Macro Weekly

1/23

02/01/2023

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Last week

- **The War/European Energy/Commodities**
  - Both parties in the war in Ukraine want to negotiate but they do not at all agree upon the starting point for such peace talks. In the meantime, civilian Ukrainian infrastructure (and civilians) are bombarded by Russian missiles & drones
  - **European natural gas prices** fell further last week, as gas inventories were filled up due to mild and windy weather. The front contract is lower than before the war started – but not the rest of the curve
  - **Most other commodity prices** were close to unchanged, except iron ore which climbed further (on hope for a post Covid recovery in China)
  - **China is struggling with new Covid strategy** but most likely the virus will burn rapidly through the population the coming weeks/very few months (with a substantial health, and probably economic cost). Thereafter life should return to normal again?
- **China**
  - **The NBS PMIs** collapsed in December, after Covid restrictions were eased and the virus spread like a wildfire
- **USA**
  - **New home sales** once more surprised at the upside – and have not fallen since the summer – and prices have just flattened. In November, sales rose slightly from the originally reported Oct. sales to 640', (expected down to 600'), and the inventory declined marginally – but it is large – so far without depressing prices, they have just flattened
  - **Pending home sales** were expected to fall by 1% but were fell another 4% in November. The level is the second lowest ever, just May 2020 was worse. The decline over the past year is also the steepest ever
  - Still, the **house prices** fell at a slower pace, and at 0.4%, 1 pp less than expected in Oct (Case/Shiller Sept-Nov avg.), down from a 1% decline the previous month. However, realtors reported a 1% price decline in November (reported earlier), and mortgage rates have moved up again recently
  - **Private consumption** flattened in November, but the trend recent months is much stronger than we expected some months ago
  - The core **PCE price deflator** rose by 0.2% m/m, as expected but the annual rate fell 0.1 pp less than assumed, to 4.7%. Energy prices are well down from the peak, and food prices are not rising as fast anymore; inflation is coming down – the challenge, however, lies in the service sector, where prices are still up 4.2% y/y. This year, we expect inflation to slow substantially (raw materials, margins, goods prices)
- **EMU**
  - **Credit growth** is slowing. Annual growth rates have kept up until late fall, but now they are falling too, and corporate credit declined 0.1% m/m in November, but is still up 8.4% y/y. Household debt is increasing at 2% – 3% pace m/m, and is up 4.1% y/y
- **Norway**
  - **Retail sales** have been trending down since early 2021, but the short-term trend is now up, and sales were up by 0.9% in November. The increase may have been supported by Black Friday offers and the sale of sports equipment. Total consumption of goods rose 2.8% m/m – supported by higher auto sales

The Calendar: PMIs/ISMs, US labour market, EMU inflation. House prices here

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 2					
08:30	SW	Manufacturing PMI	Dec		45.8
09:55	GE	Manufacturing PMI	Dec F	47.4	47.4
10:00	**NO**	**Manufacturing PMI**	**Dec**	**(51.0)**	**51.2**
10:00	EU	Manufacturing PMI	Dec F	47.8	47.8
Tuesday Jan 3					
02:45	**CH**	**Manufacturing PMI, Caixin**	**Dec**	**49.0**	**49.4**
10:30	UK	Manufacturing PMI	Dec F	44.7	44.7
14:00	GE	CPI YoY	Dec P	9.0%	10.0%
15:45	US	Manufacturing PMI	Dec F	46.2	46.2
16:00	US	Construction Spending MoM	Nov	-0.4%	-0.3%
17:00	WO	Manufacturing PMI	Dec	(47.3)	48.8
Wednesday Jan 4					
10:00	EU	Services PMI	Dec F	49.1	49.1
10:00	EU	Composite PMI	Dec F	48.8	48.8
11:00	**NO**	**House prices MoM**	**Dec**	**(-1.0)**	**-0.90%**
16:00	**US**	**ISM Manufacturing**	**Dec**	**48.5**	**49**
16:00	**US**	**JOLTS Job Openings**	**Nov**	**10.0m**	**10.3m**
20:00	**US**	**FOMC Meeting Minutes**	**Dec-14**		
	US	Wards Total Vehicle Sales	Dec	14.10m	14.14m
Thursday Jan 5					
02:45	CN	Services PMI, Caxin	Dec	46.8	46.7
08:30	SW	Services PMI	Dec		54.3
11:00	EU	PPI YoY	Nov	27.5%	30.8%
13:30	US	Challenger Job Cuts YoY	Dec		417%
14:15	US	ADP Employment Change	Dec	148k	127k
14:30	US	Trade Balance	Nov	-$72.0b	-$78.2b
14:30	US	Initial Jobless Claims	Dec-31	230k	225k
15:45	US	Services PMI	Dec F	44.4	44.4
17:00	WO	Services PMI	Dec	(47.8)	48.1
17:00	**WO**	**Composite PMI**	**Dec**	**(47.4)**	**48.0**
Friday Jan 6					
08:00	GE	Factory Orders MoM	Nov	-0.5%	0.8%
08:00	NO	Manufacturing prod MoM	Nov	(0.0)	0.3%
11:00	**EU**	**CPI Estimate YoY**	**Dec**	**9.7%**	**10.1%**
11:00	**EU**	**CPI Core YoY**	**Dec P**	**5.0%**	**5.0%**
11:00	**EC**	**Retail Sales MoM**	**Nov**	**0.5%**	**-1.8%**
11:00	EU	Economic Confidence	Dec	94.5	93.7
14:30	**US**	**Nonfarm Payrolls**	**Dec**	**200k**	**263k**
14:30	US	Unemployment Rate	Dec	3.7%	3.7%
14:30	US	Average Hourly Earnings YoY	Dec	5.0%	5.1%
16:00	**US**	**ISM Services**	**Dec**	**55.0**	**56.5**

- **PMI/ISM**
  - **The preliminary PMIs** from the rich part of the world were in sum unch., and as expected, but EMU surprised on the upside, and US on the downside, both for the manufacturing sector as well as for services. **Delivery times** have normalised and **price inflation** is slowing but remains too high, in aggregate.
  - The first **Chinese PMIs data set** (NBS, not included in the global PMIs) nosedived in December, and most likely Caixin's survey will follow suit and thus take the **global PMI** down. We do not expect anything similar to happen in other EM, and our global composite est. is down 0.6 p
  - In the US, both **ISM surveys** are expected down but the service index is far stronger than the equivalent PMI. We expect the Norwegian manufacturing PMI to decline further, even if oil related companies now are receiving huge orders from the oil companies
- **Global auto sales**
  - Many countries will report December sales/new regs this week, primarily from the rich part of the world. Global sales fell in November, due to a decline in China and in the US. EMU sales have recovered recent months
- **USA**
  - **The labour market:** The no. of job openings are expected to decline further, which seems reasonable. The problem is that the level is still very high. Given the far above normal growth in wages, the lack of labour is for real. The small business survey will probably also confirm unusual lack of labour, and rather aggressive plans for hiking wages further. The labour market report is expected to confirm a still strong market, payrolls up 200', the unemployment rate unch. at 3.7%, and wages up 0.4% m/m and 5,0% y/y, both well above what's needed to get CPI inflation back to 2%
  - **Minutes from the December FOMC meeting** will probably not reveal more than we already know: members are still worried inflation will remain too high for too long, and that they are willing to tighten policy further. Powell at least, told us so
- **EMU**
  - **Headline inflation** is expected to come down 0.4 pp to 9.7%, as energy prices are on the retreat. The core rate is expected unch. at 5,0%, which the ECB has declared war against (like 'whatever it takes')
  - **Retail sales** are expected up in November but less than the October decline. So far, sales have kept up rather well given the huge decline in real income due to high inflation
- **Norway**
  - **House prices** very likely fell further in December, we expect a 1% decline (1.7% not seas. adjusted). If so, prices are down 3.7% from august (seas adj), and up just 0.7% y/y. In January, we are pretty sure prices will be down y/y

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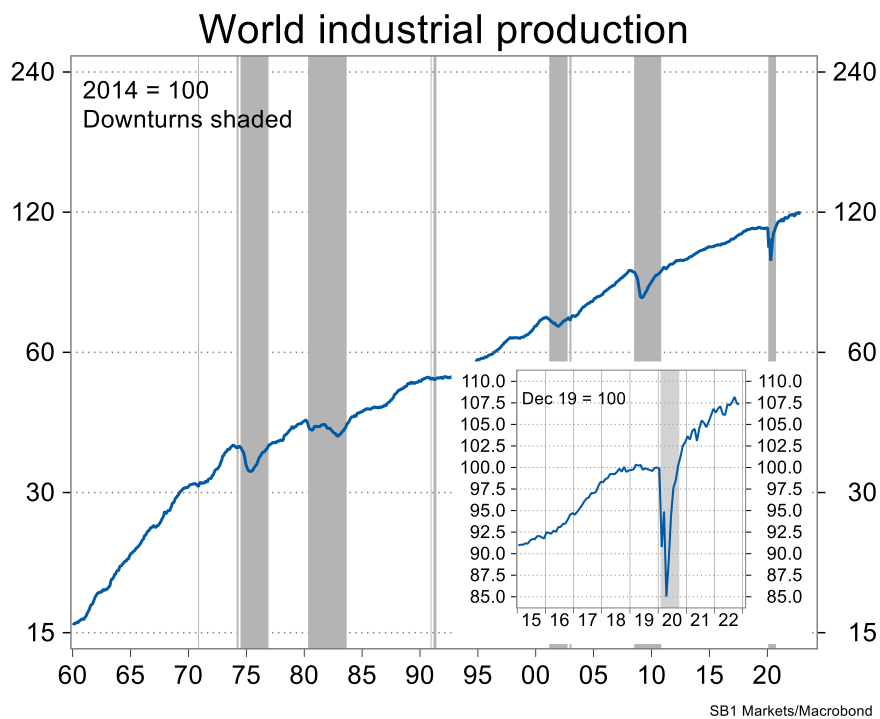
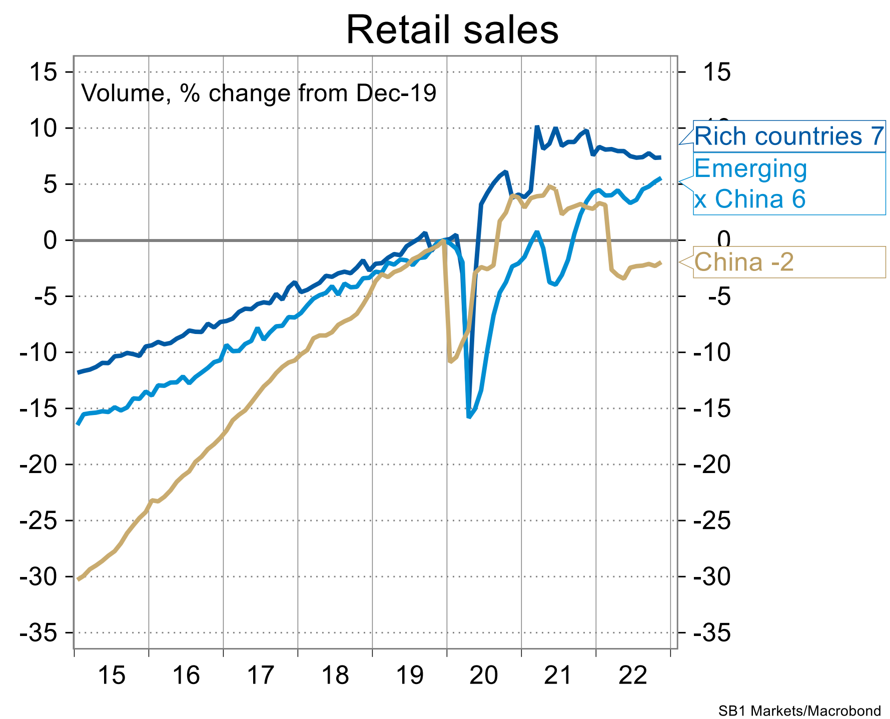
Sources: Bloomberg. SB1M est. in brackets. Key foreign & all Norwegian data are highlighted, **the most important in bold**

It was not a negative supply side shock – it was a positive demand shock

Demand for goods surprised big time at the upside during the pandemic

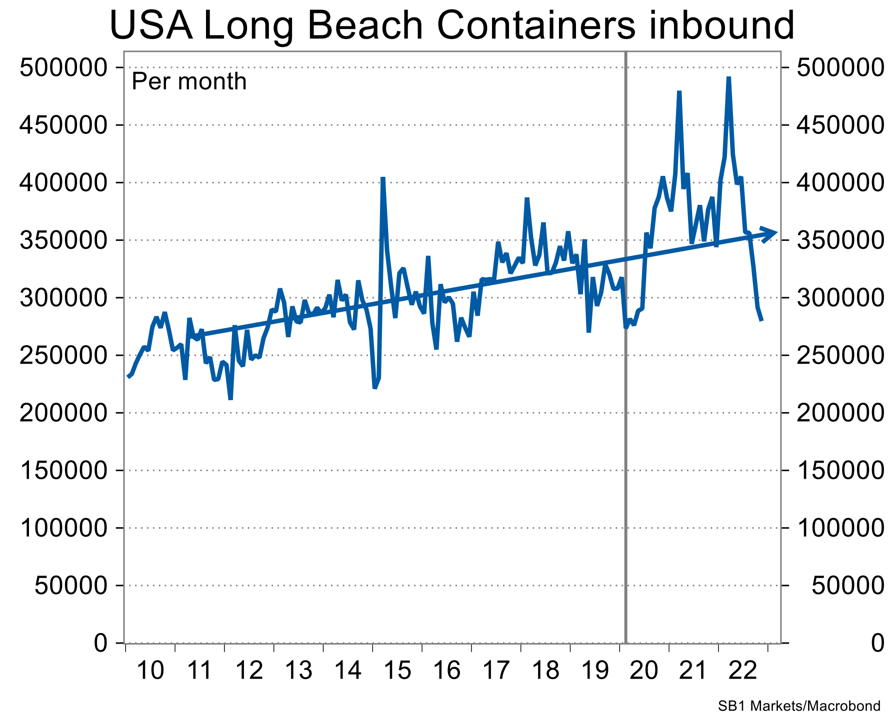




- Now, demand for goods in the rich part of the world in normalising – and China as 'some spesific' Covid challenges

Supply chains have been in better shape than ever during the pandemic?

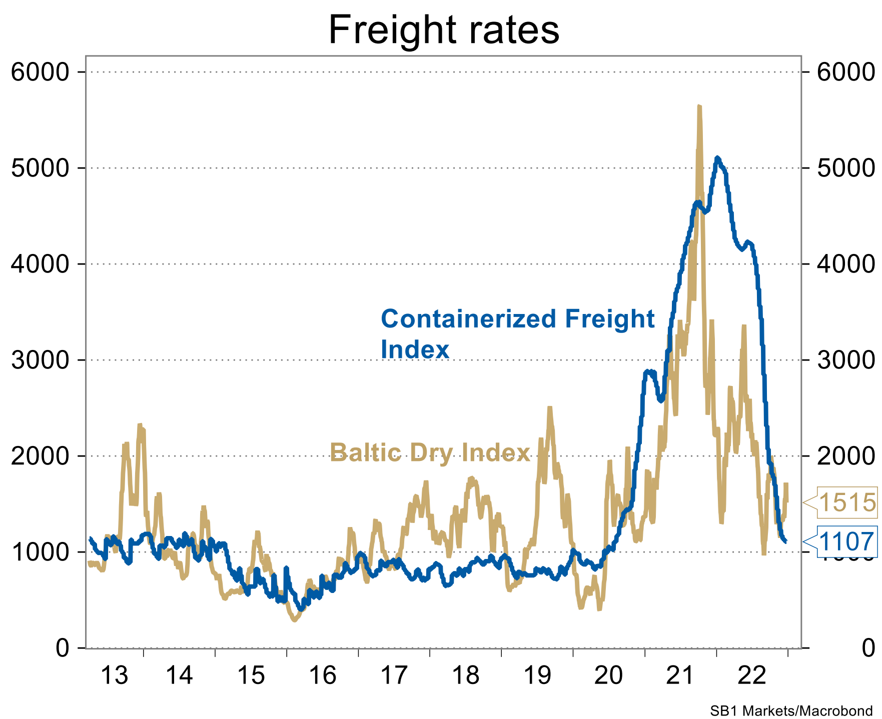
Exports, especially from China have been super strong, at least until last November

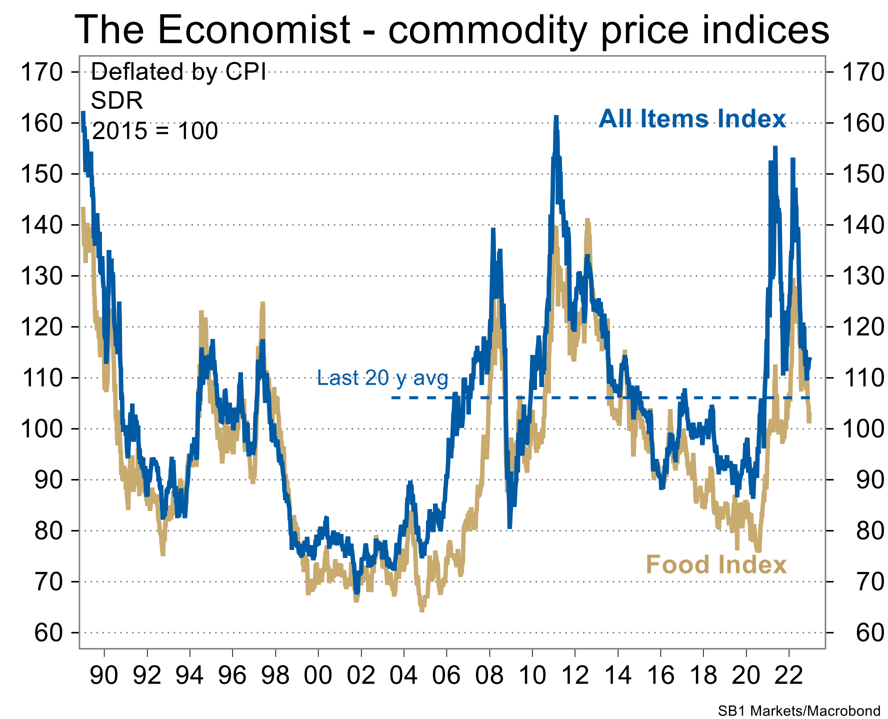


- Global trade has been strong throughout the pandemic
- . ..and now demand in the rich part of the world is slowing – an container traffic at the port in Long Beach has been on the way down since early 2022 – after been much higher than ever before (what a supply side problem…).

Freight rates have fully normalised – and raw material prices are normalising

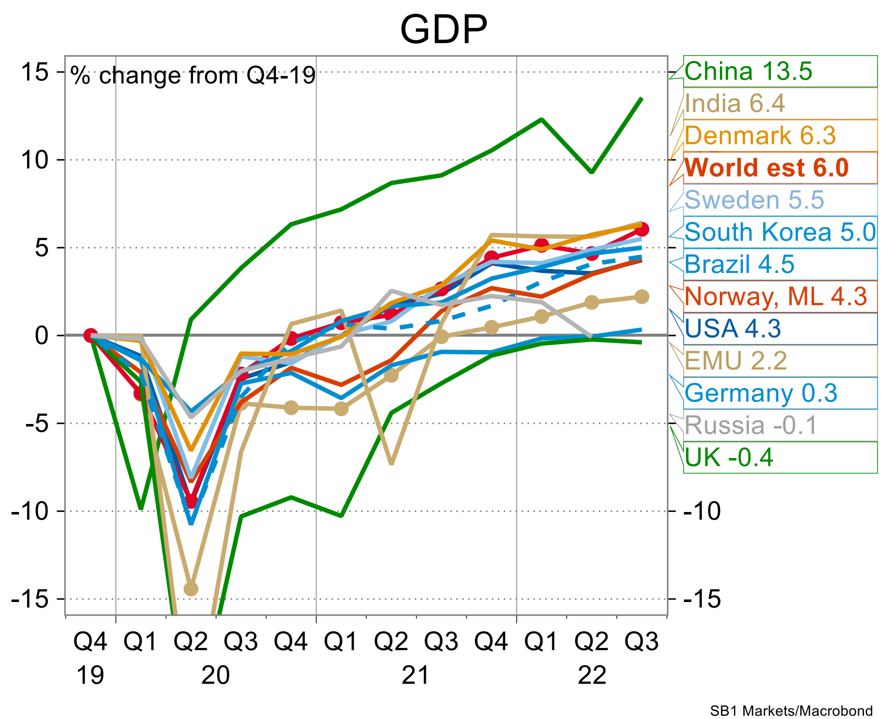
Not primarily because Covid problems have eased but because demand for goods & transport has normalised

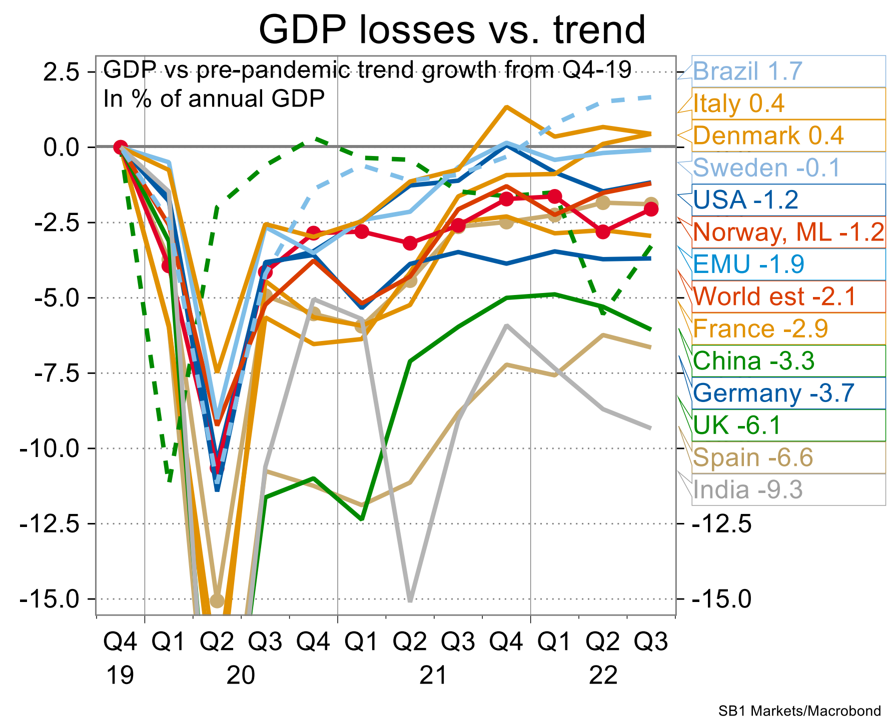




Global GDP recovered in Q3, mostly thanks to China, India, and the US

GDP rose at 5.7% pace in Q3. We expect far slower growth in Q3 – but 2023 should be up some 3.0% vs. 2022

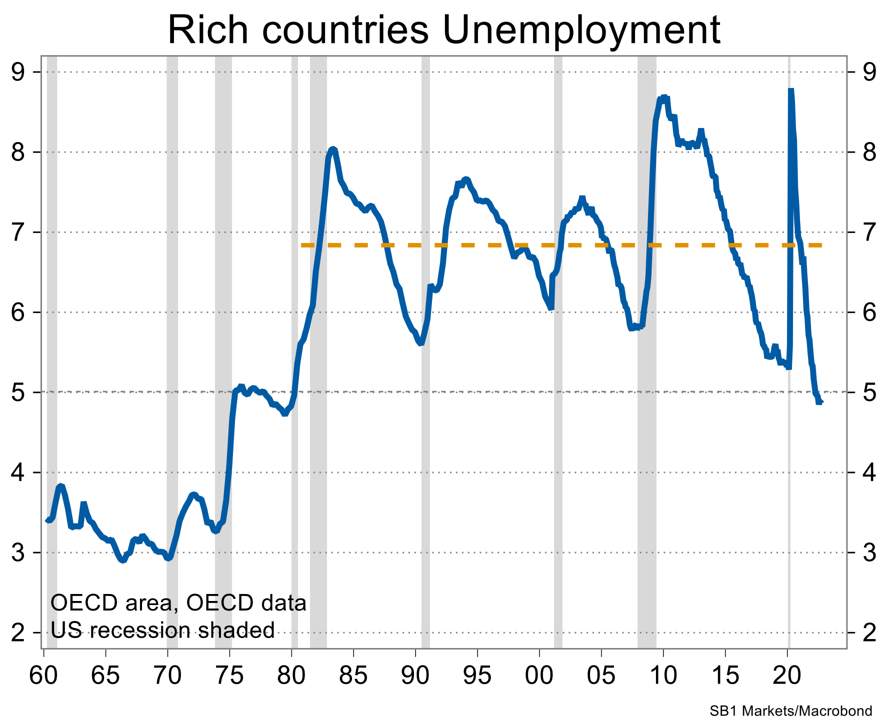


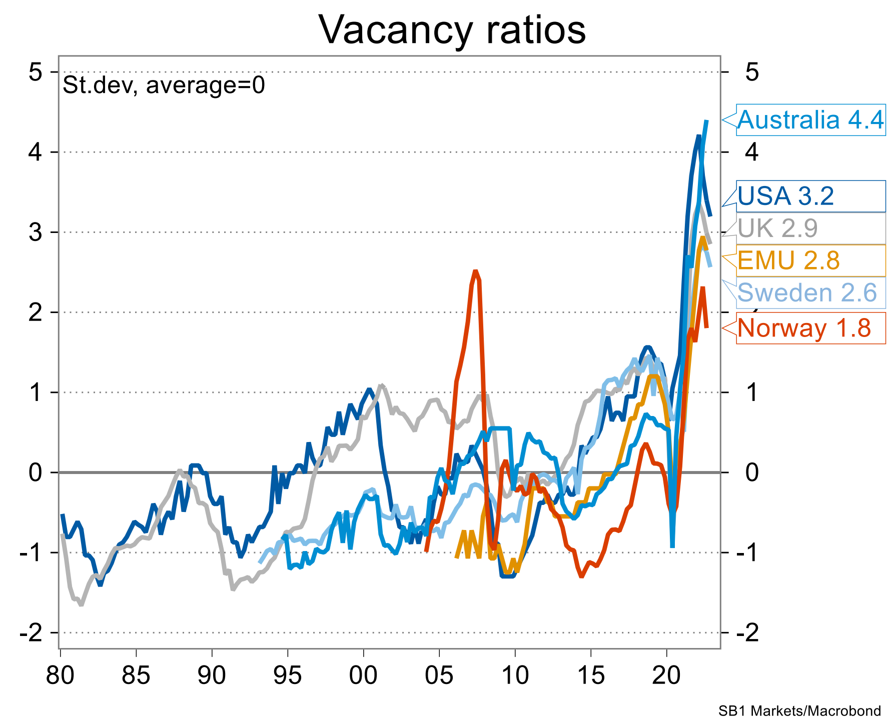


- Almost all countries are still reporting GDP levels that are far below the pre-pandemic trends – just Brazil, Italy (!) and Denmark are ahead

What a crisis: Unemployment down to the lowest level in 40 years

And a record number of unfilled vacancies, most places. However, the tide has turned, at least vs. vacancies





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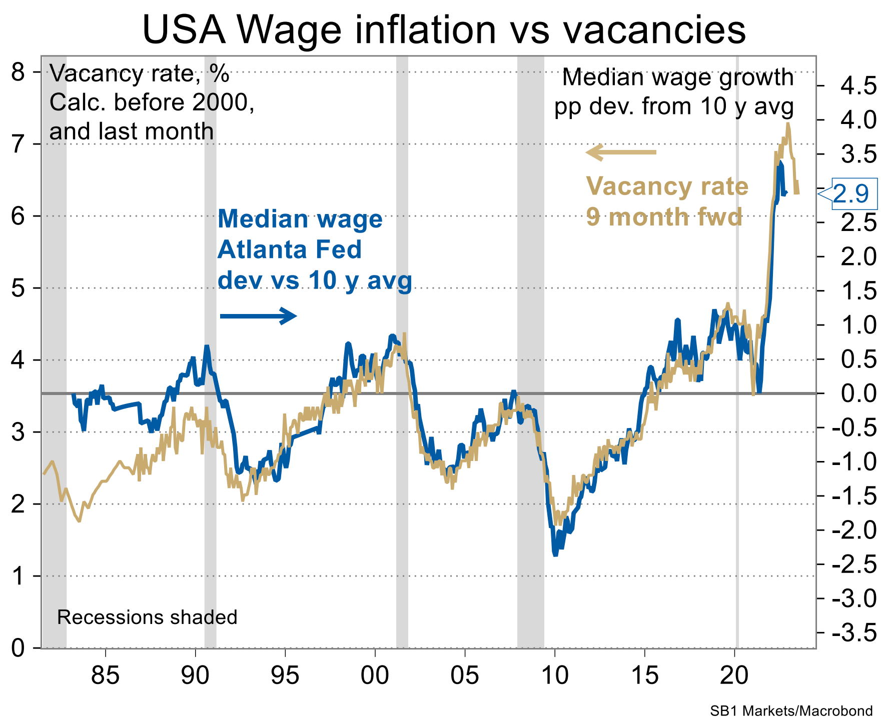
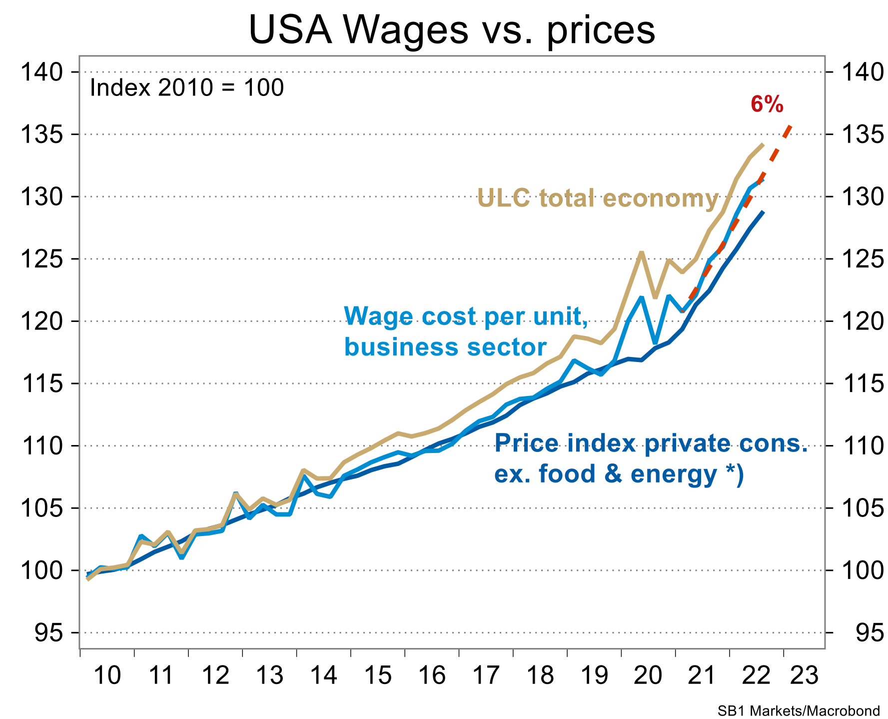
The best Phillips curve ever??

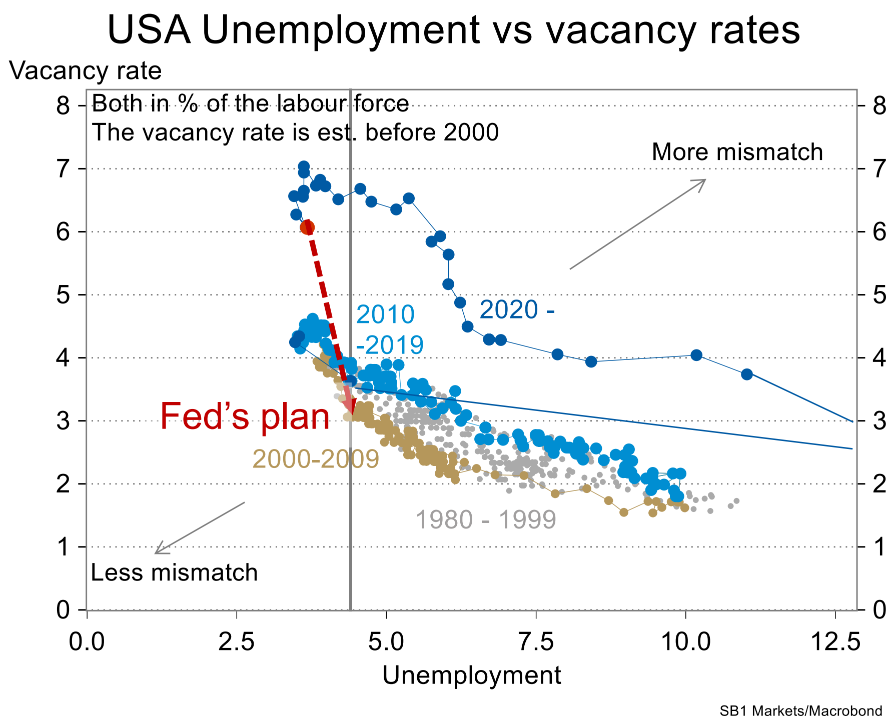
The real US inflation challenge: Wage cost inflation due to tight labour market

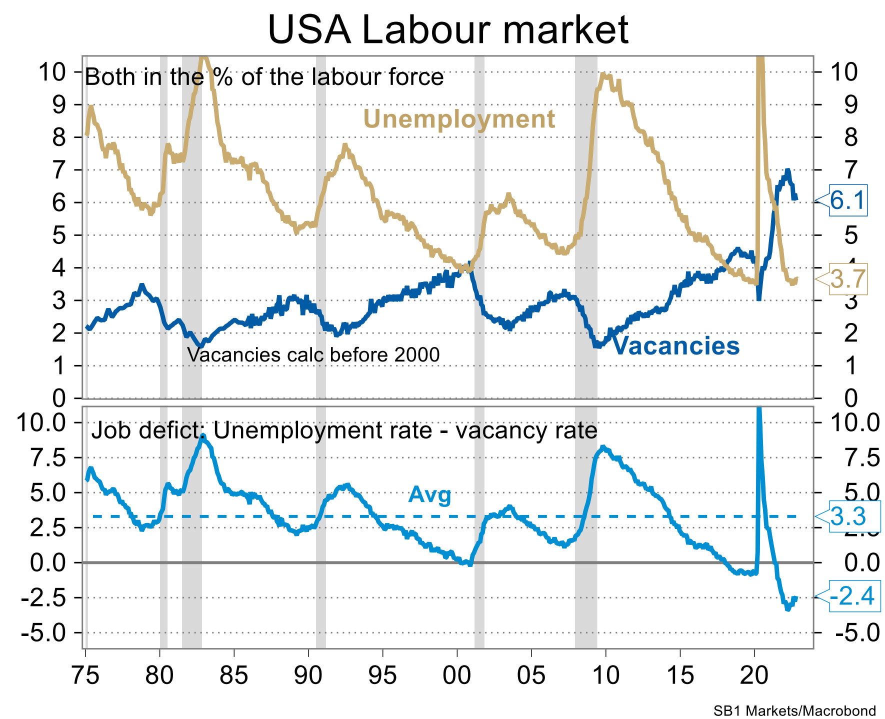




Is it impossible to get the vacancy rate down, without pushing unemployment up?

No, but it has never happened before





- Still, the vacancy rate has come down since last March, without an substantial increase in the unemployment rate
- We are sure the Federal Reserve has decided to 'keep at it' until wage inflation slows significantly

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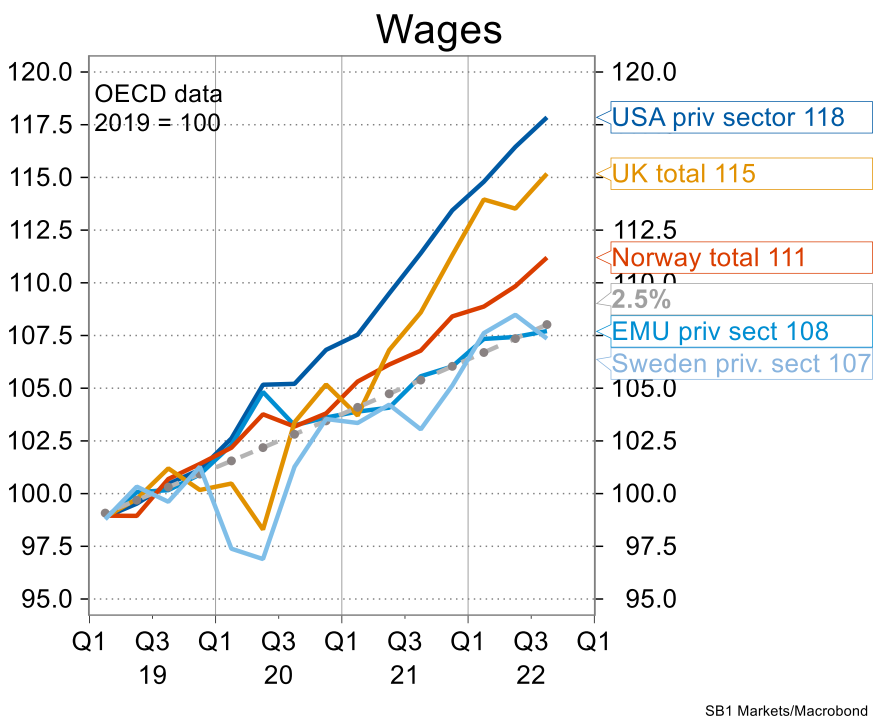
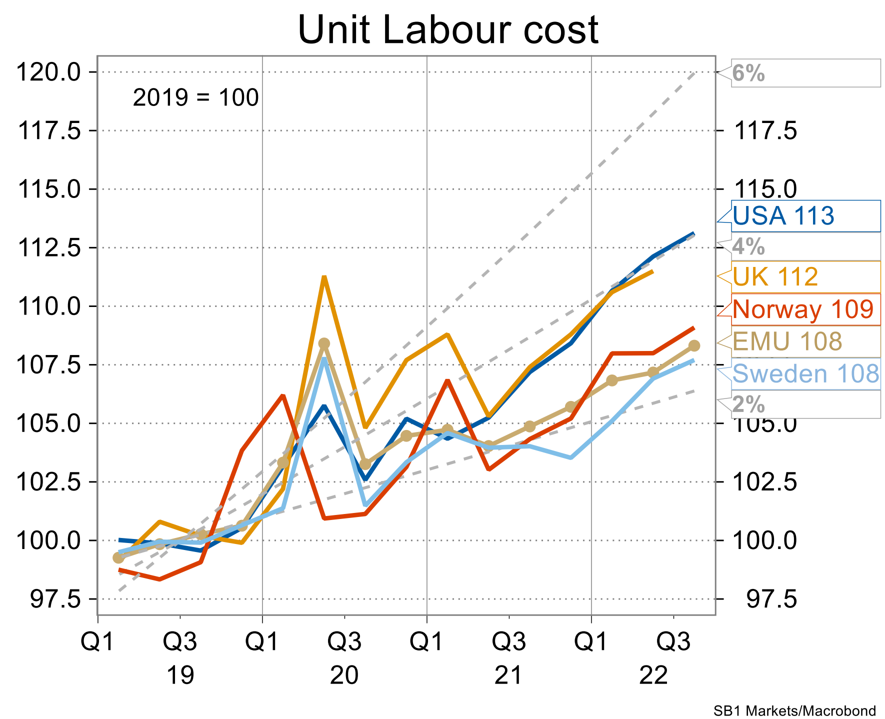
Luckily, so far no wage explosion in EMU, Sweden or Norway, like in the US, UK

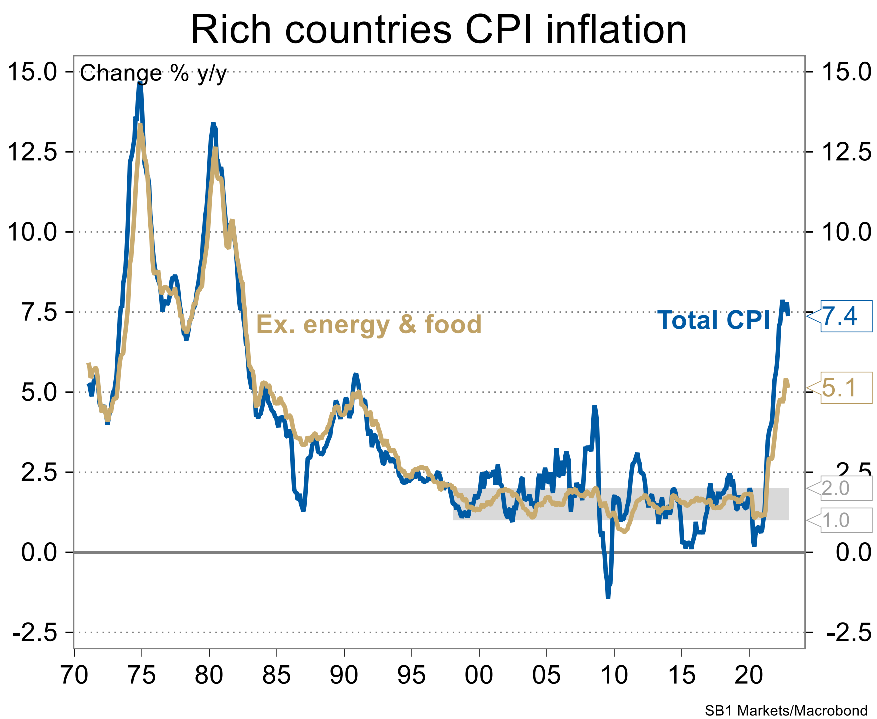
However, lower (or no) productivity growth is lifting labour cost per unit produced (ULC) somewhat too fast in Europe too

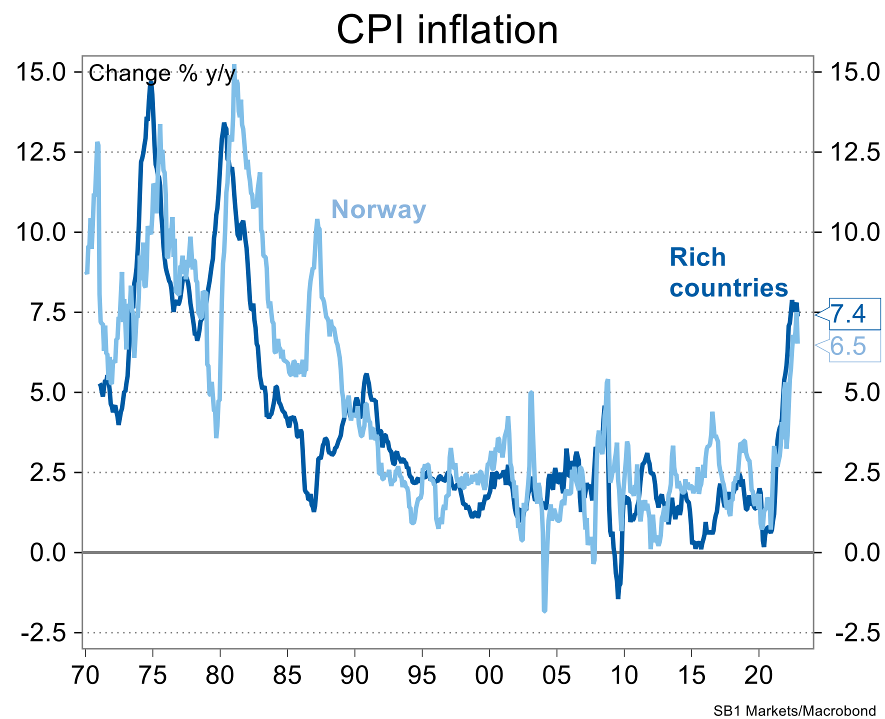




A year for the history book, of course

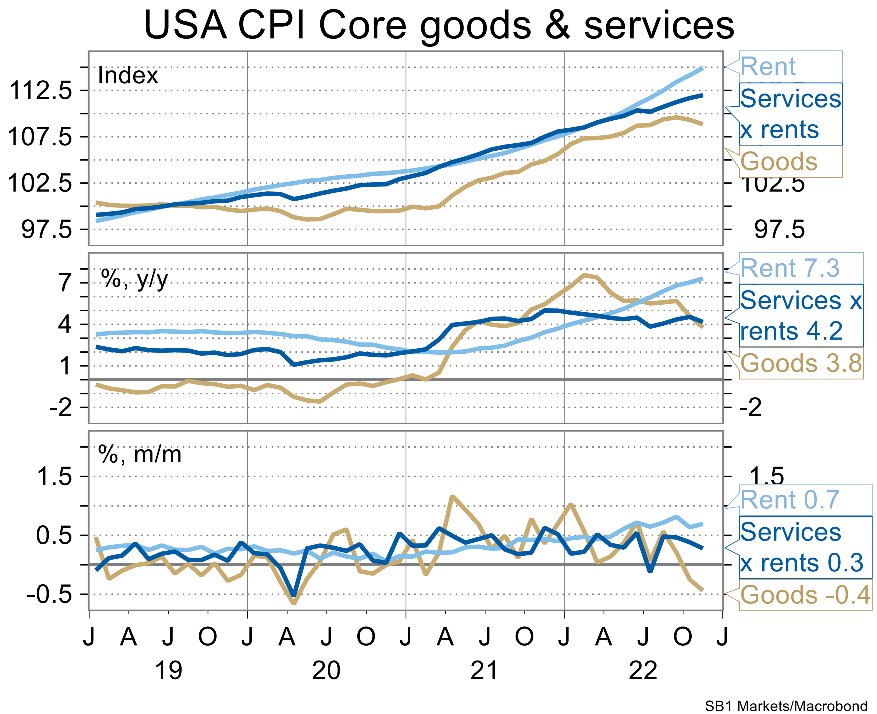
Both bad luck and bad policy to blame for the inflation shock

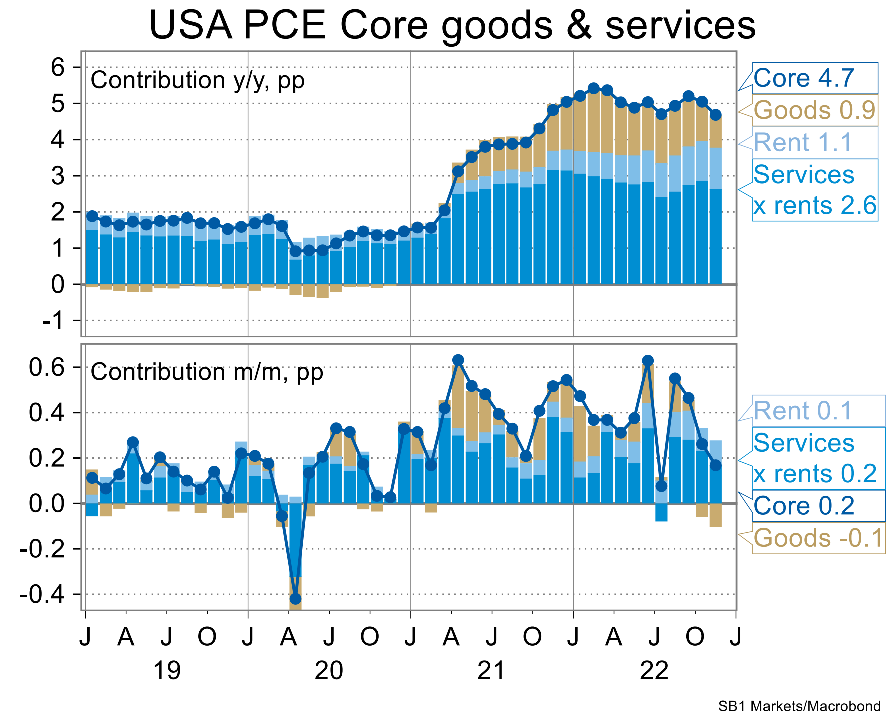




Rents & services will be the 2023 inflation challenge, goods are yielding now

And the sum of them – are crucially dependent on wage cost inflation (in an economy that is rather closed)

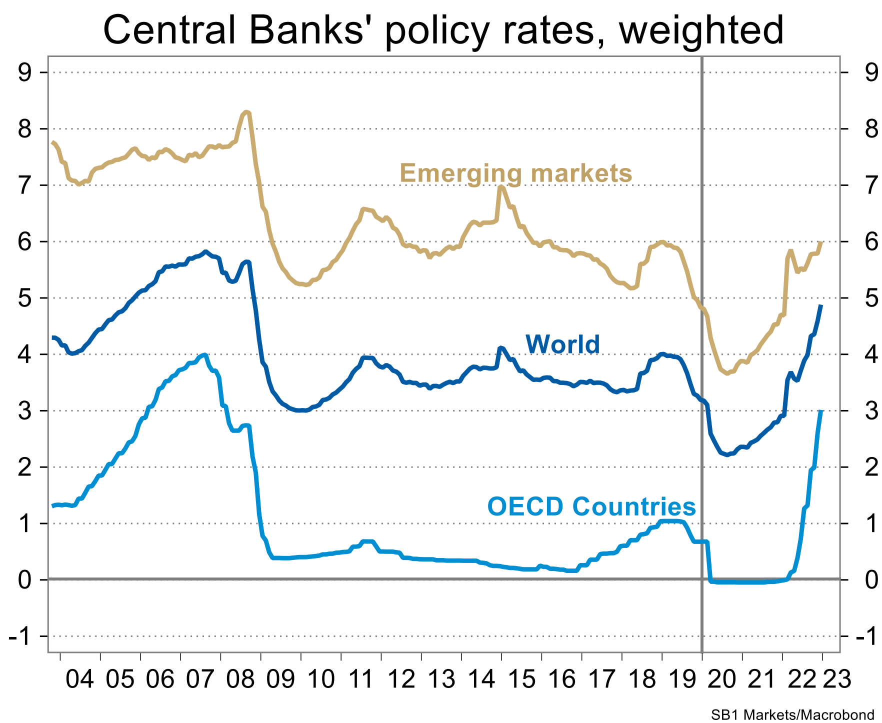


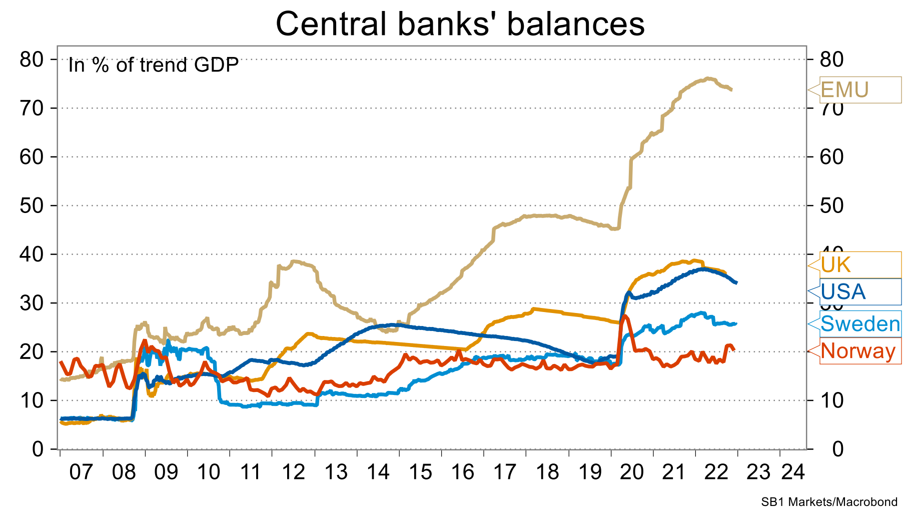


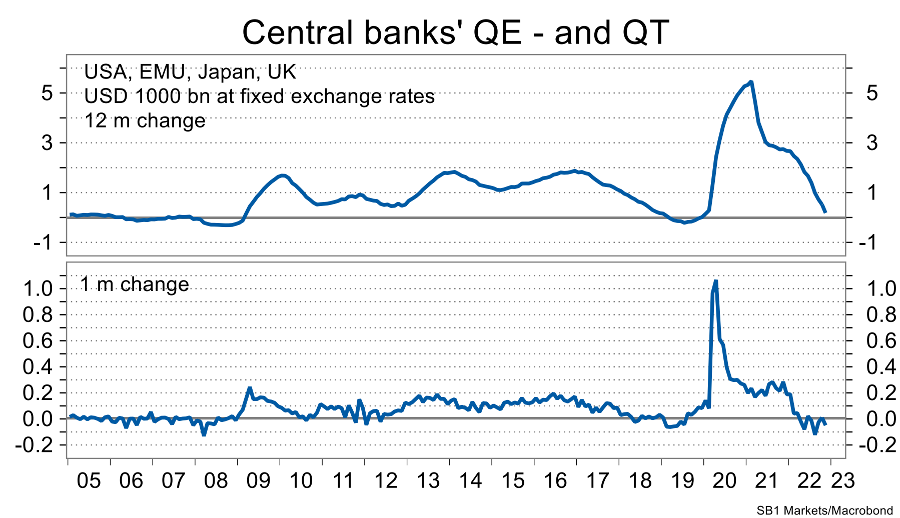
- Rent inflation in the CPI/PCE should slow through 2023 as (leading) market rent inflation is slowing down <u>now</u>
- <u>However, service sector inflation may keep up, if wage inflation does not slow materially</u>

The policy response: The global average signal rate up to 5%, from 2%

… and from 2.9% one year ago. +3 pp to 3% in rich countries. And now QE programs have turned into <u>QT programs</u>



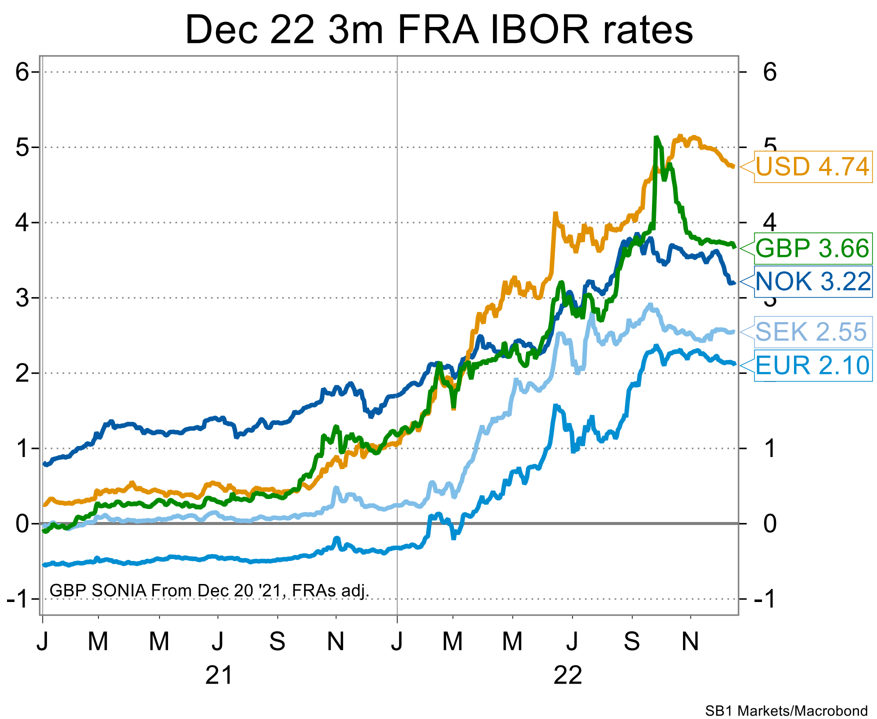


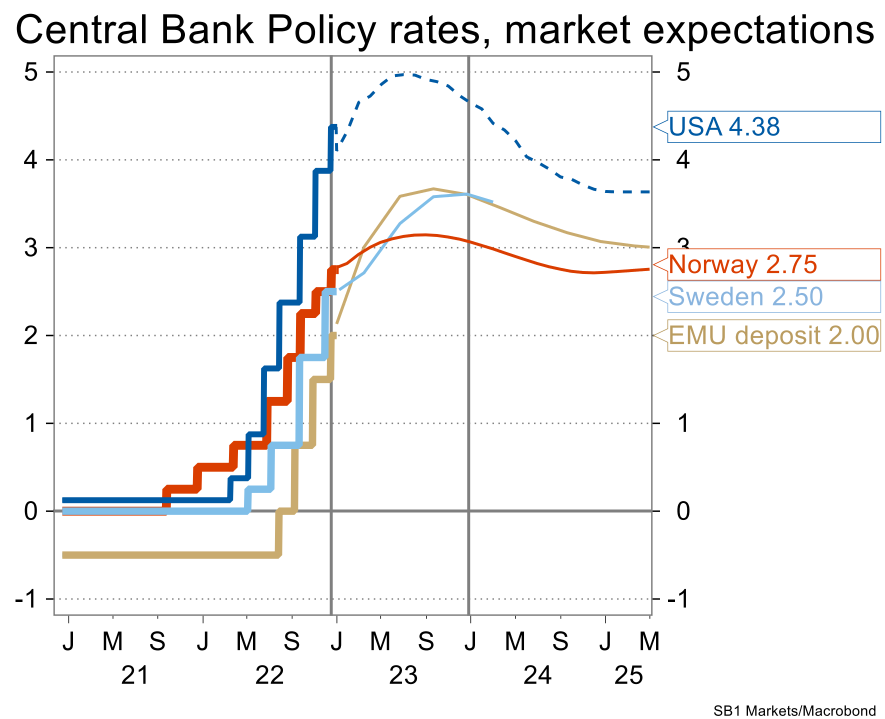


- In addition to rate hikes, most central banks have ended their **QE buying programs**. Most banks have embarked on cutting back on their holdings, moving into the **QT zone**. In December, the ECB signalled a further tightening from Q2

What we knew then, and what we know now: Some 200 – 400 bps were added

Now, the most of the tightening very likely is behind us. Now we are awaiting the impacts on last year's hikes

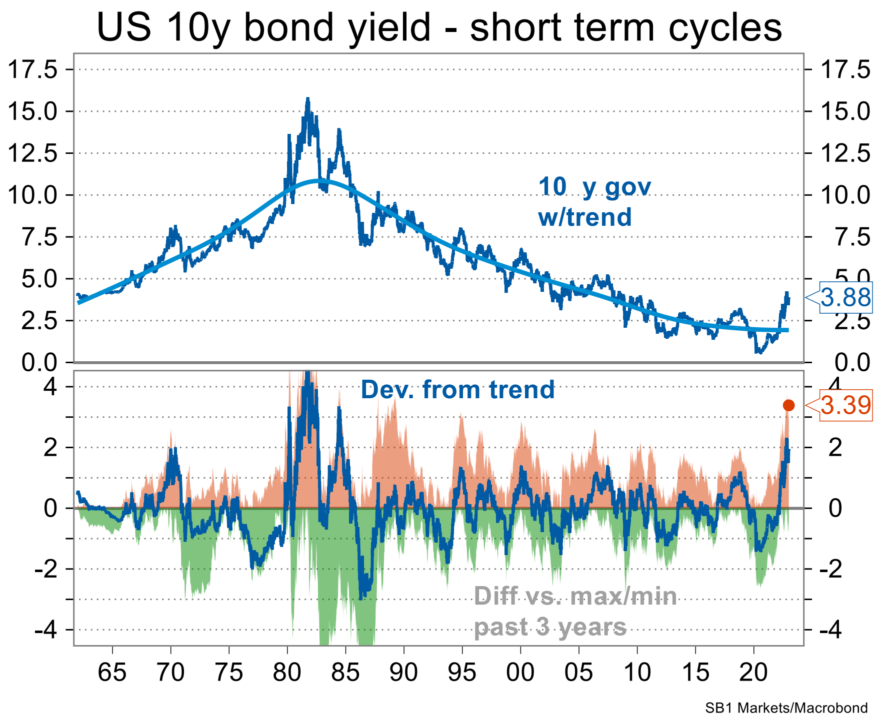


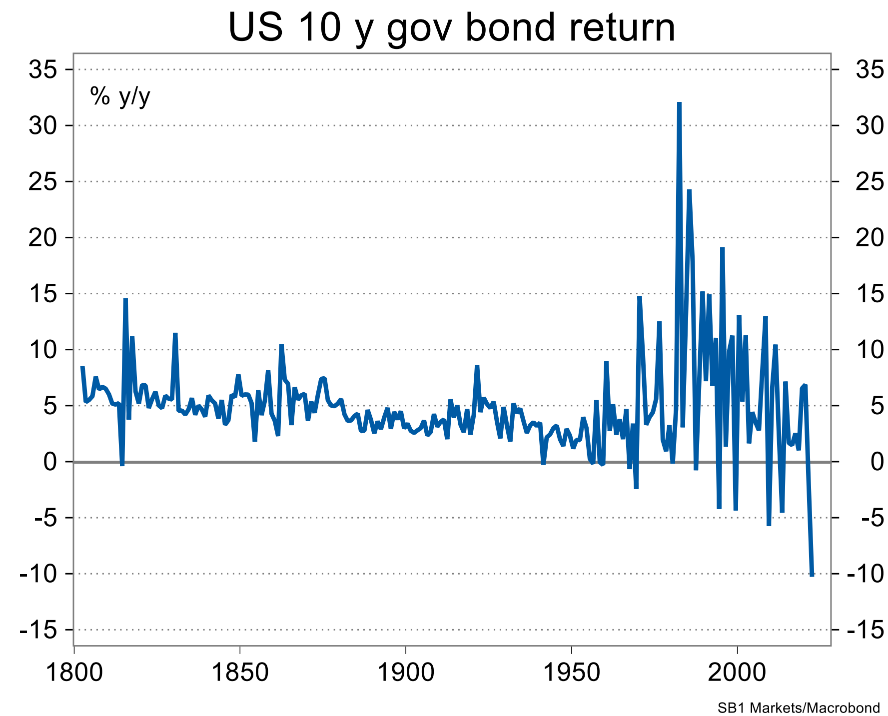


- By the way: Check the price of a totally irresponsible fiscal policy: UK Dec-22 FRAs up by 200 bps (and 350 bps measured by the Dec-23 contract!) in August/September as PM Truss proposed huge tax cuts to stimulate the economy – when it already was overstimulated
- Rate expectations were calming down through Q4, as peak inflation become more likely – and the economy slowed down

A rather dismal year for bonds. The worst since… 1779 they say, in the US

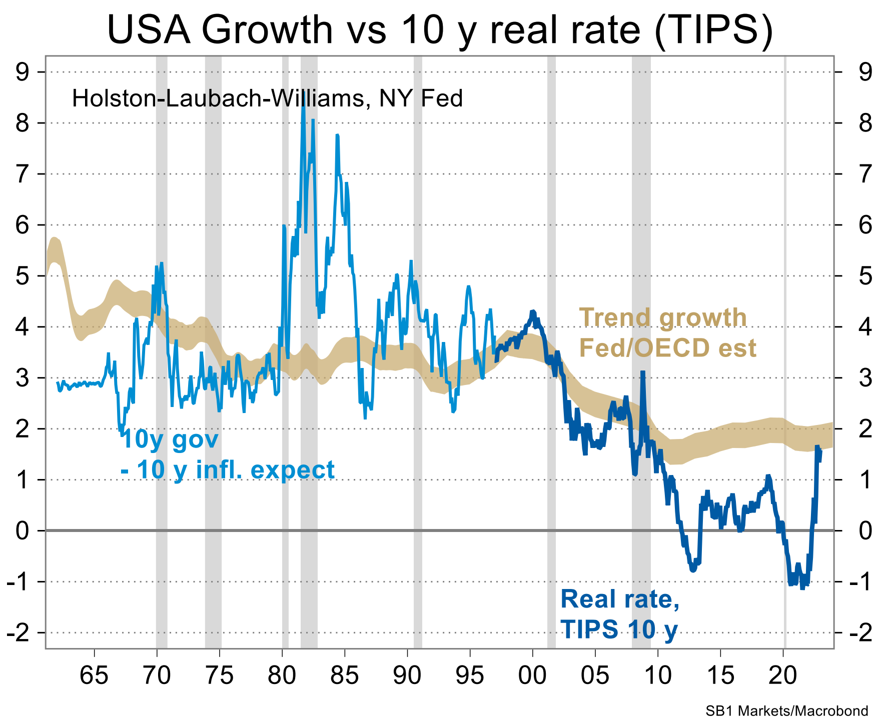
… in total return on 10 y gov bonds. Our data just go back to 1800

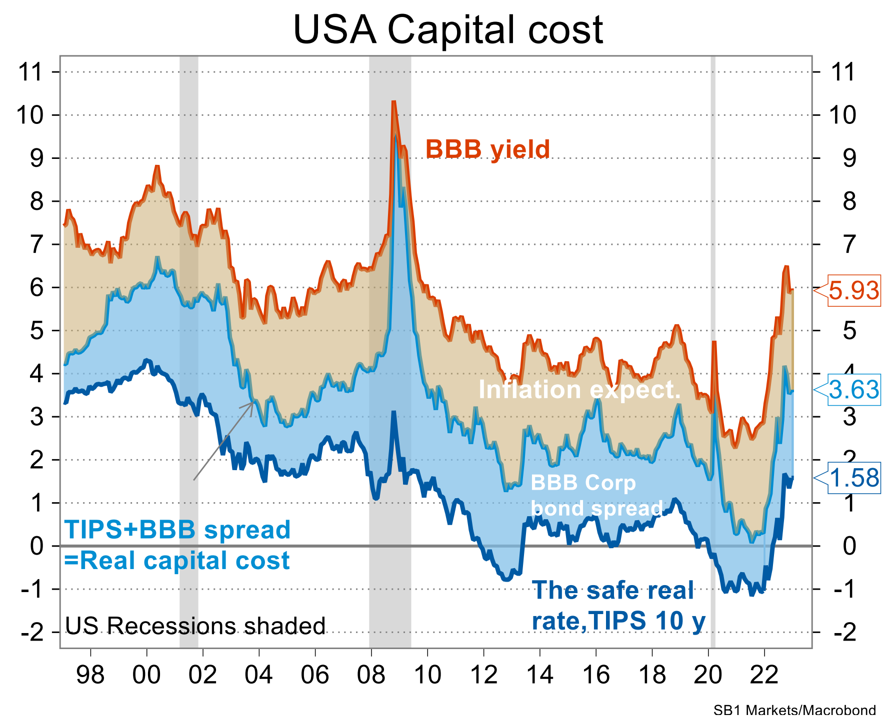




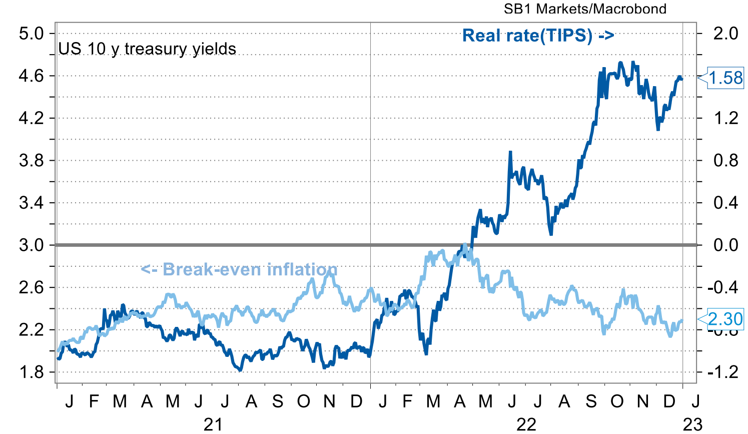
No more money for free

The US 10 y TIPS real rate up to 1.58% from -1% a year ago. Credit spread widened. <u>But inflation expectations fell!</u>



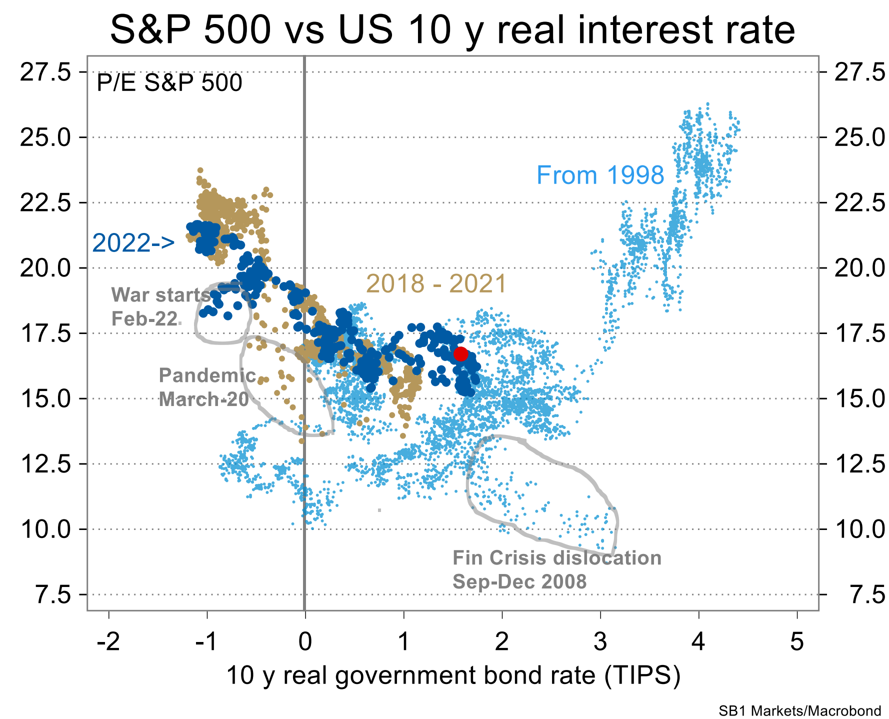


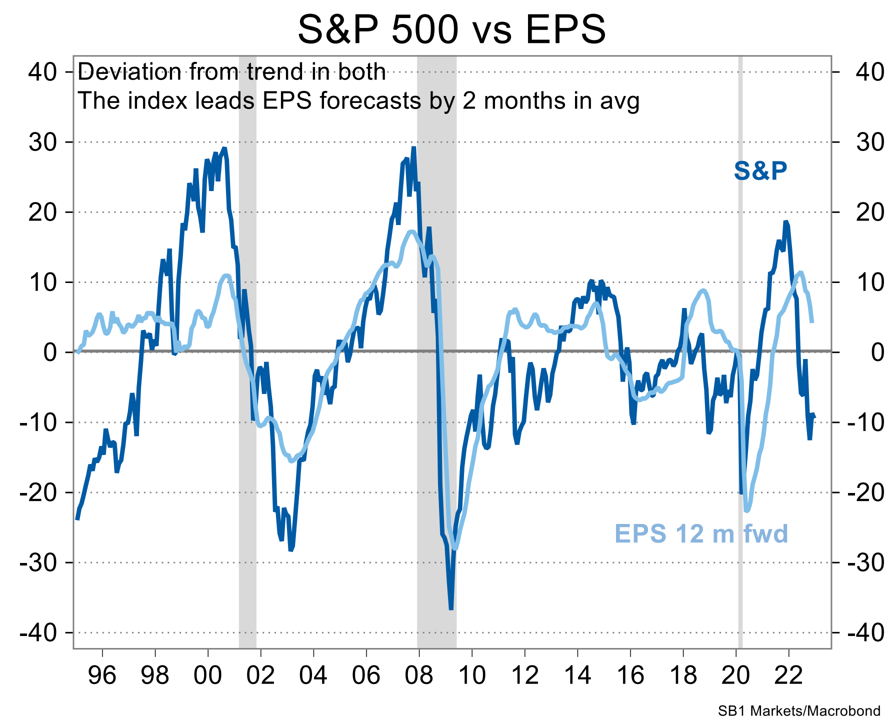
- The gap between reasonable growth expectations and real rates was suddenly closed, for the first time in more than 10 years
- Not the best mix for other assets: No reason to expect higher real or nominal revenues – the cash flow just had to be discounted by a much higher interest rate



First the real yield collapsed (without any good reason) 2018 - 2021

…and the PE ratio surged. Then the real yield returned to a normal level – and the PE fell back to a normal level





- Thus, the S&P fell by 19.4% (and the Nasdaq by 33% as growth was ditched for value)
- The 2023 challenge is no doubt earnings expectations, not another interest rate shock to the upside. The stock market normally follows earnings revisions downwards until a couple of months before analysts finally change tack

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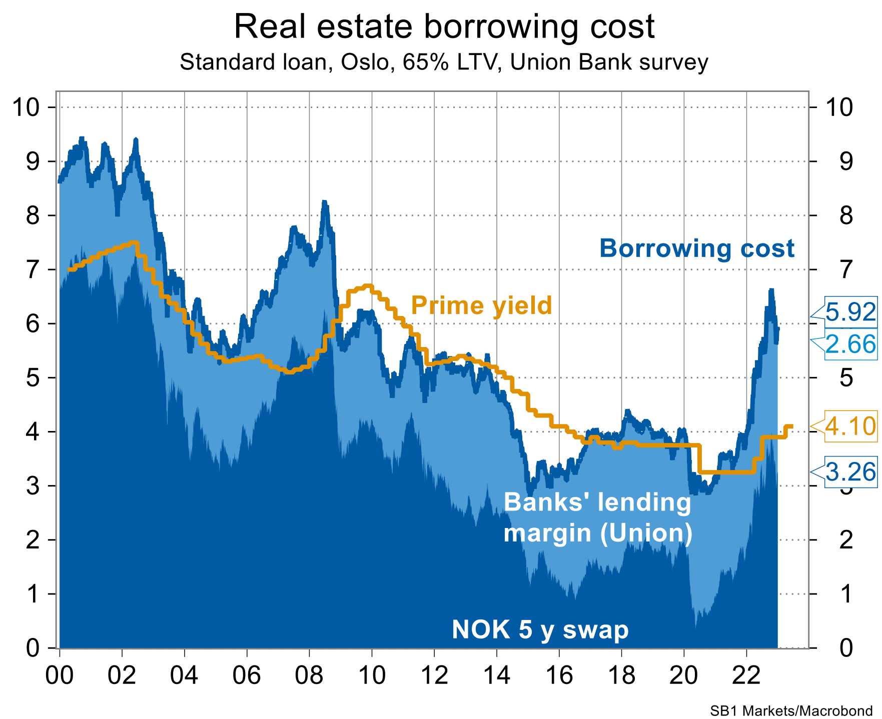
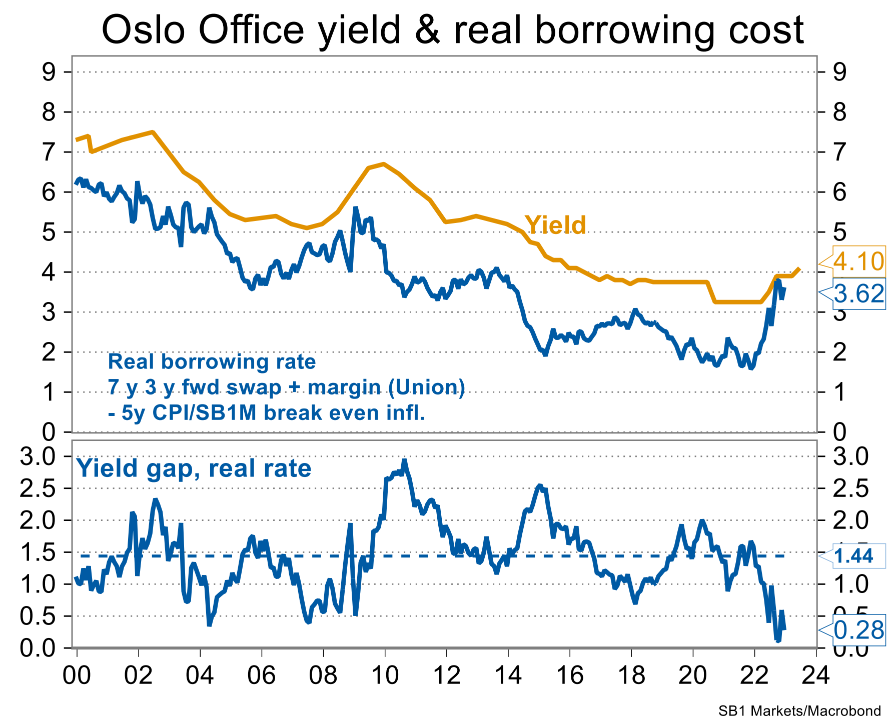
This just does not add up – and something will to have to yield

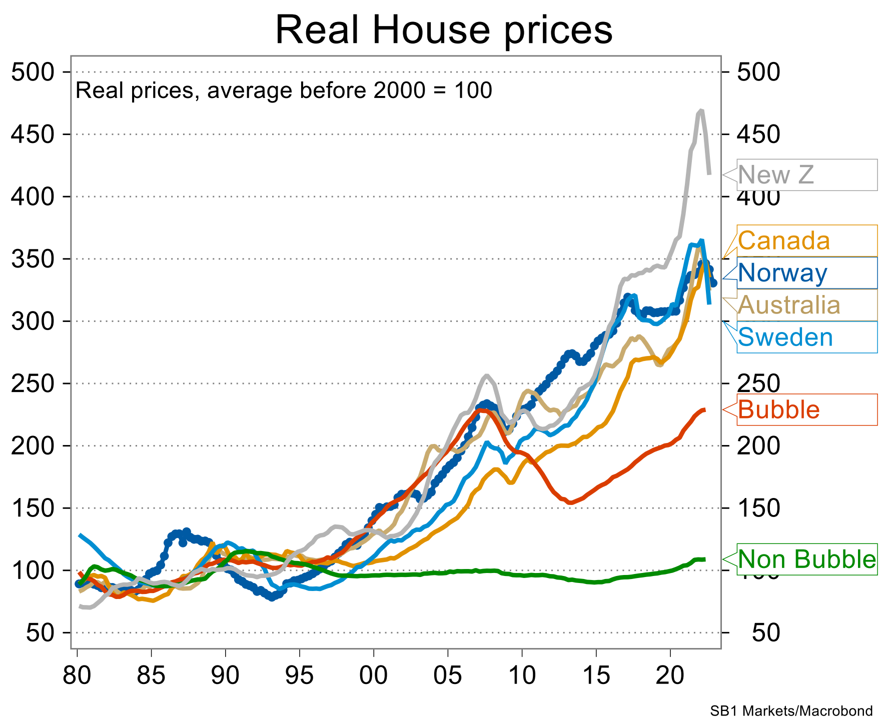
The rental yield or the (real) borrowing cost? Or an unprecedented surge in rents?

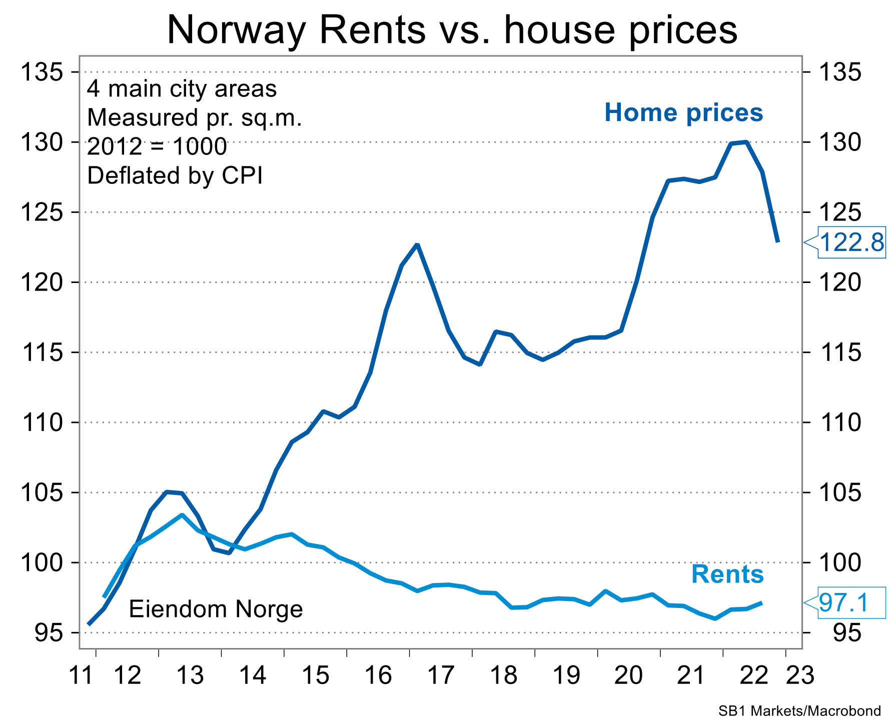




The Elephant in the room: Housing markets

Some home prices have turned south, as mortgage rates have shot up

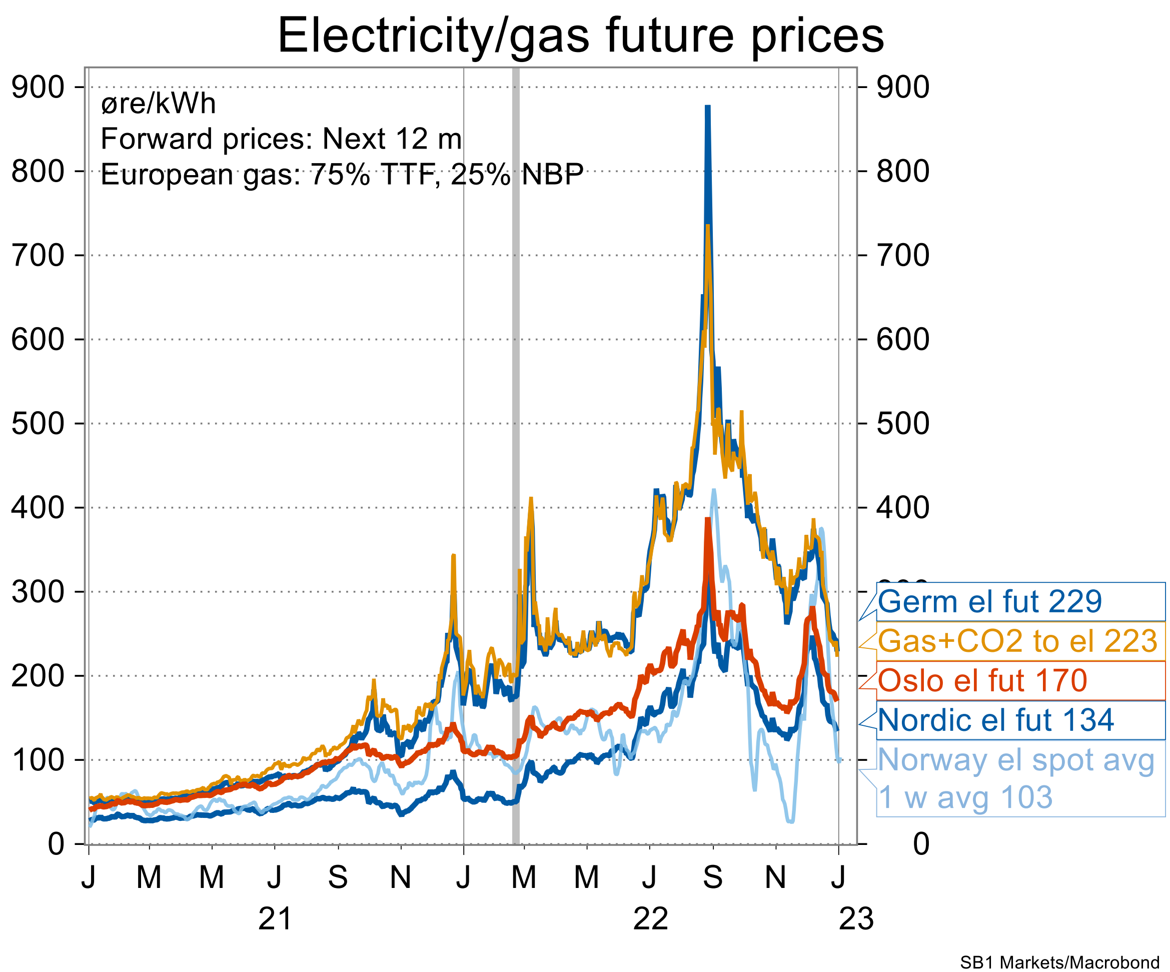


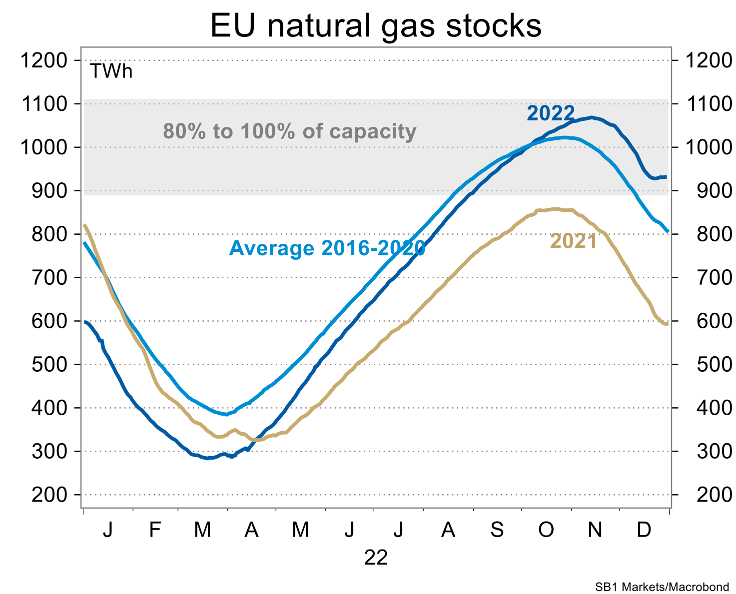


- In the 'super-cycle countries, real house prices shot up from 2009, while real rents have been falling, aka as yield compression
- Now, mortgage rates are back to the same level as 10 – 15 years ago
- Could rental yields return to normal levels again – a money can not be borrowed for free anymore?

European gas prices are still high

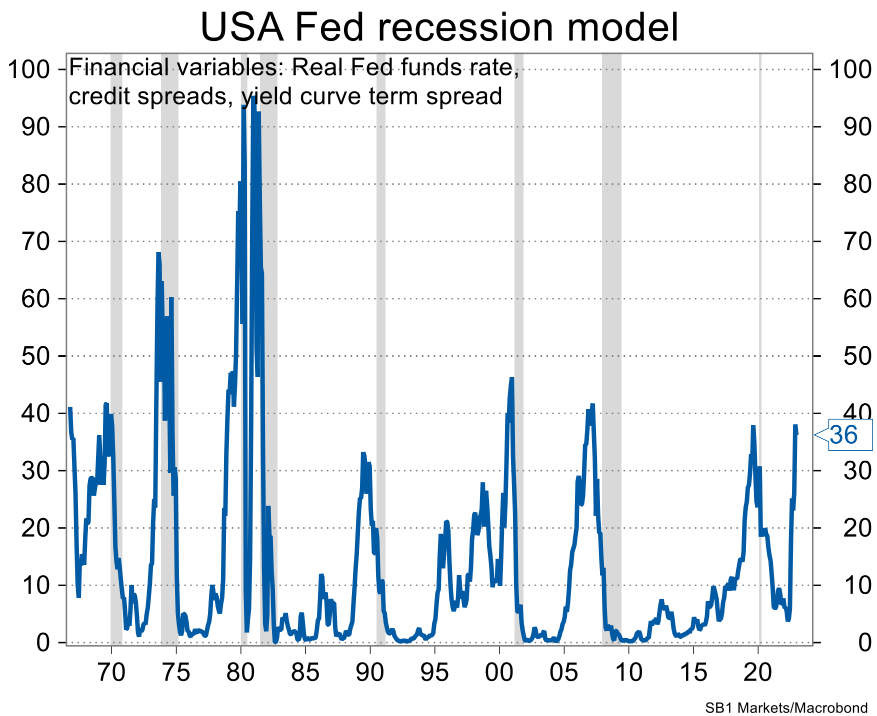
But prices have fallen sharply through December and spot prices are lower than before the war started

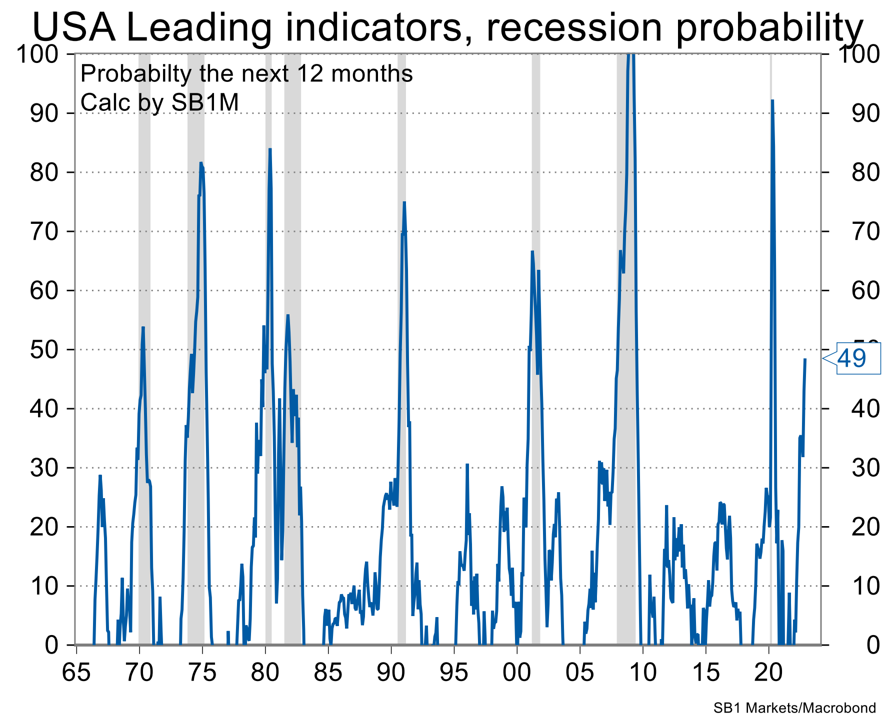




Financial, real economic data suggest a high probability for a '23 recession

Fed's financial conditions recessions model signals a 37% probability for a recession the coming 12 months





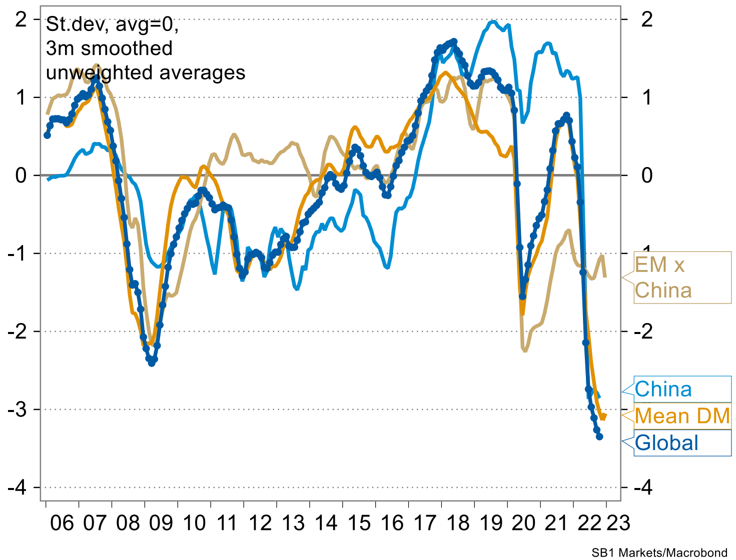
- … which normally has been 'enough' to fall into an economic setback, in fact 8 of the past 8 recession. One false positive, in 1965
- Conference Board's Leading Economic Indicators, which consist of both financial and real economy variables also signal a high recession probability. Again 8 of the 8 past recession – and no false positives

Sources: The the left; NY Federal Reserve, the past 2 months calculated by SB1M. To the right; Confernence Board. SB1M calculations

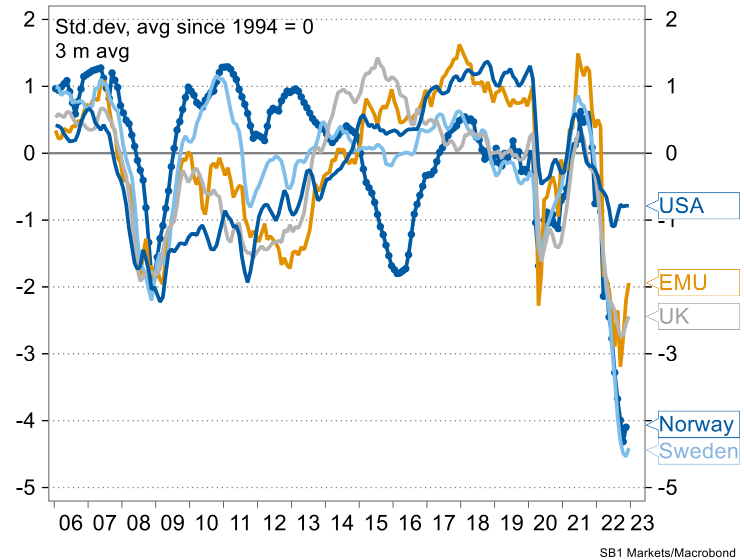
Consumer confidence has bottomed DM

The Nordics still at the bottom, rest of Europe close to. US far better. EM x China at the top

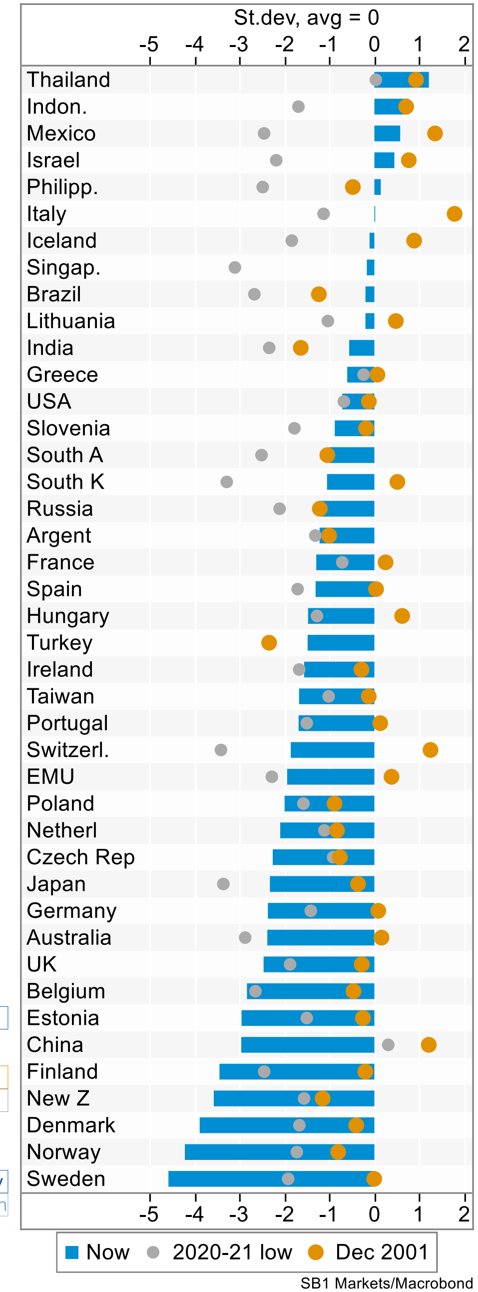
Global consumer confidence



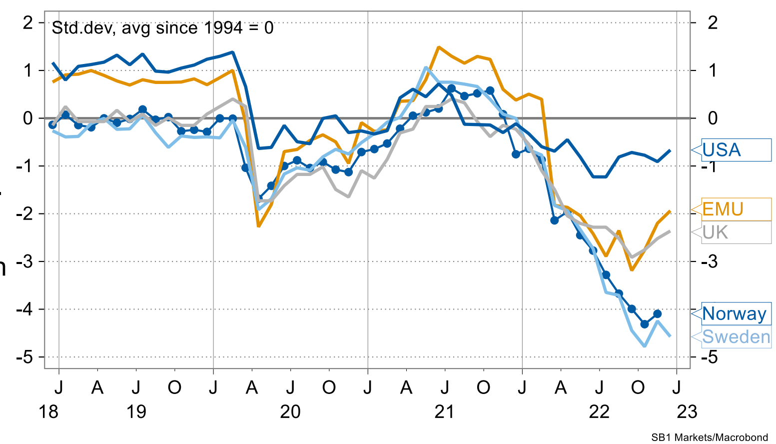
Consumer confidence



Consumer confidence



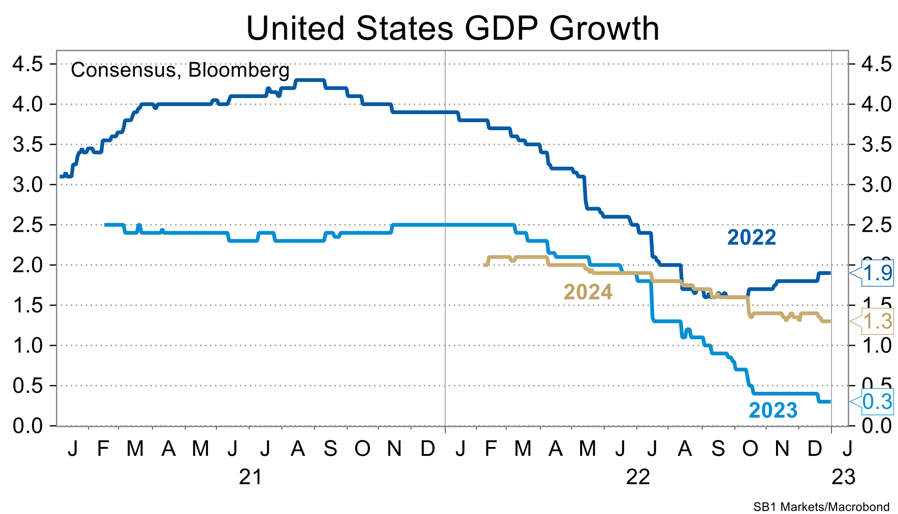
- **Globally,** sentiment is still very low, like we have never seen anytime before – like in Europe, and in China – for different reasons. Europe bottomed in September
- In the **US** confidence has improved slightly since the summer, and the level is less than 1 st.dev below avg. (avg. of Conf. Board/Univ. of M)
- In **China** sentiment is at ATL, and that's not because of high inflation or higher interest rates, but the bad handling of the corona virus. And perhaps some housing market angst
- **Emerging markets ex China** has kept up better than most others but fell in December

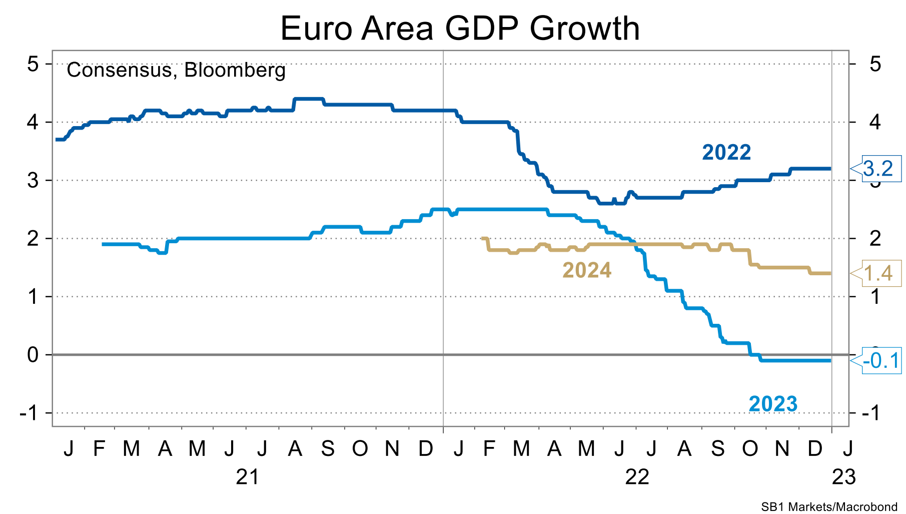


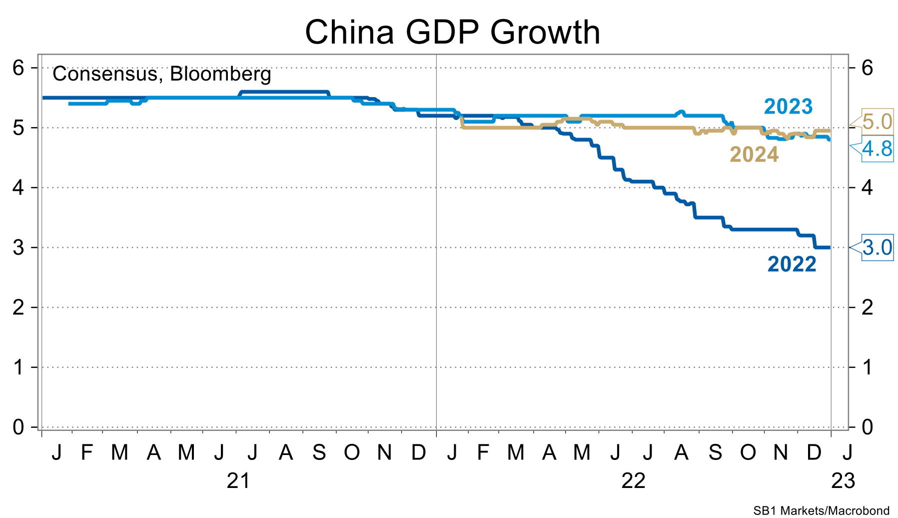
Norway is the average of Finans Norge & Opinion

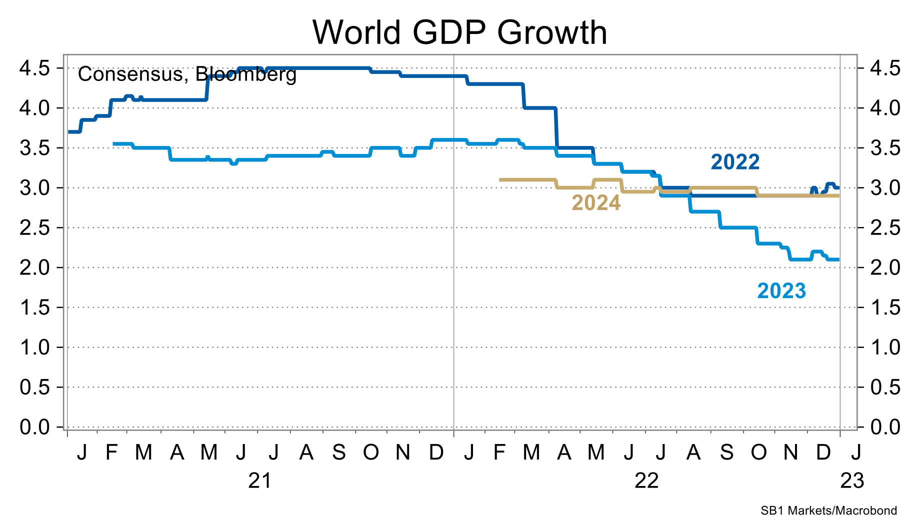
Global GDP close to 2% growth in 2023, down from 3% in 2022

The 2023 f'casts imply a short and shallow recession in the US next year, and deeper one in Europe



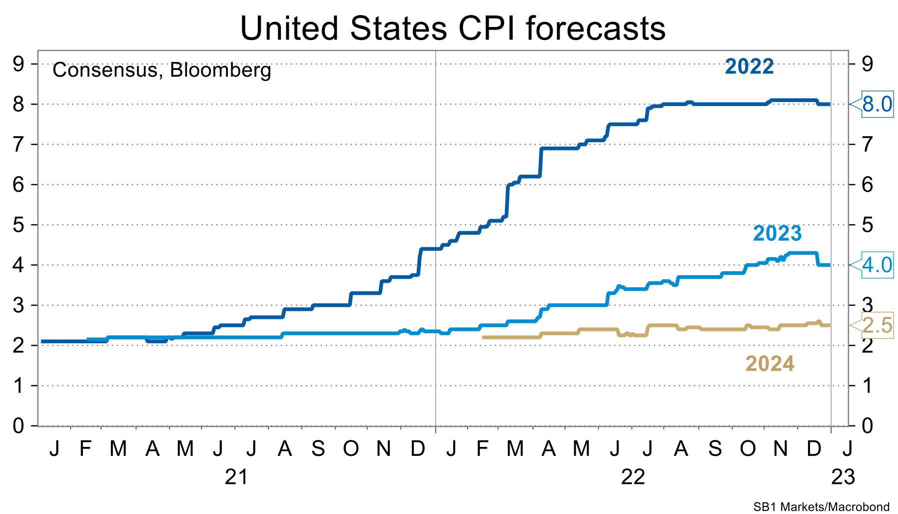


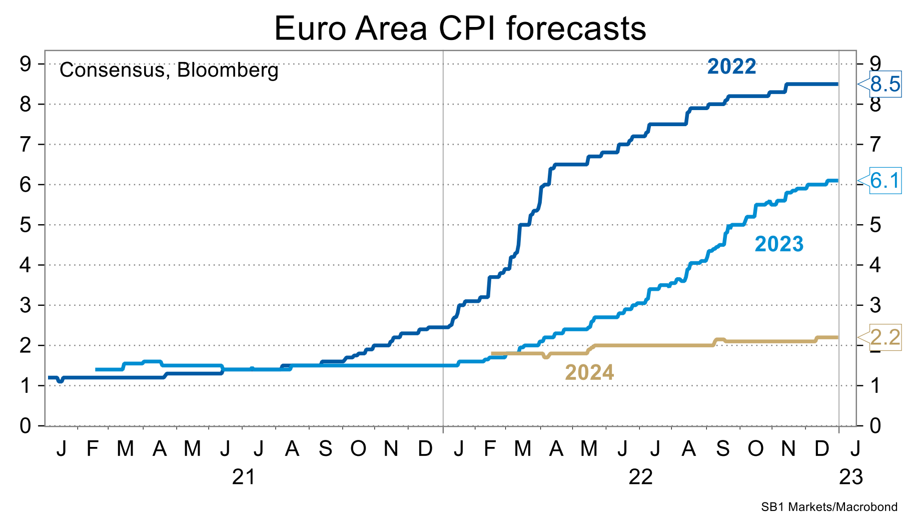




US 2023 inflation expectations have peaked, EMU soon to follow?

While inflation expectations in the EMU rose a tick last week, to 6.1%. Given the decline in gas prices, too pessimistic??

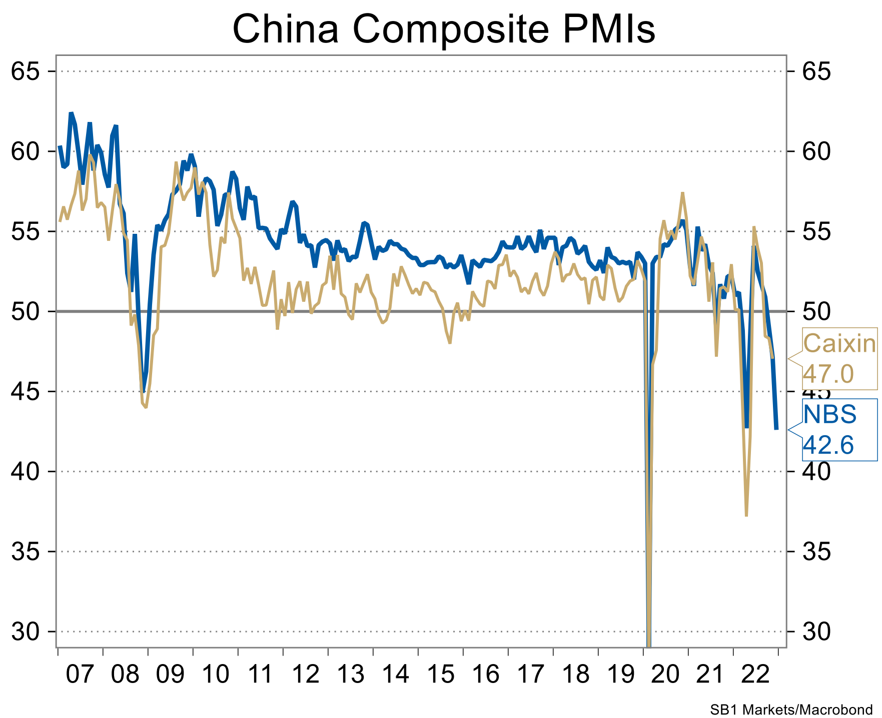


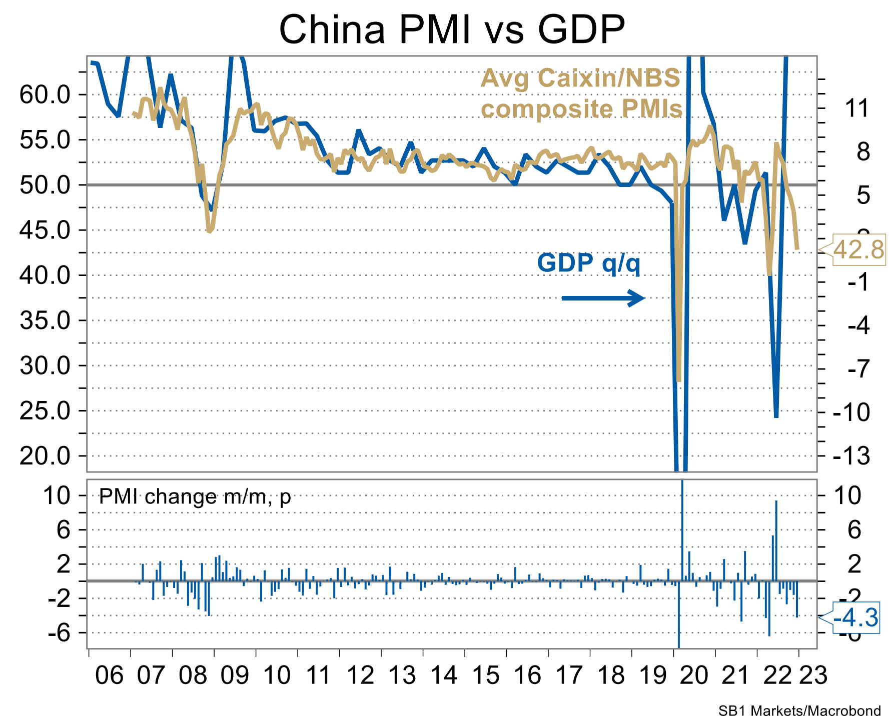


Last week's data

Full stop in December, after Covid restrictions were lifted

The NBS/CFLP PMIs signal a sharp setback, and Q4 GDP will very likely take a hit

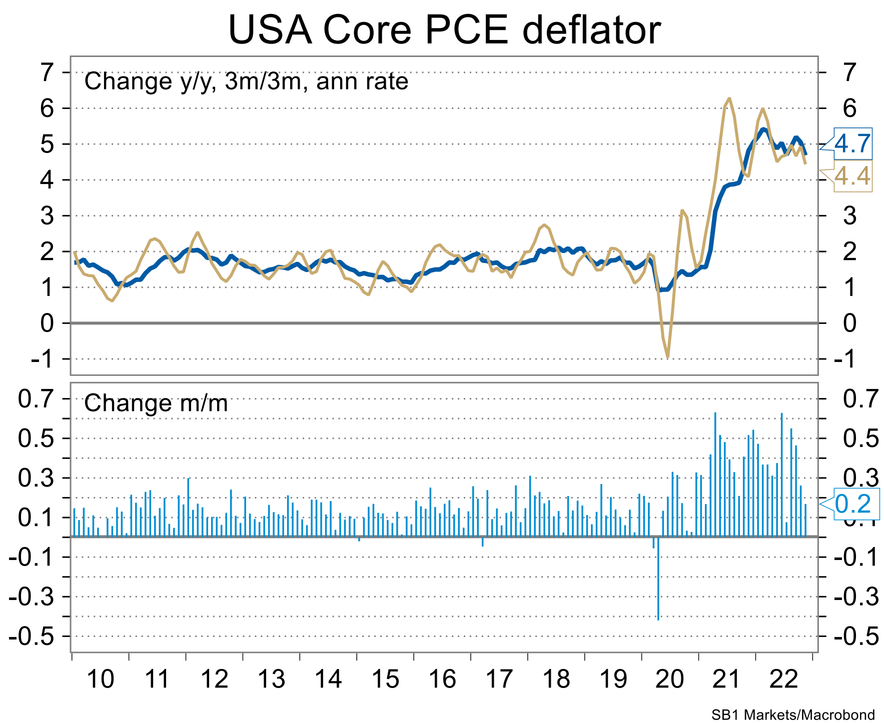


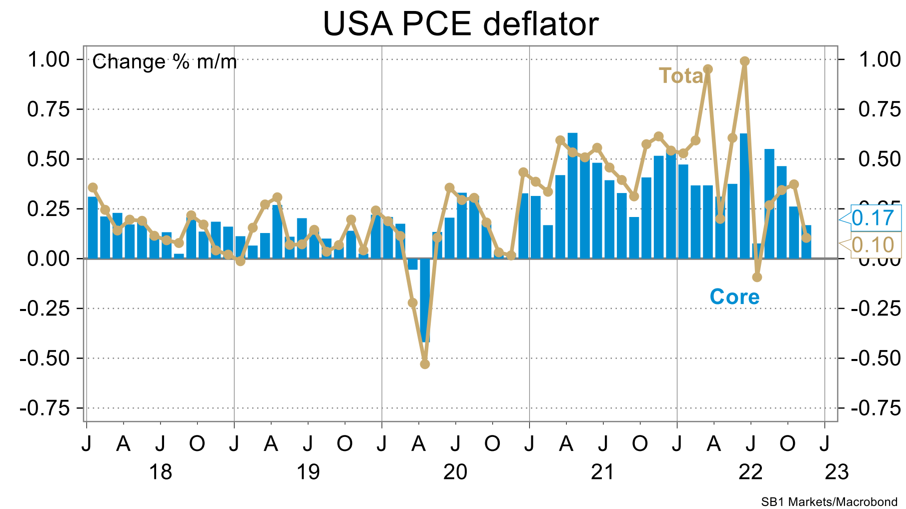


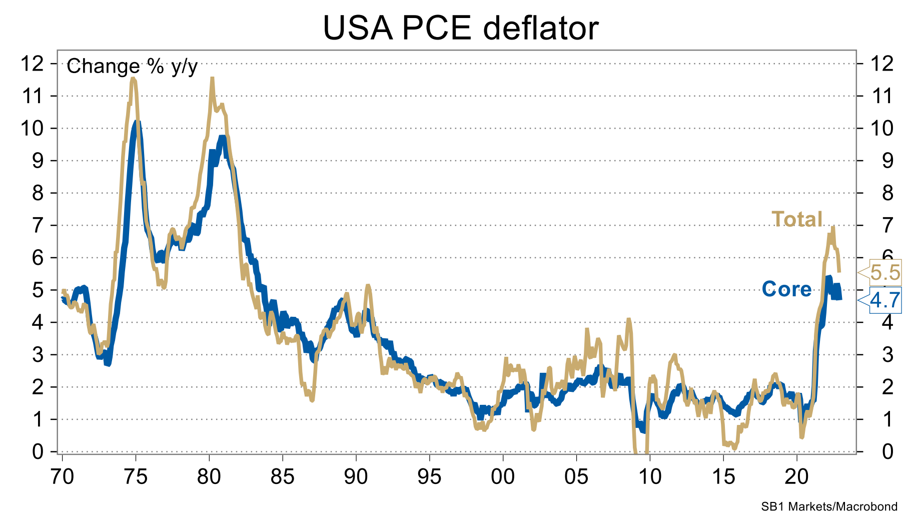
- The **NBS/CFLP composite PMI** fell by 4.5 to 42.6, the 2nd lowest level ever (Feb-20 was far lower), expected unchanged! The m/m decline was larger 3 months during the financial crisis and in Feb-20. Both the manufacturing and the service sector PMIs fell sharply
  - On the chart to the right, we assume as similar drop in Caixin's PMIs (the manuf. survey reported Tuesday morning) – and the PMIs are signalling close to zero growth in GDP
- No doubt, the wild spread of the virus following the **abrupt change in Covid policy** December 7th is now hitting the Chinese economy hard as people self isolate or are sick. However, given the swift spread of the virus, this wave will not last that long (some weeks/very few months) as natural immunity will increase rapidly, the very hard way

Inflation is heading down but still some challenges left

The core PCE deflator rose by 0.2% m/m, as expected but the annual rate fell 0.1 pp less than assumed, to 4.7%



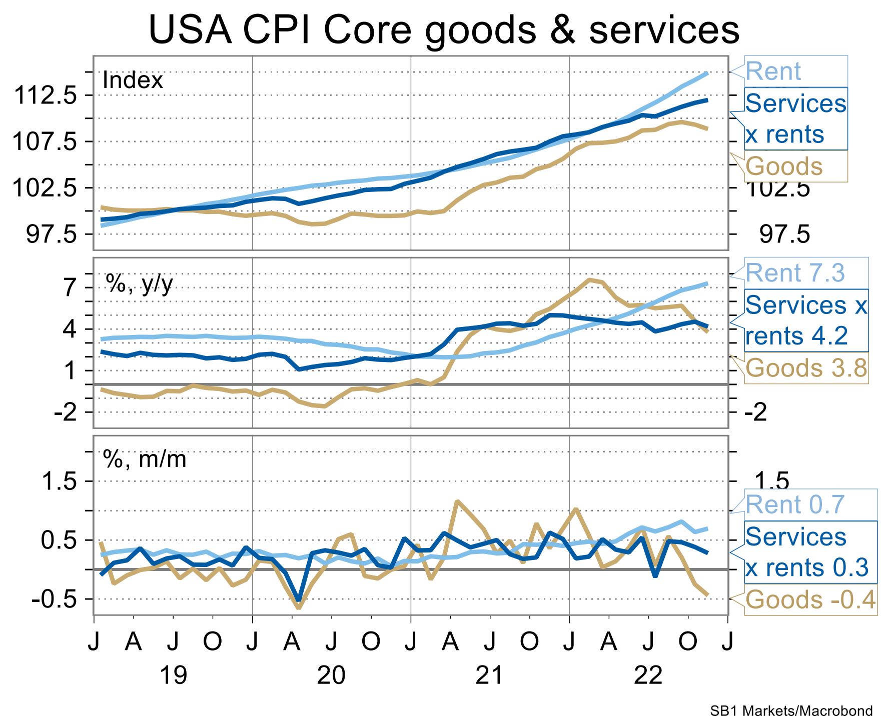


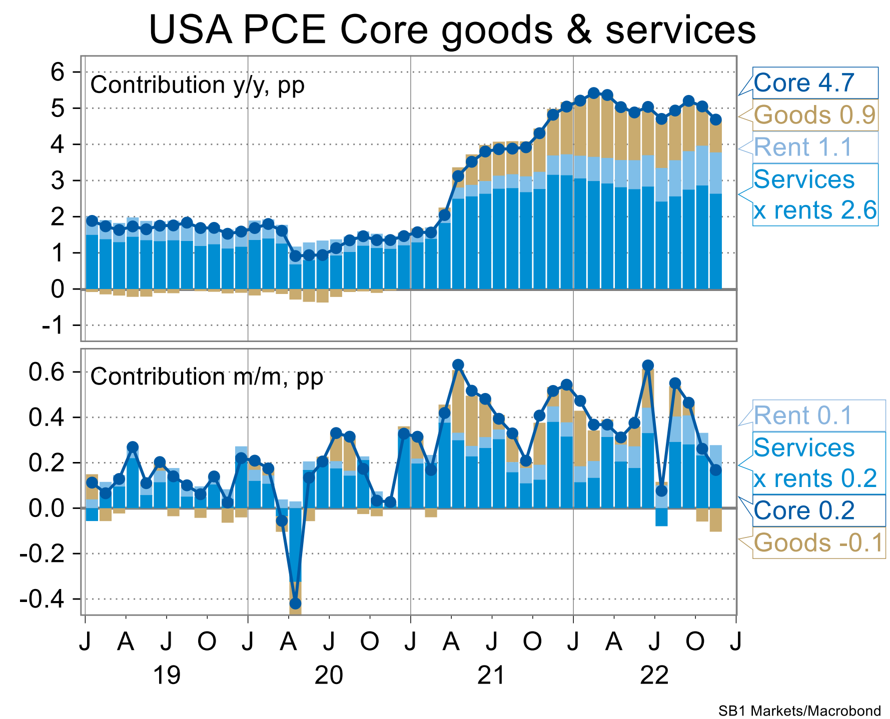


- **The total PCE deflator** was up 0.1% in November, as expected. Energy prices fell by 1.5%, and food prices rose 'just' 0.3%. The annual rate at 5.5% was in line with expectations, down from 6.1% in October (revised up from 6.0%). The peak was at 7.0% in June
- The core PCE has decelerated to 4.7% y/y from the peak at 5.4% in February, via 5.0% in October

Core PCE: Good prices are falling, service price inflation is slowly slowing?

Core goods prices fell 0.4% m/m in November – and have more to go the coming months

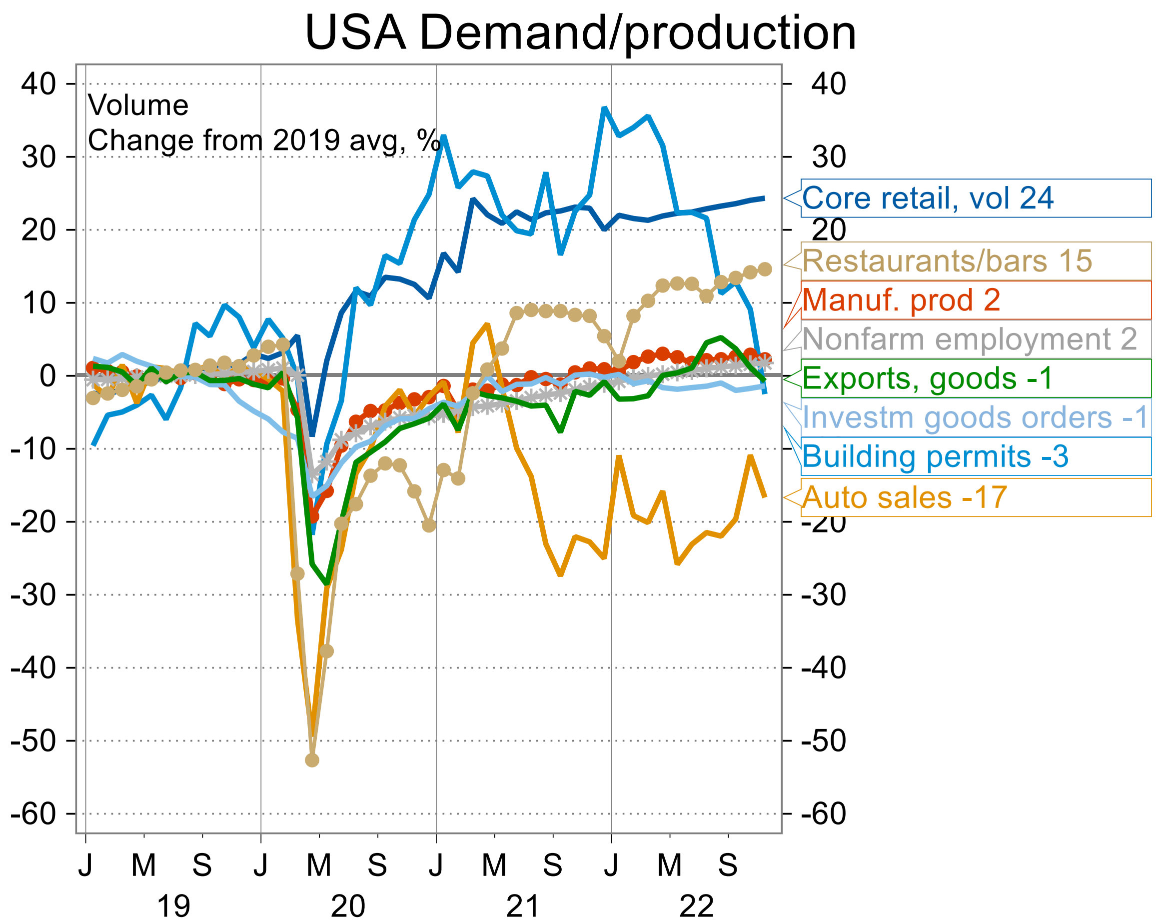




- **Rent inflation** is still accelerating measured y/y, but monthly increases has flattened – at a very high level, at 0.7% per month
  - **Market rents** are slowing (but not yet outright falling, seas. adj), signalling lower rent inflation some months ahead
- The challenge: **Services x rents**, where prices are still climbing fast – though not faster. Prices are up 4.2% y/y, and the contribution to core PCE equals 2.6 pp (of the 4.7% total core)

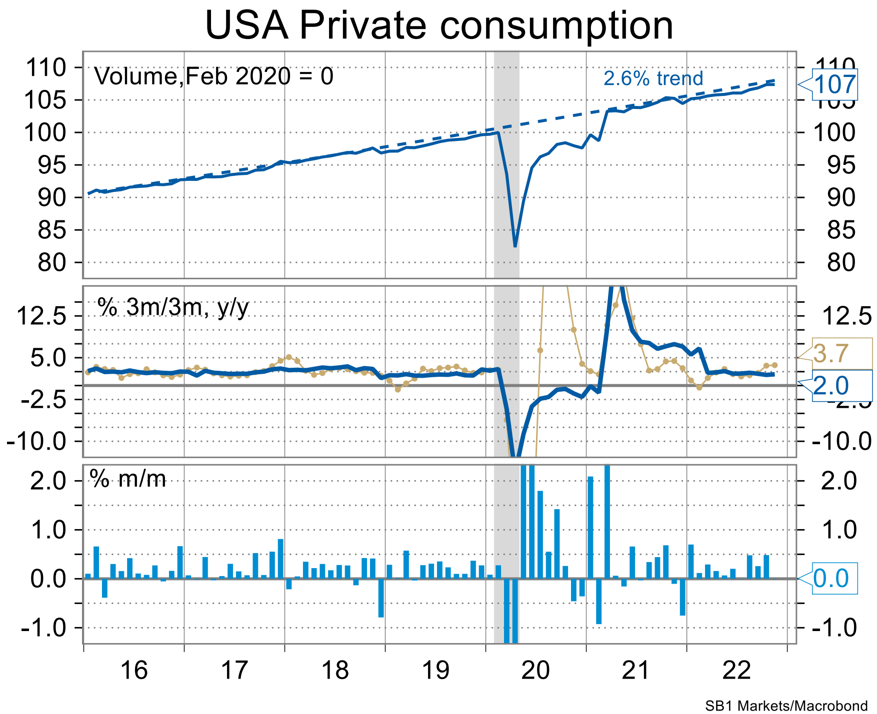
Still a mixed demand/production picture

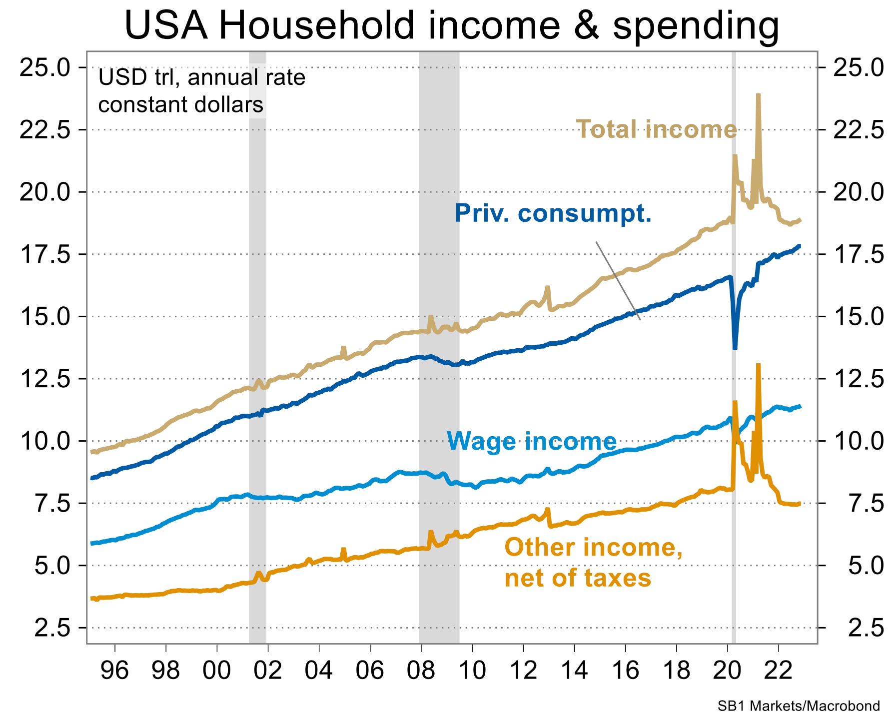
Home building (permits), exports down, investment goods orders barely flat. Retail sales, auto sales on the way up



SB1 Markets/Macrobond

Consumption flattened in November but underlying growth still strong

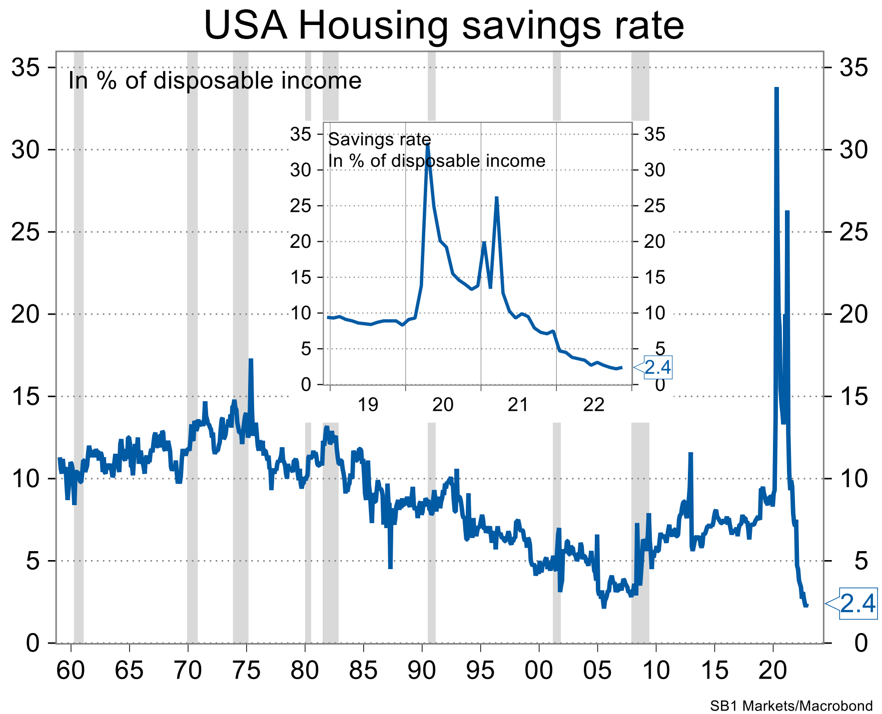


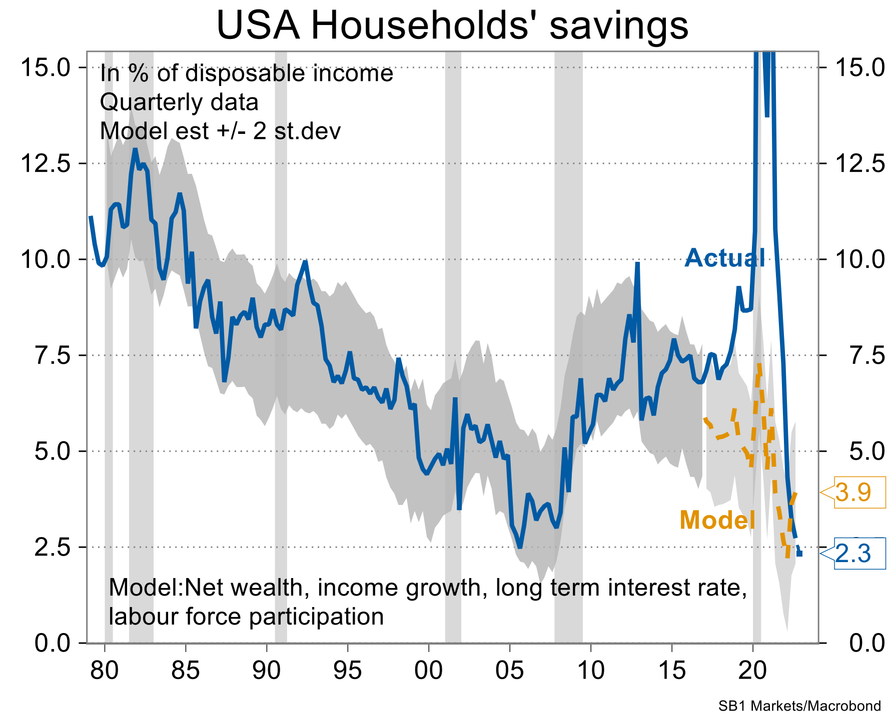


- **Private consumption** has been creeping upwards after flattening during the summer – was once more revised slightly up. In November, consumption flattened again, even if price inflation slowed to 0.1% m/m. Measured 3m/3m growth is almost 4% (3.7%), signalling a strong growth contribution to growth in GDP in Q4, very likely more than in Q3 (2.2%). Consumption rose by 0.1% in nominal terms, 0.1 pp less than expected
- **Personal nominal disposable income** gained 0.4% in Nov and was up by 0.3% in real terms. Real disposable income has increased somewhat recent months, as price inflation has slowed – but growth in real consumption has been stronger
- **The savings rate** rose 0.2 pp to 2.3% - and the rate is still close to the lowest ever – and 5 pp below level before the pandemic. However, even if the accumulated extraordinary savings through the pandemic is now gradually run down, most of the Wall of Money is still intact which may make it possible for households to keep up the level of spending (at least for those who saved…)

The savings rate may be stabilising – at a close to record low level

The savings rate rose 0.1 p to 2.4% in November – after trending down since early in the pandemic

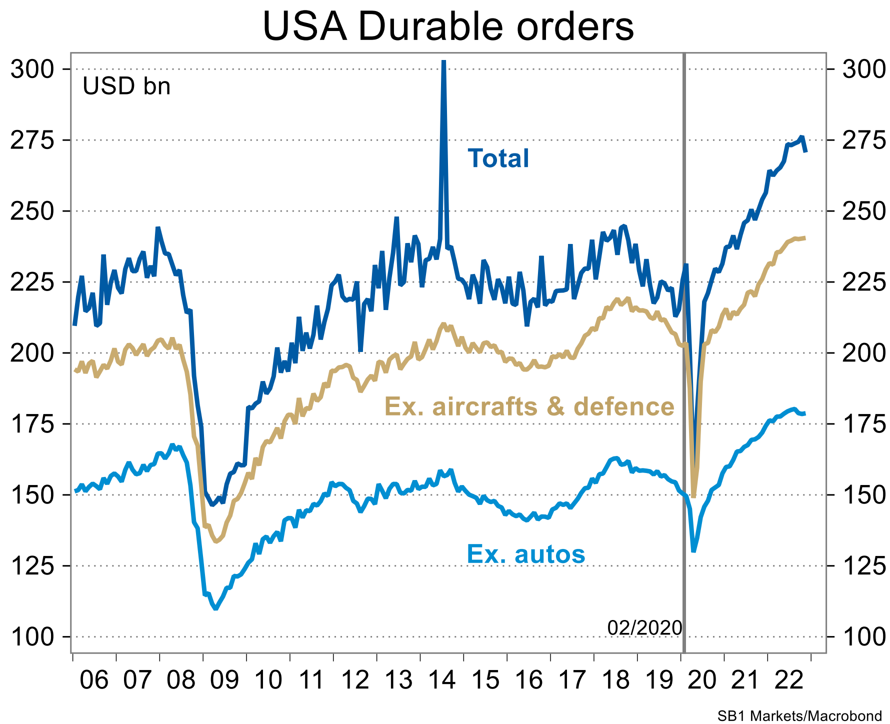


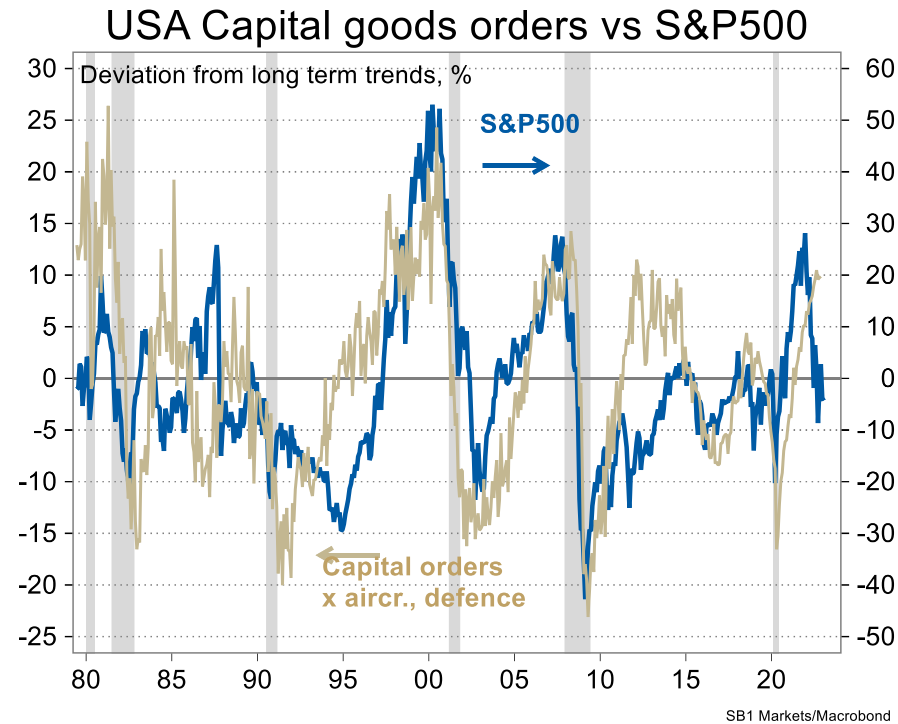


- The **savings rate** was 2.4% in November, up 0.2% from October (which one month ago was significantly lower than expected)
- Households are now dipping into 'normal' savings in order to keep up consumption, as their real incomes are not keeping up, due to the high rate of inflation. <u>The savings rate is now 5 pp lower than before the pandemic</u>
  - However, household have saved much more than normal during the pandemic, equalling to some 13% of disposable income – on average for all households, that is. This 'Wall of Money' has declined to less than 10%, and is shrinking at a 5 pp annualised pace
- **Our savings rate model**, yielded an estimated 3.9% savings rate in Q3. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp, but the gap was closed in Q2 – and now the actual savings rate is lower than he model estimate

Peak new durable orders?

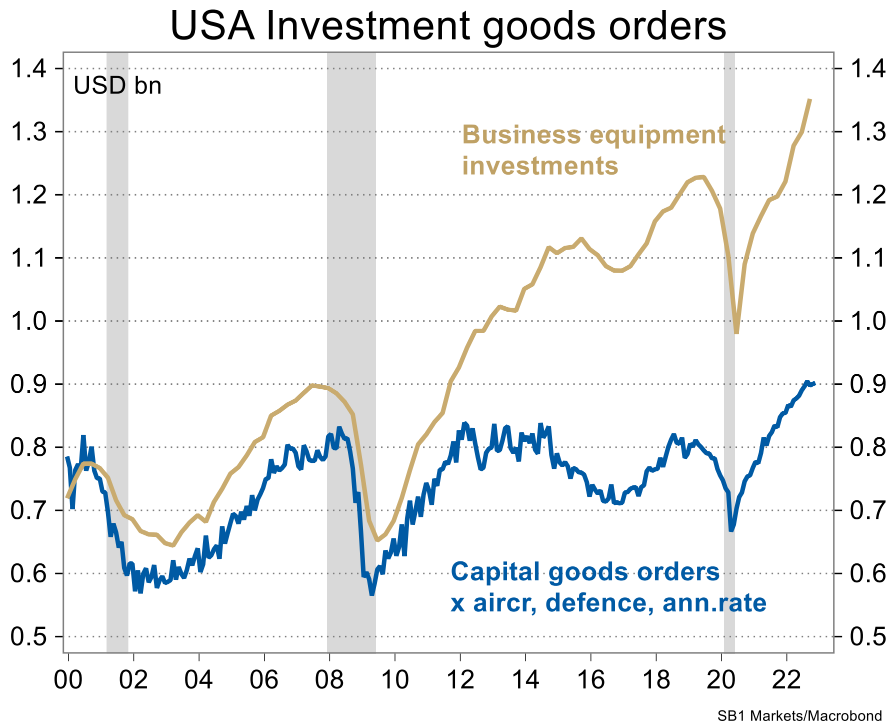
New orders down in Nov, due to a decline in (volatile) aircraft orders. However, underlying growth down to zero

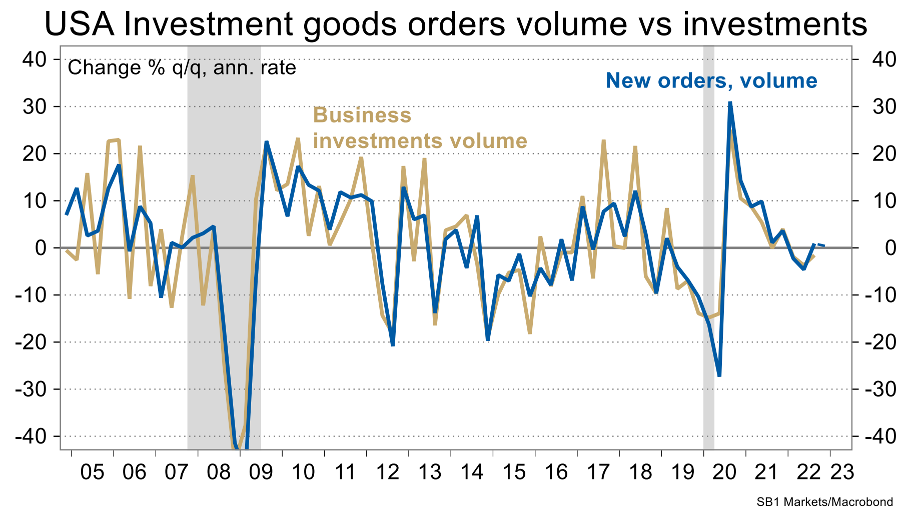


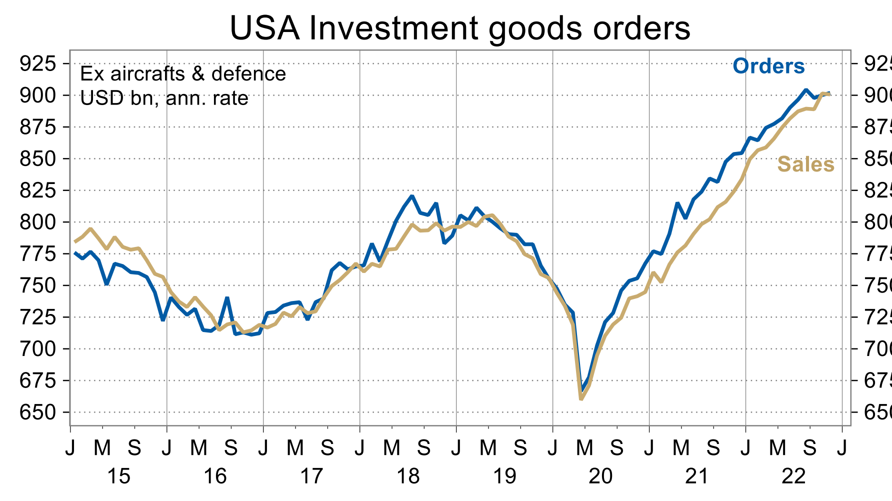


- **Total durable orders** declined 2.1% in Nov, as civilian aircraft orders fell – and more than the setback in the total order inflow. Aircraft orders are notoriously volatile. The market expected a 0.6% decline
- **New orders** ex aircrafts and defence (our core concept) rose 0.1%. Growth has clearly slowed, but orders are still up almost 6% 3m/3m, though in nominal terms.
  - **The true core**, also including auto orders – have fallen somewhat since the peak in August, and before that, growth was clearly slowing
- **Core <u>investment</u> goods orders** rose 0.7%, expected up 0.3%
- **Nominal order inflow** is above pre-pandemic levels & trends, especially for investment good orders, but surveys now signal a significant decline the coming months (which they have telling us since June, so far without any success)
- **In volume terms**, order inflows are not that impressive at all, as the price level is up more than 20% since mid-20!
- **The stock market** has taken a serious beating, this time well before the order cycle turned south. Higher real interest rate were probably enough

Core capital orders are peaking? Two months are not a new trend but still…





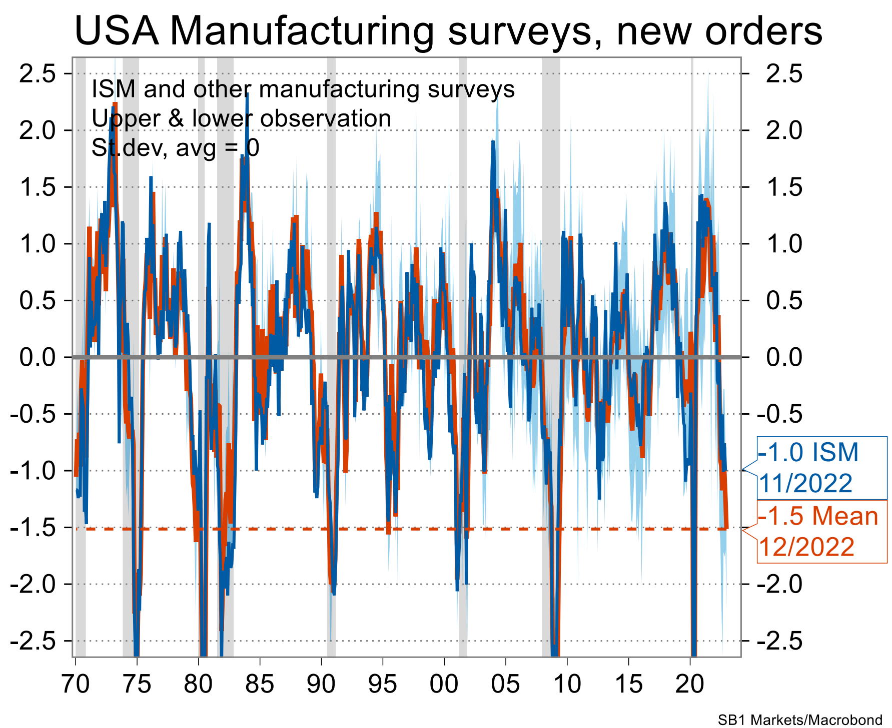


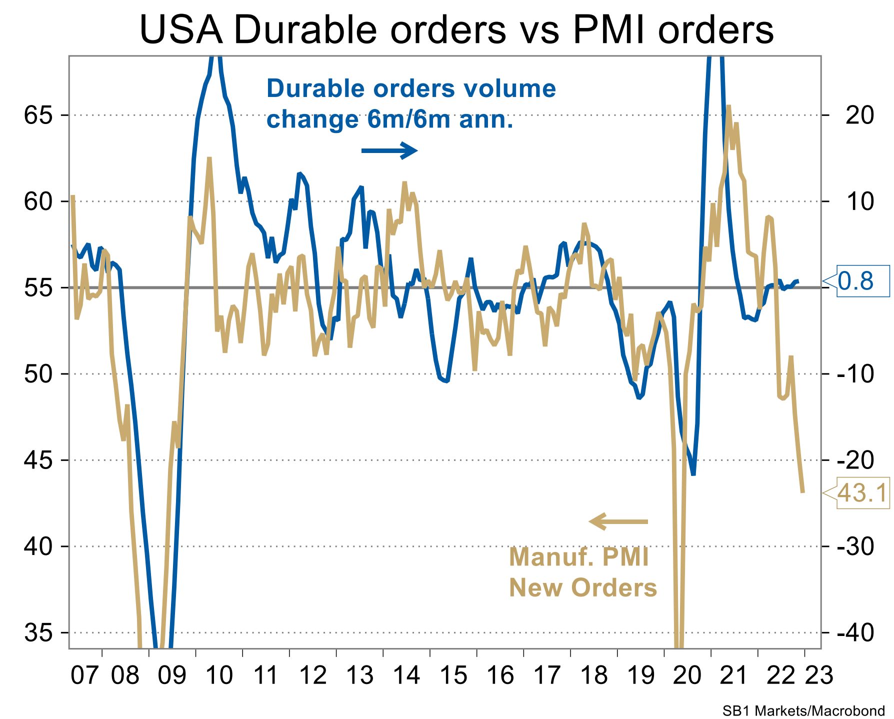
- **Core (x aircraft, defence) capital goods orders** rose 0.2% in Nov, 0.1 pp more than expected, following 0.3% lift in Oct (revised from 0.6%). Still, the level is lower than in September. Shipments fell 0.1% m/m. All data are in nominal terms
- **In volume terms**, orders fell in both Q1 and Q2, but rose slightly in Q3, and the volume in Nov is just marginally above the Q3 average – signalling close to zero growth in new orders volume & business investments in Q4 (check upper right chart)
- **The business investment** level is well above the pre-pandemic level – and not low vs. a reasonable long term trend (not only in nominal terms, but also in volume terms)
- **Surveys** are indicating a substantial decline in new orders (next page)

SpareBank 1 MARKETS

Surveys are signalling a steep decline in new orders

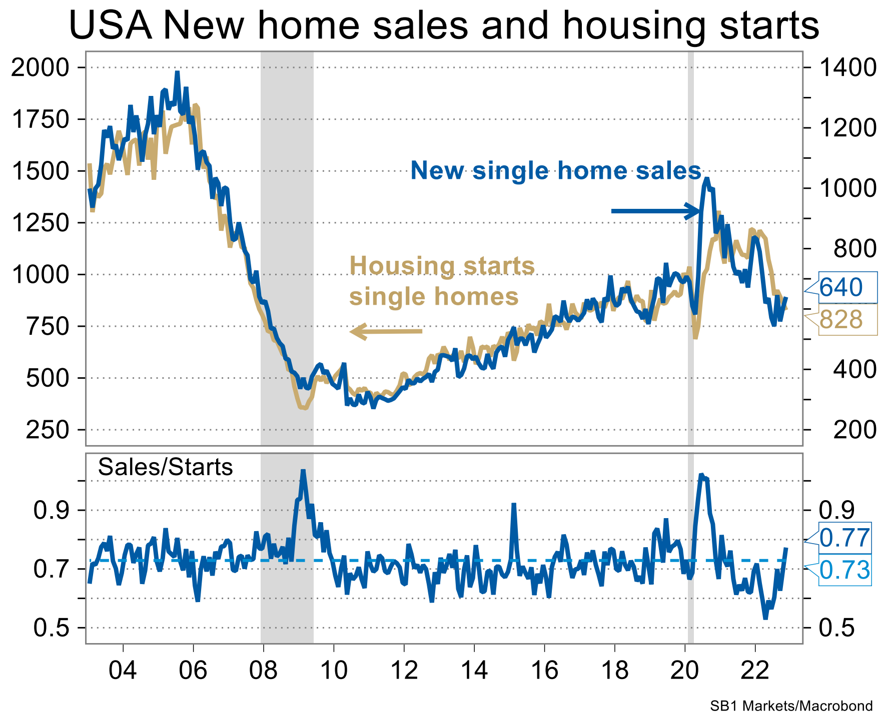
… which so far has not materialised…

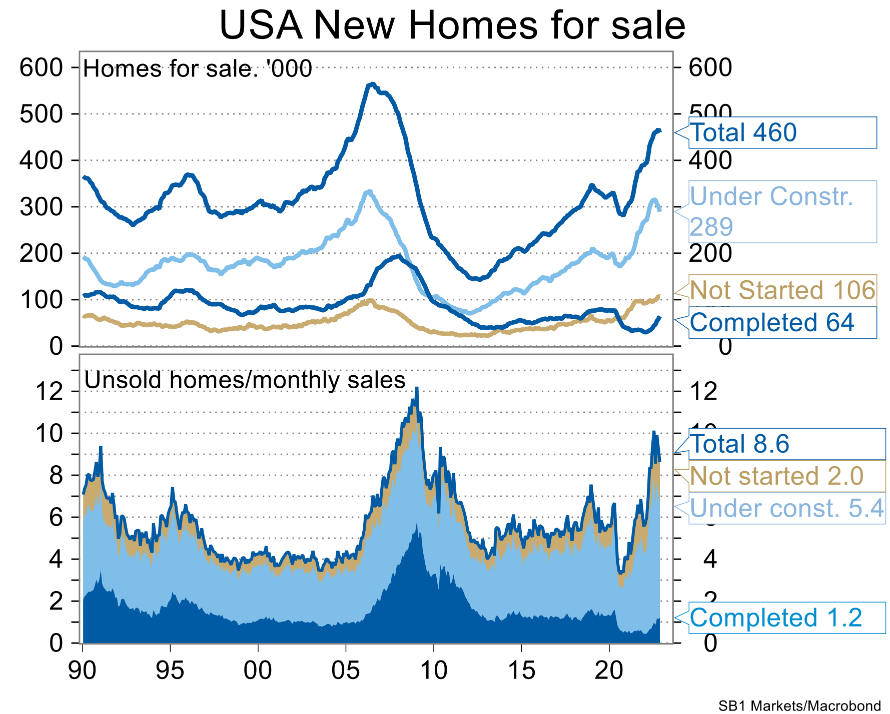




New home sales refuses to come down

Stars rose in November – and has flattened since April – and the inventory of unsold homes is flattening

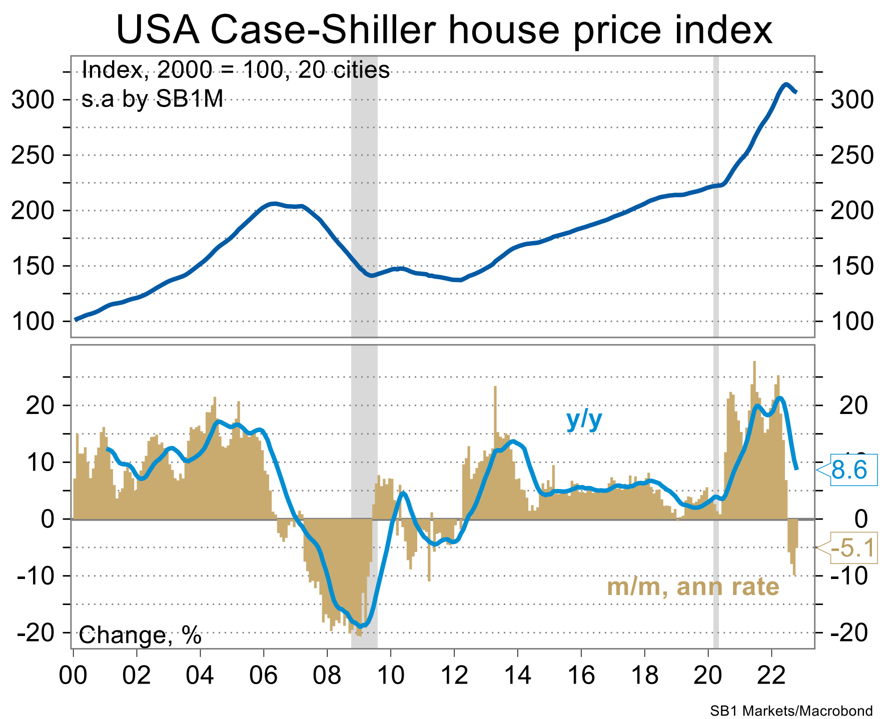


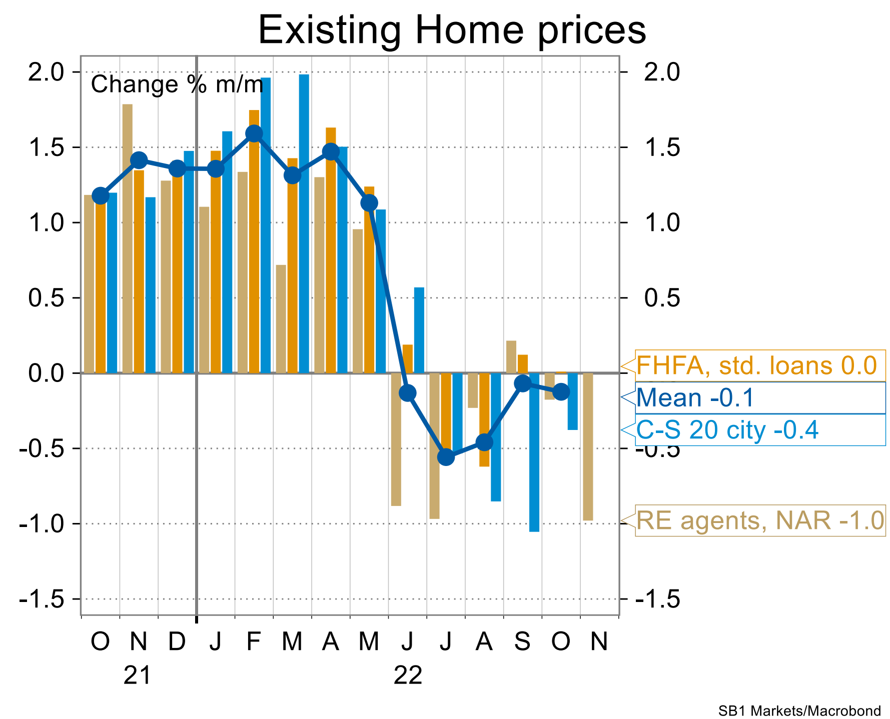


- **New single home sales** surprised on the upside in November too, up to 640', up from 605' in Oct (revised down 632'), expected down to 600'. Sales fell sharply from January (from 831') to July last year (531' while the peak during the pandemic was in Aug 20, at 1,036')
- **The inventory of unsold homes** fell marginally in Nov, following a steep rise since Oct 2020 – to a rather high level, both in absolute terms and vs. sales. Most of the inventory is 'for real', either completed homes (but the level in this category is still not high, or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand & prices during the pandemic. A steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started as at least the housing market has entered a recession). In November, the sum of no. of completed homes and homes under construction (the 'real' supply) fell slightly – as sales have recovered vs. starts (check the lower panel on the chart to the left)
- **Prices** increased slightly in October but the short term trend is flat – and very likely, prices will soon turn south

Case/Shiller house prices down in October, but less than expected, just 0.4%

Prices fell 0.4%, expected -1.4%, and the FAFA index was unchanged

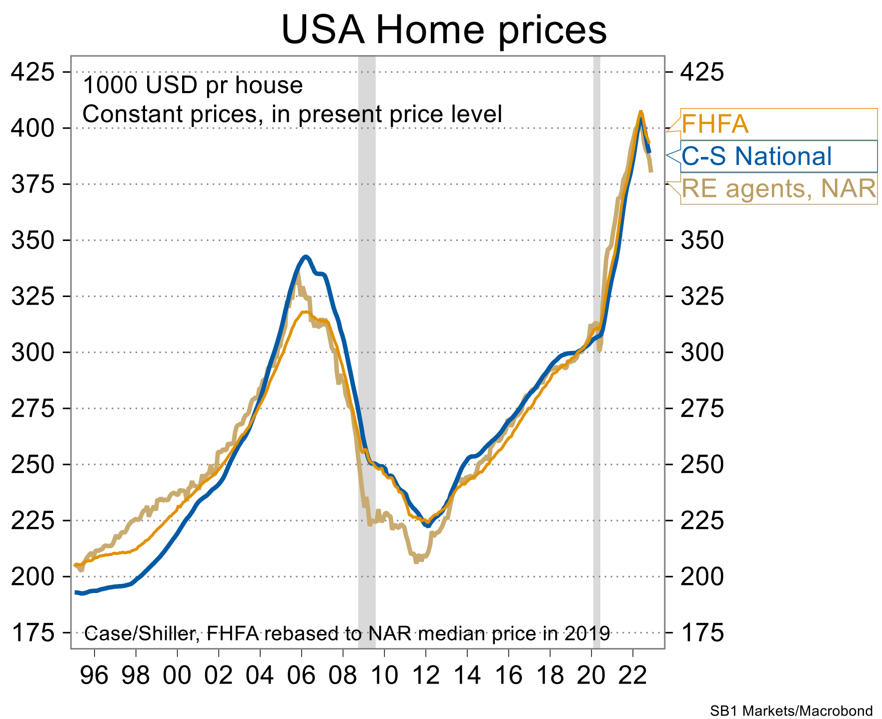


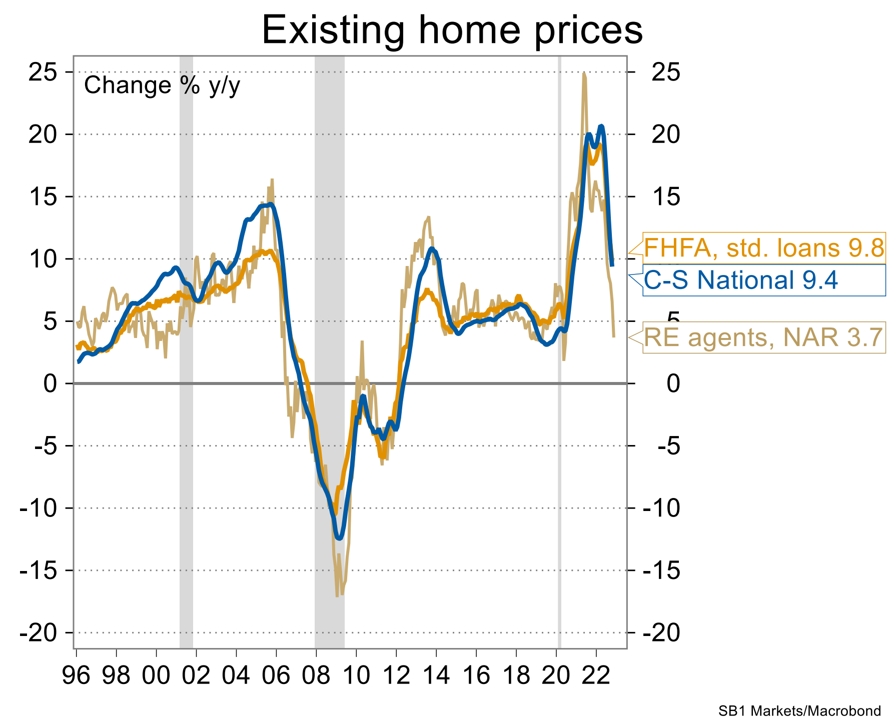


- **S&P's Case/Shiller's 20 cities** price index fell by 0.4% in Oct (Sep - Nov avg., our seas. adj, -0.5% the 'official' seasonal adjustment, 1 pp less than expected. The index is still up 8.6% y/y, and the rate is falling rapidly
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), were unch. in Oct, following a 0.1% increase in Sept!
- Realtors reported a 1% decline in house prices in November
- We still expect prices to yield substantially the coming months, following the unprecedented 42% lift since before the pandemic to the peak in June, and the surge in mortgage rates

The downside is HUGE, following the 40%+ price appreciation from Feb-20

Were real house prices too low before the pandemic? Probably not. Can they fall back? Not unlikely

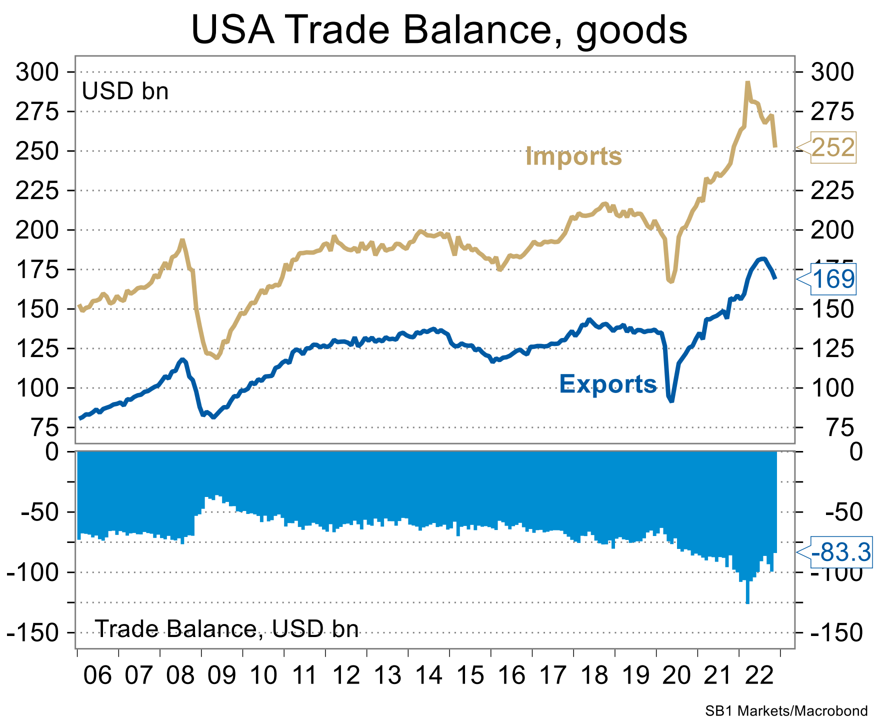


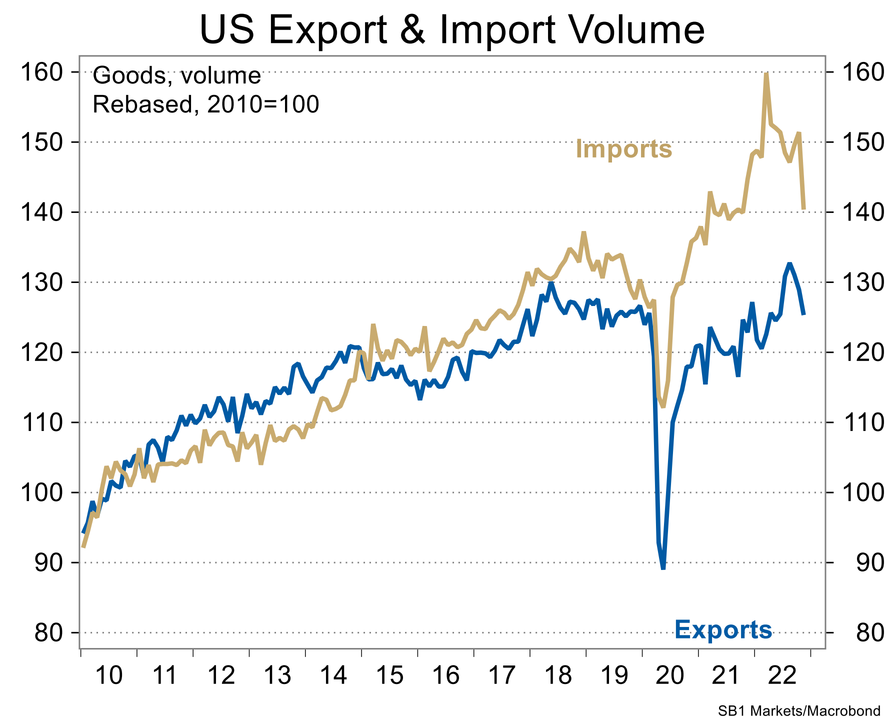


- **Real prices** are far above the pre-financial crisis level too
- There are still some big differences vs the mid 2000 housing bubble
  - **Housing starts** are at a lower level. The **inventory** of second-hand homes for sale is still close to record low (vs high 15 – 16 years ago). However, the inventory of new homes for sale is climbing rapidly, and is now rather high
  - Households' average **debt/income ratio** has fallen sharply since the peak before the financial crisis, and their cash positions have soared (on average) to above debts. However, credit growth has accelerated rapidly during the pandemic, and housing affordability is far weaker than in early 2006, when the previous bubble burst
  - The **savings rate/net financial investments rates** have now fallen to well below the pre-pandemic level – but the ratios are above their respective levels in 2005

Imports collapsed in November, now finally a Chinese Covid impact??

The trade deficit in goods collapsed, to USD 83 bn from 99 bn, expected 97 as imports suddenly fell USD 20 bn (8%)

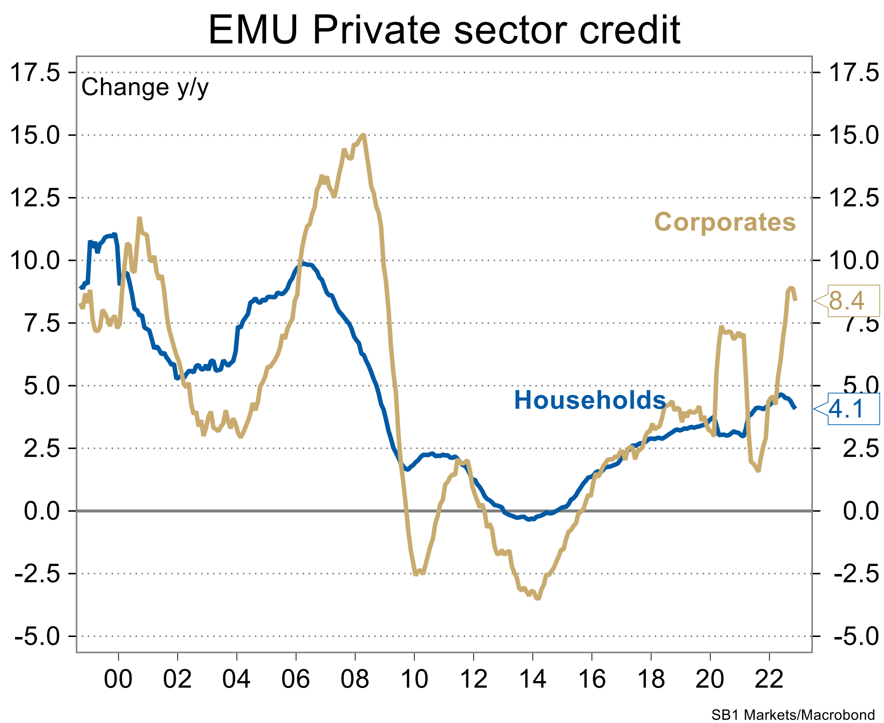


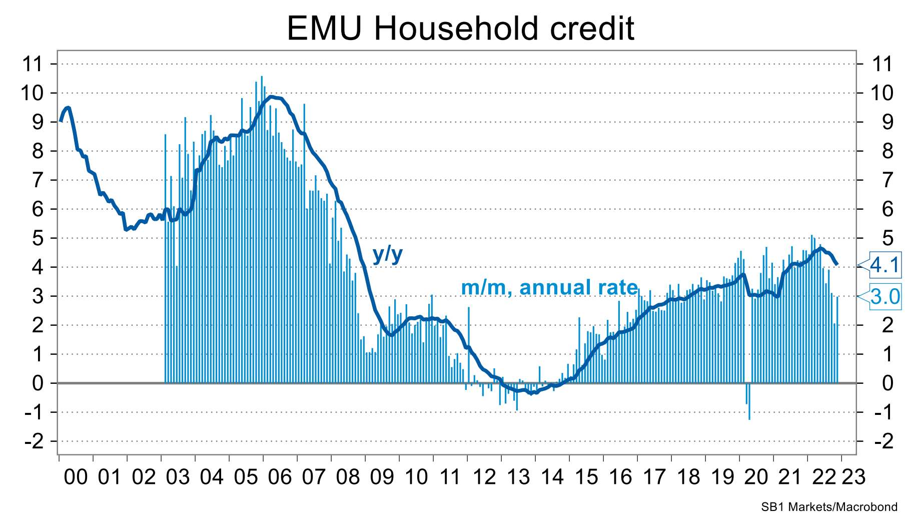


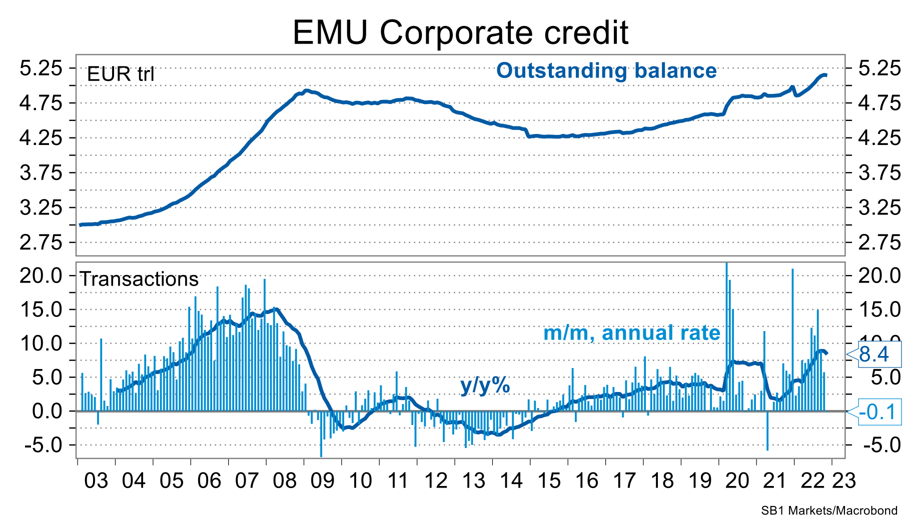
- The sudden decline in **imports of goods** (just Nov 2008 post Lehman, and April 2020 has been even weaker m/m since 1985) can not be due to lower final demand in the US, even if the trend may be downwards. Consumption of goods and business investments are not collapsing, and housing is not 'that large'. We assume parts of the decline may be explained by the sudden drop in Chinese exports in November (down USD 8 bn, according to Chinese data) – which was not due to collapsing orders from abroad but Covid troubles. Very likely, the drop in imports will be compensated by an inventory drawdown (which most likely will have been warranted in some sectors)
- **Exports** fell by USD 5 bn or 3% - and the direction has been downwards recent months, both in nominal and real terms, signalling weaker demand abroad (and partly the impact of a strong USD)
- The **trade deficit** has fallen sharply through 2022, from and ATH above at USD 125 bn

Credit growth keeps slowing, and banks are tightening sharply

Annual growth rates have kept up, but are now falling too – and corporate credit declined m/m in November



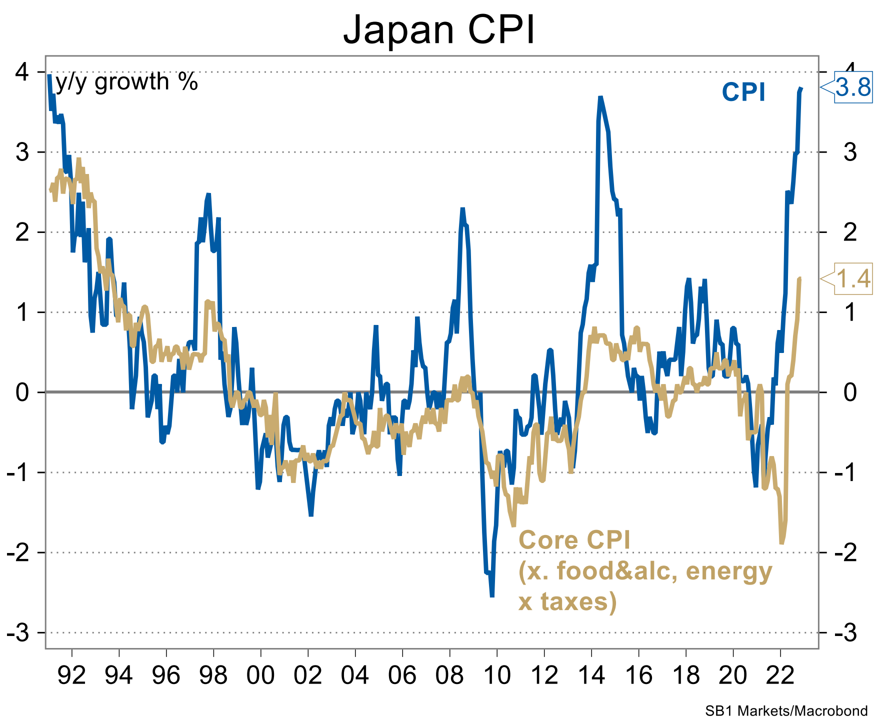


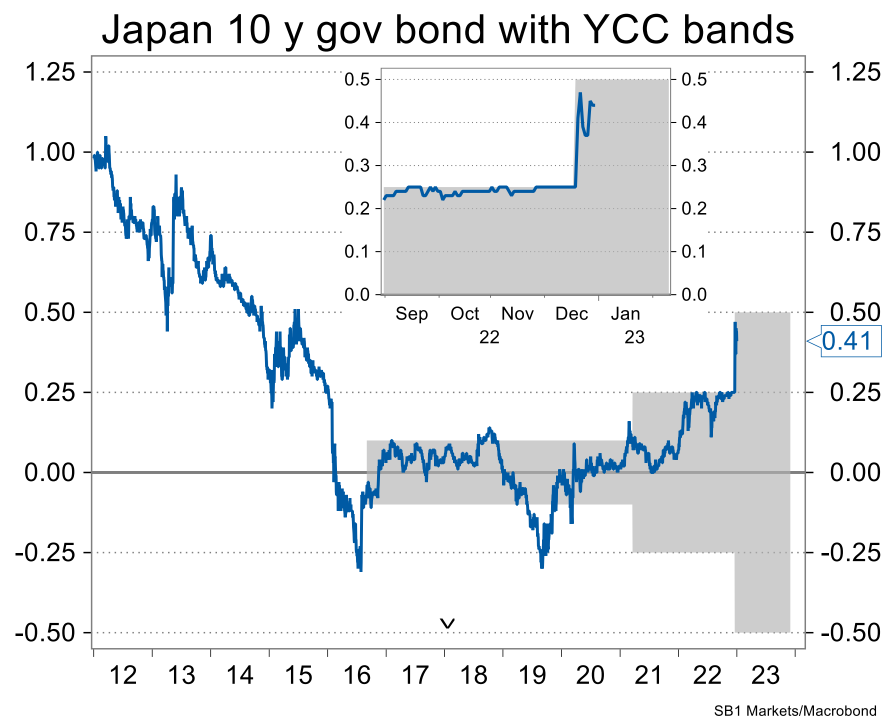


- **Monthly growth** in household debt has fallen to 2- 3% from 5% in early 2022, and now the annual rate is slowing too, now down to 4.1%
- Growth in corporate debt is still up 8.4% y/y – and may have peaked for now – and the monthly growth rate fell sharply in November, to -0.1%. The last **banking survey** signals a significant tightening, *check the next page*

Inflation the highest in more than 30 years, and the YCC band is widened

CPI is up 3.8% y/y but the real core is up just 1.4%. Bank of Japan accepts a 10 y bond yield up to 50 bps, 25 bps

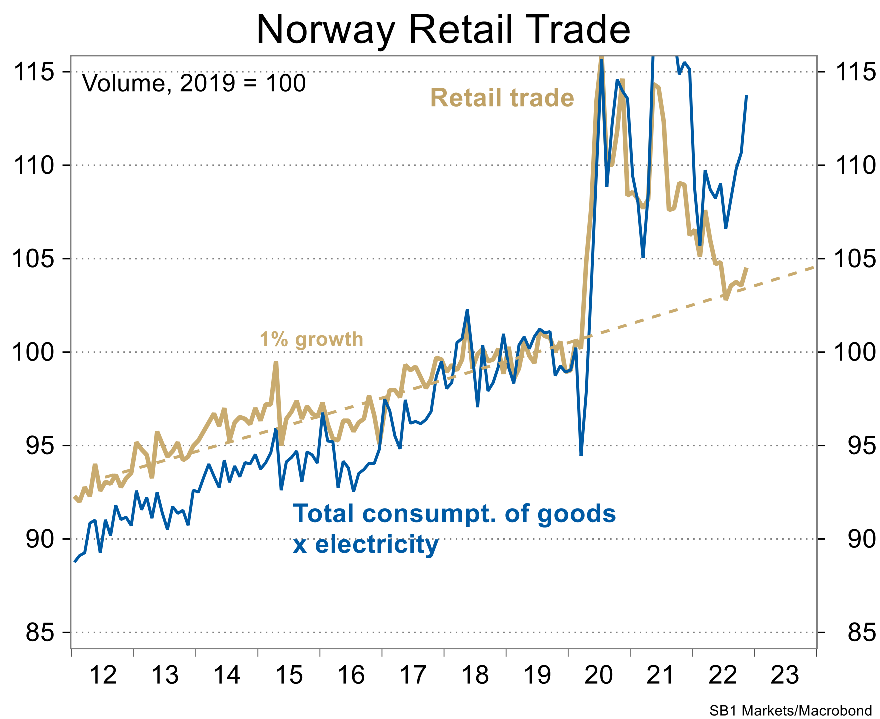


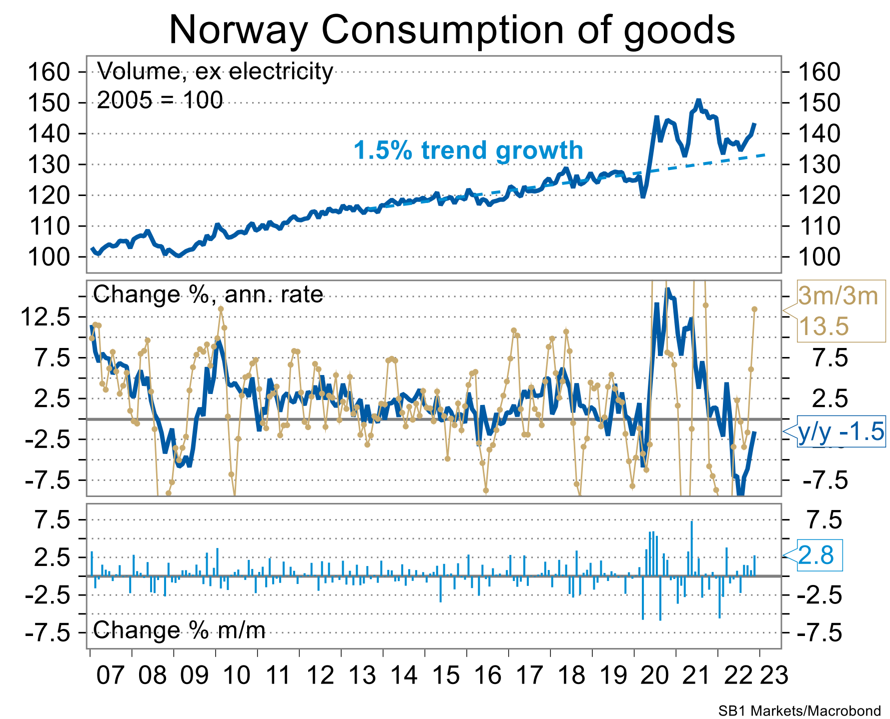


- **Inflation** is still on the way up but is still not high – and the peak may be near (check more next page)
- Just before Christmas Bank of Japan widened the **Yield Curve Control corridor** to 0 +/-50 bps, from +/-25 bps (from March 2021), and from +/-10 bps (from Sept 2016, when the YCC was first formalised)
  - The bank now pledges to buy sufficient of JGBs to prevent the 10 yr yield to rise above 50 bp (and to sell if the yield falls below -50 bps, we assume)
  - The yield rose sharply on the announcement but has retreated somewhat thereafter

Retail sales higher in November, likely driven by Black Friday offers

Retail sales were up by 0.9% (we exp. -0.5%); total consumption of goods was up 2.8%. And the short-term trend is up!

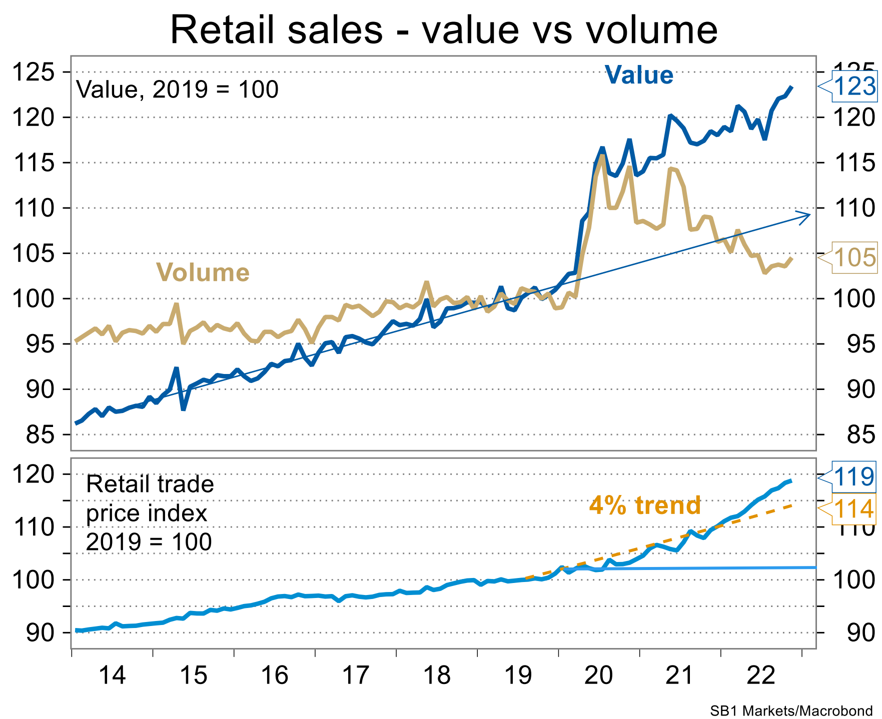


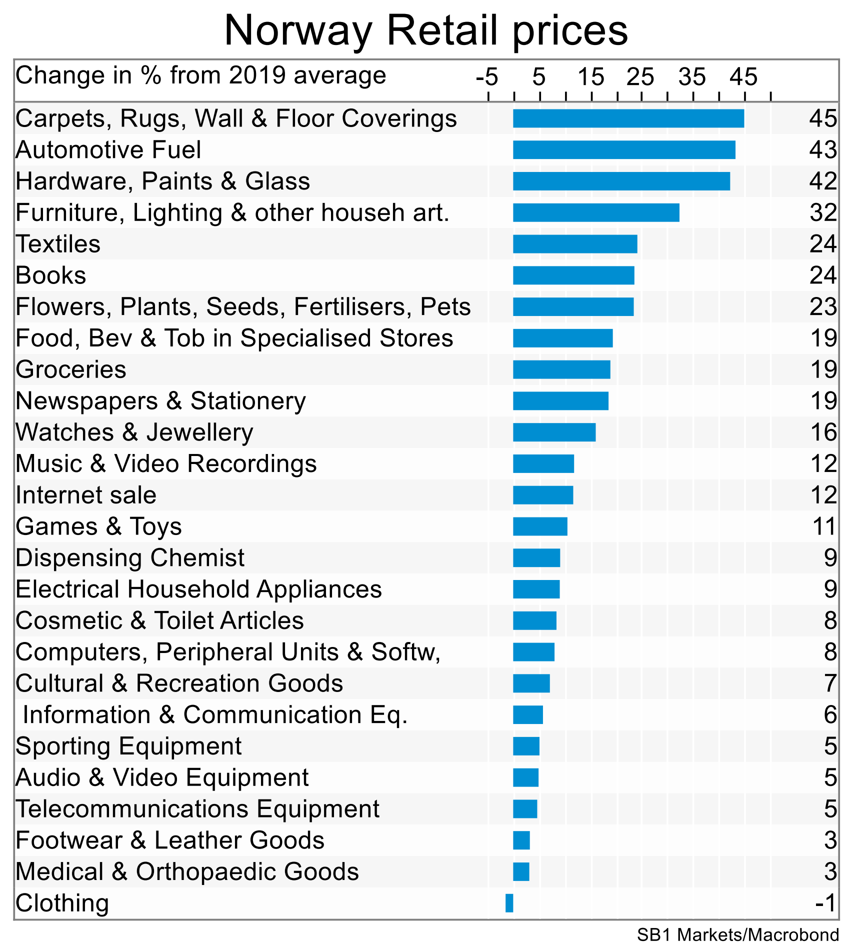


- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth path. The increased sales in November were likely in part driven by discount shopping during Black Friday (Black Week), and a steep increase in sales of sport equipment (and gasoline, contributing 0.2 pp). ago
- **Total consumption of goods** rose 2.8% in November – and the history was revised up somewhat (like consumption in National accounts)
- In Norway, less x-border shopping in Sweden (was cut to zero during most of the pandemic) – but it is no back to a normal level. So is consumption of services, and other consumption abroad. In addition, the lift in inflation and higher interest rates also seem to have aided sales back down to the pre-pandemic trend. <u>However, the very short term trend is far better than we assumed some few months ago</u>

Retail sales value vs. volume – and what's between

Retail prices have been increasing at well above a 4% pace since 2019, in sum by 19%!

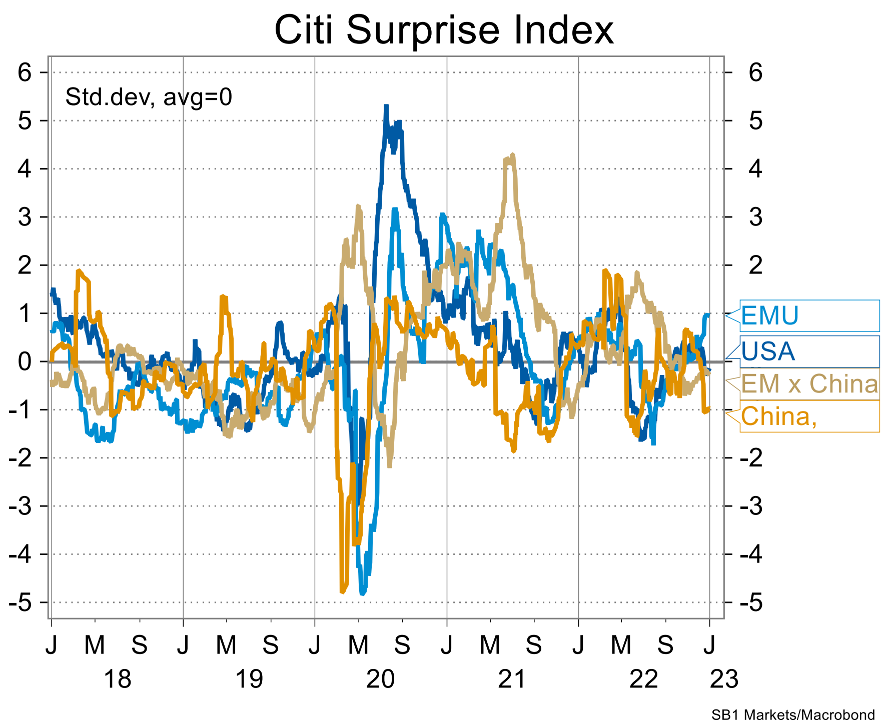




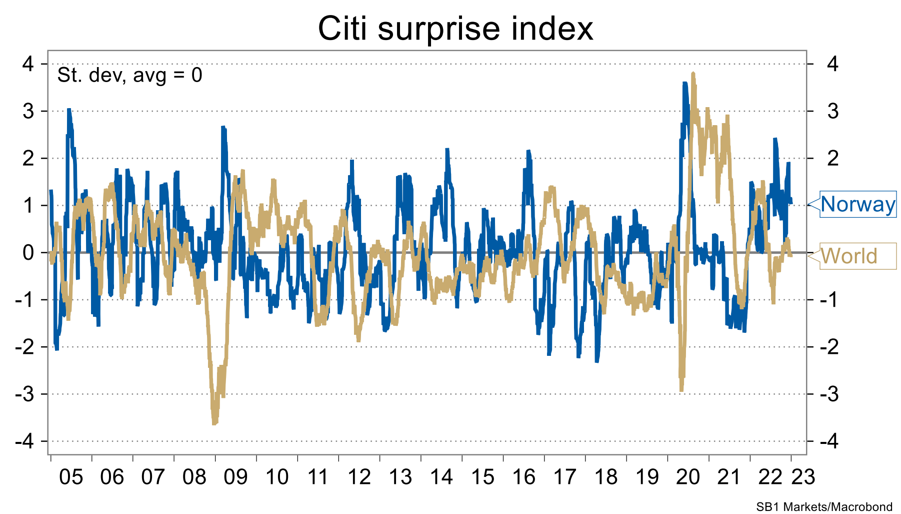
- **Retail sales**, measured in value terms, are 23% above the 2019 level and 12% above the pre-pandemic trend
- Huge differences is **price changes**:
  - Gasoline up 43%, hardware (building materials), floor coverings, are up 42% – 45%, furniture 32%
  - Close to the bottom of the list: Sport equipment prices are up just 5% and clothing is down 1%! So there is not inflation everywhere these days!

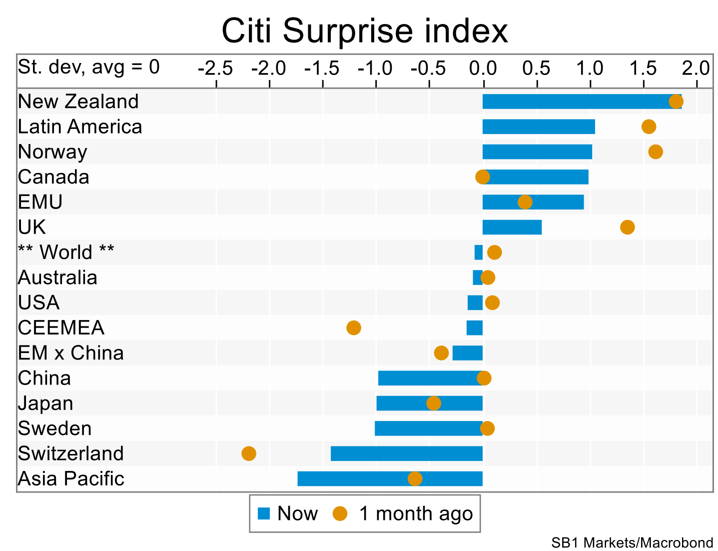
US, Chinese data weaker than expected; EMU data surprise to the upside

All Chinese November data were much weaker than expected



- **Emerging markets x China** is marginally below par, but less so recent weeks
- Norwegian data still much better than expected, almost at the top, according to Citi





Highlights

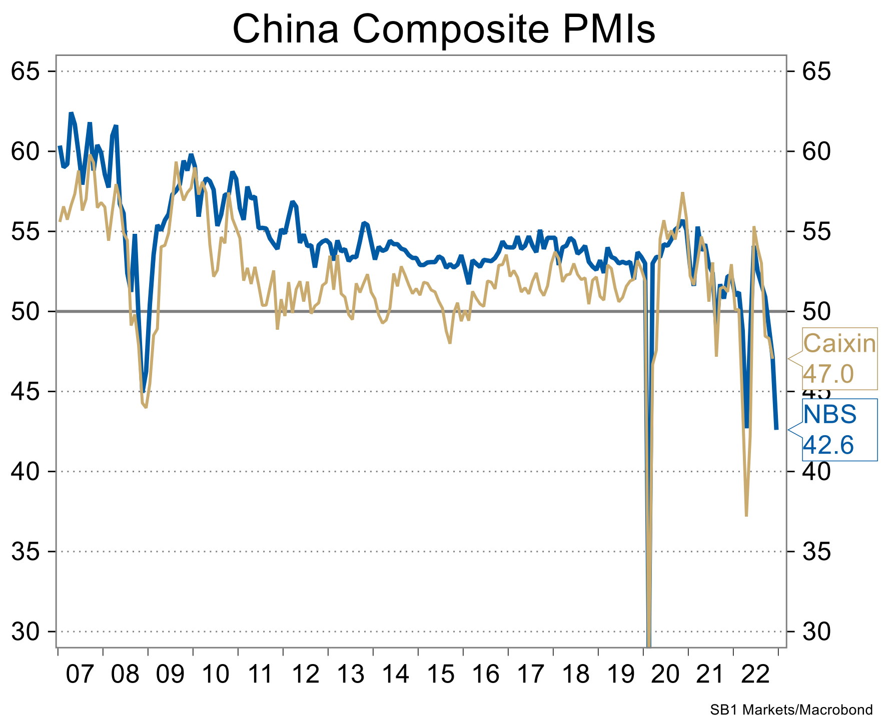
The world around us

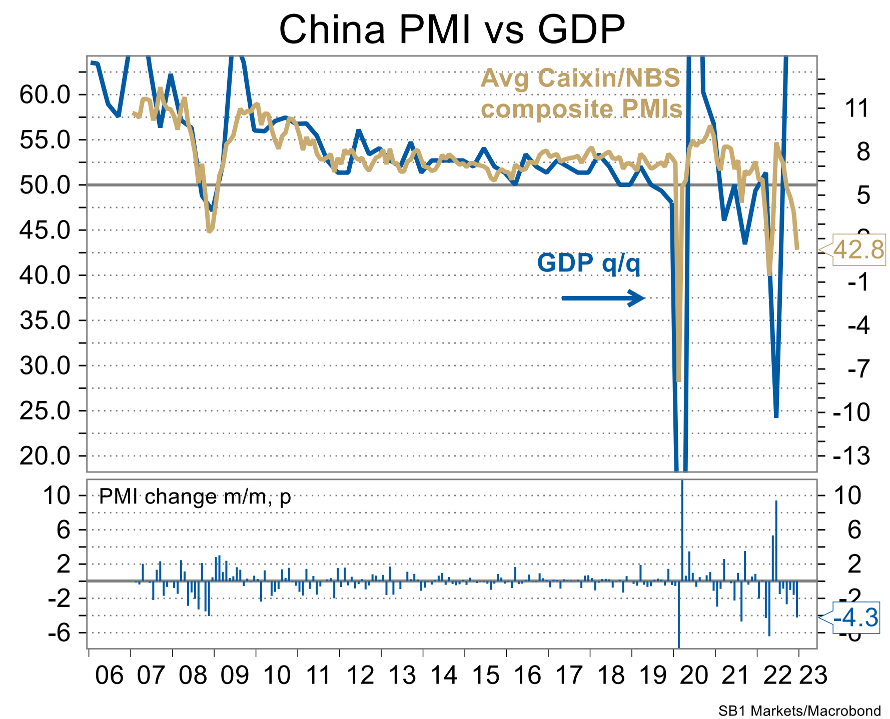
The Norwegian economy

Market charts & comments

Full stop in December, after Covid restrictions were lifted

The NBS/CFLP PMIs signal a sharp setback, and Q4 GDP will very likely take a hit

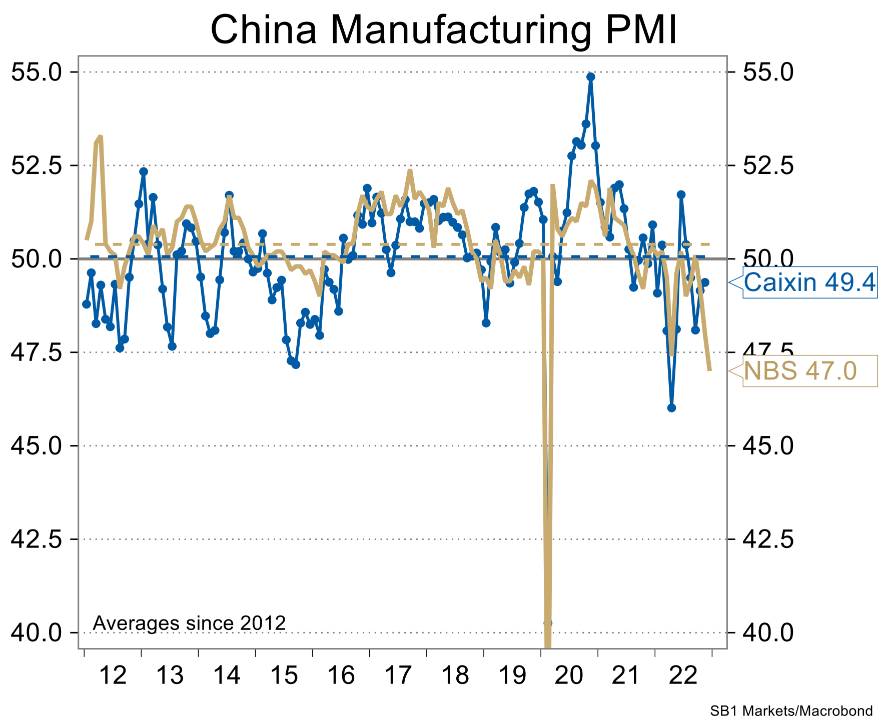


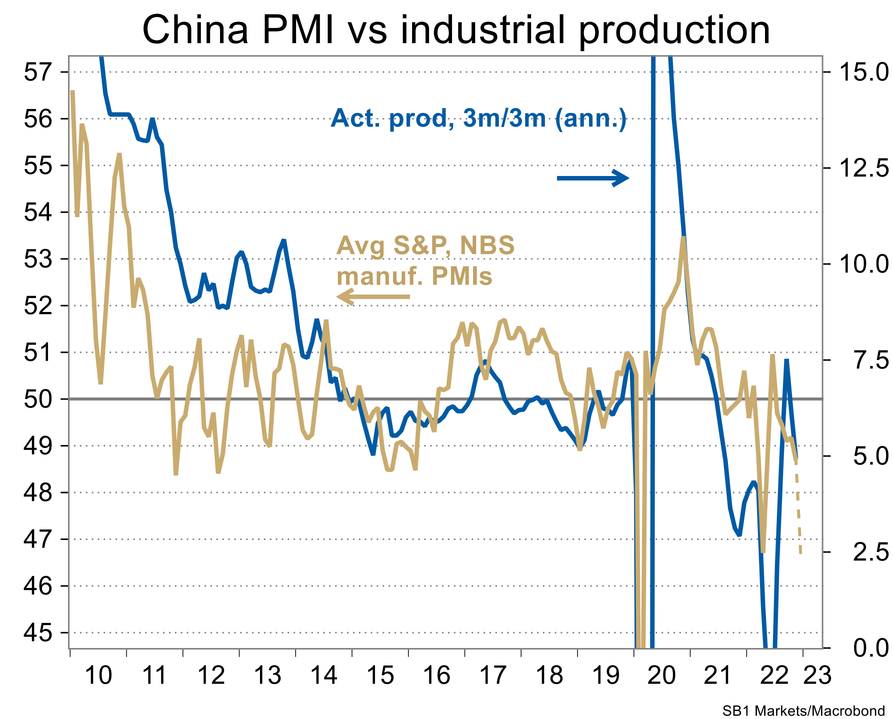


- The **NBS/CFLP composite PMI** fell by 4.5 to 42.6, the 2nd lowest level ever (Feb-20 was far lower), expected unchanged! The m/m decline was larger 3 months during the financial crisis and in Feb-20. Both the manufacturing and the service sector PMIs fell sharply
  - At the chart to the right, we assume as similar drop in Caixin's PMIs (the manuf. survey reported Tuesday morning) – and the PMIs are signalling close to zero growth in GDP
- No doubt, the wild spread of the virus following the **abrupt change in Covid policy** December 7th is now hitting the Chinese economy hard as people self isolate or are sick. However, given the swift spread of the virus, this wave will not last that long (some weeks/very few months) as natural immunity will increase rapidly, the very hard way

Full stop in the manufacturing sector in December

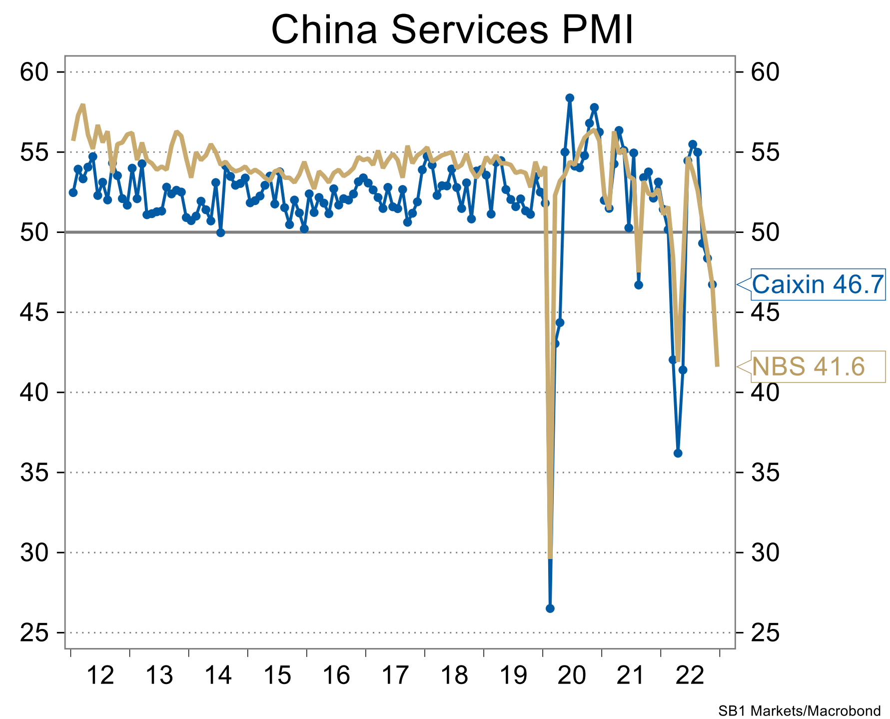
Analysts expected a marginal decline in the NBS survey, but the decline was much larger

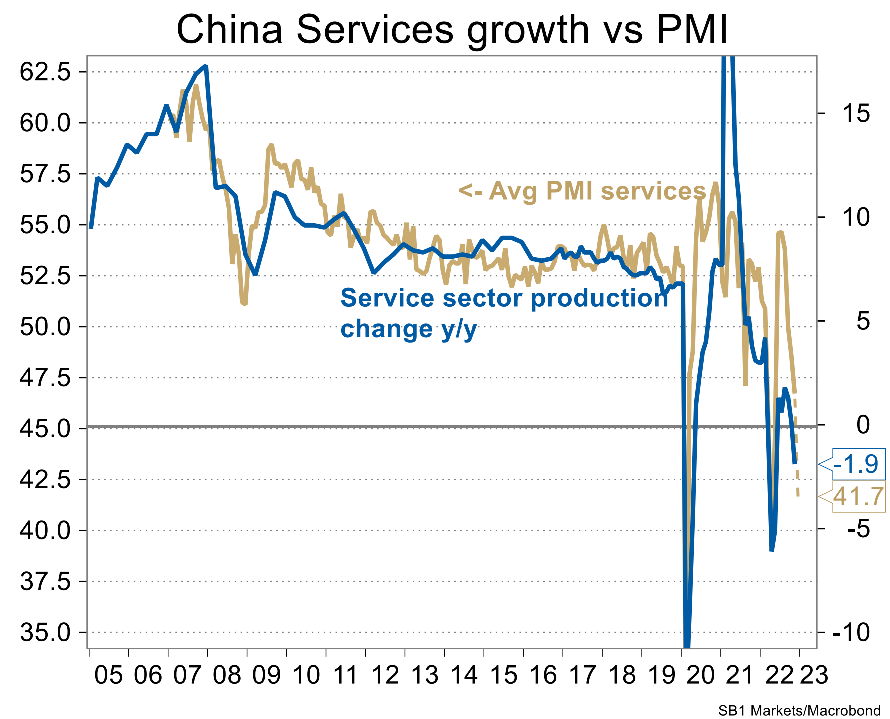




A steep decline in service sector activity too

The PMI signals a huge setback in service sector activity in December

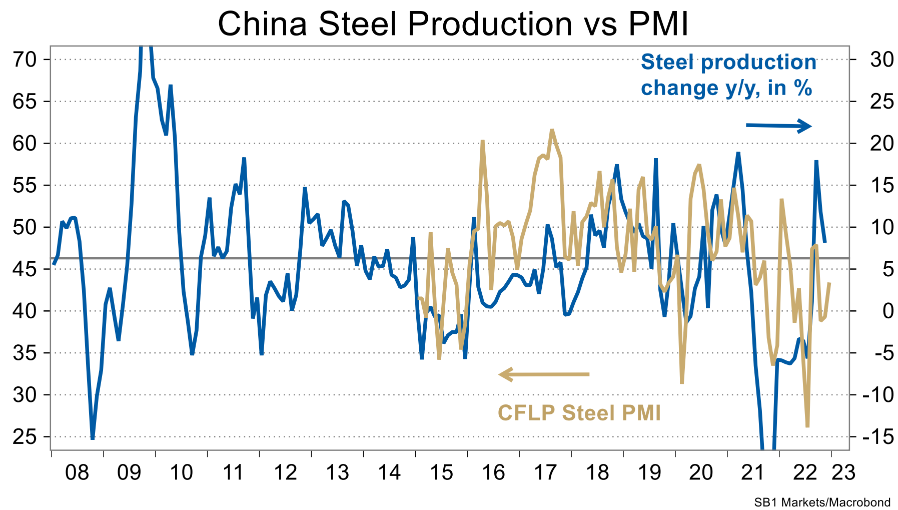


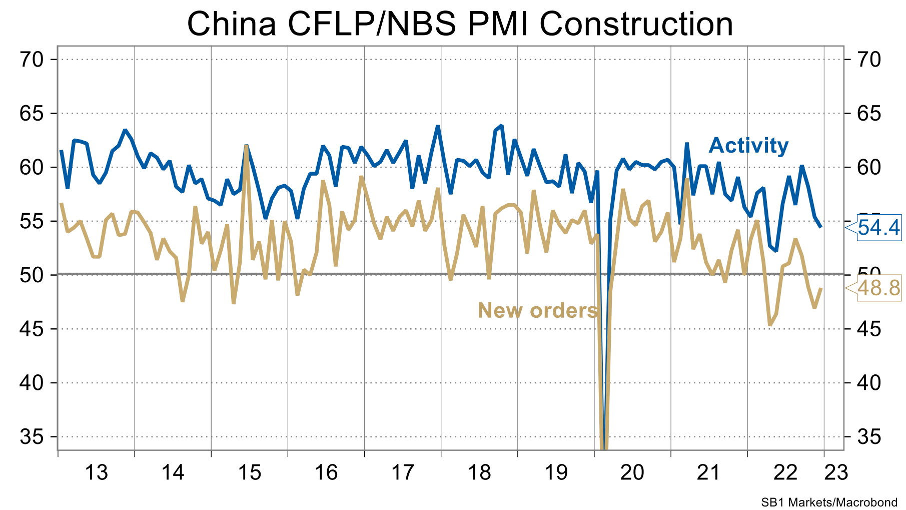


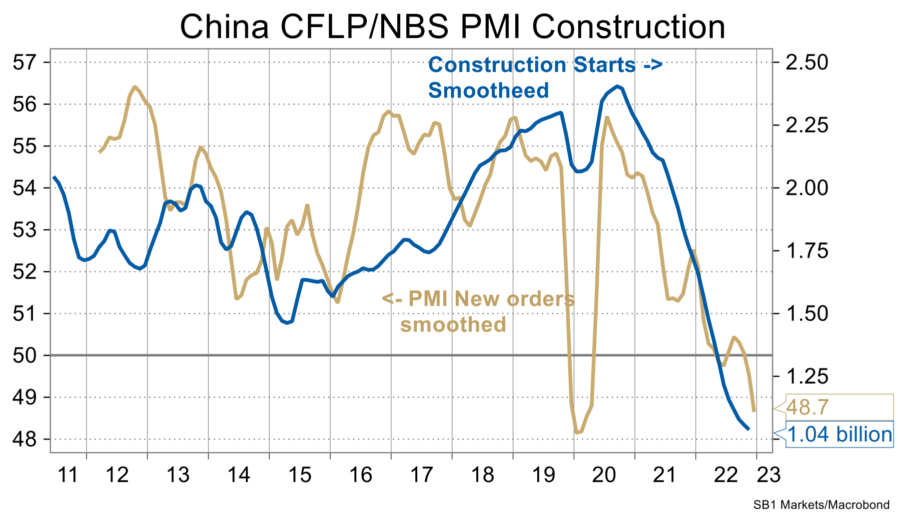
- Transport activity (road congestion, subway traffic) was low in many cities through December

The construction sector PMI is not signalling an imminent recovery

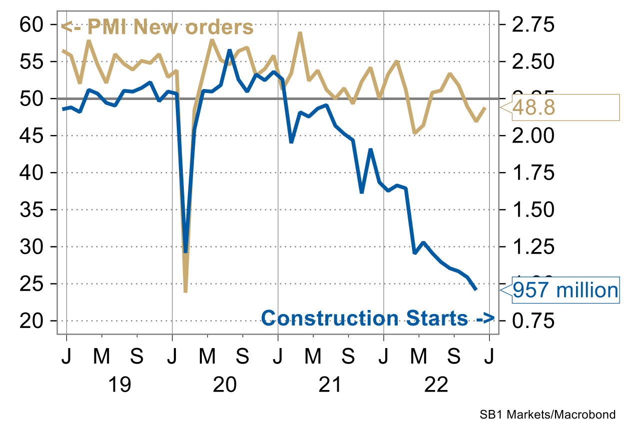
The steel production index rose in December but remains at the weak side too. Actual production has kept up well





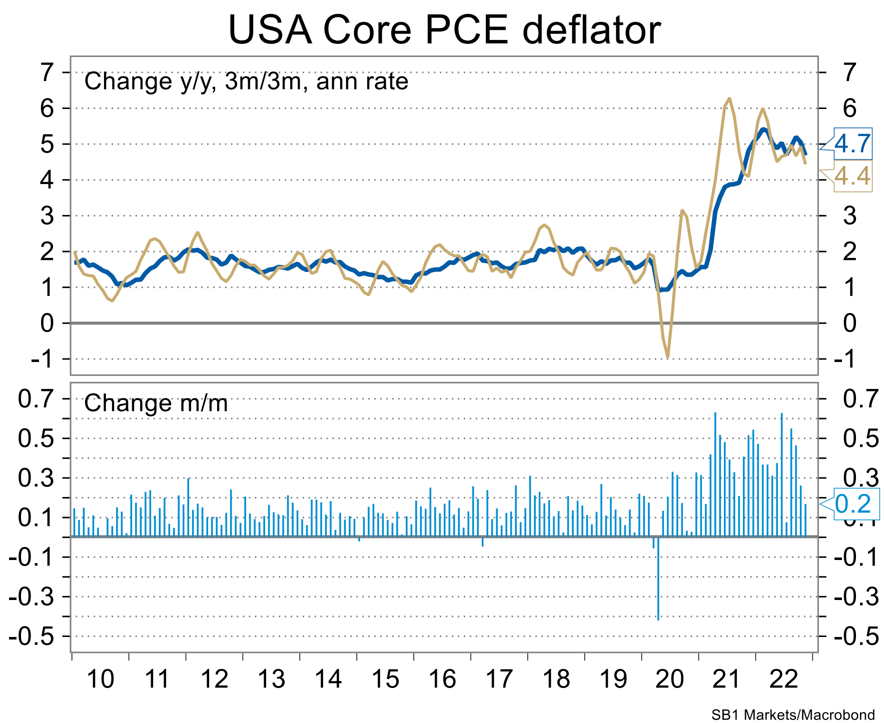


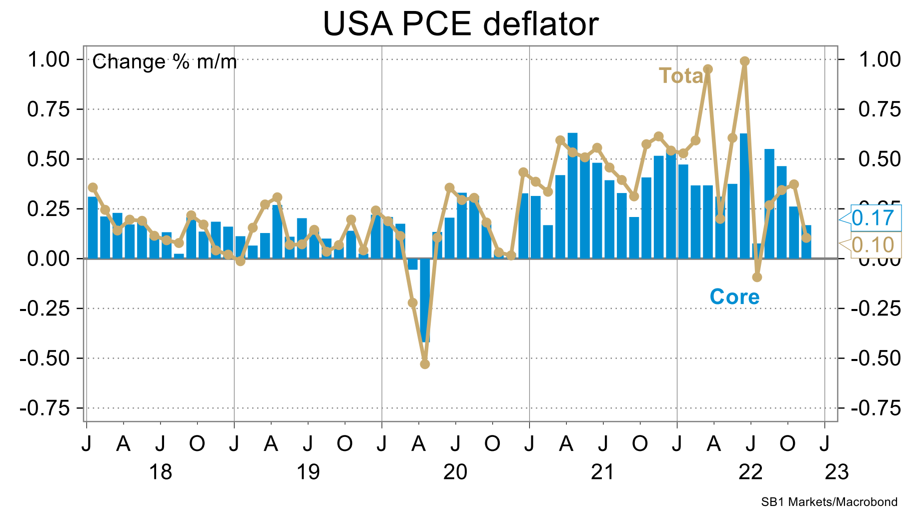
- Construction starts have continued downwards after the major lockdowns during the spring, and prices are falling – and new orders are still weak, according to the PMI

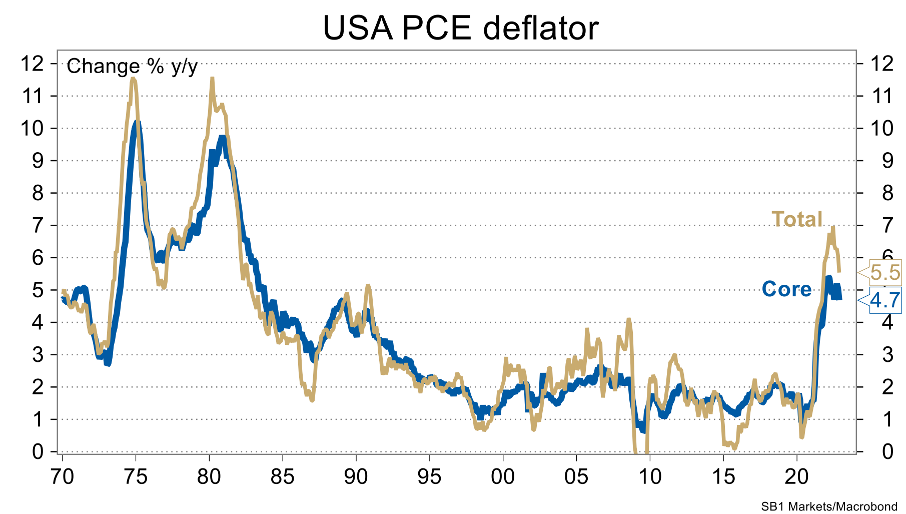


Inflation is heading down but still some challenges left

The core PCE deflator rose by 0.2% m/m, as expected but the annual rate fell 0.1 pp less than assumed, to 4.7%



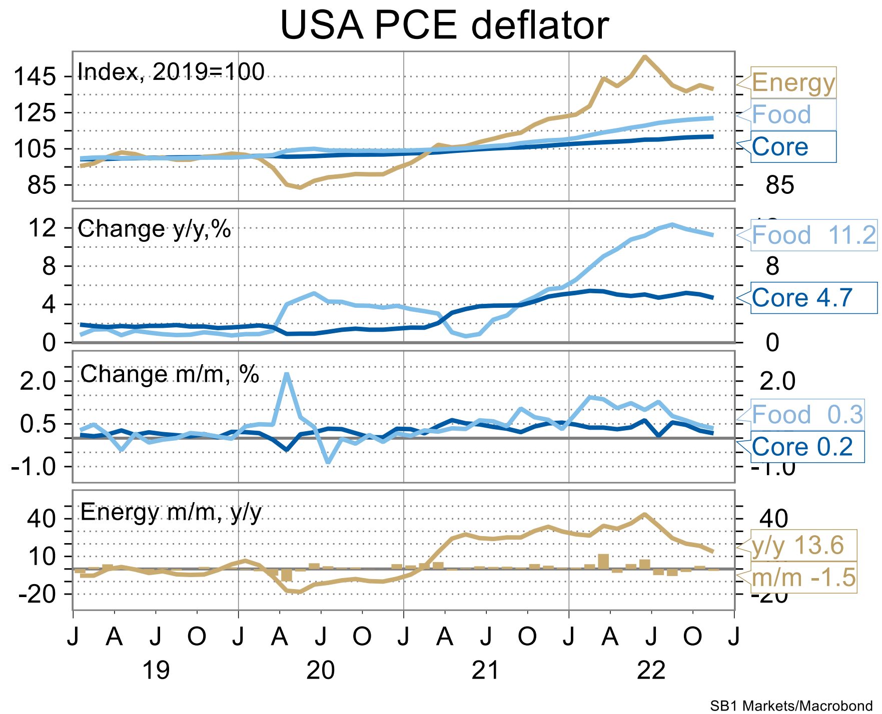


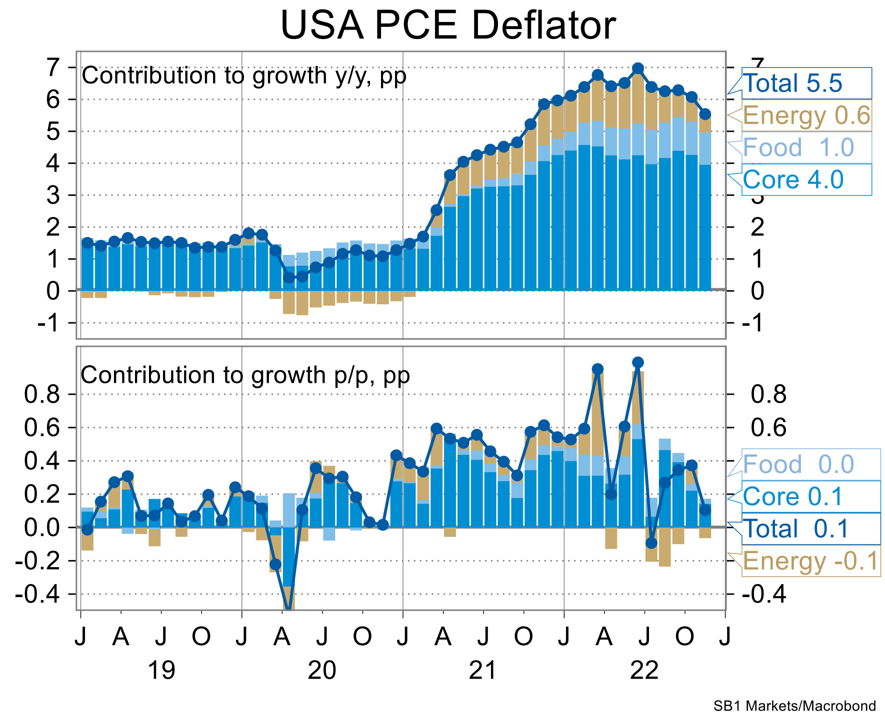


- **The total PCE deflator** was up 0.1% in November, as expected. Energy prices fell by 1.5%, and food prices rose 'just' 0.3%. The annual rate at 5.5% was in line with expectations, down from 6.1% in October (revised up from 6.0%). The peak was at 7.0% in June
- The core PCE has decelerated to 4.7% y/y from the peak at 5.4% in February, via 5.0% in October

Energy prices are down from the peak, food price inflation is slowing

… and core PCE is slowly yielding.

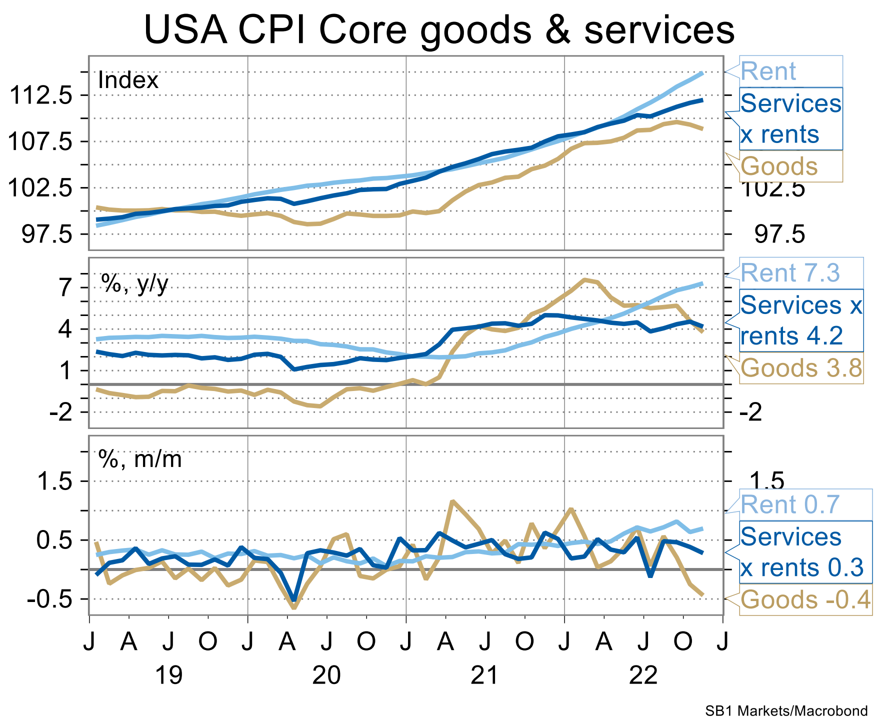


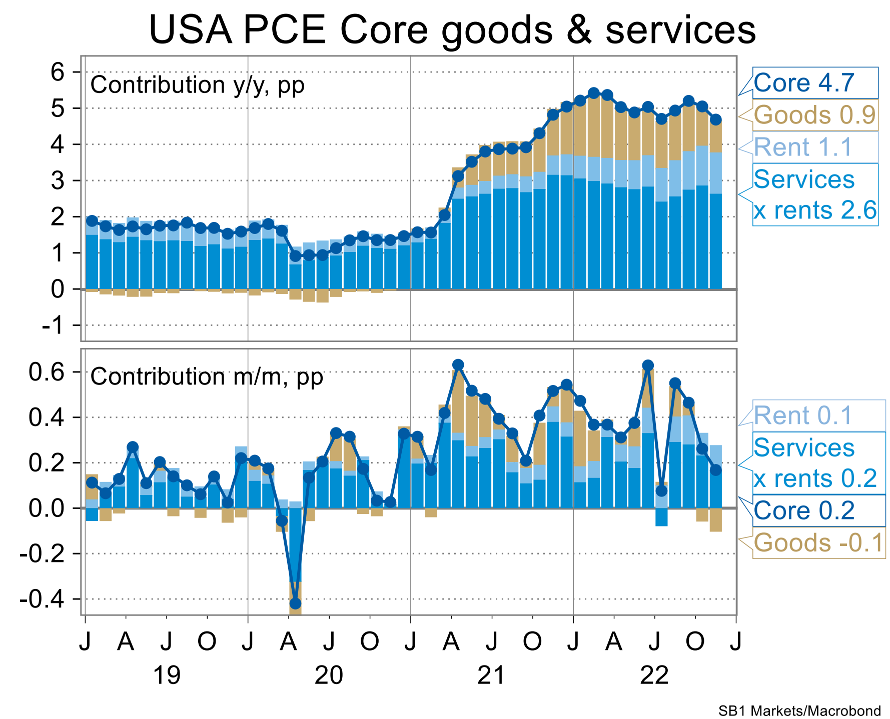


- **Energy prices** peaked in June, and has now fallen by 11.5%. Given the current oil and gas prices, the downside is limited from here – but as prices rose sharply until last June, the annual rate will soon turn negative, before end of Q1
- **Food price** inflation is slowing, as the monthly increase has fallen to 0.3% from a 1.5% m/m peak in February – and staying above 1% until July. Food commodity prices are falling, and prices at the consumer level should flatten (or more likely, come down)

Core PCE: Good prices are falling, service price inflation is slowly slowing?

Core goods prices fell 0.4% m/m in November – and have more to go the coming months

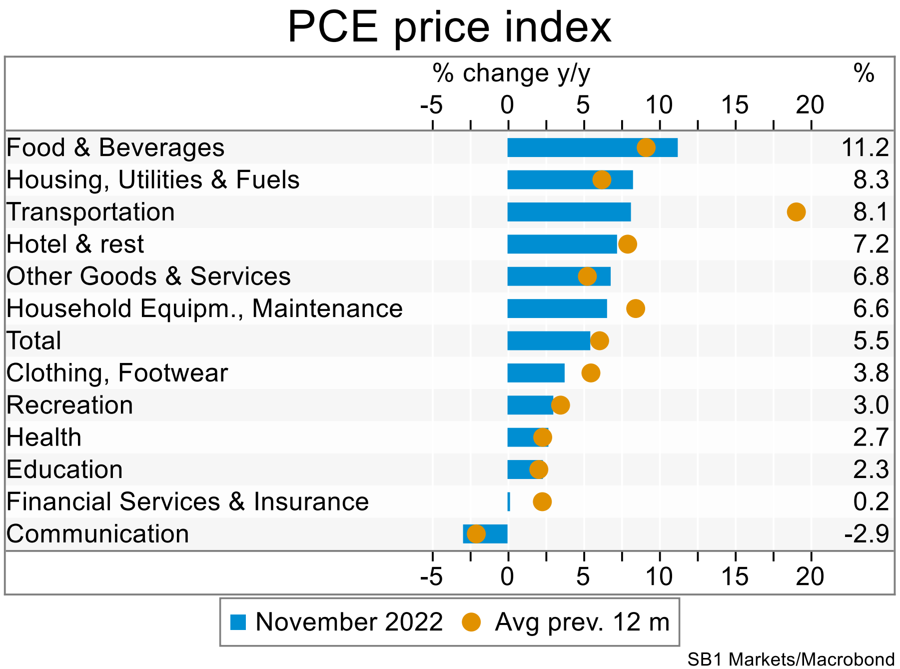


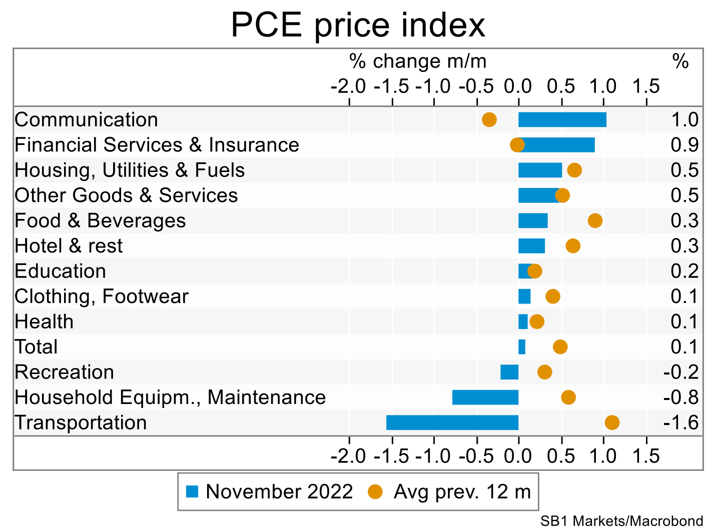


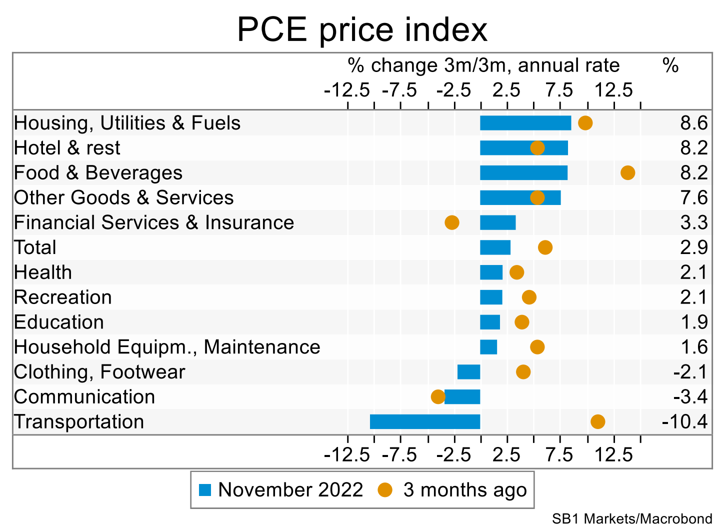
- **Rent inflation** is still accelerating measured y/y, but monthly increases has flattened – at a very high level, at 0.7% per month
  - **Market rents** are slowing (but not yet outright falling, seas. adj), signalling lower rent inflation some months ahead
- The challenge: **Services x rents**, where prices are still climbing fast – <u>though not faster</u>. Prices are up 4.2% y/y, and the contribution to core PCE equals 2.6 pp (of the 4.7% total core)

PCE by main sectors: All but 2 sectors still report >2% annual growth

However, 5 sectors are up less than 2% measured 3m/3m, and 8 out of 12 sectors are slowing





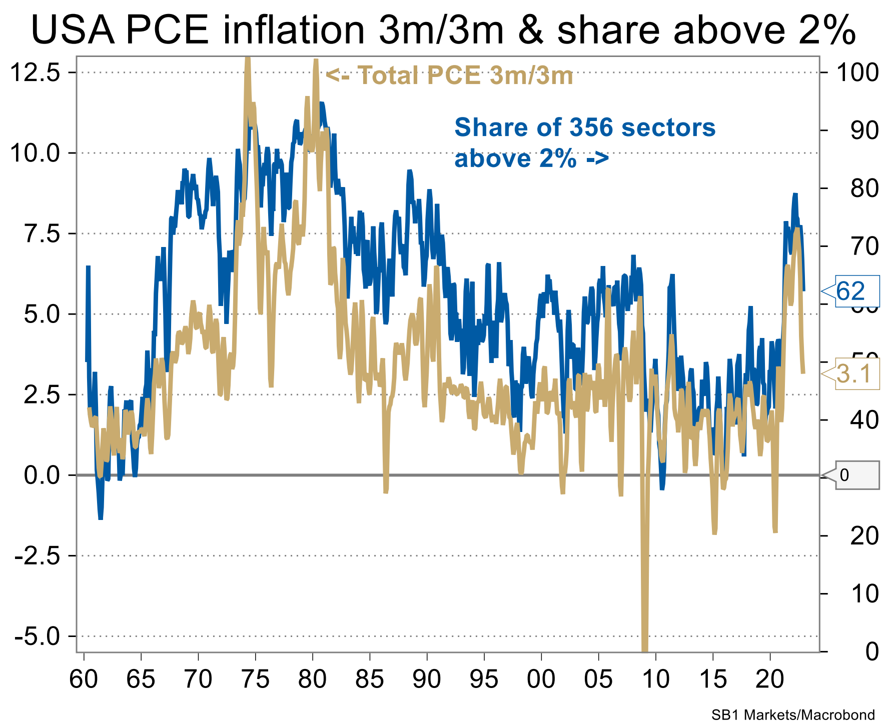


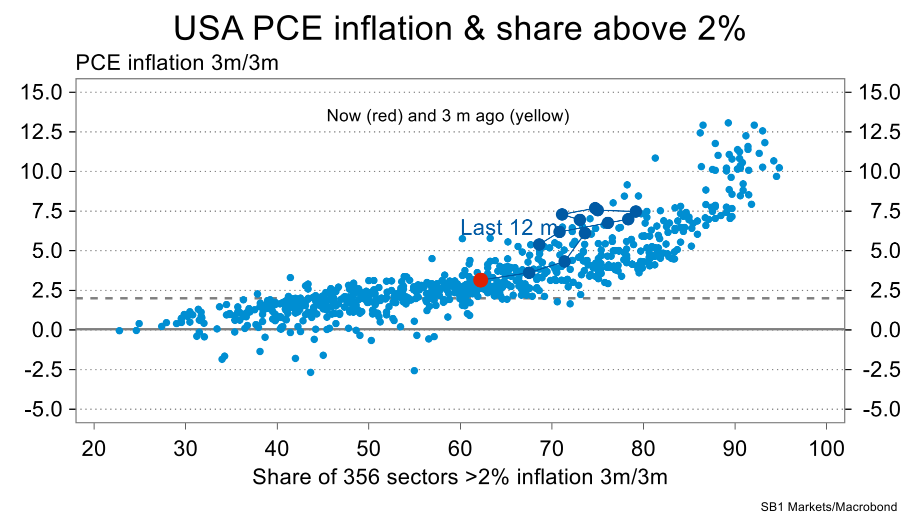
- Transportation (gasoline), household equip., and recreation prices fell m/m in November

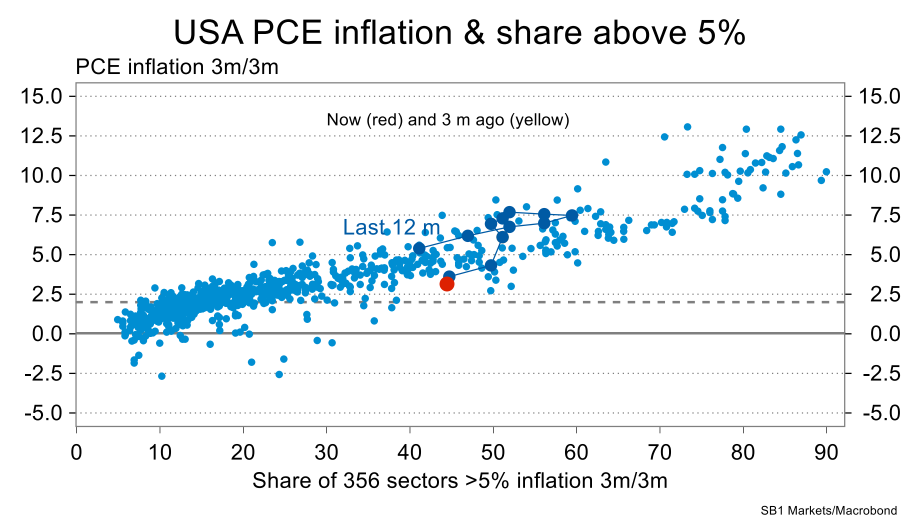
SpareBank 1 MARKETS

A high proportion of goods and services are still up more than 2% (or 5%)

However, the slowdown is broad

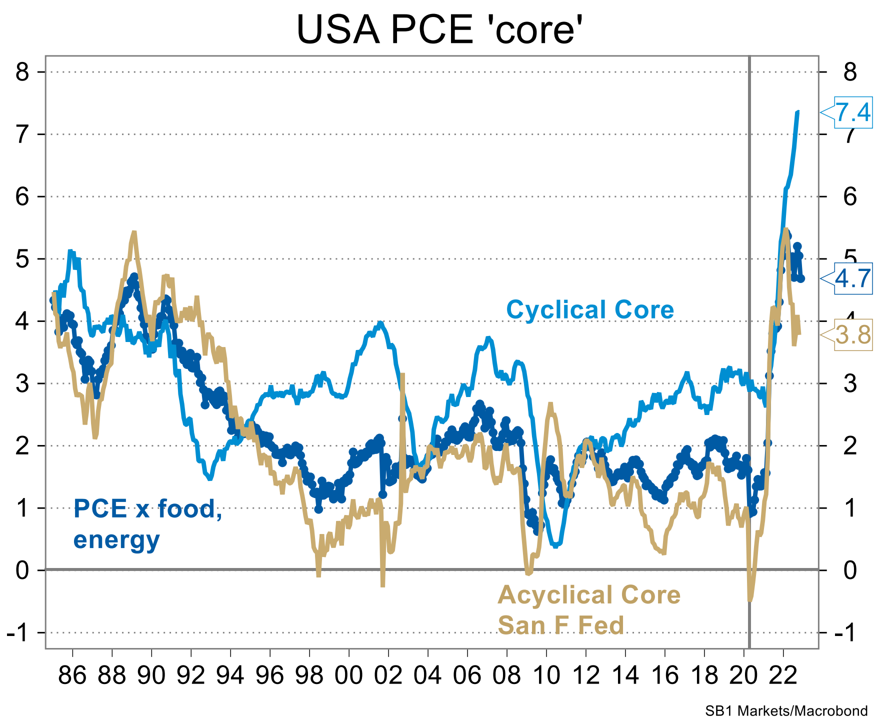


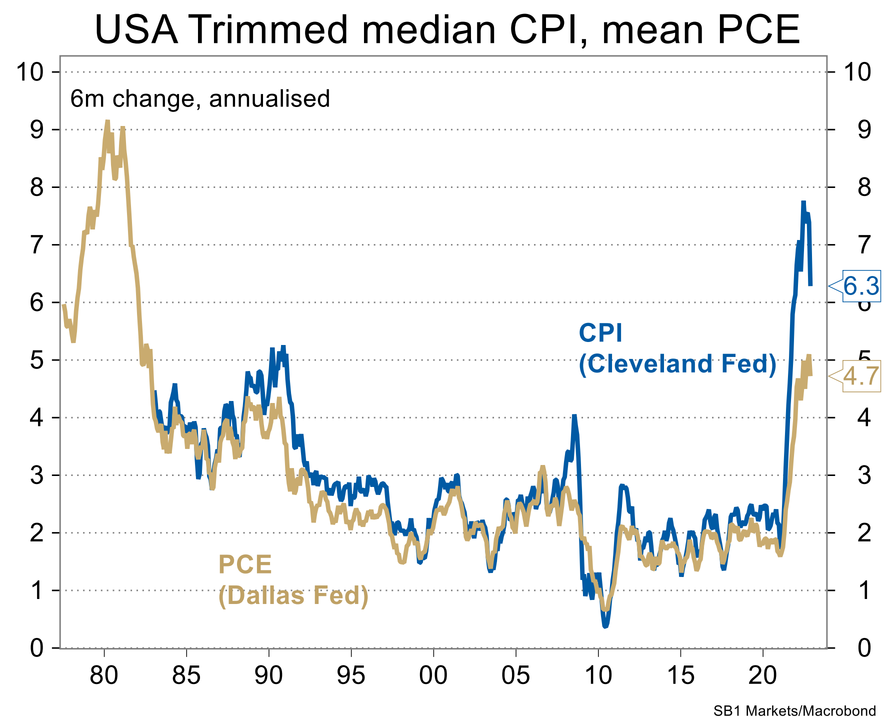




Inflation has peaked, but all underlying/breadth measures remain high

Wages are more important, anyway

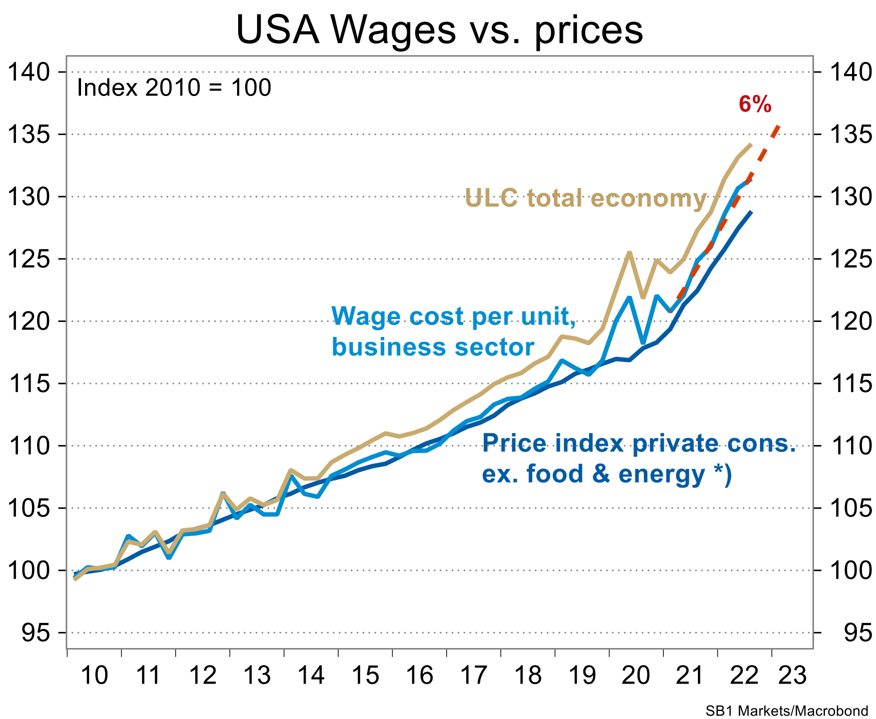


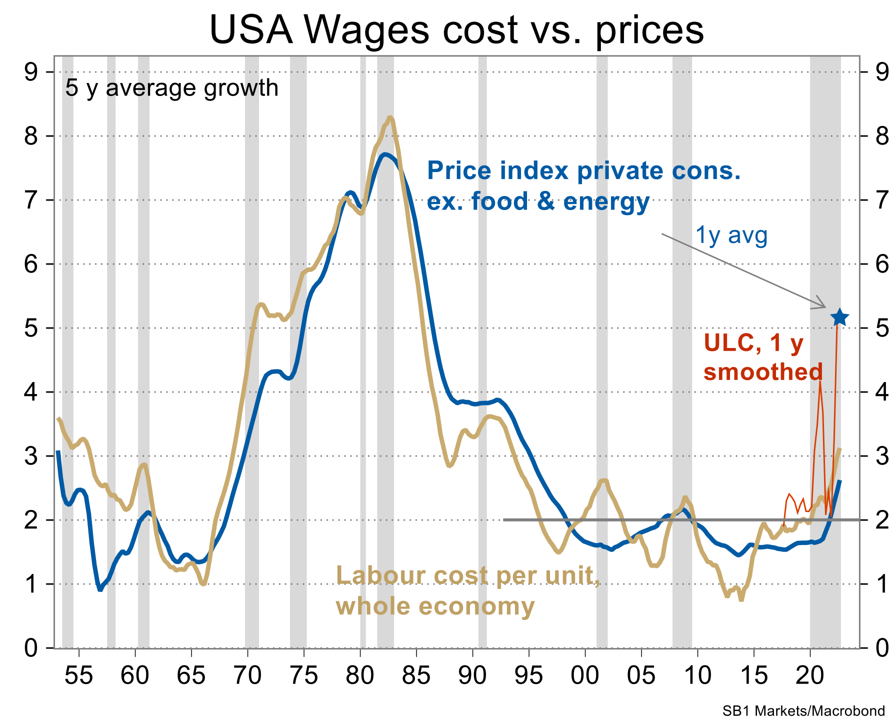


- The **trimmed PCE mean** (Dallas Fed) slowed 0.4 pp to 4.7% (measured over the past 6 months). This is very likely among the most important price indicators for the FOMC, if not the most important
- **The trimmed median CPI (Cleveland Fed)** is up 6.3% over 6 months, sharply down the past two months
- **Core cyclical and acyclical PCE** prices are up 7.4% – 3.8% resp., and the cyclicals are still on the way up
- Other measures of underlying inflation are also still among the highest levels in 30 – 40 years

Over time: Inflation is all about labour costs, and nothing but labour costs

The current growth in Unit Labour Costs is not compatible with 2% inflation over time

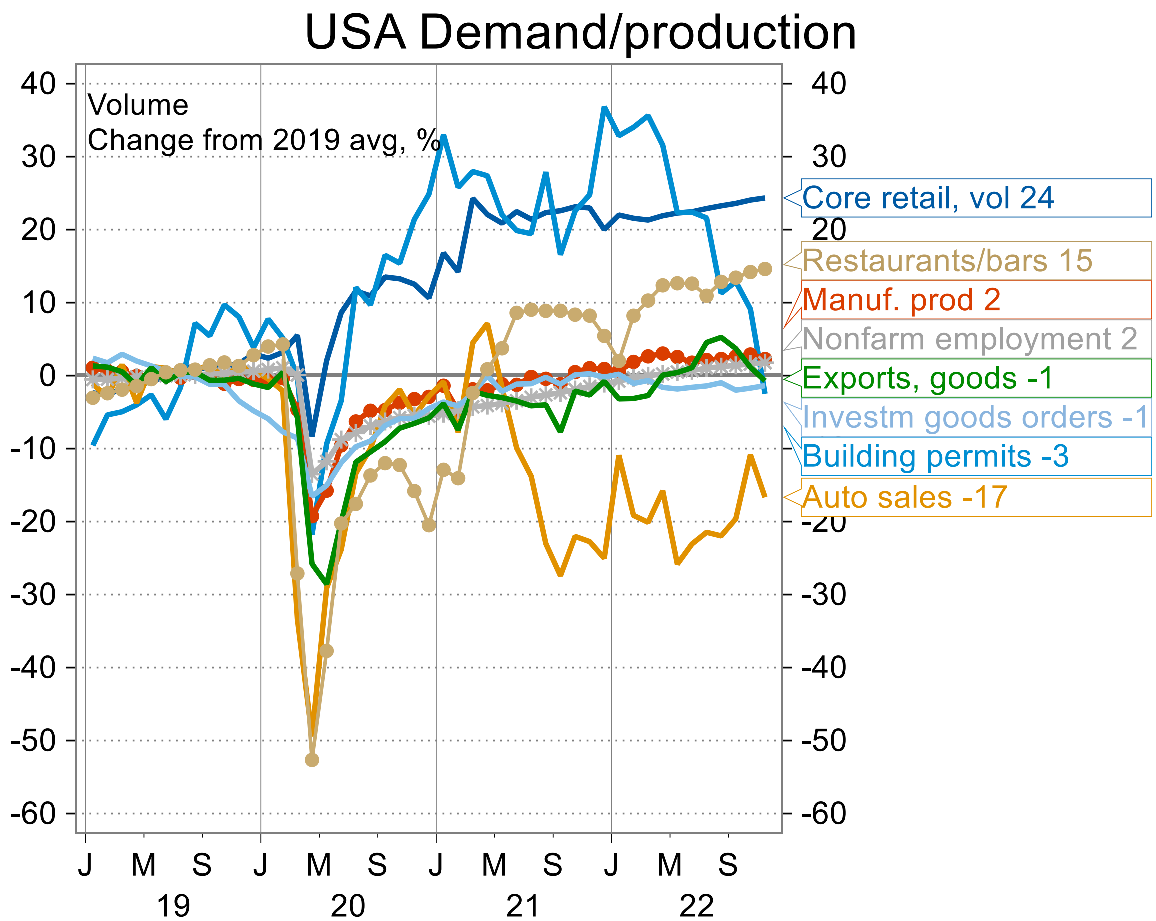




- **Wage inflation** will have to come down substantially in order to get Unit Labour Cost inflation (wage growth – productivity growth) back to 2% - which is needed in order to get price inflation back to 2% on a permanent basis

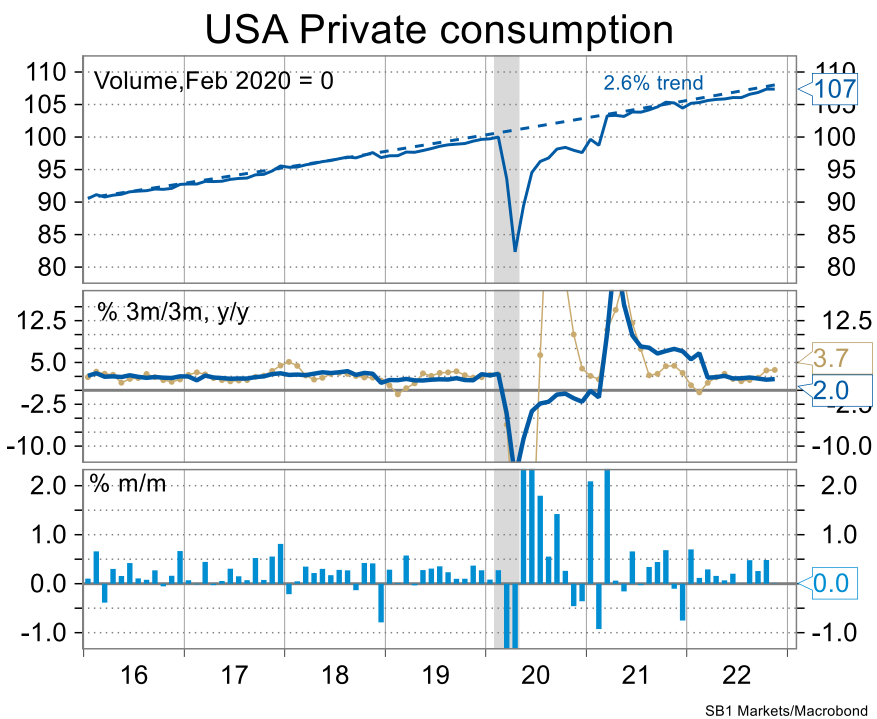
Still a mixed demand/production picture

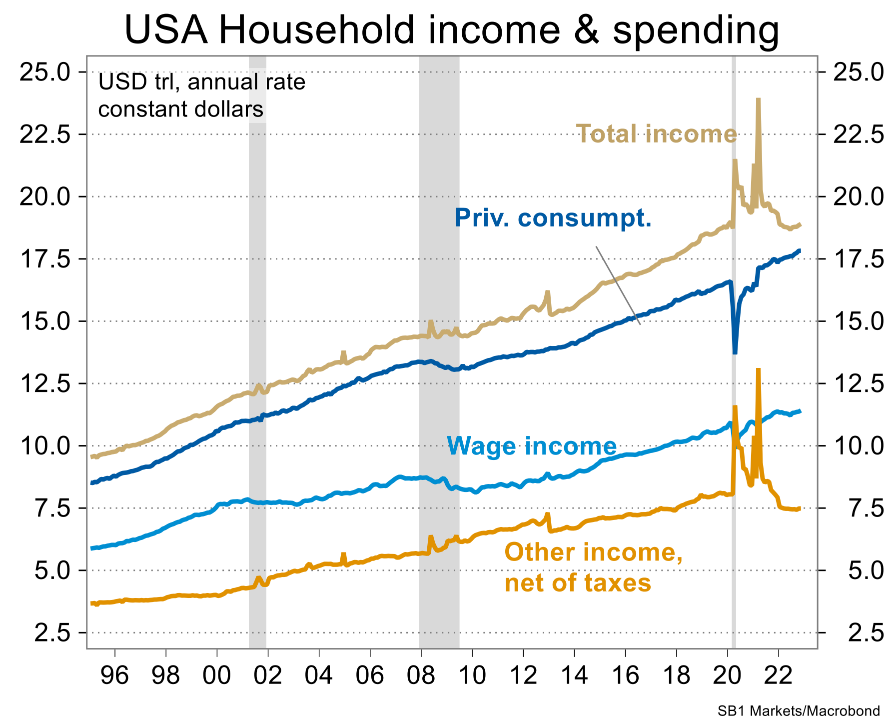
Home building (permits), exports down, investment goods orders barely flat. Retail sales, auto sales on the way up



SB1 Markets/Macrobond

Consumption flattened in November but underlying growth still strong

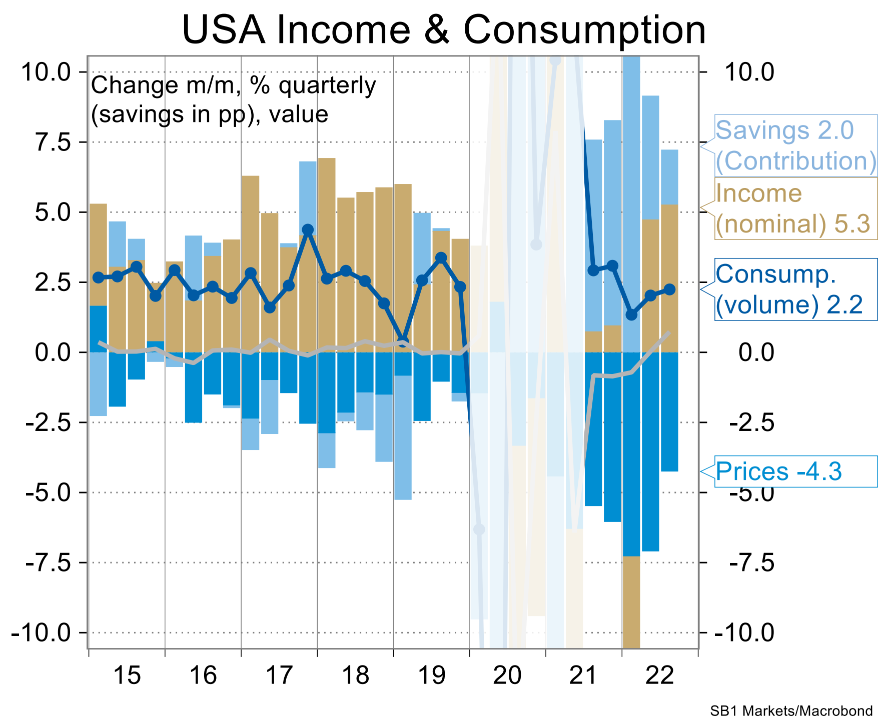


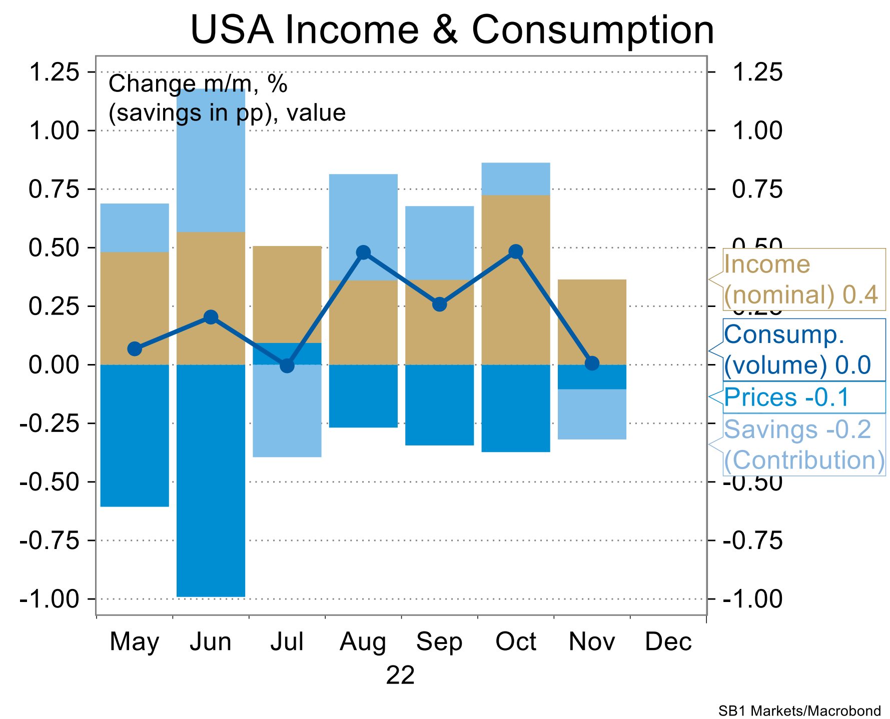


- **Private consumption** has been creeping upwards after flattening during the summer – was once more revised slightly up. In November, consumption flattened again, even if price inflation slowed to 0.1% m/m. Measured 3m/3m growth is almost 4% (3.7%), signalling a strong growth contribution to growth in GDP in Q4, very likely more than in Q3 (2.2%). Consumption rose by 0.1% in nominal terms, 0.1 pp less than expected
- **Personal nominal disposable income** gained 0.4% in Nov and was up by 0.3% in real terms. Real disposable income has increased somewhat recent months, as price inflation has slowed – but growth in real consumption has been stronger
- **The savings rate** rose 0.2 pp to 2.3% - and the rate is still close to the lowest ever – and 5 pp below level before the pandemic. However, even if the accumulated extraordinary savings through the pandemic is now gradually run down, most of the Wall of Money is still intact which may make it possible for households to keep up the level of spending (at least for those who saved…)

Price inflation slowed in Q3 but was still high at 4.3%, income grew 5.3%

Consumption grew 2.2% in volume terms, and lower savings rate funded a large part of the growth in consumption



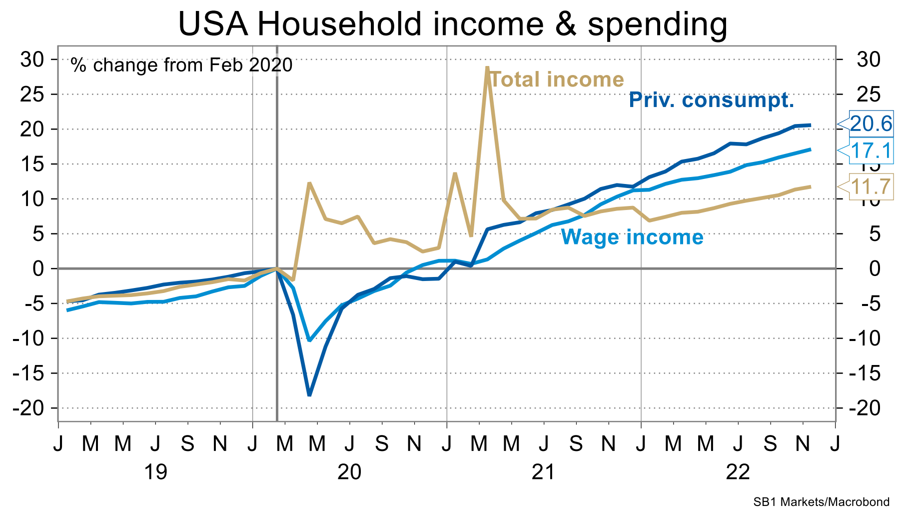


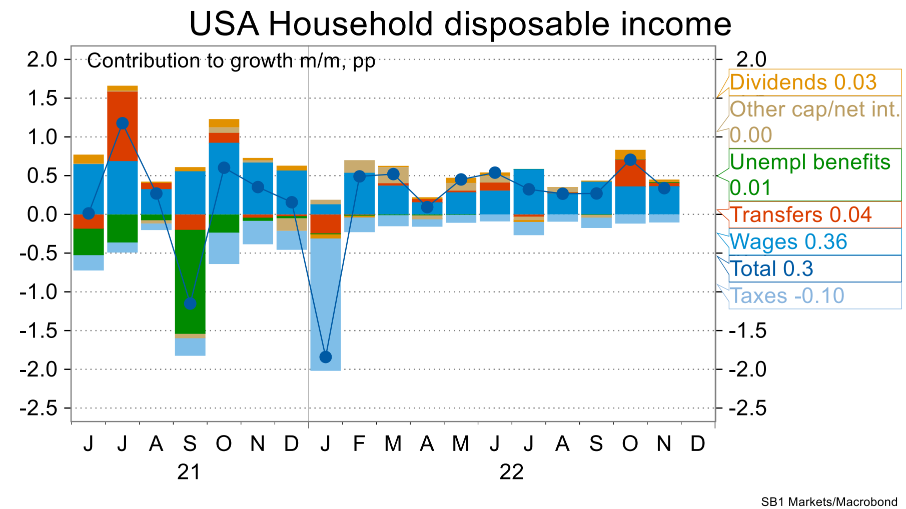
- The decline in the savings rate has been the main source of funding growth in consumption in the high inflation environment
- **In November**, price increases slowed to a trickle, and as real consumption flattened, the increase in disposable income was sufficient for lifting the savings rate marginally

The sum of the staples at the charts above does not add up to change in consumption as growth rates are calculated from different levels (consumption and income). The 'residual' is normally not that large. Thus, the charts illustrates well how growth in real consumption is funded. Positive contribution form savings imply that savings are falling – and thus contributing to funding growth in consumption. A negative price contribution implies that prices are increasing

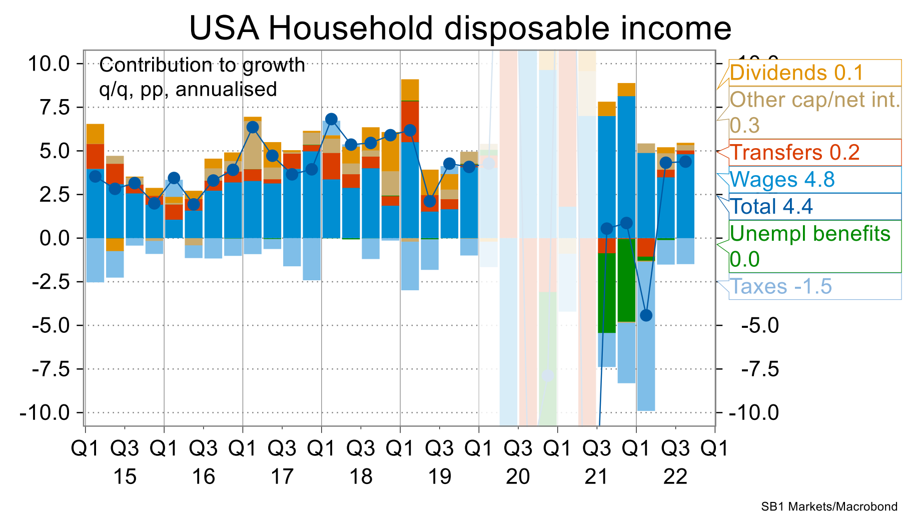
Income growth still higher than normal, nominally – by some 0.4% per month

Wage revenues continue upwards, but less transfers, and other income weaker





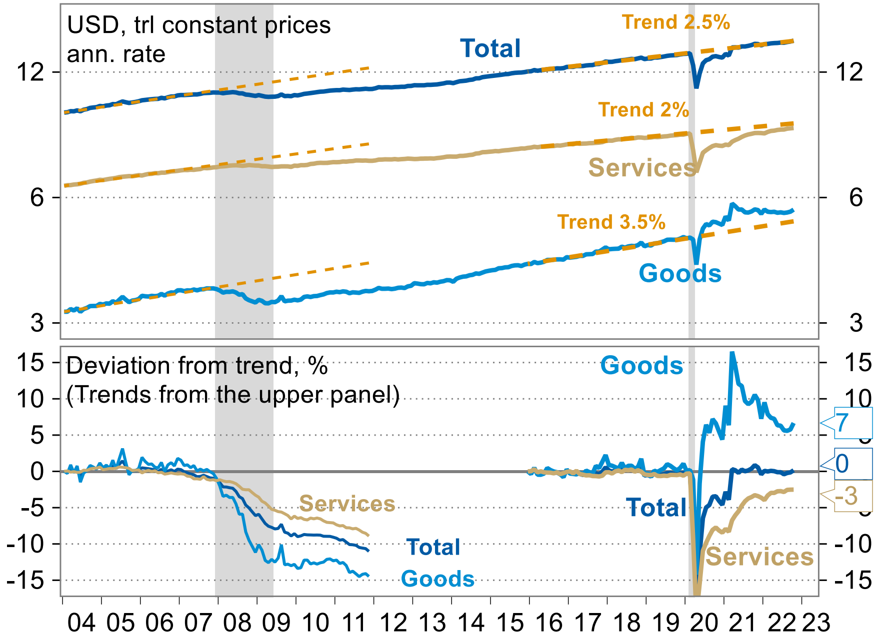
- **Total household disposable income** flattened from the spring in 2021 to early 2022 but has been trending steady upwards since January
  - Household income fell in Q1 due to higher tax payments but rose sharply again in Q2 and held steady in Q3
- **Total wage income** is growing rapidly, and the level is far above the pre-pandemic growth path at 4.25% (now at above a 6% growth path). The reason is of course the sharp increase in wage inflation.



Services are 4.0% above the pre-p. level; Goods are 15.5% above (in volume terms)

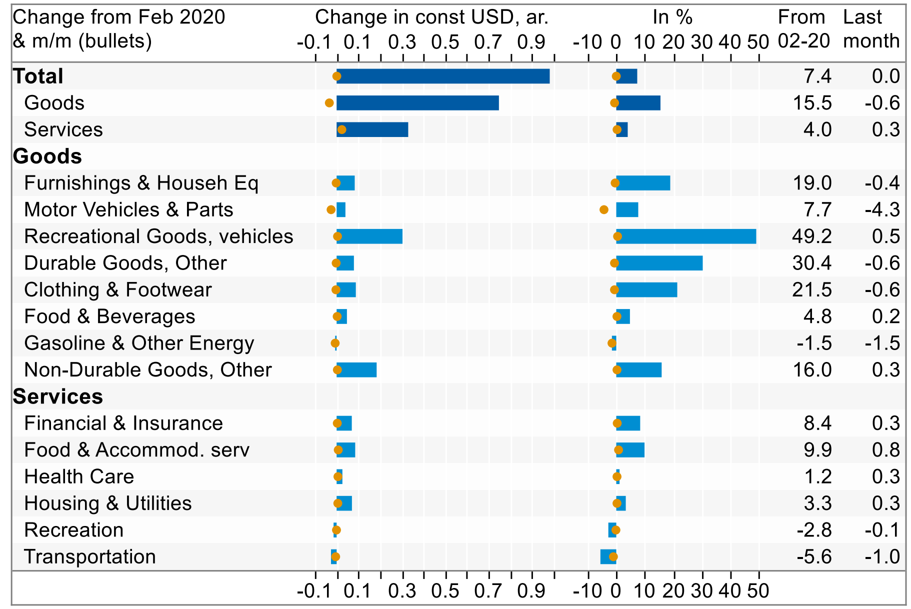
Spending on services is still 3% below the pre-pandemic trend, spending on goods is 7% above!

USA Personal consumption



SB1 Markets/Macrobond

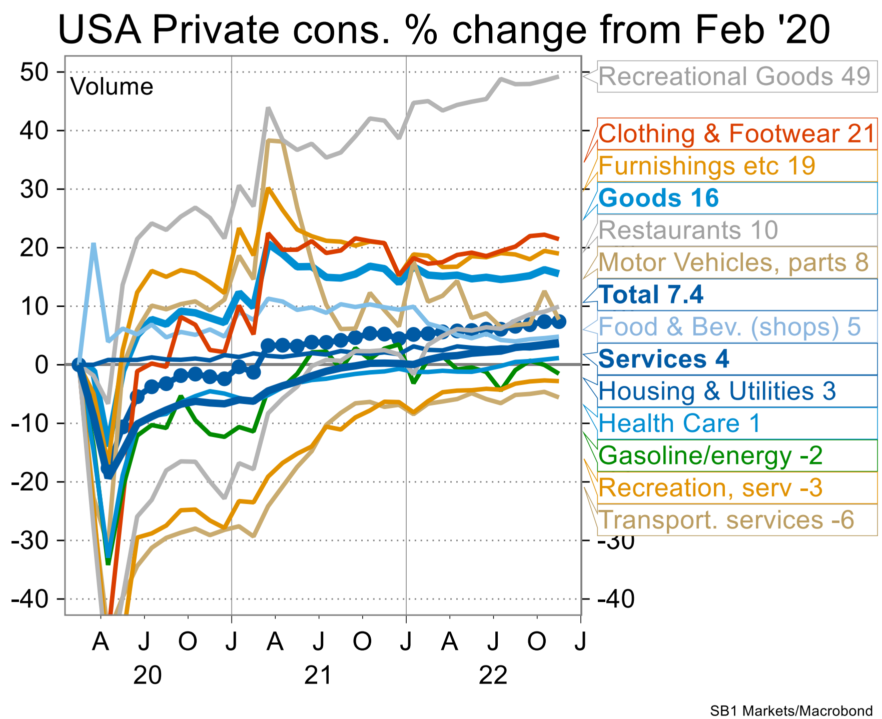
USA Change in consumption - in volume

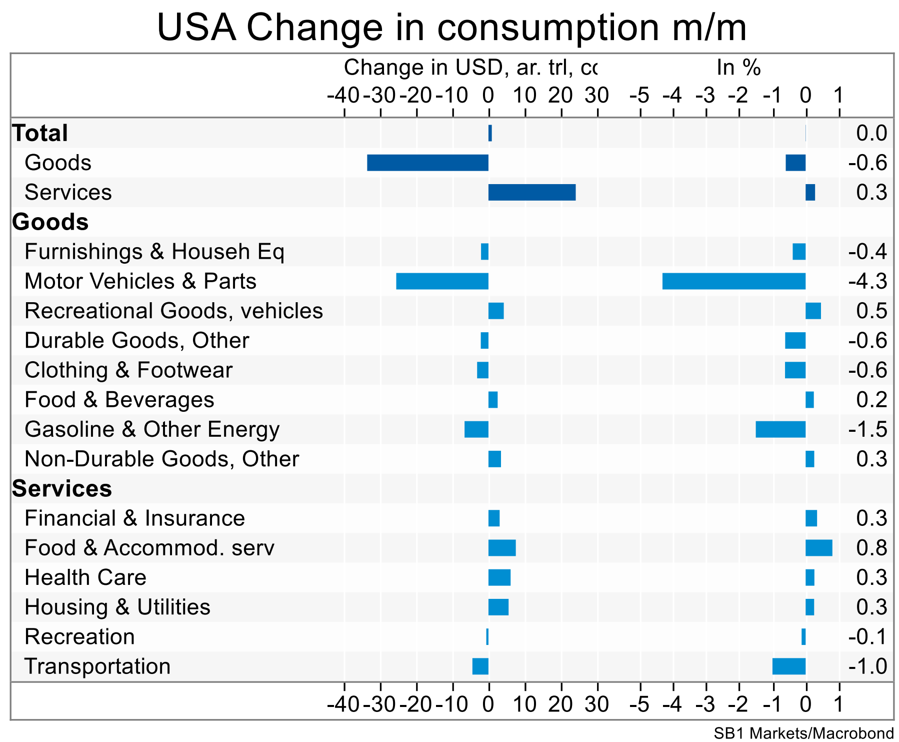


SB1 Markets/Macrobond

Less spending on cars was the main drag on consumption in November

… reversing the positive contribution in October. Most sectors are still trending up

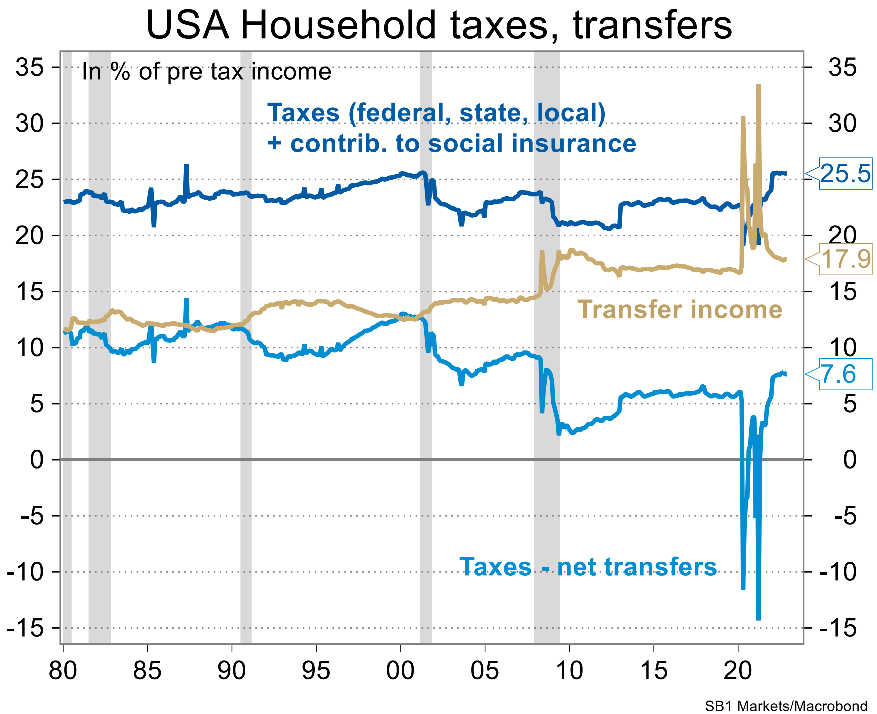


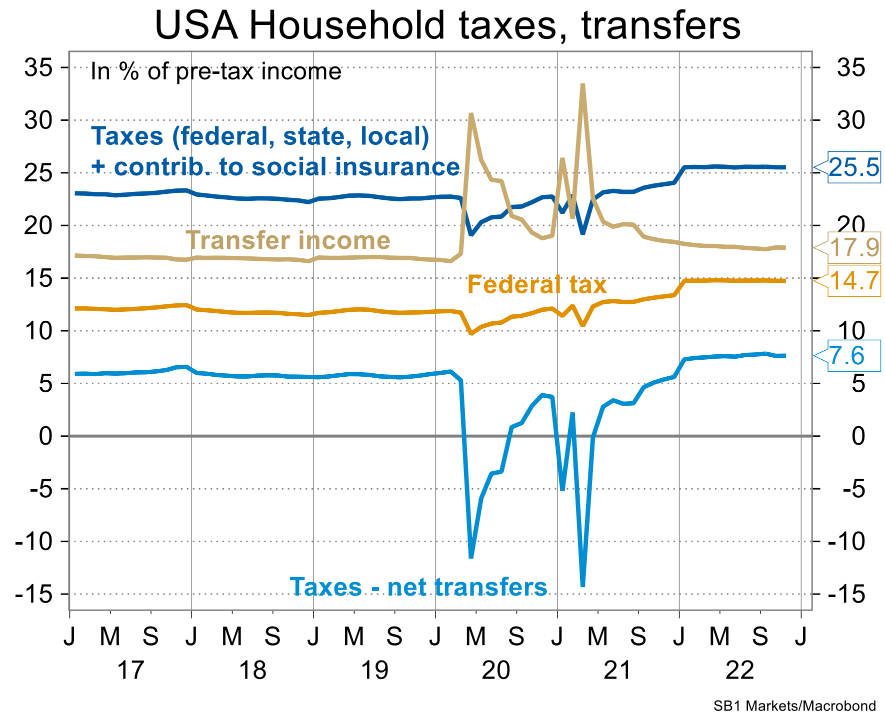


- The pandemic is still 'with us': Spending on transportation & recreational services are still below the pre-pandemic level. However, recreational goods ('individual' consumption) is up almost 50%!

Households contribute more to the Federal coffers than before the pandemic!

Net taxes up to 7.6% of pre-tax income, close to the highest since ‘09. Gross taxes at 25.5%, close to ATH!

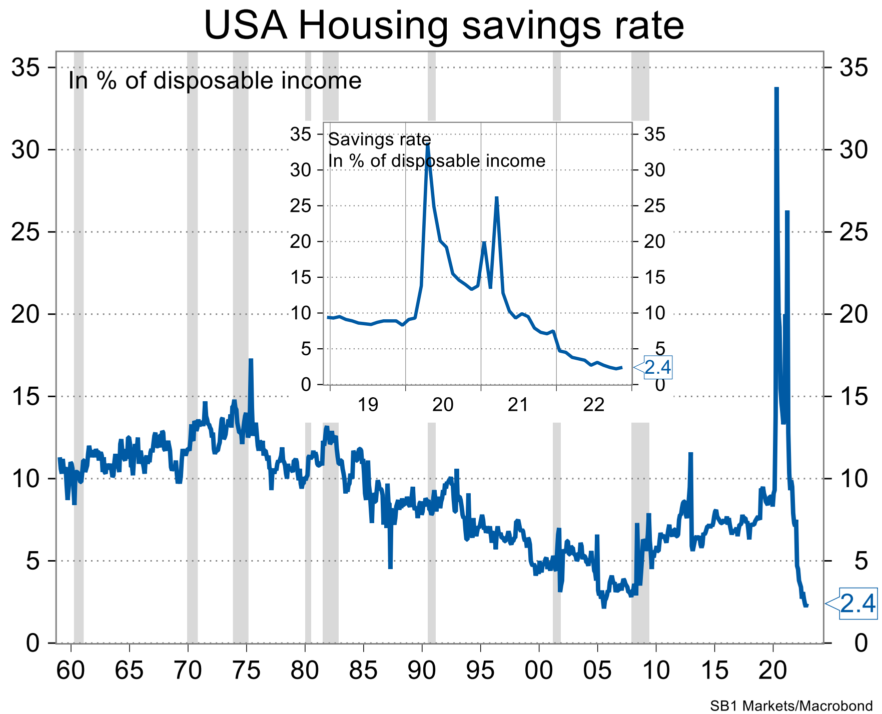


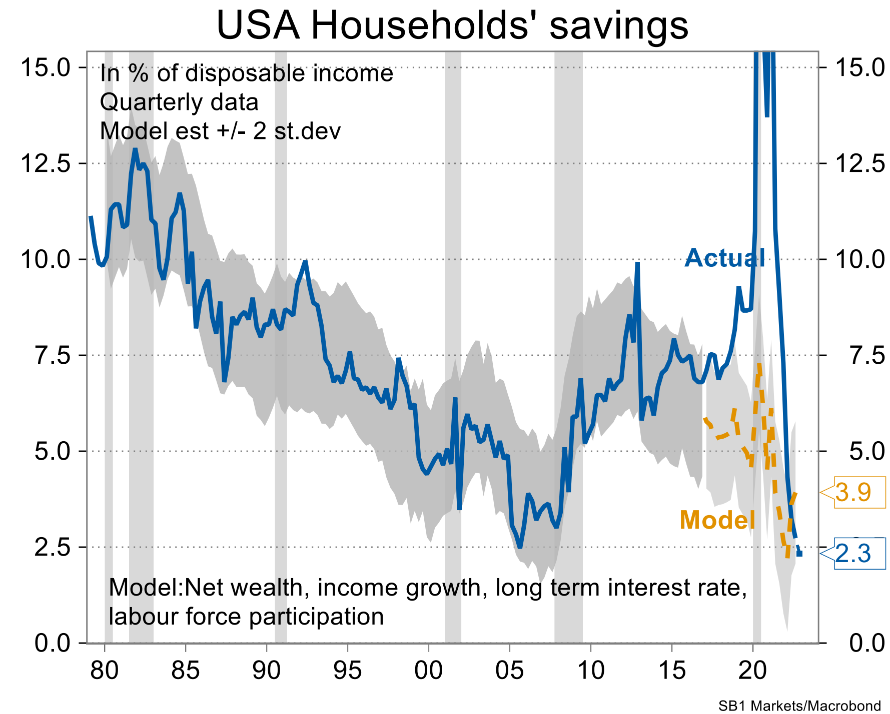


- **Transfers** are trending down but are still higher than before the pandemic (vs total pre-tax income). However, the total tax rate is climbing faster. The total gross federal income tax rate at 26% of pre-tax disposable income is higher than the ATH in 2001!
- Thus, the **net tax rate** is on the way up, and has recovered to 7.6%, above the 6% pre-pandemic level – but far below the 10% – 12% from before year 2000 – as the transfer rate is at 18%, up from below 15% from before the Financial Crisis
- This reduced net tax rate is one important reason the ‘permanent’ deficit in the public sector, households pay less than before to fund common services, like defence, education

The savings rate may be stabilising – at a close to record low level

The savings rate rose 0.1 p to 2.4% in November – after trending down since early in the pandemic

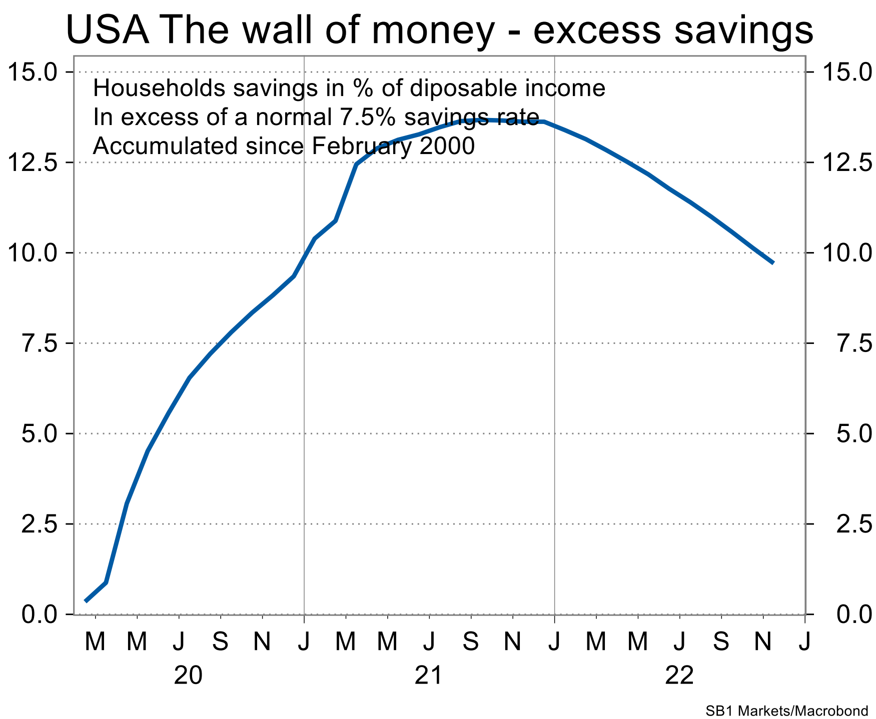


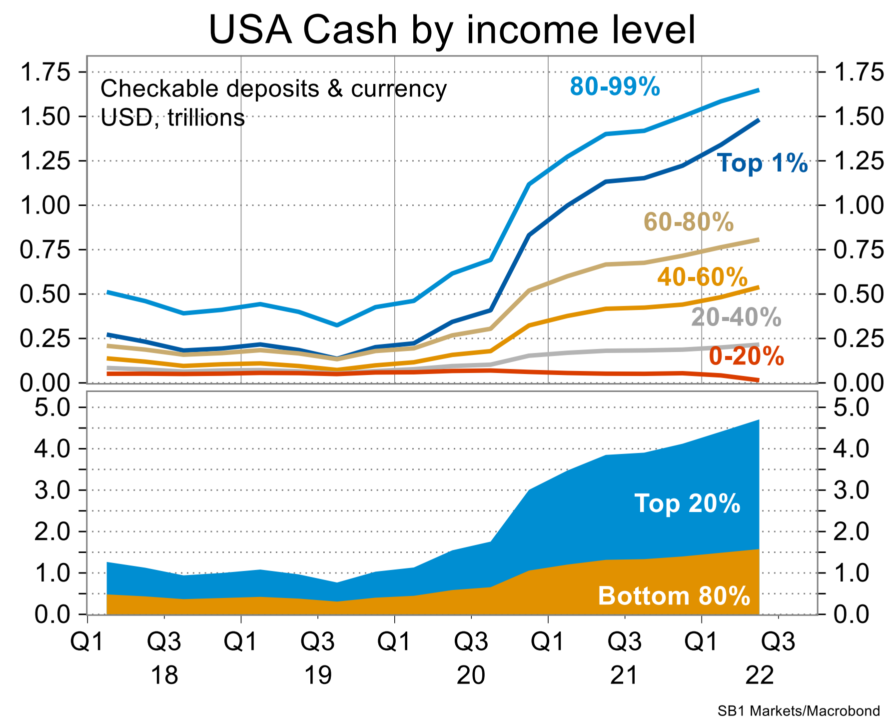


- The **savings rate** was 2.4% in November, up 0.2% from October (which one month ago was significantly lower than expected)
- Households are now dipping into 'normal' savings in order to keep up consumption, as their real incomes are not keeping up, due to the high rate of inflation. <u>The savings rate is now 5 pp lower than before the pandemic</u>
  - However, household have saved much more than normal during the pandemic, equalling to some 13% of disposable income – on average for all households, that is. This 'Wall of Money' has declined to less than 10%, and is shrinking at a 5 pp annualised pace
- **Our savings rate model**, yielded an estimated 3.9% savings rate in Q3. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp, but the gap was closed in Q2 – and now the actual savings rate is lower than he model estimate

The Wall of Money is coming down faster than previously assumed

Most of the accumulated savings reside with the top 20%

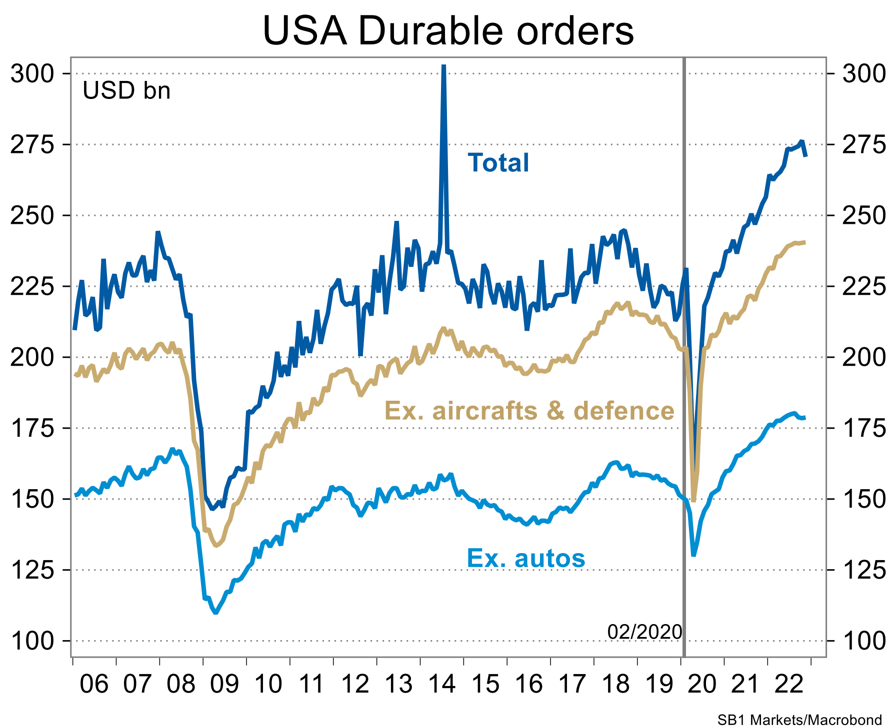


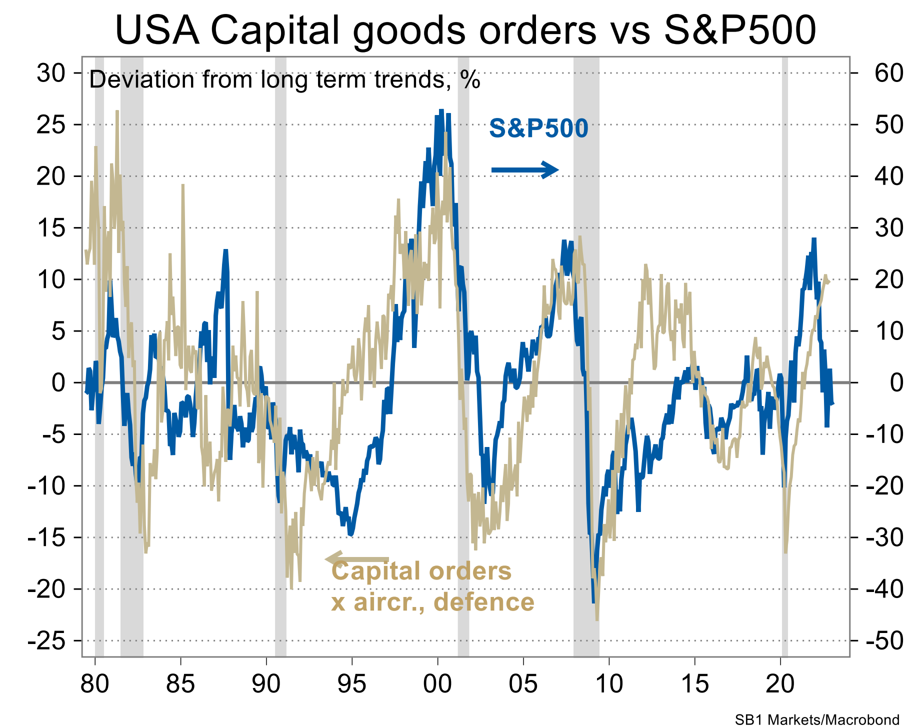


- Those at the bottom of the income ladder did not save much more during the pandemic
- This will of course determine where the money will be spent and if at all, due to the wealth effect and because these groups do not necessarily have to spend these savings to keep up consumption

Peak new durable orders?

New orders down in Nov, due to a decline in (volatile) aircraft orders. However, underlying growth down to zero

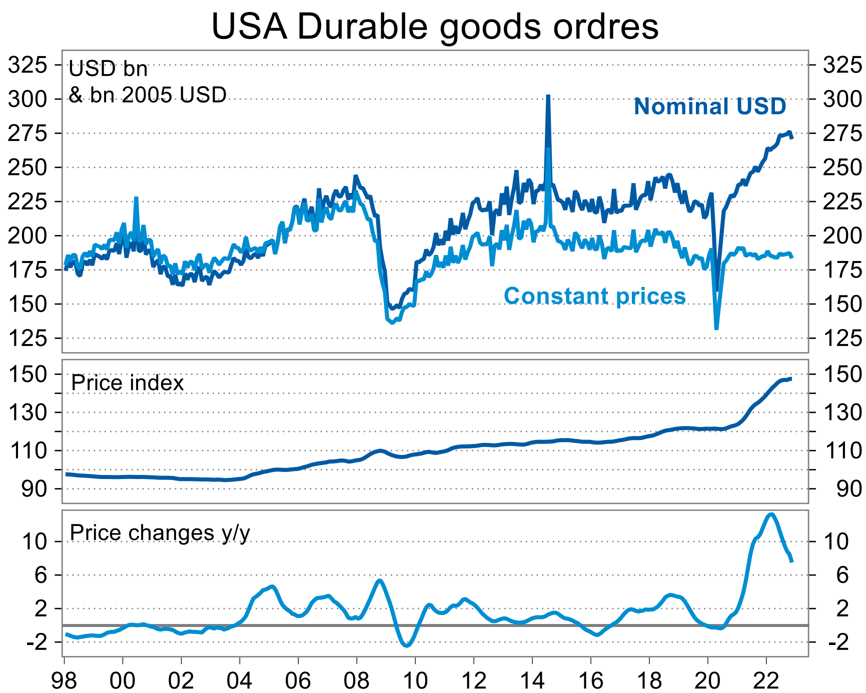




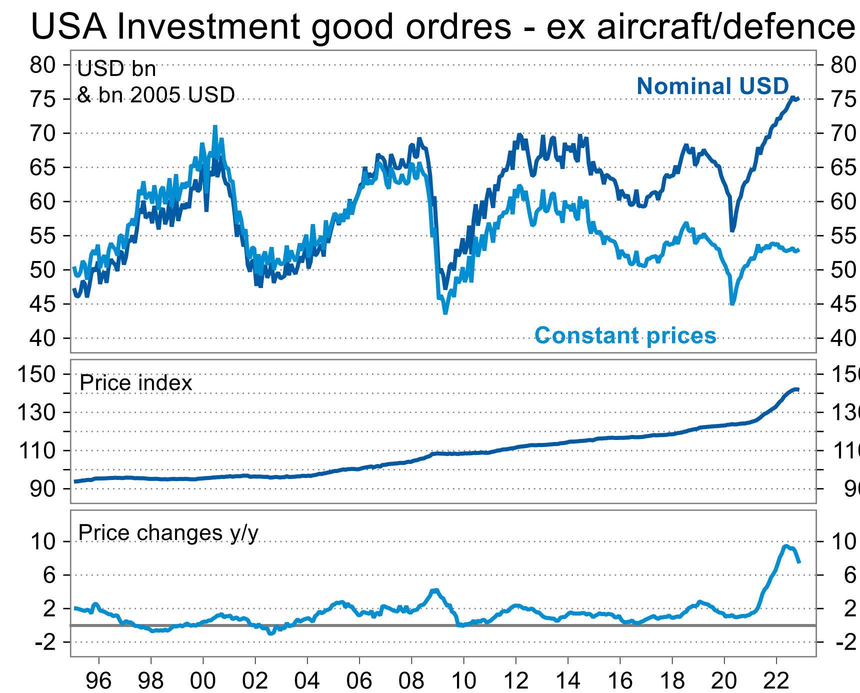
- **Total durable orders** declined 2.1% in Nov, as civilian aircraft orders fell – and more than the setback in the total order inflow. Aircraft orders are notoriously volatile. The market expected a 0.6% decline
- **New orders** ex aircrafts and defence (our core concept) rose 0.1%. Growth has clearly slowed, but orders are still up almost 6% 3m/3m, though in nominal terms.
  - **The true core**, also including auto orders – have fallen somewhat since the peak in August, and before that, growth was clearly slowing
- **Core investment goods orders** rose 0.7%, expected up 0.3%
- **Nominal order inflow** is above pre-pandemic levels & trends, especially for investment good orders, but surveys now signal a significant decline the coming months (which they have telling us since June, so far without any success)
- **In volume terms**, order inflows are not that impressive at all, as the price level is up more than 20% since mid-20!
- **The stock market** has taken a serious beating, this time well before the order cycle turned south. Higher real interest rate were probably enough

For the first time in some decades, price inflation has become important

The real order inflow has been flat and investment orders are down from the local 2021 peak



SB1 Markets/Macrobond



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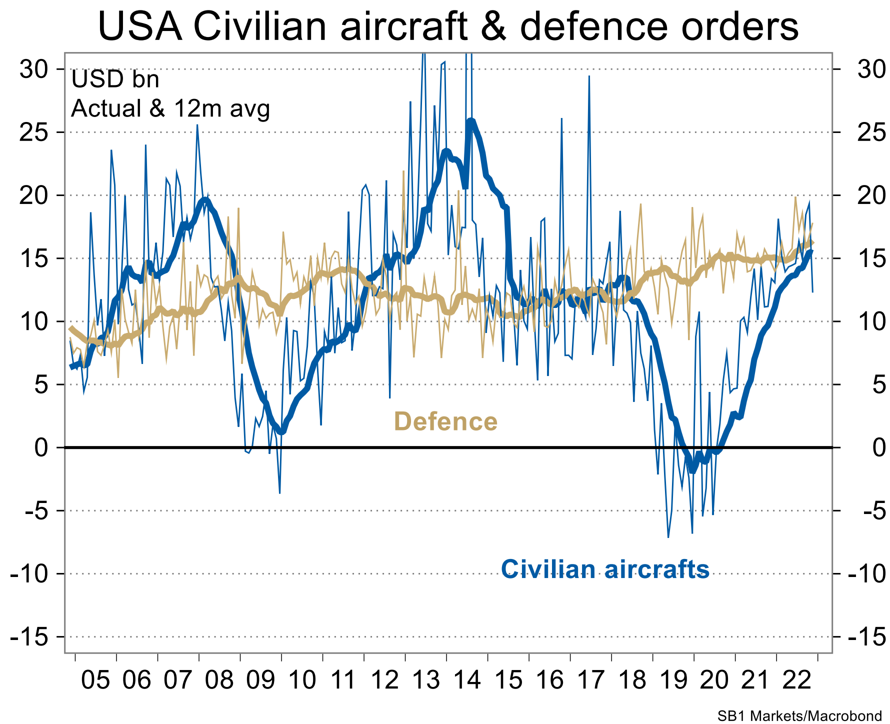
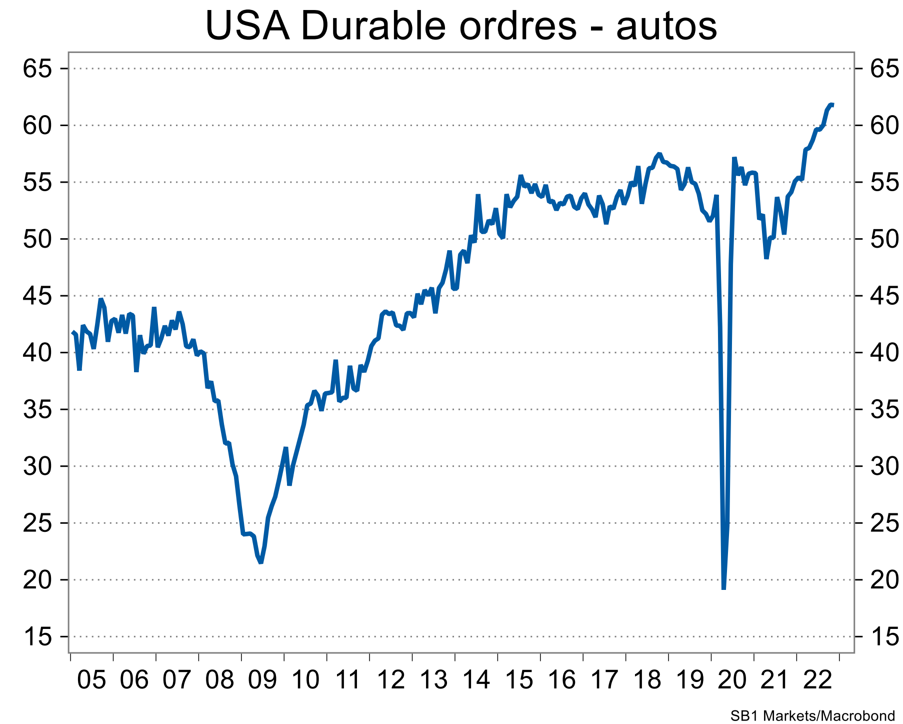
- **Price inflation** is coming down now – but so is nominal growth in new orders (or they may even have peaked) – and volume growth is still absent

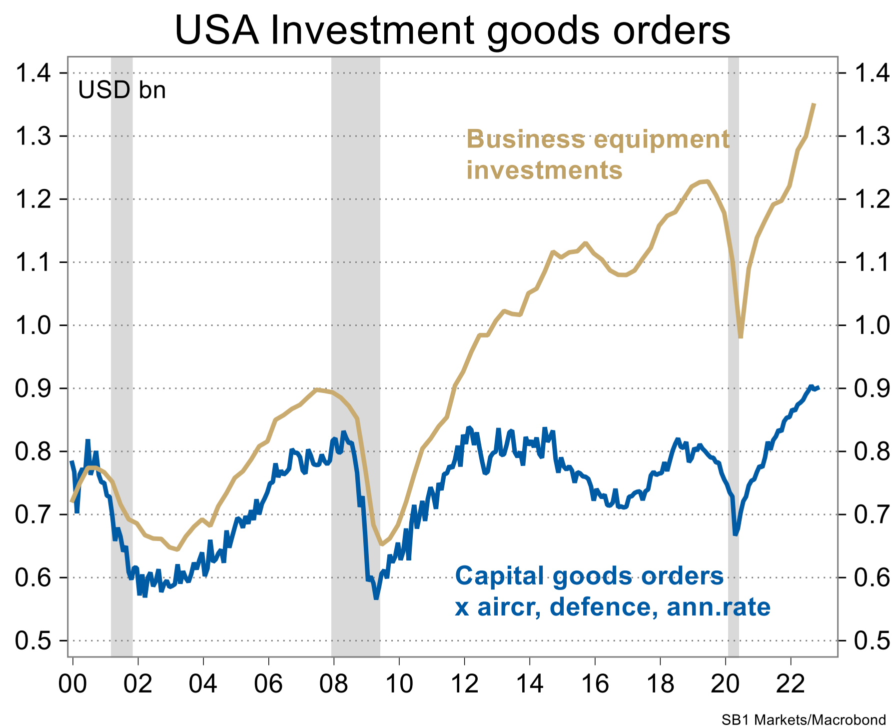
Aircraft orders down in November (and more than the total fell)

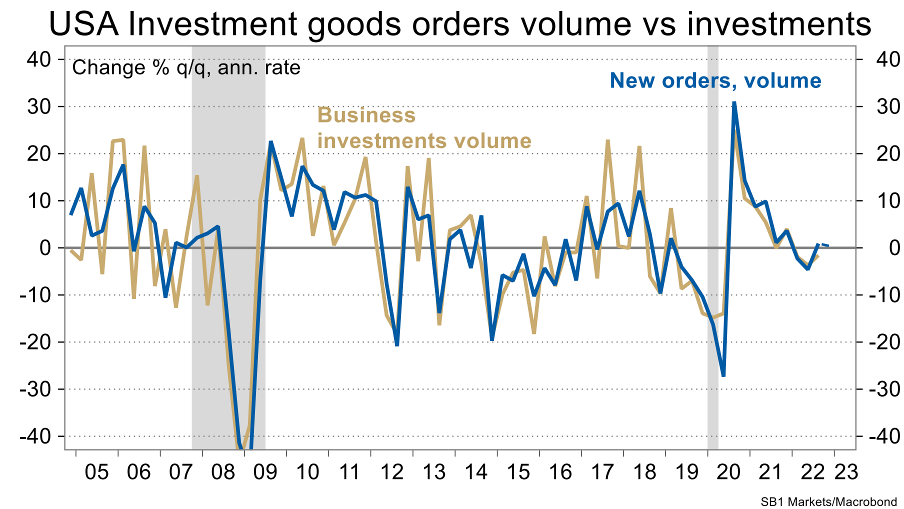
However, the trend & smoothed level is still strong – as for defence orders (a small Ukrainian lift in 2022?)

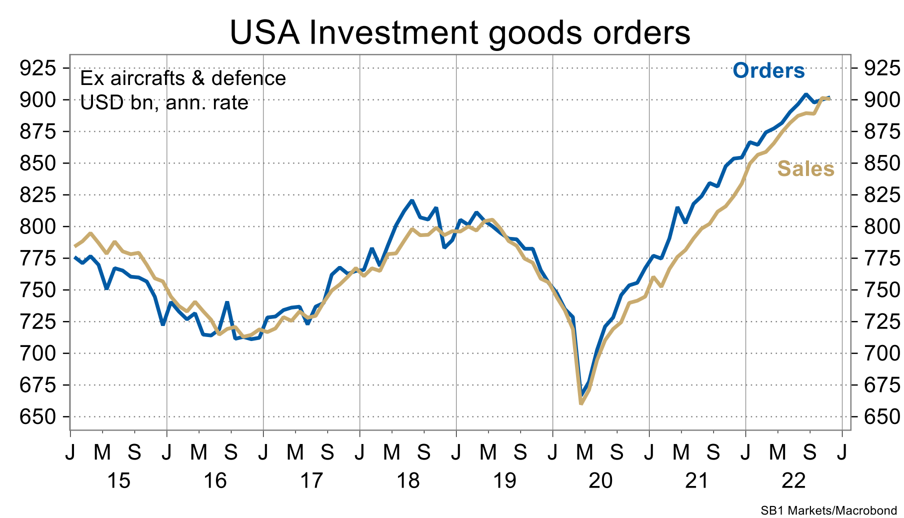




Core capital orders are peaking? Two months are not a new trend but still…





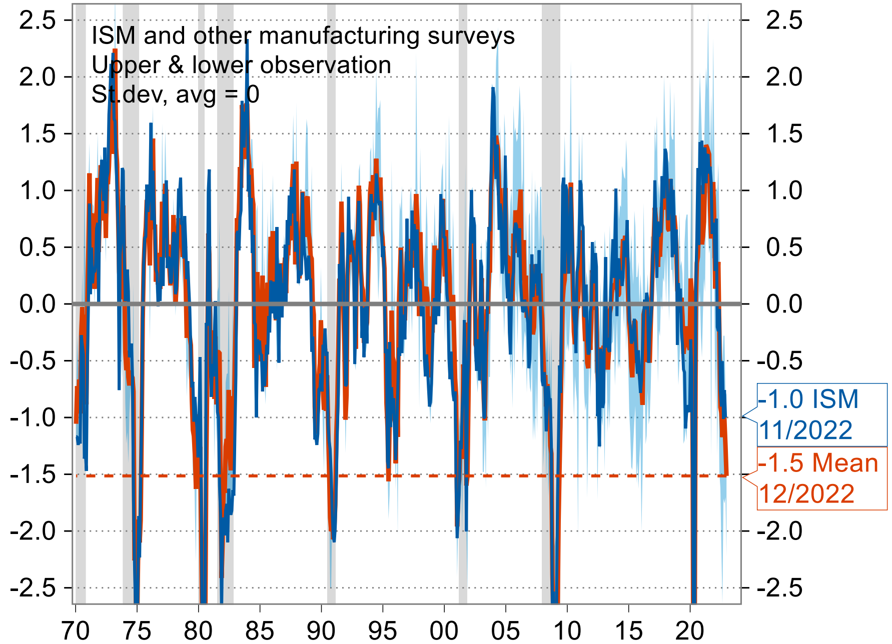


- **Core (x aircraft, defence) capital goods orders** rose 0.2% in Nov, 0.1 pp more than expected, following 0.3% lift in Oct (revised from 0.6%). Still, the level is lower than in September. Shipments fell 0.1% m/m. All data are in nominal terms
- **In volume terms**, orders fell in both Q1 and Q2, but rose slightly in Q3, and the volume in Nov is just marginally above the Q3 average – signalling close to zero growth in new orders volume & business investments in Q4 (check upper right chart)
- **The business investment** level is well <u>above</u> the pre-pandemic level – and not low vs. a reasonable long term trend (not only in nominal terms, but also in volume terms)
- **Surveys** are indicating a substantial decline in new orders (next page)

Surveys are signalling a steep decline in new orders

… which so far has not materialised…

USA Manufacturing surveys, new orders



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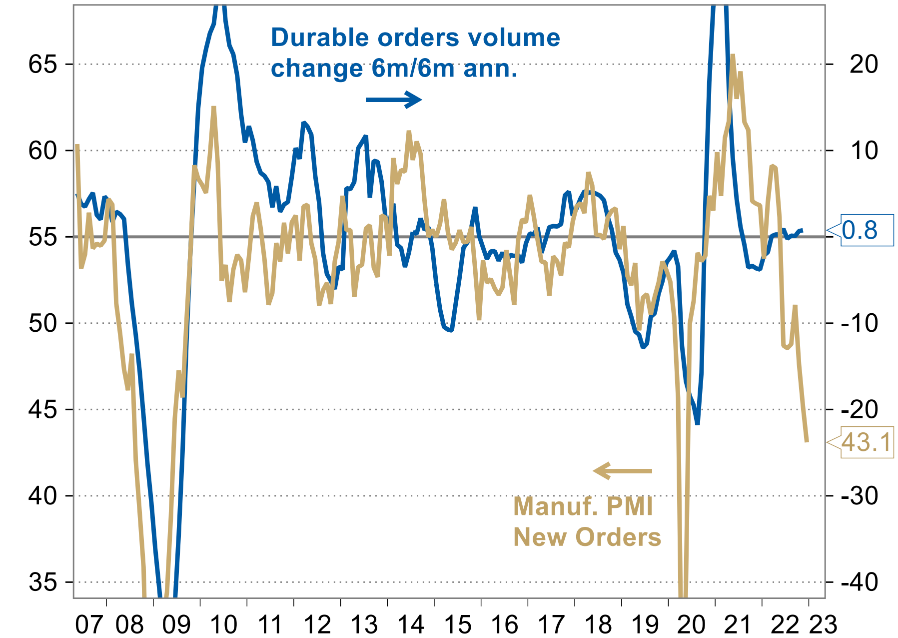
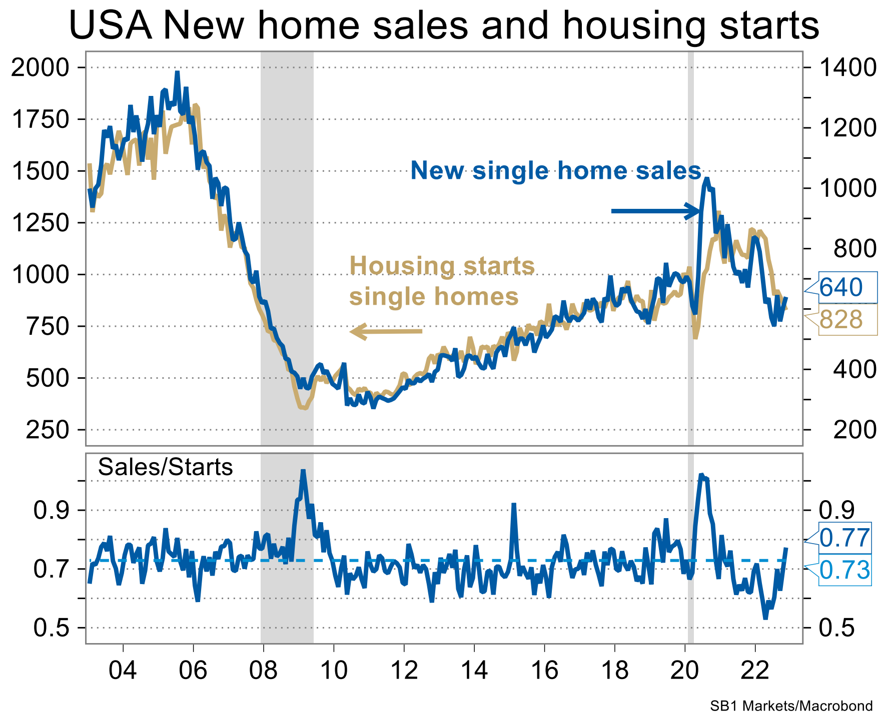
USA Durable orders vs PMI orders

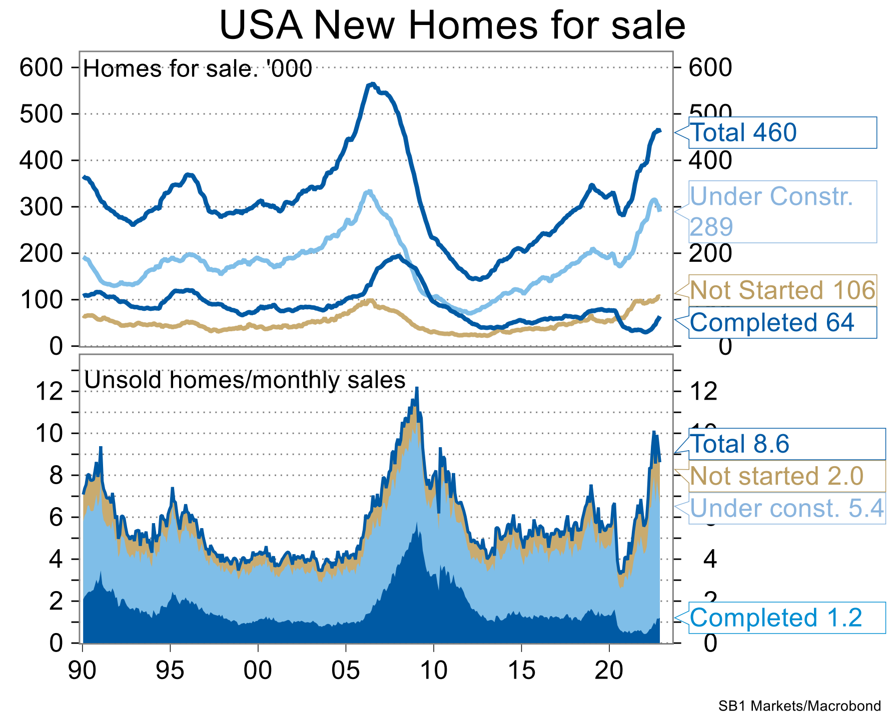


SB1 Markets/Macrobond

New home sales refuses to come down

Stars rose in November – and has flattened since April – and the inventory of unsold homes is flattening

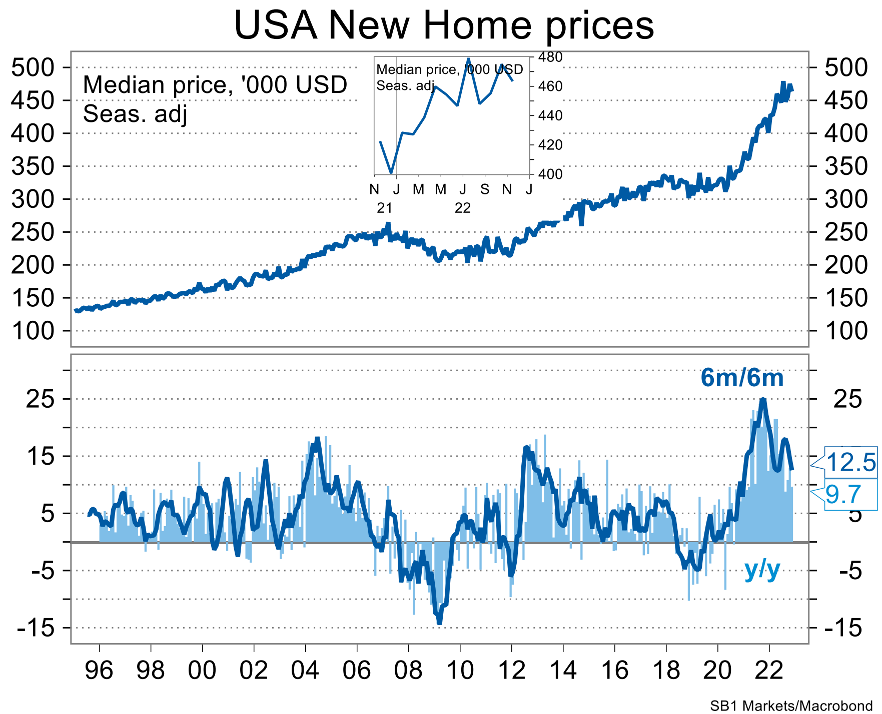


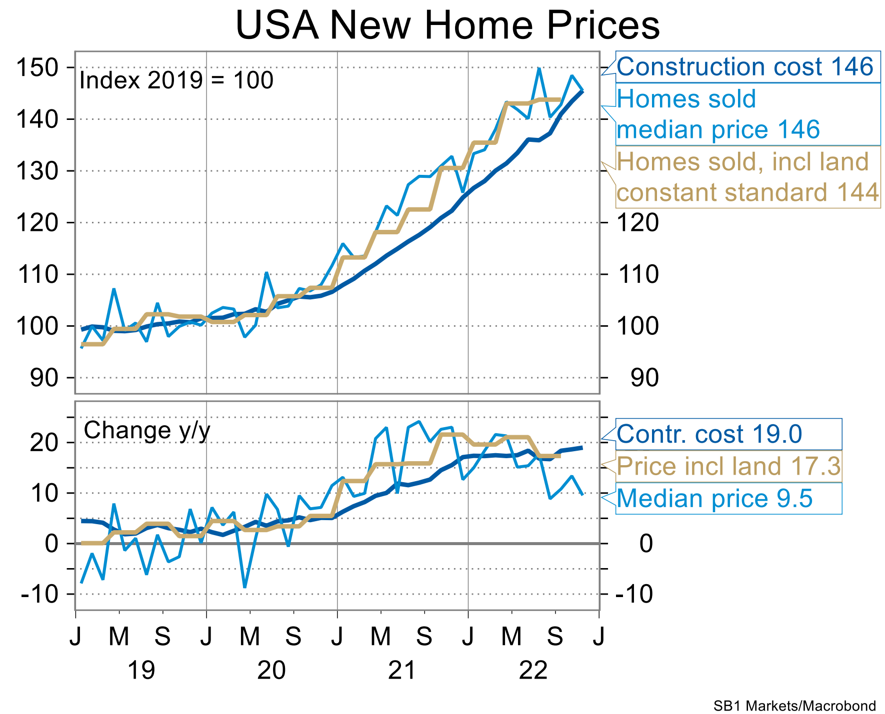


- **New single home sales** surprised on the upside in November too, up to 640', up from 605' in Oct (revised down 632'), expected down to 600'. Sales fell sharply from January (from 831') to July last year (531' while the peak during the pandemic was in Aug 20, at 1,036')
- **The inventory of unsold homes** fell marginally in Nov, following a steep rise since Oct 2020 – to a rather high level, both in absolute terms and vs. sales. Most of the inventory is 'for real', either completed homes (but the level in this category is still not high, or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand & prices during the pandemic. A steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started as at least the housing market has entered a recession). In November, the sum of no. of completed homes and homes under construction (the 'real' supply) fell slightly – as sales have recovered vs. starts (check the lower panel on the chart to the left)
- **Prices** increased slightly in October but the short term trend is flat – and very likely, prices will soon turn south

New home prices have flattened. Will they stay up there?

Construction costs are still rising rapidly, while selling prices have flattened

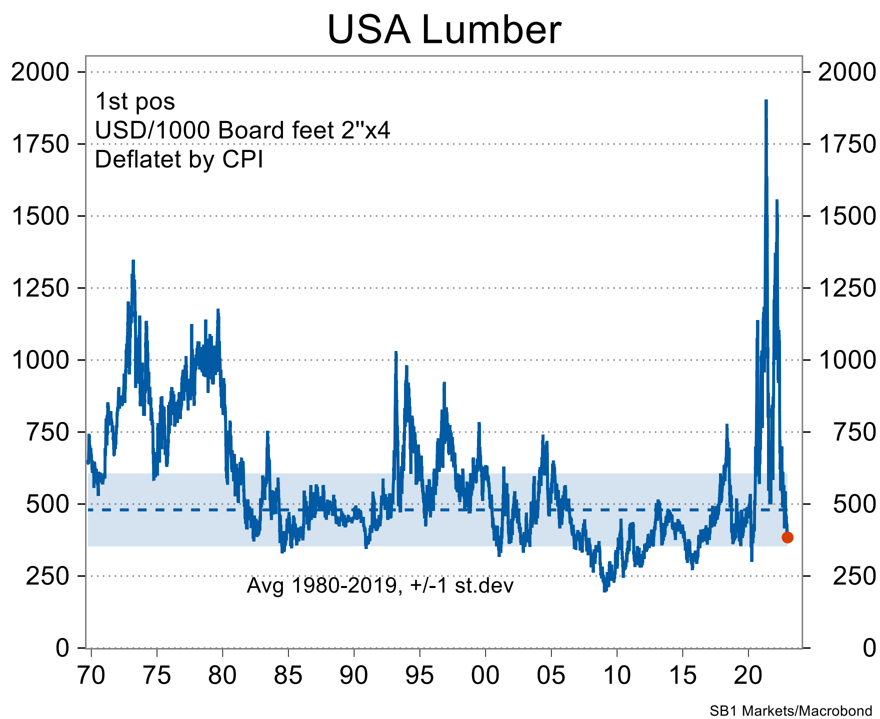


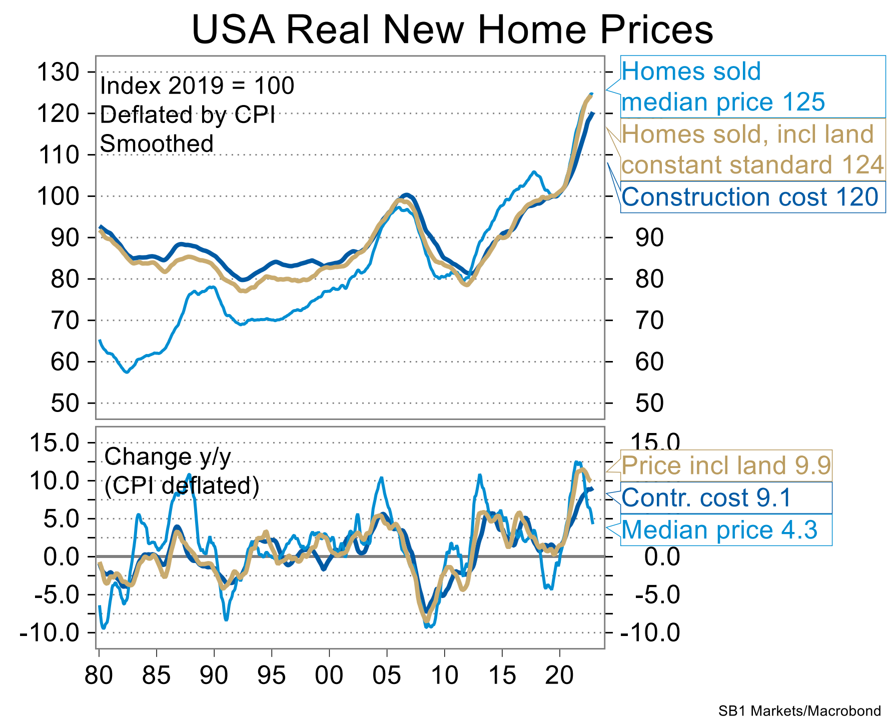


- The monthly **median new home sales prices** are very volatile, as they are not adjusted for changes in the mix of homes sold. In October, prices were up 12.5% y/y, down from above 20% at the peak – and prices have more or less flattened since the spring
- The **construction price index** is adjusted for changes in standard and size, as is the **new homes sold price index**, which also includes cost of land: they are up by 19% (in Nov) and 17.4% (Q3) resp. However, the home sold price index has also flattened since the spring. Construction costs are still on the way up, even if several types of material have come down in price. We expect these cost to come down – but so far that has not been the case! Land prices should also decline, as existing home prices are heading down

A spectacular increase in real new home prices/construction cost past 2 years

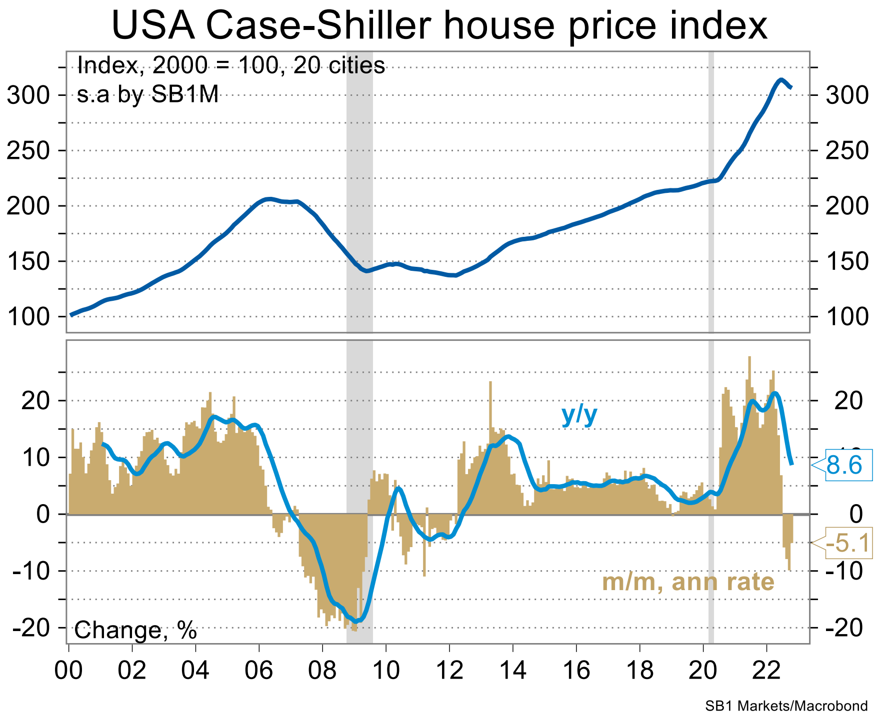
A reversal is likely. Some material prices have already normalised

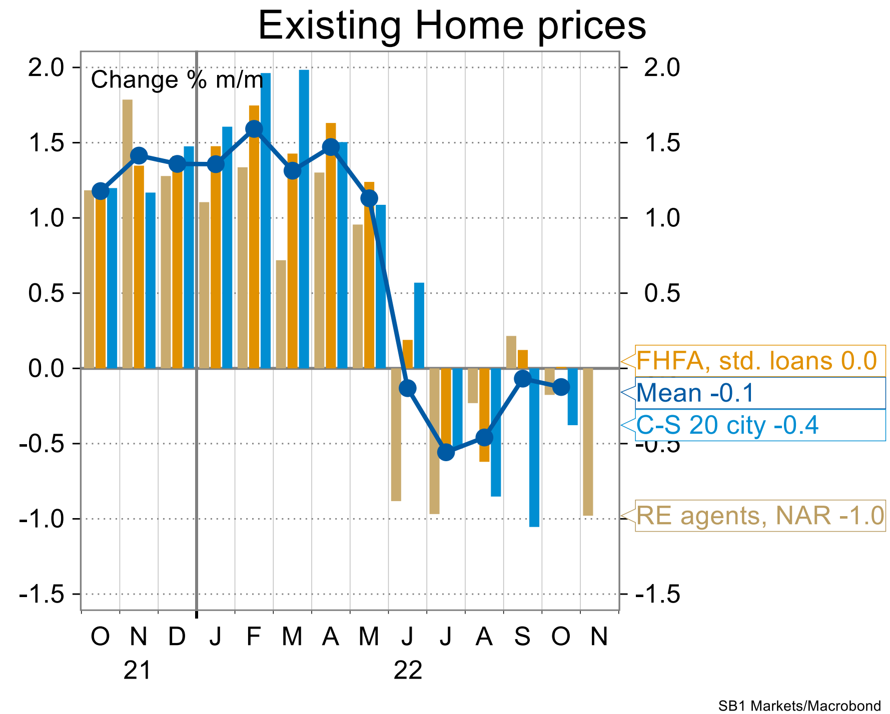




Case/Shiller house prices down in October, but less than expected, just 0.4%

Prices fell 0.4%, expected -1.4%, and the FAFA index was unchanged

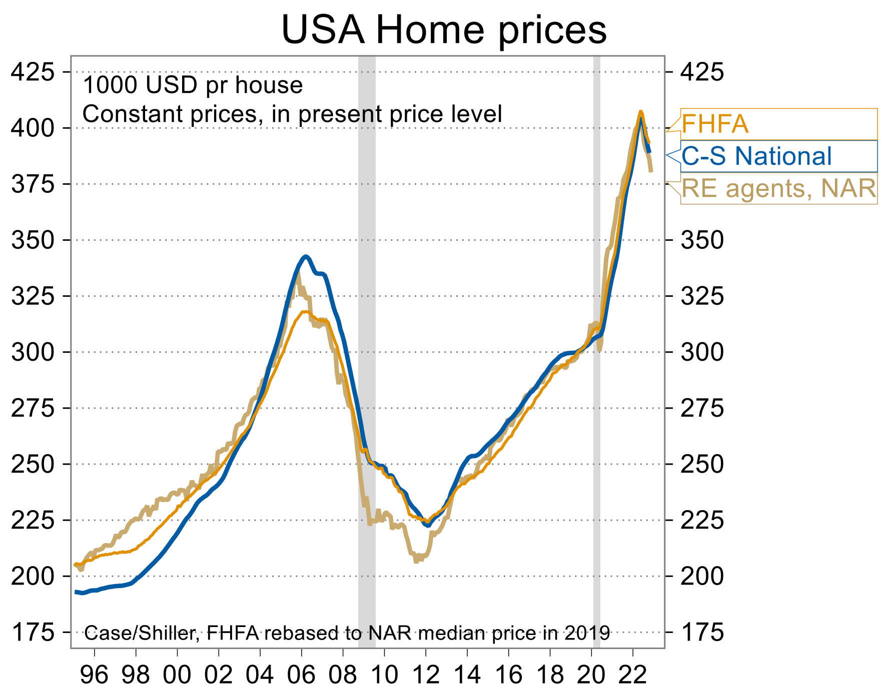




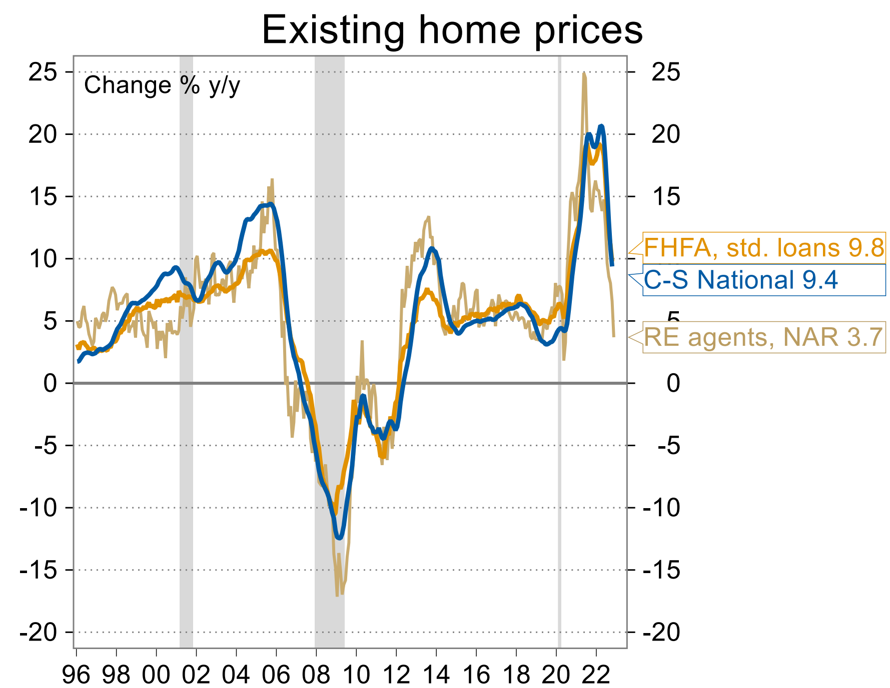
- **S&P's Case/Shiller's 20 cities** price index fell by 0.4% in Oct (Sep - Nov avg., our seas. adj, -0.5% the 'official' seasonal adjustment, 1 pp less than expected. The index is still up 8.6% y/y, and the rate is falling rapidly
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), were unch. in Oct, following a 0.1% increase in Sept!
- Realtors reported a 1% decline in house prices in November
- We still expect prices to yield substantially the coming months, following the unprecedented 42% lift since before the pandemic to the peak in June, and the surge in mortgage rates

The downside is HUGE, following the 40%+ price appreciation from Feb-20

Were real house prices too low before the pandemic? Probably not. Can they fall back? Not unlikely



SB1 Markets/Macrobond

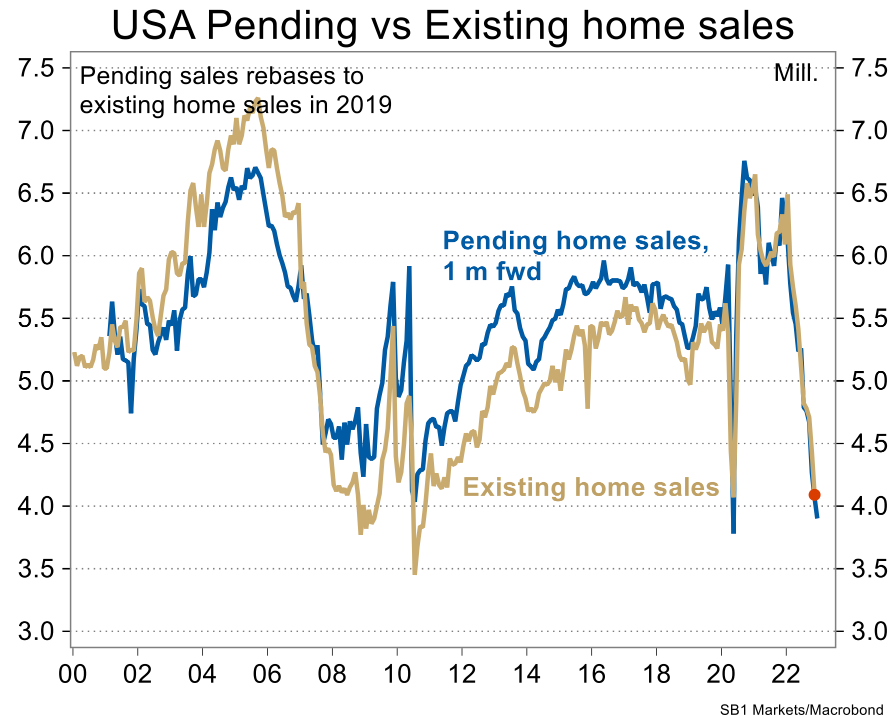


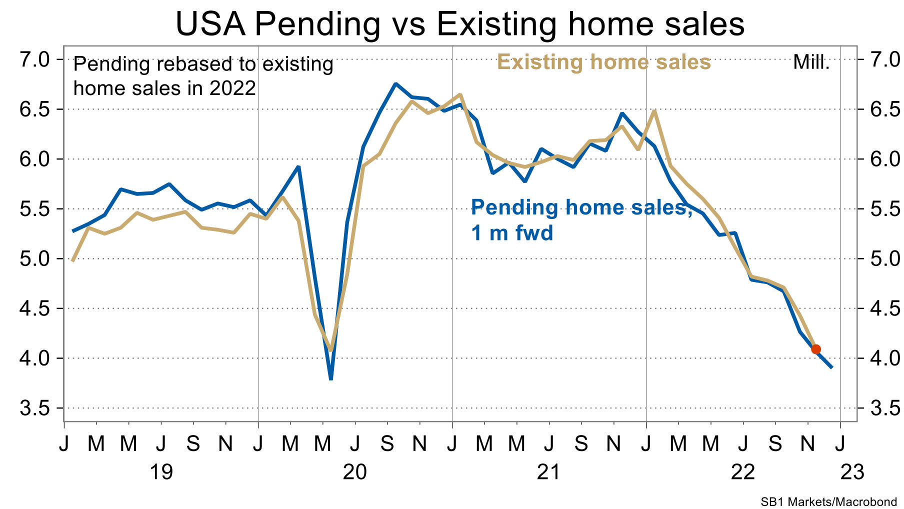
SB1 Markets/Macrobond

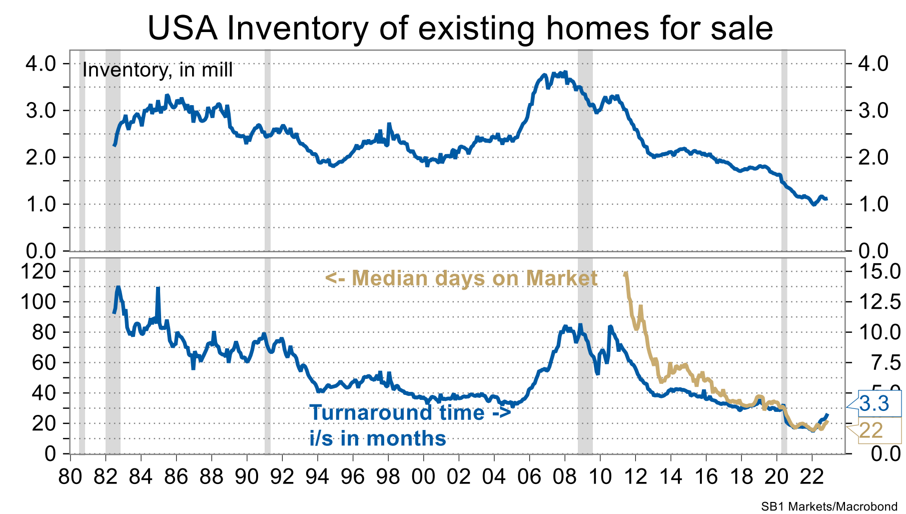
- **Real prices** are far above the pre-financial crisis level too
- There are still some big differences vs the mid 2000 housing bubble
  - **Housing starts** are at a lower level. The **inventory** of second-hand homes for sale is still close to record low (vs high 15 – 16 years ago). However, the inventory of new homes for sale is climbing rapidly, and is now rather high
  - Households' average **debt/income ratio** has fallen sharply since the peak before the financial crisis, and their cash positions have soared (on average) to above debts. However, credit growth has accelerated rapidly during the pandemic, and housing affordability is far weaker than in early 2006, when the previous bubble burst
  - The **savings rate/net financial investments rates** have now fallen to well below the pre-pandemic level – but the ratios are above their respective levels in 2005

Pending home sales further down in November

No. of agreed transactions fell 4%, and is down 40% from last November





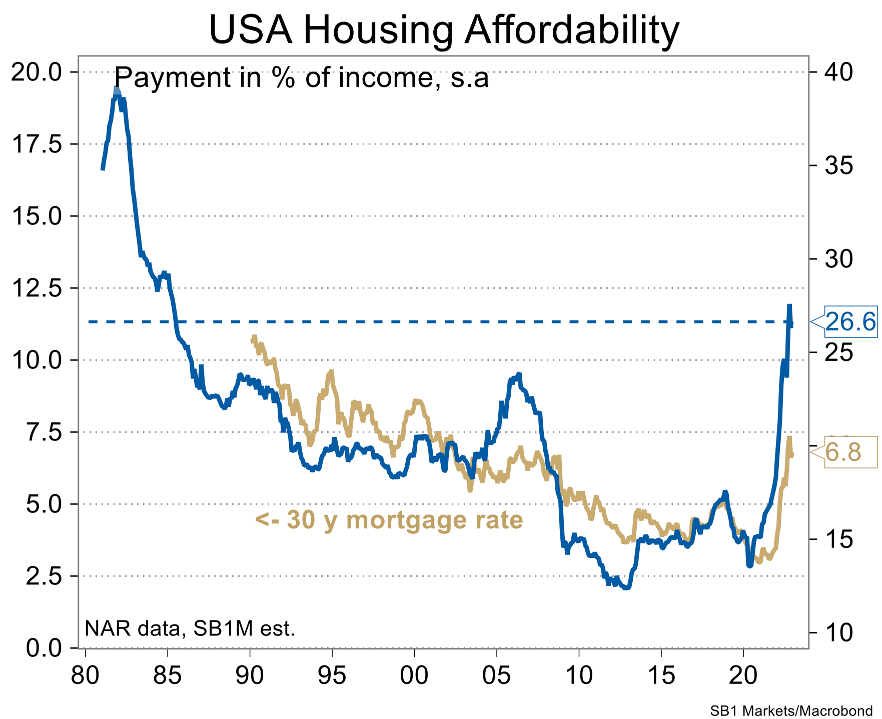


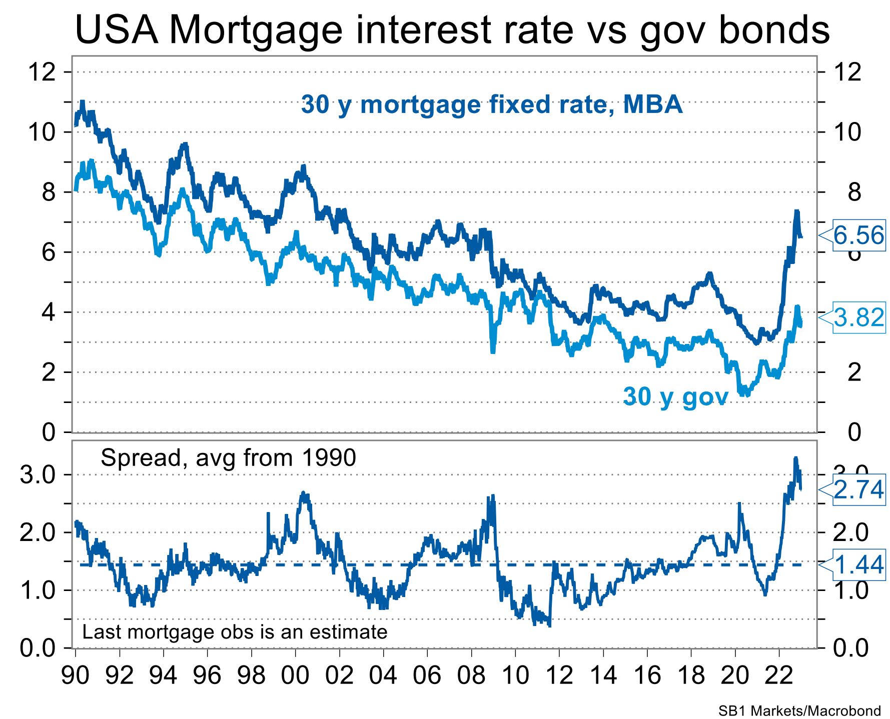
- **Pending home sales** were expected to stabilise (-1%) but continued downwards at a rapid pace. The level is the second lowest ever, just May 2020 was even worse. The decline over the past year is also the steepest ever. Existing home sales (actual transactions) will very likely follow suit in November (check the charts above)
- The downside for sales cannot be that large from here, given the lowest level in the century (barring the start of the pandemic)
- However, the current level signals a substantial downside risk for the rest of the housing market (pricing and new building)

Pending home sales: Deals signed. Existing home sales: The actual transaction, typically 1 – 2 months after signing

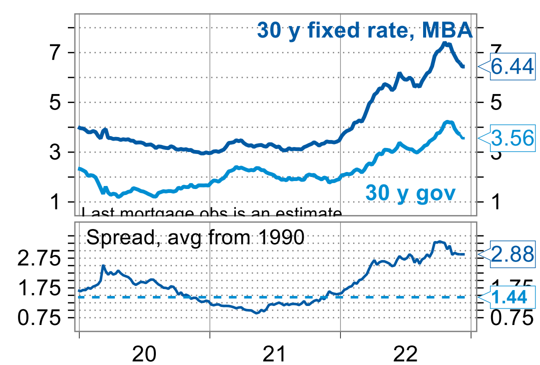
Mortgage rates are coming down, but remain high

The effective mortgage 30 y rate at 6.44% is now down almost 1 pp from the 20-year peak some 5 weeks ago





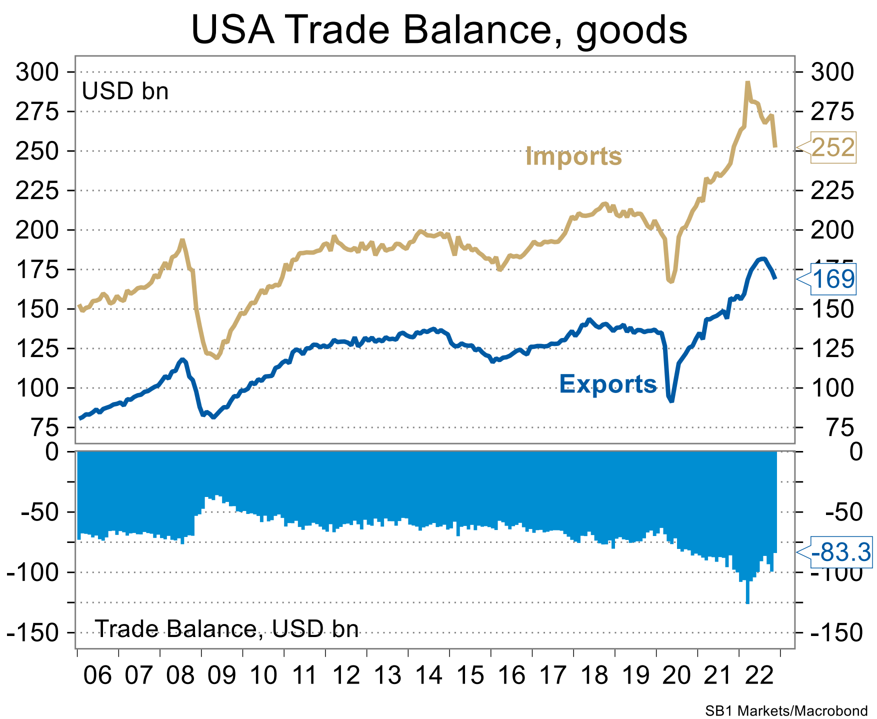
- The 30 y fixed mortgage rate has shot up recent months, both due to higher 30 y gov. bond rate and a dramatic widening of the spread up to the mortgage rate. The spread was 0.9 pp at the bottom when the Federal Reserve snapped up all net mortgage bond issuances even if prices rose 20% y/y. Now the Fed is selling mortgage backed bonds, and the spread is above 2.80% (3.30% at the peak)
- Housing affordability (house price x mortgage rate/income) is still at the worst level since 1986!

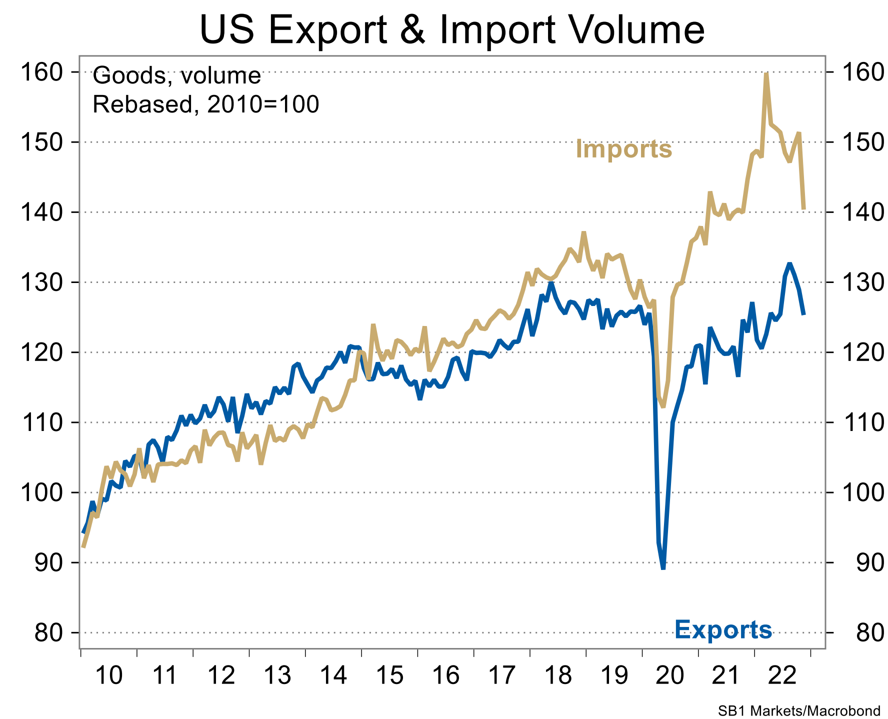


SpareBank 1 MARKETS

Imports collapsed in November, now finally a Chinese Covid impact??

The trade deficit <u>in goods</u> collapsed, to USD 83 bn from 99 bn, expected 97 as imports suddenly fell USD 20 bn (8%)

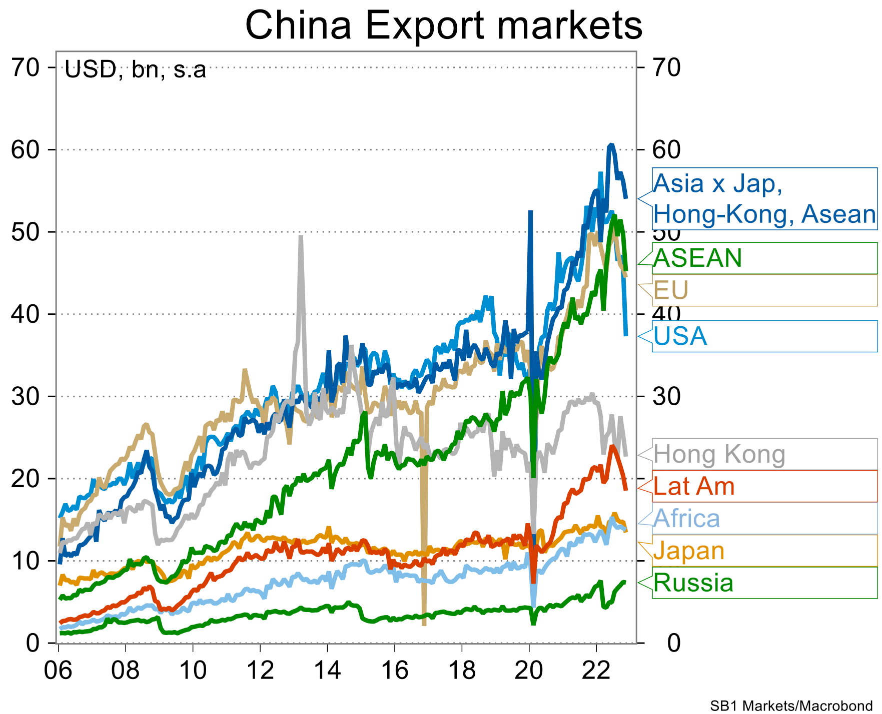


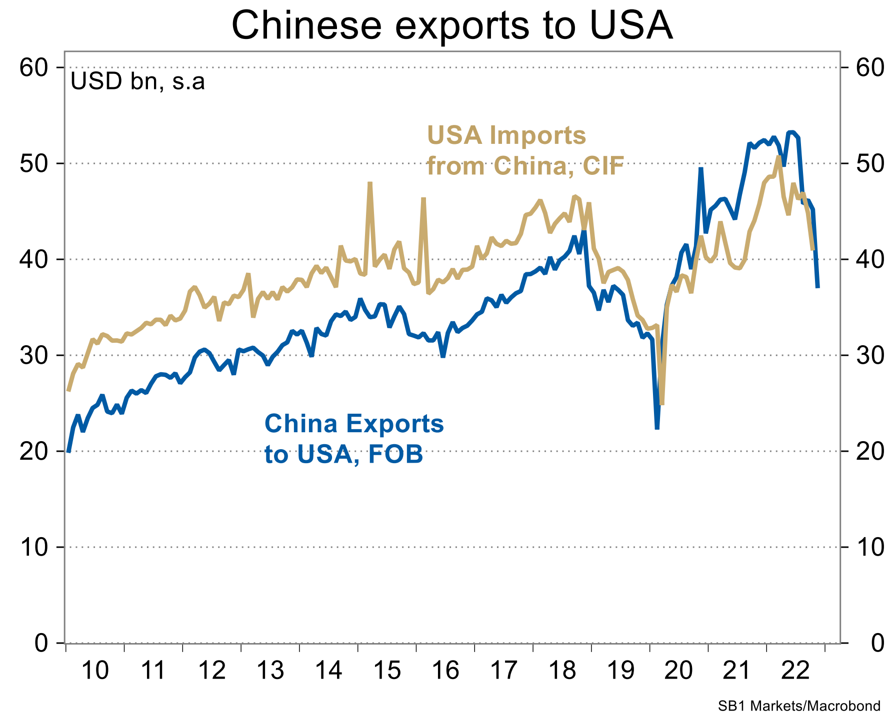


- The sudden decline in **imports of goods** (just Nov 2008 post Lehman, and April 2020 has been even weaker m/m since 1985) can not be due to lower final demand in the US, even if the trend may be downwards. Consumption of goods and business investments are not collapsing, and housing is not 'that large'. We assume parts of the decline may be explained by the <u>sudden drop in Chinese exports in November</u> (down USD 8 bn, according to Chinese data) – which was not due to collapsing orders from abroad but Covid troubles. Very likely, the drop in imports will be compensated by an inventory drawdown (which most likely will have been warranted in some sectors)
- **Exports** fell by USD 5 bn or 3% - and the direction has been downwards recent months, both in nominal and real terms, signalling weaker demand abroad (and partly the impact of a strong USD)
- The **trade deficit** has fallen sharply through 2022, from and ATH above at USD 125 bn

Chinese exports to the US fell sharply in November

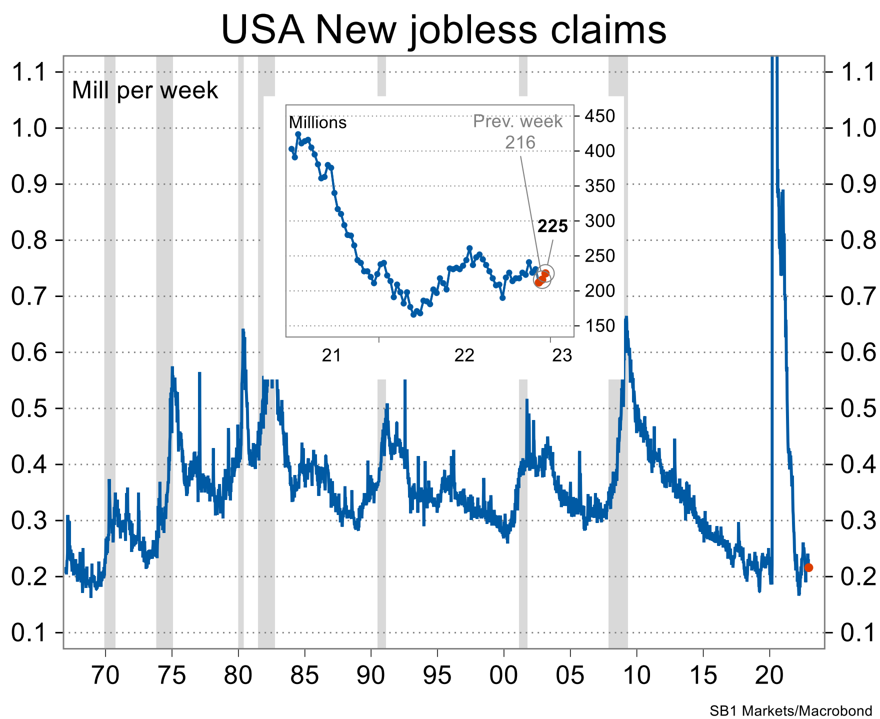
… and US data will probably tell the same story. Most of the decline is probably Covid related

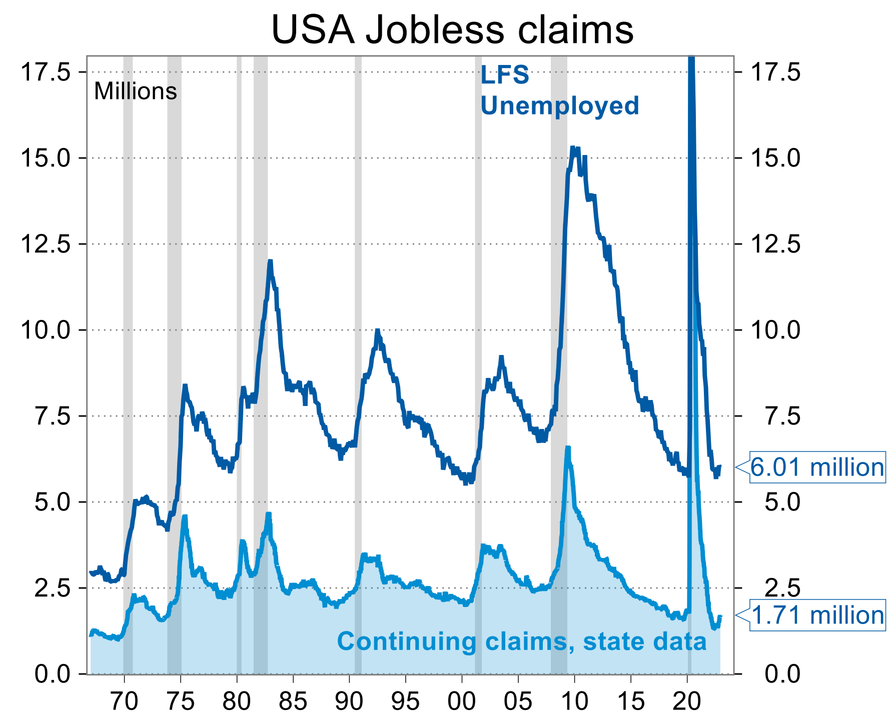




The labour market is still not on the retreat

New jobless claims increased marginally to 225', in line with market expectations

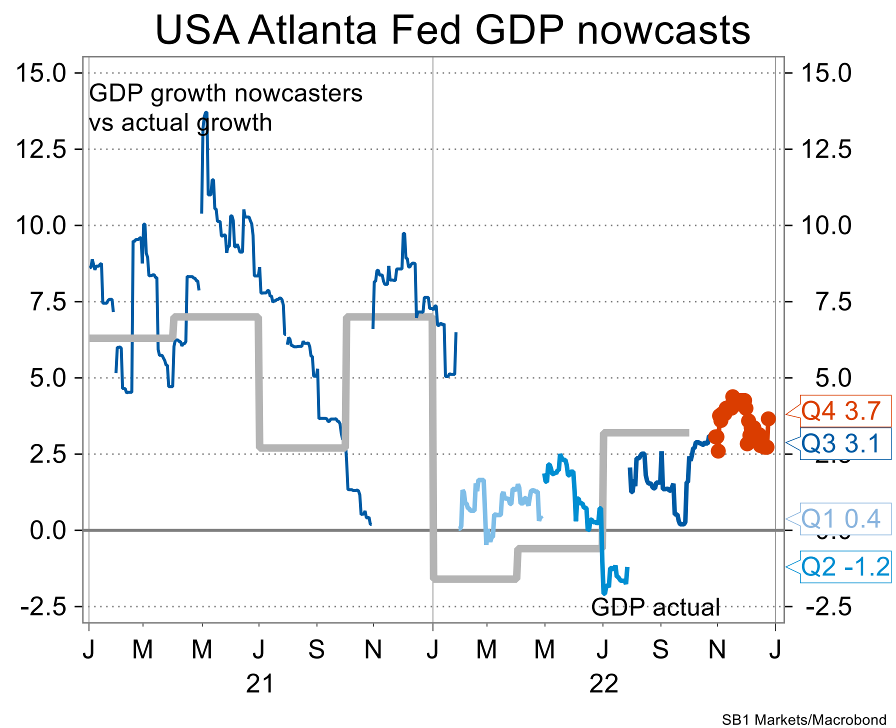


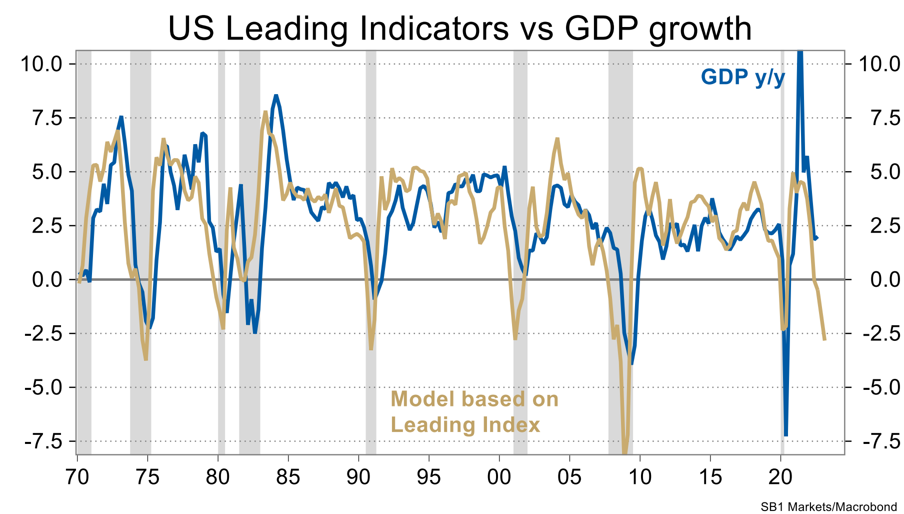


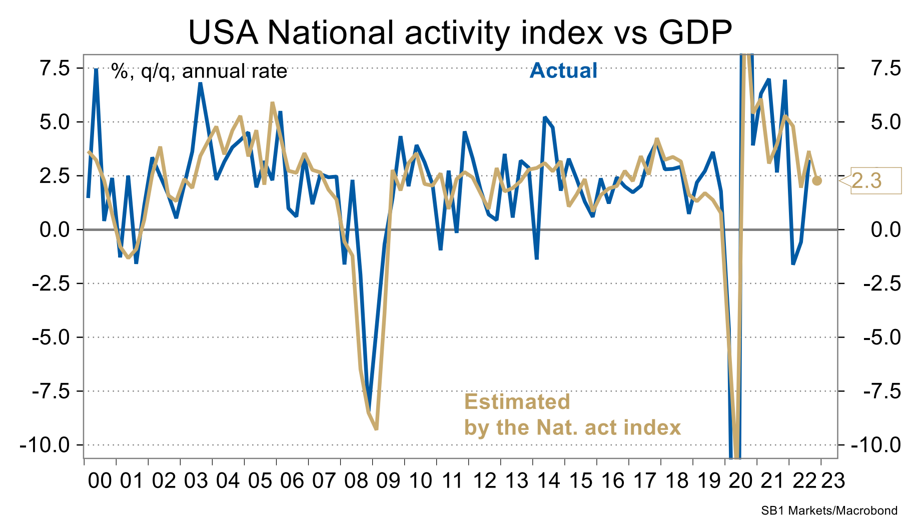
- **New jobless claims** increased by 9' to 225 last week
- **Continuing claims** rose by 41' to 1,710' (prev. week revised down by 3') in week 50. The trend is slightly upwards but the level remains very low still
- Both still indicate a **tight labour market** – a labour market that is far more resilient than we and probably also the Fed had envisioned, given higher interest rates, record-low consumer sentiment, and falling orders (according to surveys)

Atlanta Fed revised it's Q4 GDP forecast up by 0.9 pp to 3.7%

By far the most upbeat among nowcasters. Leading indicators are signalling a decline in GDP not before too long

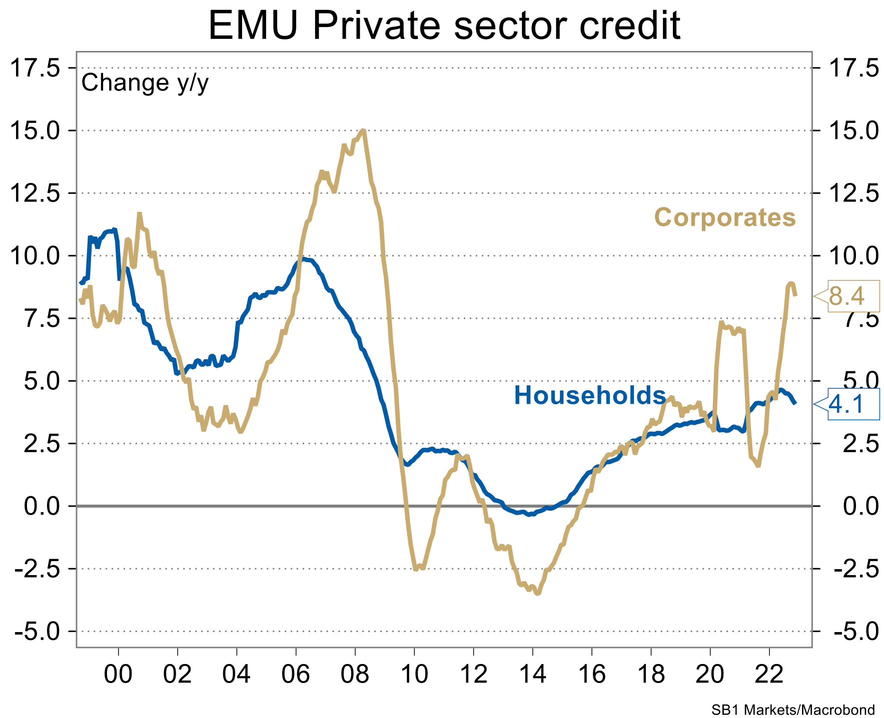


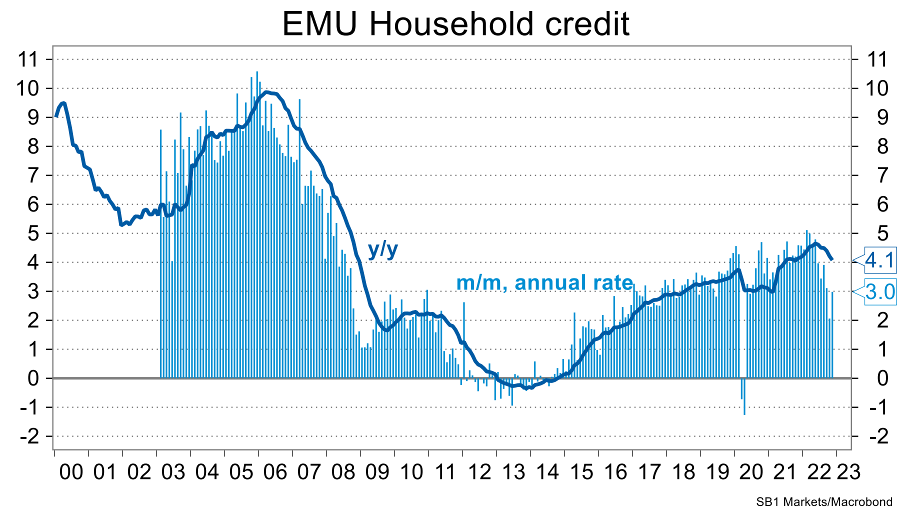


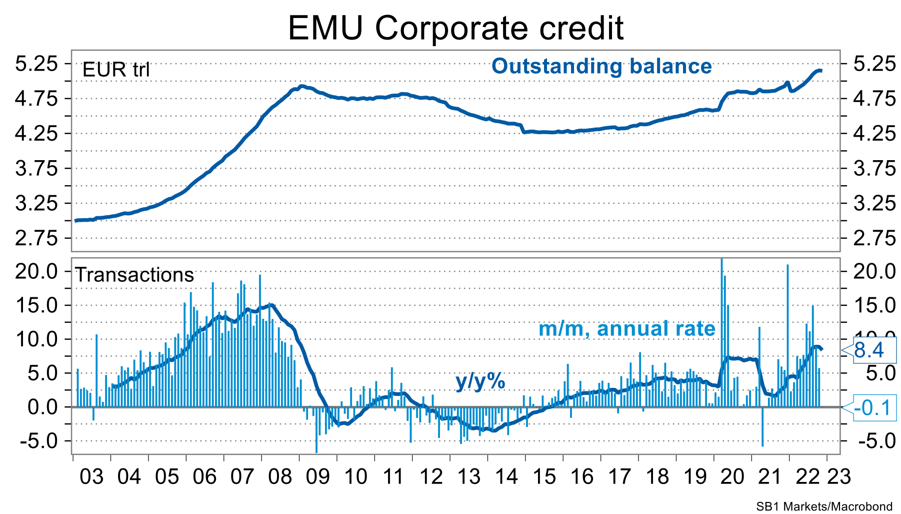


Credit growth keeps slowing, and banks are tightening sharply

Annual growth rates have kept up, but are now falling too – and corporate credit declined m/m in November



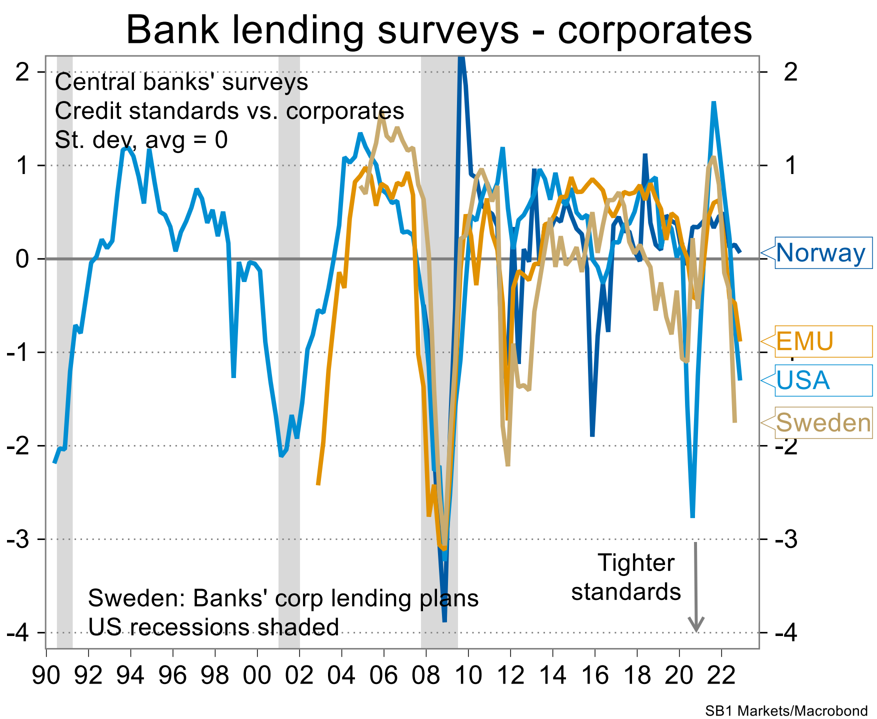


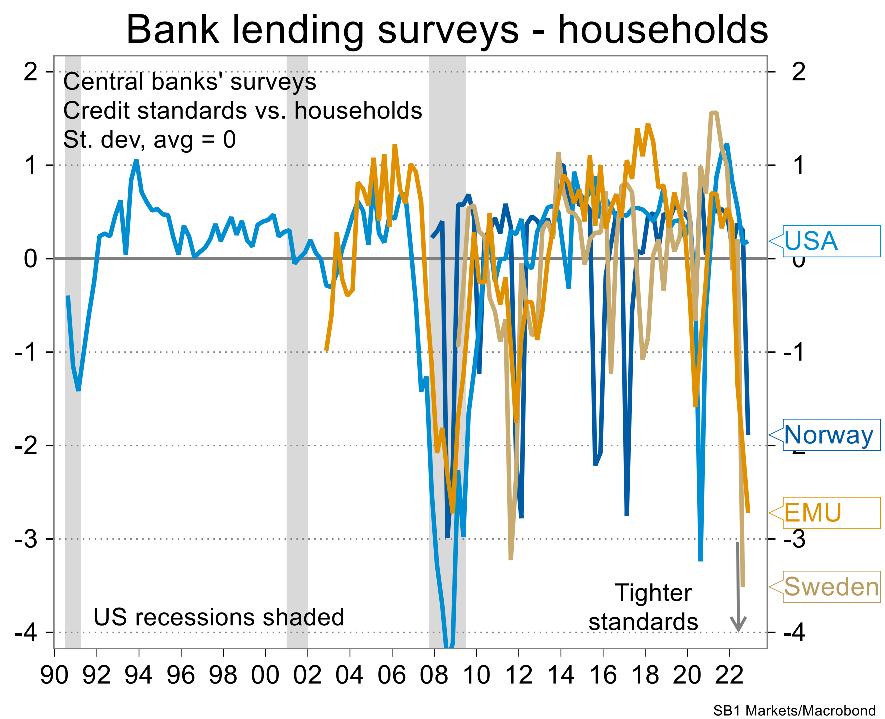


- **Monthly growth** in household debt has fallen to 2- 3% from 5% in early 2022, and now the annual rate is slowing too, now down to 4.1%
- Growth in corporate debt is still up 8.4% y/y – and may have peaked for now – and the monthly growth rate fell sharply in November, to -0.1%. The last **banking survey** signals a significant tightening, *check the next page*

European banks report tighter credit standards

EMU banks have not reported such a tightening of standards vs. households since the GFC

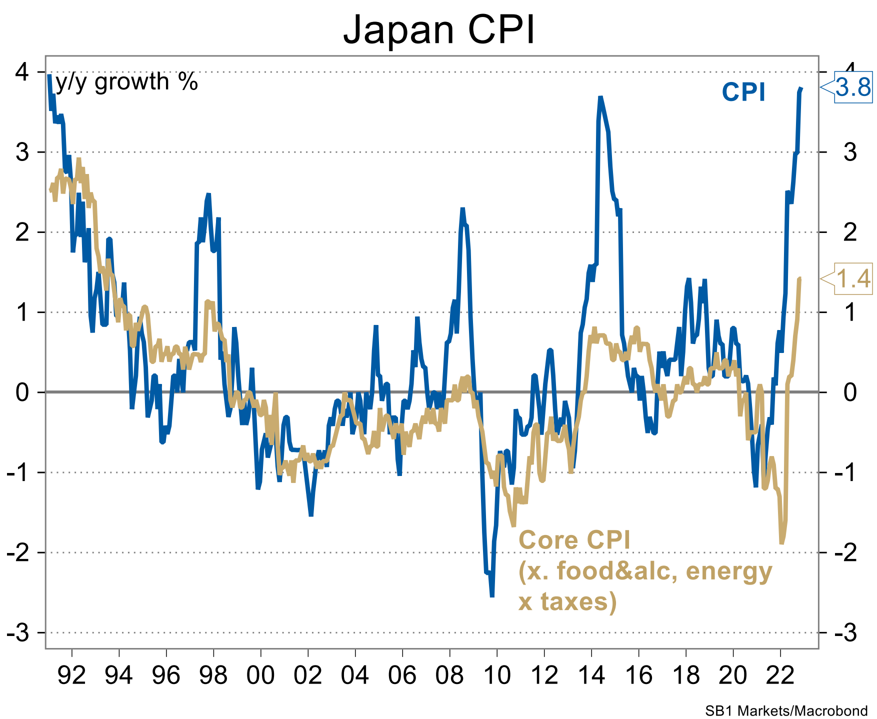


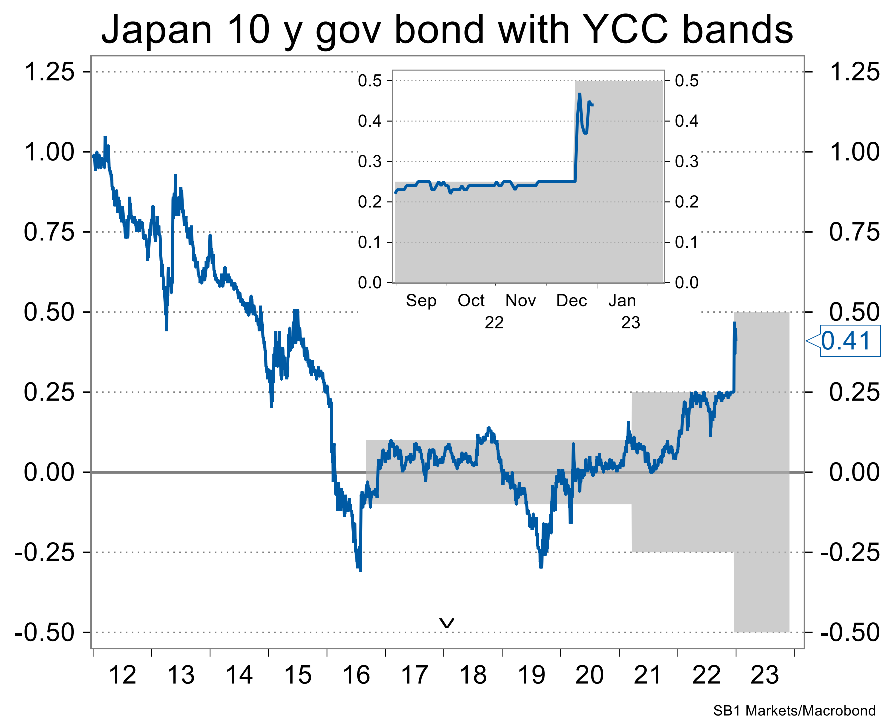


- **US banks** are signalling tighter lending standards vs corporate sector but not vs households
- **Norwegian banks** are close to neutral vs the corporate sector, at least they were in early Q4. A substantial tightening vs. household, banks reported
- **Norwegian** and even more **Swedish banks** also report a credit tightening vs. households, alongside the steep rise in mortgage rates and the decline in house prices

Inflation the highest in more than 30 years, and the YCC band is widened

CPI is up 3.8% y/y but the real core is up just 1.4%. Bank of Japan accepts a 10 y bond yield up to 50 bps, 25 bps

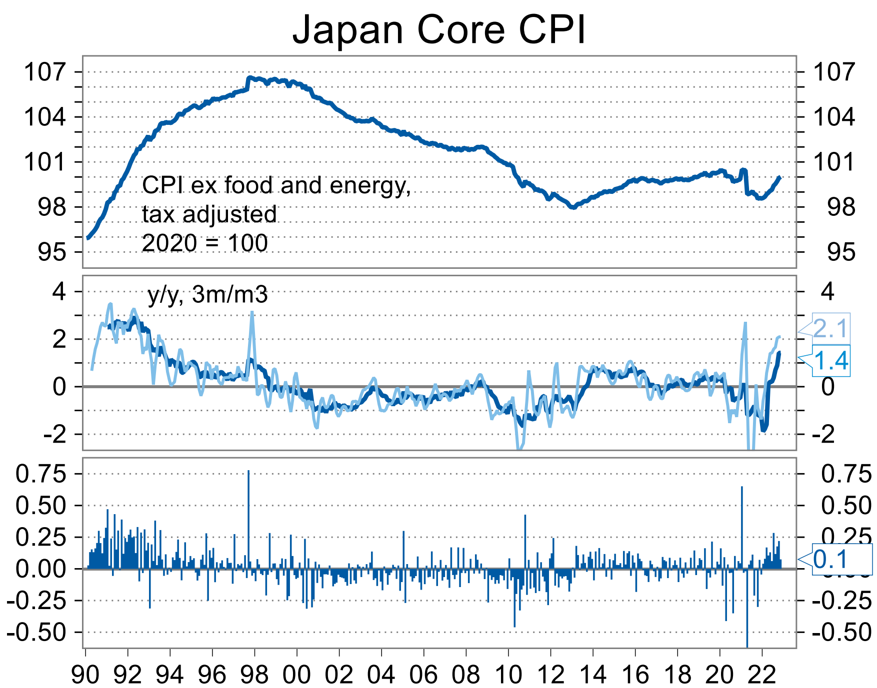




- **Inflation** is still on the way up but is still not high – and the peak may be near (check more next page)
- Just before Christmas Bank of Japan widened the **Yield Curve Control corridor** to 0 +/-50 bps, from +/-25 bps (from March 2021), and from +/-10 bps (from Sept 2016, when the YCC was first formalised)
  - The bank now pledges to buy sufficient of JGBs to prevent the 10 yr yield to rise above 50 bp (and to sell if the yield falls below -50 bps, we assume)
  - The yield rose sharply on the announcement but has retreated somewhat thereafter

Yes, core prices are up but they are not that high, are they?

The core price level is still lower than in 2019. That’s not the case everwhere



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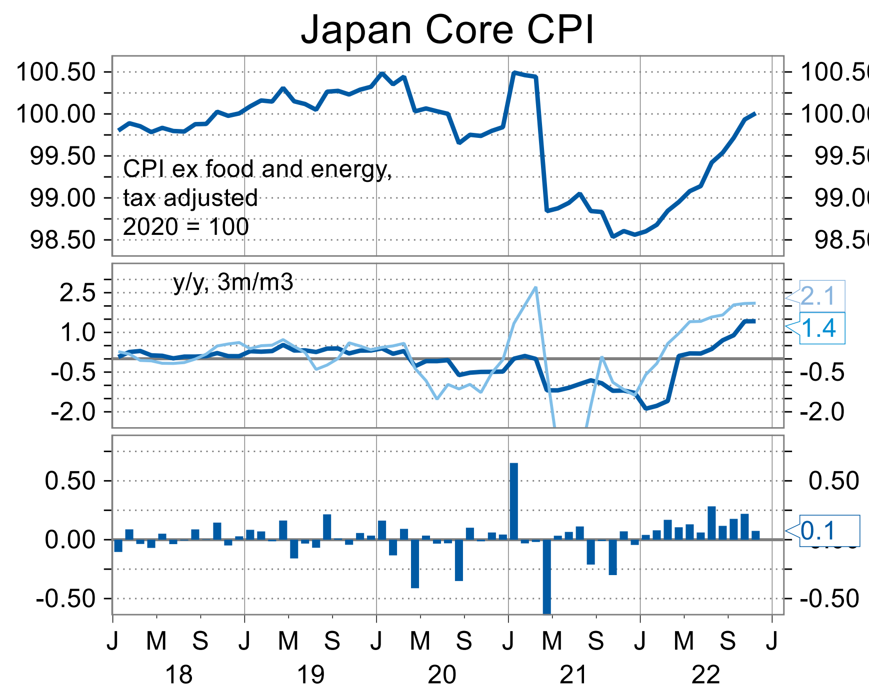
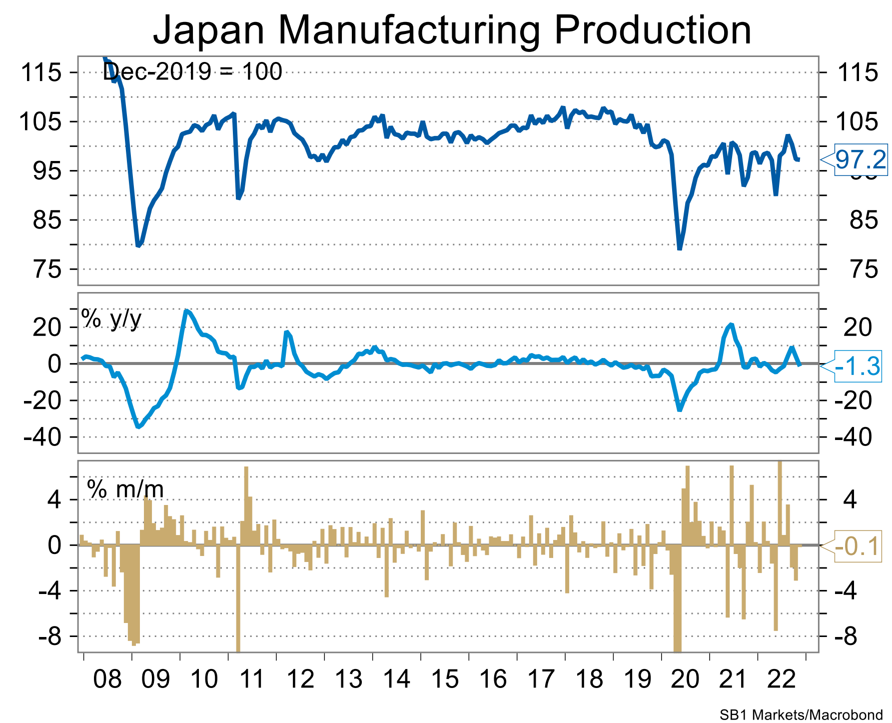
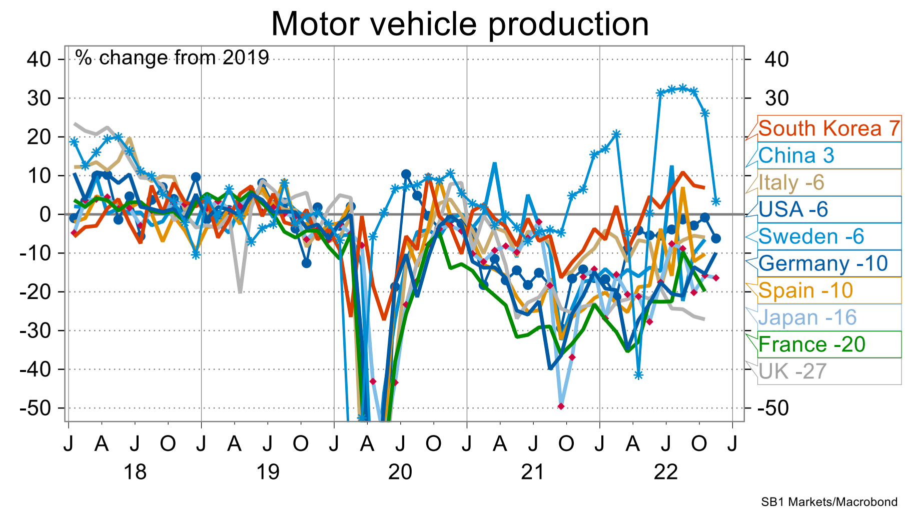


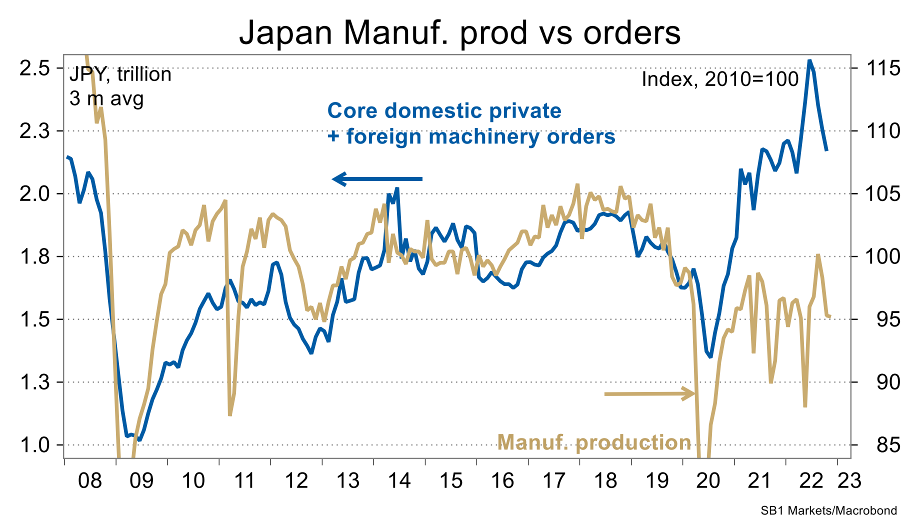
SB1 Markets/Macrobond

Manufacturing production down 0.1% in November, expected -0.3%

… following the 3.2% decline in October – the trend is flat



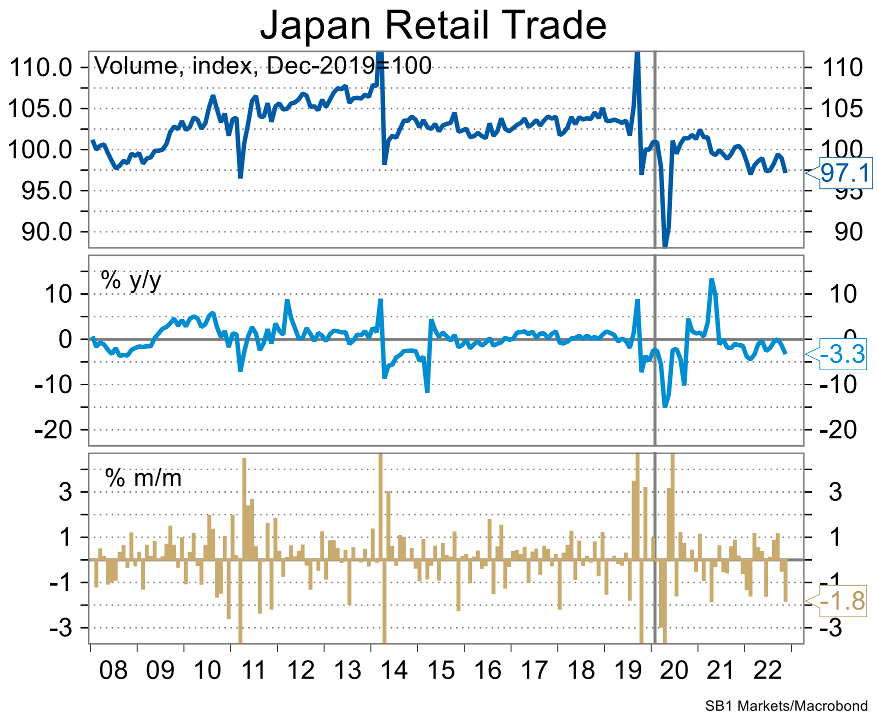




- **Production** has fallen the past 3 months, and the trend is flat. Auto production is still 16% below the pre-pandemic level
- **Overall order inflow** has strengthened substantially through 2021, and into 2022. The declining JPY explains at least part of the increase, probably also higher prices. Orders have fallen somewhat past 3 months but remain at a very high level

Retail sales declined in November too, and sales are on a downward trend

… and the level is still very low. Sales down 1.8%, expected up 0.7%, following the 0.5% decline in October



- Sales are down 3.3% y/y, and well below the level in 2019

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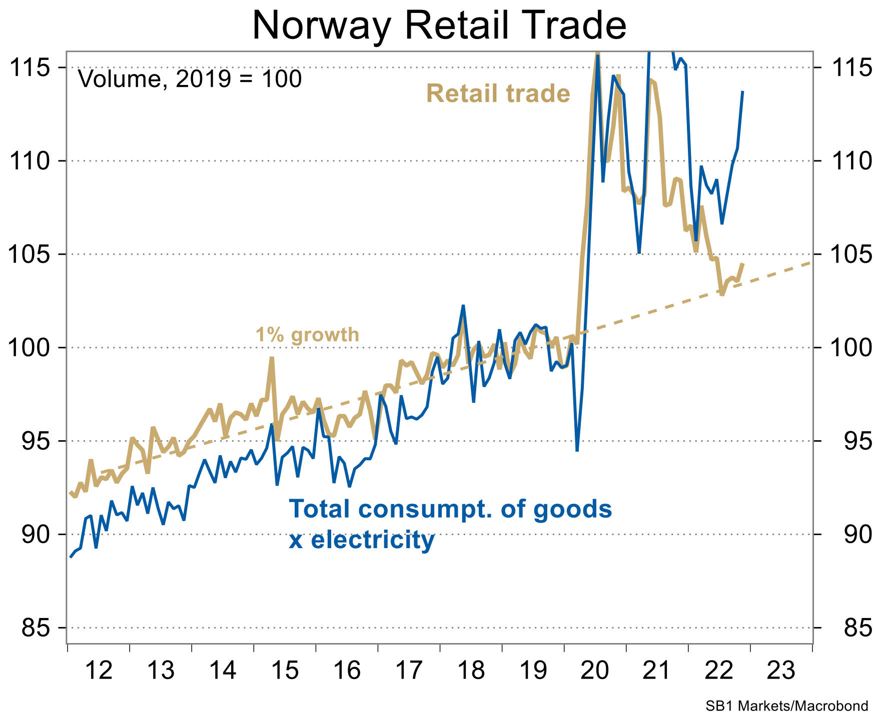
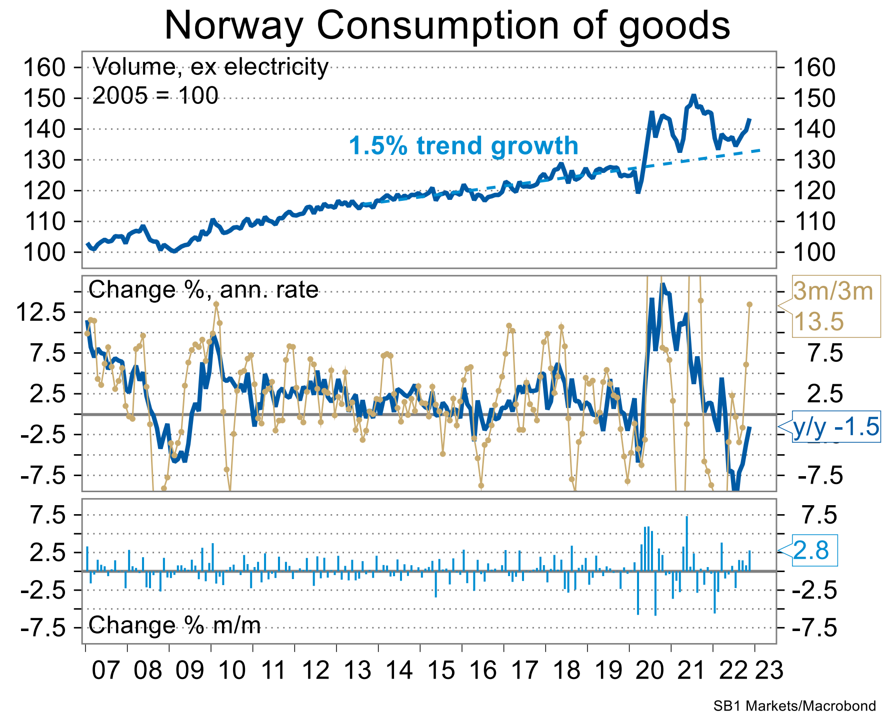
Retail sales higher in November, likely driven by Black Friday offers

Retail sales were up by 0.9% (we exp. -0.5%); total consumption of goods was up 2.8%. And the short-term trend is up!



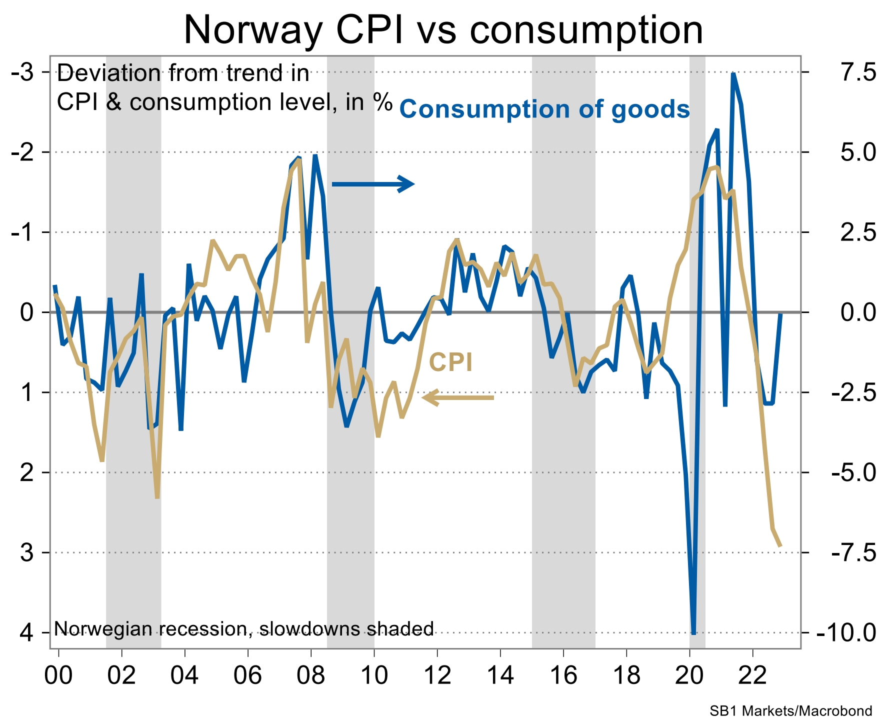


- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth path. The increased sales in November were likely in part driven by discount shopping during Black Friday (Black Week), and a steep increase in sales of sport equipment (and gasoline, contributing 0.2 pp). ago
- **Total consumption of goods** rose 2.8% in November – and the history was revised up somewhat (like consumption in National accounts)
- In Norway, less x-border shopping in Sweden (was cut to zero during most of the pandemic) – but it is no back to a normal level. So is consumption of services, and other consumption abroad. In addition, the lift in inflation and higher interest rates also seem to have aided sales back down to the pre-pandemic trend. <u>However, the very short term trend is far better than we assumed some few months ago</u>

SpareBank 1 MARKETS

Higher consumer prices contribute to lower consumption, as always

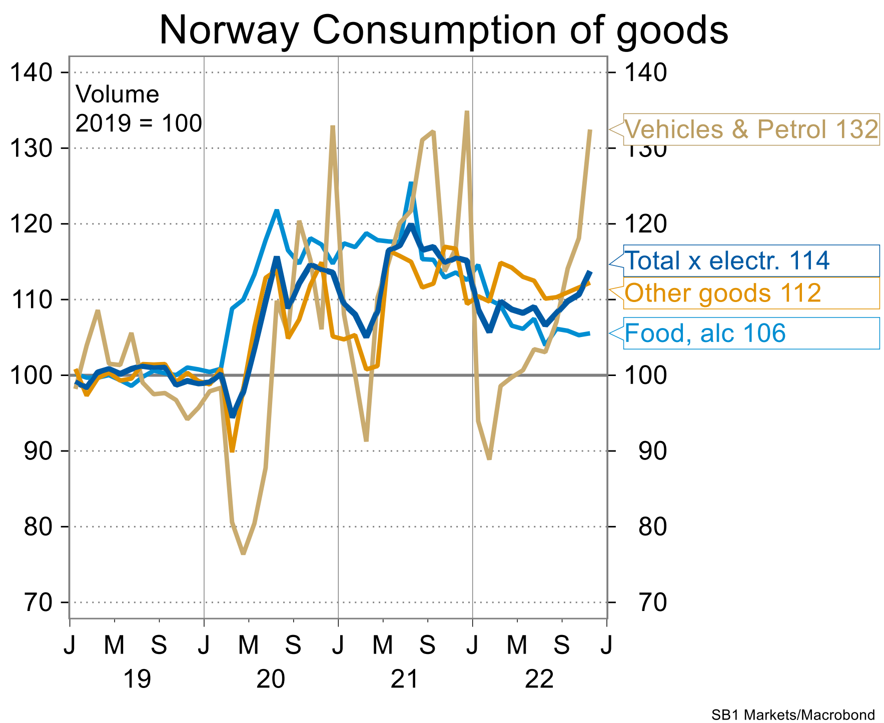
Consumption of goods (volume) are negatively correlated to changes in consumption prices

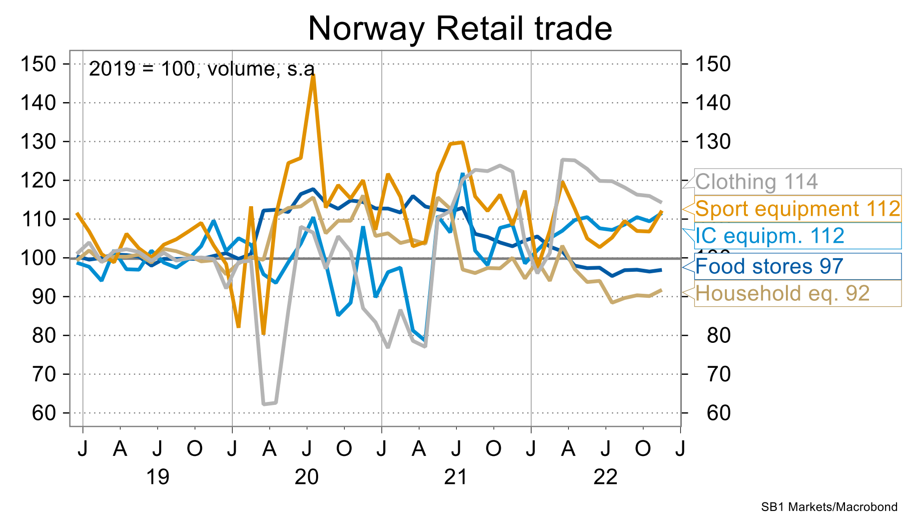


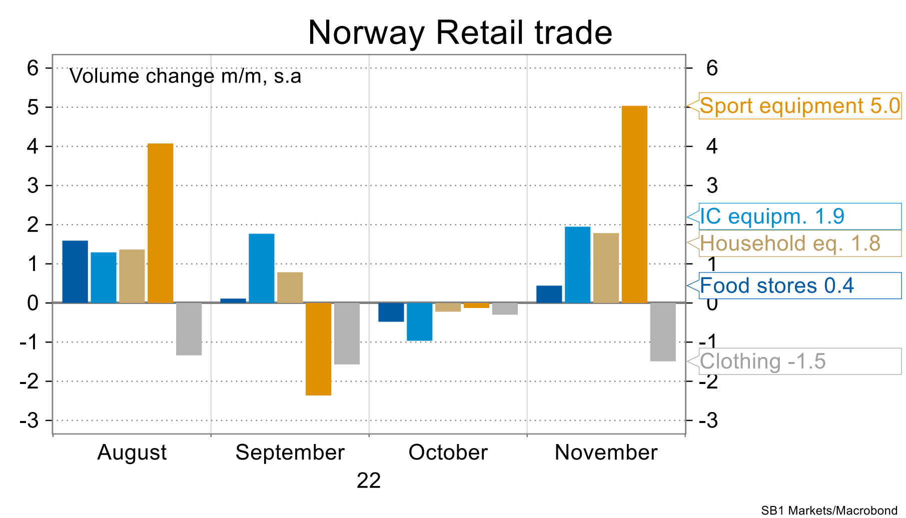
- The elasticity for consumption of goods vs. changes in headline CPI is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated with a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation)
- This time too, consumption of goods has come down as the level of inflation has remained elevated – in conjunction with most of the pent-up demand after the pandemic seems to have dissipated
- In addition, interest rates are rapidly on the way up

Most sectors up in November, but most are trending down

Auto sales save the day for total consumption of goods





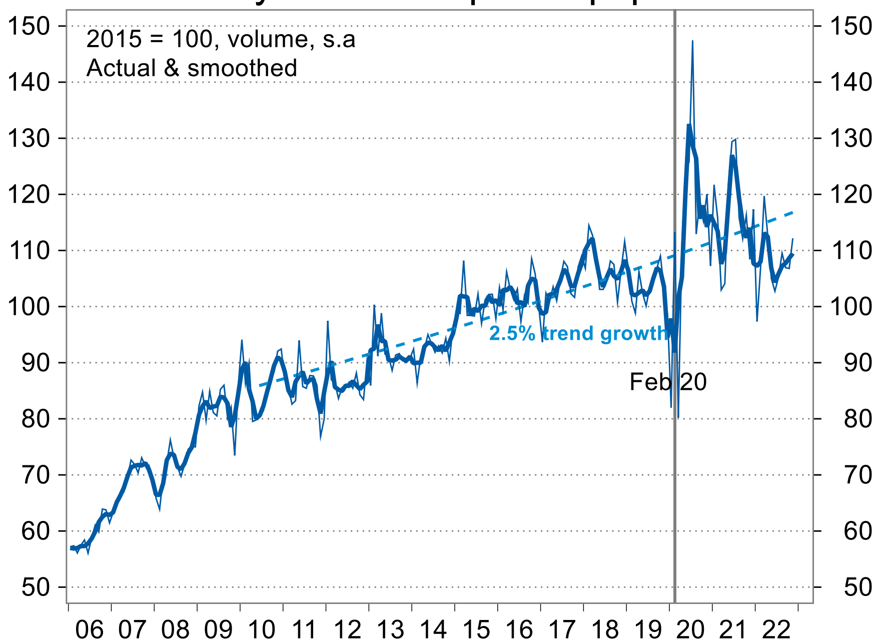


- …and clothing sales declined by 1.5% m/m

Sports equipment sales: up in November, ahead of the Holidays

…but the level remains well below pre-Covid trend

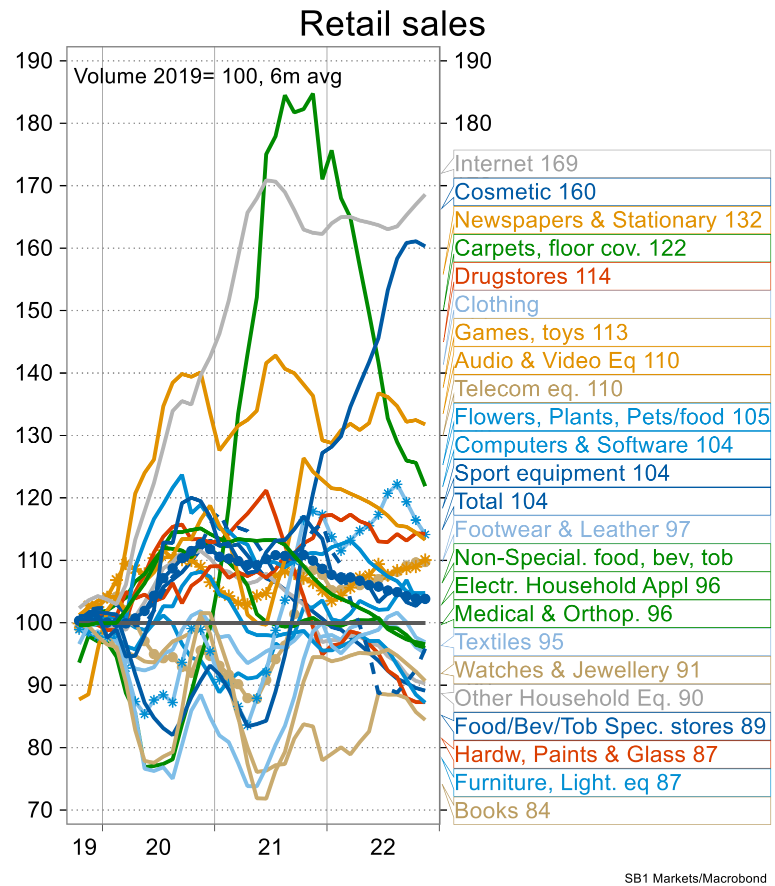
Norway Sales of sport equipment



SB1 Markets/Macrobond

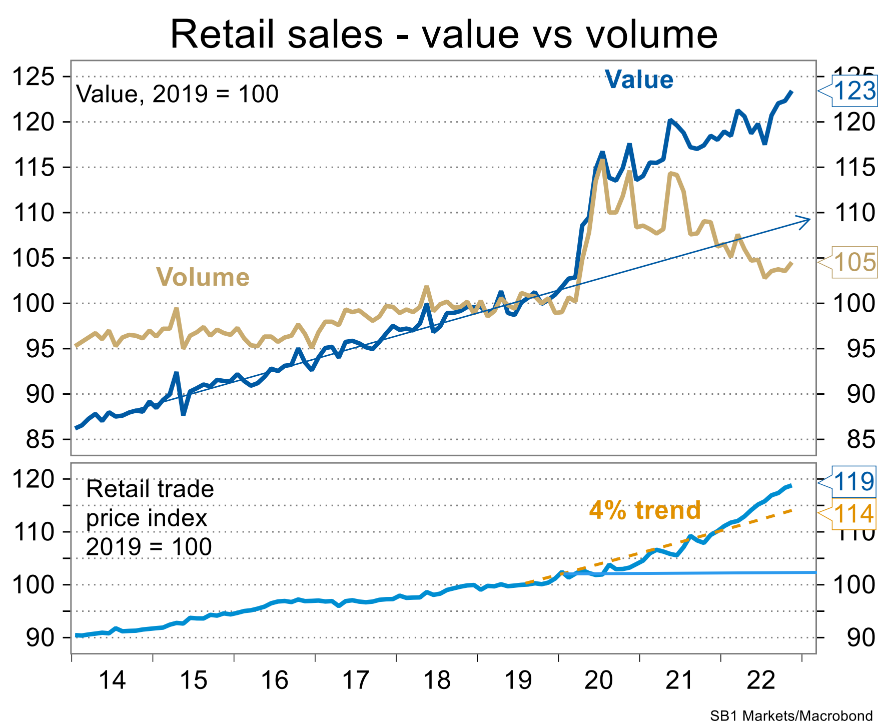
Since before the pandemic: Still huge sectoral differences in sales volumes

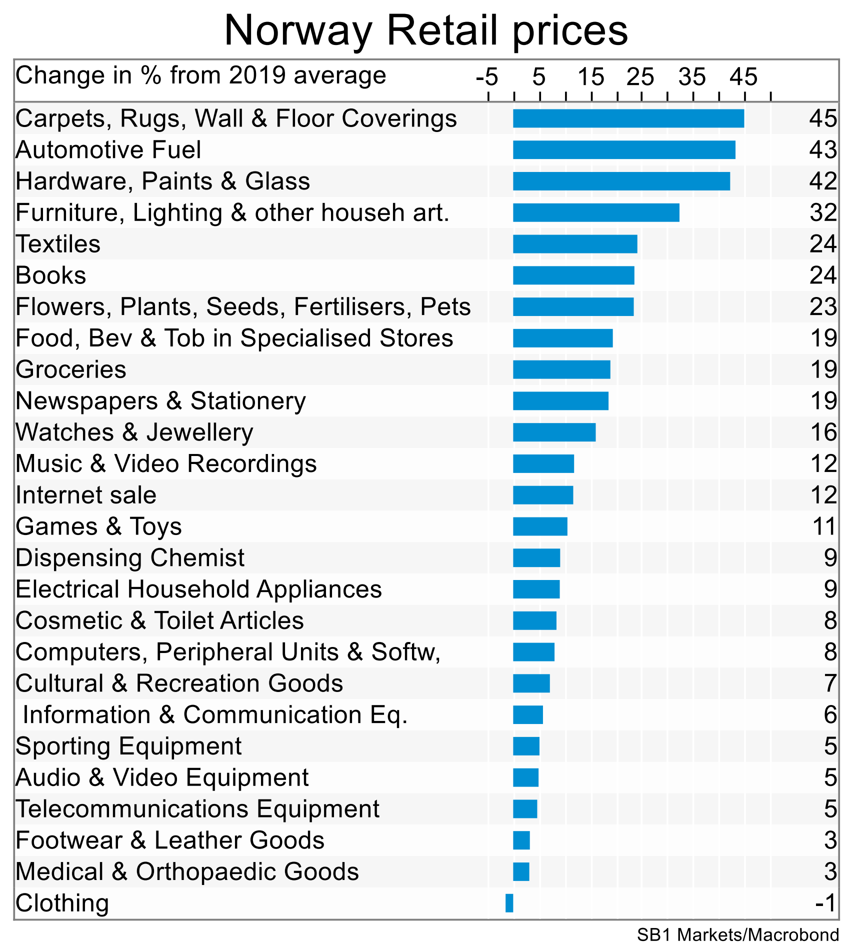
Net sales still at the top but have flattened since mid 2021. Cosmetics the big winner. Most are trending down now



Retail sales value vs. volume – and what's between

Retail prices have been increasing at well above a 4% pace since 2019, in sum by 19%!





- Retail sales, measured in value terms, are 23% above the 2019 level and 12% above the pre-pandemic trend
- Huge differences is **price changes**:
  - Gasoline up 43%, hardware (building materials), floor coverings, are up 42% – 45%, furniture 32%
  - Close to the bottom of the list: Sport equipment prices are up just 5% and clothing is down 1%! So there is not inflation everywhere these days!

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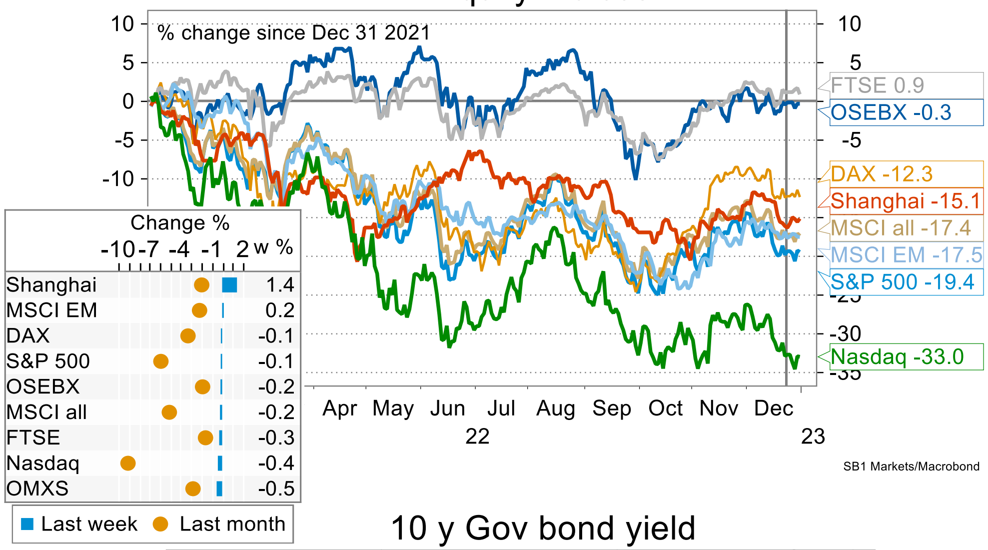
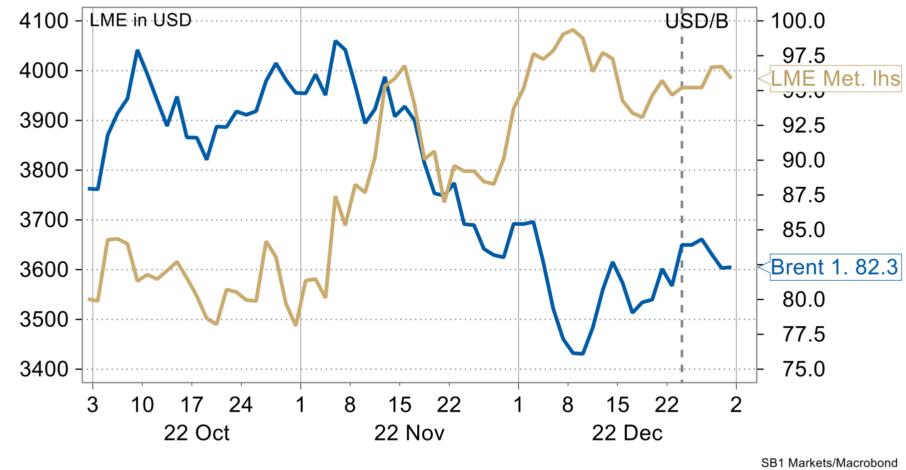
Equity markets flattened during Christmas, but December was weak, like 2022

Bond yields continued upwards. Commodities (ex. European gas) & oil flattish. The USD further down, and the NOK fell

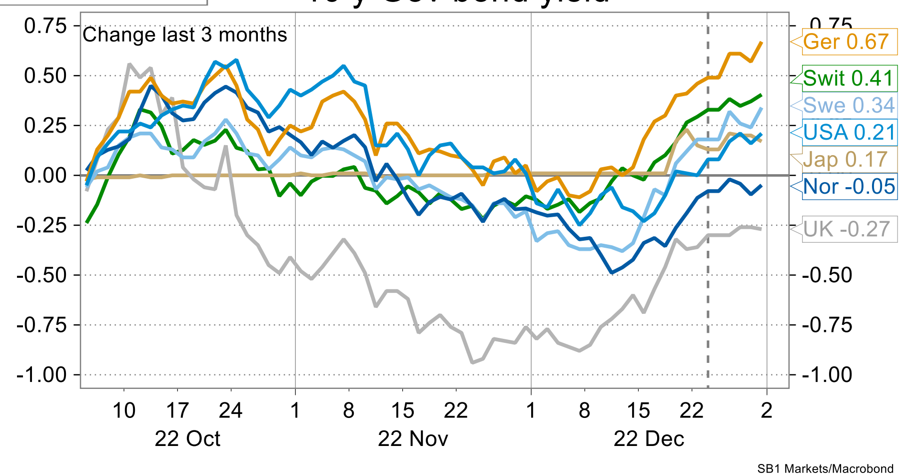
Equity Indices



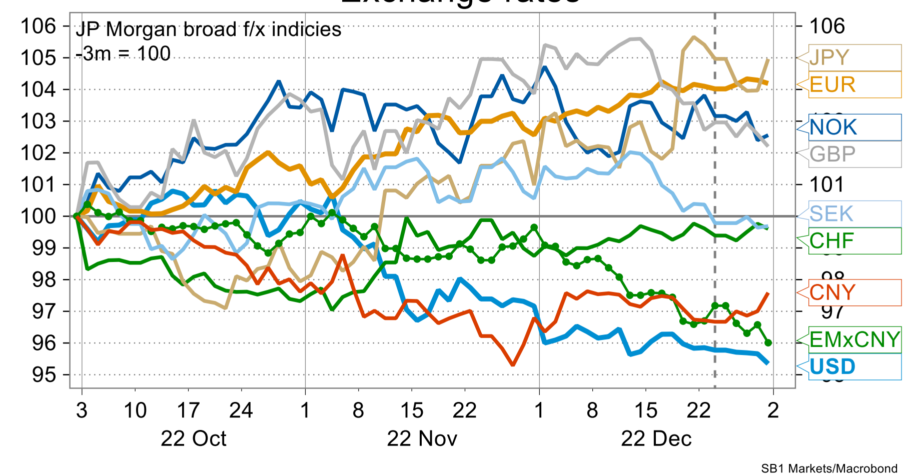
Oil vs. metals



10 y Gov bond yield



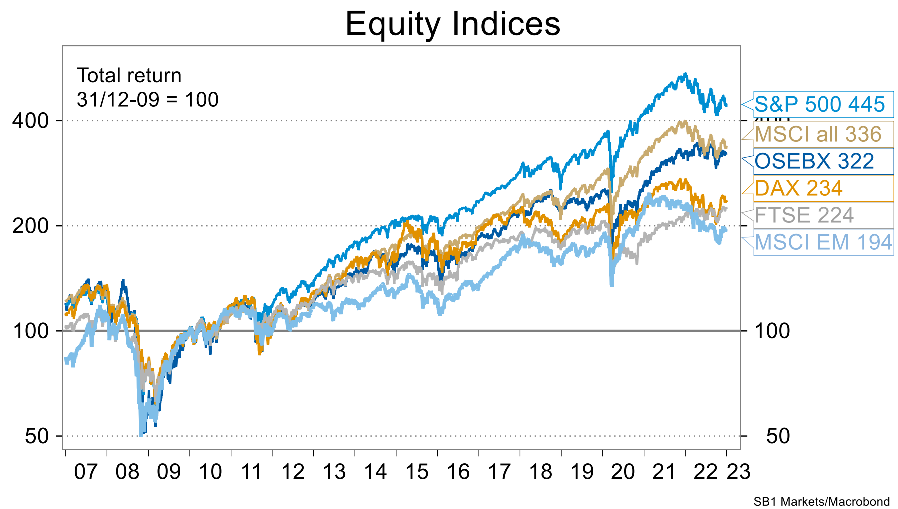
Exchange rates

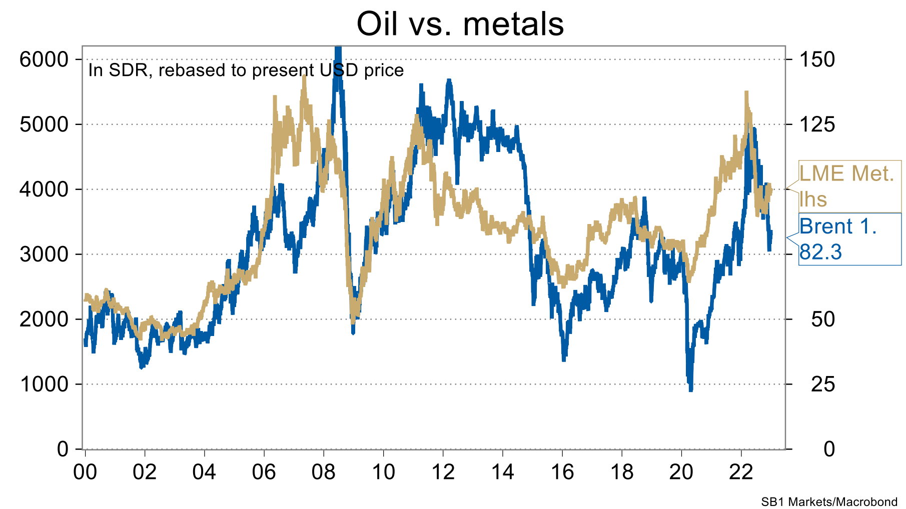


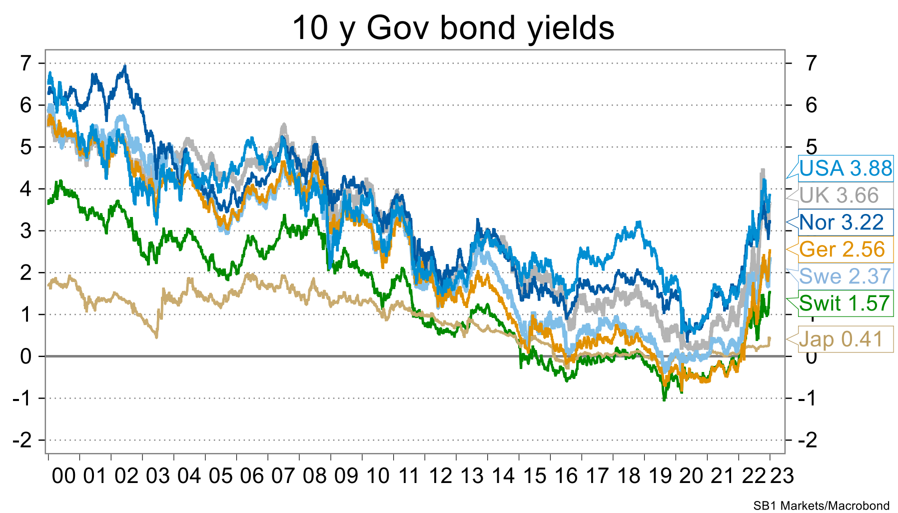
SpareBank 1 MARKETS

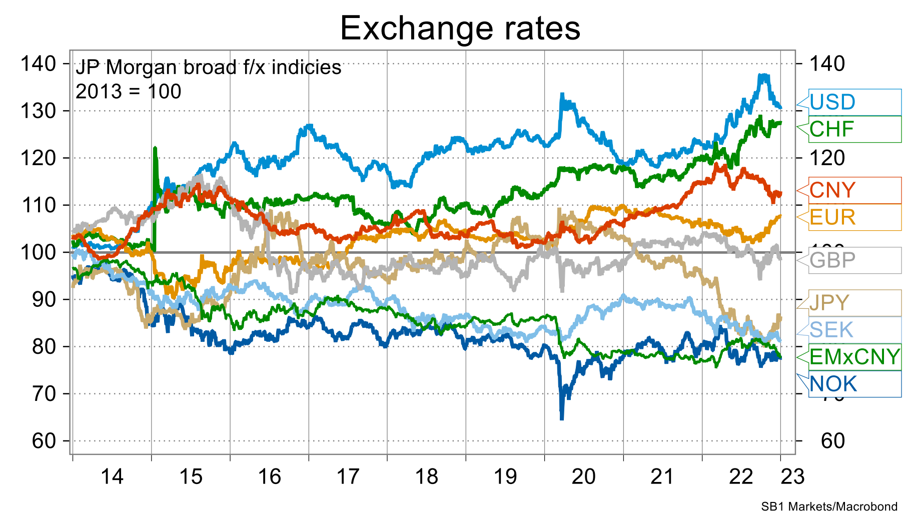
The long-term picture: Stock markets down, commodities down, yields up

The USD is still very strong, most other DMs are slipping, NOK including





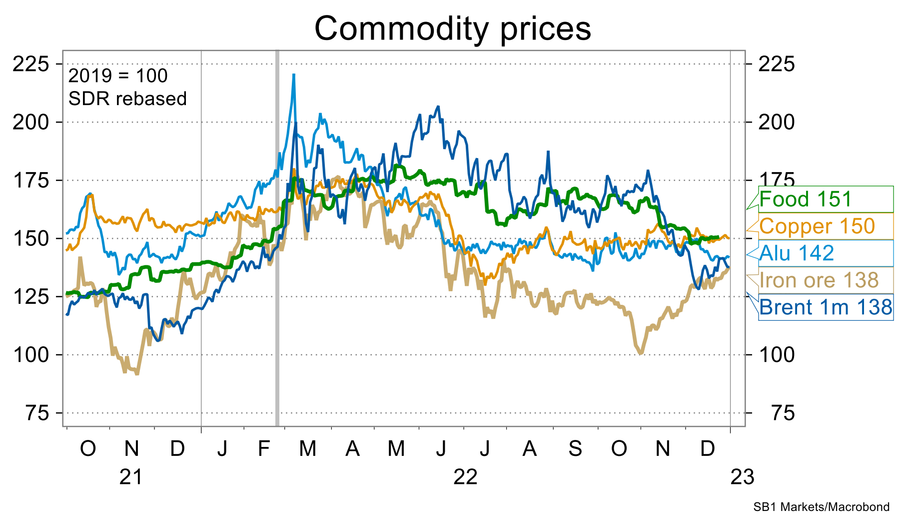




SpareBank 1 MARKETS

Most commodities flat/down last week. Eur. energy prices down 40-50% in Dec

Iron ore prices are climbing further – on hopes of more Chinese demand, post Covid

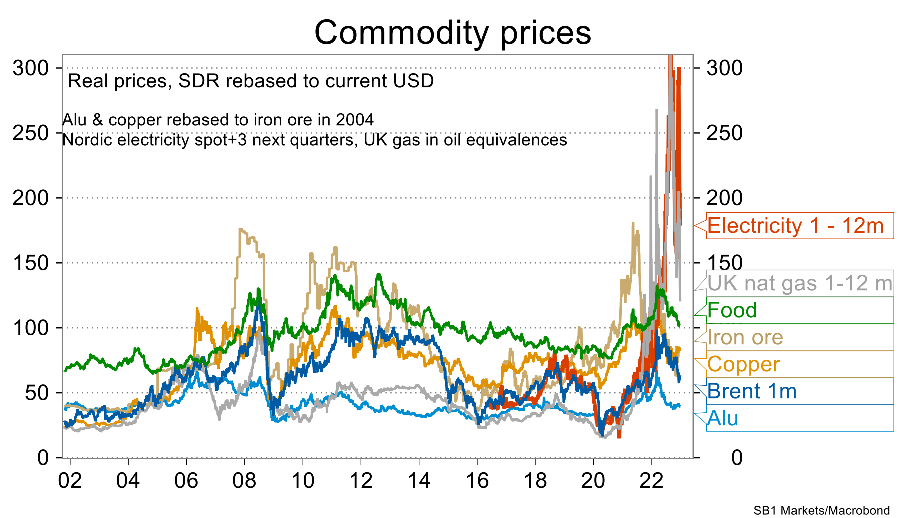


Commodity prices

In SDR % change	last w	last m	Since Feb 23
Iron Ore	4	12	-6
Wheat	1	-4	12
Food	1	-3	-2
SDR (vs USD)	1	2	-5
Copper 3m fwd	0	-1	-7
Brent 1-12 m	0	-5	4
Aluminum 3m fwd	0	-4	-20
LME Metals	0	-1	-8
Brent 1m	-2	-6	-6
US nat gas 1-12 m	-5	-27	0
Nethl. TTF gas 1st m	-8	-47	-15
UK nat gas 1-12 m	-8	-44	-8
NOK electricity spot-1y	-8	-42	117
Nethl. TTF gas 1-12m	-9	-44	-4

■ Last week ● Last month

SB1 Markets/Macrobond

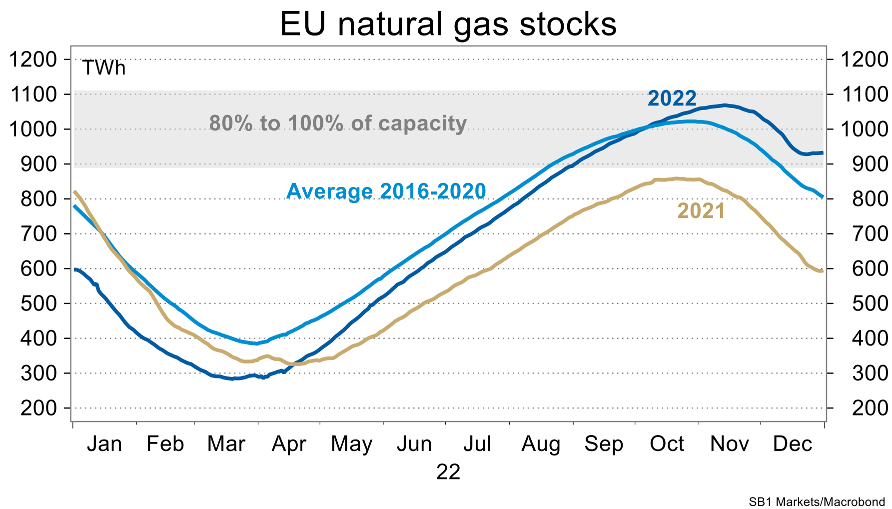


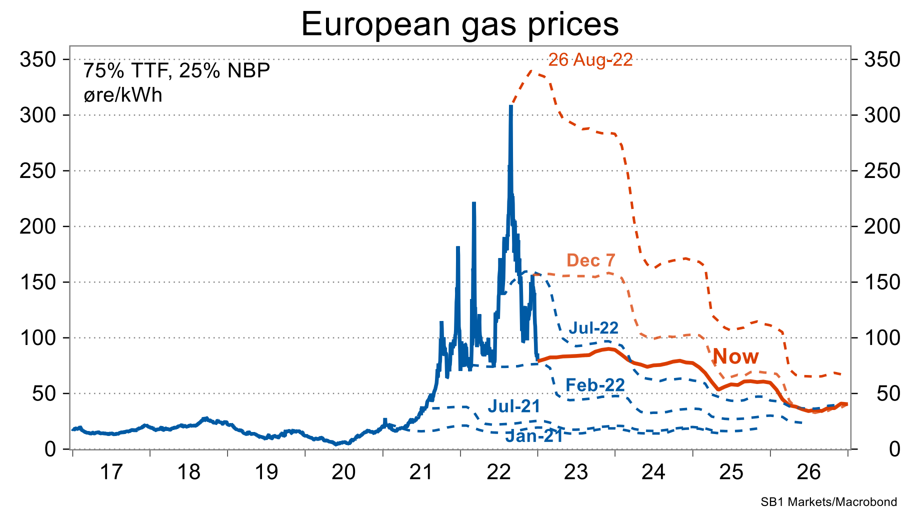
Last week – prices in SDR

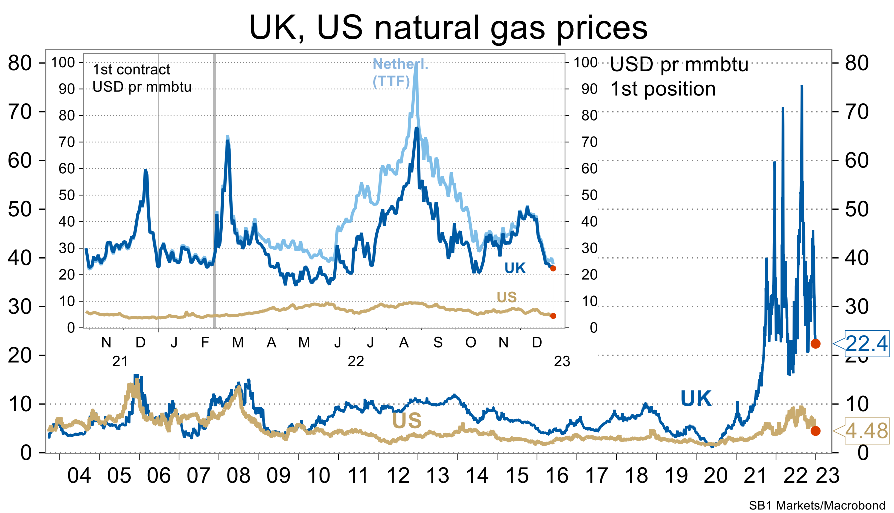
- **Oil prices** were close to unchanged
- **European natural gas** prices continued downwards by another 8% - and prices are almost halved during December (for the coming 12 months!) – and prices are lower than before the war started. If the market is right (now), a substantial impact on European inflation through 2023
- **Iron ore** prices have recovered sharply since early November on hopes for a recovery in the Chinese construction sector following scrapping of Covid restrictions and stimulus measures
- **Other metal** prices were flat last week

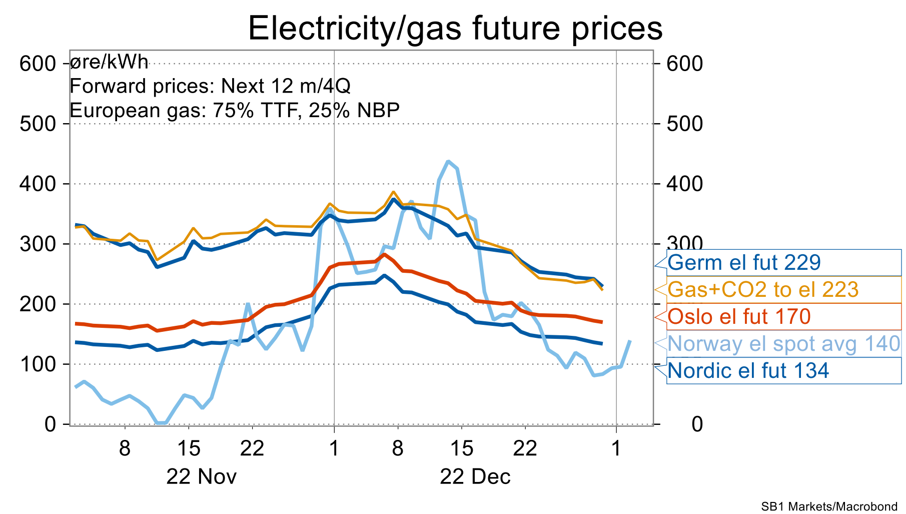
2023 European gas/electricity prices have fallen 40% since early Dec

Gas stocks were build up last week, due to windy & mild weather (as demand has shifted down).



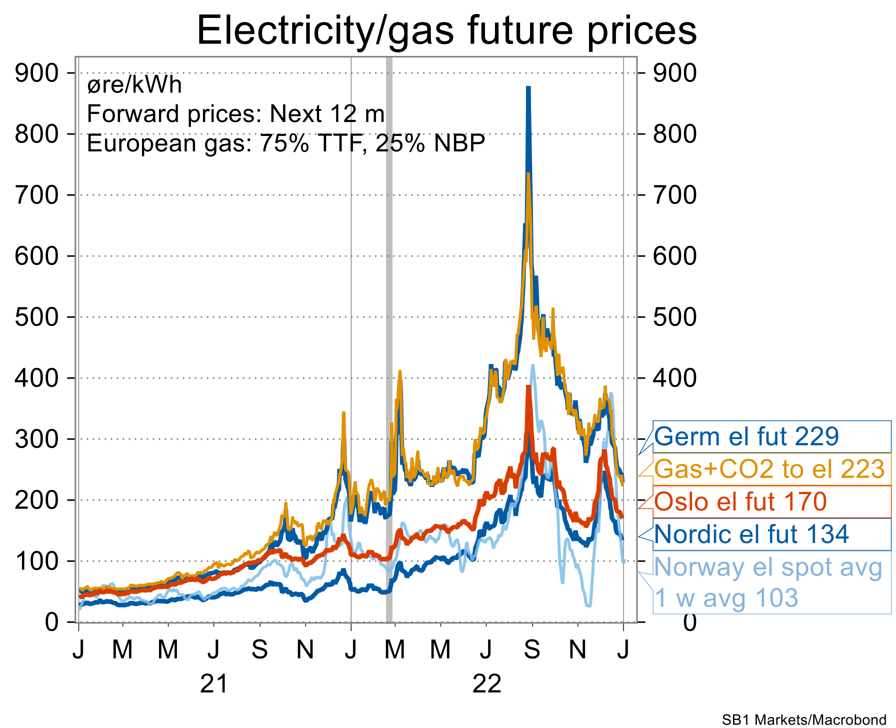


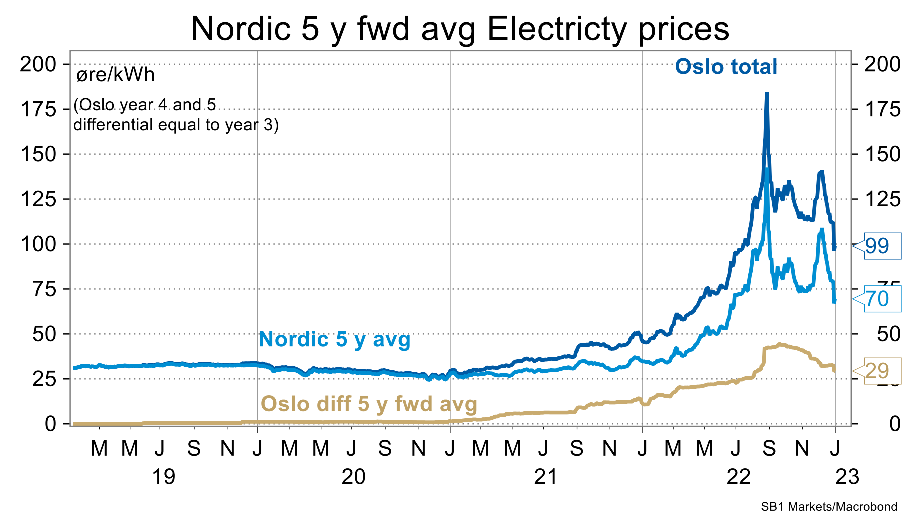


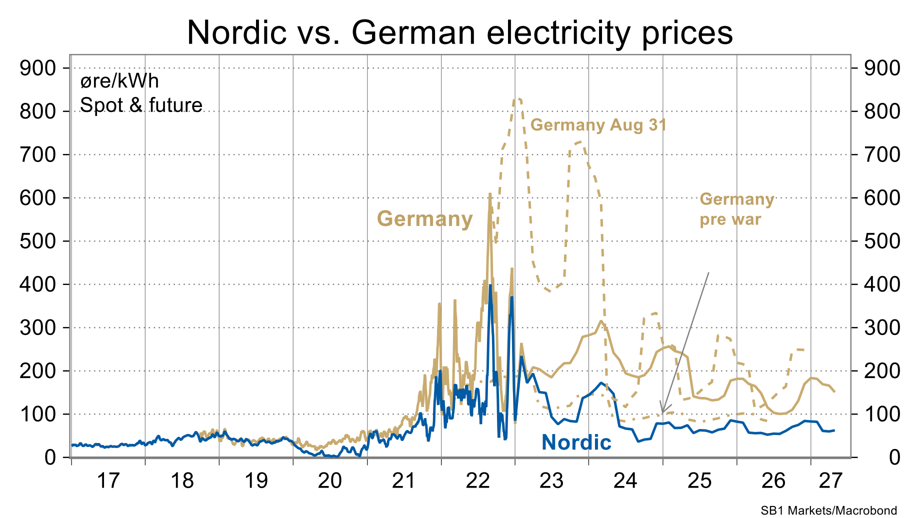


European gas prices have more than reversed the November surge

Spot prices are lower than before the war started but future prices remain much higher

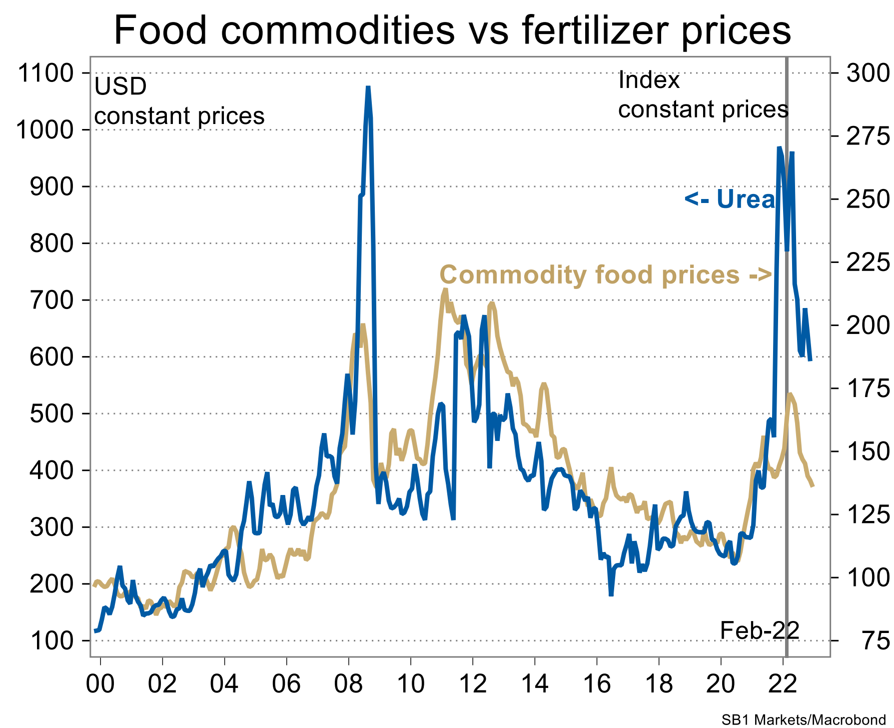


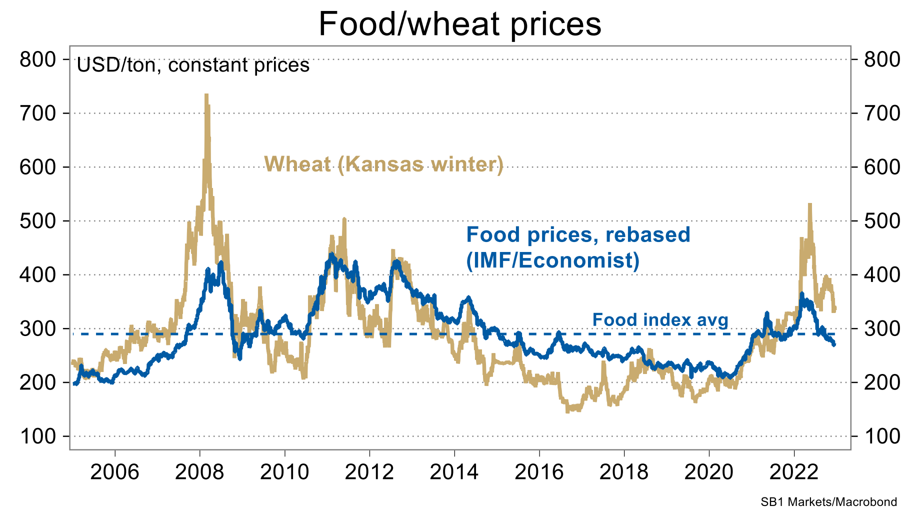


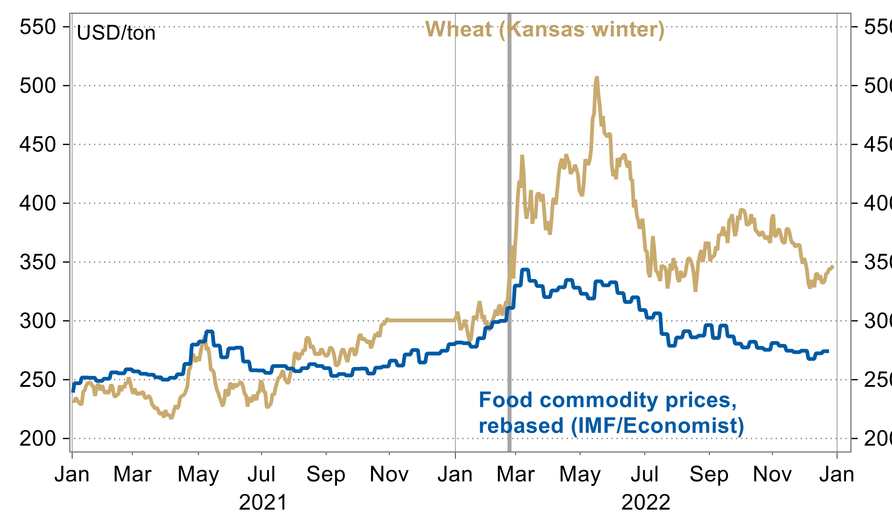


Food prices are trending down

The real price level is not that high, *and below the 10 y average*. *A global food crisis??*



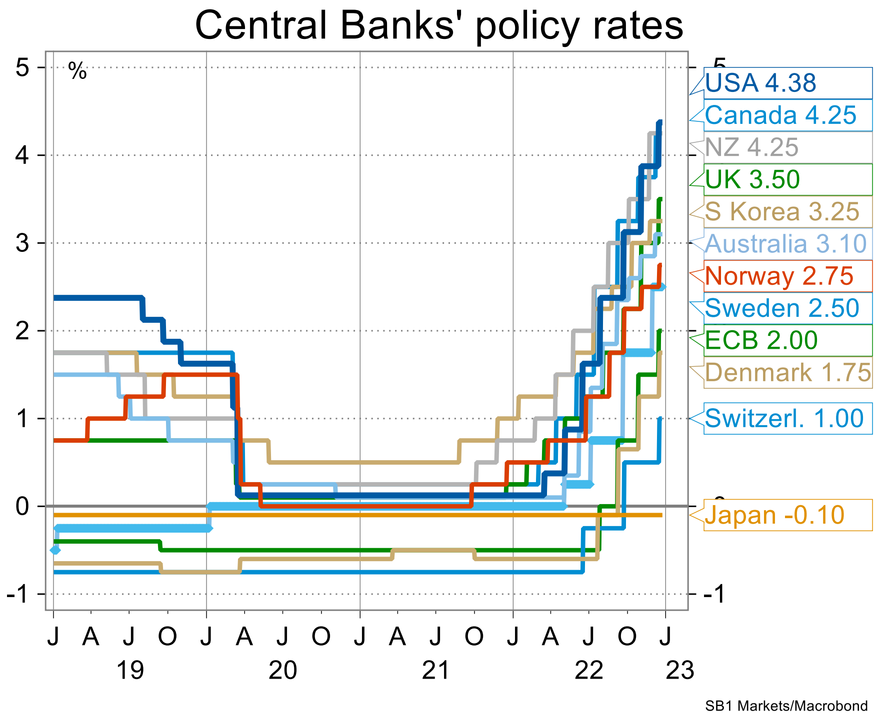


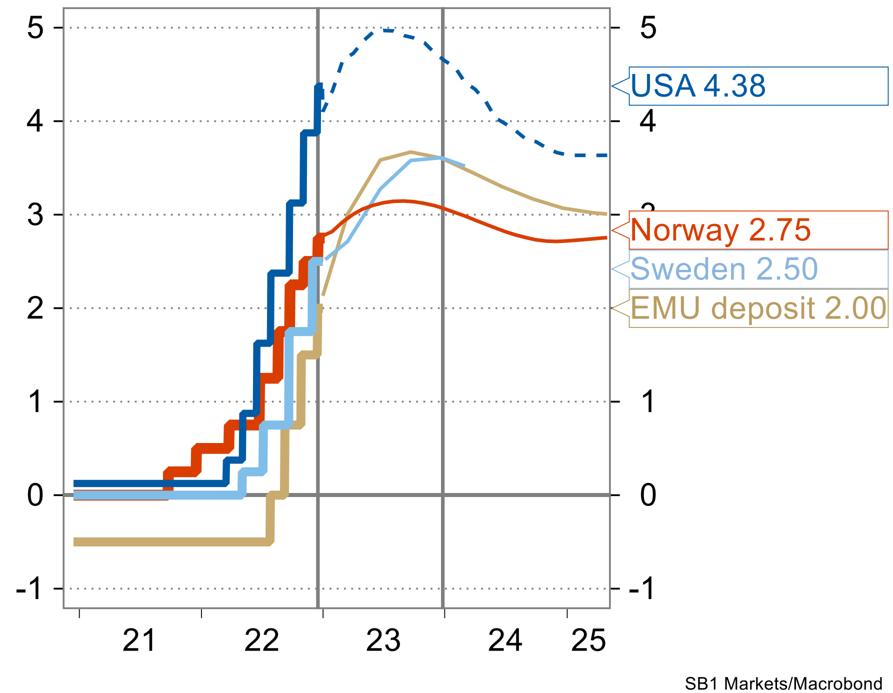


- Urea prices have come sharply down to, since early 2022 – but prices remain higher than normal

All but Japan lifted short term signal rates rapidly last year

Both the Riksbank and ECB (as well as the BoE) are now expected to hike to a higher level than Norges Bank

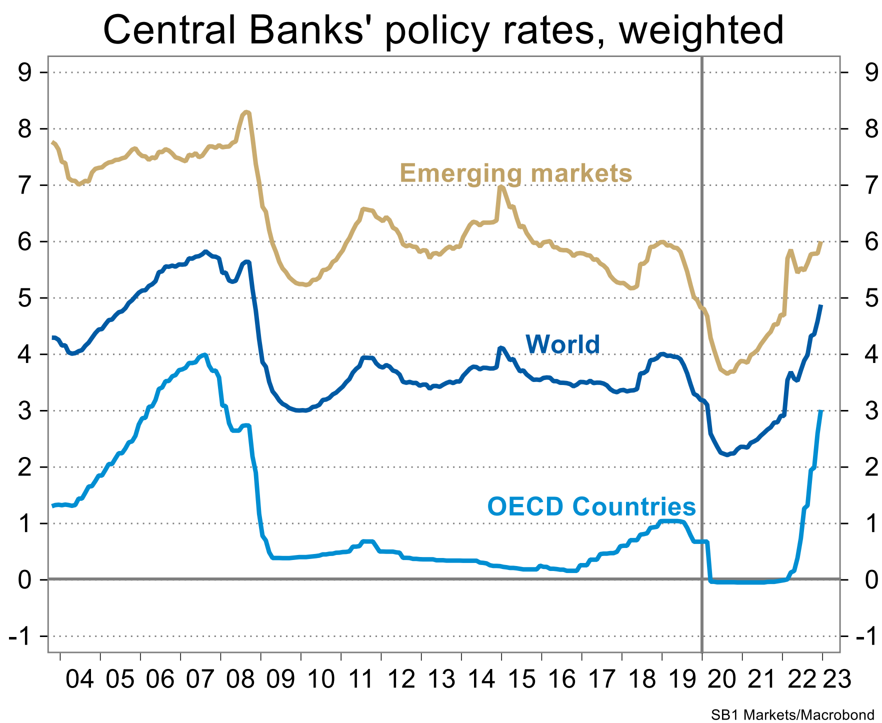


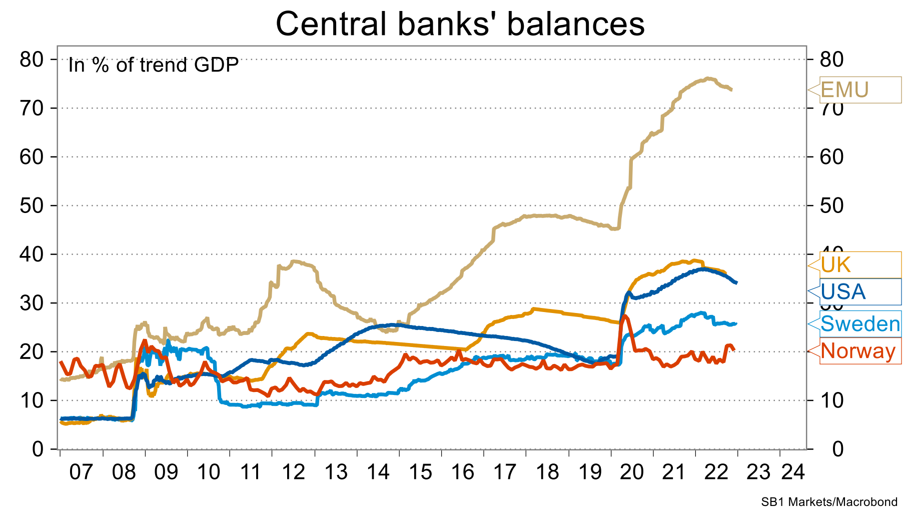


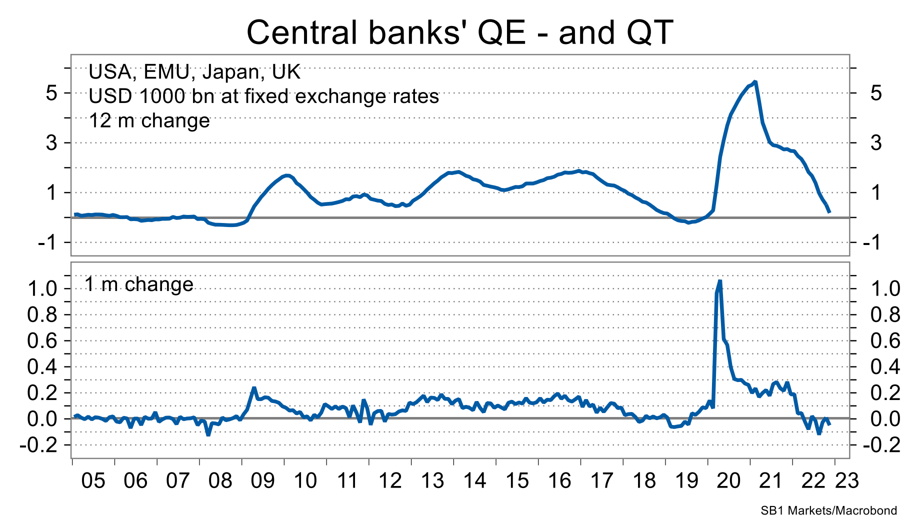
- **Central banks** are hiking rates even if they expect growth to slow (US) or the economy to contract (EMU, Sweden, UK, Norway) because inflation is way above target (including all measures of underlying inflation, partly also costs) and is expected to remain above target for several years

The global average signal rate is up to 5% from 2% at the bottom

… and 2.9% one year ago, +3 pp to 3% in rich countries. And now QE programs have turned into QT programs

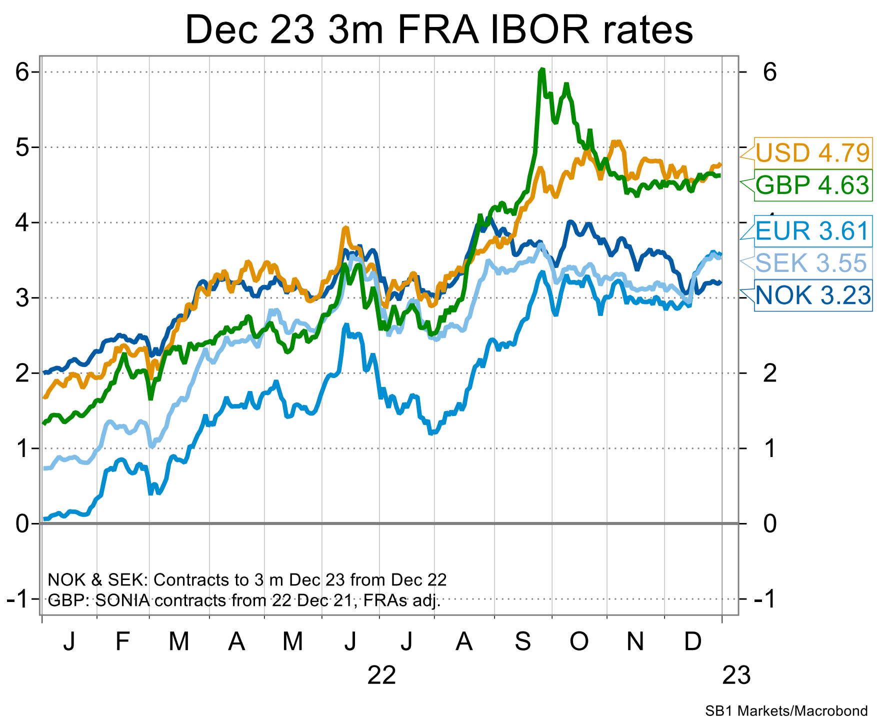


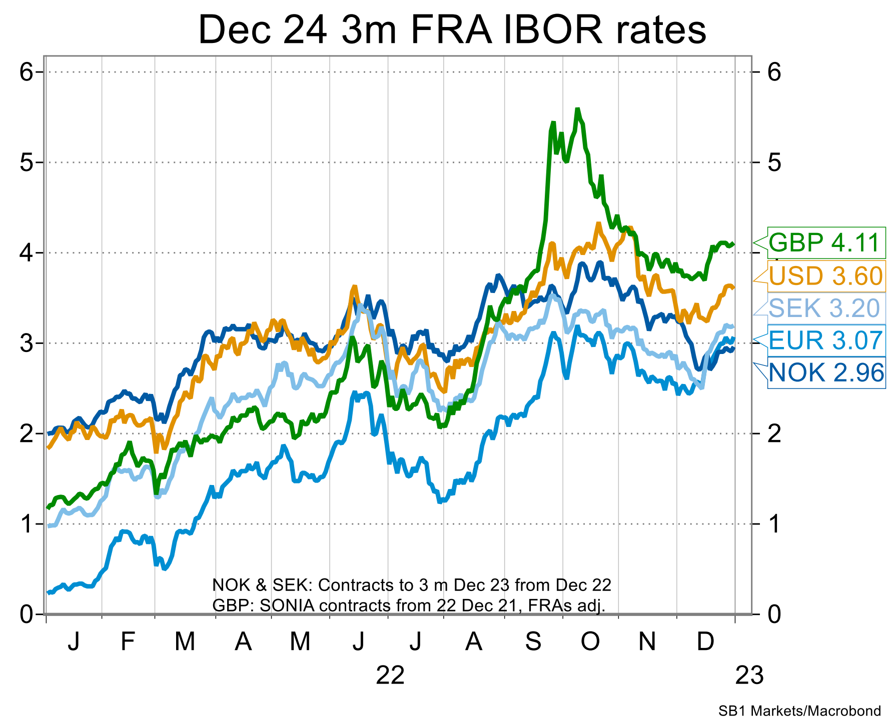


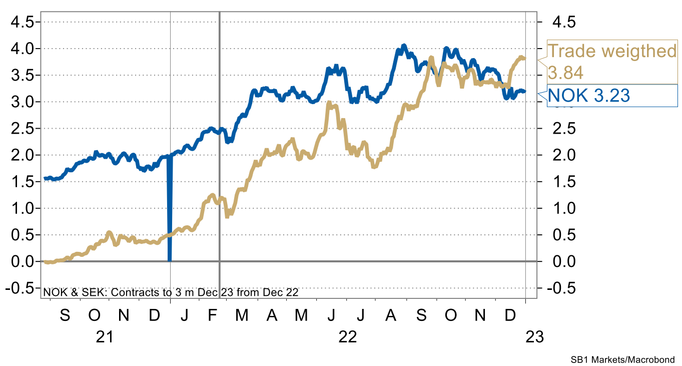


- The **EM average policy rate** is on the way up again, after a decline, due to the cut in the Russian and Turkish signal rates
- In addition to rate hikes, most central banks have ended their **QE buying programs**. Most banks have embarked on cutting back on their holdings, moving into the **QT zone**. In December, the ECB signalled a further tightening from Q2

FRAs up everywhere but in UK – where they are the highest, at least from '24



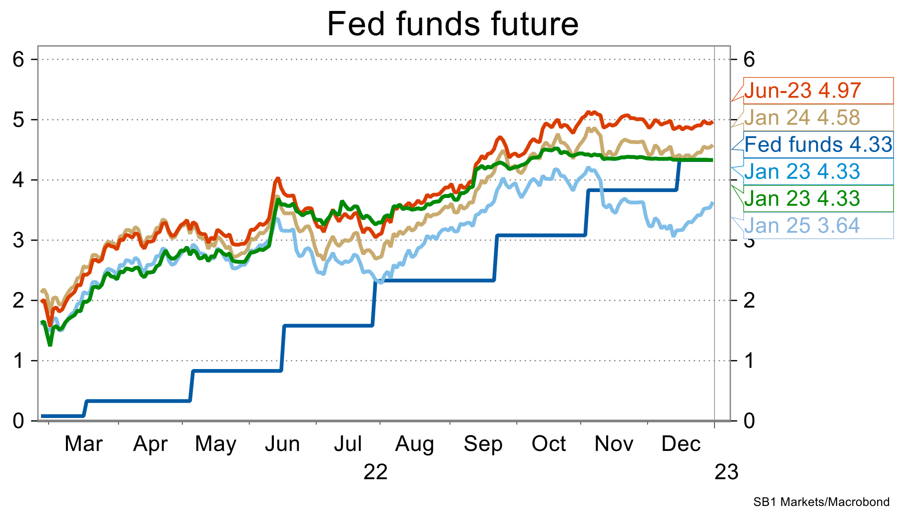


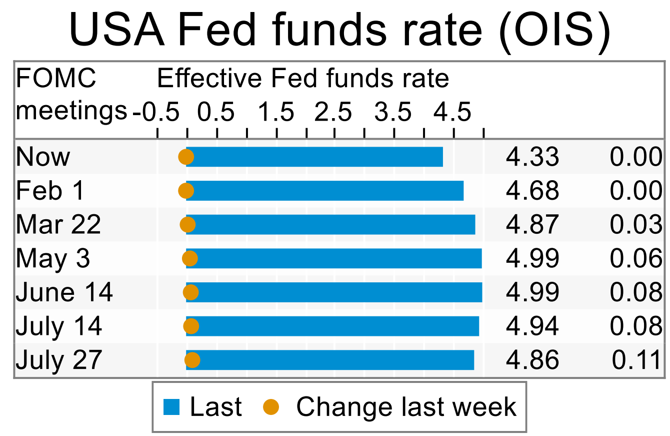


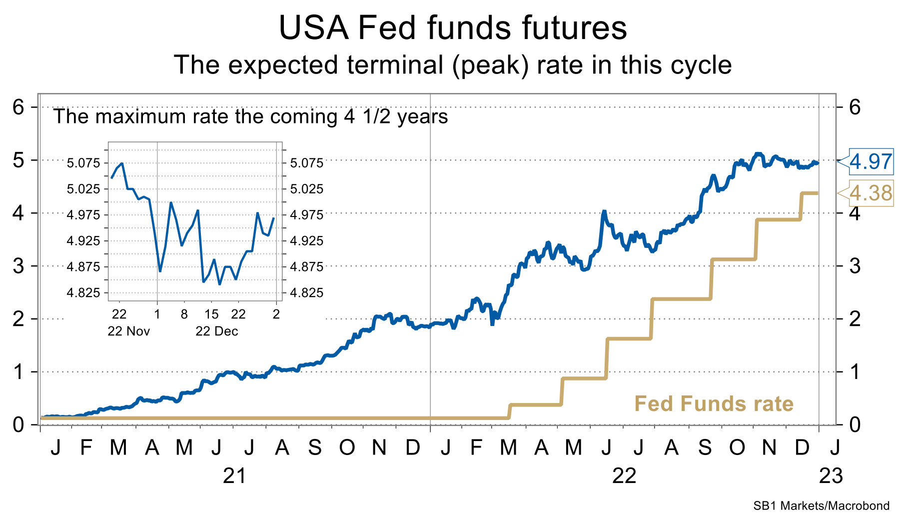
Rate expectations slightly up – to where Fed wants them to be

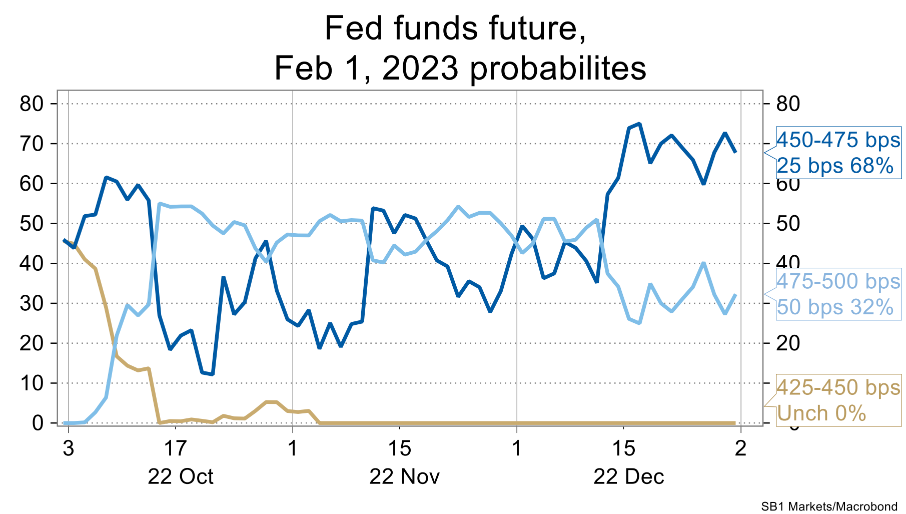
The Fed has signalled a terminal rate at 5.1%, the market thinks 5% is sufficient. A 25 bps hike is expected on Feb 1

Then 2 x 25 bps cuts in H2-23



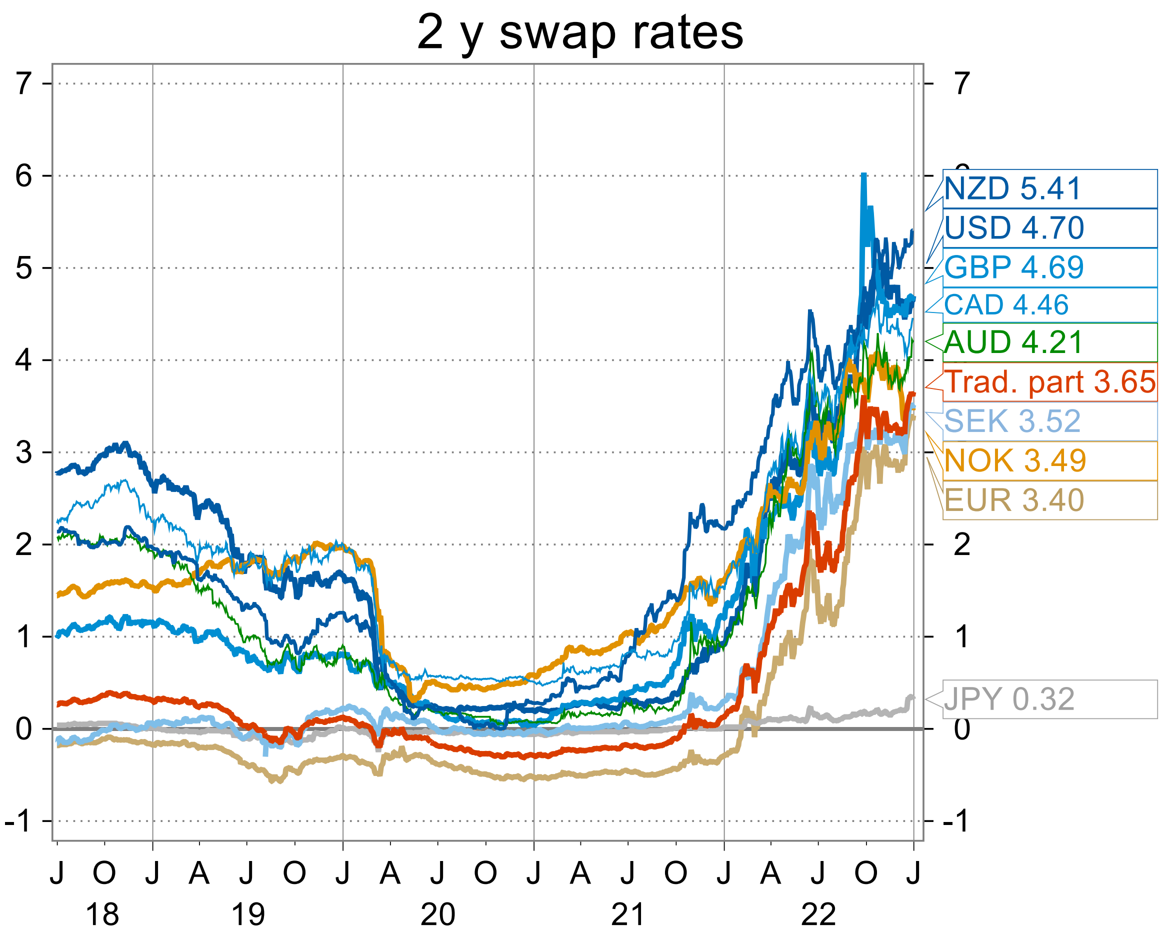






Only Japanese rates down since before Christmas

The trend in the short end is close to flat – except for the NOK and the USD rates



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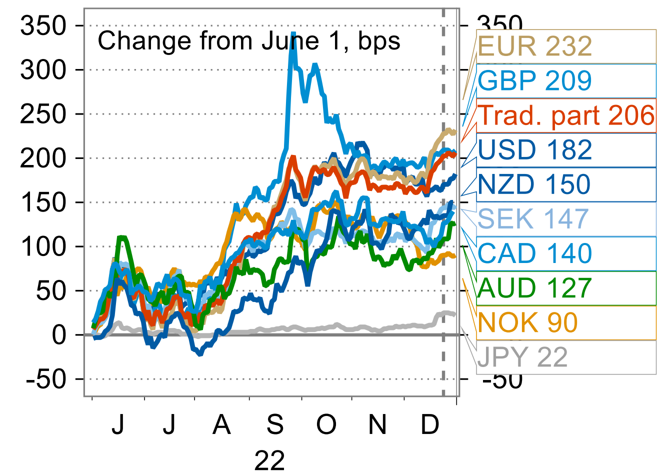
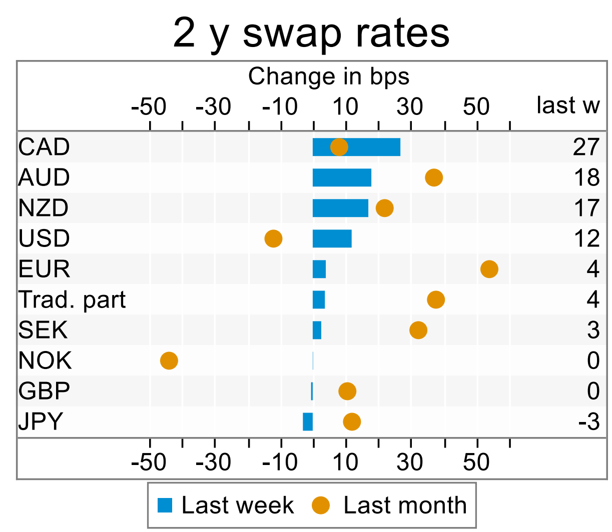
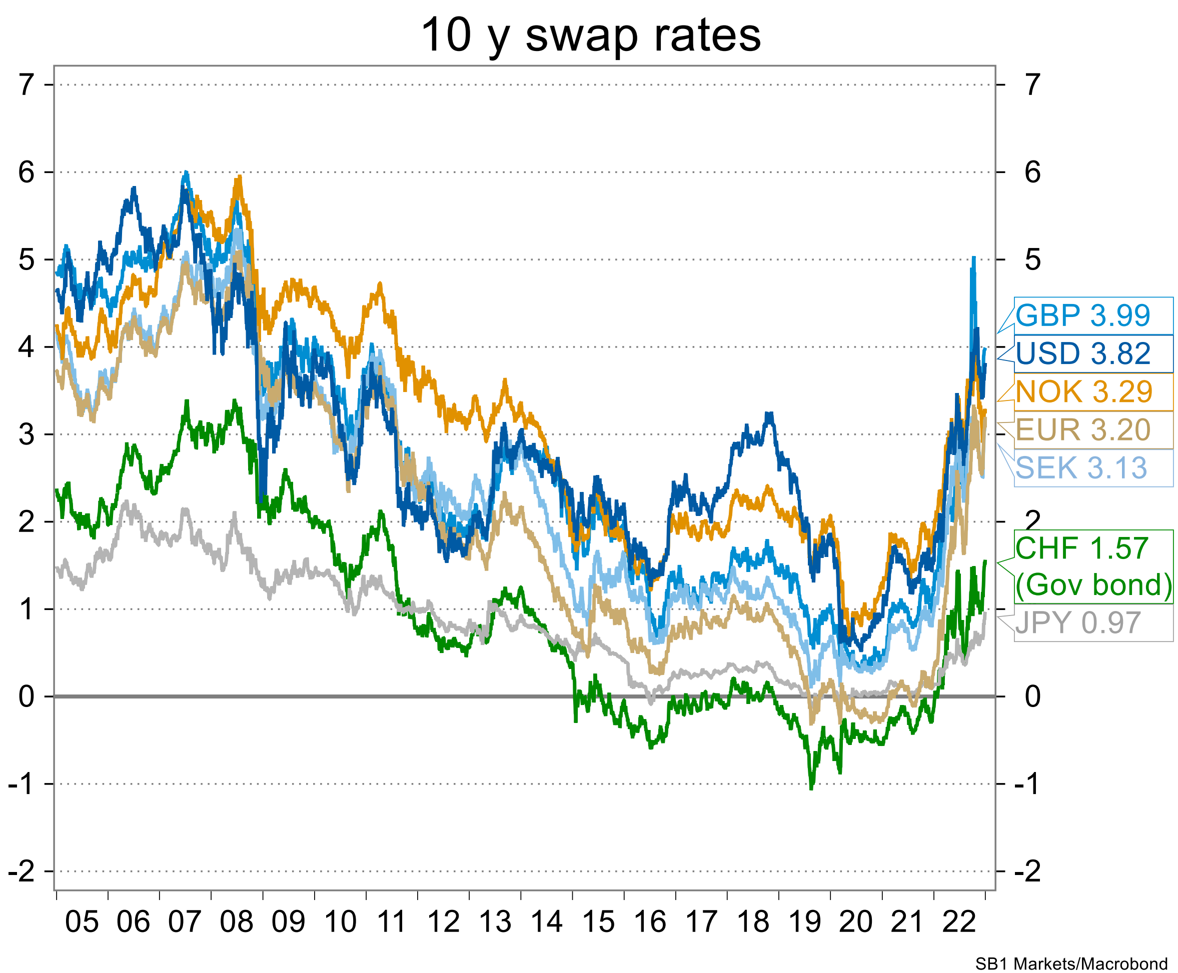
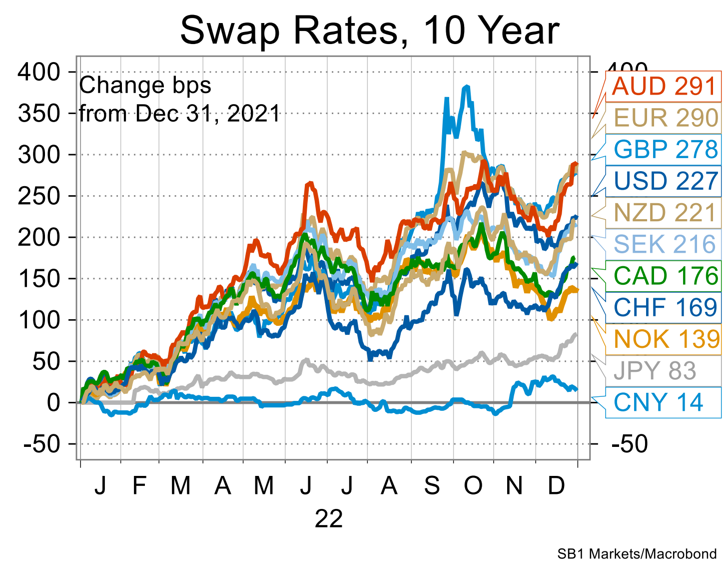


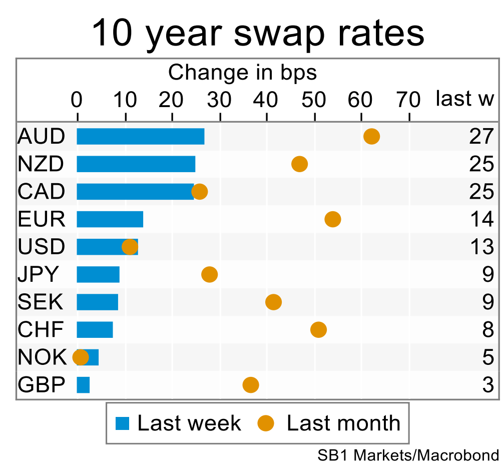


SB1 Markets/Macrobond

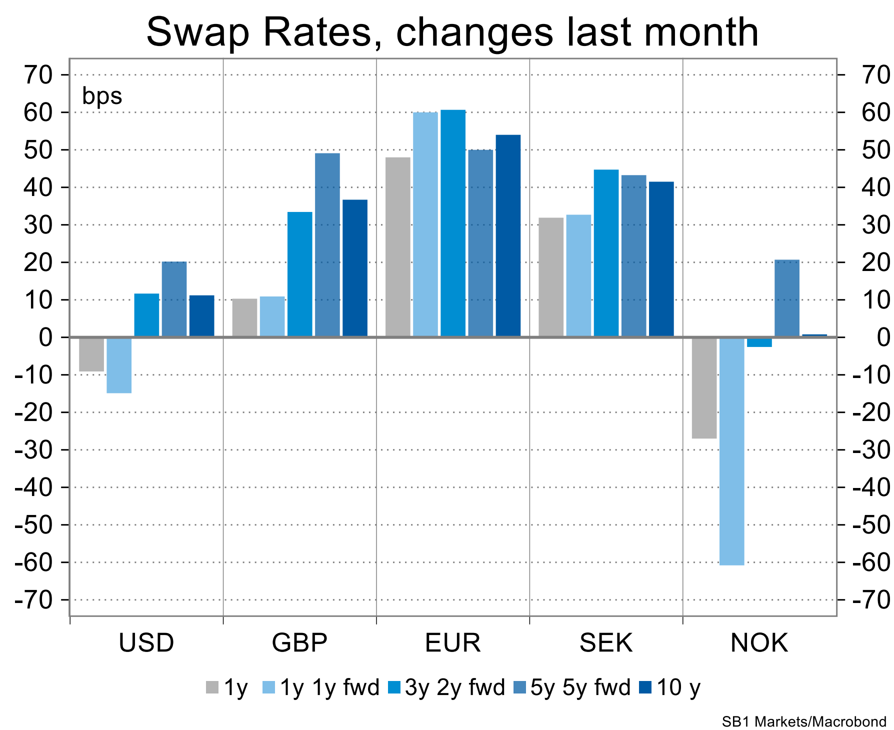
The long end of the curve up, all over the place – last week & in December

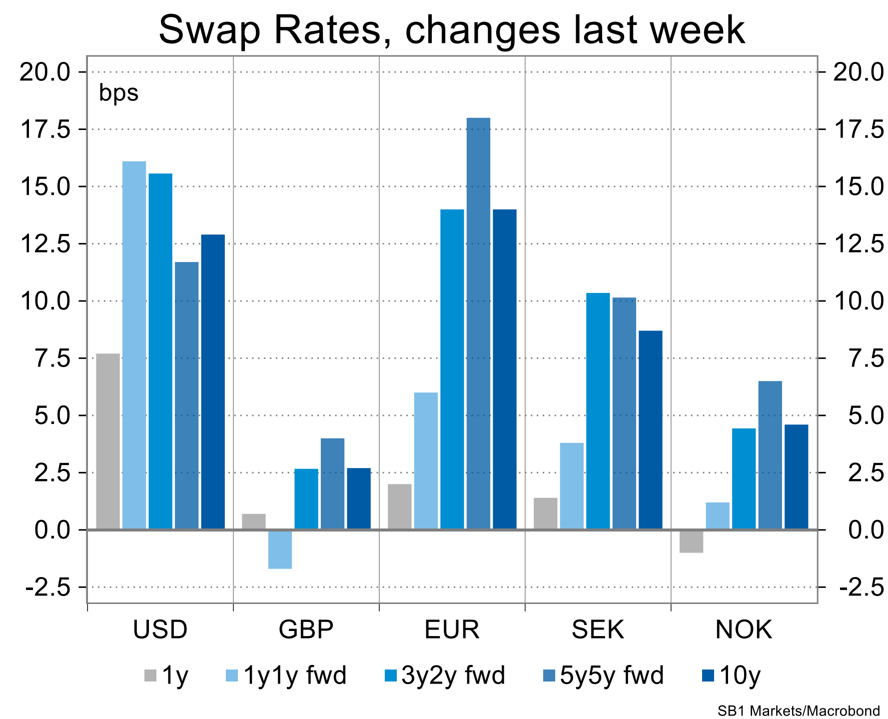






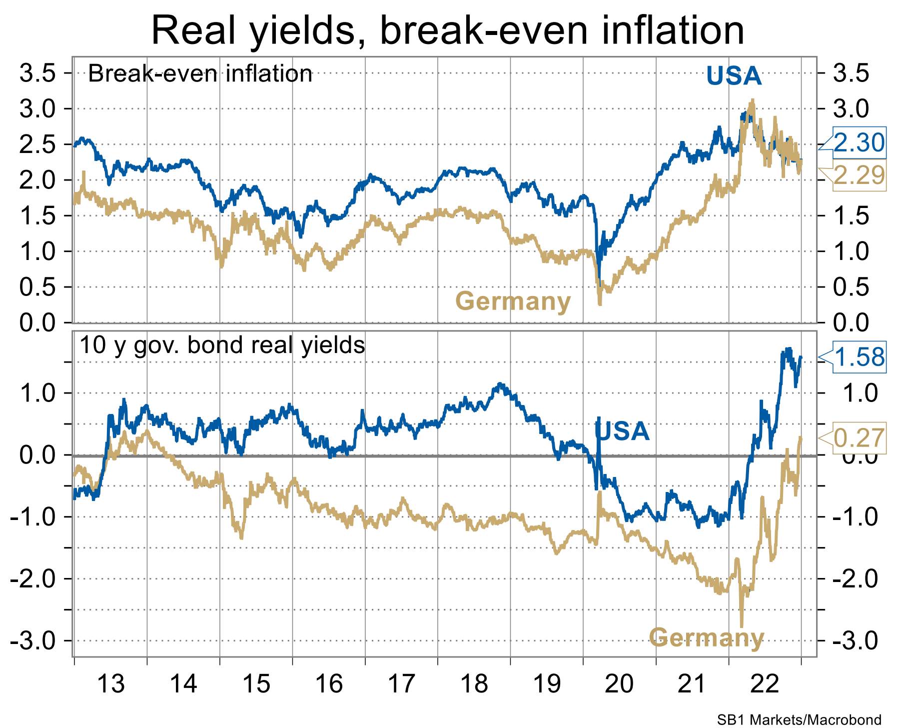
All rates up last week, barring the short end in GBP, NOK

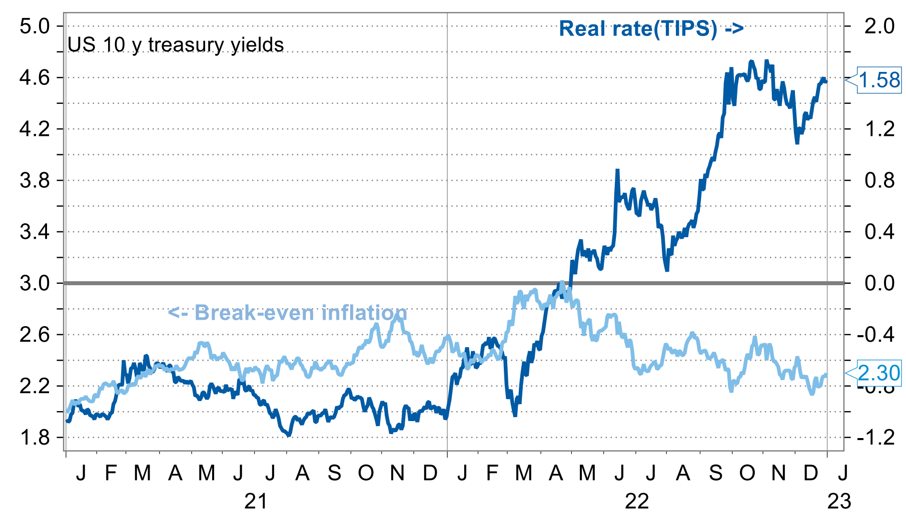




Real rates further up – and last week inflation expectations too

The German 10 y gov real rate is at the highest level since 2013/14. US inflation expectations not far below Nov. peak





- In the US, a 10 y CPI expectation at 2.30% is in line with Fed's 2% target for the PCE-deflator (which on average is some 0.3 pp below CPI inflation). Our model have for some weeks suggested that the break-even inflation component was to high. Now, the gap is almost closed
- The German y break-even is still somewhat too high, at 2.3%

US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	3.88	0.13	0.20	2.36	0.52
.. break-even inflation	2.30	0.10	-0.04	-0.26	1.06
.. TIPS real rate	1.58	0.03	0.24	2.62	-1.19
Germany nominal bund	2.56	0.18	0.62	2.74	-0.64
.. break-even inflation	2.29	0.13	0.01	0.37	0.42
.. real rate	0.27	0.05	0.61	2.38	-2.80

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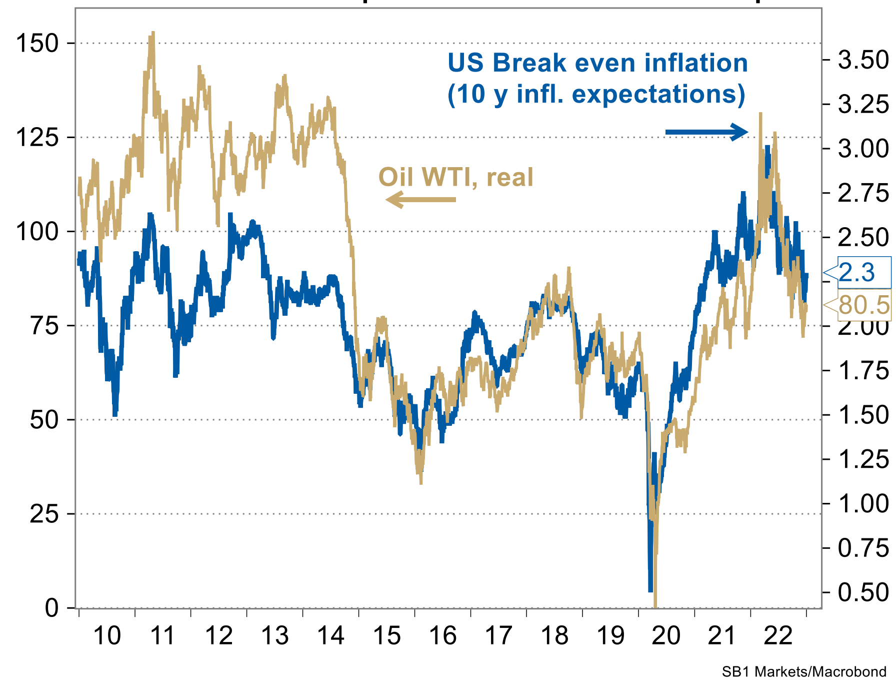
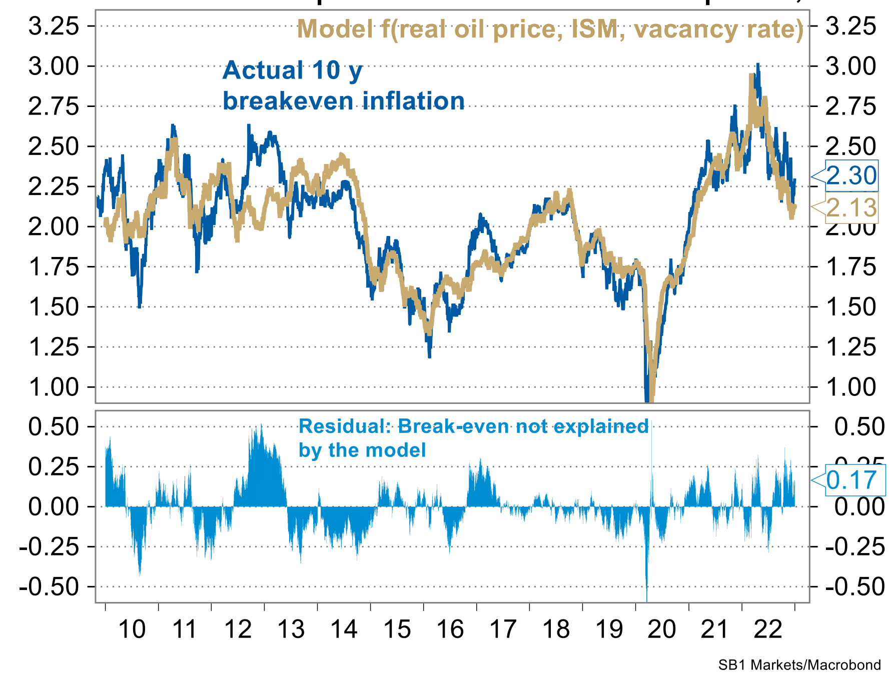
US inflation expectations up – and somewhat too high again?

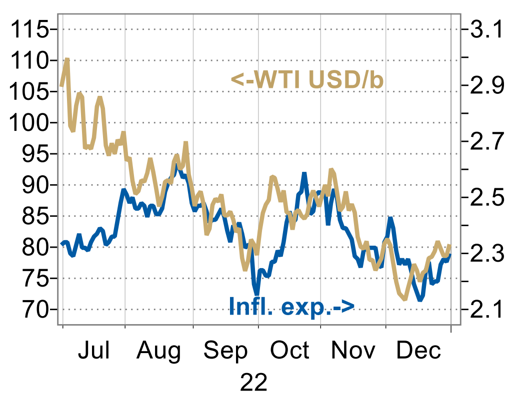
The current break-even is 17 bps above our model current f'cast (based on the oil price, ISM & the vacancy rate)

USA Inflation expectations vs. the oil price



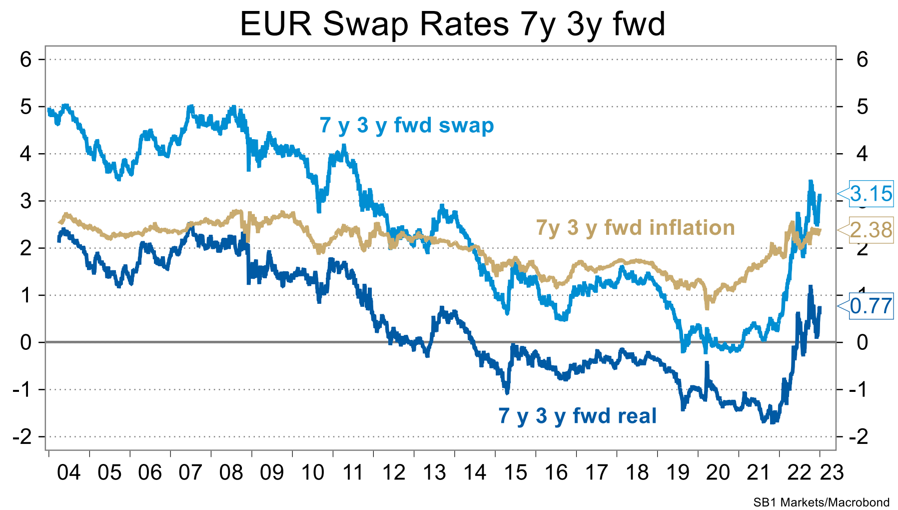
USA Inflation expectations vs. the oil price, CPI

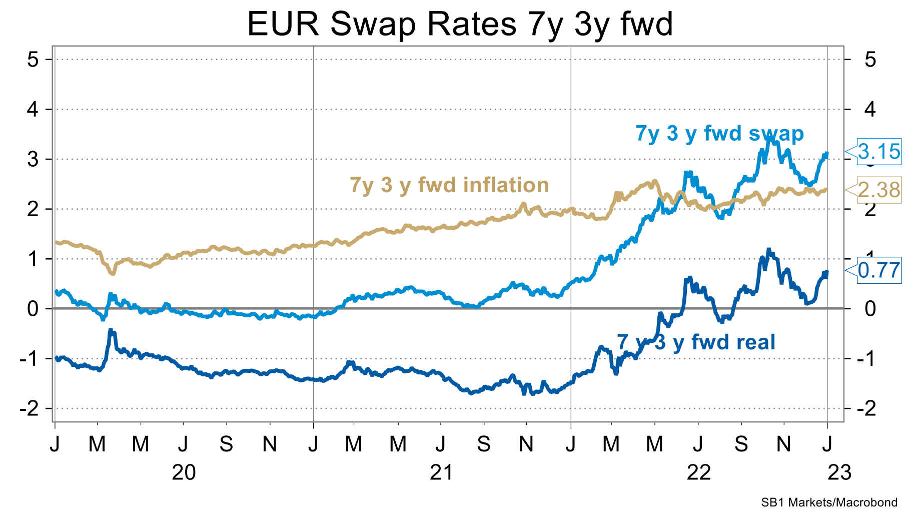


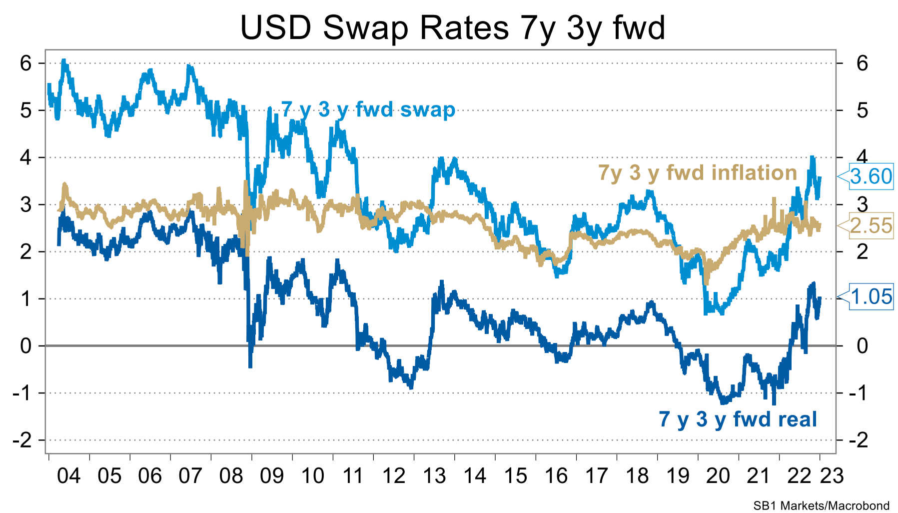


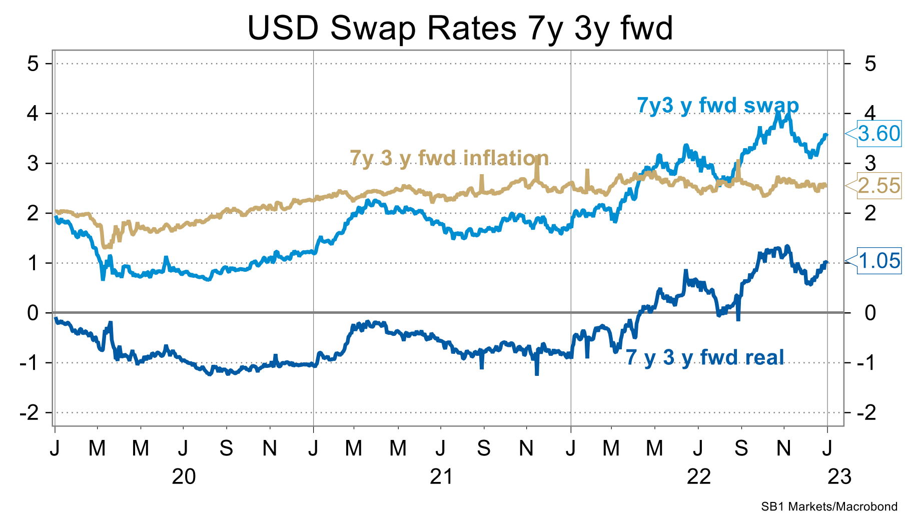
- A simple model including the <u>spot</u> oil price, the <u>current</u> ISM and the <u>current</u> vacancy rate pretty well explains the <u>long-term</u> breakeven inflation expectation in the bond yield curve
- What now? The actual break-even is in line with the model forecast. We are uncertain about the oil price, but rather confident that both the ISM, and the vacancy rate will decline. Impact vs the 10 y break-even expected inflation rate:
  - -5 ISM points: -12 bps
  - -3 vacancy pts, (to 3.2% from 6.2%): -36 bps
  - - 10 USD/b: -10 bps

European real (swap) rates up last week – following a substantial decline



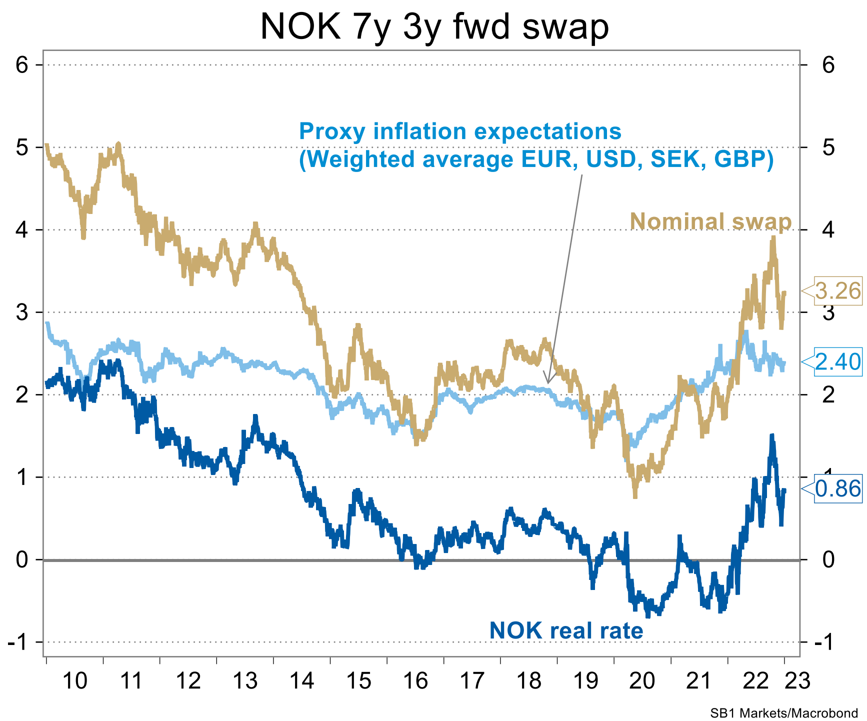


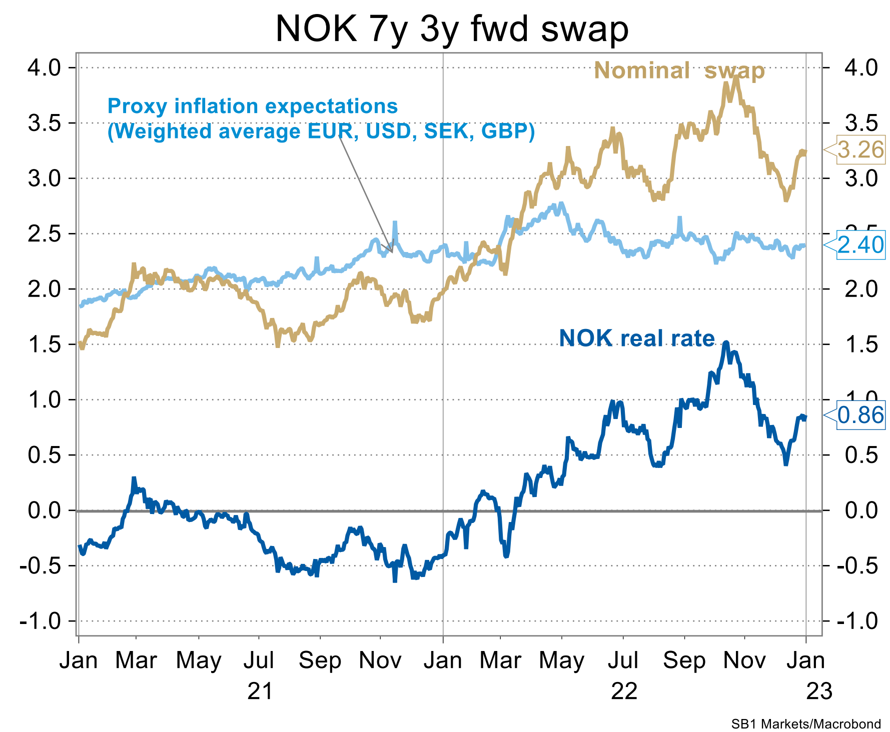


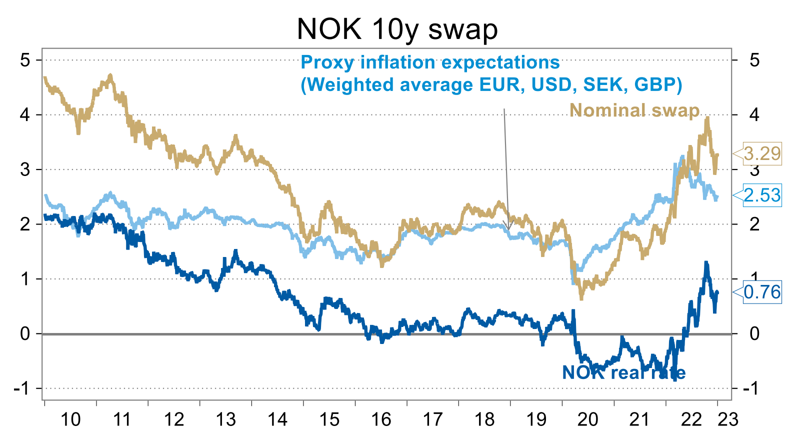


NOK real rates very likely rose last week but less than in rest of Europe

… as the increase in the nominal swap rate was much smaller than abroad



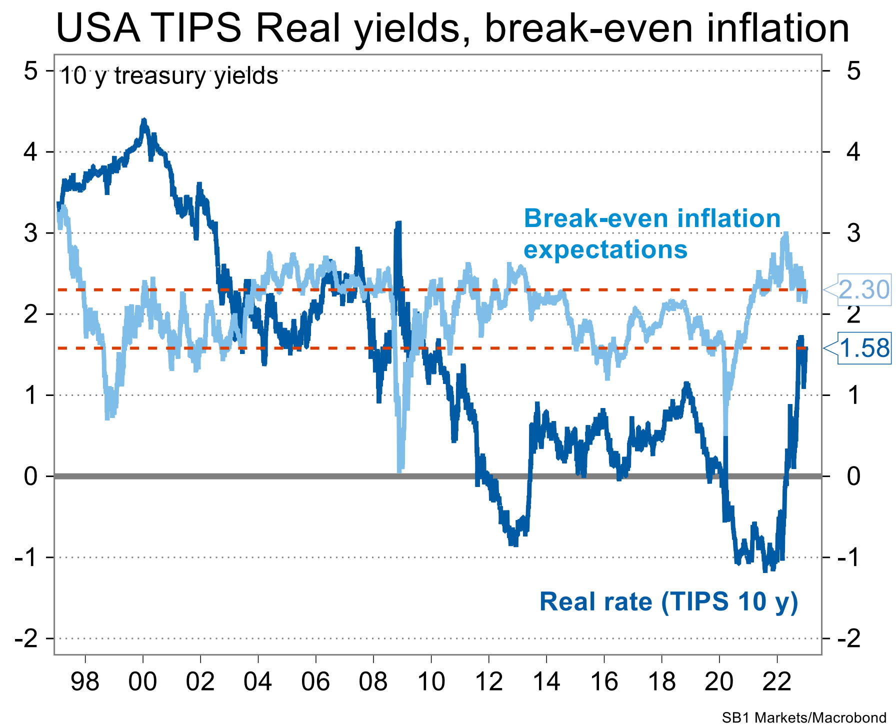


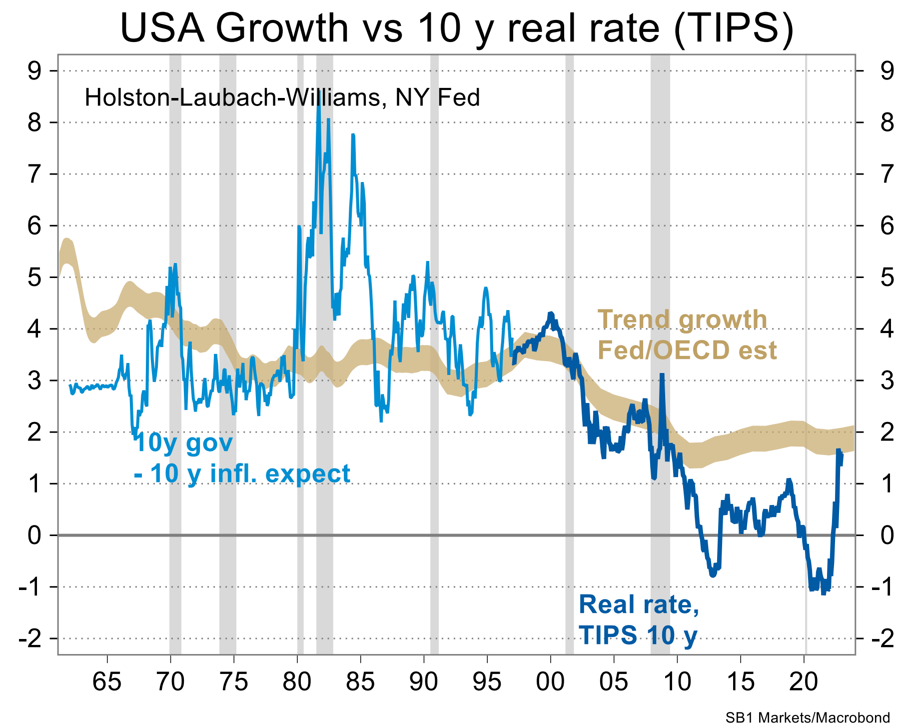


Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys

Growth vs real rates: Real rates on the low side but not by much

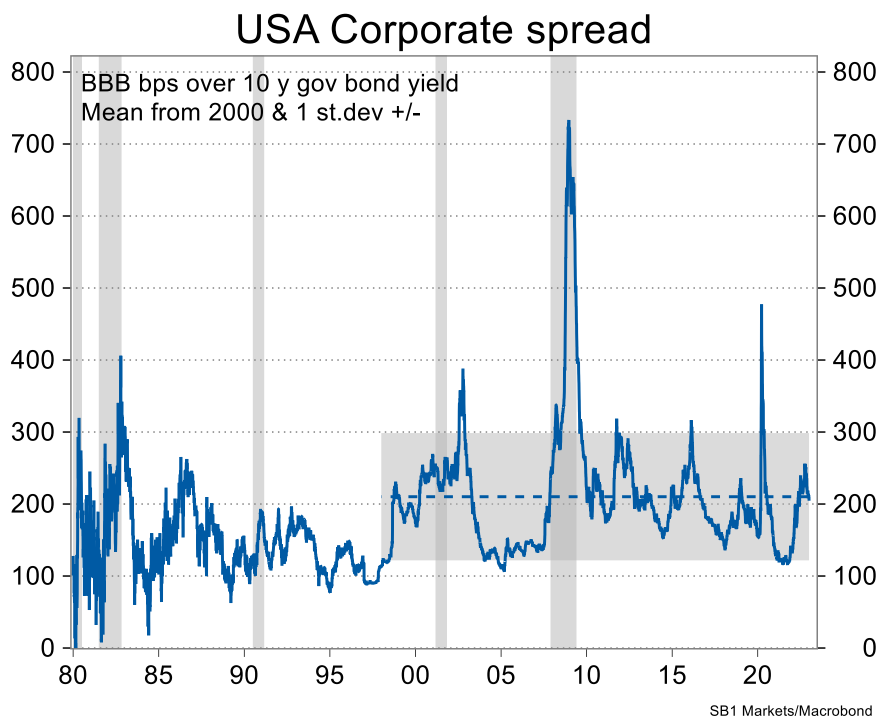
At least not compared to the differential during the pandemic





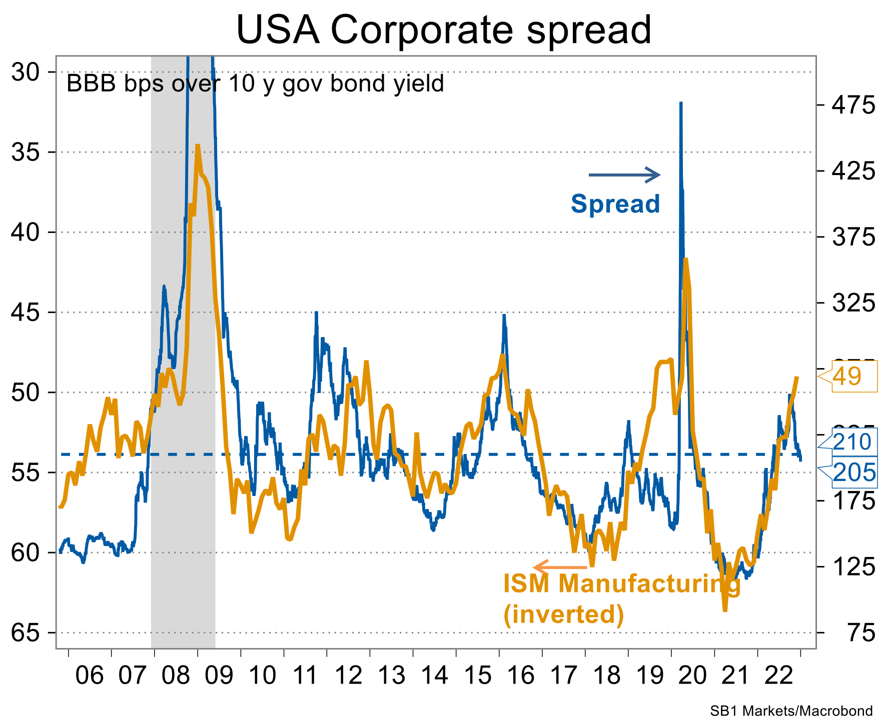
Risk on: Credit spreads are trending down – and fell further last week

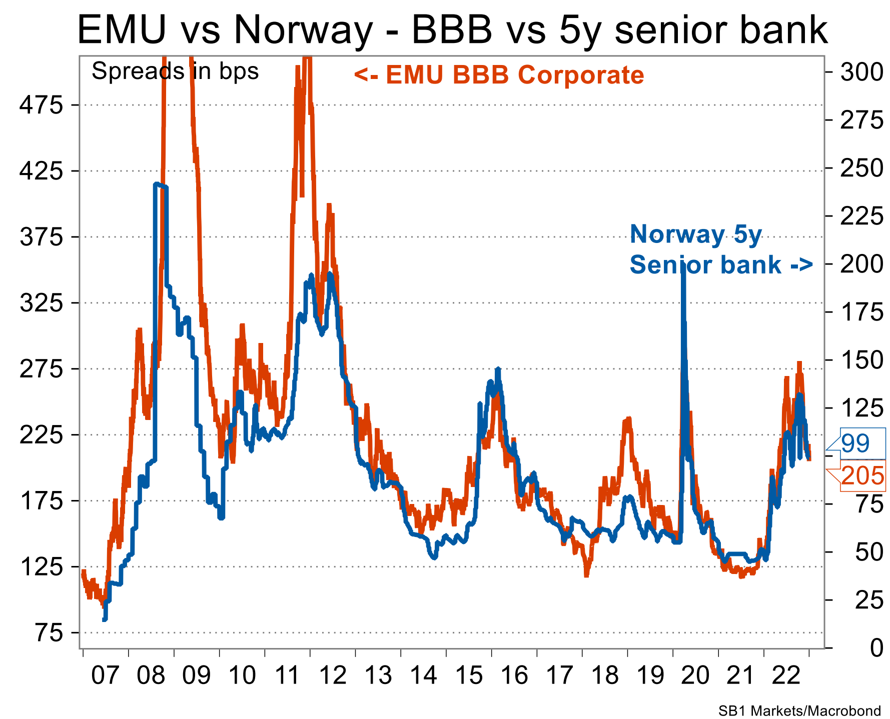
Even so, we think the spreads are exposed to a weakening economy



Mind a new gap: The economy is weakening (ISM), and spreads are narrowing

What do you think is more likely: An ISM at 45 or 55 before summer? We are quite sure, the PMI is at 47 already

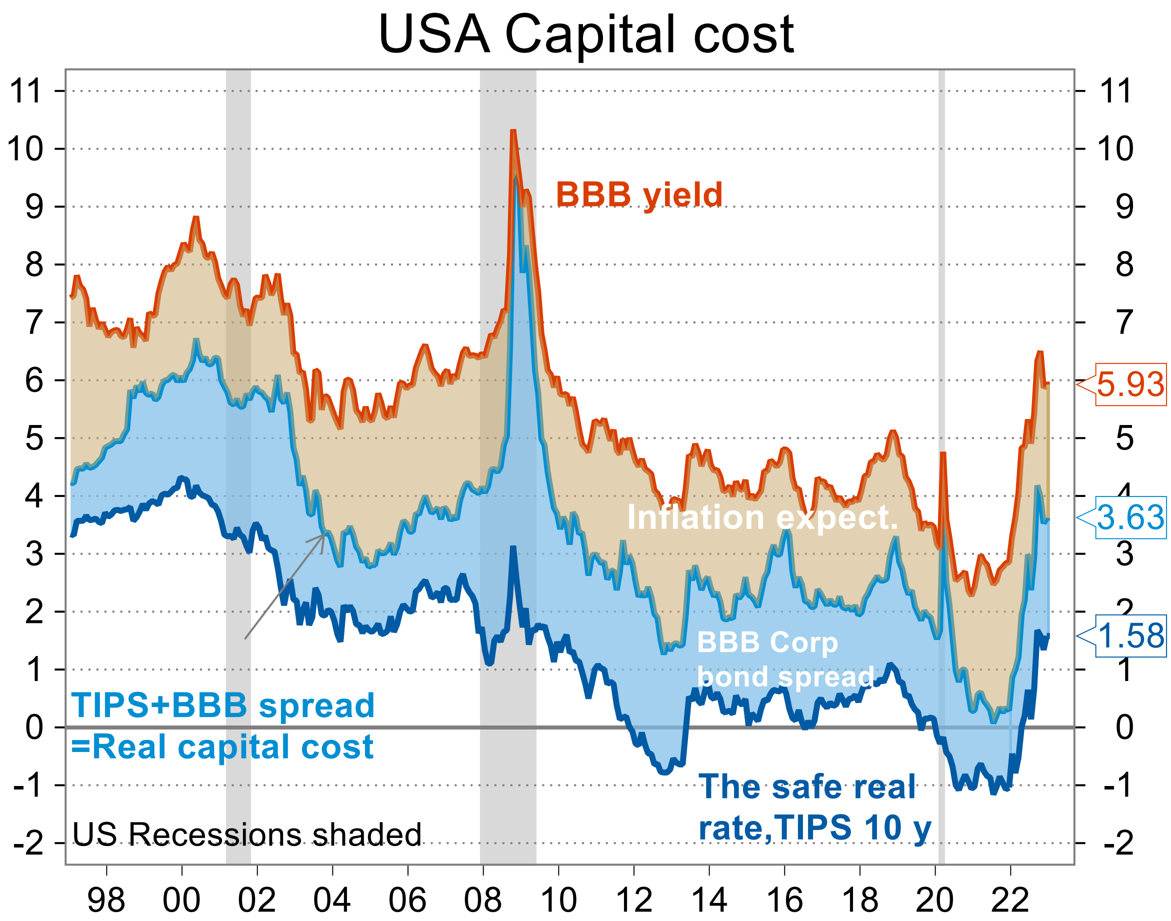




- Last week: Norwegian credit spreads continued downwards (the bank 2, 5y benchmark swap to below 100 bps)

The cost of capital rose sharply through 2022

All valuation metrics have changed dramatically. *As have all calculations of return on capital*



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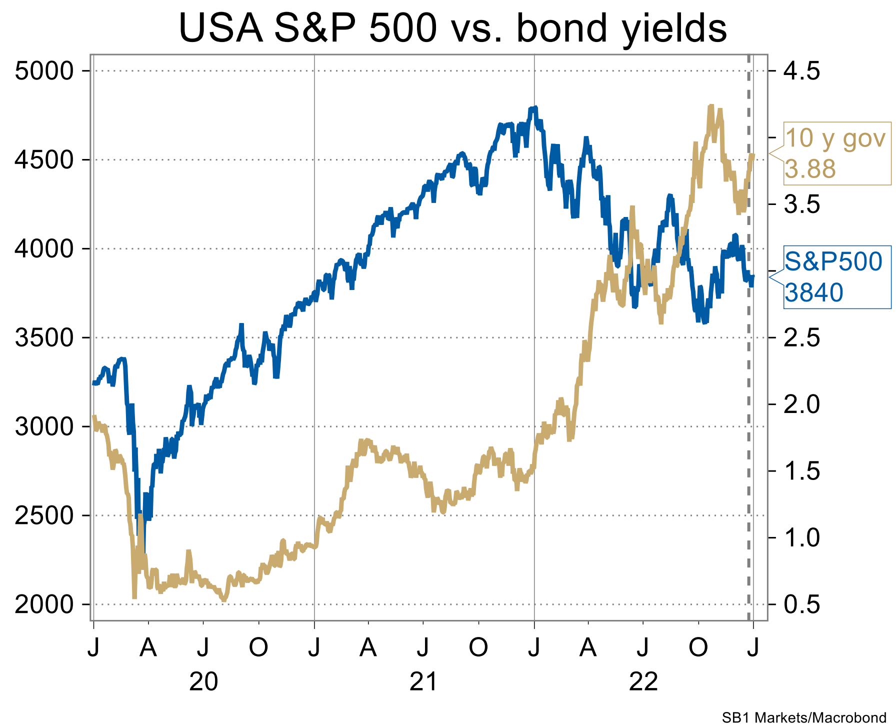
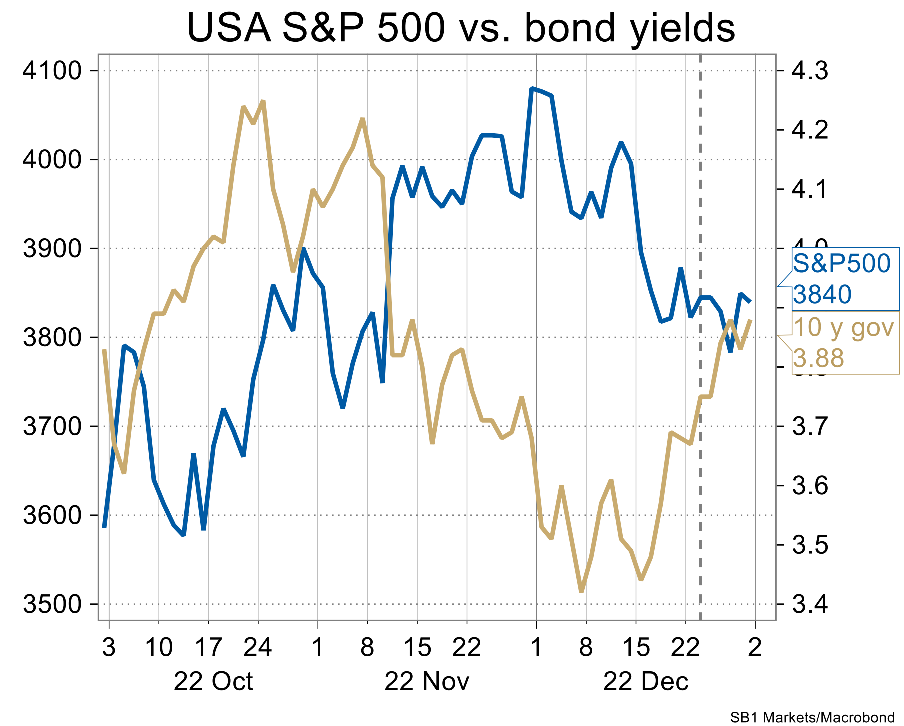
- Spreads fell last week but the story remains intact
- The total real borrowing cost for a BBB company has increased to 3.6% bps from zero by the end of last year:
  - The TIPS real rate is up from -100 to + 158 bps
  - The BBB corporate investment grade spread is up from 120 bps to 205 bps
- Add on modest inflation expectations, the nominal borrowing cost has increased from well below 3% to 5.9% (though down from 6.7% at the local peak in October)

S&P down 19.4% last year. The 10 y gov bond +236 bps to 3.88%

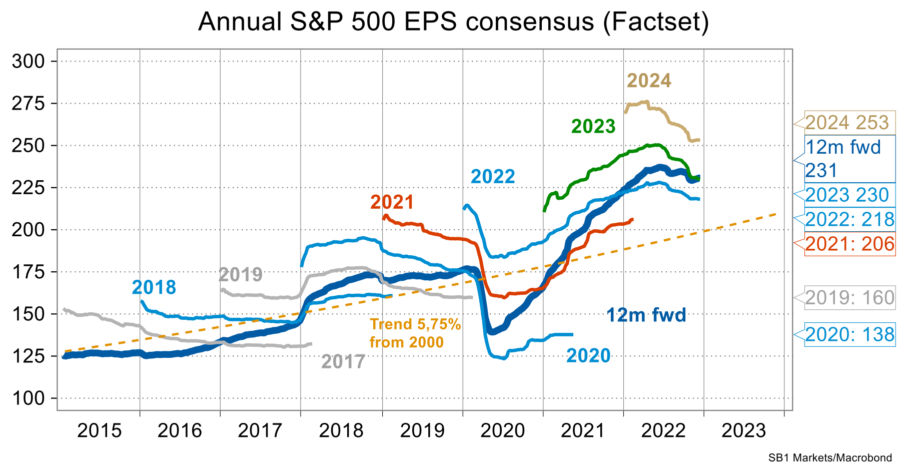
Equities were volatile last week but ended marginally up. The 10 y bond rate rose 13 bps

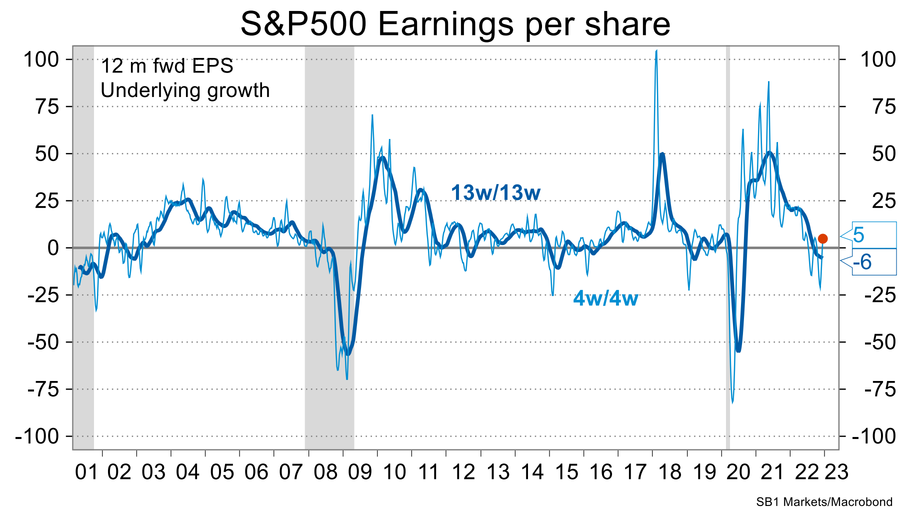


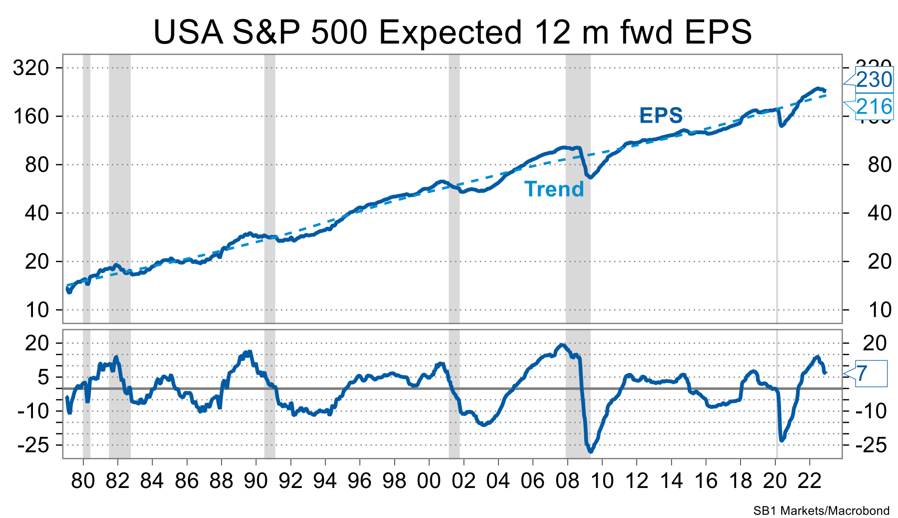


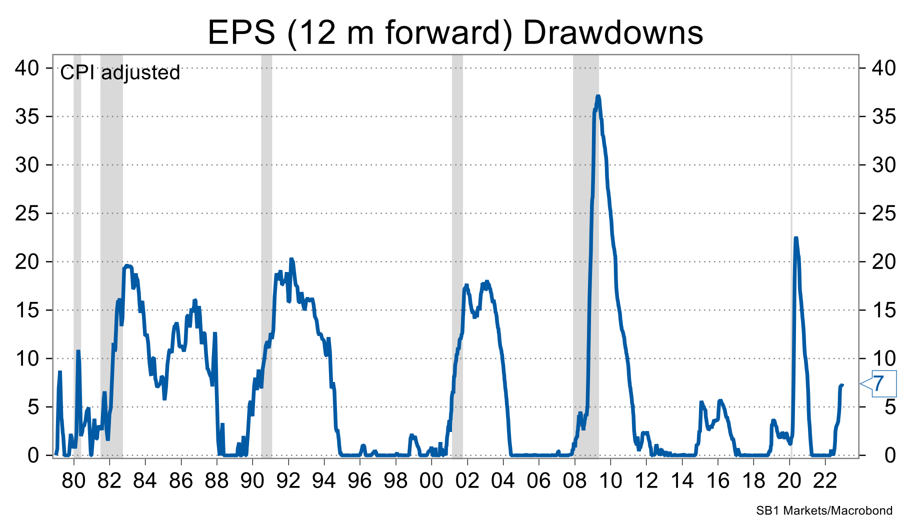
Earnings forecasts has stabilised – but the risk still on the downside

S&P 500 expected 12 m fwd EPS was some 15% above trend in mid June. Now down to +7%









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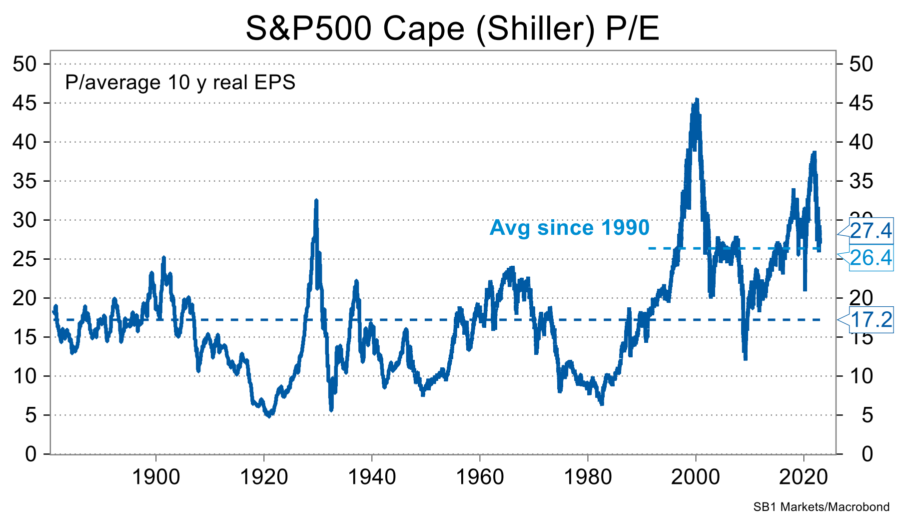
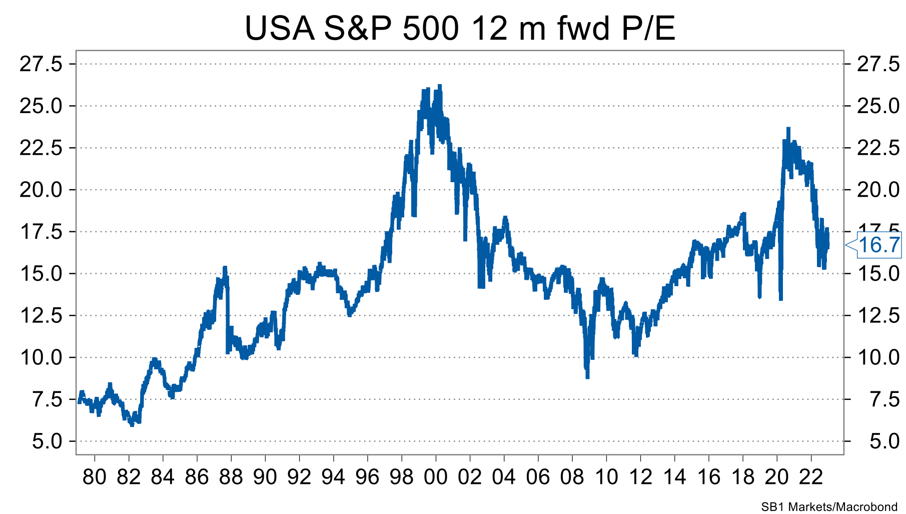
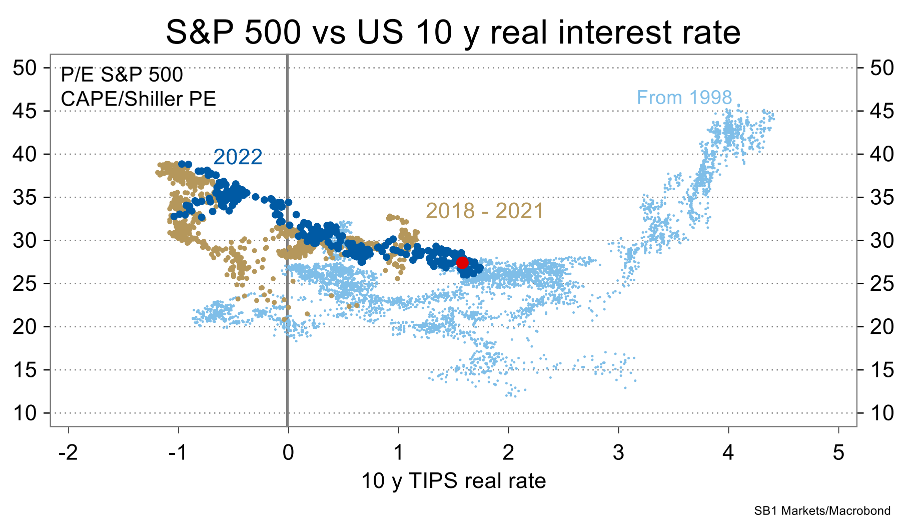
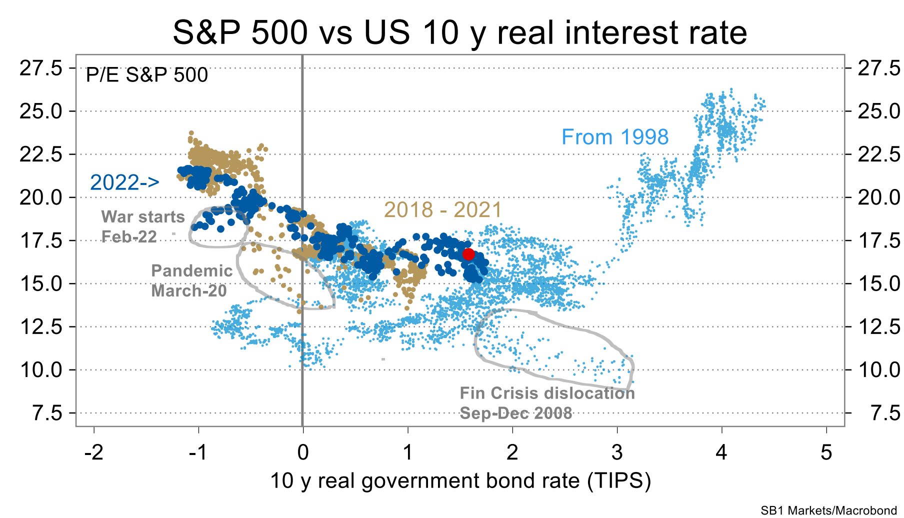
4 valuation charts: Check the extreme tight correlation between real rates, P/E

The TIPS real rate has been the main driver for the P/E since 2018. And it still probably is. But should it, now?



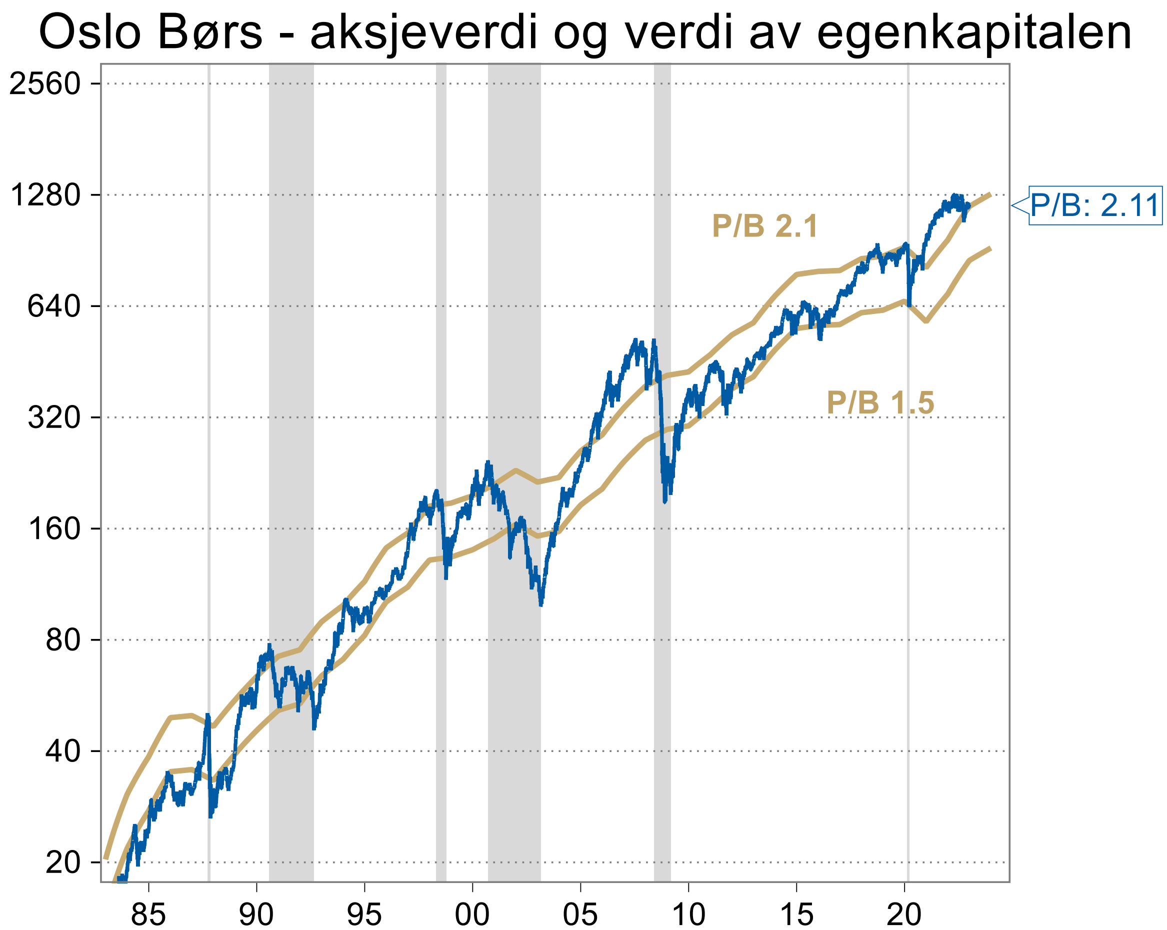




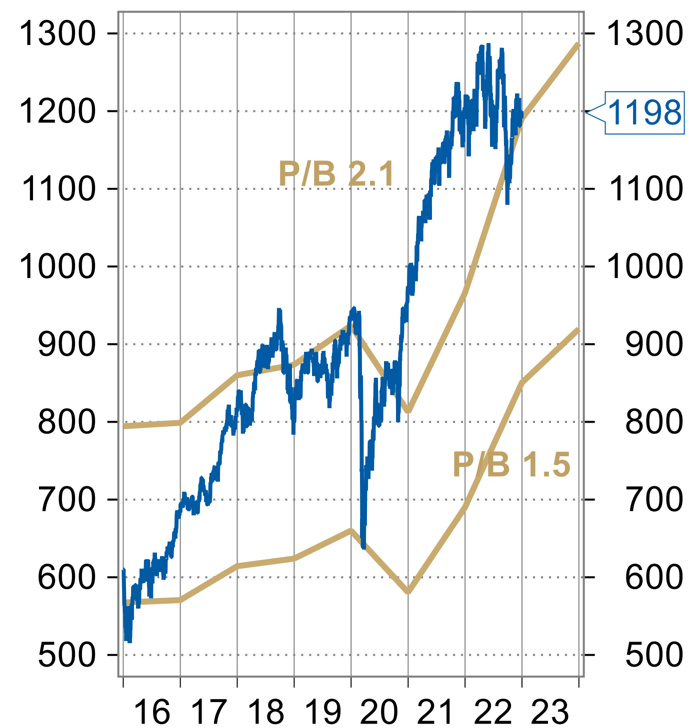


The OSEBX flat last year – the Price/Book ratio still down to 2.11 from 2.61!

The book value is growing rapidly, due to the extremely strong energy sector earnings



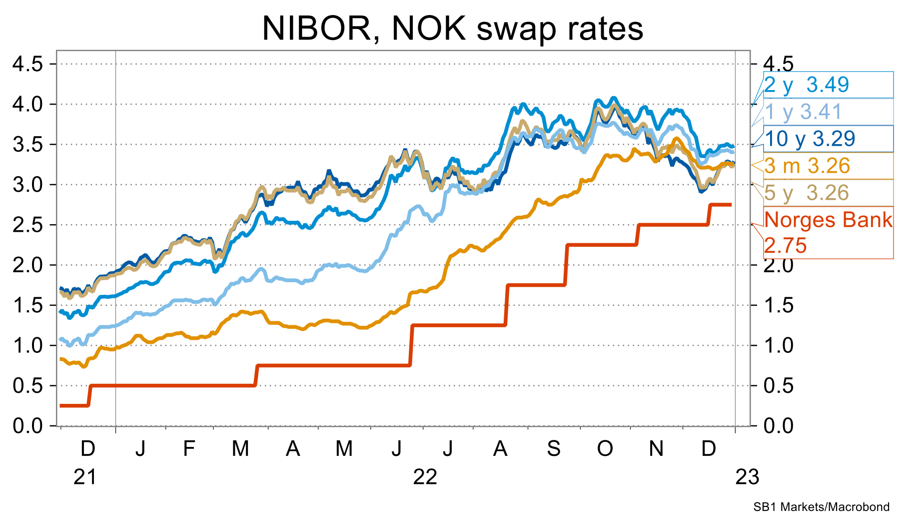
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

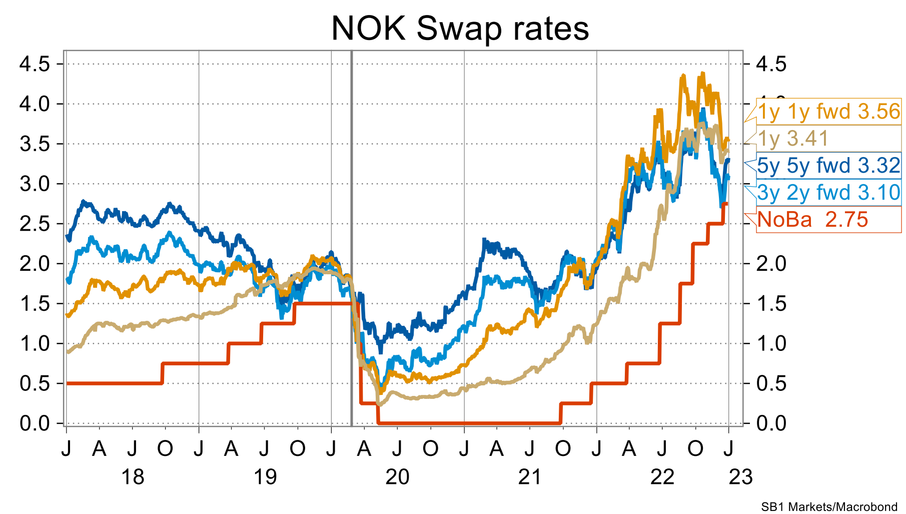


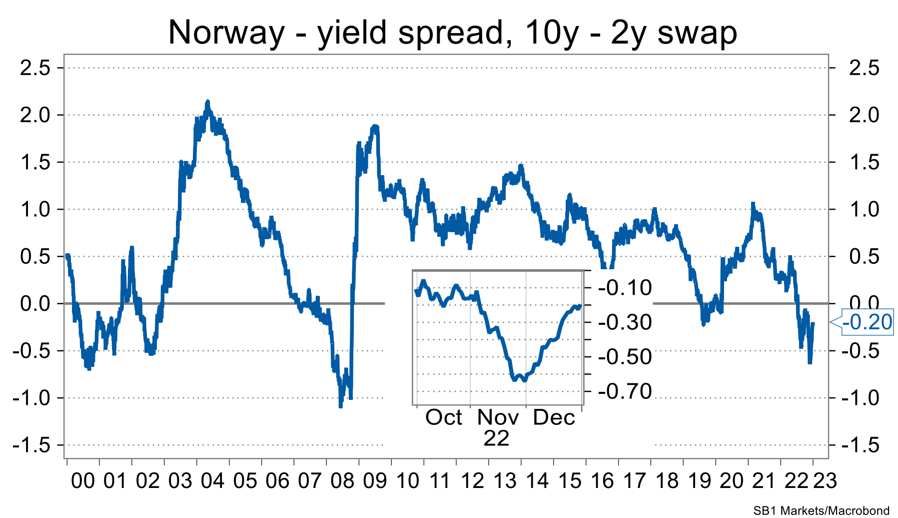
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

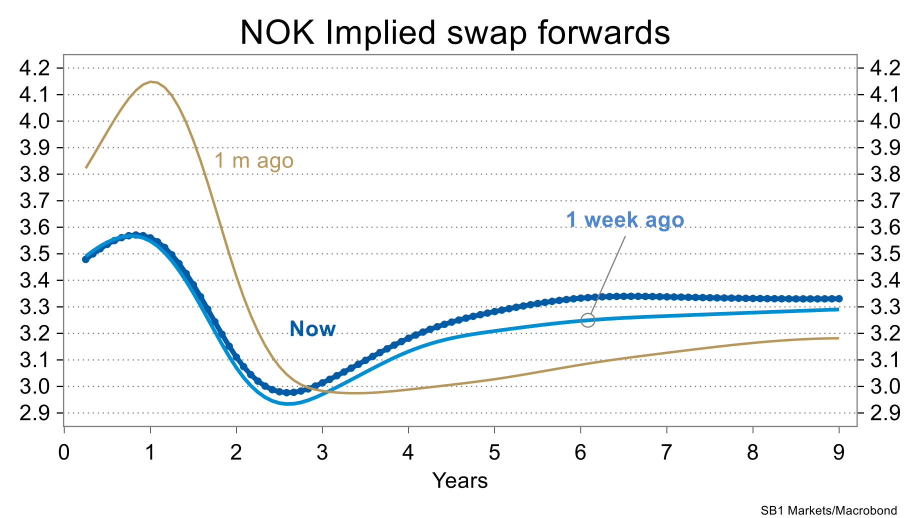
Rates slightly down in the short end, up in the long end

The 3m NIBOR has stabilised where it should be, at 3.26%





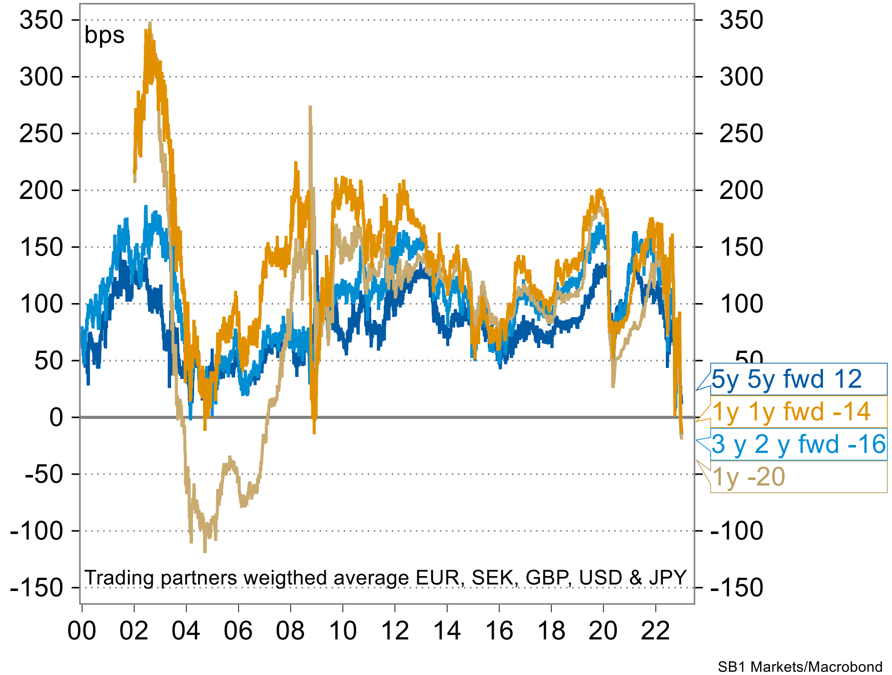


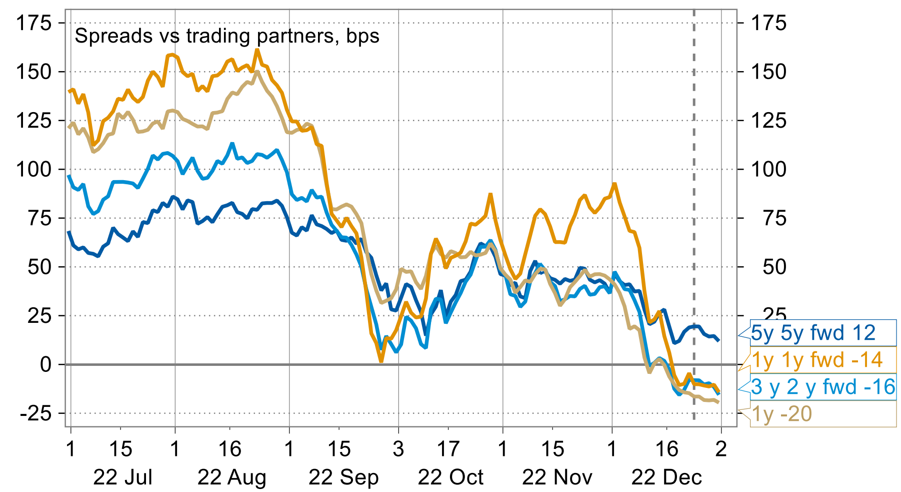


Rate spreads vs trading partners further down!!

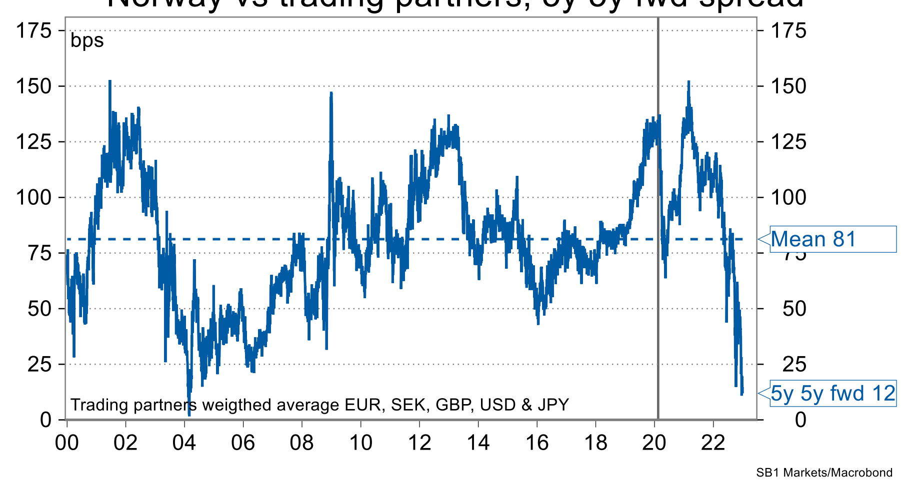
Just a very weak Norwegian housing market able to push spreads further down?

Norway vs trading partners, impl swap spreads





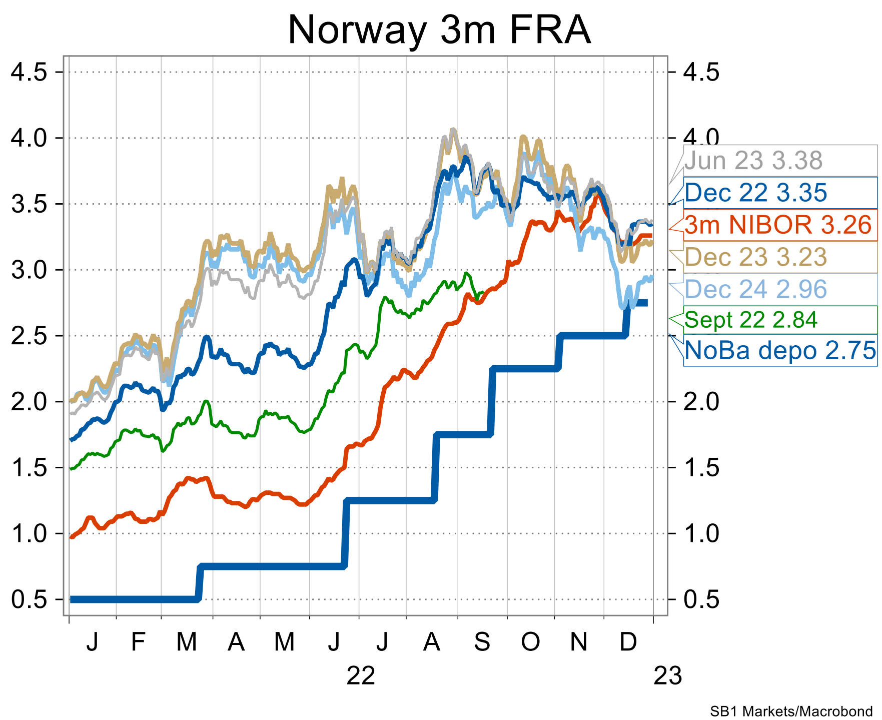
Norway vs trading partners, 5y 5y fwd spread

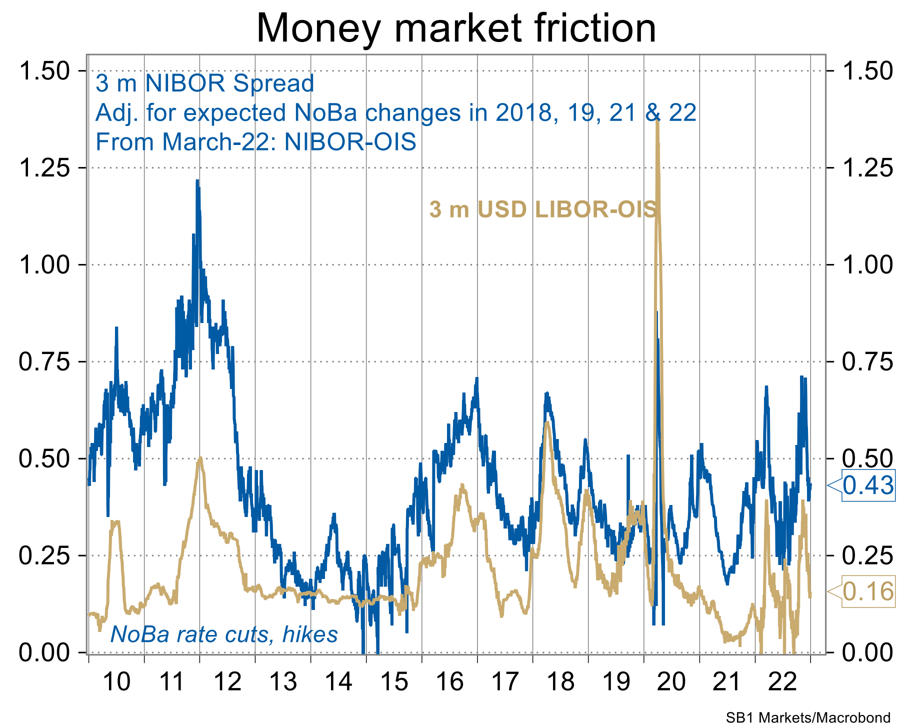


- Now, NOK rates are below or equal to the short end of the curve among our trading partners. If the Norwegian housing market yields, that OK. If not, rates are too low

The NIBOR spread up 2 bps to 43 bps

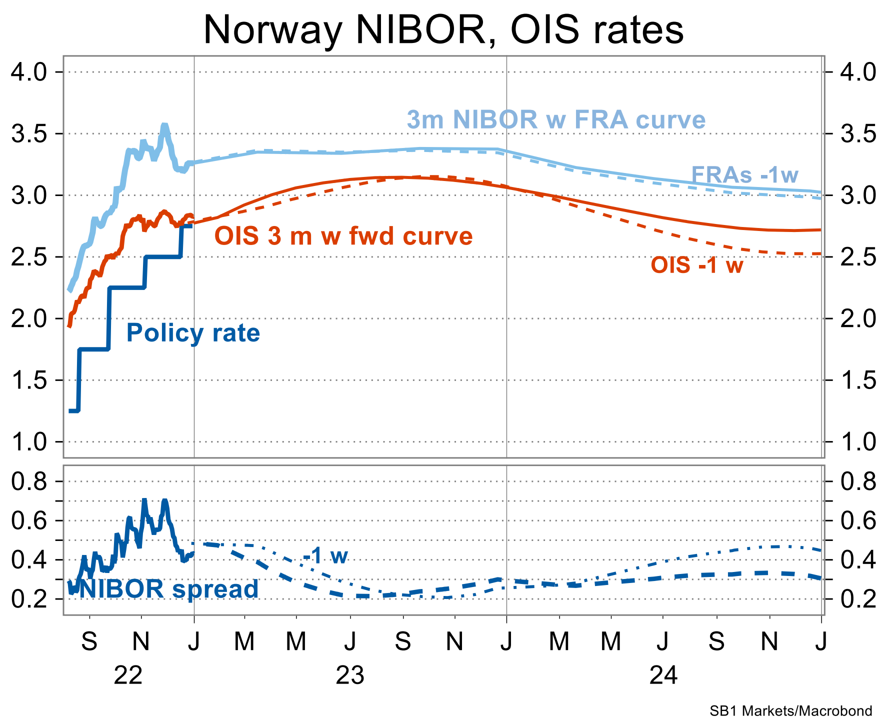
Adjust for the normal 5 bps NIBOR year-end premium, the 'real' spread is at 38 bps – close to our long-term estimate!

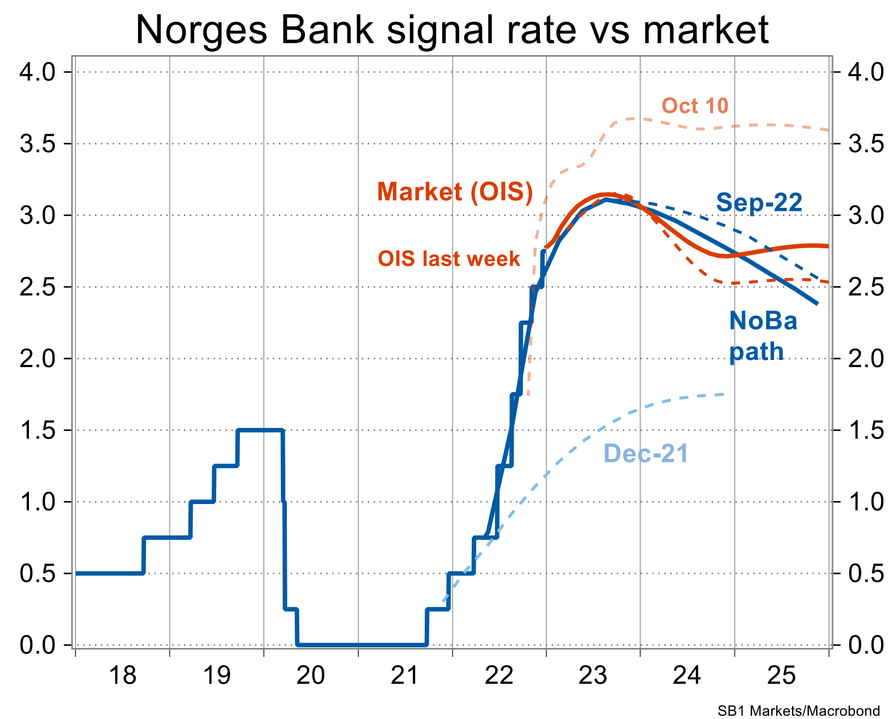




Longer dated OIS rates up – slightly up in the short end too

Foreign rates contributed more than strong Norwegian data

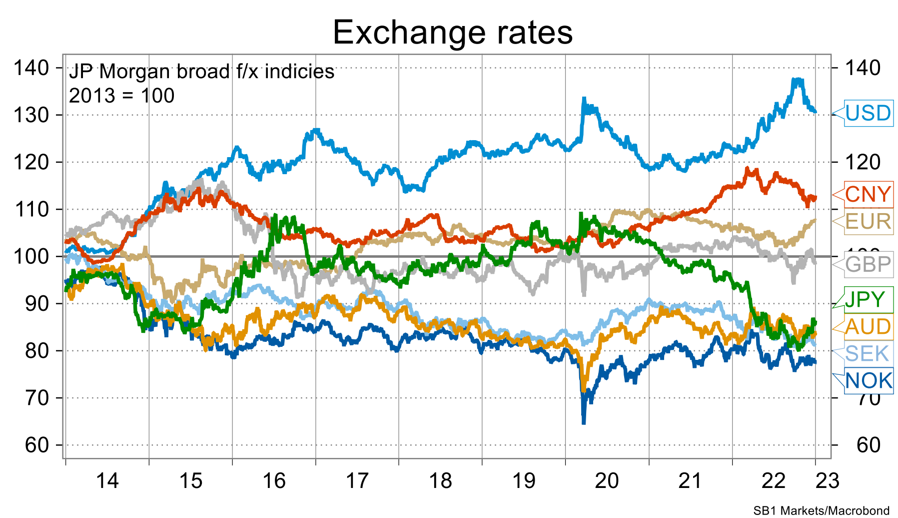


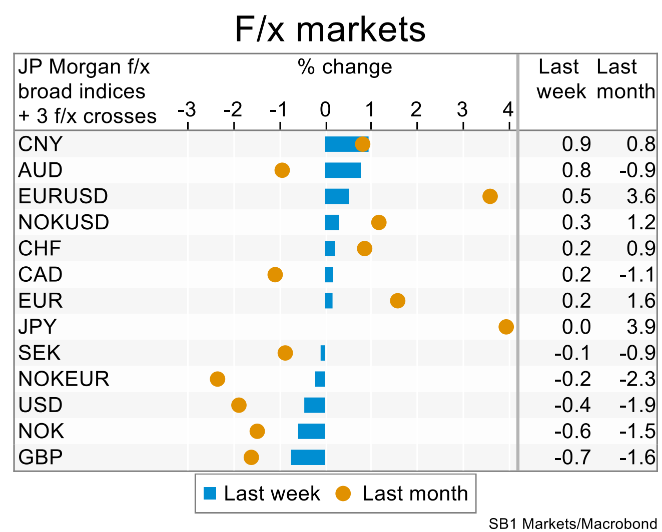


- Two weeks ago, we thought NOK interest rate expectations had fallen far too much, and we have been vindicated as rates have climbed by up to 35 bps, reversing more than 2/3 of the decline in early December. Now rates are OK, or still somewhat too low
- The market may be still be too aggressive vs rate cuts expectations in 2024 – but if the housing market runs into trouble, not impossible

JPY the winner in December, USD the loser

Last week, the CNY at the top, NOK close to the bottom





JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
CNY	0.9	0.8
AUD	0.8	-0.9
EURUSD	0.5	3.6
NOKUSD	0.3	1.2
CHF	0.2	0.9
CAD	0.2	-1.1
EUR	0.2	1.6
JPY	0.0	3.9
SEK	-0.1	-0.9
NOKEUR	-0.2	-2.3
USD	-0.4	-1.9
NOK	-0.6	-1.5
GBP	-0.7	-1.6

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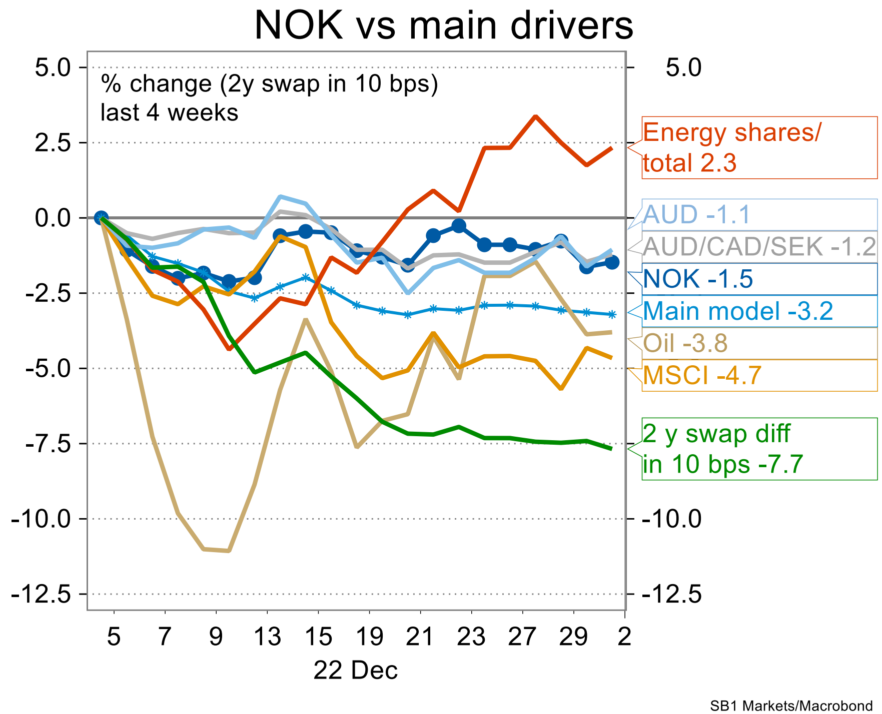
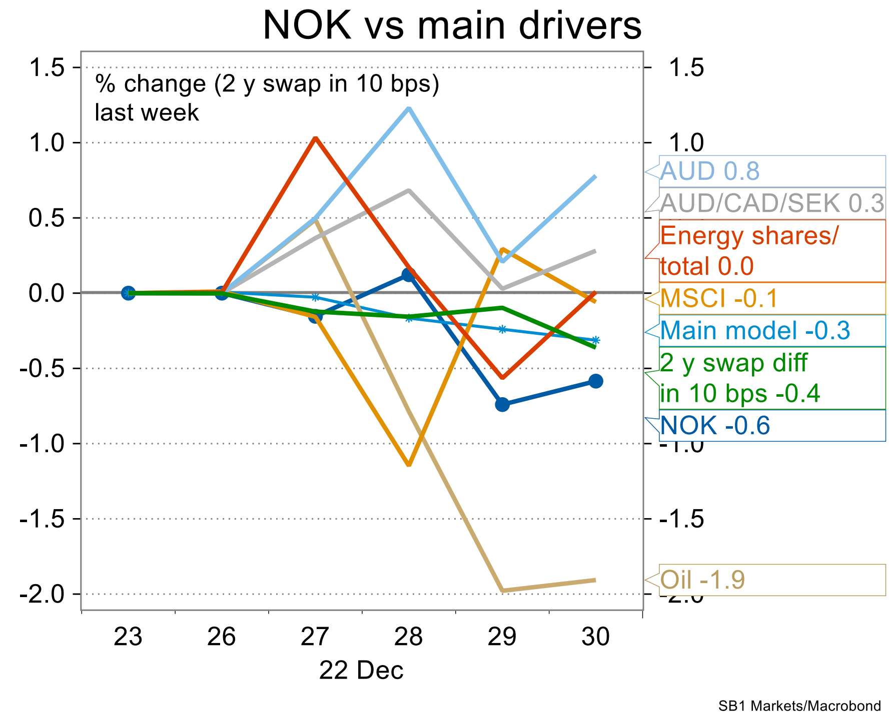
NOK down 0.6%, with the oil price being the best explanation?





- ***NOK is 2.7% <u>above</u> our main model estimate** (from 3.9% -which was the largest deviation since early 2021)*
- The NOK is 5% <u>weaker</u> than our **AUD/CAD/SEK-model**, our 'super-cycle peers', predicts, a substantial weakening (from -4%)
- NOK is 0.5% weaker than an estimate from a model that includes global **energy companies' equity prices** (vs the global stock market) (unch.)

On this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices over time, The 2 y swap rate differential is measured in 10 bps - that is, 1 equals 10 bps

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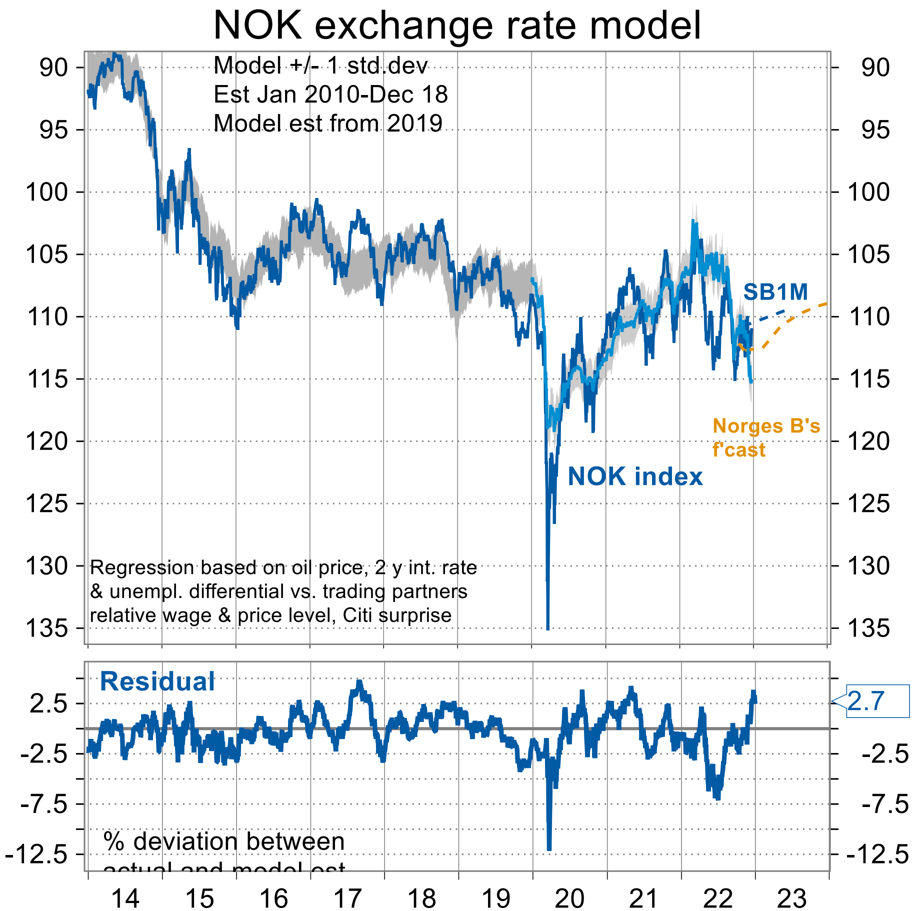
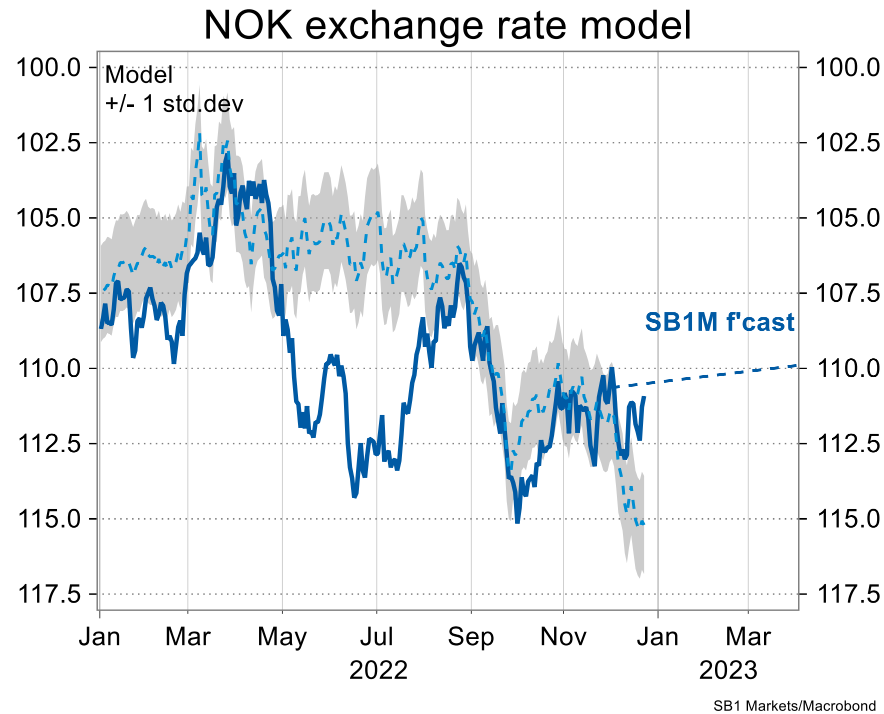
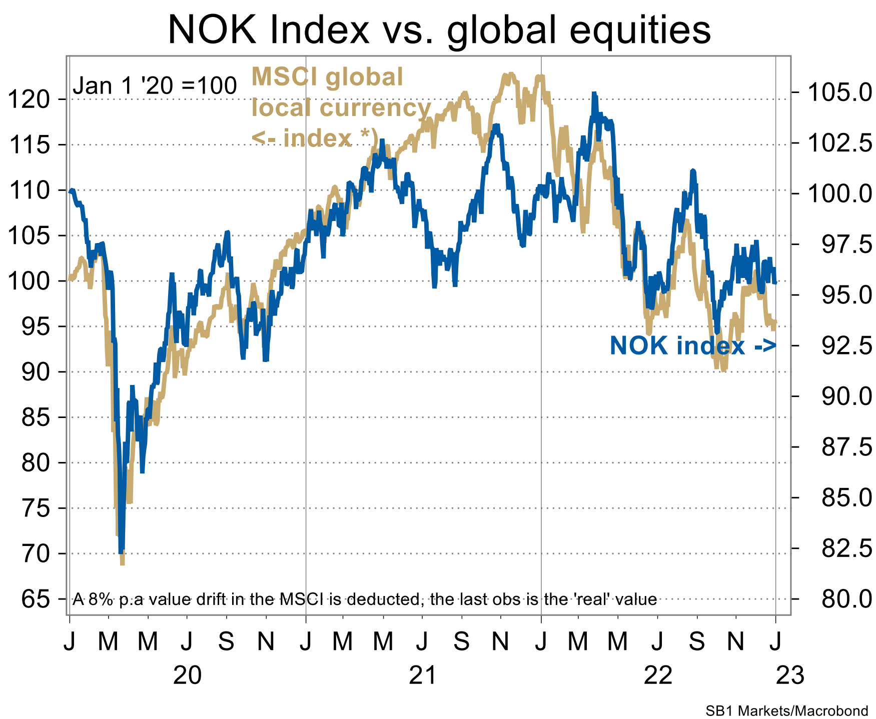
The NOK still well above our model estimate

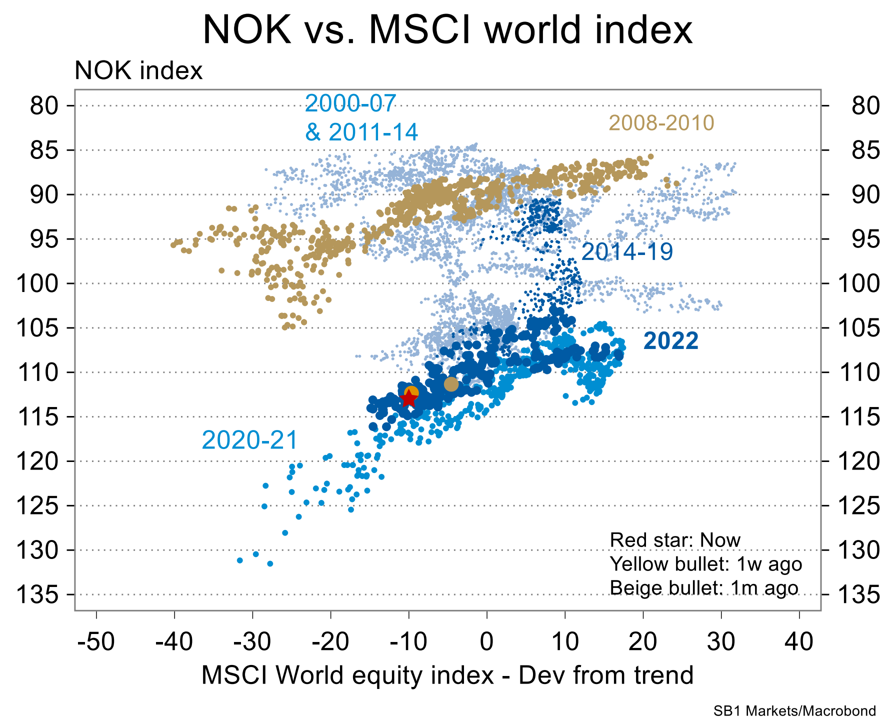




Global equities close to unch., NOK sightly down

The NOK has been closely in sync with the global stock market since April – but not so the recent weeks

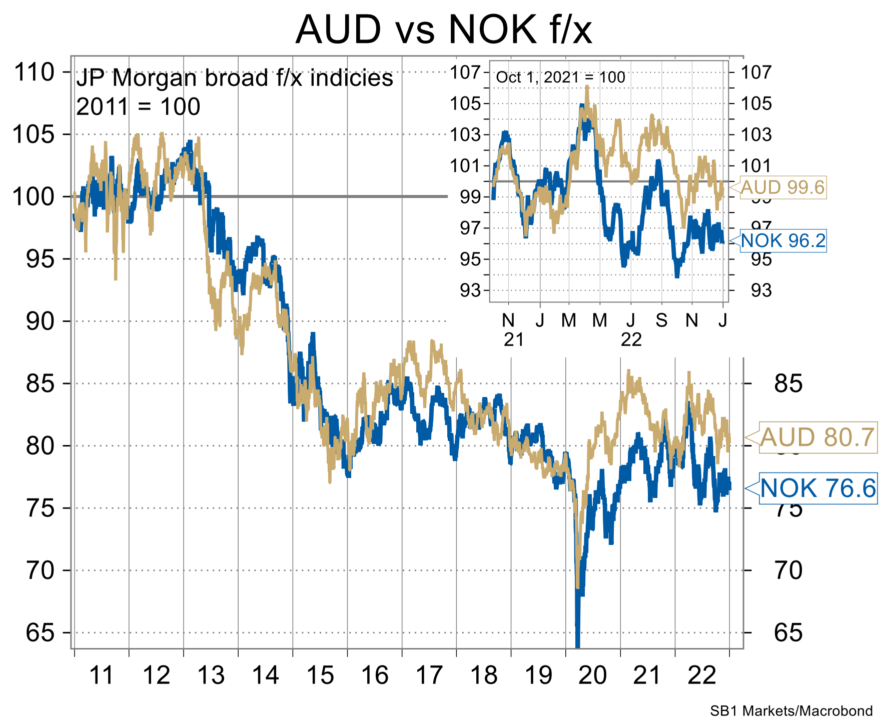


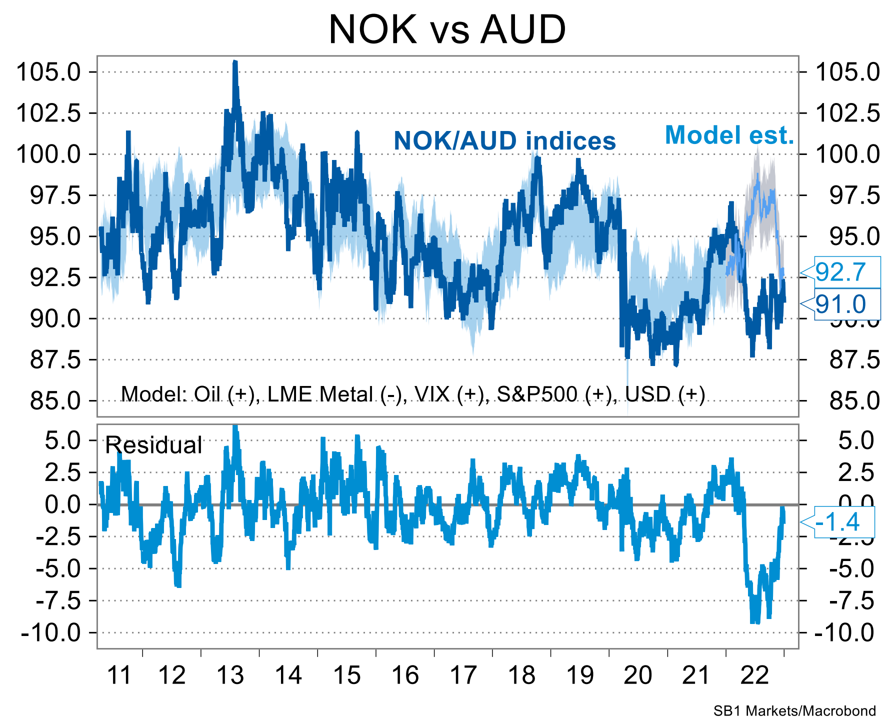


- There has not been any stable correlation over time, and when it is, the oil price is normally the real driver. *Not so much now*

The 'real' NOK/AUD gap was closed before Christmas

NOK lost marginally last week. Still, there is no NOK catch-up argument left – our model explains most of the gap

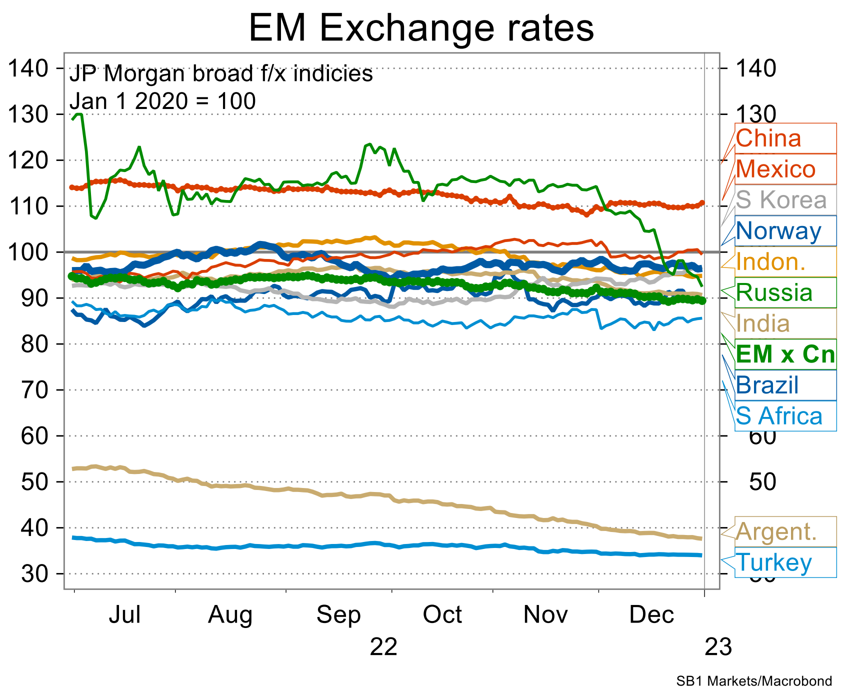


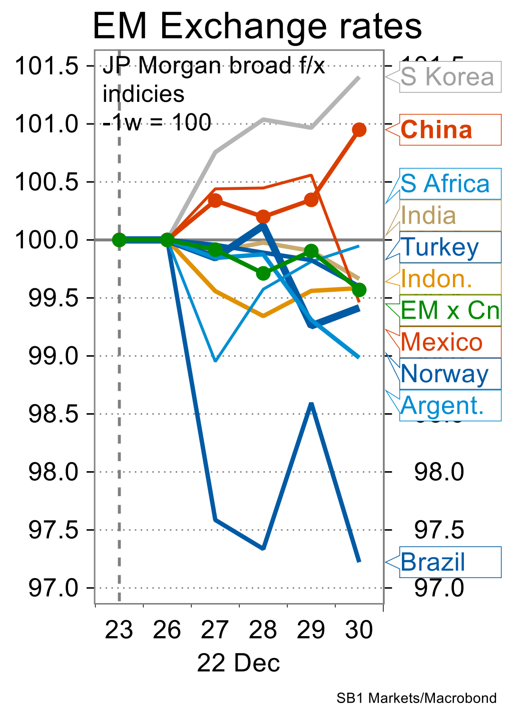


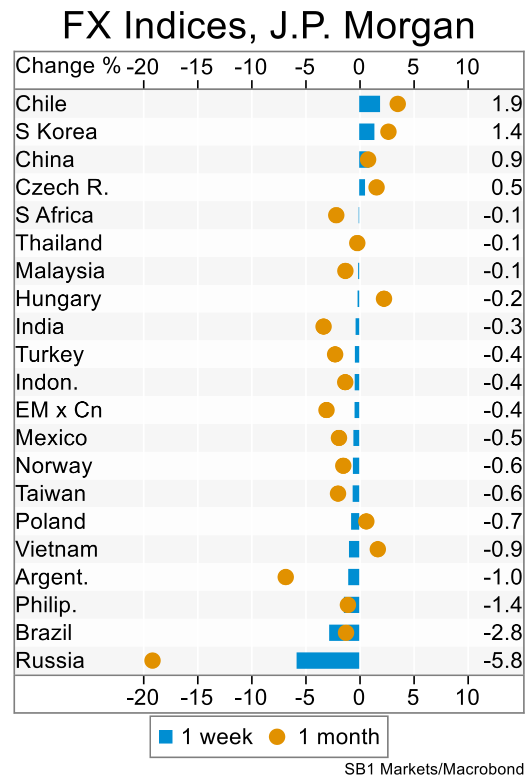
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates. Seem like we need a new model. Until we find it, buy the NOK index (and short the AUD index)

The CNY up on post-Covid hopes?

The Russian rouble in trouble again, down almost 20% last month







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