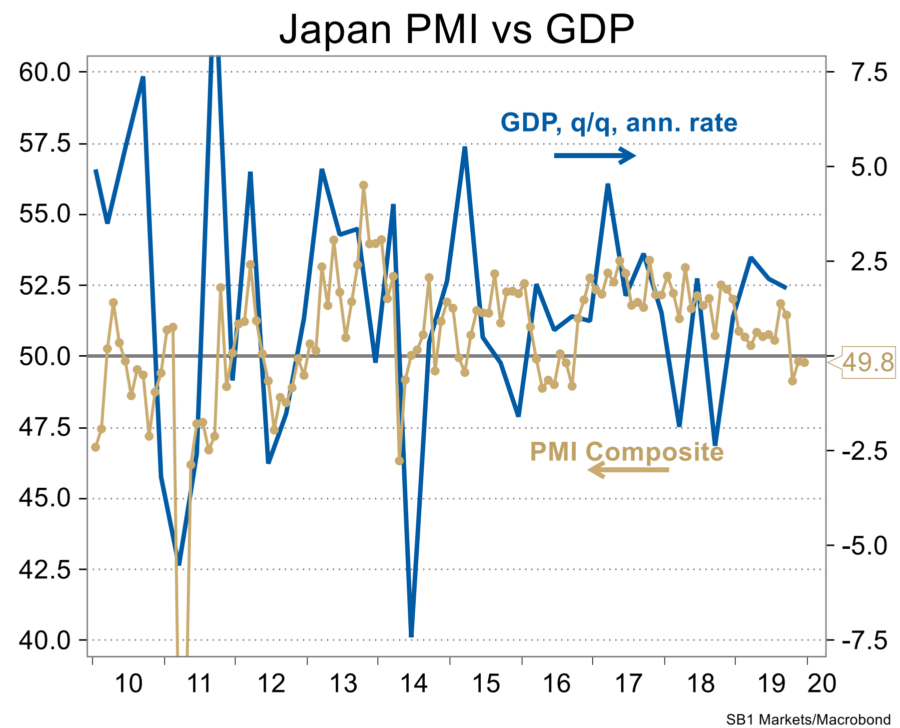


- Manuf. PMI dropped to 47.4, a 1.5 p decline. Businesses are citing Brexit uncertainties as the main challenge, and inventory adjustments in the aftermath of the prior October Brexit deadline act as a brake in production
  - » The inventory build up this autumn was much more modest than in the spring, before the previous March Brexit deadline
- Services PMI is weakening rapidly too, the level at 49 confirms a broad slowdown in the UK economy

Both PMIs weak in December too

Businesses are still struggling in the aftermath of the October VAT hike, a gradual rebound is likely



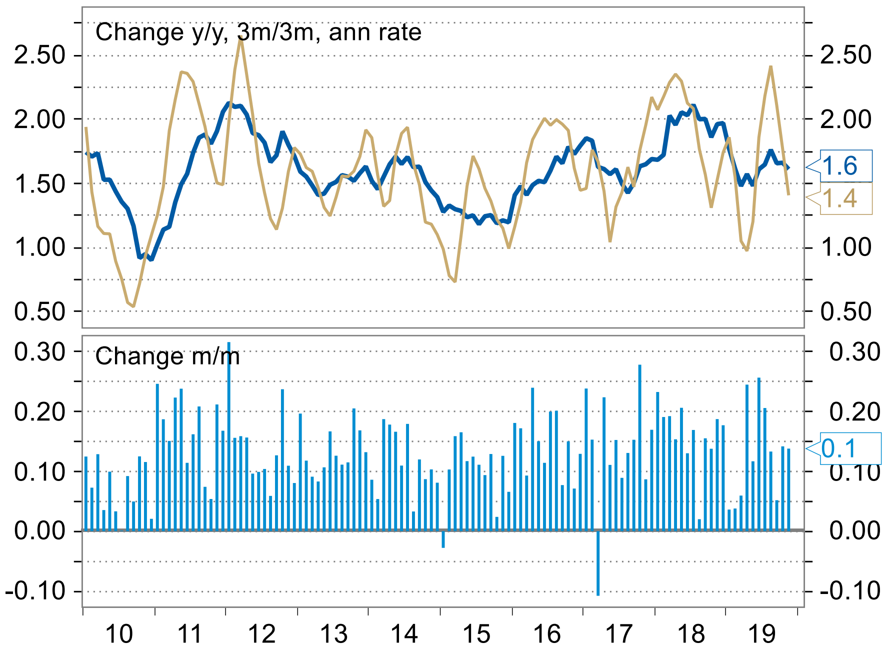


- Composite PMI was unchanged at 49.8 in Dec, following the 0.8 p lift in Nov. Thus, the index remains close to the lowest level in 3 years as it signals close to zero GDP growth
  - » The services PMI continued slowly upwards in Dec, while the manufacturing index fell marginally. We expect a recovery the coming months, but it may take some time. In 2014, the last time consumer tax was raised, the services PMI was back at the pre-hike level after 3-4 months. Thus, during these months, we cannot tell whether or not the weak prints reflect a 'fundamental' slowdown
  - » Manufacturing PMI inched down to 48.8, still reflecting declining activity. Japanese manufacturing is slowing along with global demand
- Other Japanese surveys confirms a slowdown – but not more than in '16, 13' or 11'

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

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

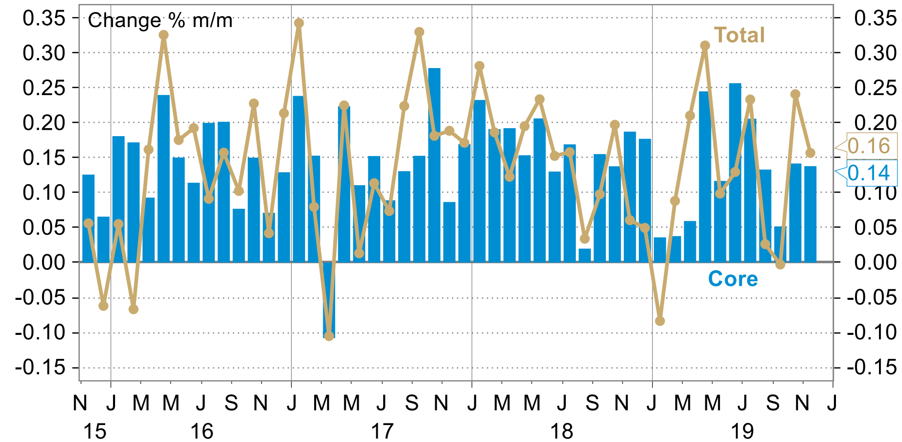
USA Core PCE deflator



SB1 Markets/Macrobond

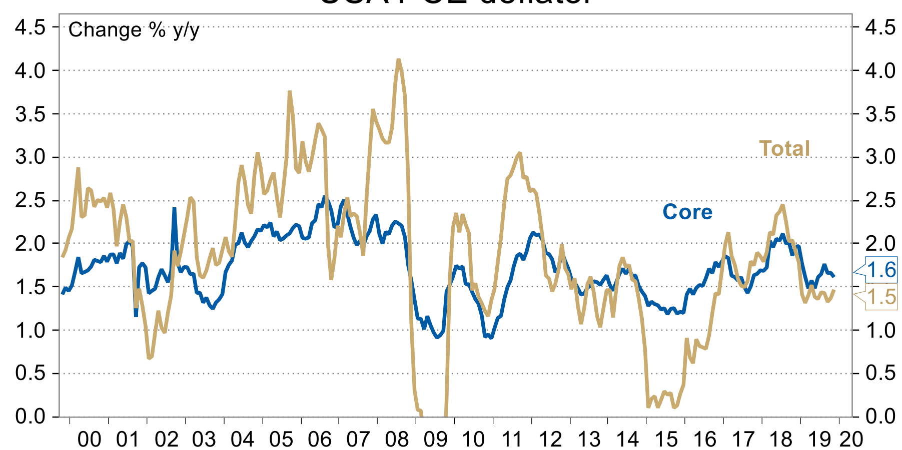
- The core price deflator rose by just 0.14% m/m in Nov, in line with expectations, but Oct was revised up. Underlying growth has slowed the past 3 months, to 1.4%. Annual rate at 1.6% (down from upw. revised 1.7% in Oct, 0.1 pp above expectations. Trend recent few months down
- Total PCE inflation rose 0.2 pp to 1.5% y/y, has been stable in 2019
- Core PCE is 0.4 pp below Fed's price target, which is not sufficiently low to alter the Fed's stance on keeping rates on hold unless the economy weakens substantially (and other data have been on the strong side)

USA PCE deflator



SB1 Markets/Macrobond

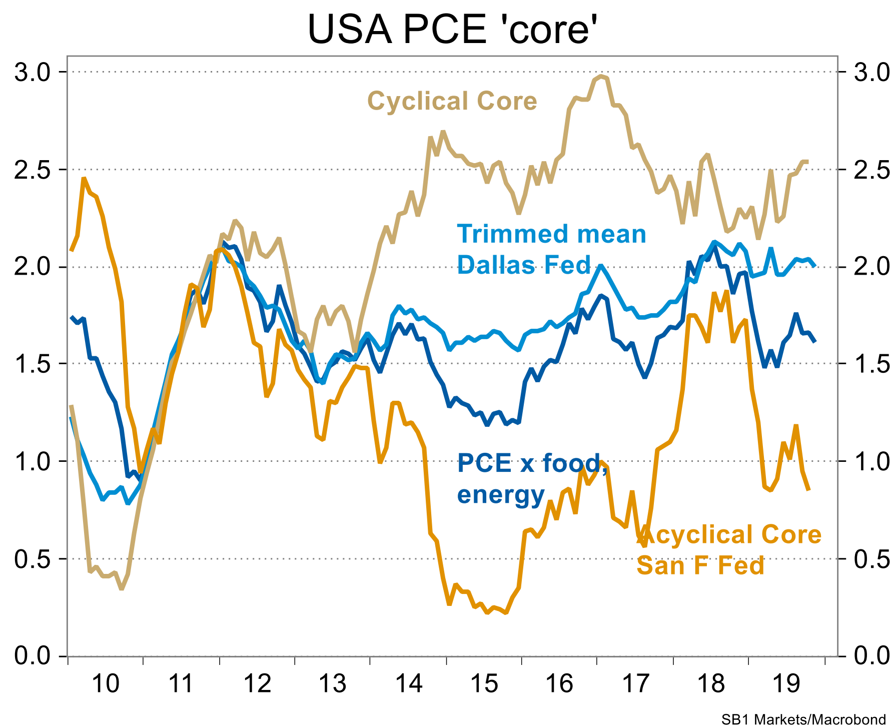
USA PCE deflator

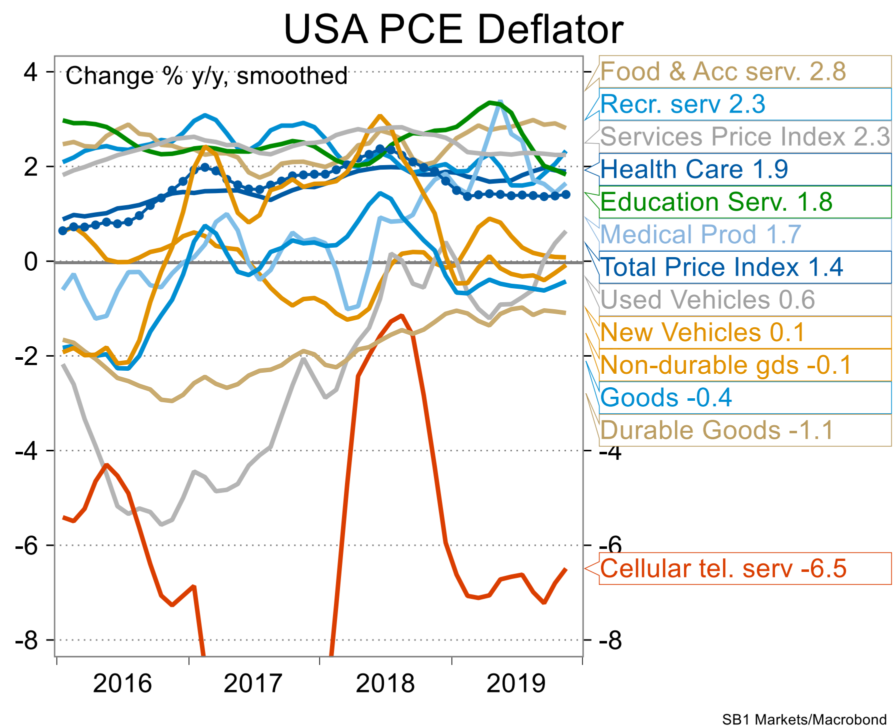


SB1 Markets/Macrobond

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

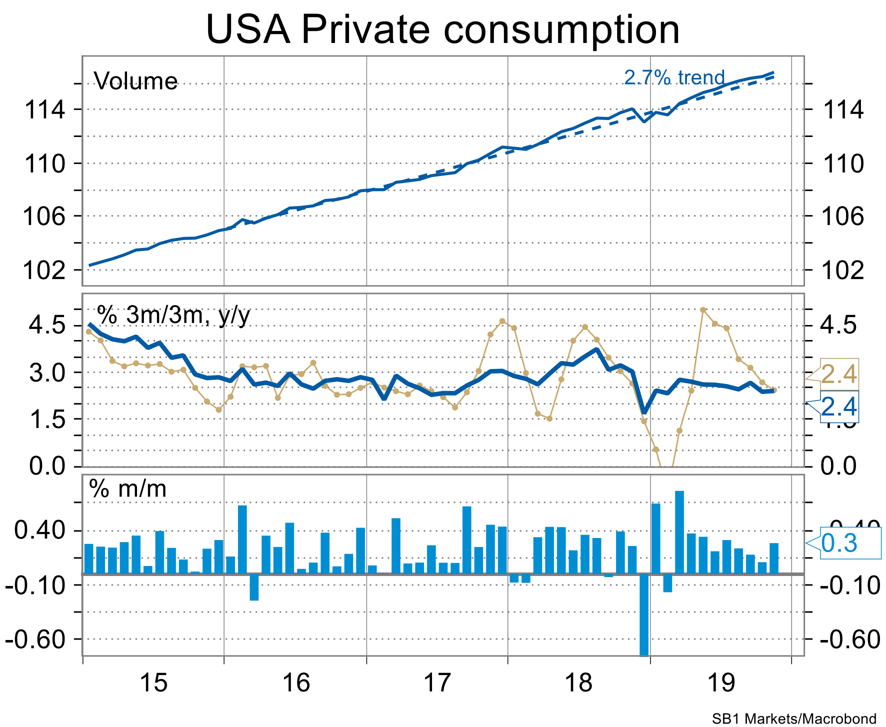
Still, many sectors have flattened/slowed, but the trimmed mean is at target

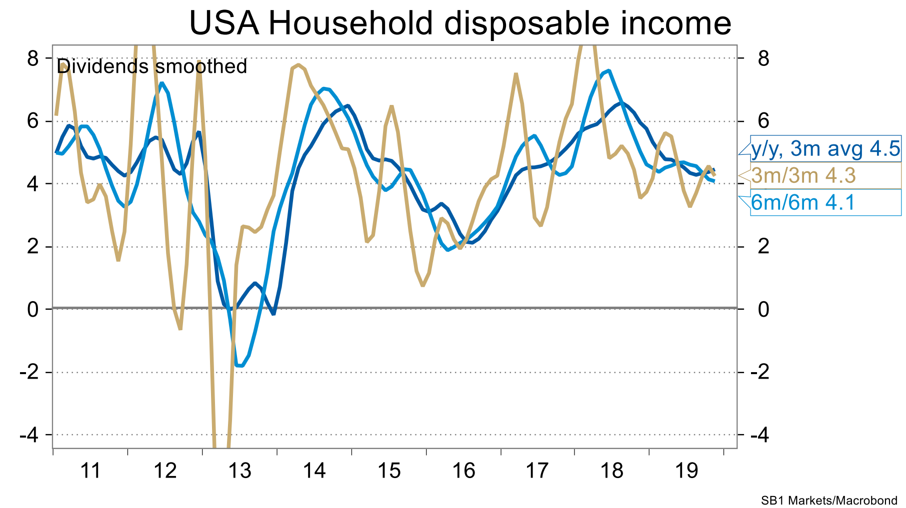


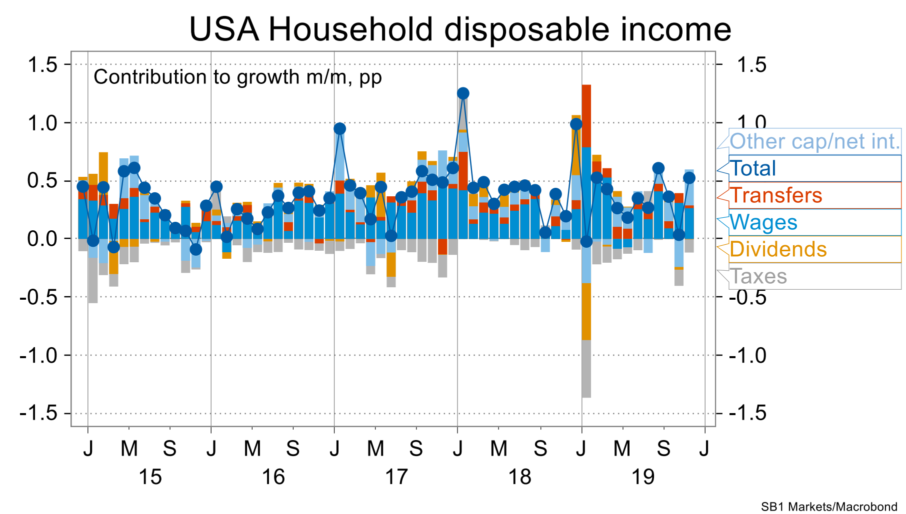


Consumption growth keeps cooling off, still not 'dangerously' slow

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



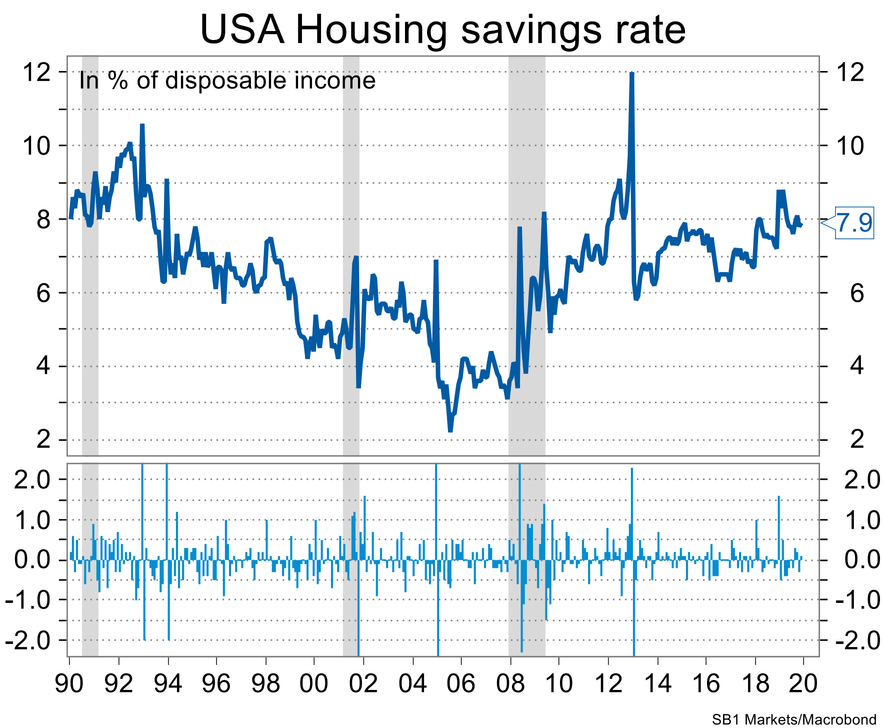


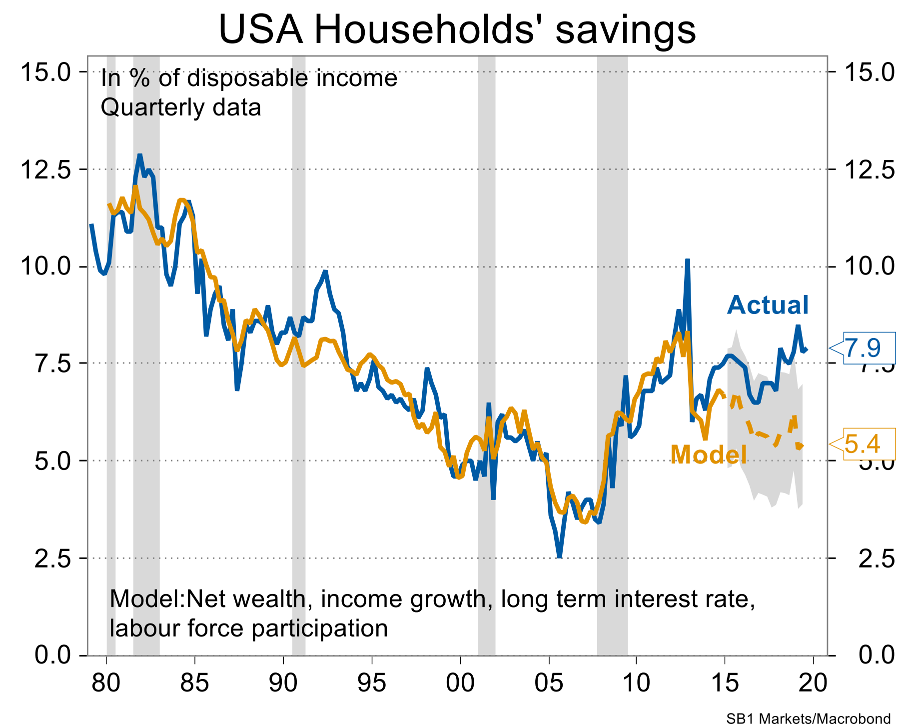


- Private consumption rose 0.3% m/m in Nov (volume), 0.1 more than expected
- Underlying growth has slowed to 2.4% annualized, from 5% in the spring
- Households' nominal disposable income rose 0.5% m/m, 0.2 pp more than expected and Oct was revised up 0.1 pp to 0. Underlying growth is slightly above 4%. Total wage & salary income up 5.3% y/y (volatile data)
- The savings rate rose 0.1 pp to 7.9% - a rather high level for Americans

Households savings ticked up to 7.9%

The savings rate has fallen during 2019, supporting consumption. The longer term trend is still upw.

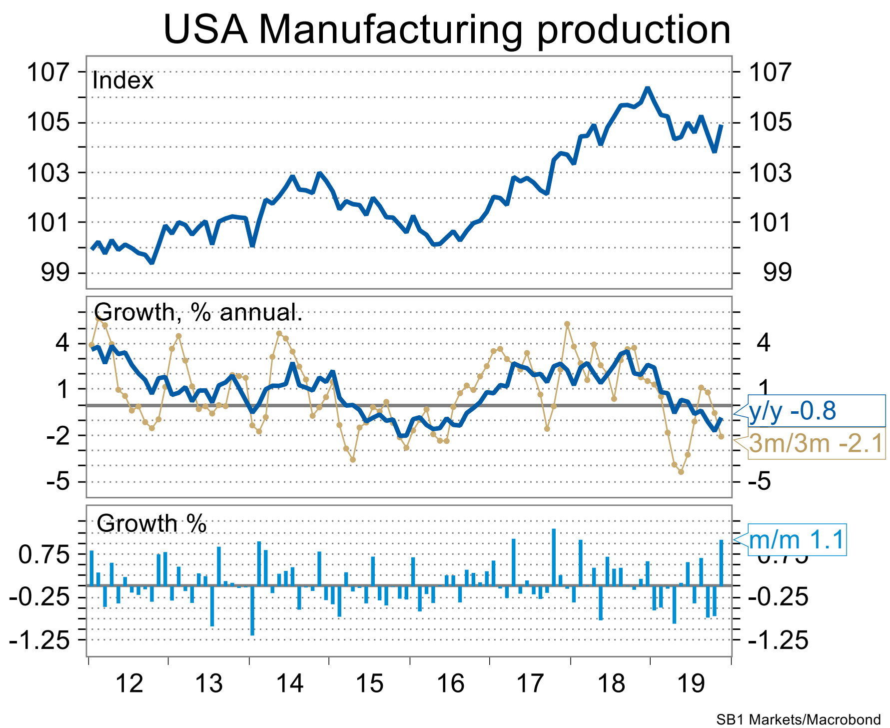


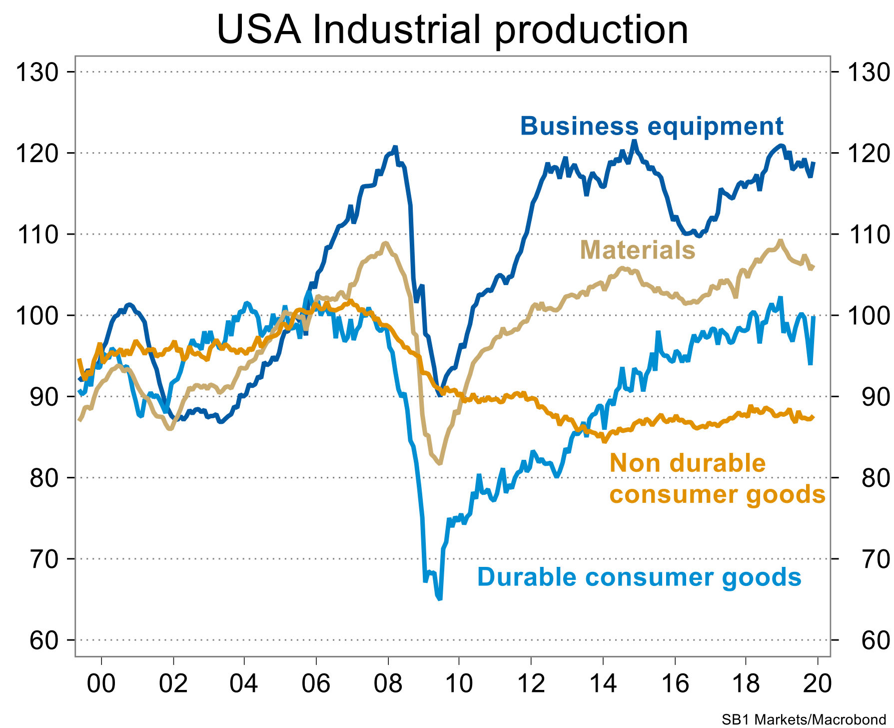


- In Q3, the savings rate was 2.5 pp above our model forecast! The rise in savings indicate that the tax cuts have largely been saved, and not spent (and also supported by a higher estimate of incomes due to a higher estimate of tax evasion…)

Manufacturing production recovered in Nov, from the GM loss

Production up by 1.1% but trend still no more than flat

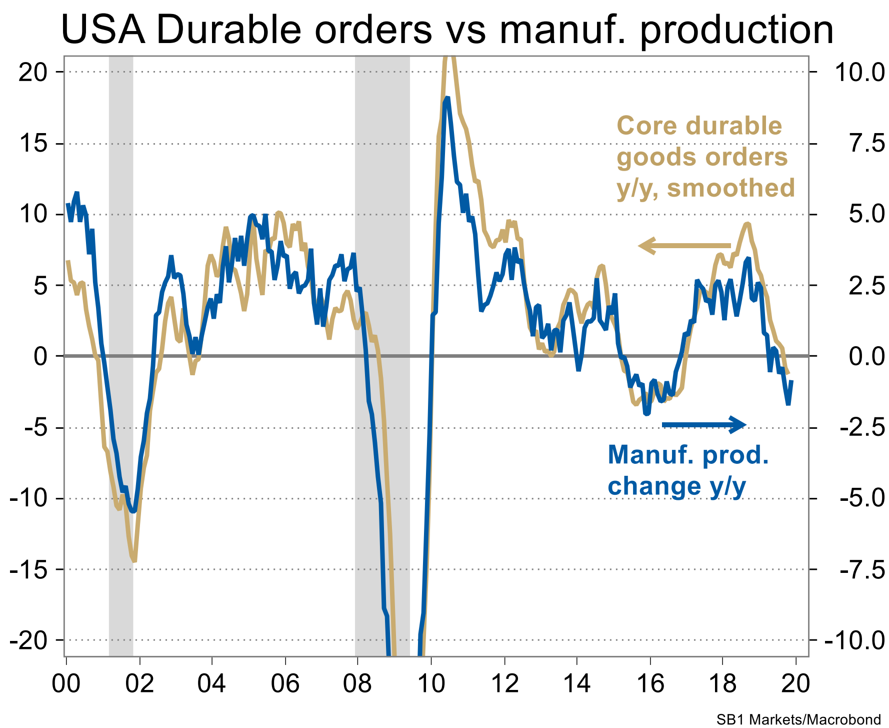


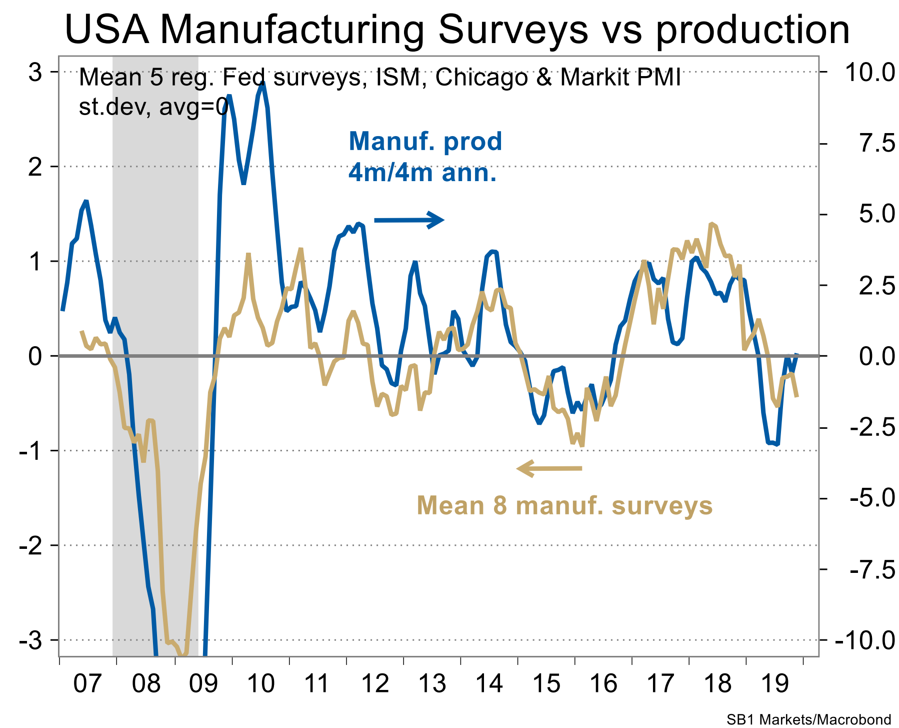


- Manufacturing production recovered in November, as the impact of the GM strike disappeared, expected up 0.7%. If production is unchanged in Dec, production will decline 1% q/q (annual rate)
  - » Total industrial production including energy & mining rose 1.1% as well
  - » Production has slowed in most sectors recently, including business equipment & consumer durable goods - in sum weaker than signalled by durable orders, which has just stalled
- Manufacturing surveys are mixed but in sum they signal modest decline in production
  - » The average of 3 Dec surveys published so far is marginally up, but not enough to signal a lift in production

Orders & surveys do not signal any further downturn

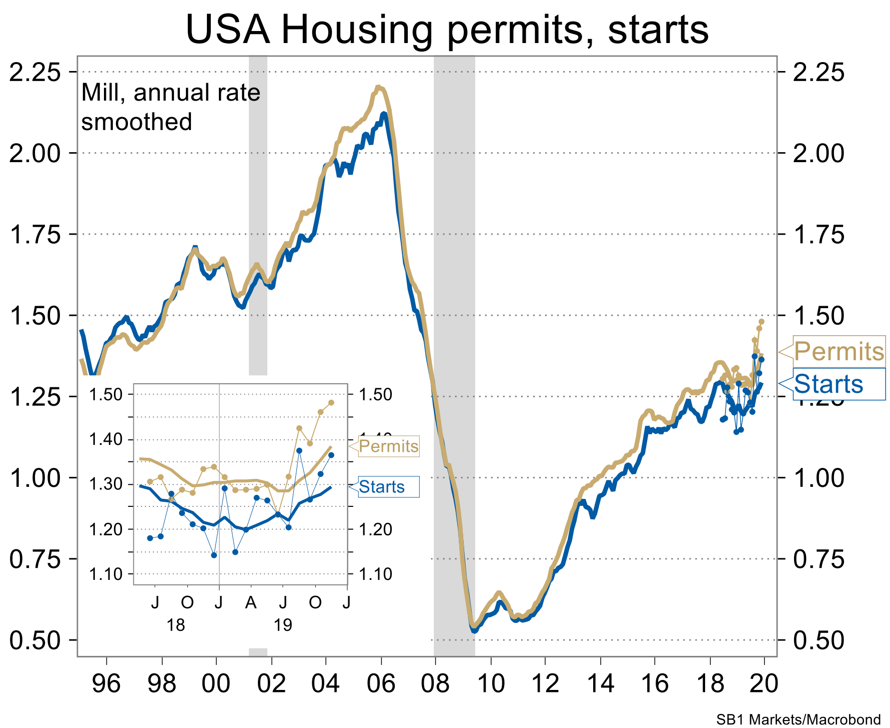
An average of surveys signals a modest decline in production and orders point to just a stagnation

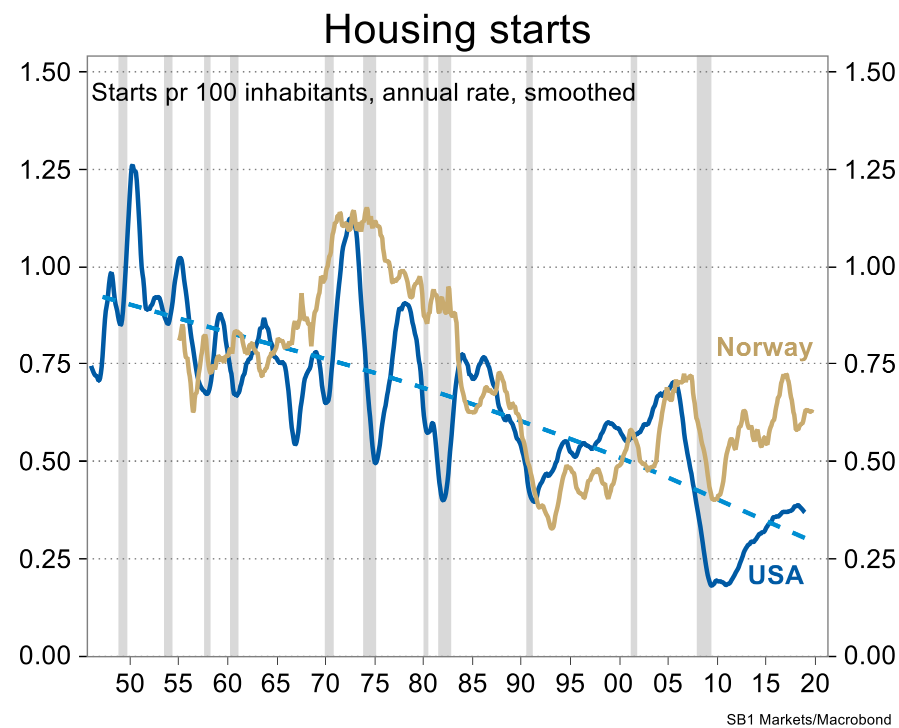




Housing permits & starts are soaring, highest level since 2007

Both housing permits & starts have perked up recently, demand must be thriving. Limited upside?

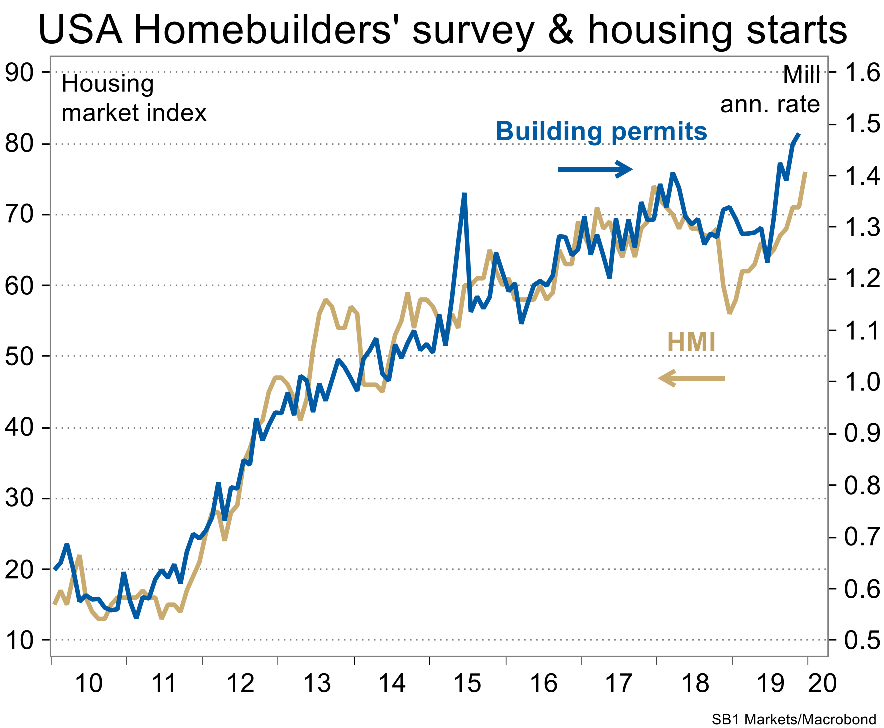


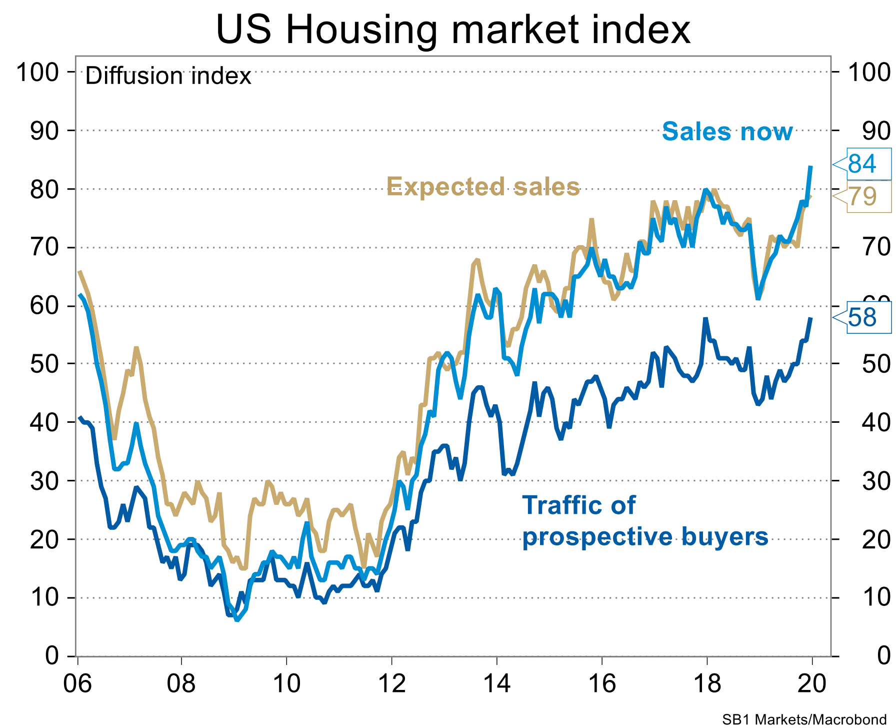


- Housing starts rose by 3.2% m/m in Nov, to an annual rate of 1.37 mill, a tad below expectations. Starts have climbed since last winter and the smoothed index is back at the 2018 peak level
- Housing permits increased by 1.4% m/m, following a spike in Oct. The annual rate of 1.48 mill is above expectations and the highest since early 2007! Permits usually are less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts. The smoothed rate is just 2% above the 2018 peak
- Housing starts/permits reflect a solid housing market upswing, boosted by low mortgage rates. The Homebuilders' index confirms brisk demand but does not suggest another lift. The level of starts is not high, and the downside is modest compared to '06-'09

Homebuilders' confidence spiked to a 20 y high in Dec!

HMI jumped to above the 2018 peak, however, does not signal higher starts (and it's usually leading)



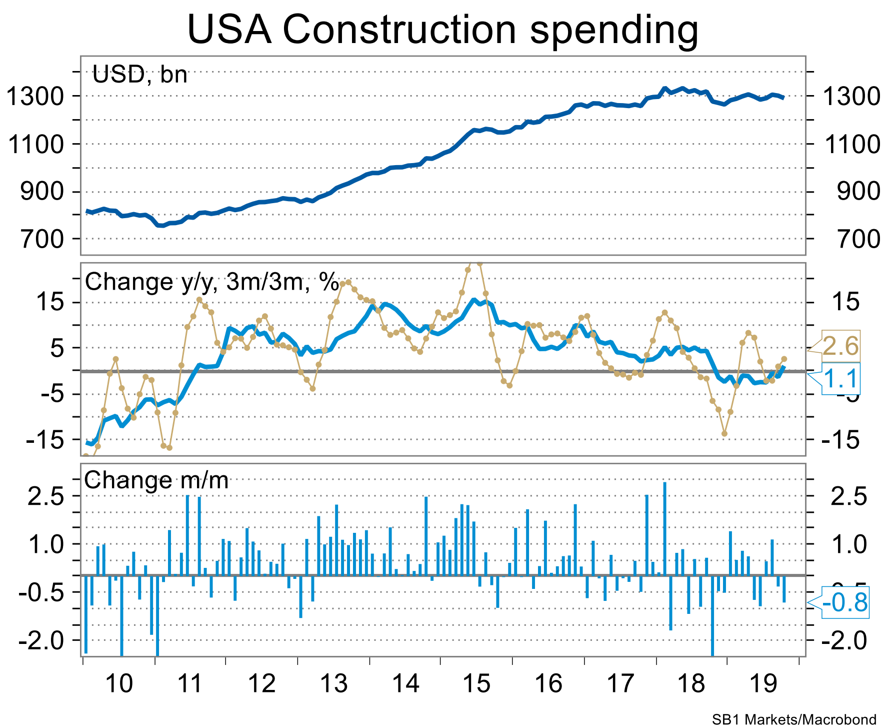


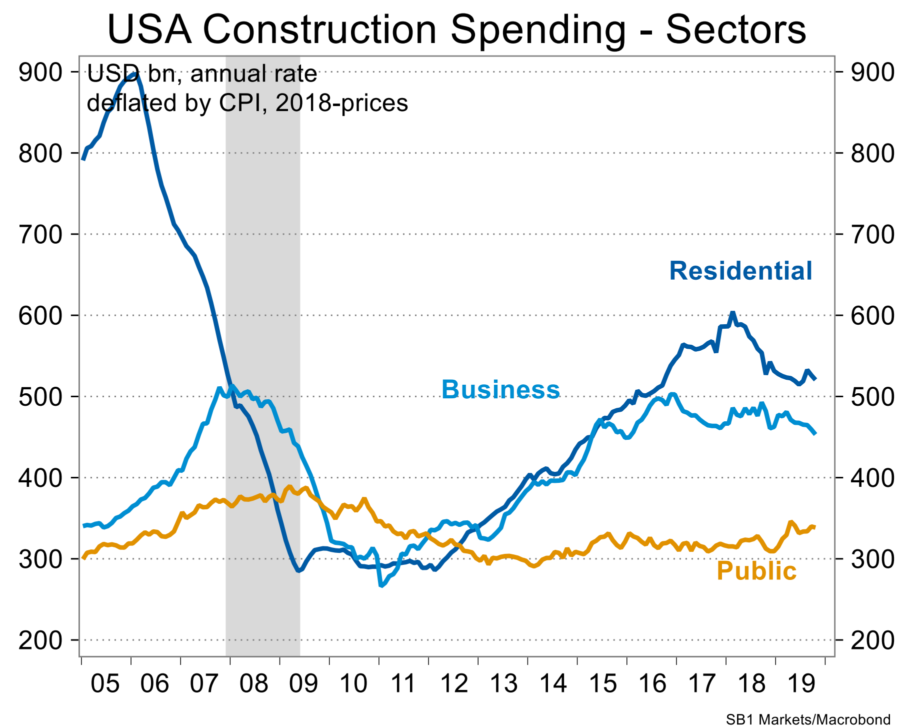
- The housing market index (HMI) increased to 76 p in Dec, a 5 p upturn, much better than expected. The homebuilders have been reporting a strong housing market rebound this year, the HMI index is now at the highest level since 1999!
  - » According to the homebuilders, low mortgage rates, a low supply of existing homes and strong demand (fuelled by a strong labour market) are boosting activity. The builders are complaining about supply side constraints; lack of labour and lack of building lots
- Building permits are soaring, the HMI does not signal another lift (although it has been too downbeat for the past year). Historically, the index has been leading both permits and starts by approx. one year – limited upside on starts!

HMI is a based on a sentiment survey of US homebuilders, in which the respondents rate housing market conditions at the present time and the next six months. The index ranges from 0 to 100

Construction spending has stalled – no growth since early 2018 (nominally)

Residential spending has turned up recent months, offset by declining business spending (CPI adj)



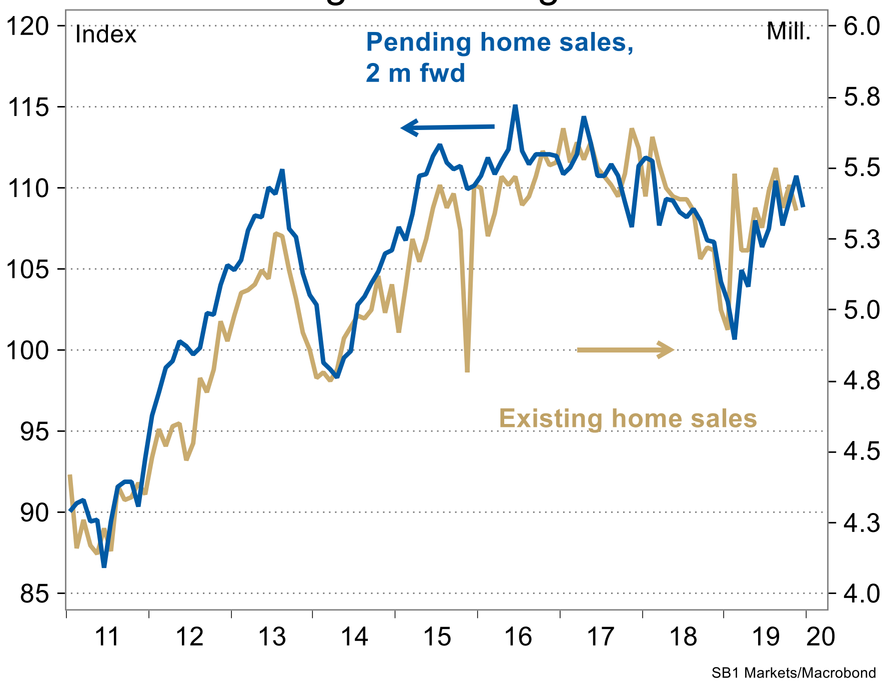


- Activity fell by 0.8% in Oct, and is trending flattish, in nominal terms
- Business construction investments are on the way down
- Residential investments have stabilised following a downturn – and will most likely turn up the coming months
- Public investments have increased significantly recent since early 2019 The Wall?
- Employment in the construction sector is no doubt exposed – it has already slowed substantially

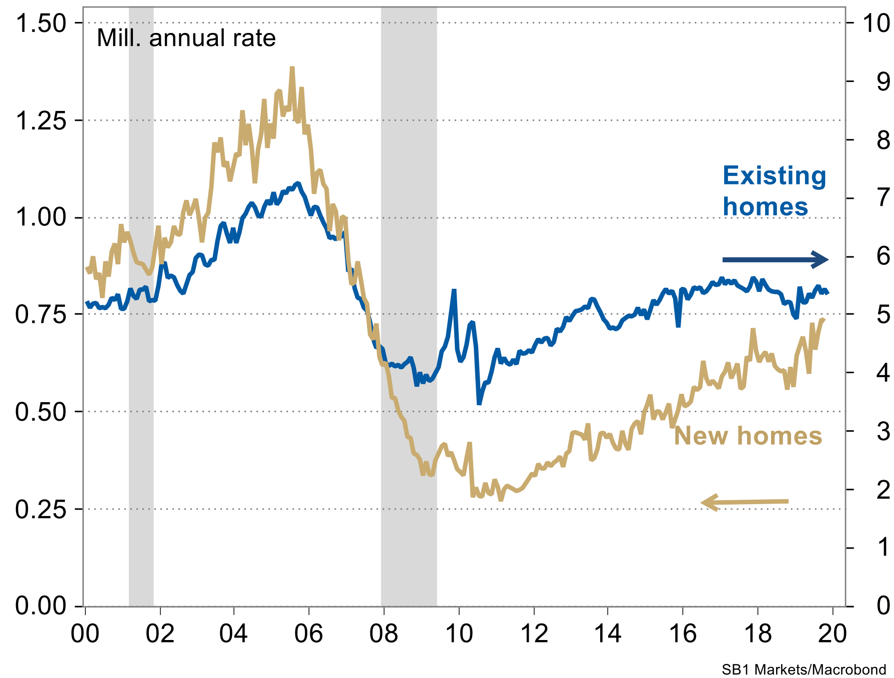
Existing home sales down in Nov, trending up (most likely…)

Existing home sales are up 8% from the trough, a slower upturn than new home sales

USA Pending vs Existing home sales



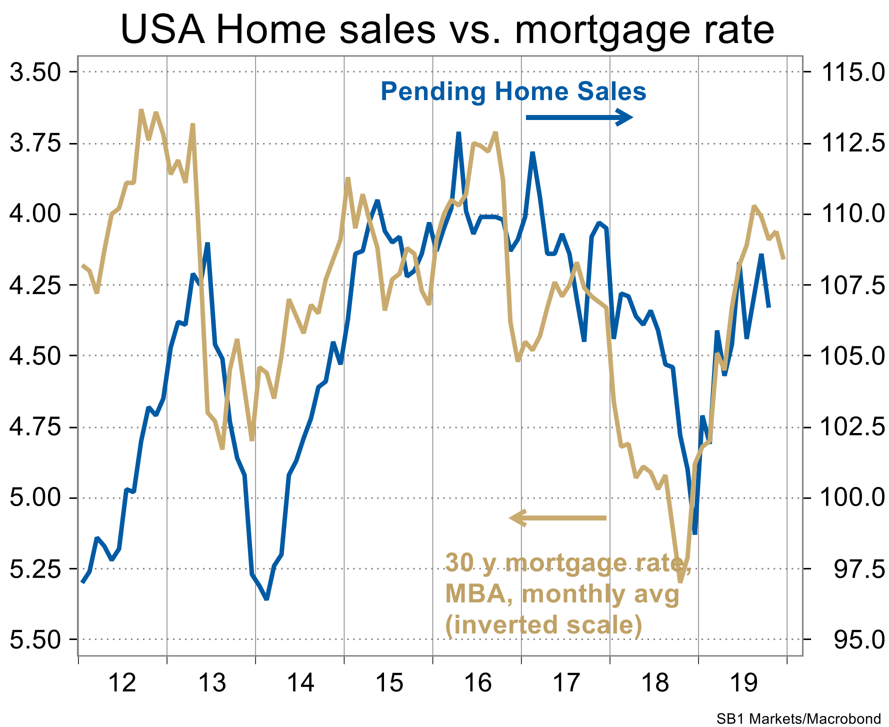
USA Home sales

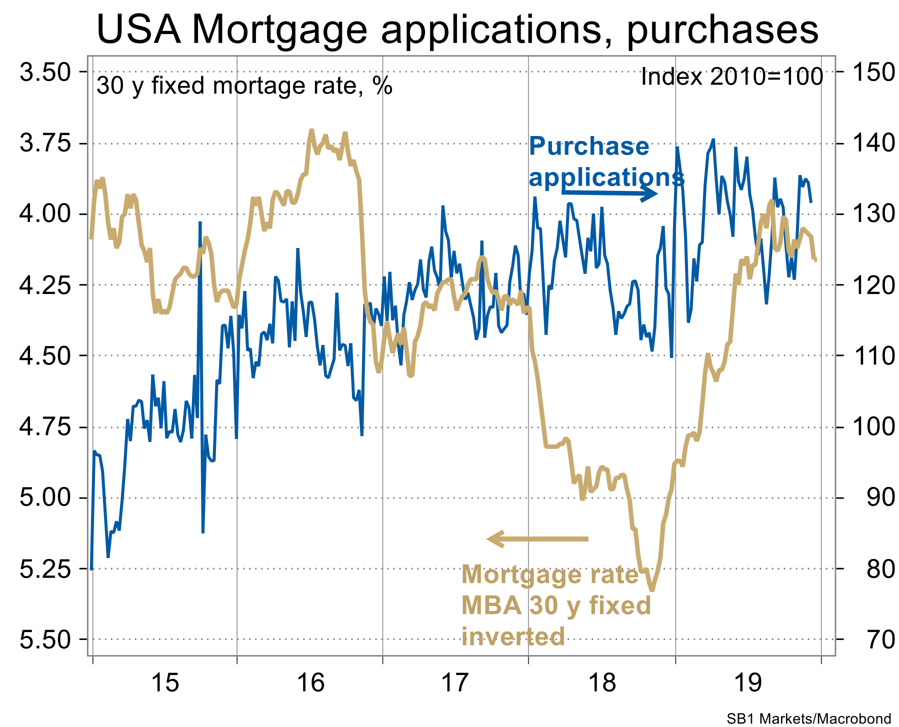


- Existing home sales fell 1.7% m/m in Nov, slightly weaker than expectations – and the recent months have not been that impressive
- Pending (existing) home sales are heading steeply up, reversing the early 2019 downturn. Pending sales are pointing to steady existing home sales, these are usually quite well correlated. New home sales have been soaring recent months
- Other housing data are upbeat, demand must be booming

Mortgage application are elevaterd, confirming strong demand

All housing demand indicators mirror an upswing

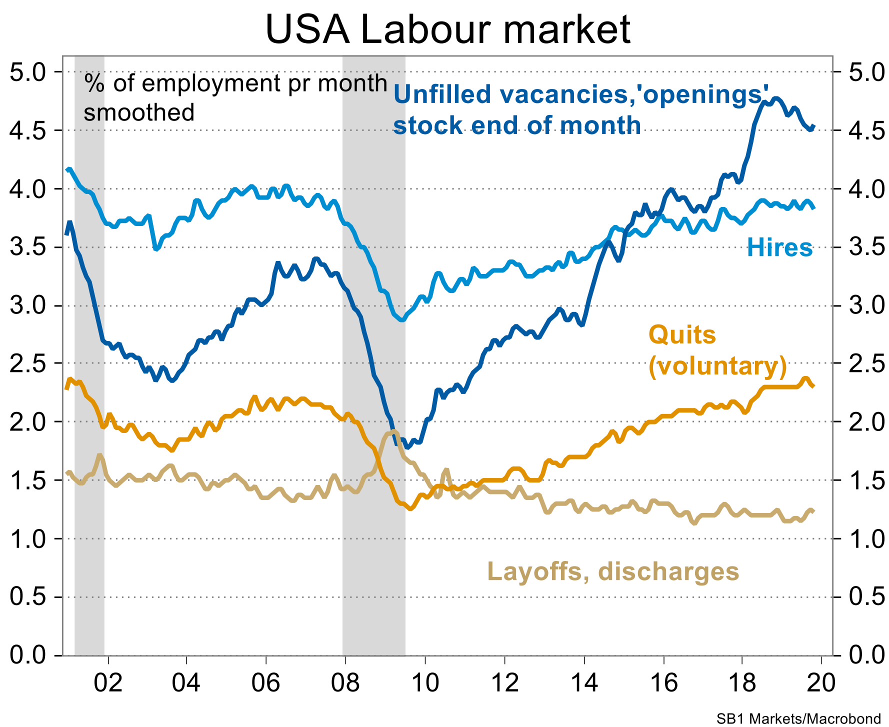


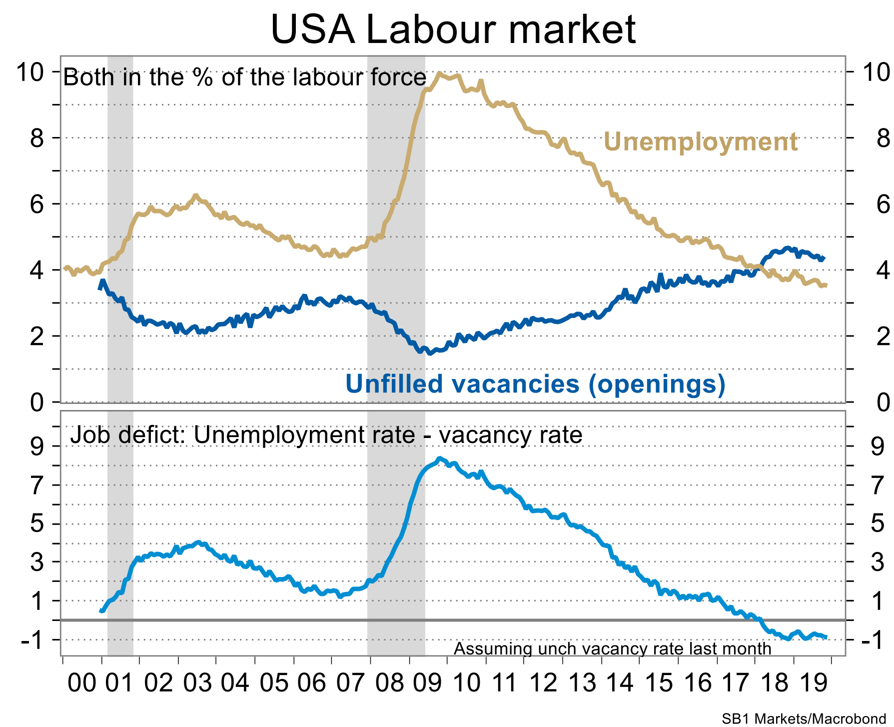


- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market

Unfilled vacancies down from peak, but no signs of rapidly cooling labour market

Hires & voluntary quits are stable at a high level. Some more, but still very few layoffs are

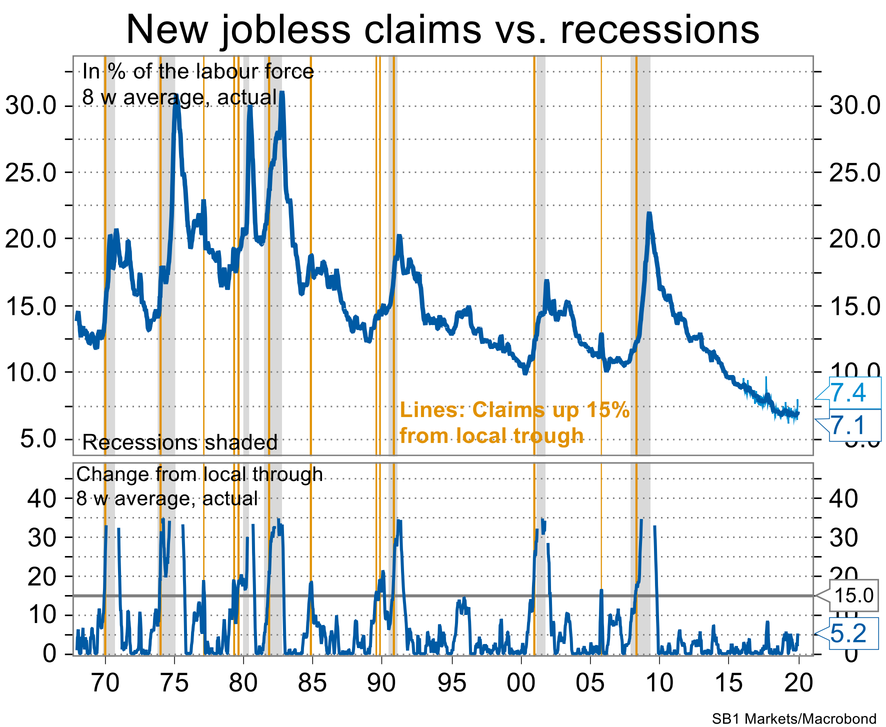


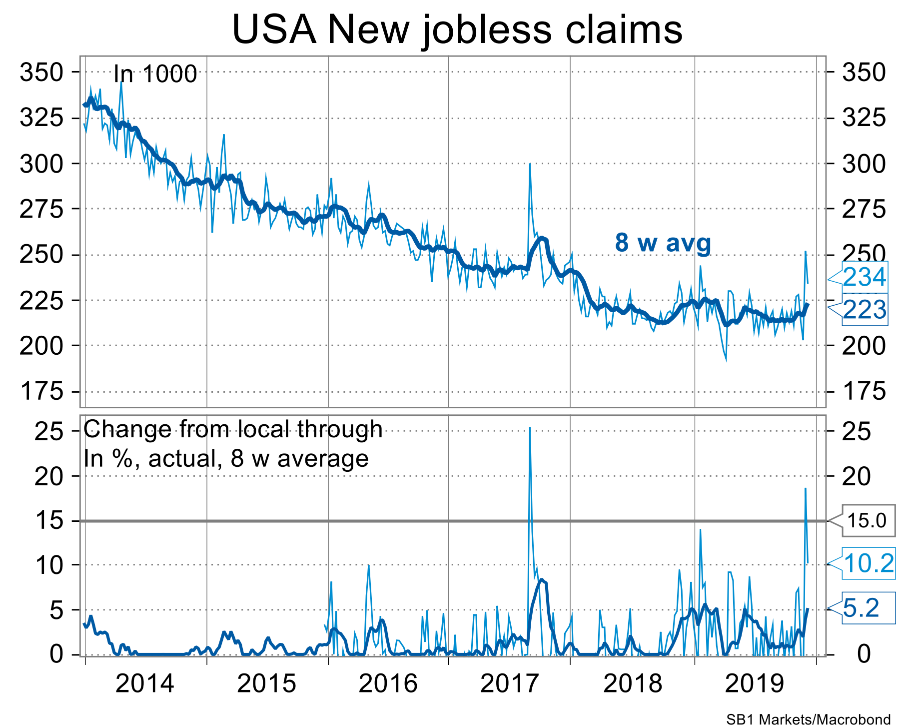


- In October, job openings (unfilled vacancies) increased to 4.6% of employment, up 0.1 pp. We apply a 2 m smoothing, the unadjusted rate edged up 0.2 pp. Unfilled vacancies has been sliding slowly down the past year, may be a very early sign of a cooling labour market. However, the level remains elevated and the labour market is no doubt tight; there are still more unfilled jobs (4.4%) than unemployed (3.5%), in % of the labour force. The gap is close to record high
  - » Monthly (gross) hiring equals 3.8% of total employment and is not increasing anymore, probably because businesses struggle to attract labour
  - » The number of voluntary quits is rising marginally, at a very high level – as many employees leave for better (paid) jobs
  - » Layoffs have inched up recent months but are trending marginally down, is at very low level – and it's a lagging indicator

Jobless claims remained 'high' last week, as seasonal distortions persist

Claims fell to 234', far above the 8 w avg. However, the pattern is equal to that of the previous years

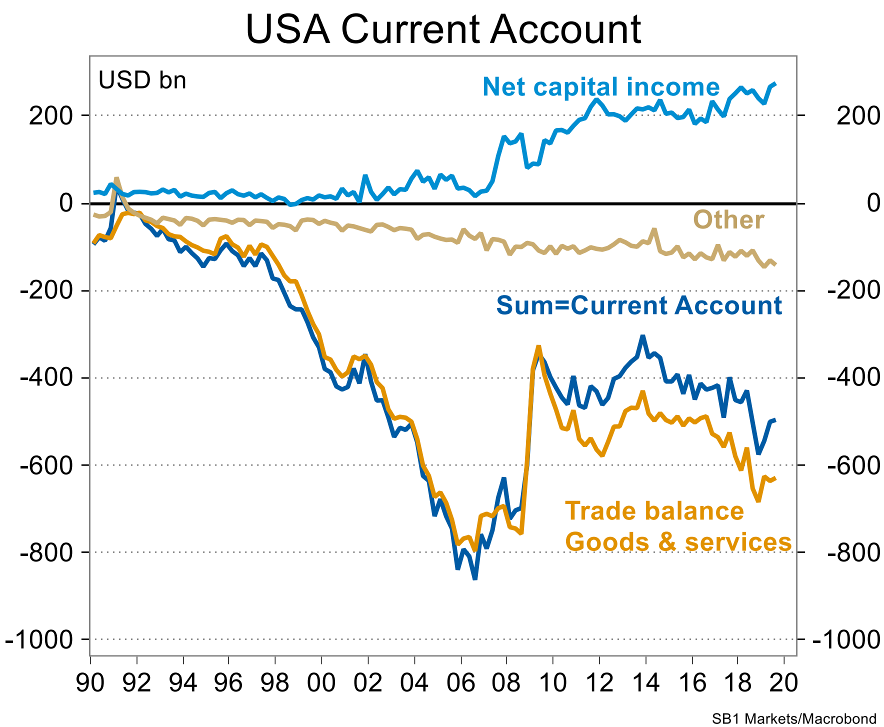


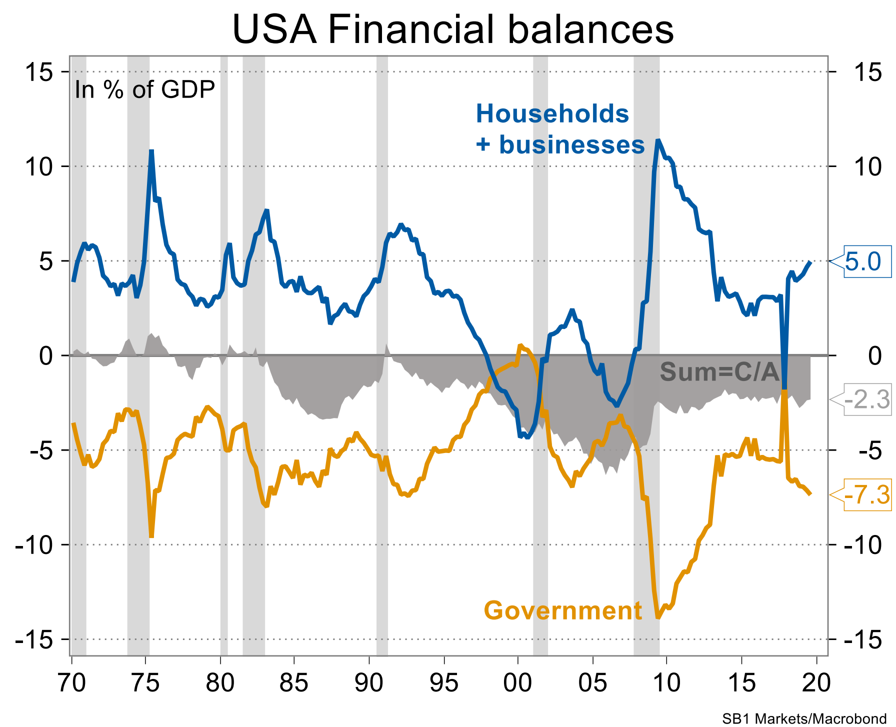


- Jobless claims have been distorted by a later than usual Thanksgiving holiday. During the holiday, fewer are filing their claims, and the next week, claims tend to soar. As Thanksgiving falls on different weeks, the seasonal adjustments are troublesome. Looking at the unadjusted data, the spike 2 weeks ago was equal to that of the past years and the meagre decline last week was just 'as usual'. Thus, the recent uptick probably does not reflect an actual unemployment upturn
- The 8 week average inched up to 223', still a very low level and just a marginal increase
  - » 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 current account deficit unchanged in Q3, trending flat vs GDP

The C/A is not that large (2.3%) as the private sector runs a 5% of GDP surplus; the public is -7.3%!!

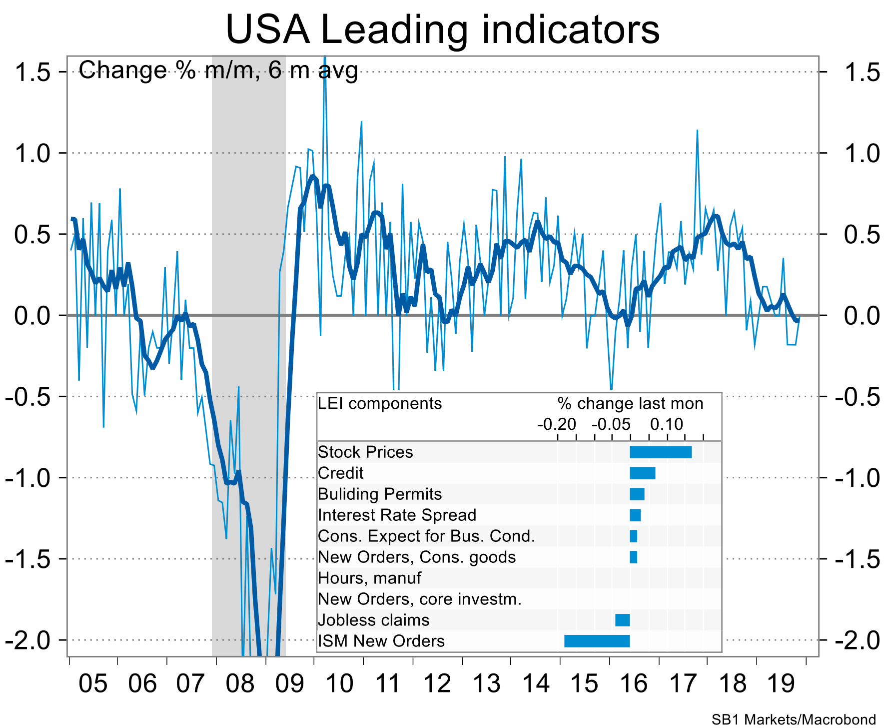


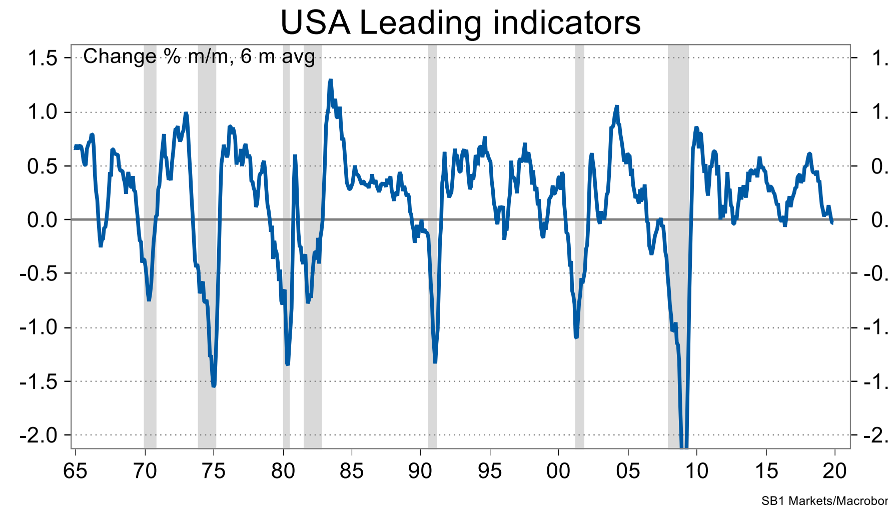


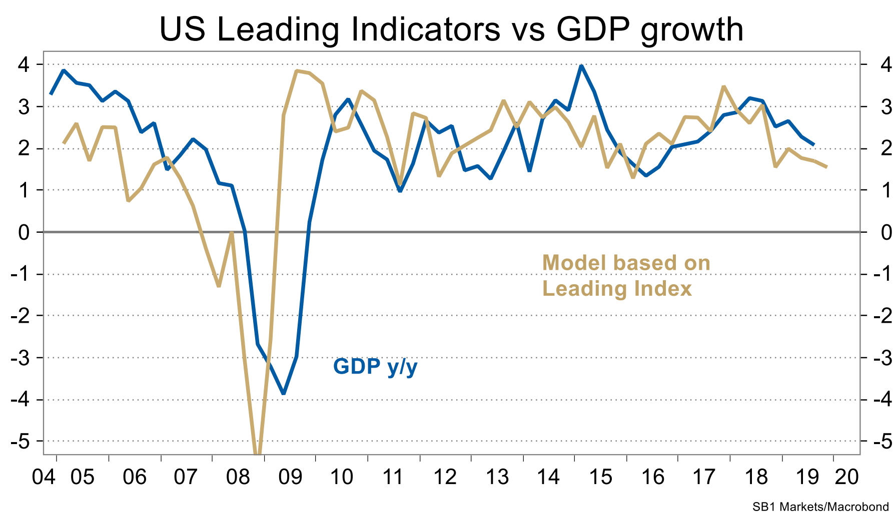
- The US government is running a huge cash deficit, equalling 7.3% of GDP in Q3, up 0.3 pp from Q2. The deficit was just above 4% of GDP in 2015!
  - » The ups/downs in private sector/public sector balance in Q1 2018 at the chart are due to the tax reform accounting
- The private sector surplus widened to 5%, a 0.3 pp uptick. The surplus is heading up since 2015 as tax cuts are not fully spent. However, it is much lower than a few years ago
- The private sector cash surplus is the best argument for NOT fearing a hard US recession. Recessions are almost always caused by higher household and corporate cash savings (=spending falls faster than incomes). The downside risk is now limited, as the cash surplus is well above normal levels. In addition, we very much doubt the public sector will cut the deficit in an uncontrollable fashion, creating a negative demand shock

The Leading indicators slide down but do not signal any abrupt slowdown

LEI points to some 1.5% GDP growth (the nowcasters says 1.3% - 2.1%)





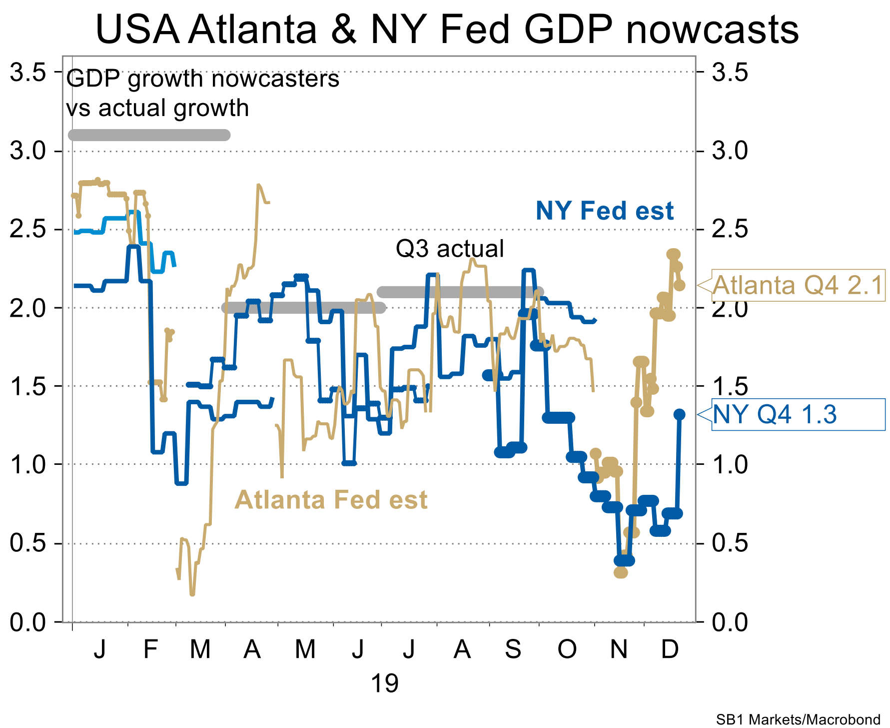


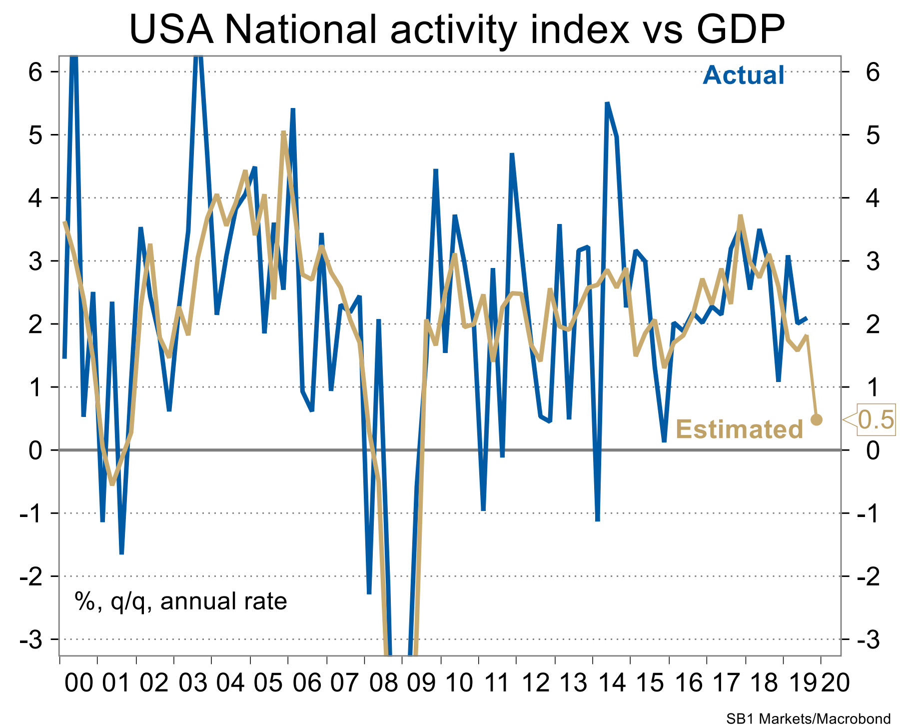
- Conference Board's Leading indicators were flat m/m in Nov, after 3 months of a modest decline. The 6m average m/m change has fallen to zero
  - » The ISM and jobless claims (Thanksgiving distortions) sent the LEI down, stock markets, credit growth and an upbeat housing market were the major positive contribution
- Face value, the LEI is signals 1.5% GDP growth in Q4

Conference Board's Leading Index (LEI) is a composite index based on ten already published leading indicators that are judged to be leading the overall cycle

Nowcaster converged before Christmas, now signal 1.3 (0.7) – 2.1% (2.3) growth

The NY Fed's model is still well below Atlanta Feds nowcaster

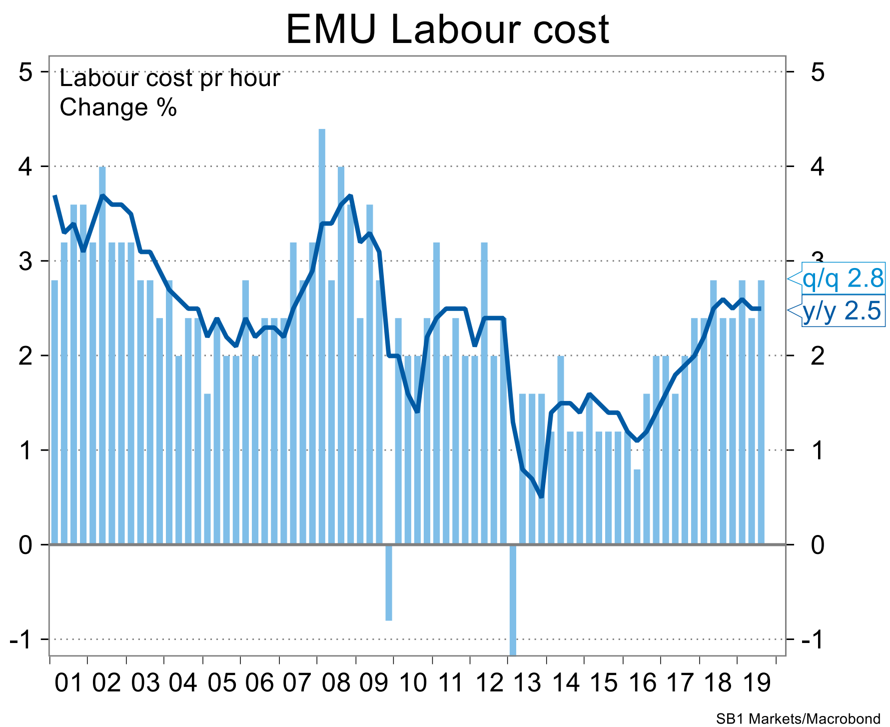


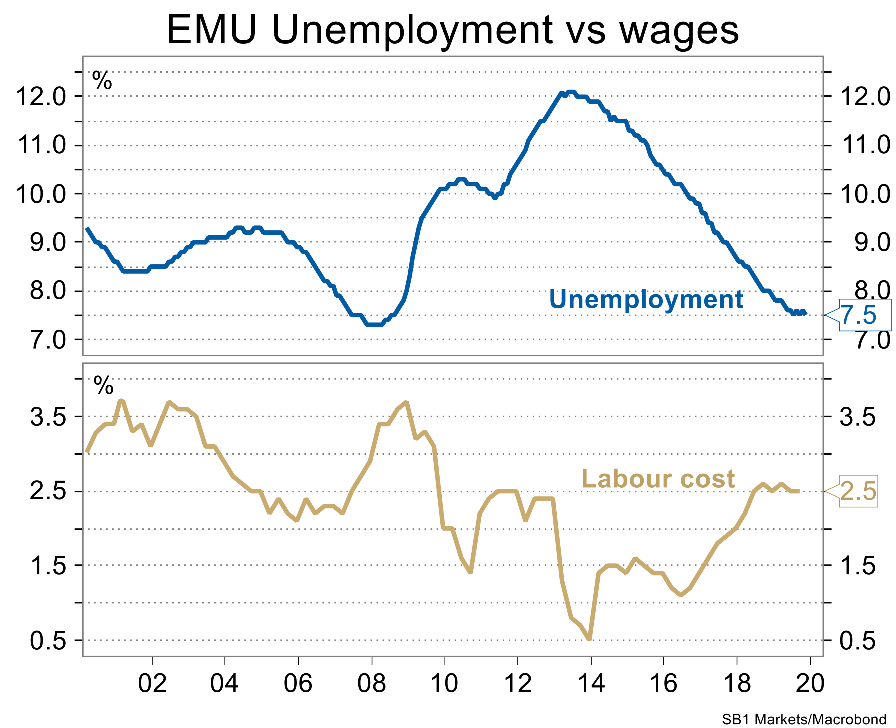


- The National Activity Index, which suggested 1.8% GDP growth in Q3 (0.3 pp below the actual number), now points to a slowdown to 0.5% into Q4 (Oct data)

Wage inflation has flattened along with unemployment

Labour costs rose 2.8% q/q in Q3, up 0.4 pp. Growth has flattened out, annual rate steady at 2.5%

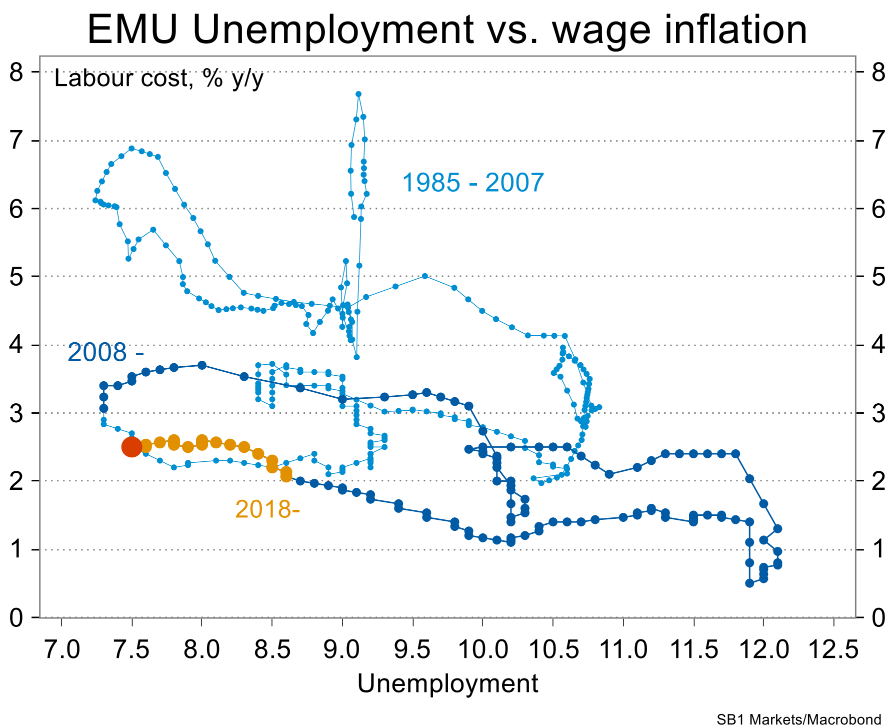




- Wage inflation was unchanged at 2.5% y/y in Q3, flattening out the past year. Growth q/q ann. rose to 2.8%, from 2.4%
  - » Unemployment has flattened out the past months, at a low level, and employment growth is sliding slowly down
- Stalling wage inflation is not a strong argument for higher CPI inflation. On the other hand, a 2.5% pace is not low and should have translate into higher inflation at one point. And unit labour costs are high. Business profits exposed?

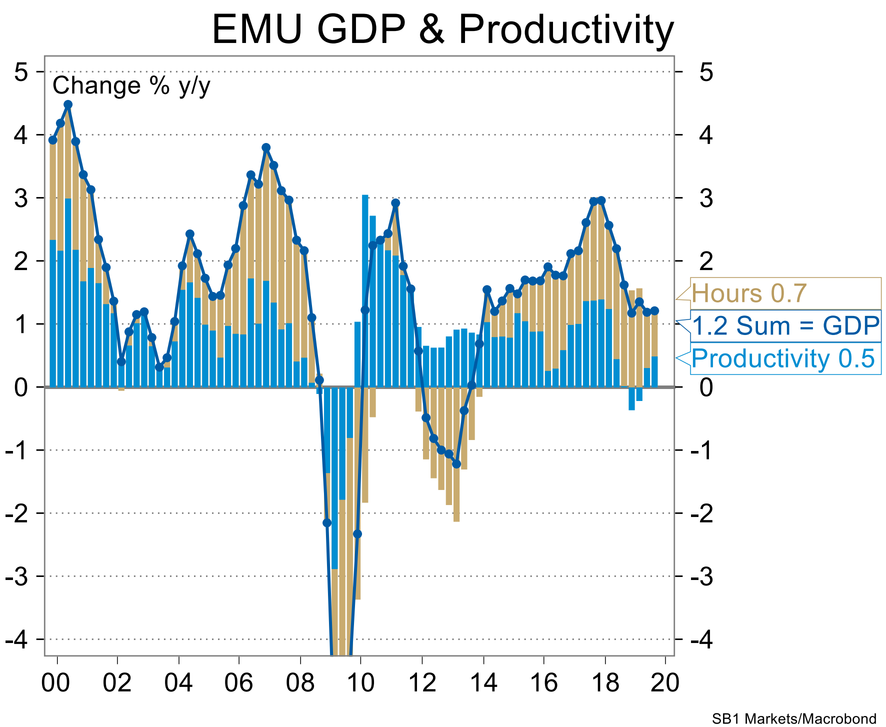
The Phillips curve is not completely dead

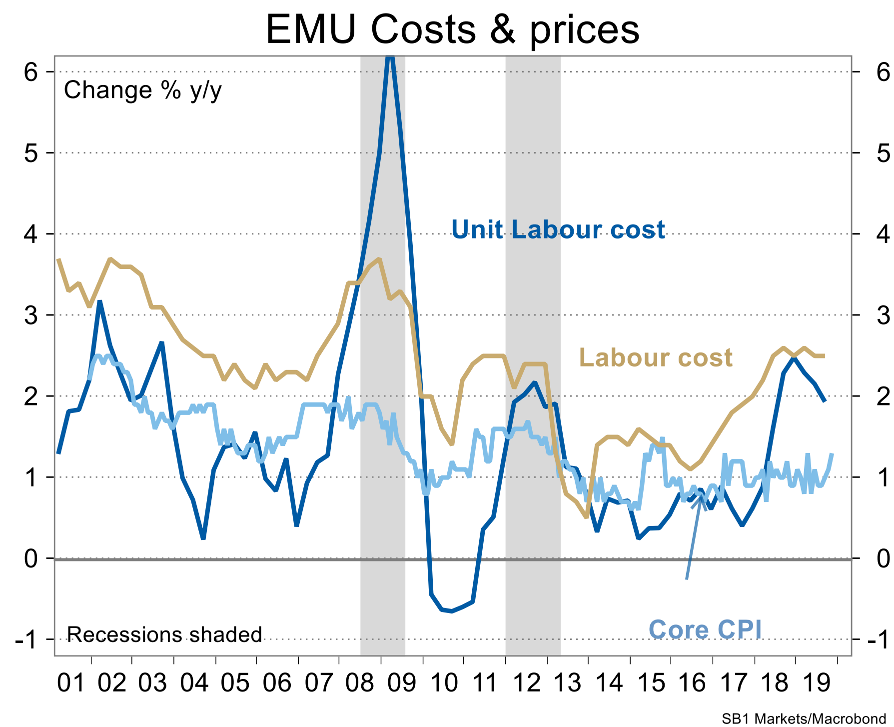
Still, wage inflation has not accelerated the past year (which we expected)



Unit labour cost inflation was 'too high', now slowing, productivity picking up?

Productivity growth rose to 0.5% in Q3 and ULC slowed to 1.9%, still much higher than 'usual'



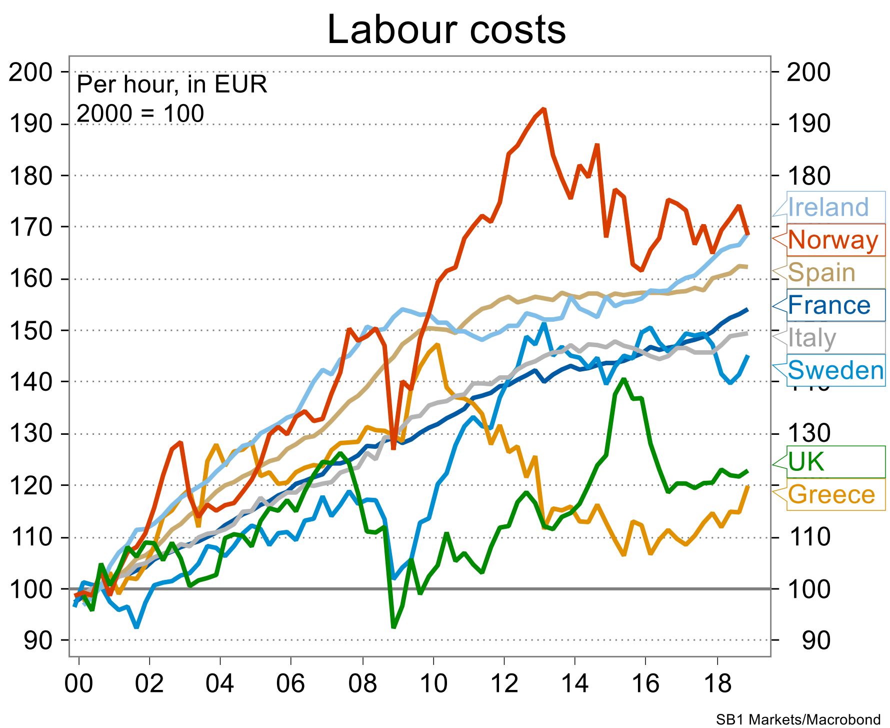


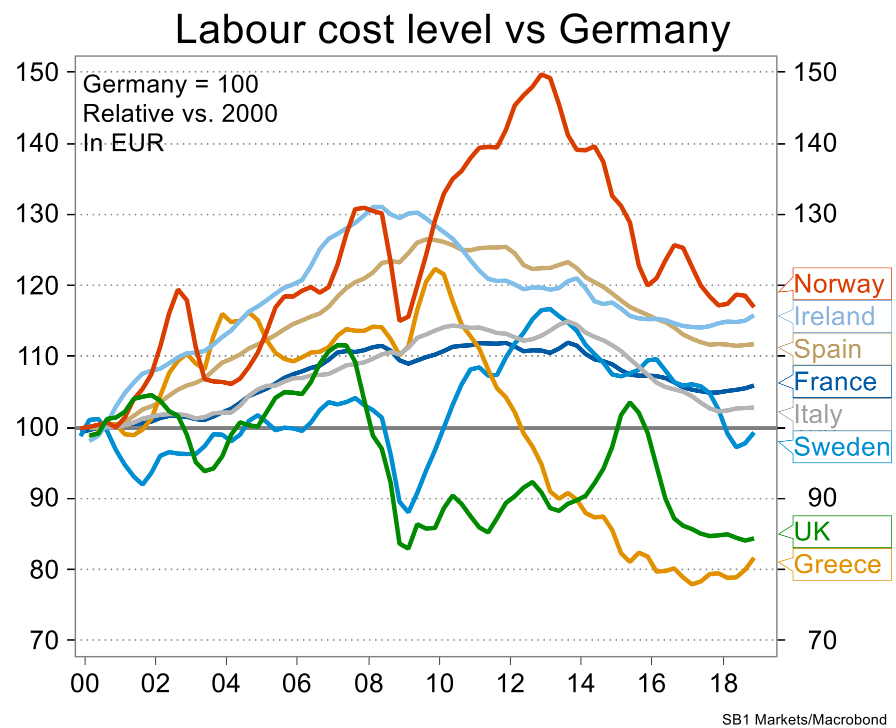
- Total economy productivity rose 0.5% y/y in Q3, up from 0.3% in Q2. Still, productivity growth remains meagre and the 1 year average is just a 0.1% increase! Hours worked up 0.7% - and GDP 1.2% in Q3
- Unit labour cost inflation (wage costs per unit) has slowed the past 2 quarters as labour cost inflation is stalling, and productivity growth is accelerating. In the total economy, Unit Labour Cost is up 1.9% y/y, still much higher than over the previous 4 years (the 2.5% hourly labour cost inflation refers to the business sector, not the total economy). Unit labour cost inflation is still higher than price inflation, and business profits are under pressure
- Unit labour cost inflation is above ECB's CPI inflation target at close to but below 2%. However, the ECB will not raise interest rates or end the newly announced QE as long as core CPI inflation remains subdued (it is now running at 1%)

SpareBank 1 MARKETS

Slowly towards wage "harmonization"

Most countries are closing the wage cost gap vs. Germany (and some are 'below', vs the 2000 level)



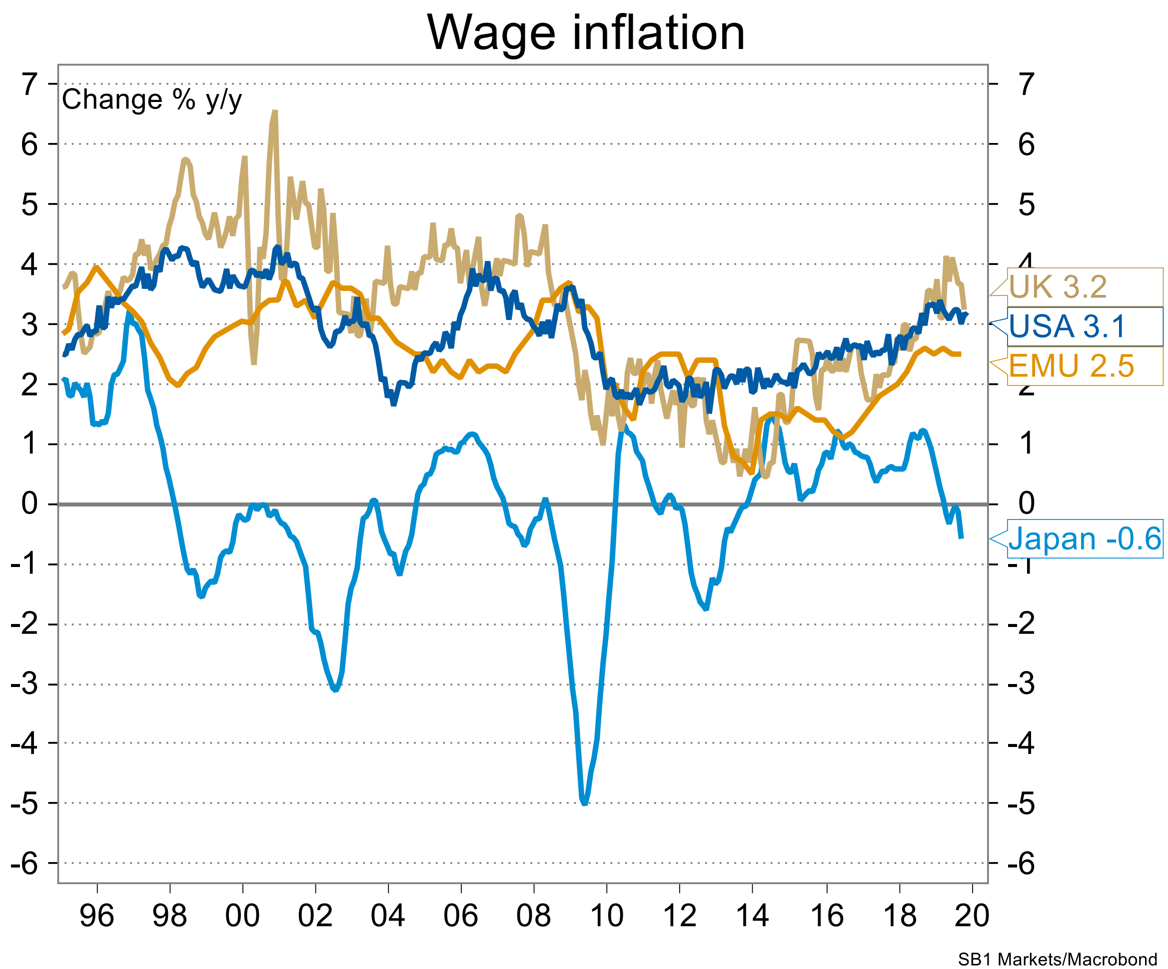


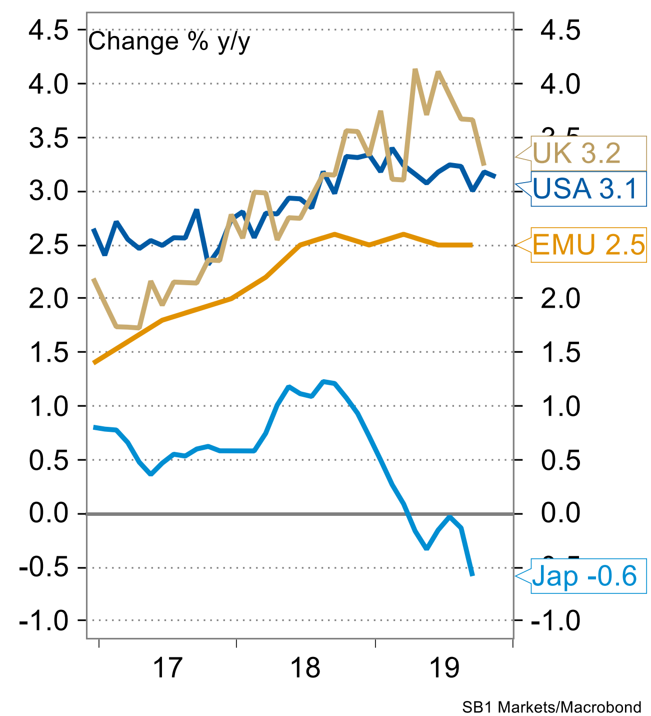
- Wages in most EMU countries rose too fast vs German wages (that barely rose) before the Financial Crisis. Since then, relative wages have been adjusting back to where they came from, more or less
  - » The adjustment within the currency area would of course have been easier if German wage inflation had been higher
  - » Wages in Greece have fallen dramatically vs. other countries. Probably more than enough
  - » Norway, Sweden and UK have brought their cost levels down with help from their flexible currencies

SpareBank 1 MARKETS

Wage inflation has been stalling/declining the past year

Productivity growth is slow everywhere and cost inflation is not low





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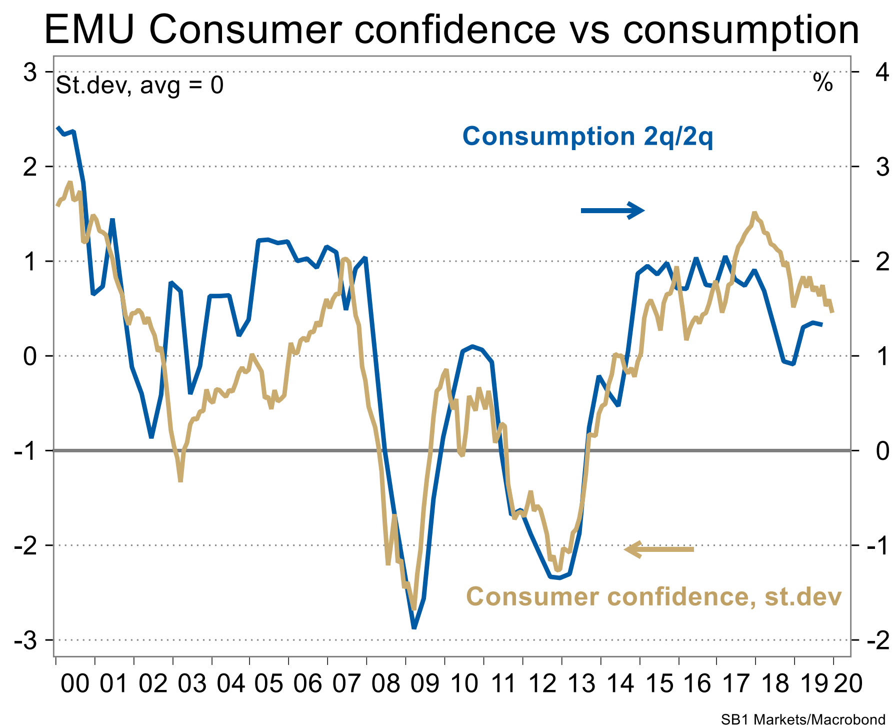
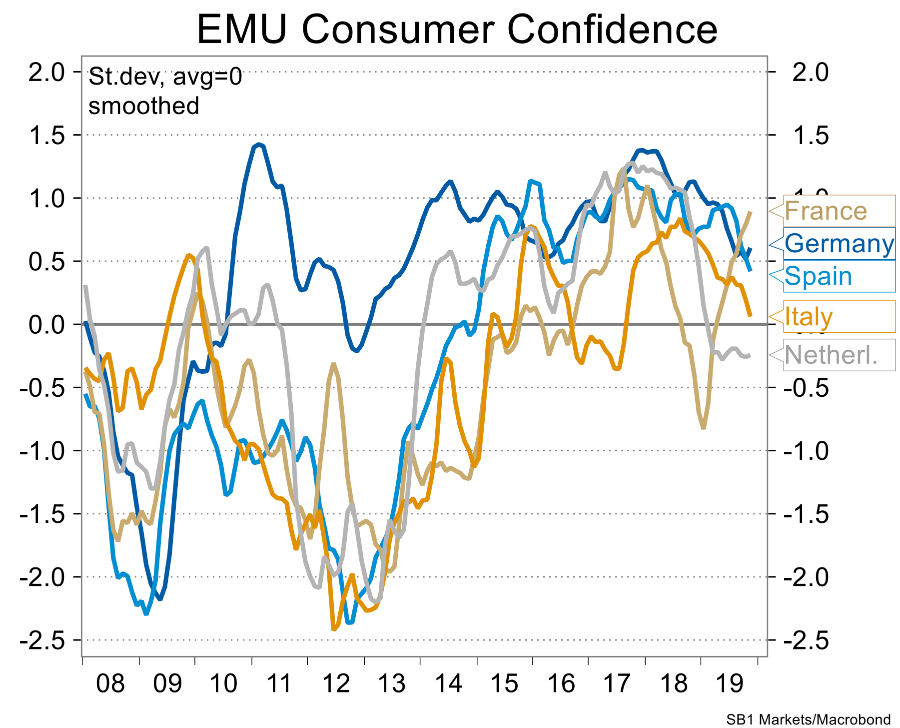
Consumer sentiment slides down slowly, but remains far above avg

Consumer confidence inched down in Dec, the level is elevated, as in the US

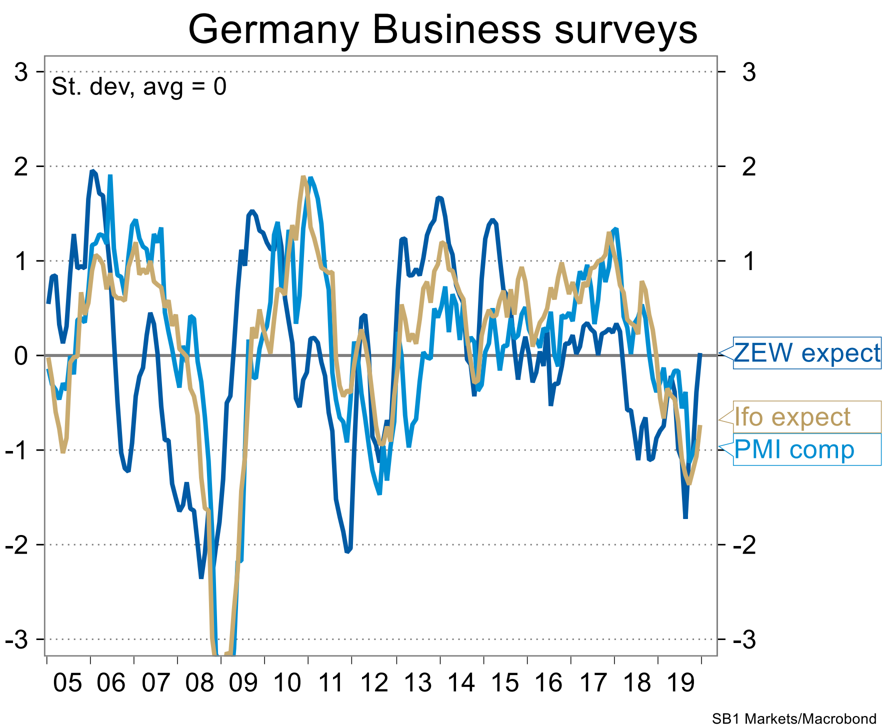


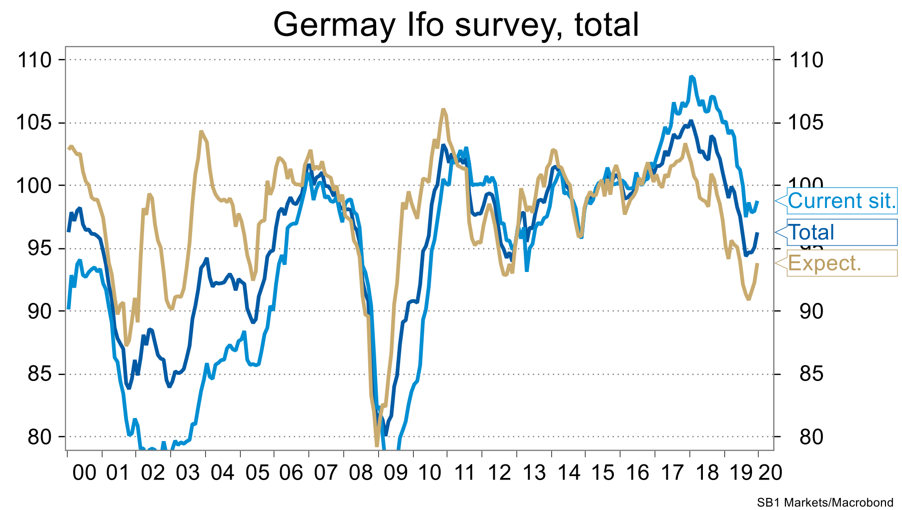


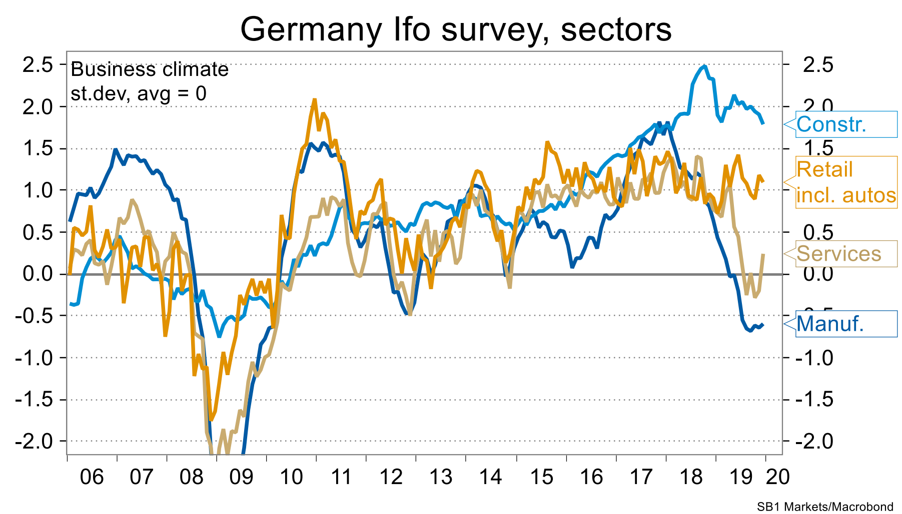
- Consumer confidence fell in December, expected unchanged. The CCI is trending slowly down, may be an indication that the manufacturing dip is spreading to other sectors. However, the level is still elevated, far above average, suggesting demand from the household sector remains decent (as retail sales and credit growth confirm)
  - » Confidence has stabilized in Germany the past months. Italy and Spain are weakening, but both (marginally) above average. In France, confidence rebounded strongly when the protests subsided in early '19 and has been thriving since. Netherlands is struggling the most.
  - » Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed as sales and do not signal weaker consumption either

Ifo expectations are recovering, adding to signs of stabilization

Expectations inched up for the 3rd straight month, view of the current situation has stabilized



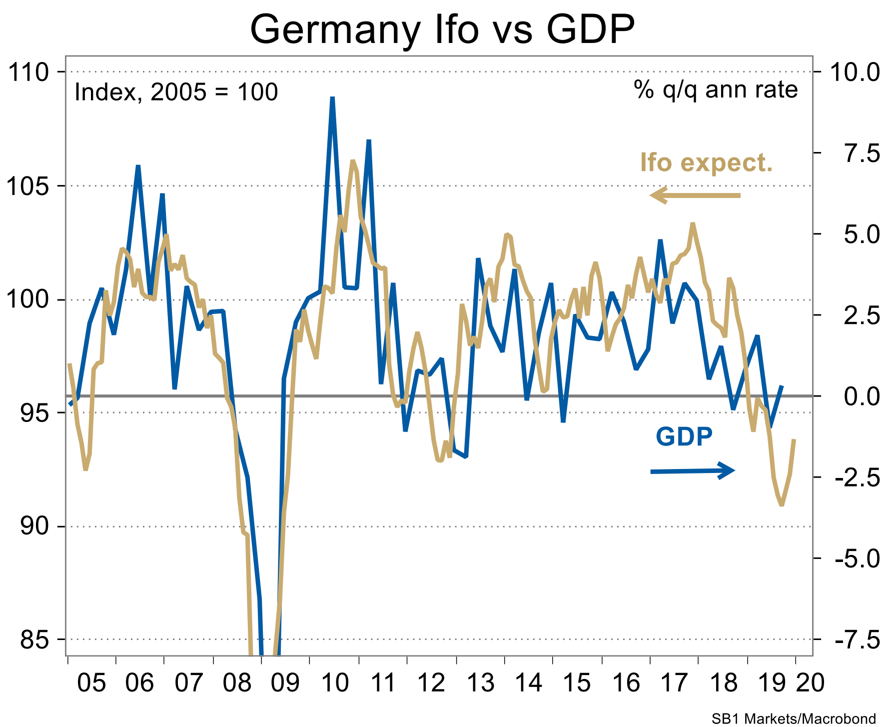


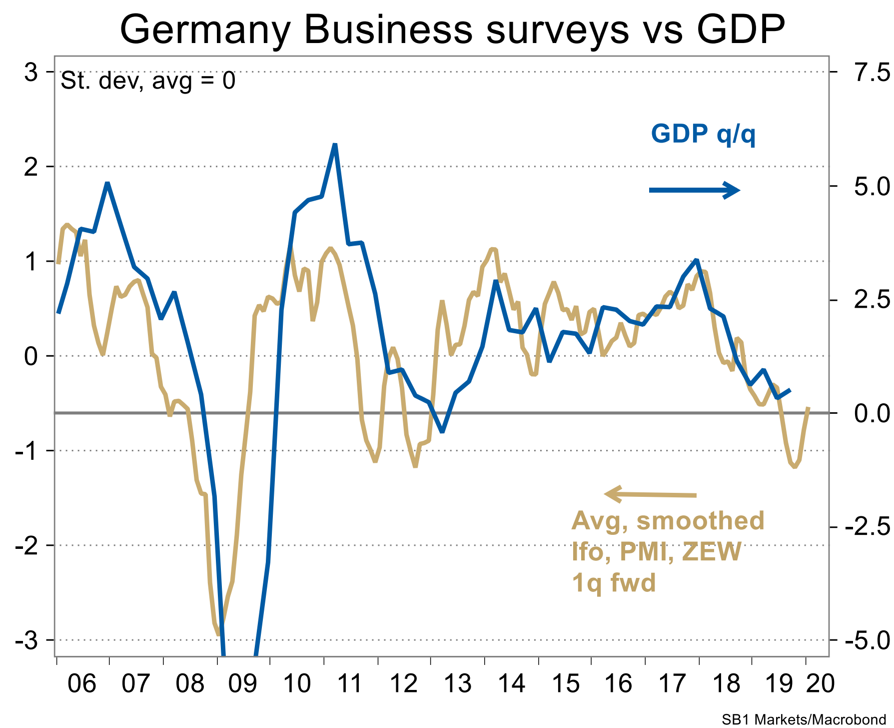


- Ifo business expectations recovered for the 3rd month in December, slightly more than expected. Businesses' view of the current situation inched up and has stabilised the past 5 months, after a steep decline
- All surveys signal that the German downturn may now be easing. The composite PMI was flat in Dec, inching up the prior months. The ZEW survey is more upbeat than Ifo & PMI (and less reliable)
- Services are recovering strongly, manufacturing steady, at a low level. Retail remains strong, and construction activity is elevated

Surveys still point to muted growth, at best

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





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

- Ifo expectations still signals a contraction in German GDP. The avg of surveys signals zero growth, an improvement from the 1% drop indicated just 2 months ago. An important sign!

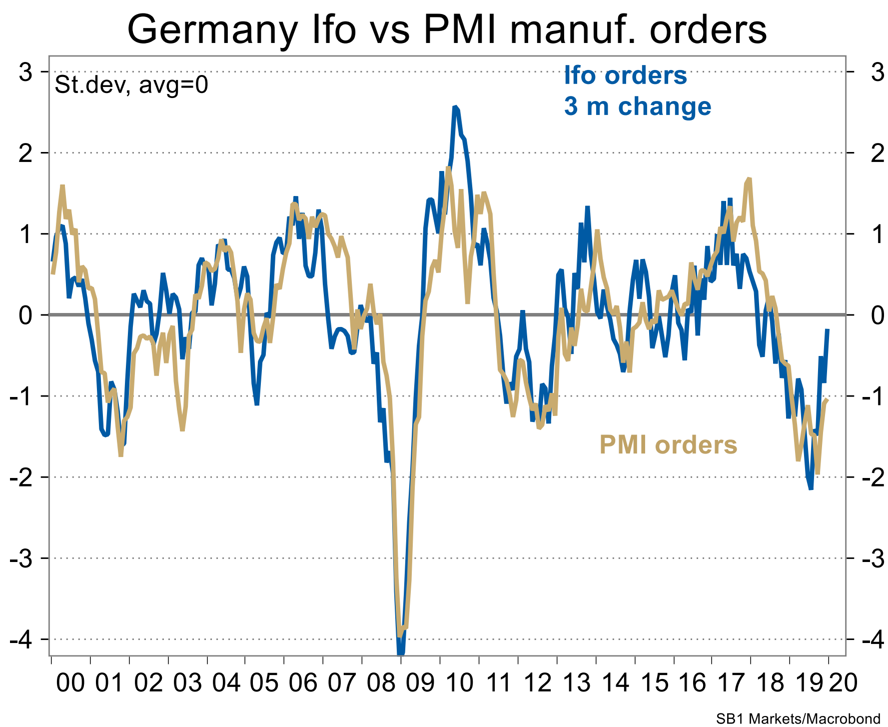
PMI/Ifo are no longer signalling a deeper manufacturing contraction

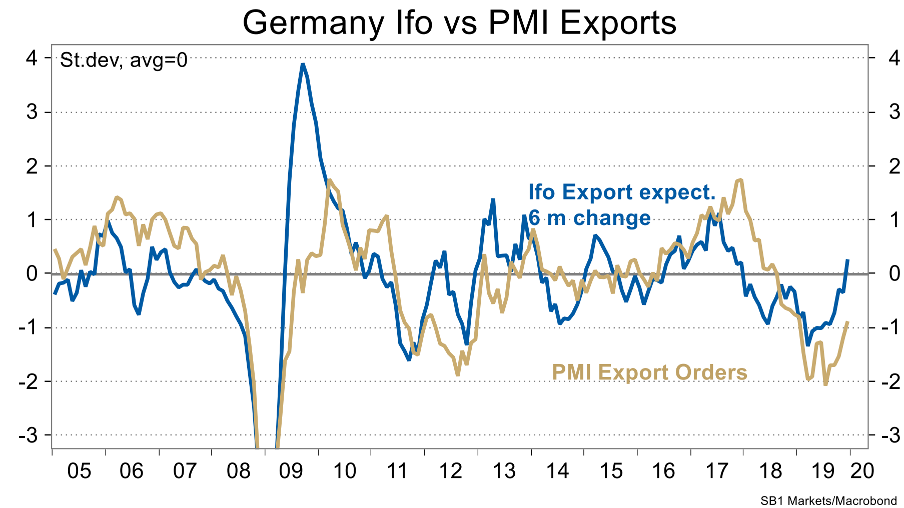
All 3 manufacturing surveys have edged up the past months, points to a steady 1% decline?

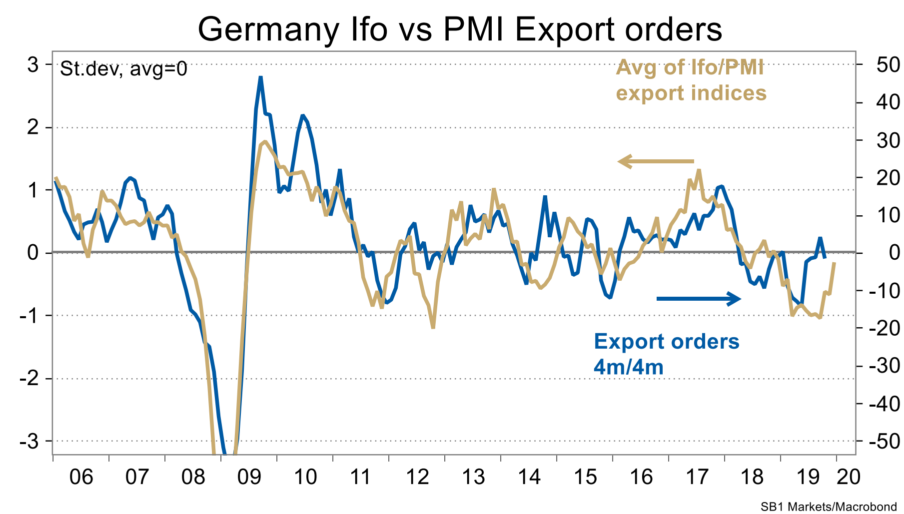
- The Ifo current situation index is much more upbeat than expectations, although the direction is the same. Unfortunately, this assessment is usually lagging Ifo expectations and the PMI

Order assessments are signaling an easing downturn – and steady exports

The avg of PMI and growth in Ifo export climate does no longer signal weaker exports orders



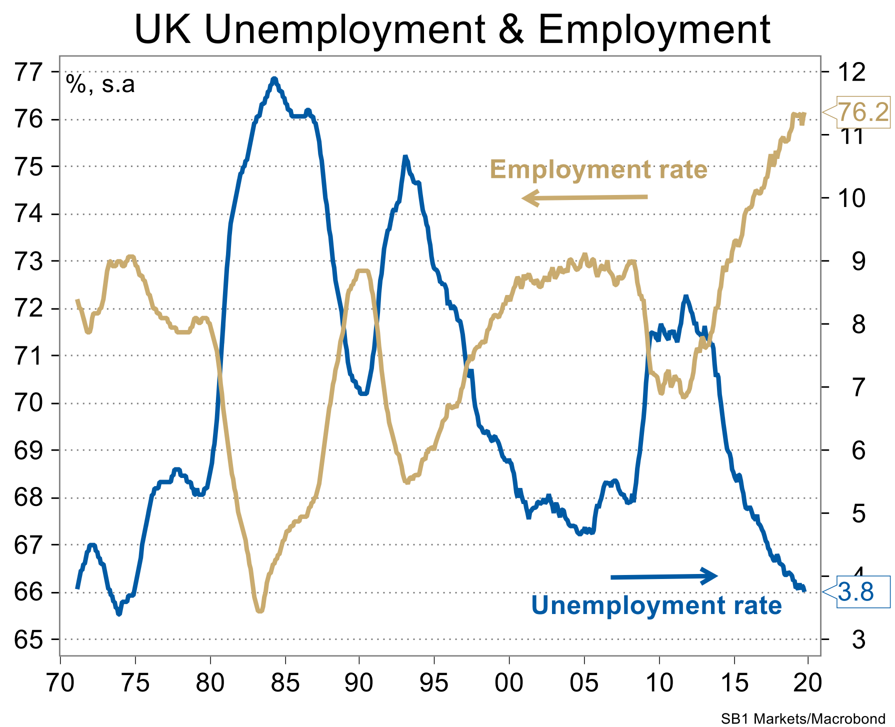


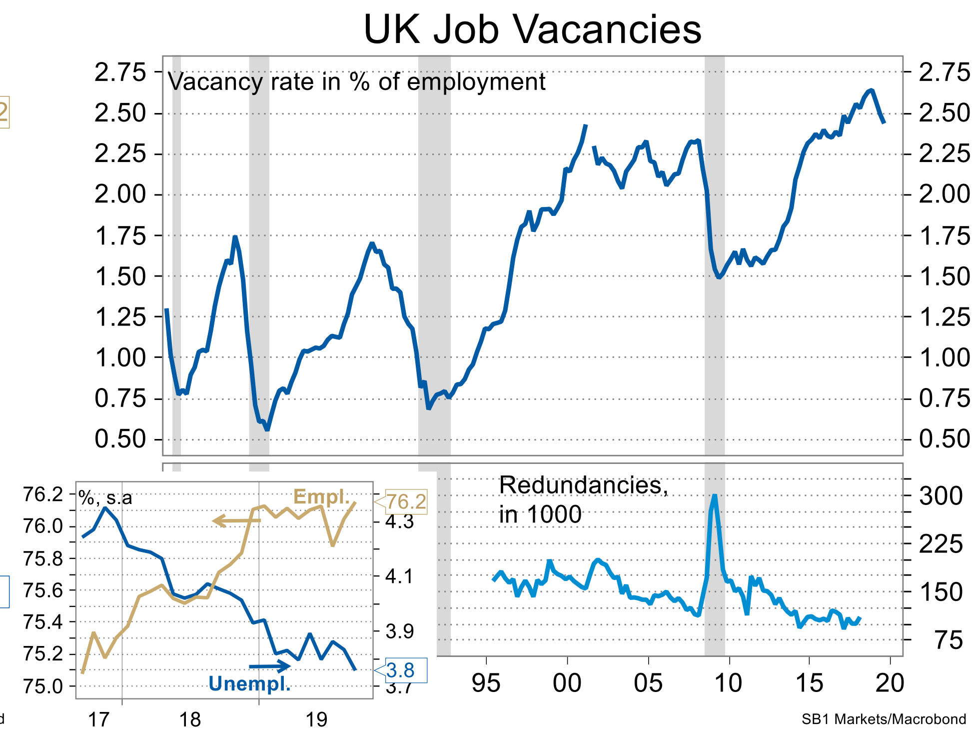


- The level of the Ifo order index is far above the PMI. However, the change in Ifo (here a 3 m change), is closely correlated to – but usually leading – PMI orders. Now, both are reporting a less steep decline in order inflows, the change in the Ifo survey is the highest in 1 ½ years! PMI is lower but it may have bottomed out
- An avg of Ifo/PMI points to close to zero growth in export orders, a much less rapid decline than some few months ago

Unemployment inches down but employment has stalled

Unemployment at 45 y low, employment flattens out, vacancies down. And wage growth cools

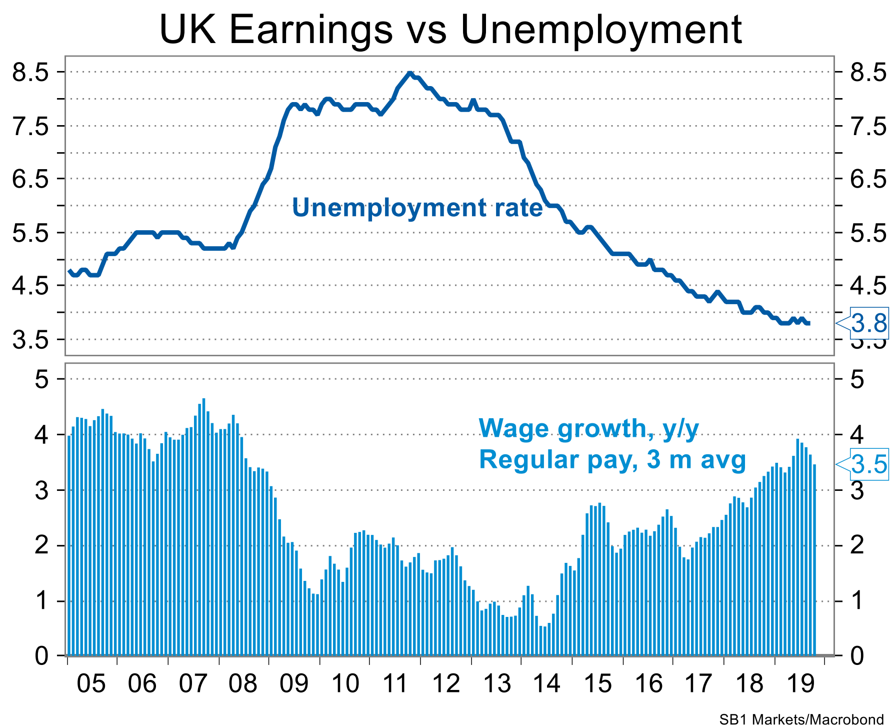


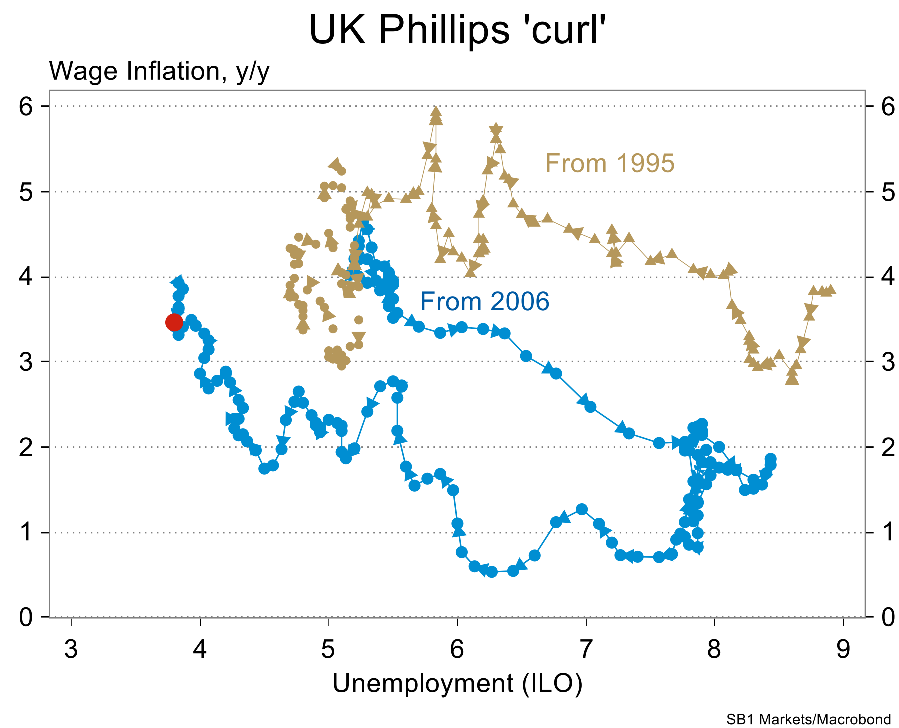


- Unemployment (LFS/ILO) fell marginally but was flat at 3.8% (on the 1st decimal) in Oct (avg Sept-Nov). An uptick to 3.9% was expected. Unemployment has flattened out since early 2019, at the lowest level since 1974
- The employment rate climbed to 76.2%, up 0.2 pp. Employment has flattened out this year, at a high level. Supply constraints most likely to blame, not lack of demand, the labour market is tight
- The vacancy ratio fell to 2.4% in Q3, down from 2.6% in late 2018.
- Wage inflation has eased recent months, more on the next slide

Wage inflation is slowing, still at 3.5%, a rather high level…

.. without productivity growth. A tight labour market has been boosting wage inflation, peaking now?

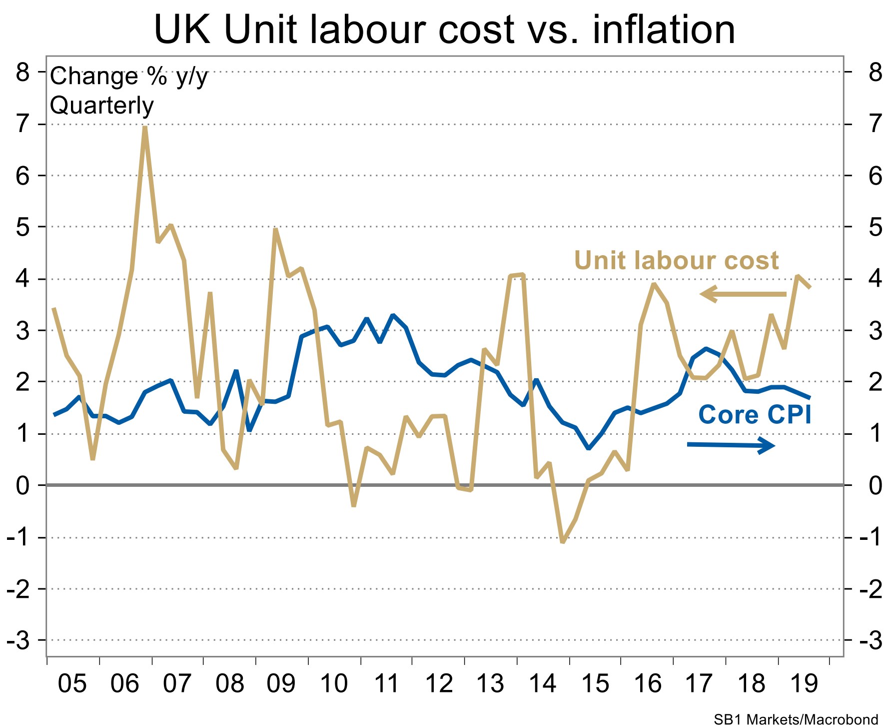




- Wage growth (regular pay) edged down to 3.2% y/y in Oct, a 0.4 pp decline, lower than expected. The smoothed rate (which we apply at the chart above) inched down to 3.5%, the 4th month of deceleration
- UK productivity growth close to zero, and unit labour cost inflation is now running at close to 4%!
  Cost pressure are building up, profits are under pressure

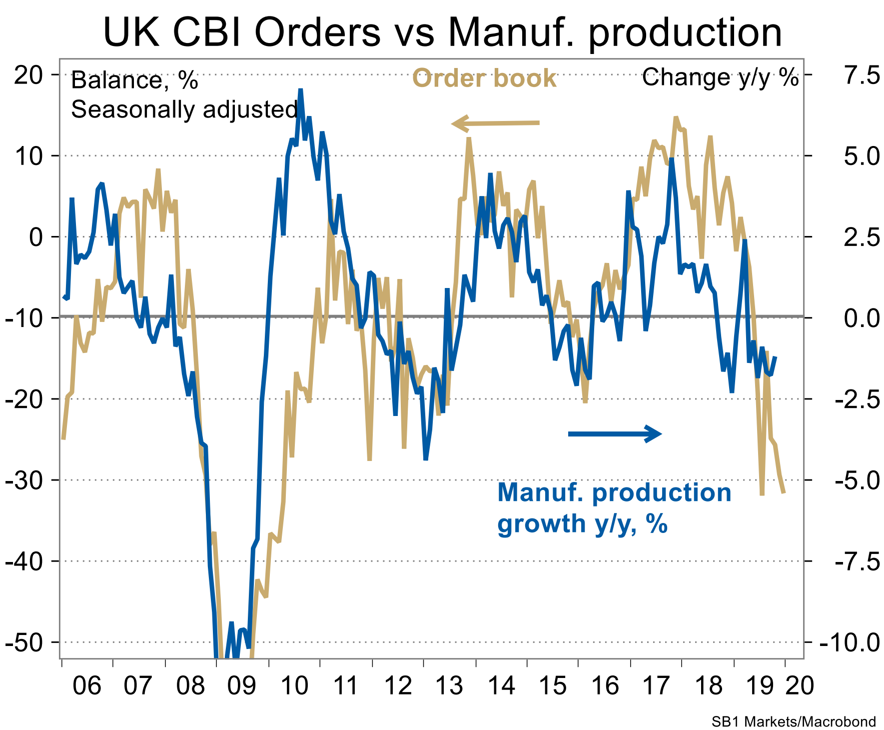
Cost inflation is not low at all

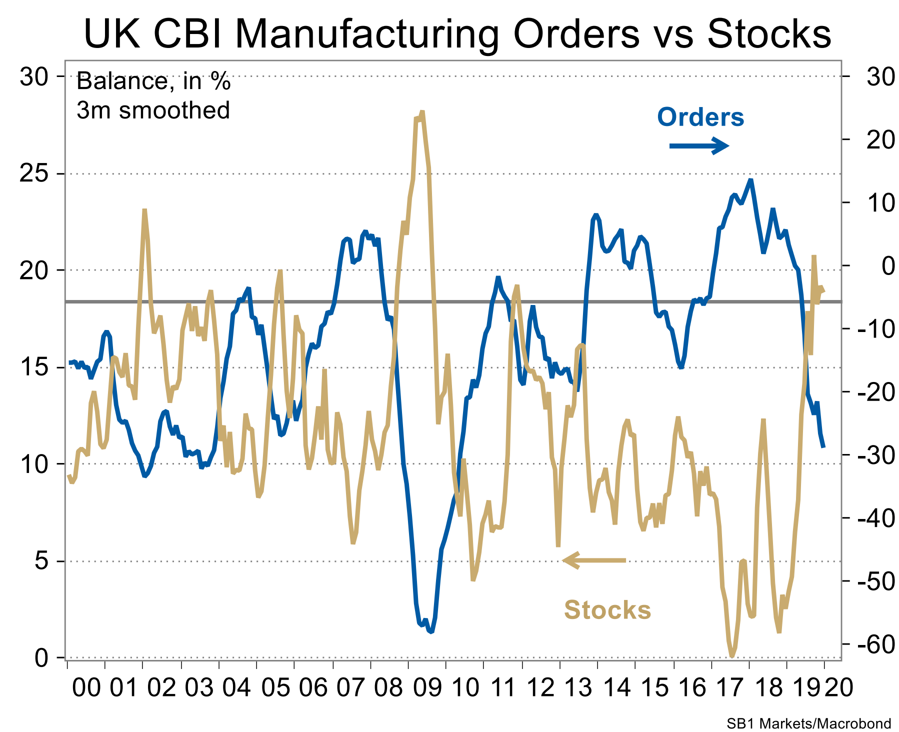
Unit labour costs rose 3.8% in Q3 and growth is trending up



Manufacturing orders stumble and inventories are elevated

UK businesses are struggling with Brexit inventory build ups, orders have been slashed

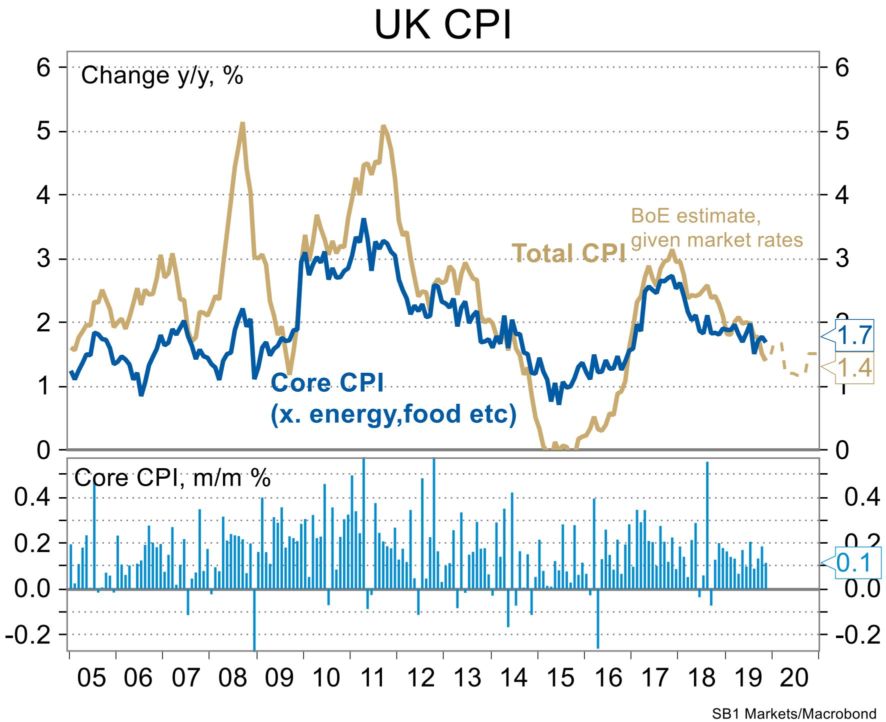


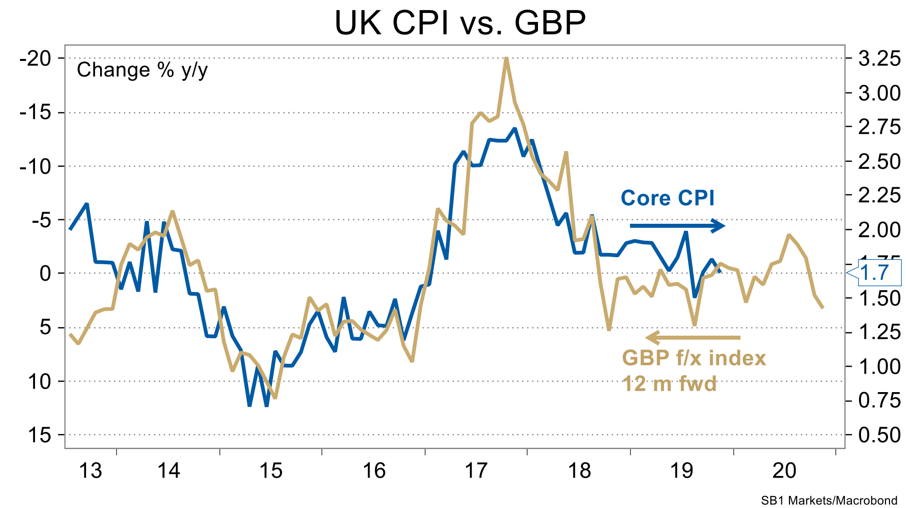


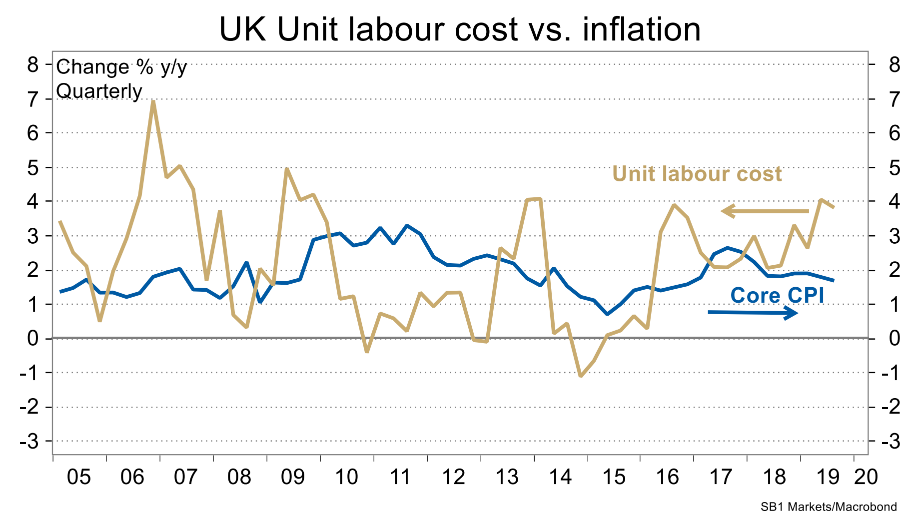
- The CBI order book index fell further to -32 (-28 not seas. adj) in Dec, the 2nd lowest level since the Financial Crisis, mirroring a steep decline in manufacturing order inflows & in actual production
  - » Ahead of the previous March and October Brexit deadlines (particularly the first one), demand has been boosted by emergency stockpiling, as businesses have prepared for Brexit. In the aftermath of these build ups, businesses have reducing new orders significantly. According to the CBI, inventories are still being built up quite rapidly, at one point they will have to be trimmed!
  - » Both domestic and export orders are falling
- The CBI is reporting a much more rapid inventory build up than the PMI, flip to this slide for the PMI

Core CPI inflation inched down to 1.7%, trend tilting downwards

Core inflation is just below the target. Total inflation fell to 1.4%, bottoming out soon?



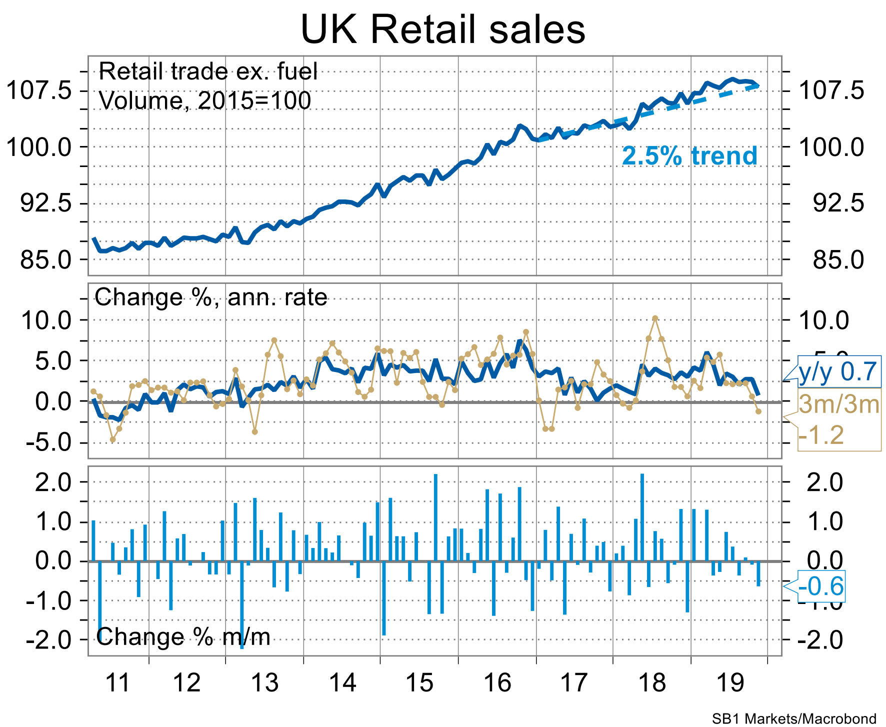


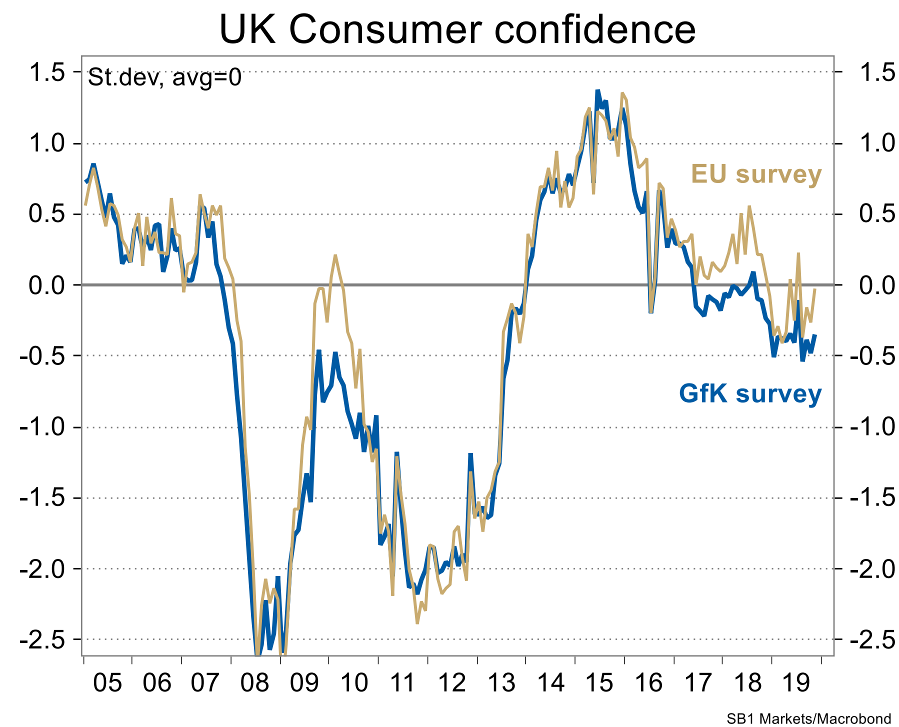


- Core CPI rose 0.1% m/m in Nov and the annual rate came down 0.1 pp to 1.7%. Core inflation is heading very slowly down, just below the BoE's price target of 2%. Total inflation fell to 1.4%, from 1.5%, in line with BoE's f'cast from November
- Inflation came down through 2018, as the upward pressure from the GBP depreciation in 2016 changed sign. Our simple f/x based model indicates that the GBP impact is now taken out. Moreover, domestic cost inflation is not low, and wage inflation is above 3%

Retail sales growth is losing speed, still not 'low'

Sales dropped 0.6% in Nov, will be a drag on Q4 GDP growth. Confidence has stabilized

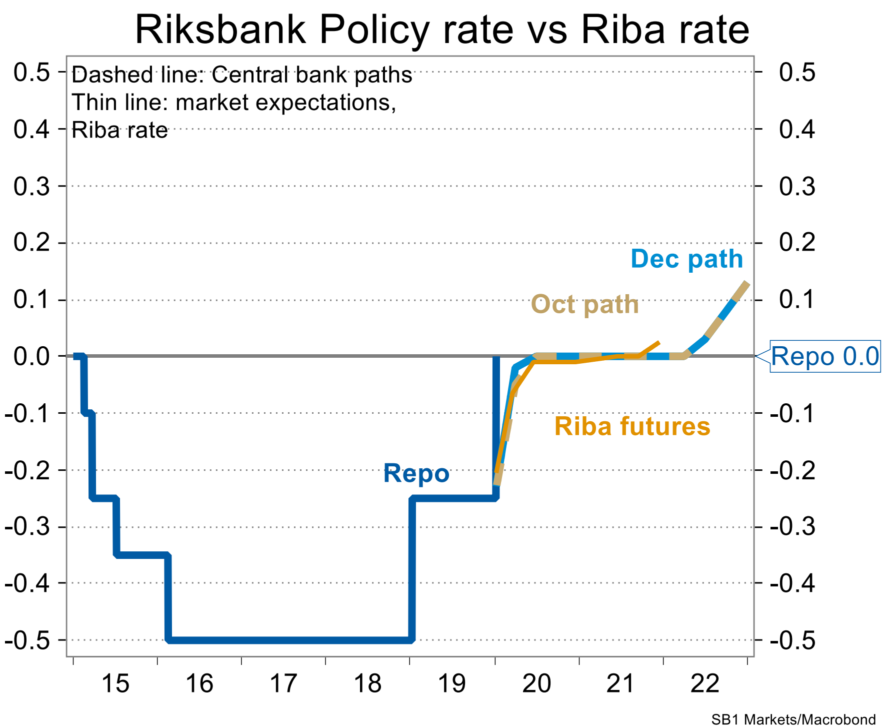


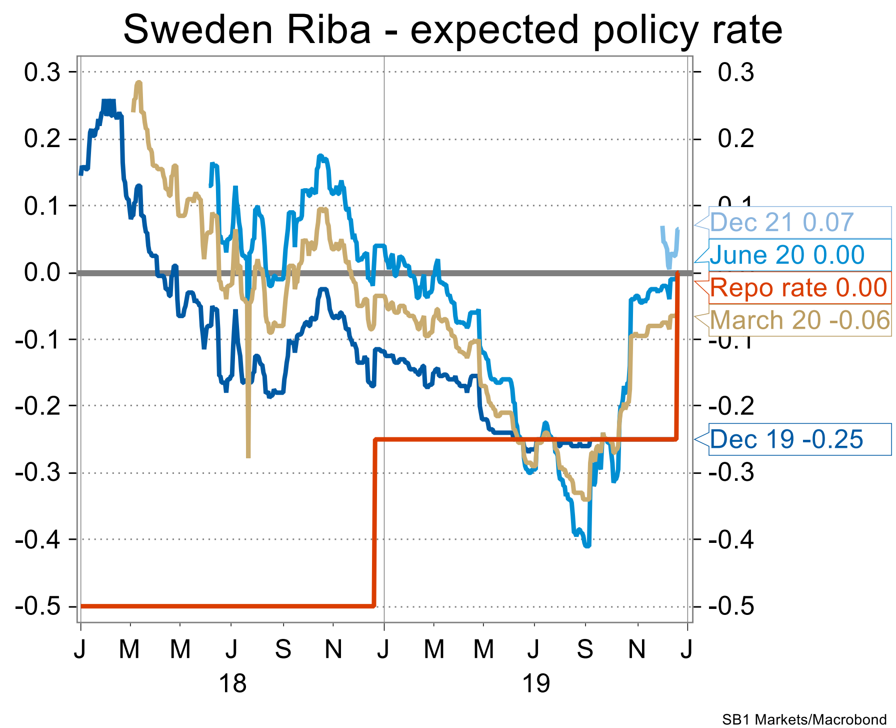


- Sales were weaker than expected in Nov, and a slight upward revision of October will not save Q4. Sales are down 1.2% 3m/3m annualised and if will most likely dampen Q4 GDP growth. Sales are still at the 2.5% trend path from 2017
  - » A steep decline in the savings rate has funded much of the increase in consumption – but the savings rate has stabilised as growth in consumption is slowing
- Consumer confidence has stabilized the past months, after sliding down since 2016. Confidence improved in November, probably helped by hopes of an orderly, soft Brexit. The level is on average according to the EU survey, GfK still well below

The Riksbank abandoned negative interest rates, signals an unchanged rate

The bank delivered the 25 bps hike to zero, as most expected. No changes to the interest rate path

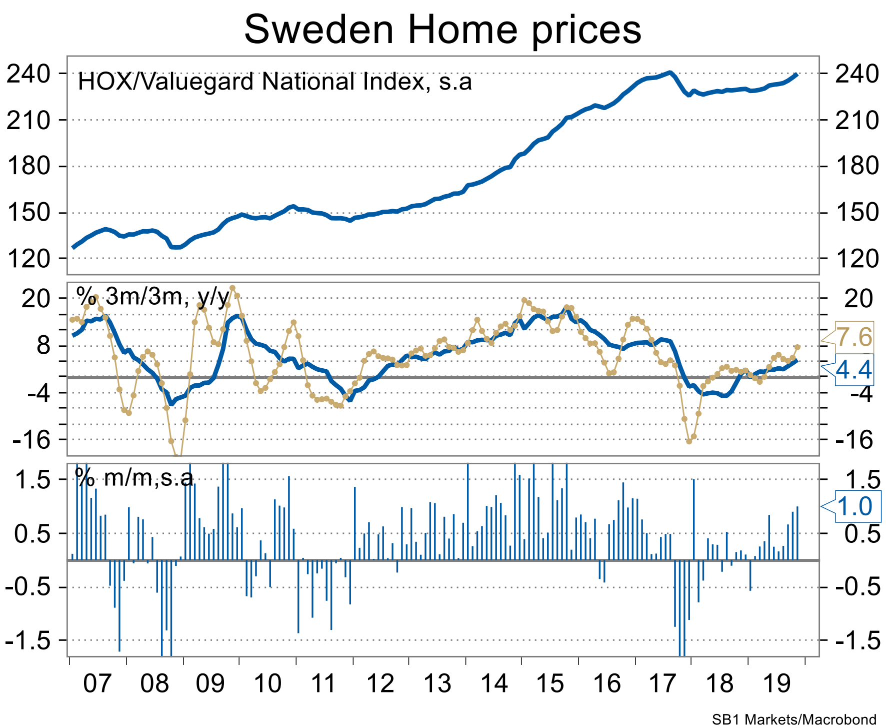


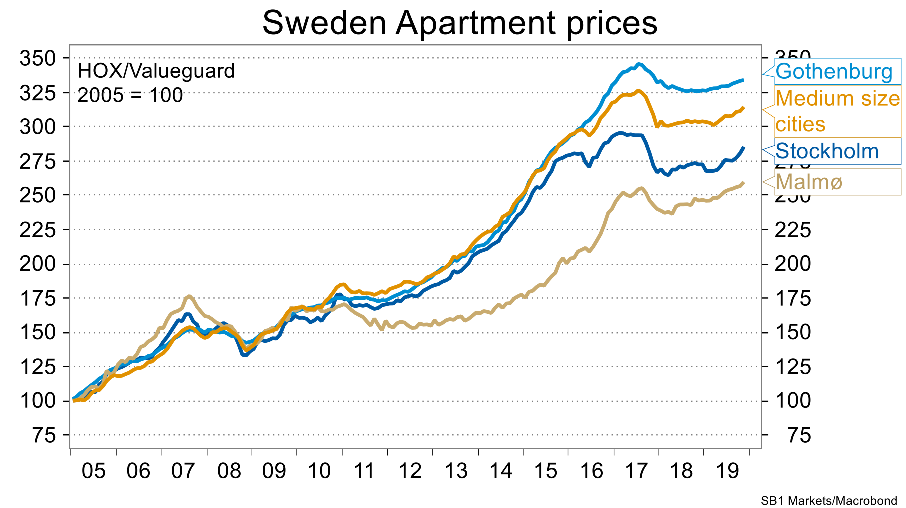


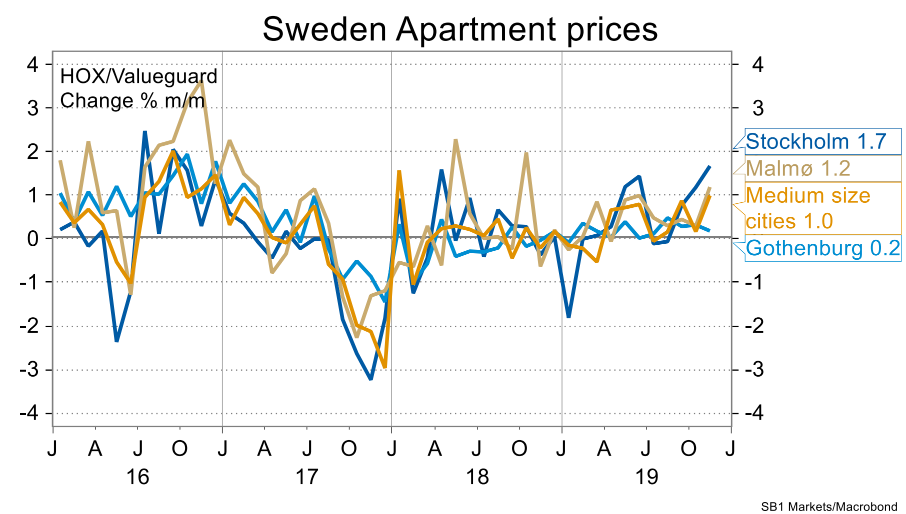
- The hike was broadly expected, as it was explicitly communicated the October meeting. The Riba futures priced some 70% probability of a hike. The Bank signals that it plans to keep the interest rate at zero through 2020 and 2021 and signals a possible hike in late 2022. The path was held unchanged from October
  - » was probably eager to exit negative interest rates,
- No substantial market reactions; RIBA futures on the Riksbank rate rose some very few (1-3 bps) on the Riksbank message. The SEK was volatile before and after the announcement, but fell just marginally later in the day. The market is pricing an unchanged interest rate in 2020 and 2021

House price inflation is speeding up again

Prices rose 1% m/m in Nov and underlying growth surged to 7.6%, the highest since early 2017



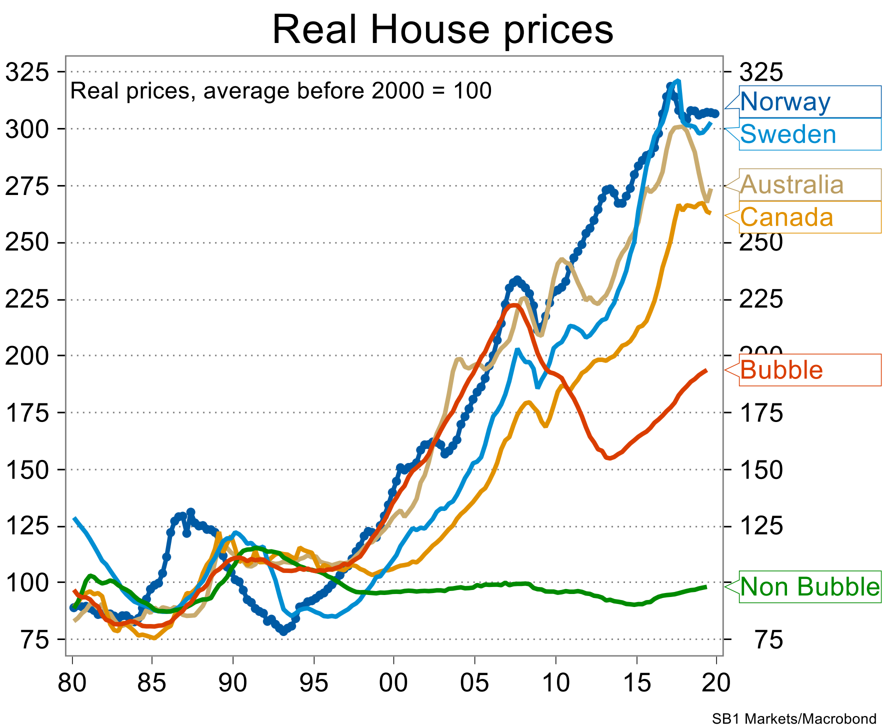


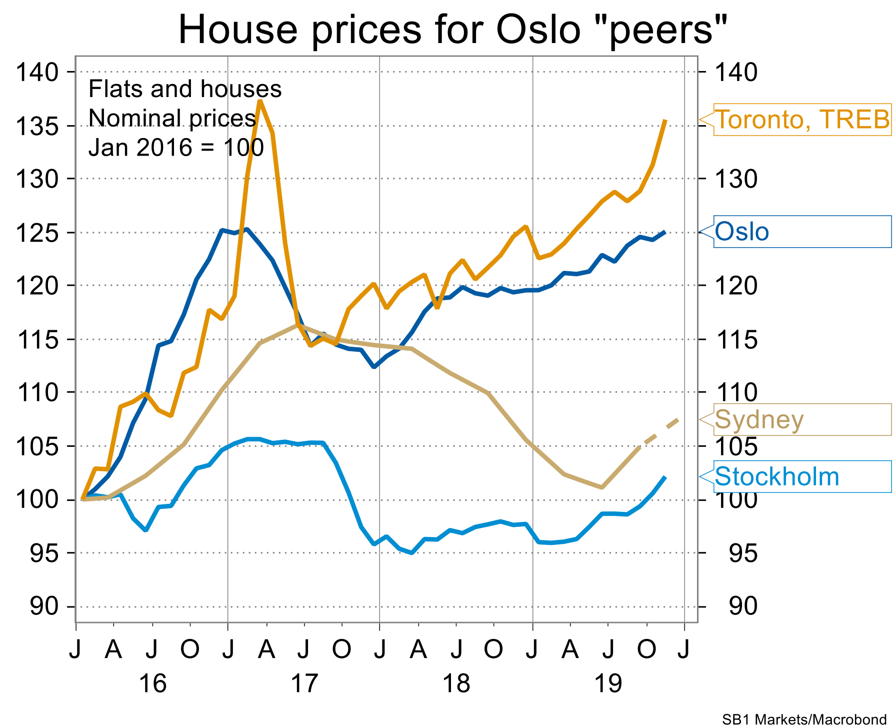


- House prices increased by 1.0% m/m s.a (0.3% not adjusted), the 3rd month of acceleration. Prices are up 7.6% 3m/3m annualized, the fastest speed in 2 ½ years. The price level is less than 1% below 2017 peak level. Real prices are significantly lower than at that peak
  - Soaring Stockholm prices lifts price inflation, but all are increasing – however barely in Gothenburg
- The number of transactions is heading up. Still, given several signs of slowdown in the Swedish economy, limited upside?

Supercycle home prices in the way up again?

Following weakness in 2017/18, prices are now on the way up again. Real prices still well below peak

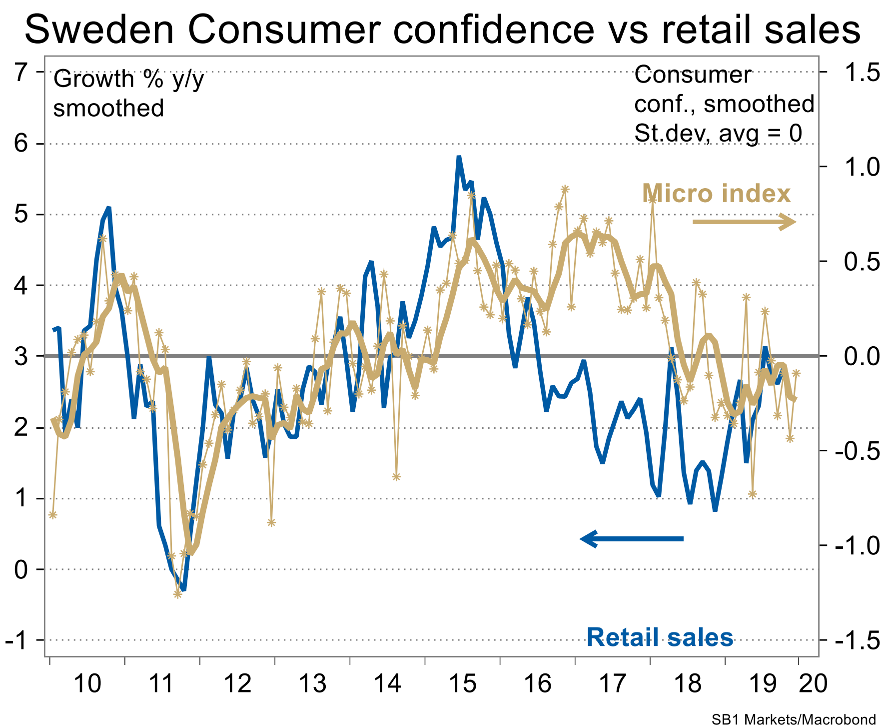


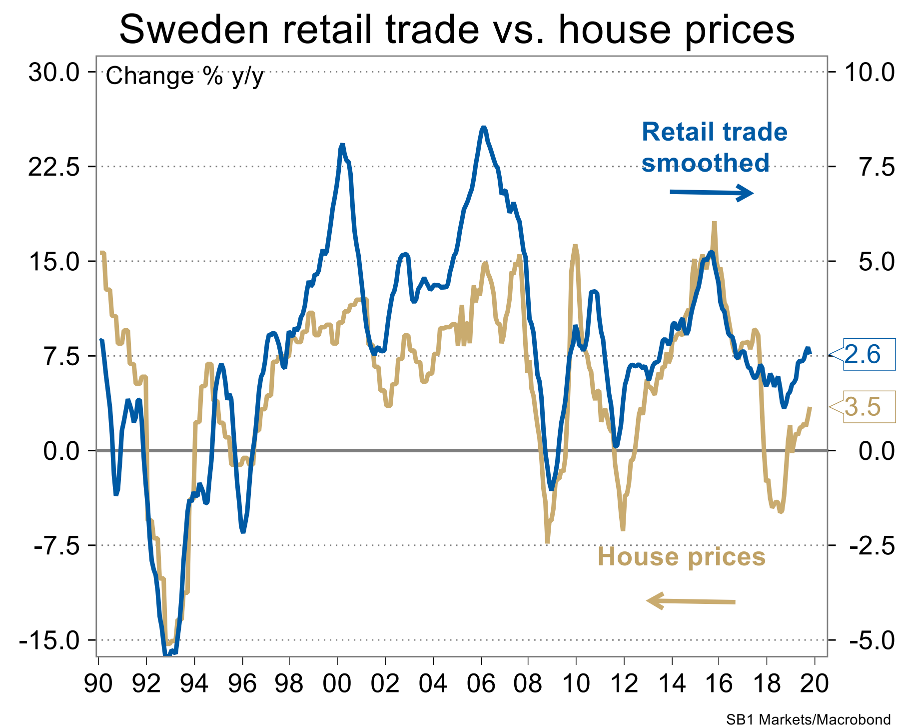


- Price growth have picked up among the supercycle guys recently, Oslo and Stockholm prices are increasing, Toronto soaring, and Sydney has sharply gained pace since the summer (interest rates have been cut, and lending standards eased)
- Still, household credit growth is slowing in all these countries, and unemployment has flattened out (and it is increasing in Sweden and Australia), the upside on the housing market must be limited?
- New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – probably created 'some turbulence' in 2017 and 2018, prices slowed or decline in all countries

Consumer confidence steady just below avg, points to decent consumption

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

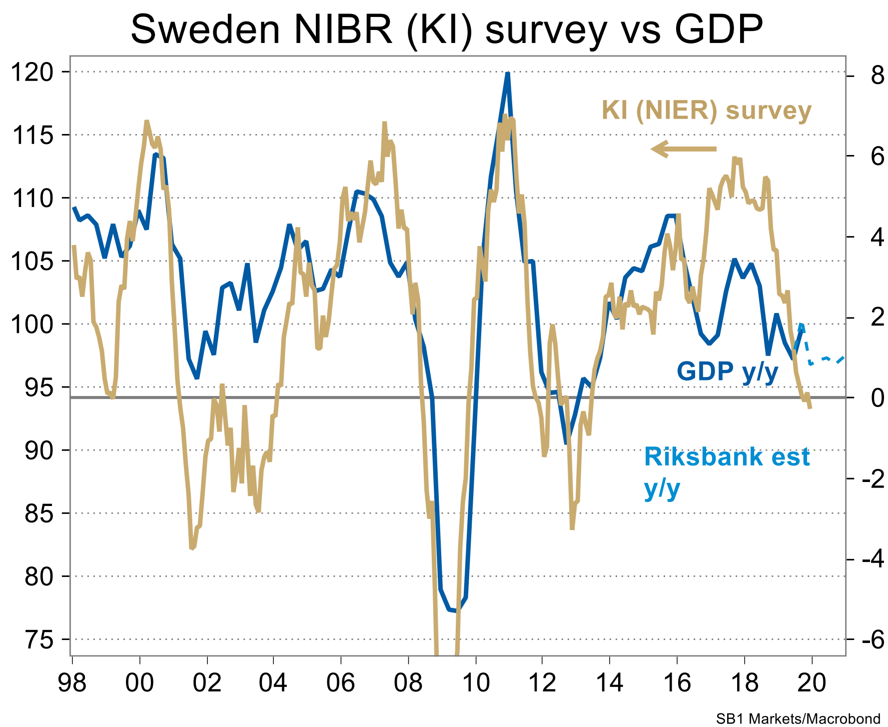


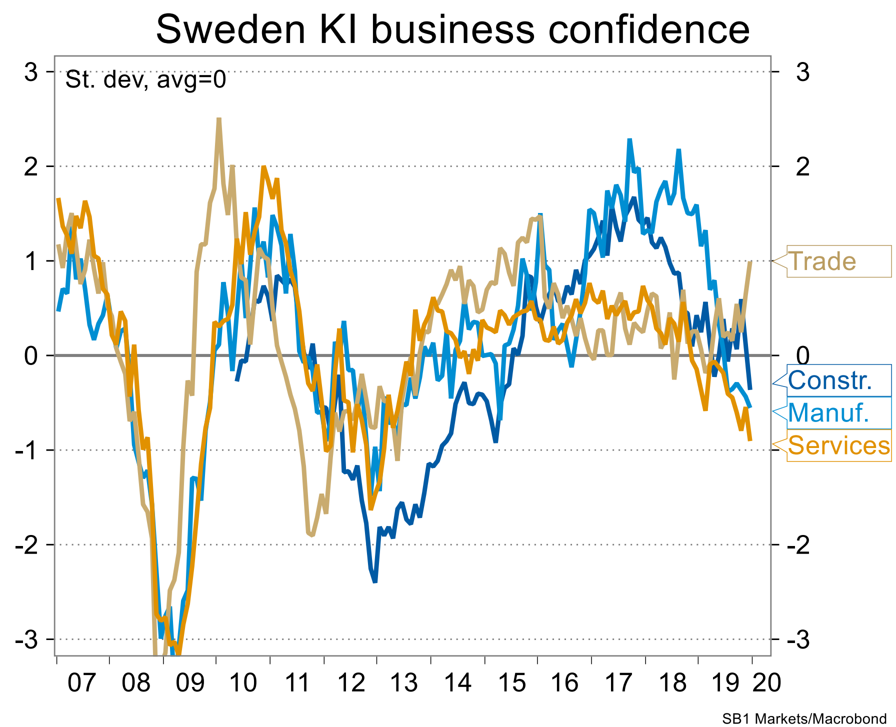


- The consumer confidence survey is volatile, and often zig-zags too much to give any useful signals. Still, the survey has stabilized since early 2019, and does not point to any steep drop in consumption, even as the level is below average. However, the correlation to consumption is not very strong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

The KI business survey points to a steeper slowdown

Manufacturing and services are struggling and construction dropped in Dec, while retail is thriving?

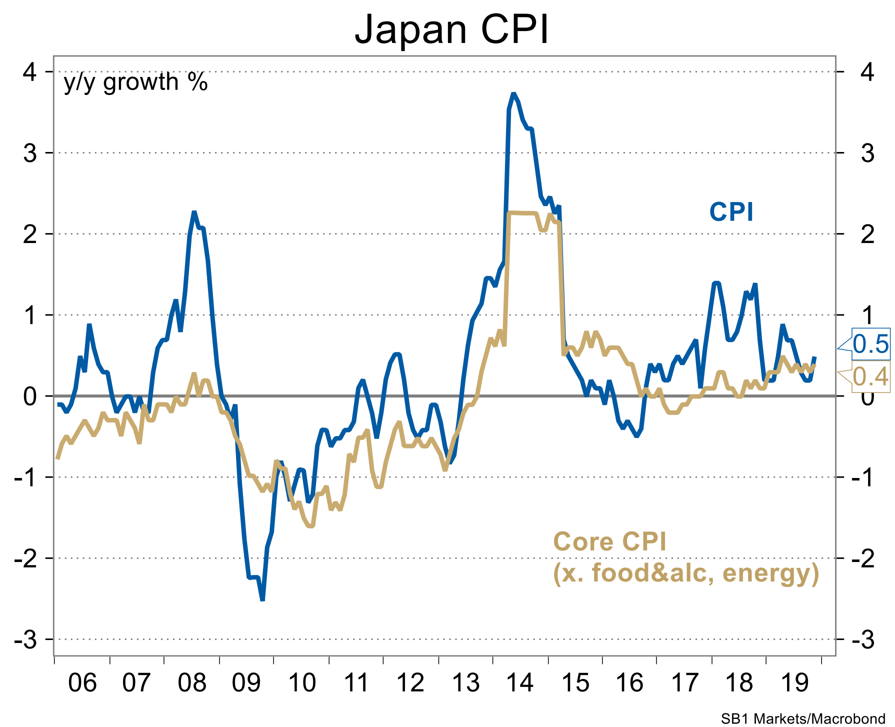


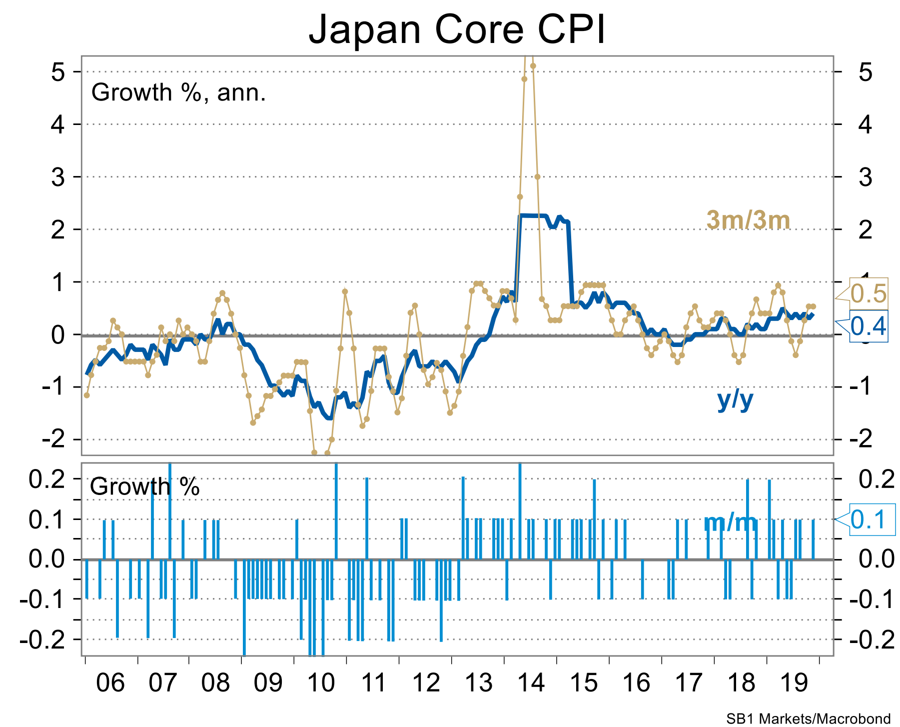


- The KI economic tendency survey, which usually correlates well with GDP growth, were pointing to unusual high growth rates from 2016 and until early 2019. Since then, the index has plummeted, to the lowest level since 2012. The survey is signalling halting GDP
  - Businesses are reporting a rapid slowdown in services and manufacturing, and both weakened once again in Dec. More surprisingly, confidence slipped in construction, to the weakest level in 4 ½ years. Housing starts are declining but still at an elevated level, the KI survey may signal a weakening of demand. Retailers are reporting accelerating, and retail sales have been OK XXX FACT XXX
- Why is the Swedish economy losing momentum?
  - From the demand side: Companies are reporting declining manufacturing order inflows, chiefly due to weaker domestic demand
  - From the supply side: The best long term reason for slower growth is that productivity growth has almost vanished – and hours worked are cooling

Core CPI inflation remains low, total CPI a tad up. No VAT boost?

The recent data seem strange, sales taxes were raised by 2 pp in Oct, with no CPI impact??





- Total inflation ticked up to 0.5% y/y in Nov, from 0.2%. Core inflation one inch up to 0.4%, turning slowly up
- In October, VAT rates were hiked to 10%, from 8%, without any impact on inflation. Seems unlikely, the last time taxes were lifted, in 2014, inflation soared. Some are reporting that weak consumer demand is keeping companies from passing the increased VAT on to consumers. We highly doubt that businesses are able to continue to do that. An introduction of free child care has partly offset the effects of higher taxes
- Wage inflation has fallen steeply this year and does not indicate accelerating price growth

Highlights

The world around us

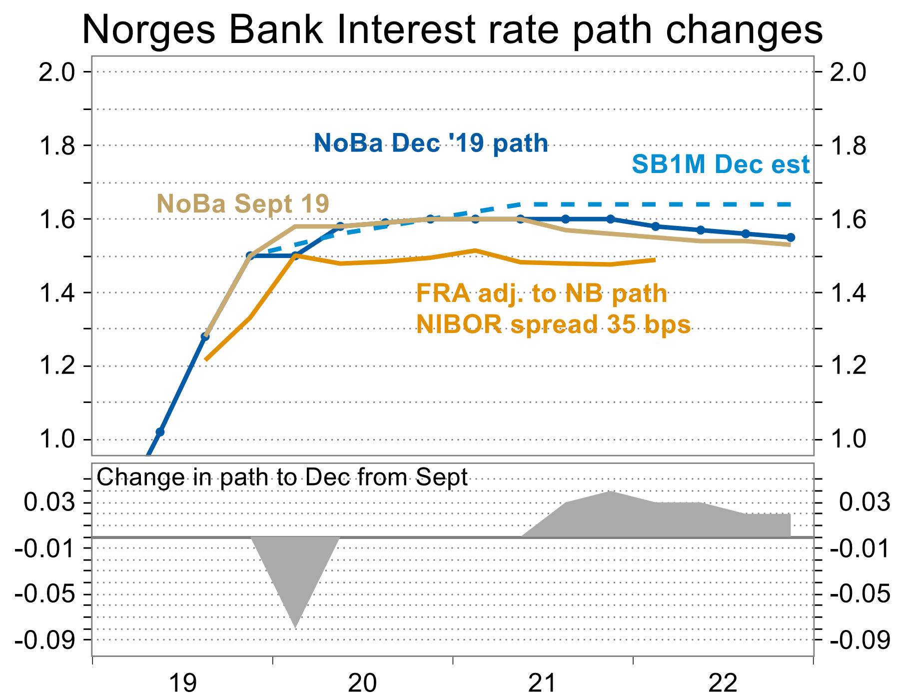
The Norwegian economy

Market charts & comments

Norges Bank signals an unchanged rate, keeps the door (half) open for a '20 hike

NoBa nudged up the interest rate marginally, continues to signal a 40% prob. of a 2020 hike

- **Norges Bank held the interest rate unchanged at 1.50% at the December meeting, as everyone expected**
- The interest rate path was held unchanged in 2020 and lifted by up to 4 bps in 2021 and 2022 (and reduced by 8 bps in Q1 2020, just a technical adjustment as a Q4 hike was excluded). The interest rate path signals a 40% probability of a hike in 2020, with some 30% prob. of a March hike, the same as in the Sept report
- Factors behind the changes in the interest rate path:
  - » The very weak NOK was the major contributor, with some 15 bps. A somewhat higher oil price than projected and a lower money market spread lifted the path marginally
  - » Weaker domestic demand pulled the path down by approx. 20 bps, and a small negative contribution from the judgement component
- **Our view:** We judge Norges Bank's assessment of the interest rate path to be appropriate, given that the economy is probably at a cyclical peak. The changes were close to our expectations, we f'casted a 9 bps lift in the long end



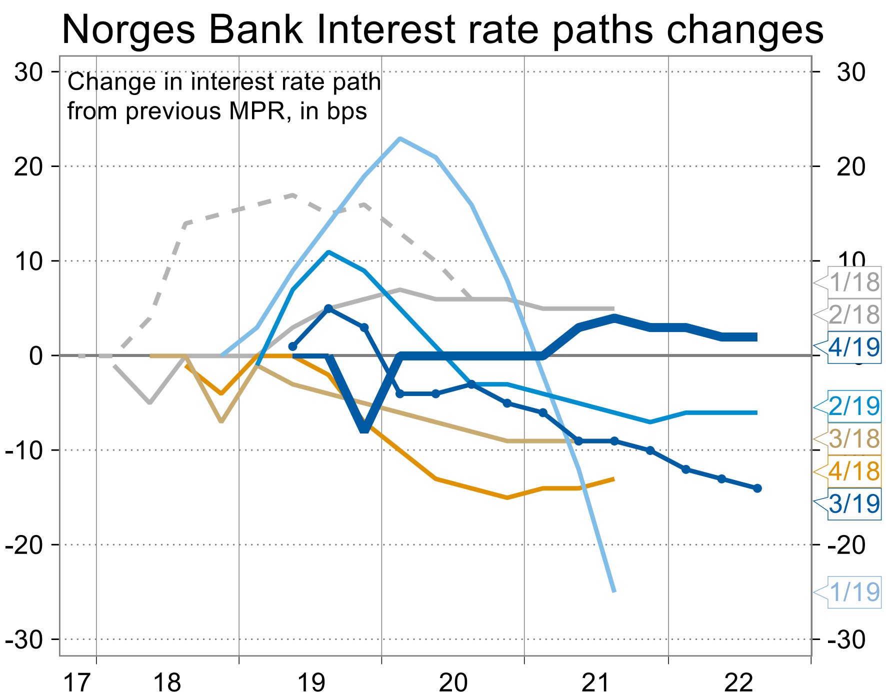
Norges Bank, SB1 Markets/Macrobond

Market implications

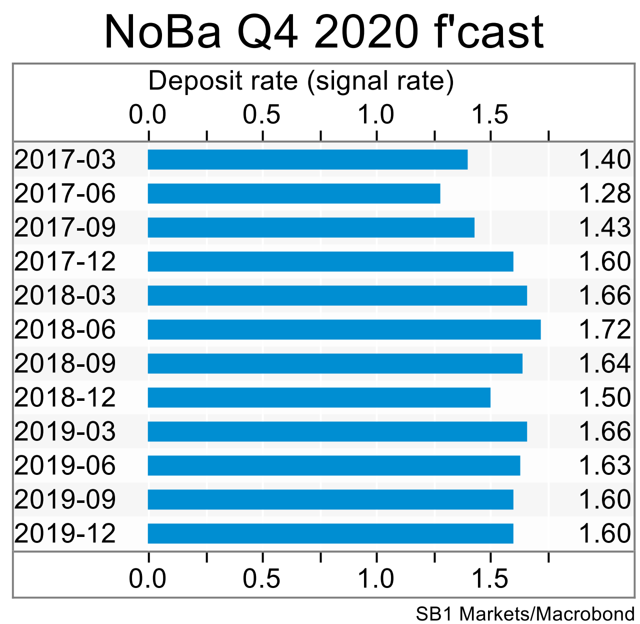
- The interest rate path was probably marginally on the hawkish side vs expectations, the Dec '20 FRA was unchanged at 1.85%, Dec '21 contract up 2 bps and the 10 y swap rate rose 4 bps (but rates rose abroad too). Market expectations are some 10 bps below Norges Bank's path, the FRAs indicate an unchanged interest rate through 2020 and 2021, with less than a 10% probability of a cut in 2021, and not much more in 2022
- The NOK initially strengthened but later depreciated and closed down 0.4% (vs EUR) on Thursday!

NoBa lifted the path marginally, the first upward adjustment since Q2 2018

A slightly more cautious NoBa; Q4 2020 interest rate f'cast is 20 bps higher than it was in 2017



Source: Norges Bank

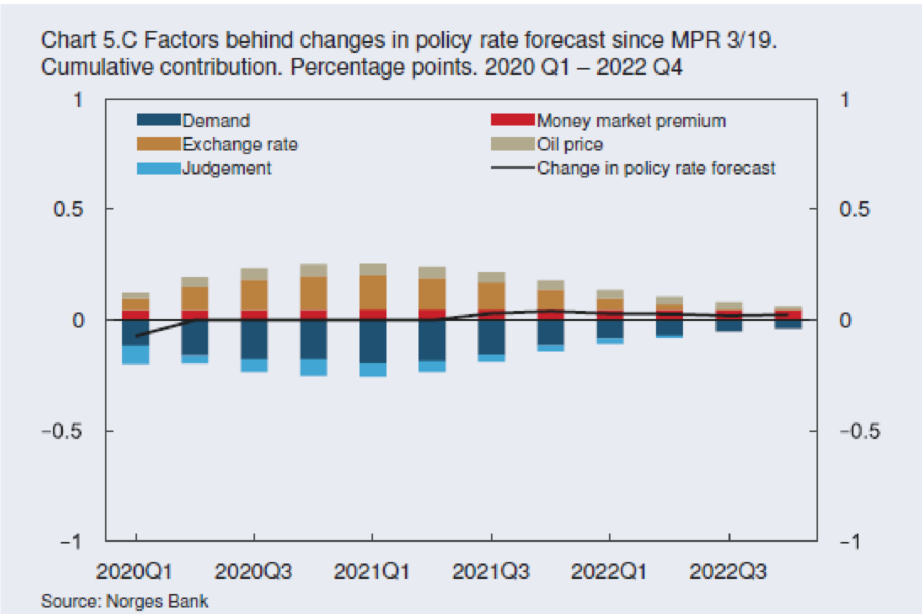


Source: Norges Bank/Macrobond

- Norges Bank held the interest rate path unchanged through 2020 (it was lowered by 8 bps in Q4 2019, just a technical adjustment of the path as a Q4 hike was fully excluded), and lifted the path by up to 4 bps in 2021 and 2020
- The path indicates a 40% probability of a hike in 2020, unchanged from the September MPR, and just some 30% probability of a hike in March. In the long end, Q4 2022, the path was nudged up by just 2 bps, to 1.55%
- The Bank has nudged up the Q4 2020 f'cast marginally through 2017, 2018 and 2019, although the most recent projection is lower than it was in 2018 and early 2019. The Q4 2020 f'cast was held unchanged at 1.60% at the Dec meeting

NOK lifted the path by some 15 bps, domestic demand a 20 bps drag

On the upside; NOK, the oil price and a lower NIBOR spread. Domestic demand pulled the path down



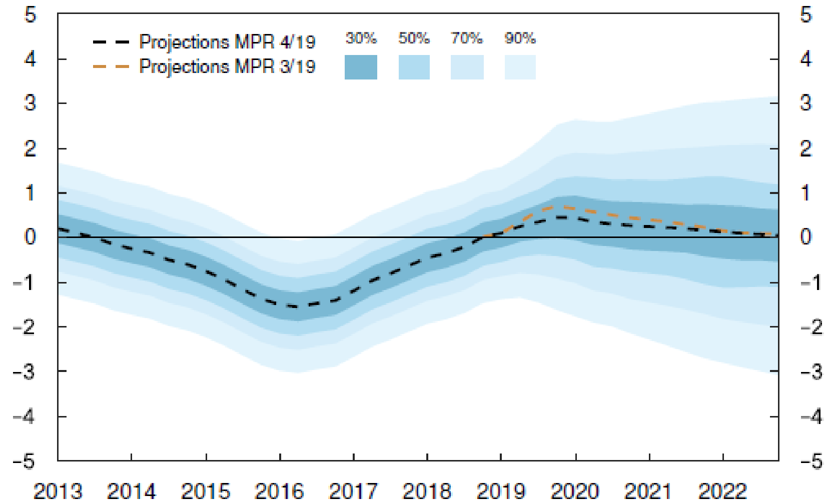


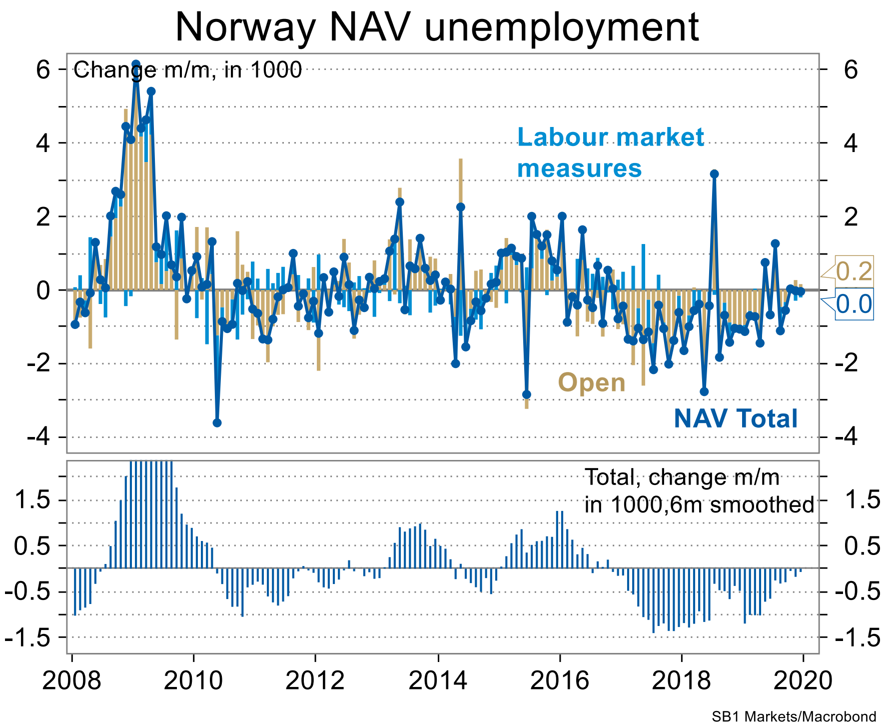
Chart 1.1b Estimated output gap[1] with fan chart[2].
Percent. 2013 Q1 – 2022 Q4

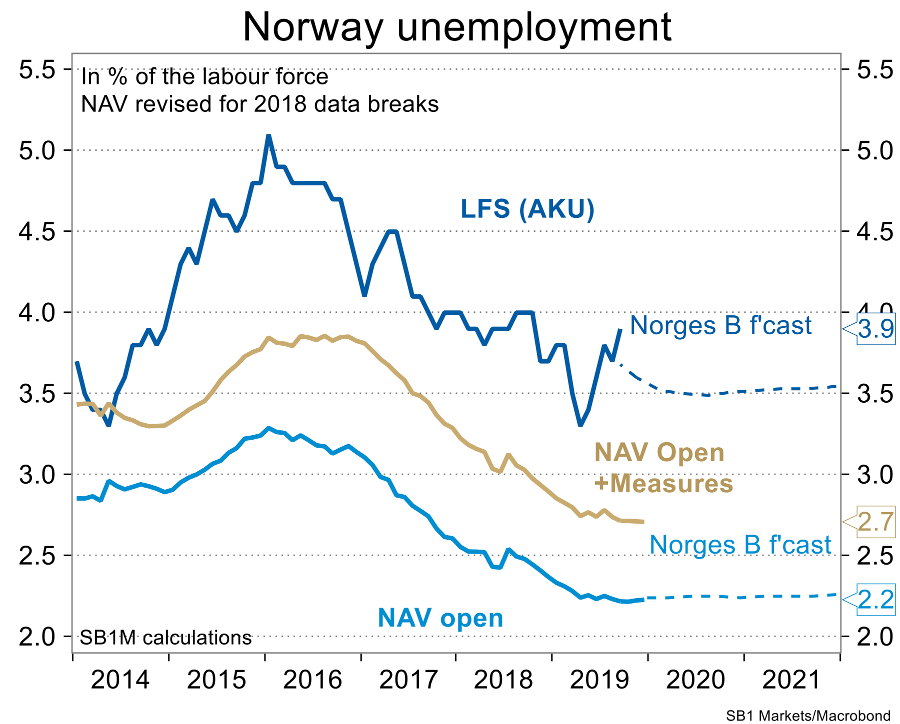
1) The output gap measures the percentage deviation between mainland GDP and estimated potential mainland GDP. 2) The fan chart is based on historical experience and stochastic simulations in Norges Bank's main macroeconomic model, NEMO.
Source: Norges Bank

- Factors lifting the interest rate path; Once again, a weaker than expected NOK was the major contribution. A slightly higher oil price than projected in September and a5 bps downward revision the NIBOR-deposit rate spread lifted the path all along the curve.
- Factors reducing the path; Weaker domestic demand, chiefly due to softer private consumption than expected and a somewhat faster slowdown in employment growth. In addition, the 'judgement' component pulls the path down marginally, without any further explanation
  - » The bank views the economy to be at a cyclical peak. The f'cast on the output gap is reduced by 0.2 pp to 0.3% in 2020. Mainland demand is lowered by 0.4 pp in 2020, due to prospects of weaker private consumption and Mainland business investments. Oil investments were revised up by 2 pp in 2020, but lowered by 1 pp in 2021. No other major revisions in the Banks's f'casts, barring the NOK. NoBa revised down the NOK projections once again

NAV unemployment remained flat for the 3rd straight month

Open unempl. rose by 200 persons in Dec, total unchanged, confirming a softening labour market

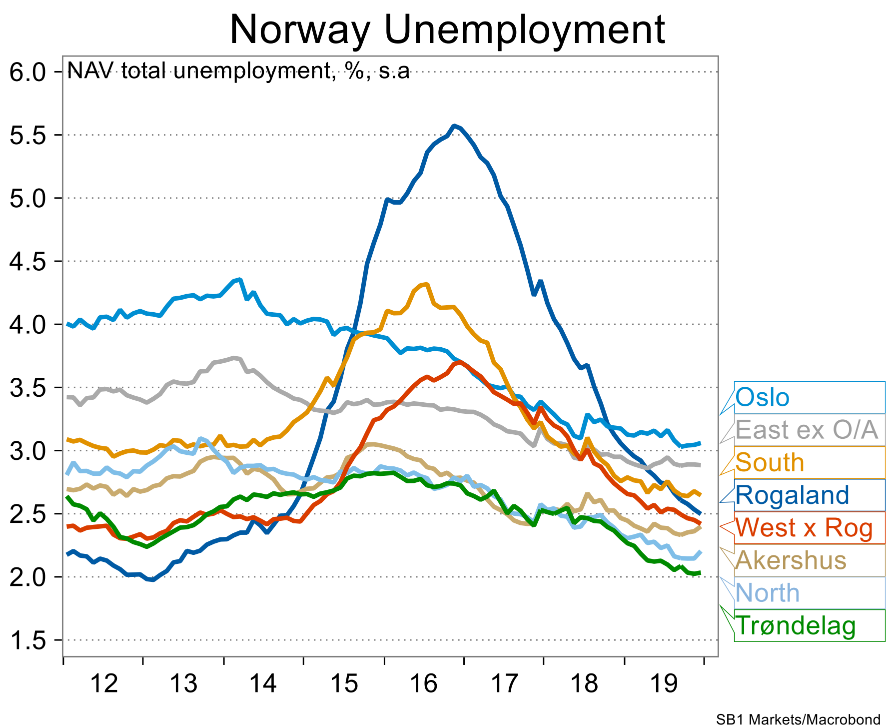


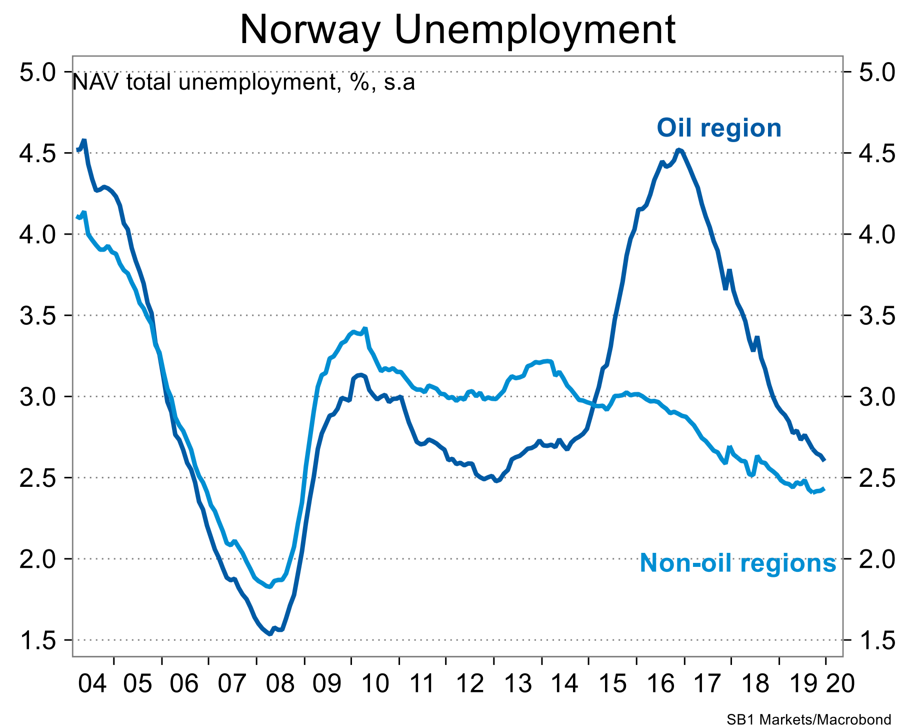


- NAV open unemployment increased by 200 persons in December, the 2nd month of a small uptick. Total unempl. (incl measures) was unchanged. The pace of decline has almost vanished, the 6m average decrease down to just 100 persons m/m, from 1000 in early '19
- The open unempl. rate held steady at 2.2%, marginally below NoBa's newest f'cast
  - » Other indicators confirm a softer labour market: New jobless claims are heading marginally up, and the number of vacancies is slowly declining
- LFS unemployment has increased the past months, chiefly due to a rising labour force. These data are much more volatile than NAV, our take is that a stabilization of unemployment is more likely. As long as employment is still growing at a decent pace, we are not too worried, short term
- A stabilizing unemployment is in line with Norges Bank's projections. NoBa expects NAV unempl. to hold steady at the current rate through 2020

Unemployment stabilized in non-oil regions, oil regions still heading down

Unempl. has flattened out in Oslo & other East, South and North. West, Rogaland still declining

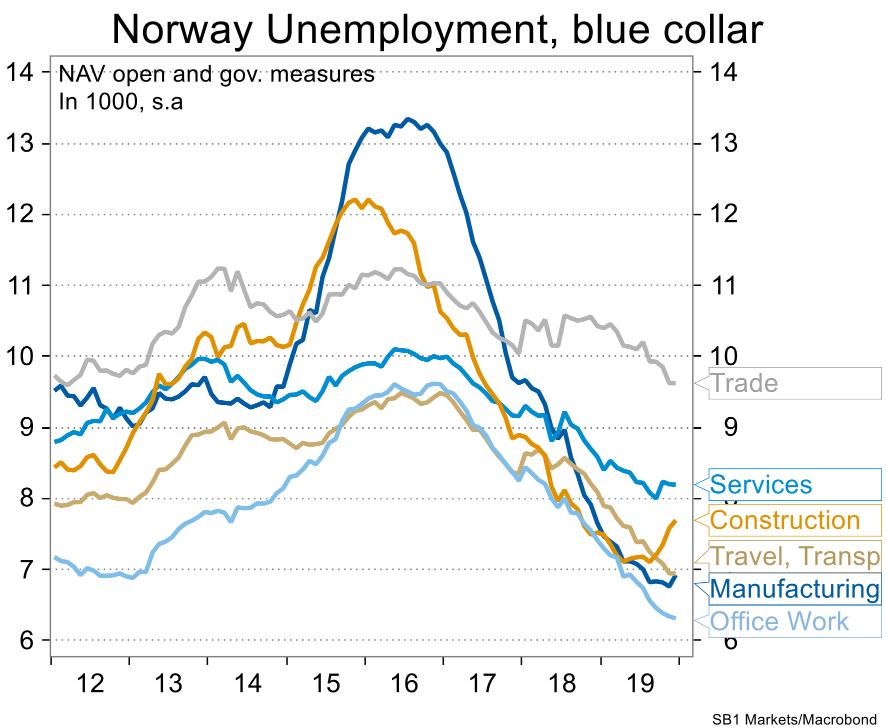


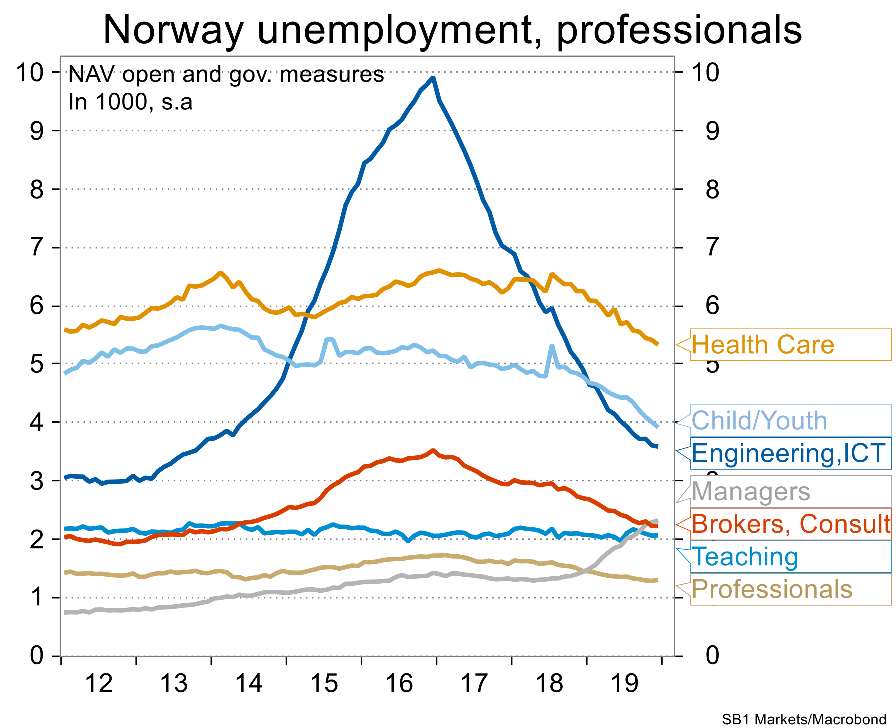


- Unemployment rates have flattened out in Oslo the past months, Akershus is inching up. South probably flattening out too. In the North, unemployment edged up in December. Trøndelag flat the past 2 months, with the lowest unemployment rate
- Unempl. in Rogaland and the rest of the Western (oil) coast keeps falling steadily
- The unemployment rate in the 'oil region' (Agder, Rogaland, Hordaland, Sogn & Fjordane, Møre & Romsdal) has dropped to 2.6%, from 4.5% at the peak in late 2016 and is just 0.2 pp above the non-oil regions

Unemployment is increasing rapidly in construction, slowly in services

Most sectors still heading down. Construction must be sagging, Reg. Network reported a stagnation



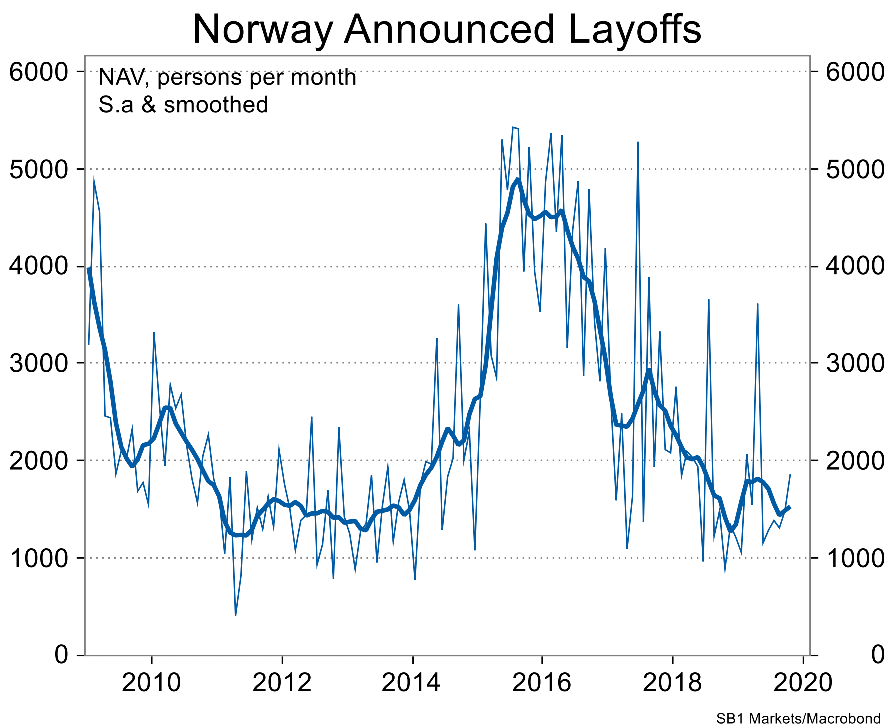


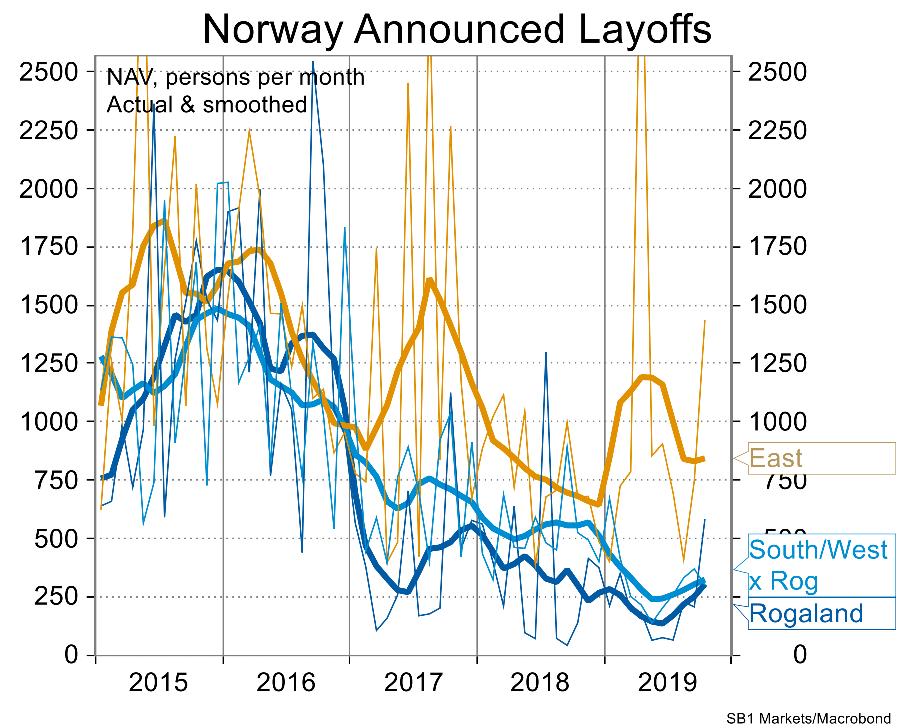
- Unemployment rates in engineering & ICT sectors, office works, travel & transport and health are still falling rapidly. Even retail trade is heading down, which is quite surprising, given soft retail sales
- Unemployment in construction sectors has turned steeply up since August. The upturn confirms the slowdown which the Regional Network reported, the Network noted a substantial slowdown in Q4 expects a stagnation the coming 2 quarters. Lower housing sales and starts are taking its toll on activity, as well as fewer infrastructure projects
- Manufacturing edged up in Dec, an upturn the coming months will not be surprising, given the expected decline in manufacturing investments. Service sector unemployment has ticked up the past months, too. The upturn among managers is chiefly due to a change of registration definitions in December 2018

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

A low level of layoffs

The number of layoffs has been rather stable at a low level, no warning signal to find

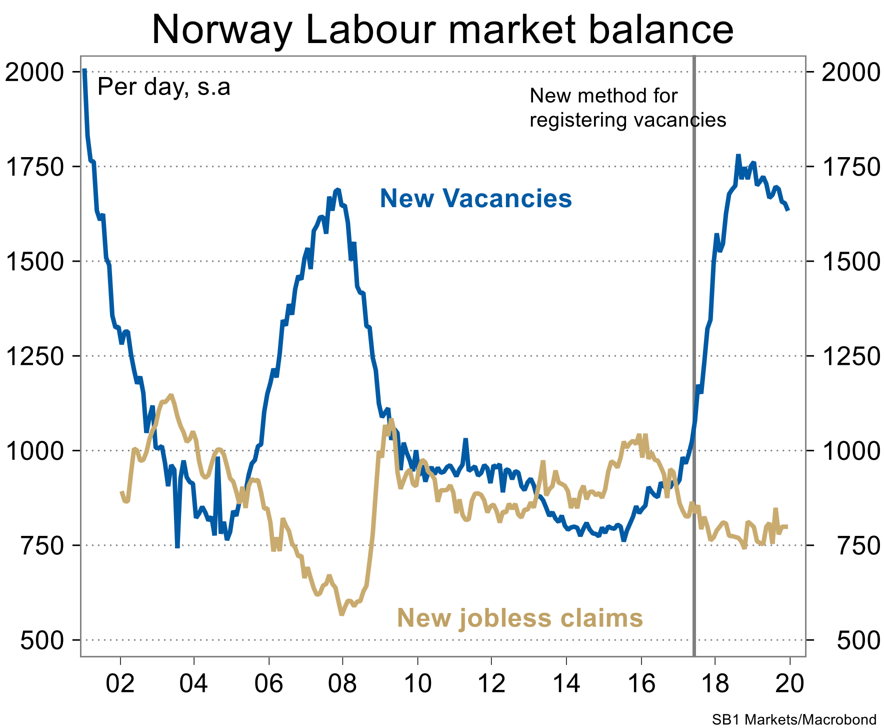


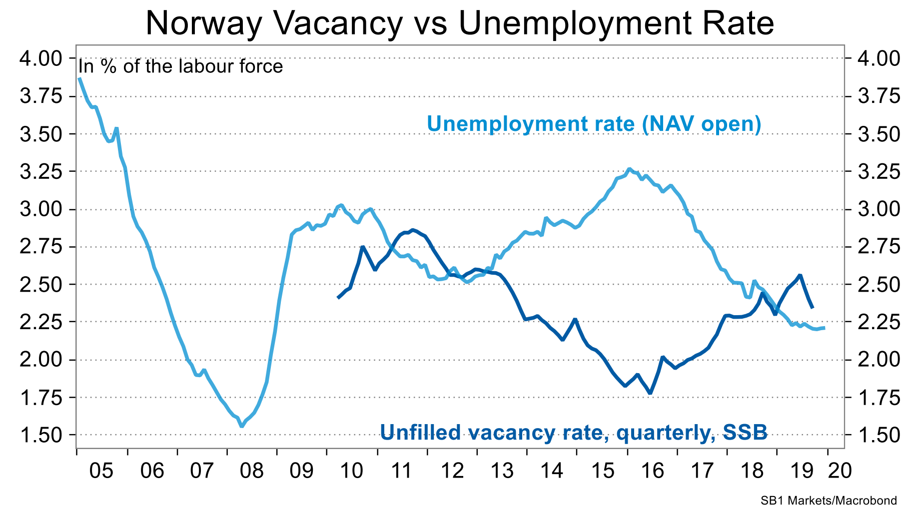


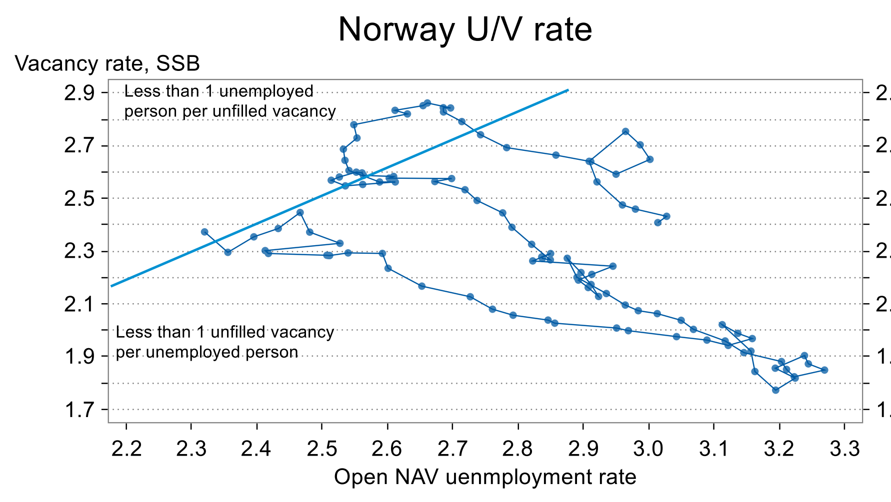
- These monthly data are very volatile and should not be taken too literally from one month to the next. The average of the past months is low, just slightly above the 2018 trough

New jobless claims inching up, fewer (but not few) new vacancies

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



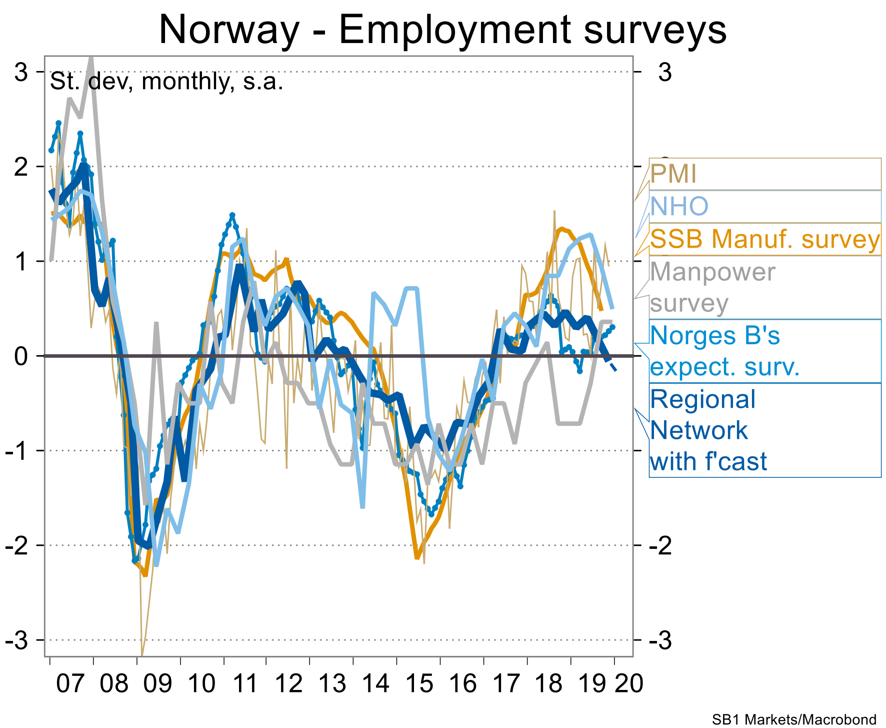


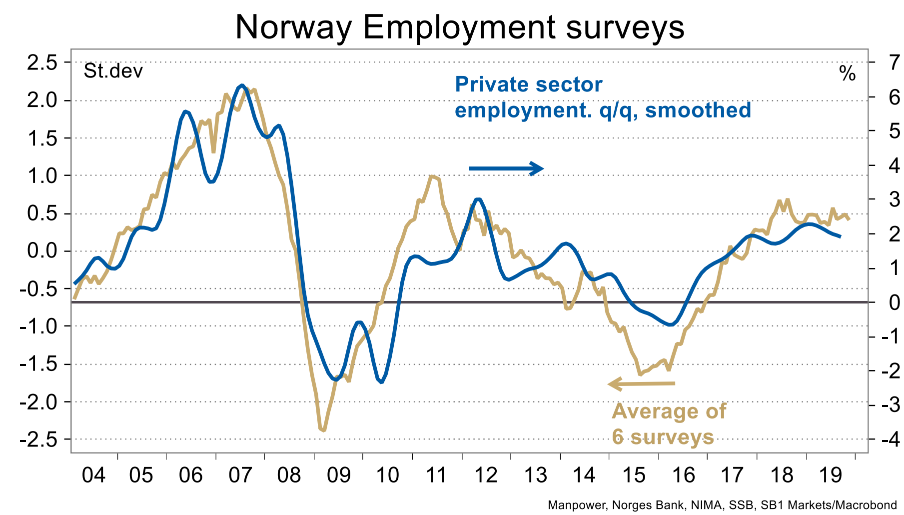


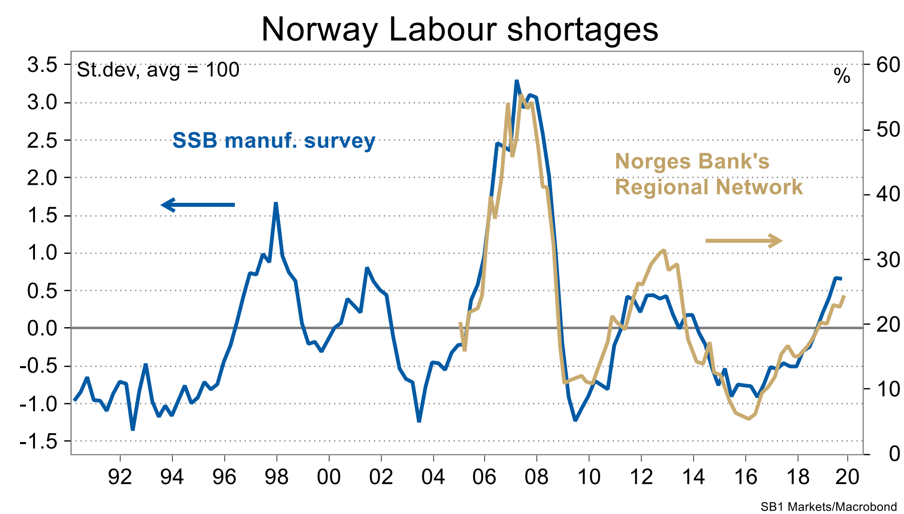
- New jobless claims were unchanged at 800/day in Dec. New claims are not trending down anymore and may now be heading slowly up
- NAV is reporting a decline in the number of new vacancies, as it has since the peak in Aug '18. Due to new collection methods, the level is not comparable to old data – but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

Labour shortages do not mirror a very tight labour market

Employment surveys are softening but just the Regional Network is signaling a rapid slowdown



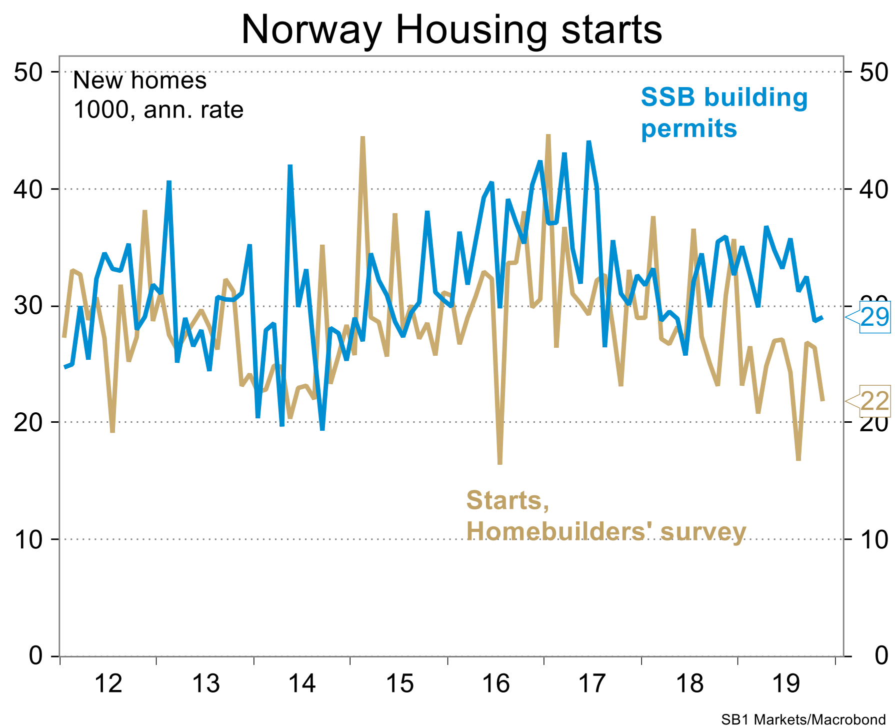


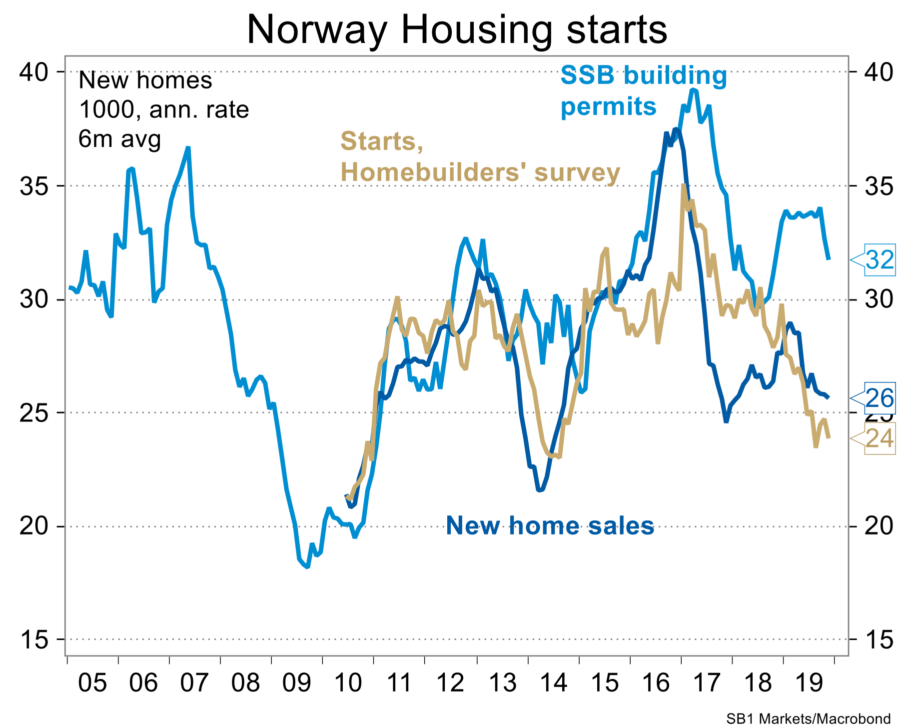


- Employment surveys are mixed, the avg of 6 surveys do not point to any slowdown. However, some of the most reliable of surveys, like NoBa's Reg. Network, points to substantially softer growth in employment
- The Regional Network reported higher labour shortages in Q4, however, the level is rather low, indicating that the labour market tightness is not very pronounced

SSB confirms the Homebuilders' reports; housing starts have peaked

SSB housing permits was unchanged at 29' in Nov, sliding down the past months



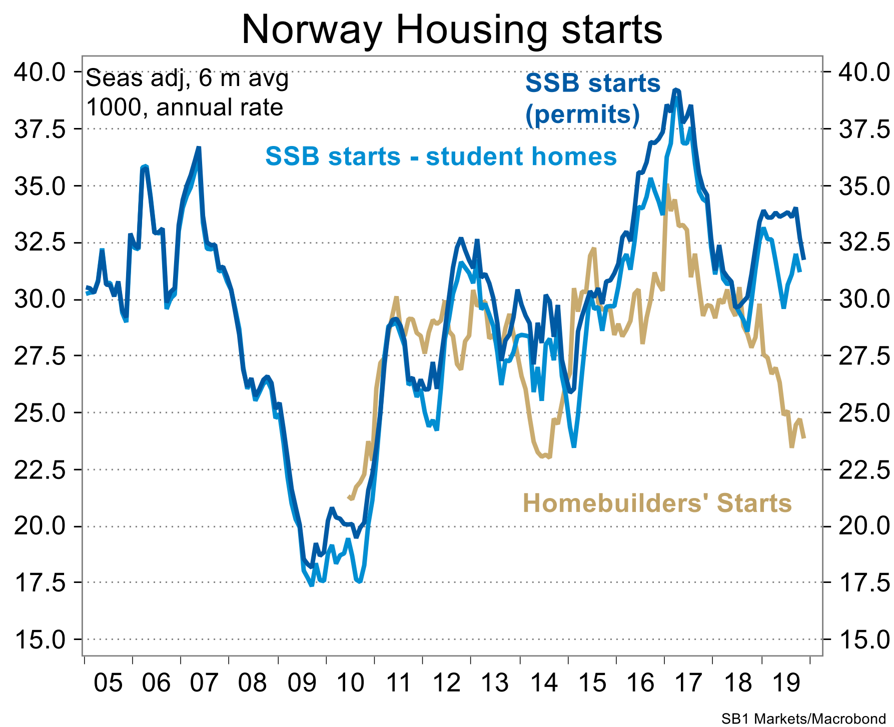


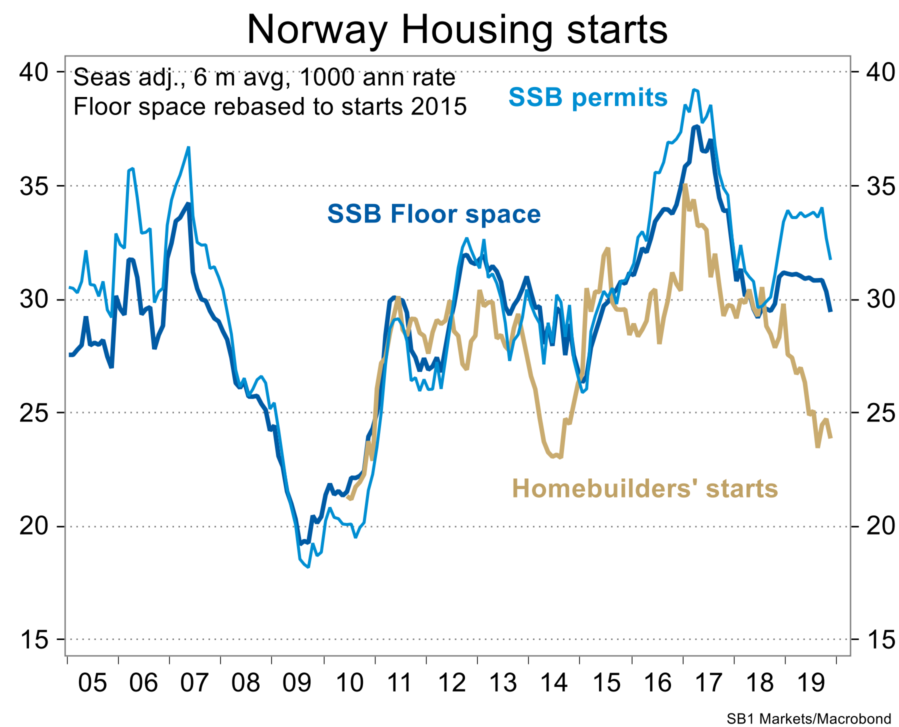
- SSB reported housing starts (building permits) at 29' annually in November, unchanged from Oct, and the lowest in more then a year. The 6m average fell 32' from 33'. Housing starts probably peaked in Q2
  - » The Homebuilders have been reporting declining starts since early 2017 – and the gap to the SSB data is unusually wide. Student homes, which is only included in the SSB figures, explains some of the difference. In Q3, student housing starts dropped after a steep rise in Q2. New home sales are still sliding down (according to the homebuilders), and do not signal higher starts
- Our take is that housing starts have peaked, indicating a muted/no growth in housing investments. Starts are not running at a low level, although well below the '16-'17 peak. The level is above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too)

SpareBank 1 MARKETS

Student housing partly explains the gap on housing starts data

Ex student housing, starts have turned down, although much steeper according to the Homebuilders

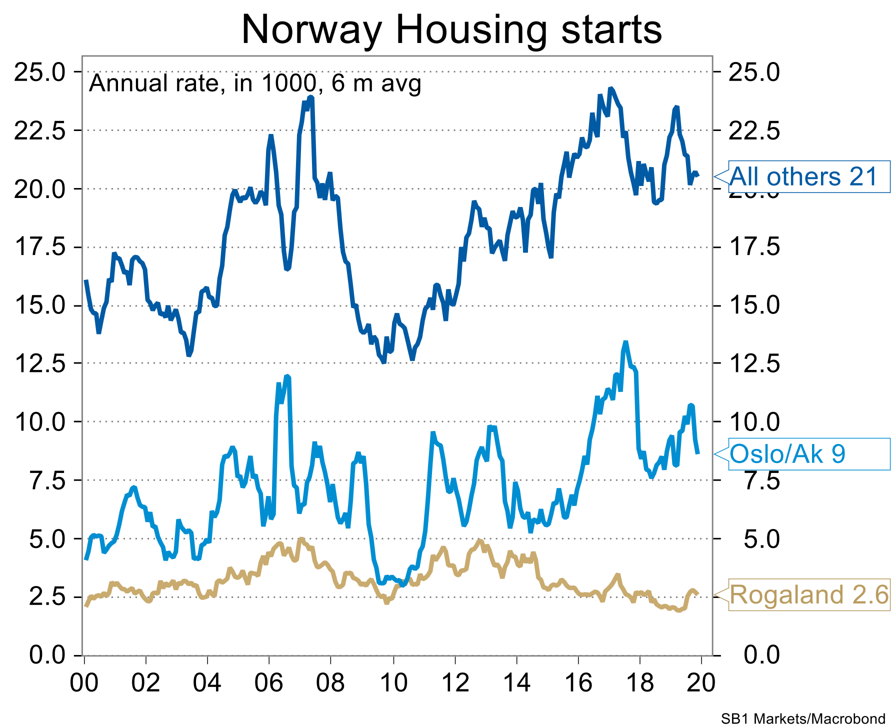


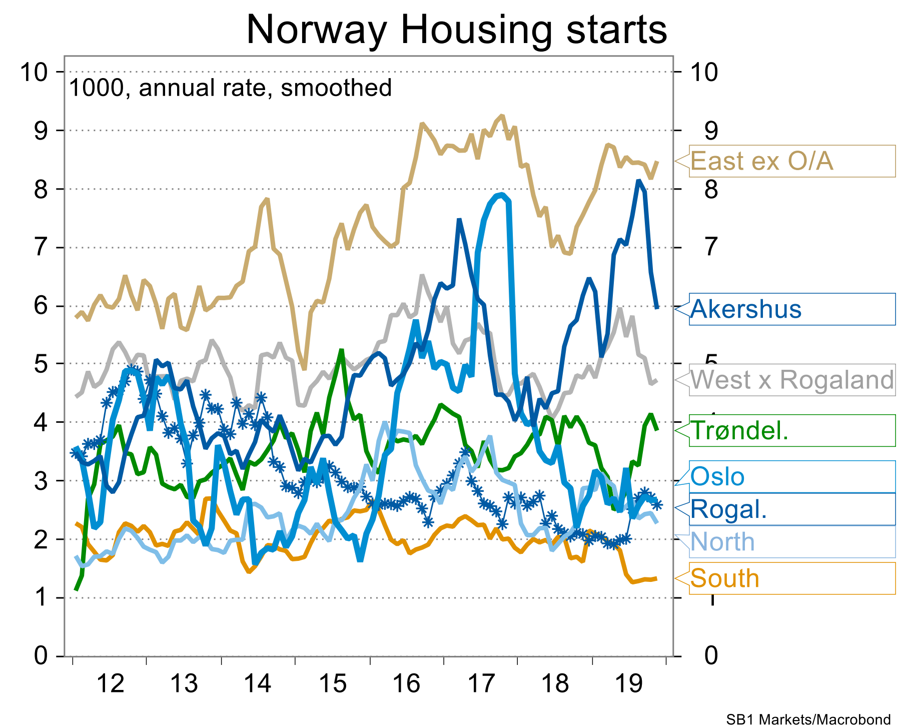


- Student housing, which is only included in SSB's statistics, has explained some half of the gap between SSB and the Homebuilders' housing starts. In Q3, student home construction dropped, after a steep rise in Q2, thus, starts x student homes spiked. Total housing starts dropped in November
  - » Student homes are smaller than other homes, and the contribution to construction activity is less than for other housing (some 1/3rd per unit we guess)
  - » Measured by total sq.m., starts dropped in Oct and Nov, according to SSB
- If Homebuilders' data were representative, it would have substantial impact on the assessment of the Norwegian economy. However, Norges Bank's Q4 regional network reported a pronounced slowdown in the construction sector

Starts have turned down in most regions, Trøndelag gains pace

Starts have peaked in Akershus, West and probably the East– and Oslo starts remain 'low'

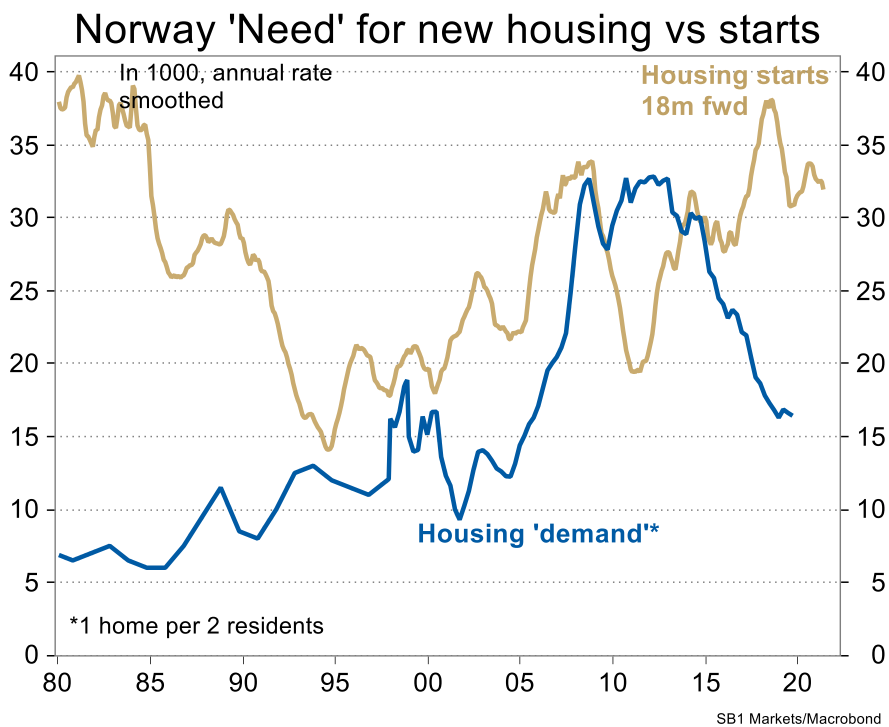


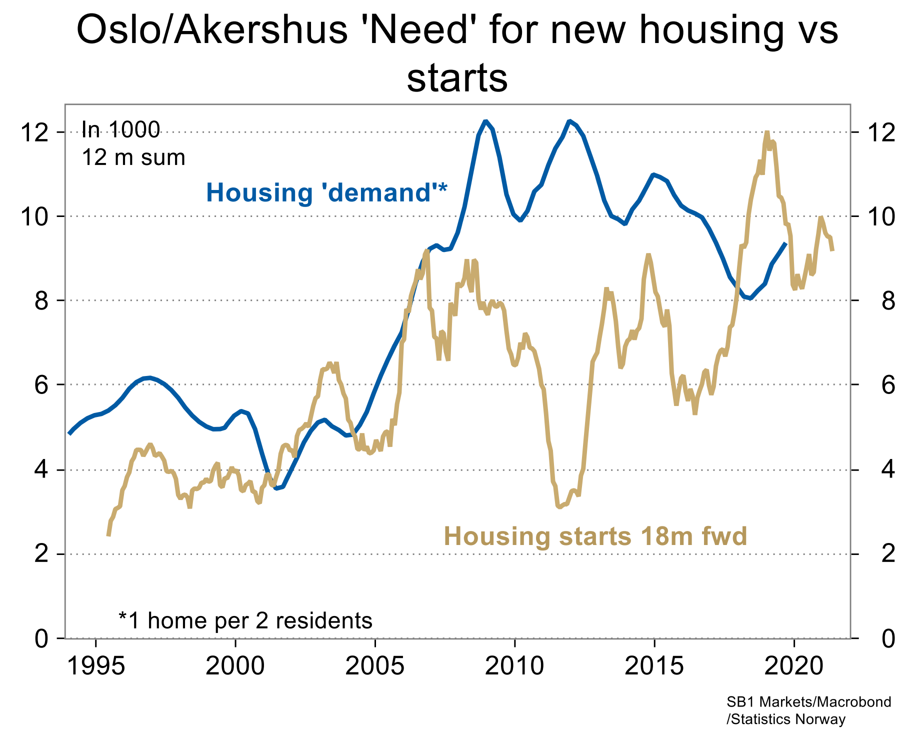


- Housing starts x Oslo and Akershus have declined this year, reversing most of the steep 2018 upturn. The level is still higher than 'normal' the past 20 years
  - » The upturn was driven by a steep rise in Akershus, other East x Oslo and West x Rogaland, all of these have now fallen/flattened out. The South and North are not thriving either, both trending down. But starts in Trøndelag have picked up and Rogaland is trending up
- In Akershus, starts dropped steeply in October and November, after a strong acceleration. A spike in starts of student homes in Q1 (explaining more than 30% of total starts in Q1!), and a following retreat partly explains the recent zig-zag. We assume that starts have anyway peaked here too. In Oslo, starts fell much more than in Akershus in late 2017-2018 and have flattened out recently, at a level miles below peak, as the builders are coping with a mild supply overhang

One house per new inhabitant (or 2 new house per ‘normal household)?

Based on pop. growth, too many homes have been built recently, except for Oslo/Akershus?

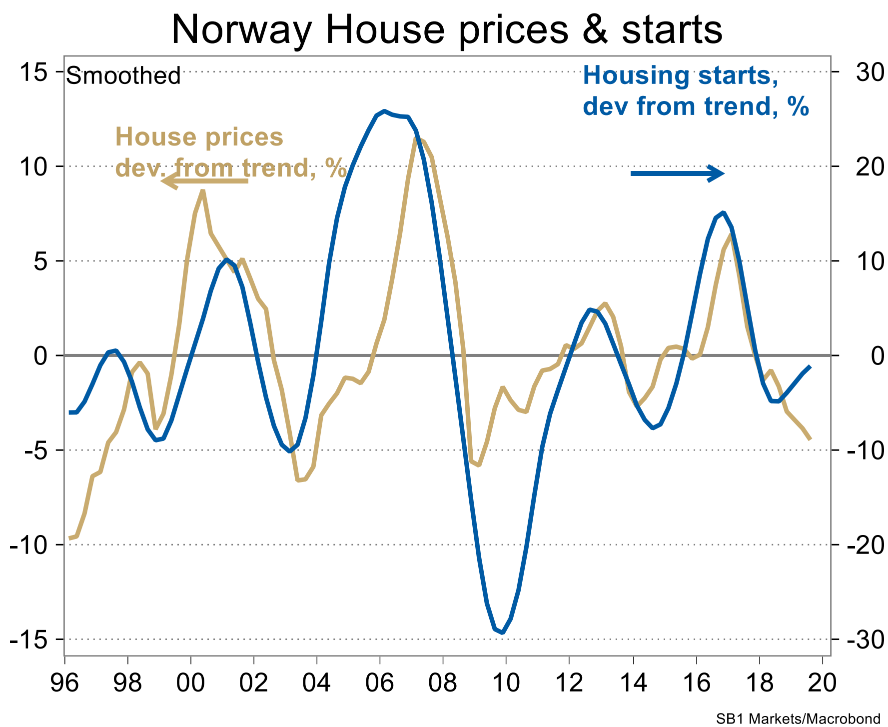


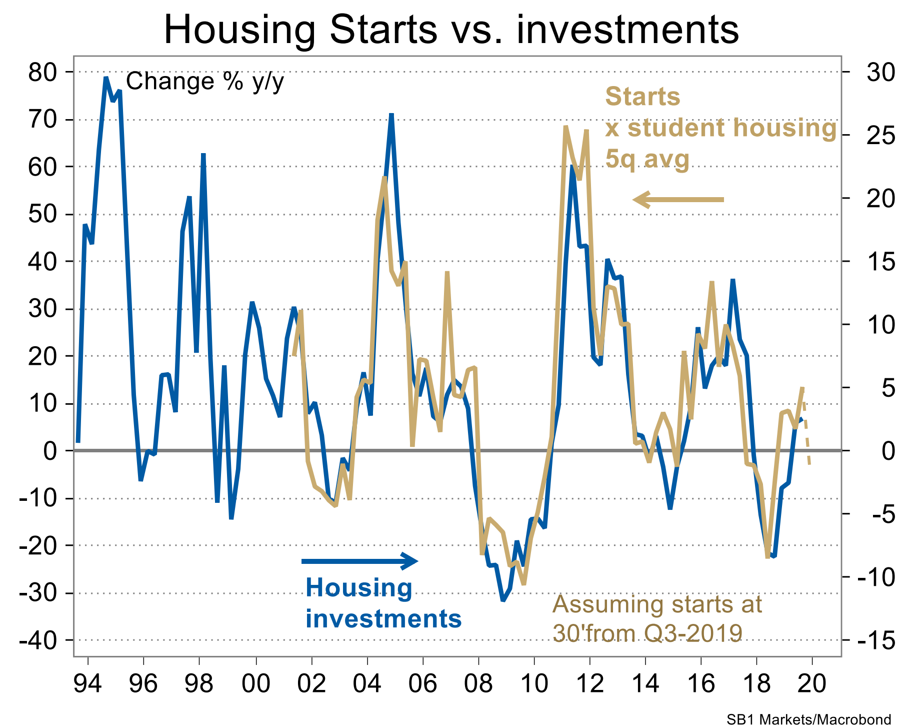


- More new homes than people have been the norm in periods with high domestic migration, which is not the case now

Soft house price growth indicates lower starts – and muted investments?

Housing investments have turned up but the upside is not large, given the level of starts (x student)



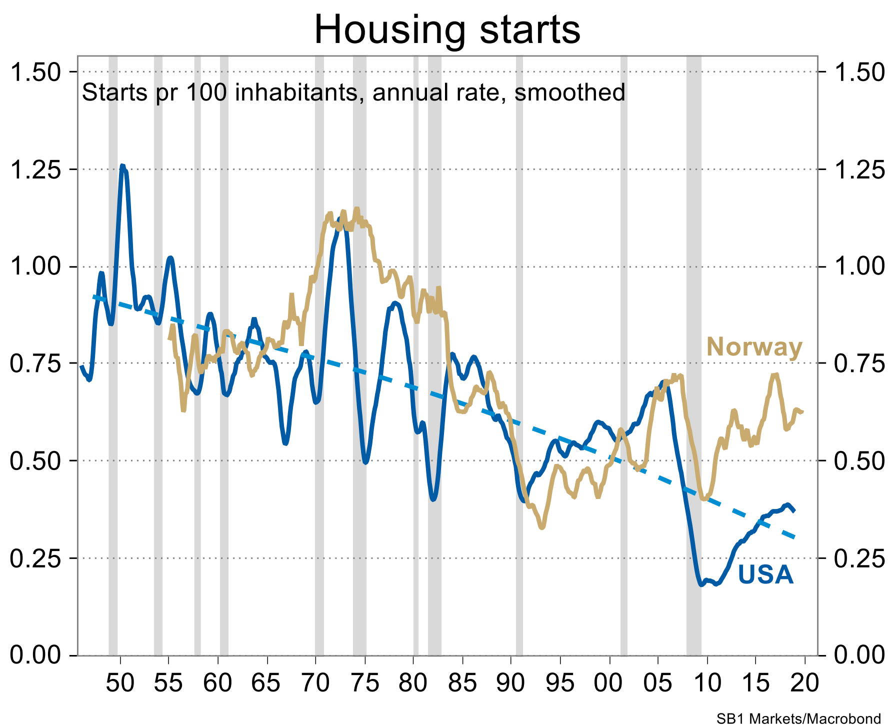


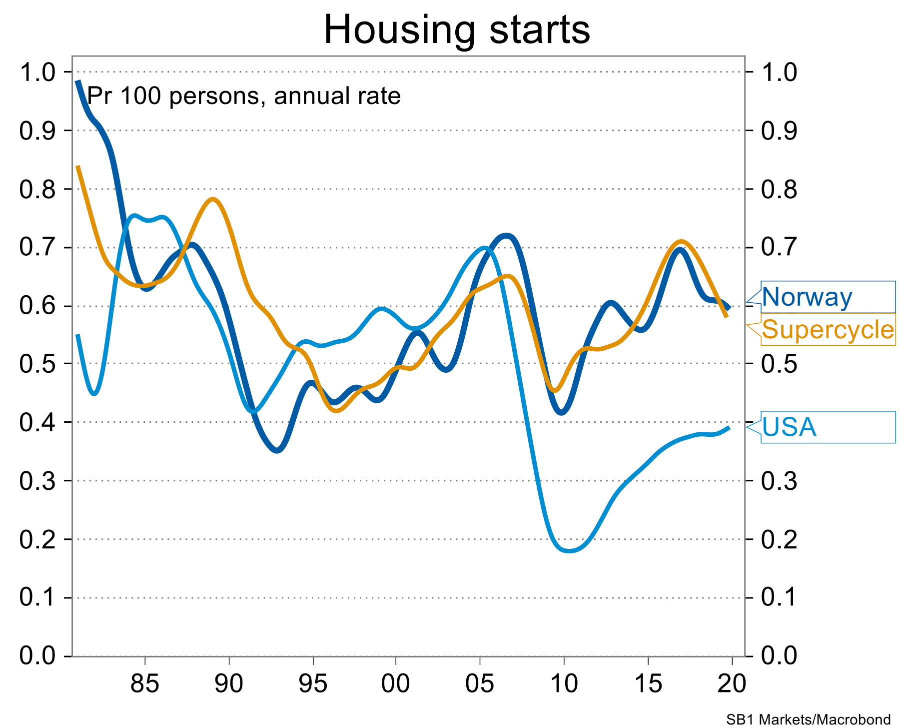
- Housing investments rose by 2.6% y/y in Q3
- In the Dec Monetary Policy Report, Norges Bank nudged down its forecast on 2020 housing investments to 0.5% (down 0.1 pp). Given the level of total starts, this estimate is seems plausible
- At the chart above, we have conducted student housing, which is contributing very modestly to investments. Starts x student homes points to muted growth

SpareBank 1 MARKETS

Home building is still quite high vs. other countries

Except from the other 'supercycle' countries, in which starts have been 2 x higher than in other DM

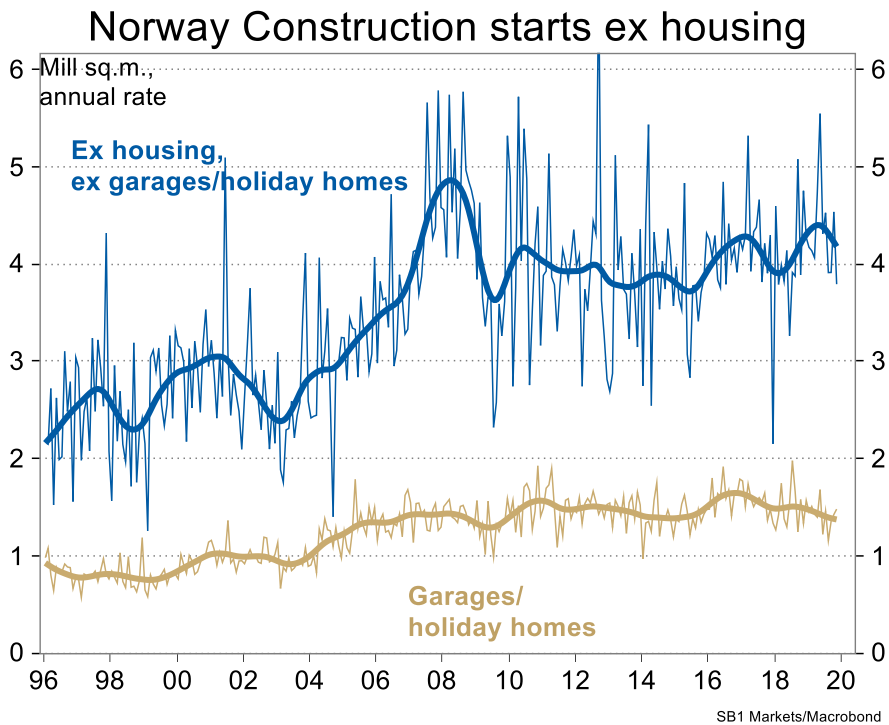


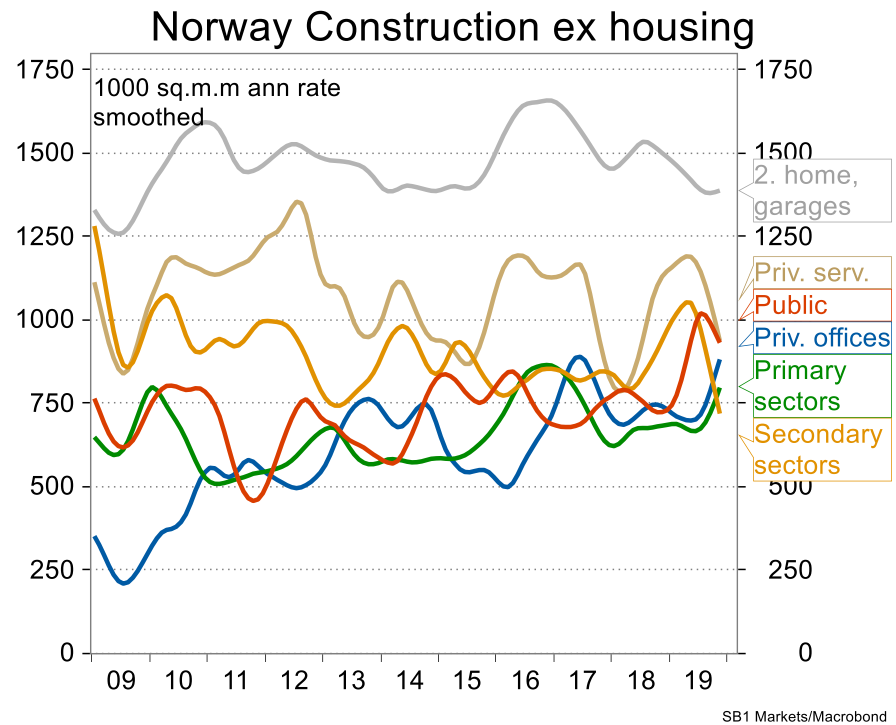


- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been quite closely correlated the past decades. Starts have fallen in both AUS and SWE and has flattened during the past 2 years (and in Norway before the recent uptick)
- House price and debt inflation are higher and rental yields are lower in these supercycle countries than other DMs. Because interest rates were cut to more or less the same level as in countries that actually needed a strong monetary stimulus?

Construction ex. housing down from peak

Business construction is edging down from the highest level since 2008. Cabins/2nd home slide down

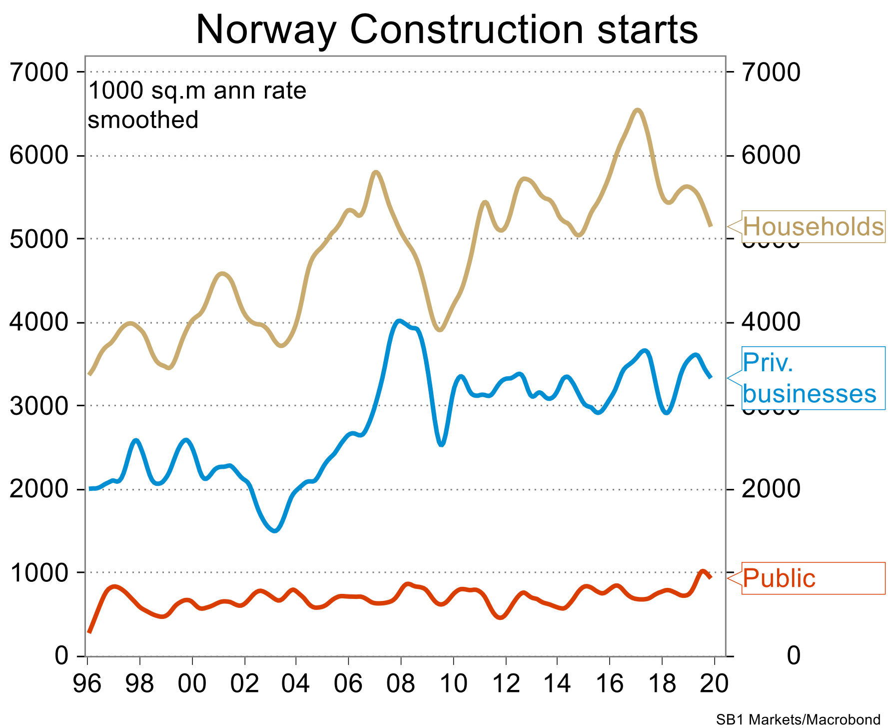


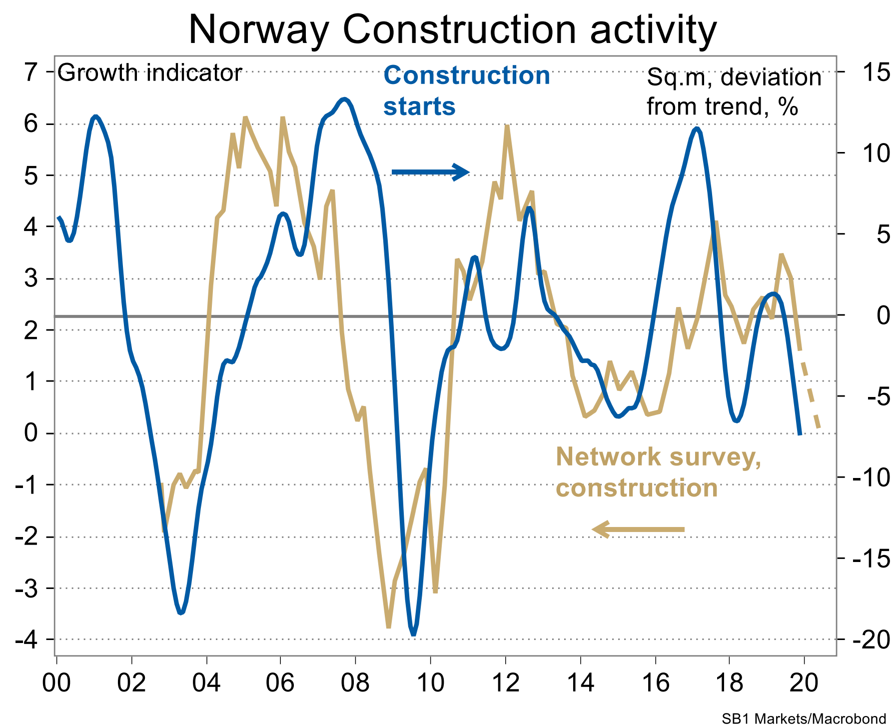


- Construction ex housing, garages/cabins accelerated in 2018 and early 2019, slowing now
  - » Construction in the secondary (industry) sector is retreating rapidly. The investment survey signals a sharp decrease in construction in manufacturing, and in power supply. Private services in sum down, following a lift trough 2018
  - » Public sector construction starts were very high in the summer, as the new hospital in Stavanger was included. Construction of private offices is picking up
- Construction starts of cabins/garages is heading slowly down and the level is the lowest since 2009

Regional Network expects a steep drop in construction growth

Trouble in infrastructure projects, and housing starts on the way down

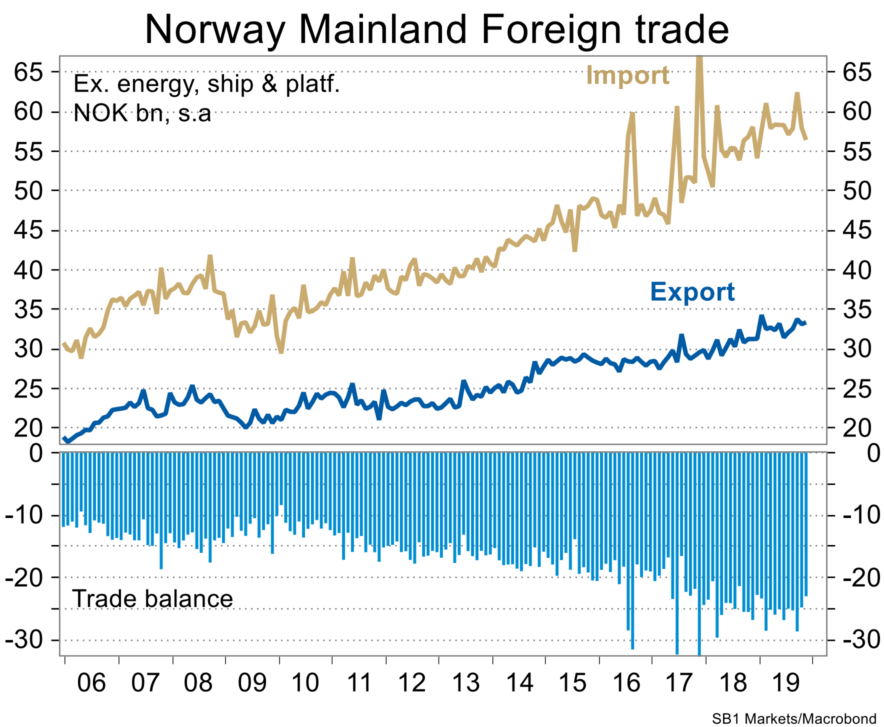


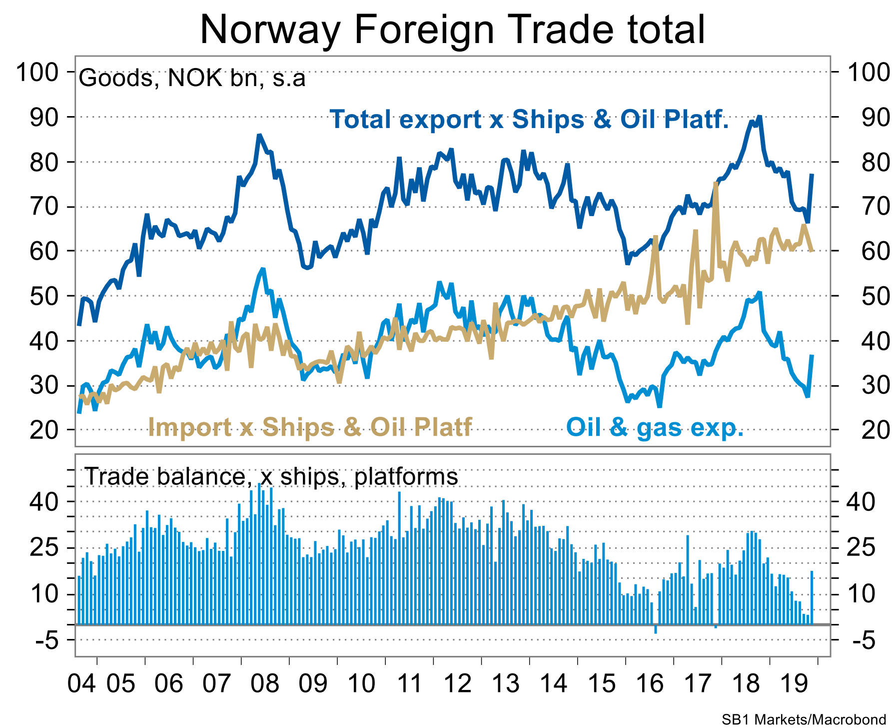


Public on the chart to the left: Construction starts in public administration, education and health

Imports down and exports moderately up so far in Q4

Mainland trade deficit shrank in Nov, as imports declined. Strong rebound in oil & gas exports

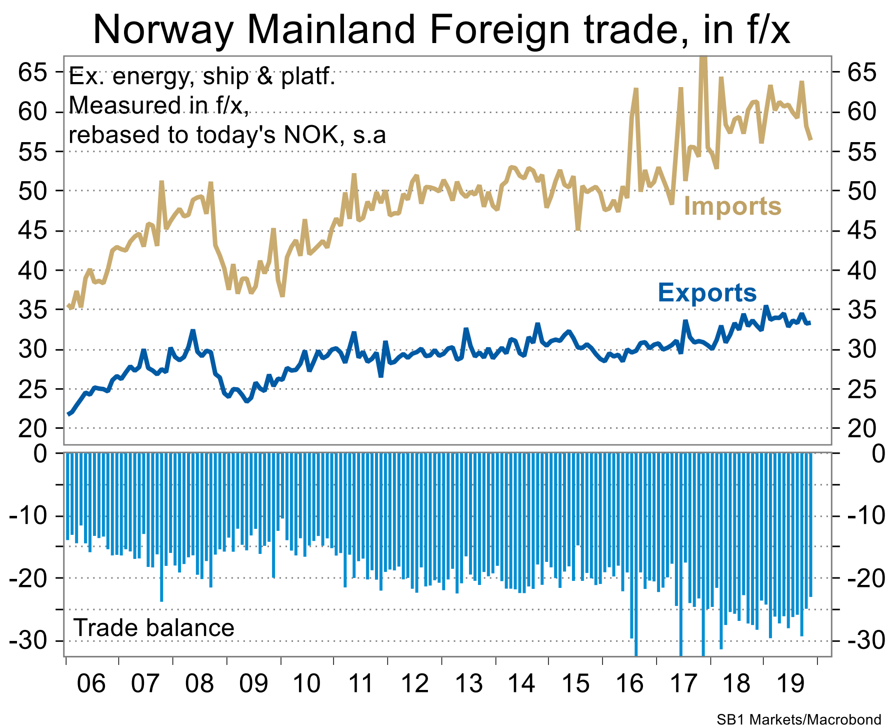




- The Mainland (non energy) trade deficit shrank to NOK 23 bn in Nov, the lowest in one year. The deficit has been more or less steady the past couple of years. The longer term trend is a widening deficit. Measured in goods & services, as reported in the monthly national accounts (no Nov data), net trade is so far set to boost GDP growth in Q4
  - » Imports fell 2.7% in Nov, the 2nd month of decline, after a steep rise in Sept and are up 4.3% y/y. Mainland exports rose 0.7% and are up 4.9% y/y. Exports values spiked in the summer/early autumn, the weak NOK is probably boosting export businesses
- The overall trade surplus (incl oil & gas, ex ships & platforms) jumped to NOK 17.5 bn, from 3.3 bn in Oct! Oil exports soared, mostly due to Johan Sverdrup field coming on stream. Recent years, the total trade surplus has equalled approx. 6% of total GDP

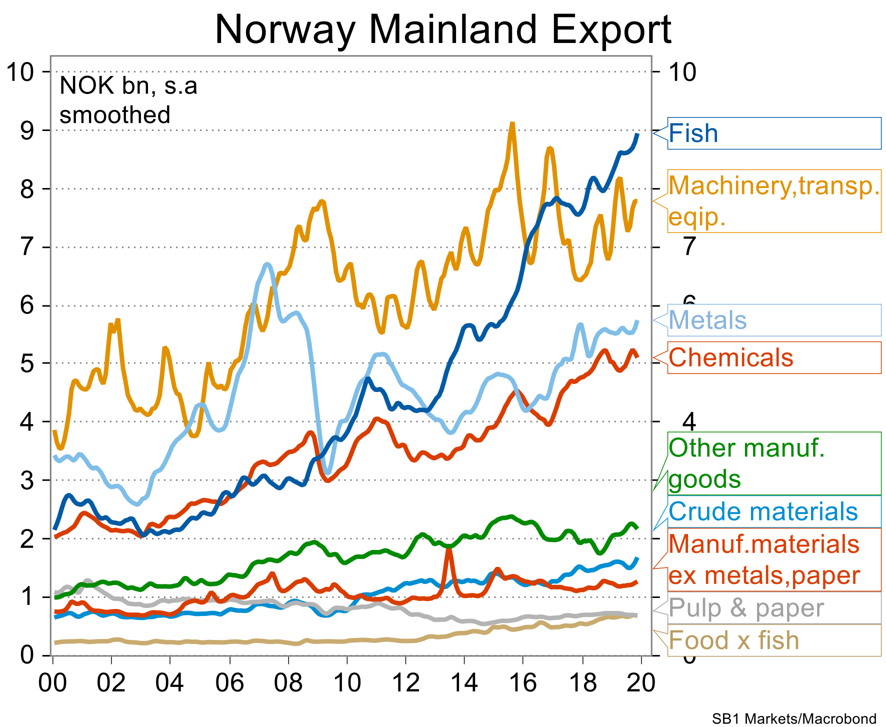
… in f/x, not that impressive

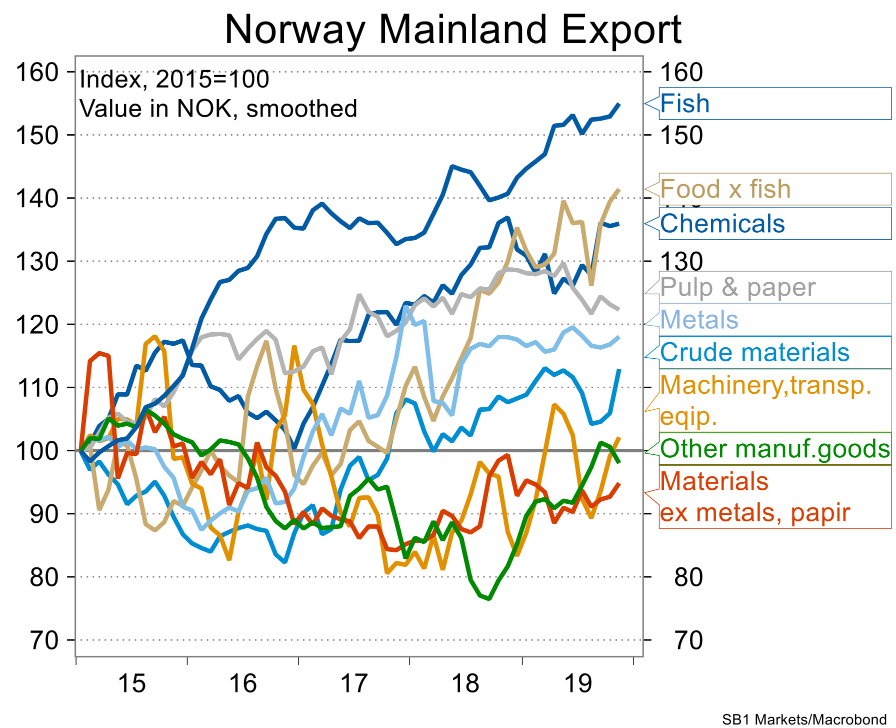
The NOK depreciation has lifted trade values in NOK. In f/x trade values are flattish, at best



A broad export upswing; fish is the big winner

Exports of fish and food, machinery&transport and other manuf. goods are picking up speed

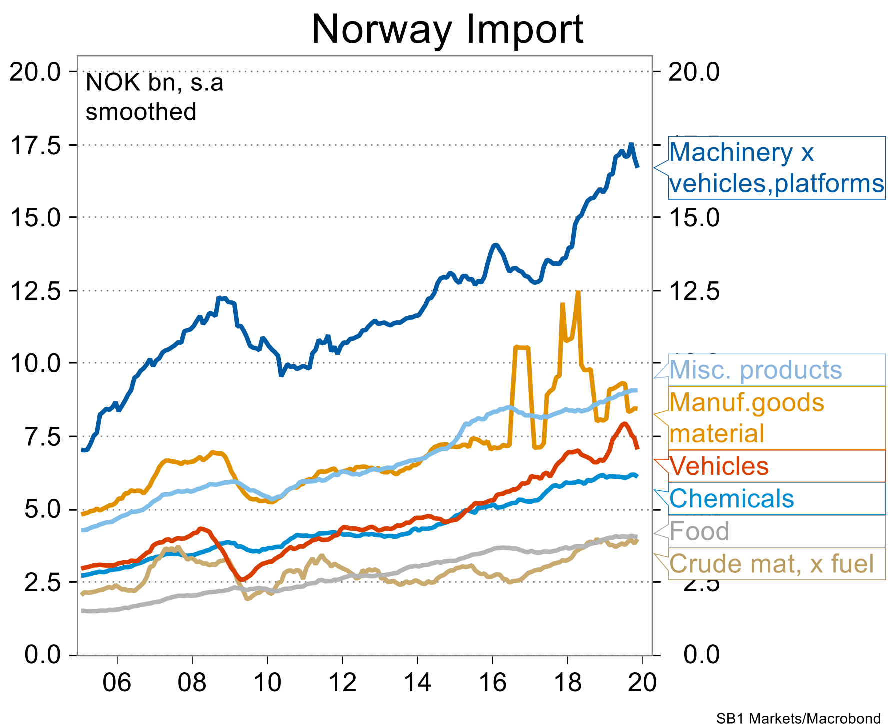


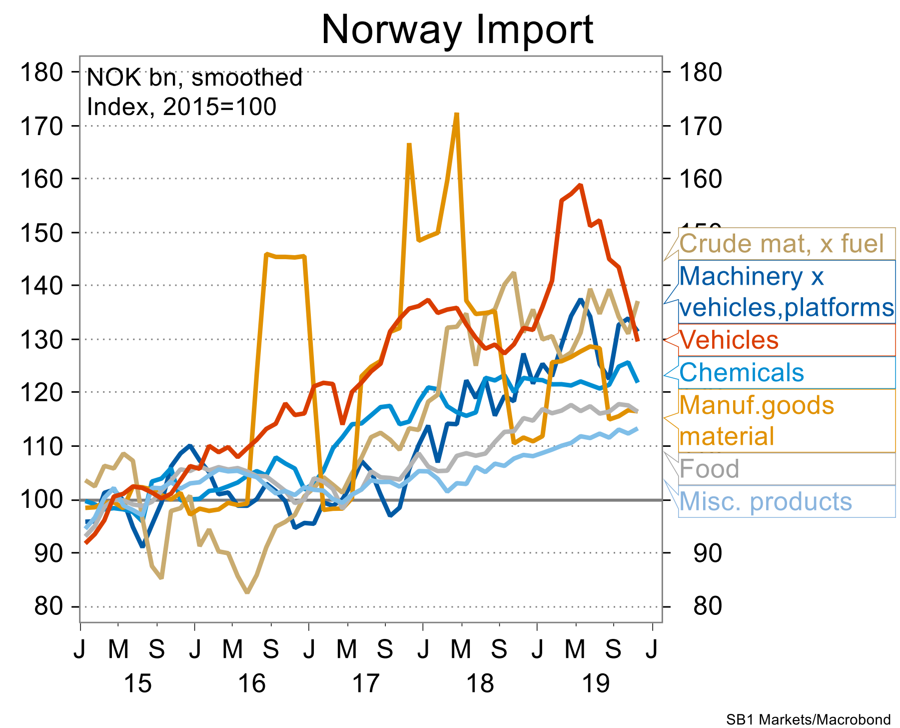


- Fish exports have been soaring both in value and volume recent years
- Exports of machinery and transport equipment (of which much is related to oil activities abroad) are volatile. Exports accelerated fell in Nov but are trending up, although well below the 2015 and 2016 peak levels

Imports of machinery equipment are trending straight up

Most goods are increasing but imports of vehicles are heading down, after a steep rise in early ‘19

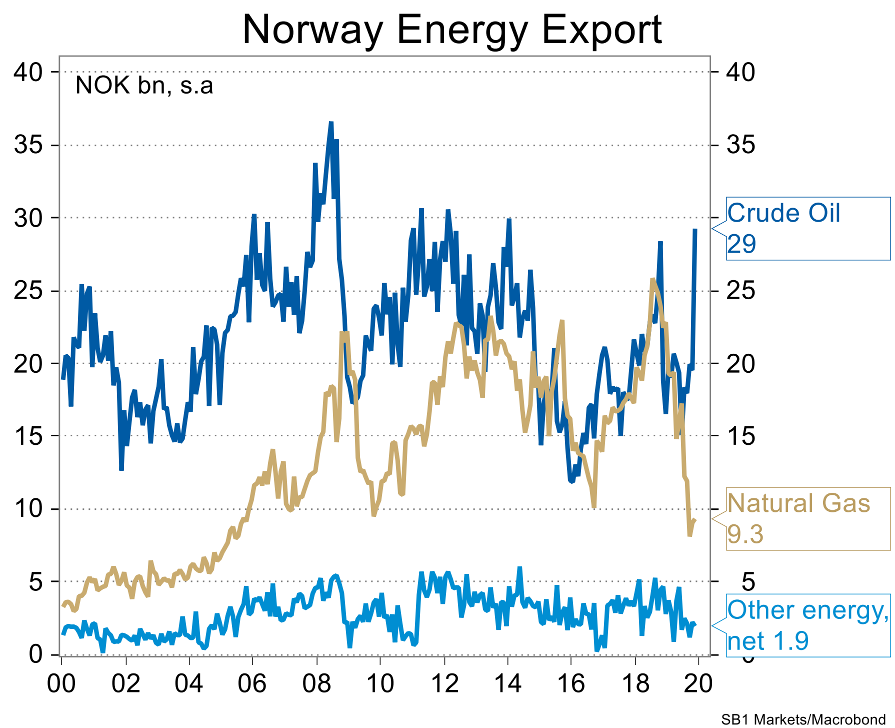


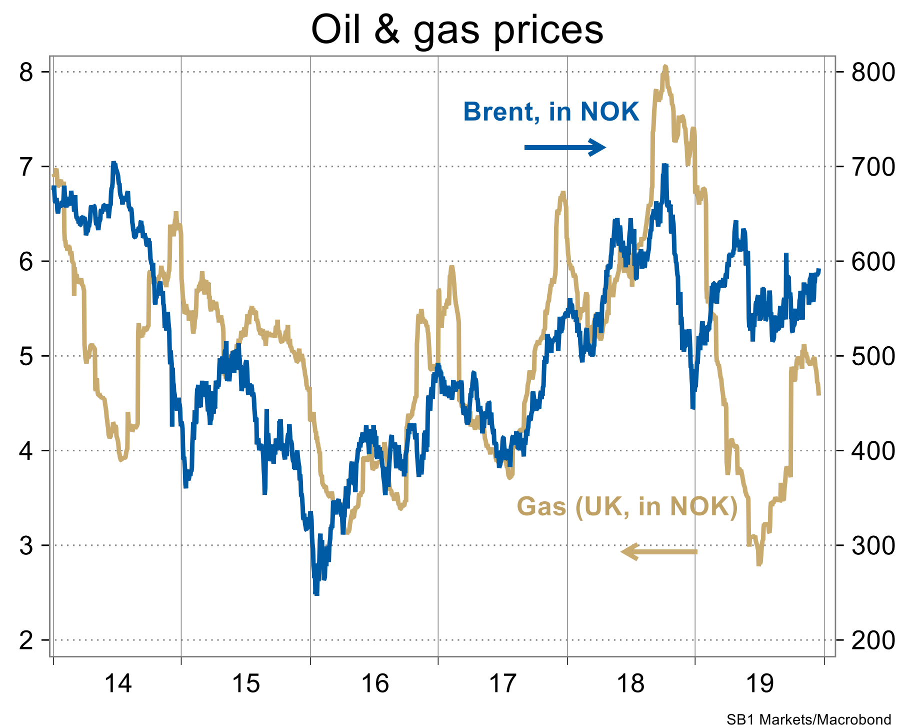


- Imports of manufacturing materials have had some huge spikes, due to some massive transactions; of oil platforms, wind mills and combat airplanes. Regardless, the trend is up. Machinery ex vehicles and platforms, much oil related, are rising steeply too (but slower in Oct/Nov)
- Crude materials, food and chemicals are all slowly expanding
- Vehicle imports soared in H1 and have slowed since. The volatility is primarily due to deliveries of electric cars. This autumn, imports may have been scaled down due to new emission regulations from 2020. Imports of vehicles equal some 12% of total goods imports (in value)

Oil exports spiked in Nov, Sverdrup on stream. Gas export remained low

Oil exports up more than 50% in volume, mostly due to the opening of the Johan Sverdrup field



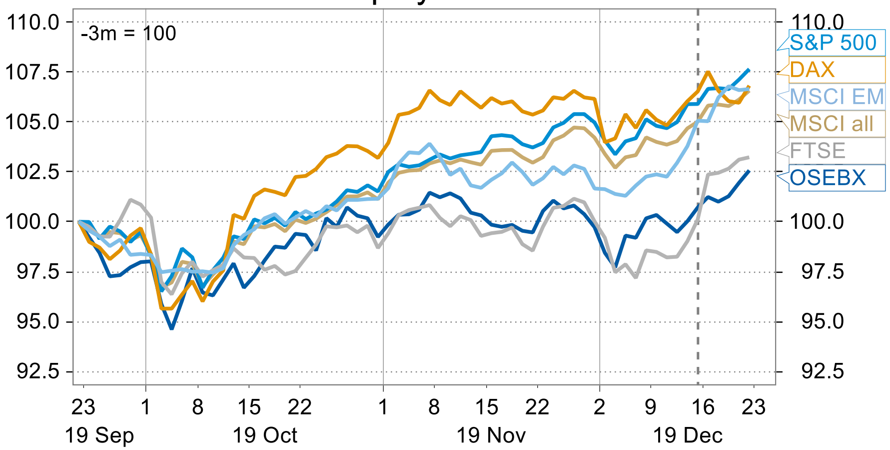


- **Crude oil** exports (in NOK bn) rose to NOK 29 bn in Nov, up from 20 bn in Oct! A huge increase, the largest m/m on record, to the highest level since 2014. The start up of production at the Sverdrup field boosted oil exports, as did end of maintenance programs. Exports rose to 1.7 mill b/d, from 1.2 mill in October!
- **Gas** export values recovered just marginally in Nov, to NOK 9.3 bn and the annual rate is -63% - due to the drop in gas prices, even prices have recovered some of the H1 losses recent months. The export volume is down 2% y/y

All risk markets climbed in the aftermath of US/China trade deal, UK election

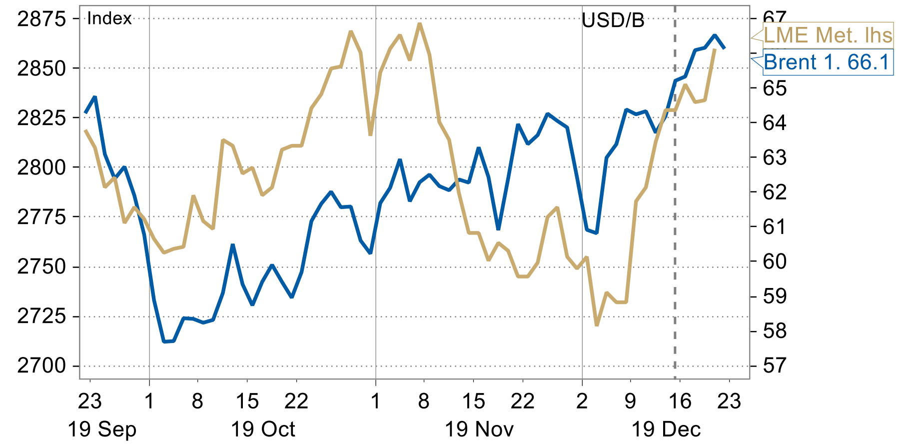
Ebbing global uncertainties and upbeat US data boosted markets. Oil price at 3 m high

Equity Indices



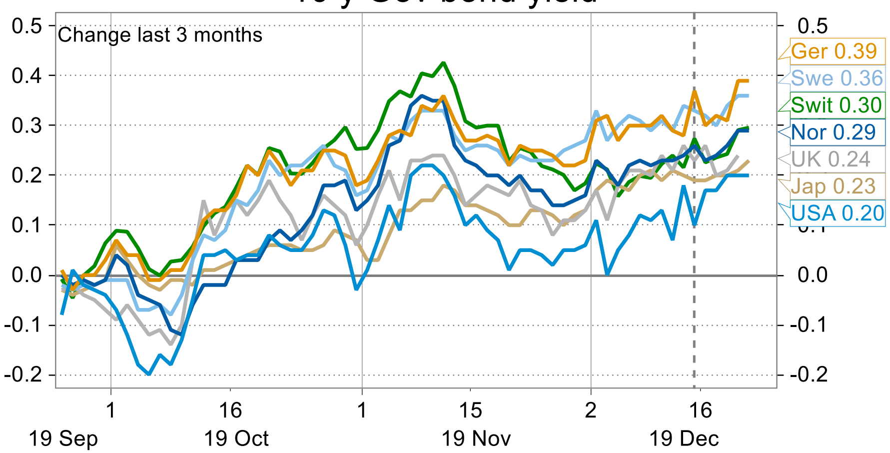
Stock markets have climbed everywhere in December, helped by trade war de-escalation and stronger macro data. S&P to new ATHs

Oil vs. metals



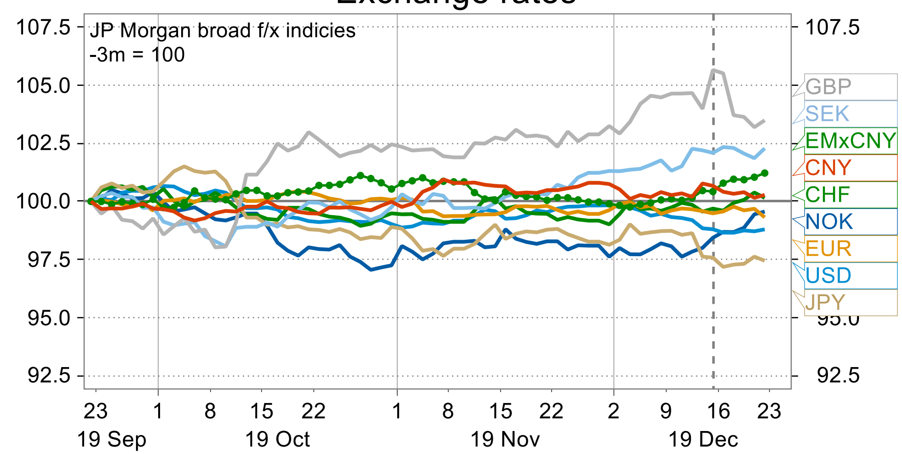
Oil price soared after the limited US/China trade deal and a EIA report of a US decline in US oil supply, shale not that hot?

10 y Gov bond yield



Bond yields have followed stock markets up, the German Bund at 6 m high of 0.21%, chiefly on higher inflation expectations

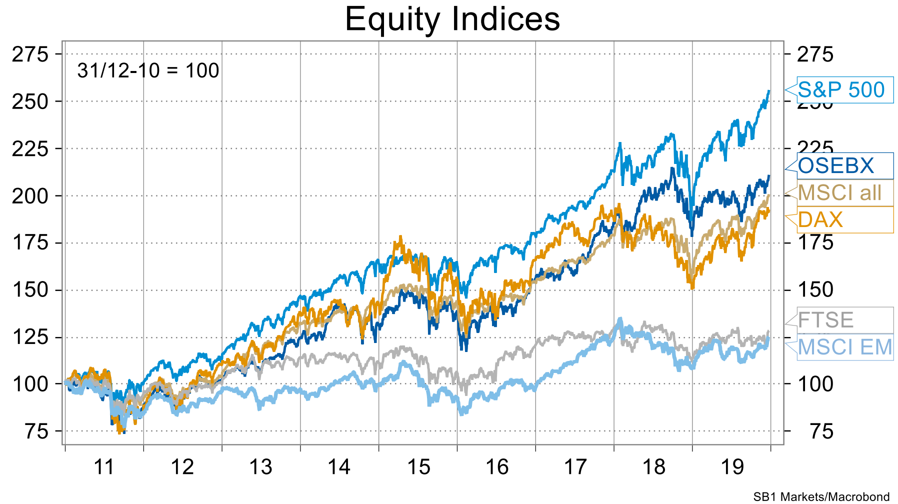
Exchange rates

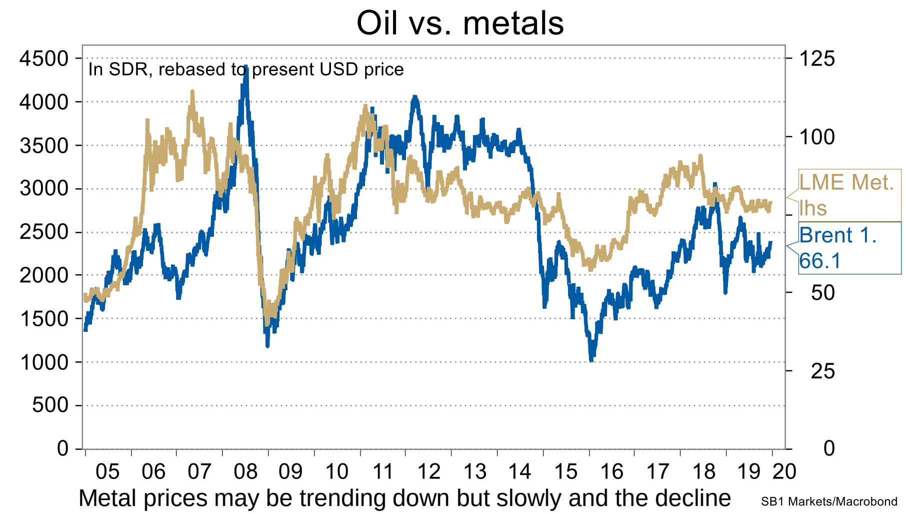


GBP reversed almost all of the Brexit relief appreciation as Johnson signals a hard Brexit trade deal date (Dec 31, 2020), NOK strengthens, with EM x China. USD weakened marginally

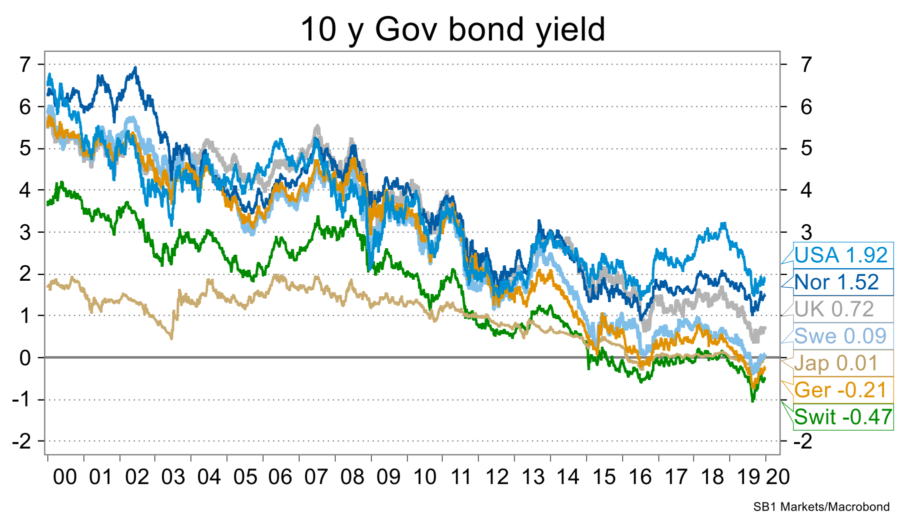
In the long run: US stocks at ATH, bond yields not that far above ATL

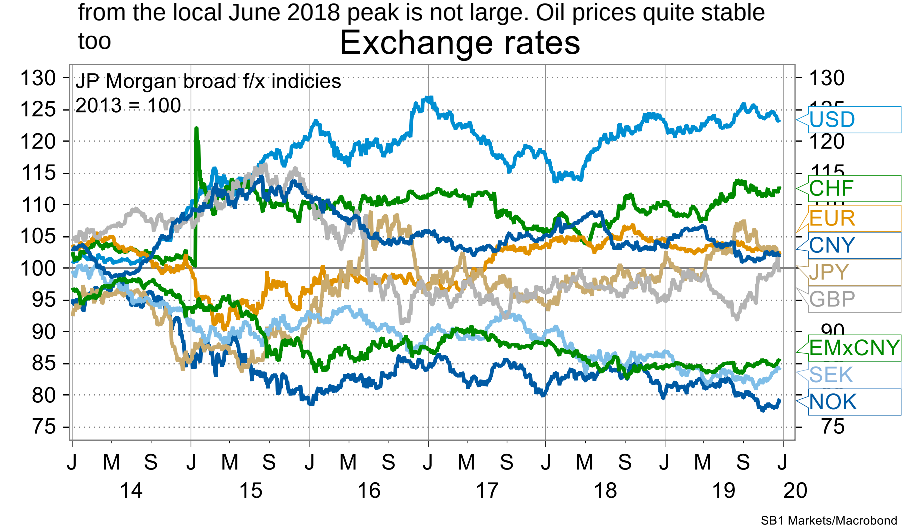
Raw materials have not followed equities up, neither have bond yields





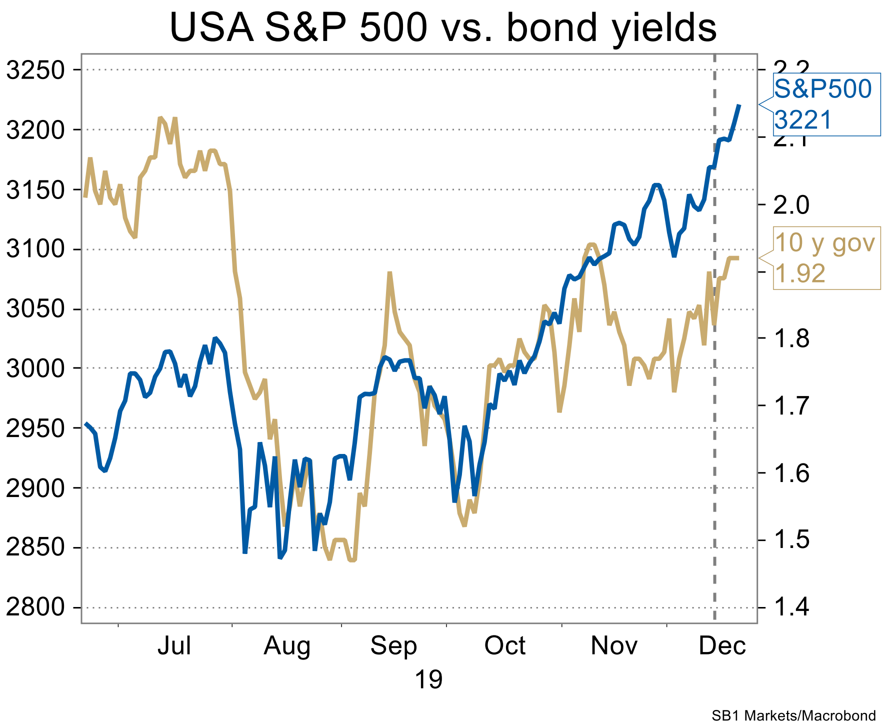
Metal prices may be trending down but slowly and the decline from the local June 2018 peak is not large. Oil prices quite stable too

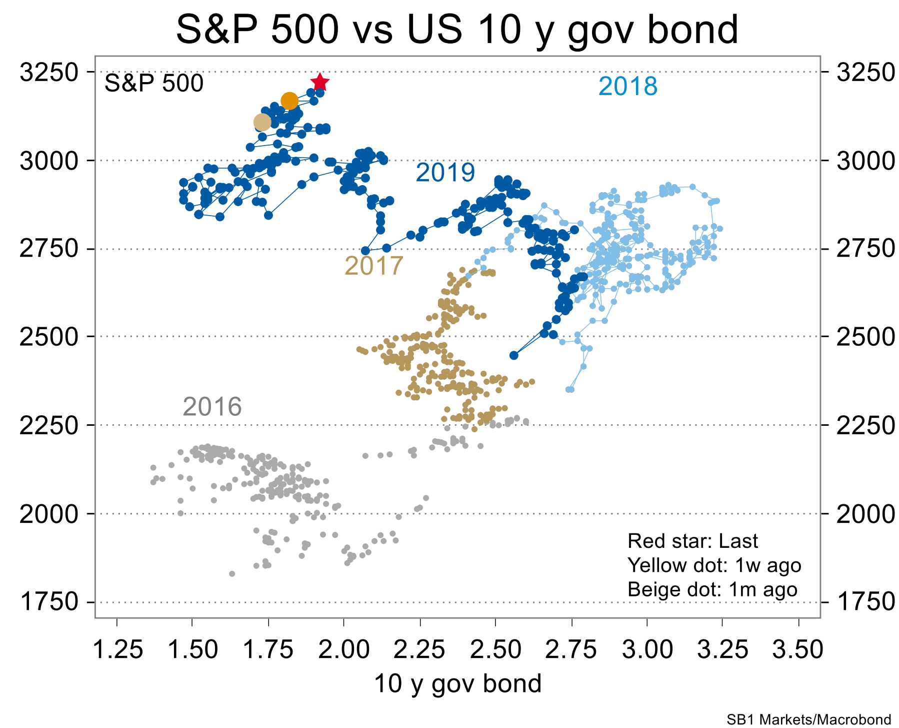




US: Stock markets, bond yields straight up on trade deal, calmed recession fears

The US 10 y gov up 10 bps and the S&P rose 1% last week

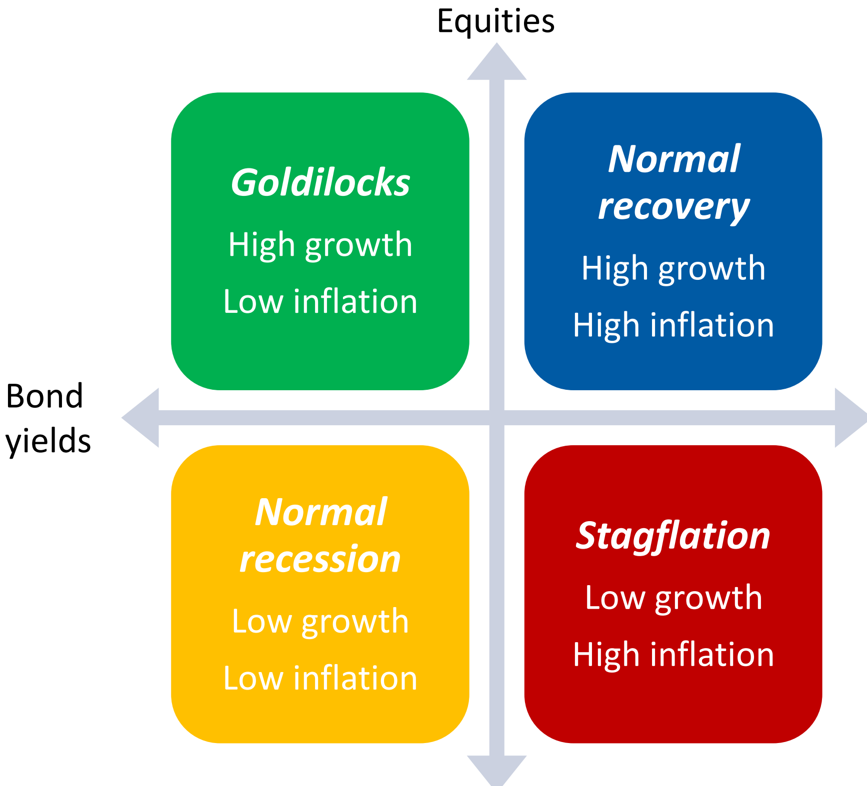


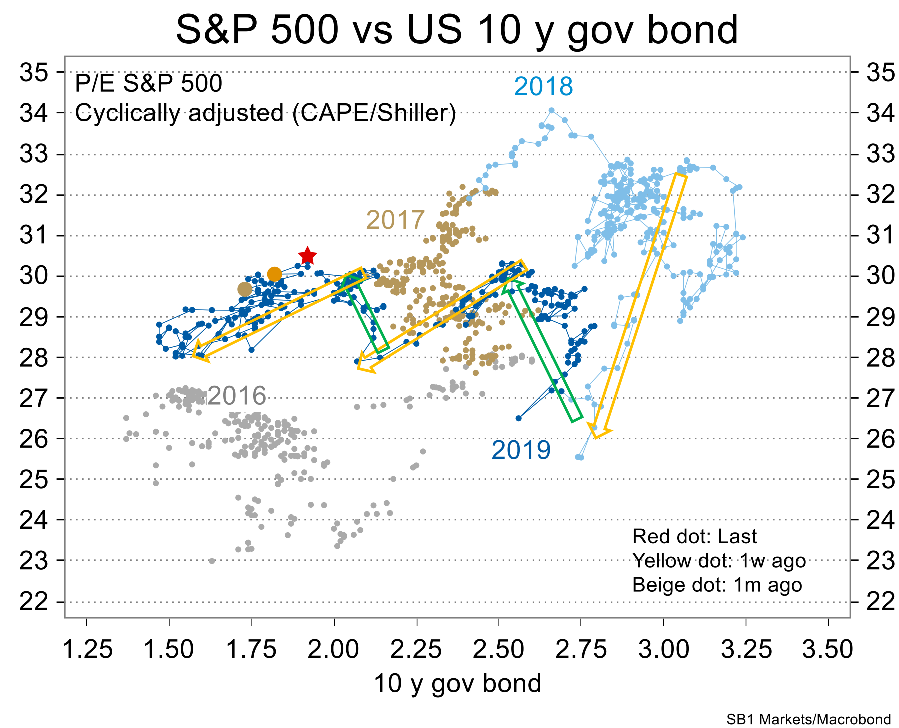


- S&P is up 2.6% so far in December, to new ATH. A de-escalating trade war, prospects of an orderly Brexit after the election, some upbeat US macro data and signs of a stabilisation in global manufacturing are boosting markets
  - » Anyway, the US stock market is up 13.5% from the mid August trough
- Bond yields are up 45 bps from the late summer trough, of which 10 bps came last week

US markets mostly moving in the normal recovery direction since Aug

Last week, markets moved to the 'normal recovery'. And 2019 was a 'Goldilocks', due to the Fed?





- Recent months, markets have been zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. The past week, both bond yields and stock markets improved
- Earlier in 2019, stock markets increased while bond yields retreated. We do not think a long term Goldilocks scenario is likely. Should yields 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 without strong growth seems unlikely. Thus, the normal recession/recovery axis is the most likely – <u>growth</u> will be the main driver for both markets, <u>not inflation</u>.

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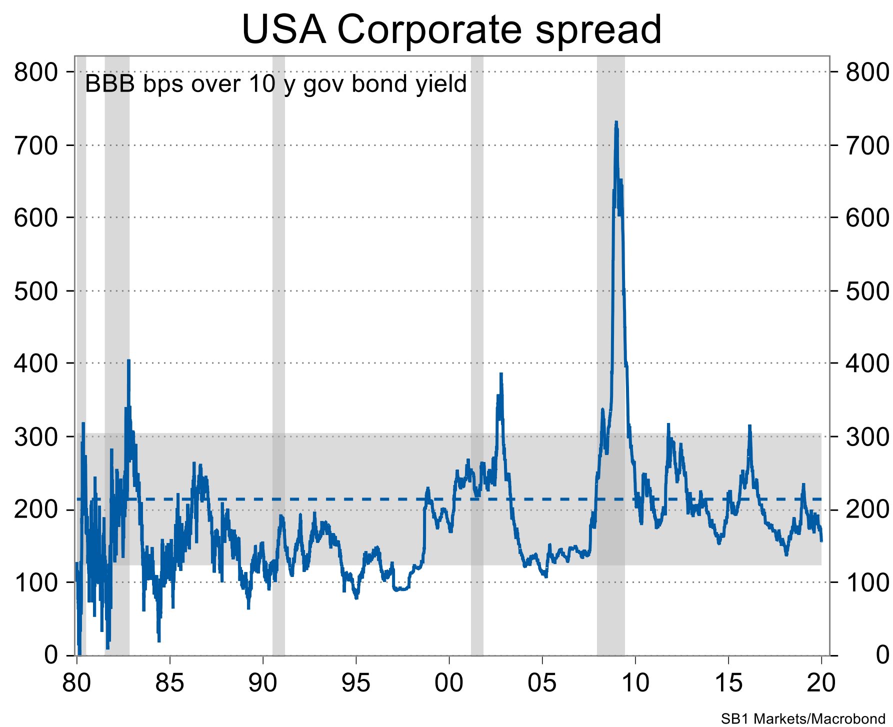
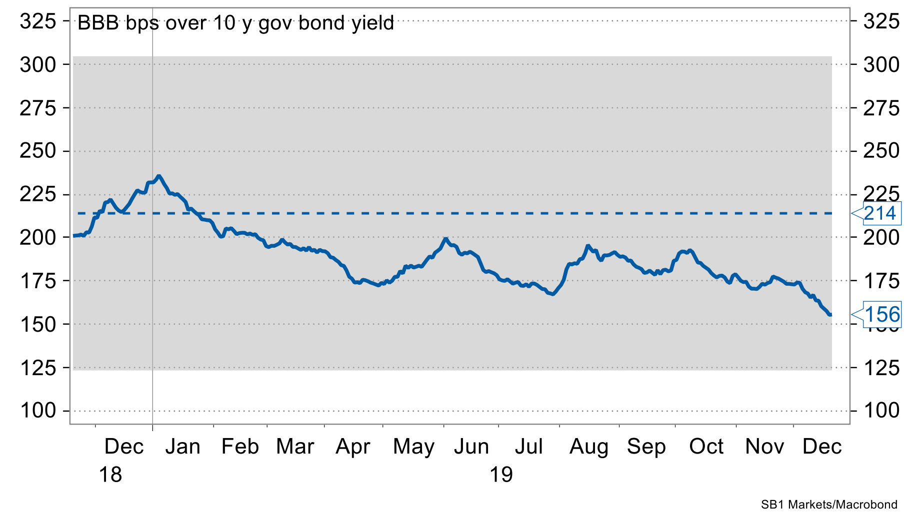
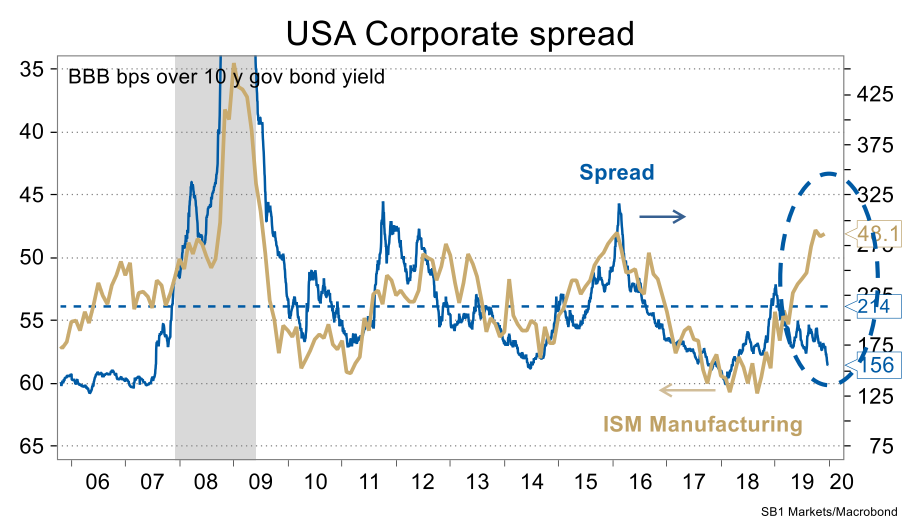
Credit spreads down again, well below an average level

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

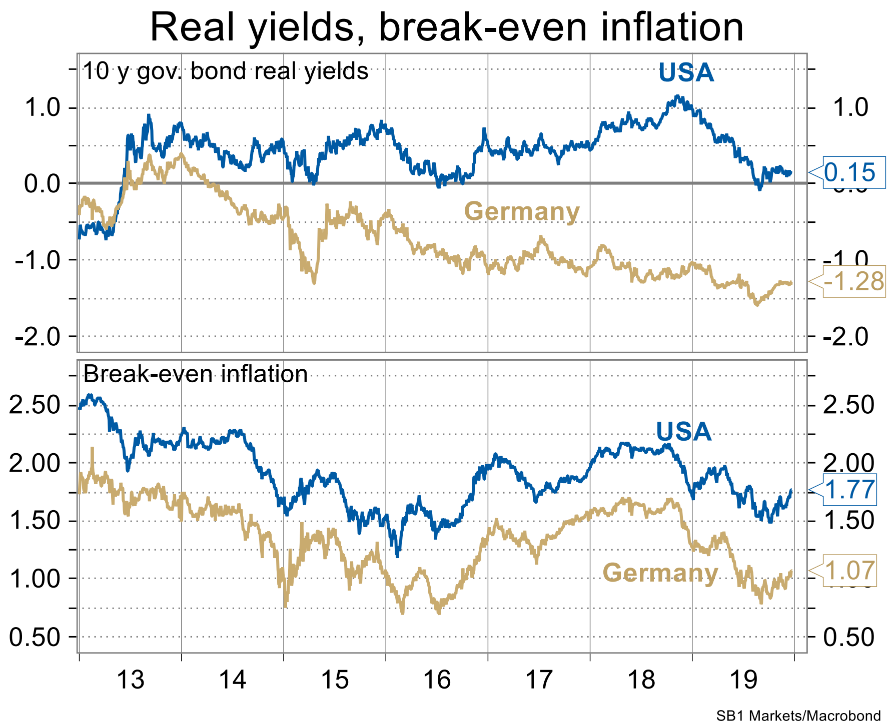


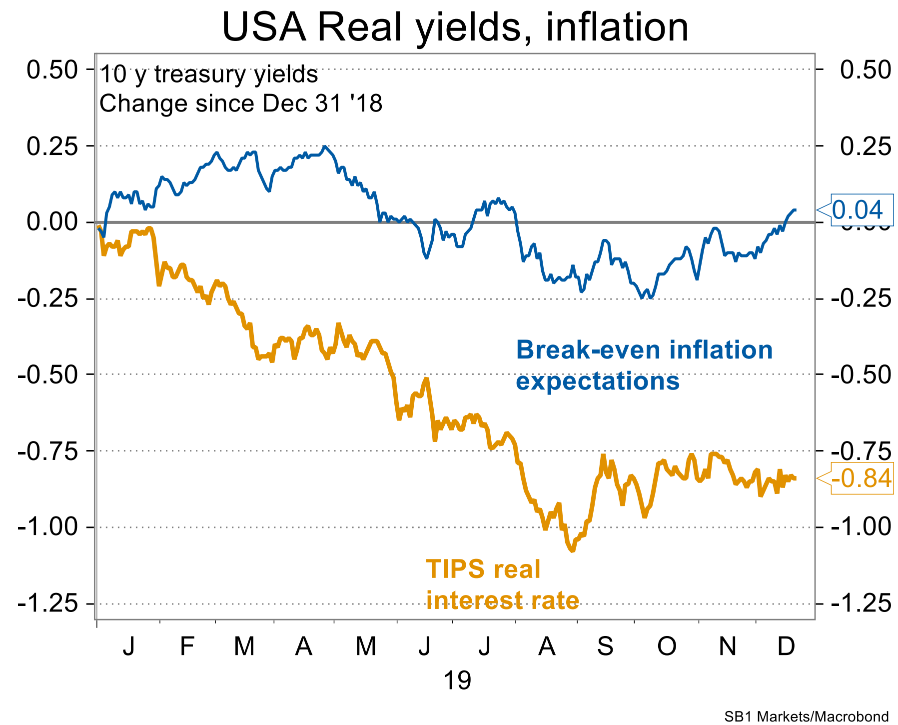




Inflation expectations are lifting nominal bond yields (it's the oil price?)

Inflation exp. up in US and Germany the past month, US real rates a tad down, German slightly up

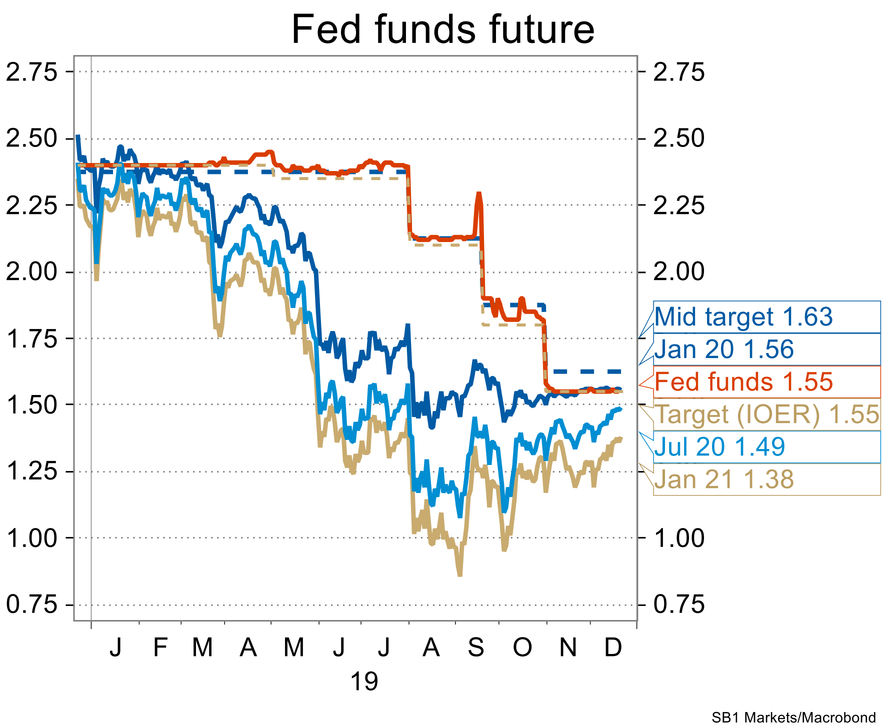


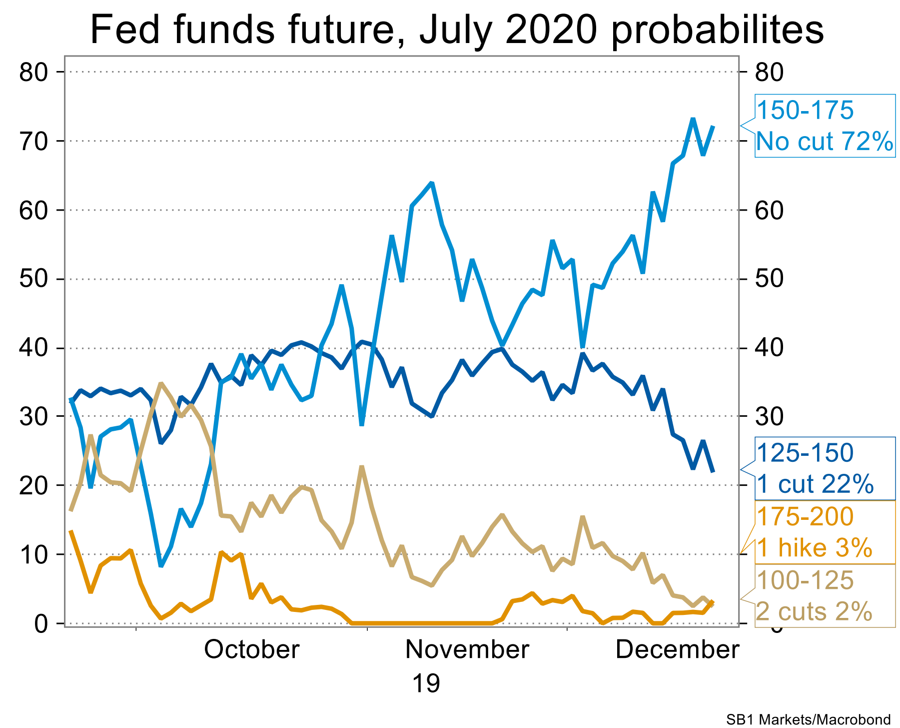


- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. This autumn, both real rates and inflation expectations turned up, primarily due to hopes of a trade war solution and somewhat better economic data. The past month, inflation expectations have increased, while real rates have remained more or less flat
- Last week, US 10y real rates edged up and inflation expectations rose more. Inflation exp. at 1.77% seems reasonable. The real rate remains very low, at 0.15%
- German inflation expectations continued upwards last week too, real rates rose modestly. Both have probably bottomed out. However, the real rate at -1.28% is still too low, in the longer term. Inflation expectations at 1.07% is not that far off, although below the ECB's price target at close to 2% - and is exposed to changes in both monetary and fiscal policy

Expectations of a July 2020 cut reduced to 25%, and 70% by the end of ‘20

Fed funds futures are climbing, supported by the US/China trade deal and ebbing growth fears

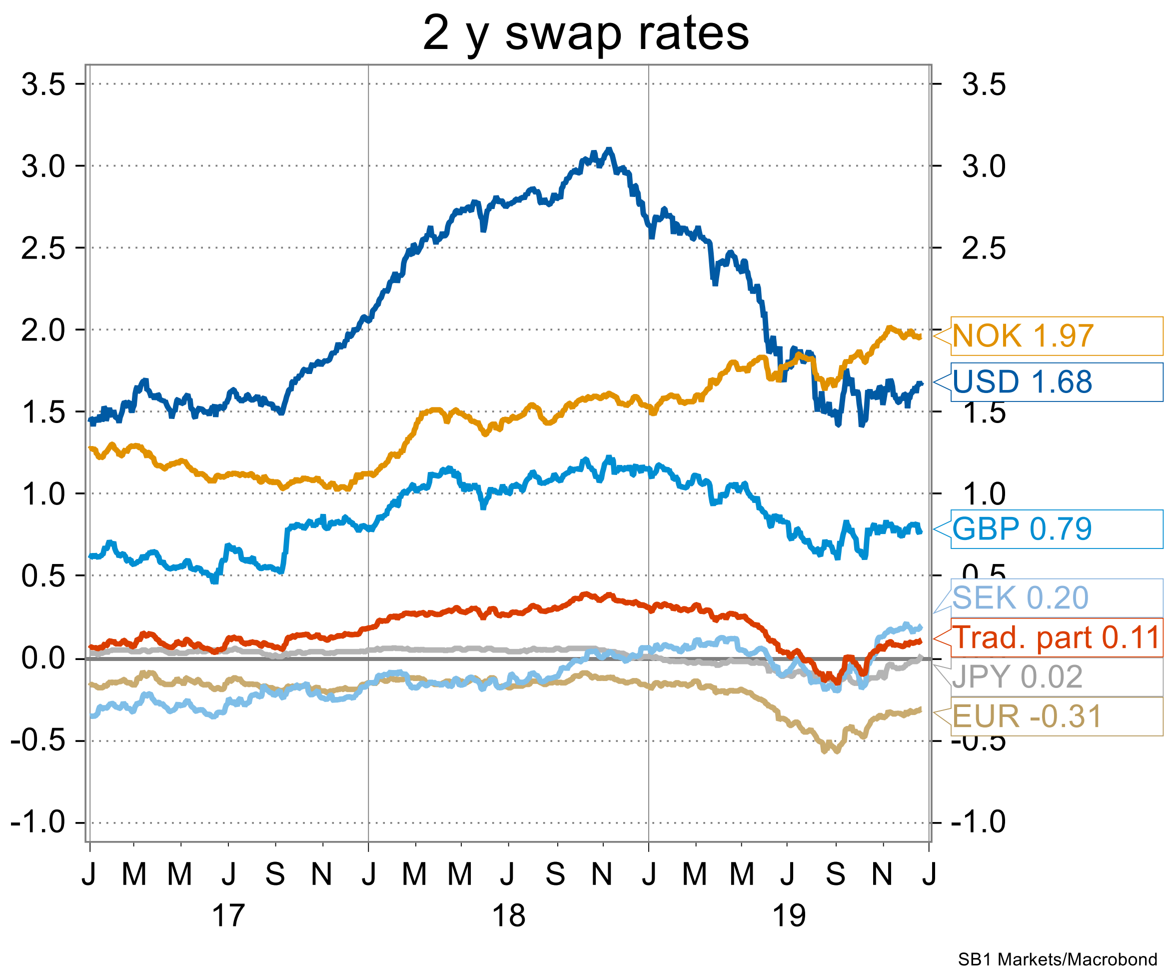


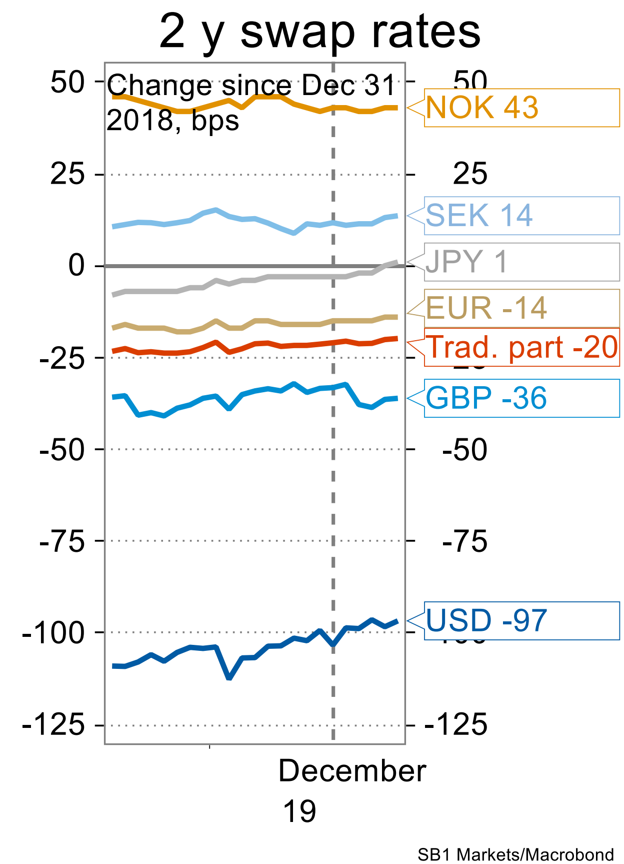


- The actual Fed funds (daily clearing) rate remains close to the IOER (rate on bank’s excess reserves at the Fed) at 1.55%, as the Fed has gained control on the short end of the curve by the measures taken late October
- Markets are more in line with the Fed’s plans (to keep interest rates on hold) than in a long time. Markets are still expecting a cut by the end of 2020 (70% probability). Probabilities of a cut in H1 have been reduced to 25% - and the probability for a hike in Q1 is 3%, according to the market

Short term rates are slowly turning up, x GBP and NOK the past month

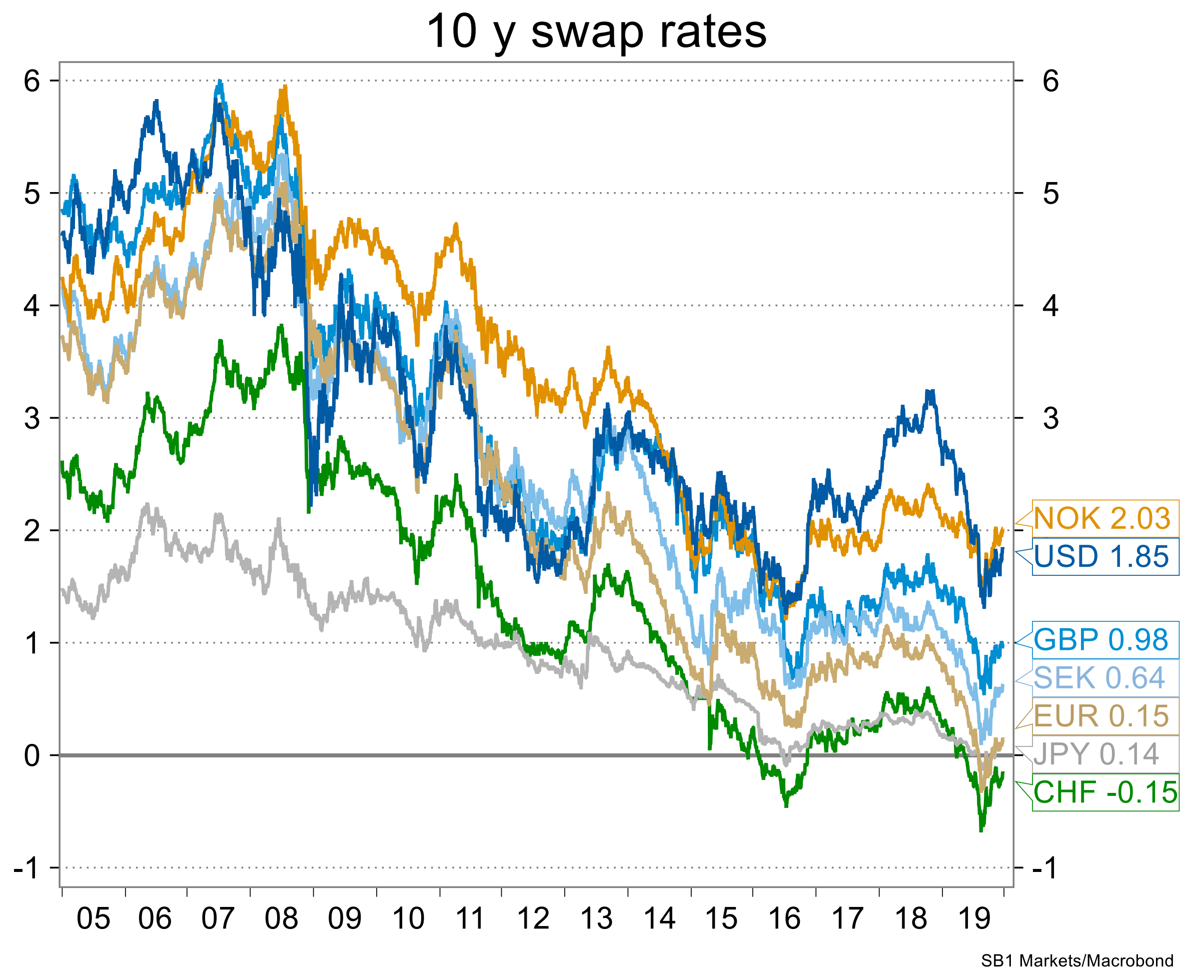
Last week, short term rates inched up everywhere x the UK

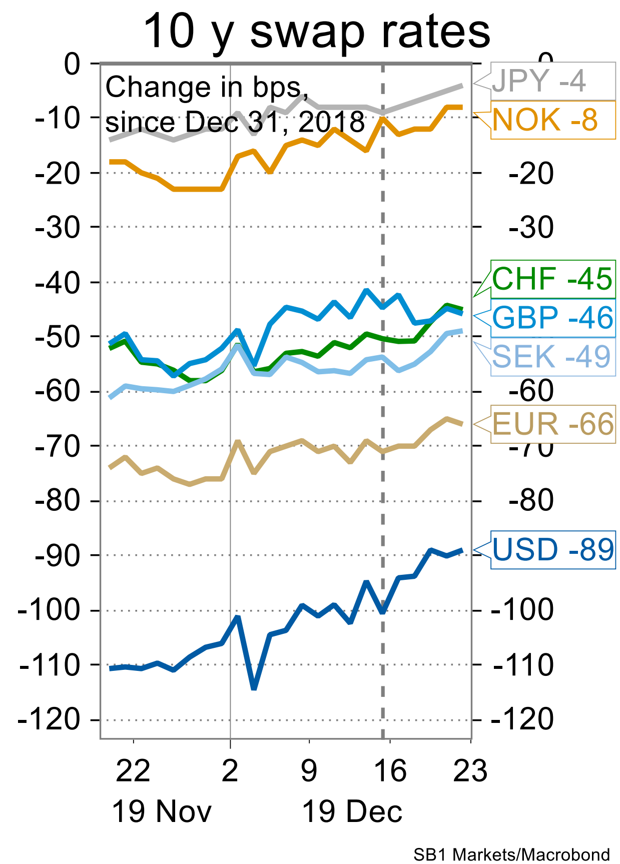




Long term swap rates are climbing, up everywhere in Dec

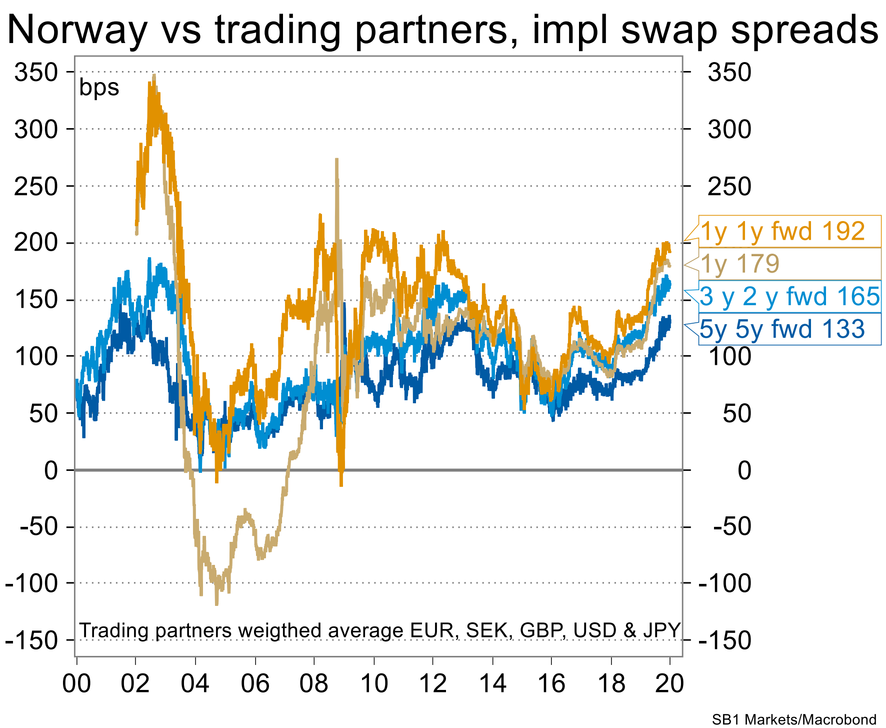
US 10 y swap rates jumped last week, most others increased moderately

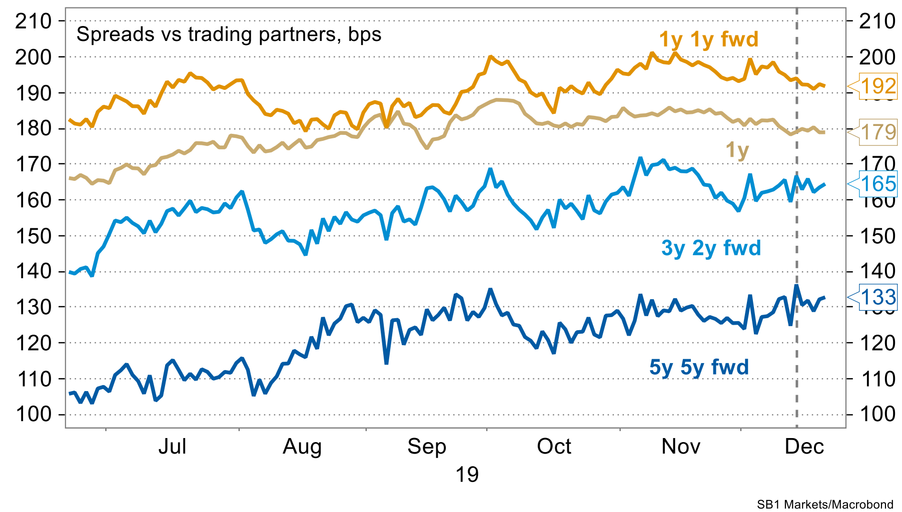


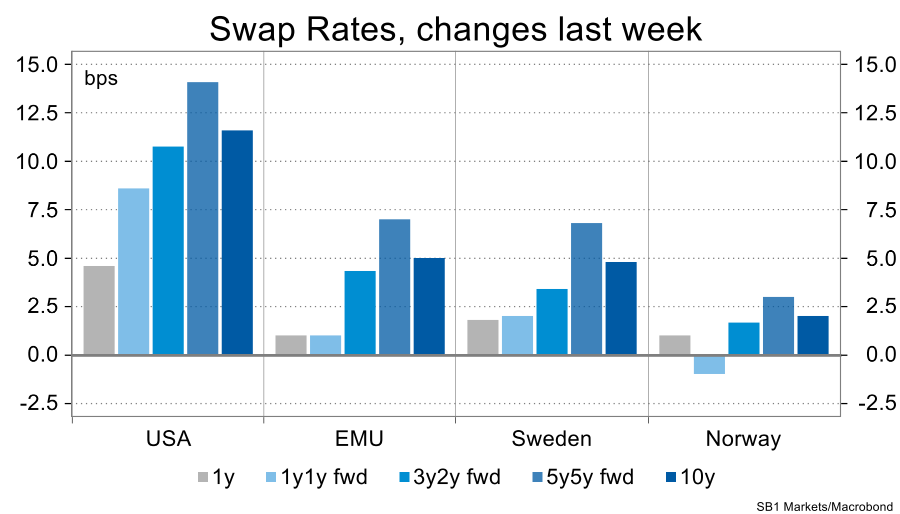


Swap spreads vs trading partners are shrinking, at least in the short end

Last week, spreads narrowed all over the curve







- Swap spreads between NOK rates and our trading partners have been widening rapidly in 2019, all over the curve. Now spreads are trending in on the short end of the curve
- While the short term spread has bee 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 133 bps is still far too wide, long term

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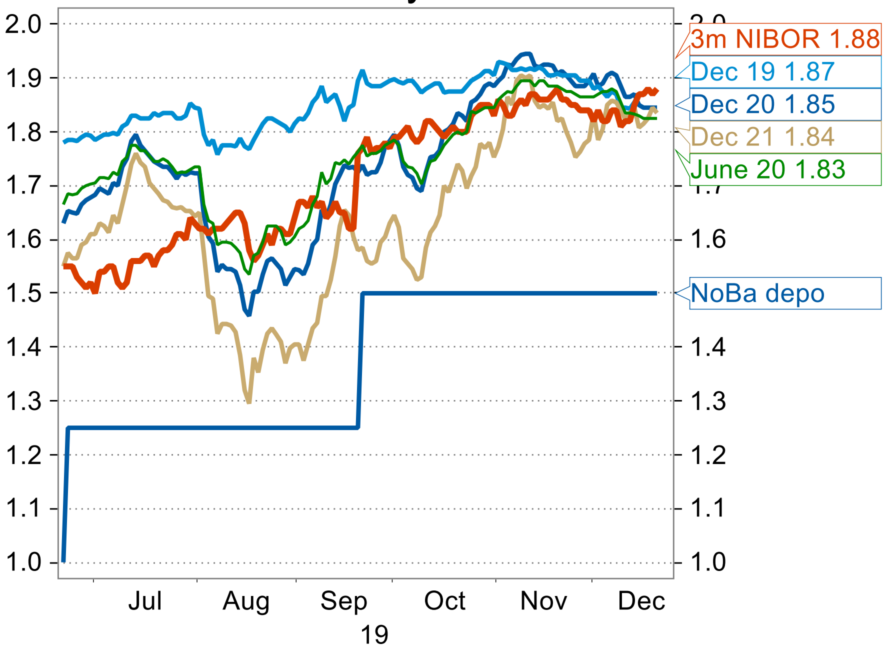
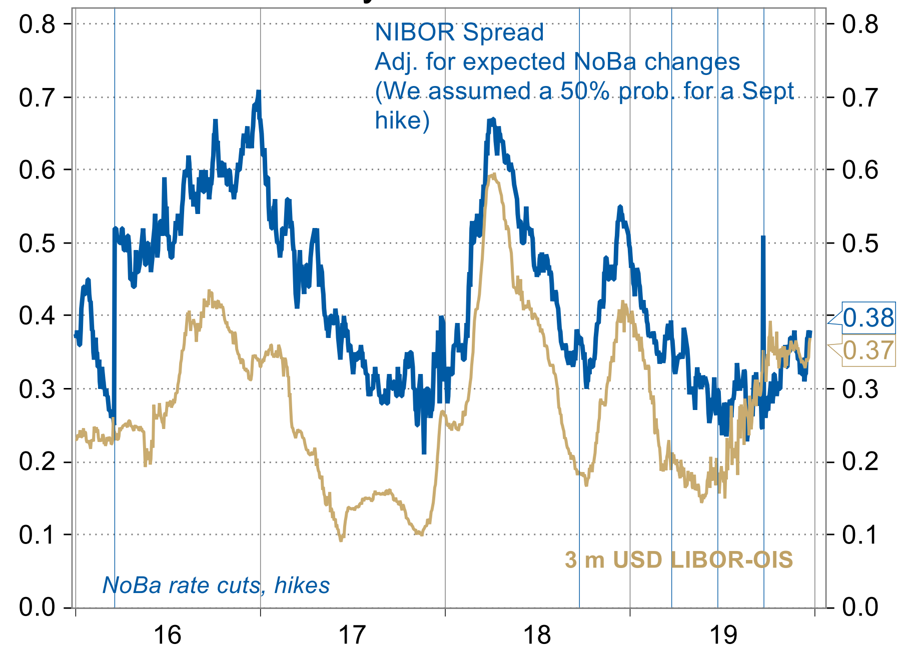
The FRA curve is close to flat, just some few bps below NoBa's new path

Interest rate expectations remains muted, no cut is expected the coming years (but no hike either)

Norway 3m FRA



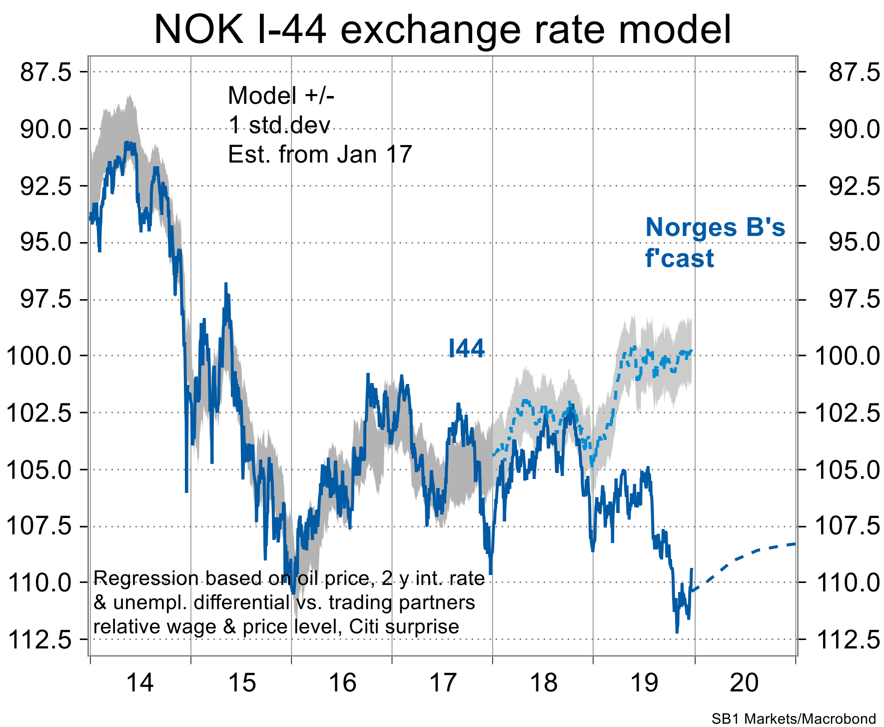
Money market friction

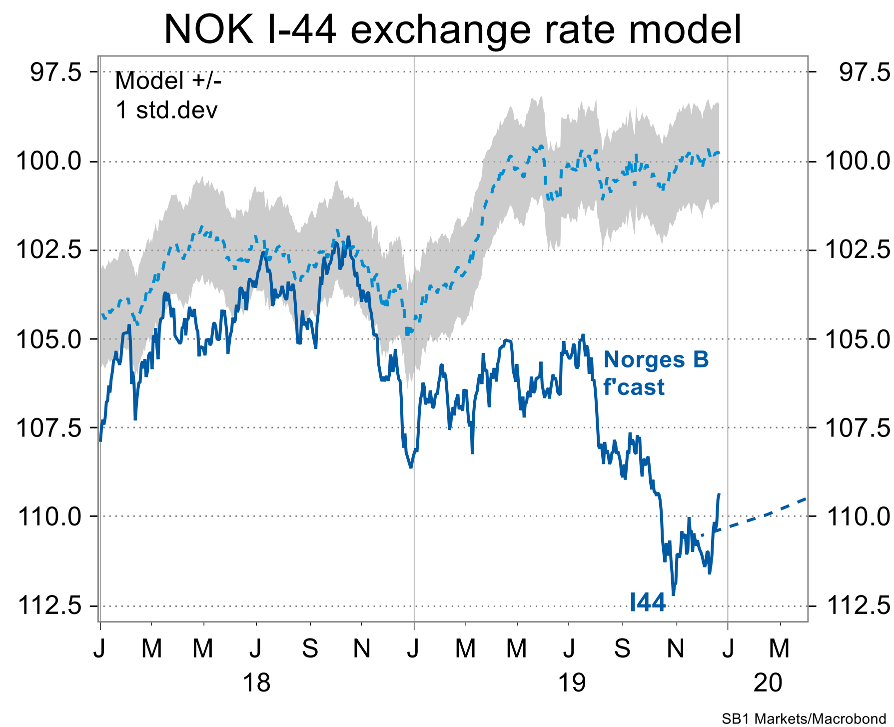


- No substantial responses to the NoBa meeting, the Dec '20 FRA was unchanged and Dec '21 inched up 2 bps
- The 3m NIBOR rose 3 bps to 1.88% last week, equalling a 38 bps NIBOR spread. In the December MPR, Norges Bank nudged down the money market spread forecast to 36 and 35 bps, from 40. Still seems reasonable, given that the spread has remained lower than 40 bps since Sept
  - » The US the LIBOR-OIS spread is 37 bps, close to the 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 been sliding down since early Nov but turned up this month. A close to flat FRA curve reflects expectations of an unchanged NoBa signal rate through '20 and '21, with less than a 10% probability of a 2021 cut

NOK up 2% the past 10 days, even if GBP has fallen (Brexit), NOK rates down

A higher oil price explains somewhat. It is just that the NOK was too weak – or the season?

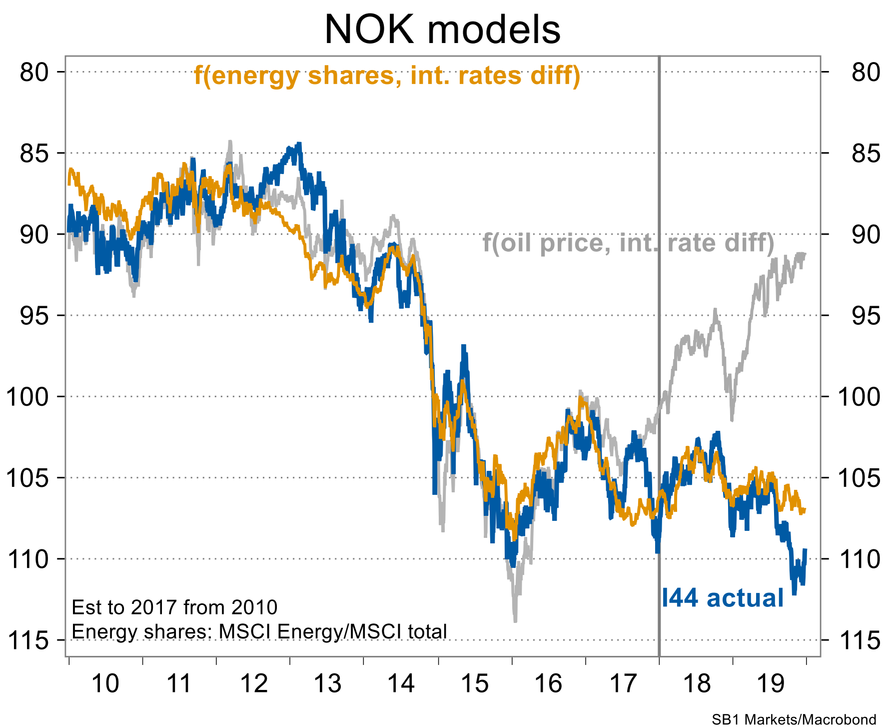


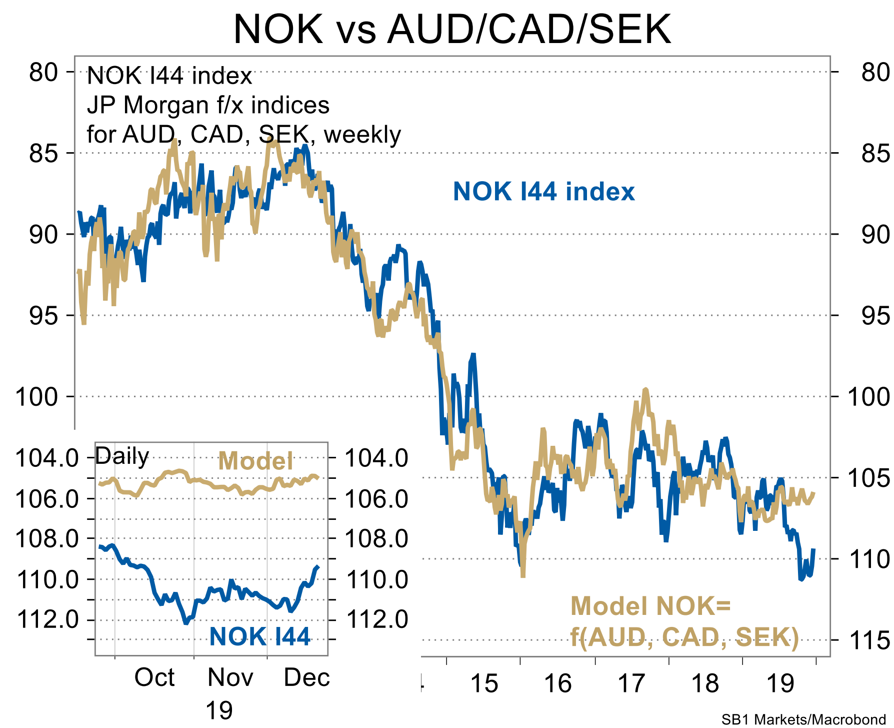


- NOK rose 1% last week, with no ‘help’ from the our ‘old’ model. he NOK I44 index is up 2.5% from early Dec and 3% from the ATL in late October. The gap between the our ‘old’, standard model estimate and the actual I44 index narrowed to just below 10%, still very high
  - » Reduced global uncertainties following the UK election and the US/China partial trade deal may have supported the NOK, but the GBP fell last week – and NOK did not follow the pound or global risk markets up during the autumn when markets discounted less risk for a hard Brexit and an escalation of the trade war. Put simply, the trade war/Brexit argument does not fit well
  - » NOK rose 0.6% Thursday, after the Norges Bank meeting – but the interest rate spread vs. our trading partners fell. Should we ‘blame’ NoBa for the appreciation? Probably not
- 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
- NOK has very often been temporary weak in Dec, perhaps due to thin f/x markets. Januar has been
- We stick to our **buy NOK** recommendation (and even stronger as soon as the year end is behind us…). Th

NOK strengthens but is still (marginally) too weak vs our ‘alternative’ models

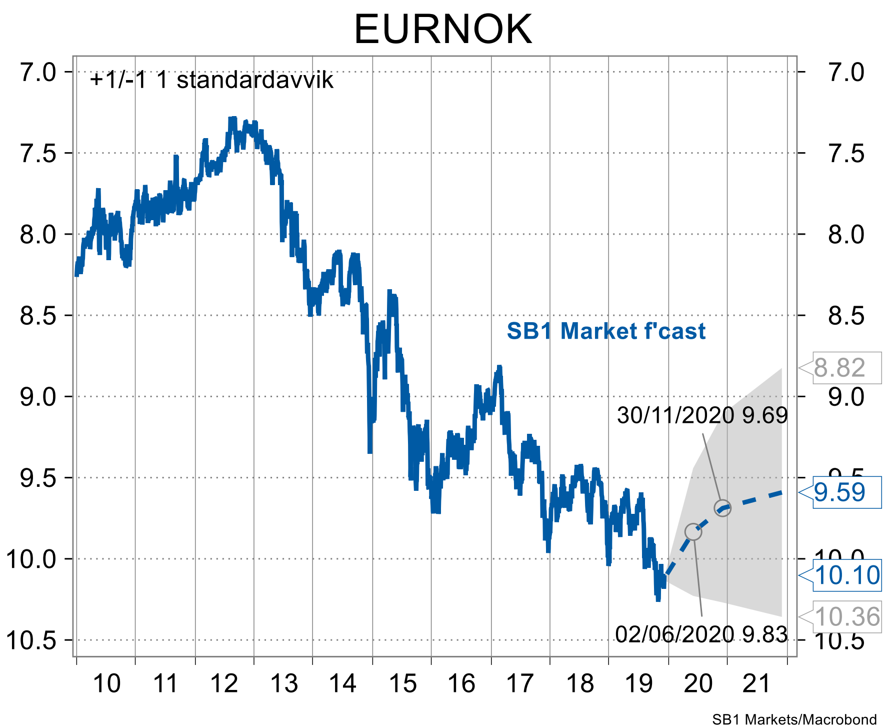
NOK is 3% too weak vs the other ‘supercycle’ currencies and just 2% below the oil stock price model!

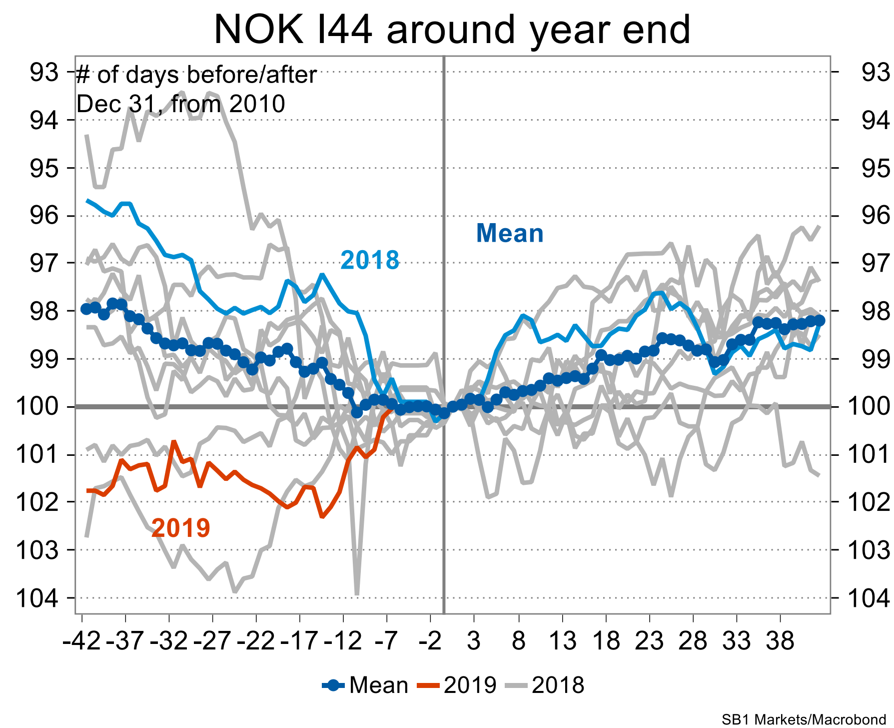




- Our NOK model based on pricing of oil companies has ‘explained’ the weak NOK much better than our traditional model since 2017, as have our ‘supercycle’ currency model (NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK. EM x CNY currency aggregate is also quite closely correlated to NOK)
- 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. However, the past 2 weeks, the NOK has appreciated more than the others

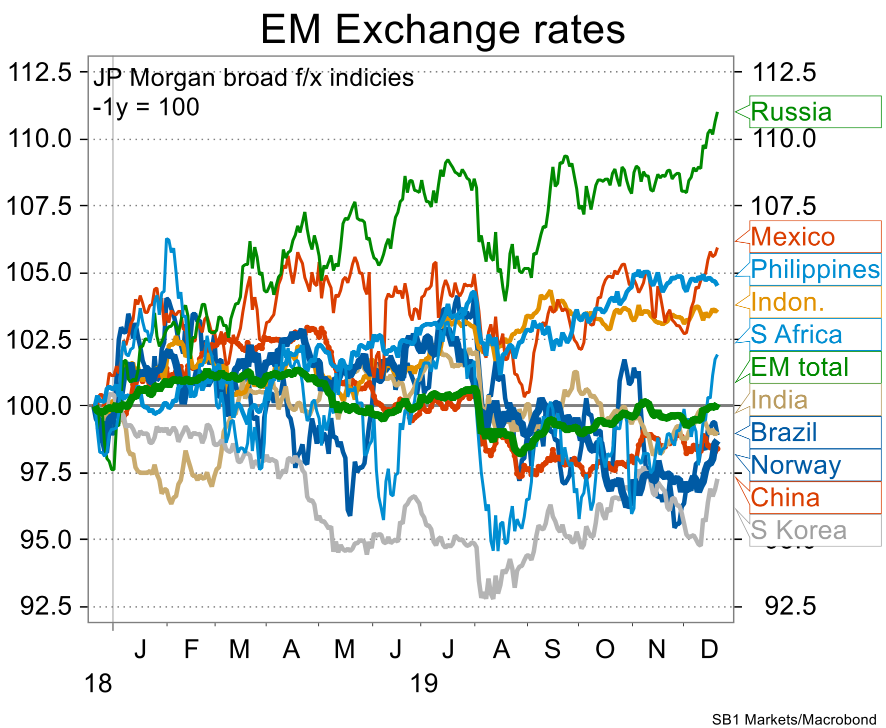
The NOK trend has been down but some hope still. At least in January?

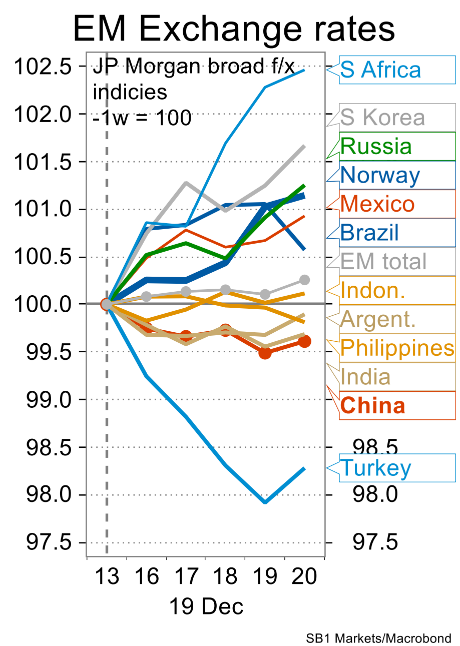


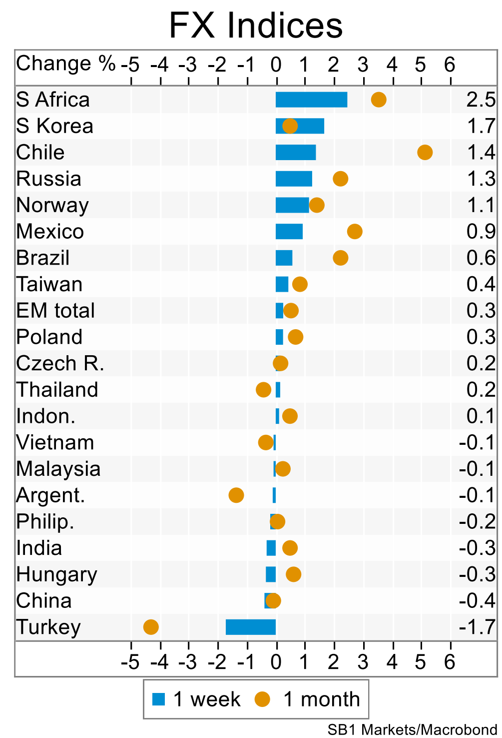


EM currencies are appreciating, supported by eased global uncertainties

CNY edged down last week, in spite strong macro data and the US/China trade deal







- Most EM currencies have stabilized/recovered this autumn, trade war de-escalation and signs of a slight recovery in the global manufacturing sector probably the best explanations. Last week, CNY appreciated, after reports that a trade deal is being finalized – and Mexican peso got support from the compromise on USMCA (aka NAFTA) in the US political system

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