Macro Weekly

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Harald Magnus Andreassen
Phone: +47 24 13 36 21
Mobile: +47 91 14 88 31
E-mail: hma@sb1markets.no

Tina Norden
Phone: +47 24 13 37 48
Mobile: +47 93 22 62 24
E-mail: tina.norden@sb1markets.no

SpareBank 1 Markets
Phone: (+47) 24 14 74 18
Visit address: Olav Vs gate 5, 0161 Oslo
Post address: PostBox 1398 Vika, 0114 Oslo

Last week

- **The War/European Energy/Commodities**
  - **The war** goes on, and on, and on
  - **European natural gas prices** fell further last week, as gas inventories have been unchanged the past two weeks due to mild and windy weather. The front contracts are lower than before the war started – but the rest of the curve is well above the pre-war level. The oil price fell
  - **Iron ore** prices are on the way up on hopes of a recovery in the construction sector in China, as soon as the current Covid wave has rolled over. Other metal prices close to unchanged
  - **Most other commodity prices** were close to unchanged, except iron ore which climbed further (on hope for a post Covid recovery in China)
  - **Mobility in China** has most likely bottomed (at least on the roads), signalling than China is able to operate in spite of the huge Covid wave – which anyway will not last that long, given the seemingly extreme rapid spread of the virus
- **Auto Sales**
  - Auto sales rose in the Euro Area in December, due to a continued surge in German sales (which may have been supported by some tax increases). US sales though, fell further, unexpectedly. Norwegian sales (registrations) were the highest ever, due to tax increases from Jan 1. No big changes in sales in those EMs that have reported, but without Chinese data available, a reliable global estimate can not be produced
- **PMIs/ISM**
  - The December **global PMI** was far better than we assumed: The **Chinese Caixin** survey rose, even if the NBS survey (which is published ahead of the Caixin survey) fell sharply. The **EMU & US** surveys were revised upwards (but the US index still fell). In sum, the global composite index rose by 0.2 p to 48.2 (we assumed -0.6 p to 47.4). Still, this is a very low level, signalling close to zero growth in global GDP. 15 of 12 countries report PMIs below the 50-line. Both manufacturing and services are well below the line. In EMU, the index rose 1.4 p to 49.3, while the US PMI fell by 1.4 p to 45 (though 0.4 p better than initially reported). **EM x China** is in the lead, with India at the top. **Delivery times** are normalising, and **prices** increases are slowing, especially in the manufacturing sector, confirming the peak inflation story. The **Norwegian manufacturing sector PMI** fell down to the 50-line, and the trend is down as everywhere else, in the rich part of the world
  - In the US, the **manufacturing ISM** fell to 48.4, close to expectations, with a rapid decline in new orders, but also price cuts for purchases and a lot of materials prices are declining, and delivery times have normalised! However, the **service sector ISM** surprised at the downside, big time: The index fell 6.9 p to 49.6, and the new order index fell 10 p to 45.2! Still, the prices paid index declined just 2.4, and the level is still high, at 67.6, far above average. The weak service sector PMI added to the downward pressure on rate expectations, bond yields and the USD on Friday

Last week II

- **USA**
  - **Lower wage inflation in a still tight labour market?** The monthly labour market report offered a Goldilocks outcome, **unemployment** fell back to 3.5% in December (on par with the lowest level since 1969), while annual **wage inflation** was 0.4 pp lower than expected at 4.6%, as history was revised down, and wages grew 0.1 pp less than expected m/m. Even if wage inflation was 0.5 pp higher than expected last month (following an upward revision) the current nonfarm wage data are positive – but wage inflation remains well above the pre-pandemic level, that yielded 2% CPI inflation. There are several wage indicators (an important one will be reported this week, Atlanta Fed's median wage tracker), and in sum they signal somewhat slower wage growth, but still a too high rate. **Employment** grew marginally faster than expected, but growth is gradually slowing, and **hours worked** fell. The lower than expected wage inflation, combined with steady growth in employment and a lower unemployment rate created a 'Goldilocks' (growth without inflation) response in markets: Interest rates/bond yields fell, and equities rose
  - However, the jury is still out vs the labour market: The no. of **job openings** (unfilled vacancies) was expected down in November, but actually rose, and while small businesses report some easing **in filling open positions**, they still revised their **wage plans** upwards
  - **The minutes from the December FOMC meeting** confirmed the Fed's hawkish stance, stating that not one single member sees it as appropriate to cut rates in 2023, despite market predictions of just that. Rather the FOMC showed some concerns over this phenomenon, as it leads to "an unwanted easing of financial conditions", taking away some of the effect of the monetary policy tool. Market reactions were muted – either the market or the Fed will be mistaken
- **EMU**
  - **Headline HICP** (CPI) fell 0.4% m/m in Dec (seas adj), and is up 9.2% y/y, down 0.9 pp from November and 0.5 pp below expectations. Energy prices were down 4.8% m/m, and are up 26% y/y, and still contribute 2.8 pp to the headline rate. **The core** was up 0.2 pp to 5.2%, which is the highest ever, 0.1 – 0.2 pp higher than expected. Core prices rose 0.4% m/m due to a 0.6% lift in core goods prices. This is the ECB's problem, and why they are adamant about hiking the interest rate in larger steps than normal, again and again
  - **Retail sales** were up 0.8% in November, 0.3 pp above expectations. However, sales have been trending down since mid-'21 and the outlook is not bright given the cost-of-living crisis brought on by high inflation, and higher interest rates
- **Norway**
  - **House prices** surprised at the upside in December, up 0.2%, expected down 1%. Most cities reported higher prices, but not Oslo and the surrounding 'cities'. However, the inventory is still on the way up, and we still think prices have more to fall after more than a doubling of mortgage rates
  - **Manufacturing production** fell by 0.5% in November, we expected unch. Oil related manufacturing sectors are on the way up, the rest are trending down. Surveys indicate a decline in overall production the coming quarters

The Calendar: Chinese trade, credit, US inflation, EMU unempl. CPI & GDP here

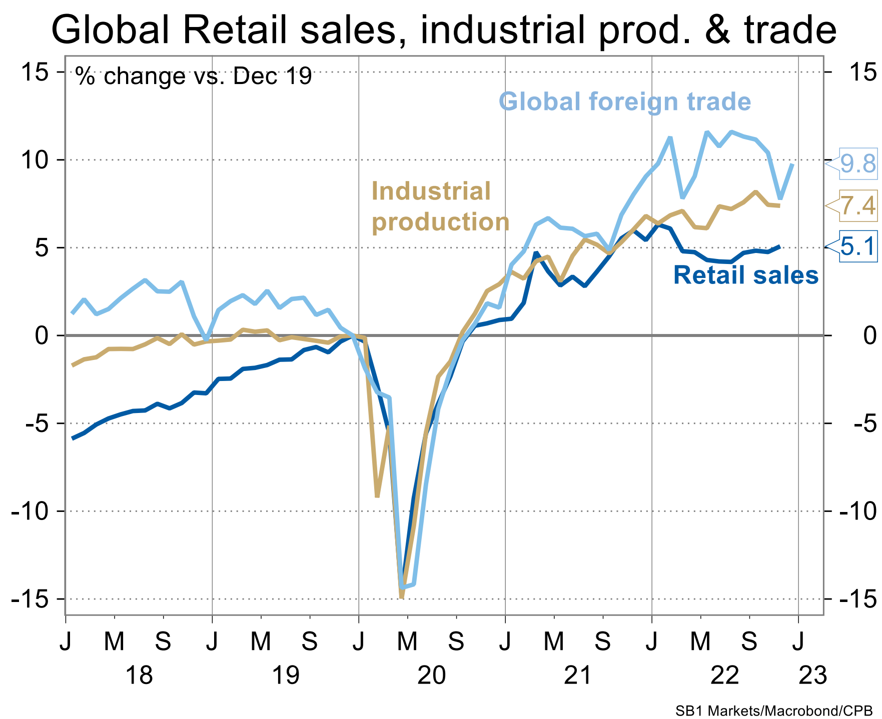
Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 9					
08:00	GE	Industrial Production SA MoM	Nov	0.2%	-0.1%
11:00	EMU	Unemployment Rate	Nov	6.5%	6.5%
21:00	US	Consumer Credit	Nov	$25b	$27b
Tuesday Jan 10					
08:00	SW	GDP Indicator SA MoM	Nov		0.7%
08:00	**NO**	**CPI YoY**	**Dec**	**6.1%(5.9)**	**6.5%**
08:00	**NO**	**CPI Underlying YoY**	**Dec**	**5.7%(5.5)**	**5.7%**
08:45	FR	Industrial Production MoM	Nov	0.9%	-2.6%
12:00	US	NFIB Small Business Optimism	Dec	91.5	91.9
Thursday Jan 12					
02:30	CN	PPI YoY	Dec	-0.1%	-1.3%
02:30	CN	CPI YoY	Dec	1.8%	1.6%
08:00	NO	GDP MoM	Nov	(-0.1)	-1.0%
08:00	**NO**	**GDP Mainland MoM**	**Nov**	**0.1%(0.4)**	**0.0%**
08:00	NO	Construction costs	Nov		
14:30	**US**	**CPI MoM**	**Dec**	**0.0%**	**0.1%**
14:30	**US**	**CPI YoY**	**Dec**	**6.6%**	**7.1%**
14:30	**US**	**CPI Ex Food and Energy MoM**	**Dec**	**0.3%**	**0.2%**
14:30	**US**	**CPI Ex Food and Energy YoY**	**Dec**	**5.7%**	**6.0%**
14:30	US	Initial Jobless Claims	Jan-07	214k	204k
20:00	US	Monthly Budget Statement	Dec	$70b	$249b
Friday Jan 13					
	CN	Trade Balance	Dec	$78b	$70b
	CN	**Exports YoY**	**Dec**	**-12.0%**	**-8.7%**
	CN	Imports YoY	Dec	-9.9%	-10.6%
06:00	SW	House prices, realtors	Dec		
08:00	UK	Monthly GDP (MoM)	Nov	-0.3%	0.5%
08:00	UK	Manufacturing Production MoM	Nov	-0.2%	0.7%
08:00	SW	CPI YoY	Dec	12.0%	11.5%
08:00	SW	CPIF Excl. Energy YoY	Dec	8.3%	8.0%
11:00	EMU	Industrial Production SA MoM	Nov	0.5%	-2.0%
11:00	EMU	Trade Balance SA	Nov	-20.0b	-28.3b
14:30	US	Import Prices x Petroleum MoM	Dec	-0.3%	-0.3%
16:00	US	U. of Mich. Sentiment	Jan P	60.5	59.7
During the week					
	CN	Aggregate Financing CNY	Dec	1600b	1990b
	CN	New Yuan Loans CNY	Dec	1150b	1210b
Monday Jan 16					
02:30	CN	New Home Prices MoM	Dec		-0.25%

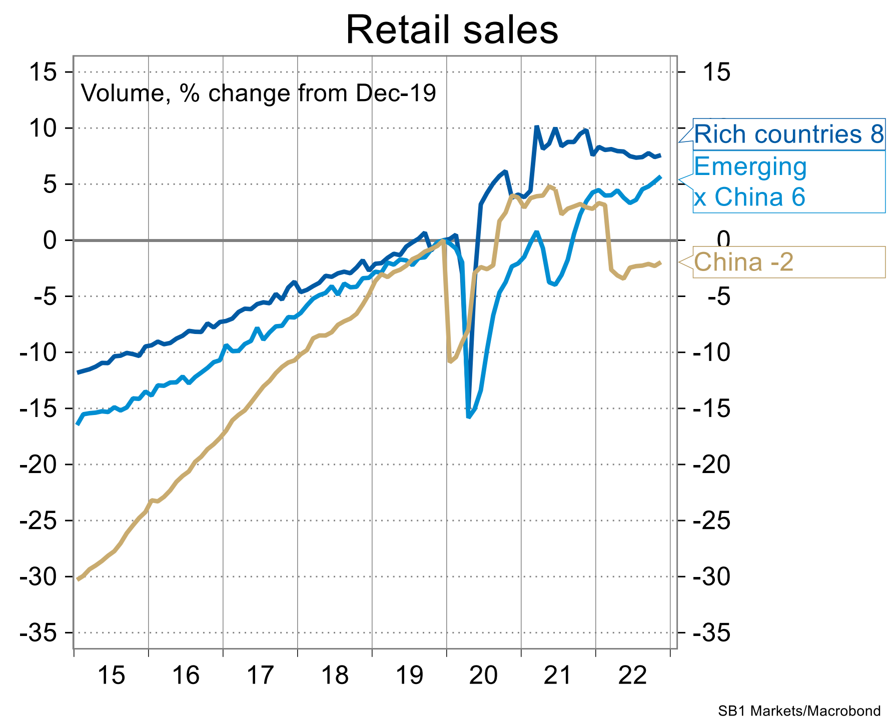
- **Global auto sales**
  - Sales in EMU rose sharply, due to a surge in Germany, while sales in USA fell further, and some EMs have reported stable sales. China will probably report this week, we assume sales there were influenced by the Covid wave
- **China**
  - **Exports** fell sharply in November (from a low level in October), and the most towards the US (confirmed by US import data last week). The unusual decline is probably mostly due to Covid related lockdown (which still was the policy in Nov) while in December activity was hampered by the unprecedented surge in infections. Until October, exports were very strong, 'no supply chain collapse' at all. **Imports** have been weak through the pandemic, due to low domestic demand – and December was probably not any better
  - **Credit growth** has so far not accelerated – growth is rather slowing – even if the authorities have gently pushed the gas pedal, both vs. local authorities and construction companies. House prices are falling, and we assume they fell further in December
- **USA**
  - **CPI inflation** has peaked, and will very likely decline further in December. The headline rate is expected down 0.5 pp to 6.6%. We think the risk is on the downside mostly due to the decline in energy prices (our model yields 6.3% y/y) – also with a contribution form lower core inflation, due to falling goods prices (our est. 5.6%, consensus 5.7%). If we are right, some markets will celebrate
  - Atlanta Fed will report its **median wage tracker** late in the week
- **EMU**
  - **Unemployment** is still on the way down, and Germany has reported a further decline in registered unemployment in December. An unchanged LFS rate at 6.5% is expected, the lowest since 1980.
  - **Industrial production** is expected up 0.5% in November, following the 2% drop in October
- **Norway**
  - **CPI inflation** has peaked, here too. We expect a further decline in December, by 0.7 pp to 5.8%. Spot electricity prices rose but SSB's CPI calculation has produced a far higher price level than spot prices indicate, and we expect the gap to be reduced in Dec. Gasoline prices fell as well. Core prices rose m/m but we assume just 0.25% (seas. adj), and the a 0.2 pp decline y/y, to 5.5%
  - We expect an 0.4% increase in **Mainland GDP** in November (consensus 0.1%, Norges Bank venter -0.2%). Electricity production rose, and contributed by 0.2 pp, and we assume ocean fisheries normalised. In addition, activity in the retail sector rose – but manufacturing production fell. Total GDP will decline due to lower oil/gas production

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

Global retail trade, industrial production & global trade are slowing

The upside in 2023: China, whenever covid is under control, and other emerging markets



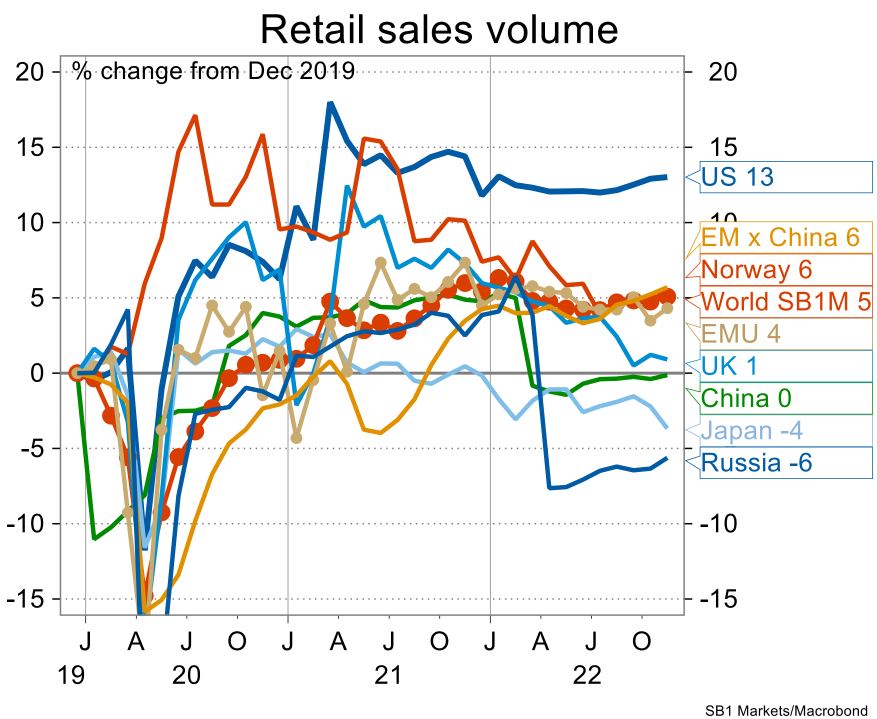


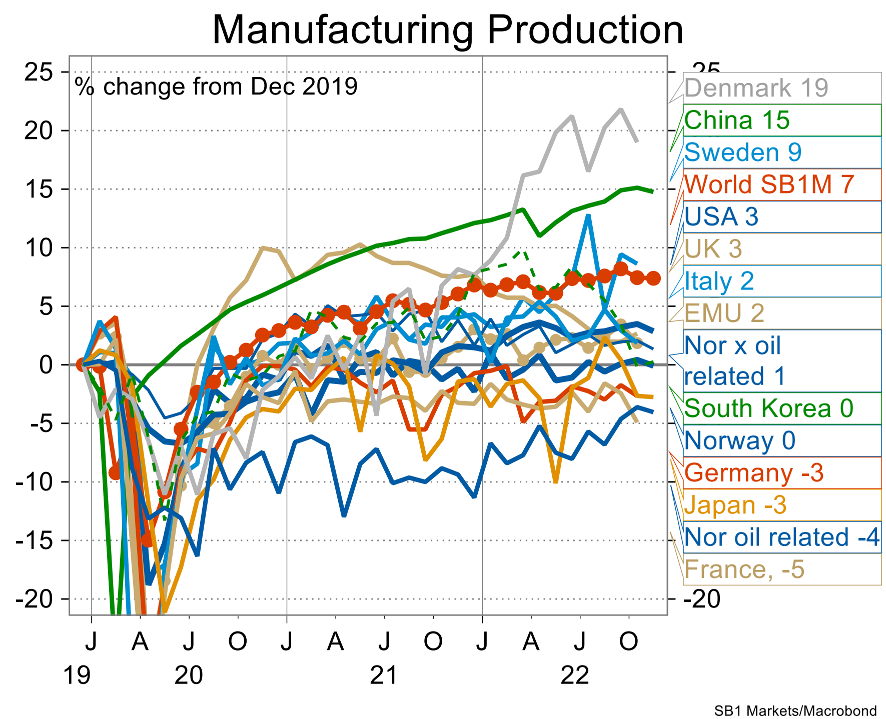
- Global trade was less weak at the end of last year than initially estimated by the Kiel institute

Global foreign trade: The last months, including forecasts, are estimates from the Kiel Institute.

A broad slowdown of retail sales, at least in the rich part of the world (+China)

Manufacturing production is slowing too – and surveys signal a downturn



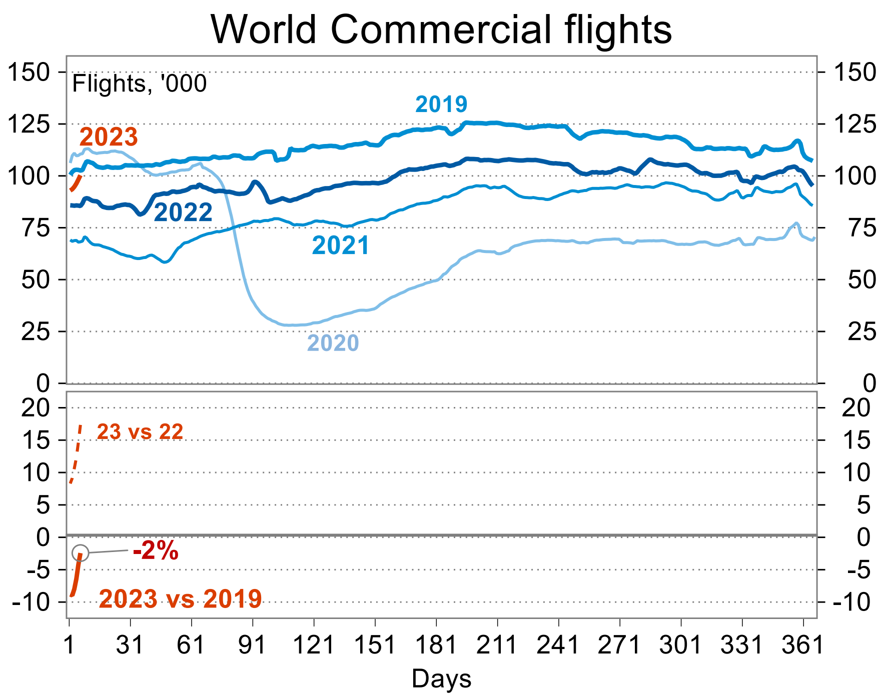


- Retail sales in China rose marginally in November but the history was once more revised down. At one stage, when the current Covid wave of infections has burned through the population (which will not be a nice walk in the park even for the economy, cfr. the December PMIs), consumption demand should recover sharply

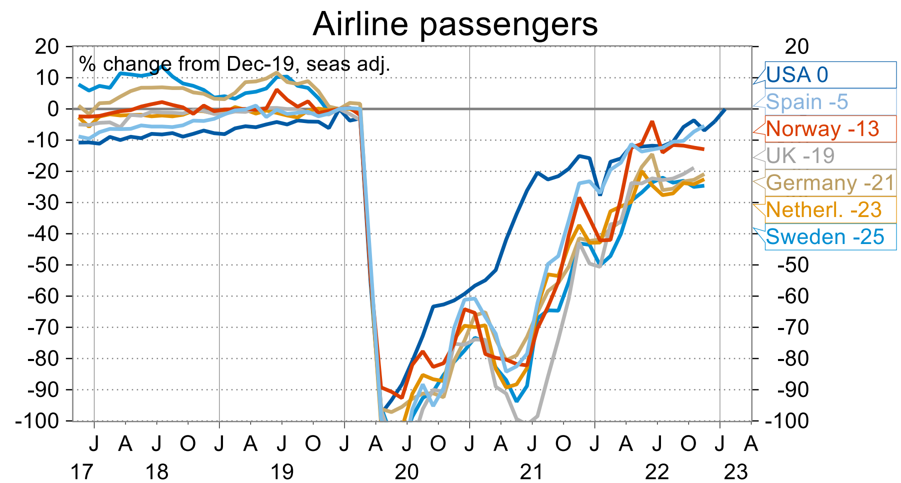
US retail sales: Personal consumption of goods, ex auto & energy

A strong start for global airline traffic in 2023 – down just 2% vs. 2019

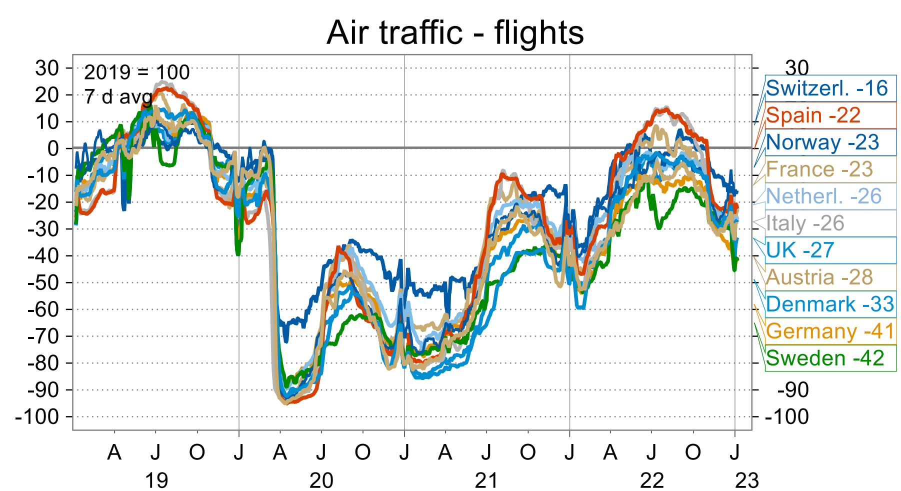
Had growth rates been normal the past 3 years, it should have been at least 12% above



Flightradar24 SB1 Markets/Macrobond



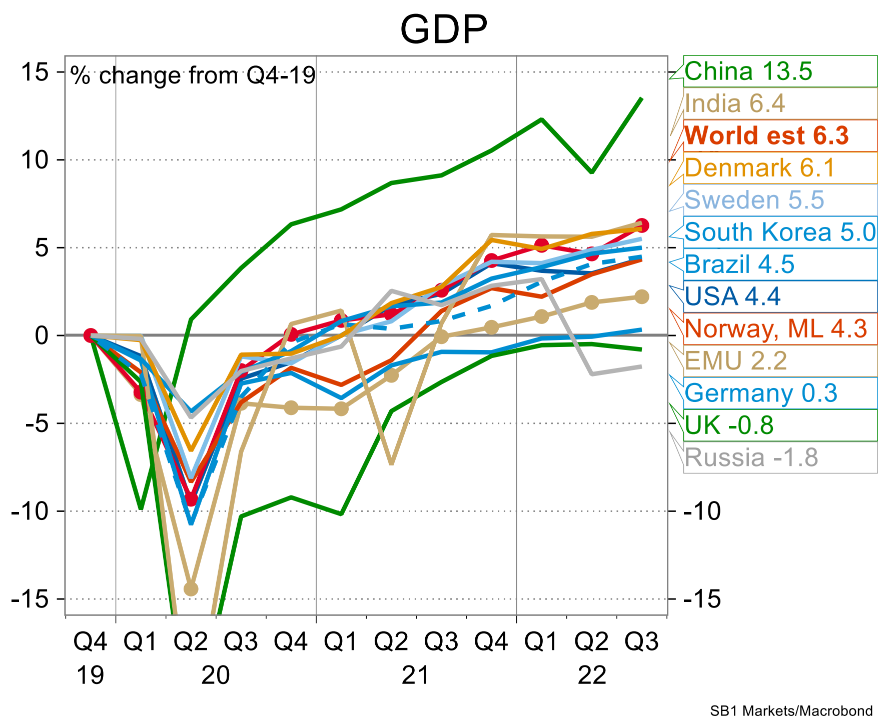
National authorities, SB1 Markets/Macrobond

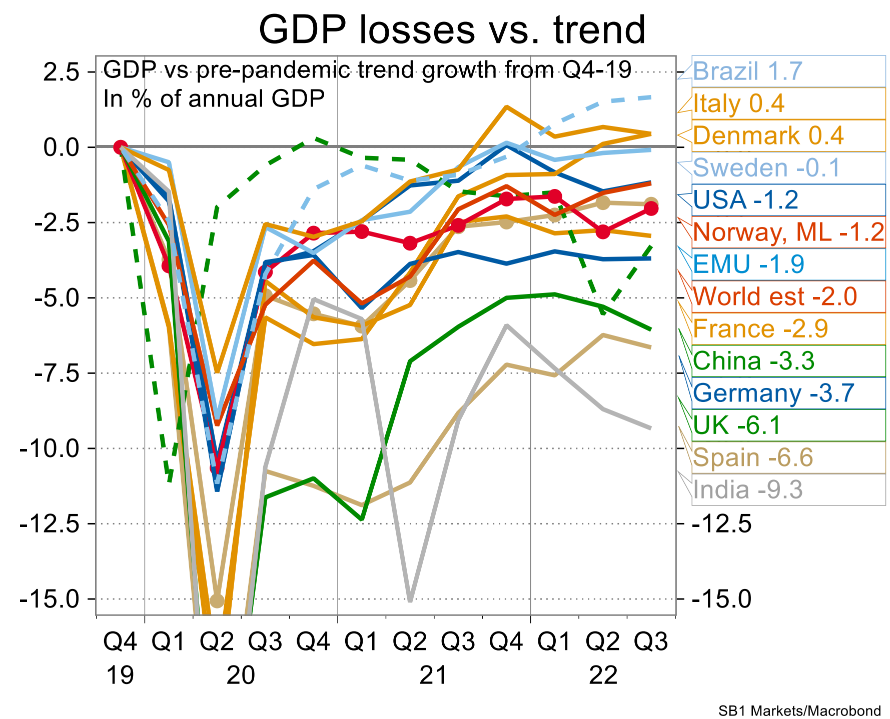


SB1 Markets/Macrobond

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

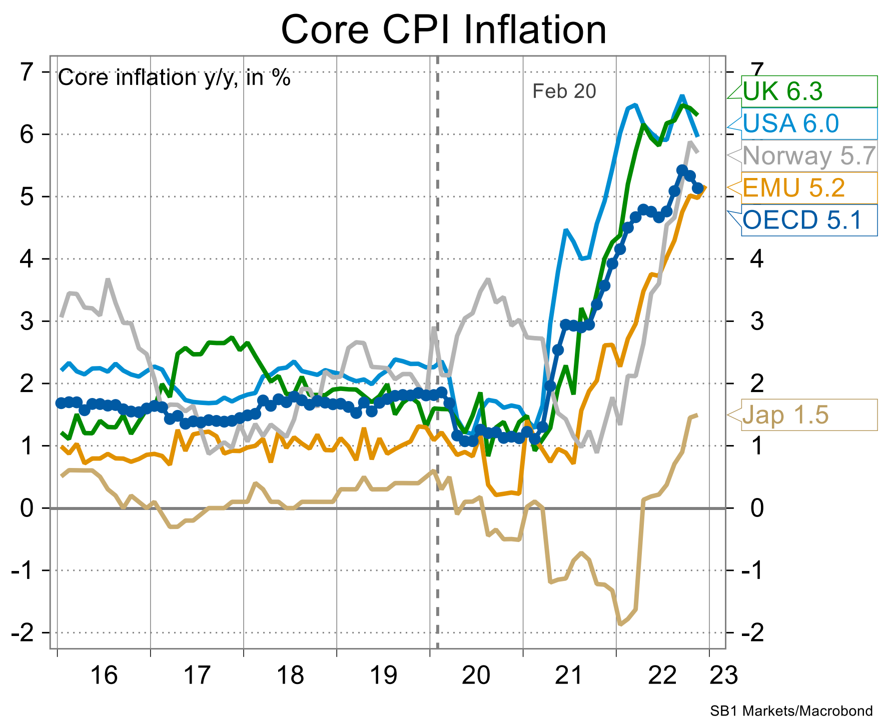


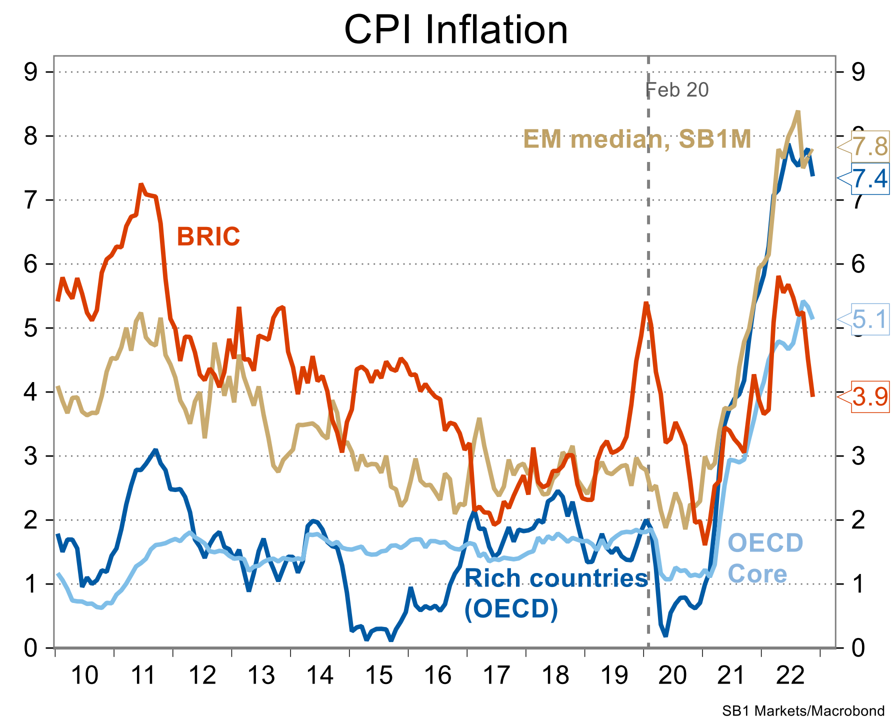


- Almost all countries are still reporting GDP levels that are far below the pre-pandemic trends – just Brazil, Italy (!) and Denmark are ahead

Peak inflation? Very likely, both in developed & emerging markets

The going rate in DM is still 7% - 11% headline inflation, and 5% - 6% core inflation

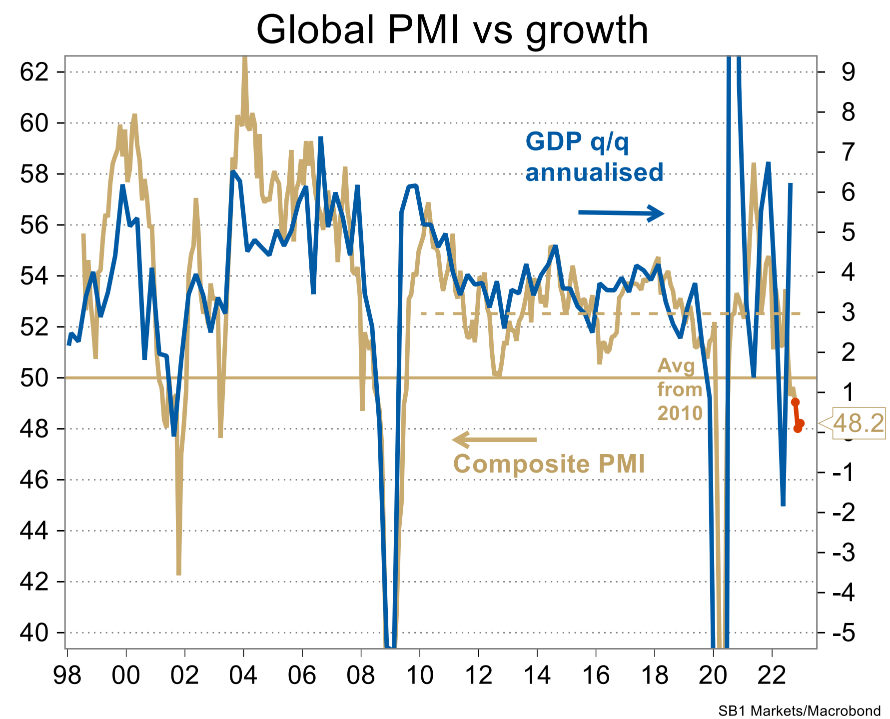


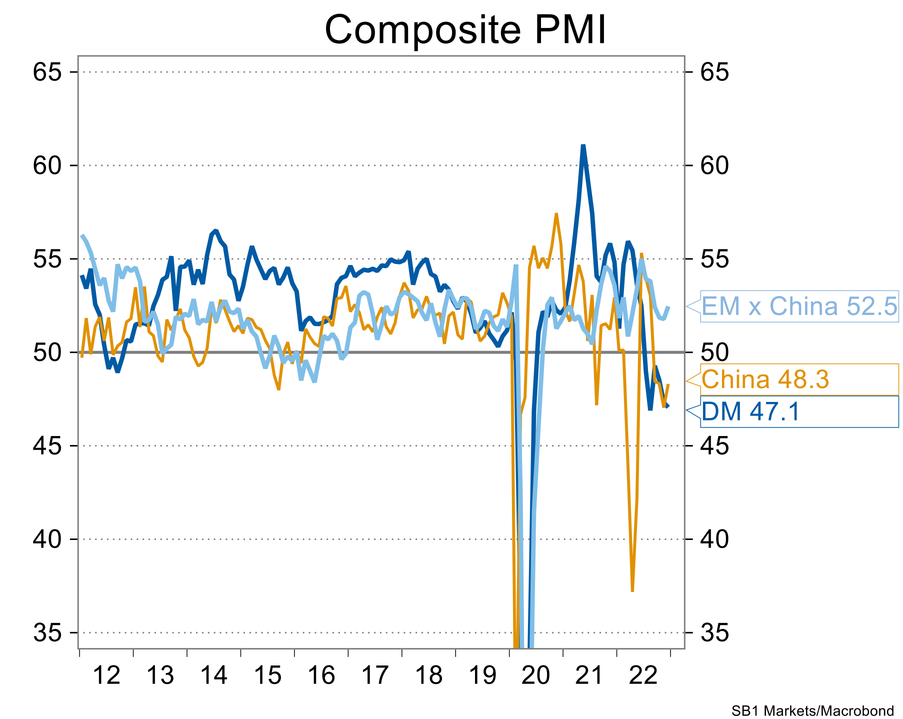


- We expect **inflation** to decline rapidly through 2023, as raw material prices and freight rates are declining, profit margins will come under pressure as demand, at least for goods, weakens in the rich part of the world. In the US, core goods prices are already declining (check next page)
- In Europe, the big uncertainty is of course **energy prices**. We still think the potential on the downside is larger than the risk to the upside, even if 2023 prices have fallen sharply recent weeks. Both demand and supply is adjusting to high prices – and prices will come down
- US has a wage cost challenge, EMU most likely has not – at least not until now. In the US wage inflation will slow the coming quarters as demand for labour weakens (the Fed will take care of that). The risk in Europe: Compensation claims in wage negotiations
- More wage/price charts on the next pages

The global PMI surprised us to the upside in Dec, thanks to China, India, EMU

The global index added 0.2 p to 48.2, we expected a 0.6 p drop! Still, just a marginal growth in global GDP is signalled

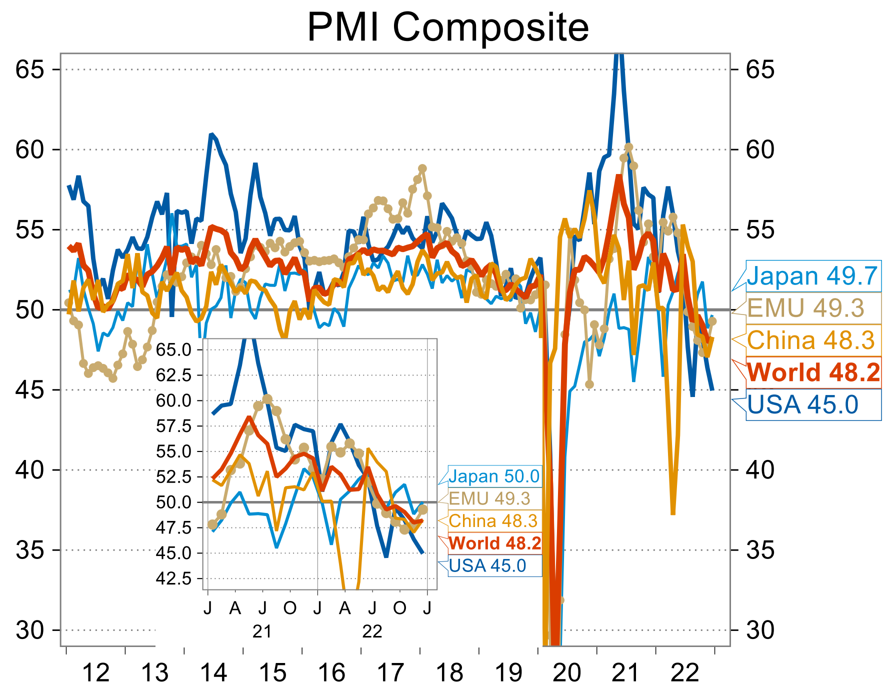




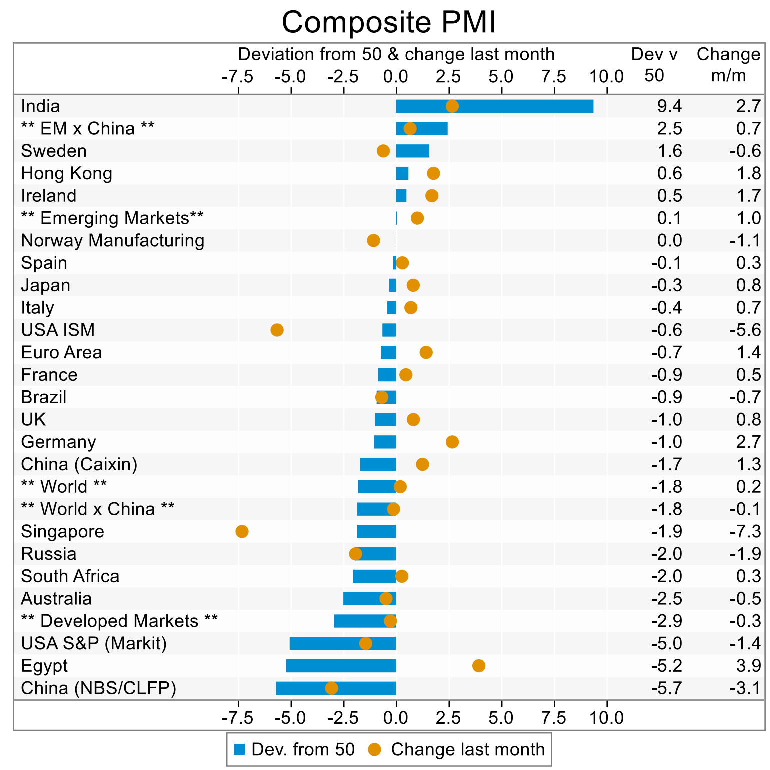
- The output component in the manufacturing PMI rose slightly, services were flat, both below 50
- Developed countries further down, even in the EMU index rose 2.5 p (and even more than initially reported)
- The Chinese index rose (Caixin's index which enters the global PMI, the NBS PMI fell sharply)
- Other EMs reported a small decline on average, but the level remains well above 50, with India in the lead, at 59.4

15 countries/regions up 12 down in December

19 countries/regions below the 50 line (including China, EMU, UK, US); 6 are above, with India at the top



Source: IHS Markit, SB1 Markets, Macrobond

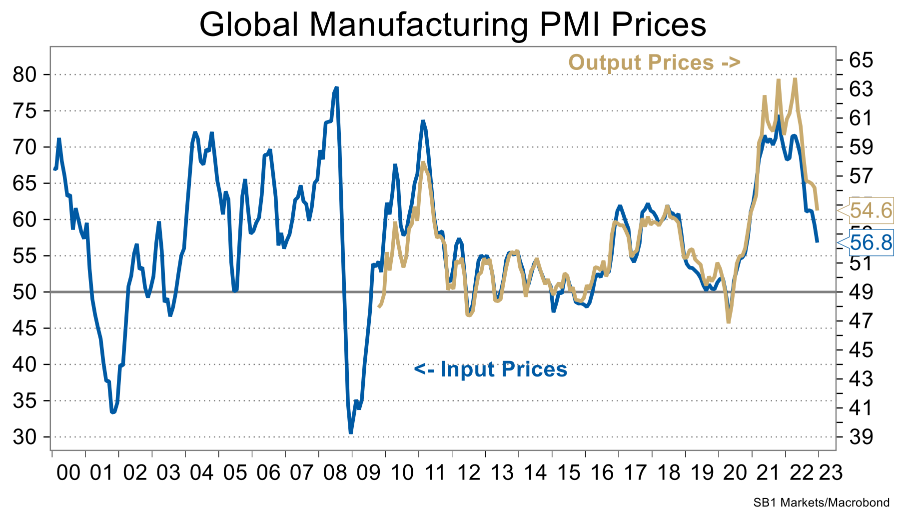


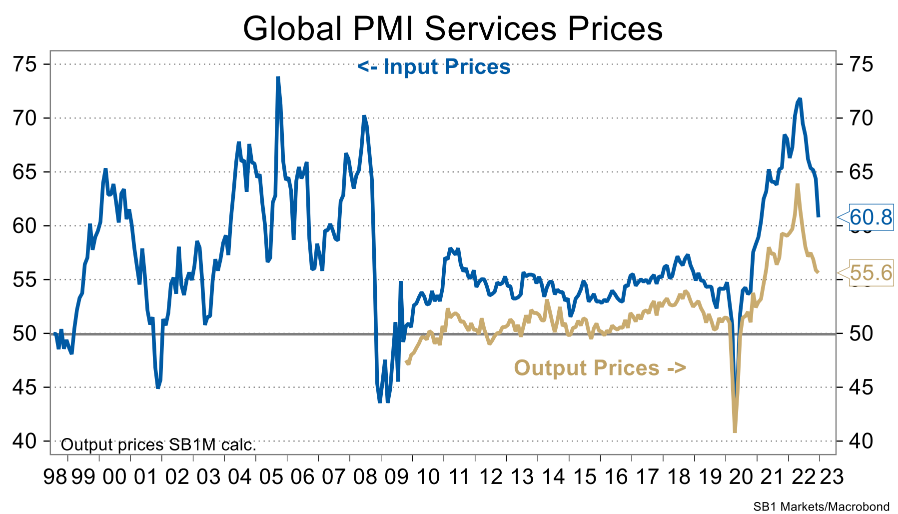
SB1 Markets/Macrobond

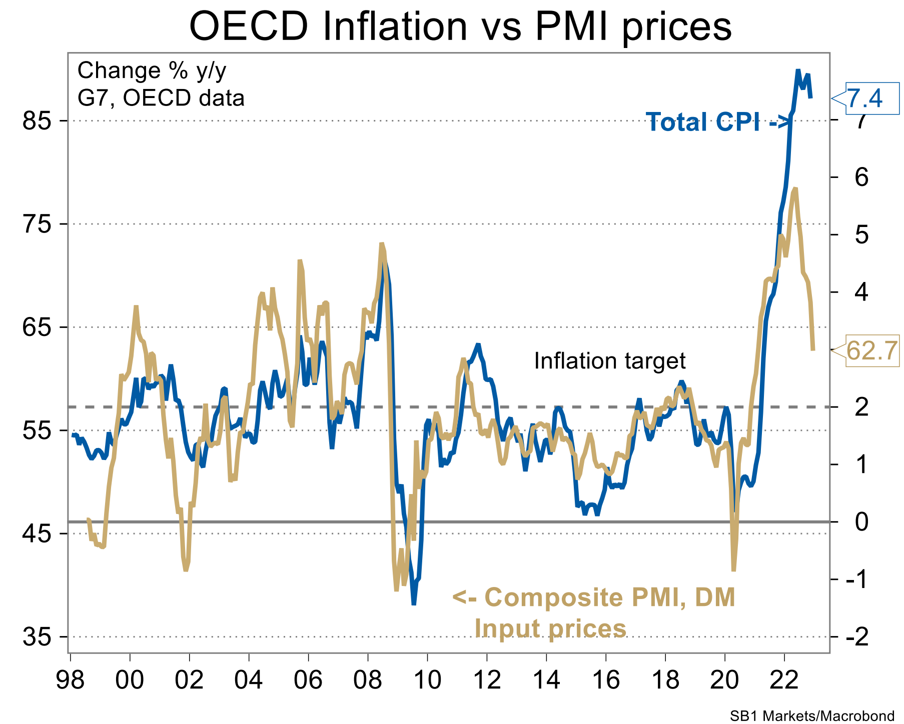
- **The rich countries'** (Developed Markets, DM) PMIs fell by 0.3 p to 47.1, almost all DMs are below the 50 line!
  - A couple of exceptions: The **Swedish** composite PMI is still above 50 due to strength in the service sector, and Ireland
- The **US ISM** survey is not included in the global PMI but it reported the 2nd largest decline in December, due to a 'collapse' in services (check details further out in the report)
- The **Chinese NBS survey** (which is not included in the global PMI) also fell sharply – and to the bottom of the list. **Caixin's PMI** was better though, a small increase was reported
- **India** is at the top of the list – and is reporting strong growth
- (**Norway** does not compete in this league, we just have a manufacturing PMI. The Nov index would have yielded a 4th place in the composite race, if aggregates are excluded)

Price increases are slowing RAPIDLY, according to the PMIs

Price indices are not fully back to an average level, especially in services. But the direction is set

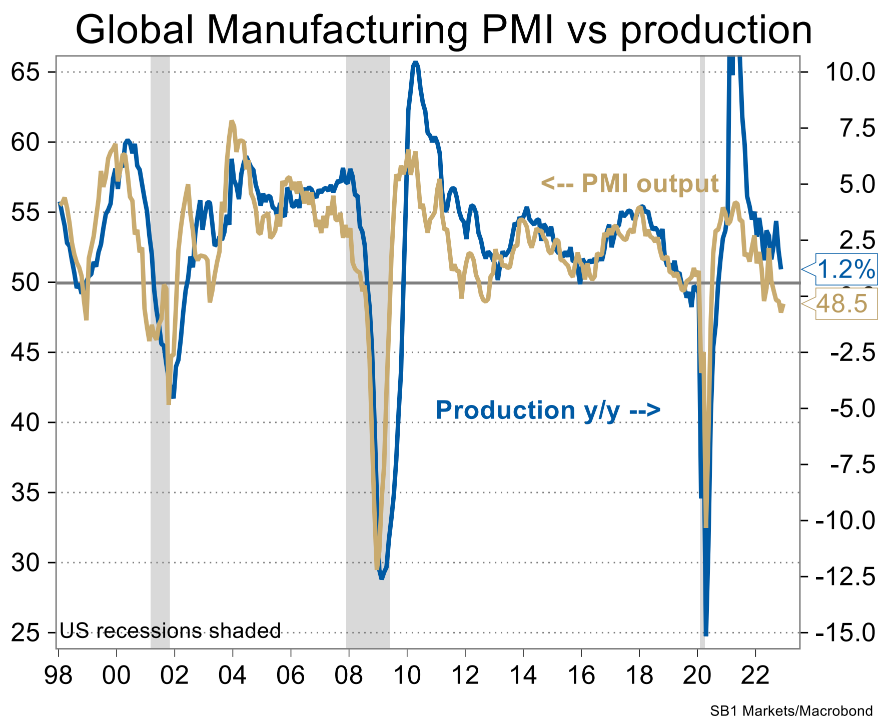




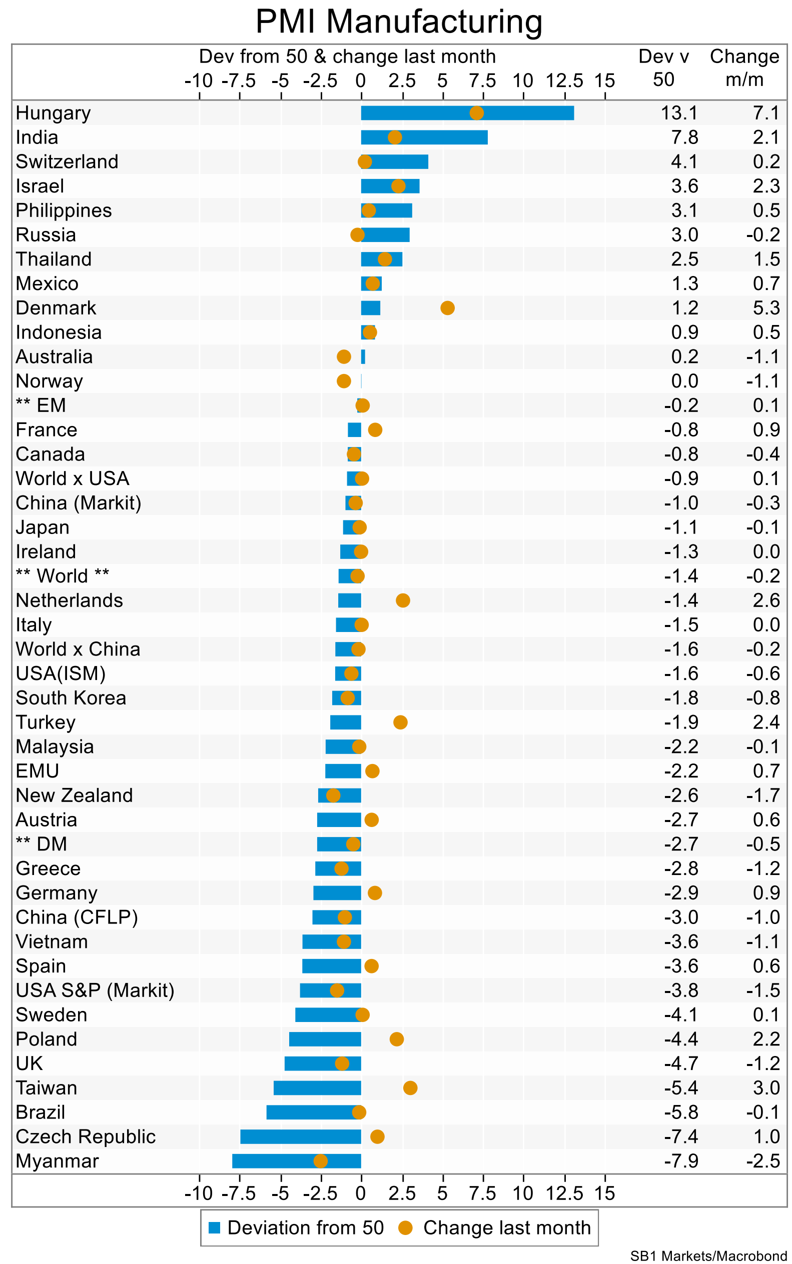


A further decline in the global manufacturing PMI, while production is still OK

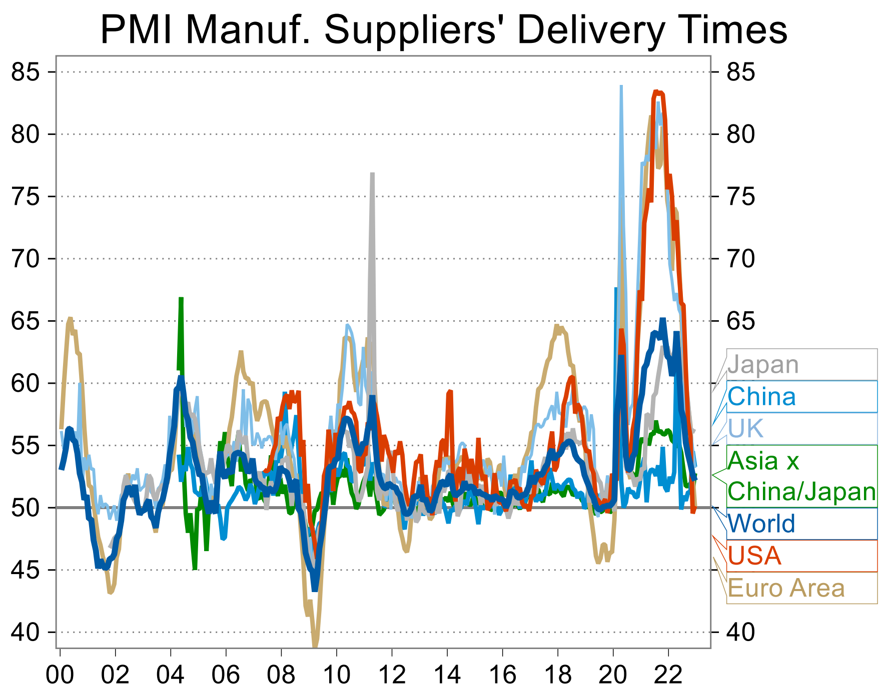
53% of the PMIs were up in Dec, but 71% are below the 50-line



- **The manufacturing total** index fell 0.2 p to 48.5, while the **output** index added 0.2 p to 48.5 – <u>signalling a decline in production</u>
- **Rich countries** are far weaker than Emerging Markets, measured by the total index. Also measured by the new order index, EM x China at 50.4 (and trending flat) are ahead of DM, which has 'collapsed' to 43.5!
- **Norway's** manufacturing PMI fell further in Dec, to 50,0, sending Norway down to no.12 on the list
- **Sweden** has fallen rapidly recent months, but was up 0.1 p in Dec, to 45.9 – still a dismal reading



Delivery times have fully normalised, and price increased are slowing rapidly



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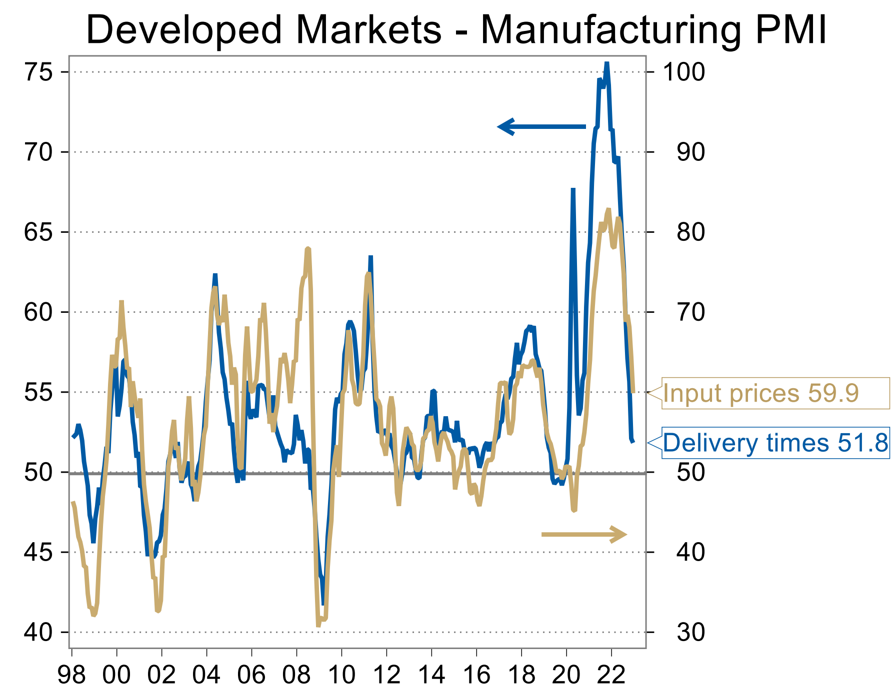

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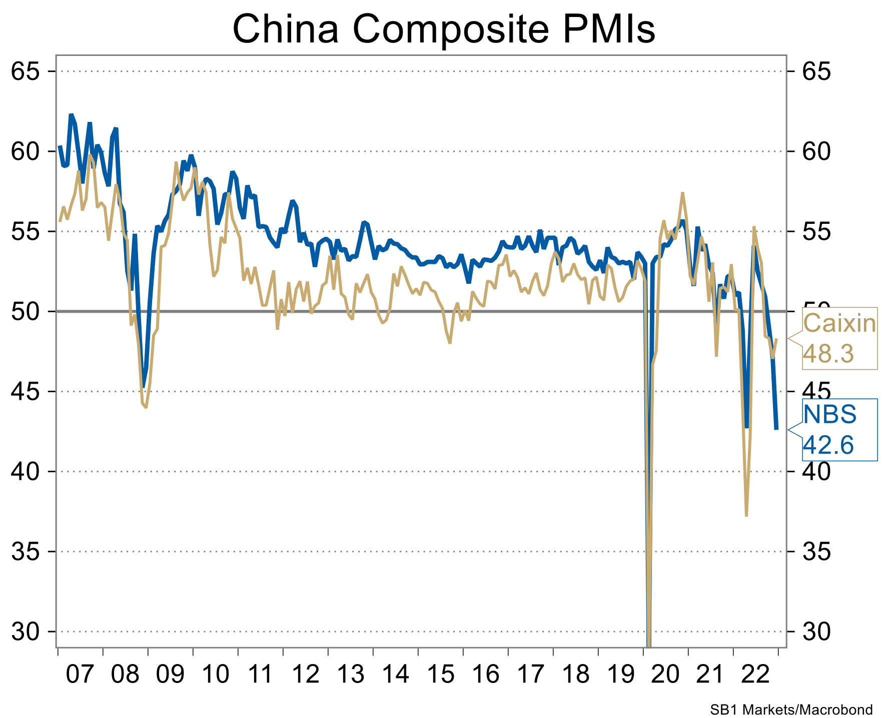
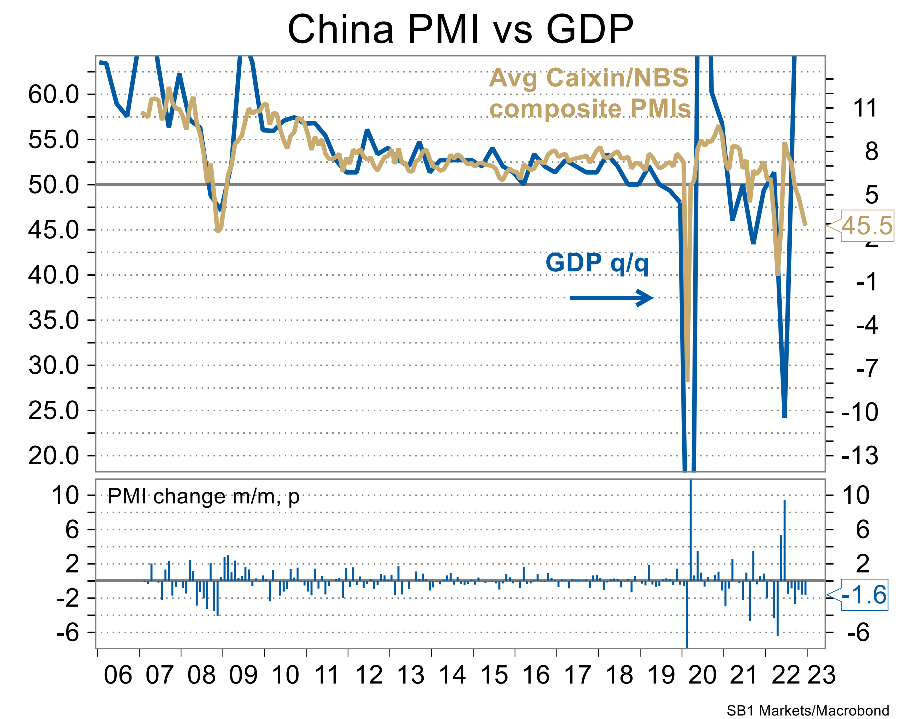
Another downturn in December, <u>after</u> Covid restrictions were lifted

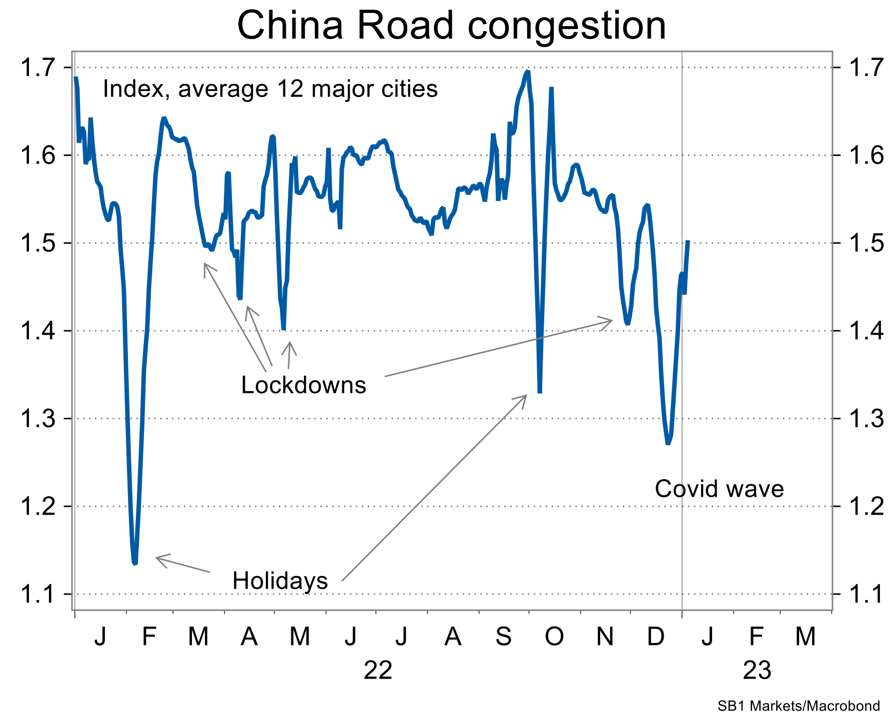
The NBS/CFLP PMIs fell sharply to a very low level (42.6), while the Caixin survey rose – but remains weak (48.3)





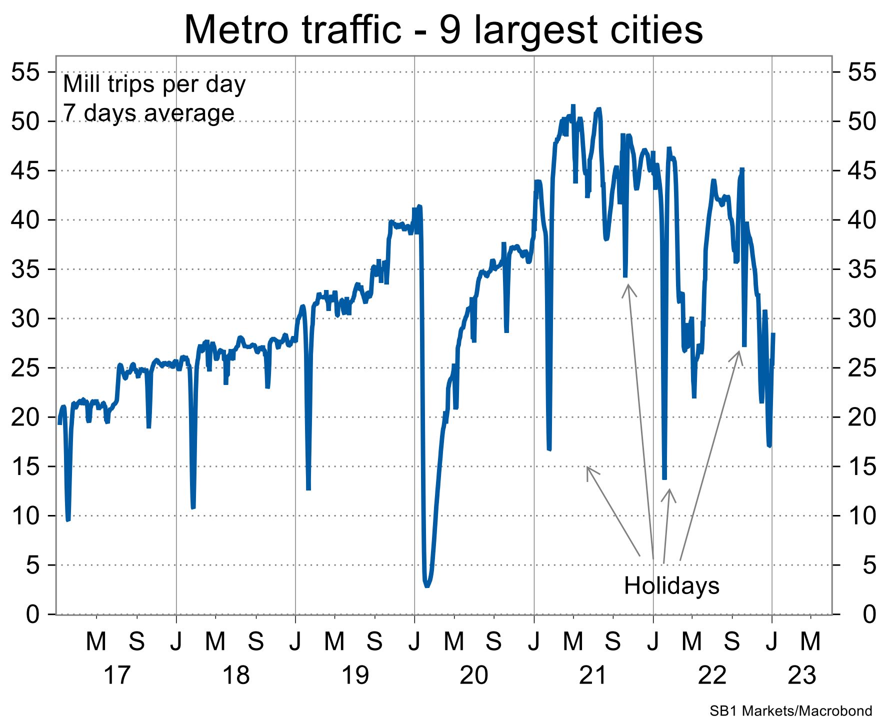
- The **NBS/CFLP composite PMI** fell by 4.5 p to 42.6, the 2th lowest level, just Feb-20 was lower, expected just marginally down. Both manufacturing and services contributed at the downside, services the most (published the previous week-end)
- However, last week Caixin reported an uptick int its **PMI**, due to an increase in services – rather surprising given the steep decline in the NBS survey. The composite index gained 1.3 to 48.3, well above expectations
- The average of the two data sets fell 1.6 p to 45.5, an unusual weak print but still well <u>above</u> the level during the lockdown wave in last April. The aggregate signals around 3% growth in GDP
- No doubt, the wild spread of the virus following the **abrupt change in Covid policy** from early December is now hitting the Chinese economy as people are sick or self-isolate themselves. 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. Mobility may already be on the way up, check 5 pages forward

Road traffic down in mid December, has now recovered



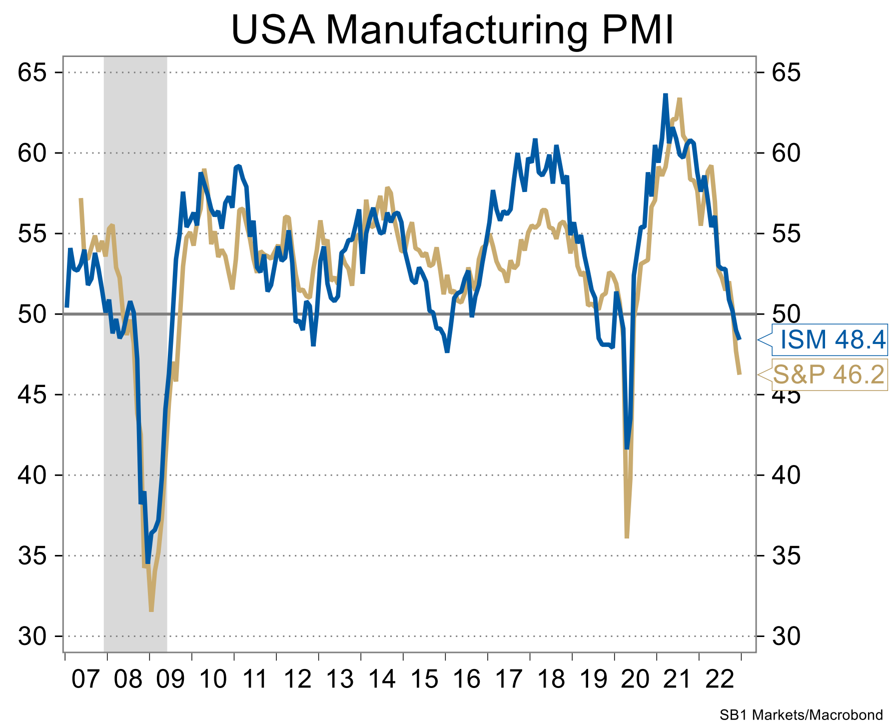
Metro traffic is still on the low side – and airline traffic is very low (Nov data)

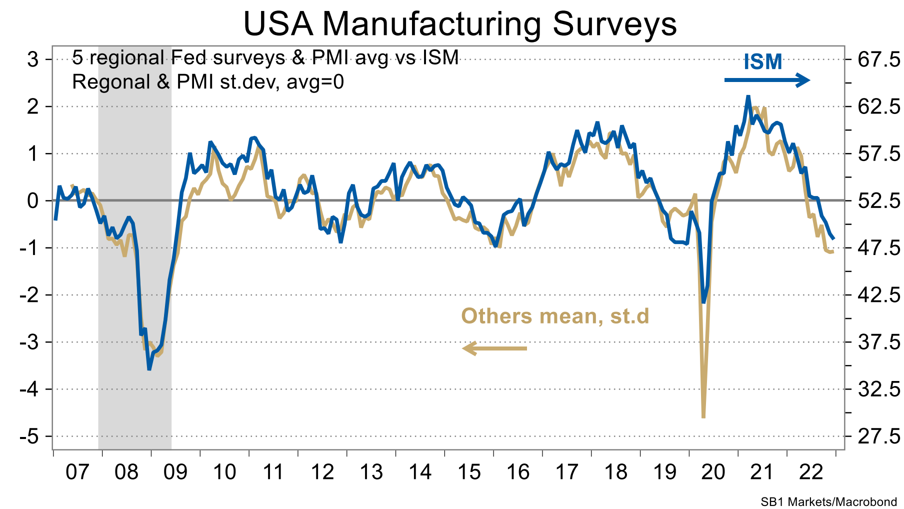
We are quite confident: not before too long, both will return to (more or less) normal levels

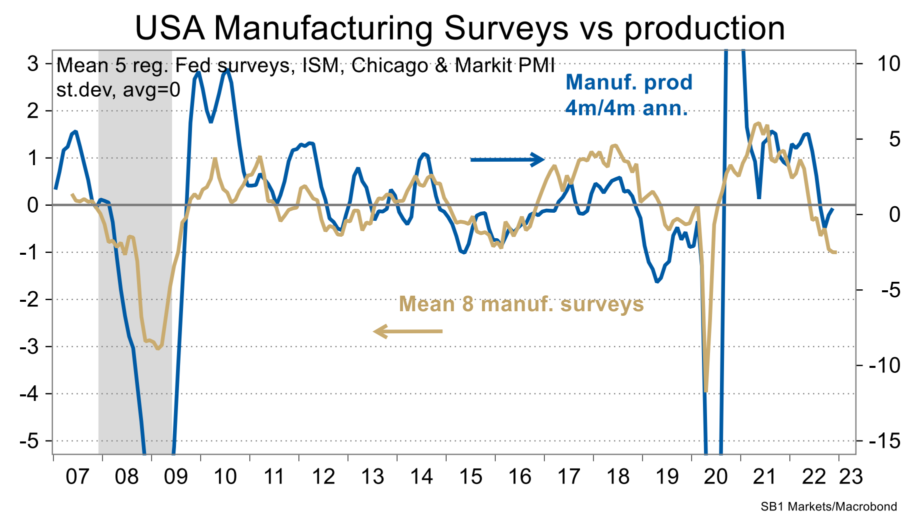


Manufacturing surveys: below the ’50-line’; production has just flattened

The ISM fell 0.6 p to 48.4, expected 48.5. S&P’s PMI -1.5 p to 46.2 (like the first estimate)



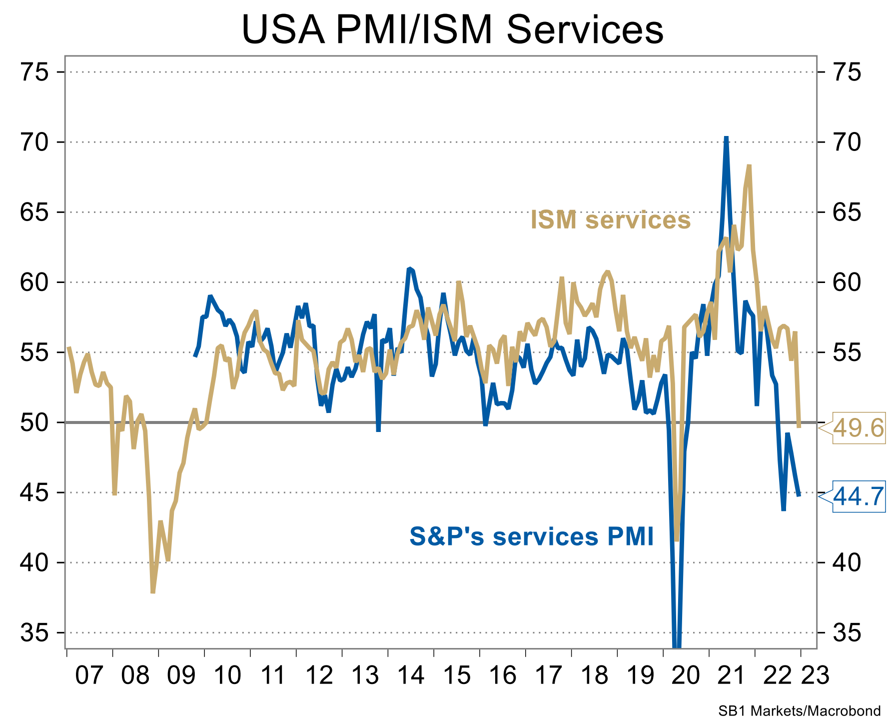


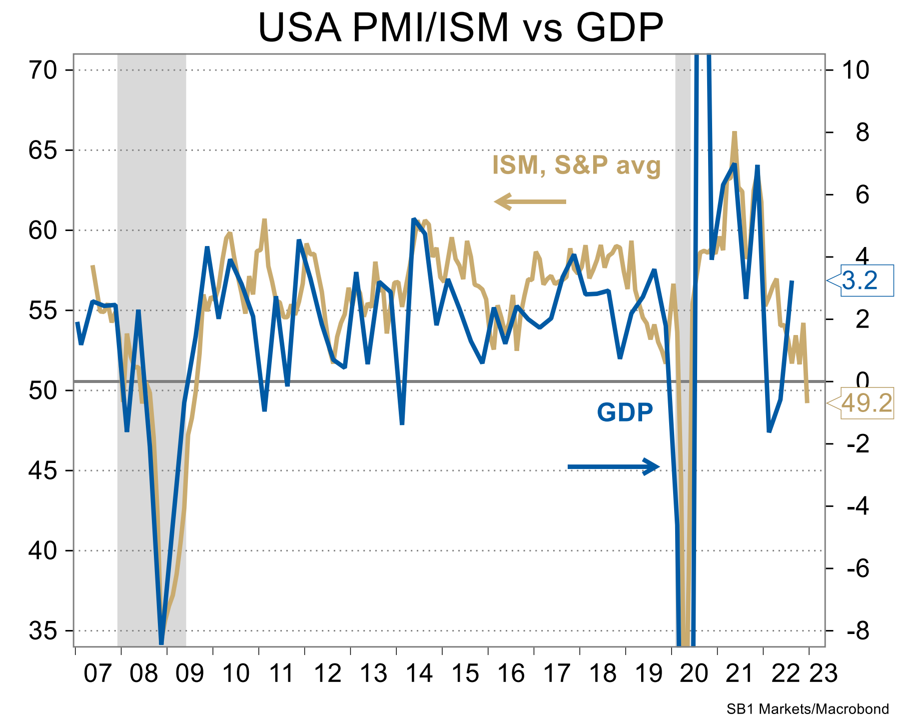


- Both the **ISM, the S&P’s PMI and a bunch of regional Fed surveys** are heading straight down, and almost all are below average, and below the ‘50-line’ (named ‘zero’ in some surveys)
  - Other surveys are on average weaker than the ISM, at a level equalling 47.3
- We expect a continued slowdown the coming months, as orders are unusually weak (if not deep into a recession)
- **Production** will most likely follow suit, even without a further weakening of the these surveys – they are already reporting a setback in the manufacturing sector

Mind the closing gap: ISM services collapsed, the 3rd largest decline ever

The decline came totally out of the blue, and contributed to the decline in bond yields on Friday





- The **ISM services** index fell 6.9 in December, to 49.6, expected down 1.5 p. The new order index fell by 10.8 p to 44.2, and the employment index fell by 1.7 p to just below 50. On a positive note, the activity index, which also collapsed by 10 p was still at 54.6. 11 sub-sectors reported growth in activity (from 13), while 6 contacted (from 3). But just 5 sub-sectors reported growth in orders, 8 a decline. So, the overall message is clear, something suddenly hit the service sector in December. Comments were in general much weaker than signalled by the actual index number, like last month
- **S&P's services PMI** (aka Markit's) was 0.3 p better than the initial estimate, but still fell further by 0.5 p to 44.7, a very low level. The composite PMI was revised up by 0.4 p to 45.0, still down 1.5 p from November
- The gap between the two service surveys has been large recent months. Now the gap is far smaller – as the ISM survey gave in
- The **average** of the composite ISM (our calculus) and PMI fell by 5 p to 49.2, the first time below 50 since the pandemic, and than since the Financial Crisis. Which does not signal strong growth in GDP…

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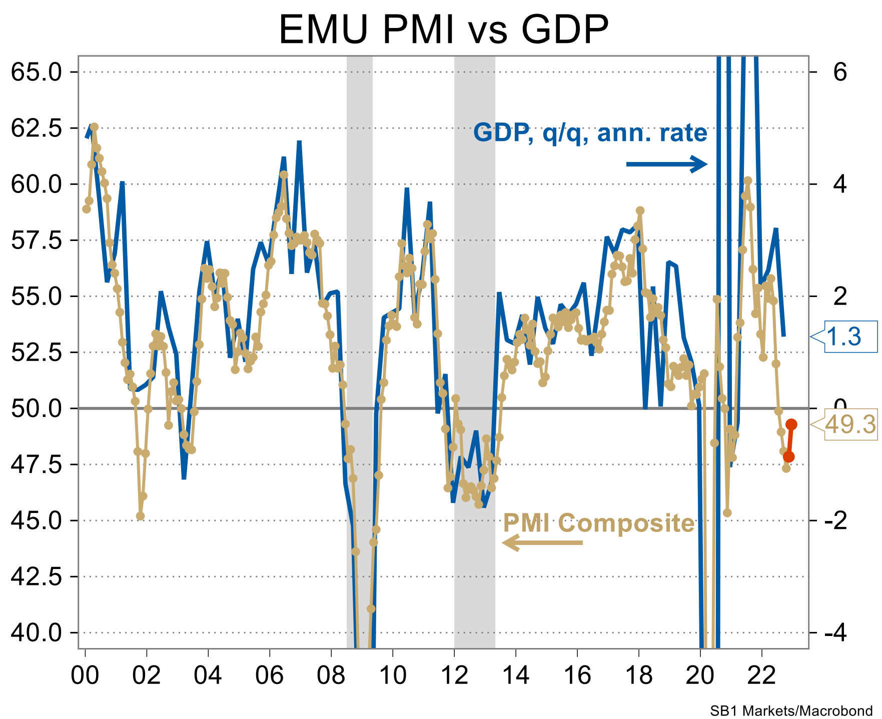
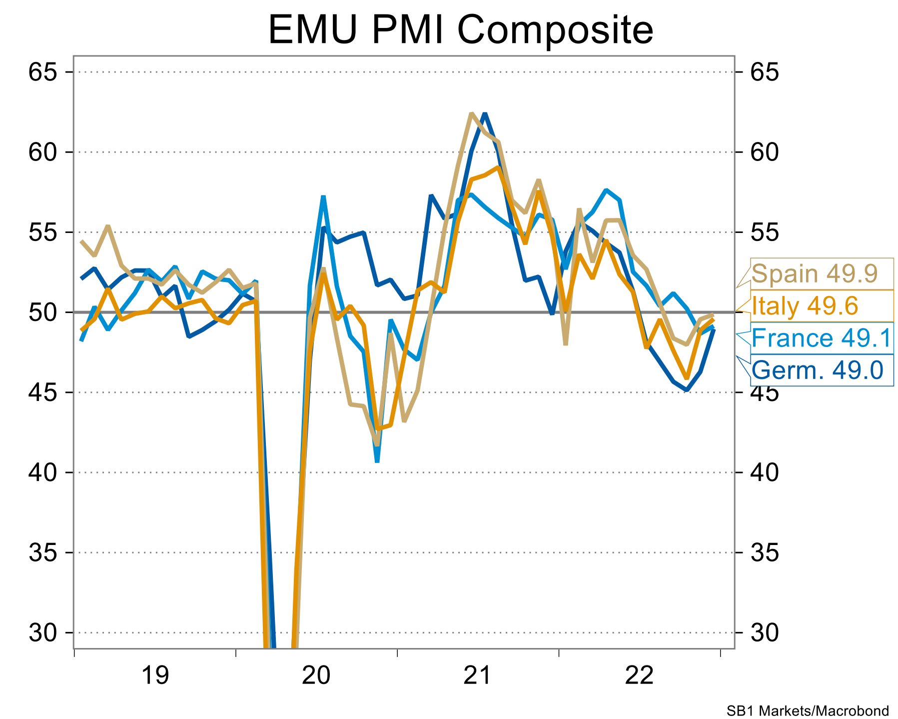
Eurozone PMIs revised up; still in contractionary territory for the 6th month

The composite up 2.5 p to 49.3, 0.5 p better than the first estimate; data stronger (or less weak) everywhere





- The EMU composite PMI was 0.5 p above the flash estimate, and up 2.5 p from November- originally expected down! All of the main of the countries contributed on the upside, Germany the most. The Spanish service sector expanded further, and the PMI increased by 0.4 to 51.6. However, all other services sector PMIs and manufacturing PMI were still in contraction mode
- The **manufacturing PMI** and the **manufacturing output** index, and the **service PMI** were all up in December
- The sum of the parts for the Eurozone now points to 'just' around a 0.3% contraction in GDP. In Q3, GDP grew 1.3%
- The December PMIs, like the previous months, bear sign of higher energy costs and higher interest rates, as well as lower global demand, as demonstrated by the low new order indices. The PMI data are still signalling a recession but now just marginally

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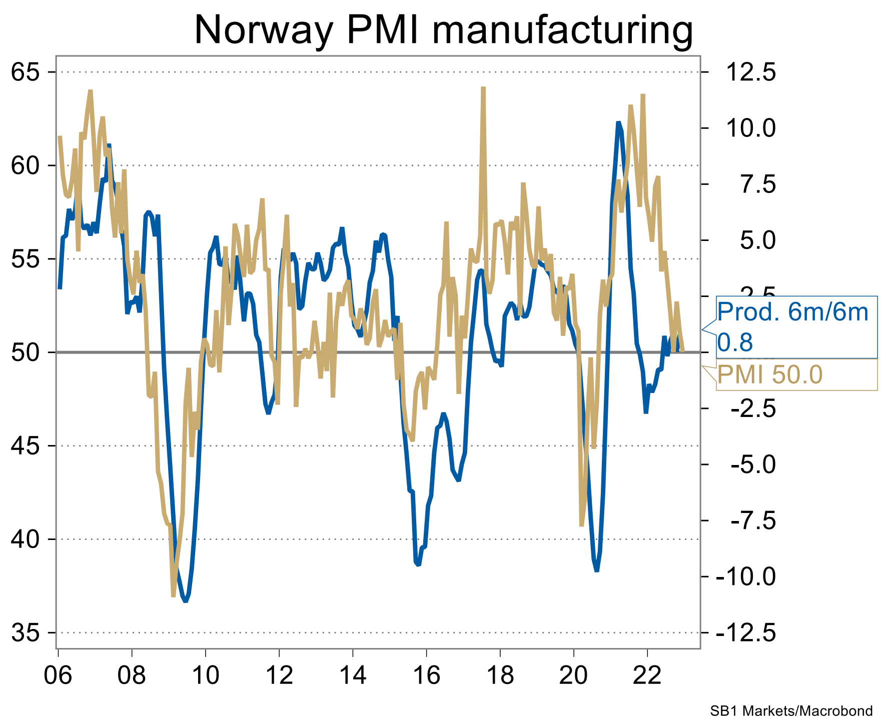
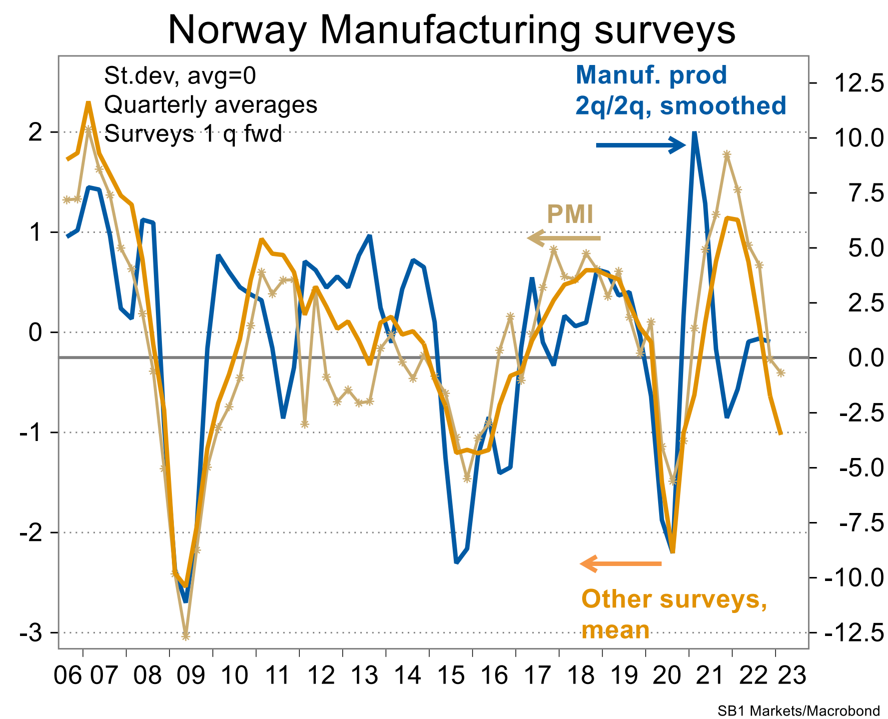
The Norwegian manufacturing PMI fell further in December, to the 50 line

Most sub-indices were down, but inventories increased, and that is not necessarily a good thing…

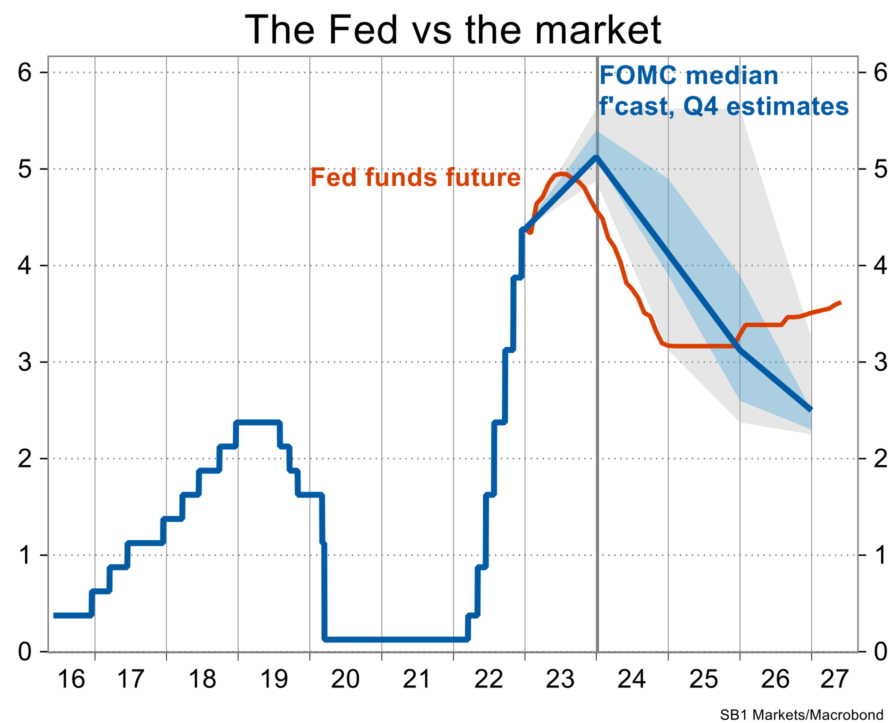




- The **manufacturing PMI index** fell 1.1 p to 50.0 in December (November was revised down by 0.1 p), and the trend is clearly down
- Other **manufacturing surveys** are also on the weak side, like the SSB survey, NHO and Norges Banks' Regional Network
- **Actual production** has been trending down since early 2021, and has – at best – stabilised recent months. Production was in fact down 0.5% m/m in November, and even oil-related manufacturing declined

The market thinks the Fed will cut rates in H2, the minutes states otherwise

Minutes did not reveal anything new – but send a signal that the Fed is nowhere ready to even think about cutting rates

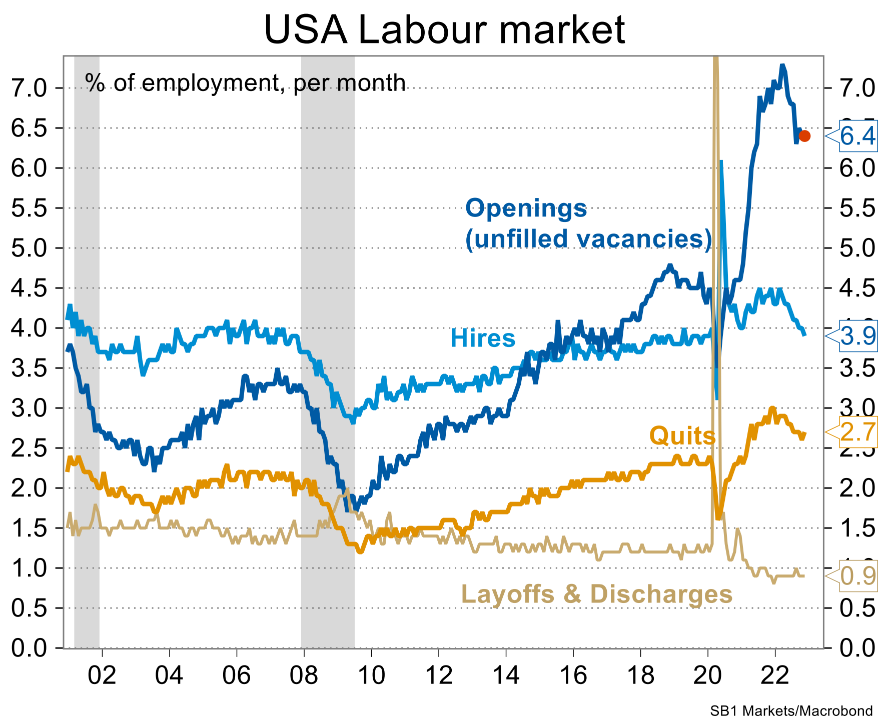


- The markets took the minutes with a sigh, leaving rates largely unch., despite the warning that market participants are pricing in a lower rate curve than what the Fed sees – <u>one of them will be mistaken – either the downturn will be deeper than the Fed foresees and the Bank will be forced to cut, in line with market expectations, or there will be a soft landing or the Fed will whether the downturn and keep rates higher for longer, as the fight against inflation is more important than growth in the short-run</u>

- **The minutes** reiterated the Fed's hawkish stance and the fact that there is still work to do to get inflation back to the 2%-target
- The minutes also made it clear that **the Fed is not even close to discussing rate cuts anytime soon**, fearing a repeat of the mistakes made in the Volcker-period. The statement is pretty clear: "No participants anticipated that it would be appropriate to begin reducing the federal funds rate target in 2023. Participants generally observed that a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2 percent, which was likely to take some time. In view of the persistent and unacceptably high level of inflation, several participants commented that historical experience cautioned against prematurely loosening monetary policy."
- **As for the risks, they are clearly on the downside** according to the committee, as more persistent inflation could call for an even more restrictive policy and negative shocks to an already cooling economy could spark a recession – but it seems that the Committee's stance is still that the risk of tightening too little is greater than the risk of tightening too much
- **The FOMC members also showed some concern over the communication and market expectations to the monetary policy:** "Participants noted that, because monetary policy worked importantly through financial markets, an unwarranted easing in financial conditions, especially if driven by a misperception by the public of the Committee's reaction function, would complicate the Committee's effort to restore price stability. Several participants commented that the medians of participants' assessments for the appropriate path of the federal funds rate in the Summary of Economic Projections, which tracked notably above market-based measures of policy rate expectations, underscored the Committee's strong commitment to returning inflation to its 2-percent goal."

The vacancy rate refuses to decline, has flattened at very high level

The tide has turned, but the labour market is still very tight and wage inflation will quite likely remain too high



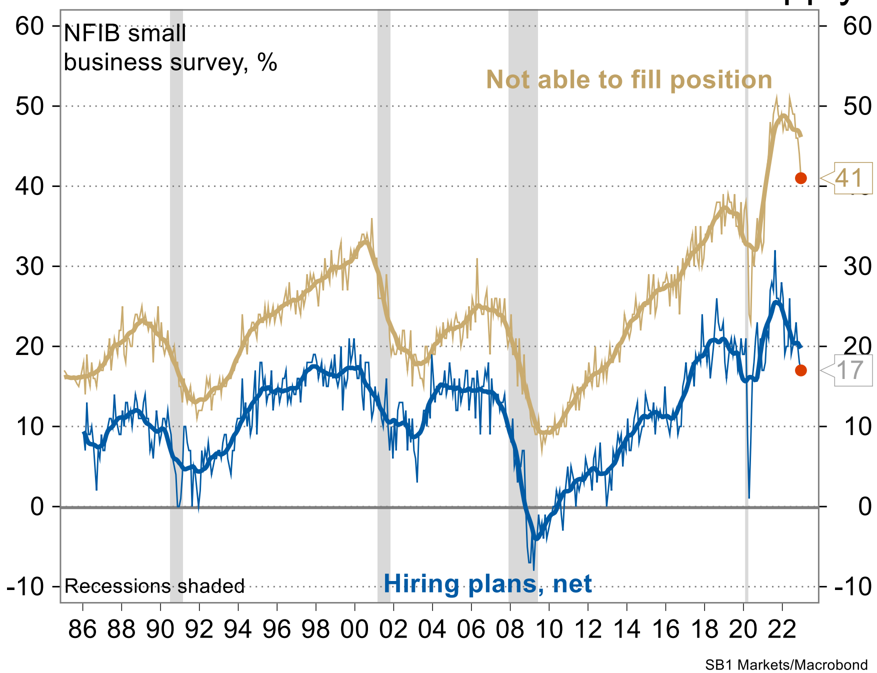
- **In sum:**
  The tide has turned but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a substantial further weakening. Job openings are no doubt stickier that what the Fed has hoped for, and are leading unemployment by some few months, though not by a stable lag (but the correlation is high). Actual unemployment was down 0.1 pp to 3.5% in Dec. New jobless claims, which leads the unemployment rate rose somewhat two weeks ago fell back again last week

- The number of **unfilled vacancies** fell by 50' to 10.46 mill, though up from prev. reported 10.33 mill in Oct, and far higher than the expected 10.0 mill. The vacancy rate was 6.4%, up from the original 6.3% Oct estimate
  - Vacancies are down from the peak in March (7.3%) but the level is still way above anything seen before. The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit
- **New hires** fell by 56' to 6.1 mill in November, equalling 3.9% of the employment level. This is indicating an easing of the labour market, but the level is, of course, still high
- The number of **voluntary quits** rose 0.1 mill to 4.2 mill, leaving the rate to employment at 2.7%, down from 3% at the peak. The trend is down, signalling that workers have become somewhat more cautious leaving their current jobs – but the quit level is still higher than anytime before the post pandemic surge – and the rate rose in Nov!
- **Layoffs** equalled 0.9% of employment in Nov, unch. from Oct – still not signalling any take-off in downsizing (the Challenger survey also counted less layoffs in December, but still more than the long-term avg. Check some pages fwd)
- **The SMBs (NFIB survey)** reported that 41% of companies were not able to fill positions in December, down 2 pp from Nov, still a high level. Hiring plans were down by 1 pp, but remains well above average – and the share saying that they are increasing compensation rose, and remains very high

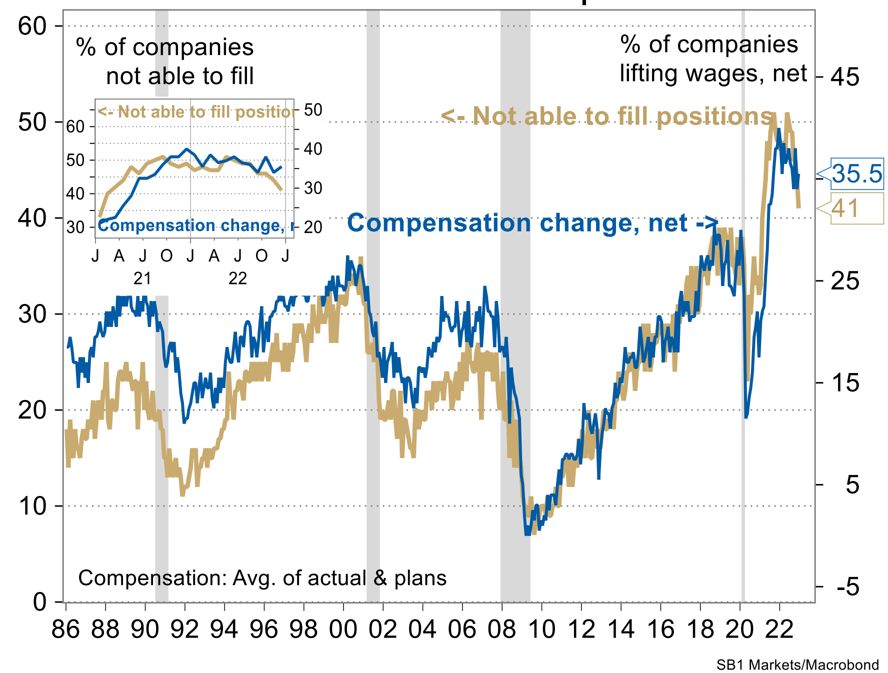
SMEs cut back hiring plans, and report less problems filling positions

Still companies are struggling to fill vacancies, and compensation plans were revised upwards in December!

USA Small businesses labour demand/supply



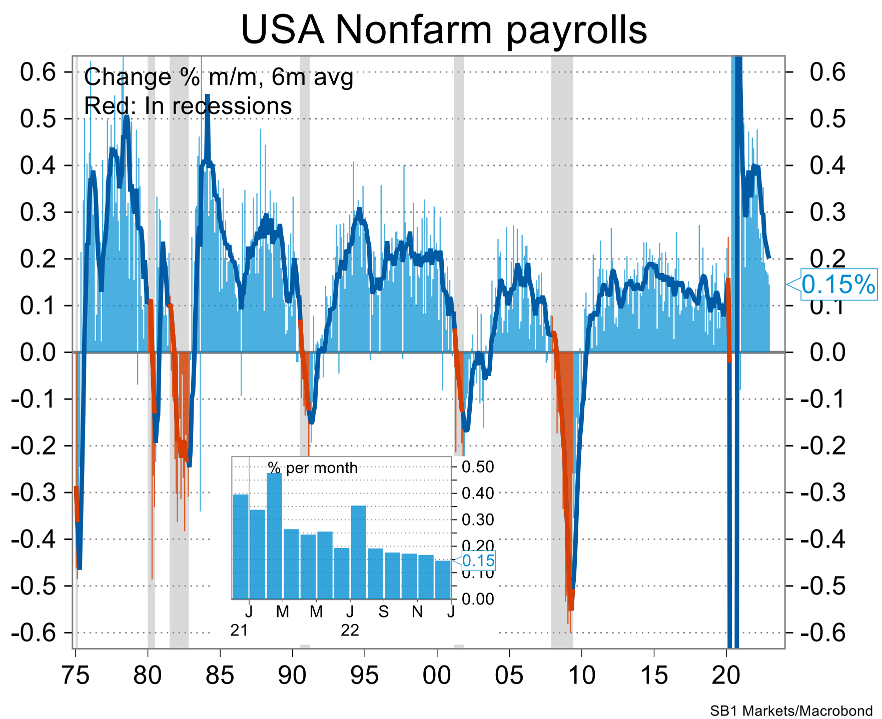
USA Vacancies vs. compensation

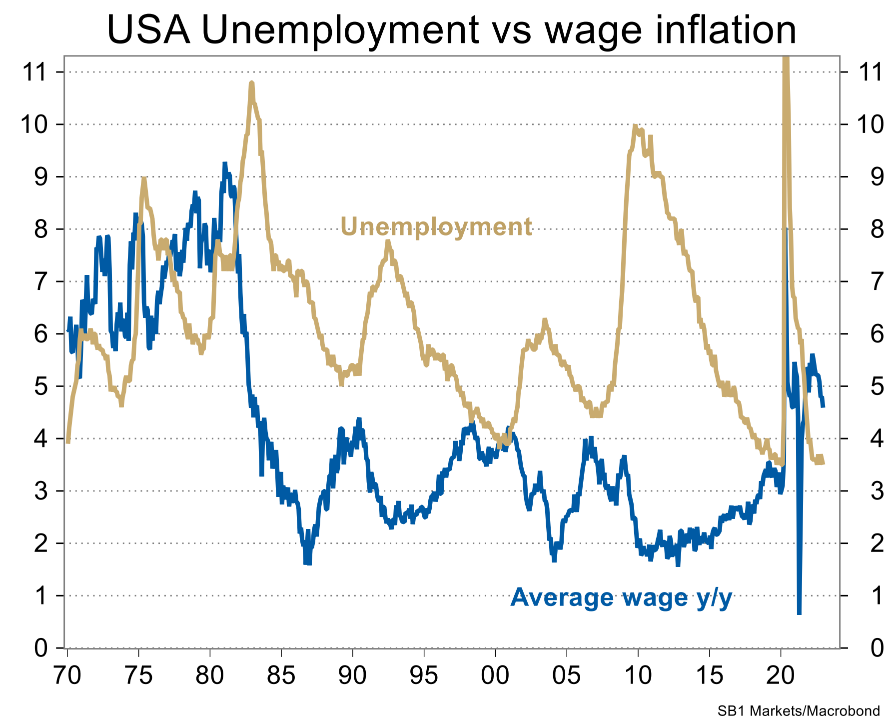


- 41% of SME's report they are **not able to fill open positions** in December, down from 44% in November, and 51% at the peak. The average level is some 22%, and the highest before the pandemic was 39%
- 17% of companies **plan to hire**, down 1 pp from Nov, and well below the 32% at the peak in Aug-21. The trend is straight down but the level is still well above an average 12% level
- 36% of companies report that they **plan to lift compensation** in the coming months, up from 34% in November. The peak was at 40% Dec-21. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth – has been at approx. 20%
- There is still *a ways to go*, but it has become somewhat shorter!

Employment growth is slowing, but still decent, and unemployment fell in Dec

The main news was a downward revision of wage inflation – and moderate growth m/m in December



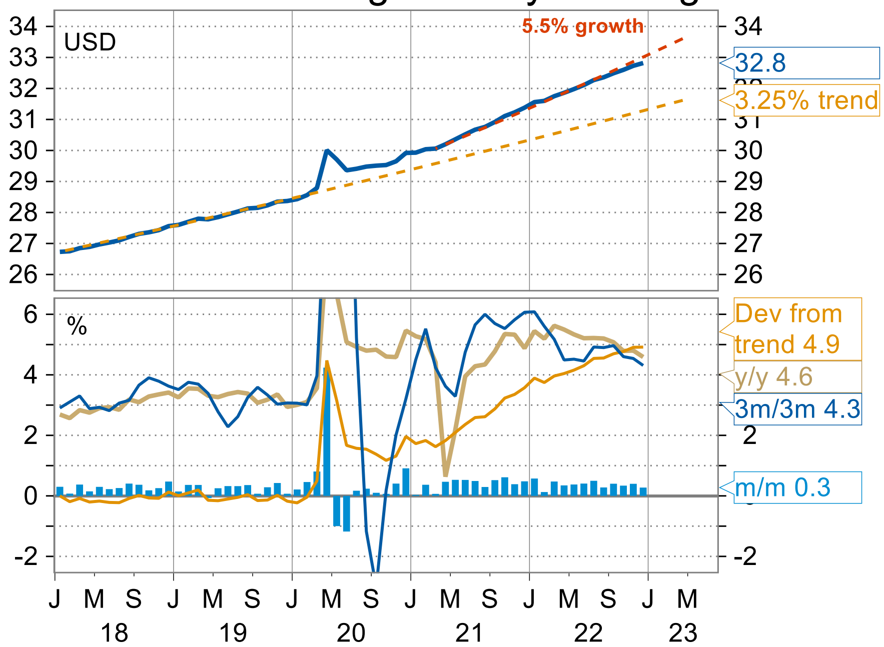


- **Nonfarm payrolls** rose by 223' in December, expected 200', down from 256' and growth is gradually slowing. The LFS employment gained 0.4% (from -0.1%, and the **employment rate** was up 0.2 pp 61.1%. The rate has flattened since March – not a signal of strength
- **The participation rate** increased by 0.1 pp to 62.3%, expected up to 62.2%. The level has been flat so far this year
- The **unemployment rate** declined 0.1 pp to 3.5%, expected 3.7% (Nov was down by 0.1 pp). The FOMC expected a 3.7% rate in Q4
- **Wages** rose 0.3% in Dec, 0.1 pp less than expected, and history was revised down by 0.2 pp. Thus, the annual rate fell to 4.6%, expected at 5.0%. Last month, the rate surprised by 0.5 pp to the upside (0.2 pp due to revisions). Current wage data signal a decline in the underlying growth rate, but still above 4%. Average wages rose by 3¼% in 2019, and well below 3% in the years before – and the current rate of wage inflation remains too high to reach the 2% PCE target over time
- **The market:** Both short term interest rates & long term bond yields fell on the wage shortfall, and thereafter on the surprisingly large decline in the ISM services sector index, in sum by some 10 bps. Just 25 bps from the FOMC in Feb became 'a done deal'

Annual wage growth 0.4 pp lower than expected, and growth may be slowing

8 sectors (from 5 last month) report slower underlying (3m/3m) wage growth than 3 months ago.
6 sectors (from 7) report faster growth. Aggregate underlying wage growth 4.3%, down from 5.1% estimated last month

USA Average Hourly Earnings



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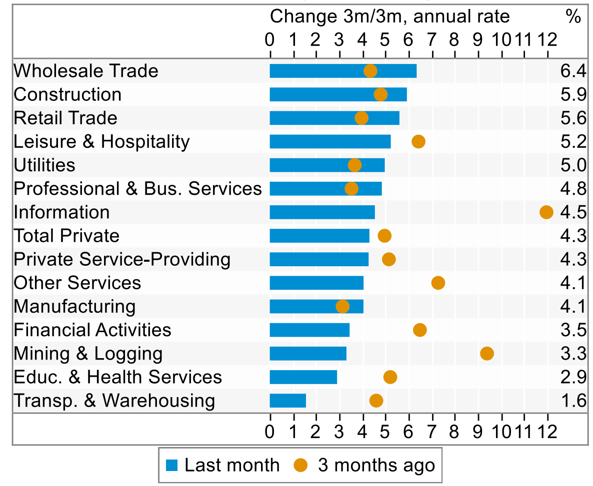
- The **average wage** rose by 0.3% in December, 0.1 pp less than expected. Annual wage inflation fell to 4.6%, expected 5.0%. Last month the surprise/revision went the opposite way, 0.5 pp higher than expected
  - Underlying (3m/3m) fell to 4.3%, sharply down from the previously reported 5.1% in November (now estimated to 4.5%!). If correct this time, wage growth has been at the present level since the spring
- Just before the pandemic, wage inflation was at approx. 3¼%, but it was below 3% until late 2018 – and that wage infl. yielded 2% CPI inflation
- *These monthly wage data are not adjusted for the change in employment mix between sectors or within sectors. Check more wage indicators at the next pages*

USA Hourly earnings



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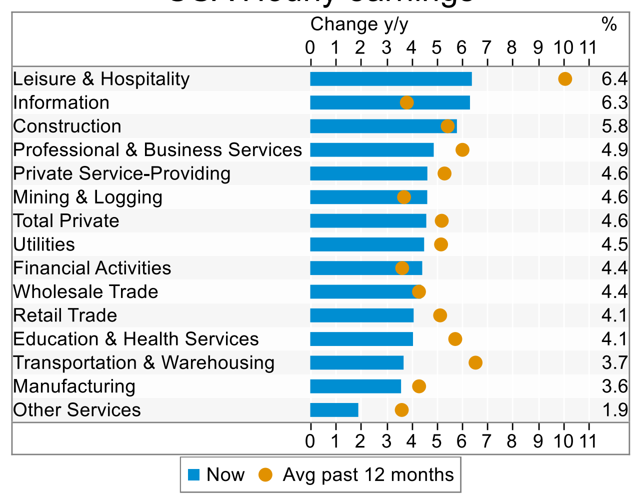
USA Hourly earnings



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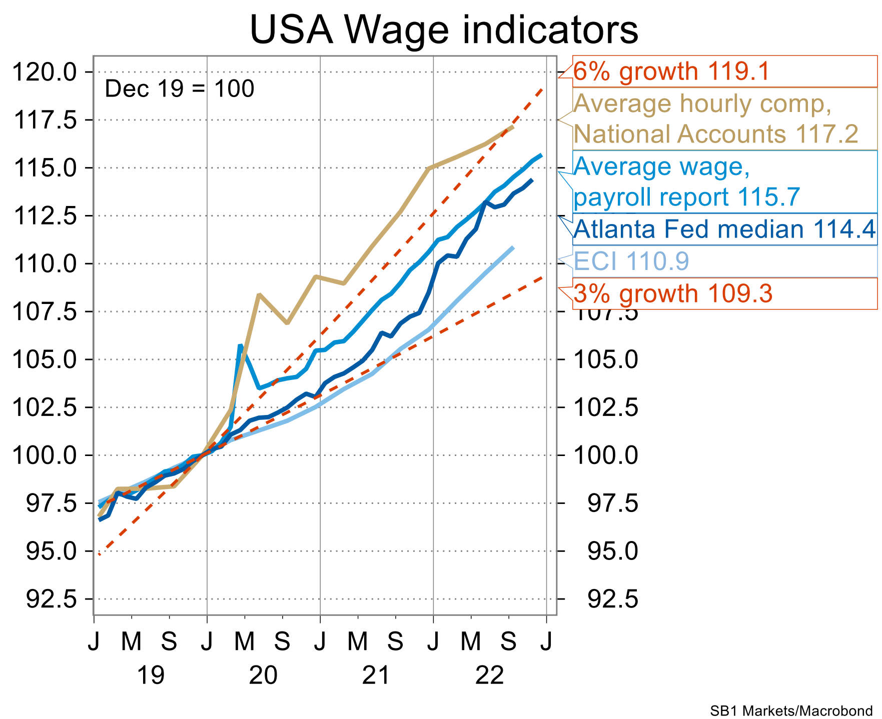
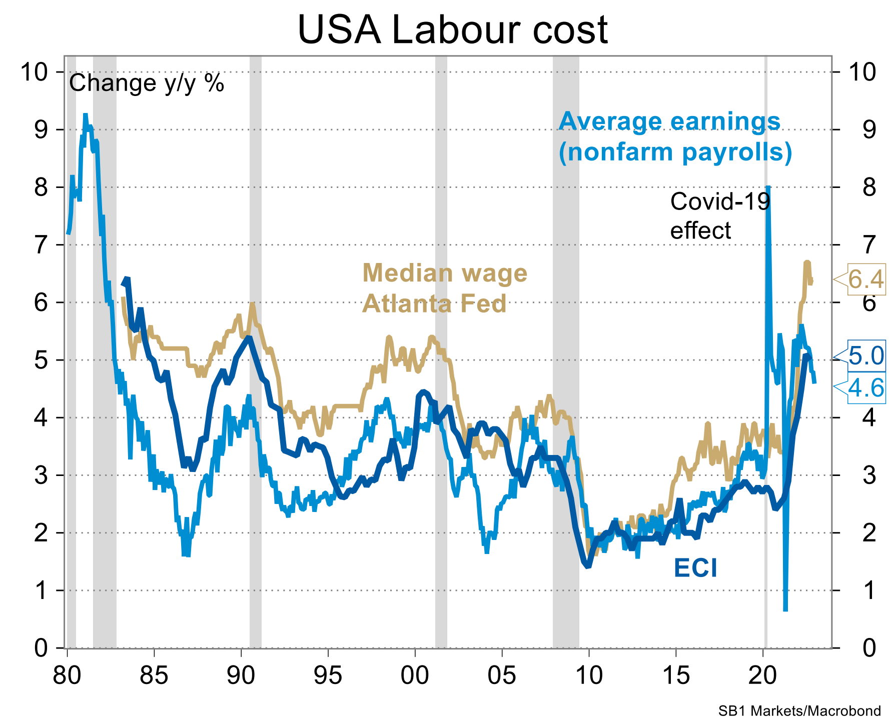
All indicators combined: some signs that wage inflation may have peaked

However, all are reporting much higher wage inflation than pre Covid: 2% price inflation is ‘impossible’

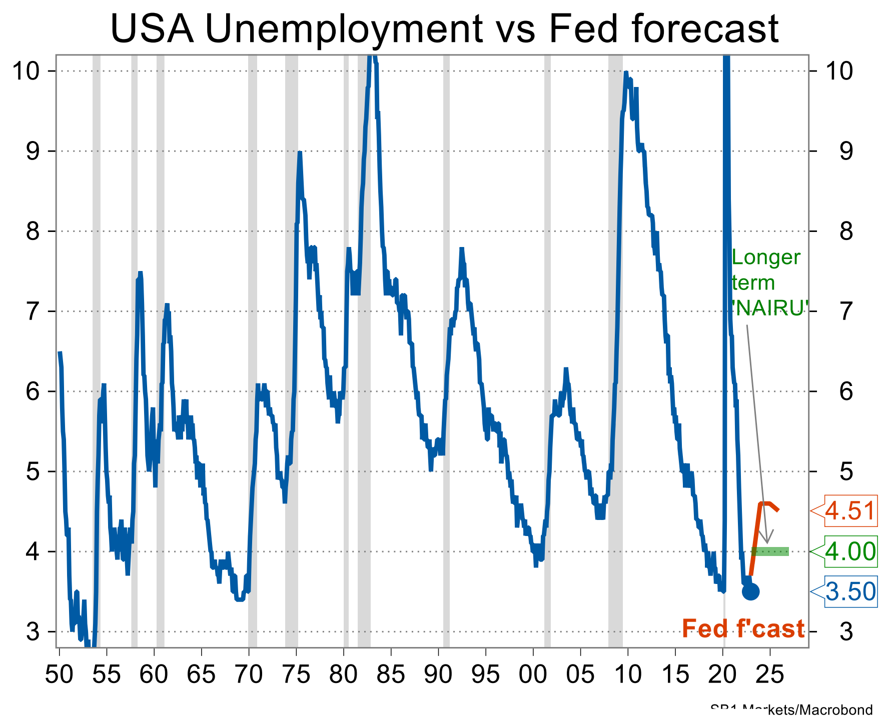


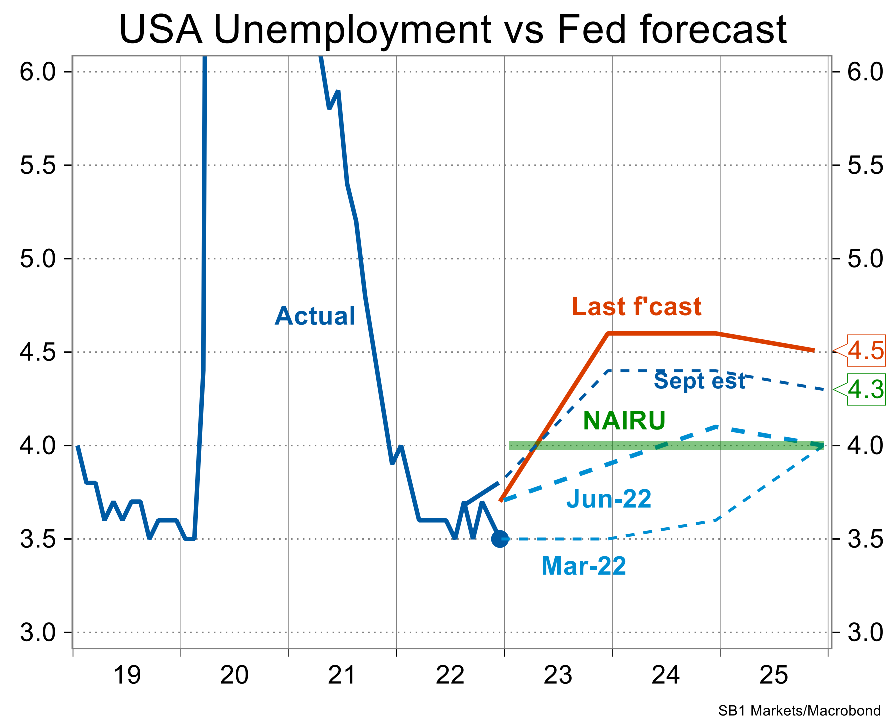


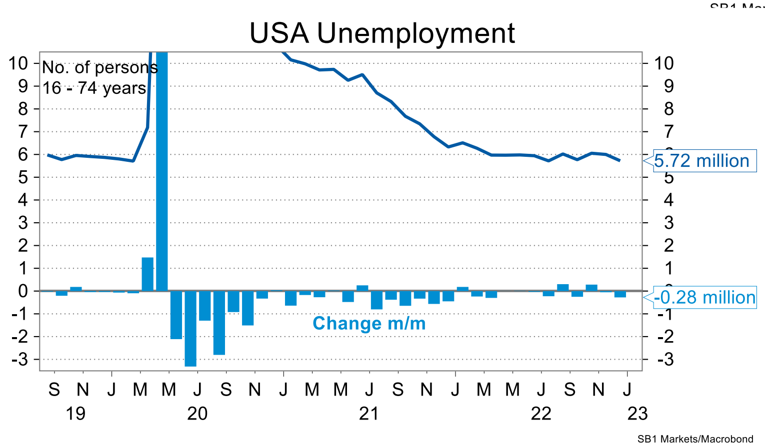
- **There are several wage indicators**, and no index that describes the one and only real underlying wage growth
- However, **all wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.5 – 3.5 pp vs their respective 10 y averages before the pandemic
- Over the past 10 years, inflation has been close to 2% (before the pandemic, that is)
- It will be impossible to keep inflation at 2% if wage inflation remains at current levels. Productivity growth has not accelerated. Profit margins may take a beating – and they no doubt will – but not sufficient to bring inflation down to acceptable levels on their own, at least not over time. Even if wage inflation has slowed somewhat without an increase in the unemployment rate, we still doubt it is possible to bring wage inflation down to a sustainable level with the current tightness of the labour market

Fed's hope: just a marginal increase in unemployment the coming years

Even if excess demand for labour has to be cut. Not impossible. But not likely



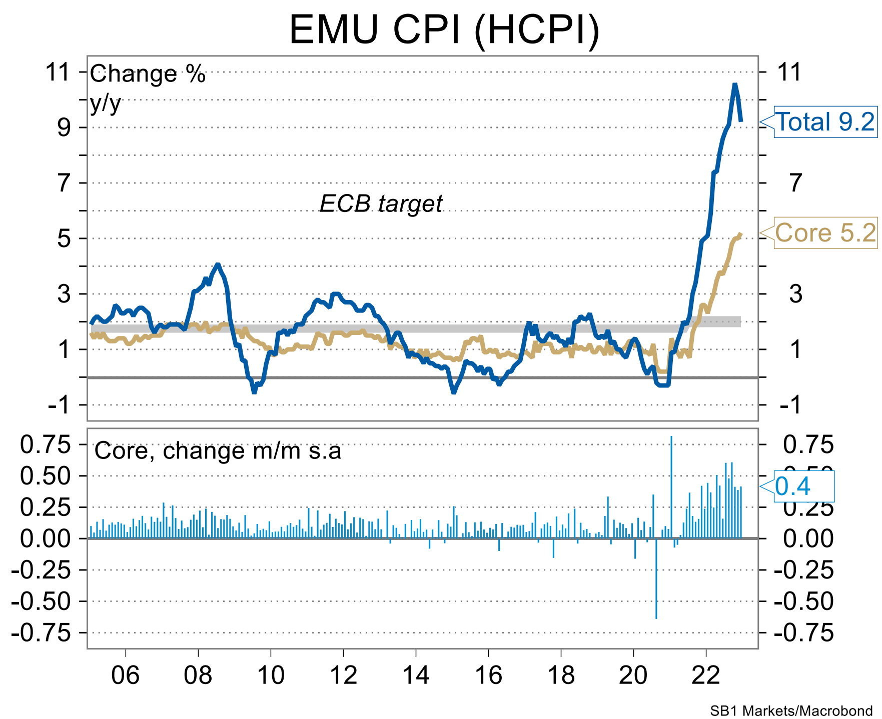


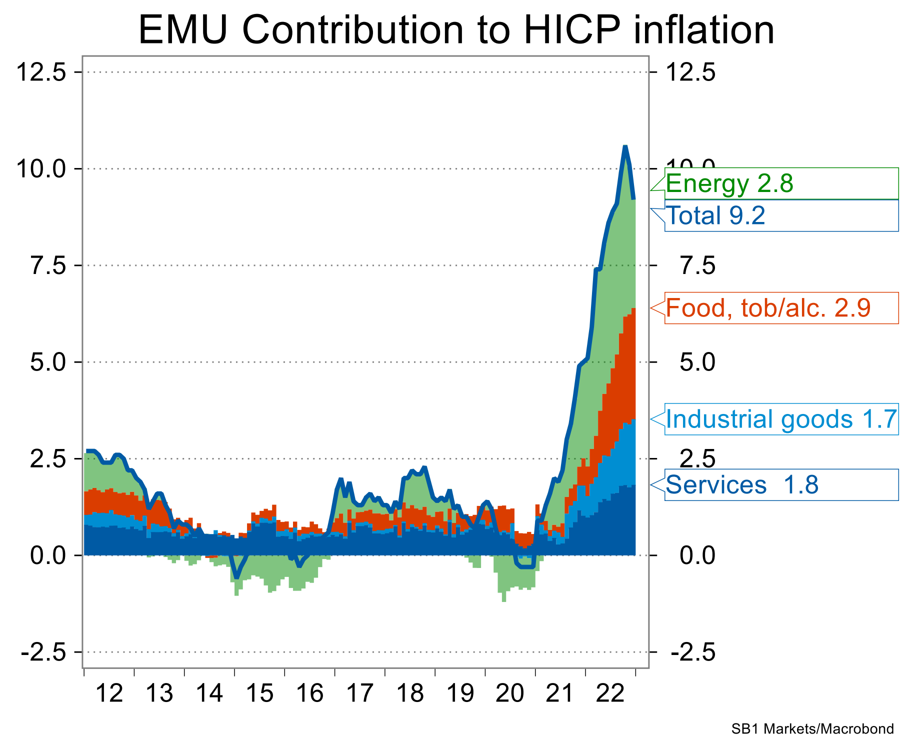


- So far, no increase in the unemployment rate from the bottom level
- In December, Fed expected a 3.7% unemployment rate in Q4, it turned out to be 3.6%. The bank now assumes that the unemployment rate will increase to 4.6% by the end of next year

Inflation lower than expected in December too, as energy prices plummeted

However, the core rate accelerated more than expected, by 0.2 pp to 5.2%, as core goods prices are climbing faster

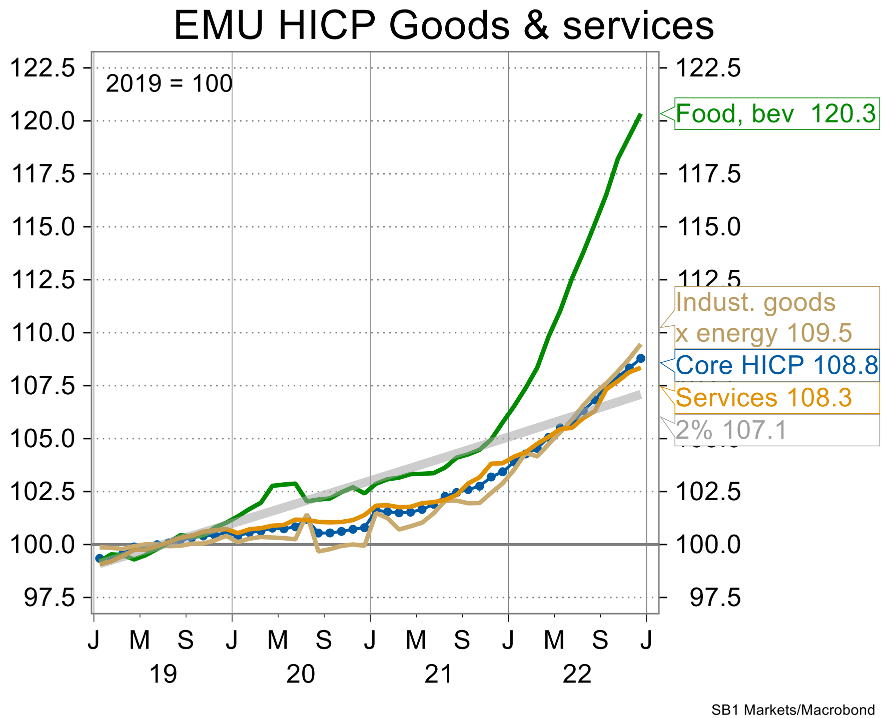


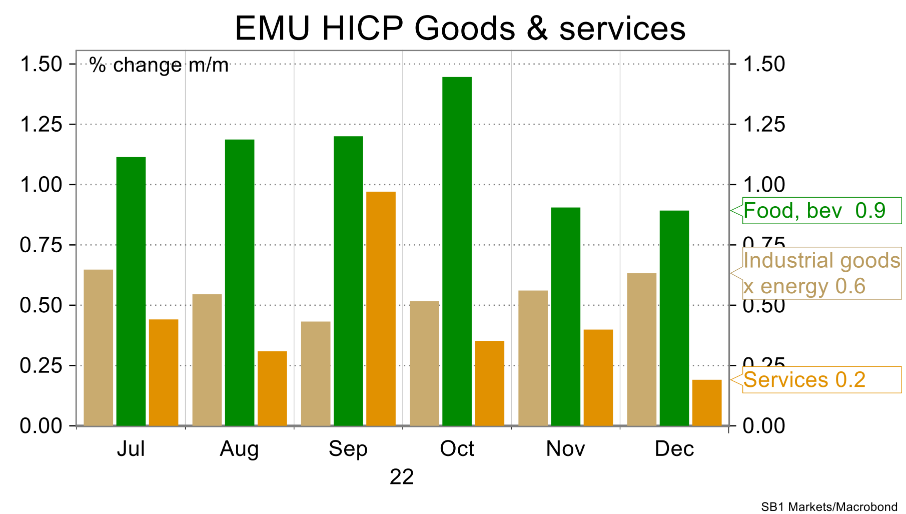


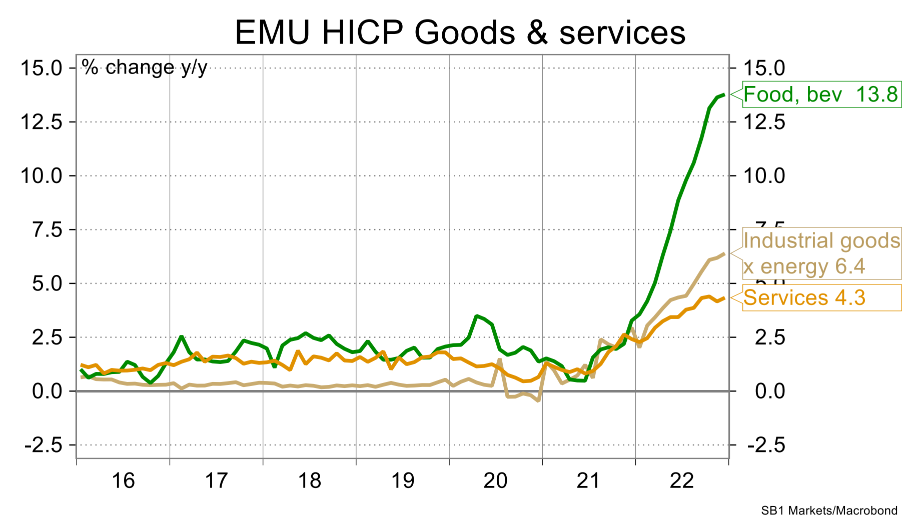
- The **total HICP** fell 0.4% m/m in Dec (seas adj), and is up 9.2% y/y, which is down 0.9 pp from November and 0.5 pp below expectations
  - **Energy prices** were down 4.8% m/m, and are up 26% y/y (down from 35% a month ago), and still contribute 2.8 pp to the headline rate. Food prices rose 0.9% m/m - and are up 14% y/y, contributing 2.9 pp to overall CPI growth!
- **The core** rose 0.4% m/m. Goods prices rose 0.6%, and services 0.2%. The annual rate was up 0.2 pp to 5.2%, 0.1 - 0.2 pp higher than expected the highest ever…
- …and this is the **ECB's problem**, and why they are adamant about sticking to a 50-bps pace, from the present 2.0% level

Inflation is broad based; Core goods & services are above a 2% path since ‘19

Industrial goods x energy are up 6.4%, and accelerating. Services 4.3%, but are flattening. The target? 2%...



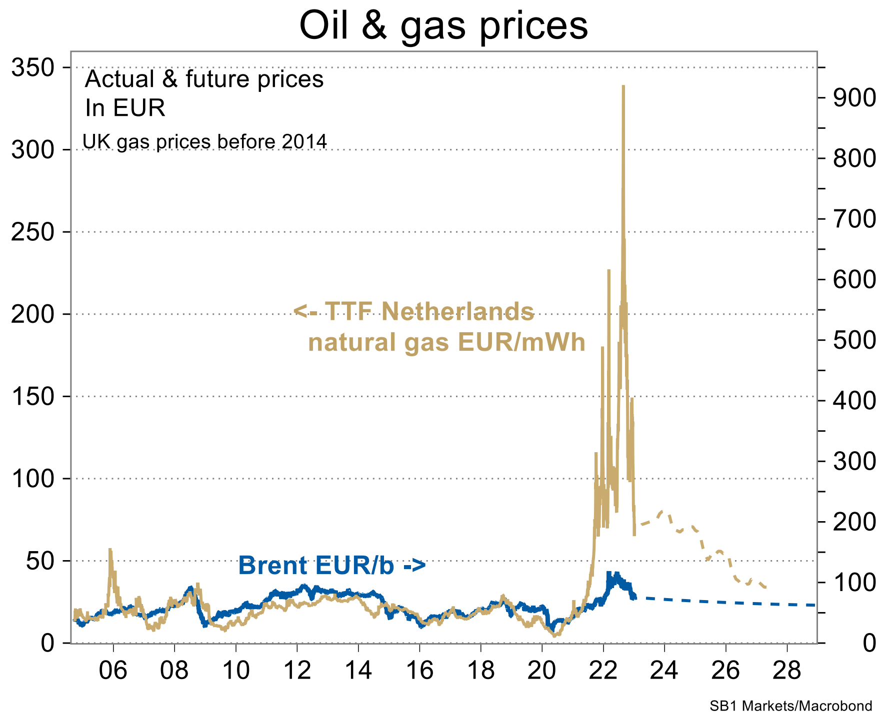


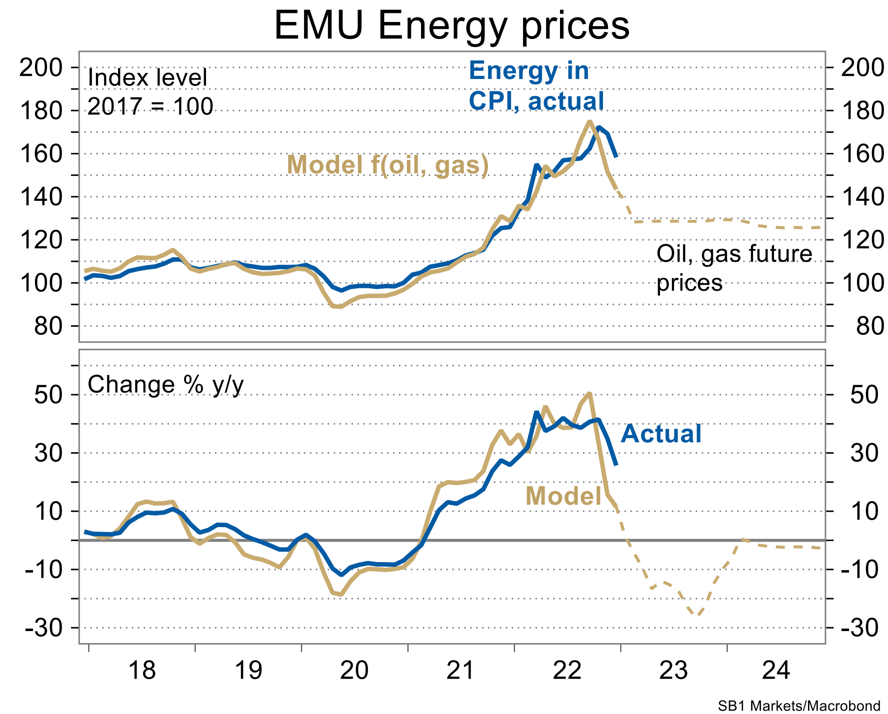


- **Industrial goods** prices increased 0.6% in December, and are up 6.4% y/y, and there is no sign of slowing measured m/m, the underlying remains at 6.5%. These prices are well above a 2% path since 2019.
- **Services prices** gained 0.2% in December, and these prices are also above a 2% path vs the 2019 level – they are up 4.3% y/y. Transport and hotels/restaurants have contributed on the upside last year
- (No further details in the preliminary HICP report)

Gas prices are crashing, will take the headline HICP further down

If the market is correct, energy prices will soon be significantly down y/y



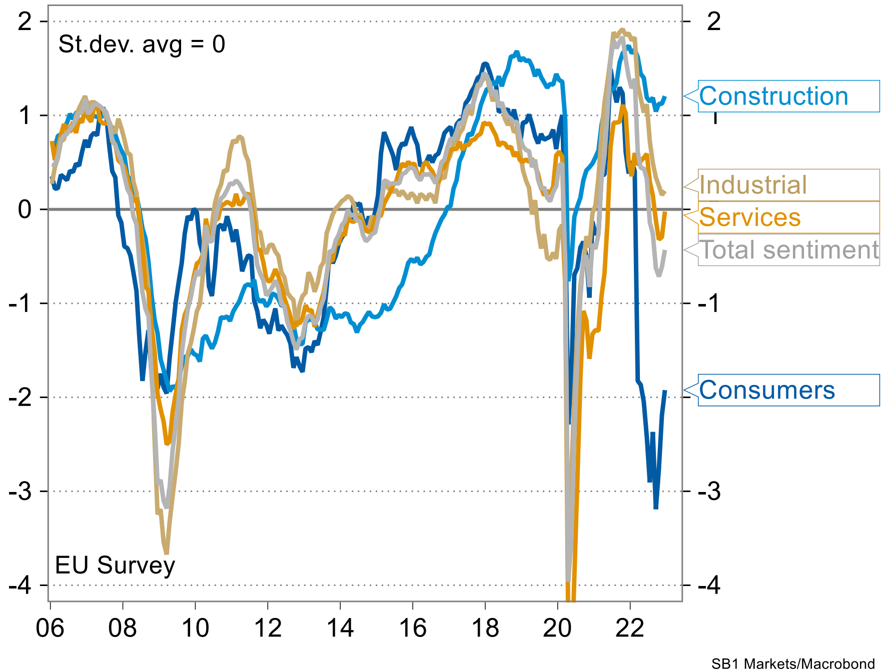


- Gas prices have fallen sharply recent weeks, both in the short and the long end of the price curve
  - Our model suggests a further decline in the energy component in the HICP the coming months – and it should turn negative y/y
  - Energy subsidies may of course have some impact – but they will probably not be removed anytime soon
  - If the market got it right this time …

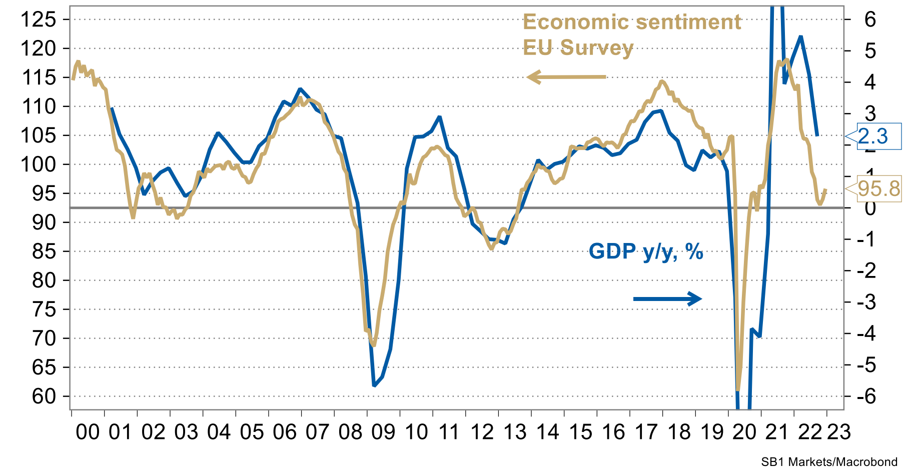
Sentiment has bottomed~~?~~! All surveys have turned up

In the EU survey, businesses are signalling a 1.5% - 2% GROWTH rate, not a recession

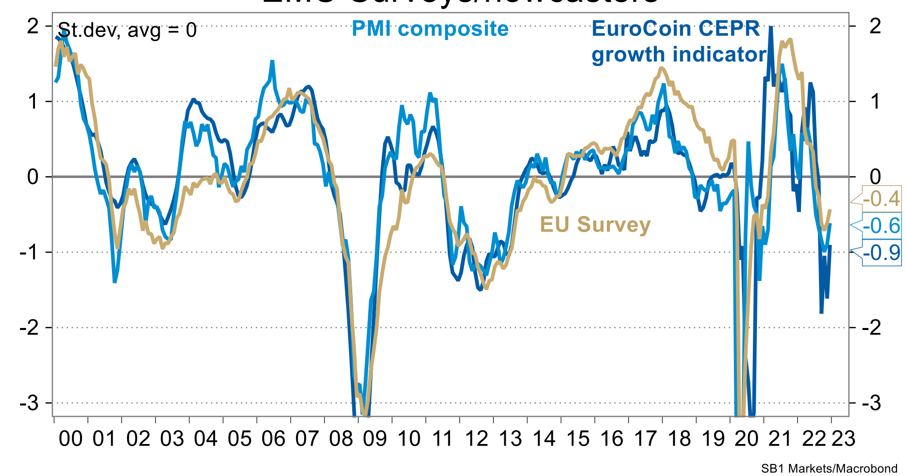
EMU Confidence



EMU Economic sentiment vs GDP



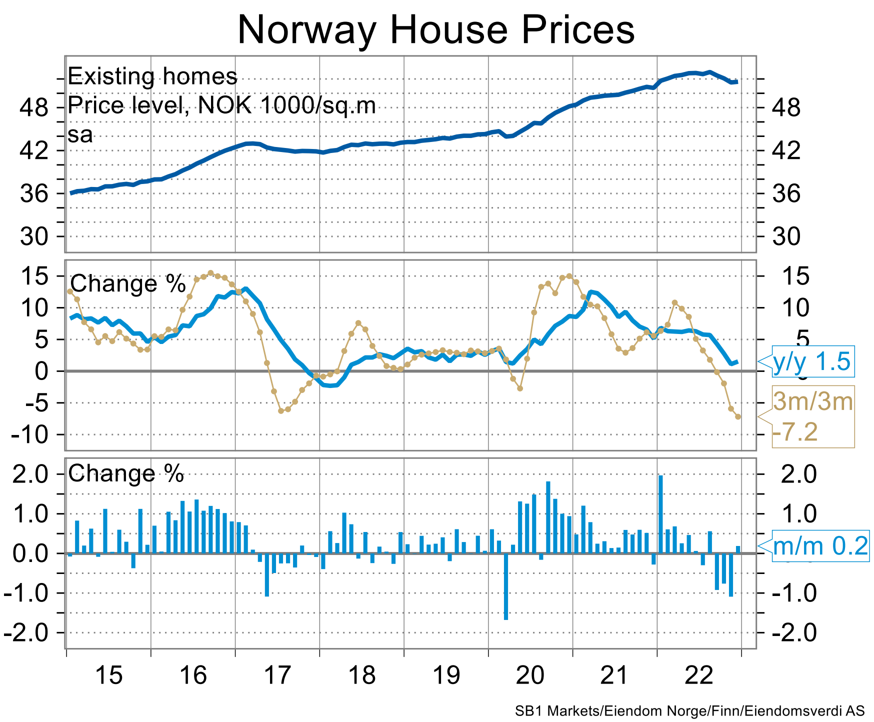
EMU Surveys/nowcasters

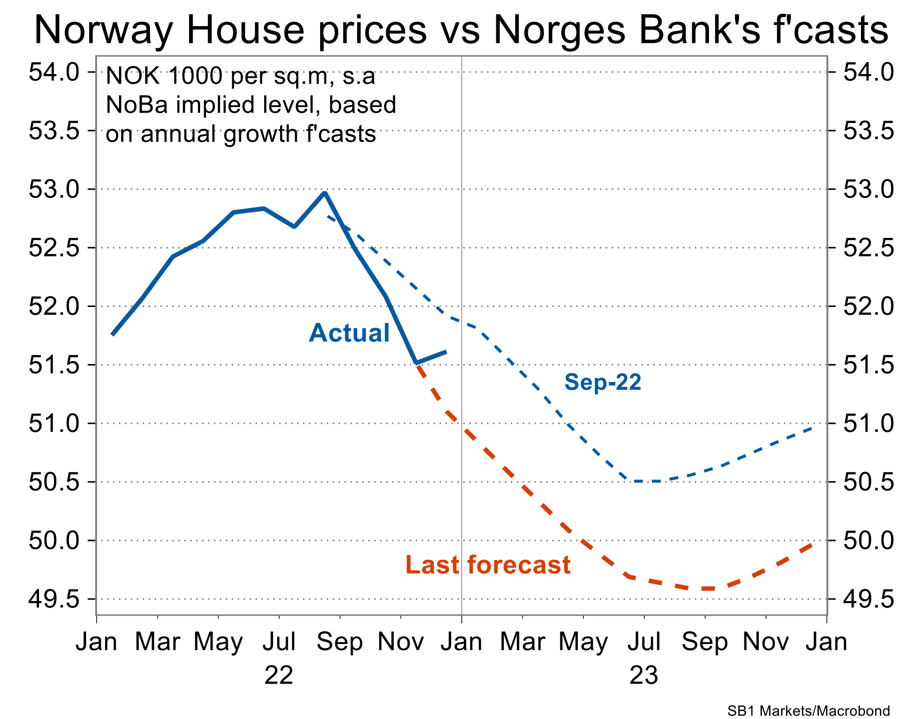


- **The Economic sentiment index** rose 2.1 p in to 95.8 December from the original Nov estimate (which was revised up by 0.3 p), and was 1.1 higher than expected. The index 0.4 st.dev below average, with a large negative drag from households, the business sector index is marginally above average
- Thus, even if there is war nearby, inflation & interest rates are surging, businesses are still reporting growth close to trend (charts next page). Consumers are pessimistic, but historically their views on the economy has been irrelevant vs. GDP growth. **Other business surveys are less positive but all have turned up in Nov/Dec**

House prices surprised to the upside in December! Up 0.2%, exp. -1.0%

Due to easing of lending restriction? Or just an outlier? The inventory is still rapidly the way up. January prices down?

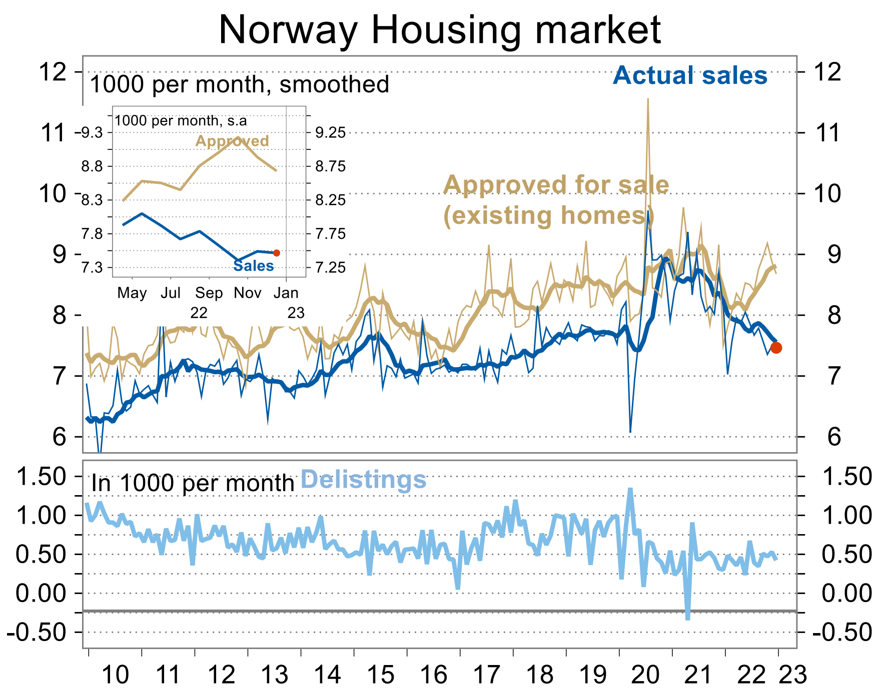




- **House prices** rose 0.2%, well above most forecasts (which ware around -1% (yours truly included). Norges Bank assumed a 0.8% decline. Since August, prices are down 2.6%, still the steepest 4-month decline since late 2008, but prices are up 1.5% y/y. Prices rose in 10 cities, and fell in 6. At the top of the list, all the coastal cites from Bergen to Tromsø. At the bottom, 'cities' surrounding Oslo, and Oslo also down, by 0.3%
- **Existing home transactions** were stable at 7.5' which is 15% below the peak during the pandemic but still just back to the average 2019 level. However, inflow of of **homes approved for sale** which fell in December, remains far higher than normal
- **Thus, the inventory of unsold homes** rose further in December, by 0.6' units, the smallest increase since July – but the inventory has climbed faster than ever the past 6 months, and it is now larger than normal. Still, the time on market for those homes actually sold remains lower than average (but is increasing slightly)
- Dec 9th, the Government eased mortgage regulation by lowering the **rate hike in the stress test of borrowers**, to 3 pp from 5 pp (though minimum with a 7% rate) from Jan 1. This easing will increase borrowing 'capacity' among many potential home buyers substantially. However it does not seem likely that the decision had a substantial impact on market the remaining days before Christmas, enough to lift the average Dec. price level substantially. Thus, we expect a new decline in house prices in January

Sales have stabilsed at normal level, the inventory is still rapidly increasing

Since last July, the inventory has increase twice as fast as ever before, and the inventory is above average



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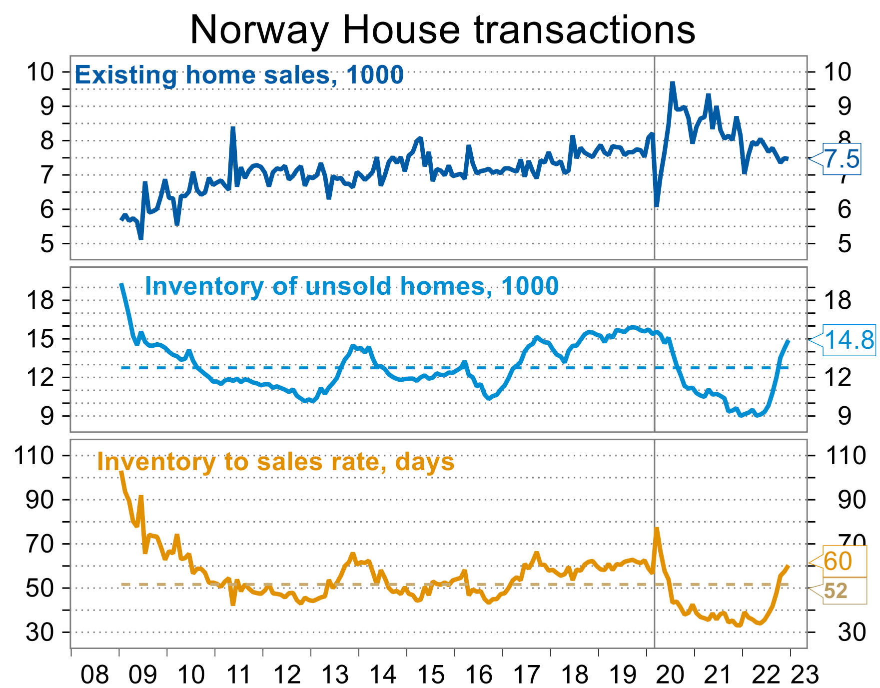
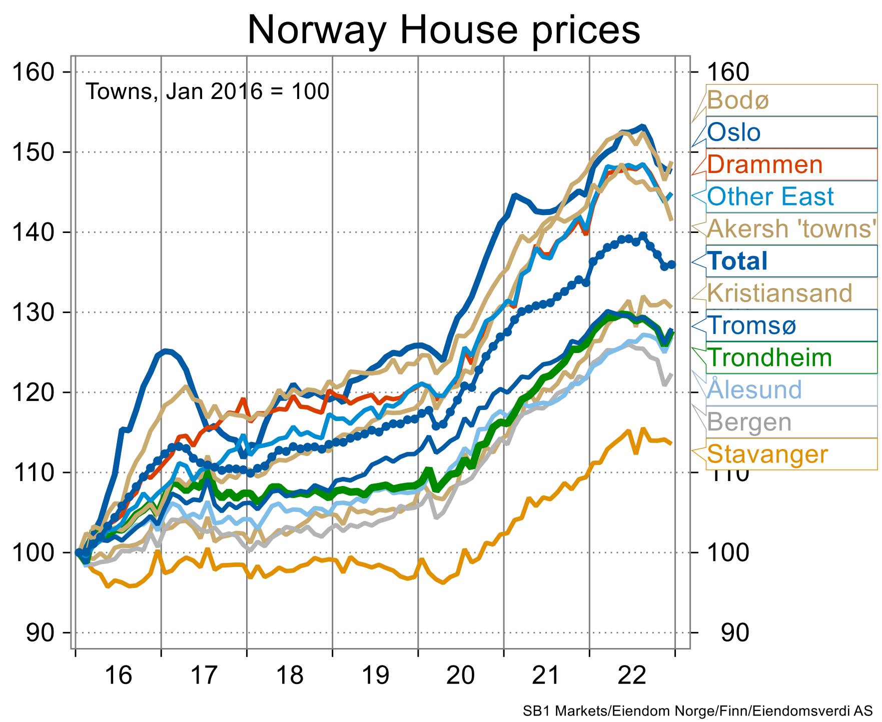


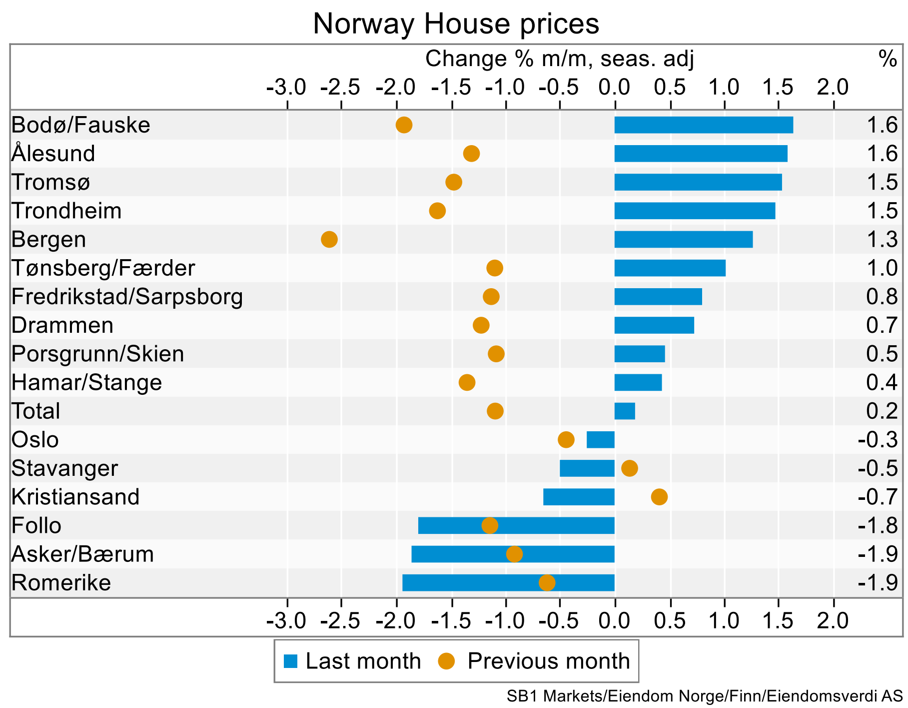
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- The **number of transactions** was stable at 7.5' in Dec, a 'normal' level, even if it is 15% below the peak level during the pandemic
- The **supply of new existing homes for sale (approvals)** rose fell further but remains above a normal level
- The **inventory of unsold homes** rose by 600 homes, a smallest increase since July. The increase in the inventory over the 6 past moths, is the largest ever, by far. The level at 14.8' is above average and not far below previous peak, before the pandemic
- The **inventory/sales ratio** added 2 days to 60 days, vs an average at 52 days – but not a very high level
- The **time on market** for those homes actually sold was unch. at 35 days, which is up from the bottom at 31 days, but still well below the average at 42 days) – <u>so there is not yet any buyer's strike for homes which are 'correctly' priced</u>. However, if all those extra homes added to the inventory each month sold should have been sold, <u>substantial price cuts would very likely have been needed</u>

A further price decline in ‘cities’ around Oslo (-1.8%), and in Oslo (-0.3%)

Prices also down in Stavanger & Kr.sand. <u>However, 10 of 16 cities up in Dec, especially from Bergen and up the coast</u>

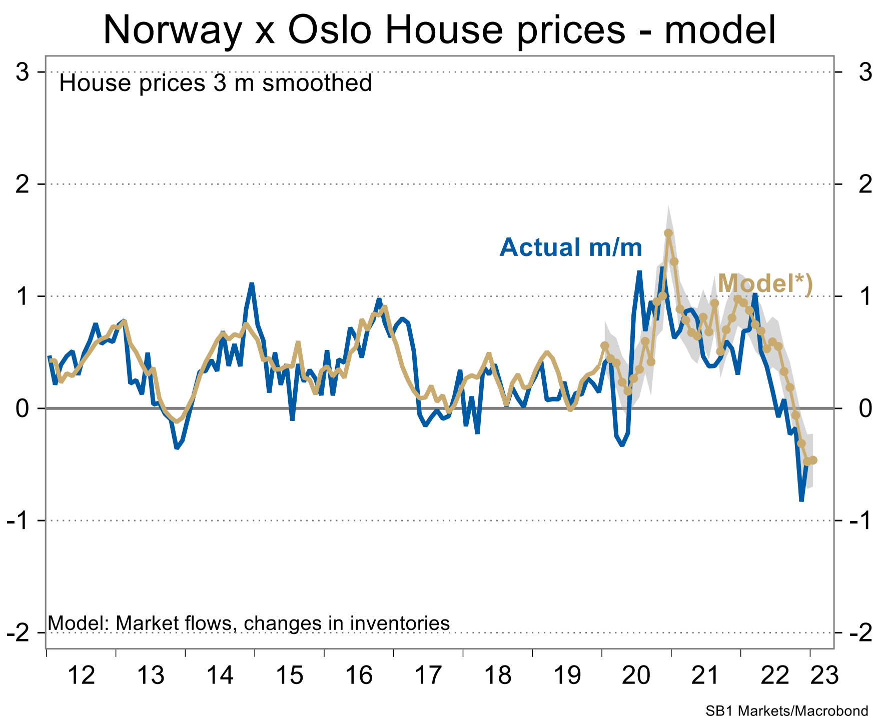


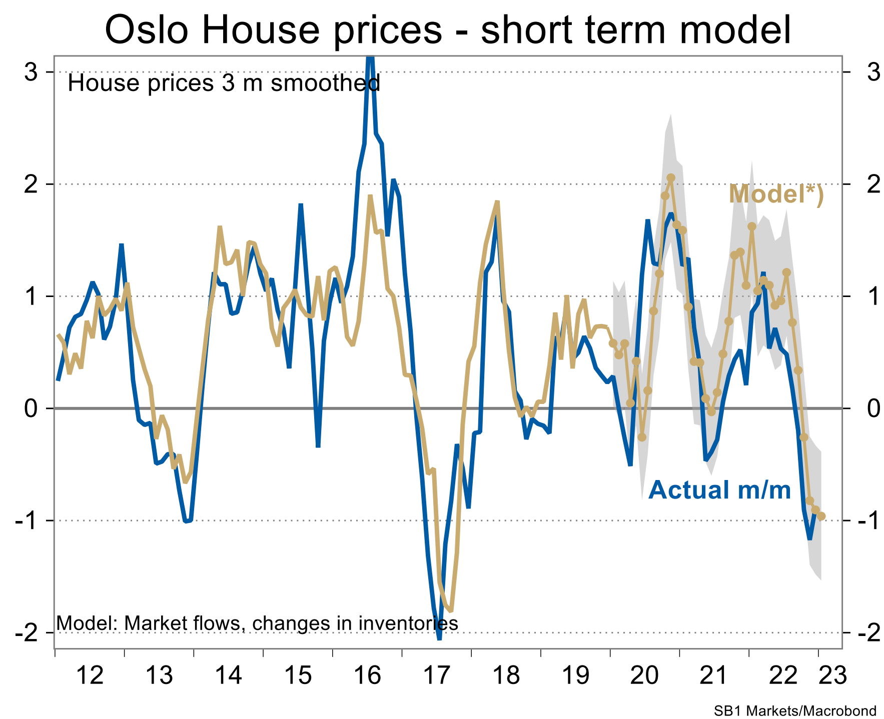


- The discrepancy between the winners and losers are larger than normal in December, but far from record high

Short term market flows suggest a continued price decline

Higher mortgage rate will also contribute to a slowdown coming months

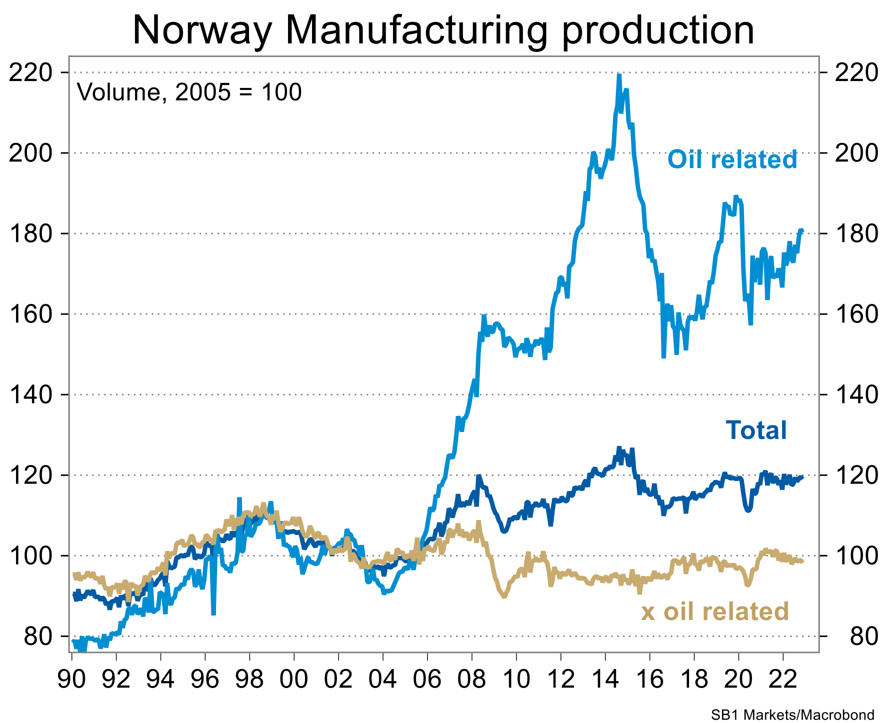


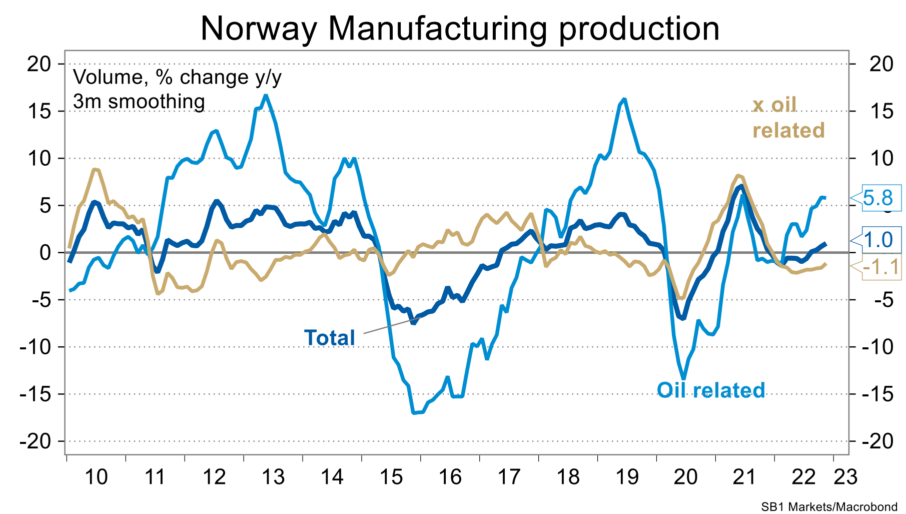


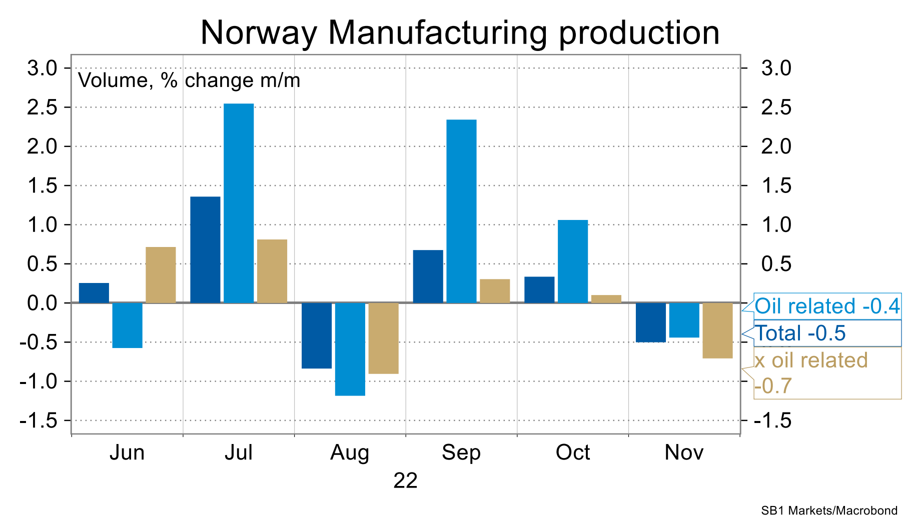
- Our **national x Oslo model** based on flows and the inventory signals a 0.5% fall in house prices (in comparison, prices in Norway x Oslo rose by 0.4% in December, even if prices all sharply in the areas around Oslo)
- Our **Oslo model** signals a further decline in prices and more than in the rest of the country
- **Mortgage rates** are not included in these short-term market models, because they have not consistently added to the models' performance. Still, over time, mortgage rates and credit growth are important driver for the flows at the housing market, and now rates are rapidly on the way up
- *These models are not long-term price models, just short-term models based on flows of (existing) houses approved for sale, actual sales and changes in inventories – which are normally correlated to prices*

Manufacturing production took a breather in November

The short-term trend is flat, but surveys are bleak and the risk is to the downside



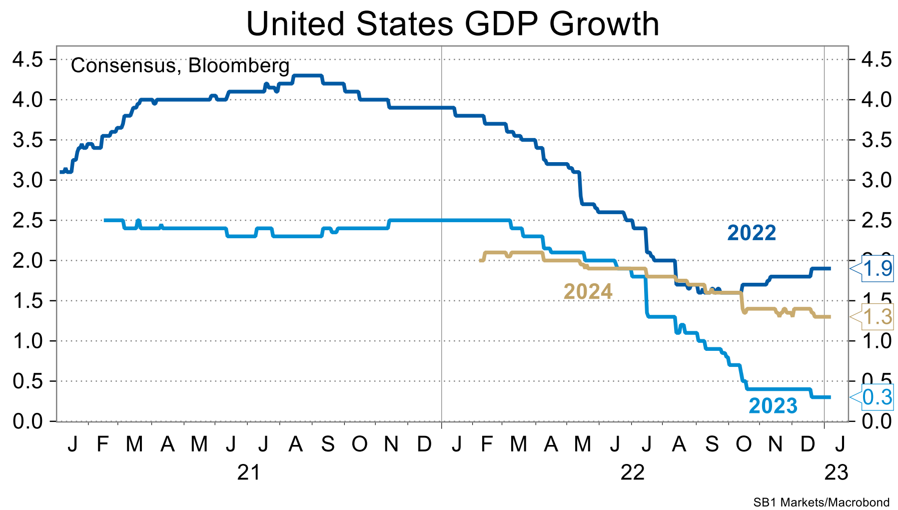


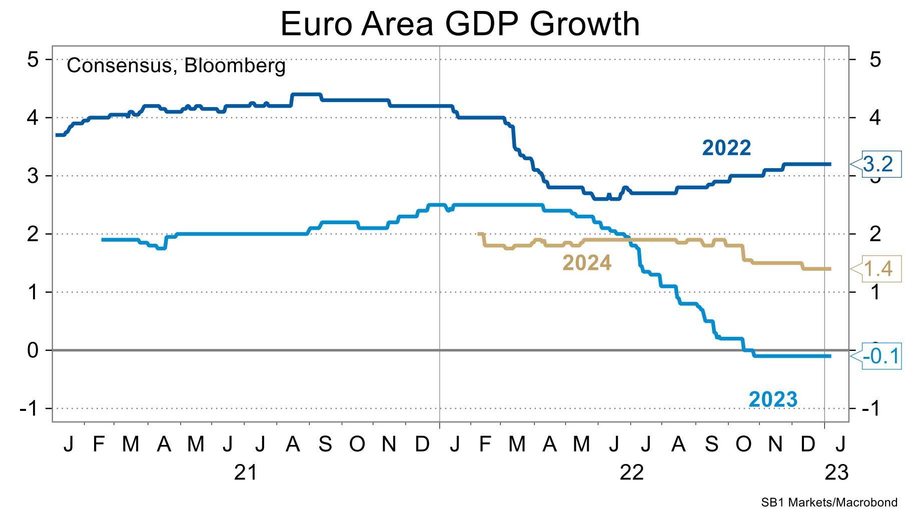


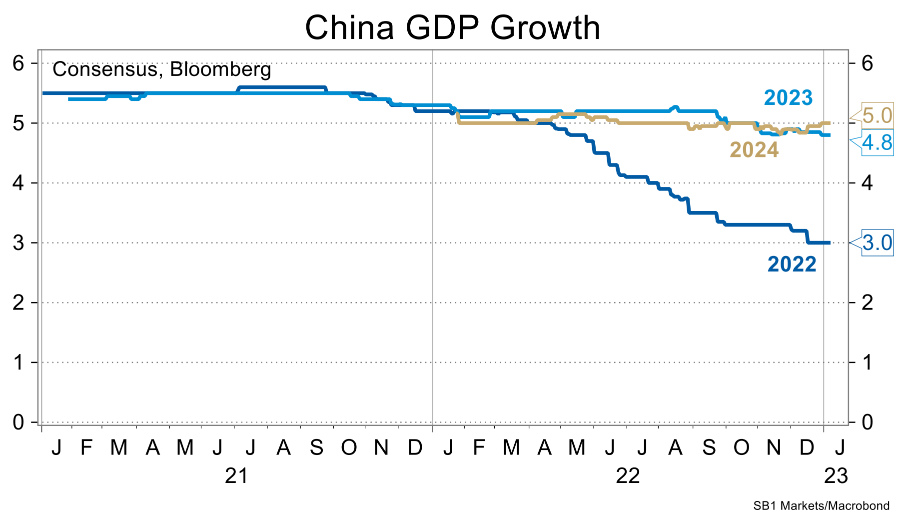
- **Total production** fell 0.5% in Nov, we expected unch.
- **Oil related manufacturing production** (yards etc) was down 0.4% but the trend is up, at a 5% – 6% pace
- **Other sectors** reported a 0.7% decrease in activity – and the trend is down, at a 1% rate
- **Manufacturing surveys have turned down since Q4 2021**

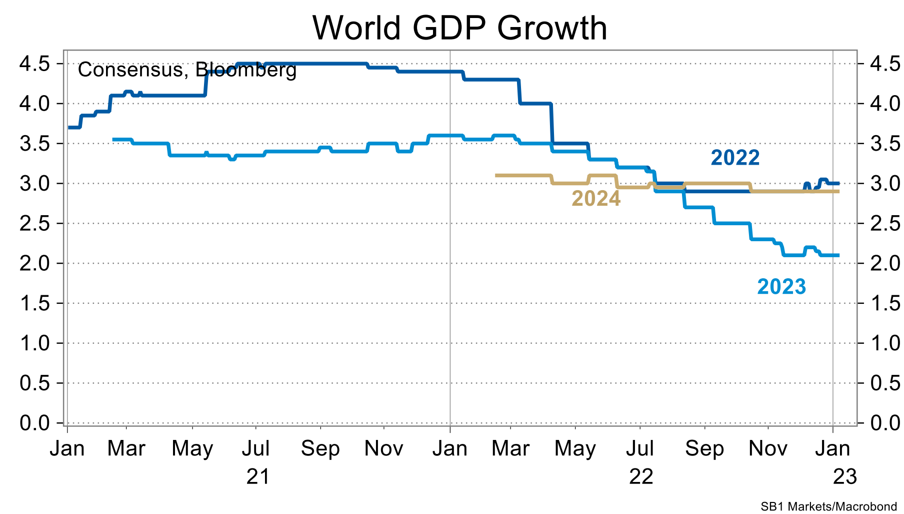
Consensus: Global GDP up just 2% in 2023, down from 3% in 2022

The 2023 f'casts imply a short and shallow recession in the US next year, and not a deep downturn in Europe



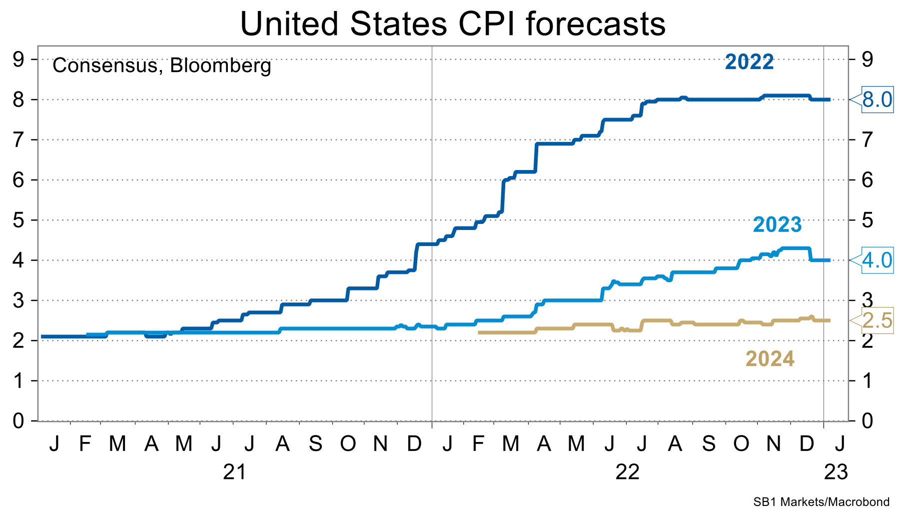


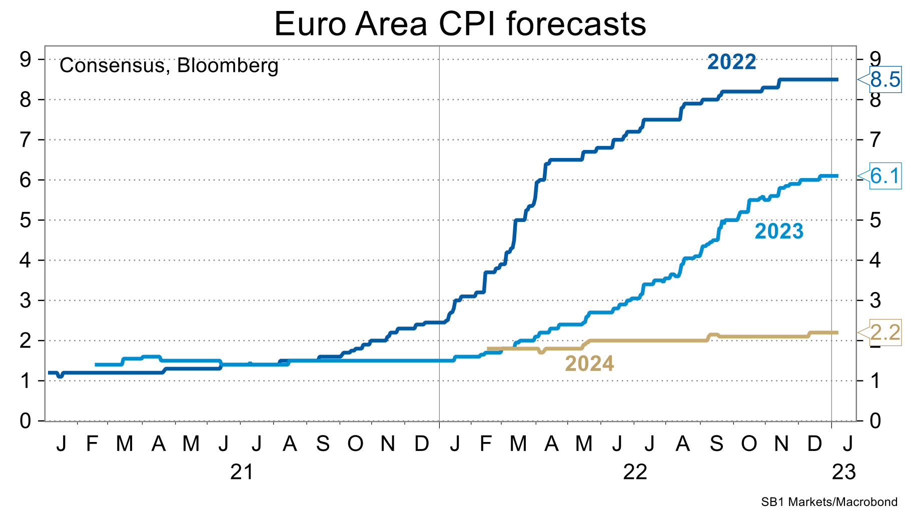




US 2023 inflation expectations have peaked, EMU soon to follow?

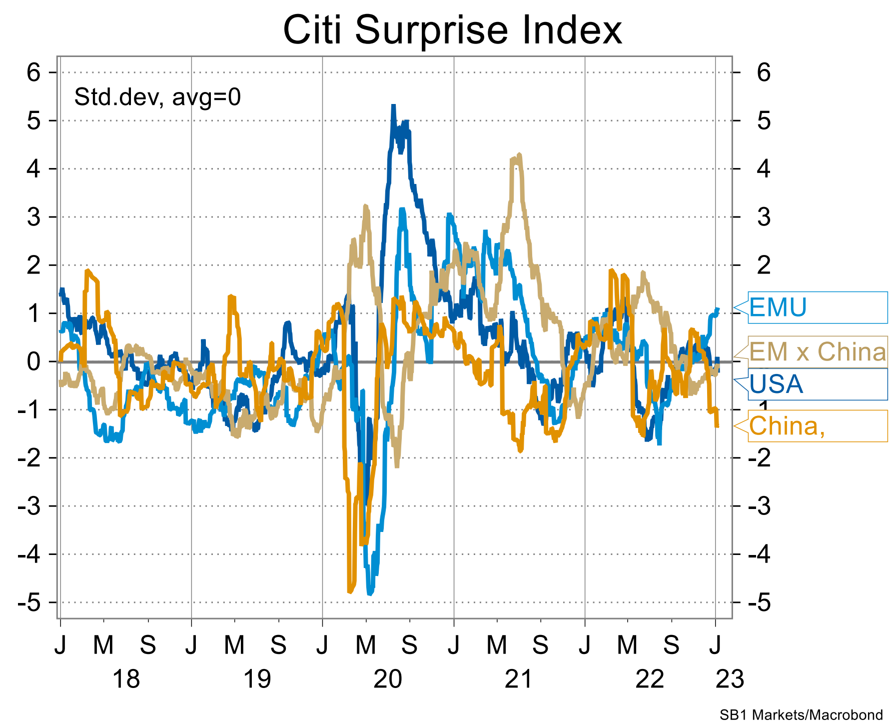
While inflation expectations in the EMU rose a tick last week, to 6.1%. Given the decline in gas prices, too pessimistic??

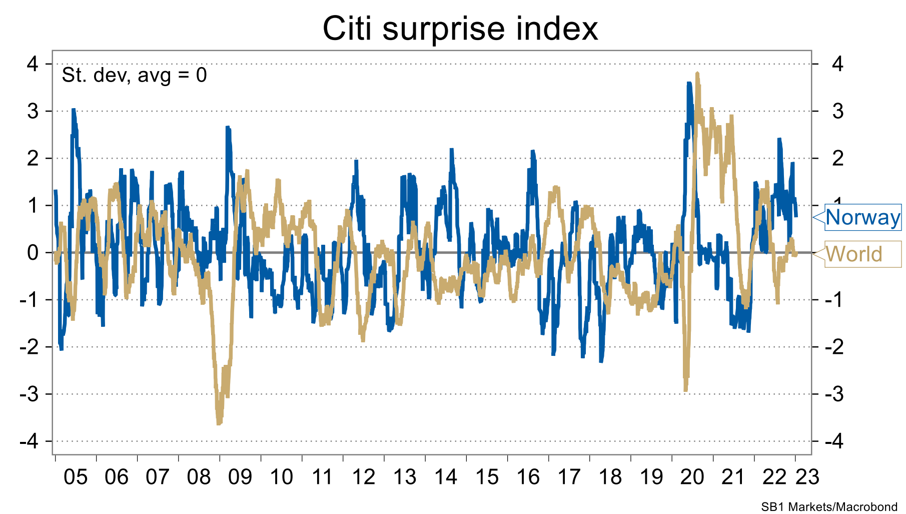


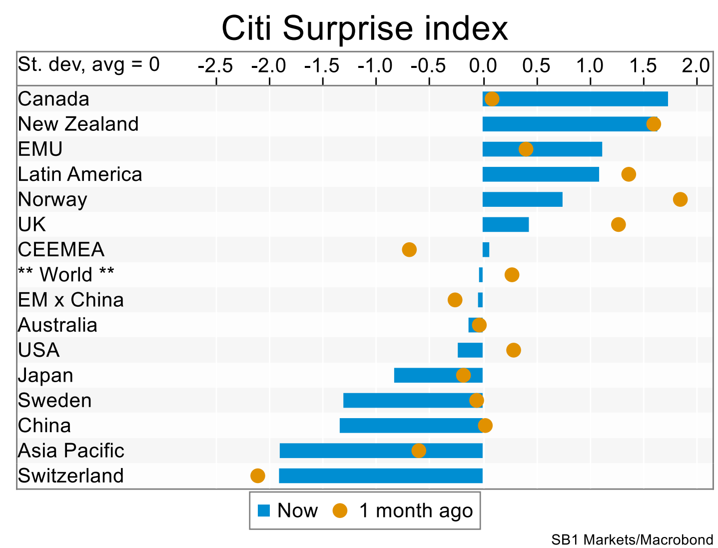


Chinese data weaker than expected; EMU data surprise to the upside

US just marginally below par. EM x China up to neutral





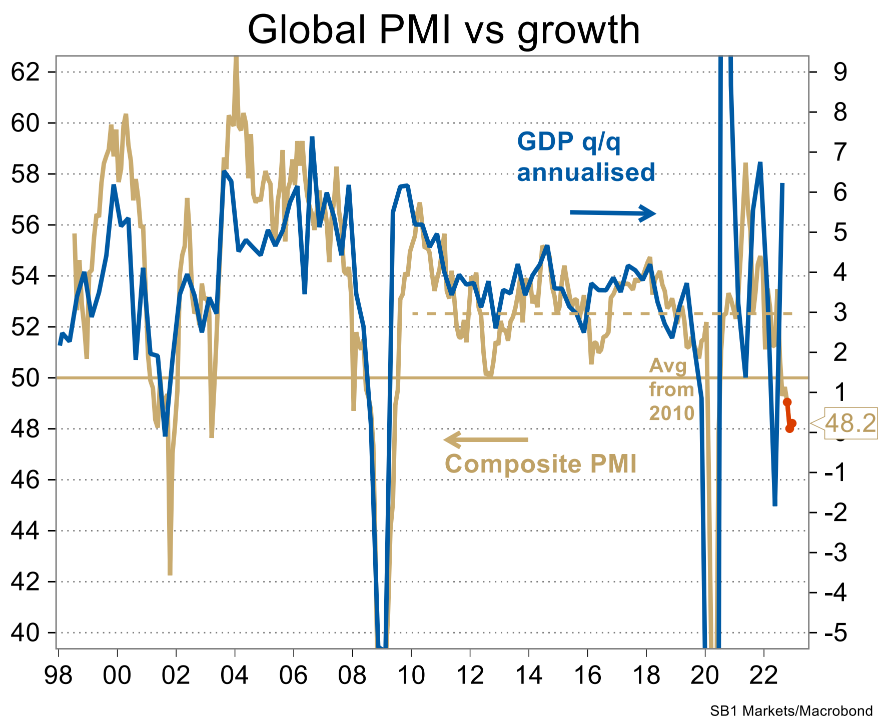


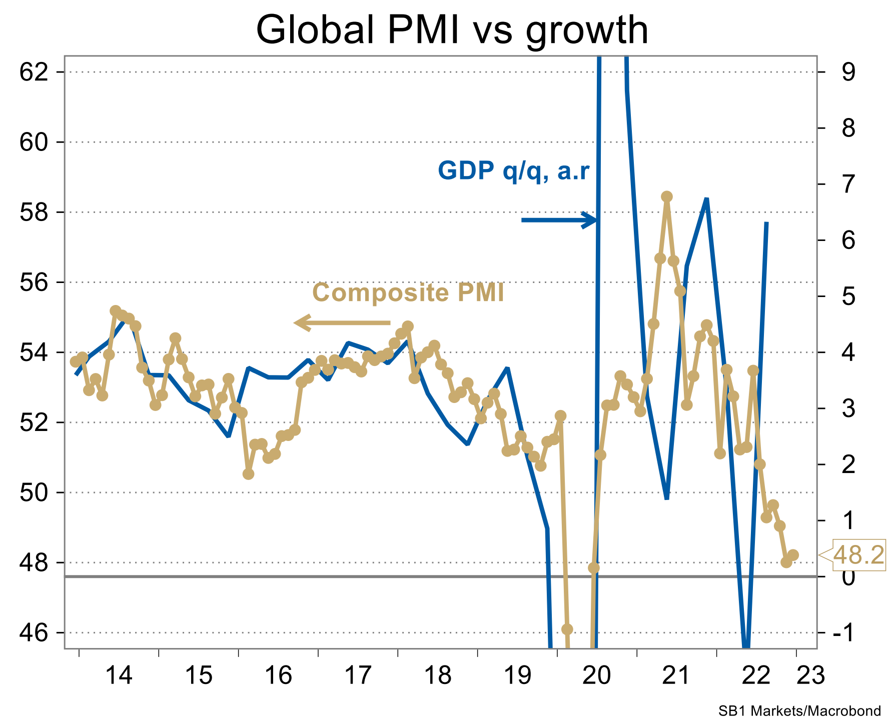
- **Norwegian data** still much better than expected, according to Citi

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

The global PMI surprised us to the upside in Dec, thanks to China, India, EMU

The global index added 0.2 p to 48.2, we expected a 0.6 p drop! Still, just a marginal growth in global GDP is signalled

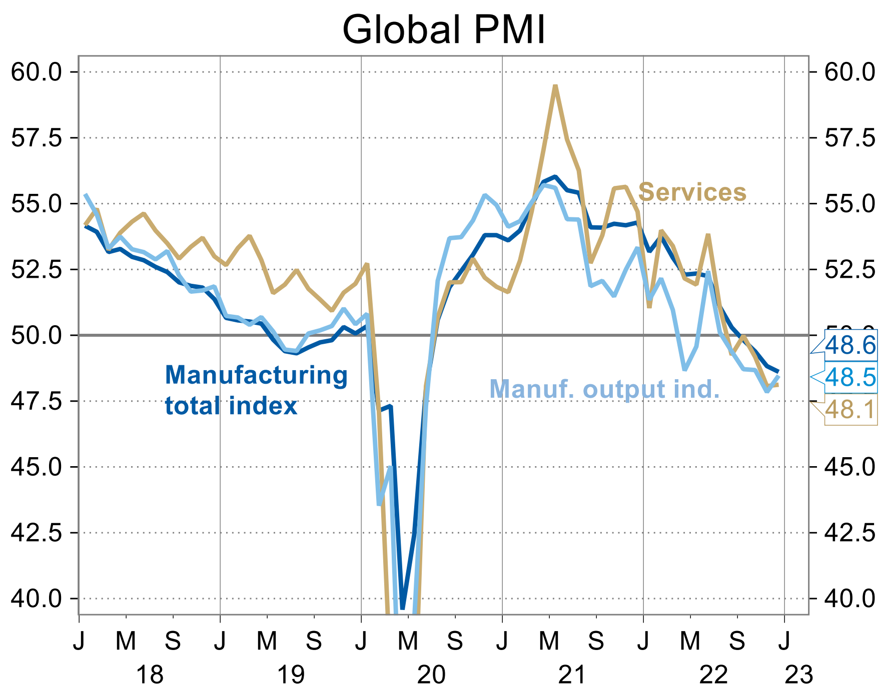




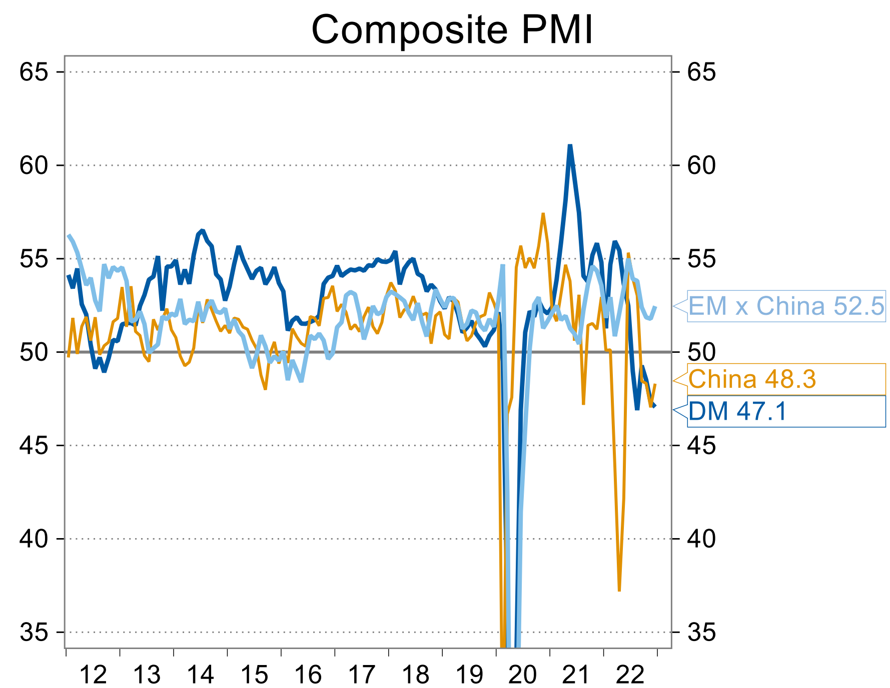
- The output component in the manufacturing PMI rose slightly, services were flat, both below 50
- Developed countries further down, even in the EMU index rose 2.5 p (and even more than initially reported)
- The Chinese index rose (Caixin's index which enters the global PMI, the NBS PMI fell sharply)
- Other EMs reported a small decline on average, but the level remains well above 50, with India in the lead, at 59.4

Manufacturing & services in sync – at 48ish. DMs are the weakest link

The output component in the PMI rose in December but is still signalling contraction in production



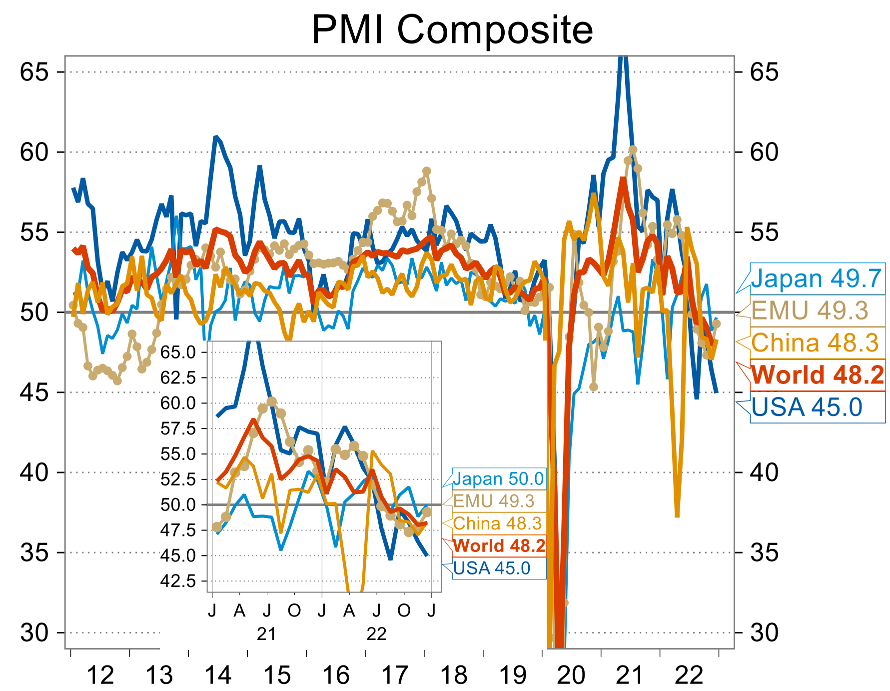
SB1 Markets/Macrobond



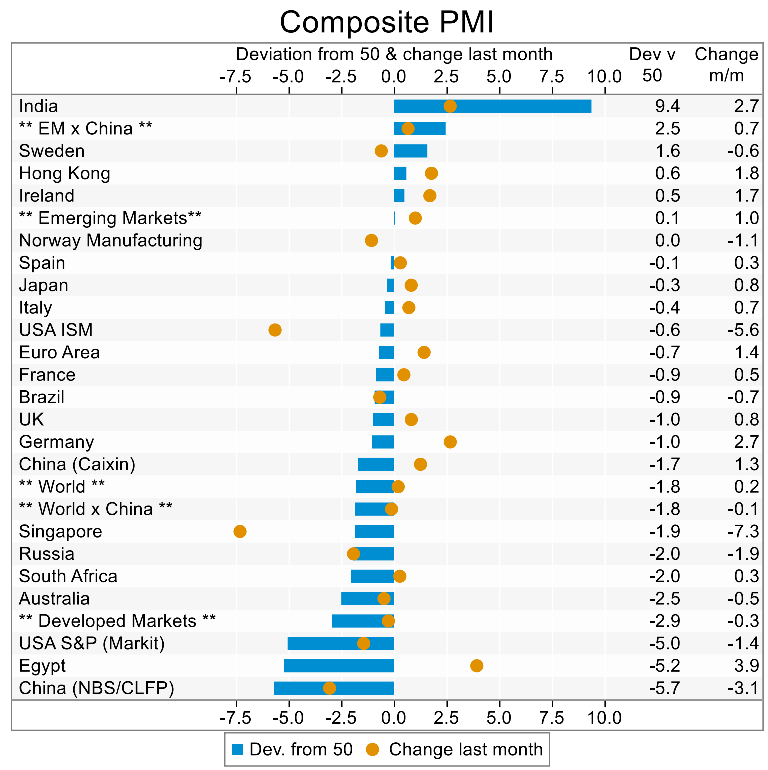
SB1 Markets/Macrobond

15 countries/regions up 12 down in December

19 countries/regions below the 50 line (including China, EMU, UK, US); 6 are above, with India at the top



Source: IHS Markit, SB1 Markets, Macrobond



SB1 Markets/Macrobond

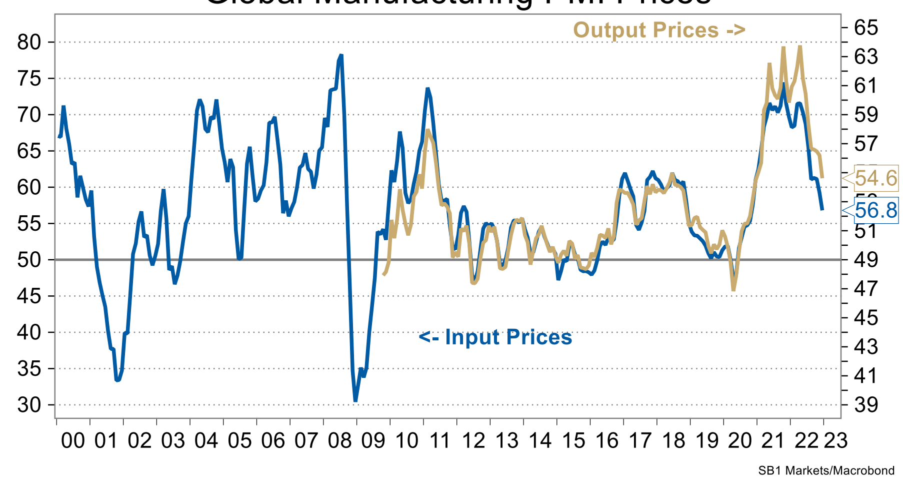
- **The rich countries'** (Developed Markets, DM) PMIs fell by 0.3 p to 47.1, almost all DMs are below the 50 line!
  - A couple of exceptions: The **Swedish** composite PMI is still above 50 due to strength in the service sector, and Ireland
- The **US ISM** survey is not included in the global PMI but it reported the 2nd largest decline in December, due to a 'collapse' in services (check details further out in the report)
- The **Chinese NBS survey** (which is not included in the global PMI) also fell sharply – and to the bottom of the list. **Caixin's PMI** was better though, a small increase was reported
- **India** is at the top of the list – and is reporting strong growth
- (**Norway** does not compete in this league, we just have a manufacturing PMI. The Nov index would have yielded a 4th place in the composite race, if aggregates are excluded)

SpareBank 1 MARKETS

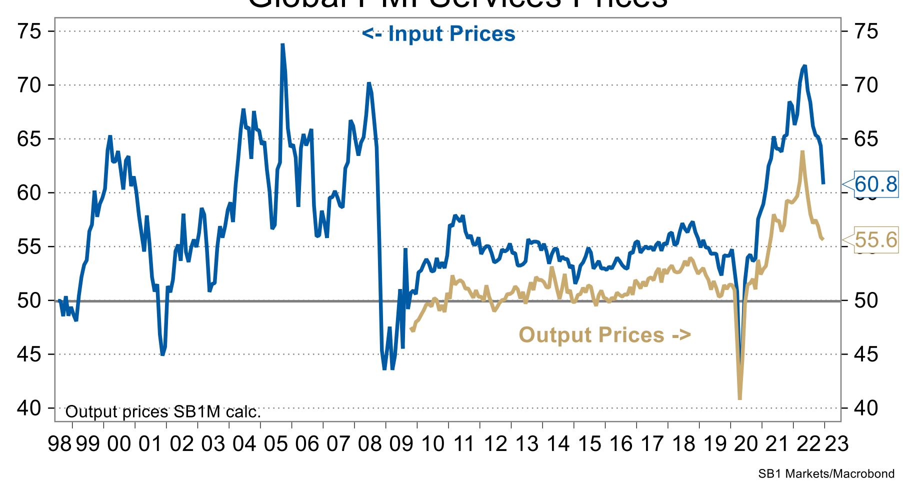
Price increases are slowing RAPIDLY, according to the PMIs

Price indices are not fully back to an average level, especially in services. But the direction is set

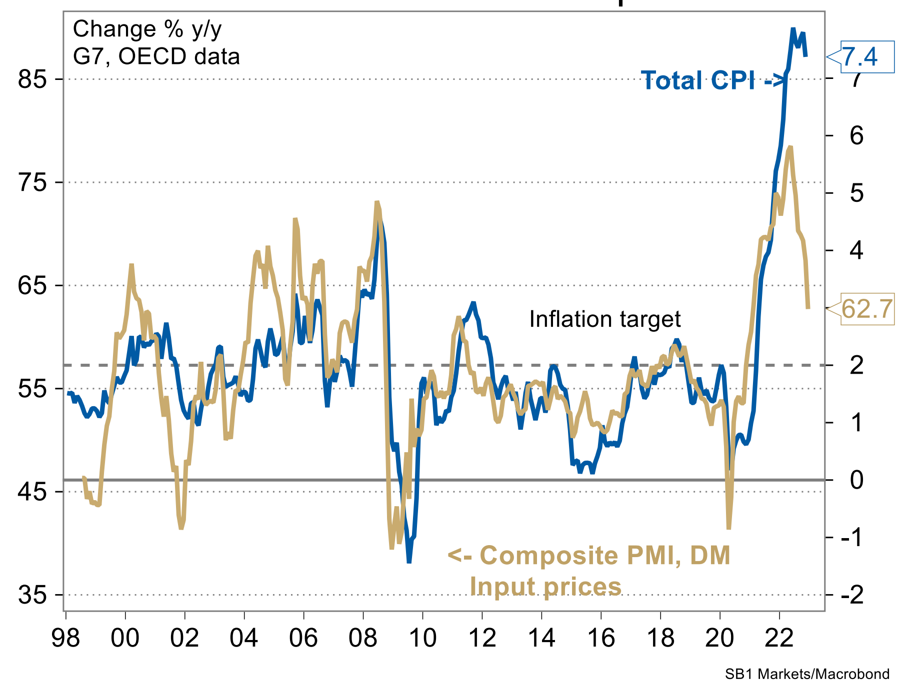
Global Manufacturing PMI Prices



Global PMI Services Prices

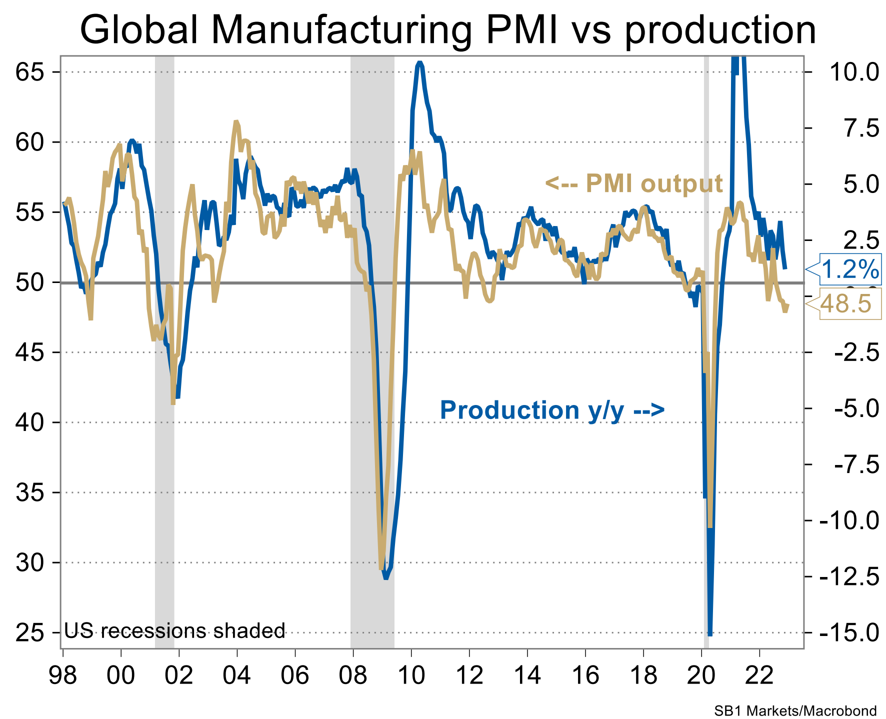


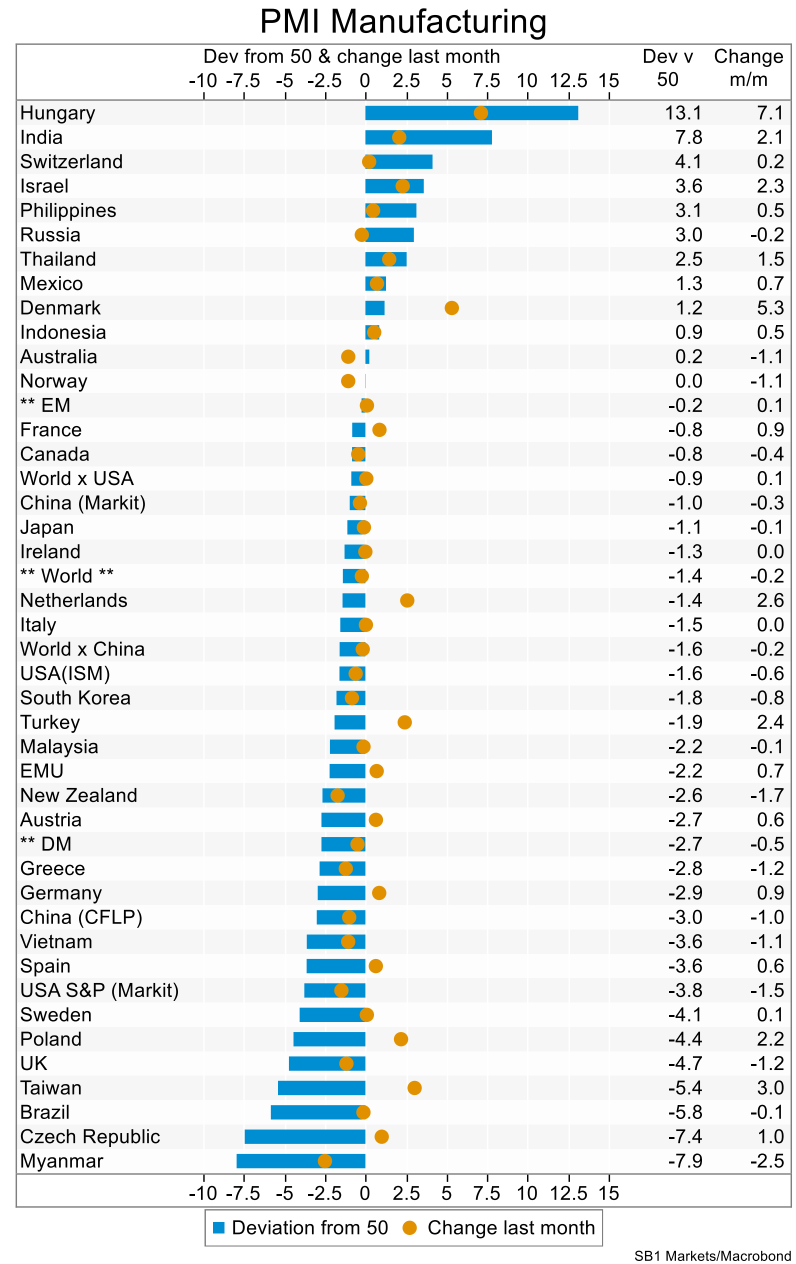
OECD Inflation vs PMI prices



A further decline in the global manufacturing PMI, while production is still OK

53% of the PMIs were up in Dec, but 71% are below the 50-line

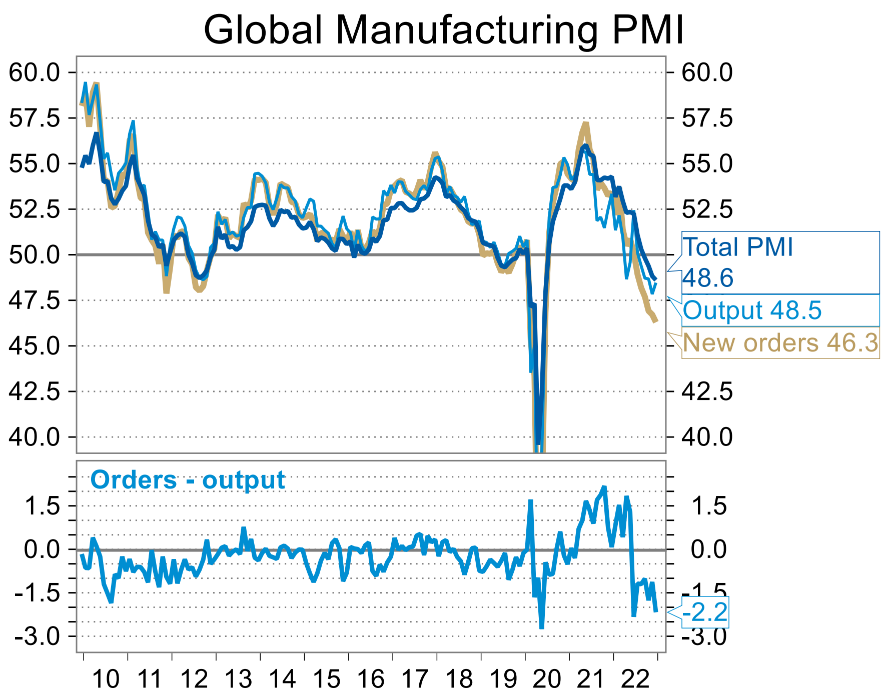




- **The manufacturing total** index fell 0.2 p to 48.5, while the **output** index added 0.2 p to 48.5 – signalling a decline in production
- **Rich countries** are far weaker than Emerging Markets, measured by the total index. Also measured by the new order index, EM x China at 50.4 (and trending flat) are ahead of DM, which has 'collapsed' to 43.5!
- **Norway's** manufacturing PMI fell further in Dec, to 50,0, sending Norway down to no.12 on the list
- **Sweden** has fallen rapidly recent months, but was up 0.1 p in Dec, to 45.9 – still a dismal reading

Output the only sub-component to contribute on the upside in December

The new order index sticks to the trend and declined to 46.3 from 46.7



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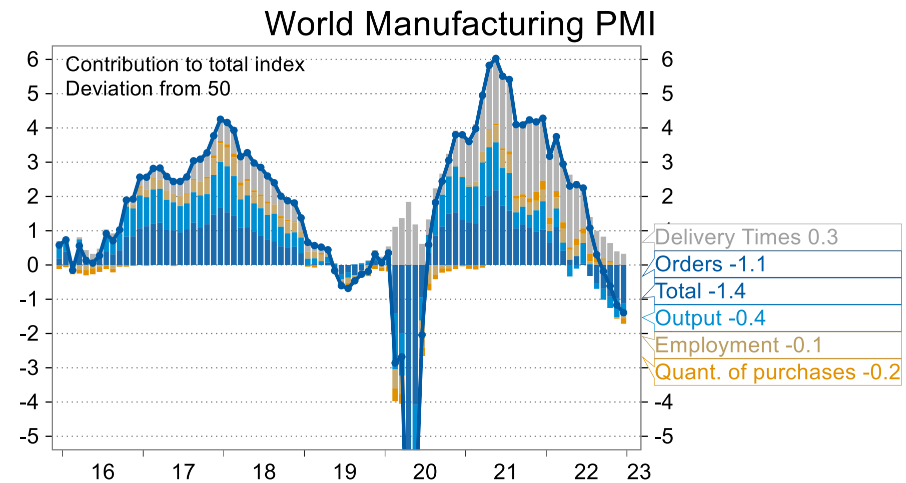

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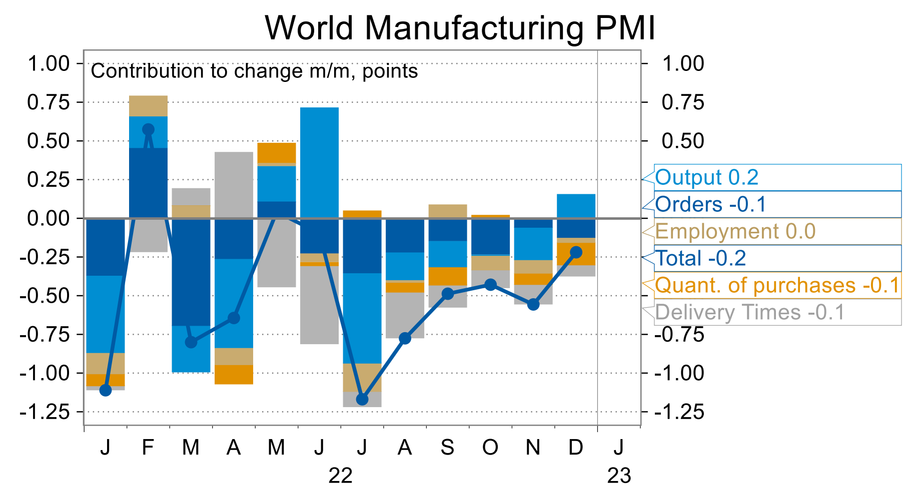
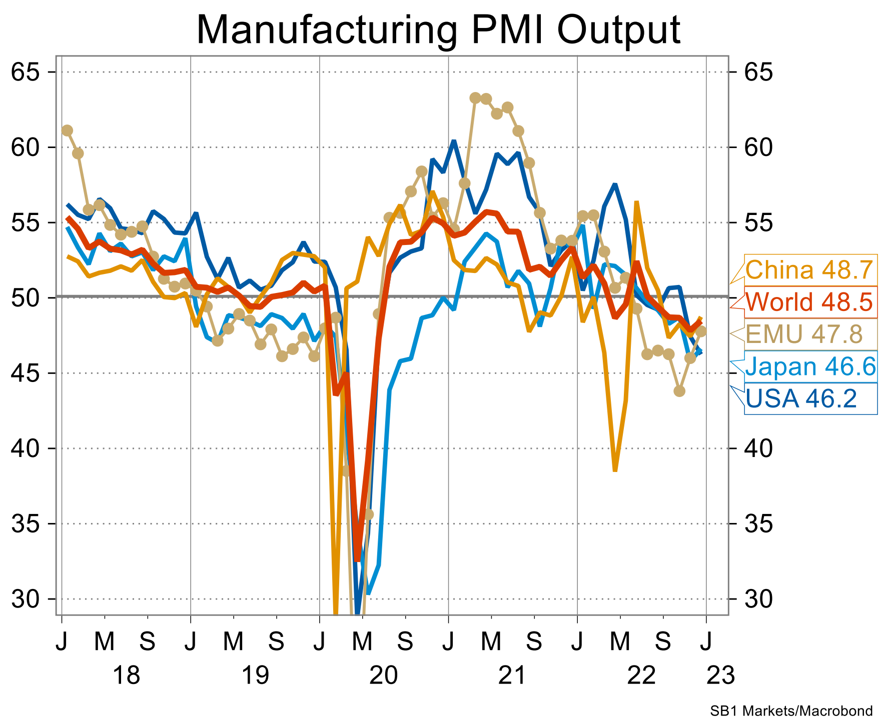
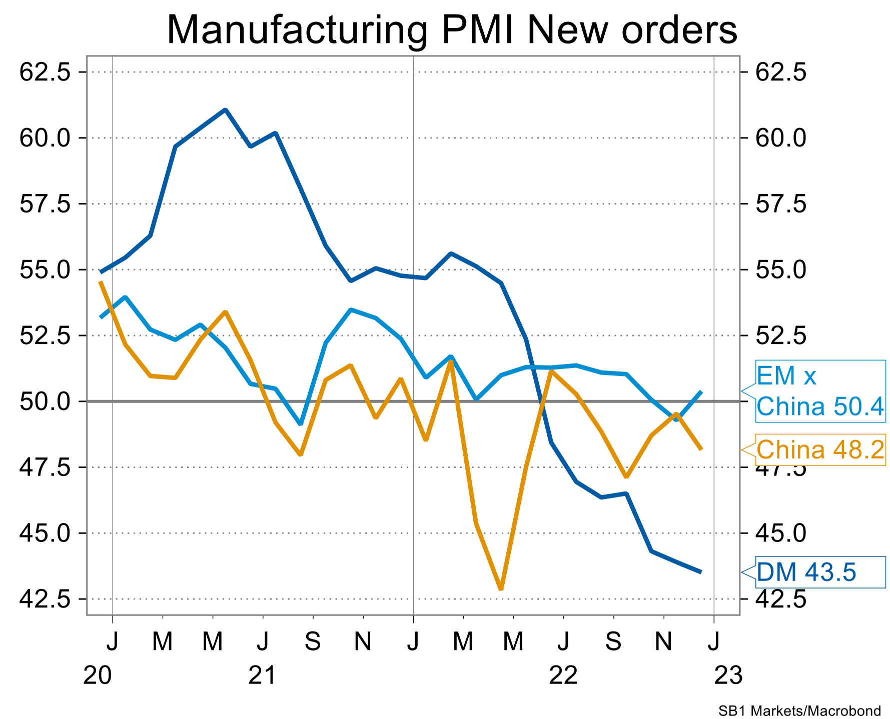


SB1 Markets/Macrobond

New orders and output are slowing in developed markets; less so in EM

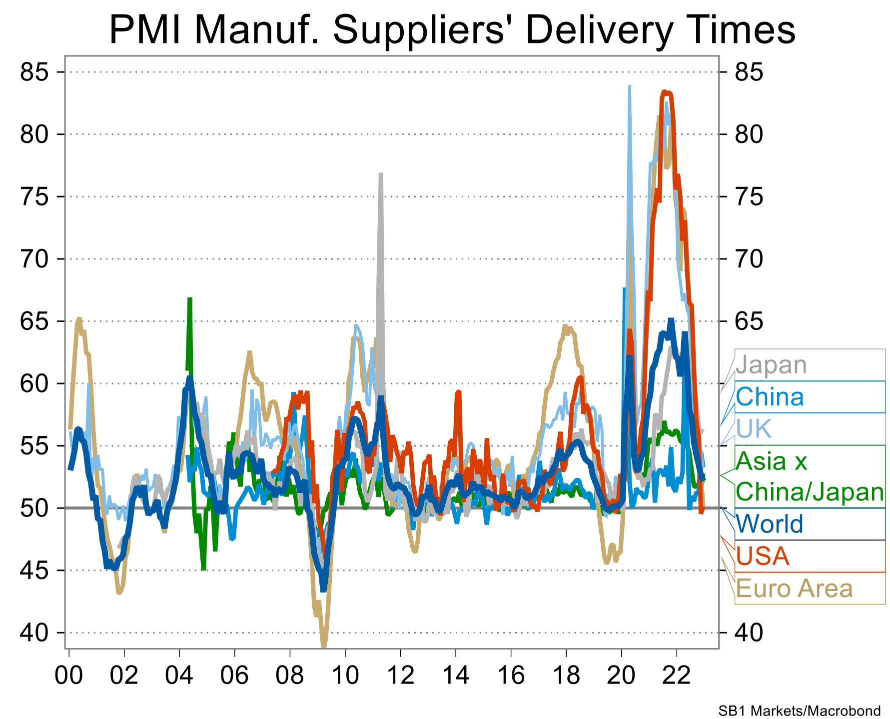
In EM x China orders are growing

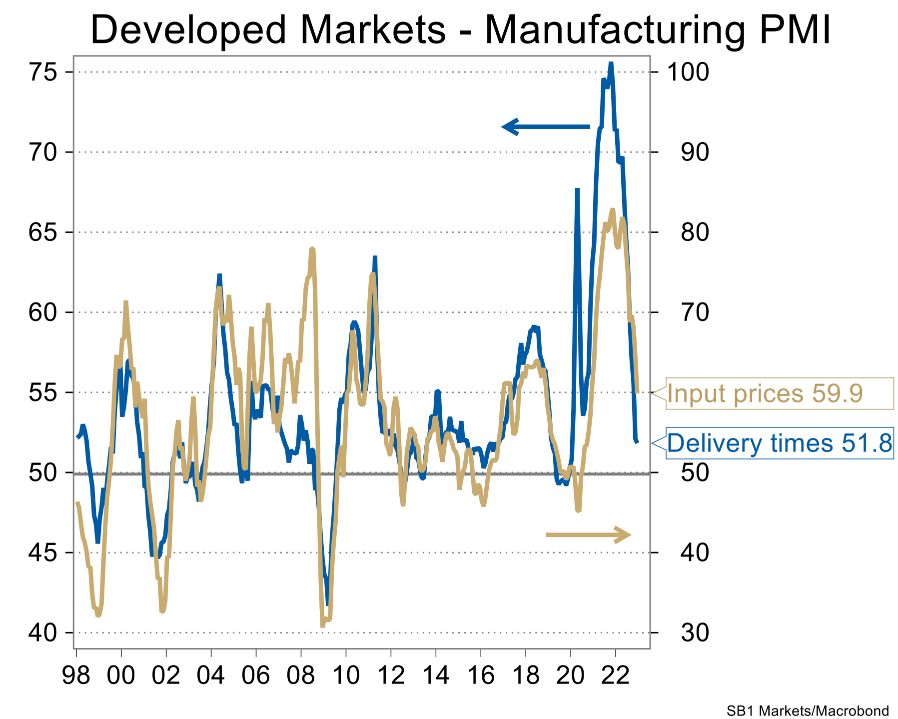




- The US index remains well below the 50-line

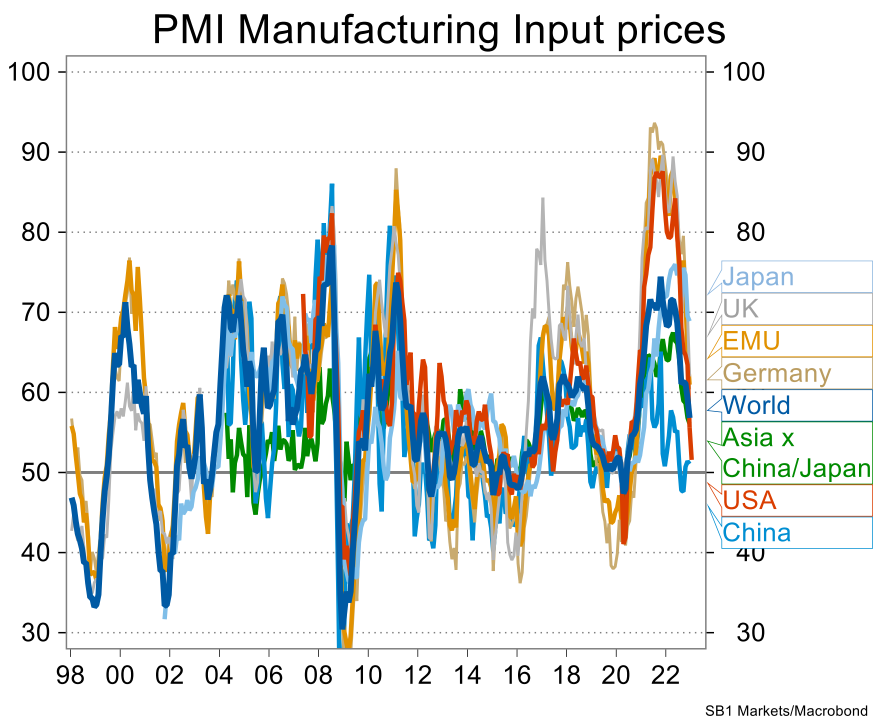
Delivery times have fully normalised, and price increased are slowing rapidly

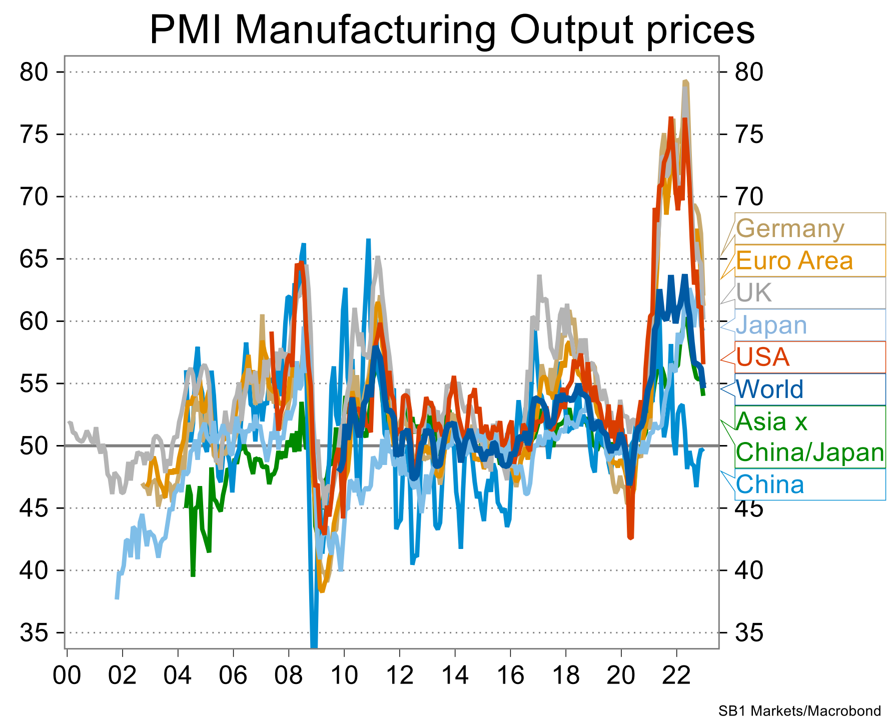




Price inflation is slowing, especially input prices, companies report

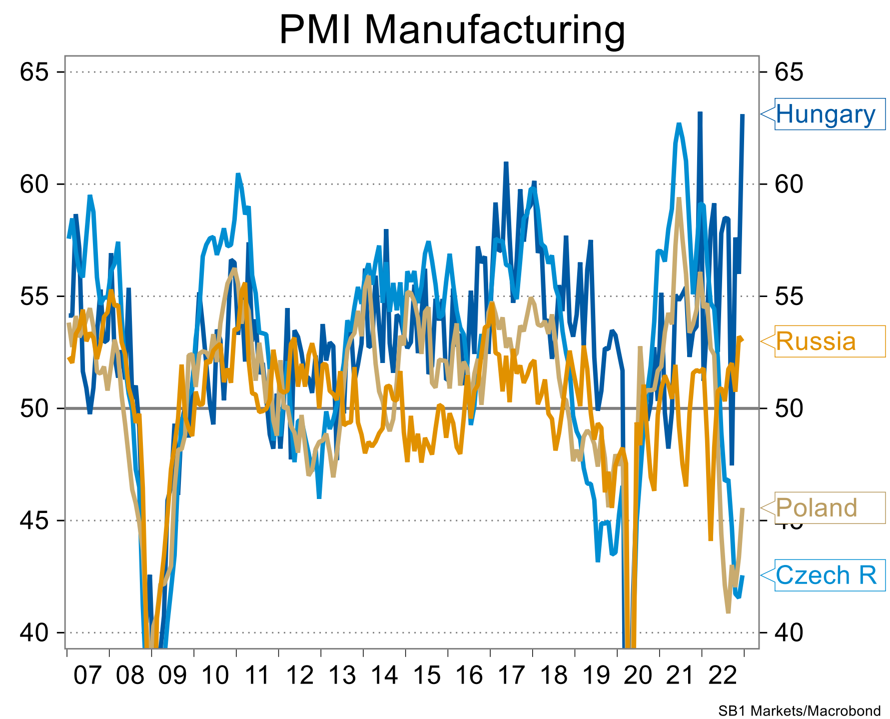
The price indices will very likely decline further, a strong signal that headline inflation will come down too

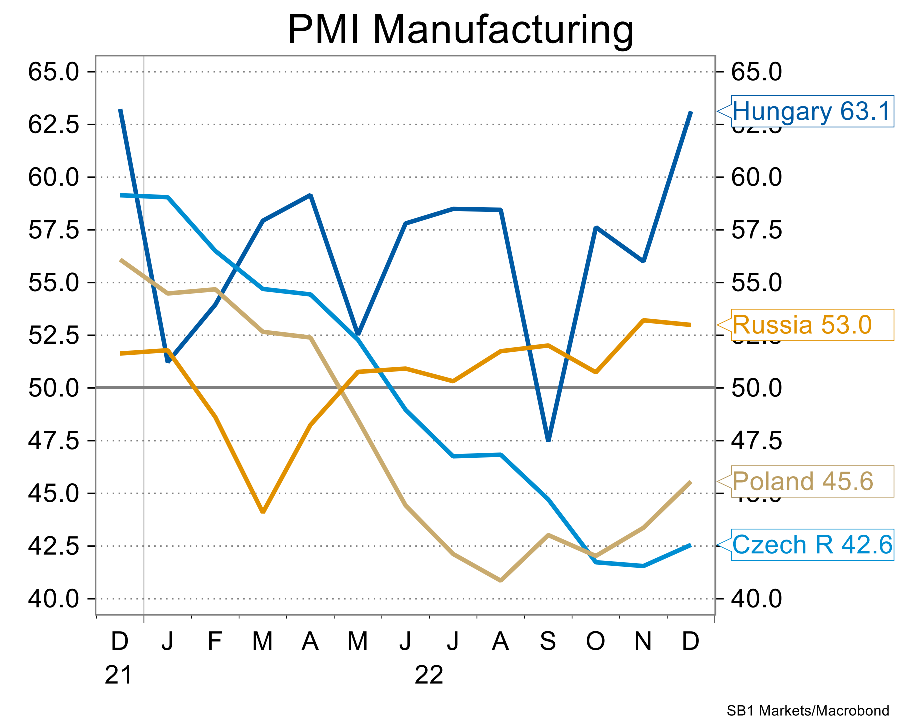




Most up in December – and Russian manufacturers report steady growth

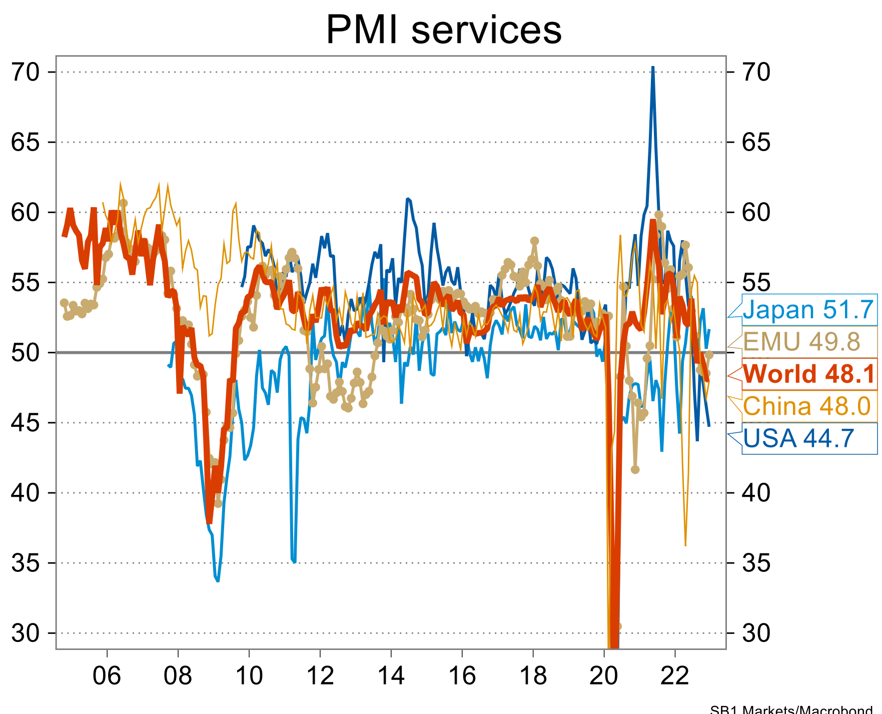
Hungary up the 2nd highest level ever (and the world's best in December) – but the index is very volatile

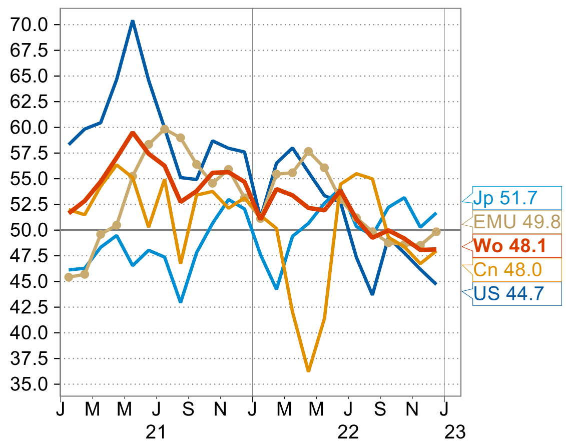


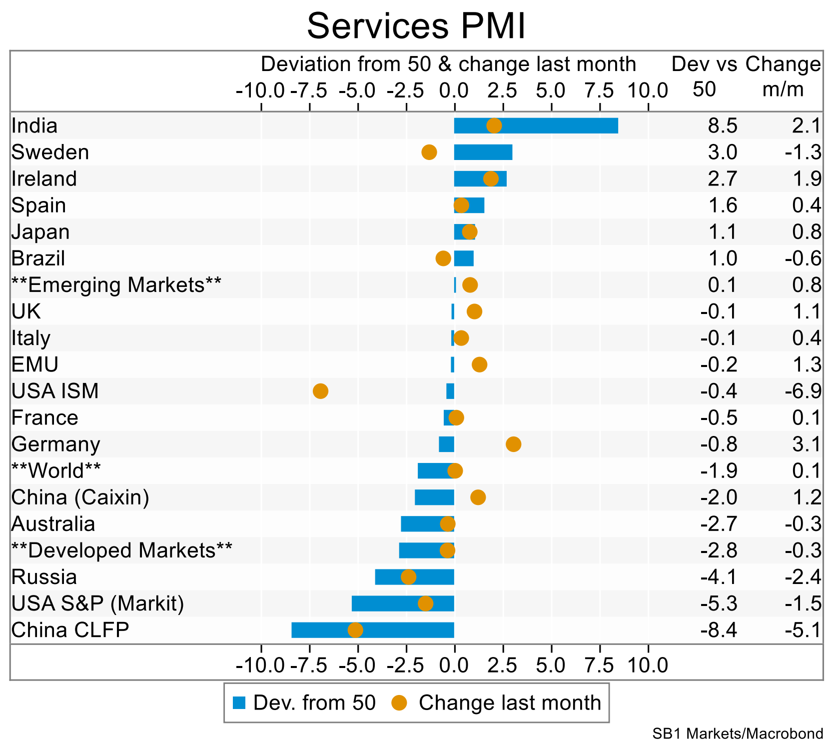


Services PMI +0.1 p to 48.1, but trend weak. All main regions below the 50-line

Both China, EMU and the US (both the PMI and the ISM, which dropped sharply!) are below the 50-line. India at 58.5!



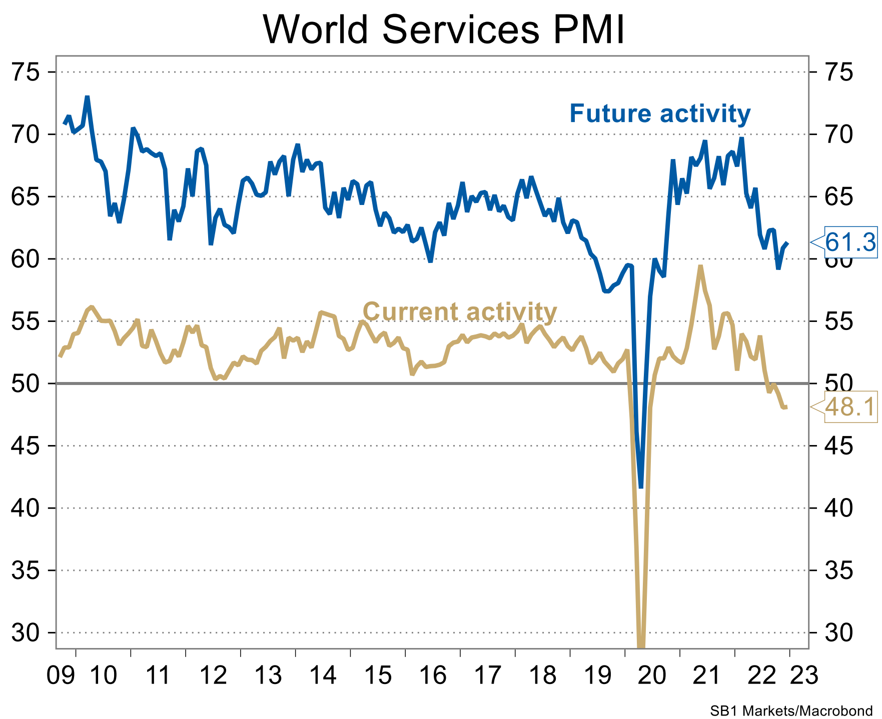


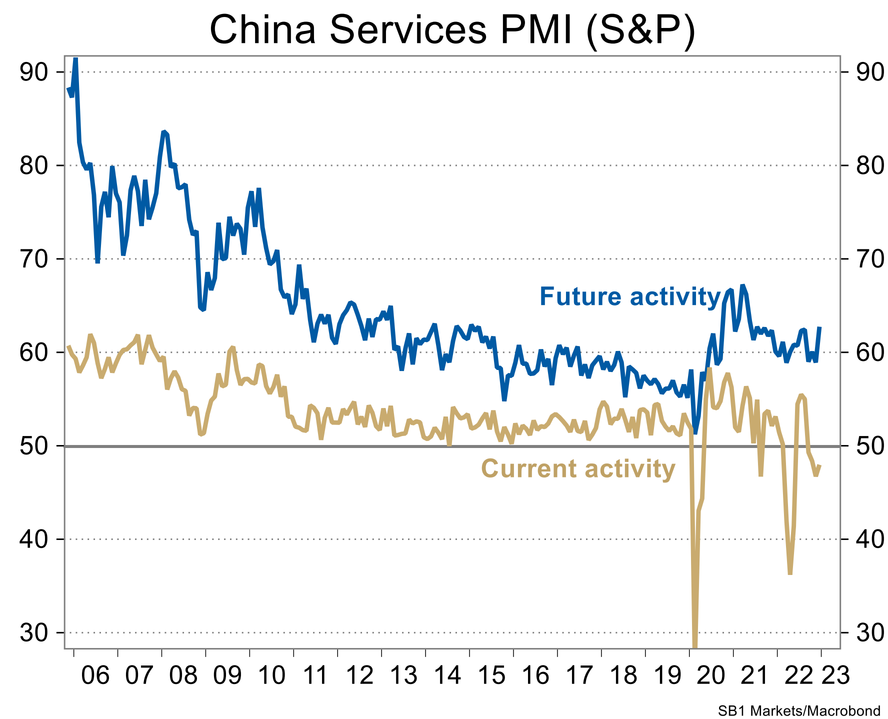


- The **ISM services survey** collapsed in December, down 6.9 p to 49.6, and the gap to the PMI was reduced to a more normal level (The ISM survey is not included in the global PMI, that place is reserved for S&P's aka Markit US survey)
- The **Chinese services NBS** survey fell to the bottom of the list (but this survey is not included in the global index either, Caxins's index is)
- The German service sector index fell sharply in November, but recovered in December – by 3.1% - and the EMU total rose 1.3 p to 49.8

Service sector companies not that optimistic vs. future activity

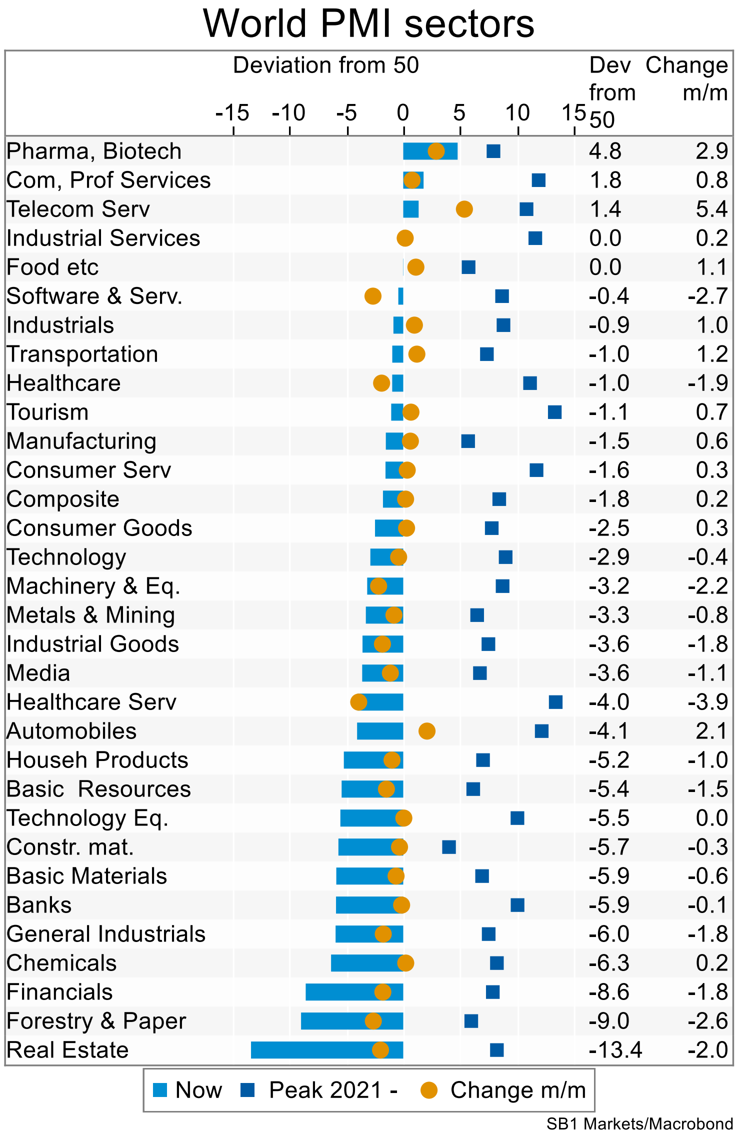
… but the outlook at tad better in December, especially in China (Covid will one day not be the problem)





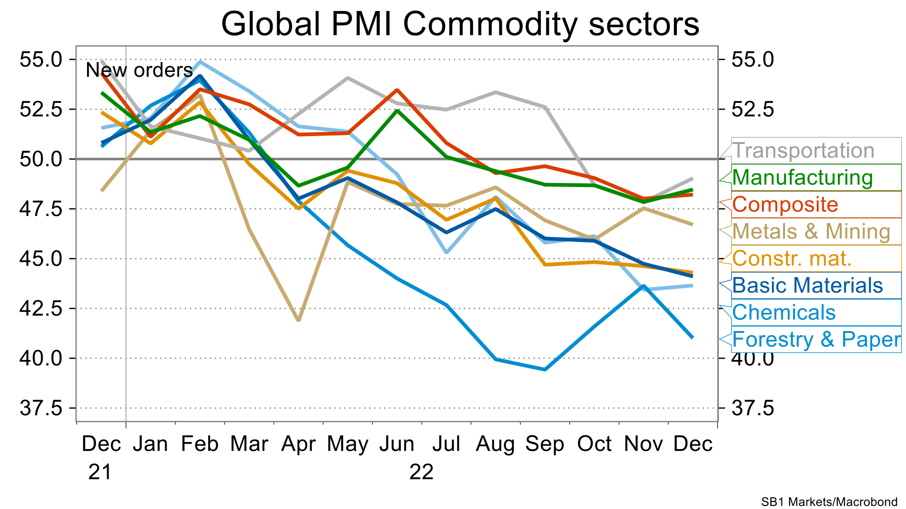
Globally: 13 sectors up, 17 down. Just 3 report growth!

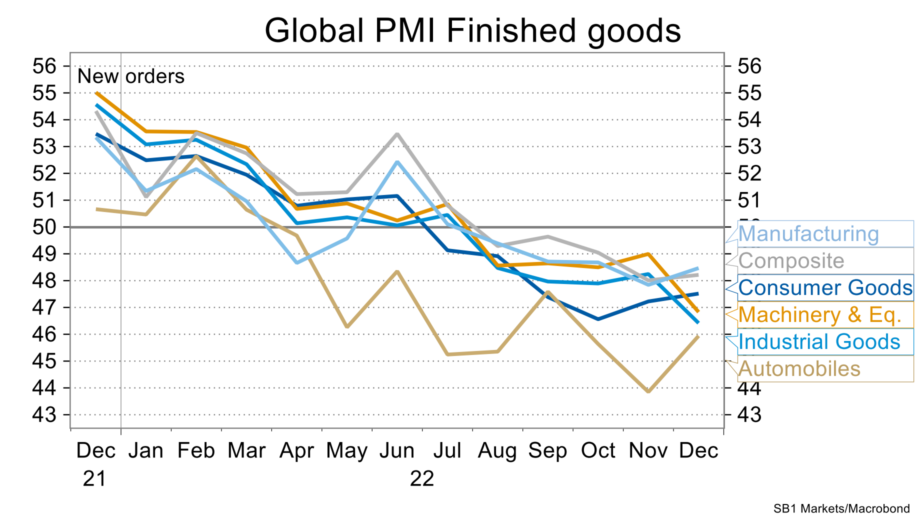
Real estate still at the bottom, due to the lift in the cost of capital



	Dev from 50	Change m/m
Pharma, Biotech	4.8	2.9
Com, Prof Services	1.8	0.8
Telecom Serv	1.4	5.4
Industrial Services	0.0	0.2
Food etc	0.0	1.1
Software & Serv.	-0.4	-2.7
Industrials	-0.9	1.0
Transportation	-1.0	1.2
Healthcare	-1.0	-1.9
Tourism	-1.1	0.7
Manufacturing	-1.5	0.6
Consumer Serv	-1.6	0.3
Composite	-1.8	0.2
Consumer Goods	-2.5	0.3
Technology	-2.9	-0.4
Machinery & Eq.	-3.2	-2.2
Metals & Mining	-3.3	-0.8
Industrial Goods	-3.6	-1.8
Media	-3.6	-1.1
Healthcare Serv	-4.0	-3.9
Automobiles	-4.1	2.1
Househ Products	-5.2	-1.0
Basic Resources	-5.4	-1.5
Technology Eq.	-5.5	0.0
Constr. mat.	-5.7	-0.3
Basic Materials	-5.9	-0.6
Banks	-5.9	-0.1
General Industrials	-6.0	-1.8
Chemicals	-6.3	0.2
Financials	-8.6	-1.8
Forestry & Paper	-9.0	-2.6
Real Estate	-13.4	-2.0

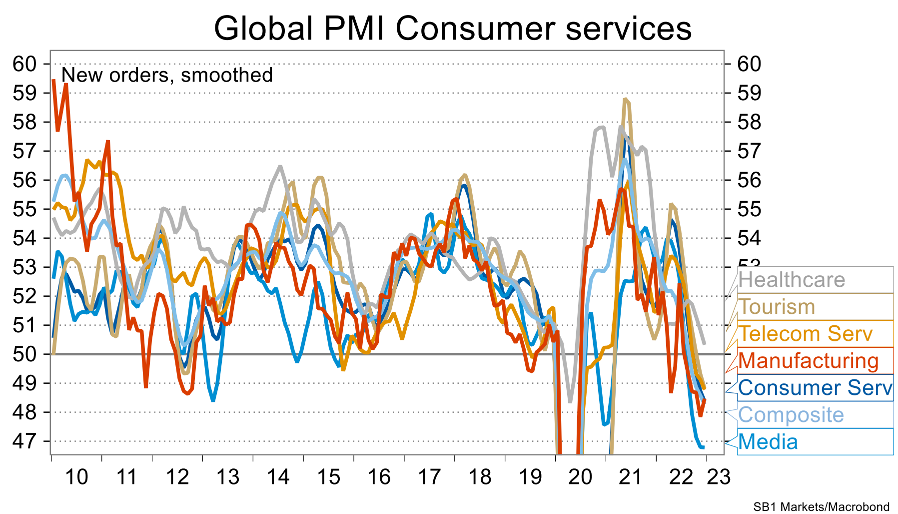
- are reporting a decline in activity
- Financials, real estate at the bottom

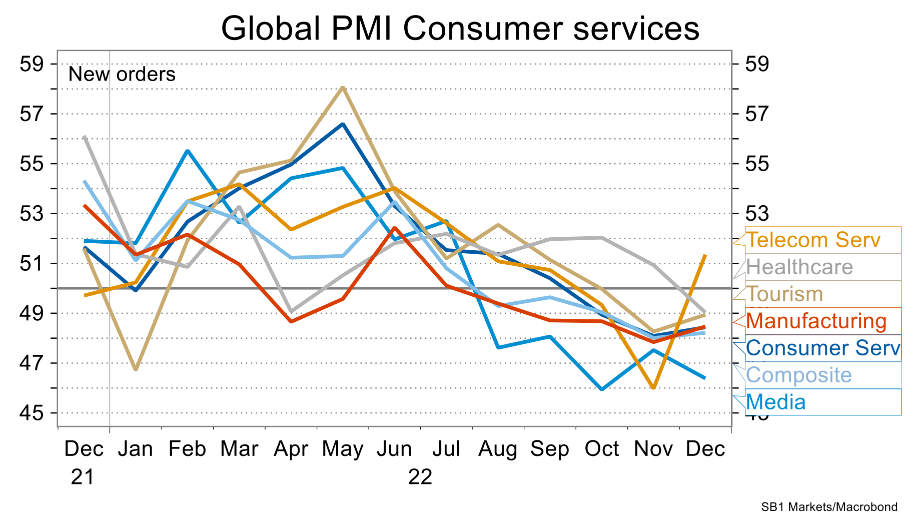


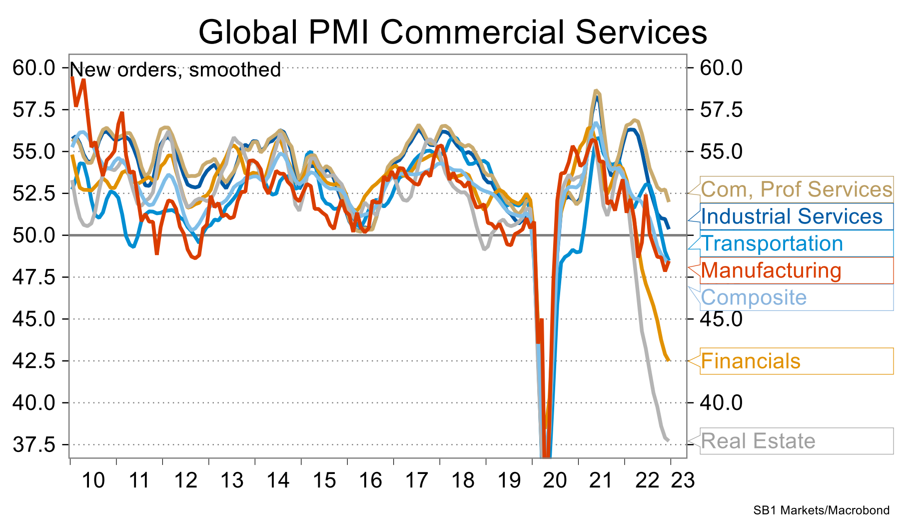


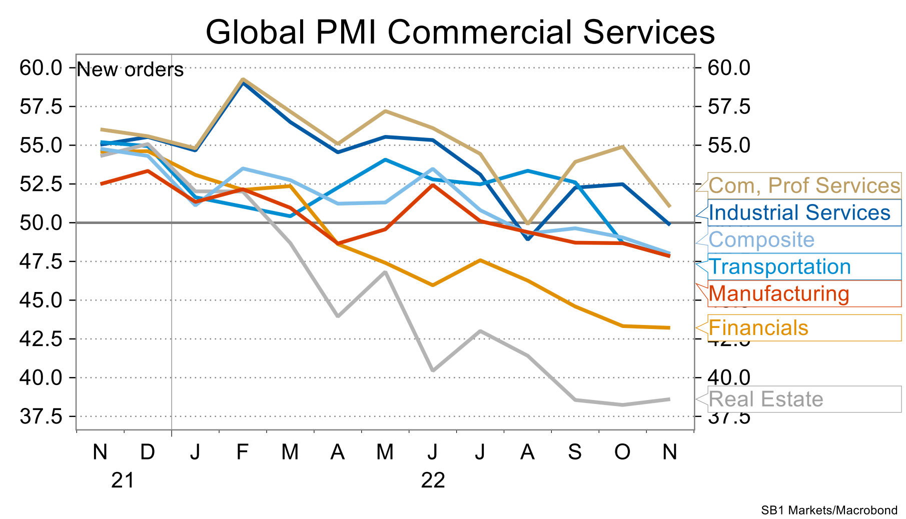
Services are contracting… faster

Beware real estate: has fallen sharply recent months. We think we know why



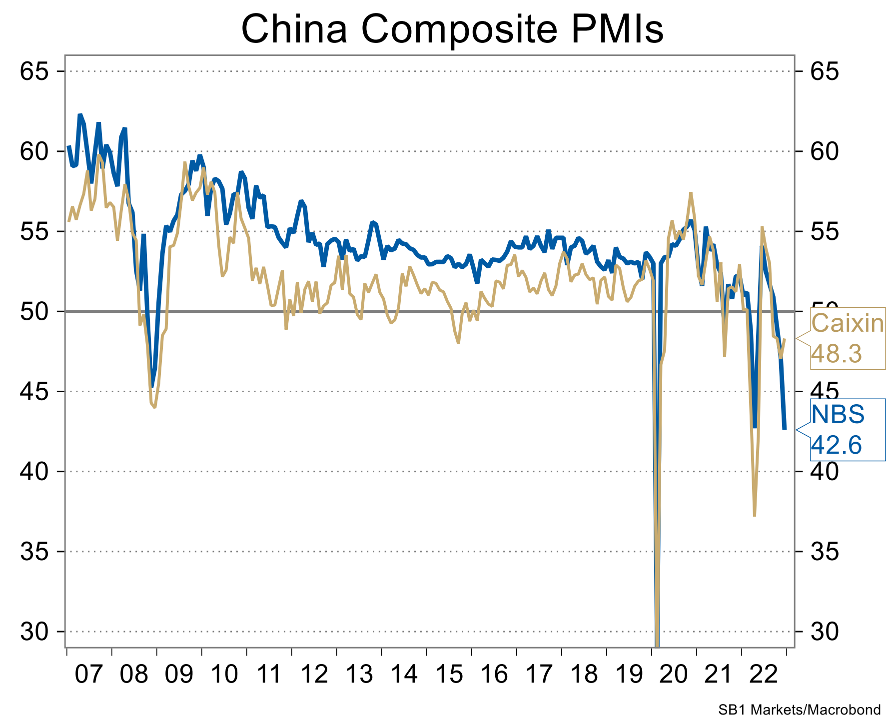


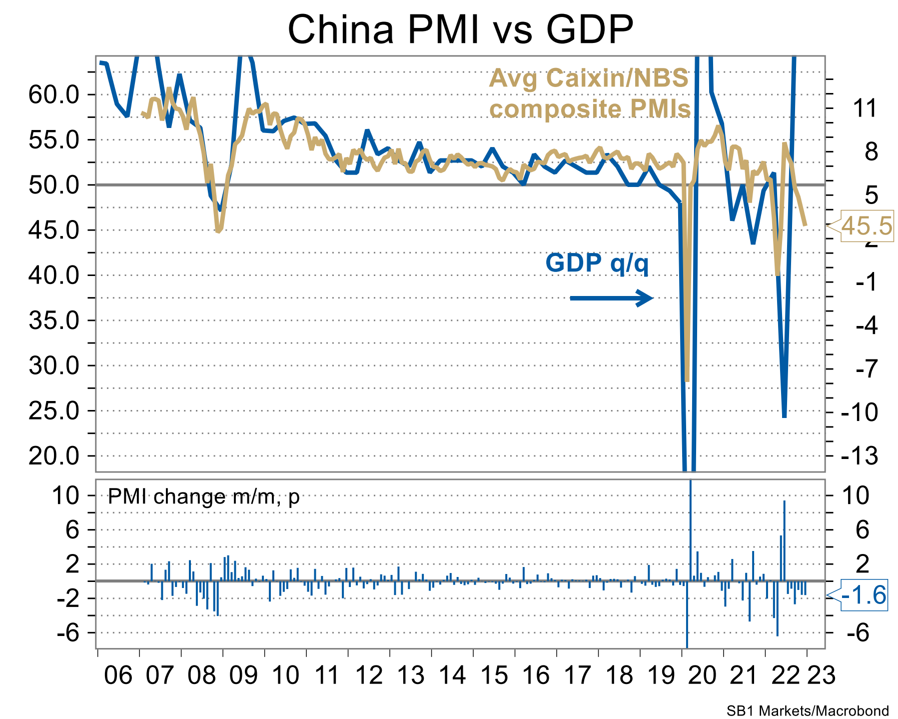




Another downturn in December, after Covid restrictions were lifted

The NBS/CFLP PMIs fell sharply to a very low level (42.6), while the Caixin survey rose – but remains weak (48.3)

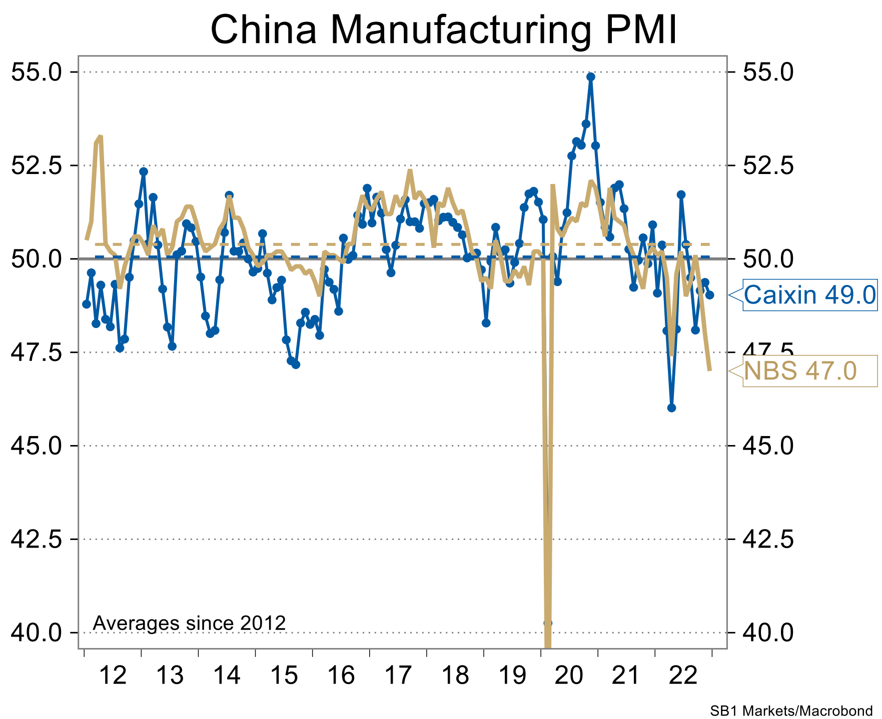


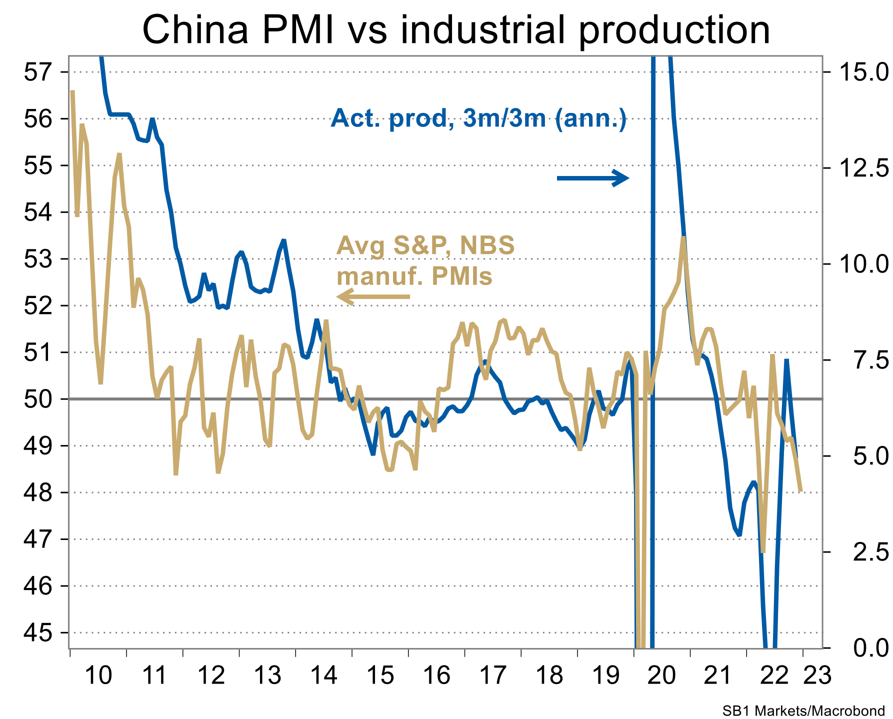


- The **NBS/CFLP composite PMI** fell by 4.5 p to 42.6, the 2th lowest level, just Feb-20 was lower, expected just marginally down. Both manufacturing and services contributed at the downside, services the most (published the previous week-end)
- However, last week Caixin reported an uptick int its **PMI**, due to an increase in services – rather surprising given the steep decline in the NBS survey. The composite index gained 1.3 to 48.3, well above expectations
- The average of the two data sets fell 1.6 p to 45.5, an unusual weak print but still well above the level during the lockdown wave in last April. The aggregate signals around 3% growth in GDP
- No doubt, the wild spread of the virus following the **abrupt change in Covid policy** from early December is now hitting the Chinese economy as people are sick or self-isolate themselves. 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. Mobility may already be on the way up, check 5 pages forward

Caixin's manuf. PMI far better than the NBS peer, but the sum is still weak

Both surveys were weaker than expected





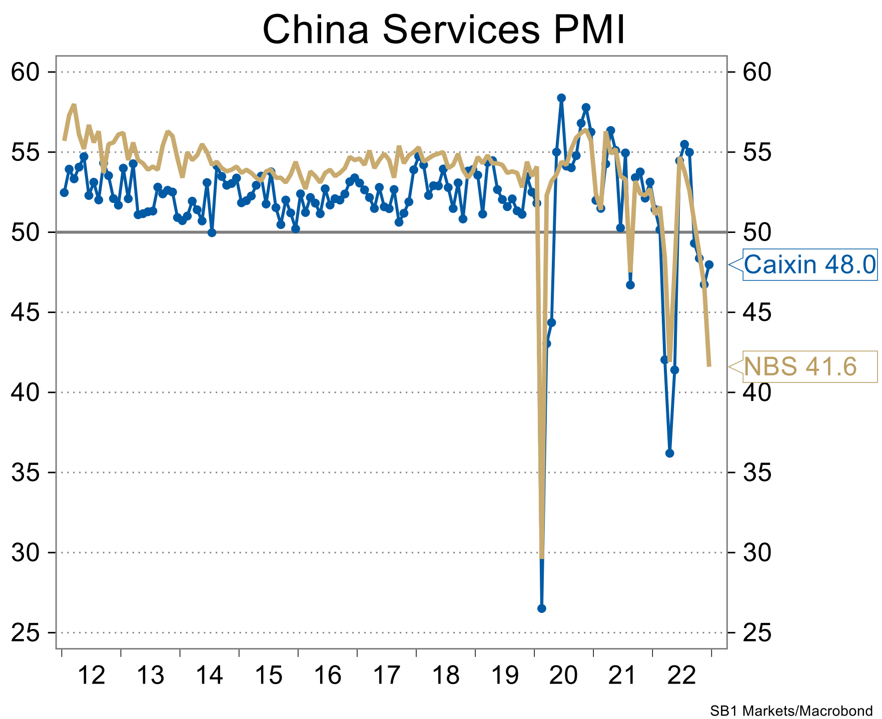
Order inflow is slowing – both from home and abroad

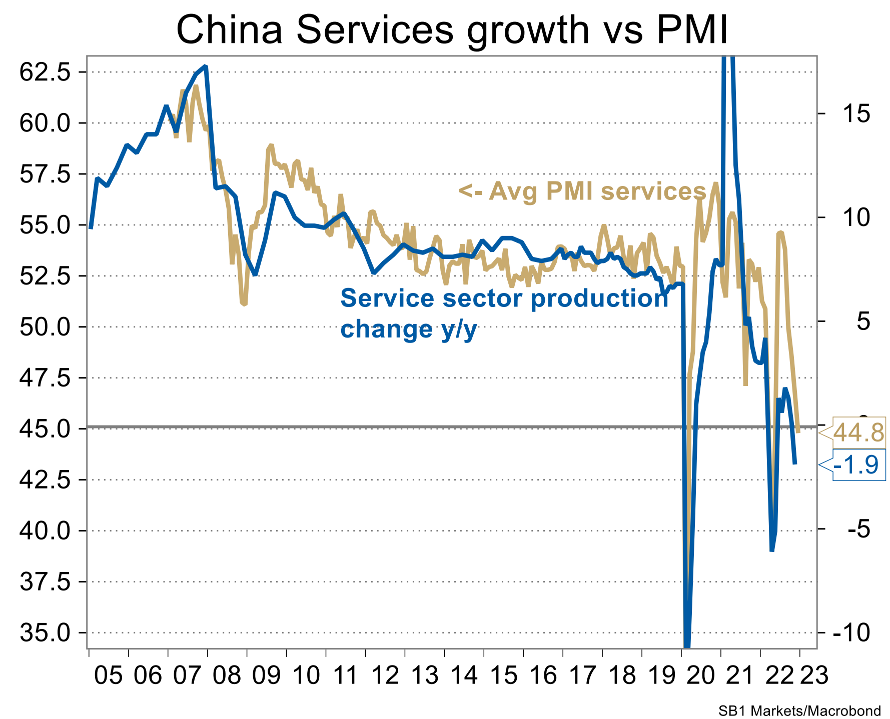
But even order inflow is likely influenced by the current Covid wave (like during lockdowns in 2020 and last spring)

- Export order surveys are now on the weak side. These indices (including a export climate index) ware weaker just during the financial crisis and at the start of the pandemic. However the levels in December were far better than during these two occasions

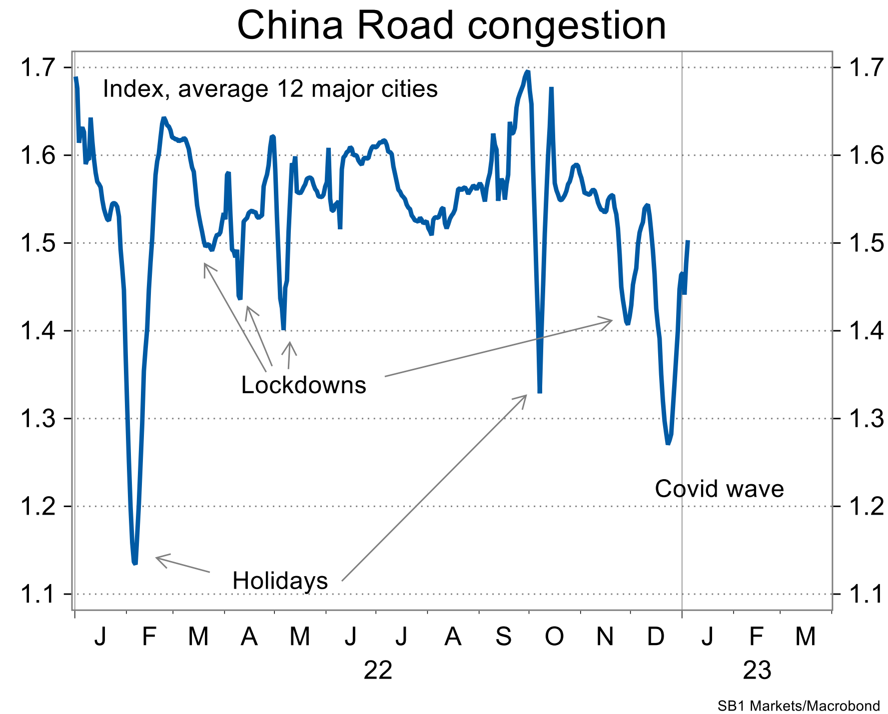
A steep decline in NBS service sector PMI too…

…while Caxin's service PMI was up 1.3 p to 48. In sum, they are most likely signalling a slowdown in Dec



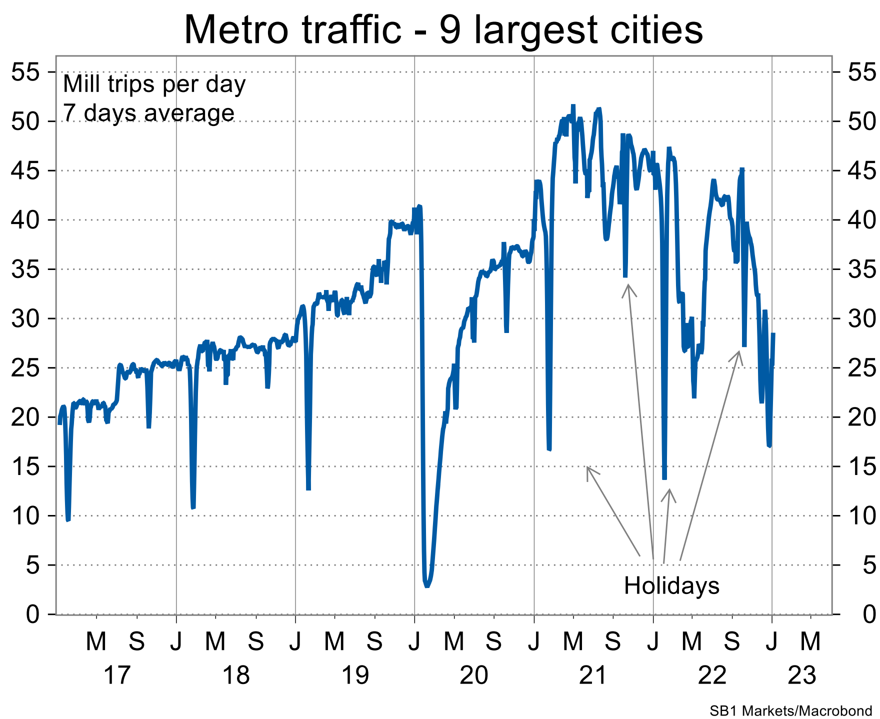


Road traffic down in mid December, has now recovered



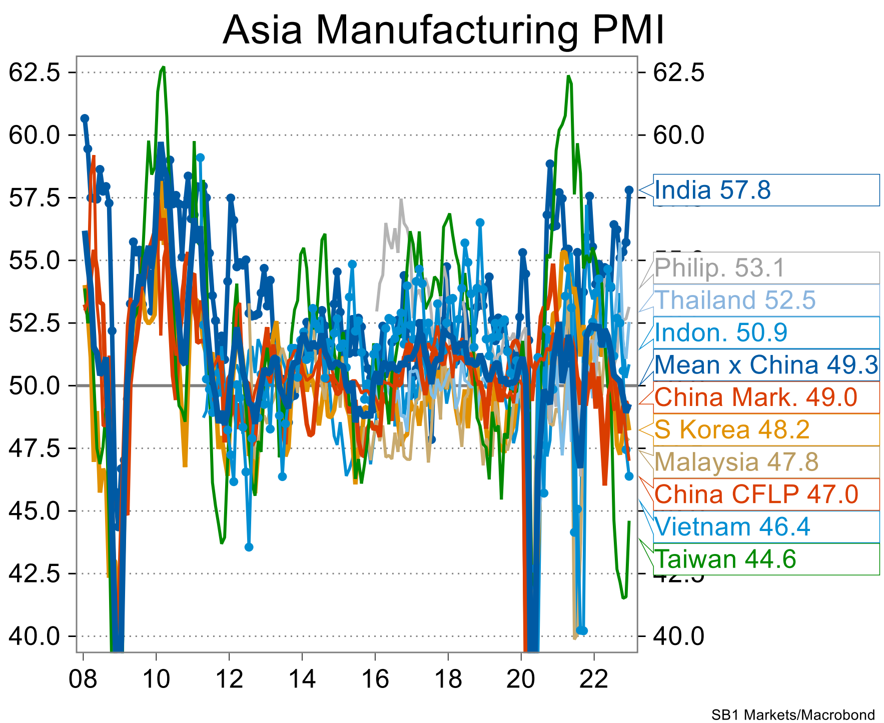
Metro traffic is still on the low side – and airline traffic is very low (Nov data)

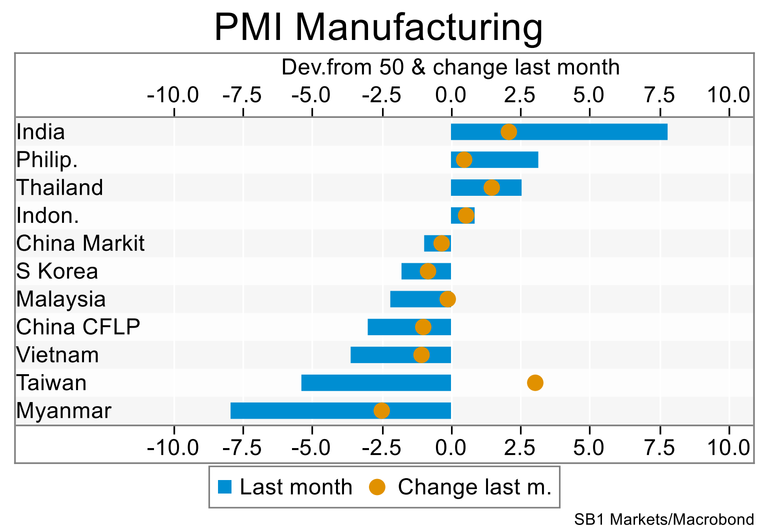
We are quite confident: not before too long, both will return to (more or less) normal levels

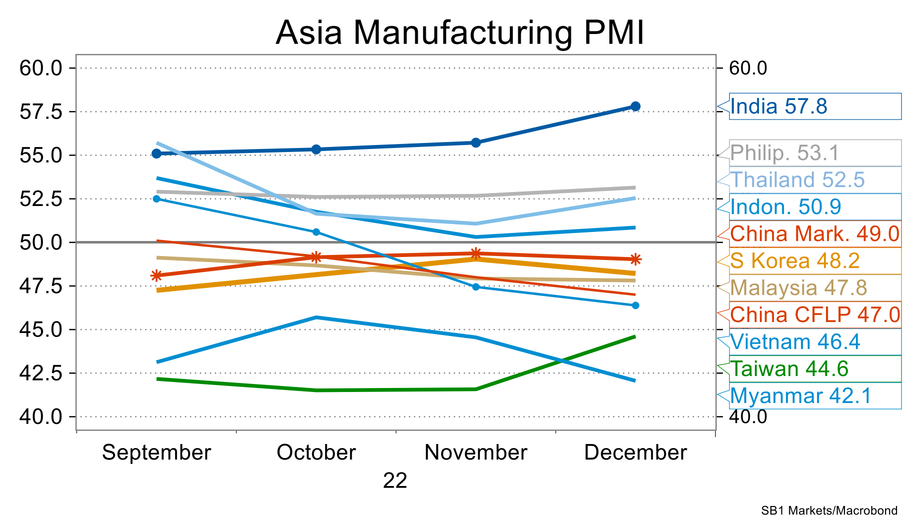


More up than down in Asia – and the majority report PMIs < 50

4 countries reported stronger PMIs in Dec, while 6 slowed. India at the top, Taiwan up but still very weak



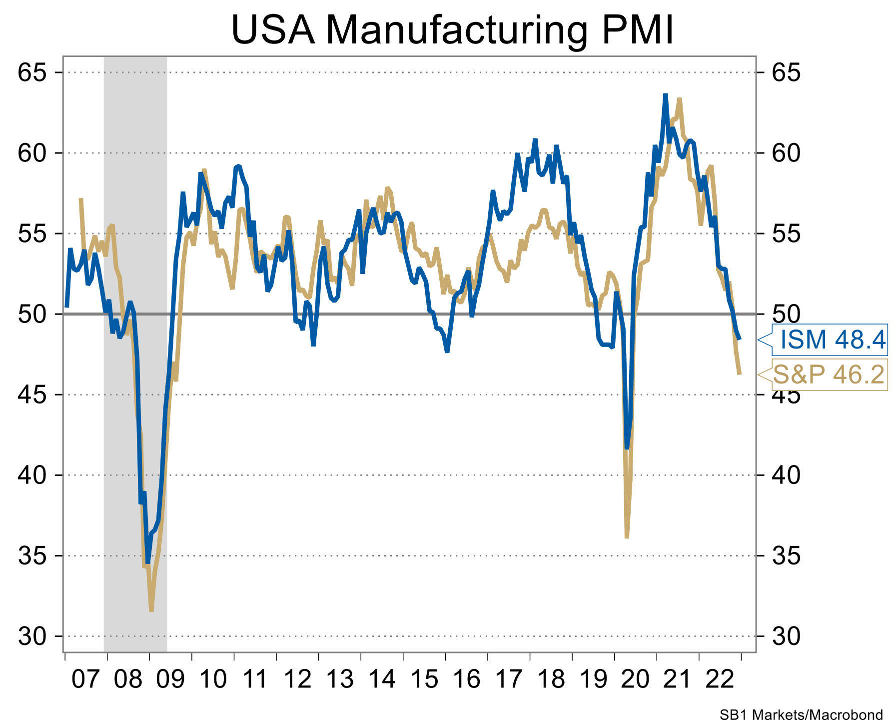


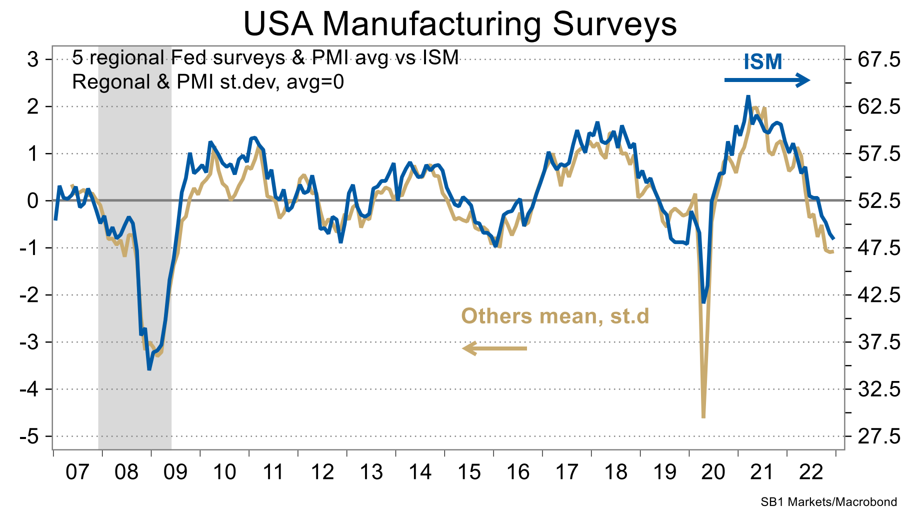


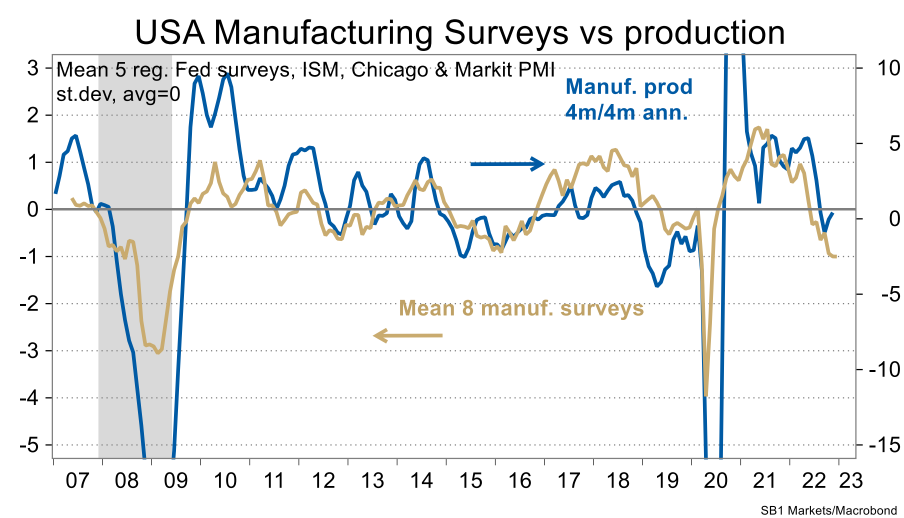
- India is still reporting very strong growth – and even stronger in December. The strongest growth in the world, in fact!

Manufacturing surveys: below the '50-line'; production has just flattened

The ISM fell 0.6 p to 48.4, expected 48.5. S&P's PMI -1.5 p to 46.2 (like the first estimate)



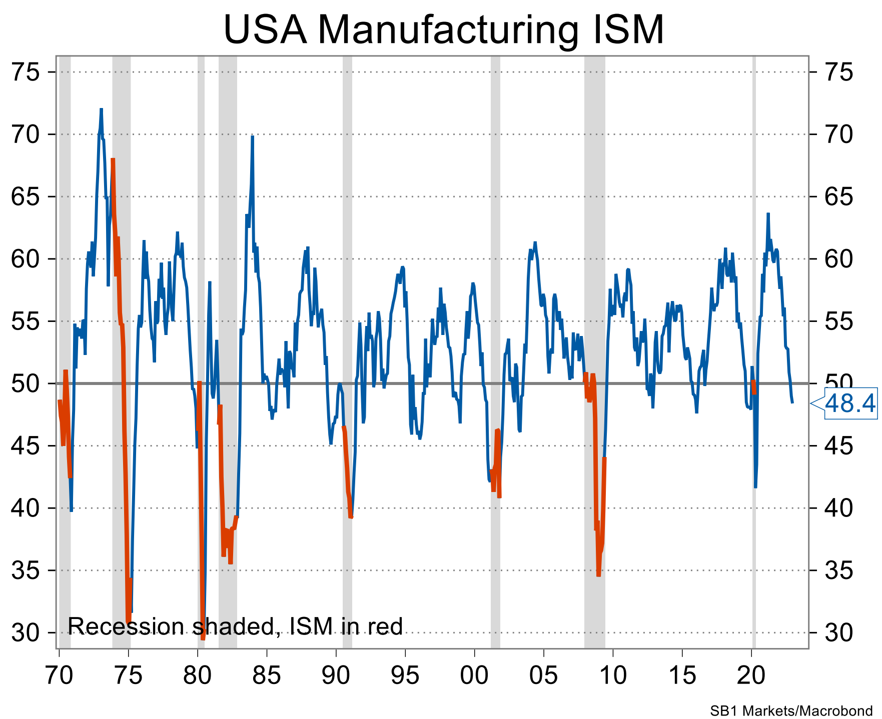




- Both the **ISM, the S&P's PMI and a bunch of regional Fed surveys** are heading straight down, and almost all are below average, and below the '50-line' (named 'zero' in some surveys)
  - Other surveys are on average weaker than the ISM, at a level equalling 47.3
- We expect a continued slowdown the coming months, as orders are unusually weak (if not deep into a recession)
- **Production** will most likely follow suit, even without a further weakening of the these surveys – they are already reporting a setback in the manufacturing sector

The manufacturing ISM fell further in Dec, as input prices are falling rapidly!

No clear recession signal yet. However, the order component sends a warning

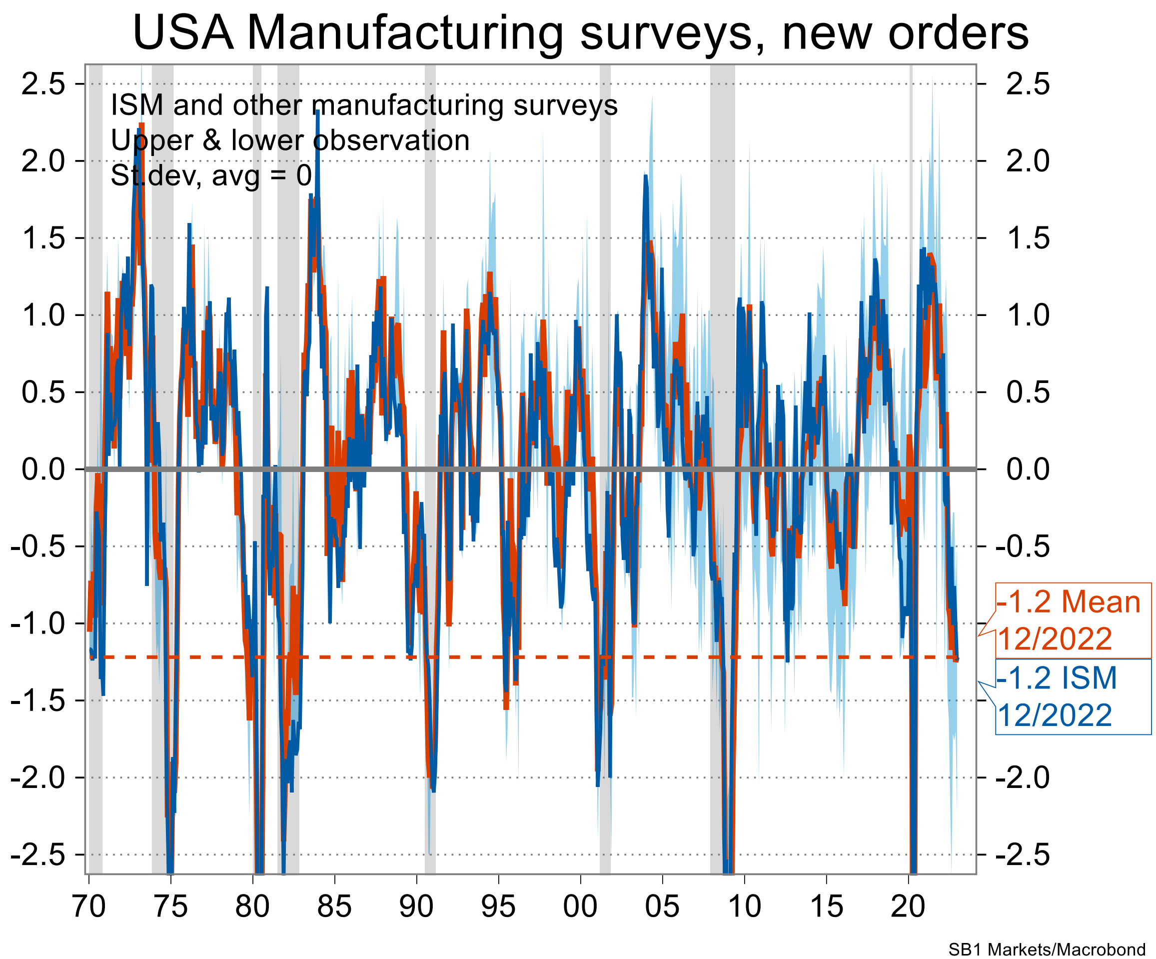


The **ISM manufacturing survey** confirms a gradual slowdown in the US economy, but not as much as the average (and median) of other surveys

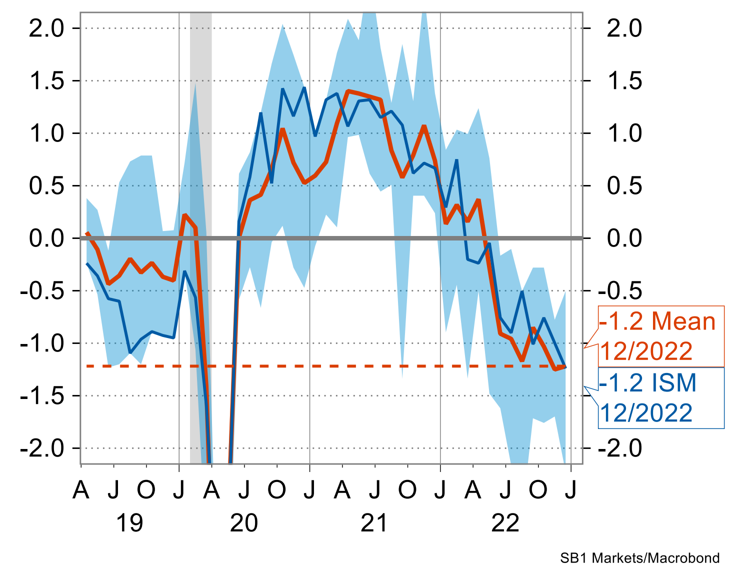
- The total index fell by 0.6 p to 48.4, more or less in line with expectations at 48.5
- In December, 2 of 18 manufacturing sectors reported **growth** (down from 6 in Nov), 13 sectors reported a decline in activity (up from 12)
- The **new orders** index declined another 2 p to 45.2, and it is now the 4th month of falling orders. 3 of 18 sectors reported growth in new orders in December. Other surveys agree. The **order backlog** actually increased by 1.4 p to 41.4, but the level is of course very low
- The **production** index fell 3 p, and crossed the 50-line, to 48.5. The risk is on the downside, given the low order indices in several surveys
- The **employment** index increased by 3 p to 51.4, suggesting an increased demand for labour (not what the Fed hoped to see)
- The **delivery times** index fell further, to far below 50 as **supply chain** issues are dissipating: 8 commodities saw **price increases** (from 3 last month and 40 in May, and 56 at the peak). 18 were down in price, like aluminium, steel, and natural gas (up from 11 commodities in Nov). 10 commodities were reported in **short supply**, up from 6 in Nov (and far below the peak at 50 commodities a few months ago). The price index fell to 41.5, signalling a fast decline in input prices
- In addition, **inventories are growing, and the manufacturers assessment of their customers' inventories** confirms that markets have become more balanced.
- The input **price** index fell sharply for the 3rd month to 39.4, signalling falling prices! The supply chains issues – that were due to very strong demand, not weak production/transportation capacity – are now being sorted out – and prices/margins will very likely be cut, most places!
- **Comments** are mixed – many some are still reporting that labour is a scarce commodity, but several are acknowledging a slowdown in demand

At the current pace of contraction in new orders a recession usually follows

The ‘95 soft landing is the only exception, a false red flag. The 8 recession signals turned out to be correct

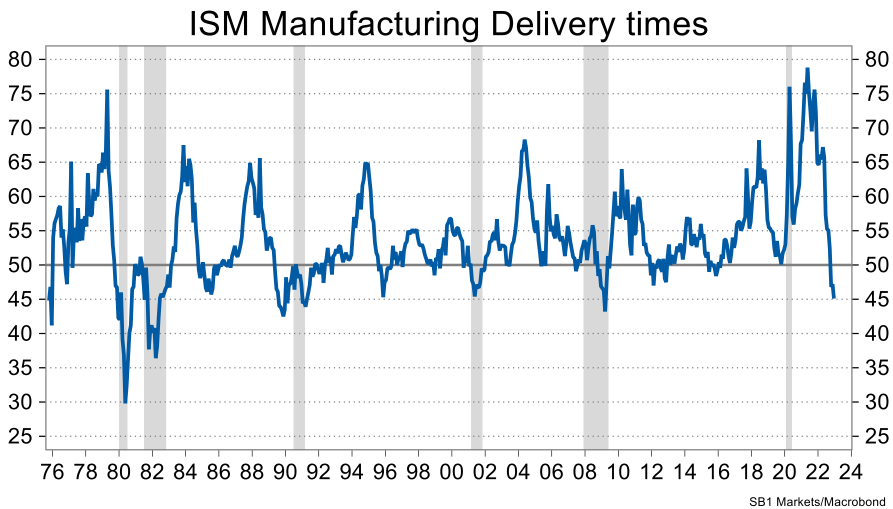


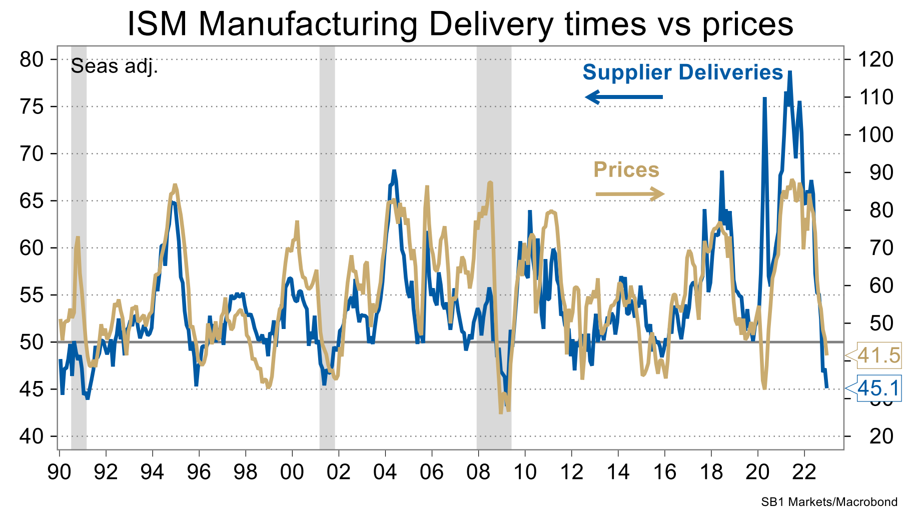
Since last summer, manufacturers have consistently reported lower order inflow, and that the pace of contraction has increased (but not at a much faster pace recent months. Actual order data have kept up better, at least in nominal terms

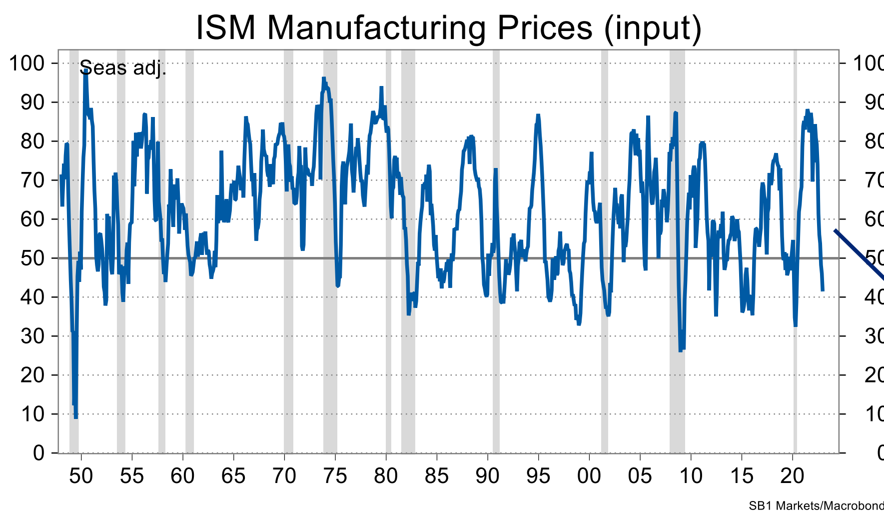


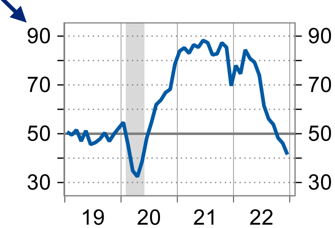
Input prices are falling, companies report, and delivery times have normalised

The price index is now at 41.5, and the delivery index at 45.1!







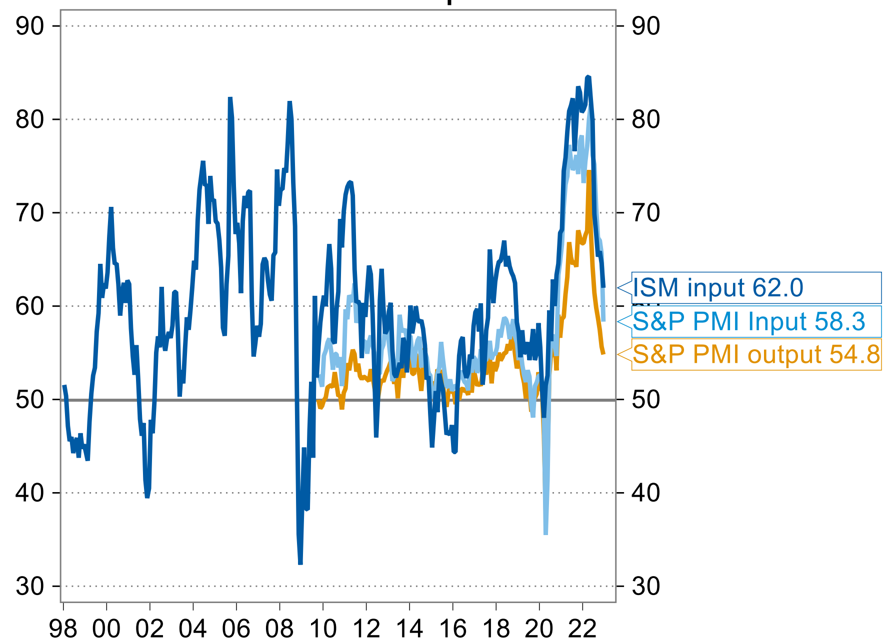


- No more price increases, a VERY strong signal that inflation at the consumer level will yield, at least for goods
- The supplier deliveries index has fallen to 45 in December from 67 in April, implying shorter delivery times and that supply-side issues seem to be history even if imports (from China) collapsed in November – because demand also has slowed?

PMI & ISM reports slower growth in prices, but services ISM prices still high

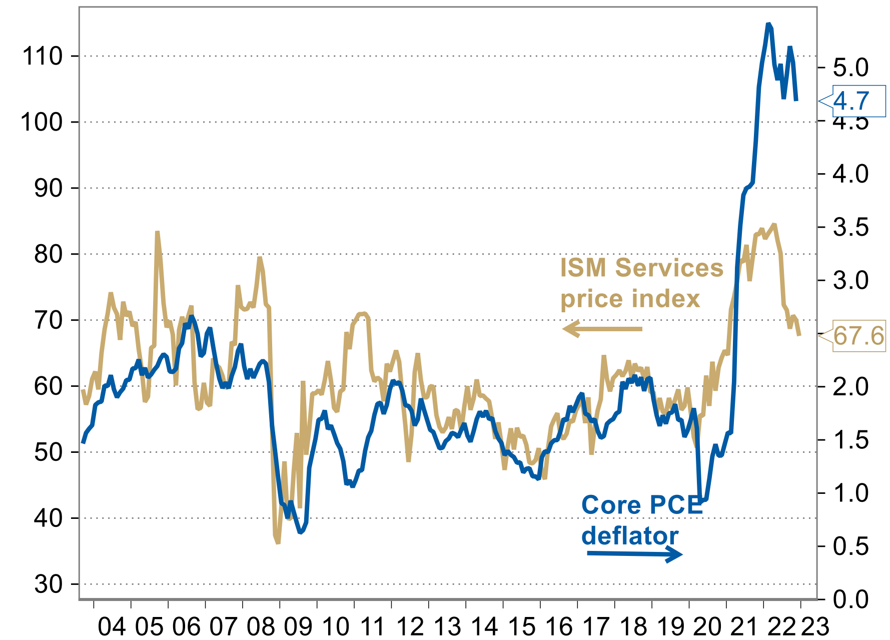
... but the current ISM signals a far ‘lower’ than the actual core CPI inflation

USA PMI/ISM Composite Price Indices



SB1 Markets/Macrobond

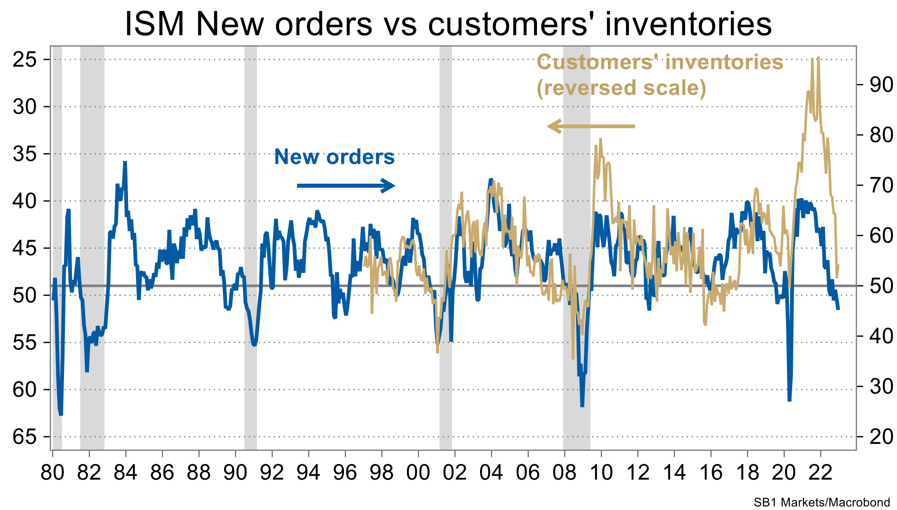
USA ISM Prices vs core PCE

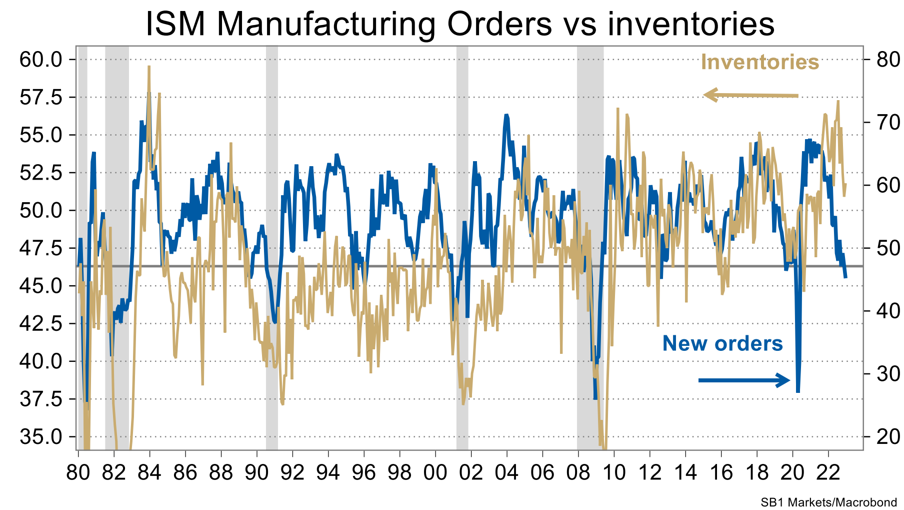


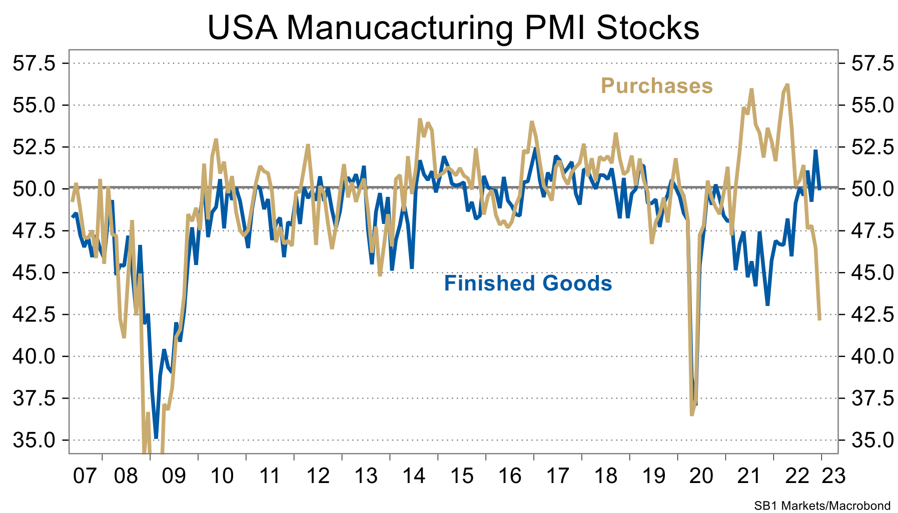
SB1 Markets/Macrobond

Customers' inventories are probably increasing

… signalling less need for new orders to manufacturers the coming months





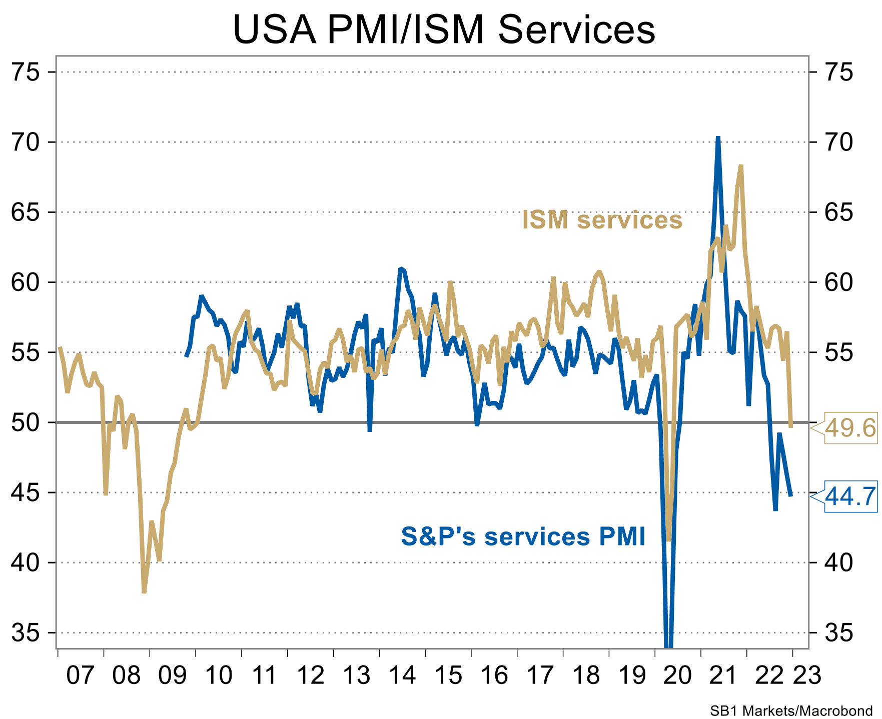


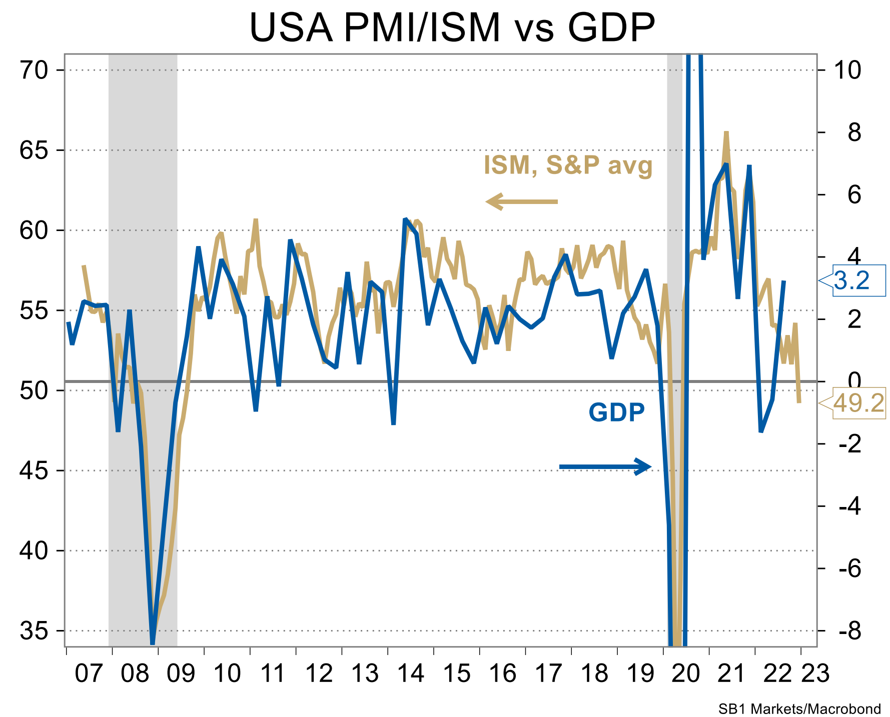
Still confusingly mixed on own inventories

- **ISM** reports higher growth in inventories of purchases in the manufacturing sector in December, and still much faster growth than normal. However, companies are now reducing purchases, to bring growth in inventories down. Customers' inventories are still increasing too
- The **PMI survey** (S&P/Markit) reports falling inventories of purchases (and not increasing, like in the ISM survey). In December, inventories of finished goods also fell into contractionary territory

Mind the closing gap: ISM services collapsed, the 3rd largest decline ever

The decline came totally out of the blue, and contributed to the decline in bond yields on Friday

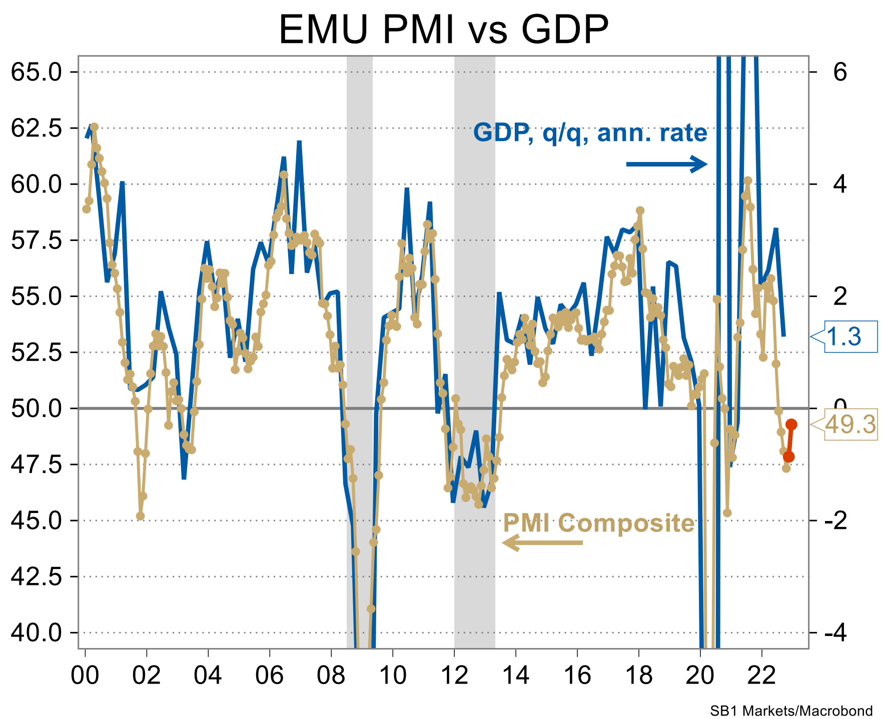


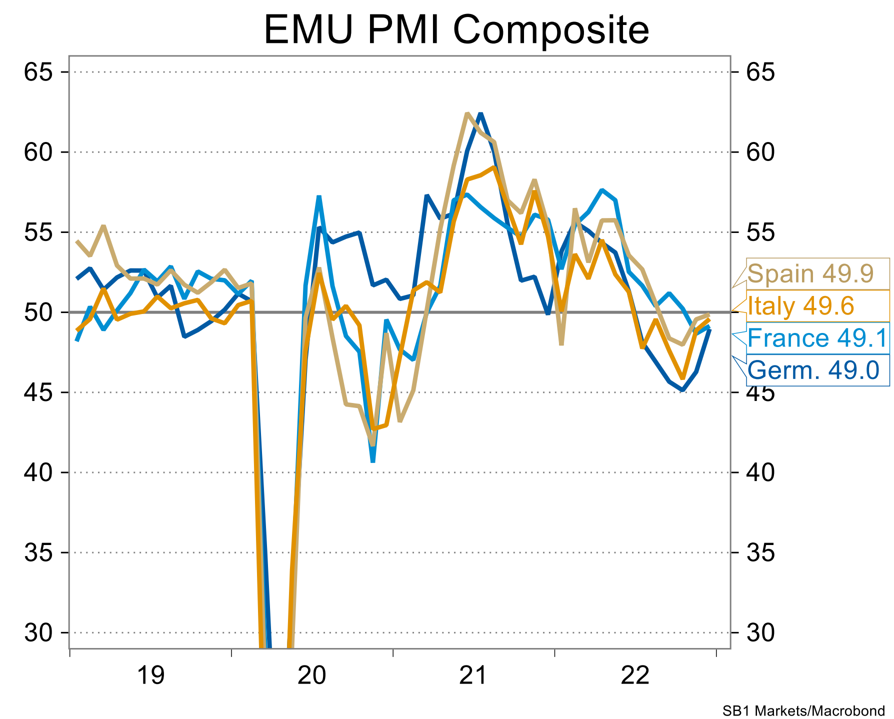


- The **ISM services** index fell 6.9 in December, to 49.6, expected down 1.5 p. The new order index fell by 10.8 p to 44.2, and the employment index fell by 1.7 p to just below 50. On a positive note, the activity index, which also collapsed by 10 p was still at 54.6. 11 sub-sectors reported growth in activity (from 13), while 6 contacted (from 3). But just 5 sub-sectors reported growth in orders, 8 a decline. So, the overall message is clear, something suddenly hit the service sector in December. Comments were in general much weaker than signalled by the actual index number, like last month
- **S&P's services PMI** (aka Markit's) was 0.3 p better than the initial estimate, but still fell further by 0.5 p to 44.7, a very low level. The composite PMI was revised up by 0.4 p to 45.0, still down 1.5 p from November
- The gap between the two service surveys has been large recent months. Now the gap is far smaller – as the ISM survey gave in
- The **average** of the composite ISM (our calculus) and PMI fell by 5 p to 49.2, the first time below 50 since the pandemic, and than since the Financial Crisis. Which does not signal strong growth in GDP…

Eurozone PMIs revised up; still in contractionary territory for the 6th month

The composite up 2.5 p to 49.3, 0.5 p better than the first estimate; data stronger (or less weak) everywhere

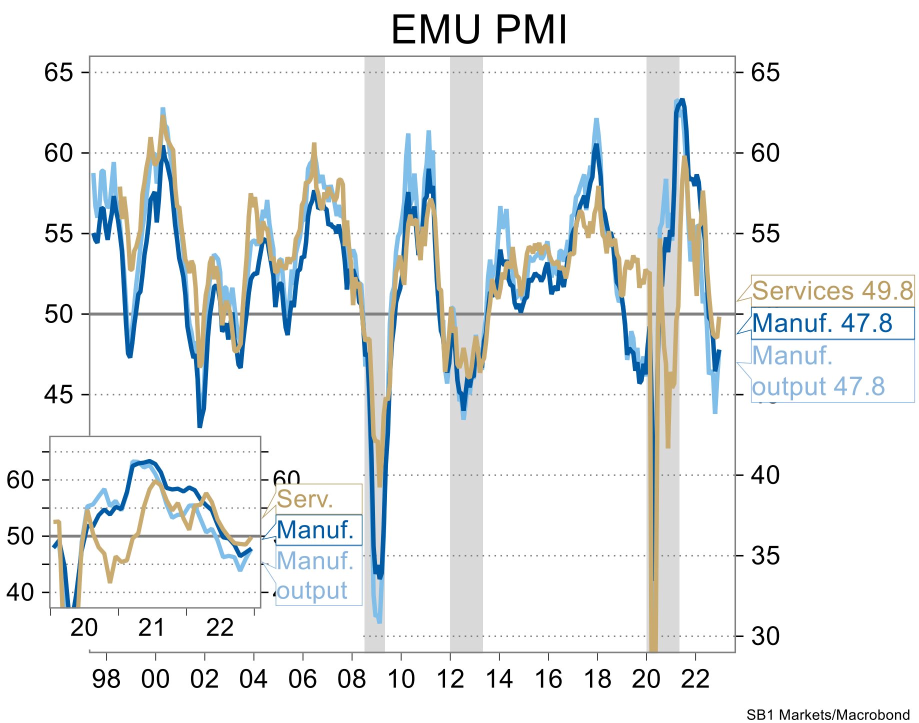


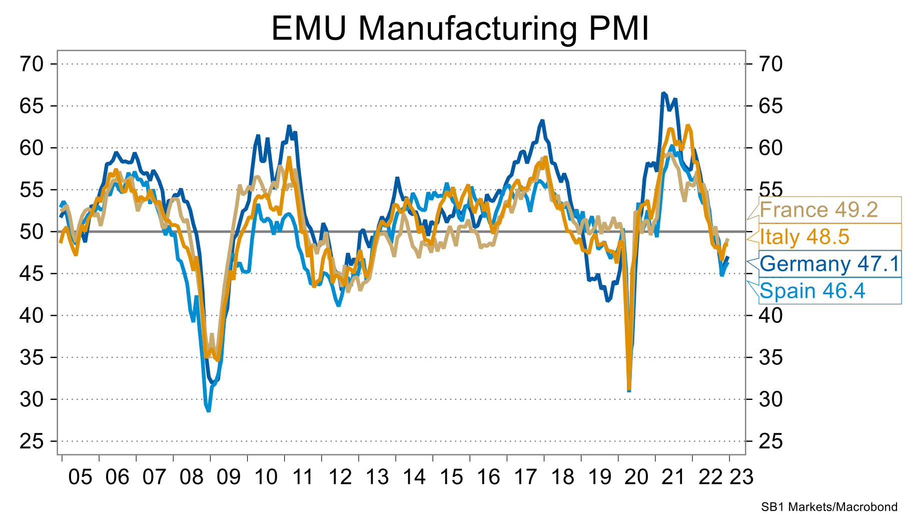


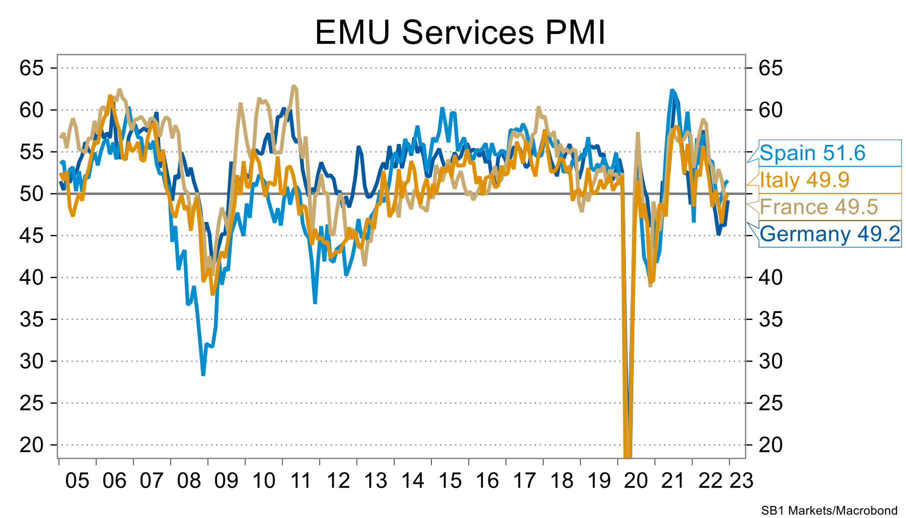
- The EMU composite PMI was 0.5 p above the flash estimate, and up 2.5 p from November- originally expected down! All of the main of the countries contributed on the upside, Germany the most. The Spanish service sector expanded further, and the PMI increased by 0.4 to 51.6. However, all other services sector PMIs and manufacturing PMI were still in contraction mode
- The **manufacturing PMI** and the **manufacturing output** index, and the **service PMI** were all up in December
- The sum of the parts for the Eurozone now points to 'just' around a 0.3% contraction in GDP. In Q3, GDP grew 1.3%
- The December PMIs, like the previous months, bear sign of higher energy costs and higher interest rates, as well as lower global demand, as demonstrated by the low new order indices. The PMI data are still signalling a recession but now just marginally

Eurozone manufacturing and services PMIs both stronger in December

But all PMIs are still below the 50-line – the Spanish service sector the only one in expansion territory



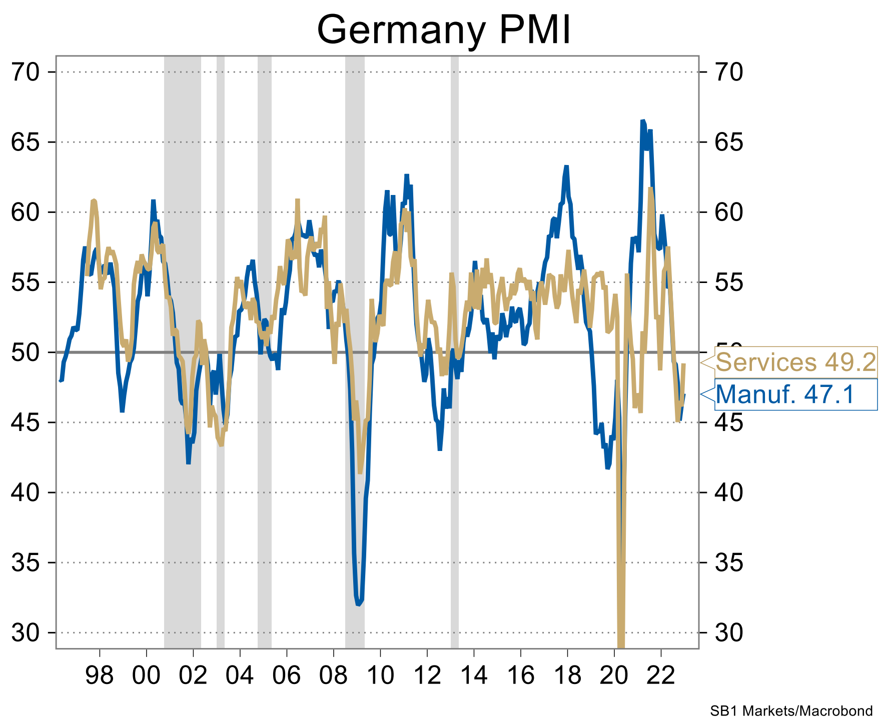


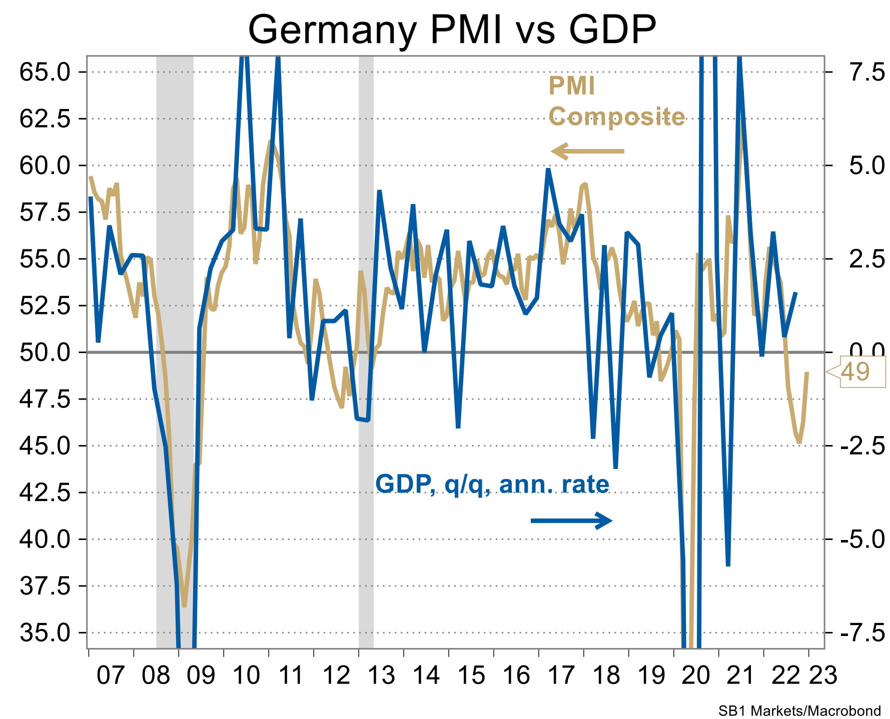


- The Eurozone economy contracted at a slower pace in December, but lower demand, higher interest rates, and continued high (although easing) inflation, worry respondents.
- The new order index rose 2.4 p to 43.1 – but this is still a print which indicates that orders are still falling at a rapid pace

Germany: Composite PMI better than preliminary print driven by services

The manufacturing PMI, oh the other hand, came in lower than the flash estimate, and all PMIs are still below 50

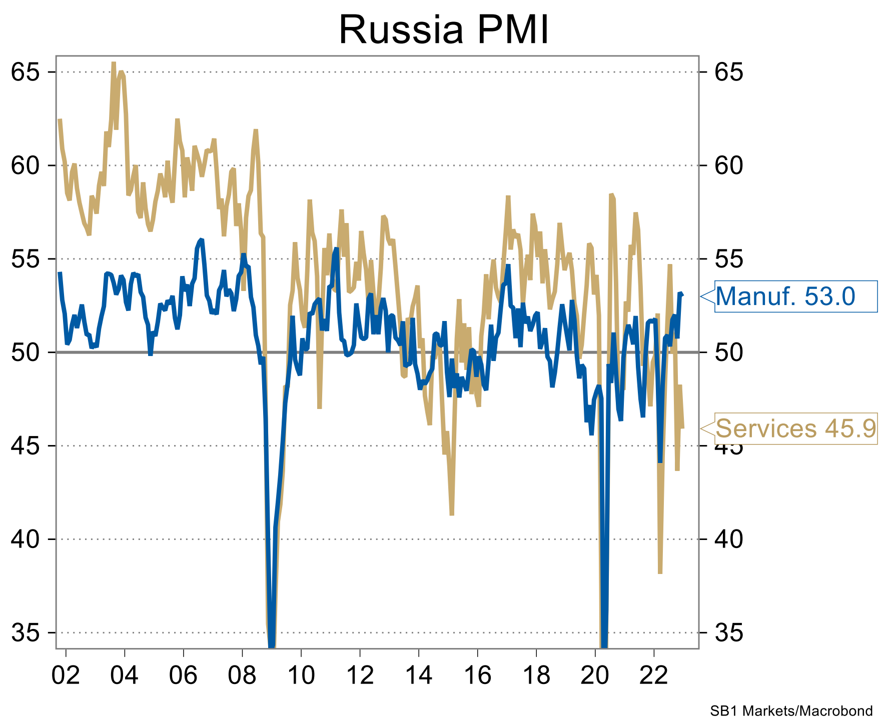


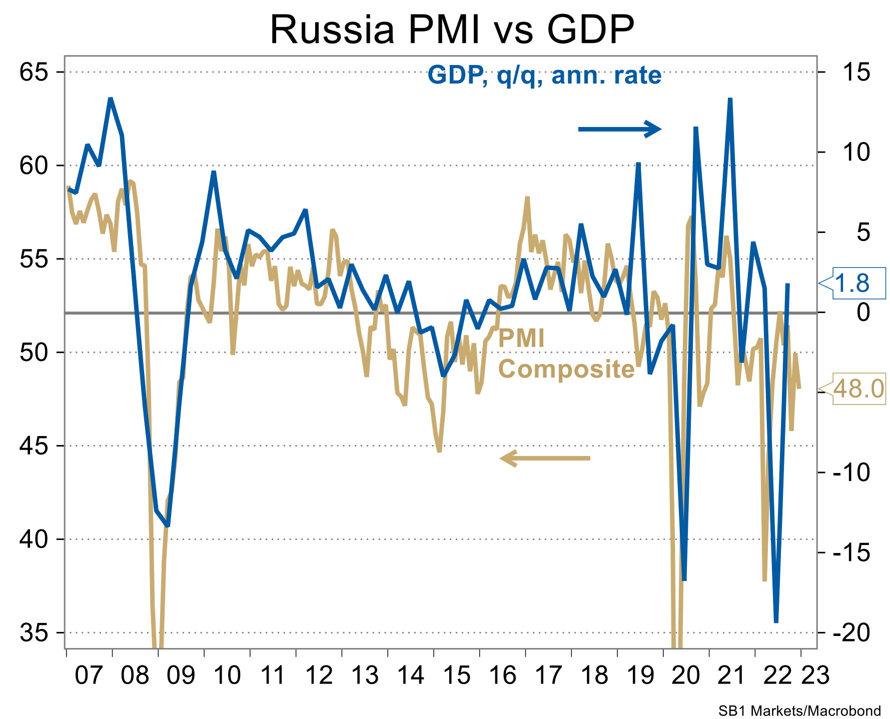


- The composite PMI is up 2.7 p to 49.0 in December, which is 0.1 p higher than the preliminary print
  - The service sector PMI was up 3.1 p to 46.1, which is 0.2 p higher than the flash estimate. Both input and output prices are now easing, but remain elevated
  - The manufacturing sector PMI rose 0.9 p to 47.1, which is 0.3 p lower than the flash estimate. The uptick was in part driven by a more optimistic outlook, less material shortages, lower input cost inflation in the manufacturing sector. However, orders are still falling

Services the weak link in Russia, according to the PMI

The service sector PMI fell 2.4 p to 45.9; the manufacturing PMI was down 0.2 p to 53

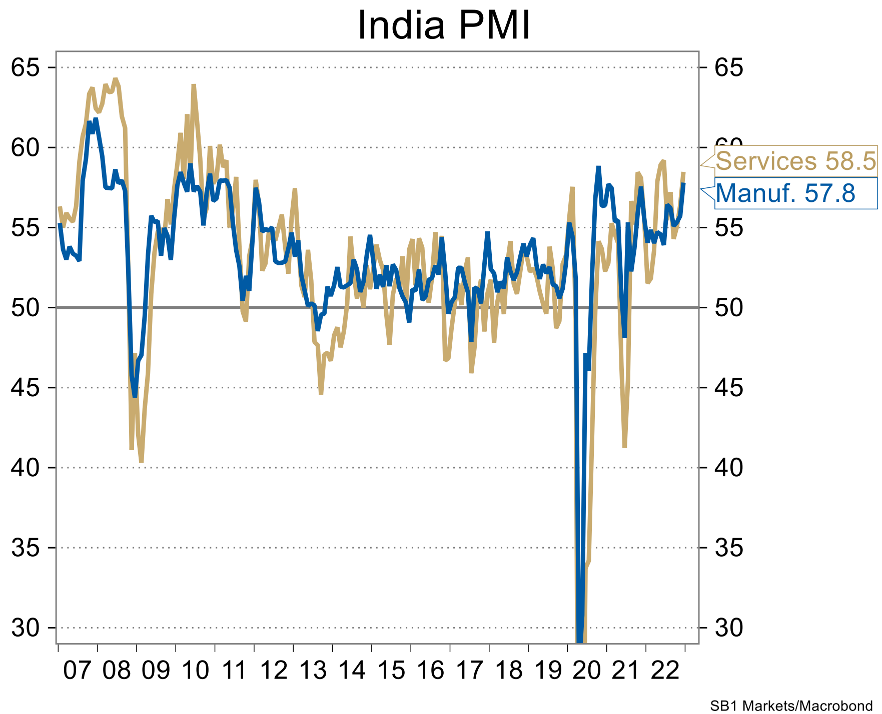


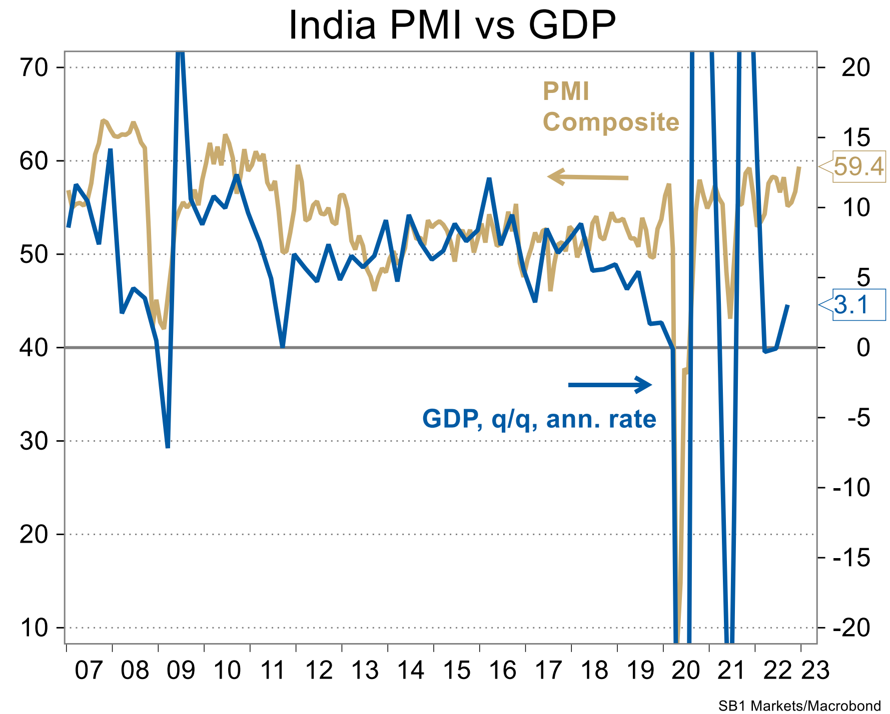


- **The composite PMI** was down 1 p to 49, which signals a contraction in GDP at a 5% pace
- **Reliable data from Russia** are in short supply these days. What we have? Retail sales are down 8% y/y, auto sales are down 60%, imports have fallen sharply (based on export data from other countries). Still, industrial production is down just 2% y/y, even if oil and gas production is included. GDP rose by 0.2% in Q3 (not ann.) and is down by 3.7% y/y, far less than assumed when the war started
- **A reminder:** The PMIs are not sentiment surveys – respondents are asked about in changes in actual activity (new orders, output, employment, inventories) from the previous month

The Indian economy looks strong. Composite PMI up 2.7 p to 59.4!

…and both sector PMIs are very strong. 13% GDP growth??

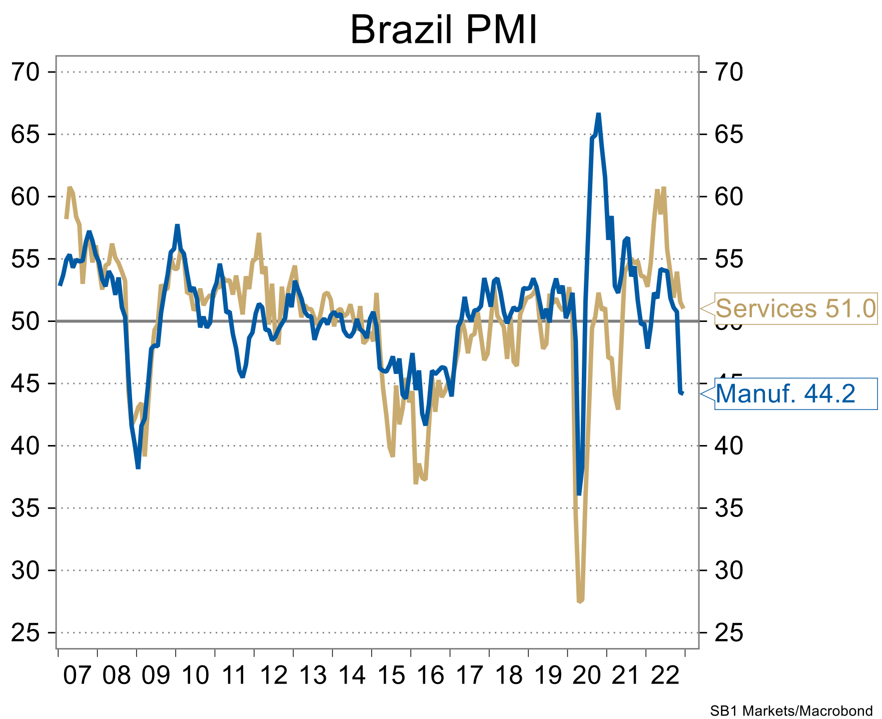


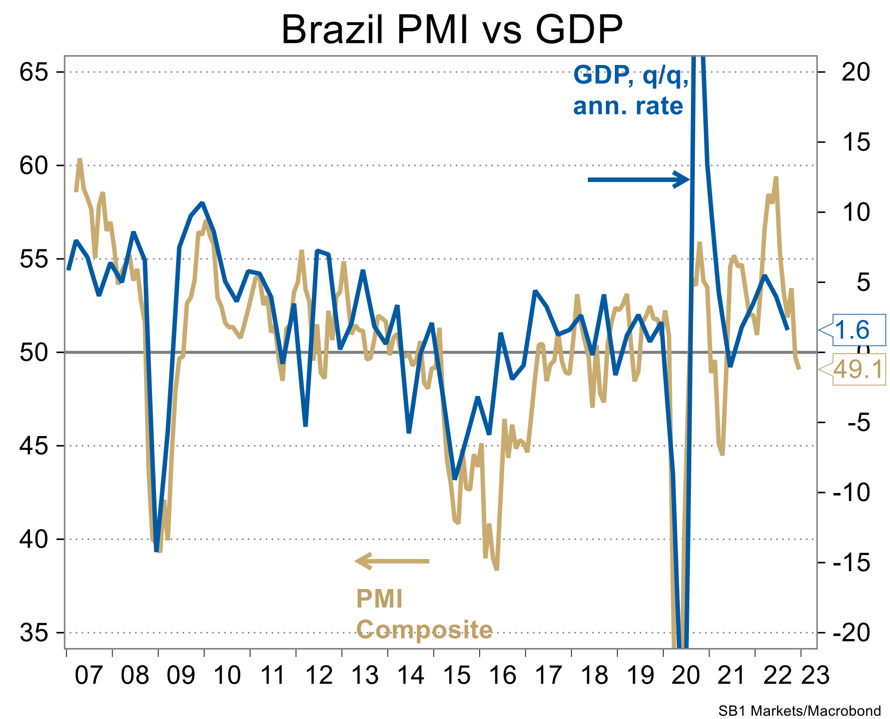


- The **composite PMI** up 2.7 p to 59.4, as both services and manufacturing rose and both PMIs are at the top (no. 1 and no. 2) of the list
- **GDP data** have been heavily revised – and are not well in sync with the PMIs – which regrettably often is the case

Brazilian composite PMI fell further into contractionary territory in December

The composite PMI fell 0.7 p to 49.1, signalling a fall in GDP

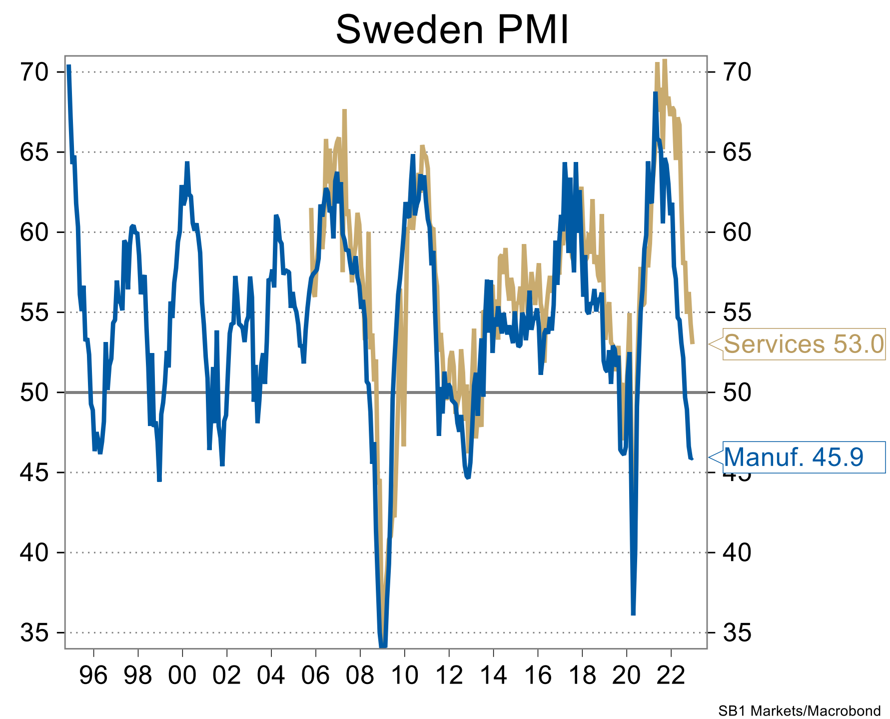


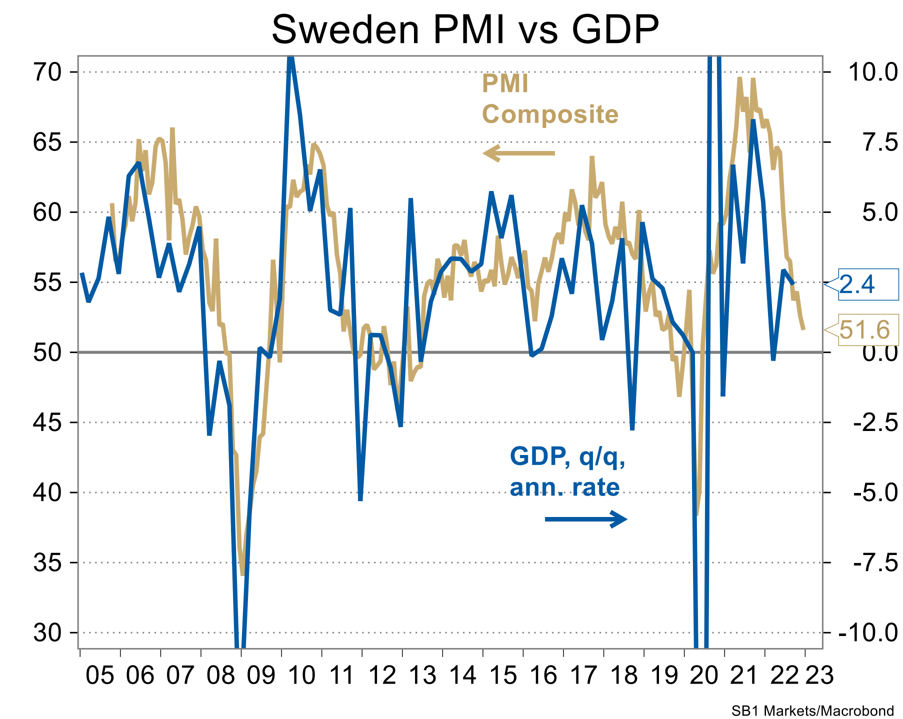


- Both the **services and the manufacturing** PMIs declined
- The correlation to actual **GDP** growth is not impressive. Actual GDP growth has picked up some steam the past 3 quarters

Manufacturing PMI unch. in December, but sector is still contracting rapidly

The service sector PMI is falling rapidly and by 1.3 p, but still at 53.0, leaving the comp. PMI above 50, signalling growth

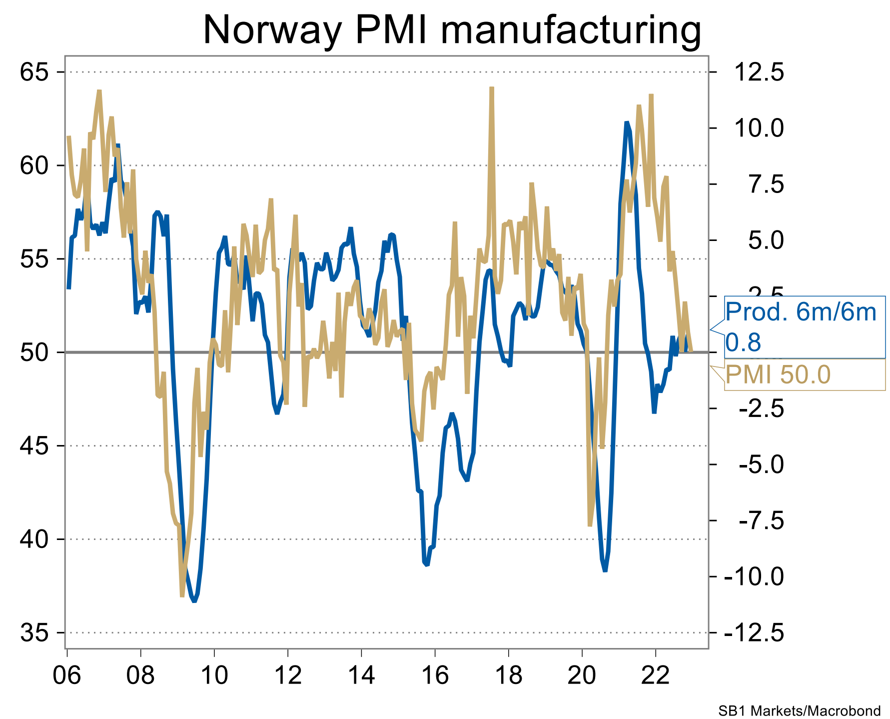


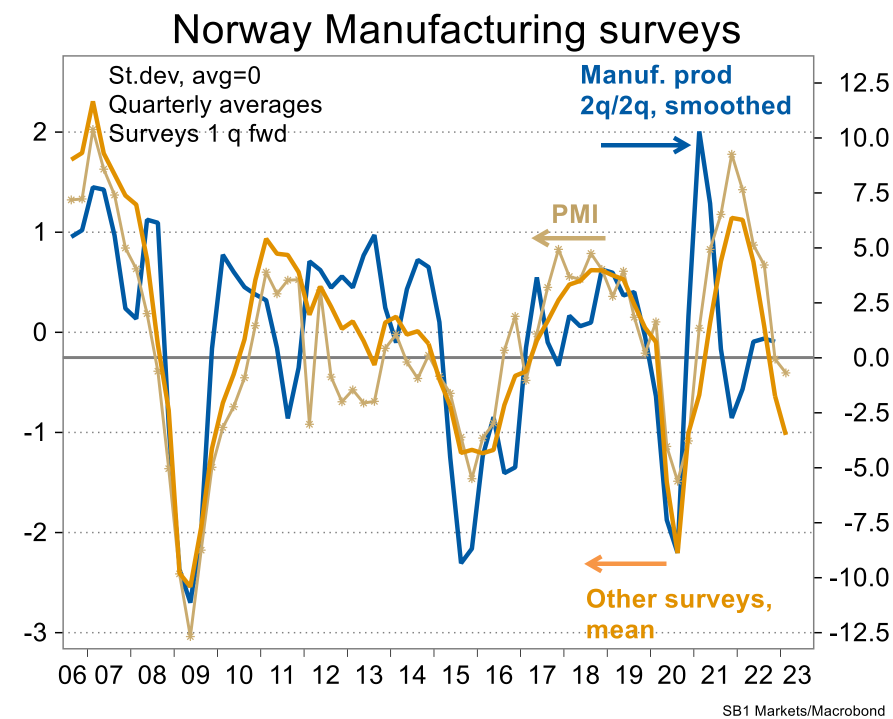


- **The composite** index fell 1 p to 51.6. The service sector is slowing rapidly and is reporting growth well below average <u>but still growth</u>. The manufacturing PMI was unch. at 45.9, suggesting that the sector is contracting at a rather fast pace
- In Q3, **GDP** grew at 2.4% pace (0.6% not annualised). At current levels, the composite PMI is signalling a GDP growth pace at around 0.8%. KI's survey, which is tracking GDP closer, indicates around zero GDP growth

The Norwegian manufacturing PMI fell further in December, to the 50 line

Most sub-indices were down, but inventories increased, and that is not necessarily a good thing…

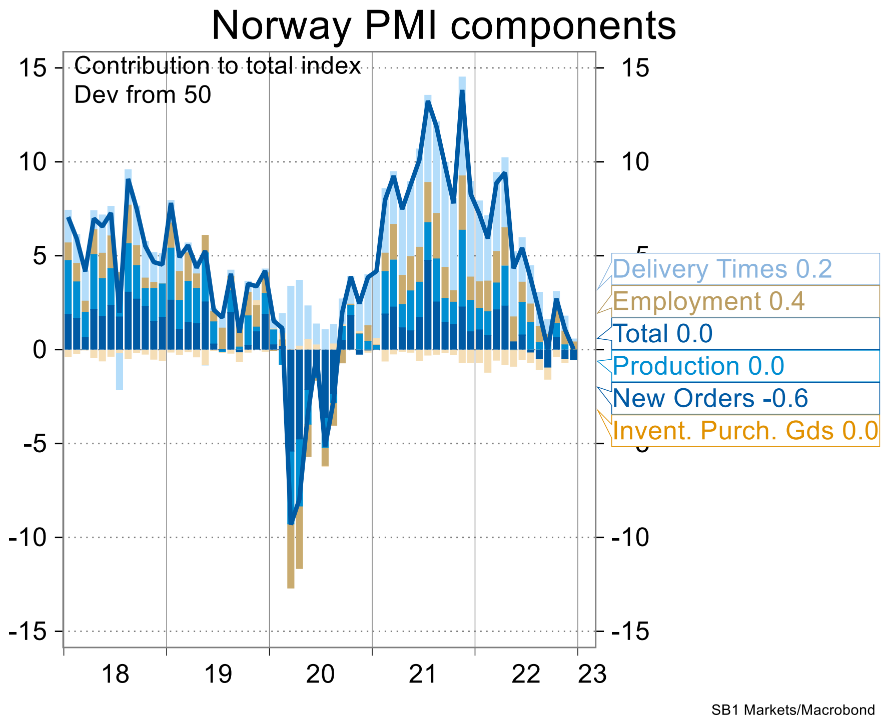


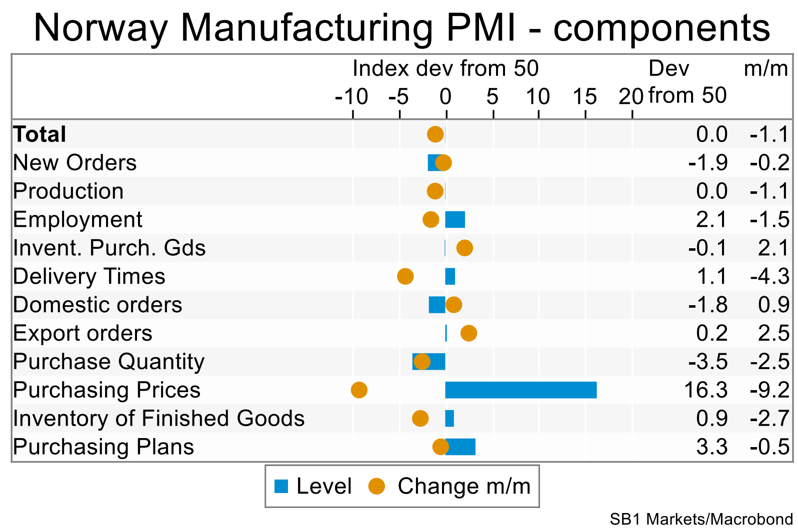


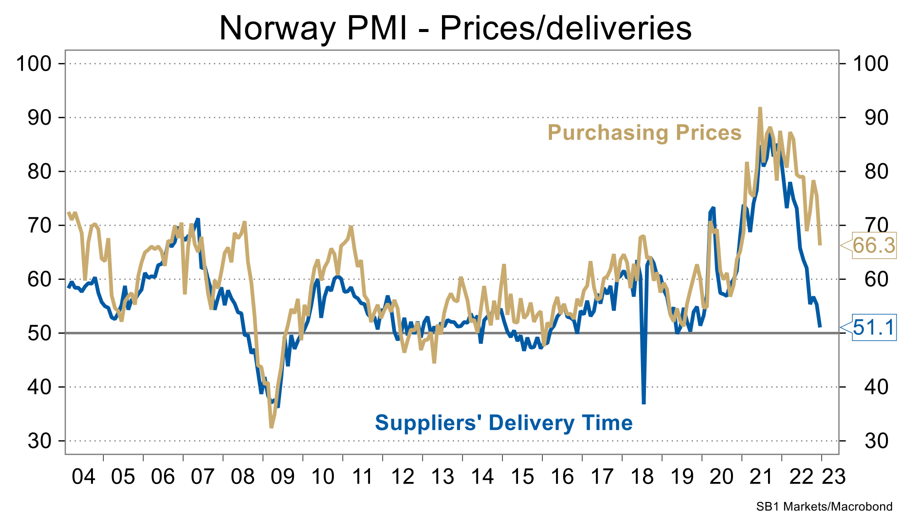
- The **manufacturing PMI index** fell 1.1 p to 50.0 in December (November was revised down by 0.1 p), and the trend is clearly down
- Other **manufacturing surveys** are also on the weak side, like the SSB survey, NHO and Norges Banks' Regional Network
- **Actual production** has been trending down since early 2021, and has – at best – stabilised recent months. Production was in fact down 0.5% m/m in November, and even oil-related manufacturing declined

Orders are falling, and price are increasing at a slower (but still rapid) pace

Both purchasing plans and employment are still expanding according to the PMI, and production is no longer expanding



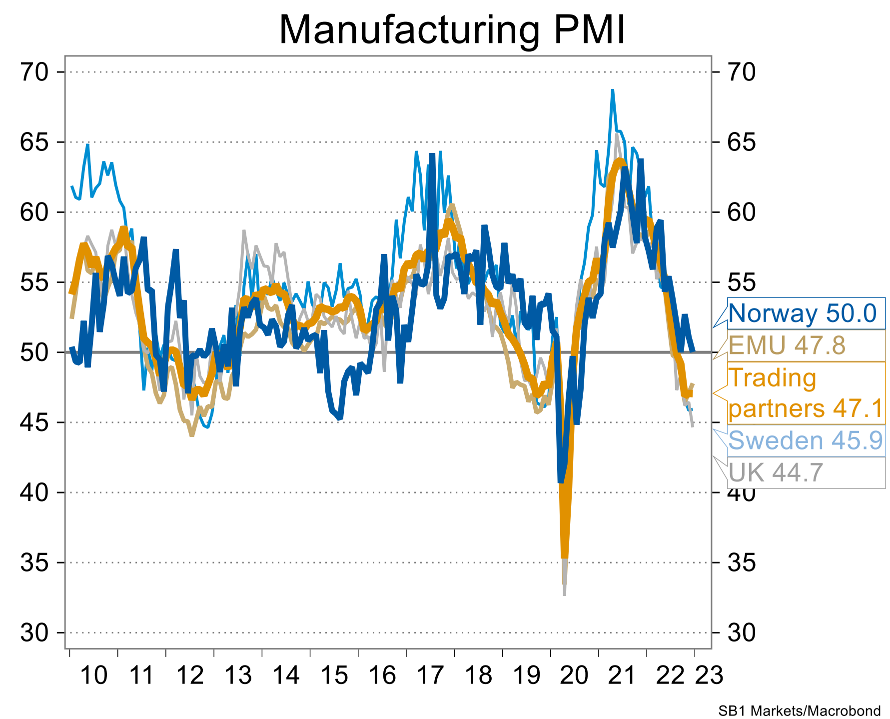


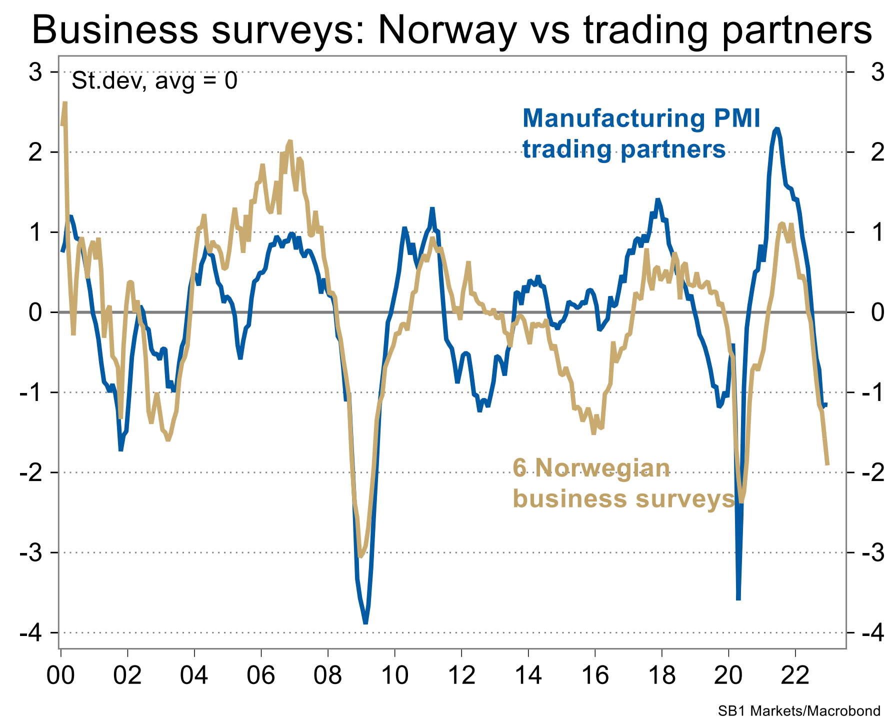


The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

Norwegian manufacturers normally follow the rest of the world

December data are still strong when compared to trading partners, but the economy is no longer expanding

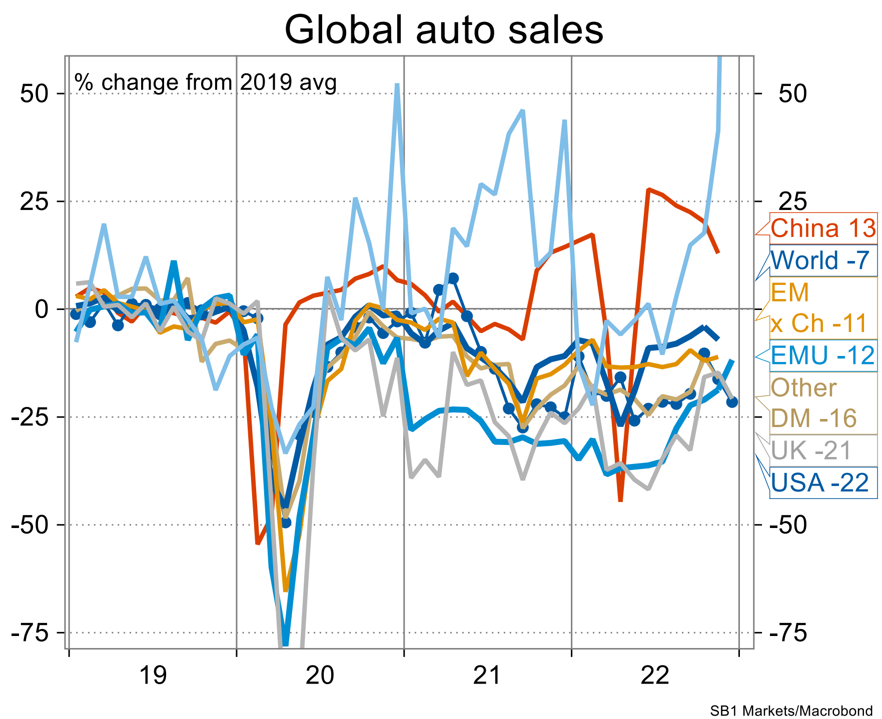


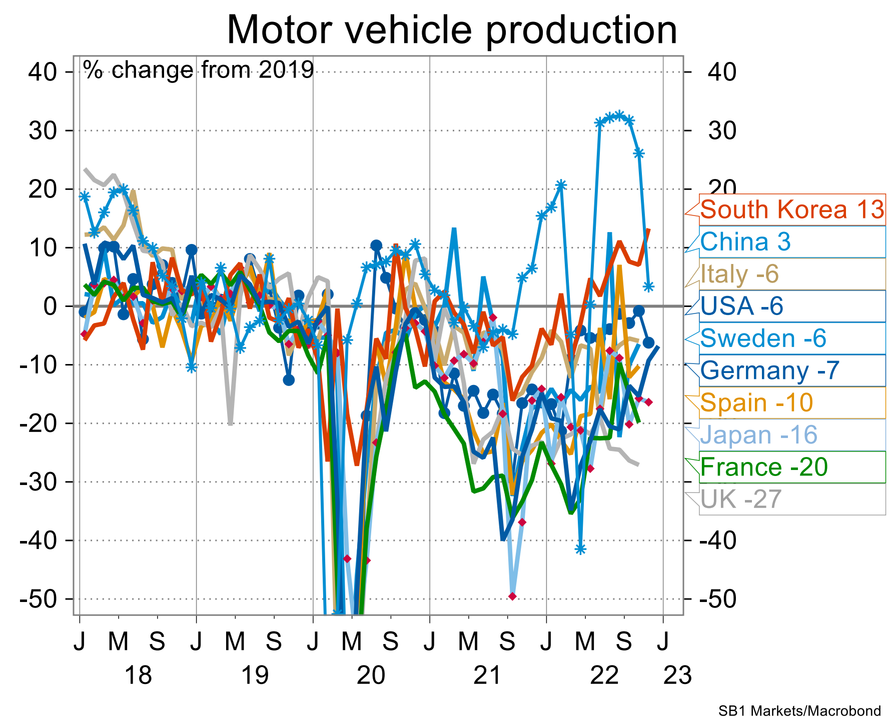


- Norwegian manufacturers may still be faring marginally betting than their peers abroad, due to a pickup in demand from the oil and gas sector
- Other Norwegian surveys confirm the PMI

Mixed December auto sales: US further down, EMU (Germany) far better

Norwegian sales just flew out the chart (before electric car taxes was hiked)

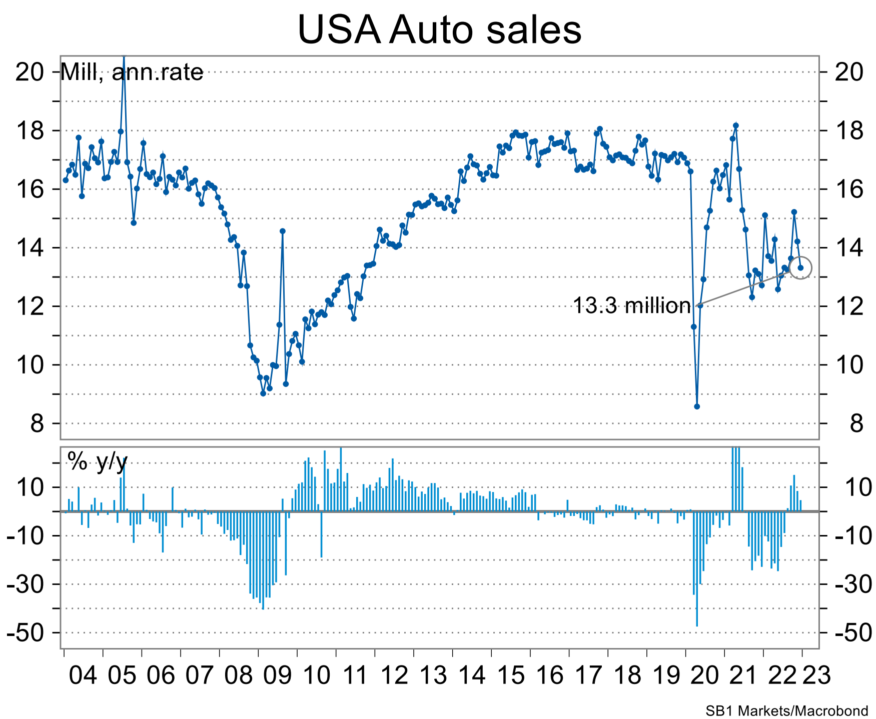


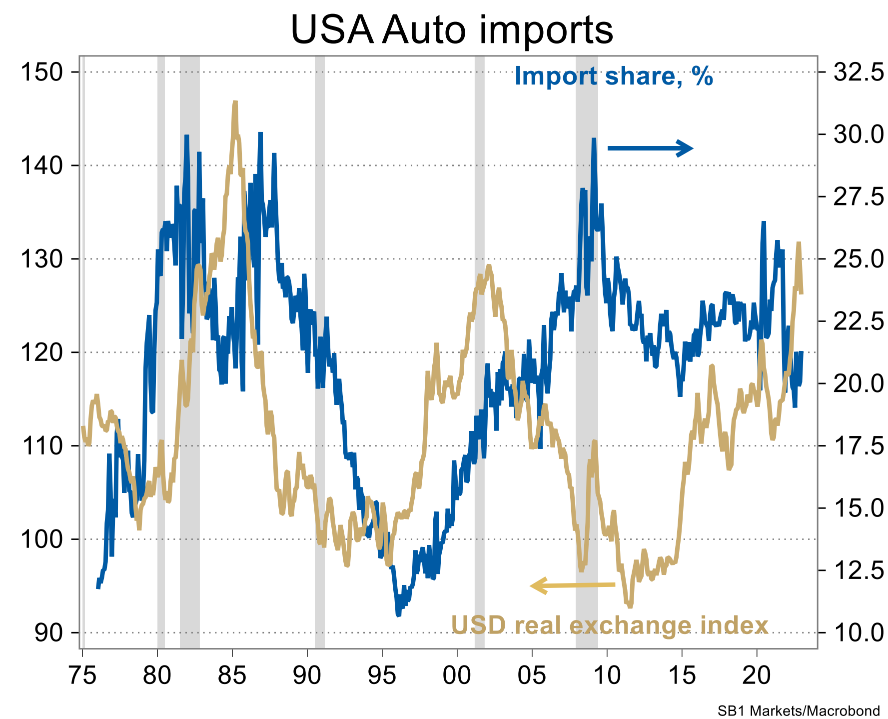


- Sales in the **US** were down 22% vs the 2019 average, while **EMU** sales rose to just 12% below the 2019 level. Sales in the **UK** fell (-21% from '19). Most EM have not reported yet, and without Chinese data, a global estimate is useless
- **Auto production** is gradually recovering but remains below par several places – originally due to supply side problems but now probably also due to weaker demand

US auto sales further down and weaker than expected in December

Sales fell to 13.3 mill in December, from 14.1 in Nov, expected unch. Sales are 22% below the 2019 level. Demand??

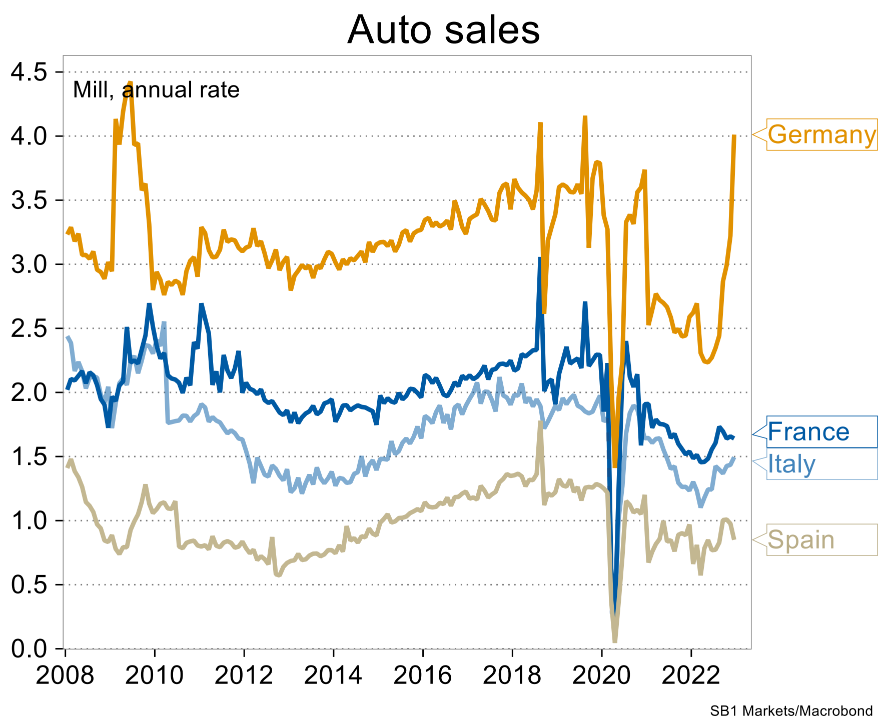


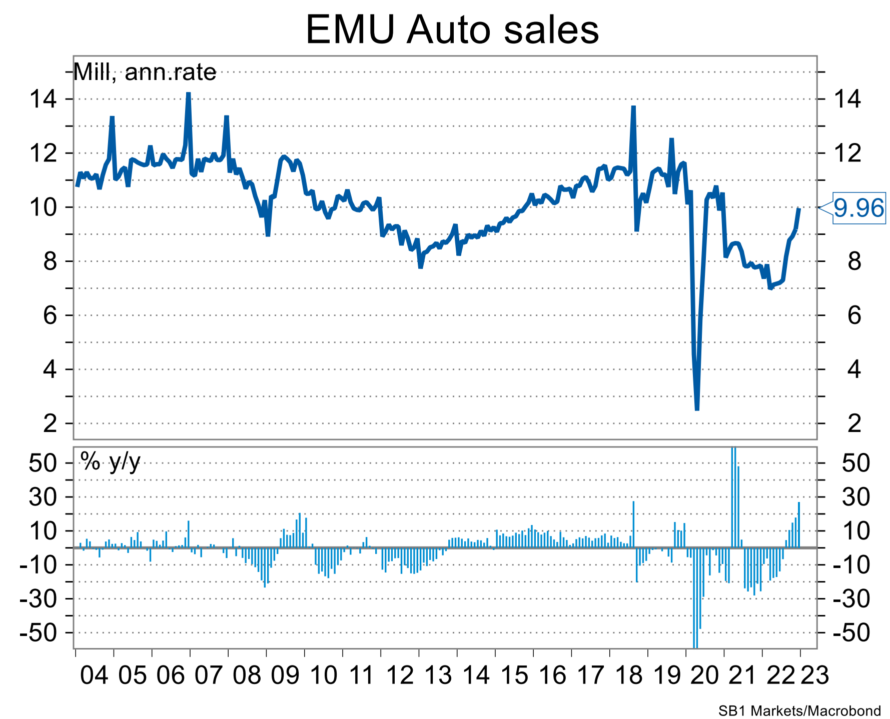


- Auto production in the US has recovered sharply recent months, to above the 2019 level
- The import share has fallen to 20% from 22.5% (rounded) – and this 2.5 pp decline can not explain the reduction in total sales
- <u>So: Demand for new cars seems to have fallen, as used car prices have fallen sharply recent months</u>

EMU: One of the best months ever, in Germany

Some tax changes, but they do not seem to explain the huge lift in December (or the 80% lift from last May)

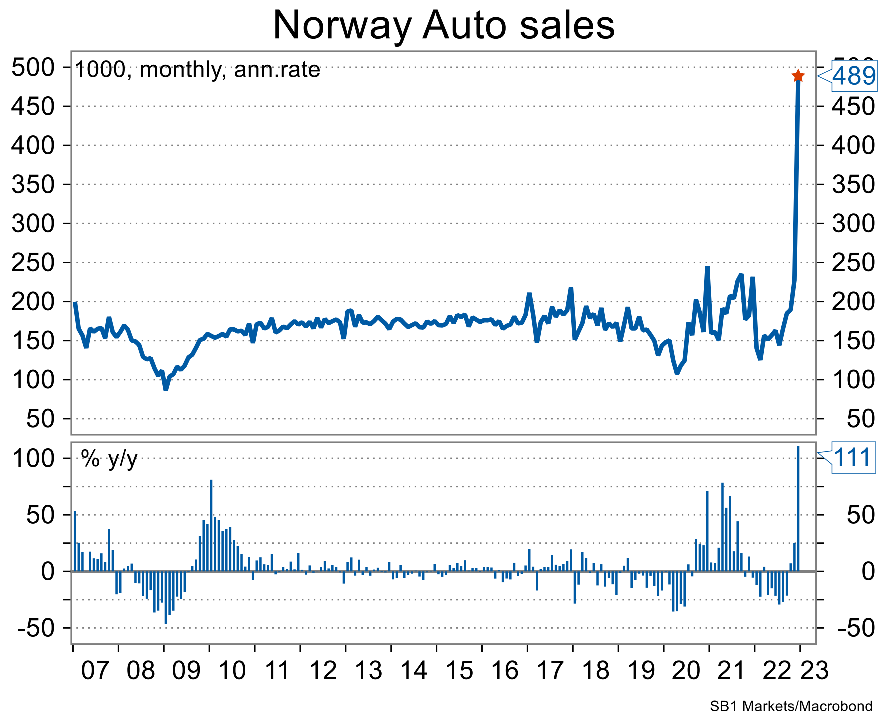


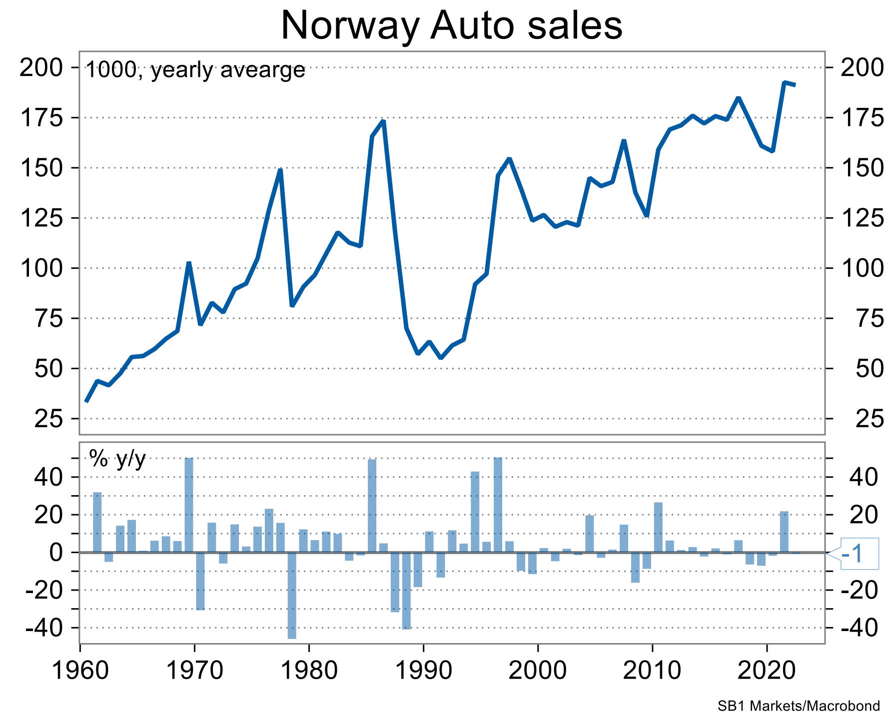


- Still, we doubt German auto sales will remain at the 4 mill/y level the coming months
- Small changes in auto sales/new registrations among other EMU countries reported so far – and all are way below pre-pandemic levels

Norway: The highest auto registrations, ever!

… before taxes on electrical vehicles were imposed from Jan 1. Sill, 2022 regs marginally below 2021, the ATH

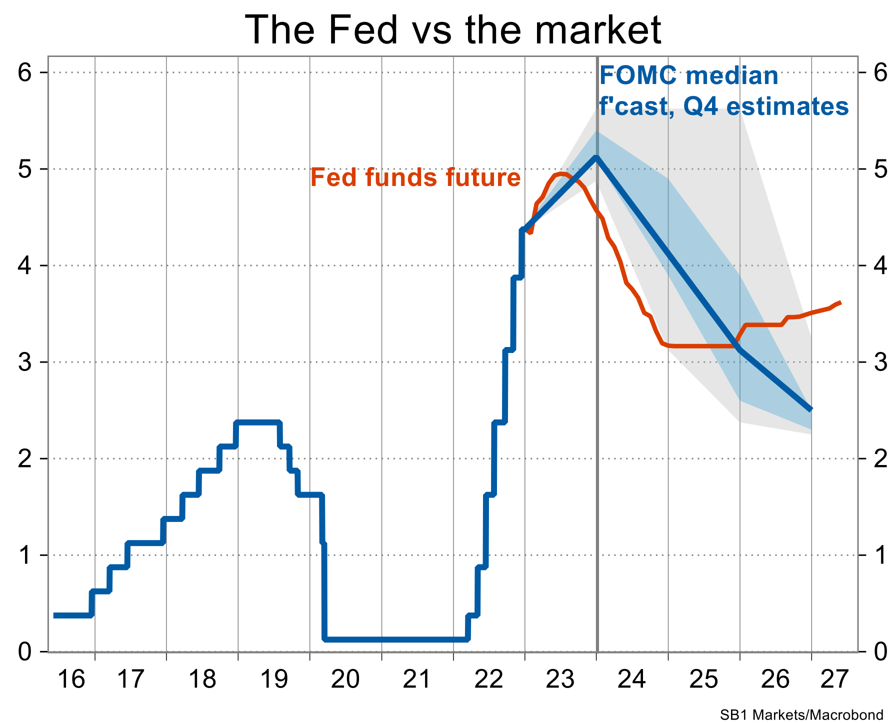




- Sales were almost twice as high as anytime before – and just due to these tax changes
- The past two years have been fantastic for auto sellers, the two best years ever

The market thinks the Fed will cut rates in H2, the minutes states otherwise

Minutes did not reveal anything new – but send a signal that the Fed is nowhere ready to even think about cutting rates

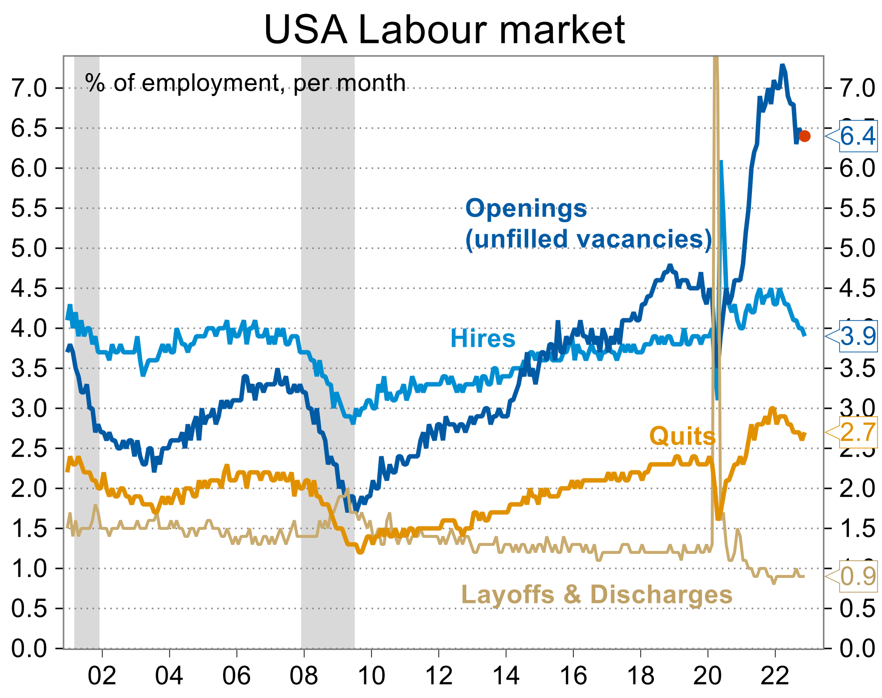


- The markets took the minutes with a sigh, leaving rates largely unch., despite the warning that market participants are pricing in a lower rate curve than what the Fed sees – <u>one of them will be mistaken – either the downturn will be deeper than the Fed foresees and the Bank will be forced to cut, in line with market expectations, or there will be a soft landing or the Fed will whether the downturn and keep rates higher for longer, as the fight against inflation is more important than growth in the short-run</u>

- **The minutes** reiterated the Fed's hawkish stance and the fact that there is still work to do to get inflation back to the 2%-target
- The minutes also made it clear that **the Fed is not even close to discussing rate cuts anytime soon**, fearing a repeat of the mistakes made in the Volcker-period. The statement is pretty clear: "No participants anticipated that it would be appropriate to begin reducing the federal funds rate target in 2023. Participants generally observed that a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2 percent, which was likely to take some time. In view of the persistent and unacceptably high level of inflation, several participants commented that historical experience cautioned against prematurely loosening monetary policy."
- **As for the risks, they are clearly on the downside** according to the committee, as more persistent inflation could call for an even more restrictive policy and negative shocks to an already cooling economy could spark a recession – but it seems that the Committee's stance is still that the risk of tightening too little is greater than the risk of tightening too much
- **The FOMC members also showed some concern over the communication and market expectations to the monetary policy:** "Participants noted that, because monetary policy worked importantly through financial markets, an unwarranted easing in financial conditions, especially if driven by a misperception by the public of the Committee's reaction function, would complicate the Committee's effort to restore price stability. Several participants commented that the medians of participants' assessments for the appropriate path of the federal funds rate in the Summary of Economic Projections, which tracked notably above market-based measures of policy rate expectations, underscored the Committee's strong commitment to returning inflation to its 2-percent goal."

The vacancy rate refuses to decline, has flattened at very high level

The tide has turned, but the labour market is still very tight and wage inflation will quite likely remain too high



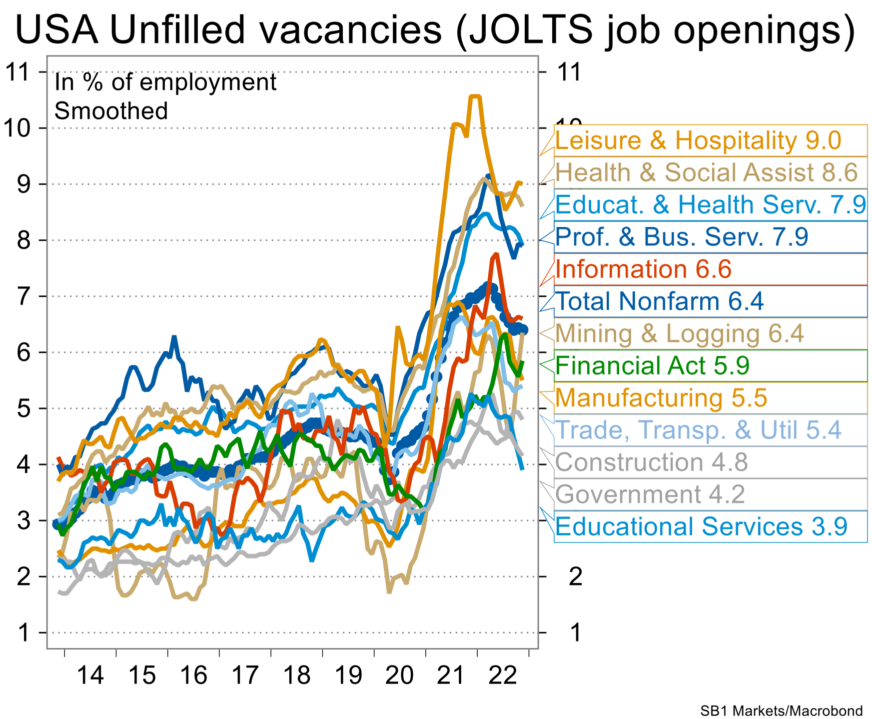
SB1 Markets/Macrobond

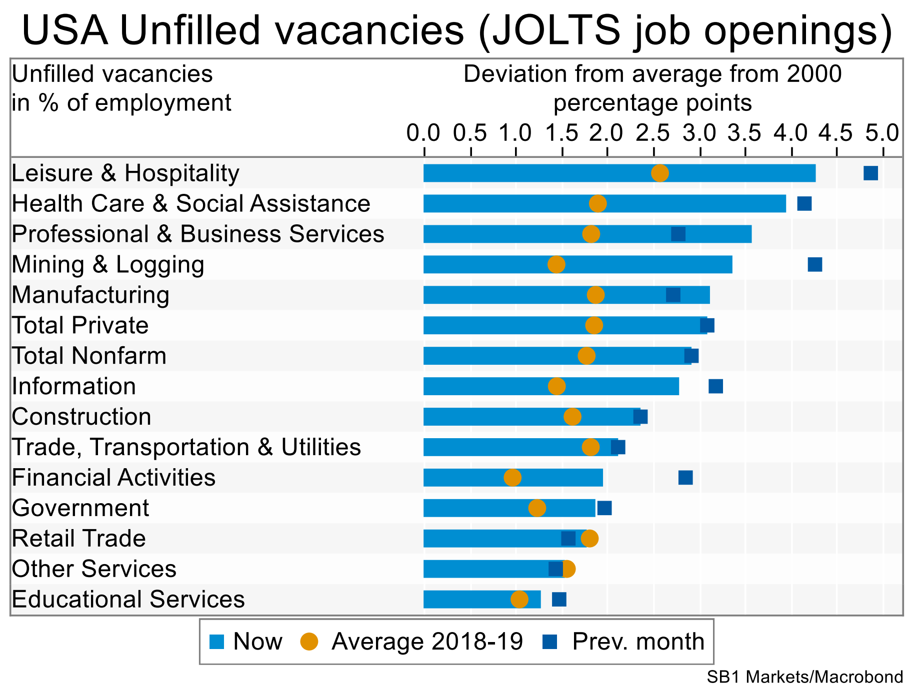
- **In sum:**
  The tide has turned but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a substantial further weakening. Job openings are no doubt stickier that what the Fed has hoped for, and are leading unemployment by some few months, though not by a stable lag (but the correlation is high). Actual unemployment was down 0.1 pp to 3.5% in Dec. New jobless claims, which leads the unemployment rate rose somewhat two weeks ago fell back again last week

- The number of **unfilled vacancies** fell by 50' to 10.46 mill, though up from prev. reported 10.33 mill in Oct, and far higher than the expected 10.0 mill. The vacancy rate was 6.4%, up from the original 6.3% Oct estimate
  - Vacancies are down from the peak in March (7.3%) but the level is still way above anything seen before. The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit
- **New hires** fell by 56' to 6.1 mill in November, equalling 3.9% of the employment level. This is indicating an easing of the labour market, but the level is, of course, still high
- The number of **voluntary quits** rose 0.1 mill to 4.2 mill, leaving the rate to employment at 2.7%, down from 3% at the peak. The trend is down, signalling that workers have become somewhat more cautious leaving their current jobs – but the quit level is still higher than anytime before the post pandemic surge – and the rate rose in Nov!
- **Layoffs** equalled 0.9% of employment in Nov, unch. from Oct – still not signalling any take-off in downsizing (the Challenger survey also counted less layoffs in December, but still more than the long-term avg. Check some pages fwd)
- **The SMBs (NFIB survey)** reported that 41% of companies were not able to fill positions in December, down 2 pp from Nov, still a high level. Hiring plans were down by 1 pp, but remains well above average – and the share saying that they are increasing compensation rose, and remains very high

Most sectors are reporting fewer vacancies than at the peak

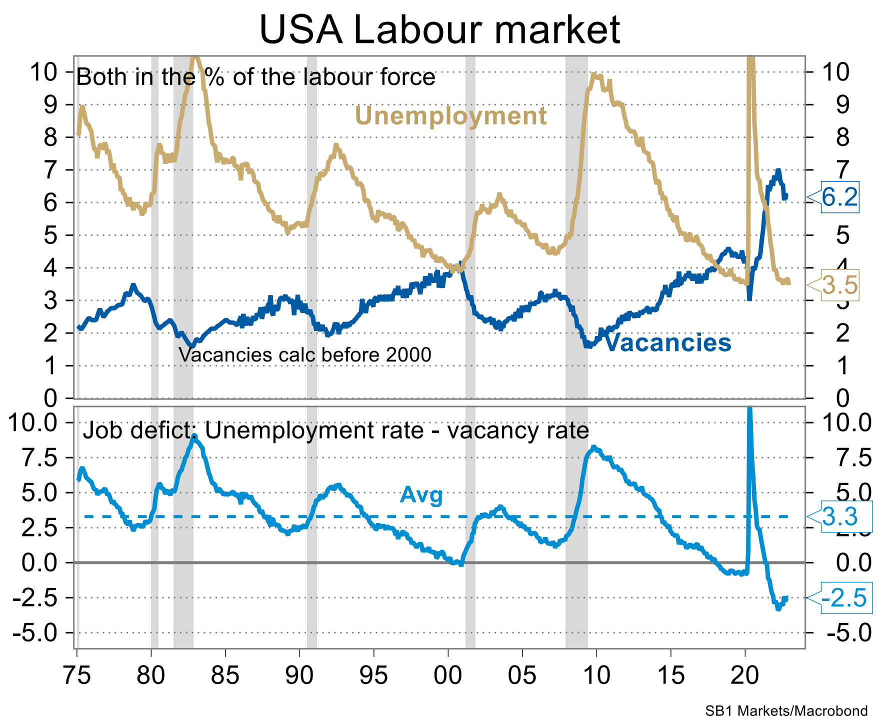
…and all but retail trade has more vacancies that before the pandemic

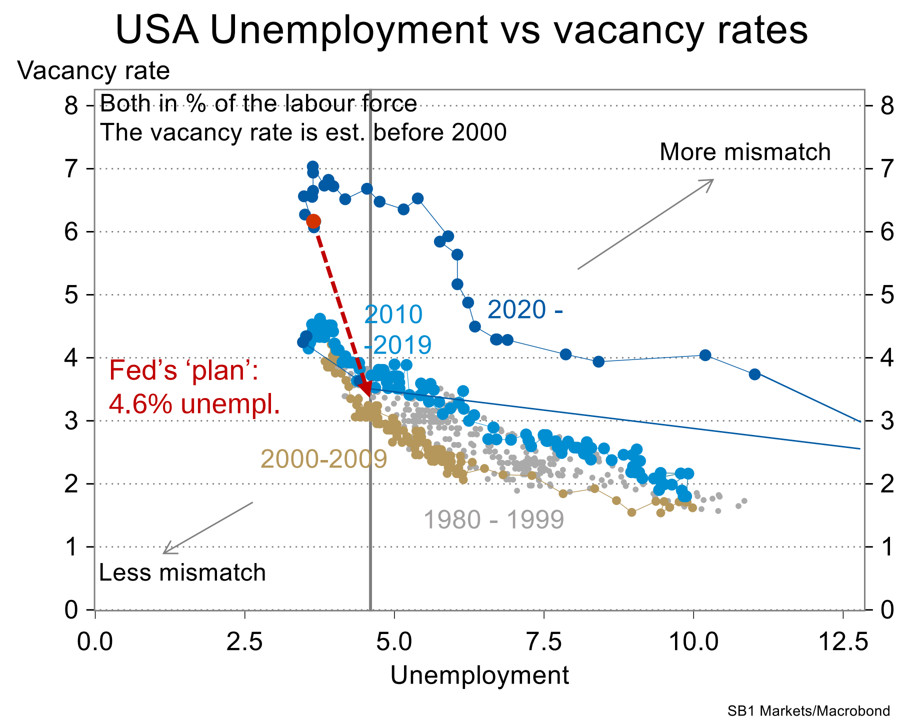




Unemployment lower in December; November data revised down

Will the Fed succeed and have vacancies return to a normal level without an increase in unemployment (= a recession?)

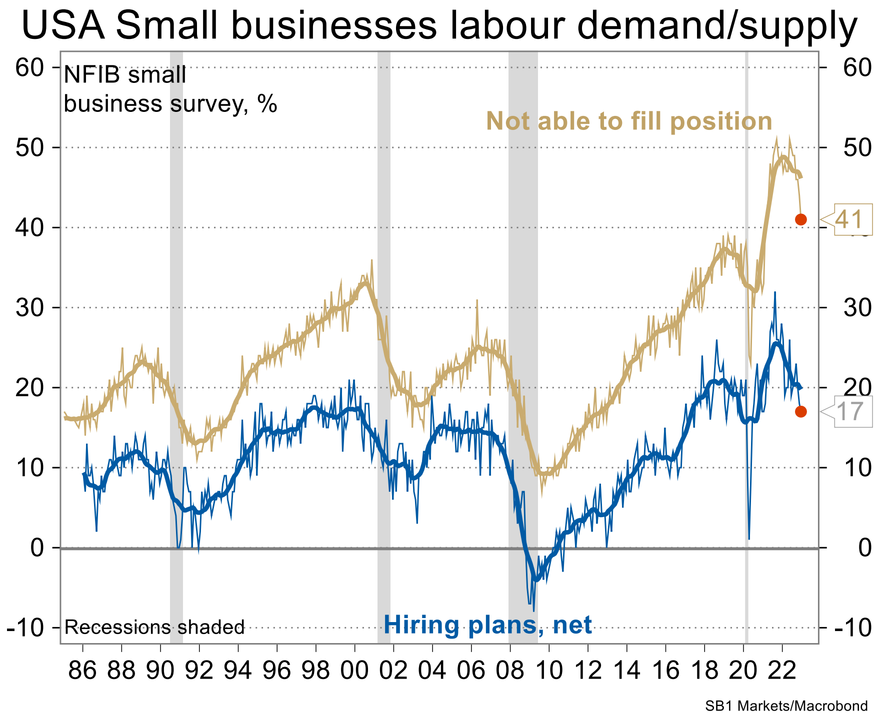


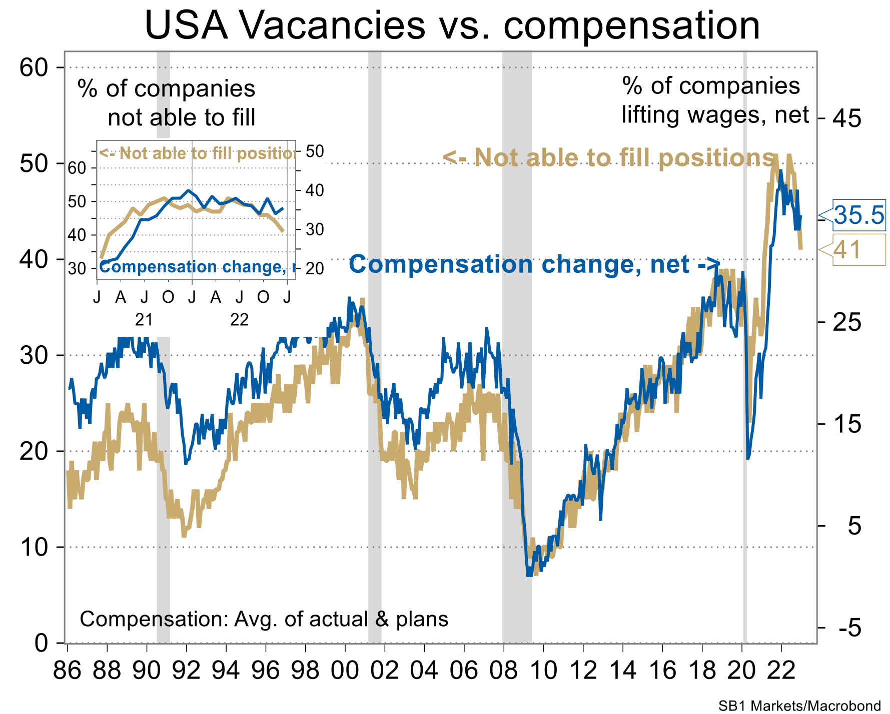


- In principle **vacancies may be reduced without pushing the unemployment rate** up (aka recession), as the vacancy rates is so much higher than normal, but we think it would be hard to achieve, over time. The Federal Reserve still assumes it will happen as the unemployment rate is expected to increase just to 4.6% in late 2023
- An economy that reduces overall demand for goods and services, and thus demand for labour, will hit both companies that have vacancies, and those which do not. The labour market is not so flexible that redundant labour in one company will seamlessly be transferred to fill still vacant positions in other companies/sectors/regions. <u>If such a transfer had been easy, it would have taken place already, and the unemployment rate would have been lower</u>

SMEs cut back hiring plans, and report less problems filling positions

Still companies are struggling to fill vacancies, and compensation plans were revised upwards in December!

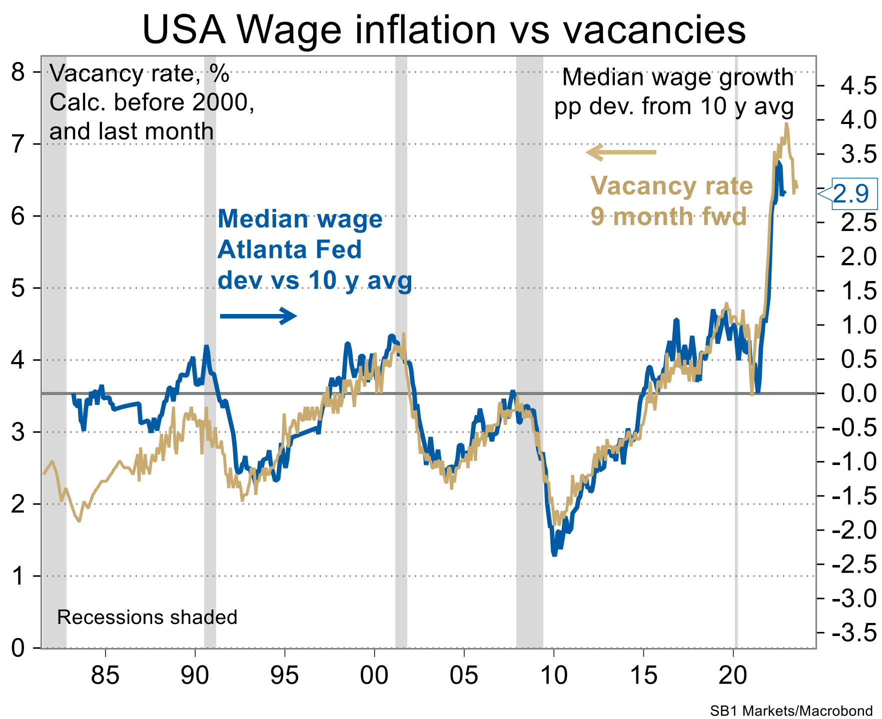


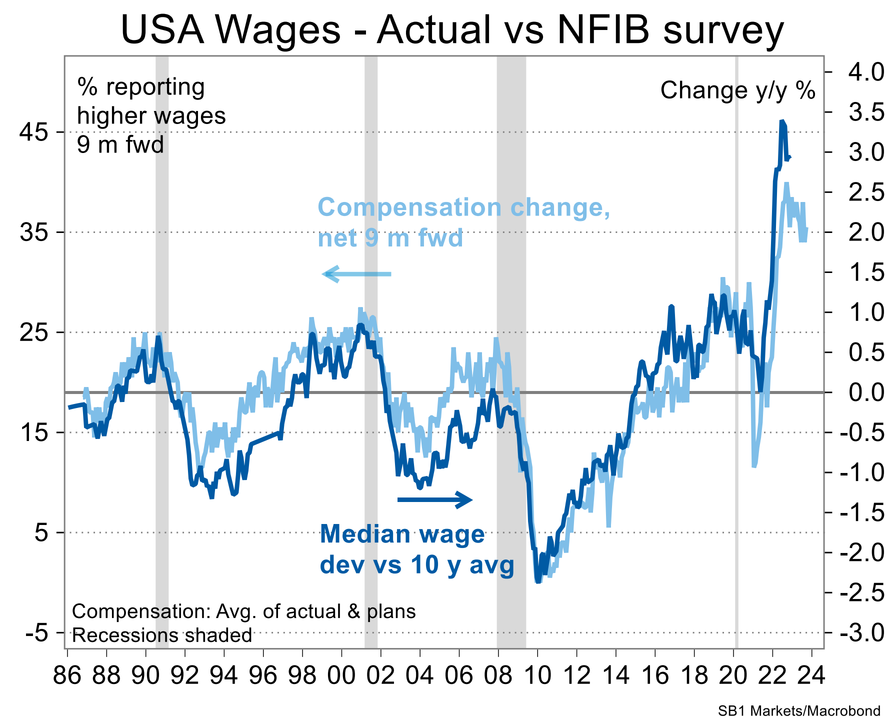


- 41% of SME's report they are **not able to fill open positions** in December, down from 44% in November, and 51% at the peak. The average level is some 22%, and the highest before the pandemic was 39%
- 17% of companies **plan to hire**, down 1 pp from Nov, and well below the 32% at the peak in Aug-21. The trend is straight down but the level is still well above an average 12% level
- 36% of companies report that they **plan to lift compensation** in the coming months, up from 34% in November. The peak was at 40% Dec-21. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth – has been at approx. 20%
- There is still *a ways to go*, but it has become somewhat shorter!

Both the vacancy rate as well as SME's compensation plans have peaked

And both signal wage inflation far above a normal level – implying CPI inflation far above 2%

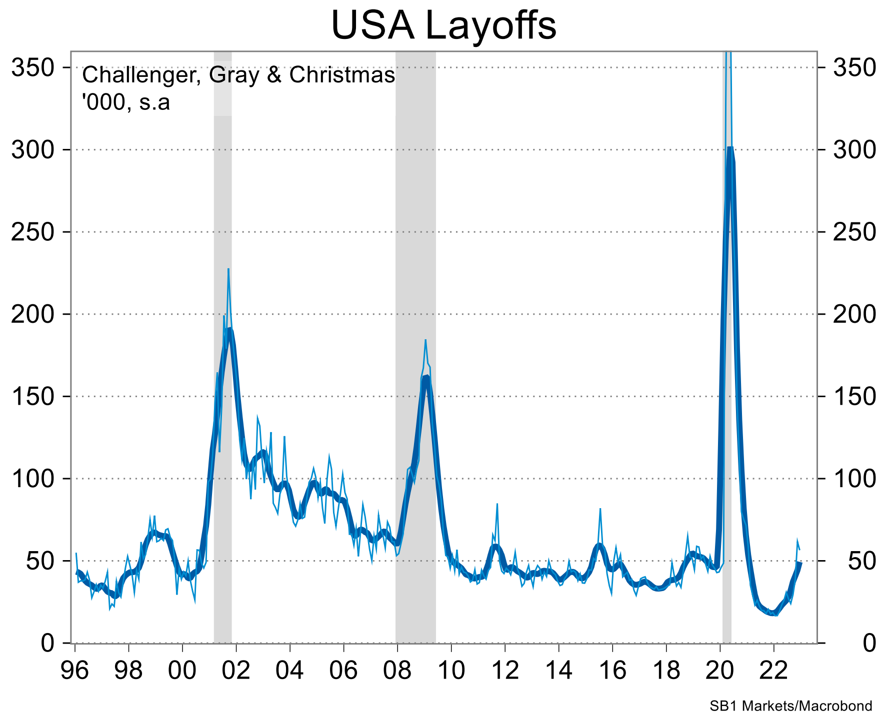


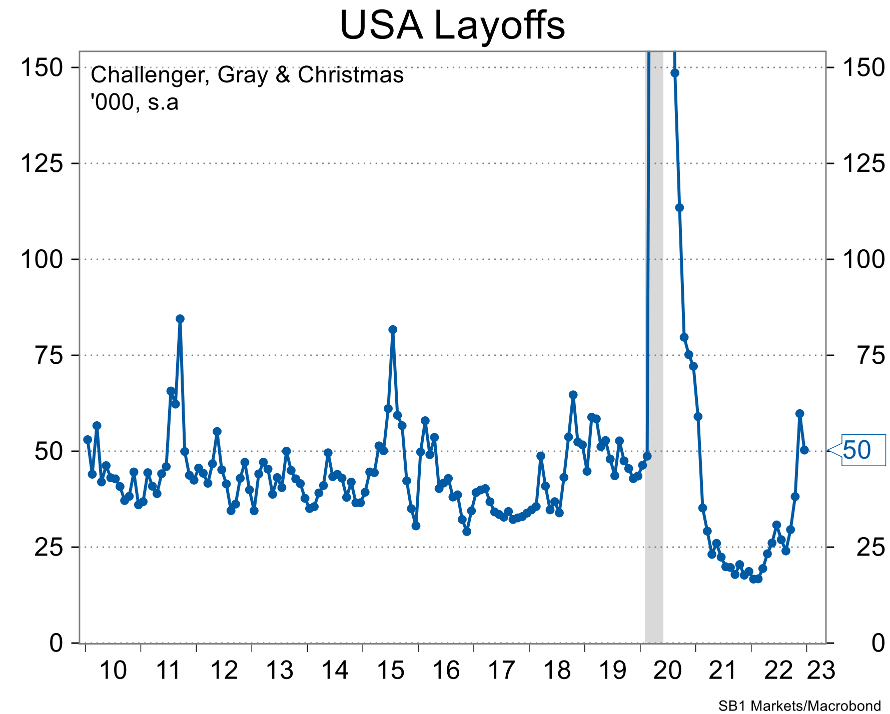


- **Our 'Phillips curve'** based on the vacancy rate signals continued wage inflation at some 2.9% above the normal level
- **Companies (SMEs) compensation plans** also signal continued high wage inflation but 'just' 2 pp higher than the past 10 y avg.
- **Demand for labour** has to be reduced sharply in order to get wage inflation back to a sustainable level
  - Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺). Fed will not be able to control inflation if demand for labour is not cut sharply. Exactly what Powell has reiterated many times

Layoffs lower in December, and still not much above an average level

Challenger job cuts down to 56' from 60' the previous month, vs 20' at the very rock bottom

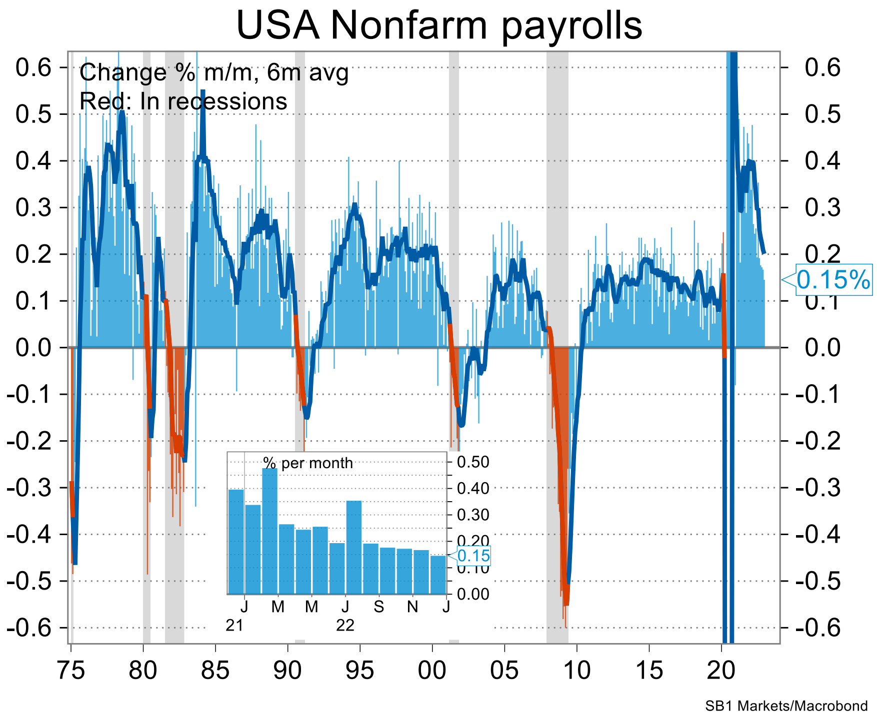


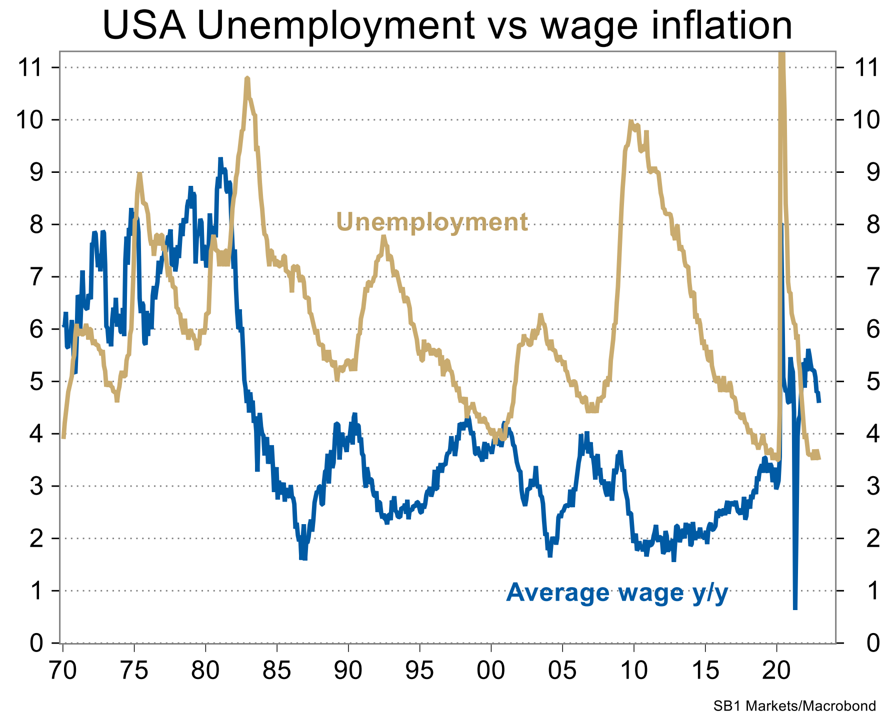


- The number for layoffs in December were <u>1/3 above the average in normal strong labour markets</u>, but even then, there are some outliers. This time the figure seems to be reasonable, given reports from both tech, trade and others during the month
- Tech sector has cut the most jobs this year, followed by the automotive and health care sectors

Employment growth is slowing, but still decent, and unemployment fell in Dec

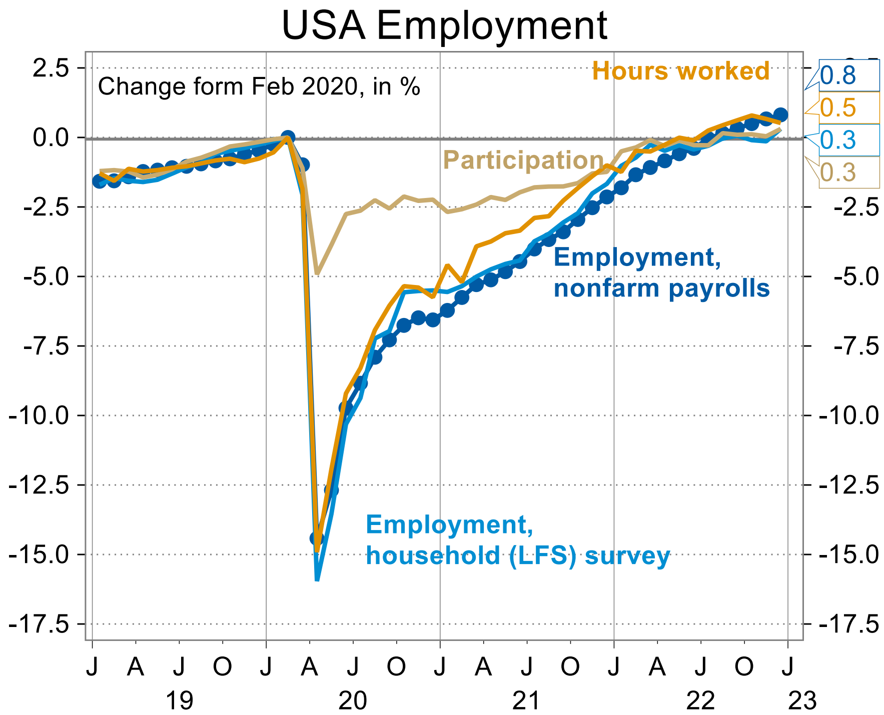
The main news was a downward revision of wage inflation – and moderate growth m/m in December



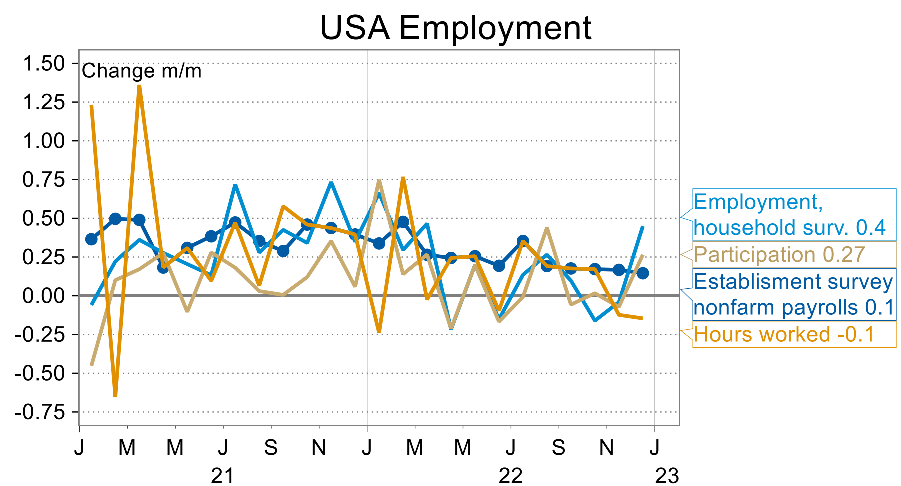


- **Nonfarm payrolls** rose by 223’ in December, expected 200’, down from 256’ and growth is gradually slowing. The LFS employment gained 0.4% (from -0.1%, and the **employment rate** was up 0.2 pp 61.1%. The rate has flattened since March – not a signal of strength
- **The participation rate** increased by 0.1 pp to 62.3%, expected up to 62.2%. The level has been flat so far this year
- The **unemployment rate** declined 0.1 pp to 3.5%, expected 3.7% (Nov was down by 0.1 pp). The FOMC expected a 3.7% rate in Q4
- **Wages** rose 0.3% in Dec, 0.1 pp less than expected, and history was revised down by 0.2 pp. Thus, the annual rate fell to 4.6%, expected at 5.0%. Last month, the rate surprised by 0.5 pp to the upside (0.2 pp due to revisions). Current wage data signal a decline in the underlying growth rate, but still above 4%. Average wages rose by 3¼% in 2019, and well below 3% in the years before – and the current rate of wage inflation remains too high to reach the 2% PCE target over time
- **The market:** Both short term interest rates & long term bond yields fell on the wage shortfall, and thereafter on the surprisingly large decline in the ISM services sector index, in sum by some 10 bps. Just 25 bps from the FOMC in Feb became ‘a done deal’

Employment, participation up in December, while hours fell



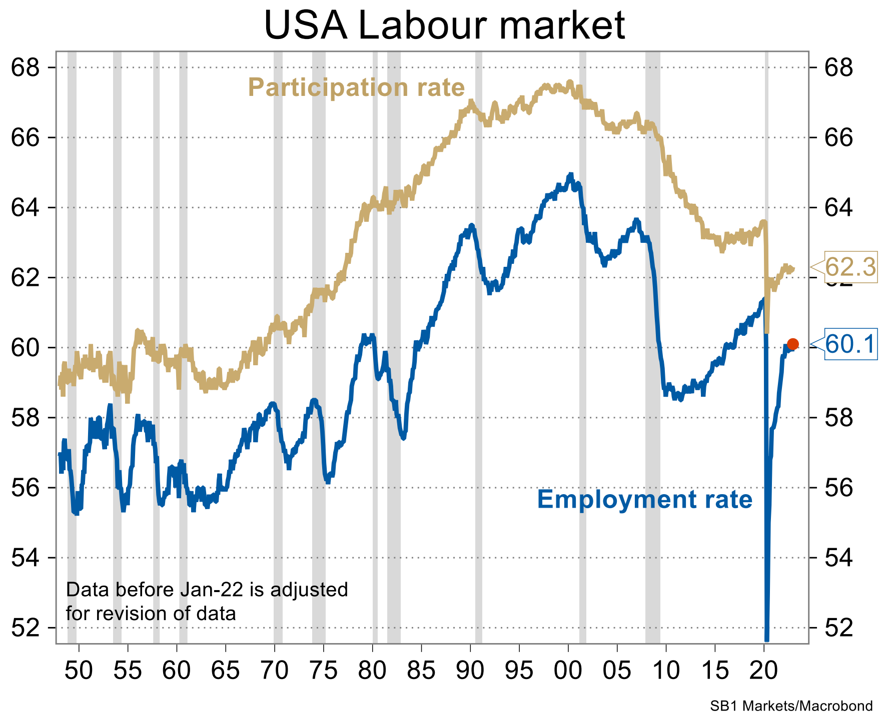
- **Nonfarm payrolls** (employees) are now 0.8% above the Feb '20 level, while **total employment** measured by the **household survey** (LFS/'AKU') is up 0.3%, and it has turned up since Oct-22. The survey data are more volatile the payrolls stats, but the two measures are quite similar over time. The **employment <u>rate</u>** is 1.3 pp below the pre-pandemic level
- **Labour market participation** is 0.3% above the Feb-20 level. **The participation <u>rate</u>** was up by 0.1 pp to 62.3%, and it is now down 1.3 pp vs the pre-pandemic level
- **Aggregate hours worked in private sector** fell 0.1% in December, even if nonfarm payrolls rose by 0.1%

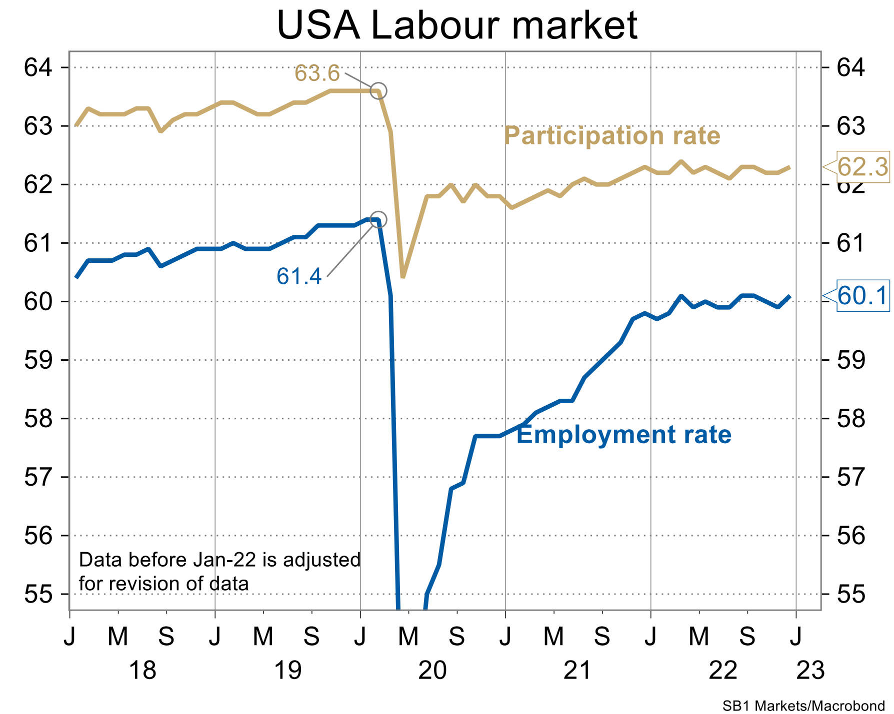


SB1 Markets/Macrobond

Labour force survey: Both participation & employment rates up in December

Both are well down from before the pandemic – but seem unlikely to recover to that level anytime soon





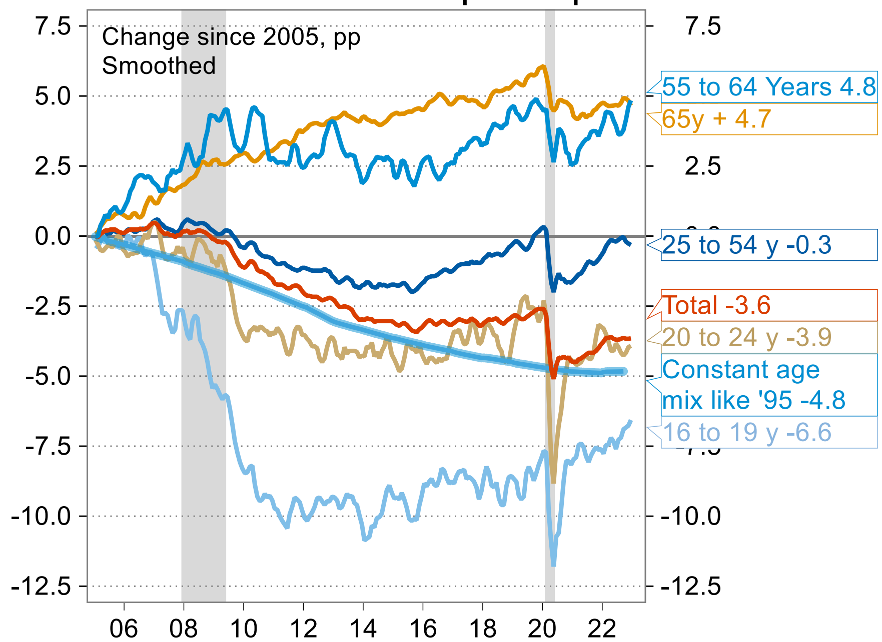
- In December, **the labour force participation rate** rose 0.1 pp to 62.3% (November print revised up by 0.1 pp). The participation rate has flattened in 2022, even if demand for labour has been – and still is strong. The participation rate is 1.3 pp (2.0%) below the pre-pandemic local peak – which again was way below the pre-IT bubble peak, in year 2000 – as the population ages (*check next page*)
- **The employment rate** was up by 0.2 pp, to 60.1%. The short-term trend is flat, as growth in employment has slowed. This rate is also 1.3 pp (2.1%) below the pre-pandemic local peak
- The official vacancy rate has been far higher than anytime seen before, and businesses have been reporting lack of labour as never before. In addition, the unemployment rate is very low. Wage inflation has not accelerated faster since the 70s (but may be waning now). So, it cannot be lack of demand for labour that has led to the decline in the labour force participation rate – and it is unlikely that even higher demand would have lifted the participation rate. <u>The present participation rate are most likely the best the US population now will deliver</u>

SpareBank 1 MARKETS

Participation rates: Most groups are down from before the pandemic

The core age group, 25 – 54 y is down 0.6 pp, mixed among the younger and older

USA Labour force participation rate



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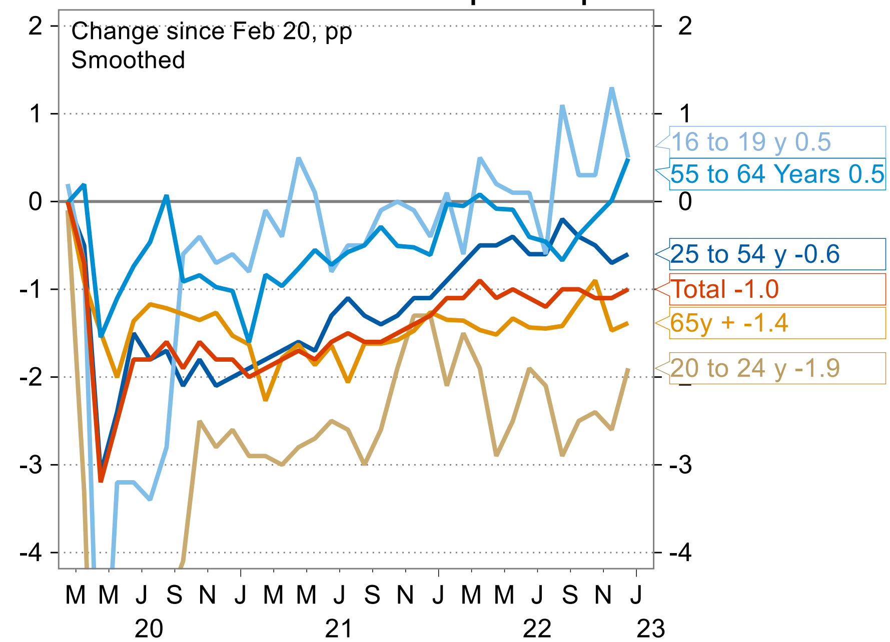
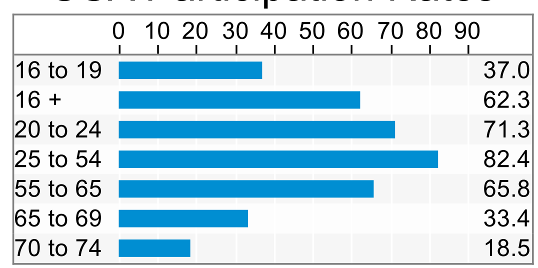
USA Labour force participation rate



SB1 Markets/Macrobond

- The **participation rate** among the 25 – 54 y group is 0.6 pp below the level from before the pandemic. The 20 – 24 y group remains well below. The above 55 – 64 group is back to a normal participation rate, while the older are well below
- As the US population is aging, a decline in the average participation rate <u>over time</u> is no surprise. The chart above illustrates the impact. The thick light blue line illustrates the participation rate if each group kept their participation rate at the 2005 level. The decline is due to the larger old cohorts

USA Participation Rates

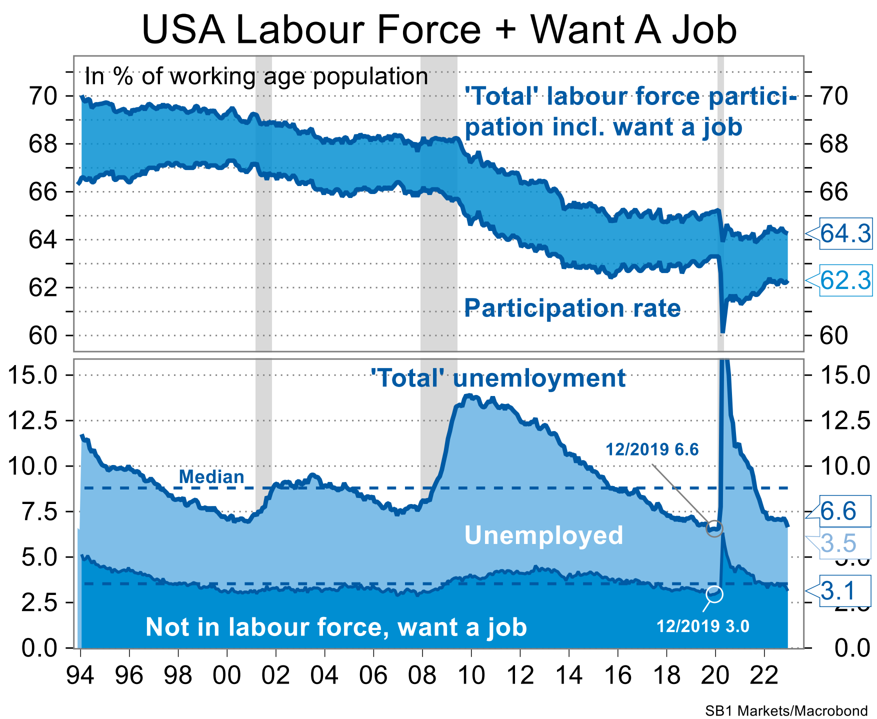


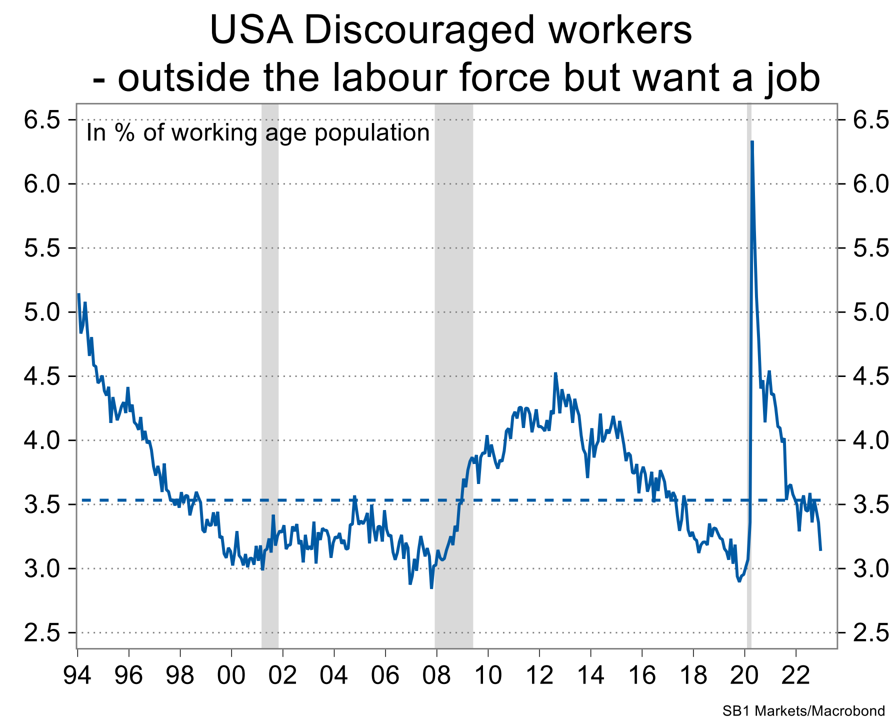
SB1 Markets/Macrobond

USA

Quite few outside the labour force say they want a job

These outsiders equal 3.1% of the labour force, below the historical average of 3.5%

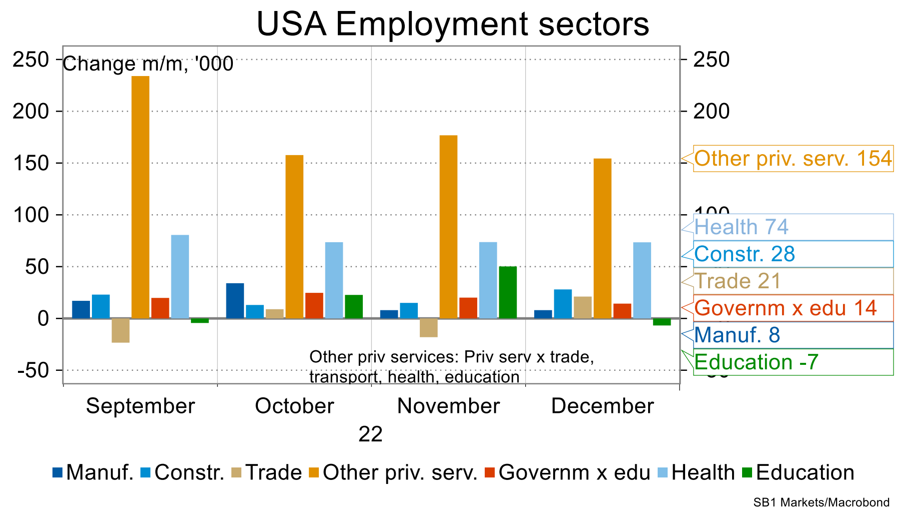




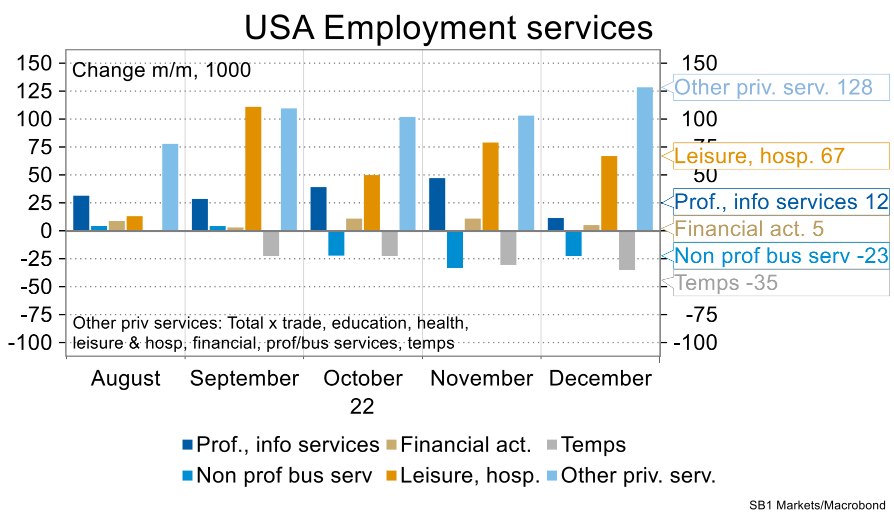
- Normally, the '**discouraged workers**' rate is lower than average in booming times. Those who say they cannot work due covid now constitutes just a small fraction of the 3.1% rate
- Given the present high vacancy rate it seems to be rather challenging to squeeze this part of the population into the labour market (qualification mismatch etc.)

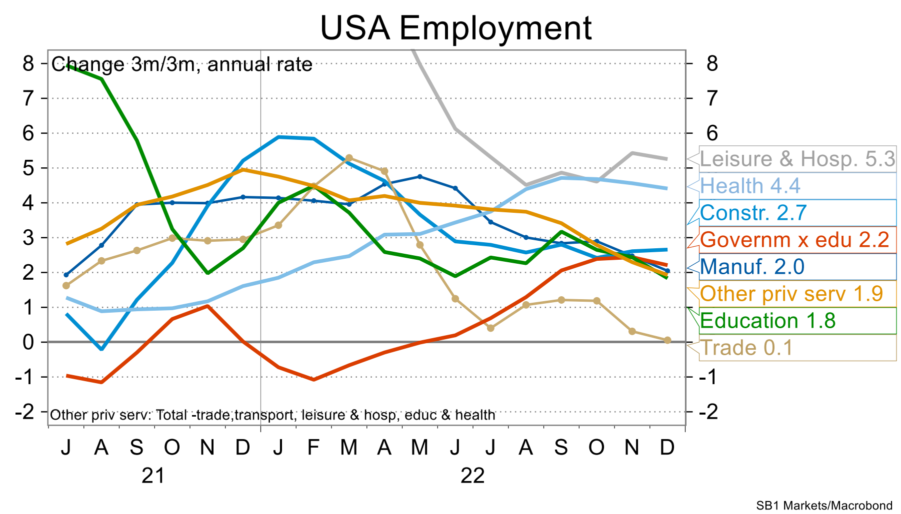
In December, like the month before: Services x trade in the lead

Non-professional business services and education the only main sectors down



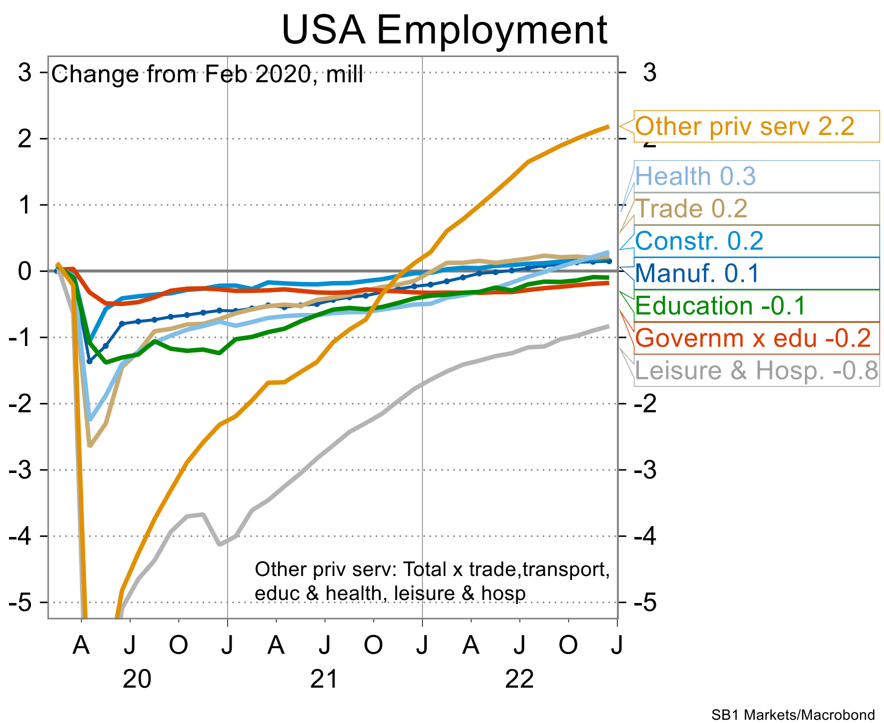
- **Last month:**
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 67' jobs, still growing at a 5.3% pace
  - **Trade** added 21' jobs buy underlying growth is at zero
  - A broad increase in payrolls in other **private services**, growing 1.9%
  - **Manufacturing** added 8'; growth is slowing but it is still higher, than normal, underlying growth is still at 2%
  - **Construction** sector employment up by 28', underlying +2.7%, even if construction activity has turned down. Not sustainable
  - **Education** (private & public) down by 7', underlying 1.8%
  - Employment in **government** (ex education) rose by 14', 2.2% underlying growth

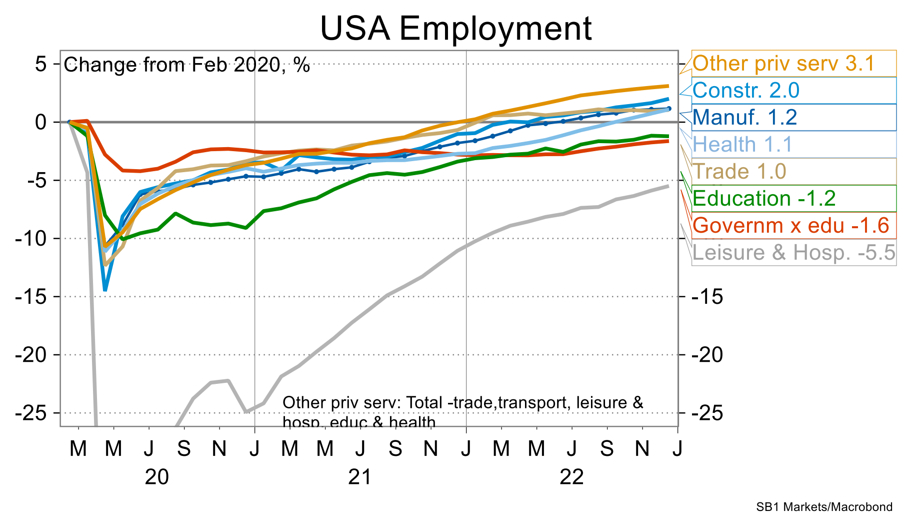




Vs. Feb-20: Leisure/hospitality still down 5.5%

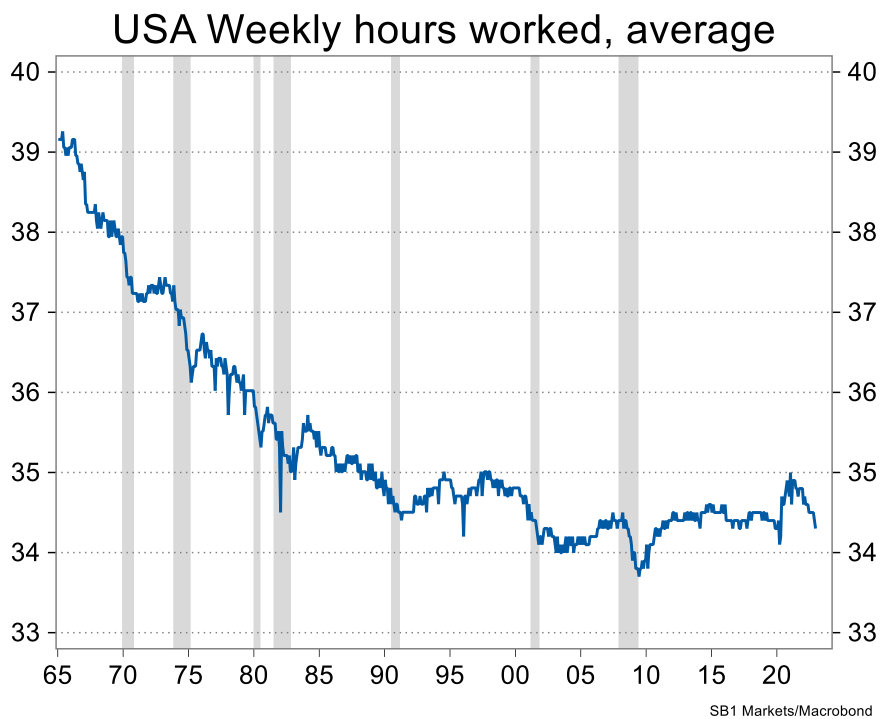
Growth is now slowing in most sectors (x leisure/hosp.), and by the most in trade, as consumption of goods is flattening

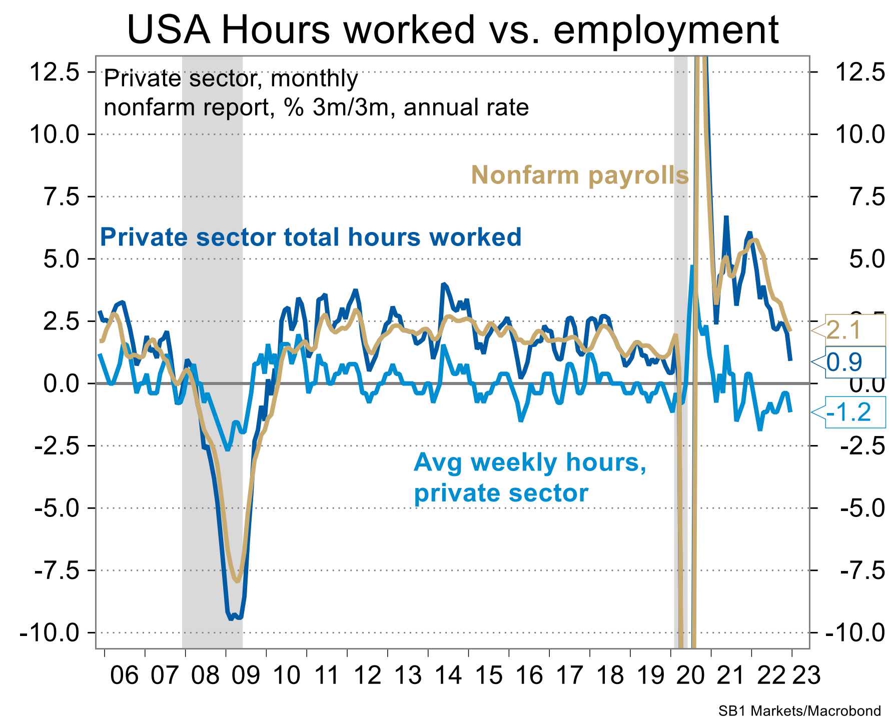




Average weekly hours are falling rapidly, sum hours worked growing slower

Lower average hours, but not cut in payrolls: Growth in production is slowing – and some labour hoarding?

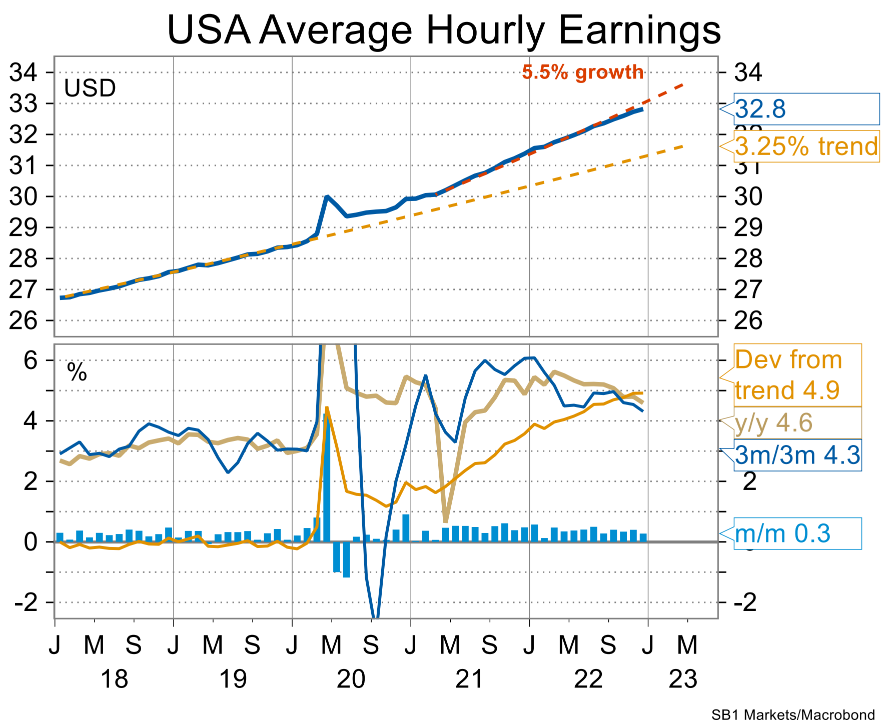


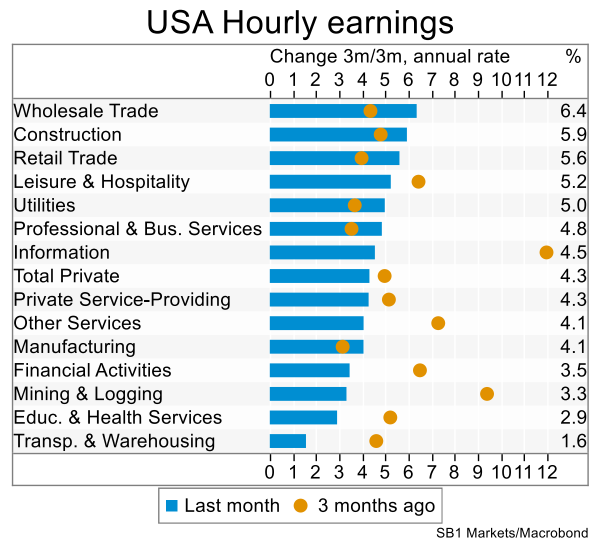


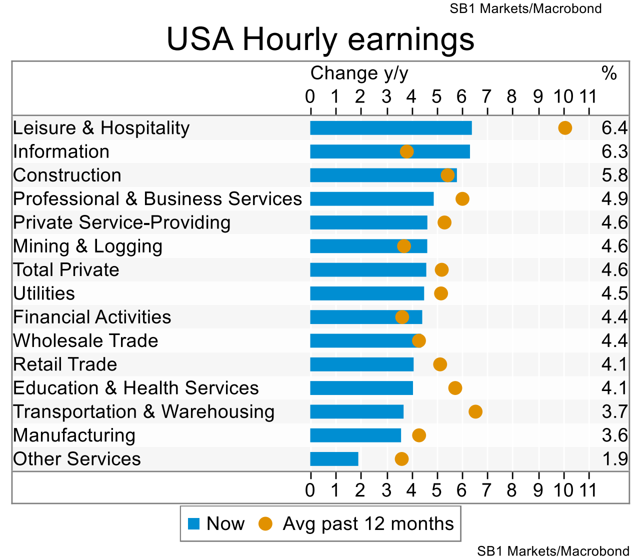
- Hours worked is up at a 0.9% pace in the nonfarm private sector last 3m/3m - and employment is up 2.1% - and the average working week is shrinking at a 1.2% pace

Annual wage growth 0.4 pp lower than expected, and growth may be slowing

8 sectors (from 5 last month) report slower underlying (3m/3m) wage growth than 3 months ago.
6 sectors (from 7) report faster growth. Aggregate underlying wage growth 4.3%, down from 5.1% estimated last month



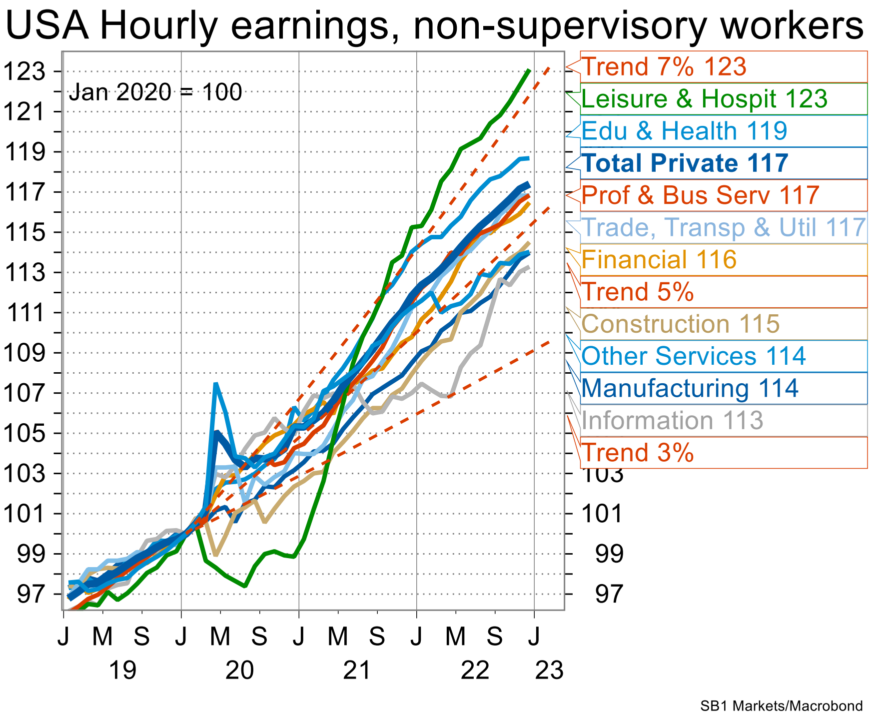




- The **average wage** rose by 0.3% in December, 0.1 pp less than expected. Annual wage inflation fell to 4.6%, expected 5.0%. Last month the surprise/revision went the opposite way, 0.5 pp higher than expected
  - Underlying (3m/3m) fell to 4.3%, sharply down from the previously reported 5.1% in November (now estimated to 4.5%!). If correct this time, wage growth has been at the present level since the spring
- Just before the pandemic, wage inflation was at approx. 3¼%, but it was below 3% until late 2018 – and that wage infl. yielded 2% CPI inflation
- *These monthly wage data are not adjusted for the change in employment mix between sectors or within sectors. Check more wage indicators at the next pages*

Wages are climbing at a 4% – 7% pace

… And well above the pre-pandemic growth paths in all sectors

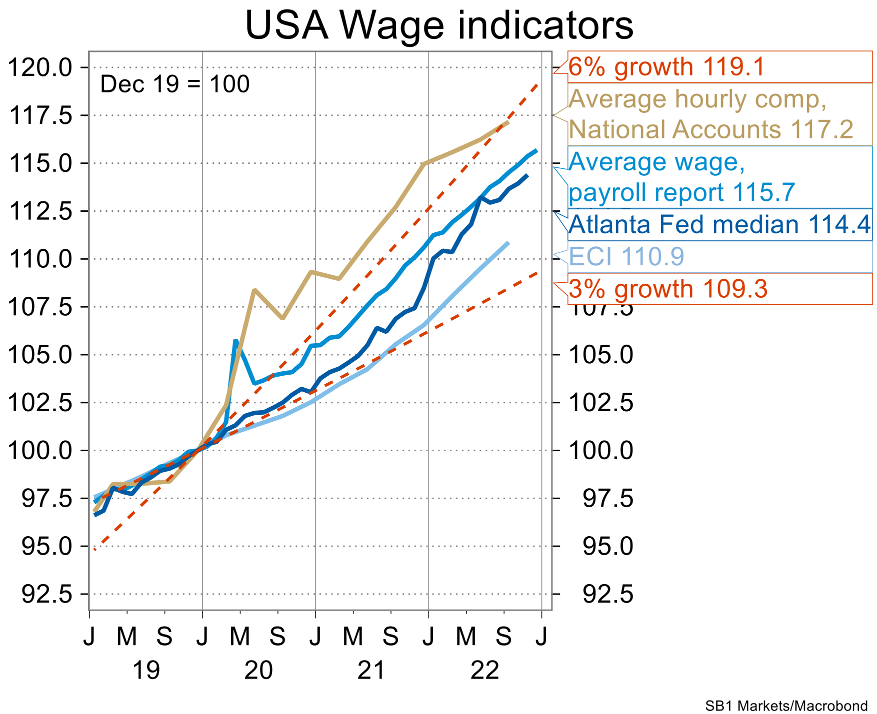


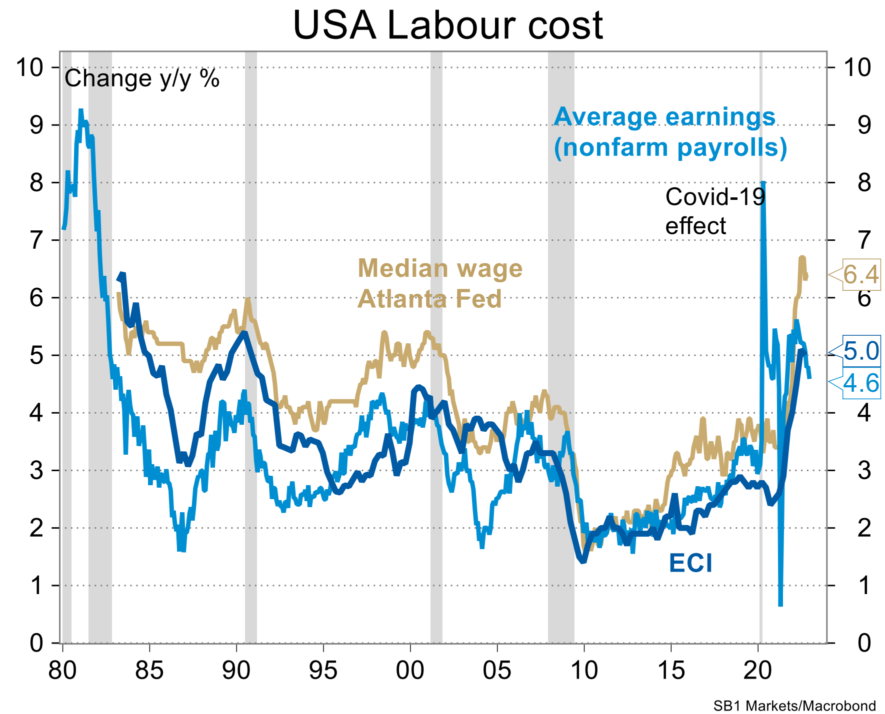
- However, wage inflation is slowing somewhat in several sectors, according to the payroll report

Memo: On the chart above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

All indicators combined: some signs that wage inflation may have peaked

However, all are reporting much higher wage inflation than pre Covid: 2% price inflation is ‘impossible’



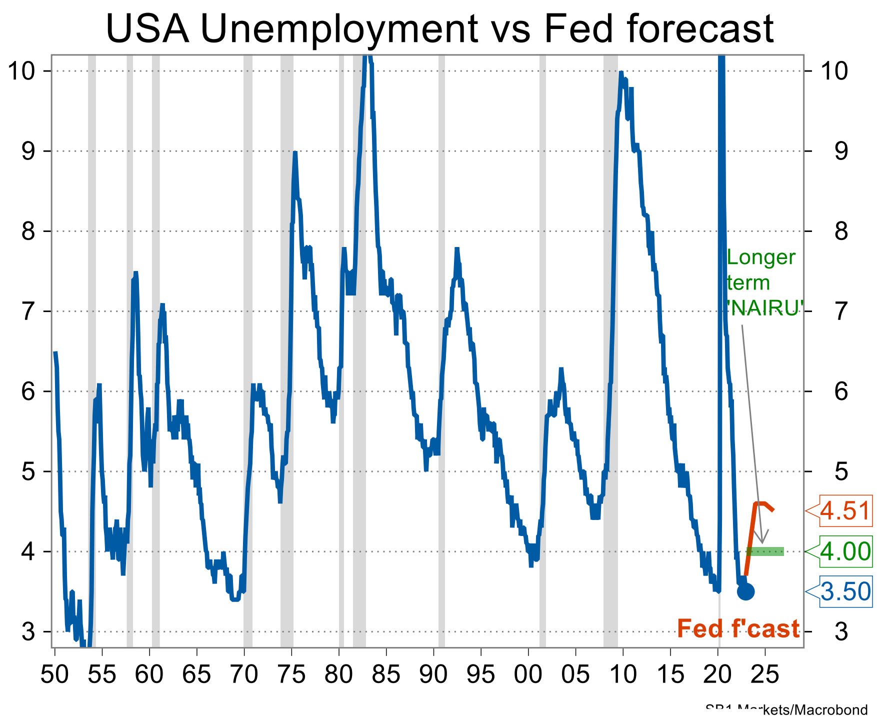


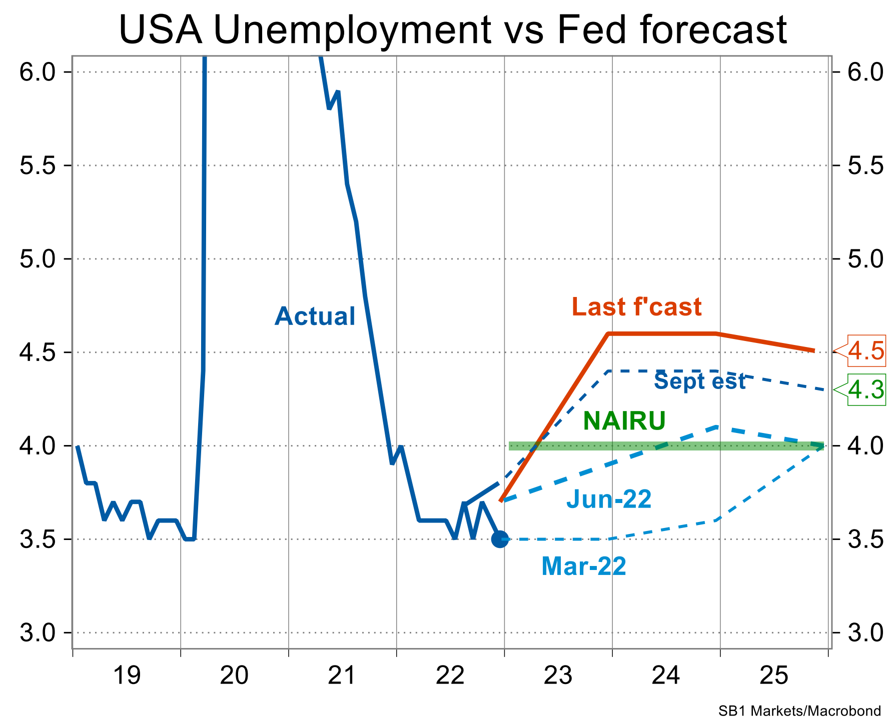
- **There are several wage indicators**, and no index that describes the one and only real underlying wage growth
- However, **all wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.5 – 3.5 pp vs their respective 10 y averages before the pandemic
- Over the past 10 years, inflation has been close to 2% (before the pandemic, that is)
- It will be impossible to keep inflation at 2% if wage inflation remains at current levels. Productivity growth has not accelerated. Profit margins may take a beating – and they no doubt will – but not sufficient to bring inflation down to acceptable levels on their own, at least not over time. Even if wage inflation has slowed somewhat without an increase in the unemployment rate, we still doubt it is possible to bring wage inflation down to a sustainable level with the current tightness of the labour market

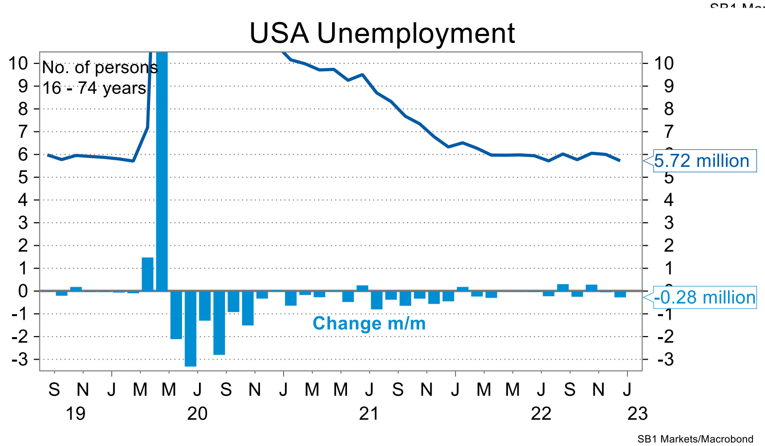
SpareBank 1 MARKETS

Fed's hope: just a marginal increase in unemployment the coming years

Even if excess demand for labour has to be cut. Not impossible. But not likely





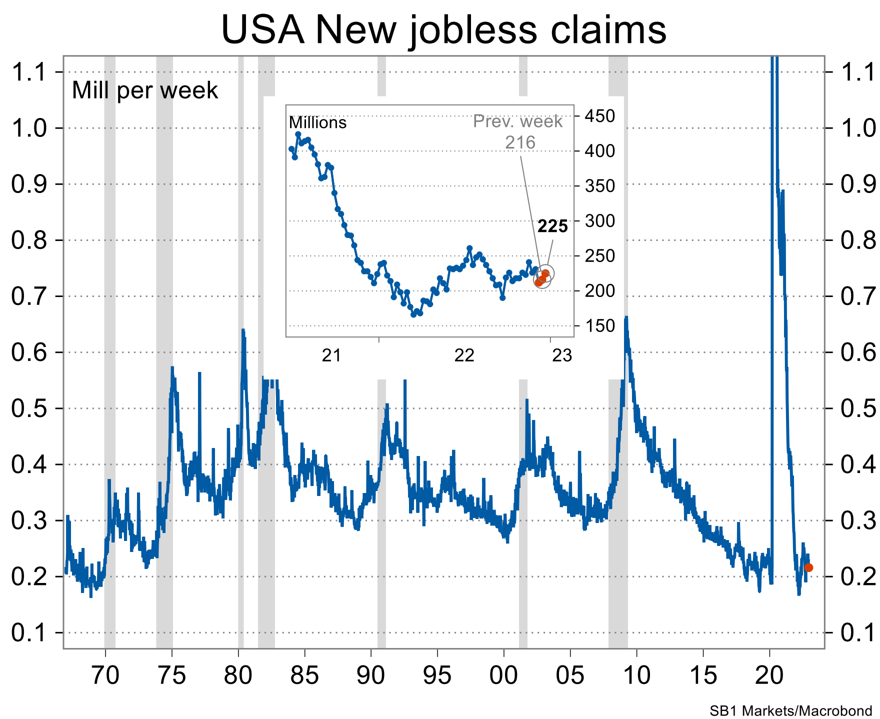


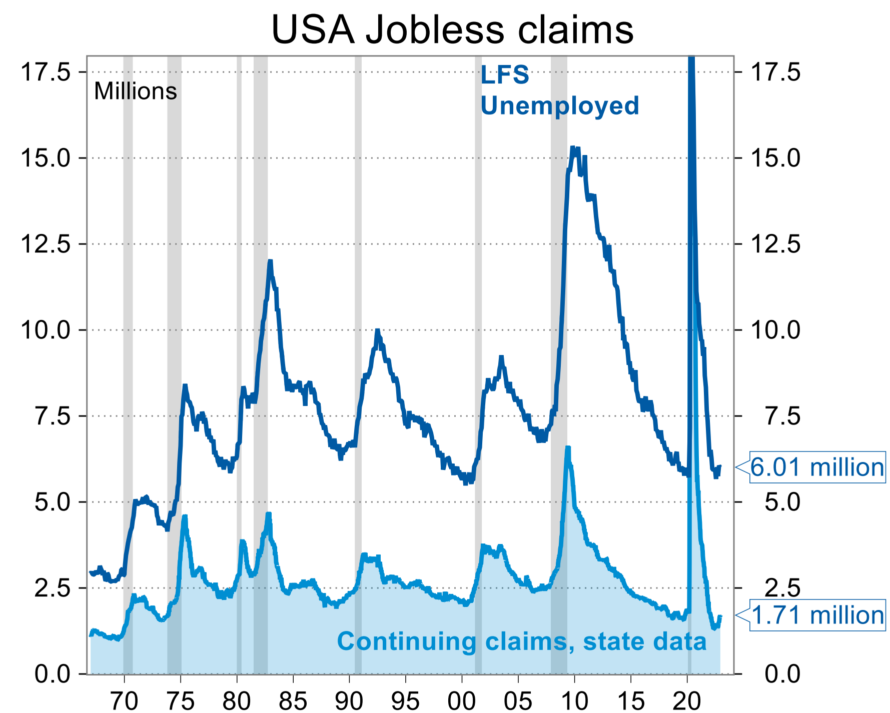
- So far, no increase in the unemployment rate from the bottom level
- In December, Fed expected a 3.7% unemployment rate in Q4, it turned out to be 3.6%. The bank now assumes that the unemployment rate will increase to 4.6% by the end of next year

SpareBank 1 MARKETS

Another indication of a very tight labour market

New jobless claims declined to 204’, which was 21’ below market expectations

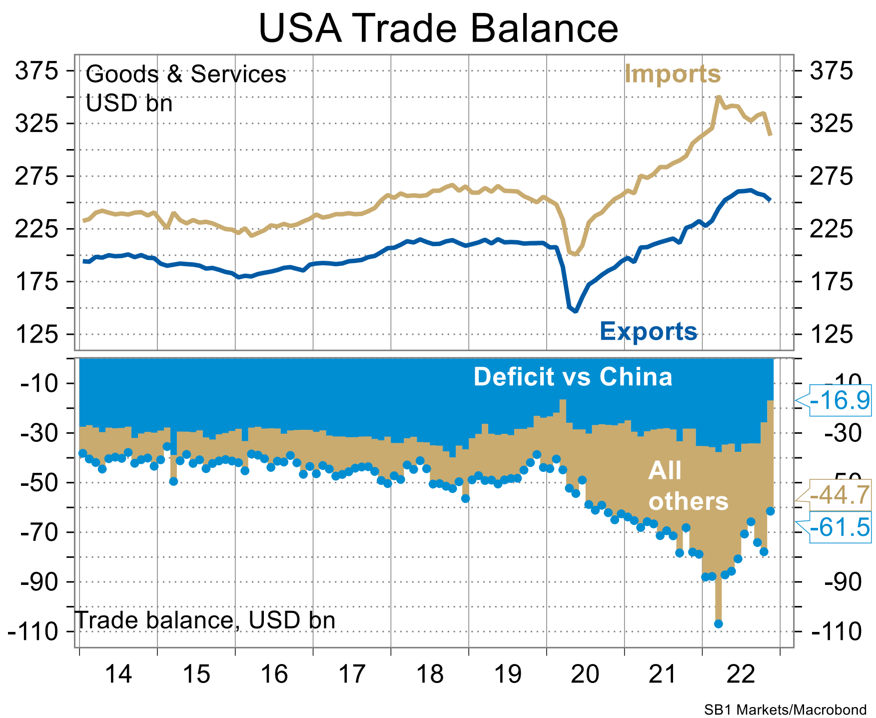


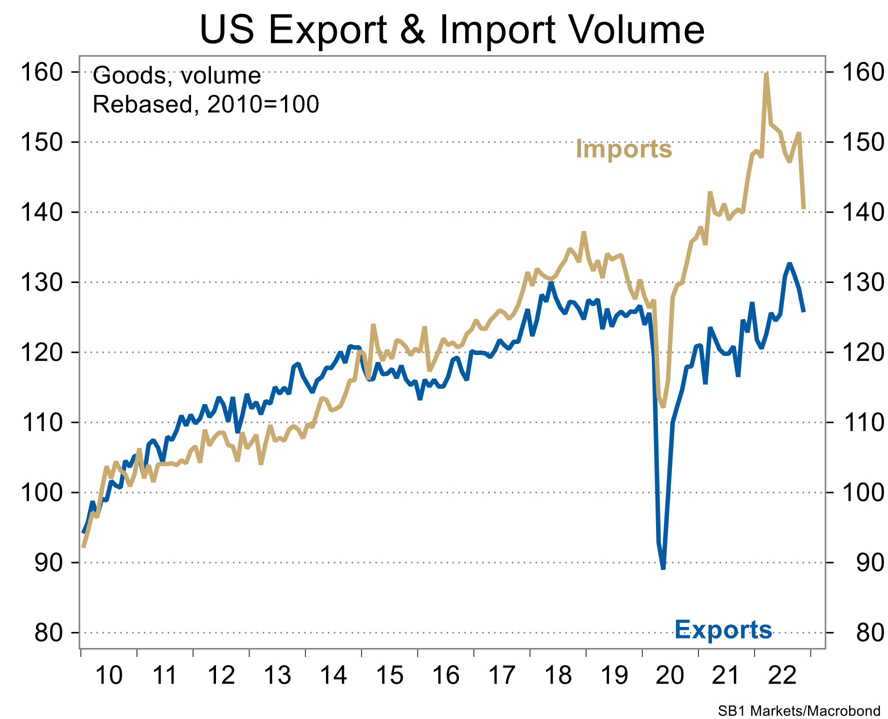


- **New jobless claims** decreased by 19’ to 204 last week (previous week’s data revised <u>down</u> by 2’), but keep in mind that this was during the Holidays
- **Continuing claims** fell by 24’ to 1,710’ (prev. week revised up by 8’) in week 51. The trend is slightly upwards but the level remains very 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)

Imports of goods confirmed down sharply in Nov, both demand & supply?

Exports fell too, but far less – and the trade deficit fell to US 62 bn, from 79 in Oct (and approx. 90 in H1)

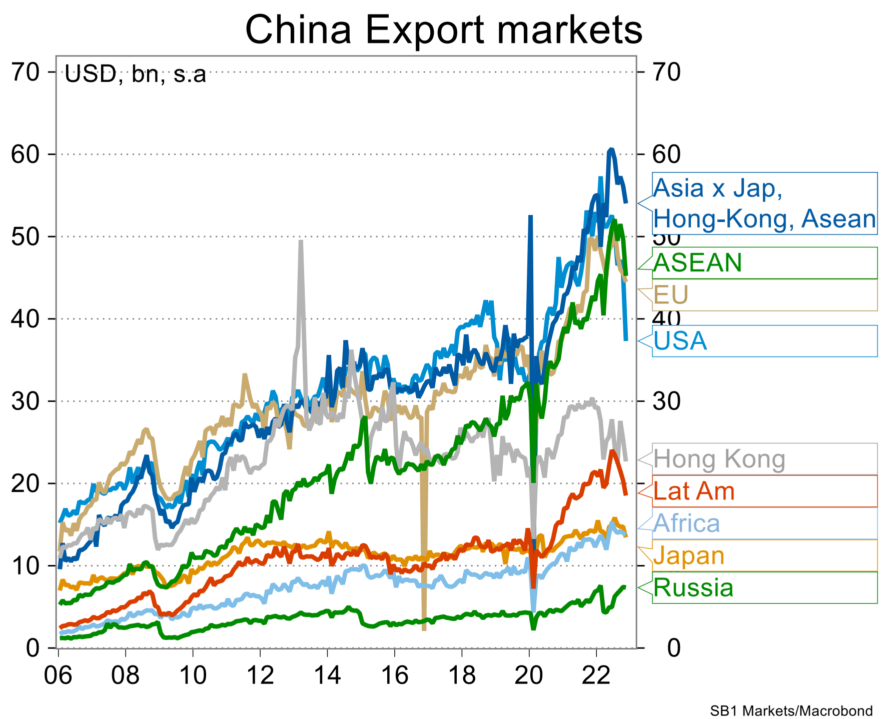




- **Imports** (goods and services) fell by 6% in November, due to an unusual 7.5% decline in imports of goods. Imports have been trending down both in value and volume terms since the spring, no doubt mostly due to lower weaker domestic demand (witnessing lower delivery times, falling prices). However, the decline in November is probably also due to some supply side problems – as Chinese exports nosedived in November, especially to the US. The Chinese fight against the virus is probably to blame. Import volumes are back to the pre-pandemic trend – but we expect a recovery in December (or more likely later due to the continued covid challenges in China). The sharp decline in imports now is very likely compensated by a drawdown of inventories, as we have no indication of any collapse in demand in November
- **Exports** fell by 2.8% m/m in November, and very short-term trend is now down here too. The export volume (for goods) declined by 2.6%. In volume terms, exports of goods are close to the pre-pandemic level (vs +11% for imports, even after the 7% decline in Nov)
- **The trade deficit** fell sharply, to USD 62 bn, the lowest since before the pandemic, from 79 bn in Oct. At 3.0% of GDP, the deficit in is, of course, sizeable
  - The deficit vs. China collapsed in November, to the lowest level in modern times.

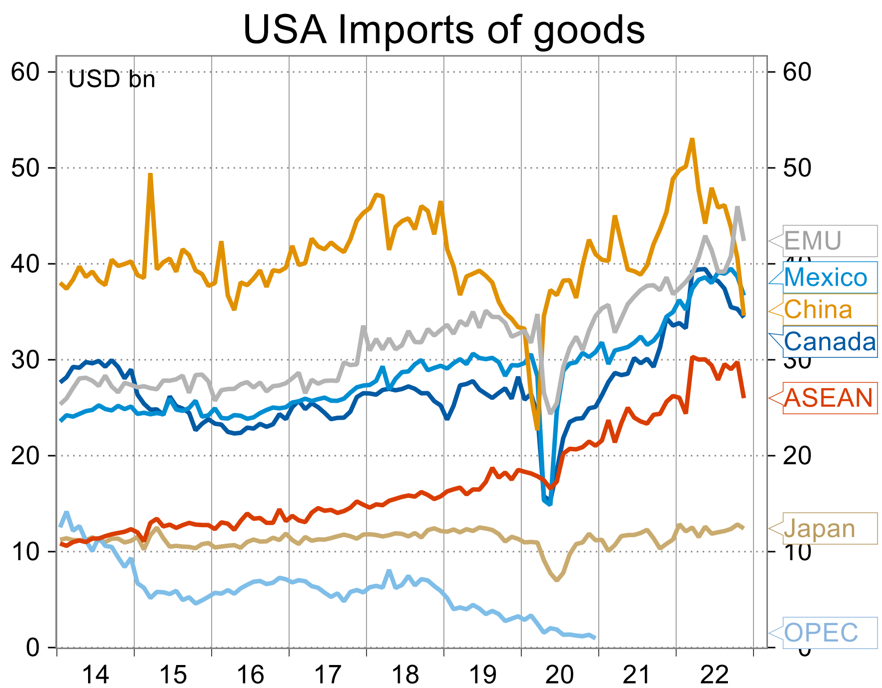
Chinese exports to the US fell sharply in November

Most of the decline is probably Covid related, on the Chinese side. But there are few reports on too little inventories…

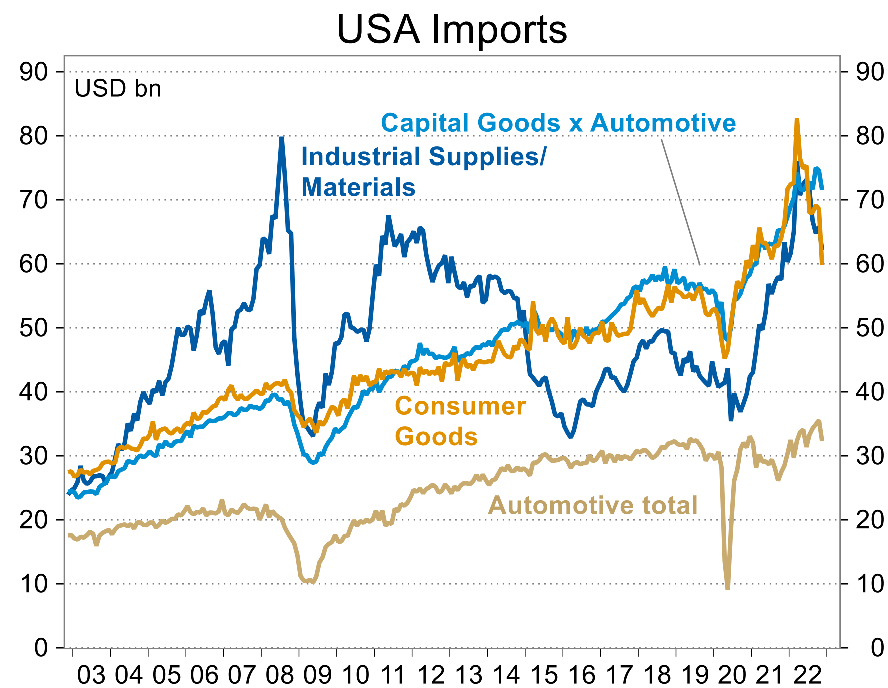


Imports of consumer goods down towards more normal levels

Imports are yielding/flattening from all corners, except the EMU



SB1 Markets/Macrobond

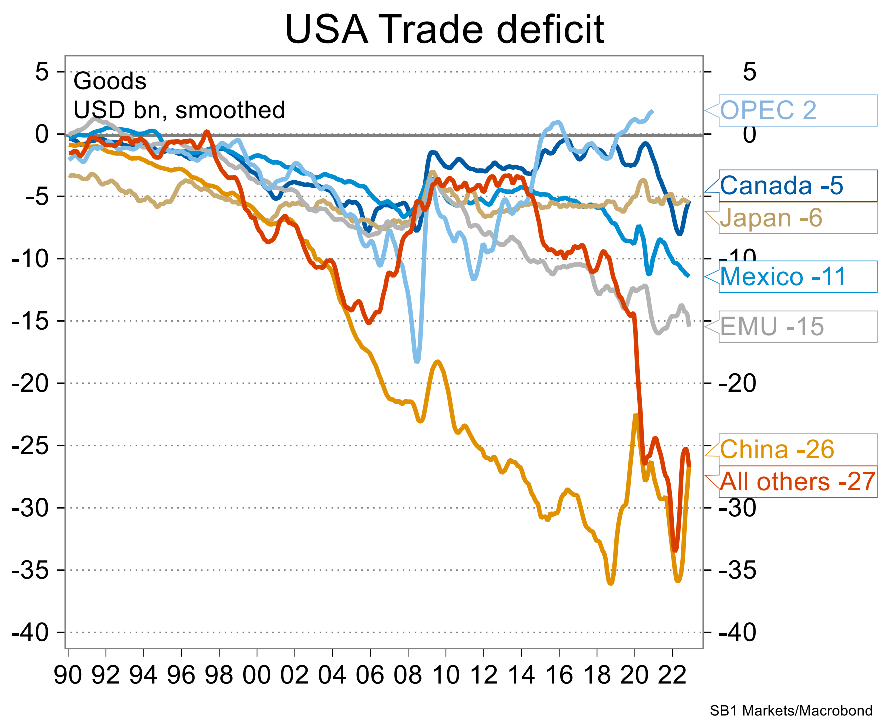


SB1 Markets/Macrobond

- **Imports from regions:**
  - A trend shift in imports from all countries recent months vs the surge the previous 2 years. Imports from China have fallen sharply
  - The exception: Imports from the EMU have increased significantly since the summer
- **Imports by type of goods:**
  - Import of all types of goods have surged during the pandemic, but the import of consumer goods has fallen sharply since March, as have industrial supplies. Imports of autos are on the way up (all data are nominal). Growth in demand is slowing, and inventories probably grew too large

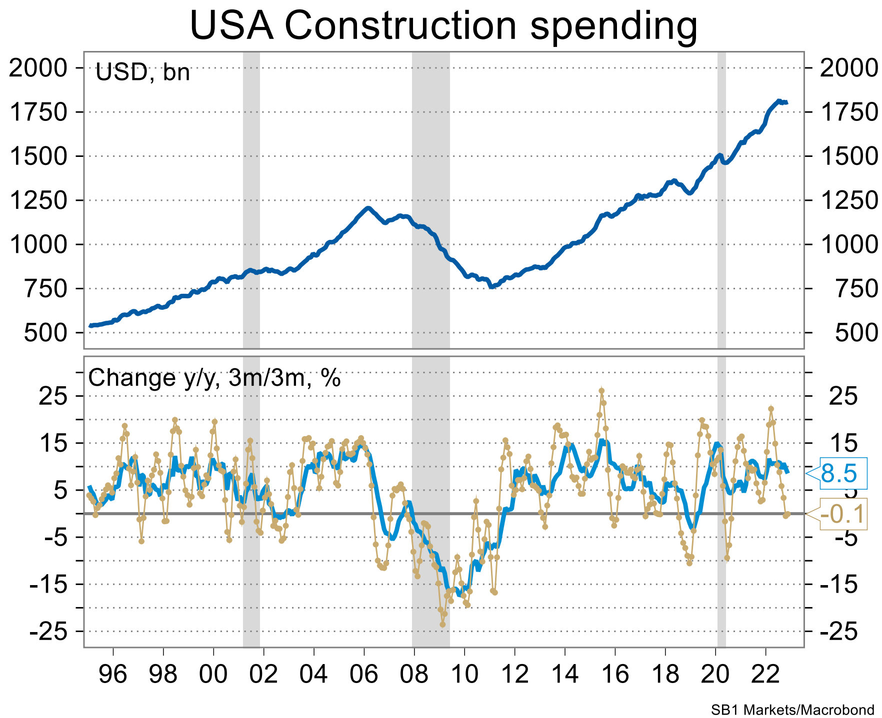
Mixed changes in the trade deficit vs. regions

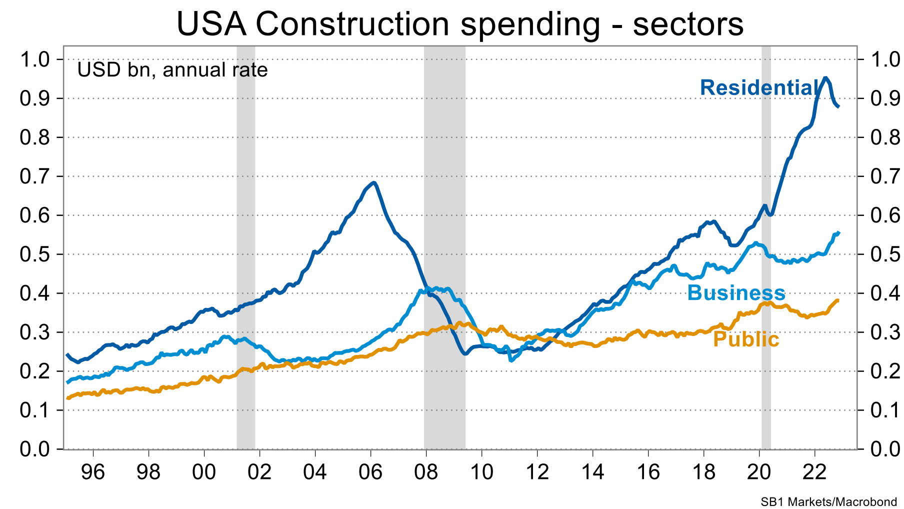
Deficit vs. China has been shrinking since June

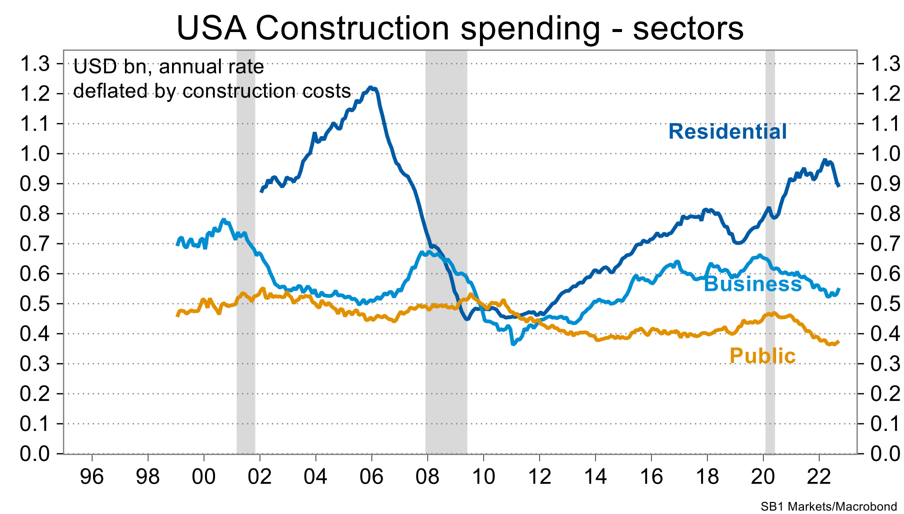


Construction spending increased by 0.2% in November, beating expectations

But is still down 0.1% 3m/3m, in nominal terms, as residential building is falling rapidly



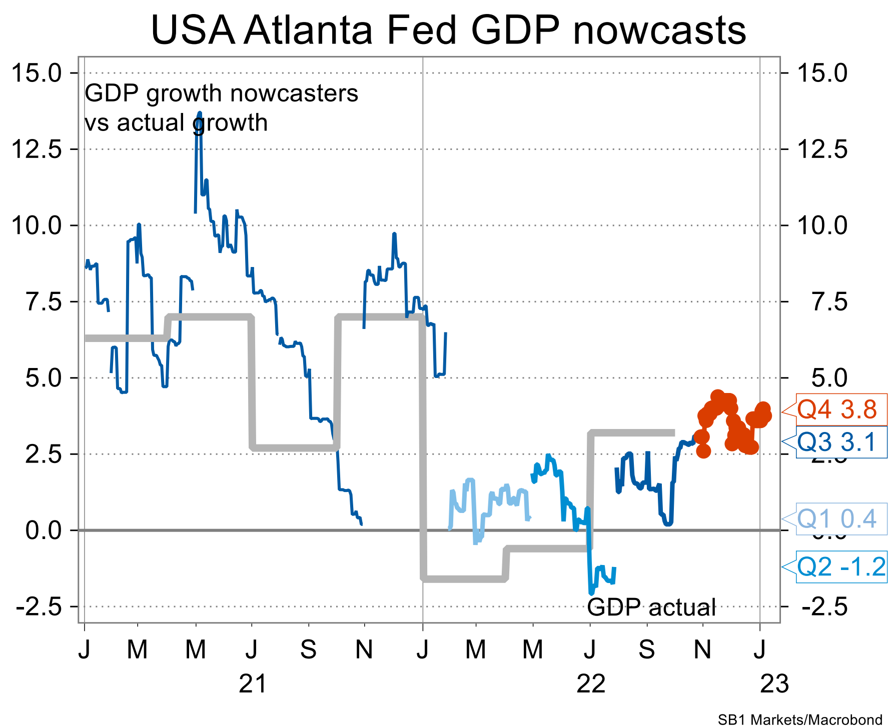


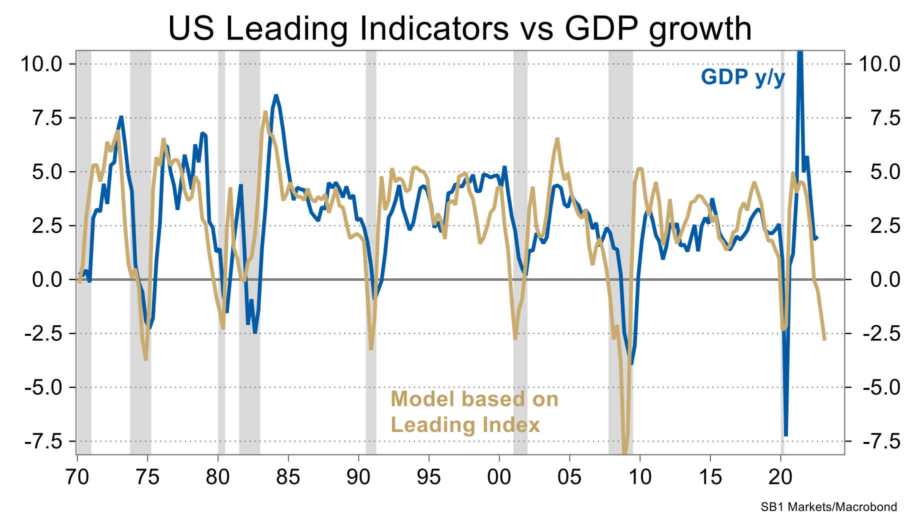


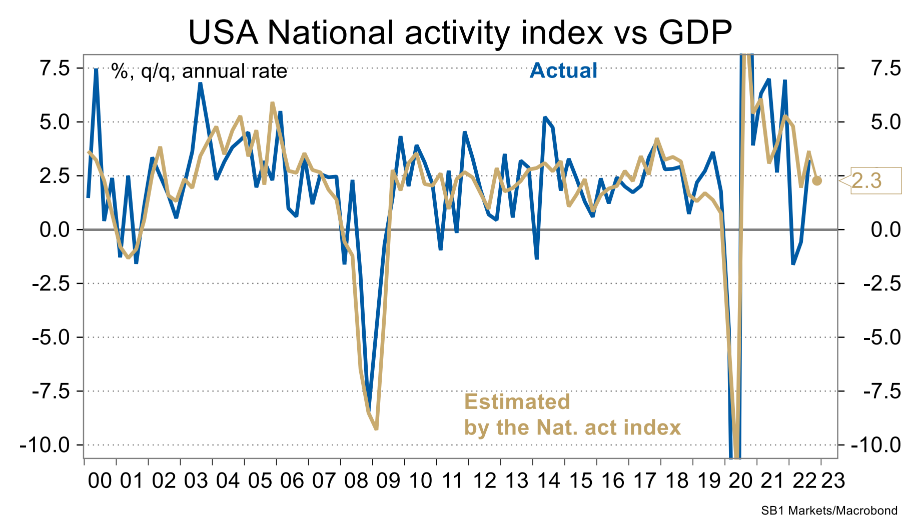
- **Spending data** are published in nominal terms – and constructions costs have surged but seem to slow now. Spending in nominal terms are down 0.1% 3m/3m, still up 8.5% y/y. In volume terms, spending is down, by 10% from the peak (while nominal spending is close to the peak)
- **Residential construction investment** has fallen sharply, but less than 10% in even in volume terms
- **Business construction investment** are on the way up, now even slightly in volume terms!
- **Public sector investment** fell from Dec-20 until Sept-21, but is now back to mid 2020 levels – and activity has flattened in volume terms

Atlanta Fed revised its Q4 GDP forecast up by 0.1 pp to 3.8%

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

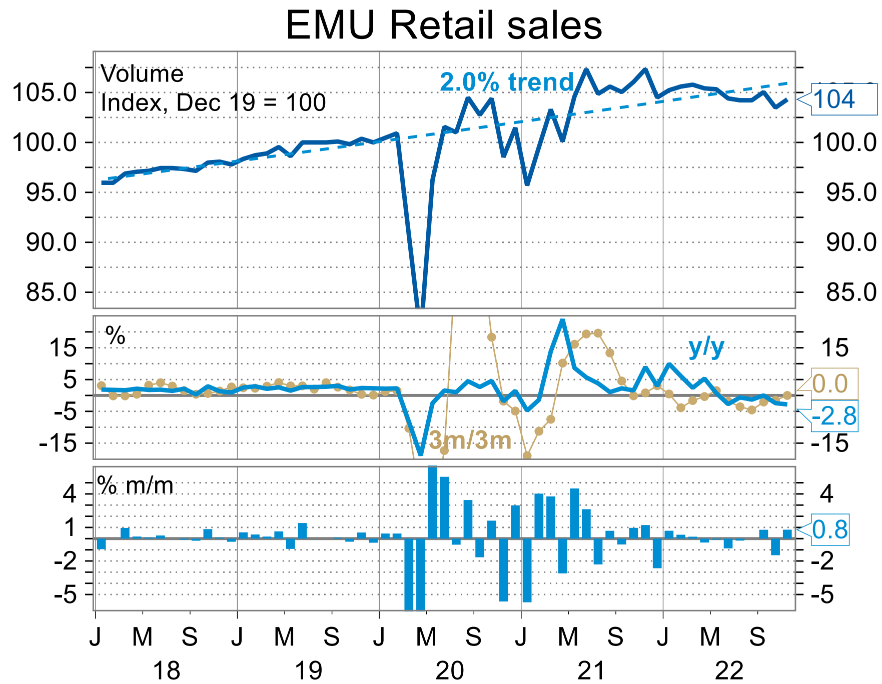


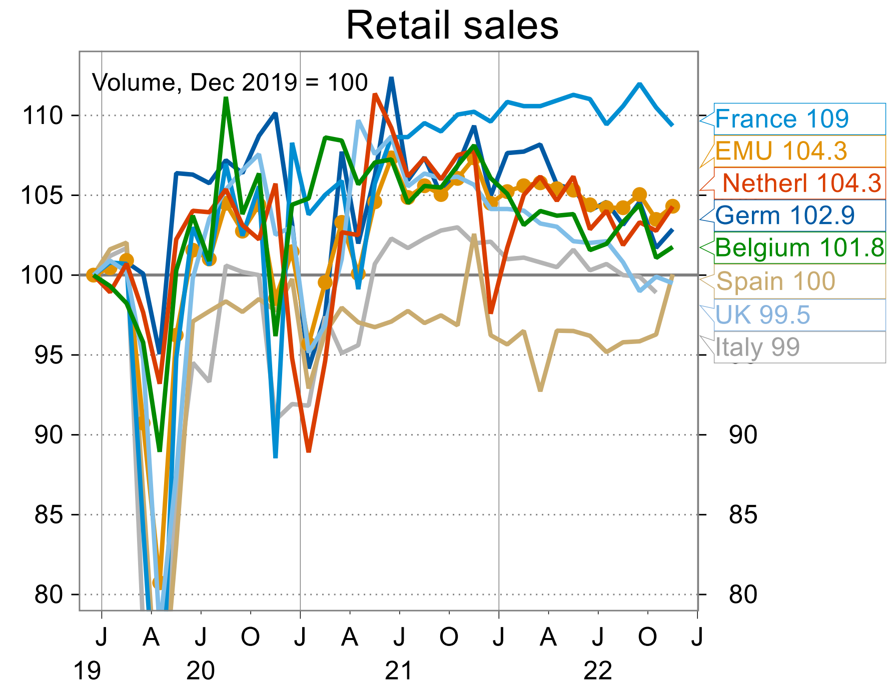




Retail sales rebounded in November

Sales were higher driven by non-food products. Food & beverage sales were down 0.9% m/m

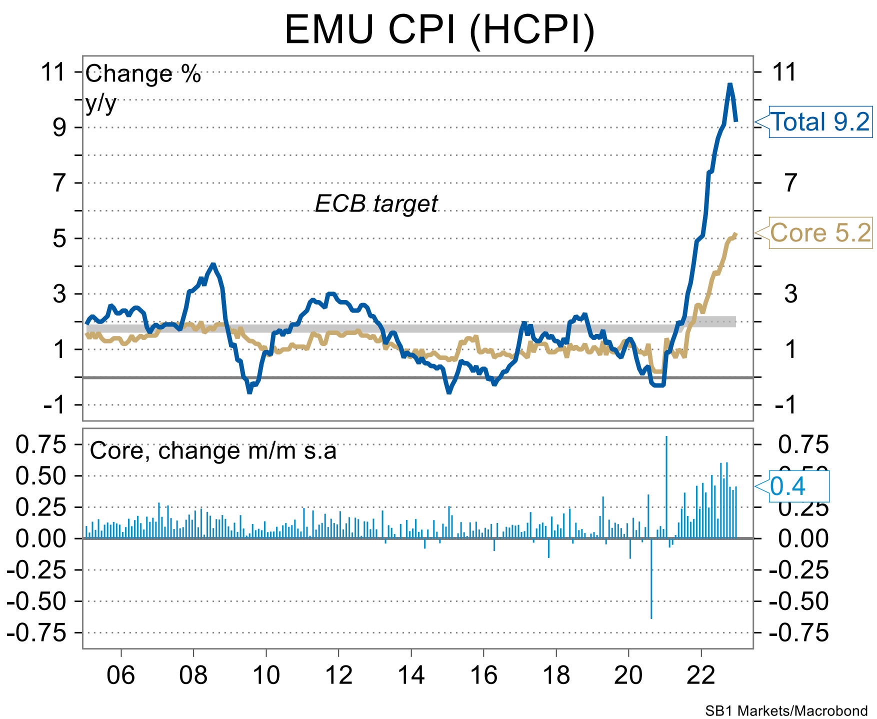


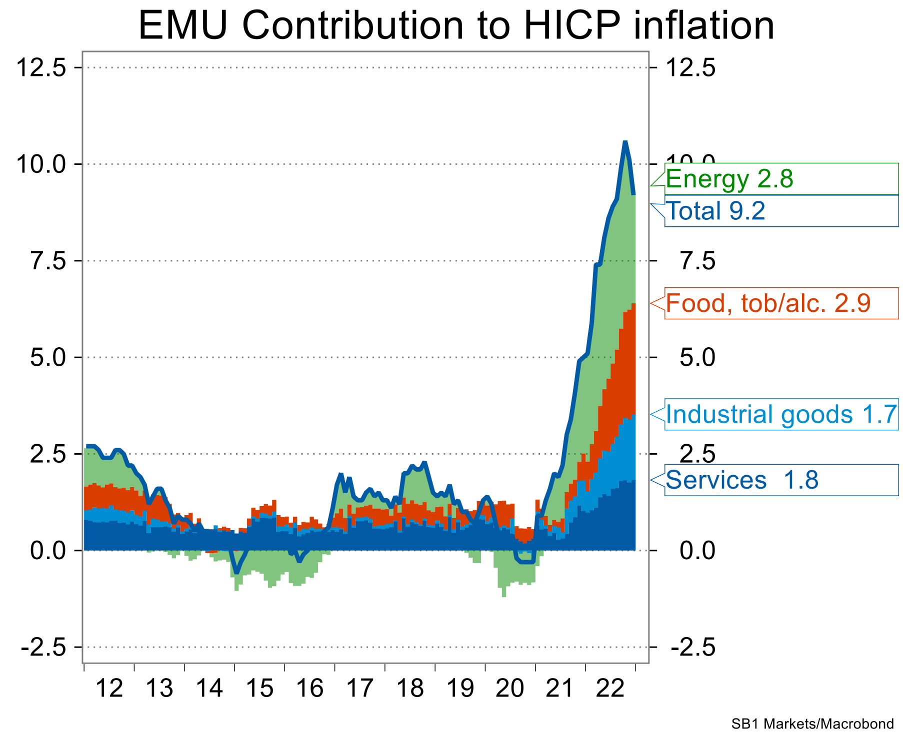


- **Sales** gained 0.8% in Nov (Oct print was revised up by 0.3 pp to -1.5%), and are now 4.3% above the pre-pandemic level, but somewhat below the pre-pandemic growth path. However, the trend in sales is down, even if the 3m/3m rate is at zero
- As for the **regional** differences, sales were up in Germany (+1.1%) and Spain (+3.6%) in November (Italy has not yet reported), while French sales declined by 1% m/m
- Sales have been trending down since mid 2021 – and the outlook is dismal, given loss of buying power. However, sentiment have clearly turned the corner and the labour market is still remarkably strong, with the lowest unemployment rate in 4 decades, and an unprecedented high level of unfilled vacancies

Inflation lower than expected in December too, as energy prices plummeted

However, the core rate accelerated more than expected, by 0.2 pp to 5.2%, as core goods prices are climbing faster

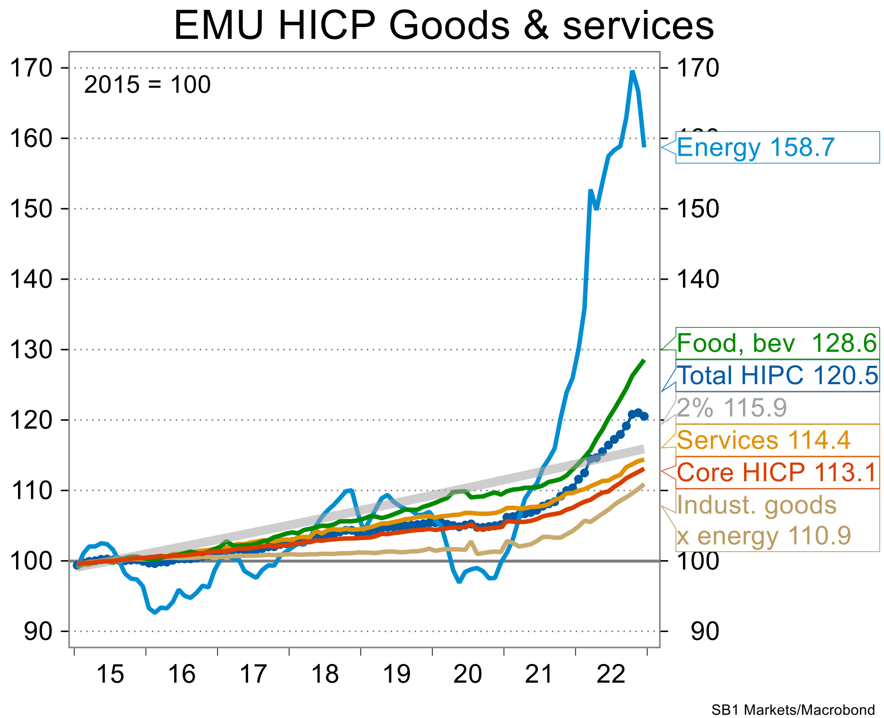


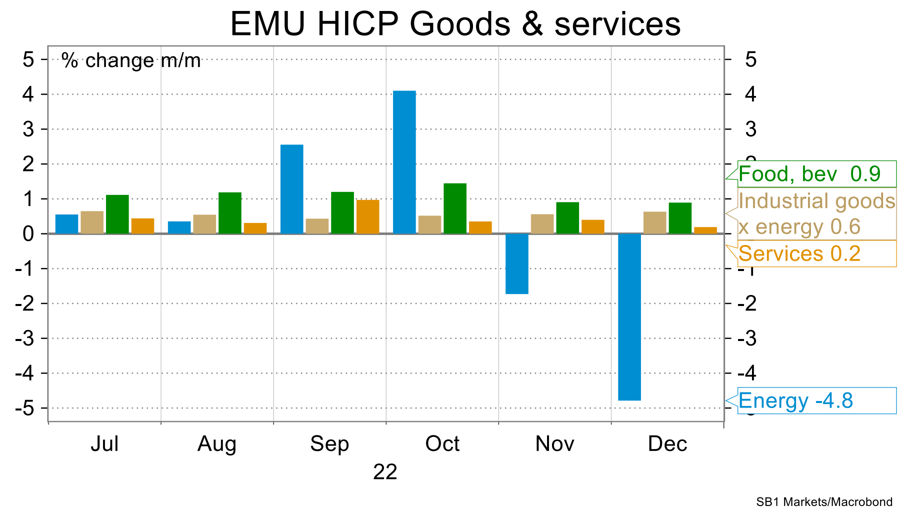


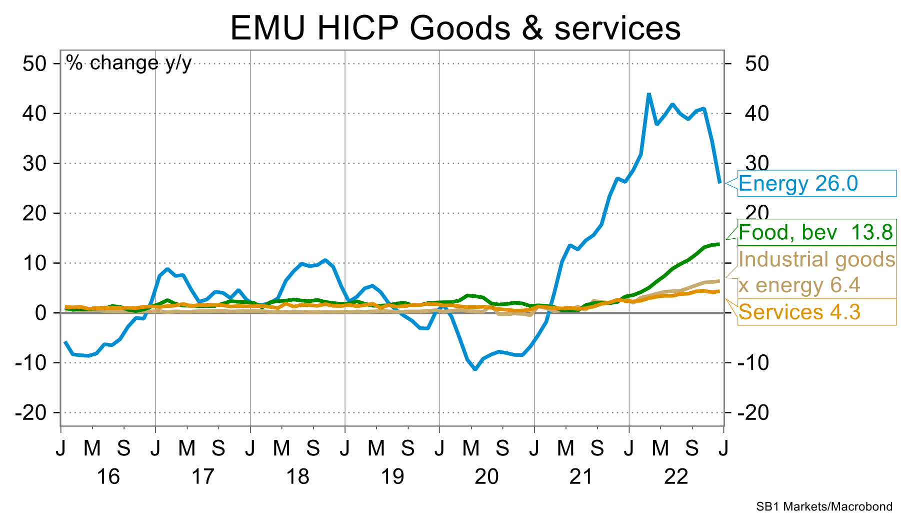
- The **total HICP** fell 0.4% m/m in Dec (seas adj), and is up 9.2% y/y, which is down 0.9 pp from November and 0.5 pp below expectations
  - **Energy prices** were down 4.8% m/m, and are up 26% y/y (down from 35% a month ago), and still contribute 2.8 pp to the headline rate. Food prices rose 0.9% m/m - and are up 14% y/y, contributing 2.9 pp to overall CPI growth!
- **The core** rose 0.4% m/m. Goods prices rose 0.6%, and services 0.2%. The annual rate was up 0.2 pp to 5.2%, 0.1 - 0.2 pp higher than expected the highest ever…
- …and this is the **ECB's problem**, and why they are adamant about sticking to a 50-bps pace, from the present 2.0% level

Energy prices down 4.8% in December, everything else up

…but still up 26% y/y. And the fall in energy prices is not enough when everything else is above 2%



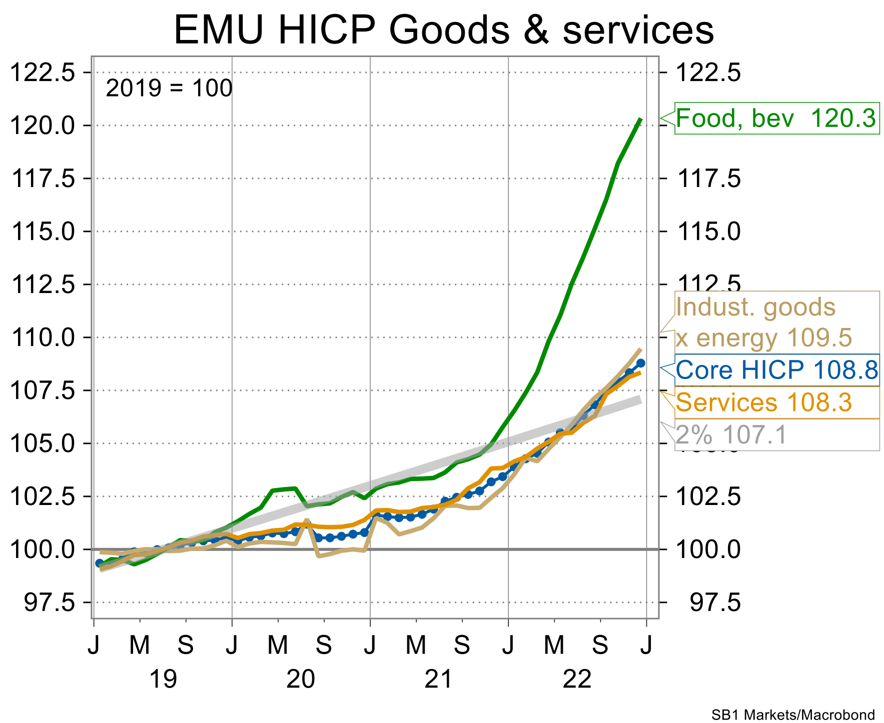


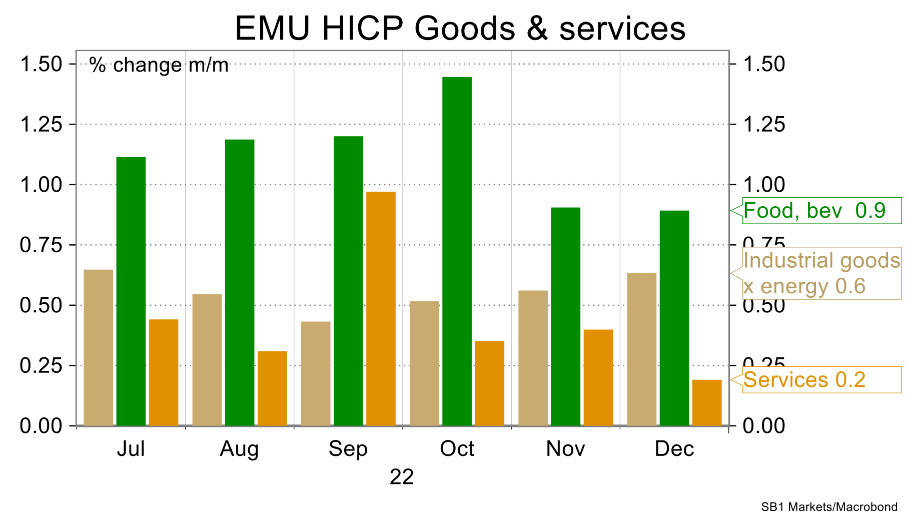


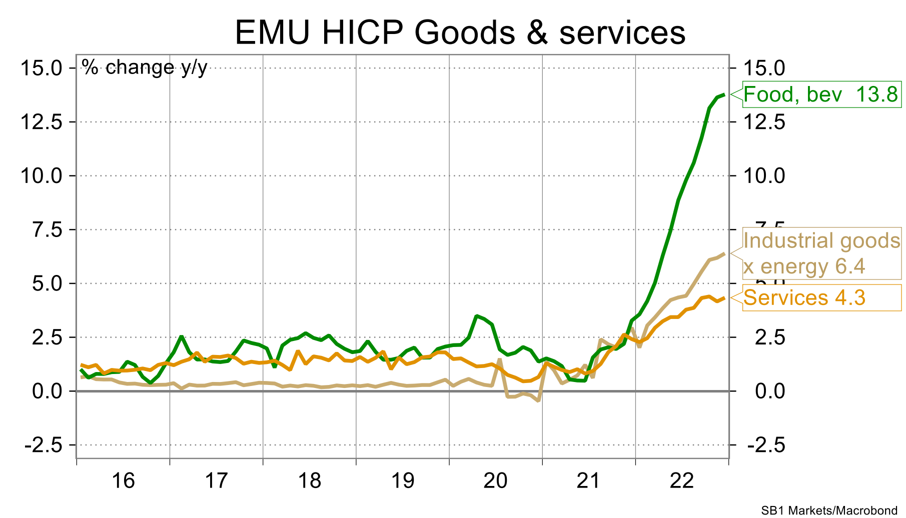
- **Gas prices** have fallen sharply over the past few of months and it is finally visible in the CPI as well, and further in January. The headline HICP will decline sharply the coming months
- **Food prices** rose 0.9% in December, as in November but slightly lower than the monthly increases the previous months. Prices are up 13.8% y/y – probably close to the peak

Inflation is broad based; Core goods & services are above a 2% path since '19

Industrial goods x energy are up 6.4%, and accelerating. Services 4.3%, but are flattening. The target? 2%...



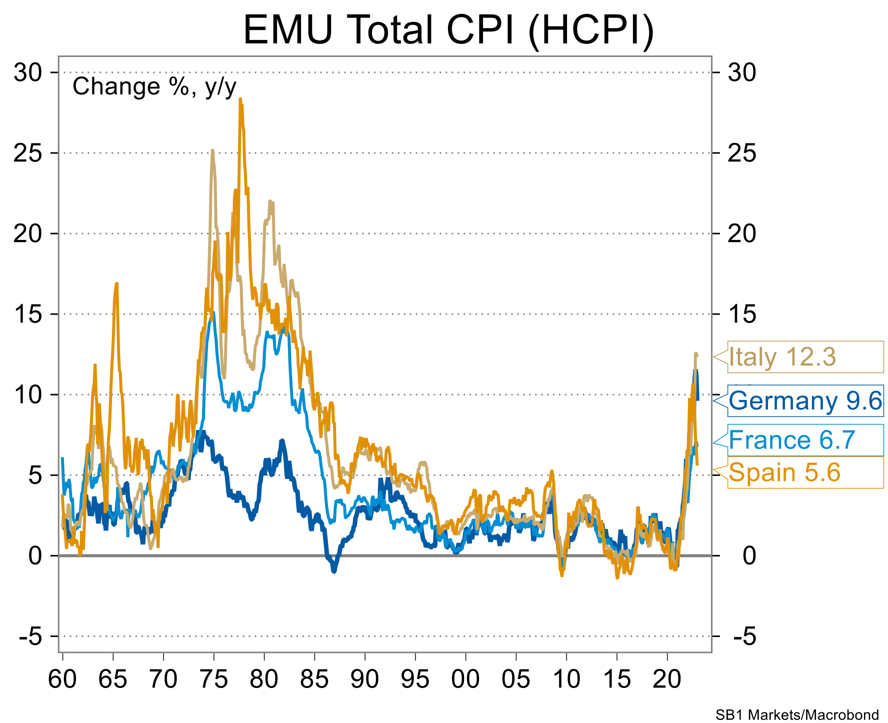




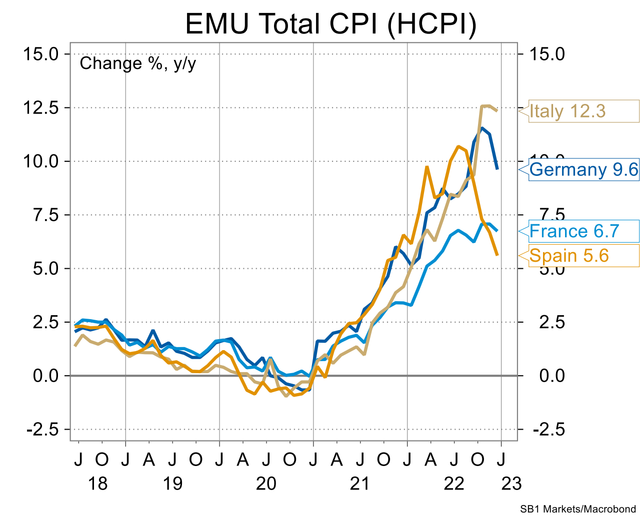
- **Industrial goods** prices increased 0.6% in December, and are up 6.4% y/y, and there is no sign of slowing measured m/m, the underlying remains at 6.5%. These prices are well above a 2% path since 2019.
- **Services prices** gained 0.2% in December, and these prices are also above a 2% path vs the 2019 level – they are up 4.3% y/y. Transport and hotels/restaurants have contributed on the upside last year
- (No further details in the preliminary HICP report)

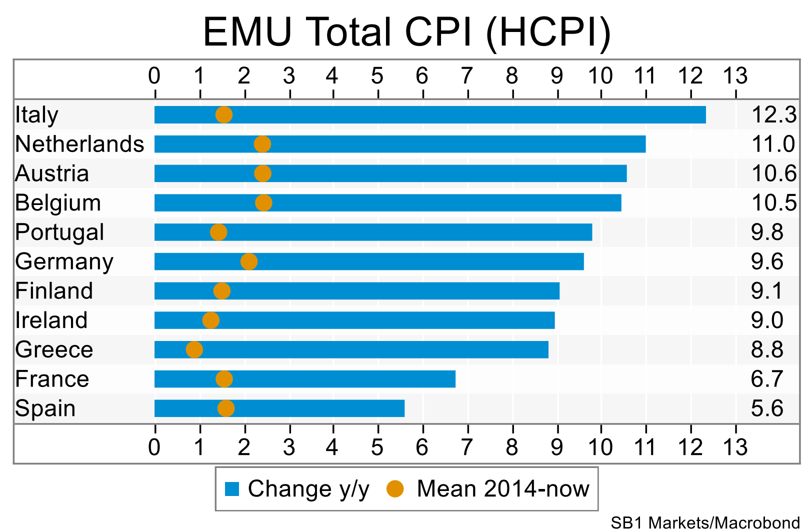
Inflation is high across the union, but has peaked everywhere

Headline inflation in Spain has come down to 5.6% from 10.7% at the peak – still a ways to go though



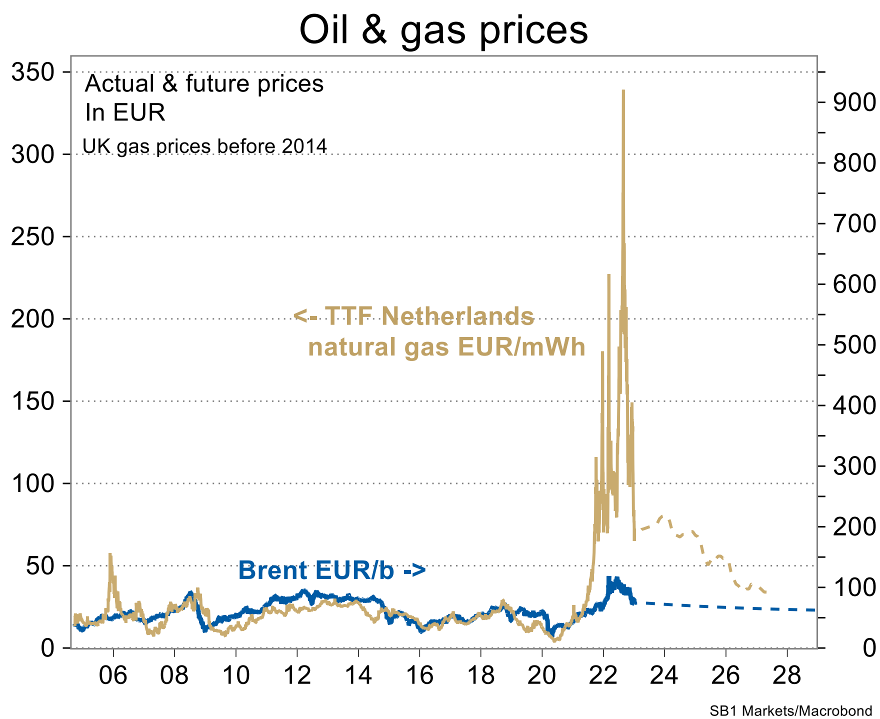
- In fact, the Spanish CPI (HICP) was marginally up in December (m/m), but all the big 4 countries, except for Italy, surprised to the downside
  - The Italian CPI print was down 0.3 pp to 12.3%, in line with consensus f'cast
- In Germany, CPI fell 0.8% m/m, while the market expected -0.3%, bringing the y/y rate to 9.6% - still a very high print in a historical perspective, and miles above the ECB target of 2%

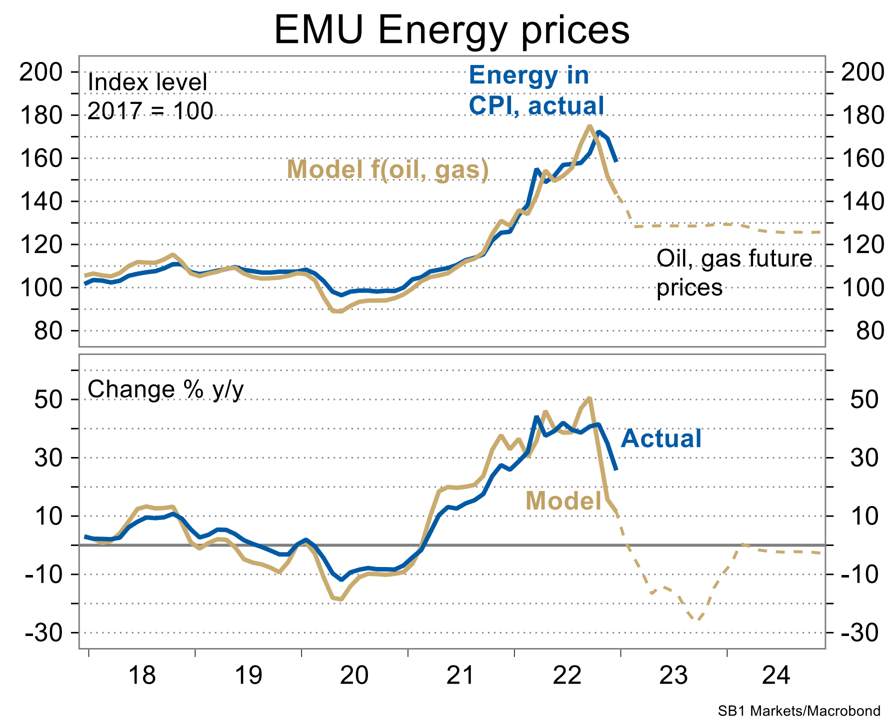




Gas prices are crashing, will take the headline HICP further down

If the market is correct, energy prices will soon be significantly down y/y

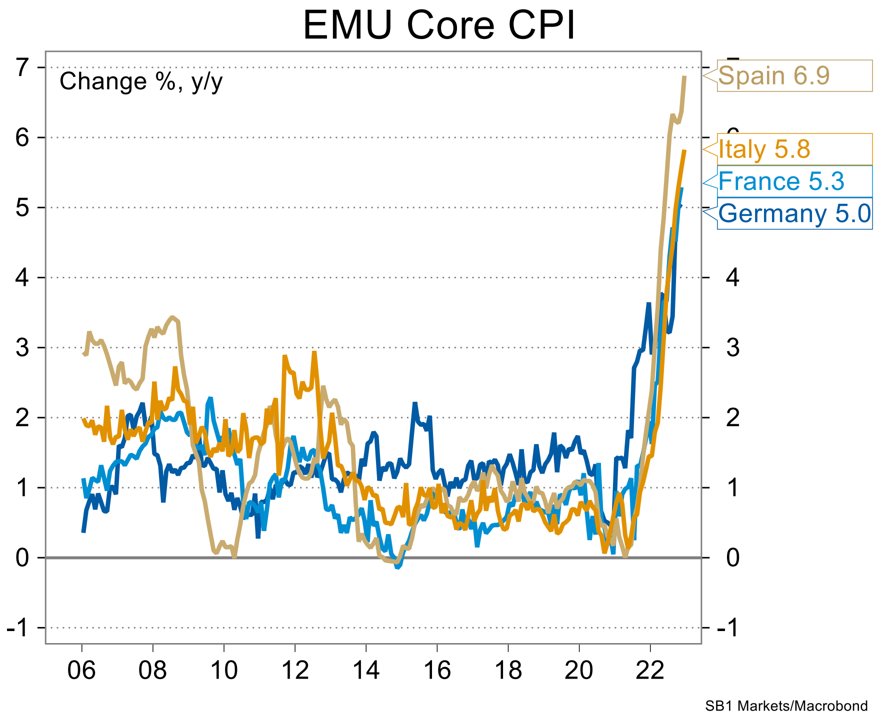


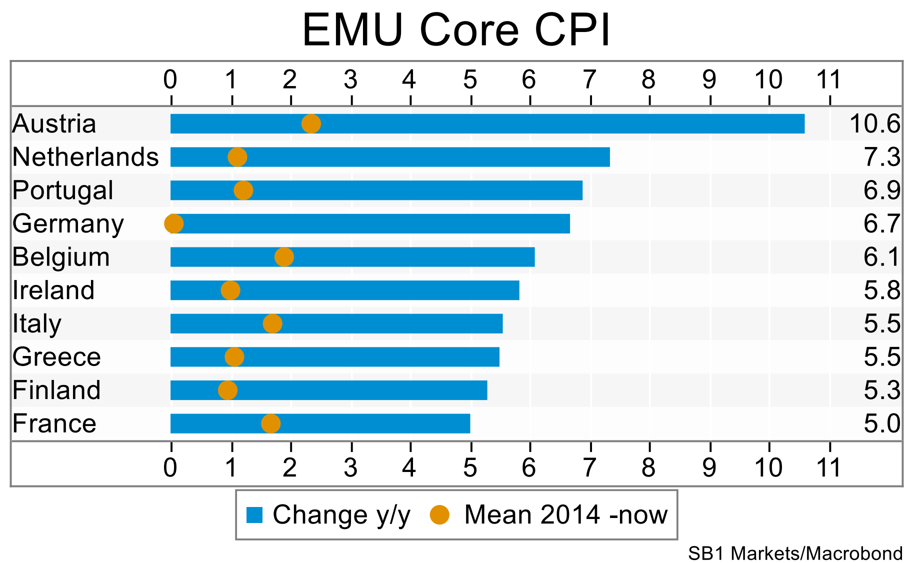


- Gas prices have fallen sharply recent weeks, both in the short and the long end of the price curve
  - Our model suggests a further decline in the energy component in the HICP the coming months – and it should turn negative y/y
  - Energy subsidies may of course have some impact – but they will probably not be removed anytime soon
  - If the market got it right this time …

Core inflation is, of course, above the 2% target everywhere as well

…which is why the ECB has announced several more +50 bps hikes to come

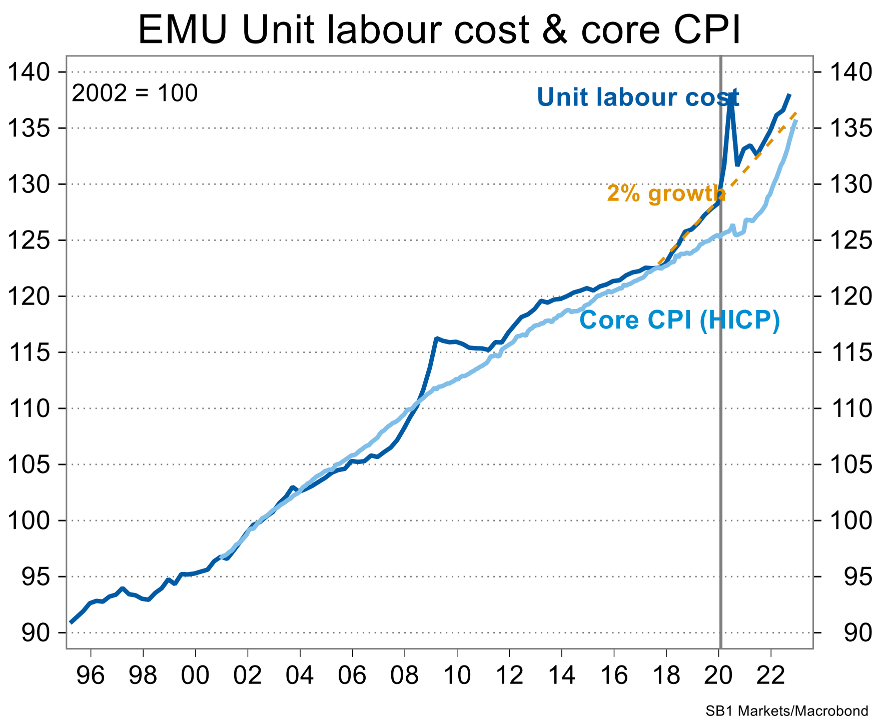




- On this page: The last obs. is partly November, partly December

Unit labour cost inflation suggest limited risk to inflation, over time

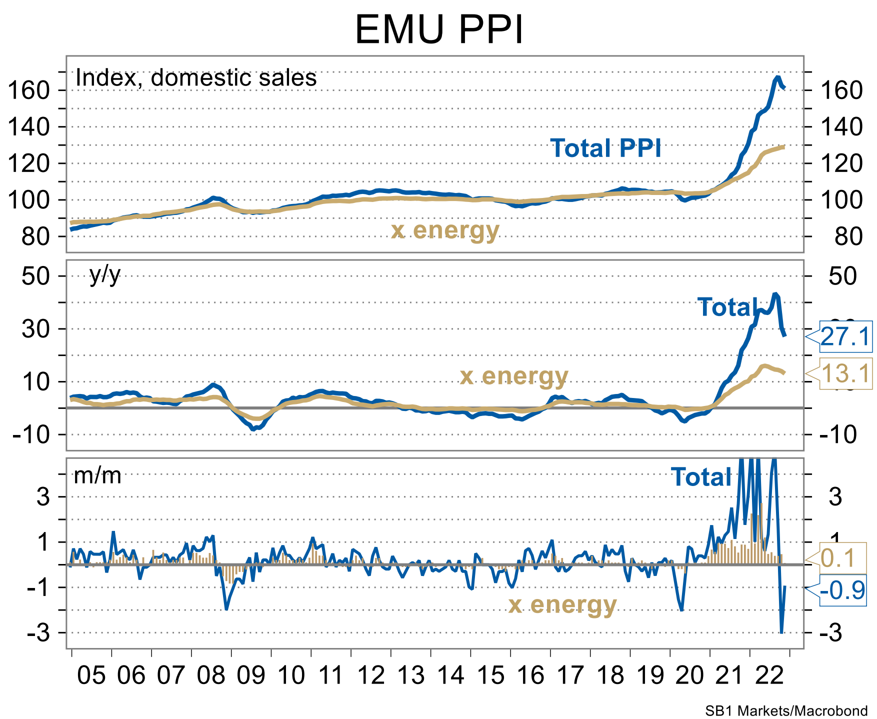
However, ULC inflation has accelerated somewhat, and is now clearly above 2%

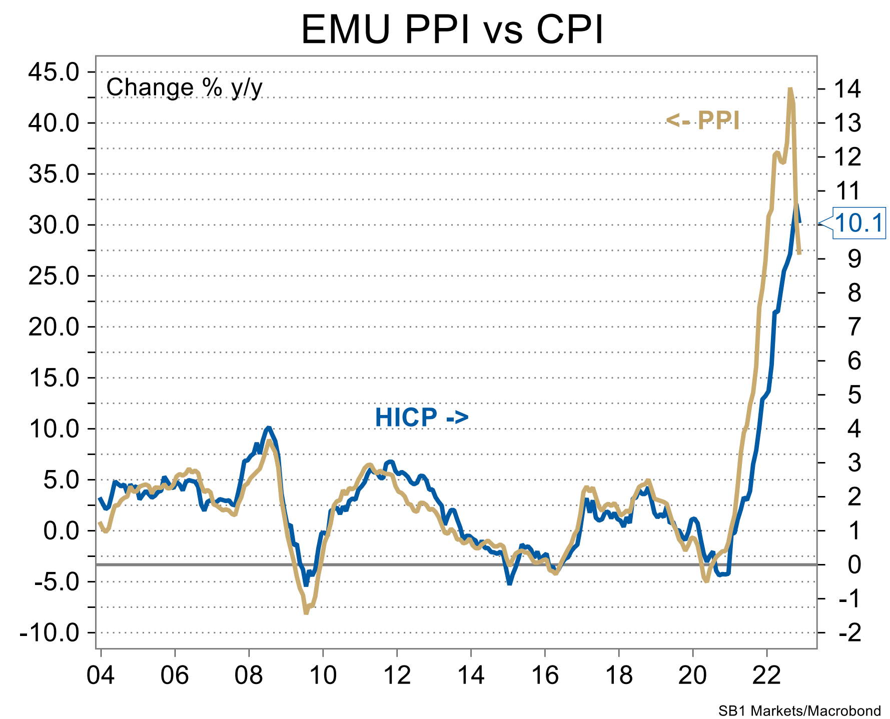


- **Unit labour cost** (labour cost per unit produced = wage cost/production volume, growth in UCL= wage growth – productivity growth) has accelerated to above 2% from 1% before the pandemic.
  - The 1% growth in unit cost corresponded to the long-term growth in core rate of inflation at 1%, well below ECB's 2% target – and a ULC inflation above 2% will over time yield a price inflation rate above 2%

Producer prices fell again in November, and October data revised down

The total PPI fell 0.9% m/m in November, even if the core index added just 0.1%

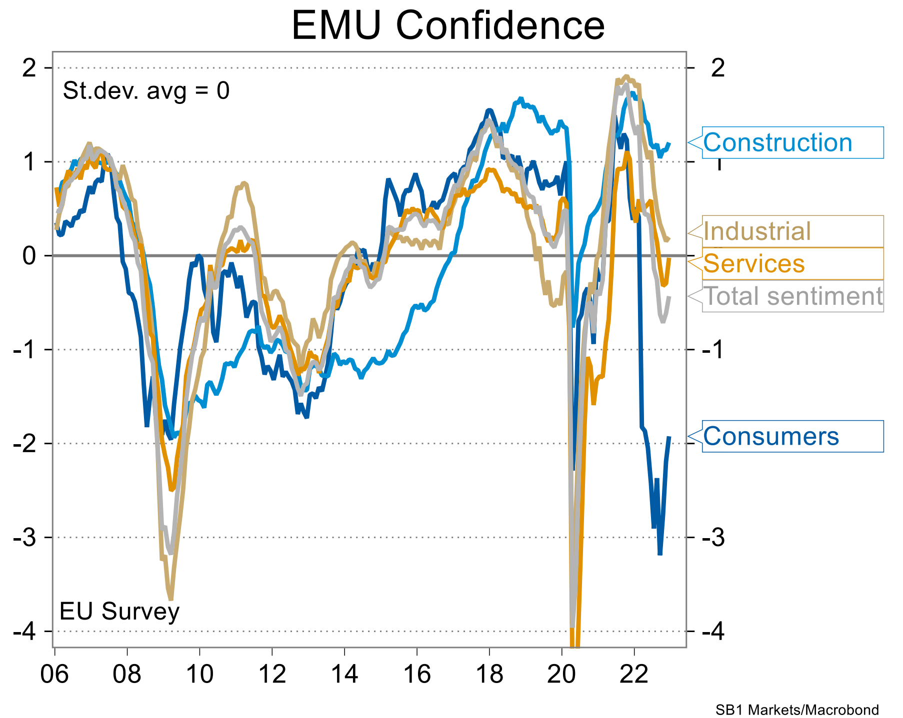


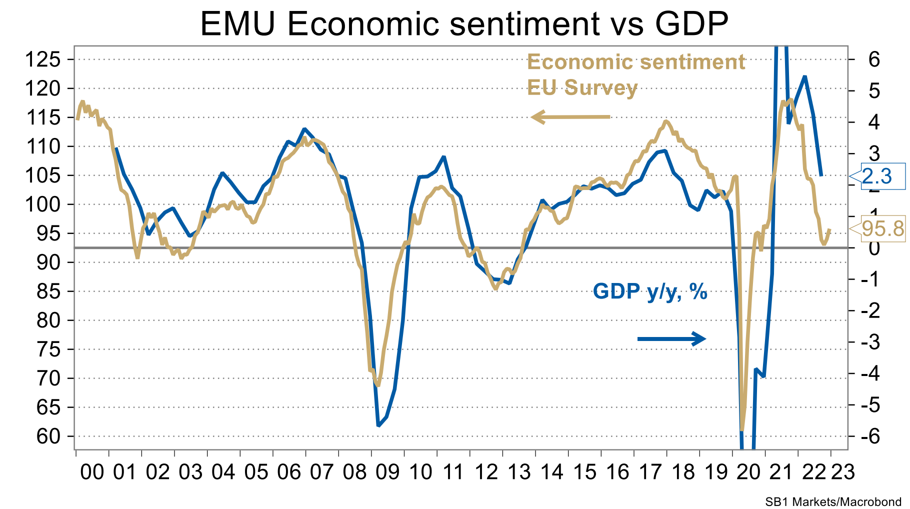


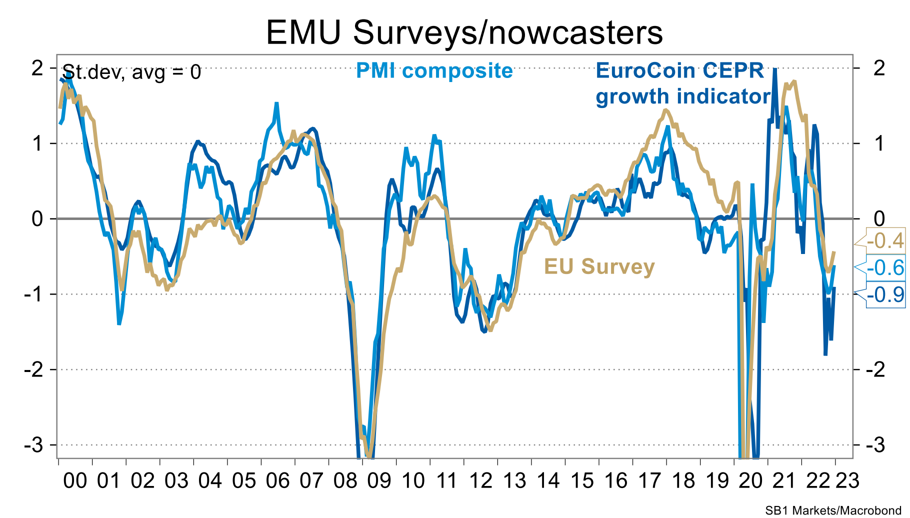
- PPI was up 27% y/y, all included, down from 31% in October. PPI x energy was down 1 pp to 13% y/y
- Energy prices have come down substantially from the peak and will likely continue to bring down the PPI over the coming months, the same holds true for the CPI
- Monthly increase in PPI ex energy has slowed recent months but remained far too high, until November

Sentiment has bottomed~~?~~! All surveys have turned up

In the EU survey, businesses are signalling a 1.5% - 2% GROWTH rate, not a recession





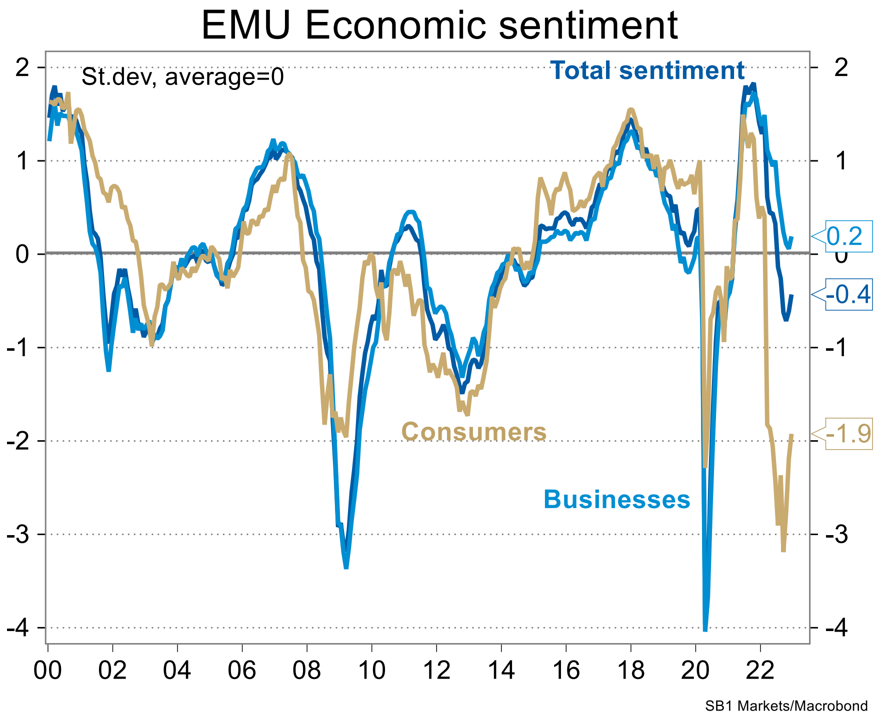


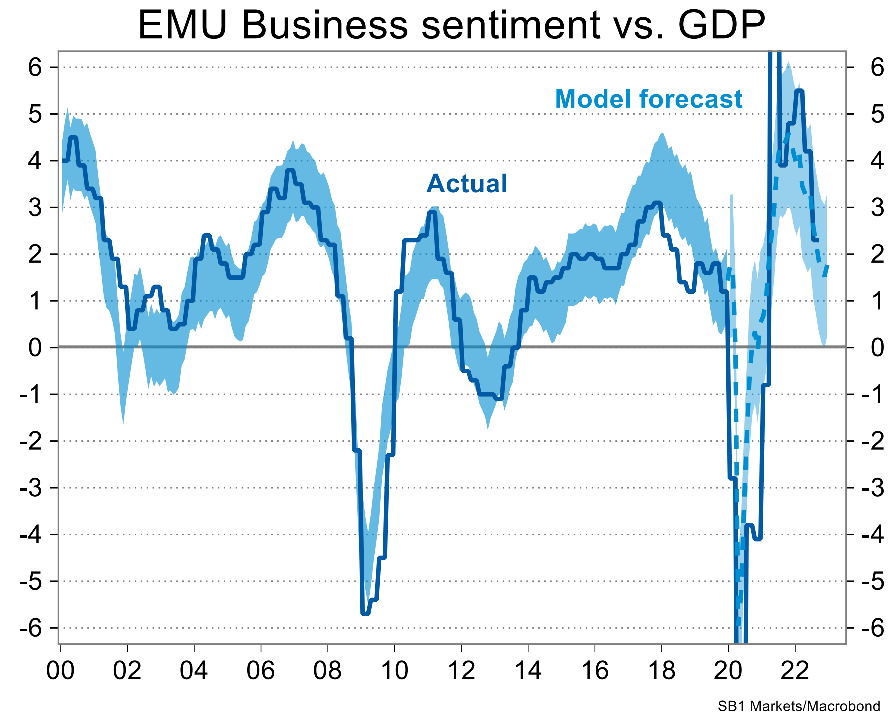
- **The Economic sentiment index** rose 2.1 p in to 95.8 December from the original Nov estimate (which was revised up by 0.3 p), and was 1.1 higher than expected. The index 0.4 st.dev below average, with a large negative drag from households, the business sector index is marginally above average
- Thus, even if there is war nearby, inflation & interest rates are surging, businesses are still reporting growth close to trend (charts next page). Consumers are pessimistic, but historically their views on the economy has been irrelevant vs. GDP growth. **Other business surveys are less positive but all have turned up in Nov/Dec**

SpareBank 1 MARKETS

Businesses are still reporting average growth, rather surprisingly

Historically, no contribution to the GDP forecast from households, just from businesses

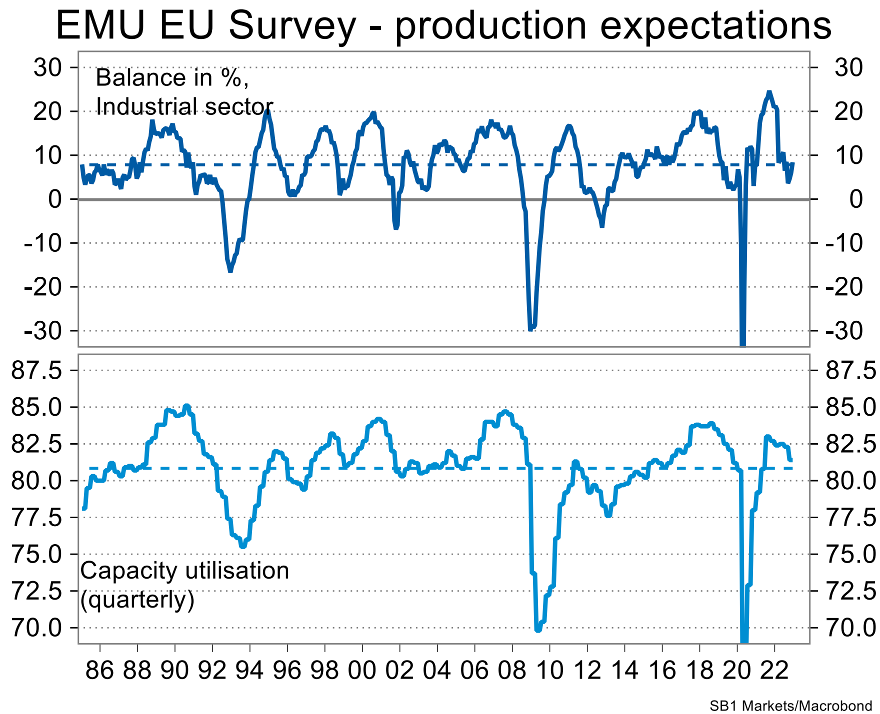


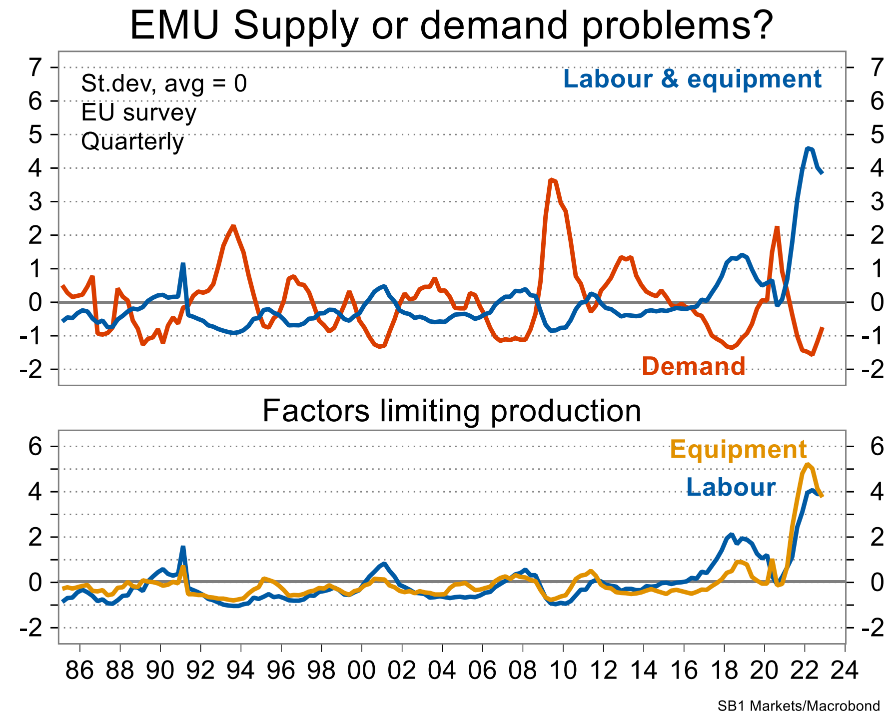


- (However, the gap between business and consumer confidence has never been that large, and our model estimates may be uncertain)

Industrial production expectations up to an average level

A few more complain about sales but still unusual few

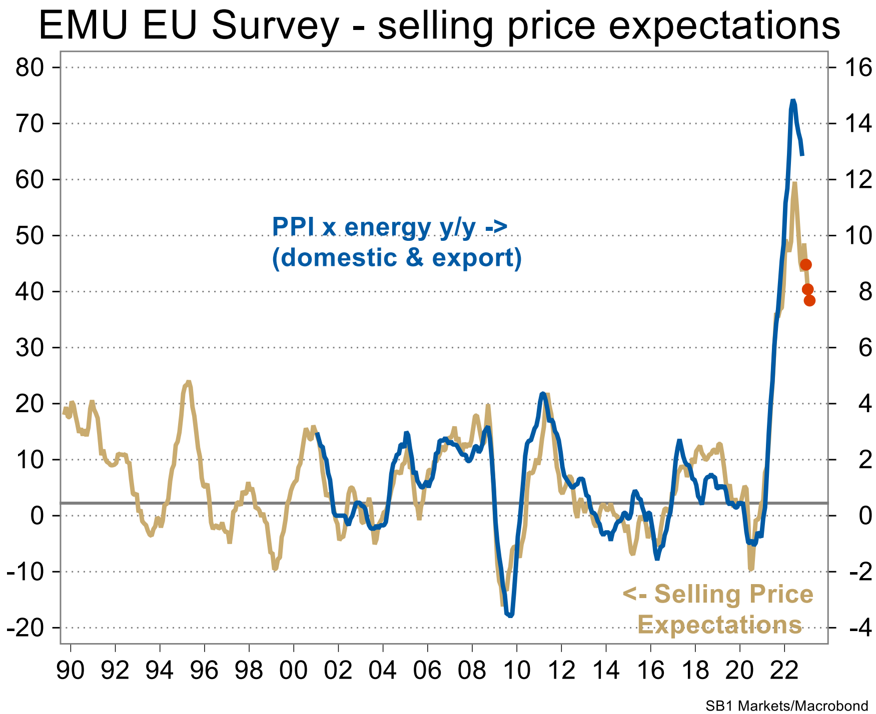




- However, **supply shortages, primarily labour and equipment**, are fare more wide-spread than normal. At the same time, even if the share rose marginally in Q4, close to record few companies complain about demand
- Even if the **economy is now clearly slowing**, the business part of this survey, and the record low unemployment rate, give the ECB arguments for hiking the signal rate further, as the bank no doubt will do

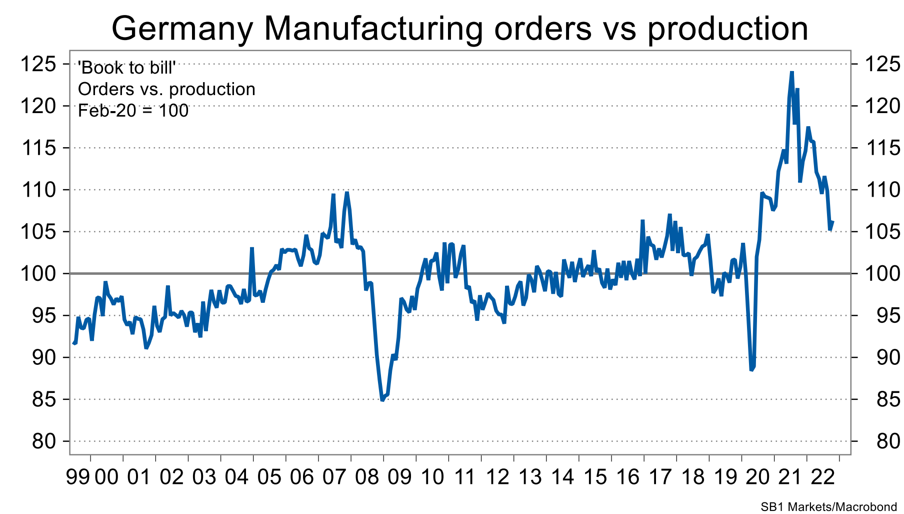
Companies report slower – but far from slow – growth in prices

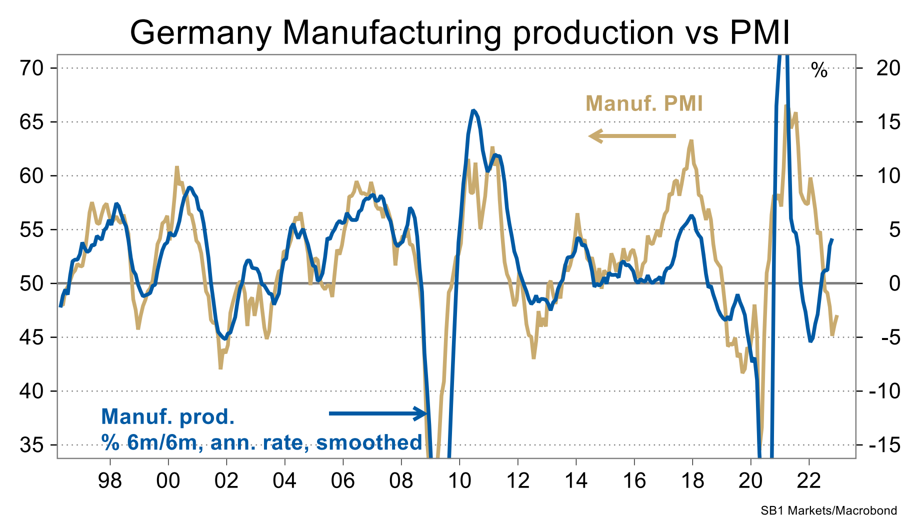
Companies are anyway signalling peak inflation, by a wide margin



German factory orders are nosediving, but backlog still OK

Production is probably exposed, even if the backlog still is far higher than normal

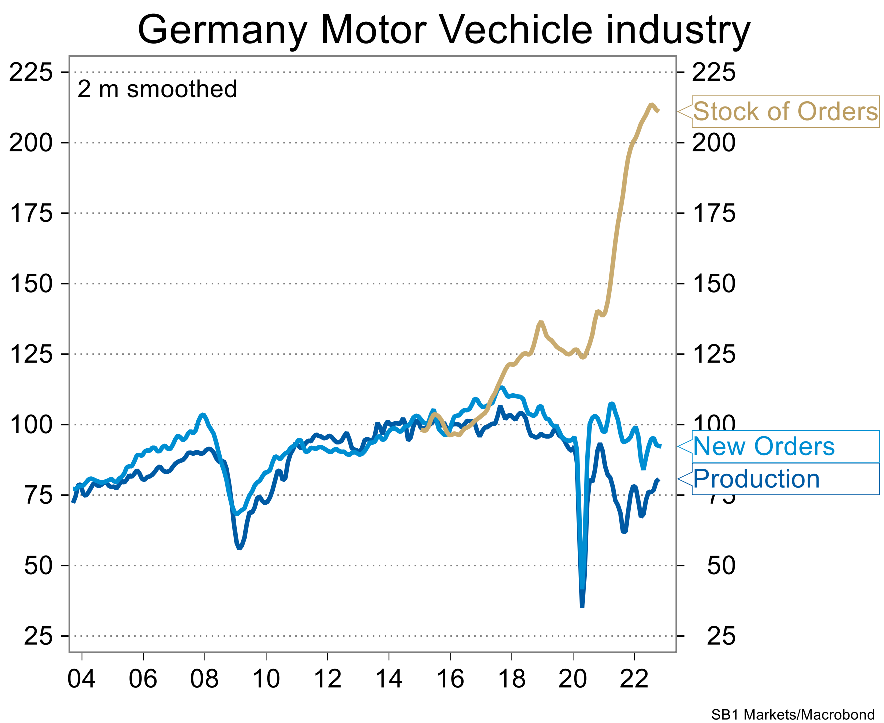


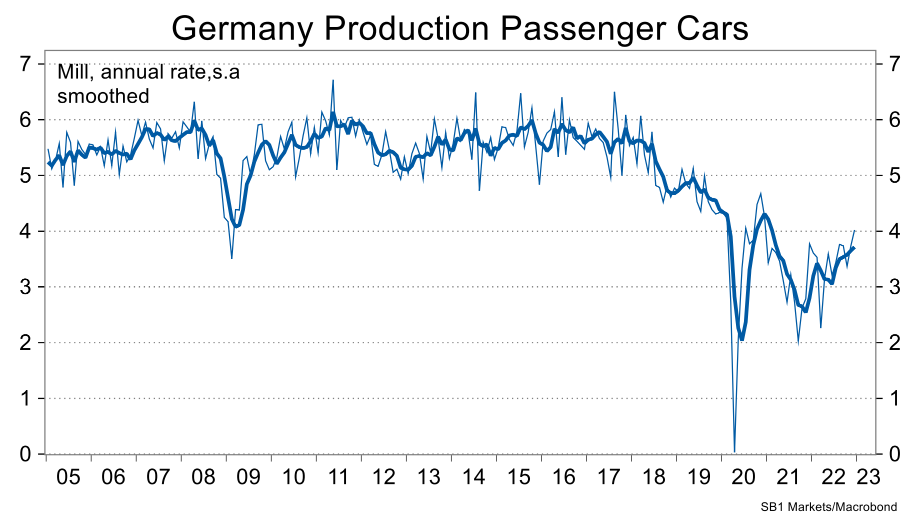


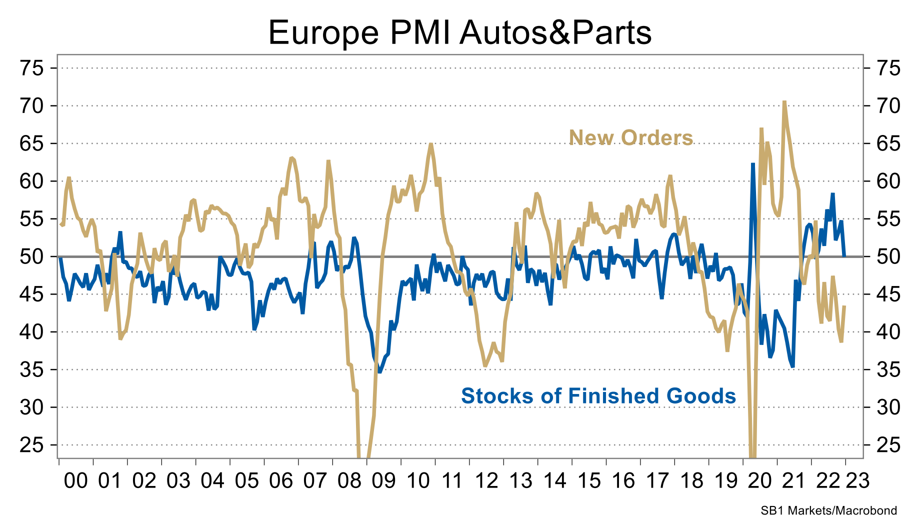
- **Manufacturing orders** decreased by 5.3% in November, expected down 0.5%, and the October print was revised down by 0.2 pp to 0.6%. The level is now 5.3% below the pre-pandemic level – and the trend is clearly down!
- **Manufacturing production** was down 0.5% in October. The level is now 5.9% below the Feb-20 level.
- **Surveys** confirm softer growth in production & orders, as the industrial sector is hit by capacity constraints, higher energy prices, and softer demand

Auto orders are also declining, but at a slower pace than total orders

The stock of unfilled orders is still sky high, and auto production is trending upwards



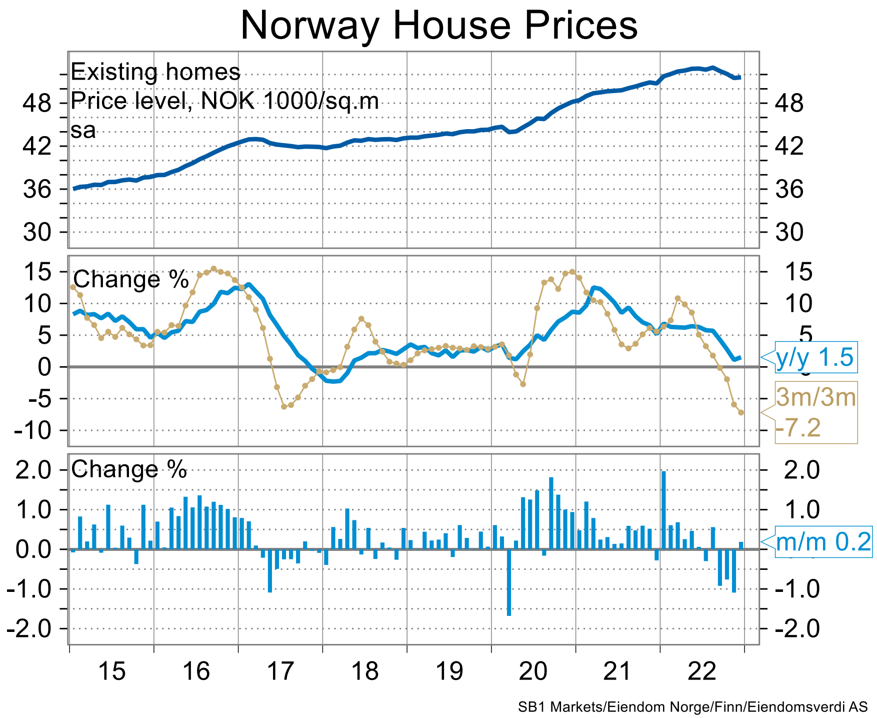


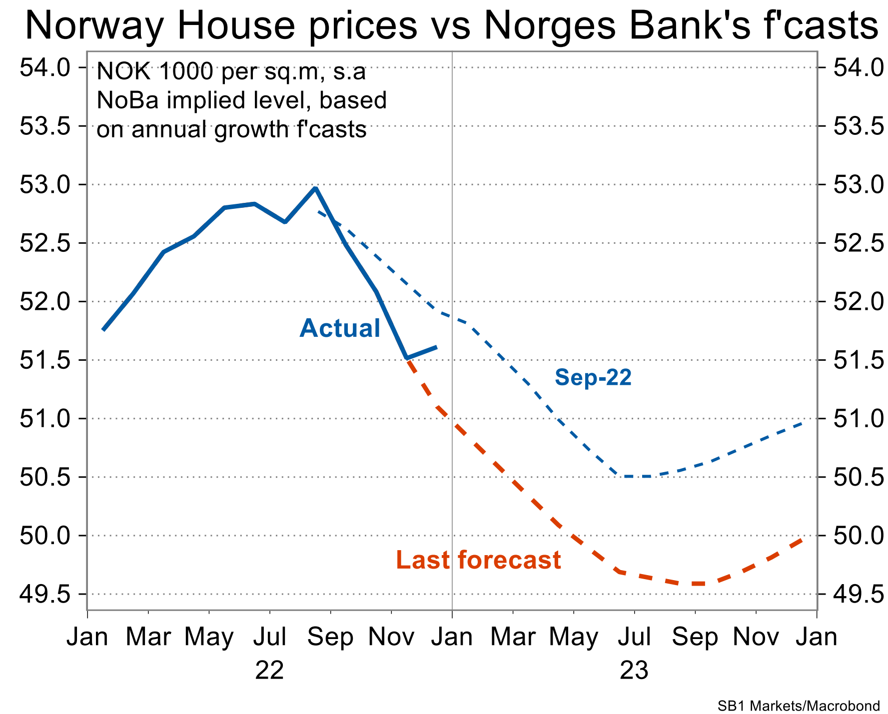


- New auto orders have more or less fallen since Apr-21, but the backlog kept rising as production fell more, and in Aug-22, the backlog started to decline as well, but it is of course record high
- Production of cars is still down 7% vs the 2019 level. Some of the decline in production was very likely due to lack of components, especially semiconductors

House prices surprised to the upside in December! Up 0.2%, exp. -1.0%

Due to easing of lending restriction? Or just an outlier? The inventory is still rapidly the way up. January prices down?

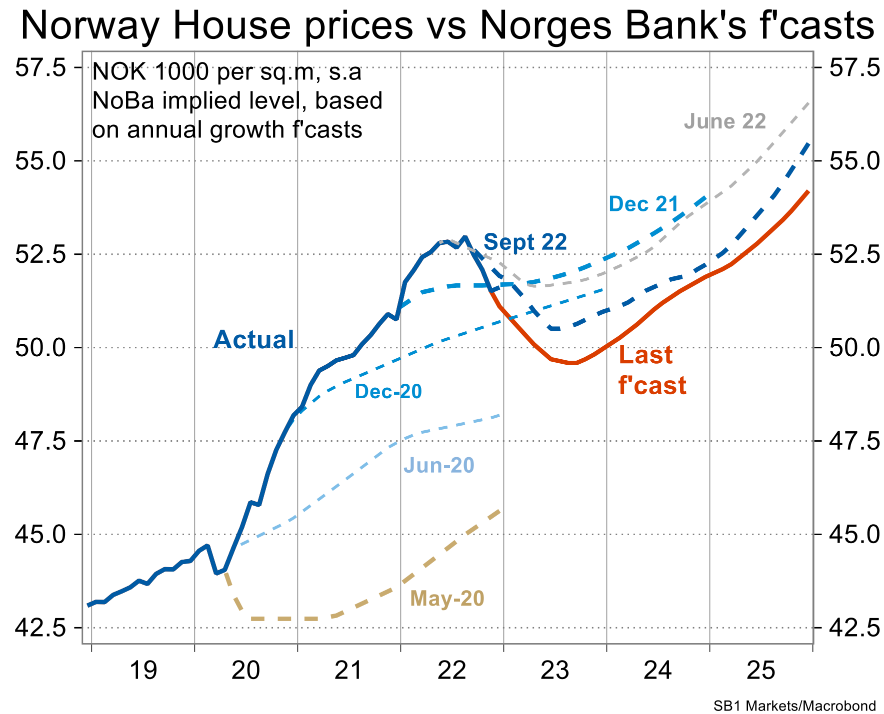




- **House prices** rose 0.2%, well above most forecasts (which ware around -1% (yours truly included). Norges Bank assumed a 0.8% decline. Since August, prices are down 2.6%, still the steepest 4-month decline since late 2008, but prices are up 1.5% y/y. Prices rose in 10 cities, and fell in 6. At the top of the list, all the coastal cites from Bergen to Tromsø. At the bottom, 'cities' surrounding Oslo, and Oslo also down, by 0.3%
- **Existing home transactions** were stable at 7.5' which is 15% below the peak during the pandemic but still just back to the average 2019 level. However, inflow of of **homes approved for sale** which fell in December, remains far higher than normal
- **Thus, the inventory of unsold homes** rose further in December, by 0.6' units, the smallest increase since July – but the inventory has climbed faster than ever the past 6 months, and it is now larger than normal. Still, the time on market for those homes actually sold remains lower than average (but is increasing slightly)
- Dec 9th, the Government eased mortgage regulation by lowering the **rate hike in the stress test of borrowers**, to 3 pp from 5 pp (though minimum with a 7% rate) from Jan 1. This easing will increase borrowing 'capacity' among many potential home buyers substantially. However it does not seem likely that the decision had a substantial impact on market the remaining days before Christmas, enough to lift the average Dec. price level substantially. Thus, we expect a new decline in house prices in January

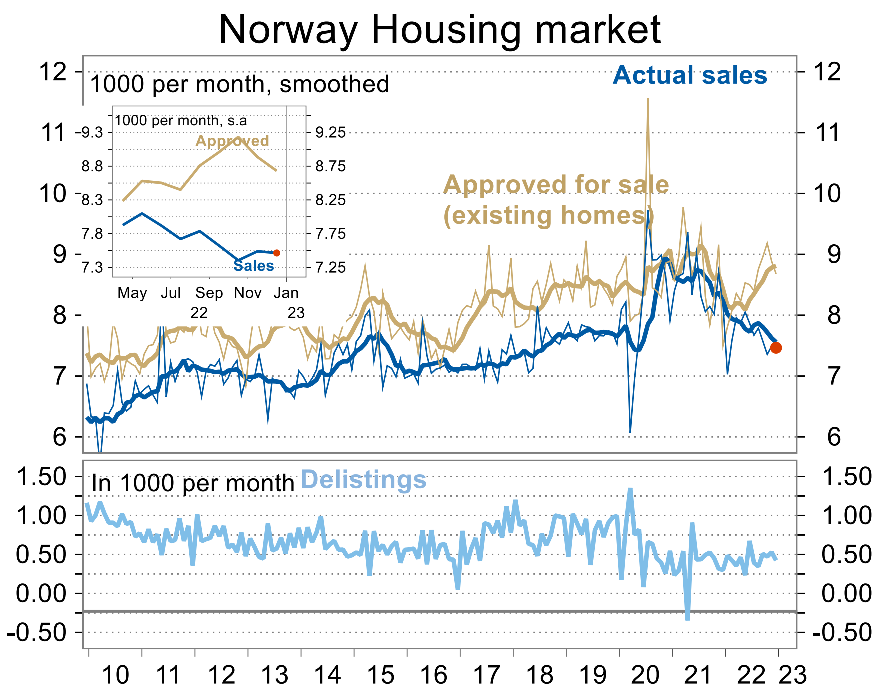
Just a reminder: Norges Bank and most others always have a forecast

… which often is heavily revised

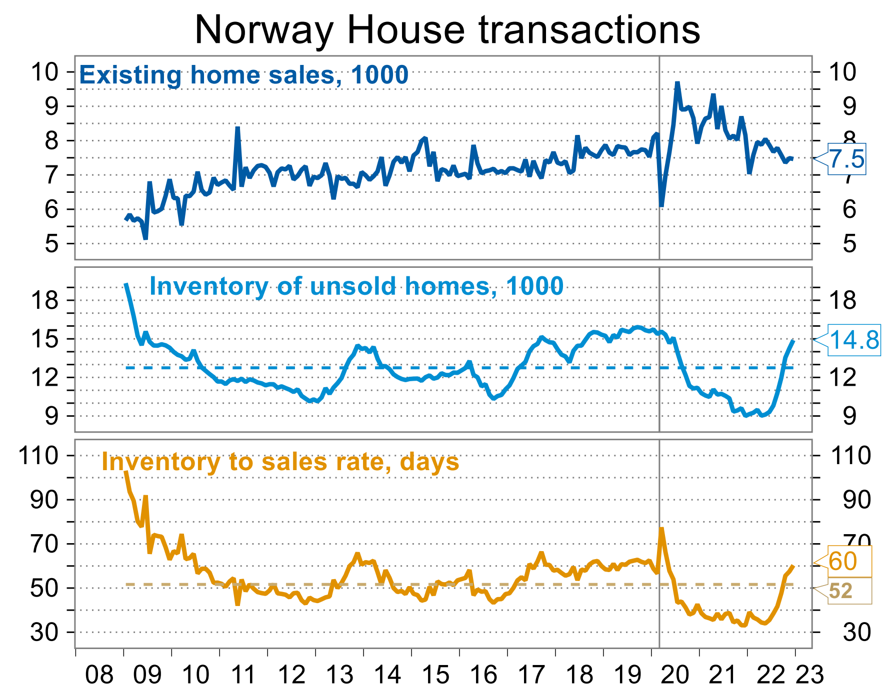


Sales have stabilsed at normal level, the inventory is still rapidly increasing

Since last July, the inventory has increase twice as fast as ever before, and the inventory is above average



SB1 Markets/Macrobond

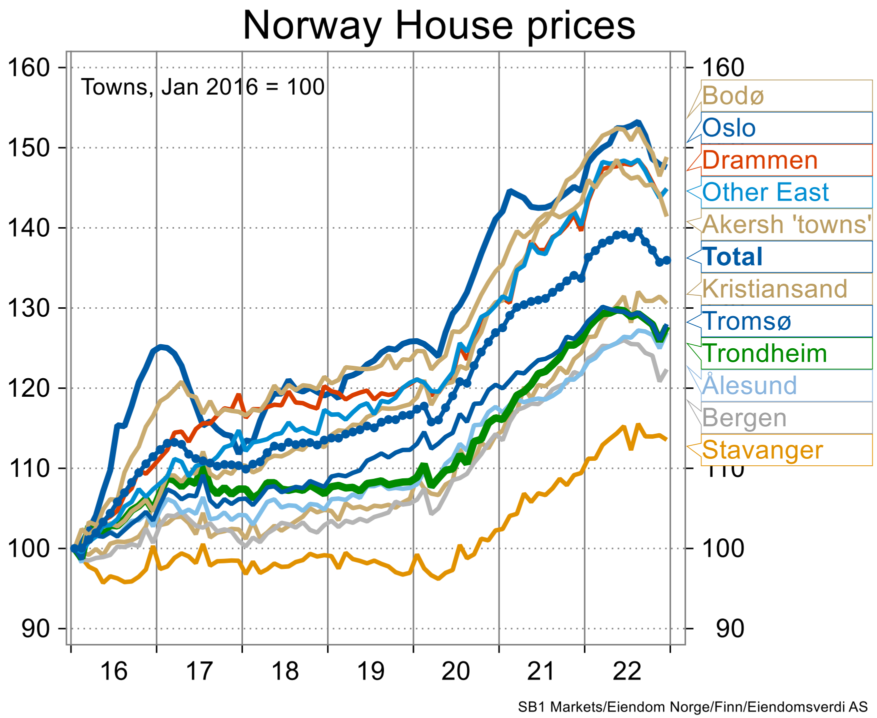


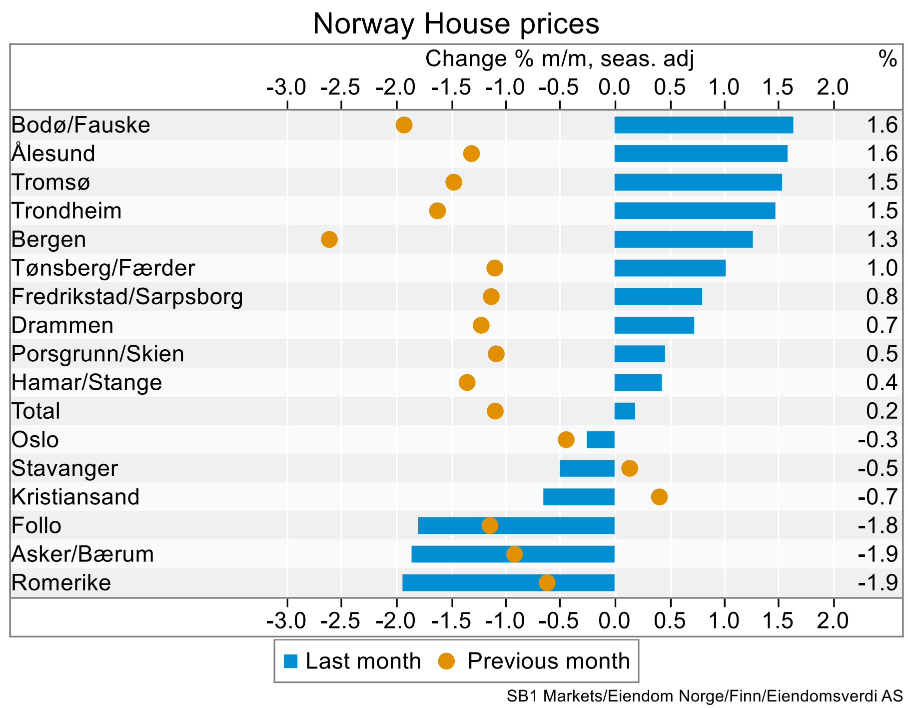
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- The **number of transactions** was stable at 7.5' in Dec, a 'normal' level, even if it is 15% below the peak level during the pandemic
- The **supply of new existing homes for sale (approvals)** rose fell further but remains above a normal level
- The **inventory of unsold homes** rose by 600 homes, a smallest increase since July. The increase in the inventory over the 6 past moths, is the largest ever, by far. The level at 14.8' is above average and not far below previous peak, before the pandemic
- The **inventory/sales ratio** added 2 days to 60 days, vs an average at 52 days – but not a very high level
- The **time on market** for those homes actually sold was unch. at 35 days, which is up from the bottom at 31 days, but still well below the average at 42 days) – <u>so there is not yet any buyer's strike for homes which are 'correctly' priced</u>. However, if all those extra homes added to the inventory each month sold should have been sold, <u>substantial price cuts would very likely have been needed</u>

A further price decline in ‘cities’ around Oslo (-1.8%), and in Oslo (-0.3%)

Prices also down in Stavanger & Kr.sand. However, 10 of 16 cities up in Dec, especially from Bergen and up the coast

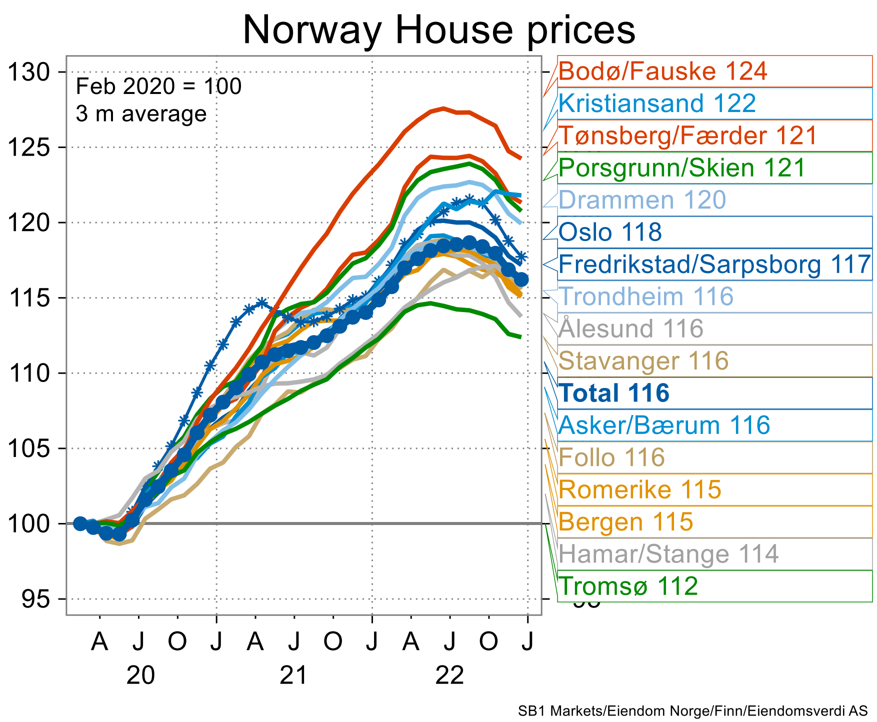


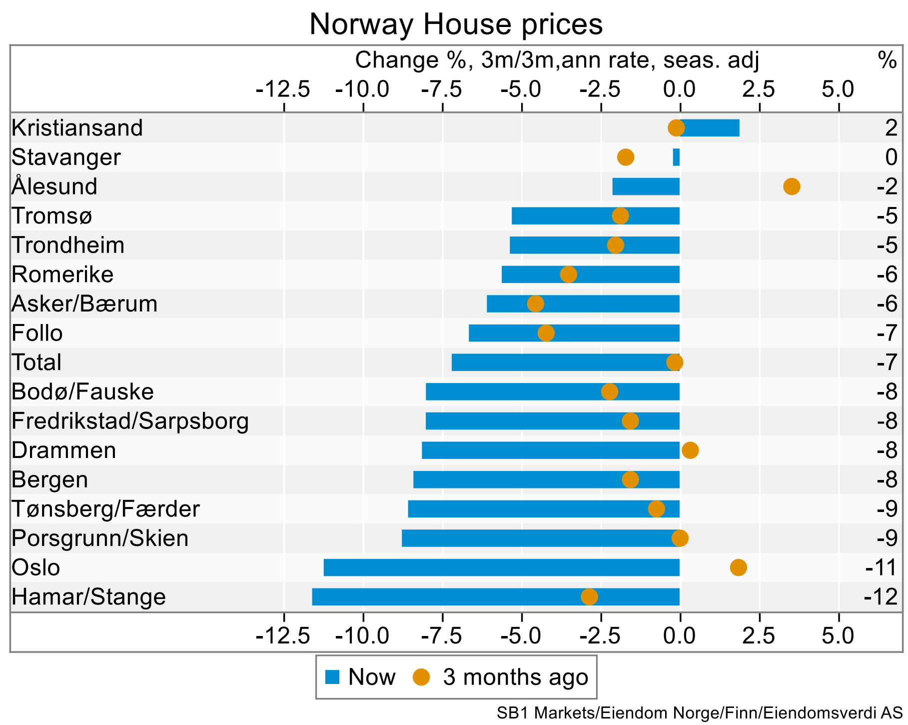


- The discrepancy between the winners and losers are larger than normal in December, but far from record high

The big picture: 1 month does not establish a new trend, 14 of 16 down 3m/3m

Just Kristiansand up 3m/3m – and other are falling at up to a 11 - 12% pace (Oslo, Hamar)

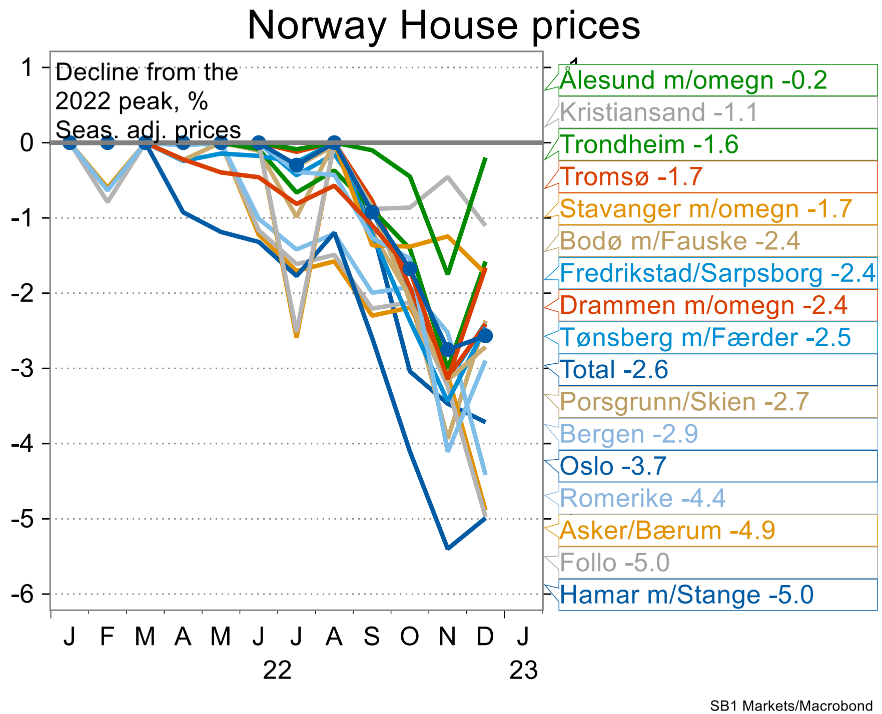




- Bodø was the winner through the pandemic (and since 2016). Now, prices are falling rapidly here

The 2022 setback: Some regional differences

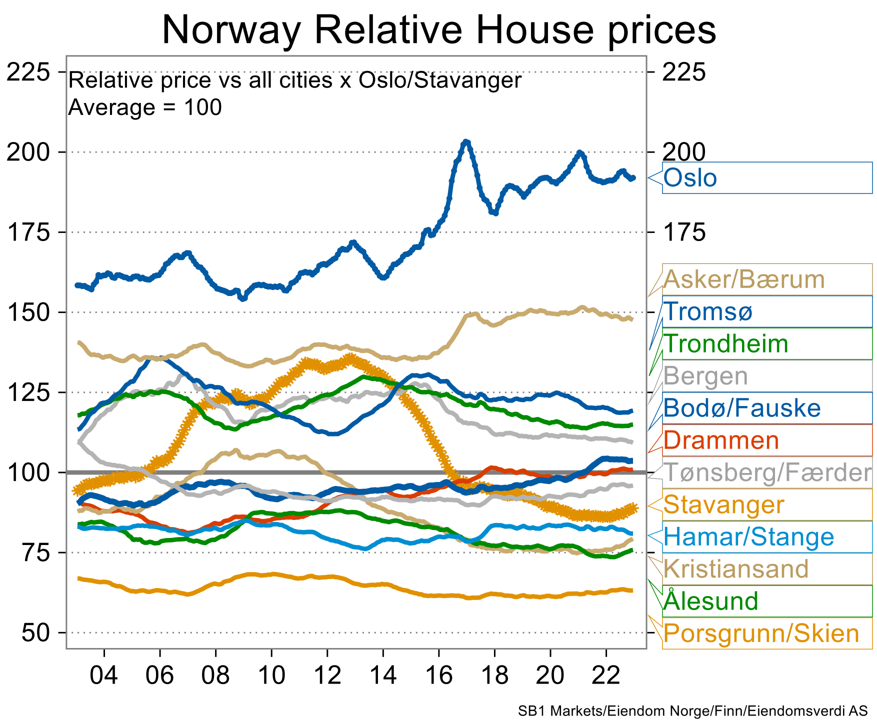
Ålesund at the top vs. the peak level, together with Kristiansand, Trondheim & Tromsø

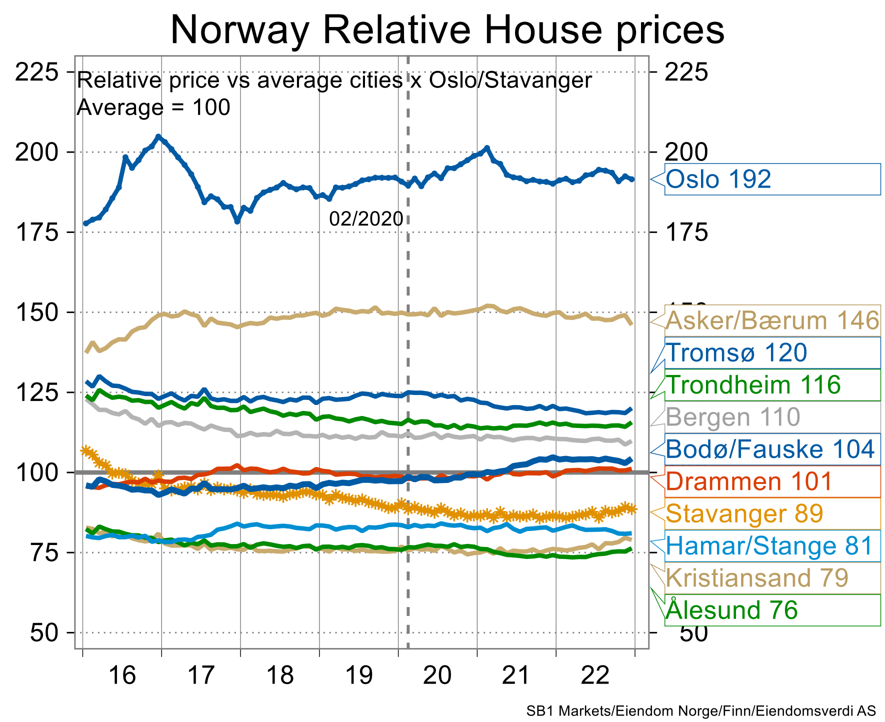


- Asker/Bærum, Follo & Hamar have reported the steepest declines so far, by up to 5%. Oslo is also close to the bottom of the list, down 3.7% (all prices are seasonally adjusted)

Oslo relative prices back to the pre-pandemic level

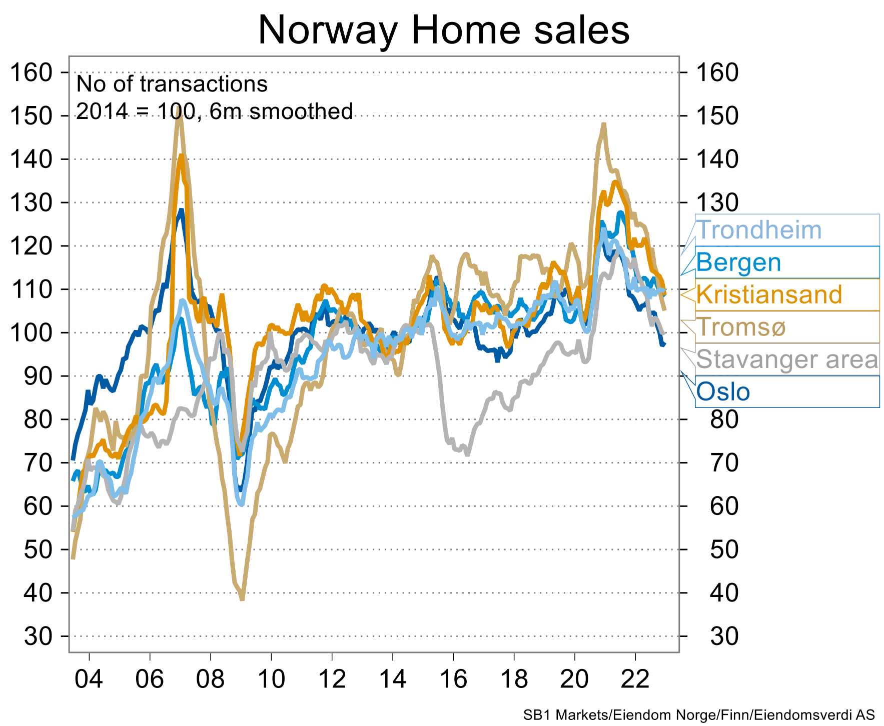
Stavanger has been slowly recovering, as have Kristiansand and Ålesund, vs the rest of the pack

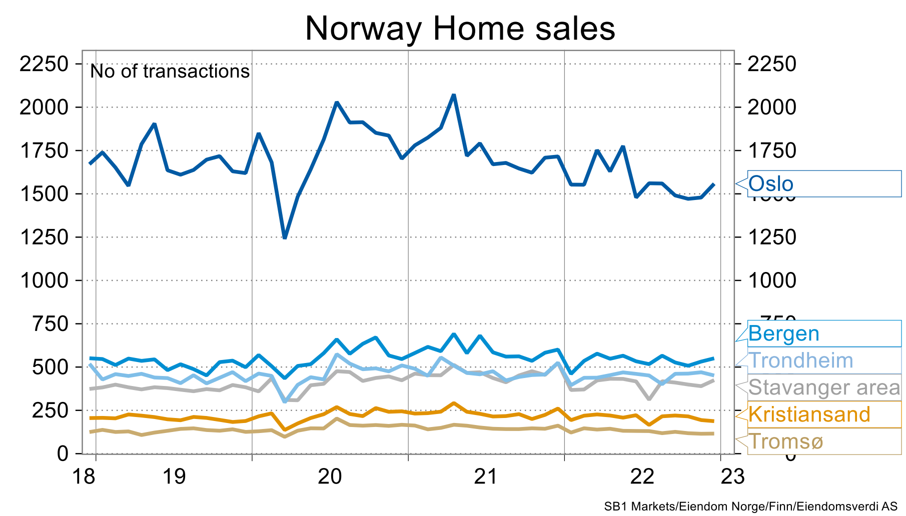


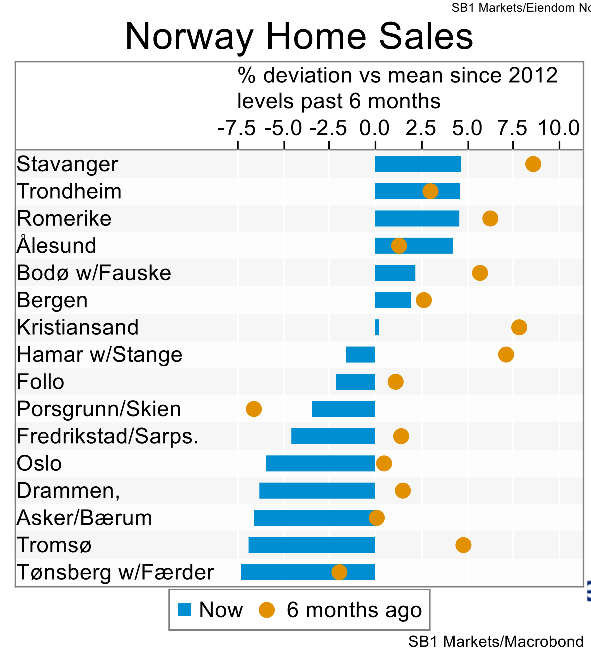


Sales are declining everywhere, all are well down from the recent peak

… and sales in almost half of the cities have fallen below the 10 y average but sales in 6 cities are above average



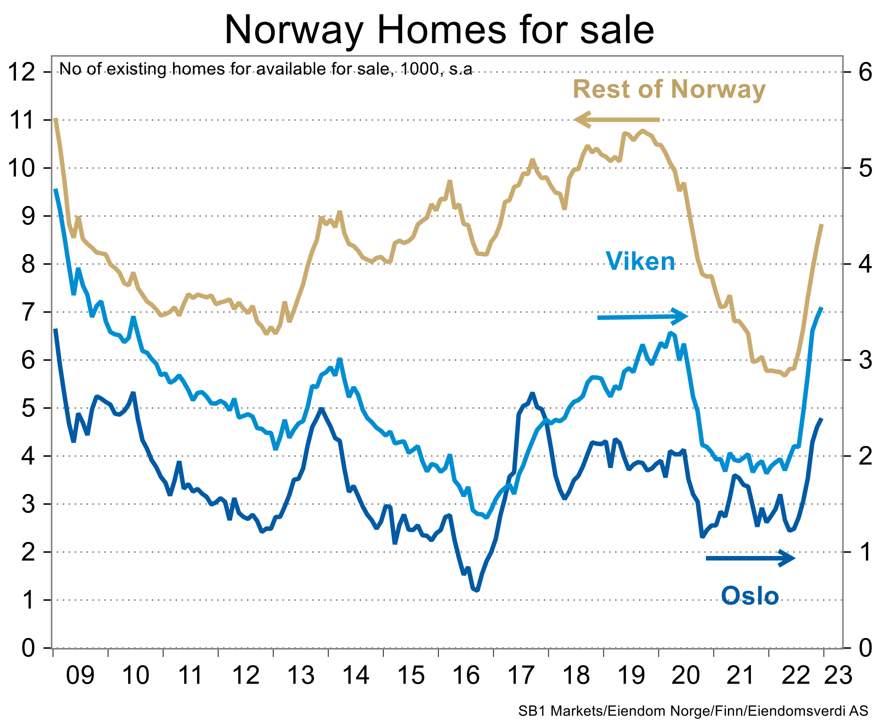


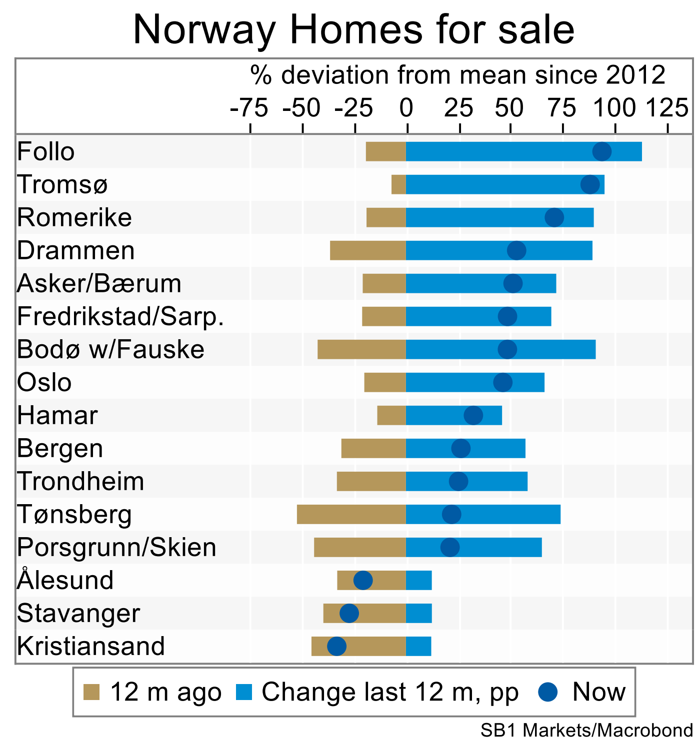


- However, sales have not fallen by much recent months

The inventory on the way up everywhere, and the fastest ever most places

All cities report higher inventories than one year ago, 14 cities above the 10 y average, 3 below





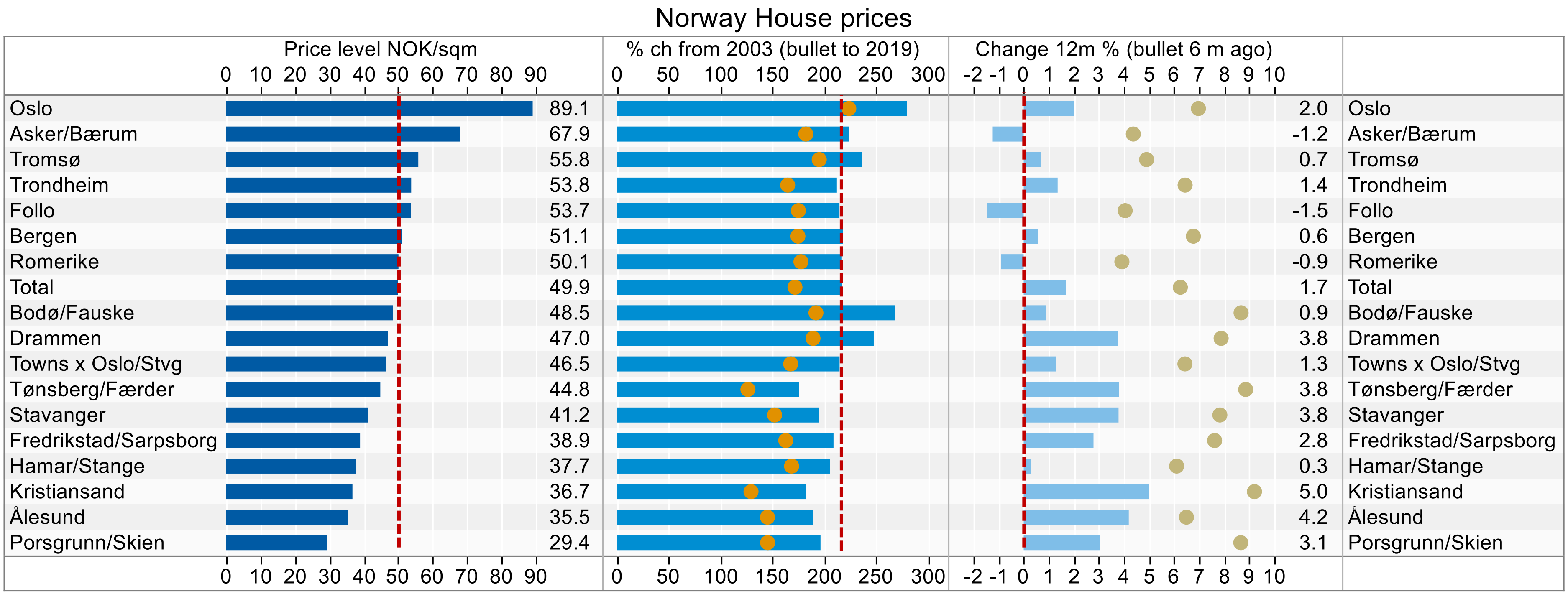
- Follo is reporting the largest increase over the past year, and the inventory is 90% above the average since 2012! Tromsø no. 2 on the list, followed by other ‘cities’ around Oslo. Viken reports the highest inventory level since 2010!
- The inventory in Oslo is also well above a normal level – but below previous peak levels

The inventory is turned around slower than normal almost everywhere

Just 3 cities are reporting lower i/s-ratios than the average since 2012; Ålesund, Kristiansand & Stavanger

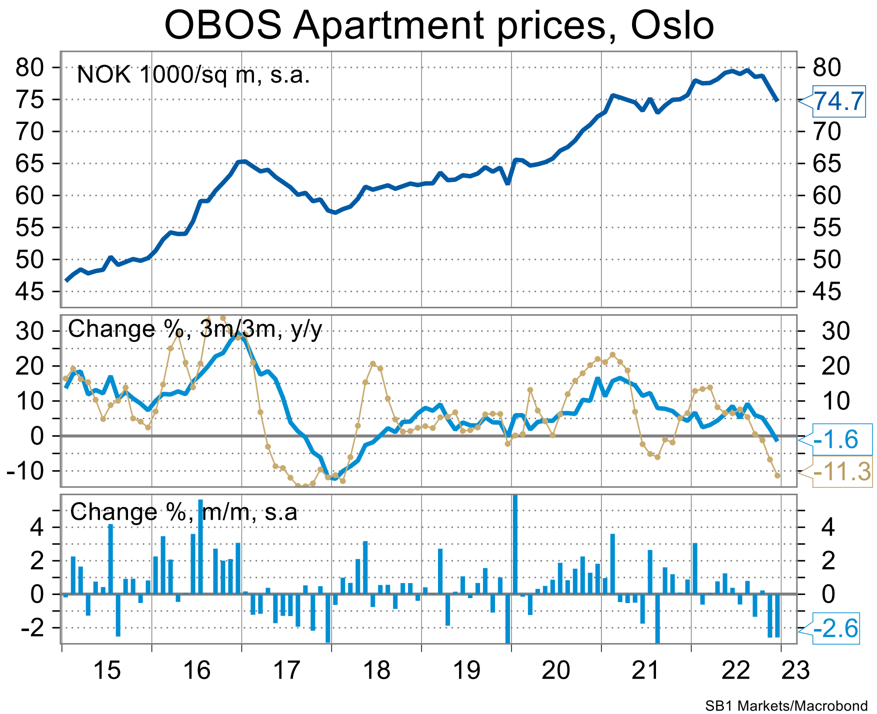
Most cities are still up y/y – but prices are down around Oslo

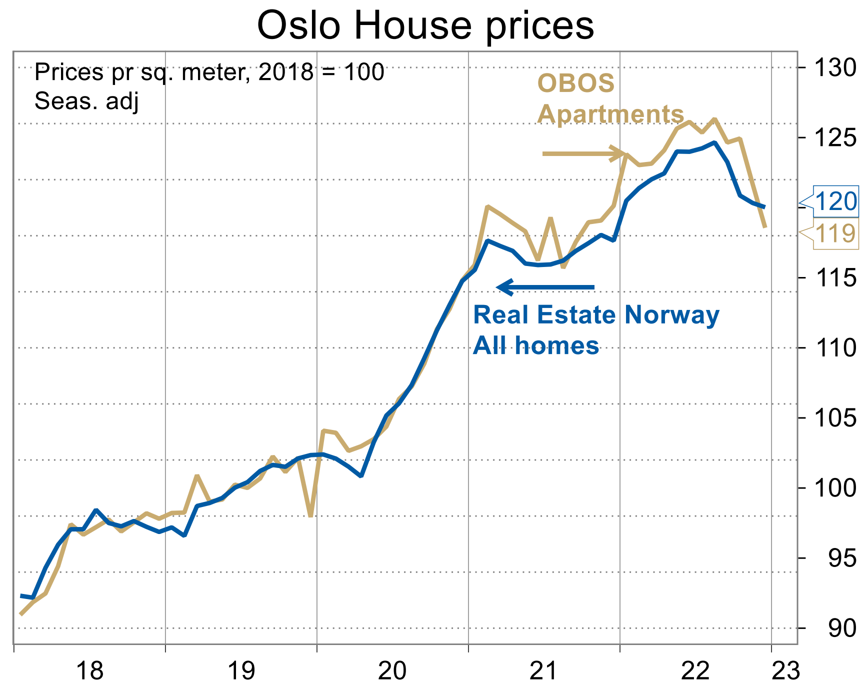
Kristiansand in the lead, up 5%, even if mortgage rates surged!

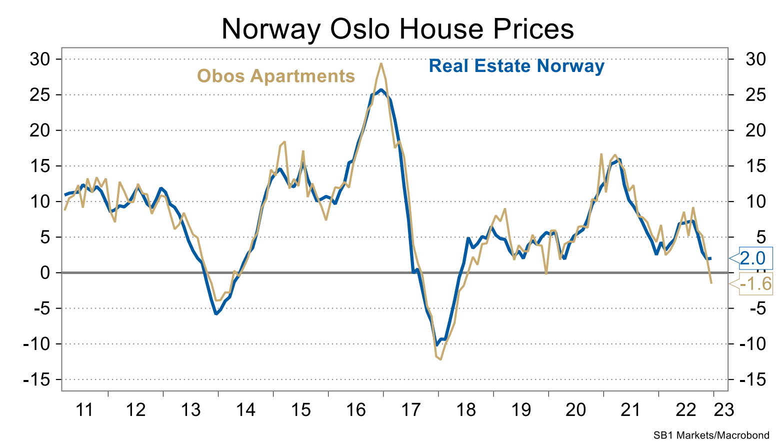


Oslo co-op prices fell by 2.6% in both Nov & Dec, in sum 6.2% from August

Realtors' Oslo index reported a 0.4% + 0.3% decline, and in sum 3.7% from August



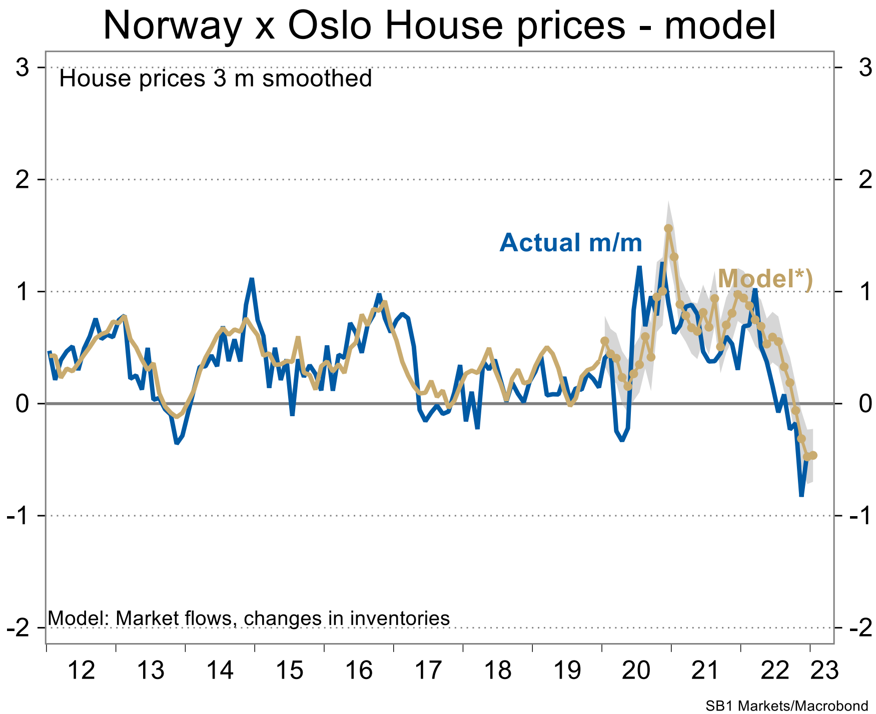


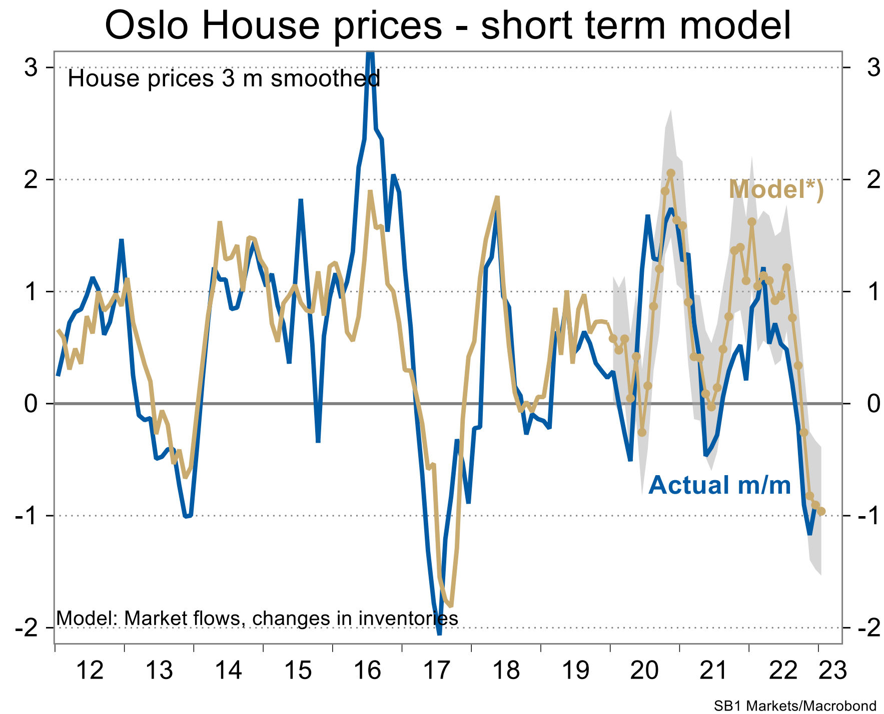


- The co-op Obos prices are down 1.6% y/y vs. +2% for the overall market
- Over time, these two prices surveys are close to identical, but OBOS data are somewhat more volatile

Short term market flows suggest a continued price decline

Higher mortgage rate will also contribute to a slowdown coming months



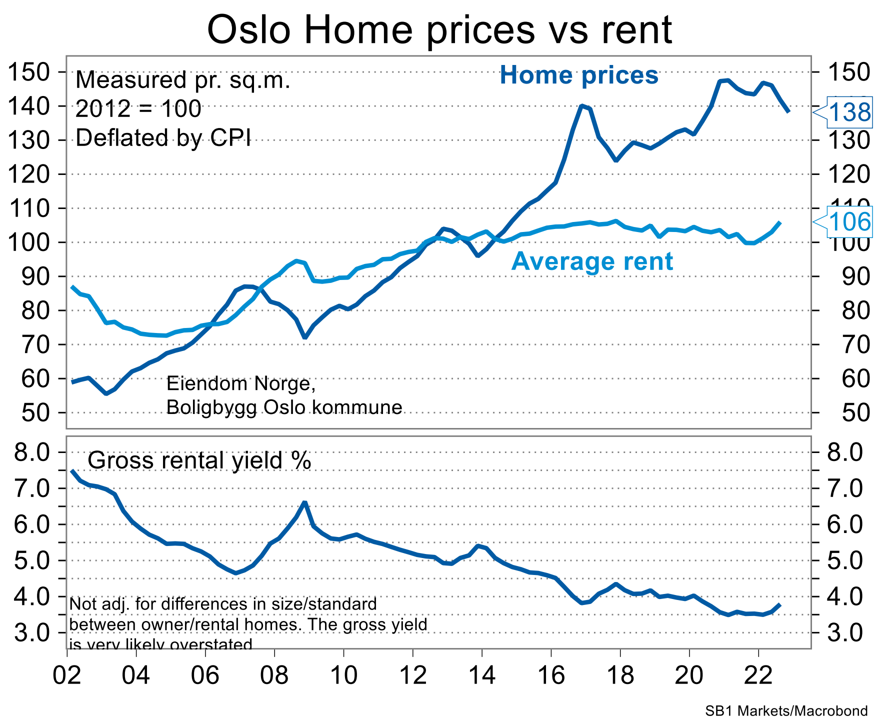


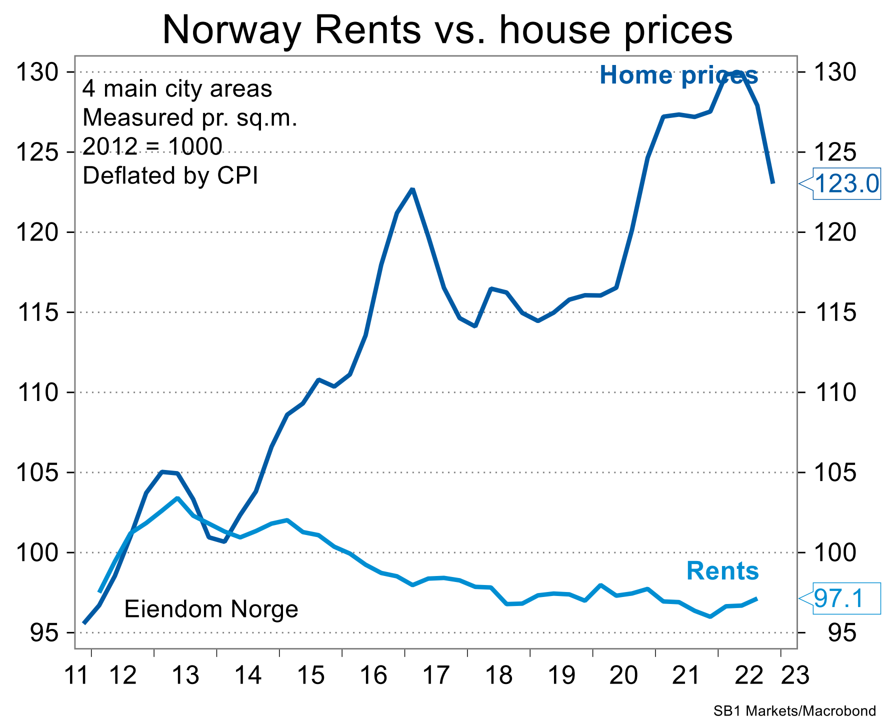
- Our **national x Oslo model** based on flows and the inventory signals a 0.5% fall in house prices (in comparison, prices in Norway x Oslo rose by 0.4% in December, even if prices all sharply in the areas around Oslo)
- Our **Oslo model** signals a further decline in prices and more than in the rest of the country
- **Mortgage rates** are not included in these short-term market models, because they have not consistently added to the models' performance. Still, over time, mortgage rates and credit growth are important driver for the flows at the housing market, and now rates are rapidly on the way up
- *These models are not long-term price models, just short-term models based on flows of (existing) houses approved for sale, actual sales and changes in inventories – which are normally correlated to prices*

SpareBank 1 MARKETS

Why have house prices been so strong recent years? Lack of housing?

If so, strange that rents have been so weak? May is just be ‘search for yield’ (as mortgage rates fell)

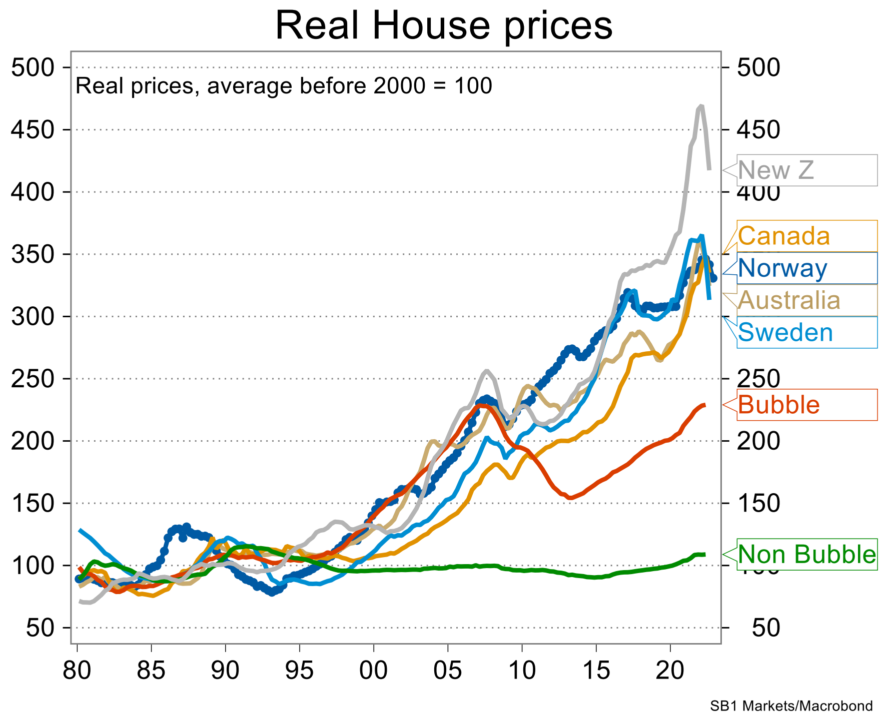


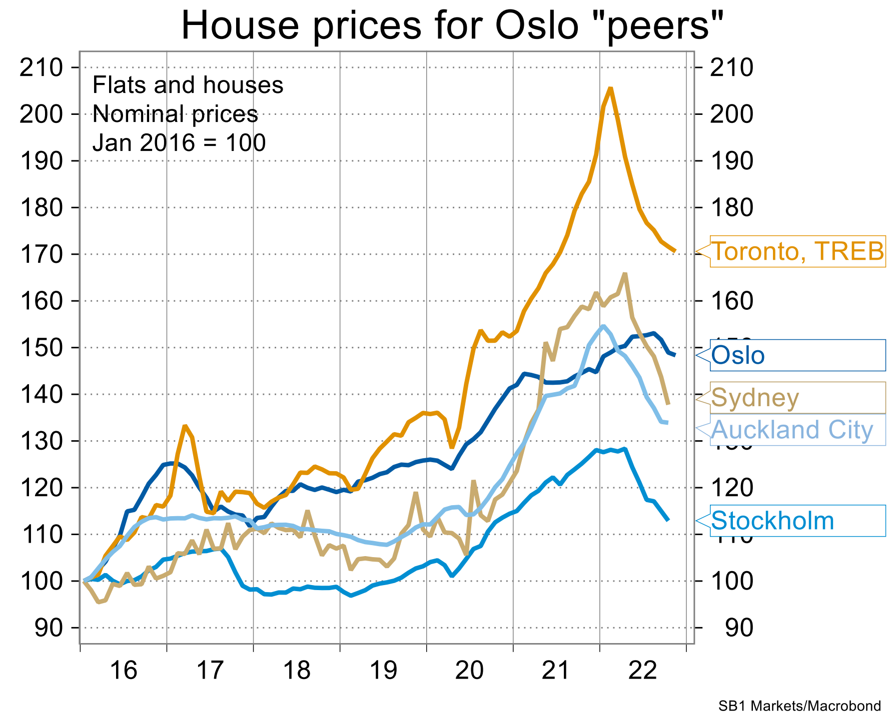


- **Yield compression**, as interest rates were low vs. income expectations
  - Rents have been close to flat in real terms the past 10 years in Oslo, while prices are up 42% in real terms (almost 4% per year)
  - Rents have fallen by 3% in real terms in the average of Oslo/Bergen/Trondheim and Stavanger areas, according to Eiendom Norge, while prices are up 28%
- BTW, mortgage rates are not falling anymore…

Prices are falling in the ‘supercyclical’ capitals, now even in Oslo

Prices have peaked in cities comparable to Oslo – and now prices are falling here too

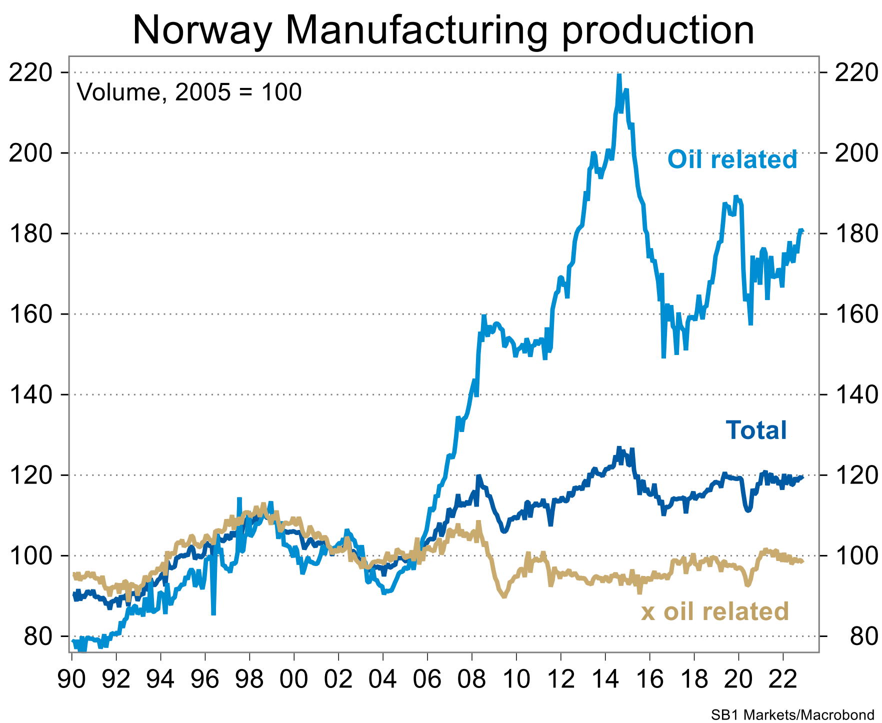


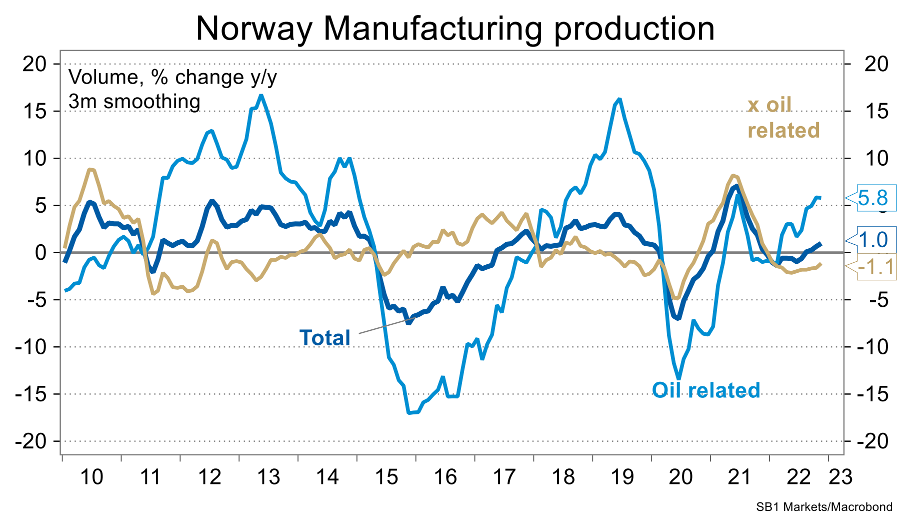


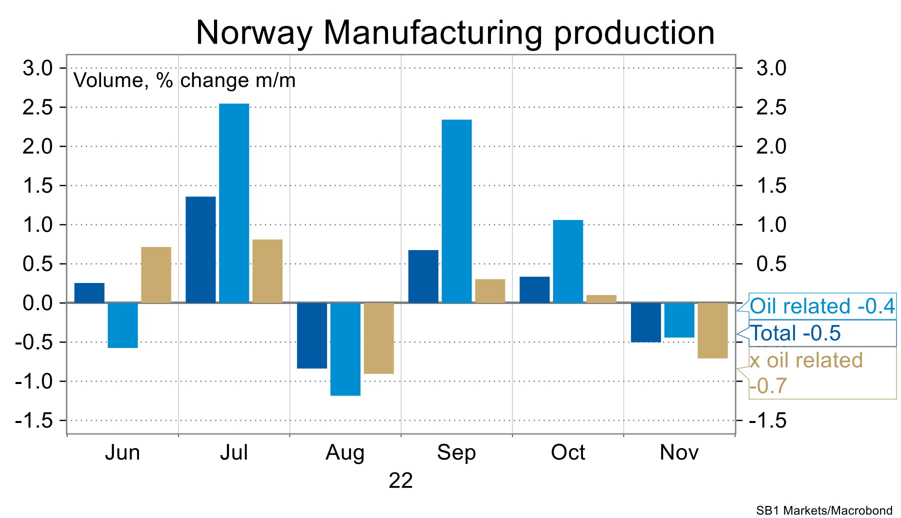
- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden – and even more in New Zealand
- Now, prices are falling sharply (where data are updated). Prices in the capitals have turned down in all these countries

Manufacturing production took a breather in November

The short-term trend is flat, but surveys are bleak and the risk is to the downside



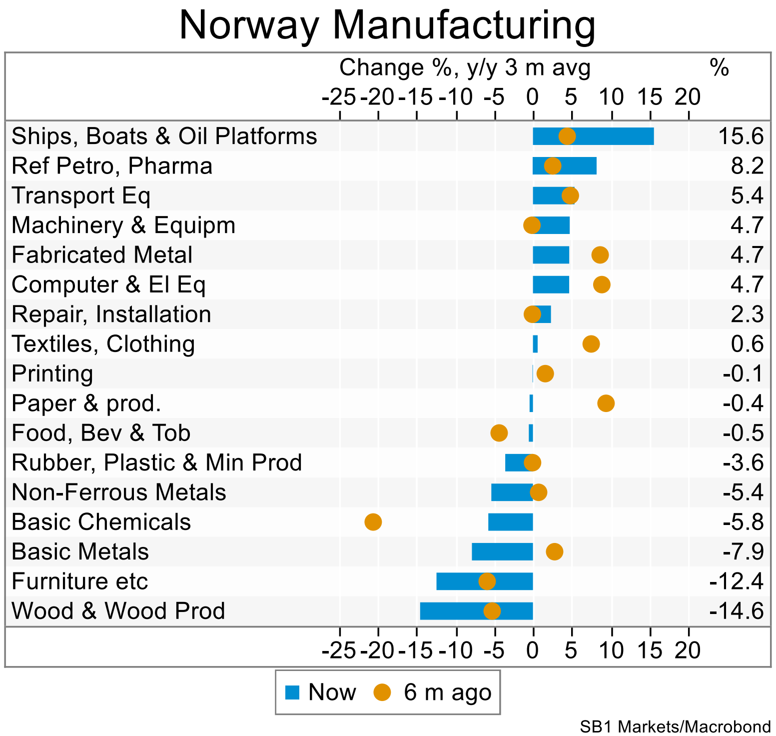


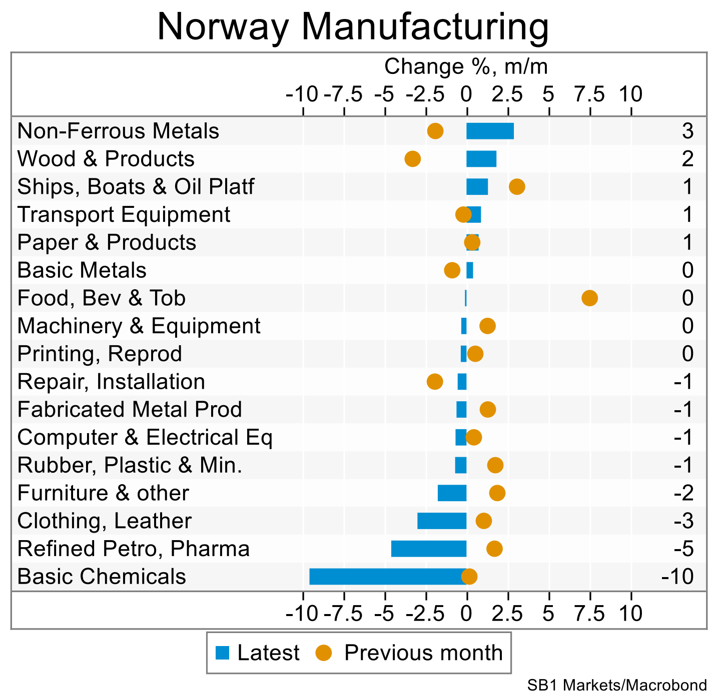


- **Total production** fell 0.5% in Nov, we expected unch.
- **Oil related manufacturing production** (yards etc) was down 0.4% but the trend is up, at a 5% – 6% pace
- **Other sectors** reported a 0.7% decrease in activity – and the trend is down, at a 1% rate
- **Manufacturing surveys have turned down since Q4 2021**

Still mixed between sectors: Basic chemicals, refined petro, clothing down

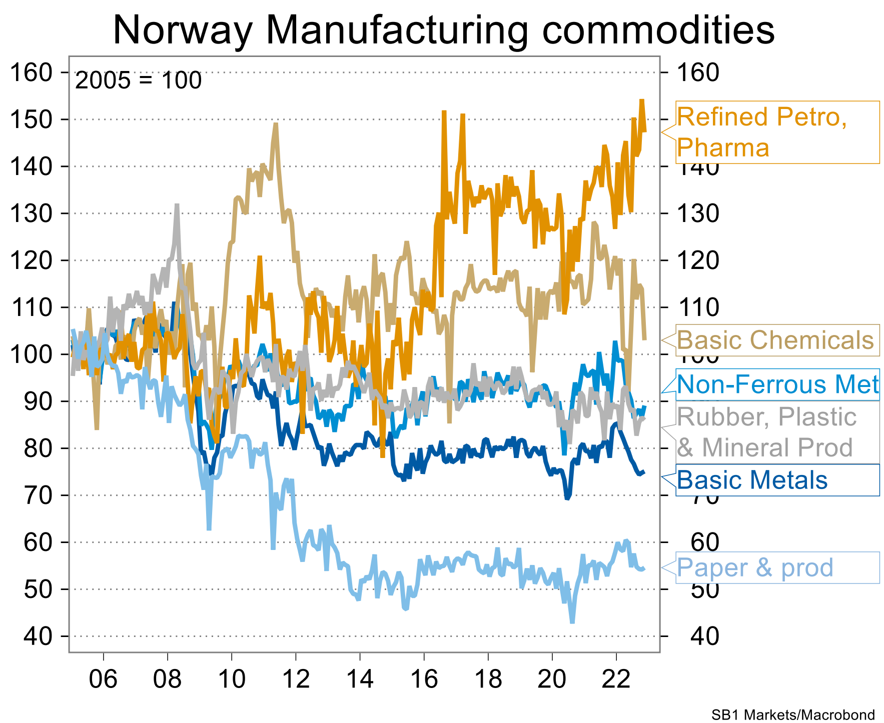
Non-ferrous metals, wood products, and ship/platform building up



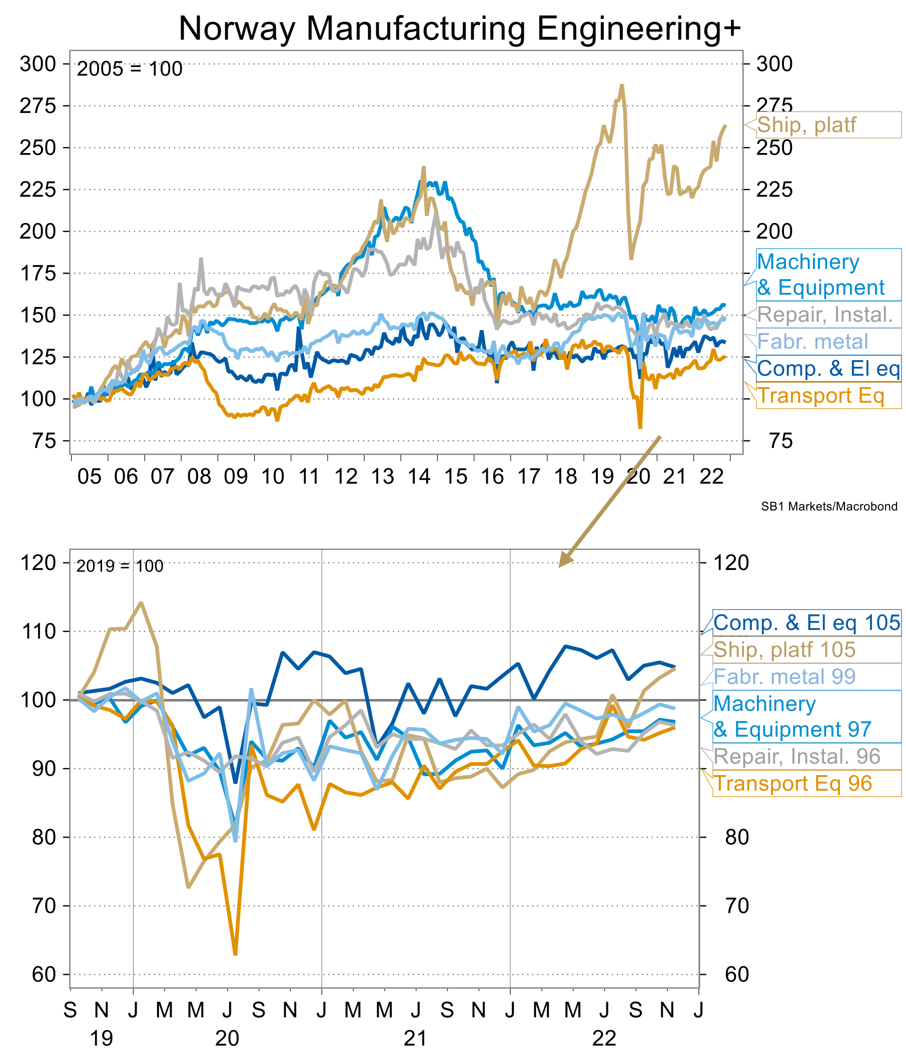


Engineering on the way up; now even ships and platforms too

The longer-term picture is mixed within commodities: refined petro, pharmaceuticals up – metals and paper down

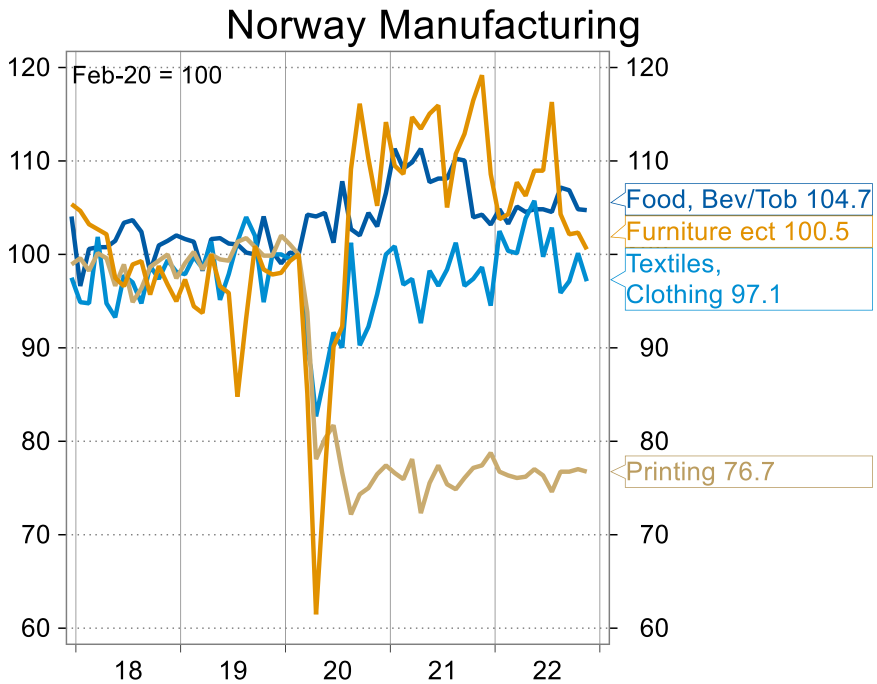


- But in November pharmaceuticals and refined petro were down the most



Food production is back to a normal level, and has flattened

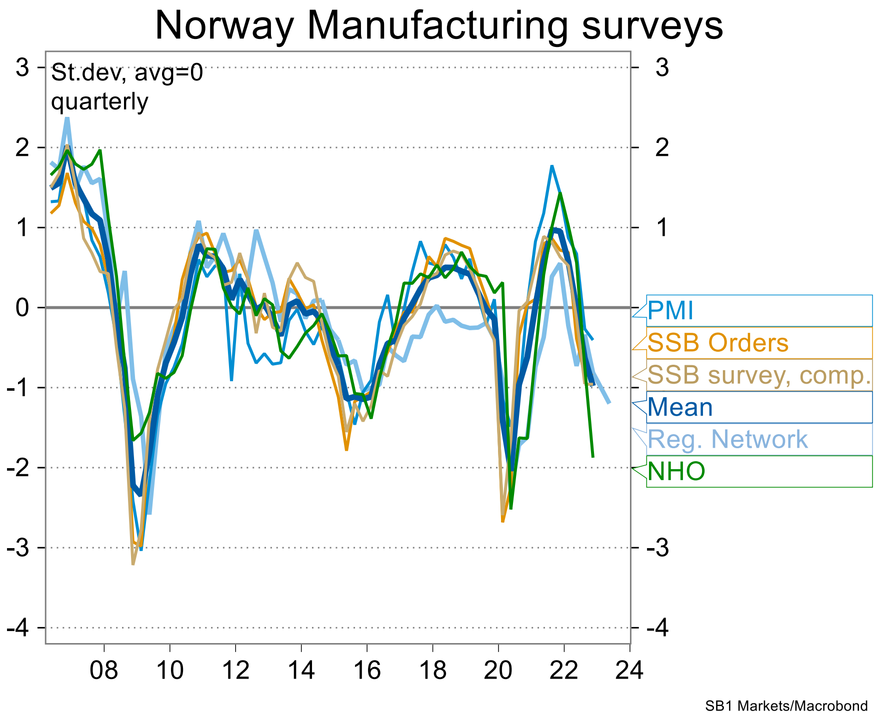
Furniture is back down to the pre-pandemic level, while textile/clothing is now below

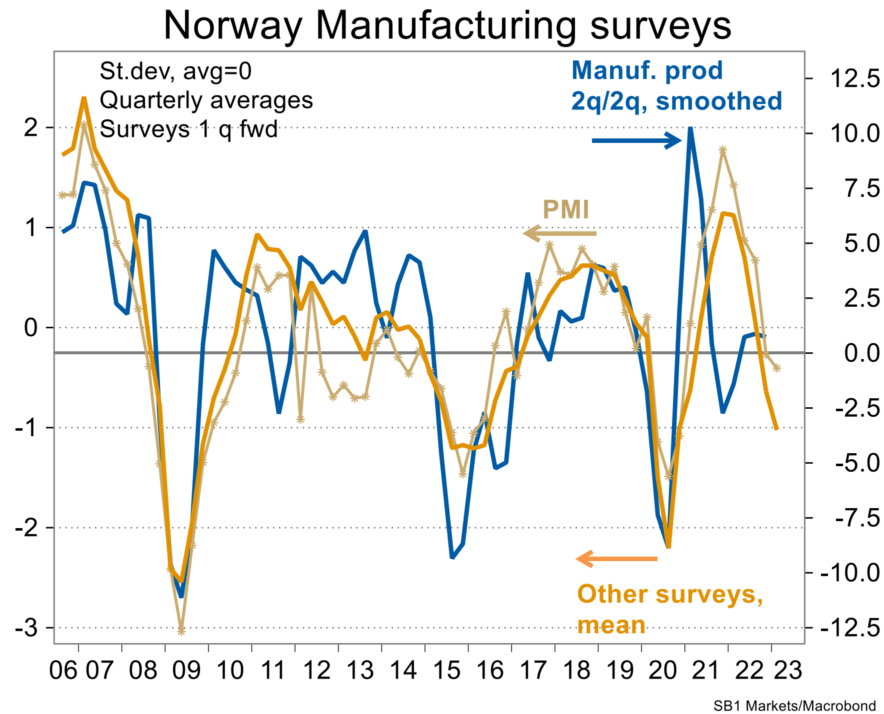


SB1 Markets/Macrobond

Surveys are signalling a decline in manufacturing prod. (like most places)

… production has not been that impressive (like most other places) even when surveys were strong

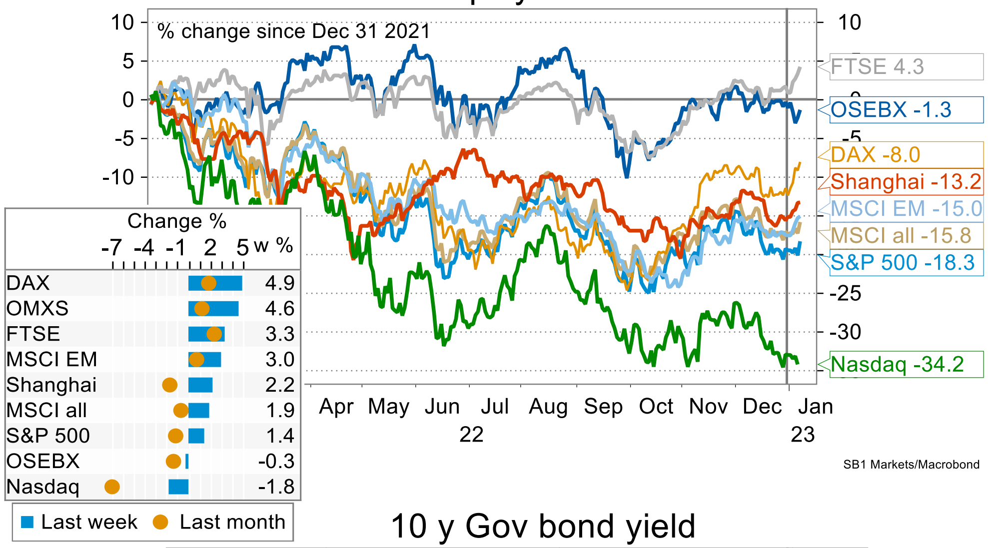




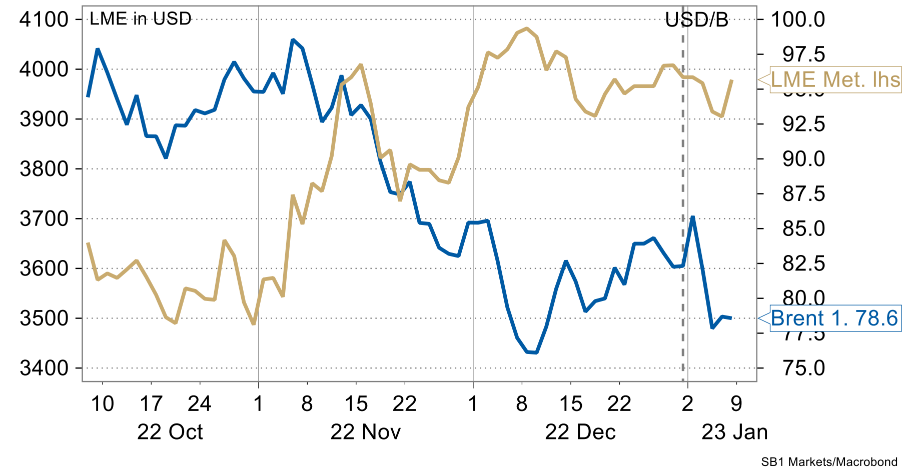
A Goldilocks start of the new year: Equities up, bond yields down

Oil & gas prices fell sharply, keeping OSEBX down. The NOK fell, even if it recovered on Friday. USD down with wages

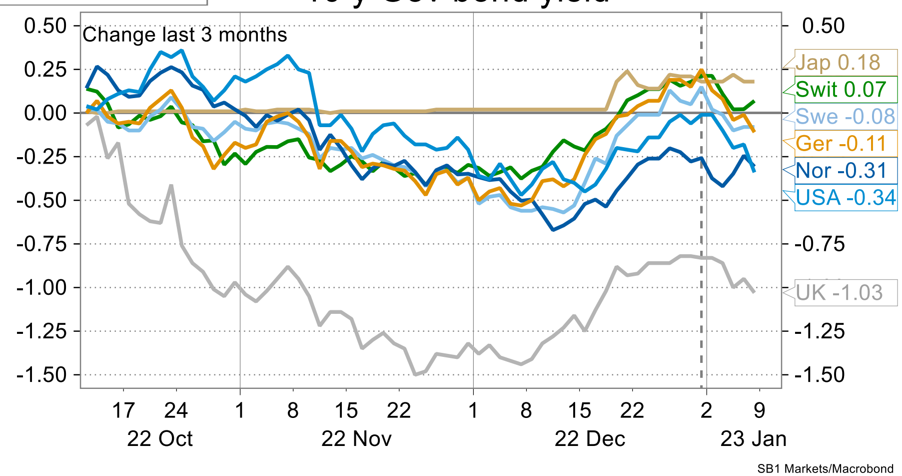
Equity Indices



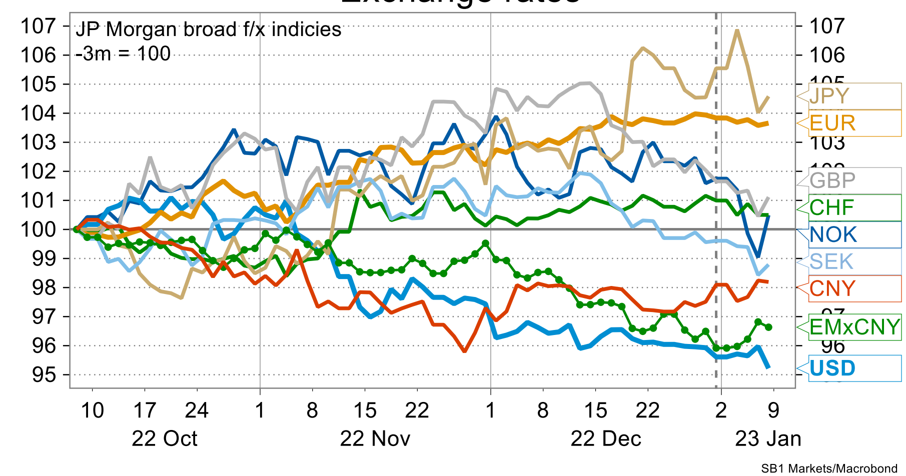
Oil vs. metals



10 y Gov bond yield



Exchange rates



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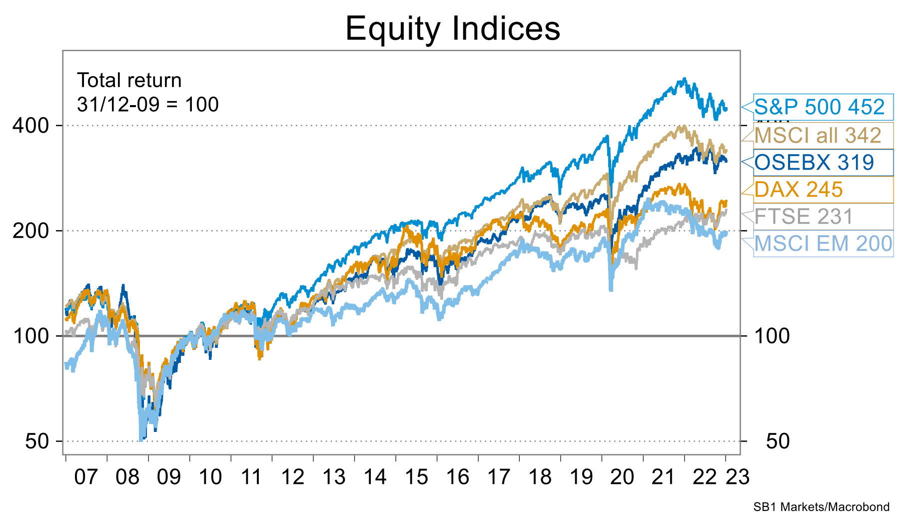
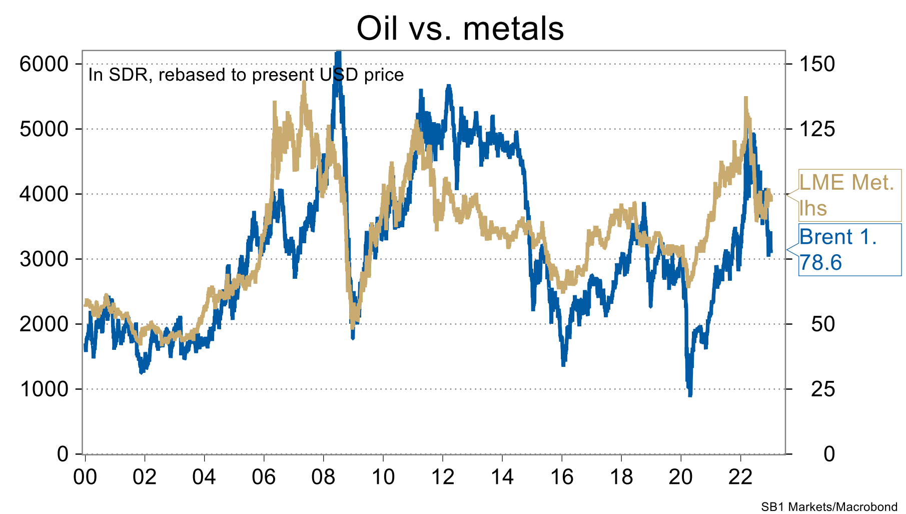
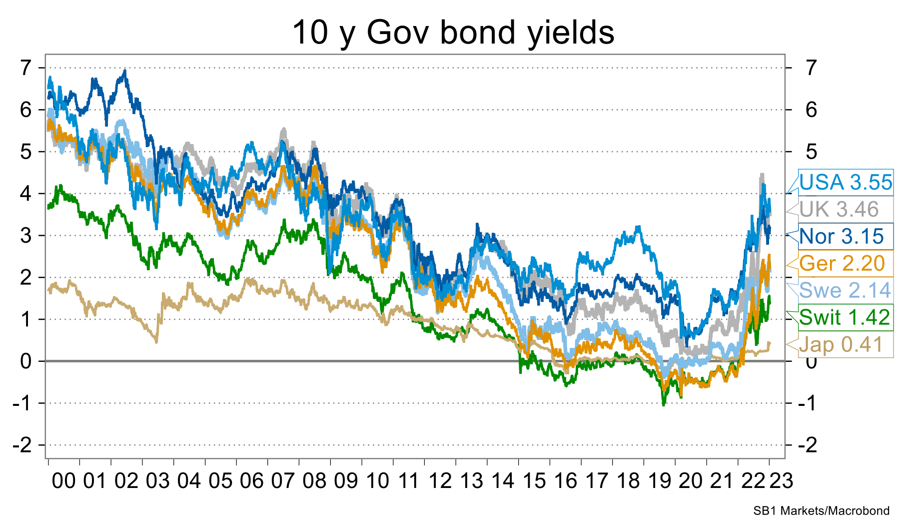
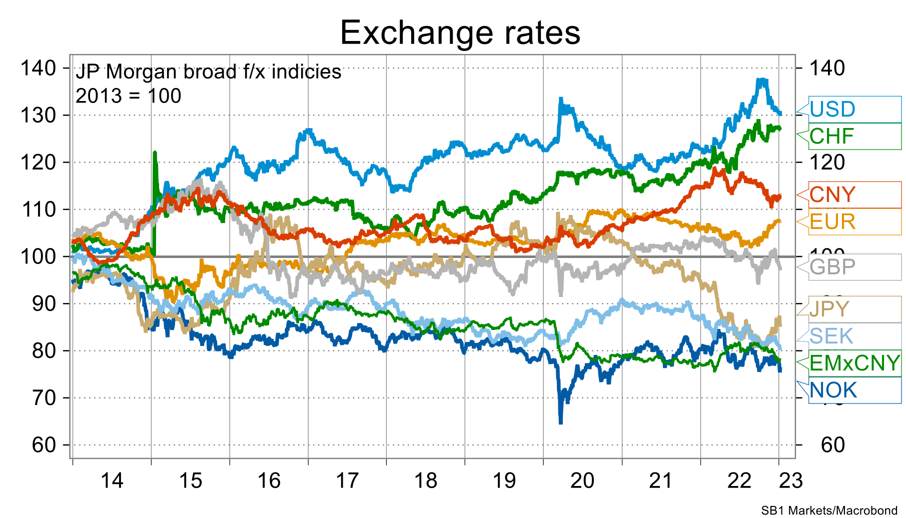
The long-term picture: Stock markets down, commodities down, yields up

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



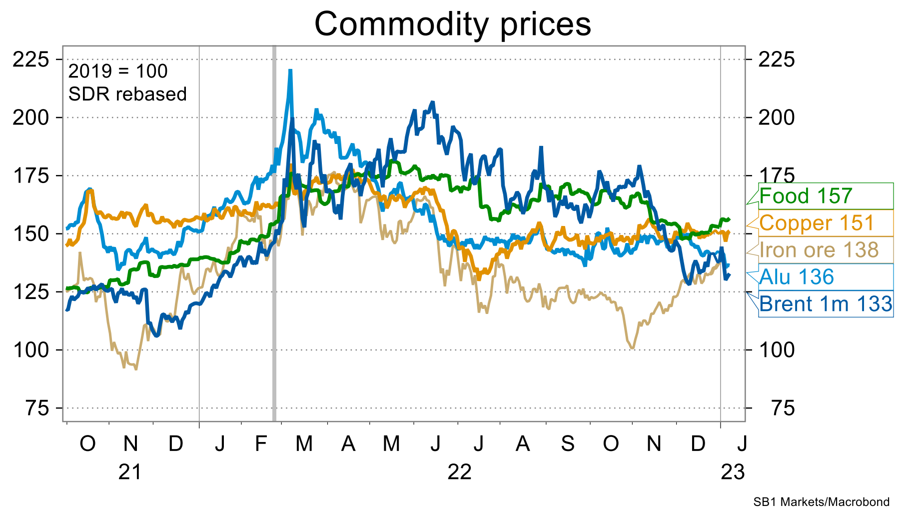


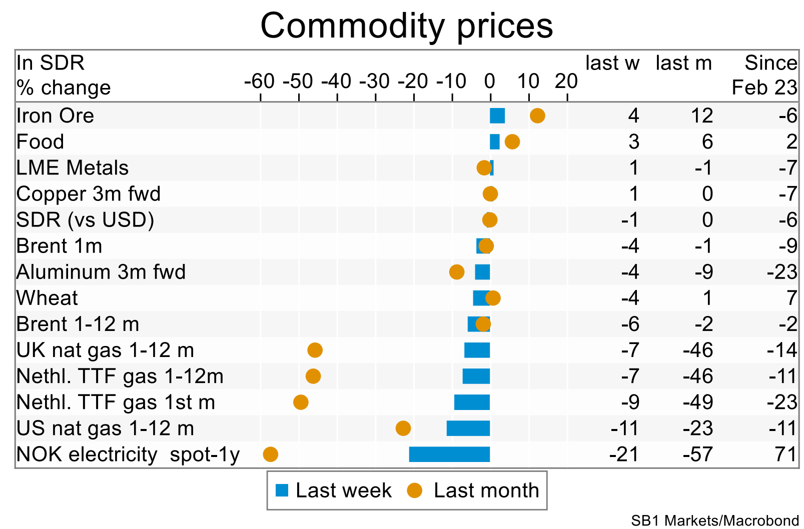




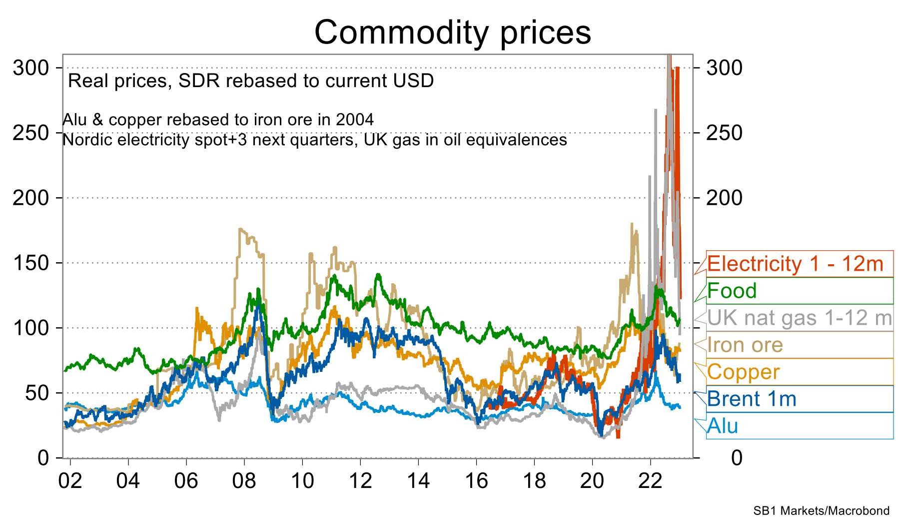
European gas/el. prices further down

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





In SDR % change	last w	last m	Since Feb 23
Iron Ore	4	12	-6
Food	3	6	2
LME Metals	1	-1	-7
Copper 3m fwd	1	0	-7
SDR (vs USD)	-1	0	-6
Brent 1m	-4	-1	-9
Aluminum 3m fwd	-4	-9	-23
Wheat	-4	1	7
Brent 1-12 m	-6	-2	-2
UK nat gas 1-12 m	-7	-46	-14
Nethl. TTF gas 1-12m	-7	-46	-11
Nethl. TTF gas 1st m	-9	-49	-23
US nat gas 1-12 m	-11	-23	-11
NOK electricity spot-1y	-21	-57	71

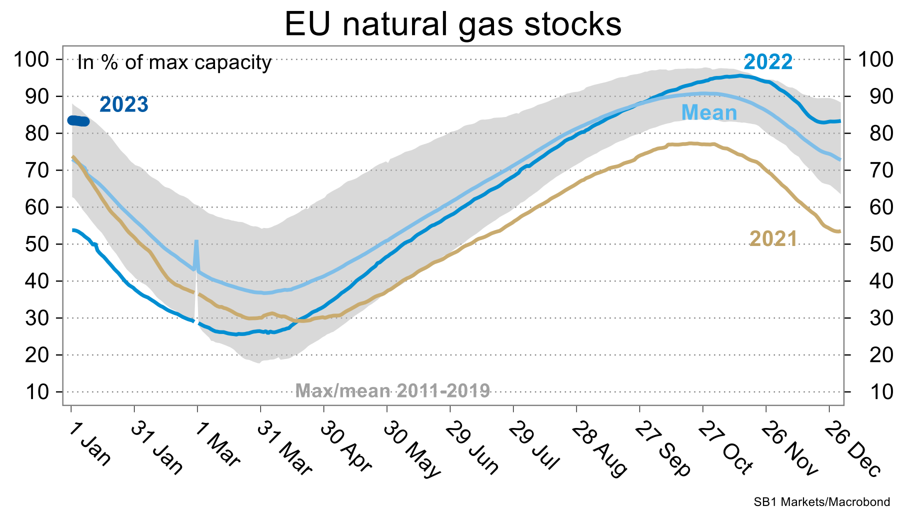


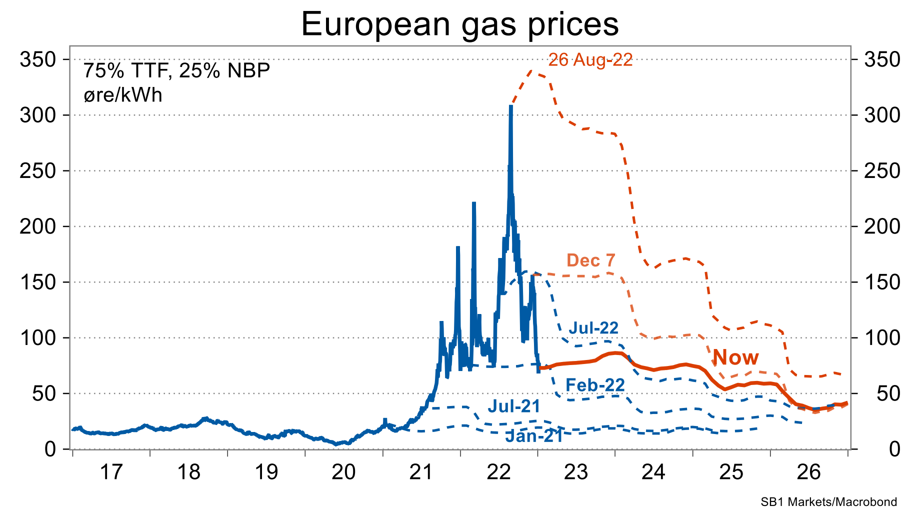
Last week – prices in SDR

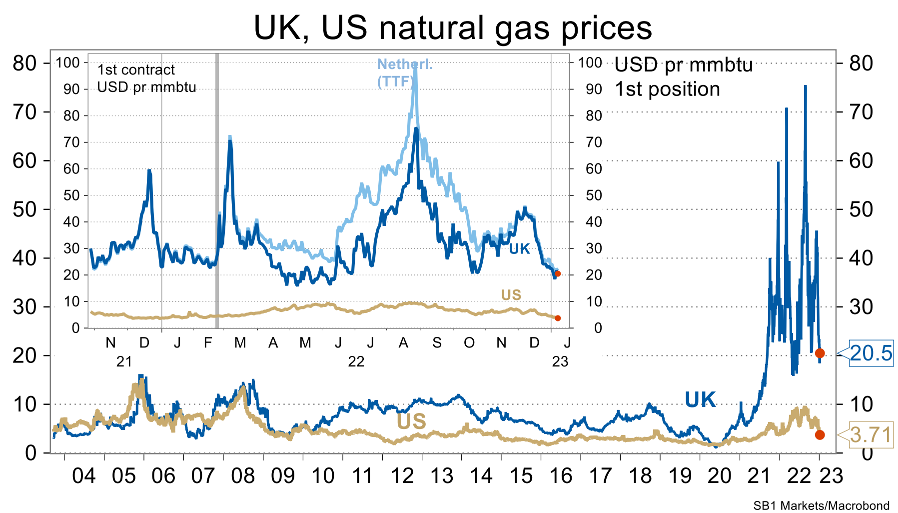
- **Oil prices** fell 4% - 6%
- **European natural gas** prices continued downwards by another 6% - 11 % - and prices are more than halved during December (for the coming 12 months!) – and spot prices are lower than before the war started. If the market is right (now), a substantial impact on European 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, and rose further last week
- **Other metal** were close to unchanged

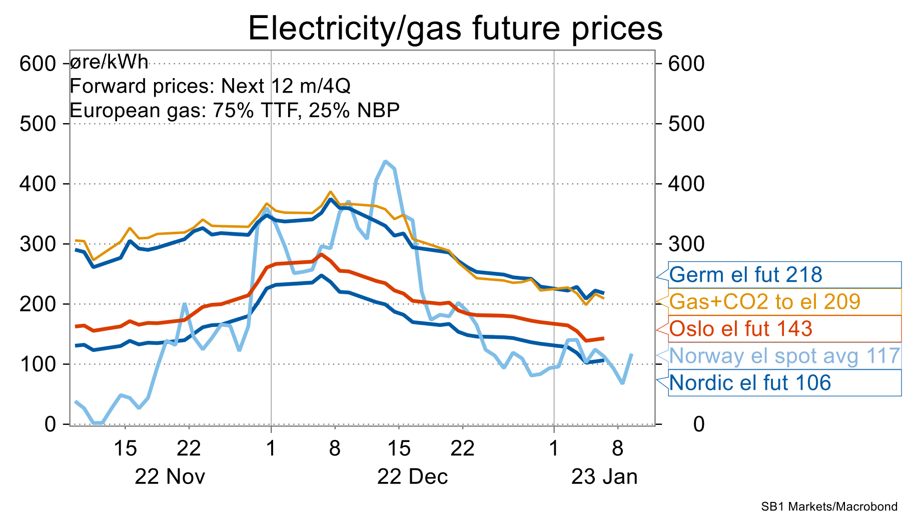
European gas stocks have been unch. since before Christmas

2023 prices are almost cut in half since early December



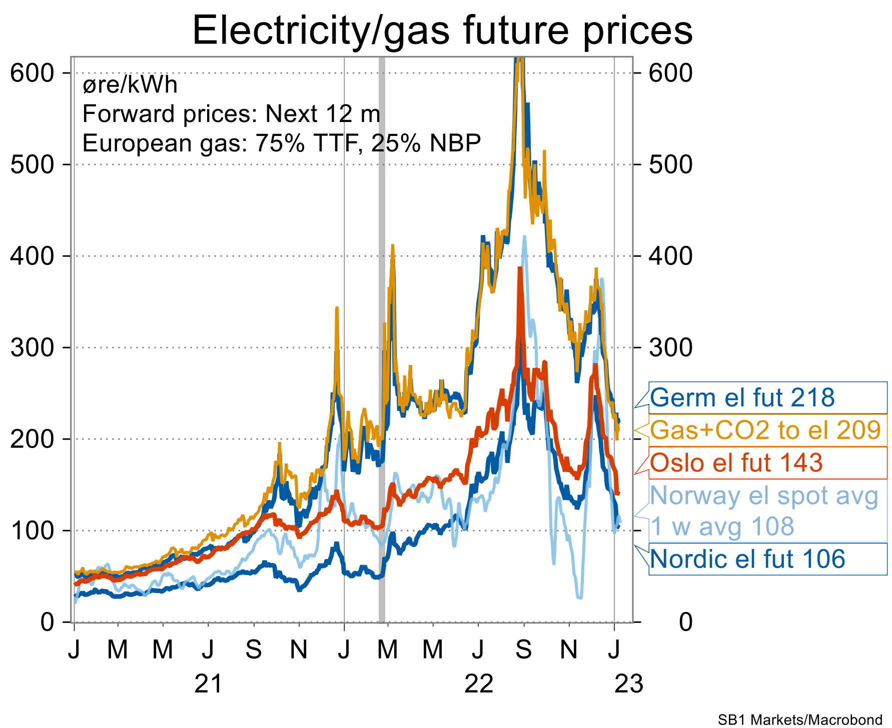


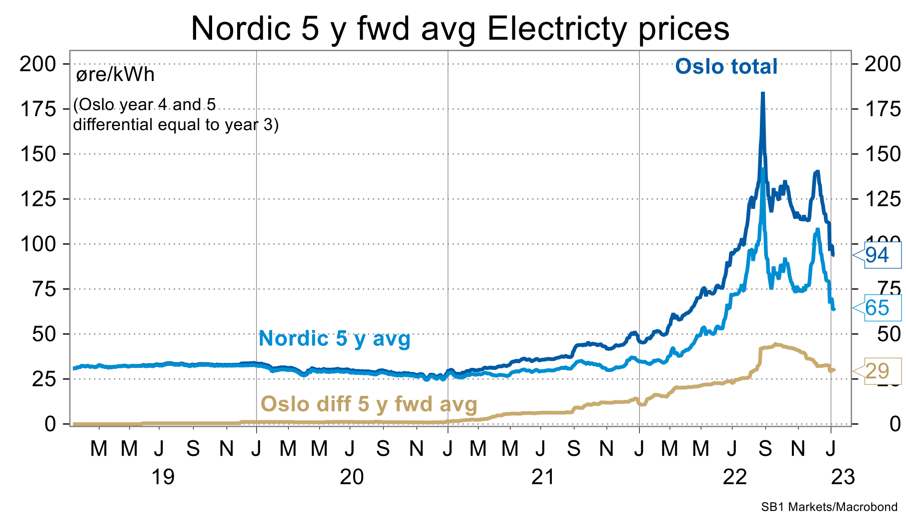


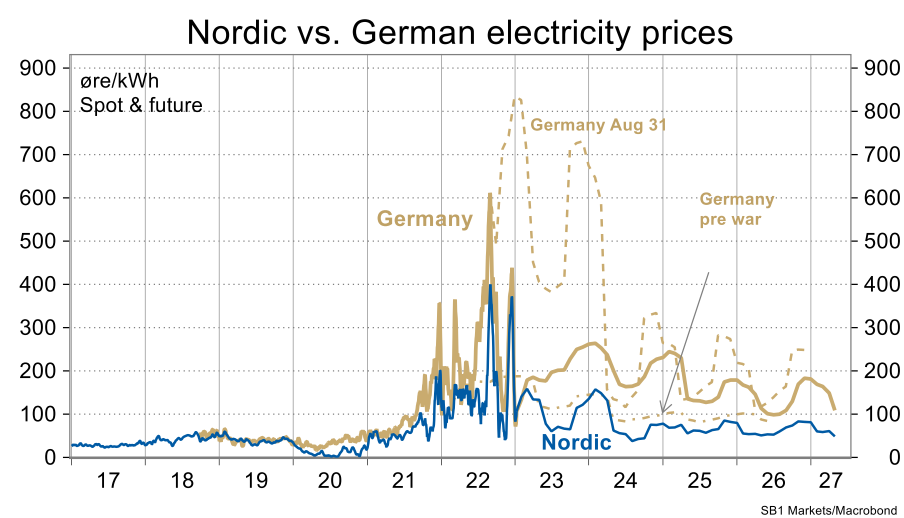


European gas prices have more than reversed the November surge

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



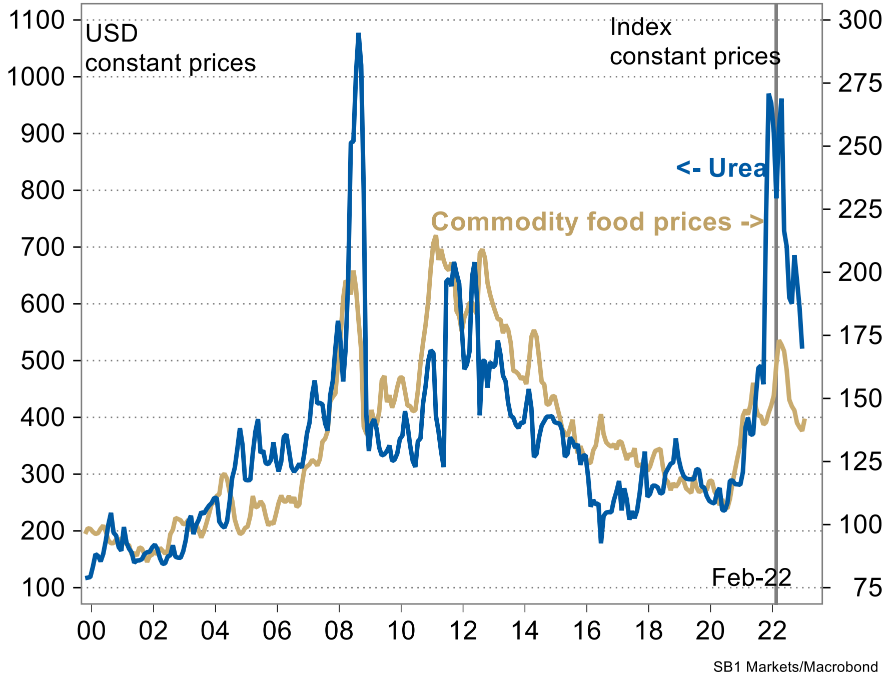




Food prices are trending down

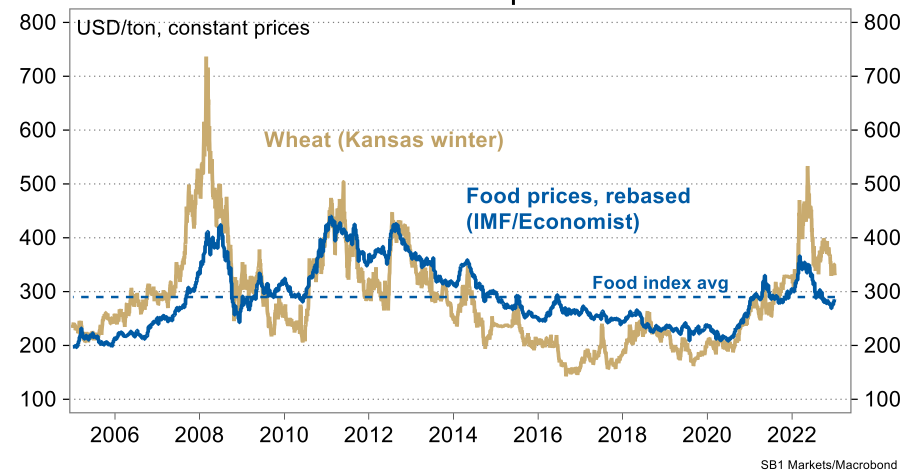
The real price level is not that high, *and below the 10 y average*. *A global food crisis??*

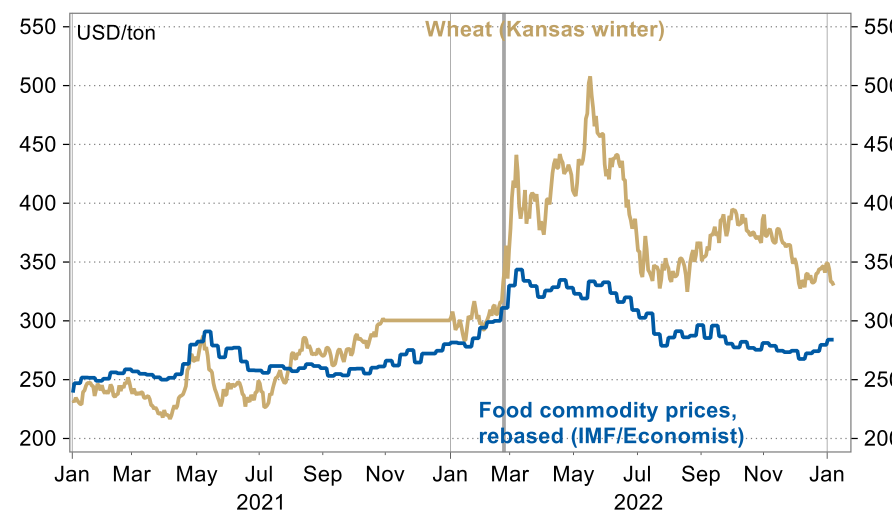
Food commodities vs fertilizer prices



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

Food/wheat prices

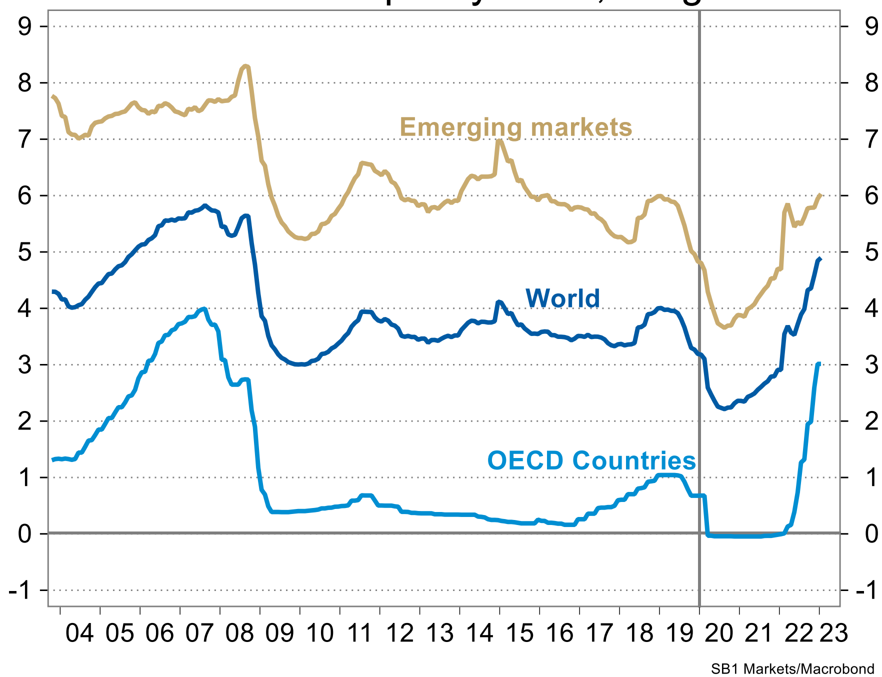




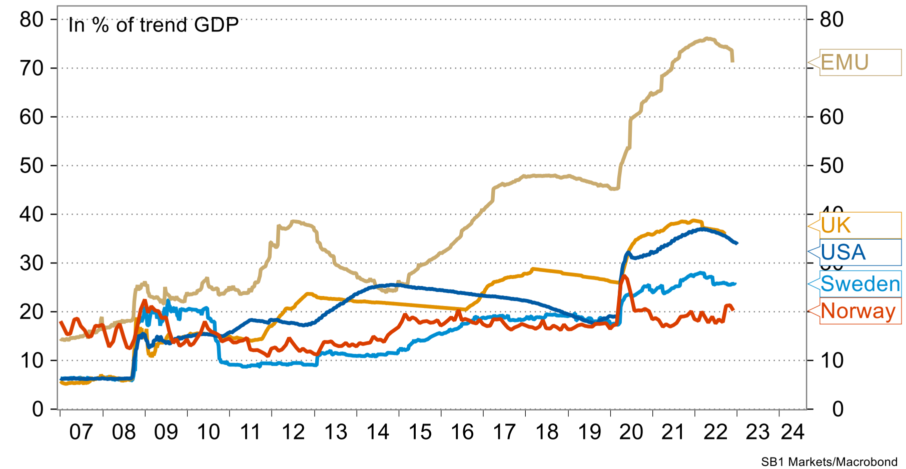
The global average signal rate is up to 5% from 2% at the bottom

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

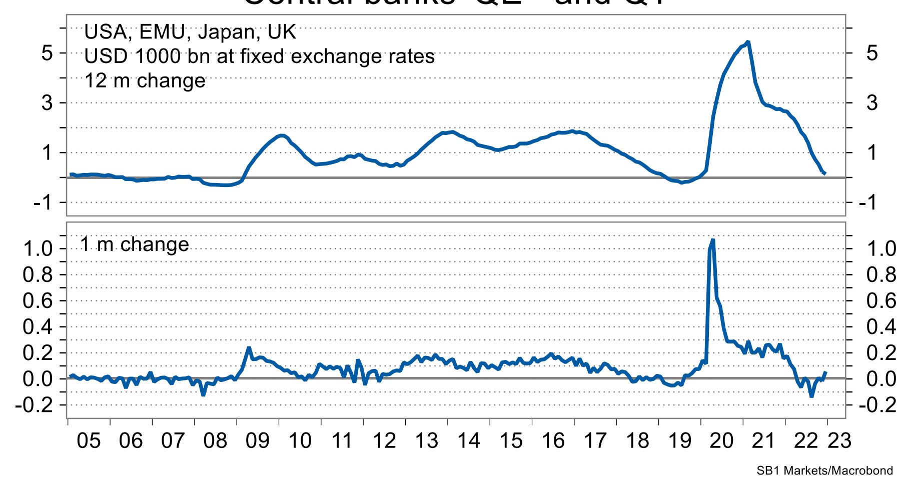
Central Banks' policy rates, weighted



Central banks' balances



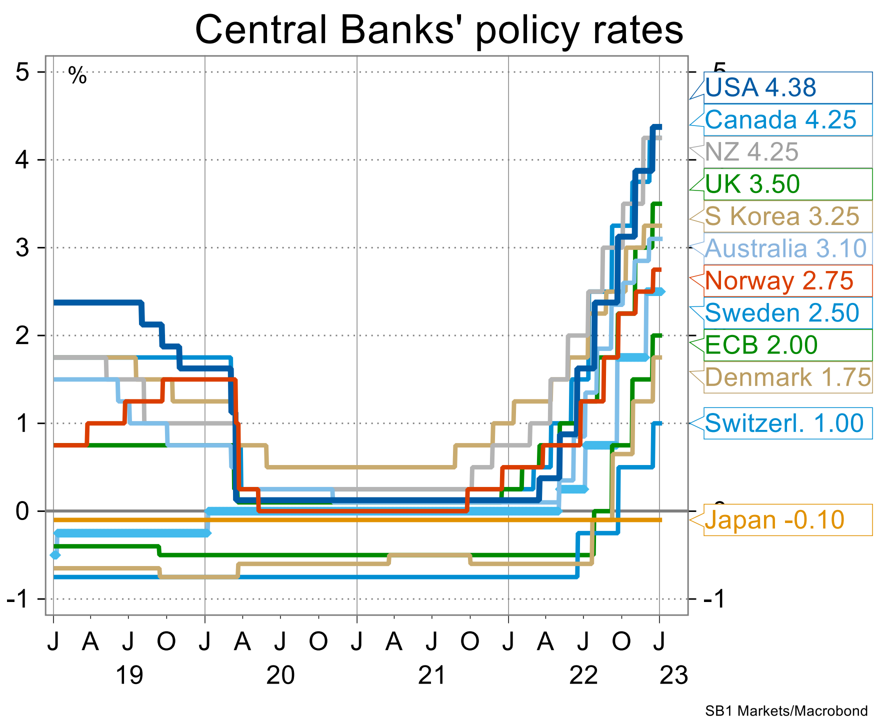
Central banks' QE - and QT

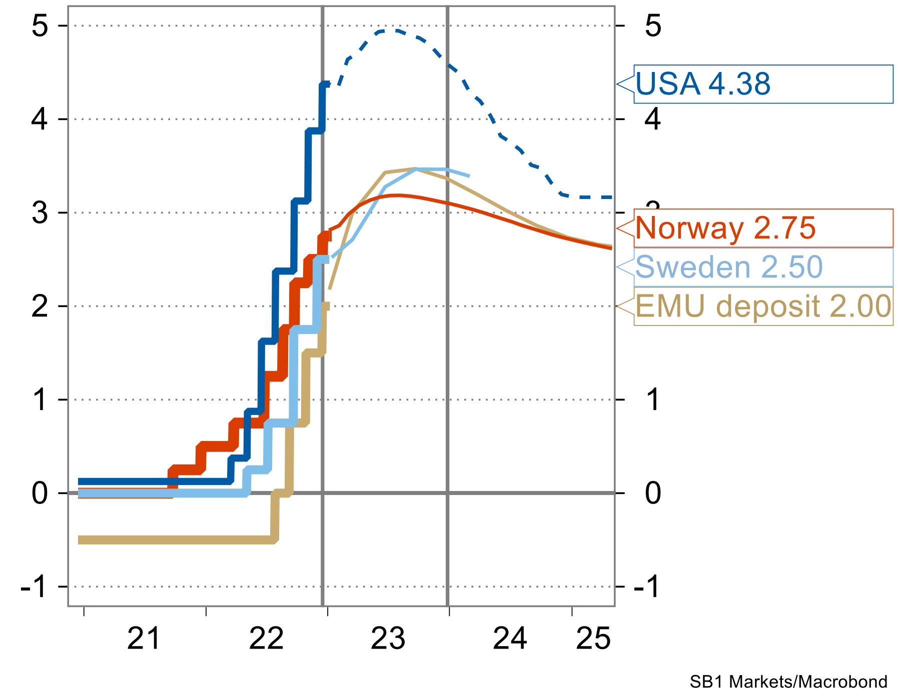


- The **EM average policy rate** is on the way up again, after a decline, due to the cut in the Russian and Turkish signal rates
- In addition to rate hikes, most central banks have ended their **QE buying programs**. Most banks have embarked on cutting back on their holdings, moving into the **QT zone**.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

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

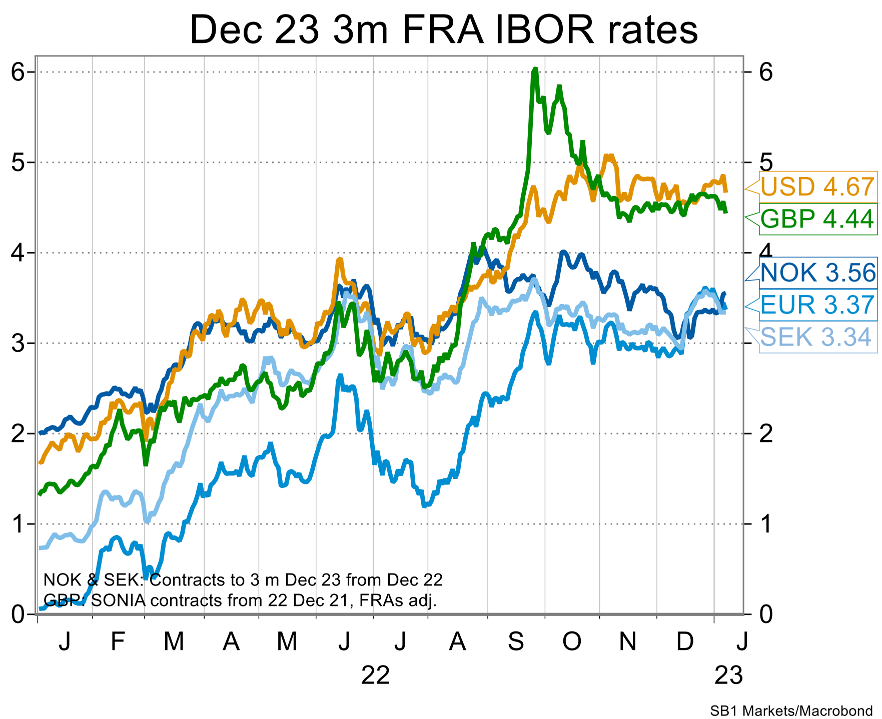


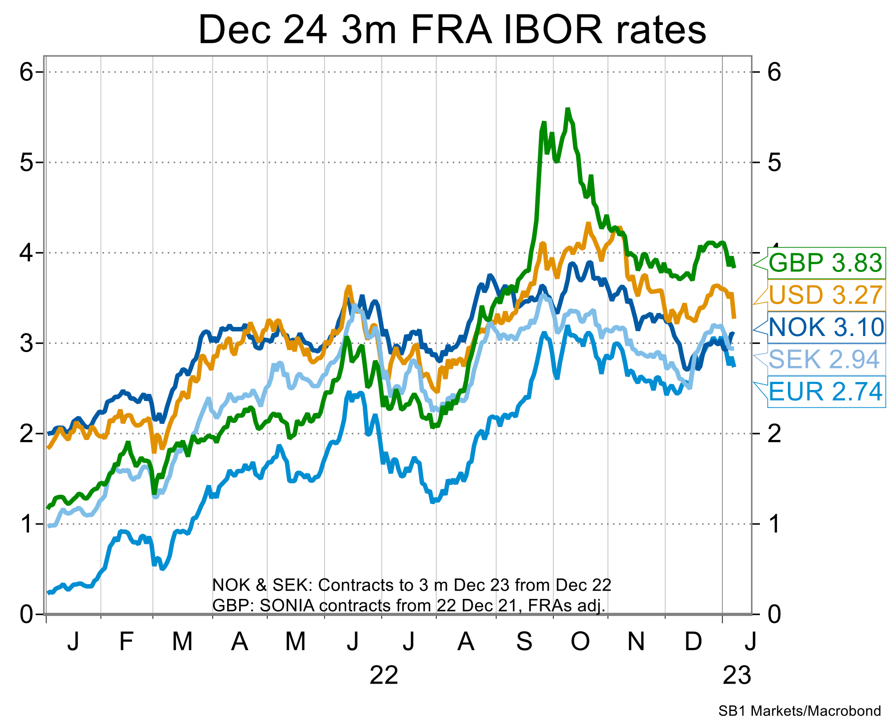


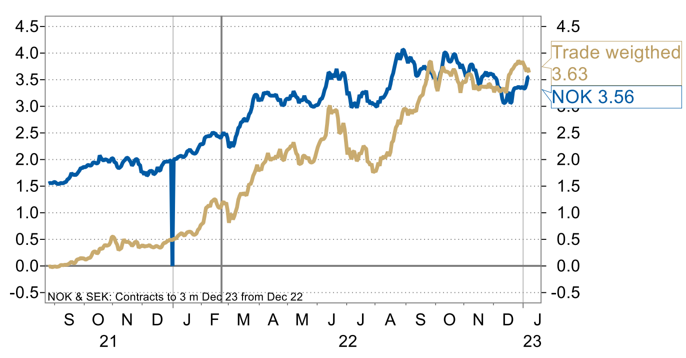
- **Central banks** are hiking rates even if they expect growth to slow (US) or the economy to contract (EMU, Sweden, UK, Norway) because inflation is way above target (including all measures of underlying inflation, partly also costs) and is expected to remain above target for several years

US rates fell sharply on Friday, lower wage inflation, a weak services ISM

EUR rates fell, even if the core CPI rose (the headline was in focus) – or is the expected level rather aggressive







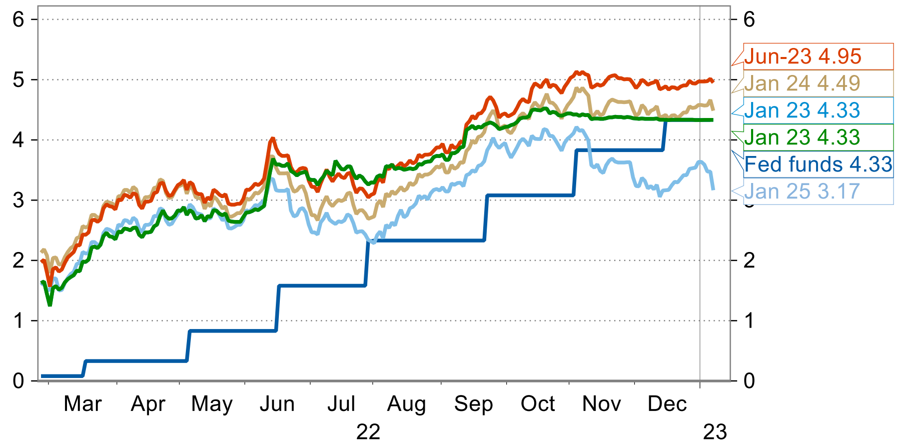
- **USD** rates down by up to 33 bps, mostly due to the lower than expected wage growth and the unexpected decline in ISM services survey
- However, **EUR, GBP & SEK** rates fell by almost the same amount
- **NOK** rates rose, supported by the lift in house prices – and because they were too low (as we suspected them to be)

Rate expectations down, by not that much in the very short end

The probability for a 25 bps hike in early February rose from 74% last Friday (via 63 on Thursday) to 76% on Friday

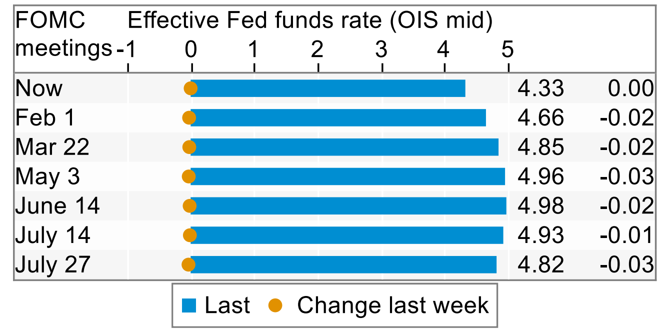
Then 2 x 25 bps cuts in H2-23

Fed funds future



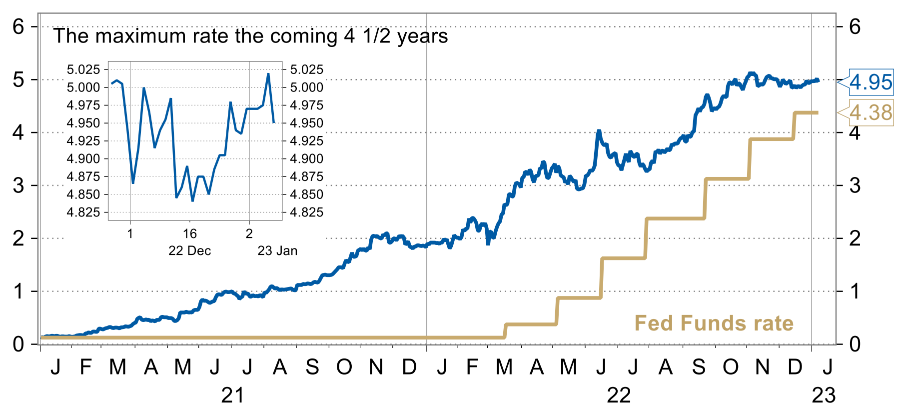
SB1 Markets/Macrobond

USA Fed funds rate (OIS)



USA Fed funds futures

The expected terminal (peak) rate in this cycle



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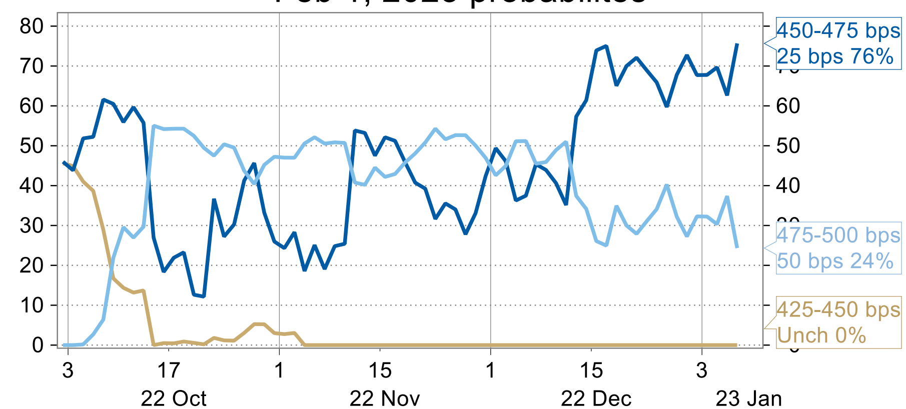
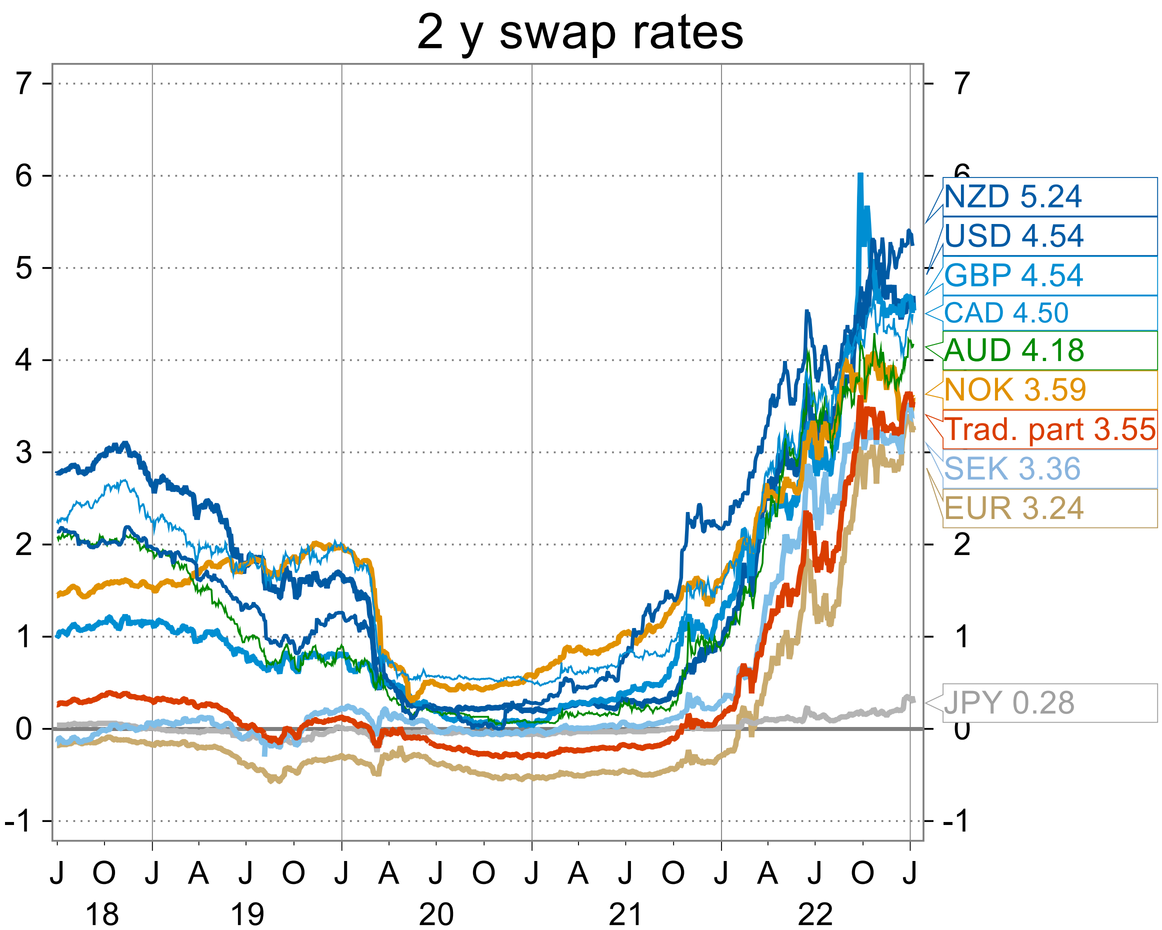
Fed funds future, Feb 1, 2023 probabilites



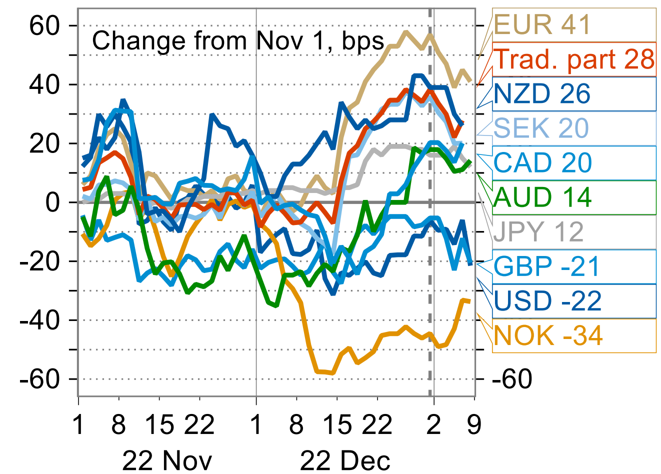
SB1 Markets/Macrobond

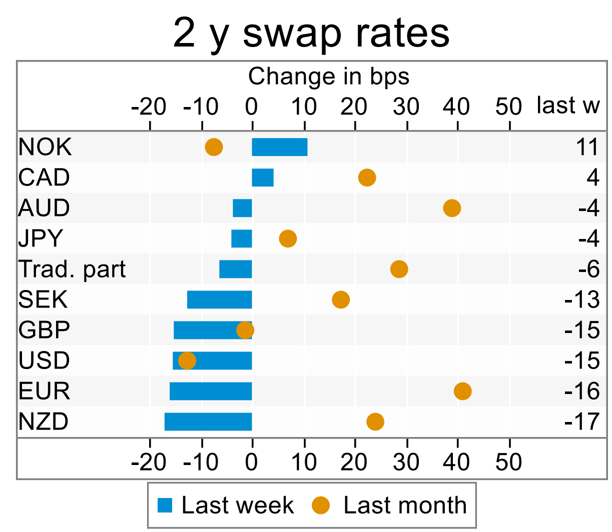
Just NOK rates up last week – others down by up to 17 bps

Goods news on wages and bad economic news from the US had an visible impact



SB1 Markets/Macrobond





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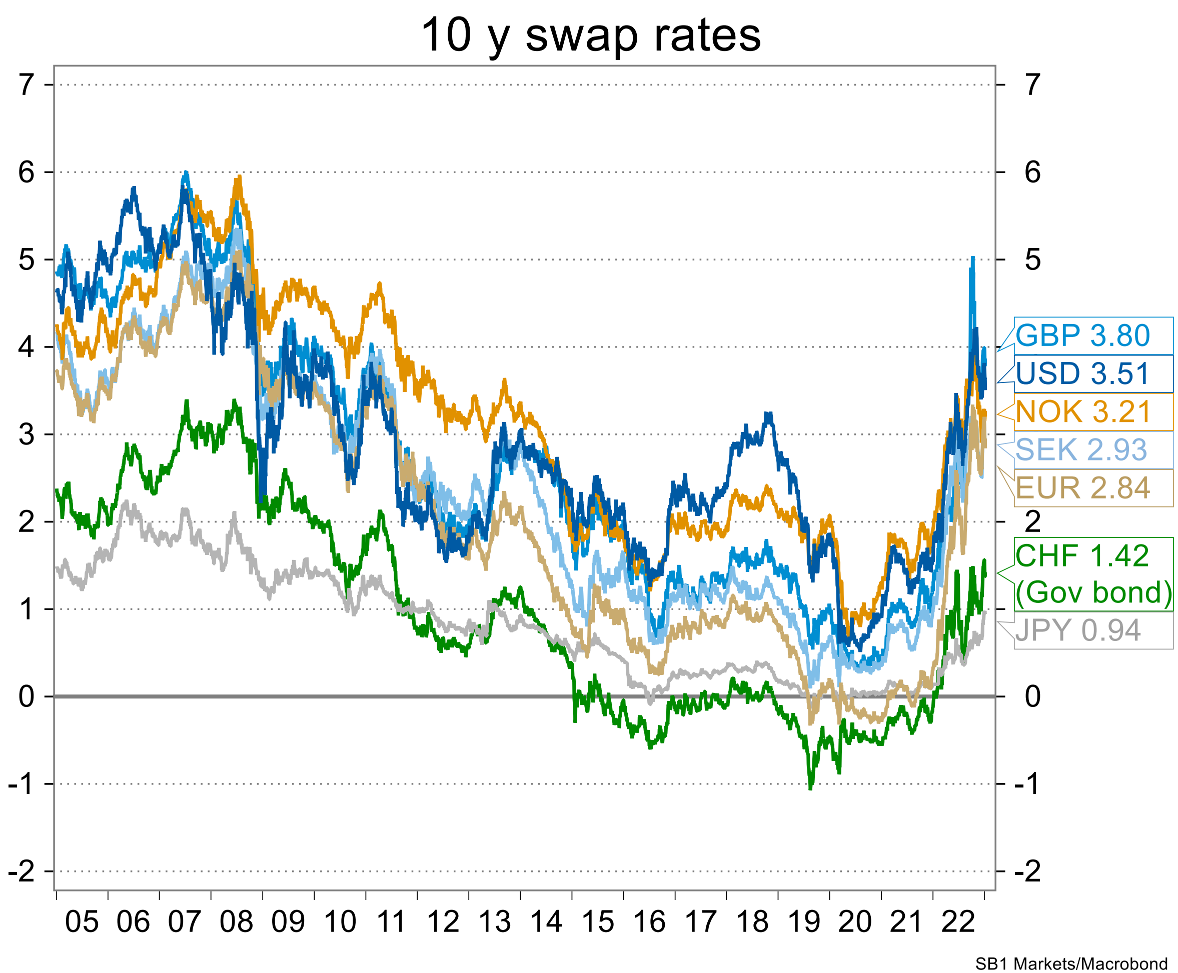
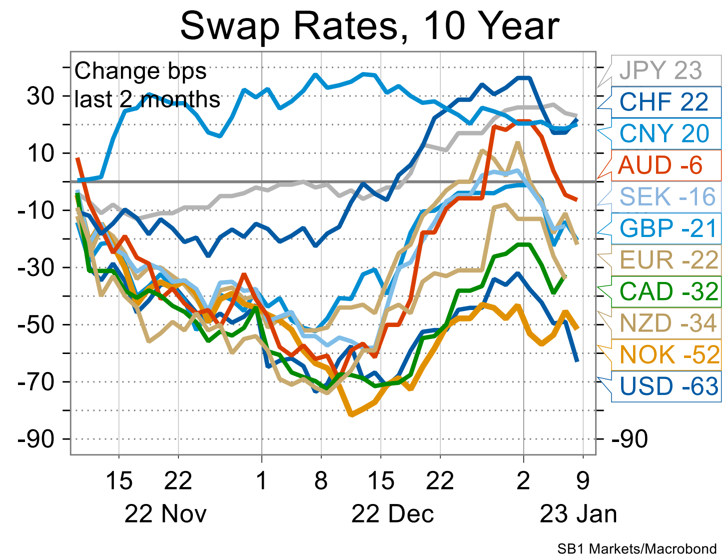
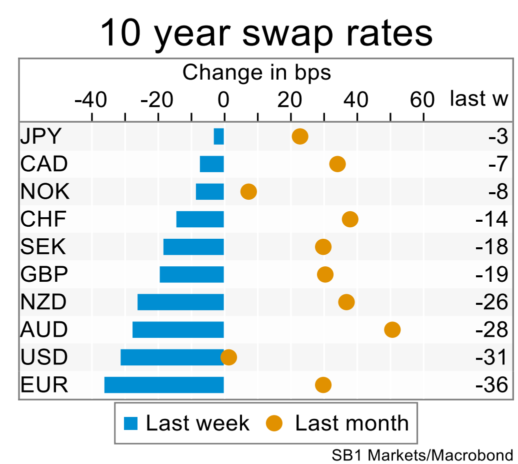
The long end of the curve down everywhere

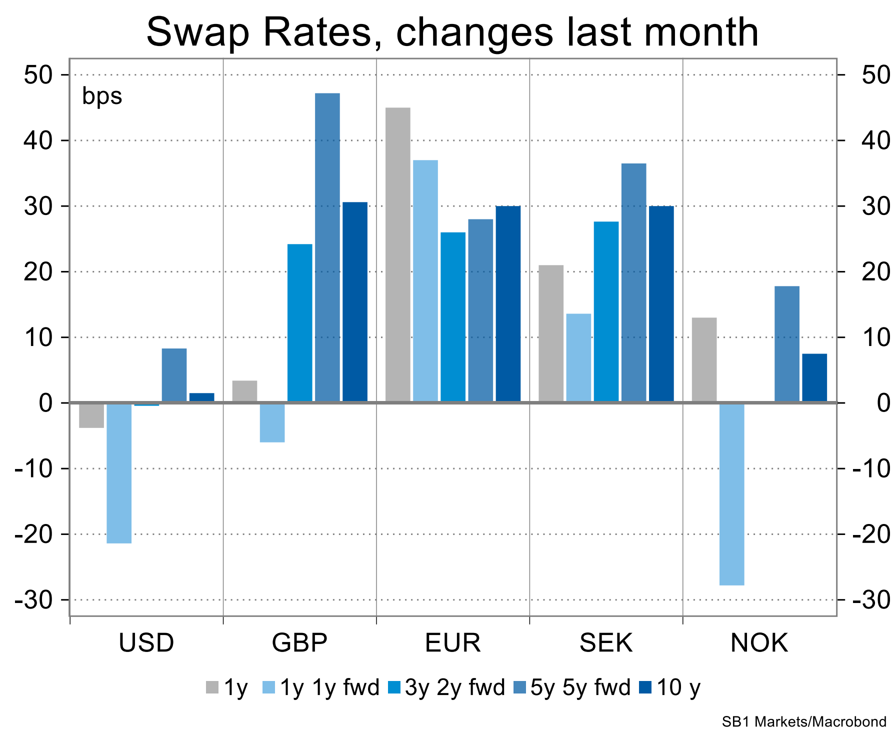


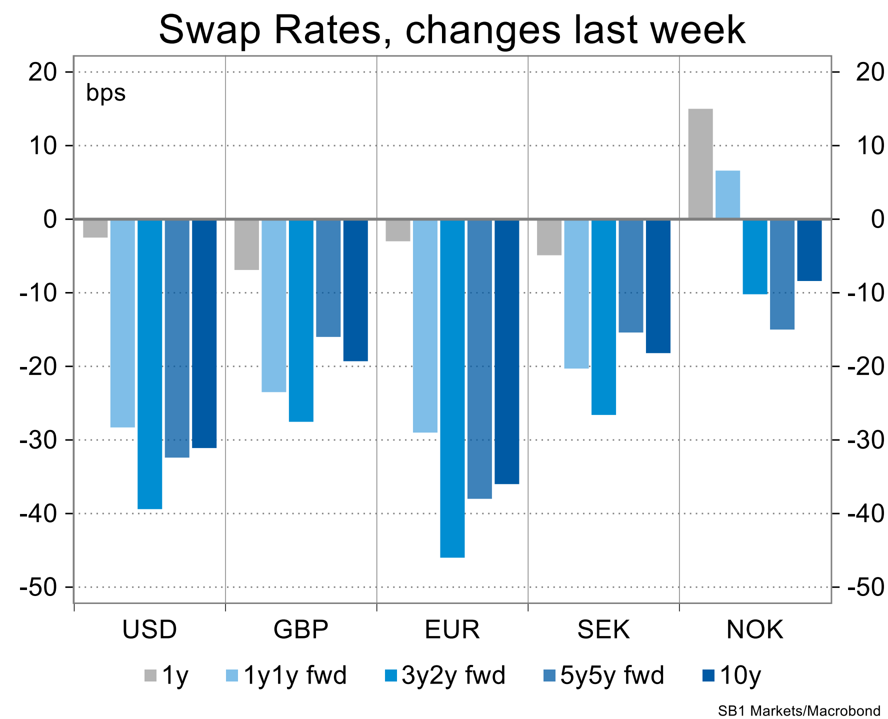




Just the short end in NOK up last week, all other rates down!

Rates down by up to 30 – 45 bps

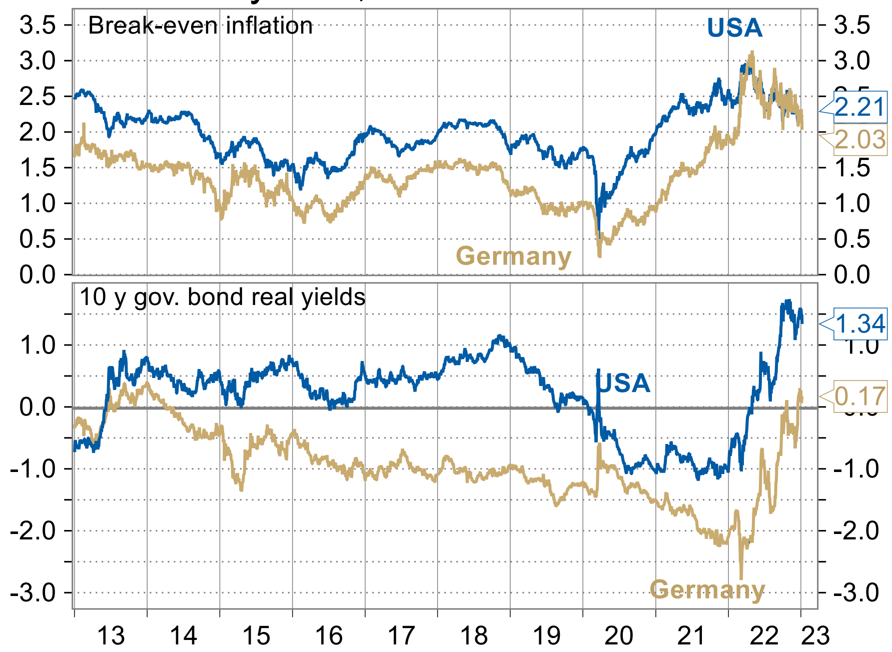




Real rates down – alongside lower inflation expectations

US 10 y real rates down 24 bps, by 10 bps in Germany – but the latter is up 71 bps last month

Real yields, break-even inflation



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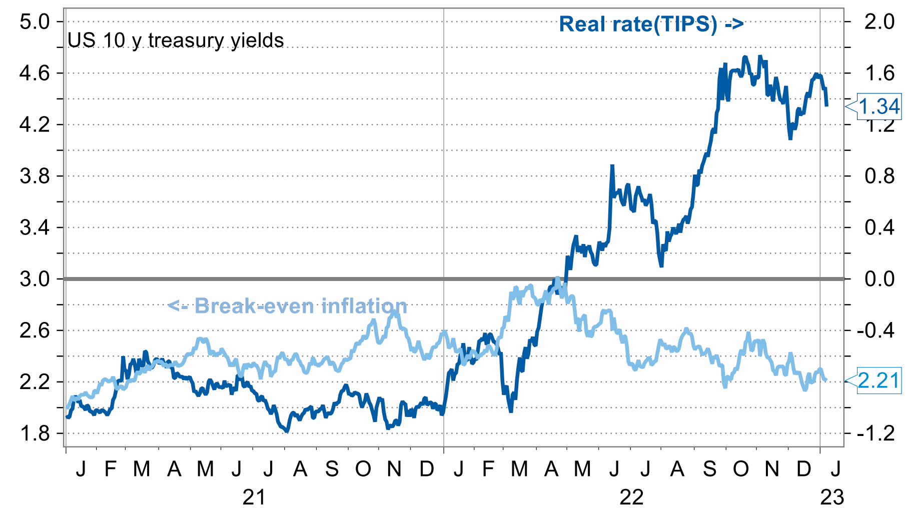

- In the US, a 10 y CPI expectation at 2.21% is in line with Fed's 2% target for the PCE-deflator (which on average is some 0.3 pp below CPI inflation). Our model have for some weeks suggested that the break-even inflation component was to high. XX Now, the gap is almost closed
- The German y break-even has fallen to 2.03%, as an average over the next 10 years

US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	3.55	-0.33	0.04	2.03	0.52
.. break-even inflation	2.21	-0.09	-0.10	-0.35	1.06
.. TIPS real rate	1.34	-0.24	0.14	2.38	-1.19
Germany nominal bund	2.20	-0.36	0.41	2.38	-0.64
.. break-even inflation	2.03	-0.26	-0.30	0.11	0.42
.. real rate	0.17	-0.10	0.71	2.27	-2.80

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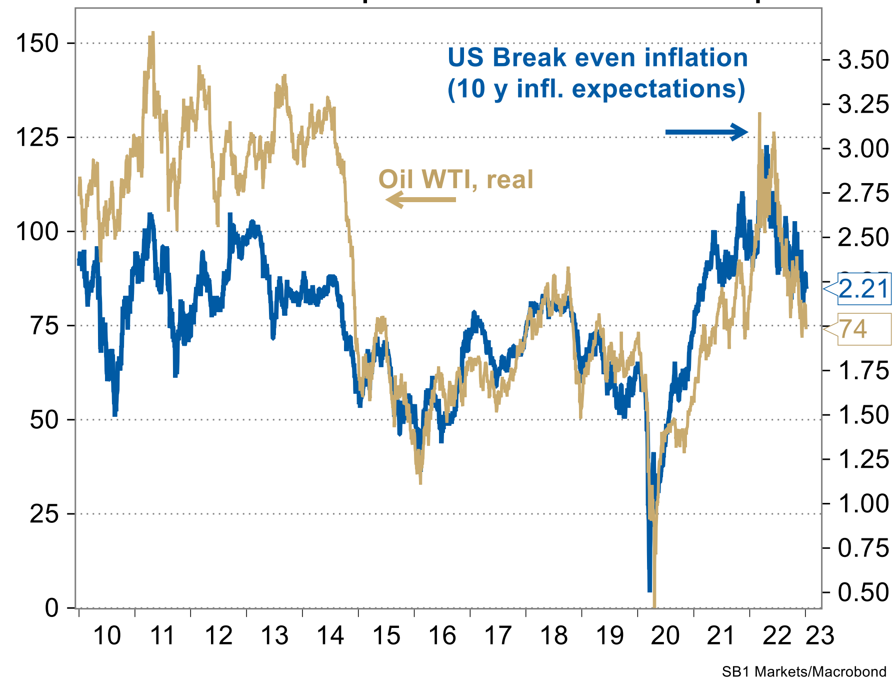
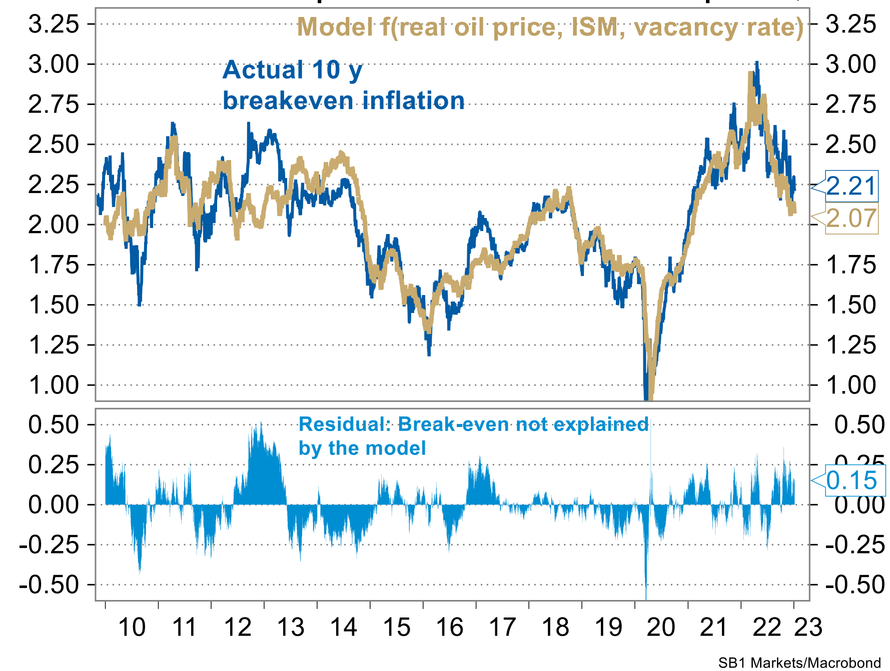
US inflation expectations down – but still somewhat too high?

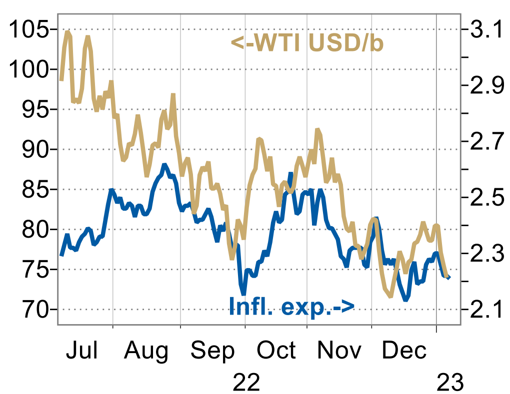
The current break-even is 15 bps above our model current f'cast (based on the oil price, ISM & the vacancy rate)

USA Inflation expectations vs. the oil price



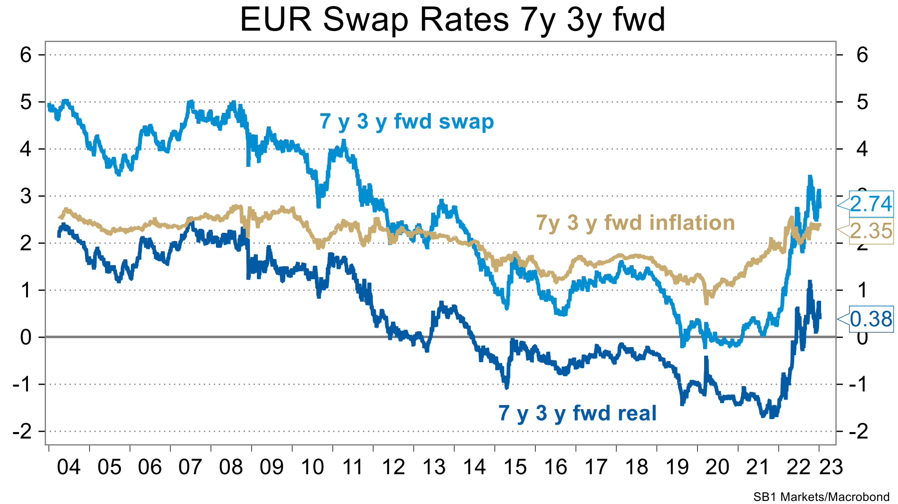
USA Inflation expectations vs. the oil price, CPI

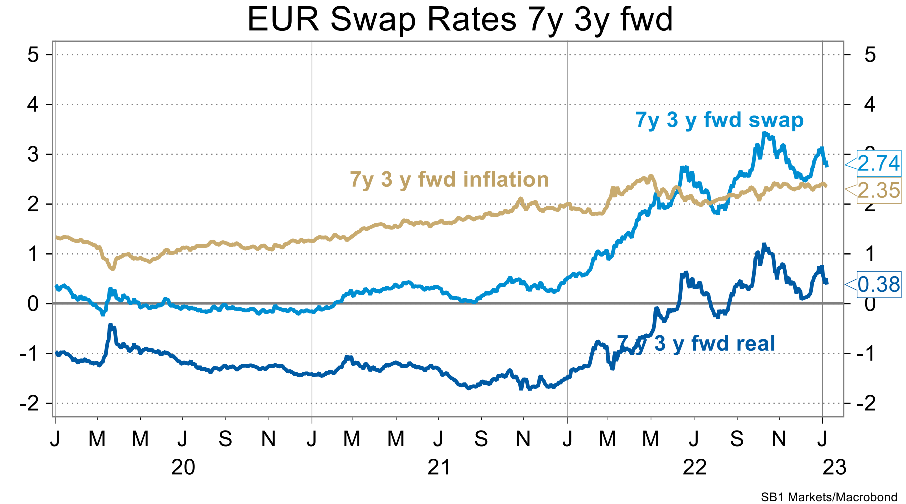


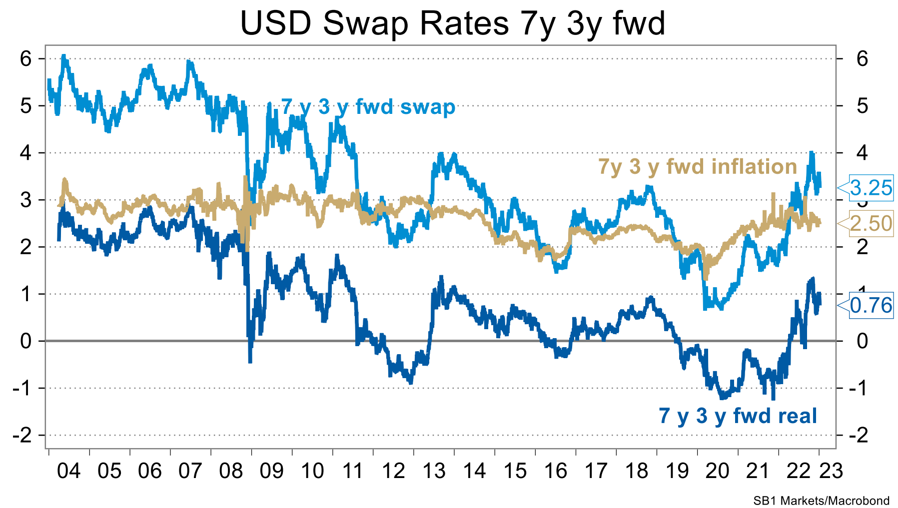


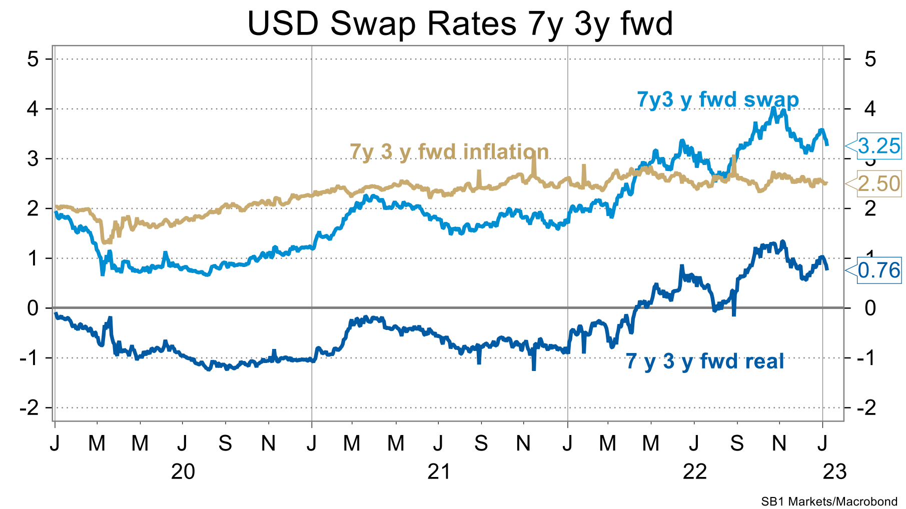
- A simple model including the <u>spot</u> oil price, the <u>current</u> ISM and the <u>current</u> vacancy rate pretty well explains the <u>long-term</u> breakeven inflation expectation in the bond yield curve
- What now? The actual break-even is in line with the model forecast. We are uncertain about 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 down last week









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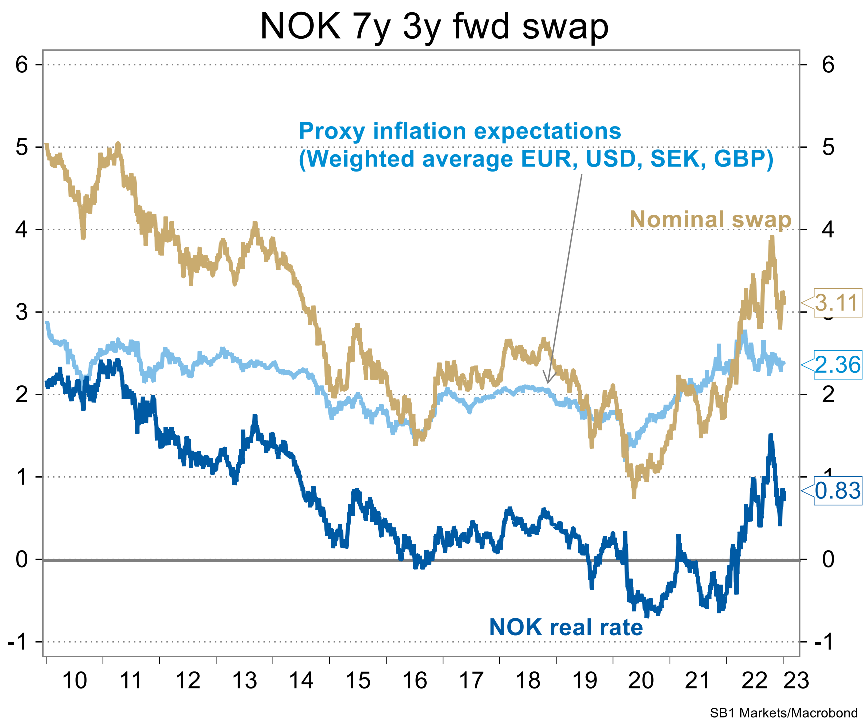
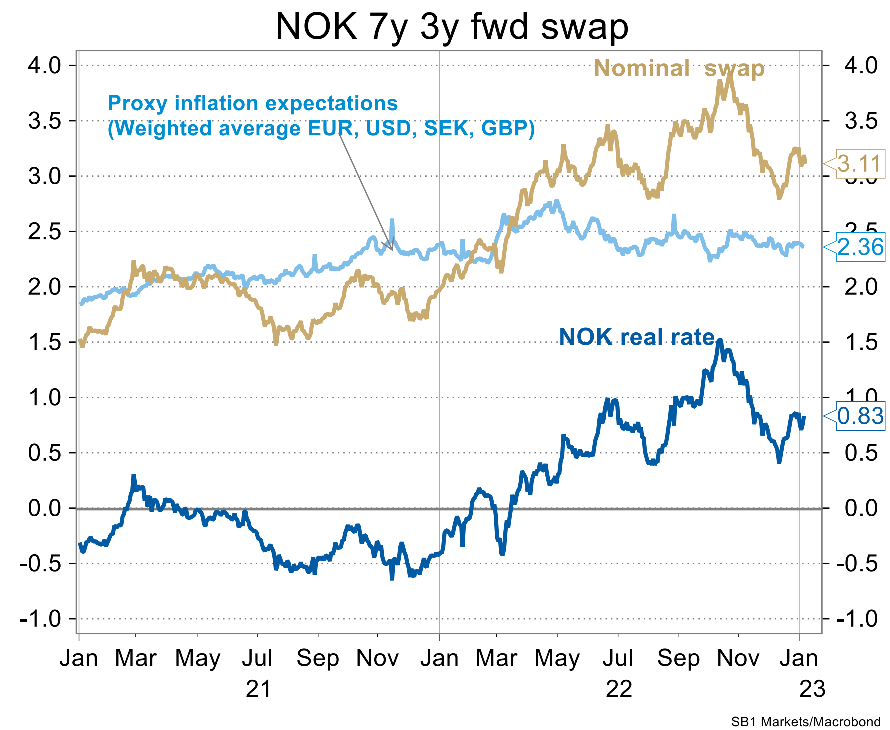
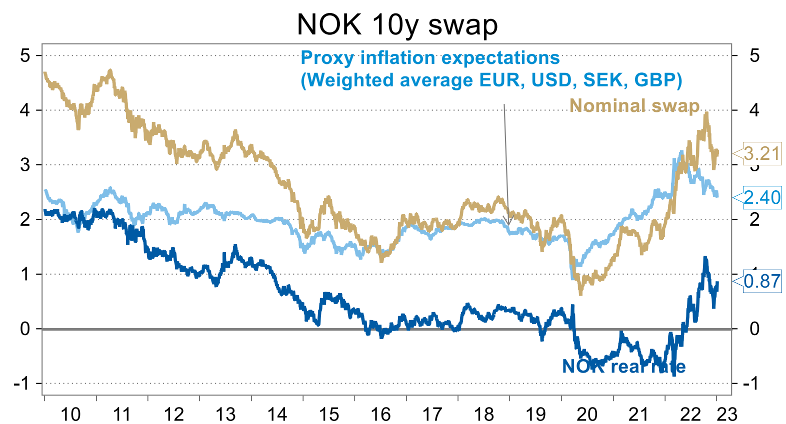
NOK real rates probably unch. last week

… as the decline in 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

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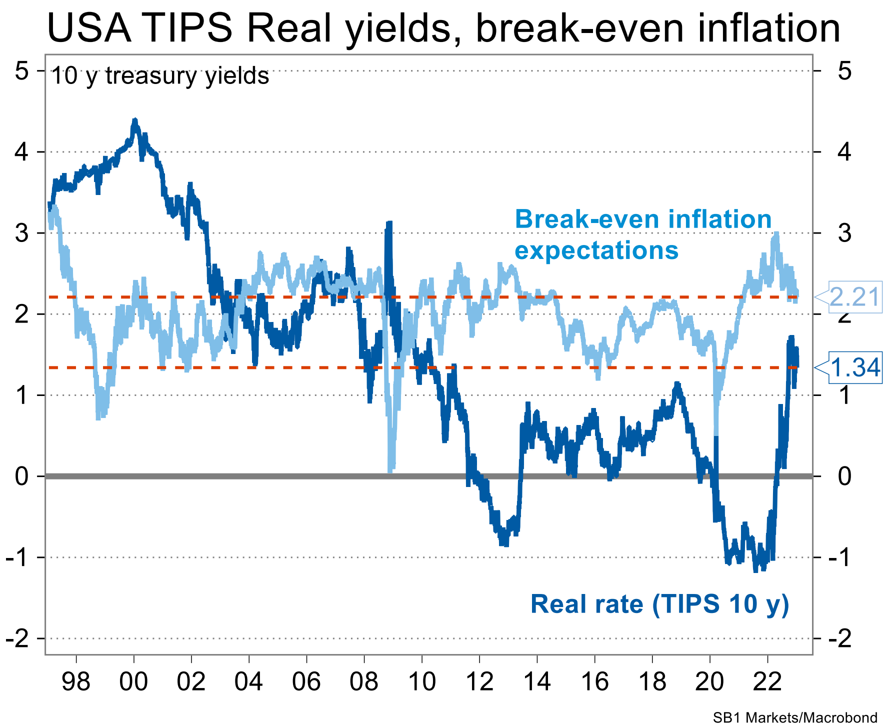
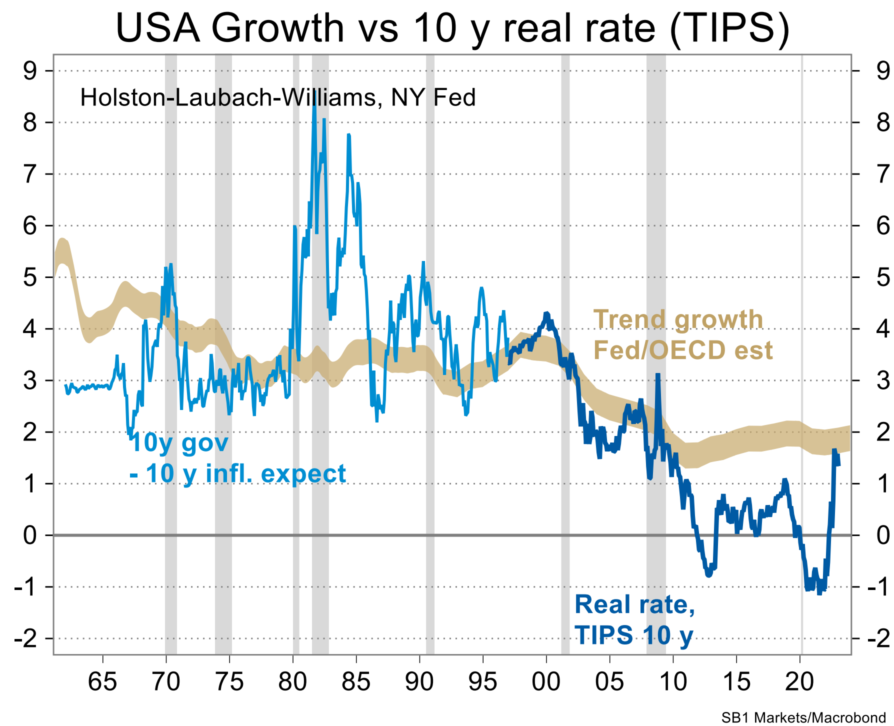
Growth vs real rates: Real rates on the low side but not by much

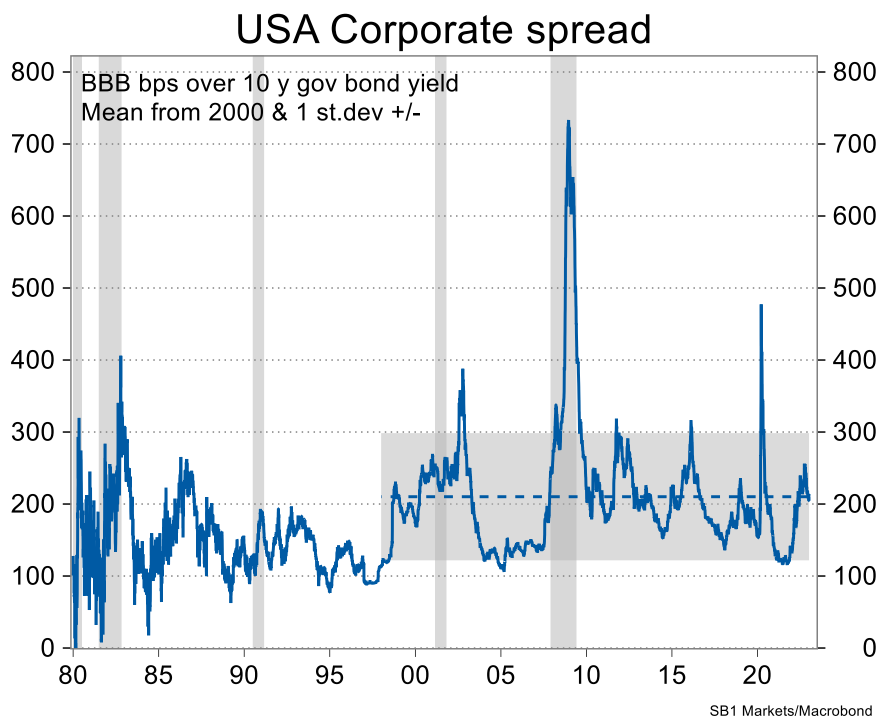
At least not compared to the differential during the pandemic

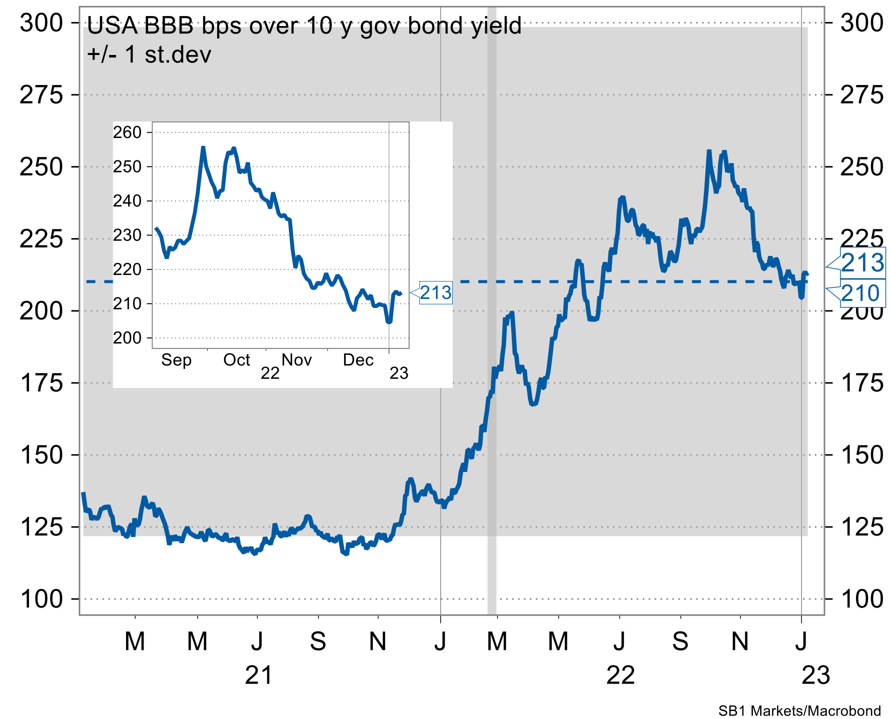




Risk on: Credit spreads have flattened, at close to an average level

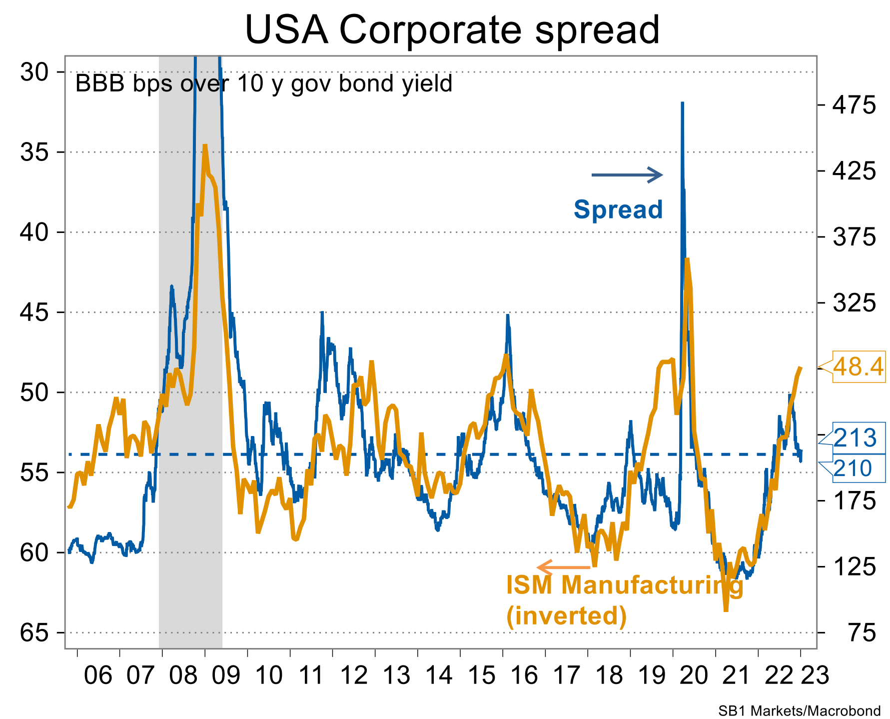
Even so, we think the spreads are exposed to a weakening economy

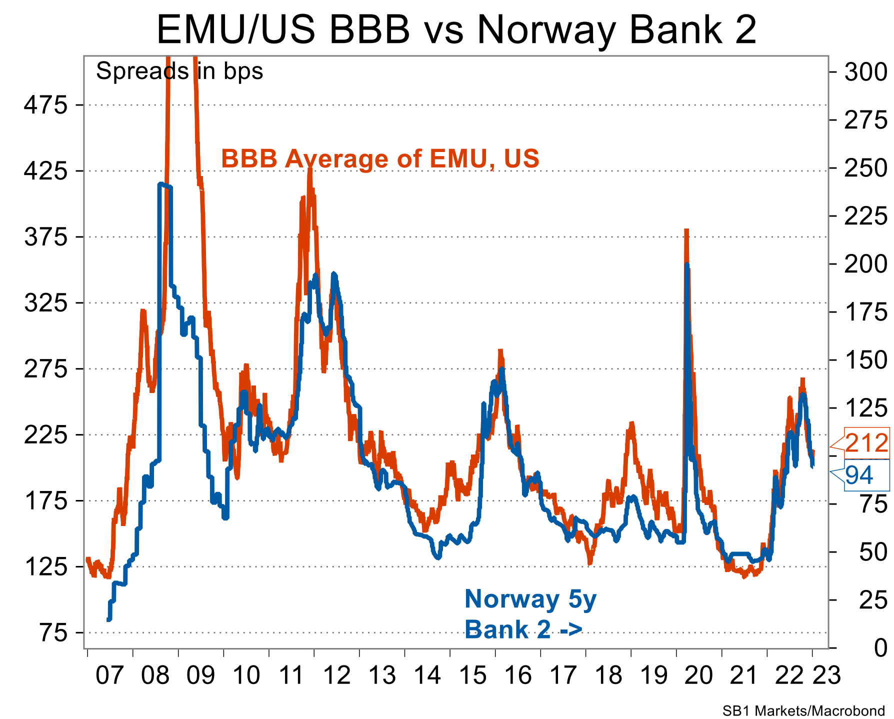




Mind a new gap: The economy is weakening (ISM), and spreads are narrowing

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

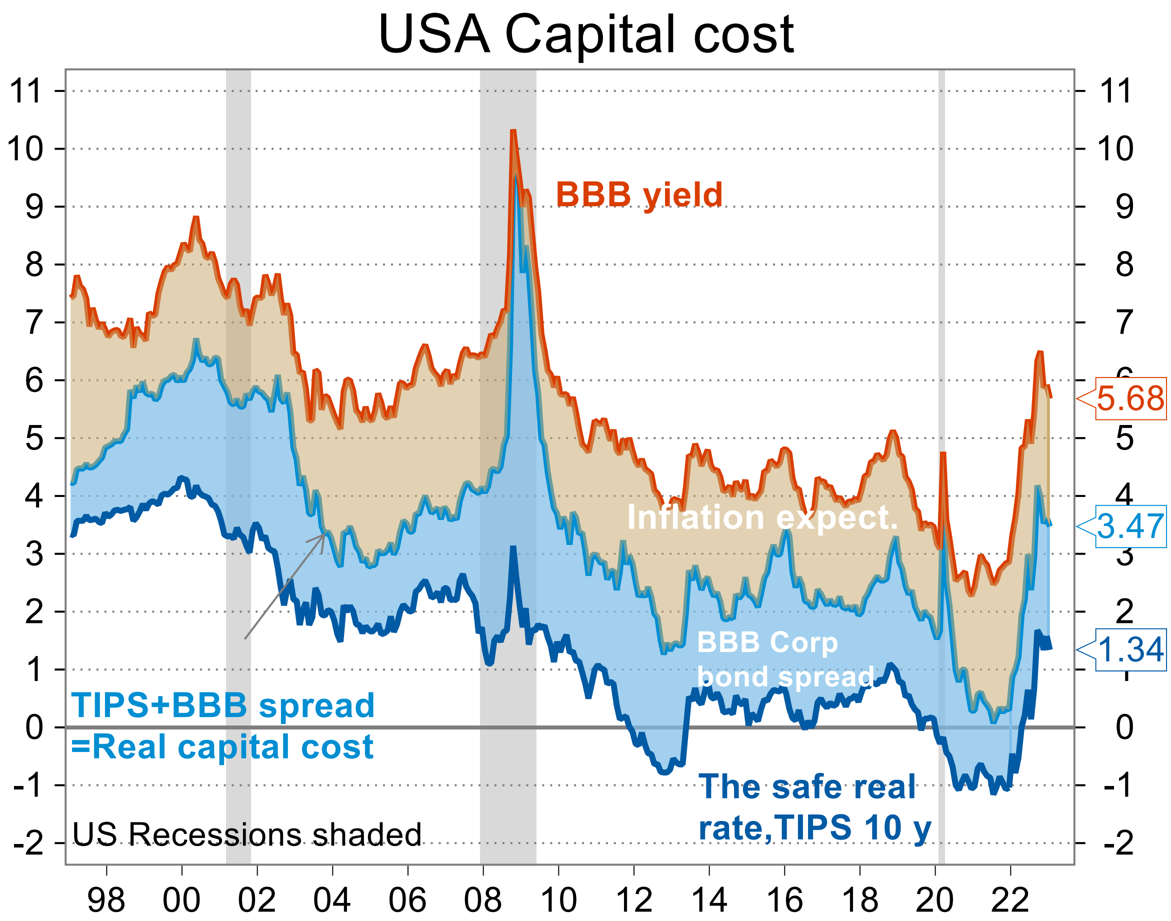




- Last week: Norwegian credit spreads continued downwards (the bank 2, 5y benchmark swap to below 100 bps)

The cost of capital rose sharply through 2022

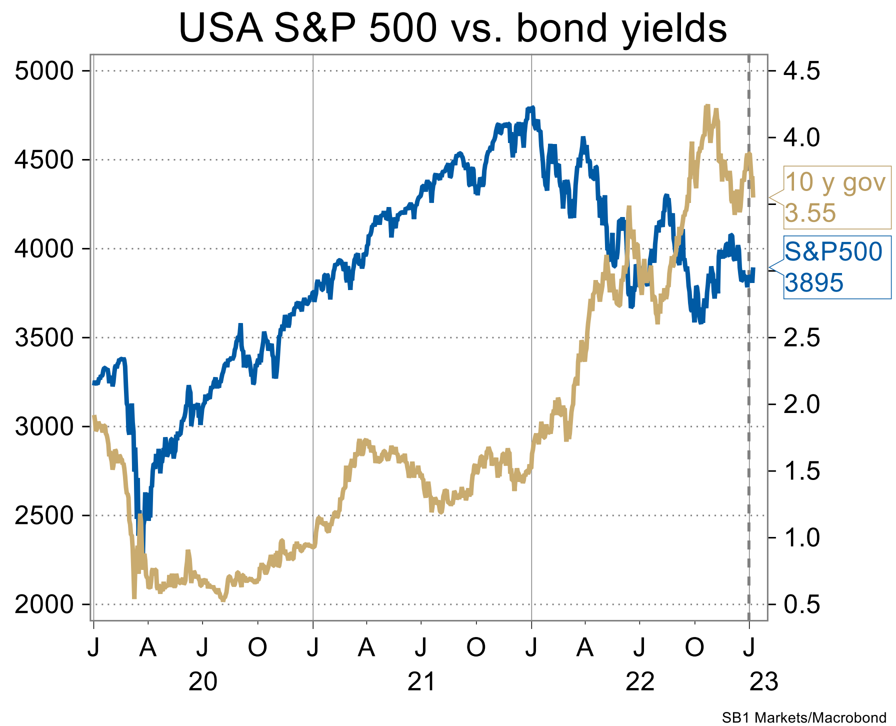
All valuation metrics have changed dramatically. *As have all calculations of return on capital*

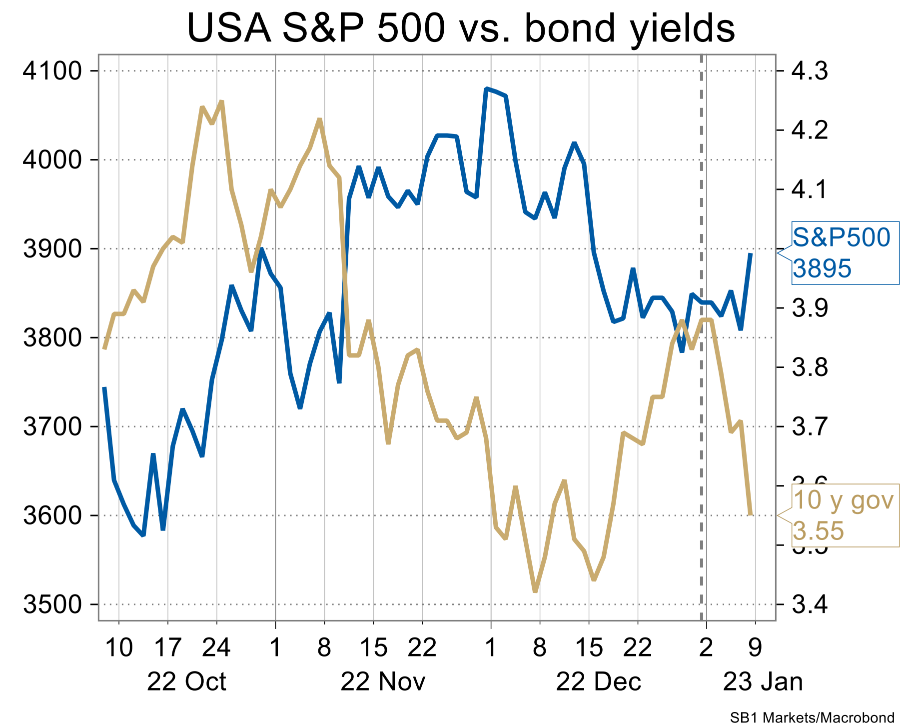


SB1 Markets/Macrobond

- **Spreads** flattened last week
- The total real borrowing cost for a BBB company has increased to 3.5% bps from zero by the end of last year:
  - The TIPS real rate is up from -100 to + 134 bps
  - The BBB corporate investment grade spread is up from 120 bps to 213 bps
- Add on modest inflation expectations, the nominal borrowing cost has increased from well below 3% to 5.7% (though down from 6.7% at the local peak last October)

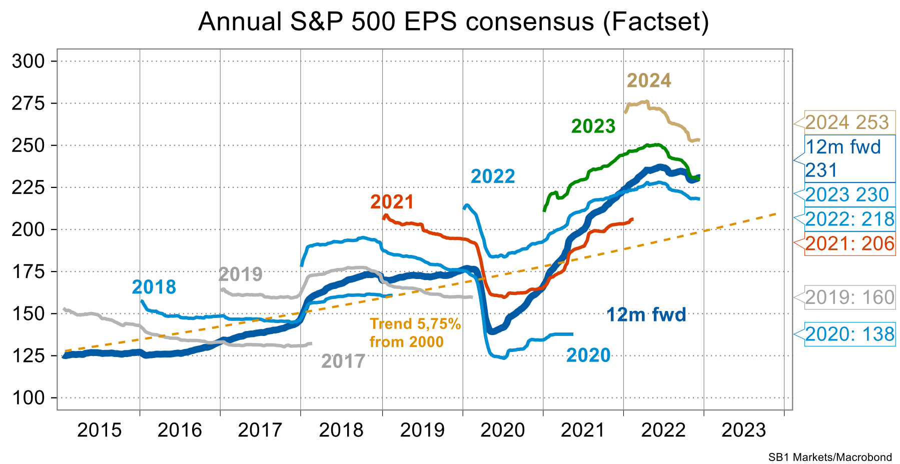
S&P up 1.4%, thanks to a good Friday, the 10 y bond yield fell 33 bps to 3.55%

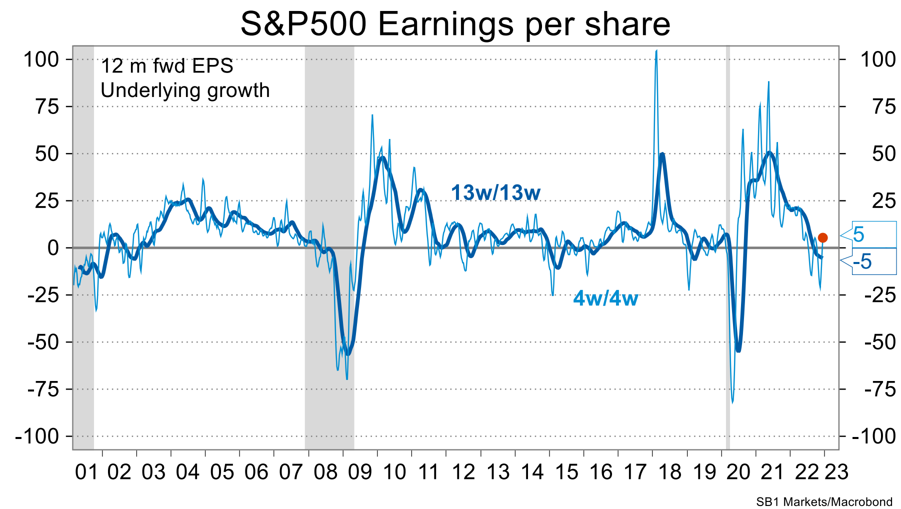


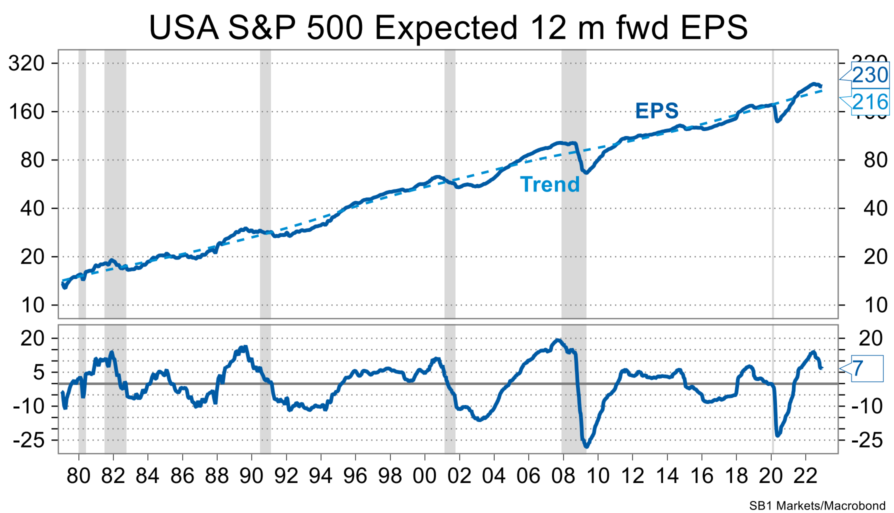


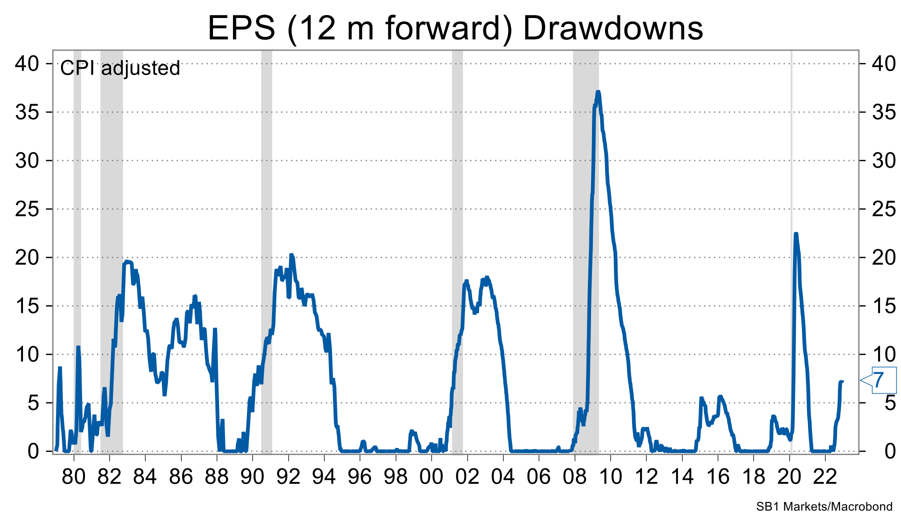
Earnings forecasts have stabilised – but the risk still on the downside

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



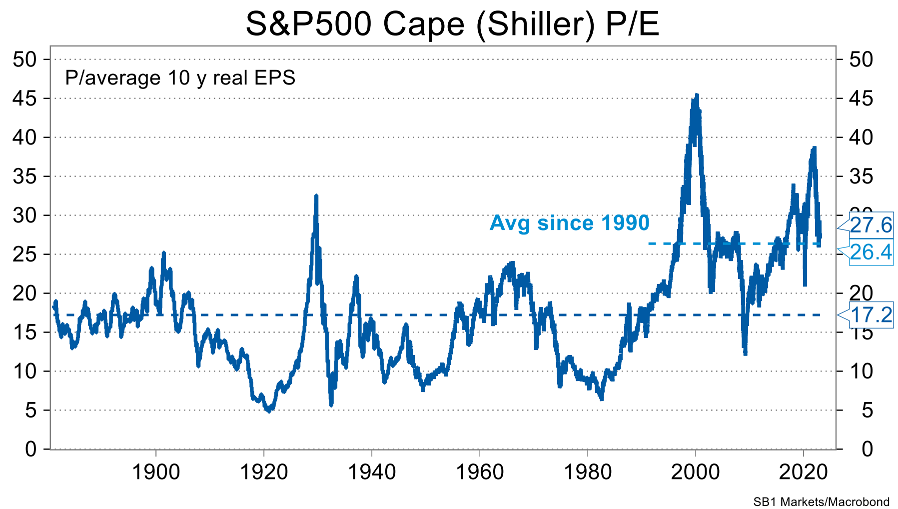


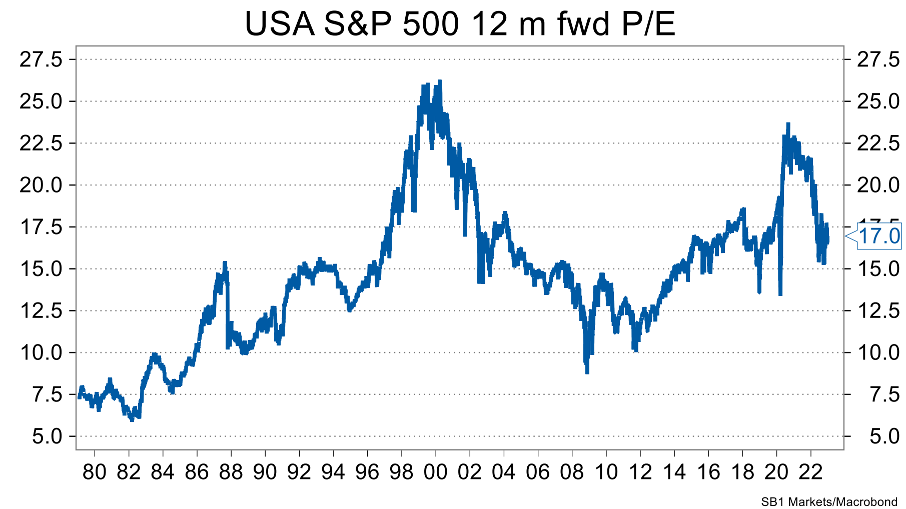


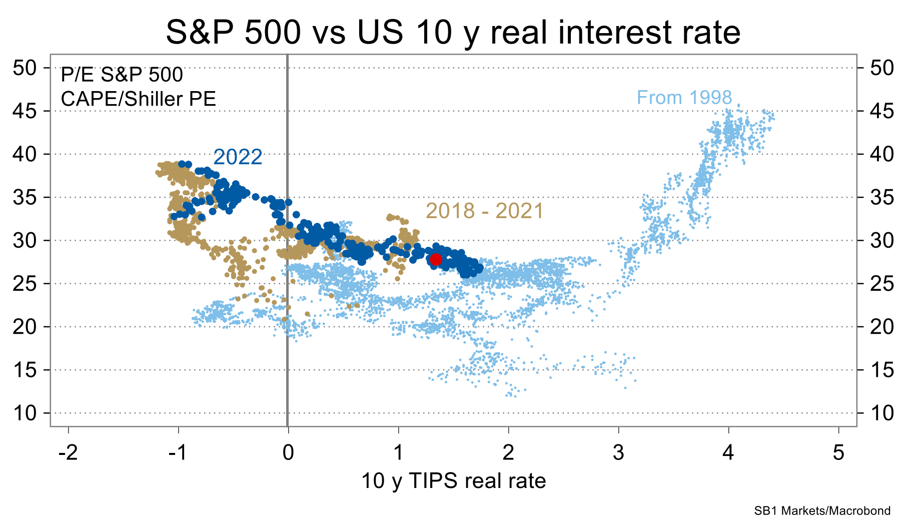


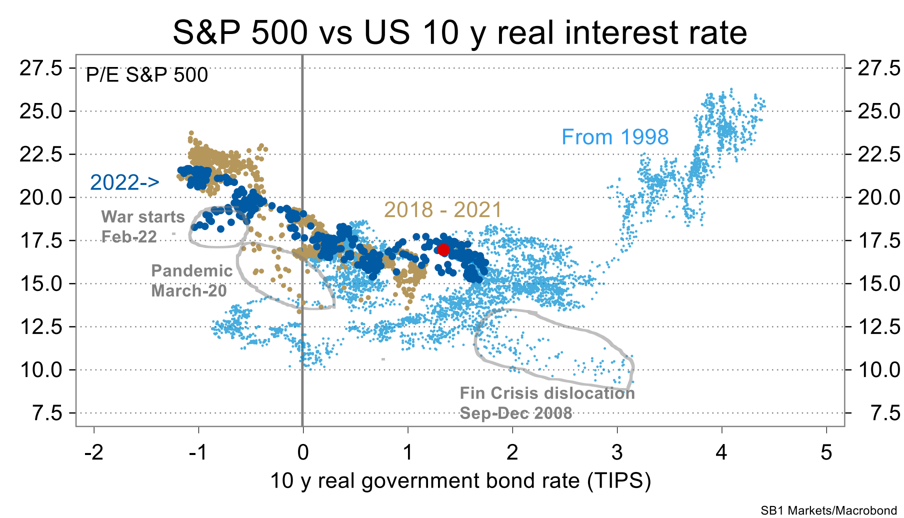
4 valuation charts: Check the extreme tight correlation between real rates, P/E

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



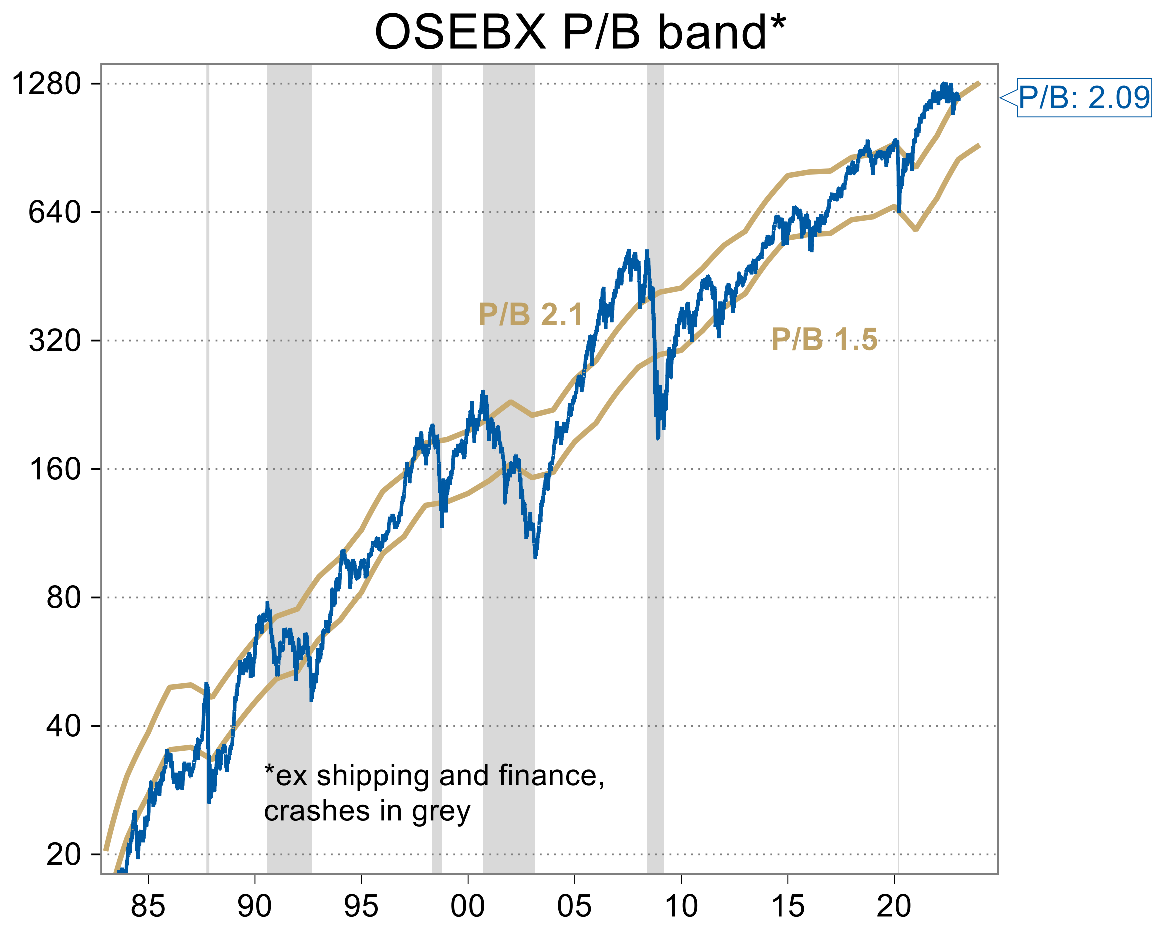




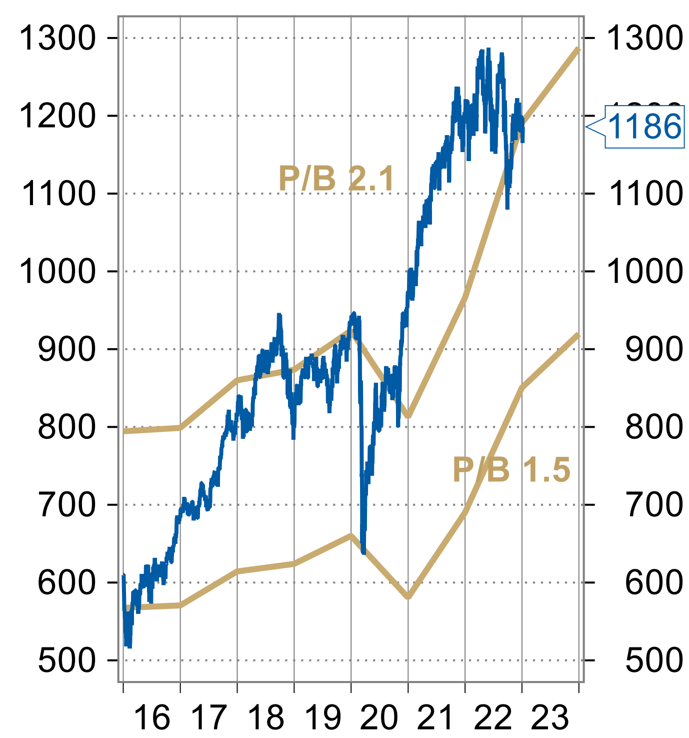


The OSEBX marginally down, with the oil price. The P/B is still high at 2.09

The book value is growing rapidly, due to the extremely strong energy sector earnings. But for how long??



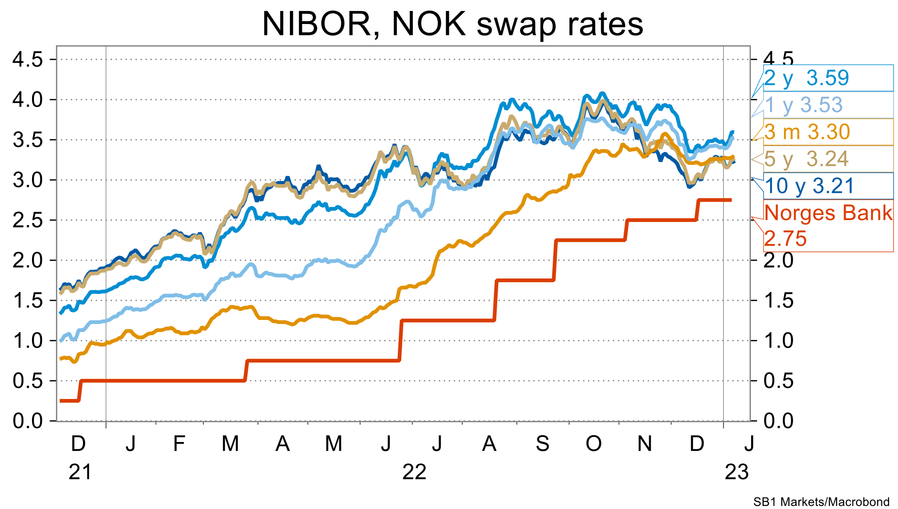
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

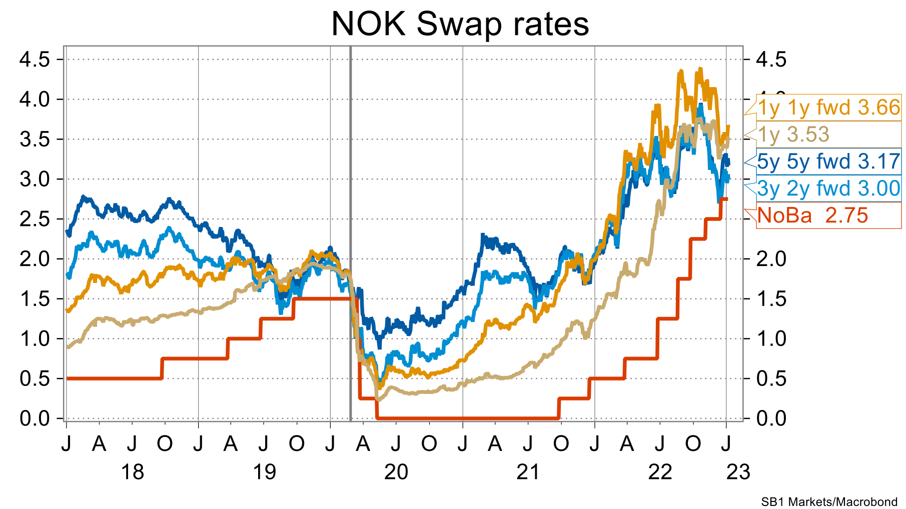


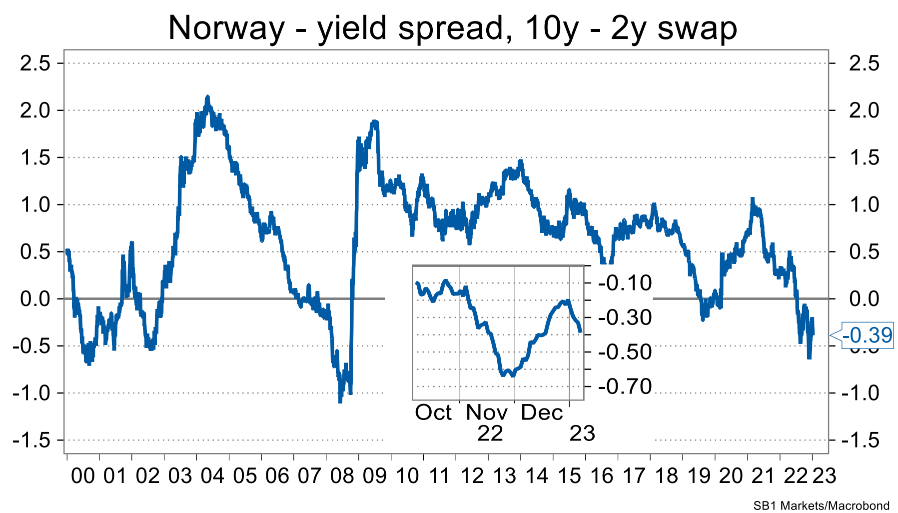
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

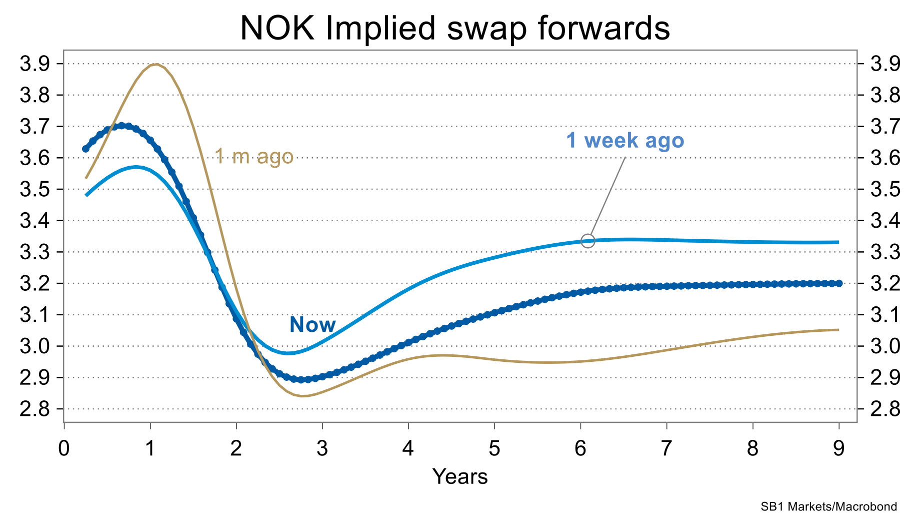
The short end up, the long end down

The 3m NIBOR has stabilised where it should be, at 3.30%





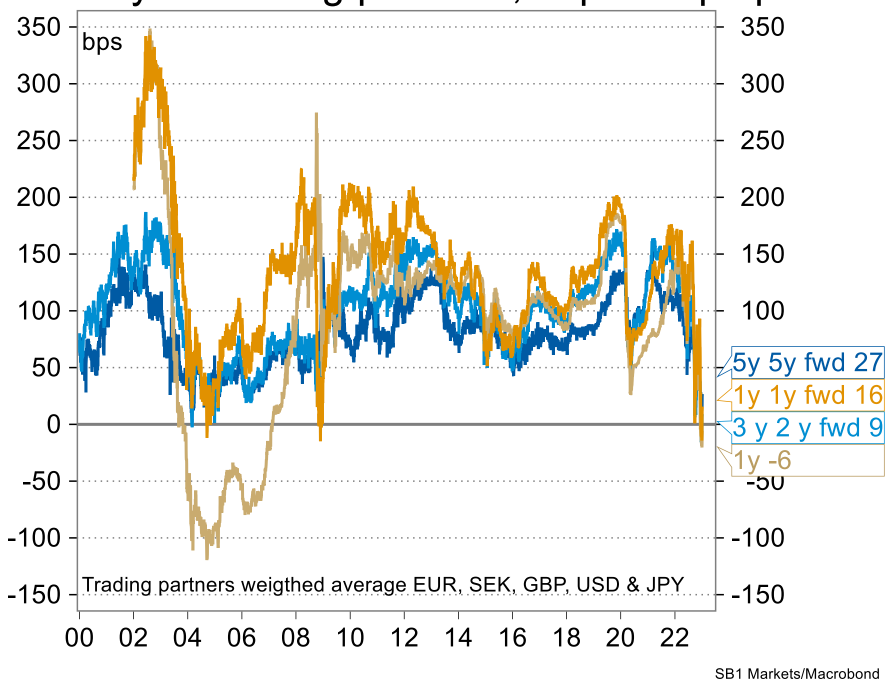


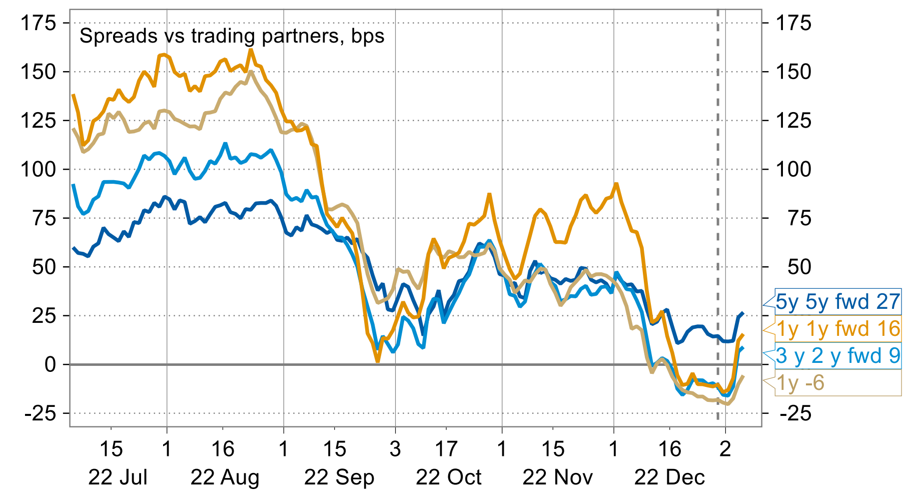


Rate spreads vs trading partners reversed some of the early Dec collapse

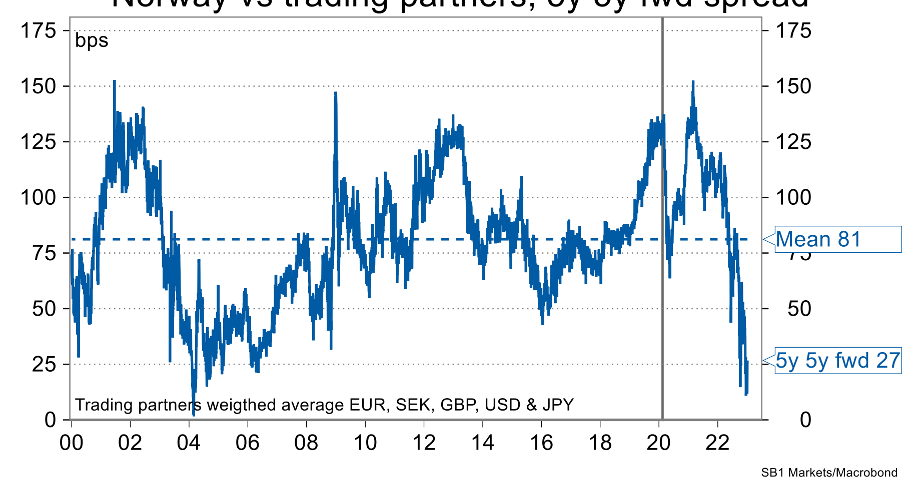
We warned you: they had become too low. Last week, the surprising lift in house prices probably was the main driver.

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

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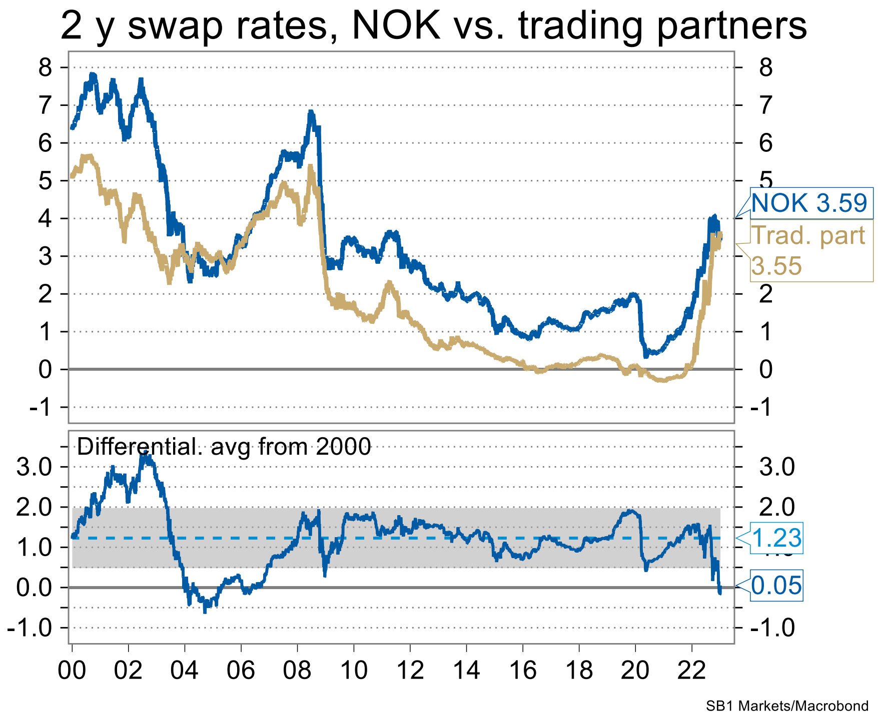
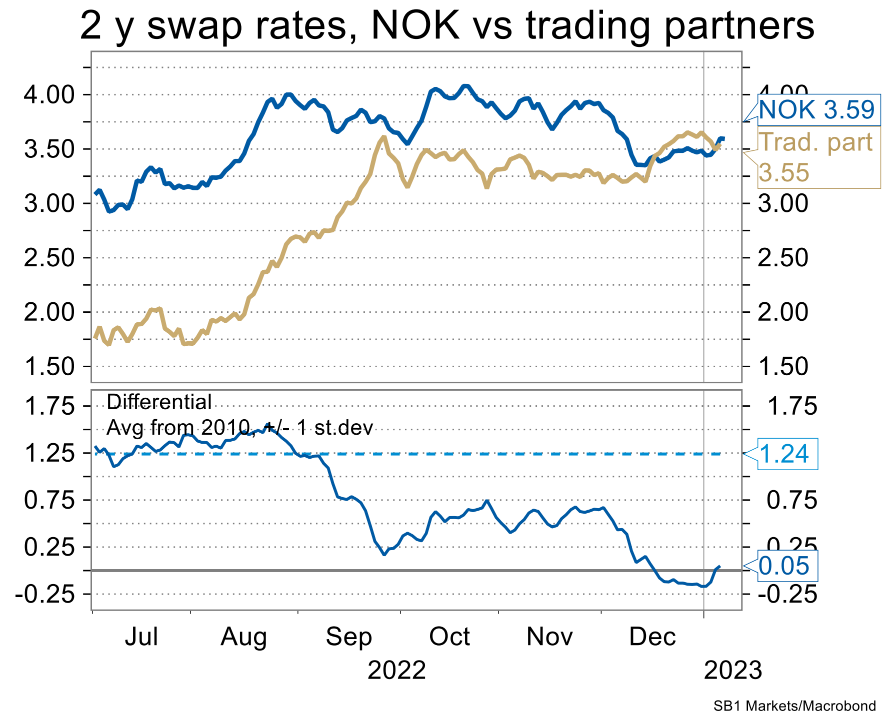
The spread vs. trading partners at zero, the lowest since 2007

Since last August, the spread has narrowed by 170 bps, mostly due to the steep lift in rate expectations abroad

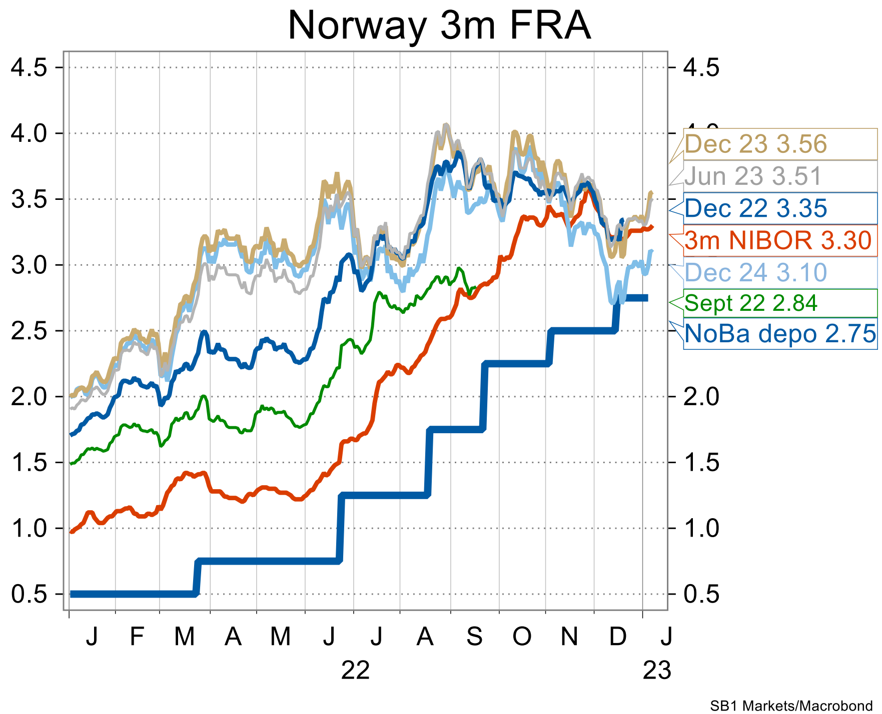


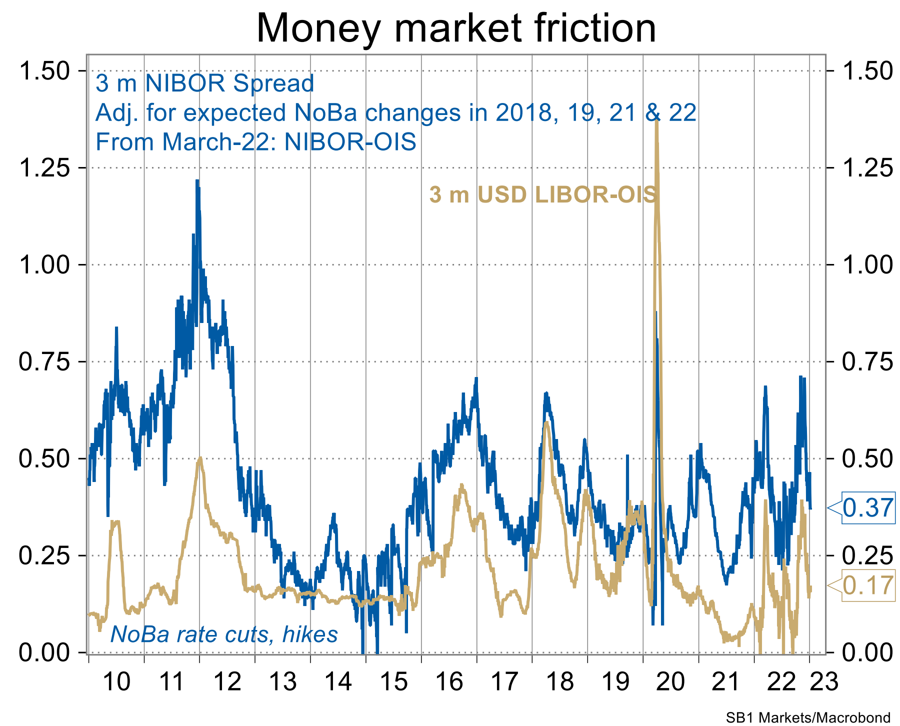


- The spread was too wide, now it may be too narrow
  - Norwegian inflation has not been lower than abroad – and we doubt it will
  - Higher oil investments will give the Norwegian an idiosyncratic support the 2 – 3 coming years
  - The room for fiscal stimulus is much larger than in any other country, if needed
- The 'only' risk: A collapse on the Norwegian housing market

The NIBOR spread have normalised, now at 37 bps

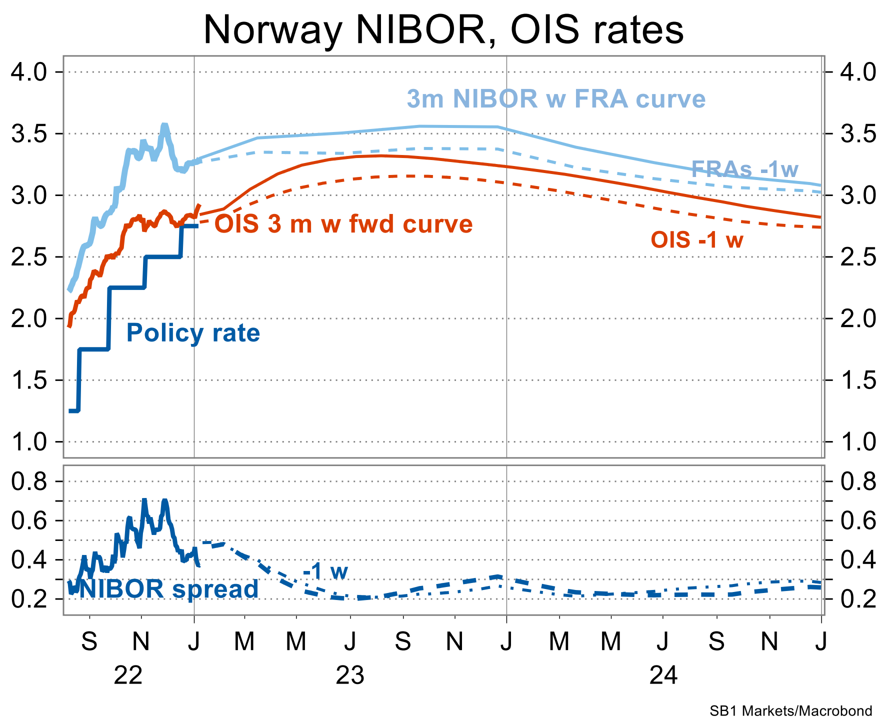
FRA rates rose materially, by almost 20 bps

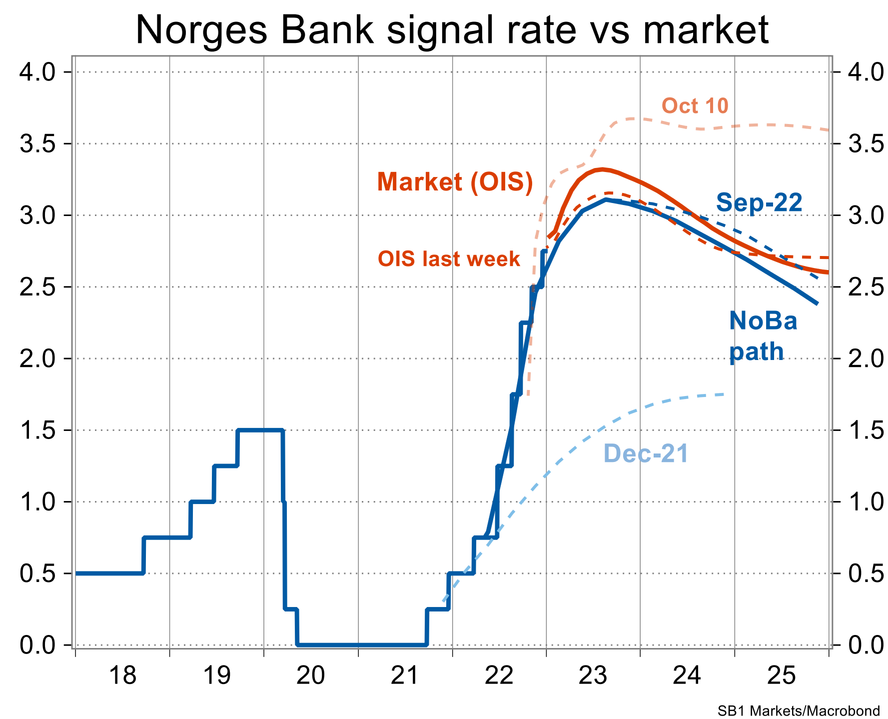




A substantial lift in rate expectations, 2 more hikes now discounted

And this change was driven by domestic factors, not foreign rates

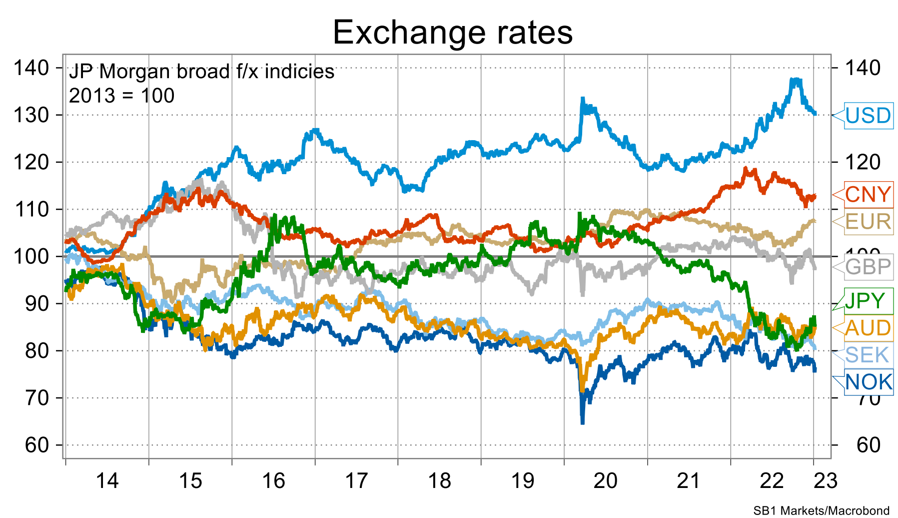


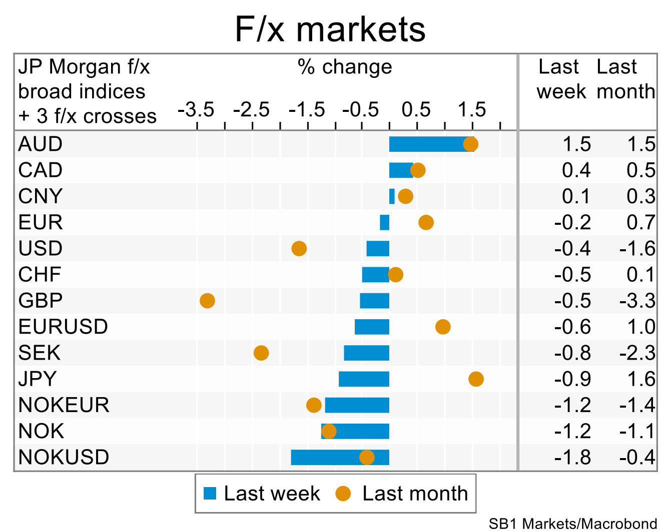


- Three weeks ago, we thought NOK interest rate expectations had fallen far too much, and we have been vindicated as rates have climbed by up to 52 bps in the short end, reversing all of the decline in early December. Now rates are OK~~, or still somewhat too low~~
- The market may be still be too aggressive vs rate cuts expectations in 2024 – but if the housing market runs into trouble, not impossible

AUD the winner last week, NOK the loser

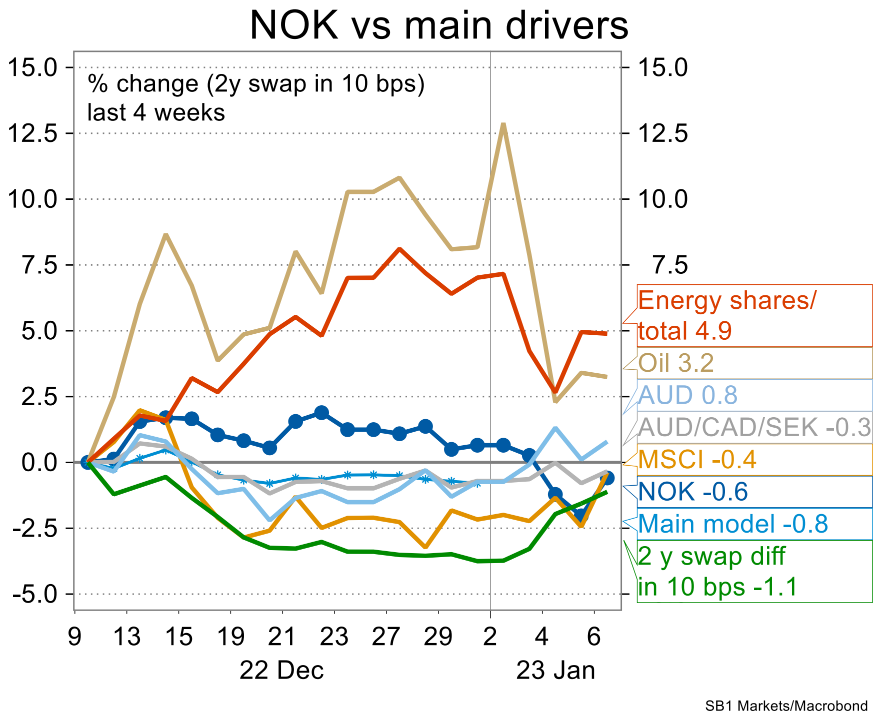
The USD fell too, mostly to a steep drop at Friday afternoon, due to ‘low’ wage growth & the ISM services ‘collapse’

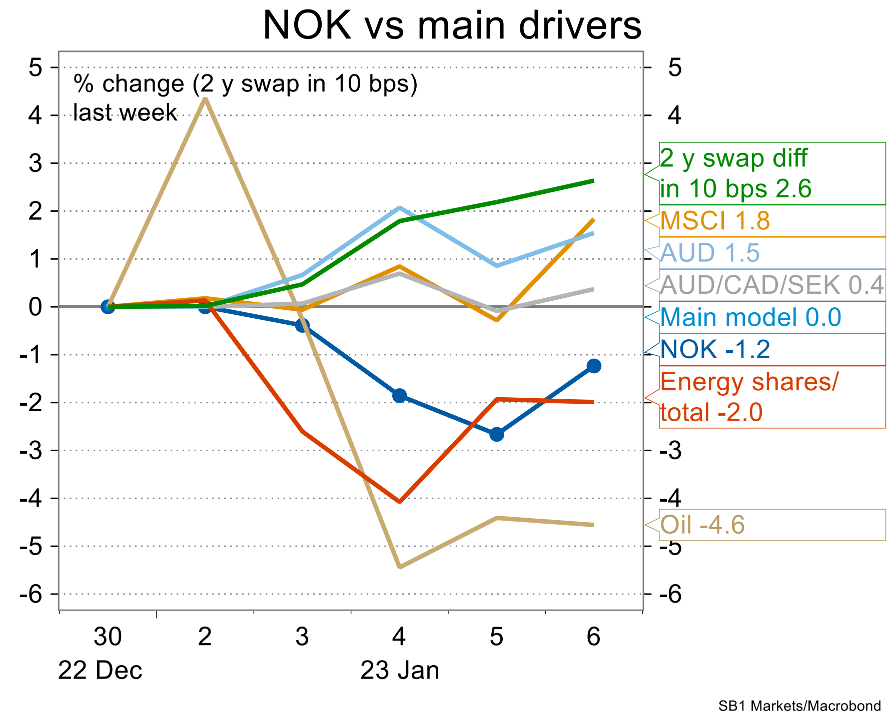




NOK down 1.2%, in spite of the (risk on) recovery on Friday

The oil fell almost 5%, gas prices twice as much

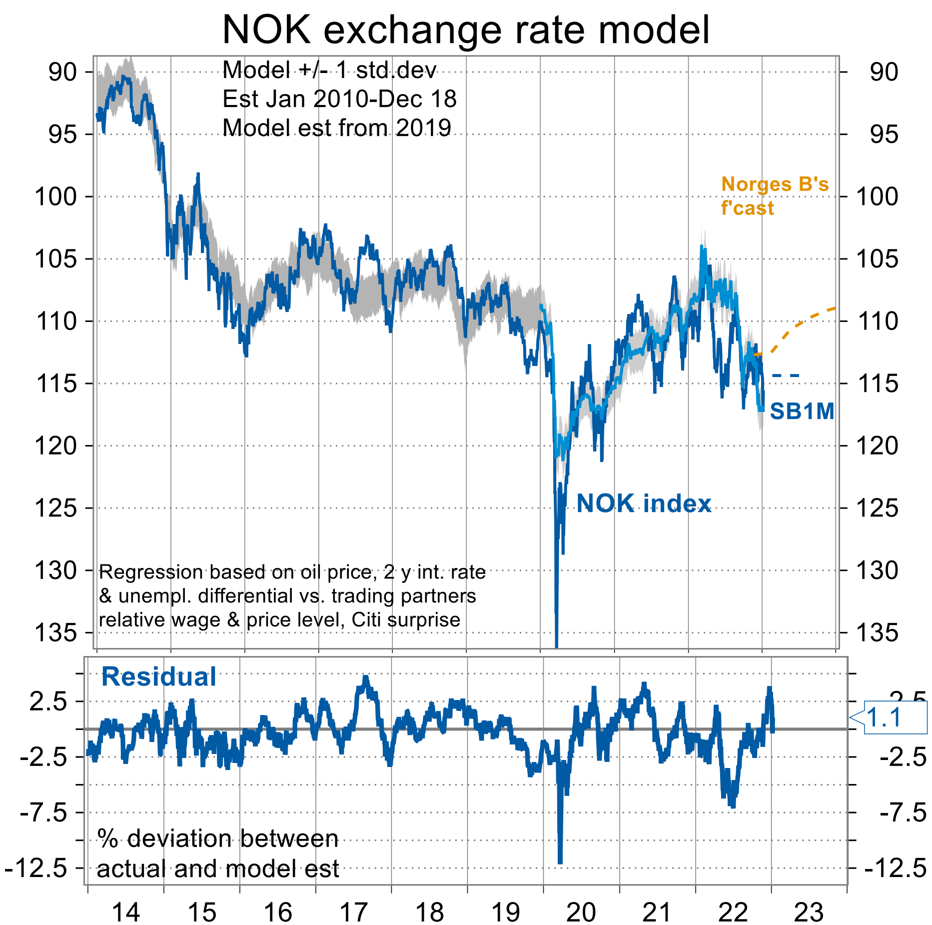


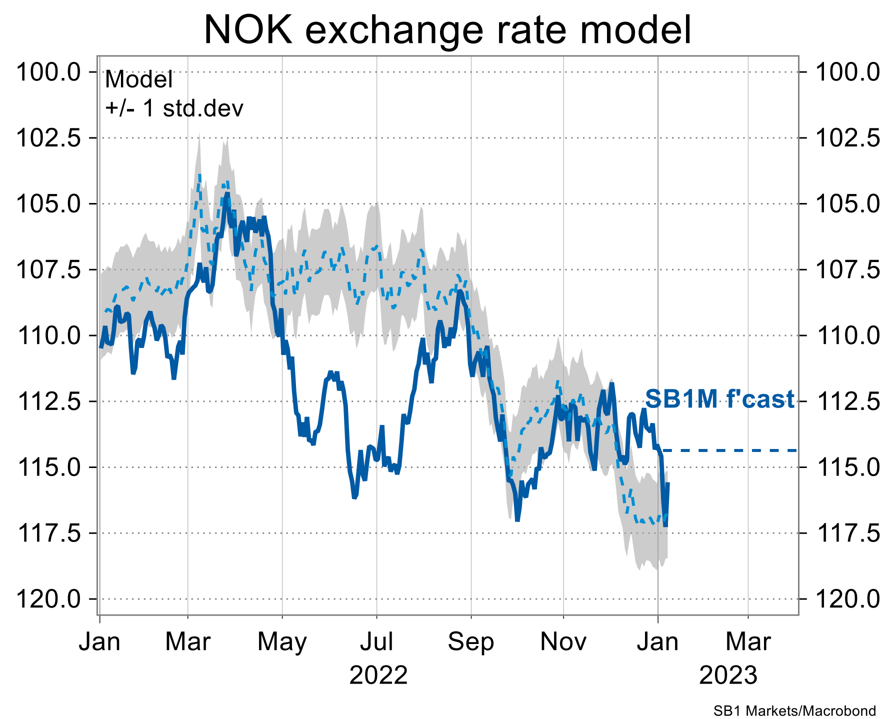


- NOK is till 1.1% <u>above</u> our **main model estimate** (from 2.4%)
- The NOK is 9% <u>weaker</u> than our **AUD/CAD/SEK-model**, our ‘super-cycle peers’, predicts, a substantial weakening (from -5%!!)
- NOK is 2% weaker than an estimate from a model that includes global **energy companies’ equity prices** (vs the global stock market) (from 0.5%)

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

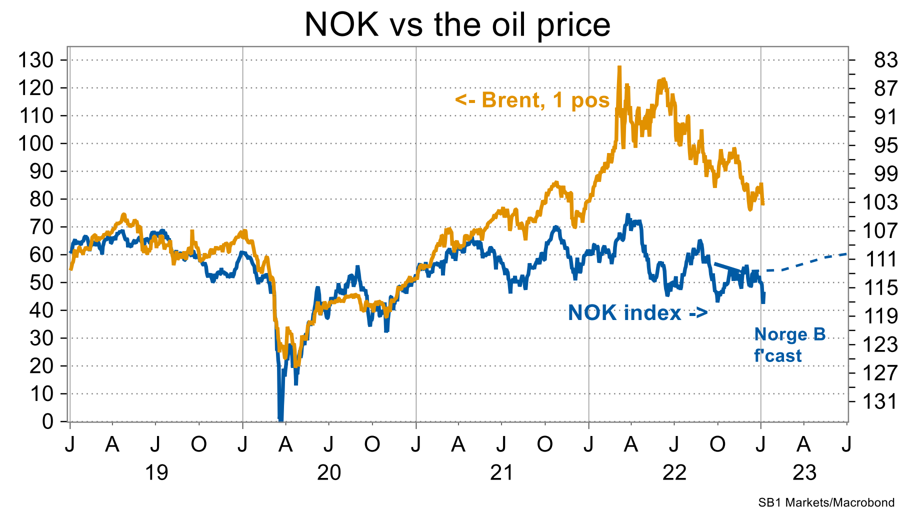
The NOK still above our model estimate

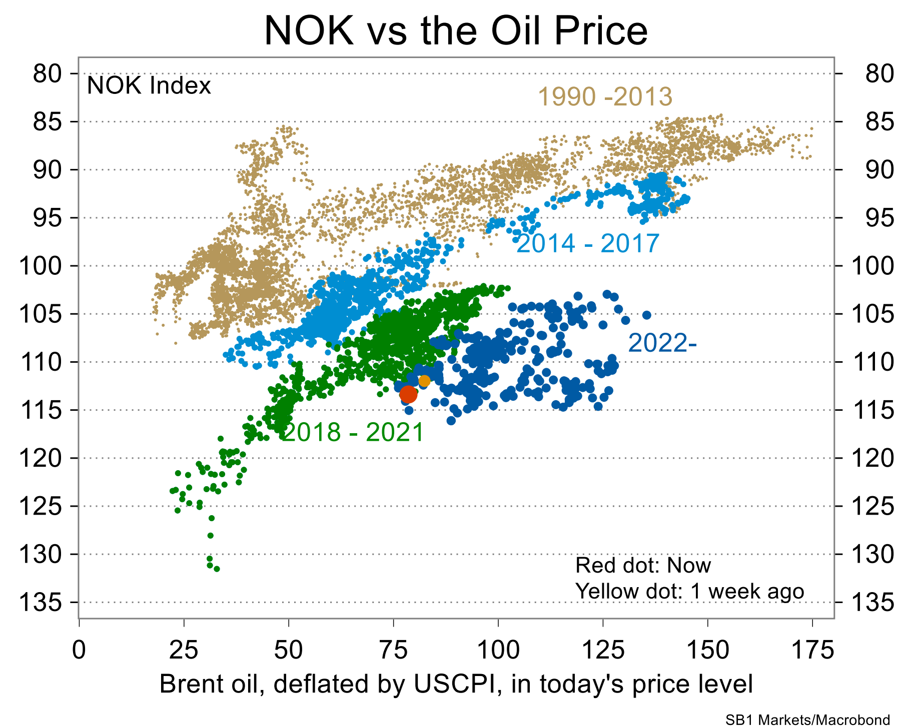


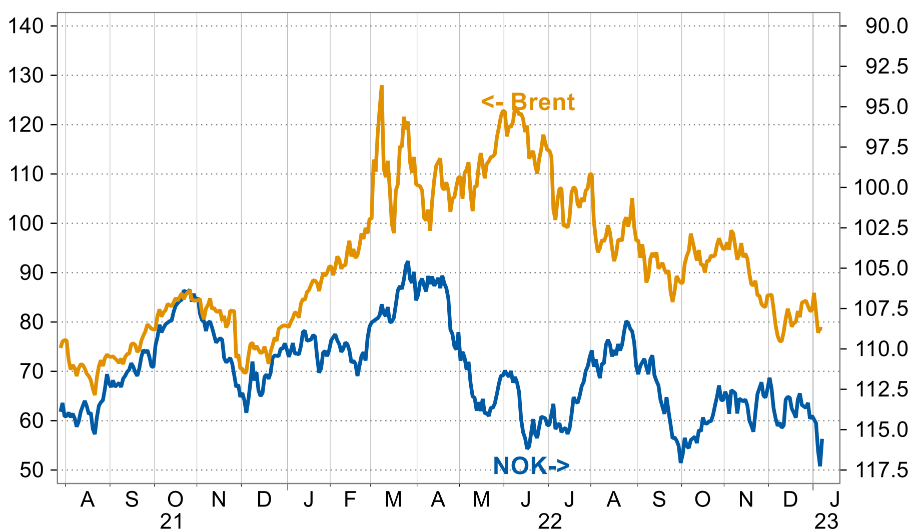


Oil down, NOK down

However, the NOK has been close to uncorrelated with the oil (or natural gas) price last year

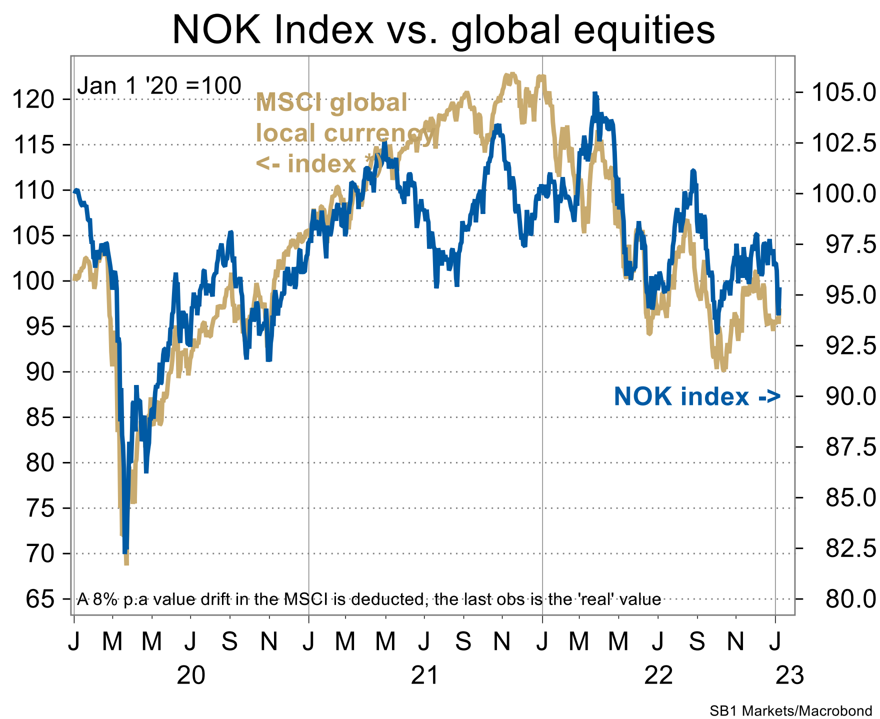


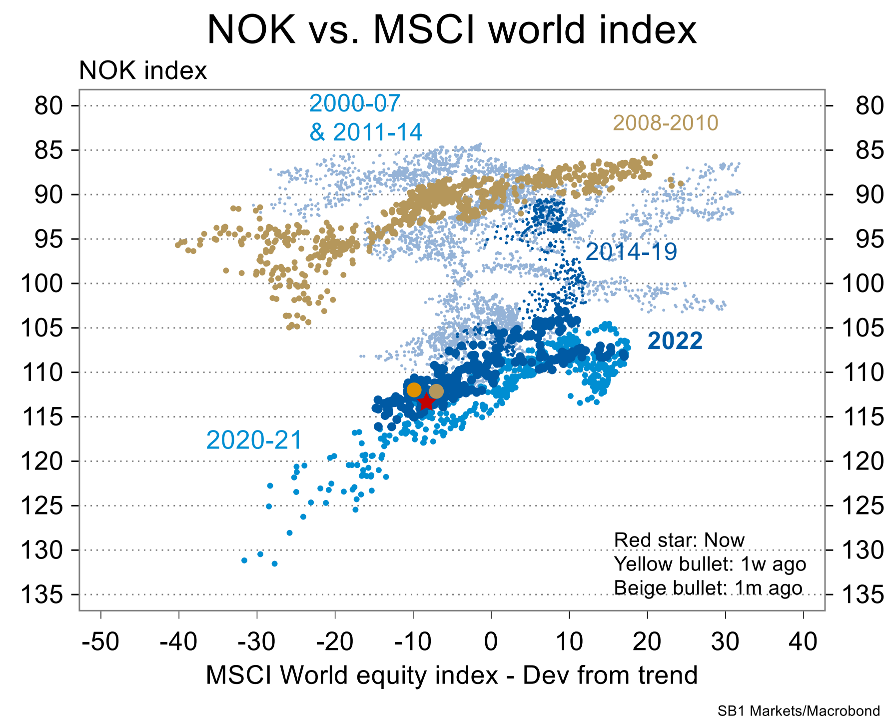




Global equities up, NOK down

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

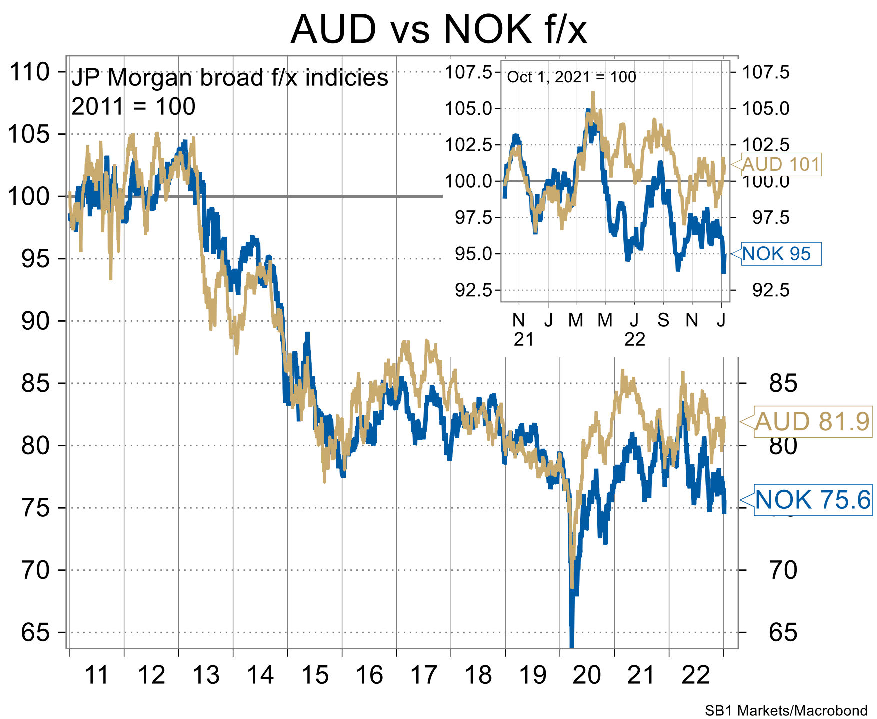


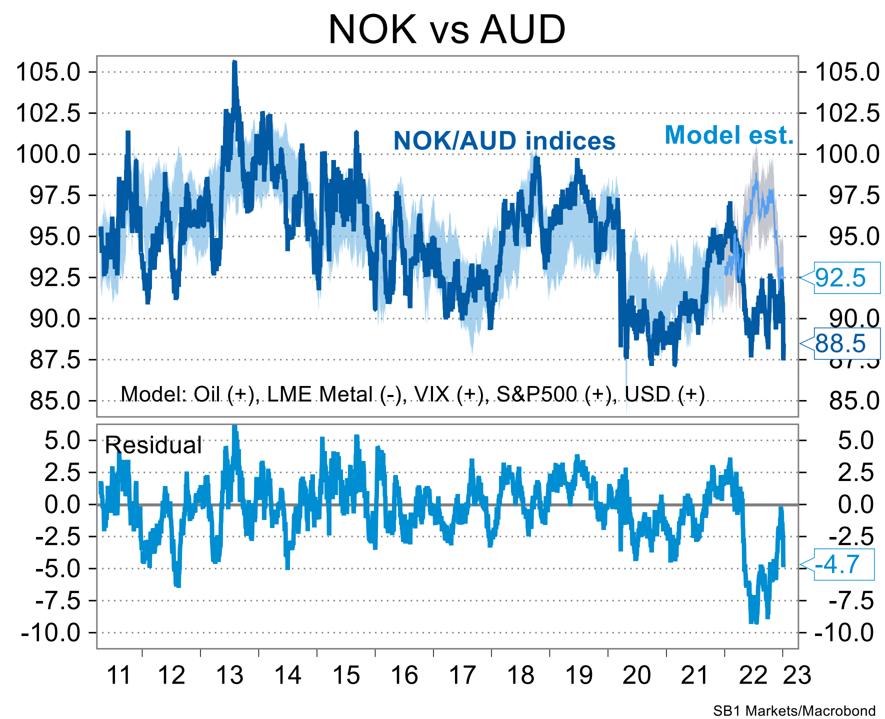


- There has not been any stable correlation over time, and when it is, the oil price is normally the real driver. *Not so much now*

The NOK/AUD gap suddenly widened sharply, mostly unexplained

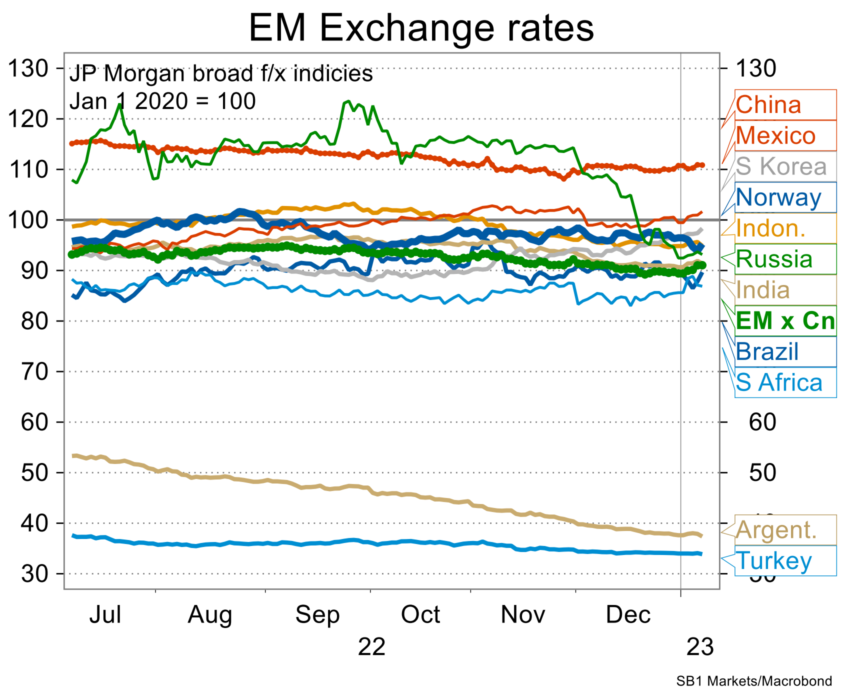
… at least if we not add the news that China and Australia start talking about restarting Australian coal exports to China

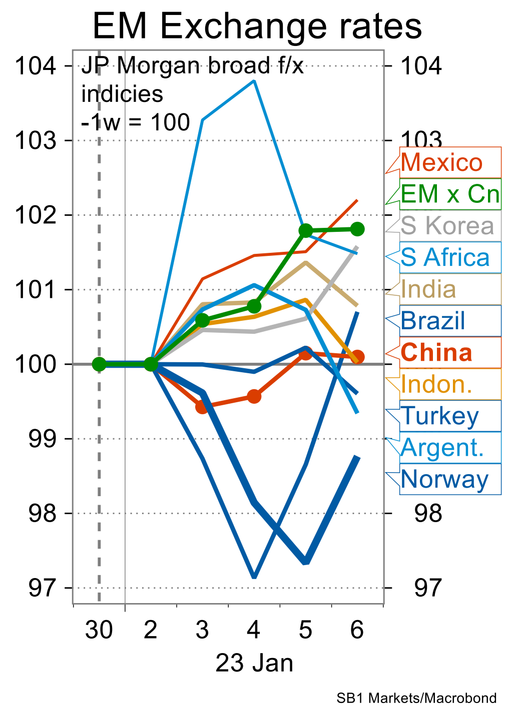


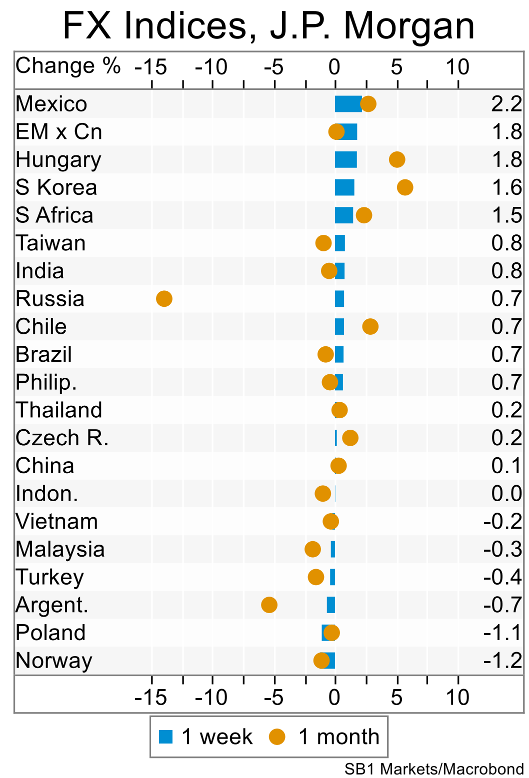


- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases, and when USD index appreciates. Seem like we need a new model. Until we find it, buy the NOK index (and short the AUD index)
- Last week, the oil price fell and iron ore prices rose but not a all not sufficient to explain the relative weakening of the NOK vs AUD, the NOK/AUD fell some 3% vs. our model forecast.

Most EM f/x up, before the ‘good’ US news Friday afternoon







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