
# Macro Weekly

4/23

**23/01/2023**

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# Last week I

- **The War/European Energy/Commodities**
  - No news from the East front
  - **European natural gas & electricity prices** rose slightly last week as the weather turned colder – but gas stock are still the highest ever at this time of the year – and prices are down almost 50% from the peak in early December.
  - The **oil price and most other commodity prices** rose further, we assume due to hopes for an imminent recovery in China (it is probably underway), and less need for monetary tightening (and a recession) in US (and other DMs) as inflation is heading down
- **China**
  - The focus out of China these days is not on the December or Q4 data, but on the impact of the upcoming **reopening** following (hopefully) the last Covid wave. However, most of the Chinese data for December was far better than expected (or feared). **GDP** was unch. q/q, expected -1.2%. **Investments** and **industrial production** were up in December, while **retail sales** were down just marginally m/m in December and 'just' 1.8% y/y - far better than the market consensus of -8.6%! However, **new home sales and starts** are still trending down, following the largest decline ever, since early 2021. We doubt Covid can be much to blame but it is possible that the 'desperate' measures now announced to stage a recovery in the construction sector may turn the tide. Markets have already discounted a positive outcome
- **Japan**
  - **Bank of Japan** stuck to its newly widened yield-curve control (YCC) policy (10 y gov bond rate corridor -0.5% - +0.5%) and the main policy rate was kept at -0.1% in order to keep rates low, despite rising inflation. Markets had anticipated at lift of the upper band of the YCC corridor. The rationale: wages are not rising, hence the bank does not believe that the current increase in inflation is long lasting. We tend to agree, on the importance of wage costs
- **UK**
  - **Unemployment** is now slowly increasing but remain very slow and **wage inflation** keeps accelerating, up 0.3 pp to 6.4% (0.1 pp above expectations), and there are public sector strikes by the day – where the claims seem to be close to the 10% rate of inflation. This is Bank of England's HUGE challenge

# Last week II

- **USA**
  - The Fed's **Beige Book** (its reginal network) reports a flattish economy; 5 regions report a contraction, 2 no growth, and 5 regions modest growth – a tad weaker than six weeks ago. Price pressures have eased further and labour shortages eased but remained a challenge. Manufacturing activity kept declining, and so did loan volumes – which makes sense given the increase in rates – the Beige Book respondents also saw a weakening of the housing market, naturally
  - **Retail sales** have been remarkably strong recently as households have dipped into their savings in order to keep up consumption, but sales declined in December, core sales fell by 0.4% in volume terms (our est) and weaker than expected, but the total sales still remain 29% above the Feb-20 level, in nominal terms!
  - **Manufacturing production** was down 1.3% in December, 1 pp below expectations, and the production fell for all main sectors, sending materials and auto production below the pre-pandemic level. The two first January **regional manufacturing surveys** were in sum weaker than expected and points towards even weaker PMI/ISMs (PMI out this week)
  - **Housing news** were mixed, but in sum better than expected: **Housing starts** fell less than expected in December but building permits fell more (and they are down 30% from the local peak). Home builders lifted their assessment of the market marginally in January but are still signalling a substantial decline in starts the coming months. Existing home sales fell further in December but less than expected, and the decline in prices is slowing. In addition, prices are down less than 3%, following the 40% lift during the pandemic (if that's a good or bad news is another discussion…)
- **EMU**
  - **The German ZEW survey** reported the 2nd largest increase in expectations m/m ever in January (just April 2020 was even better, following a dismal March print). Analysts and investors expect a growth rate close to the average – from a very high activity level and a very low unemployment level
- **Norway**
  - **Norges Bank** did not hike the signal rate from 2.75% at this meeting, which was widely expected among domestic analysts (but not abroad, and the market assumed a 25% probability for a hike). The Dec plan was to hike by 25 bps one or two more times, the first time at the 'main' meeting in March. The bank did not signal that this plan is under reconsideration and noted that the policy rate most likely will be "raised somewhat further", and that it expected the next hike in March. The bank noted that growth has been slightly higher, and the labour market is somewhat tighter than assumed in Dec, and that core inflation was a tad higher too. The overall inflation outlook has become better though, due to the collapse in European gas and electricity prices and easing global inflationary pressures
  - The **trade surplus** increased in December, due to higher realised gas prices and higher exports. The overall trade surplus was 112 bn, up from 88 bn in November. Oil and gas exports were up 18% m/m, but this is likely to come down over the next couple of months as gas prices have fallen sharply. The Mainland (non-energy) deficit increased by 3 bn to 32 bn, which is equal to 11% of the Mainland GDP
  - **SSB's manufacturing survey** rose marginally in Q4, we expected a small decline. The survey still signals a decline in manufacturing production and no growth in Mainland GDP, and a decline in OSE EPS. The bright spot can be found in oil related sectors, who report a strong outlook – other sectors are well below average. Supply side constraints eased somewhat but labour shortages are still far more widespread than normal
  - **Housing starts** (permits) are slowly declining but remain at high level and **non-residential private sector construction** starts are soaring!

# The Calendar: Jan prelim. PMIs, US GDP, PCE prices. Norw labour market, retail

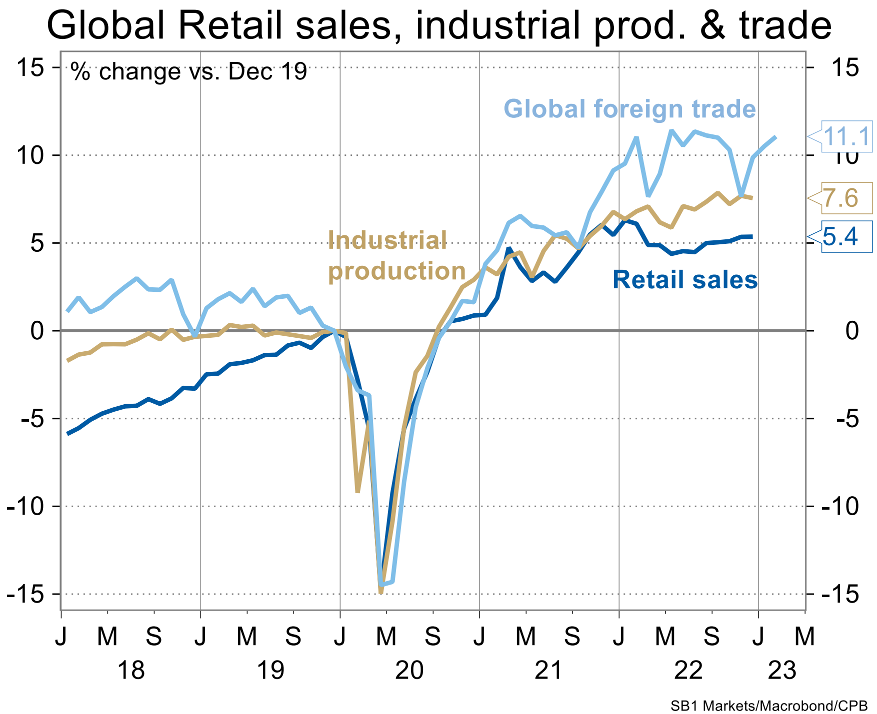
| Time | Count. | Indicator | Period | Forecast | Prior |
|---|---|---|---|---|---|
| **Monday Jan 23** | | | | | |
| 16:00 | US | Leading Index | Dec | -0.7% | -1.0% |
| 16:00 | EMU | Consumer Confidence | Jan P | -20 | -22.2 |
| **Tuesday Jan 24** | | | | | |
| 01:30 | JN | Manufacturing PMI | Jan P | | 48.9 |
| 01:30 | JN | Services PMI | Jan P | | 51.1 |
| 09:15 | FR | Manufacturing PMI | Jan P | 49.5 | 49.2 |
| 09:15 | FR | Services PMI | Jan P | 49.7 | 49.5 |
| 09:30 | GE | Manufacturing PMI | Jan P | 48 | 47.1 |
| 09:30 | GE | Services PMI | Jan P | 49.5 | 49.2 |
| 10:00 | NO | New Home Sales, Home Builders | Dec | | |
| **10:00** | **EMU** | **Manufacturing PMI** | **Jan P** | **48.5** | **47.8** |
| **10:00** | **EMU** | **Services PMI** | **Jan P** | **50.0** | **49.8** |
| 10:30 | UK | S&P Global/CIPS UK | Jan P | 45.4 | 45.3 |
| **15:45** | **US** | **Manufacturing PMI** | **Jan P** | **46.8** | **46.2** |
| **15:45** | **US** | **Services PMI** | **Jan P** | **45.5** | **44.7** |
| **Wednesday Jan 25** | | | | | |
| 10:00 | GE | IFO Expectations | Jan | 85.3 | 83.2 |
| **Thursday Jan 26** | | | | | |
| 06:00 | SW | Home prices, Valueguard/HOX | | | |
| **08:00** | **NO** | **Unemployment Rate LFS (AKU)** | **Nov** | **(3.2)** | **3.2%** |
| **08:00** | **NO** | **Employees, wages reg. based** | **Dec** | | |
| 09:00 | SW | Economic Tendency Survey | Jan | | 84.7 |
| 09:00 | SW | Consumer Confidence | Jan | | 54.1 |
| **14:30** | **US** | **GDP QoQ** | **4Q A** | **2.5%** | **3.2%** |
| 14:30 | US | Advance Goods Trade Balance | Dec | -$88.5b | -$83.3b |
| 14:30 | US | Initial Jobless Claims | Jan-21 | 212k | 190k |
| **14:30** | **US** | **Durable Goods Orders** | **Dec P** | **2.9%** | **-2.1%** |
| 14:30 | US | Cap Goods Orders Nondef Ex Air | Dec P | -0.2% | 0.1% |
| 14:30 | US | National Acticity Index | Dec | | -0.05 |
| 16:00 | US | New Home Sales | Dec | 615k | 640k |
| **Friday Jan 27** | | | | | |
| | NO | Consumer confidence, Opinion | Dec | | |
| 08:00 | SW | Unemployment Rate SA, LFS | Dec | 7.3% | 7.2% |
| 08:00 | SW | Retail Sales MoM | Dec | | 2.2% |
| **08:00** | **NO** | **Retail Sales MoM** | **Dec** | **(0.5%)** | **0.9%** |
| 10:00 | EMU | Credit growth, M3 | Dec | | |
| 14:30 | US | Personal Income | Dec | 0.2% | 0.4% |
| 14:30 | US | Personal Spending | Dec | -0.1% | 0.1% |
| 14:30 | US | PCE Deflator YoY | Dec | 5.0% | 5.5% |
| **14:30** | **US** | **PCE Core Deflator MoM** | **Dec** | **0.3%** | **0.2%** |
| 14:30 | US | PCE Core Deflator YoY | Dec | 4.4% | 4.7% |
| 16:00 | US | Pending Home Sales MoM | Dec | -1.0% | -4.0% |
| 16:00 | US | U. of Mich. Sentiment | Jan F | 64.6 | 64.6 |

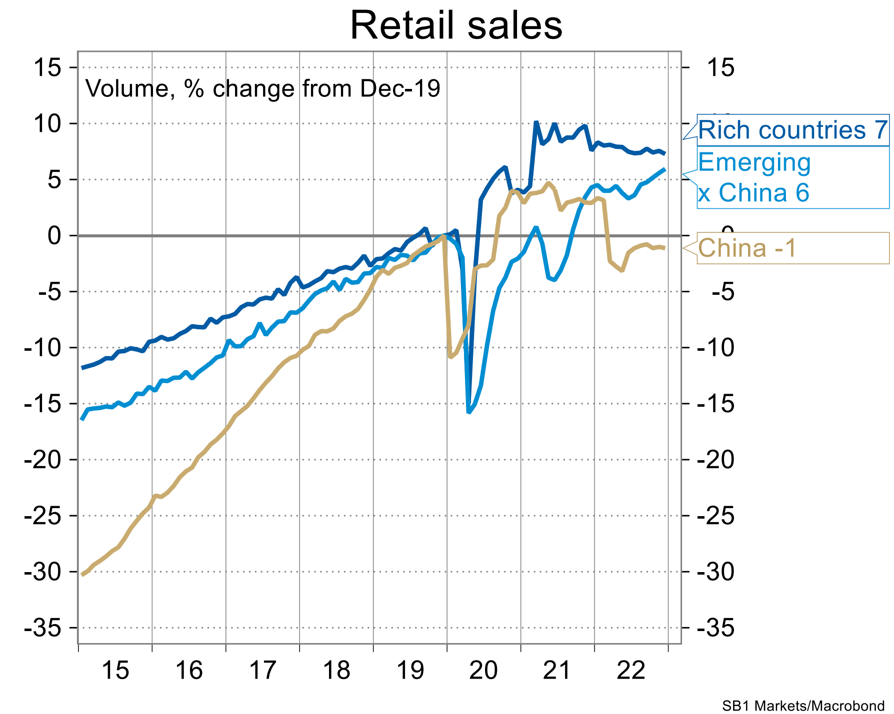
- **Preliminary PMIs**
  - The December PMIs came in above expectations, even if the US PMIs surprised at the downside. The EMU PMIs recovered, and the service sector index was not far below the 50 line. Sill, the overall picture is muted as the composite global PMI at 48.2 signals close to zero growth in global GDP, which is far into a 'global recession – and rich countries are at the bottom. Delivery times have normalised, and price inflation is slowing rapidly. January signals are mixed. The two first US regional Fed surveys were is sum down. However, the German ZEW sentiment survey (among analysts and investors) reported the 2nd largest lift, and signalled belief in growth close to trend, very likely due to the steep decline in energy prices. The PMIs are expected marginally up both in Europe and in the US
- **USA**
  - **GDP** is expected up 'just' 2.5% below some nowcaster forecasts. Consumption probably grew some 3%, while investments were mixed, businesses up, housing down. Net exports probably rose marginally, due to a decline in imports. Price increases will slow substantially, but also growth in wage costs, due to less hours worked. **Personal income/spending, savings and the PCE price deflators** in December are included in the Q4 data, and published separately the day after
  - **Durable goods** fell in Nov due to lower aircraft and defence orders, which are expected up again in Dec. Core orders are growing slower, and surveys signals a steep decline, just like in – and only in – recessions
  - **New home sales** are down 40% from the local peak, but has not fallen further since last April and prices are still ticking upwards. Far better than we assumed
- **Sweden**
  - **The Valuegard/HOX home price index** is down 12% from the peak in February, but fell just 0.6% in November. In Dec, realtors reported a 1.5% but the monthly correlation is not than strong. Still, we expect the Valuegard index to follow in the same direction
- **Norway**
  - **LFS unemployment** has turned marginally, and employment has fallen since March. However, the register based payrolls stats report a slower but steady growth in the number of employees, and given other labour market data (as well as other real economy date) that seems to be far more reasonable. **Wage inflation** has not accelerated according to the payroll report
  - **Retail sales** surprised to the upside in November, and reports from the retail sector in December points towards a further lift in December – though a small one. Total consumption of good will increase more than ever before, due to the surge in auto sales. What a crisis…
  - **Consumer confidence** increased in December, but the level is still a whopping 3.7 st.dev below average! We expect a further increase in confidence, as inflation/energy prices have eased somewhat into the New Year
  - Home builders will report their **new sales/starts** data

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

# Global trade is recovering? However, industrial prod/retail sales flat in Dec

The upside in 2023: China, and the turnaround may already be underway, mobility is recovering rapidly



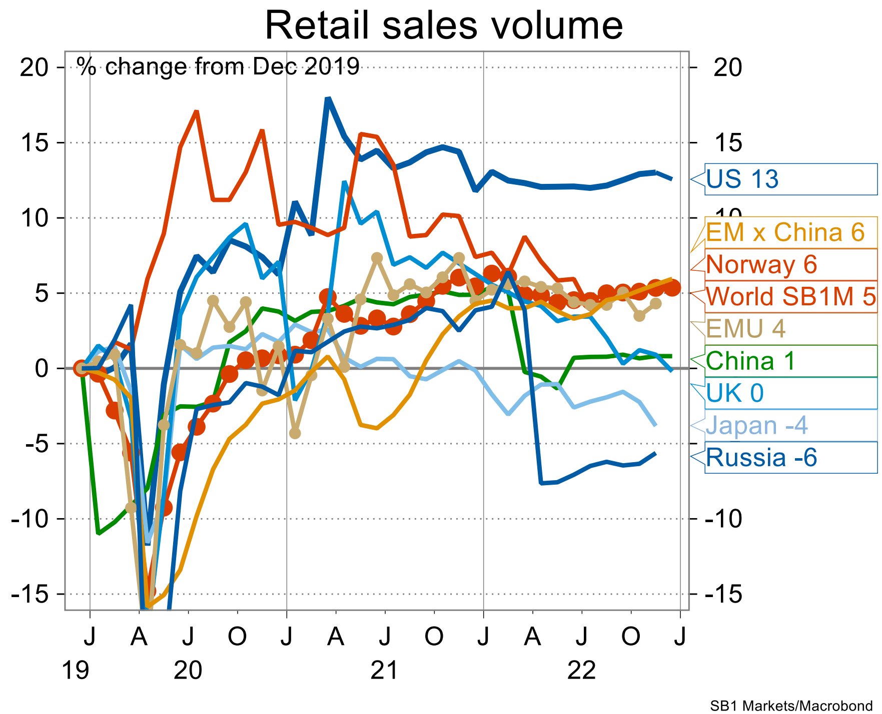



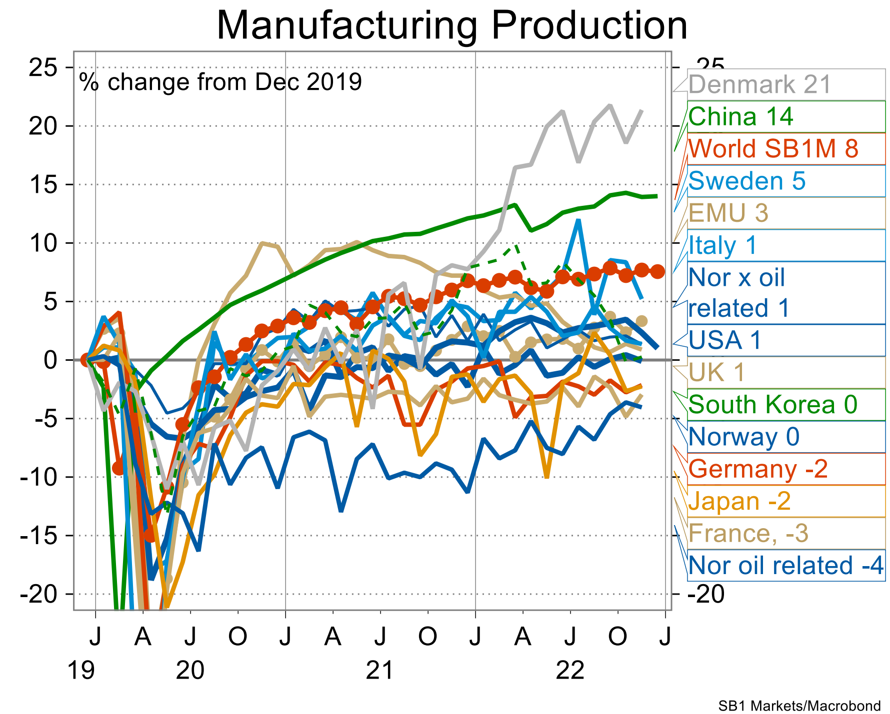

- These December data (and even more Jan/Feb trade data) are preliminary, as most countries have not yet reported

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

# Global retail trade supported by Emerging Markets x Chine, but that's all

Manufacturing production has flattened recent months. US reported a significant decline in December

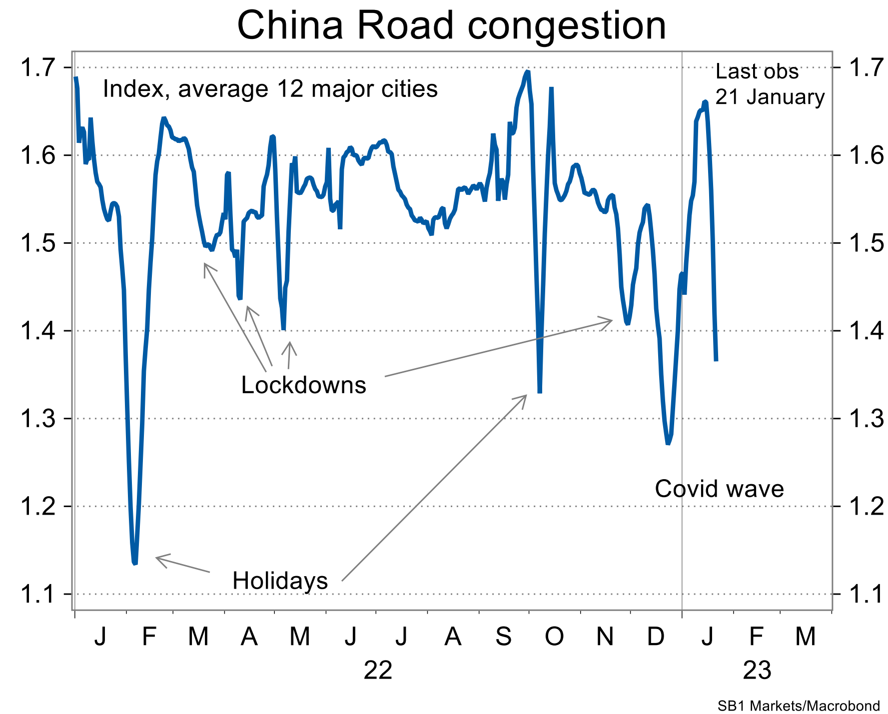



- Chinese retail sales were close to unch in December, and the level is low – flat vs. late 2020! The outlook is bright: Retail sales should pick up rapidly as soon as the current Covid wave of infections has burned through the population – which already might be the case, at least in the urban areas

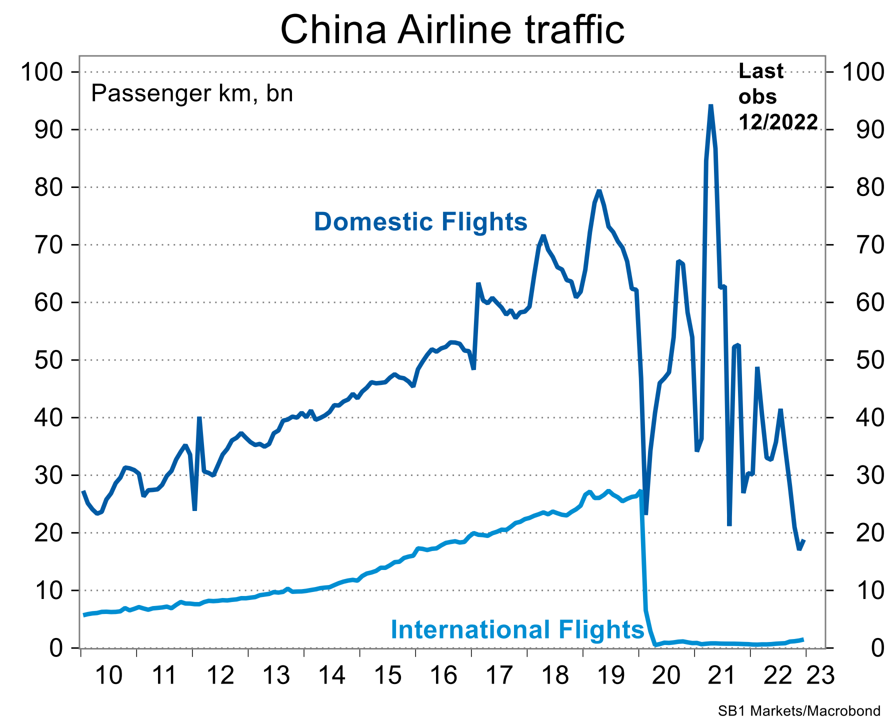
US retail sales: Personal consumption of goods, ex auto & energy

# Road traffic was back to a normal level – but fell last week

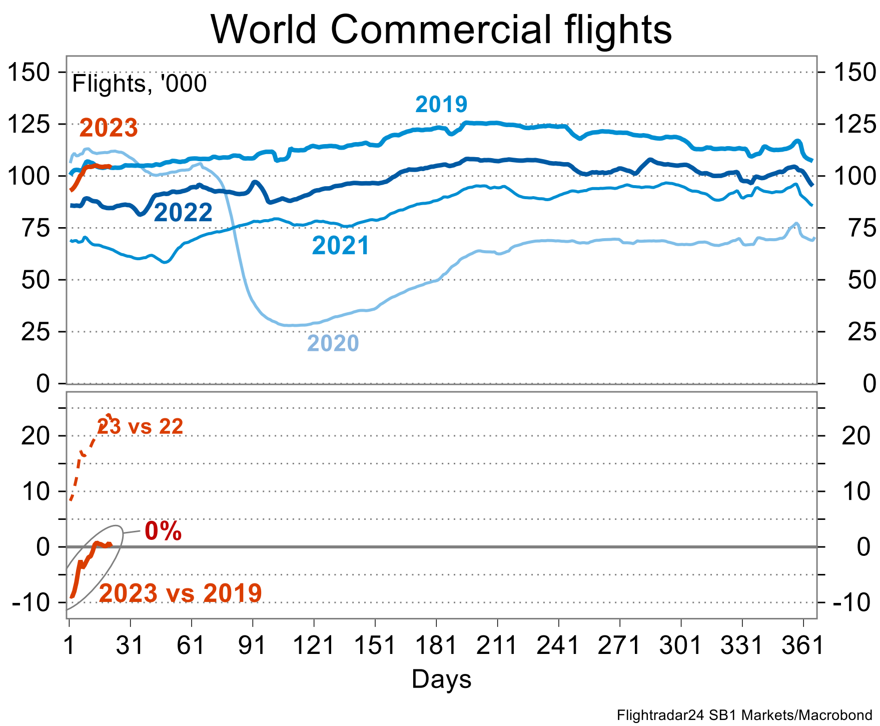
# Metro traffic has recovered too, still lower than normal

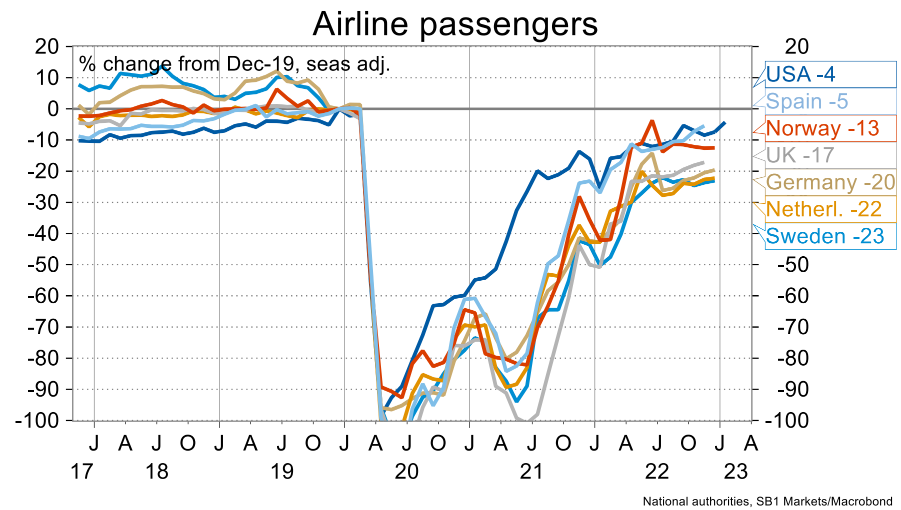
Air traffic was rock bottom in Nov/Dec – will very likely recover rapidly the coming months

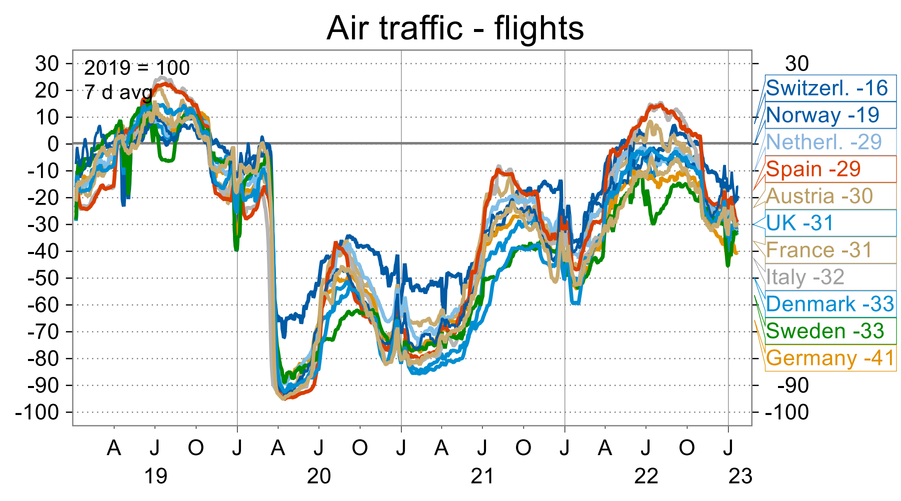



# A strong start for global airline traffic in 2023 – back up to the 2019 level!

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



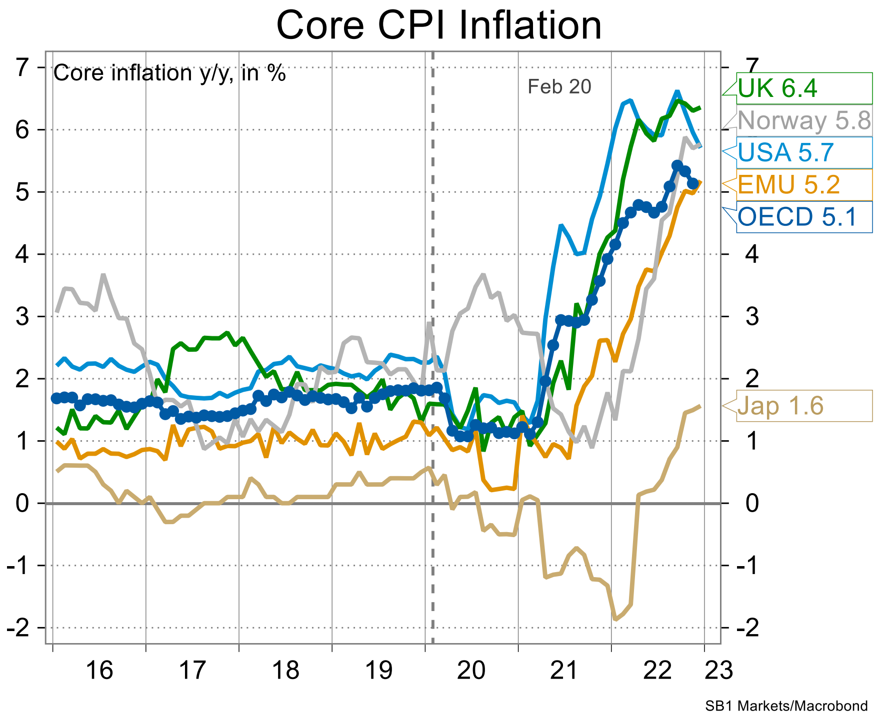



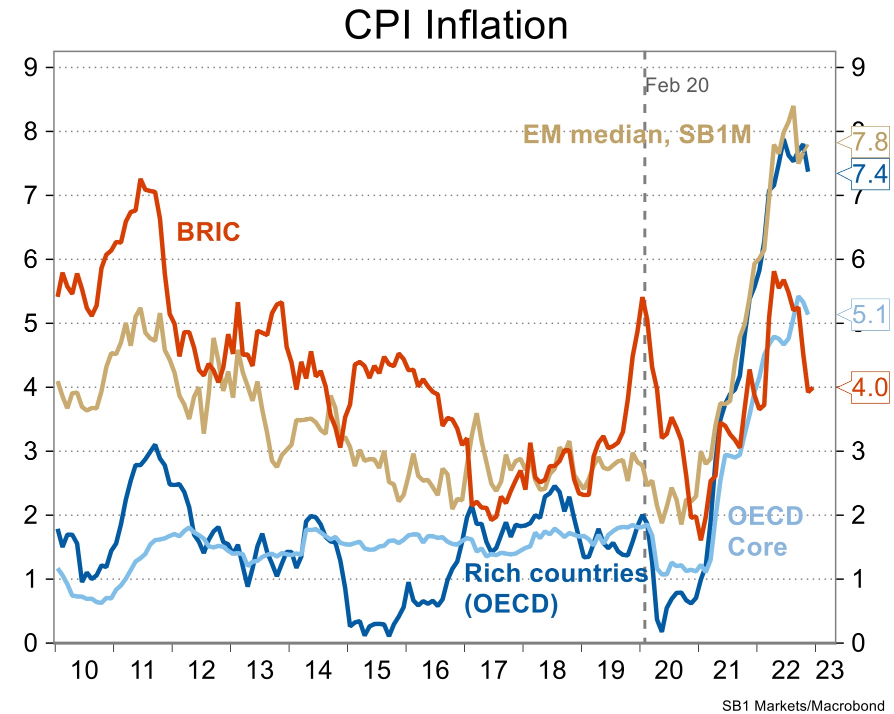




- Chinese traffic will now doubt come rapidly back (and that may already be happening)

# 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

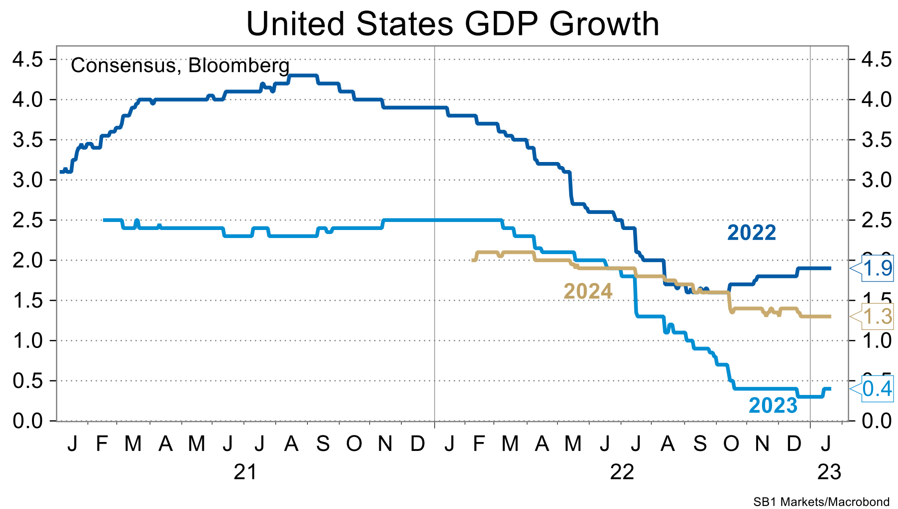


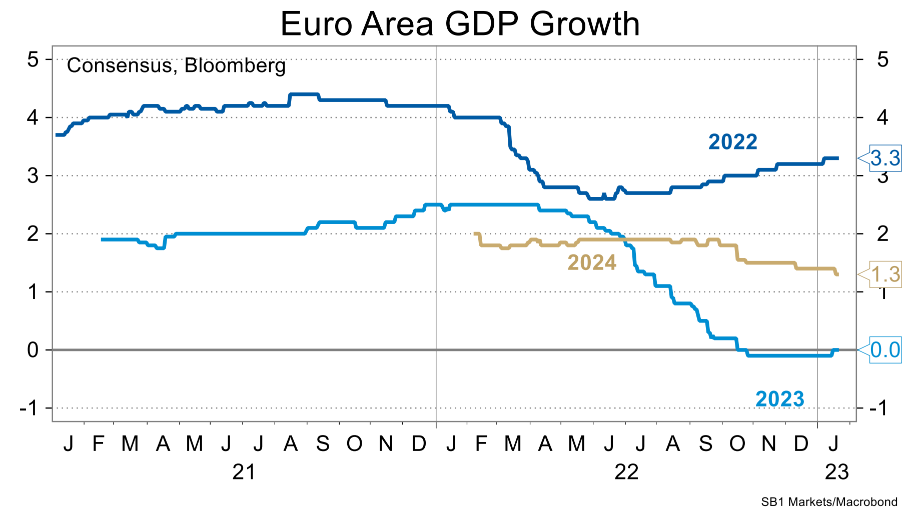



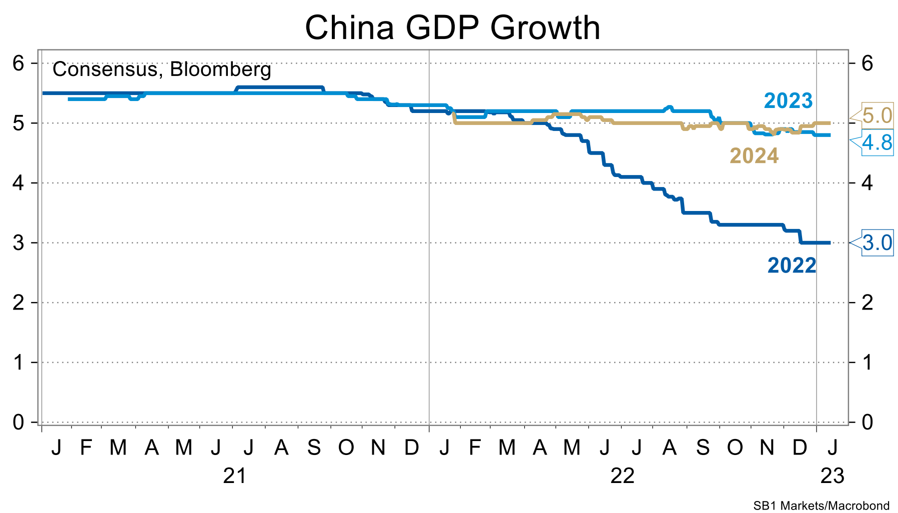

- We expect **inflation** to decline rapidly through 2023, as raw material prices and freight rates are declining, profit margins will come under pressure as demand, at least for goods, weakens in the rich part of the world. In the US, core goods prices are already declining (check next page)
- In Europe, 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

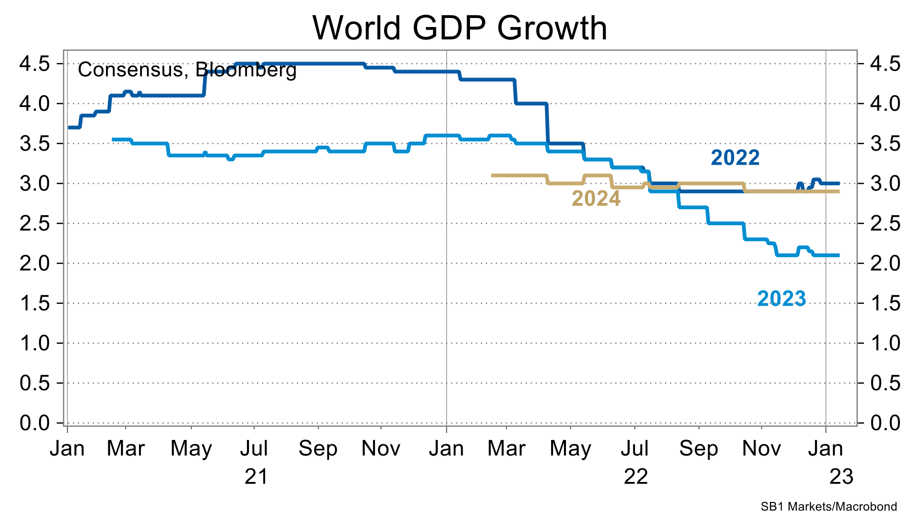
# The 2nd 2023 upgrade: EMU GDP growth revised up to 0.0%

The US 2023 growth forecast was upgraded the previous week

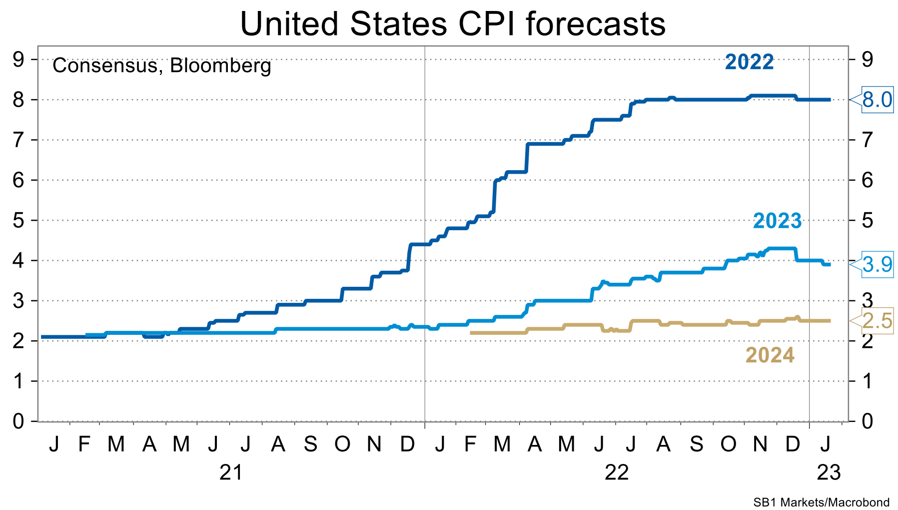


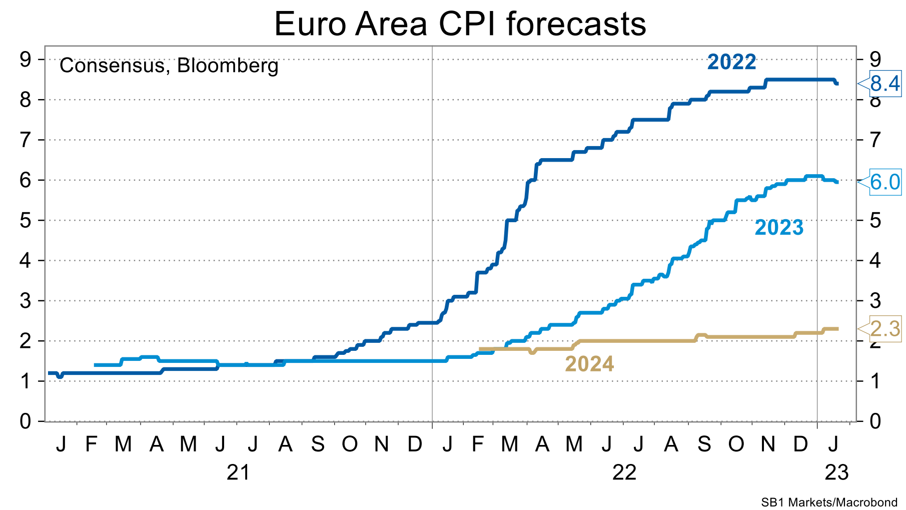



# Inflation expectations are falling (slowly) both in the US & EMU

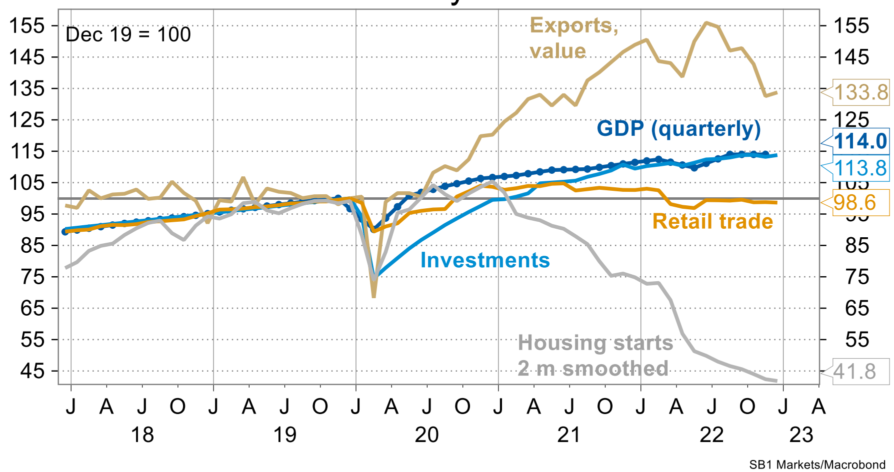


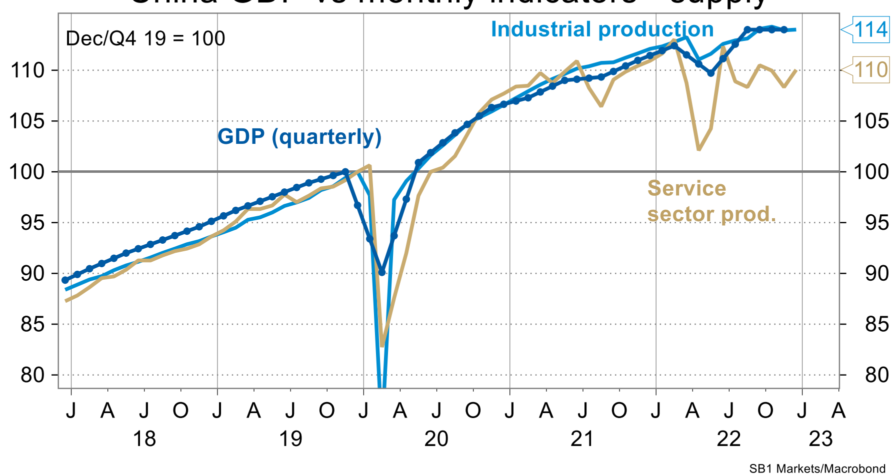
# December & Q4 better than expected, still weak. A bright spring ahead?

Last year ended on sour note, but not as bad as assumed. Now, all eyes are on the impacts of the (ongoing?) reopening

China GDP vs monthly indicators - demand




China GDP vs monthly indicators - supply




**In sum:** Better than expected, and the outlook is bright, at least for parts of the economy. Construction may remain a large headache

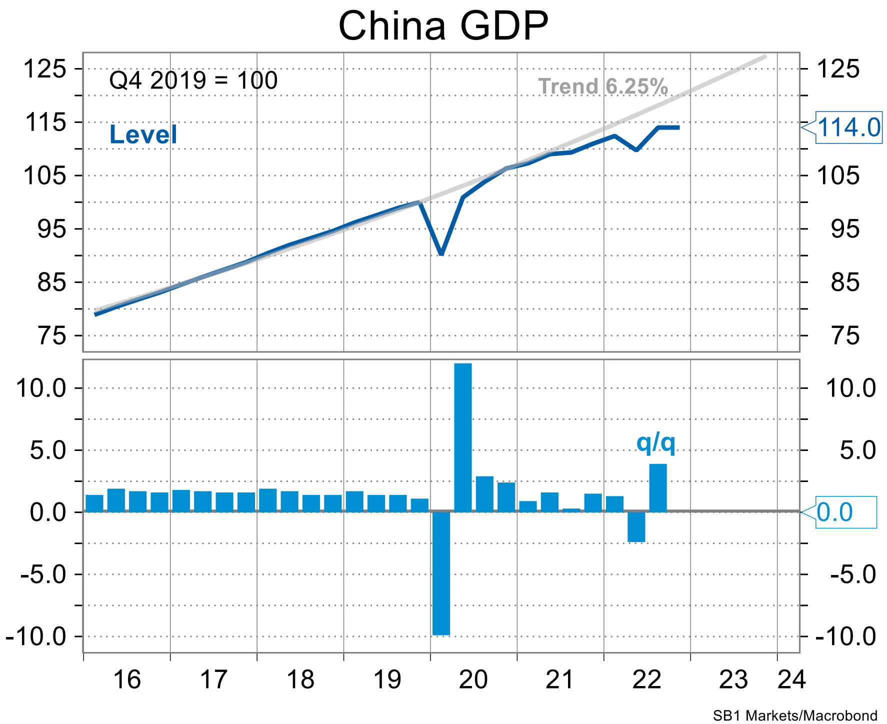
Today, the focus is not on Dec or Q4, but on the impact of the **reopening** following (hopefully) the last Covid wave. The rapid increase in mobility bodes well for retail sales and services the coming months. Below is our main take of the 'old' data:

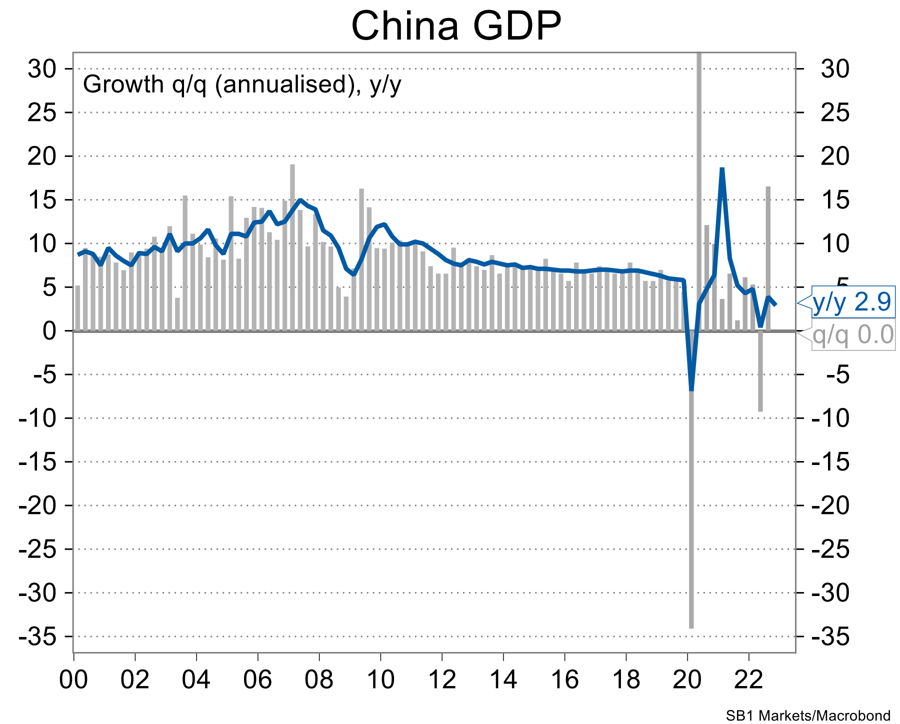
- **GDP** was unchanged q/q in Q4 far better than expected (-1.2%), the annual growth was 2.9%, expected 1.6%. Last year, GDP rose 3.0%, well below the official 5.5% growth target. Investments were the main growth contributor, consumption was far weaker than normal. Foreign trade was in plus, as in 2021. The 2023 outlook is far better
- **Industrial production** was up 0.1% in December, and production is up 1.7% y/y, expected 0.2%, down from 2.2% in Nov – well below the 'normal' 6% growth rate. Machinery, chemicals, and aluminium up, cement and steel production down
- **Service sector** production was better than we expected, up 1.6% but still down 0.8% y/y, way below the normal pace
- **Retail sales** volumes declined 0.1% in Dec, following the 0.1% gain in Nov. Once more, history was revised, this time up by 1%. Sales were far better than expected: They fell just 2% y/y in value terms, up from -5.9% in Nov, expected -8.6% (!). A huge miss. The upside must be substantial, like for services, when the Covid struggle soon (if not already) is history
- **Investments** rose 0.5% m/m, as annual growth was slightly better than expected (and by 5.1% last year, somewhat lower than the 'normal' growth rate). Investments have kept up, even in decline in **construction starts**, is huge, down 60% from the peak, the largest contraction even. Starts were flat in Dec, while **new home sales** fell further. The authorities have announced a long list of measures to prop up the real estate market – and some recovery seems likely. But not a return to where it came from – and cannot be the aim either

**Headlines from the previous week:** Credit growth slowed further in Dec exports stabilised, imports rose. Inflation is very low

# GDP flat in Q4, far better than exp. (-1.2%). 2022 still a weak year, of course

GDP grew 2.9% y/y (exp. 1.6%) – and by 'just' 3% in 2022, well below the 5.5% ambition. The 2023 outlook far better

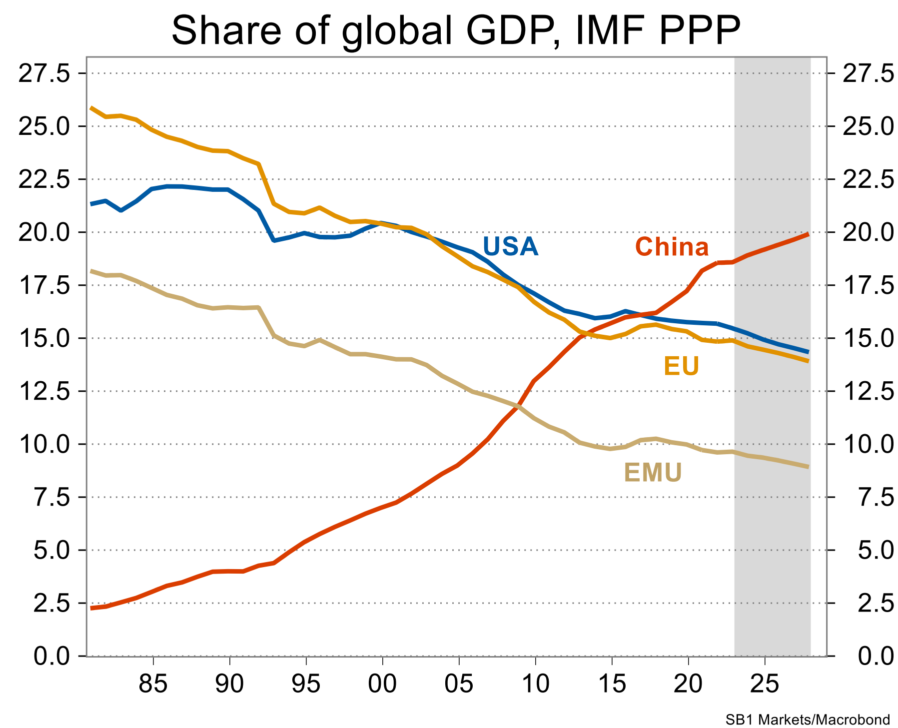



- GDP is 5% below the pre-pandemic trend path, which was slightly above 6% - albeit slowly slowing

# China has contributed less than normal to global growth in 2022

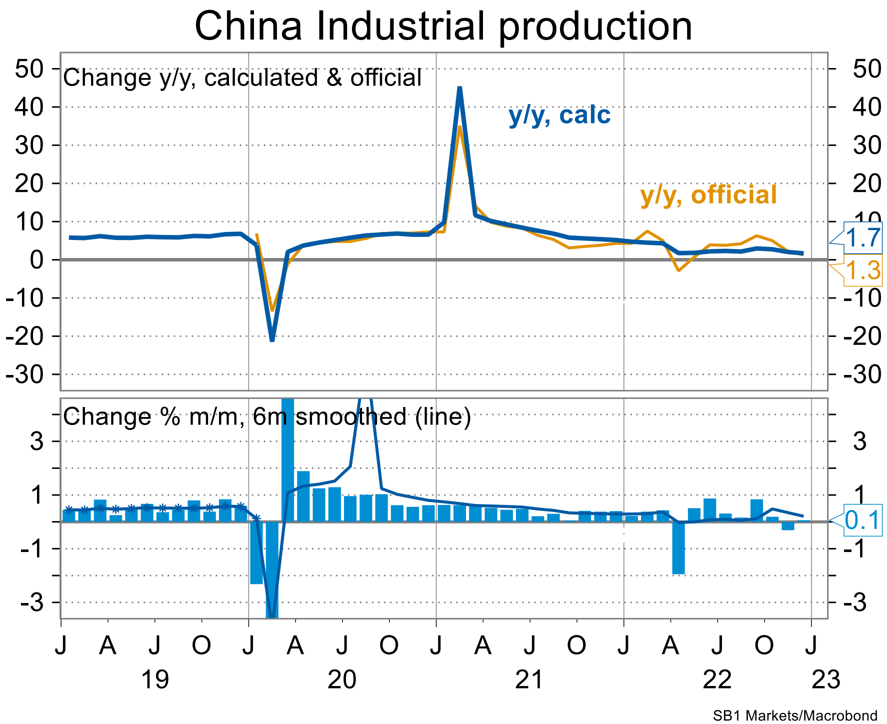
In Q2, world GDP slowed substantially due to China, and very likely the US as well

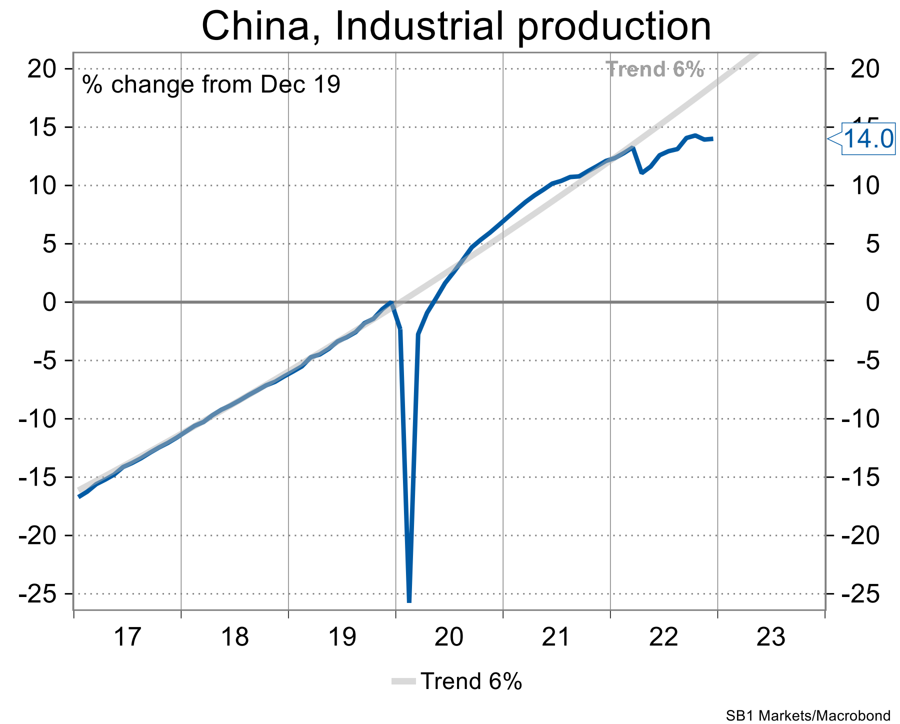




- Until the pandemic, there has not been any downturn in the world economy for which we can really blame the Chinese – and the Chinese economy weathered the first Covid wave rather well (at least economically)
- Measured in purchasing parity adjusted prices, the Chinese GDP has been larger than the US GDP since 2017 – and the underlying growth rate is very likely still higher, even if 2022 not was the best of years

# Industrial prod. marginally up in Dec, level 5% below the pre-pandemic trend

Production rose by 0.1% m/m, and is up (just) 1.7% y/y, expected 0.2% y/y, and down from 2.2% in Nov.

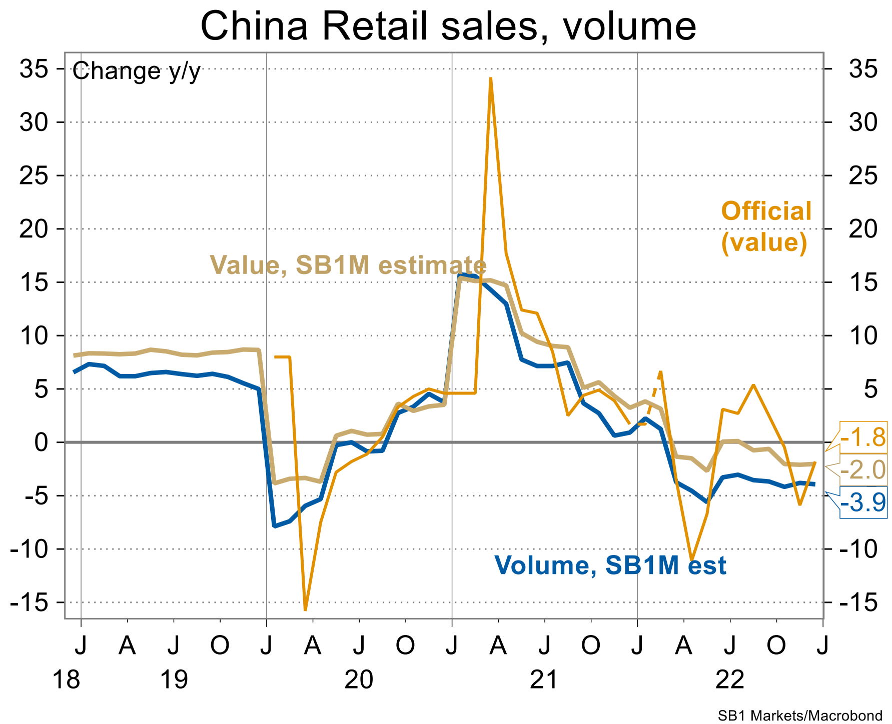


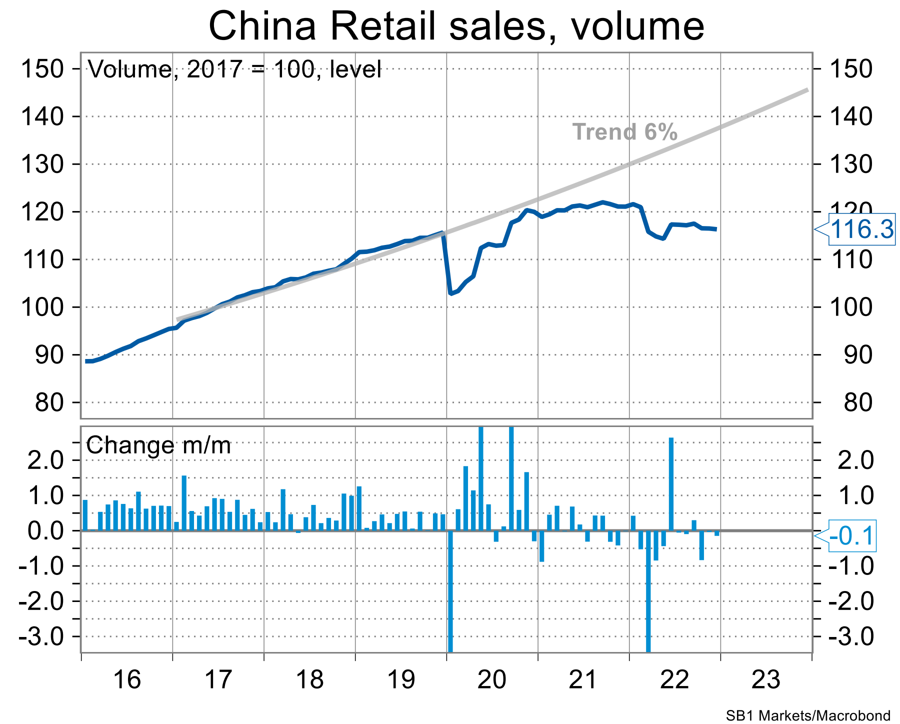




- Very likely, the rounds of Covid lockdowns and the Covid wave in December have hampered production, if not in the same way as in April, when production fell 2%. Since then, production has stayed well below the trend before the lockdowns during the spring
- Now we can only hope for a rebound in domestic demand in China post Covid, perhaps even in the real estate sector (with some support from the authorities). The only problem: The demand story is not 'just' a China story, and exports will not support growth as over the previous two years

# Retail sales fell 0.1% m/m in Dec, the trend is dismal. But the future is bright!

Official sales down 1.8% y/y, from -5.9%, expected -8.6%!!



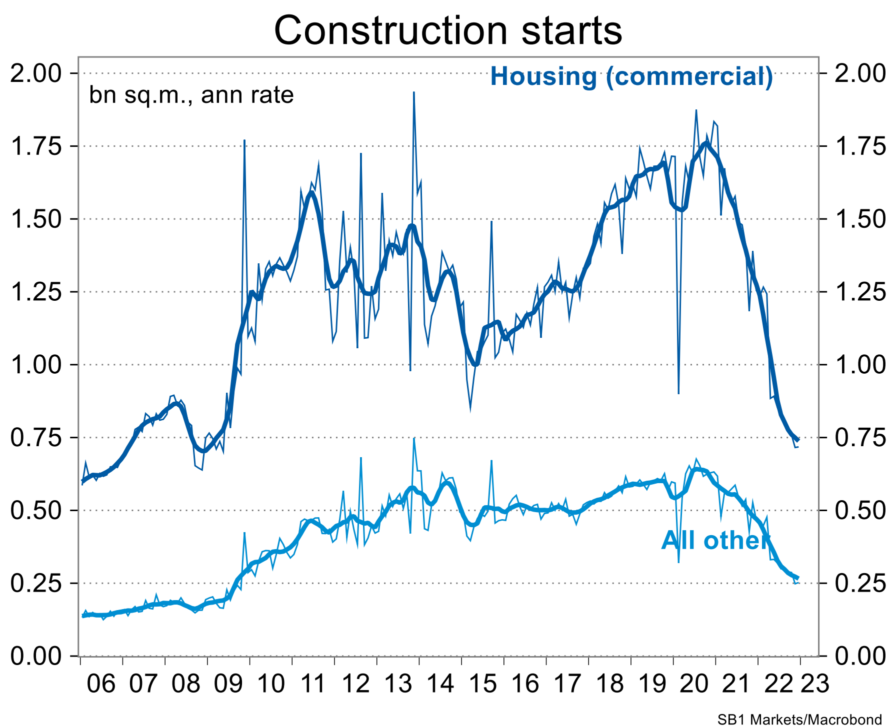



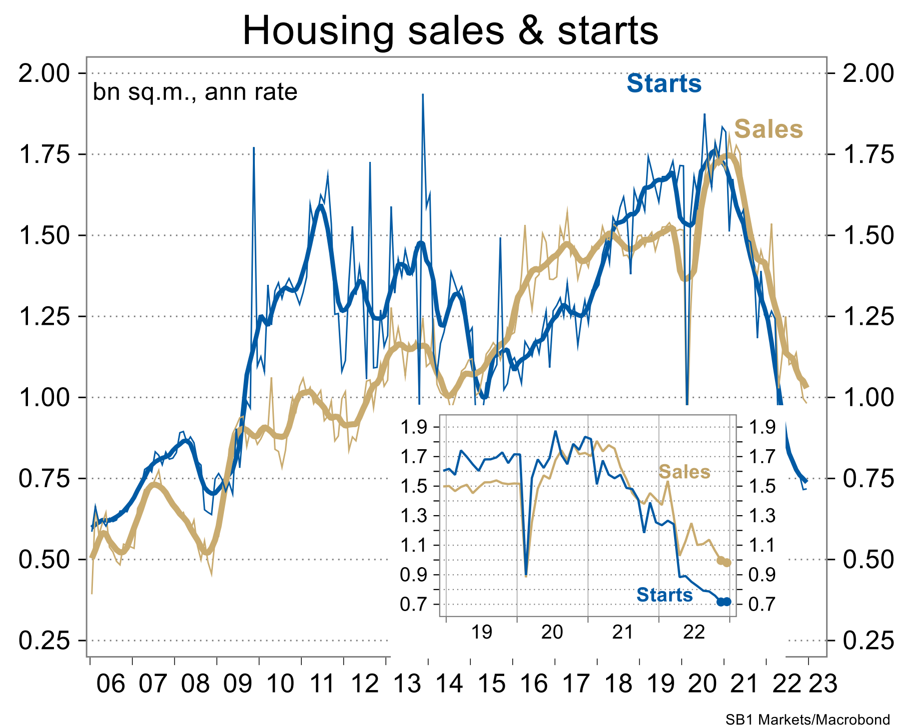

- We do not remember any larger misses than the -1.8% outcome vs. -8.6% forecast
- **Sales** fell 0.1% m/m nominally, we assume a 0.1% decrease in volume terms as well, following zero growth in volume in November
  - Sales in volume terms are down 3.9% from Dec last year (aggregated monthly changes), while the 1.8 y/y decline in nominal terms is confirmed by out aggregated series)
  - These monthly m/m data were revised slightly up, after having been revised down the past two months Anyway, these data has become almost usable – but they are the best we have…
- **The outlook:** Income growth was probably on the weak side in 2022, but household savings have strengthened, also seen in bank deposits. It is very likely that sales will increase sharply the coming months as Covid becomes history, if not back to the pre-pandemic trend (it is up 18% there…)

Memo: Monthly sales data are still somewhat to difficult of decipher, and they are not always consistent with annual growth rates - so do not take our interpretations of them too literally. Several revisions have made the analysis even more complicated

# Housing starts flat in December; sales further down

Starts down 61% from the peak two years ago; Sales are down 46%

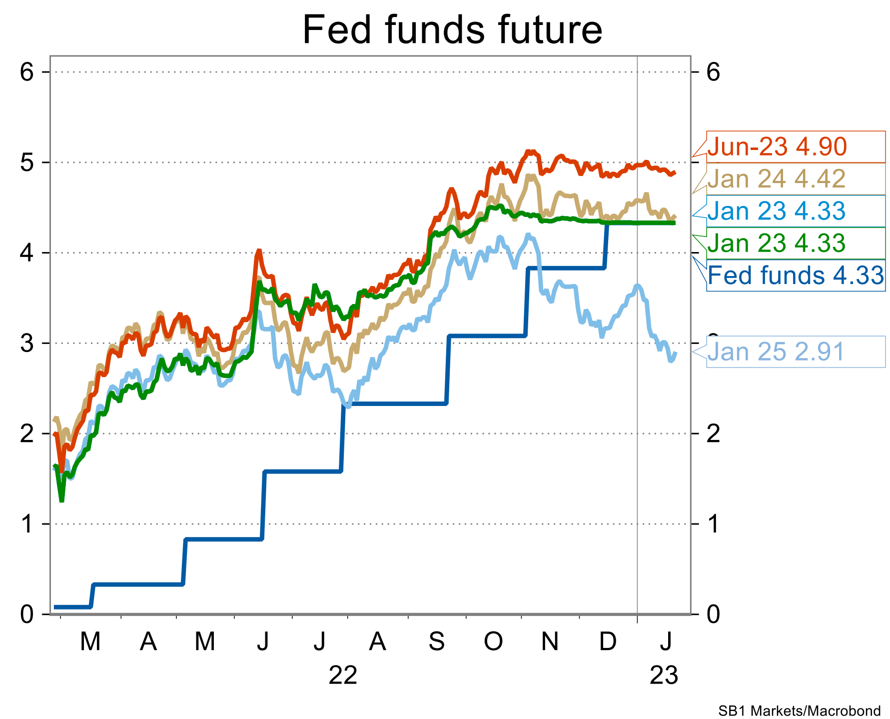



- **Non-residential construction starts** are also more than cut in half, and the level is the lowest since 2009, as for housing starts
- We doubt the fight against the virus can explain much of the deep, and continuous downturn, from late 2020
- This unprecedented decline in construction starts will lower growth in the Chinese economy substantially – spread over time, as it takes some 3 years from a home is started until it is completed…
- …unless the government's new rescue plan works. The authorities pumped an additional CNY 150 bn into the financial system (on top of the CNY 500 bn already decided) in December to ward off a sell-off in the bond market after easing covid restrictions, and to loosen financial conditions. This in addition to the policy measures already taken a month ago, which were designed to loosen conditions for lenders and borrowers, both in terms of funds available, possible repayment postponements etc.
- **Now even further measures are discussed:** Dropping the 3 red lines policy (Debt/assets > 70%; Net debt < equity; cash >= S-T debt); funnelling additional loans through the PoBC, capping real estate agents commissions, and a further extension of favourable-rate loans

# Fed’s Beige book reports a flattish economy

… and wage, price pressures are easing, but remain elevated. Alas, less bullish than expected




## USA Fed funds rate (OIS)

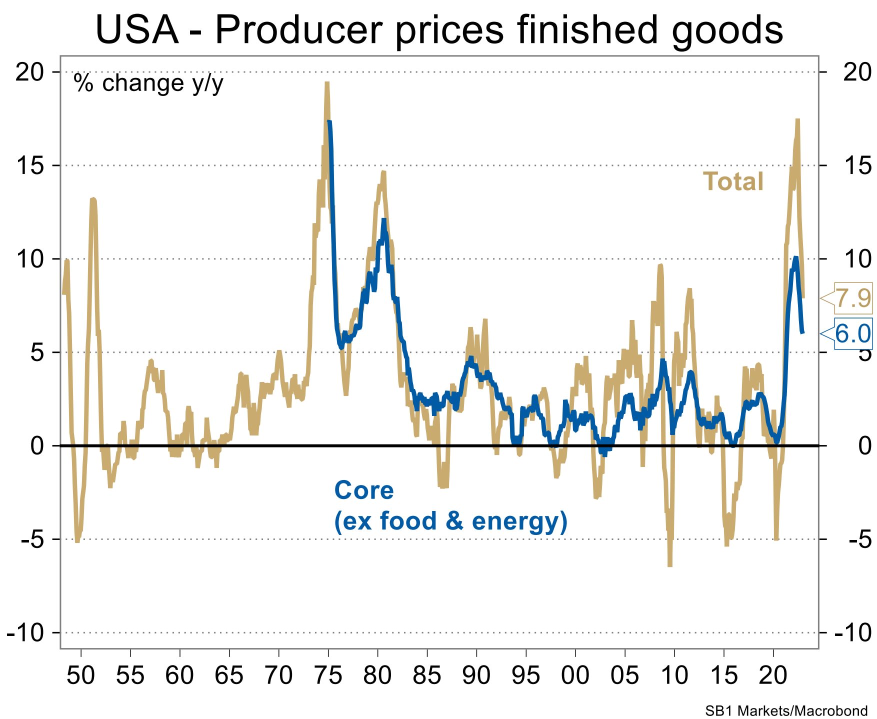
| FOMC meetings | Effective Fed funds rate (OIS mid) Last | Change last week |
|---|---|---|
| Now | 4.33 | 0.00 |
| Feb 1 | 4.60 | -0.01 |
| Mar 22 | 4.80 | -0.01 |
| May 3 | 4.90 | -0.02 |
| June 14 | 4.91 | -0.02 |
| July 14 | 4.87 | -0.01 |
| July 27 | 4.77 | 0.00 |

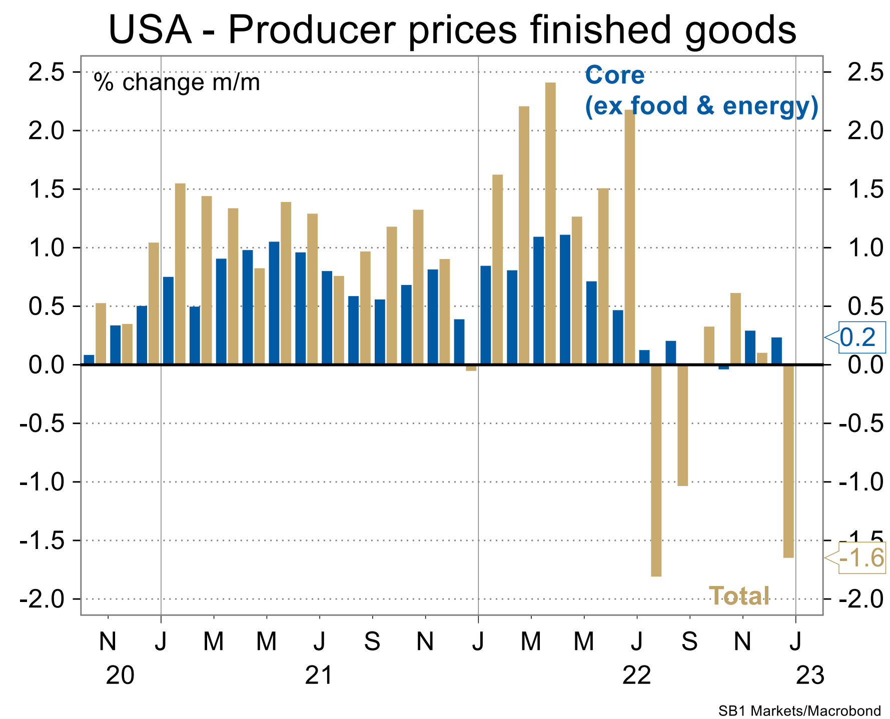
■ Last ● Change last week

- **The US economy is slowing down**
  - On average, **economic activity** was somewhat weaker than in the prior reporting period. 5 districts report that activity contracted (of which 1 said activity contracted sharply), and 2 districts said growth had stalled, and the remaining 5 reported modest growth.
    - 6 weeks ago: 4 reported a decline in activity, 3 flat, and 5 modest growth
  - **Outlook more pessimistic** and little growth is expected in the coming months
  - **Loan volumes declined** further due to weak demand and tighter standards, and the housing market continued to weaken
  - **Manufacturing** activity declined modestly, and supply-chain problems have eased
  - **The labour market** was still very tight, and firms are hesitant to lay off people even if demand has slowed, because attaining and retaining staff is so hard
  - **Overall inflation** remained elevated, with some easing reported - steel and lumber prices fell further. Retailers reported that it is harder to pass through higher input costs to consumers
- Taken at face value, the Beige book confirms that growth is slowing further – perhaps down to zero, price pressures are easing somewhat, but that the labour market remains tight (as many other reports confirm)
- A 25 bps hike next week is a done deal – as the Fed is coming closer to the ‘terminal’ rate

# Energy prices took goods PPI down in Dec and is down at a 7% pace last 6 m!

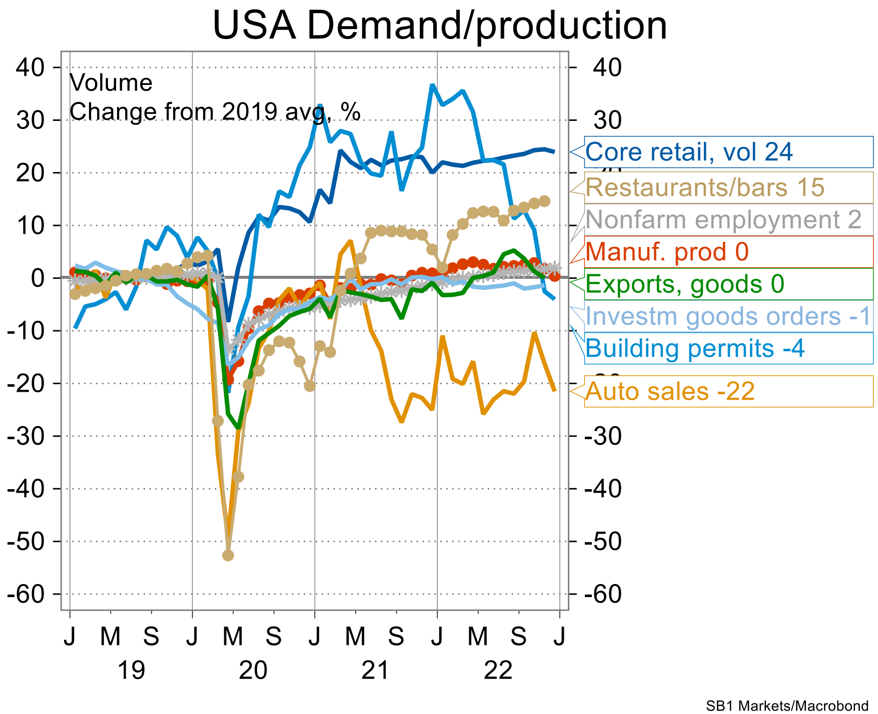
Core prices rose 0.2%, and they are up 6.0% y/y – but just 1.6% (annualised) the past 6 months



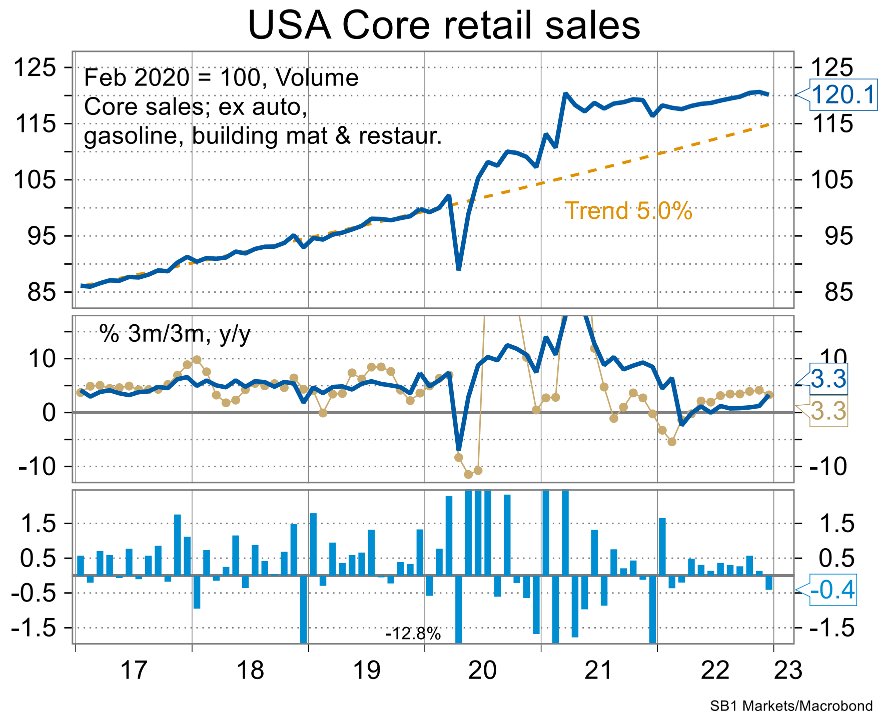

- **The headline finished <u>goods</u> PPI** was down 1.6% in Dec, following the 0.1% increase in November. The annual rate was down 1.7 pp to 7.9% - but prices have fallen at a 7% pace since last June! Energy prices were down 7.9% m/m, and food prices were down -1.2%
- **Core finished <u>goods</u> x food & energy** PPI was up 0.2% in December. The annual growth rate fell by 0.2 pp to 6.2%. The peak was at 10%. The growth rate past 6 m is just 1.6%
- **Crude material prices** are on the retreat – normally the first sign of easing price pressures in the supply chain, and now intermediate material prices are now following suit, as normal. However, these prices rose slightly in December
- **Core consumer goods prices** (PCE, like in the CPI) have also peaked
- **The 'official' total final demand PPI**, including **<u>services</u>**, was down 0.5% m/m in Dec. <u>The annual rate at 6.2% was 0.6 pp lower than expected!</u>

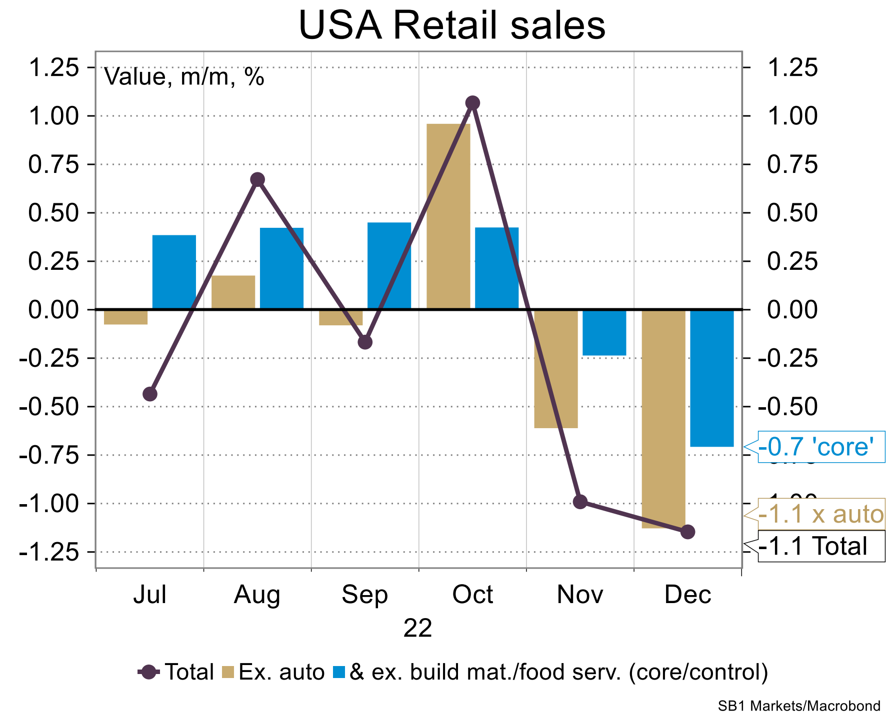
# Mixed activity data: Housing a drag, retail sales were ok (until Nov/Dec that is)




- **Retail sales** have been growing at decent pace but fell in December
- **Building permits** are heading sharply down, and fell further in December
- **Exports** rose to above the pre-pandemic trend but is now below again
- **Manufacturing production** has flattened since the spring and is now declining
- **Investment goods orders** have flattened close to the 2019 level
- **Auto sales** fell in both November and December, we doubt due to lack of supply. Demand is slowing

# Retail sales down more than expected in December, Q4 still up 3.4%

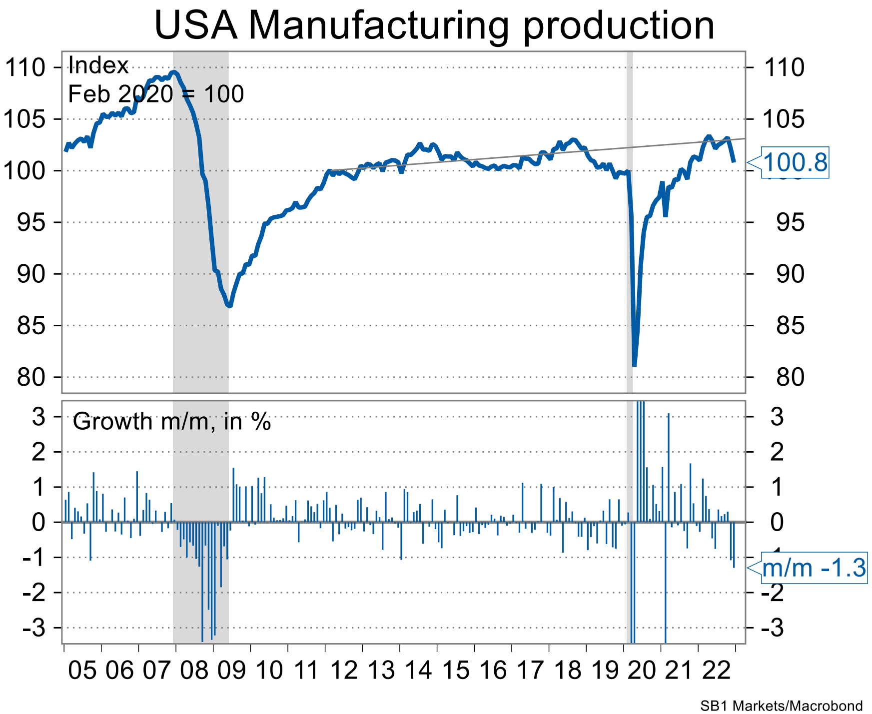


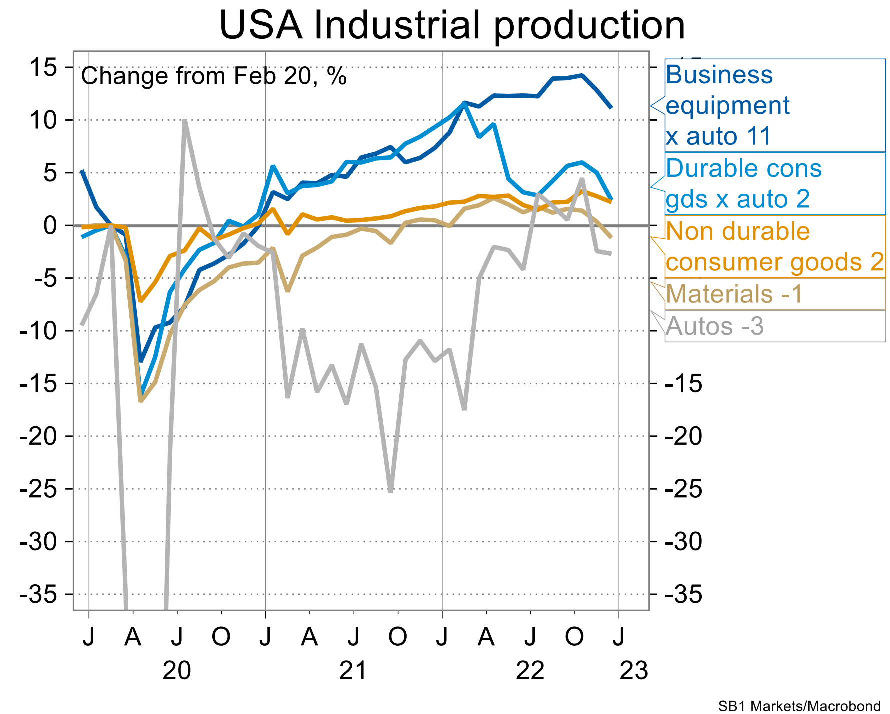




- **Total nominal sales** were down 1.1% in Dec, expected -0.8%, and Nov was revised down to -1.0% from -0.6%. 8 sectors reported lower sales, 3 higher. Total nominal sales are still up 29% vs. the Feb 2020 level!
- **Core sales of goods** (=control group, excludes autos, gasoline, building materials & restaurants) were down 0.7% in value terms, 0.2 pp weaker than expected. No significant revision of Nov sales, still down 0.2%
- **In volume terms**, we assume that core sales fell by 0.4%, down from +0.1% in Nov (and 0.2 pp better than our first estimate, as prices fell more than we assumed). The decline in volume terms was the first since March, and the trend is still more than OK, up 3.4% in Q4, far better than we expected some few months ago

# Manufacturing production down 1.3% in Dec; Nov print revised down

Production in all 5 main sectors declined in December

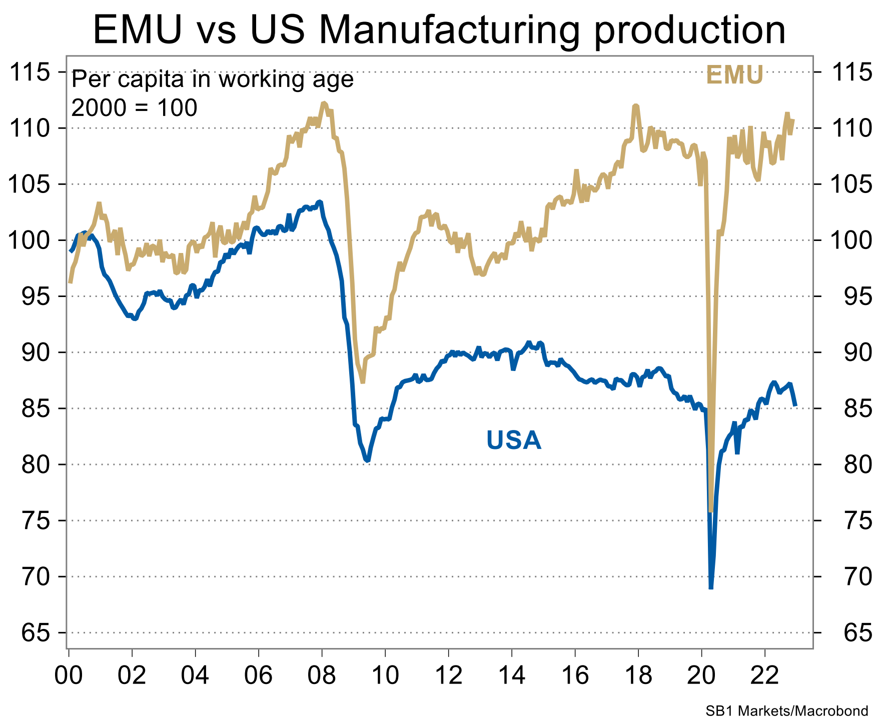


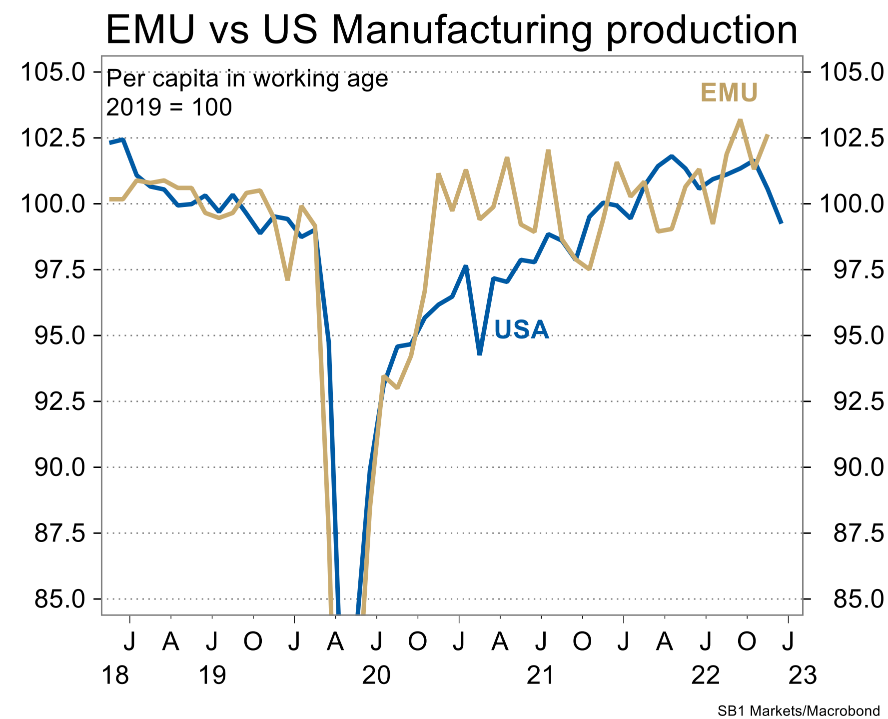




- **Manufacturing production** fell 1.3% in December (s.a.), 1.0 pp below expectations. The Nov print was also revised down by 0.5 pp to -1.1%. Production remains below the April level, and is now down 2.5% measured 3m/3m. and up only 0.8% vs. the pre-pandemic level
  - Production in all main sectors were down in Dec, and materials and auto production is again below the pre-pandemic level
- **Total industrial production**, including utilities, mines/oil production, declined 0.7% m/m, expected -0.1%
- **Capacity utilisation** was down 0.6 pp to 78.8%, but the level is still close to the highest in 20 years (the peak was in April)
- **Surveys** have weakened substantially since May. The first January surveys are in sum further down

# Sure, European industry is in a far worse position

Without Russian gas, and with long term structural challenges, those manufacturers that have not left, are leaving now

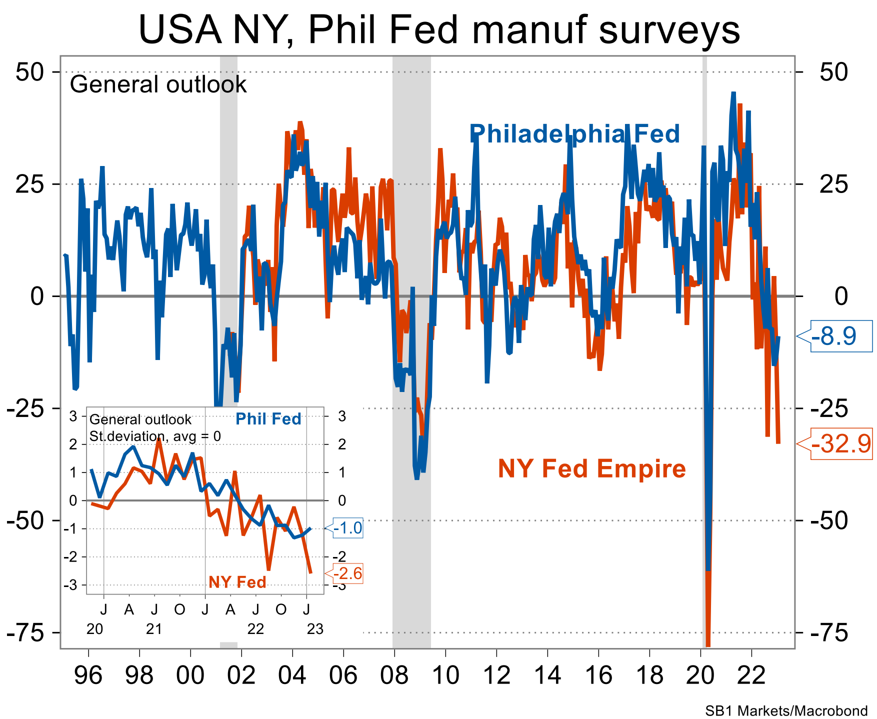


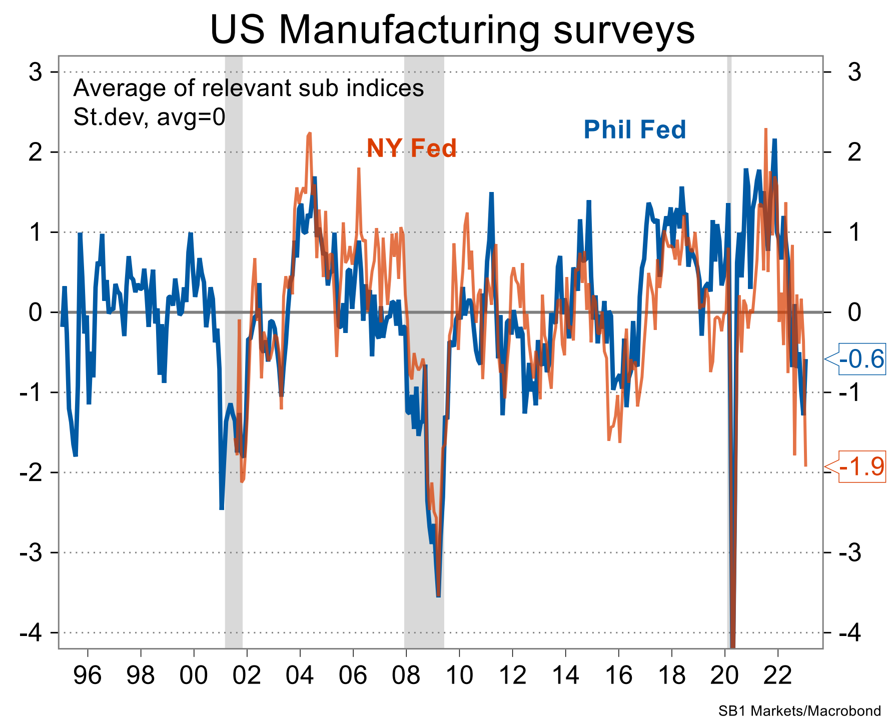



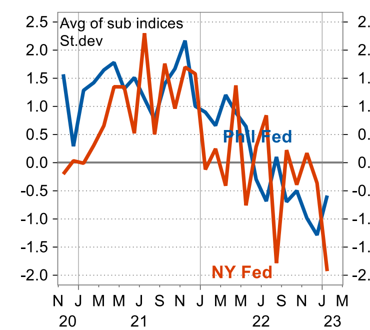

- *Please, Think Before You Talk - check the numbers at the charts above*

# Flip flop: NY Fed's sharply down in Jan., Phil Fed up but still well below avg.

Once again the two surveys differ from month to month. <u>The trend is down for the both of them</u>



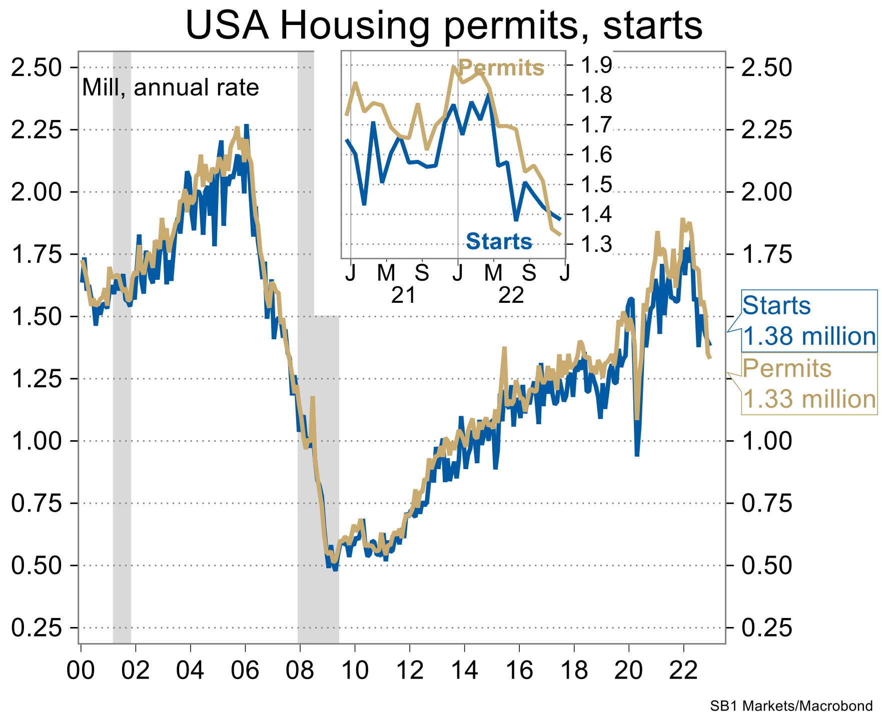



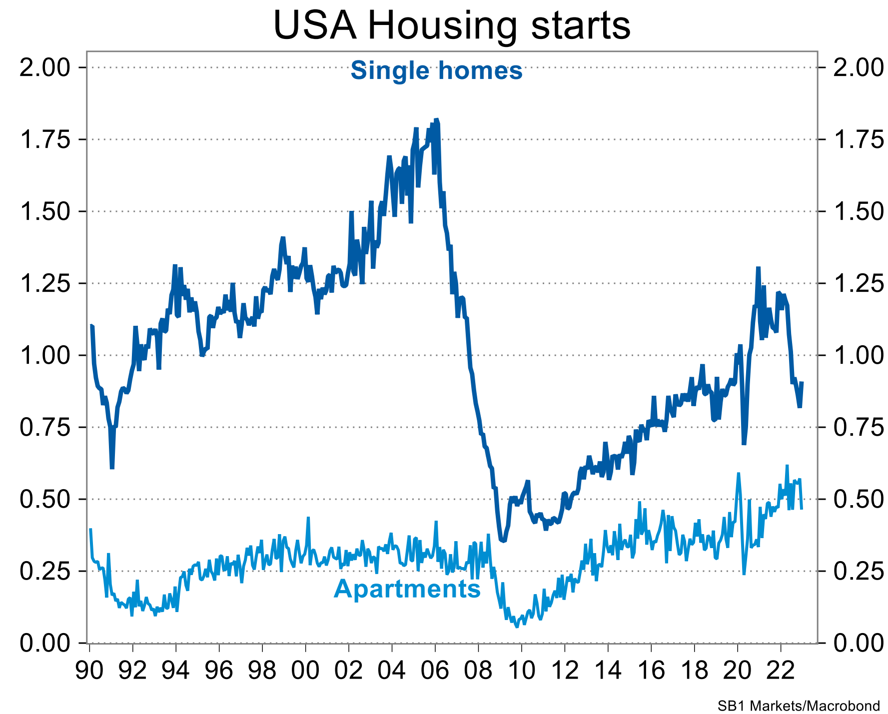




- **NY Fed Empire State manufacturing index** fell to 2.6 st.dev below avg. in January from -1.2 st.dev below in December (down to -32.9 from -11.2 in absolute terms, expected -8.7)
- **Philadelphia Fed's manufacturing index** was up 0.2 st.dev to 1.0 below par in Jan (up to -8.9 from -13.7, expected up to -11)
- Both indices report an <u>decrease</u> in input prices, and expected order inflow has improved but is still well below average in both surveys – and businesses expect overall conditions to remain weak
- **The average of the subindices** in the two surveys followed their respective headline indices, and are below average
- **Taken together:** In sum worse than expected, and a negative signal for the ISM, according to our model, at last vs. the monthly change

# Permits and starts further down in Dec, but Home builders less pessimistic

Permits are down 30% since before the steep from the local peak last spring (when Fed started…)

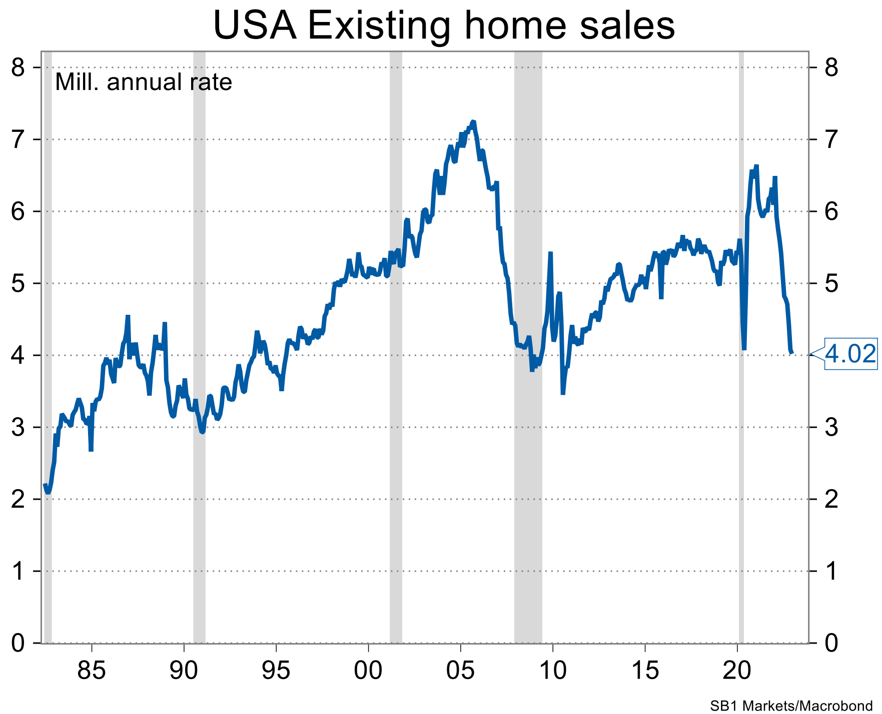


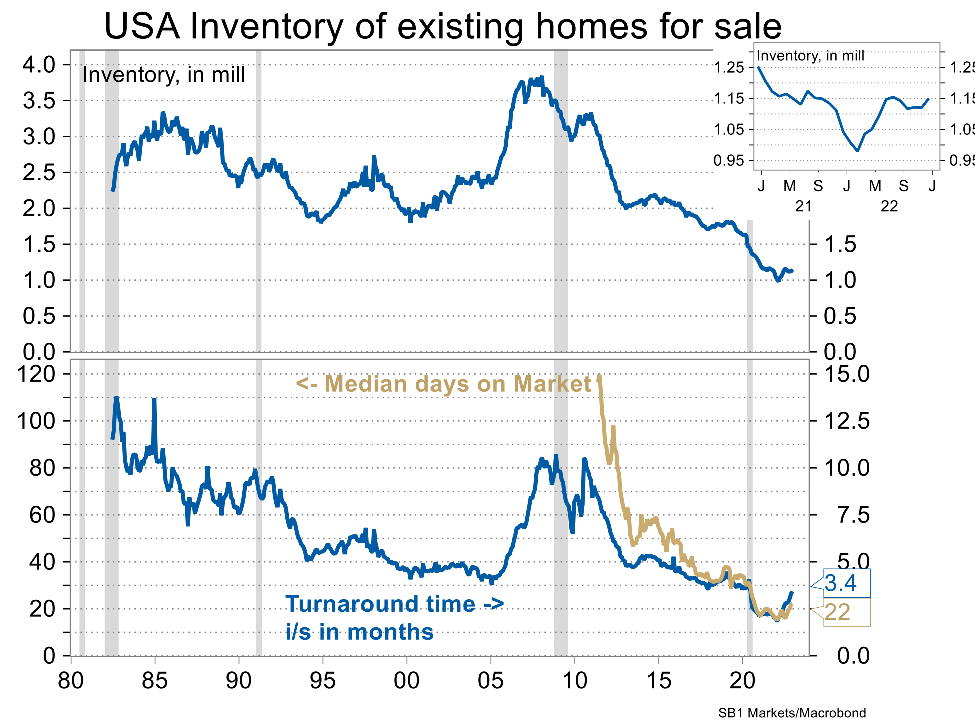




- **Housing starts** fell 1% to 1.38 mill in Dec, slightly better than expected (1.36''), as starts of single home rose significantly for the first time in this downturn (apartment starts fell, from a very high level. Starts are down 23% from the local peak in late 2021
- **However, the less volatile building permits** declined further to 1.33 mill, well below expectations at 1.37 mill. If home builders are right (next page), the downturn is not over, even if their index gained a couple of points in January
- Building **material cost inflation** has come to a sudden halt. **Lumber prices** are back to a normal level (or even below), steel prices have fallen substantially recent months too

# Existing home sales have fallen for 11 consecutive months

But by less than expected in December, and the pace of price declines is slowing

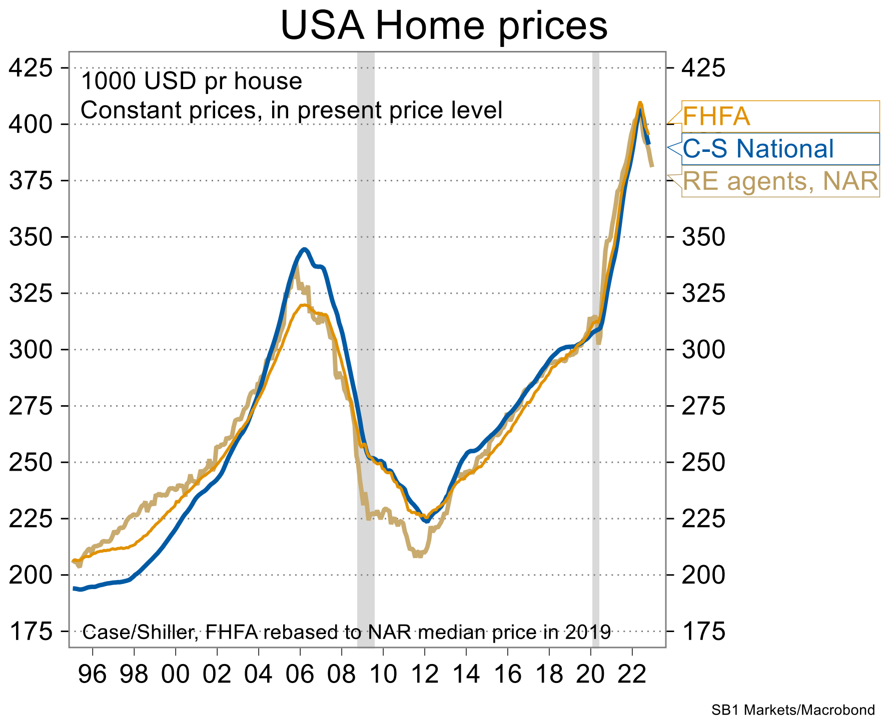


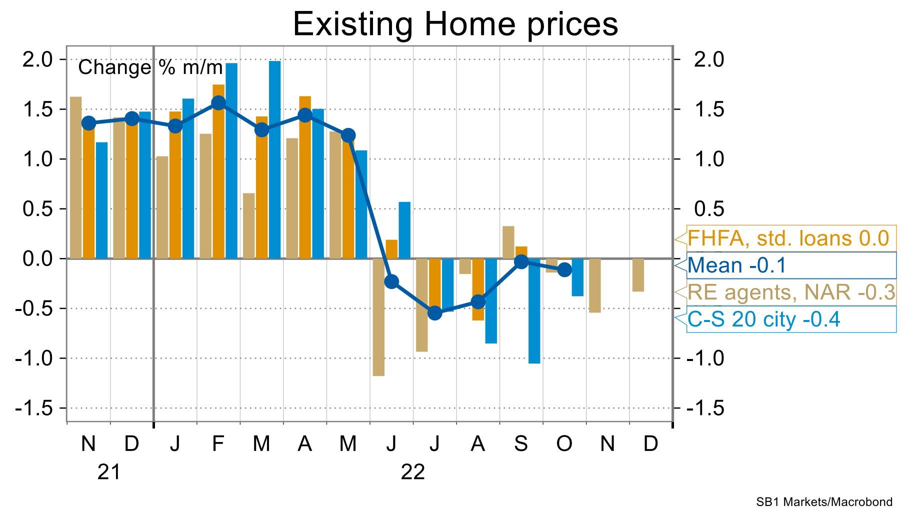



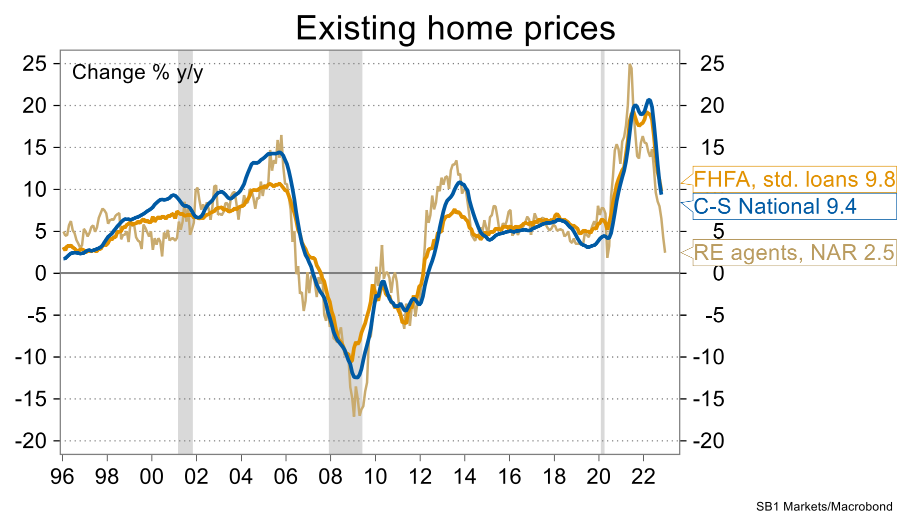

- Sales of **existing homes** fell to 4.02 mill in December (annualised rate), from 4.08 mill in Oct, expected down to 3.95 mill. Sales have fallen by 38% from local peak last January (at 6.49 mill). Sales are down 25% vs. the pre-pandemic level
- **The inventory of unsold homes** rose slightly in December too but is still lower than during the summer – and it is up less than 15% from the ATL last March. The inventory equals 3.4 months of sales (up from 3.3 last month, and 1.8 in January). However, during the 2005 boom, the i/s ratio never fell below 4 months, in bad times it has been as high as 10 months
  - Very likely, the steep rise in mortgage rates is locking prospective home movers in, if they sell, they have to pay a <u>much</u> higher mortgage rate for the next home. Thus, fewer sellers, at least for now (but also few buyers, of course!)
  - A signal of a still hot market: The median time on the market for those homes actually sold is just 22 days, and still close to ATL. Before the pandemic the time on market was at 30 days (and 120 days in 2011!)
- **Prices** fell 0.3%, the 6th decline over the past 7 months. After revisions, prices are down just 2.8% from the peak (and still up 2.5% y/y)

# House prices are falling but slower – even if the price level is still very high

Recent months were revised slightly upwards, and prices fell just 0.3% in December



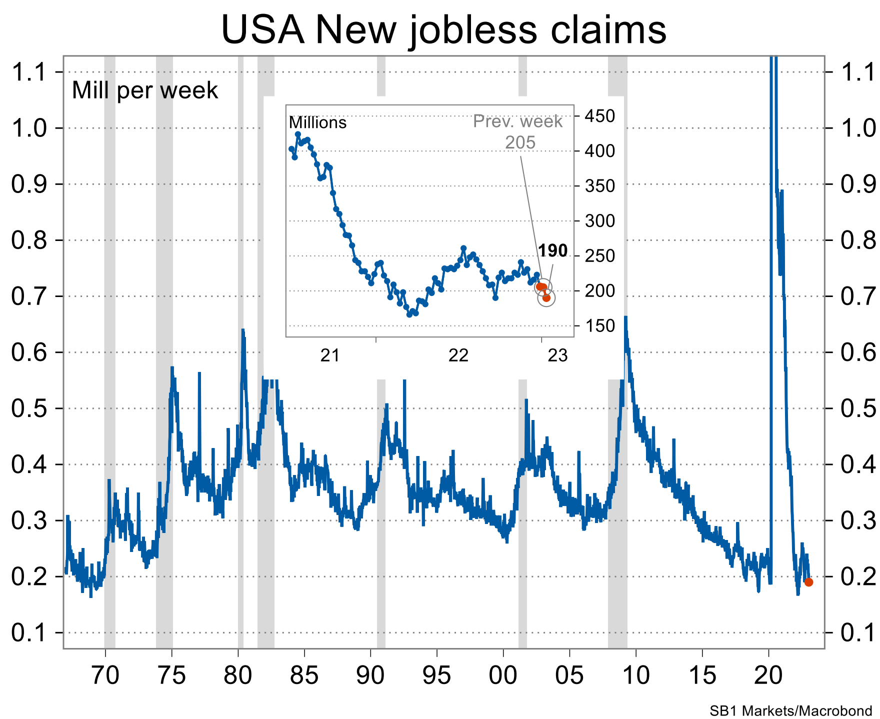



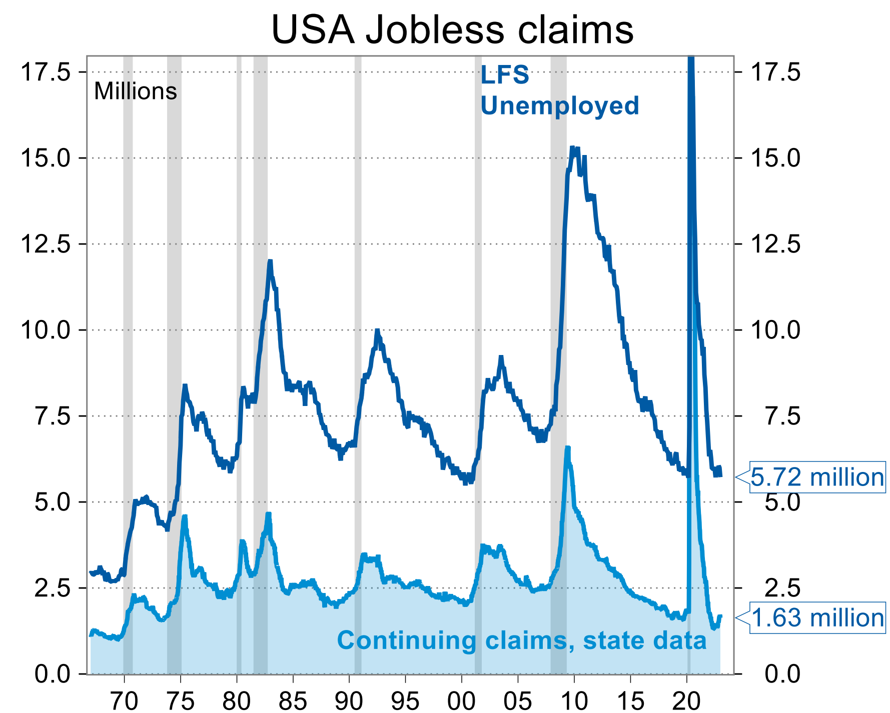




- **The price decline in Nov** was revised to 0.5% from -1%, and prices are down just 2.8% from the peak last March. The seasonal adjustment of these data is not perfect, so some caution on our m/m data. The annual rate fell 1.2 pp to 2.5%
- **Other indices** are still up 9% - 10% y/y, but prices fell all across the board in Oct (Sep - Nov, the last obs.). Prices are normally lagging sales by almost 1 year. This time, prices followed sales down much earlier, <u>we think due the rapid deterioration of affordability</u>
- Home prices rose more than 40% during the pandemic, and are way above the 2006 level, even in constant prices. We still judge the downside risk to be HUGE! 2020 prices were sufficient to keep housing starts at a decent level. To get the real price back to that level: almost 20% down

# The inflow of new unemployed down to 190’ last week, 22’ below expect.

... And it has not been lower since last spring! Were are all the laid off tech workers??

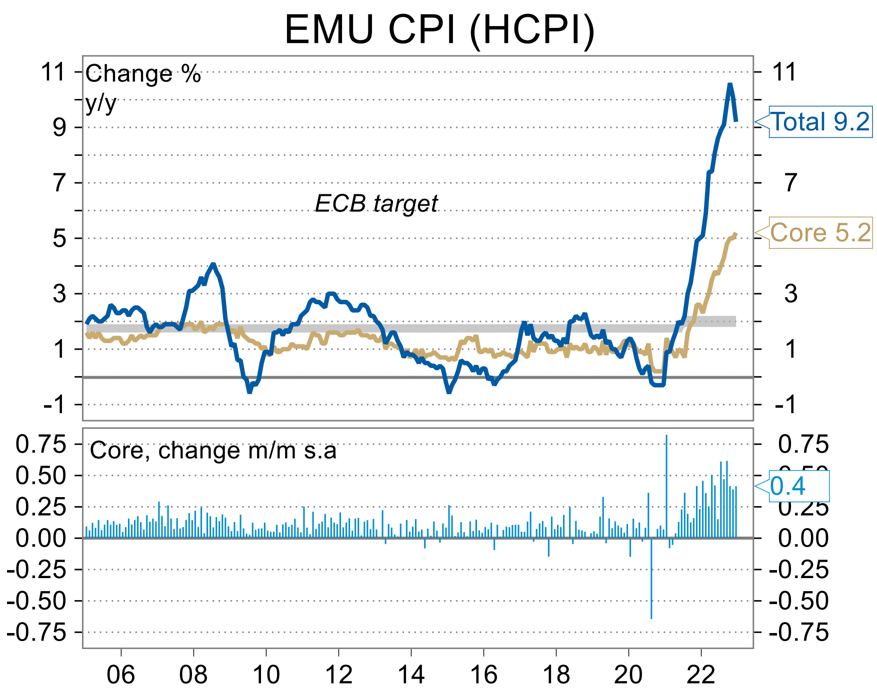


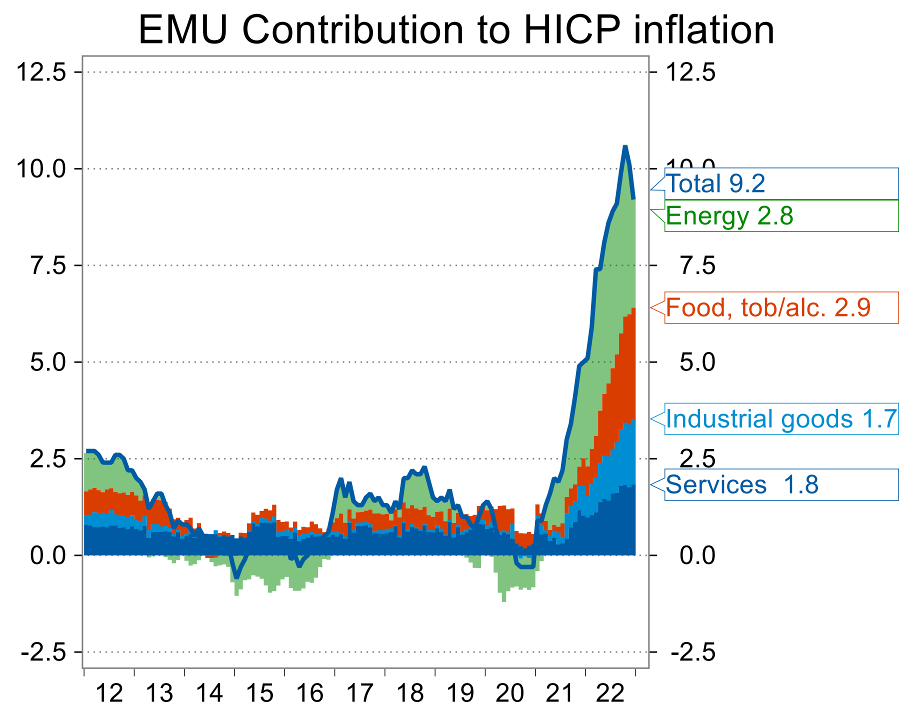

- **New jobless claims** decreased by 15’ to 190’ last week, expected up to 212’. The inflow has not been lower since last spring (and equal to one week in September)
- **Continuing claims** rose by 17’ to 1,63’ in week 1. The trend is slightly upwards but the level remains very low still
- Both still 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)

# Final data confirms headline inflation has peaked – spot on preliminary print

Headline inflation was down 0.9 pp to 9.2% y/y. However, core inflation is still accelerating, up 0.2 pp to 5.2% y/y




SB1 Markets/Macrobond

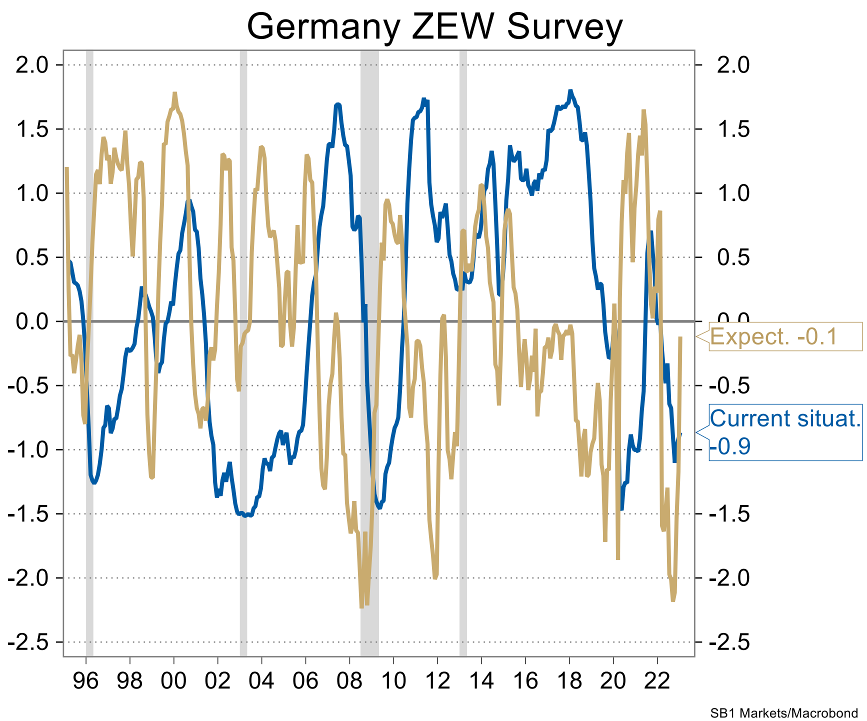


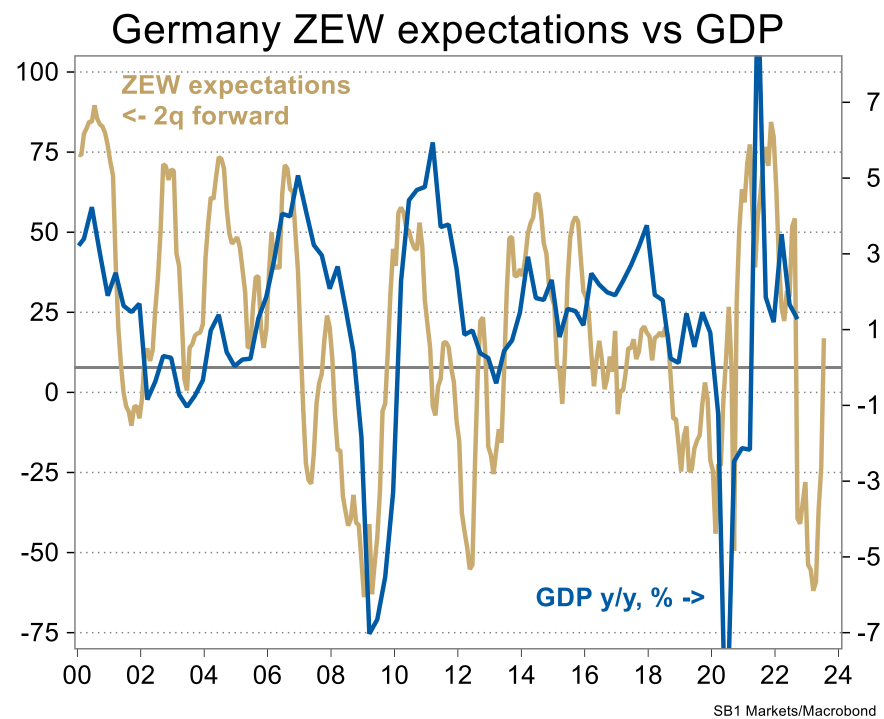

SB1 Markets/Macrobond

- The **total HICP** rose 0.7% m/m in Dec (seas adj), and is up 9.2% y/y, which is down 0.9 pp from Nov and in line the preliminary print
  - **Energy prices** were down 4.9% m/m, and they are up 26% y/y (down from 35% a month ago), but still contribute 2.8 pp to the headline rate. Food prices rose 0.9% m/m - and are up 14% y/y, contributing 2.8 pp to overall CPI growth
- **The core** rose 0.4% m/m, mostly due to the increase in the price of goods. The annual rate was up 0.2 pp from November, and spot on the initial estimate at 5.2%, the highest ever, again…
- The **ECB** hiked rates by 50 bps to 2.0% at their last meeting and reiterated that their job is to control inflation. In addition, the bank's statement with regards to further hikes was more hawkish, indicating 'several' (three or more??) 50-bp hikes to come. A lower inflation print is certainly welcome by the ECB, but the bank clearly stated that a pivot is not even close. It is adamant to get inflation under control and will tighten conditions until the target is in range

# ZEW expectations more up than anytime before, except for April 2020

German investors/analysts is starting to see the light, the index rose to an average level – signaling normal growth!

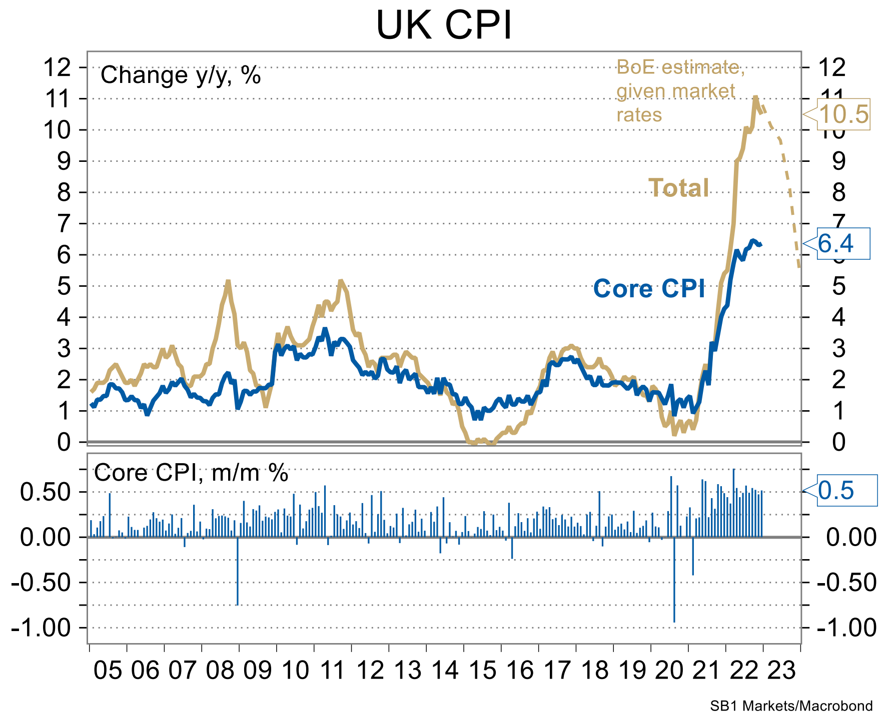


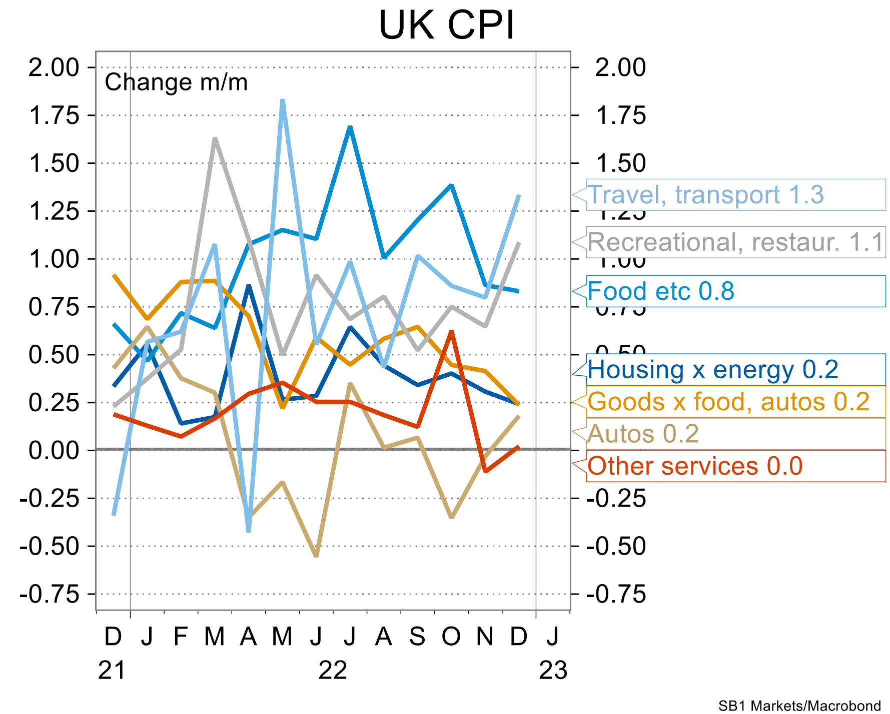




- The **ZEW expectation** rose 40.2 p to +16.9, expected just up to -15. The lift is the 2nd largest ever. Just in April 2020, analysts and investors changed their assessment of the economic outlook than now, in January. We assume the 50% decline in gas/electricity prices explains the lion's share of the unusual change of mind
  - The level is now 0.1 st.dev below average, 2.1 st.dev up from the bottom, and the highest level since before the war started – which is signalling growth at trend
- The **current situation** index was also marginally higher in January (up to -0.87 st.dev from -0.91 st.dev)
- <u>ZEW now signals 0.8% GDP growth in Germany, from signalling a recession just last month</u>

# UK headline inflation down from the peak – but both measures still sky high

Although headline inflation has peaked, there is no clear sign that the core is cooling, and that is the BOE's headache…

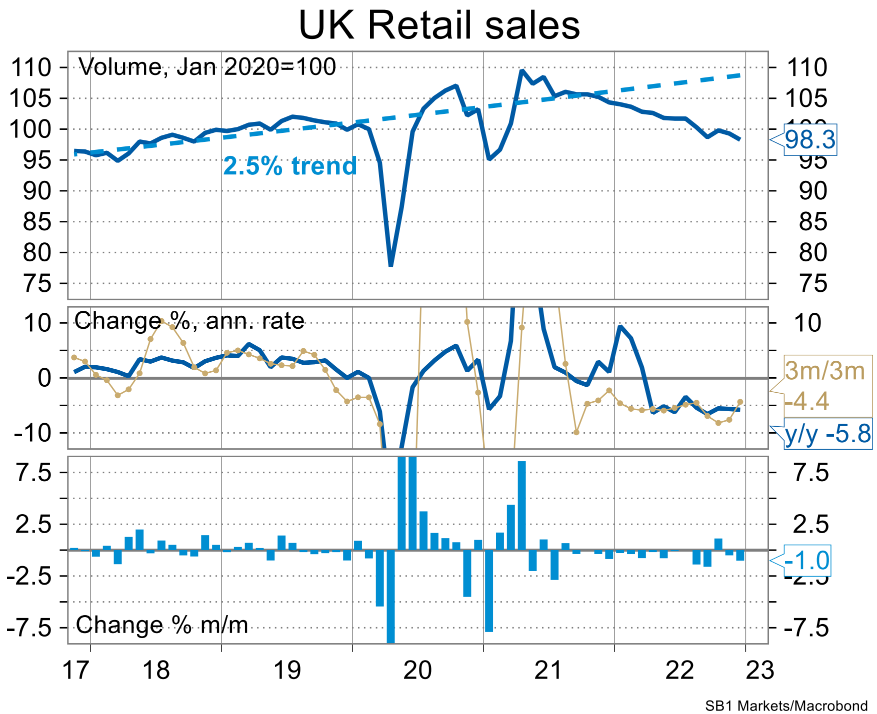


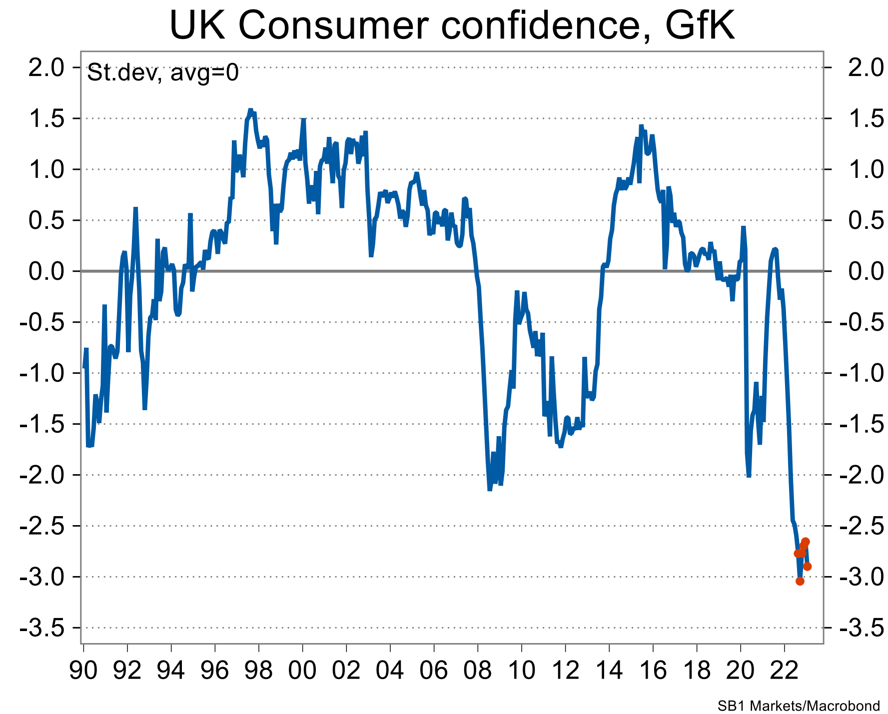




- …because inflation is broad based, and several unions are now demanding to be compensated for the high inflation and to get raise on top of that, contributing to more inflation
- **The total CPI** rose 0.4% m/m in December. The annual rate decelerated 0.2 pp to 10.5%, in line with market expectations
- **Energy prices** fell 0.1% in Dec, as they did in Nov. The 14% lift in October as the regulated price cap for energy was lifted
- **Food prices** rose 0.8% m/m, and they are up 13% y/y (+11.6% IN Norway), lifting the headline by 2.1 pp!
- The **core CPI** (ex food and energy) rose 0.5% m/m, and is up 6.4% y/y, unch. from November
- **Auto prices** are up 0.2% m/m and up 0.6% y/y
- **Almost all major sectors** are reporting growth at or above 2%, and all, but the bulk 'Other sectors' are up by more than a 2% pace since before the pandemic.

# Retail sales down 1% in December, and the trend is straight down

Sales are down 5.8% y/y and 4.4% 3m/3m. Consumer confidence is still very low – and was down in January



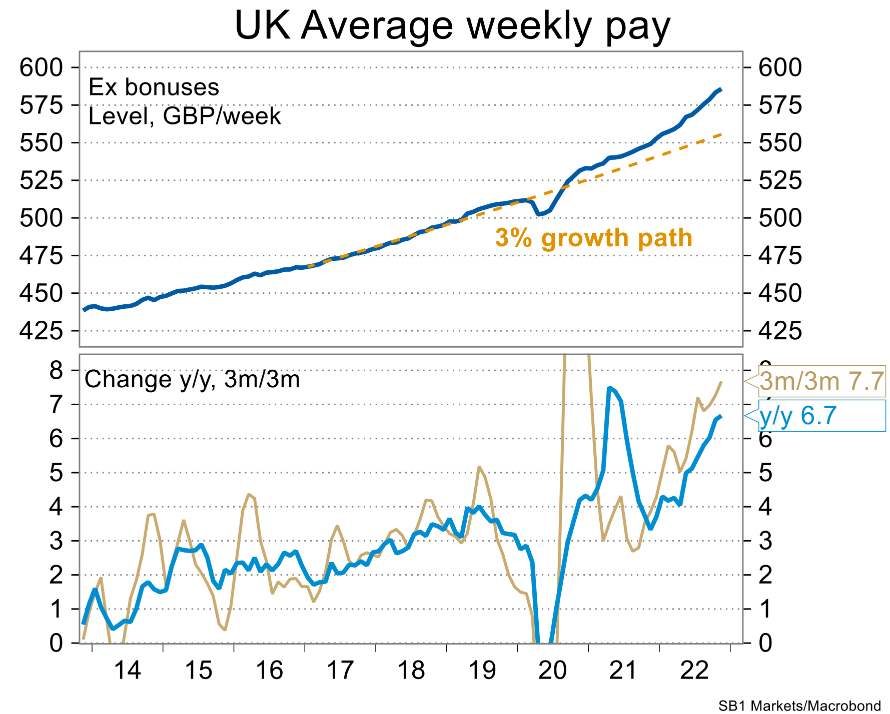




- **Retail sales** peaked Apr-21, and the gradual decline brought sales down to way below the pre-pandemic 2.5% growth path – and now even 1.7% below the pre-pandemic level! Sales are down at a 4.4% pace measured 3m/3m, a substantial drag on GDP growth in Q4 (while monthly data so far indicate a positive growth rate for the quarter)
- **Consumer confidence** decreased slightly again in Jan, to 2.9 st.dev below average, from -2.6 st.dev in Dec
  - High inflation, and an unprecedented decline in real wages and higher interest rates are likely reasons for the historically low consumer confidence. Political turmoil is probably not helping. Besides that, the labour market is strong, the unemployment rate the lowest in 4 decades

SpareBank 1 MARKETS

# Unemployment rate a tad higher – but <u>wage inflation is on the way up</u>

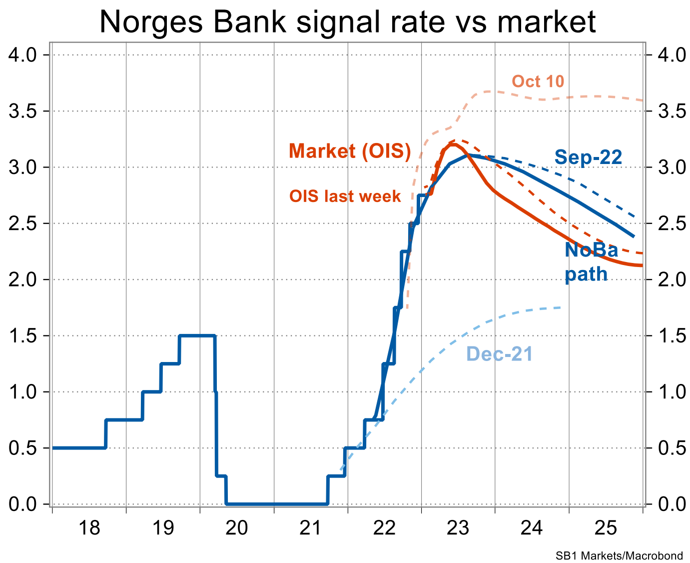
… wages ex. bonuses are up 6.7% (7.7% m/m), up from the pre-pandemic level at 2% – 3½%

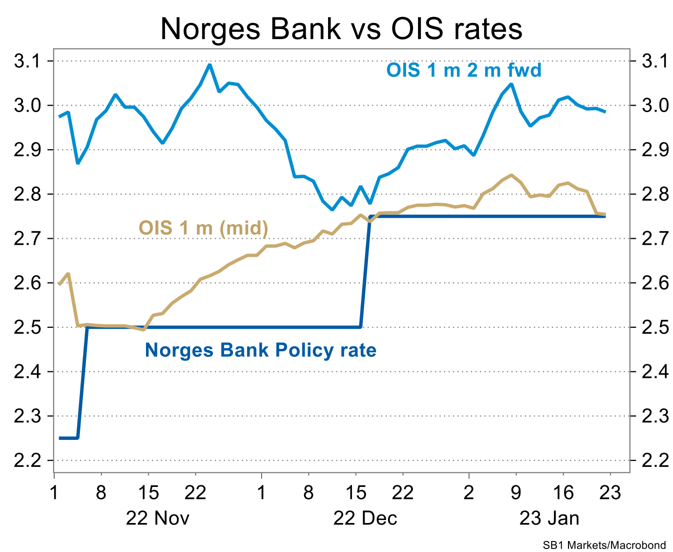




- **Annual wage growth** (regular pay, 3 m avg) <u>accelerated</u> 0.3 pp to 6.4% in November, expected at 6.3%. Not smoothed, wages were up 6.7% y/y, and the underlying 3m/3m rate is at 7.7%
- **Including bonuses**, total wages are up 6.4% y/y (3 m avg), 0.2 pp higher than expected (*chart next page*)
- Just before the pandemic, wage inflation was approx. 3% (total pay) to 4% (regular pay) – but just between 2% and 3% the preceding years. <u>Thus, the current wage inflation rates are well above the British ‘norm’, that have yielded 2% CPI inflation</u>
- Some unions in the UK have lifted their ambitions substantially recent months – as inflation is close to 10% - and BoE expect more to come. Wage claims in the same territory have now been aired, not surprisingly, in a very tight labour market. There are several ongoing ‘rolling, part time’ strikes in the public sector

# NoBa: No hike, as expected (at least in Oslo) – but the bank is not finished yet

Foreign analysts expected a hike, and the market assumed a 20% probability for a hike

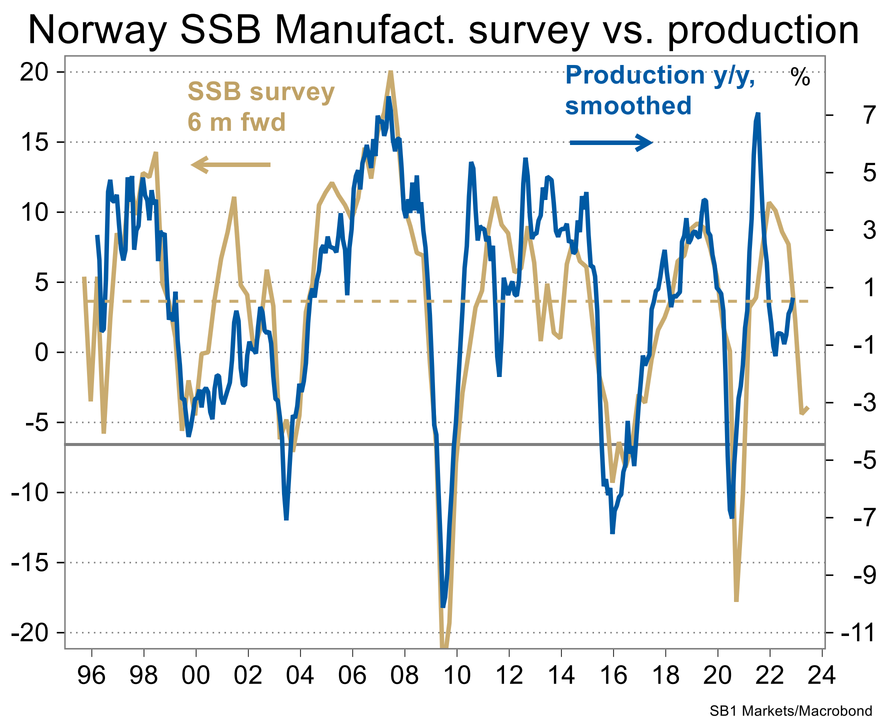


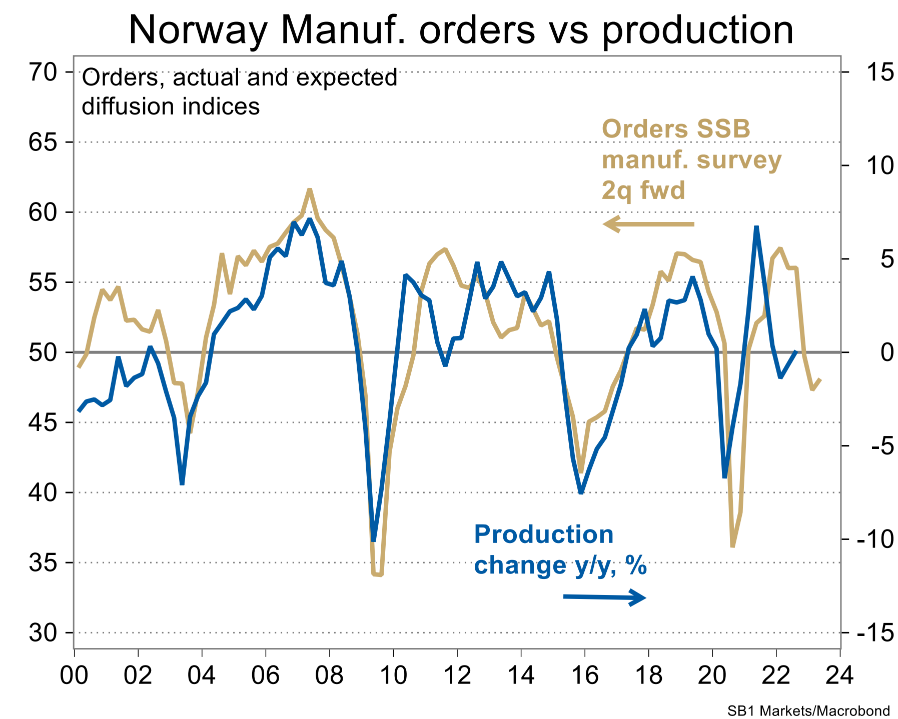




- **The pause** was widely expected among analysts in Oslo, while foreign based analysts expected Norges Bank to do as all the others these days, to continue hiking
- The bank seems to be quite confident that the job is not accomplished, "the policy rate will need to be increased somewhat further", the bank said in the press release. The "somewhat further" statement may signal one or two, perhaps three more hikes. The bank said "the policy rate will most likely be raised (to 3.0%) in March" – but the terminal rate may be higher
- The bank mentions three factors why the bank decided **not to hike now**: ".. **energy prices** will be lower than expected earlier, and **global inflationary pressures** appear to be easing. In addition, the obvious "The policy rate has been raised considerably er a short period of time, and **monetary policy has started to have a tightening effect** on the economy. This may suggest a more gradual approach to policy rate setting"
  - We think lower energy prices will turn out to be the least important argument for 'low' rates going forward, as lower energy prices will increase demand and strengthen economic activity.
- The bank also stresses that the outlook for the Norwegian economy is more uncertain than normal
- **Market reaction**
  - Before the meeting the market put close to a 25% probability for a 25 bp hike. Thus, the **very short end of the curve** (1 m OIS) fell 6 bps after announcement, and the **NOK** fell somewhat
  - The curve then steepened somewhat, and the **terminal (peak) rate** in the cycle rose 2 bps to 3.20%, 9 bps above NoBa's indicated peak (signalling almost 50% probability for a 3.25% peak)
  - **The rest of the OIS curve** fell by up to 20 bp last week, and the expected NoBa rate at the end of the 2024 has fallen by 125 bps since early October (OIS to 2.3%, and the Dec-23 4 m FRA to 2.62%)

# SSB's manufacturing survey marginally up in Q4, we expected a further decl.

Still, the survey signals falling manufacturing production, zero GDP growth and a decline in OSE corp. earnings

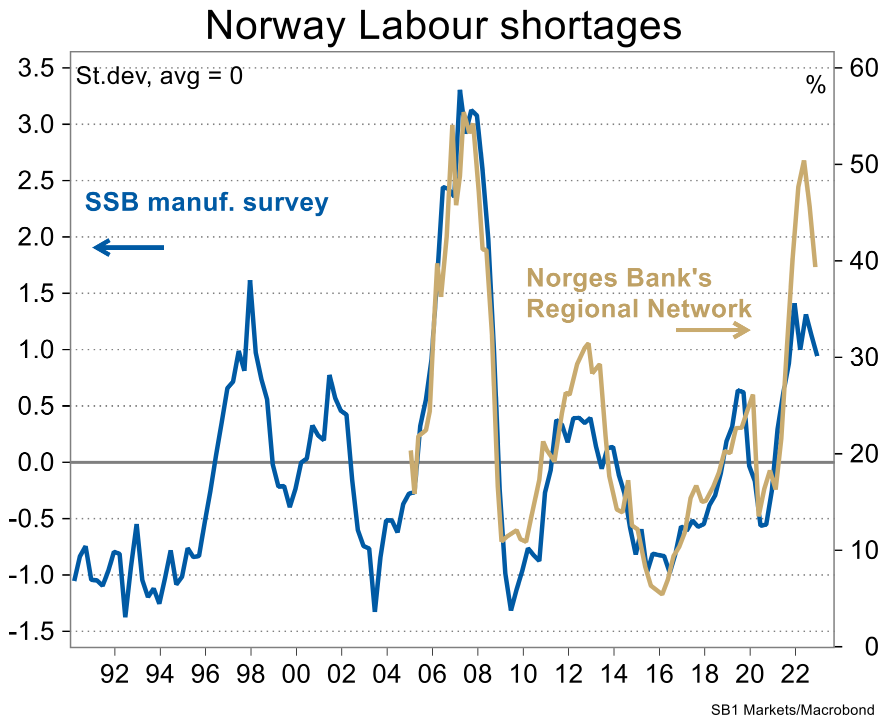


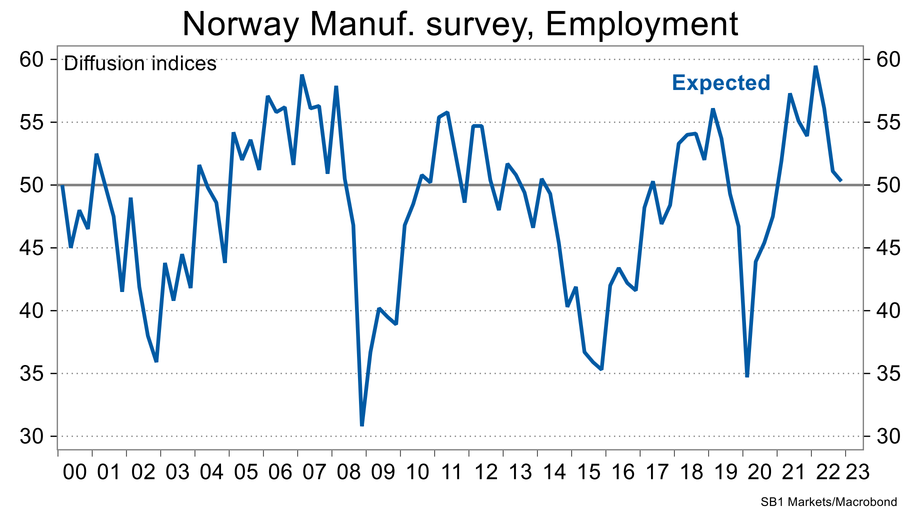




- The **composite index ('confidence')** in SSB's manufacturing survey rose to -3.9 in Q4 from -4.4, we expected a decline to -5. The survey indicates a decline in manufacturing production, no growth in Mainland GDP, and an 11% decline in expected EPS growth on the OSE (analysts still expect 55% growth)
  - Oil related sectors report a still strong outlook (like order expectations), other sectors are below average (but all recovered marginally in Q4)
- **Supply constraints** eased further, but are still the most serious since 2008, including lack of labour. **Demand/competition** is far less of a problem than normal, but more companies now reported demand concerns than the previous quarters
- Fewer companies reported they **plan to lift prices** – but the share is still very high…
- The survey confirms that the economy is slowing but does not signal a harsh setback (and not even a moderate decline in GDP, like Norges Bank tries to orchestrate

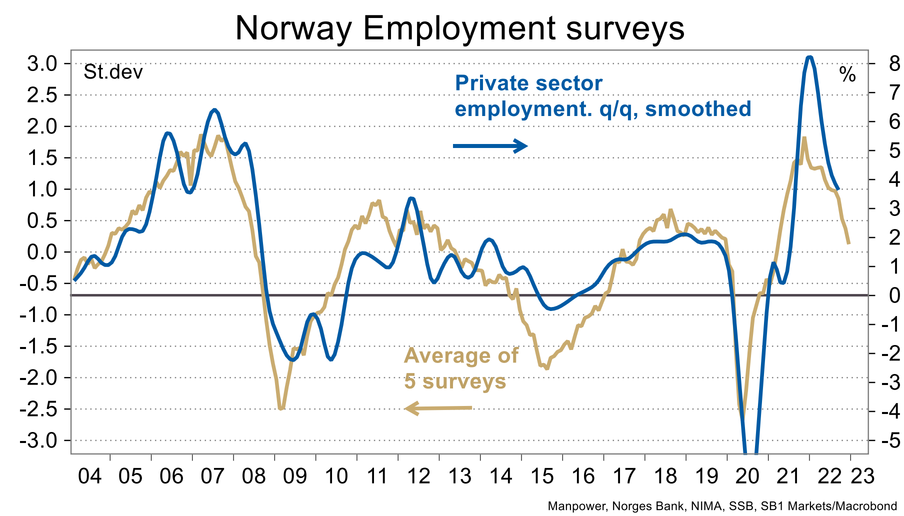
# Labour shortages are moderating just marginally, level is still high

Manufacturing hiring plans have fallen from ATH in early 2022 but are still higher than normal

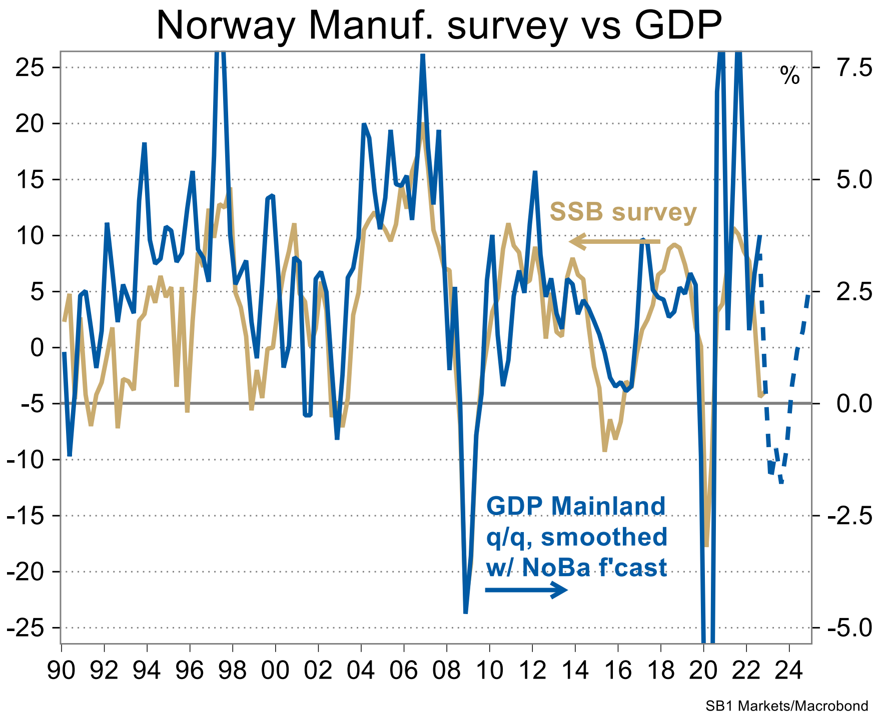


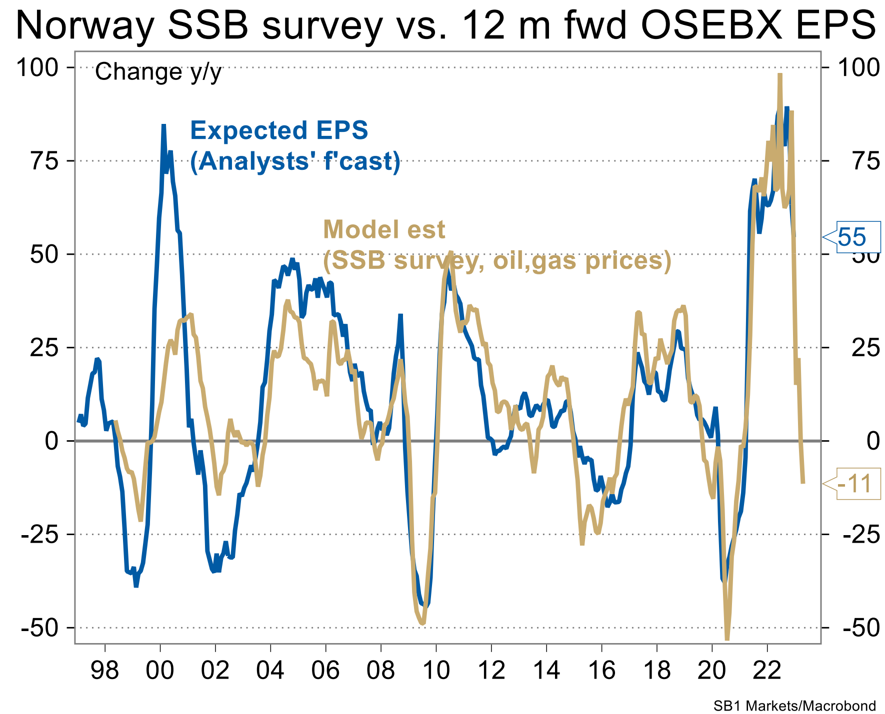




- Employment surveys are still signalling <u>stronger employment growth</u> than normal



# The manufacturing survey suggests zero GDP growth and an EPS decline

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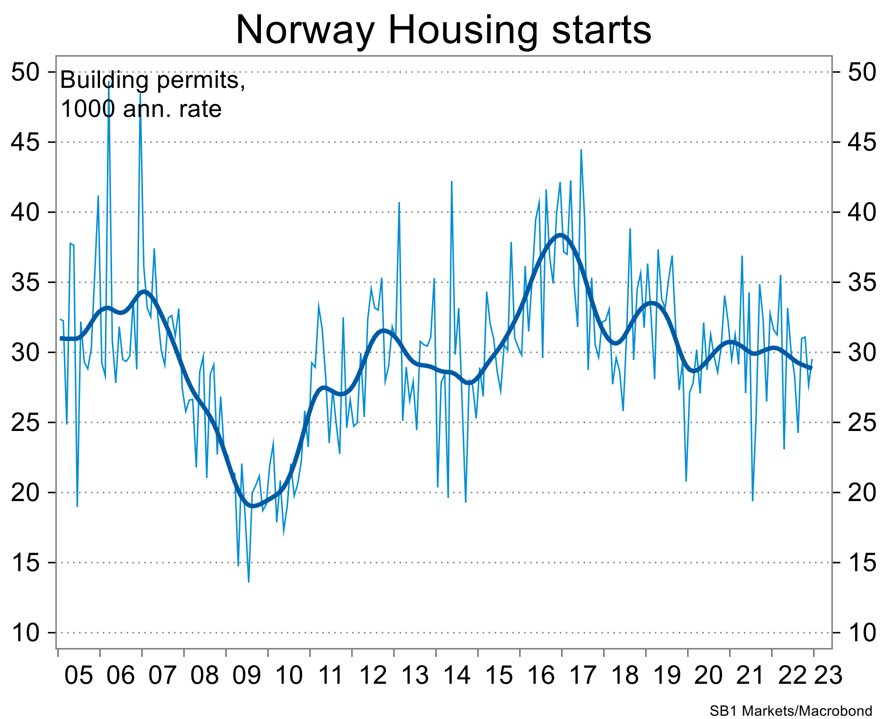
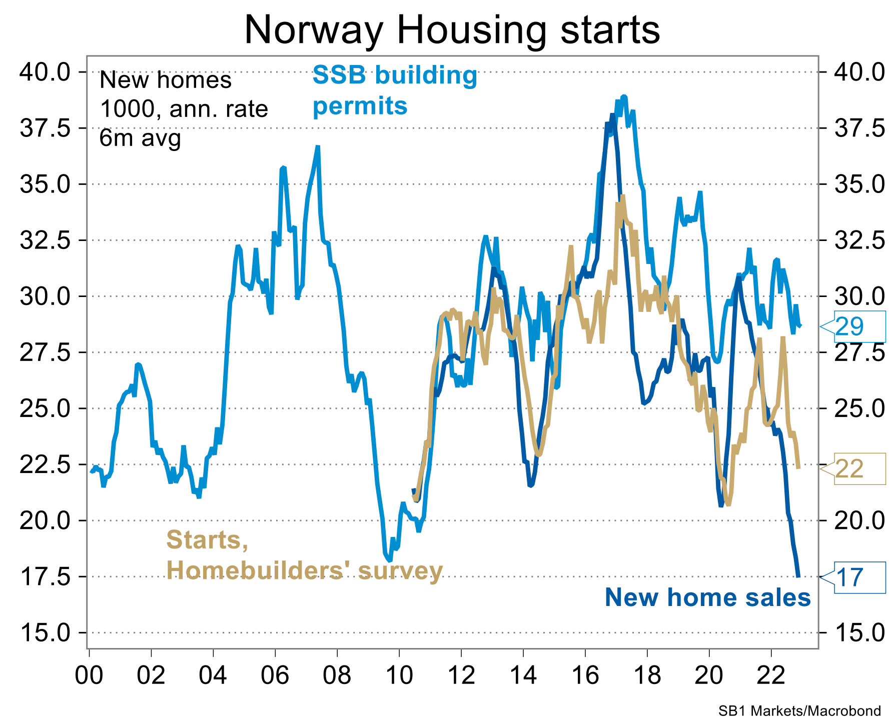
# SSB: Housing permits are trending slowly down, still at a decent level

Permits at 30'– and the trend is just slightly down

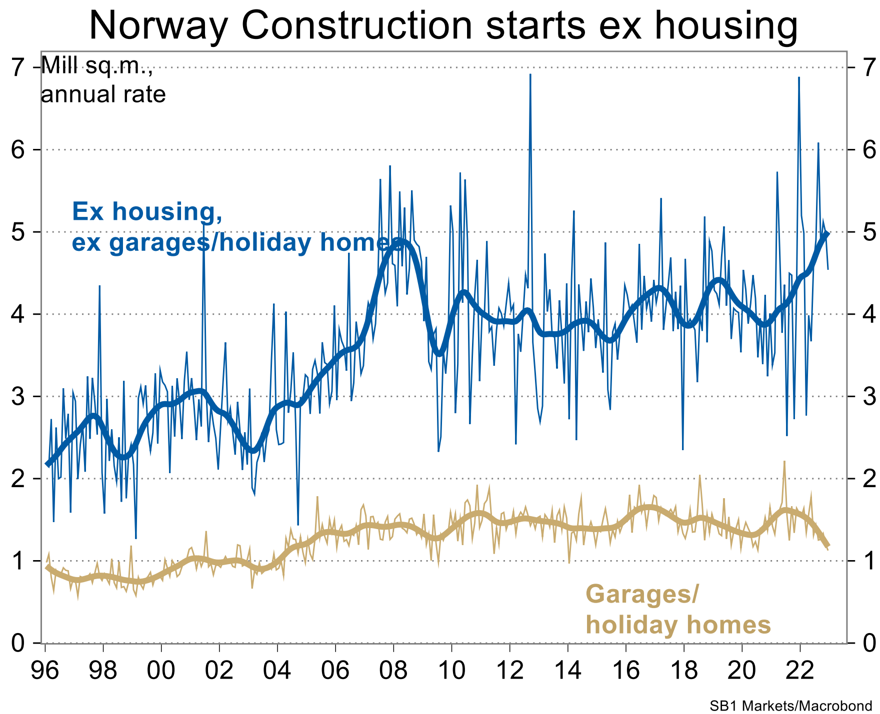


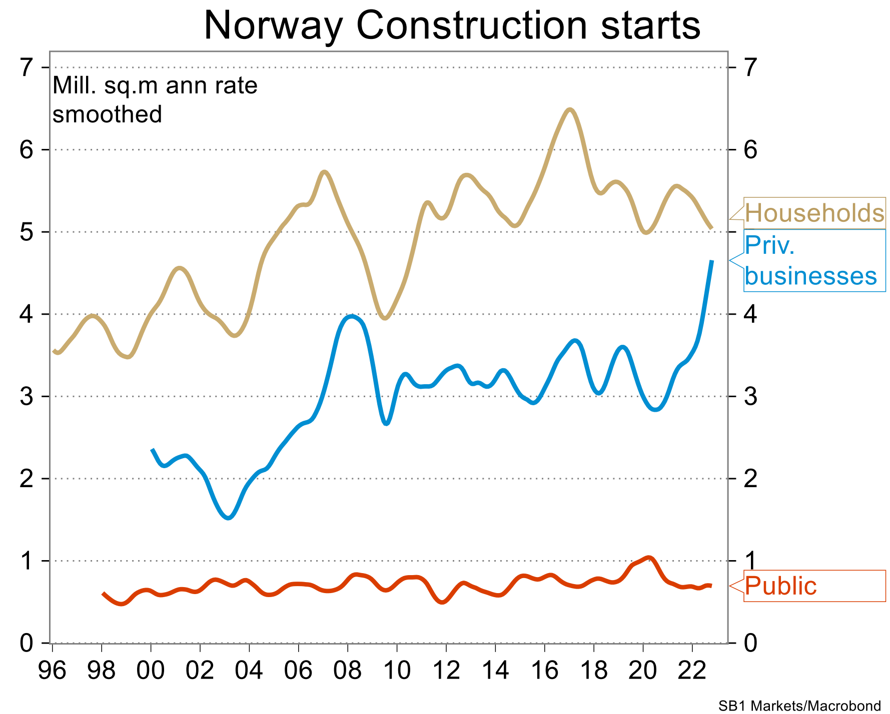




- The average no. of permits the past 6 months is at 29' (annualised), while Home builders (Boligprodusentene) report a 22' pace in actual starts (Nov. last data point, Dec data out this week)
- Student homes and assisted-living/nursing homes are not included in data from the Home builders. Some larger players do not report their activity to the Home builders' association either

# Non-residential construction still going VERY strong

Construction starts in the public sector is flat, garages/holiday homes are declining rapidly. But private businesses…

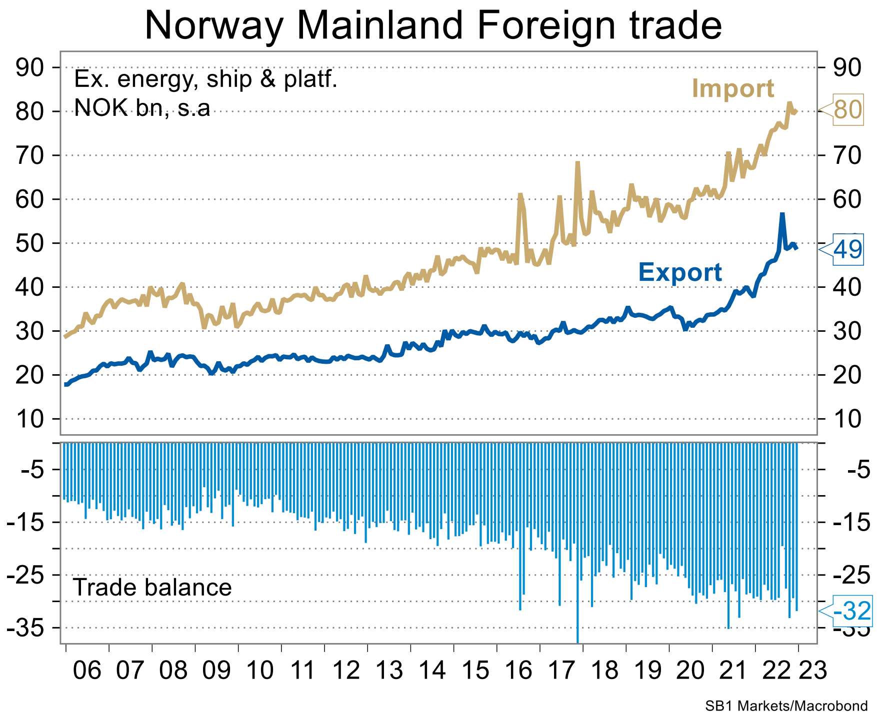


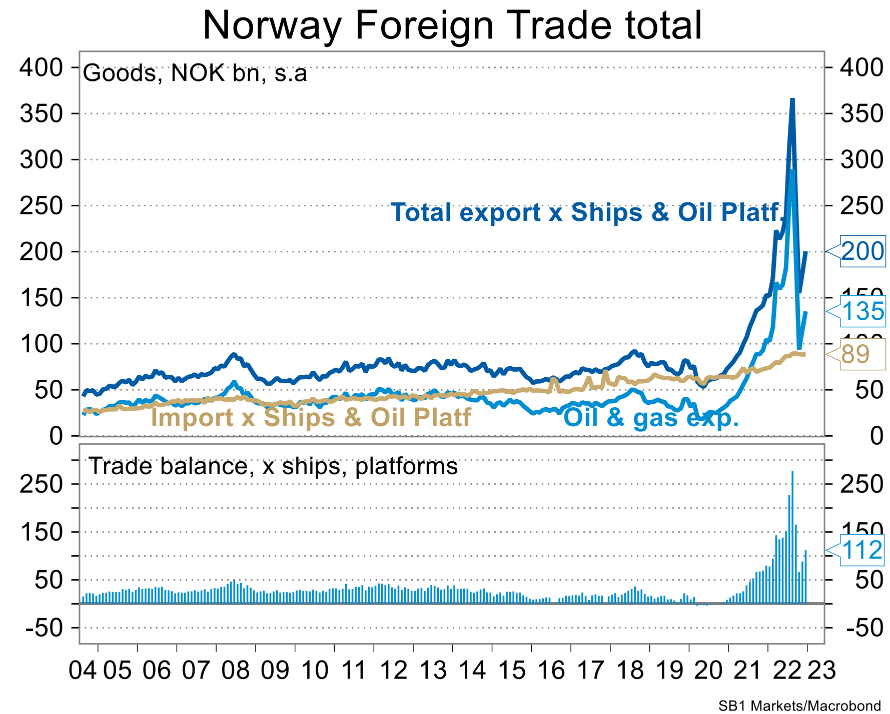




- **Private non-residential starts** have surged from a local bottom in 2020 to the highest level in (at least) two decades
- **Public sector construction starts** have stabilised at a 'normal' level
- **Construction starts of cabins/garages** climbed 30% – 40% from early 2020 until late 2021– but are now trending down, and are soon back to the pre-pandemic level

# Trade surplus higher thanks to high realised gas prices and higher exports

## The Mainland x energy deficit widened, as exports decreased, imports increased

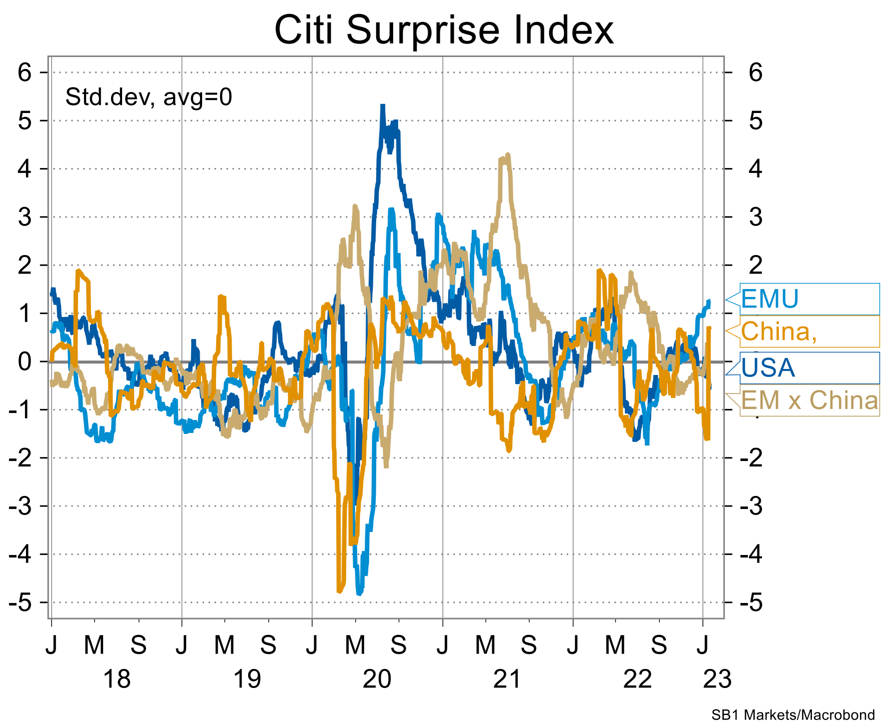


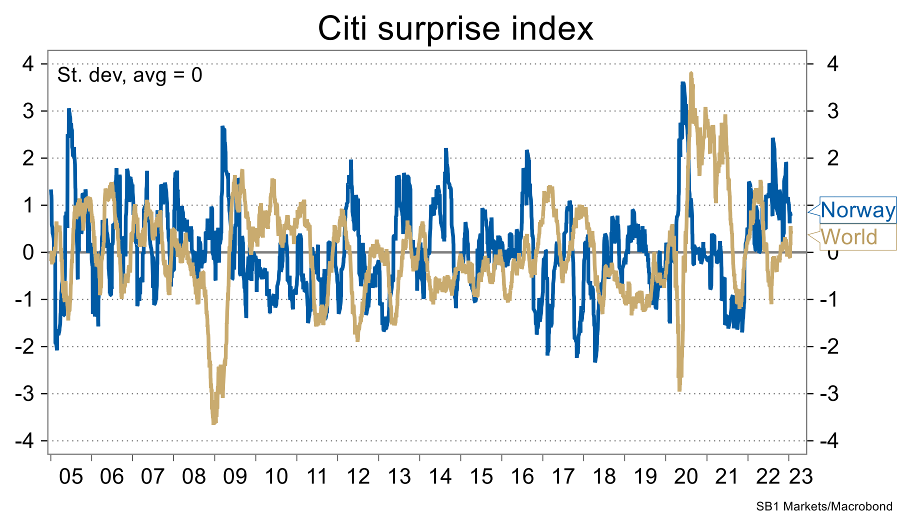



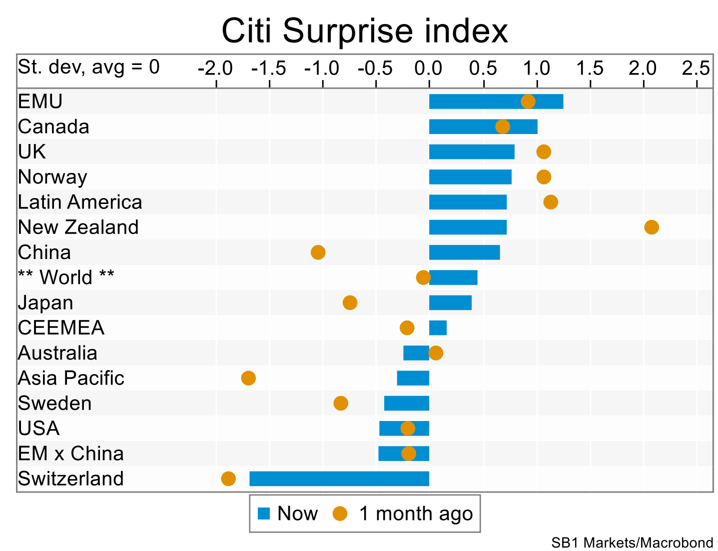

- The December **overall trade surplus** in goods was NOK 112 bn, up from 88 bn in November (but down from ATH at 280 bn in Aug). The Dec surplus equals 39% of Mainland GDP
- **Oil & natural gas exports** were up 18% m/m, following a 42% increase in Nov – in volume terms, gas exports were up 8%. So far in January, gas prices have come down quite significantly, and will likely send the value of gas exports and the trade surplus down in Jan/Feb
- **The Mainland (and non-energy) trade deficit in goods** increased by 3 bn to NOK 32 bn, equalling 11% of Mainland GDP (however, deliveries from the Mainland to the oil sector (cap. ex and op.ex) are not counted as exports from the Mainland but imported intermediate goods for producing 'exports' to the oil sector are counted as imports – and the 'real' Mainland trade balance is far, far stronger)
- **Non-energy exports** were down by 1 bn to NOK 49 bn. Mainland exports have been very strong in value terms during and after the pandemic, and the underlying growth rate over the past year is some 30%. Exports are up 49% since the end of 2020, almost entirely due to higher prices. Fish, metals, and chemicals exports were all higher in Dec, after falling the month before
- **Imports** increased by 1 bn to 80 bn in December, and is still trending rapidly upwards

# Suddenly, China surprised at the upside – and lifted the whole world!

EMU data also better than expected. US disappoints at the downside



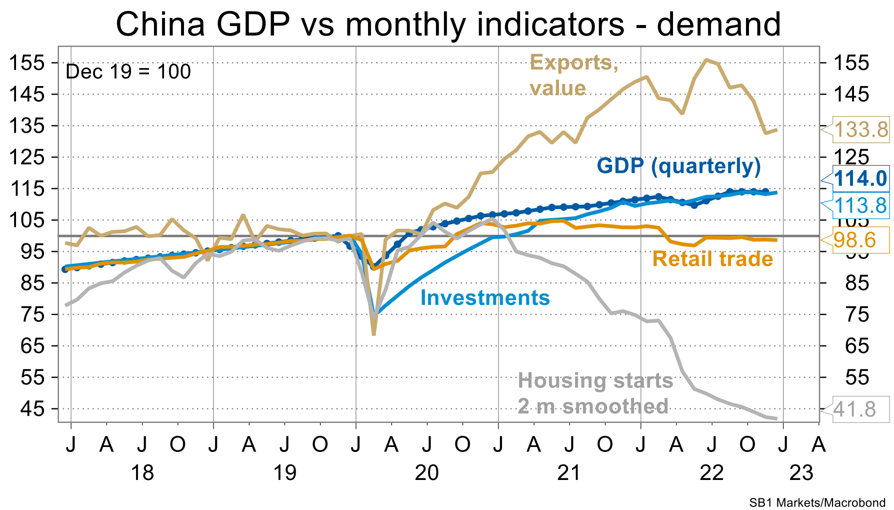



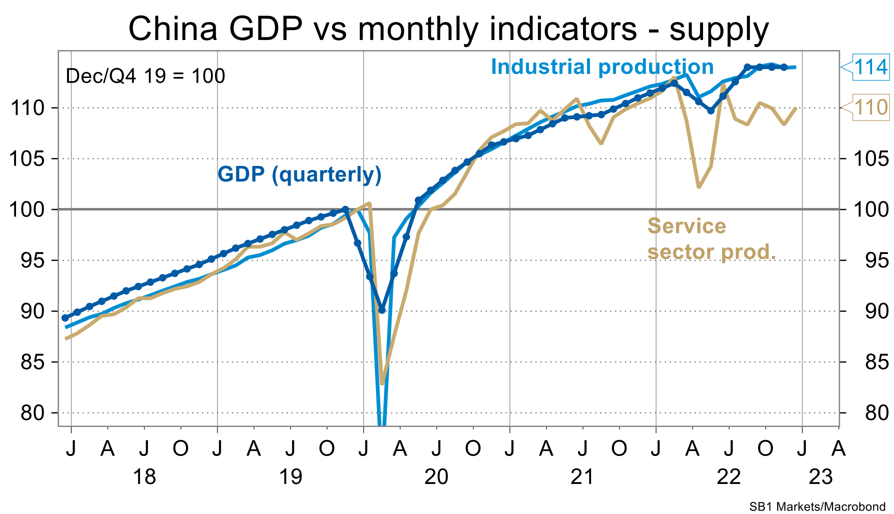

- **Norwegian data** still better than expected, according to Citi

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

# December & Q4 better than expected, still weak. A bright spring ahead?

Last year ended on sour note, but not as bad as assumed. Now, all eyes are on the impacts of the (ongoing?) reopening




**In sum:** Better than expected, and the outlook is bright, at least for parts of the economy. Construction may remain a large headache

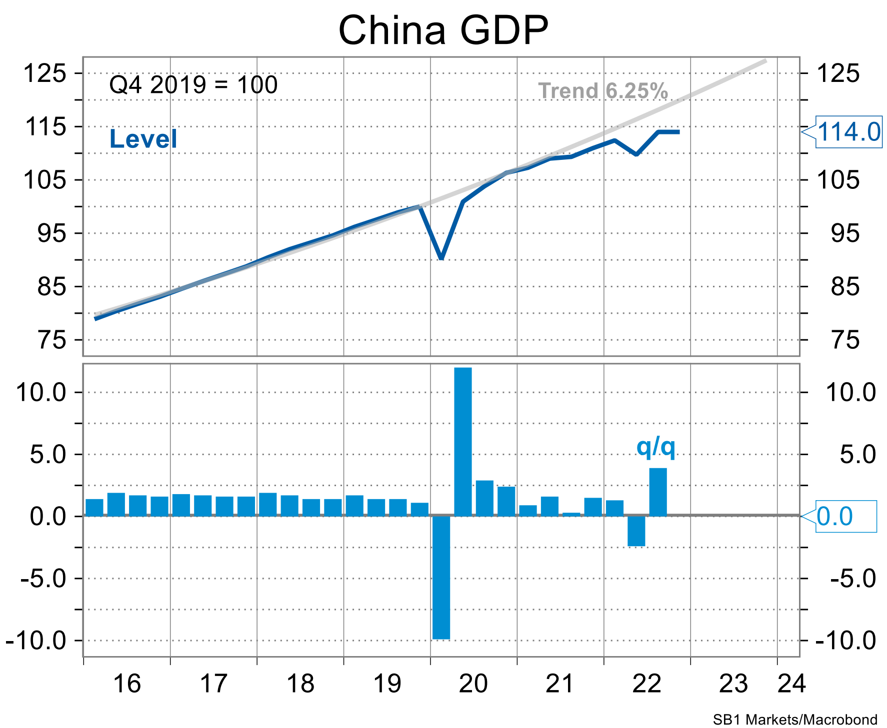
Today, the focus is not on Dec or Q4, but on the impact of the **reopening** following (hopefully) the last Covid wave. The rapid increase in mobility bodes well for retail sales and services the coming months. Below is our main take of the 'old' data:

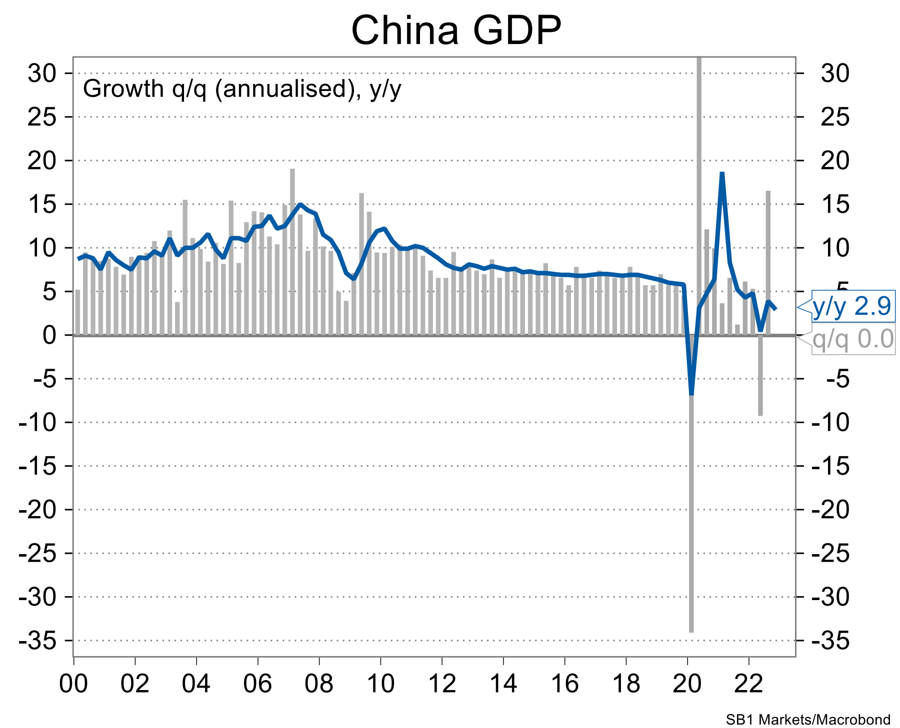
- **GDP** was unchanged q/q in Q4 far better than expected (-1.2%), the annual growth was 2.9%, expected 1.6%. Last year, GDP rose 3.0%, well below the official 5.5% growth target. Investments were the main growth contributor, consumption was far weaker than normal. Foreign trade was in plus, as in 2021. The 2023 outlook is far better
- **Industrial production** was up 0.1% in December, and production is up 1.7% y/y, expected 0.2%, down from 2.2% in Nov – well below the 'normal' 6% growth rate. Machinery, chemicals, and aluminium up, cement and steel production down
- **Service sector** production was better than we expected, up 1.6% but still down 0.8% y/y, way below the normal pace
- **Retail sales** volumes declined 0.1% in Dec, following the 0.1% gain in Nov. Once more, history was revised, this time up by 1%. Sales were far better than expected: They fell just 2% y/y in value terms, up from -5.9% in Nov, expected -8.6% (!). A huge miss. The upside must be substantial, like for services, when the Covid struggle soon (if not already) is history
- **Investments** rose 0.5% m/m, as annual growth was slightly better than expected (and by 5.1% last year, somewhat lower than the 'normal' growth rate). Investments have kept up, even in decline in **construction starts**, is huge, down 60% from the peak, the largest contraction even. Starts were flat in Dec, while **new home sales** fell further. The authorities have announced a long list of measures to prop up the real estate market – and some recovery seems likely. But not a return to where it came from – and cannot be the aim either

**Headlines from the previous week:** Credit growth slowed further in Dec exports stabilised, imports rose. Inflation is very low

# GDP flat in Q4, far better than exp. (-1.2%). 2022 still a weak year, of course

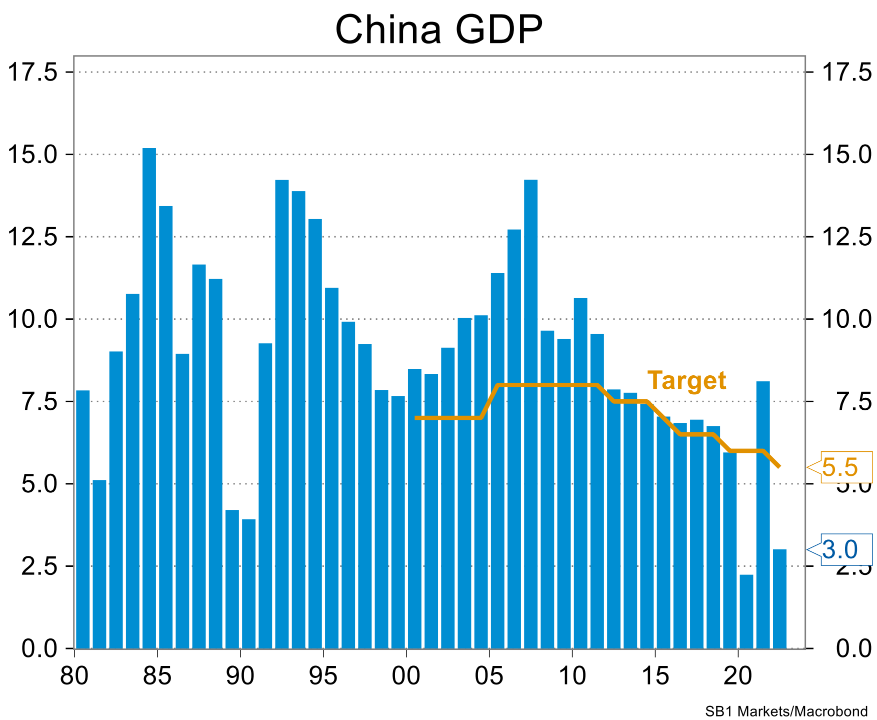
GDP grew 2.9% y/y (exp. 1.6%) – and by 'just' 3% in 2022, well below the 5.5% ambition. The 2023 outlook far better



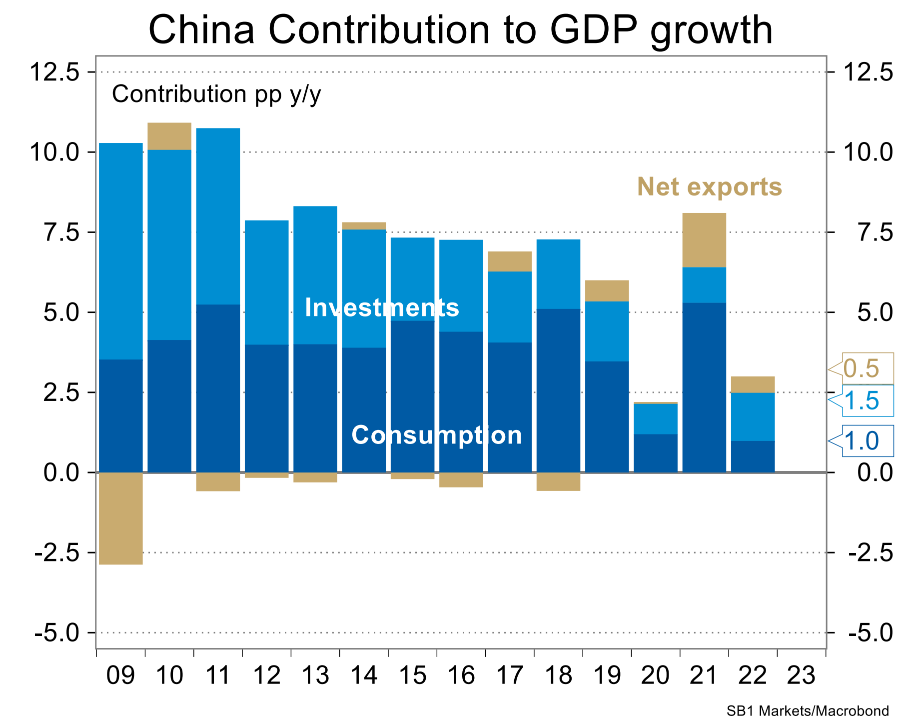

- GDP is 5% below the pre-pandemic trend path, which was slightly above 6% - albeit slowly slowing

# 2020 and 2022 both for the history books, for the wrong reason of course



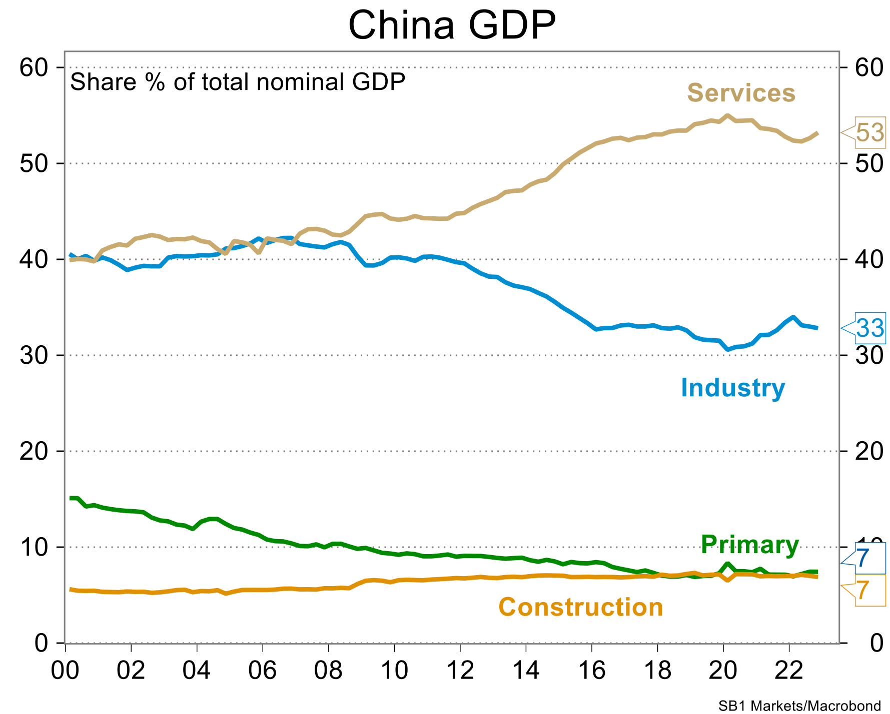
# Last year, investments were the main growth engine, say authorities

Growth in consumption was well below 'normal' levels, as in 2020. Net exports were slightly positive, and less than in '21

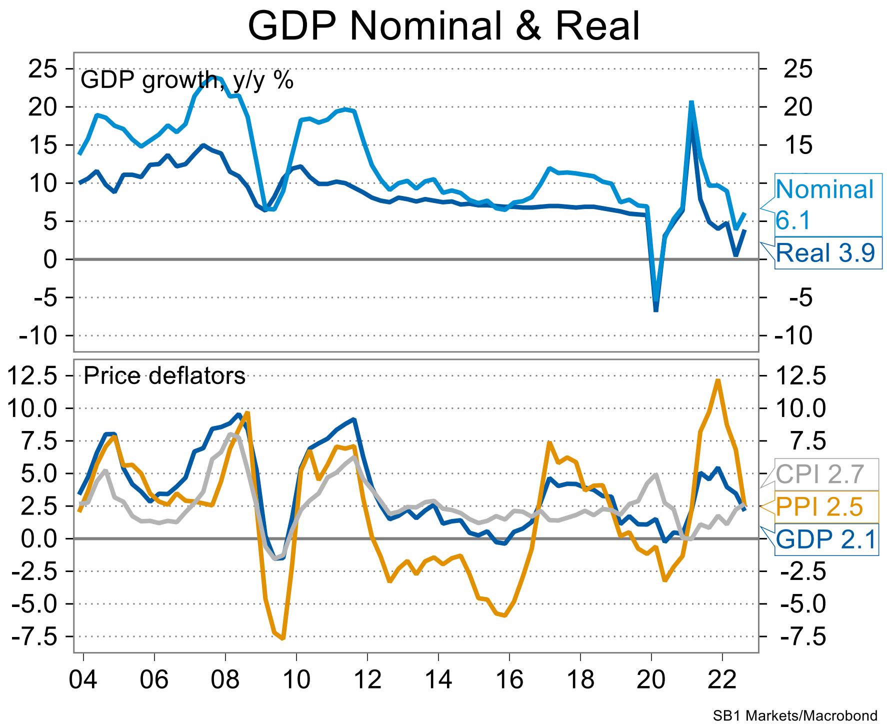
# Still too much zigzagging in quarterly sectoral production data

How construction managed to growth 7% y/y in both Q3 and Q4 is close to a mystery to us

# The GDP price deflator up just 2.1% y/y, was above 5% in Q4 last year

Nominal GDP up by 6.1% y/y – CPI inflation is still just slightly above 2% (and core is below 1%)




- Manufacturing producer prices (PPI) are up 2.7% y/y (quarterly avg.), well down from the peak at above 12% in Q4
- China is not struggling with inflation at all

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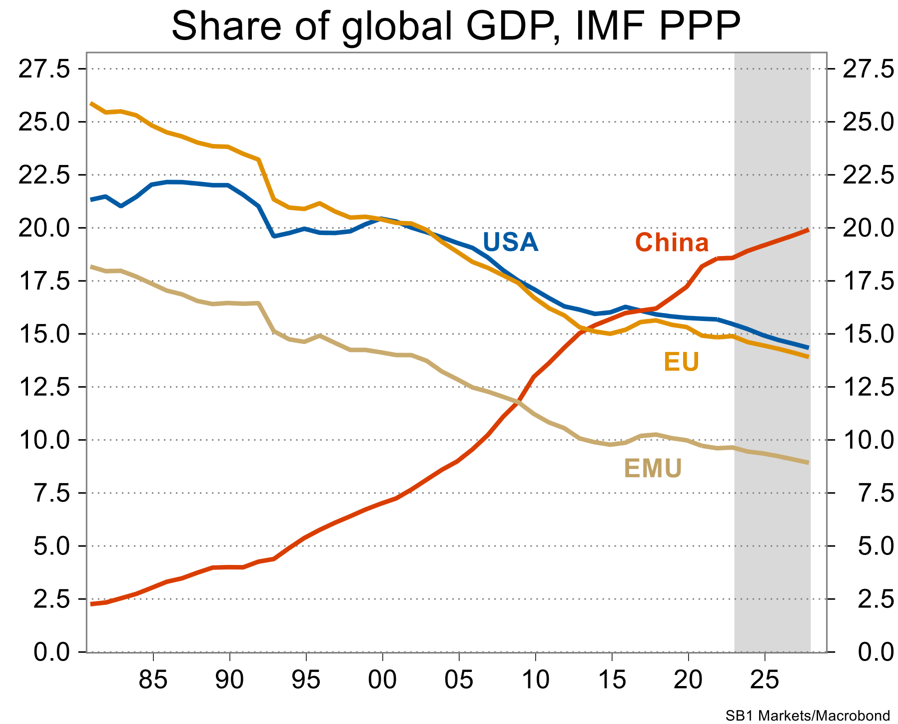
# China has contributed less than normal to global growth in 2022

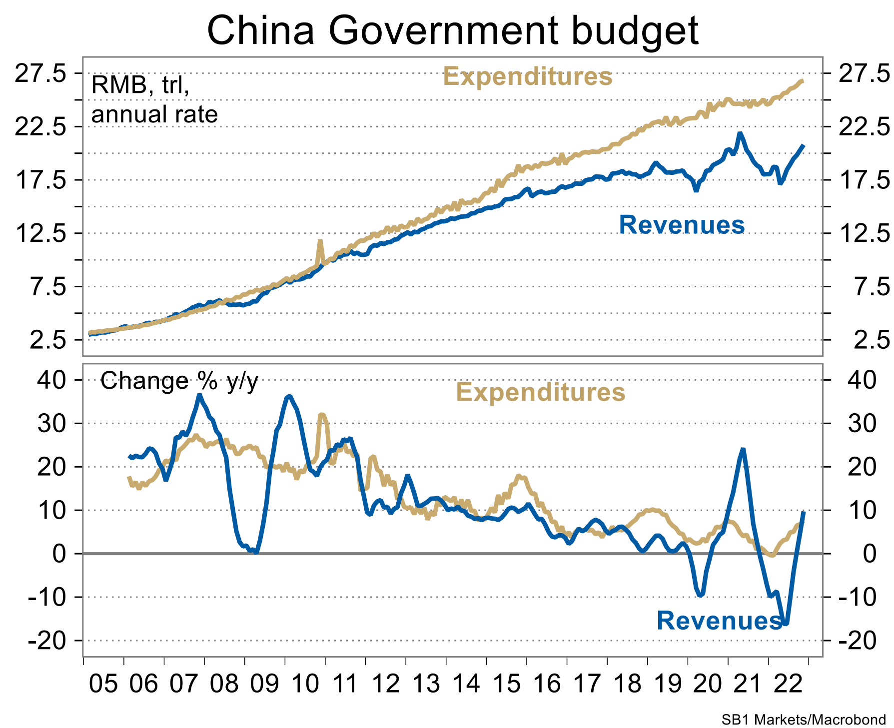
In Q2, world GDP slowed substantially due to China, and very likely the US as well

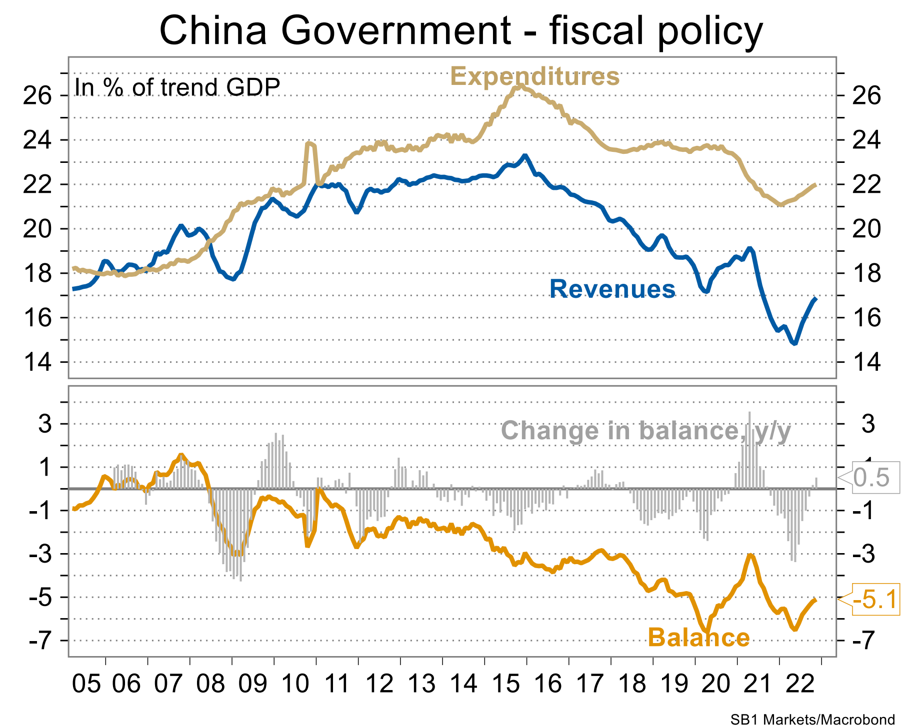




- Until the pandemic, there has not been any downturn in the world economy for which we can really blame the Chinese – and the Chinese economy weathered the first Covid wave rather well (at least economically)
- Measured in purchasing parity adjusted prices, the Chinese GDP has been larger than the US GDP since 2017 – and the underlying growth rate is very likely still higher, even if 2022 not was the best of years

# Fiscal policy has been expansionary – and will probably remain so

… even in if the budget deficit is reduced in H2, due to an increase in revenues. Some fiscal support in the cards now?

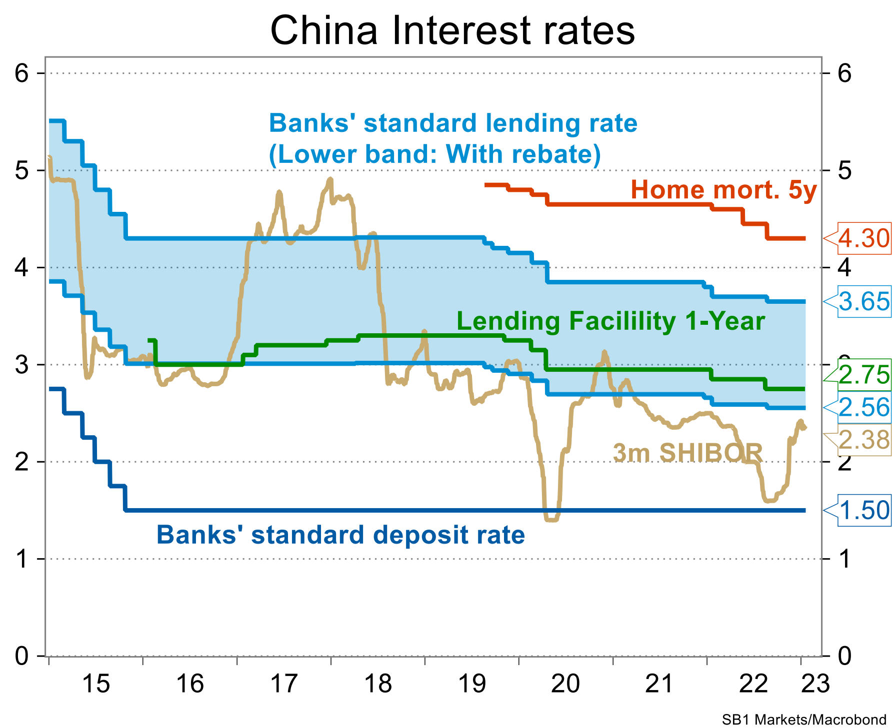


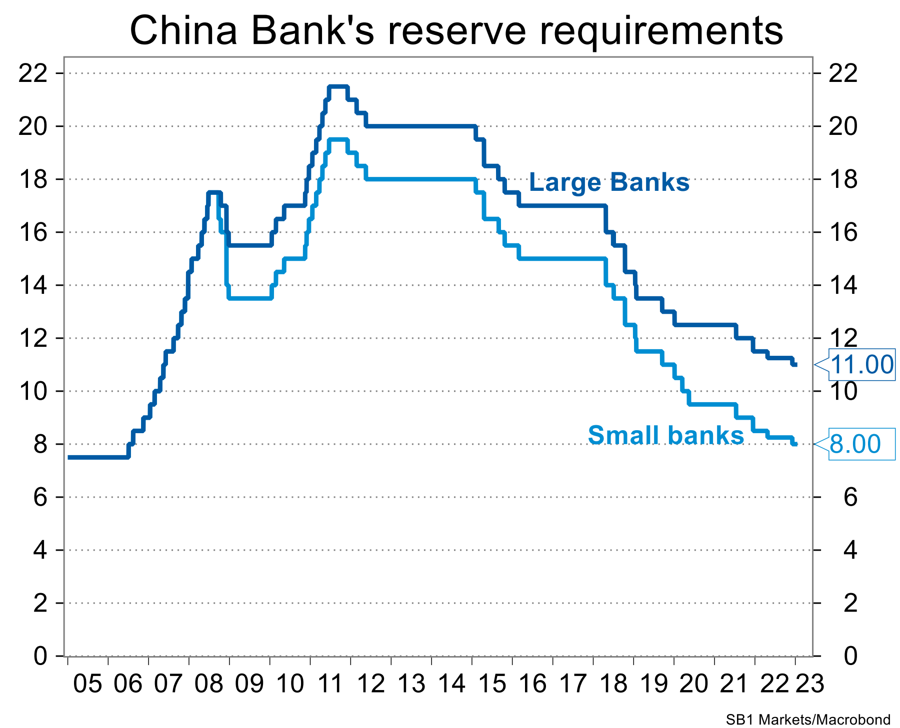




- Growth in **expenditures** has picked up, also in % of GDP through 2022, and policy makers have signaled a further increase in 2023, to help kick-starting the economy out of the pandemic
- **Revenues** fell to a very low level in mid 2022, and have increased substantially in H2, even if growth has been mixed

# More policy easing in the cards?

So far, interest rates have not been cut by much – but the reserve requirements are trending down

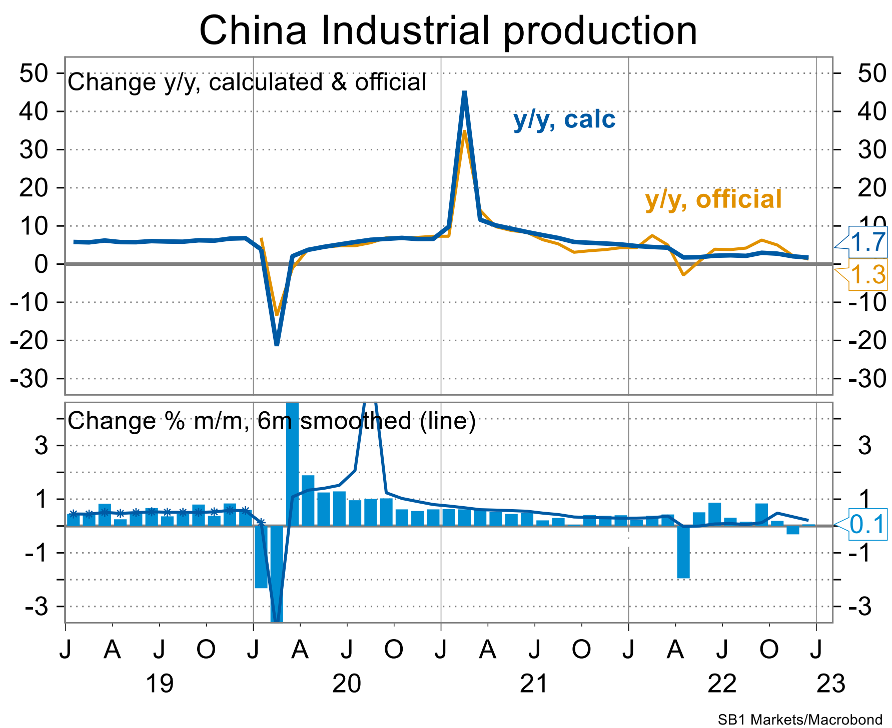


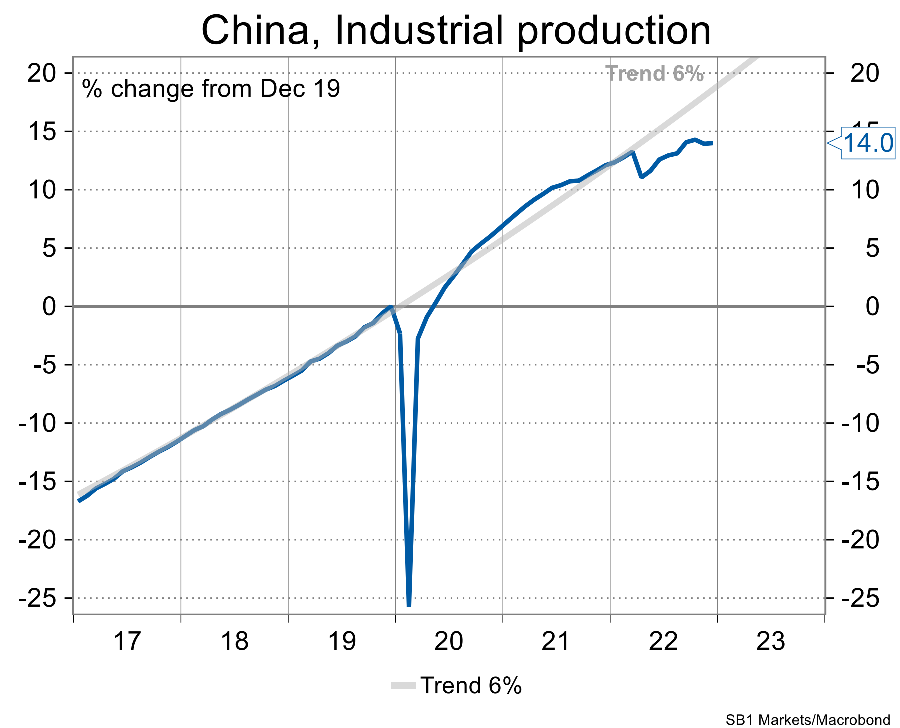




- A lot of measures have been announced in order to secure funding to the construction sector, following the tightening in 2020, that very likely contributed to the harsh downturn in construction starts (-60%)

# Industrial prod. marginally up in Dec, level 5% below the pre-pandemic trend

Production rose by 0.1% m/m, and is up (just) 1.7% y/y, expected 0.2% y/y, and down from 2.2% in Nov.

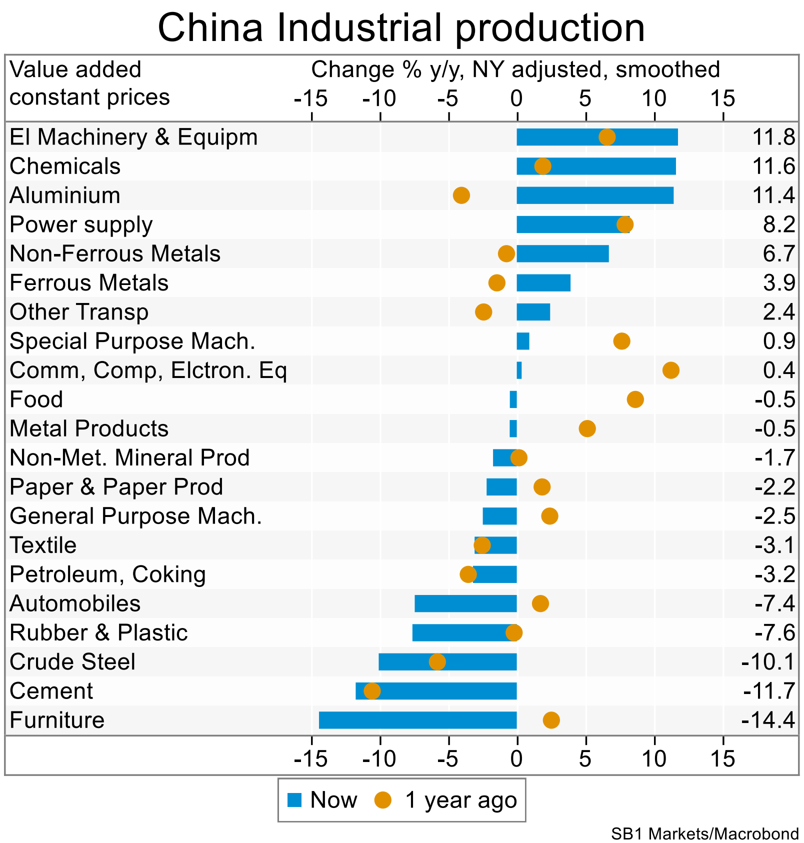


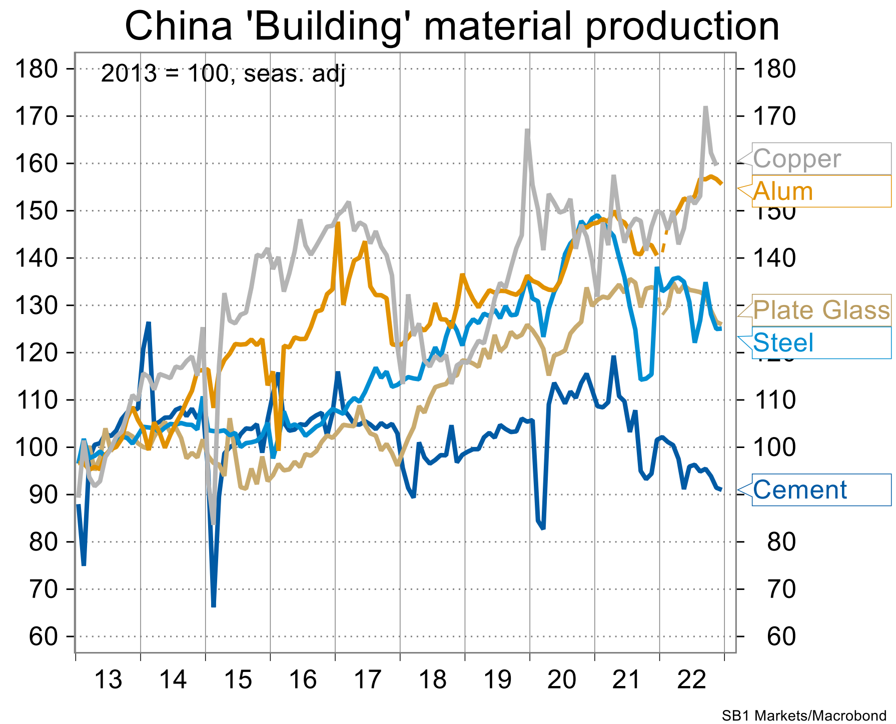




- Very likely, the rounds of Covid lockdowns and the Covid wave in December have hampered production, if not in the same way as in April, when production fell 2%. Since then, production has stayed well below the trend before the lockdowns during the spring
- Now we can only hope for a rebound in domestic demand in China post Covid, perhaps even in the real estate sector (with some support from the authorities). The only problem: The demand story is not 'just' a China story, and exports will not support growth as over the previous two years

# Mixed among industrial sectors. Furniture, cement, and steel at the bottom

Machinery & equipment, chemicals, and aluminium at the top of the list

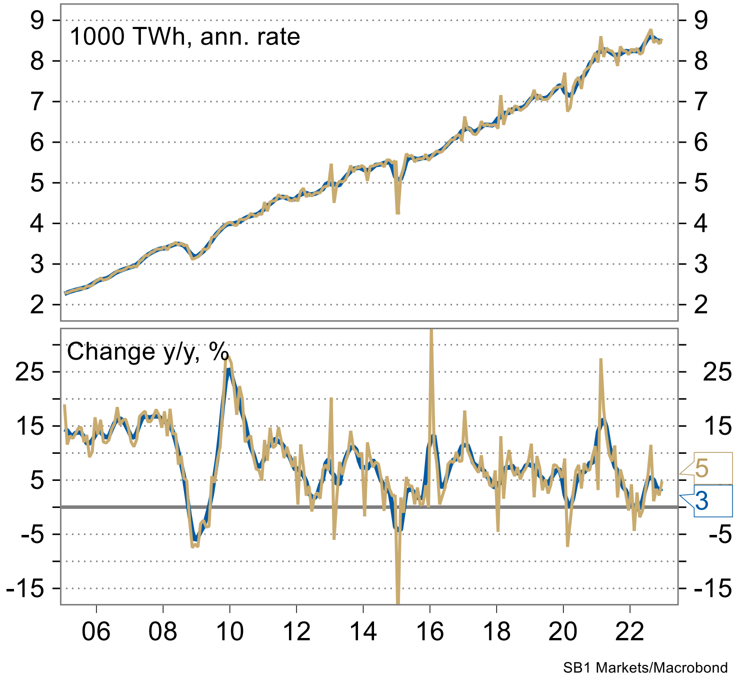


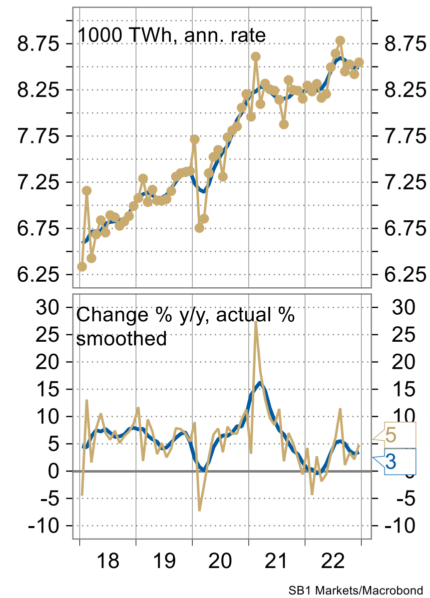



# Electricity production higher in December, and seaport freight increased

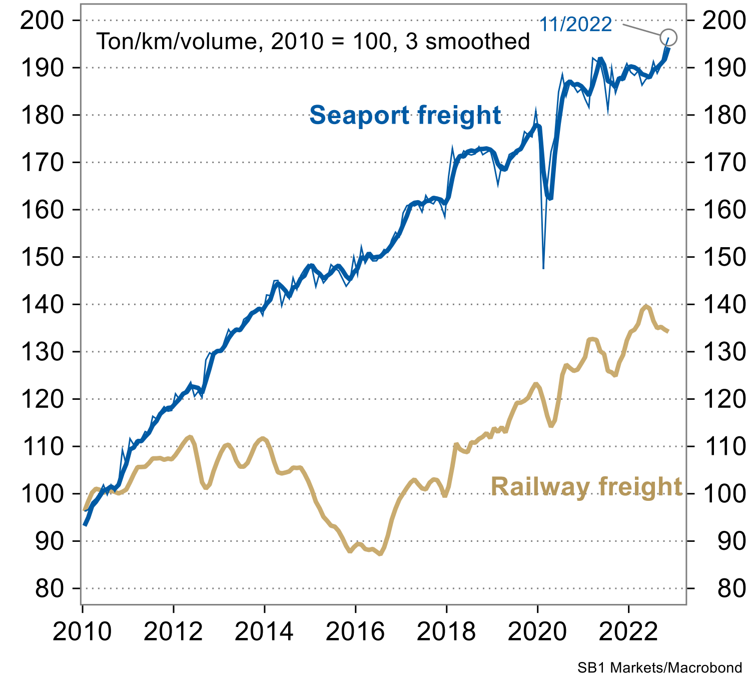
… and so did imports; exports were flat. Trend growth in electricity production is some 5%. Still on the long-term trend

China Electricity production



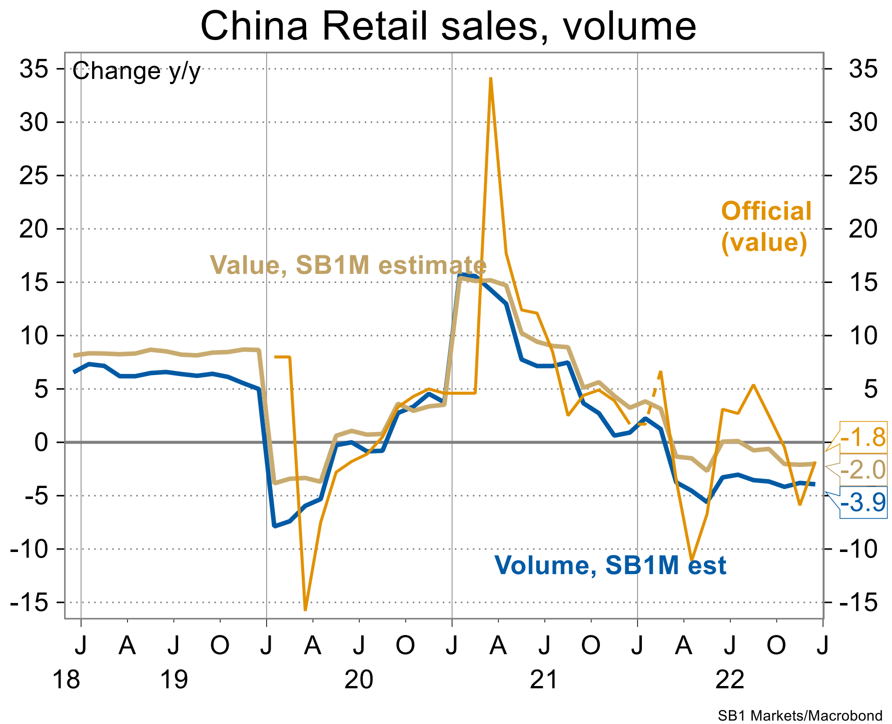

China Trade and transport

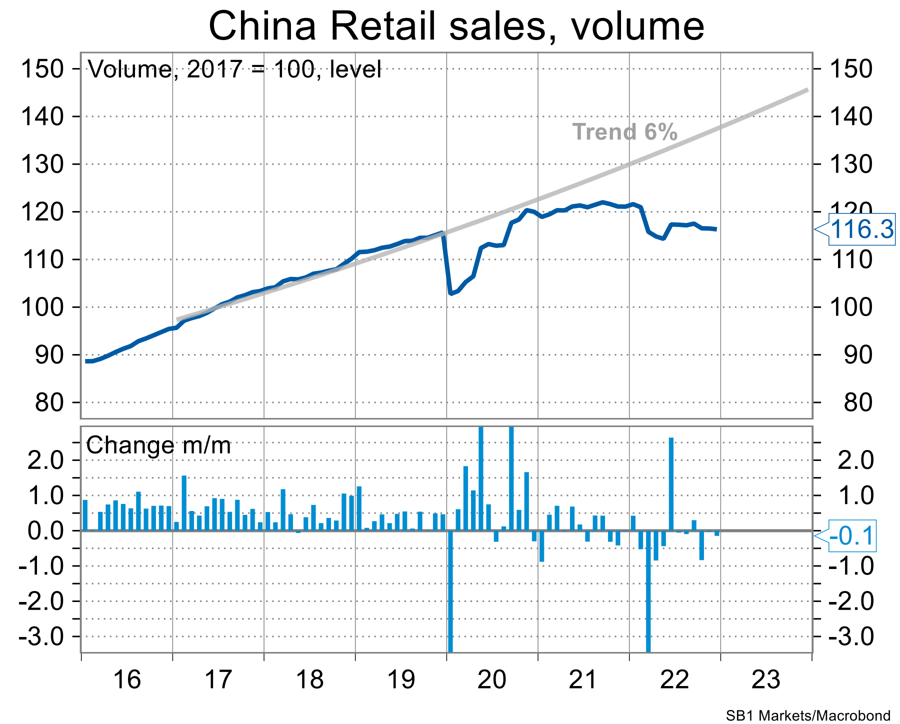



- … even if GDP growth was on the low side in 2022
- Railway freight was marginally lower, as domestic demand has softened due to Covid

# Retail sales fell 0.1% m/m in Dec, the trend is dismal. But the future is bright!

Official sales down 1.8% y/y, from -5.9%, expected -8.6%!!




- We do not remember any larger misses than the -1.8% outcome vs. -8.6% forecast
- **Sales** fell 0.1% m/m nominally, we assume a 0.1% decrease in volume terms as well, following zero growth in volume in November
  - Sales in volume terms are down 3.9% from Dec last year (aggregated monthly changes), while the 1.8 y/y decline in nominal terms is confirmed by out aggregated series)
  - These monthly m/m data were revised slightly up, after having been revised down the past two months Anyway, these data has become almost usable – but they are the best we have…
- **The outlook:** Income growth was probably on the weak side in 2022, but household savings have strengthened, also seen in bank deposits. It is very likely that sales will increase sharply the coming months as Covid becomes history, if not back to the pre-pandemic trend (it is up 18% there…)

Memo: Monthly sales data are still somewhat to difficult of decipher, and they are not always consistent with annual growth rates - so do not take our interpretations of them too literally. Several revisions have made the analysis even more complicated

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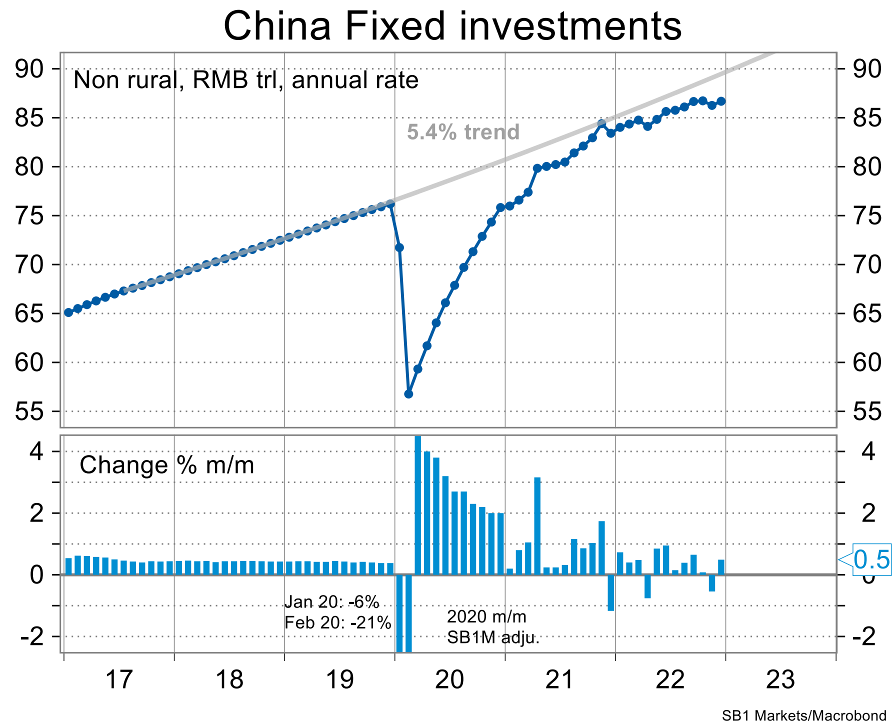
# Investments rose in December – and revised up (this time)

Urban investments added 0.5% in Dec, reversing most of the Nov decline. Underlying growth has slowed, marginally

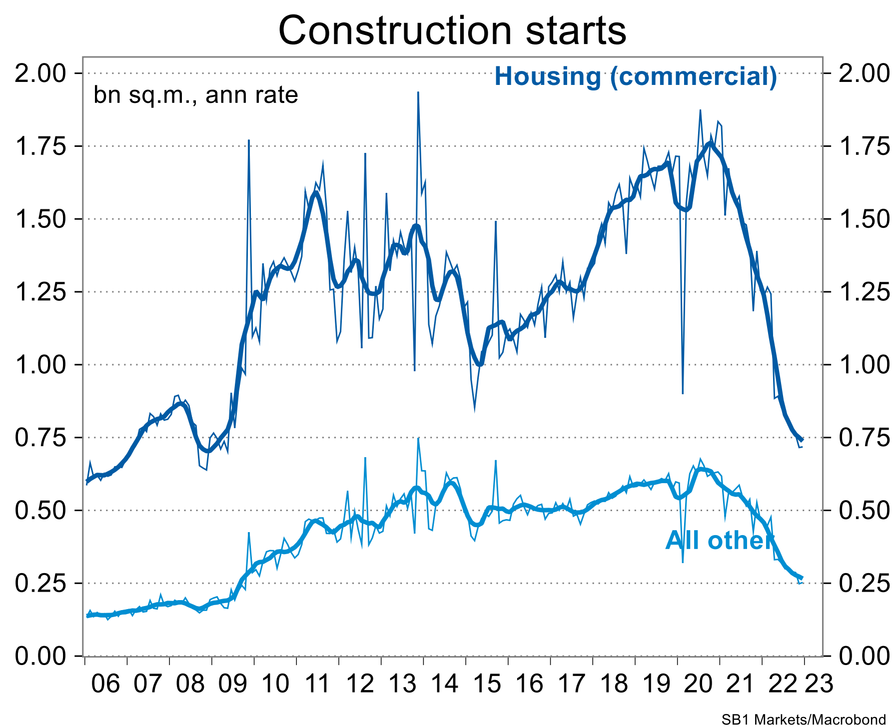


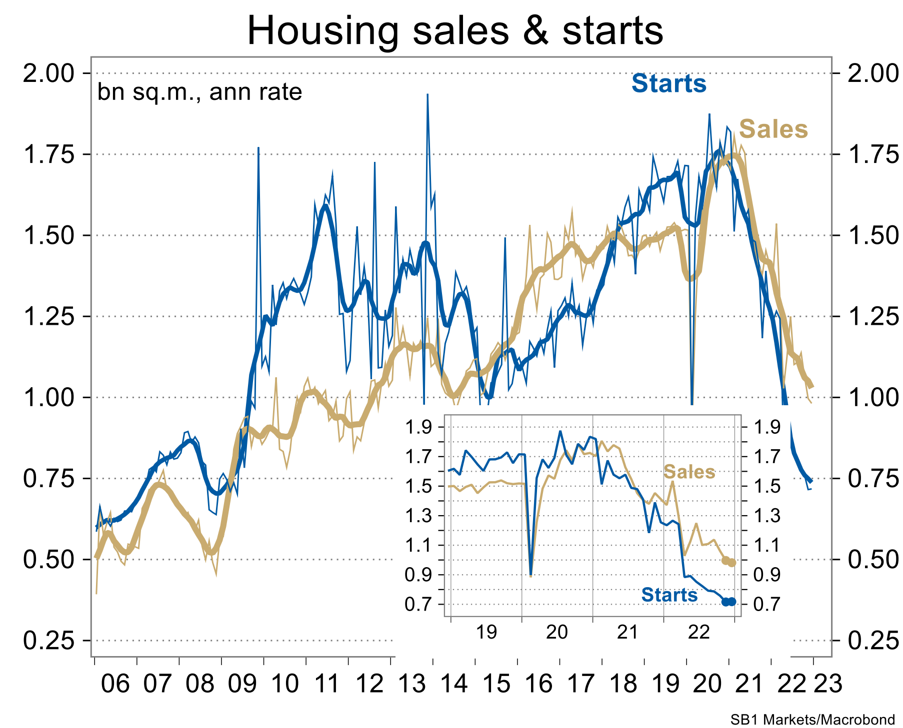


- … at least according to our calculation, based on official date for monthly changes (even if construction activity must be down)
- **Measured YTD,** official data showed nominal urban investments rose 5.1% in December (=2022) expected up 5.0%, down from 5.3%. We estimate a 4% growth rate y/y, both in nominal and real terms
- The **investment level** is some 3% below the pre-pandemic trend growth path
- The decline in **construction starts** is likely one of the culprits to falling investments. We are still unsure whether authorities will be able to kickstart the construction sector but the potential is probably at the upside

# Housing starts flat in December; sales further down

Starts down 61% from the peak two years ago; Sales are down 46%

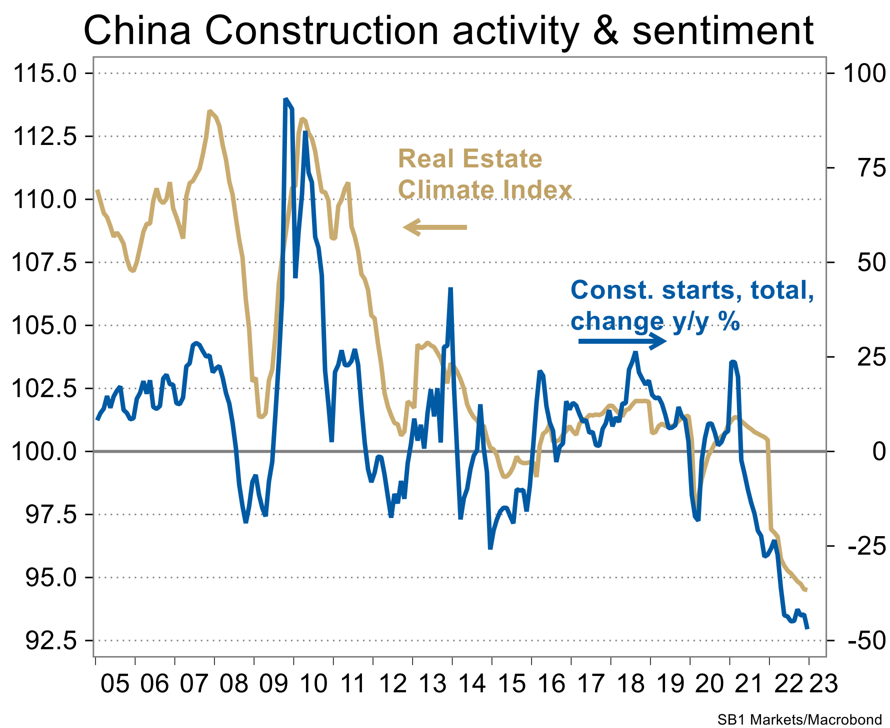


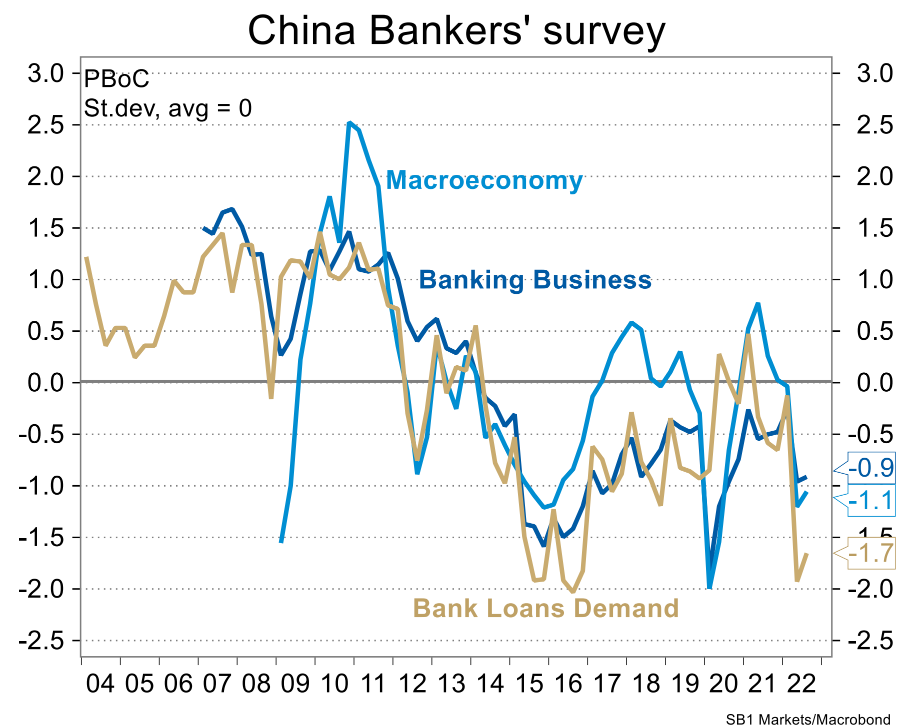




- **Non-residential construction starts** are also more than cut in half, and the level is the lowest since 2009, as for housing starts
- We doubt the fight against the virus can explain much of the deep, and continuous downturn, from late 2020
- This unprecedented decline in construction starts will lower growth in the Chinese economy substantially – spread over time, as it takes some 3 years from a home is started until it is completed…
- …unless the government's new rescue plan works. The authorities pumped an additional CNY 150 bn into the financial system (on top of the CNY 500 bn already decided) in December to ward off a sell-off in the bond market after easing covid restrictions, and to loosen financial conditions. This in addition to the policy measures already taken a month ago, which were designed to loosen conditions for lenders and borrowers, both in terms of funds available, possible repayment postponements etc.
- **Now even further measures are discussed:** Dropping the 3 red lines policy (Debt/assets > 70%; Net debt < equity; cash >= S-T debt); funnelling additional loans through the PoBC, capping real estate agents commissions, and a further extension of favourable-rate loans

# Sentiment in the real estate sector is the worst ever

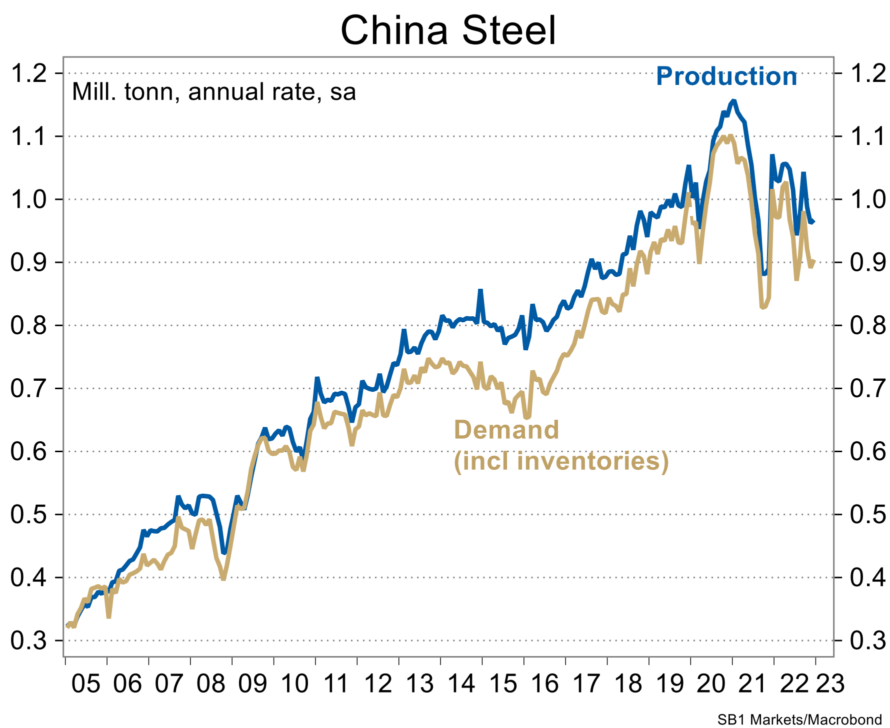
However, this survey is hardly leading. Bankers are not that optimistic either, loan demand was weak in Q4 too



# Steel demand/production marginally up in December, and the level is still high

Investments in infrastructure are up but not by much – and building activity has ‘collapsed’. Where is all the steel used??

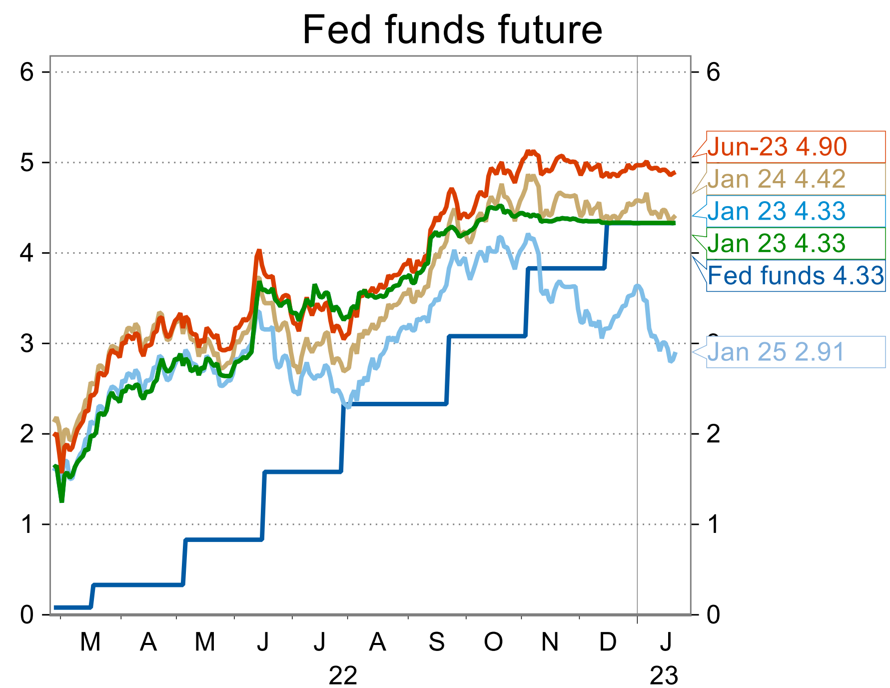




- Steed demand is down almost 20% from the peak in 2020 – so there has been a reduction but steel demand is still high vs. construction activity

# Fed's Beige book reports a flattish economy

… and wage, price pressures are easing, but remain elevated. Alas, less bullish than expected




SB1 Markets/Macrobond

USA Fed funds rate (OIS)

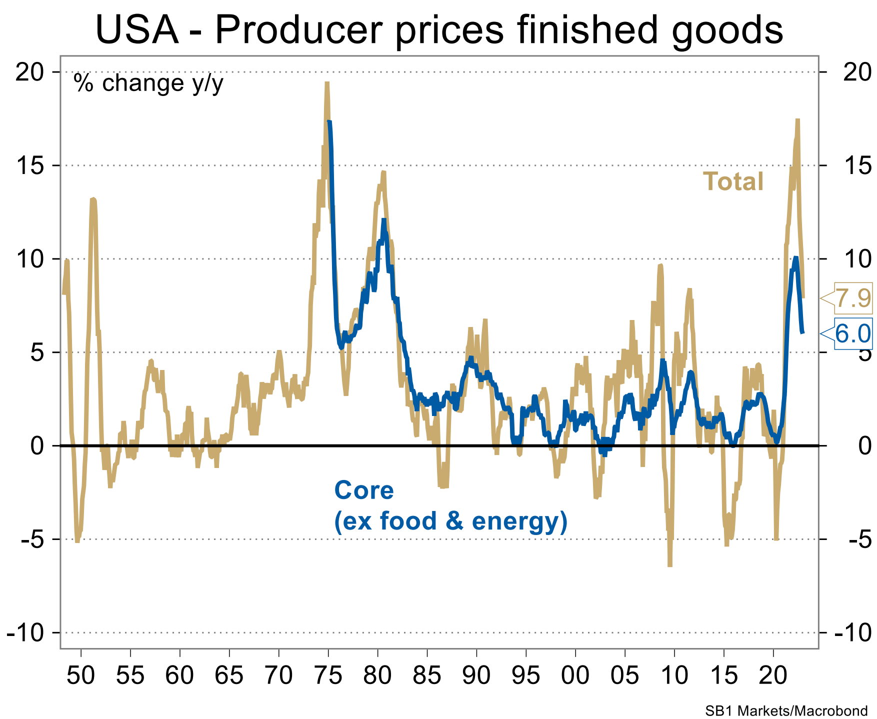
| FOMC meetings | Effective Fed funds rate (OIS mid) -0.5 0.5 1.5 2.5 3.5 4.5 | | |
|---|---|---|---|
| Now | | 4.33 | 0.00 |
| Feb 1 | | 4.60 | -0.01 |
| Mar 22 | | 4.80 | -0.01 |
| May 3 | | 4.90 | -0.02 |
| June 14 | | 4.91 | -0.02 |
| July 14 | | 4.87 | -0.01 |
| July 27 | | 4.77 | 0.00 |

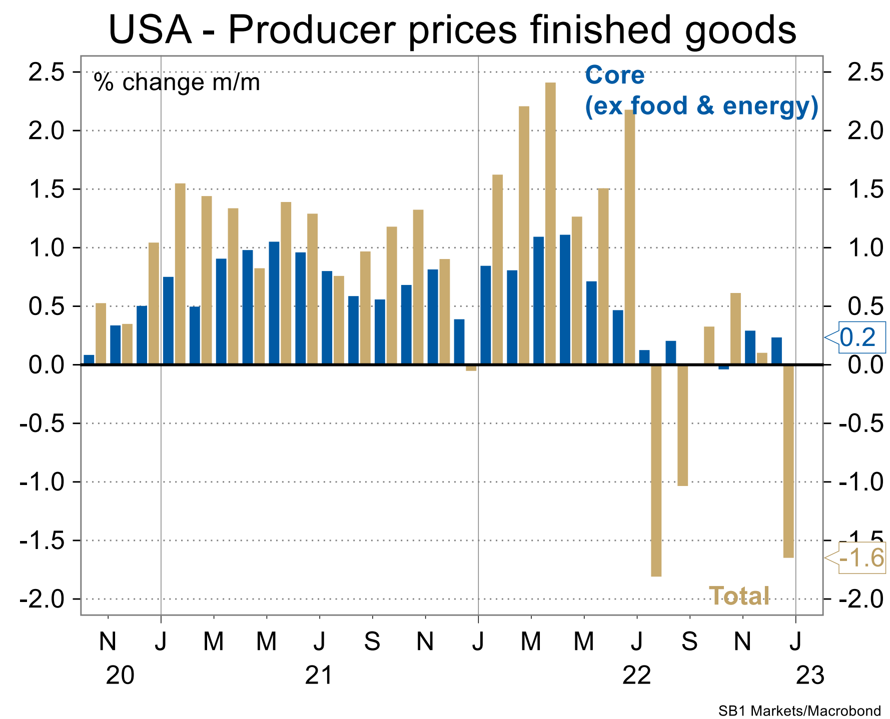
Last ● Change last week

- **The US economy is slowing down**
  - On average, **economic activity** was somewhat weaker than in the prior reporting period. 5 districts report that activity contracted (of which 1 said activity contracted sharply), and 2 districts said growth had stalled, and the remaining 5 reported modest growth.
    - 6 weeks ago: 4 reported a decline in activity, 3 flat, and 5 modest growth
  - **Outlook more pessimistic** and little growth is expected in the coming months
  - **Loan volumes declined** further due to weak demand and tighter standards, and the housing market continued to weaken
  - **Manufacturing** activity declined modestly, and supply-chain problems have eased
  - **The labour market** was still very tight, and firms are hesitant to lay off people even if demand has slowed, because attaining and retaining staff is so hard
  - **Overall inflation** remained elevated, with some easing reported - steel and lumber prices fell further. Retailers reported that it is harder to pass through higher input costs to consumers
- Taken at face value, the Beige book confirms that growth is slowing further – perhaps down to zero, price pressures are easing somewhat, but that the labour market remains tight (as many other reports confirm)
- A 25 bps hike next week is a done deal – as the Fed is coming closer to the 'terminal' rate

# Energy prices took goods PPI down in Dec and is down at a 7% pace last 6 m!

Core prices rose 0.2%, and they are up 6.0% y/y – but just 1.6% (annualised) the past 6 months

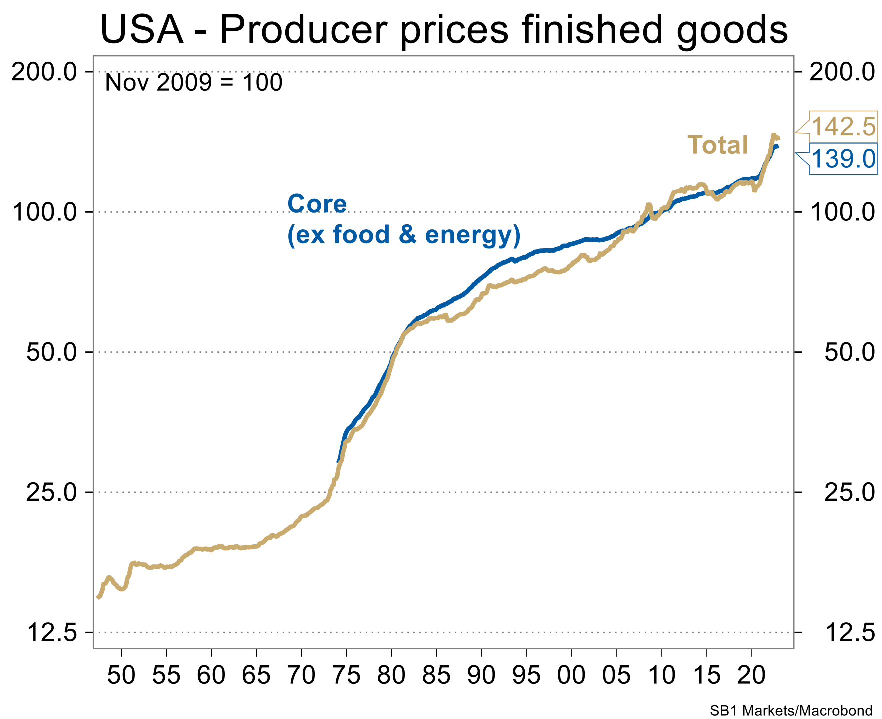


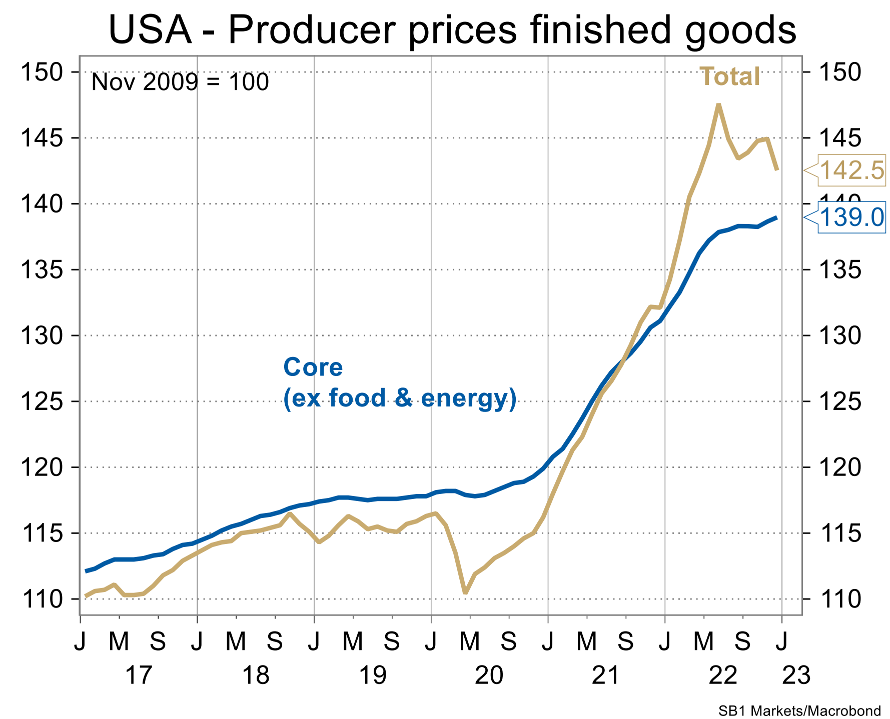




- **The headline finished <u>goods</u> PPI** was down 1.6% in Dec, following the 0.1% increase in November. The annual rate was down 1.7 pp to 7.9% - but prices have fallen at a 7% pace since last June! Energy prices were down 7.9% m/m, and food prices were down -1.2%
- **Core finished <u>goods</u> x food & energy** PPI was up 0.2% in December. The annual growth rate fell by 0.2 pp to 6.2%. The peak was at 10%. The growth rate past 6 m is just 1.6%
- **Crude material prices** are on the retreat – normally the first sign of easing price pressures in the supply chain, and now intermediate material prices are now following suit, as normal. However, these prices rose slightly in December
- **Core consumer goods prices** (PCE, like in the CPI) have also peaked
- **The 'official' total final demand PPI**, including **<u>services</u>**, was down 0.5% m/m in Dec.
  <u>The annual rate at 6.2% was 0.6 pp lower than expected!</u>

# Following the spectacular lift in prices – Total PPI goods prices are falling

… and core prices are probably flattening (but rose 0.2% in December)

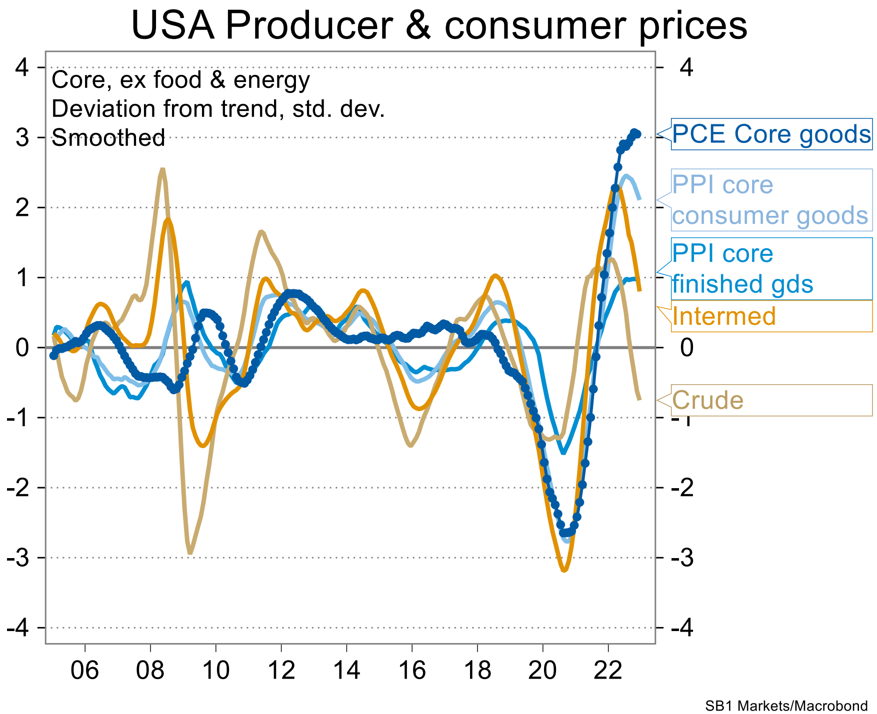


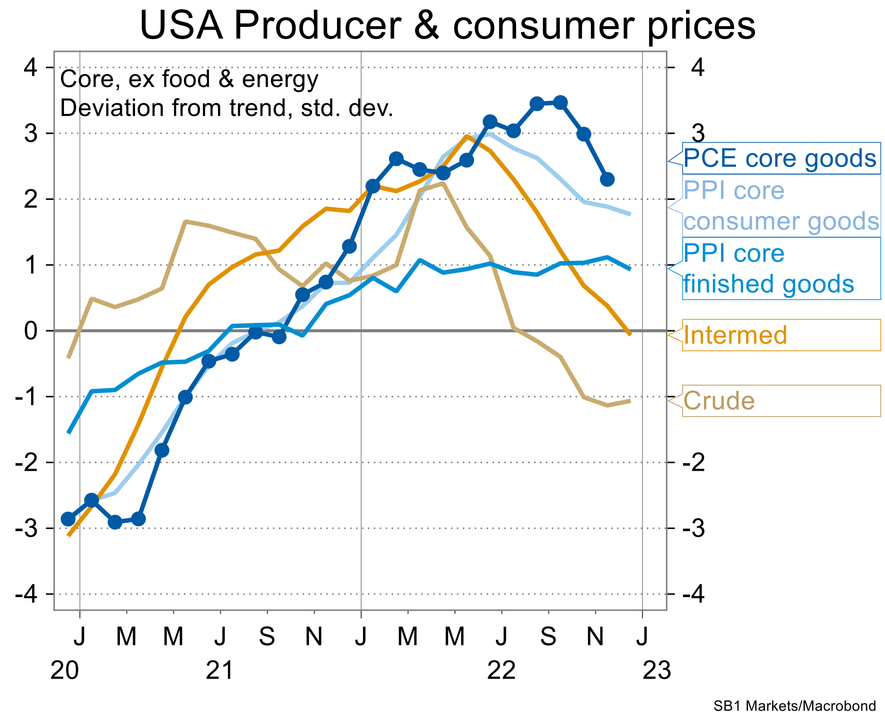




- The total PPI for goods was up 26% from late 2020 to early last summer, but is now coming down, so far just due to lower energy prices. The downside is very likely substantial

# Crude core material prices are yielding, as are intermediate prices

Core consumer goods PPI have also turned south – and so will probably goods prices in the CPI/PCE

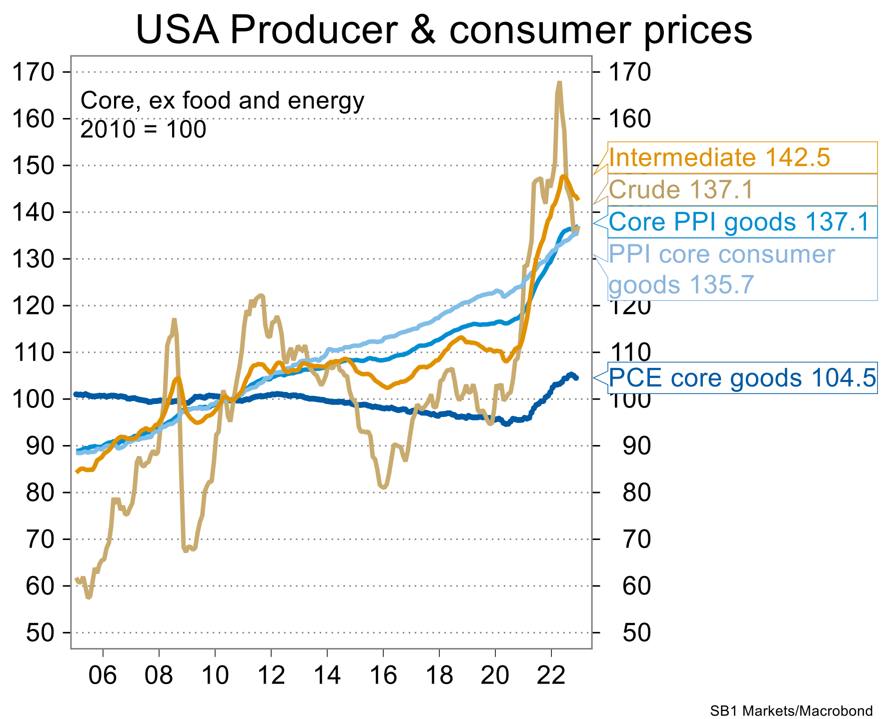


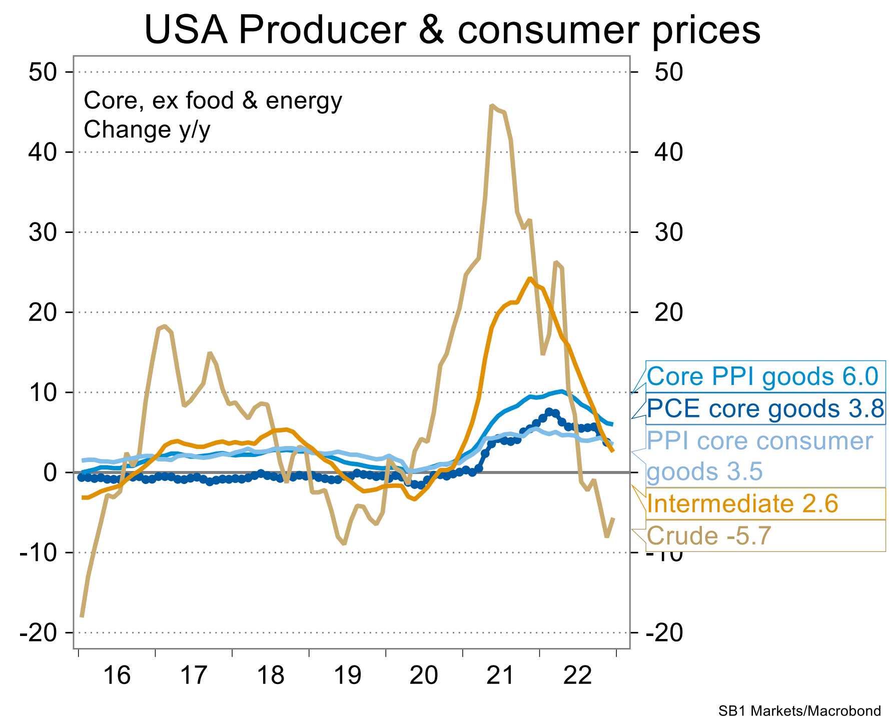




- **Crude goods prices** are leading intermediate goods prices by 4 months, and consumer prices by 12 months. Following several months a rapid decline, these prices rose in December. Could it be a signal – on end of disinflation? Can not be ruled out, as some commodity prices have strengthened recently
- **Intermediate prices** have slowed since May-22
- **Core consumer goods** prices are also yielding at the producer level, rather early vs the normal cycle pattern.
- **Goods prices at the consumer level**, in the CPI/PPI, are also retreating

# Crude core material prices rose in December – but are still down 5.7% y/y

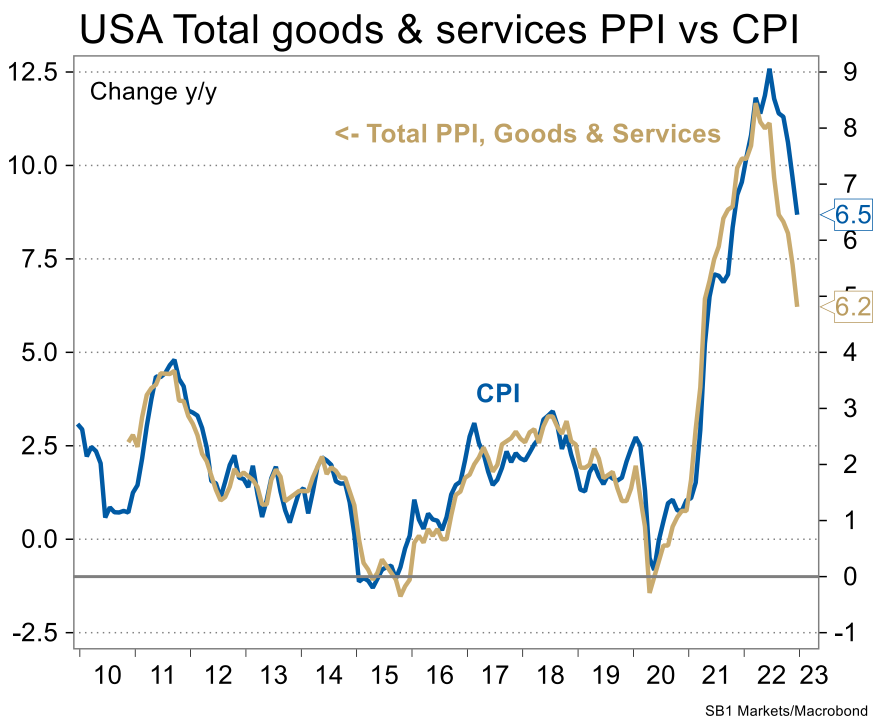
*(level & growth rates, same series as per the prev. page)*

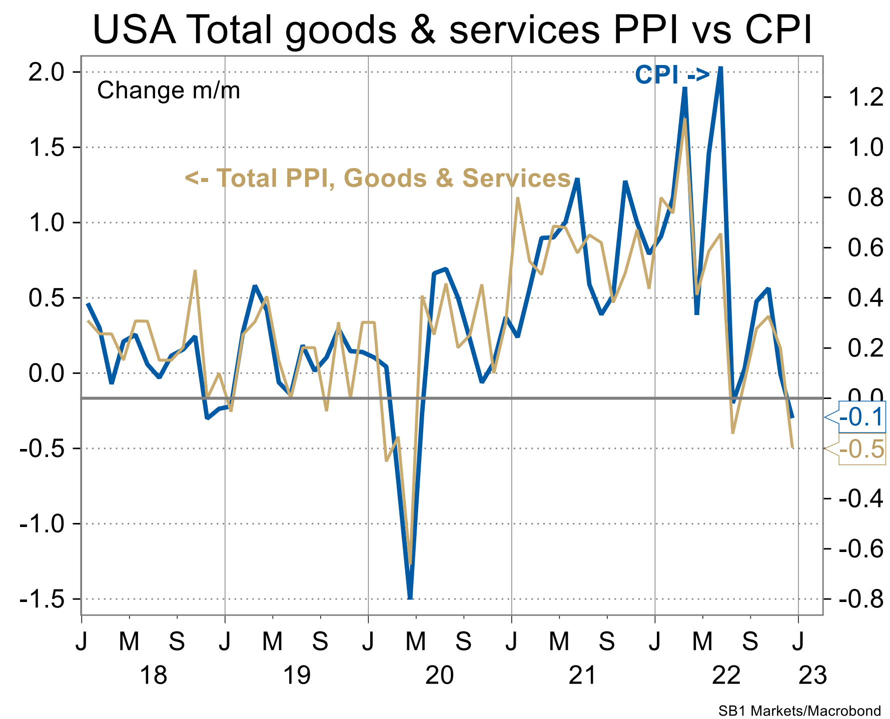


# Total PPI (services incl.) -0.5% m/m, and the annual rate down 1.1 pp to 6.2%

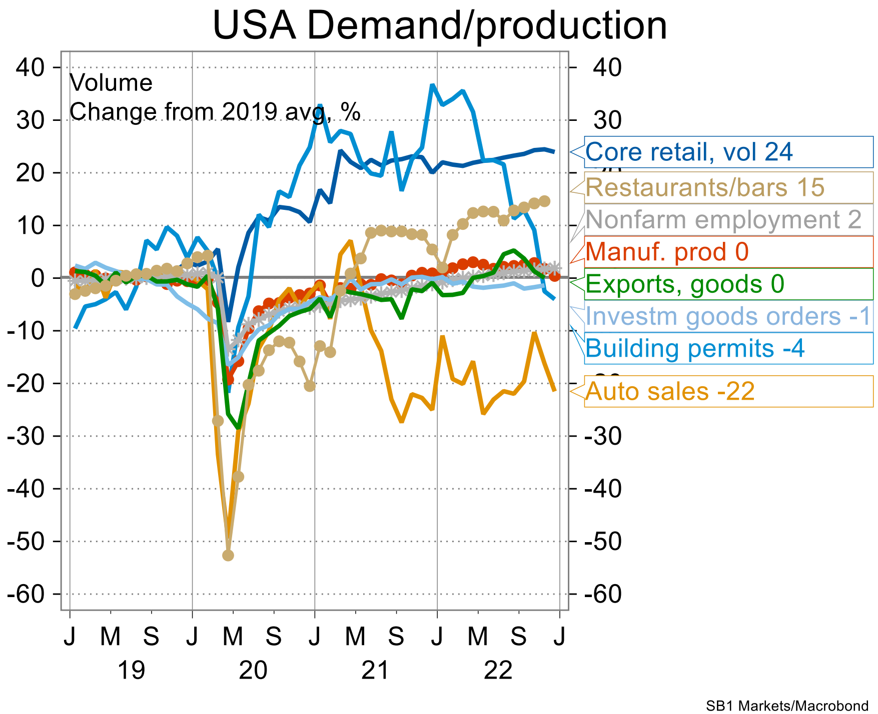
... And also surprised on the downside, by 0.3 pp, like the CPI



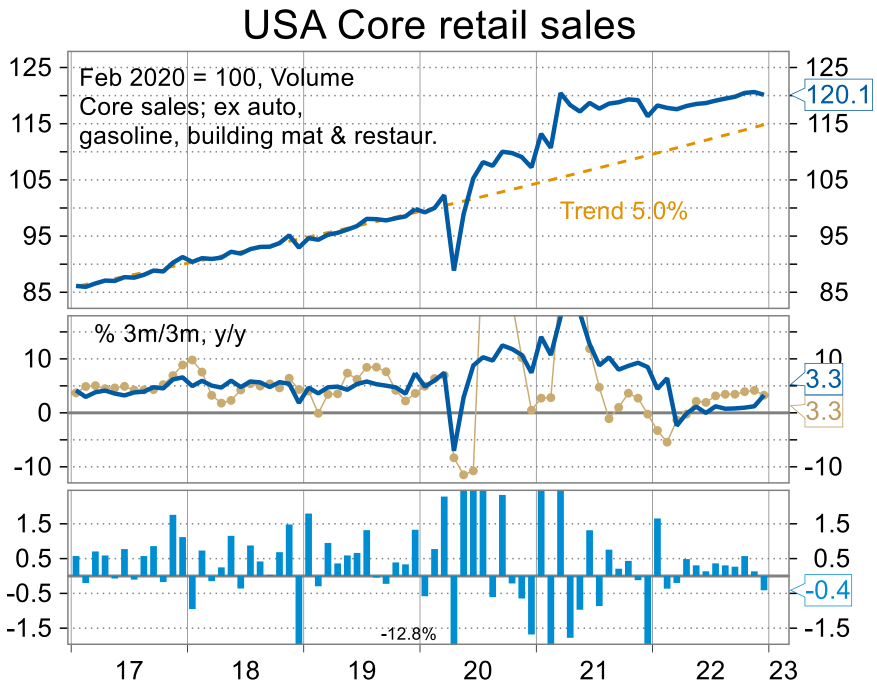

- The correlation between the total PPI, which includes all sorts of services (including margins in trade) in addition to goods, and the CPI is very close. The current 6.2% annual growth rate, signals a further, and substantial decline in CPI inflation the coming months

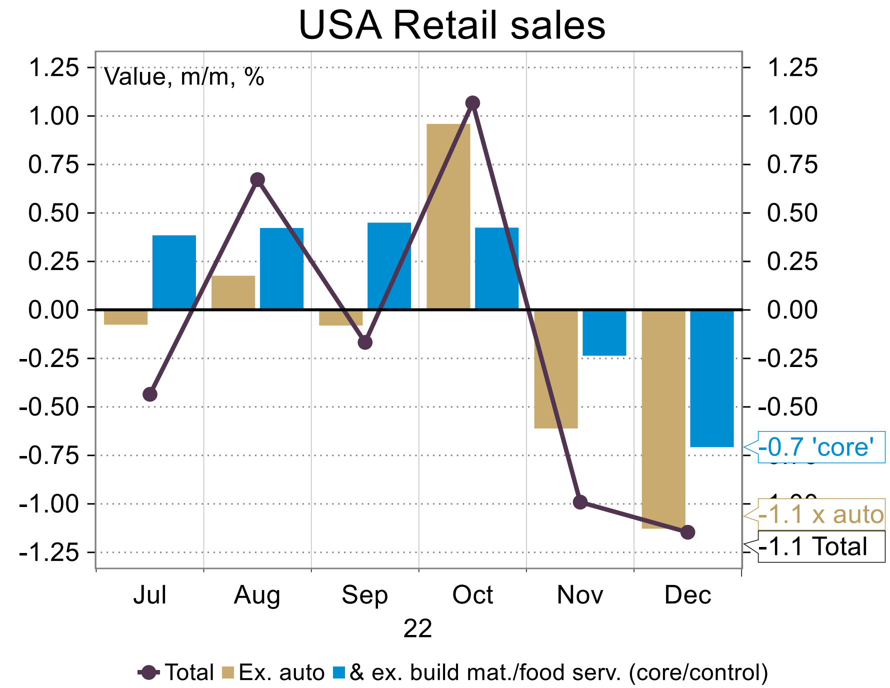
# Mixed activity data: Housing a drag, retail sales were ok (until Nov/Dec that is)




- **Retail sales** have been growing at decent pace but fell in December
- **Building permits** are heading sharply down, and fell further in December
- **Exports** rose to above the pre-pandemic trend but is now below again
- **Manufacturing production** has flattened since the spring and is now declining
- **Investment goods orders** have flattened close to the 2019 level
- **Auto sales** fell in both November and December, we doubt due to lack of supply. Demand is slowing

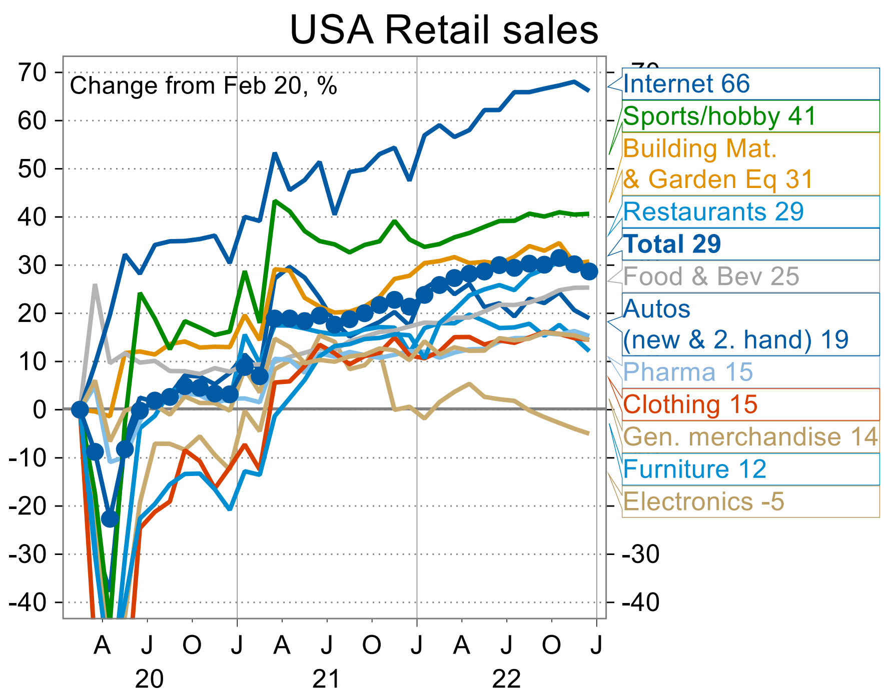
# Retail sales down more than expected in December, Q4 still up 3.4%



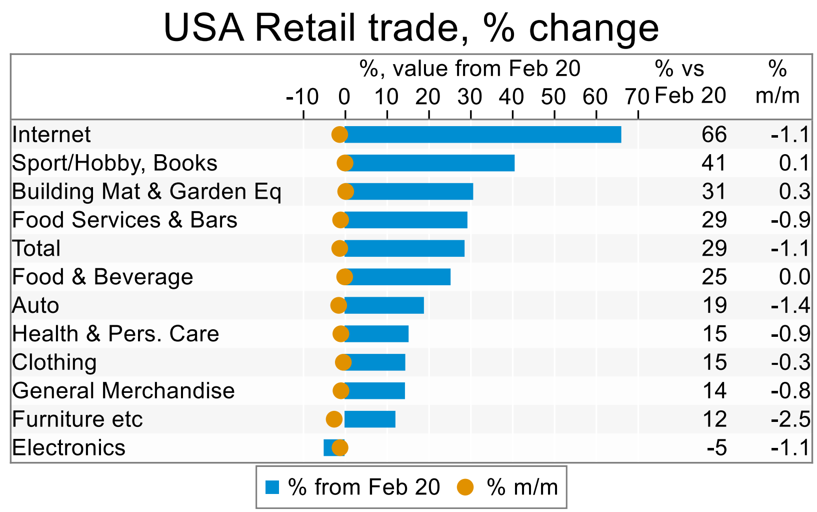




- **Total nominal sales** were down 1.1% in Dec, expected -0.8%, and Nov was revised down to -1.0% from -0.6%. 8 sectors reported lower sales, 3 higher. Total nominal sales are still up 29% vs. the Feb 2020 level!
- **Core sales of goods** (=control group, excludes autos, gasoline, building materials & restaurants) were down 0.7% in value terms, 0.2 pp weaker than expected. No significant revision of Nov sales, still down 0.2%
- **In volume terms**, we assume that core sales fell by 0.4%, down from +0.1% in Nov (and 0.2 pp better than our first estimate, as prices fell more than we assumed). The decline in volume terms was the first since March, and the trend is still more than OK, up 3.4% in Q4, far better than we expected some few months ago

# Just 3 sectors reported higher sales in December




SB1 Markets/Macrobond

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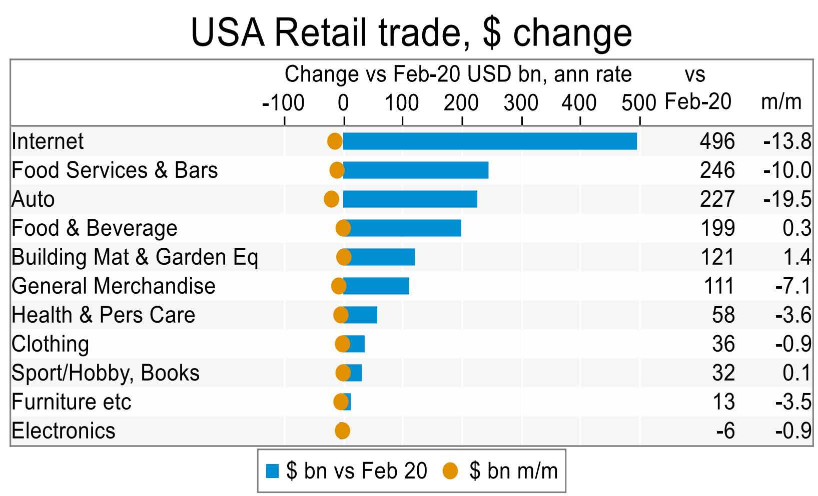


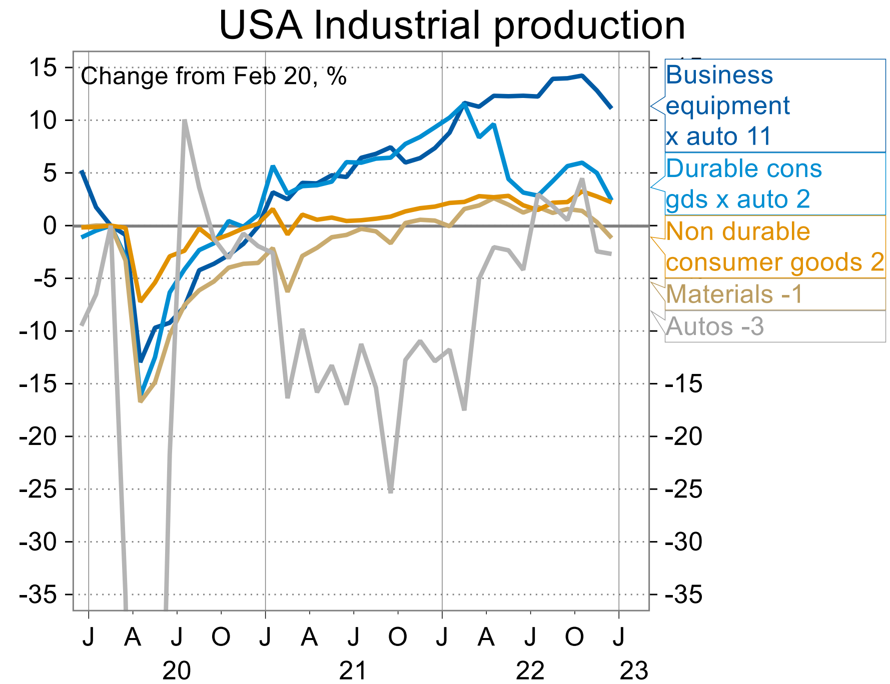

SB1 Markets/Macrobond

- 8 out of 11 main sectors reported lower sales in December, 3 reported higher sales (food, building materials etc, sport – and just marginally). Internet sales declined 1.1% (but internet sales have been reported 'too low' for a while). Restaurant turnover fell as well, as did auto sales & furniture etc.
- **Total sales** are up 29% in value terms vs Feb. 20, as are sales in restaurants
- **Internet sales are up 66%,** but fell 1.1% Dec
- **Clothing** is up 'just' 15% from Feb-190
- **Electronics** are down 5% - in value terms

# Manufacturing production down 1.3% in Dec; Nov print revised down

Production in all 5 main sectors declined in December

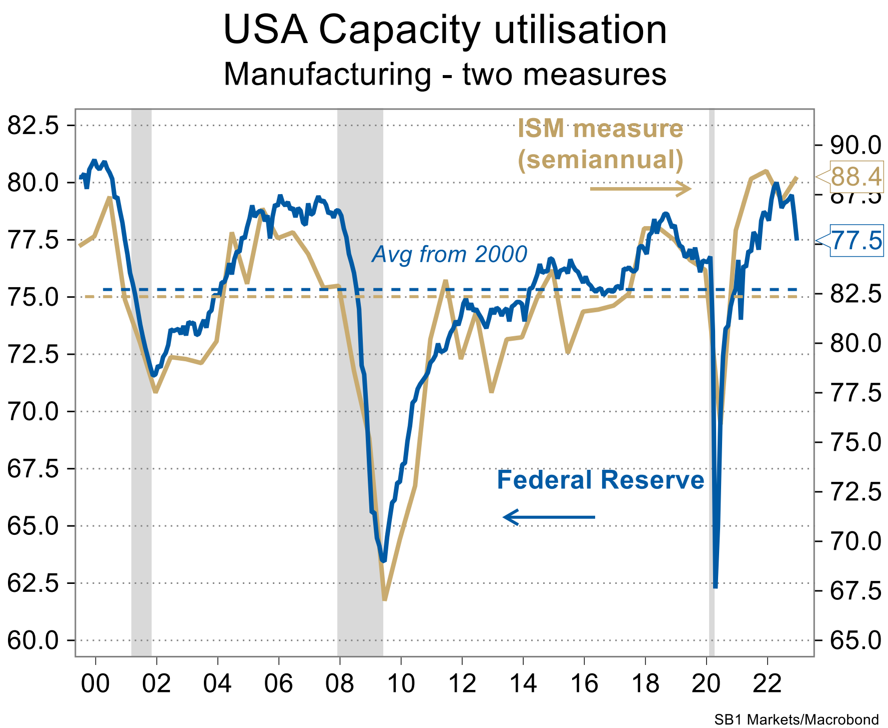

SB1 Markets/Macrobond




SB1 Markets/Macrobond

- **Manufacturing production** fell 1.3% in December (s.a.), 1.0 pp below expectations. The Nov print was also revised down by 0.5 pp to -1.1%. Production remains below the April level, and is now down 2.5% measured 3m/3m. and up only 0.8% vs. the pre-pandemic level
  - Production in all main sectors were down in Dec, and <u>materials and auto production is again below the pre-pandemic level</u>
- **Total industrial production**, including utilities, mines/oil production, declined 0.7% m/m, expected -0.1%
- **Capacity utilisation** was down 0.6 pp to 78.8%, but the level is still close to the highest in 20 years (the peak was in April)
- **Surveys** have weakened substantially since May. The first January surveys are in sum further down

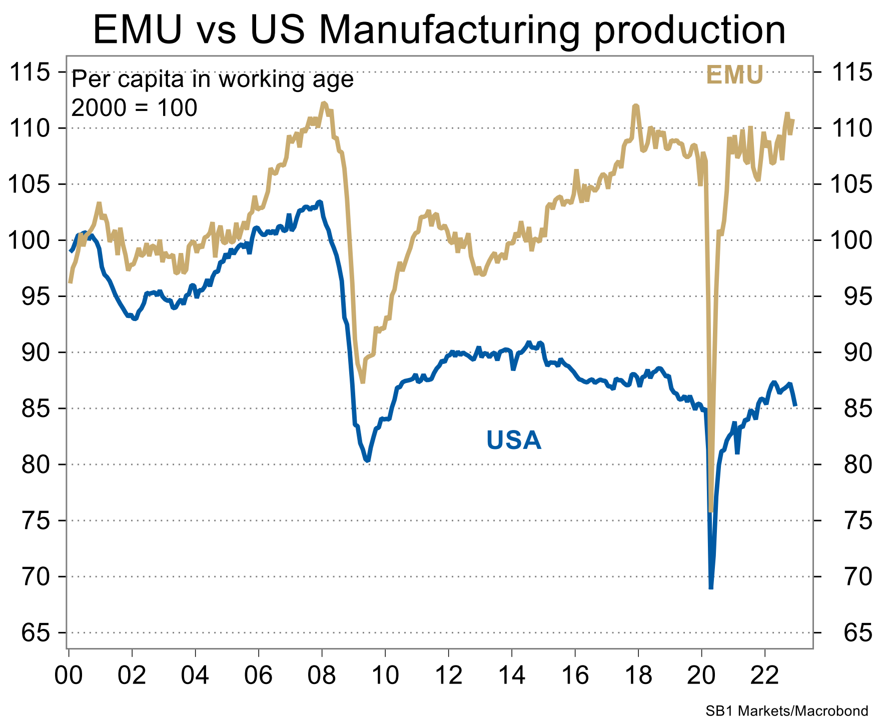
# Capacity utilisation sharply down, still well above average

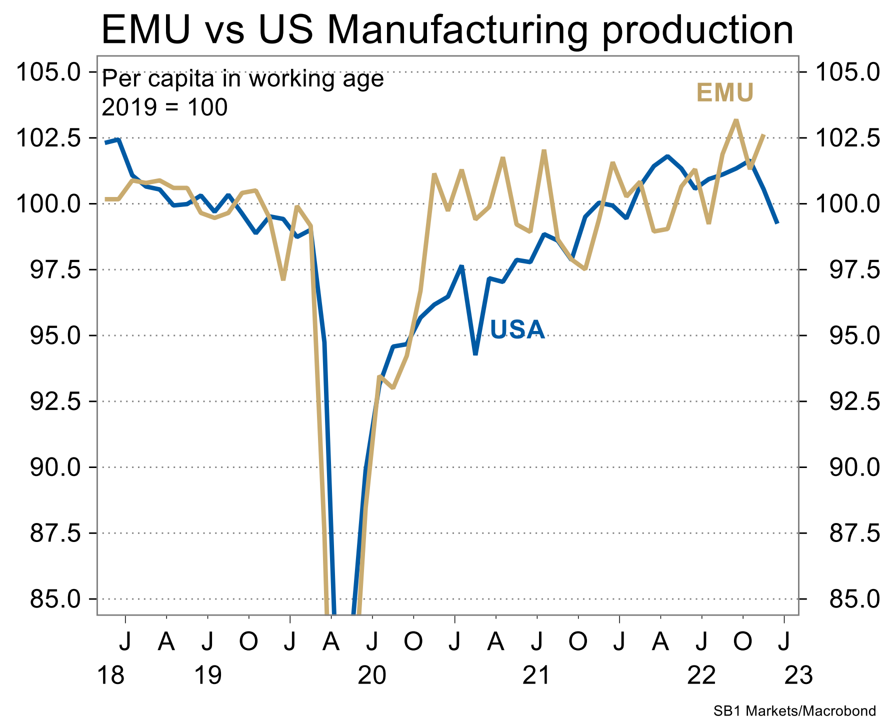



- **The Federal Reserve** reported a decline in capacity utilisation in the manufacturing sector in December, to 77.5% from 78.4% in November (and from 80.0% in April last year, the highest level since before the IT crisis 22 years ago
- **ISM's semi-annual** survey reported an increase in capacity utilisation in H2, to 88.4%
  - » These two measures have not been 100% correlated from distance they describe the same
- **The Fed's estimate** is model based, while the ISM survey is based on companies assessment of their own capacity utilisation

# Sure, European industry is in a far worse position

Without Russian gas, and with long term structural challenges, those manufacturers that have not left, are leaving now

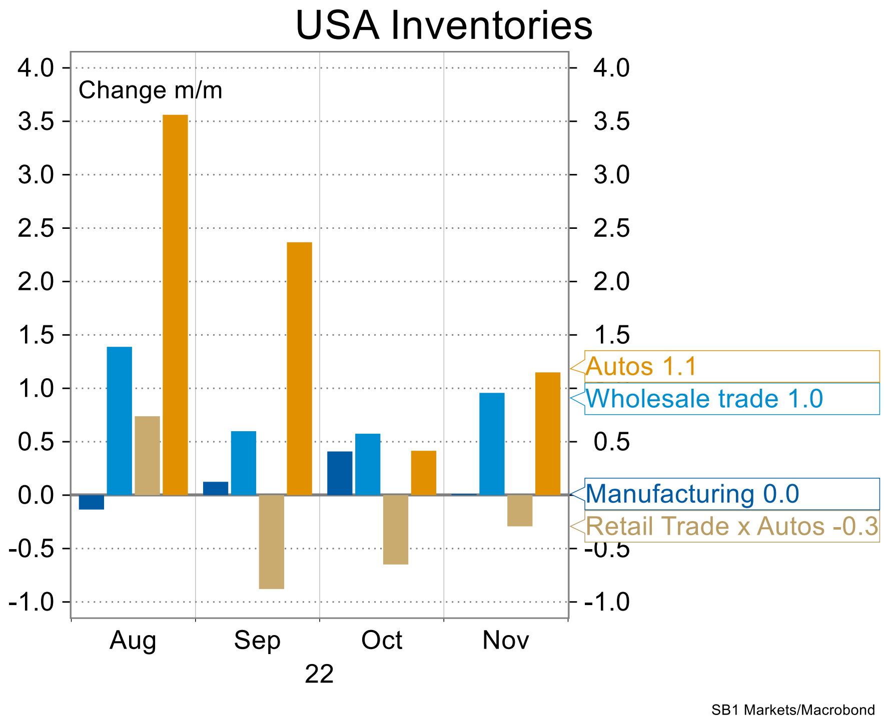


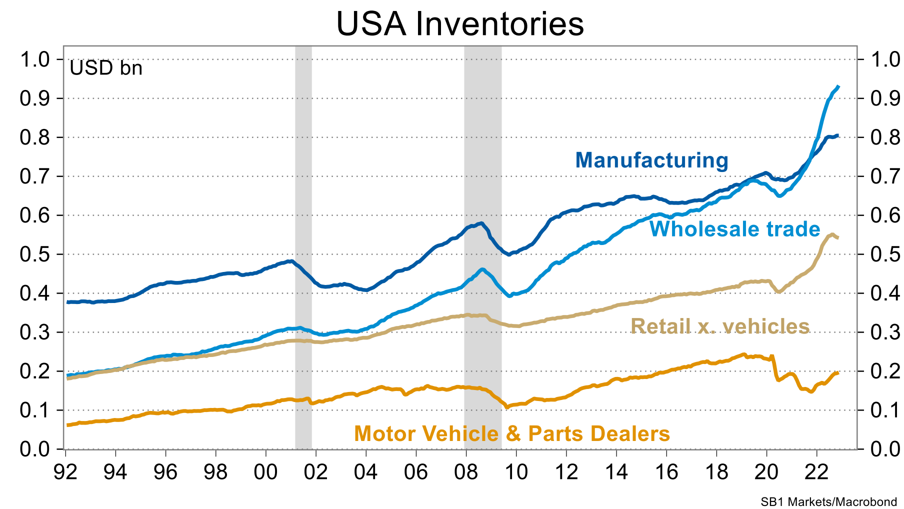



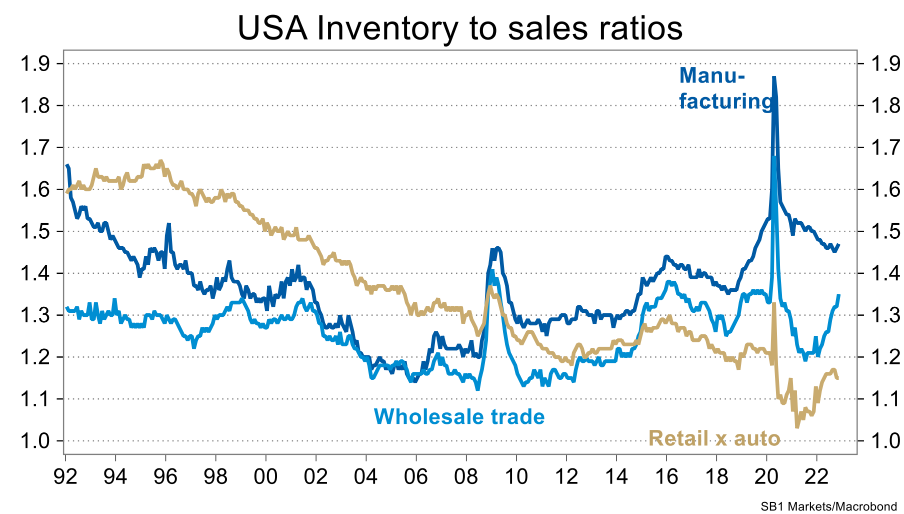

- *Please, Think Before You Talk - check the numbers at the charts above*

# Inventories still up vs. sales in wholesale, but have peaked in retail

Inventories in retail trade (ex. autos) are not very high vs sales, and they fell marginally in November



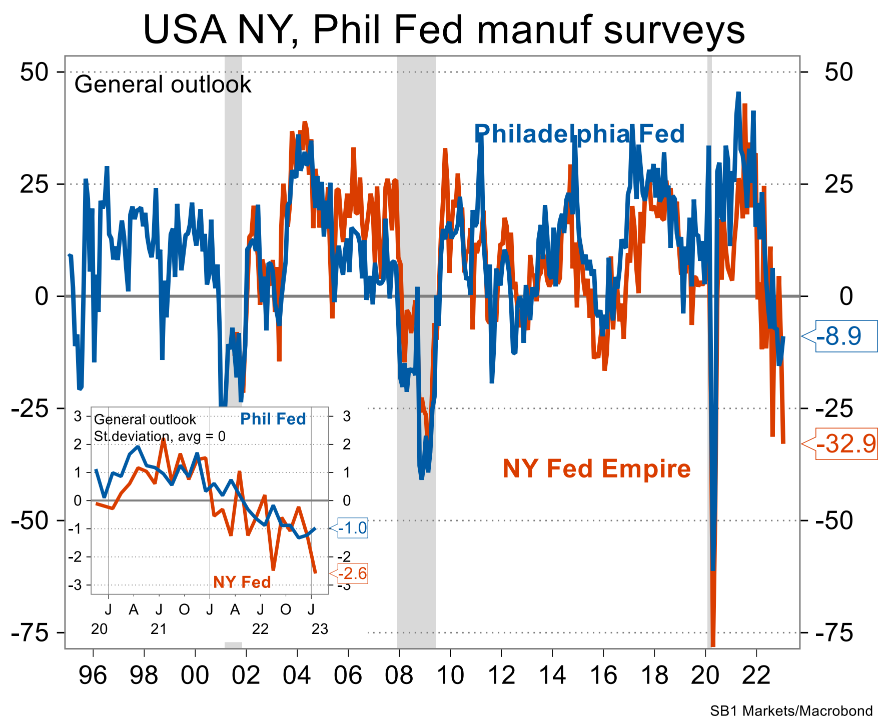



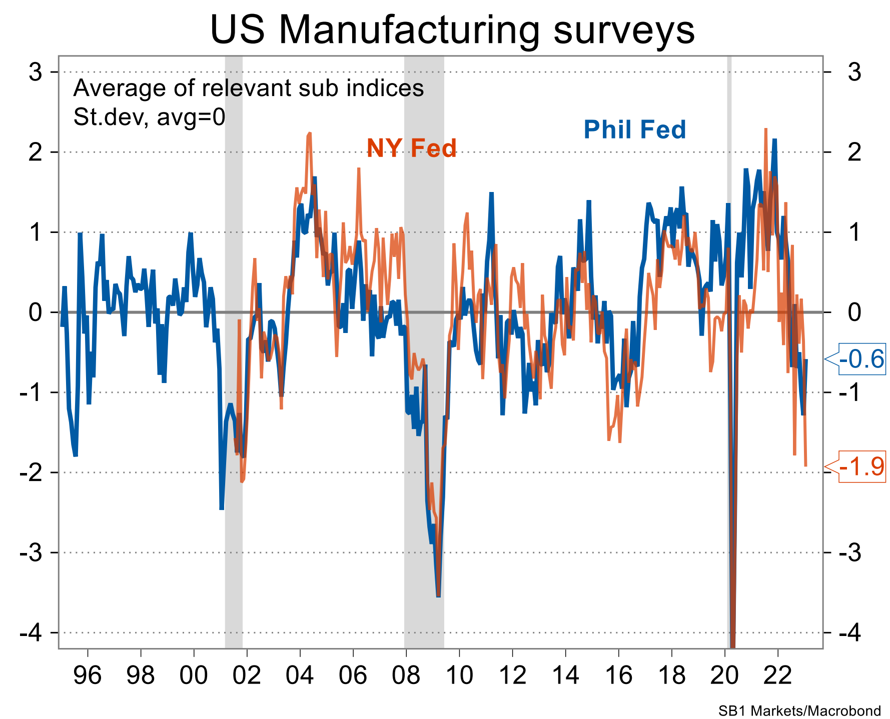




- These **official inventory data** are less alarming than some private/company reports have indicated
- Inventories in the **manufacturing sector** have stabilised, but the I/S ratio has come down somewhat from the peak. However, it is still high – more inventory trimming ahead?
- **Auto inventories** have increased recent months

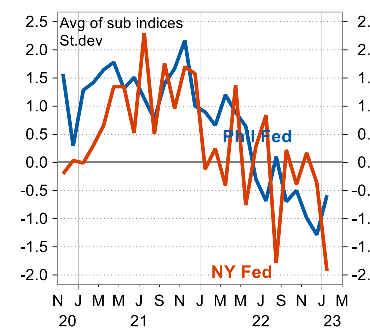
# Flip flop: NY Fed's sharply down in Jan., Phil Fed up but still well below avg.

Once again the two surveys differ from month to month. The trend is down for the both of them



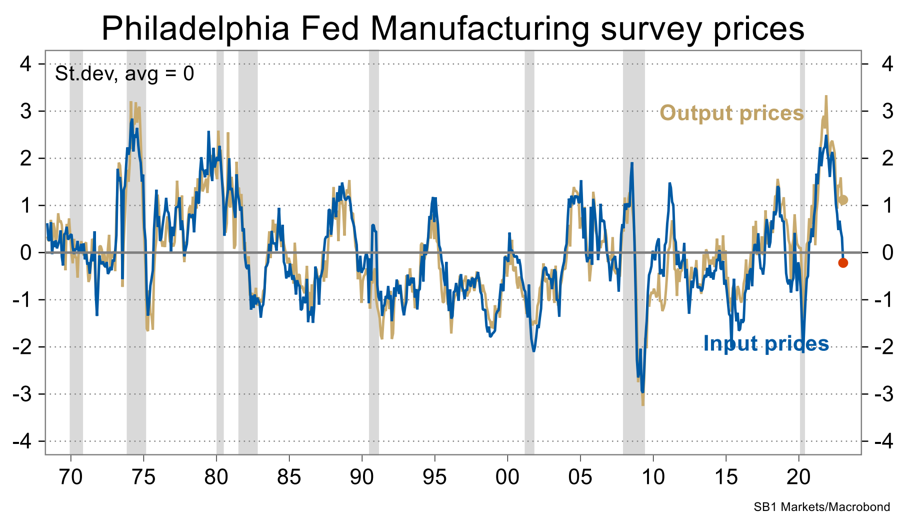



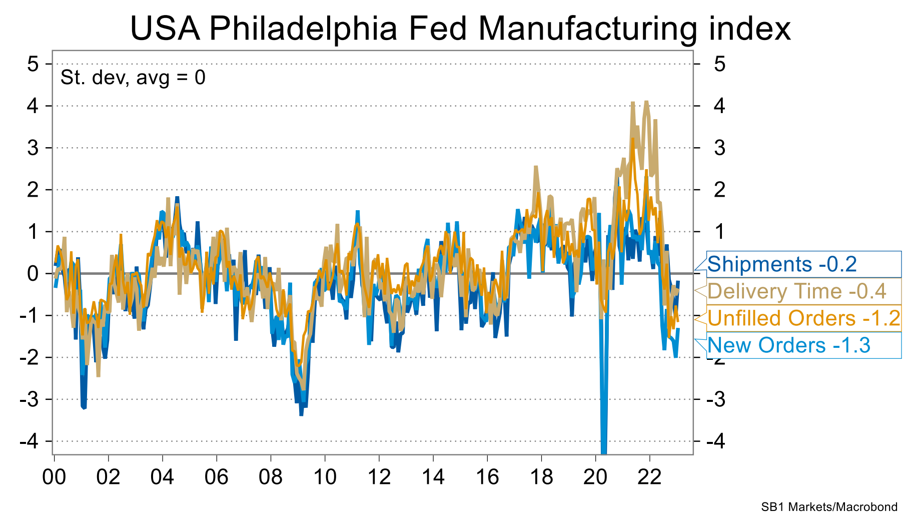

- **NY Fed Empire State manufacturing index** fell to 2.6 st.dev below avg. in January from -1.2 st.dev below in December (down to -32.9 from -11.2 in absolute terms, expected -8.7)
- **Philadelphia Fed's manufacturing index** was up 0.2 st.dev to 1.0 below par in Jan (up to -8.9 from -13.7, expected up to -11)
- Both indices report an decrease in input prices, and expected order inflow has improved but is still well below average in both surveys – and businesses expect overall conditions to remain weak
- **The average of the subindices** in the two surveys followed their respective headline indices, and are below average
- **Taken together:** In sum worse than expected, and a negative signal for the ISM, according to our model, at last vs. the monthly change

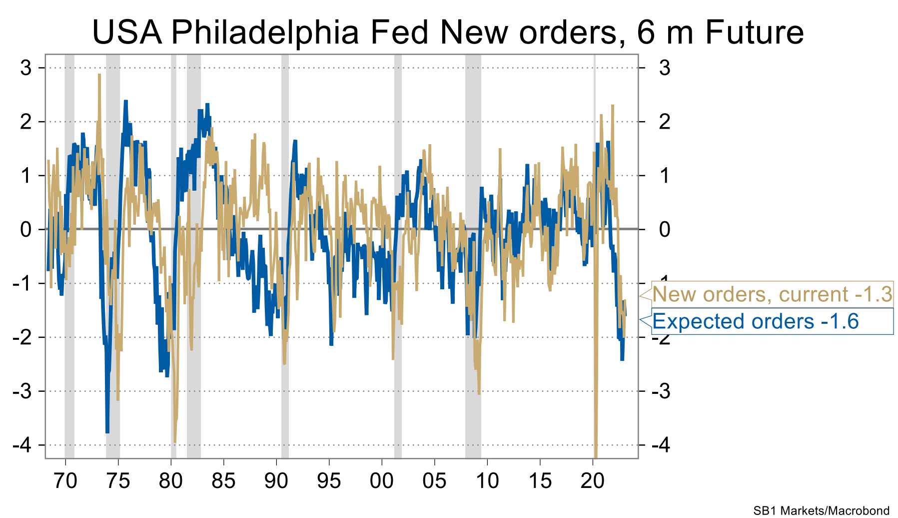


# Philly Fed: Orders are still falling rapidly, and the outlook is still muted

Input prices are now falling, and output prices are increasing at a slower pace



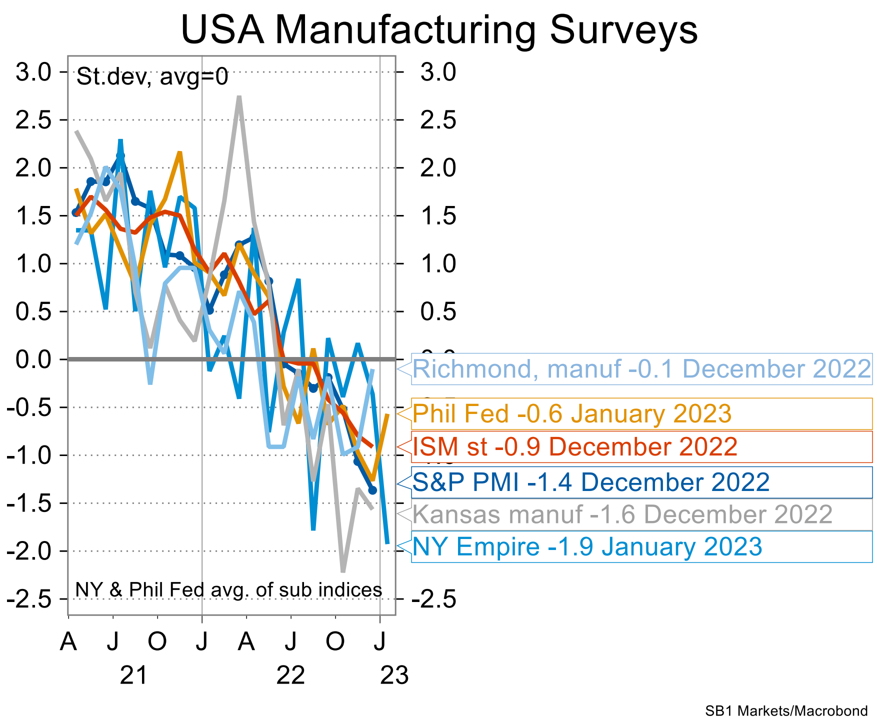



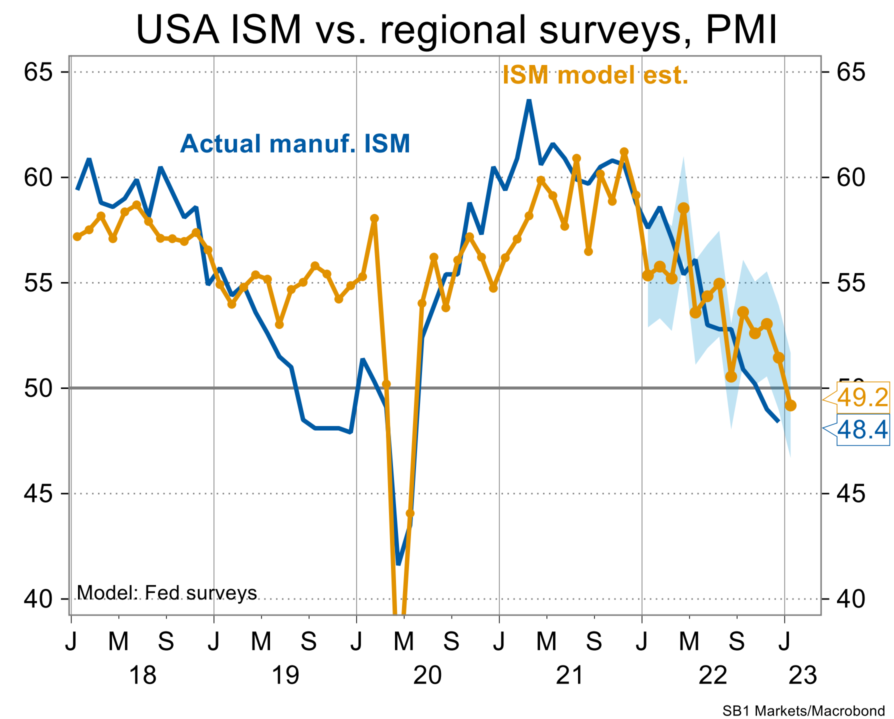




- **Price indices** are now diverging: Input prices are falling, while the output price index remain at a rather high level (but far lower than at the peak last spring)
  - The **delivery times** index is below average
- **The new orders** index has been zig-zagging downwards, and rose in January, to 1.3 st.dev below par
  - The expected orders index also rose, to -1.6 st.dev, from the lowest level since 1979 in October
- **Shipments** kept up pretty well in January, just 0.2 st.dev below average, signalling growth

# NY, Philadelphia Fed signals a weaker January ISM

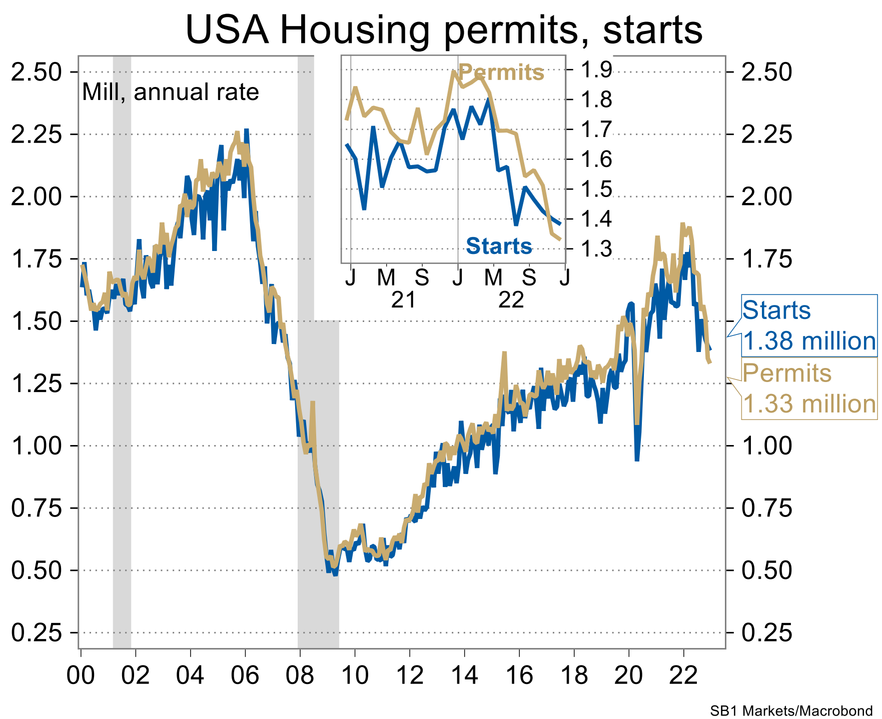
At least, the regional surveys signal a decline m/m

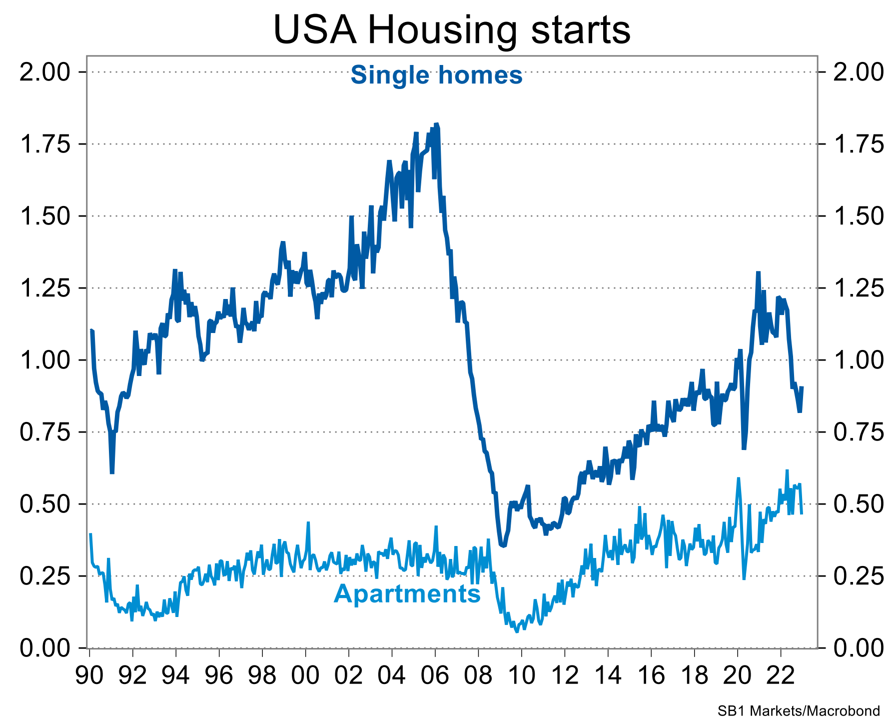


# Permits and starts further down in Dec, but Home builders less pessimistic

Permits are down 30% since before the steep from the local peak last spring (when Fed started…)

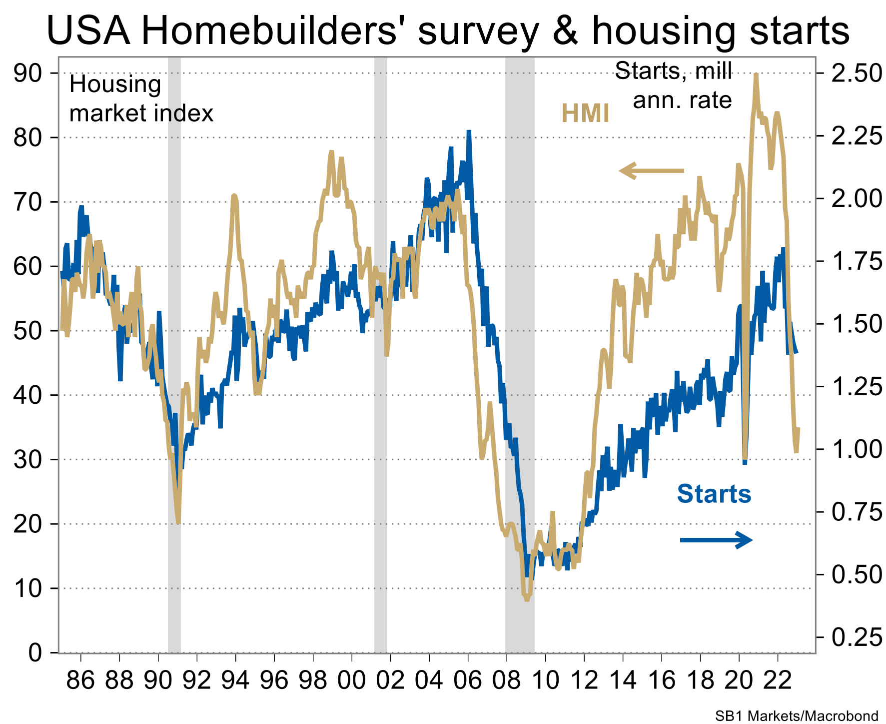


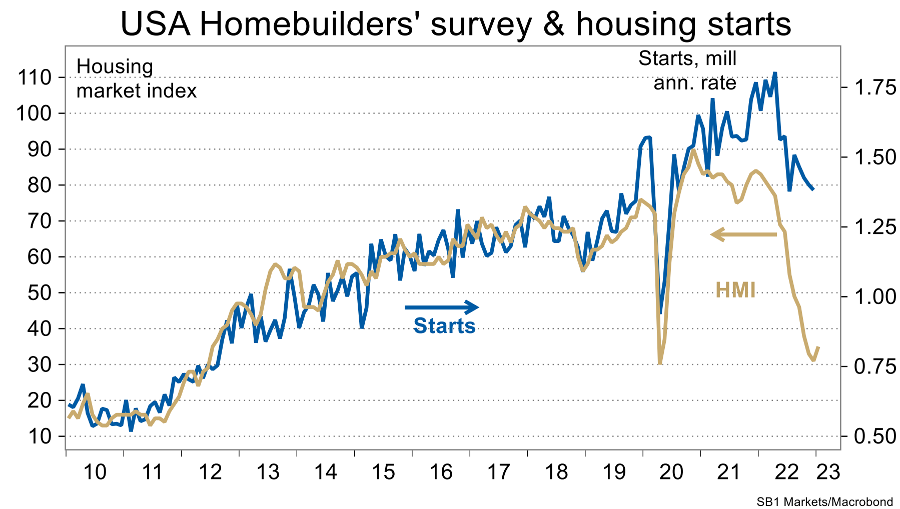



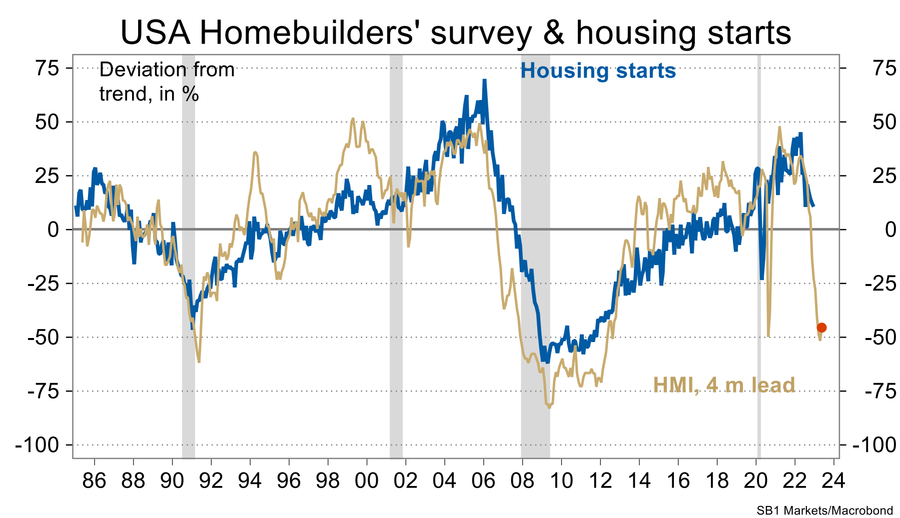

- **Housing starts** fell 1% to 1.38 mill in Dec, slightly better than expected (1.36''), as starts of single home rose significantly for the first time in this downturn (apartment starts fell, from a very high level. Starts are down 23% from the local peak in late 2021
- **However, the less volatile building permits** declined further to 1.33 mill, well below expectations at 1.37 mill. If home builders are right (next page), the downturn is not over, even if their index gained a couple of points in January
- Building **material cost inflation** has come to a sudden halt. **Lumber prices** are back to a normal level (or even below), steel prices have fallen substantially recent months too

# Home builders’ index up in January, after 12 months’ decline. Level still low

The HMI climbed 4 p to 35, expected flat – a level that implies a continued decline in housing starts the coming months



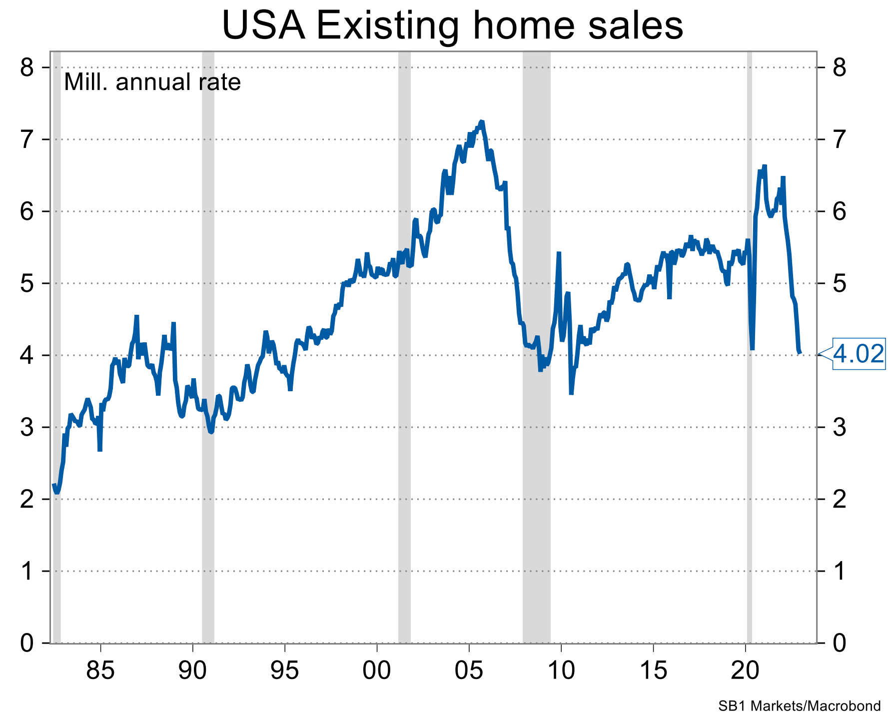



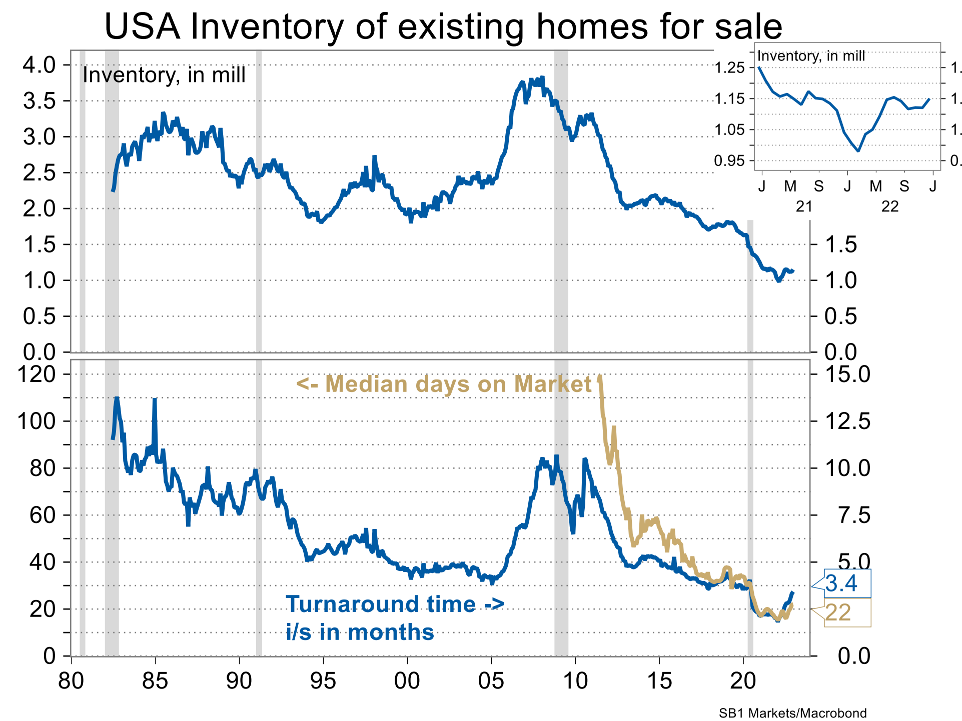




- **The Homebuilders’ Housing Market Index (HMI)** surprised to the upside in January, following a long row of disappointments. The decline prior months – and since Dec last year – was the steepest ever, and the second largest ever (just the pre-financial crises downturn was larger). All three sub-components contributed to the uptick – expected sales the most (and not traffic of prospective buyers, or actual sales) – but they rose!
  - A small decline in mortgage rate was sufficient to turn the mood upwards, according to the survey
- The index is still at a very low level, signalling a further decline in housing starts the coming months

# Existing home sales have fallen for 11 consecutive months

But by less than expected in December, and the pace of price declines is slowing

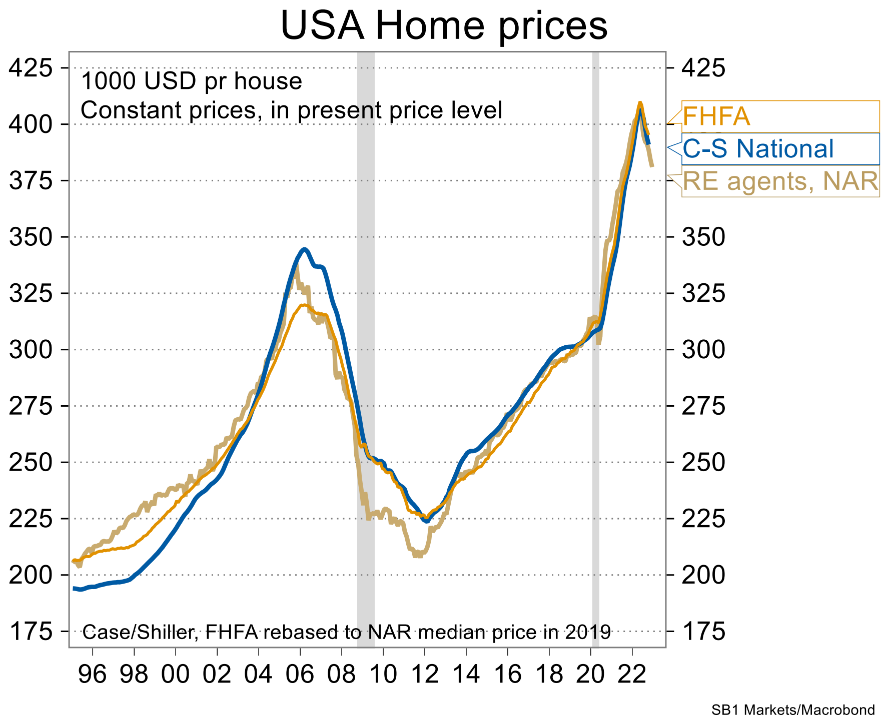


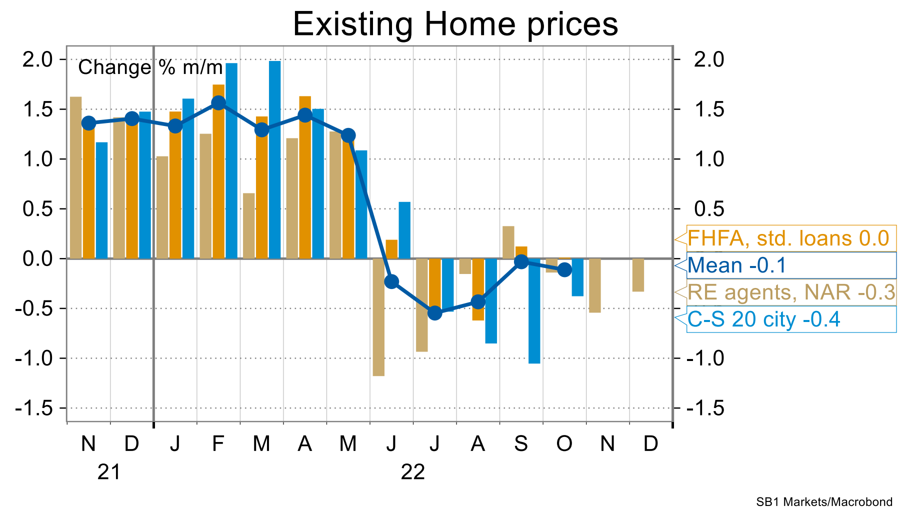



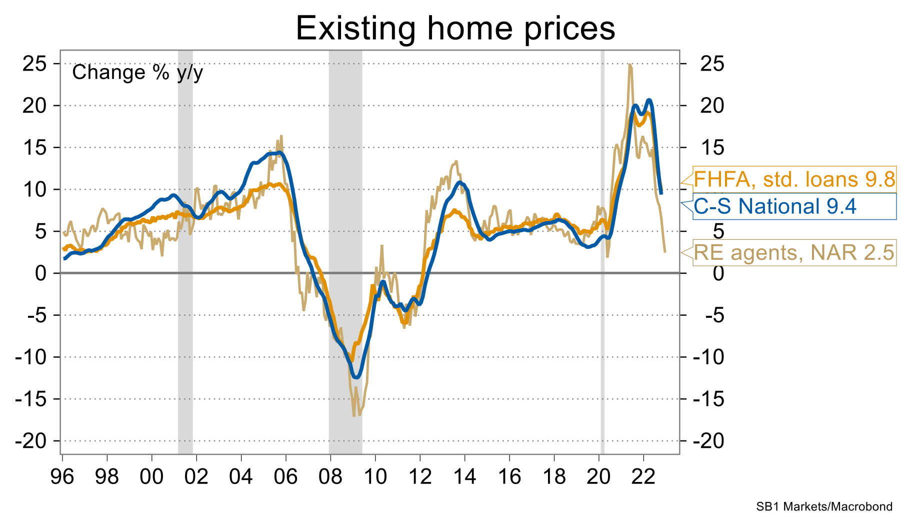

- Sales of **existing homes** fell to 4.02 mill in December (annualised rate), from 4.08 mill in Oct, expected down to 3.95 mill. Sales have fallen by 38% from local peak last January (at 6.49 mill). Sales are down 25% vs. the pre-pandemic level
- **The inventory of unsold homes** rose slightly in December too but is still lower than during the summer – and it is up less than 15% from the ATL last March. The inventory equals 3.4 months of sales (up from 3.3 last month, and 1.8 in January). However, during the 2005 boom, the i/s ratio never fell below 4 months, in bad times it has been as high as 10 months
  - Very likely, the steep rise in mortgage rates is locking prospective home movers in, if they sell, they have to pay a <u>much</u> higher mortgage rate for the next home. Thus, fewer sellers, at least for now (but also few buyers, of course!)
  - A signal of a still hot market: The median time on the market for those homes actually sold is just 22 days, and still close to ATL. Before the pandemic the time on market was at 30 days (and 120 days in 2011!)
- **Prices** fell 0.3%, the 6th decline over the past 7 months. After revisions, prices are down just 2.8% from the peak (and still up 2.5% y/y)

# House prices are falling but slower – even if the price level is still very high

Recent months were revised slightly upwards, and prices fell just 0.3% in December




- **The price decline in Nov** was revised to 0.5% from -1%, and prices are down just 2.8% from the peak last March. The seasonal adjustment of these data is not perfect, so some caution on our m/m data. The annual rate fell 1.2 pp to 2.5%
- **Other indices** are still up 9% - 10% y/y, but prices fell all across the board in Oct (Sep - Nov, the last obs.). Prices are normally lagging sales by almost 1 year. This time, prices followed sales down much earlier, <u>we think due the rapid deterioration of affordability</u>
- Home prices rose more than 40% during the pandemic, and are way above the 2006 level, even in constant prices. We still judge the downside risk to be HUGE! 2020 prices were sufficient to keep housing starts at a decent level. To get the real price back to that level: almost 20% down

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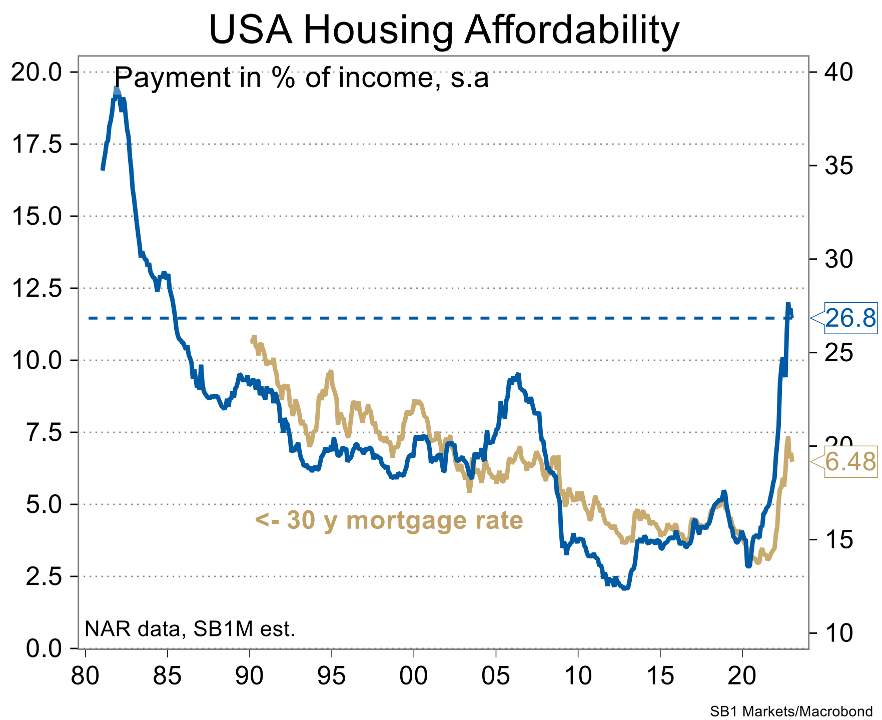
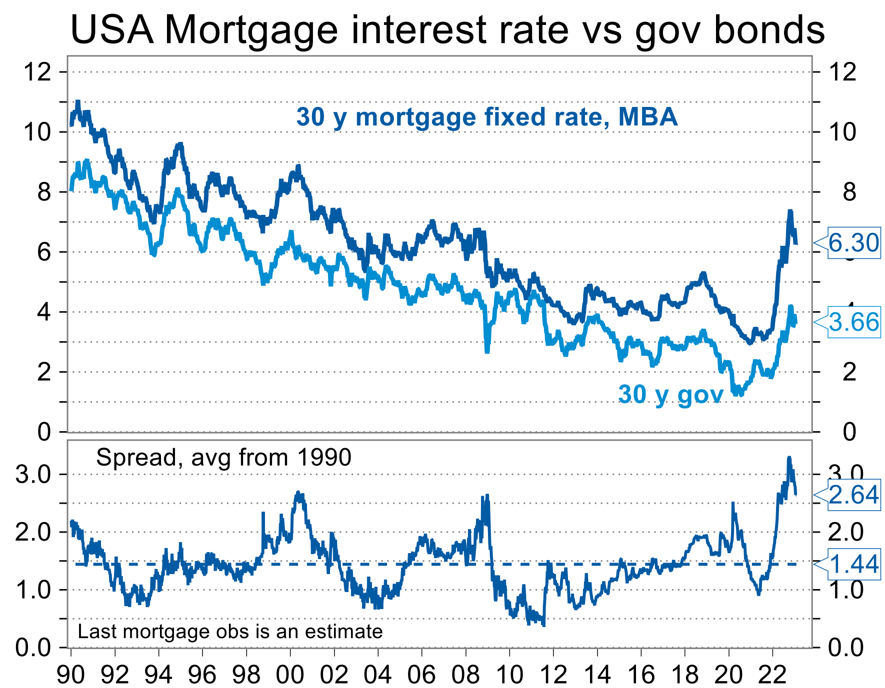
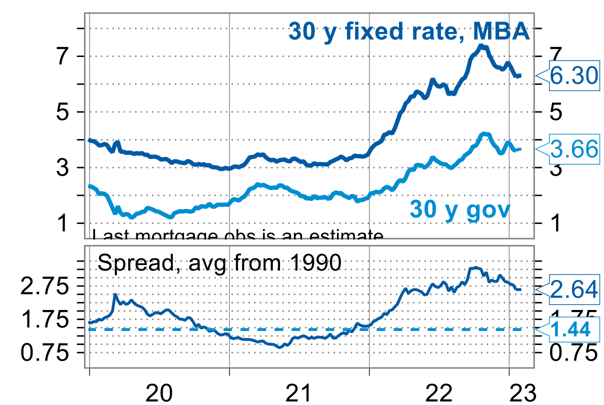
# Mortgage rates are well down from the peak – but remain high

Affordability is a real challenge, as mortgage rates are the highest since 2008, and real house prices far higher



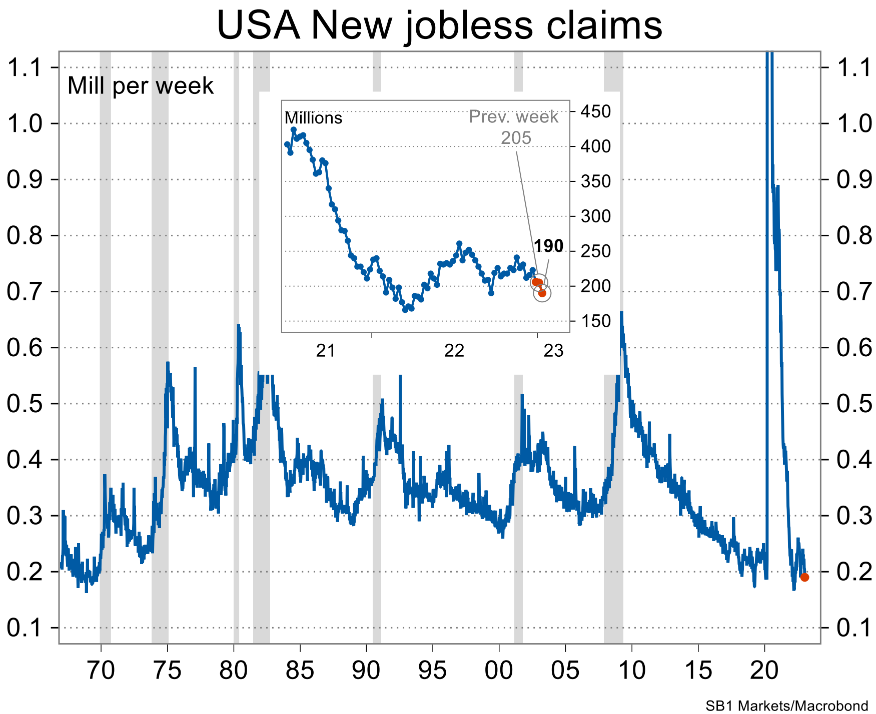



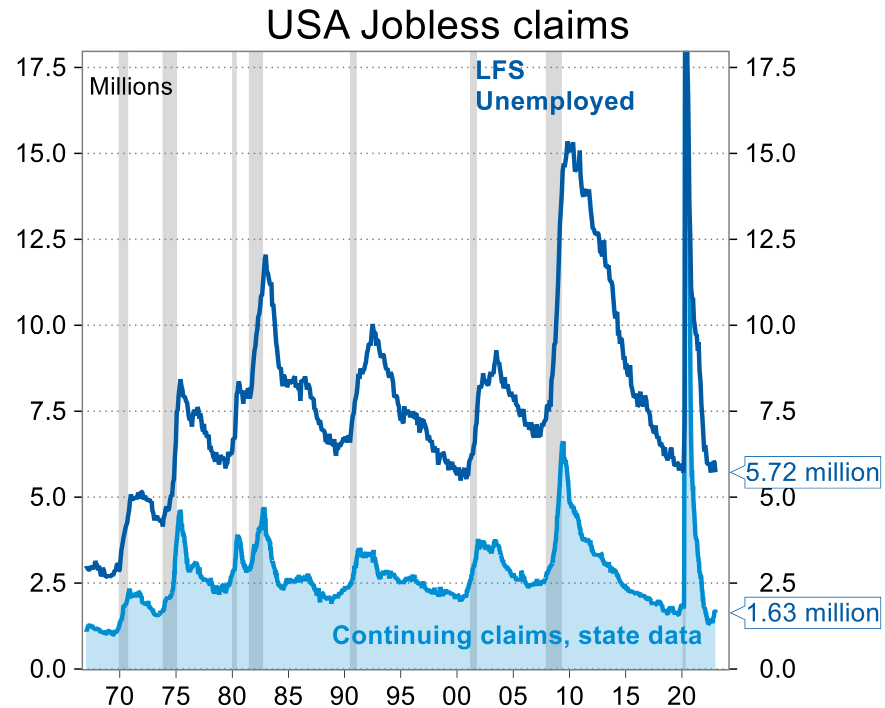




- The 30 y fixed mortgage rate is down more than 100 bps from the peak, but remains much higher than normal, both due to higher 30 y Gov. bond rate, and even more to an extraordinary high spread to the mortgage rate – even if both have contributed to the recent decline in the mortgage rate
- <u>Housing affordability (house price x mortgage rate)/income is still the worst since 1986. By far</u>

# The inflow of new unemployed down to 190’ last week, 22’ below expect.

... And it has not been lower since last spring! Were are all the laid off tech workers??

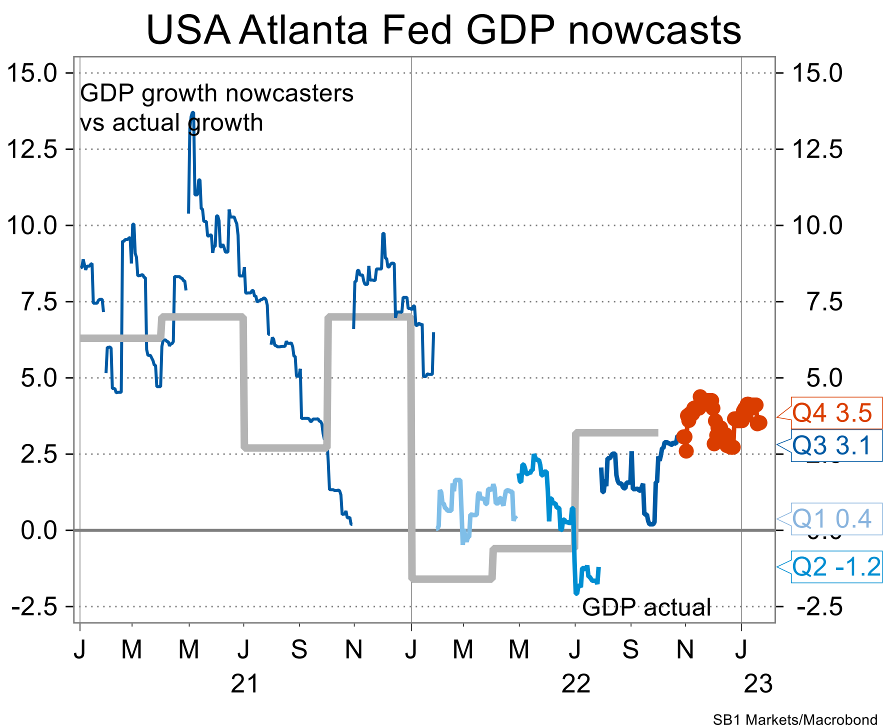


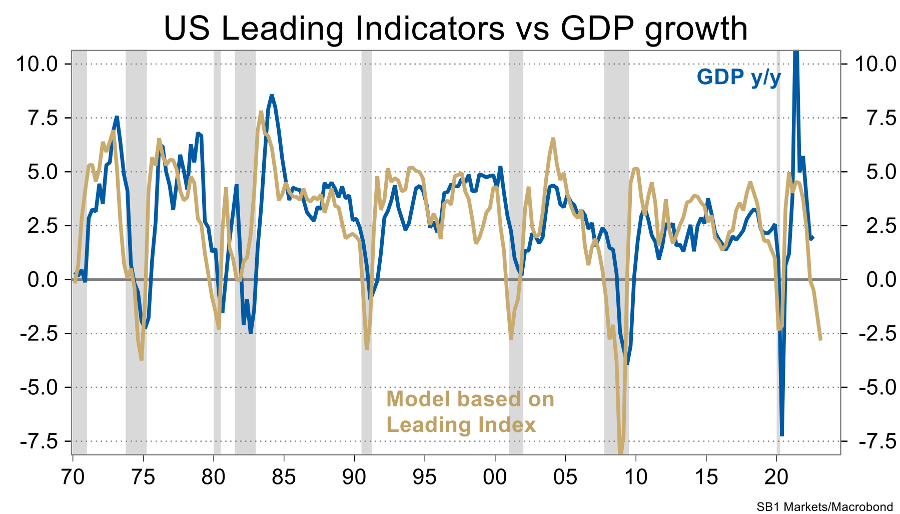



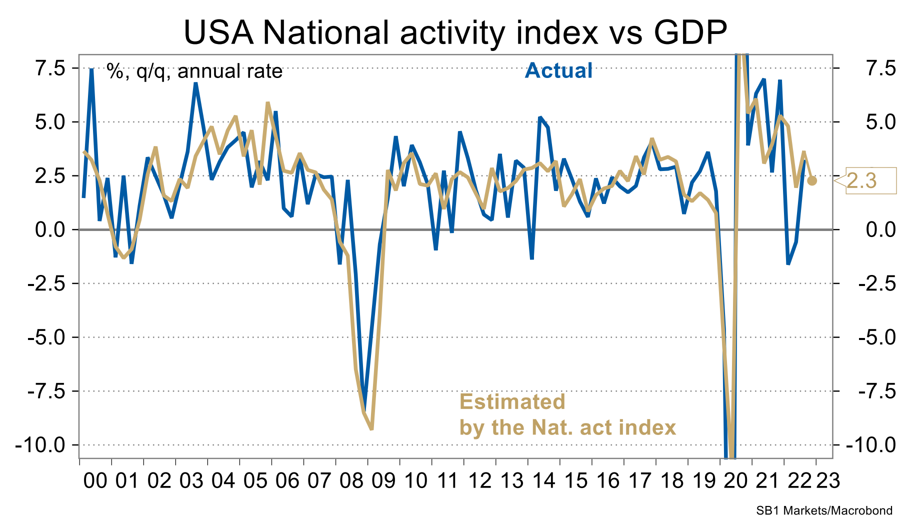

- **New jobless claims** decreased by 15’ to 190’ last week, expected up to 212’. The inflow has not been lower since last spring (and equal to one week in September)
- **Continuing claims** rose by 17’ to 1,63’ in week 1. The trend is slightly upwards but the level remains very low still
- Both still indicate a **tight labour market** – a labour market that is far more resilient than we and probably also the Fed had envisioned, given higher interest rates, record-low consumer sentiment, and falling orders (according to surveys)

# Atlanta Fed revised its Q4 GDP forecast down by 0.6 pp to 3.5%

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



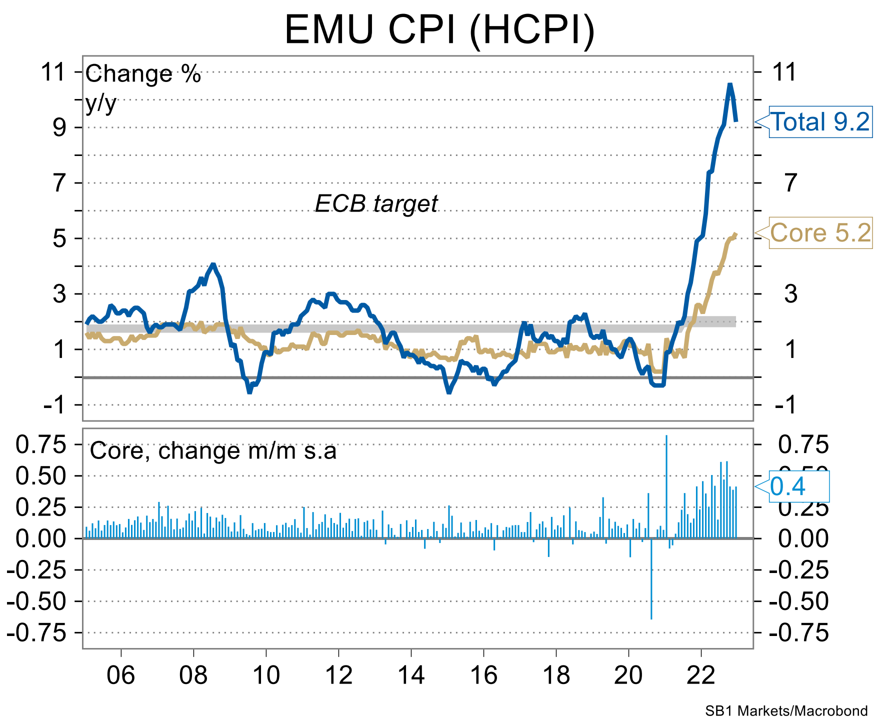



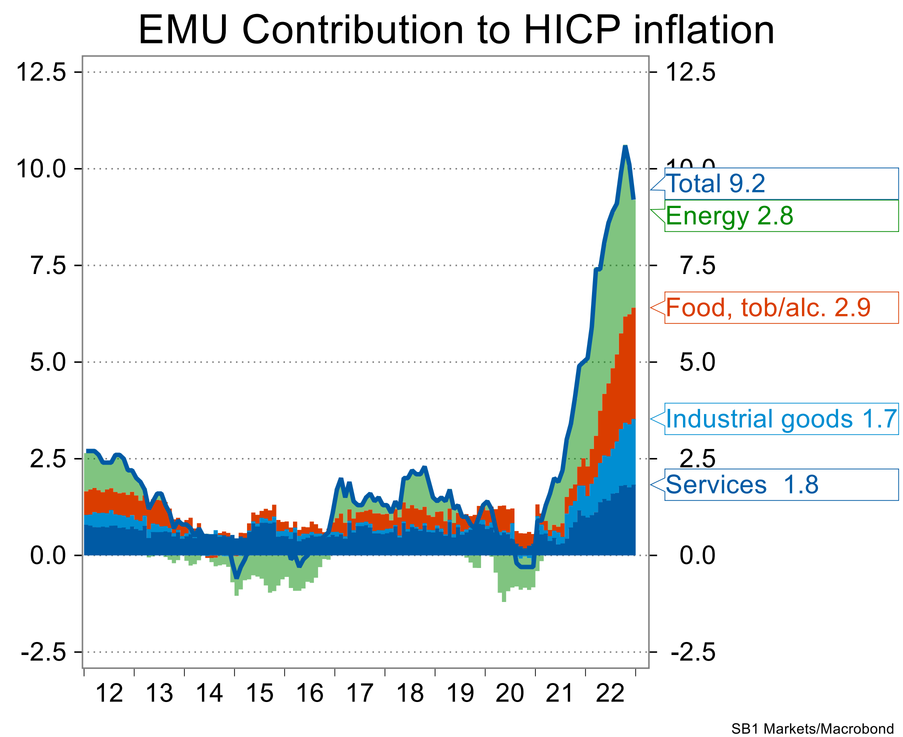




- The market expects a 2.5% growth rate, data out on Thursday

# Final data confirms headline inflation has peaked – spot on preliminary print

Headline inflation was down 0.9 pp to 9.2% y/y. However, core inflation is still accelerating, up 0.2 pp to 5.2% y/y

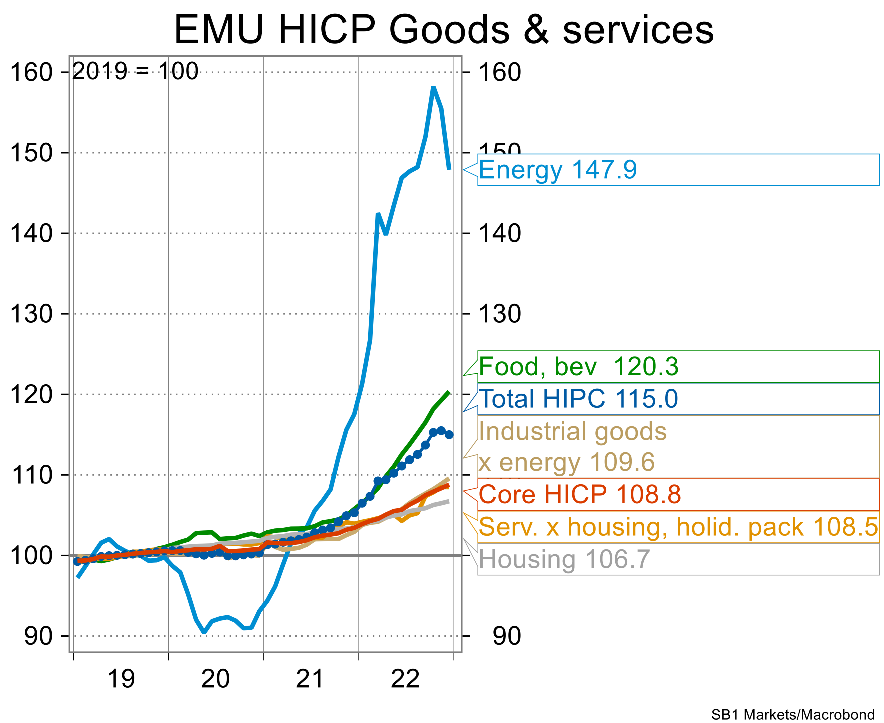


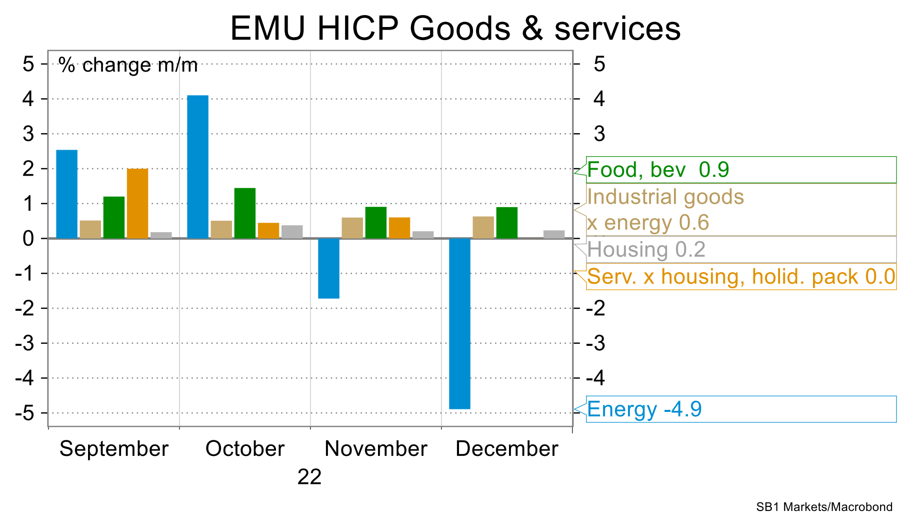

- The **total HICP** rose 0.7% m/m in Dec (seas adj), and is up 9.2% y/y, which is down 0.9 pp from Nov and in line the preliminary print
  - **Energy prices** were down 4.9% m/m, and they are up 26% y/y (down from 35% a month ago), but still contribute 2.8 pp to the headline rate. Food prices rose 0.9% m/m - and are up 14% y/y, contributing 2.8 pp to overall CPI growth
- **The core** rose 0.4% m/m, mostly due to the increase in the price of goods. The annual rate was up 0.2 pp from November, and spot on the initial estimate at 5.2%, the highest ever, again…
- The **ECB** hiked rates by 50 bps to 2.0% at their last meeting and reiterated that their job is to control inflation. In addition, the bank's statement with regards to further hikes was more hawkish, indicating 'several' (three or more??) 50-bp hikes to come. A lower inflation print is certainly welcome by the ECB, but the bank clearly stated that a pivot is not even close. It is adamant to get inflation under control and will tighten conditions until the target is in range

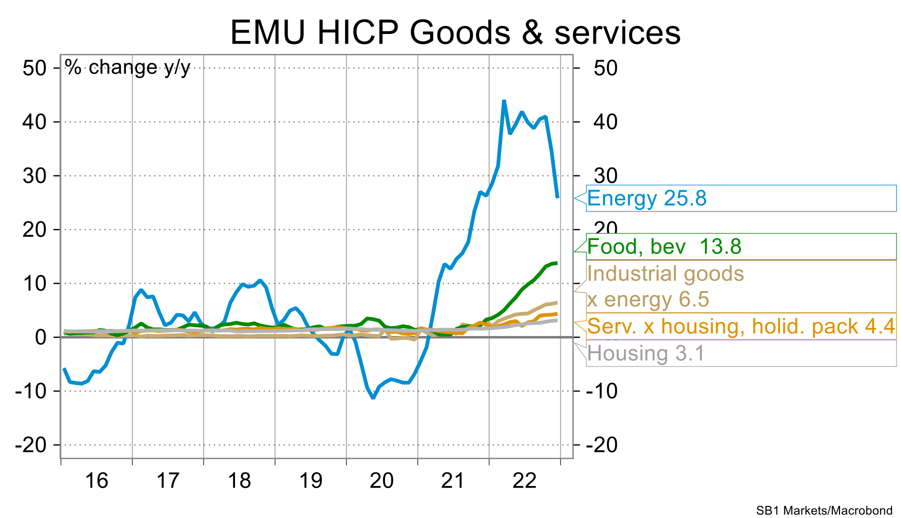
# Energy prices were down 4.9% in December, and are up ‘only’ 26% y/y…

…from being up over 40% y/y in 2022. Food prices were up 0.9% and are up close to 14% y/y. No let-up to be seen



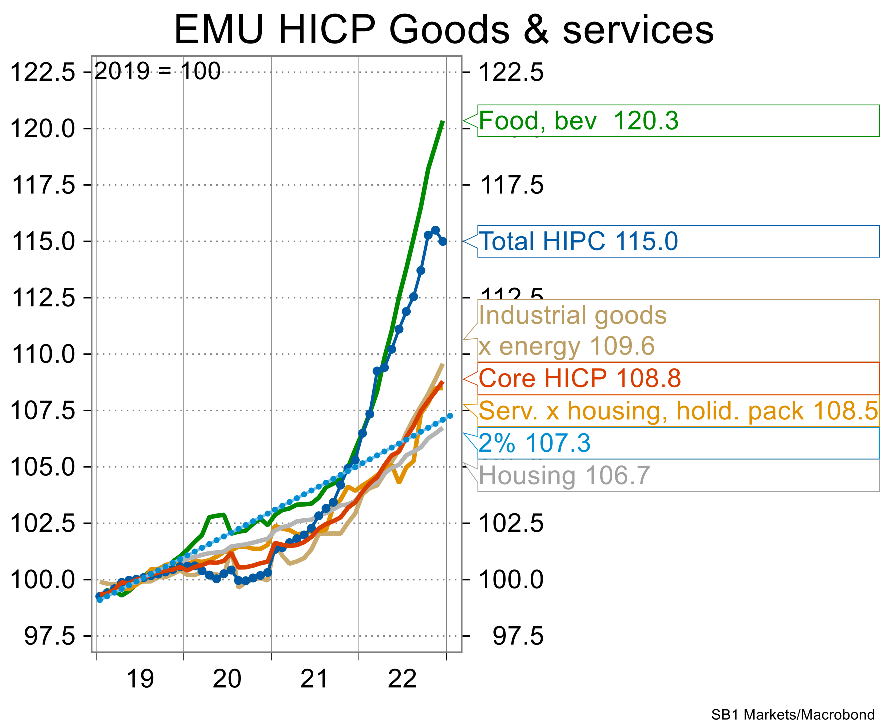

- But the peak is behind us, check two pages forward

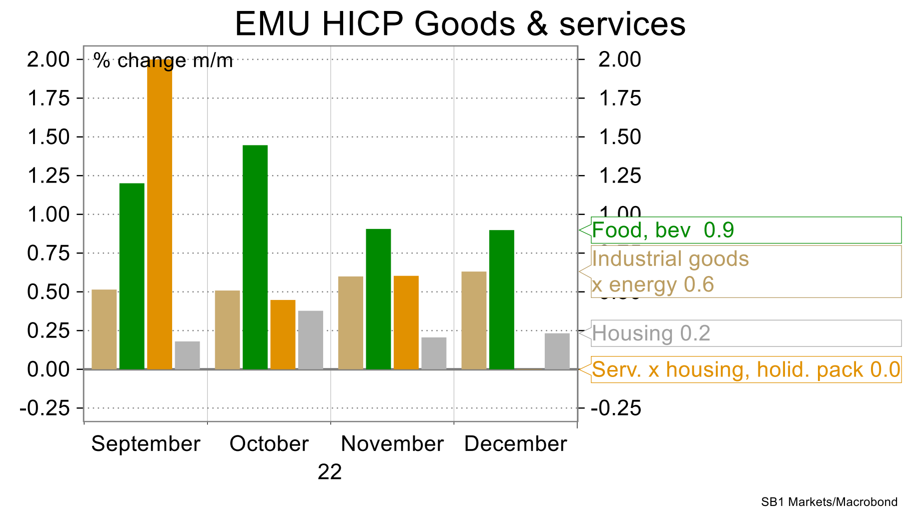


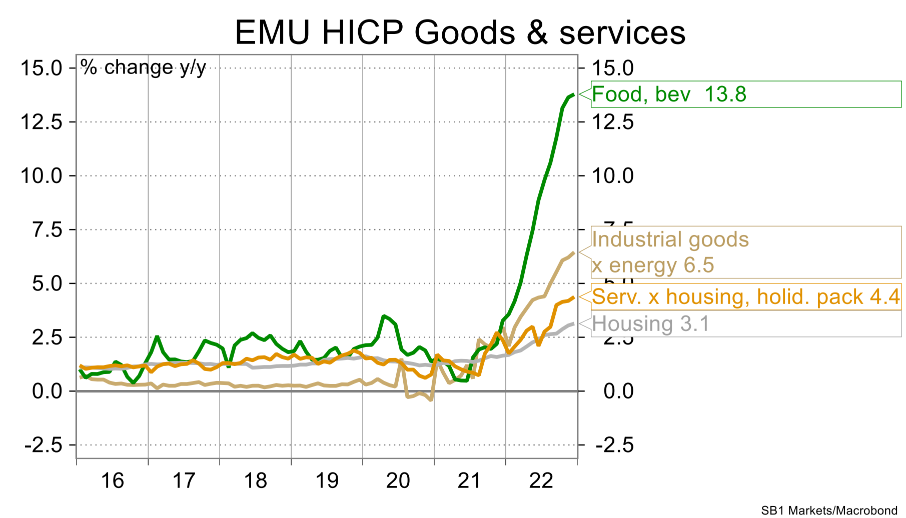
# And prices ex energy and food are increasing fast too

Industrial goods x energy at 6.5% y/y, and 'core services are up 4.4% (but flat in Dec)



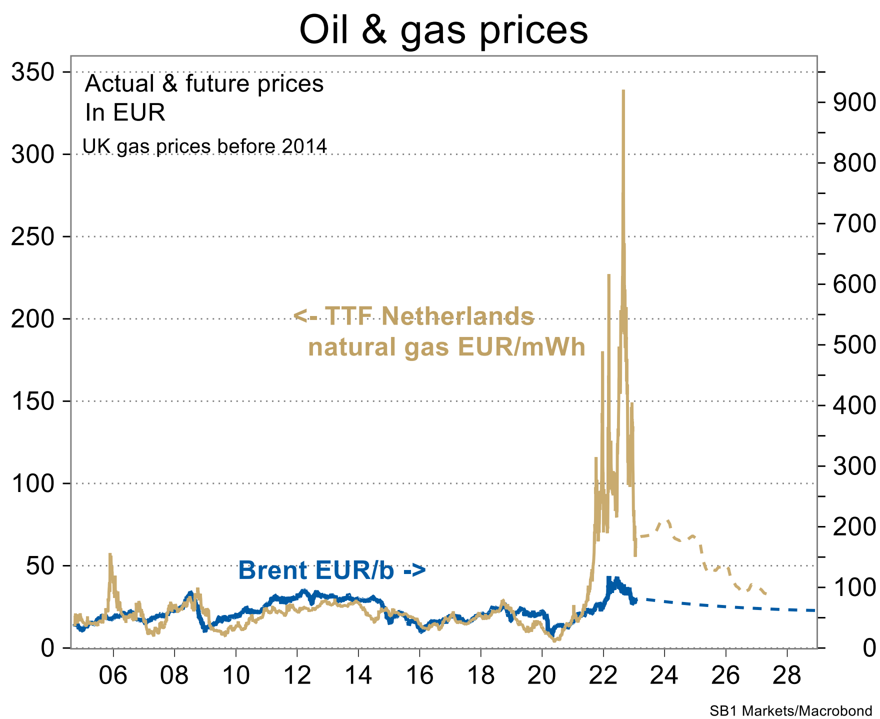



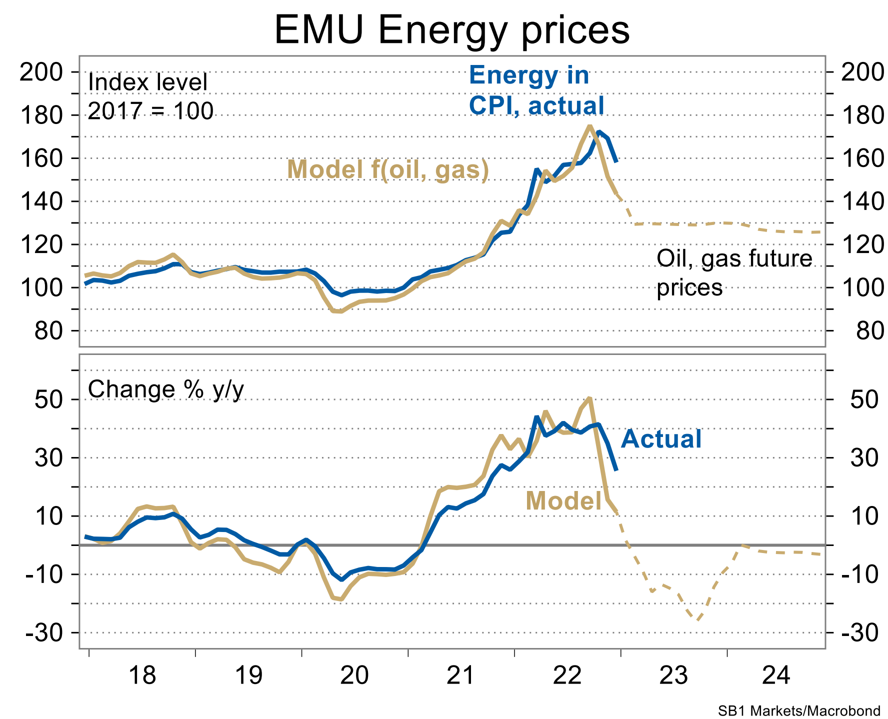

- **Industrial goods** prices increased by 0.6% in Dec, and are up 6.5% y/y
- **Service prices** (ex housing, holiday travel) was flat in Dec, and are up 4.4% - and still increasing. Transport services, hotels/restaurants, education, and several other sectors contribute to the high service sector inflation



# Gas, oil prices have lifted 'energy CPI inflation' up 26% but….

… gas prices are tumbling down – taking the CPI down too, very likely



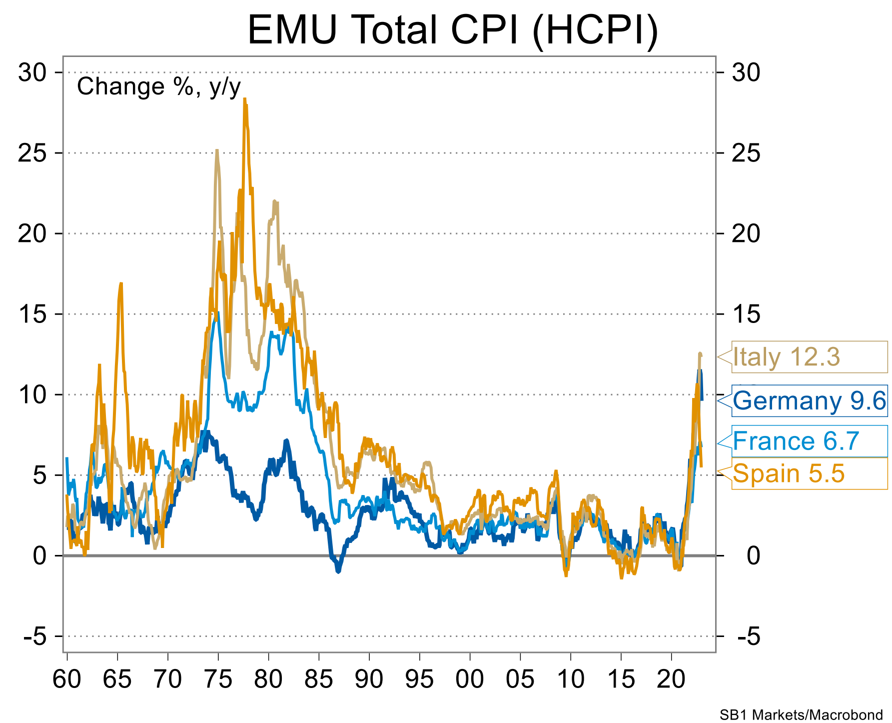



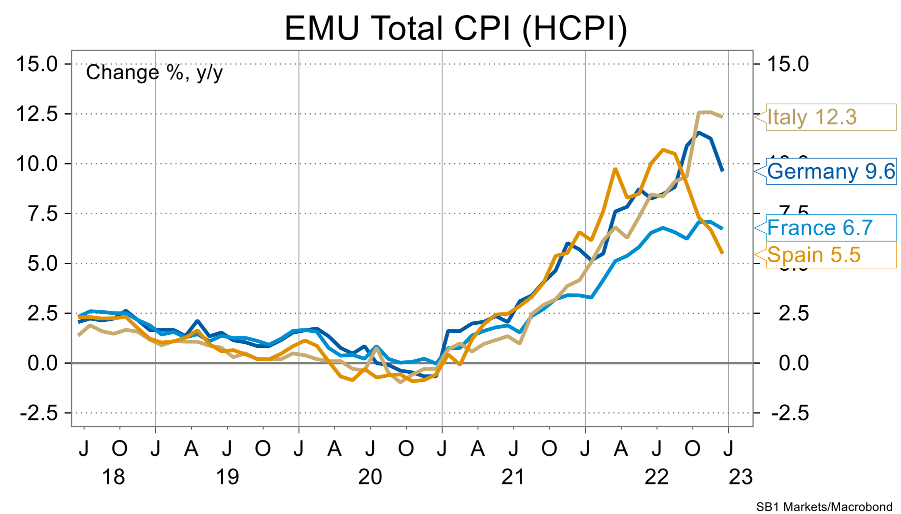

- Gas prices are well down from the peak, and the decline recent weeks have been substantial
- In just some very few months time, energy prices will probably be down, even measured y/y –taking the annual HICP (CPI) rate substantially down. *If the market got it right, this time …*

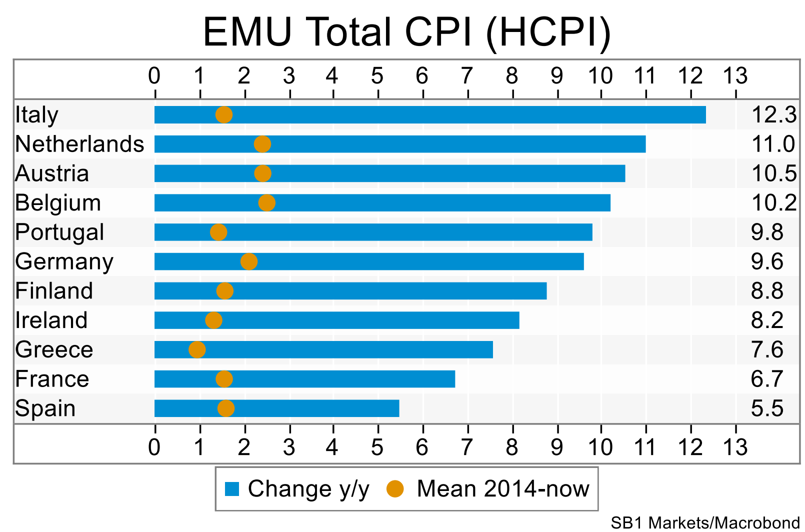


In these models we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influence inflation which correlates to the oil price

# Inflation is high across the union – but has peaked everywhere




- In fact, the German, French and Spanish CPI (HICP) all fell in Dec

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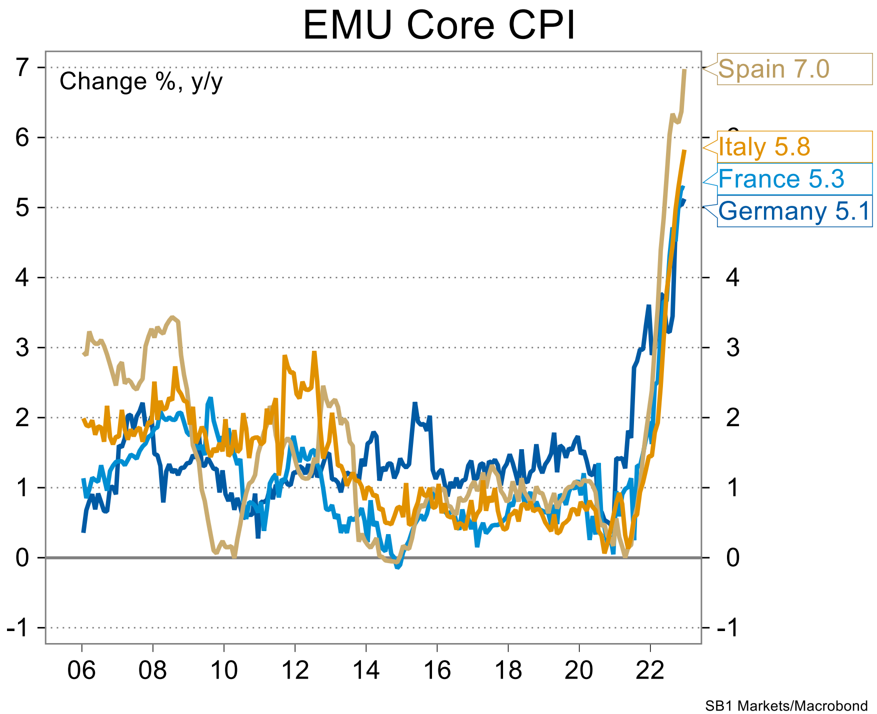
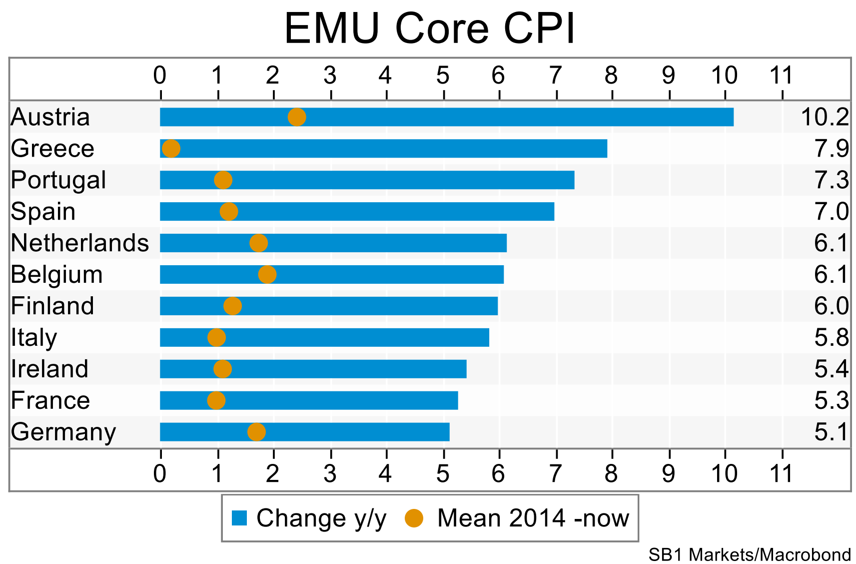
# Core inflation is, of course, miles above the 2% target everywhere

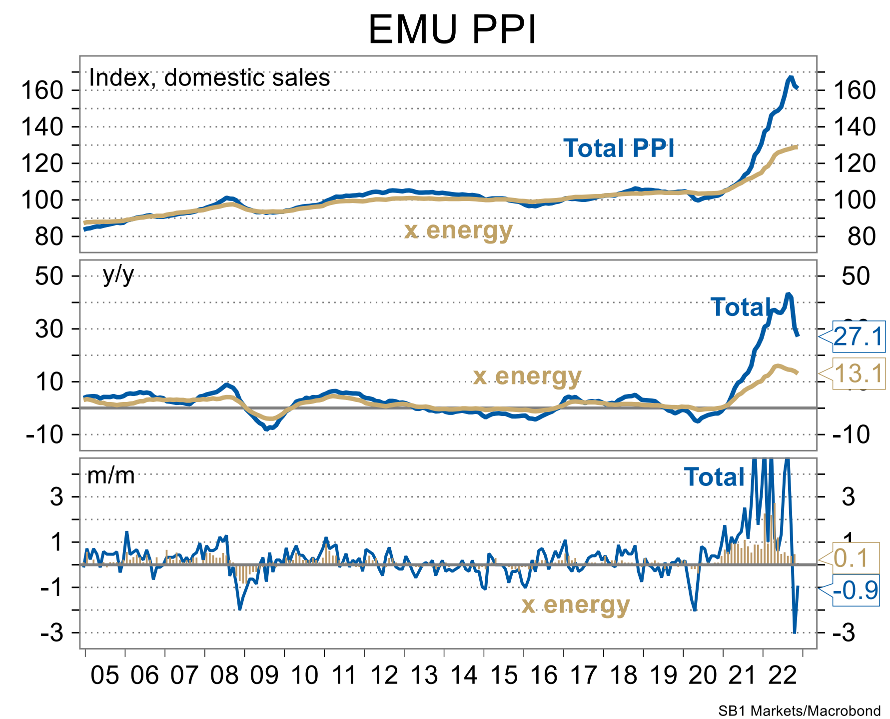
.. And just as bad, it is still increasing!

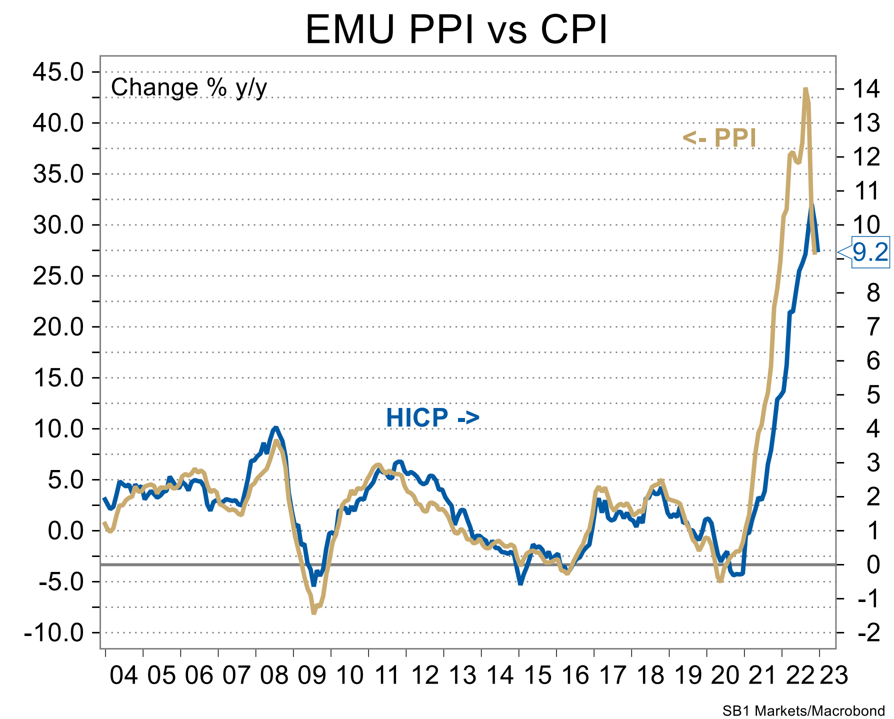


# The PPI came further down in November

The total PPI fell 0.9% due to lower energy prices. Still, prices are up 27% y/y. Core up 0.1% m/m, 13% y/y

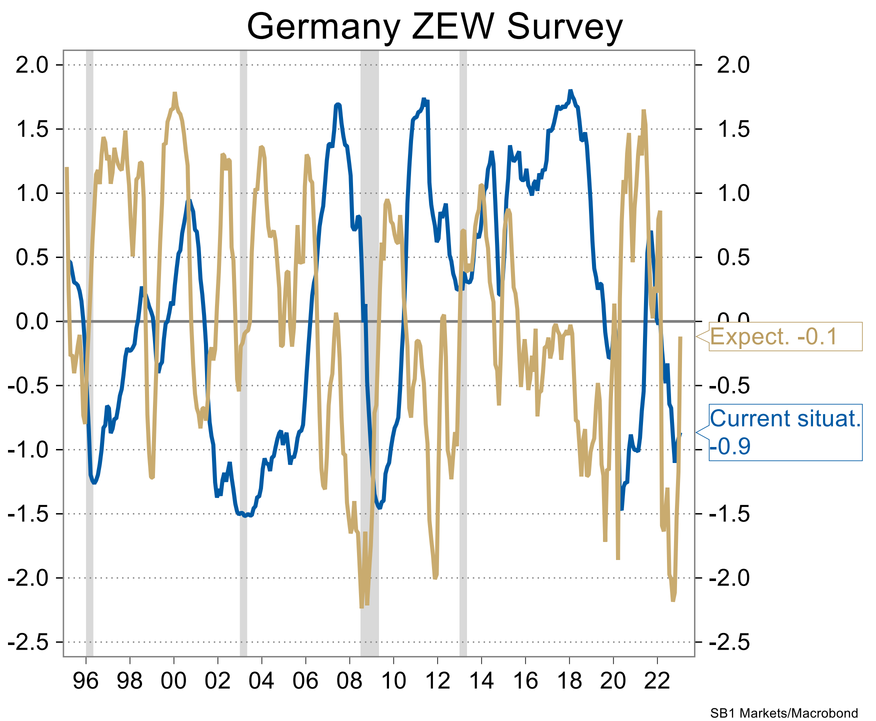


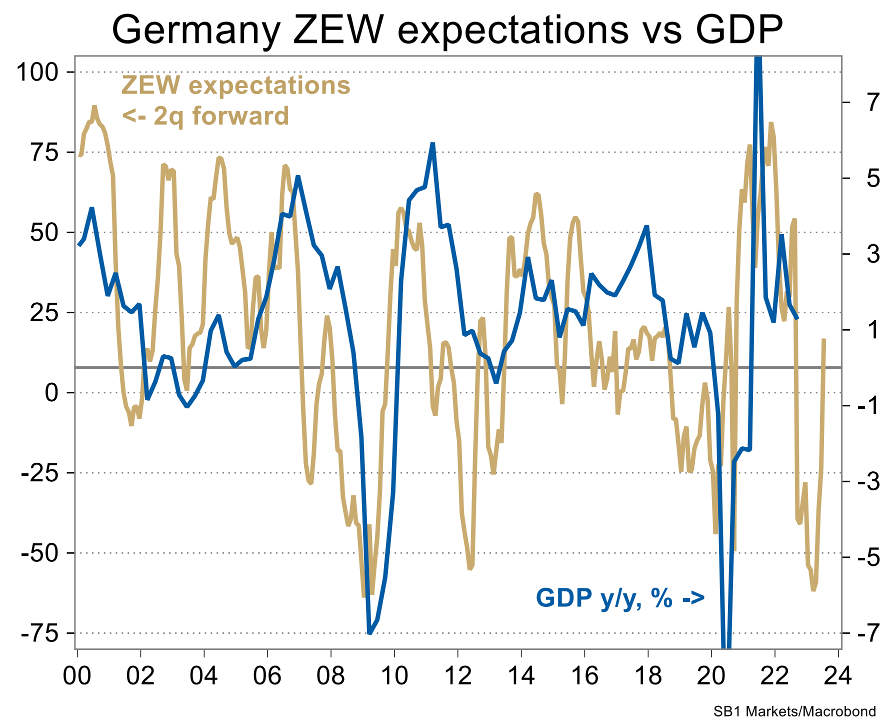




- Good news – but the way back to a normal level is very long

# ZEW expectations more up than anytime before, except for April 2020

German investors/analysts is starting to see the light, the index rose to an average level – signaling normal growth!

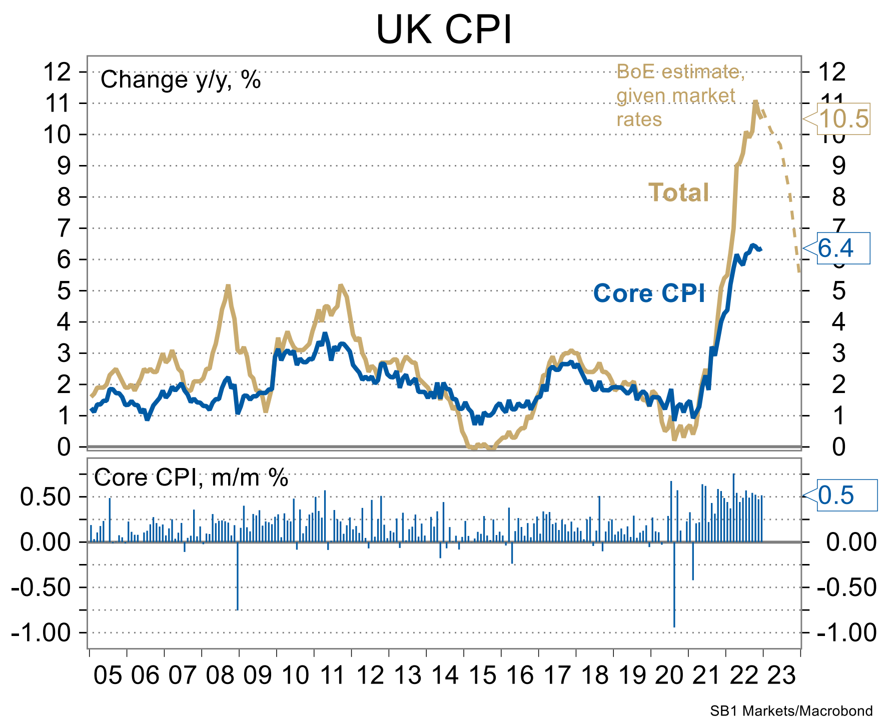


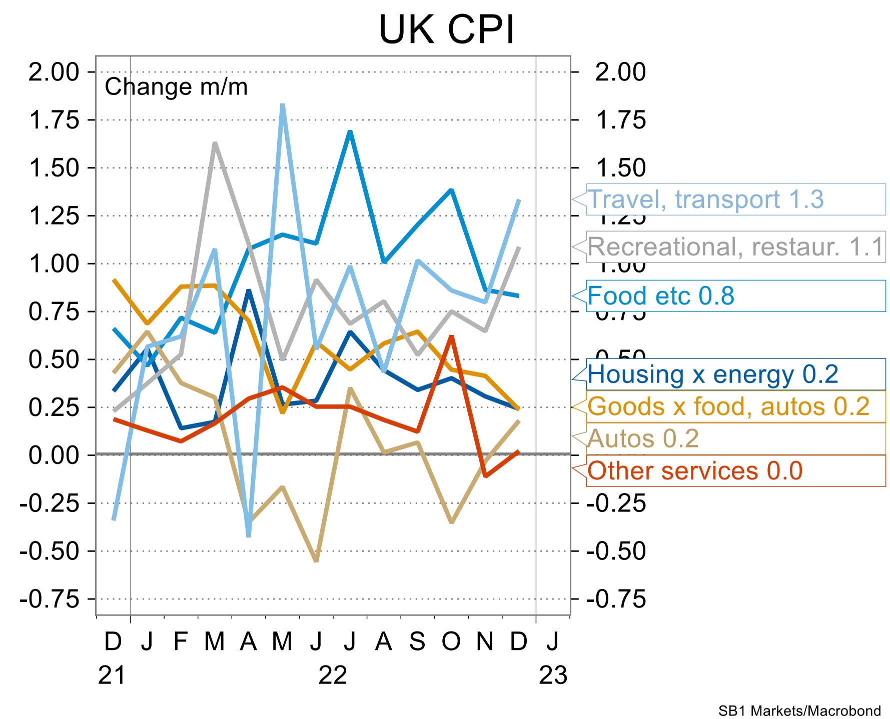




- The **ZEW expectation** rose 40.2 p to +16.9, expected just up to -15. The lift is the 2nd largest ever. Just in April 2020, analysts and investors changed their assessment of the economic outlook than now, in January. We assume the 50% decline in gas/electricity prices explains the lion's share of the unusual change of mind
  - The level is now 0.1 st.dev below average, 2.1 st.dev up from the bottom, and the highest level since before the war started – which is signalling growth at trend
- The **current situation** index was also marginally higher in January (up to -0.87 st.dev from -0.91 st.dev)
- <u>ZEW now signals 0.8% GDP growth in Germany, from signalling a recession just last month</u>

# UK headline inflation down from the peak – but both measures still sky high

Although headline inflation has peaked, there is no clear sign that the core is cooling, and that is the BOE's headache…

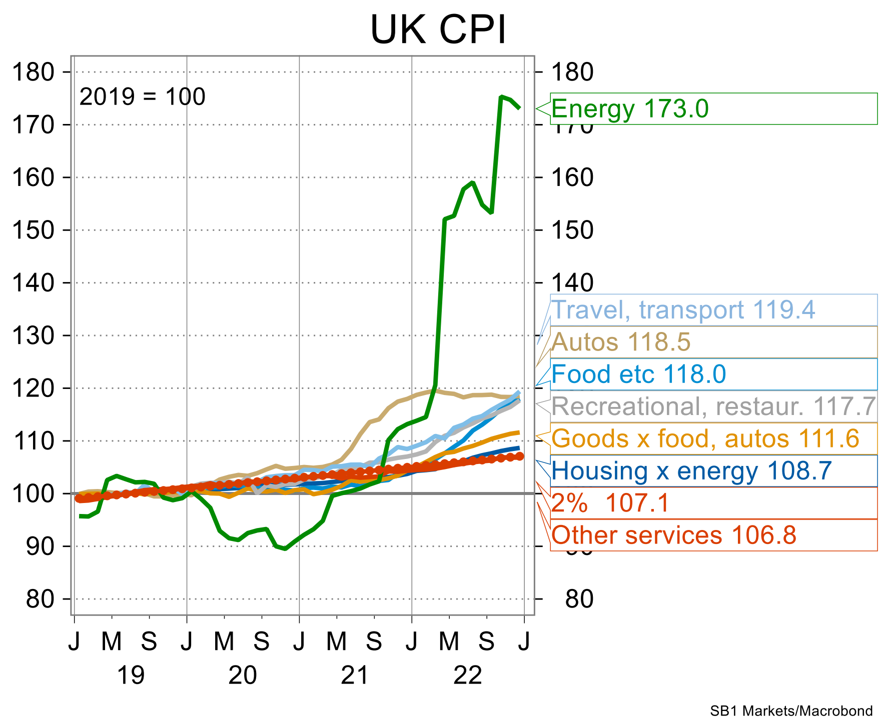


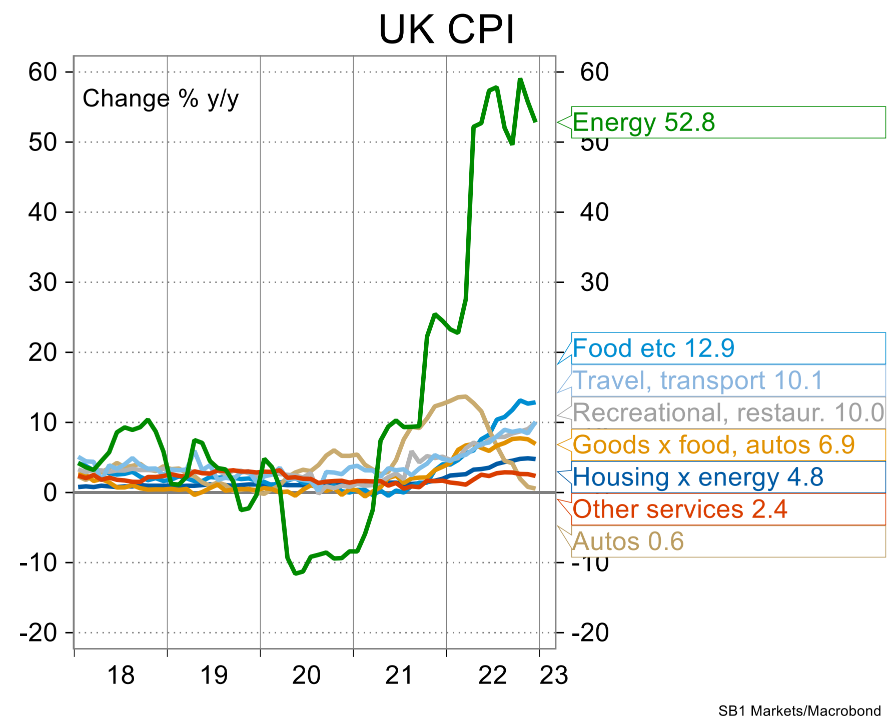




- …because inflation is broad based, and several unions are now demanding to be compensated for the high inflation and to get raise on top of that, contributing to more inflation
- **The total CPI** rose 0.4% m/m in December. The annual rate decelerated 0.2 pp to 10.5%, in line with market expectations
- **Energy prices** fell 0.1% in Dec, as they did in Nov. The 14% lift in October as the regulated price cap for energy was lifted
- **Food prices** rose 0.8% m/m, and they are up 13% y/y (+11.6% IN Norway), lifting the headline by 2.1 pp!
- The **core CPI** (ex food and energy) rose 0.5% m/m, and is up 6.4% y/y, unch. from November
- **Auto prices** are up 0.2% m/m and up 0.6% y/y
- **Almost all major sectors** are reporting growth at or above 2%, and all, but the bulk 'Other sectors' are up by more than a 2% pace since before the pandemic.

# Energy is the main culprit, but far from the only problem

… almost all main components are above the 2% growth path

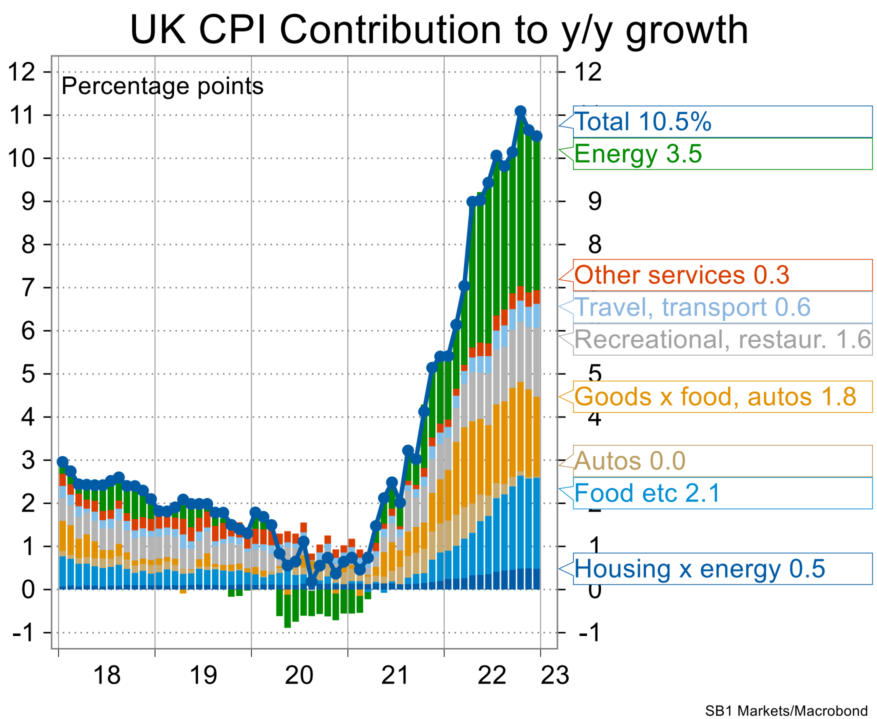


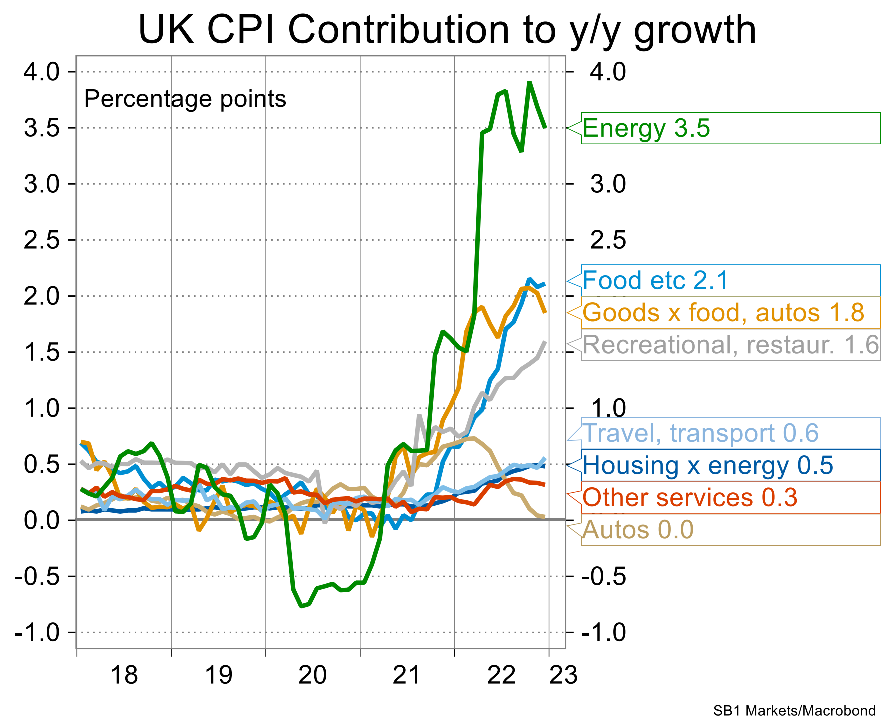




- **Energy prices** are up 53% y/y, much of it due to the 26% m/m surge in April, and then the second semi-annual price cap adjustments by14% in October, *check the chart to the left*
- Some positive signs: Auto prices have peaked, and services x housing is up ‘just’ 2.4%

# Energy is important, but the inflation problem is broad based

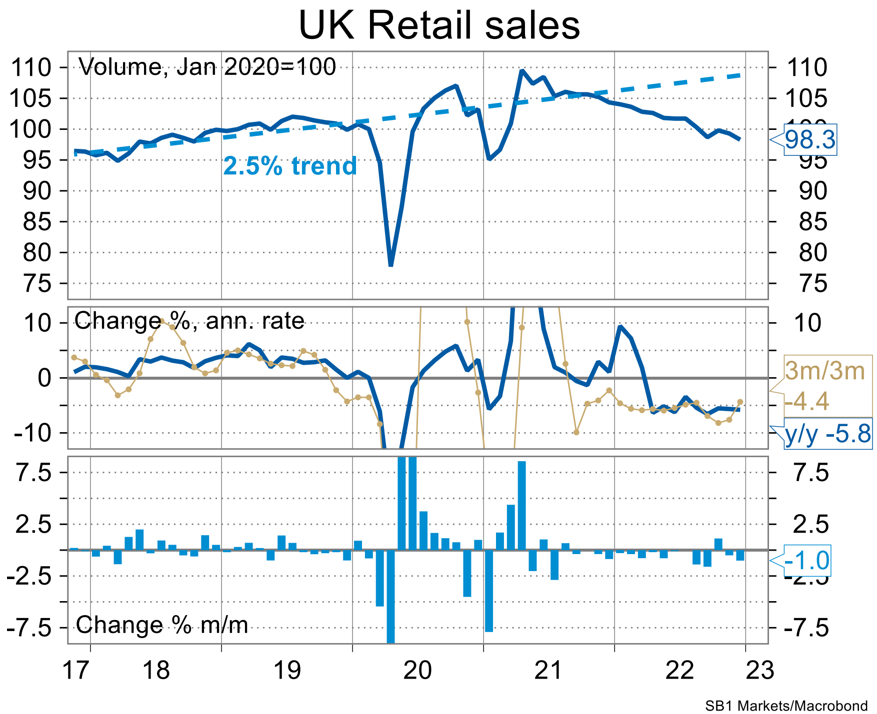
Food and goods are contributing 4 pp to the headline

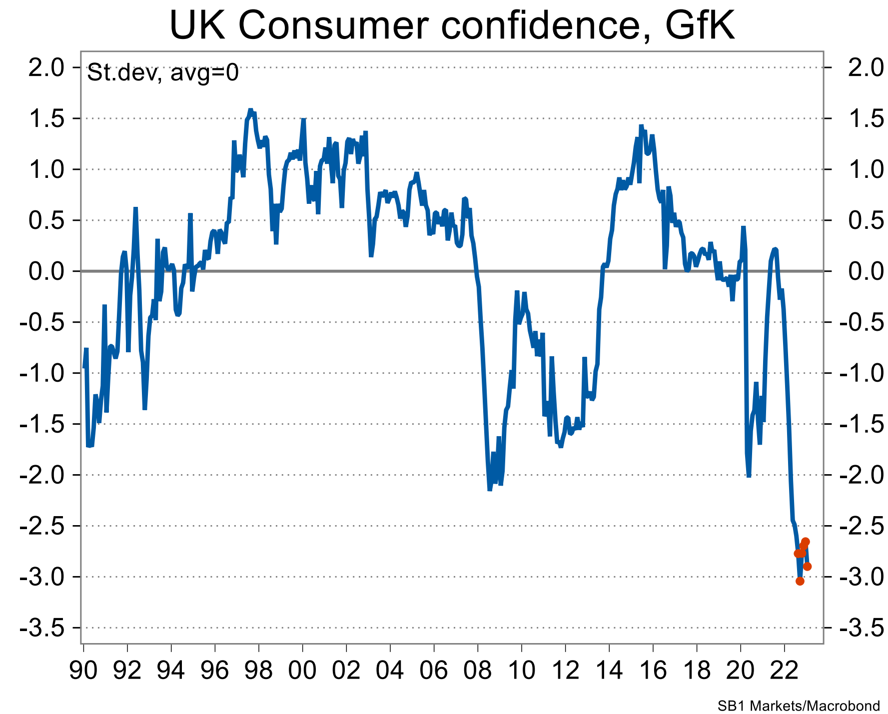


# Retail sales down 1% in December, and the trend is straight down

Sales are down 5.8% y/y and 4.4% 3m/3m. Consumer confidence is still very low – and was down in January

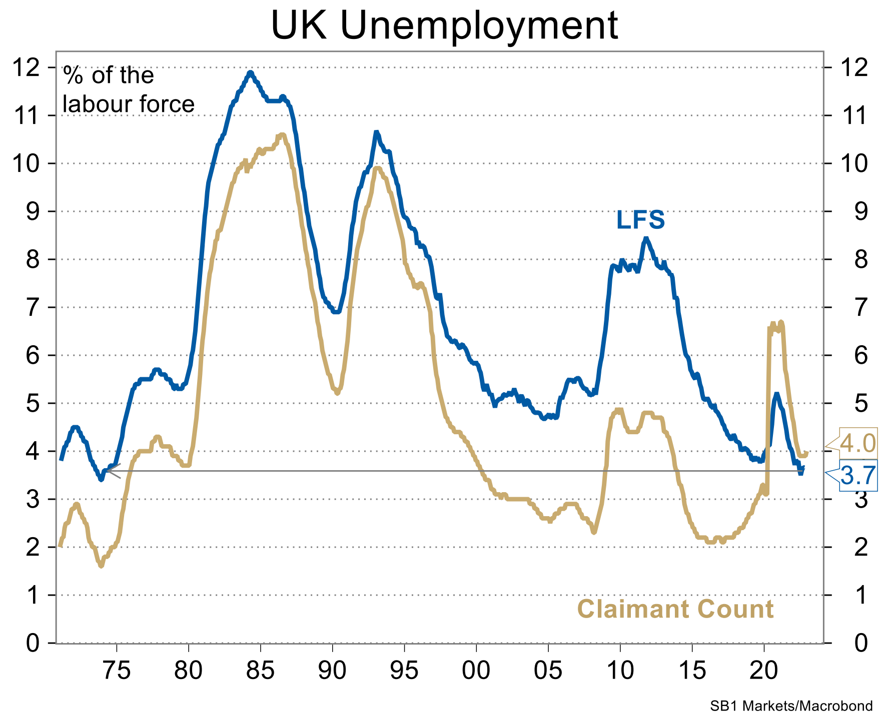


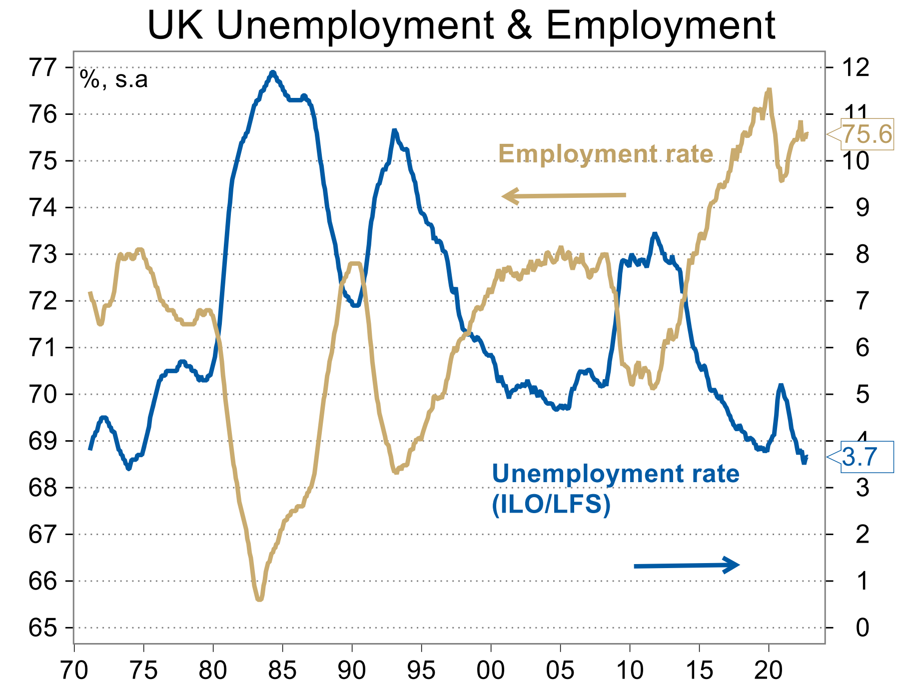



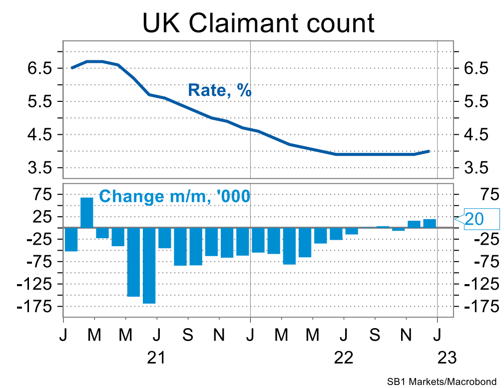

- **Retail sales** peaked Apr-21, and the gradual decline brought sales down to way below the pre-pandemic 2.5% growth path – and now even 1.7% below the pre-pandemic level! Sales are down at a 4.4% pace measured 3m/3m, a substantial drag on GDP growth in Q4 (while monthly data so far indicate a positive growth rate for the quarter)
- **Consumer confidence** decreased slightly again in Jan, to 2.9 st.dev below average, from -2.6 st.dev in Dec
  - High inflation, and an unprecedented decline in real wages and higher interest rates are likely reasons for the historically low consumer confidence. Political turmoil is probably not helping. Besides that, the labour market is strong, the unemployment rate the lowest in 4 decades

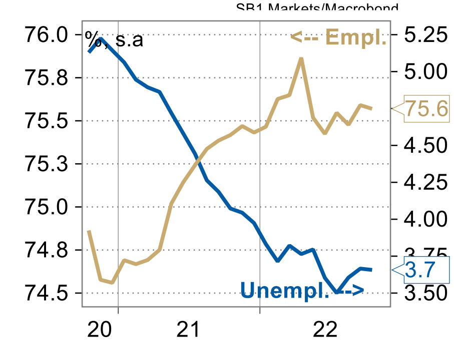
# The unemployment rate unchanged, but claimant count above expectations

However, employment is still increasing, and wage inflation is exploding!



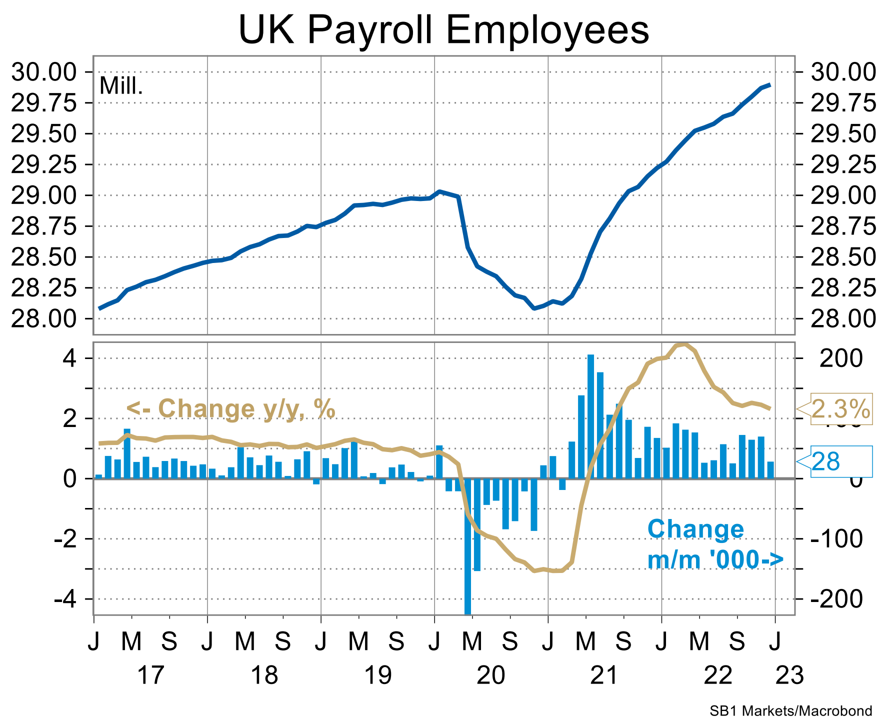



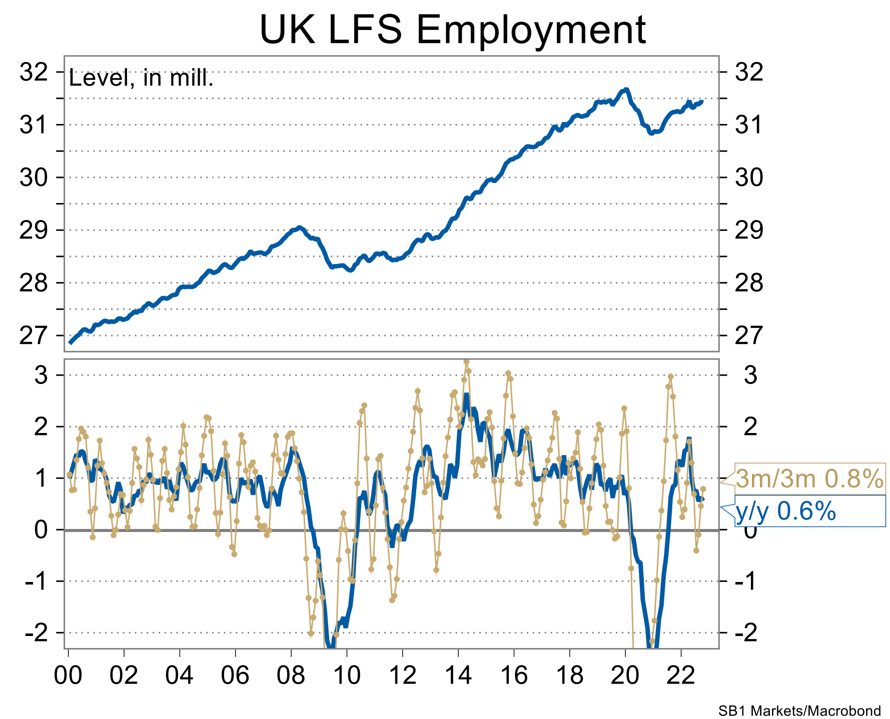




- **ILO/LFS ('AKU') unemployment** was unch. at 3.7% in Nov, in line with expectations
- **Claimant counts** ('open unemployment') ticked up to 4% in December, up from 3.9% in Nov, expected. The number of claimants rose by 20', in line with market expectations
- The no. of **unfilled vacancies** is now falling slowly – but remains at a very high level

# What a crisis: Number of employees is still growing

Payrolls grew by 28' in December

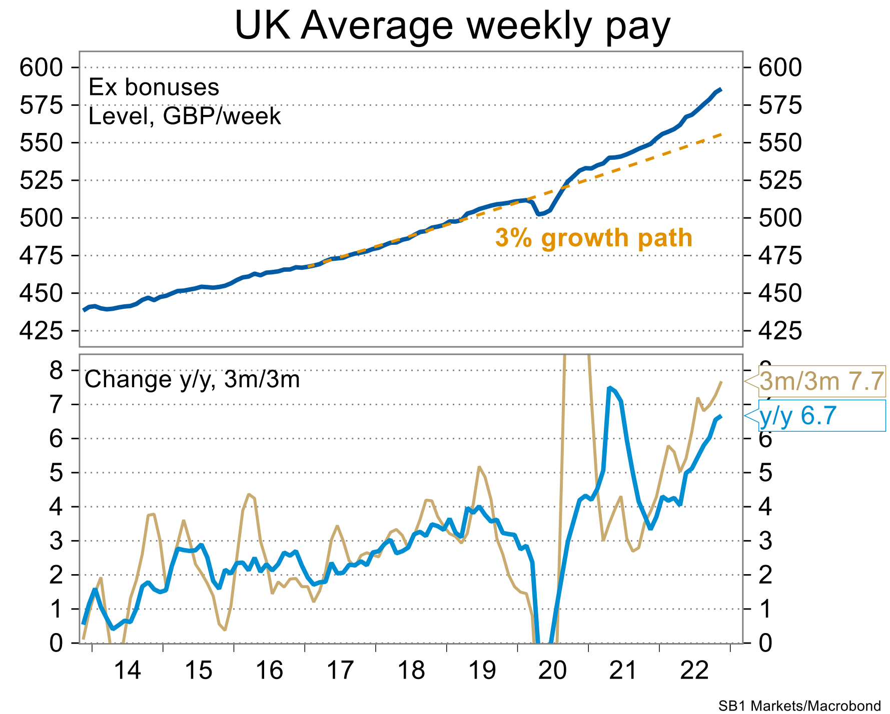



- Total employment measured by the LFS ('ILO/AKU') still trending upwards but monthly survey data are rather volatile
- LFS employment is still below the level before the pandemic, while the new payroll stats reports a 2.3% growth. The number of self-employed have fallen sharply, according to these two data sets

# Unemployment rate a tad higher – but wage inflation is on the way up

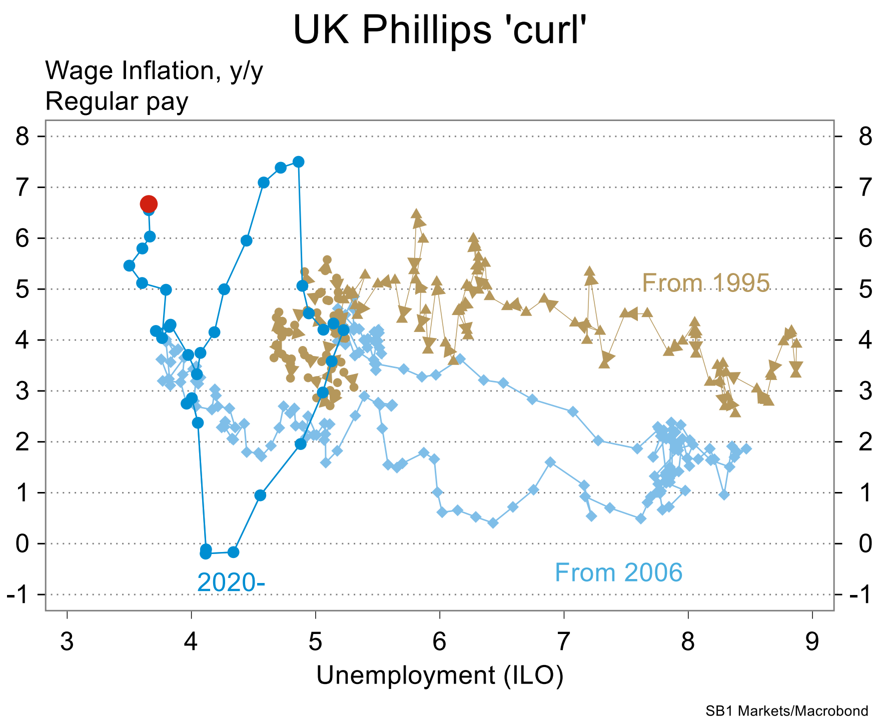
… wages ex. bonuses are up 6.7% (7.7% m/m), up from the pre-pandemic level at 2% – 3½%

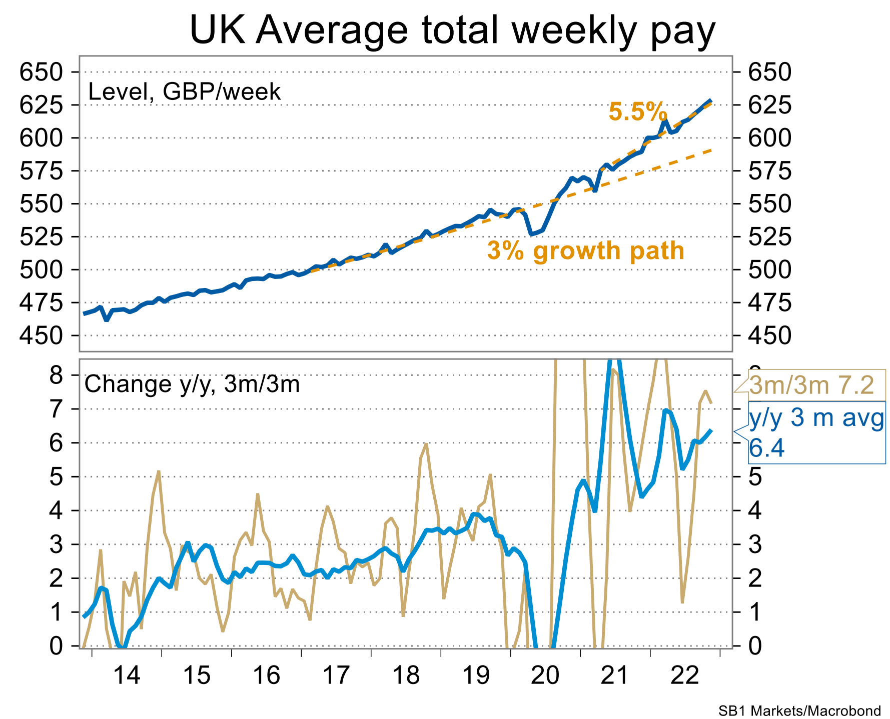




- **Annual wage growth** (regular pay, 3 m avg) accelerated 0.3 pp to 6.4% in November, expected at 6.3%. Not smoothed, wages were up 6.7% y/y, and the underlying 3m/3m rate is at 7.7%
- **Including bonuses**, total wages are up 6.4% y/y (3 m avg), 0.2 pp higher than expected (*chart next page*)
- Just before the pandemic, wage inflation was approx. 3% (total pay) to 4% (regular pay) – but just between 2% and 3% the preceding years. Thus, the current wage inflation rates are well above the British 'norm', that have yielded 2% CPI inflation
- Some unions in the UK have lifted their ambitions substantially recent months – as inflation is close to 10% - and BoE expect more to come. Wage claims in the same territory have now been aired, not surprisingly, in a very tight labour market. There are several ongoing 'rolling, part time' strikes in the public sector

# Total pay, including bonuses, is accelerating rapidly

The sum up 6.4% y/y, the trend is at the same level – over 3 pp above the pre-pandemic normal

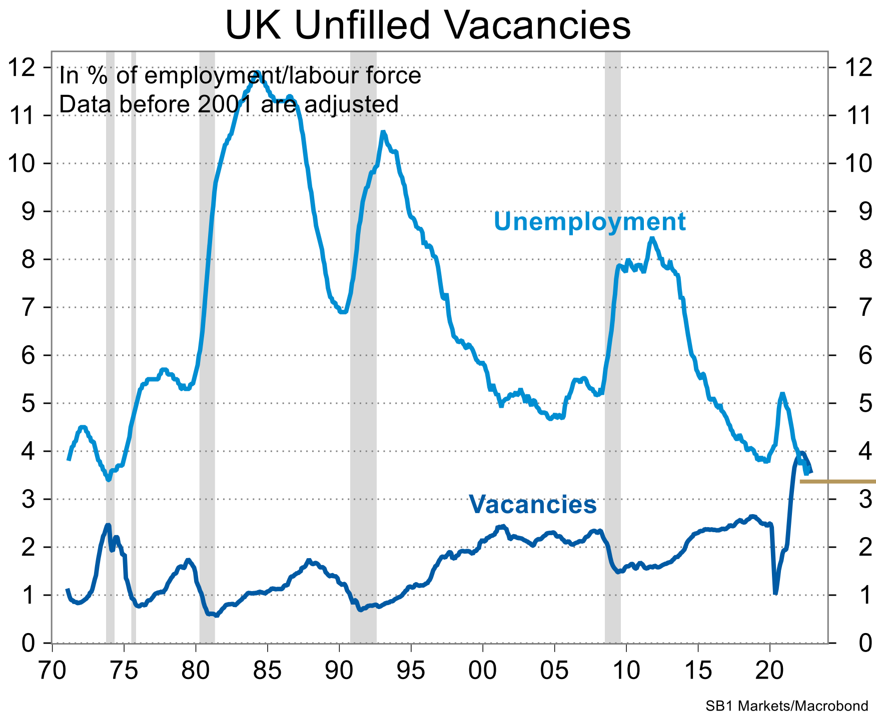


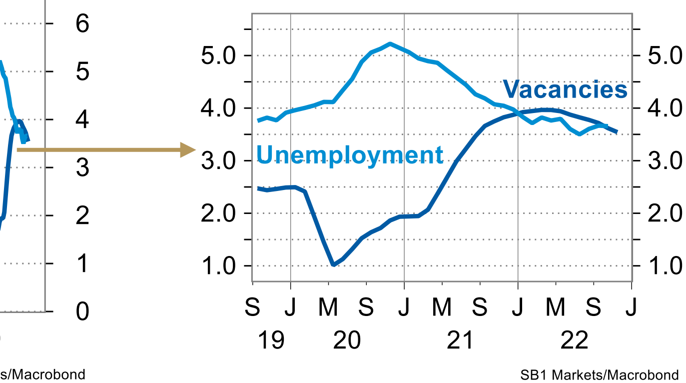




- Wages are on the way up alongside something that looks like a Phillips curve
- It is completely impossible to bring inflation back to 2% over time if wage inflation remains at 6%, probably even above 4%. With a 3% wage inflation rate, inflation was just marginally below the 2% target – and productivity has slowed here too

# A tight labour market – but the peak tightness is behind us?

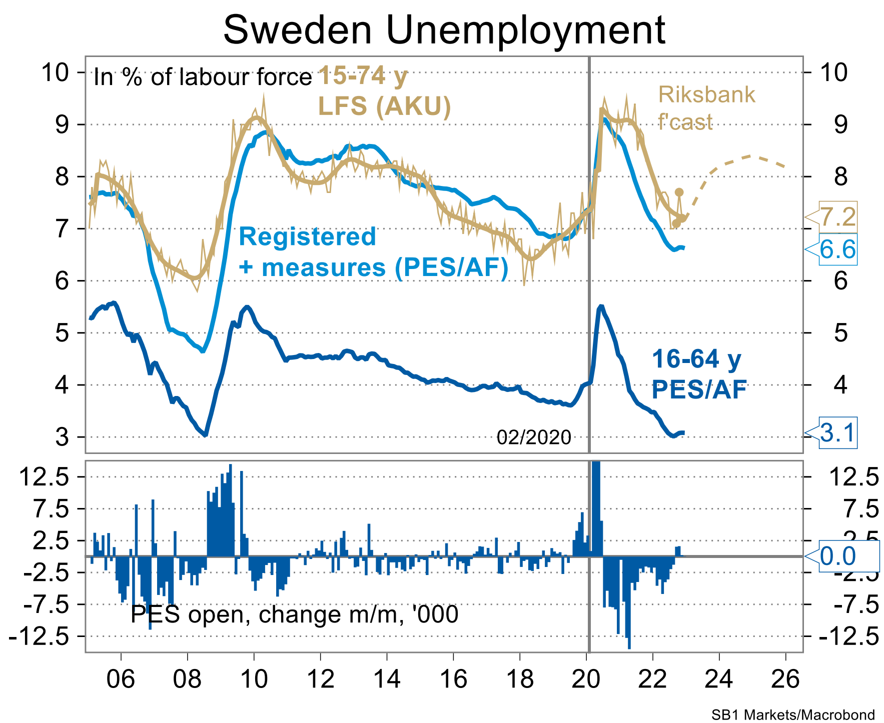
The vacancy rate has fallen marginally the past 5 months but remains extremely high

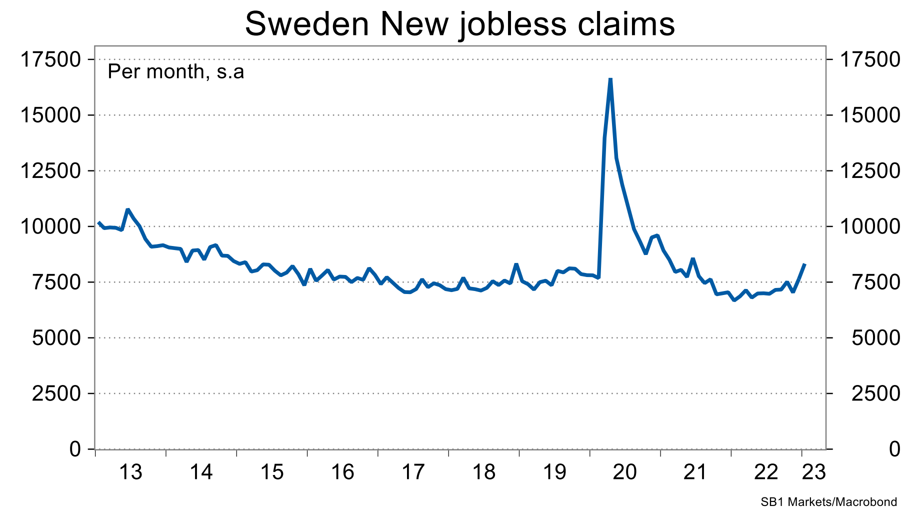


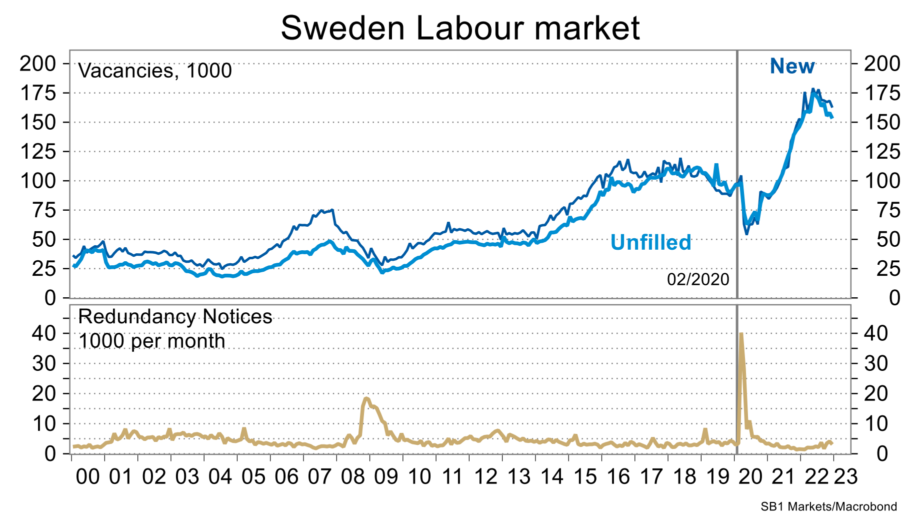



# PES Unemployment rate unch. in December, but new jobless claims are up…

…and vacancies keep coming down, but remain at a high level




- The **'open' registered unemployment rate** at 3.1% is far below the pre-pandemic level – close to the lowest level since 1990, before the housing/banking crisis. The no. of unemployed was virtually unch. in Dec, but has increased marginally in the 3 months prior. In addition, the inflow of **new jobless registrations** has increased slowly since the start of the year
  - **Unemployment including labour market** measures has turned marginally up, while the smoothed LFS unemployment rate also has bottomed
- The number of **new vacancies** and of **unfilled vacancies** declined in Dec and both are down from the peak

Highlights

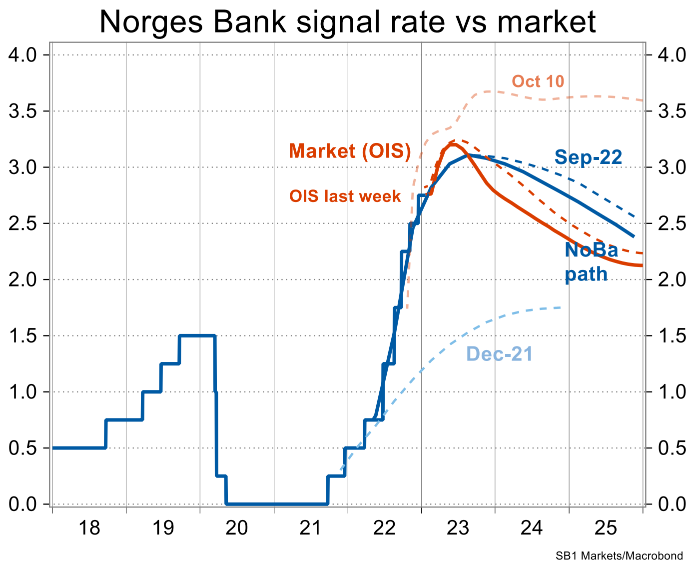
The world around us

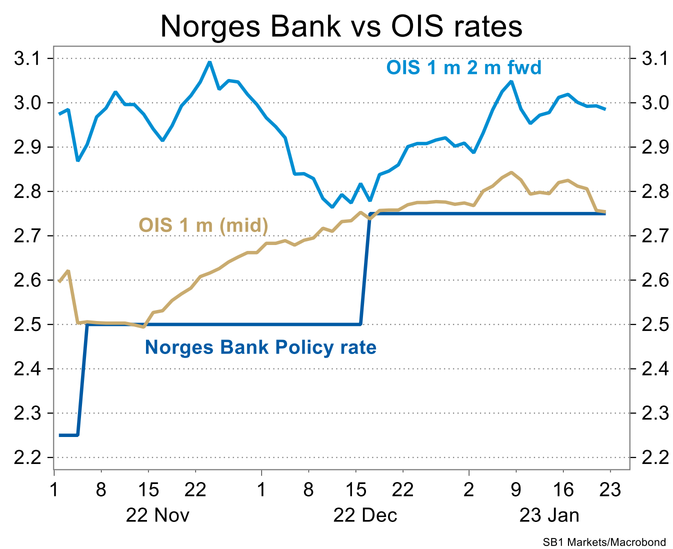
**The Norwegian economy**

Market charts & comments

# NoBa: No hike, as expected (at least in Oslo) – but the bank is not finished yet

Foreign analysts expected a hike, and the market assumed a 20% probability for a hike



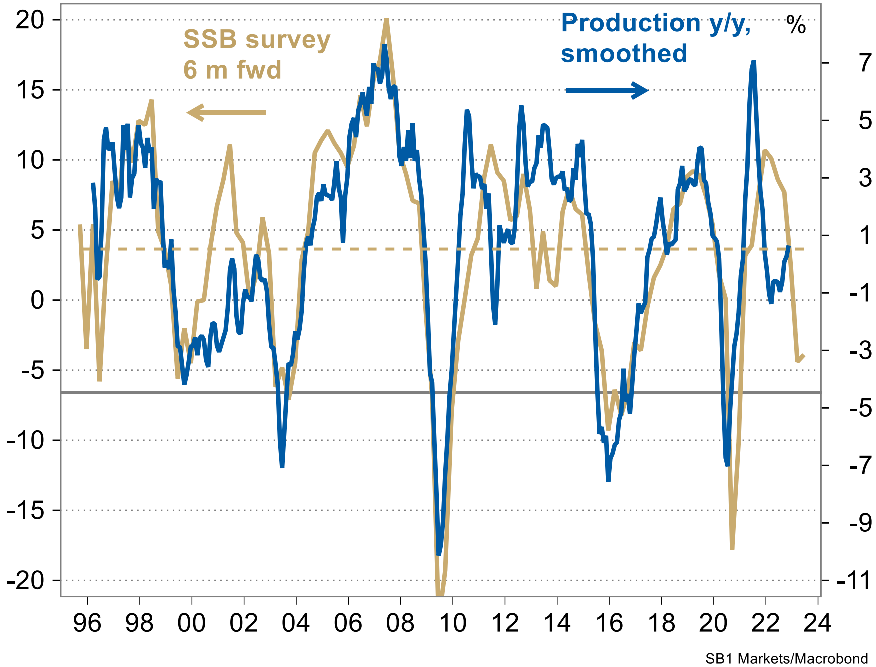




- **The pause** was widely expected among analysts in Oslo, while foreign based analysts expected Norges Bank to do as all the others these days, to continue hiking
- The bank seems to be quite confident that the job is not accomplished, "the policy rate will need to be increased somewhat further", the bank said in the press release. The "somewhat further" statement may signal one or two, perhaps three more hikes. The bank said "the policy rate will most likely be raised (to 3.0%) in March" – but the terminal rate may be higher
- The bank mentions three factors why the bank decided **not to hike now**: ".. **energy prices** will be lower than expected earlier, and **global inflationary pressures** appear to be easing. In addition, the obvious "The policy rate has been raised considerably er a short period of time, and **monetary policy has started to have a tightening effect** on the economy. This may suggest a more gradual approach to policy rate setting"
  - We think lower energy prices will turn out to be the least important argument for 'low' rates going forward, as lower energy prices will increase demand and strengthen economic activity.
- The bank also stresses that the outlook for the Norwegian economy is more uncertain than normal
- **Market reaction**
  - Before the meeting the market put close to a 25% probability for a 25 bp hike. Thus, the **very short end of the curve** (1 m OIS) fell 6 bps after announcement, and the **NOK** fell somewhat
  - The curve then steepened somewhat, and the **terminal (peak) rate** in the cycle rose 2 bps to 3.20%, 9 bps above NoBa's indicated peak (signalling almost 50% probability for a 3.25% peak)
  - **The rest of the OIS curve** fell by up to 20 bp last week, and the expected NoBa rate at the end of the 2024 has fallen by 125 bps since early October (OIS to 2.3%, and the Dec-23 4 m FRA to 2.62%)

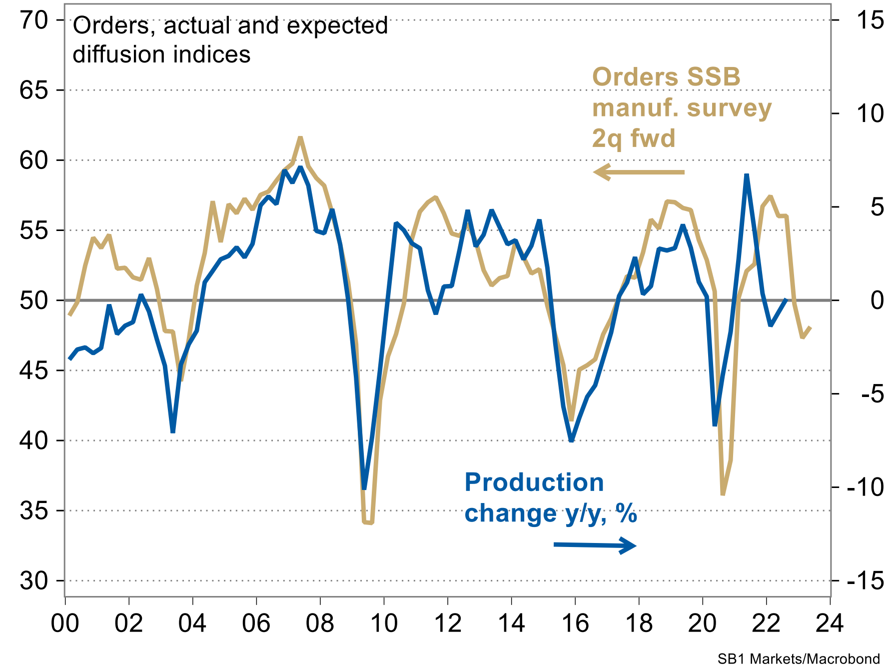
# SSB's manufacturing survey marginally up in Q4, we expected a further decl.

Still, the survey signals falling manufacturing production, zero GDP growth and a decline in OSE corp. earnings

Norway SSB Manufact. survey vs. production



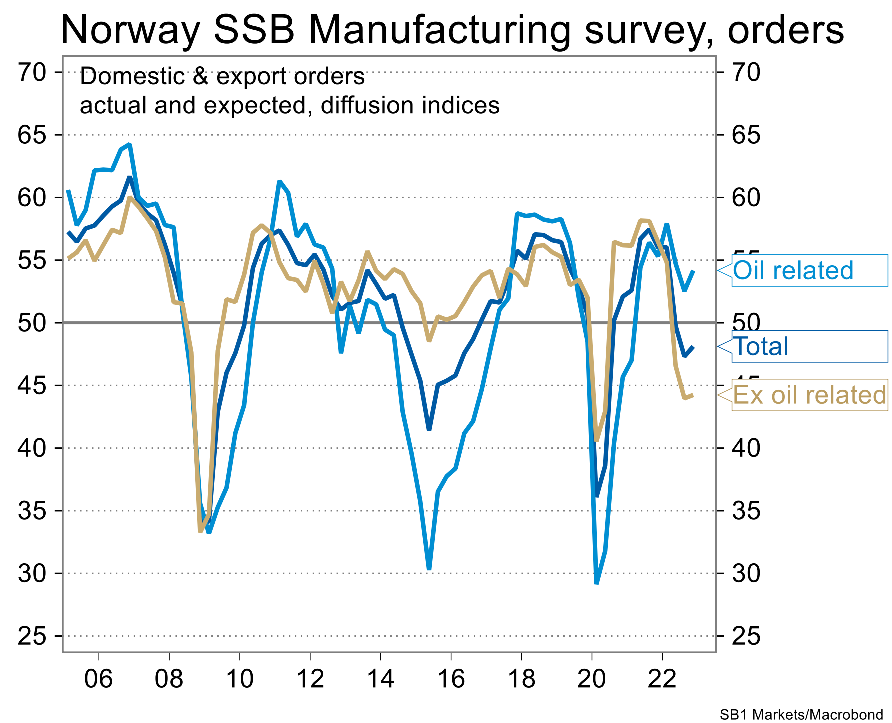

Norway Manuf. orders vs production

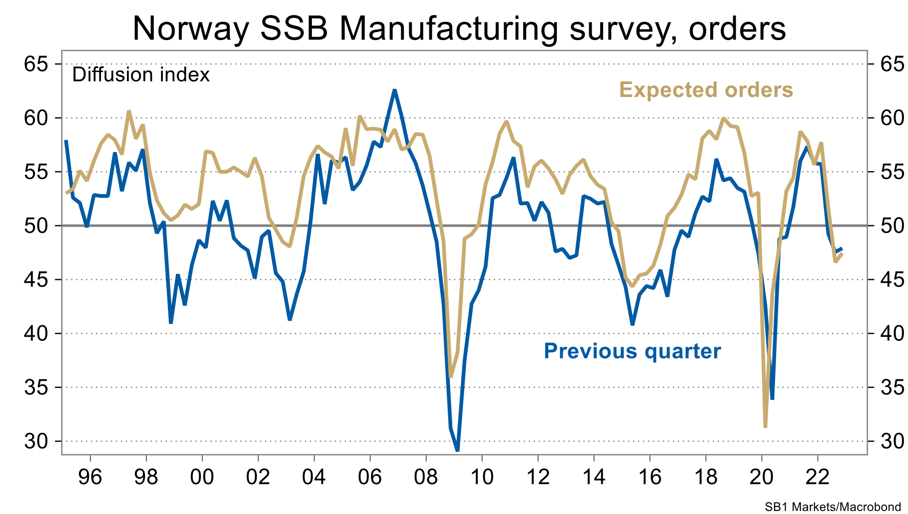


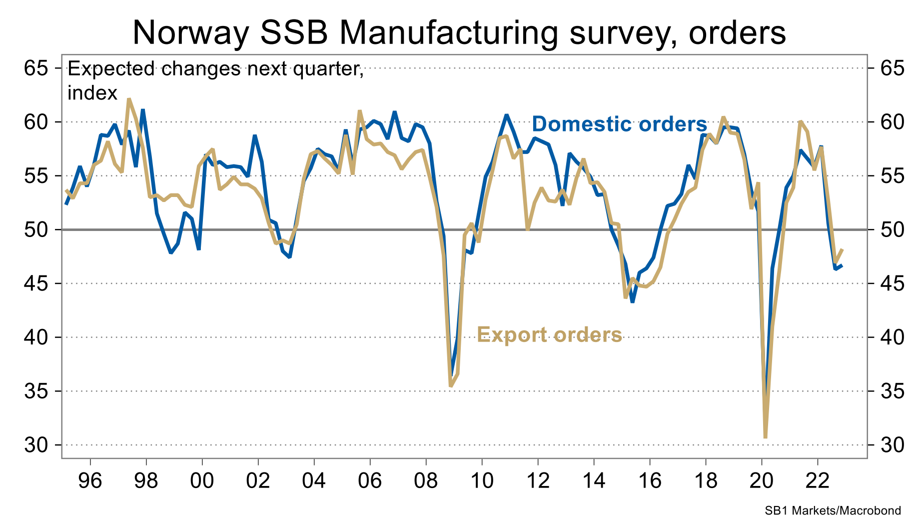

- The **composite index ('confidence')** in SSB's manufacturing survey rose to -3.9 in Q4 from -4.4, we expected a decline to -5. The survey indicates a decline in manufacturing production, no growth in Mainland GDP, and an 11% decline in expected EPS growth on the OSE (analysts still expect 55% growth)
  - Oil related sectors report a still strong outlook (like order expectations), other sectors are below average (but all recovered marginally in Q4)
- **Supply constraints** eased further, but are still the most serious since 2008, including lack of labour. **Demand/competition** is far less of a problem than normal, but more companies now reported demand concerns than the previous quarters
- Fewer companies reported they **plan to lift prices** – but the share is still very high…
- The survey confirms that the economy is slowing but does not signal a harsh setback (and not even a moderate decline in GDP, like Norges Bank tries to orchestrate

# Oil related manufacturers kept up the pace, other sectors not

Both domestic & export orders are slowing sharply

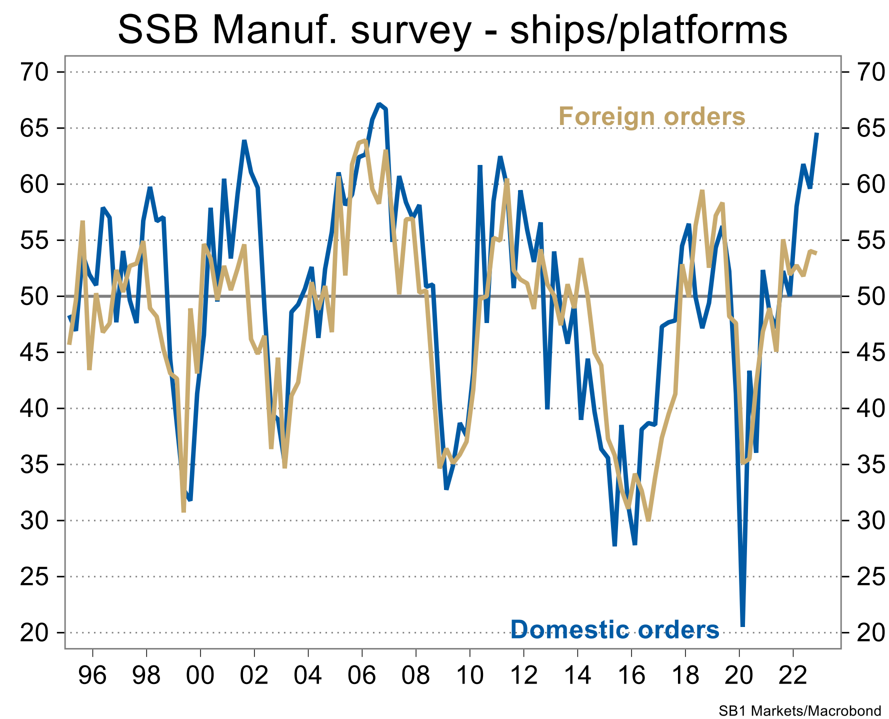


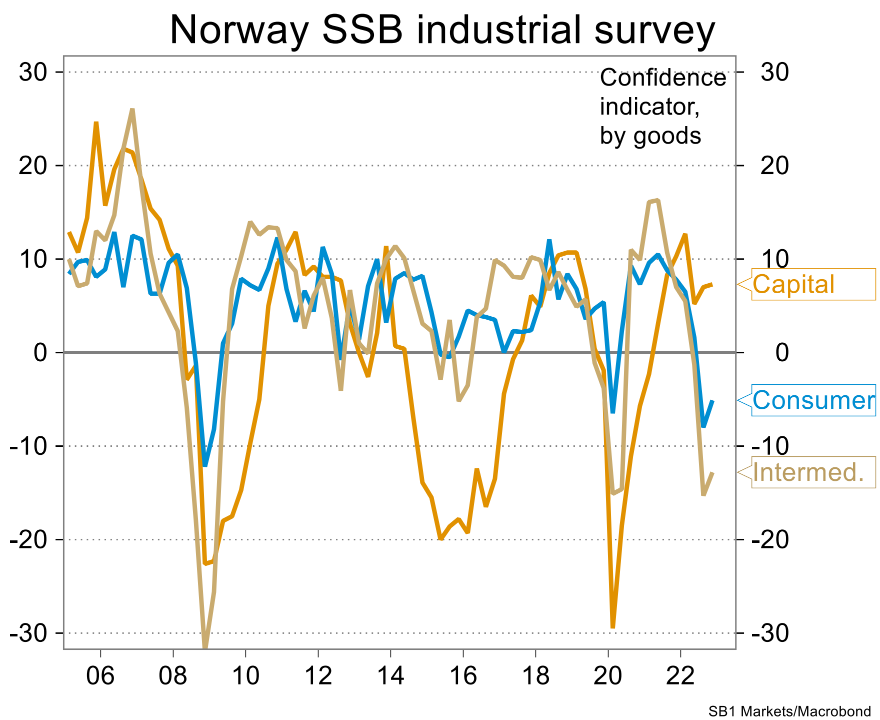
# Ships/platforms: Domestic orders up in Q4 – and the level is impressive

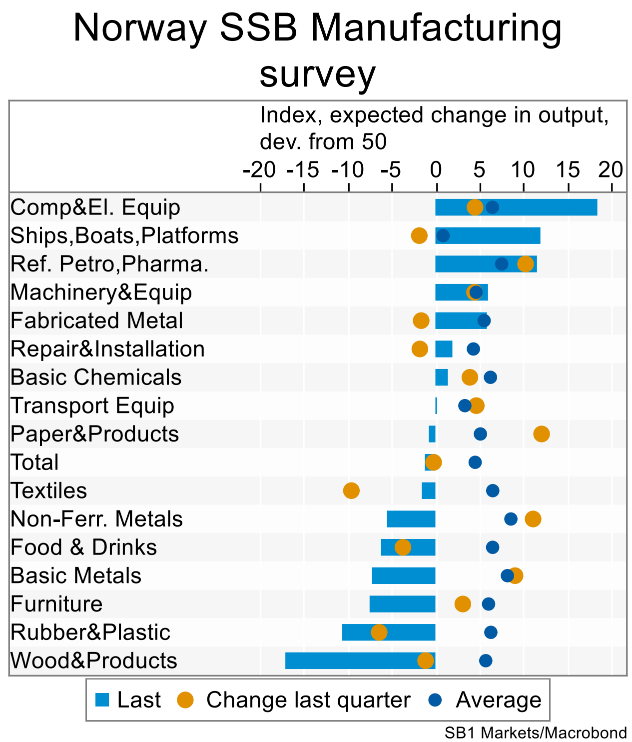
Foreign orders marginally lower than the previous quarter



# The consumer and intermediatee goods sectors expect slower growth

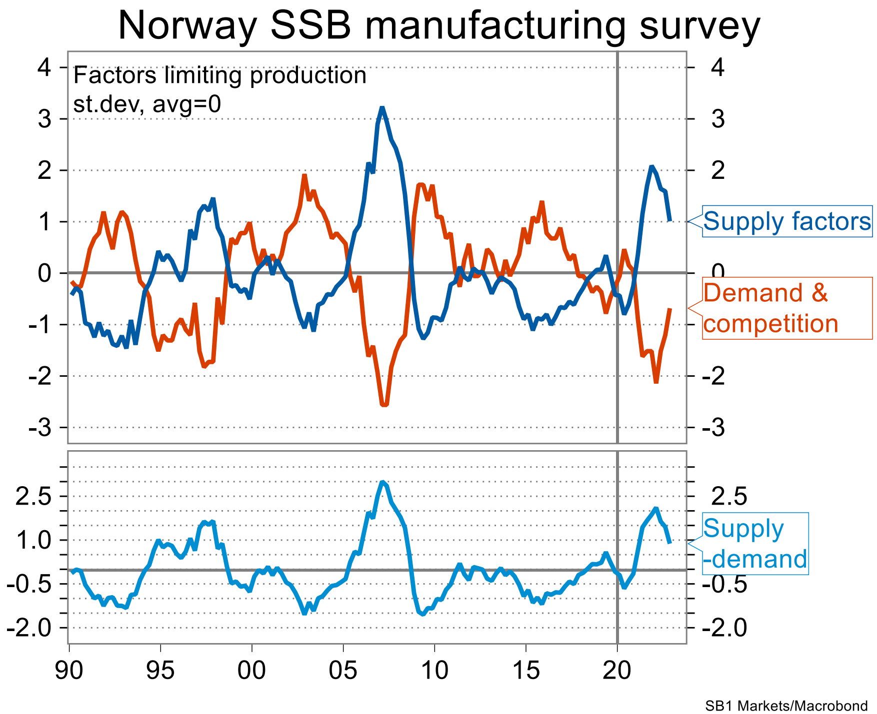
Oil related sectors are still on the way up, others not. Metals, plastic, wood products at the bottom

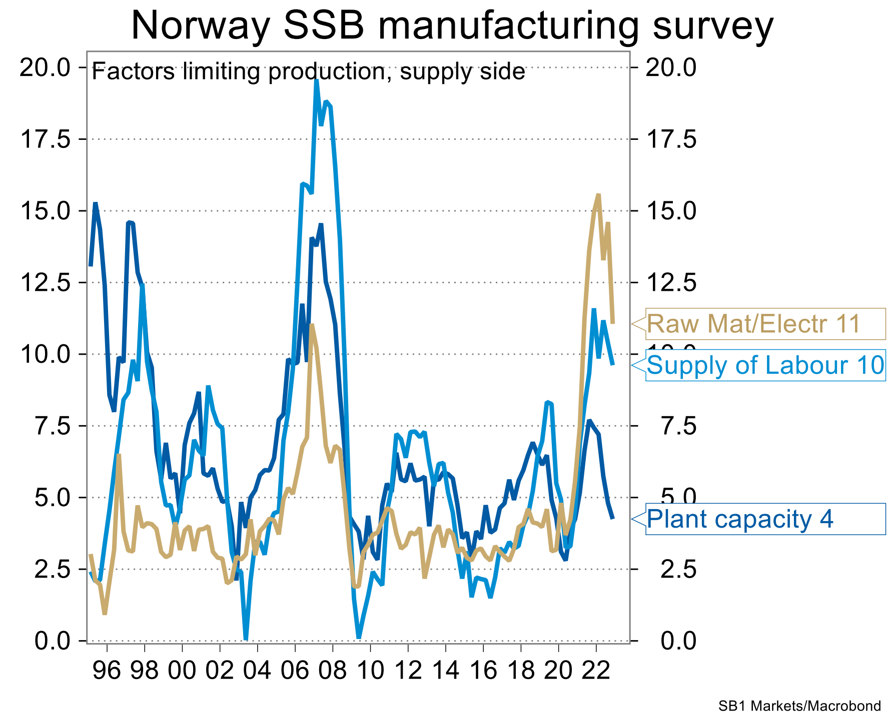


# Limiting production: Supply factors still far above avg., demand still far below

However, in Q4 the gap between the two narrowed quite a bit

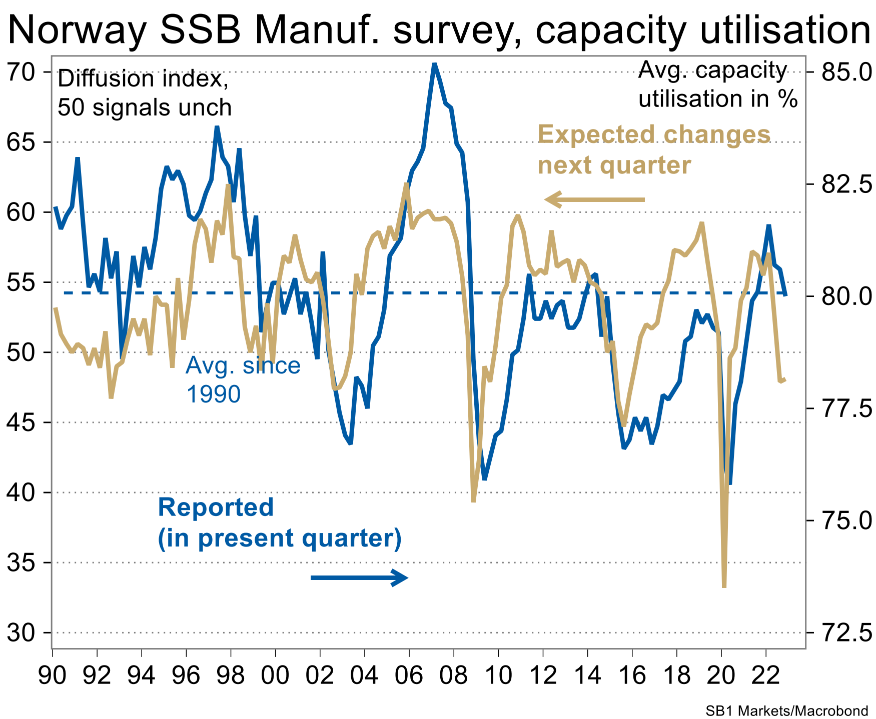


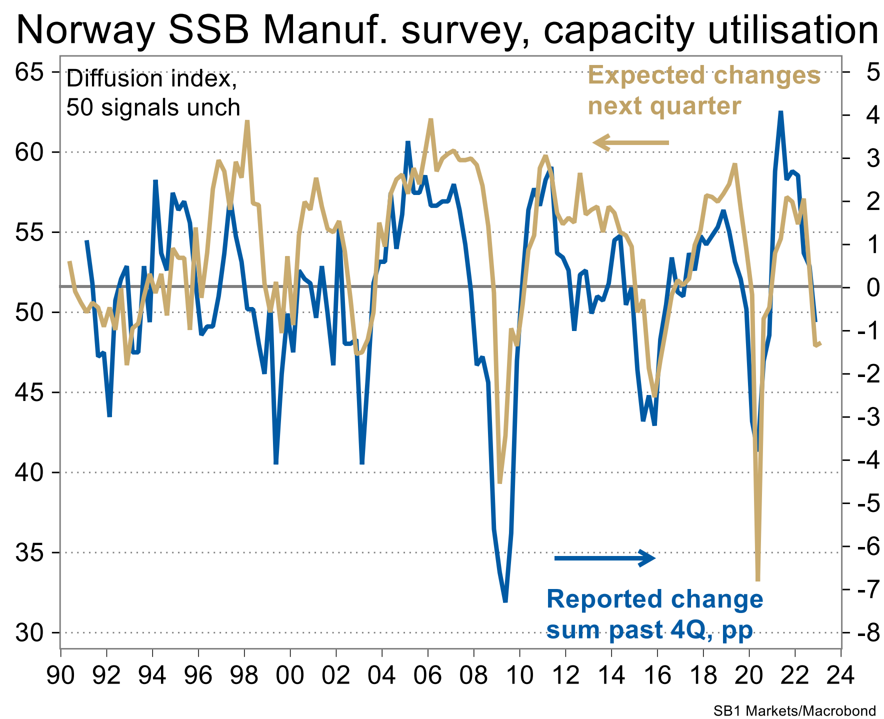




- The share of companies that report lack of labour as a factor limiting production fell marginally in Q4, but far less than we expected – but the tide may have turned now
- Fewer companies reported plant capacity as limiting production, the same goes for raw materials and electricity
- More companies reported lack of demand or competition as limiting factors, but the share is still very low
- ***No demand crisis – yet…***

# Reported capacity utilisation down to an average level

– and is expected to fall substantially – but expectations were not lowered further in the Q4 survey

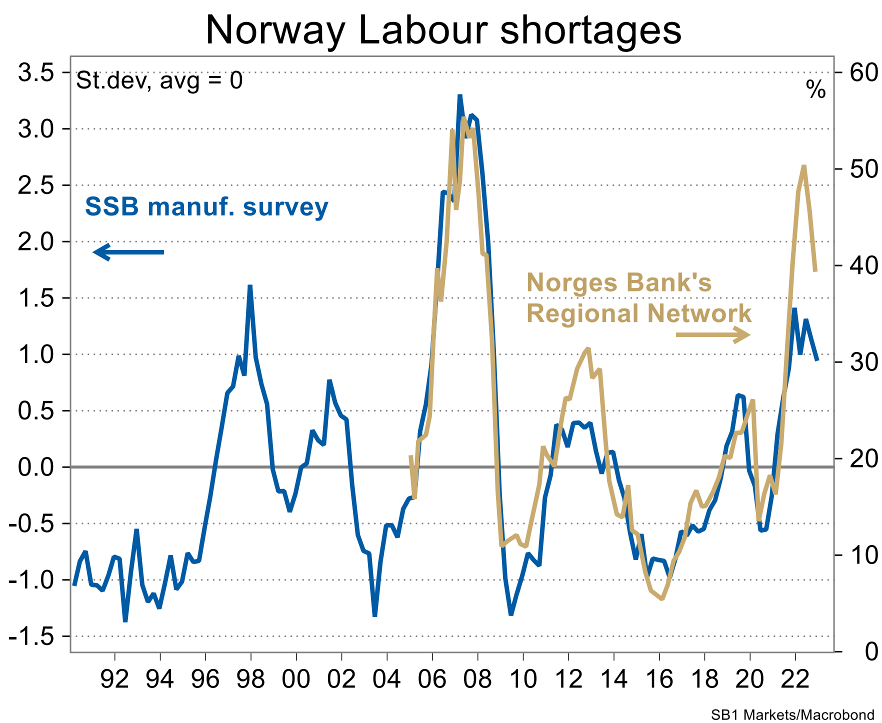


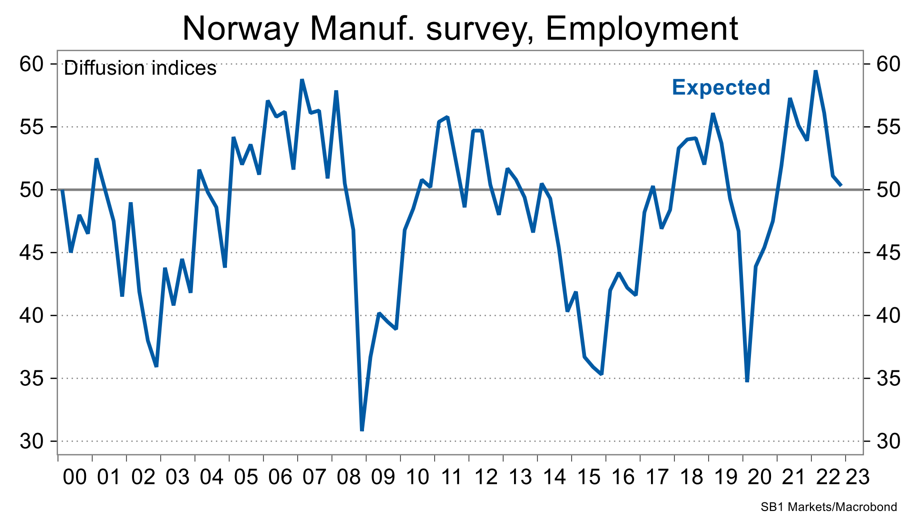



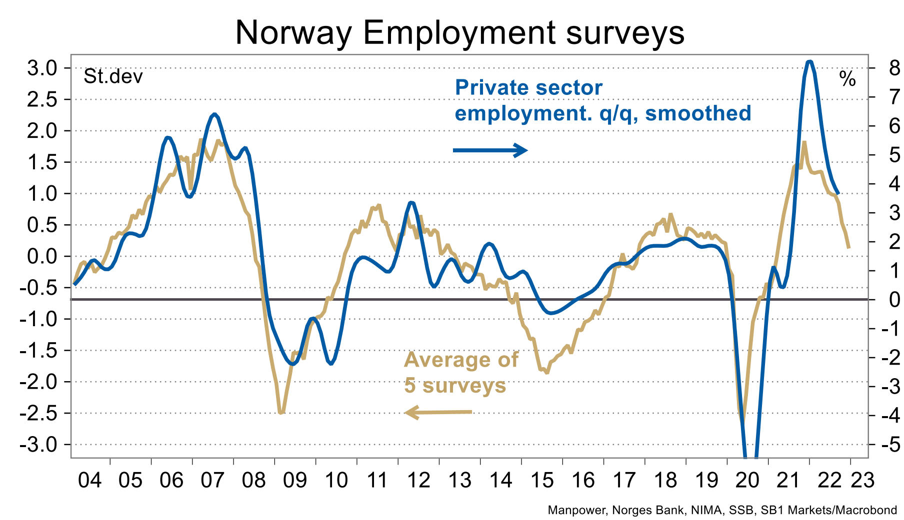

- The expected change in capacity utilisation is now over 1 st.dev below average – and actual capacity utilisation has come down to an average level

# Labour shortages are moderating just marginally, level is still high

Manufacturing hiring plans have fallen from ATH in early 2022 but are still higher than normal

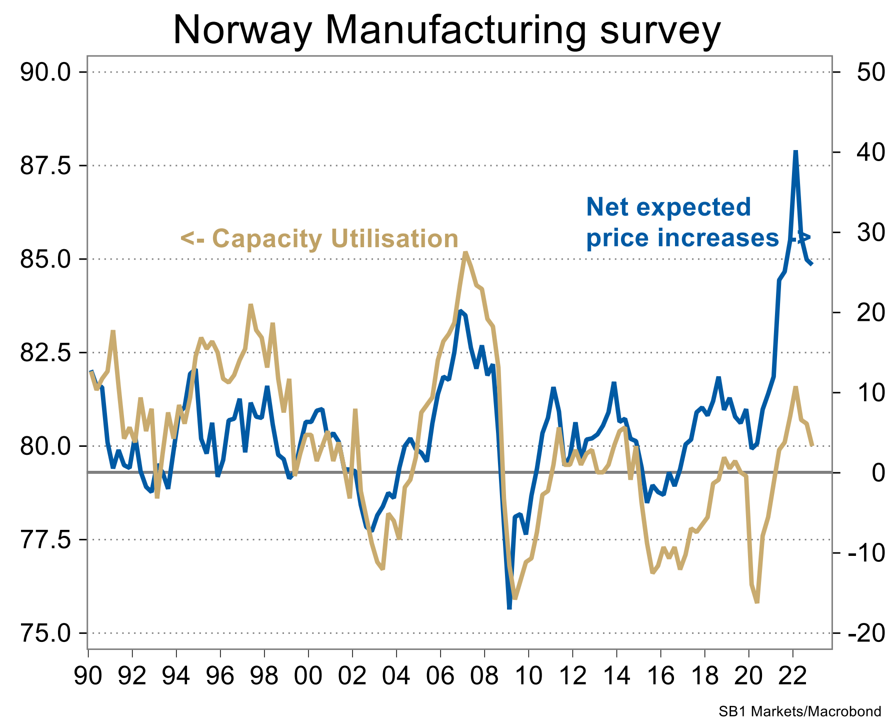



- Employment surveys are still signalling stronger employment growth than normal

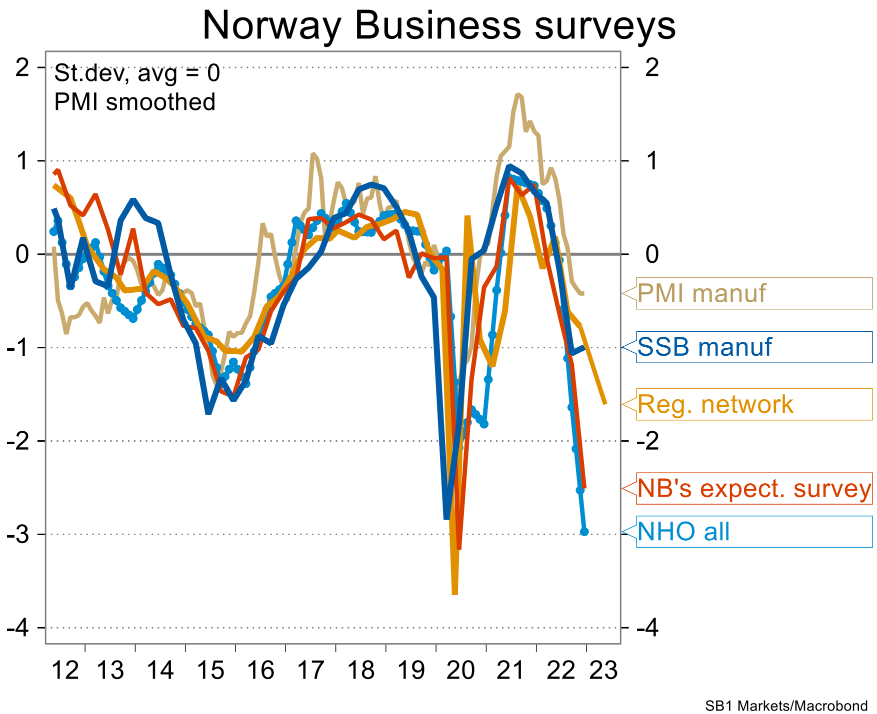
# Planned price increases has slowed markedly, but still remain very high

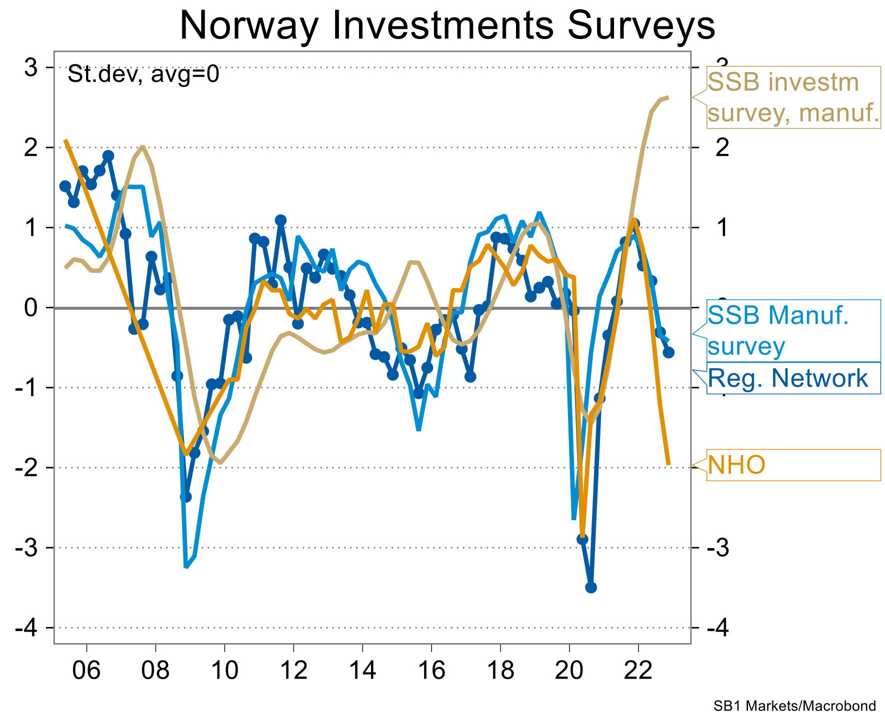



- Prices are expected up far more than suggested by the reported capacity utilisation
- This survey now report much more aggressive price plans than most other surveys

# Surveys: Peak growth is behind us, a setback is signalled

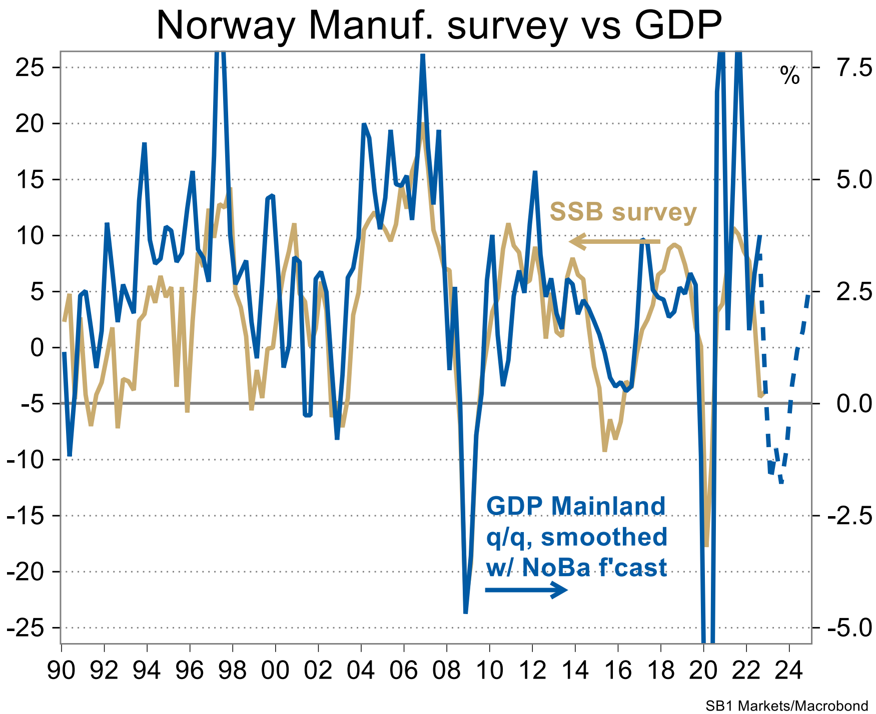
Only the SSB investment survey is still above average

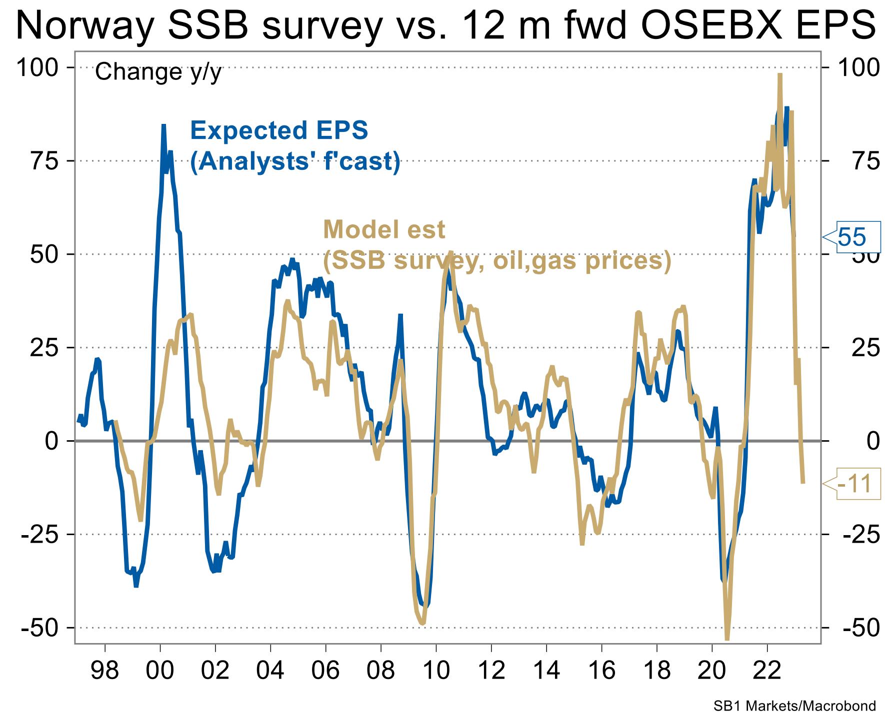



- In the **current manufacturing SSB survey**, companies revised their **investment plans** further down, indicating a moderate decline in investments.
- **Norges Bank's regional survey** agrees, while NHO's survey is far weaker, while the **SSB's investment survey** from November reported very strong growth in manufacturing investments. The latter survey is explicit vs. investment plans for the companies, measured in NOKs, and has usually been quite reliable (but these surveys have normally been closely correlated, and it is hard to say which survey is 'the best'

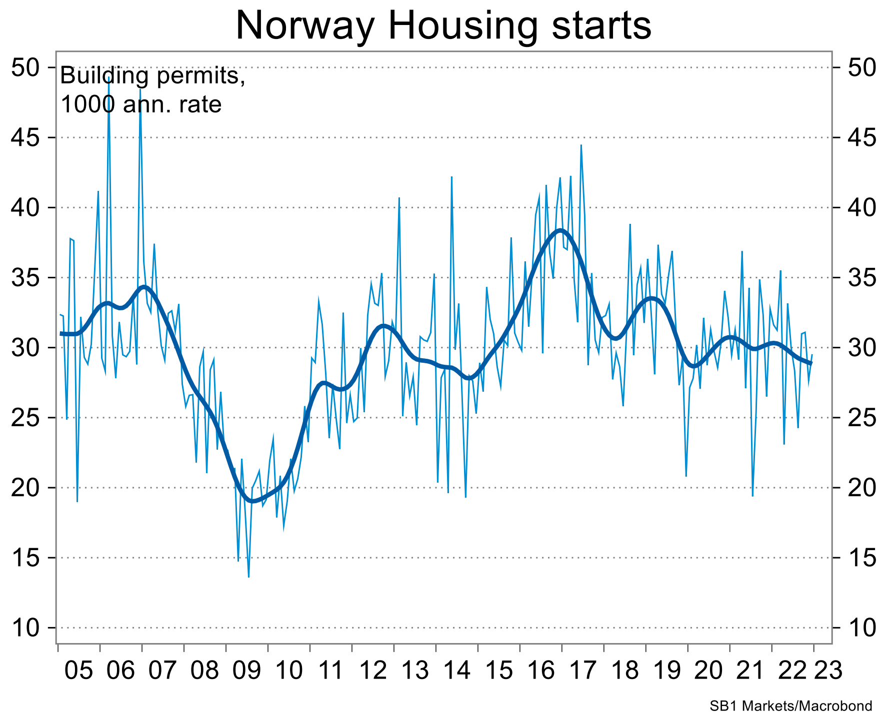
# The manufacturing survey suggests zero GDP growth and an EPS decline

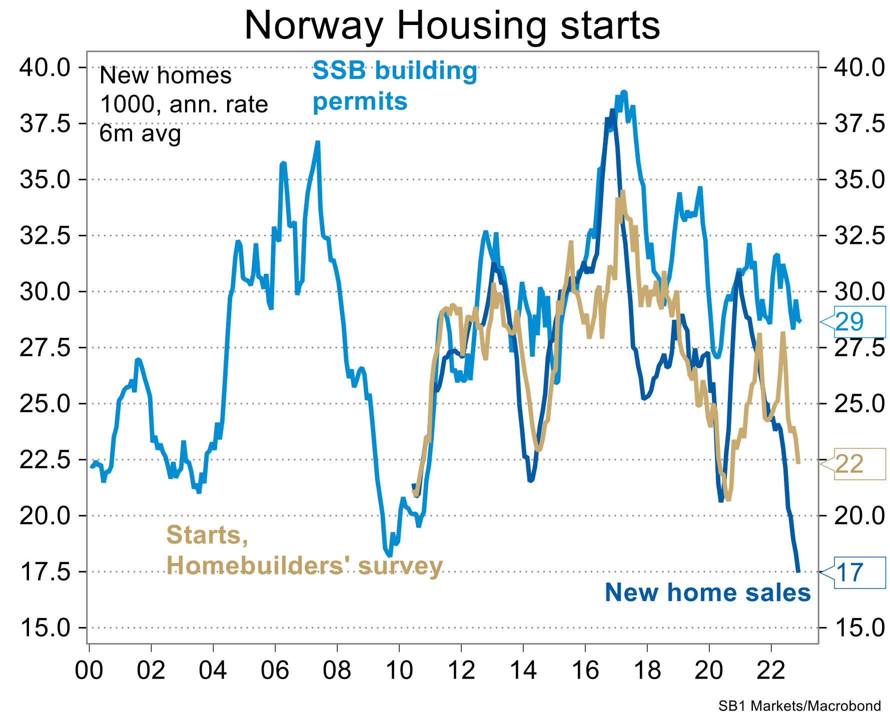


# SSB: Housing permits are trending slowly down, still at a decent level

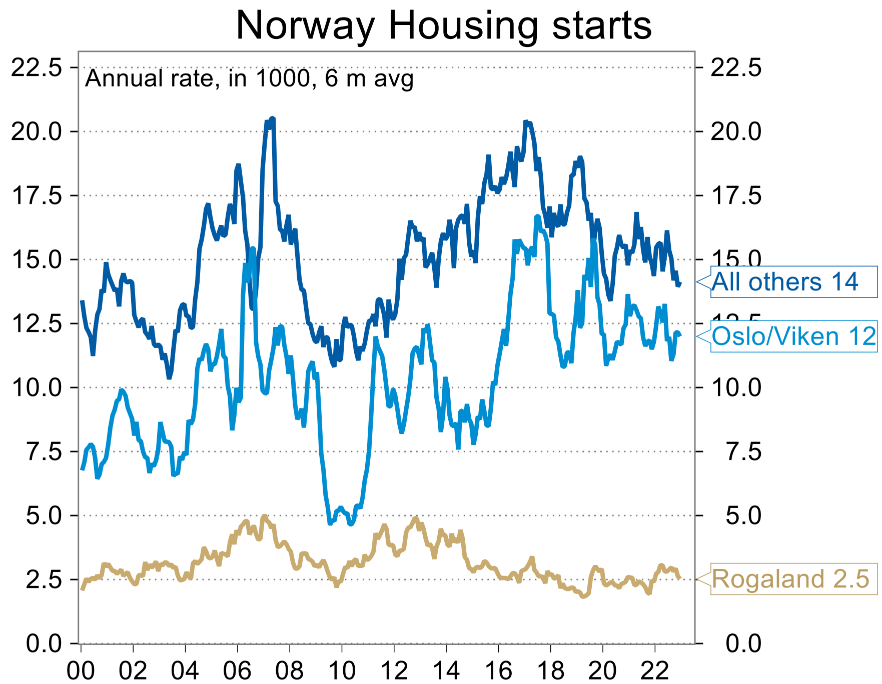
Permits at 30’– and the trend is just slightly down

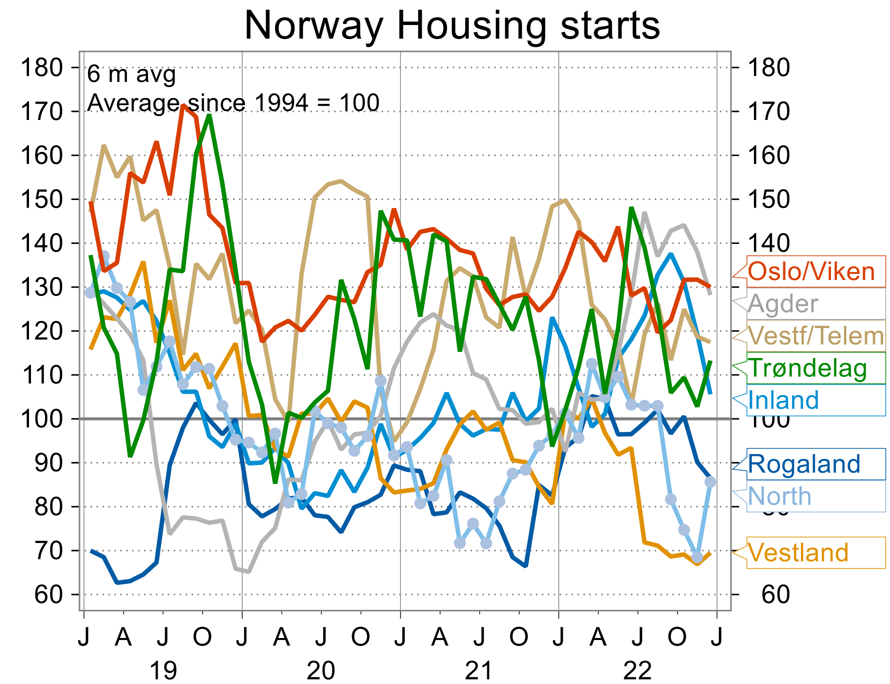



- The average no. of permits the past 6 months is at 29’ (annualised), while Home builders (Boligprodusentene) report a 22’ pace in actual starts (Nov. last data point, Dec data out this week)
- Student homes and assisted-living/nursing homes are not included in data from the Home builders. Some larger players do not report their activity to the Home builders’ association either

# Housing starts mixed between regions – most are down

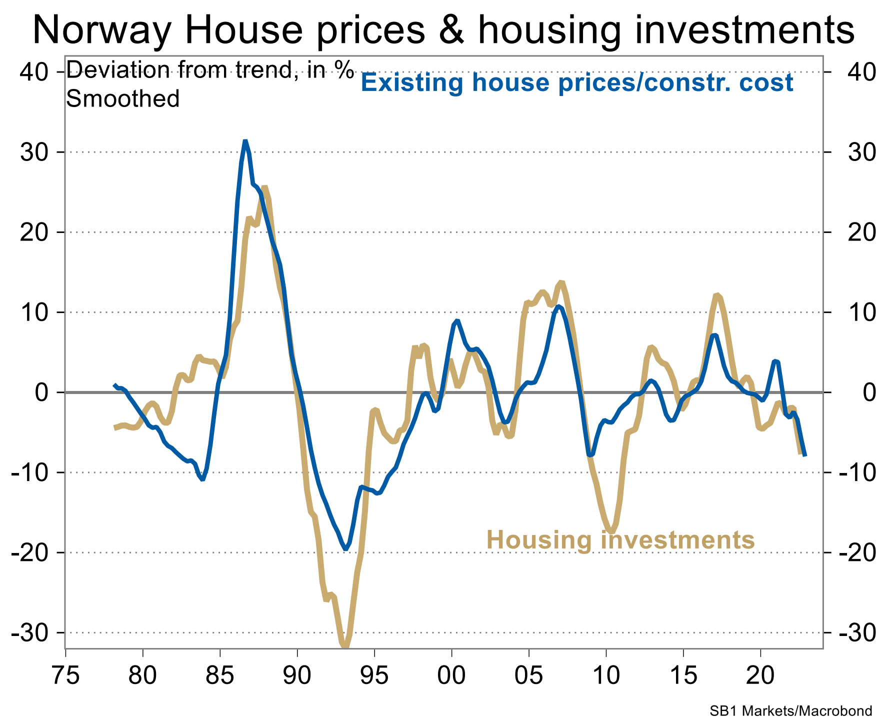


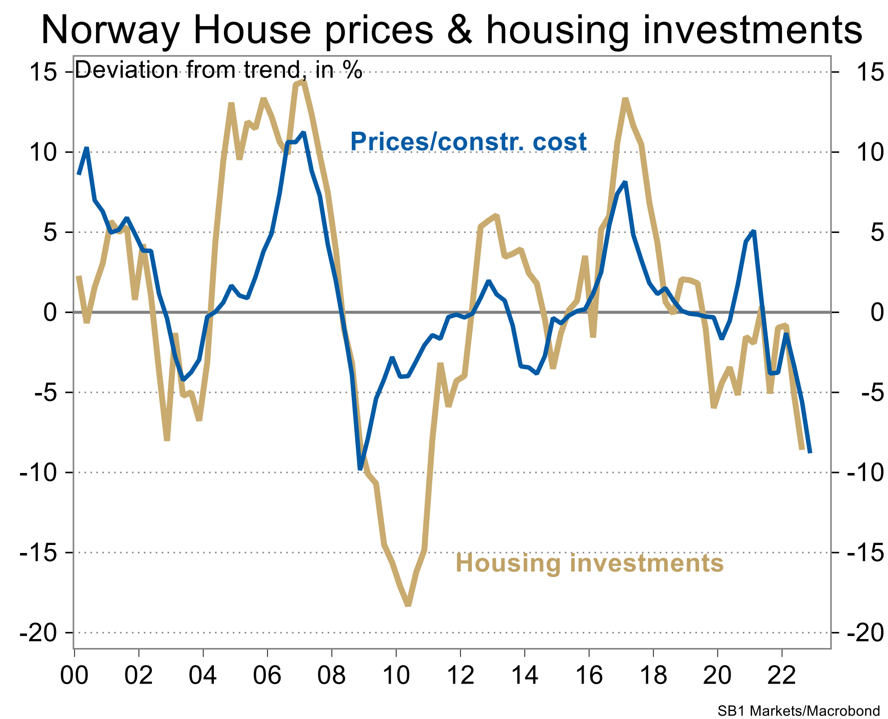




- Vestland, Northern Norway, and Rogaland are reporting less starts than past 25 y avg. (measured over the past 6 m average)
  - Vestland has the weakest trend – and the lowest level vs. history

# Housing starts/investments in tandem with prices, as usual

…and now prices are falling

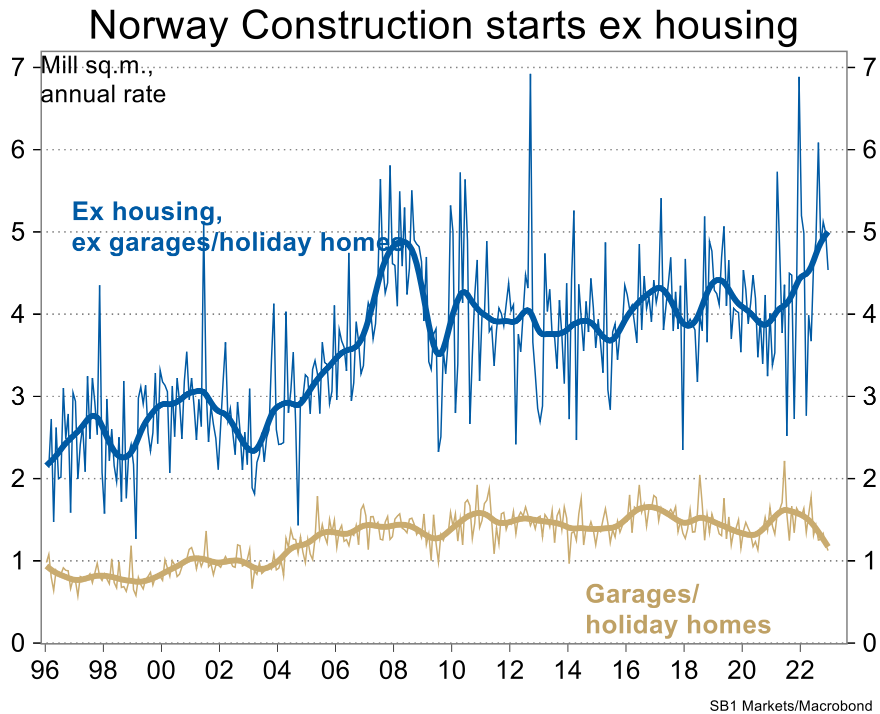


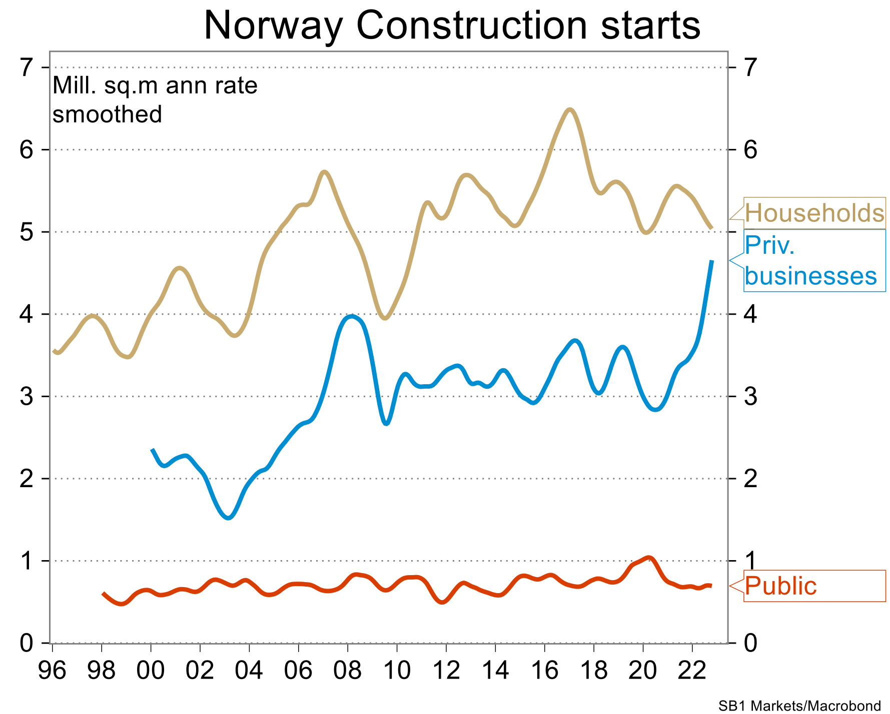




SpareBank 1 MARKETS

# Non-residential construction still going VERY strong

Construction starts in the public sector is flat, garages/holiday homes are declining rapidly. But private businesses…

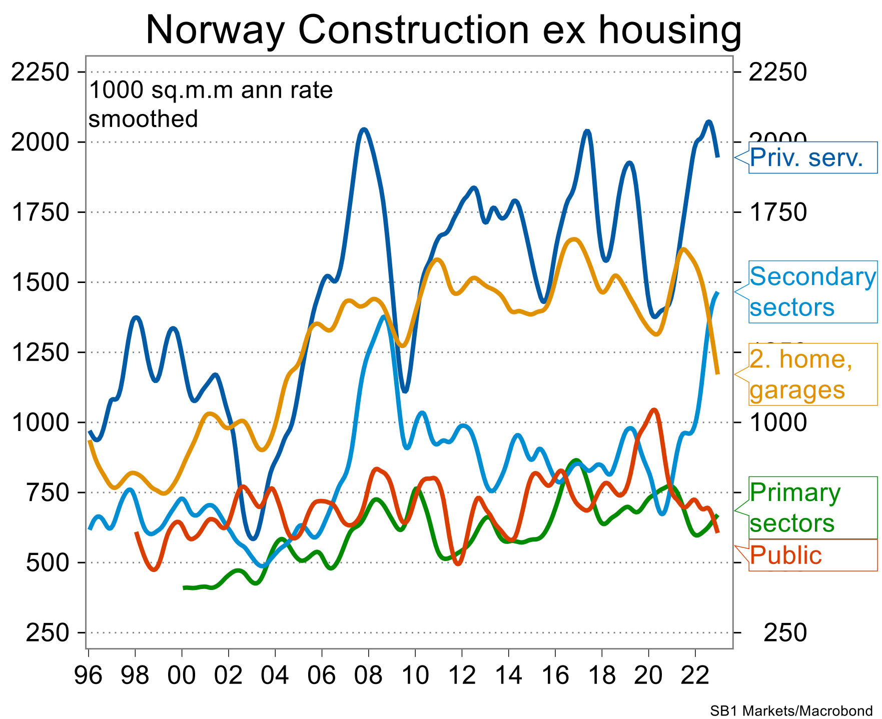


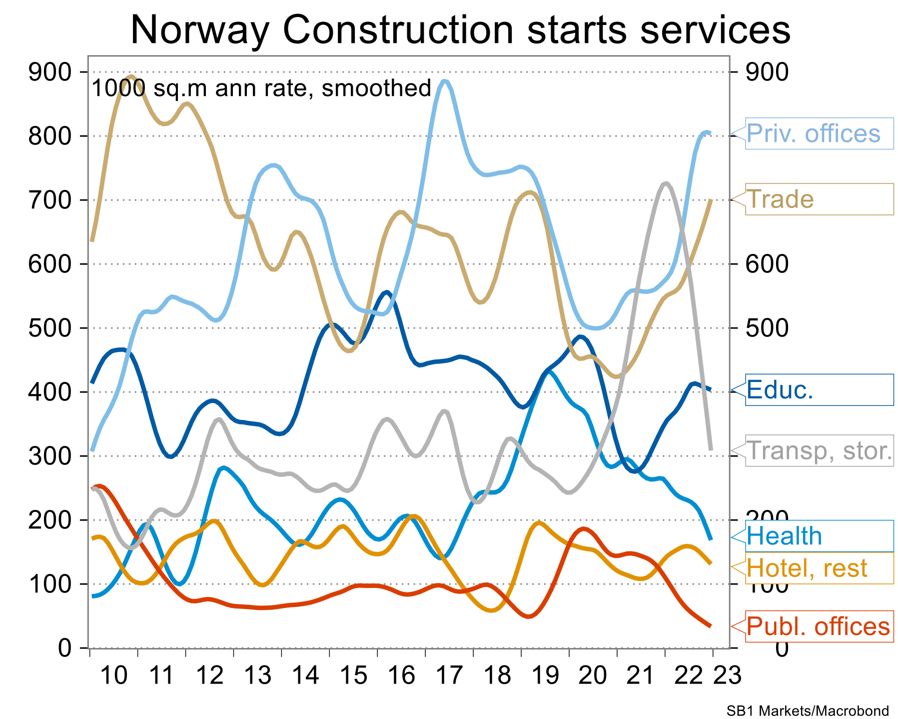




- **Private non-residential starts** have surged from a local bottom in 2020 to the highest level in (at least) two decades
- **Public sector construction starts** have stabilised at a ‘normal’ level
- **Construction starts of cabins/garages** climbed 30% – 40% from early 2020 until late 2021– but are now trending down, and are soon back to the pre-pandemic level

# Both private services and manufacturers are building 'like crazy'

Both well above their pre-financial crisis peak levels. Offices in the lead



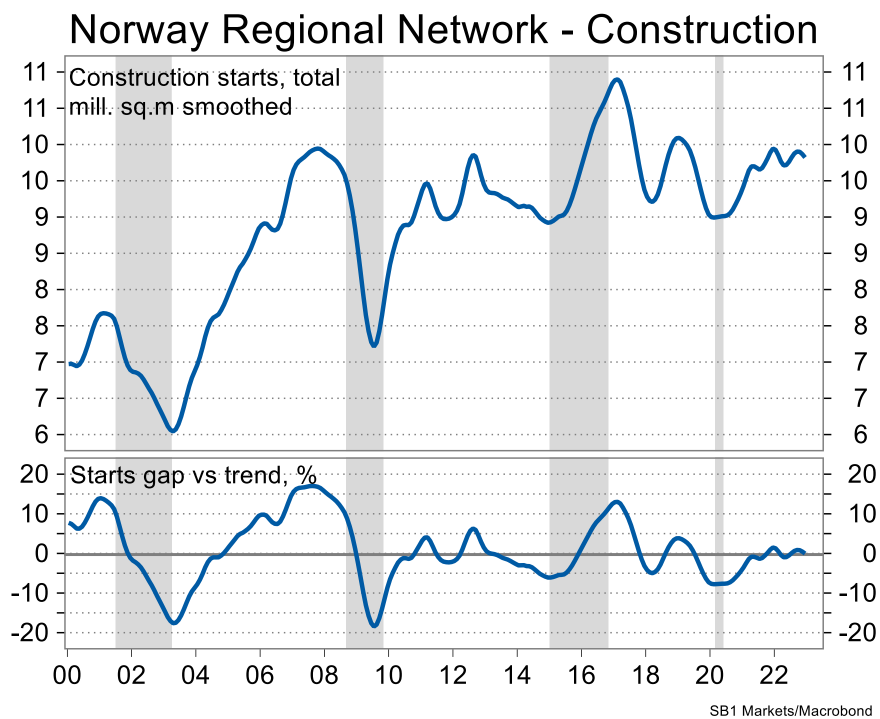



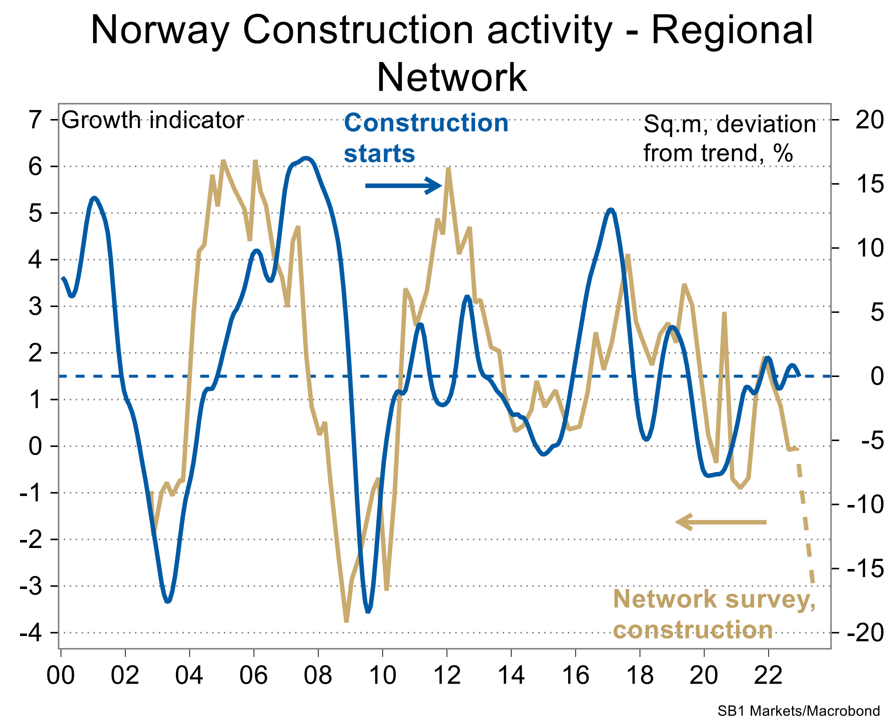

- **Secondary sectors** (read: manufacturing) sharply up, to the best level ever, at least with data back to 1996. Some battery factories have found their way into our building statistics
- Starts in **private services** are very strong led by private offices and trade. Starts for transport & storage have fallen back down to a normal level, following the surge in 2021/early 2022
- Starts of **public offices & health institutions** have fallen sharply

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

# Building starts have flattened, the Regional Network expects a huge decline

The Network even reported a decline in Q3 and Q4, which did not materialise, at least not in construction starts

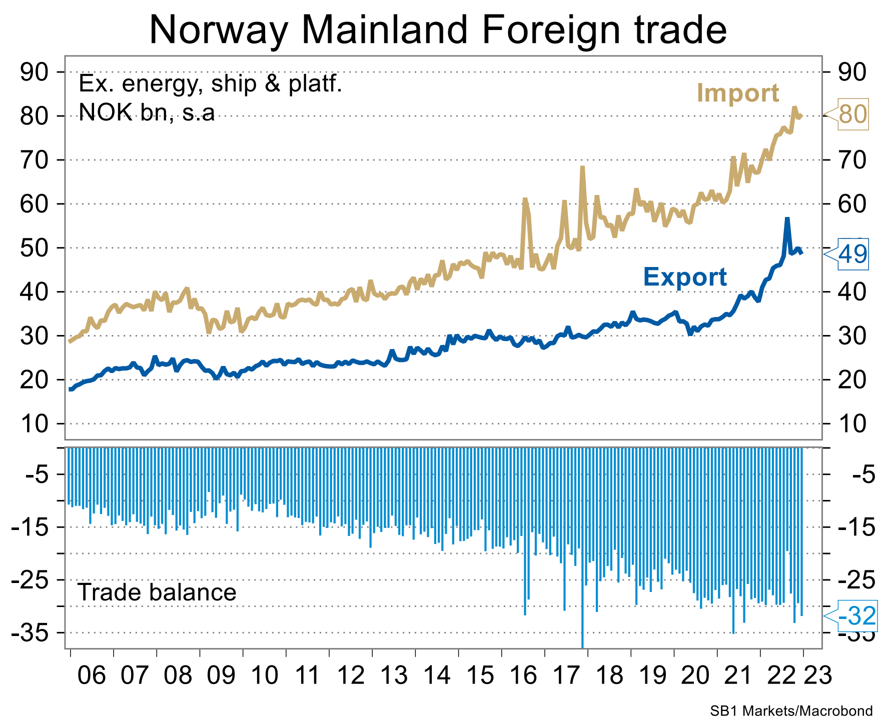


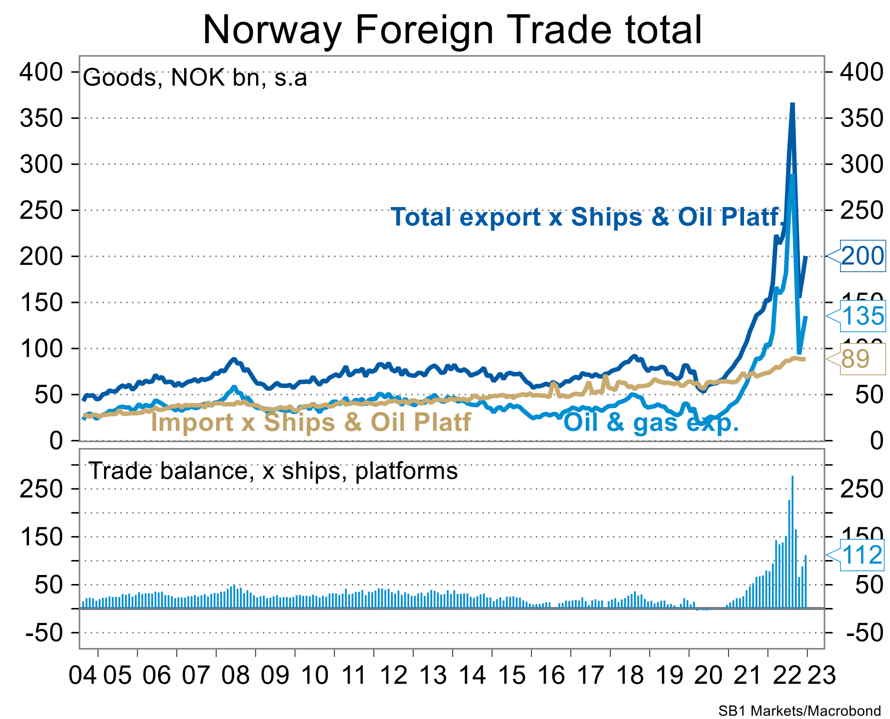




- Companies in the construction sector in Q4 report the sharpest contraction since the Financial Crisis. Back then, starts fell almost 30%

# Trade surplus higher thanks to high realised gas prices and higher exports

The Mainland x energy deficit widened, as exports decreased, imports increased

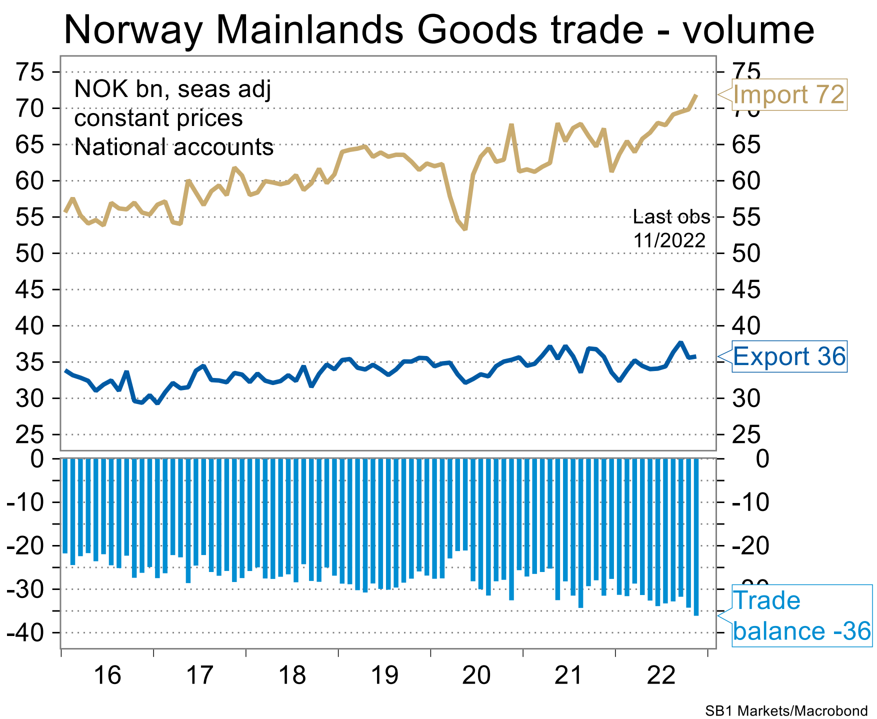



- The December **overall trade surplus** in goods was NOK 112 bn, up from 88 bn in November (but down from ATH at 280 bn in Aug). The Dec surplus equals 39% of Mainland GDP
- **Oil & natural gas exports** were up 18% m/m, following a 42% increase in Nov – in volume terms, gas exports were up 8%. So far in January, gas prices have come down quite significantly, and will likely send the value of gas exports and the trade surplus down in Jan/Feb
- **The Mainland (and non-energy) trade deficit in goods** increased by 3 bn to NOK 32 bn, equalling 11% of Mainland GDP (however, deliveries from the Mainland to the oil sector (cap. ex and op.ex) are not counted as exports from the Mainland but imported intermediate goods for producing 'exports' to the oil sector are counted as imports – and the 'real' Mainland trade balance is far, far stronger)
- **Non-energy exports** were down by 1 bn to NOK 49 bn. Mainland exports have been very strong in value terms during and after the pandemic, and the underlying growth rate over the past year is some 30%. Exports are up 49% since the end of 2020, almost entirely due to higher prices. Fish, metals, and chemicals exports were all higher in Dec, after falling the month before
- **Imports** increased by 1 bn to 80 bn in December, and is still trending rapidly upwards

# In volume terms, Mainland trade data are not that impressive

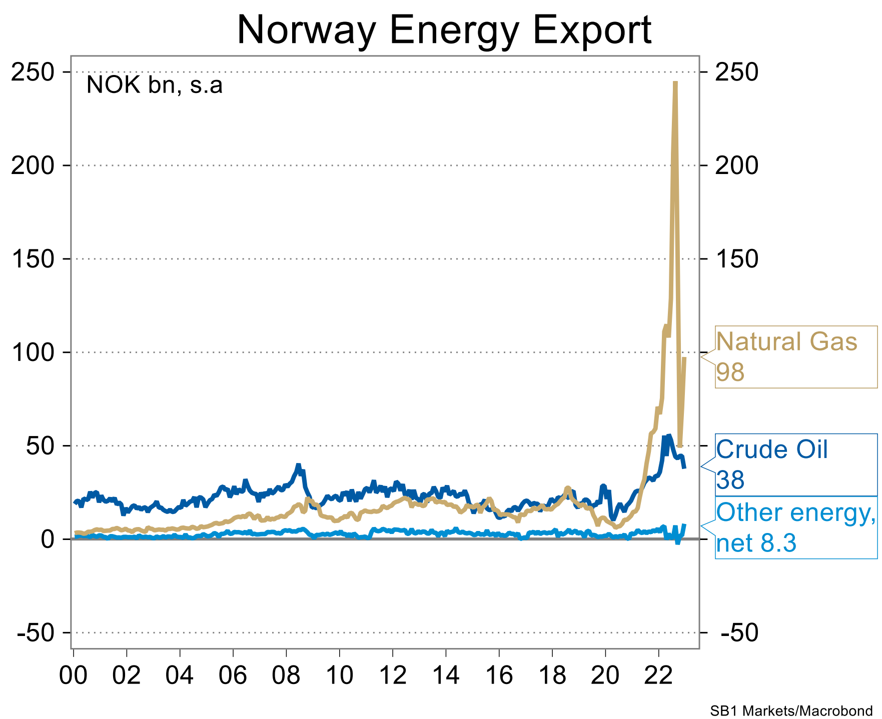
However, export volumes have climbed since the summer! And imports are at ATH, and are increasing at a rapid pace

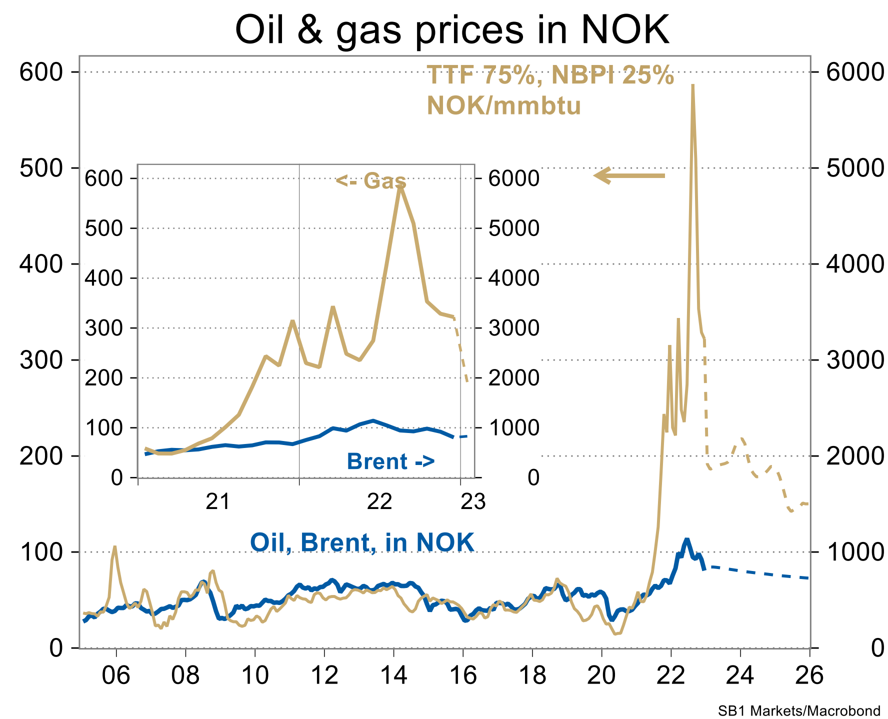



- The trade deficit in volume terms is now somewhat higher than before the pandemic, also in % of Mainland GDP

# Gas exports down 60% from peak, still 5x a normal level

The realised gas price is up somewhat in Dec vs Nov, even in market prices fell further. Now, a price collapse

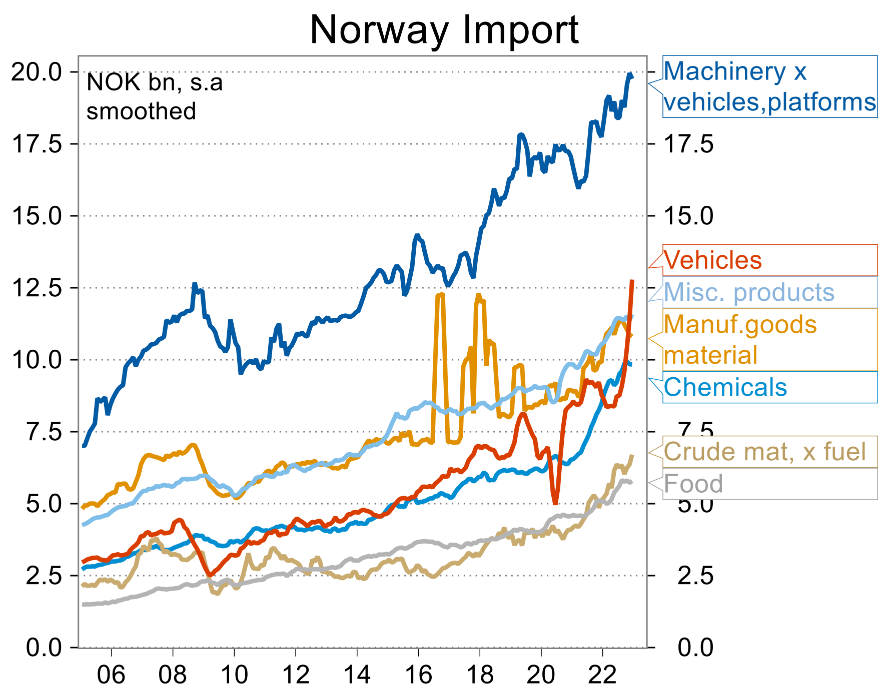


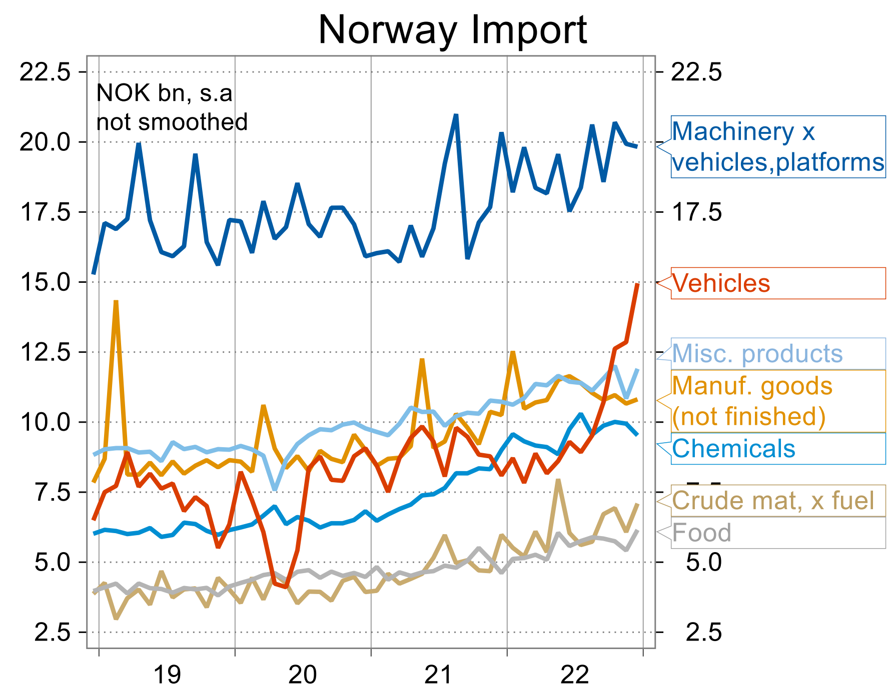

- **Gas prices** (75% TTF Netherland gas prices, 25% NBP UK prices) climbed 10x above a normal level to August, from early 2021, of course because Russian exports to Europe have been almost completely cut off. Actual gas exports rose to NOK 98 bn in Dec, up from NOK 71 bn in Nov but down from NOK 245 bn at the peak in Aug. Volume wise, gas exports were up 8% m/m in December
- **Crude oil exports** decreased by 7 bn to NOK 38 bn (-16%, s.a.), due to a lower oil price than the month before – volumes were unch.
- In sum, **petro exports** have been sky high, and although gas exports at NOK 98 bn is down 60% from ATH, it is still some 5x a normal level. Some of it is due to higher volumes, as more capacity was utilised to supply Europe with gas post the Russian cut off. However, the majority of the increase is due to higher gas prices. Most of the new earned fortunes will end up in the Government's coffers and thereafter transferred directly to the Oil fund – before being returned to the budget via the long term 3% (of the Fund's capital) spending rule
- **Other energy exports** (electricity and refined gas) were up in December

# Most imports are trending rapidly upwards – as domestic demand is strong

… And prices are soaring. Vehicle imports are up 50% recent months, as sales surged ahead of the tax increase Jan 1




SB1 Markets/Macrobond

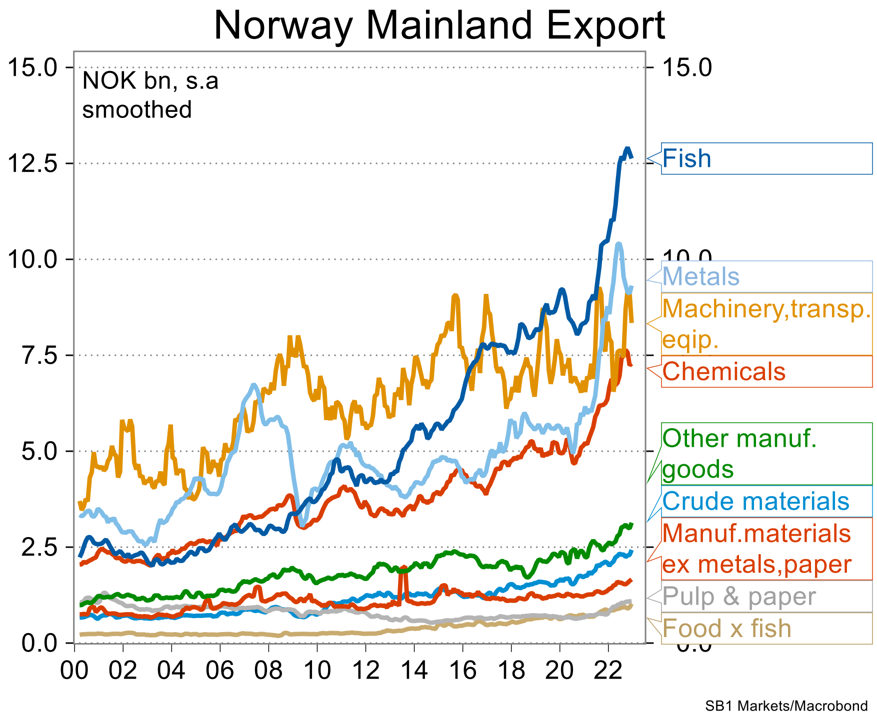


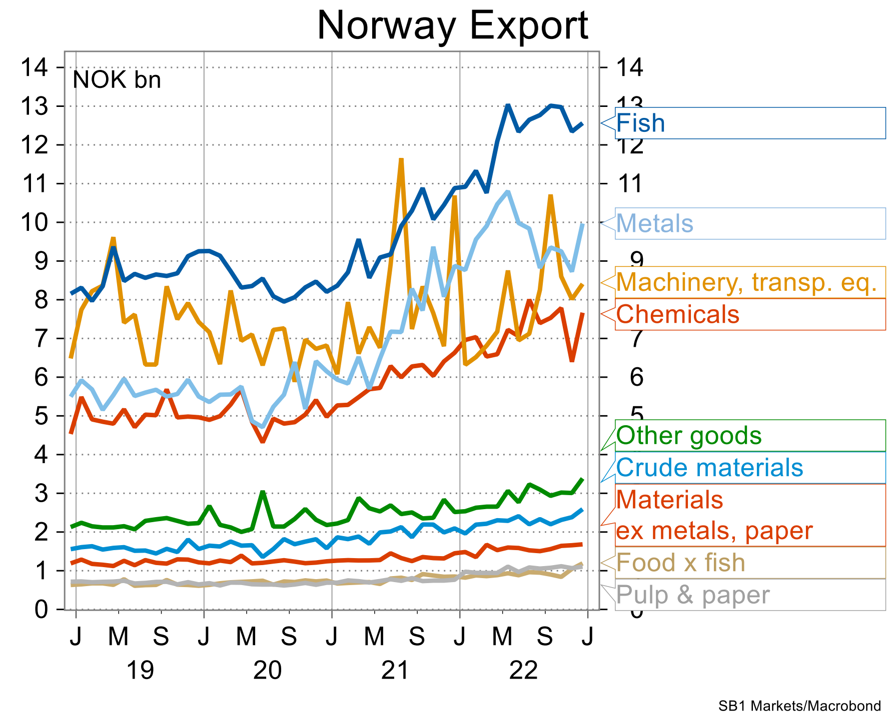

SB1 Markets/Macrobond

- … all major categories, with the exception of machinery and chemical imports, were up in December
- The spikes in imports of manufactured goods are due to unfinished platforms or ships

# Mainland exports: Everything was up in December

Especially metals, chemicals and fish exports were strong




- Raw material prices have turned south, and exports of metals are down from the peak

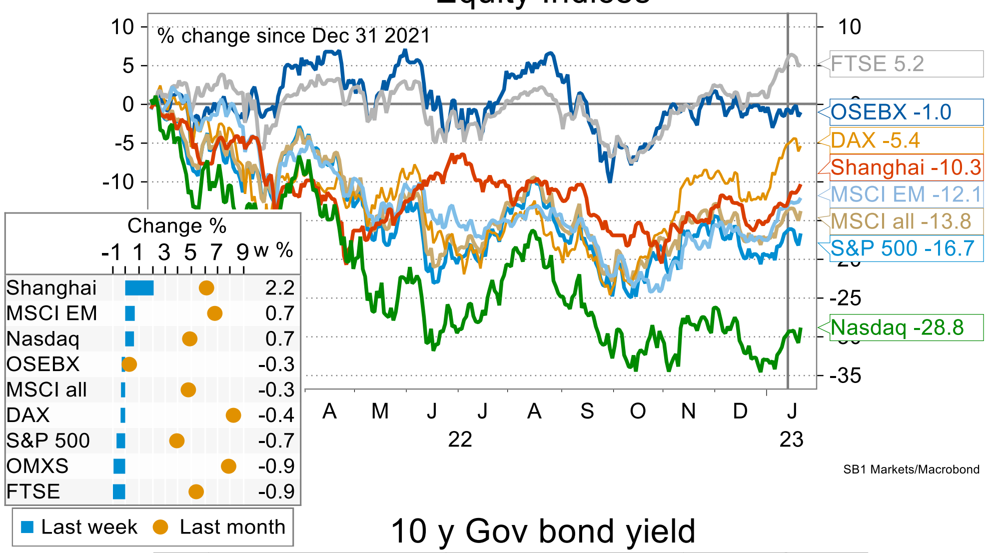


Memo: Sum of the parts of the seasonally adjusted December export data does not add up well vs. the total seasonally adjusted series from Statistics Norway

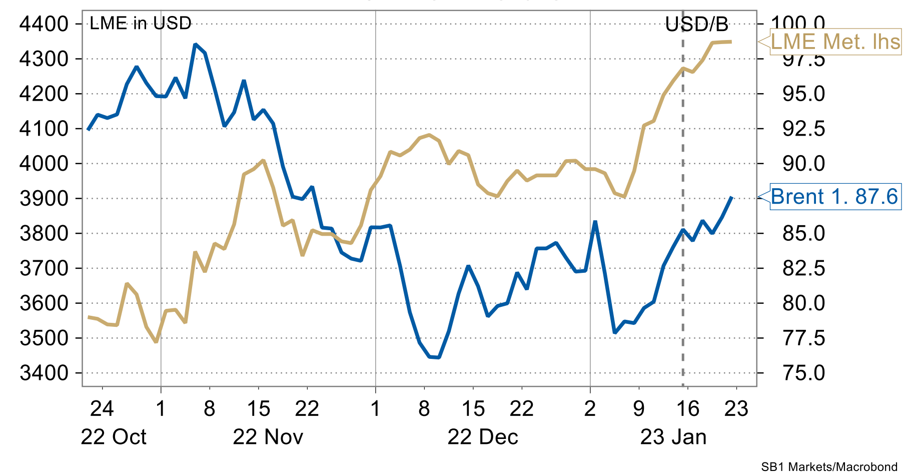
# A pause at equity markets, bonds mixed too. But oil, metals up

… on growth hopes, and less fear for a (deep) recession

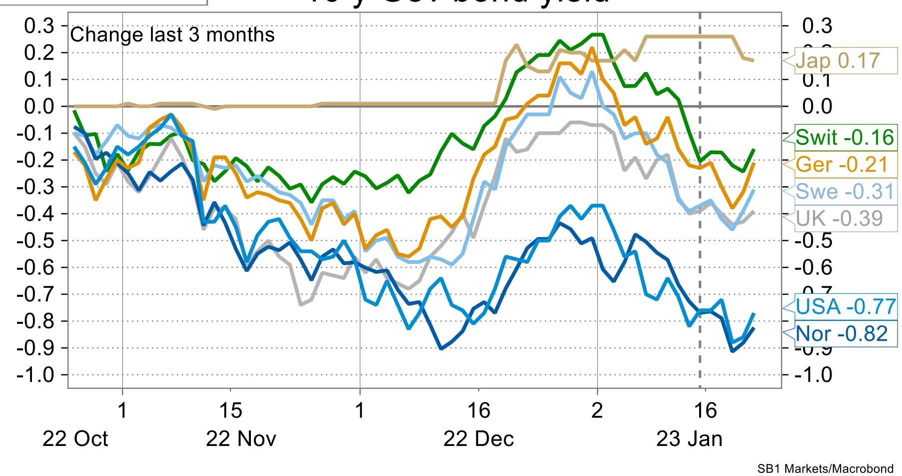
Equity Indices



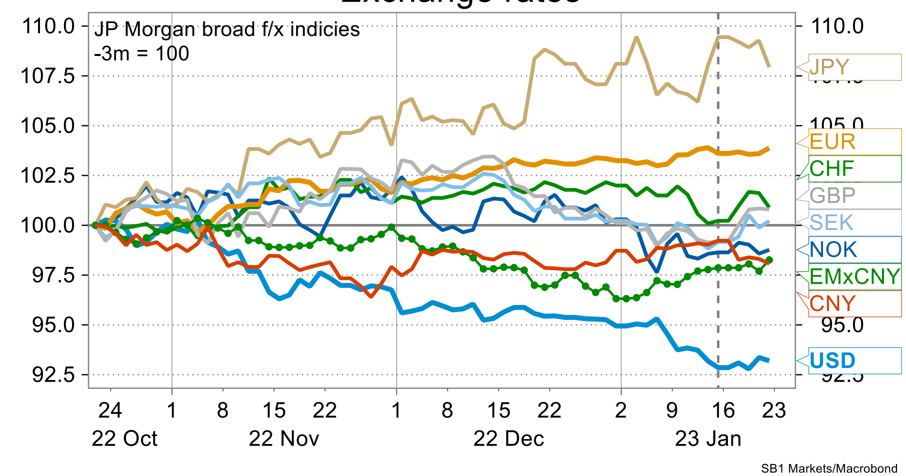

Oil vs. metals




10 y Gov bond yield




Exchange rates

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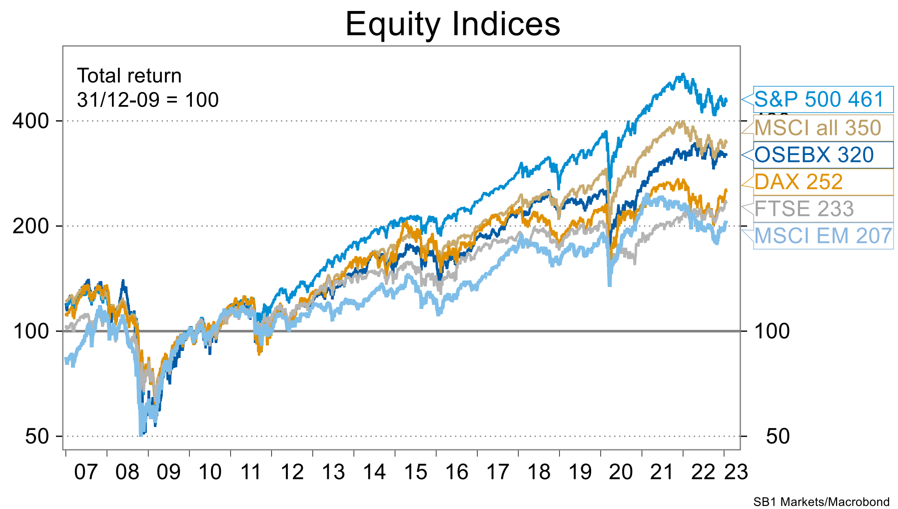
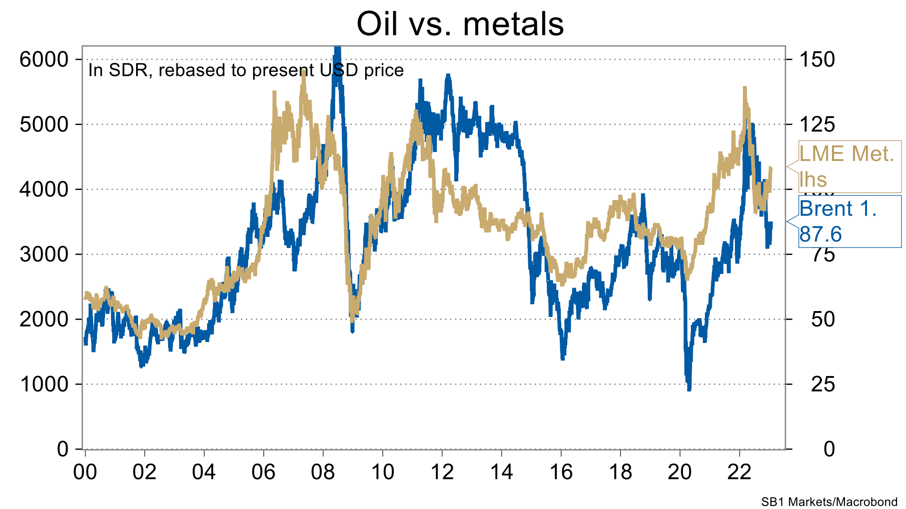
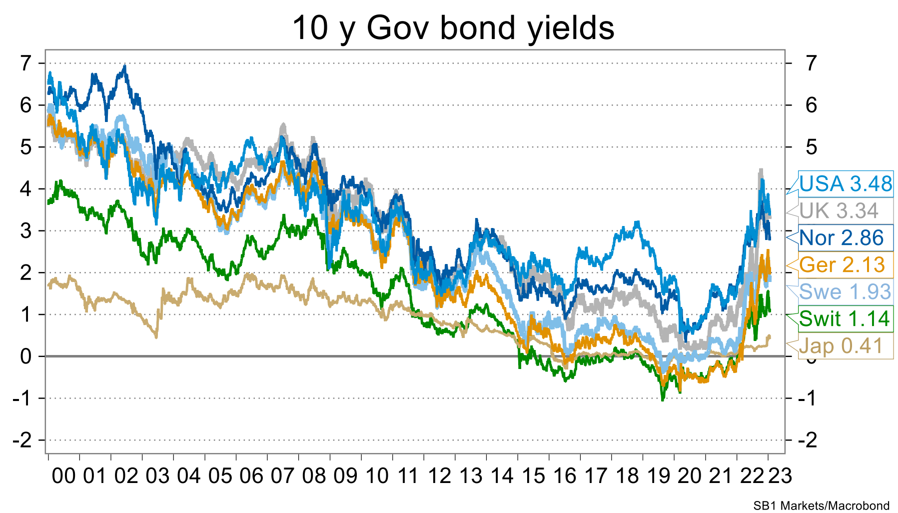
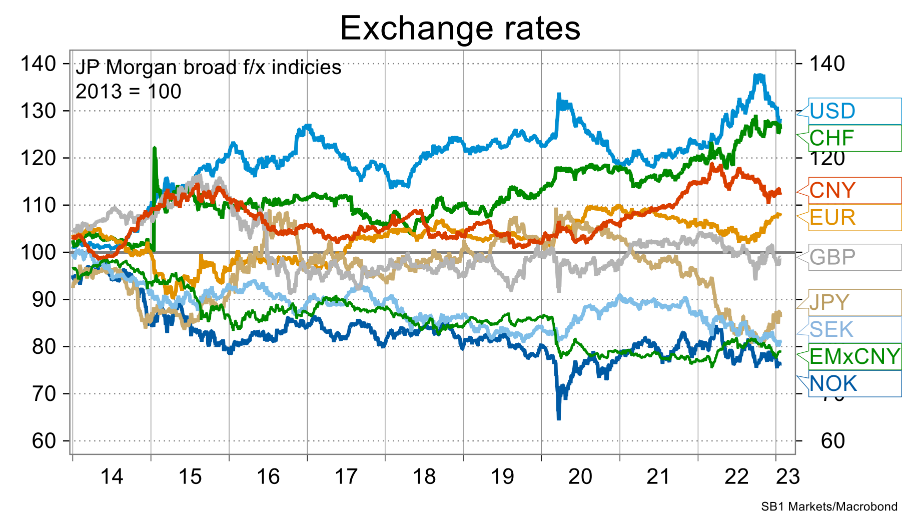
# The long-term picture: Turning points? Equites on the way up again

… together with commodity prices and bond yields are well down from the peak and the USD has turned down?

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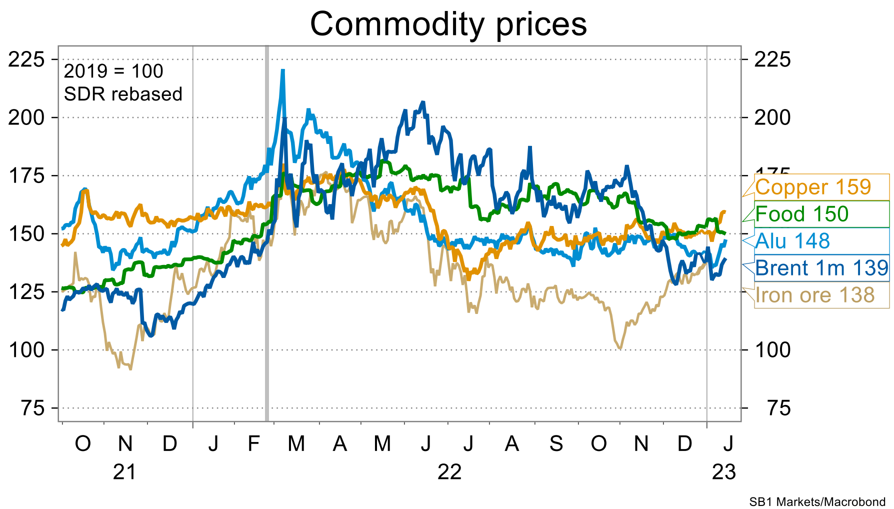
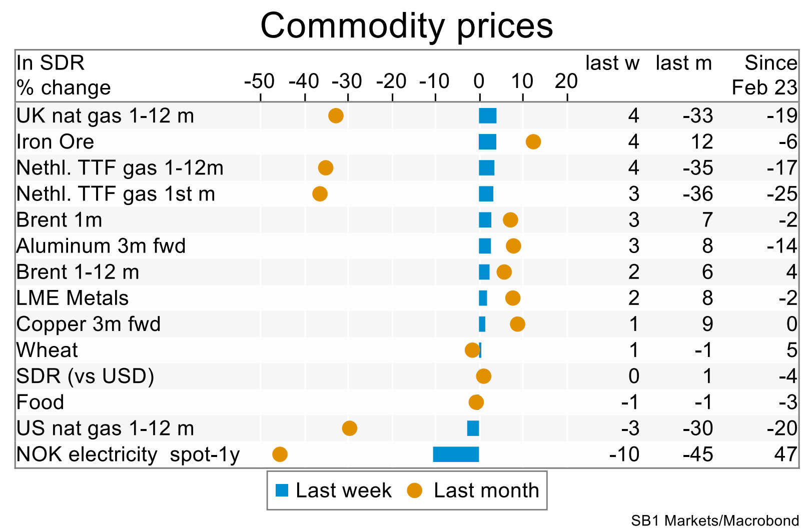
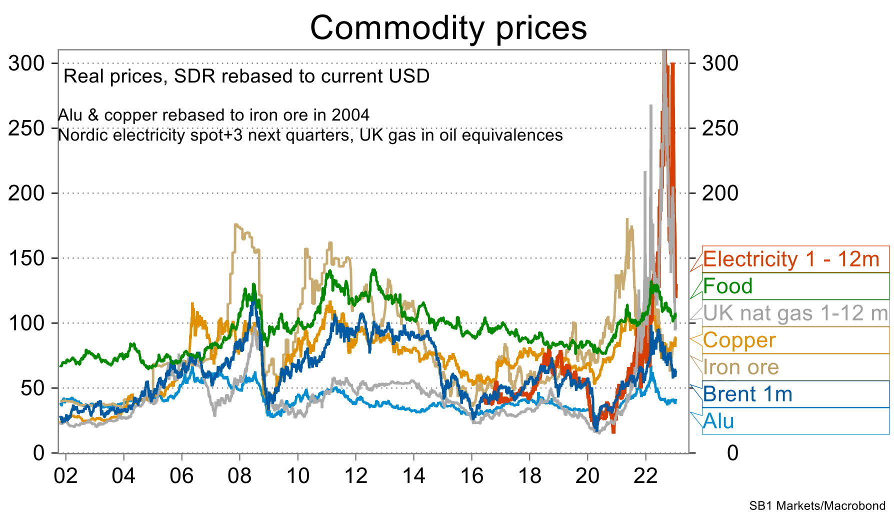
# Most commodity prices up, even European energy prices

Iron ore/copper and even LME's index is have turned upwards. Food prices and Norw. electricity prices down



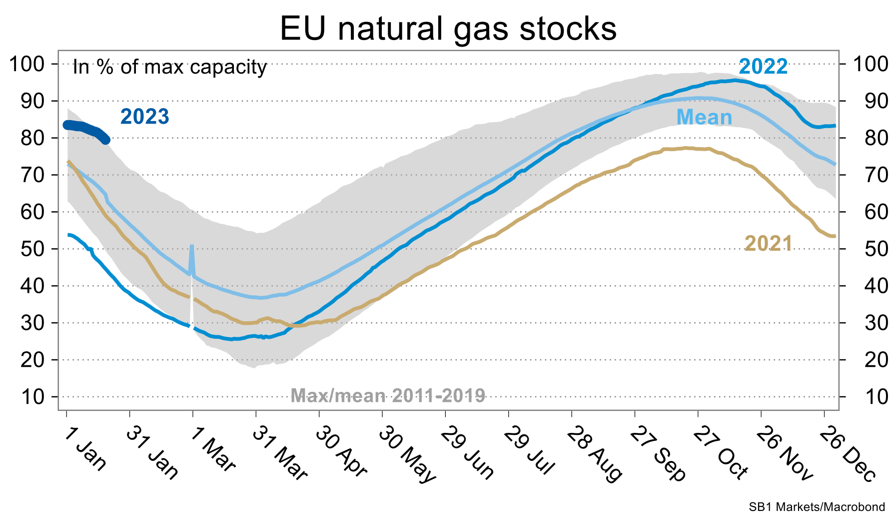



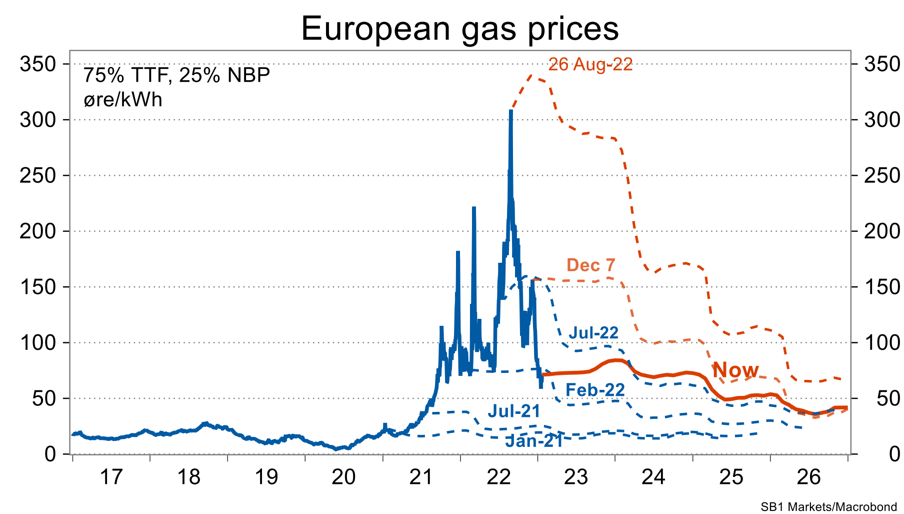

**Last week – prices in SDR**

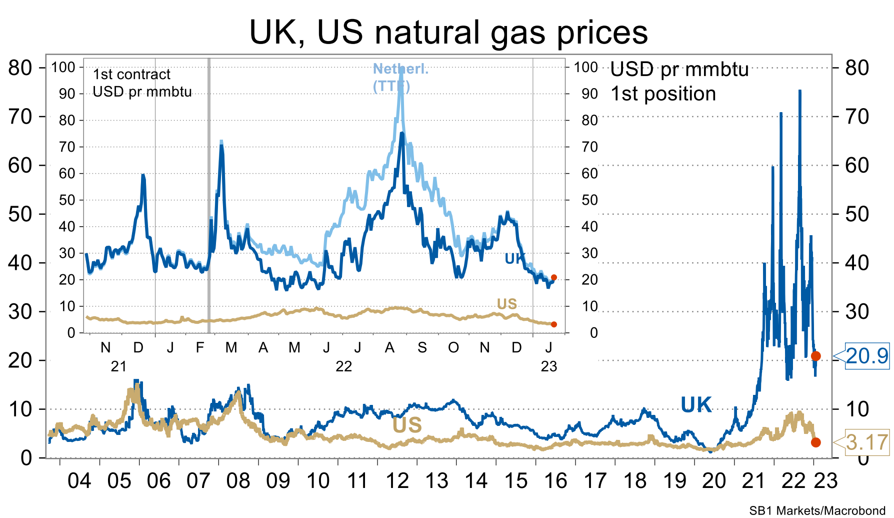
- **Oil prices** up 2- 3%
- **European natural gas** rose slightly but is still almost down 50% from the early Dec local peak
- **Iron ore** prices – and now followed by other metal prices - have recovered sharply on hopes for a recovery in the Chinese demand following scrapping of Covid restrictions and stimulus measures
- **Food prices** fell, and have flattened since November – and are back to the same level as before the war started

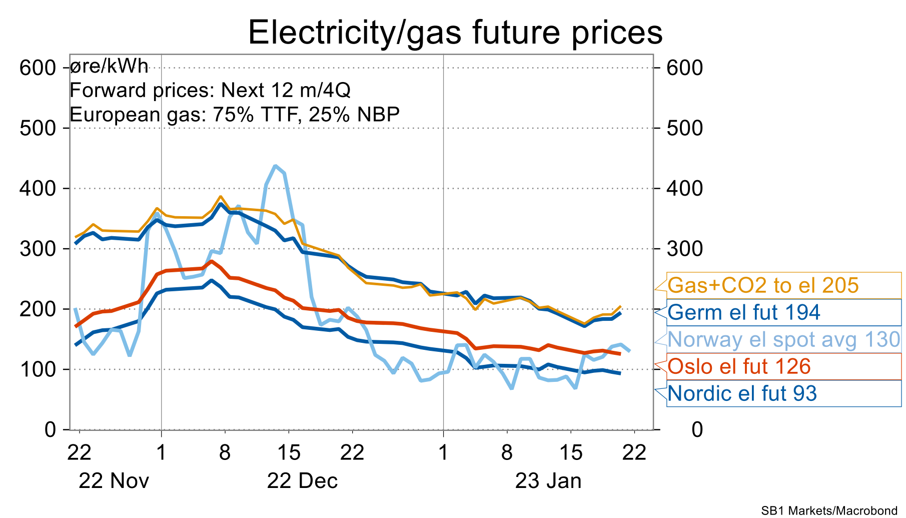
# European gas stocks the highest ever – but prices rose last week

Still, 2023 prices are still cut almost in half since early December

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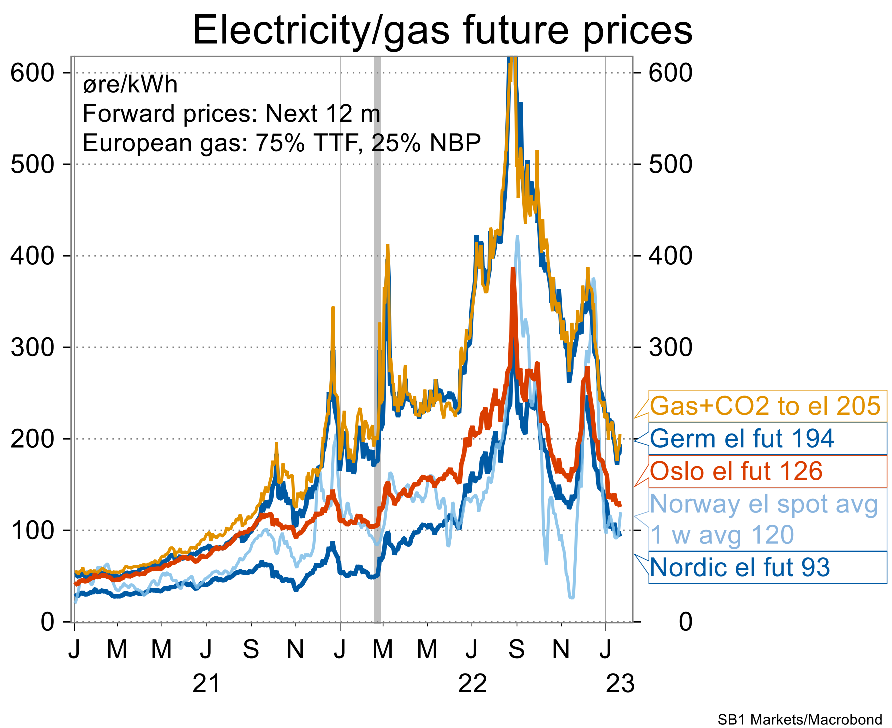
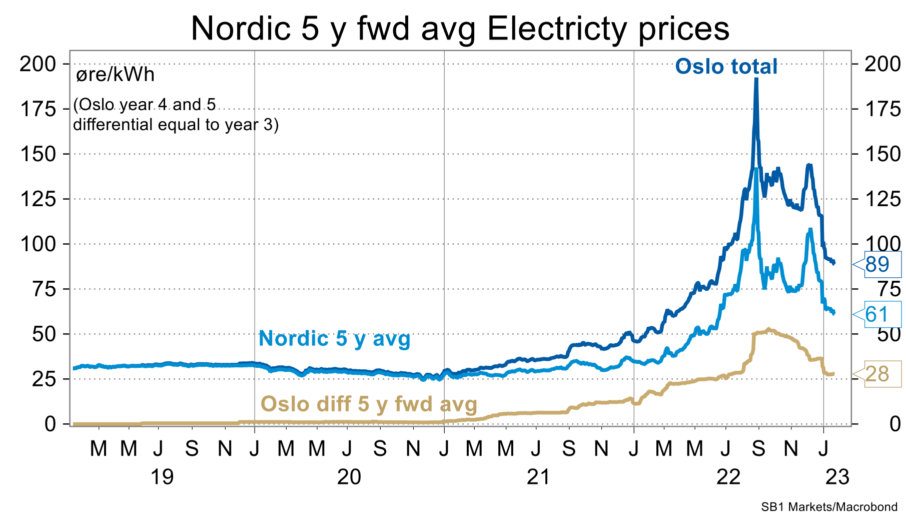
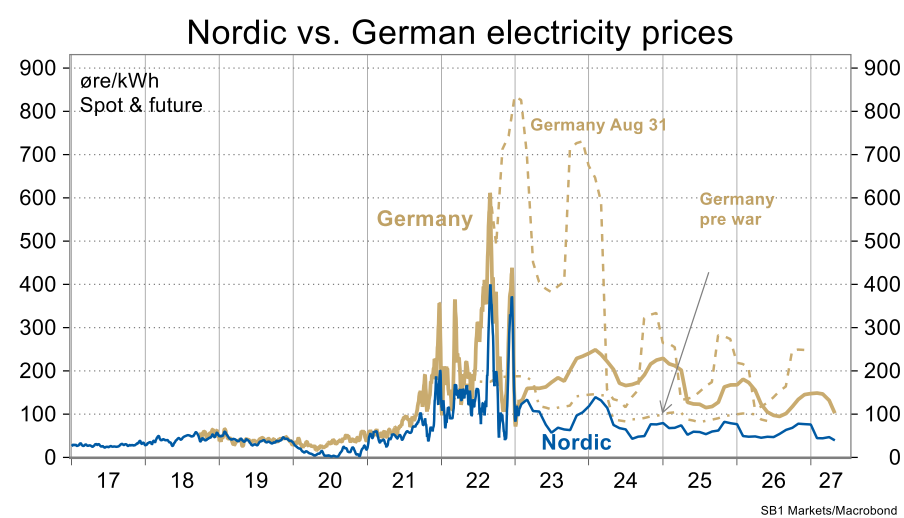
# European gas/el. prices are still high, but far less than feared short time ago

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



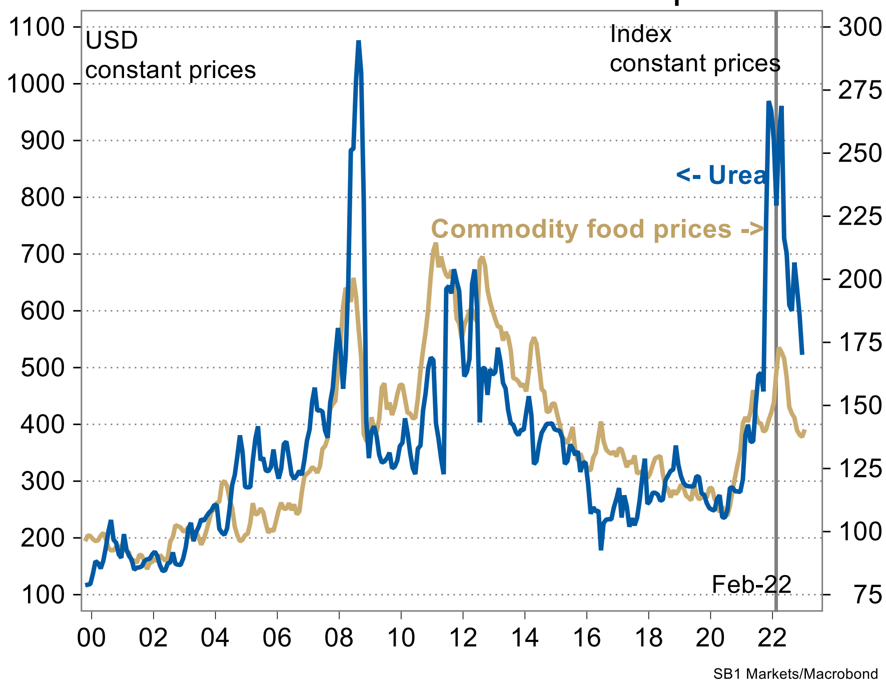



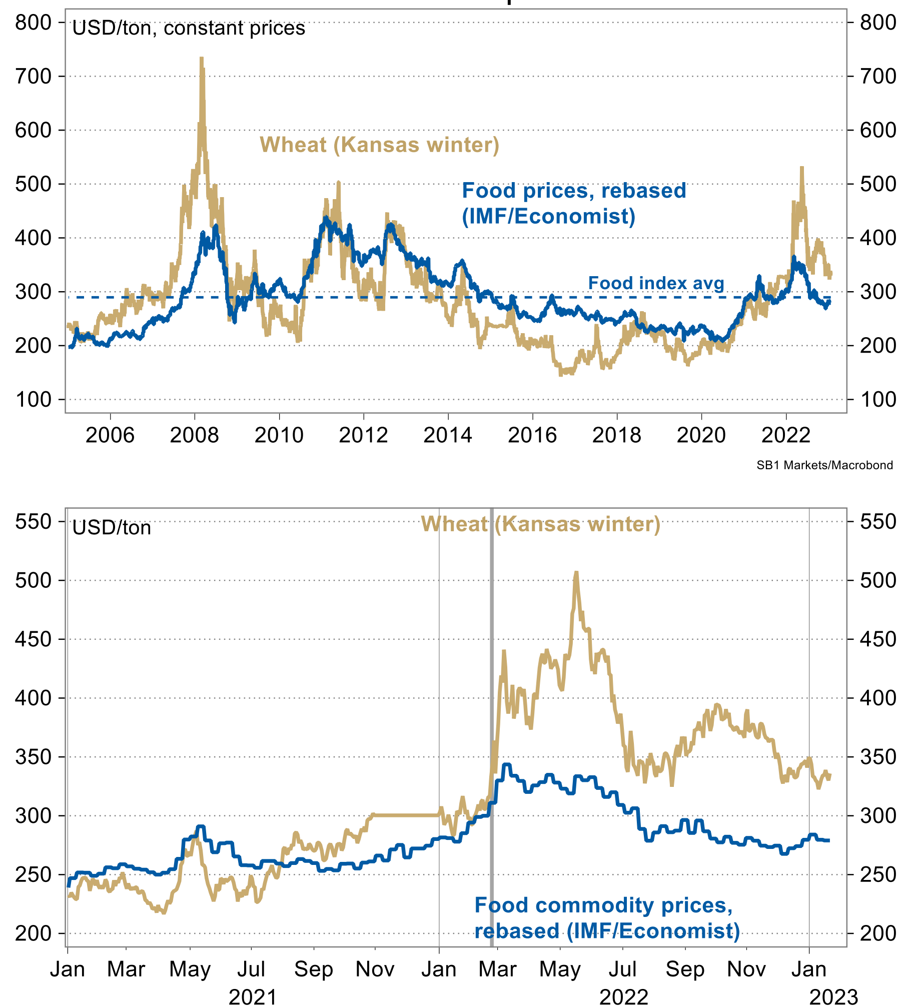
# Food prices are trending down, and fell last week

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

## Food commodities vs fertilizer prices



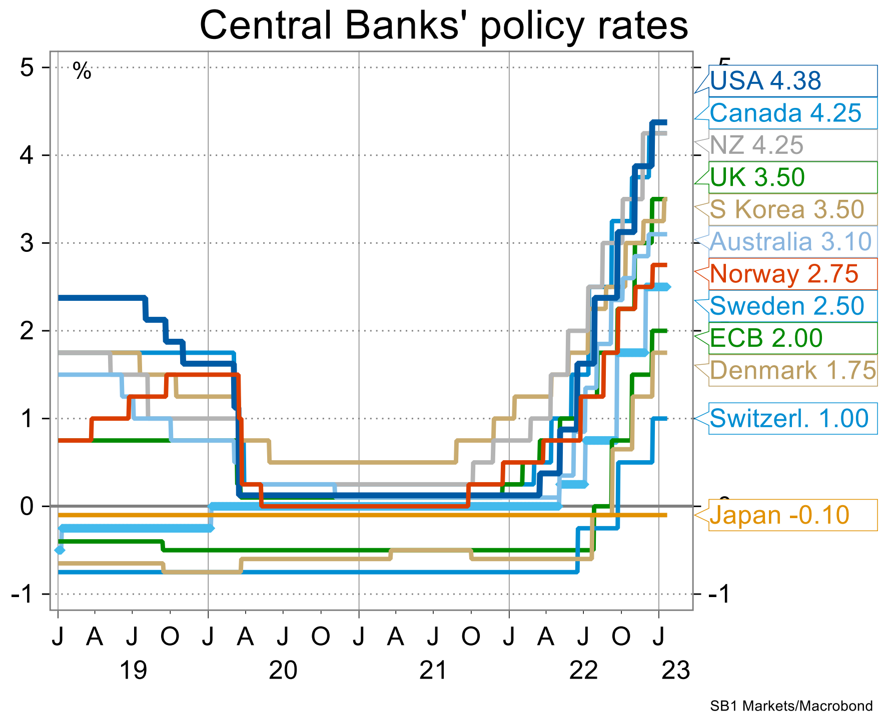

## Food/wheat prices

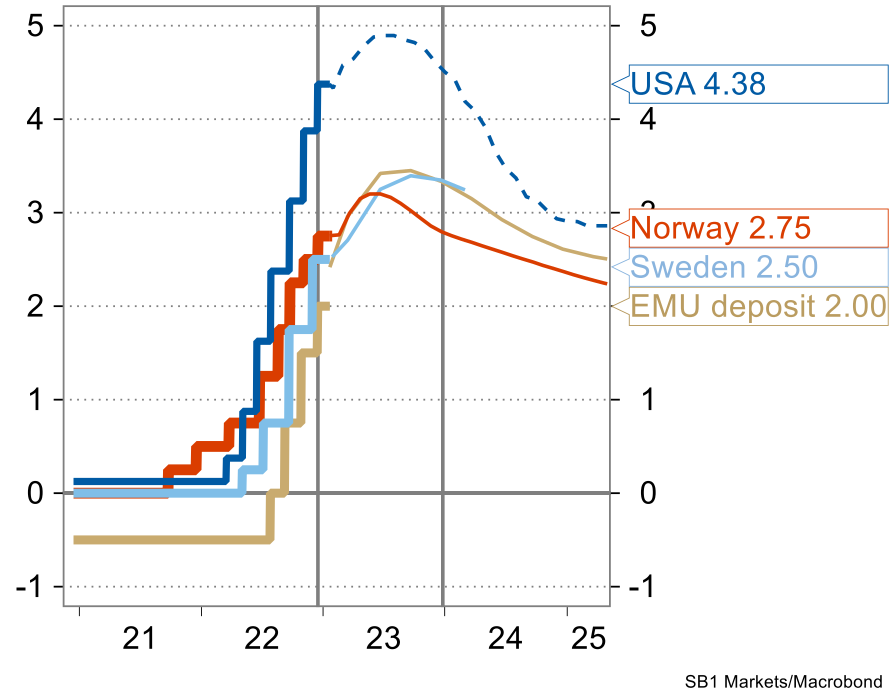



- Urea prices have come sharply down to, since early 2022 – but prices remain higher than normal

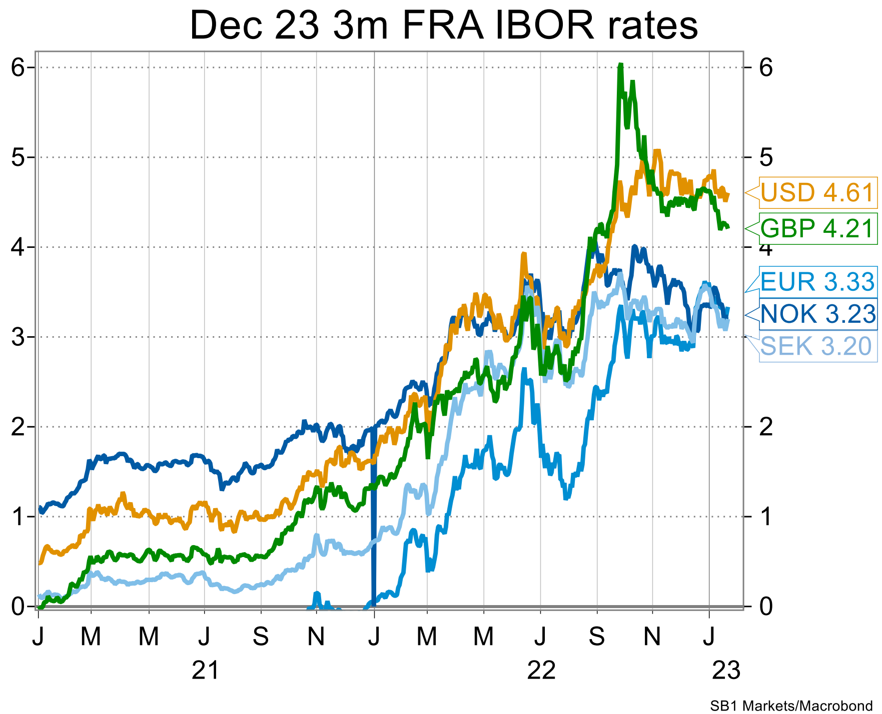
# A pause for central banks last week. And this week. But then…

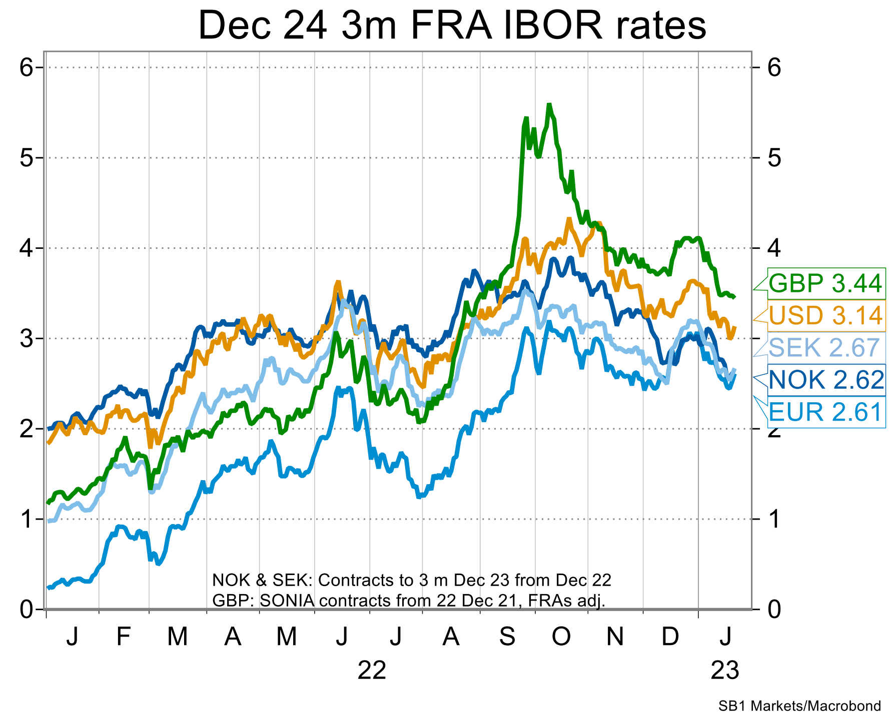
Norges Bank has become the dove among the central banks' hawks

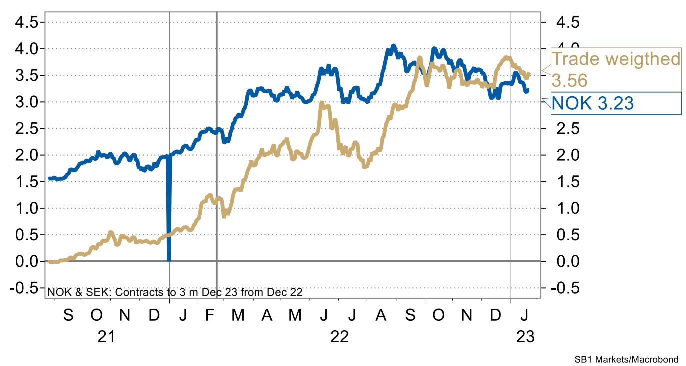


# NOK FRAs down 15 bps, others far less – and some rose



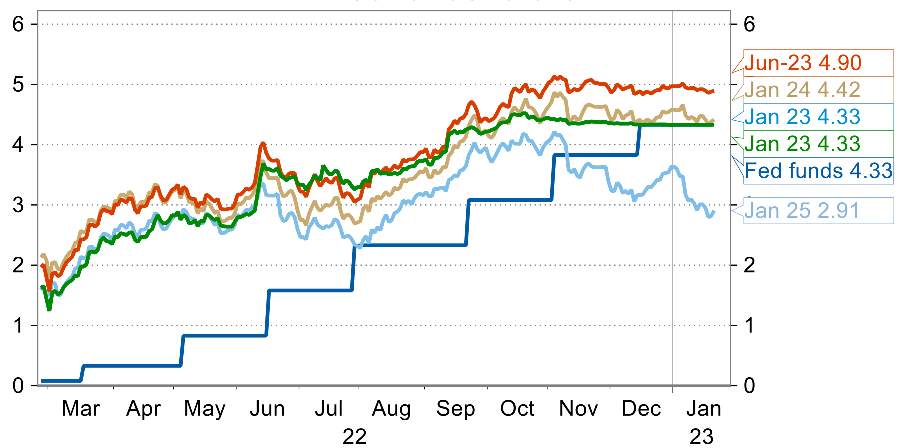



# Rate expectations just slightly down in the short end of the curve

25 bps in February a done deal: The probability for a 25 bps hike in early rose to 99% from 94% last week

Fed funds future

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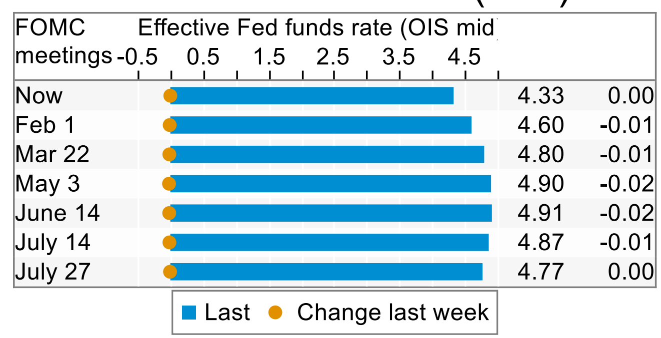
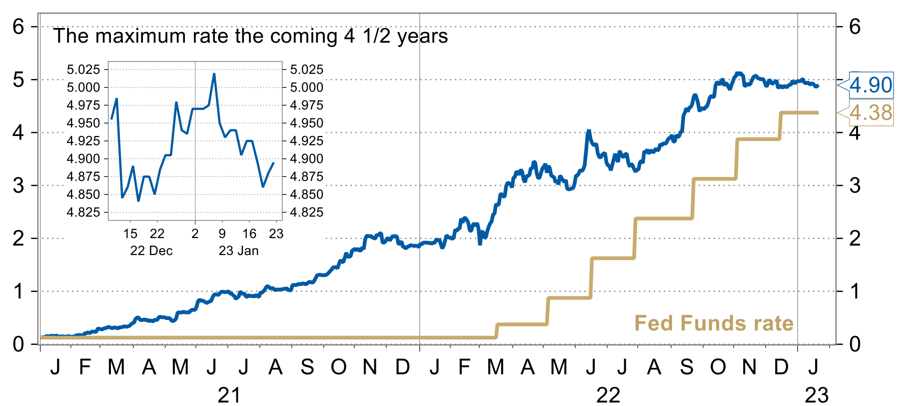
USA Fed funds rate (OIS)




USA Fed funds futures

The expected terminal (peak) rate in this cycle

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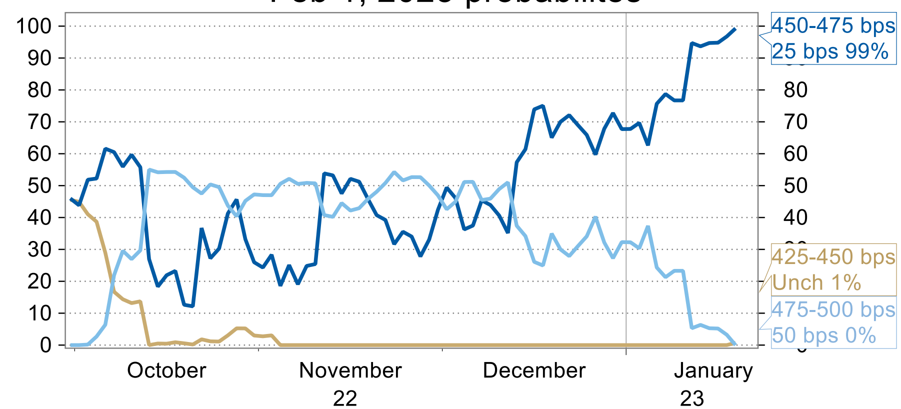
Fed funds future,

Feb 1, 2023 probabilites

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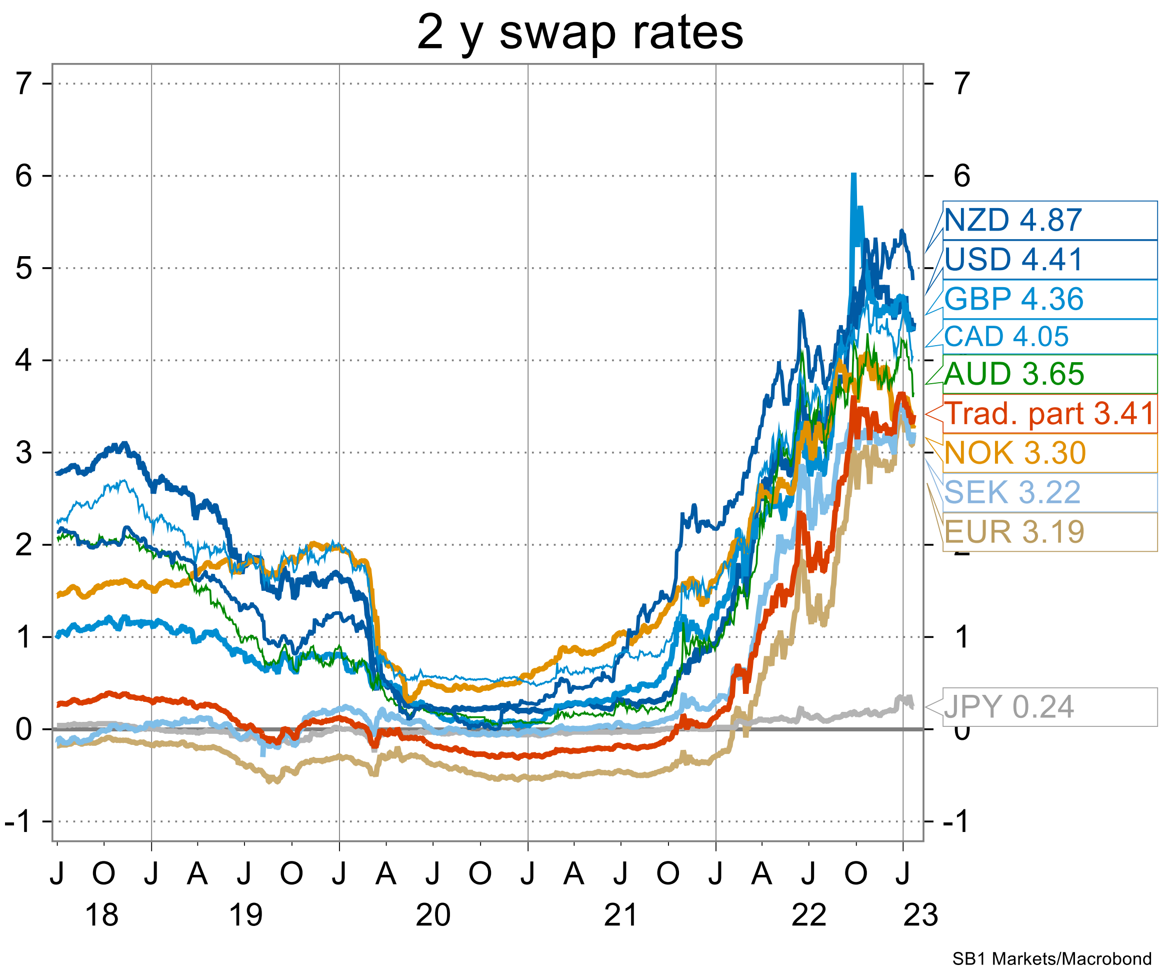
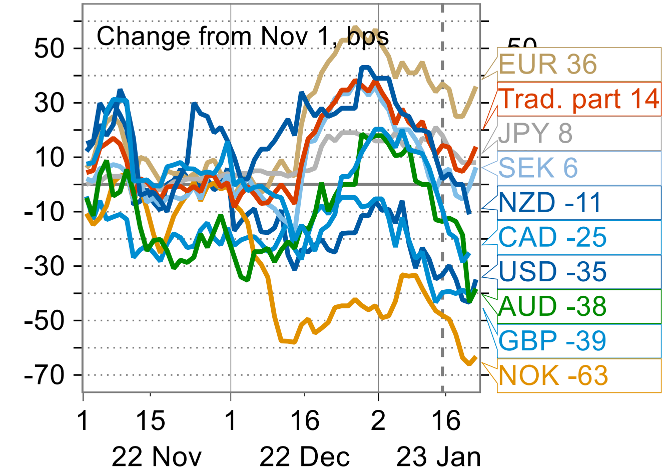
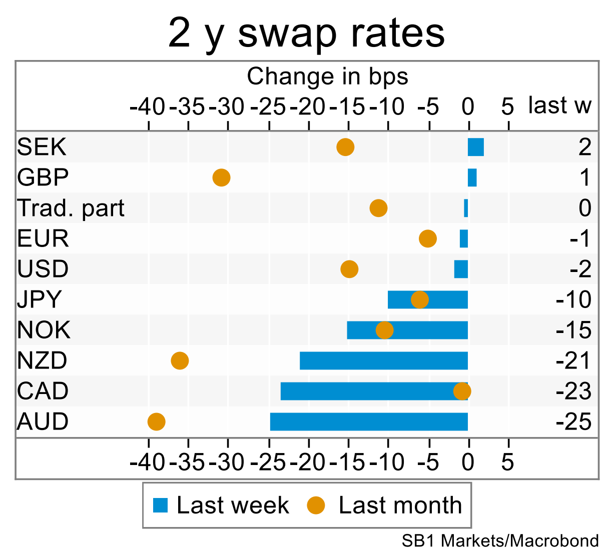
# 2 y swaps down most places, most among the raw material producers

… even if commodity prices are inching upwards. Strange? NOK rates soon the lowest??

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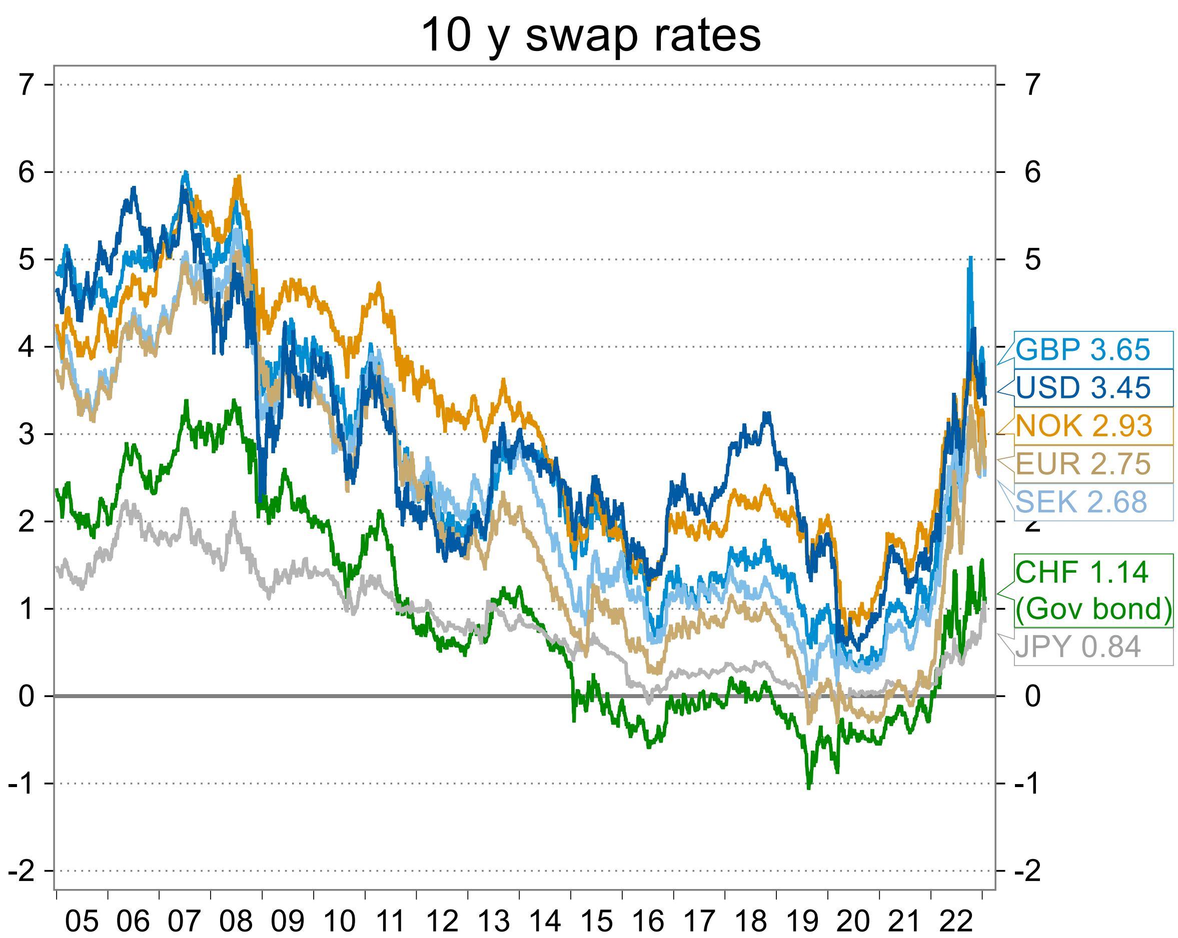
# The long end of the curve mixed, down the most in Japan

… as Bank of Japan stuck to its Yield Curve Control (YCC) policy, with an upper limit at 50 bps

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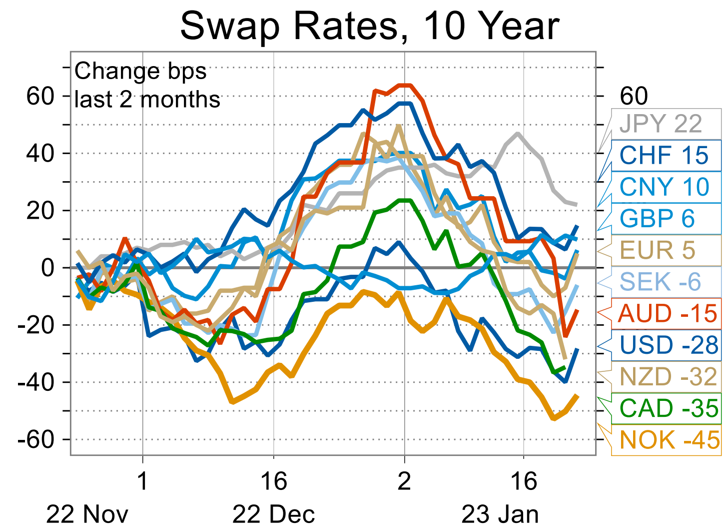


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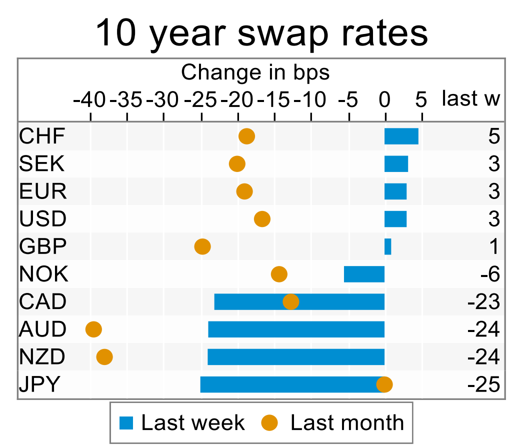


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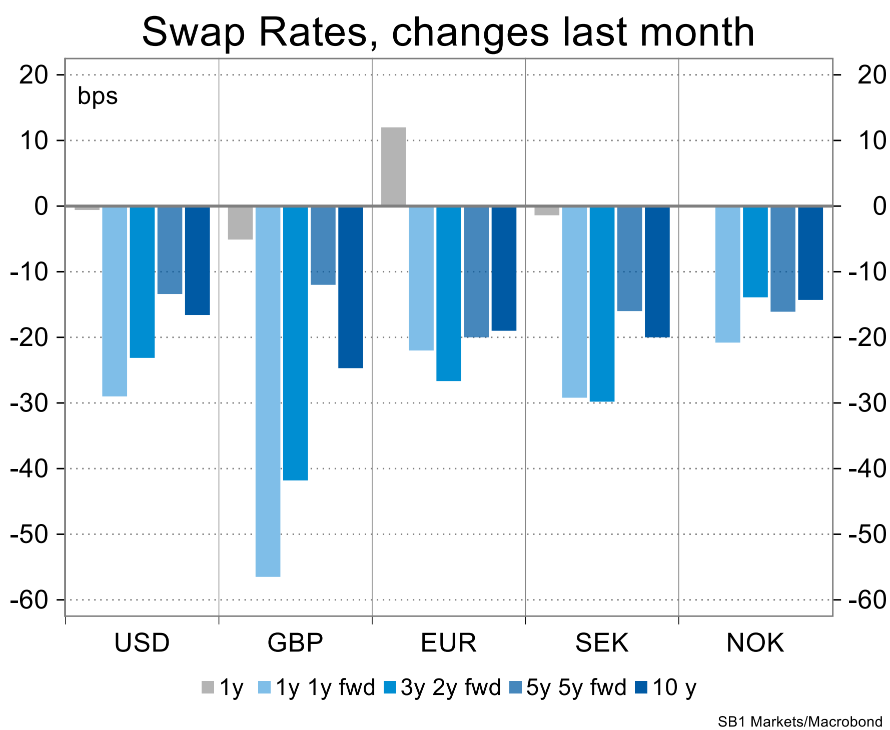
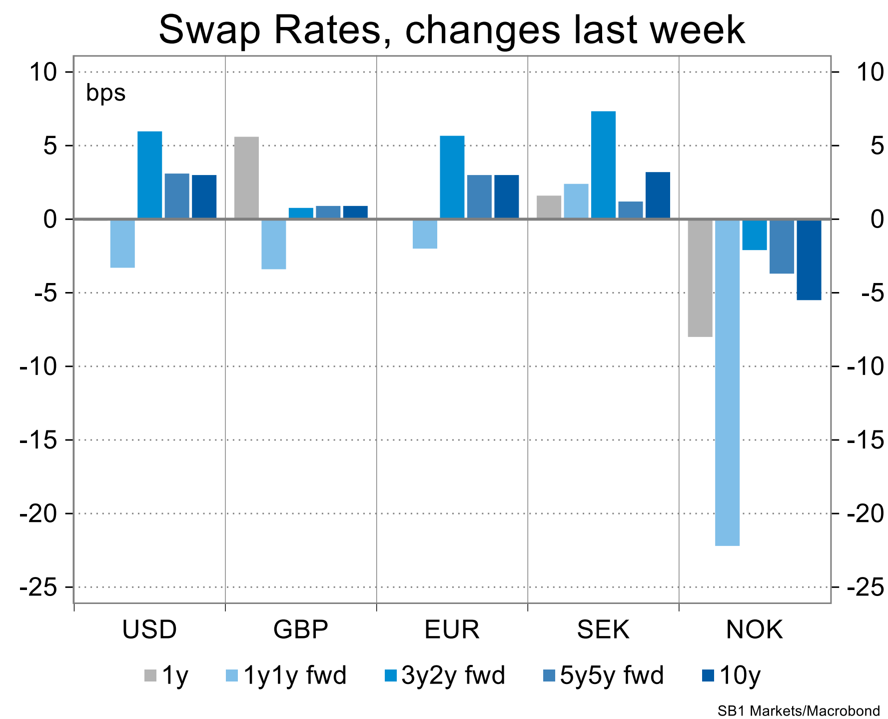
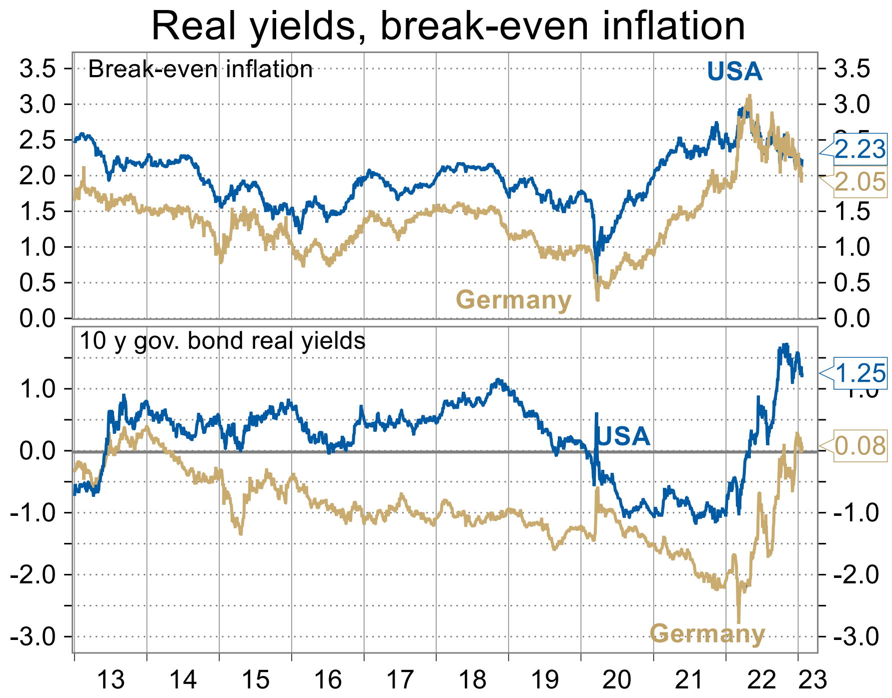
# Curves rather stable in Europe/US last week, but not in Norway



# Small changes in US rates, real rates in Germany up above the zero line again

US real rates have been trending down from the 1.7% peak in Nov to 1.25%. Inflation expect. are trending down too





- In the US, a 10 y CPI expectation at 2.23% is close to 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 too high. Now, the gap is almost closed
- The German 10 y break-even drifted down too, but rose last week. The 10 y real rate turned negative again but the trend is still upwards, from very low levels

US & Germany 10 y Gov bond yield

| | Yield | Change 1w | Change 1m | YTD | Min since April-20 |
|---|---|---|---|---|---|
| **USA nominal treasury** | 3.48 | -0.01 | -0.21 | -0.40 | 0.52 |
| .. break-even inflation | 2.23 | 0.05 | -0.01 | -0.07 | 1.06 |
| .. TIPS real rate | 1.25 | -0.06 | -0.20 | -0.33 | -1.19 |
| | | | | | |
| **Germany nominal bund** | 2.13 | 0.02 | -0.16 | -0.43 | -0.64 |
| .. break-even inflation | 2.05 | -0.09 | -0.07 | -0.24 | 0.42 |
| .. real rate | 0.08 | 0.11 | -0.09 | -0.19 | -2.80 |

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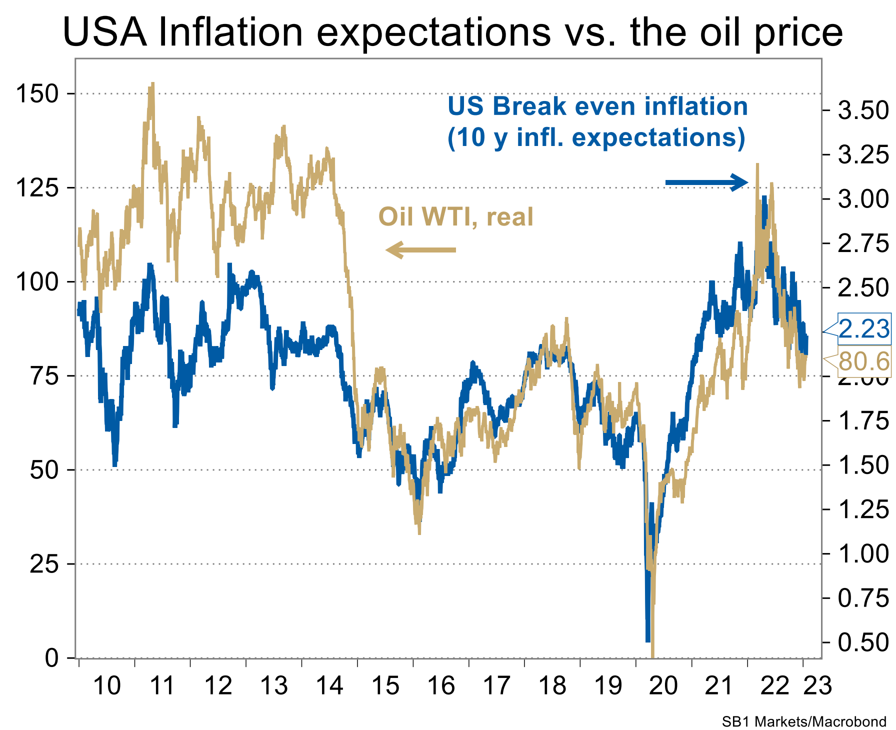
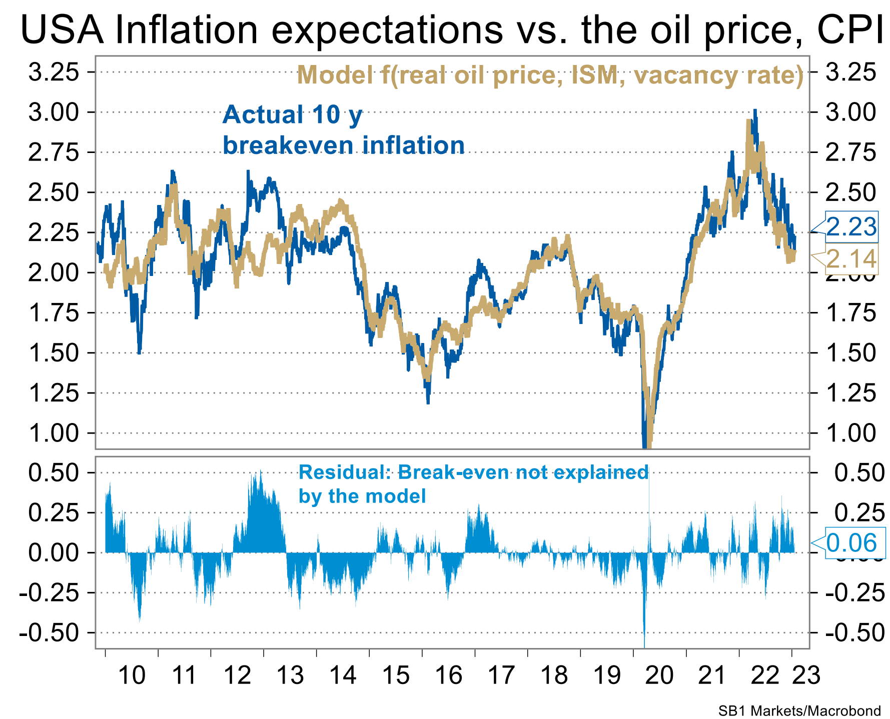
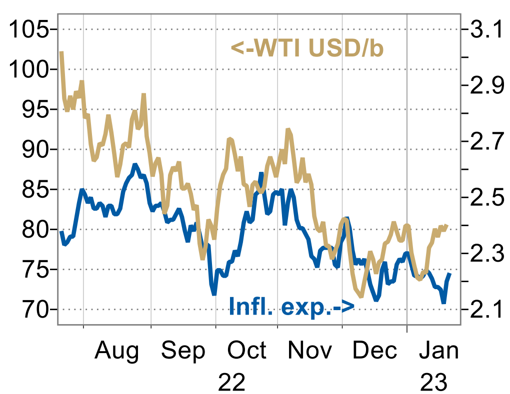
# US inflation expect. down – and now needs some support to get further down

The current break-even is just 9 bps above our model current f'cast (based on the oil price, ISM & the vacancy rate)

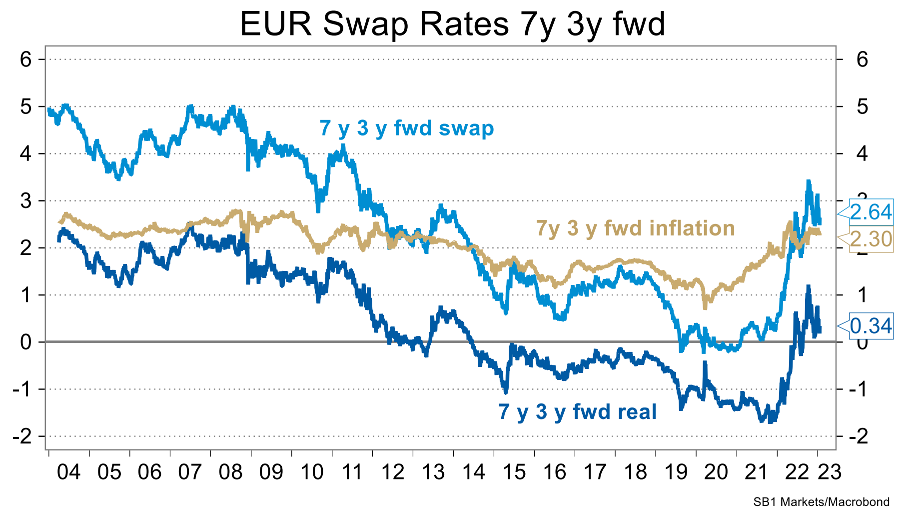


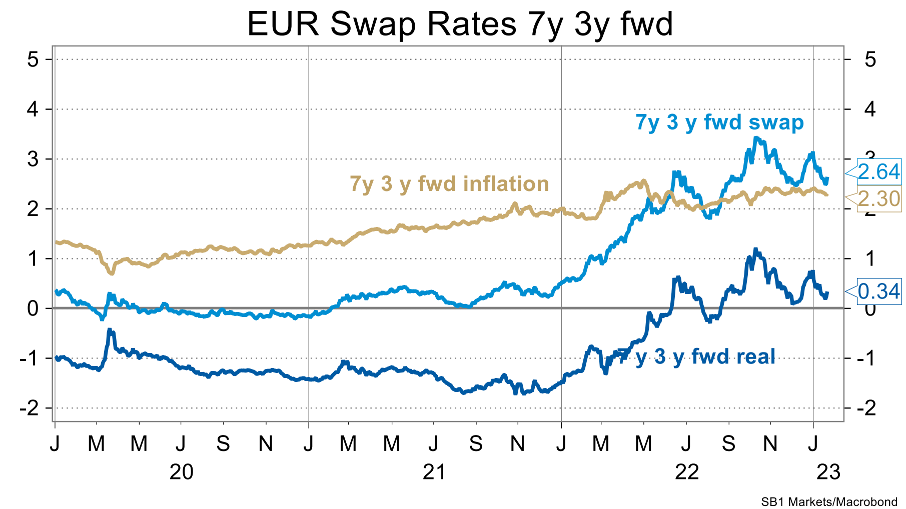



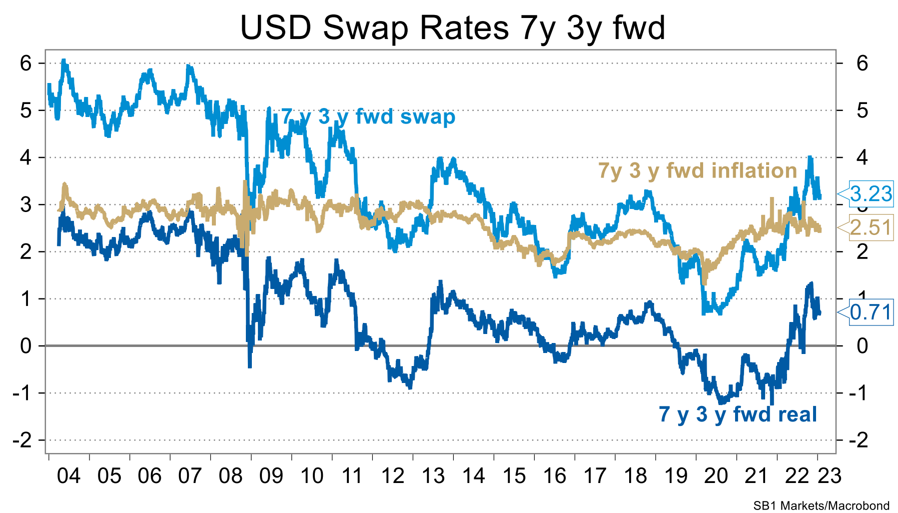



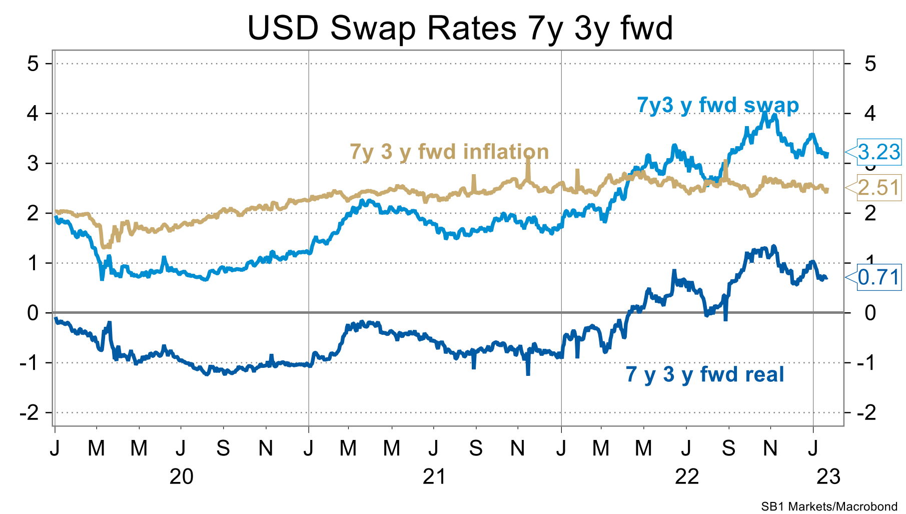

- A simple model including the spot oil price, the current ISM and the current vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve
- What now? The actual break-even is in line with the model forecast. We are uncertain about the oil price, but rather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



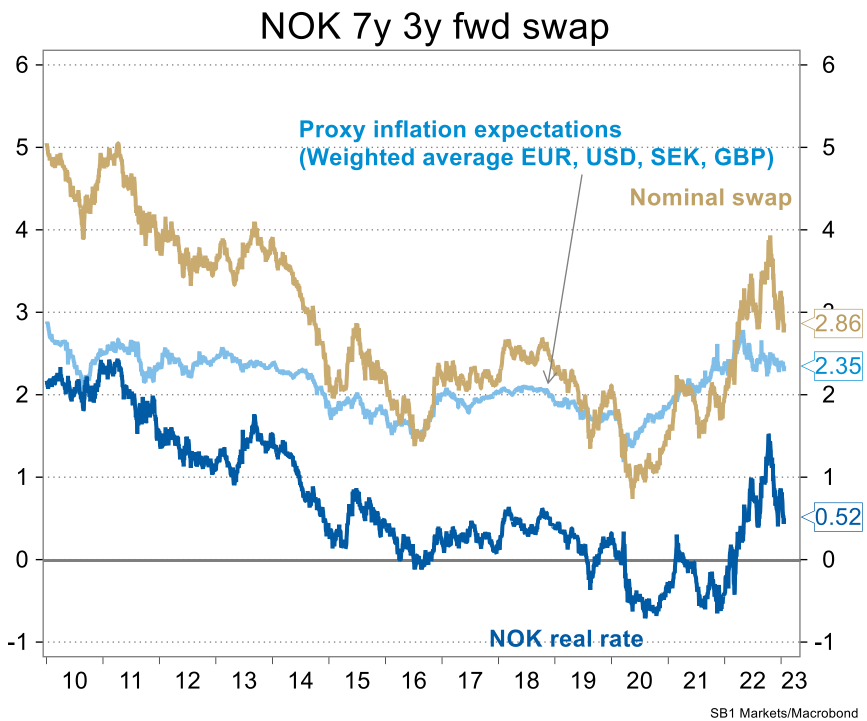



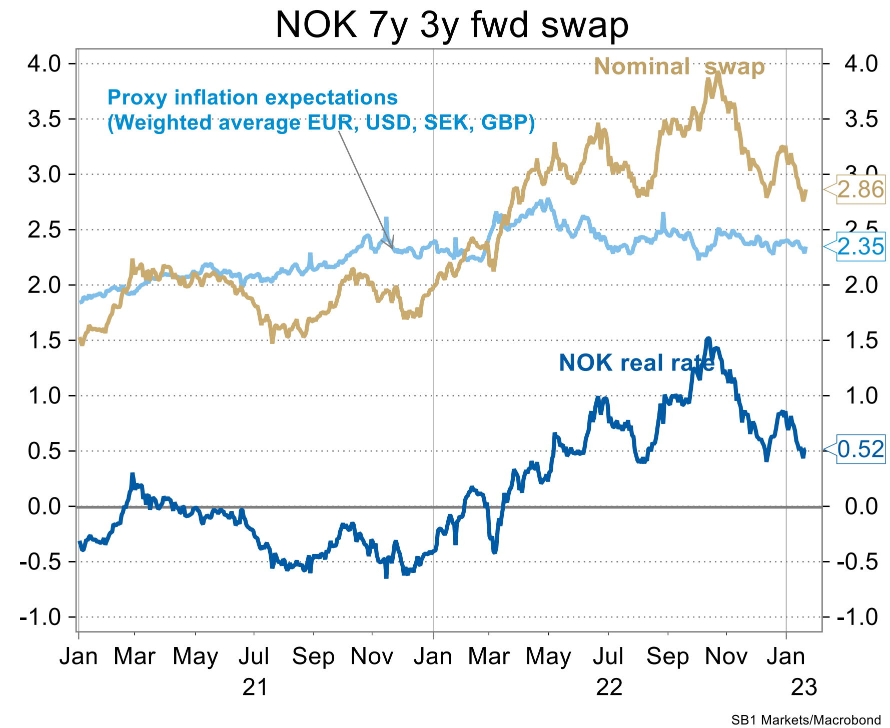



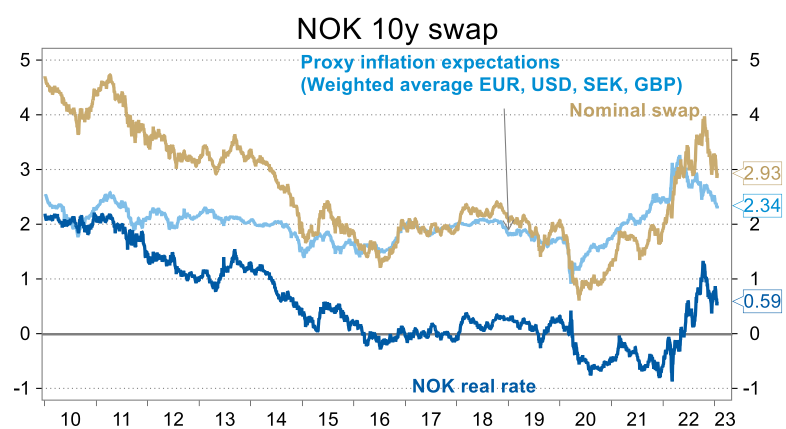



# NOK real rates also sharply down last week

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



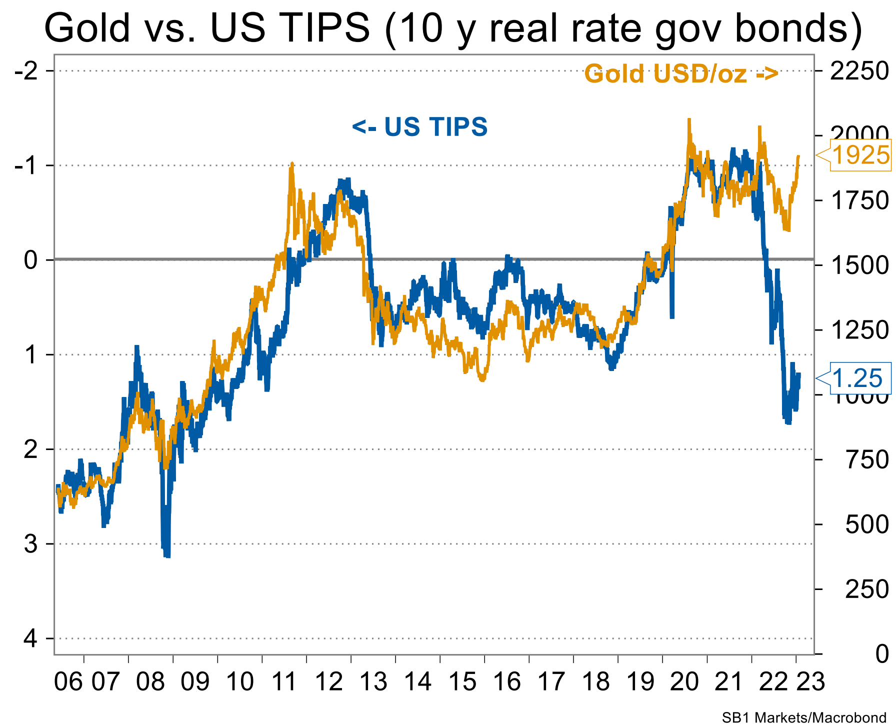




*Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys*

# Why is the gold price still up there? The real rate signals USD 1,100/oz

An 75% premium due to geopolitics, inflation fears (which are not captured in the yield curve)?

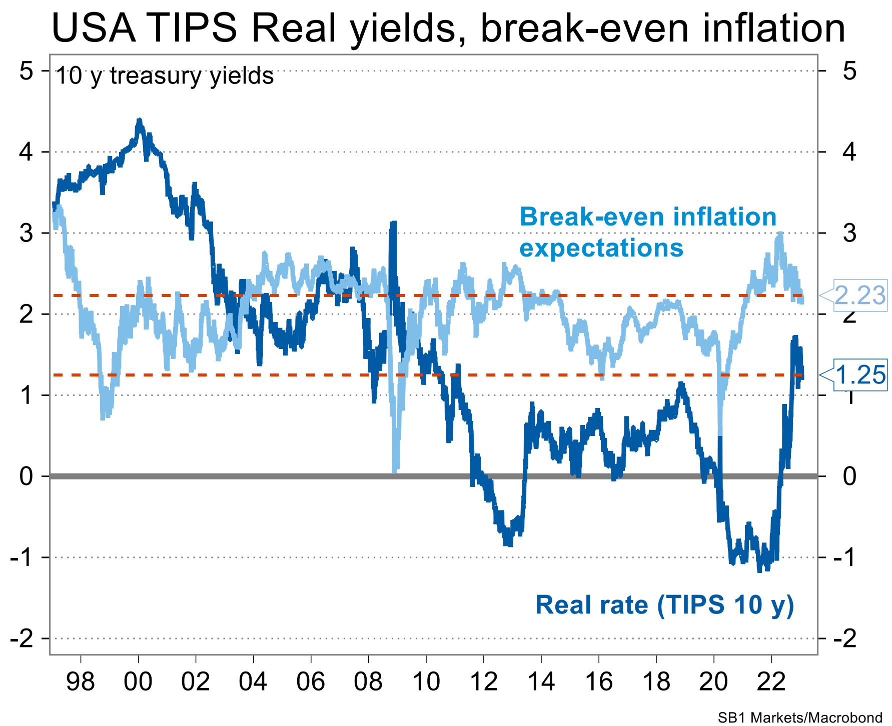


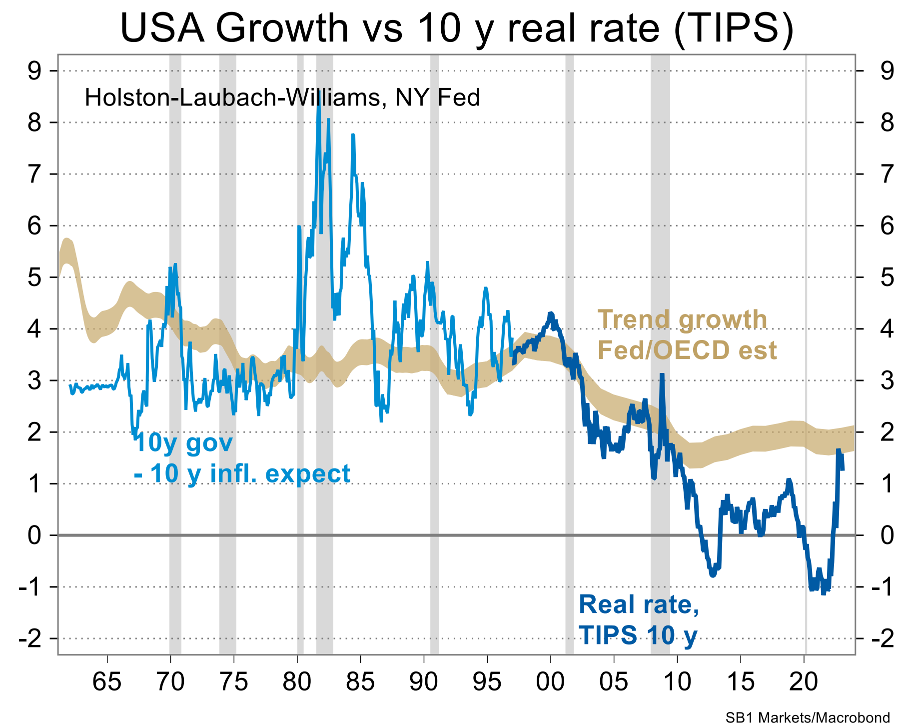

- .. Or is it, like Paul Krugman suggested, just because Bitcoin has fallen out of favour as an 'inflation protection' asset?

- Seems rather excessive

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

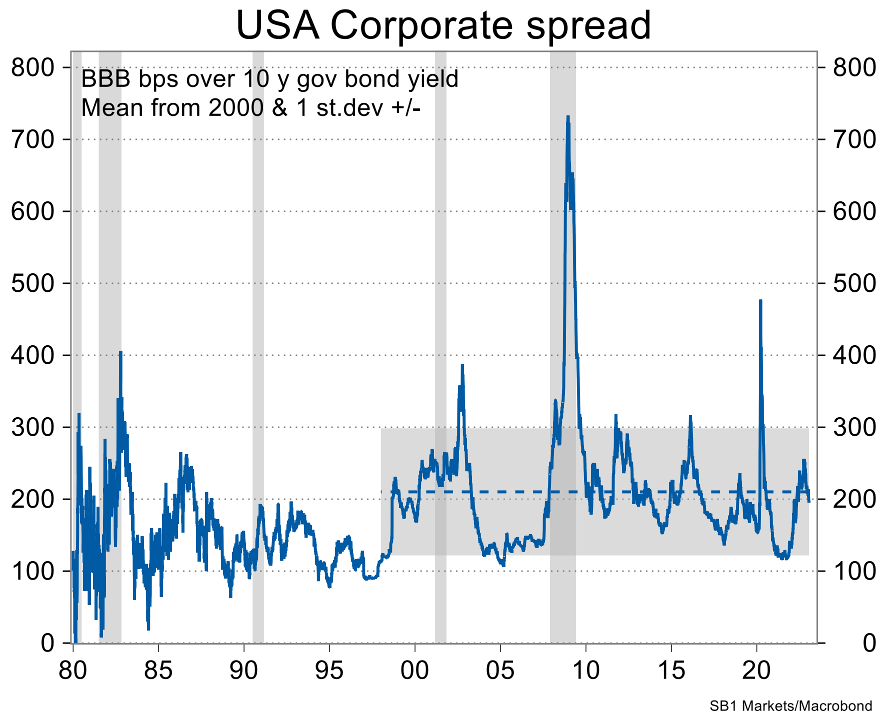
At least not compared to the differential during the pandemic

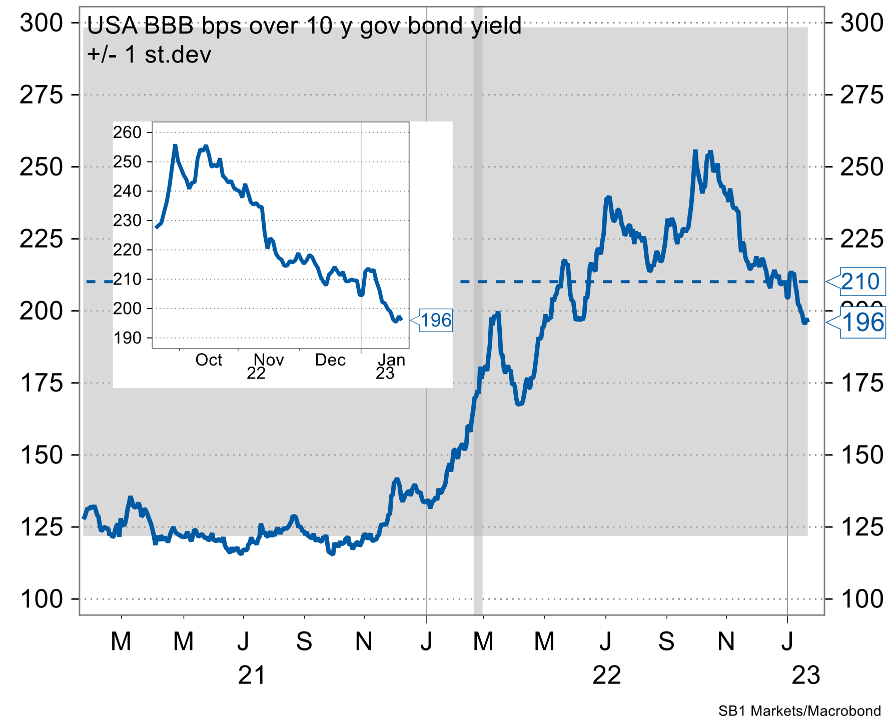


# Risk on: Credit spreads further down

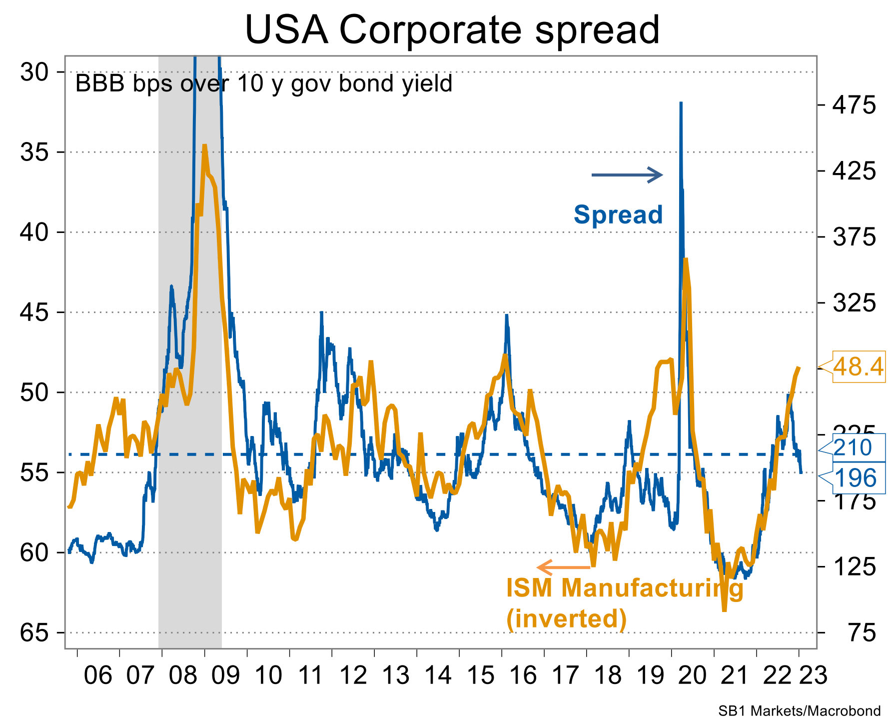
Even so, we think the spreads are exposed to a weakening economy

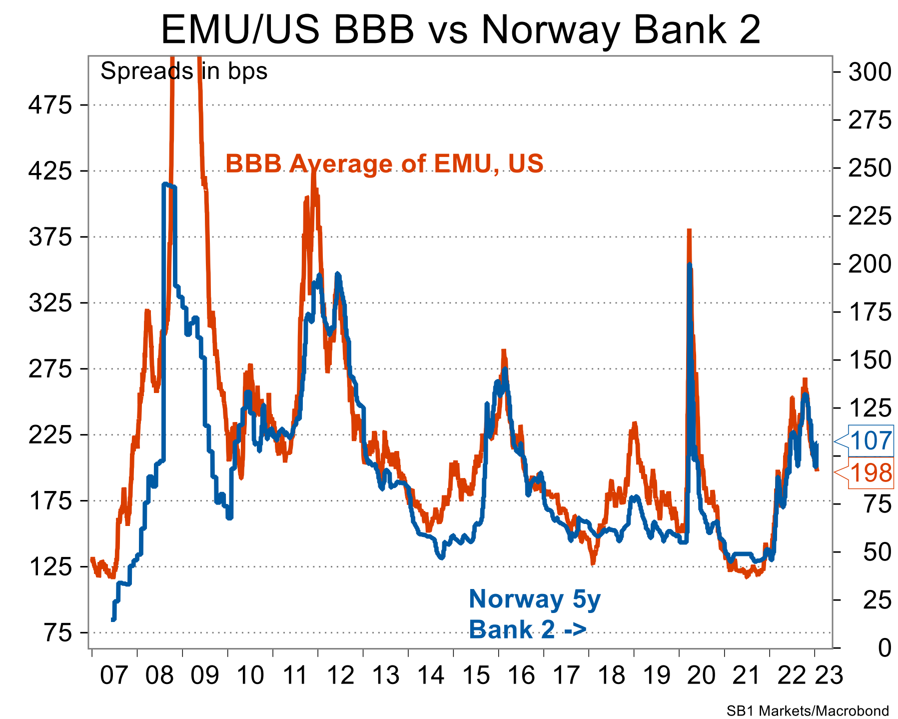


# Mind a new gap: The economy is weakening (ISM), and spreads are narrowing

What do you think is more likely: An ISM at 45 or 55 before summer? We are quite sure, it's at 48 already

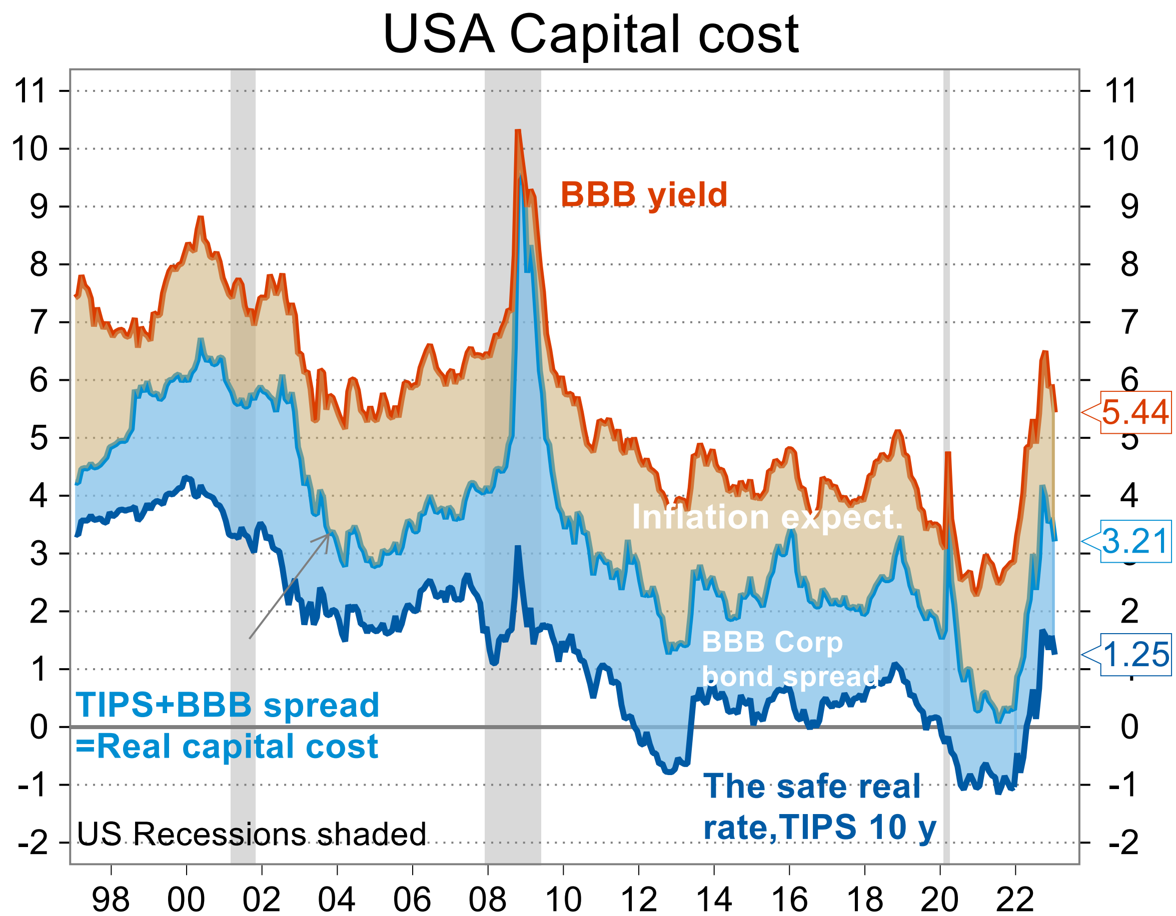



- Last week: Norwegian bank spreads widened (Bank 2, 5 y:+13 bps to 107 following a surprisingly high spread on a regional bank's EUR funding

# The cost of capital is still higher than in more than a decade

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

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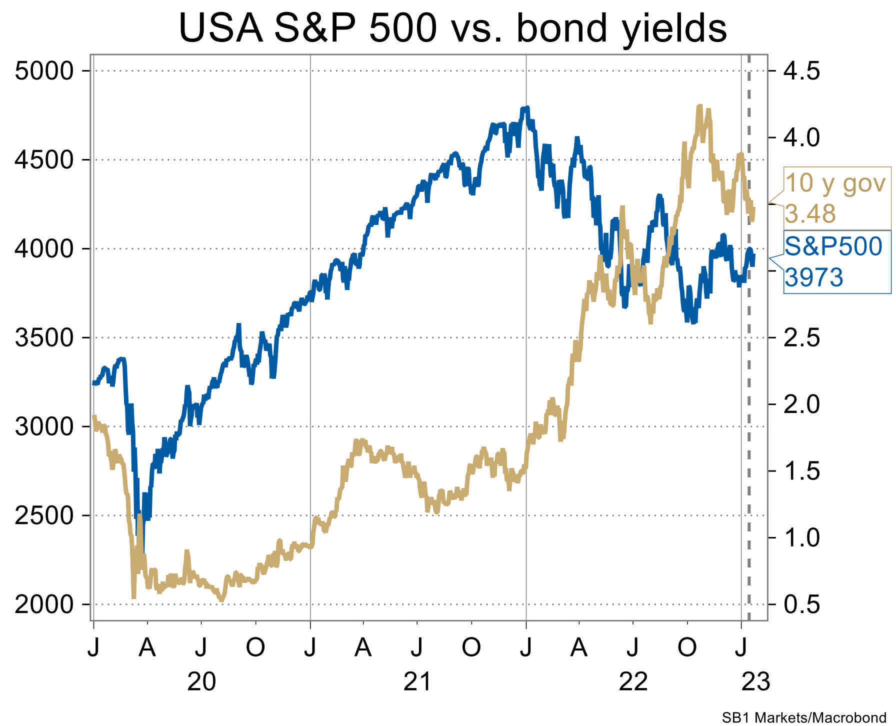
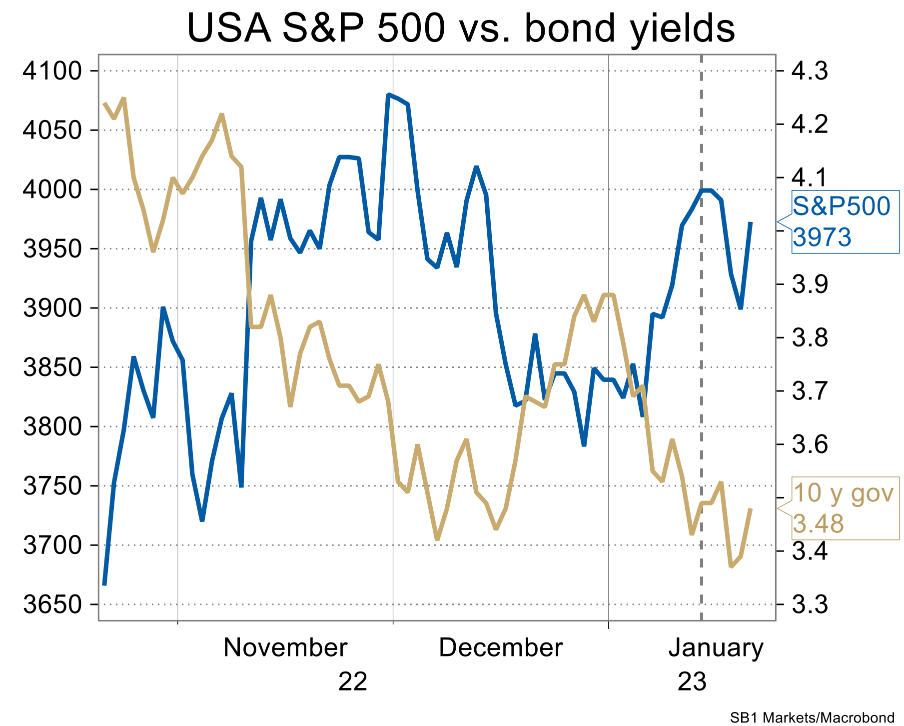
- **Spreads** flattened last week
- The total real borrowing cost for a BBB company has increased to 3.3% bps from zero by the end of last year:
  - The TIPS real rate is up from -100 to + 131 bps
  - The BBB corporate investment grade spread is up from 120 bps to 213 bps
- Add on modest inflation expectations, 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 down 0.7%, the 10 y bond yield down 1 bp to 3.48%

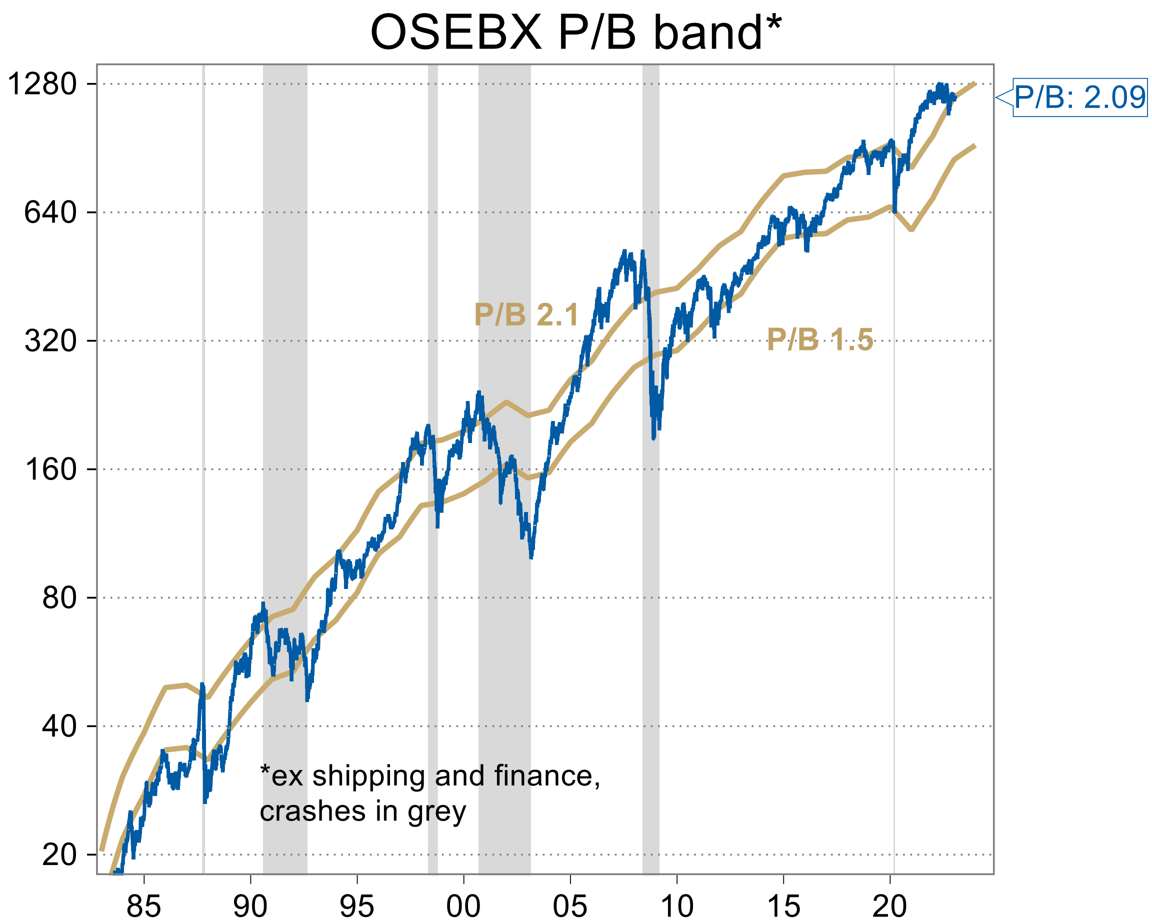
Equities and bond yields fell and rose in tandem last week



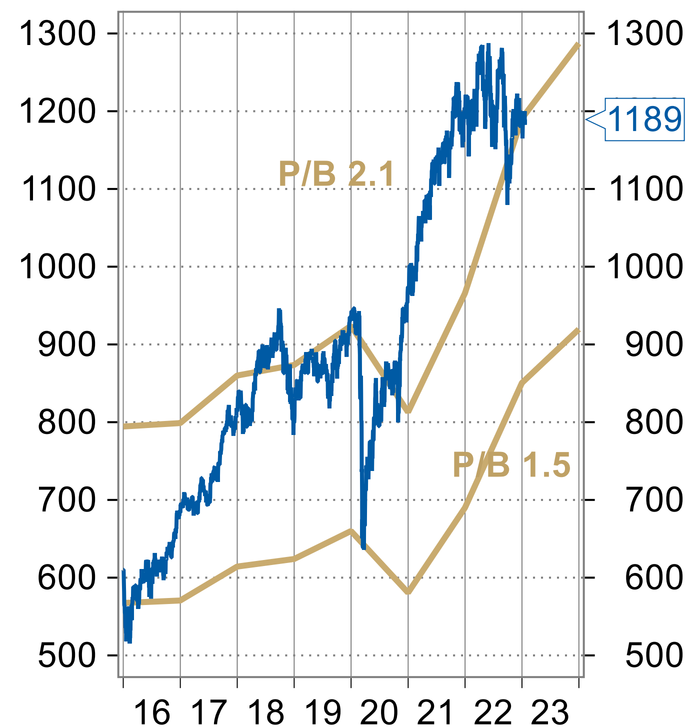



# The OSEBX marginally down, even if oil, gas rose. The P/B is still high at 2.09

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



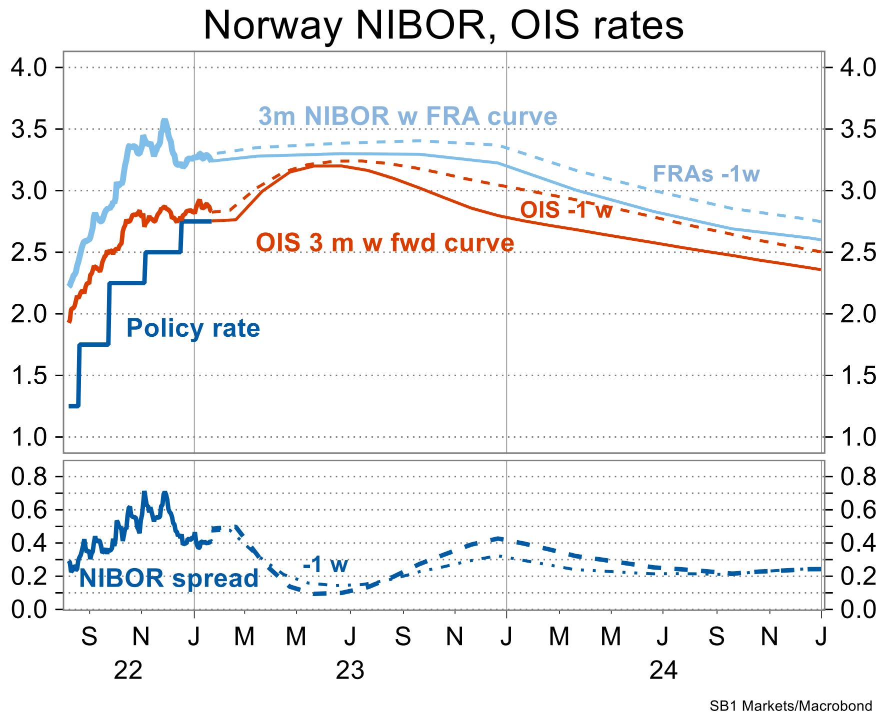

Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

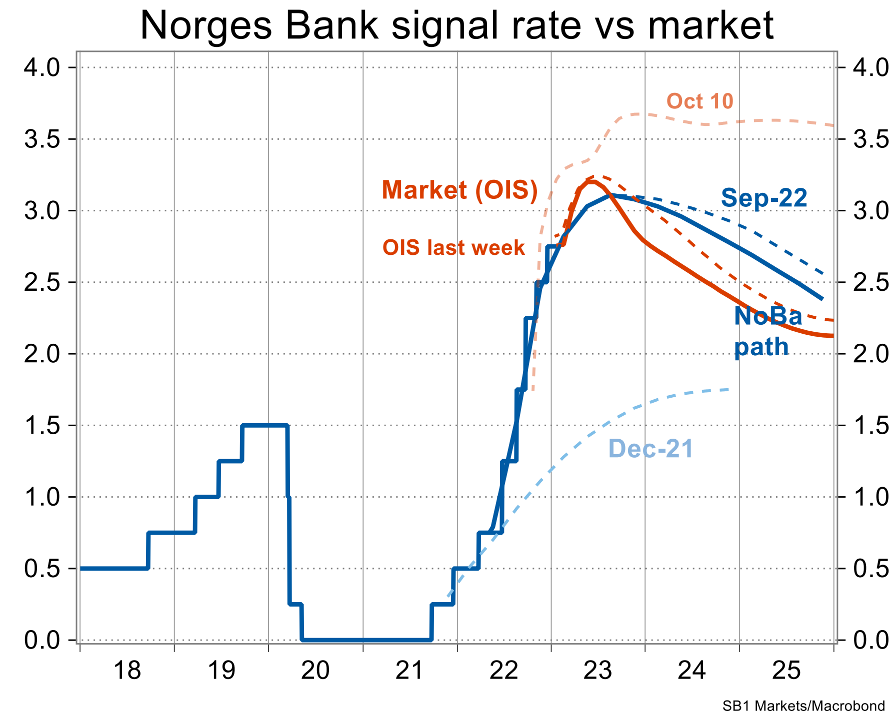



Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

# Another shift downwards. The 1 m OIS down 7 bps as NoBa did not hike

The peak was lowered by 3 bps to 3.20% (still two more hikes) but up to 20 bps further out on the curve

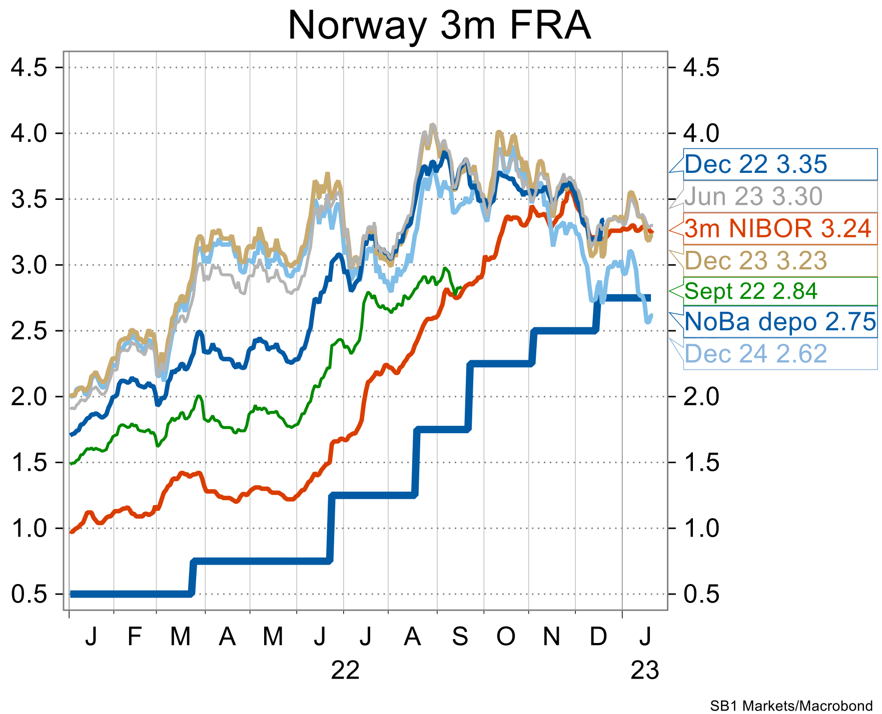


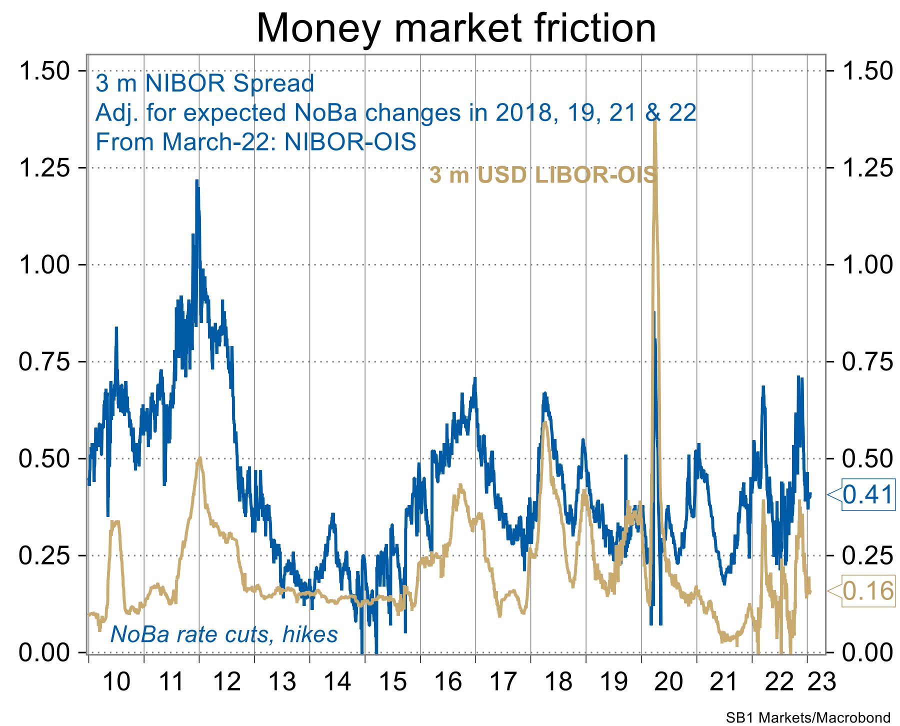




- We – and other Norwegian analysts – were pretty sure Norges Bank would not hike the signal rate at the January meeting. Still, all foreign analysts expected a hike, and a 25% – 30% probability for a hike was priced into the curve a week ago

# The NIBOR spread has almost normalised, now at 41 bps

FRA rates fell further last week – and they have fallen by more than 100 bps at the most

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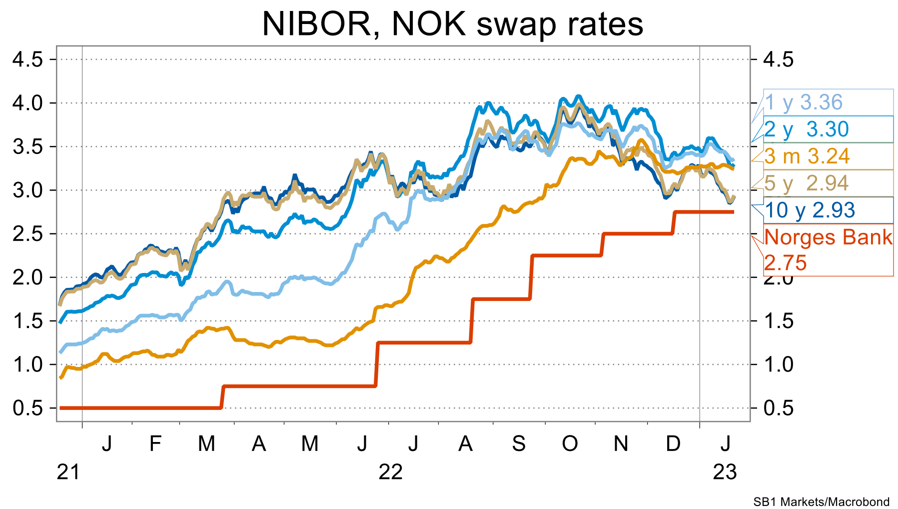
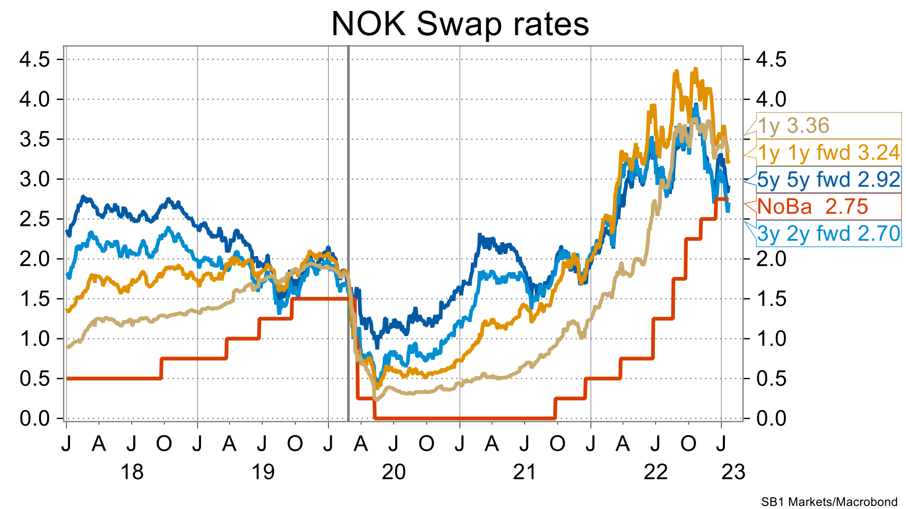
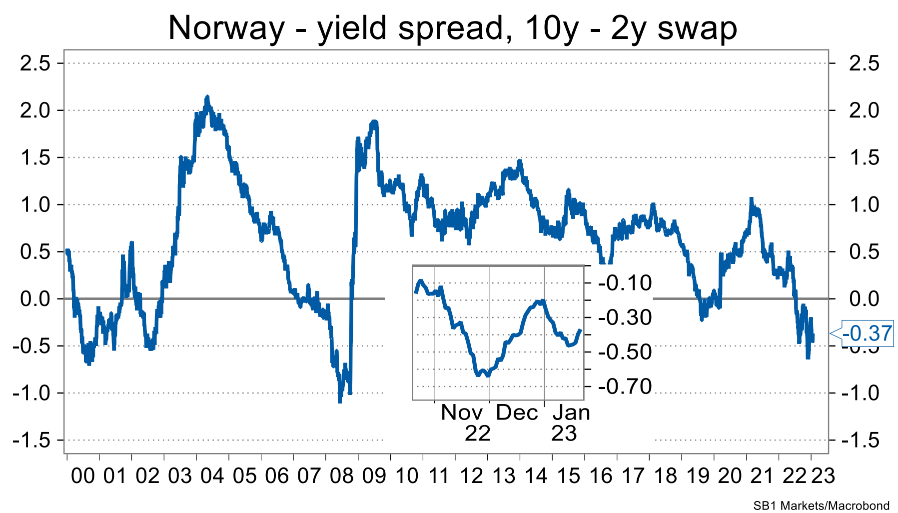
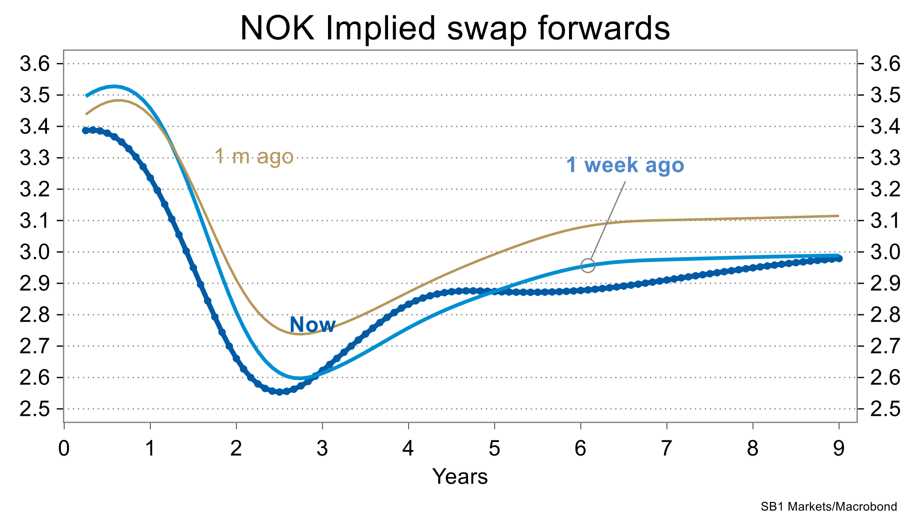
# Implied swap rates down on most of the curve

The 3m NIBOR down 6 bps to 3.25% as NoBa did not hike the signal rate; A 25% probability for hike was priced in



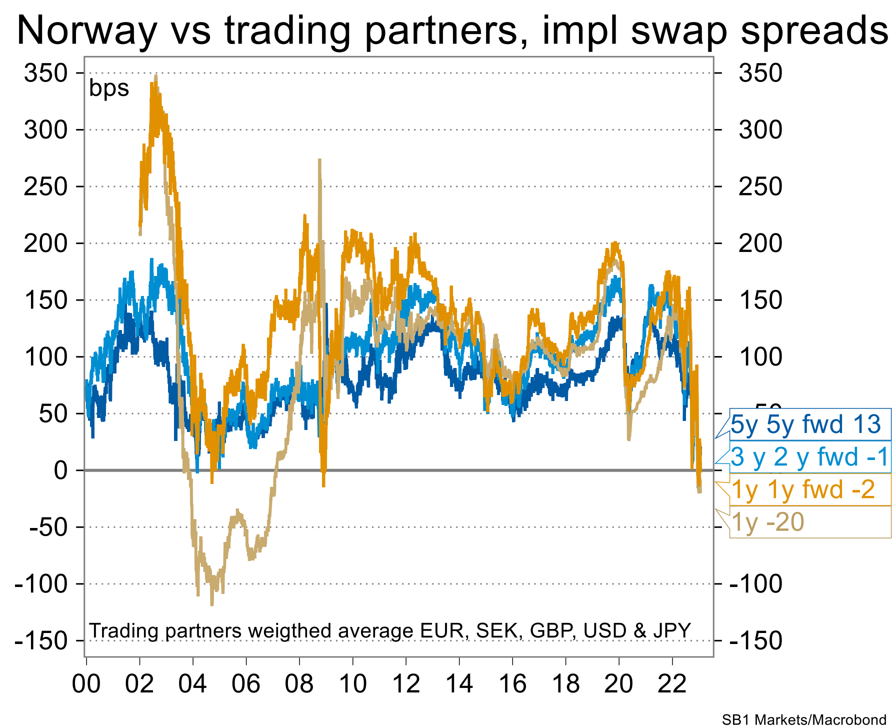



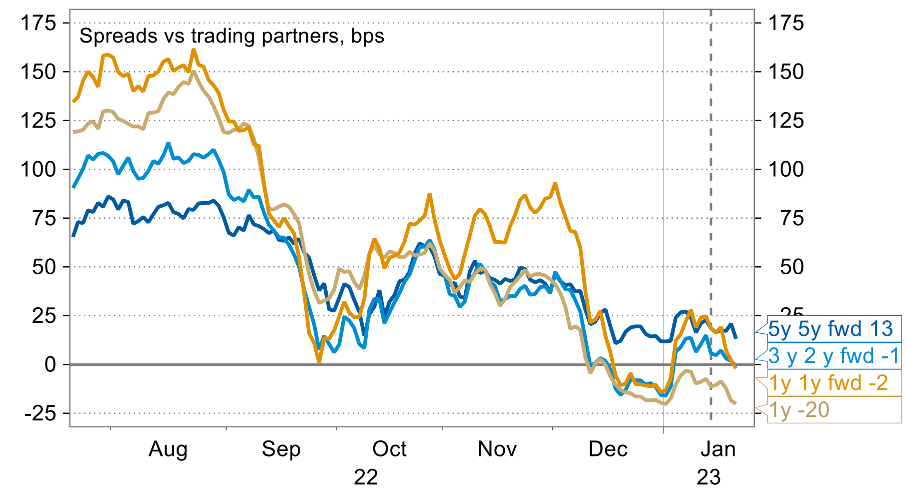



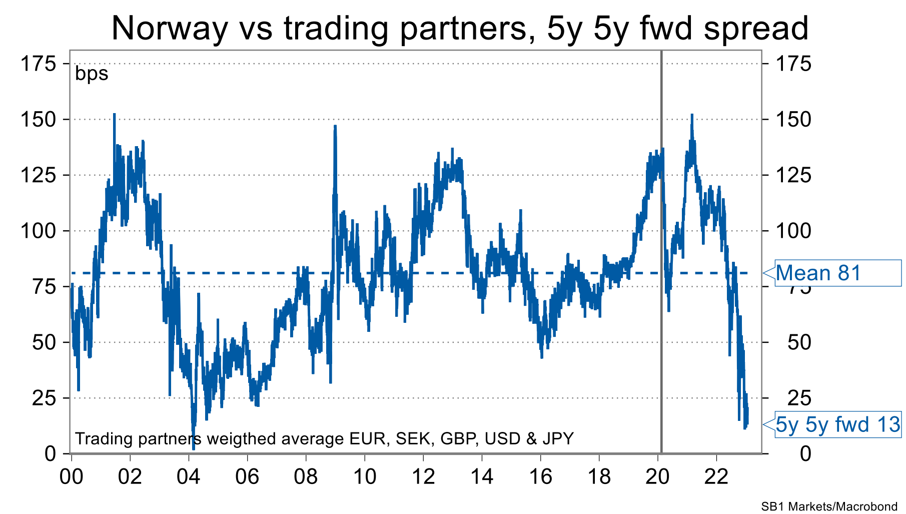



# Spreads marginally further down, even if we thought the spread was too low

NOK (implied) rates are lower than the average among our trading partners up to 5 years



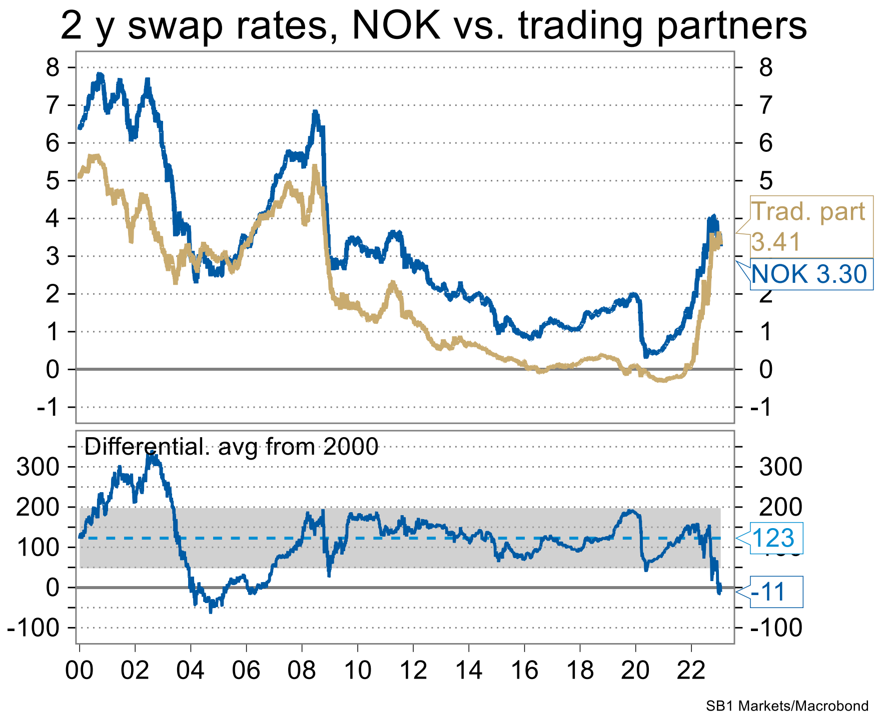



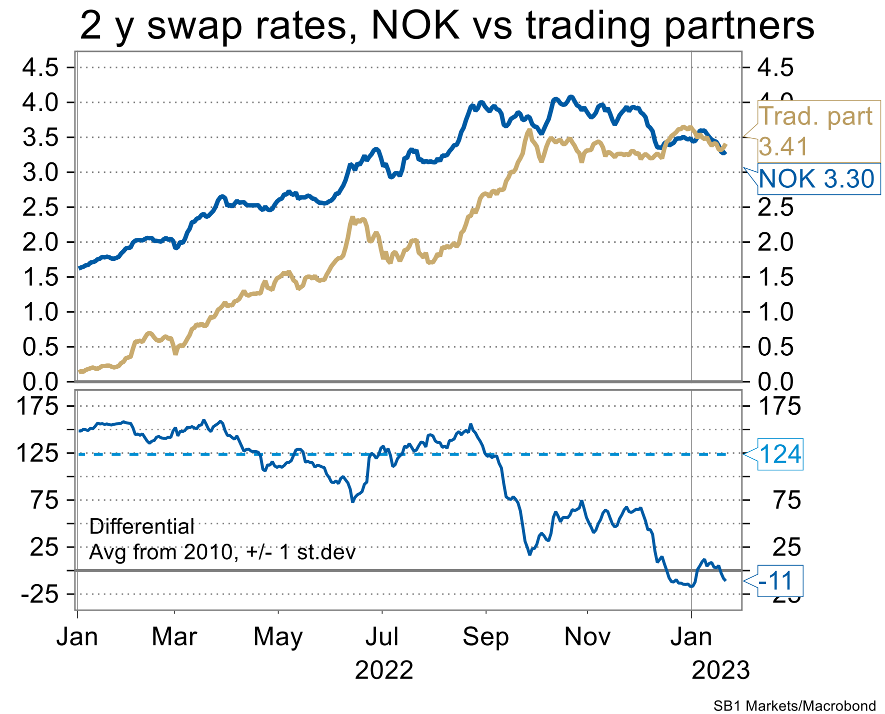




- Spreads were too wide, now they may be too narrow
  - **Norwegian inflation** has not historically been lower than abroad – and we doubt it will
  - **Higher oil investments** will give the Norwegian an idiosyncratic support the 2 – 3 coming years
  - The room for **fiscal expansion** is much larger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

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

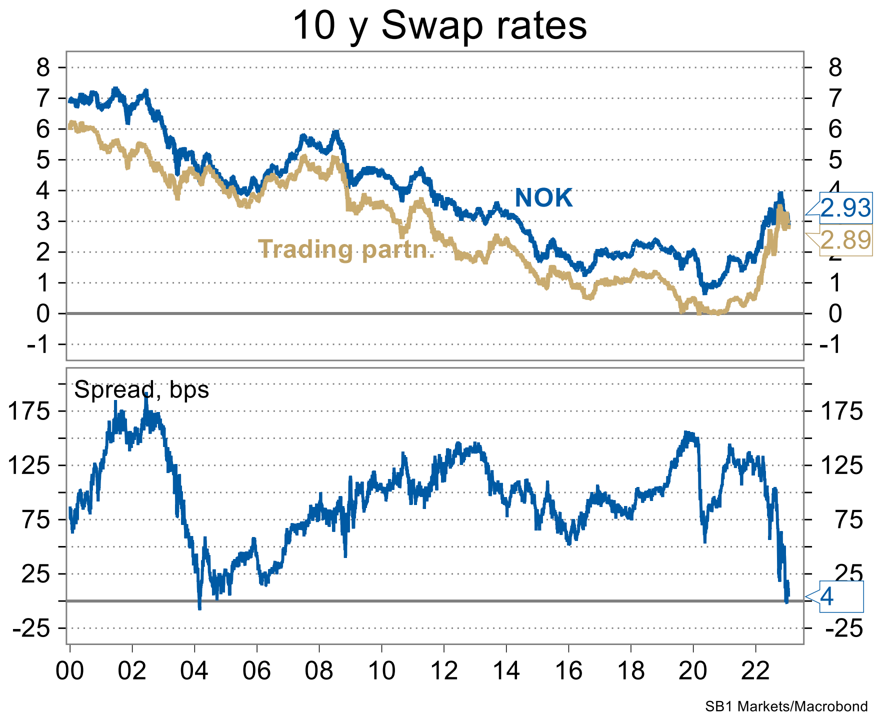
Since last August, the spread has narrowed by 170 bps, mostly due to the steep lift in rate expectations abroad

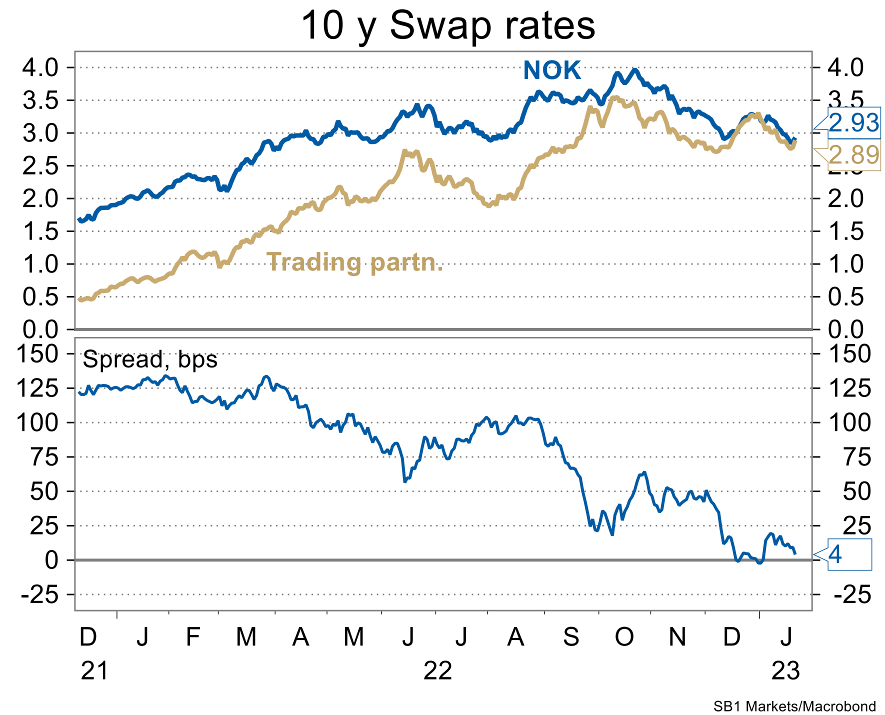



- See the comment on the previous page

# The spread vs. trading partners close to zero, the lowest since 2007

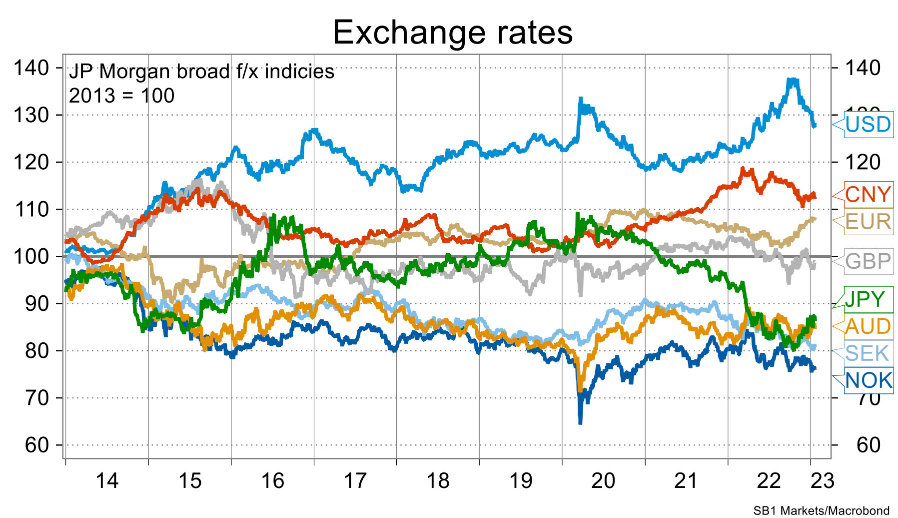


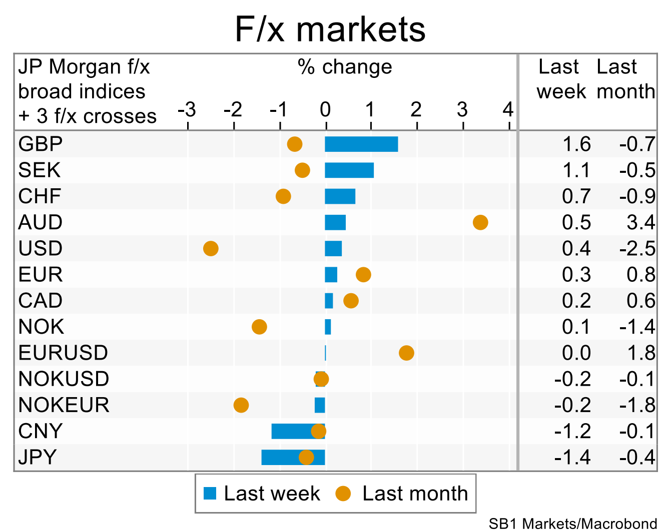



# JPY to the bottom of the list, from the top. BoJ did not yield on their YCC

The GBP last week's winner, SEK & AUD up too. NOK flat. Both the EUR & USD up, but EUR up vs. USD to 1.08



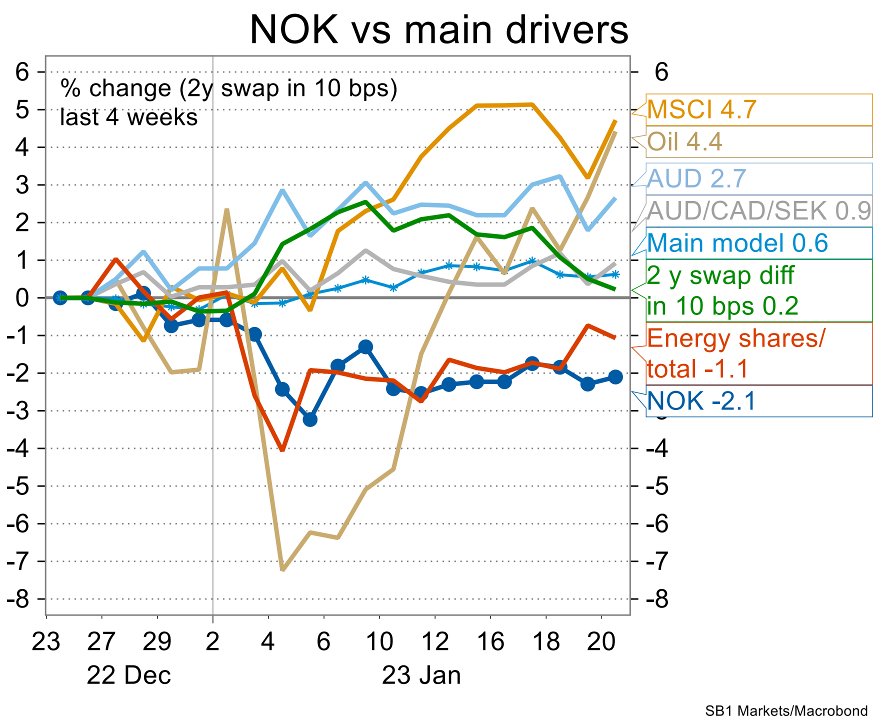


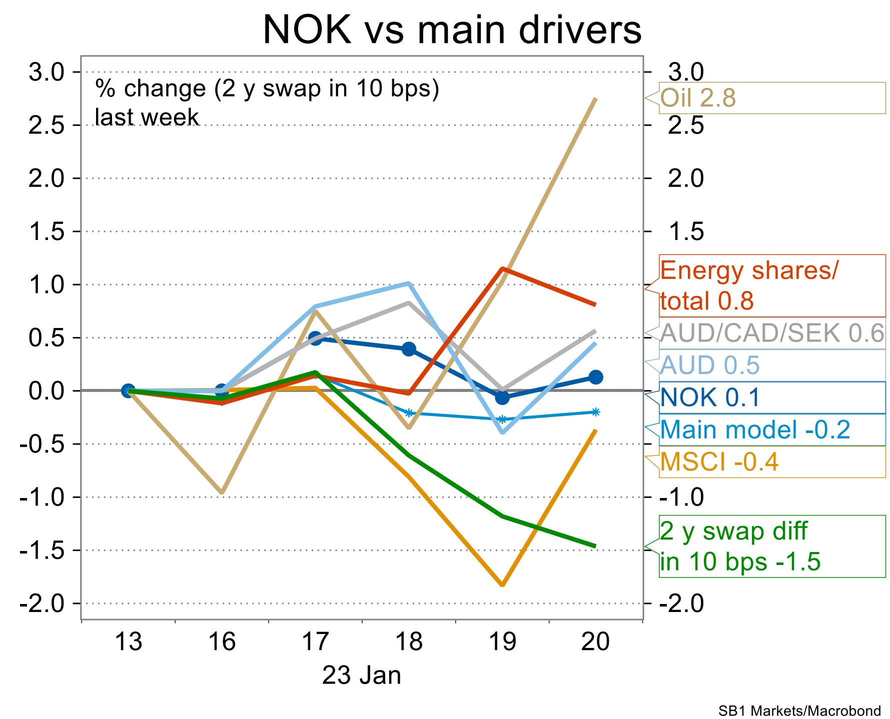




| JP Morgan f/x broad indices + 3 f/x crosses | Last week | Last month |
|---|---|---|
| GBP | 1.6 | -0.7 |
| SEK | 1.1 | -0.5 |
| CHF | 0.7 | -0.9 |
| AUD | 0.5 | 3.4 |
| USD | 0.4 | -2.5 |
| EUR | 0.3 | 0.8 |
| CAD | 0.2 | 0.6 |
| NOK | 0.1 | -1.4 |
| EURUSD | 0.0 | 1.8 |
| NOKUSD | -0.2 | -0.1 |
| NOKEUR | -0.2 | -1.8 |
| CNY | -1.2 | -0.1 |
| JPY | -1.4 | -0.4 |

# NOK up 0.1%, our model indicated -0.2%

A calm NOK marked but the NOK fell 0.5% when NoBa did not hike the signal rate on Thursday

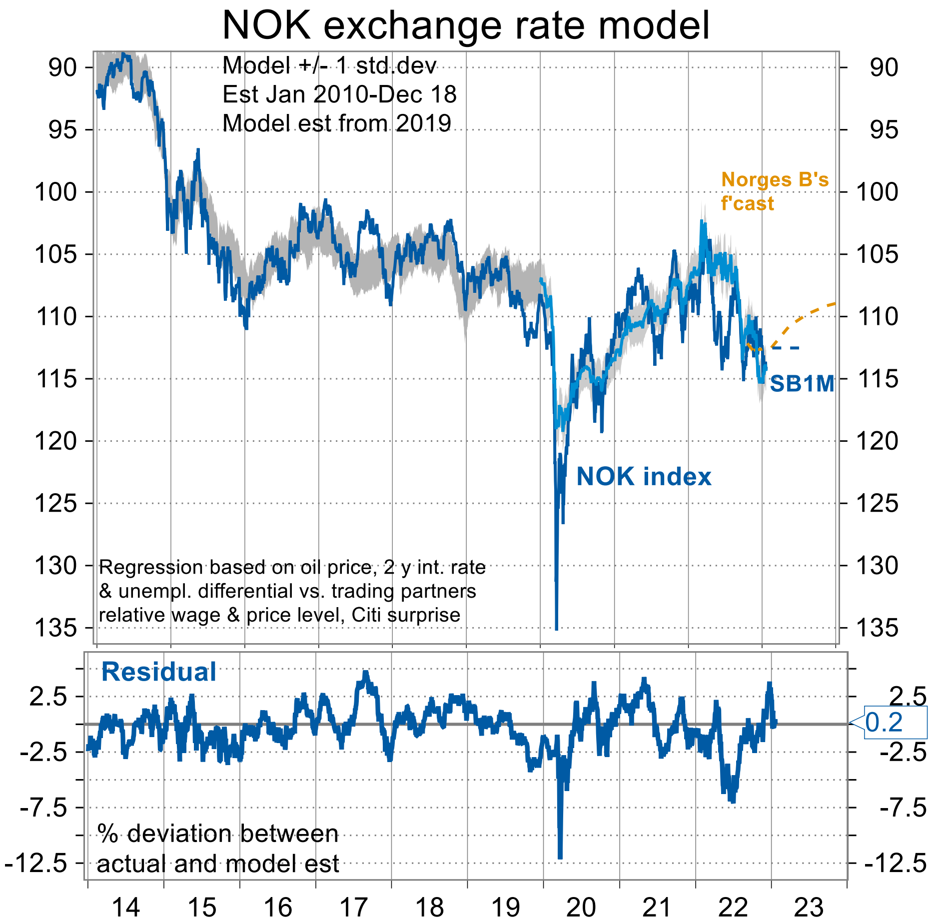


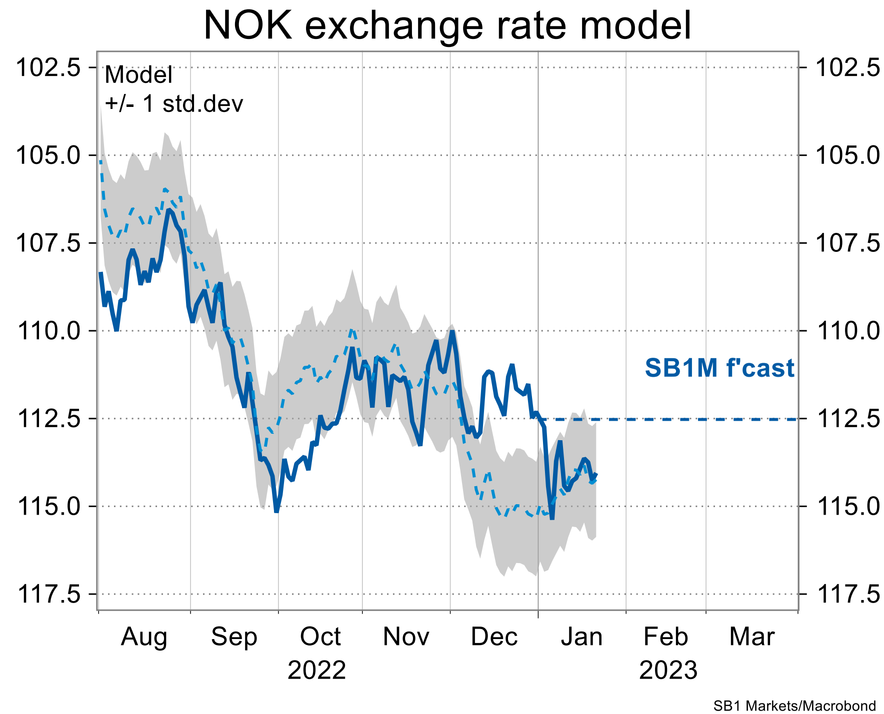




- NOK is 0.2% <u>above</u> our **main model estimate** (from -0.2%)
- The NOK is 7% <u>weaker</u> than our **AUD/CAD/SEK-model**, our 'super-cycle peers', predicts, a substantial weakening (unch.)
- NOK is 1% weaker than an estimate from a model that includes global **energy companies' equity prices** (vs the global stock market) (from 2%)

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

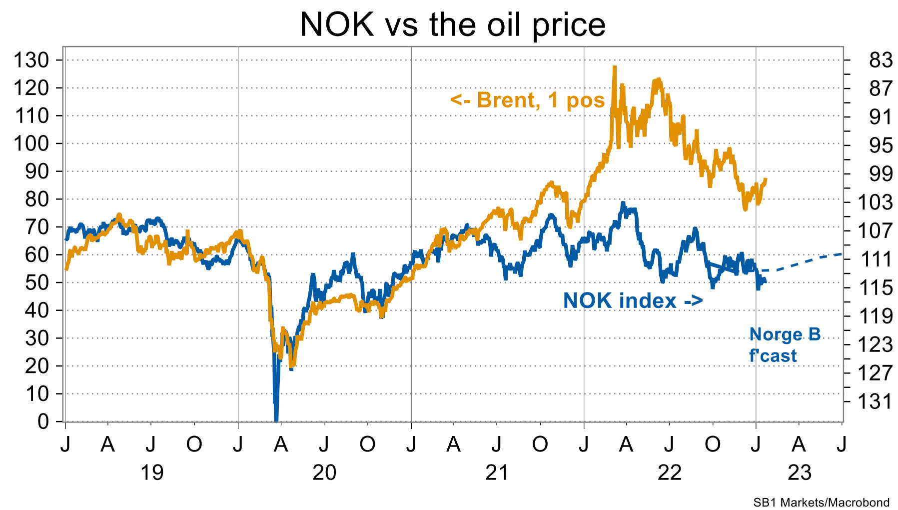
# NOK still close to the model forecast

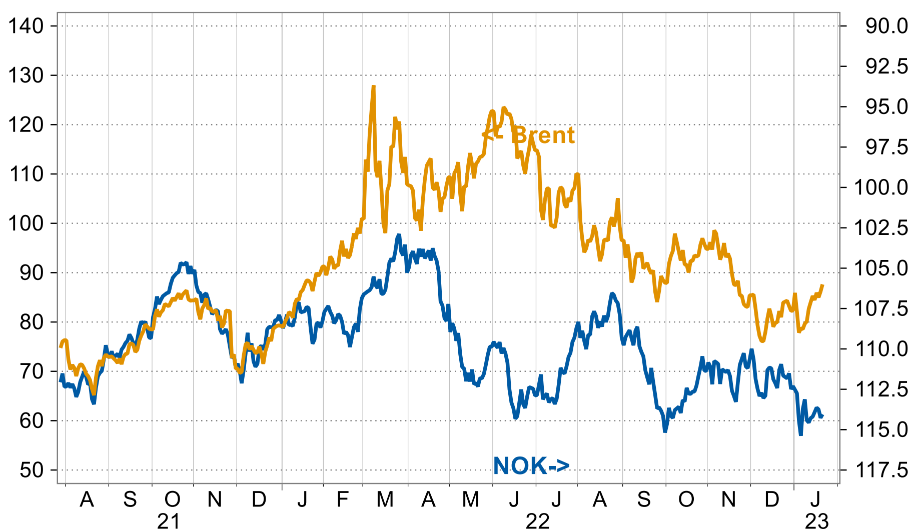


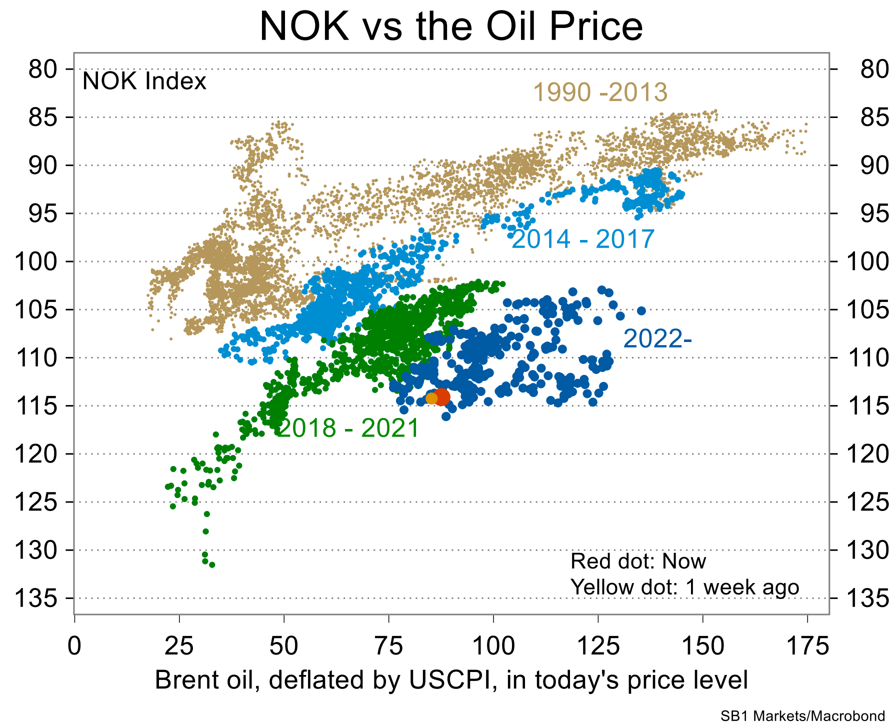



# Oil up, NOK marginally up

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

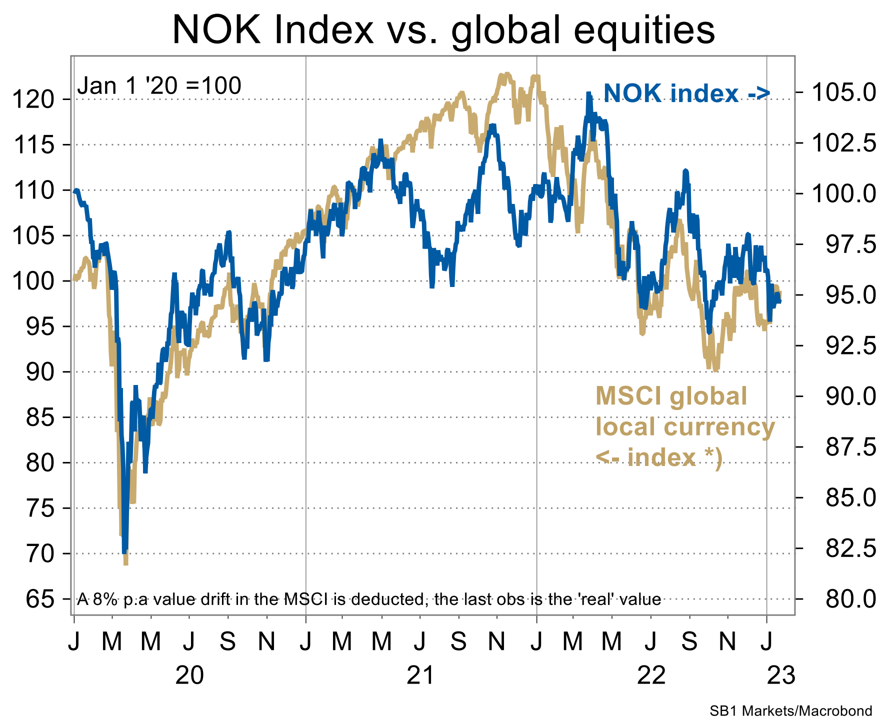


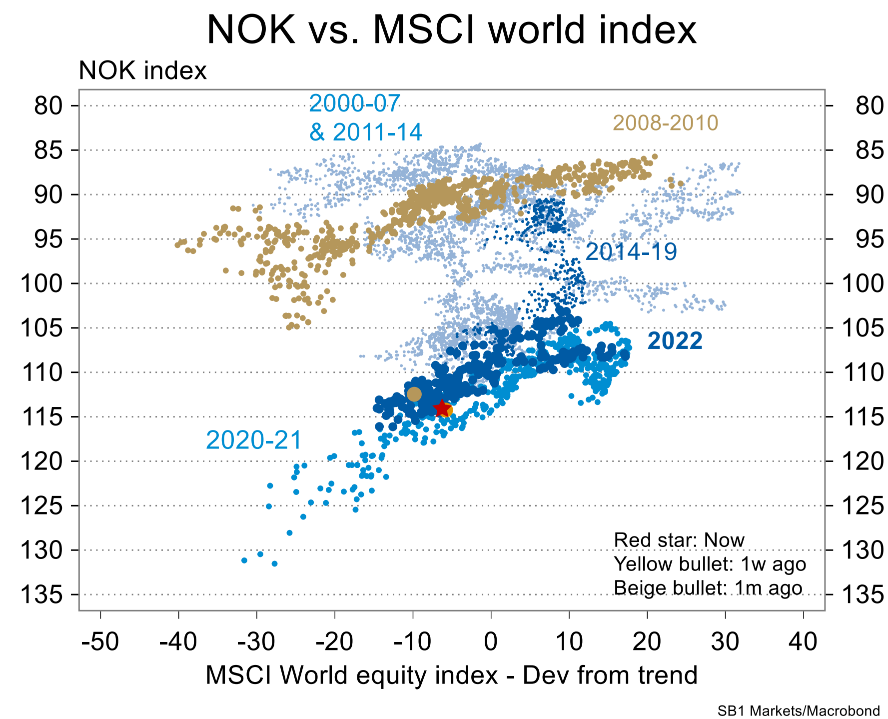



# Both global equities and the NOK close to unchanged last week

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

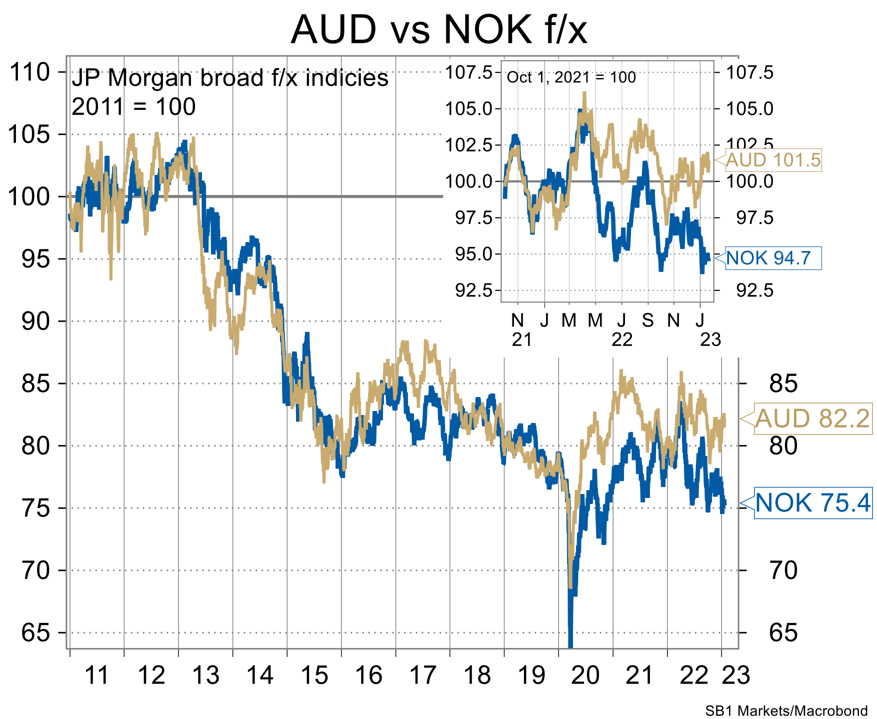


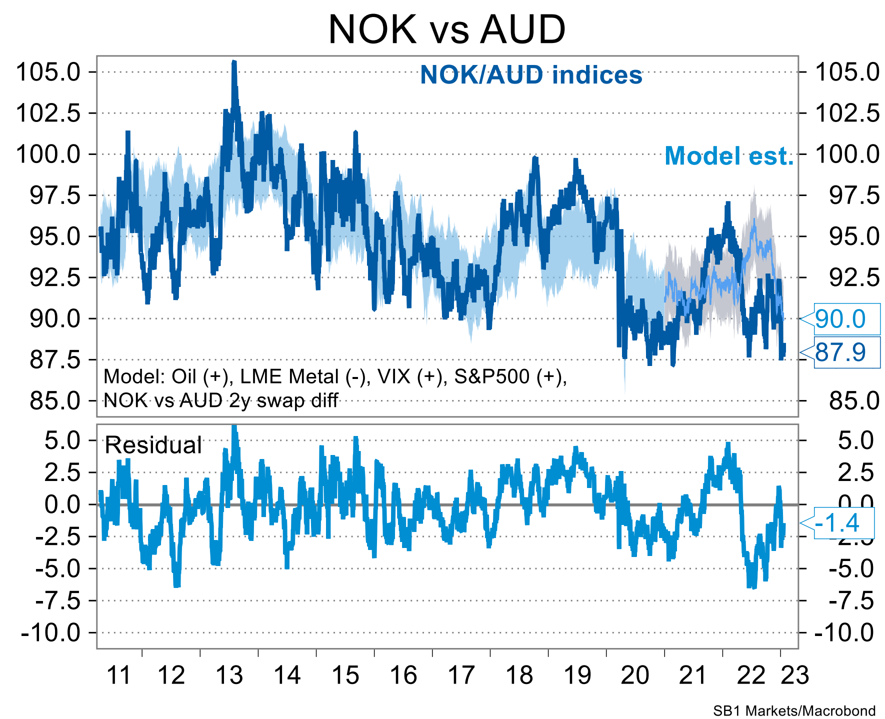




- There has not been any stable correlation over time, and when it is, the oil price is normally the real driver. *Not so much recent weeks*

# The NOK/AUD gap close to unch. – and NOK is still on the weak side

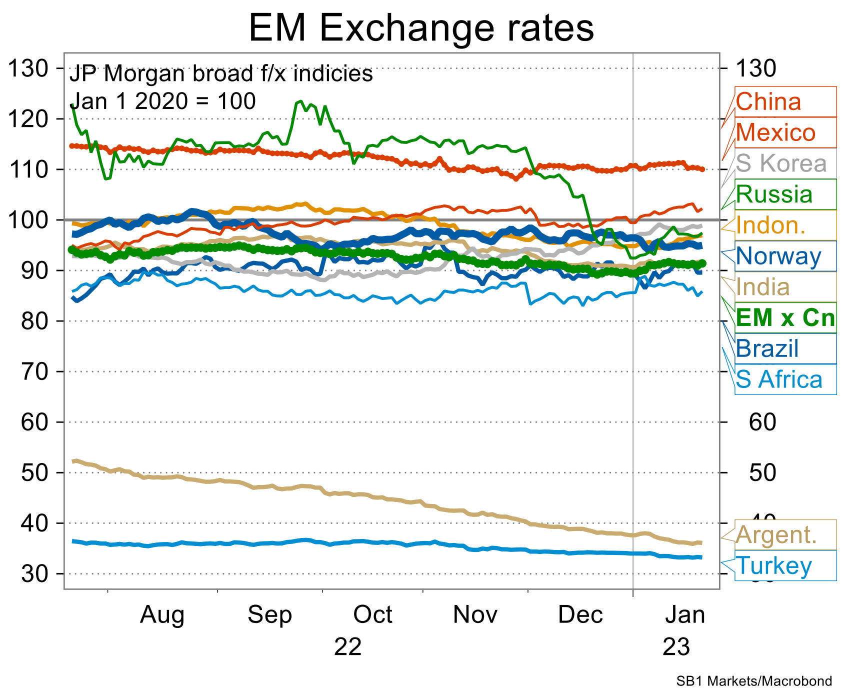
Higher metal prices and a lower oil price has until last week 'explained' a weak NOK vs the AUD

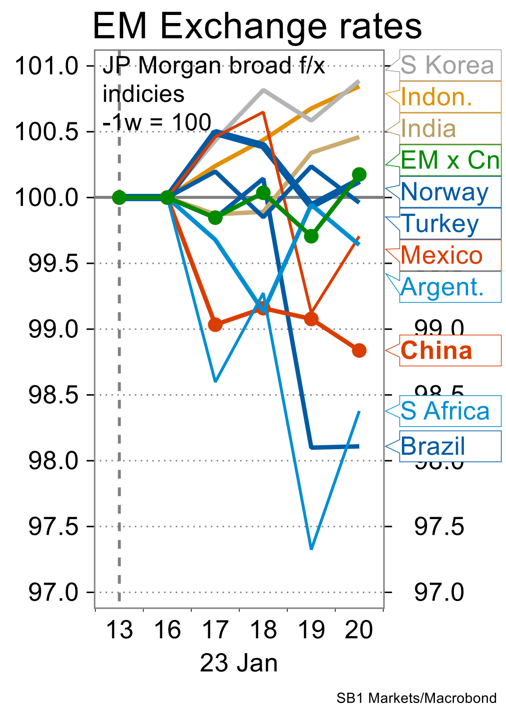


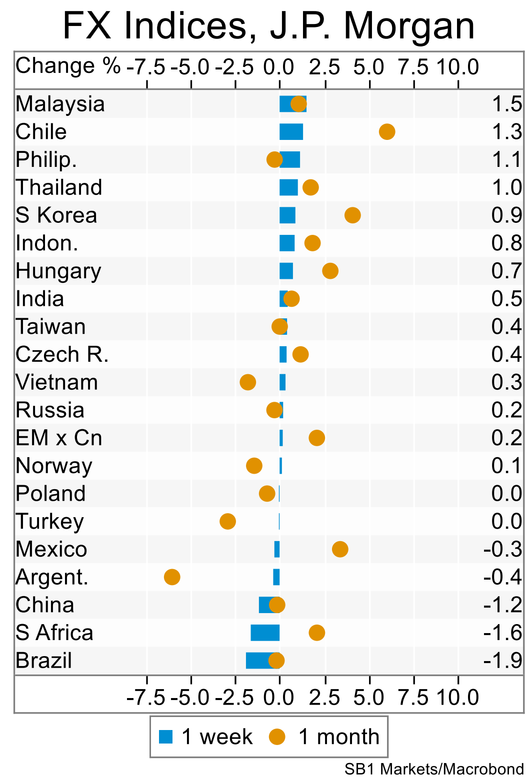




- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases. The impact of interest rate differentials vs trading partners is added back to the model

# EM f/x x China in total up, the CNY down



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