Macro Weekly

5/23

30/01/2023

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

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

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

Last week I

- **The War/European Energy/Commodities**
  - Ukraine will (of course) get the tanks, hopefully in time. The ground fight is exhausting, for both parties
  - **European natural gas & electricity prices** fell sharply after the uptick the previous week. Gas inventories are record high
  - The **oil price and most other commodity prices** were close to unchanged last week – as markets await signals on the Chinese re-opening and the impact of stimulus measures decided recent weeks/months
  - The **Chinese New Year** makes it hard to assess economic activity, but the last Covid wave is very likely history. Before the holiday, road congestion was the worst since 2018, and metro traffic picked up rapidly
  - **Global airline traffic** (no. of commercial planes) has returned to the 2019 level – and should climb well above when the Chinese starts to travel again
- **Preliminary PMIs**
  - The global PMI very likely rose in January, barring a significant decline in China or other EMs – which we think is rather unlikely (a Chinese surprise to the upside cannot be ruled out, but it is probably one or two months too early). Both US, EMU and Japan reported an uptick in the preliminary PMIs, and EMU even crossed the 50-line. The US PMIs are still well below and are signalling a mild recession there. Delivery times have normalised and prices increases are slowing (but the US PMIs reported faster growth in input prices).
- **USA**
  - **GDP growth** surprised to the upside in Q4 at 2.9%, 0.3 pp above market consensus. This was no doubt a positive print, but as always, the devil is in the details. Private demand has slowed and grew just 0.2% in Q4 (housing investments a large drag), and growth in inventories explained 1.8 pp of the 2.9% growth rate, and the government contributed with 0.6 pp. Q1 will not be that easy, and Atlanta Fed's nowcaster suggests 0.7% growth. Unit Labour Cost inflation slowed to below 2% in Q4 as productivity (very likely) rose sharply. The latter will not be repeated either, but wage inflation is very likely also slowing, which is the most important for the Fed. We assume **corporate profits** rose further in Q1, by some 1.7%, as prices rose faster than Unit Labour Costs
  - **Private consumption** was weaker than expected in Dec, as in Q4. **Income growth** has slowed but the **savings rate** has turned slightly up, from the lowest level in decades (at it remain much lower than normal)
  - **PCE inflation** slowed as expected in December, confirming the downtrend – both for energy, food and the core. Still core inflation is at 4.4% y/y, and core prices rose 3.9% in Q4 (from Q3), way above the 2% target
  - **Durable goods orders** were up 5.6% in December as civilian aircraft orders more than doubled vs the month before. A one-off. Core orders were up 0.2% in December and are growing slower, and core investment goods orders fell by 0.2%. Both are heading down, in volume terms. Surveys signal a steep decline, just like in – and only in – a recession
  - **New home sales** were in sum (Nov+Dec) weaker than assumed/expected and prices fell in December but sales have not fallen since last summer (after falling by 40% from the pandemic peak). On the other hand, the inventory is still much larger than normal – and construction costs are slowing (and they will very likely decline)

Last week II

- **EMU**
  - **Consumer confidence** rose further in November but remains very low, 1.7 st.dev below par
  - **Credit growth** is slowing rapidly, and the corporate sector reduced its debt in December
- **Sweden**
  - **The Valuegard/HOX** home price index fell further and is now down 13% from the peak in February; The 0.7% m/m decline in December was the 10th month of falling house prices in Sweden. Realtors had previously reported of a 1.5% fall in apartment prices in December. The real home prices are back to the 2015 level (2014 in Stockholm)
  - **Unemployment** has bottomed but is still low. **Employment** growth may be slowing – but hours worked are surging, according to the LFS (AKU)
  - **Retail trade** fell in December, and is heading rapidly down, and while **consumer confidence** rose marginally in January, it remains extremely weak (-5 st.dev below average)
  - **Business confidence** fell again in January, and at 1 st.dev below par (not like the households!), zero growth is signalled. If that turns out to be the case, far better than the Riksbank expected
- **Norway**
  - **Retail sales** plunged in December, down 3.6%, from the 0.8% uptick in sales in November, which now seems to have been boosted to above the steady decline in sales. Most sectors were down, and ICT sales (PC, cell phones, TVs) by the most, down 16%. Consumption of goods was up an incredible 12.7% in December, all due to new car sales as a result of higher tax rates effective as of January 1st. Consumption of goods ex autos & fuel & electricity was down 1.5%
  - **LFS unemployment** remained unchanged at 3.2% in November, even if the no. of employed persons have fallen somewhat. However, the far less volatile register-based payrolls stats report a steady 2% growth in the number of employees and given other labour market data (as well as other real economy data) that seems to be far more reasonable. **Wage inflation** has not accelerated according to the payroll report, and remains well below 4% (more employee and wage data out this week)
  - **Home builders** reported a steep decline in new home sales in December – as through last year. The sales statistics is just 12 years old, but if compared with SSBs housing starts data, sales may be the lowest since the just after WW II
  - **Hotels** had their best month ever, at least measured by the no. of guest nights, and adjusted for the season – and measure by the room price ☺ (but capacity utilisation is at 52%, vs the 55% – 56% pre-pandemic level
  - **Consumer confidence** increased marginally in January, 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

Calendar

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 30					
08:00	SW	GDP Indicator SA QoQ	4Q	0.10%	0.7%
08:00	NO	Credit Indicator Growth YoY	Dec	(5.5%)	5.40%
11:00	EU	Economic Confidence	Jan	97.0	95.8
Tuesday Jan 31					
00:50	JN	Retail Sales MoM	Dec	0.8%	-1.1%
00:50	JN	Industrial Production MoM	Dec P	-1.2%	0.2%
02:30	**CN**	**Manufacturing PMI**	**Jan**	**50.1**	**47.0**
02:30	CN	Services PMI	Jan	52.0	41.6
08:00	GE	Retail Sales MoM	Dec	-0.2%	1.7%
11:00	**EC**	**GDP SA QoQ**	**4Q A**	**0.0%**	**0.3%**
14:00	GE	CPI YoY	Jan P	9.4%	8.6%
14:30	**US**	**Employment Cost Index**	**4Q**	**1.1%**	**1.2%**
15:00	US	Case-Shiller 20-City MoM SA	Nov	-0.5%	-0.5%
16:00	US	Conf. Board Consumer	Jan	108.2	108.3
Wednesday Feb 1					
02:45	**CN**	**Caixin Manufacturing PMI**	**Jan**	**49.8**	**49.0**
08:30	SW	Manufacturing PMI	Jan		45.9
10:00	EU	Manufacturing PMI	Jan F	48.8	48.8
10:00	NO	Manufacturing PMI	Jan	(50.5)	50.0
11:00	EU	Unemployment Rate	Dec	6.5%	6.5%
11:00	EU	CPI YoY	Jan P	9.0%	9.2%
11:00	**EU**	**CPI Core YoY**	**Jan P**	**5.1%**	**5.2%**
14:15	US	ADP Employment Change	Jan	170k	235k
15:45	US	Manufacturing PMI	Jan F	46.8	46.8
16:00	US	Construction Spending MoM	Dec	-0.1%	0.2%
16:00	**US**	**ISM Manufacturing**	**Jan**	**48.0**	**48.4**
16:00	**US**	**JOLTS Job Openings**	**Dec**	**10200k**	**10458k**
17:00	WO	Manufacturing PMI	Dec	49.0	48.6
20:00	**US**	**FOMC Rate Decision (Upper**	**Feb-01**	**4.75%**	**4.50%**
	US	Vehicle Sales	Jan	14.3m	13.3m
Thursday Feb 2					
08:00	NO	Employees & wages	Q4/22		
13:00	**UK**	**Bank of England Bank Rate**	**Feb-02**	**4.00%**	**3.50%**
13:30	US	Challenger Job Cuts YoY	Jan		129%
14:15	**EC**	**ECB Deposit Facility Rate**	**Feb-02**	**2.50%**	**2.00%**
14:30	US	Productivity	4Q P	**2.4%**	**0.8%**
14:30	US	Unit Labor Costs	4Q P	1.5%	2.4%
14:30	US	Initial Jobless Claims	Jan-28		186k
Friday Feb 3					
02:45	CN	Caixin Services PMI	Jan		48
08:30	SW	Services PMI	Jan		53
10:00	EU	Services PMI	Jan F	50.7	50.7
10:00	**NO**	**Unemployment Rate**	**Jan**	**(1.8%)**	**1.60%**
10:00	**NO**	**House prices**	**Jan**	**(-0.5%)**	**0.50%**
11:00	EU	PPI YoY	Dec		27.1%
14:30	**US**	**Nonfarm Payrolls**	**Jan**	**185k**	**223k**
14:30	**US**	**Unemployment Rate**	**Jan**	**3.6%**	**3.5%**
14:30	**US**	**Average Hourly Earnings YoY**	**Jan**	**4.3%**	**4.6%**
15:45	US	Services PMI	Jan F	46.6	46.6
16:00	**US**	**ISM Services**	**Jan**	**50.5**	**49.6**
17:00	WO	Composite PMI	Jan	49.2	48.2

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

Fed +25 bps, ECB & BoE +50. PMI/ISM, US labour market, EMU GDP, CPI, unempl. NAV unempl, house prices here

- **Central banks**
  - **The Federal Reserve** will hike the signal rate by 25 bps to the 4.5% – 4.75% corridor. No new projections or dot-plots at this 'mid-meeting', but we think Powell will soften somewhat, as both most price and wage indicators have turned the corner. Still, Powell will remain vigilant, and signal that the Fed is not yet done
  - **The ECB** will very likely hike by 50 bps to 2.5% (the deposit rate), at least that has been communicated as clearly as possible. Inflation is slowing due the steep decline in energy prices but the bank is also worried about future cost pressures. In addition, the euro area economy has surprised to the upside recent weeks/months, and the bank is probably more confident it can start pushing the brake
  - **Bank of England** is also widely expected to lift the signal rate by another 50 bps to 4.0%. The bank struggles with high inflation but much more important, an 'explosion' in wage inflation, in a still very tight labour market and public sector trade unions are striking for a 10% wage lift
- **PMI/ISM**
  - The **preliminary PMIs from DM** were better than expected, and EMU crossed the 50-line, thanks to services. US PMIs are still well below. The joker will be **China**, some re-opening impacts to be seen? Consensus estimates are just marginally up. If so, more to come in Feb/Mar. **Delivery times** have normalised everywhere – and **price increases** are slowing – except for an uptick in the US PMI. Both the **ISM indices** have fallen below the 50 line, and the manufacturing sector is expected to remain there, but services are expected to recover to above 50, following the large, and unexpected 6 p drop in Dec
- **USA**
  - **Nonfarm payrolls** are expected up almost 200', **unemployment** one tick up to 3.6% but **wage inflation** to slow further, to 4.3% y/y. Wages are the most important for the Fed, and should be for markets. **Unfilled vacancies** (job openings), and the **SME survey's jobs & wage data** will also be published. Vacancies are down from the peak, and SMEs reports some easing filling positions but both stats still signal a very tight labour market. But the proof of the pudding lies in the wages
  - **Productivity** very likely grew at a brisk pace in Q4 (2.5%), following some dismal quarters, and that will keep **unit labour cost inflation** in check (1.5%) in the business sectors (the total ULC was up 1.9%)
- **EMU**
  - **Headline CPI inflation** is expected further down on lower energy prices, and the core rate is also expected marginally down, to 5.1%
  - **Unemployment** is expected unch. at the lowest level since 1980, at 6.5%. **GDP** is expected unch. q/q
- **Sweden**
  - **GDP is** expected up 0.1% in Q4, rather pessimistic. The Riksbank assumed a 0.3% decline (in Nov)
- **Norway**
  - We expect the **NAV** seasonal adjusted unemployment to increase marginally, but not enough to lift the rate from the current 1.6% (actual up 0.2 pp to 1.8%. Check out new vacancies, they are on the way down)
  - We are really uncertain vs **house prices**: Our flow based model suggest a decline but realtors are reporting stronger demand as home buyers were allowed to borrow more (the stress test vs. higher interest rate has been eased)

Highlights

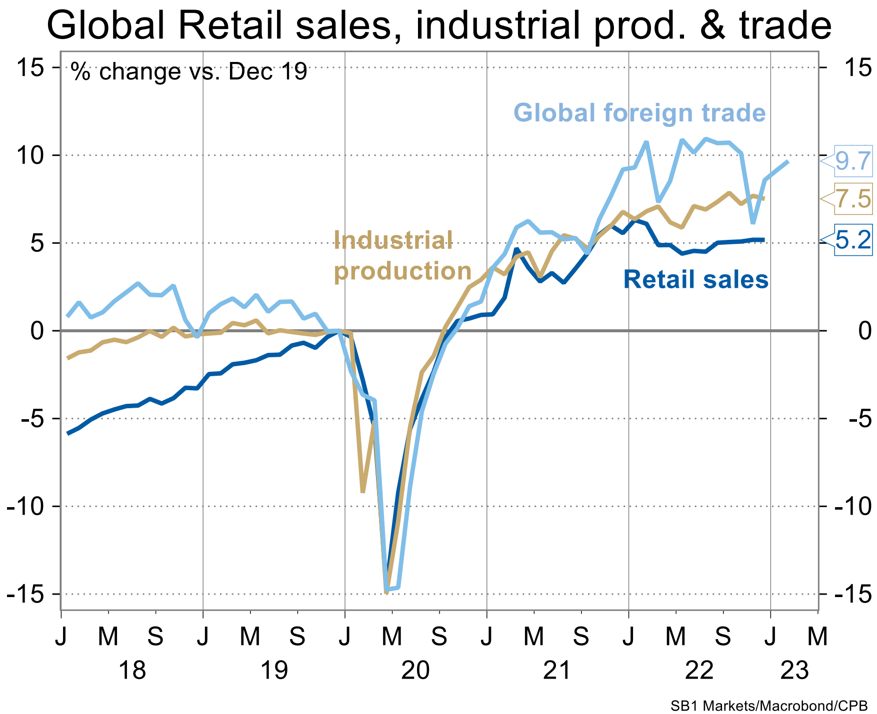
The world around us

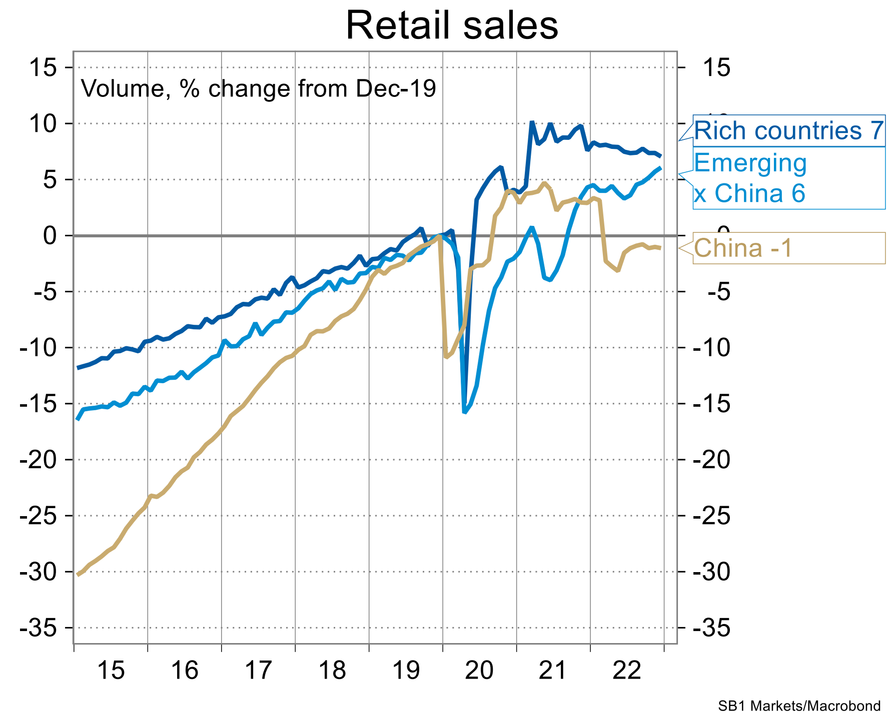
The Norwegian economy

Market charts & comments

Industrial production & retail sales most likely flattish in December

Global trade was weak in Nov & Dec but may have recovered somewhat

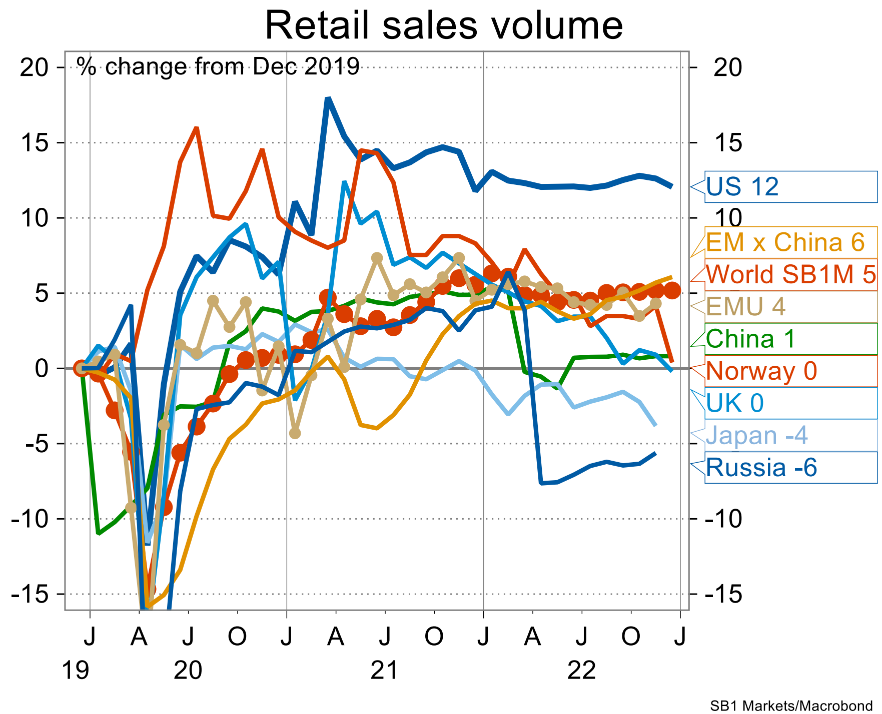


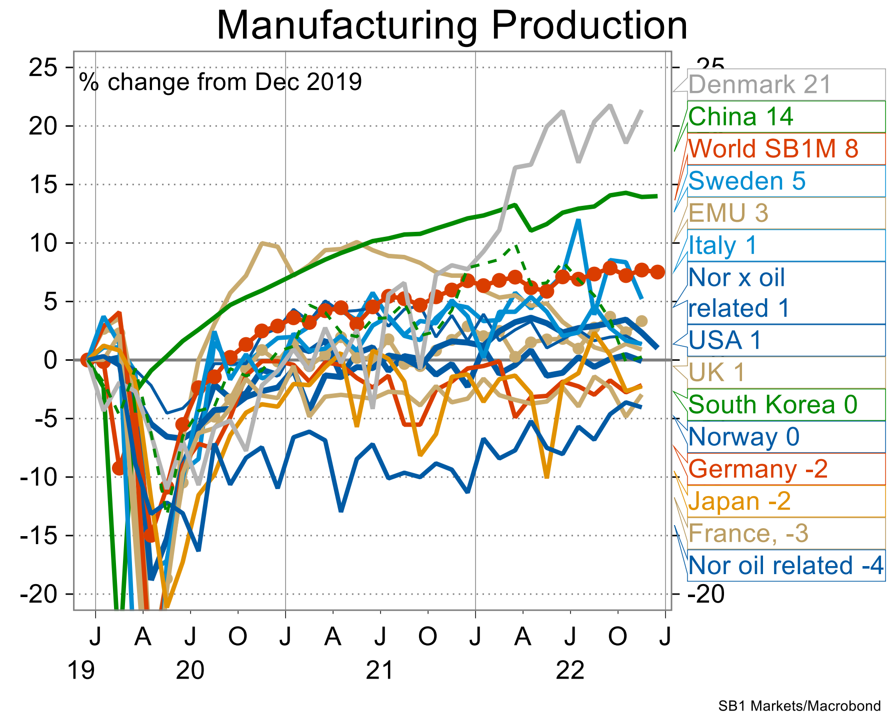


- These December data (and even more Jan/Feb trade data) are preliminary, as most countries have not yet reported

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

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

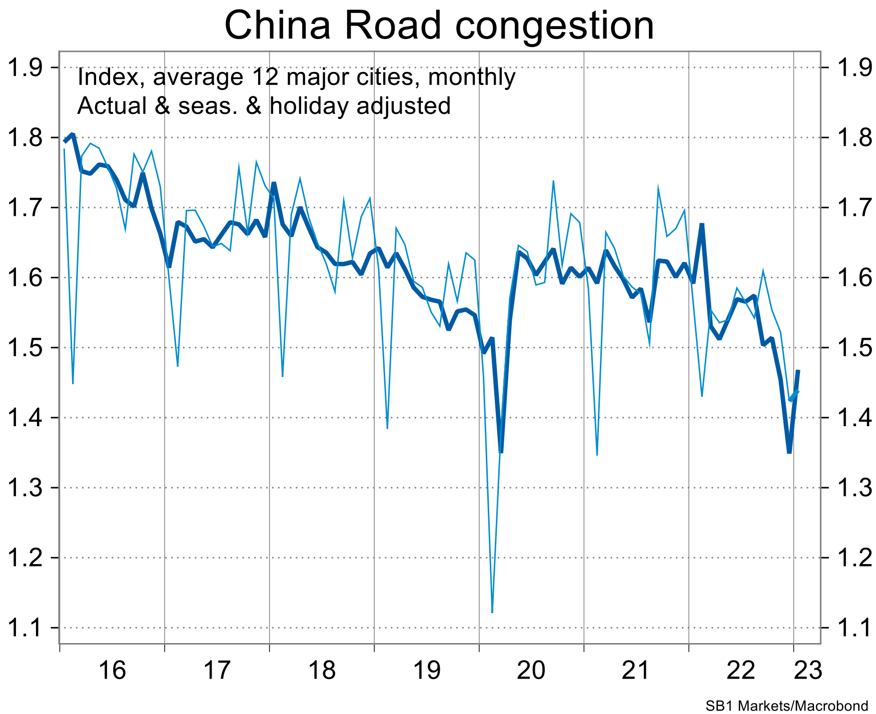


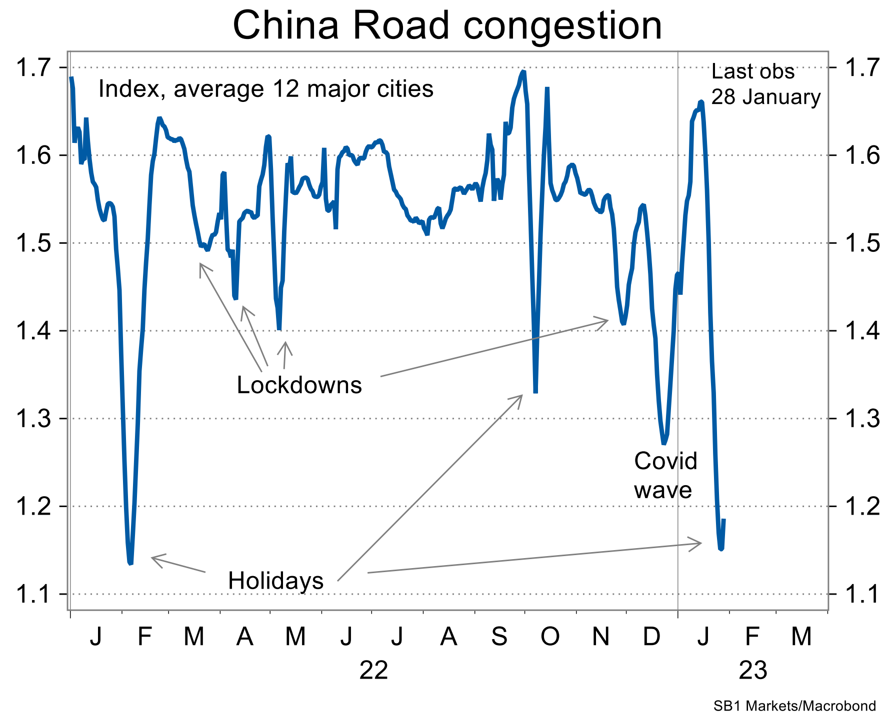


US retail sales: Personal consumption of goods, ex auto & energy

Road traffic was back to a normal level until the Chinese New Year arrived

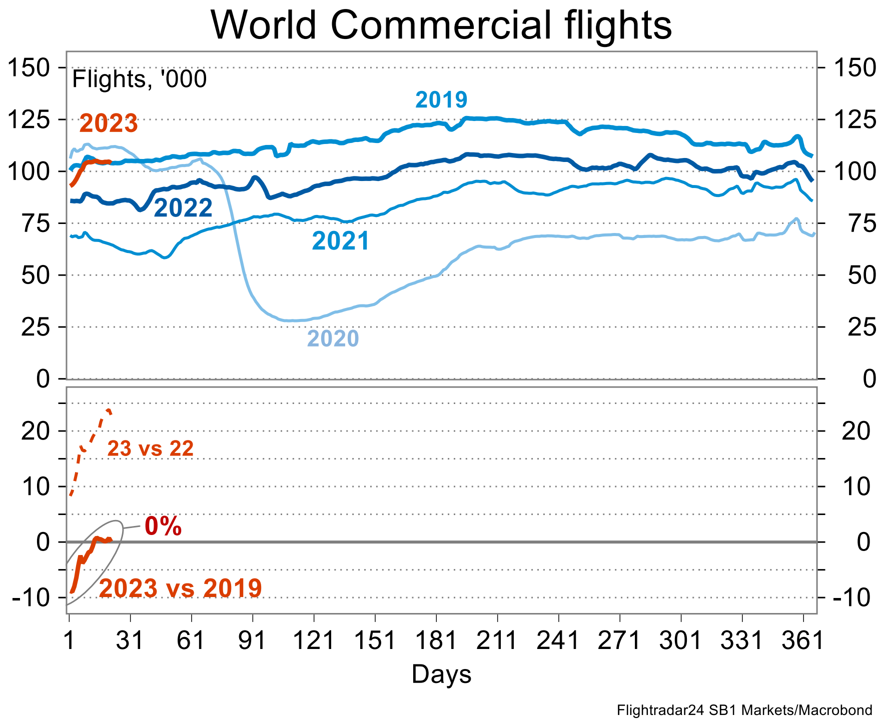
China has closed for the holidays now but we expect a brisk recovery as soon as the holidays are over

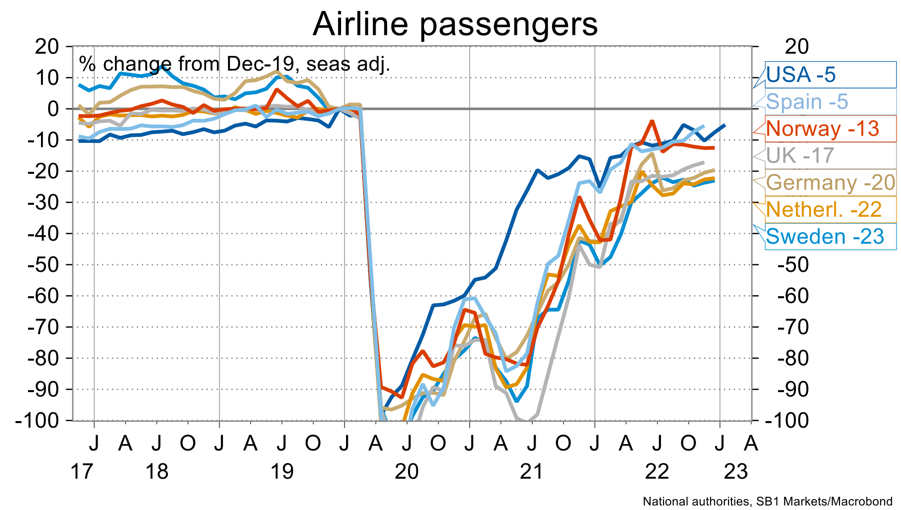


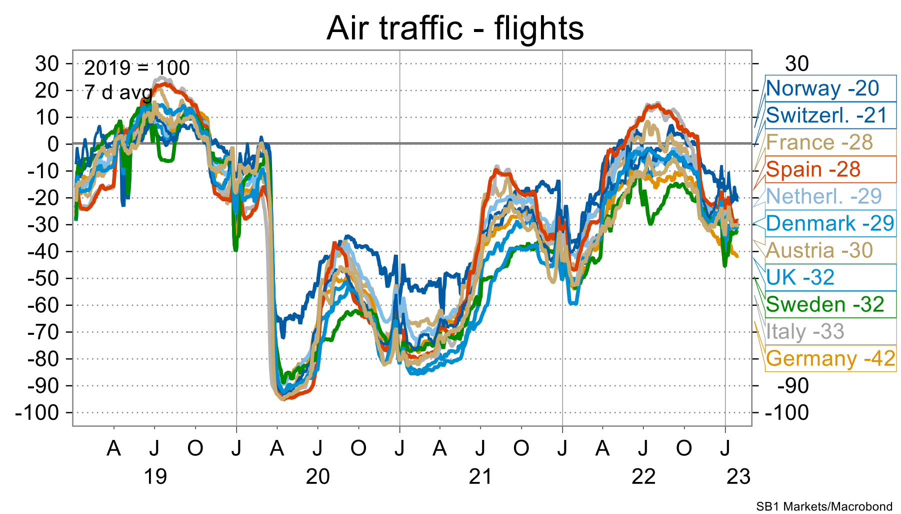


A ‘strong’ start for global airline traffic in 2023 – back up to the 2019 level!

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

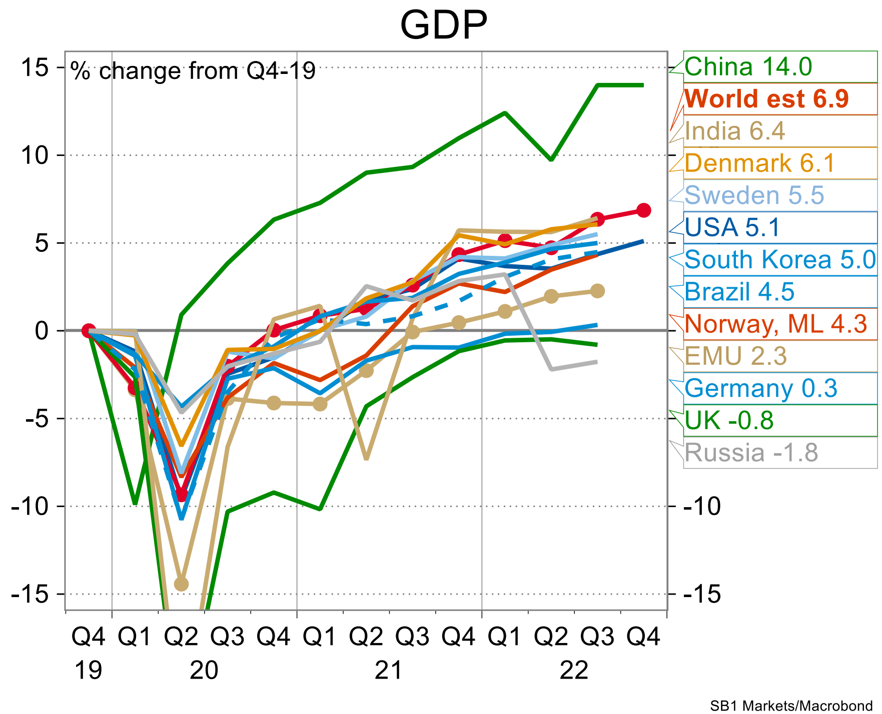


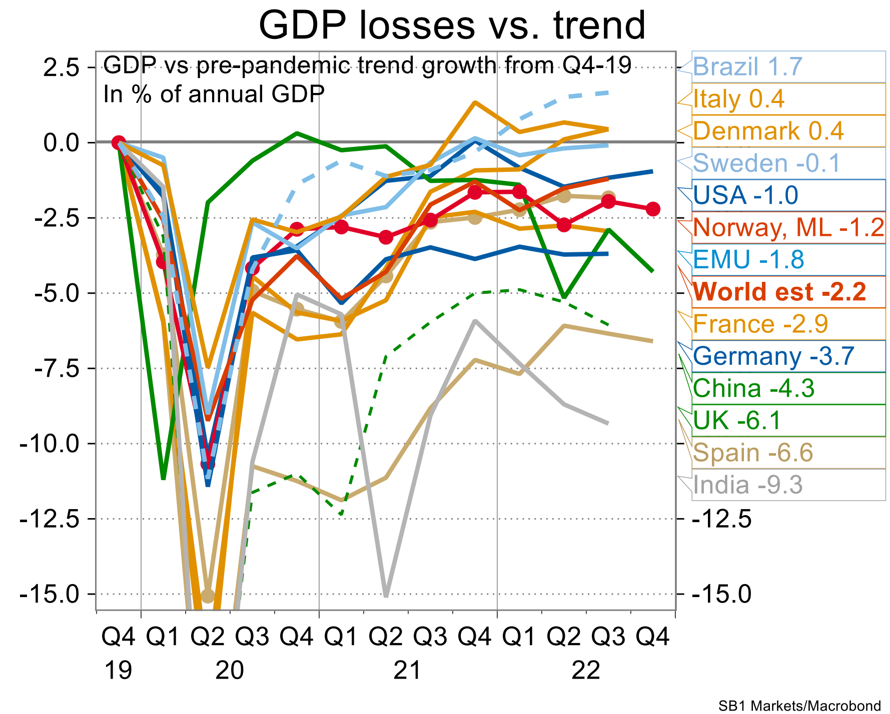




- Chinese traffic will now doubt come back rapidly(and that may already be happening)

Global GDP probably grew at a 2% pace in Q4, as China flattened

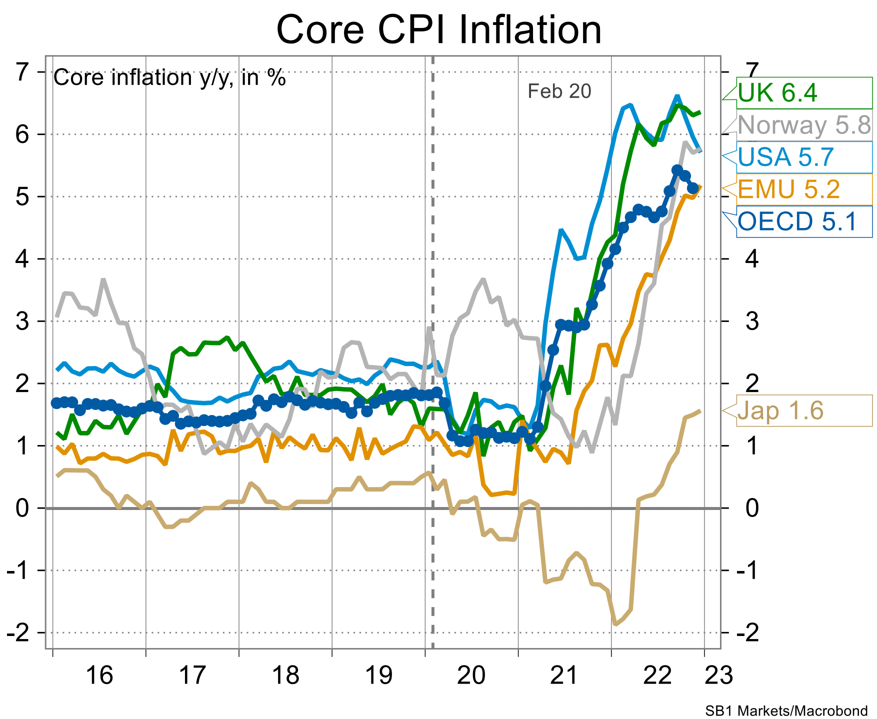


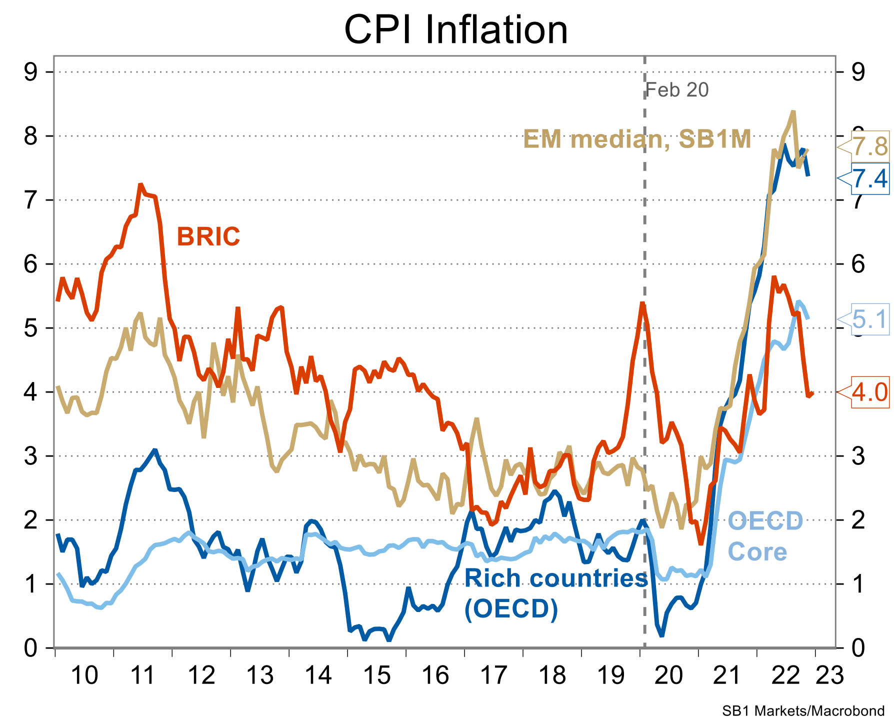


- Almost all countries are still reporting GDP levels that are far below the pre-pandemic trends – just Brazil, Italy (!) and Denmark are ahead

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

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

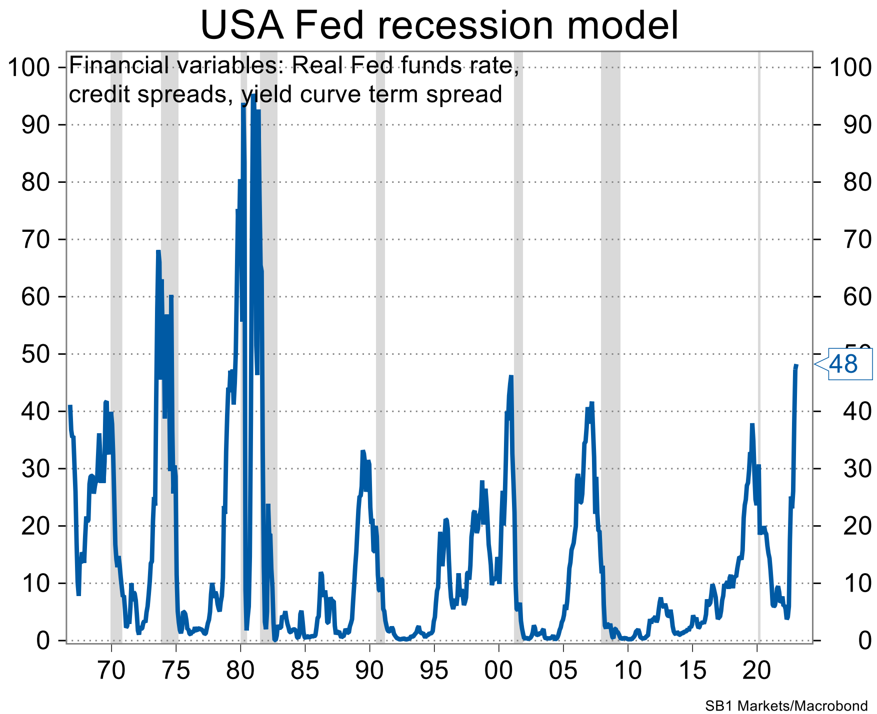


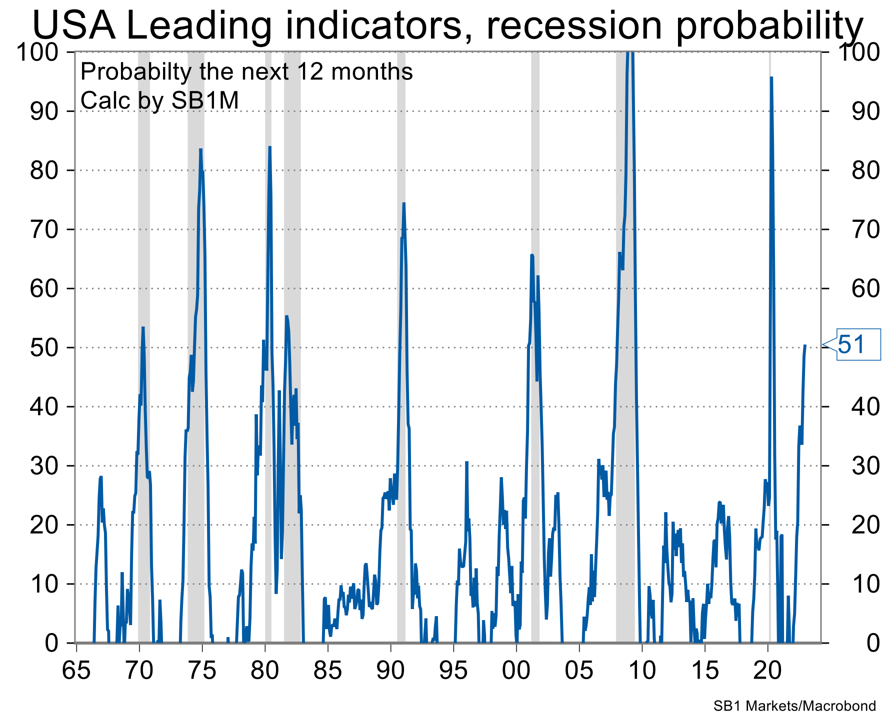


- We expect **inflation** to decline rapidly through 2023, as raw material prices and freight rates are declining, profit margins will come under pressure as demand, at least for goods, weakens in the rich part of the world. In the US, core goods prices are already declining
- In Europe, the big uncertainty 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 are 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. The US wage inflation will slow in the coming quarters as demand for labour weakens (the Fed will take care of that). The risk in Europe: Compensation claims in wage negotiations

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

Fed’s financial conditions recessions model signals a 48% probability for a recession the coming 12 months



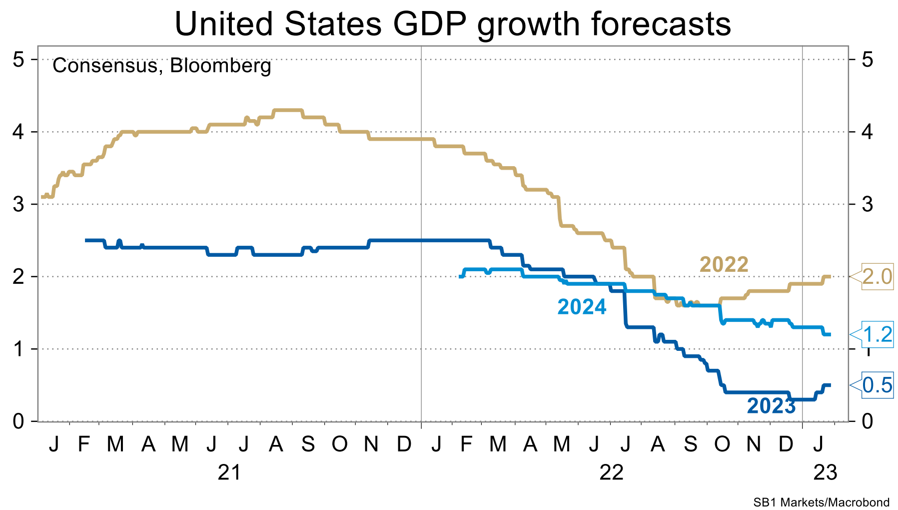


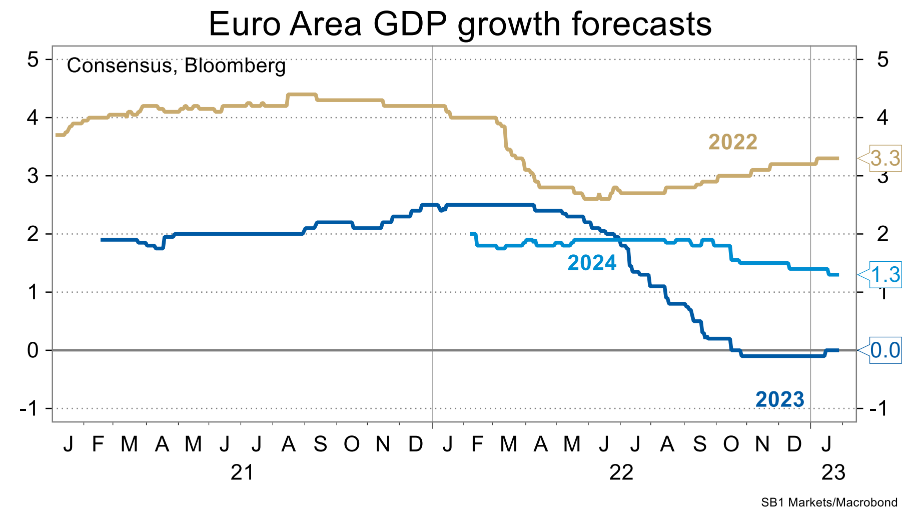
- … which normally has been ‘enough’ to fall into an economic setback, in fact 8 of the past 8 recession. One false positive, in 1965
- Conference Board’s Leading Economic Indicators, which consist of both financial and real economy variables also signal a high recession probability. Again 8 of the 8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

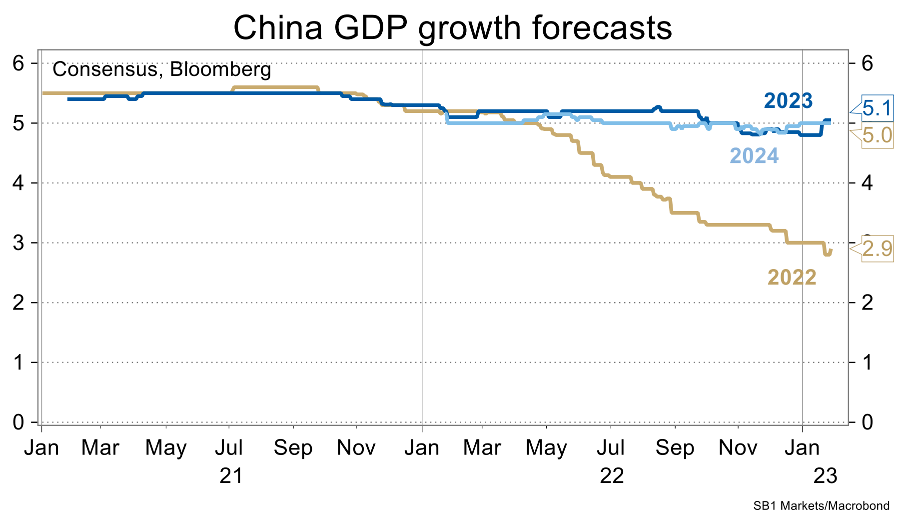
Sources: The the left; NY Federal Reserve, the past 2 months calculated by SB1M. To the right; Confernence Board. SB1M calculations

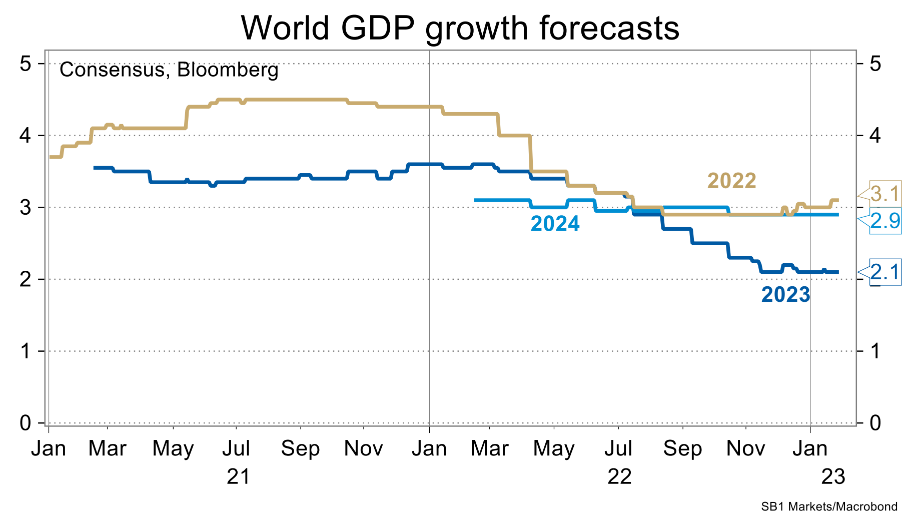
2023 US GDP growth upgraded once more, to 0.5%. EMU flat at zero

Chinese growth is also revised up – and more may come (the world GDP forecast cannot be updated, must be up)





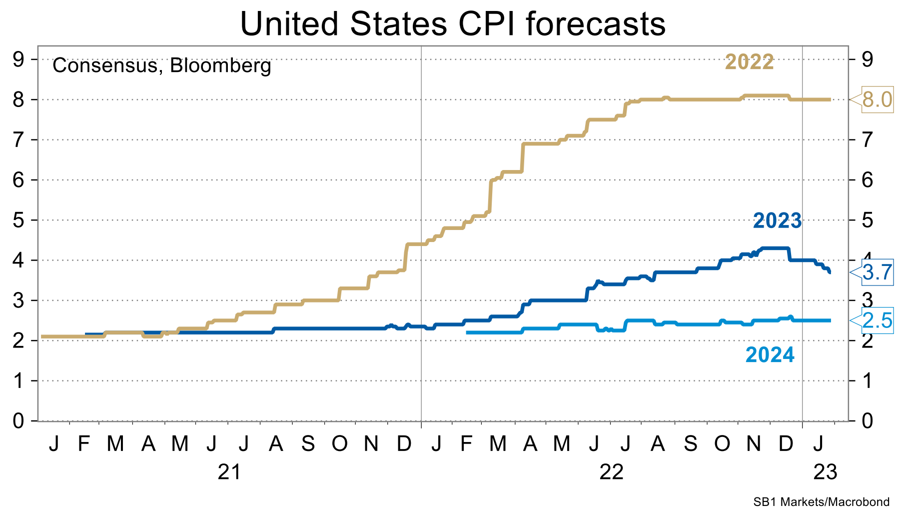


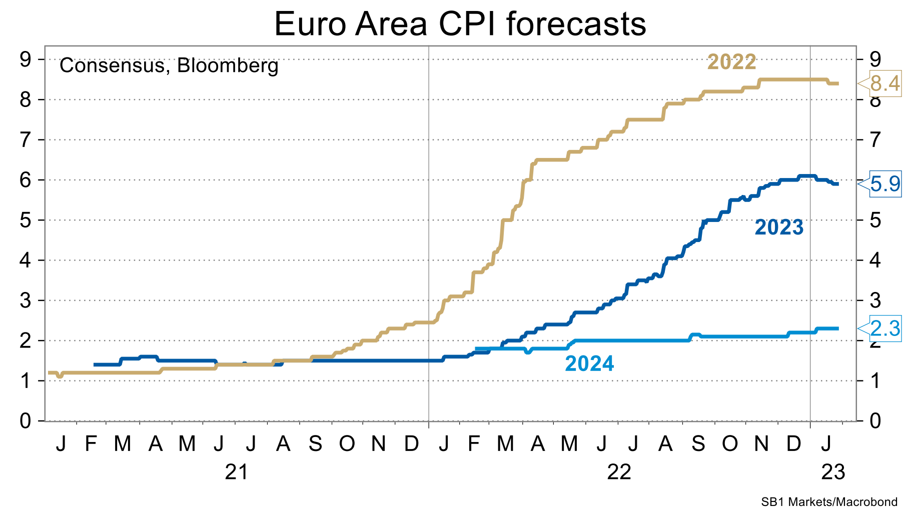


These charts (and the two at the next page, are based on forecasts collected by Bloomberg

2023 inflation expectations are falling both in the US & EMU

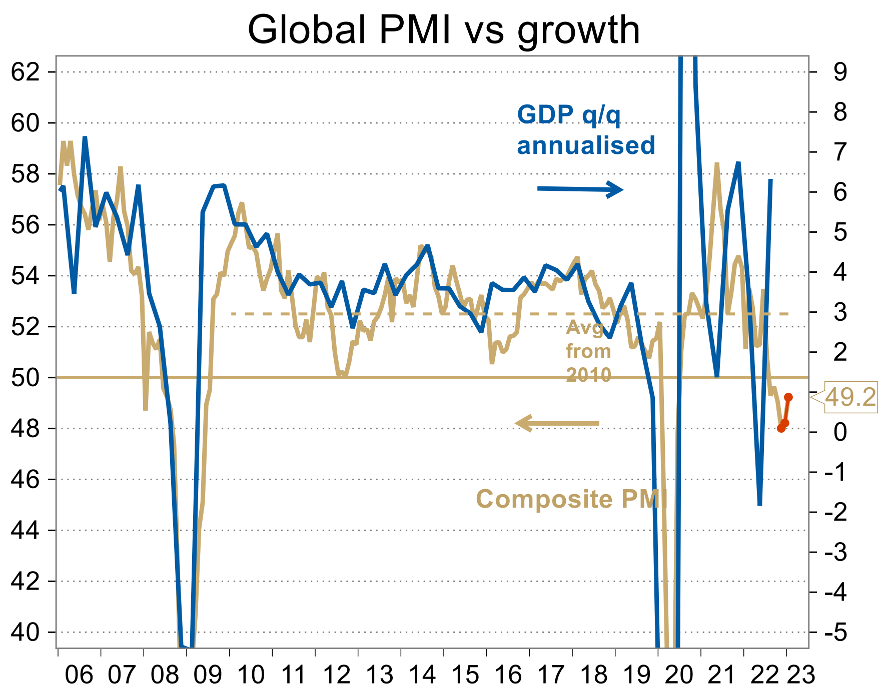
But faster in the US than in EMU



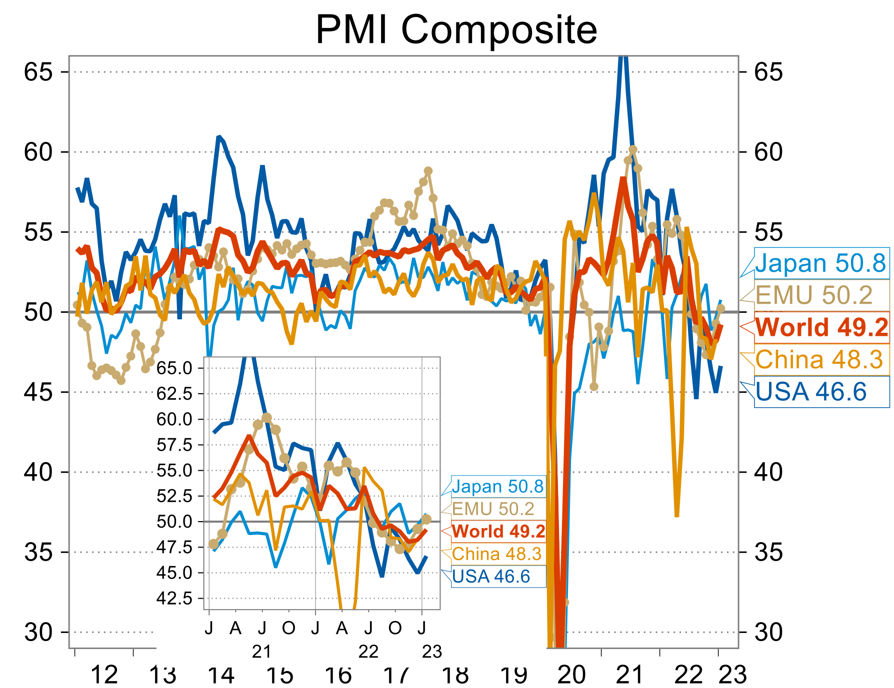


While we are waiting for China – the rich world's PMI up 1 p to 49.2

Not that impressive, signalling just a marginal growth in global GDP. China may lift the global average



SB1 Markets/Macrobond



Source: IHS Markit, SB1 Markets, Macrobond

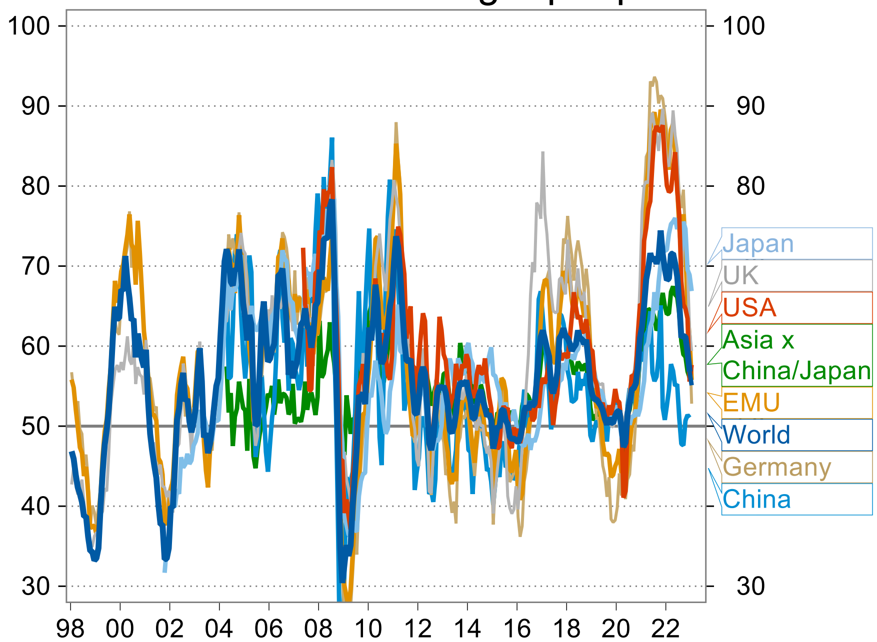
- The preliminary PMIs from the **rich part of the world**, was better than expected, and on average up 1 p to 49.2 (our est.). The level is still low – signalling a 'global recession'
- **EMU** continued to surprise to the upside – and broke through the 50 line, but in January even the **US** was better than expected – still a recessionary level, at 46.6. **Japan** also crossed the 50 line in January
- **China** (or other EMs) has not yet reported – and the Chinese indices will probably recover in January or February, as Covid very likely is a thin gof the past

Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p if the Chinse PMI does not change too much

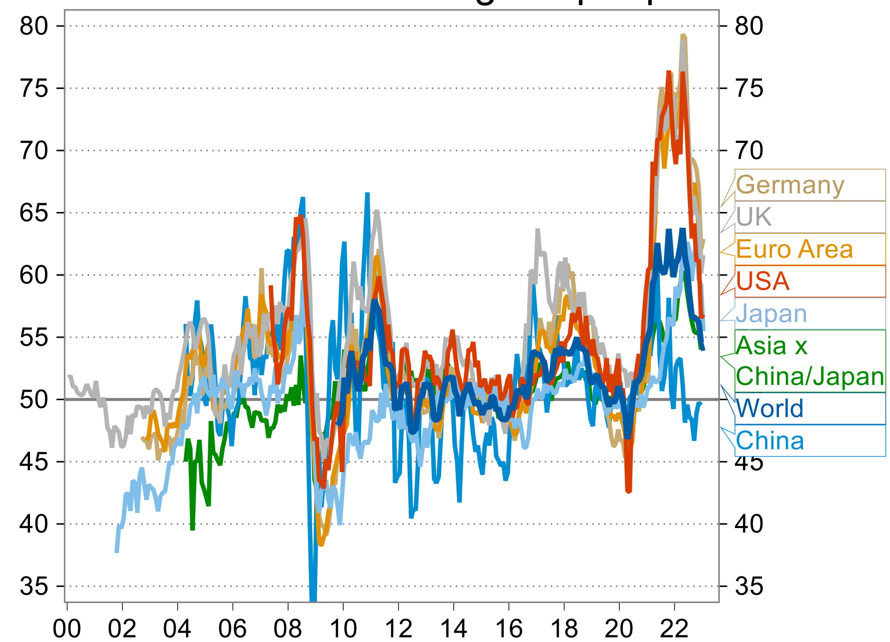
Manufacturing price inflation is heading downwards, output prices still > avg.

However, US manufacturing input prices rose a tad faster in January

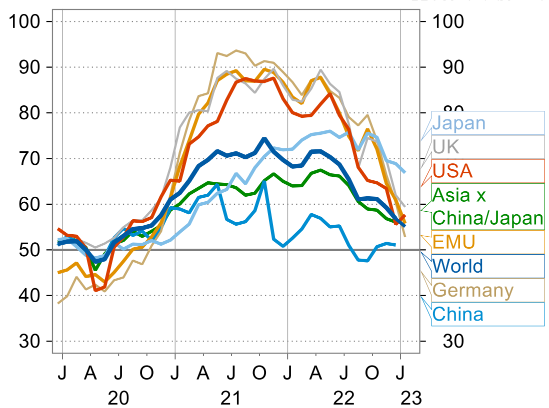
PMI Manufacturing Input prices



PMI Manufacturing Output prices



SB1 Markets/Macrobond

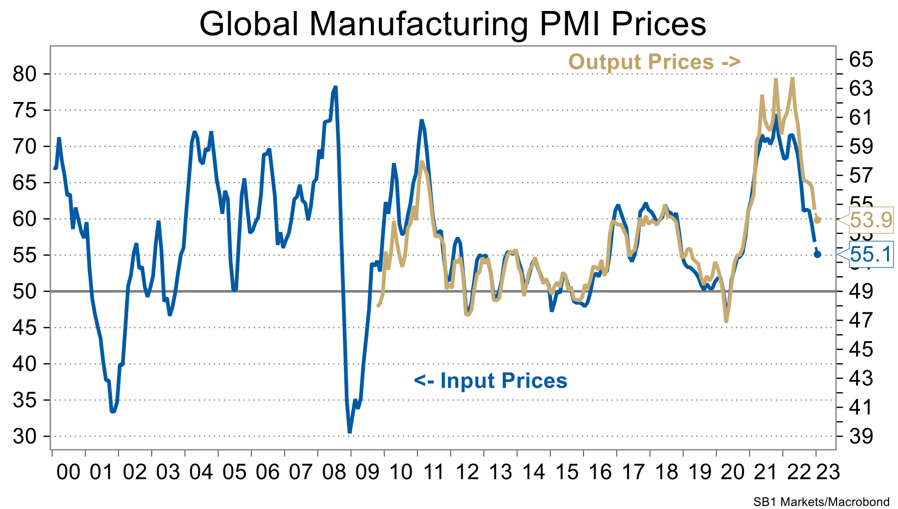


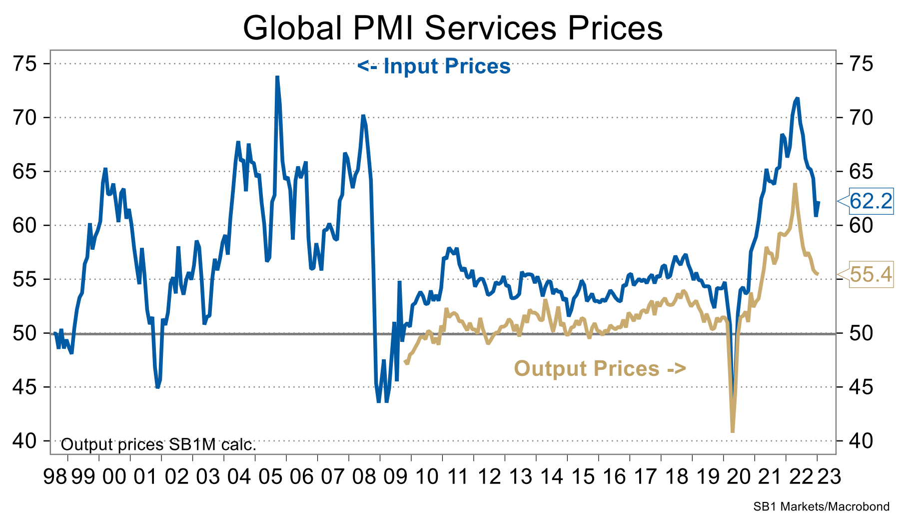
SB1 Markets/Macrobond

- … and the US PPI reported an increase in core crude prices

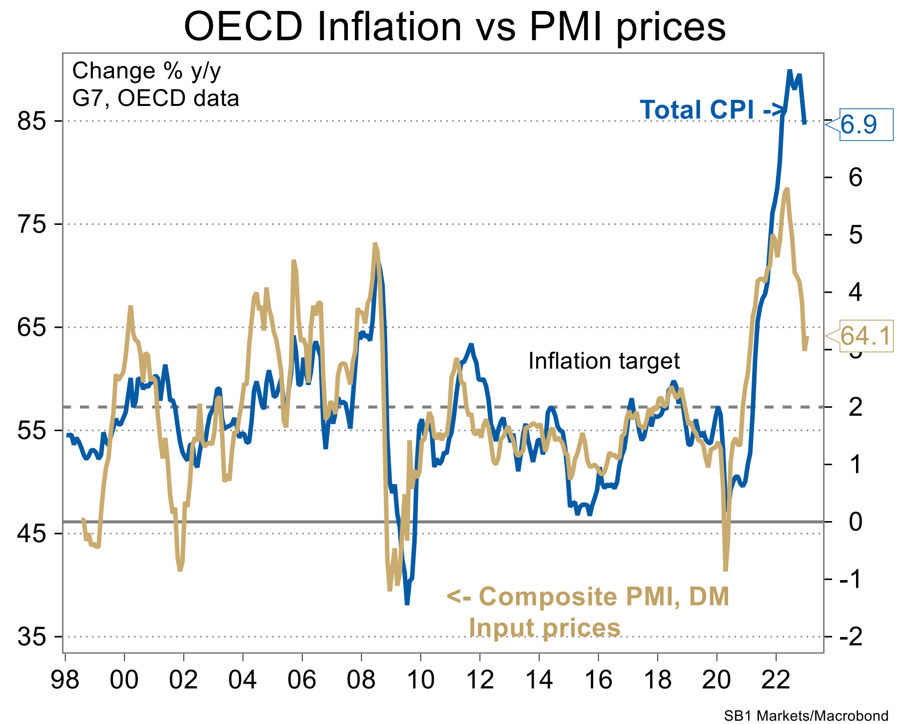
Price indices are heading down, and input prices are back to a normal level

In the service sector, input prices rose a tad faster in January





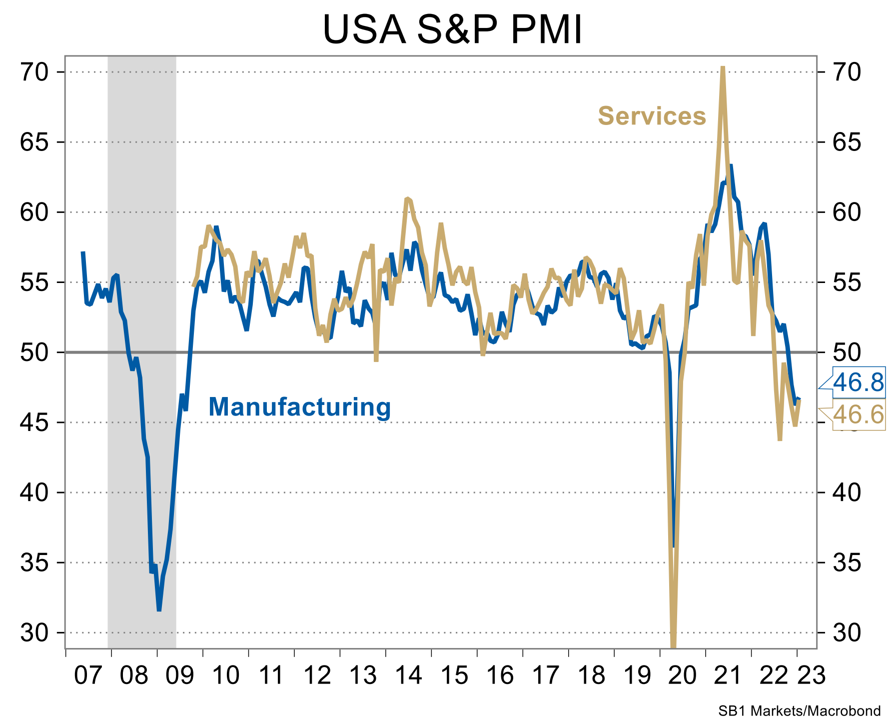
Last obs. based on preliminary PMIs from EMU, Japan, UK, and the US

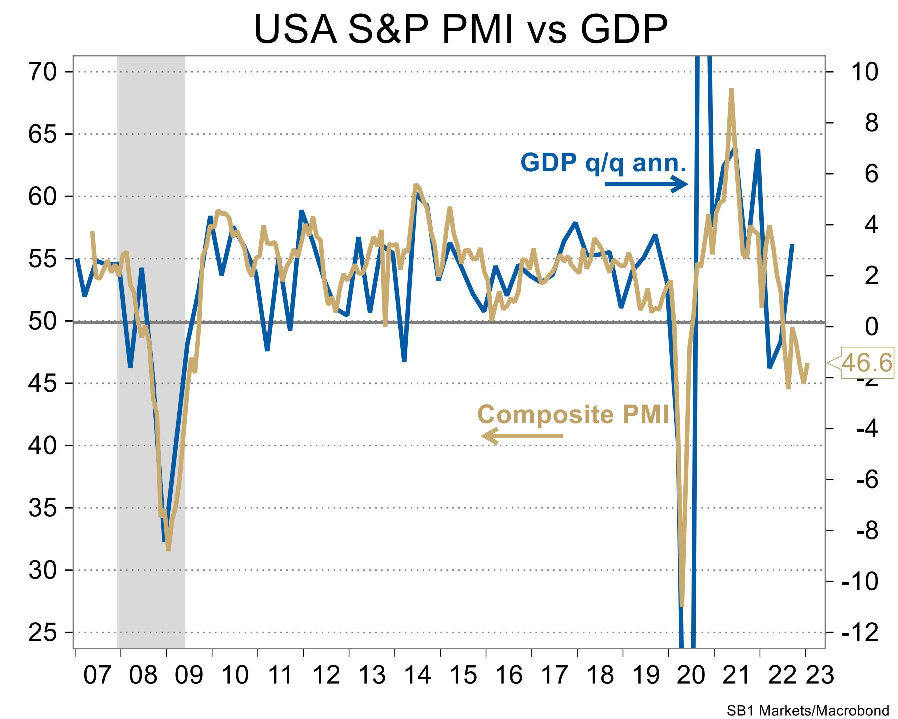


- These PMIs signal a substantial easing of price pressure the coming months – but are still indicating inflation well above a normal level
- We are still more concerned about wage inflation than the actual price inflation due to factors that are most likely transitory, like hikes in raw material prices, freight costs, or short-lived margins expansion when demand is surprisingly strong

US PMIs up in January but are still signalling a recession

The composite index up 1.7 p to 46.6, well above the expected 0.8 p lift. Even so, a 1.5% pace of decline in GDP?

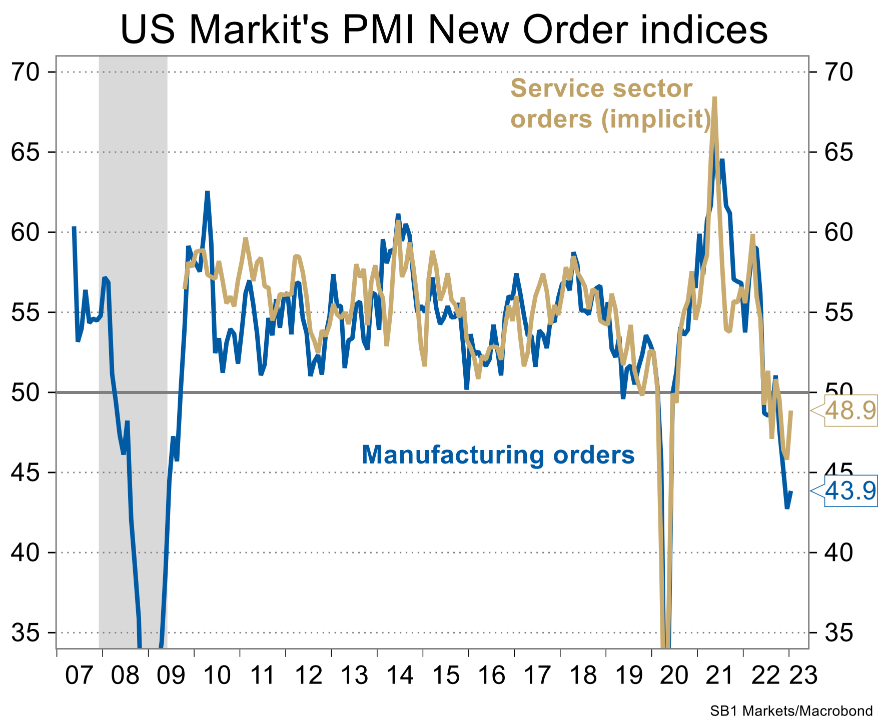


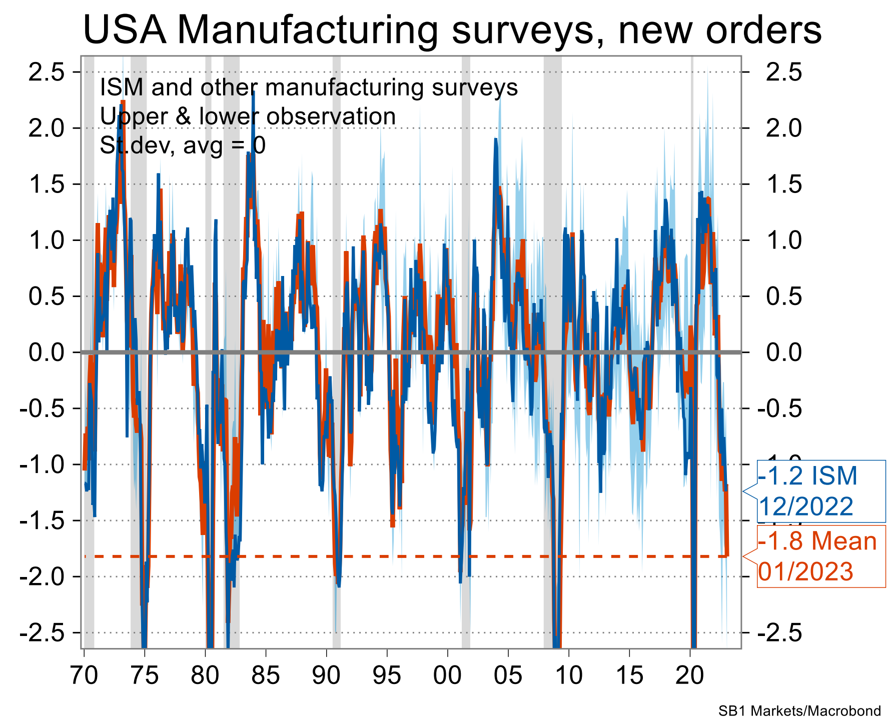


- The **PMI composite index** has been below the 50-line for 7 consecutive months
- **Services** recovered by 1.9 to 46.6. The total **manufacturing PMI** gained 0.6 p 46.8, both increased more than expected. The decline in manufacturing index was tough the previous 3 months, from well above 50 in September
- **The manufacturing new orders index** gained 1.7 p to 43.9, which is indicating a continued sharp decline in order inflow (which we have so far not seen)
- **The price indices** were higher than expected, as input prices rose faster in January and output prices rose at the same pace as in December

The PMI orders contracted at a slower pace, other surveys (so far) far weaker

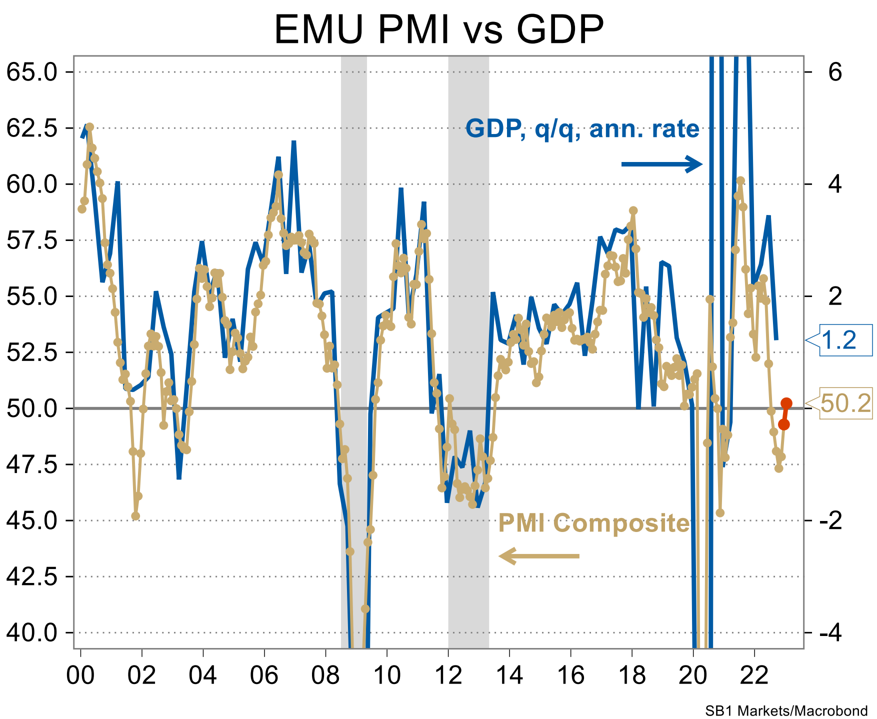
The manuf. PMI still reports of steep decline in new orders - and with other surveys 100% into recession territory

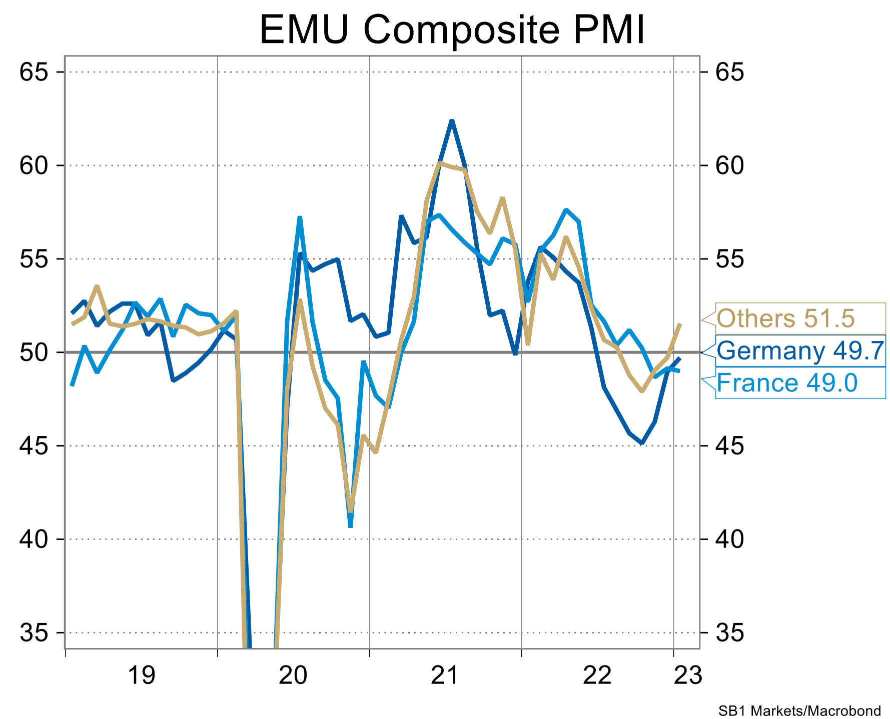




The south lifted the EMU PMI to above the 50-line in Jan, 0.4 p better than exp.

The French & German PMIs also rose. In sum, the PMI signals no recession ahead. (But orders are still weak)

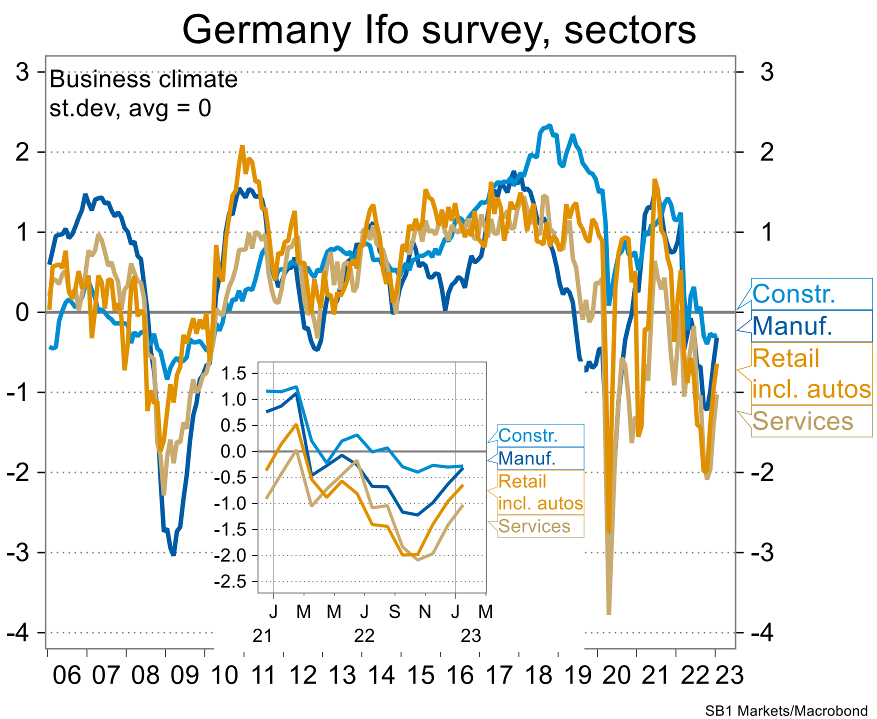


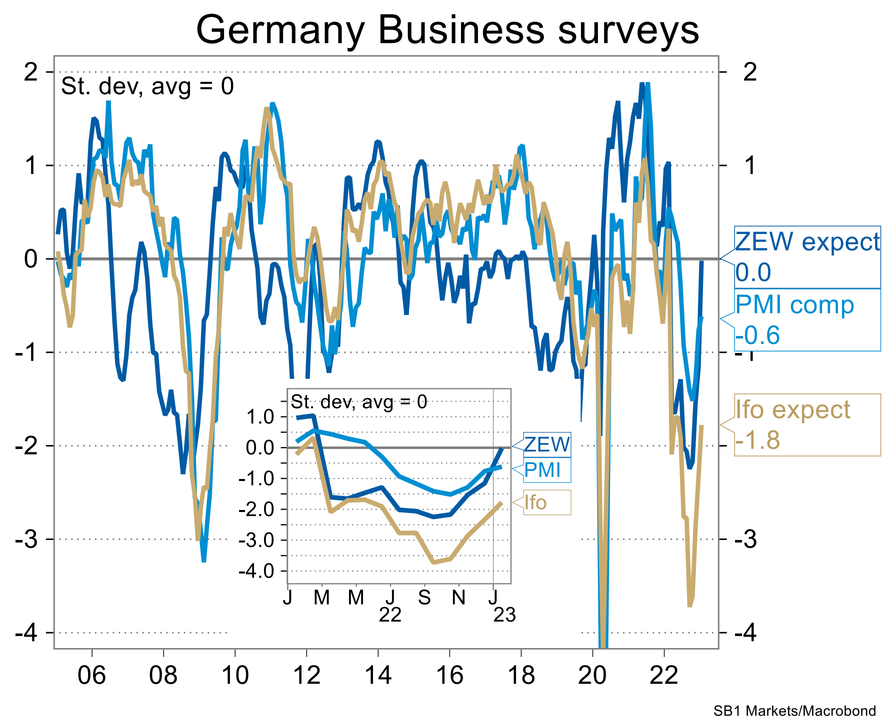


- **The composite PMI** increased by 0.9 p to 50.2, expected up to 49.8, following 6 months below the 50-line. Zero growth is signalled, while a deep recession was not signalled anyway the preceding months. The implied average of Italy of Spain gained 1.8 p to 51.5, the best level since last June. France and Germany contributed as well, and Germany more than expected but both remain below the 50-line
- **In the EMU, services** gained 0.9 p to 50.7, expected up 0.4 p, while the **output component in the manufacturing** survey added 1.2 p but remained below the 50-line, at 49.0, but 0.5 p better than expected
- **The delivery times** and price indices both fell, and while the price indices still remain higher than normal, the delivery times have now fully normalised
- The ECB has so far been vindicated, the Euro zone economy has not fallen apart. The PMI now signals a flattish Euro Area GDP. ECB expected a 0.5% growth rate y/y, which can be reach by zero growth through 2022, Consensus is for a zero growth from 2022, implying a 1% pace of decline through 2023 (and of course many other combination of quarterly growth rates)

All 4 Ifo sectors report of better business climate, all still below average

Other survey also report a sharp recovery in January, the ZEW index the most, up to an average level

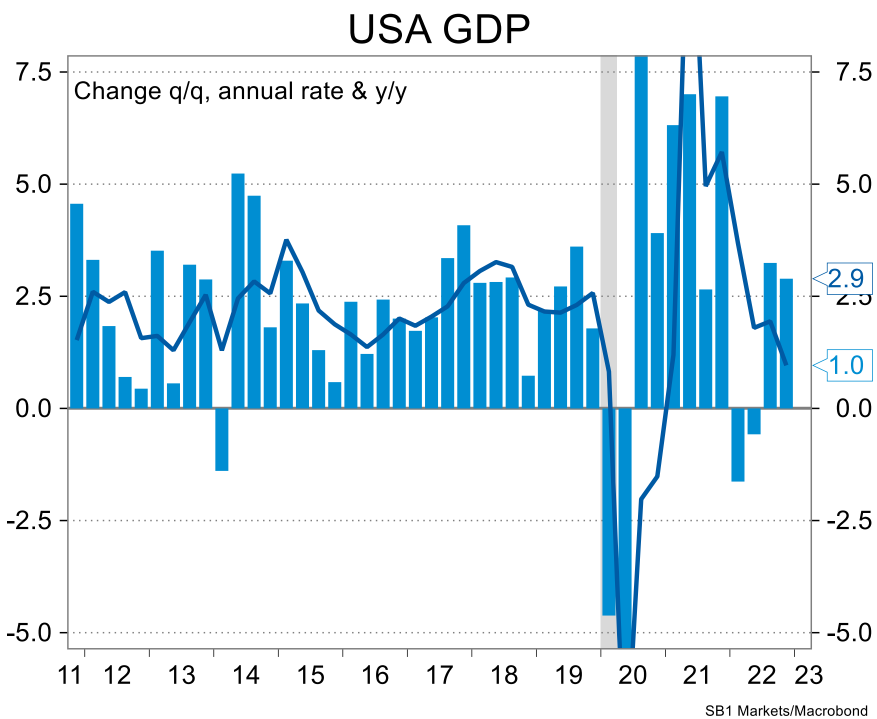


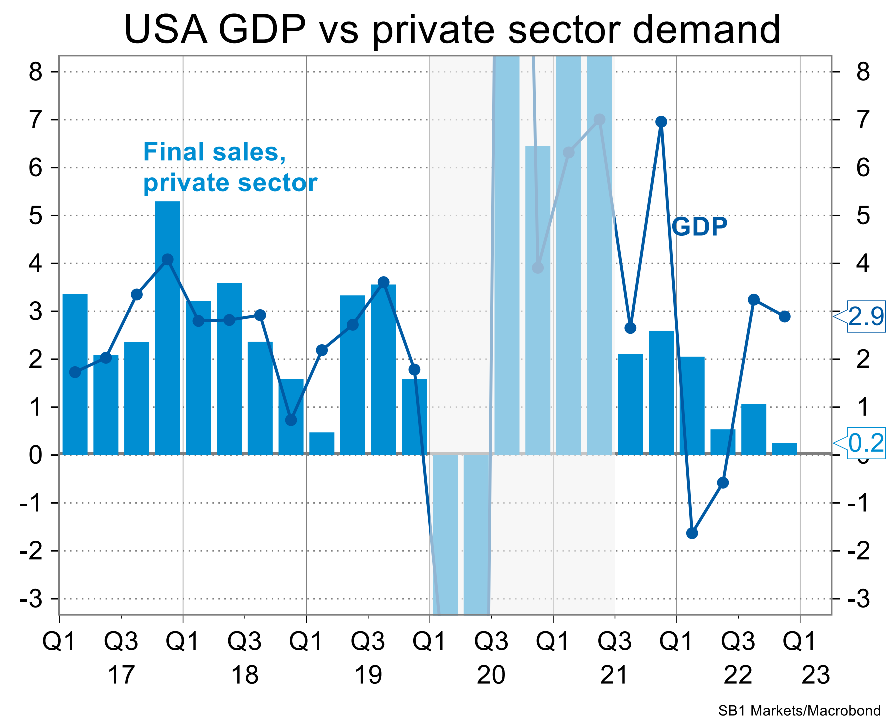


- Other surveys have also improved, but like the Ifo, the PMI too remains in negative territory, signalling slower growth/fall in output in the coming months. The bright spot is the ZEW index which rose the 2nd most ever (just Apr-20 climbed more up), and the index is at an average level signalling growth at trend (average growth)

Solid GDP growth in Q4 – GDP up at a 2.9% pace in Q4, above expectations

Still some weakness in the data: Private sector demand was weaker, and inventories contributed 1.8 pp

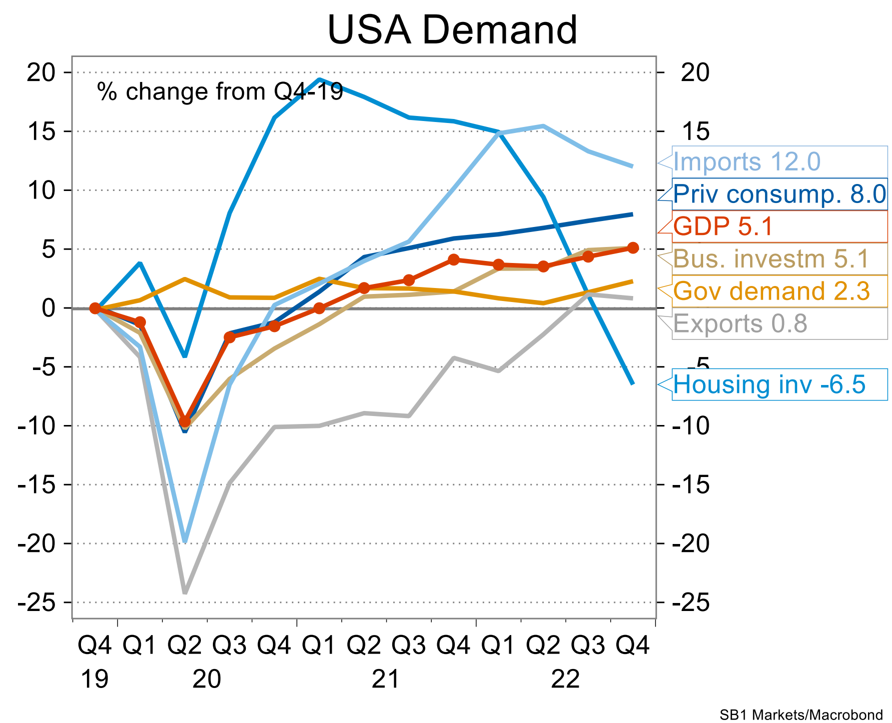




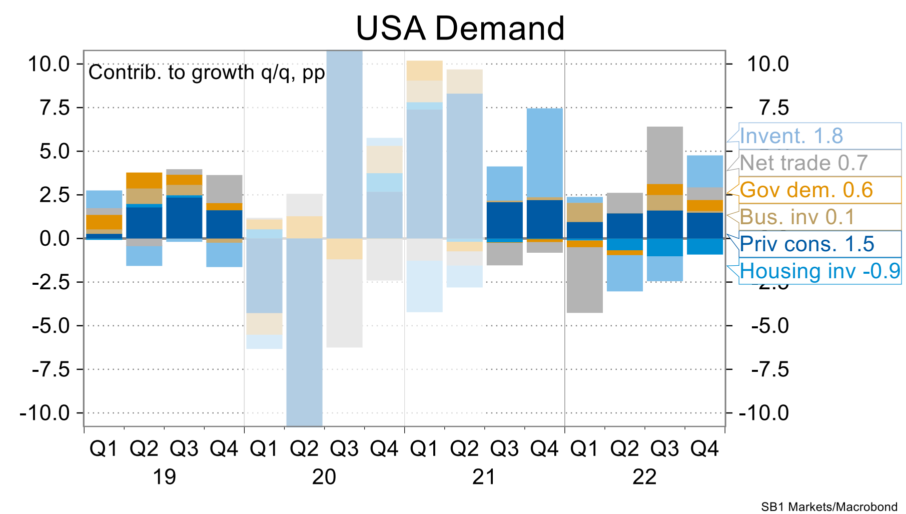
- **GDP** grew slightly more than expected (2.5% – 2.8%). Measured y/y GDP grew 1% in Q4, and by 2.1% in 2022 (the whole year)
- Growth in **private (household + business) demand** was up just 0.2% in Q4. Housing constituted a 0.9 pp drag! **Public demand** was stronger, up 3.7%, lifting GDP by 0.6 pp, as in Q3! **Net trade** was slightly positive in Q4
- **Inventories** rose at a much faster pace than normal, and contributed 1.8 pp, more than half of the headline growth rate!
- **Core PCE inflation** (Fed's price measure) slowed, and as expected, to 3.9%. The overall GDP deflator grew 'just' 3.5% in Q4, as energy prices fell further → price inflation is slowing
- We assume **corporate profits** rose further in Q4, price inflation slowed, but so did growth in wage cost pr unit produced – the latter perhaps the best news vs the inflation outlook in this cycle

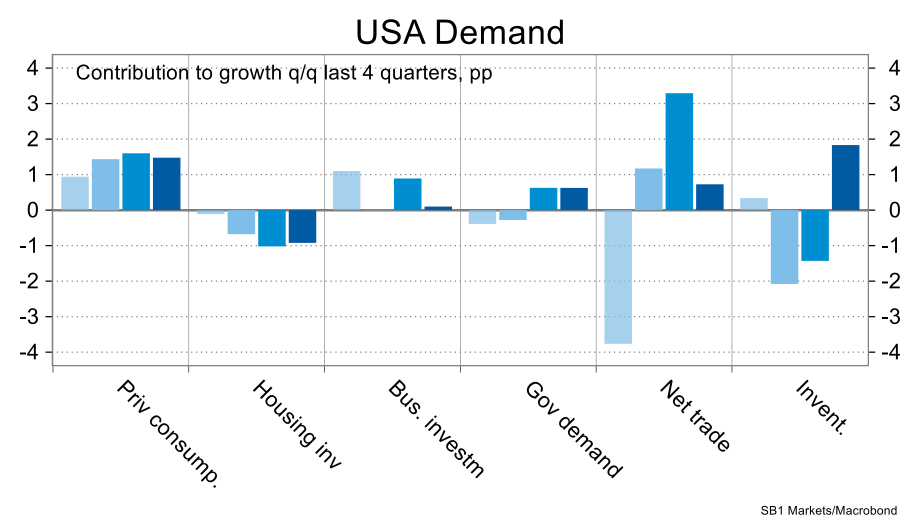
Q4: Private demand hurt by a sharp decline in housing investments

Consumption rose less than exp. Inventories rose fast, explaining 1.8 pp of the 2.9% growth rate. Net trade also positive



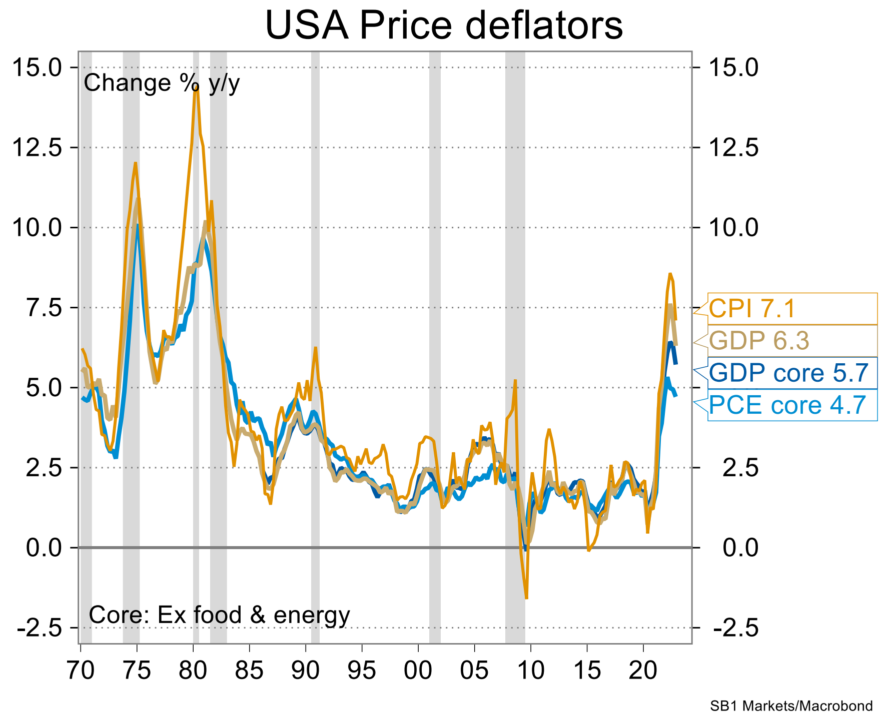
- In addition, government demand rose almost 4% and supported GDP by 0.6 pp

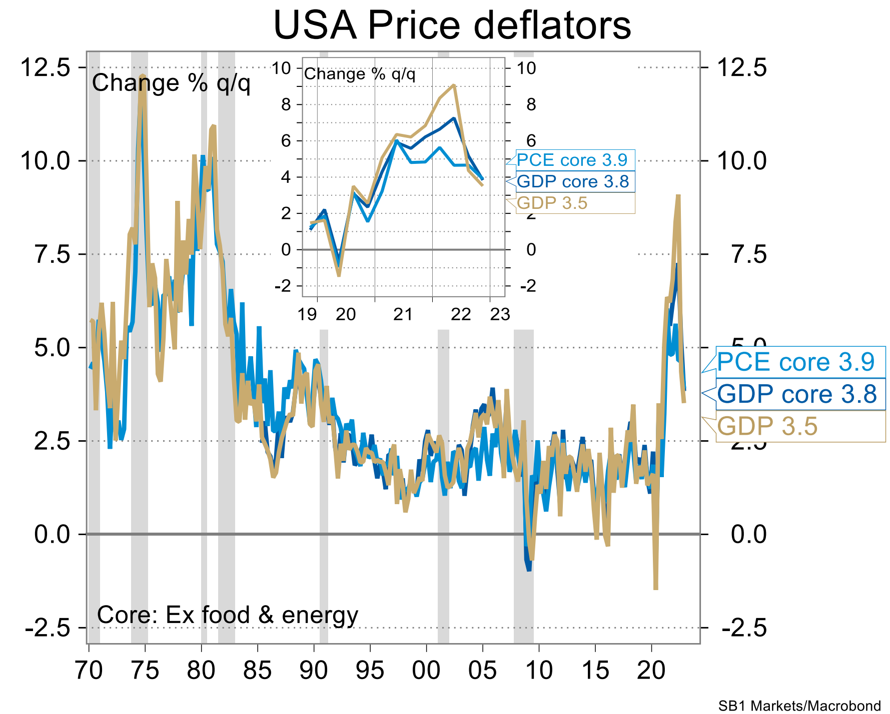




The GDP price deflator further down in Q4, but less than expected

The GDP price deflator is up 3.5% in Q4, down from 4.4% in Q3. The core GDP deflator still up 3.8% (and +5.7% y/y)

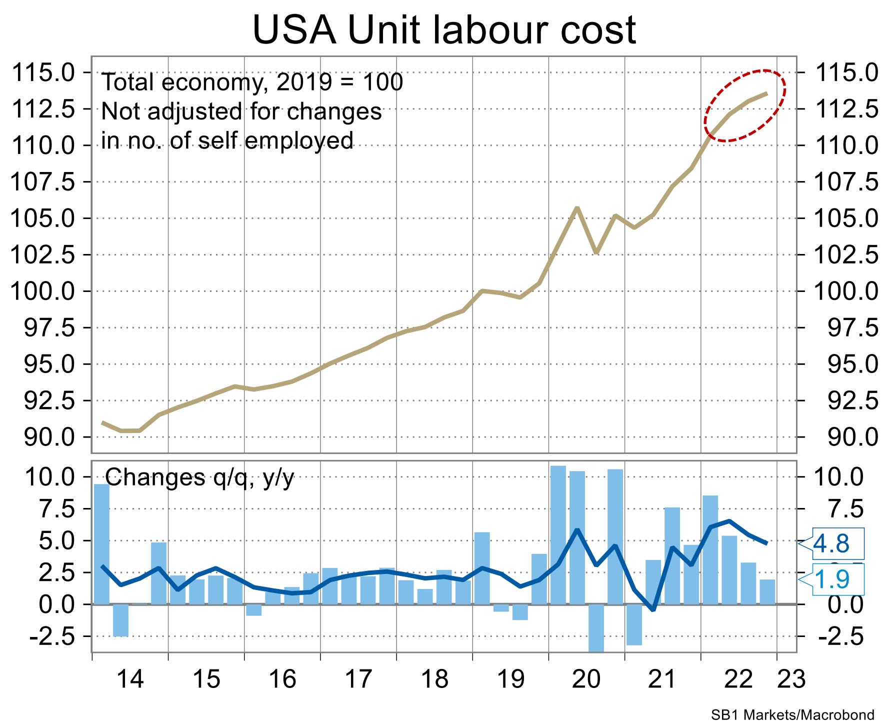


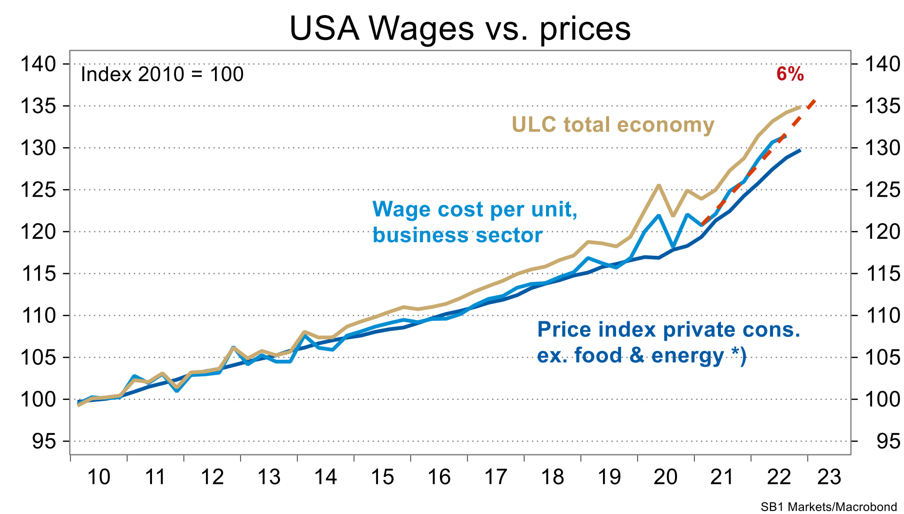


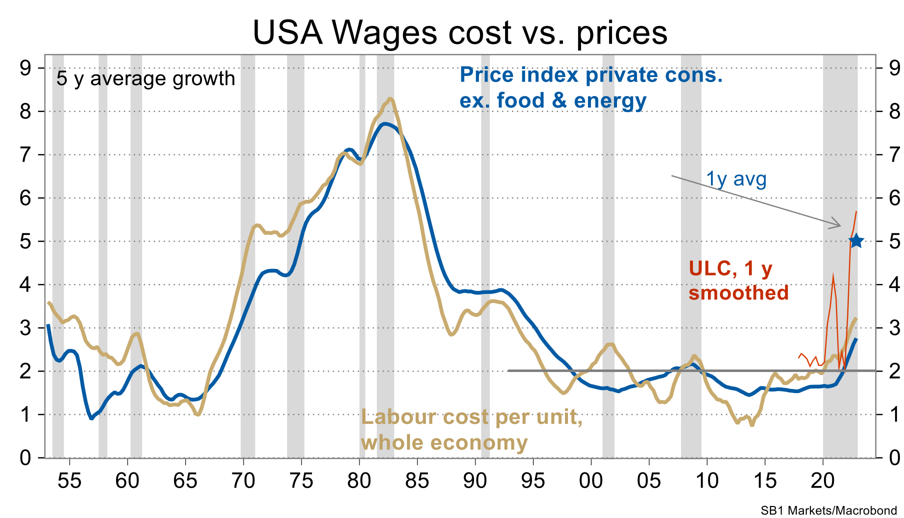
- The core (x energy, food) PCE (private consumption) deflator, Fed's preferred inflation measure rose 3.9% in Q4, down from 4.7% in Q3. The core PCE inflation peaked in Q2-22, at 7.3%. Thus, inflation is slowing rather fast

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

The <u>VERY</u> good news: Unit labour cost inflation is probably slowing – down to 1.9% in Q4, for the total economy



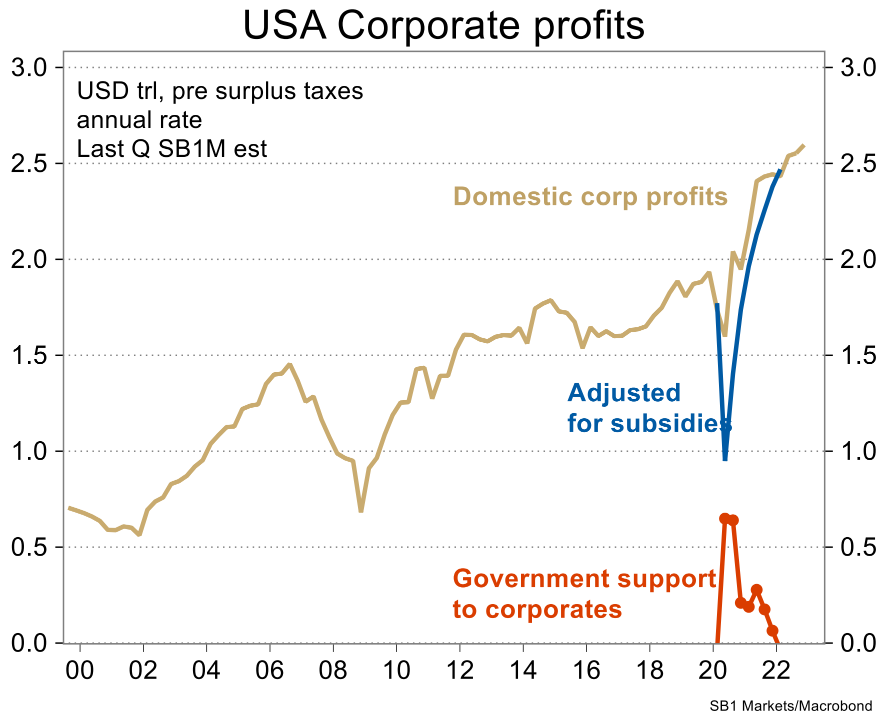


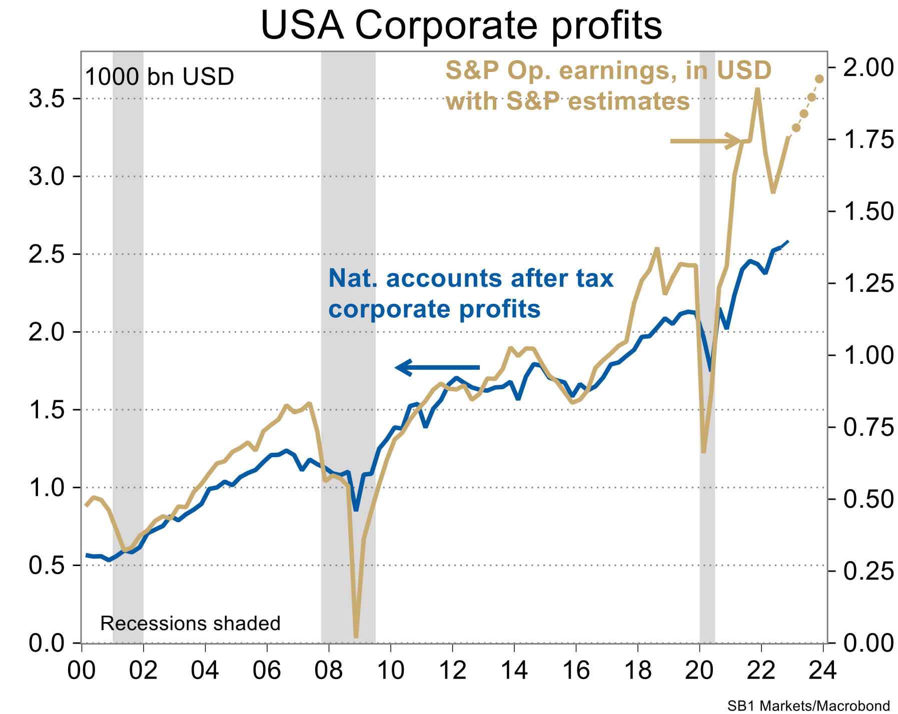


- However, these quarterly data are volatile – and are often revised. Still, what we have at hand, is <u>the best news vs inflation we have seen for a while!</u>

Corporates' profits probably further up in Q4 as wage cost inflation slowed

We still expect profits to come down – but so far we have not been vindicated

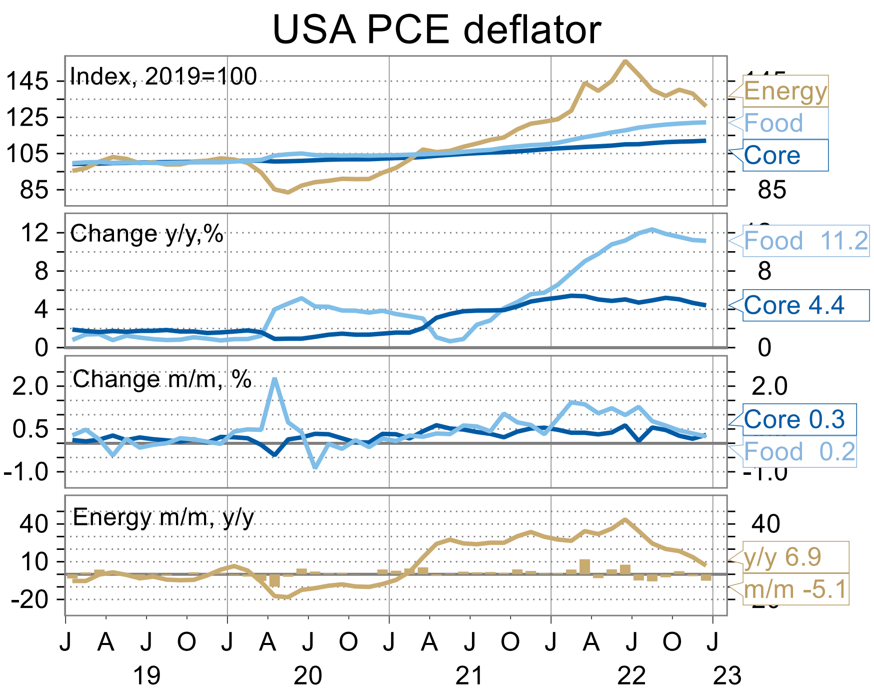




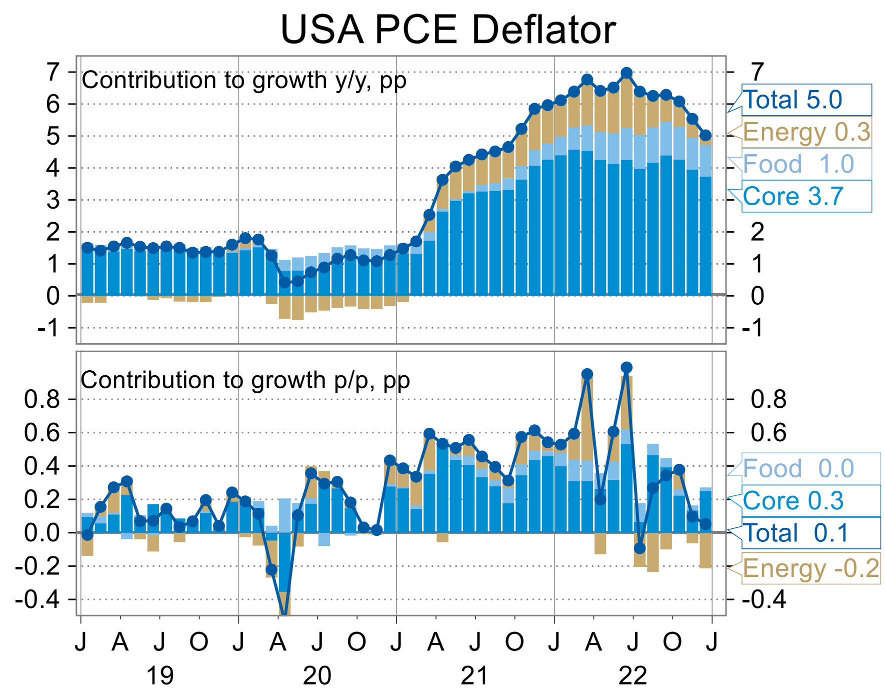
- We assume **domestic corporate profits** rose some 1.7% in Q4
- The **S&P** estimates that S&P 500 profits rose by 6.3% in Q4. S&P profits (including profits from abroad, measured in a strong USD!) are still way above normal vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned). Thus, a downside risk for S&P 500 earnings? S&P's forecast is usually far to optimistic, and take the expected surge in profits in Q4 and the coming quarters with more than one grain of salt
- We think the **profit outlook** is bleak. Wage inflation have peaked but will probably not subside immediately given a still tight labour market – and price inflation will come down faster than wage inflation

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

… and core the PCE is slowly yielding too



SB1 Markets/Macrobond

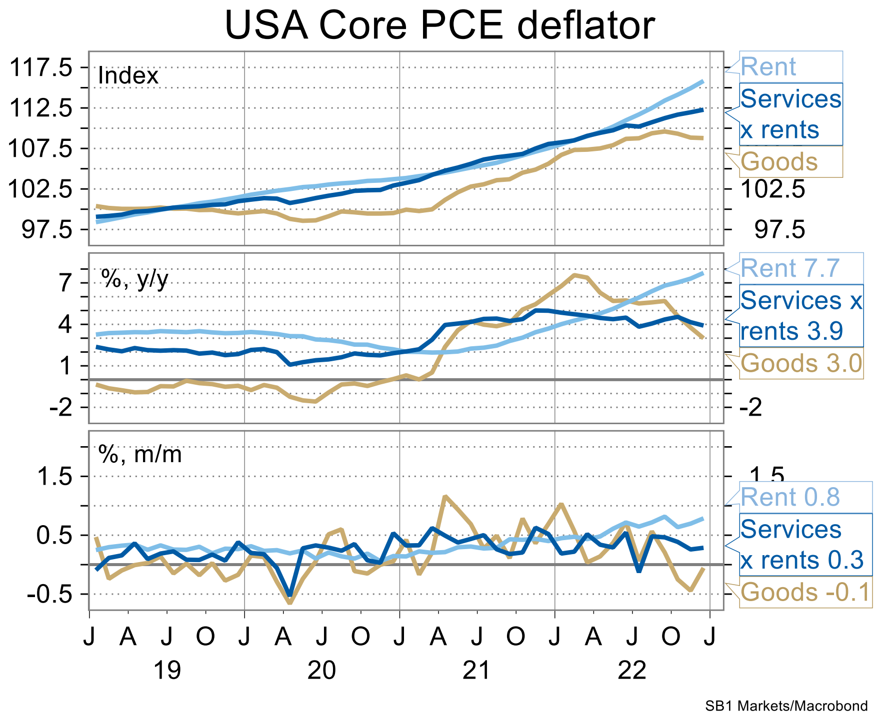


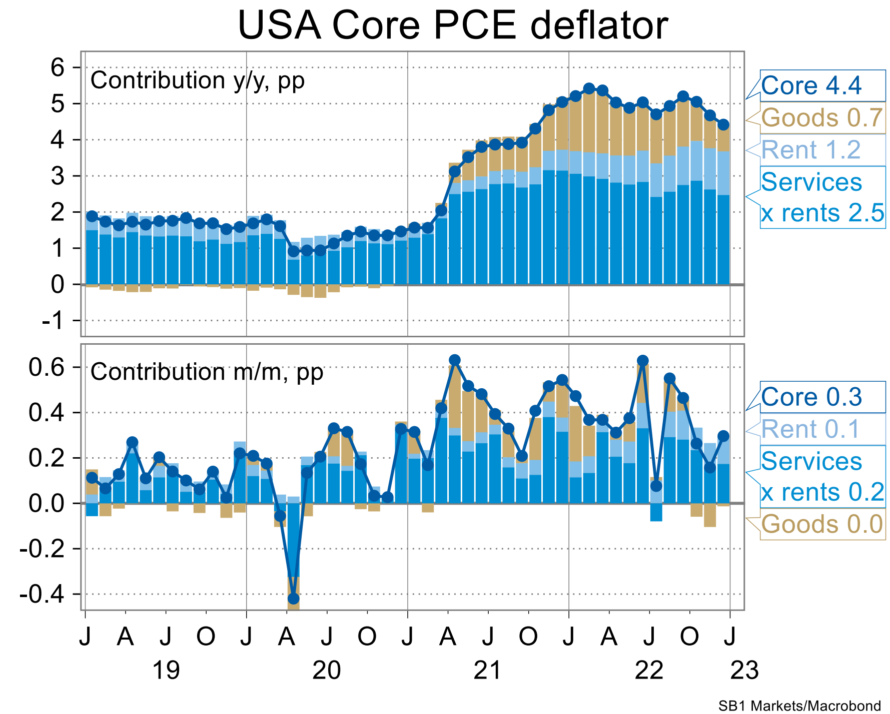
SB1 Markets/Macrobond

- **Energy prices** peaked in June and have now fallen by 16% since then. Given the current oil and gas prices, the downside is limited from here – but as prices rose sharply until last June, the annual rate will soon turn negative, before the end of Q1. Energy prices are still up 6.9% y/y
- **Food price** inflation is slowing, as the monthly increase has fallen to 0.2% from a 1.5% m/m peak in February – and staying above 1% until July. Food commodity prices have fallen, and prices at the consumer level should flatten (or more likely, come down)

Core PCE: Good prices keep falling; service price inflation has flattened?

Core goods prices fell 0.1% m/m in December, and will likely moderate further (with some reservations, though)

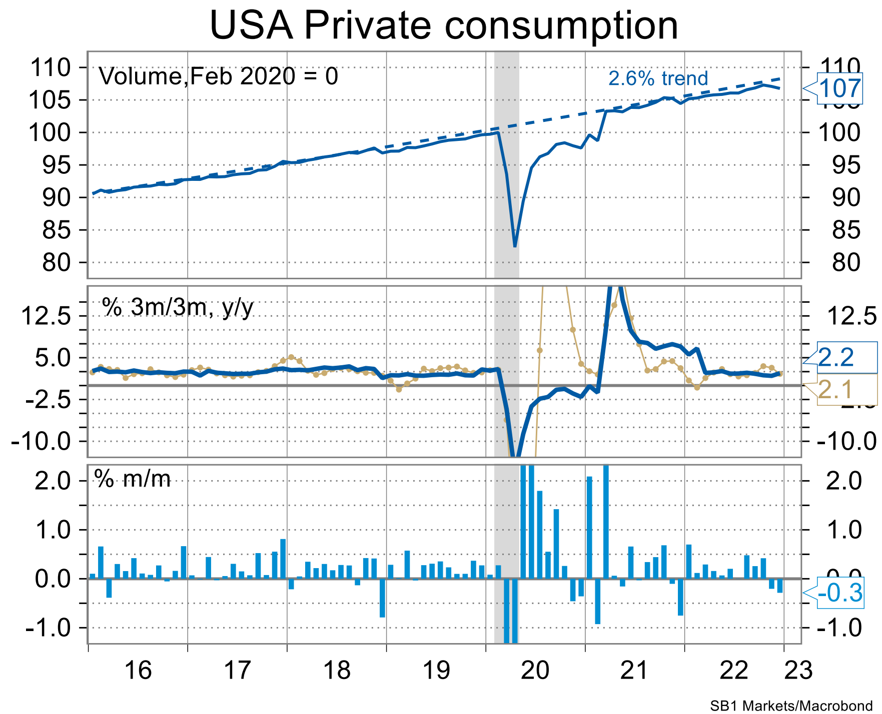


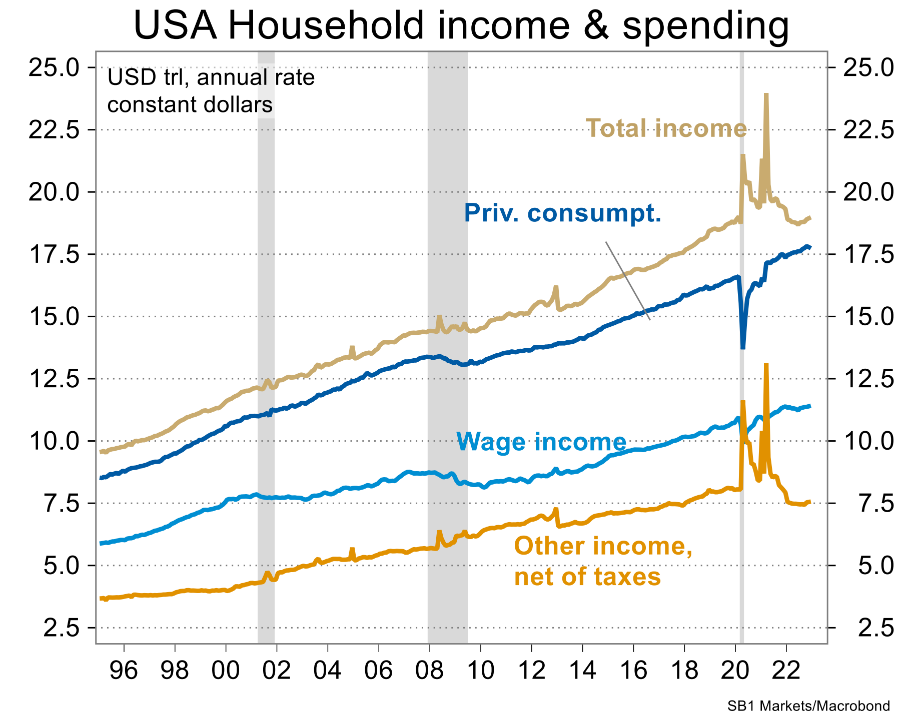


- **Goods prices** have been falling for 3 months, and a further decline is likely. However, some commodity prices have increased recently, also as measured in the PPI, and in the PMI survey, manufacturers reported a faster growth in input prices
- **Rent inflation** is still accelerating measured y/y, but monthly increases has flattened – at a very high level, at 0.8% per month
  - **Market rents** are slowing (but not yet outright falling, seas. adj), signalling lower rent inflation some months ahead
- The challenge: **Services x rents**, where prices are still climbing fast – <u>though not faster</u>, up 0.3% in Dec, like in Nov, but less than the preceding months. Prices are up 3.9% y/y, and the contribution to core PCE equals 2.5 pp (of the 4.4% total core)

Consumption down in December, November revised to a small decline too

The first signs of slower growth in consumption?



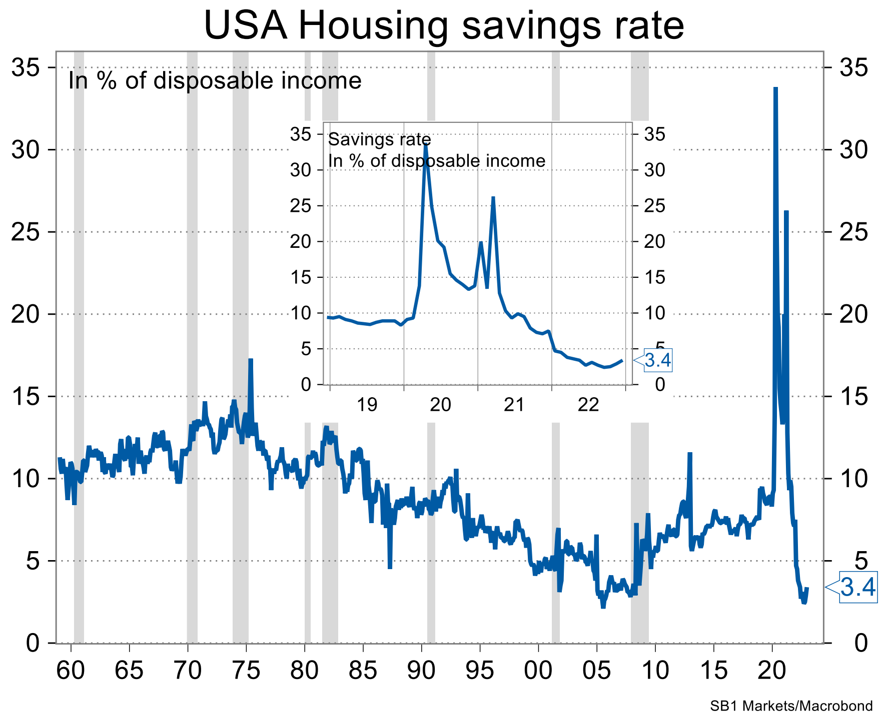


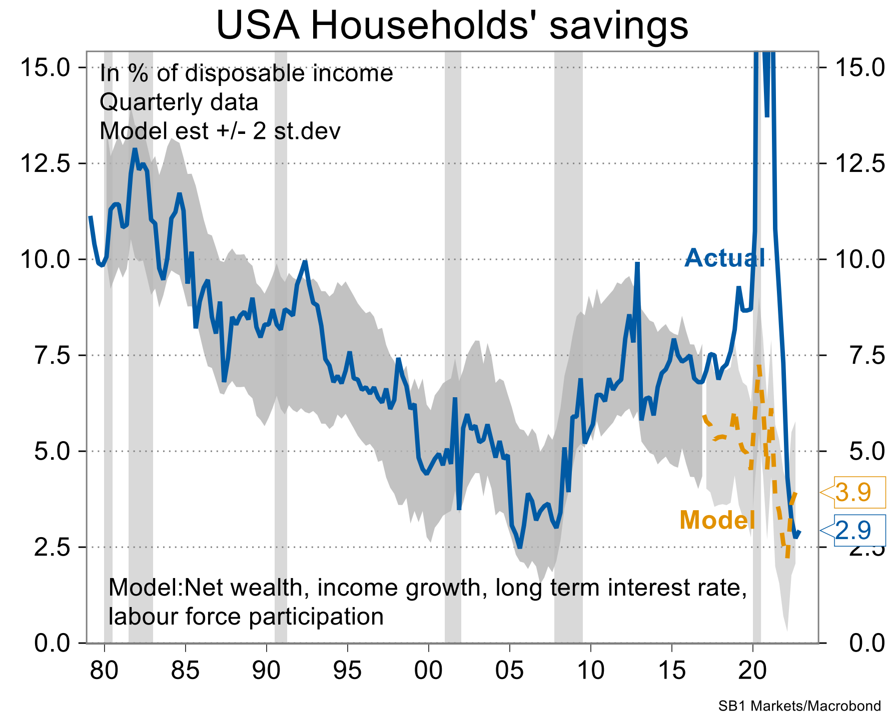
- **Private consumption** fell 0.3% in Dec, expected -0.1%, and Nov was revised down by 0.2 pp to -0.2%. In Q4, consumption grew by 2.1%, well below expectations. In December, consumption fell by 0.2% in nominal terms, as expected
- **Personal nominal disposable income** gained 0.2% in Dec, as expected, was up 0.1% in real terms. Real disposable income has increased somewhat recent months, as price inflation has slowed – but growth in real consumption has been stronger
- **The savings rate** rose 0.5 pp to 3.4%, from an 0.5 pp upward revised level in Nov. Still, the rate is close to the lowest ever – and 4 pp below level before the pandemic. However, even if the accumulated extraordinary savings through the pandemic is now gradually run down, most of the Wall of Money is still intact which may make it possible for households to keep up the level of spending (at least for those who saved…)

SpareBank 1 MARKETS

The savings rate has stabilised and inched up in Q4

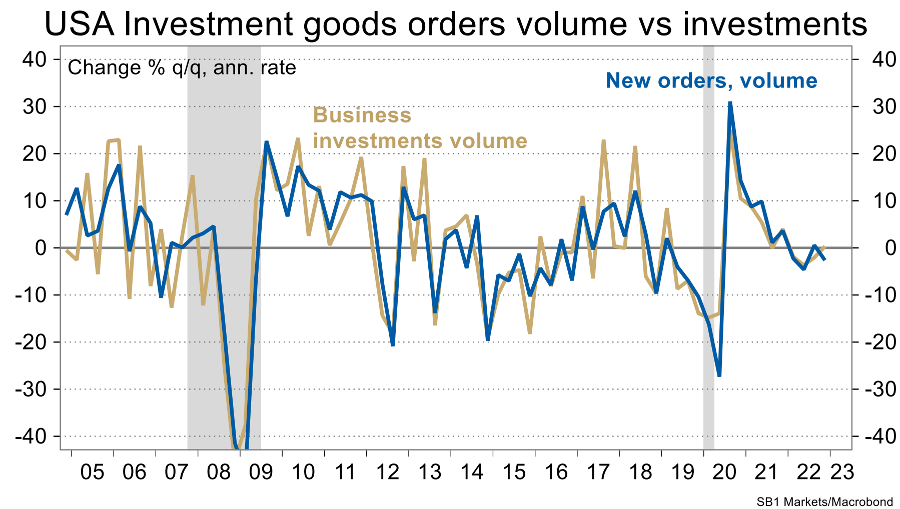
The savings rate rose by 0.5 pp in December to 3.4% – from an 0.5 pp upward revised level in November

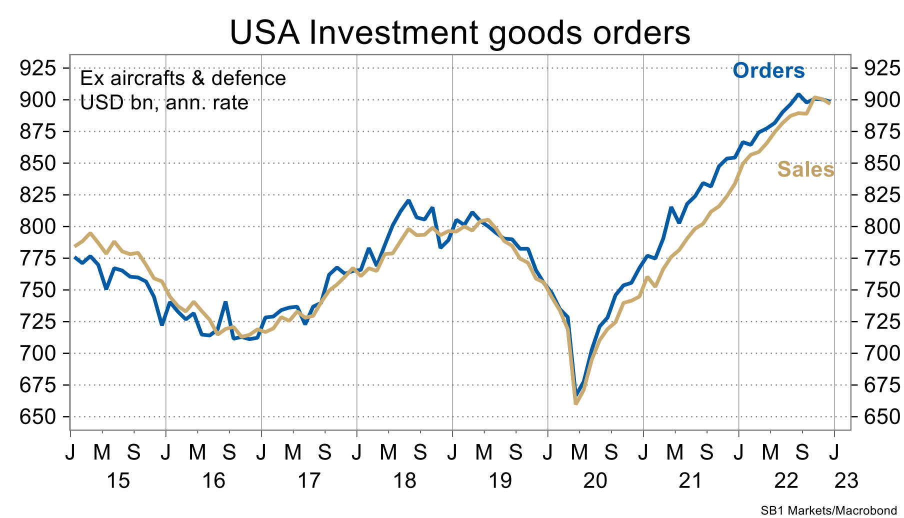




- The **savings rate** is still among the lowest on record, as households have dipped into 'normal' savings in order to keep up consumption, as their real incomes are not keeping up, due to the high rate of inflation. <u>The savings rate is now 4 pp lower than before the pandemic</u>
  - However, household have saved much more than normal during the pandemic, equalling to some 13% of disposable income – on average for all households, that is. This 'Wall of Money' has declined to less than 10%, and is shrinking at a 4 pp annualised pace
- **Our savings rate model**, yielded an estimated 3.9% savings rate in Q3. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp, but the gap was closed in Q2 – and now the actual savings rate is lower than the model estimate

Core capital orders are peaking? ~~2~~ 3 months are not a new trend but still…



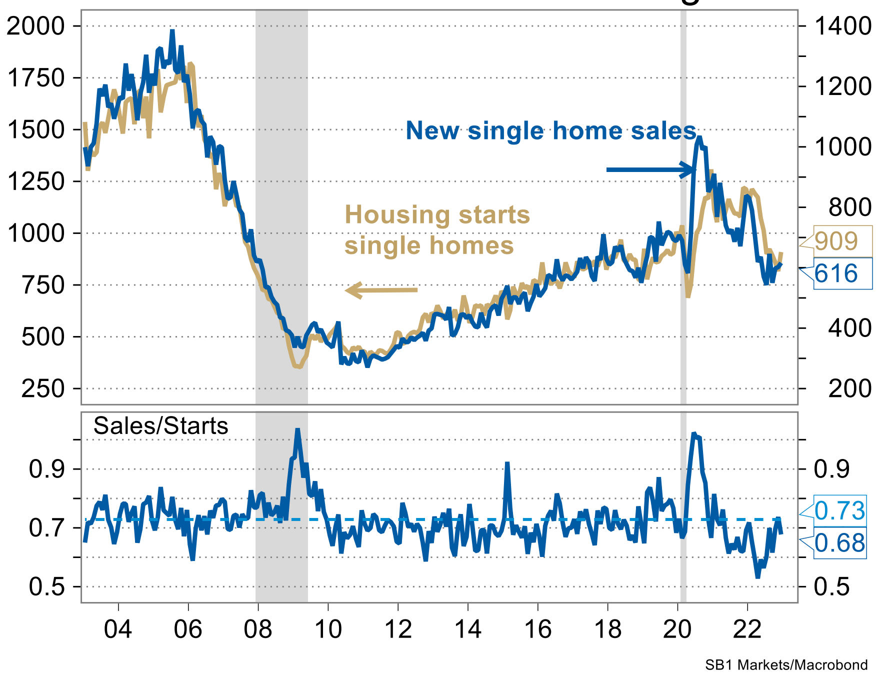


- **Core (x aircraft, defence) capital goods orders fell** 0.2% in Dec, as expected, following zero growth in November (revised from +0.2%). The level is lower than in September. Shipments fell 0.4% m/m. All data are in nominal terms
- **In volume terms**, order fell in Q4, as in Q1 and Q2 (Q3 was marginally above zero)
- **The business investment** level is well above the pre-pandemic level – and not low vs. a reasonable long term trend (not only in nominal terms, but also in volume terms)
- **Surveys** are indicating a very sharp decline in new orders (next page)

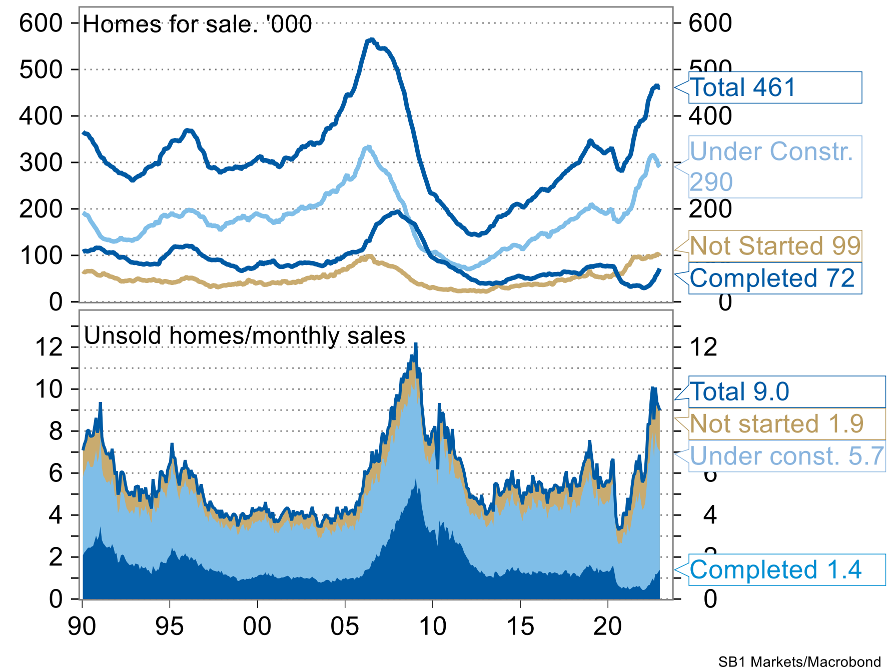
New home sales refuse to come down

But sales were lower than assumed/expected in Nov/Dec, and the inventory of completed homes is increasing

USA New home sales and housing starts



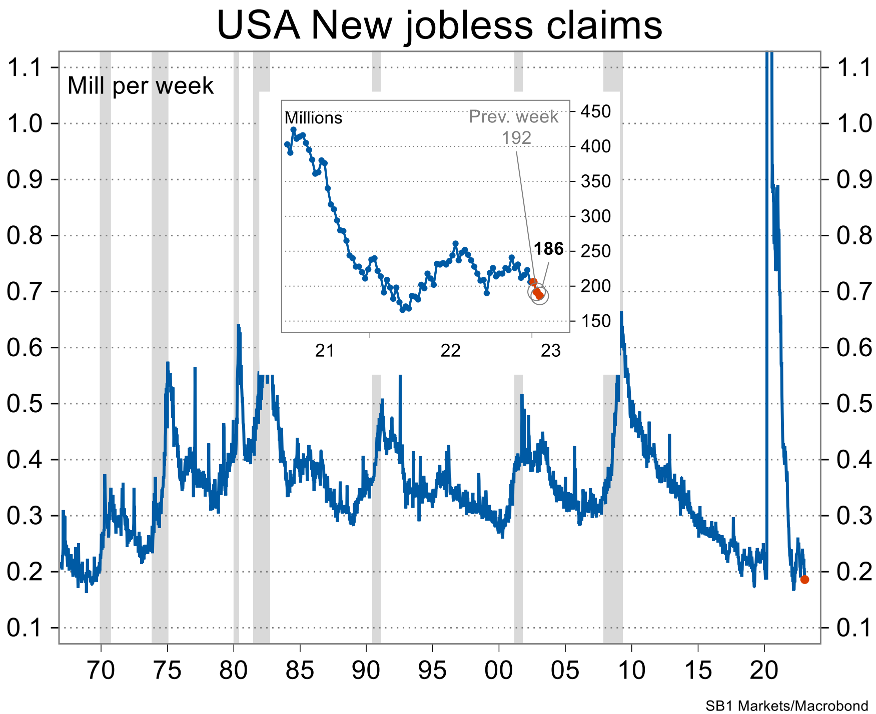
USA New Homes for sale

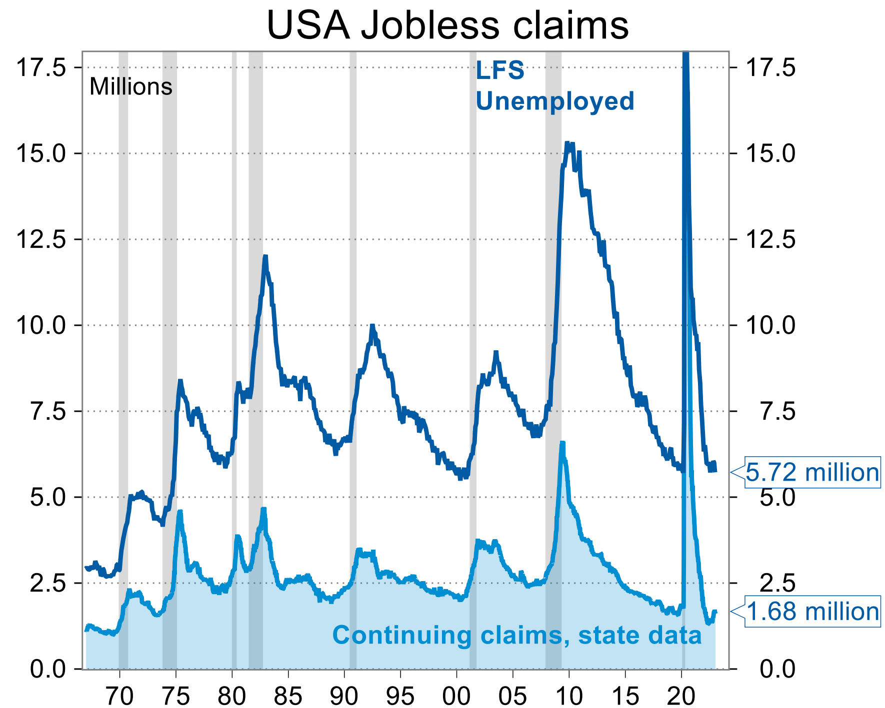


- **New single home sales** were weaker than assumed/expected in December. Sales were as expected in Dec, at 616' but Nov was revised down to 602', from 640' Sales fell sharply from January (from 831') to July last year (531' while the peak during the pandemic was in Aug 20, at 1,036') but thereafter sales have recovered marginally
- **The inventory of unsold homes** was close to unch. in both Nov & Dec, following the steep increase from Oct 2020 – to a rather high level, both in absolute terms and vs. sales. Most of the inventory is 'for real', either completed homes which is still increasing rapidly m/m (but still equals just 1.4 moths of sale) or unsold homes under construction (and these homes will be completed), The latter is at close to record high level but has fallen slightly recently – as the supply side responded to the strong increase in demand & prices during the pandemic. The steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started as at least the housing market has entered a recession)
- **Prices** fell in December, check more next page

New jobless claims down to 186’ last week – lowest since April last year

... The bottom was at 166’ in March-22. Did all the laid off tech++ people go straight to new jobs??

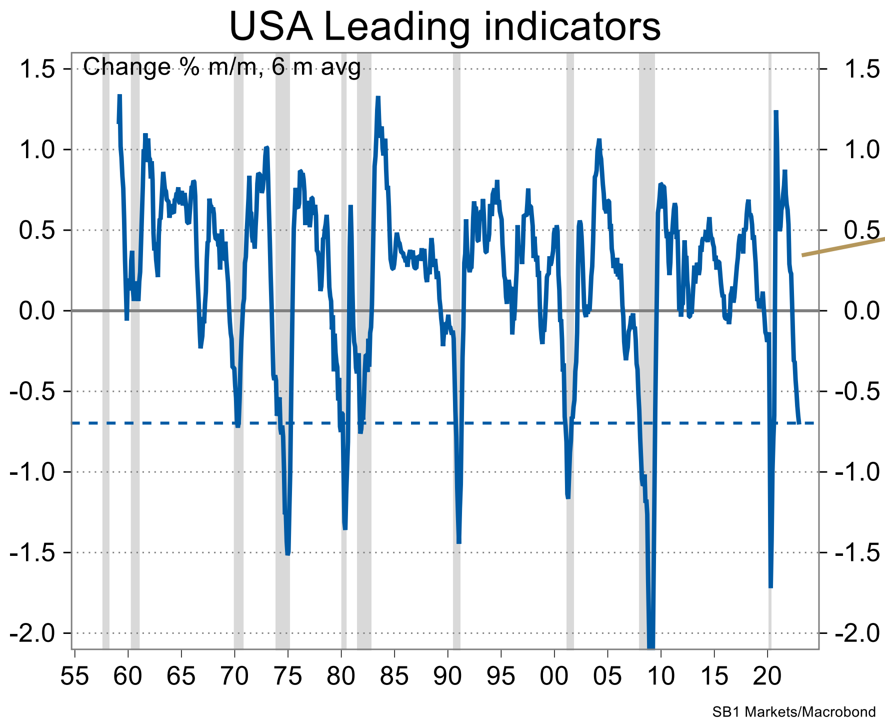


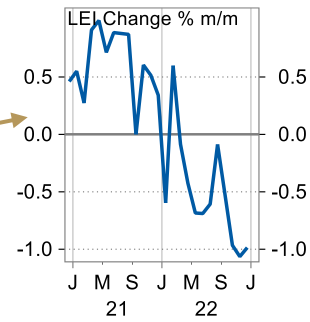


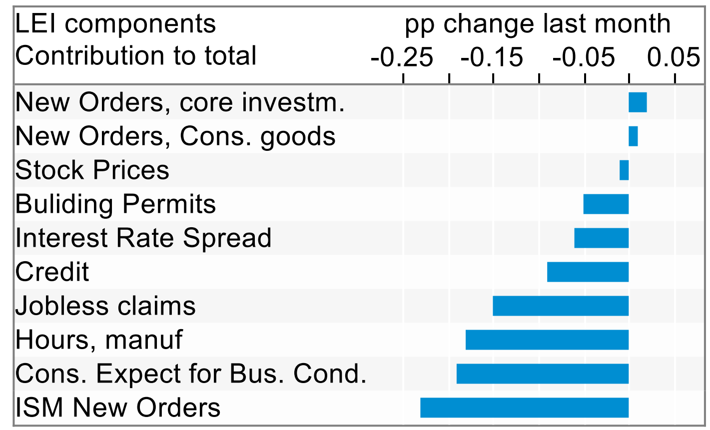
- **New jobless claims** decreased by 6’ to 186’ last week, expected up to 205’. The inflow has not been lower since last spring
- **Continuing claims** rose by 20’ to 1,68’ in week 2. The trend is slightly upwards but the level remains very low still
- Both still indicate a **tight labour market** – 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)

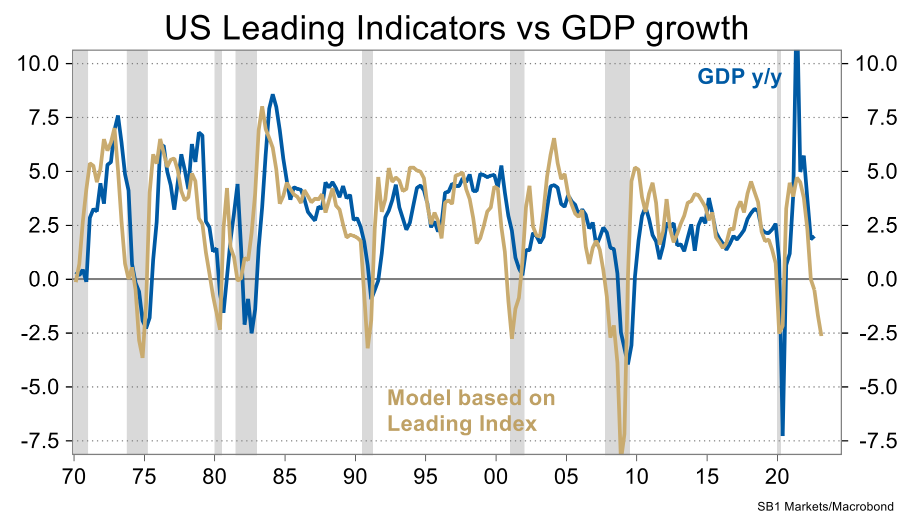
The Leading Economic Indicators still falling like a recession is coming

A 6-month avg of -0.7% level detected 8 of the 8 past recessions. And there were no false warnings!





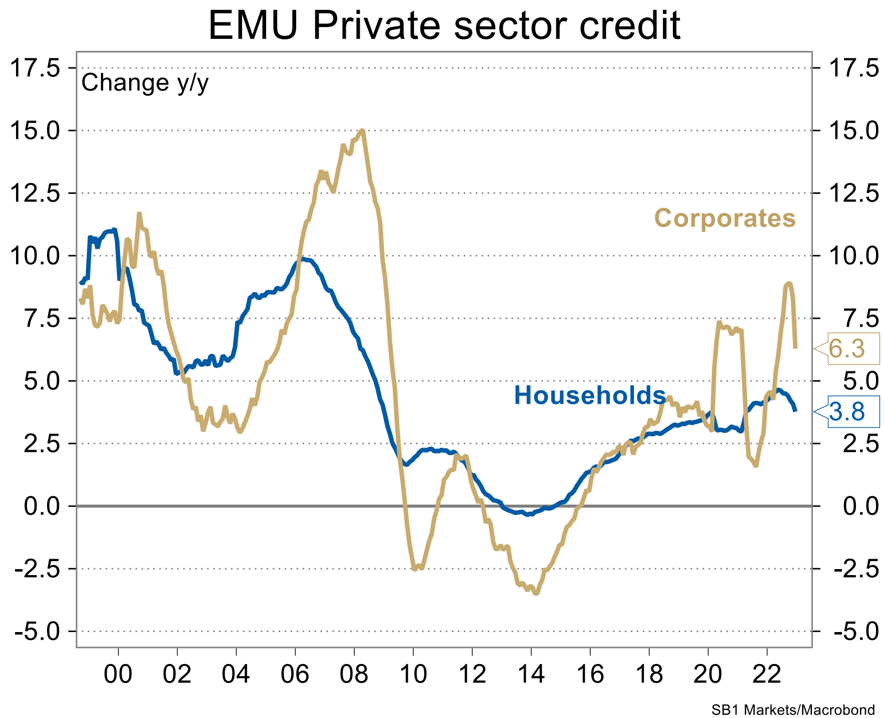


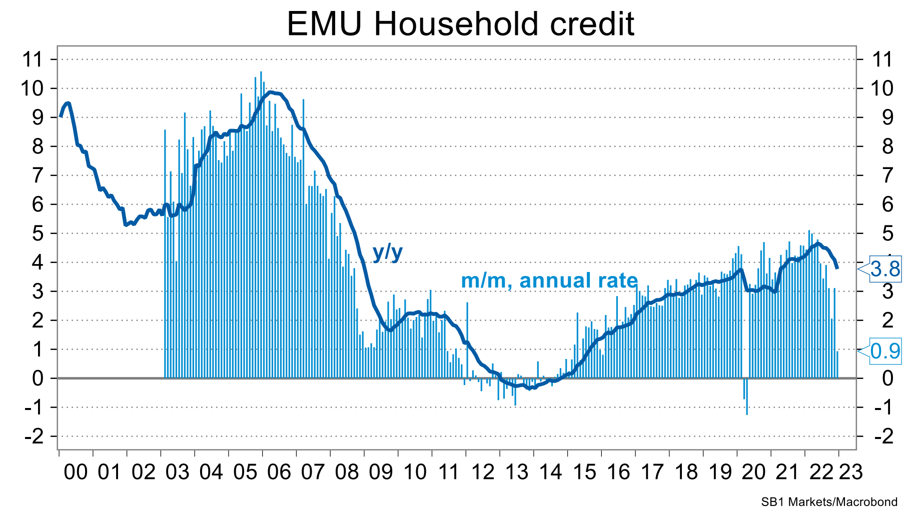


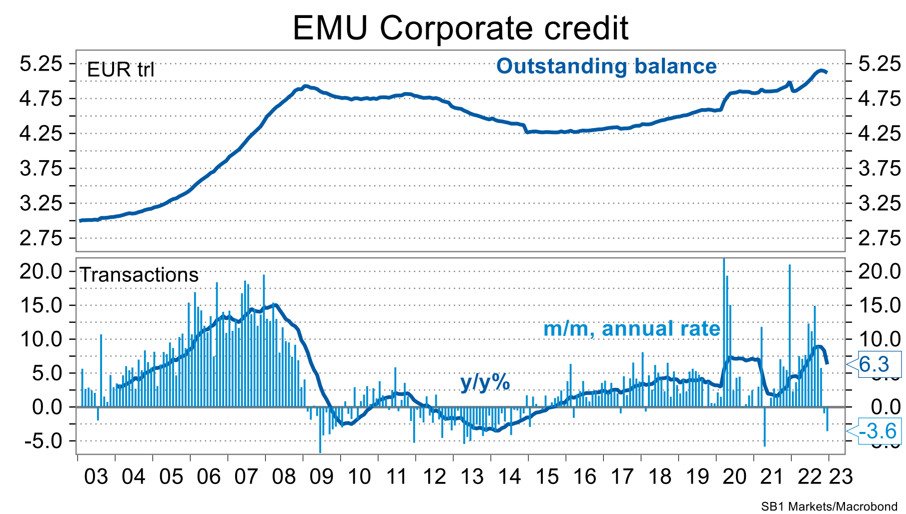
- The LEI fell 1.0% in December, expected down 0.7 pp, and Nov was revised down 0.1 pp to -1.1%. The 6 m average at is at -0.7%. The LEI has fallen to this level 8 times since 1965
  - On these 8 occasions the US economy was very close to entering or had entered a recession
  - Thus, the LEI 6 m avg. at -0.7 (and even a far smaller decline than that) ‘detected’ all 8 recessions since 1965; no false positives, and no false negatives. In 1960, US entered a recession without a warning from the LEI, but the LEI was very young an inexperienced at that time
- 8 of 10 components at the downside in Dec, 2 marginally on the upside

Corporate credit declined at a 3.6% pace in Dec, households up just 0.9%

The credit cycle has turned



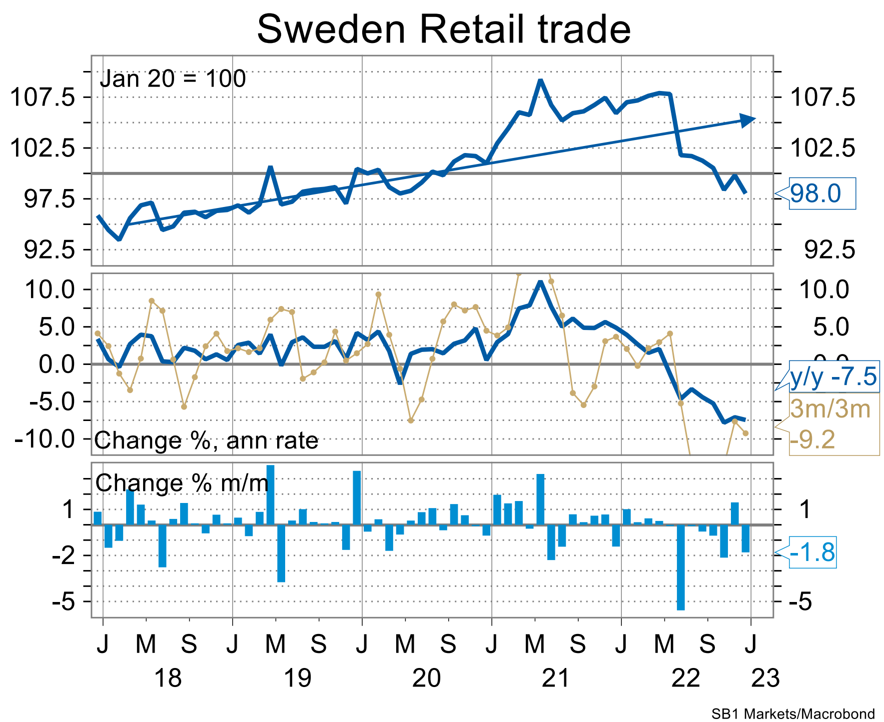


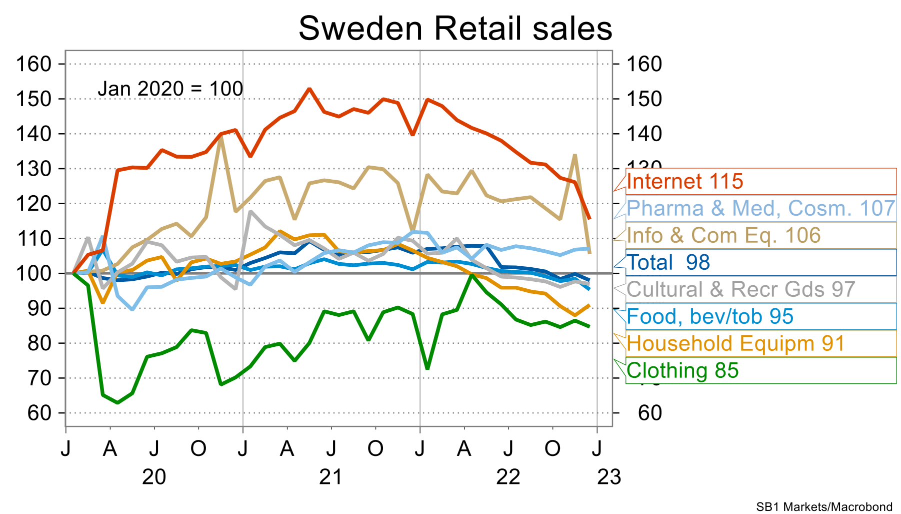


- **Monthly growth** in household debt has to 1% from 5% in early 2022. The annual rate has come down to 3.8%
- Growth in corporate debt is still up 6.3% y/y – but that is down significantly from the peak – and the monthly growth rate fell sharply in Dec, to -3.6%. The last **banking survey** signals a significant tightening, *check7 the next page*

Swedish retail sales are trending down sharply: -9.2% measured 3m/3m

Retail sales were down 1.8% m/m in volume terms in December, and is now 2% below the pre-pandemic level

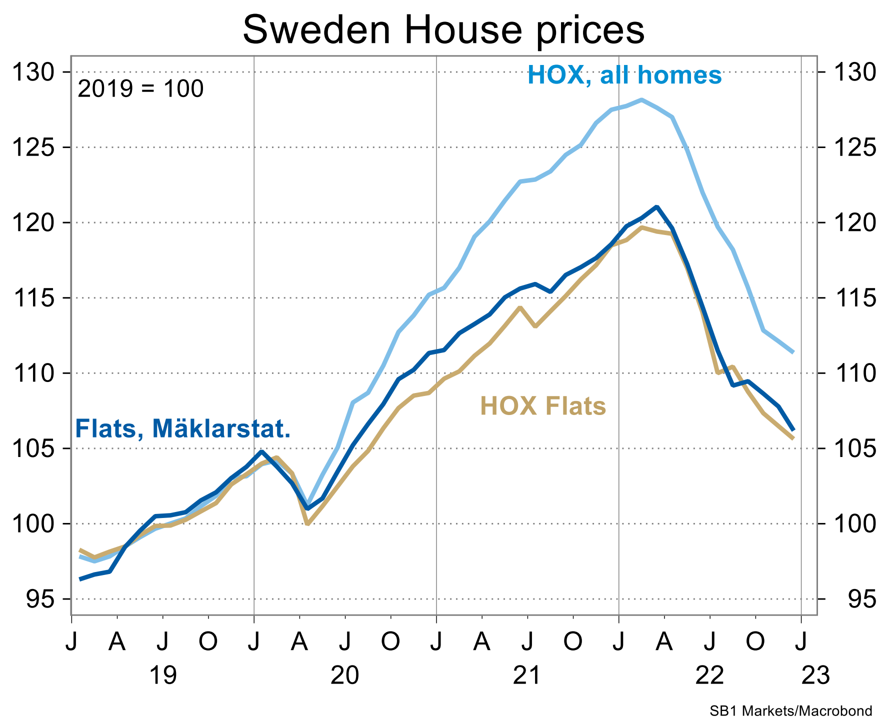


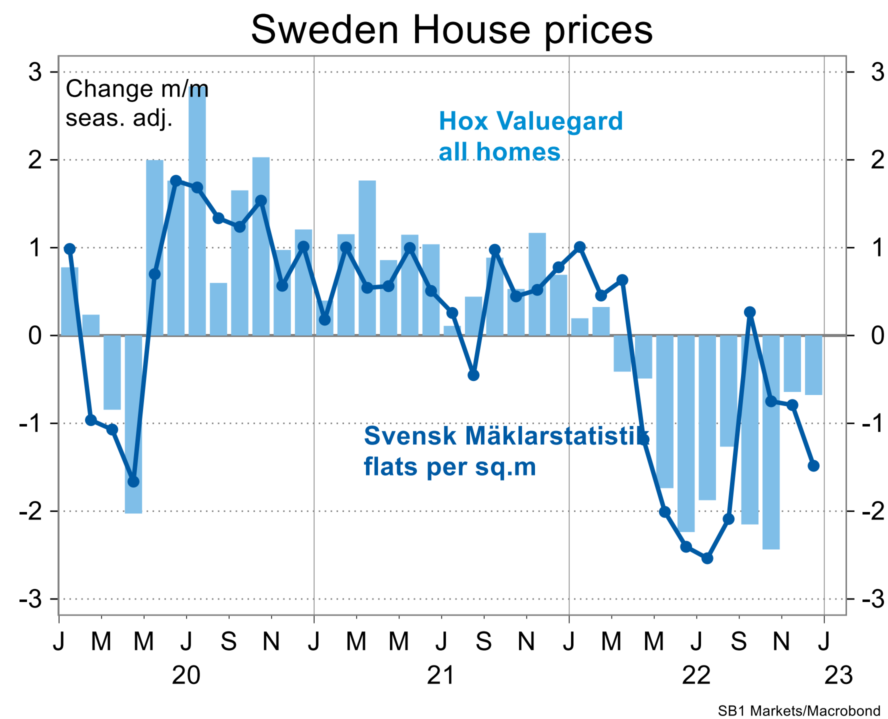


- **Sales fell 1.8% m/m in December**, following the 1.5% increase in November. Sales are down 7.5% y/y and by 9% from the peak last spring
- **The fall in retail sales is broad**: all sectors are down from the peak, even pharma. Clothing and internet sales have fallen the most
  - In Dec, IC equipment fell the most, like in Norway

No relief for Swedish home prices, but the decline may be slowing

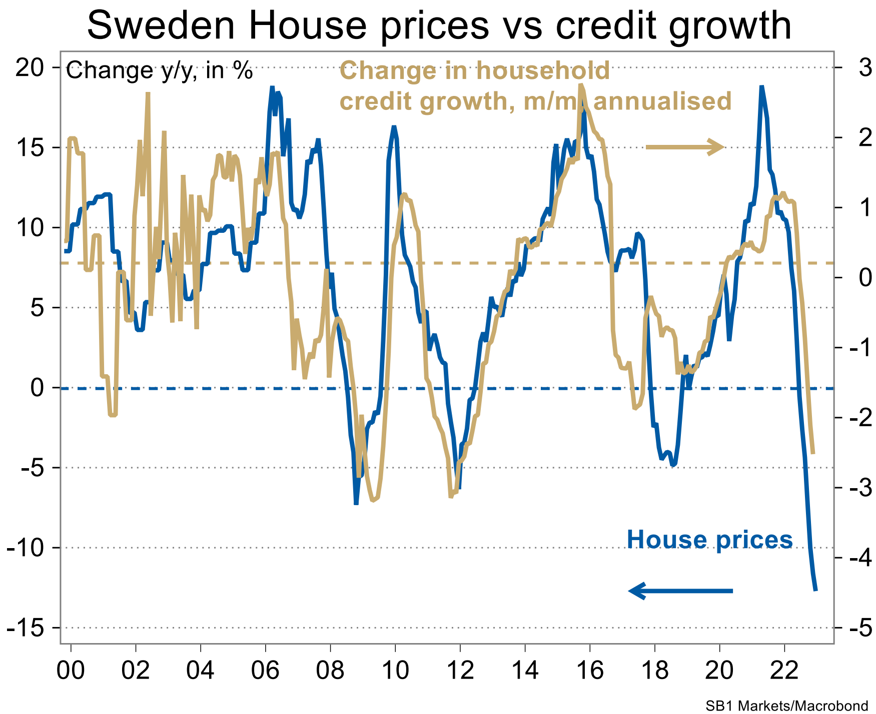
The Valuegard/HOX house price index is down 13% from the top in March last year

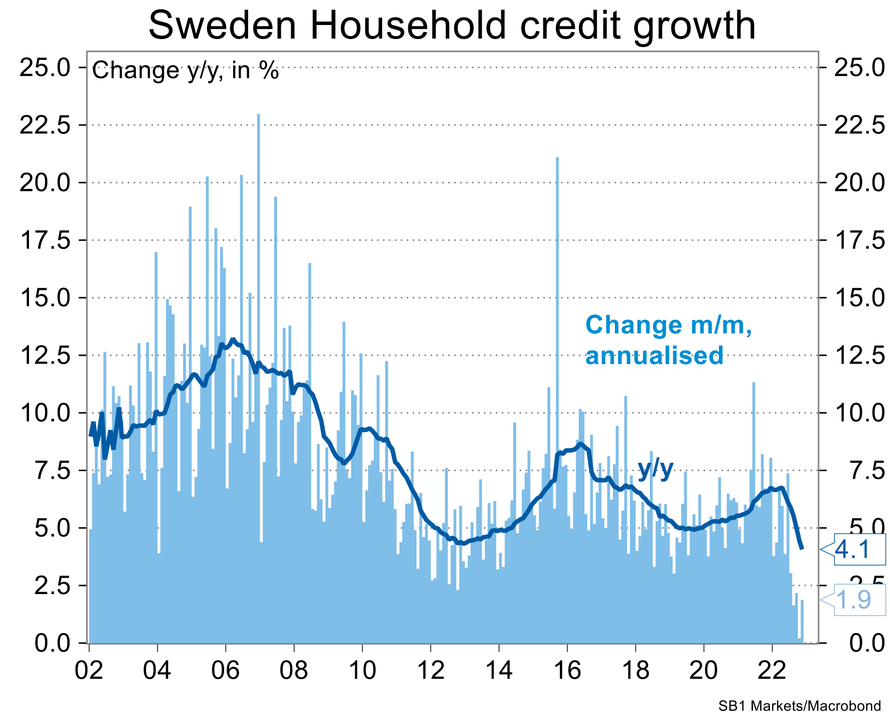




- The HOX index reported a 0.7% m/m fall in house prices in December, like in November, while the realtors had previously reported a 1.5% m/m fall in the flats prices

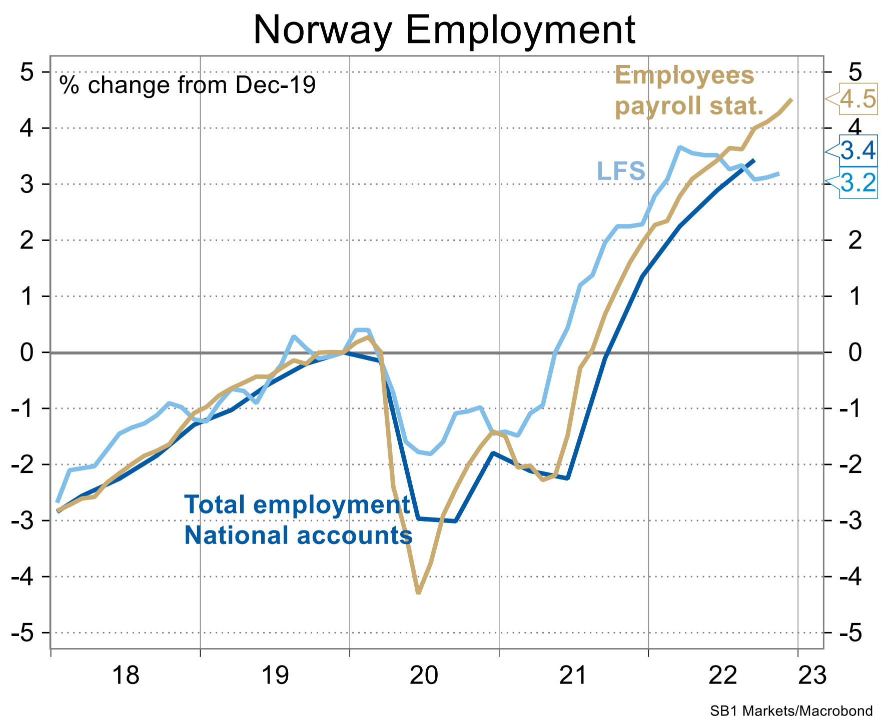
The setback in the housing market lowers credit growth rapidly

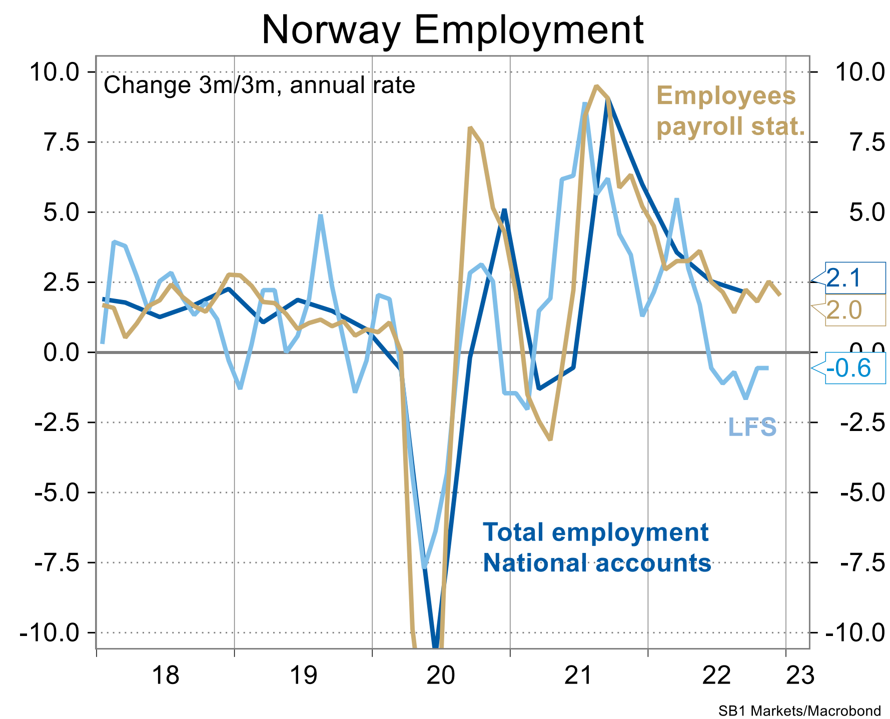




The no. of employees (register based) is still growing rapidly, at a 2% pace

Total employment in the LFS (AKU) has fallen since last spring but we wouldn't trust this volatile household survey



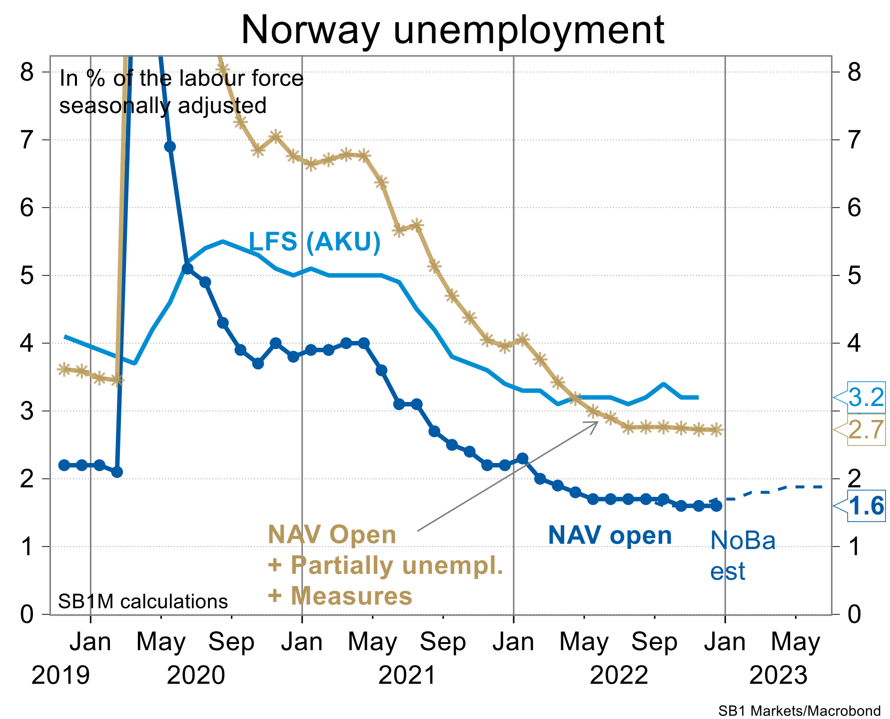


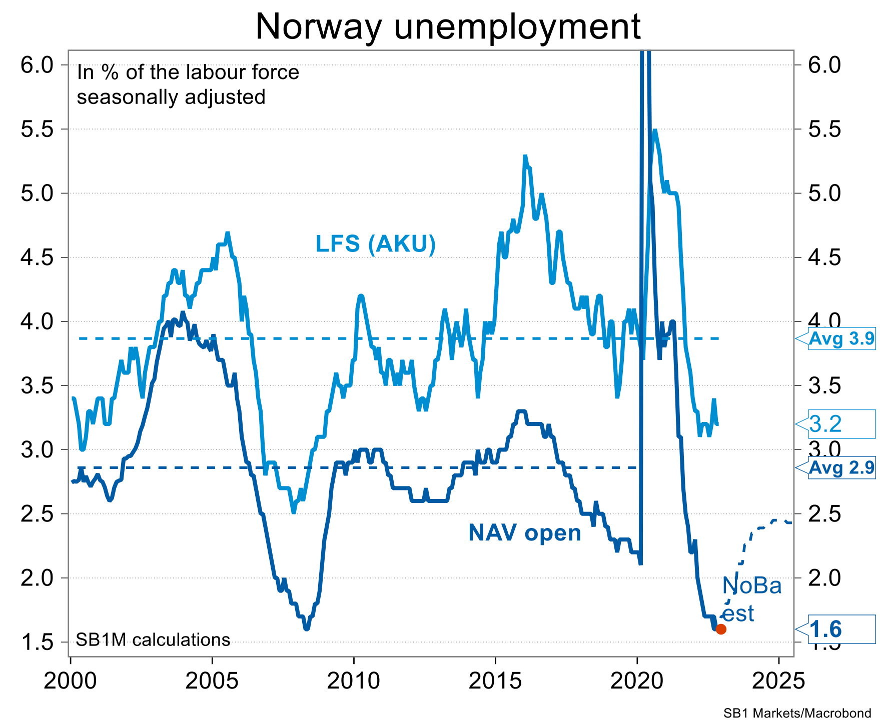
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) rose by 0.1% in November (3 m avg.), but is falling at a 0.6% pace measured 3m/3m
  - LFS employment is up 3.1% from before the pandemic
- The **register-based employee stats ('A-ordningen)**, reports a 0.2% growth in the no. of employees in December, like in Nov. The 3m/3m rate is 2.0%, still impressive – and has stabilised (or accelerated marginally) since the summer. The level is up 4.5% since Q4-19. Foreigners have fully returned
- **National accounts** reported a 2.1% lift in employment in Q3 (annualised), and a 3.4% increase from Q4-19

SpareBank 1 MARKETS

LFS unemployment unchanged at 3.2% in Nov, in line with our forecast

The no. of unemployed persons increased ever so slightly, but the rate remained unch, and bottomed in March, at 3.0%

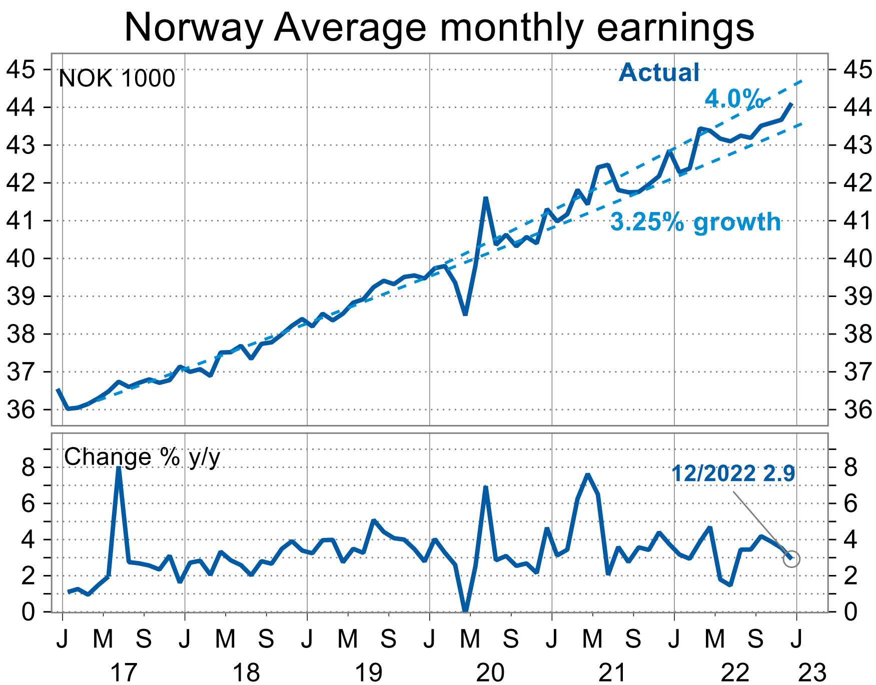




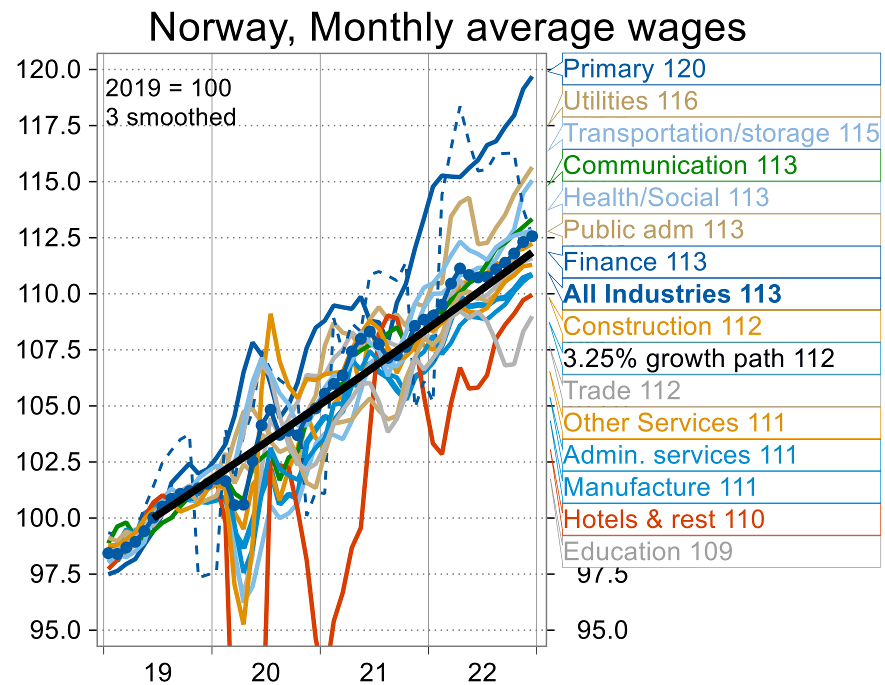
- **The NAV open unemployment rate** was at 1.6% in December, and has not yet turned up

Wage inflation is still not accelerating

Average monthly earnings rose slightly in Dec but the annual growth rate is at 2.9%, and the trend is at some 3.5%



SB1 Markets/Macrobond

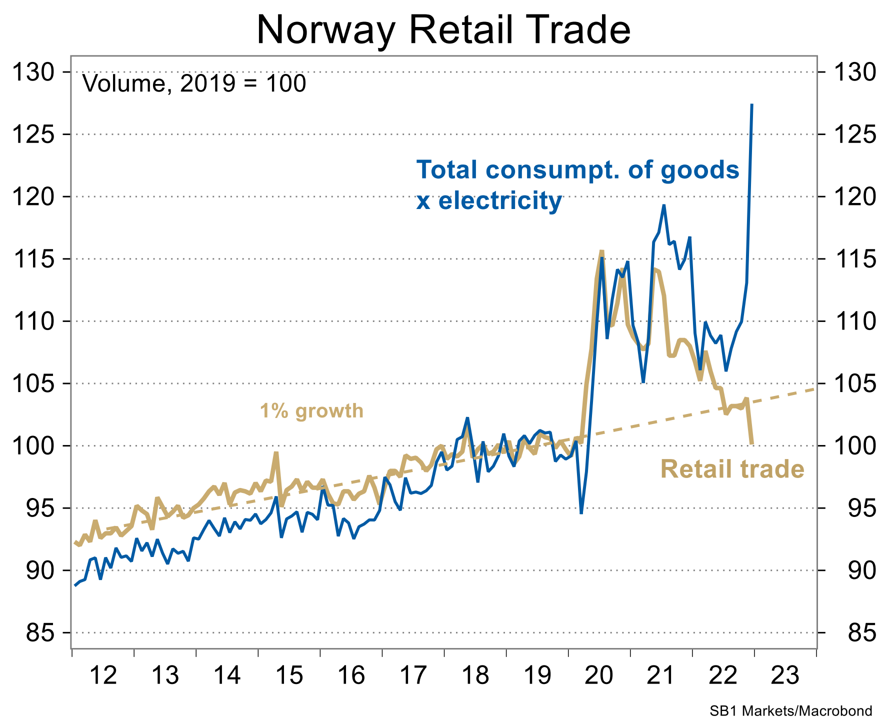


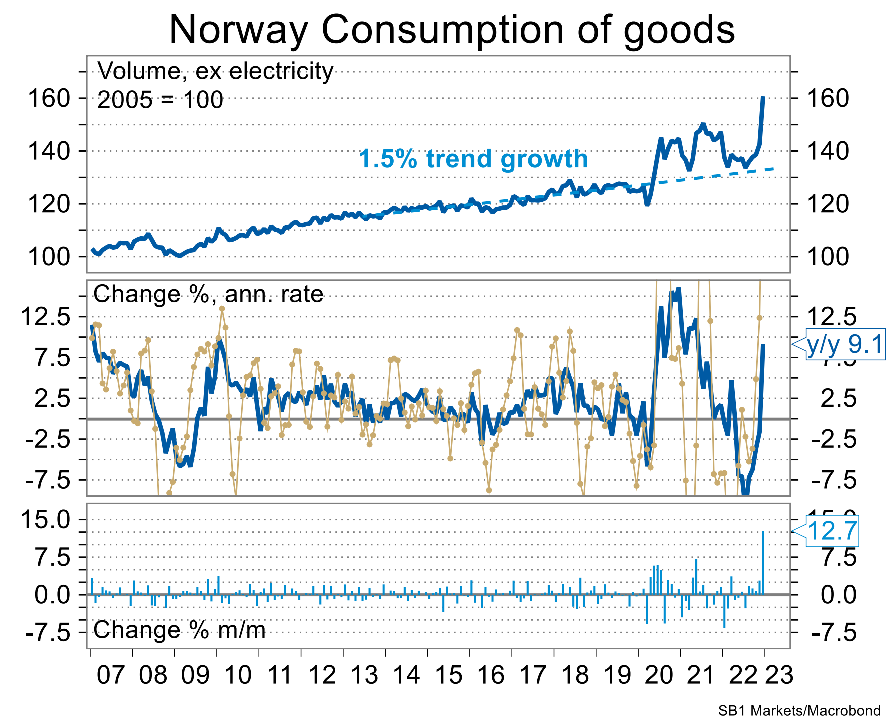
SB1 Markets/Macrobond

- **Monthly average cash earnings** has not accelerated much from the 3.25% pre-pandemic growth path. In fact, in Dec the y/y- rate came in at 2.9%. The underlying growth rate is not above 3.5%
- **These earnings data** are rather volatile, also depending on hours worked, bonuses – and data are often substantially revised
  - In 2021, the monthly stats reported a 4.4% growth rate – while the average wage inflation was 3.5%, according to SSB
  - In 2022, monthly earnings grew 3.3%. Still, we expect the 'official' (TBU) figure to land at 3.9%, in line with SSB's last estimate
  - Changes in the mix of employees between and even within sectors will have an impact on these data
- Other wage indicators confirm the moderate growth in wages, check next pages – but wage inflation has been accelerating recent years

Retail sales nosedived in Dec; total consumpt. skyrocketed due to auto sales

Retail sales dropped 3.6%, and new home sales are collapsing. Norges Bank's 'terminal rate' is not that far away?



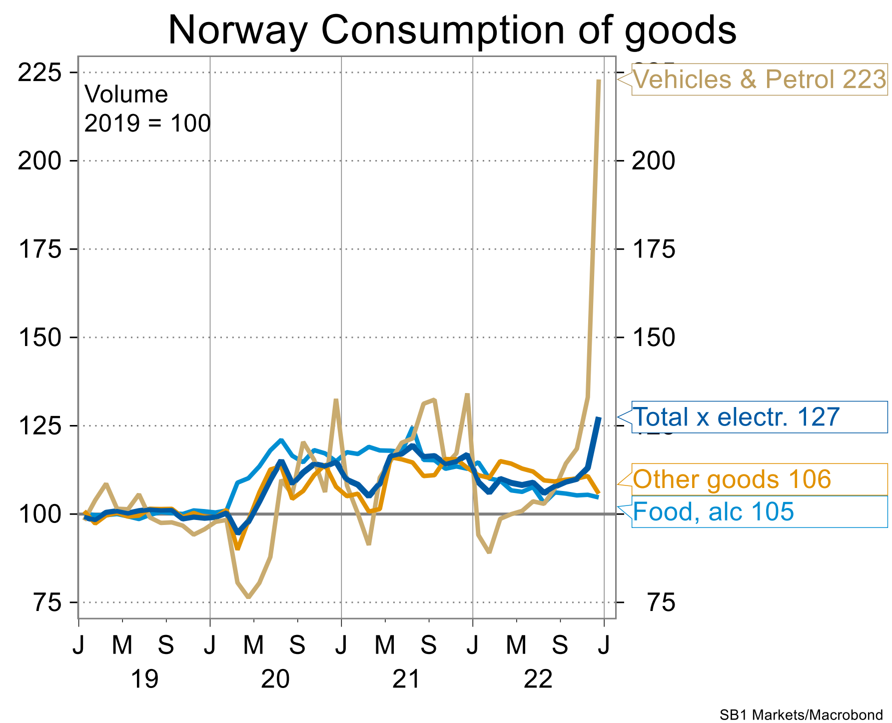


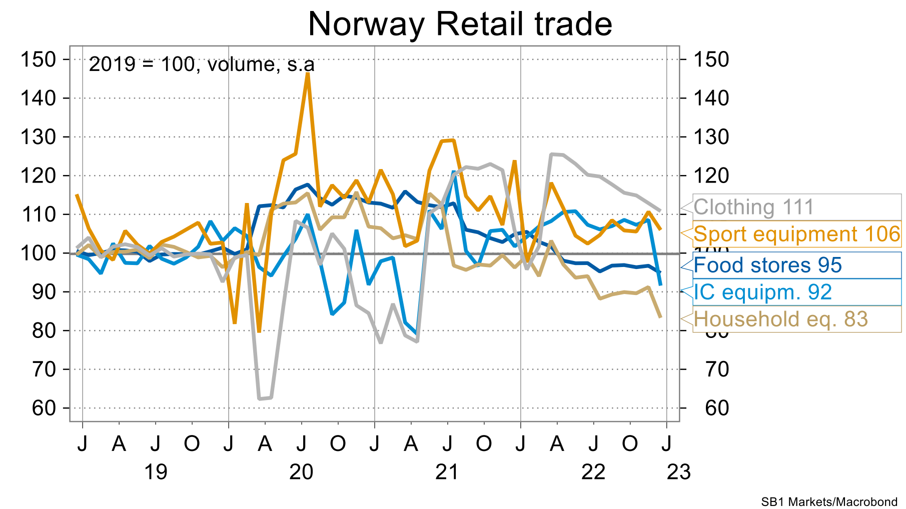
- **Retail sales** fell much more than anybody expected, by 3.6% in Dec – consensus was for a 0.5% decline, and sale volumes fell back to the pre-pandemic level!
  - The previous months, sales were stronger than expected. Quite possibly, Black Friday/Week (or Month?) sales lifted sales more than normal in Nov, and Dec turned out to be the payback month – even if reports from retailers or banks (card transactions) did not indicate the large monthly decline. IC equipment the big loser
  - December sales confirms the steady downward trend from the local peak in May 2021, sales are down 12%, and were down 7.3% y/y in December (and by 4.7% in 2022). In value terms, sales were down just 0.1% m/m. From the 2019 average, Dec volumes were flat, while sales were up 18% in value terms!
- **Total consumption of goods** rose 12.7% in December, twice as much as anytime before – and not from a low level – all due to new car sales before new and higher taxes kicked in on Jan 1st . Adjusted for car and fuel sales, goods consumption was actually down 1.8% in Dec. Sales will no doubt be reversed in Jan/Feb
- Both **retail sales and housing starts** (or at leas new home sales) are now heading rapidly downwards. This cut in demand is a least partly is due to the increase in interest rates, which for most households have reduced real disposable income much more than the decline in real wages due to high inflation. If so, a clear signal that Norges Bank is succeeding in slowing the economy. The job is soon accomplished?

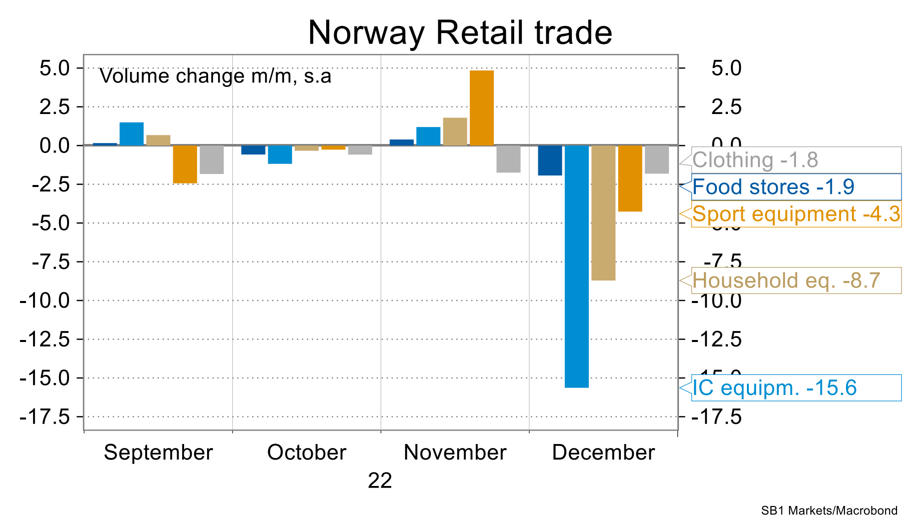
SpareBank 1 MARKETS

Most sectors down in December, and most are trending down

Auto sales save the day for total consumption of goods. IC equip. (phones, PCs, TVs) fell 16%, household equip. -9%



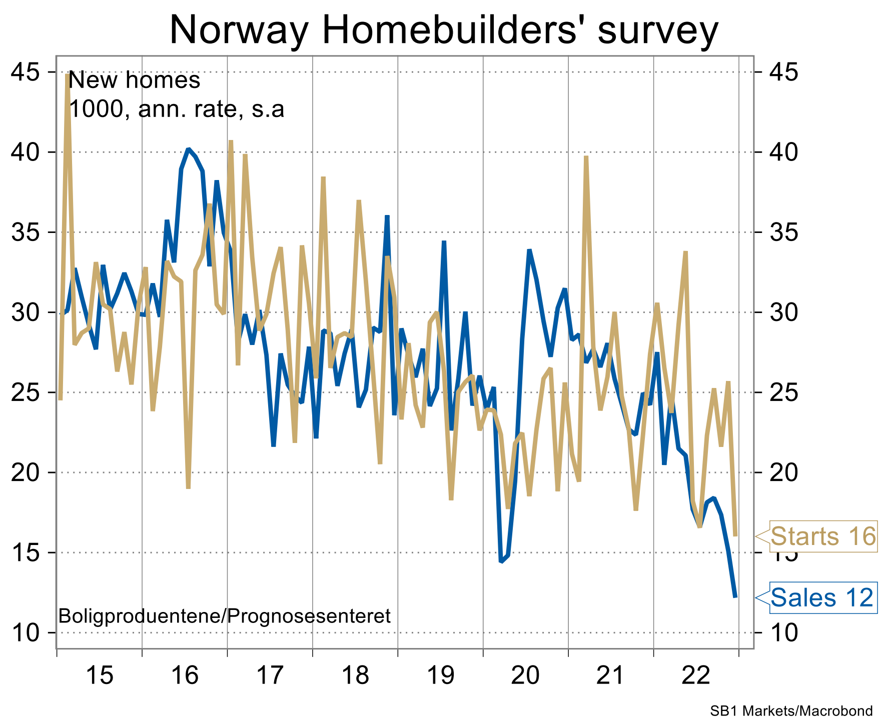


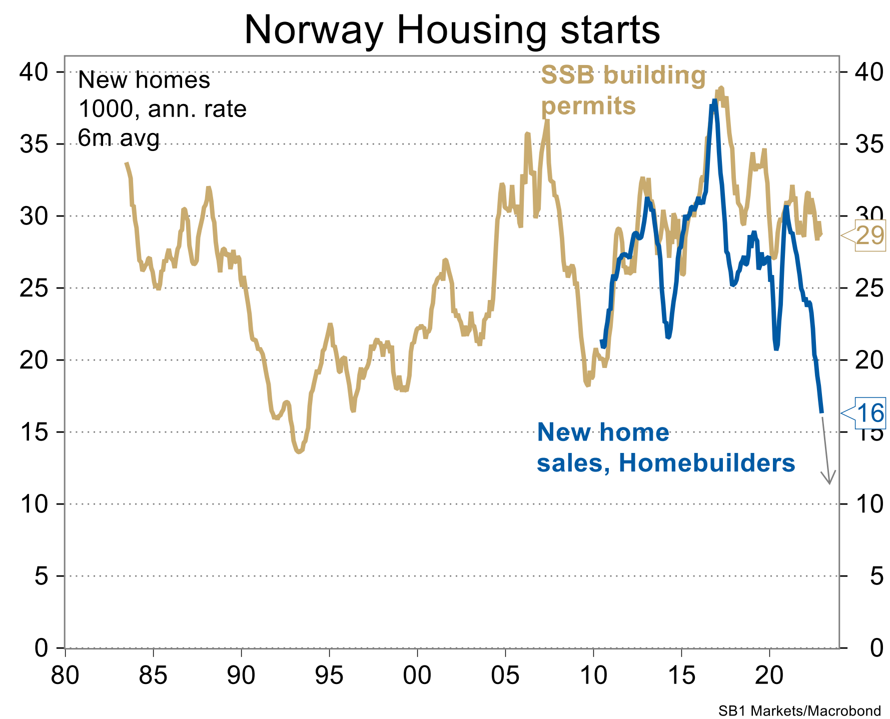


- Sports equipment also fell – and even sales of food

New home sales plummeted in December

To the lowest level ever (data from 2010) – and is probably signalling a steep decline in housing starts



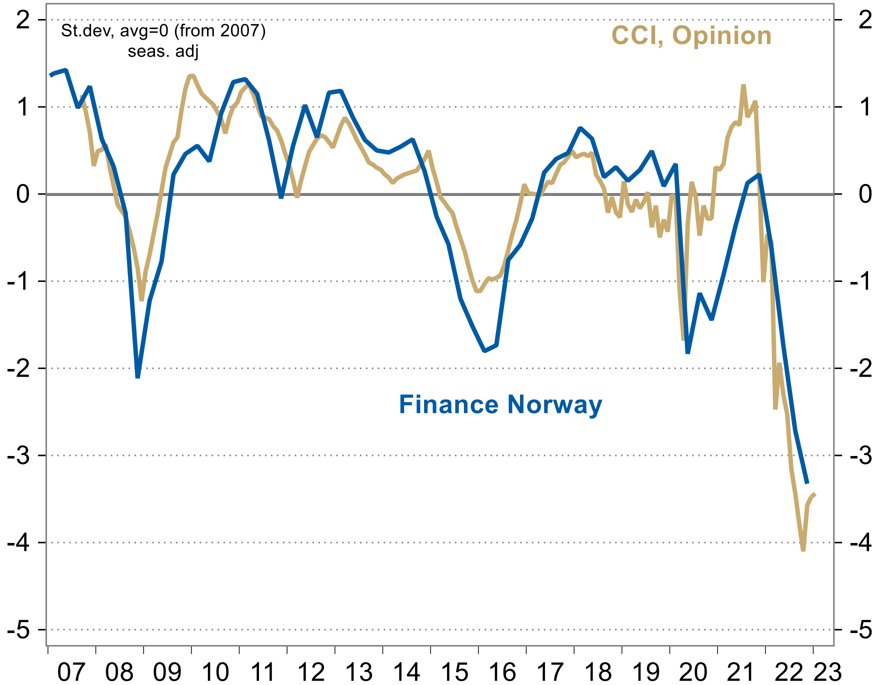


- Boligprodusentene (Home builders) reported a further decrease in new home sales in December, to 12' from 15' (annualised). The average over the past 6 months is 16', the lowest on record from the Home builders
- Starts (builders' stats) nosedived by 9' to 16' in December. The average over the past 6 months is at 21', while SSBs reported building permits at 29' on average the past 6 months
- The rather steady decline in new home sales signals further fall in new starts/permits the coming months (taken literally, down to the latest level in 'modern times'. While construction costs probably will come down (both materials & profit margins), mortgage rates and falling house prices still weighing on the construction sector

SpareBank 1 MARKETS

Consumer confidence marginally up in January still -3.4 st.dev below avg.

We are collectively depressed: consumer confidence is extremely low – but have bottomed most places

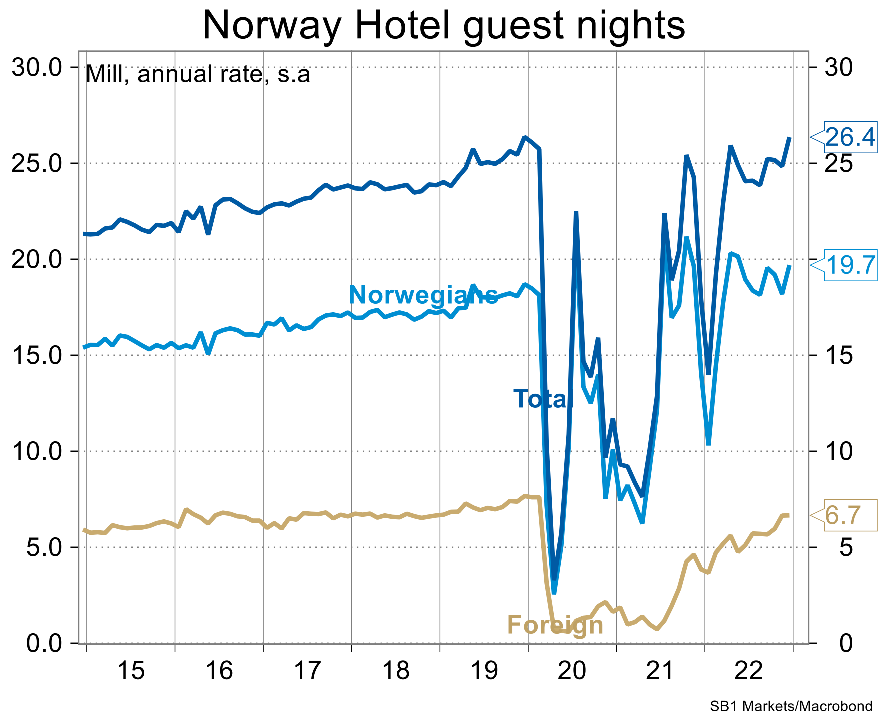


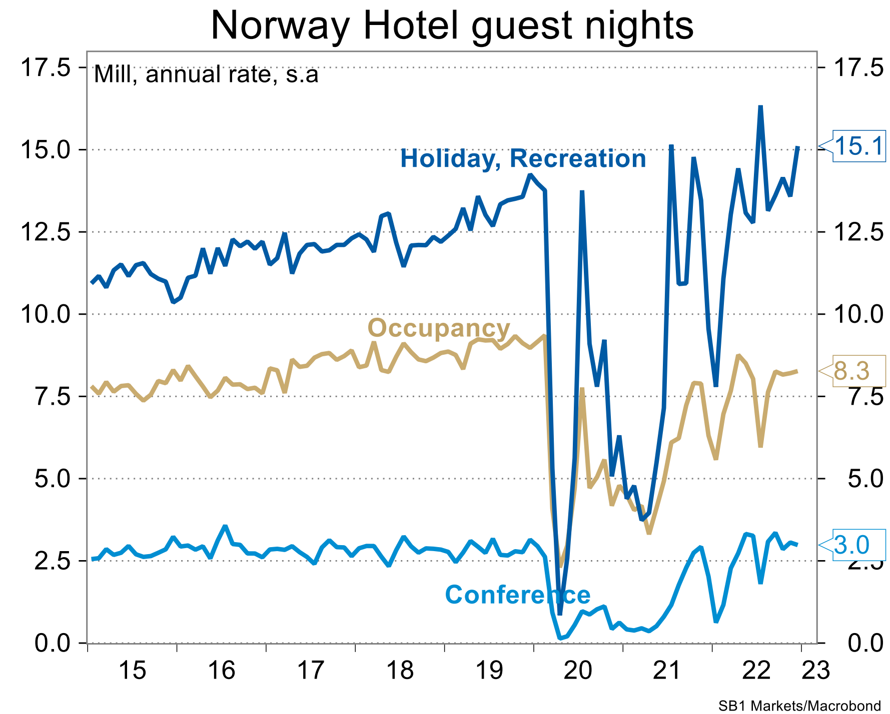
SB1 Markets/Macrobond

- **The actual CCI print** from Opinion was down 0.3 pp to -27.6 in January, but rose slightly, seasonally adjusted – but the index remains 3.4 st.dev below average. ATL was at -4.1 st.dev in October, while the bottom during the pandemic was 1.7 st. dev. below average
- The **net share of optimists** is -27%. Given inflation and the hikes in interest rates + some geopolitical uncertainty, this share could easily have been larger
- **Will households stop spending or retreating from the housing market?** The housing market has no doubt turned the corner, while sales are trending down but far from at a scale comparable to the record low consumer confidence (at least given the high starting point, during the pandemic)
- Even if a large share of the population recognises that their own economy will be hurt, it does not imply that they all plan to cut spending sharply – but there is of course some downside risk. So far, lower savings have paid much of the bill for higher interest rates and higher prices

December the best hotel month, ever? At least adjusted for the season

The no. of guest nights climbed to the highest level ever as both recreation, occupancy & conference traffic was strong

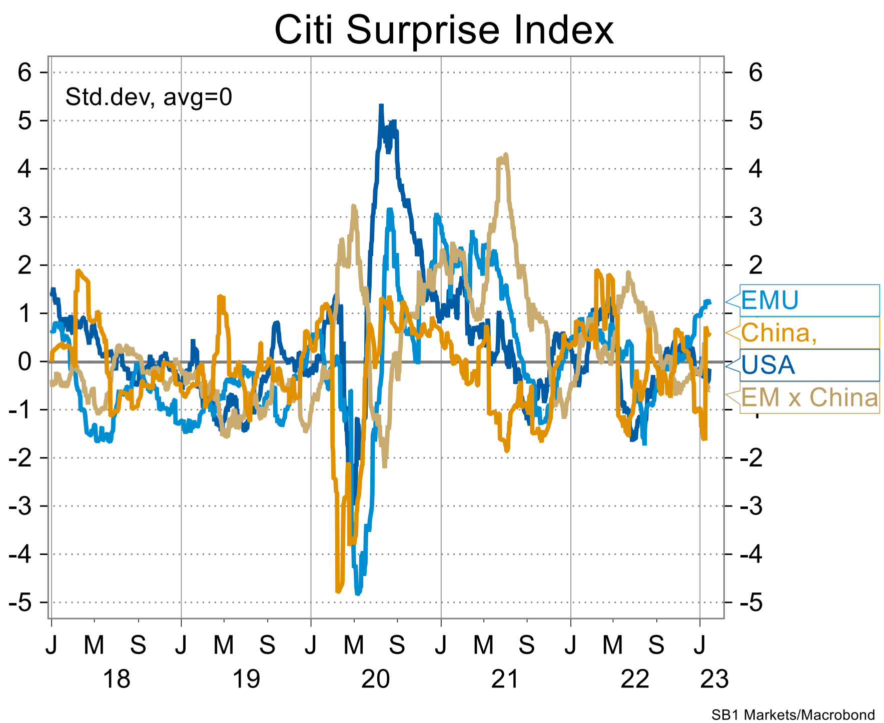


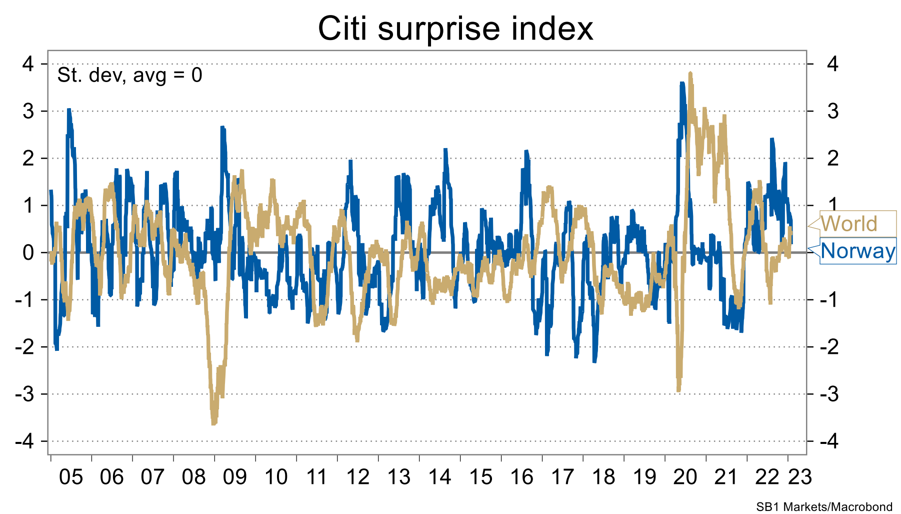


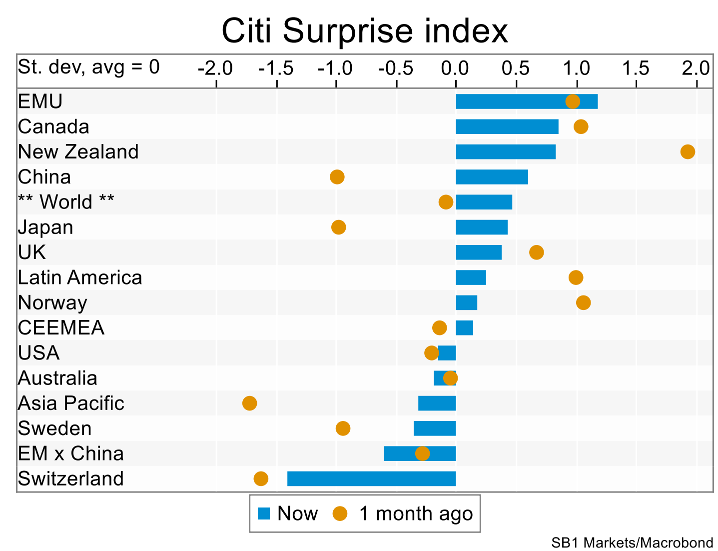
- **Recreational demand** is back to above a normal level, even if the total number of foreigners are still some per cent below the pre-pandemic level
- **The conference market** is back the pre-pandemic level
- **Other business guest** nights are some 10% % below the pre-pandemic level (monthly date are volatile, even after seas. adj.)
- However, hotel capacity has increase since before the pandemic, and utilisation is still not record high

The world is surprising to the upside, even if US is still on downside

The EMU is at the top, and China moved up the previous week due to less bad data than expected in Dec/Q4







- **Norway** moved down on the list last week, due to the decline in retail sales in December – but the surprise index remains above zero

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

Highlights

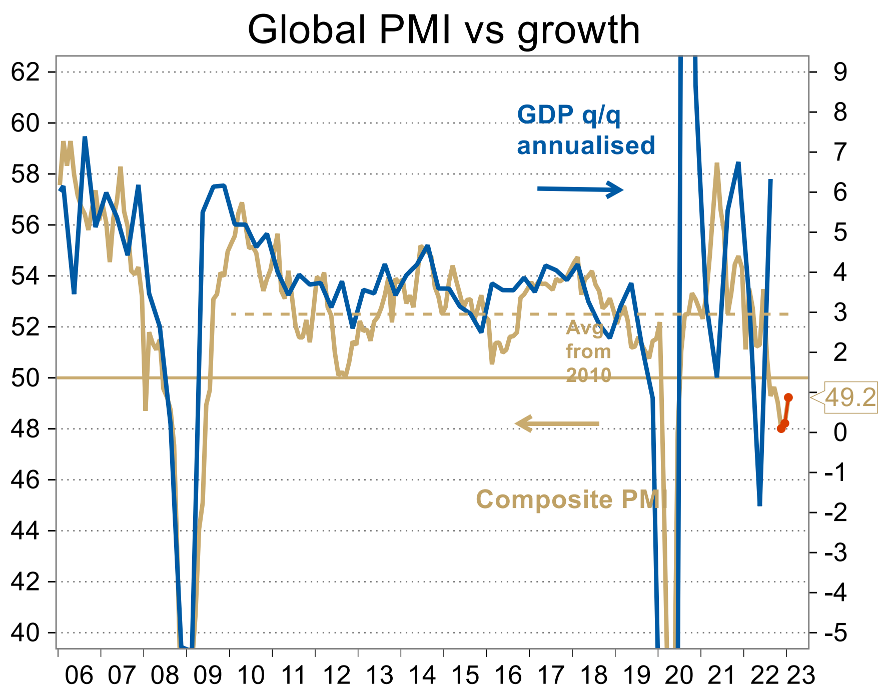
The world around us

The Norwegian economy

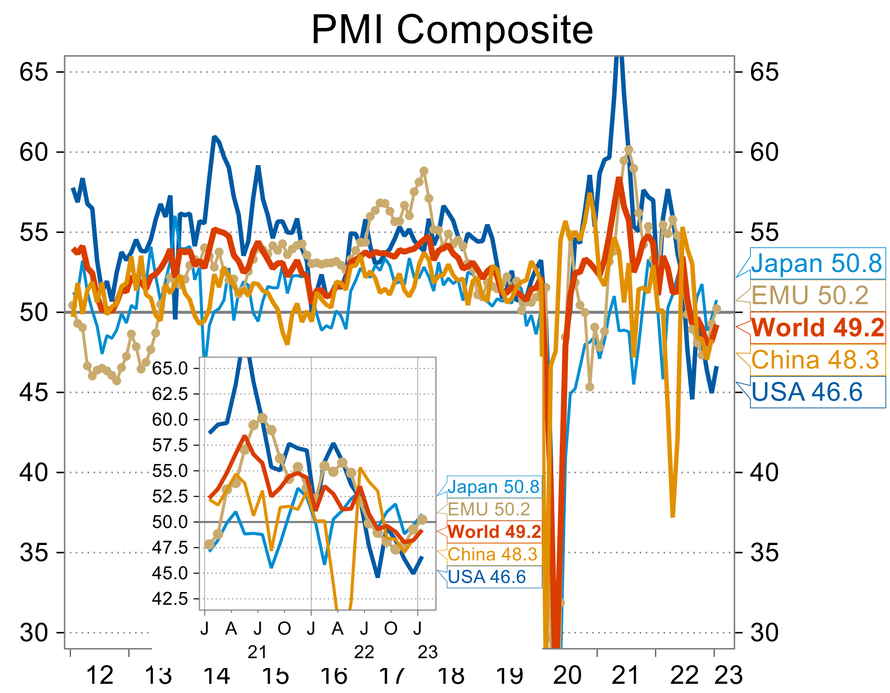
Market charts & comments

While we are waiting for China – the rich world's PMI up 1 p to 49.2

Not that impressive, signalling just a marginal growth in global GDP. China may lift the global average



SB1 Markets/Macrobond



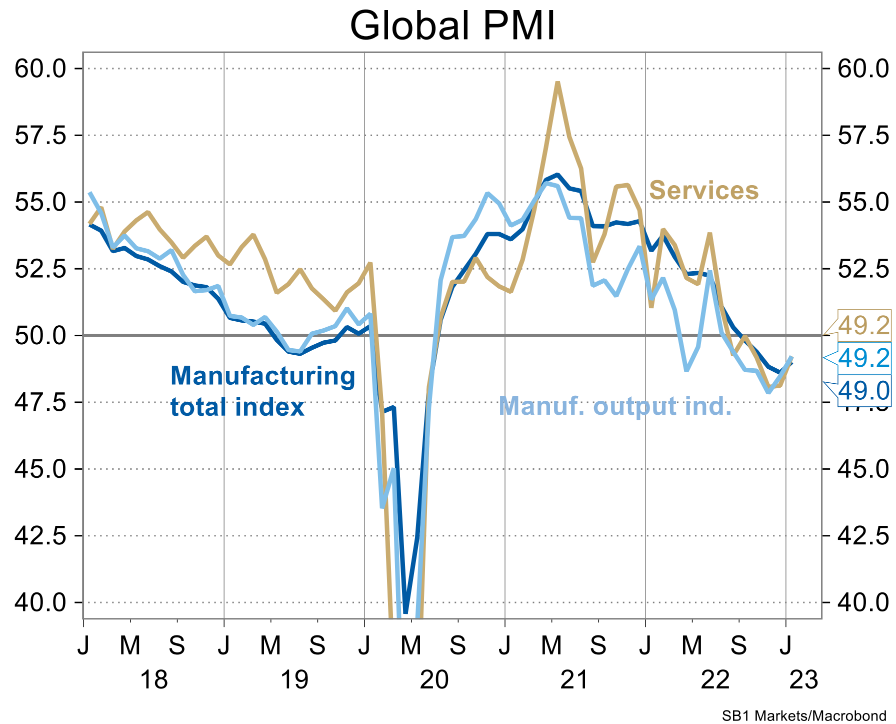
Source: IHS Markit, SB1 Markets, Macrobond

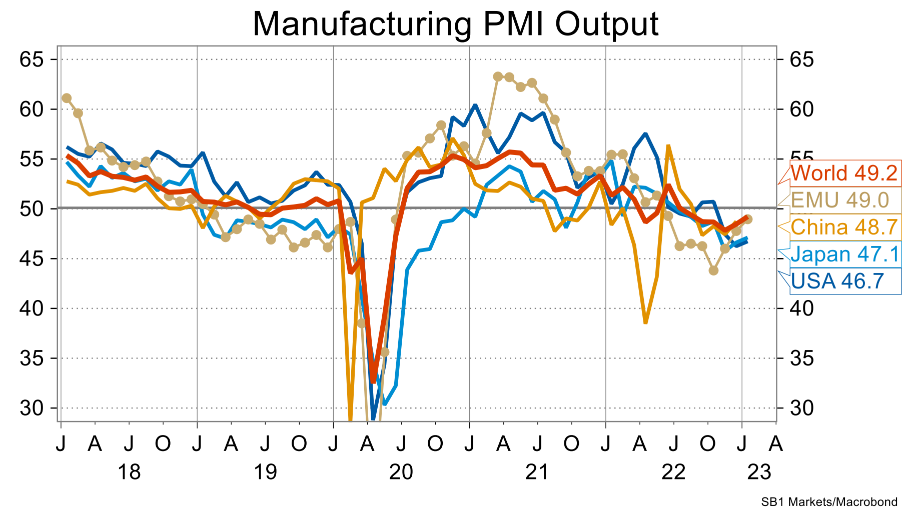
- The preliminary PMIs from the **rich part of the world**, was better than expected, and on average up 1 p to 49.2 (our est.). The level is still low – signalling a 'global recession'
- **EMU** continued to surprise to the upside – and broke through the 50 line, but in January even the **US** was better than expected – still a recessionary level, at 46.6. **Japan** also crossed the 50 line in January
- **China** (or other EMs) has not yet reported – and the Chinese indices will probably recover in January or February, as Covid very likely is a thin gof the past

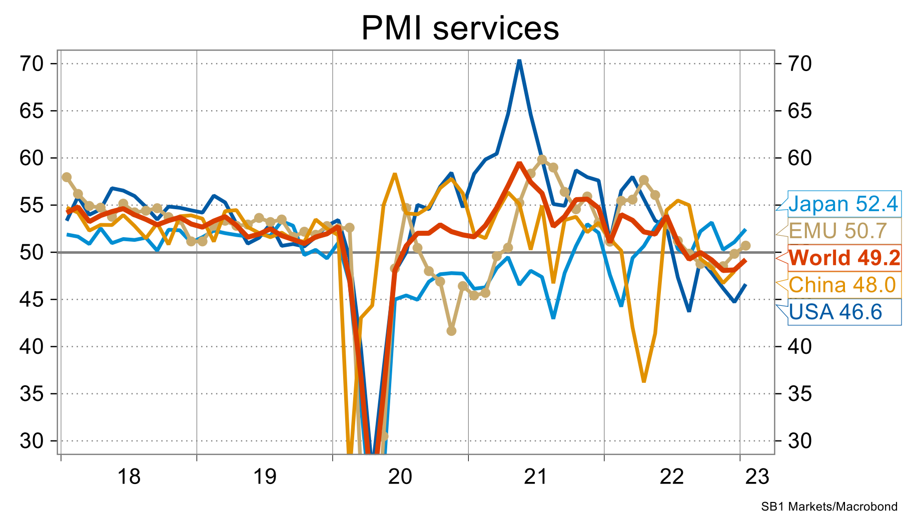
Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p if the Chinse PMI does not change too much

Both manufacturing and services up in January

But most indices are still below the 50 line



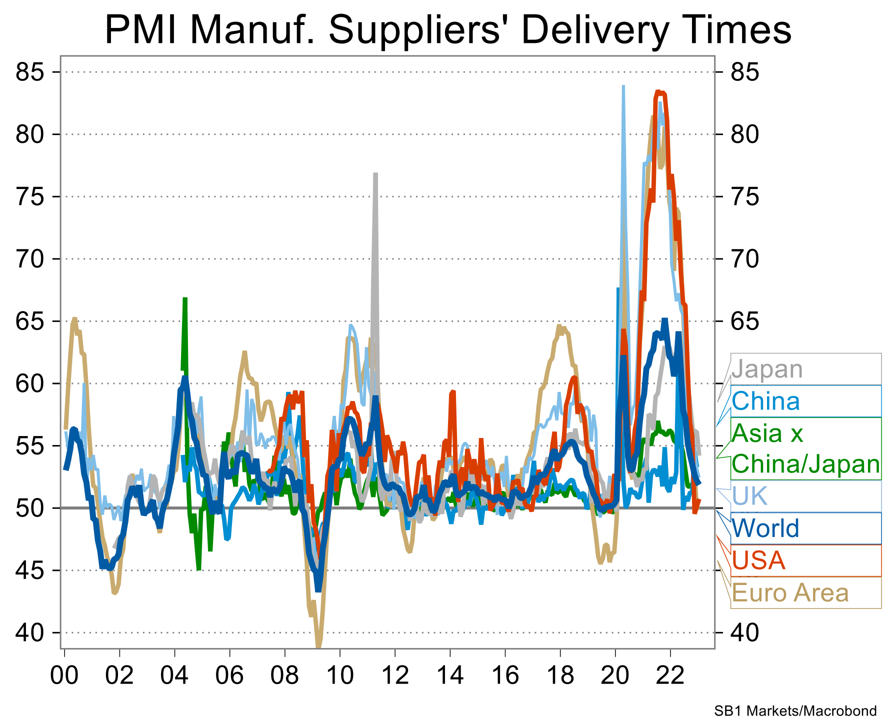


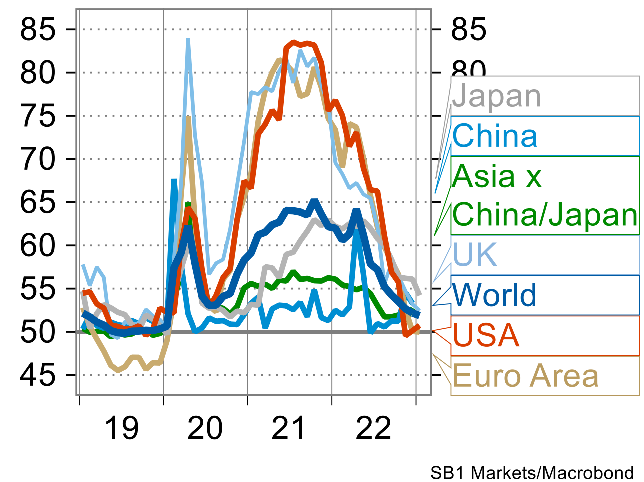


China has not yet reported PMI for the last monht

Delivery times have fully normalised

In the US, they are lower than normal – at least the index is below average

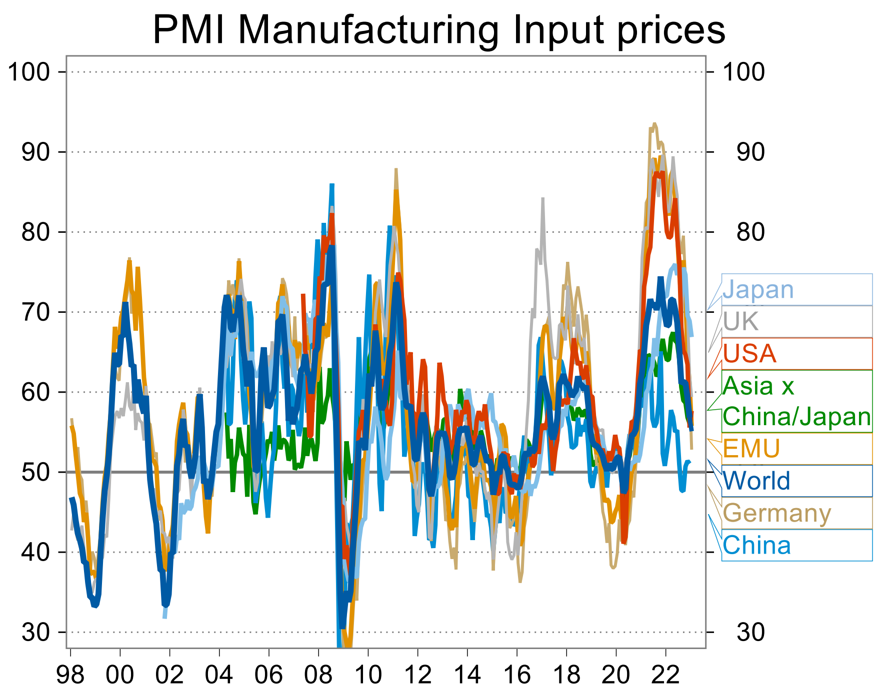


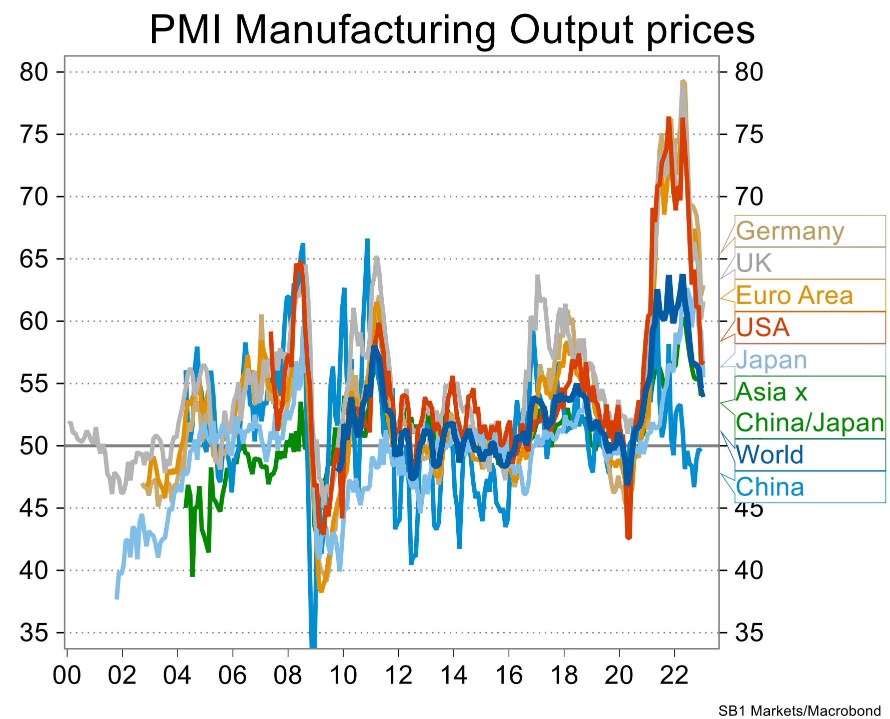


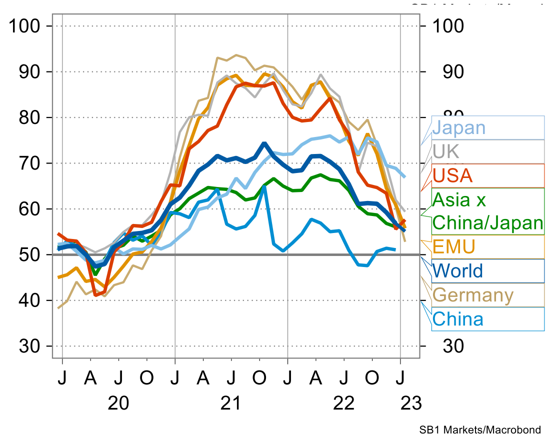
- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak last October. The decline is broad among the Western rich countries – and now the level is back to the 50-line, very likely signalling normal delivery times

Manufacturing price inflation is heading downwards, output prices still > avg.

However, US manufacturing input prices rose a tad faster in January



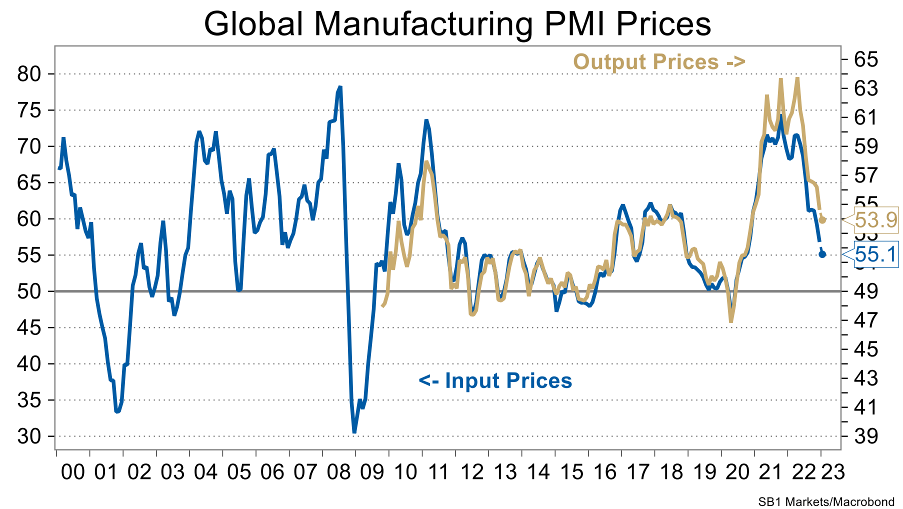


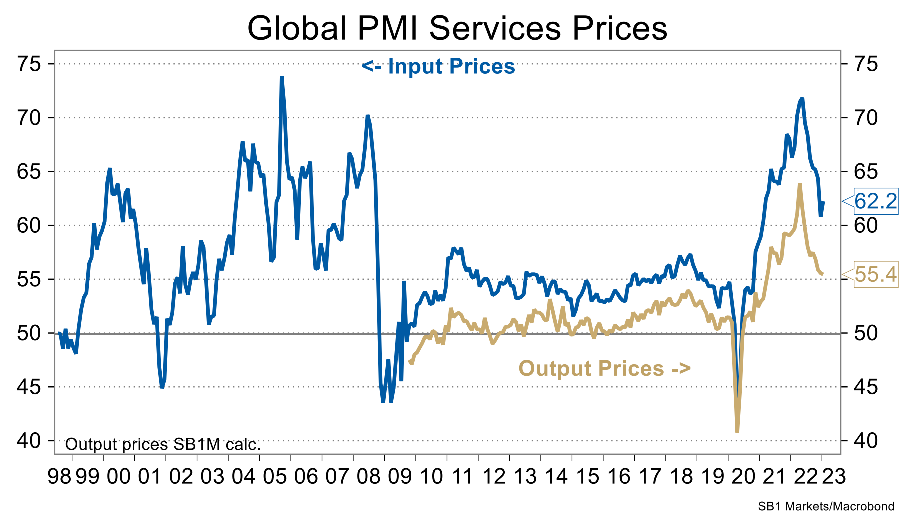


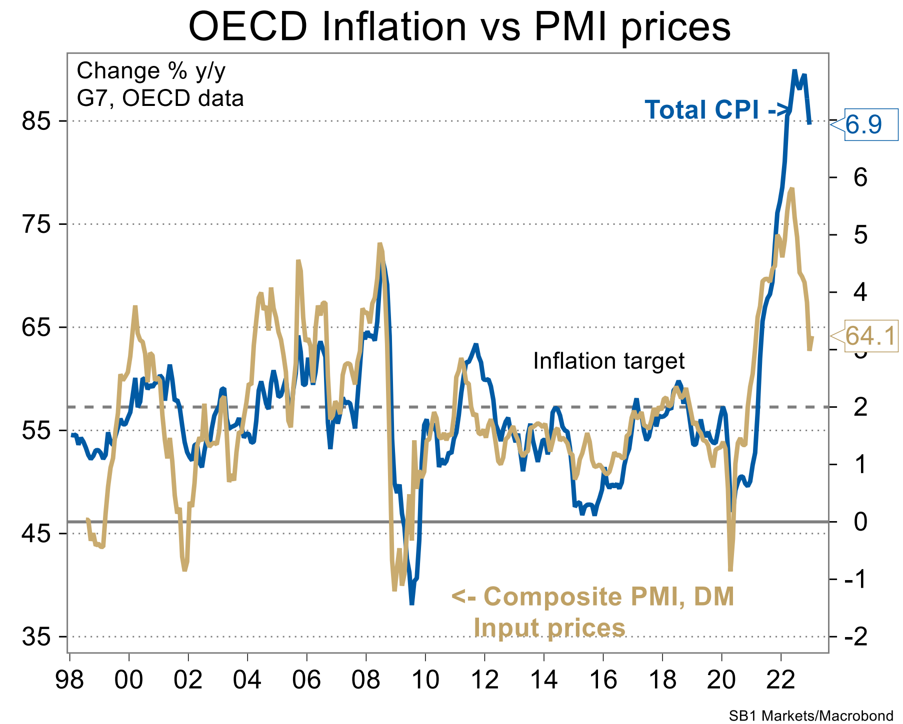
- … and the US PPI reported an increase in core crude prices

Price indices are heading down, and input prices are back to a normal level

In the service sector, input prices rose a tad faster in January





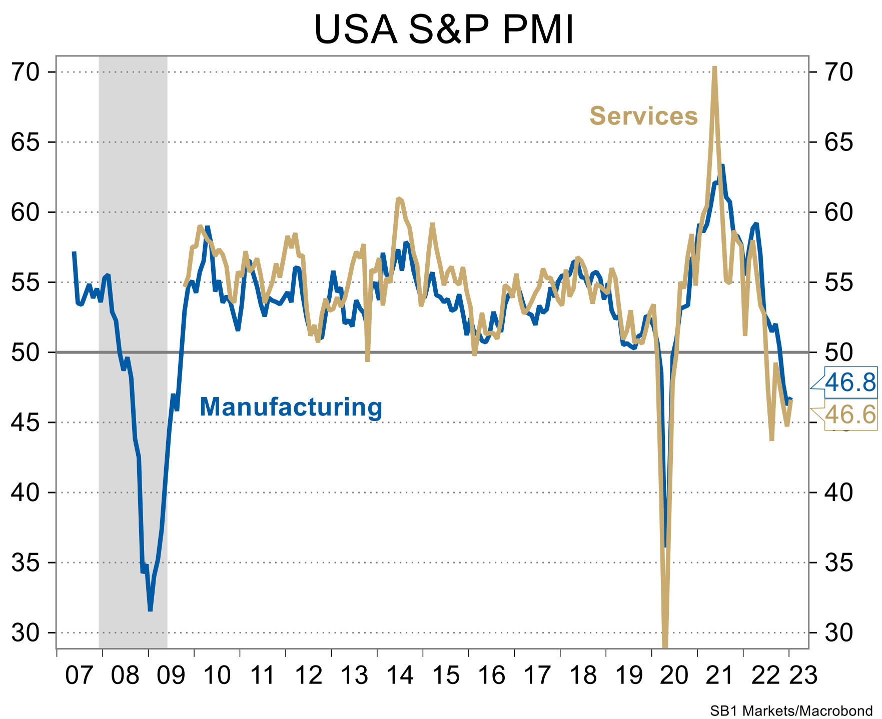


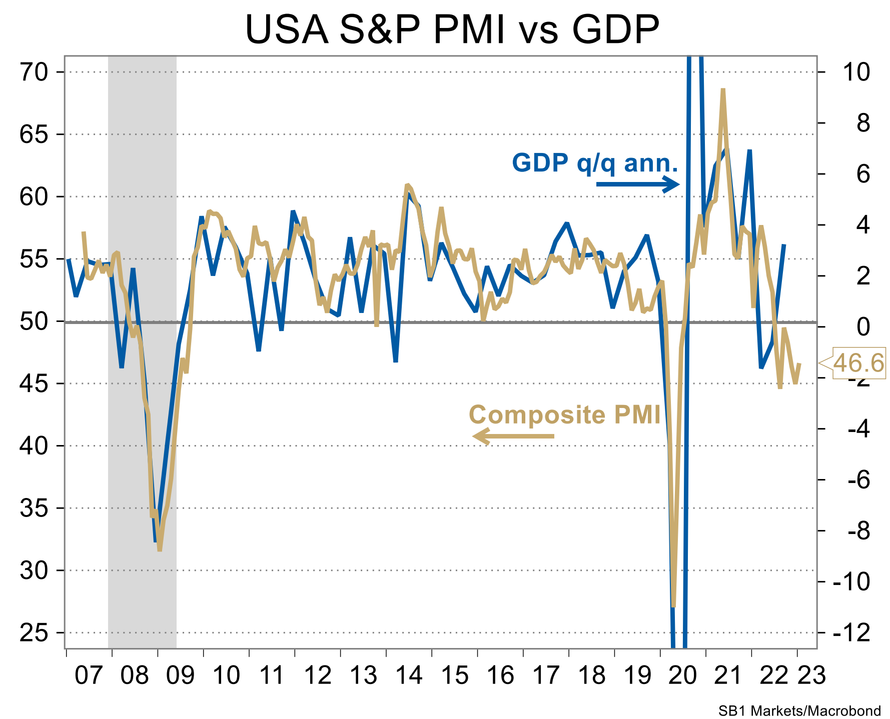
- These PMIs signal a substantial easing of price pressure the coming months – but are still indicating inflation well above a normal level
- We are still more concerned about wage inflation than the actual price inflation due to factors that are most likely transitory, like hikes in raw material prices, freight costs, or short-lived margins expansion when demand is surprisingly strong

Last obs. based on preliminary PMIs from EMU, Japan, UK, and the US

US PMIs up in January but are still signalling a recession

The composite index up 1.7 p to 46.6, well above the expected 0.8 p lift. Even so, a 1.5% pace of decline in GDP?

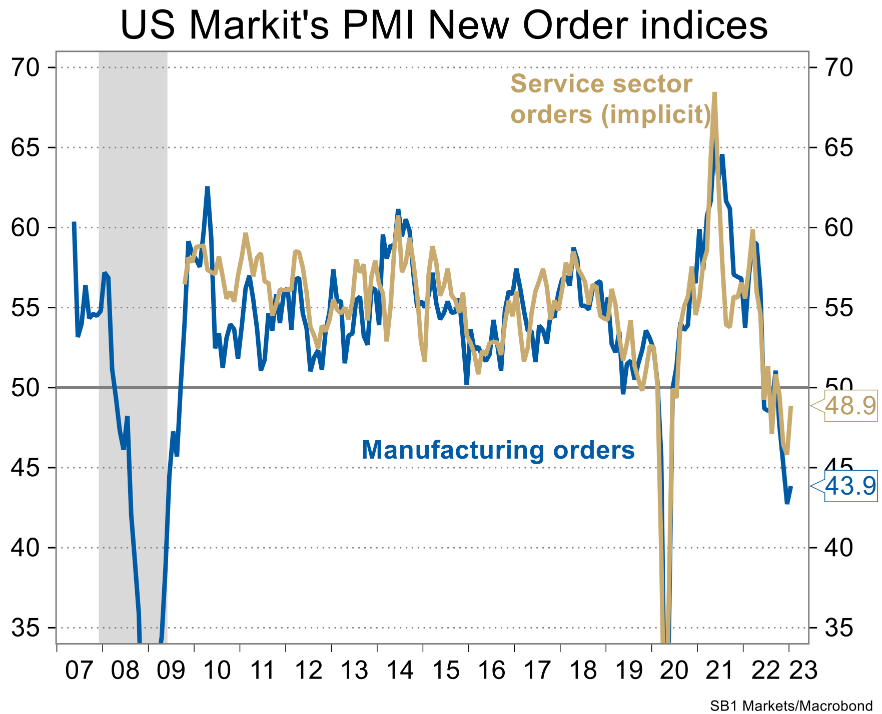


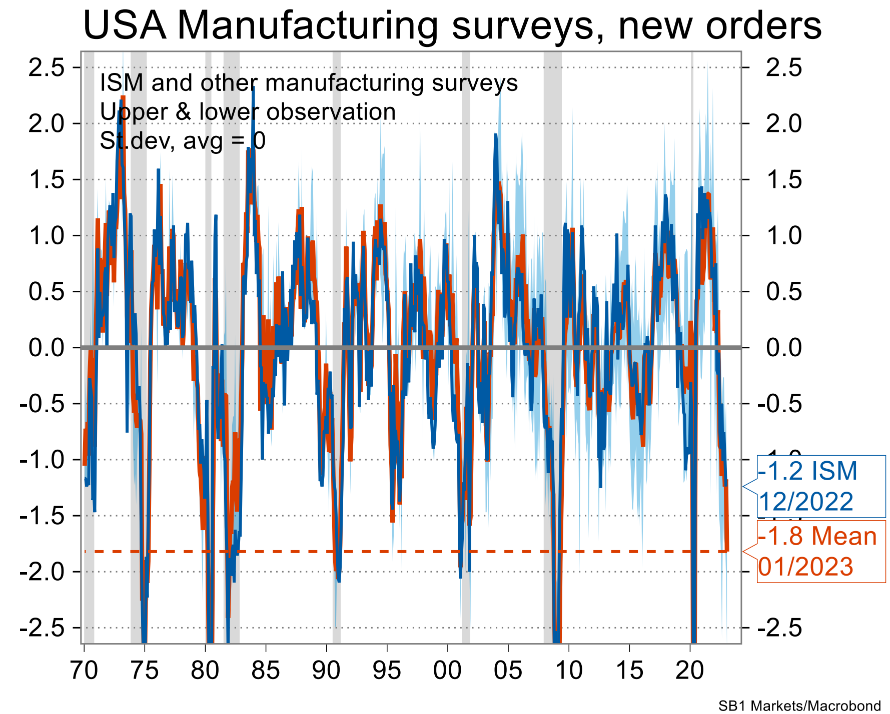


- The **PMI composite index** has been below the 50-line for 7 consecutive months
- **Services** recovered by 1.9 to 46.6. The total **manufacturing PMI** gained 0.6 p 46.8, both increased more than expected. The decline in manufacturing index was tough the previous 3 months, from well above 50 in September
- **The manufacturing new orders index** gained 1.7 p to 43.9, which is indicating a continued sharp decline in order inflow (which we have so far not seen)
- **The price indices** were higher than expected, as input prices rose faster in January and output prices rose at the same pace as in December

The PMI orders contracted at a slower pace, other surveys (so far) far weaker

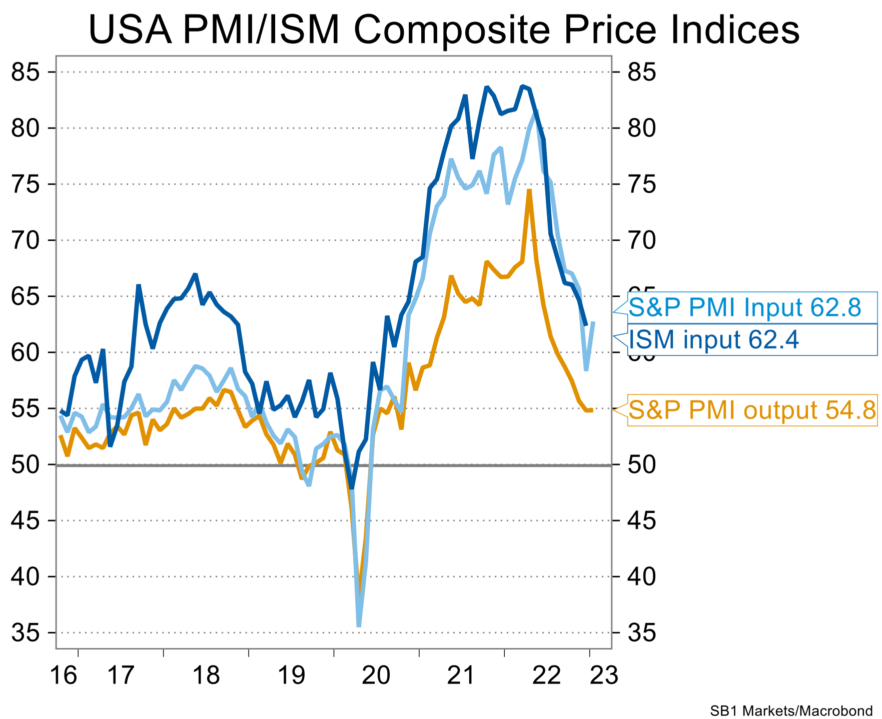
The manuf. PMI still reports of steep decline in new orders - and with other surveys 100% into recession territory

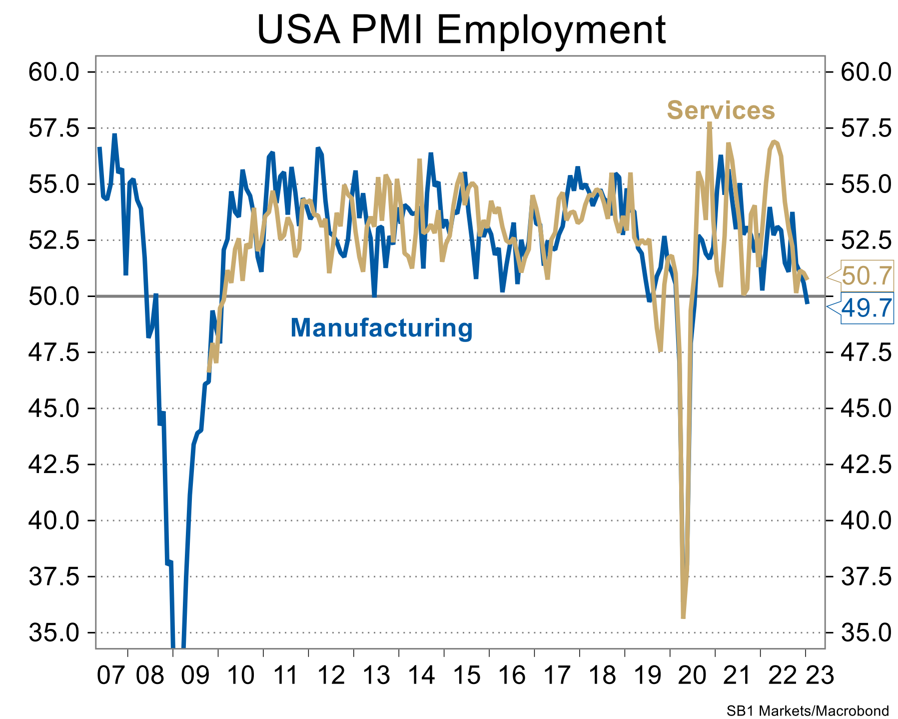




Input prices rose faster in January – and output prices rose at the same pace

A warning sign? The output price indices have (almost) fallen to comfortable level, so a flattening is not critical

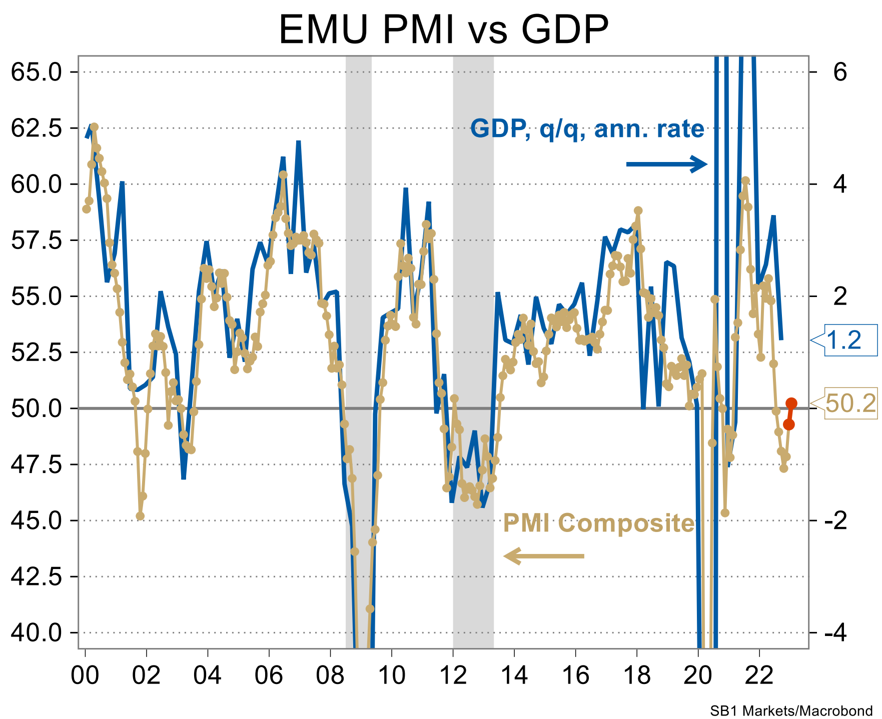


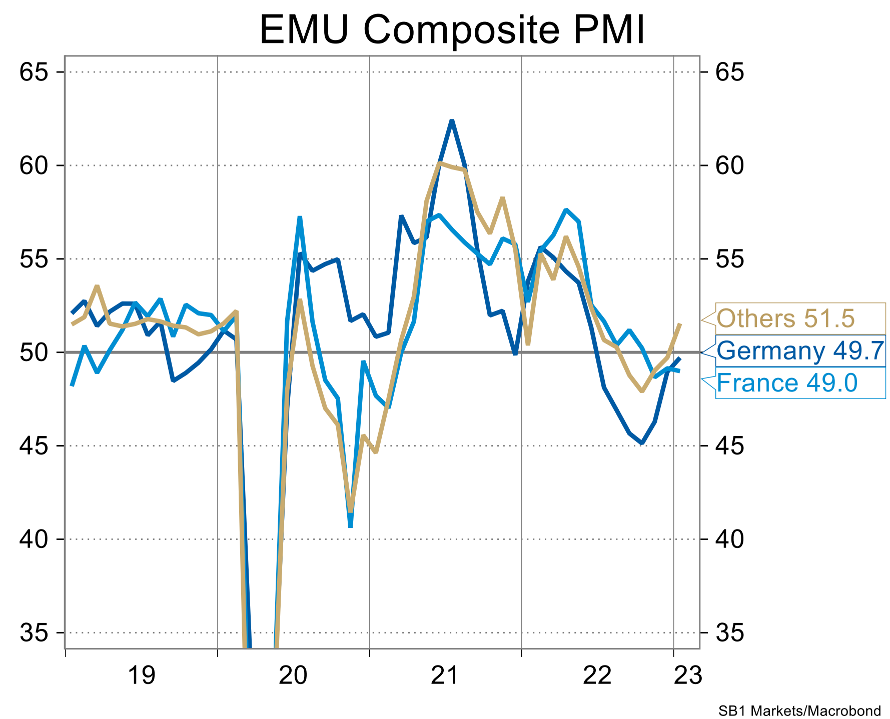


- Employment indices fell in January, and both are close to the 50-line

The south lifted the EMU PMI to above the 50-line in Jan, 0.4 p better than exp.

The French & German PMIs also rose. In sum, the PMI signals no recession ahead. (But orders are still weak)

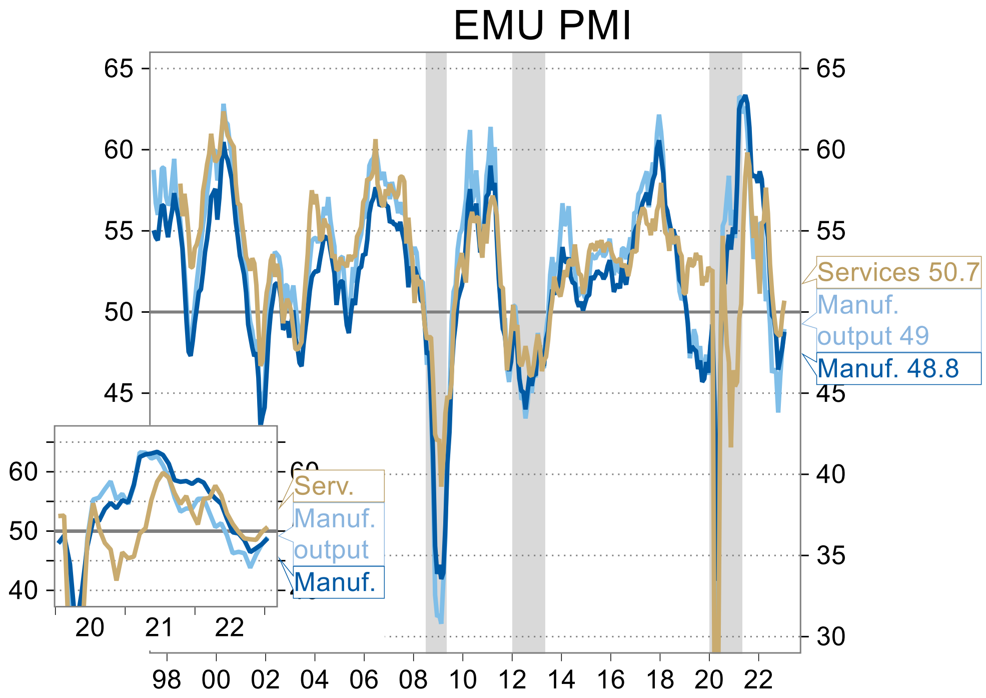


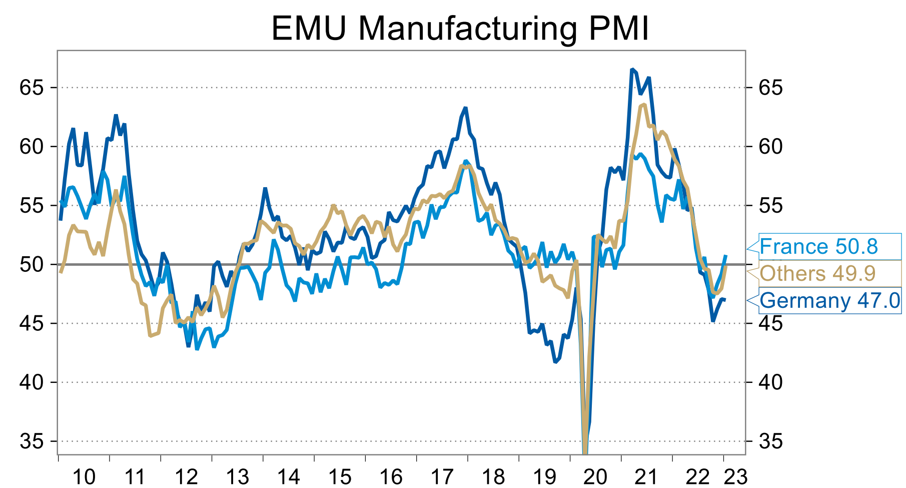


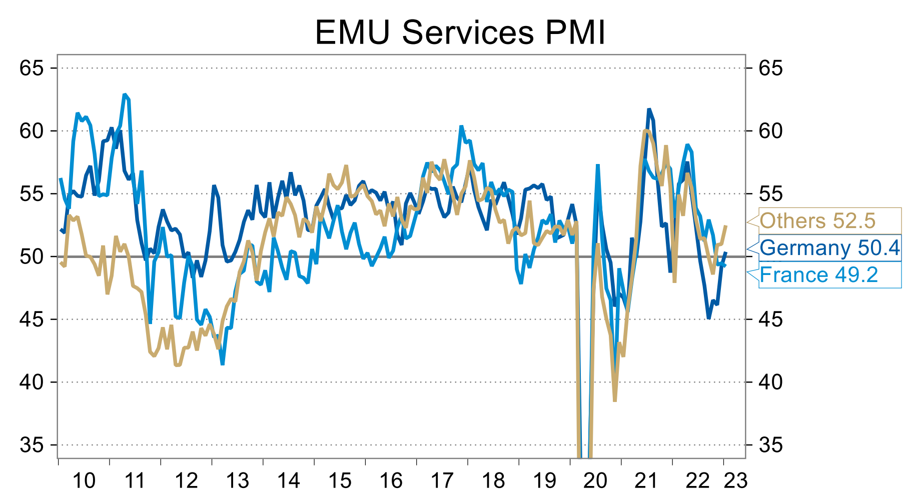
- **The composite PMI** increased by 0.9 p to 50.2, expected up to 49.8, following 6 months below the 50-line. Zero growth is signalled, while a deep recession was not signalled anyway the preceding months. The implied average of Italy of Spain gained 1.8 p to 51.5, the best level since last June. France and Germany contributed as well, and Germany more than expected but both remain below the 50-line
- **In the EMU, services** gained 0.9 p to 50.7, expected up 0.4 p, while the **output component in the manufacturing** survey added 1.2 p but remained below the 50-line, at 49.0, but 0.5 p better than expected
- **The delivery times** and price indices both fell, and while the price indices still remain higher than normal, the delivery times have now fully normalised
- The ECB has so far been vindicated, the Euro zone economy has not fallen apart. The PMI now signals a flattish Euro Area GDP. ECB expected a 0.5% growth rate y/y, which can be reach by zero growth through 2022, Consensus is for a zero growth from 2022, implying a 1% pace of decline through 2023 (and of course many other combination of quarterly growth rates)

European PMIs surprised to the upside in January

The EMU services and composite indices both up above the 50-line





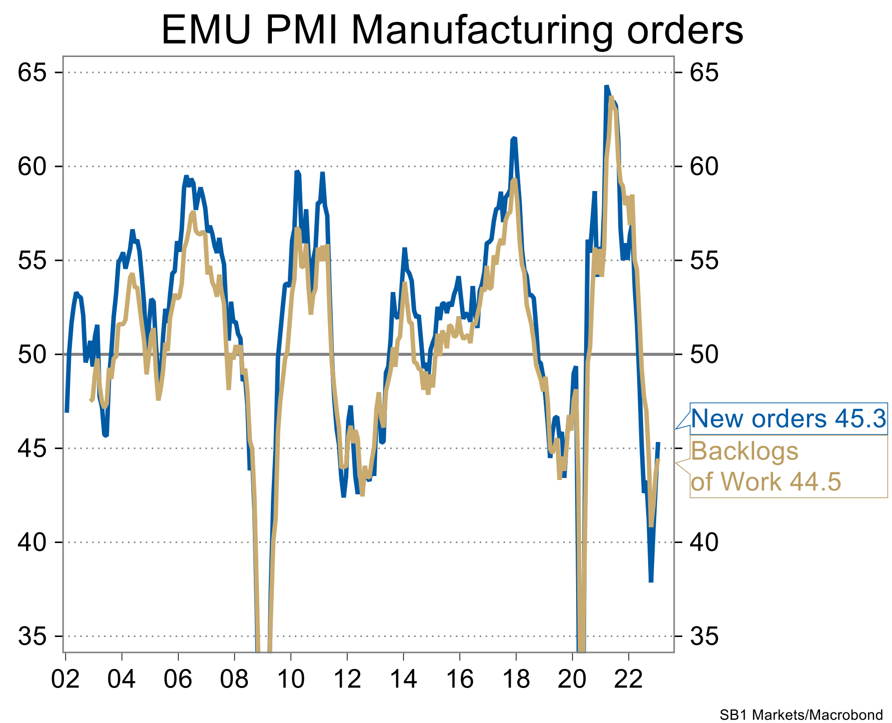


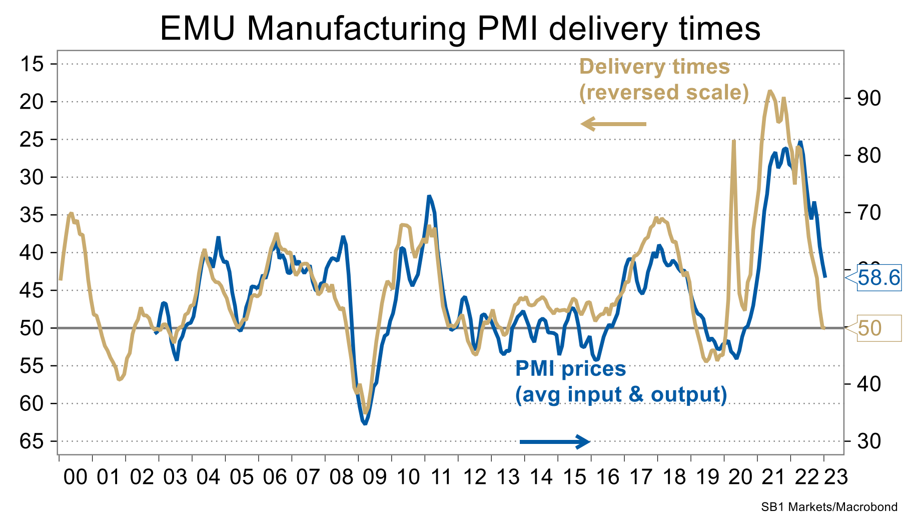
- The EMU manufacturing PMI was up 1 p, but remained below 50, indicating a contraction in the sector. The weakness is largely due to the German manuf. PMI, which was down 0.1 p to 47, while the (implicit) avg. of Italy and Spain also remains marginally below par
- The EMU service sector was supported by a lift in Germany and ‘others’ (the implicit average of Italy and Spain), while France reported a decline and remained below the 50-line

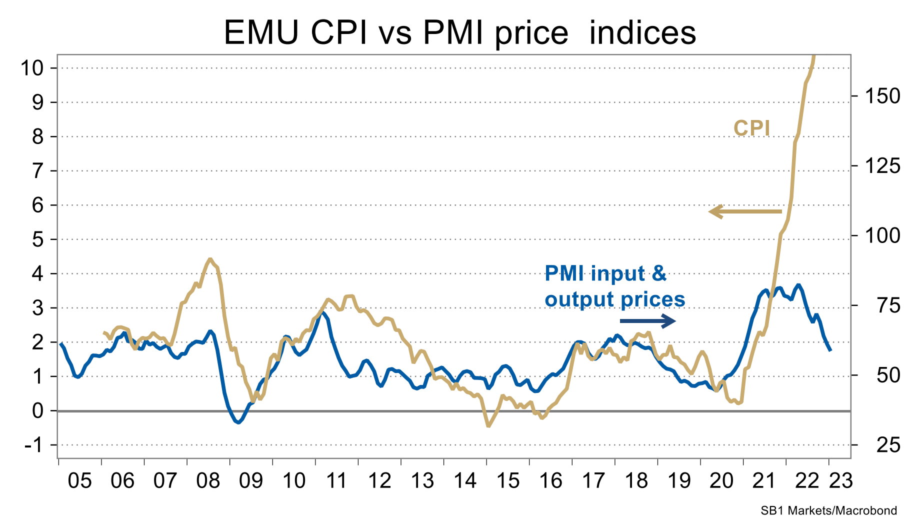
SpareBank 1 MARKETS

New orders are falling at a slower pace, and inflation is slowing

However, new orders are still falling rapidly, and the backlog is shrinking too



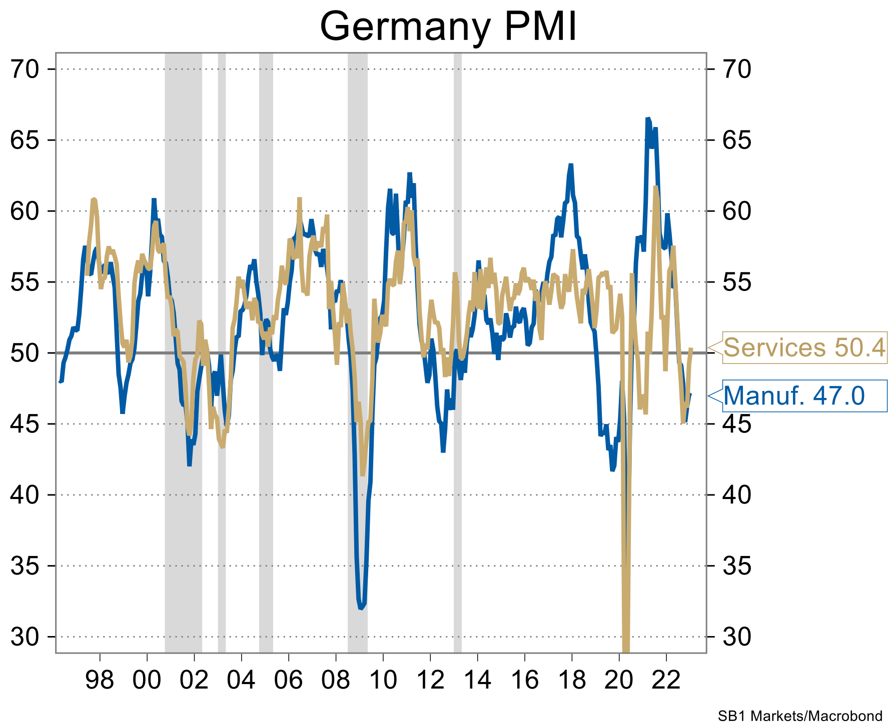


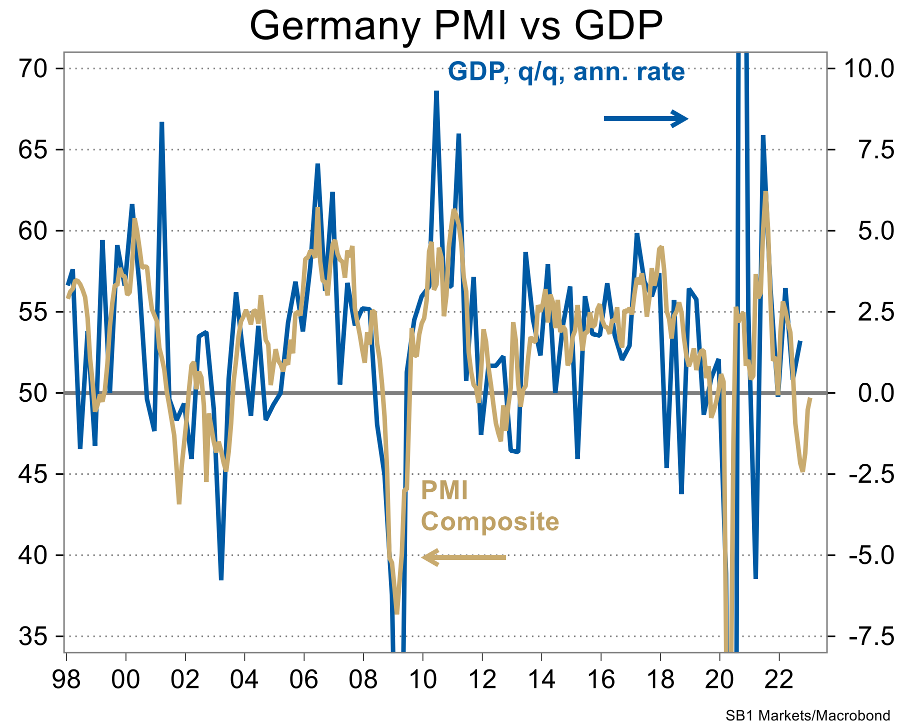


- **The price indices** signal a steep decline in CPI inflation the coming months – in principle
  - However, no model can capture the increase in inflation vs. these surveys – what has happened is totally outside what we have seen before (and the PMI cannot climb above 100)

Germany: The composite PMI further up in January, but still slightly below par

The composite up 0.7 p to 49.7, expected +0.6. Services up 1.2 p to 50.4, manufacturing down 0.1 p, to 47.0

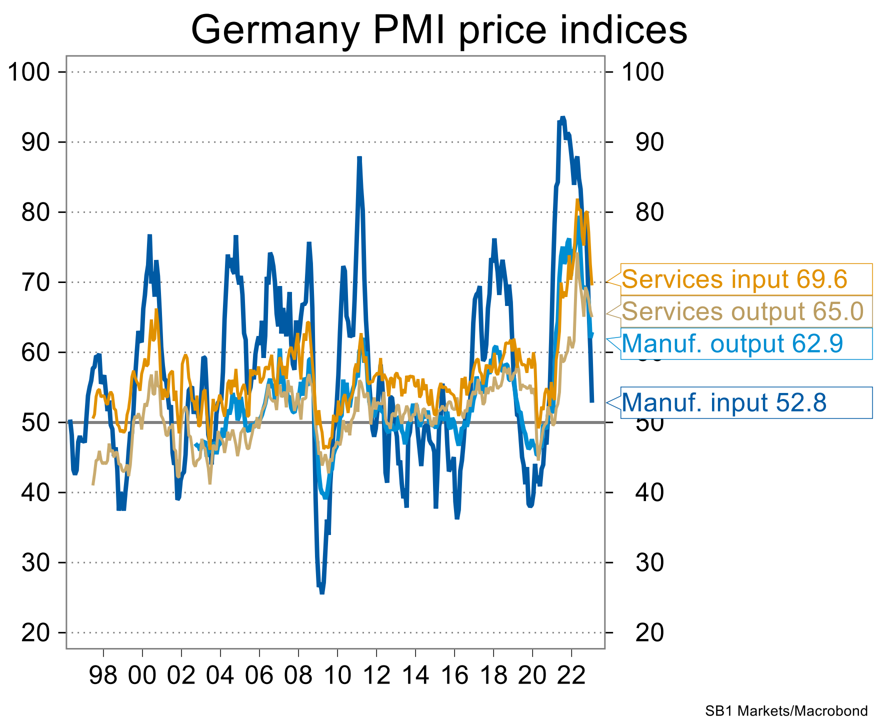


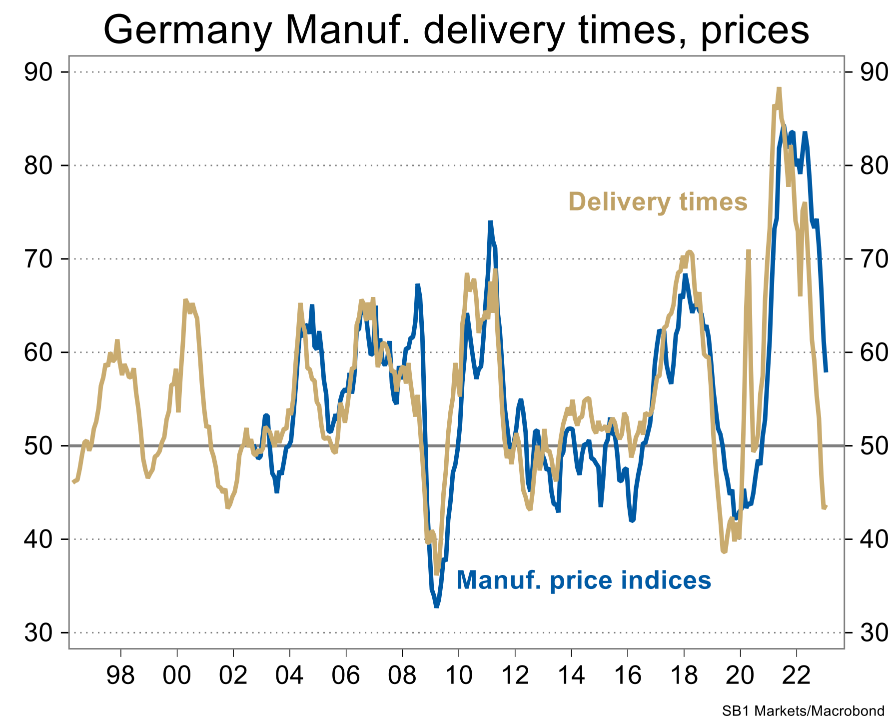


- Thus, the **German PMIs** surprised on the upside for the 3rd month in row. The level is still low but the PMI now signals just a moderate GDP contraction – even if inflation is still above 9% and interest rates are on the way up
- However, the **manufacturing PMI** fell 0.1 p to 47, well below the expected uptick to 47.9
- All **price indices** are falling, finally now also input prices in the service sector. However, all price indices are still above normal levels – and all but the manufacturing input price index are higher than any time before, signalling continued inflation somewhat above normal. However, at the current pace of decline in these indices, they are soon back at to neutral
- Delivery times are falling rapidly

Prices are increasing at a slower pace, delivery times are collapsing

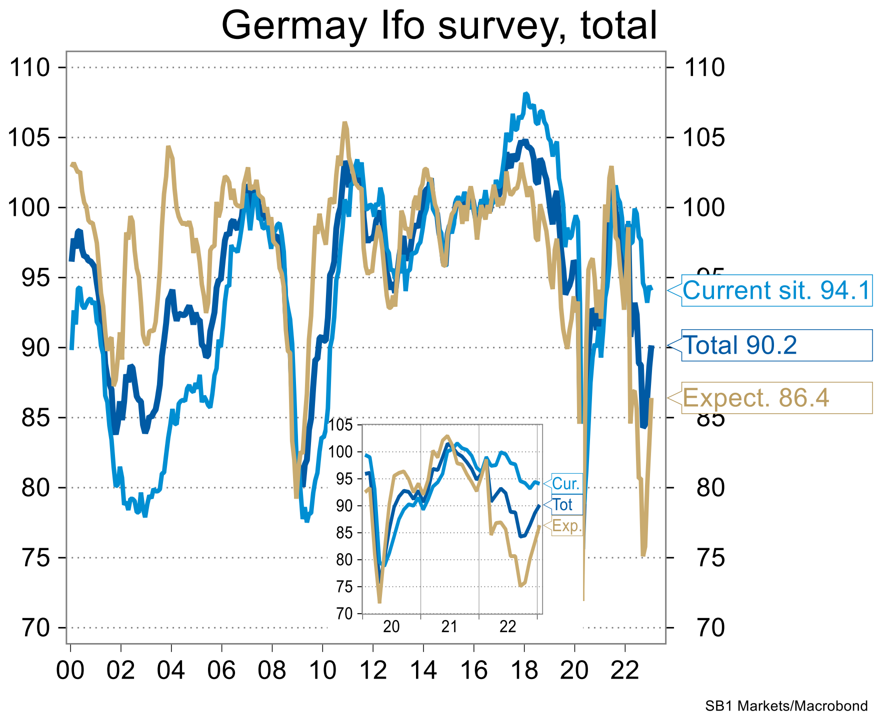
…Which indicates that inflation will keep coming down

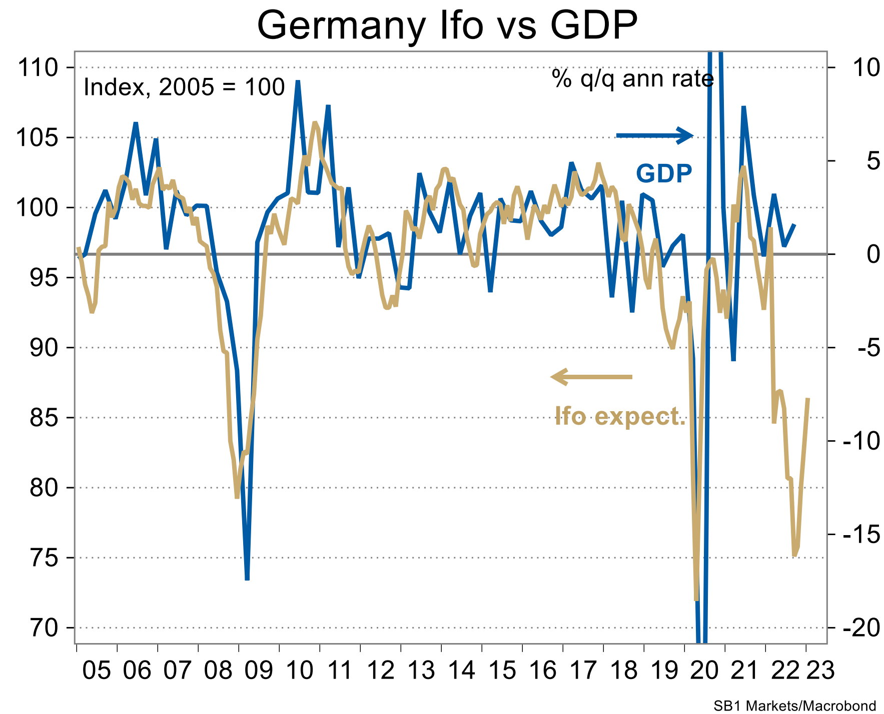




Ifo expectations moved higher in December, but index still at the low end

The index was up 3.2 p to 86.4; still signals a substantial fall in GDP, while the ZEW index signals trend growth



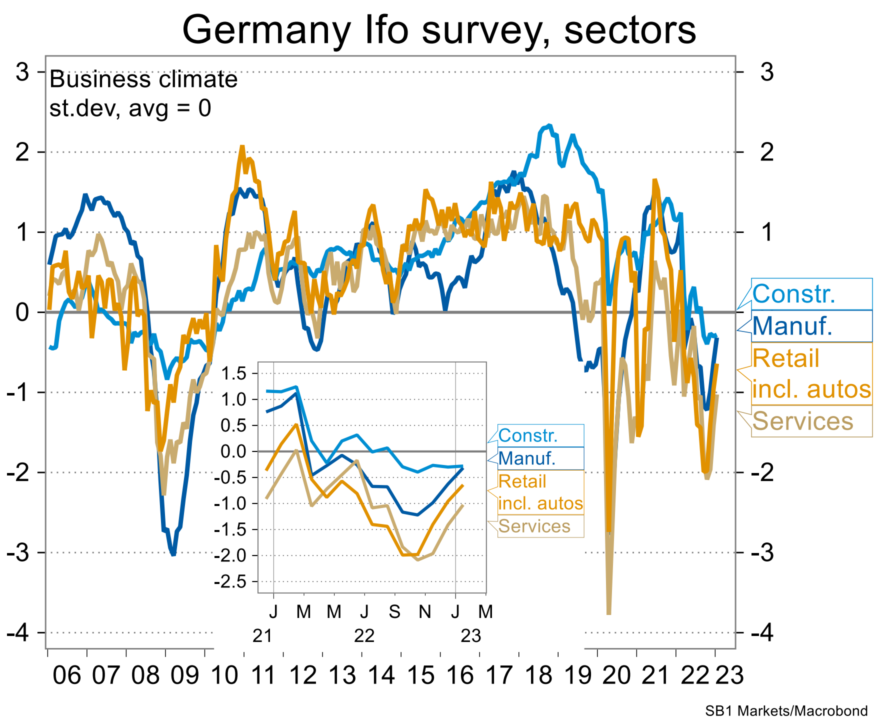


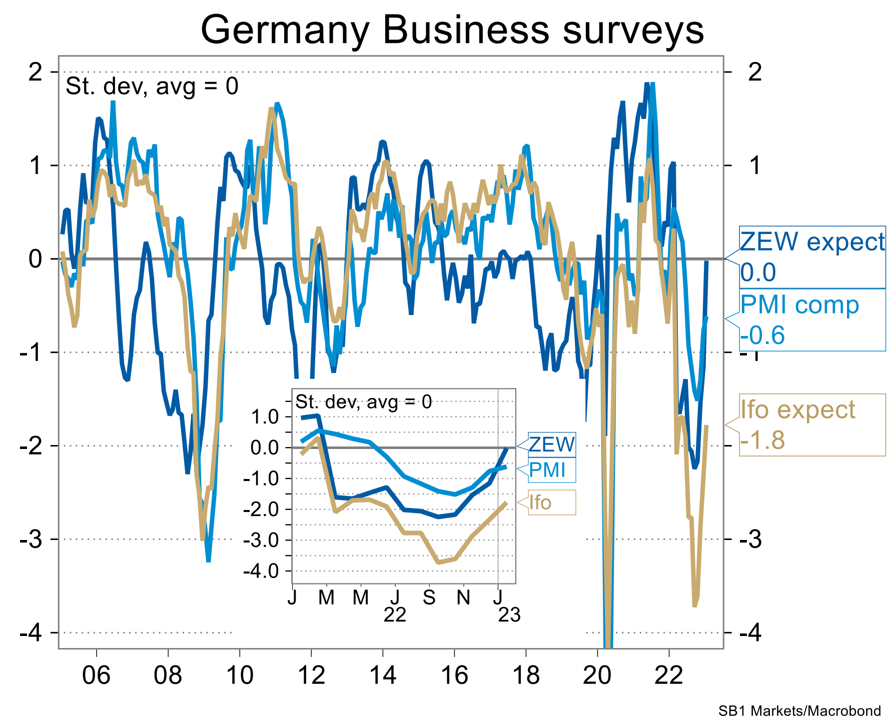
- **The expectation index** rose by 3.2 p to 86.4 in January, 1.4 p better than expected. The level is very low, at 1.8 st.dev below average, the bottom in Sept was -3.7 st.dev. The correlation to GDP is not perfect but a huge decline in GDP is signalled, at a 8% pace! The energy crisis is no doubt the main reason for the weak business sentiment
- The **assessment of the current situation** was down 0.3 p to 94.1, which was 0.9 p below expectations. The level is around average – signalling a normal growth rate. The problem is the expectations
- The **total Ifo business climate index** (the average of the two) rose by 1.6 p to 90.2; in line with expectations

Business climate: the average of the current situation and expectations

All 4 Ifo sectors report of better business climate, all still below average

Other survey also report a sharp recovery in January, the ZEW index the most, up to an average level

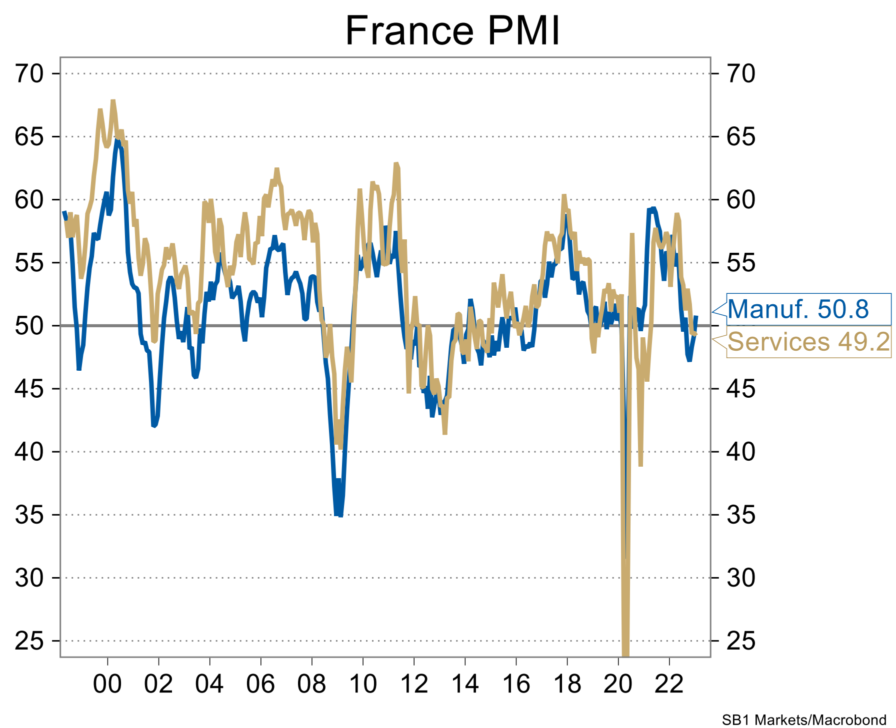


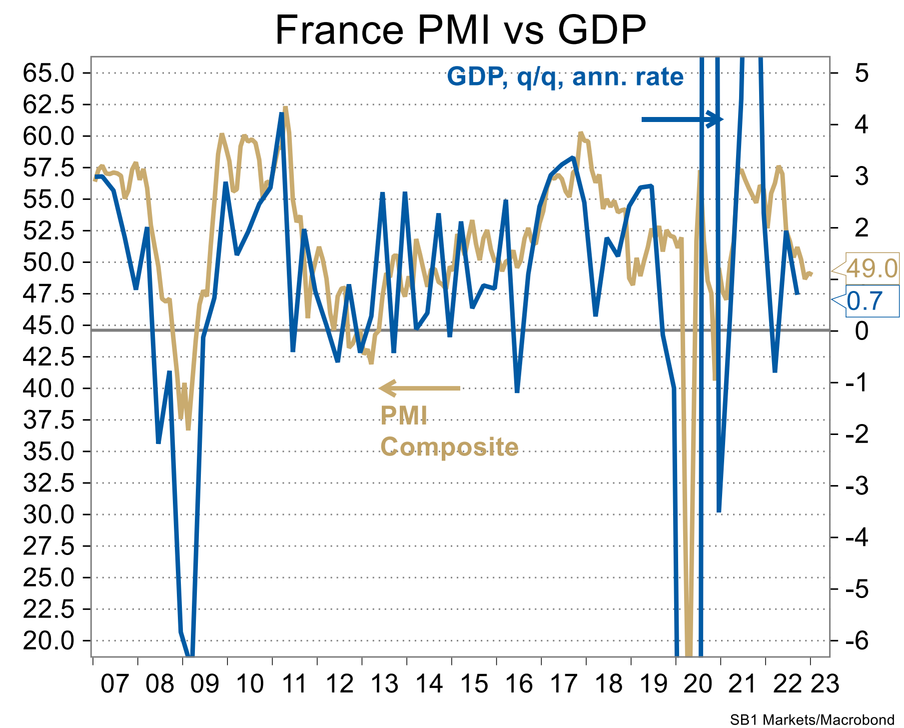


- Other surveys have also improved, but like the Ifo, the PMI too remains in negative territory, signalling slower growth/fall in output in the coming months. The bright spot is the ZEW index which rose the 2nd most ever (just Apr-20 climbed more up), and the index is at an average level signalling growth at trend (average growth)

France: Composite PMI still below the 50-mark, indicating some 1.1% growth

The composite PMI was down 0.1 p to 49.0 due to a 0.3 p decline in the services PMI. Manufacturing PMI up above 50

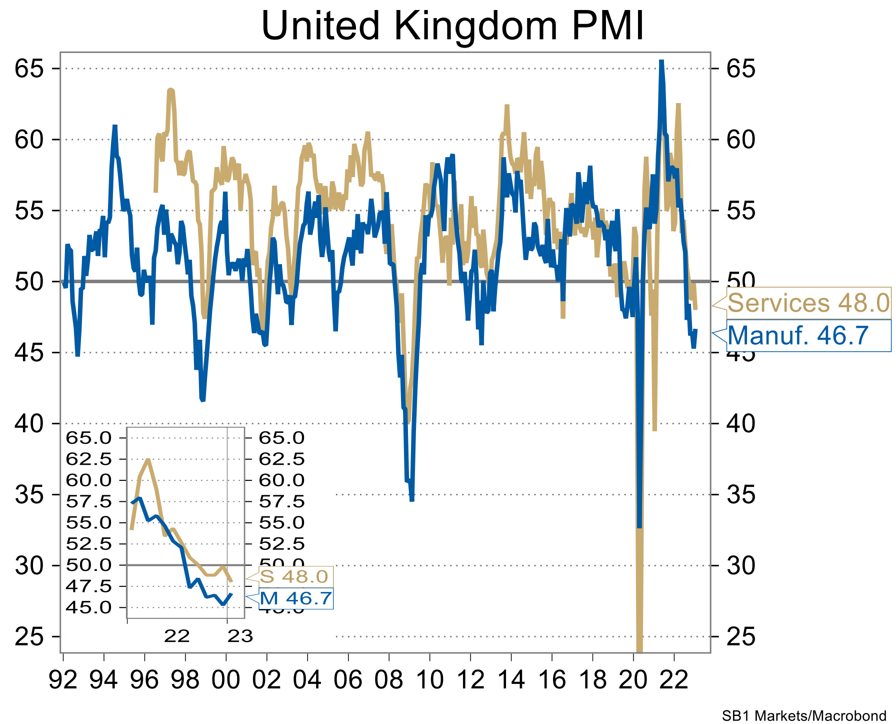




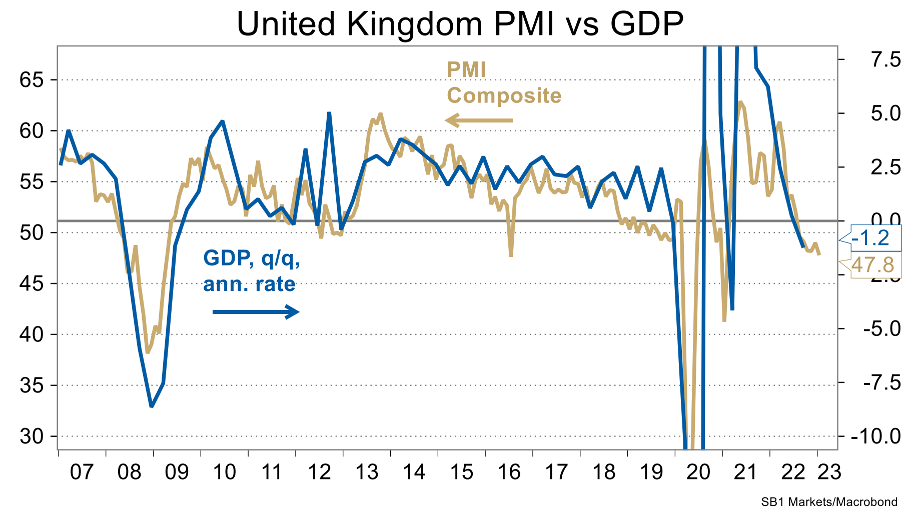
- The service sector PMI fell 0.3 p to 49.2, expected up to 49.8
- The manufacturing PMI surprised to the upside and was up 1.6 p to 50.8, expected 49.6

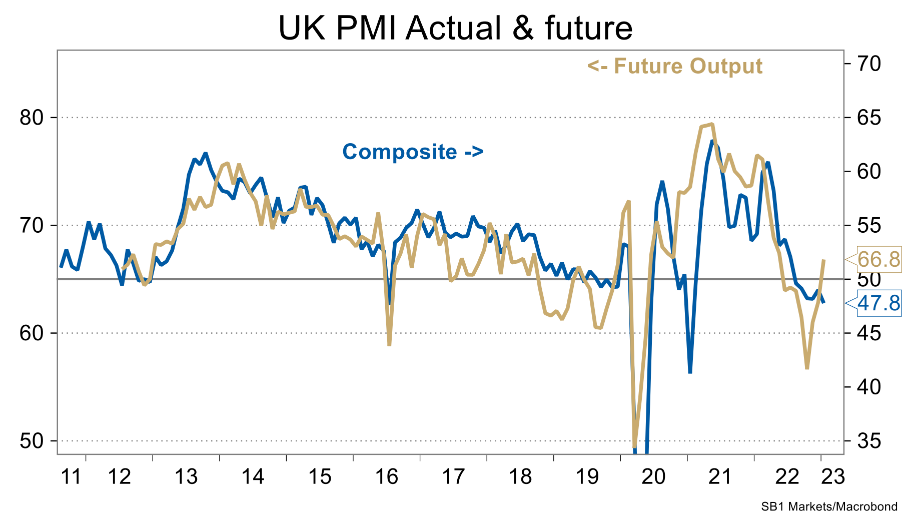
Manufacturing PMI less weak in January, but the sector contracts faster

… sending the composite index down 1.2 p to 47.8 (expected up 0.3 p), signalling a continued decline in GDP



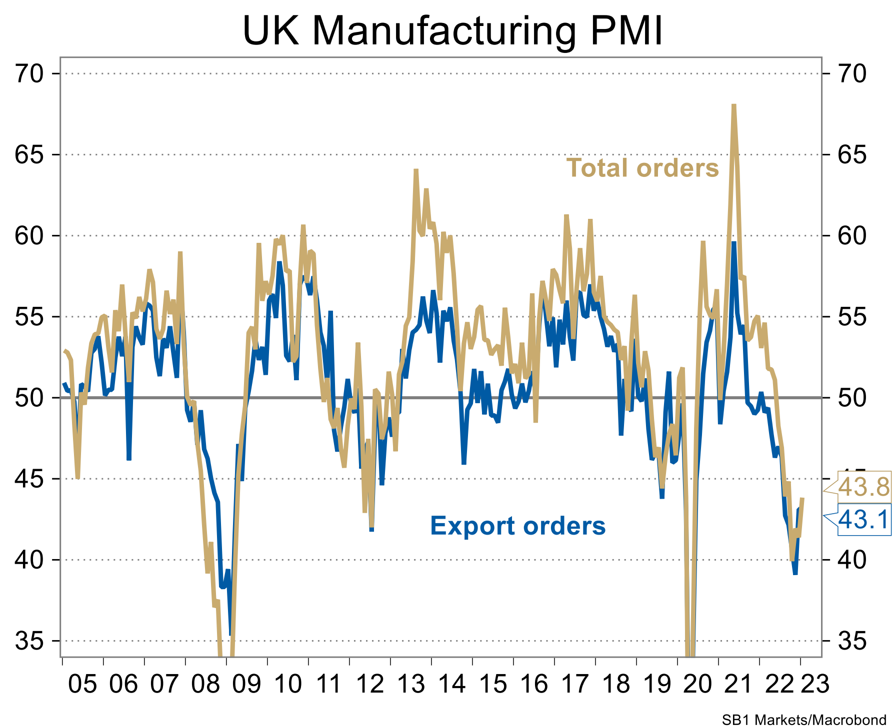
- The **manufacturing index** rose by 1.4 p to 46.7, still a very weak print, expected up 0.2. The **service sector PMI** was down 1.9 p to 48.0, 1.6 p below expectations
- **Expectations**, on the other hand, have improved and are now above normal levels (expectations are not included in the ordinary PMI numbers)

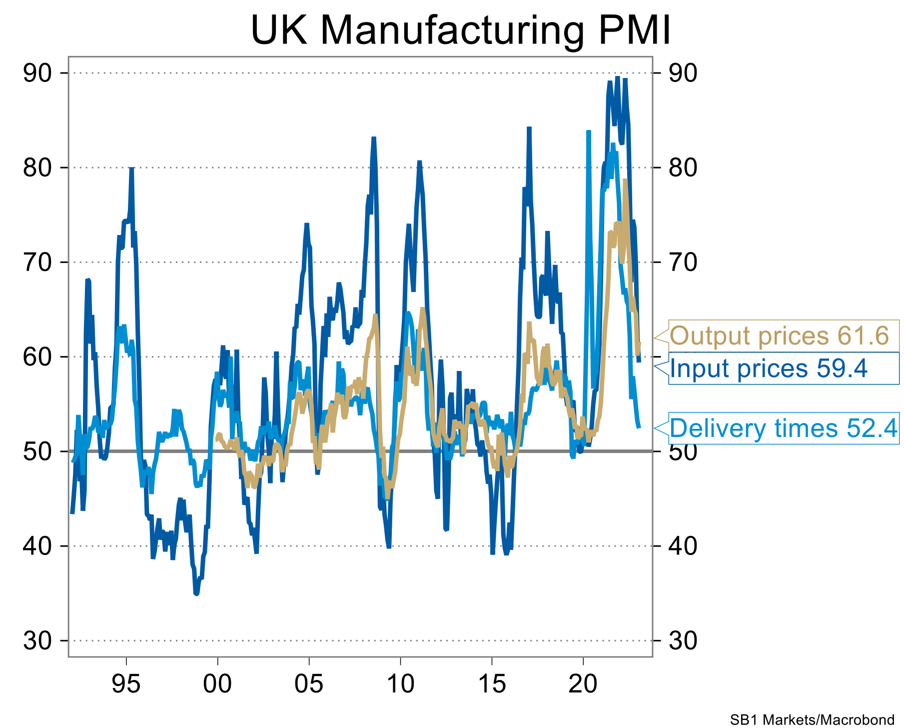




Delivery times have normalised, prices are increasing at a slower pace

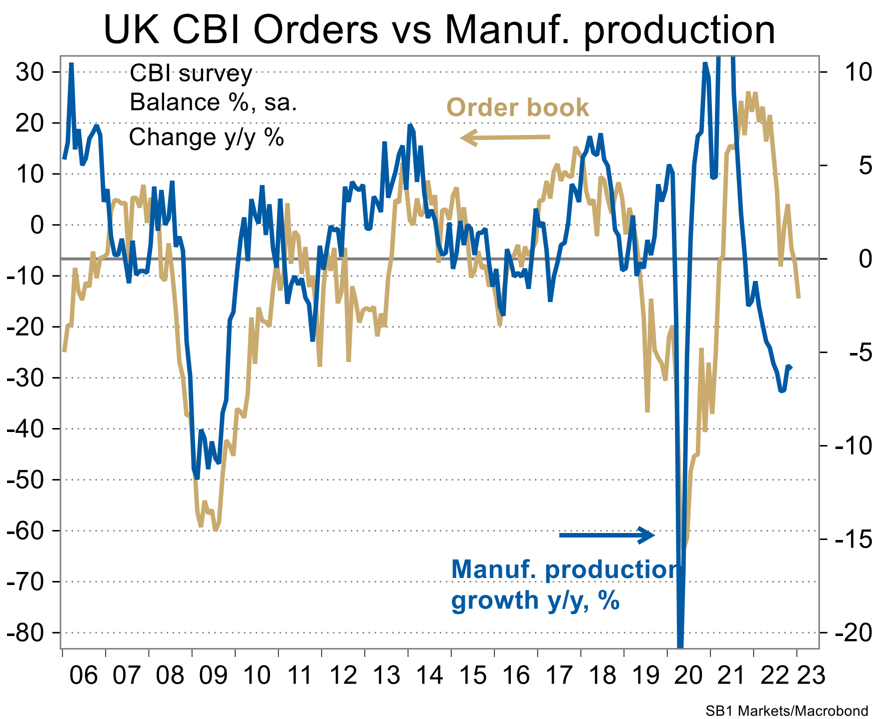
Order indices are still very low, even if total & export orders fell at slower pace in January

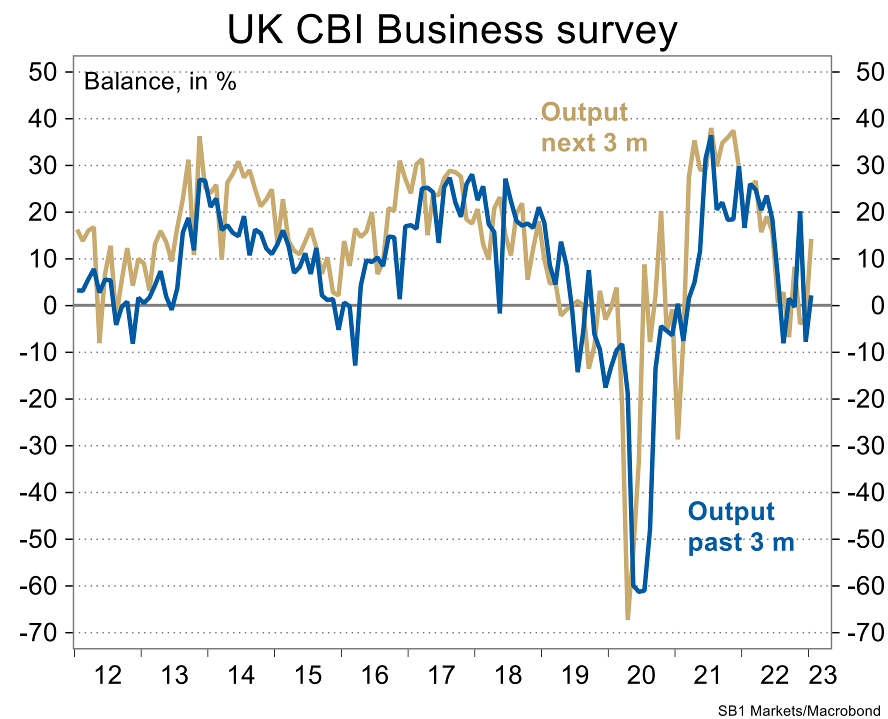




Orders have taken a beating, but the outlook is less gloomy

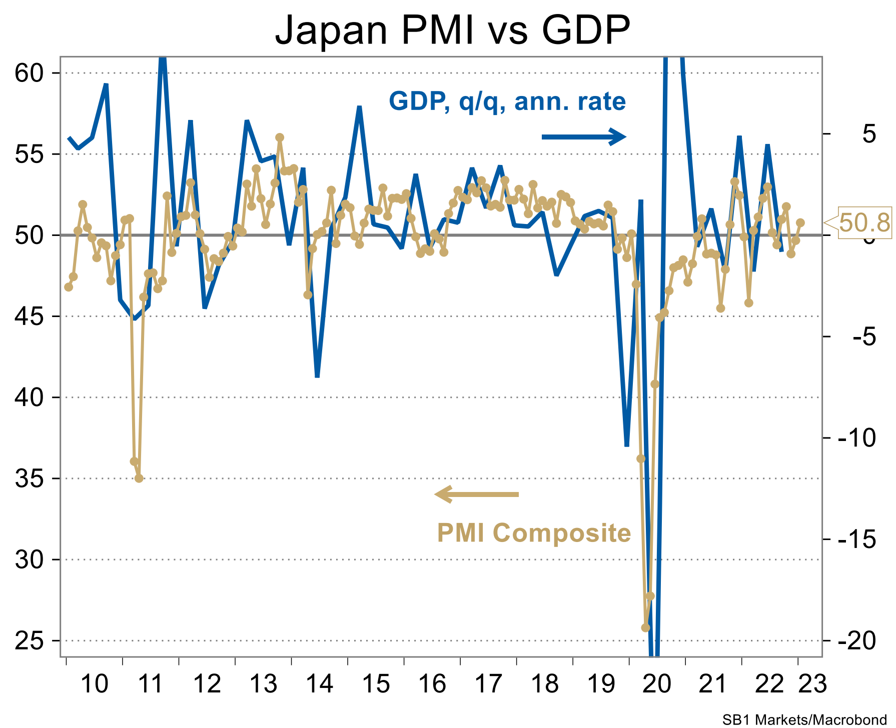
The CBI survey signals some optimism regarding the coming months

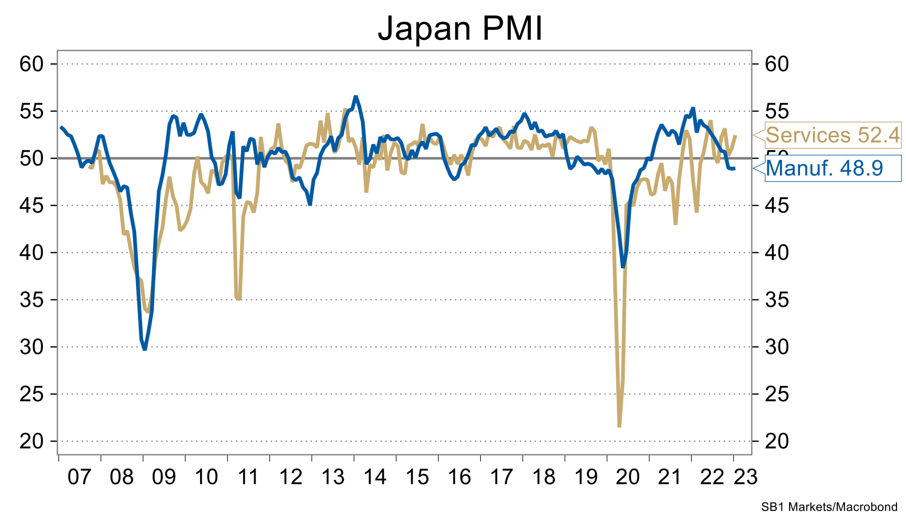


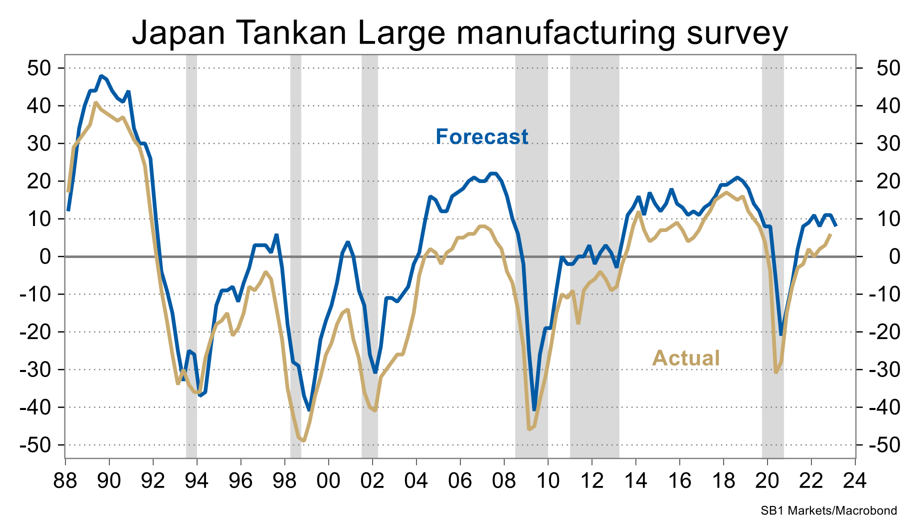


Service sector reports faster growth, the PMI up to 52.4

The manufacturing PMI was unch. The composite +1 p to 50.8, signalling some 0.7% GDP growth in Q1



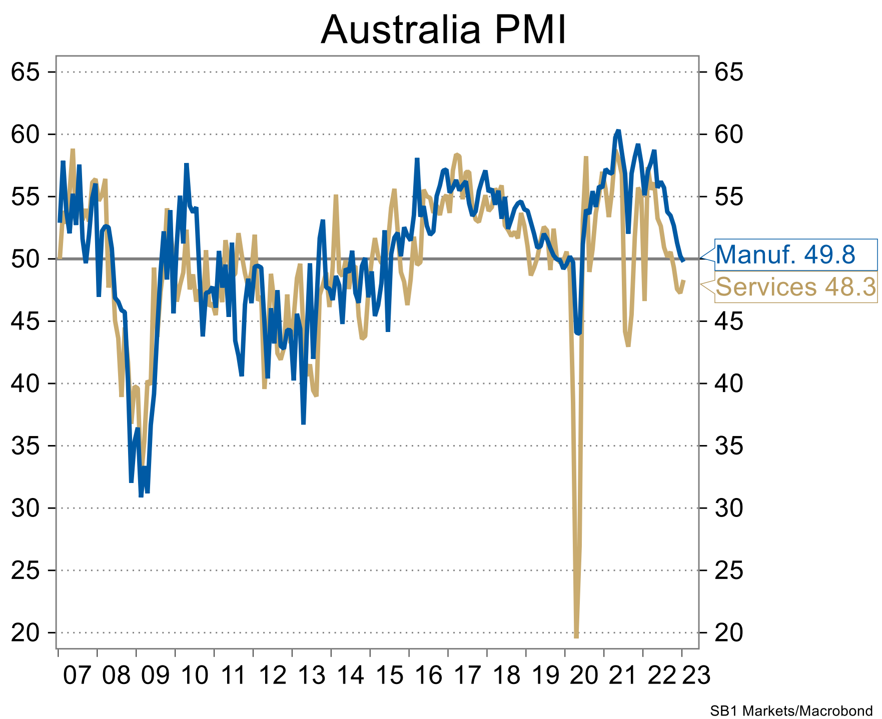


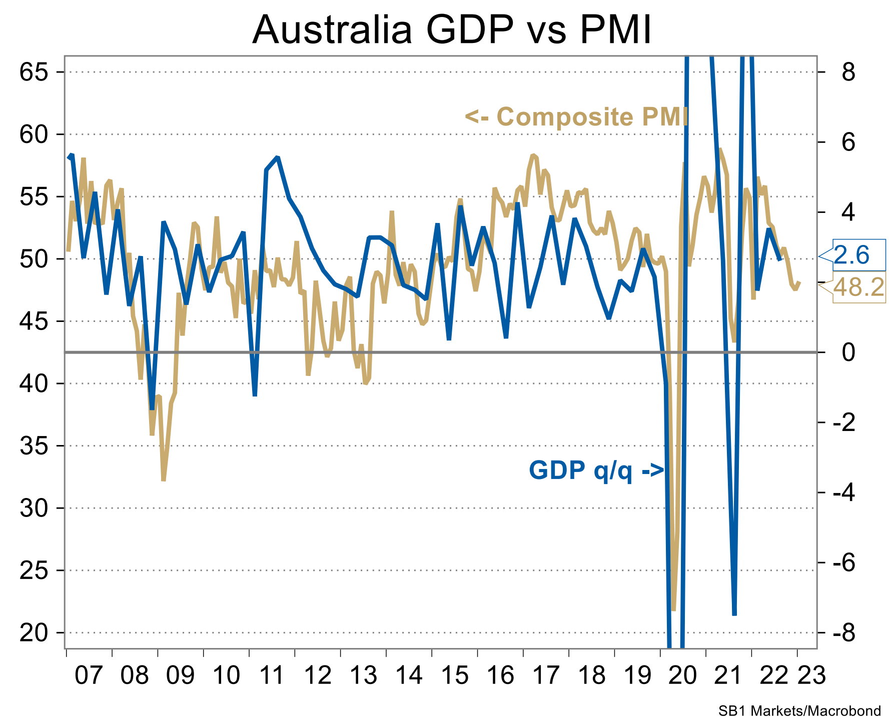


- **Bank of Japan's tankan survey** was mixed, but in sum OK (published in December)
  - Actual activity strengthened, and the index is above average
  - Expectations fell slightly but remain well above average

Australian composite PMI marginally up on a stronger service sector

The composite index at 48.2 (up 0.7 p) does not signal a recession, but growth below 2%

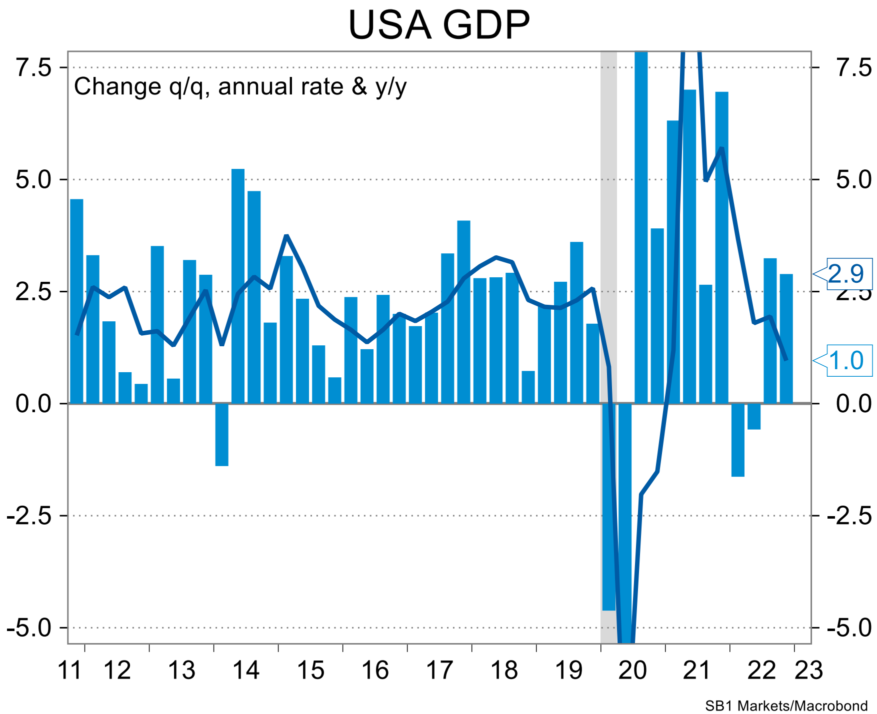


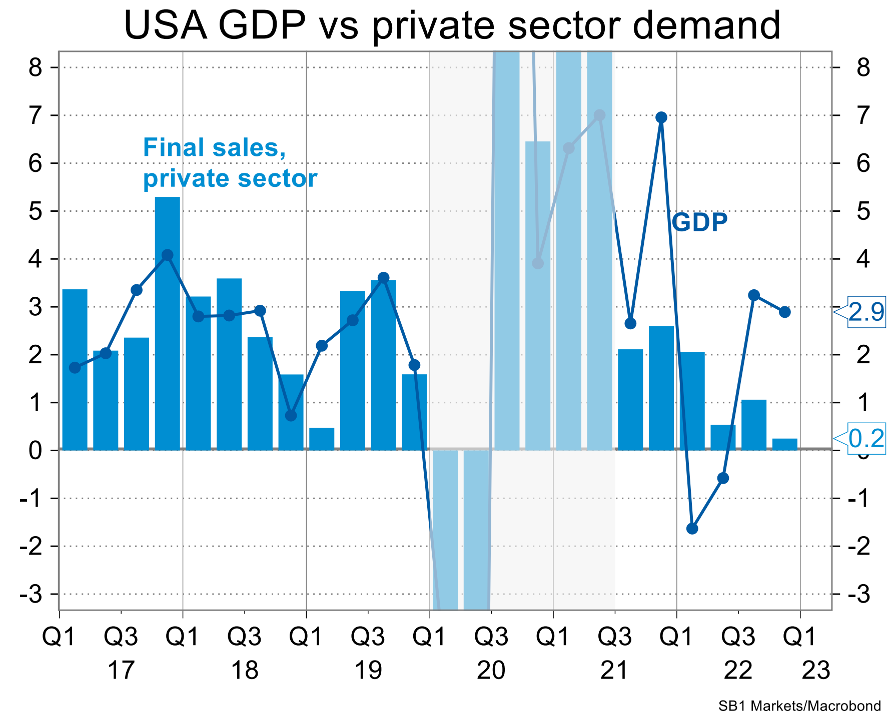


- The service sector reports slow growth and now the manufacturing PMI dipped below the 50-line too

Solid GDP growth in Q4 – GDP up at a 2.9% pace in Q4, above expectations

Still some weakness in the data: Private sector demand was weaker, and inventories contributed 1.8 pp

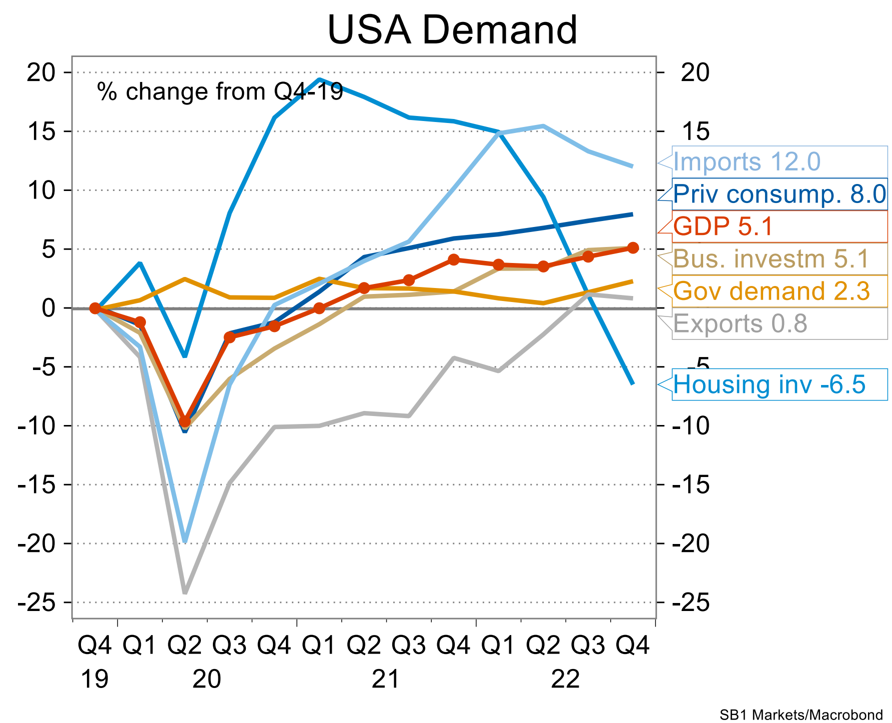




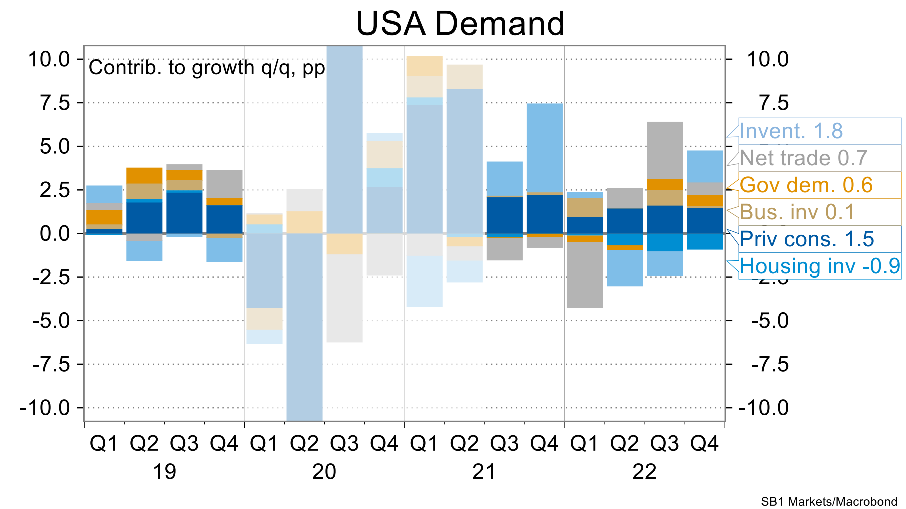
- **GDP** grew slightly more than expected (2.5% – 2.8%). Measured y/y GDP grew 1% in Q4, and by 2.1% in 2022 (the whole year)
- Growth in **private (household + business) demand** was up just 0.2% in Q4. Housing constituted a 0.9 pp drag! **Public demand** was stronger, up 3.7%, lifting GDP by 0.6 pp, as in Q3! **Net trade** was slightly positive in Q4
- **Inventories** rose at a much faster pace than normal, and contributed 1.8 pp, more than half of the headline growth rate!
- **Core PCE inflation** (Fed's price measure) slowed, and as expected, to 3.9%. The overall GDP deflator grew 'just' 3.5% in Q4, as energy prices fell further → price inflation is slowing
- We assume **corporate profits** rose further in Q4, price inflation slowed, but so did growth in wage cost pr unit produced – the latter perhaps <u>the best news vs the inflation outlook in this cycle</u>

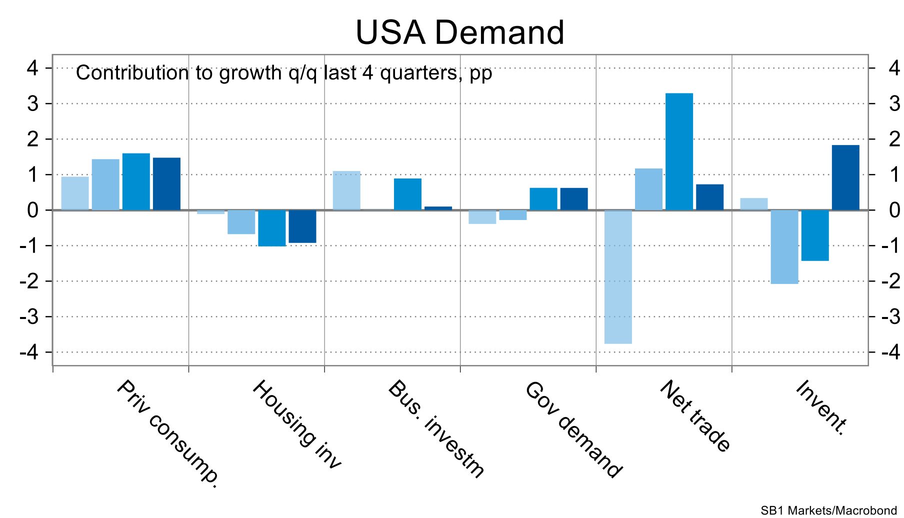
Q4: Private demand hurt by a sharp decline in housing investments

Consumption rose less than exp. Inventories rose fast, explaining 1.8 pp of the 2.9% growth rate. Net trade also positive



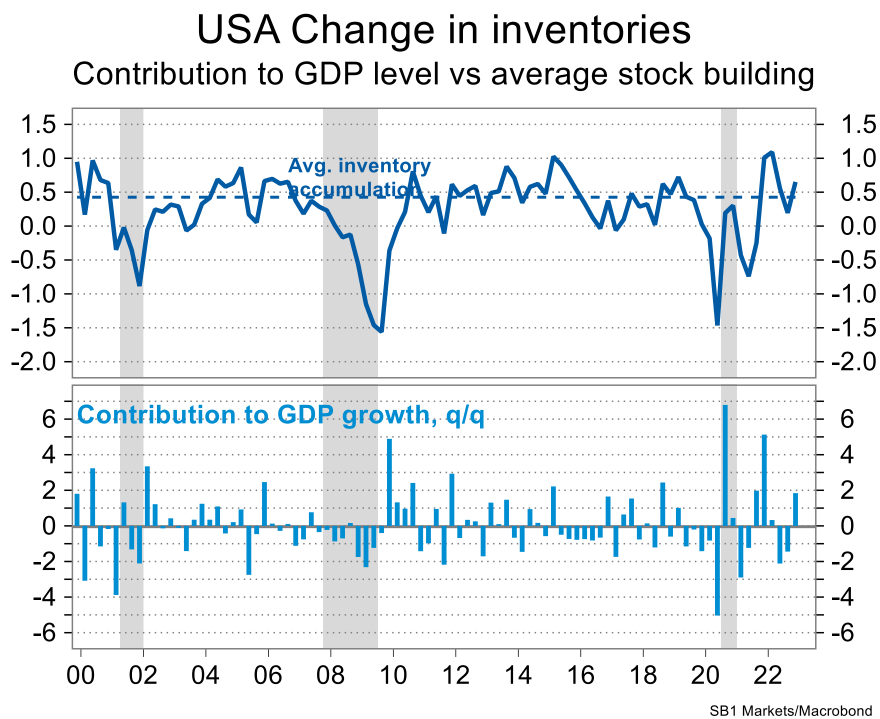
- In addition, government demand rose almost 4% and supported GDP by 0.6 pp

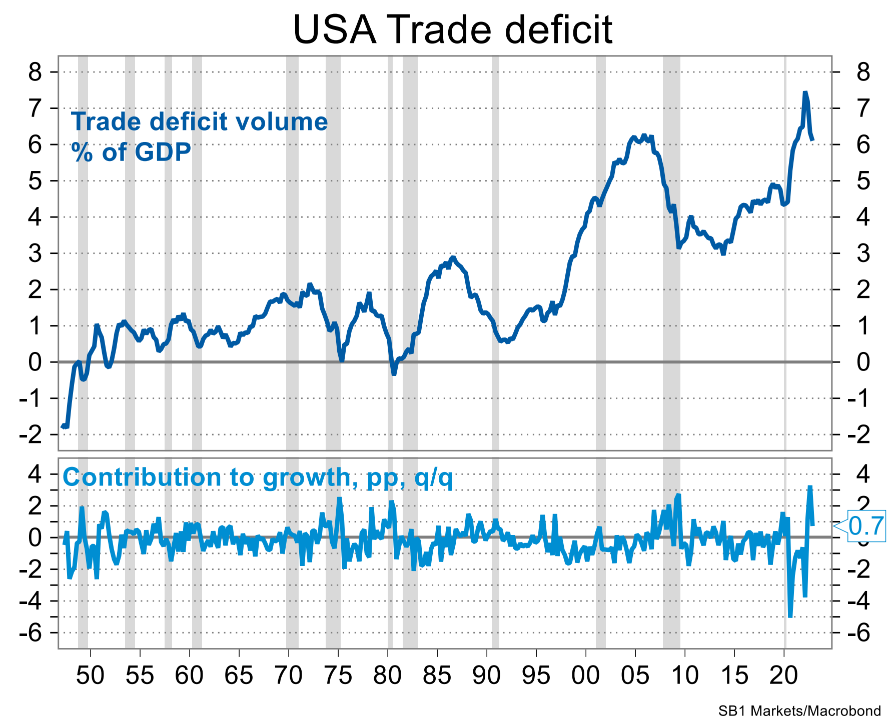




Inventory growth accelerated in Q4, supporting growth by 1.8 pp!

Inventories may be somewhat too high, even if the buildup the previous quarters was not that large

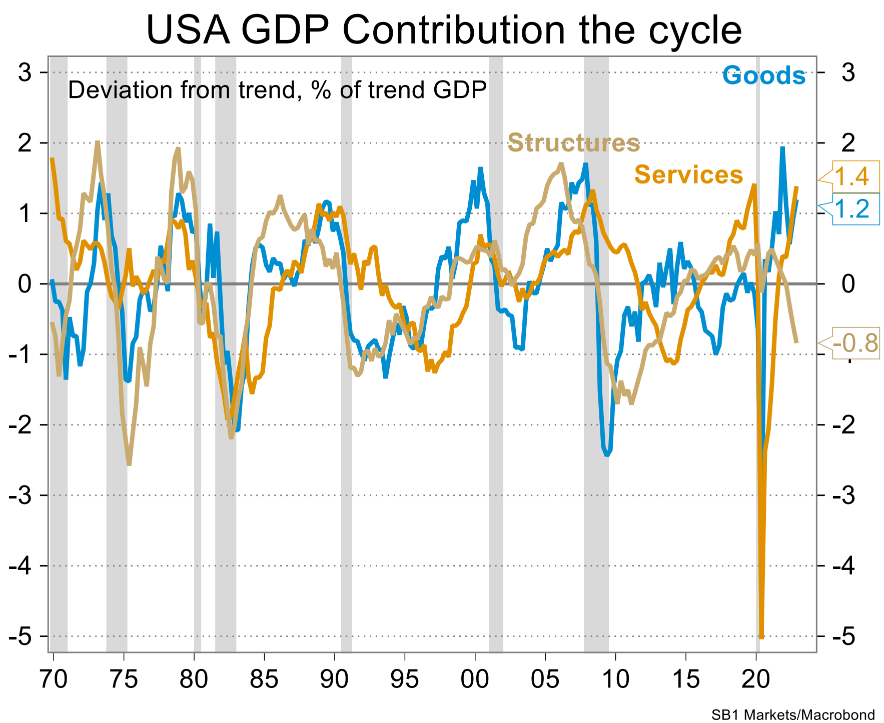


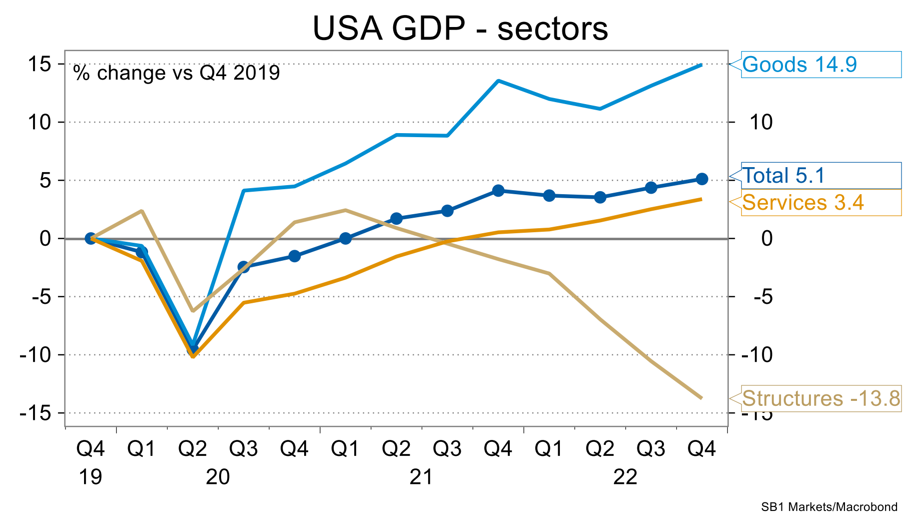


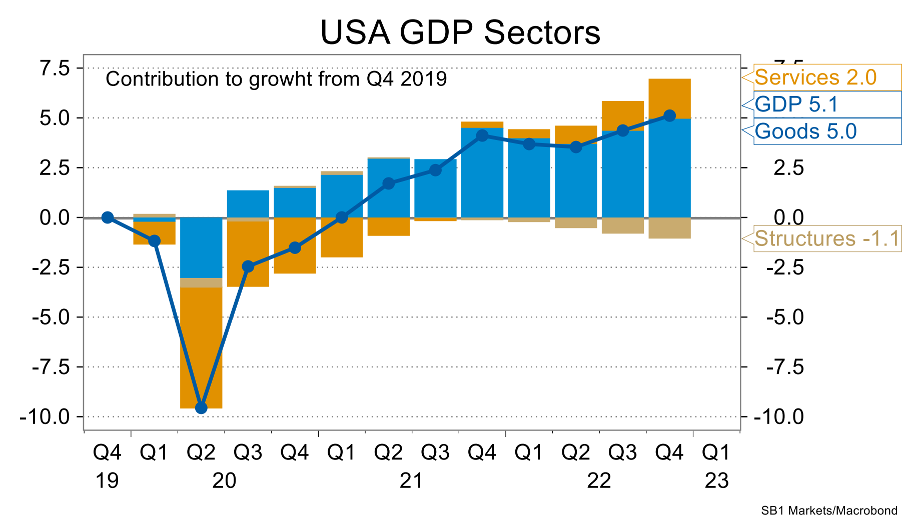
- **Inventories** rose somewhat faster than the normal pace in Q4 – but far from a frightening fast pace
- **The trade deficit** narrowed further in Q4, but remain large, measured also in volume terms

Structures (housing) sharply down, services still rapidly on the way up

Goods has accelerated in H2 – no slowdown in Q4

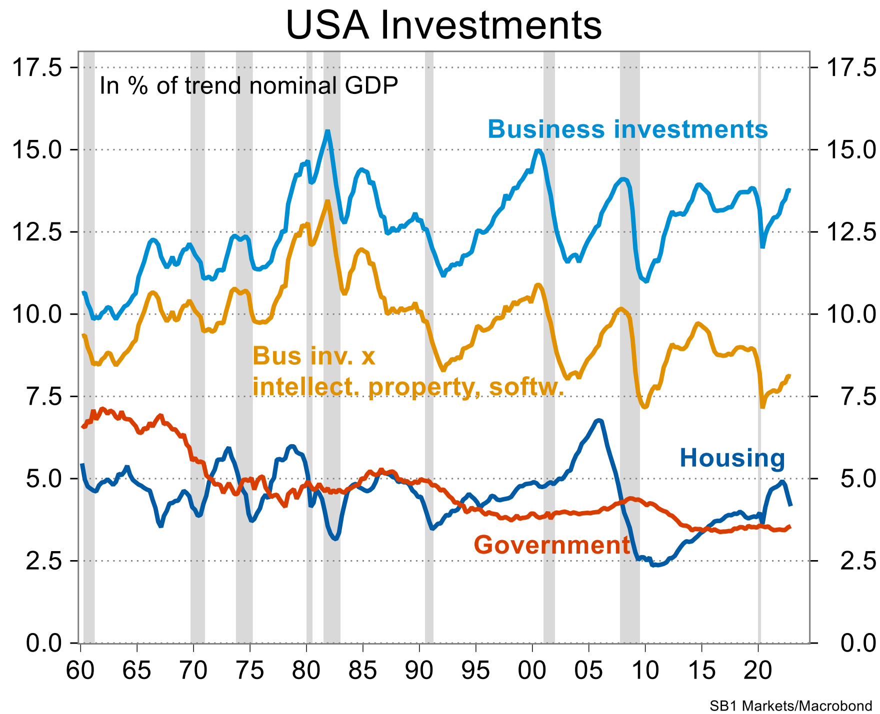


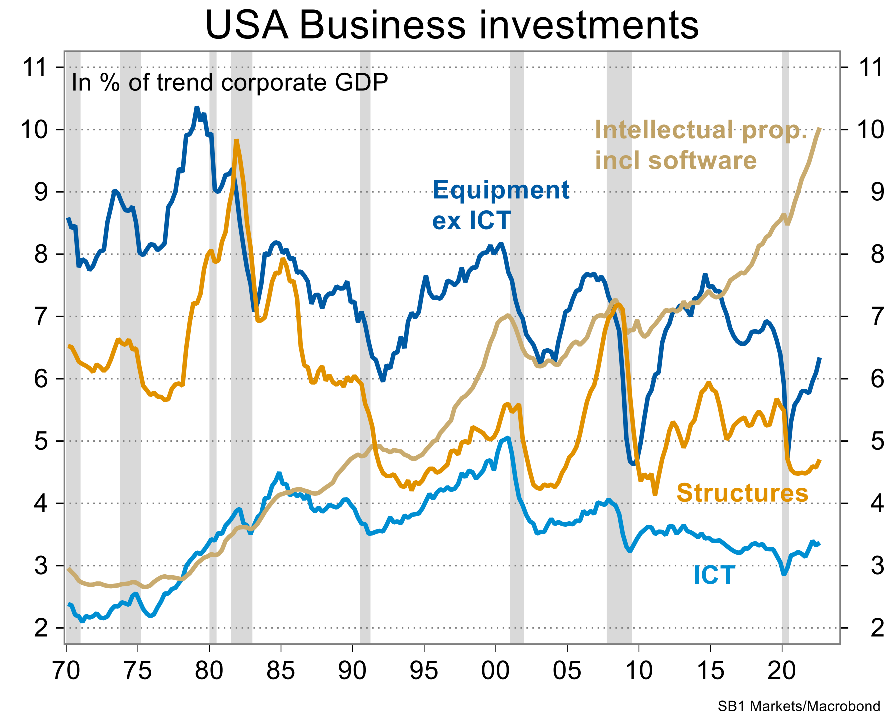




Investments: Housing has turned south, and business investments still OK

Business investments above trend just due to IP & software, ICT. Other sorts of equipment, and structures still weak



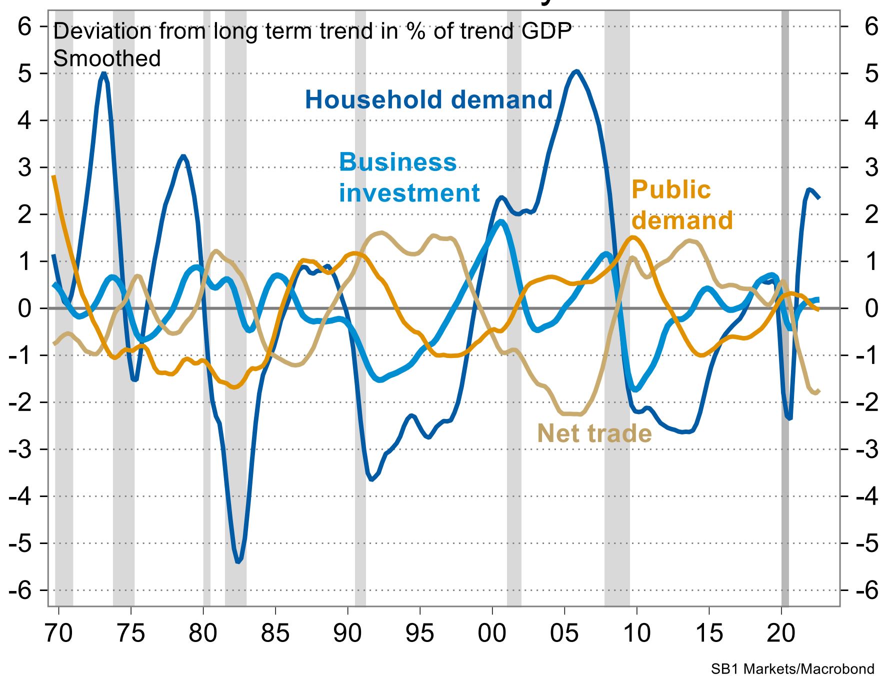


- **Business investments** are up 5.1% vs. the Q4-19 level (in volume terms), driven by IP/software and ICT equipment. Investments in structures have turned up but remains at a low level. Investments in equipment x ITC may is most likely below trend too
  - Thus, the outlook for business investments is not clear: The boom in IP/software/ICT may well continue, even if the levels are high, 10% of corporate GDP. Anyway, these investments have so far been less exposed during recessions than other types of investments. Investments equipment are above trend but not by much. Investments in structures are below a declining trend
  - However, higher interest rates, and weaker growth in demand does not normally support business investment, and we are probably close to the peak in Q4. New investment good orders have flattened – and is trending down in volume terms
- **Housing investments** fell 27% in volume terms (annualised, as in Q3), and housing investments/GDP fell visibly. The investment level is still not low, and given the decline in construction starts, a substantial downside risk
- **Government investments** as share of GDP rose marginally in Q4 – but is at a low level vs the average past decades

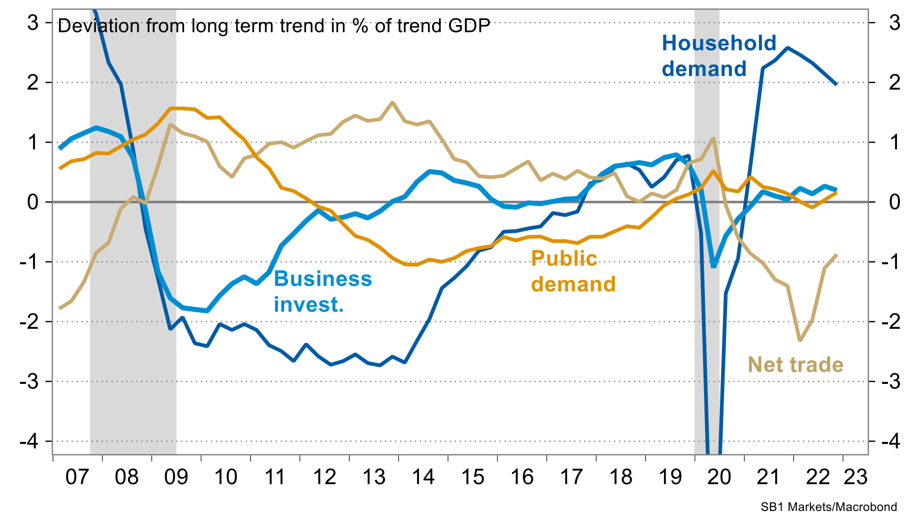
Both household demand and public demand is slowing

Still a downside risk for household demand – driven by an increase in the savings rate

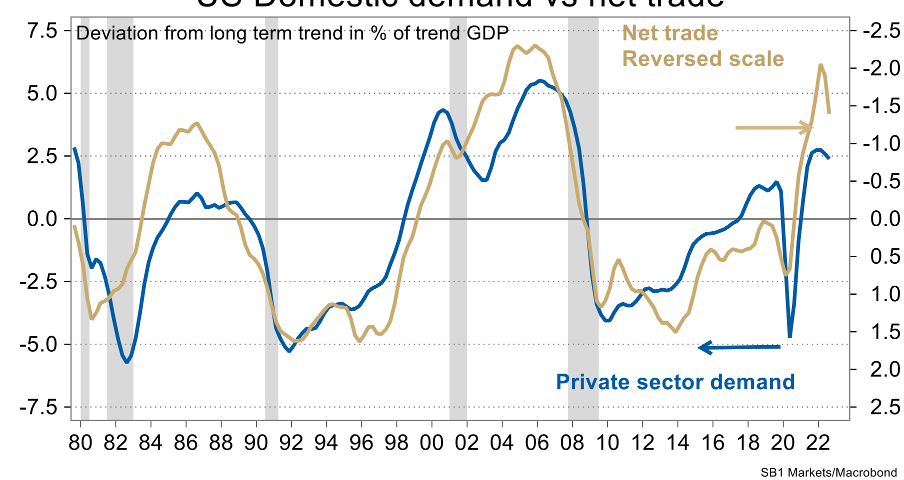
USA Demand cycles



- **Business investments** are not low – but probably not far above trend
- **Net trade** has declined more than normal vs. the increase in domestic demand but has now turned up – and may have further to go
- *Check more on the household sector some few pages forward*



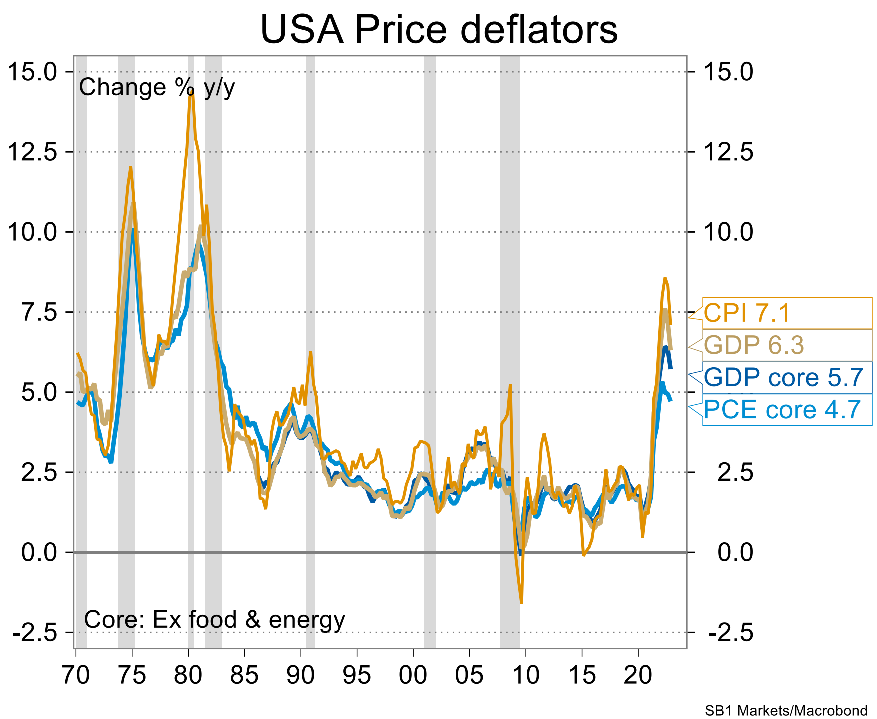
US Domestic demand vs net trade

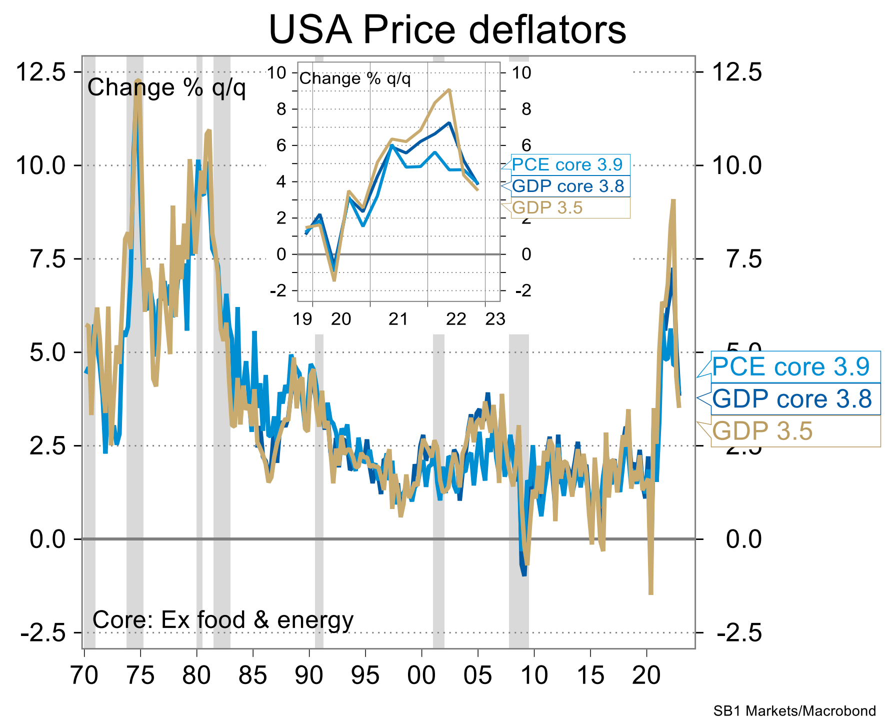


SpareBank 1 MARKETS

The GDP price deflator further down in Q4, but less than expected

The GDP price deflator is up 3.5% in Q4, down from 4.4% in Q3. The core GDP deflator still up 3.8% (and +5.7% y/y)

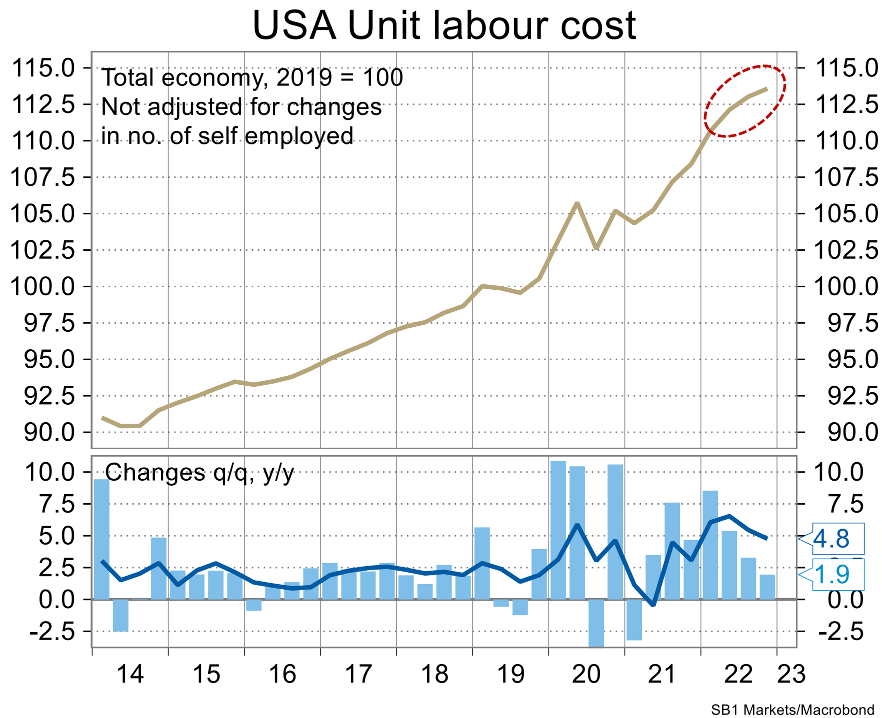




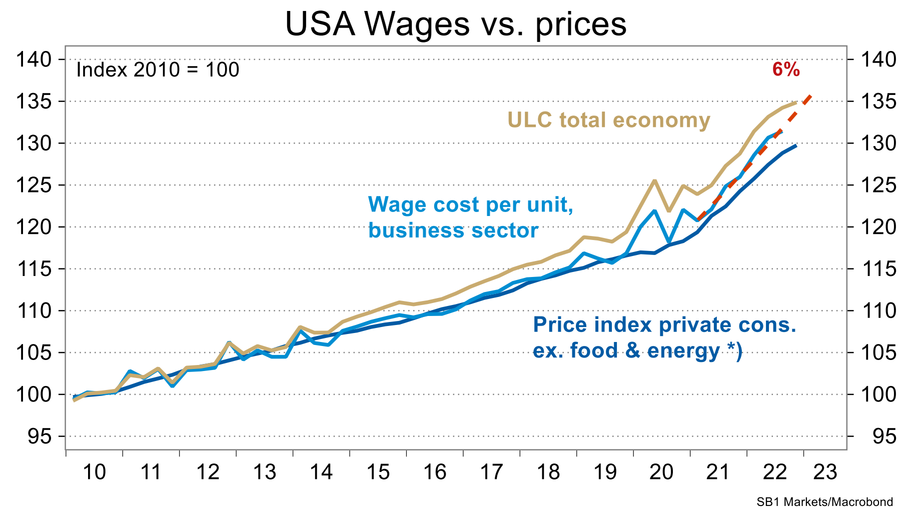
- The core (x energy, food) PCE (private consumption) deflator, Fed's preferred inflation measure rose 3.9% in Q4, down from 4.7% in Q3. The core PCE inflation peaked in Q2-22, at 7.3%. Thus, inflation is slowing rather fast

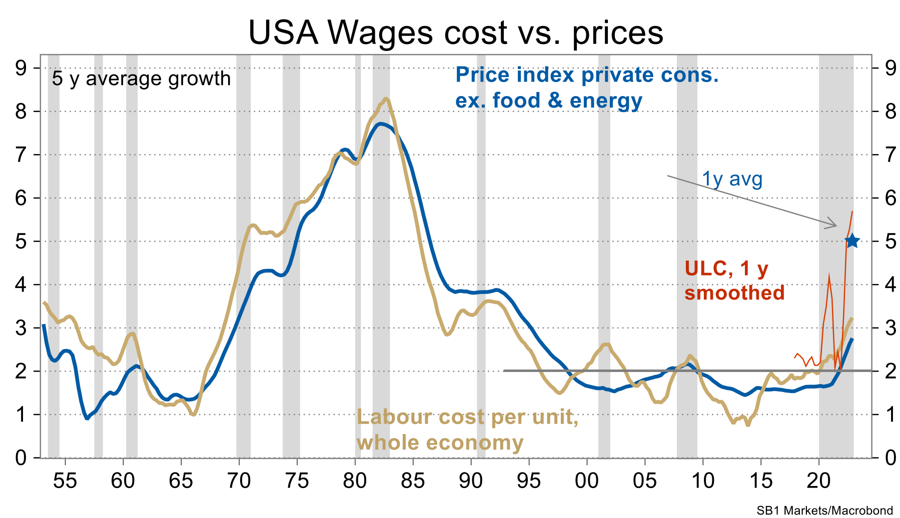
Over time: Inflation is all about labour costs, and nothing but labour costs

The VERY good news: Unit labour cost inflation is probably slowing – down to 1.9% in Q4, for the total economy



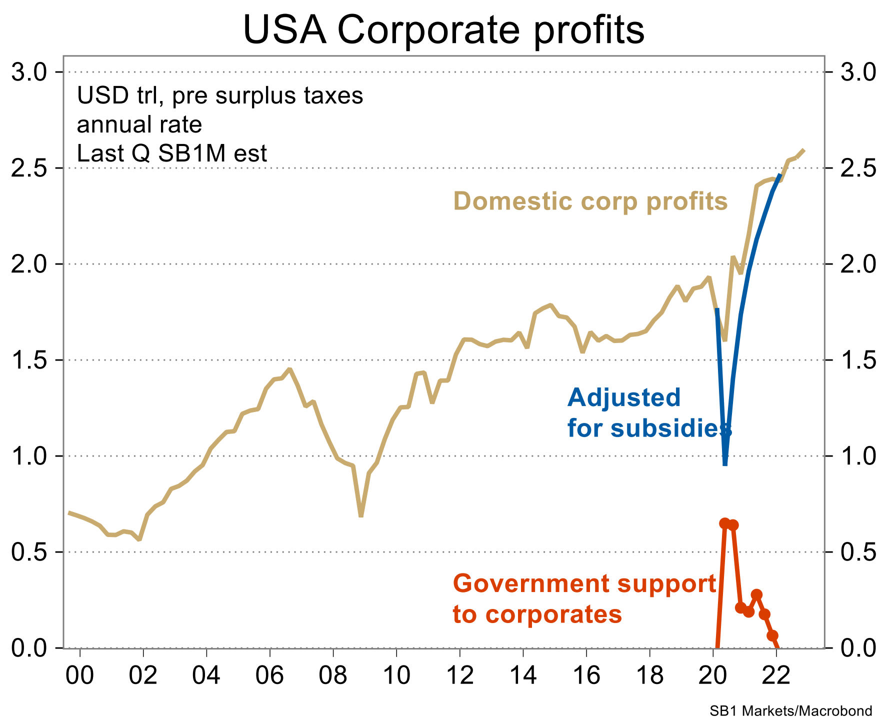
- However, these quarterly data are volatile – and are often revised. Still, what we have at hand, is the best news vs inflation we have seen for a while!

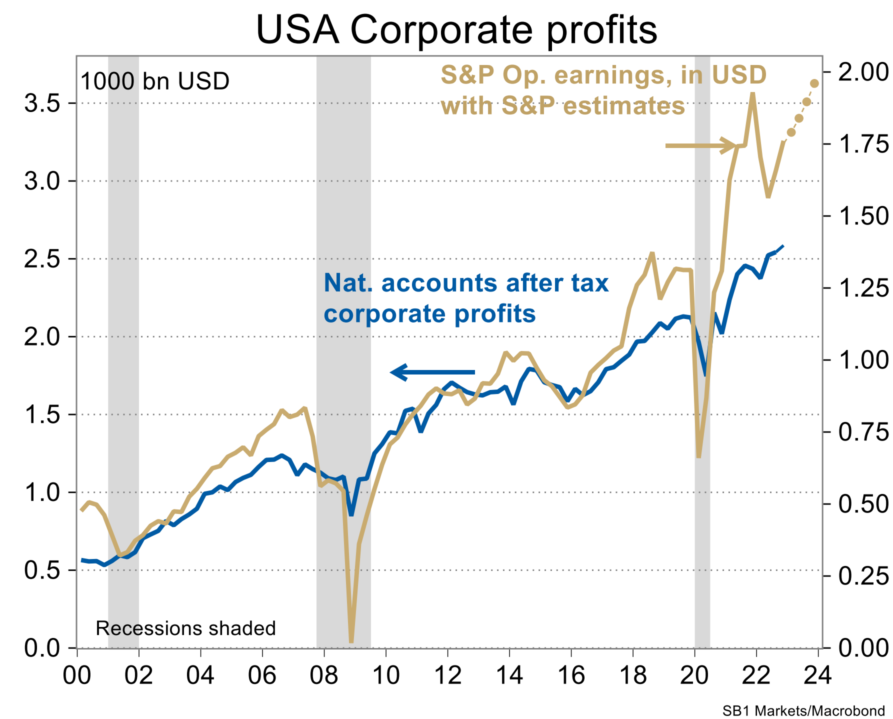




Corporates' profits probably further up in Q4 as wage cost inflation slowed

We still expect profits to come down – but so far we have not been vindicated

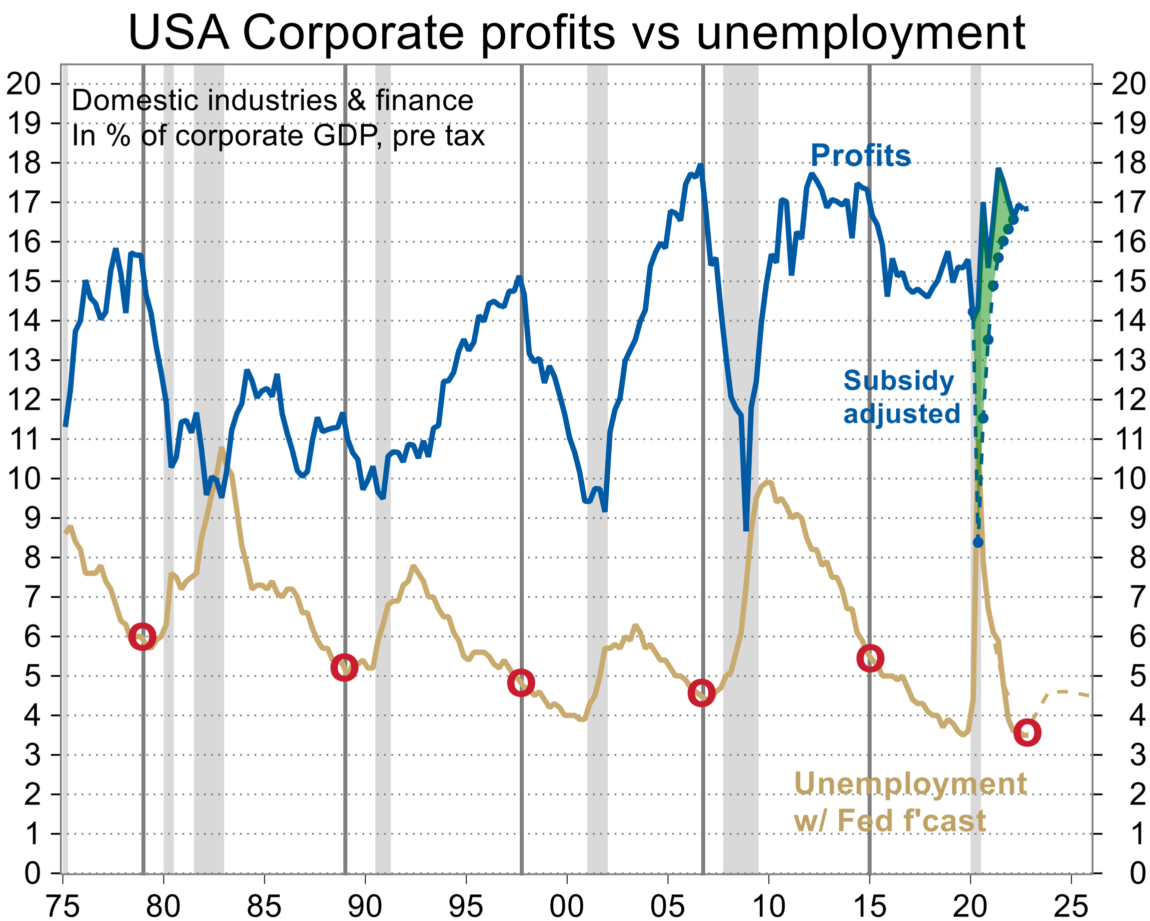




- We assume **domestic corporate profits** rose some 1.7% in Q4
- The **S&P** estimates that S&P 500 profits rose by 6.3% in Q4. S&P profits (including profits from abroad, measured in a strong USD!) are still way above normal vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned). Thus, a downside risk for S&P 500 earnings? S&P's forecast is usually far to optimistic, and take the expected surge in profits in Q4 and the coming quarters with more than one grain of salt
- We think the **profit outlook** is bleak. Wage inflation have peaked but will probably not subside immediately given a still tight labour market – and price inflation will come down faster than wage inflation

The profit cycle has peaked. Now, make ready for the next leg

The bottom line has always been hurt when the labour market becomes too tight. Like it is now

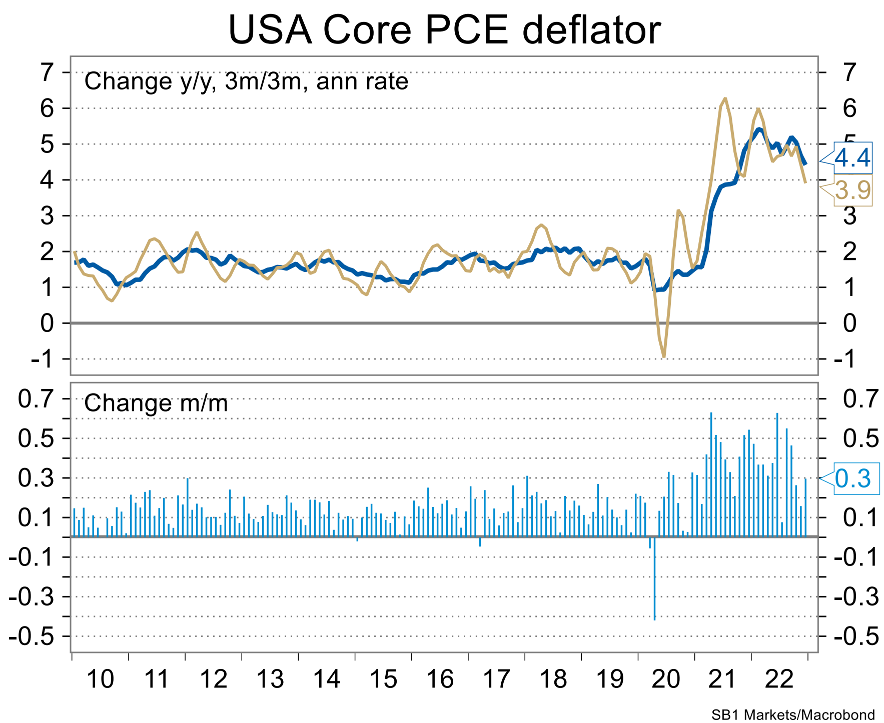


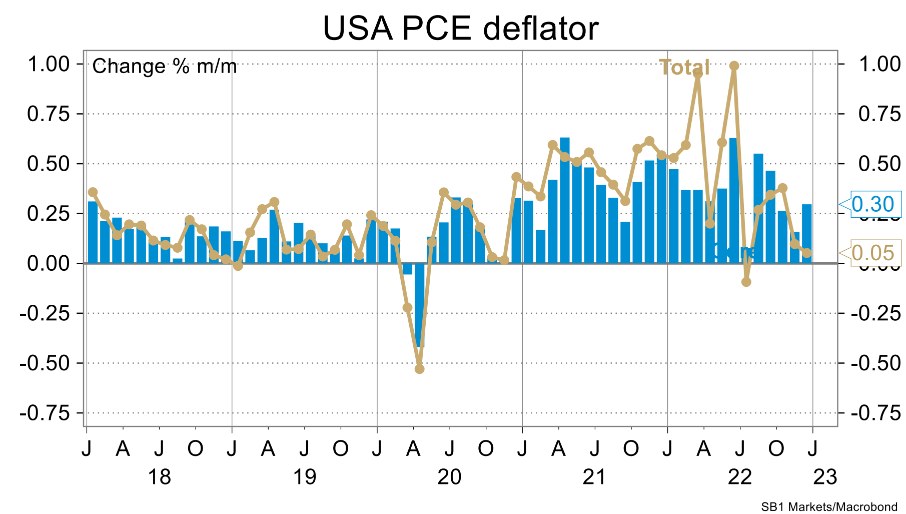
SB1 Markets/Macrobond

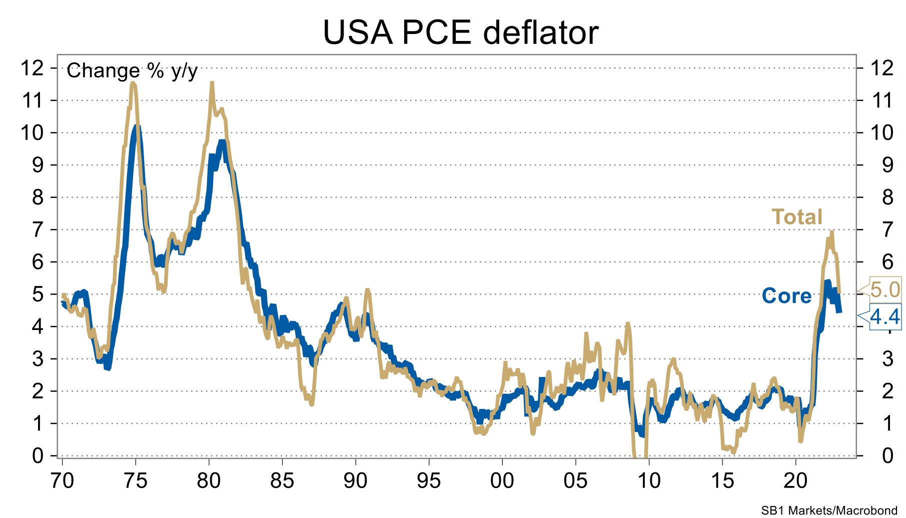
- **Both price and wage inflation** is slowing. We doubt wage inflation will slow faster than price inflation. If so, the profit rate will take the beating
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - Unemployment is now at 3.5%, a very low level, and the vacancy rate is still high

Inflation is cooling – both headline and core PCE lower in December

The core PCE deflator rose by 0.3% m/m, as expected. The annual rate fell 0.3 pp to 4.4%



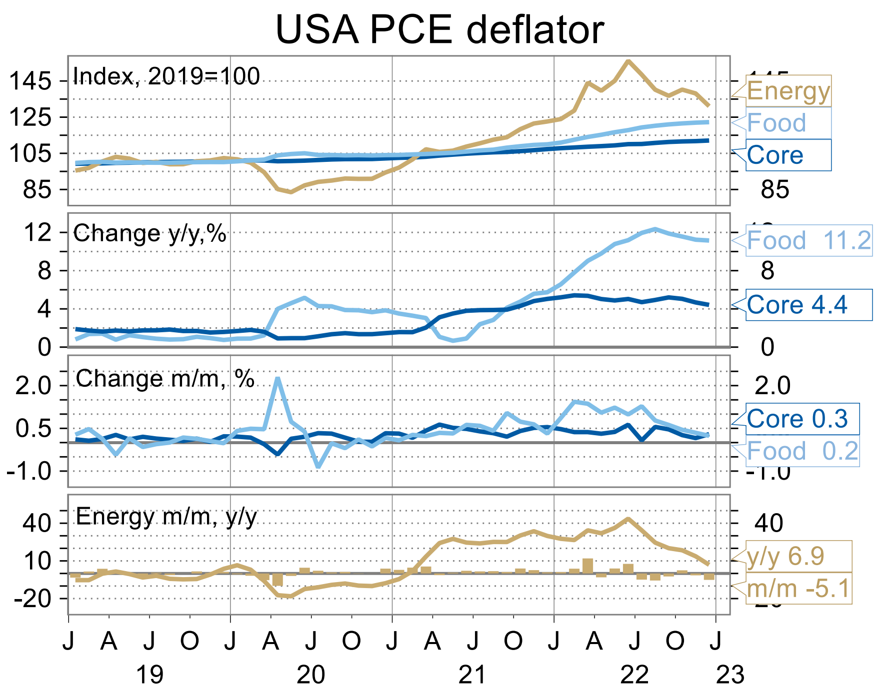


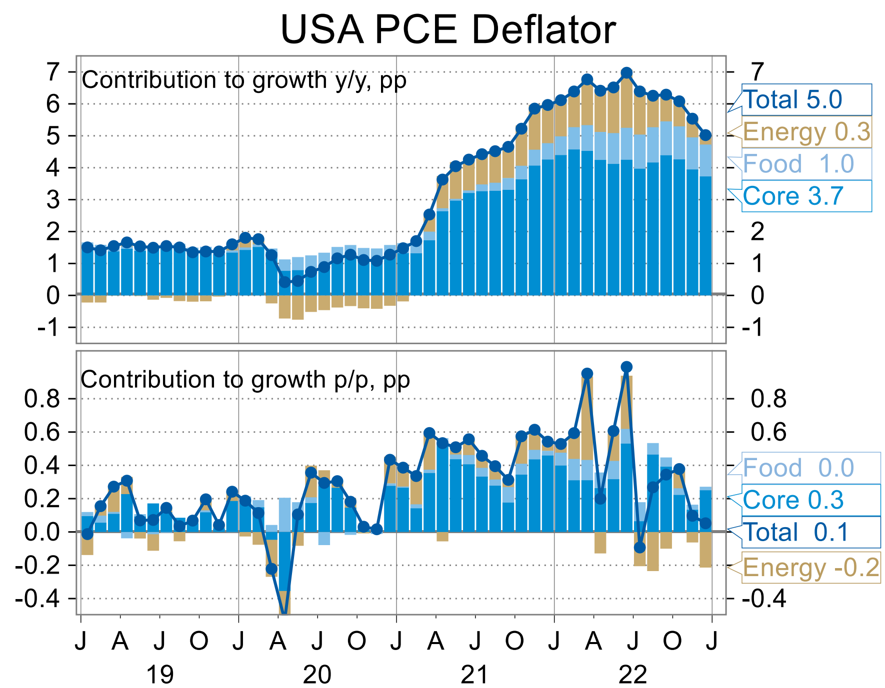


- **The total PCE deflator** was up 0.1% in December, 0.1 pp below expectations. Energy prices fell by 1.5%, and food prices rose 'just' 0.2%. The annual rate at 5.5% was in line with expectations, down from 6.1% in October (revised up from 6.0%). The peak was at 7.0% in June
- The **core PCE** has decelerated to 4.4% y/y from the peak at 5.4% in February, via 4.7% in November
  - The core 3m/m rate has fallen to 3.2%, from 4.7% 3 months ago – and 6.3% at the peak

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

… and core the PCE is slowly yielding too

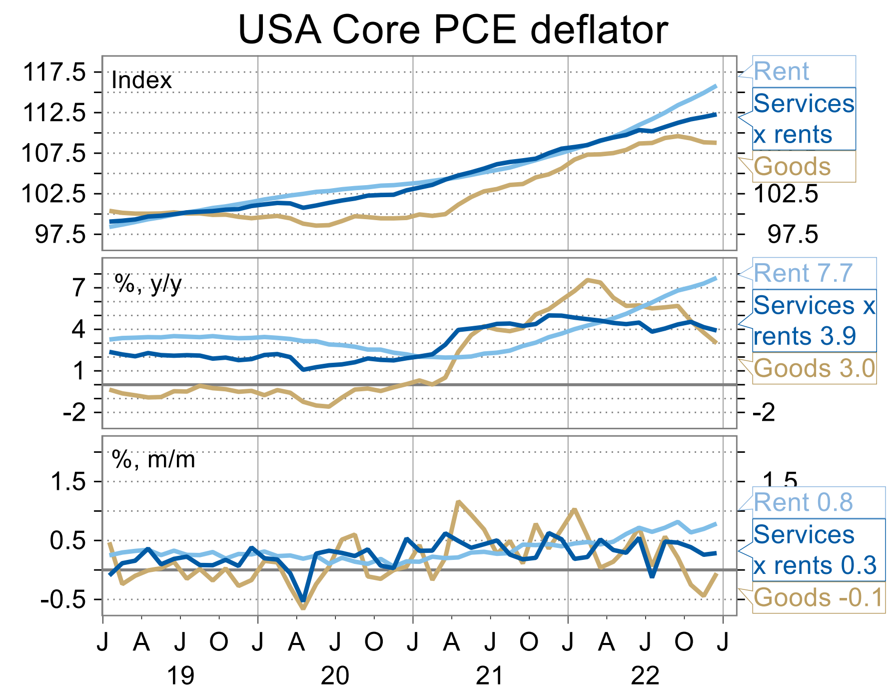


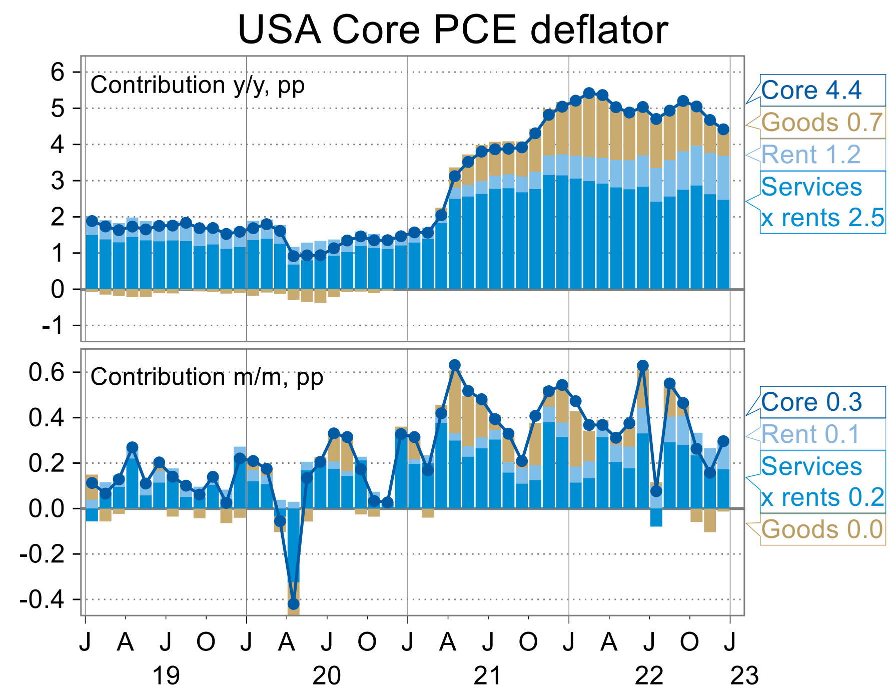


- **Energy prices** peaked in June and have now fallen by 16% since then. Given the current oil and gas prices, the downside is limited from here – but as prices rose sharply until last June, the annual rate will soon turn negative, before the end of Q1. Energy prices are still up 6.9% y/y
- **Food price** inflation is slowing, as the monthly increase has fallen to 0.2% from a 1.5% m/m peak in February – and staying above 1% until July. Food commodity prices have fallen, and prices at the consumer level should flatten (or more likely, come down)

Core PCE: Good prices keep falling; service price inflation has flattened?

Core goods prices fell 0.1% m/m in December, and will likely moderate further (with some reservations, though)

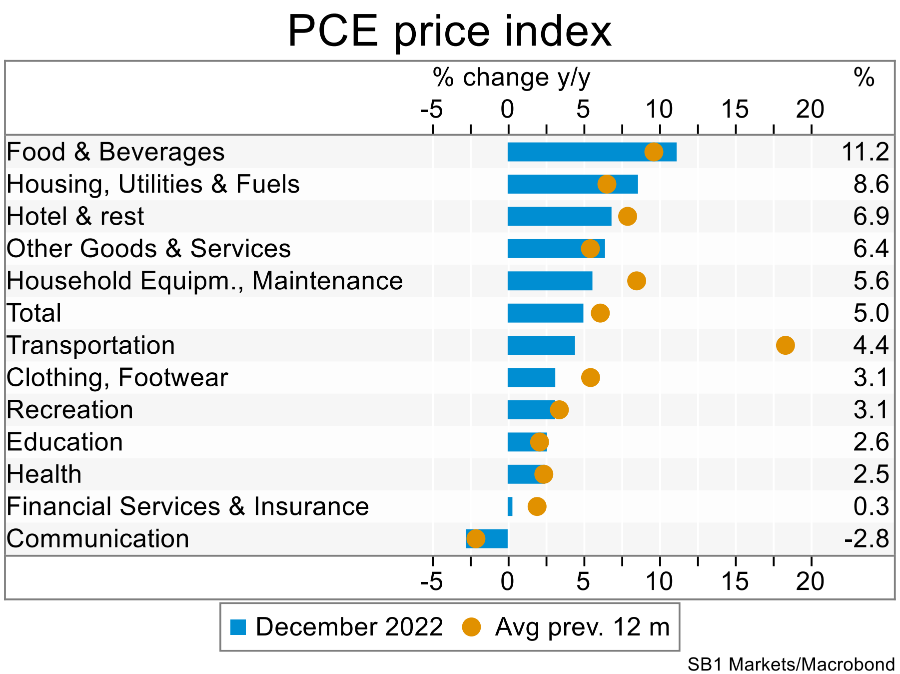


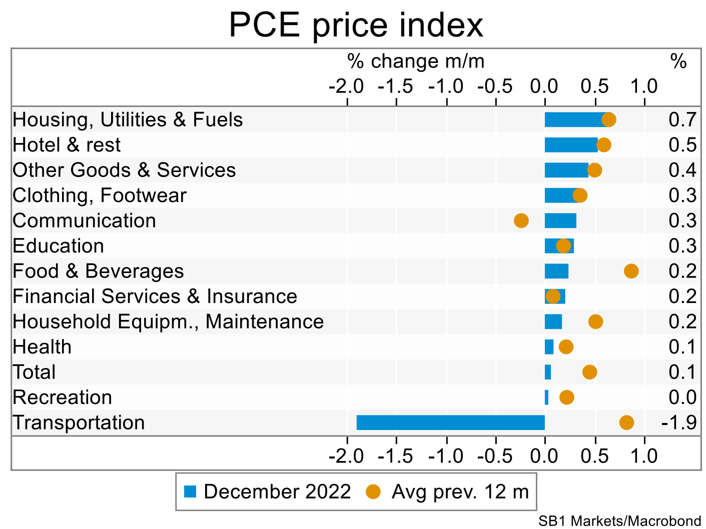


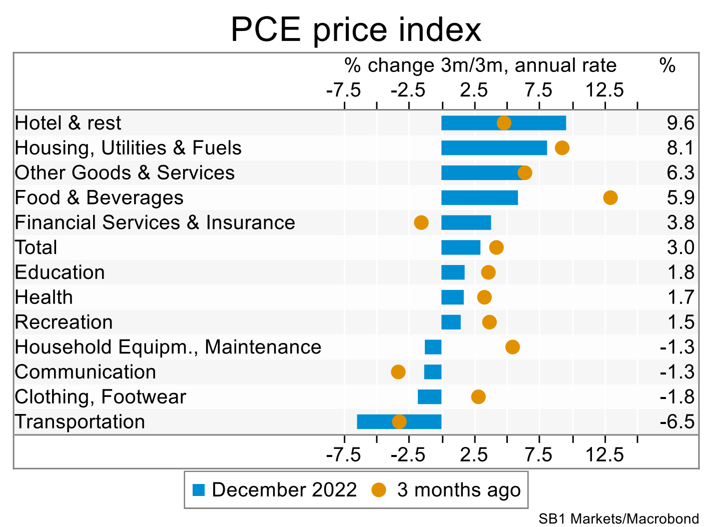
- **Goods prices** have been falling for 3 months, and a further decline is likely. However, some commodity prices have increased recently, also as measured in the PPI, and in the PMI survey, manufacturers reported a faster growth in input prices
- **Rent inflation** is still accelerating measured y/y, but monthly increases has flattened – at a very high level, at 0.8% per month
  - **Market rents** are slowing (but not yet outright falling, seas. adj), signalling lower rent inflation some months ahead
- The challenge: **Services x rents**, where prices are still climbing fast – <u>though not faster</u>, up 0.3% in Dec, like in Nov, but less than the preceding months. Prices are up 3.9% y/y, and the contribution to core PCE equals 2.5 pp (of the 4.4% total core)

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

<u>However, 7 sectors are up less than 2% measured 3m/3m</u>, just 6 are above - and 8 out of 12 sectors are slowing



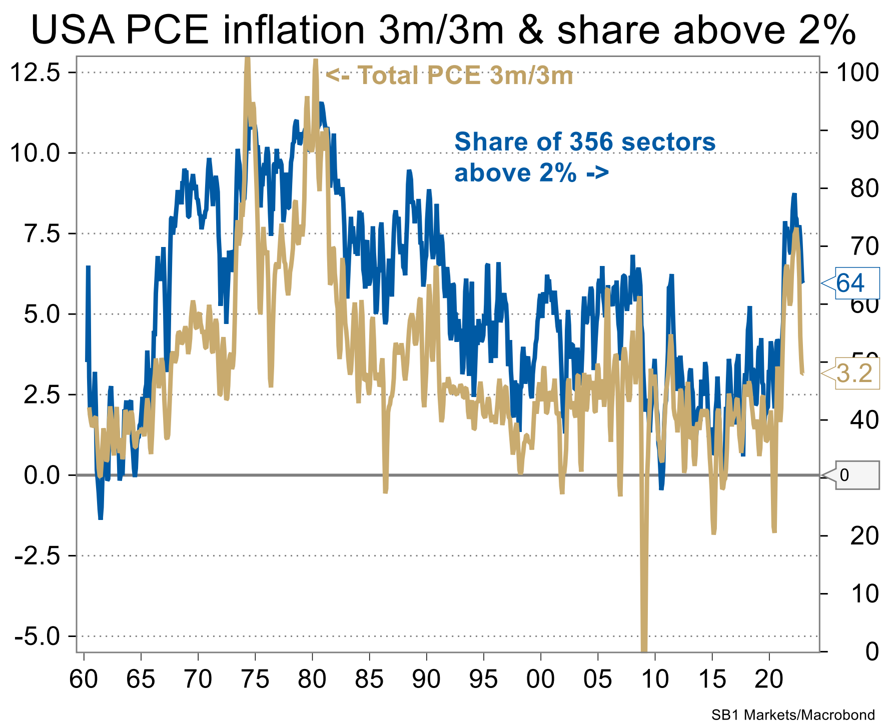


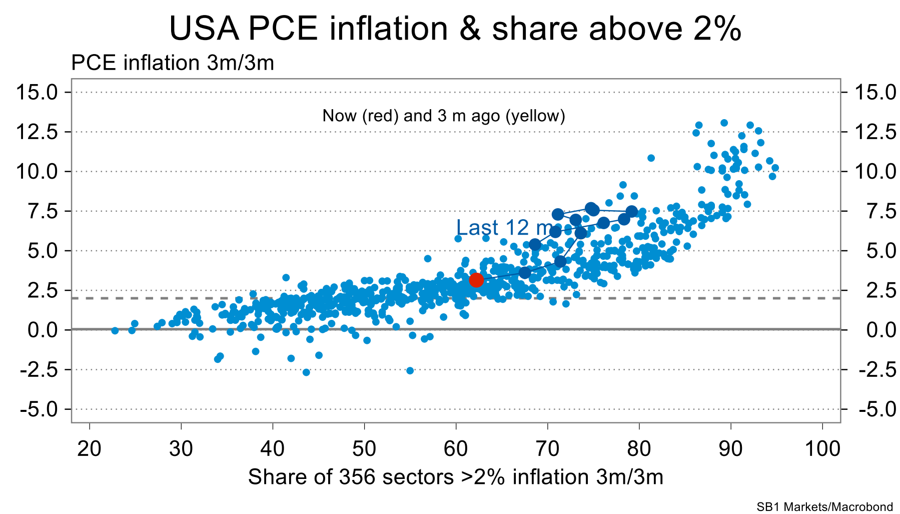


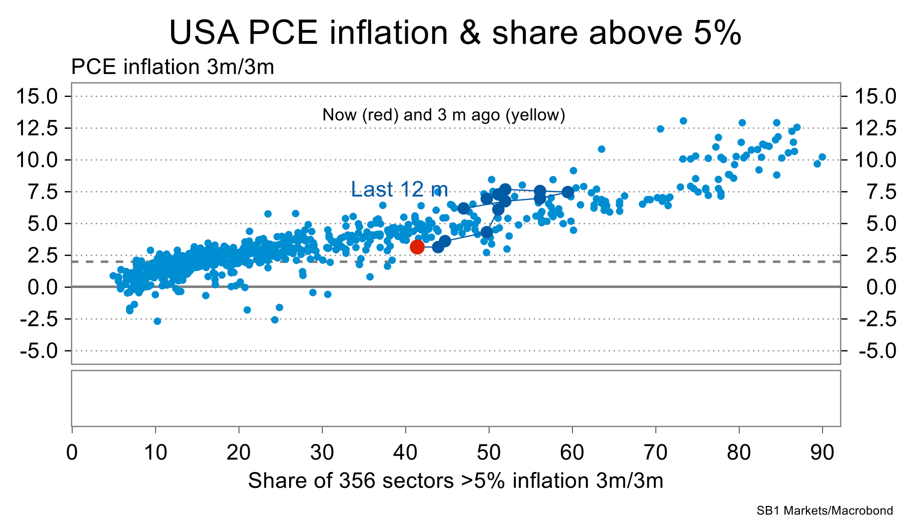
- Transportation (gasoline) prices fell further m/m in December

The details: 64% goods and services are still up more than 2% (and 41% > 5%)

However, the slowdown recent months is broad

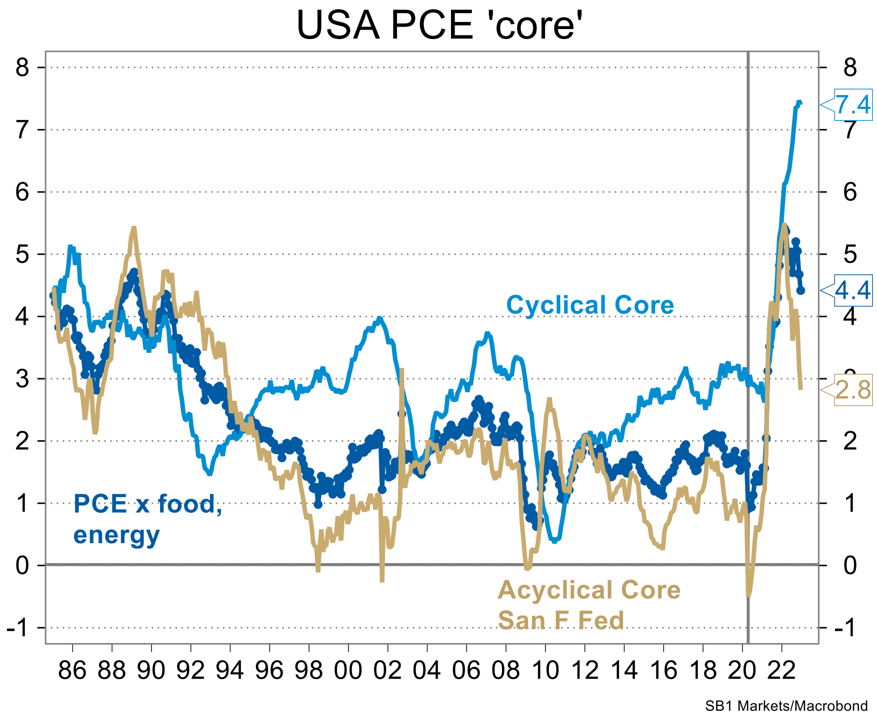


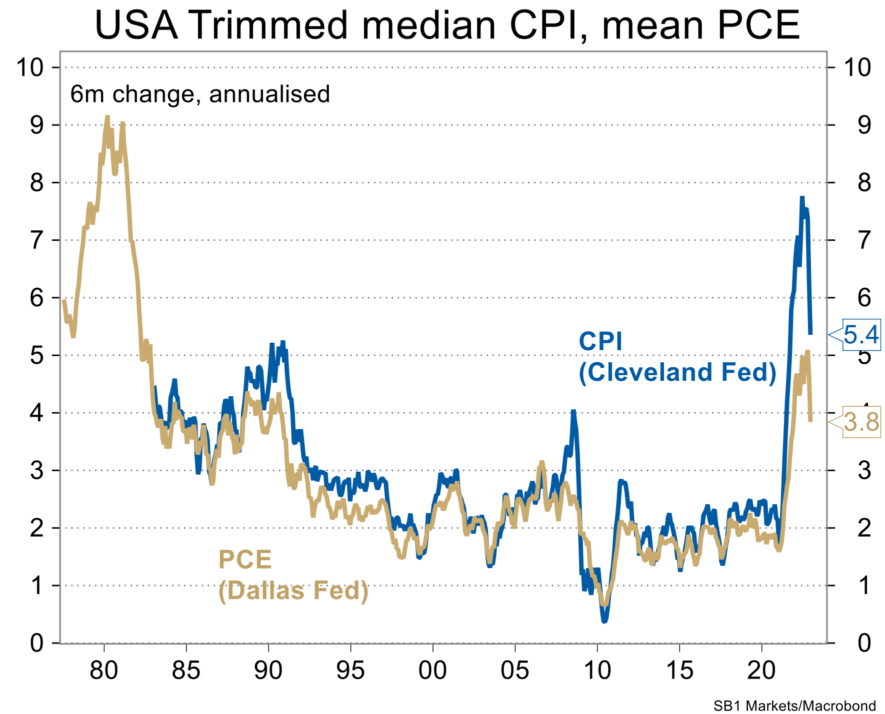




Cyclical prices are still accelerating y/y, the acyclical prices are slowing

Wages are more important, anyway

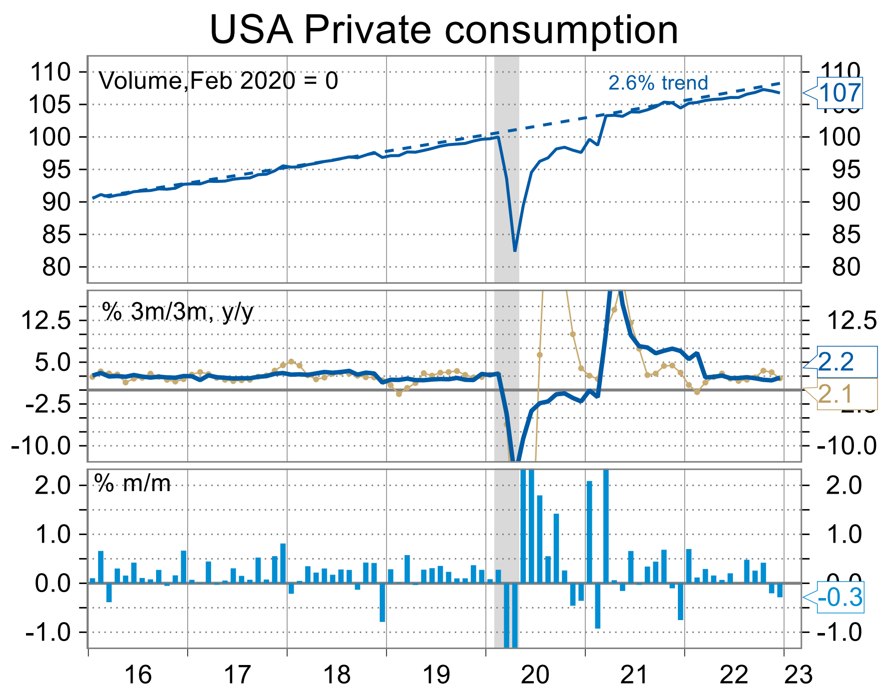


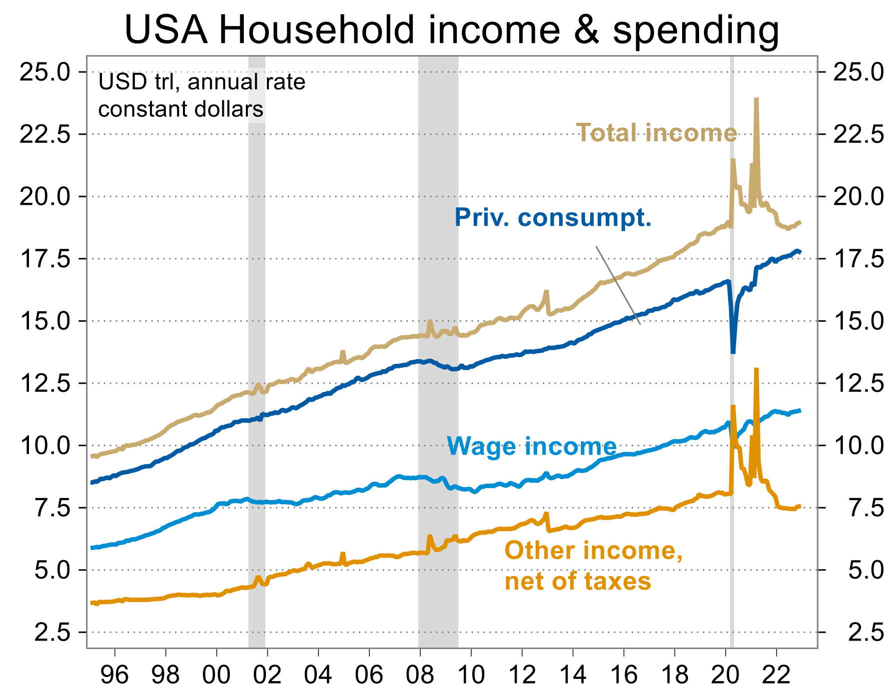


- **Core cyclical and acyclical PCE** prices are up 7.5% – 3.2% resp., and the cyclicals are still on the way up
- The **trimmed PCE mean** (Dallas Fed) was unchanged at 4.7% (measured over the past 6 months) in December. This is very likely among the most important price indicators for the FOMC, if not the most important
- **The trimmed median CPI (Cleveland Fed)** is up 5.4% over 6 months, sharply down the past three months
- Other measures of underlying inflation are also still among the highest levels in 30 – 40 years

Consumption down in December, November revised to a small decline too

The first signs of slower growth in consumption?

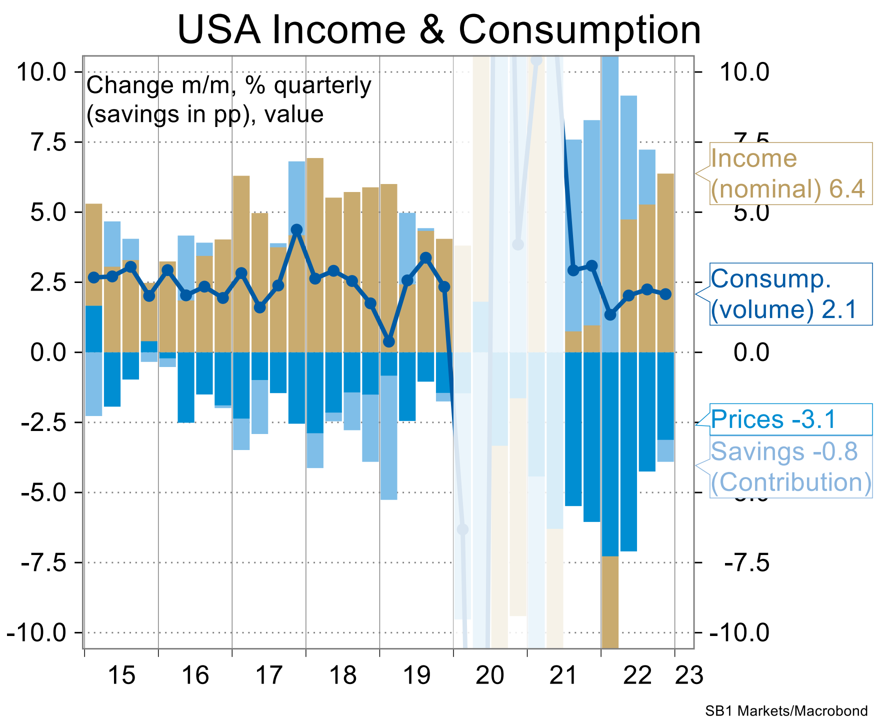


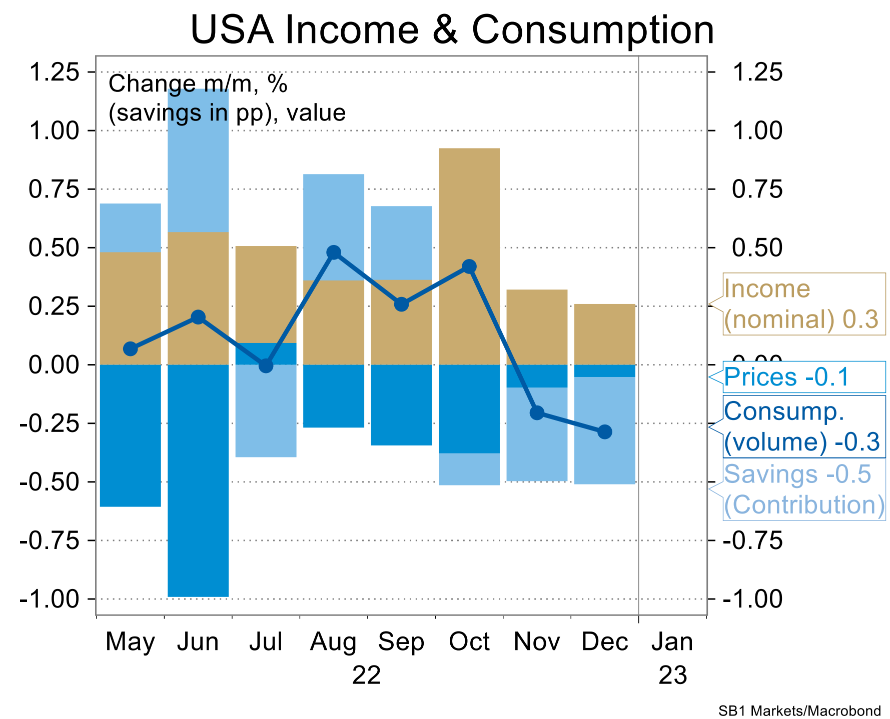


- **Private consumption** fell 0.3% in Dec, expected -0.1%, and Nov was revised down by 0.2 pp to -0.2%. In Q4, consumption grew by 2.1%, well below expectations. In December, consumption fell by 0.2% in nominal terms, as expected
- **Personal nominal disposable income** gained 0.2% in Dec, as expected, was up 0.1% in real terms. Real disposable income has increased somewhat recent months, as price inflation has slowed – but growth in real consumption has been stronger
- **The savings rate** rose 0.5 pp to 3.4%, from an 0.5 pp upward revised level in Nov. Still, the rate is close to the lowest ever – and 4 pp below level before the pandemic. However, even if the accumulated extraordinary savings through the pandemic is now gradually run down, most of the Wall of Money is still intact which may make it possible for households to keep up the level of spending (at least for those who saved…)

Price inflation slowed in Q4, to 3.1% - and income growth accelerated

… and the savings rate rose from Q3 (and m/m in both Oct/Nov/Dec)



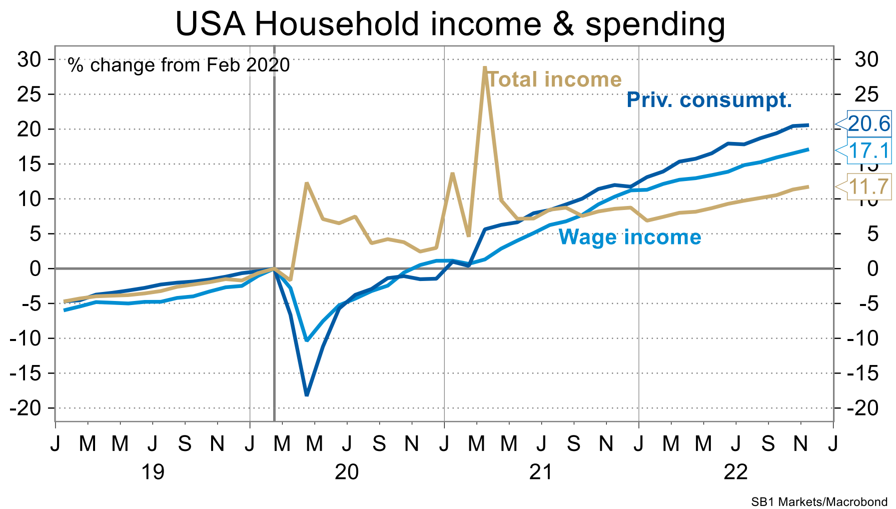


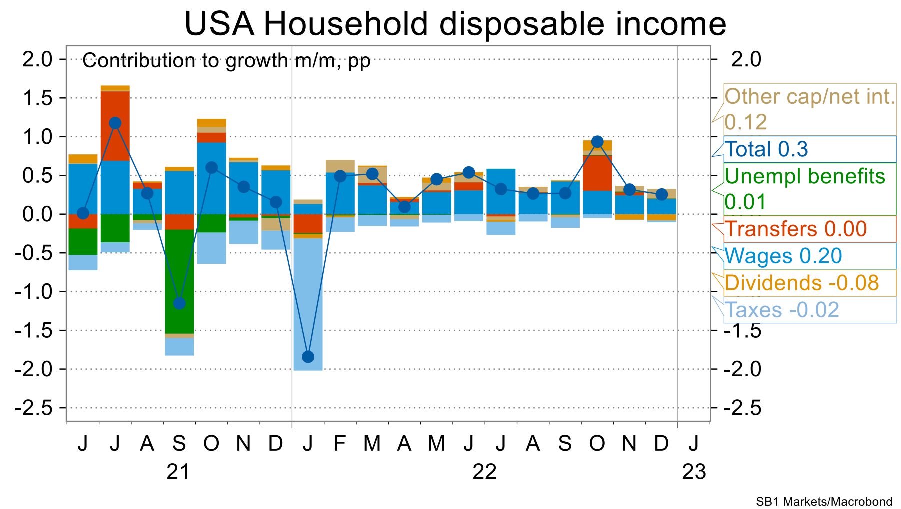
- Until Q4, a decline in the savings rate was the main source of funding growth in consumption in the high inflation environment
- In November and December, **price increases** slowed to a trickle, and as real consumption flattened, the increase in disposable income was sufficient for lifting the savings rate

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

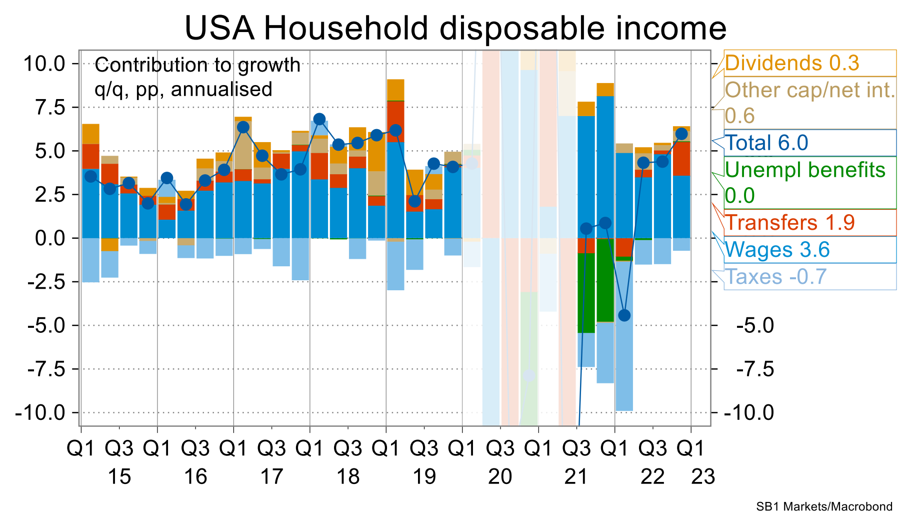
Income growth still higher than normal, and by 6% in Q4

Wage revenues continue upwards



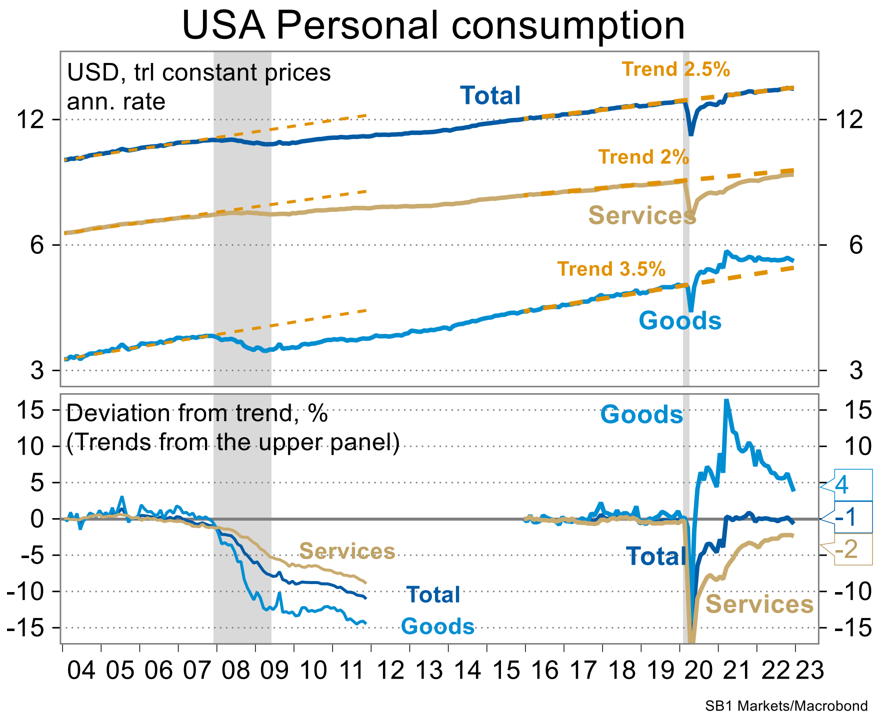


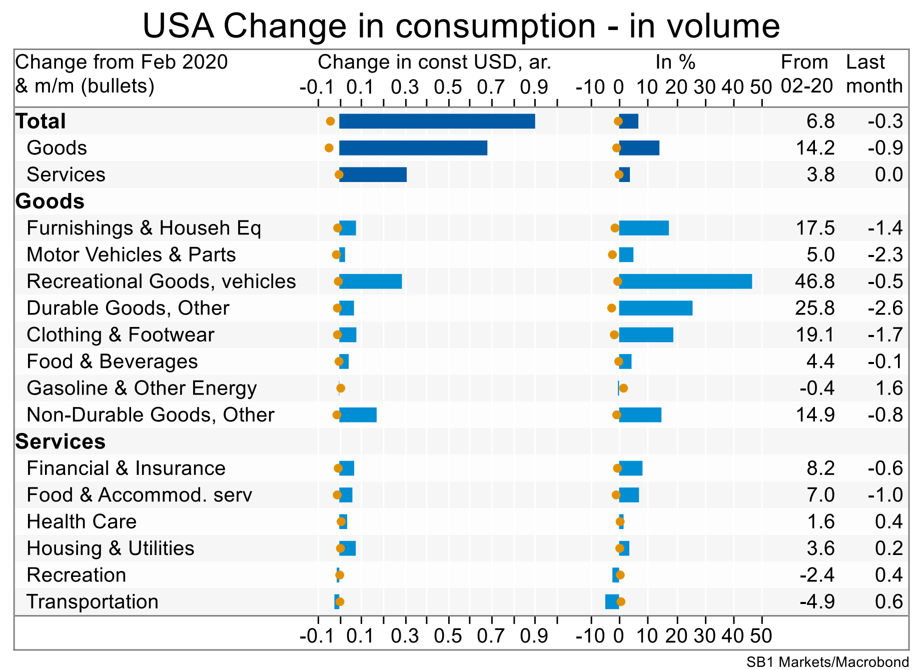
- **Total household disposable income** flattened from the spring in 2021 to early 2022 but has been trending steady upwards since January
  - Household income fell in Q1 due to higher tax payments but rose sharply again in Q2 and held steady in Q3
- **Total <u>wage</u> income** is still growing rapidly,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



Services are 4% above the pre-p. level; Goods are 14% above (in volume terms)

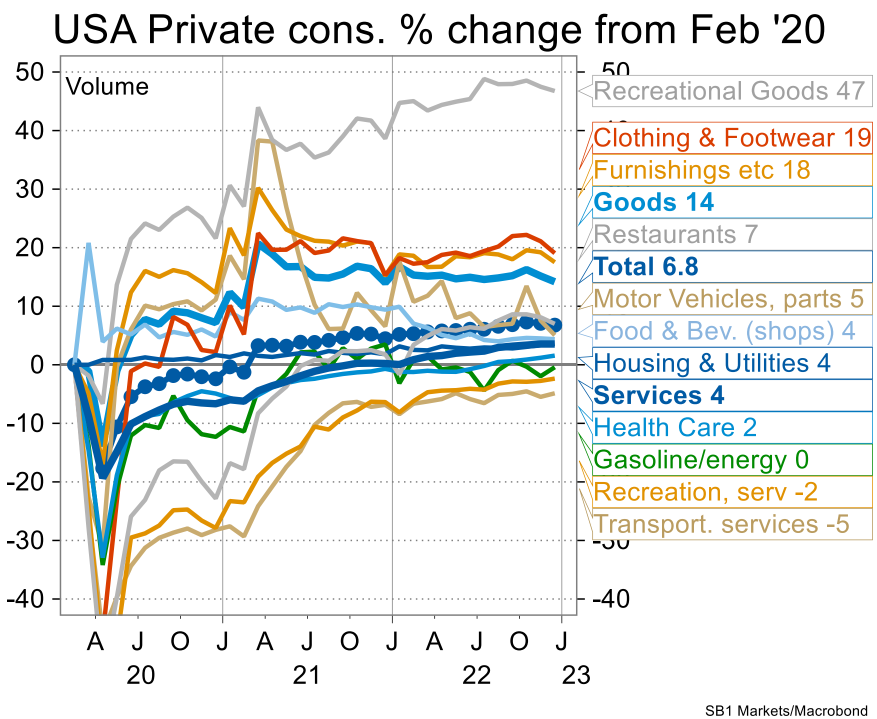
Spending on services is still 2% below the pre-pandemic trend, spending on goods is 4% above

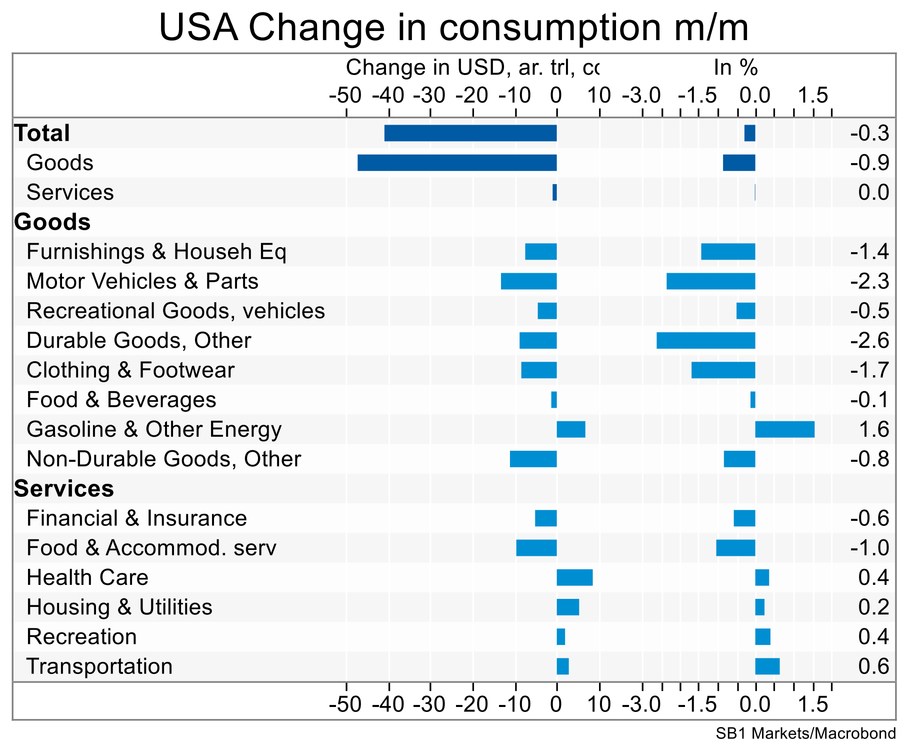




Less spending on cars was the main drag on consumption in December

The ‘weak’ sectors (vs. the 2019 level) is trending upwards, others are mixed

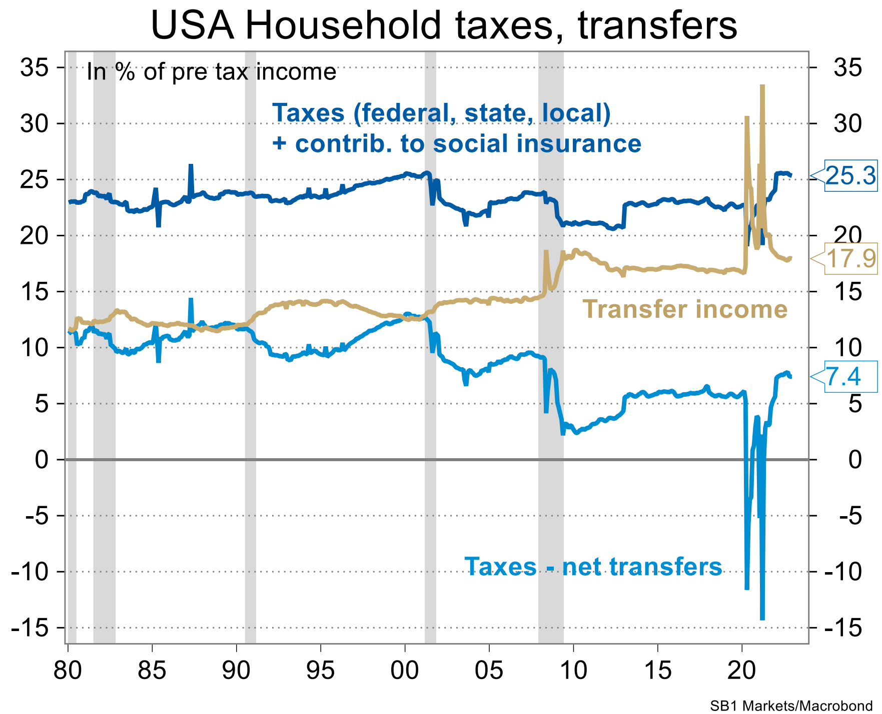


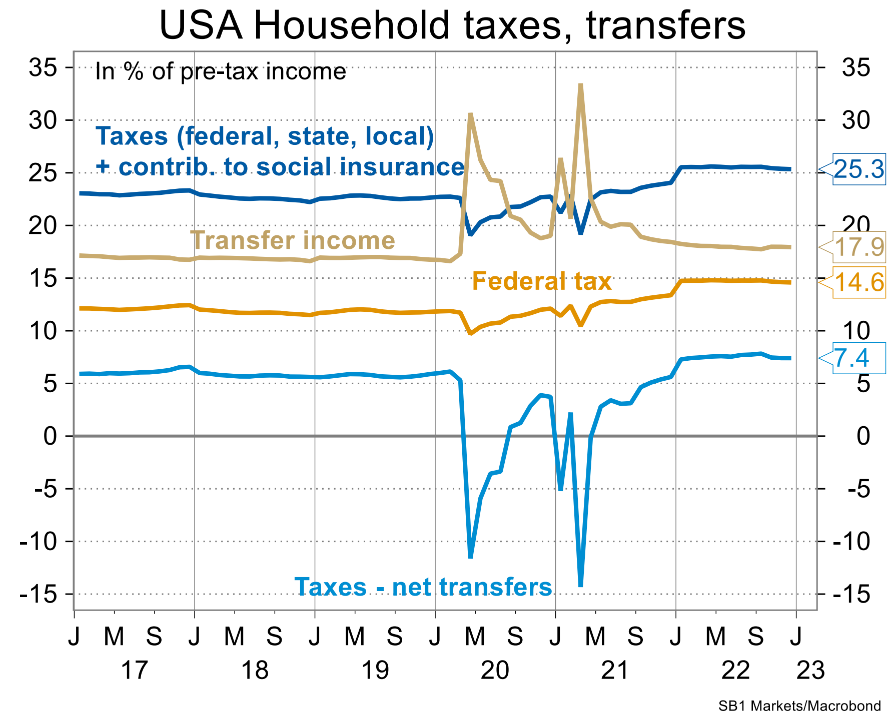


- The pandemic is still ‘with us’: Spending on transportation & recreational services are still below the pre-pandemic level. However, recreational goods (‘individual’ consumption) is up almost 50%!

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

Net taxes up to 7.6% of pre-tax income, close to the highest since ‘09. Gross taxes at 25.3%, close to ATH!

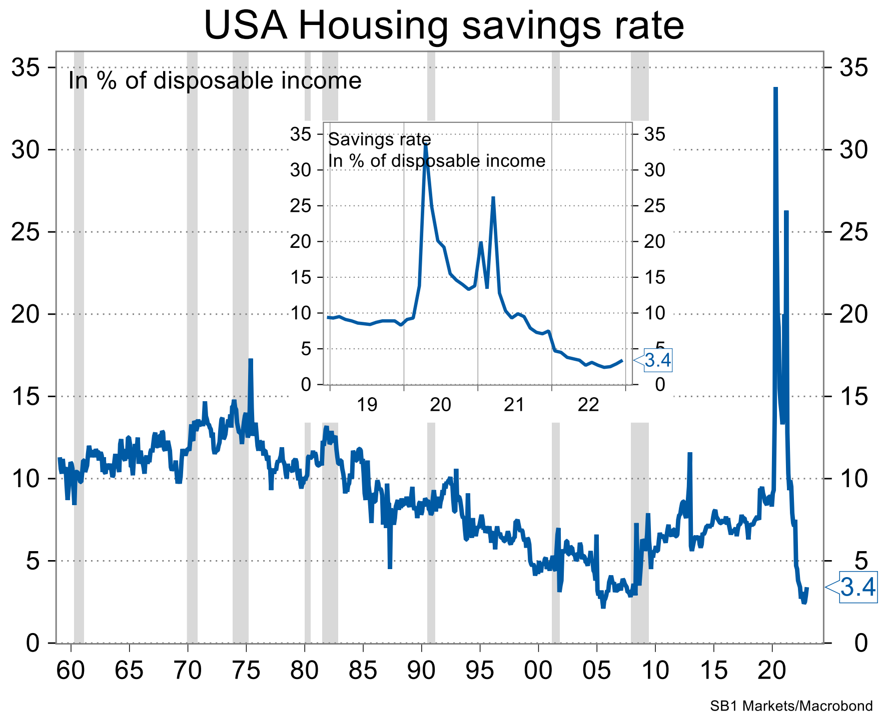


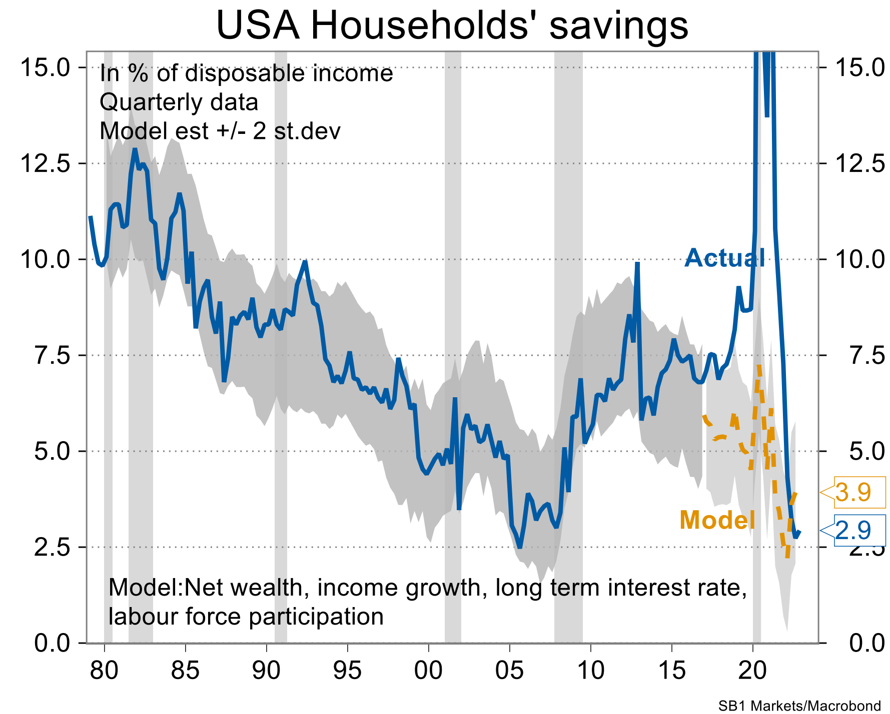


- **Transfers** are trending down but are still higher than before the pandemic (vs total pre-tax income). However, the total tax rate has increased more (but was flat last year). The total gross federal income tax rate at 25.3% of pre-tax disposable income is close to the ATH in 2001!
- Thus, the **net tax rate** is on the way up, and has recovered to 7.4%, above the 6% pre-pandemic level – but far below the 10% – 12% from before year 2000 – as the transfer rate is at 18%, up from below 15% from before the Financial Crisis
- This reduced net tax rate is one important reason for the ‘permanent’ deficit in the public sector, households pay less than before to fund common services, like defence, education

The savings rate has stabilised and inched up in Q4

The savings rate rose by 0.5 pp in December to 3.4% – from an 0.5 pp upward revised level in November

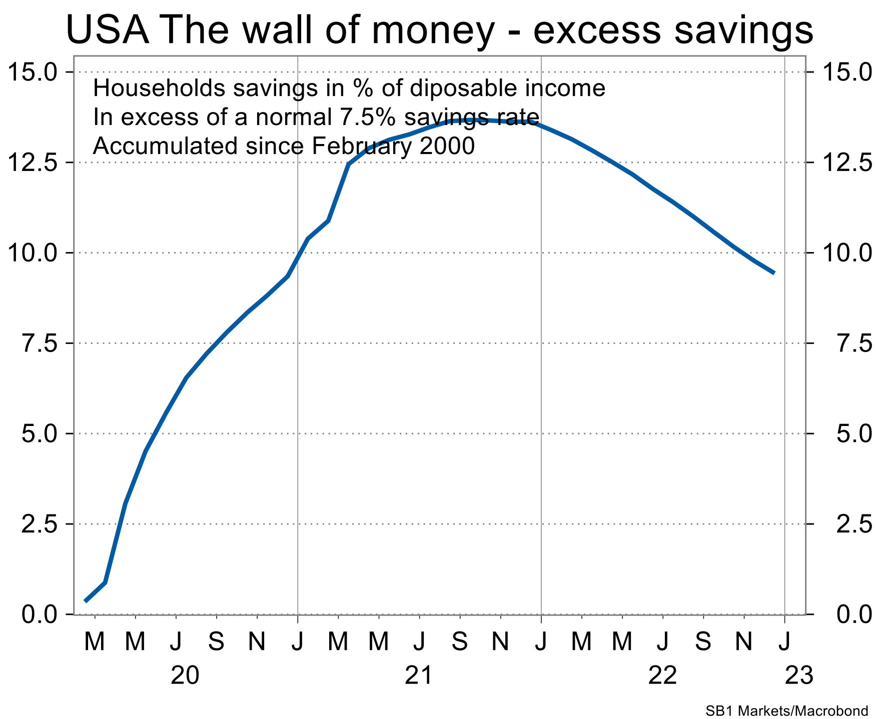


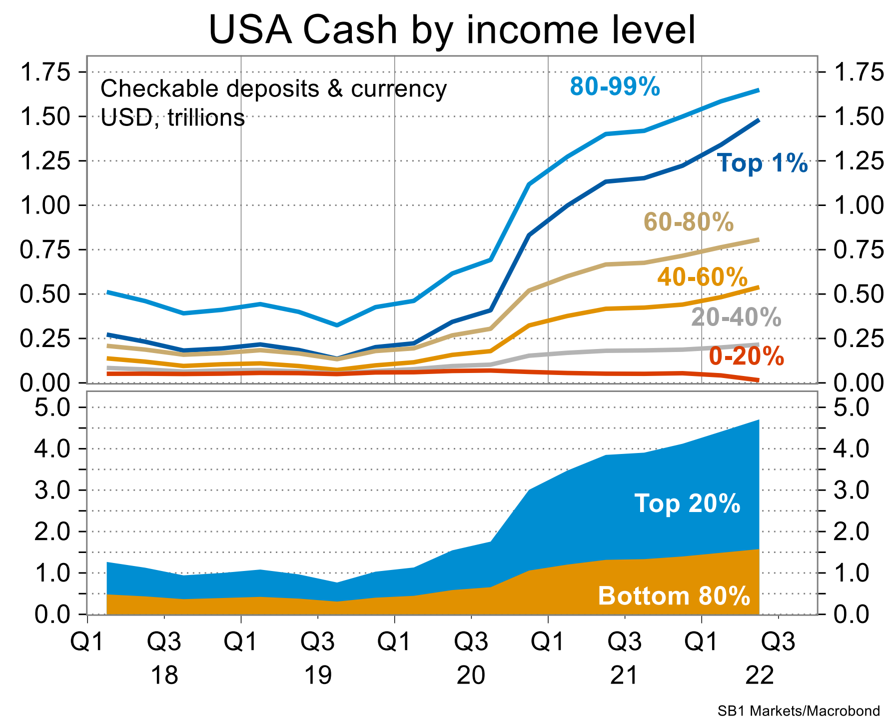


- The **savings rate** is still among the lowest on record, as households have dipped into 'normal' savings in order to keep up consumption, as their real incomes are not keeping up, due to the high rate of inflation. <u>The savings rate is now 4 pp lower than before the pandemic</u>
  - However, household have saved much more than normal during the pandemic, equalling to some 13% of disposable income – on average for all households, that is. This 'Wall of Money' has declined to less than 10%, and is shrinking at a 4 pp annualised pace
- **Our savings rate model**, yielded an estimated 3.9% savings rate in Q3. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp, but the gap was closed in Q2 – and now the actual savings rate is lower than the model estimate

The Wall of Money is cut down, and what's left is not equally distributed

Most of the accumulated savings reside with the top 20%

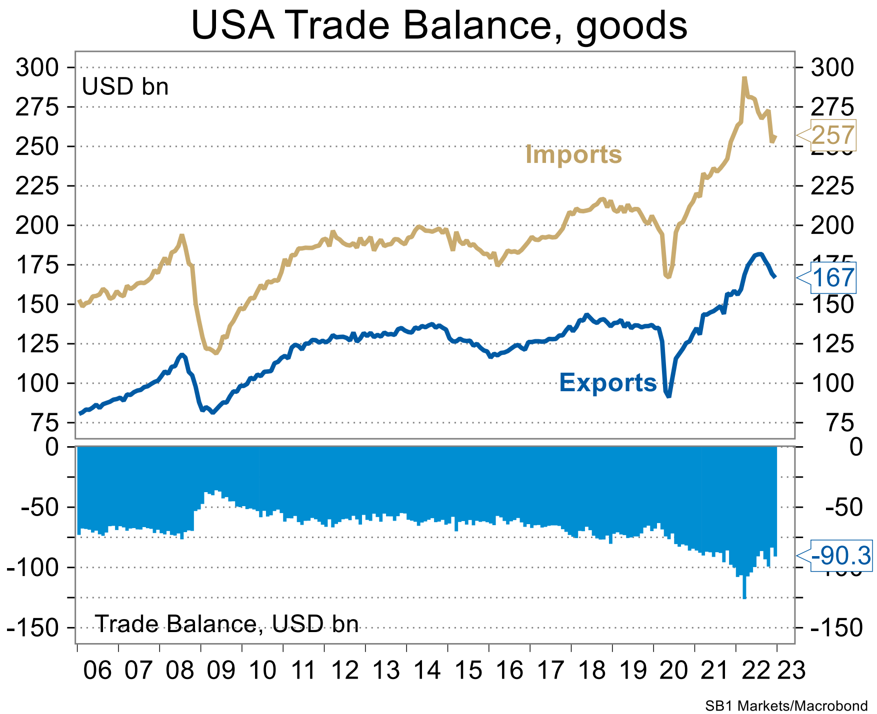


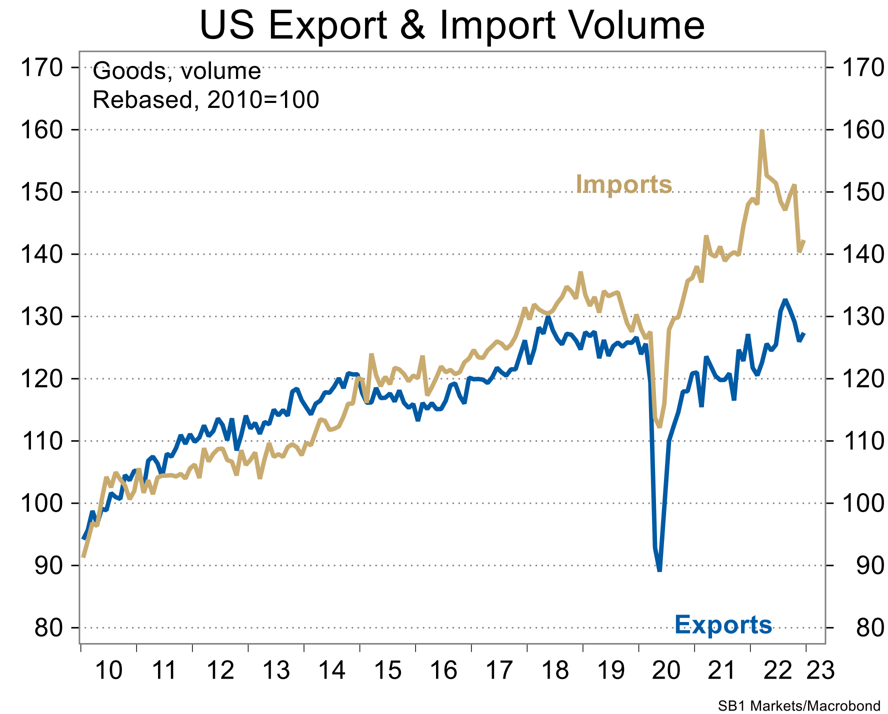


- Those at the bottom of the income ladder did not save much more during the pandemic
- This will of course determine where the money will be spent and if at all, due to the wealth effect and because these groups do not necessarily have to spend these savings to keep up consumption

Goods deficit higher in December

The trade deficit in goods increased to USD 90 bn from 83 bn, as imports rose and exports fell

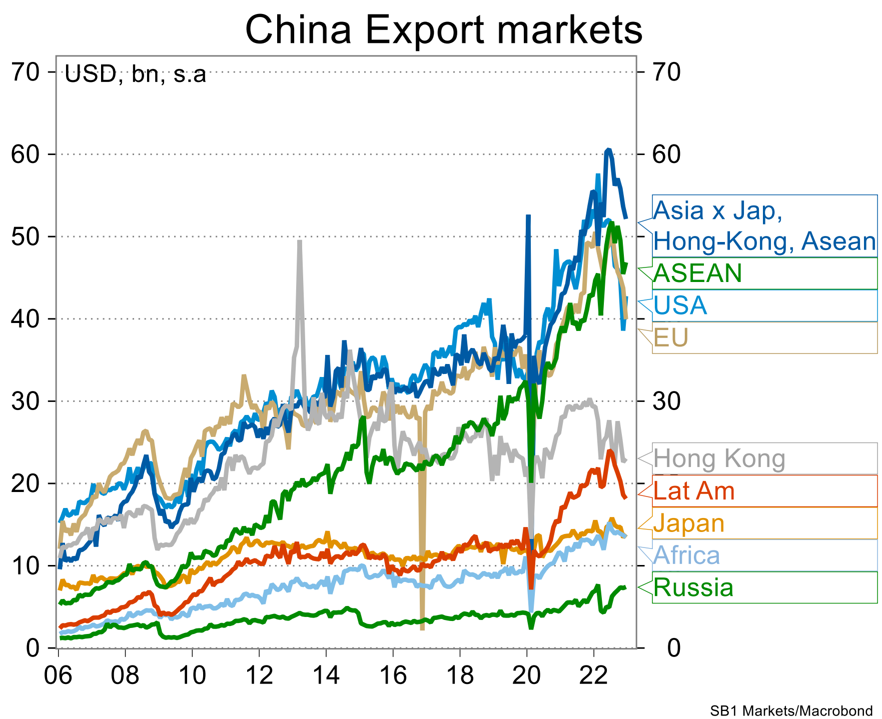


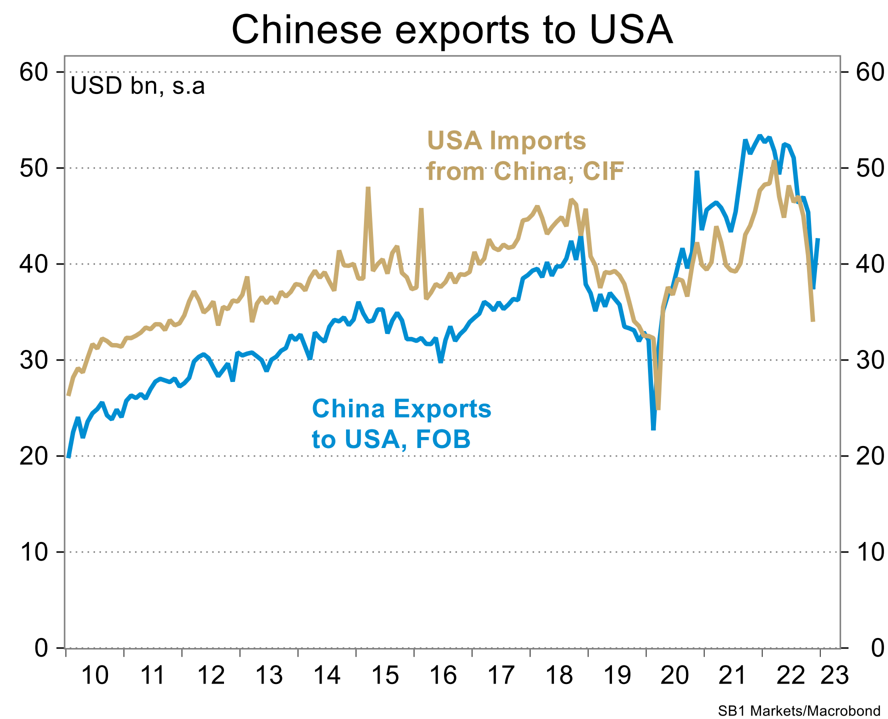


- **Imports of goods** increased by USD 4.7 bn in December following the USD 20 bn fall in November. We assume parts of the decline could be explained by the sudden drop in Chinese exports in November (down USD 8 bn, according to Chinese data) – which was not due to collapsing orders from abroad but Covid troubles, however some of it is also likely due to slower demand due to the small rebound in imports in December
- **Exports** fell by USD 2.6 bn or 1% - and the direction has been downwards recent months, both in nominal and real terms, signalling weaker demand abroad (and partly the impact of a strong USD)
- The **trade deficit** has fallen sharply through 2022, from and ATH above at USD 125 bn

Chinese exports to the US fell sharply in Nov, rebounded somewhat in Dec

… and US data will probably tell the same story

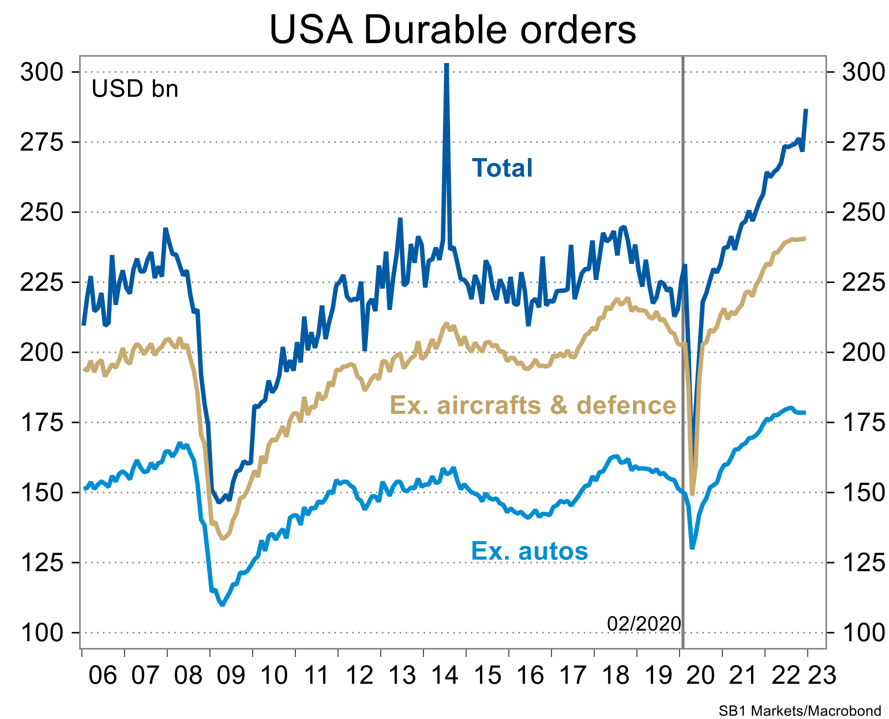


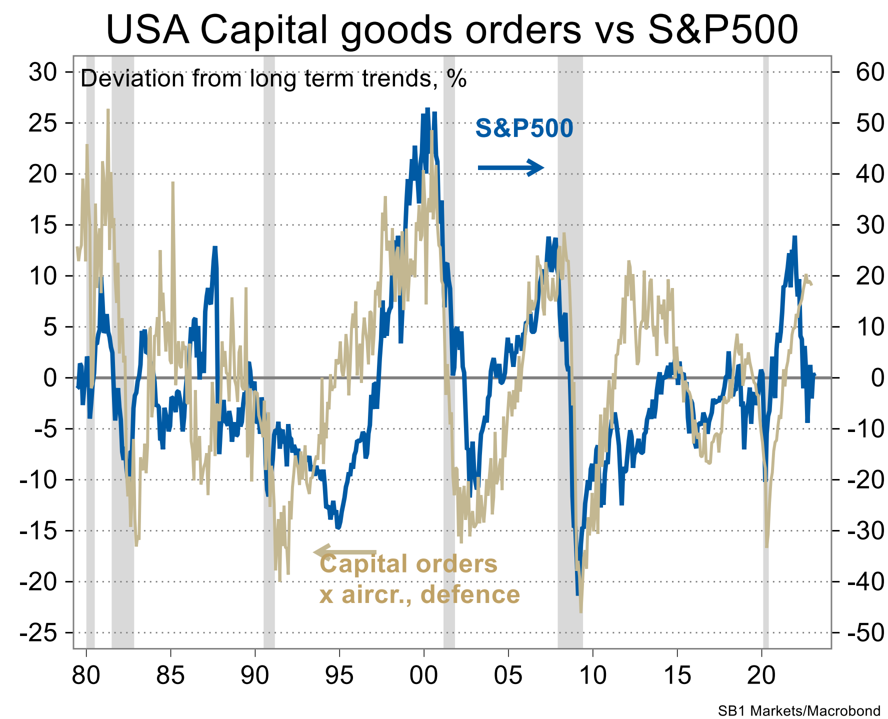


- Weak Chinese exports in Nov/Dec are very likely at least partly Covid related – but demand from abroad is weaker too

Peak new durable orders?

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

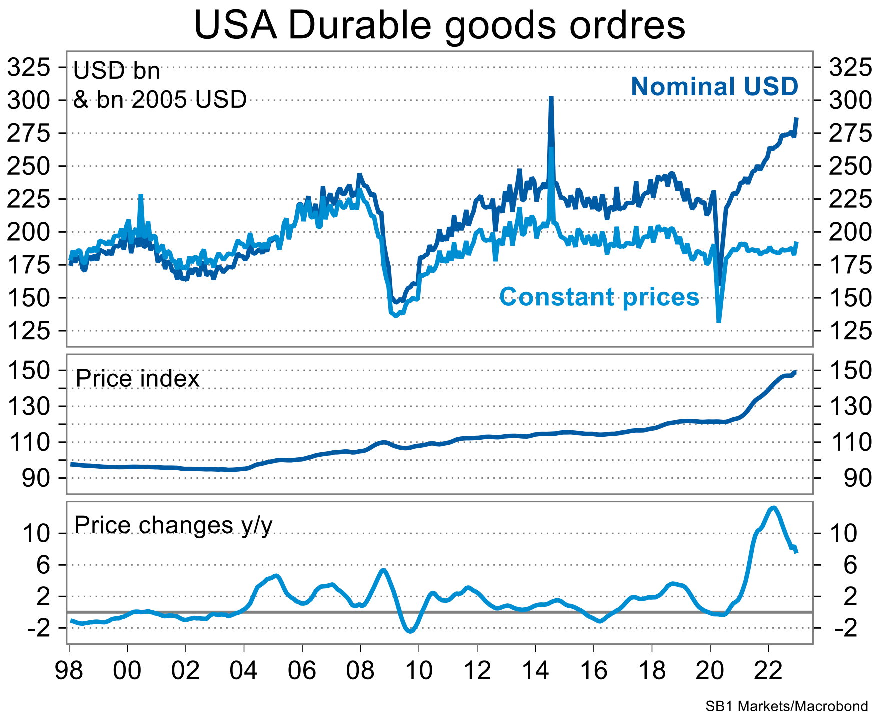


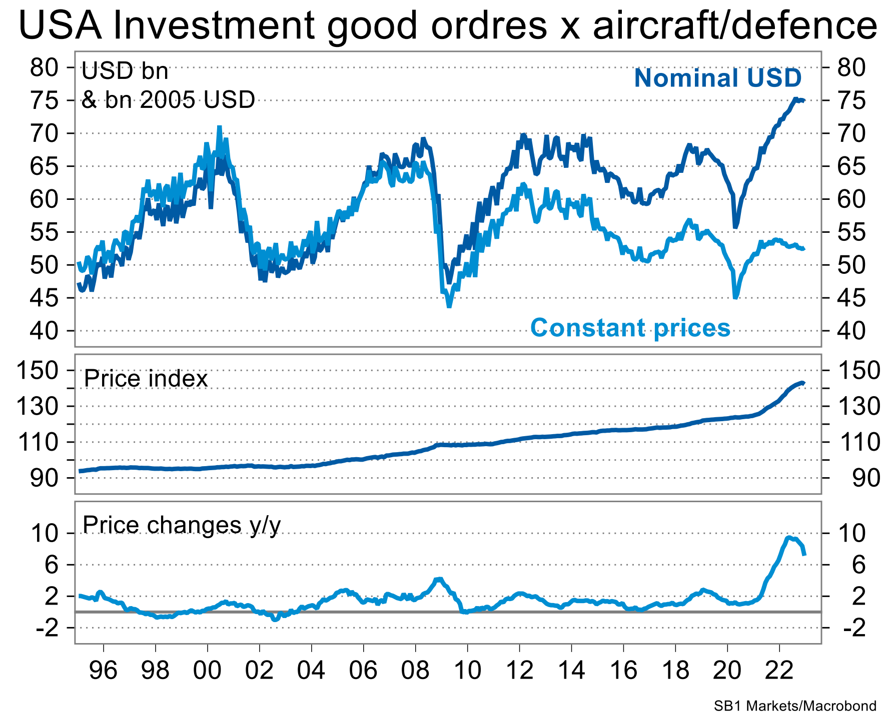


- **Total durable orders** shot up 5.6% in December as civilian aircraft orders more than doubled vs November. The total was expected up 2.5% following the 1.75% decline in Nov
- **New orders** ex aircrafts and defence (our core concept) rose 0.2% - but have almost flattened recent months
  - **The true core**, also including auto orders – have fallen somewhat since the peak in August, and before that, growth was clearly slowing
- **Core <u>investment</u> goods orders** fell 0.2%, as expected - and the inflow has flattened recent months
- **Nominal order inflow** is above pre-pandemic levels & trends, especially for investment good orders, but surveys now signal a significant decline the coming months (which they have telling us since June, so far without any success)
- **In volume terms**, <u>order inflows are not that impressive at all</u>, as the price level is up more than 20% since mid-20!
- **The stock market** has taken a serious beating, this time well before the order cycle turned south. Higher real interest rates were probably enough

Core investments orders are trending steady down in volume terms

The total order inflow has been flat in real terms

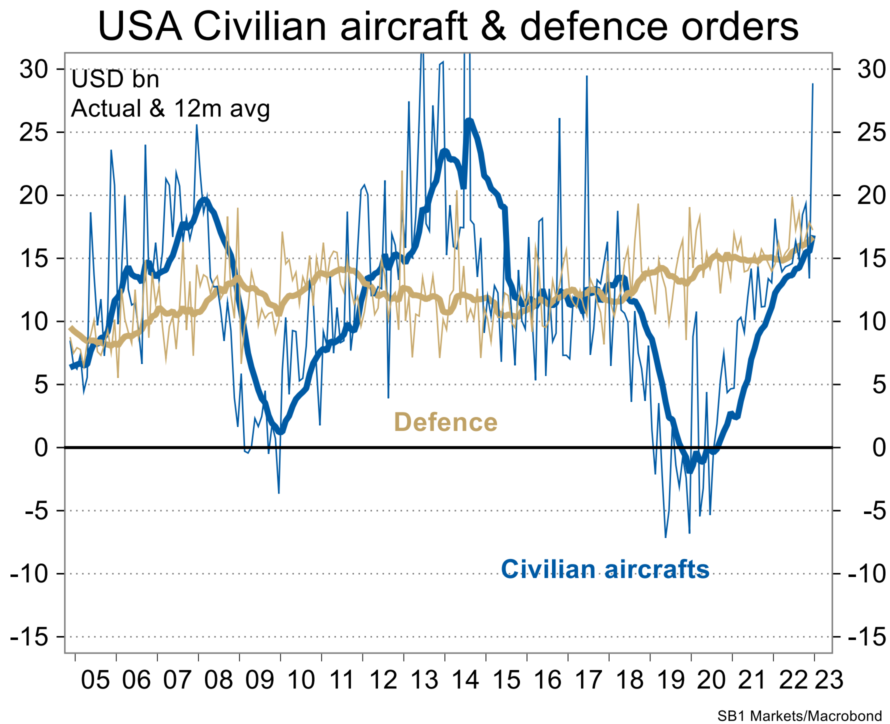


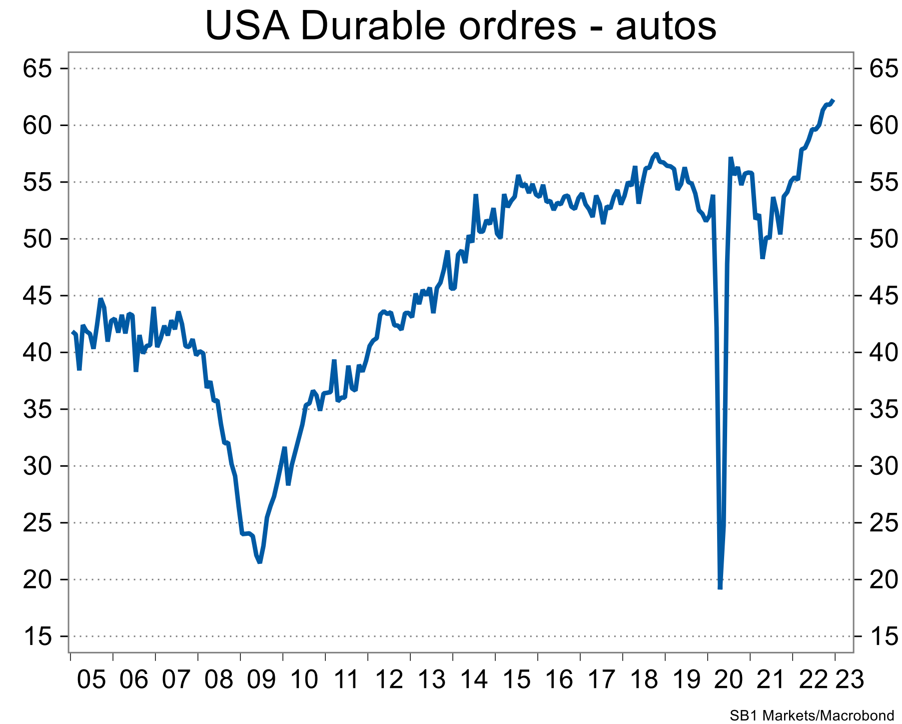


- **Price inflation** is coming down now – but so is nominal growth in new orders (or they may even have peaked)

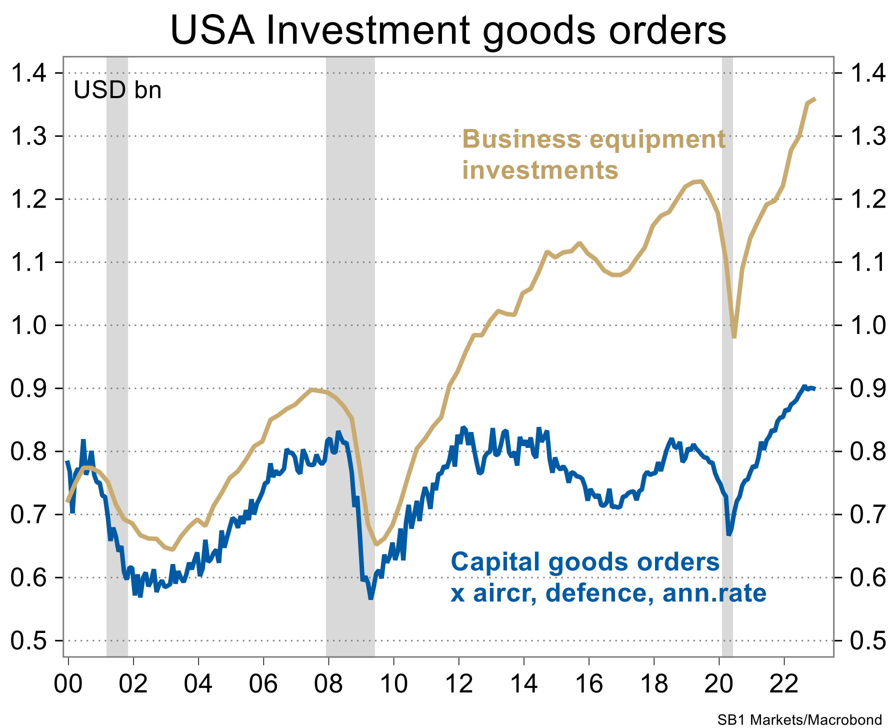
Aircraft orders doubled in December. Will be reversed but the trend is OK too

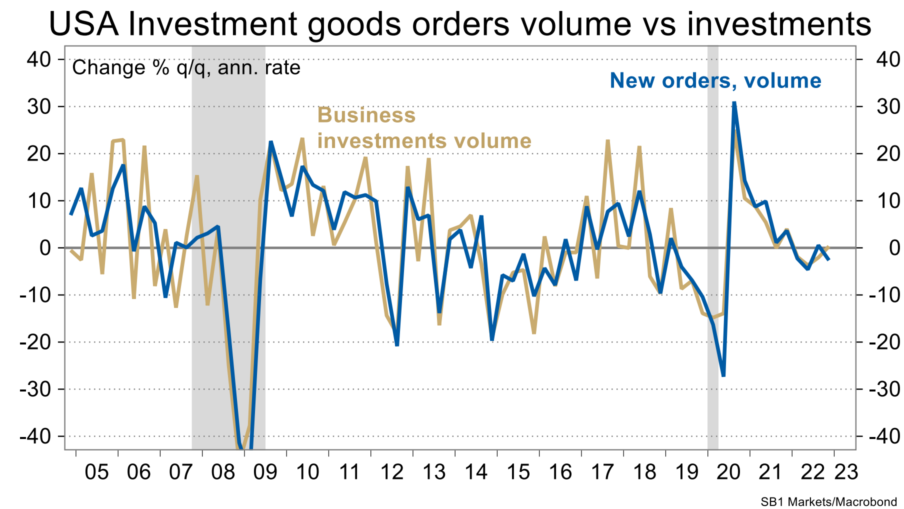
… as for defence orders (a small Ukrainian lift). Auto industries are reporting a strong orders inflow as well

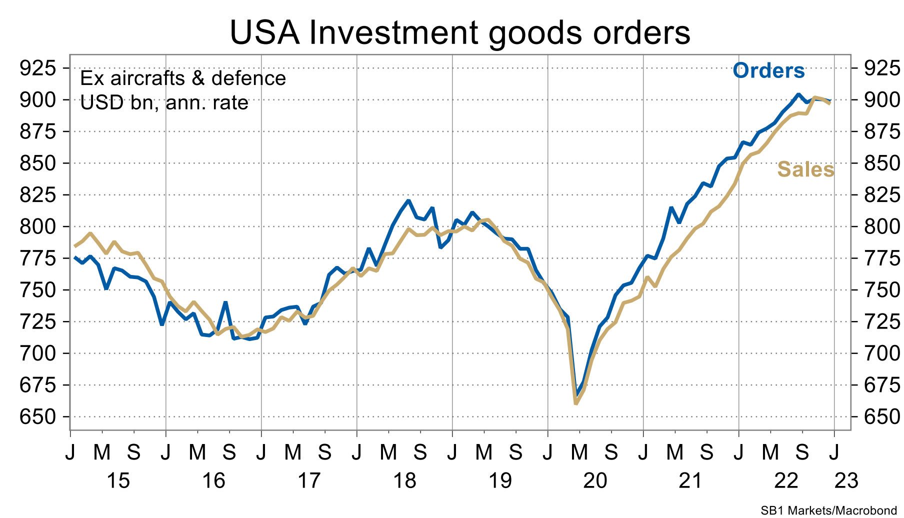




Core capital orders are peaking? ~~2~~ 3 months are not a new trend but still…



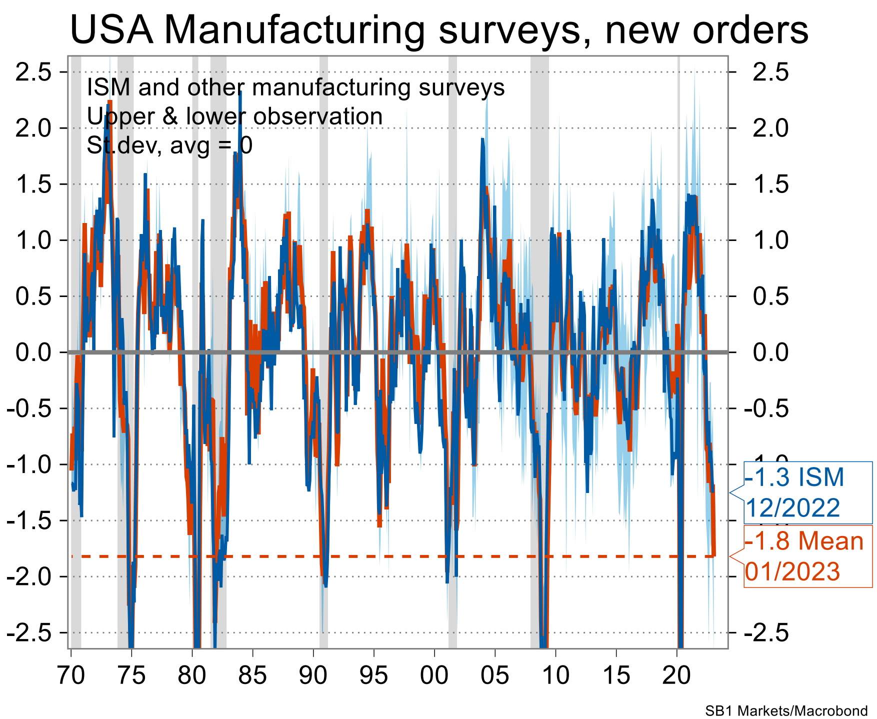


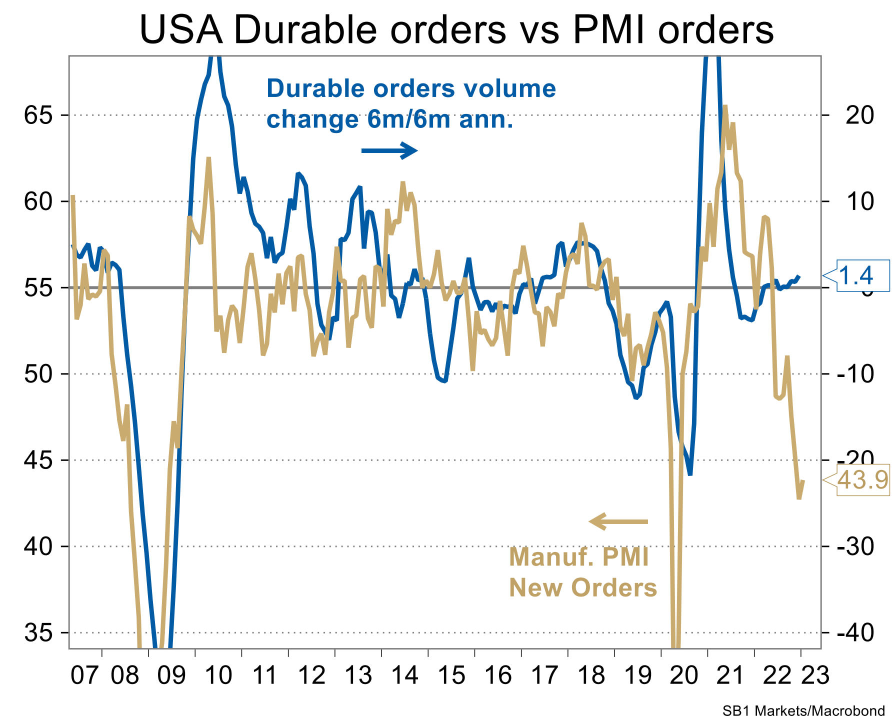


- **Core (x aircraft, defence) capital goods orders fell** 0.2% in Dec, as expected, following zero growth in November (revised from +0.2%). The level is lower than in September. Shipments fell 0.4% m/m. All data are in nominal terms
- **In volume terms**, order fell in Q4, as in Q1 and Q2 (Q3 was marginally above zero)
- **The business investment** level is well above the pre-pandemic level – and not low vs. a reasonable long term trend (not only in nominal terms, but also in volume terms)
- **Surveys** are indicating a very sharp decline in new orders (next page)

Surveys are signalling a steep decline in new orders

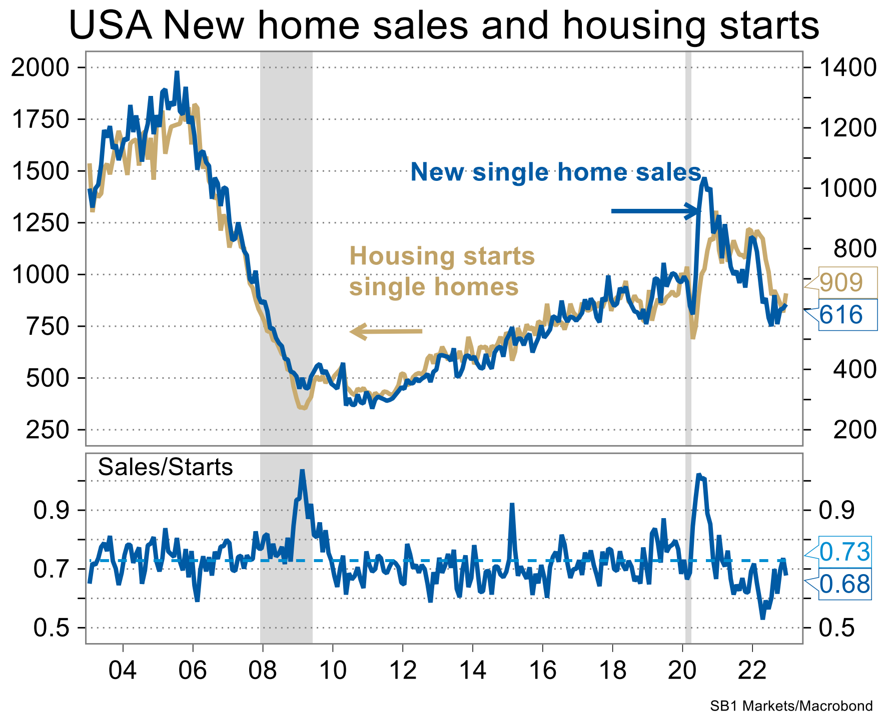
… which so far has not materialised…

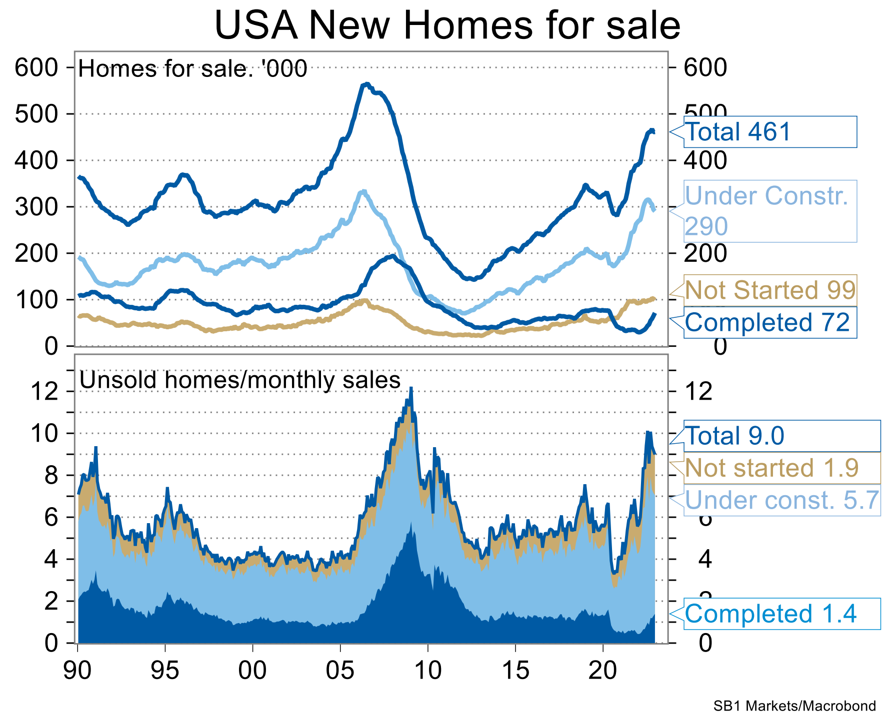




New home sales refuse to come down

But sales were lower than assumed/expected in Nov/Dec, and the inventory of completed homes is increasing

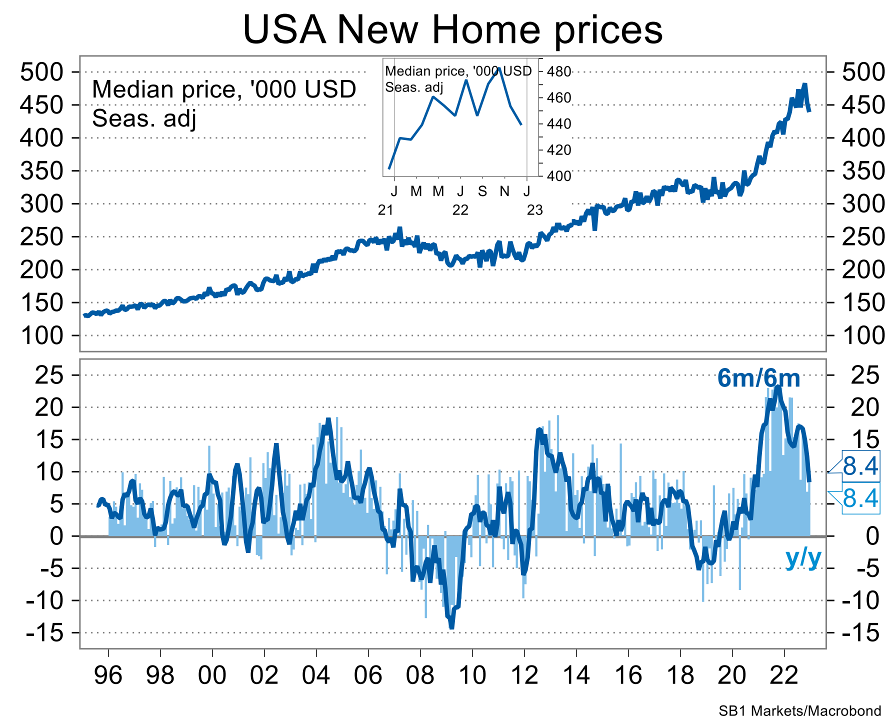


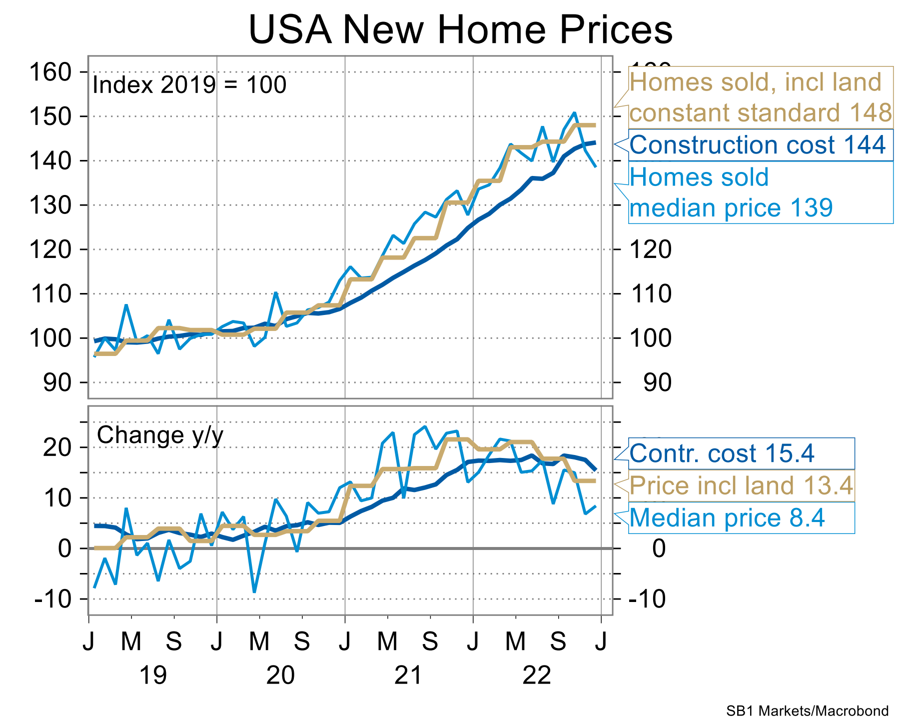


- **New single home sales** were weaker than assumed/expected in December. Sales were as expected in Dec, at 616' but Nov was revised down to 602', from 640' Sales fell sharply from January (from 831') to July last year (531' while the peak during the pandemic was in Aug 20, at 1,036') but thereafter sales have recovered marginally
- **The inventory of unsold homes** was close to unch. in both Nov & Dec, following the steep increase from Oct 2020 – to a rather high level, both in absolute terms and vs. sales. Most of the inventory is 'for real', either completed homes which is still increasing rapidly m/m (but still equals just 1.4 moths of sale) or unsold homes under construction (and these homes will be completed), The latter is at close to record high level but has fallen slightly recently – as the supply side responded to the strong increase in demand & prices during the pandemic. The steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started as at least the housing market has entered a recession)
- **Prices** fell in December, check more next page

New home prices down, construction cost inflation is rapidly slowing

…and we assume construction costs will continue to decline, following the steep rise

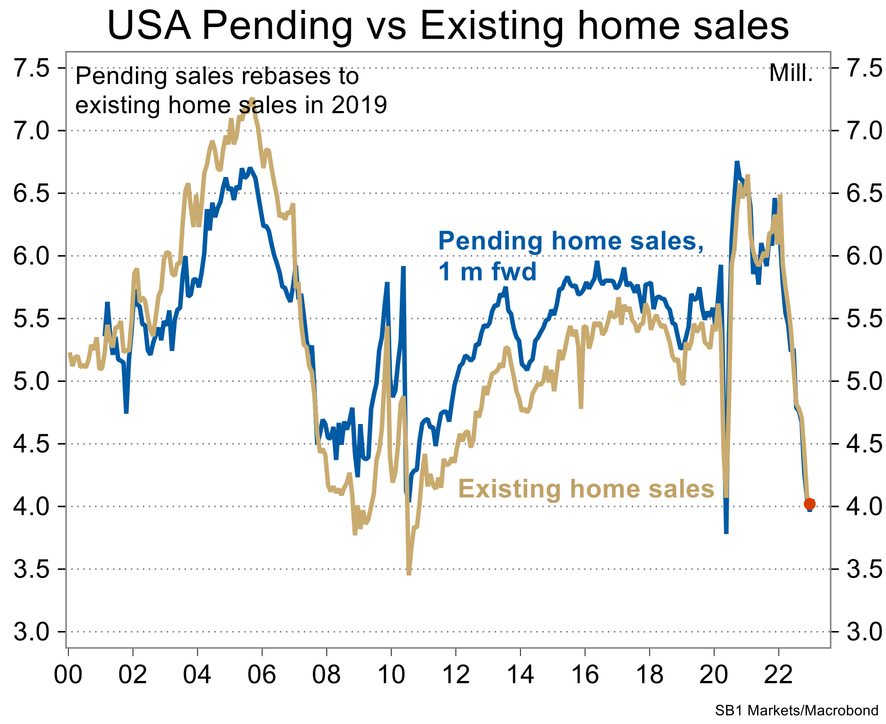


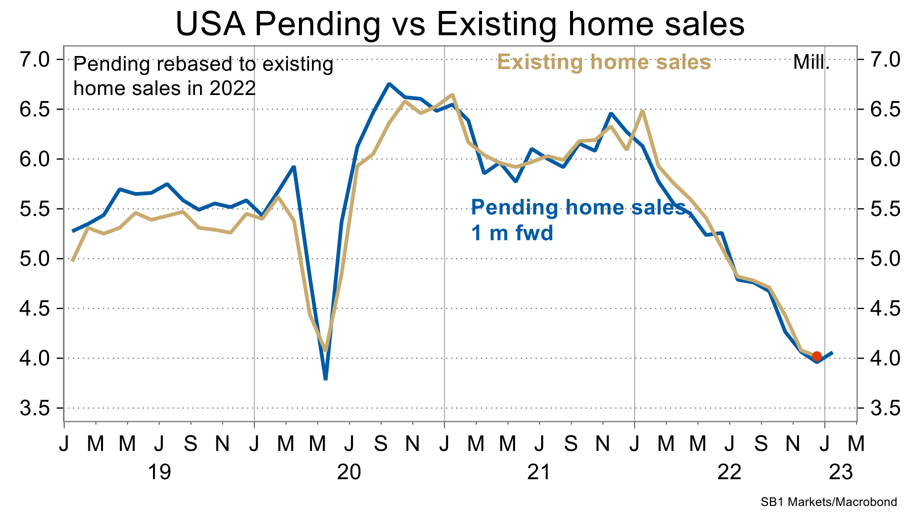


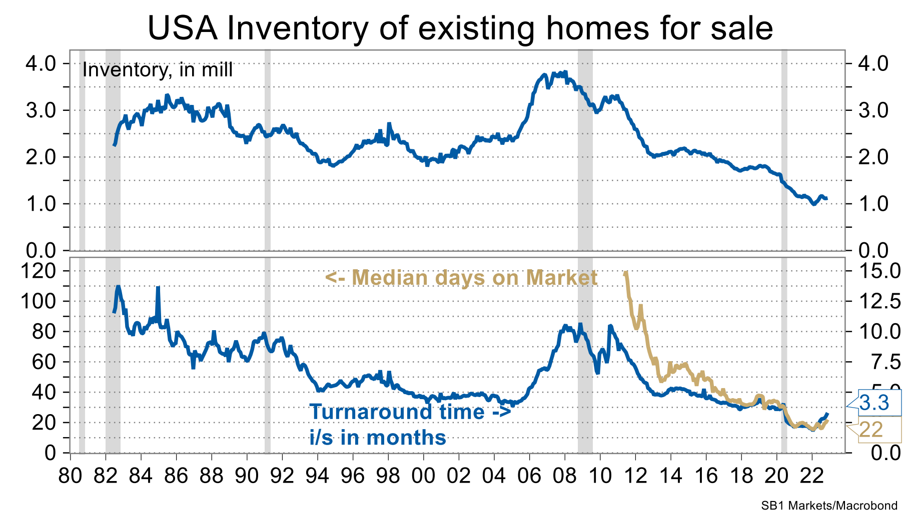
- The monthly **median new home sales prices** are <u>very</u> volatile, as they are not adjusted for changes in the mix of homes sold. In December prices were up 8.4% y/y, down from above 20% at the peak – but priced inched down m/m in Dec
- The **construction price index** is adjusted for changes in standard and size, as is the **new homes sold price index**, which also includes cost of land: they are up by 15% (in Dec) and 13% (Q4) resp. However, cost/price inflation is slowing.. We expect these costs to come down – but so far that has not been the case! Land prices should also decline, as existing home prices are heading down

Pending home sales slightly up in December

No. of agreed transactions grew 2.5%, expected down 1%, another sign of housing market stabilisation





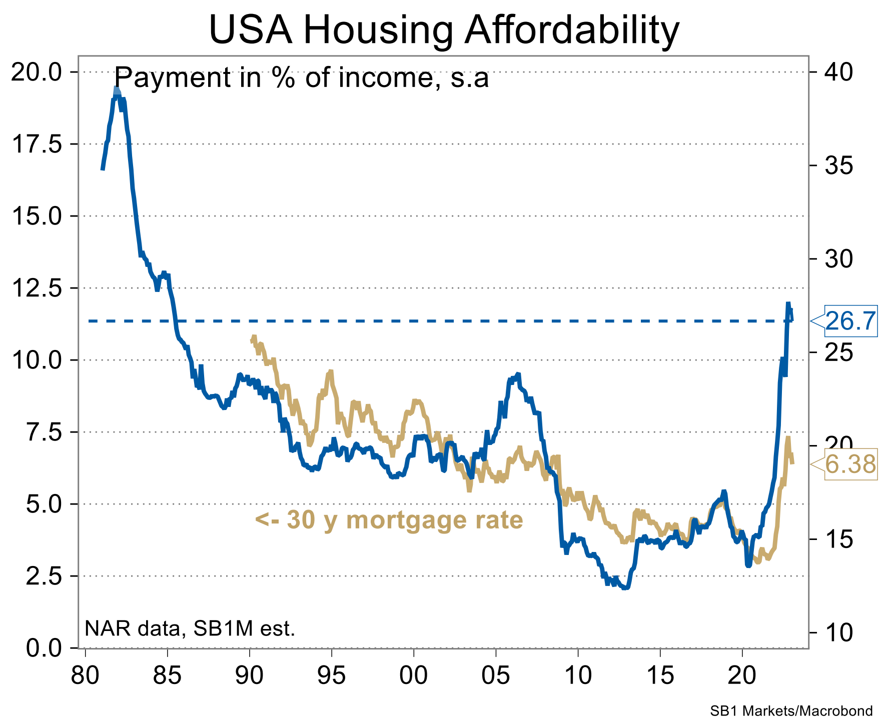


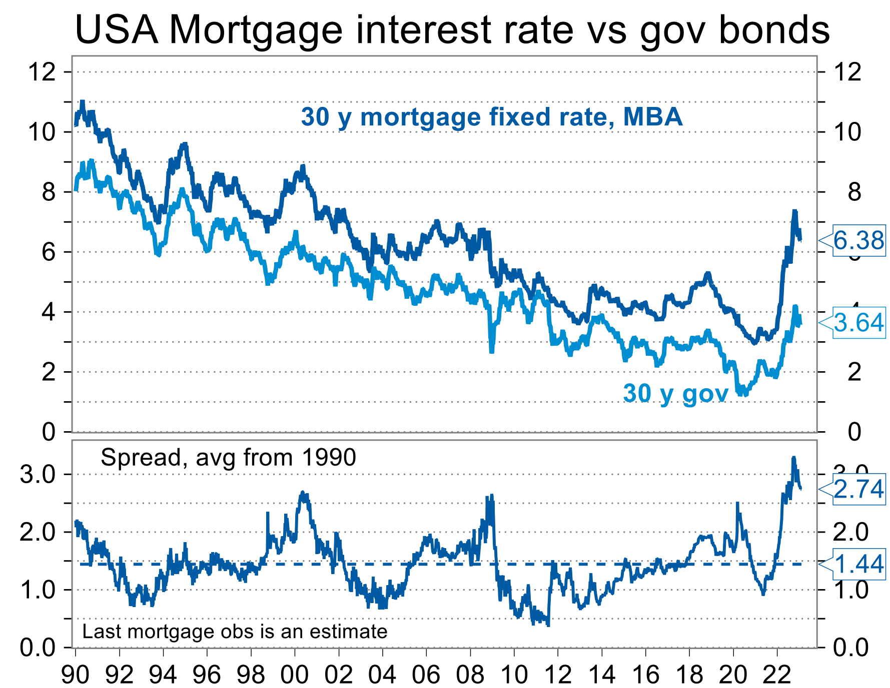
- The level is low, but as we wrote a month ago, "The downside for sales cannot be that large from here, given the lowest level in the century (barring the start of the pandemic)"

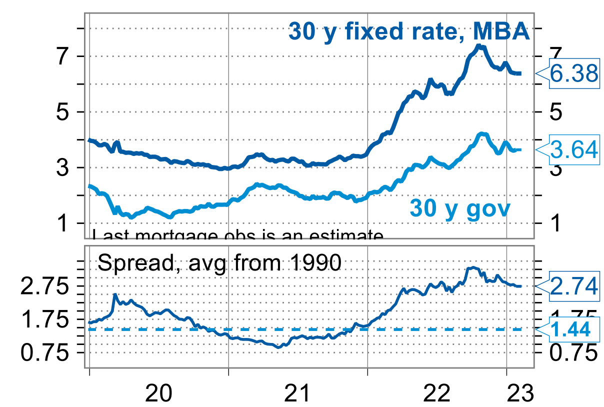
Pending home sales: Deals signed. Existing home sales: The actual transaction, typically 1 – 2 months after signing

Mortgage rates are 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



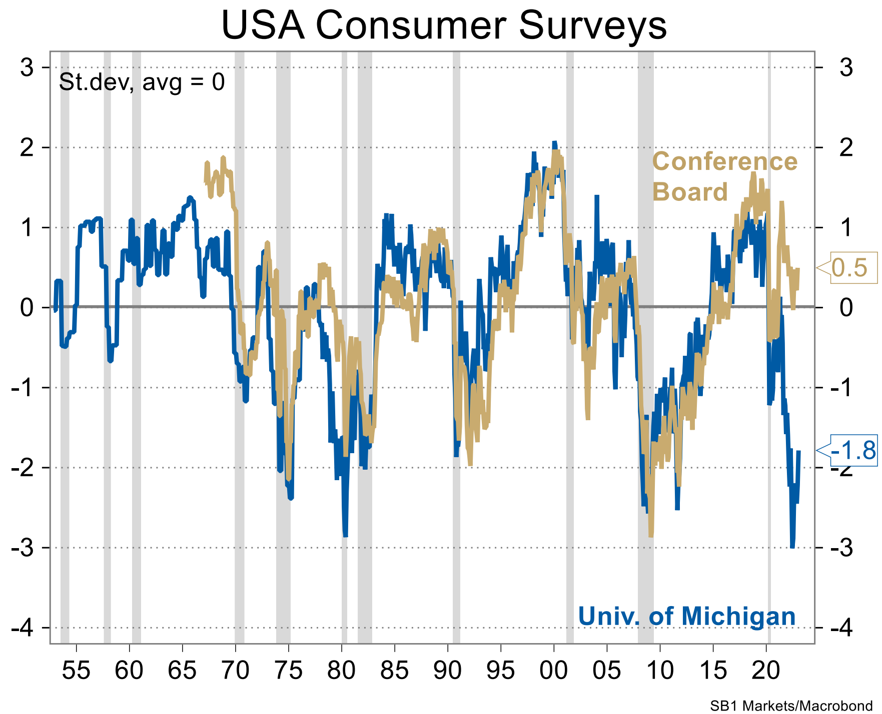




- The 30 y fixed mortgage rate is down from the peak, but remains much higher than normal, both due to higher 30 y Gov. bond rate, and even more to an extraordinary high spread to the mortgage rate
- <u>Housing affordability (house price x mortgage rate)/income is still the worst since 1986</u>

Univ. of Mich. sentiment further up in early January

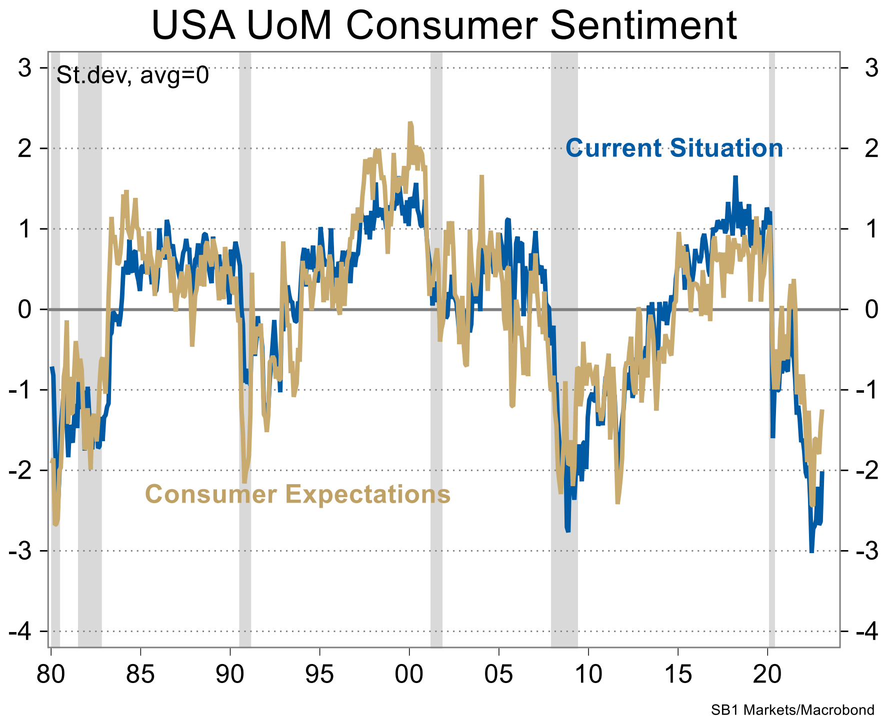
The sentiment index is still at a low level, 1.8 st.dev below average. All other surveys have turned up

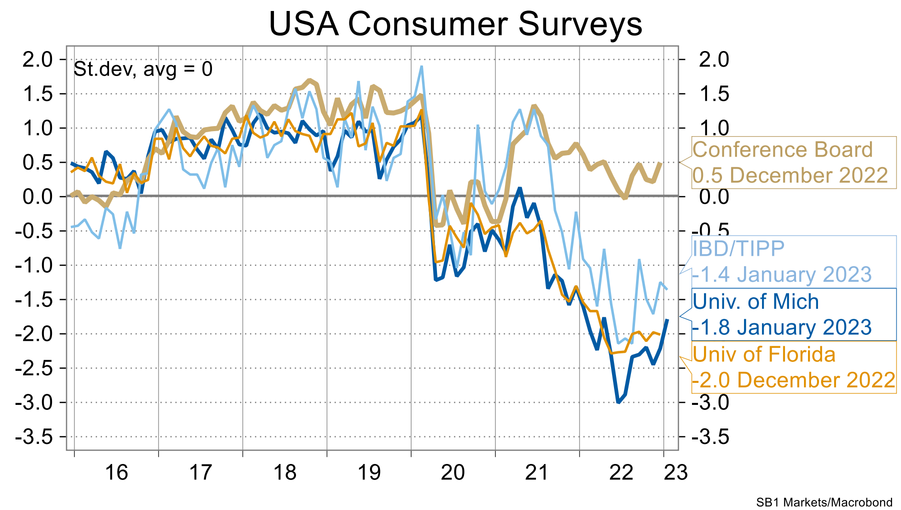


- **University of Michigan's consumer sentiment** climbed 5.2 p to 64.9 in of January, which is 0.3 points better than initially reported at the beginning of Jan. The level equals 1.8 st.dev below average, after a 0.4 st.dev lift from Dec. The bottom was in in last June, at -3.0 st.dev
  - Both households' assessment of the current situation and expectations fell in November, expectations the most
- **The 3 other consumer surveys** all turned up recent months
- **Short-term inflation expectations** fell significantly, for the coming 12 months to 3.9% from 4.4% in December, and from 5.4% at the peak. The 5y expectation rose 0.1 pp to 3.0% (same at the preliminary print)
- **The risk:** The UM survey is still at a very low level, and is often an early bird in the cycle

All Univ. of Michigan: Both current situation & expectations up in January too

Other surveys join in, all are up recent months

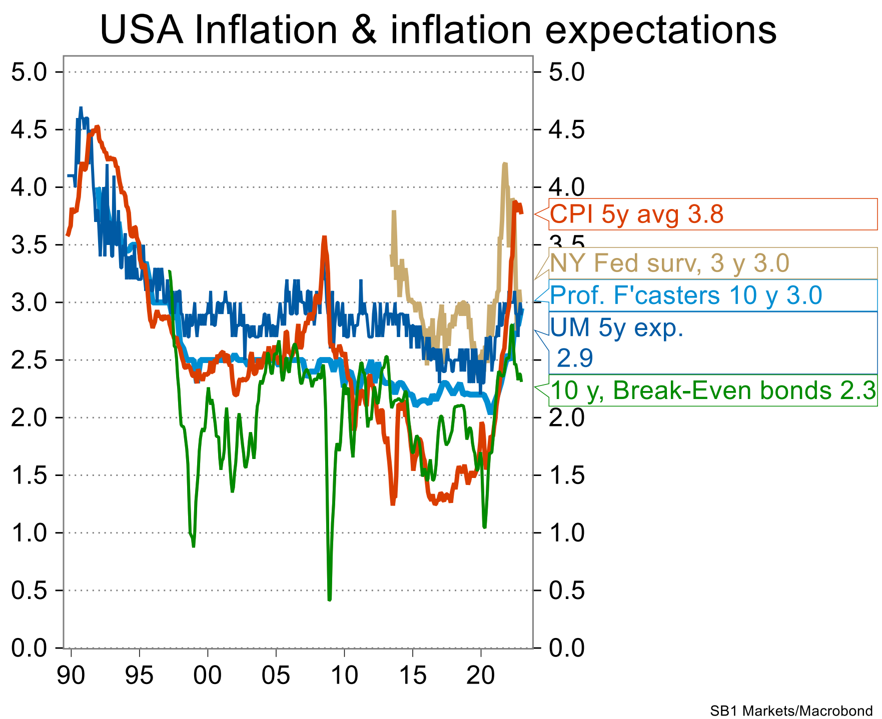


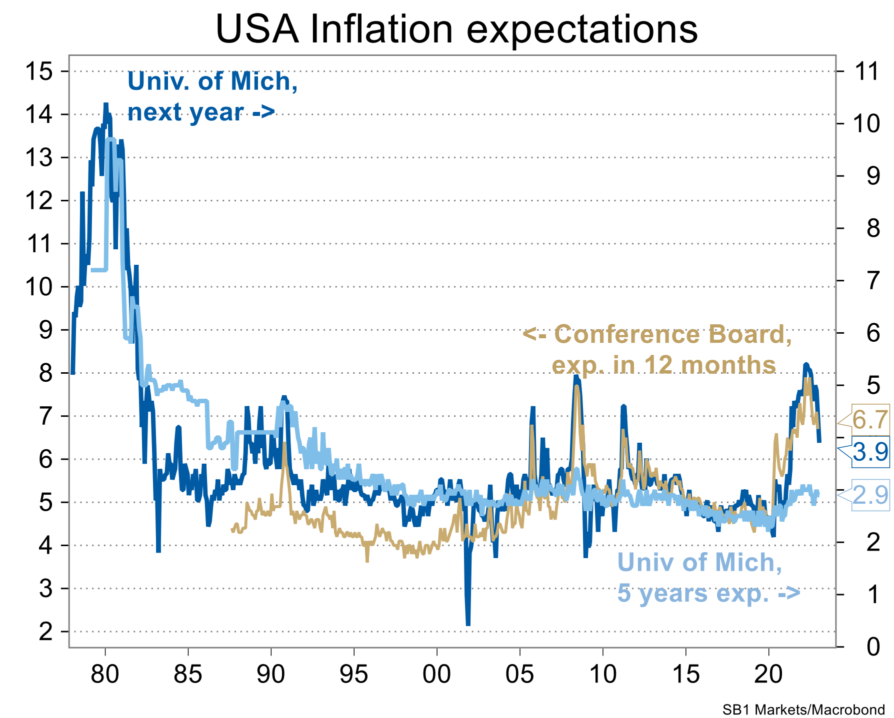


- Quite often, the UM survey has been the canary in the mine vs. recessions, it yields earlier than Conference Board's survey. Now, however, the UM is turning upwards, before CB's survey really fell
- Both IBD/TIPP consumer survey, Univ. of Florida's survey are 1.4 – 2.0 st.dev below par

Inflation expectations are falling rapidly, at least short term expectations

Inflation expectations in sum down. The near-term outlook is getting better, households say

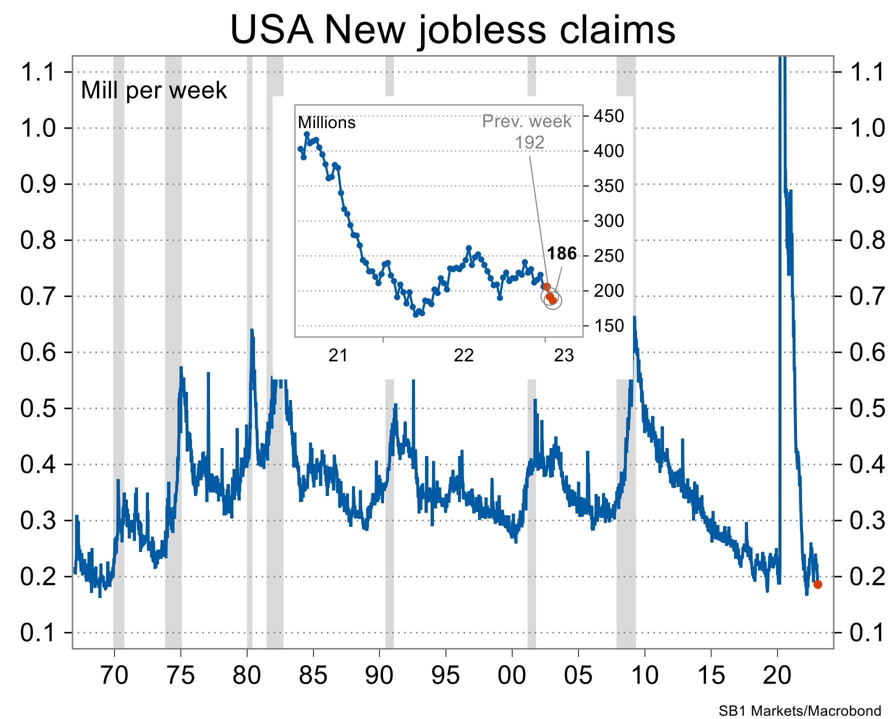


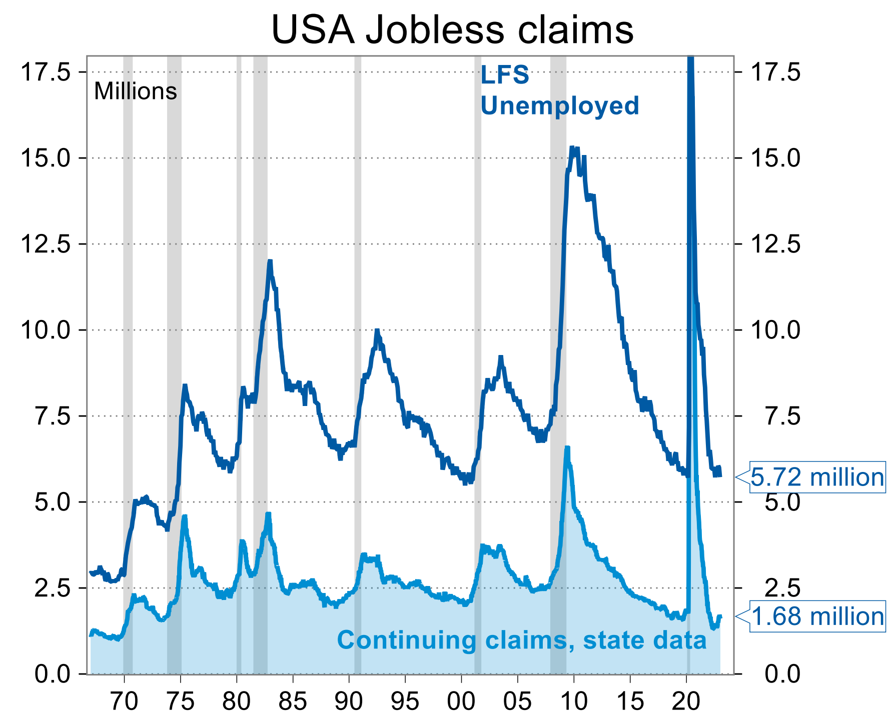


- **12 m inflation expectations** declined to 3.9% in January, from the initially reported 4.0%. The peak was at 5.4%, last March
- **5 y inflation expectations** were flat at 2.9% - and they have been close to 3% through 2022 – which is some 0.5 pp higher than during 2016 – 2021 – but in line with expectations over the preceding years
  - The 2.9% is in line with the average over the past 10 years, not bad given the current rate of inflation

New jobless claims down to 186' last week – lowest since April last year

... The bottom was at 166' in March-22. Did all the laid off tech++ people go straight to new jobs??

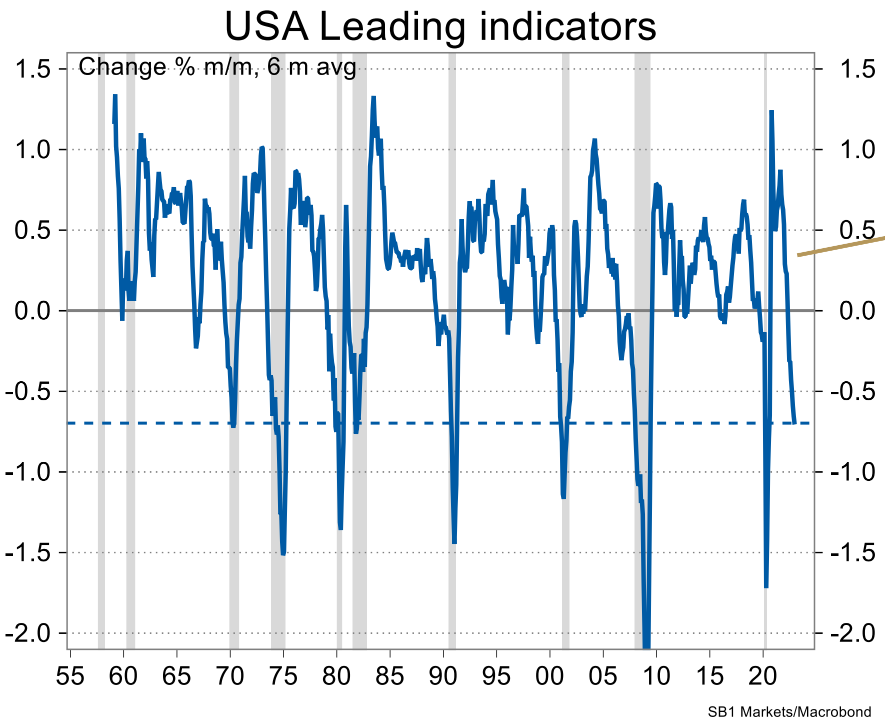


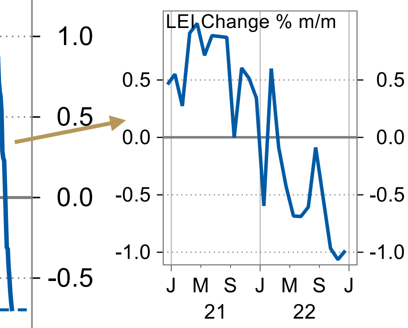


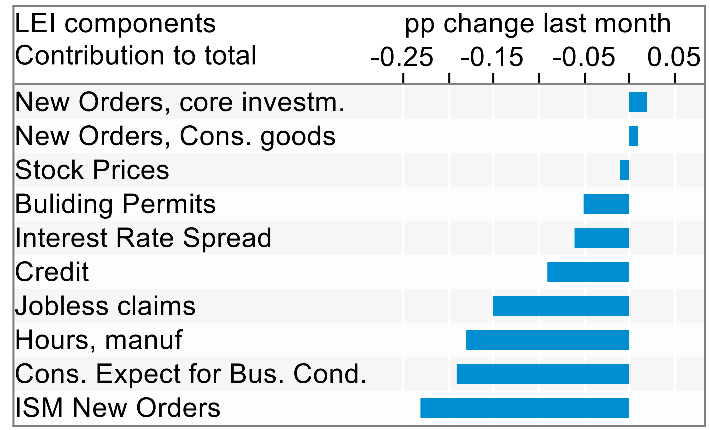
- **New jobless claims** decreased by 6' to 186' last week, expected up to 205'. The inflow has not been lower since last spring
- **Continuing claims** rose by 20' to 1,68' in week 2. The trend is slightly upwards but the level remains very low still
- Both still indicate a **tight labour market** – 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)

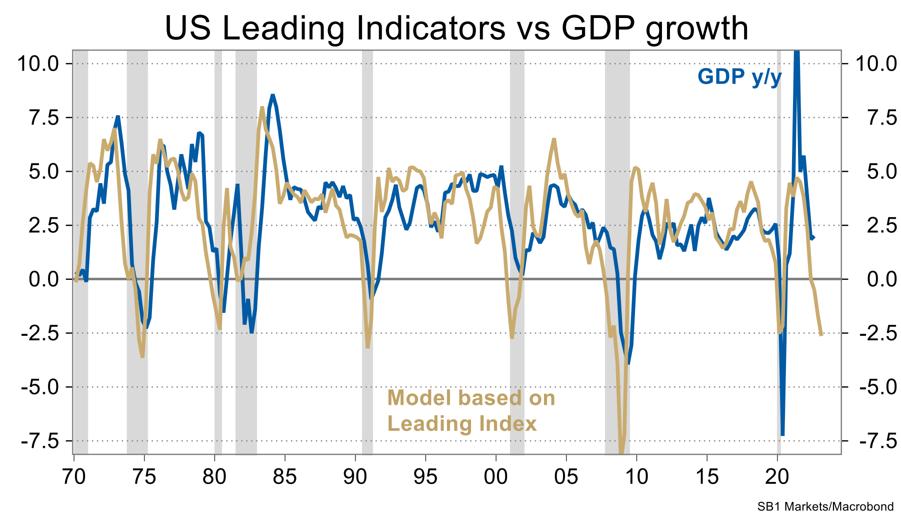
The Leading Economic Indicators still falling like a recession is coming

A 6-month avg of -0.7% level detected 8 of the 8 past recessions. And there were no false warnings!





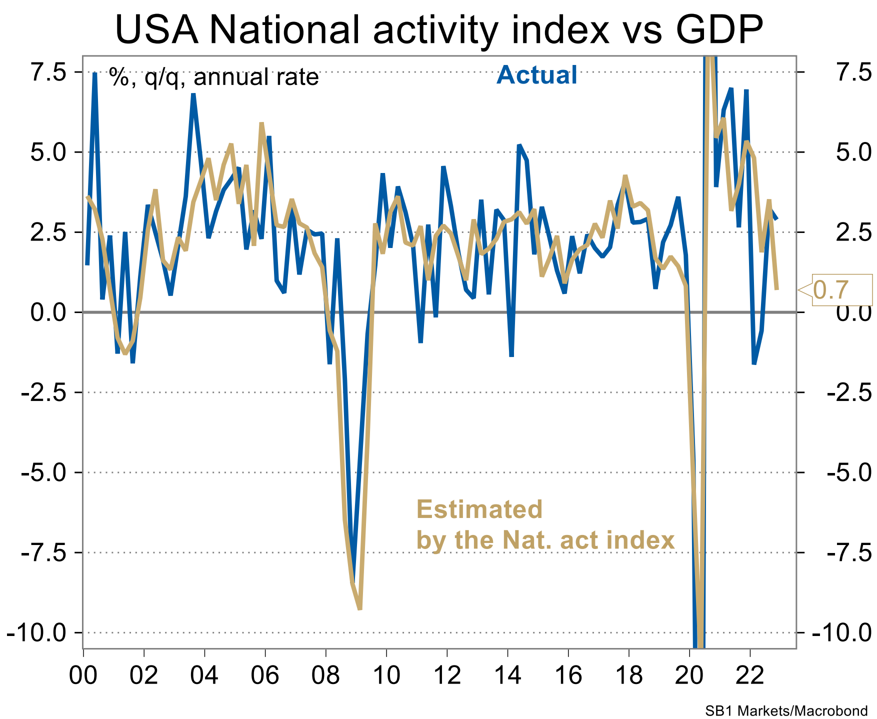


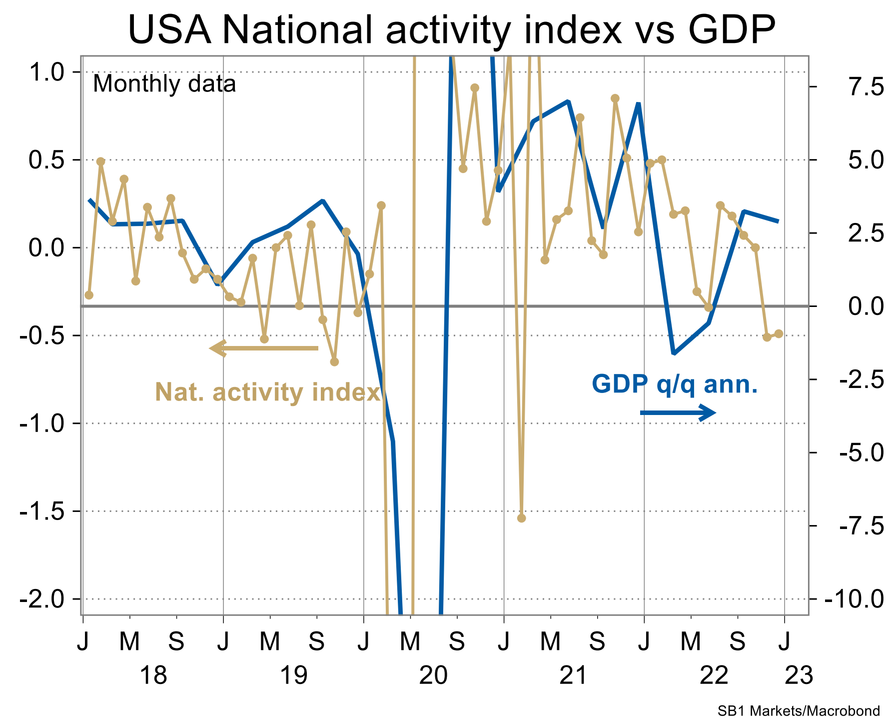


- The LEI fell 1.0% in December, expected down 0.7 pp, and Nov was revised down 0.1 pp to -1.1%. The 6 m average at is at -0.7%. The LEI has fallen to this level 8 times since 1965
  - On these 8 occasions the US economy was very close to entering or had entered a recession
  - Thus, the LEI 6 m avg. at -0.7 (and even a far smaller decline than that) ‘detected’ all 8 recessions since 1965; no false positives, and no false negatives. In 1960, US entered a recession without a warning from the LEI, but the LEI was very young an inexperienced at that time
- 8 of 10 components at the downside in Dec, 2 marginally on the upside

The National activity index signalled just 0.7% GDP growth in Q4

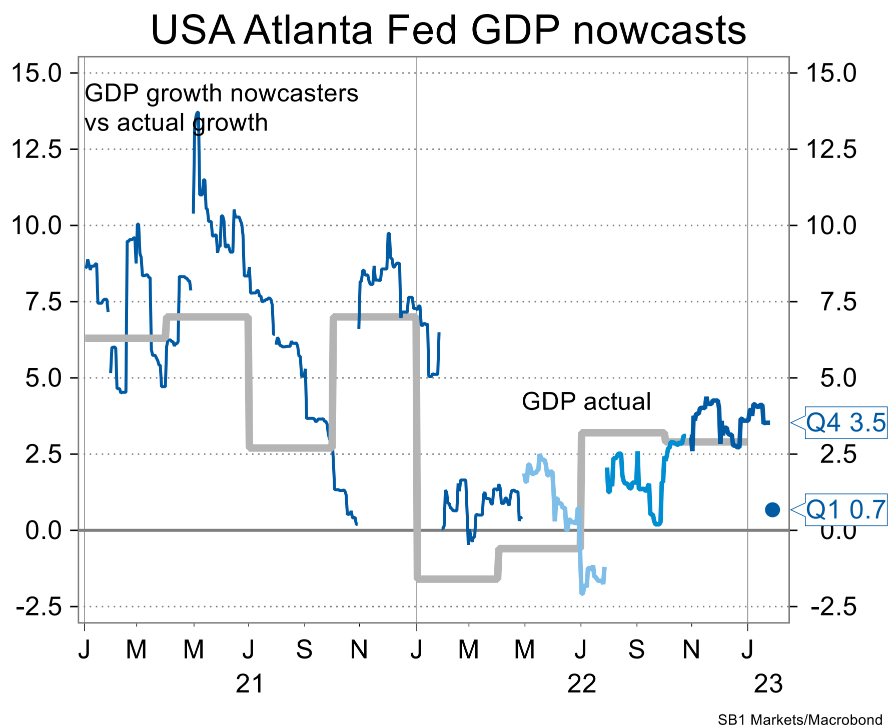
… and the index signals a -0.5% growth pace at the end Q4 (both retail sales and manufacturing production fell)

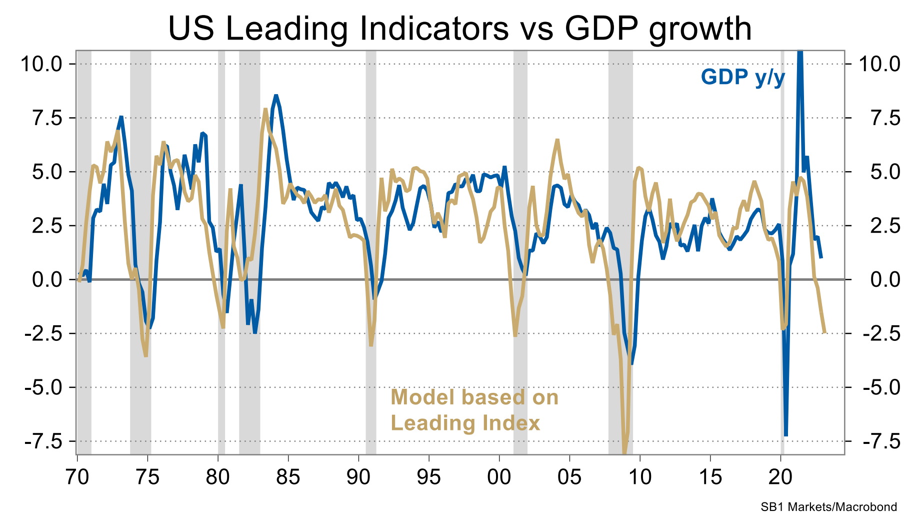


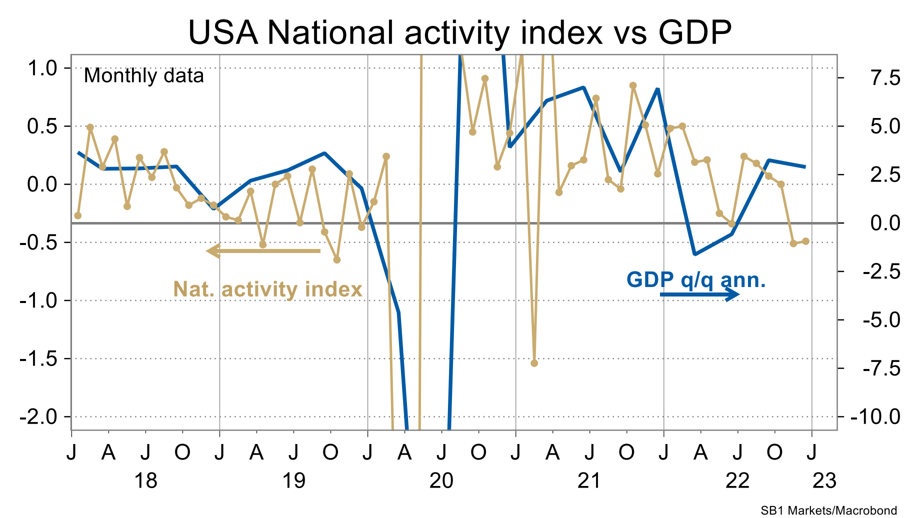


Atlanta Fed a tad too optimistic vs Q4 GDP, the first Q1 estimate at 0.7%

The National Activity index and Leading Economic indicators signal a <u>decline</u> in GDP

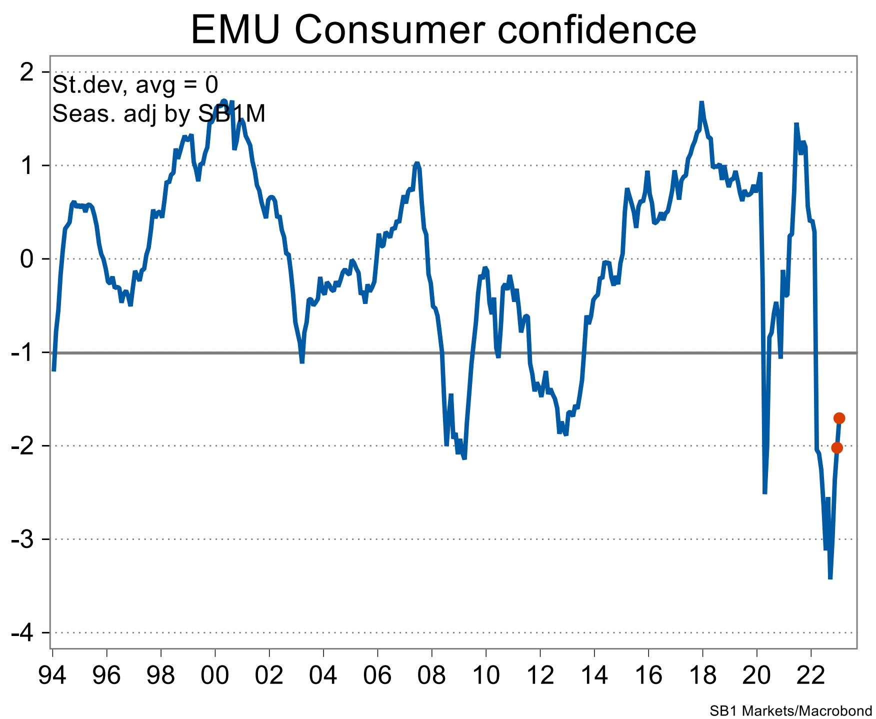


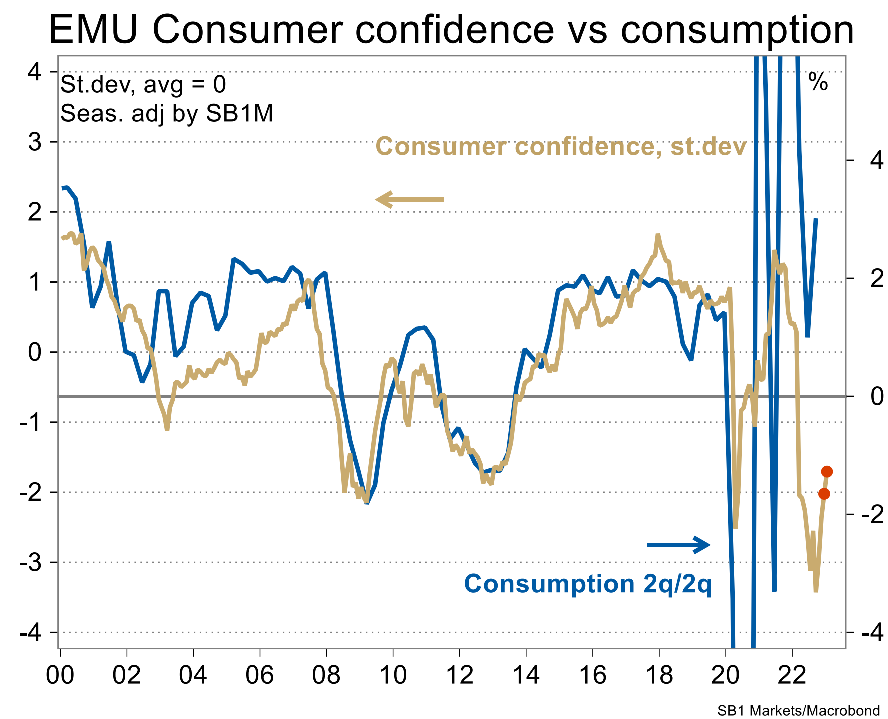




EMU consumer confidence further up in January, still unusually weak

EU's consumer confidence index rose less than expected but the index is well up from the very deep bottom last Sept.

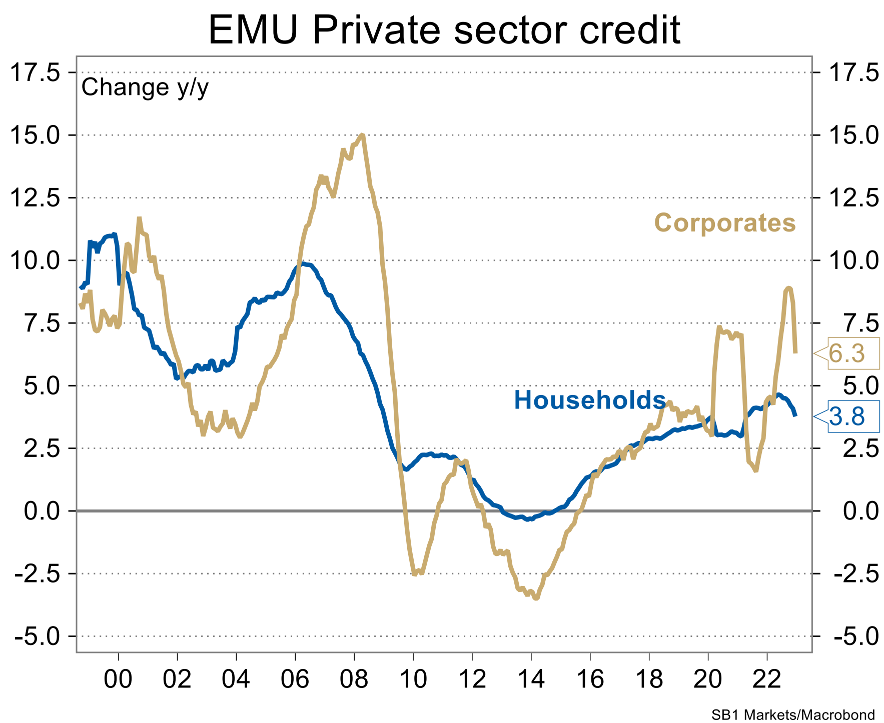


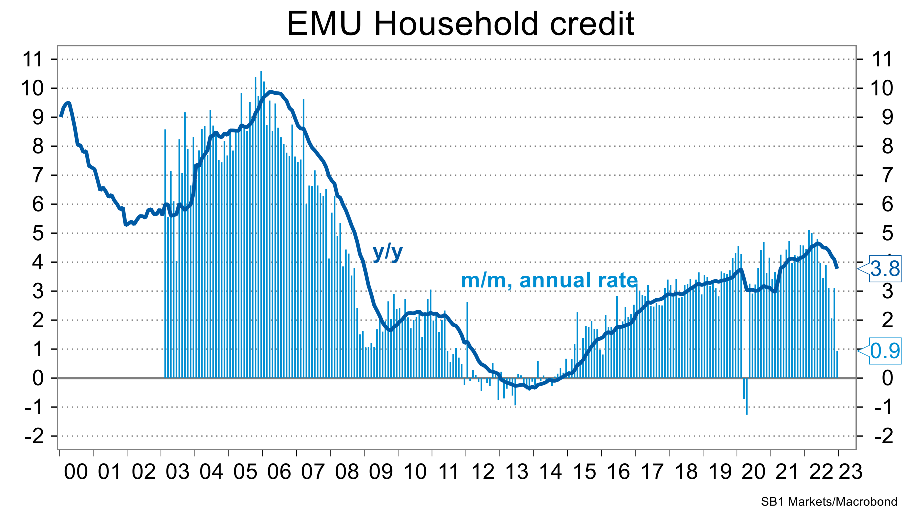


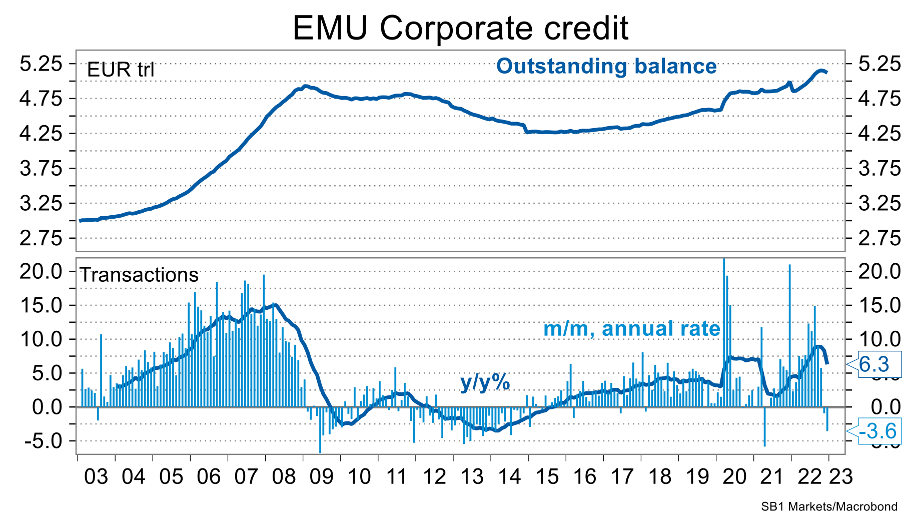
- **The confidence index** rose 1.3 to -20.9 in Dec, according to the preliminary estimate, expected up to -20.0. The level is still -1.7 st.dev below avg. (from -2 in Nov), which is still a rather low level, still better than the -3.4 st.dev rock bottom last Sept. The downside risk vs consumption is still substantial, given the normal rather tight correlation between this survey and actual consumption (here: Nat. Accounts data)
- **Inflation** fuelled by super high energy prices and fear of lack of gas supplies are of course to blame, as is probably the war going on next door. Higher **interest rates** may not increase the confidence either, at least among borrowers

Corporate credit declined at a 3.6% pace in Dec, households up just 0.9%

The credit cycle has turned



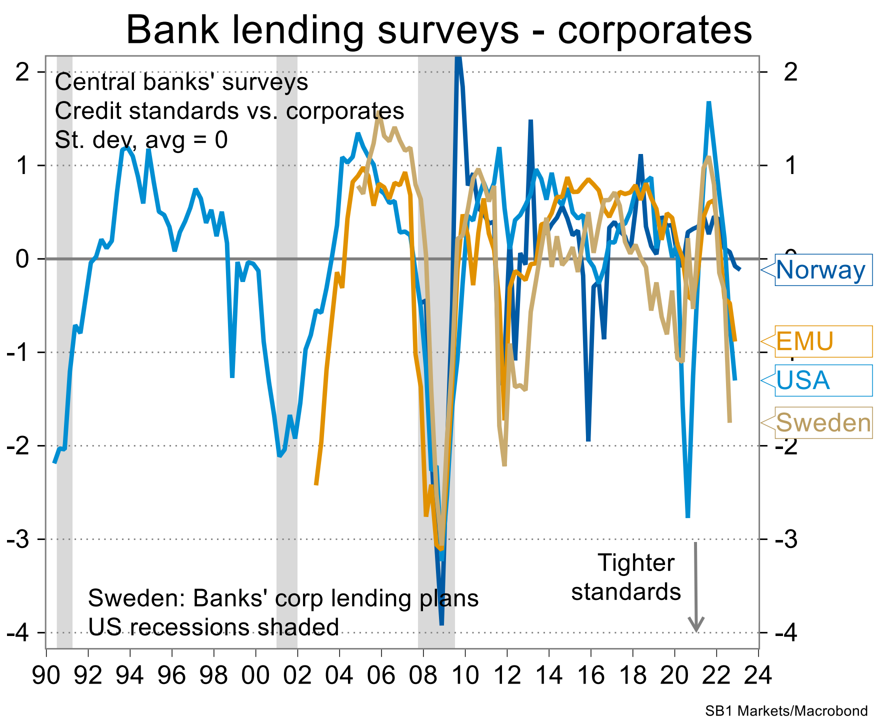


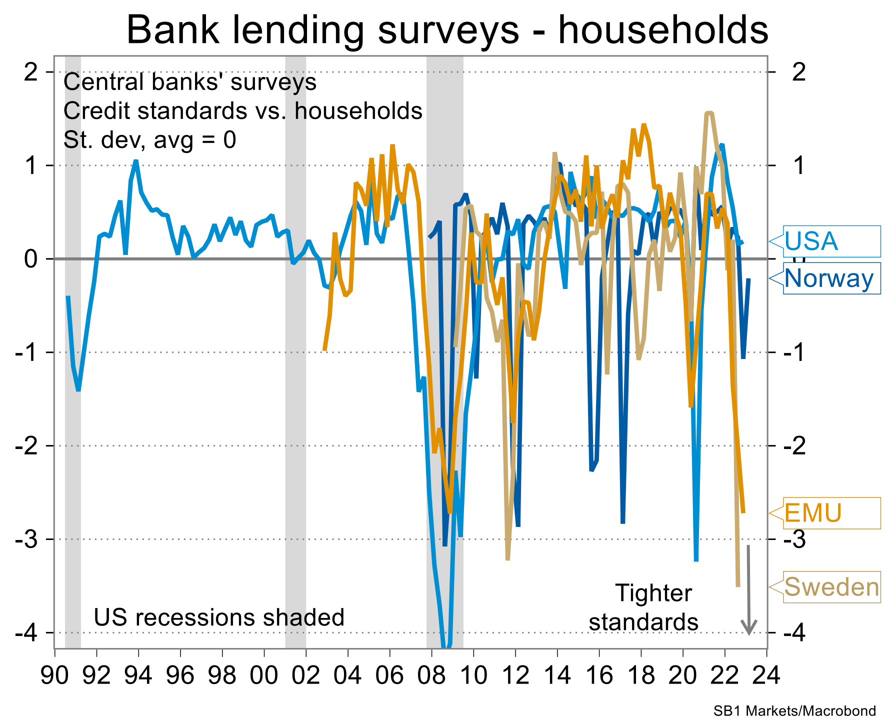


- **Monthly growth** in household debt has to 1% from 5% in early 2022. The annual rate has come down to 3.8%
- Growth in corporate debt is still up 6.3% y/y – but that is down significantly from the peak – and the monthly growth rate fell sharply in Dec, to -3.6%. The last **banking survey** signals a significant tightening, *check7 the next page*

European banks report tighter credit standards

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



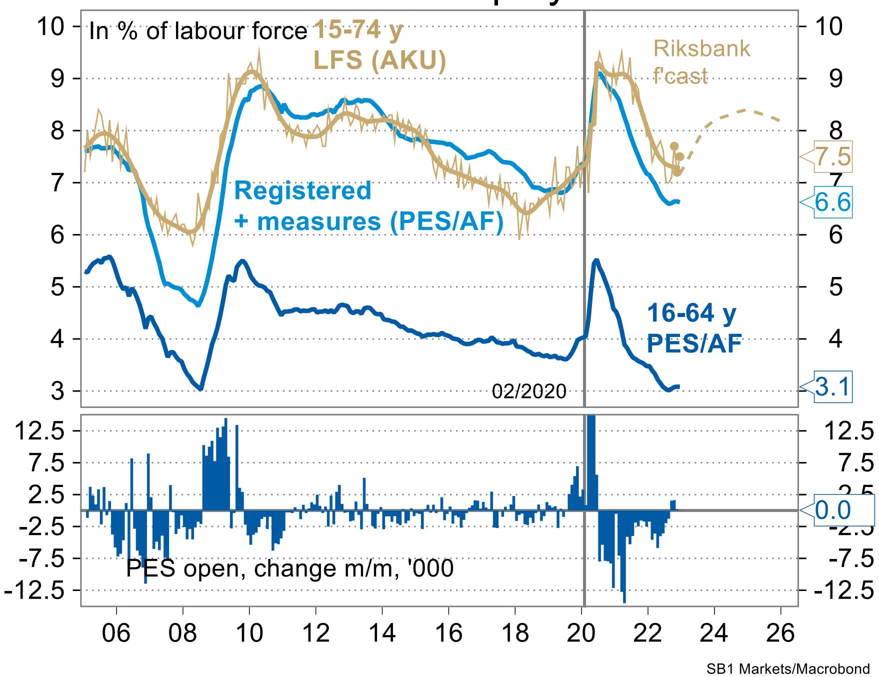


- EMU banks are also tightening standards vs. **businesses**, and more than since the euro crisis
- **US banks** are signalling tighter lending standards vs corporate sector but not vs households
- **Norwegian banks** are slightly below neutral vs the corporate sector, and there is some tightening vs. household, banks reported
- **Norwegian** and even more **Swedish banks** also report a credit tightening vs. households, alongside the steep rise in mortgage rates and the decline in house prices (Norwegian banks have so far been tightening amortisation requirements)

AKU unemployment rate ticked up in December, and has probably bottomed

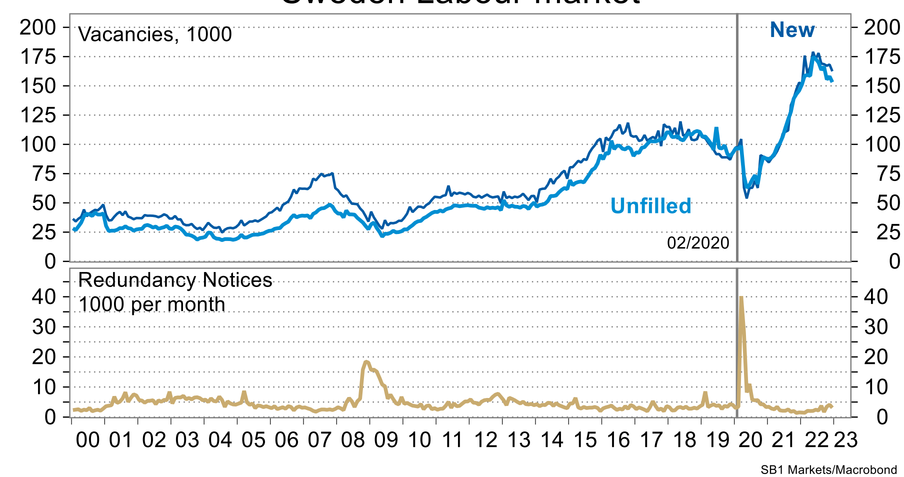
…and employment fell, according to the LFS (AKU). Other labour market indicators signal that the tide has turned

Sweden Unemployment



Sweden New jobless claims

Sweden Labour market

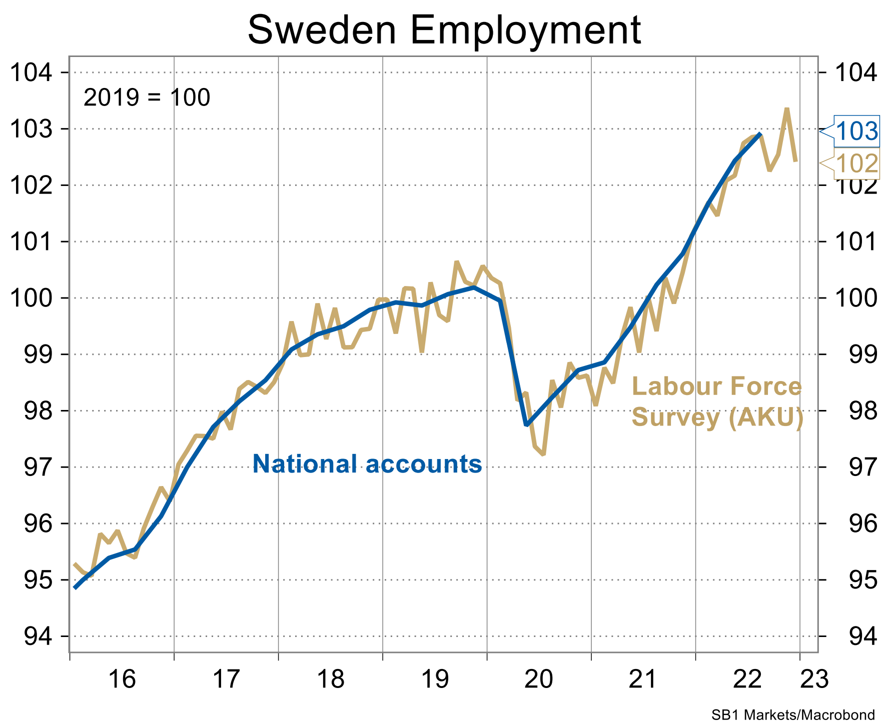


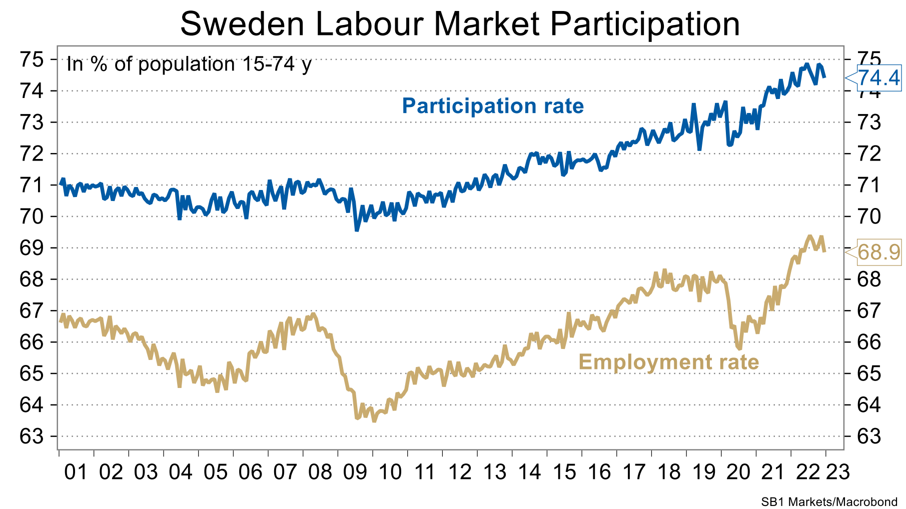
- The **LFS unemployment rate** rose 0.3 pp to 7.5% in Dec, expected up to 7.3%. The smoothed rate has flattened
- The **'open' registered unemployment rate** has increased marginally recent months but is still very low, at 3.1%. The inflow of **new jobless registrations** has increased slowly since the start of the year
- The number of **new vacancies** and of **unfilled vacancies** declined in Dec and both are down from the peak
- For the Riksbank: The labour market is so far not weakened by much – and far less than what the bank wants

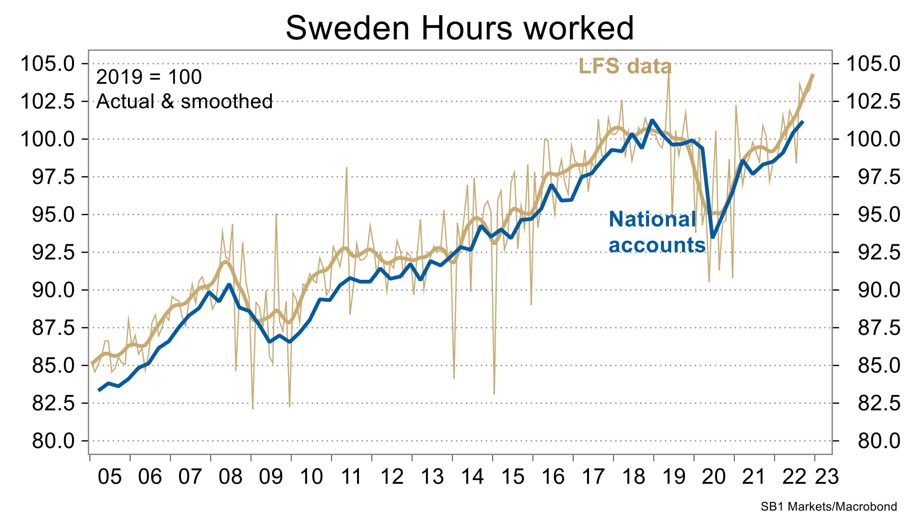
SpareBank 1 MARKETS

Employment and participation lower in Dec, hours worked are still surging

However, the LFS data are volatile short term



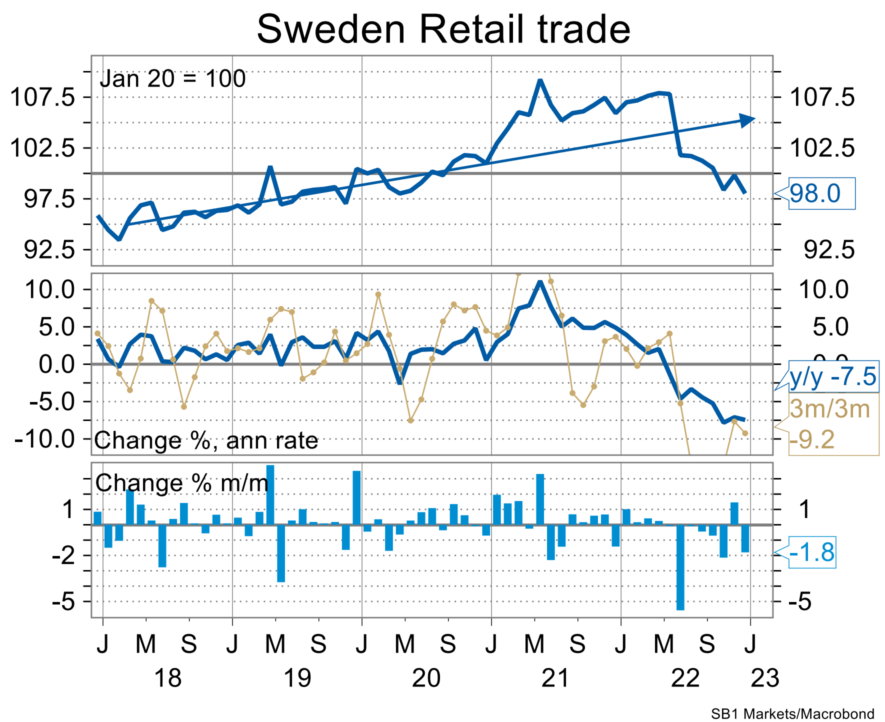


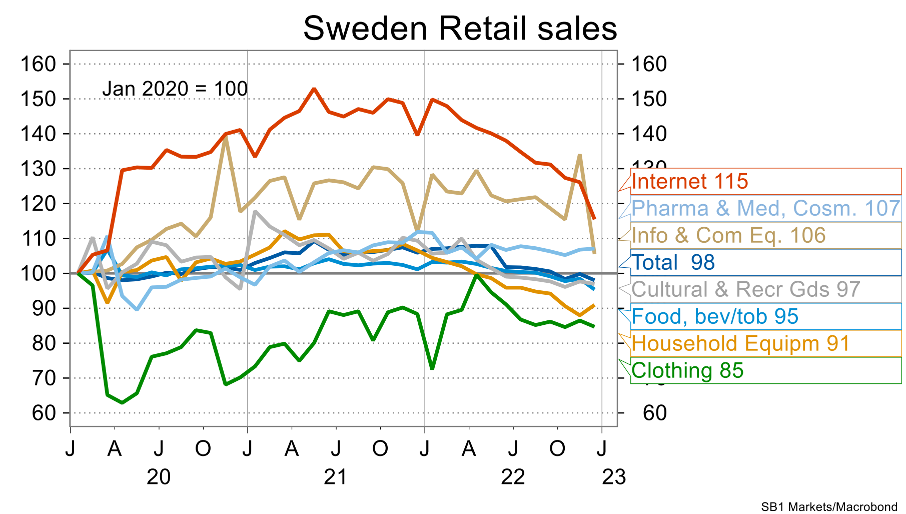


- Still, it seem reasonable to conclude that the employment rate flattened in H2 last year

Swedish retail sales are trending down sharply: -9.2% measured 3m/3m

Retail sales were down 1.8% m/m in volume terms in December, and is now 2% below the pre-pandemic level

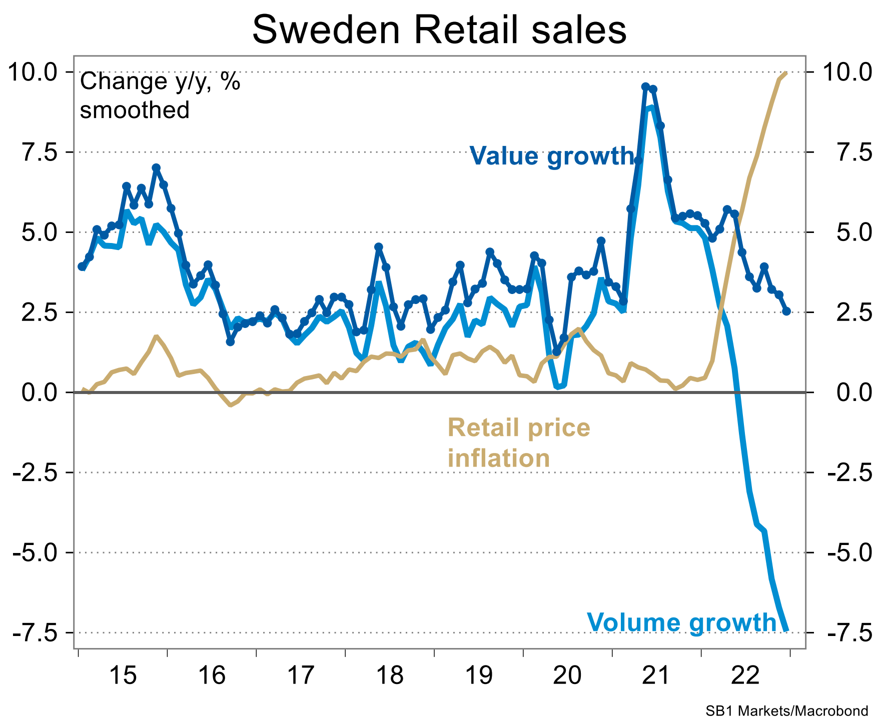


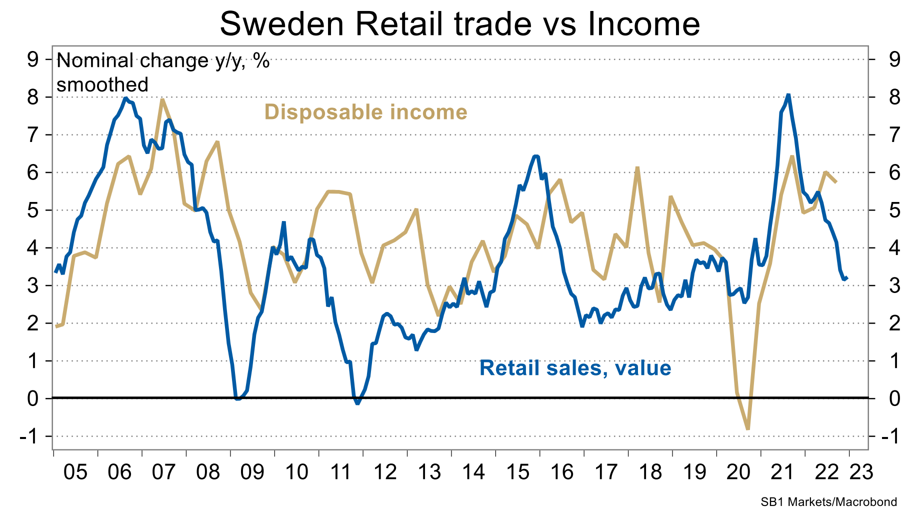


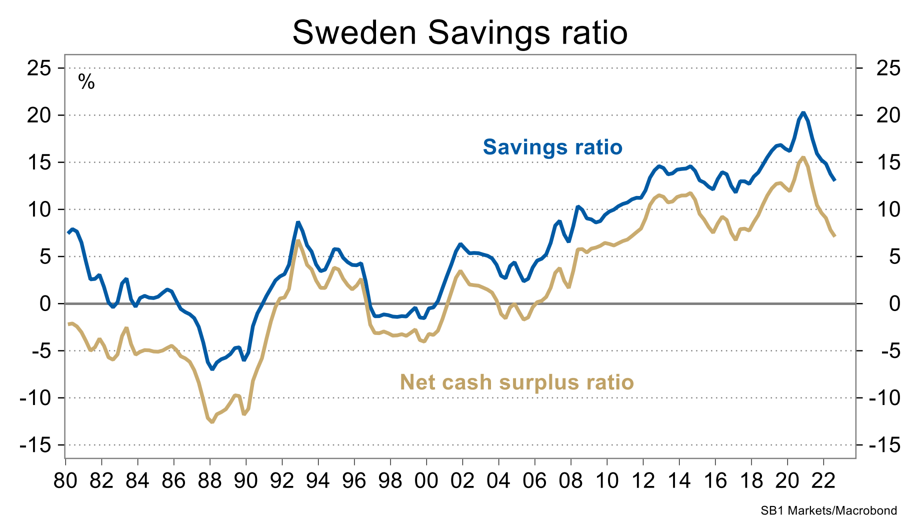
- **Sales fell 1.8% m/m in December**, following the 1.5% increase in November. Sales are down 7.5% y/y and by 9% from the peak last spring
- **The fall in retail sales is broad**: all sectors are down from the peak, even pharma. Clothing and internet sales have fallen the most
  - In Dec, IC equipment fell the most, like in Norway

Retail inflation is now 10%, but value of retail sales are up just 2.5%

… while nominal household income is up close to 6%



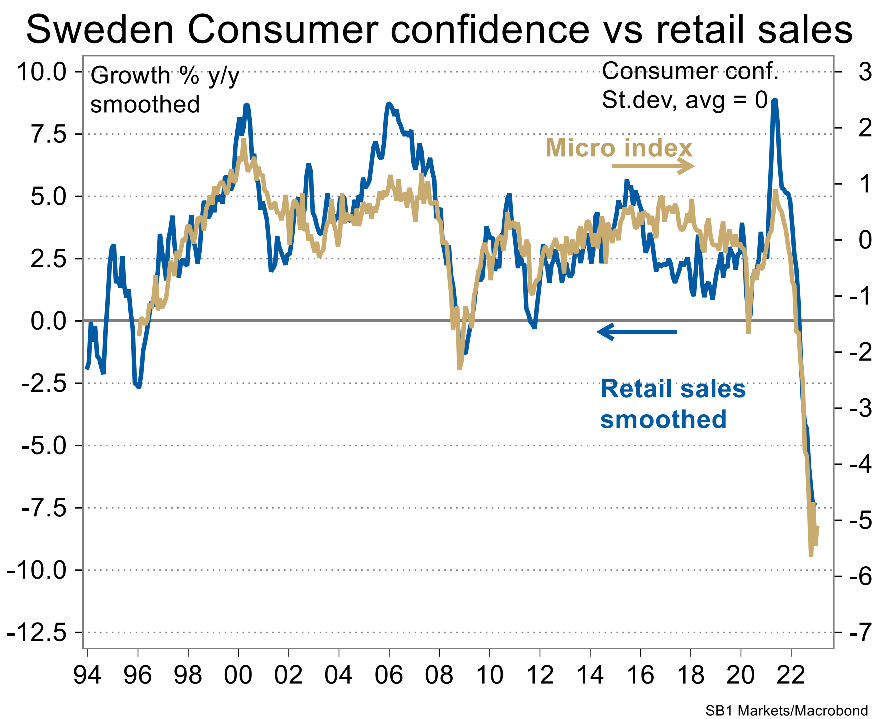


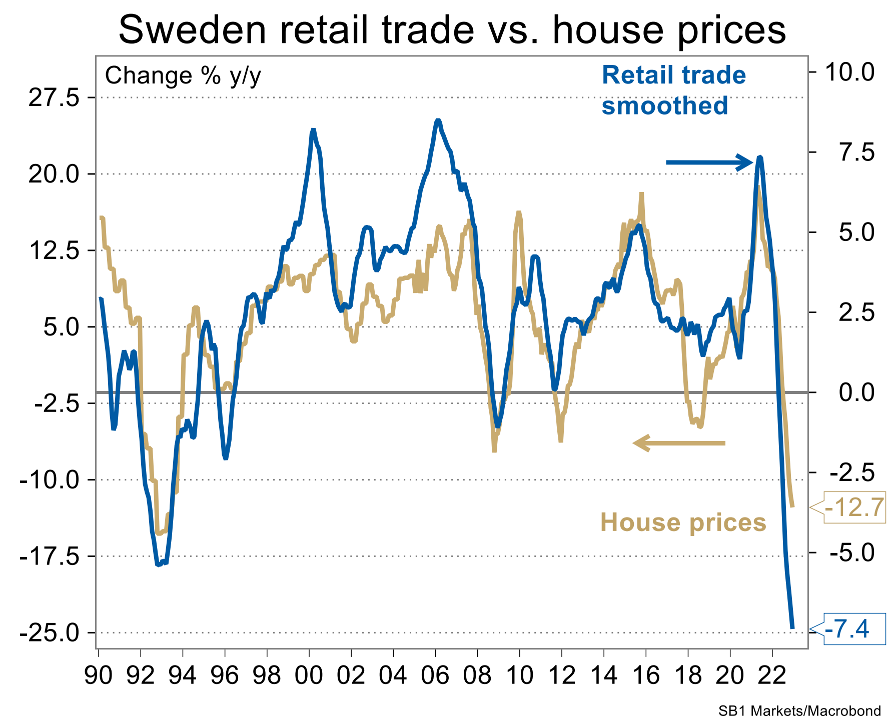


- Service consumption is growing faster, and some money is spent on electricity, and the savings rate is still declining – though not very low

Consumer confidence up in January but still extremely weak

And the Swedes walk the talk: House prices and retail sales are down in tandem with consumer confidence

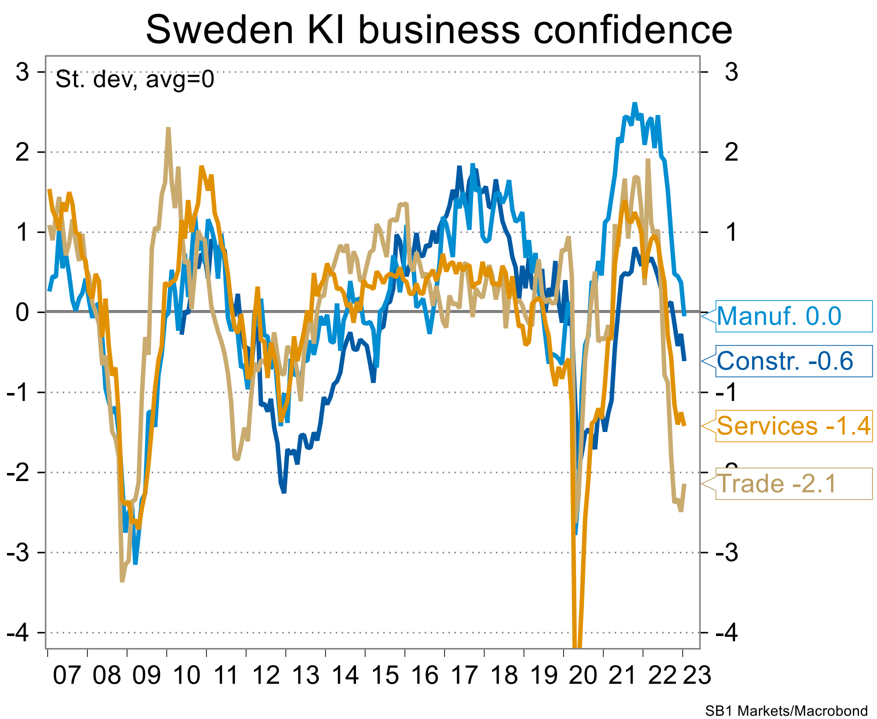


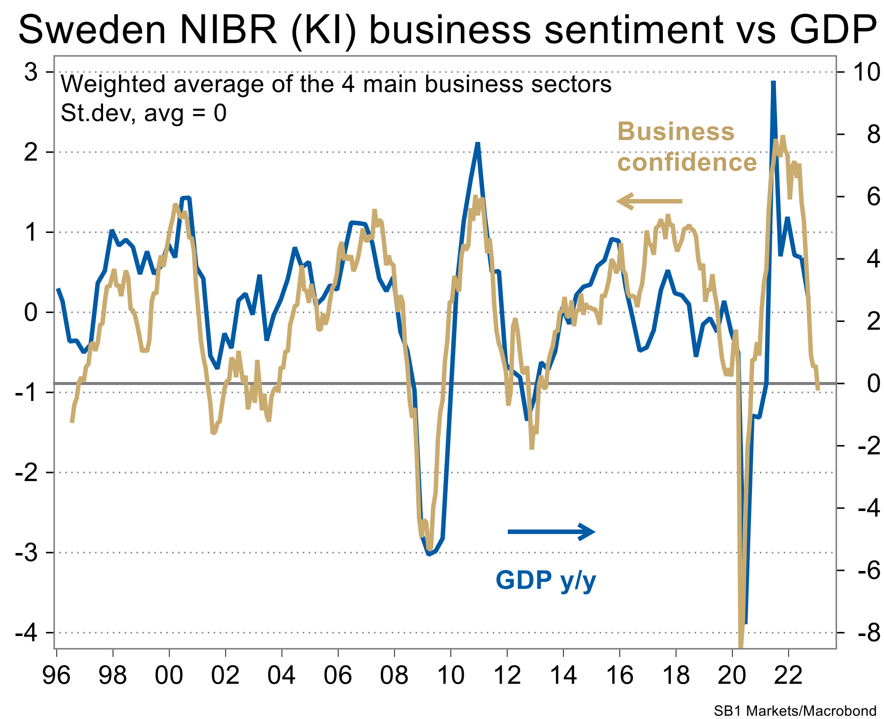


- **Consumer confidence** (the micro index)) climbed 2.9 p to 48.7 in January, but the level is still very low, at -5 st.dev below par! This index suggests a steep decline in retail sales, which we are witnessing
  - The **macro index** fell 0.9 p
- Both **retail sales** and **house prices** have fallen alongside the decline in consumer confidence – higher rates and high inflation is softening both sentiment and ultimately demand - <u>the outlook is rather bleak</u>

Business confidence fell further in January

Businesses are signalling zero growth in GDP – while the Riksbank expects a 1.2% drop (aka a recession)



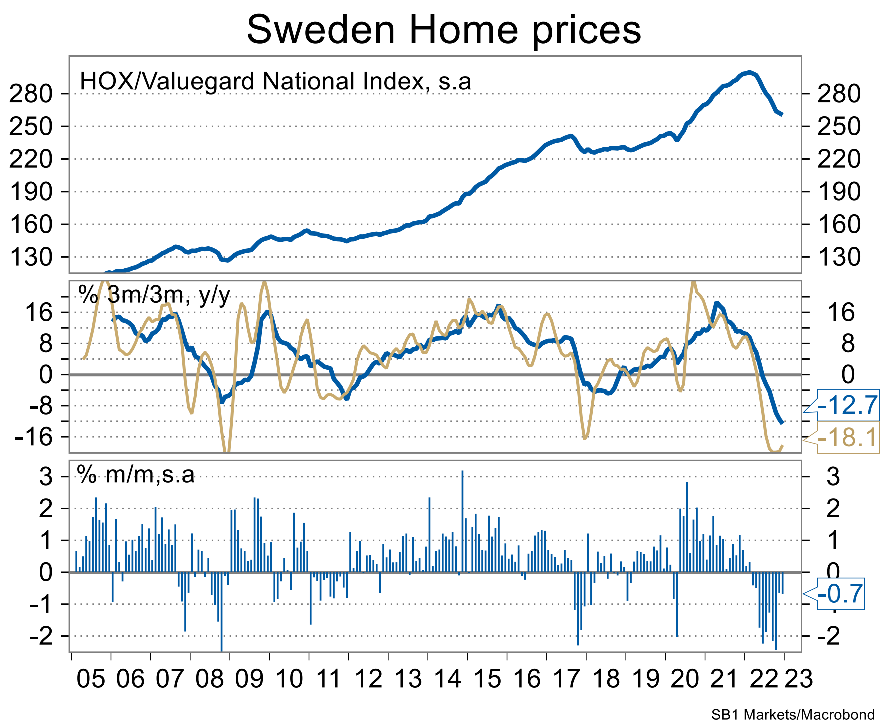


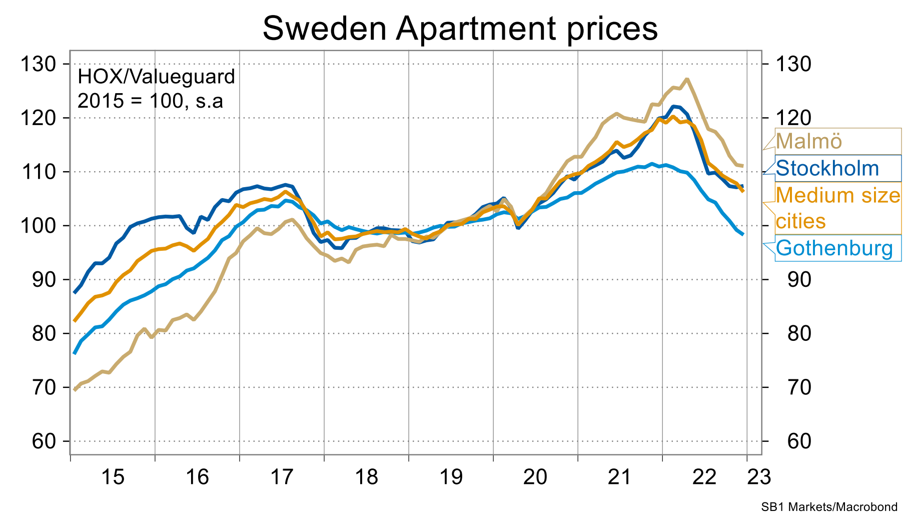
- **The composite index** was down 2.7 p to 82.3 in January, probably worse than expected – as confidence fell in all sectors expect for trade, where it was very low. The main index is 1.8 st.dev below average and decline in GDP
  - This Swedish survey is still declining, even if most other European surveys have improved over the past few months.
- However, even if **business confidence** fell, businesses are far less downbeat than households (like everywhere else). The business confidence is less 1 st.dev below average,. The business confidence, which in most countries works best at a GDP predictor, is just signalling zero growth. The Riksbank expects a 1.2% decline in GDP in 2023
  - The **manufacturing sector sentiment** has declined over the past months and has now reached an avg. level. Trade is at the bottom but rose marginally in January. **Services** are at 1.4 st. dev below average, and are trending down

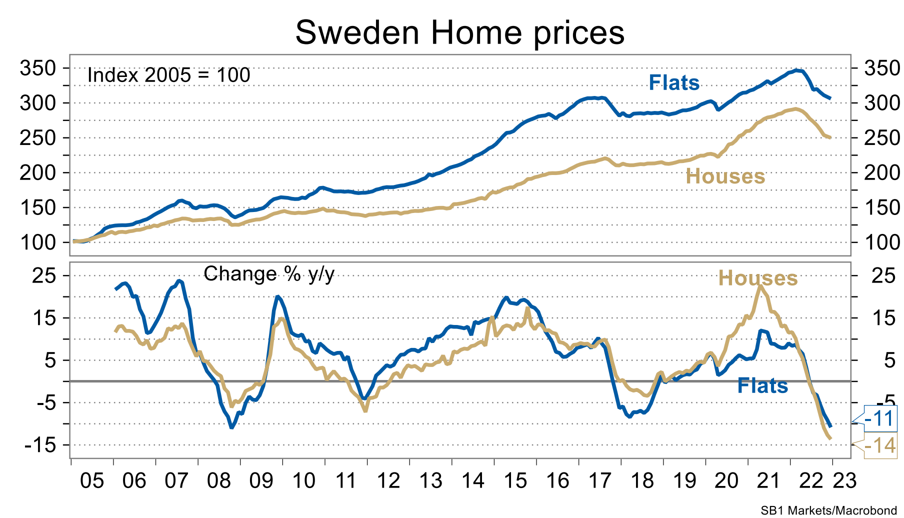
SpareBank 1 MARKETS

Swedish house prices are falling fast, but slower – down 13% from the peak

Prices fell 0.7% in Dec, vs 0.6% in Nov, but down from the 1.5% – 2.0% earlier last year. The real price back to '15 level



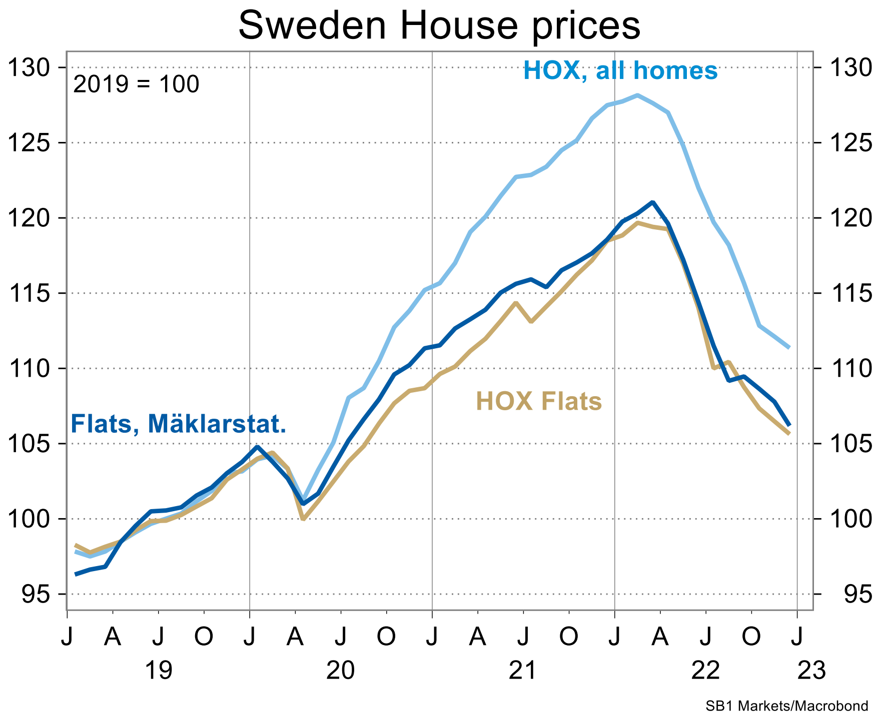


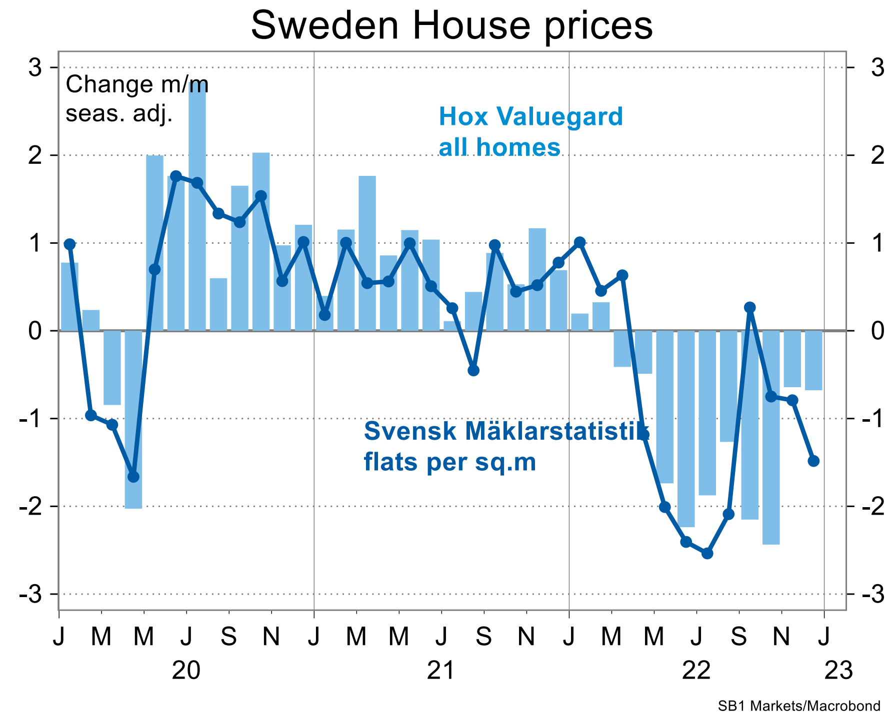


- **The annual rate** declined to 12.7% - and prices are down 13% from the peak last February. The 3m/3m rate is -18%
  - House prices are down 14% y/y, flats are down 11%
- Apartment prices fell in all **main cities** in December and by the fastest in Stockholm. Stockholm prices are back to the 2017 level in nominal terms – and the real price is back to the 2014 level!
- The **Riksbank's** abrupt change of tack in late April has no doubt hit the housing market hard. The rest of the real estate sector is hit by higher long-term rates, and the sharp widening of credit spreads

No relief for Swedish home prices, but the decline may be slowing

The Valuegard/HOX house price index is down 13% from the top in March last year

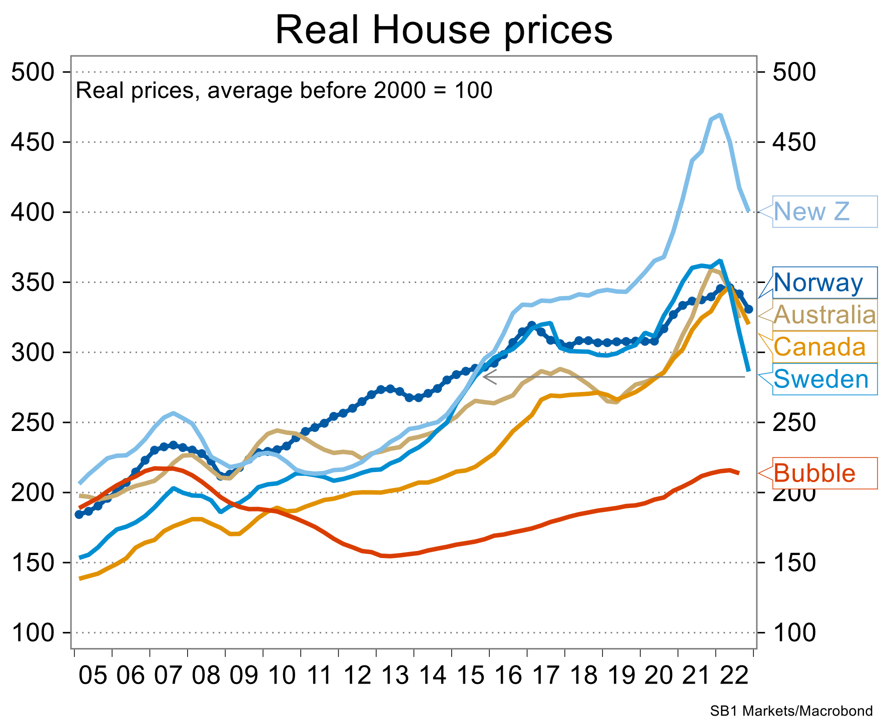


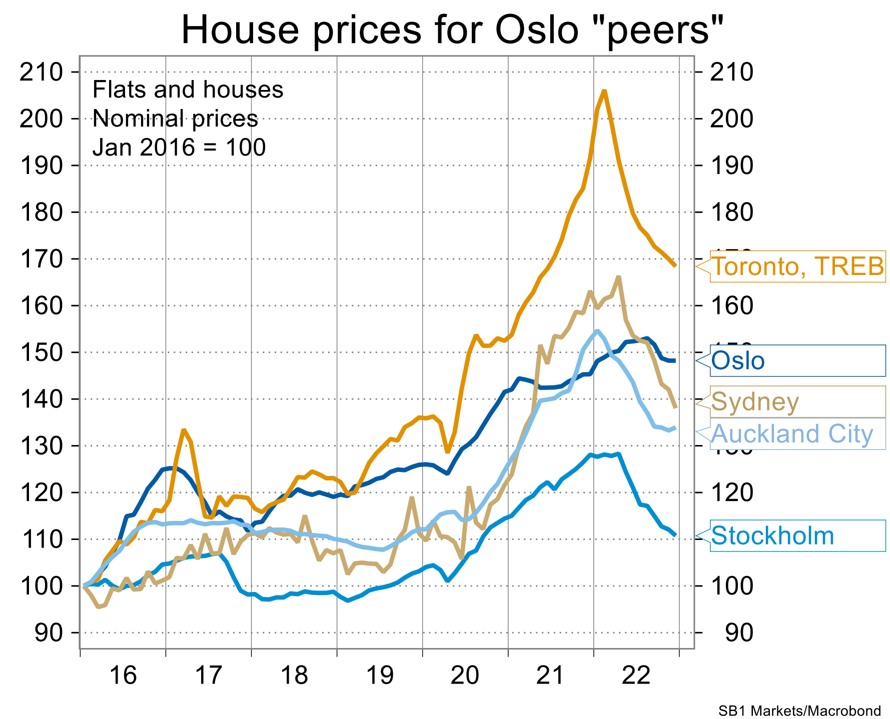


- The HOX index reported a 0.7% m/m fall in house prices in December, like in November, while the realtors had previously reported a 1.5% m/m fall in the flats prices

Swedish real house prices back to the 2015 level (with a substantial CPI 'help')

Prices have turned south in many countries – and by the most in the 'supercyclical' countries, our peers

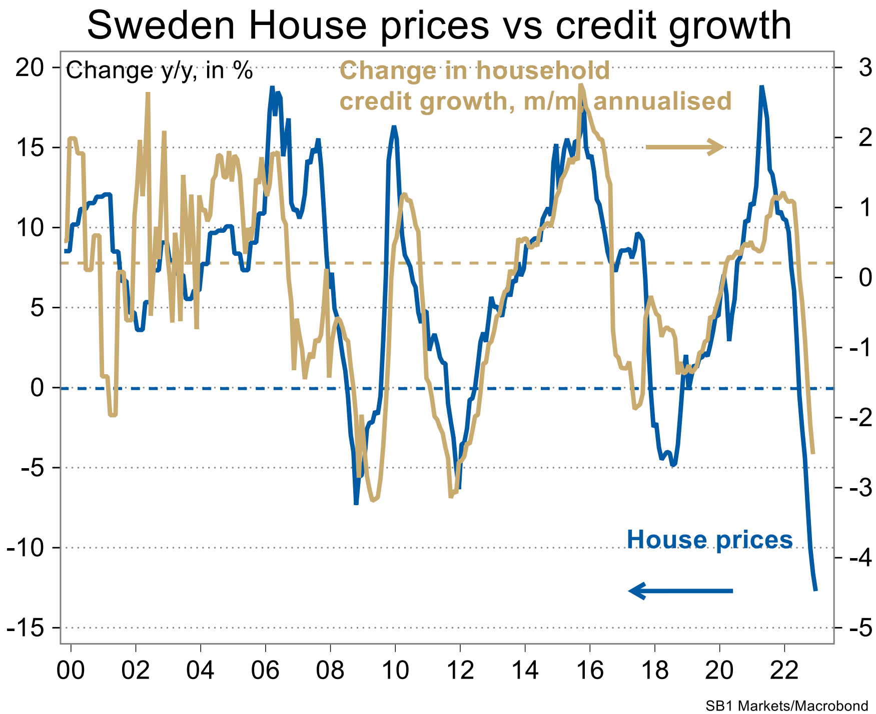


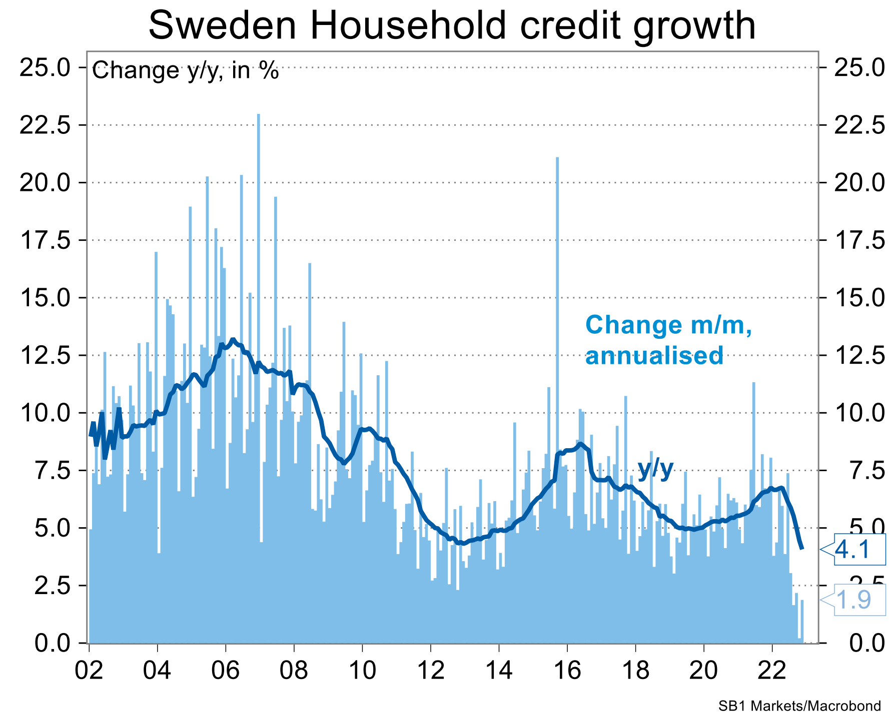


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden – and even more in New Zealand
- Now, prices are falling sharply. Prices in the capitals have turned down in all these countries

Bubble: Average of US, UK, France, Italy, Spain, Netherlands, Denmark, Ireland, Iceland

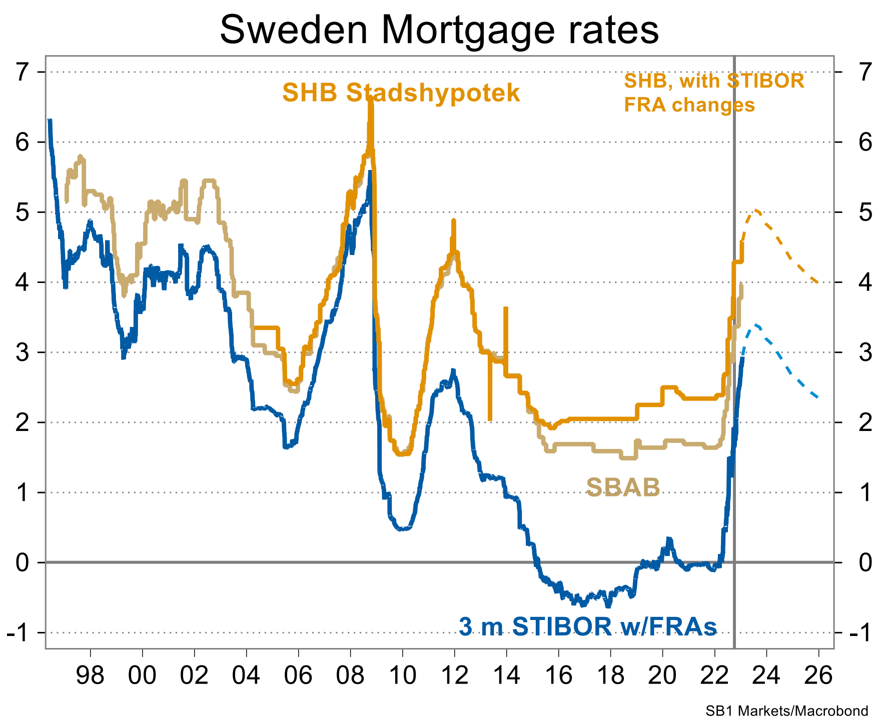
The setback in the housing market lowers credit growth rapidly

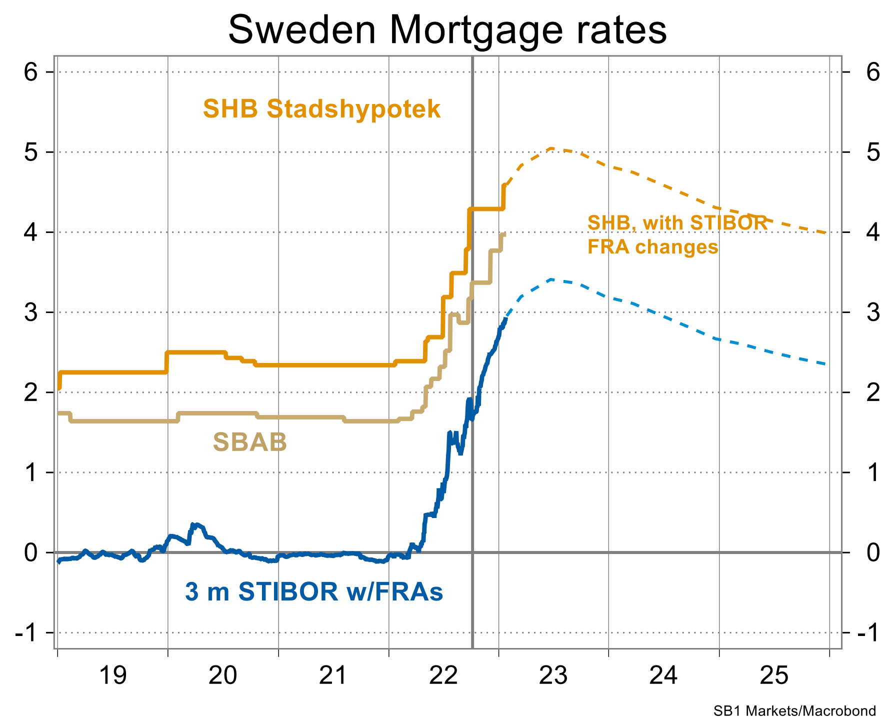




Mortgage rates are climbing at a murderous pace – but the peak is in sight?

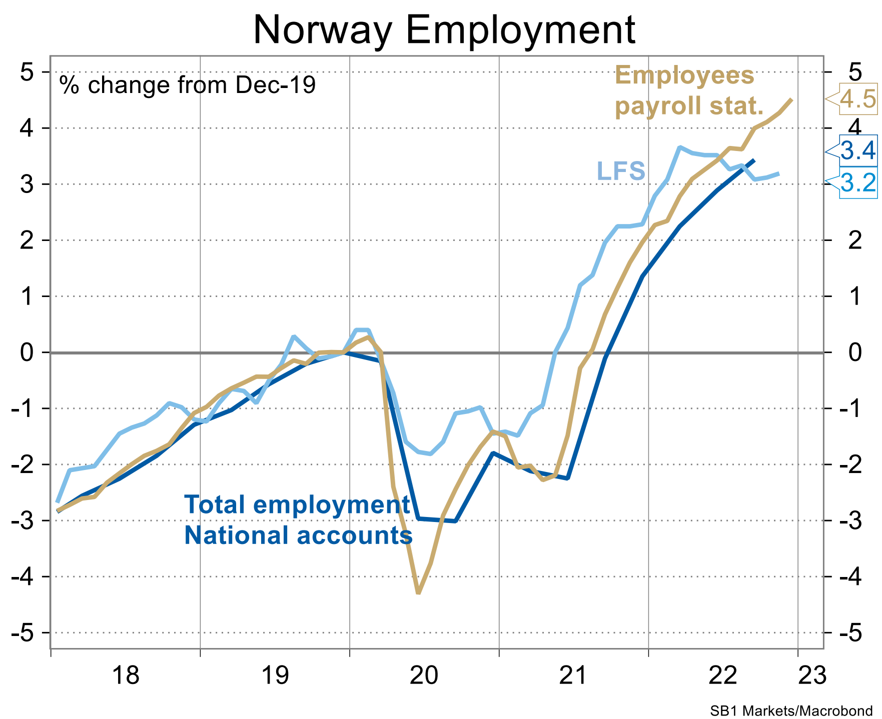
At least according to the FRA market. Mortgage rates have increased more or less in line with STIBOR

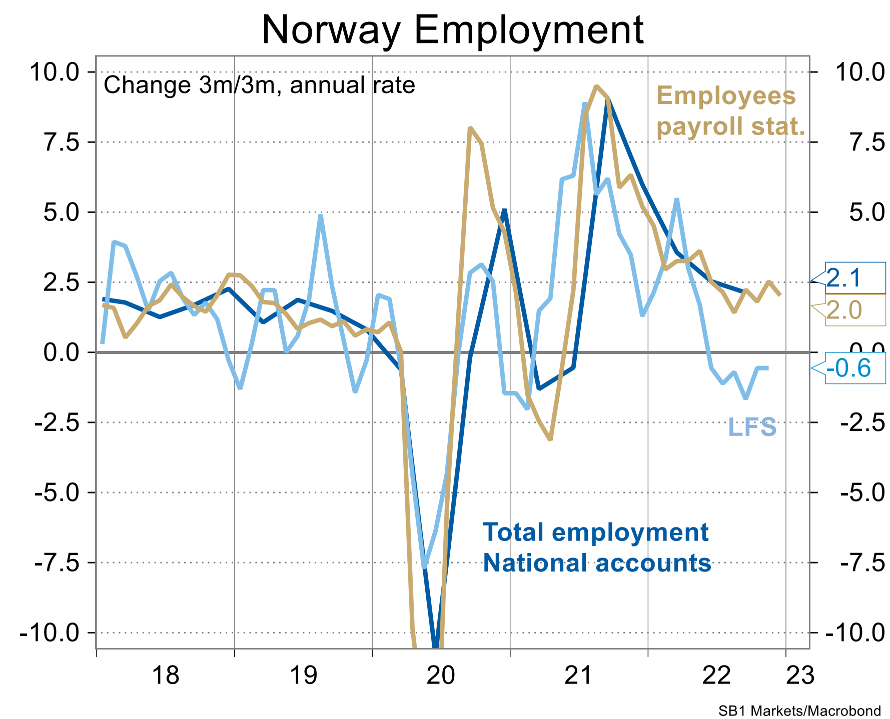




The no. of employees (register based) is still growing rapidly, at a 2% pace

Total employment in the LFS (AKU) has fallen since last spring but we wouldn't trust this volatile household survey

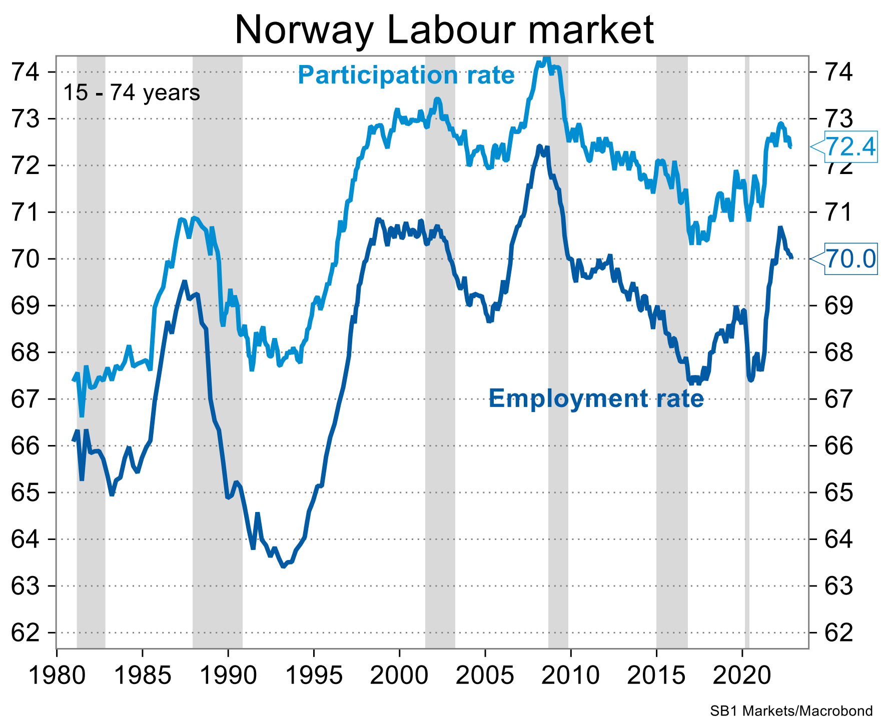


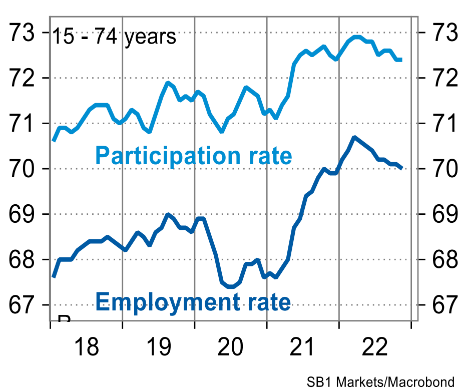


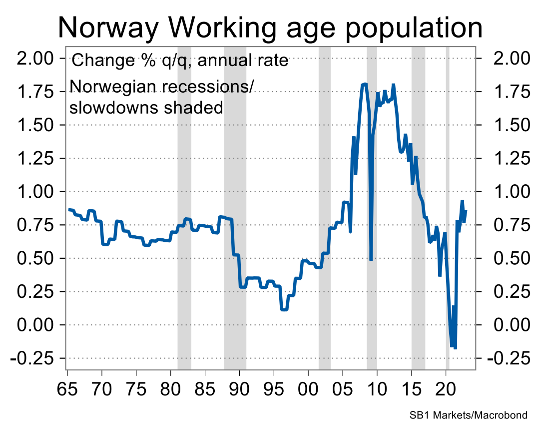
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) rose by 0.1% in November (3 m avg.), but is falling at a 0.6% pace measured 3m/3m
  - LFS employment is up 3.1% from before the pandemic
- The **register-based employee stats ('A-ordningen)**, reports a 0.2% growth in the no. of employees in December, like in Nov. The 3m/3m rate is 2.0%, still impressive – and has stabilised (or accelerated marginally) since the summer. The level is up 4.5% since Q4-19. Foreigners have fully returned
- **National accounts** reported a 2.1% lift in employment in Q3 (annualised), and a 3.4% increase from Q4-19

Both participation & employment rates are down (but a tad too volatile)

The broad picture: Both rates have peaked and are now heading down





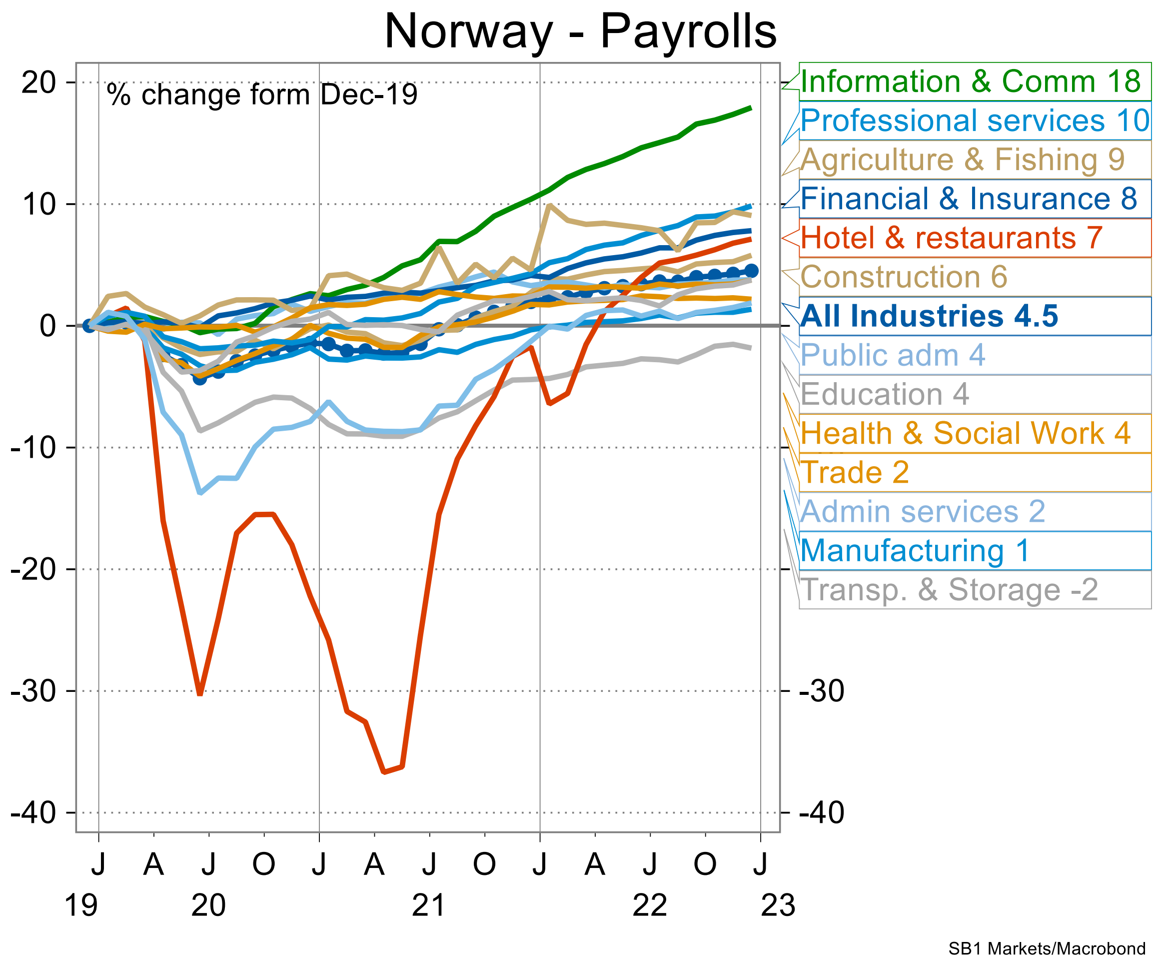


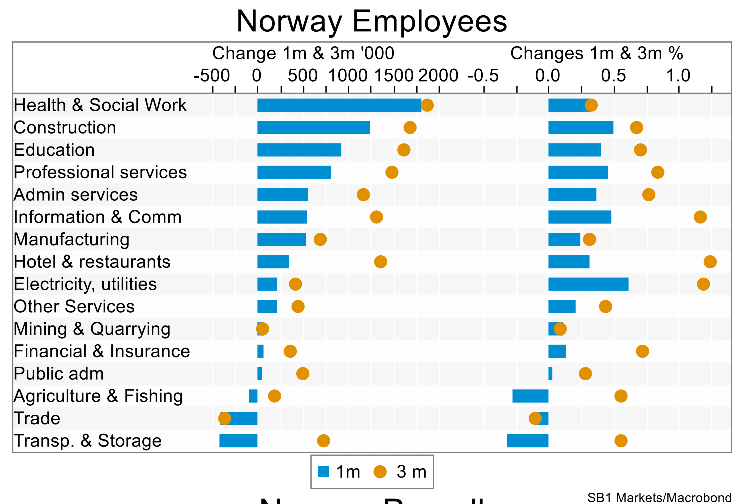
- **The employment rate** fell 0.1 pp to 70.0% in November
  - Ahead of the pandemic the rate was almost 69%, and it is up from the 67.4% trough in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - In March, the employment rate was at 70.7%, the highest since after the Financial Crisis
- **The participation rate** was unchanged at 72.4% in November, and has been inching down since April of last year
  - Are there still reserves out there? <u>If so, why are they not turning up now, given the very high vacancy level, 'everywhere'?</u>
- **Both rates are** rather volatile from month to month, especially the participation rate
- **Working age population** growth picked up in Q4
  - Labour immigration has accelerated, possible as a ketchup effect after low immigration during the pandemic. Given the tight labour markets in the rest of Europe, we doubt ordinary labour immigration from Europe will solve the labour deficit in Norway.
  - However, Ukrainian refugees immigrated in 2022, and have contributed to the increase in total working age population. So far, not many of them are employed, according to SSB

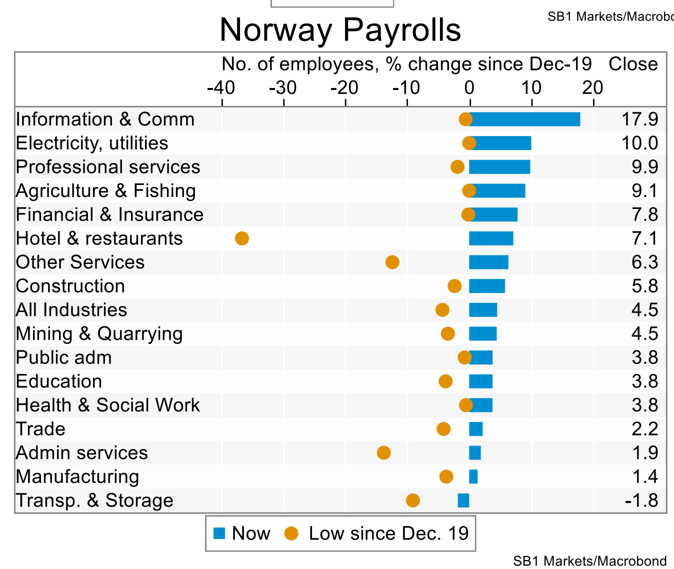
SpareBank 1 MARKETS

The no. of employees is still on the way up in almost all sectors

Just trade, transport & the primary sector report a small decline, all other are still expanding



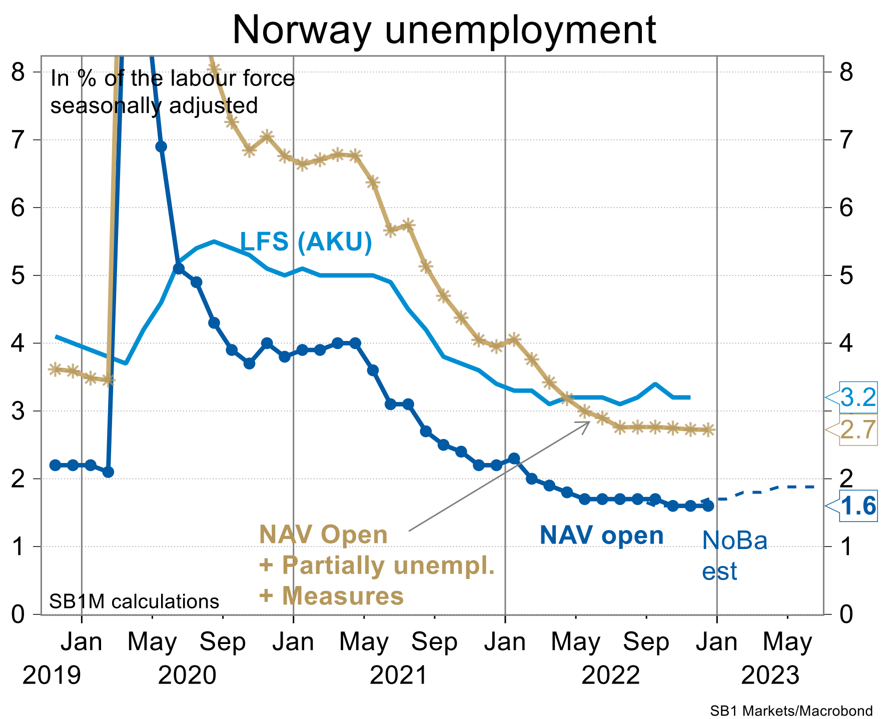


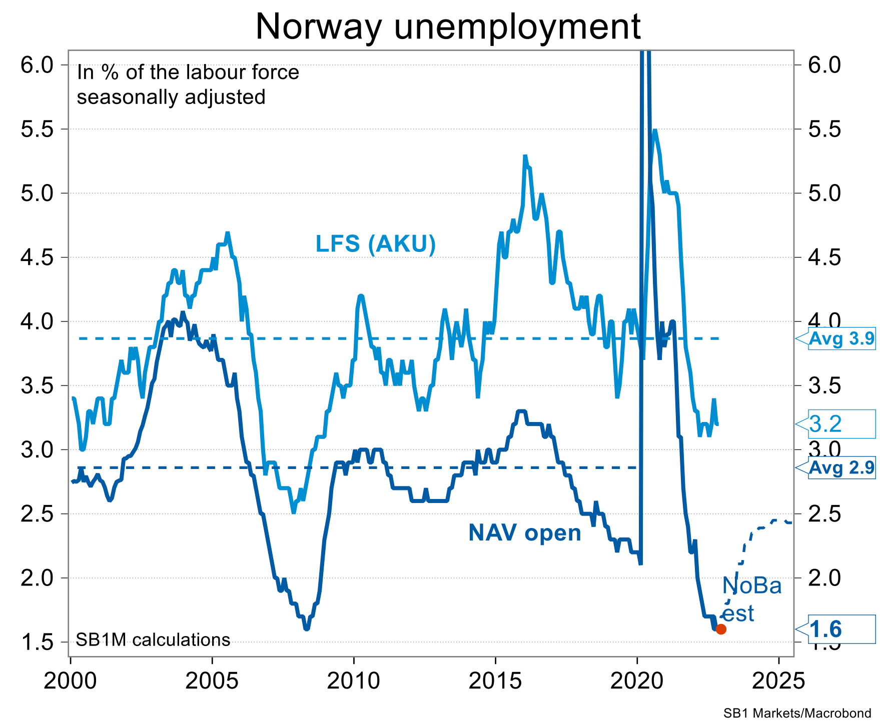


SpareBank 1 MARKETS

LFS unemployment unchanged at 3.2% in Nov, in line with our forecast

The no. of unemployed persons increased ever so slightly, but the rate remained unch, and bottomed in March, at 3.0%

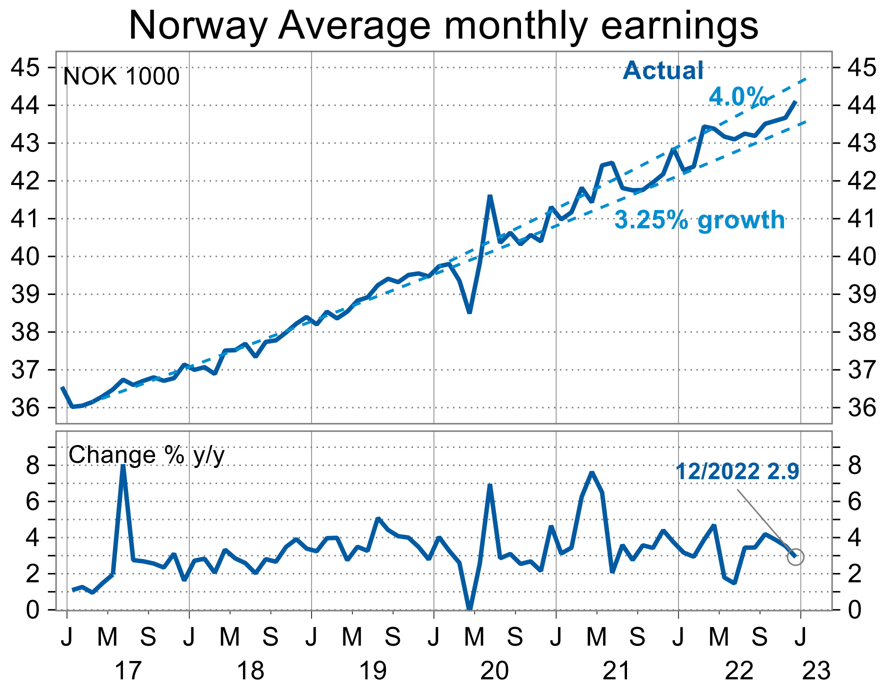


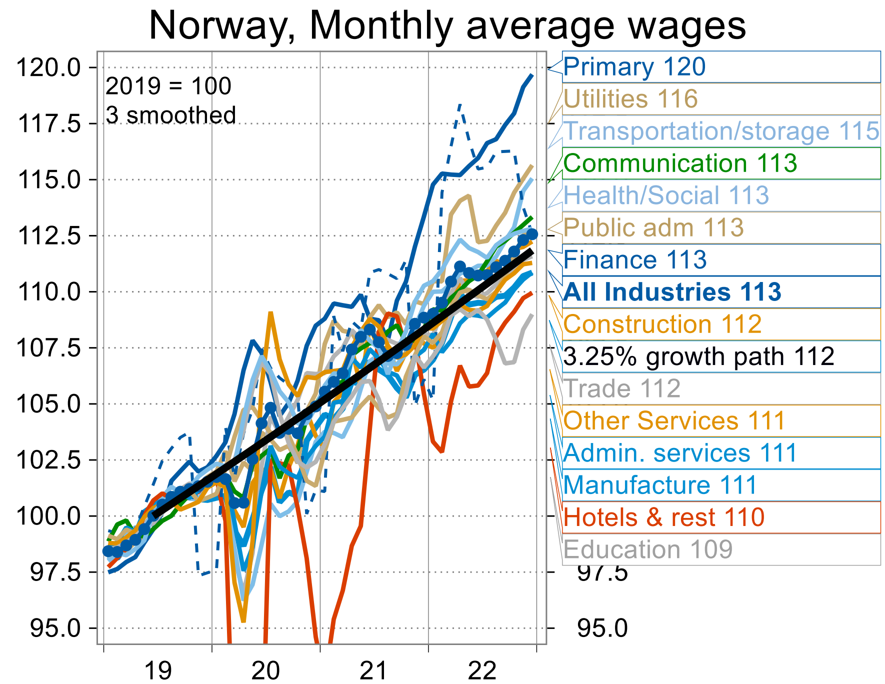


- **The NAV open unemployment rate** was at 1.6% in December, and has not yet turned up

Wage inflation is still not accelerating

Average monthly earnings rose slightly in Dec but the annual growth rate is at 2.9%, and the trend is at some 3.5%

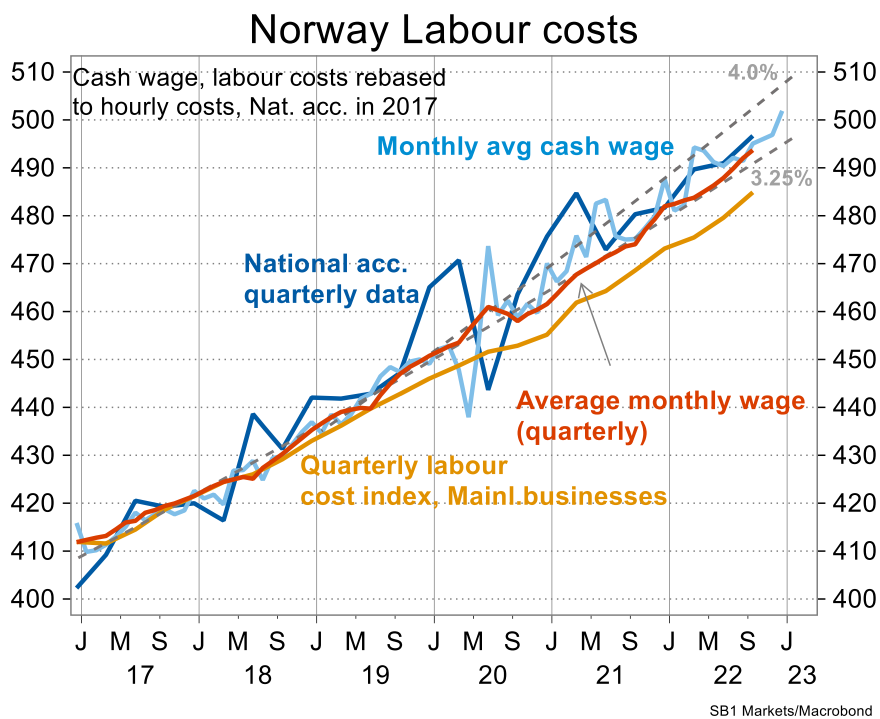


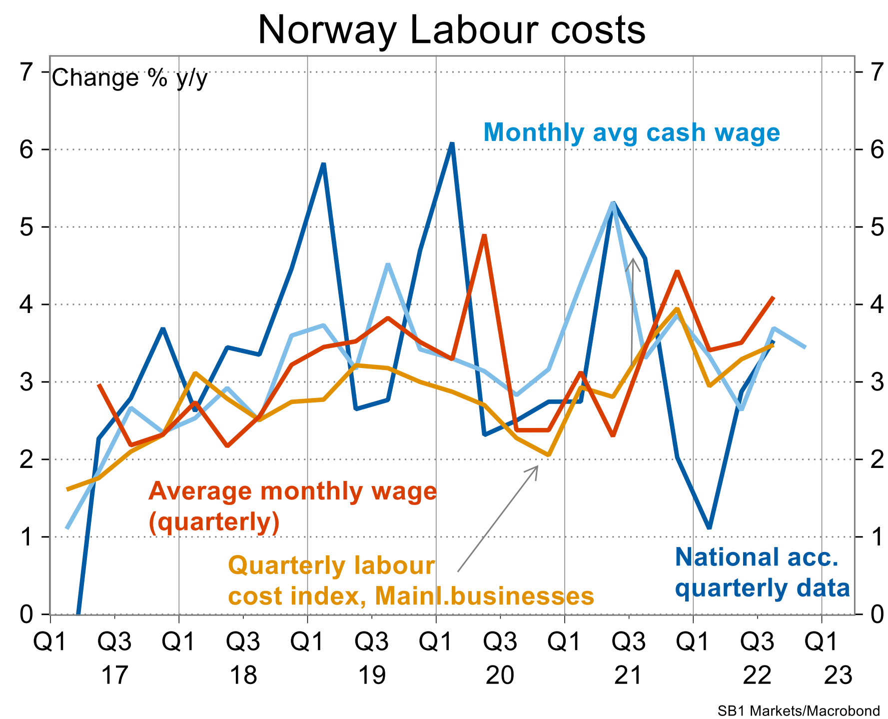


- **Monthly average cash earnings** has not accelerated much from the 3.25% pre-pandemic growth path. In fact, in Dec the y/y- rate came in at 2.9%. The underlying growth rate is not above 3.5%
- **These earnings data** are rather volatile, also depending on hours worked, bonuses – and data are often substantially revised
  - In 2021, the monthly stats reported a 4.4% growth rate – while the average wage inflation was 3.5%, according to SSB
  - In 2022, monthly earnings grew 3.3%. Still, we expect the 'official' (TBU) figure to land at 3.9%, in line with SSB's last estimate
  - Changes in the mix of employees between and even within sectors will have an impact on these data
- Other wage indicators confirm the moderate growth in wages, check next pages – but wage inflation has been accelerating recent years

All other wage inflation indicators still in check

All are reporting wage growth at or below the 4% line – but wage inflation has been accelerating recent years

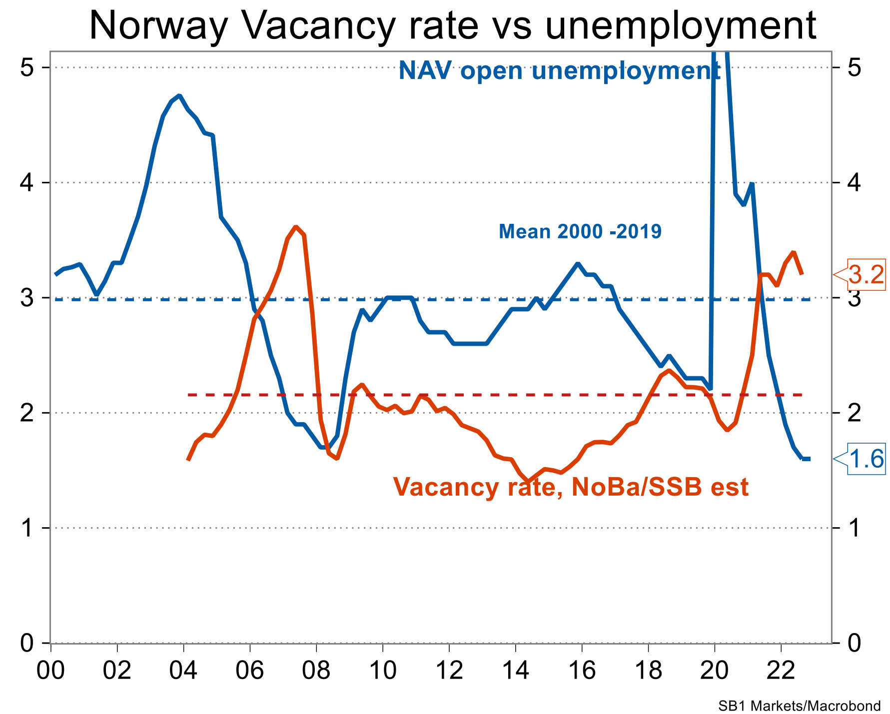


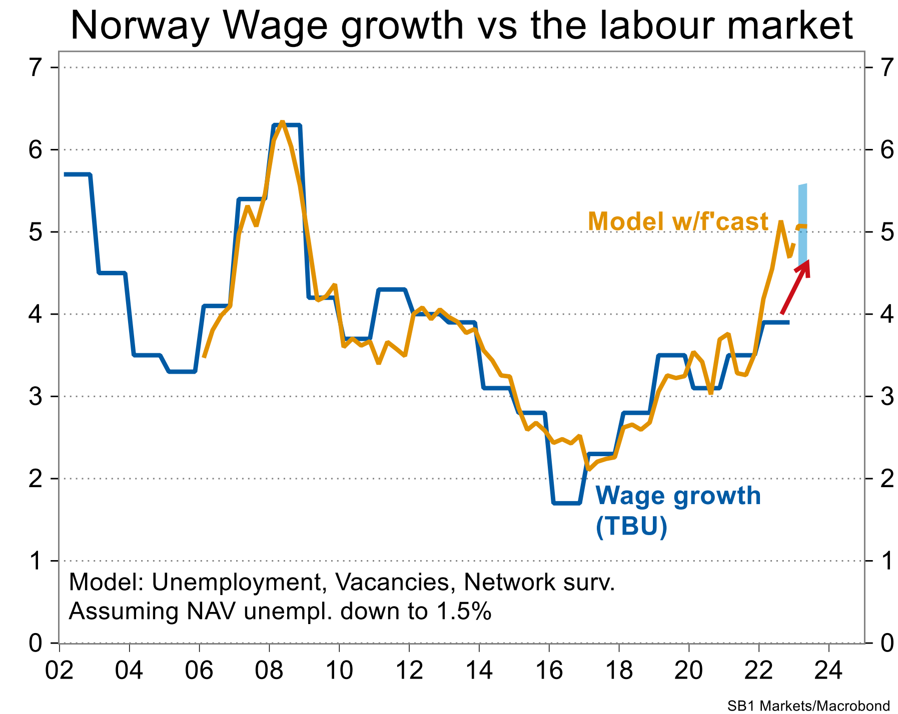


- The quarterly labour cost index (Mainland businesses, our calc.) reported a 3.5% growth y/y in Q3, up from 3.3% in Q2 – and the trend is not accelerating further following the lift from below a 3% level before the pandemic

Wage inflation has accelerated recent years, and 2022 the highest in 10 years

And wage inflation will very likely increase further in 2023 – to the highest level since 2009

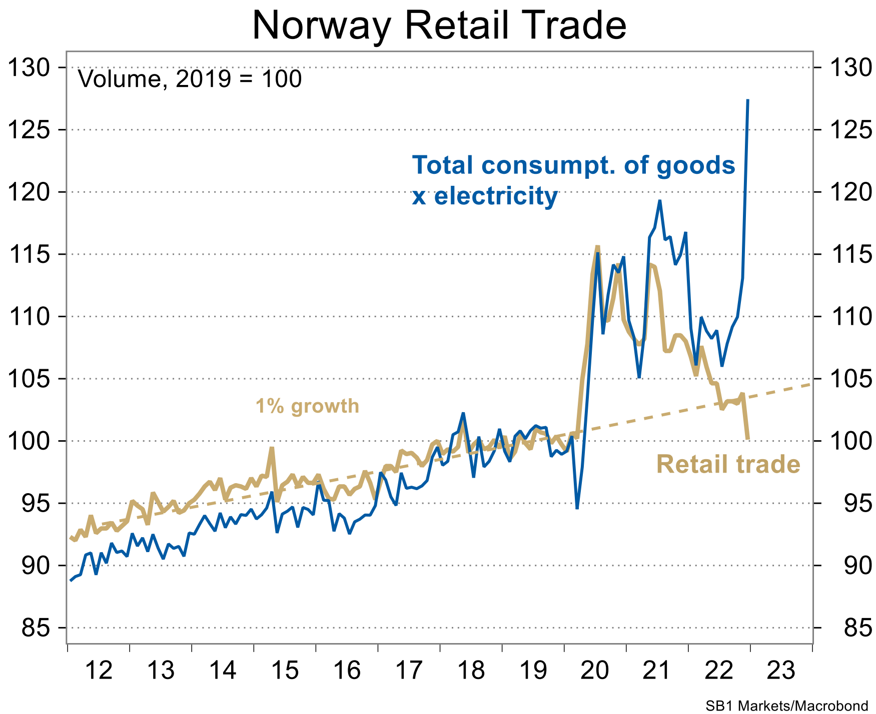


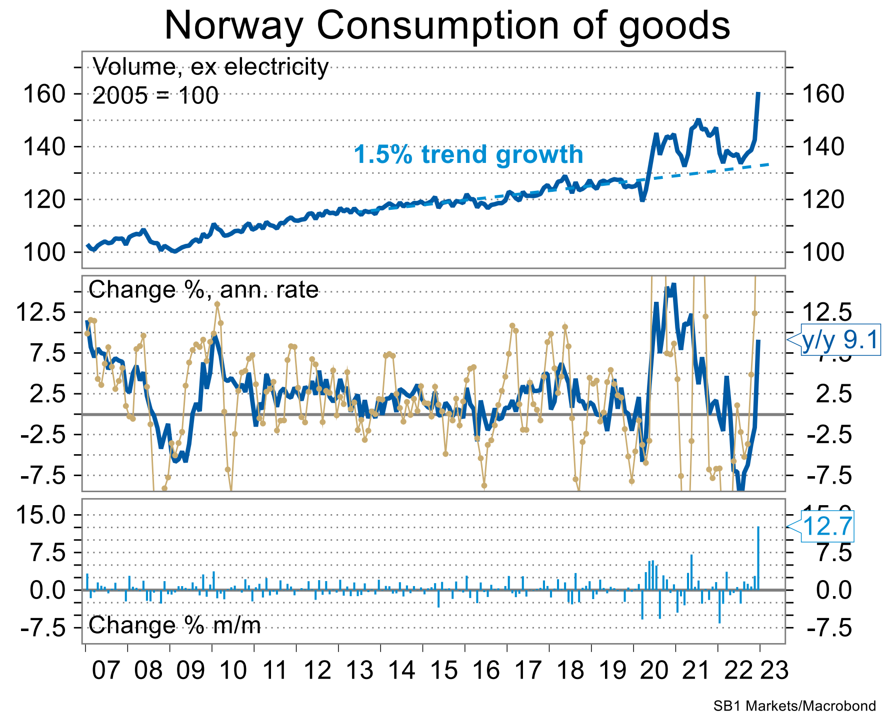


- The tight labour market has contributed to the increase in wage growth – which has happened before

Retail sales nosedived in Dec; total consumpt. skyrocketed due to auto sales

Retail sales dropped 3.6%, and new home sales are collapsing. Norges Bank's 'terminal rate' is not that far away?

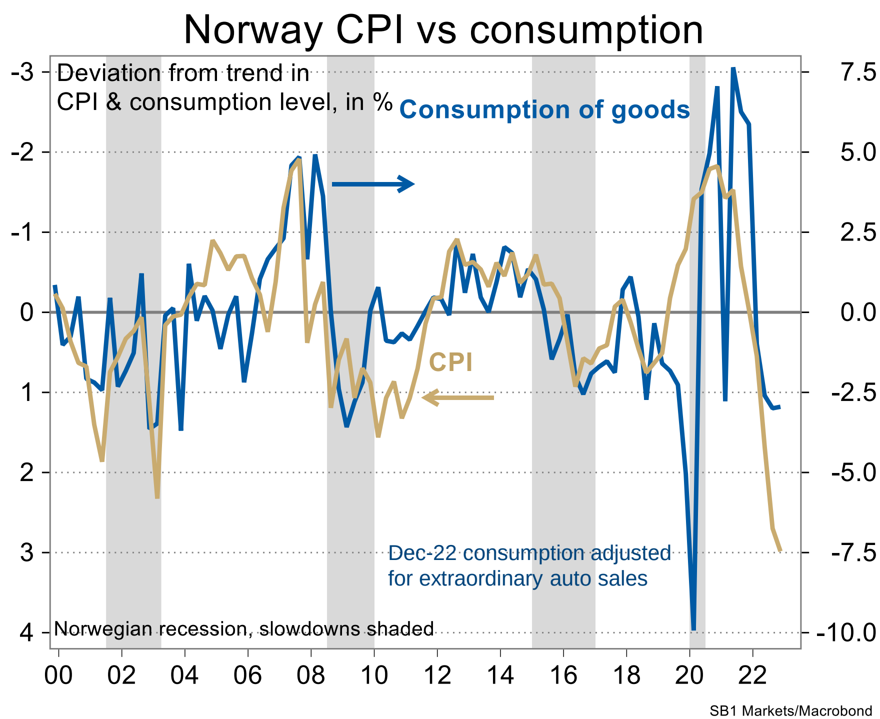




- **Retail sales** fell much more than anybody expected, by 3.6% in Dec – consensus was for a 0.5% decline, and sale volumes fell back to the pre-pandemic level!
  - The previous months, sales were stronger than expected. Quite possibly, Black Friday/Week (or Month?) sales lifted sales more than normal in Nov, and Dec turned out to be the payback month – even if reports from retailers or banks (card transactions) did not indicate the large monthly decline. IC equipment the big loser
  - December sales confirms the steady downward trend from the local peak in May 2021, sales are down 12%, and were down 7.3% y/y in December (and by 4.7% in 2022). In value terms, sales were down just 0.1% m/m. From the 2019 average, Dec volumes were flat, while sales were up 18% in value terms!
- **Total consumption of goods** rose 12.7% in December, twice as much as anytime before – and not from a low level – all due to new car sales before new and higher taxes kicked in on Jan 1st . Adjusted for car and fuel sales, goods consumption was actually down 1.8% in Dec. Sales will no doubt be reversed in Jan/Feb
- Both **retail sales and housing starts** (or at leas new home sales) are now heading rapidly downwards. This cut in demand is a least partly is due to the increase in interest rates, which for most households have reduced real disposable income much more than the decline in real wages due to high inflation. If so, a clear signal that Norges Bank is succeeding in slowing the economy. The job is soon accomplished?

Higher consumer prices contribute to lower consumption, as always

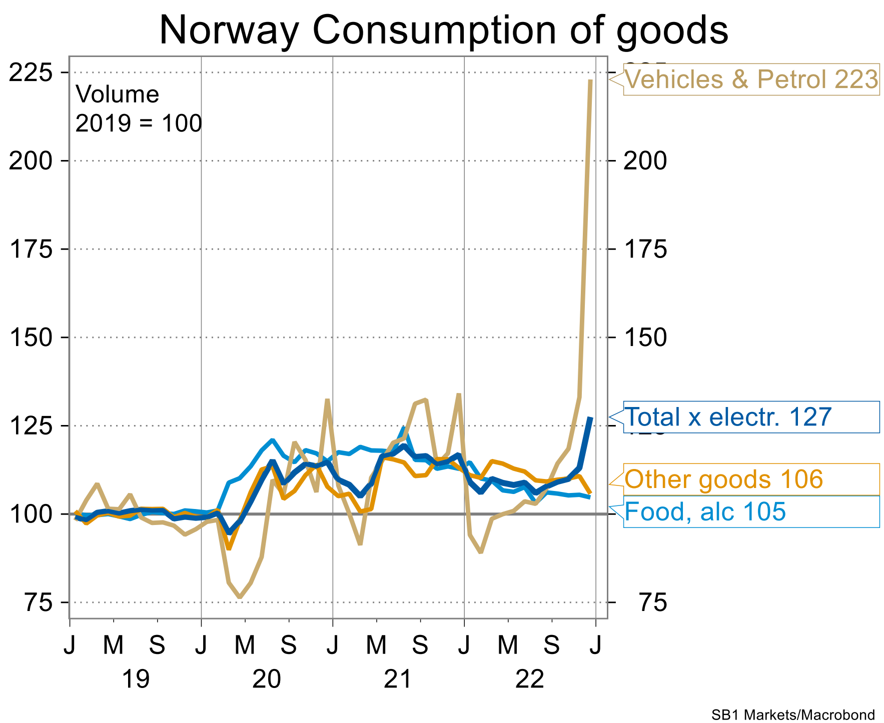
Consumption of goods (volume) are negatively correlated to changes in consumption prices

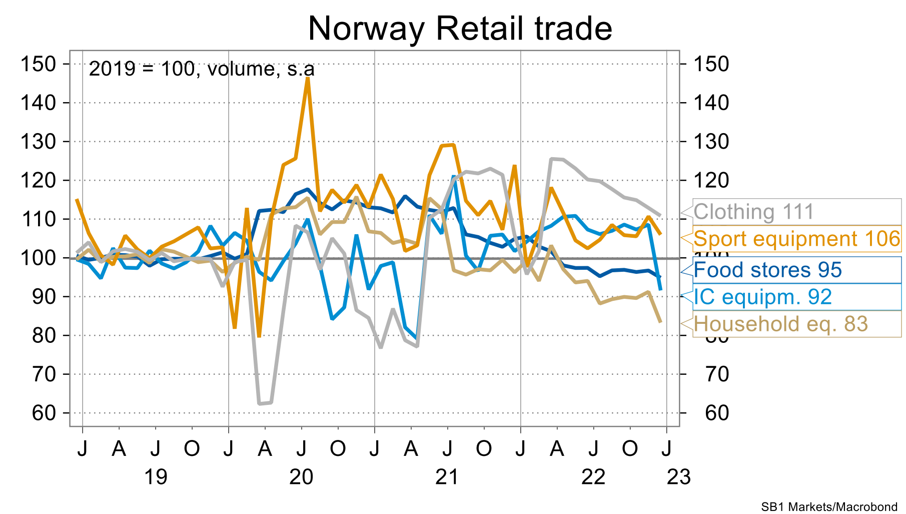


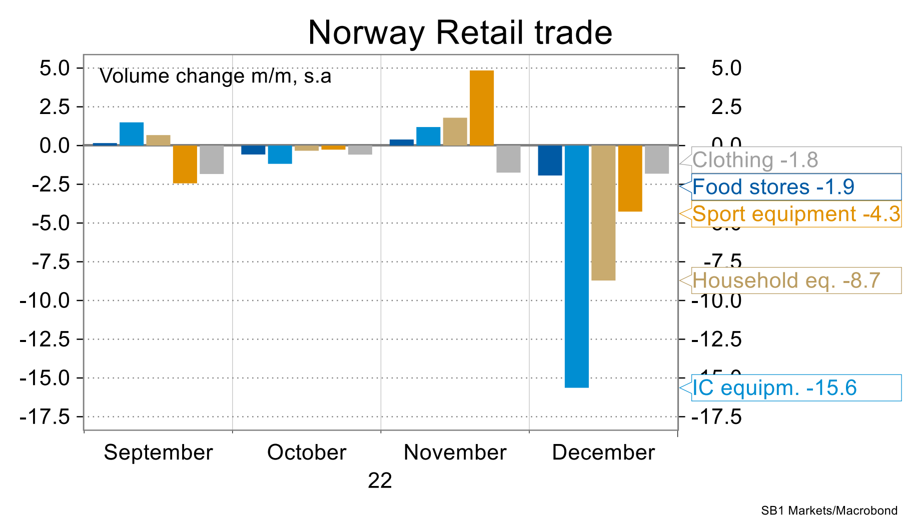
- The elasticity for consumption of goods vs. changes in headline CPI is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated with a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation)
- This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

Most sectors down in December, and most are trending down

Auto sales save the day for total consumption of goods. IC equip. (phones, PCs, TVs) fell 16%, household equip. -9%

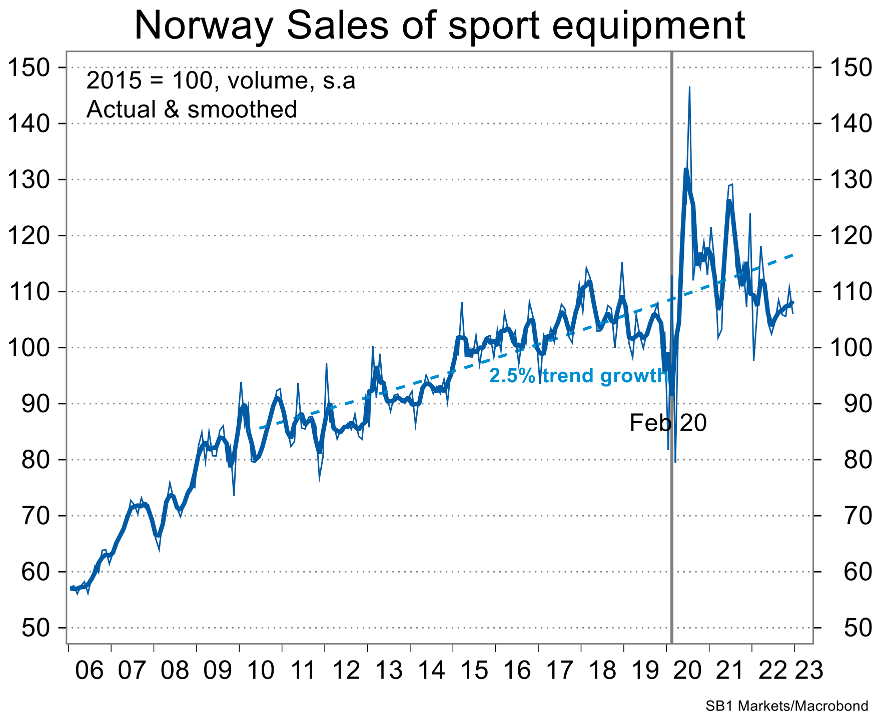






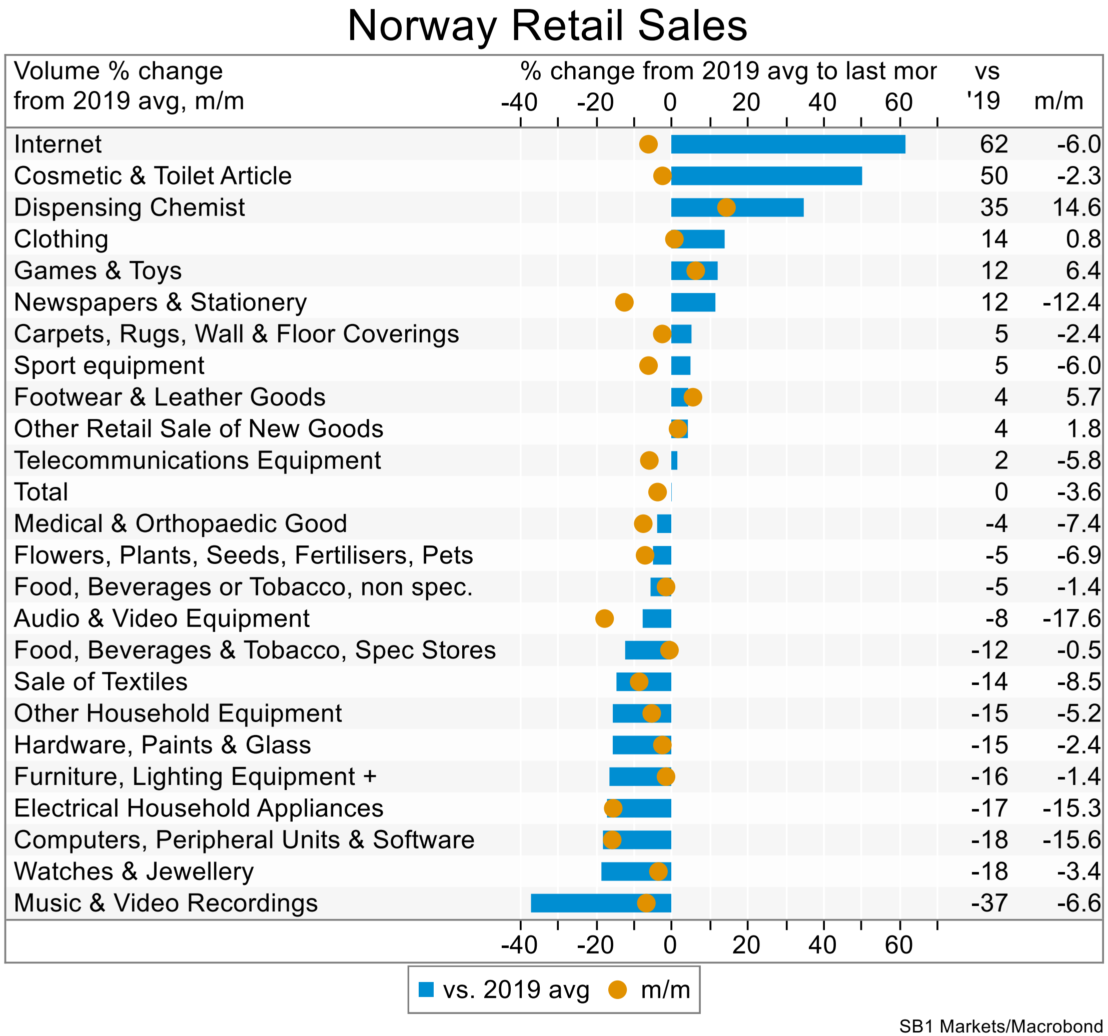
- Sports equipment also fell – and even sales of food

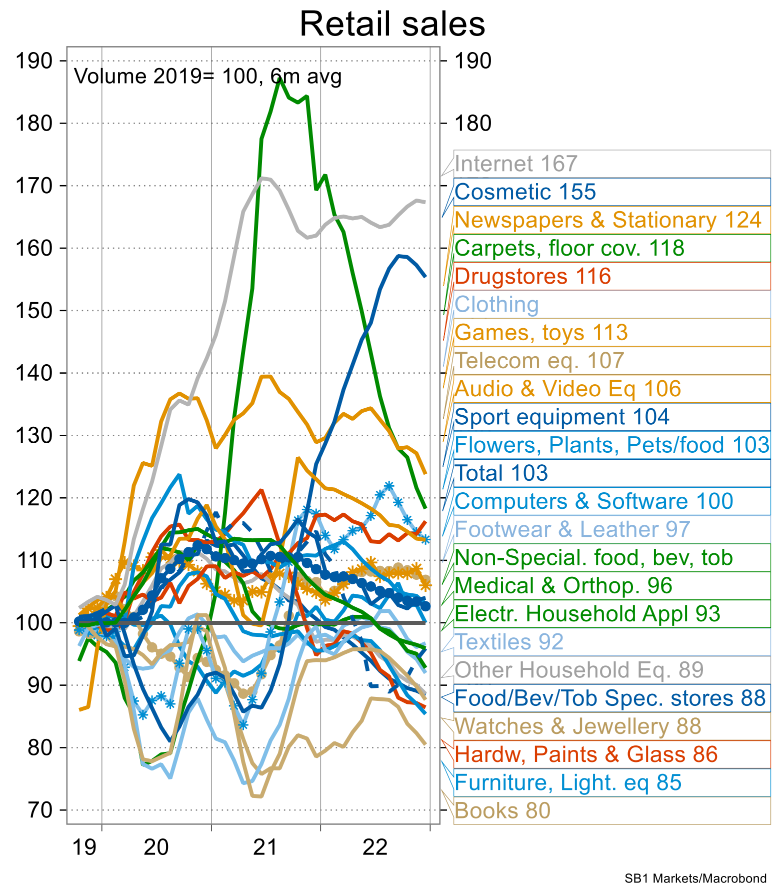
Sports equipment sales: Well below the pre-pandemic trend



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

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

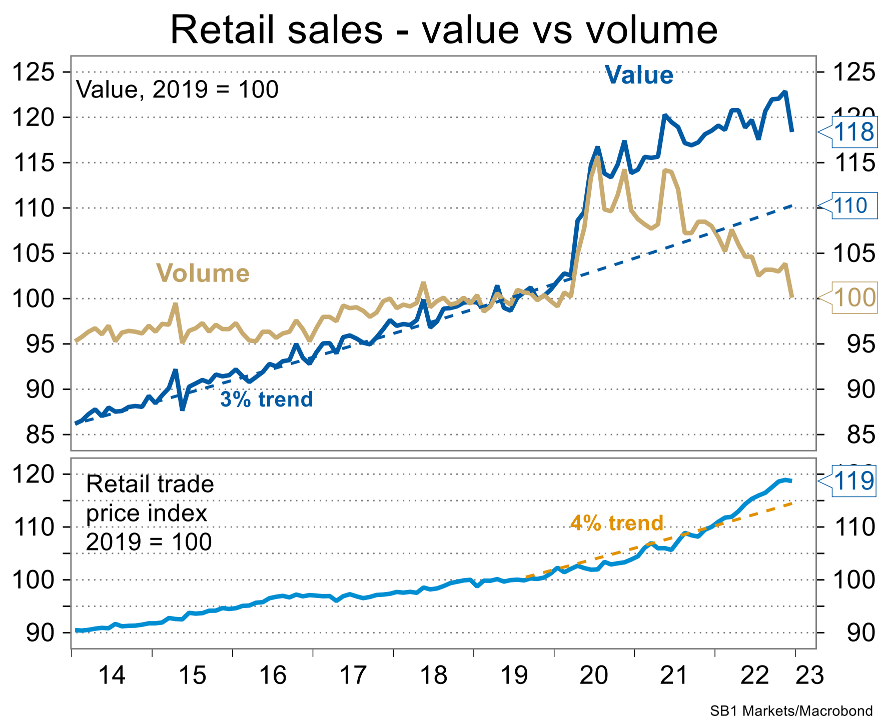


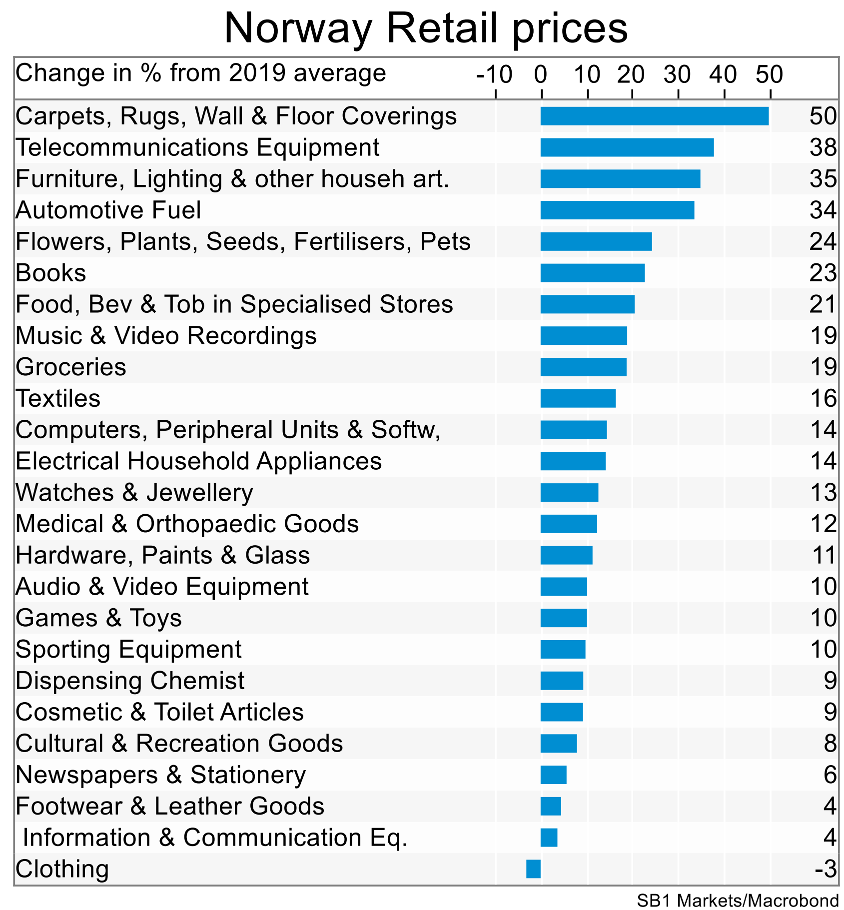


TVs, PCs, cell phones and news/stationery the big losers in Dec – among several others

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

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

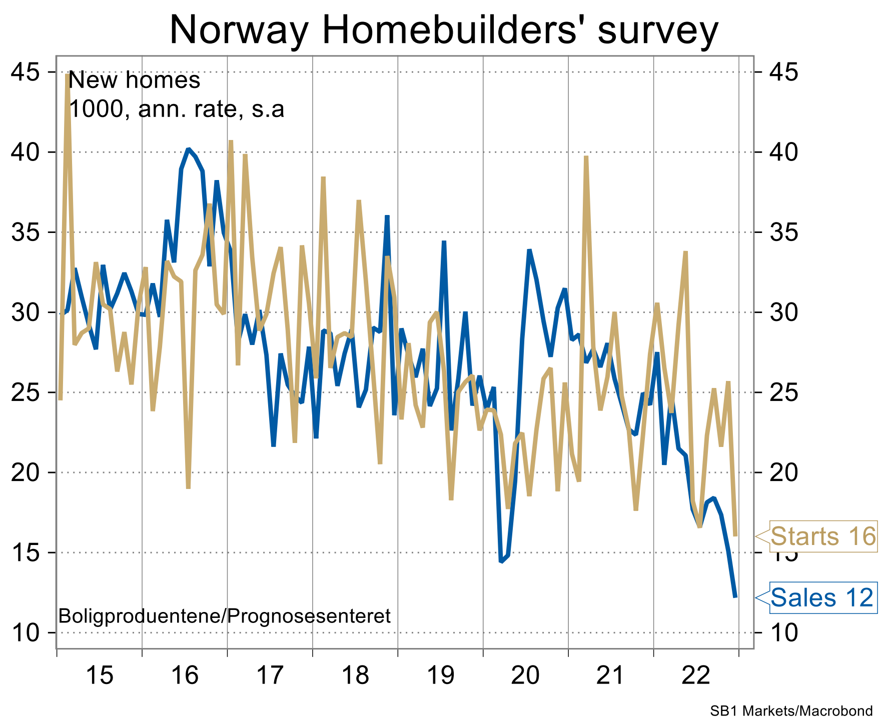


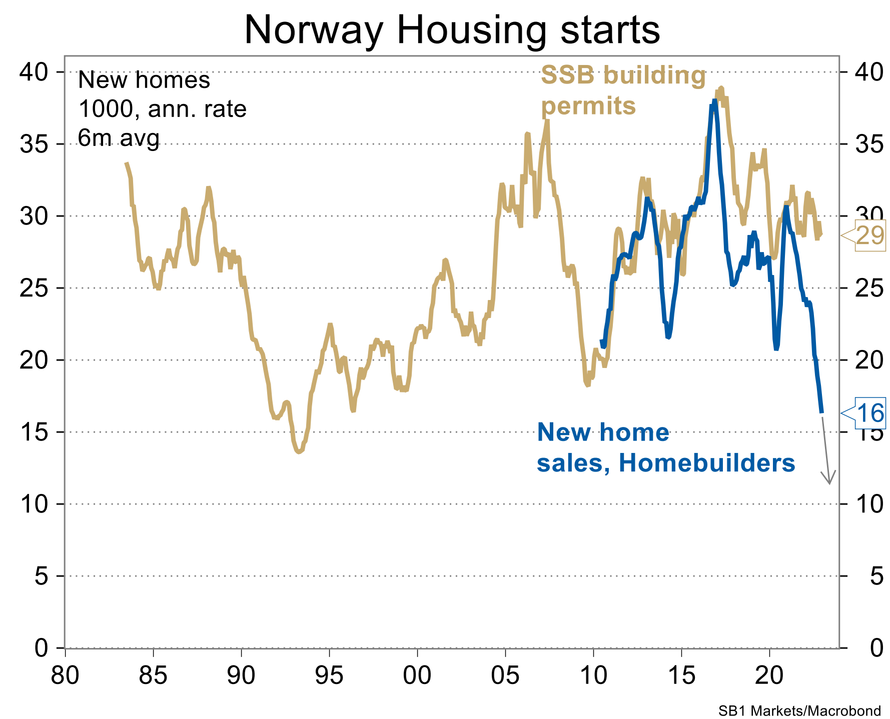


- Retail sales, measured in **value terms**, are 18% above the 2019 level and 7% above the pre-pandemic trend. Over the past two months, prices have stabilised
- Huge differences in **price changes**:
  - Hardware (building materials), floor coverings, are up 50%, gasoline up 34%, and furniture 35%
  - Close to the bottom of the list: Sports equipment prices are up just 10% and clothing is down 3%! So there is not inflation everywhere these days!

New home sales plummeted in December

To the lowest level ever (data from 2010) – and is probably signalling a steep decline in housing starts

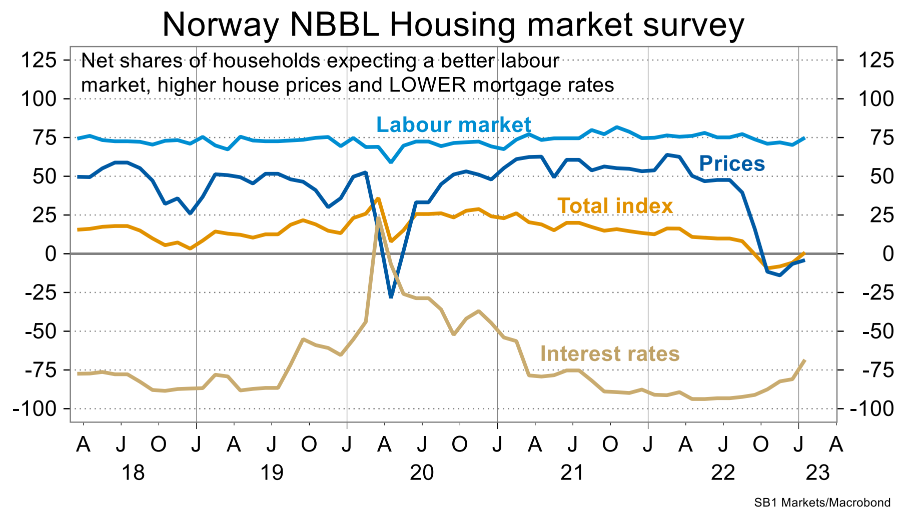


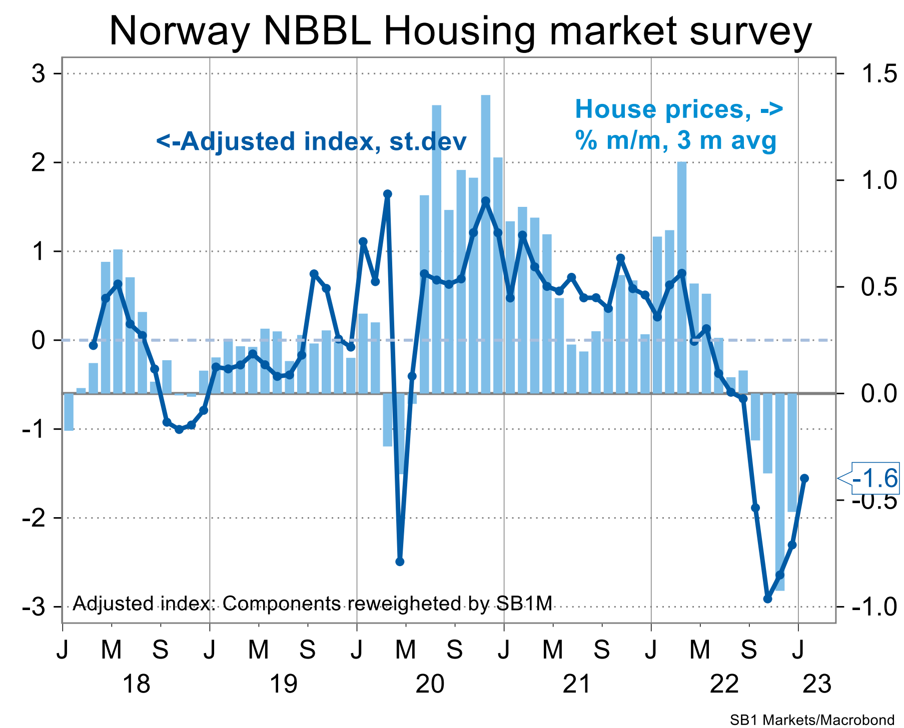


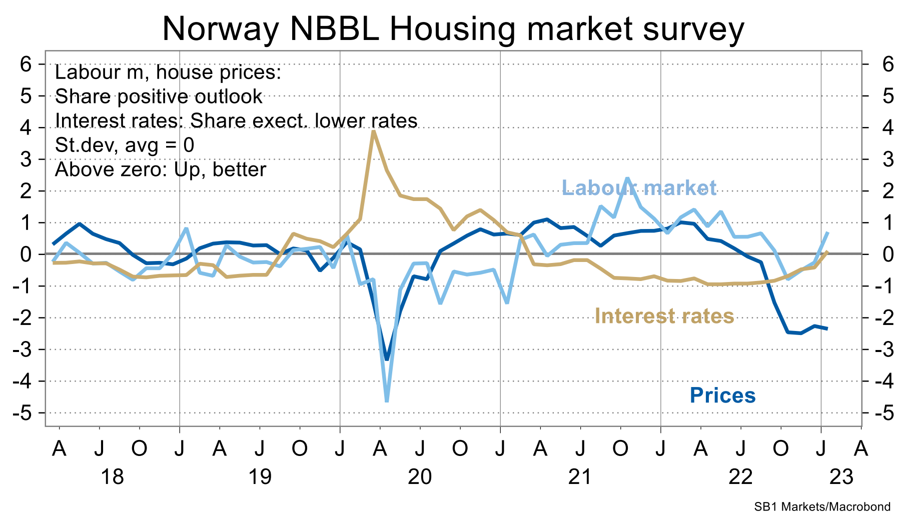
- Boligprodusentene (Home builders) reported a further decrease in new home sales in December, to 12’ from 15’ (annualised). The average over the past 6 months is 16’, the lowest on record from the Home builders
- Starts (builders’ stats) nosedived by 9’ to 16’ in December. The average over the past 6 months is at 21’, while SSBs reported building permits at 29’ on average the past 6 months
- The rather steady decline in new home sales signals further fall in new starts/permits the coming months (taken literally, down to the latest level in ‘modern times’. While construction costs probably will come down (both materials & profit margins), mortgage rates and falling house prices still weighing on the construction sector

NBBL Housing market survey sharply up in January, still well below average

An average (neutral) outlook vs. interest rates, labour market outook better than – but house price outlook muted



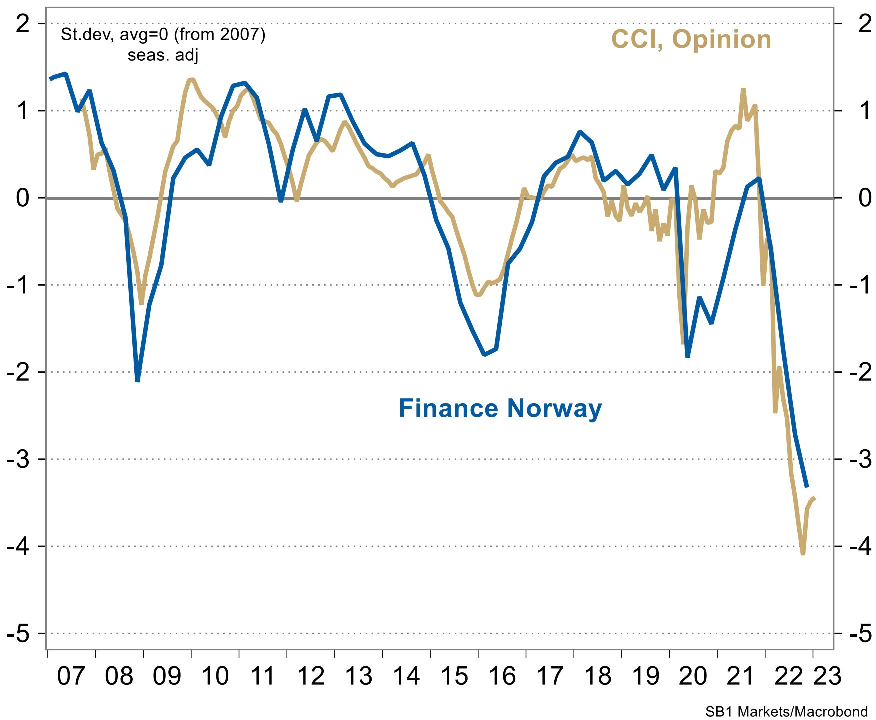




- A large majority **expect interest rates** to climb further, but not more than in average since 2018 (this is an young index)
- A very small majority expect **house prices** to increase the coming 12 months, usually there is a 50% net majority for higher prices
- The **labour market** outlook is better than average since 2018!
- In sum (and weigthed and standardized), our aggregate index rose by 0.7 st.dev m/m in January, to -1.6 below average, still a low level that signals a further decline in house prices

Consumer confidence marginally up in January still -3.4 st.dev below avg.

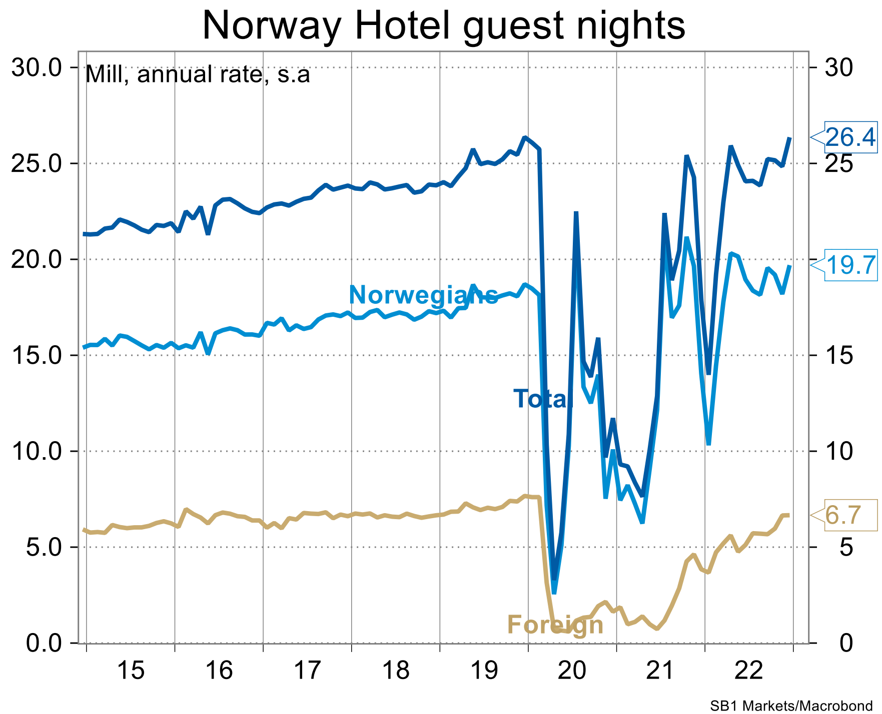
We are collectively depressed: consumer confidence is extremely low – but have bottomed most places

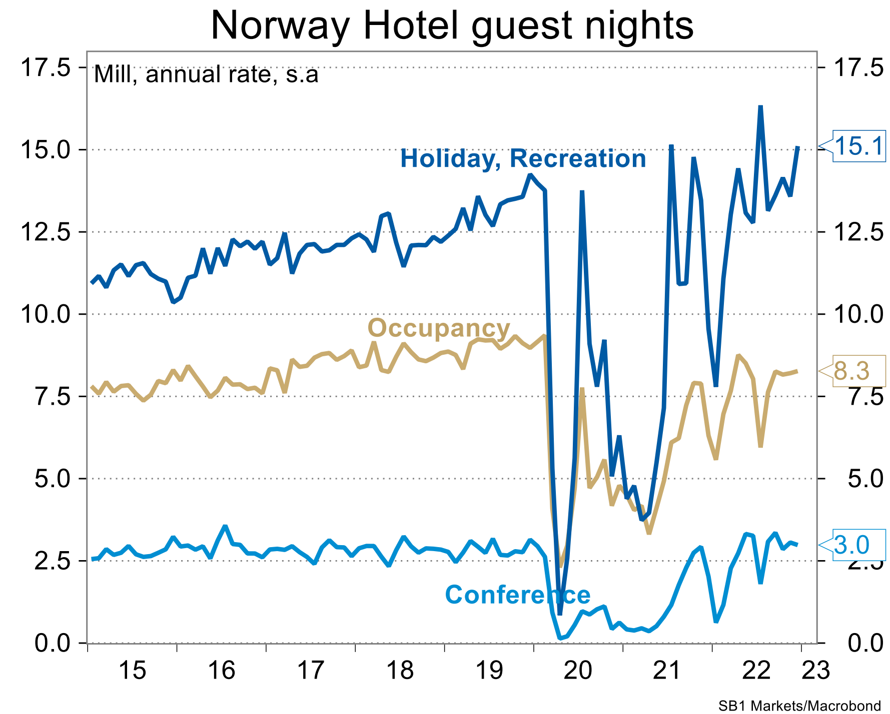


- **The actual CCI print** from Opinion was down 0.3 pp to -27.6 in January, but rose slightly, seasonally adjusted – but the index remains 3.4 st.dev below average. ATL was at -4.1 st.dev in October, while the bottom during the pandemic was 1.7 st. dev. below average
- The **net share of optimists** is -27%. Given inflation and the hikes in interest rates + some geopolitical uncertainty, this share could easily have been larger
- **Will households stop spending or retreating from the housing market?** The housing market has no doubt turned the corner, while sales are trending down but far from at a scale comparable to the record low consumer confidence (at least given the high starting point, during the pandemic)
- Even if a large share of the population recognises that their own economy will be hurt, it does not imply that they all plan to cut spending sharply – <u>but there is of course some downside risk</u>. So far, lower savings have paid much of the bill for higher interest rates and higher prices

December the best hotel month, ever? At least adjusted for the season

The no. of guest nights climbed to the highest level ever as both recreation, occupancy & conference traffic was strong

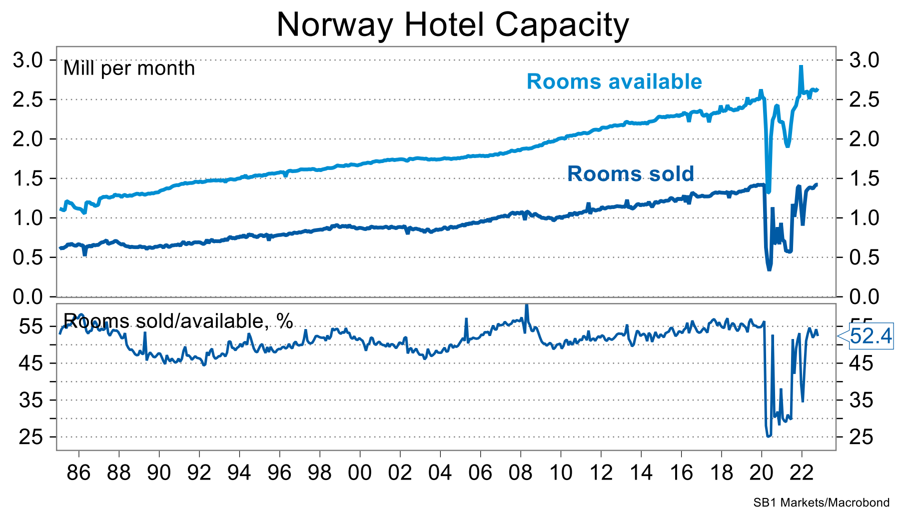


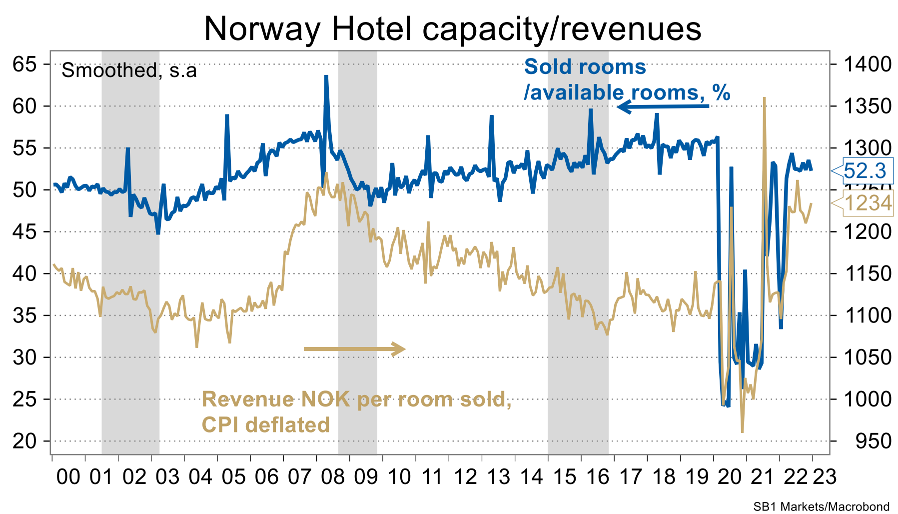


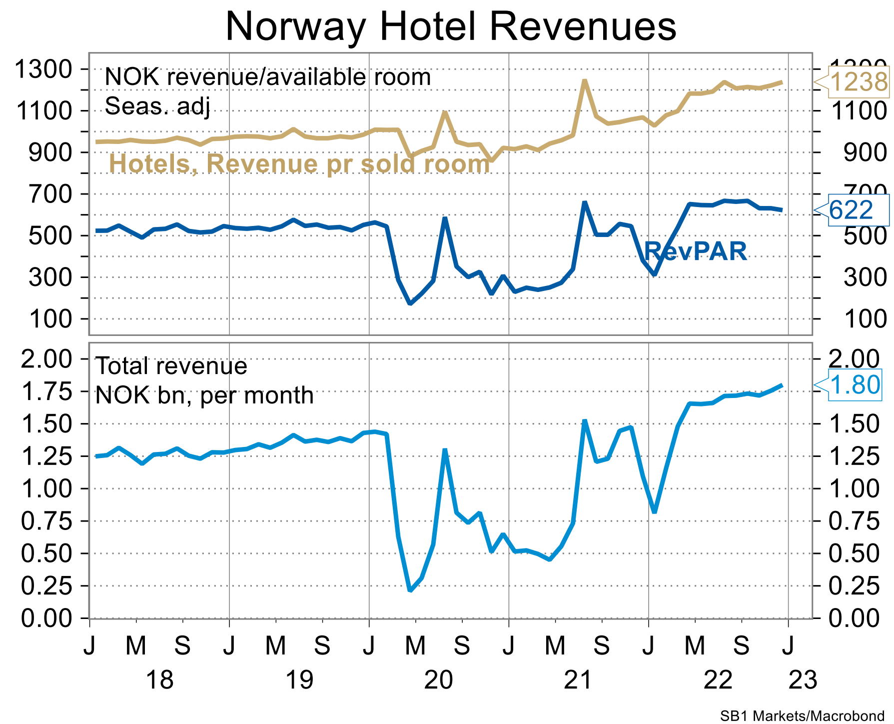
- **Recreational demand** is back to above a normal level, even if the total number of foreigners are still some per cent below the pre-pandemic level
- **The conference market** is back the pre-pandemic level
- **Other business guest** nights are some 10% % below the pre-pandemic level (monthly date are volatile, even after seas. adj.)
- However, hotel capacity has increase since before the pandemic, and utilisation is still not record high

Capacity utilisation still below the pre-pandemic level, room prices are up 24%

RevPAR is higher than ever before – but has stabilised since last spring. Total revenues at ATH



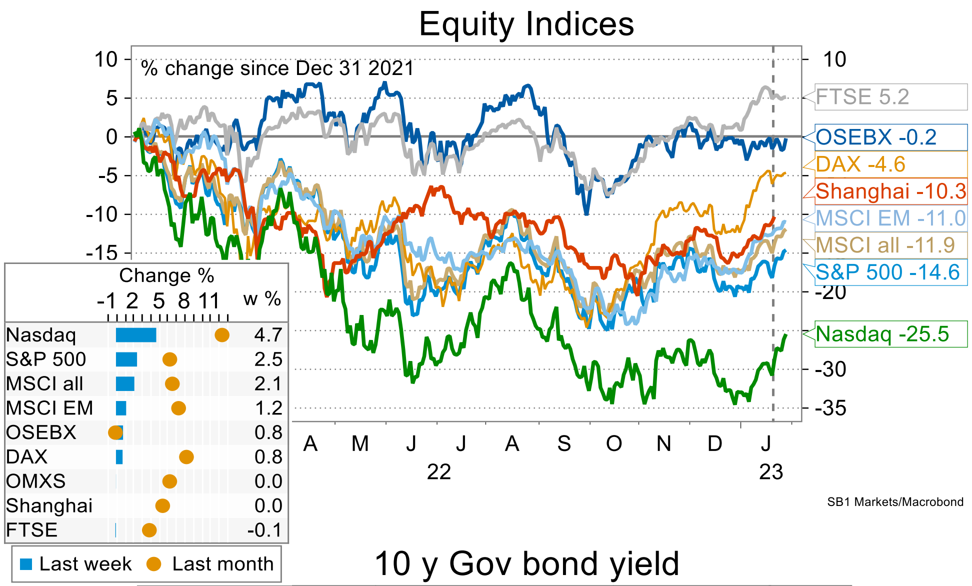


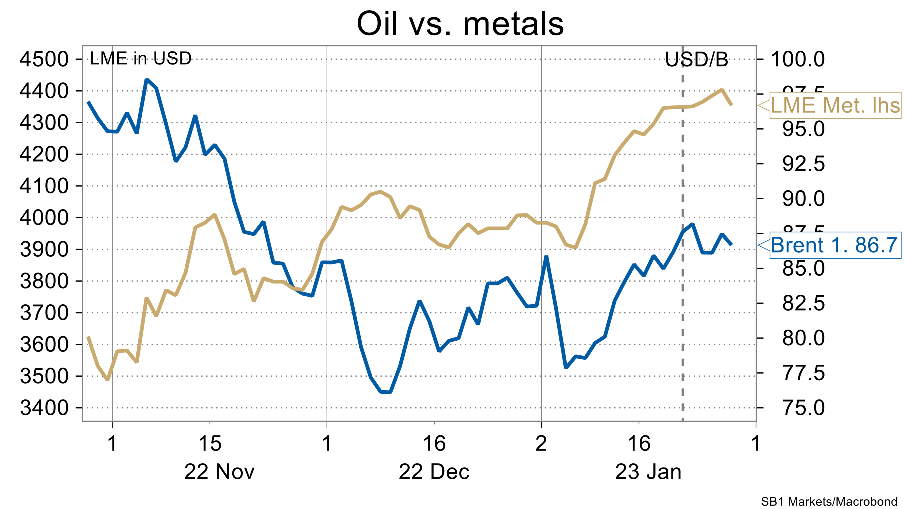


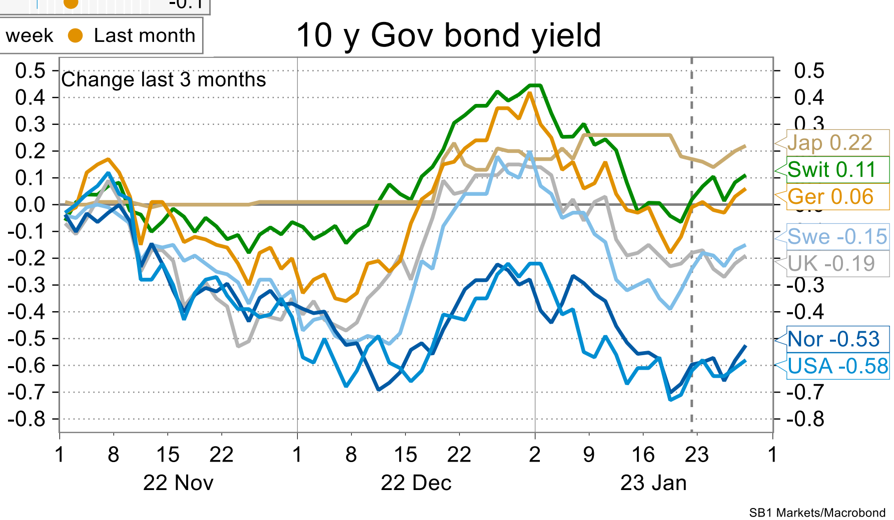
- **Capacity utilisation** (room sold vs. rooms available) was 52% in December, somewhat below the normal level ahead of the pandemic, at close to 56%
- **Revenue per sold room** is up 24% from the Feb-20 level, a substantial increase (aka inflation). Prices are up 16% y/y, from a 'low' level in Dec-21. However, prices have flattened since last summer
- **RevPAR** (revenue per available room) is also far above the pre-pandemic level, almost 15%

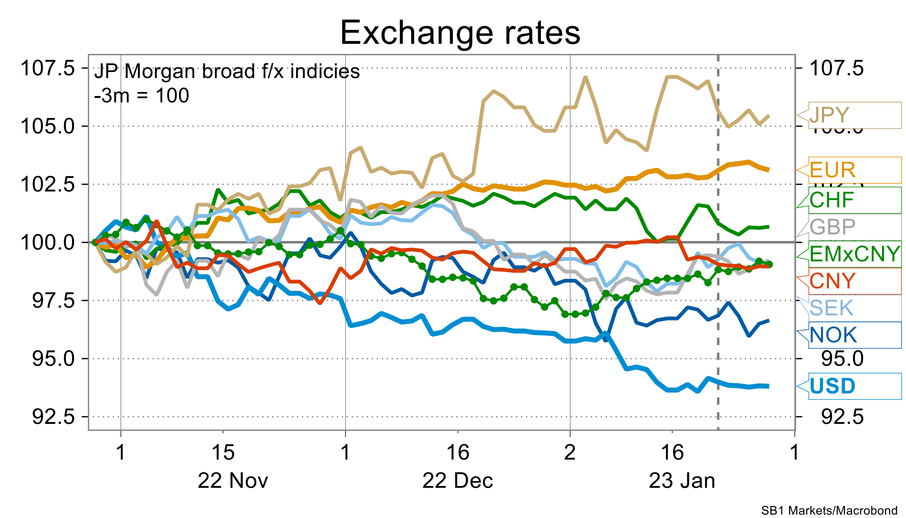
Almost all equity markets up, US the most. Bond yields up

Commodites were mixed, f/x markets rather stable – but the NOK depreciated again (with gas prices?)







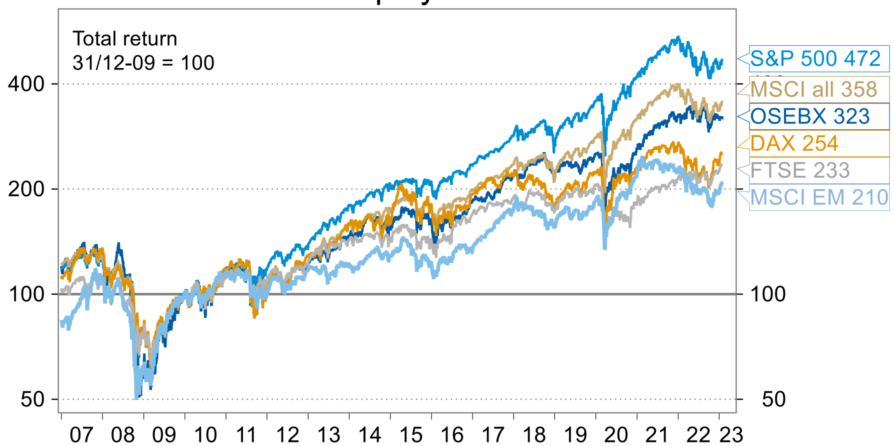


SpareBank 1 MARKETS

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

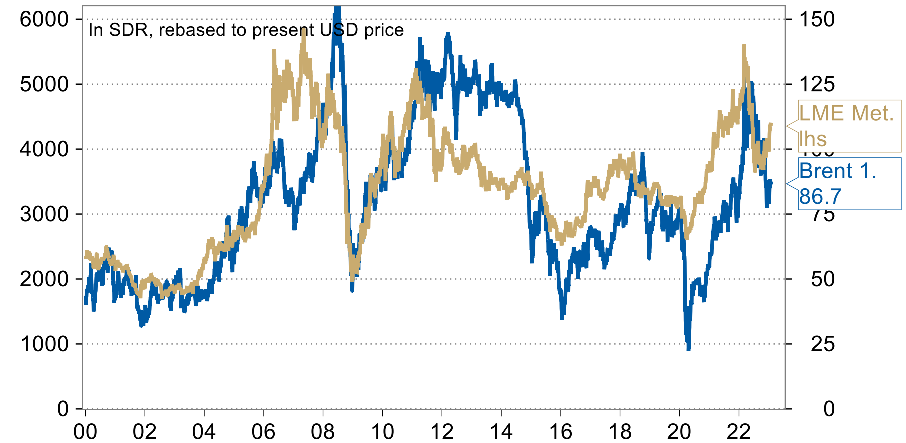
… together with commodity prices, and bond yields are well down from the peak, and the USD has turned south?

Equity Indices



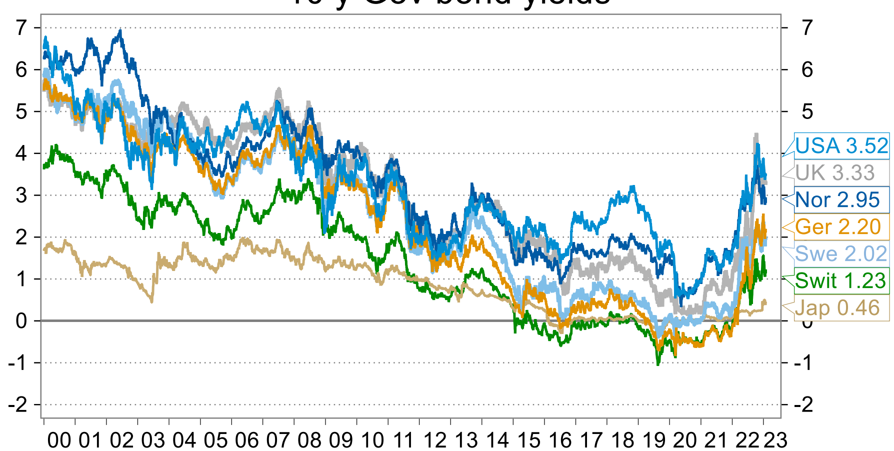
SB1 Markets/Macrobond

Oil vs. metals



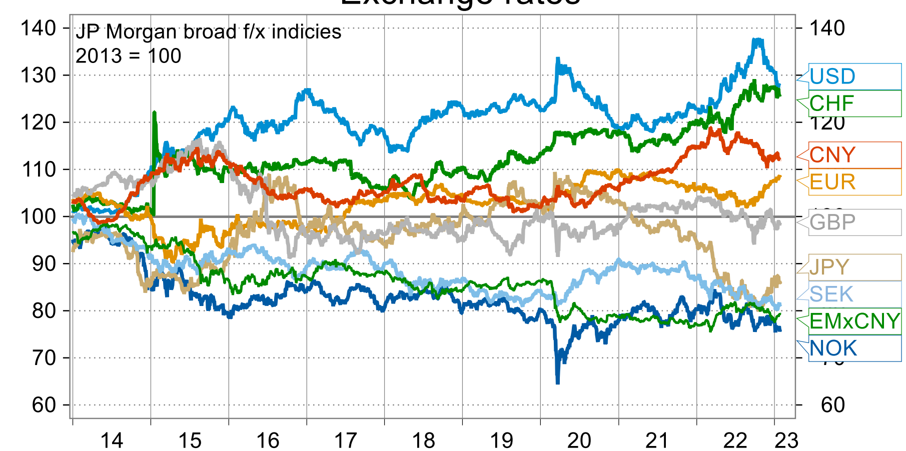
SB1 Markets/Macrobond

10 y Gov bond yields



SB1 Markets/Macrobond

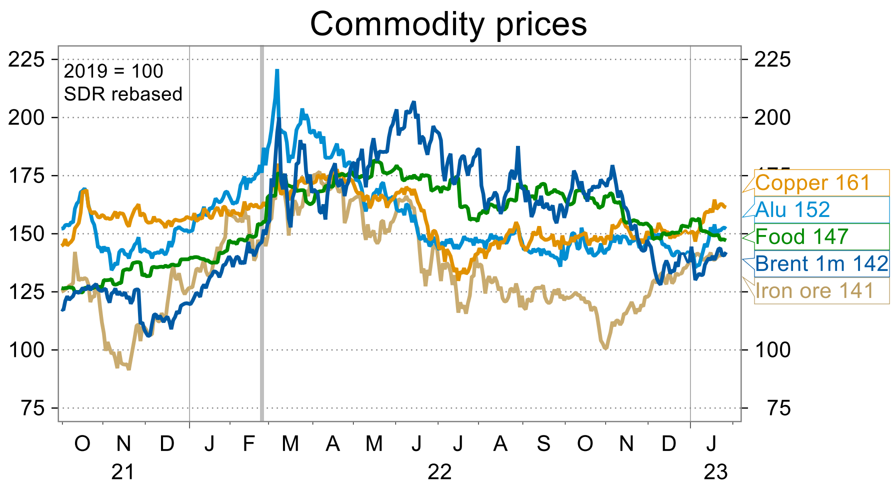
Exchange rates



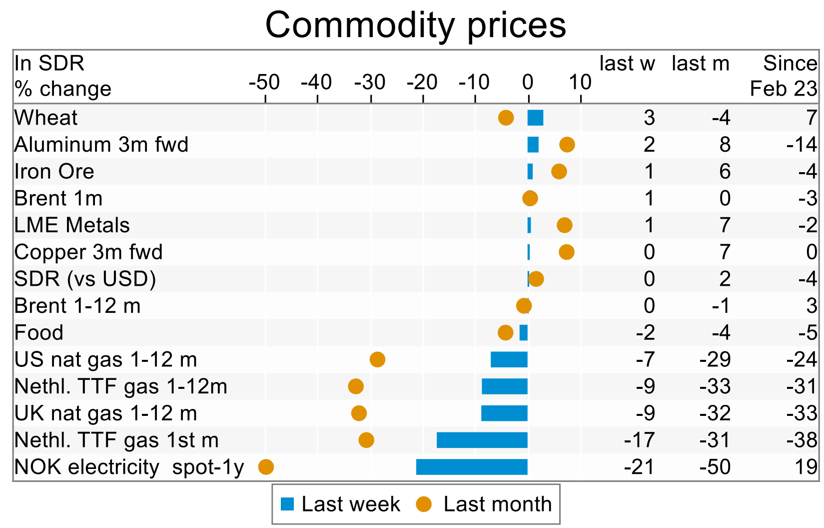
SB1 Markets/Macrobond

European energy prices down again, metals flattened

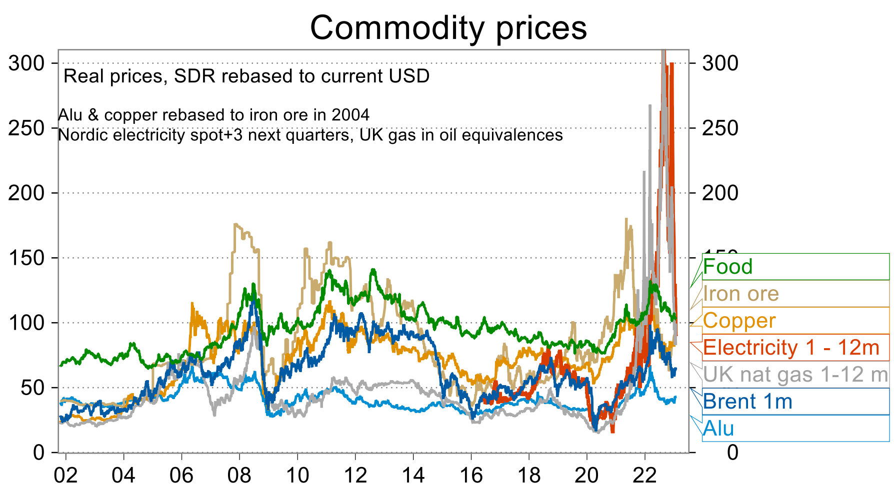
Iron ore continued upwards



SB1 Markets/Macrobond



SB1 Markets/Macrobond



SB1 Markets/Macrobond

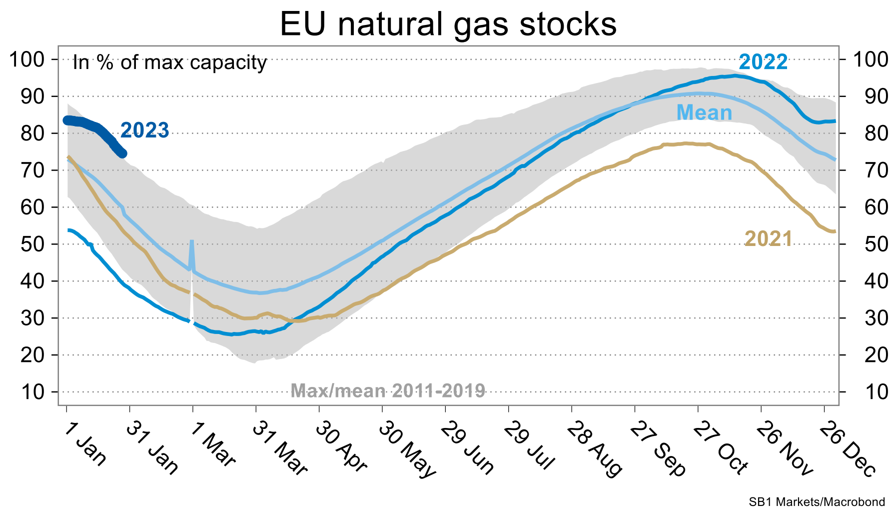
Last week – prices in SDR

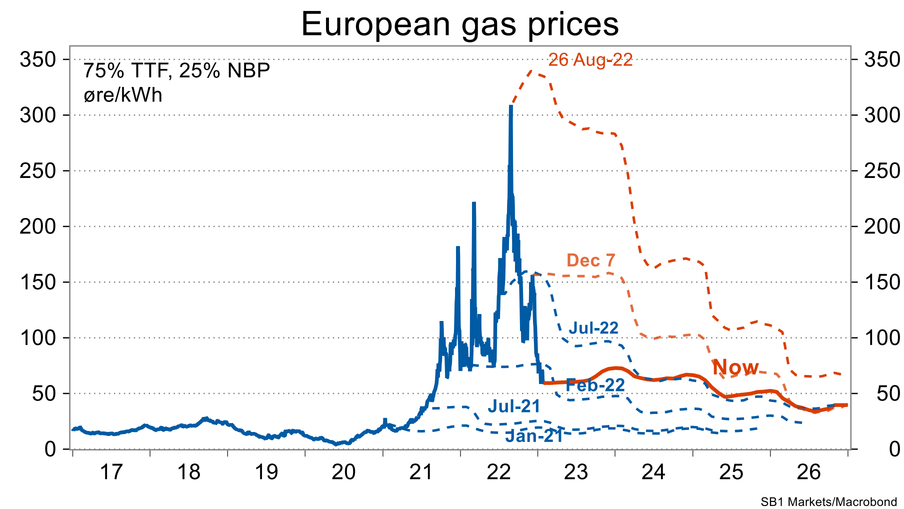
- **Oil prices** close to unchanged
- **European natural gas** fell 10% – 20%
- **Iron ore** prices are still drifting upwards, just like other metals in the weeks prior, on hopes for a recovery in the Chinese demand following scrapping of Covid restrictions and Chinese stimulus measures
- **Food prices** fell again, and is trending down

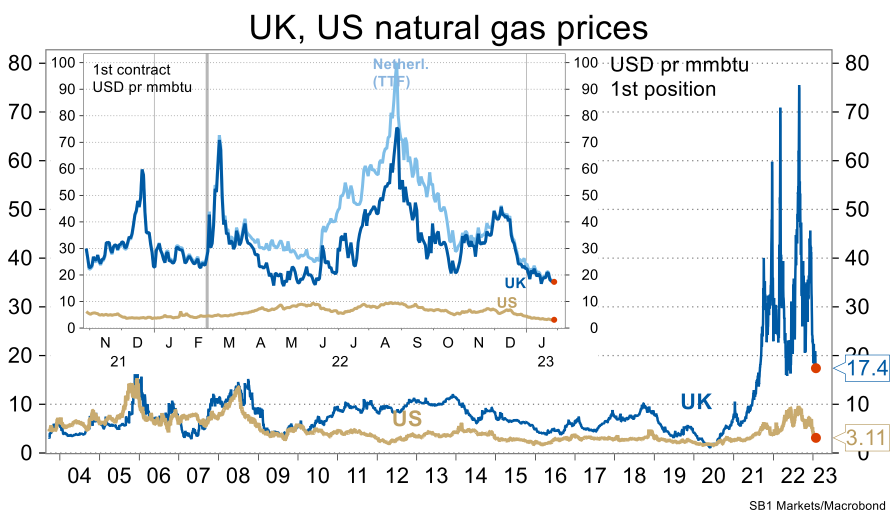
SpareBank 1 MARKETS

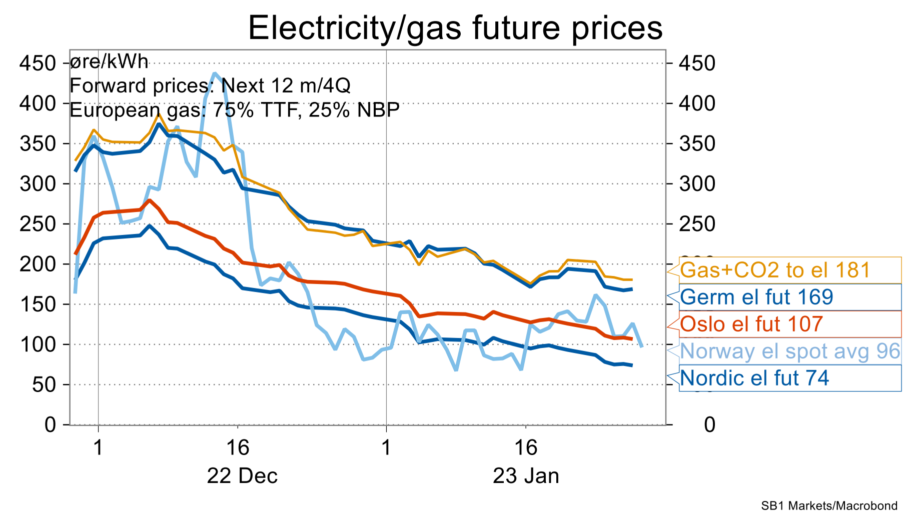
European gas stocks the highest ever – and prices fell again

US gas prices have fallen to a low level – and are far lower than in Europe, of course



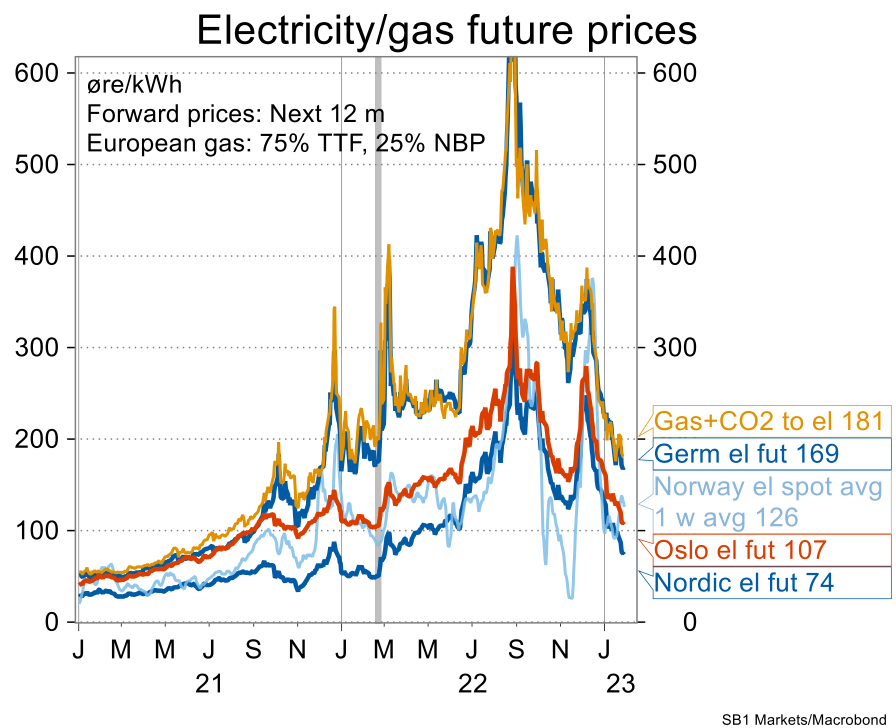


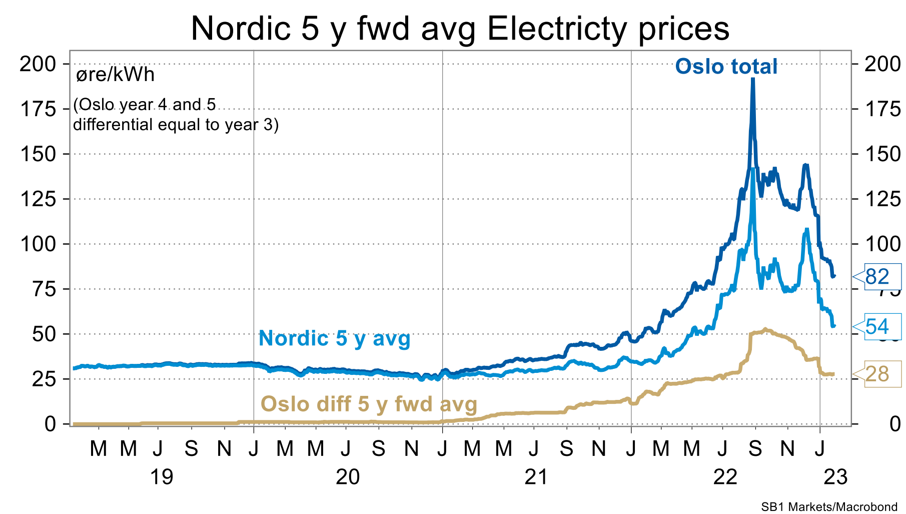


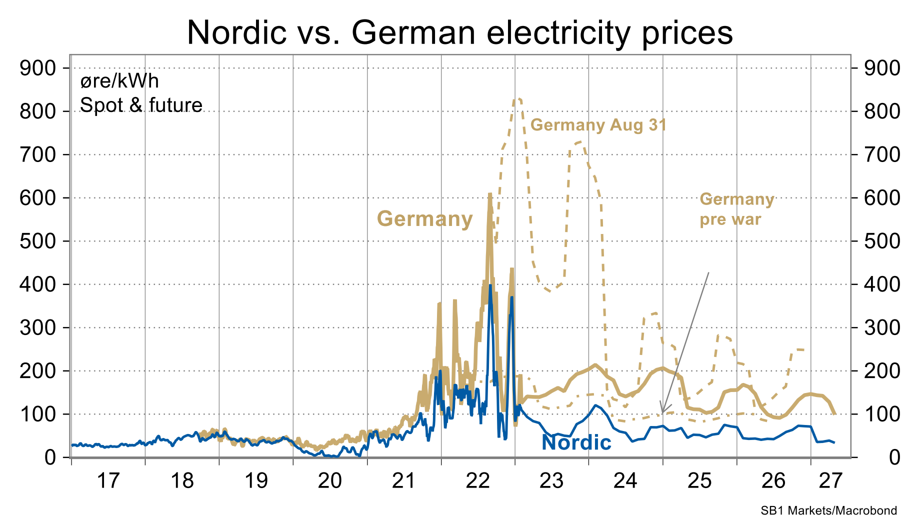


European gas/el. prices are falling rapidly

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

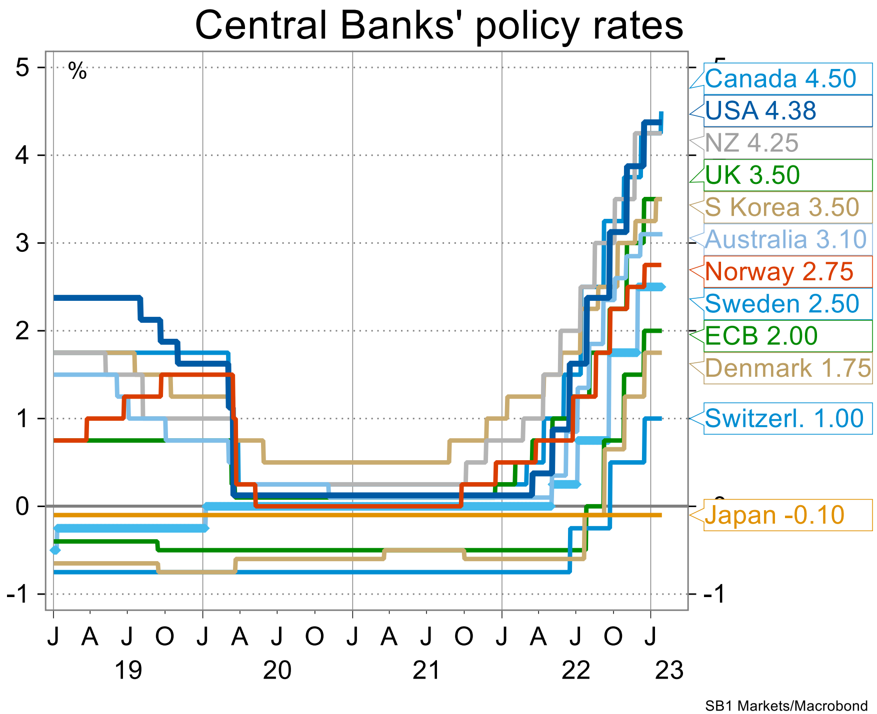


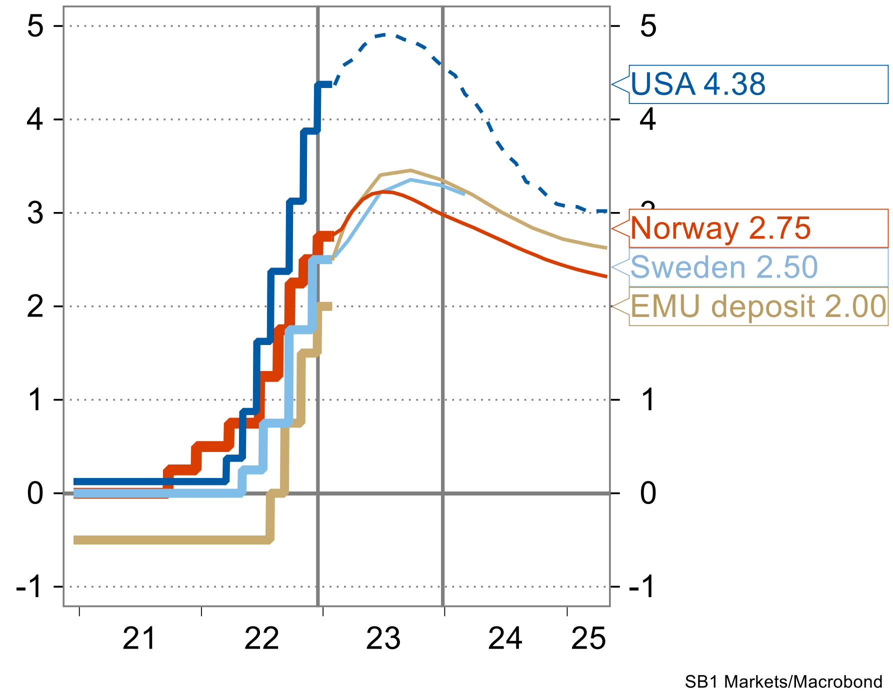




Canada hiked last week – but signalled a pause

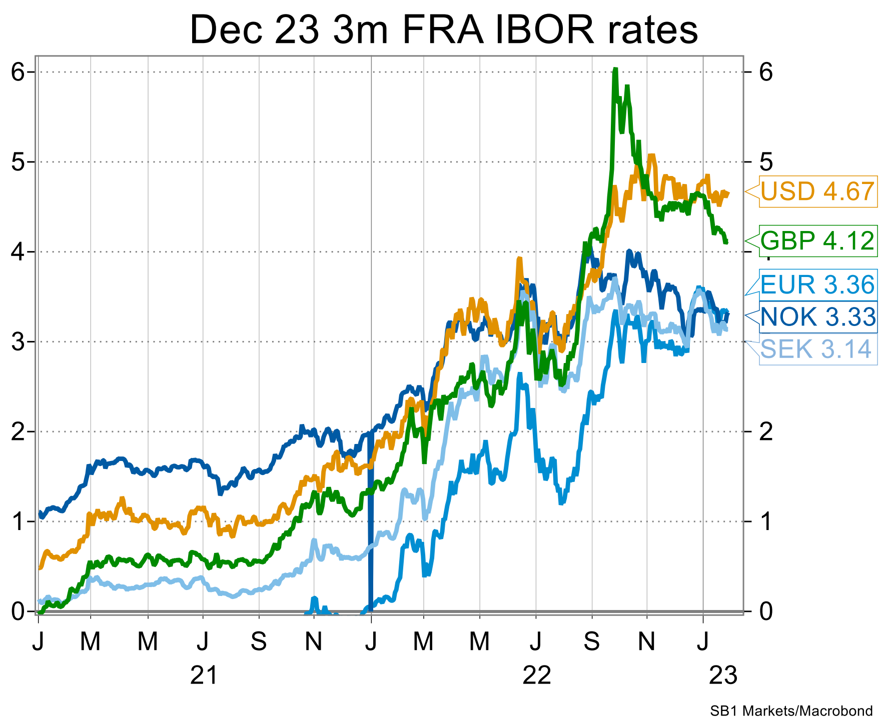
A busy calendar this week: Fed will hike by 25 bp, ECB and BoE both by 50 bps – at least according to expectations

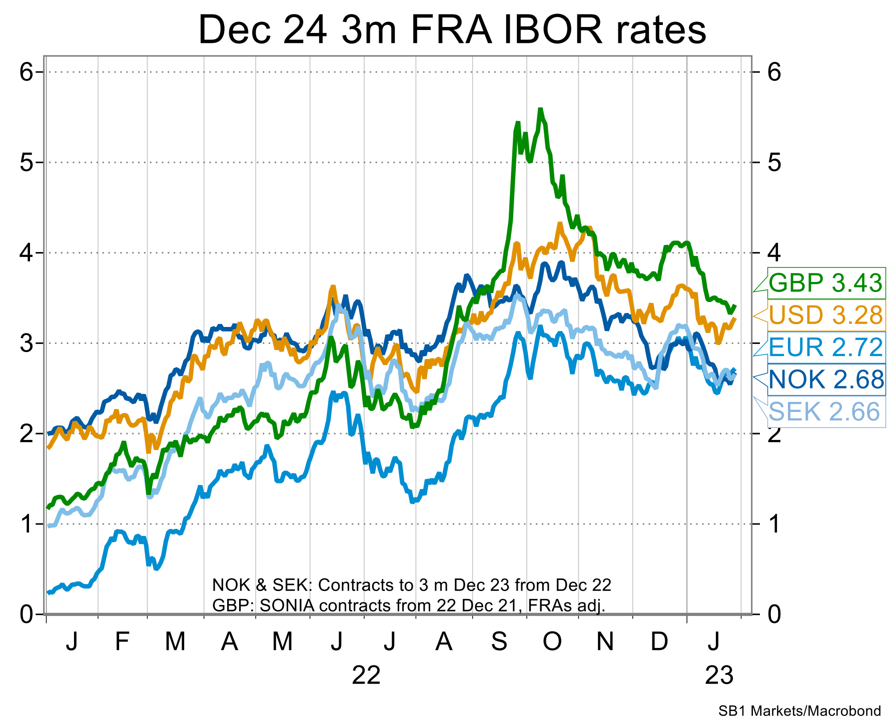


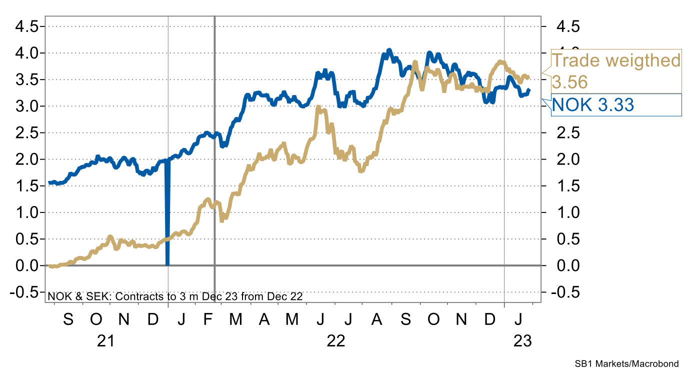


FRAs mixed last week – USD and EUR rates up the most

Substantial rate cuts are expected from mid-23







Dec 24 3m FRAs

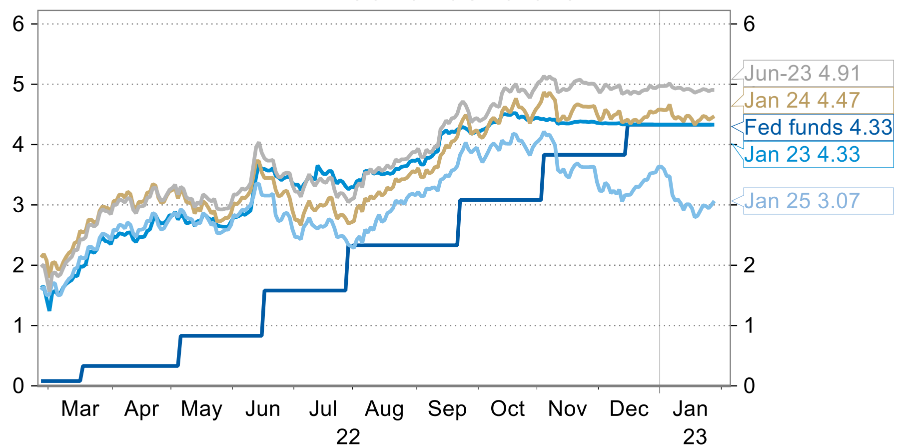
	Close	1w	1m	YDT
GBP	3.43	-0.02	-0.69	-0.69
USD	3.28	0.14	-0.34	-0.32
EUR	2.72	0.11	-0.34	-0.35
NOK	2.68	0.06	-0.36	-0.36
SEK	2.66	-0.01	-0.55	-0.54

SB1 Markets/Macrobond

25 bps is a done deal this week, but some doubt vs a March hike

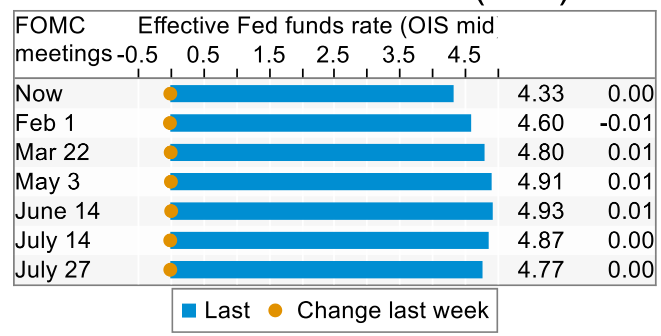
No new forecasts or a new ‘dot-plot’ at this week’s meeting

Fed funds future



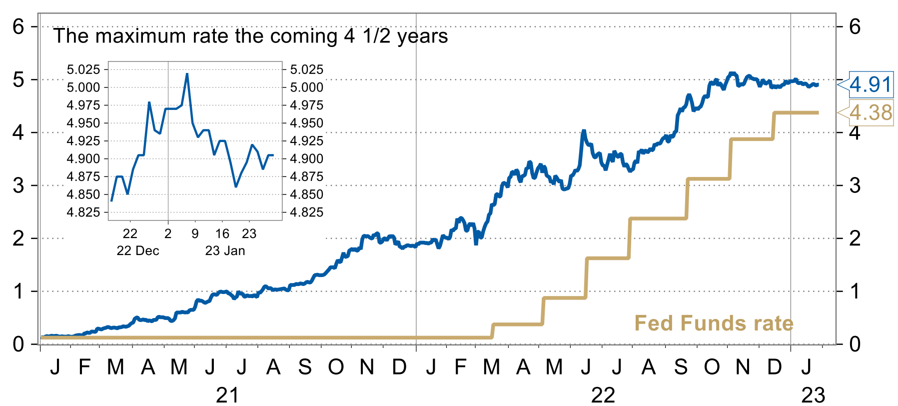
SB1 Markets/Macrobond

USA Fed funds rate (OIS)



USA Fed funds futures

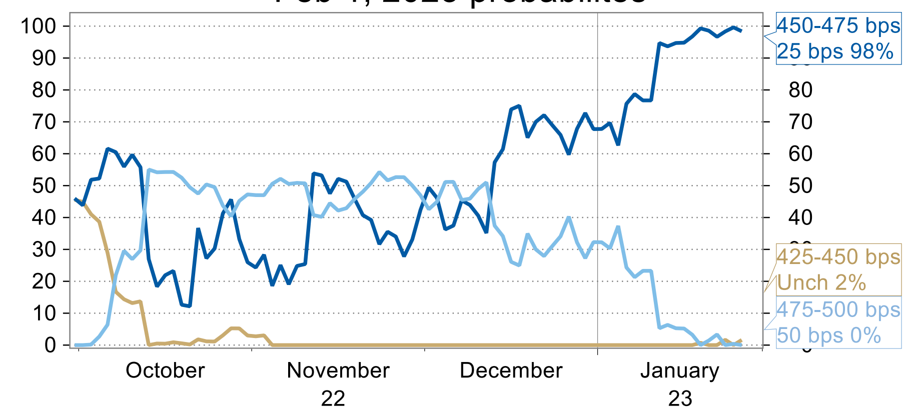
The expected terminal (peak) rate in this cycle



SB1 Markets/Macrobond

Fed funds future,

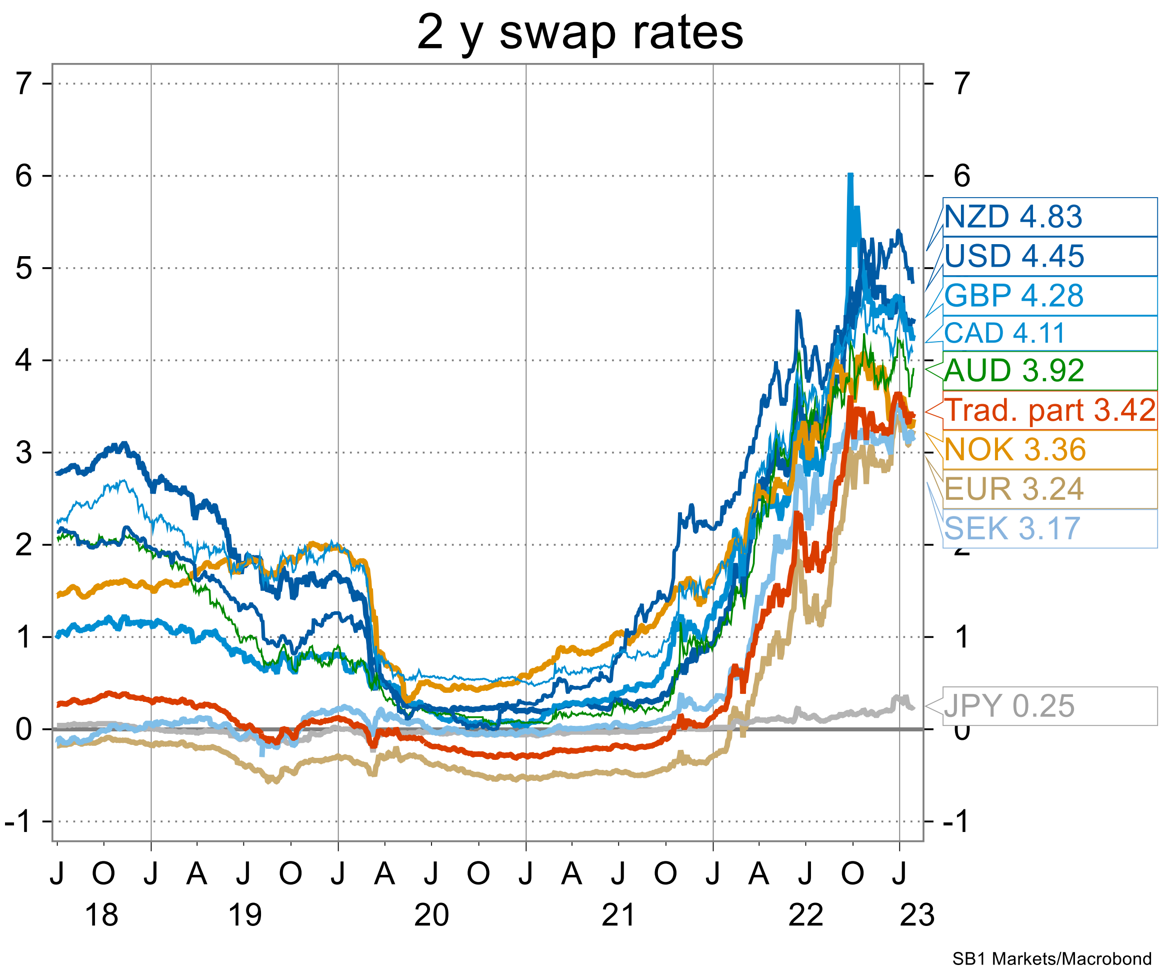
Feb 1, 2023 probabilites

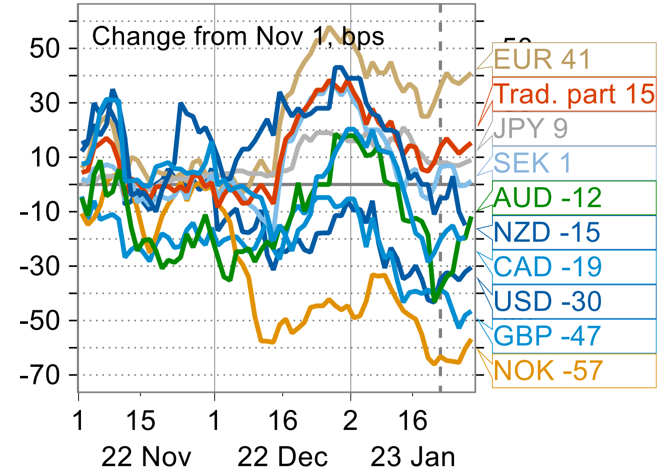


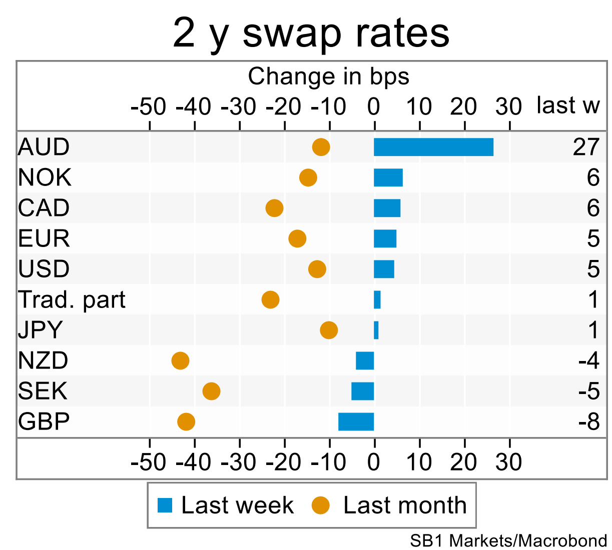
SB1 Markets/Macrobond

2 y swaps mixed last week, but the 'global' average up

AUD rates sharply up on further increase in CPI inflation

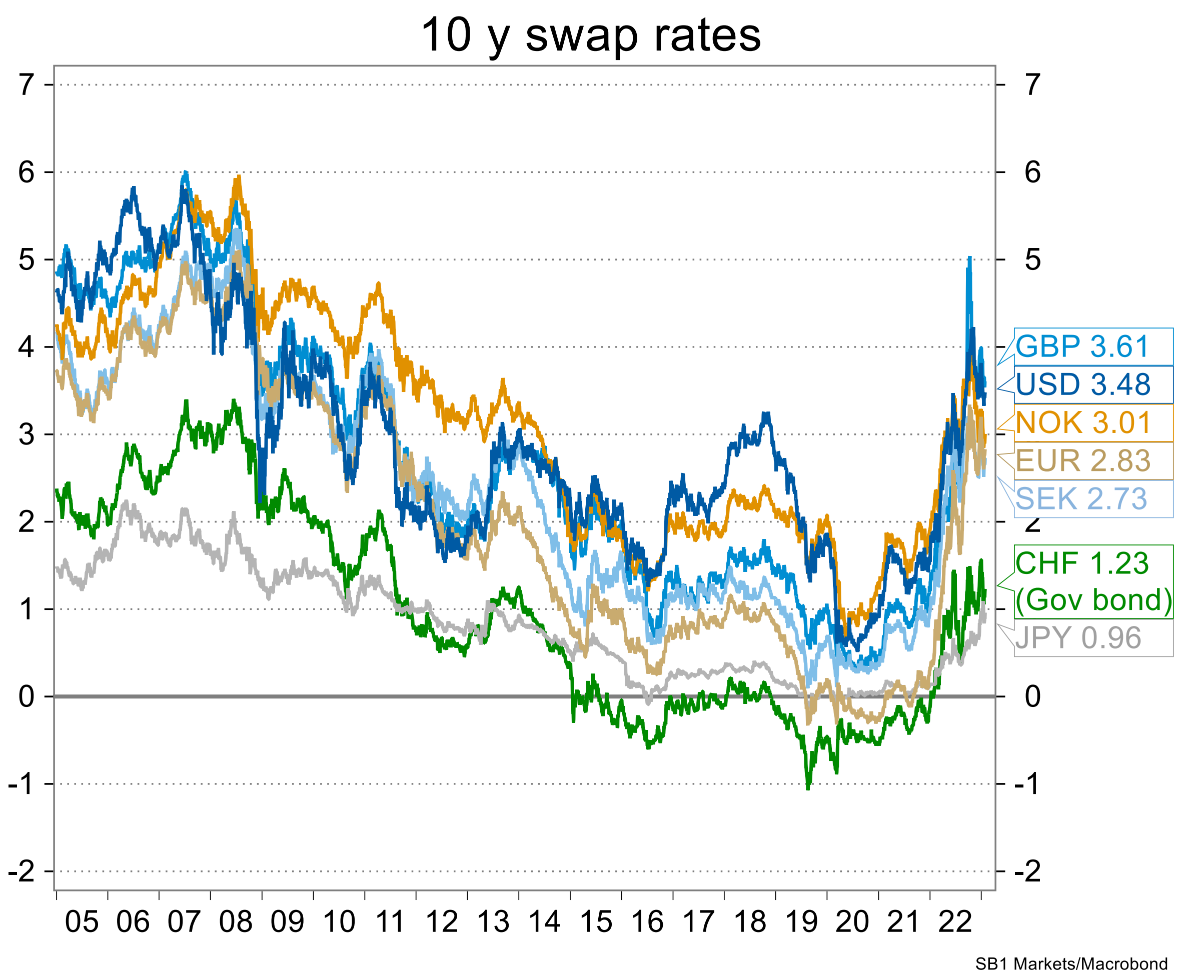


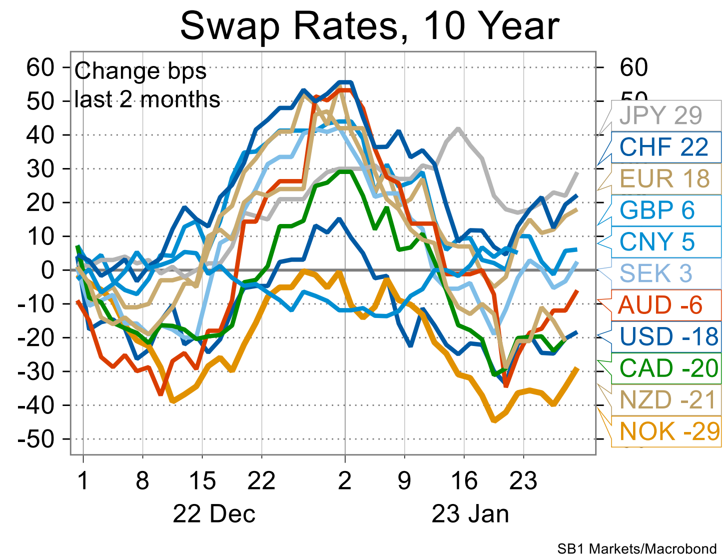


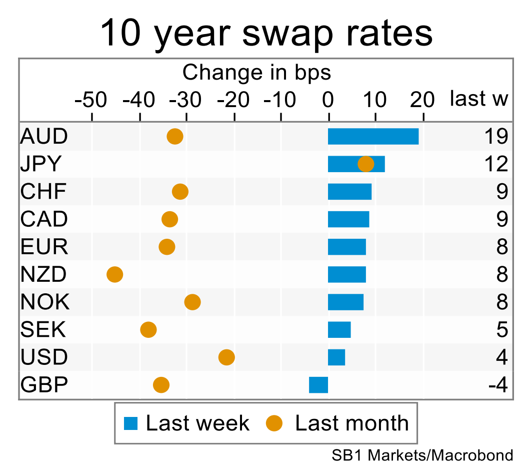


SpareBank 1 MARKETS

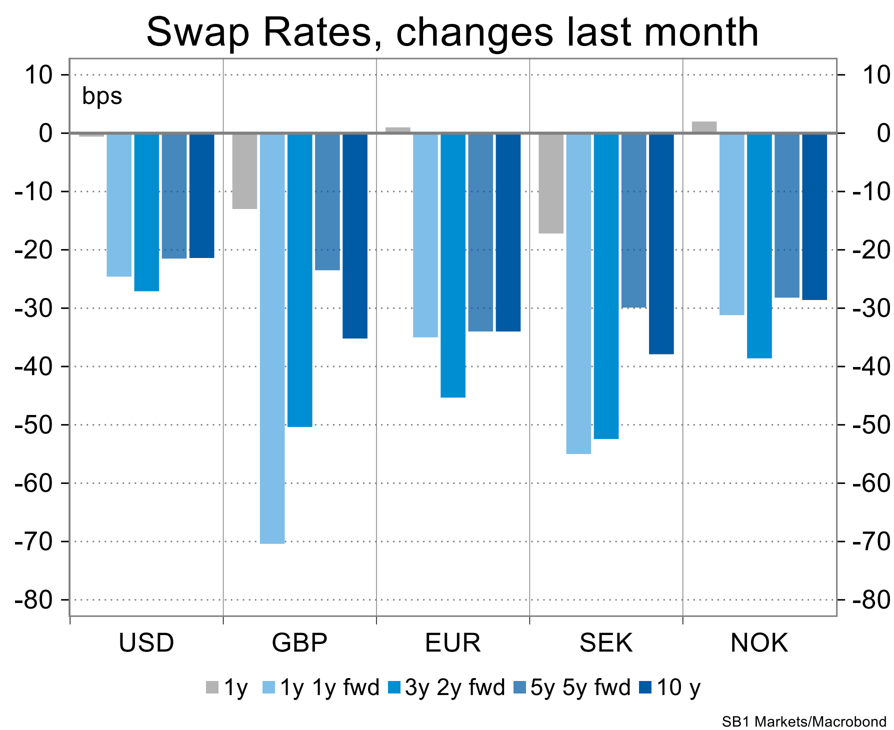
The long end of the curve up everywhere, barring GBP swaps

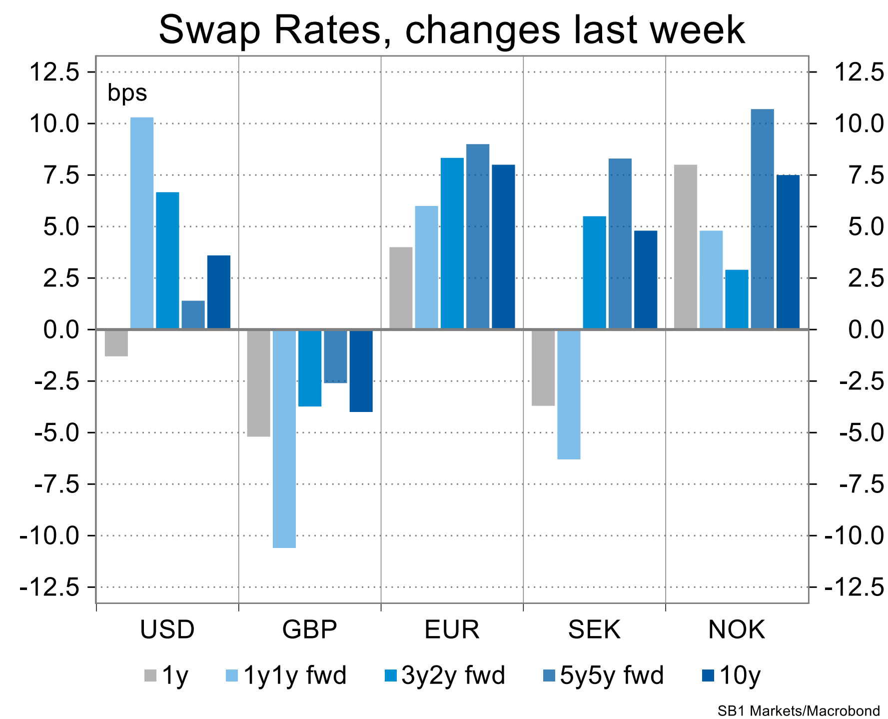






GBP rates down last week, others mostly up

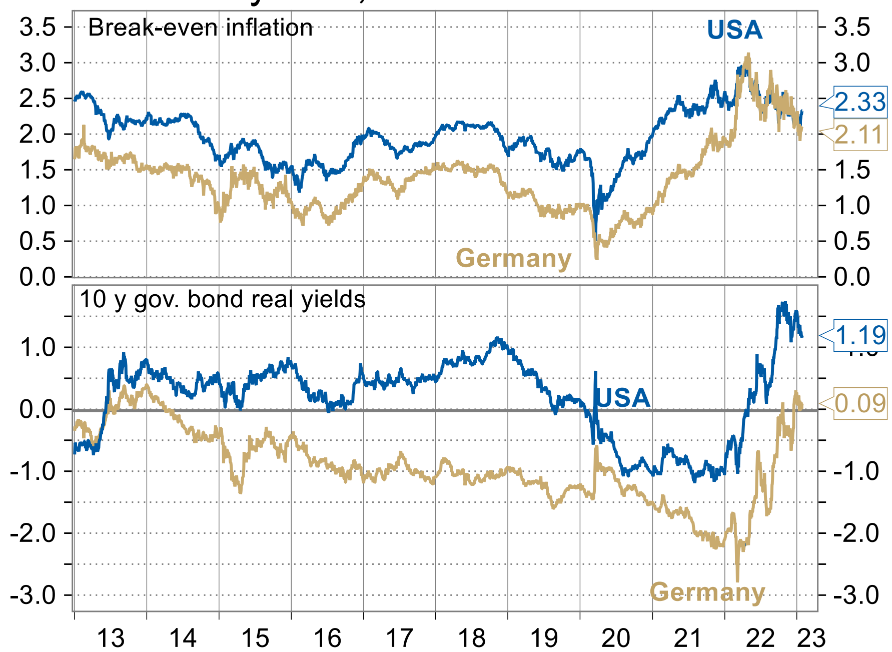




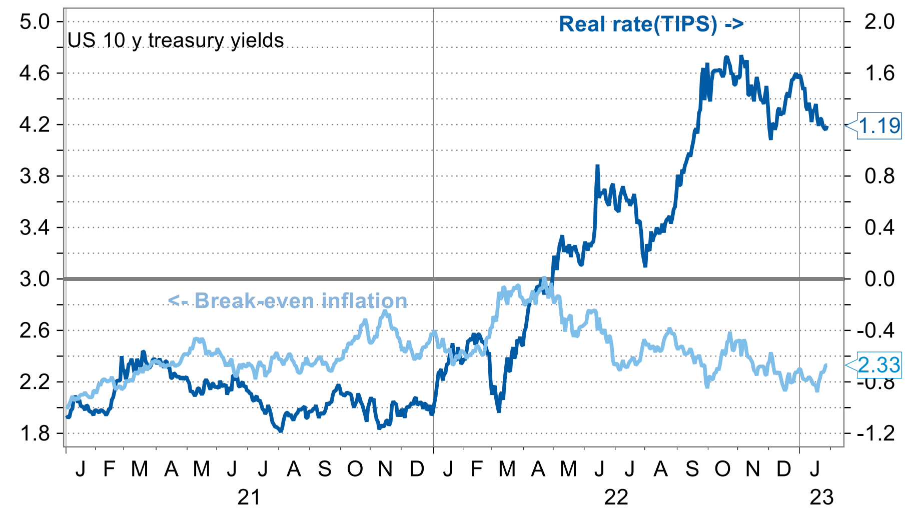
US real rates further down, inflation expectations slightly up

The sum up 4 bps to 3.52%. The German bund up 7 bps to 2.20%

Real yields, break-even inflation



SB1 Markets/Macrobond



- In the US, a 10 y CPI expectation at 2.33% 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. It narrowed – but widened again last week
- The German 10 y break-even is around zero – a low level

US & Germany 10 y Gov bond yield

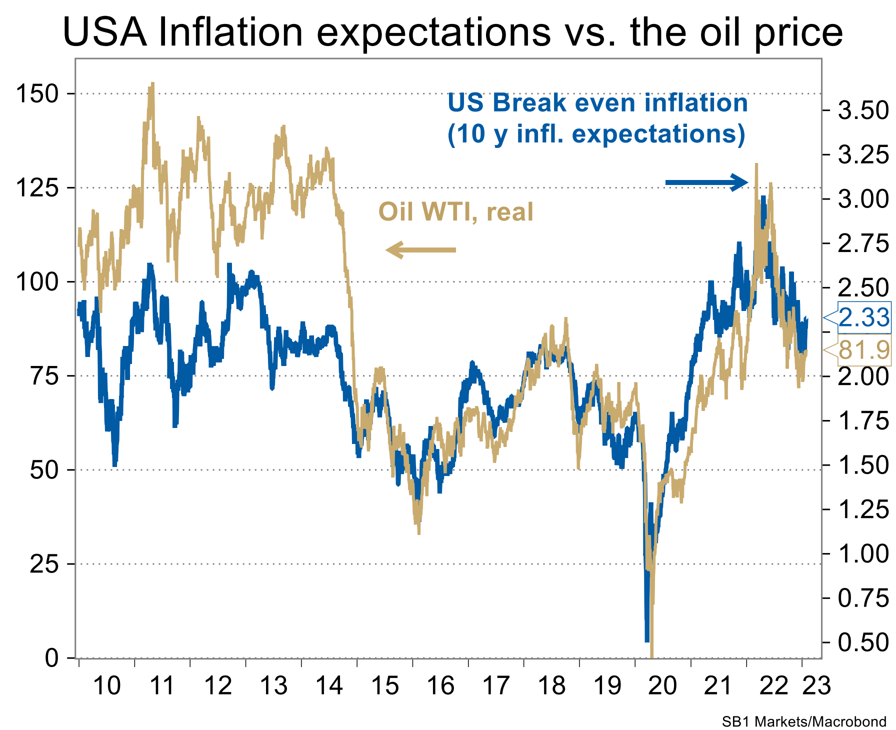
	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	3.52	0.04	-0.32	-0.36	0.52
.. break-even inflation	2.33	0.10	0.07	0.03	1.06
.. TIPS real rate	1.19	-0.06	-0.39	-0.39	-1.19
Germany nominal bund	2.20	0.07	-0.30	-0.36	-0.64
.. break-even inflation	2.11	0.06	-0.09	-0.18	0.42
.. real rate	0.09	0.01	-0.21	-0.18	-2.80

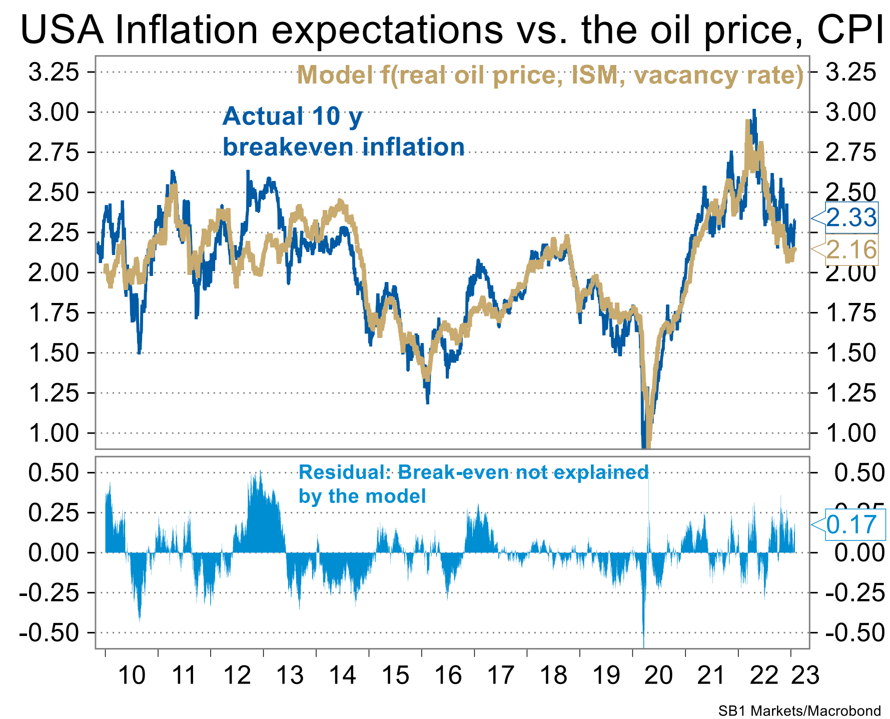
SB1 Markets/Macrobond

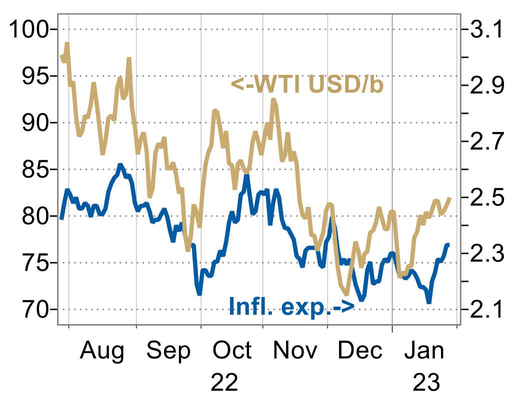
SpareBank 1 MARKETS

US inflation break-even inflation expectations are trending down

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



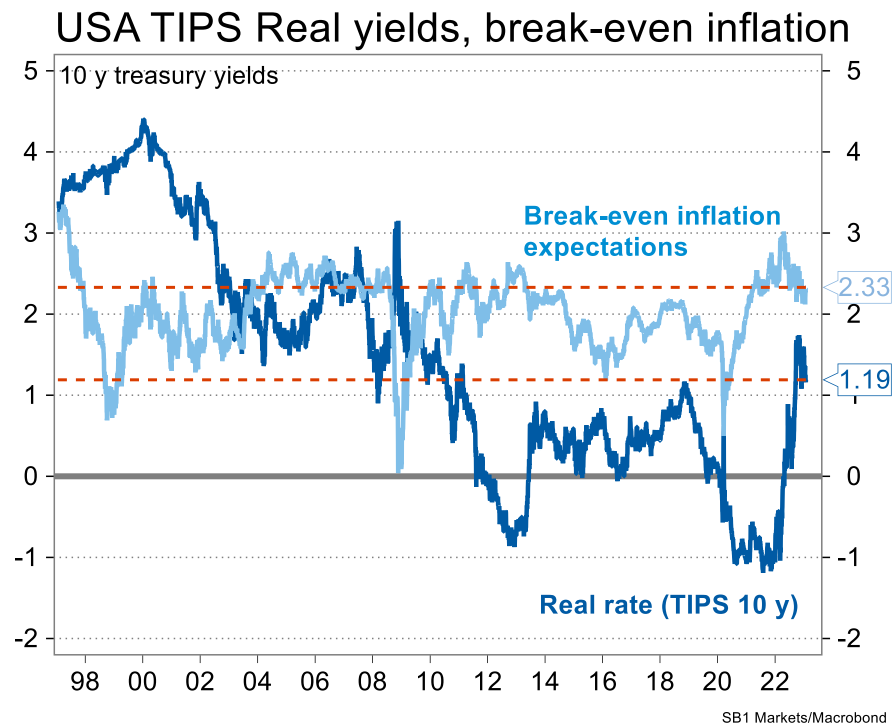


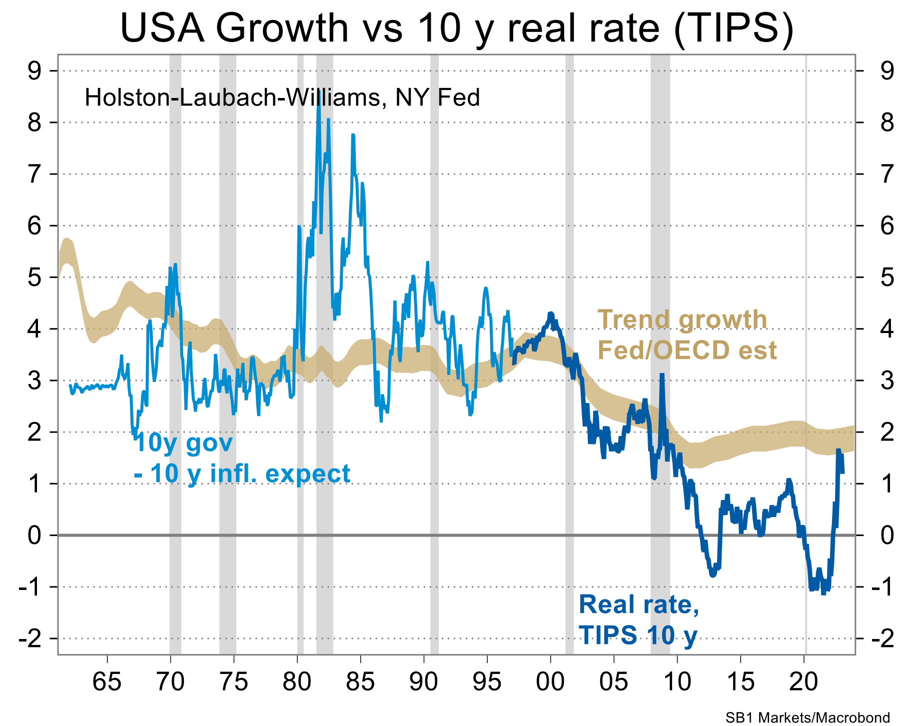


- A simple model including the spot oil price, the current ISM and the current vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve
- What now? The actual break-even is in line with the model forecast. We are uncertain about the oil price, but rather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

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

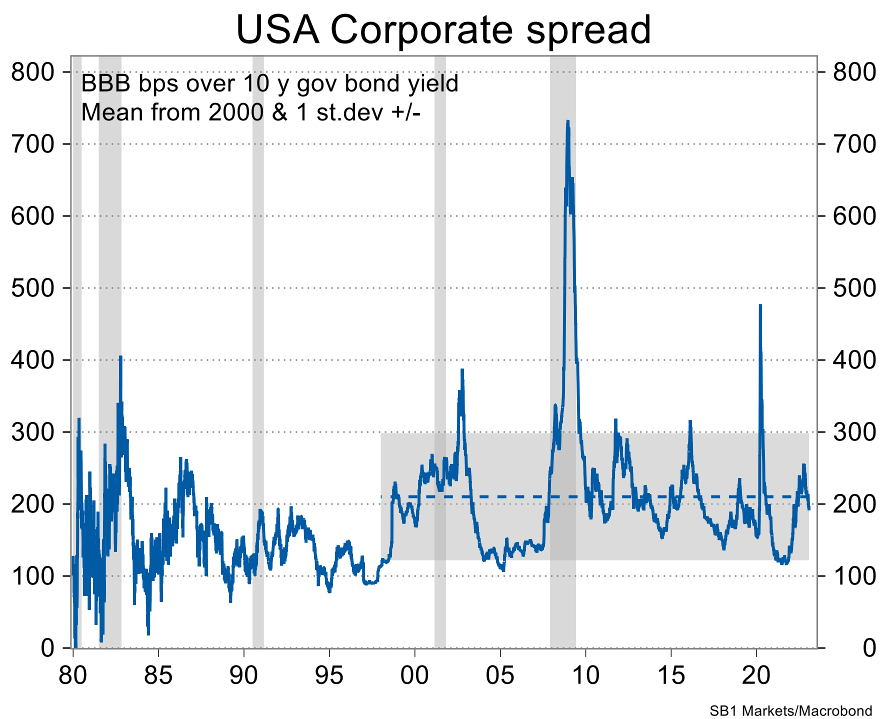
At least not compared to the differential during the pandemic

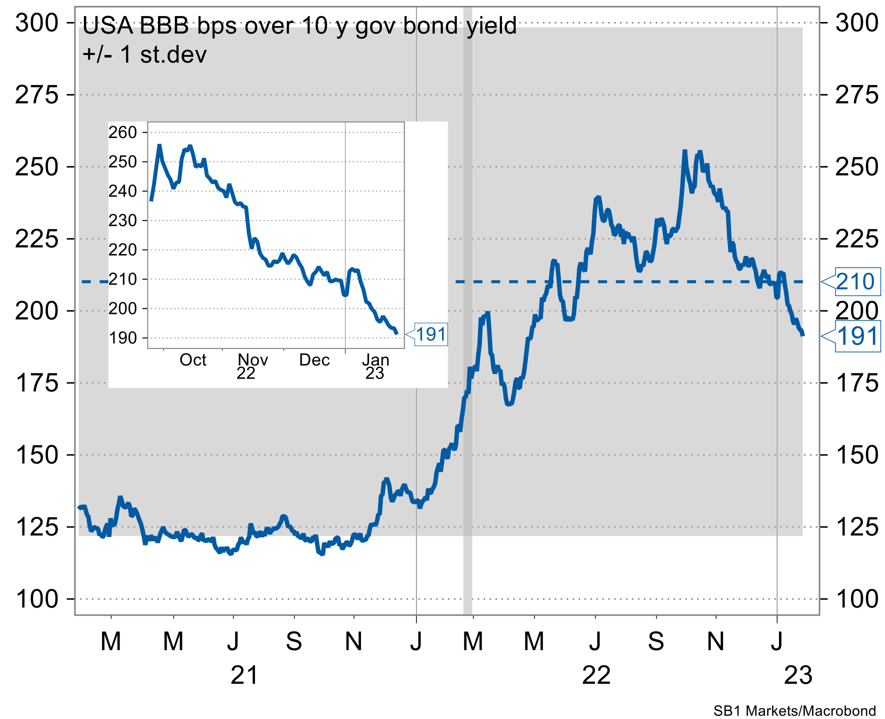




Risk on: Credit spreads further down

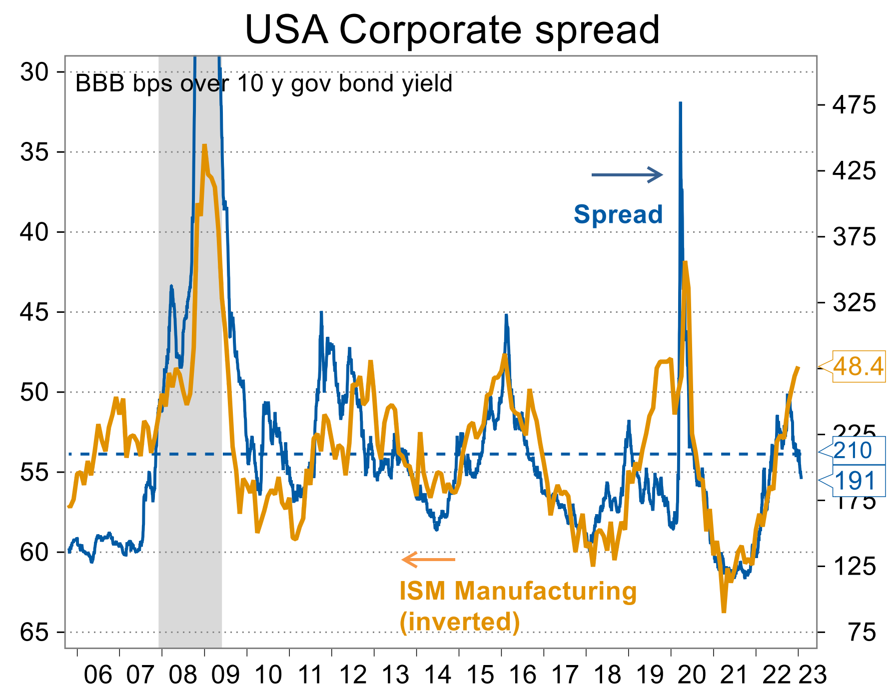
Even so, we think the spreads are exposed to a weakening economy



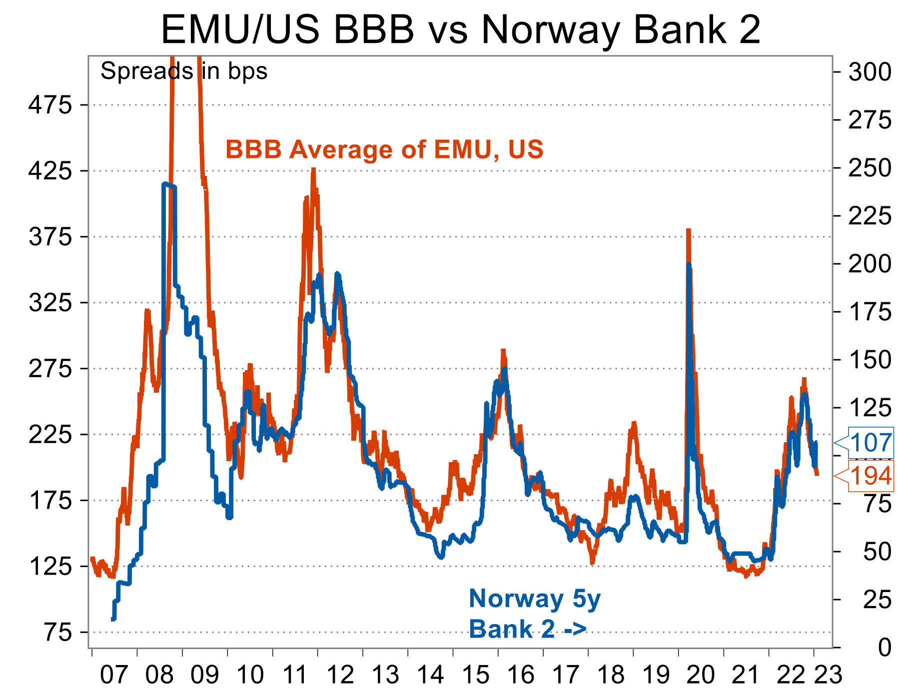


Mind a new gap: The economy is weakening (ISM), and spreads are narrowing

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



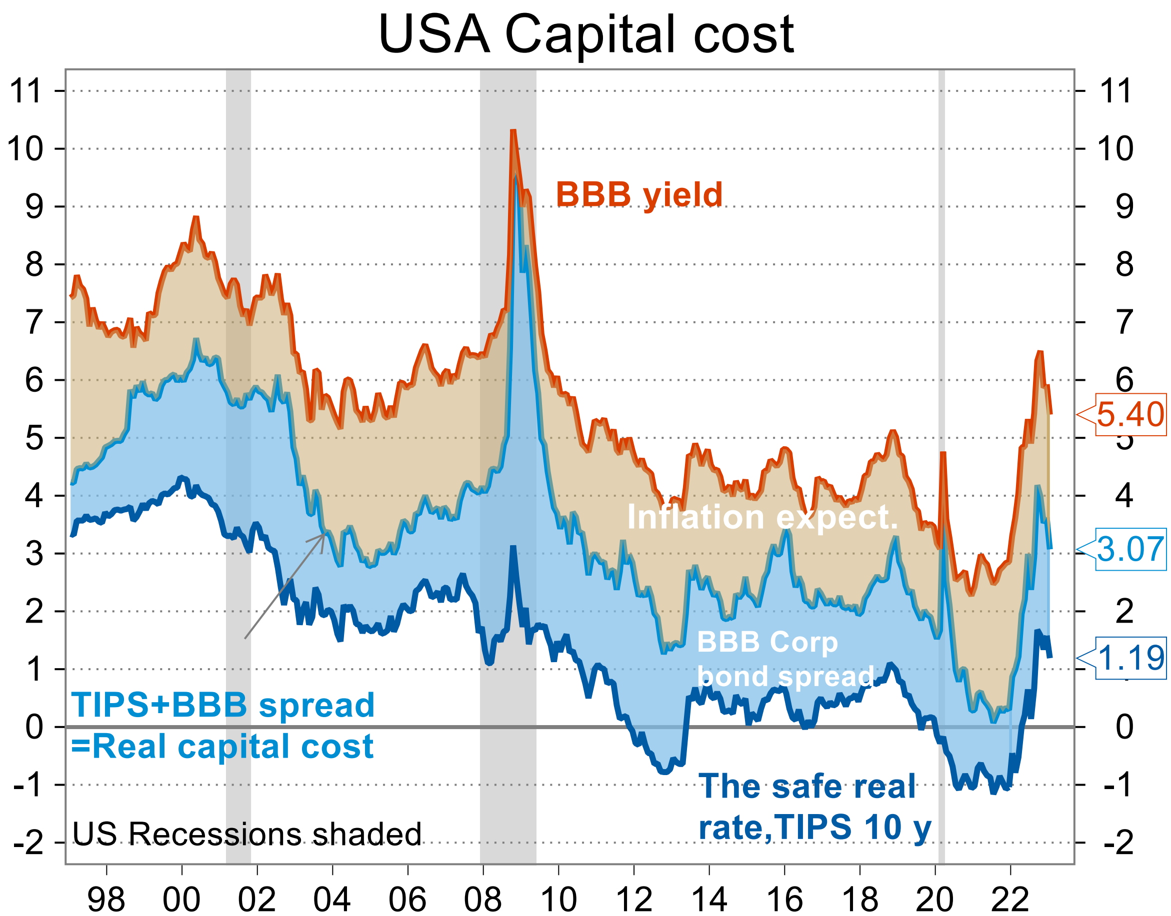
SB1 Markets/Macrobond



SB1 Markets/Macrobond

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

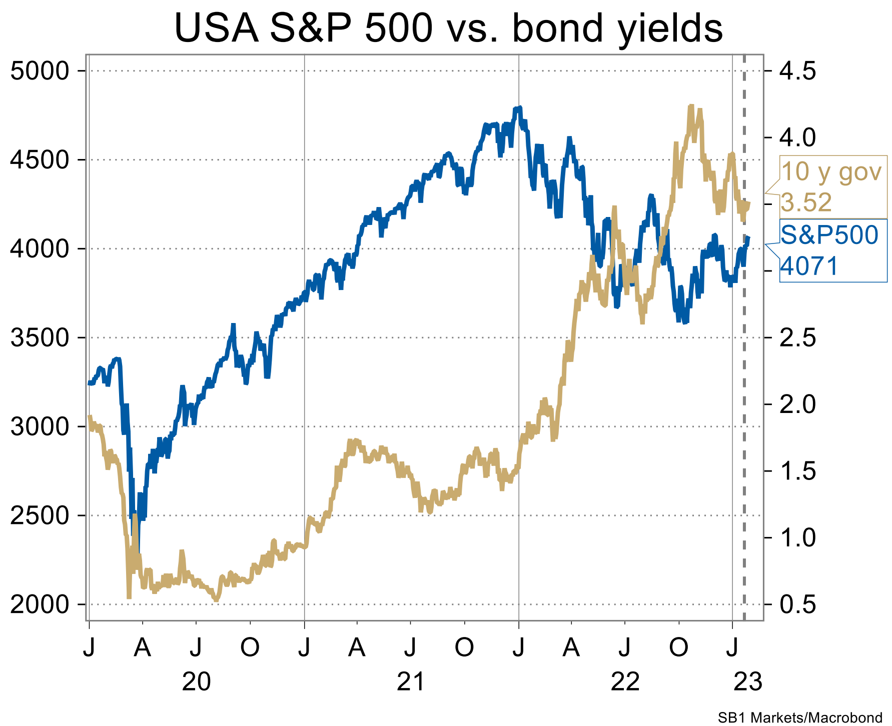
All valuation metrics have changed dramatically. *As have all calculations of return on capital*

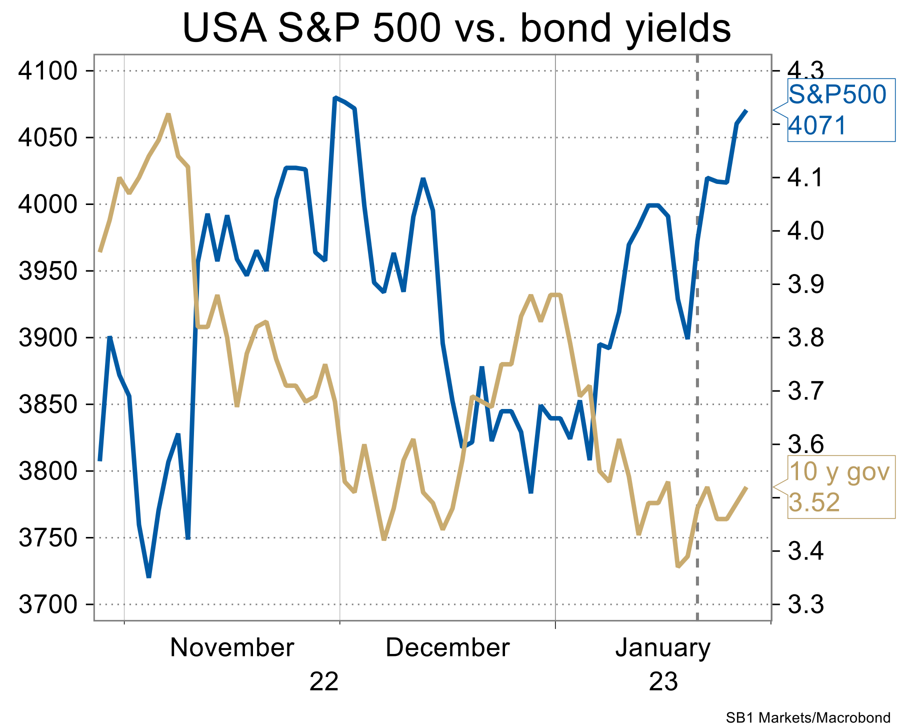


SB1 Markets/Macrobond

- **Spreads** flattened last week
- The total real borrowing cost for a BBB company has increased to 3.1% bps from zero by the end of 2021
  - The TIPS real rate is up from -100 to + 119 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 5.4% (though down from 6.7% at the local peak last October)

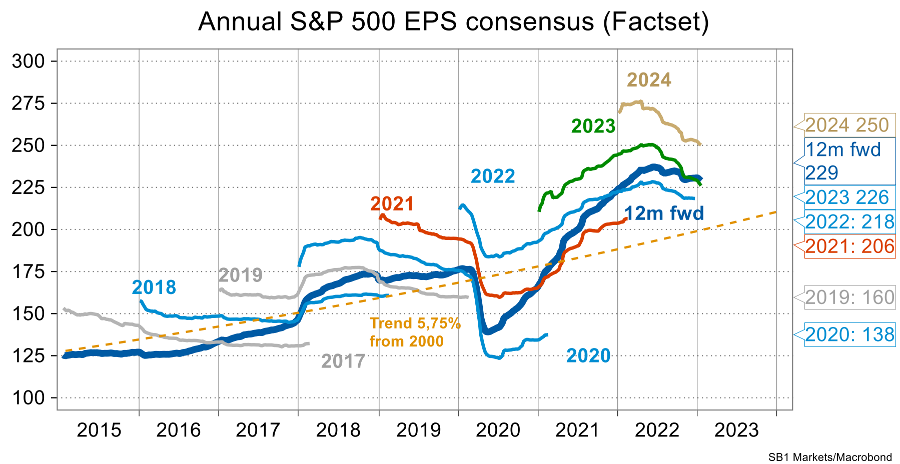
S&P up 2.5%, the 10 y bond yield up 4 bp to 3.52%

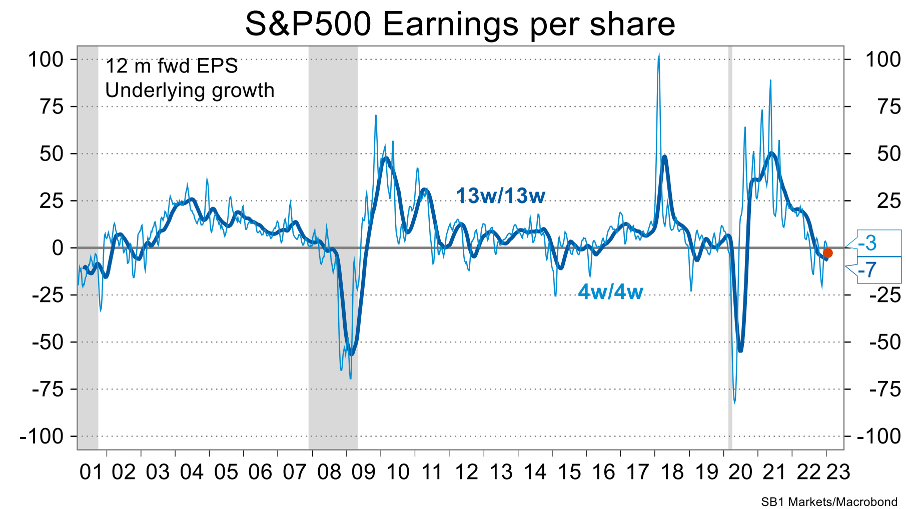


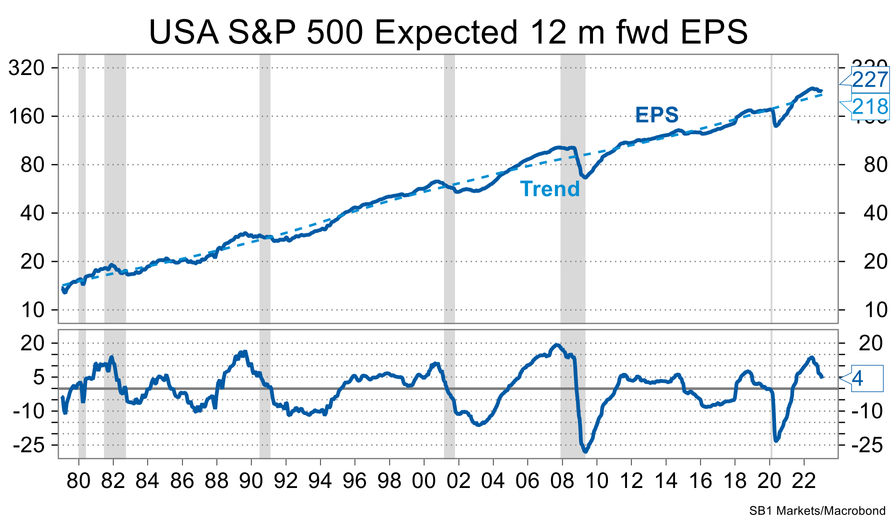


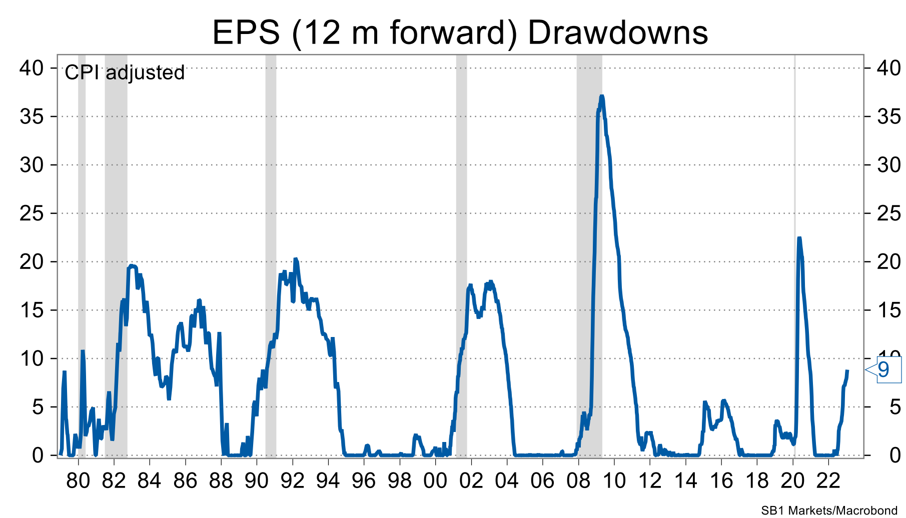
Earnings forecasts have almost stabilised – but the risk still on the downside

S&P 500 expected 12 m fwd EPS was some 15% above trend in mid June. Now down to +4%



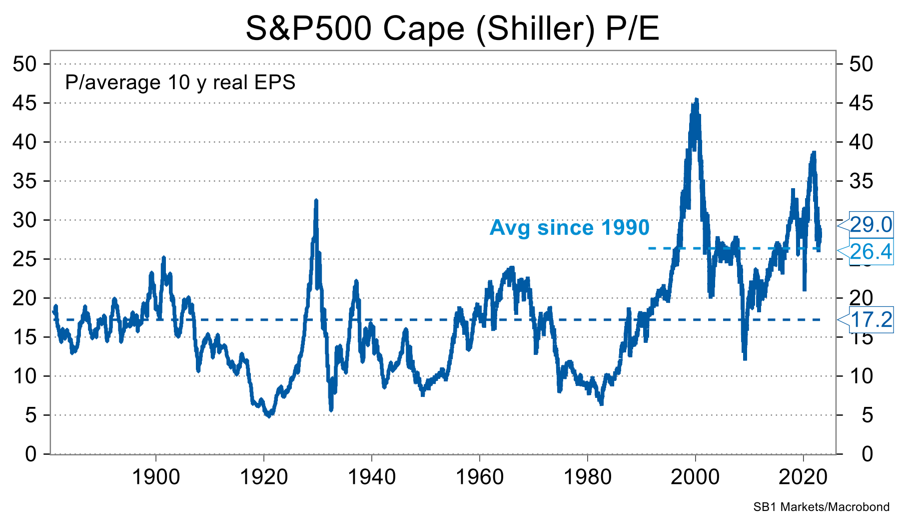


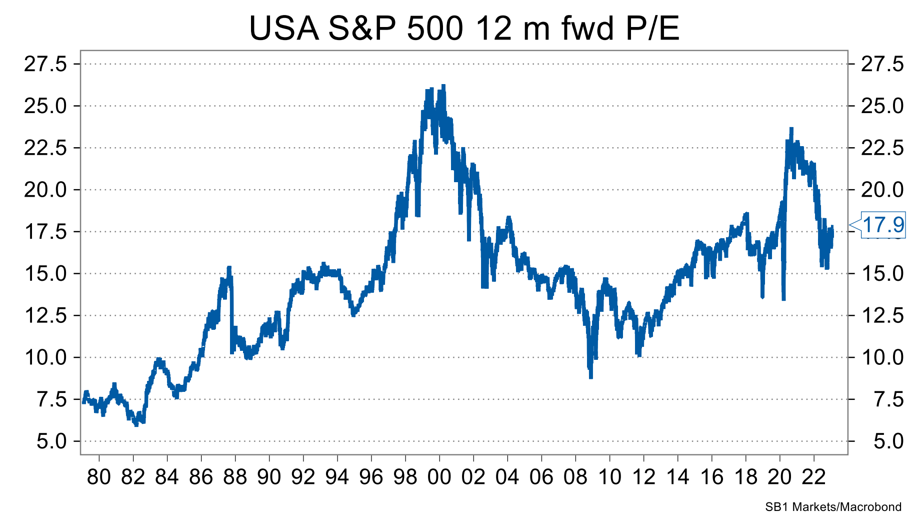


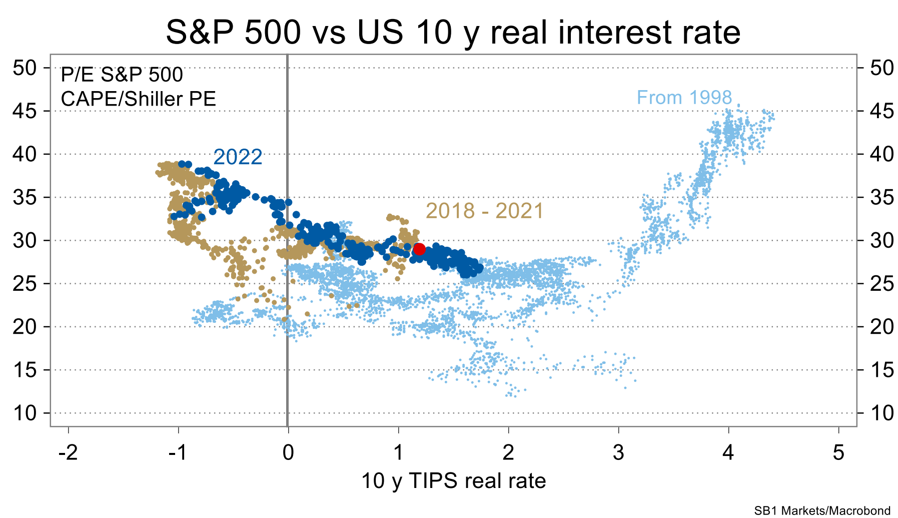


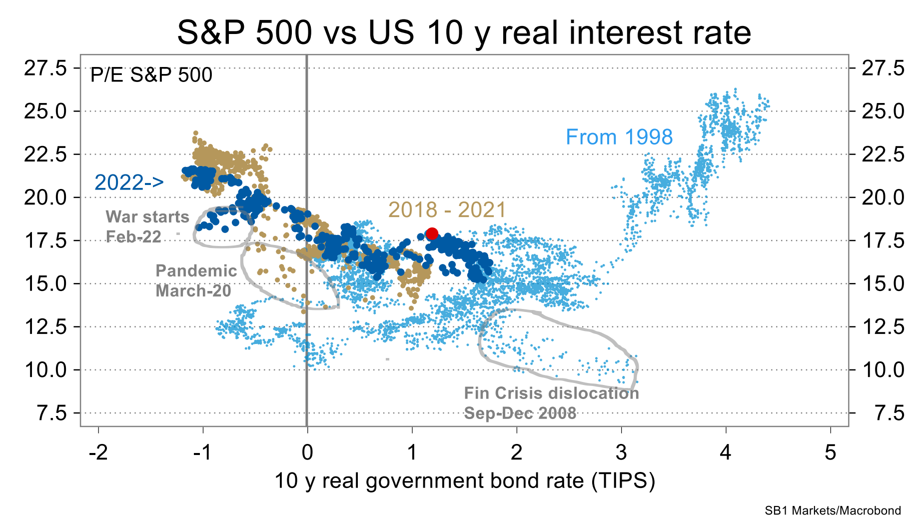
4 valuation charts: Check the extreme tight correlation between real rates, P/E

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



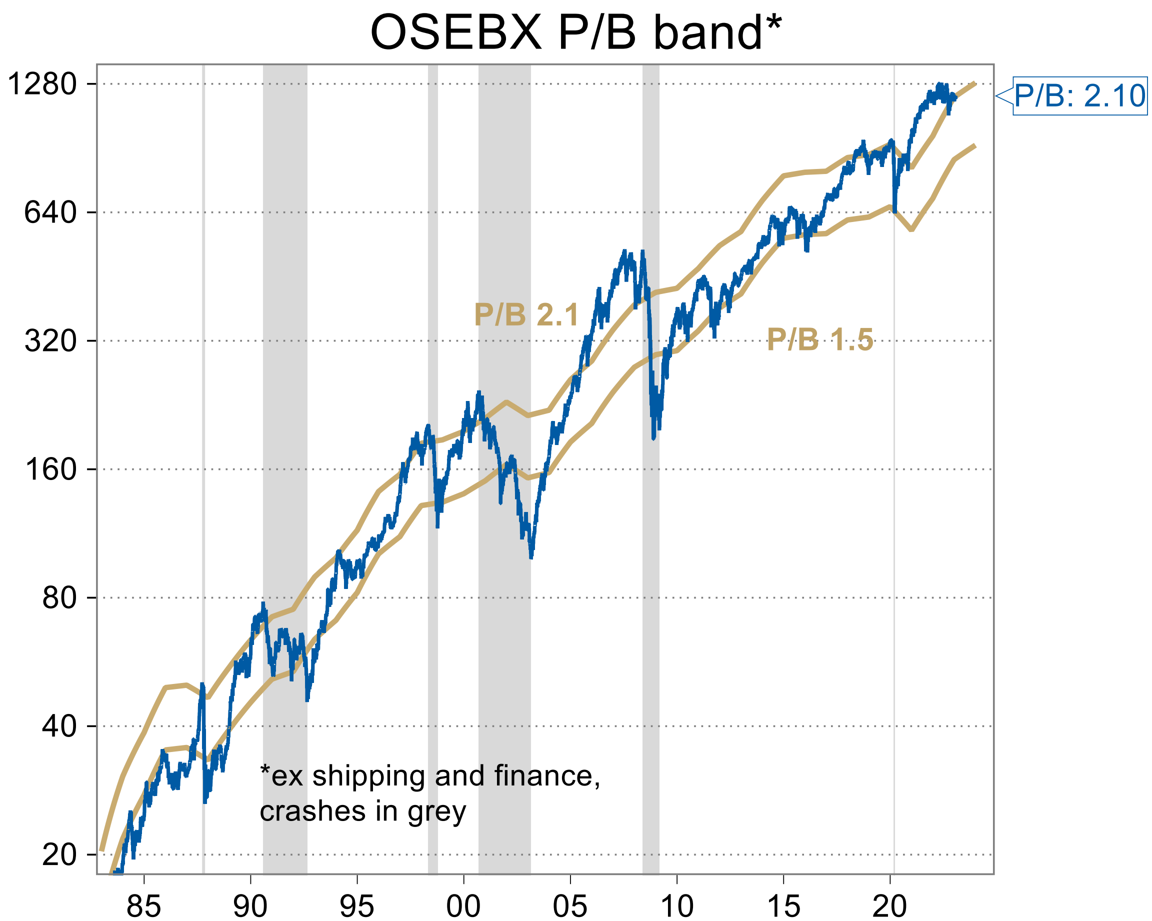




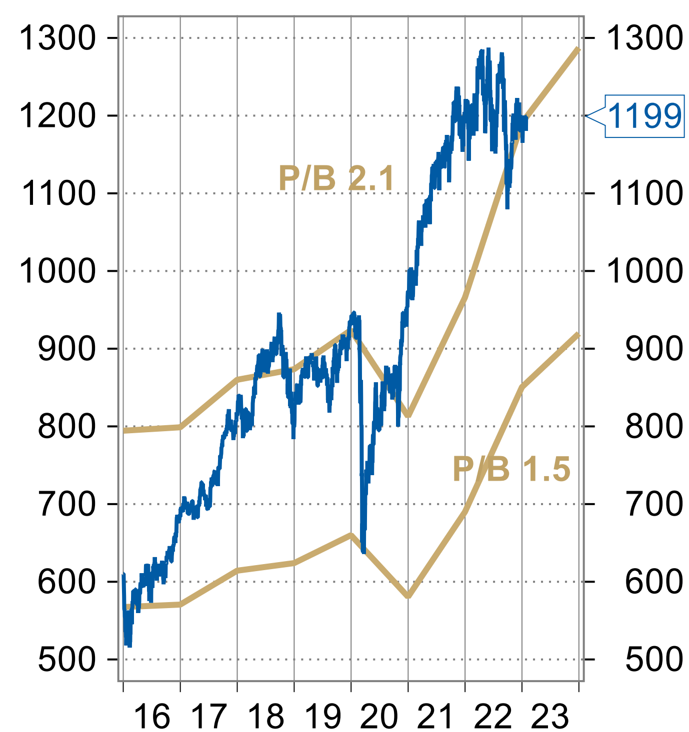


The OSEBX marginally up last week – still at 2.1 vs. the book value

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

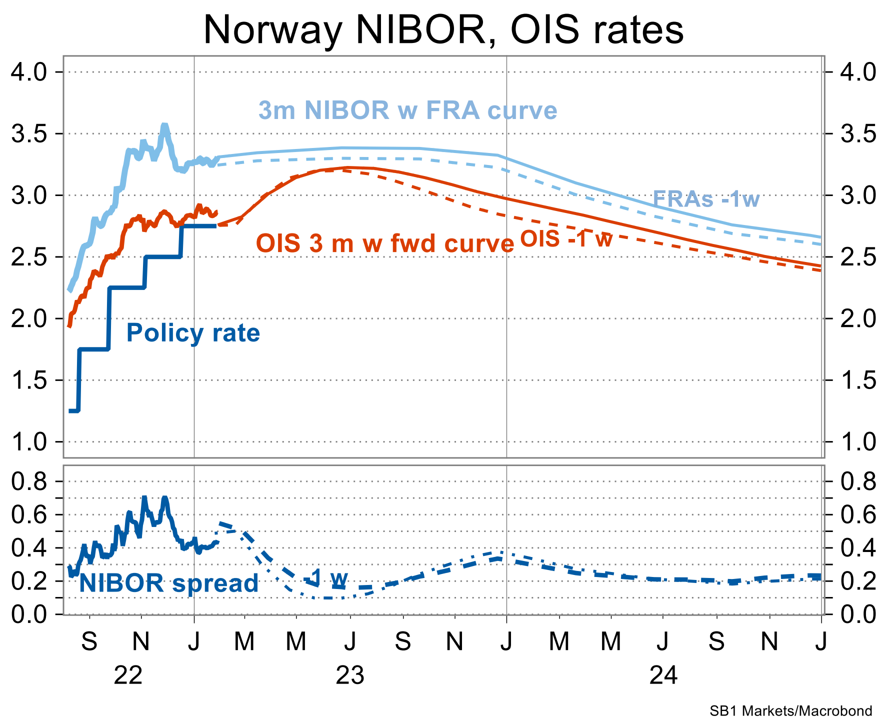


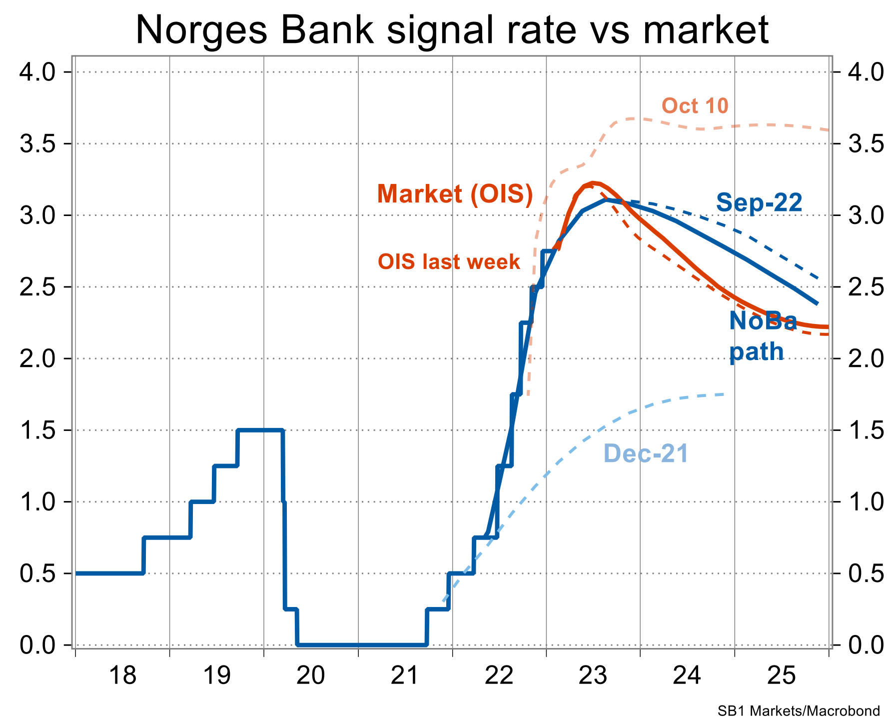
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.



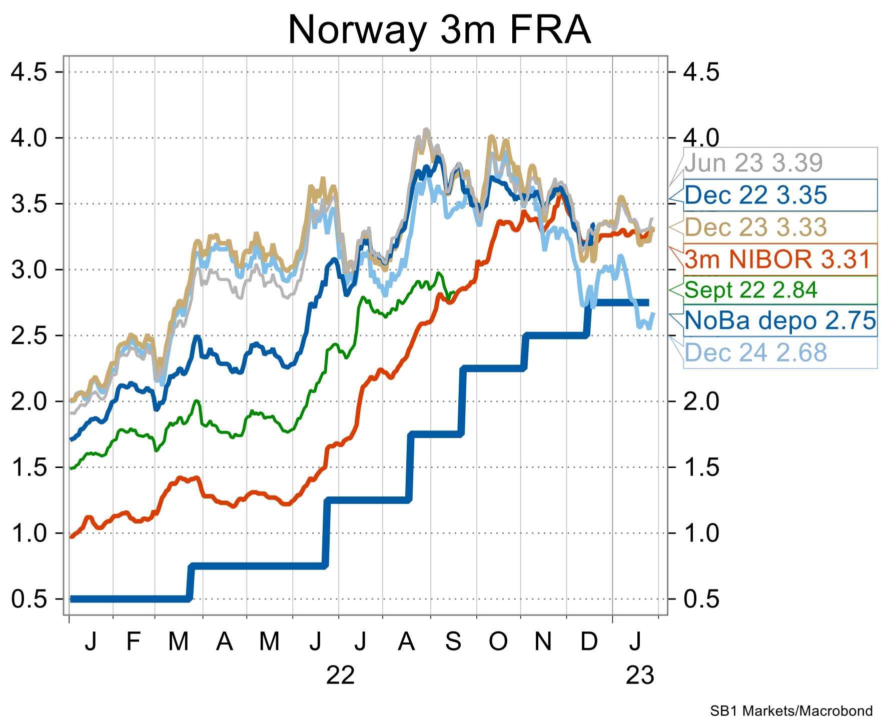
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

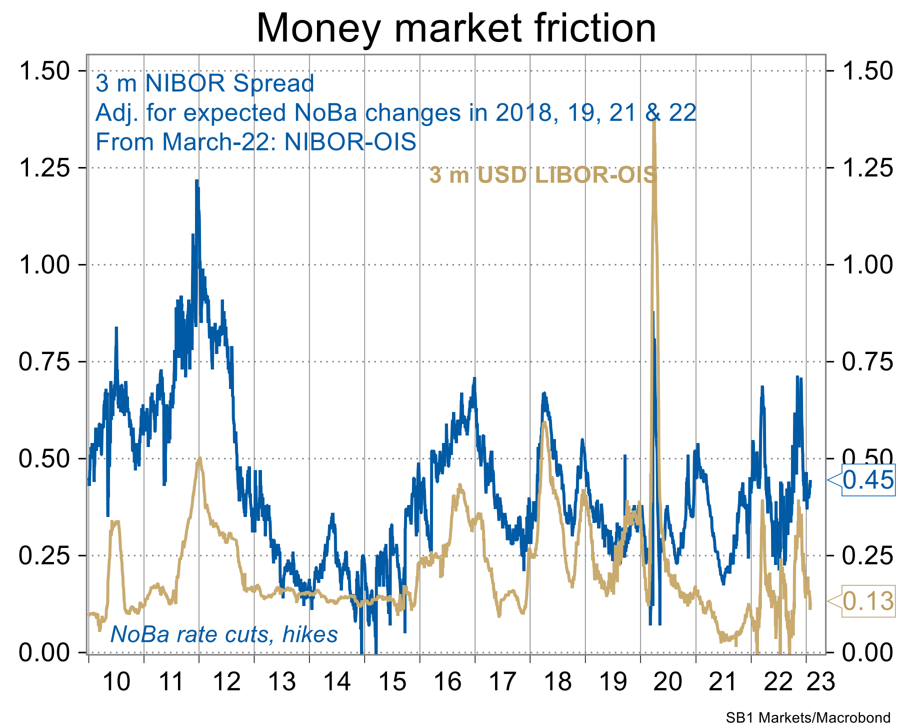
The curve slightly up, the market is sniffing on a 2nd 2023 NoBa hike



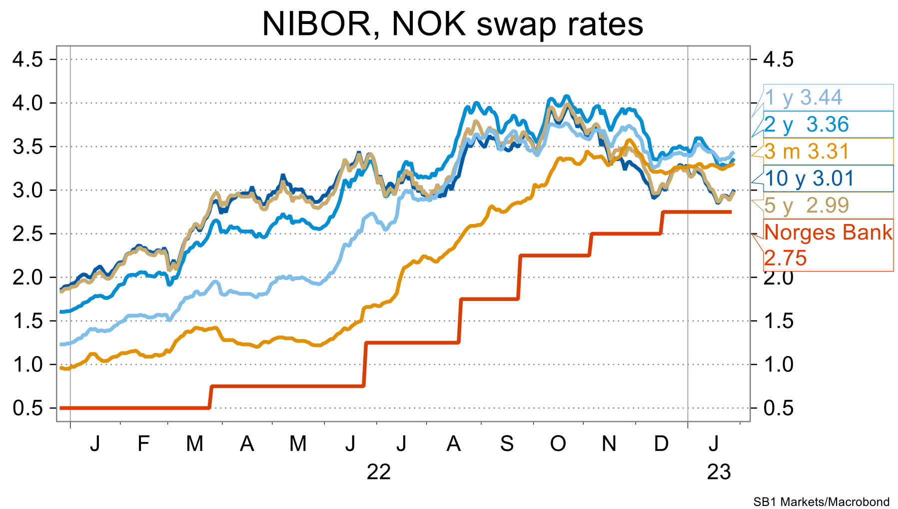


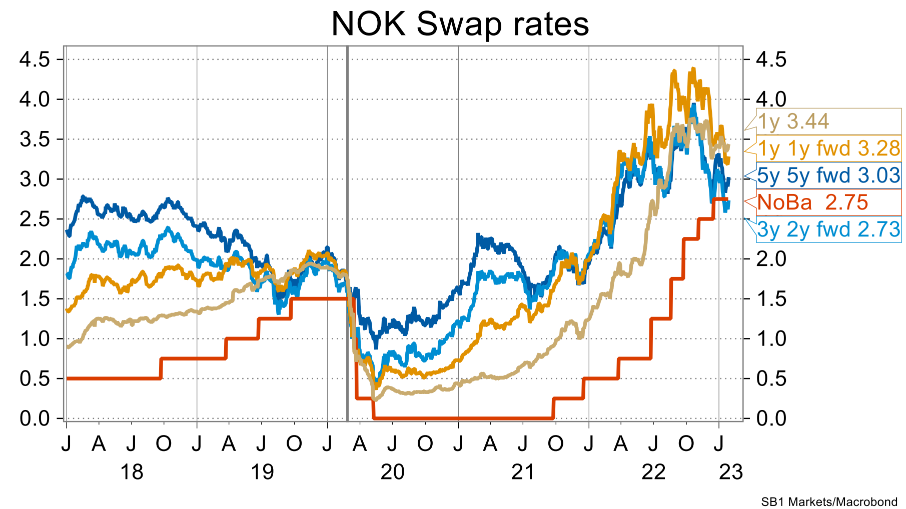
The NIBOR spread slightly up – as the 3 m NIBOR rose 7 bps to 3.31%

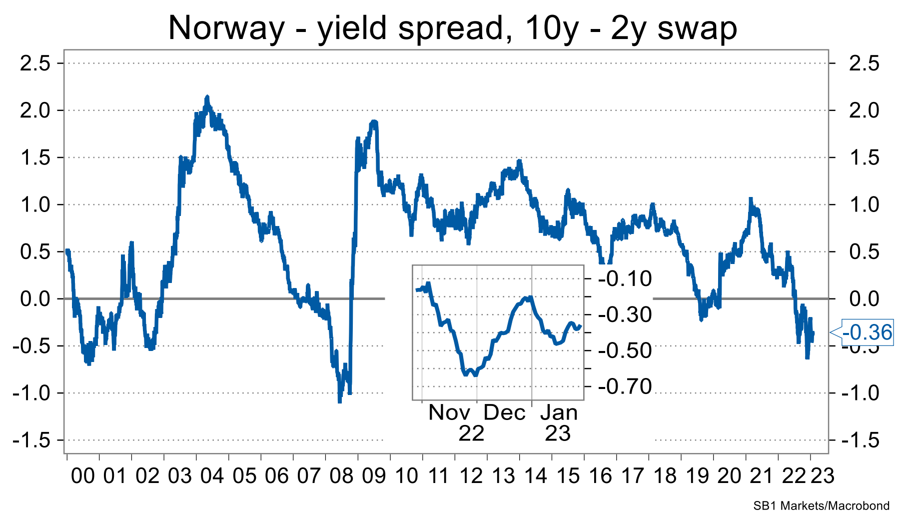


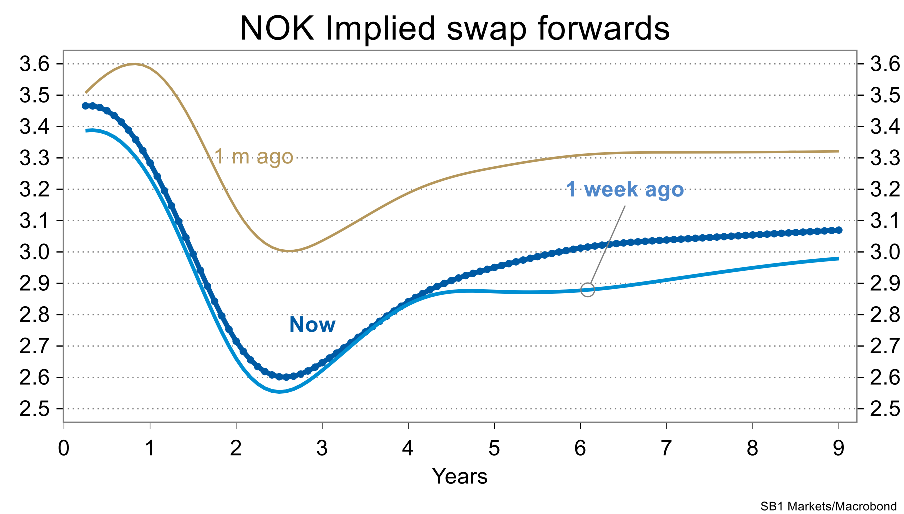


Implied swap rates up on most of the curve





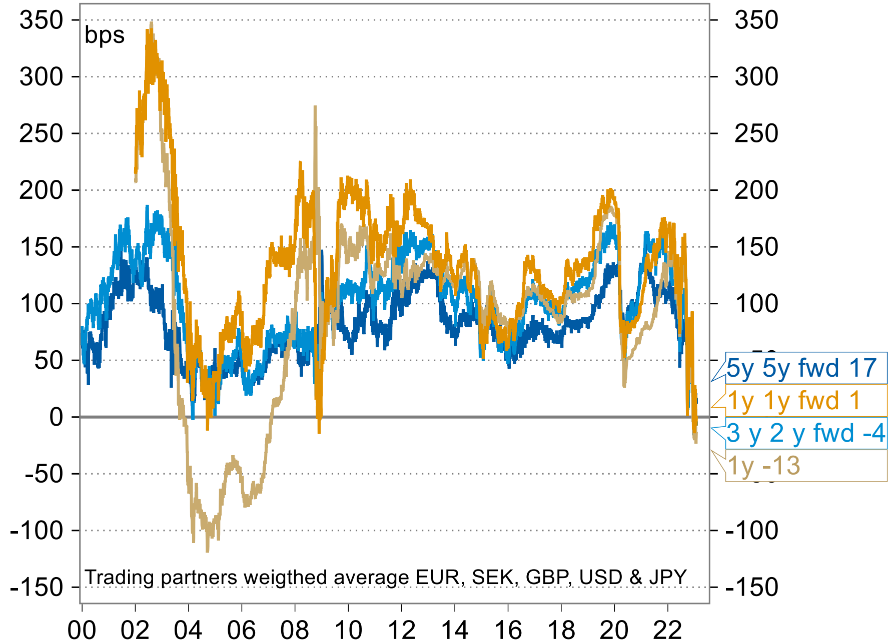




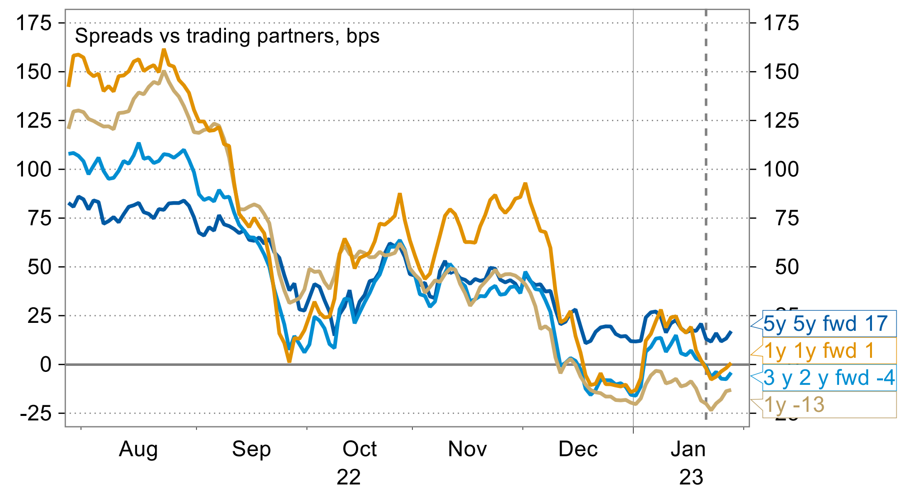
Spreads marginally up last week, the level is still very low

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

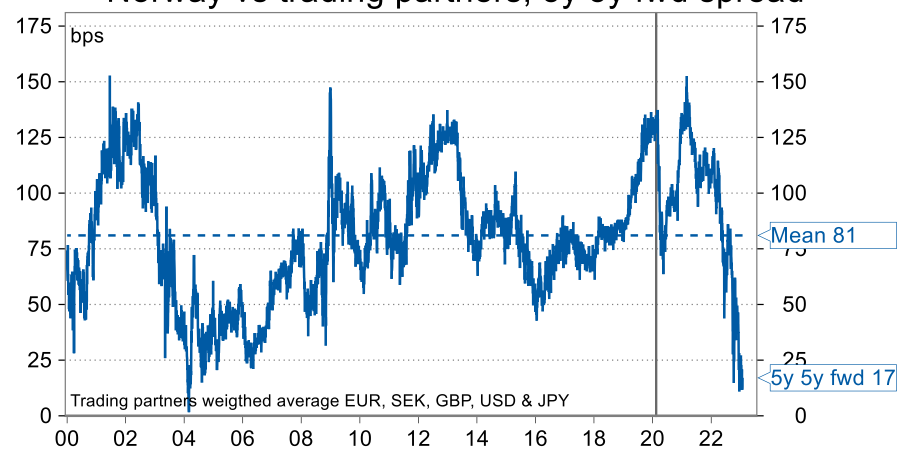
Norway vs trading partners, impl swap spreads



SB1 Markets/Macrobond



Norway vs trading partners, 5y 5y fwd spread

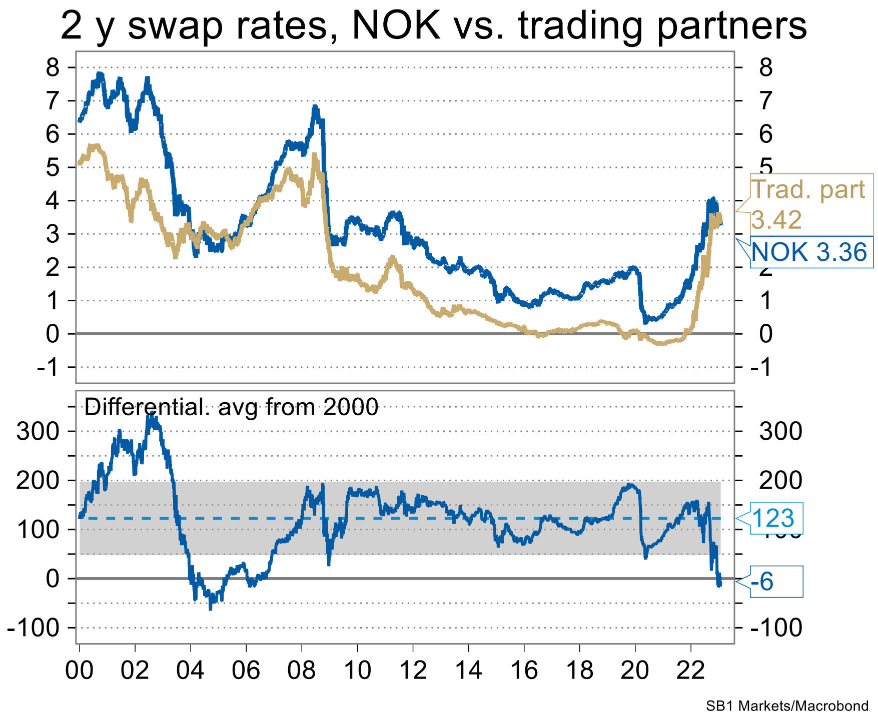


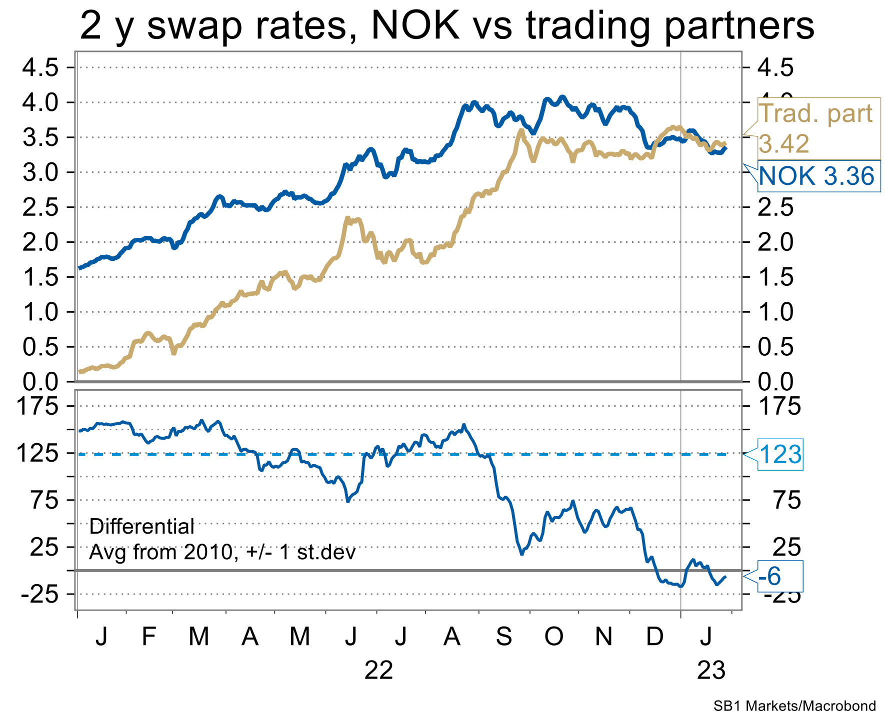
SB1 Markets/Macrobond

- 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

SpareBank 1 MARKETS

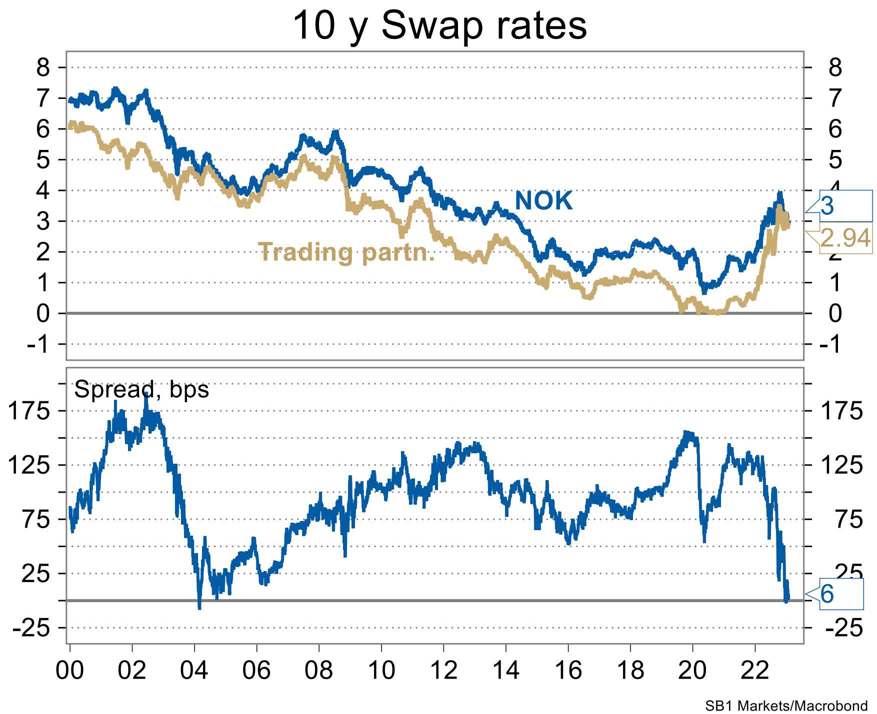
The spread vs. trading partners has fallen to close to zero

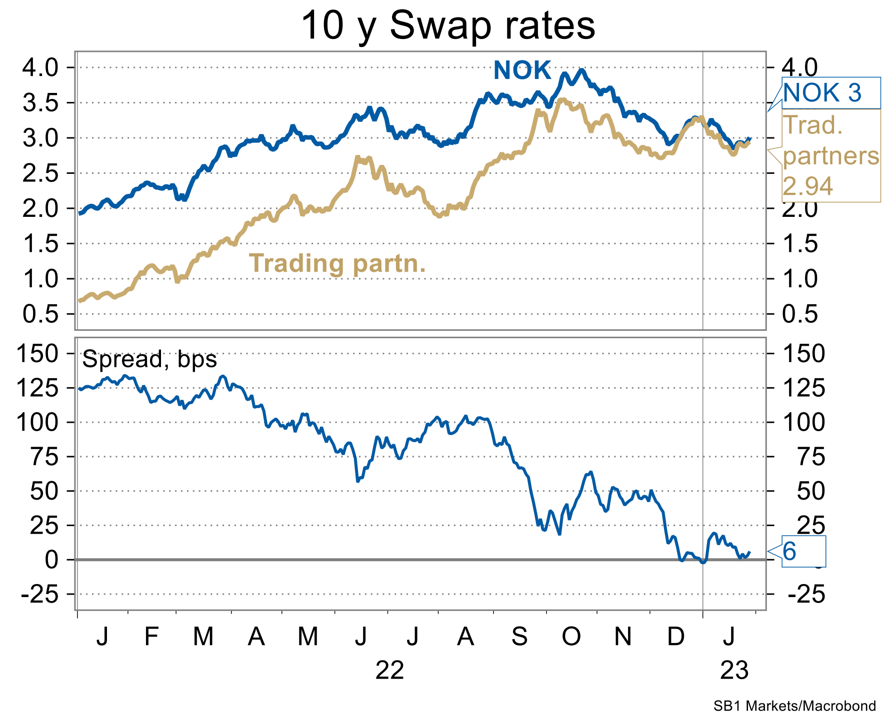




- See the comment on the previous page

The spread vs. trading partners has fallen to close to zero



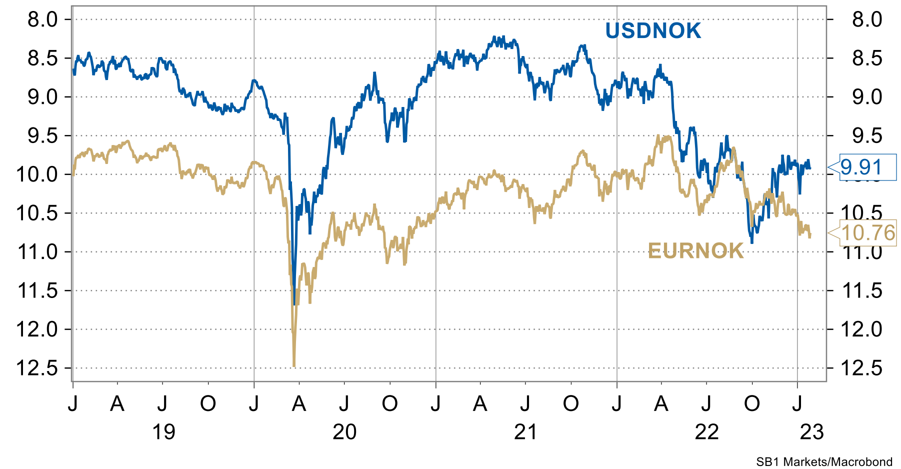


AUD sores sharply due high CPI growth, higher rate expectations

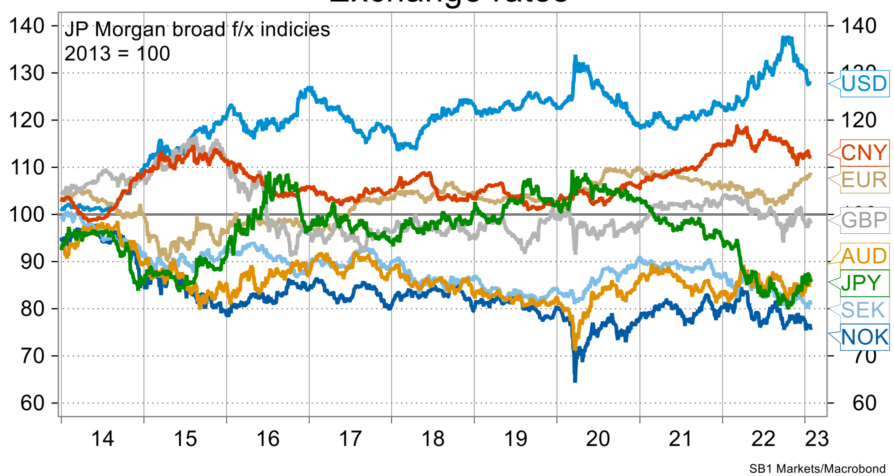
NOK & SEK the losers last week, but not by much (-0.2% to -0.4%) as f/x markets were rather calm last week

EURUSD

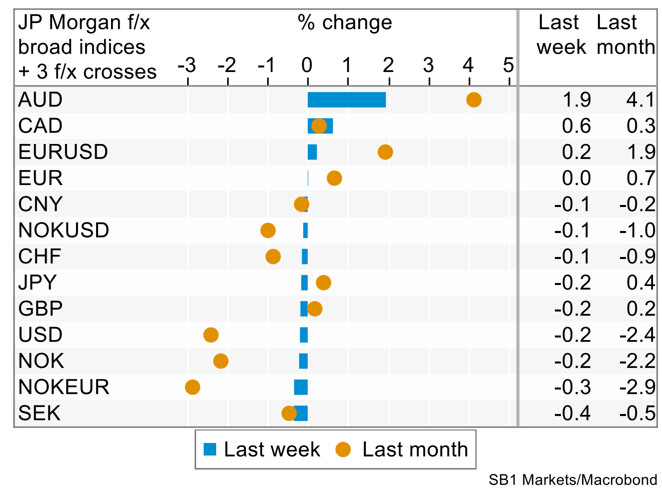
NOK vs EUR & USD



Exchange rates



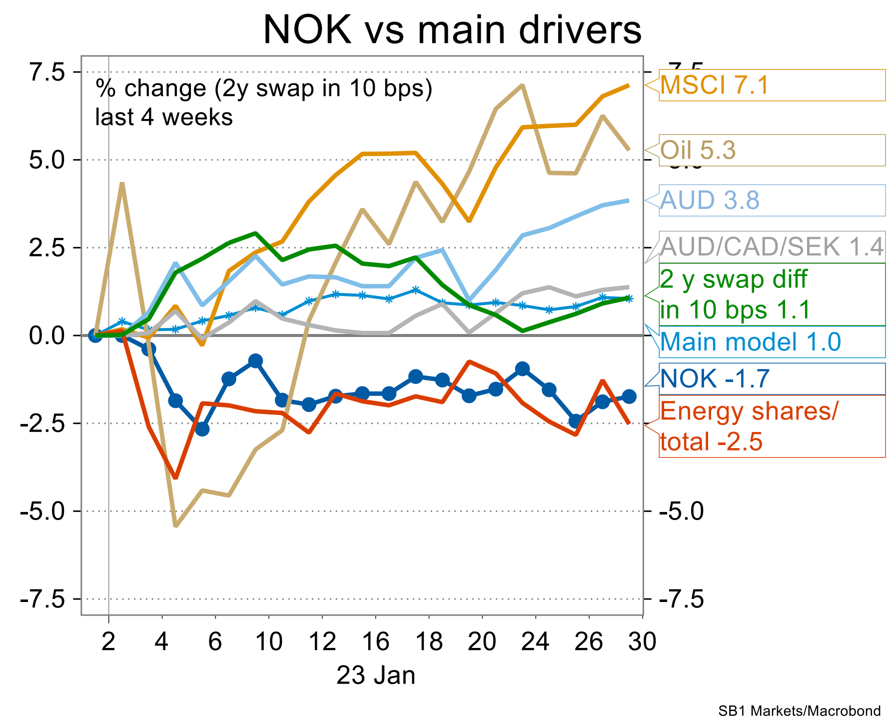
F/x markets

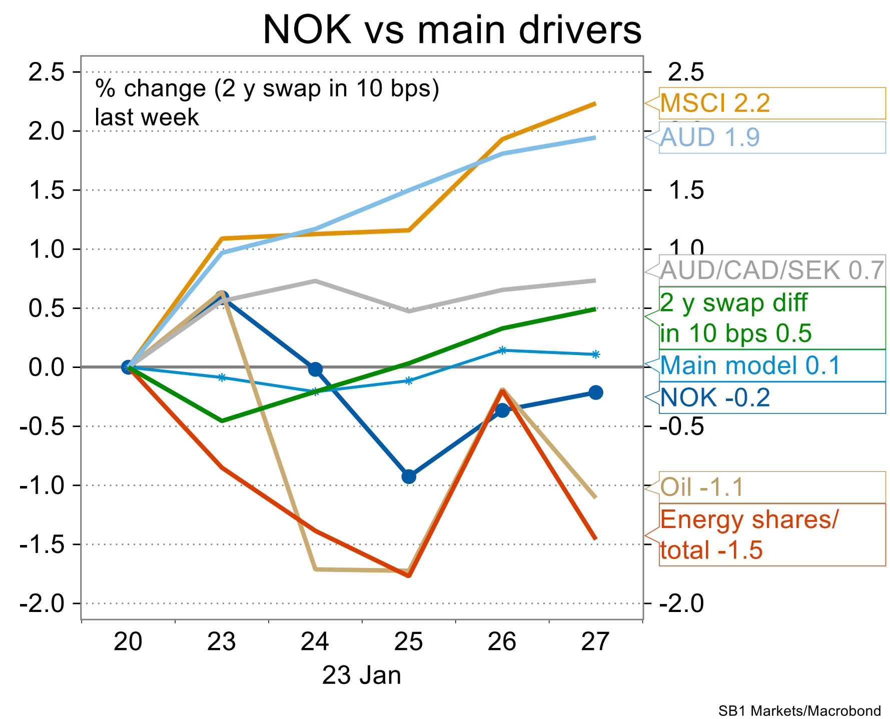


JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
AUD	1.9	4.1
CAD	0.6	0.3
EURUSD	0.2	1.9
EUR	0.0	0.7
CNY	-0.1	-0.2
NOKUSD	-0.1	-1.0
CHF	-0.1	-0.9
JPY	-0.2	0.4
GBP	-0.2	0.2
USD	-0.2	-2.4
NOK	-0.2	-2.2
NOKEUR	-0.3	-2.9
SEK	-0.4	-0.5

NOK down 0.2%, our model indicated +0.1%

NOK has flattened since early January





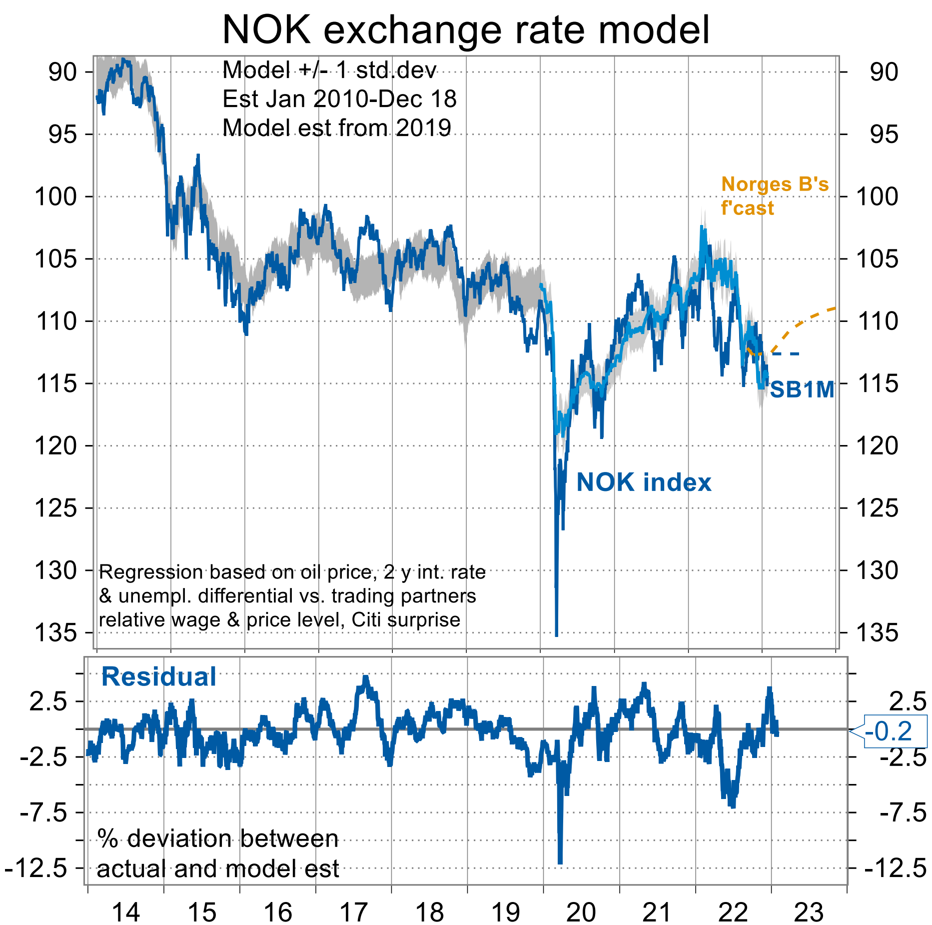
- NOK is 0.2% below our **main model estimate** (from +0.2%)
- The NOK is 8% weaker than our **AUD/CAD/SEK-model**, our 'super-cycle peers', predicts, a substantial weakening (from -7%.)
- NOK is 2% weaker than an estimate from a model that includes global **energy companies' equity prices** (vs the global stock market) (from -1%)

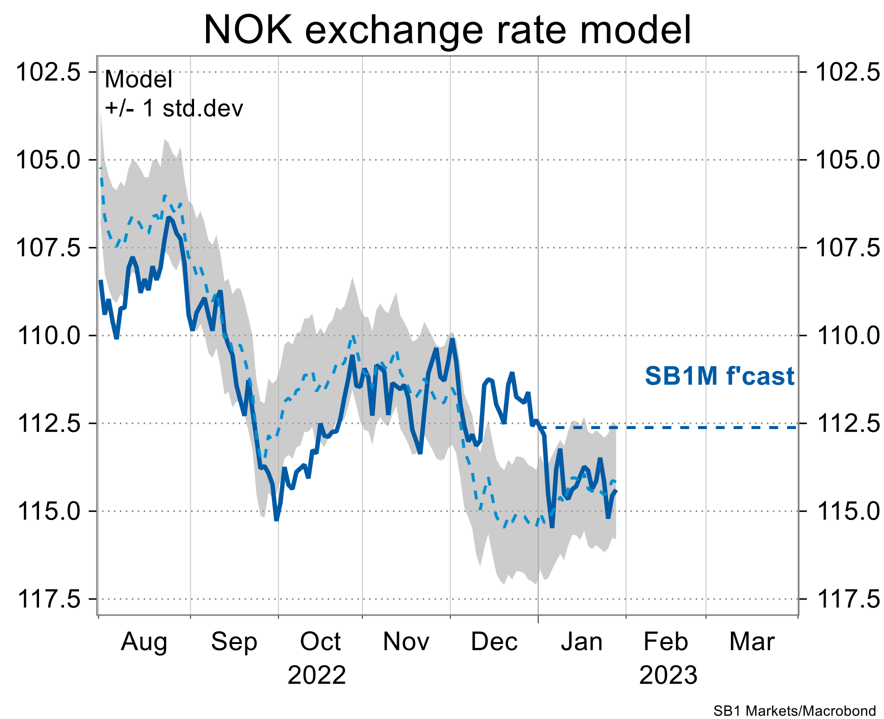
On this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices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

SpareBank 1 MARKETS

NOK still close to the model forecast

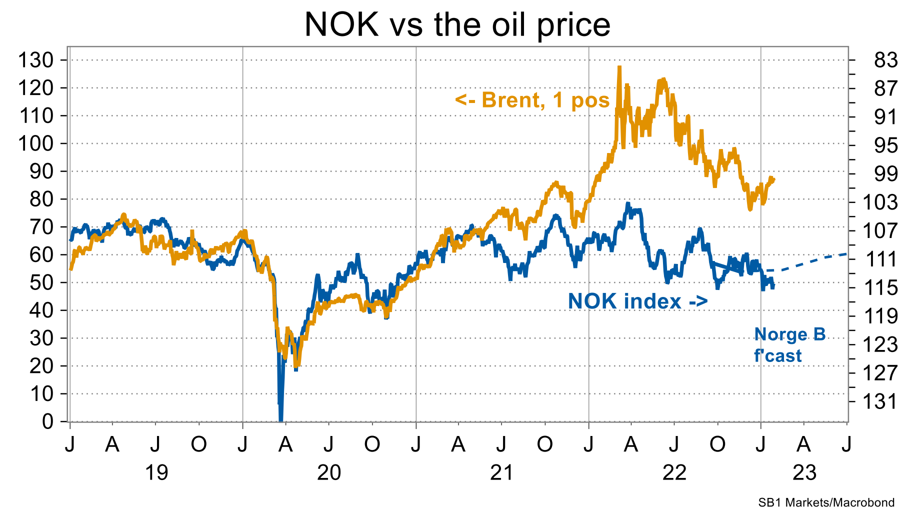
And rather stable – even if the gas price is volatile (not included in our main model)

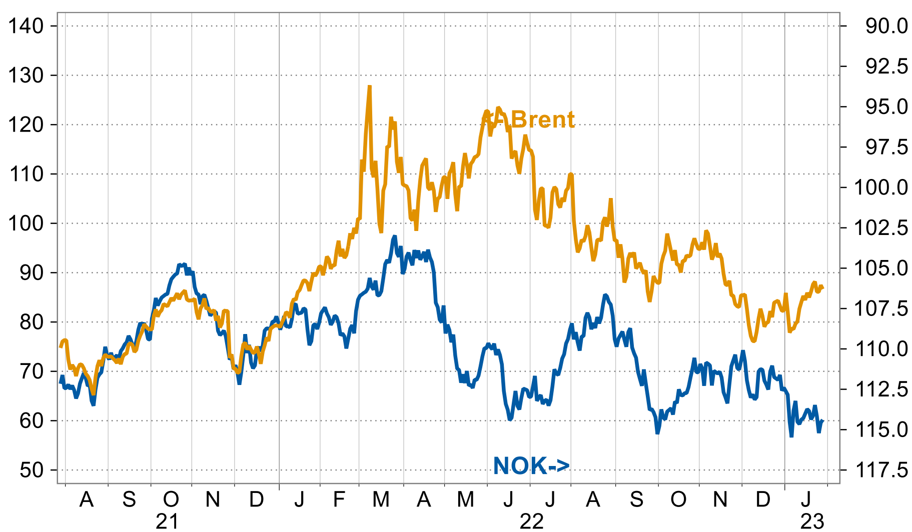


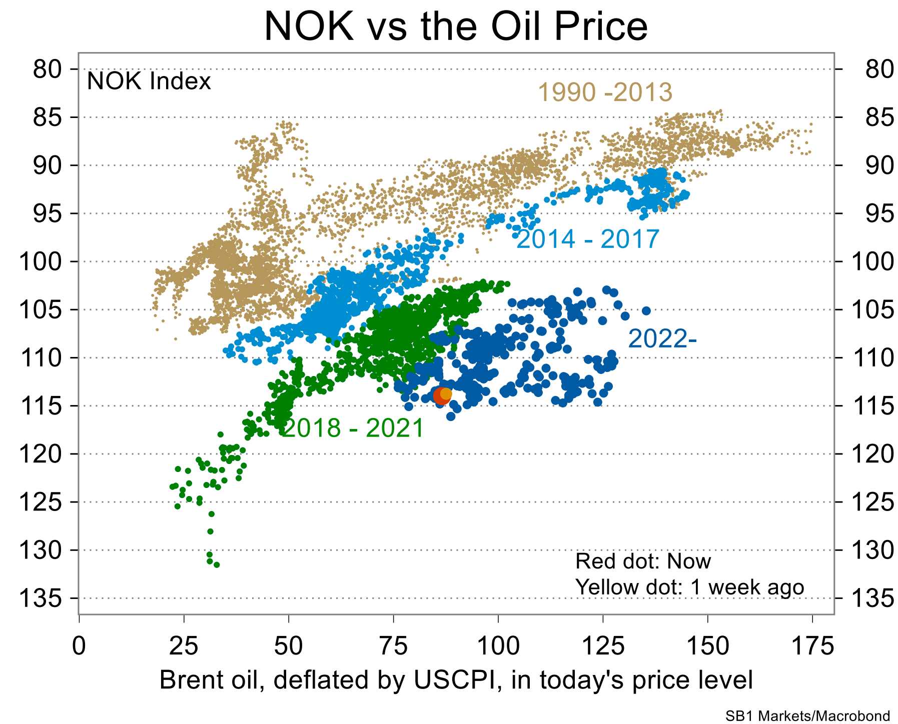


No signal to NOK from oil – and the correlation is anyway low now

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

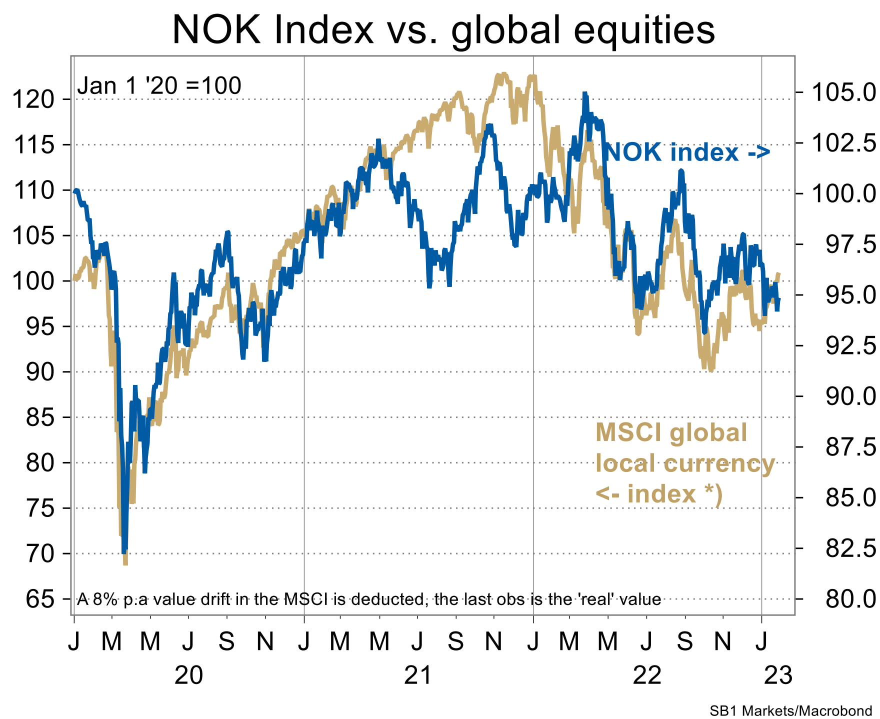


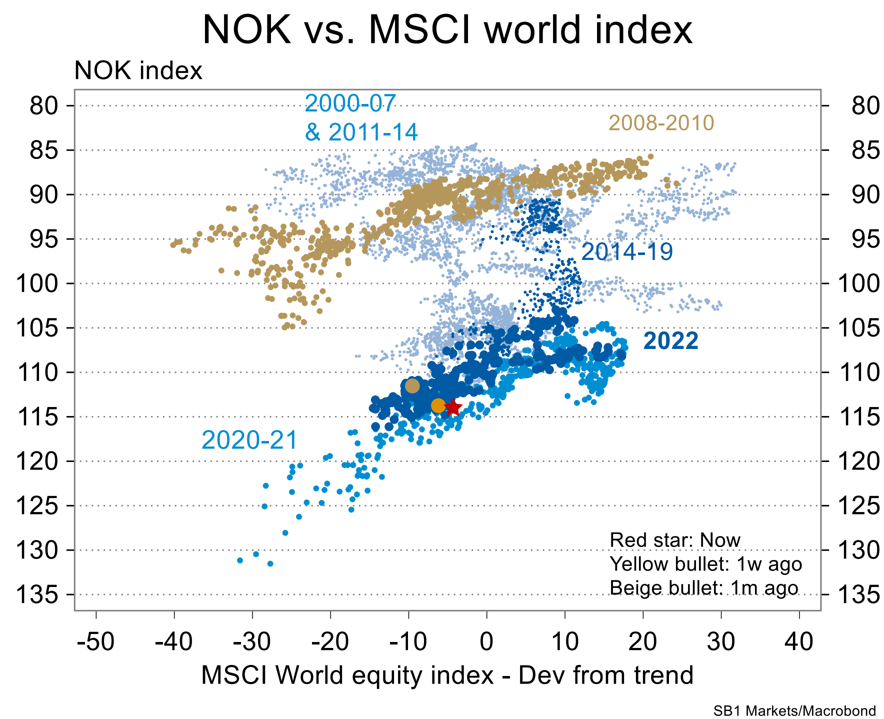




Global equities up, NOK not

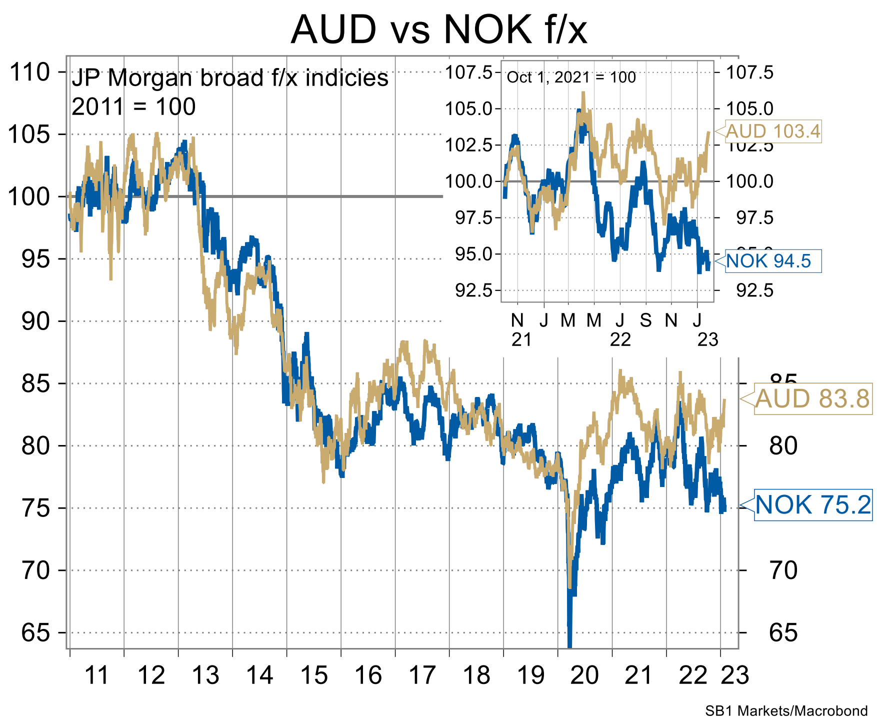
The NOK has been closely in sync with the global stock market since April – <u>but not so the recent weeks</u>

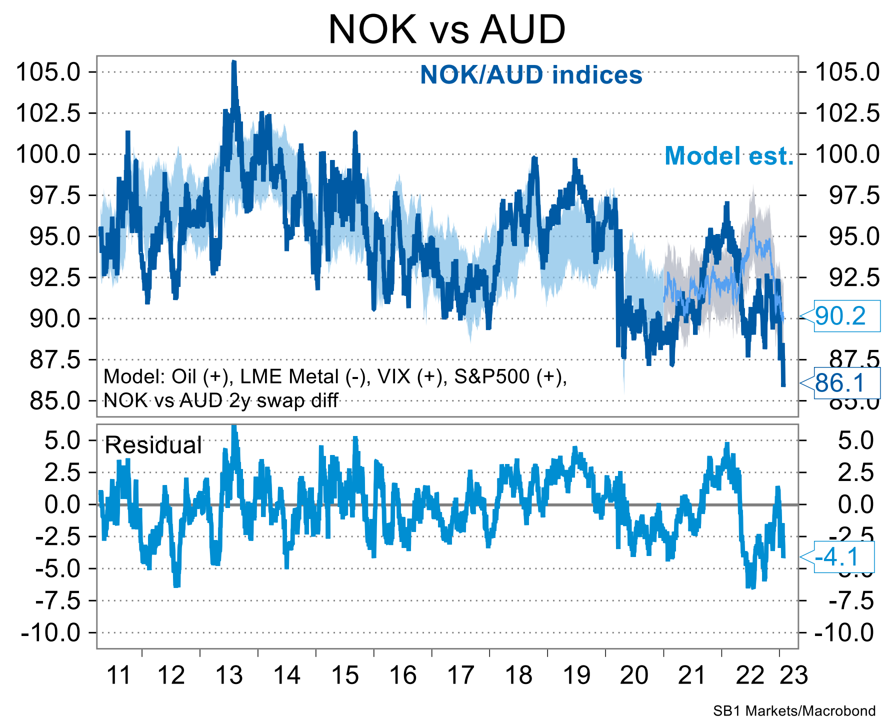




- There has not been any stable correlation over time, and when it is, the oil price is normally the real driver. *Not so much recent weeks*

The NOK/AUD gap widened last week, as the AUD rose after a high CPI print

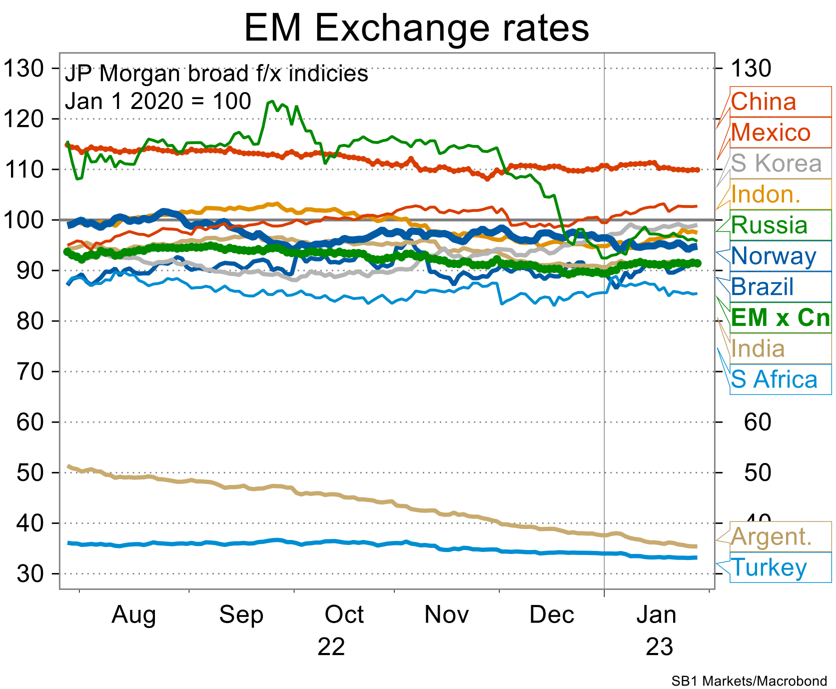


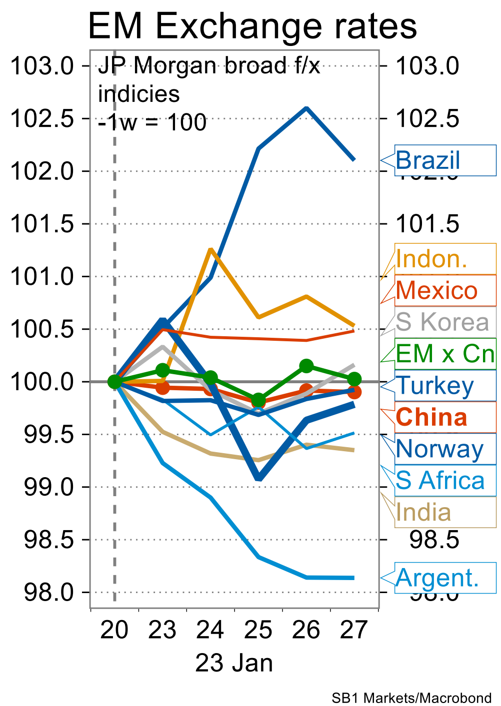


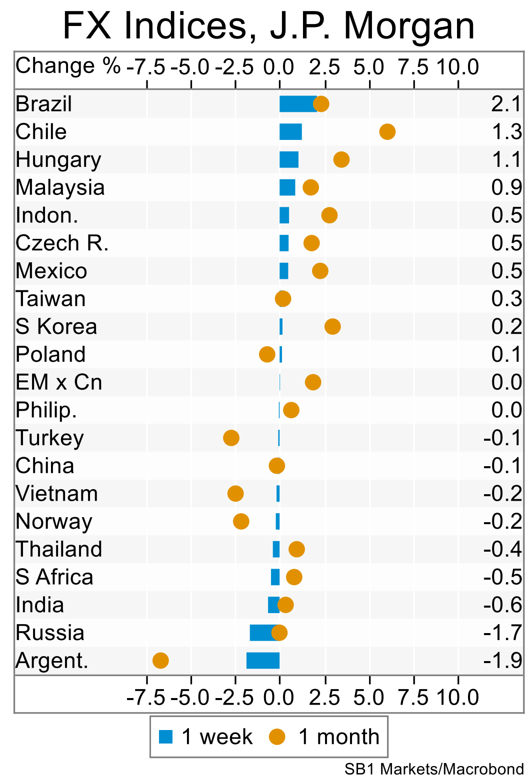
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases. The impact of interest rate differentials vs trading partners is added back to the model

EM f/x markets calm too. Brazil up, Argentina down as a f/x union is discussed

An odd couple? Anyway Argentina deserves something better than the peso (And Turkey something better than the lira)







Disclaimer

SpareBank 1 Markets AS ("SB1 Markets")

This report originates from SB1 Markets' research department. SB1 Markets is a limited liability company subject to the supervision of The Financial Supervisory Authority of Norway (Finanstilsynet). SB1 Markets complies with the standards issued by the Norwegian Securities Dealers Association (VPFF) and the Norwegian Society of Financial Analysts. This message, and any attachment, contains confidential information and is intended only for the use of the individual it is addressed to, and not for publication or redistribution.

Author's own views

This report is an outsider's view of the financial instruments referred to in the report. It has been produced by the authors independent of any issuers mentioned in the report, and independent of other divisions of SB1 Markets. The authors of this report confirm that, notwithstanding potential conflicts of interest referred to herein, the views expressed in this report accurately reflect the author's personal views of the relevant issuers, and that no part of the authors' compensation is related to the views expressed in the report, the performance of their investment recommendations, investment banking assignments or other specific services performed by SB1 Markets. The analyst partakes in the general bonus scheme of SB1 Markets, and as such, may receive compensation that is generated by overall firm profitability.

No investment recommendation

The objective of this report is to understand the value drivers in the sector or group of companies mentioned in the report, how the companies perform compared to each other and how they are valued compared to each other. The report seeks to works as a screening tool for and to identify relative under-/overvaluation for further investigation. The analyses and statements in this report must be seen as marketing material and not as an investment recommendation within the meaning of Regulation (EU) No 596/2014 on market abuse (market abuse regulation), as implemented in the relevant jurisdictions, and associated rules.

No investment advice

The report does not provide tailored personal investment advice within the meaning of section 2-3 (4) of the Norwegian securities trading act. The report is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product mentioned in this report, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product.

Research for the purposes of unbundling

This report is deemed to constitute a minor non-monetary benefit for the purposes of the inducement rules under MiFID II. The report is publicly available on our website (no log-in required).

Sources of information

This report is based on information obtained from public sources that SB1 Markets believes to be reliable but which SB1 Markets has not independently verified, and SB1 Markets makes no guarantee, representation or warranty as to the accuracy or completeness. This report does not, and does not attempt to, contain everything material which there is to be said about the Company. Any opinion expressed herein reflect SB1 Markets' judgement at the time the report was prepared and are subject to change without notice.

Limitation of liability

Any use of information contained in this report is at your own individual risk. SB1 Markets assumes no liability for any losses caused by relaying on the information contained in this report, including investment decision you may have taken on the basis of this report.

Risk warning

Return on investments in financial instruments is inherently exposed to risks. Past performance is not a reliable indicator of future performance, and estimates of future performance are based on assumptions that may not be realized. When investing in financial instruments, the value of the investment may increase or decrease and the investor may lose all or part of the investments.

Conflicts of interest

SB1 Markets, affiliates and staff may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) in any stock mentioned in this publication. To mitigate possible conflicts of interest and counter the abuse of confidential information and insider knowledge, SB1 Markets has set up effective information barriers between divisions in possession of material, non-public information and other divisions of the firm. Our research team is well versed in the handling of confidential information and unpublished research material, contact with other departments of SB1 Markets, and restrictions on personal account dealing.

Investment services provided by SB1 Markets

SB1 Markets may have provided investment services and/or ancillary services to the issuers mentioned in this report and received compensation for it during the past 12 months. Please refer to our webpage for an overview of all investment banking assignments carried out in the last 12 months: www.sb1markets.no. Note that assignments subject to confidentiality are excluded.

Ownership of securities issued by the companies covered in this report

The authors of this report do not (alone or jointly with related persons) own securities issued by the companies mentioned in this report. SB1 Markets may have holdings in the issuers mentioned in this report as a result of own account trading, market making and/or underlying shares as a result of derivatives trading. For an overview of instruments where SB1 Markets and related companies are market makers or liquidity providers, please refer to our webpage: www.sb1markets.no. Information on SB1 Markets' holdings as a result of own account trading is available upon request.

Limitation on distribution

This publication is not intended for, and must not be distributed to, individuals or entities in jurisdictions where such distribution is unlawful.