Macro Weekly

6/23

03/02/2023

Due to travelling activities, we distribute our weekly report early Friday afternoon. The US labour market report and service sector PMIs/ISM, which are scheduled later today, are not included. Our market comments are even more rudimentary than normal.

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**
  - No news from the east front
  - **European natural gas & electricity prices** rose somewhat last week but less than the decline the previous week – and prices are 'low'
  - The **oil price and most other commodity prices** fell, even if equity markets rose sharply on hopes for a better future (and low rates forever)
  - Mobility has returned to a high level after the **Chinese New Year**
- **Central banks: Light in the end of the tunnel**
  - **Federal Reserve:** +25 bp to 4.50% – 4.75%, as expected. The FOMC acknowledged the obvious, that inflation has eased but nothing else was changed in the press release. In Powell's introduction at the press conference, he sounded rather hawkish, especially vs. the need for get the labour market back in balance and that the policy rate most likely would be hiked further. However, in the Q&A he probably was somewhat more dovish regarding the need for tighter financial conditions, that the bank now will become data dependant vs. further hikes as the assumed terminal rate is coming closer, and that wage and price inflation could come down without hurting the economy too much. Bond yields fell some 10 bps, and the Nasdaq shot up (even before help from the Metaverse)
  - **ECB:** +50 bp to 2.50%, as expected. The bank strongly signals a further 50 bp-hike at the next meeting in March, but is this open for debate – even in Lagarde strongly stated willingness to lift rates further. However, inflation risks have become more balanced. The market's expected terminal rate fell somewhat but remains above 3.5% but further out on the curve, rates fell sharply. With support from the decline in US bond yields, German bond yields recorded one of the largest daily declines ever
  - **Bank of England:** +50 bp to 4.00%, as expected. The bank signalled that future interest rate hikes would not be that aggressive, and possibly less than the market expected – before the meeting, that is. The bank revised its inflation forecasts significantly down, mostly due to lower energy prices, even if growth was revised upwards. However the bank is for good reason worried about the labour market & wage inflation, and the stick was not hidden. Rate expectations fell, here too – the terminal rate by 10 bp to 4.35%
- **January PMIs**
  - The **global PMI** probably rose some 1.3 – 1.4 p to around 49.6, still signalling growth far below trend. The PMIs rose in a large majority of countries, including US, EMU (to above 50), China (to above 50, but more to come), Japan. India is at the top of list
  - Both the manufacturing sector and services contributed
  - Delivery times have normalised, price indices are trending down – but not further in January
  - The **US ISM** manufacturing index fell further and more than expected. The order inflow is still very weak – and is, together with a bunch of other surveys, strongly suggesting that the US is entering a recession (these order surveys have so far never been wrong)
  - The Norwegian manufacturing index was unchanged at 50.0

Last week II

- **USA**
  - **The labour market:** The job openings (vacancy) rate rose sharply in December, even if it was expected down. The no. of hirings rose. The SME survey confirms a still tight labour market: More companies were unable to fill openings in January (45%, from 41%), way above a normal level and many more companies than normal plan to lift compensation the coming months
  - The **employment cost index** (ECI) rose 1,0% q/q, 0.1 less than expected. The annual rate is still at 5%. **Hourly compensation** rose 4.2% in Q2. However, as productivity rose by 3%, **Unit Labour Cost** (ULC) in the nonfarm business sector rose just 1.1% in Q4 – and underlying growth may be slowing
  - Thus, the jury is still out vs. the labour market and wages – but the market thought news were good!
- **EMU**
  - **Headline CPI** inflation fell another 0.7 pp to 8.5% y/y on a 3% m/m fall in energy prices and much more than expected, but the core rate remained unchanged at the highest level ever in January, at 5.2%. Both food and goods prices are still rising at a rapid pace. Inflation is still high across the member countries, ranging from 11.3% - 5.8%, but all but France is down from the peak. That's not the case for the core rate
  - **Unemploymen**t remained unch. at 6.6% the lowest level since 1989 (though revised up 0.1 pp – and the no. of uneploymed grew marginanlly
  - **GDP** grew by 0.5% (0.1% not ann.) in Q4, expected flat
- **Sweden**
  - **GDP** was far weaker than expected in Q4, down 0.6% vs expected up 0.1%. In addition, the history was revised down, and GDP contracted by 0.6% y/y in Q4, expected up 1.2%. Don't laugh, others have also been forced to revised their GDP data…
- **Norway**
  - The **NAV unemployment** rate fell 0.1 pp to 1.6% in Jan, from an 0.1 pp upward revised rate in December. However, the no. unemployed rose marginally, as we expected. Including labour market measures, the rate was unchanged at 2.0% (our calc). The no. of **new vacancies** rose in both Dec & Jan
  - **House prices** were unch m/m in January, we expected -0.5%. The annual rate dipped into red, -0.3%. Oslo prices rose 0.2%, less than some realtors had signalled. Sales rose, and the inventory fell slightly. Our flow based models suddenly suggest stable prices going forward. Some animal spirit has been ignited, perhaps due the easing of mortgage regulations?
  - **Average monthly wages** rose 3.7% last year – with no of acceleration through the year. However, as average hours worked fell, the full day equivalent wage rose by 4.4% (accrued, or 4.6% cash based). Until now, we (and SSB, Norges Bank) though the final answer would be below 4.0%. Another challenge ahead of the wage negotiations this spring, all did not get 4.4%, as the parties agreed upon 3.7 – 3.8%
  - **Credit growth** (C2) accelerated to 5.5% y/y in December. Households have marginally increased their borrowing since last summer – as rates go up, and house prices down. Mainland businesses are still hungry, their debts are up almost 9% y/y. Growth will slow, if investments slow, and most likely they will
  - The Min. of Finance today announced that the expenditure side of the budget will be revised in order to compensate for the higher than assumed growth in prices and wages that has led to an unintended fiscal tightening. At the revenue side, higher prices and wages increase the governments revenues (VAT, income taxes). We doubt the budget in will turn out to be less tight than the original proposal – barring a substantial weakning of the economy that will be met by stimulus measure

A quite week: The Riksbank will hike by 50 bps, Norw. inflation will accelerate

Time	Count.	Indicator	Period	Forecast	Prior
Monday Feb 6					
	GE	CPI YoY	Jan P	9.2%	8.6%
11:00	EU	Retail Sales MoM	Dec	-2.0%	0.8%
Tuesday Feb 7					
08:00	NO	Manufacturing prod MoM	Dec	(0)	-0.5%
14:30	US	Trade Balance	Dec	-$68.7b	-$61.5b
Wednesday Feb 8					
06:00	SW	House prices, realtors	Jan		
Thursday Feb 9					
08:00	NO	Unfilled vacancies	Q4	(3.0%)	3.2%
09:30	**SW**	**Riksbank Policy Rate**	**Feb-09**	**3.0%**	**2.5%**
14:30	US	Initial Jobless Claims	Feb-04		183k
Friday Feb 10					
02:30	CN	CPI YoY	Jan	1.8%	1.8%
02:30	CN	PPI YoY	Jan	-0.4%	-0.7%
08:00	UK	GDP QoQ	4Q P	0.0%	-0.3%
08:00	UK	Manufacturing Production MoM	Dec		-0.5%
08:00	**NO**	**CPI YoY**	**Jan**	**(6.4)**	**5.9%**
08:00	**NO**	**CPI Underlying YoY**	**Jan**	**5.7% (5.8)**	**5.8%**
16:00	US	U. of Mich. Sentiment	Feb P	65	64.9
20:00	US	Monthly Budget Statement	Jan	-$70.0b	-$85.0b
During the week					
	CN	Aggregate Financing CNY	Jan	5375.0b	1310.0b
	CN	New Yuan Loans CNY	Jan	4000.0b	1400.0b

- **China**
  - **Inflation** is not any problem, and will probably not be when the economy reopens
  - **Credit growth** has slowed even if the authorities have tried to stimulate growth, as least vs construction and housing
- **US**
  - No really important news!!
- **EMU**
  - **Retail sales** are trending down but so far less than signalled by consumer confidence surveys. However, sales probably fell sharply in December, like UK, Sweden and Norway. Sales in Germany were down 5.3% (but is often revised), and in Spain 2.2%, and France by 1%. Italy has reported higher sales
- **Sweden**
  - **The Riksbank** is expected to lift the signal rate by 50 bps again, to 3,00% - and to above Norges Bank's policy rate. House prices are down 13% - but inflation is up almost just as much, and the bank has signalled willingness to curb inflation by keeping demand for goods and services as well as labour down
  - Realtors will report their January **house price** data
- **Norway**
  - We expect **headline CPI** to accelerate in January as the electricity bill rose – on average – even if spot prices fell sharply. The 1 month fixed price contracts were set in mid Dec when the January electricity contract was very expensive, and as the subsidy support turned out to be low (as it is calculated from the spot price), the total cost will climb sharply for these fixed contracts (the opposite was the case in December). We expect the core CPI to remain unchanged y/y at 5.8%
  - **Manufacturing production** has been flattish recently, and now in accordance with the PMI and other surveys. Thus, our forecast is zero
  - The **vacancy rate** has peaked but remains high, twice the unemployment rate. We expect a decline in vacancies in Q4, but just a couple of tenths

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

Highlights

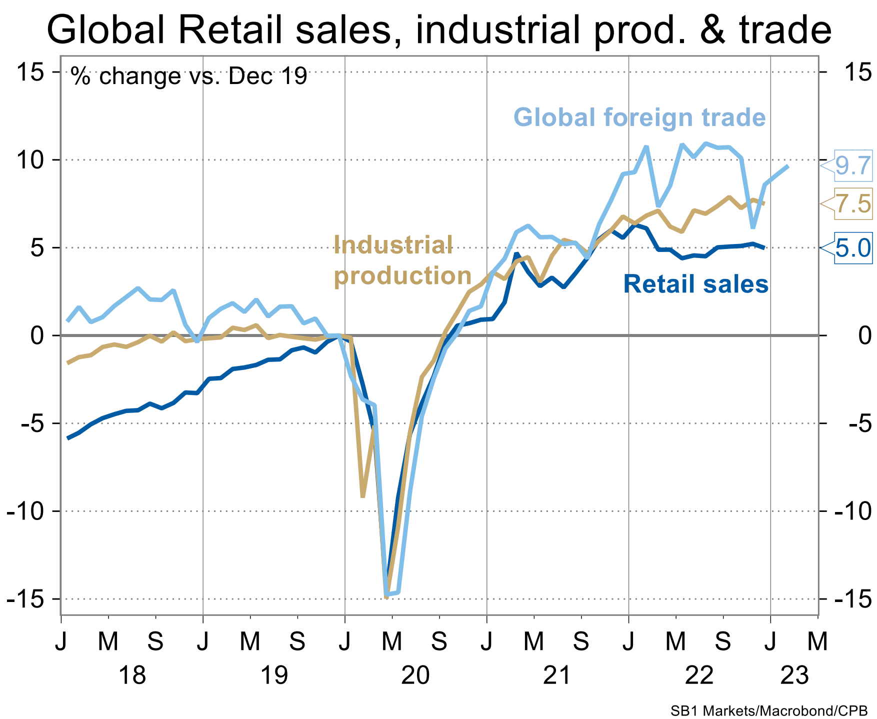
The world around us

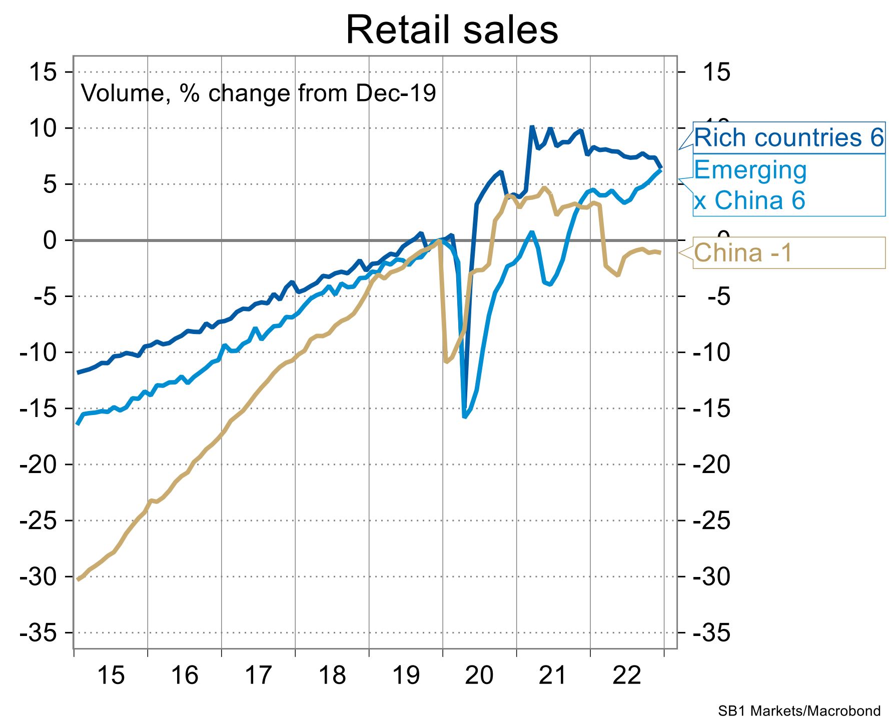
The Norwegian economy

Market charts & comments

Industrial production & retail sales most likely ~~flattish~~ down in December

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

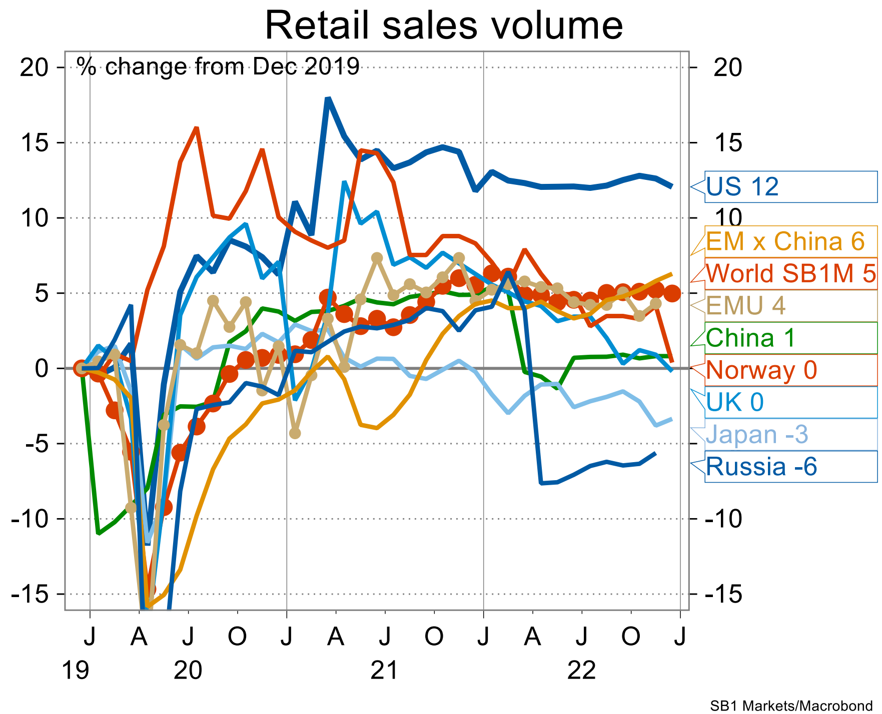


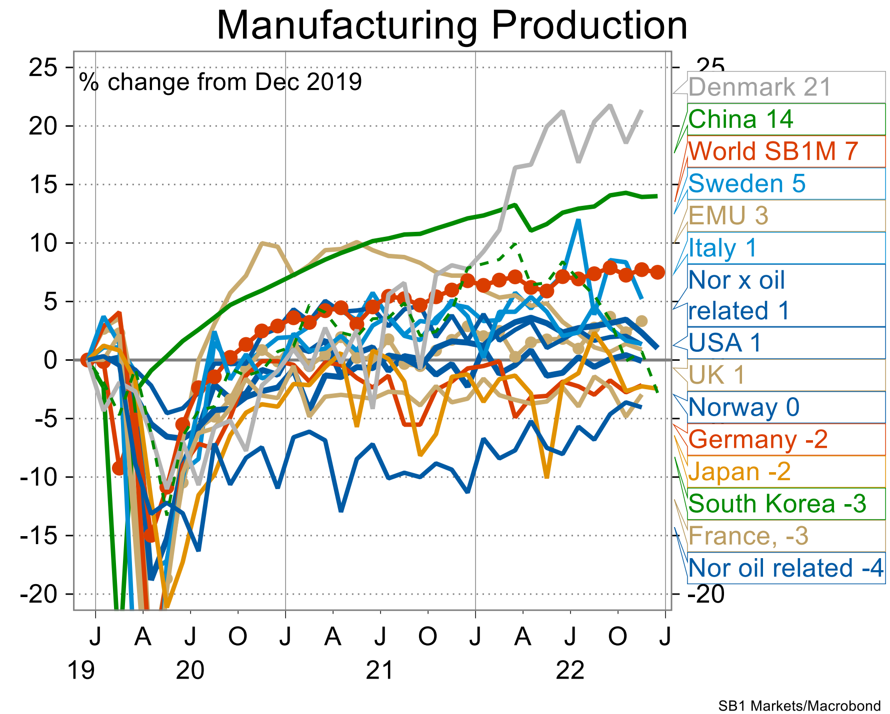


- These December data (and even more Jan/Feb trade data) are preliminary, as most countries have not yet reported

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

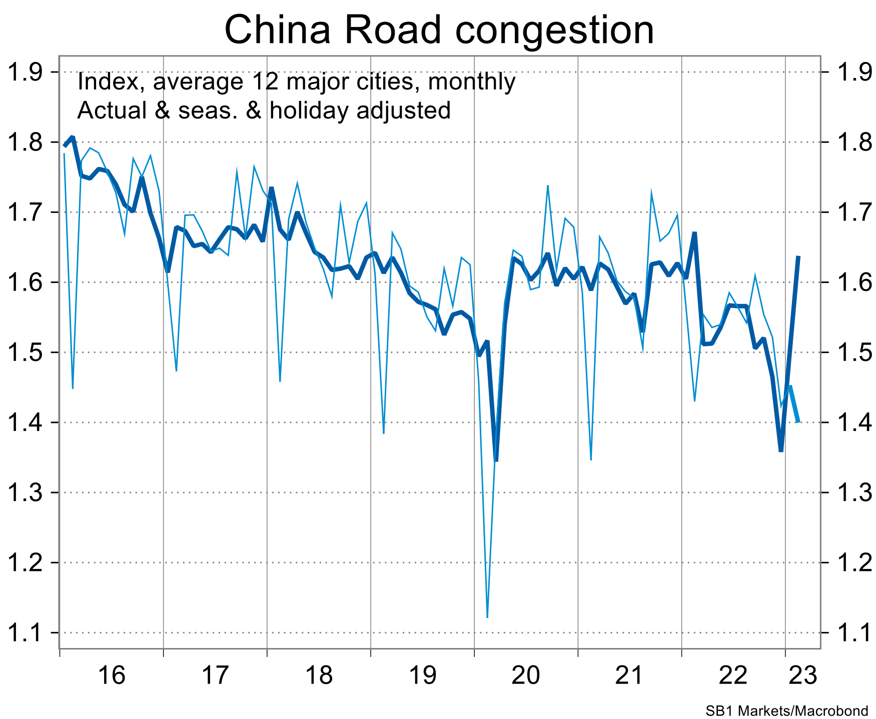


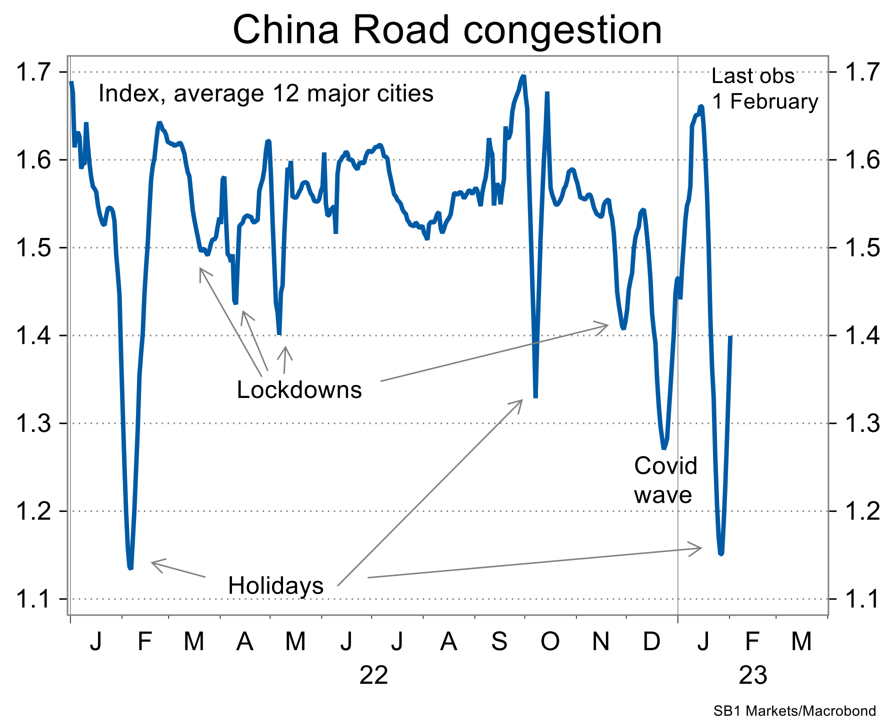


US retail sales: Personal consumption of goods, ex auto & energy

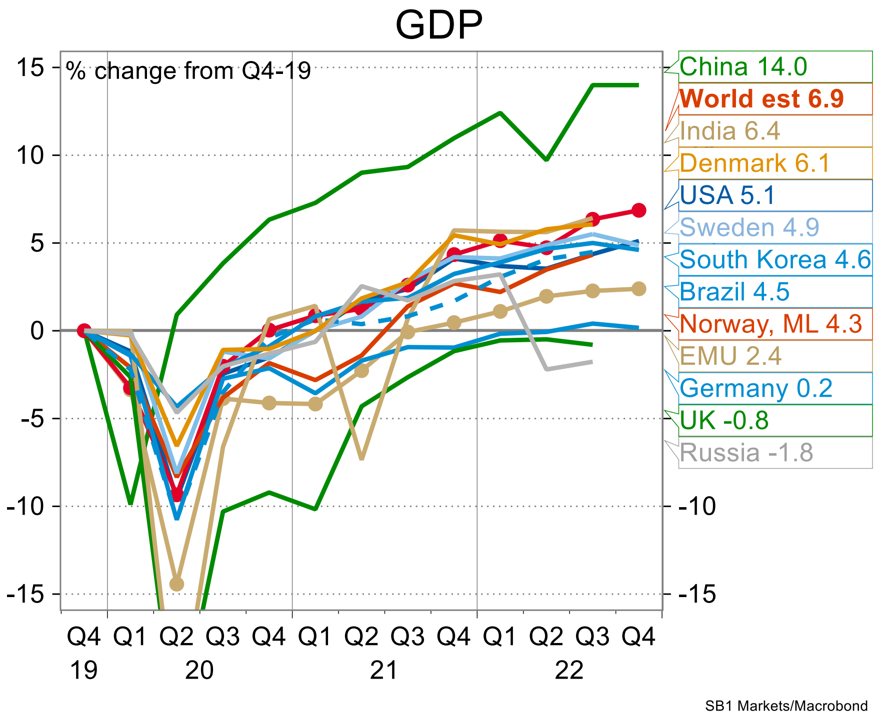
Road traffic was back to a normal level until the Chinese New Year arrived

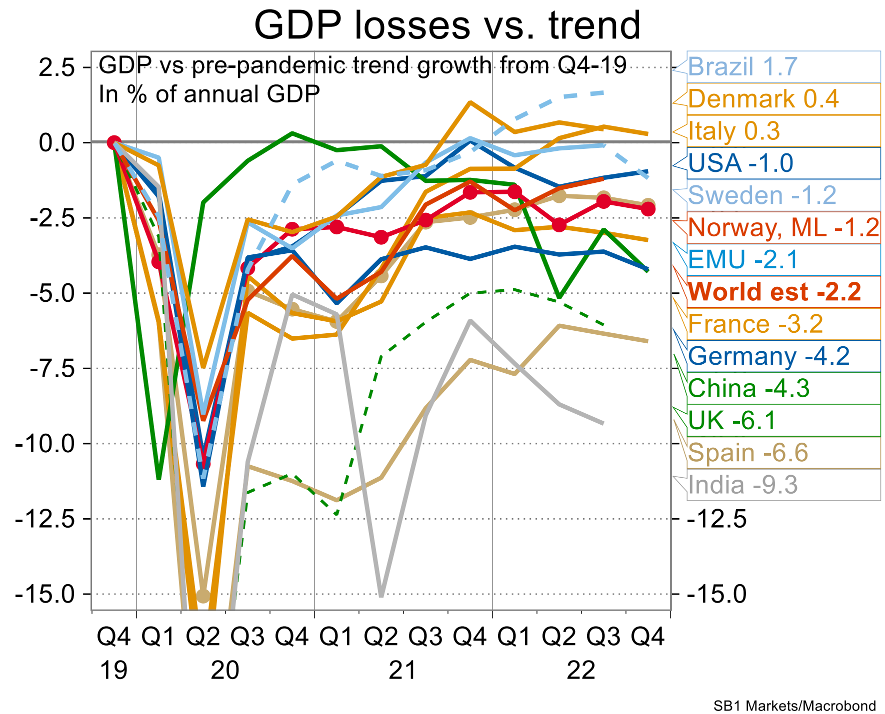
China has closed for the holidays now but we expect a brisk recovery as soon as the holidays are over





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

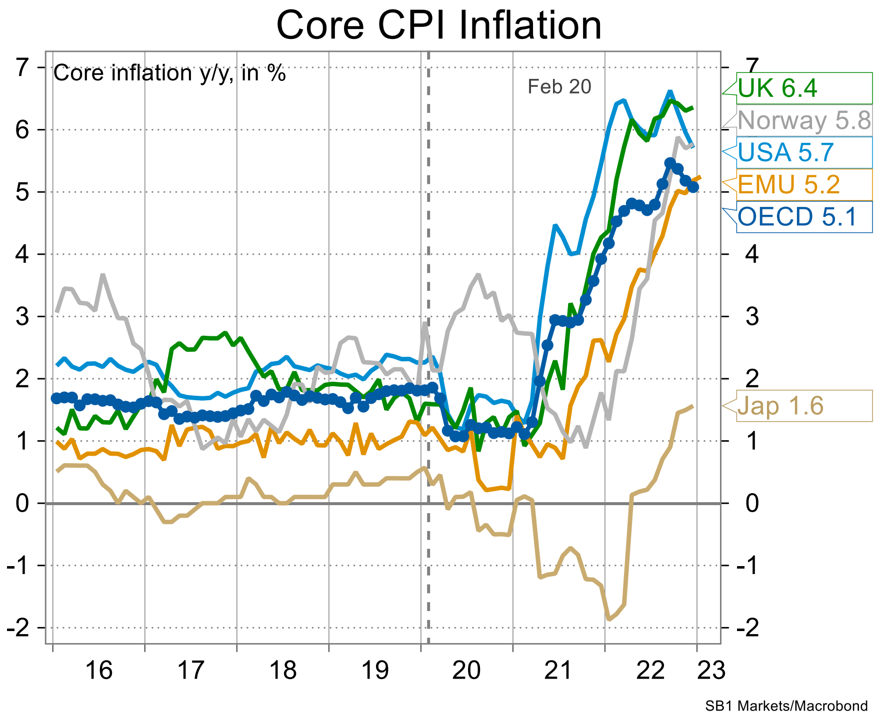


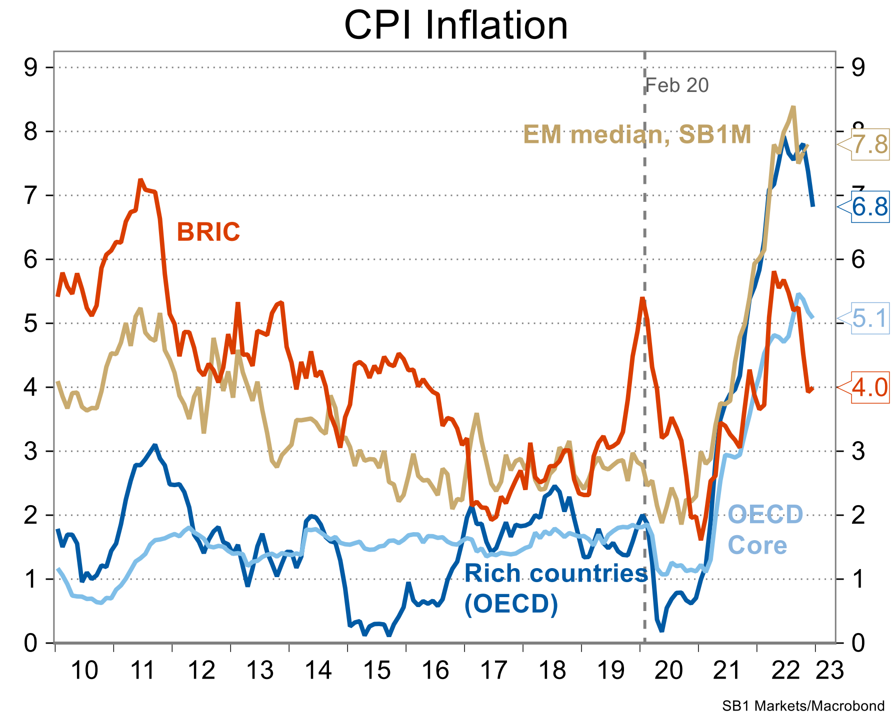


- Almost all countries are still reporting GDP levels that are far below the pre-pandemic trends – just Brazil, Italy (!) and Denmark are ahead

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

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

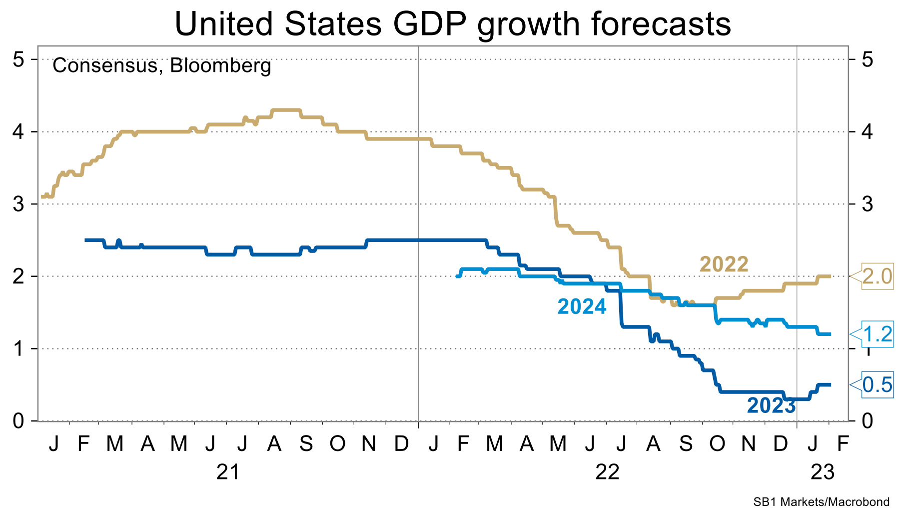


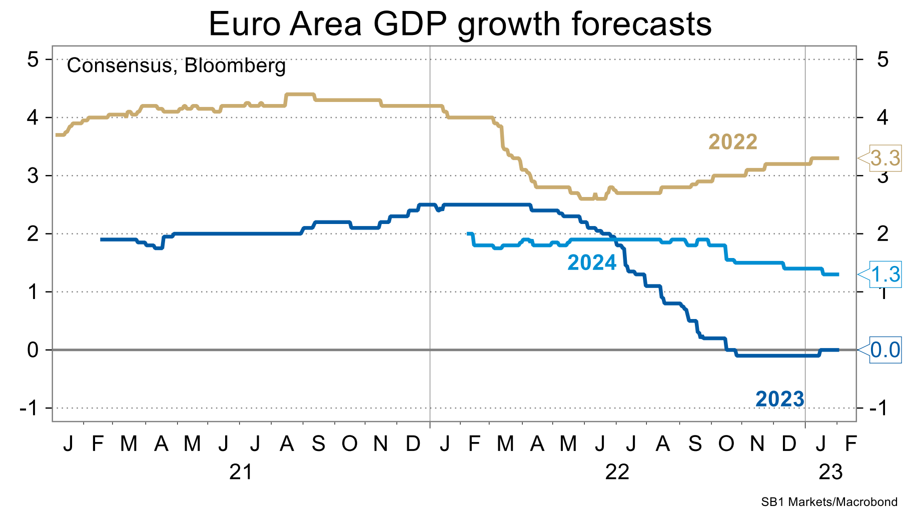


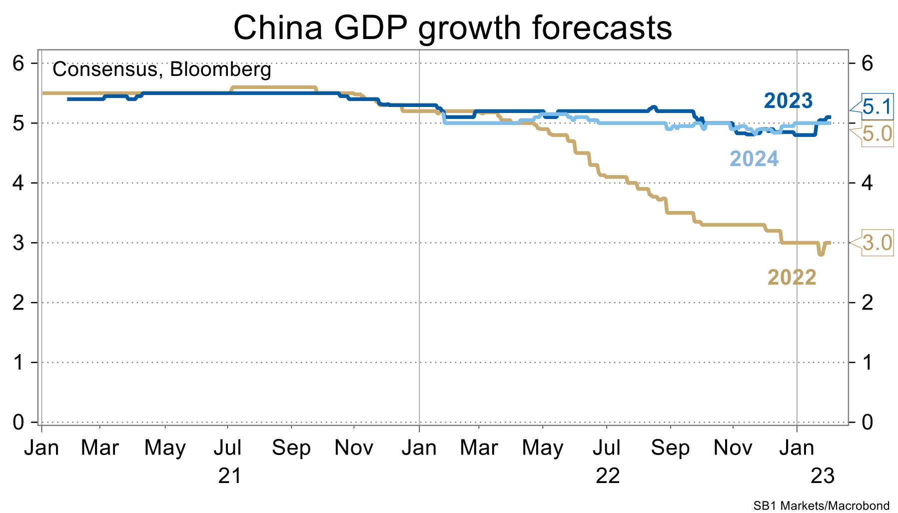
- We expect **inflation** to decline rapidly through 2023, as raw material prices and freight rates are declining, profit margins will come under pressure as demand, at least for goods, weakens in the rich part of the world. In the US, core goods prices are already declining
- In Europe, the big uncertainty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

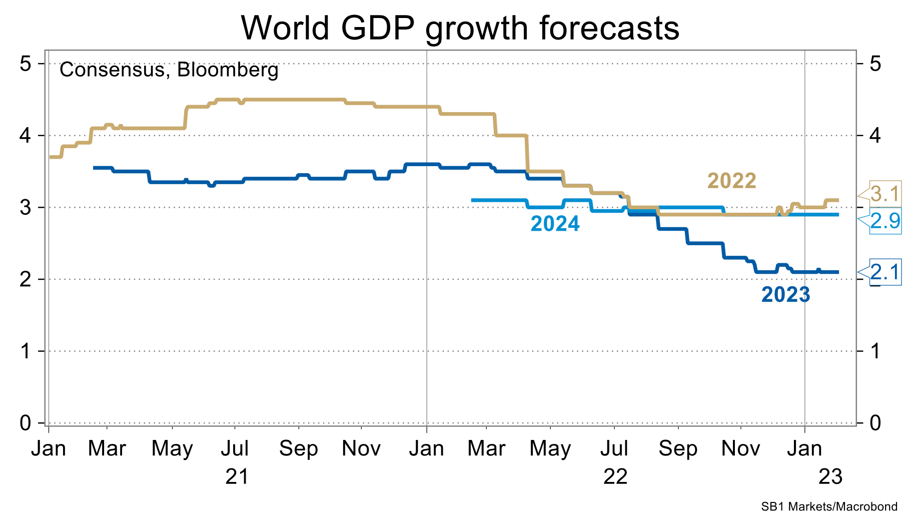
Chinese GDP growth forecast revised upwards again

No changes in the US or EMU this week – but the last revisions are up







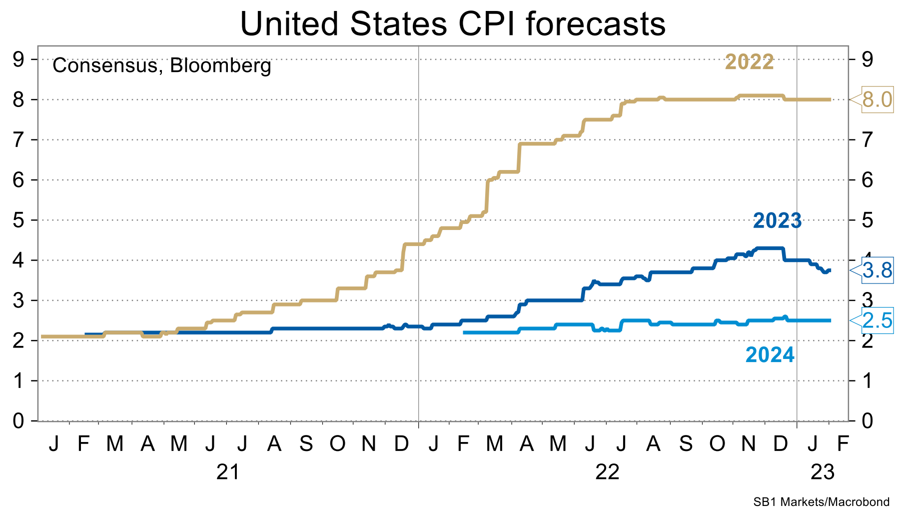


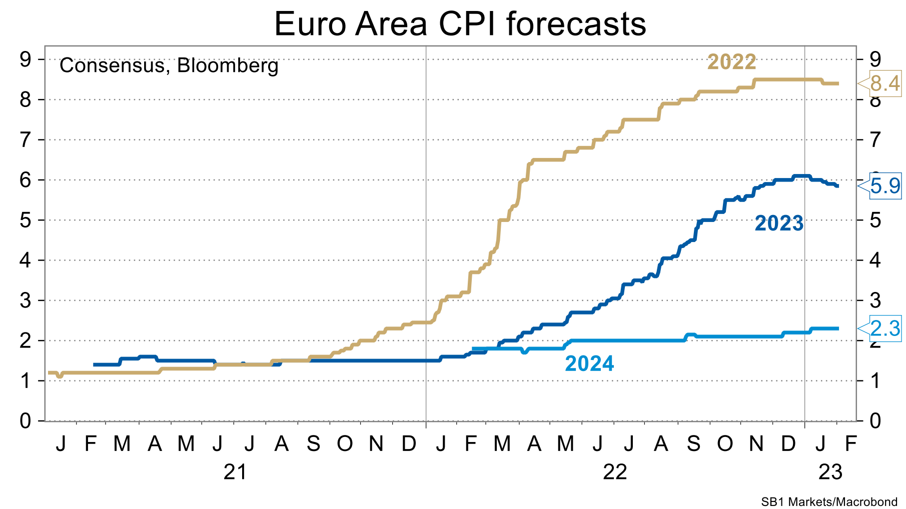
These charts (and the two at the next page, are based on forecasts collected by Bloomberg

SpareBank 1 MARKETS

2023 inflation expectations are falling both in the US & EMU

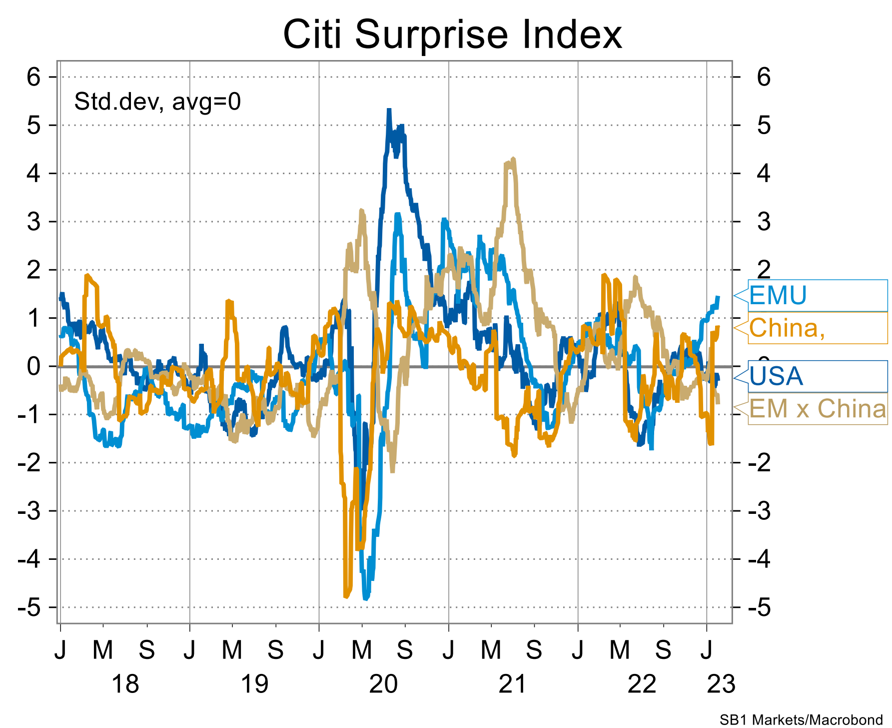
(barring a minor upward revision in the US). We expect more downward revisions the coming months

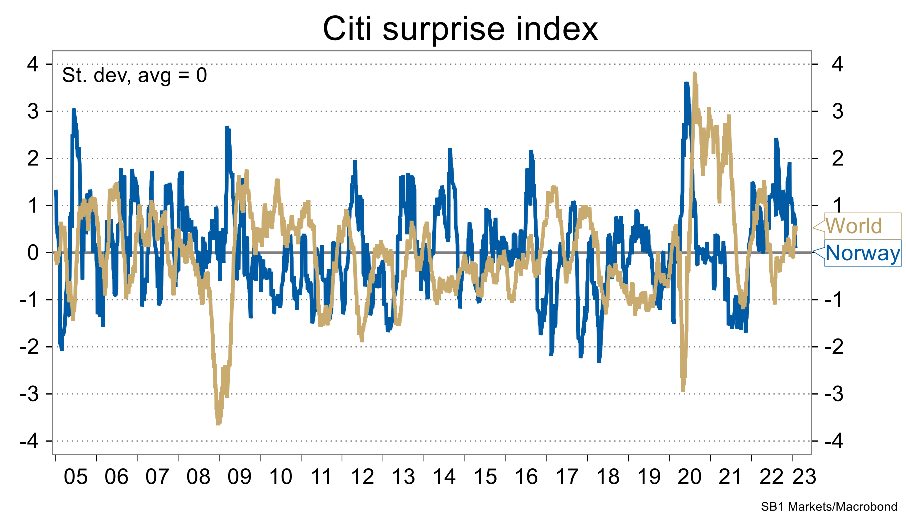


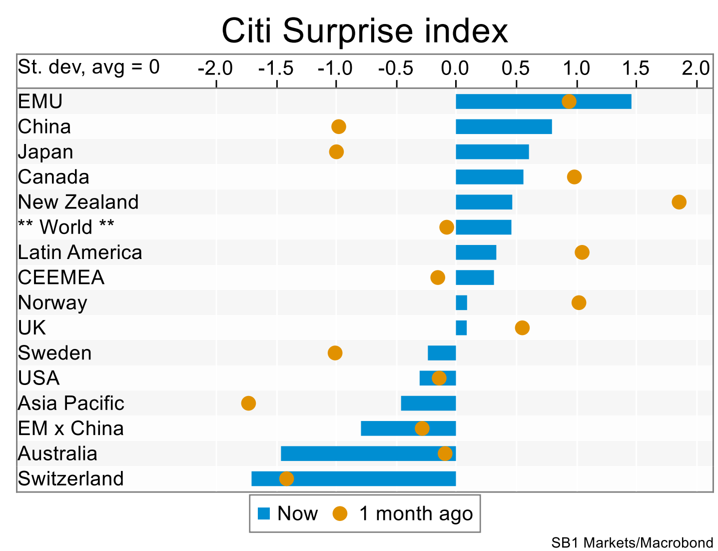


The world is surprising to the upside, even if US is still on downside

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





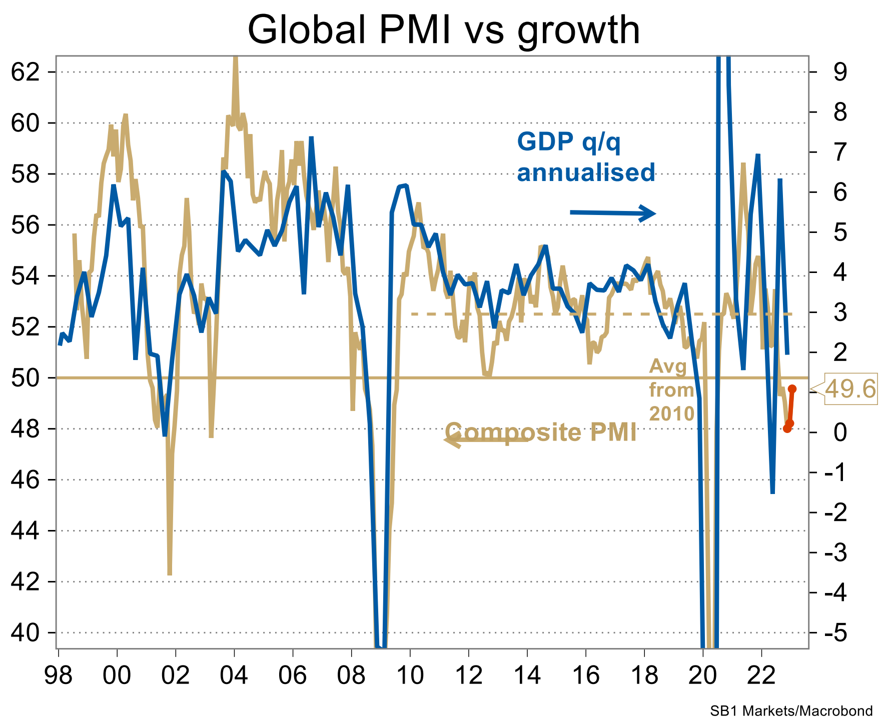


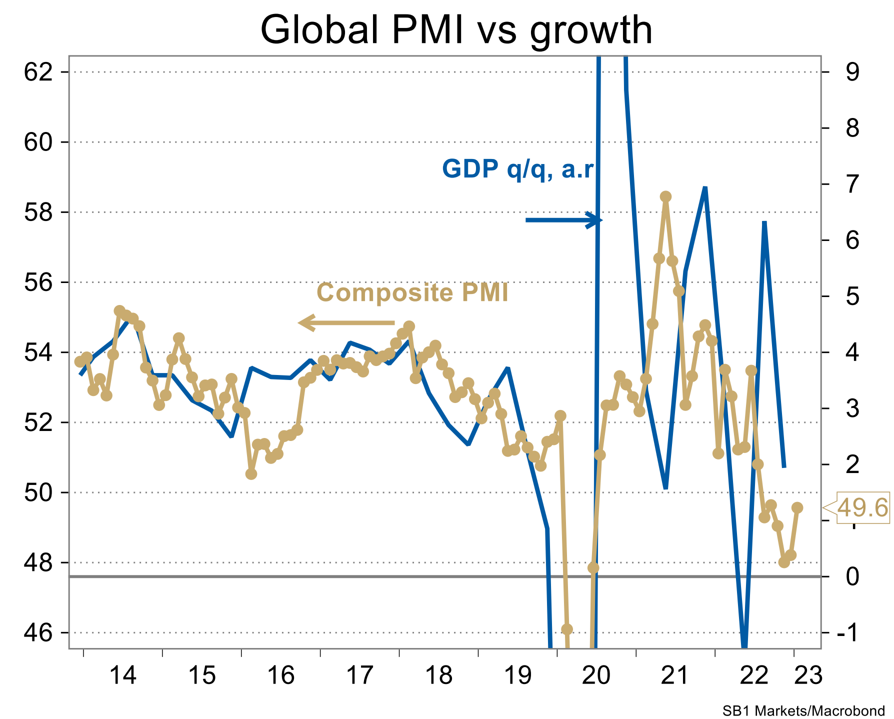
- **Norway** moved down on the list this week, but is still marginally above average

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

The global PMI probably rose 1.3 – 1.4 p to some 49.6 in January

Global growth well below trend is still signalled. India, China, Japan and EMU in the lead



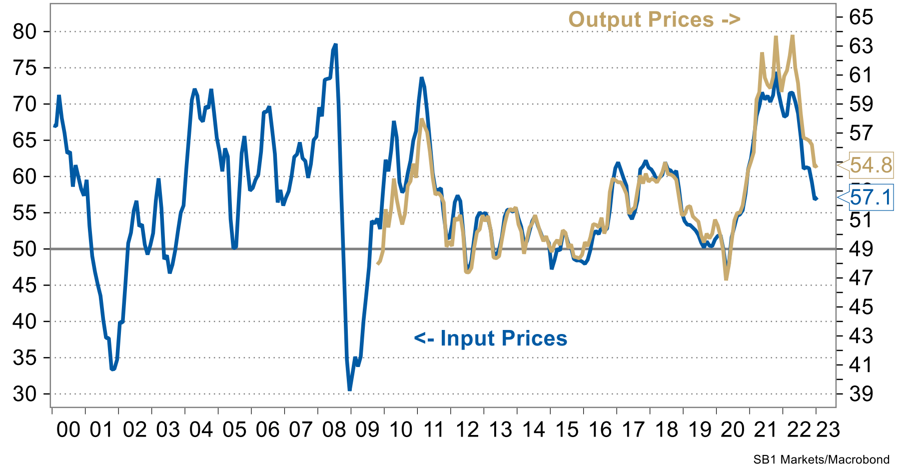


- Both the manufacturing sector and services contributed
- A majority of countries/regions contributed
- Both developed and emerging markets contributed. EM are still in the lead, with India (very likely, all data are not yet published) at the top
- The Chinese PMIs recovered to well above 50, as the economy now opens up. More to come in February, we think

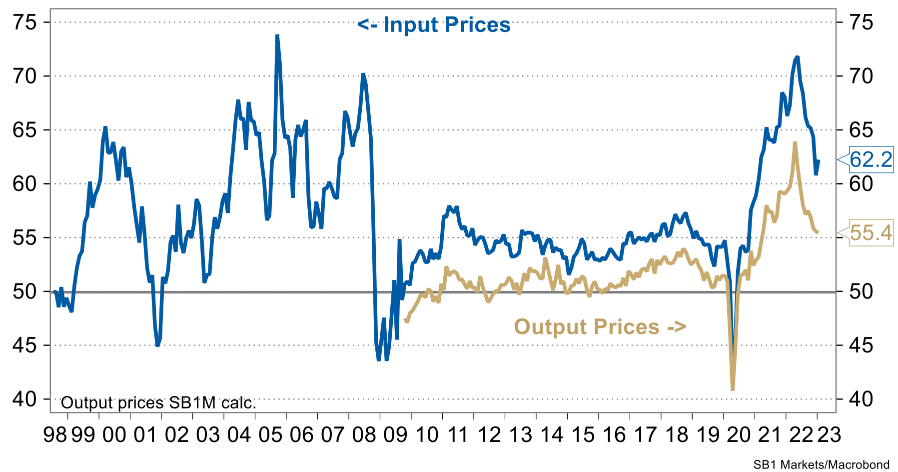
Price increases have slowed RAPIDLY, according to the PMIs

However, signals were mixed in January, and the global input price indices probably rose

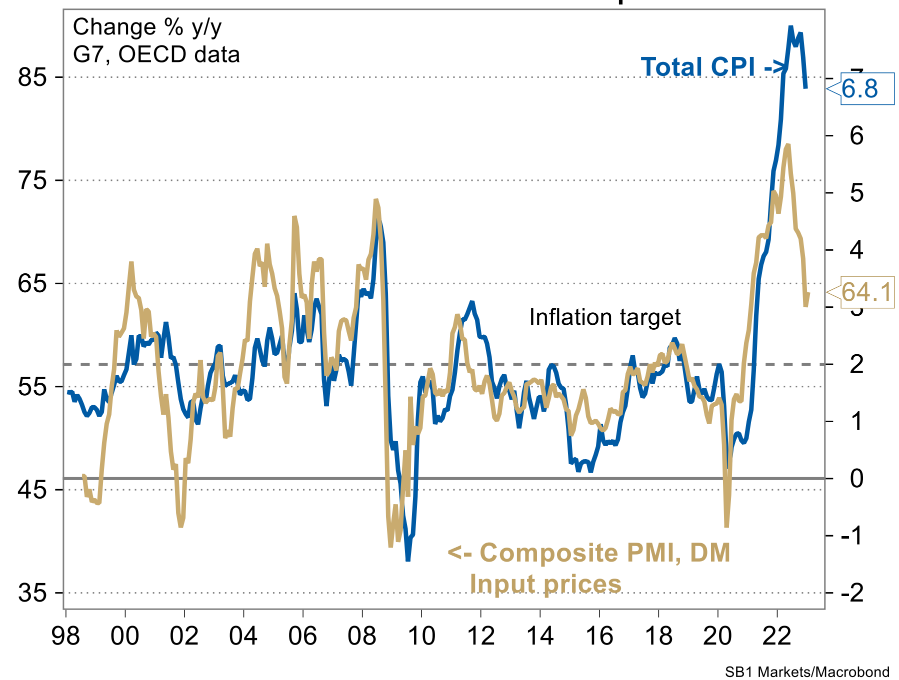
Global Manufacturing PMI Prices



Global PMI Services Prices



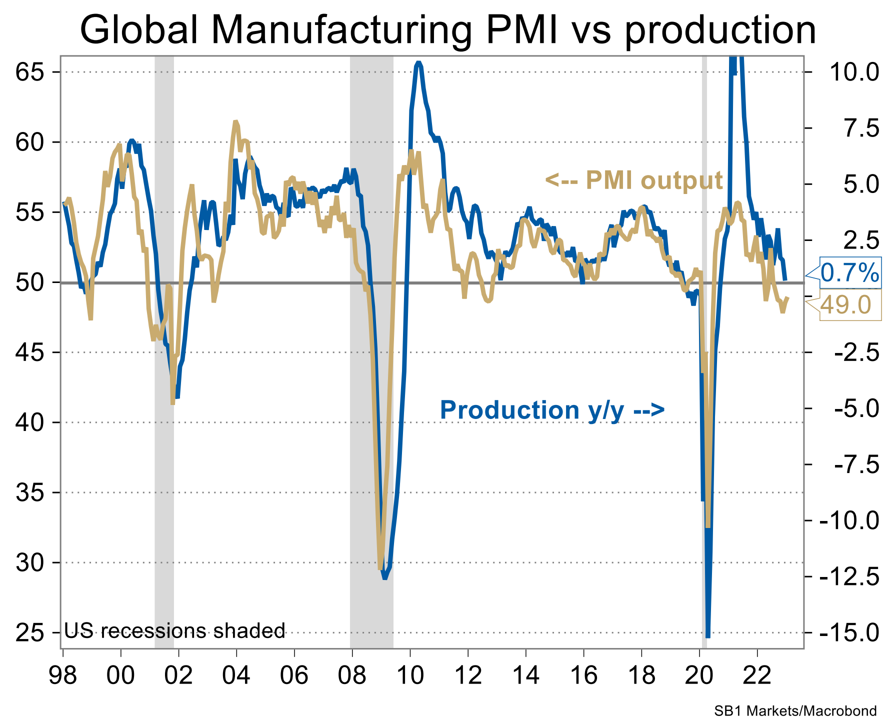
OECD Inflation vs PMI prices

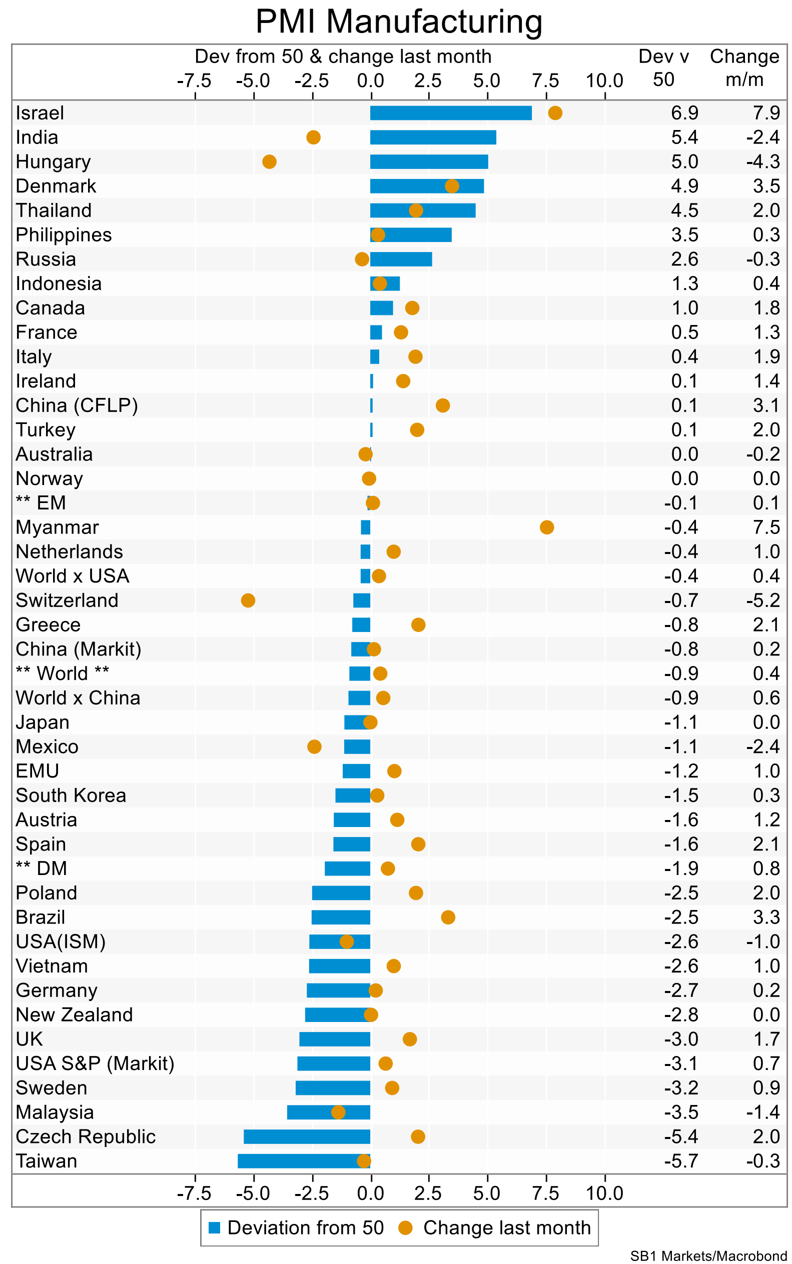


- Even so, a sharp slowdown in inflation is signalled

A small uptick in the global manuf. PMI, still below 50

While actual production ‘finally’ is stalling

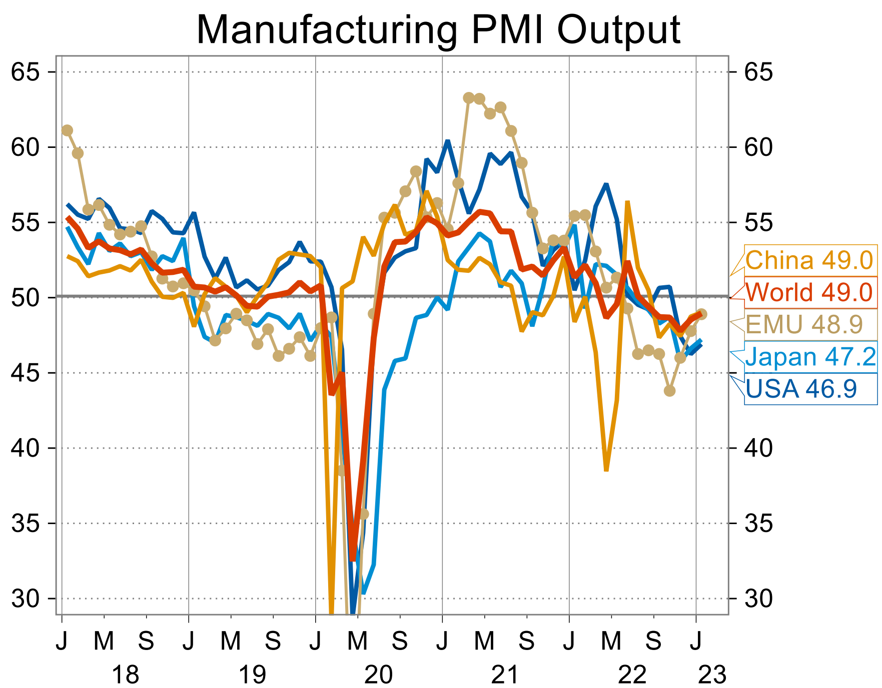


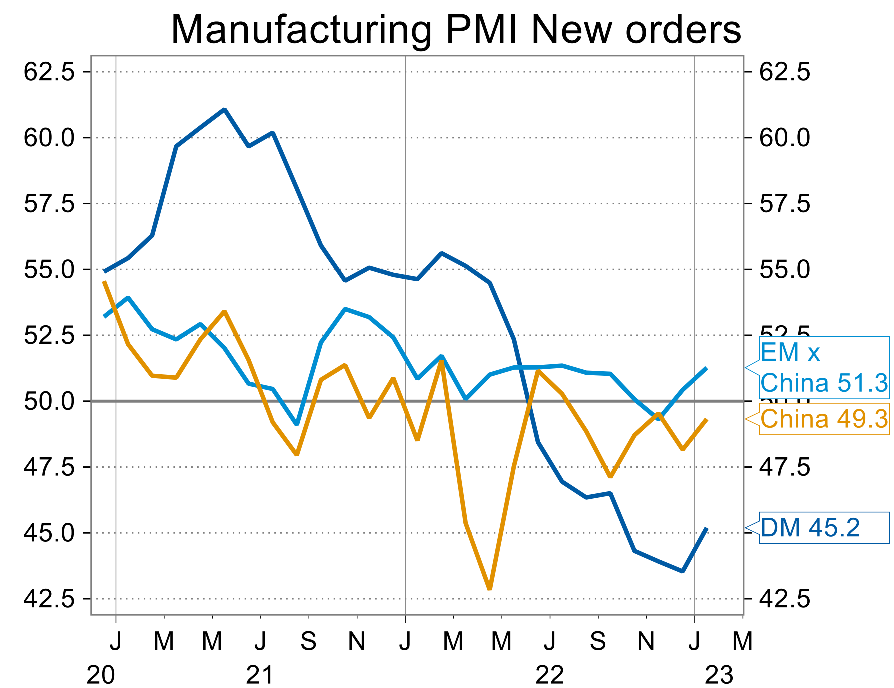


- **75% (!) of the PMIs** were up in Jan, but 60% are still below the 50-line
- **The manufacturing total** index and the output index gained 0.4 p to 49.0, and 49.0 resp., signalling a mild decline in production
- **Rich countries** are still far weaker than Emerging Markets, due to the weak prints in the US and UK – and Germany & Sweden
- **India** is at the top of the list, at 56.9
- **Norway’s** manufacturing PMI was unch. at 50, ranked no. 16 (from 12)
- **Sweden** has fallen rapidly recent months, but was up 0.9 p in Jan, to 46.8 – still a dismal reading

A broad uptick in January, all but EM x China are still under water

In EM x China orders are growing

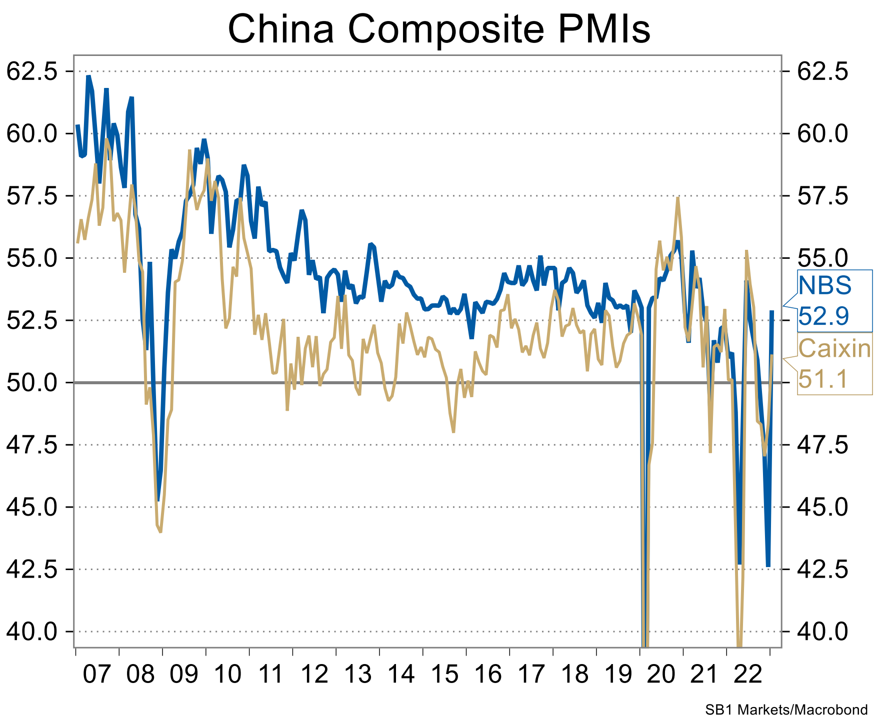


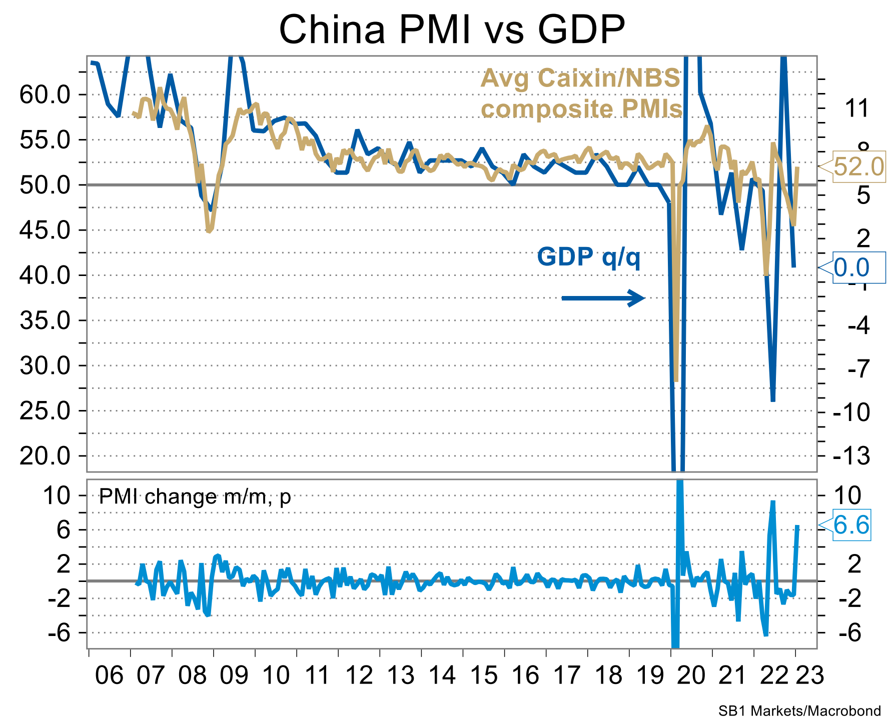


SpareBank 1 MARKETS

The recovery is underway, the PMIs up in January – and more to come in Feb

The NBS comp. PMI recovered sharply, by over 10 p to 52.9. Caixin's index rose just 2.3 p to 51.1

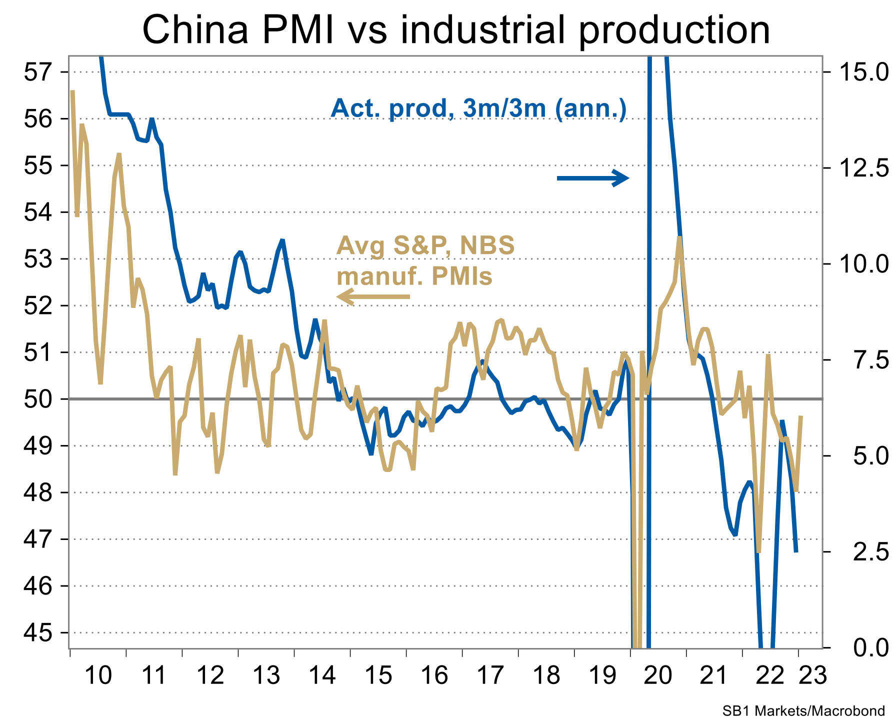




- The **NBS/CFLP composite PMI was very weak in December, and recovered sharply in January, with services in the lead**
- **Caixin** reported a far smaller uptick but the level is not that far below the 'official' PMI. Services contributed the most here too
- **The average** of the two data sets gained 6.6 p to 52.0, signalling growth close to trend
- As **mobility** is now rapidly normalising after the (most likely) last Covid wave, <u>we expect activity to increase sharply too</u>, especially in the service sector – but somewhat also in the manufacturing sector
  - In manufacturing, export orders were the weak link in January, probably influenced by waning demand in the rich part of the world

NBS manuf. PMI out of the woods in January, but Caixin's index still <50

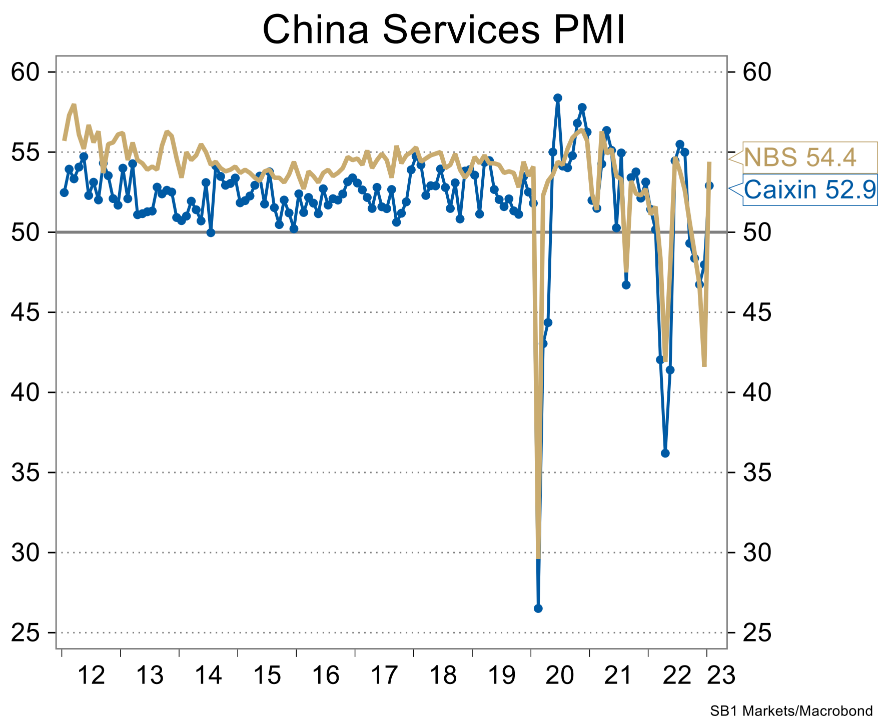
The Caixin survey was weaker than expected, while the NBS survey surprised to the upside. More to come in February

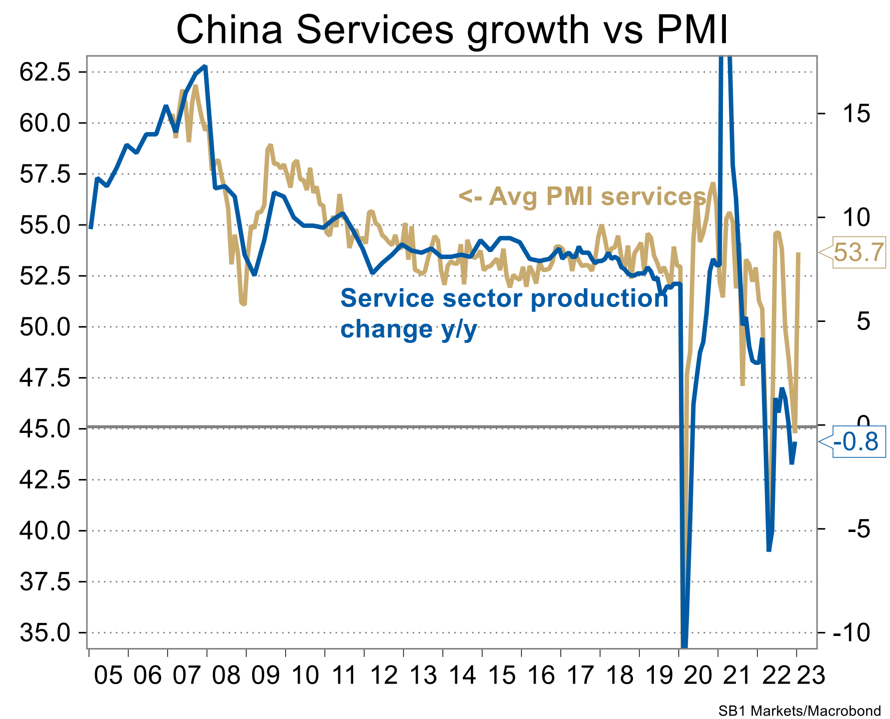


- The NBS manufacturing PMI gained 3.1 p to 50.1 in January, while the Caixin manufacturing PMI rose 0.2 p to 49.2
- Very likely, the manufacturing sector will report decent growth in February, as the virus has 'lost'

A brisk recovery in services underway

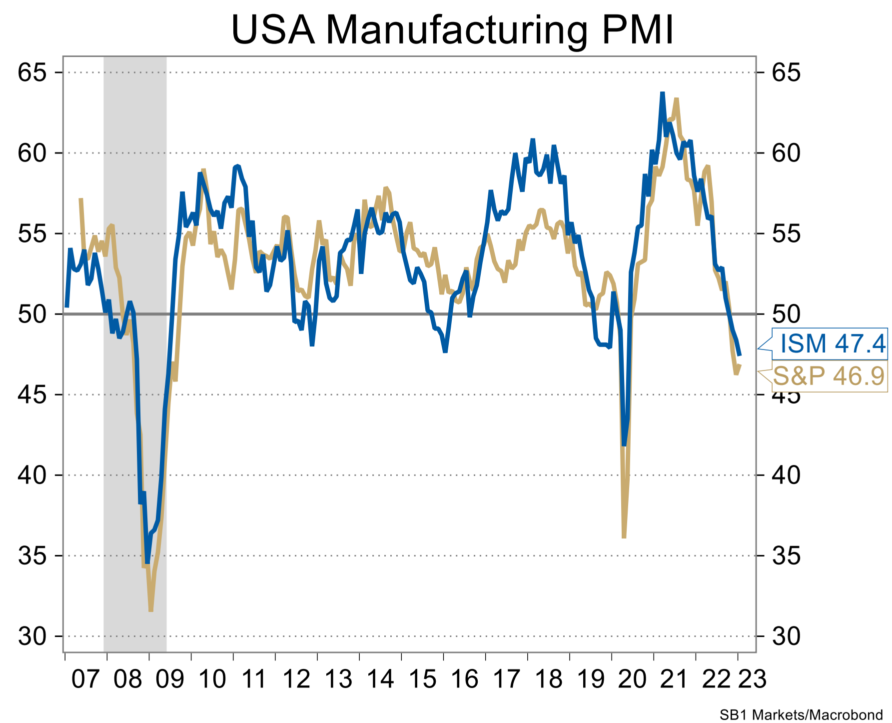
The two PMI data sets agree, the average up to 53.5 from below 45 in Dec, when Covid kept people at home, voluntarily

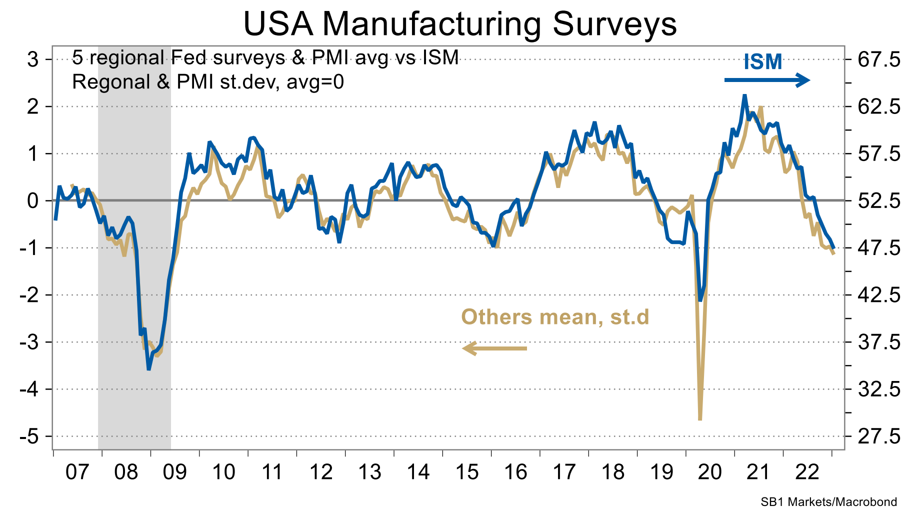


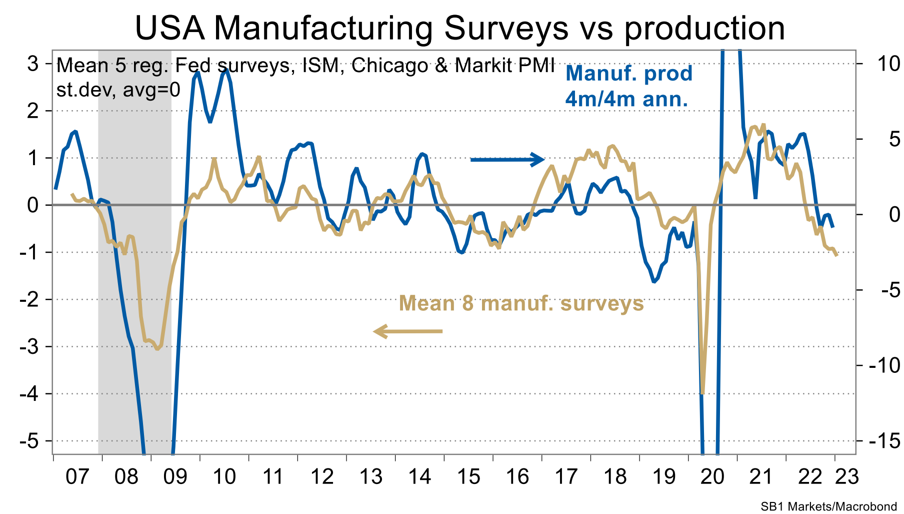


Manufacturing surveys remain below 50; production is pointing down too

The ISM fell 1 p to 47.4, expected 48.0. S&P's PMI up 0.1p to 46.9



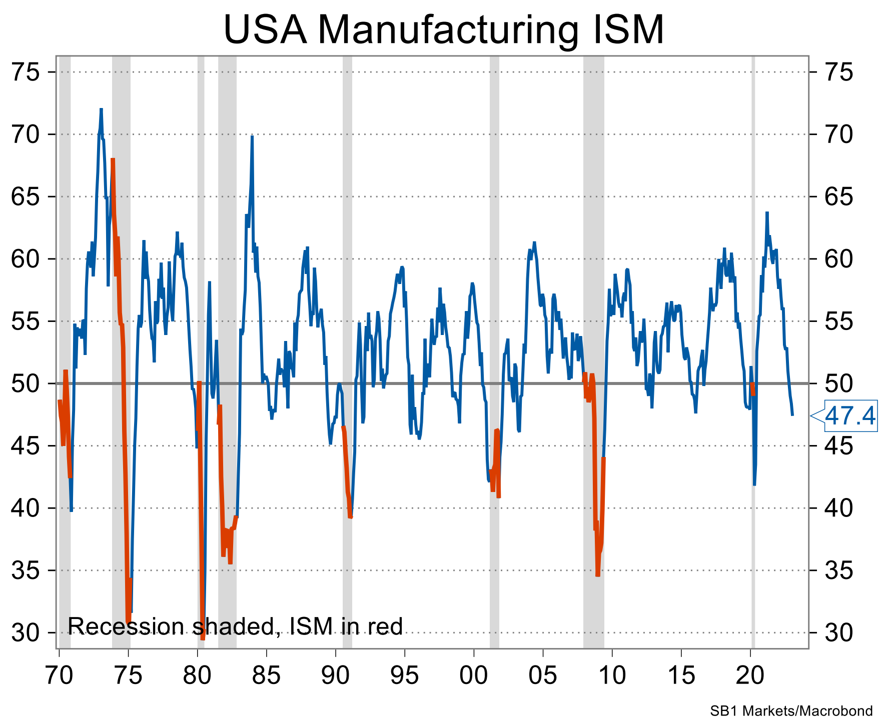




- Both the **ISM, the S&P's PMI and a bunch of regional Fed surveys** are heading straight down, and almost all are below average, and below the '50-line' (named 'zero' in some surveys), and the large majority declined further in January
- **Production** is finally heading down, but just marginally (is smoothed, both Nov & Dec was at the weak side). These surveys signal a further decline in activity

The manufacturing ISM fell further in Jan, as orders are falling rapidly!

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

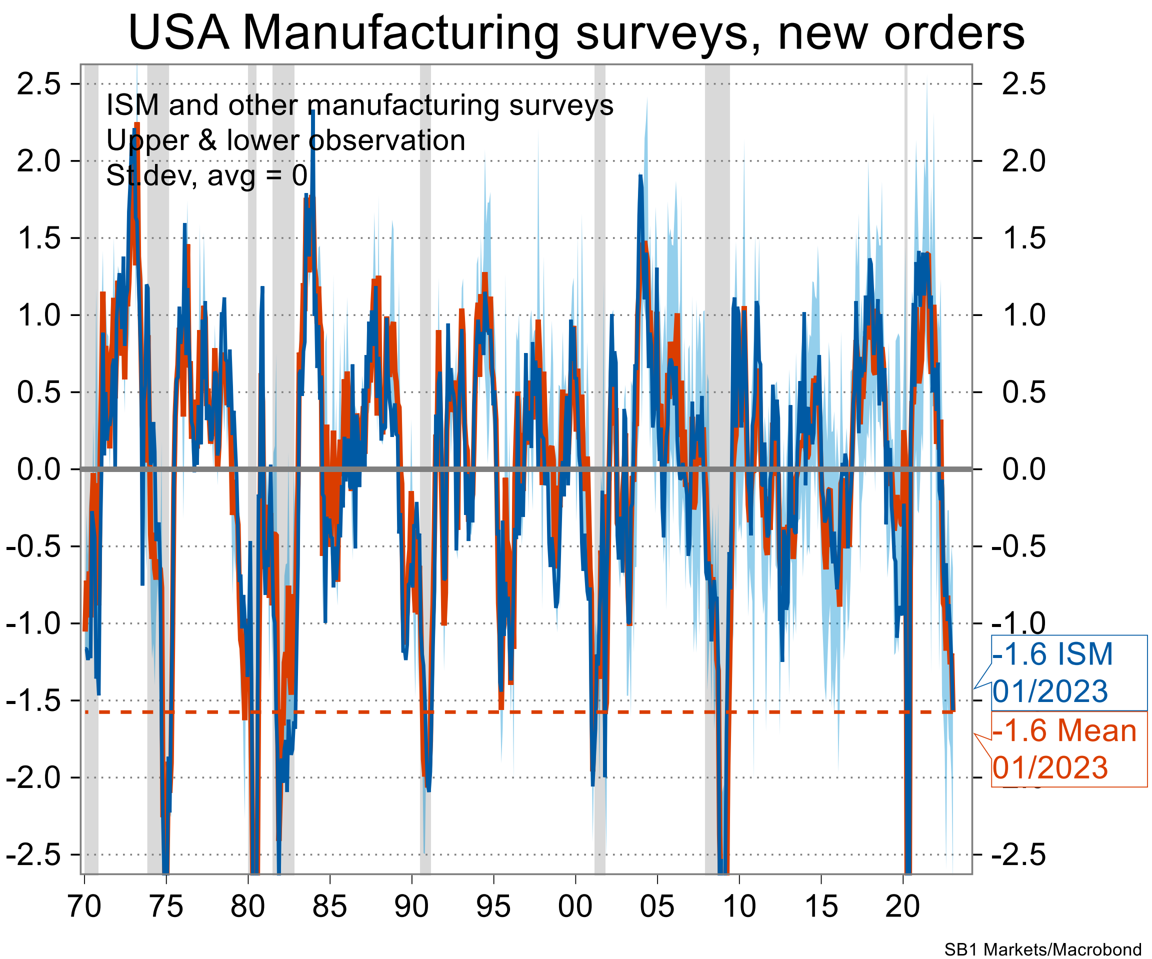


The **ISM manufacturing survey** confirms a gradual slowdown in the US economy, but not as much as the average (and median) of other surveys

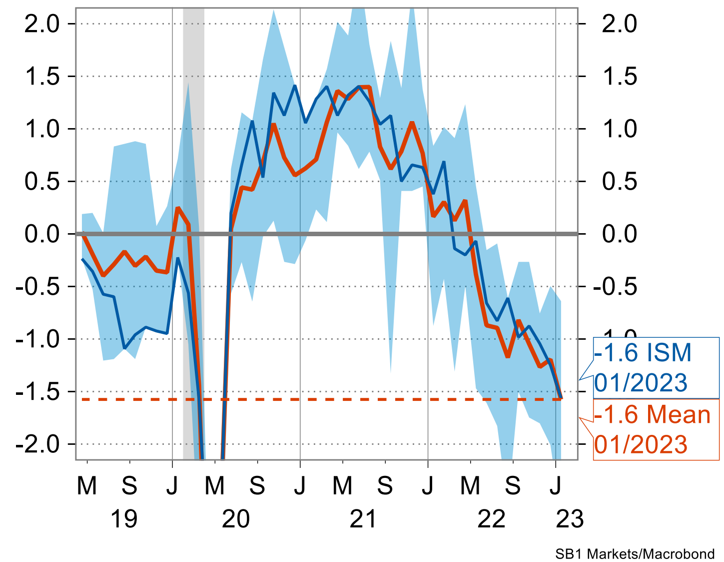
- The total index fell by 1 p to 47.4, which was 0.6 p below expectations at 48
- In January, 2 of 18 manufacturing sectors reported **growth** (unch.), 15 sectors reported a decline in activity (up from 13)
- The **new orders** index declined another 2.6 p to 42.5, and it is now the 5th month of falling orders. None of 18 sectors reported growth in new orders in January. Other surveys agree. The **order backlog** actually increased by 2 p to 43.4, but the level is of course very low
- The **production** index fell 0.6 p, and hence remained below the 50-line at 48. The risk is on the downside, given the low order indices in several surveys
- The **employment** index declined by 0.2 p to 50.6, suggesting that the demand for labour is still growing (not what the Fed hoped to see)
- The **delivery times** index was up 0.5 p, to 45.6, meaning delivery times are still falling, only at a slower pace. 11 commodities saw **price increases** (from 8 last month and 40 in May, and 56 at the peak). 23 were down in price, like aluminium, steel, and natural gas (up from 18 commodities in Dec). 7 commodities were reported in **short supply**, down from 10 in Jan (and far below the peak at 50 commodities a few months ago). The price index rose by 3 p to 46.3 signalling a slower decline in input prices
- In addition, **inventories are growing, and the manufacturers assessment of their customers' inventories** confirms that markets have become more balanced.
- **Comments** are mixed – many see price pressures easing, but several are acknowledging a slowdown in demand

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

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



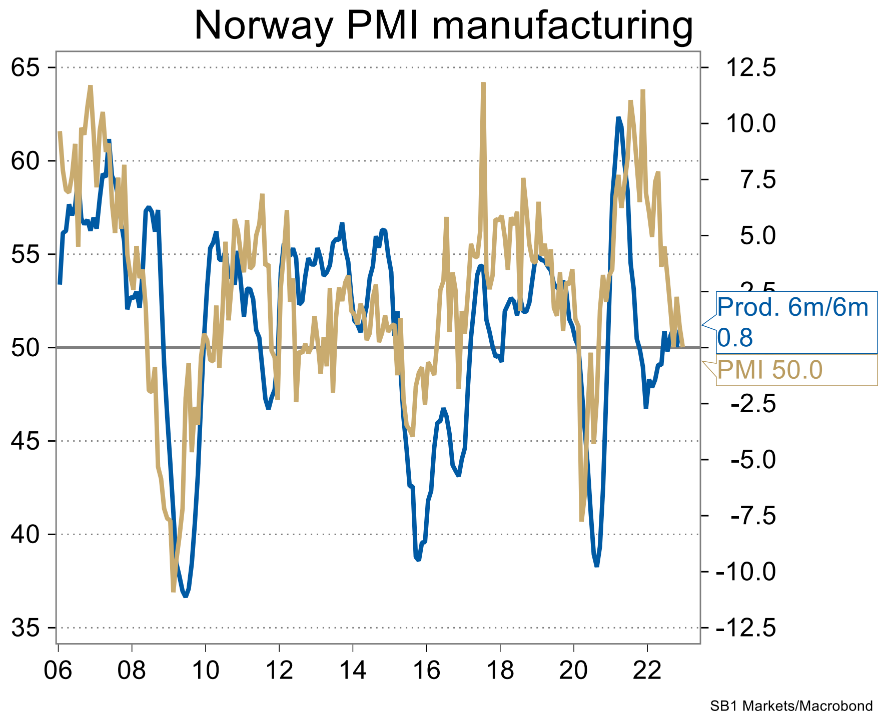
Since last summer, manufacturers have consistently reported lower order inflow, and that the pace of contraction has increased (but not at a much faster pace recent months. Actual order data have kept up better, at least in nominal terms

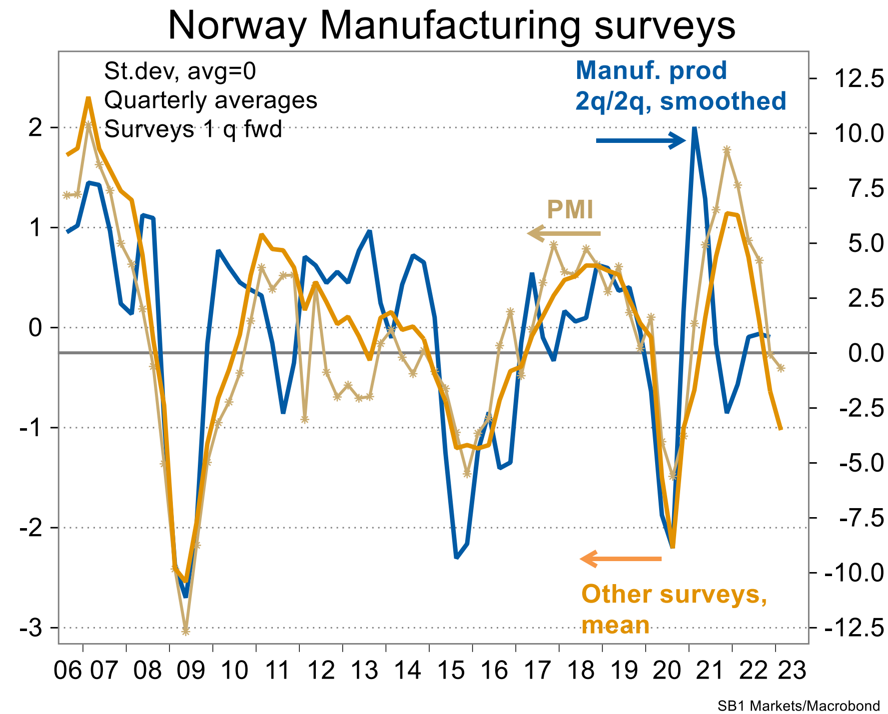


SpareBank 1 MARKETS

The Norwegian manufacturing PMI was unch. at 50 in January

The index signals flattish production – which has been the case for some time

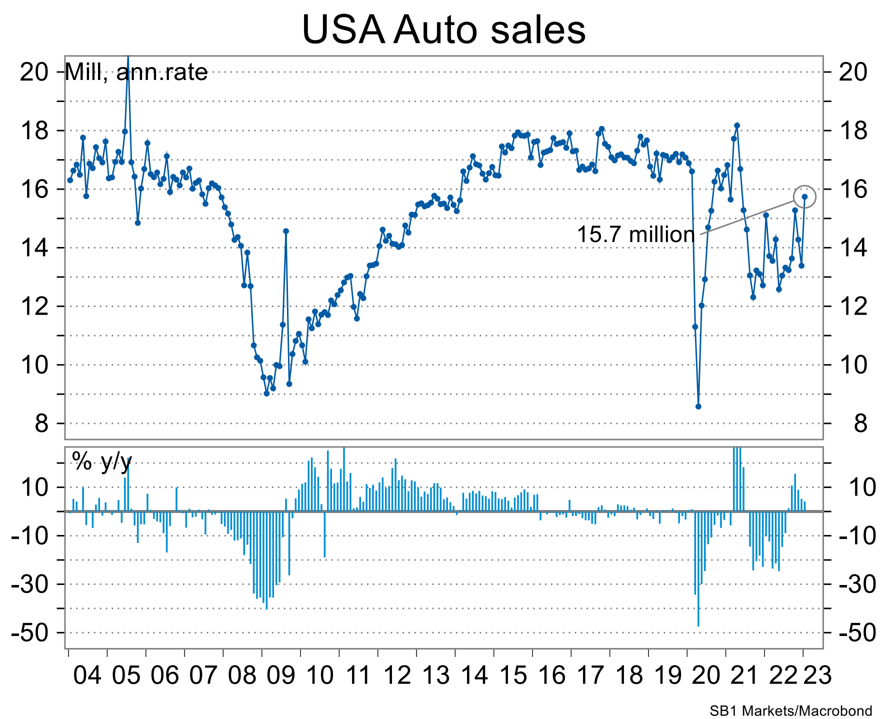


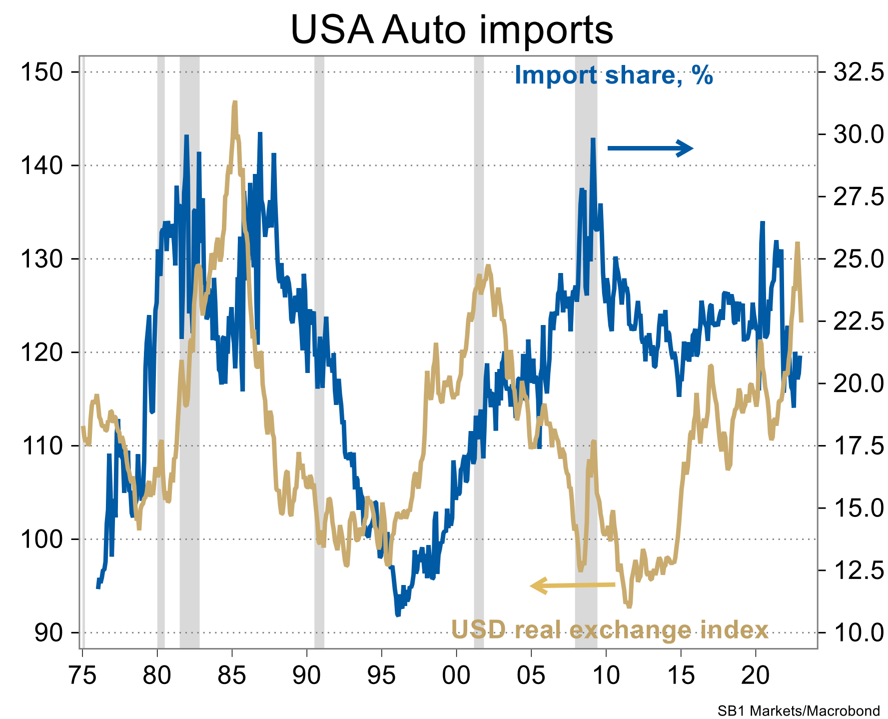


- The **manufacturing PMI index** was unch. at 50.0 in January, and the trend is clearly down. We expected a small uptick to 50.5
- Other **manufacturing surveys** are also on the weak side, like the SSB survey, NHO and Norges Banks' Regional Network, but seem to have turned up over the past month
- **Actual production** has been trending down since early 2021, and has – at best – stabilised recent months. Production was in fact down 0.5% m/m in November, and even oil-related manufacturing declined. December data out next week

US auto sales sharply up in January, best since March-21!

Sales rose to 15.7 mill, from 13.3 mill in Dec, expected up to 14.3 mill. Demand was not to blame for weak Nov & Dec?



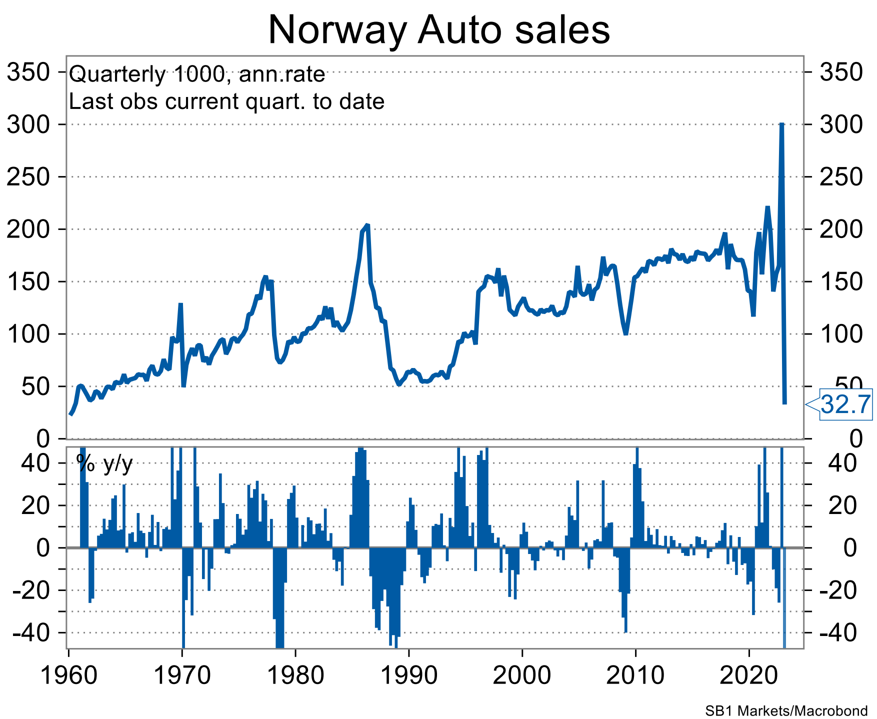


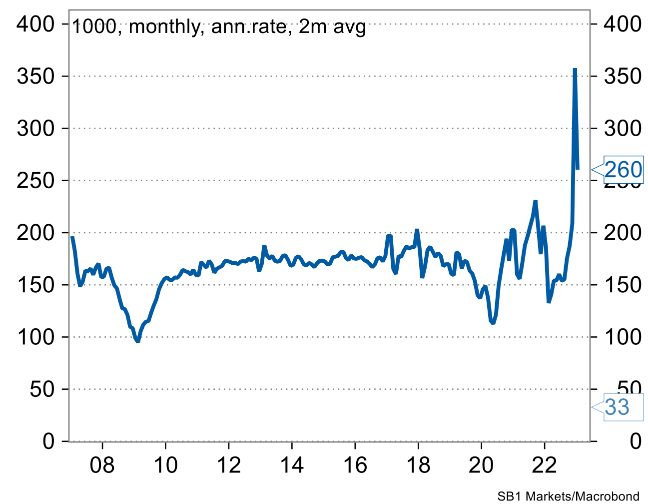
- Auto production in the US has recovered sharply recent months, to above the 2019 level – and we thought the slowdown in sales in Nov and Dec was due to weak demand. We may have been wrong
- The trend in sales is clearly upwards

SpareBank 1 MARKETS

Norway: The ~~highest~~ lowest auto registrations, ‘ever’!

New registrations fell almost 90% in January, from the highest level in December, to the lowest since 1960!

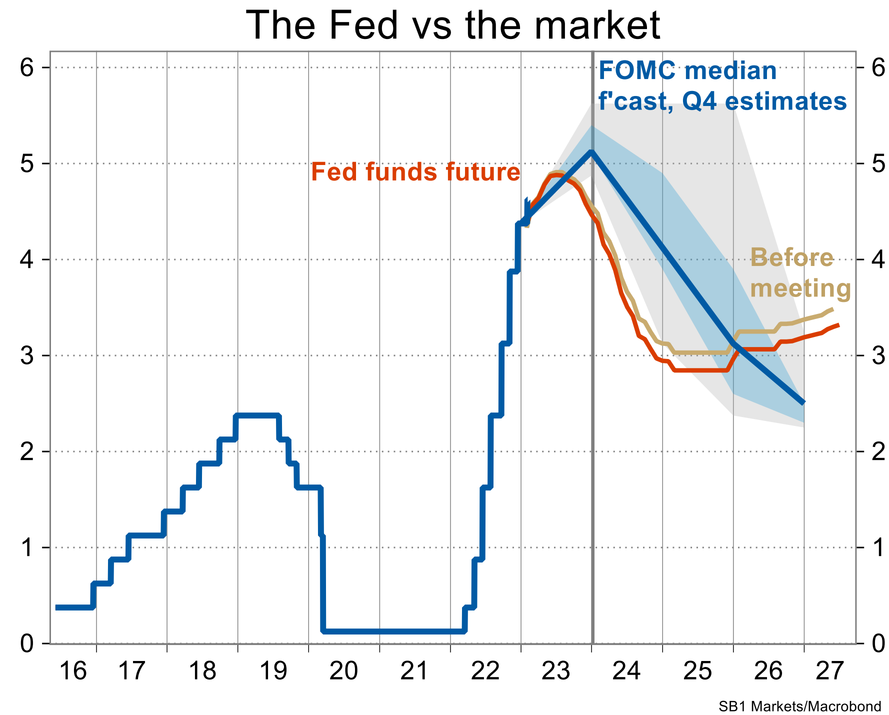




- This volatility is just due to the increase in sales of **electric vehicles** before taxes were lifted Jan 1.
  - We assume even February registrations will be influence by the Dec ‘hoarding’
- The average over the two last months is still high – and the highest ever

FOMC hiked, delivered a 'neutral' press release. But then Powell started to talk

We are not so sure he sounded that dowish but the market undoubtingly thought he was

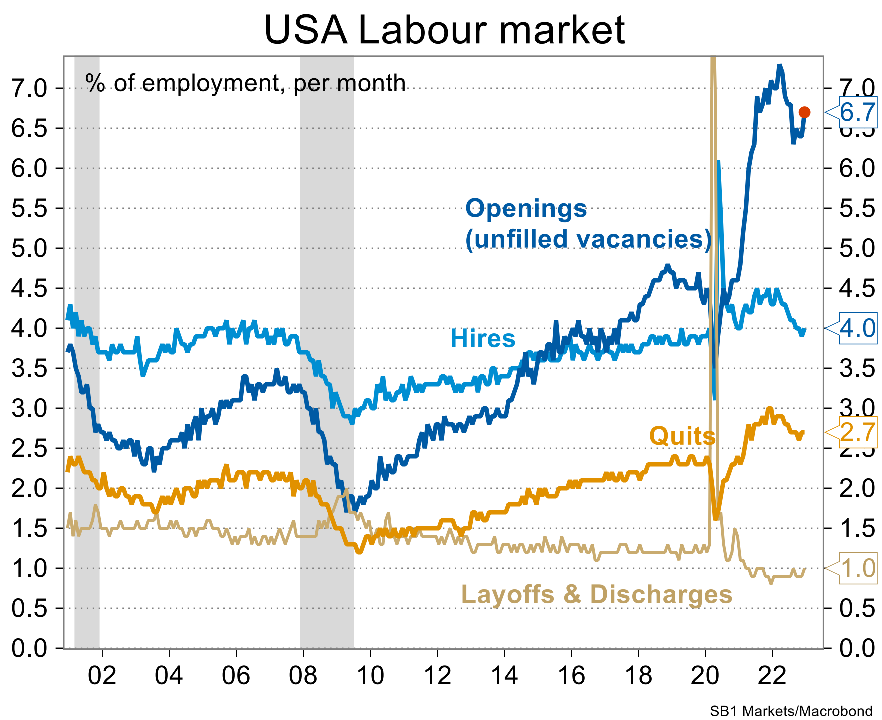


- **Market reactions**: in the very short end, limited. Further out, rate expectations fell more – and by up to 10 bps when the dust had settled. The 2% surge at NASDAQ was more spectacular
- However, interest rates fell further at Thursday

- As widely FOMC hiked the **Fed funds rate** by 50 bps to 4.50% – 4.75%
  - No new forecasts, dot plots at this meeting
- In the **press release** the FOMC – as we were sure the bank had to – acknowledged that "*inflation has eased somewhat but remains elevated*", the only change from the previous press release
- In the first part of the press conference, Powell reiterated the 'hawkish' stance, the urgent need to bring inflation down, signalling more rate hikes, and emphasised the still very hight labour market, and that the FOMC members had no plans for cutting rates later in 2023
- In the Q&A, he reflected on the tightening of financial conditions and said the impact on the economy was uncertain, but then repeated FOMC's mantra (and repeated in the press releaser), that "*the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation",* which was immediately was interpreted as a dovish message, as he did not refer to the recent easing of financial conditions as a challenge for the Fed
- On inflation he referred to the "disinflationary process" which was under way.
  - He also said it was encouraging that wage inflation had come somewhat without any increase in the unemployment rate, which underpinned the bank's assessment that inflation could be brought down to the 2% target without "*a really significant economic decline or a significant increase in unemployment*". A more optimistic signal than in December
- As the FOMC is coming closer to what the bank assumes is the terminal rate in this cycle, it is naturally the bank becomes more 'data dependent', a phrase Powell repeated several times. The market still expect the FOMC to hike the signal rate by 25 in March (82%, unch. 18%)

Job openings straight back up again, and voluntarily quits were up too!

The labour market remains remarkably resilient, but wage inflation has still slowed



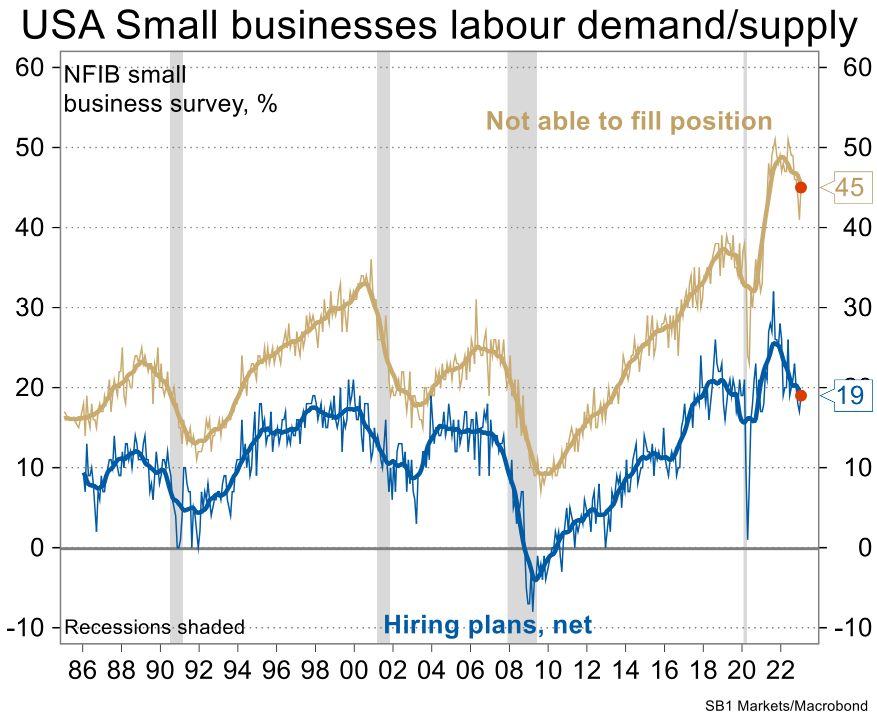
- **In sum:**
  The tide has turned but the labour market is still very tight, and it we doubt wage inflation will come down to and remain at sustainable level without a substantial decline in demand for labour. Job openings are no doubt stickier that what the Fed has hoped for, and are leading unemployment by some few months, though not by a stable lag (but the correlation is high). Actual unemployment was down 0.1 pp to 3.5% in Dec. New jobless claims, which leads the unemployment rate has fallen to the lowest level since the spring (and before that, 1969)

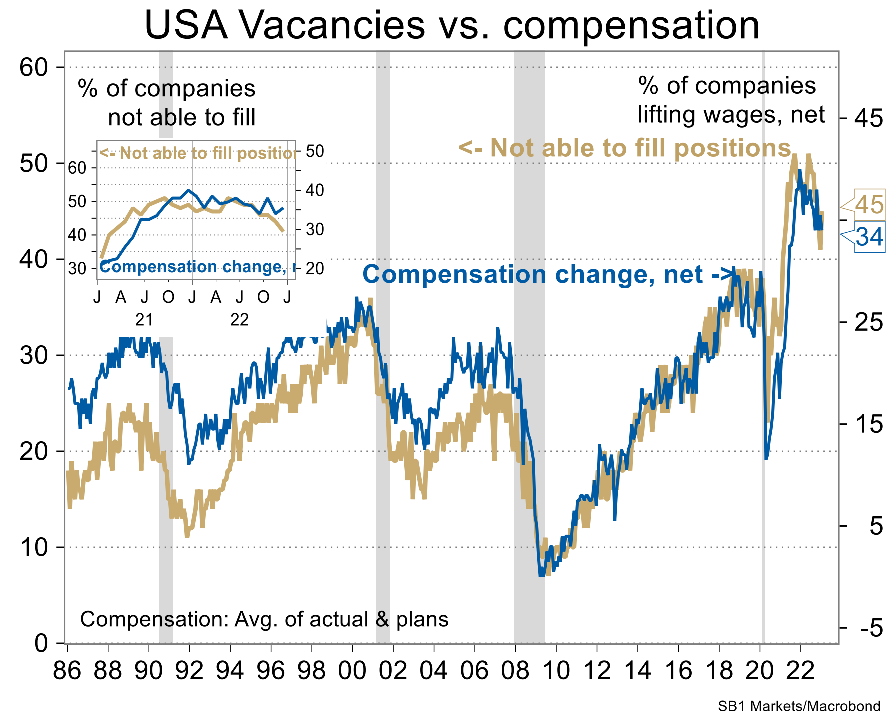
- The number of **unfilled vacancies** increased by 0,6 mill to 11,0 mill in December, far higher than the expected 10.3 mill, is almost back to the level in July. The vacancy rate was 6.7%, up from 6.4% in November
  - Vacancies are down from the peak in March (7.3%) but the level is still way above anything seen before. The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit. Now there are 1.9 available jobs per unemployed person
- **New hires** rose by some 130' to 6.17 mill in December, equalling 4.0% of the employment level. This is just underpins that the labour market is, of course, still very tight, even if there are fewer monthly hirings than at the peak (4.5%)
- The number of **voluntary quits** rose by 60' to 4.2 mill, leaving the rate to employment at 2.7%, down from 3% at the peak. The trend is still down, signalling that workers have become somewhat more cautious leaving their current jobs – but the quit level is still higher than anytime before the post pandemic surge!
- **Layoffs** equalled 1.0% of employment in Dec, up 0.1 pp from Nov– still not signalling any take-off in downsizing (the Challenger survey counted a significant increase in layoffs in January. Check some pages fwd)
- **The SMBs (NFIB survey)** reported that 45% of companies were not able to fill positions in January, up 4 pp from Dec. Hiring plans were up by 2 pp. The trend is down for both, but both remain far above average

SpareBank 1 MARKETS

SMEs report more hiring, and more trouble filling open positions in January

Even so, compensation plans were revised slightly down - but are still signalling wage increase well above normal

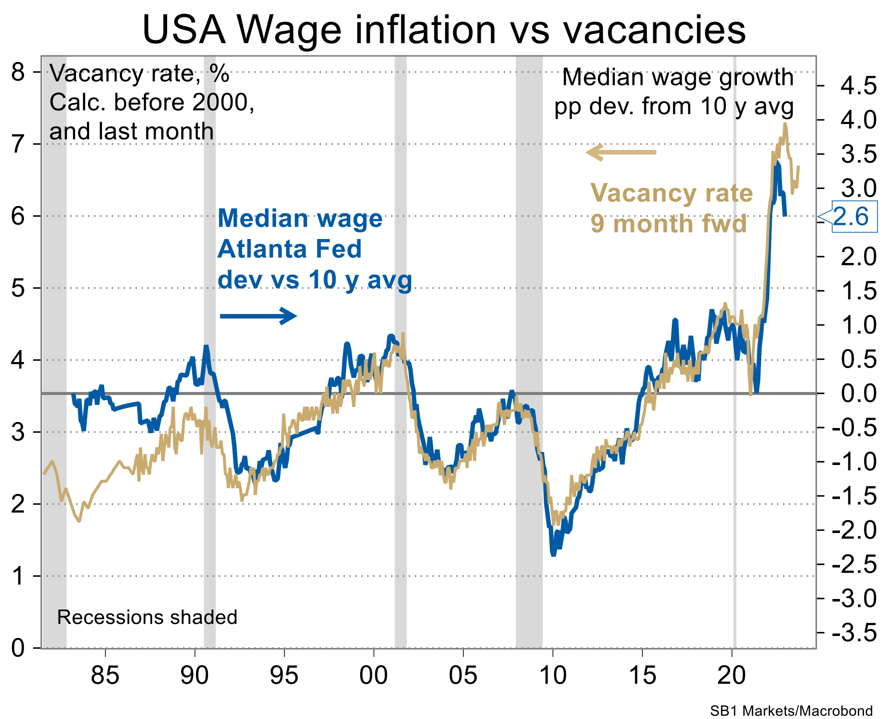


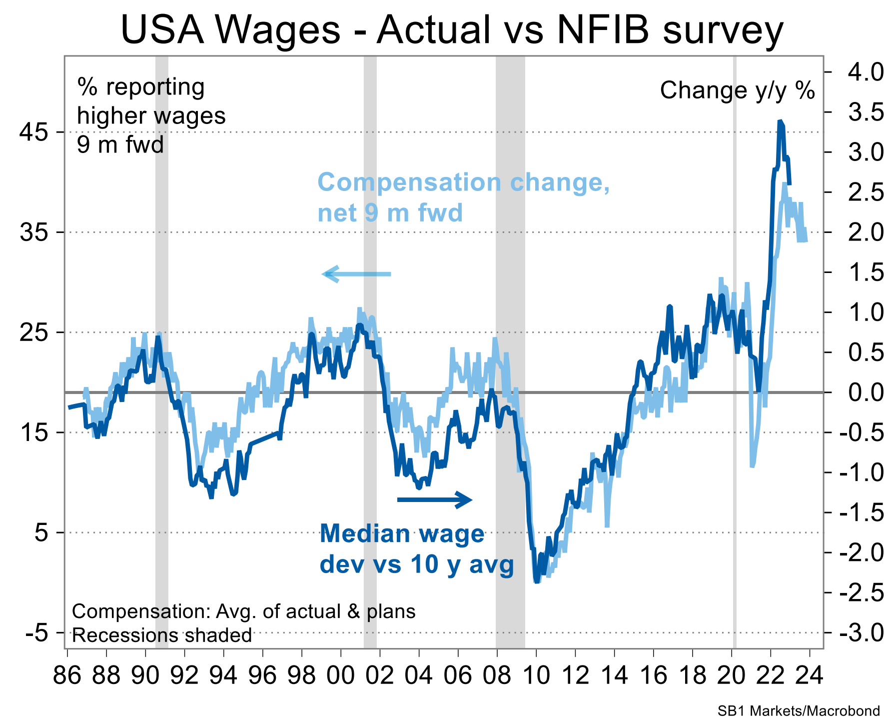


- 45% of SME's report they were **not able to fill open positions** in January, up from 41% in December, but still below the 51% peak early last yar. The average level is some 22%, and the highest before the pandemic was 39%. And now at 45%...
- 19% of companies **plan to hire**, 2 pp p from December, and well below the 32% at the peak in Aug-21. The trend is t down but the level is still well above an average 12% level, and this index has been sustained at this level in 2018/19
- 34% of companies report that they **plan to lift compensation** in the coming months, down from 36% in December. The peak was at 40% Dec-21. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth – has been at approx. 20%
- There is still *a ways to go*, it has just become somewhat shorter!

Vacancies up, harder to fill them – and wage plans are still very aggressive

Yes, wage inflation has come down, but it is not obvious that wages will return to '2% price inflation' level anytime soon

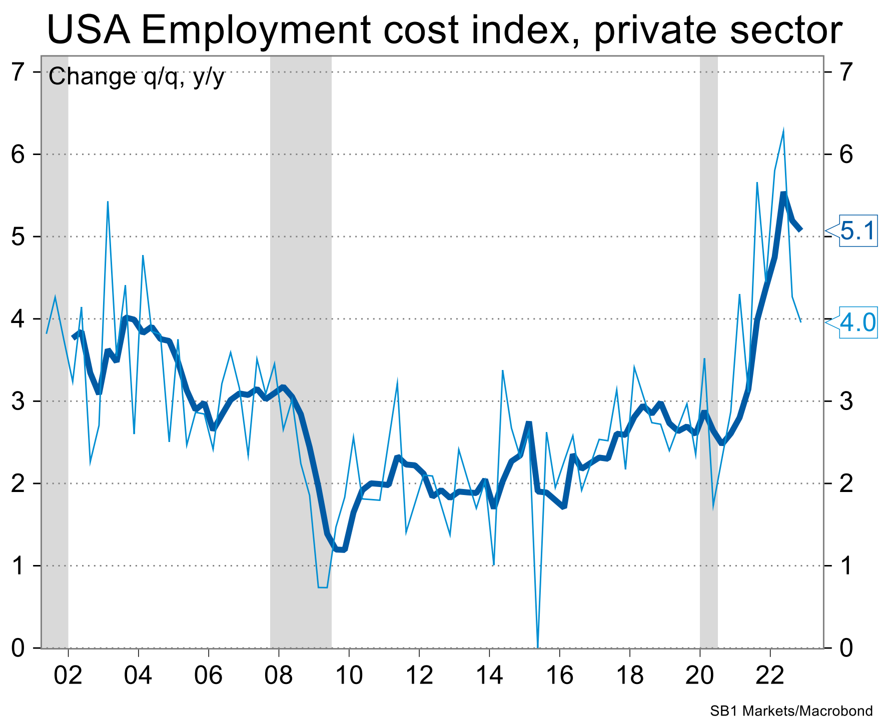


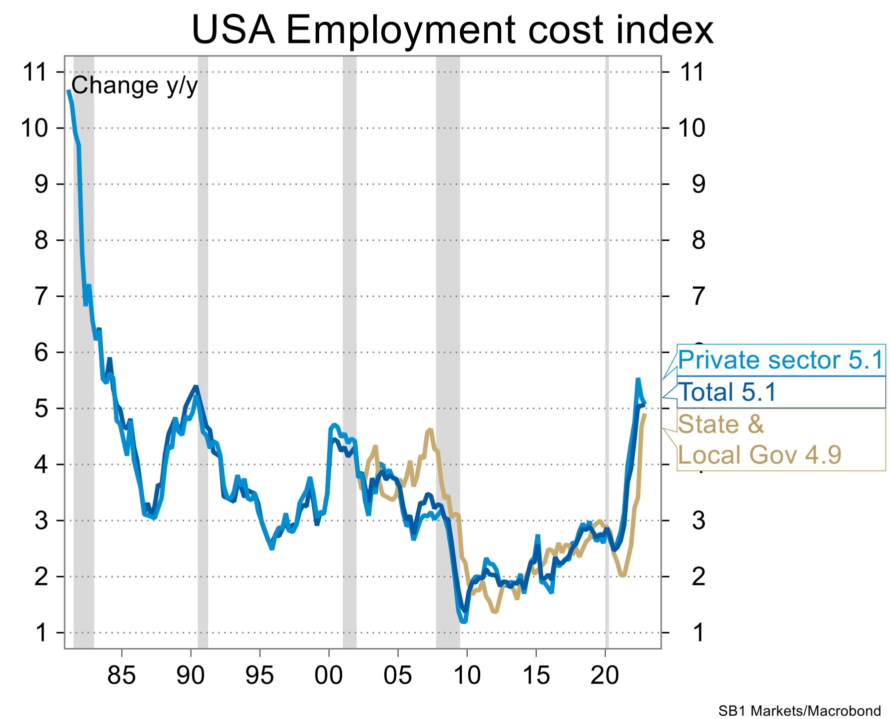


- **Our 'Phillips curve'** based on the vacancy rate signals continued wage inflation at some 2.6% <u>above</u> the normal level
- **Companies (SMEs) compensation plans** also signal continued high wage inflation but 'just' 2 pp higher than the past 10 y avg.
- **Demand for labour** probably has to be reduced in order to get wage inflation permanently back to a sustainable level
  - Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺)
  - The alternative good news: Wage inflation has peaked, both the Atlanta Fed media wage (at the charts above) and the wage indices presented at the next pages

Employment cost inflation IS slowing!

Employment both in the private sector and the overall economy grew by a 4.0% pace in Q4, 0.4 pp less than expected

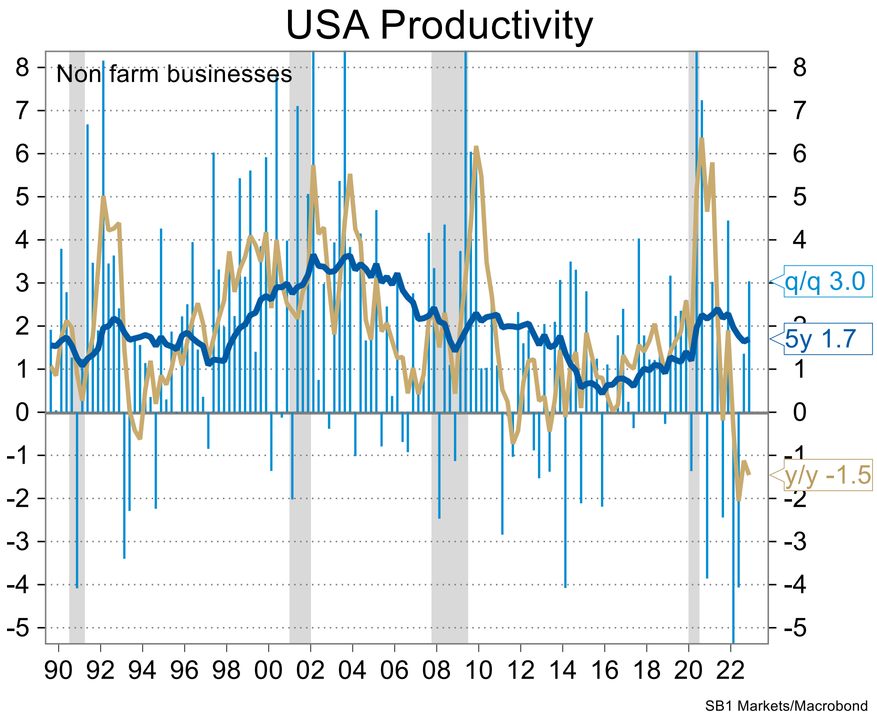


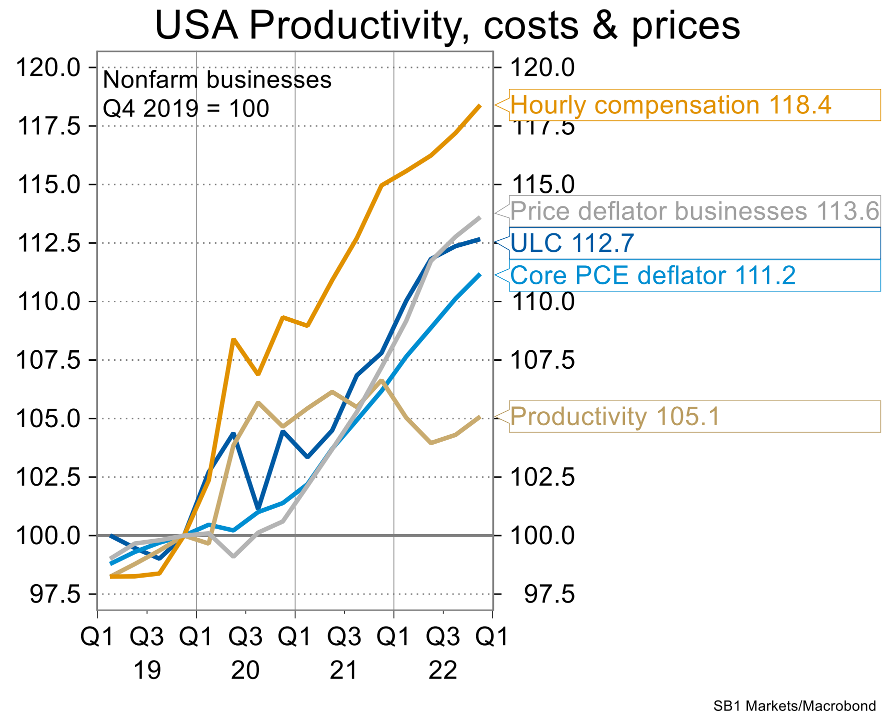


- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs (and is not influenced by changes in employment between sectors/type jobs), rose by 1.0 q/q in Q4, expected 1.1%, and down from 1.2% in Q3. The q/q increase in the private sector was the lowest since Q2-21 – and confirms that wage inflation is on the way down – before the unemployment rate has started to increase.
  - The annual rate was 5.1% for both, the highest level since 1990, and >2.5 pp above the 10 y average before the pandemic. So something had to give to prevent high cost inflation going forward – and the fight is still not won with a 4% growth in employment costs

Productivity up 3% in Q3, still down 1.5% y/y

… and Unit Labour Cost in the business sector grew by just 1.1% in Q4 (but by 3.9% y/y). Compensation growth is slow.

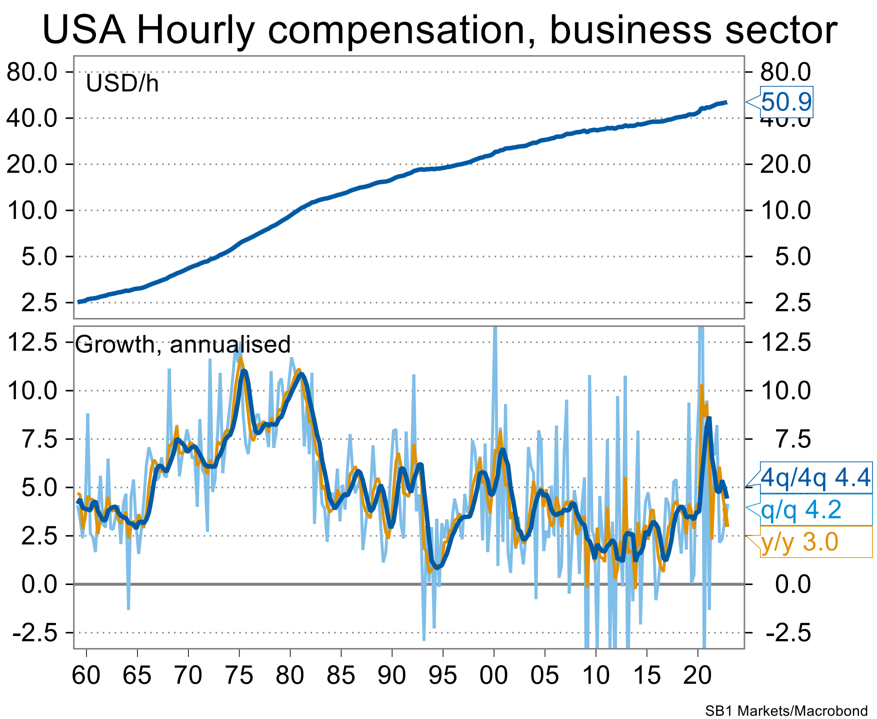


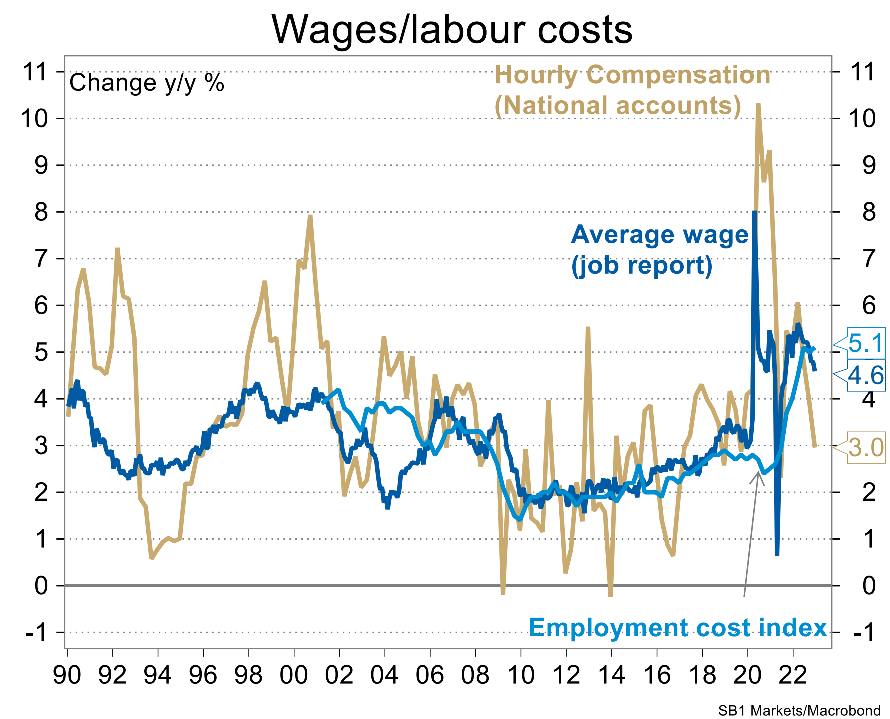


- **Productivity** increased by 3.0% in Q4 (annualised), up from the initial estimate of 1.4% in Q3, expected 2.4%, following the unusual steep decline during H1. Over the past four quarters, productivity has decreased by 1.5% due to the return of less productive (and lower-paid) service sector workers after the pandemic. Since late 2019 productivity has been increasing at 1.7% pace, slightly above the pre-pandemic trend (check next page)
- **Hourly compensation (wages ++)** grew at a 3.2% pace in Q4, from a downward revised 2.3% pace in Q4 4.0%. Average growth since Q4-19 is 5.8%. Growth has slowed, but not that convincing as lower paid service sector workers have returned to work, taking the average wage down. However, the ECI, which adjust for changes in the employment mix has also comedown (but it is up 4% q/q and 5% y/y)
- **Unit labour costs** (hourly compensation – productivity) grew by 1.1 % in Q4, up 4.0% y/y. Since Q4-19, ULC has grown at a 4.7% pace, revised down from 6.4% but still far above a normal level – which of course is incompatible vs the 2% inflation target

Hourly wage cost inflation has peaked, <u>may</u> have come down to an OK level

Wage inflation has slowed, but at least partly because the less paid service sector workers have returned

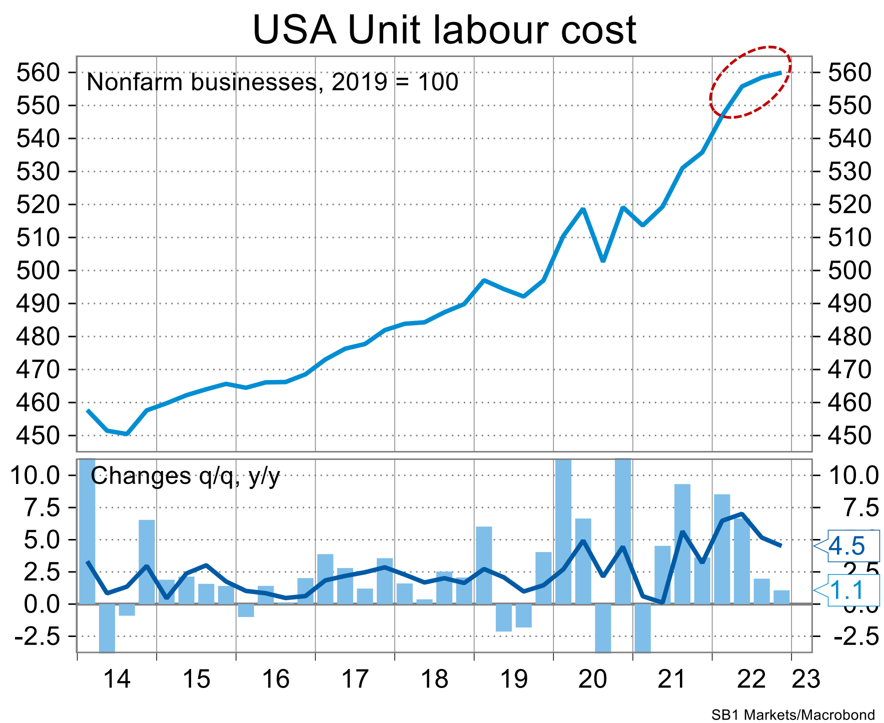


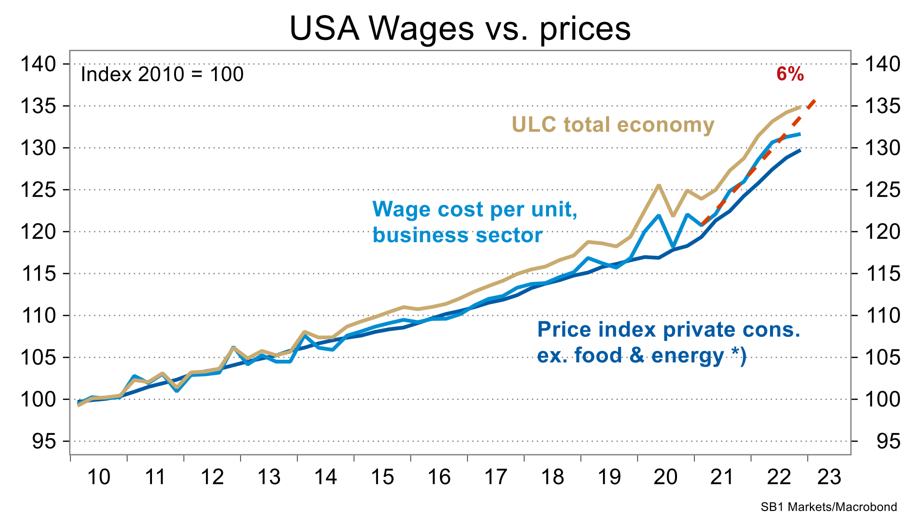


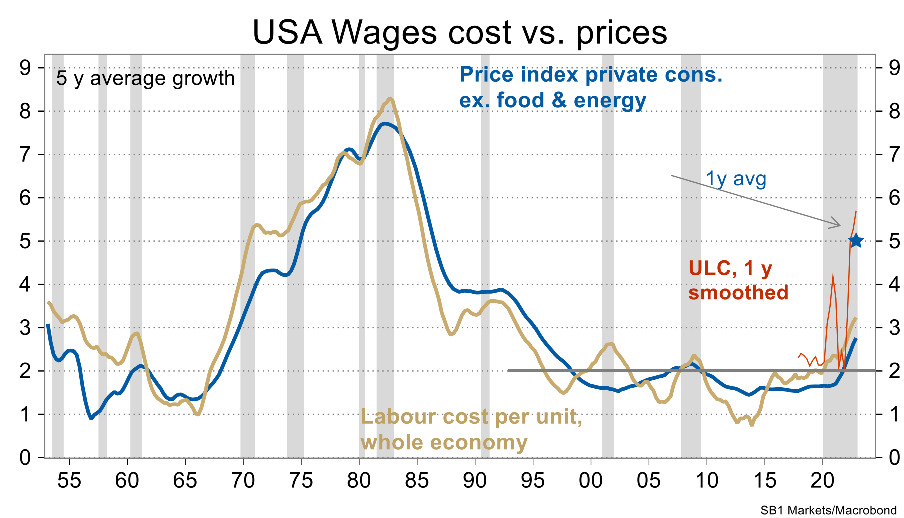
- Hourly compensation rose by 4.2% in Q4, up from 3.2% in Q3. Compensation is up by just 3% y/y, and smoothed 4q/4q at 4.4%, well below other wage indicators
  - HC is the ‘ultimate’ expression of the wage cost in the economy, calculated as a part of the National accounts. However, too volatile short term, check the chart to the right above
  - The average growth rate over the 10 years before the pandemic was 2.7%
- The Employment Cost Index (ECI), which is far more stable and reliable short term as it adjusts for the changes in the composition in employment – is still reporting 4% growth q/q, and 5% y/y. Atlanta Fed’s median wage tracker still reports 6% y/y wage inflation

Unit labour cost inflation came down in H2

ULC are volatile (but less than hourly compensation) and most likely, cost inflation has slowed. Which is very good news



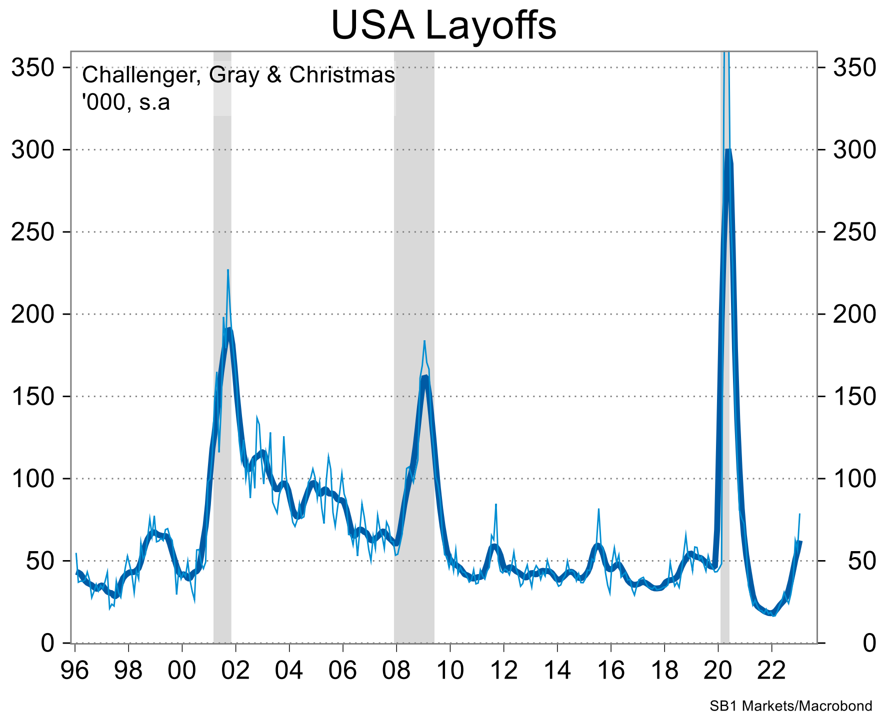


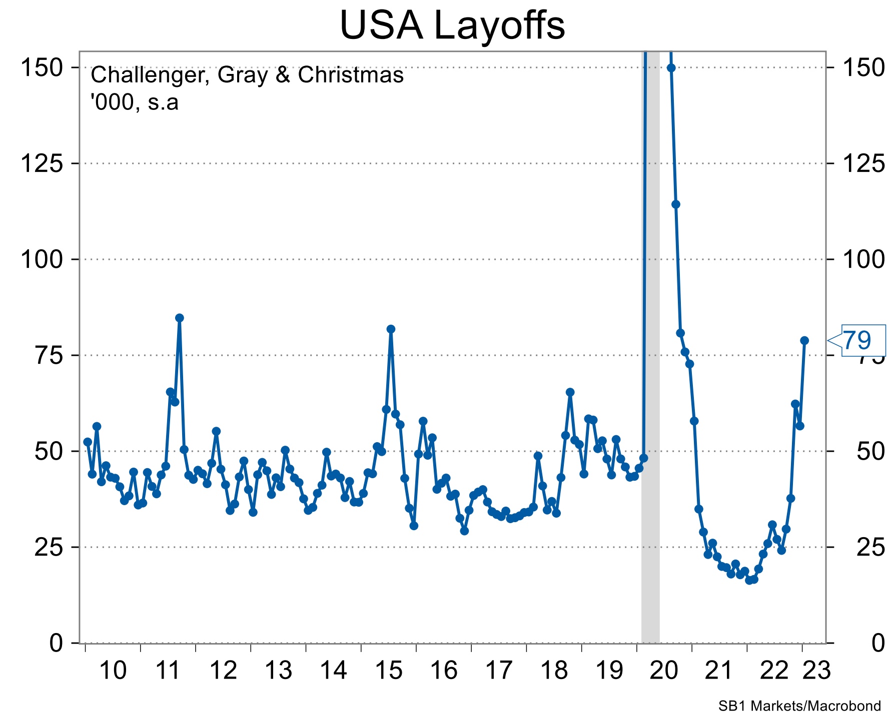


- Over time, ULC (wage growth – growth in productivity) is over time the only factor that decides inflation
- While ULC has slowed in H2, the annual rate is still far above a level that will yield 2% inflation over time

‘Finally’, a lift in layoffs up to a higher level than normal – still less than 80’

Challenger job cuts up to 79’ in January, up from 57’ in December, the double of the normal level in ‘good times’

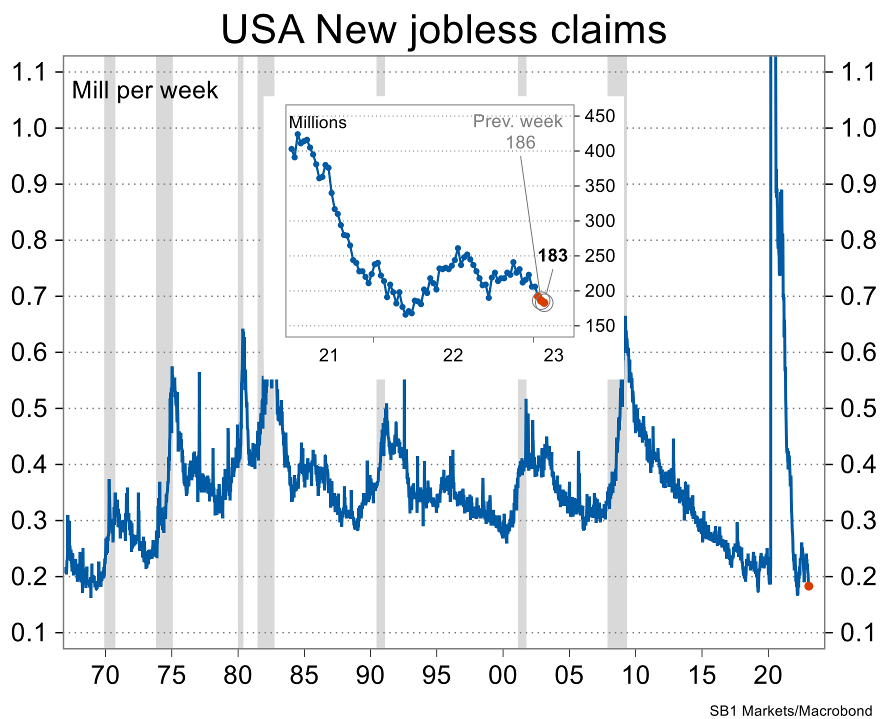


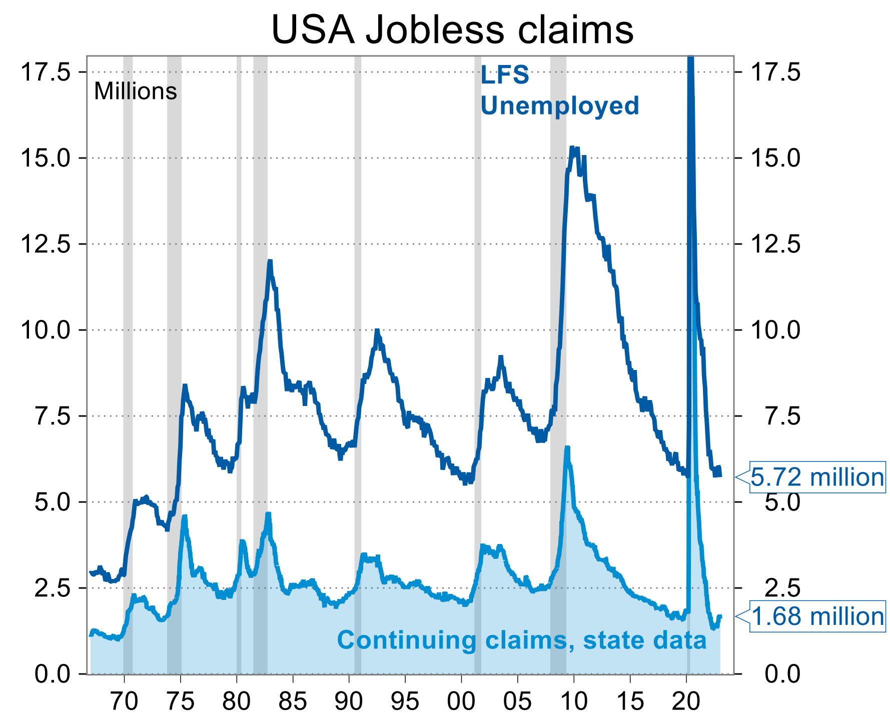


- **At the bottom** less than 20’ layoffs were announced per month – but that was the lowest ever
- **The tech sector** is responsible for more than half of the layoffs in recent months (42’ in Jan) – which seems reasonable given what we have seen in media
  - The **retail industry, finance and health** follow next, with 10’, and 5’ & 5’ resp.
- In the JOLTS report, layoffs also rose (in December) but less than indicated by the Challenger data for December

Where have all (the laid off) workers gone? Not to the dole, anyway

Just 183' new jobless claims last week, not far above the lowest level since 1969

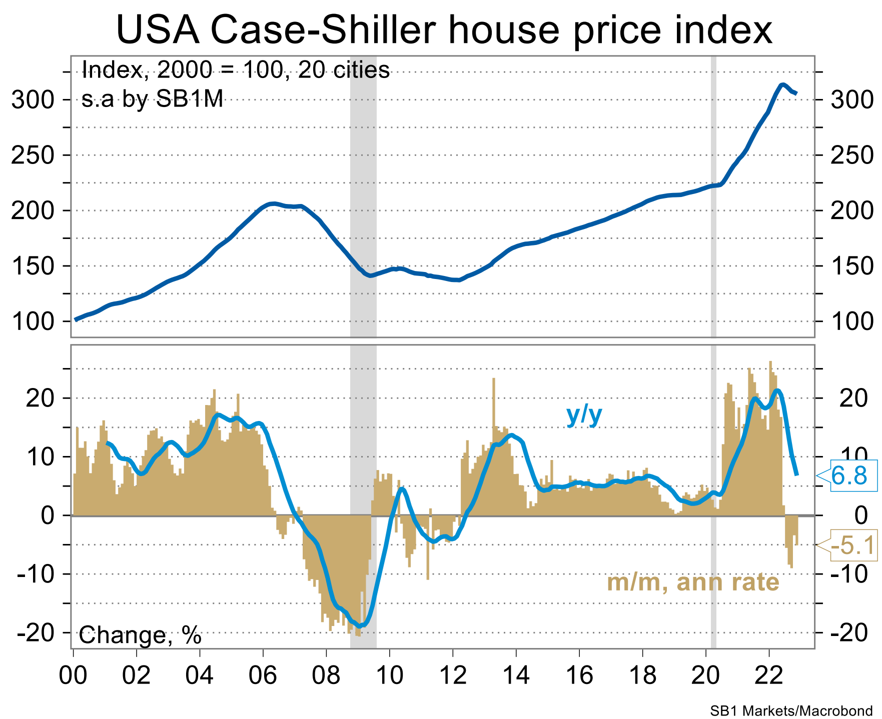


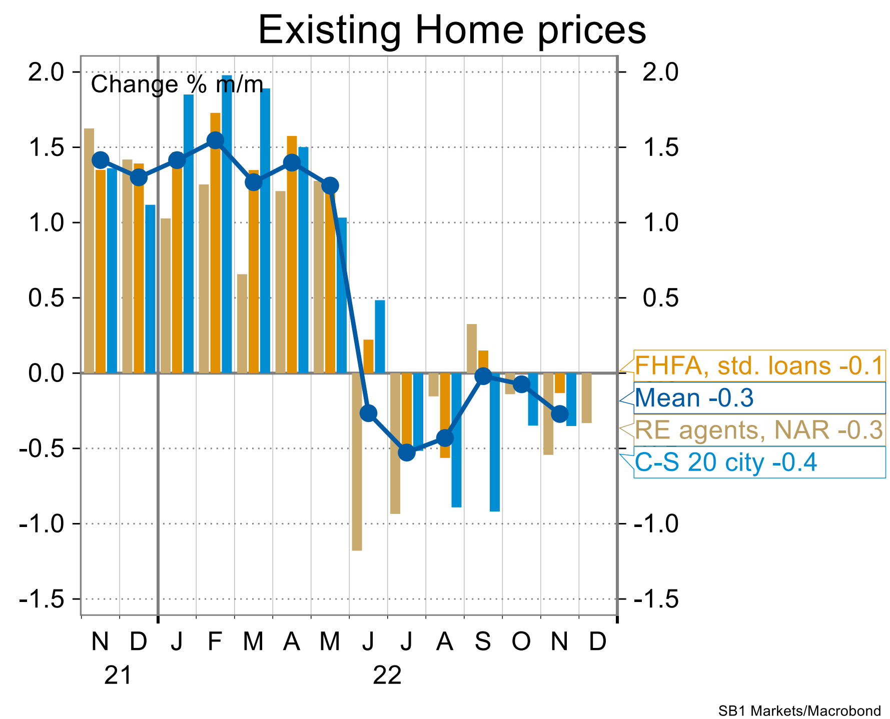


- **New jobless claims** fell by 3' to 184' last week, expected up to 200'. The inflow has not been lower since last spring
- **Continuing claims** rose fell 11' to 1,66' in week 3. The trend is slightly upwards but the level remains very low still
- Both still indicate a **tight labour market** – a 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)

Case/Shiller house prices down again in Nov, but again less than expected

Prices fell 0.4%, expected -0.6%, and the FAFA index was down just 0.1%

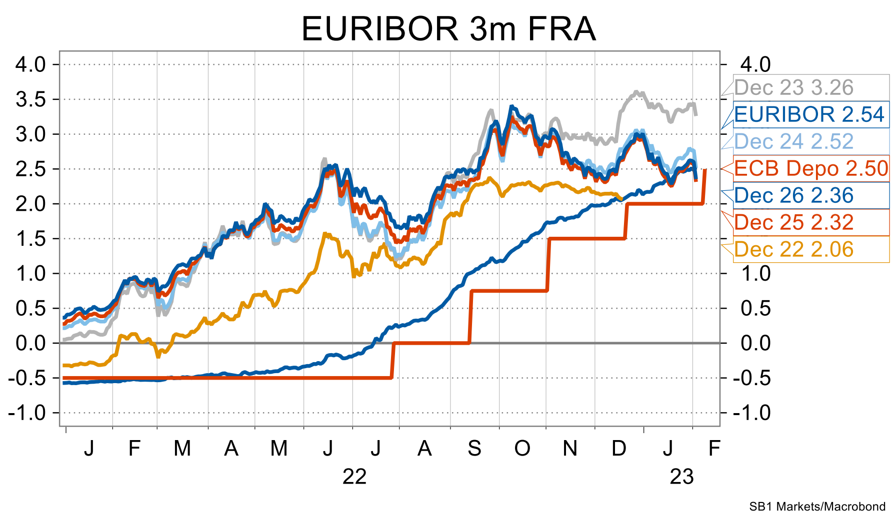


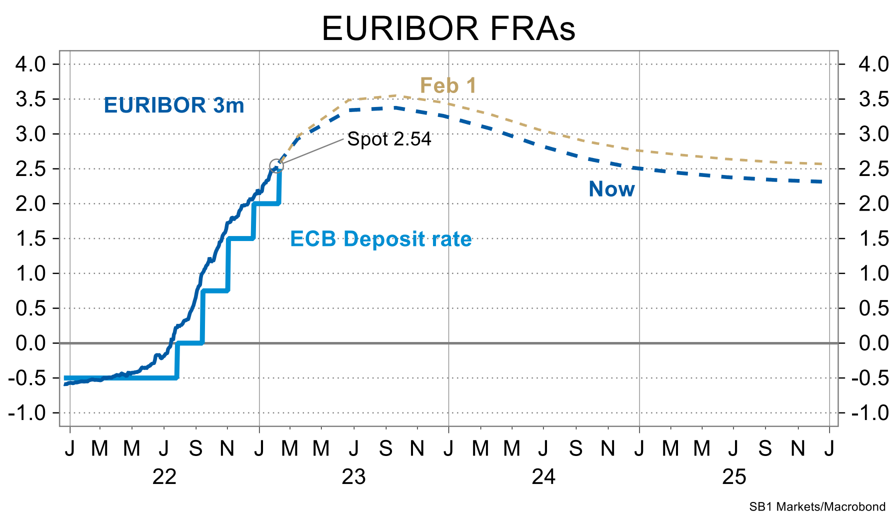


- **S&P's Case/Shiller's 20 cities** price index fell by 0.4% in Nov (Oct - Dec avg., our seas. adj, -0.5% the 'official' seasonal adjustment, 0.1 pp less than expected). The index is still up 6.8% y/y, but the rate is falling rapidly
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), declined by 0.1% in November
- Realtors reported a 0.3% decline in house prices in December
- We still expect prices to yield substantially the coming months, following the unprecedented 42% lift since before the pandemic to the peak in June and the still much higher than normal mortgage rates

ECB hiked by 50 bps, promises more, but rate expectations/yields nosedived!

A global phenomenon, central bankers talked interest rate expectations sharply down this week. Hope it was intended

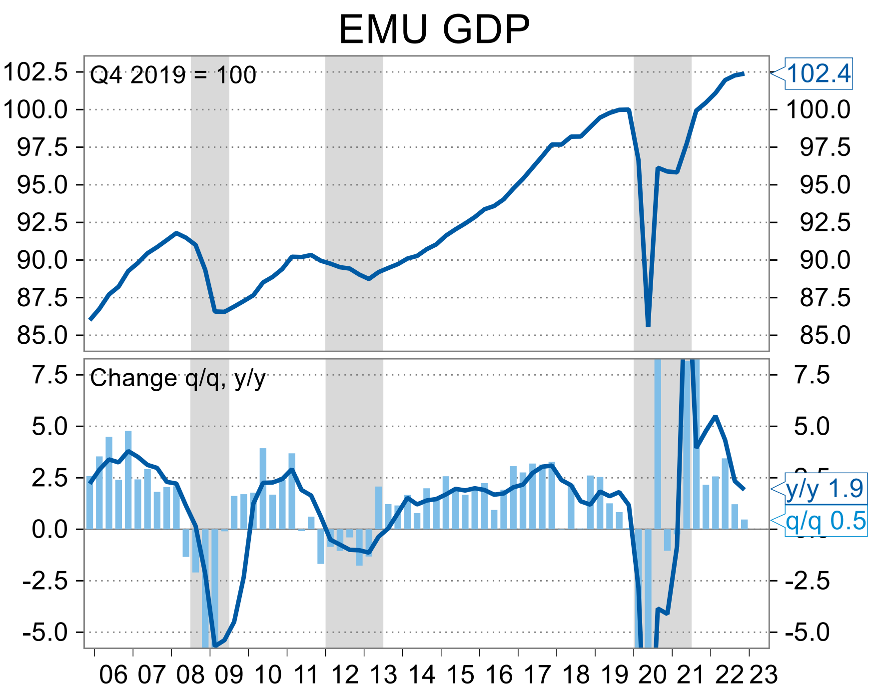




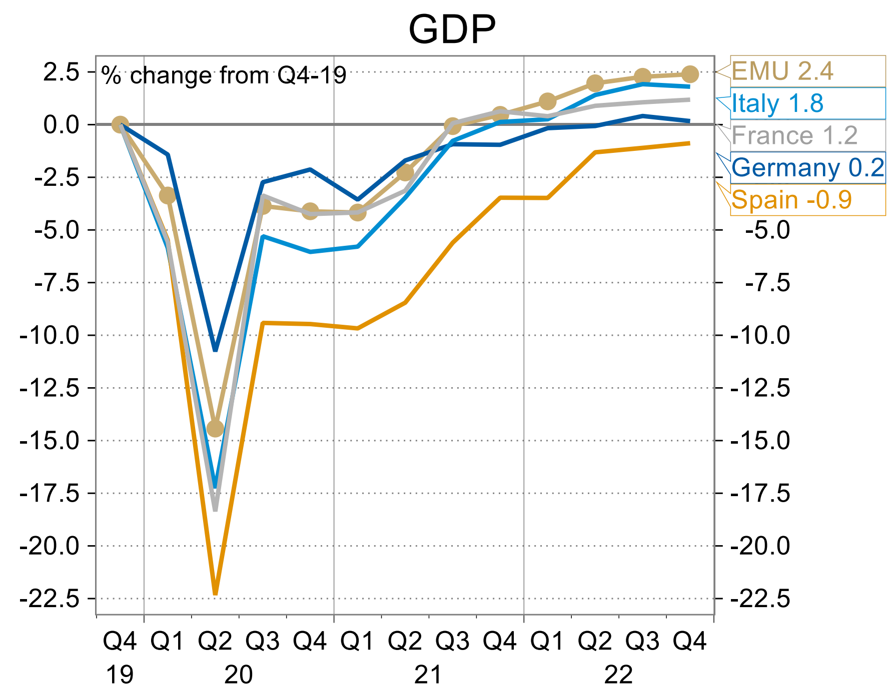
- **The 50 bps hike** to 2.5% was expected
- Face value, the press release and Lagarde's initial comments were not that dovish. The bank said it "*intends to raise interest rates by another 50 basis points at its next monetary policy meeting in March and it will then evaluate the subsequent path of its monetary policy"*
- **Lagarde** reiterated the need for further rate hikes of the same size, in order to curb inflation, by slowing the economy, and to keep inflation expectations in check. "*When the policy rate was lifted into restrictive territory we will want to stay there sufficiently"*
- However, policy is not longer on autopilot – and in March new signals are possible – at least that the hiking steps thereafter could be reduced to 25 bps. In addition, Lagarde's language vs the need for tightening was not as aggressive as on the December meeting. She said that inflation risks are now more balanced – which is rather obvious
- The market response was unusual.
  - The market revised the expected terminal rate by almost 20 bps to 3.35 % even if the market accepts the 50 bps March hike. The first hike is discounted late 2023 or more likely in early 2024
  - Further out on the curve, rate expectations by 20+ bps. The 10 y Bund fell 21 bps to 2.09%. Just once, rates have fallen more during one day since 2000 (but rates have fallen by the same amount 3 times before). Even so, <u>the yield is higher than 2 weeks ago</u>
  - The 10 y Italian bond yield fell even more, by 44 bps but the level is still higher than 2 weeks ago
  - The EUR lost 1% vs the USD, but just fell back to the same level as before Powell's comments on Wednesday – and the EUR is up on the week

GDP growth slowed to a 0.5% pace in Q4, expected flat

No recession yet, and surveys do not signalling it either, at least most of them



SB1 Markets/Macrobond

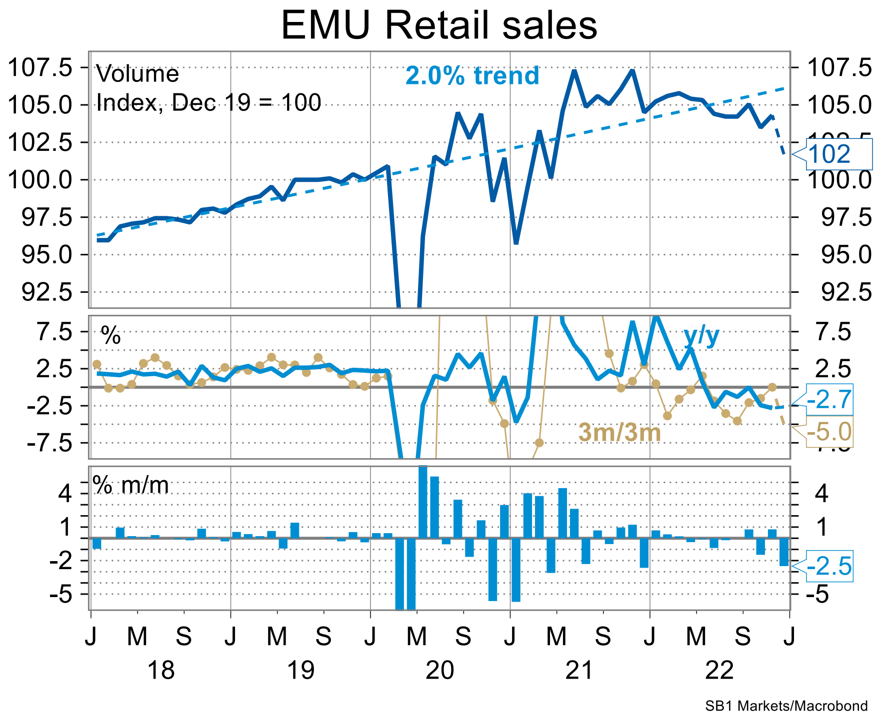


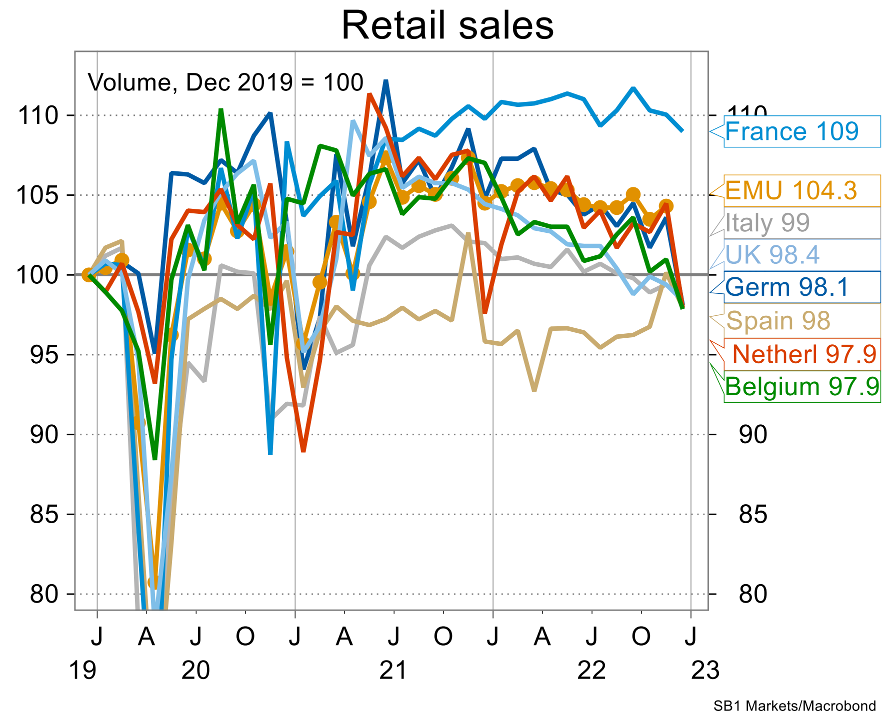
SB1 Markets/Macrobond

- **GDP** grew 0.1% in Q4 (0.5% annualised) down from 1.2% in Q3 – and better than expected zero growth rate
  - GDP was up 1.9% y/y, and by 2.4% vs the Q4-19 level
- **Spain** is still the laggard and GDP as 0.9% below the pre-pandemic level but had the strongest growth out of the big 4 countries, up 0.2% in Q4. **French** GDP growth was down 0.1% in Q4
- The **German** GDP was down 0.2% in Q4 - but is up 0.2% vs. Q4-19 (and the 0.4% growth rate for the region was secured by

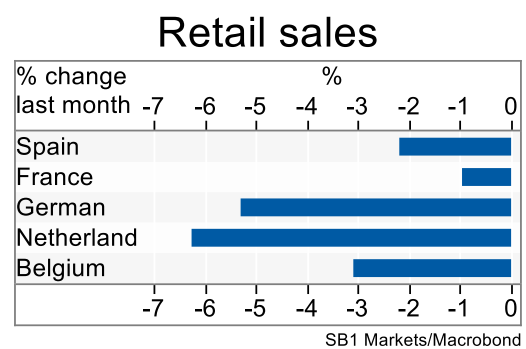
Retail sales very likely plunged in December (like in Norway & Sweden)

German sales were down 5.3% m/m, expected +0.2%, and sales fell in France and Spain as well





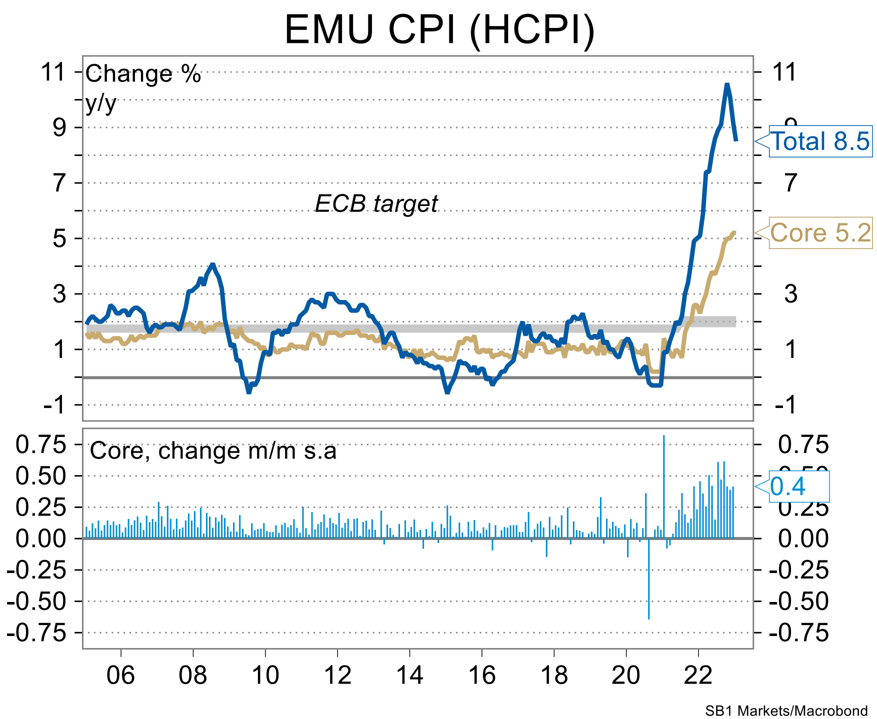
- The recent setback in sales is larger than during last spring in Germany. In December, retail sales declined in France and Spain as well – Italy has not yet reported. In Netherlands, sales fell like in Germany, and Belgium sales fell sharply as well
- At the chart above, we have illustrated a 2.5% decline for the total euro area in December. Given such a drag from private consumption of goods (autos not included) the small increase in GDP in Q4 may not be a done deal

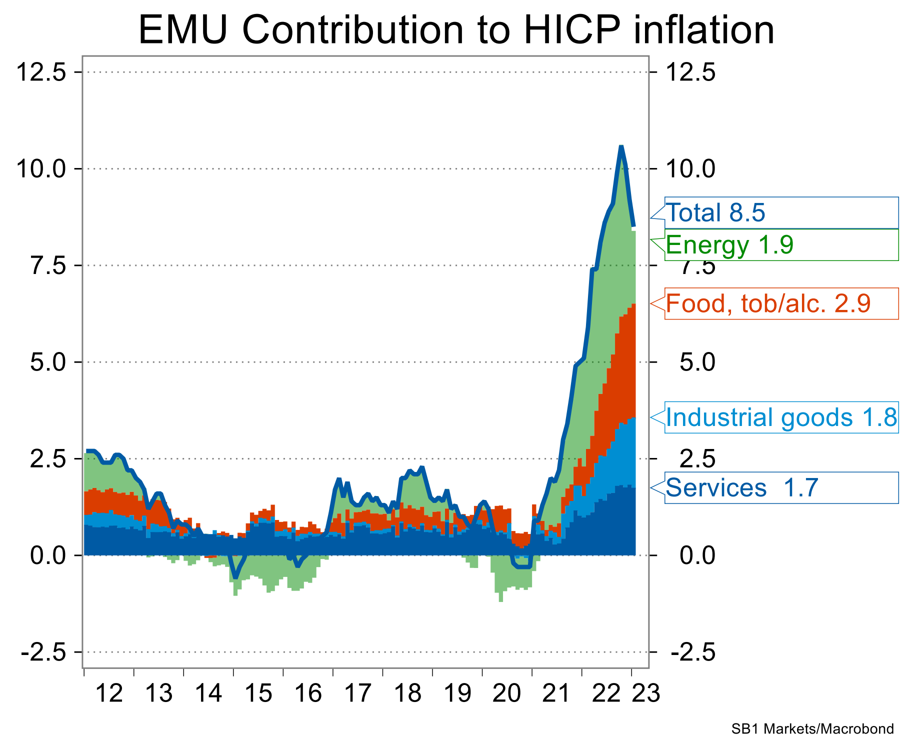


SpareBank 1 MARKETS

Inflation keeps coming down – headline CPI down 0.7 pp to 8.5% y/y

.. and 0.5 pp lower than expected. However, the core rate is stickier and remained unchanged at 5.2% in January

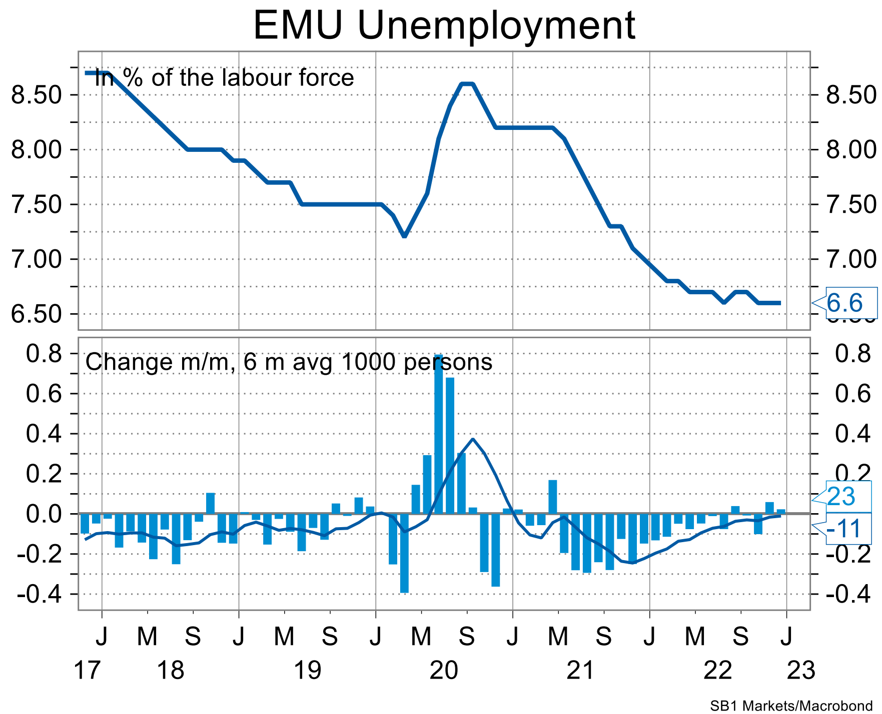


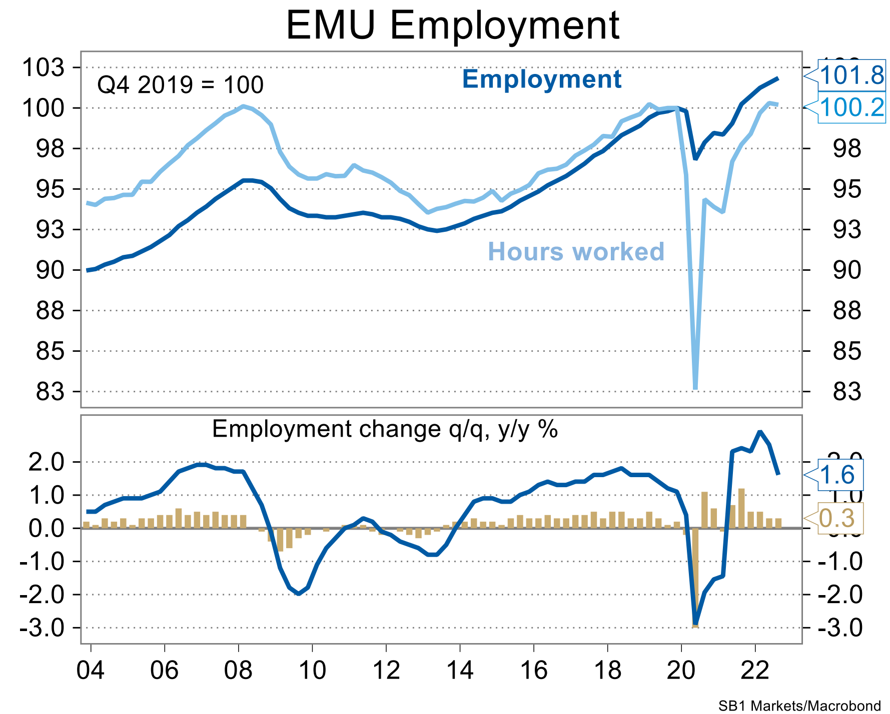


- The **total HICP** fell 0.4% m/m in Jan (seas adj), and is up 8.5% y/y, which is down 0.7 pp from December and <u>0.5 pp below expectations</u>
  - **Energy prices** were down 3% m/m, and are up 18% y/y (down from 26% a month ago), and still contribute 1.9 pp to the headline rate. Food prices rose 1% m/m - and are up 14% y/y, contributing 2.9 pp to overall CPI growth!
- **The core** rose 0.4% m/m. Goods prices rose 0.9%, and services 0.2%. The annual rate was unch. at 5.2%, and still the highest ever…
- …and this is the **ECB's problem**, and why they are adamant about sticking to a 50-bps pace, even after hiking to 2.5% this week

Unemployment stable at 6.6% in December, the lowest level since 1981

But we are at the bottom? The no. of unemployed increased by 23

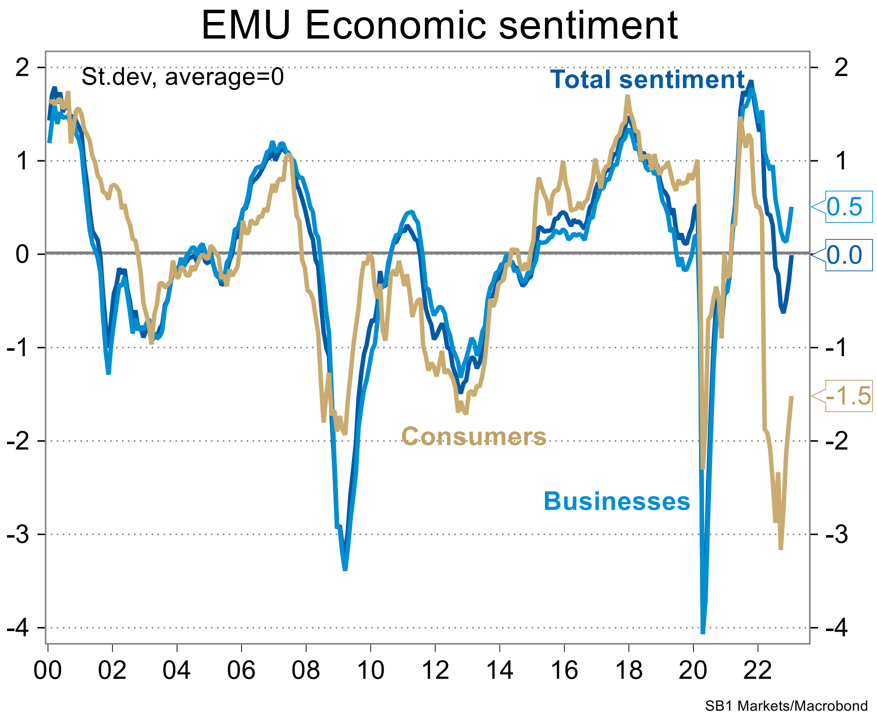


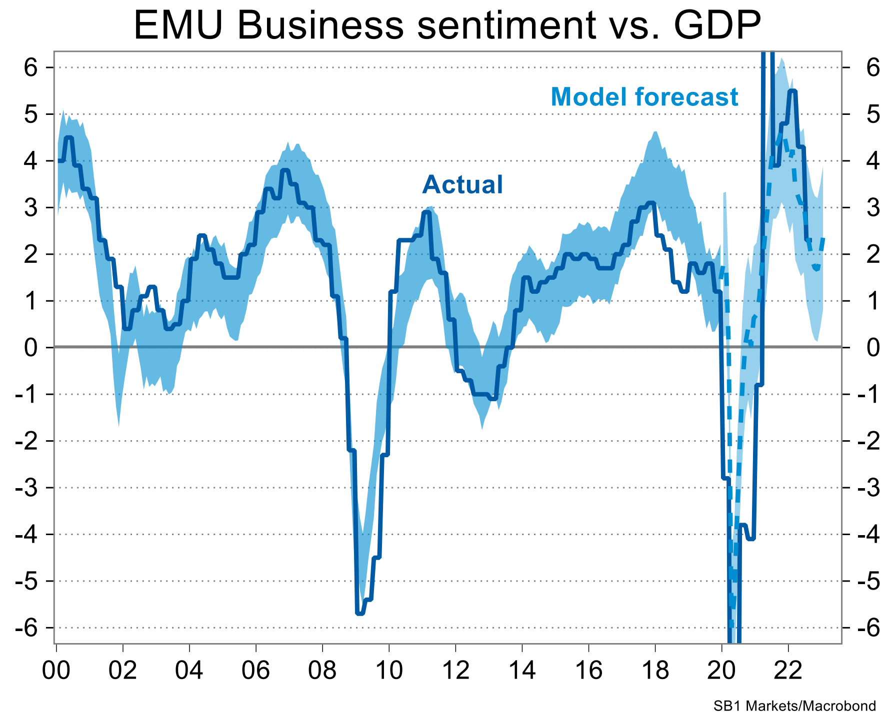


- **The unemployment rate** was unch. at 6.6% (November data revised up by 0.1 pp to 6.6%). The number of unemployed persons rose by 23'
- **Employment** grew by 0.3% in Q3 (not annualised). The employment level & the employment rate are both higher than before the pandemic
- The number of **unfilled vacancies** is still high, but seems to have peaked
- The labour market is no doubt still very tight – until further notice
- **Wage cost inflation** may have accelerated somewhat, and ULC inflation may be running above 3%

Businesses are reporting average growth, rather surprisingly

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

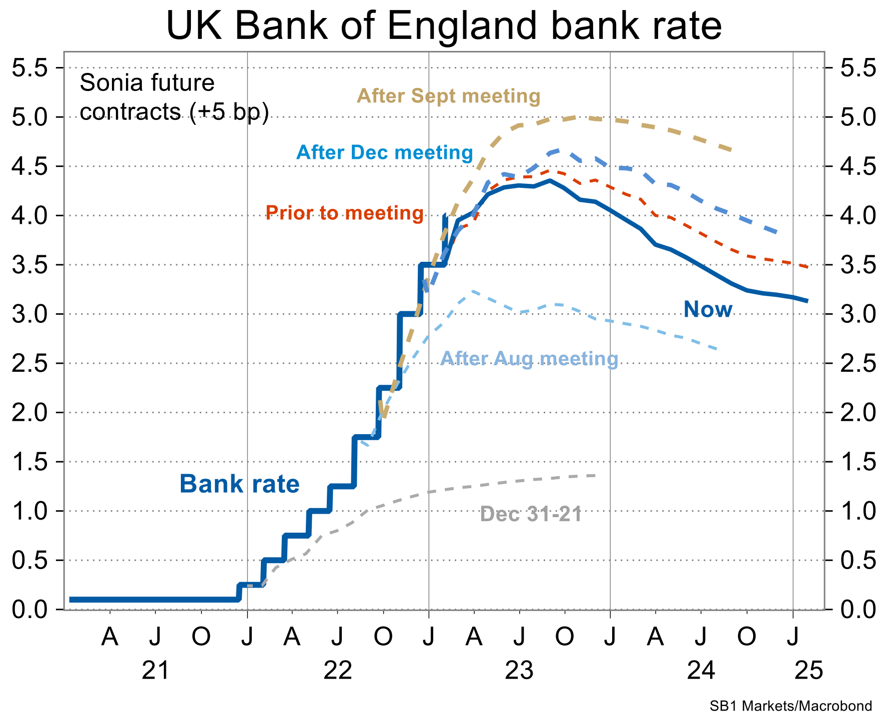




- (However, the gap between business and consumer confidence has never been that large, and our model estimates may be uncertain)

Bank of England raises rates by 50 bps – but the end is in sight. If wages….

The bank revised down its inflation forecast significantly, and signals that the bulk of the hikes is behind us

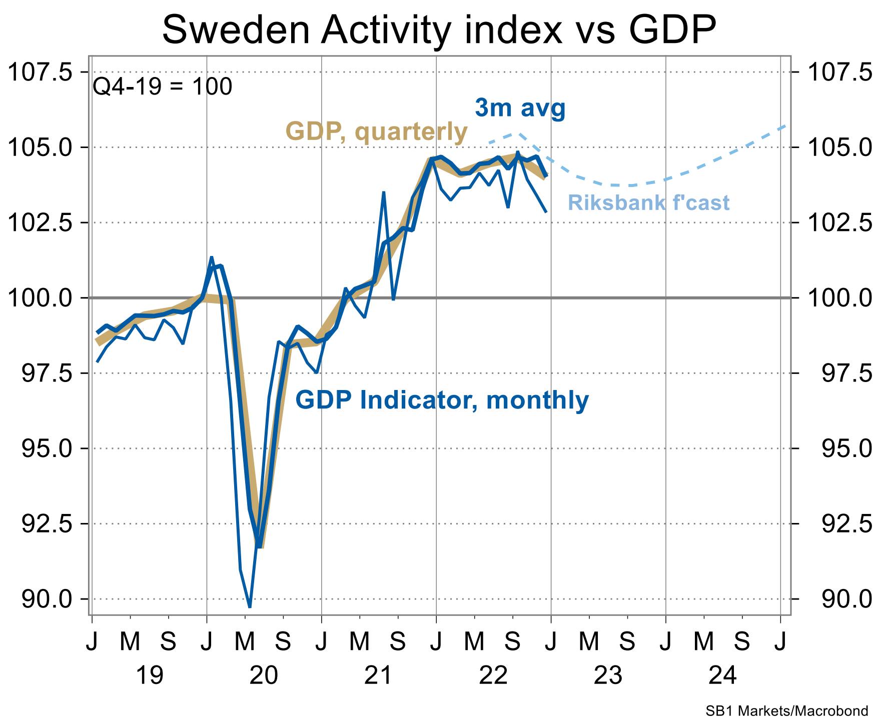


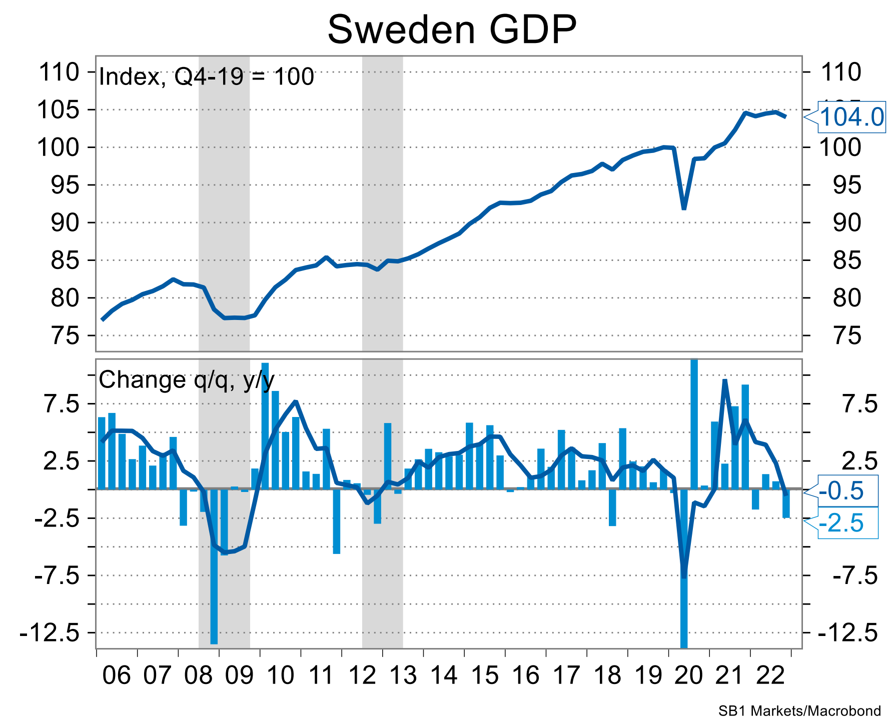
- The **Market** had fully discounted the hike, and some more hawkishness of the BoE. As the bank signalled that the end of the hikes was in sight, the expected terminal rate fell by 10 bps, to 4.35% - and the rest of the curve fell more, as everywhere else

- **The policy rate** was lifted by 50 bps to 4.0%, as widely expected, the 10th increase in row
  - 7 of 9 MPC members voted for a 50 bp hike, 2 members voted to keep the rate unchanged. Last time, 1 was against
  - In its statement, the bank projects a 1% contraction in GDP for 5 quarters, but signalled that the bulk of the rate hikes is behind us, but that some further increases are needed to bring inflation back to the target of 2% not before too long
  - Inflation is expected to have peaked in 2022 and is forecasted to fall to 3% at the end of 2023, down from 4% in the last MPR. Unemployment is forecasted rise only marginally this quarter from the historically low 3.7%, and rise to 4.4% by 2024 (down from 5.2%)
  - In its statement, the bank expects GDP to fall by 0.1% in Q4 and by 'just' 0.7% in 2023 (up from -2%!)
- The problem is of course that wage inflation has become much higher than the bank anticipated: Thus, the bank ended its statement by saying: "*The MPC would continue to monitor closely indications of persistent inflationary pressures, including the tightness of labour market conditions and the behaviour of wage growth and services inflation. If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required*".

Suddenly, Swedish GDP turned out to be almost 2 % lower than expected

A substantial downward revision – and December was far weaker than expected. Q4 GDP down 0.6% q/q & y/y

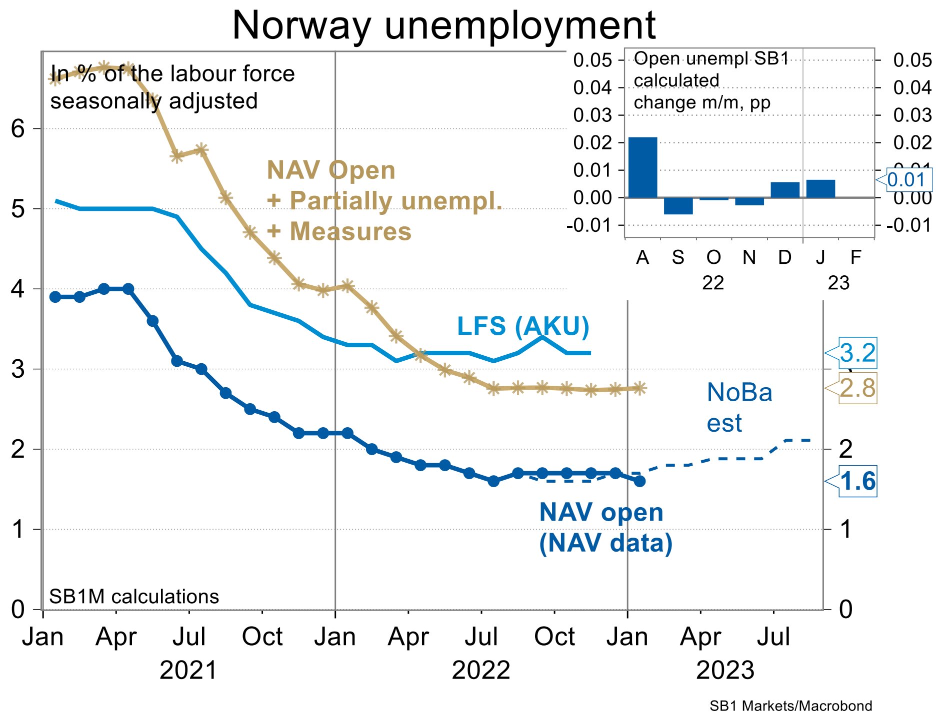


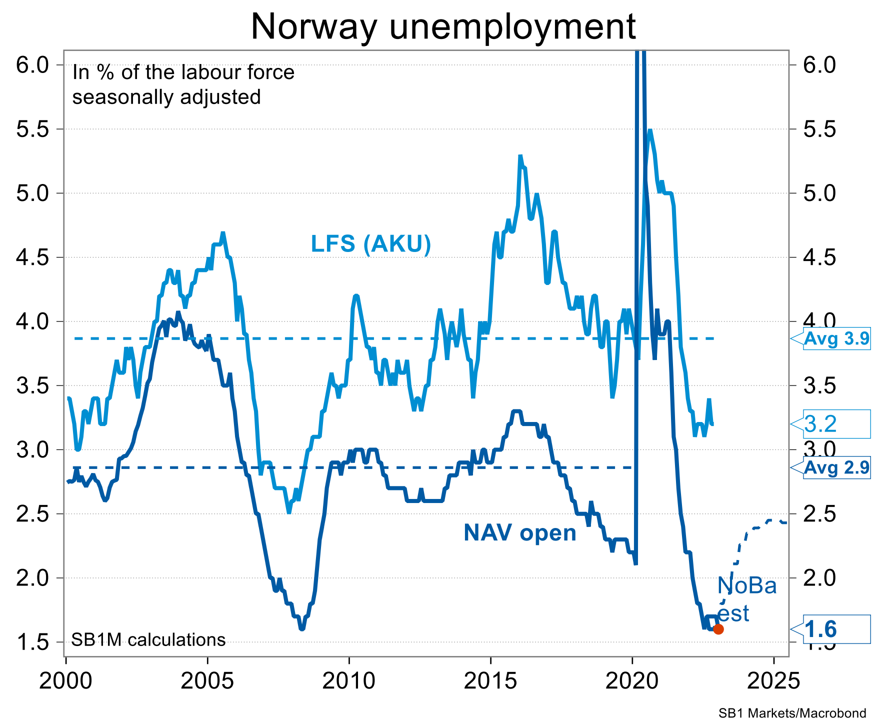


- **One month ago**, we assumed a 0.6% positive growth rate in Q4 was likely (check data we had at hand next page!)
- **GDP** fell by 0.6% in December and Q4 by the same amount, expected UP 0.1%. The annual growth rate was -0.6%, expected +1.2%, a 1.8 pp miss – as the history was revised down too → GPD has flattened
  - Before you lough too loud, do not forget that even SSB in Norway recently has revised its GDP data significantly (though with the opposite sign)
- **The Riksbank** expected an 0.8% decline q/q in Q4, but from a higher level than SCB now reported in Q3
- **Business surveys** do not yet signal a decline in GDP

NAV unemployment has turned slightly up (or not)

Open unemployment has been revised marginally up, and the no. of unemployed rose in Jan – but NAV's rate fell!

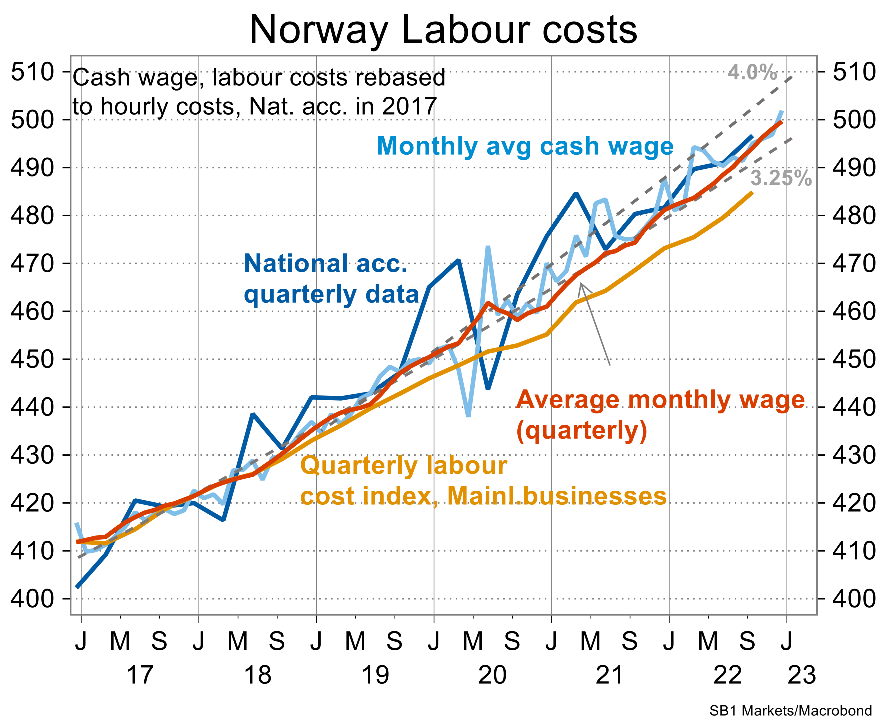


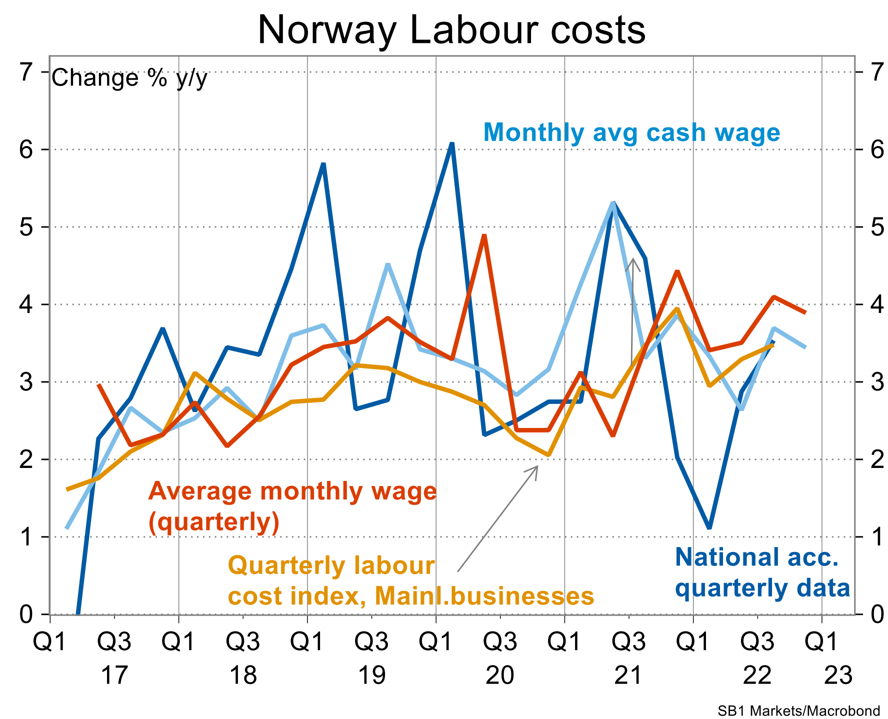


- **The 'full time' open NAV unemployment**, rose by 200 persons in January, as in December. We expected +300. The level the previous months was revised up by up to 600 persons, and the unemployment rate was revised to 1.7% from 1.6%. Even the no. of unemployed rose in Jan, NAV estimate a decline the unemployment rate to 1.6%, the level we expected – which still is 0.1 below NoBa's f'cast
  - The unadjusted rate rose by 0.3 pp to 1.9%, we expected 1.8%, which also was the consensus
- **Including labour market measures**, unemployment climbed by 400' persons, we expected +300. The rate is unch. at 2.0% (our calc). **Total unemployment**, including partially unemployed was rose 0.1 pp to 2.8% (or more precise, to 2.76% from 2.75%)
- The inflow of **new job seekers** is trending upwards, but rose in both Dec and Jan, and the level is still very high.
- **The LFS (AKU) unemployment rate** is at 3.2%, marginaly up from the bottom at 3.1% last year

Wage inflation probably higher than we have assumed. Monthly wage +3.7%

However, avg working hours have fallen. The full day equivalent wage is up 4.4%, on an accrued basis (4.6% cash bas.)

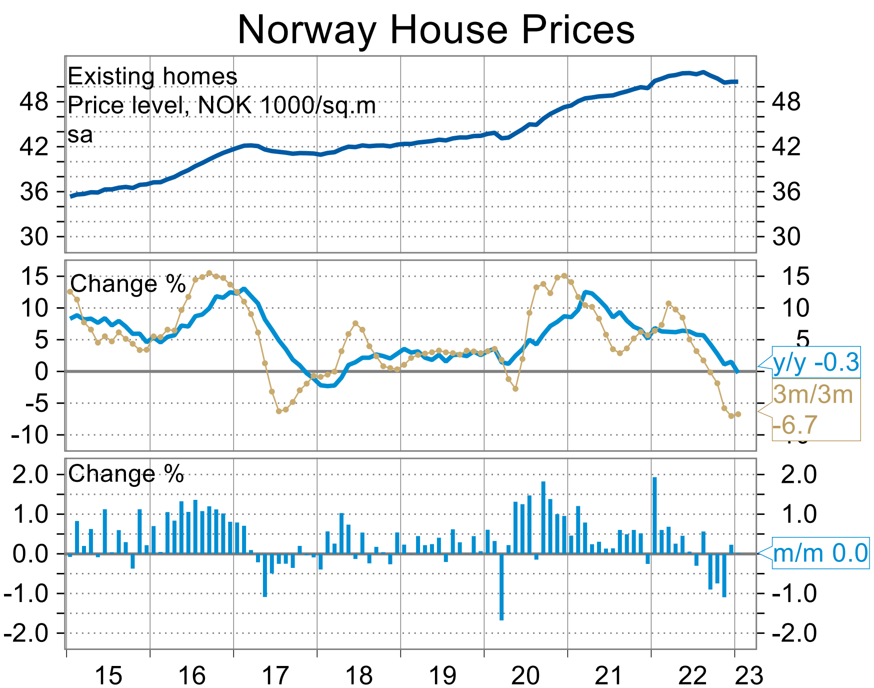




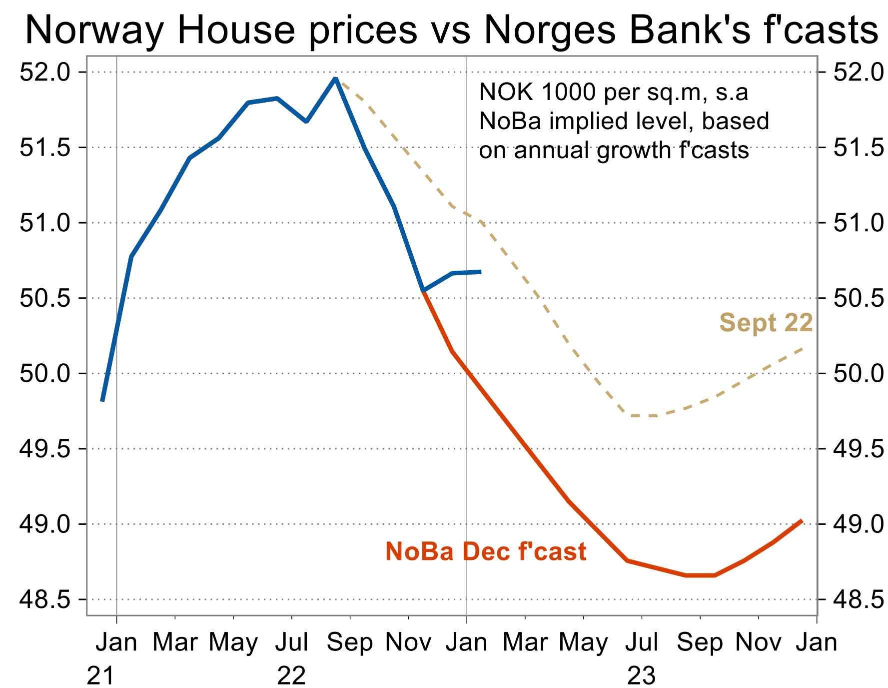
- Rather confusing, several different wage concepts – but that's life. It now seems likely that the average wage rose more than 3.9% which SSB and Norges Bank have assumed.
- This increases the risk for some groups claiming compensation in this spring's wage negotiations (even if it just a mid term round, with restrictions on what is on the table) as wages rose more than the assumed 3.8% in last year's wage round (and all have not received the 4.4% average wage increase.
- The quarterly labour cost index report a 3.5% growth y/y in Q3, up from 3.4% in Q2 – and the trend is not higher (data out last week)

House prices unch in January, following the 0.2% December lift

So, something has happened: Eased mortgage regulations? Optimism has returned? Even if cons. conf is very weak?



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

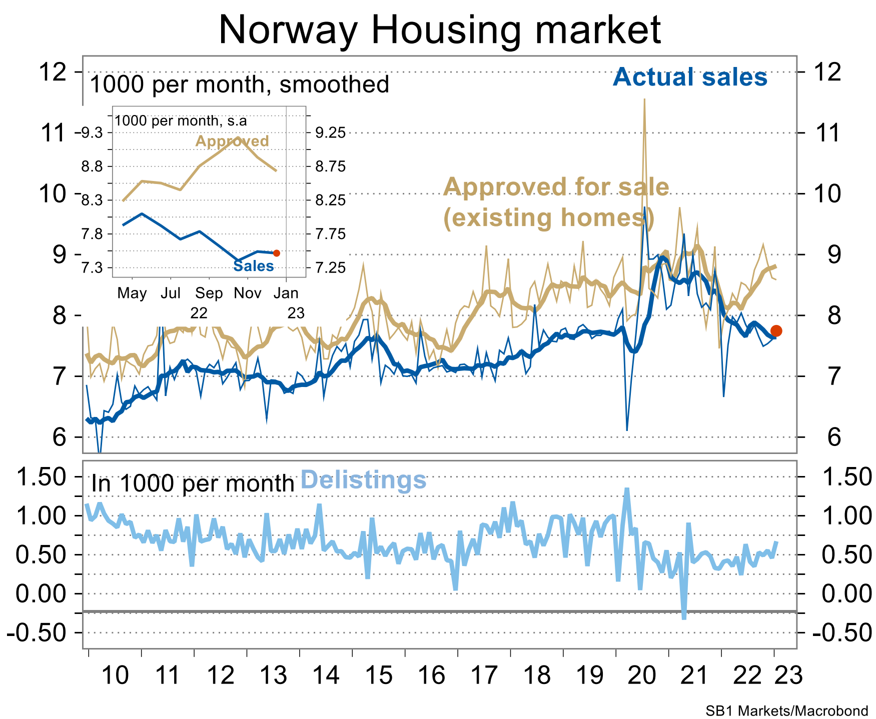


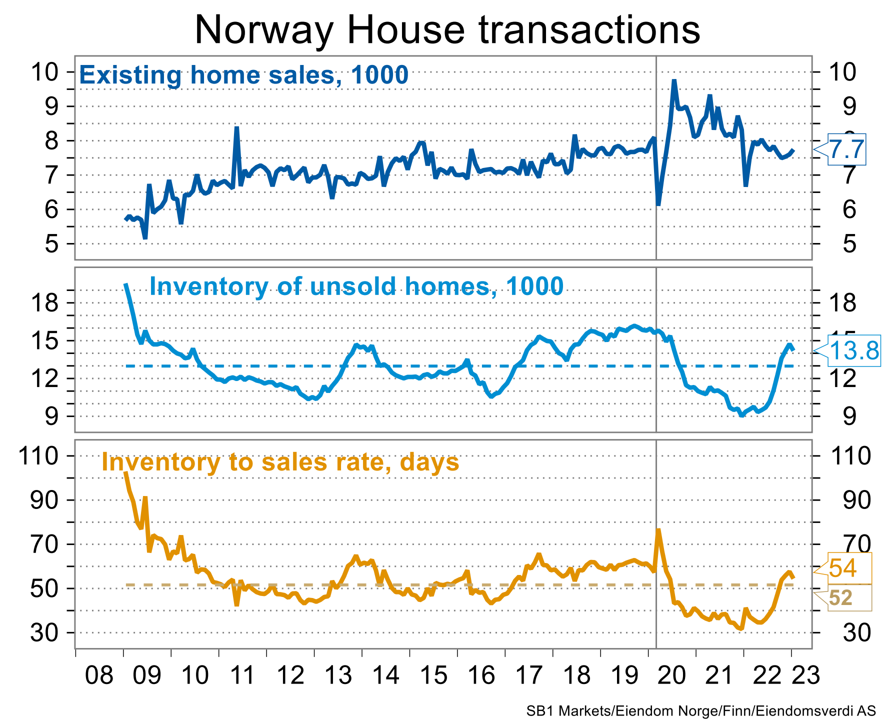
SB1 Markets/Macrobond

- **House prices** was flat m/m, we expected a 0.5% decline, in line with Norges Bank's estimate. Since August, prices are down 2.6%, still the steepest 4-month decline since late 2008, and prices are down 0.3% y/y.
- **Prices rose** in 11 cities, and fell in 5. Stavanger at the top, Trondheim at the bottom. Oslo marginally up, 0.2% less than signalled by some realtors
- **Existing home transactions climbed slightly to** 7.7' which is 15% below the peak during the pandemic but still at the average 2019 level. The inflow of of **homes approved for sale** fell further and is close to a normal level
- **The inventory of unsold homes** decline by 400 units in Jan, the first decline since last April. The inventory is still higher than normal, but not by that much, and the i/s ratio fell by 4 days to 54, just 2 days above the long term average.
- In December the Government eased mortgage regulation by lowering the **rate hike in the stress test of borrowers**, to 3 pp from 5 pp (though minimum with a 7% rate) from Jan 1. Was that sufficient to ignite the animal sprit at the housing market? If so, one worry less for Noba, the hikes have not killed the Norwegian economy.

Sales up in January, fewer homes approved for sale, and the inventory fell!

Even so, the inventory is larger than normal, following the steepest increase on record since last July

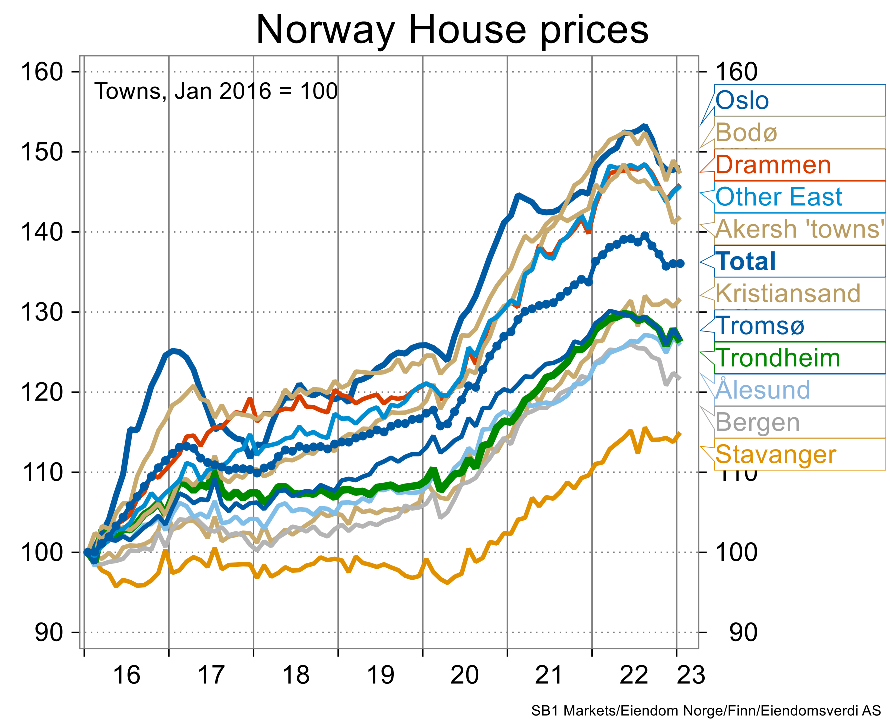


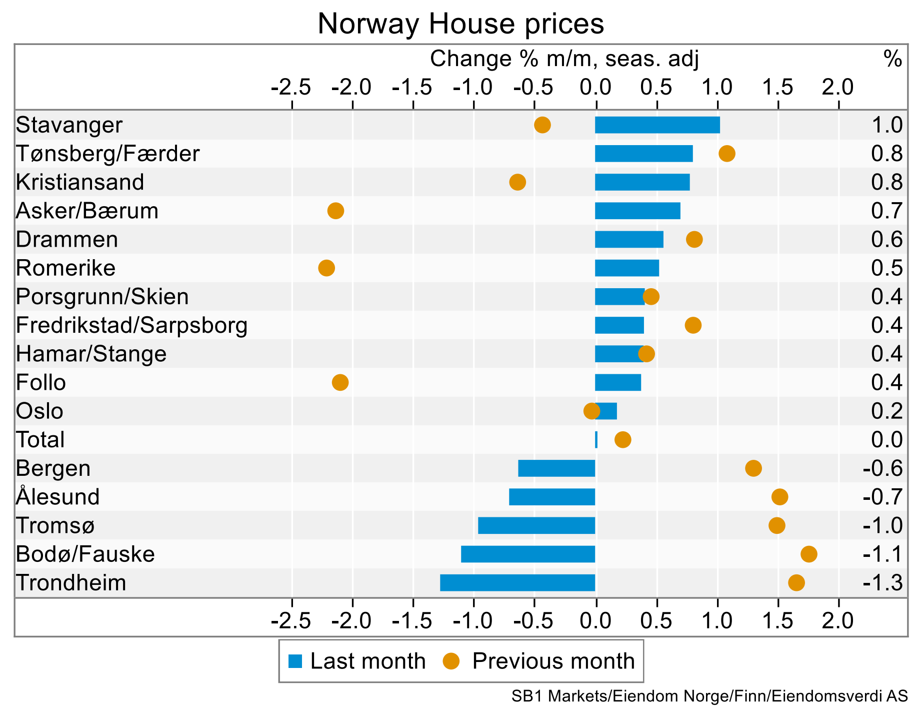


- The **number of transactions** was rose to 7.7' in Jan from 7.5', a 'normal' level, even if it is 14% below the peak level during the pandemic
- The **supply of new existing homes for sale (approvals)** fell slightly but remains at a normal level
- The **inventory of unsold homes** declined by 400 homes, the first decrease since last April. The level is still above average
- The **inventory/sales ratio** declined 4 days to 54 days, vs an average at 52 days – that is close to average
- The **time on market** for those homes actually sold rose by 5 days to 42 days, equal to the long term average- probably as some shelfwarmers finally were sold as demand from homebuyers strengthened

Some mean reversion, the strongest cities in Dec reported decline in Jan

Prices rose m/m in 11 cities, fell in 5. Stavanger up 1%, Trondheim down 1.3% Oslo prices rose 0.2%

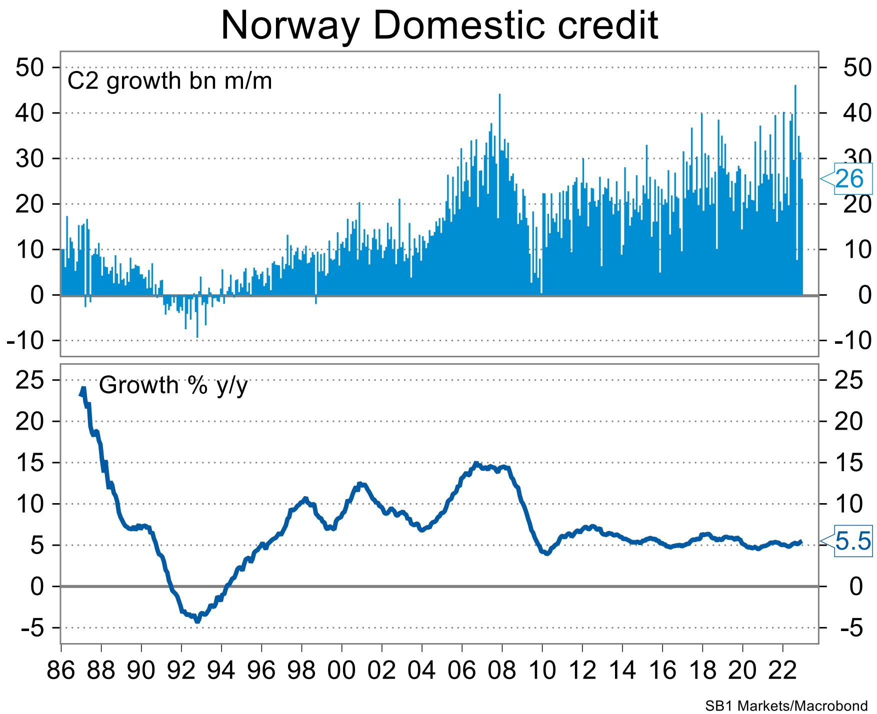


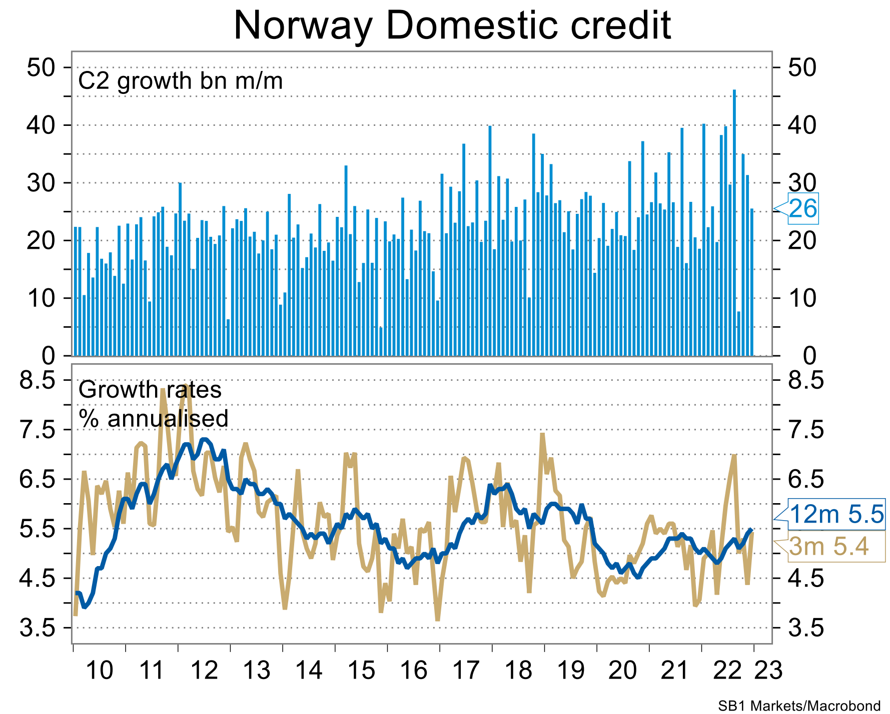


- The price increase in Oslo was less than realtors had ‘announced’

Household credit growth is not slowing anymore? Corporate debt up 8.8%

Total C2 growth accelerated to 5.5% (as we expected), the highest growth rate since before the pandemic!

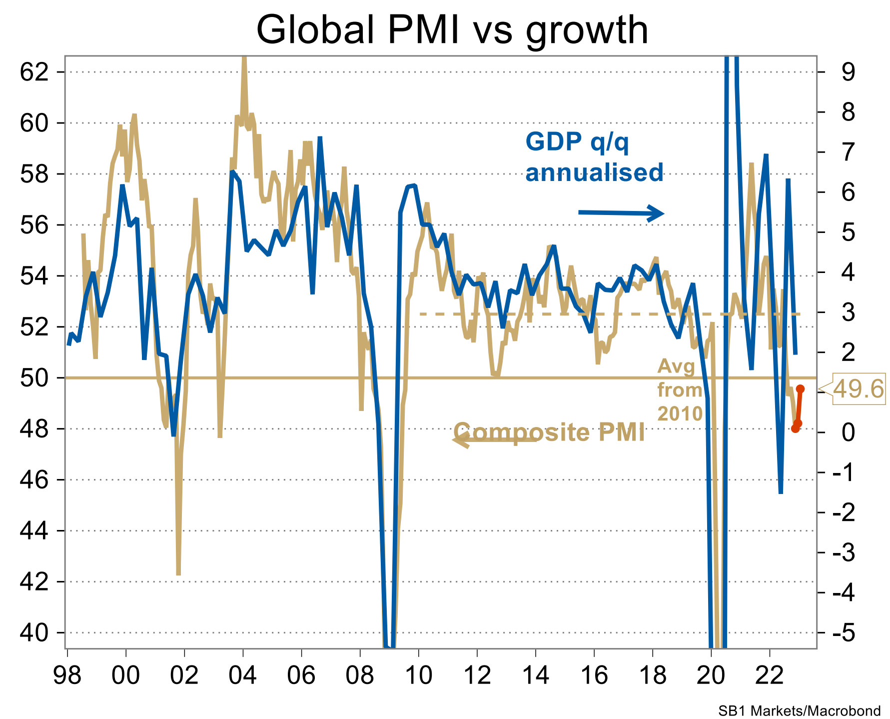


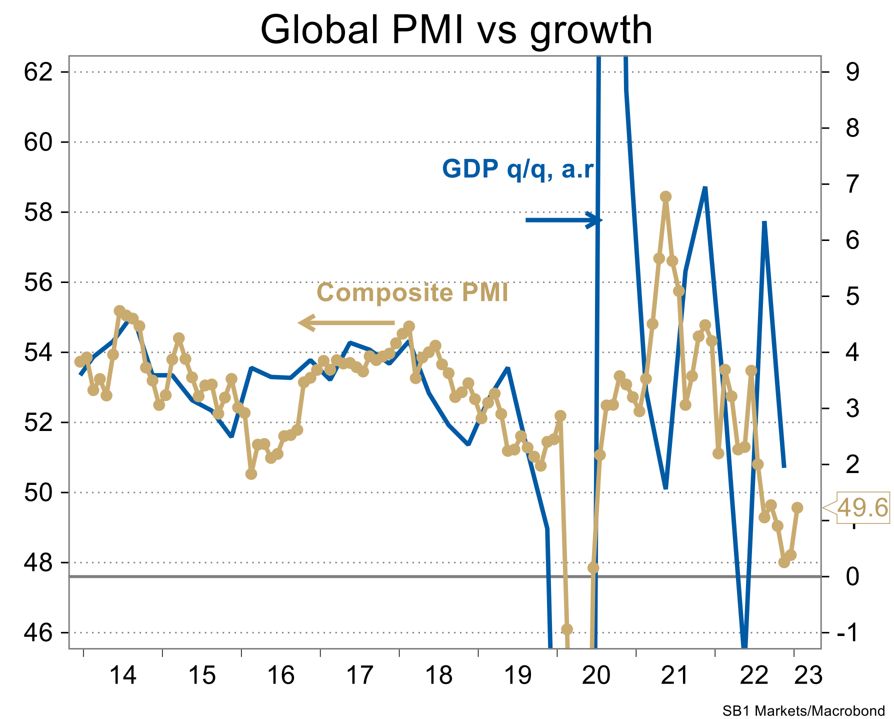


- **Total domestic debt** (C2) rose by NOK 26 bn in Dec, as we expected. The annual growth rate rose 0.1 pp to 5.5%, as we expected – and the highest annual growth rate since before the pandemic. The very volatile 3m/3m growth rate accelerated to 5.4%
- **Household credit** rose by NOK 16 bn in Dec,3 bn more than we expected. The annual rate gained 0.1 pp to 4.2%, we expected it to remain unchanged. Measured 3m/m growth has accelerated somewhat recent months, even if the annual rate is still trending down. No impact from higher interest rates, a cooling housing market?
- **Corporate C2 credit** added NOK 8 bn in Dec, 3 bn less than we expected. The annual rate accelerated 0.2 pp to 8.0%, as expected. For Mainland companies, the annual rate fell 0.1 pp to 8.8%. The unusual volatility recent months may be due to transfers of debt to and from abroad
- **Local governments** added NOK 1 bn in Dec, 1 bn less than we expected. The annual growth rate is 5.7% Finally, local gov's are not increasing their debt/income ratio

The global PMI probably rose 1.3 – 1.4 p to some 49.6 in January

Global growth well below trend is still signalled. India, China, Japan and EMU in the lead

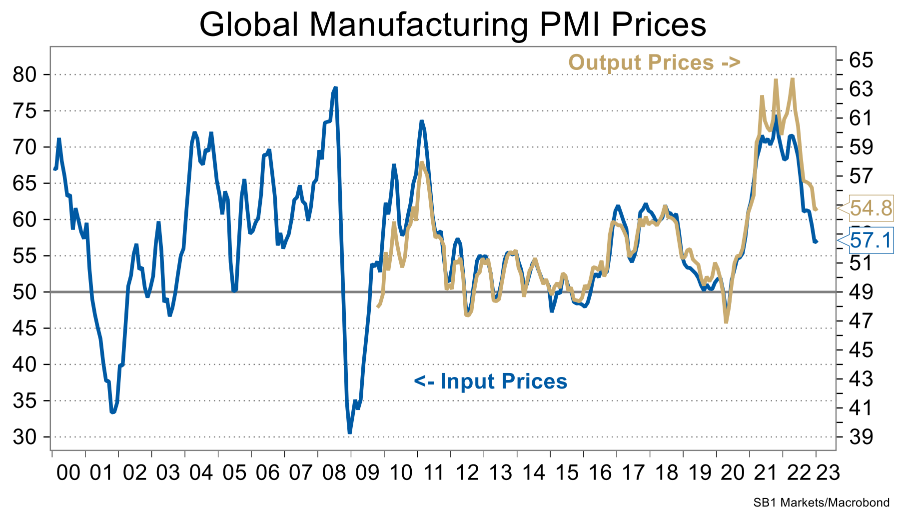


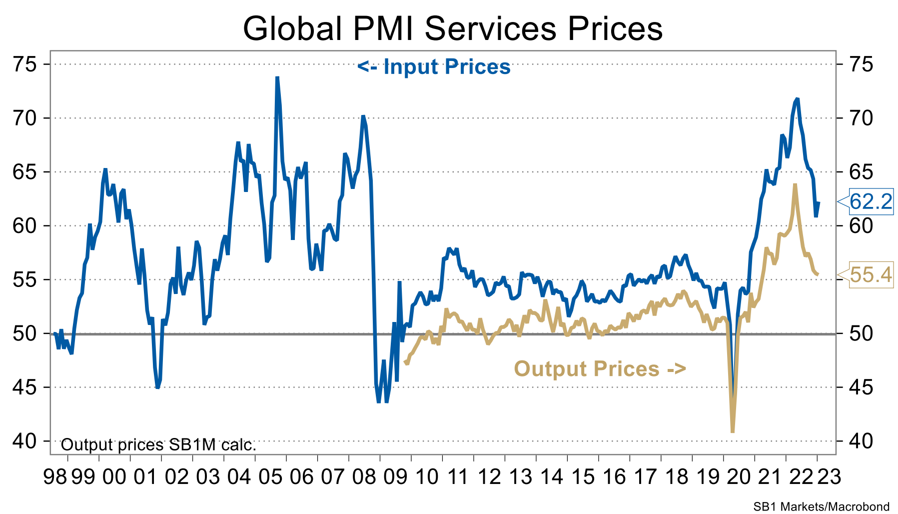


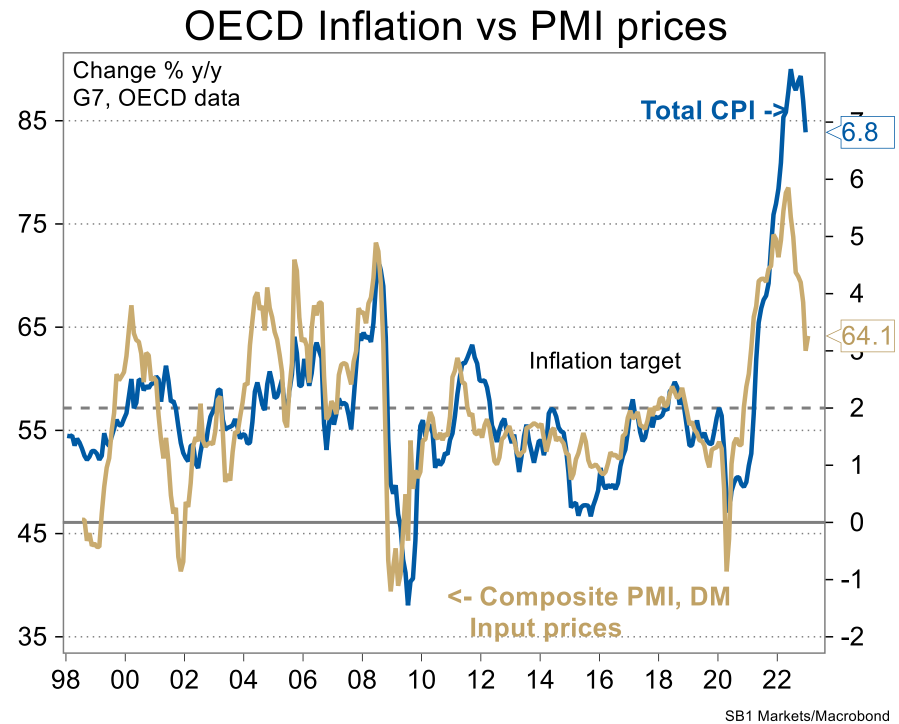
- Both the manufacturing sector and services contributed
- A majority of countries/regions contributed
- Both developed and emerging markets contributed. EM are still in the lead, with India (very likely, all data are not yet published) at the top
- The Chinese PMIs recovered to well above 50, as the economy now opens up. More to come in February, we think

Price increases have slowed RAPIDLY, according to the PMIs

However, signals were mixed in January, and the global input price indices probably rose



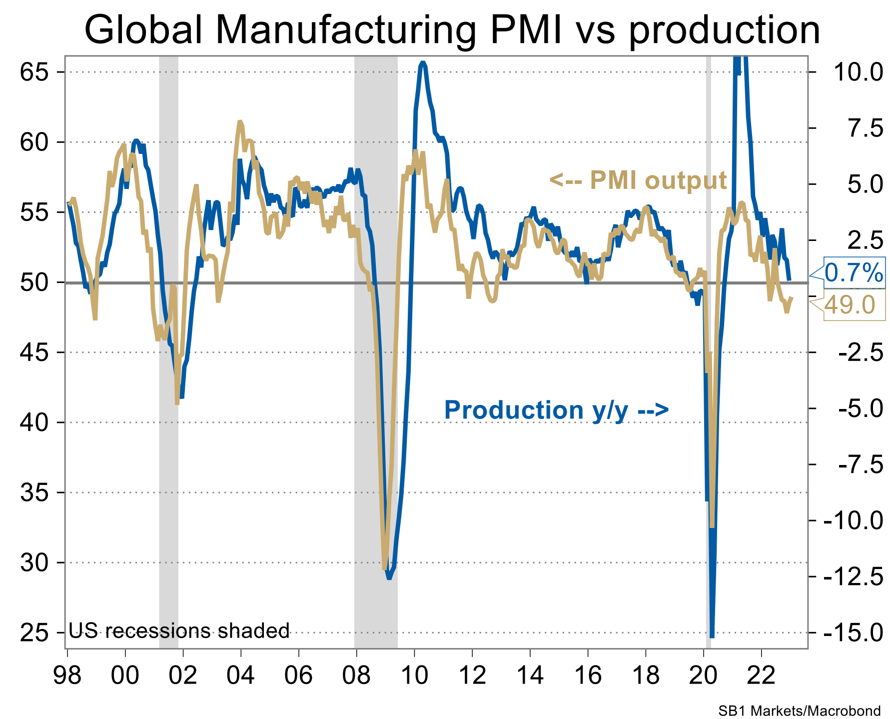


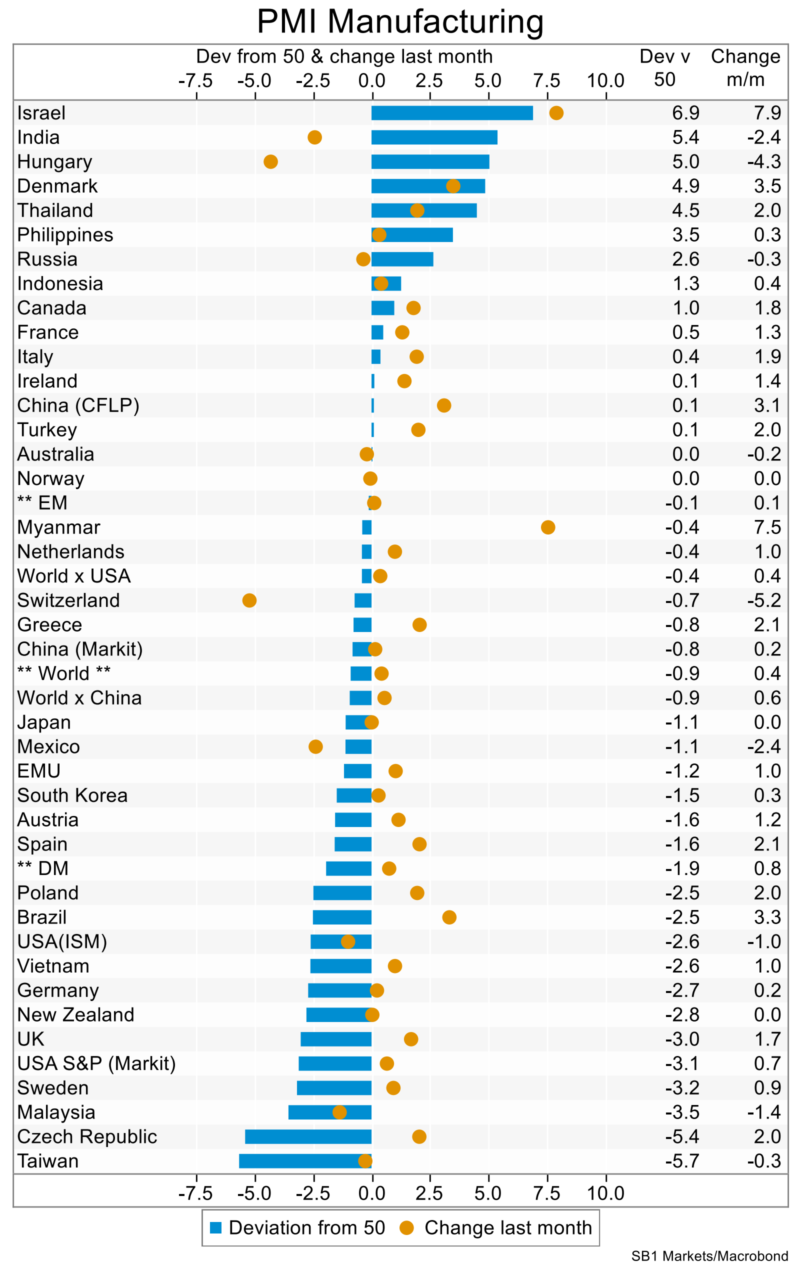


- Even so, a sharp slowdown in inflation is signalled

A small uptick in the global manuf. PMI, still below 50

While actual production ‘finally’ is stalling

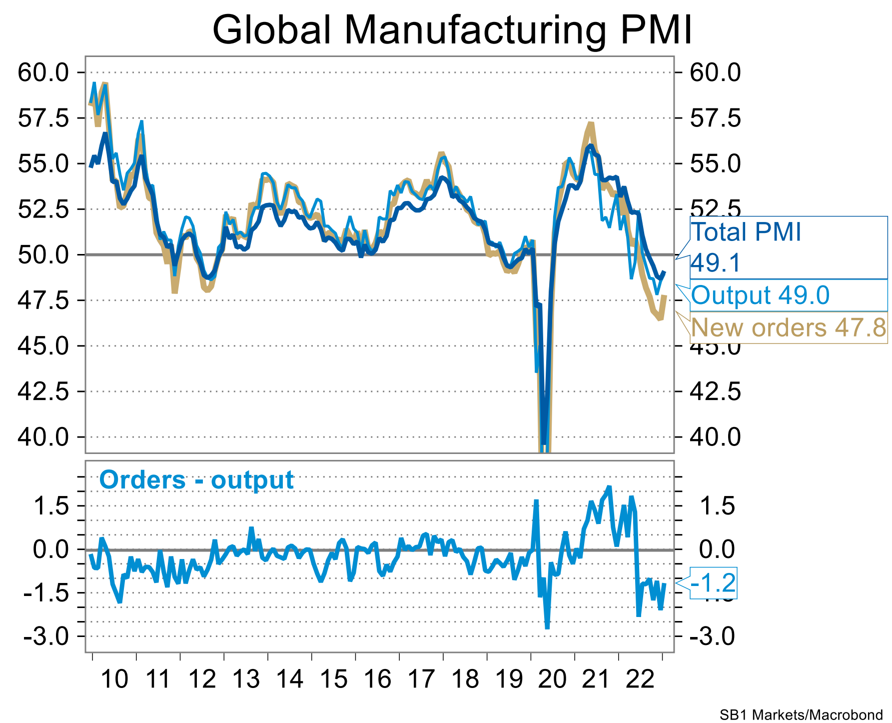


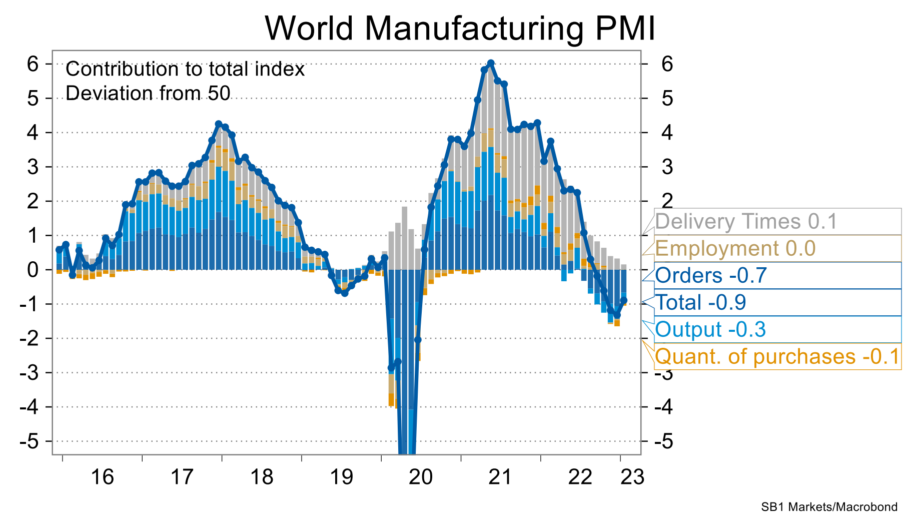


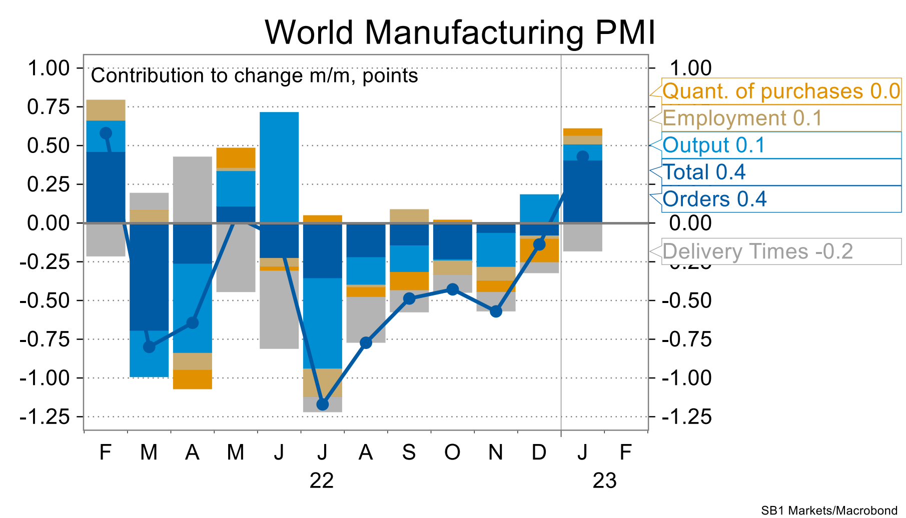
- **75% (!) of the PMIs** were up in Jan, but 60% are still below the 50-line
- **The manufacturing total** index and the output index gained 0.4 p to 49.0, and 49.0 resp., signalling a mild decline in production
- **Rich countries** are still far weaker than Emerging Markets, due to the weak prints in the US and UK – and Germany & Sweden
- **India** is at the top of the list, at 56.9
- **Norway’s** manufacturing PMI was unch. at 50, ranked no. 16 (from 12)
- **Sweden** has fallen rapidly recent months, but was up 0.9 p in Jan, to 46.8 – still a dismal reading

Orders are still falling rapidly, but slower than in Nov/Dec

The new order index added 1.3 p to 47.8

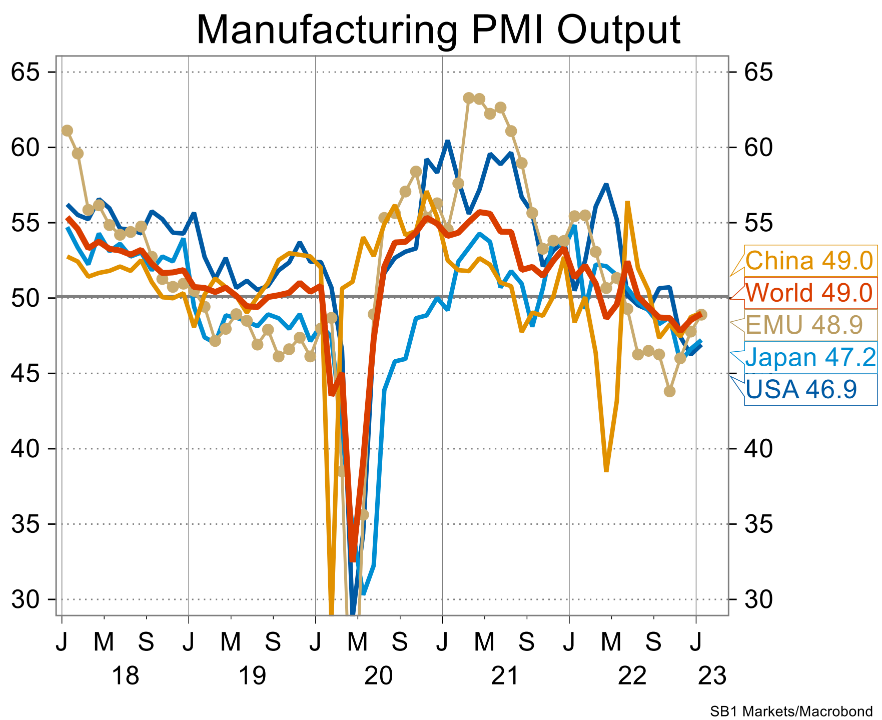


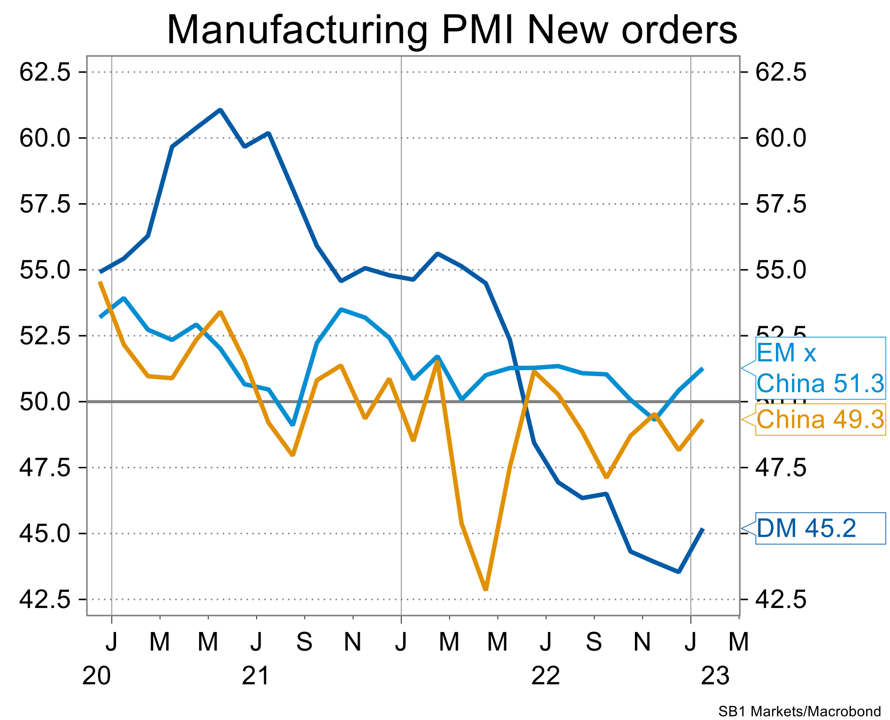




A broad uptick in January, all but EM x China are still under water

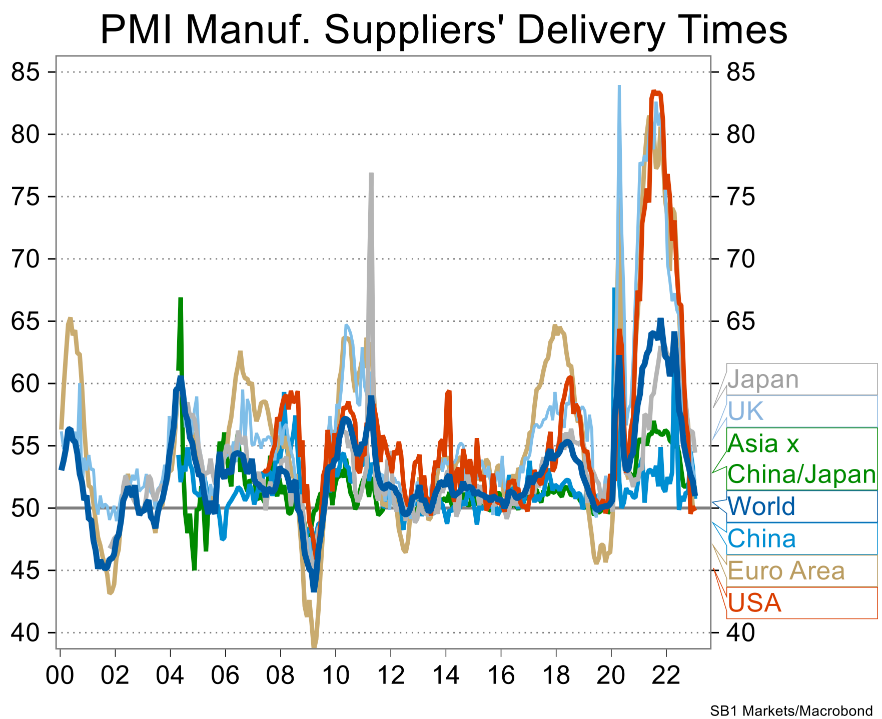
In EM x China orders are growing

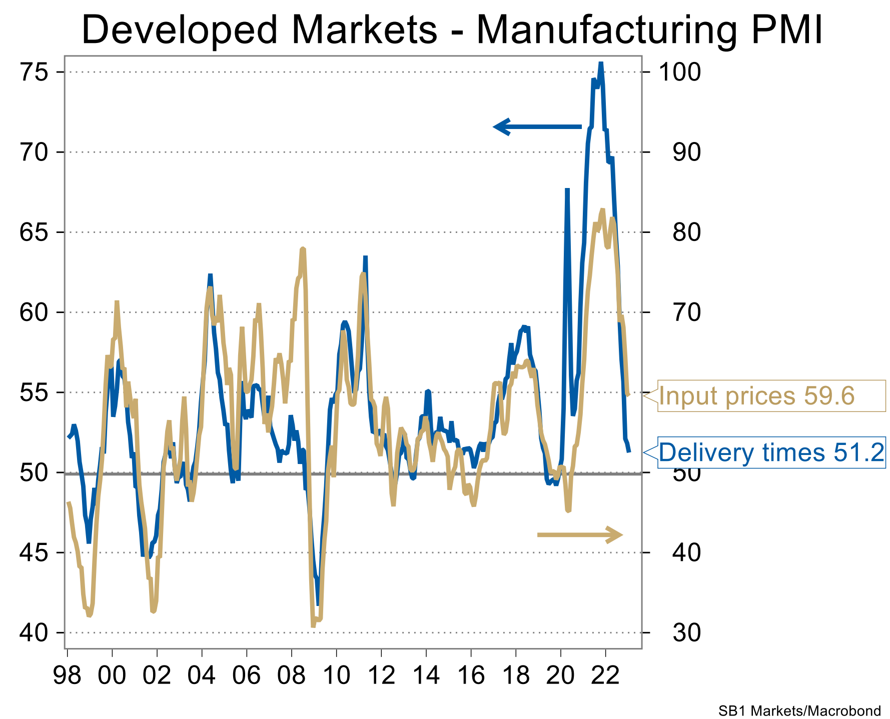




Delivery times have fully normalised, and price increases are slowing rapidly

..but not further in January

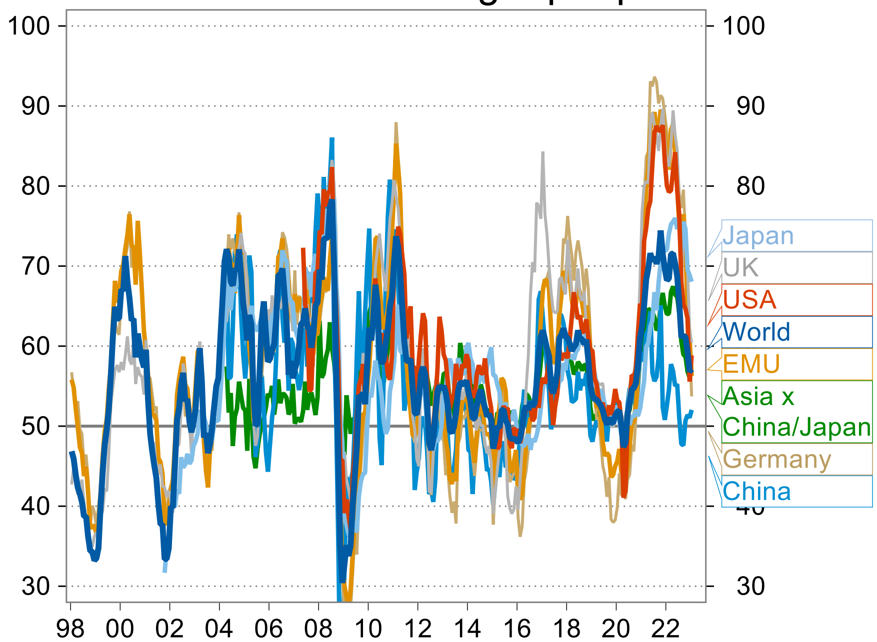




Price inflation is slowing, but not further in January

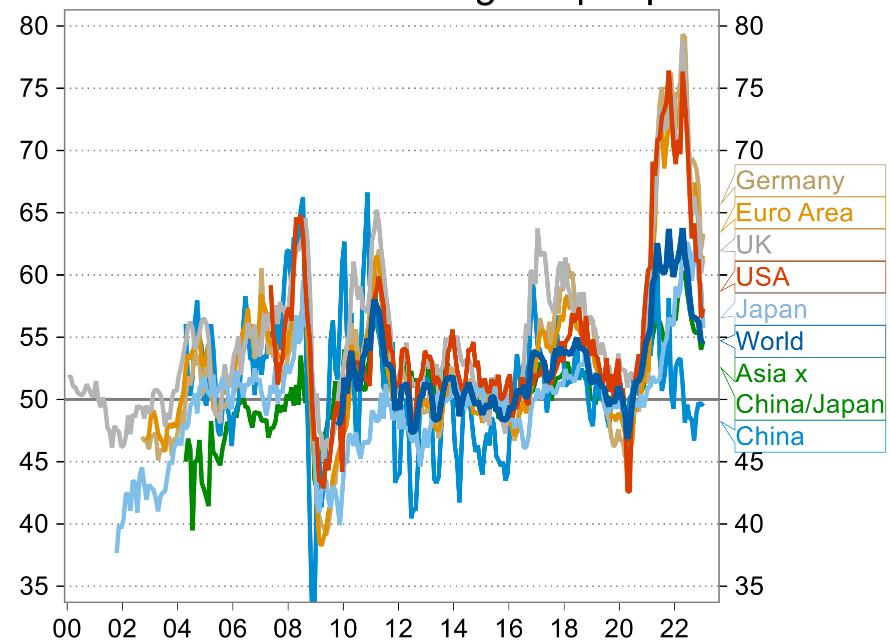
US input prices rose faster in January, while most countries reported a faster growth in output prices!

PMI Manufacturing Input prices

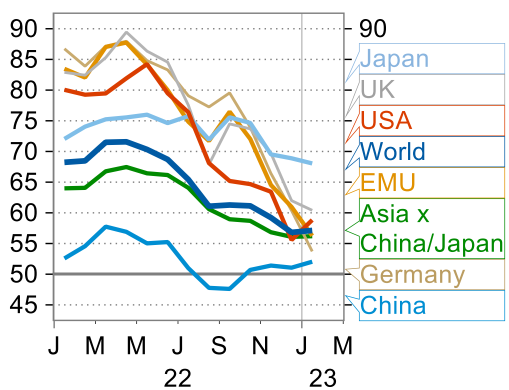


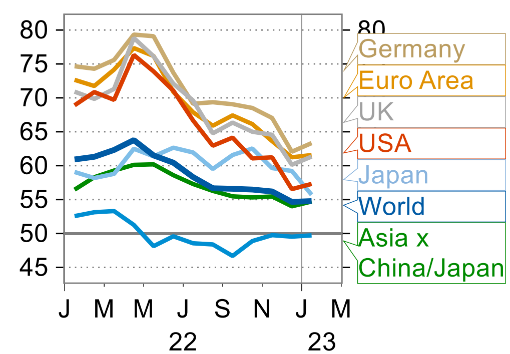
SB1 Markets/Macrobond

PMI Manufacturing Output prices



SB1 Markets/Macrobond

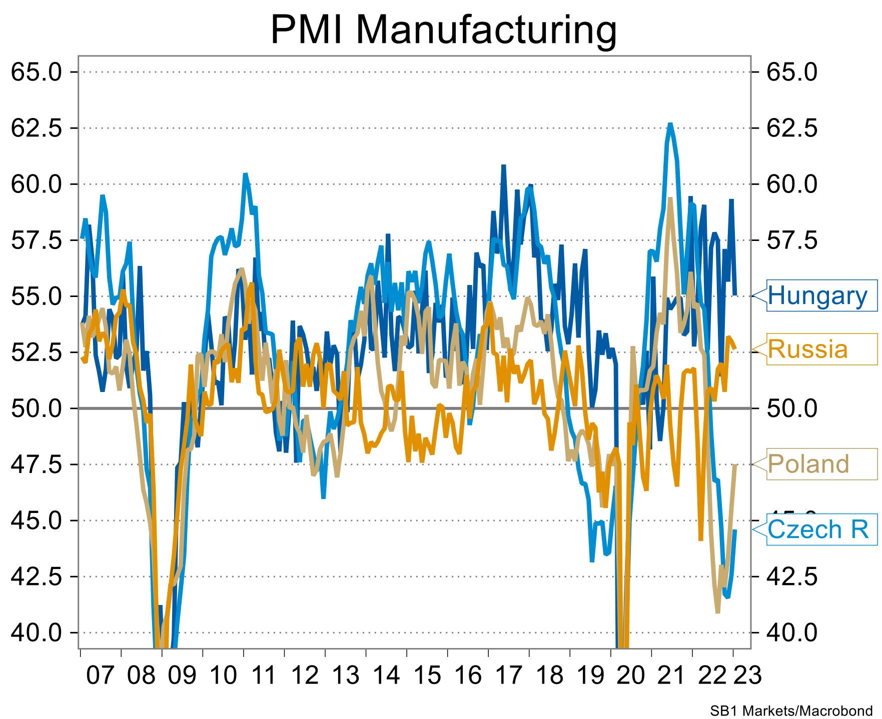


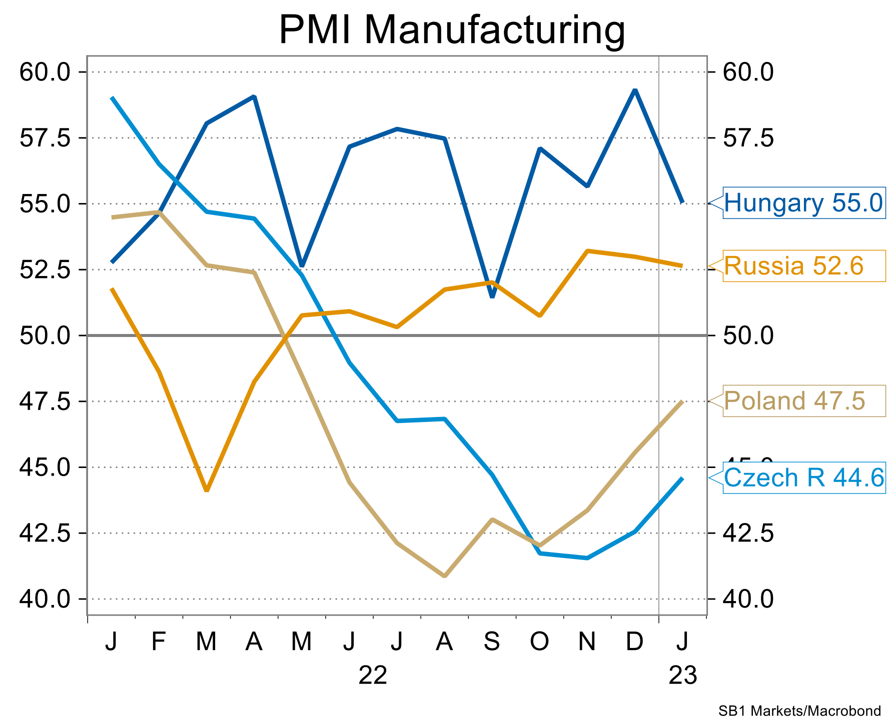


SB1 Markets/Macrobond

Mixed in January, all closer to the 50-line, from above or below

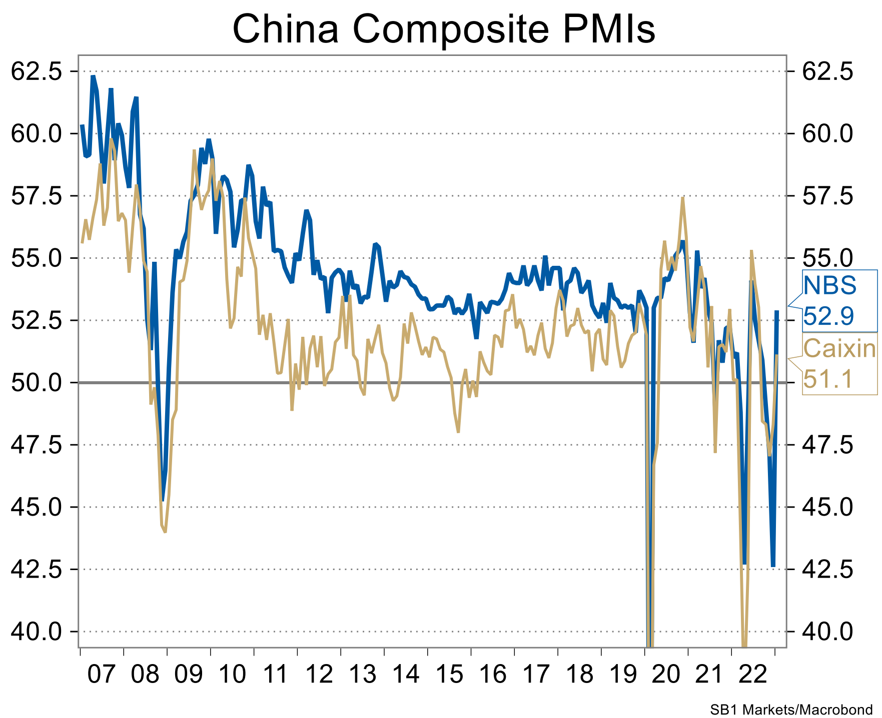
Russian manufacturers are still reporting growth. We can think of one sector… But are the others is such a good shape?

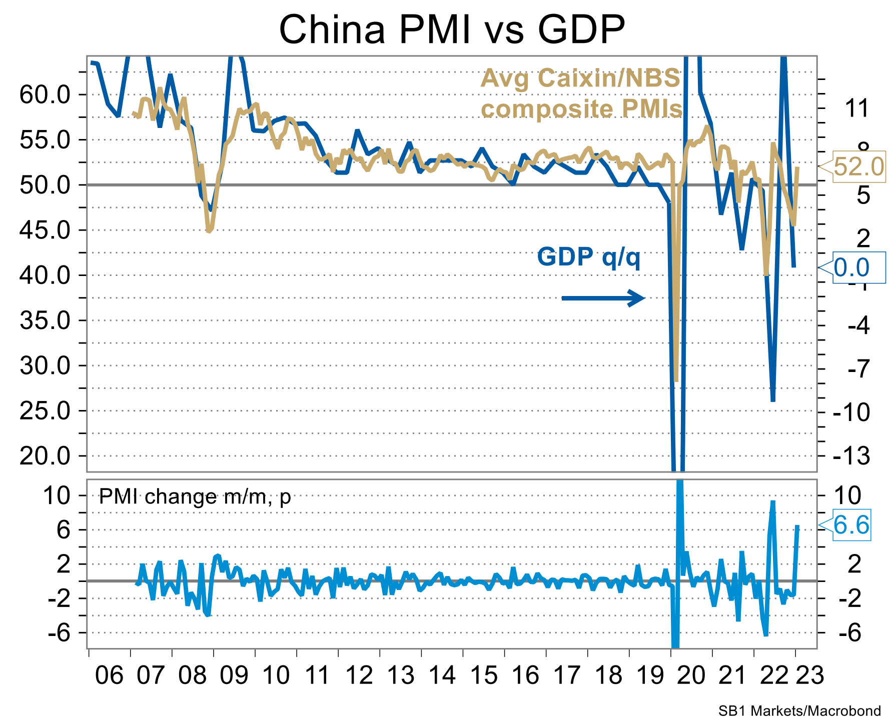




The recovery is underway, the PMIs up in January – and more to come in Feb

The NBS comp. PMI recovered sharply, by over 10 p to 52.9. Caixin's index rose just 2.3 p to 51.1

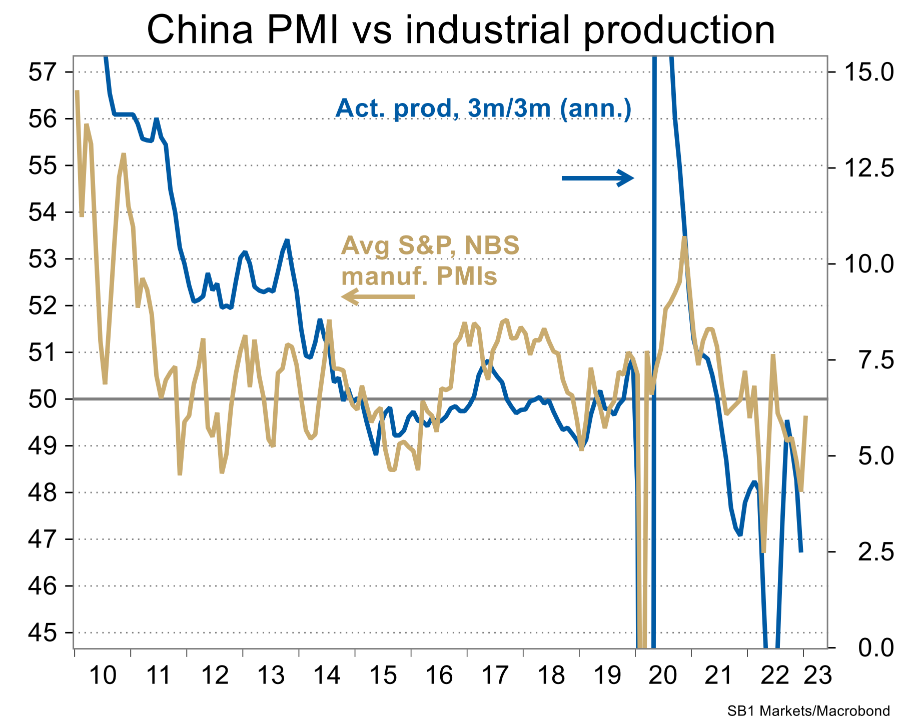




- The **NBS/CFLP composite PMI was very weak in December, and recovered sharply in January, with services in the lead**
- **Caixin** reported a far smaller uptick but the level is not that far below the 'official' PMI. Services contributed the most here too
- **The average** of the two data sets gained 6.6 p to 52.0, signalling growth close to trend
- As **mobility** is now rapidly normalising after the (most likely) last Covid wave, <u>we expect activity to increase sharply too</u>, especially in the service sector – but somewhat also in the manufacturing sector
  - In manufacturing, export orders were the weak link in January, probably influenced by waning demand in the rich part of the world

NBS manuf. PMI out of the woods in January, but Caixin's index still <50

The Caixin survey was weaker than expected, while the NBS survey surprised to the upside. More to come in February



- The NBS manufacturing PMI gained 3.1 p to 50.1 in January, while the Caixin manufacturing PMI rose 0.2 p to 49.2
- Very likely, the manufacturing sector will report decent growth in February, as the virus has 'lost'

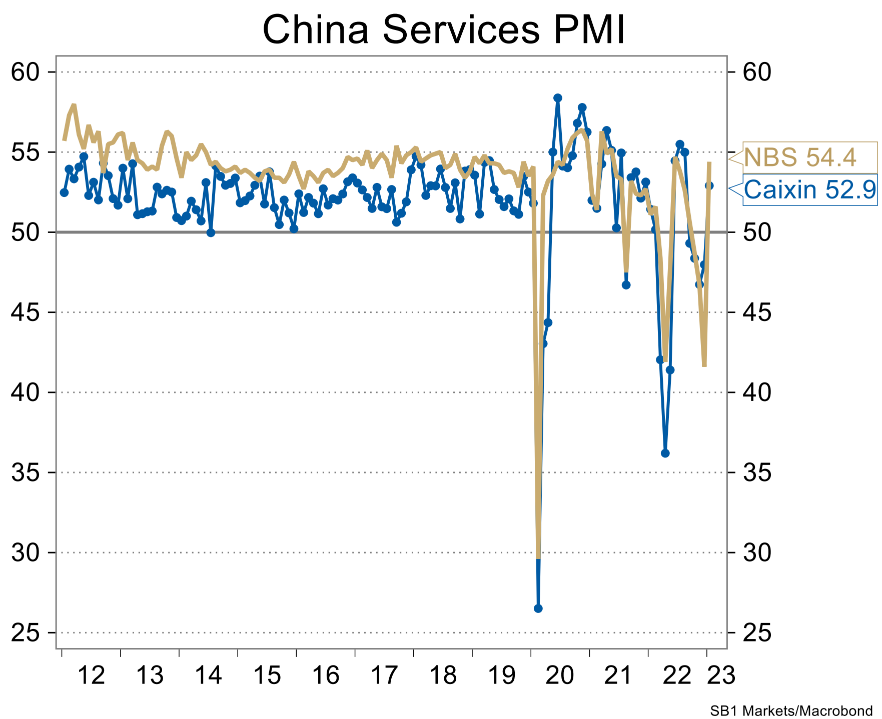
Domestic order inflow rebounded in Jan; export orders are trending down

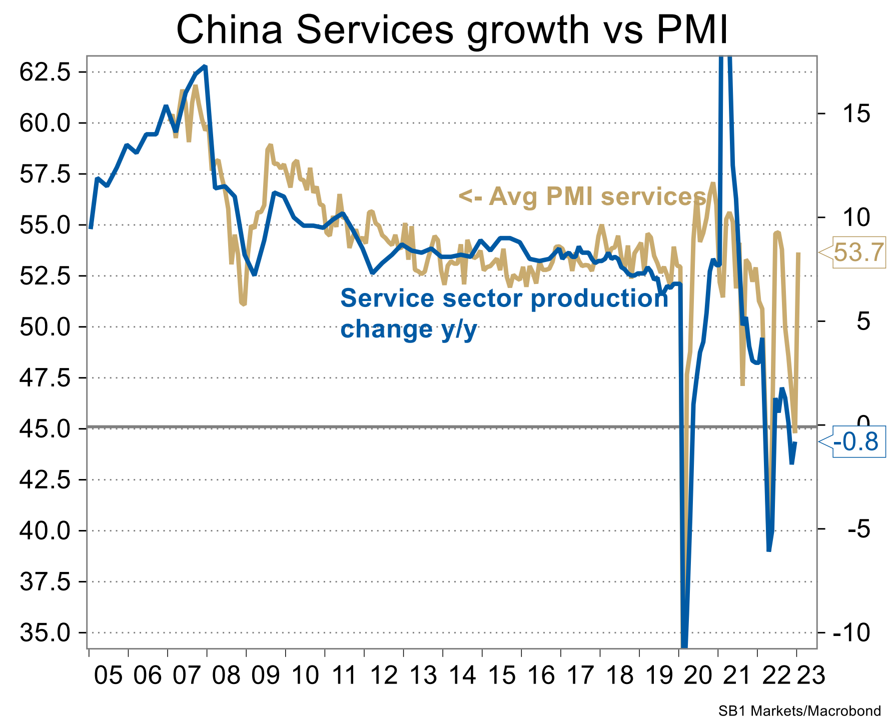
Most likely, the sum will be positive the coming months as growth in export orders most likely will not collapse

- In fact, the export order indices rose marginally in January. The average is still well below 50
- The domestic component rose significantly, to above 52

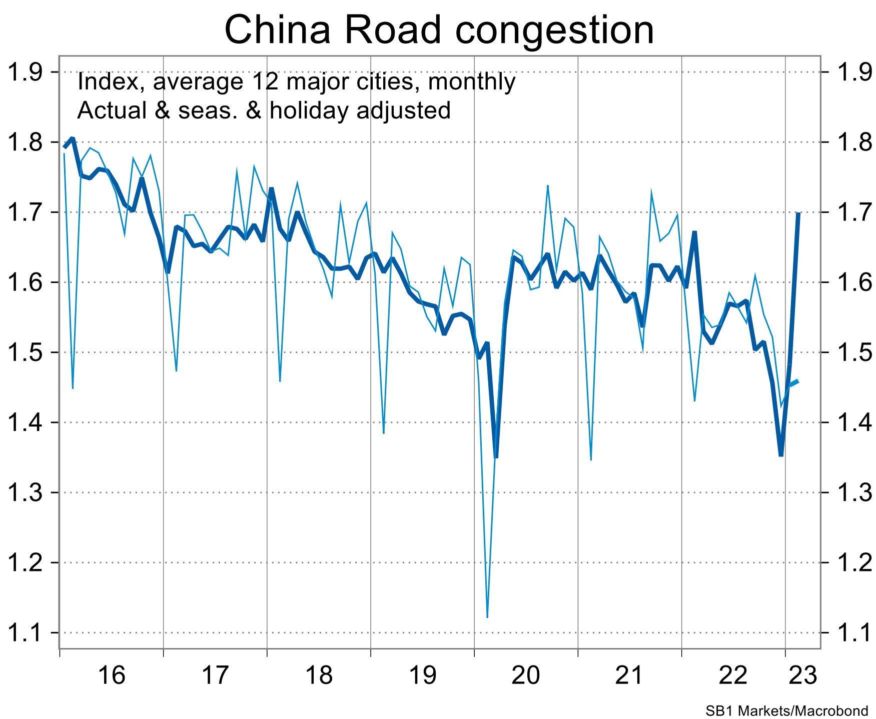
A brisk recovery in services underway

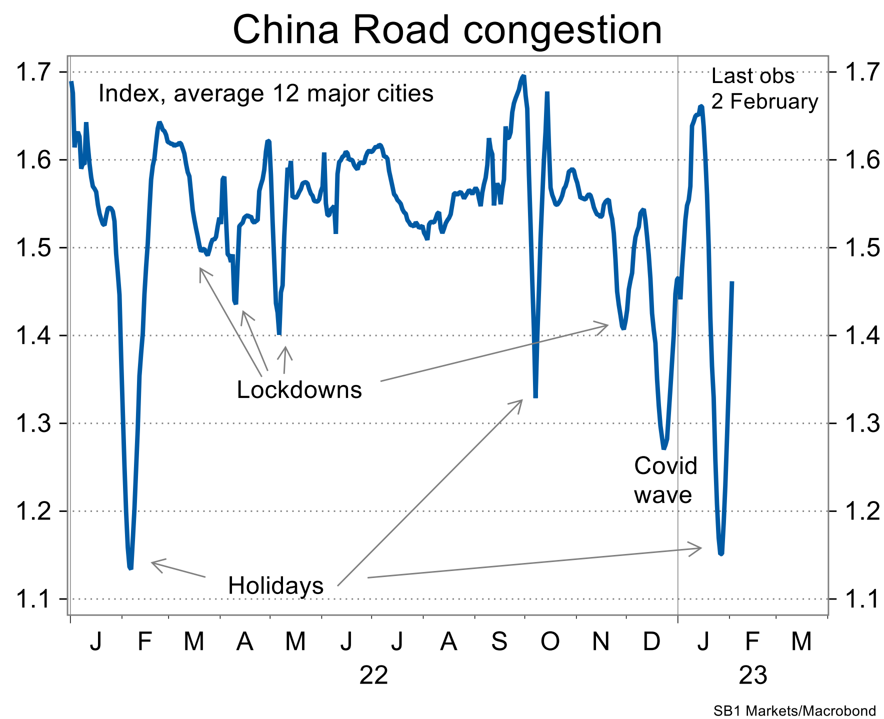
The two PMI data sets agree, the average up to 53.5 from below 45 in Dec, when Covid kept people at home, voluntarily





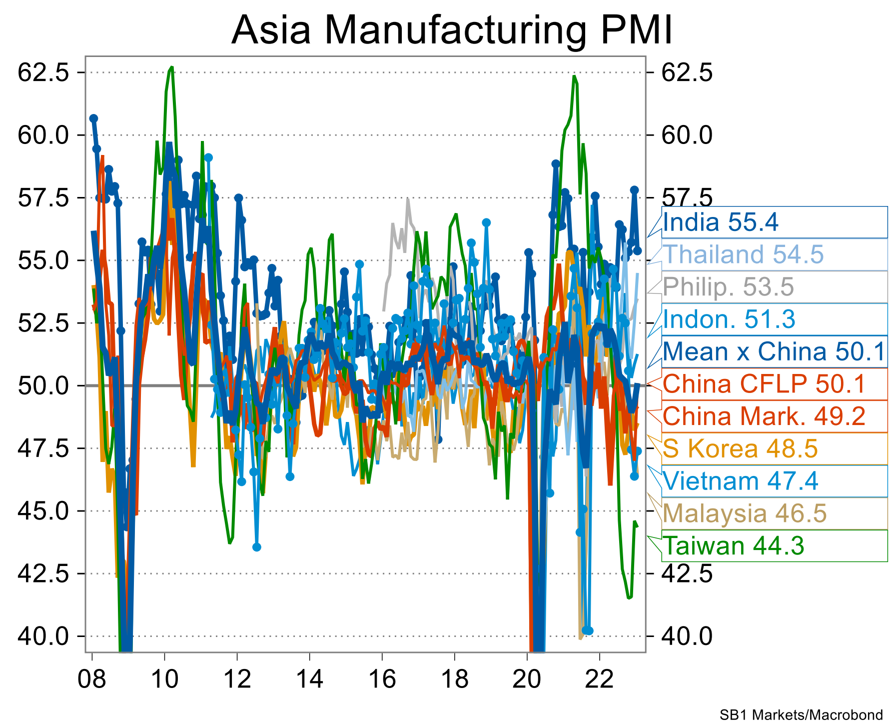
Road traffic down in mid December, has now recovered

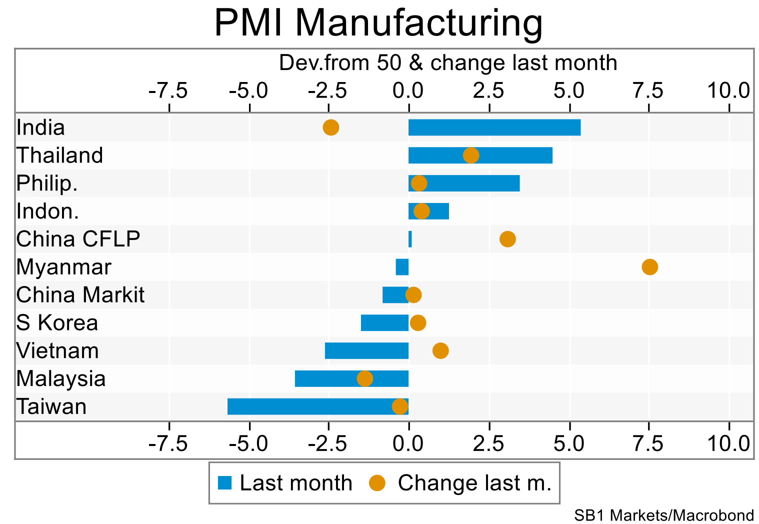


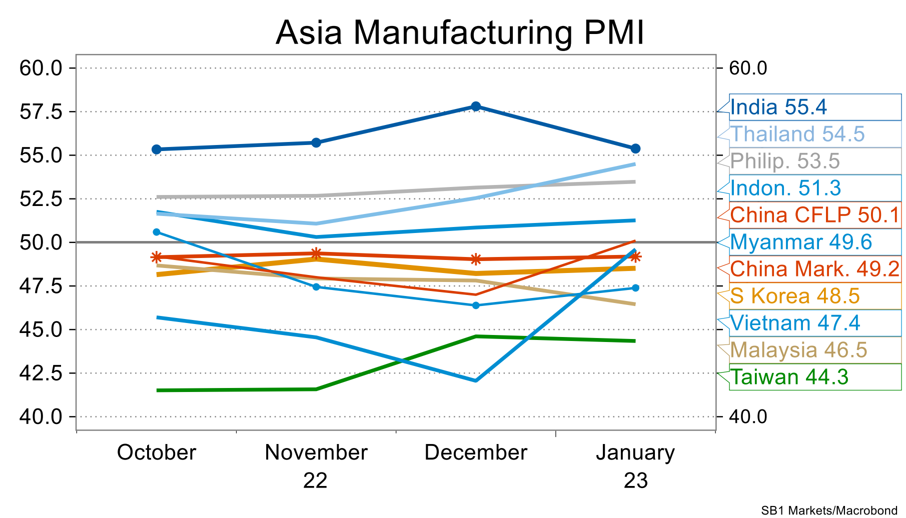


More up than down in Asia – and the majority report PMIs < 50

7 countries reported stronger PMIs in Jan while 3 slowed. India at the top, Taiwan down and still very weak



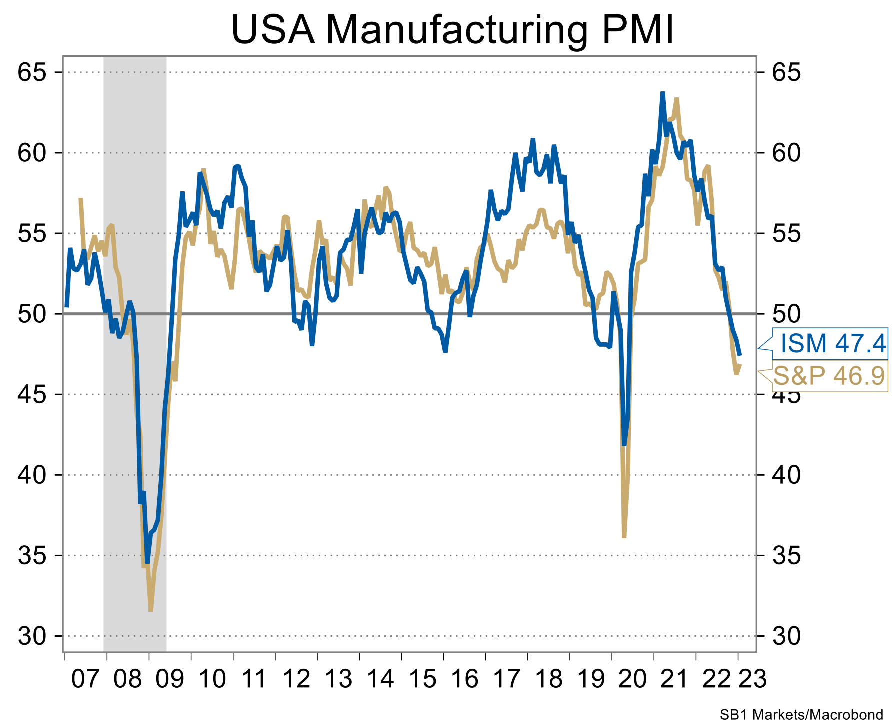


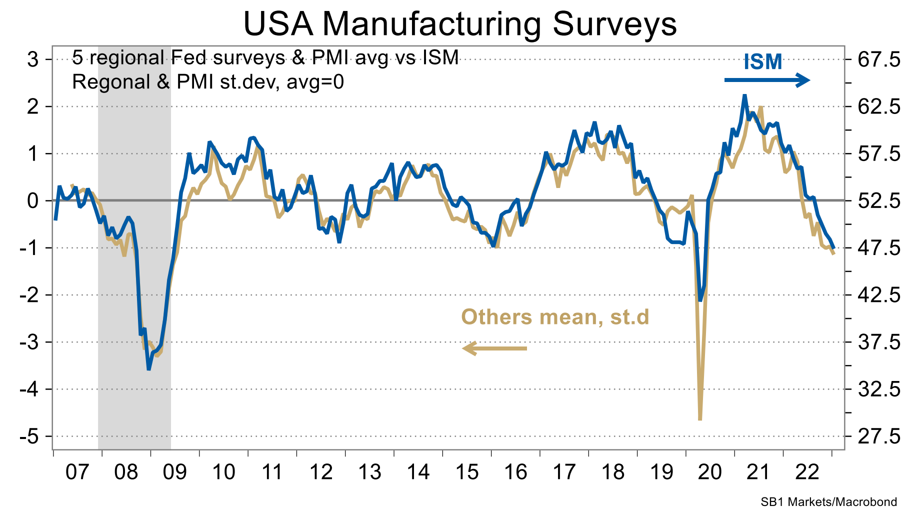


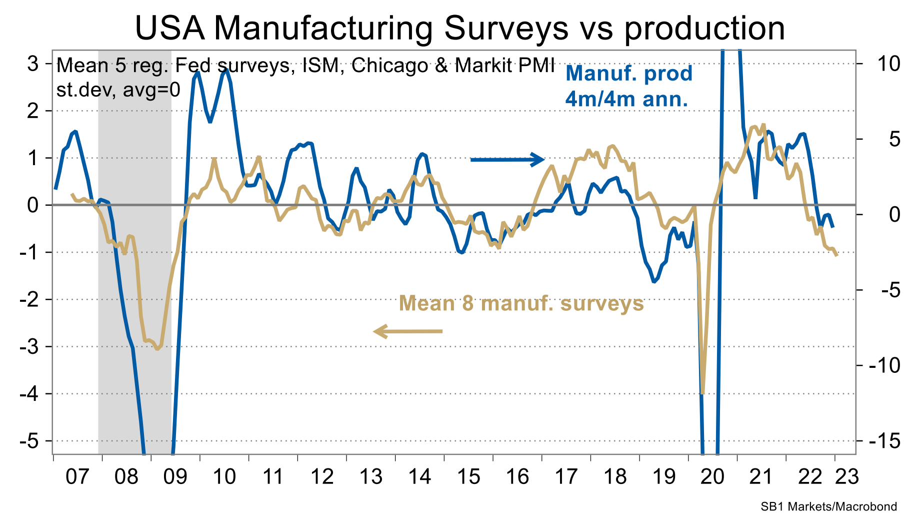
- India is still reporting very strong growth – even though the manufacturing PMI fell 2.4 p in January. They still report of the strongest growth in the world, in fact!

Manufacturing surveys remain below 50; production is pointing down too

The ISM fell 1 p to 47.4, expected 48.0. S&P's PMI up 0.1p to 46.9



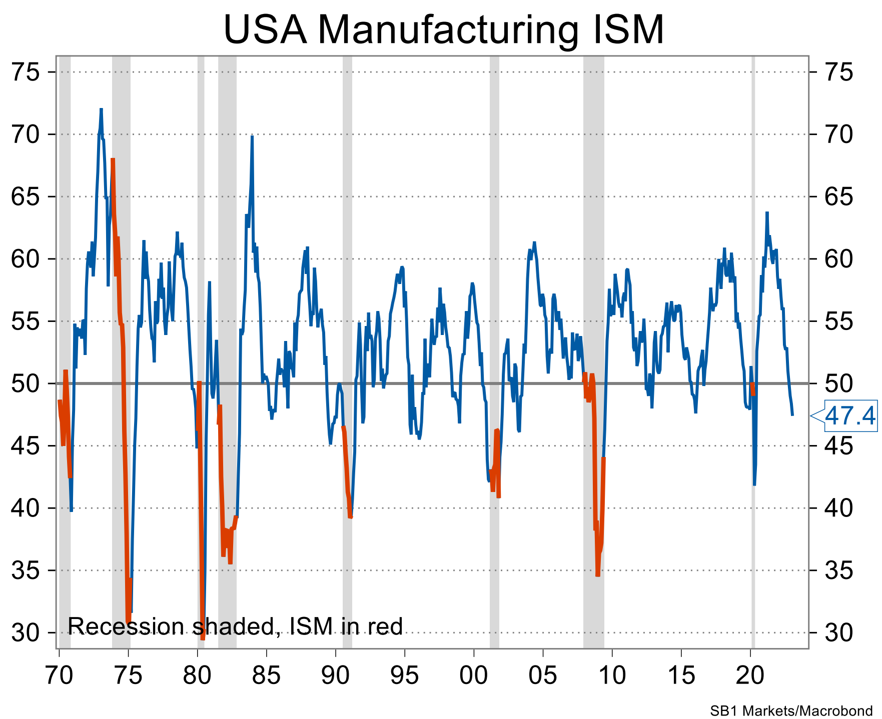




- Both the **ISM, the S&P's PMI and a bunch of regional Fed surveys** are heading straight down, and almost all are below average, and below the '50-line' (named 'zero' in some surveys), and the large majority declined further in January
- **Production** is finally heading down, but just marginally (is smoothed, both Nov & Dec was at the weak side). These surveys signal a further decline in activity

The manufacturing ISM fell further in Jan, as orders are falling rapidly!

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



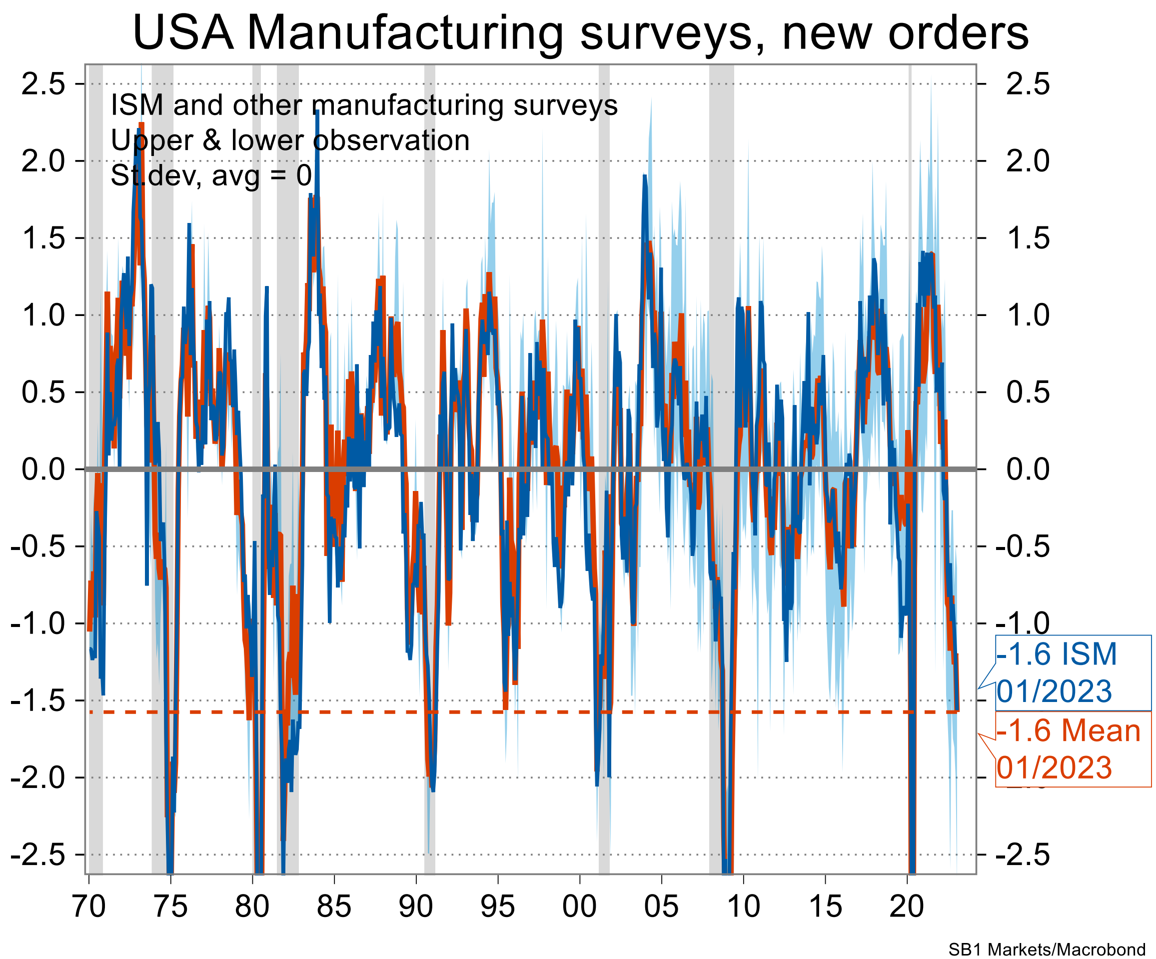
The **ISM manufacturing survey** confirms a gradual slowdown in the US economy, but not as much as the average (and median) of other surveys

- The total index fell by 1 p to 47.4, which was 0.6 p below expectations at 48
- In January, 2 of 18 manufacturing sectors reported **growth** (unch.), 15 sectors reported a decline in activity (up from 13)
- The **new orders** index declined another 2.6 p to 42.5, and it is now the 5th month of falling orders. <u>None of 18 sectors reported growth in new orders in January.</u> Other surveys agree. The **order backlog** actually increased by 2 p to 43.4, but the level is of course very low
- The **production** index fell 0.6 p, and hence remained below the 50-line at 48. The risk is on the downside, given the low order indices in several surveys
- The **employment** index declined by 0.2 p to 50.6, suggesting that the demand for labour is still growing (not what the Fed hoped to see)
- The **delivery times** index was up 0.5 p, to 45.6, meaning delivery times are still falling, only at a slower pace. 11 commodities saw **price increases** (from 8 last month and 40 in May, and 56 at the peak). 23 were down in price, like aluminium, steel, and natural gas (up from 18 commodities in Dec). 7 commodities were reported in **short supply**, down from 10 in Jan (and far below the peak at 50 commodities a few months ago). The price index rose by 3 p to 46.3 signalling a slower decline in input prices
- In addition, **inventories are growing, and the manufacturers assessment of their customers' inventories** confirms that markets have become more balanced.
- **Comments** are mixed – many see price pressures easing, but several are <u>acknowledging a slowdown in demand</u>

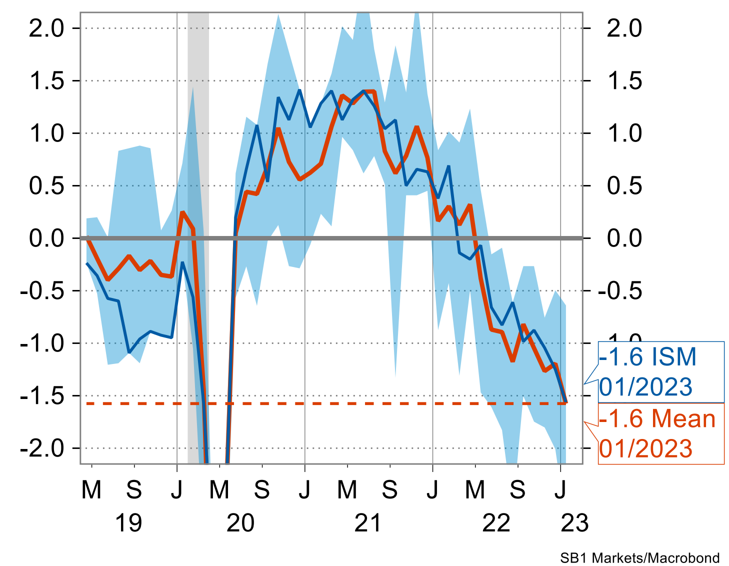
SpareBank 1 MARKETS

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

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

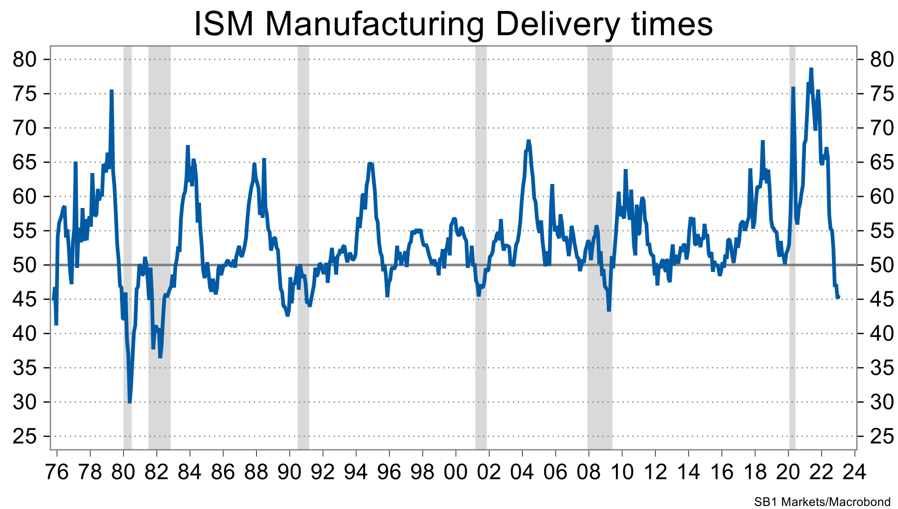


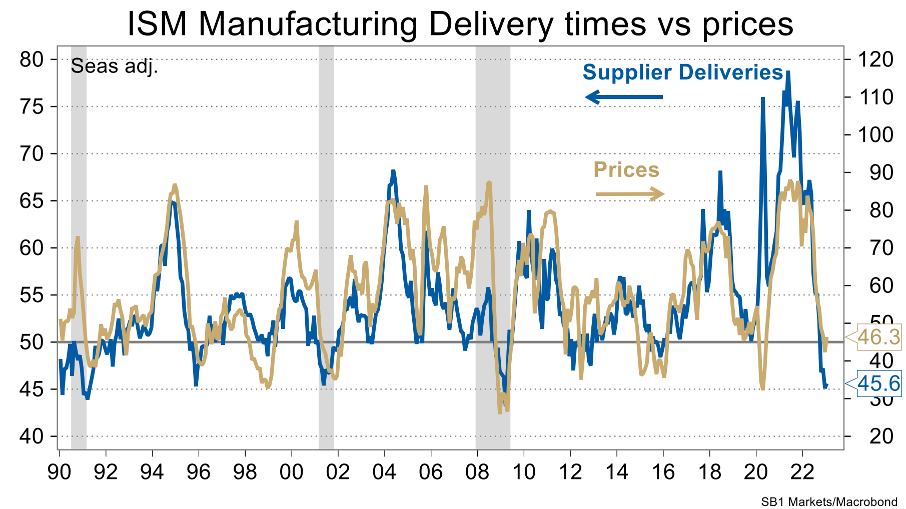
Since last summer, manufacturers have consistently reported lower order inflow, and that the pace of contraction has increased (but not at a much faster pace recent months. Actual order data have kept up better, at least in nominal terms

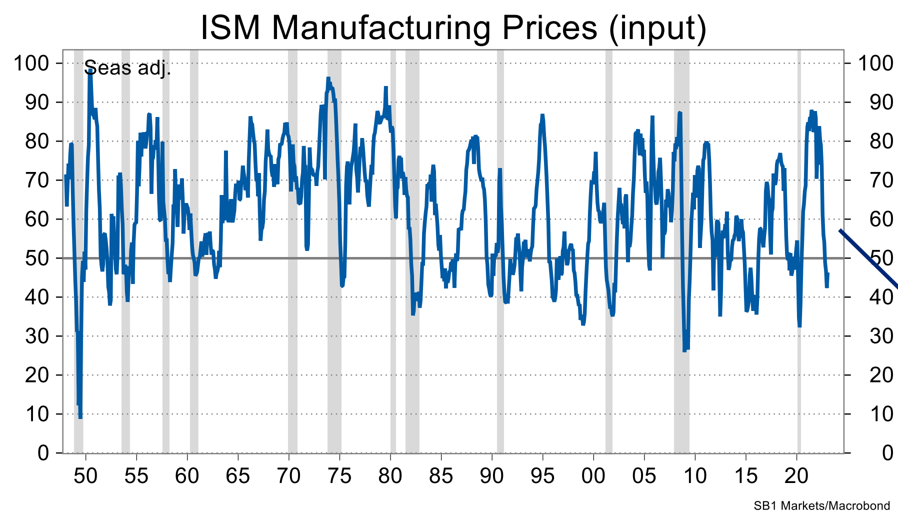


Input prices are falling, companies report, and delivery times have normalised

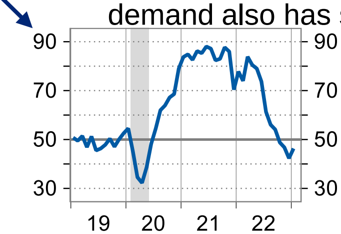
…but input prices fell at a slower pace in January, as the index climbed to 46.3 from 42.3 in December





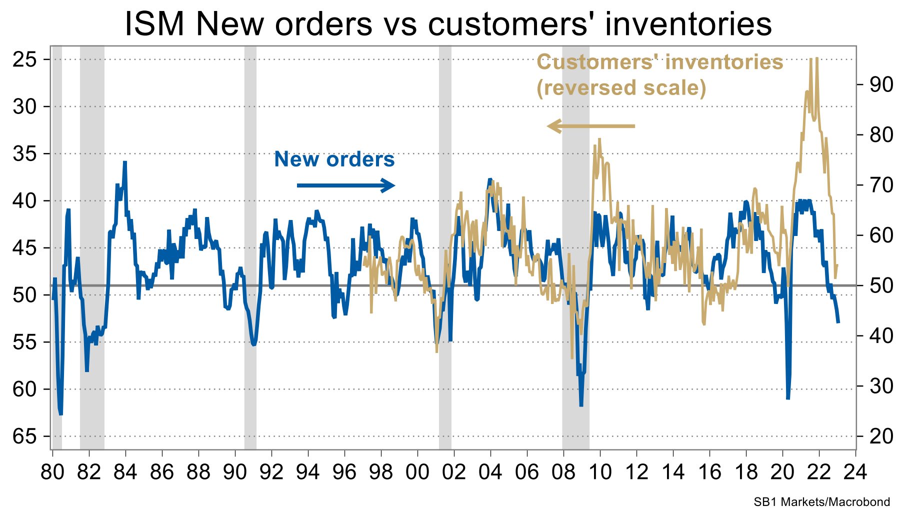


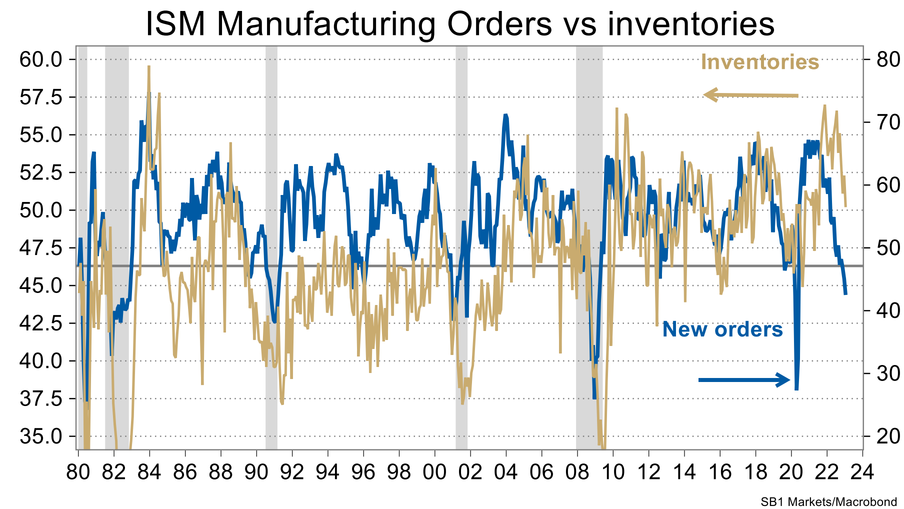
- No more price increases, a VERY strong signal that inflation at the consumer level will yield, at least for goods
- The supplier deliveries index was marginally up in January, by 0.6 p to 45.6, but has fallen from 67 in April, implying shorter delivery times and that supply-side issues seem to be history even if imports (from China) collapsed in xxNovember – because demand also has slowed?

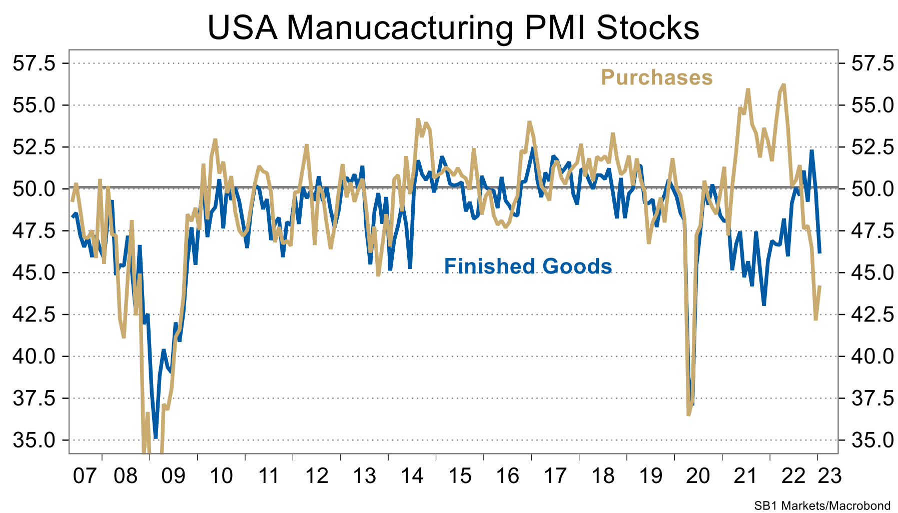


New orders keep falling, and at a faster pace in both surveys

Customers' inventories are probably <u>increasing,</u> signalling less need for new orders to manufacturers





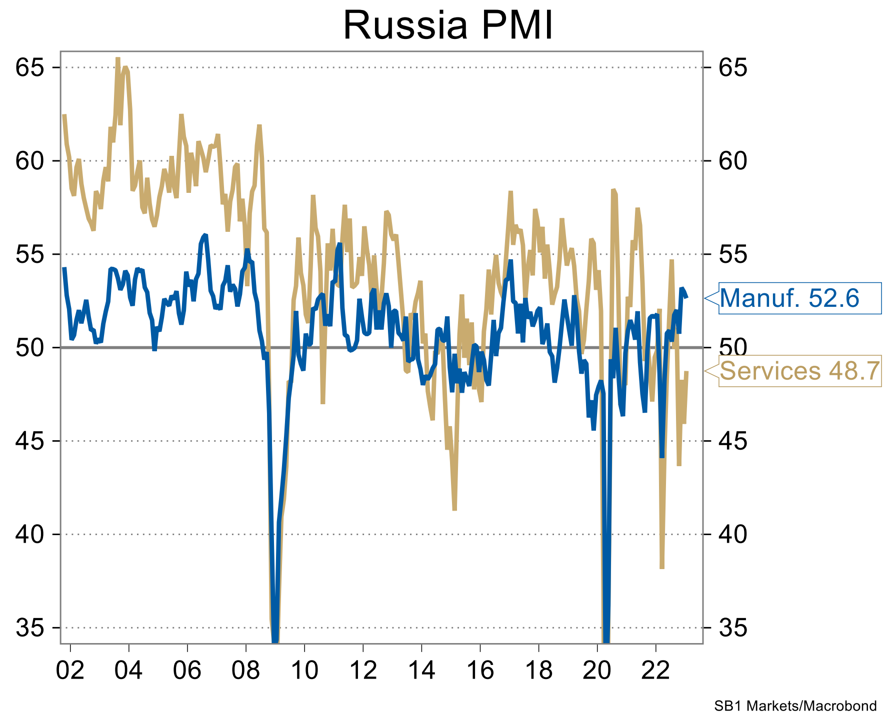


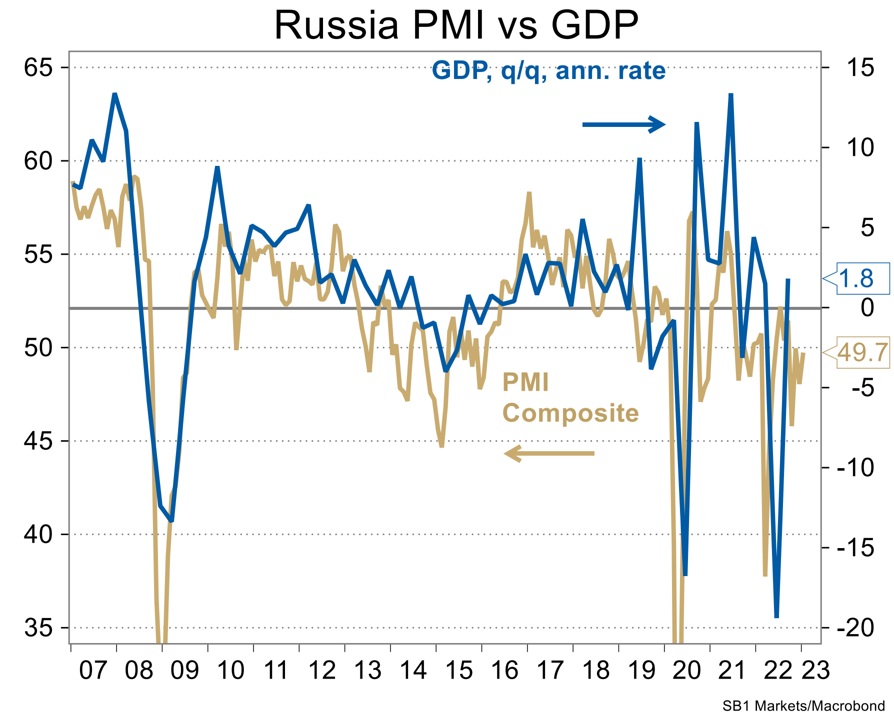
Still confusingly mixed on own inventories

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

Services the weak link in Russia but the decline slowed in January

The service sector PMI gained almost 2 p to 48.7, and the composite PMI rose 1.7 p to 49.7

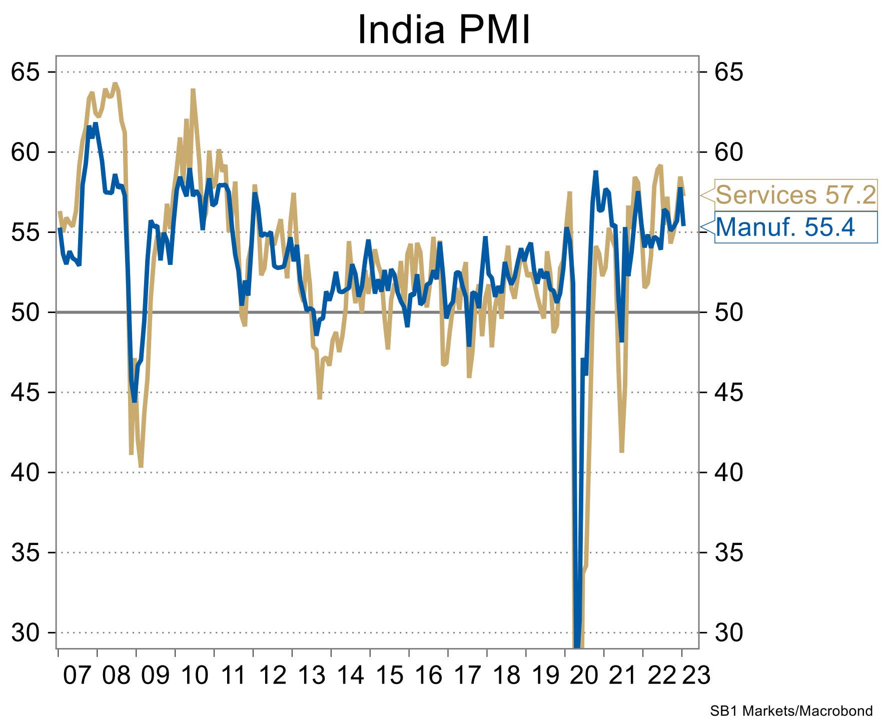


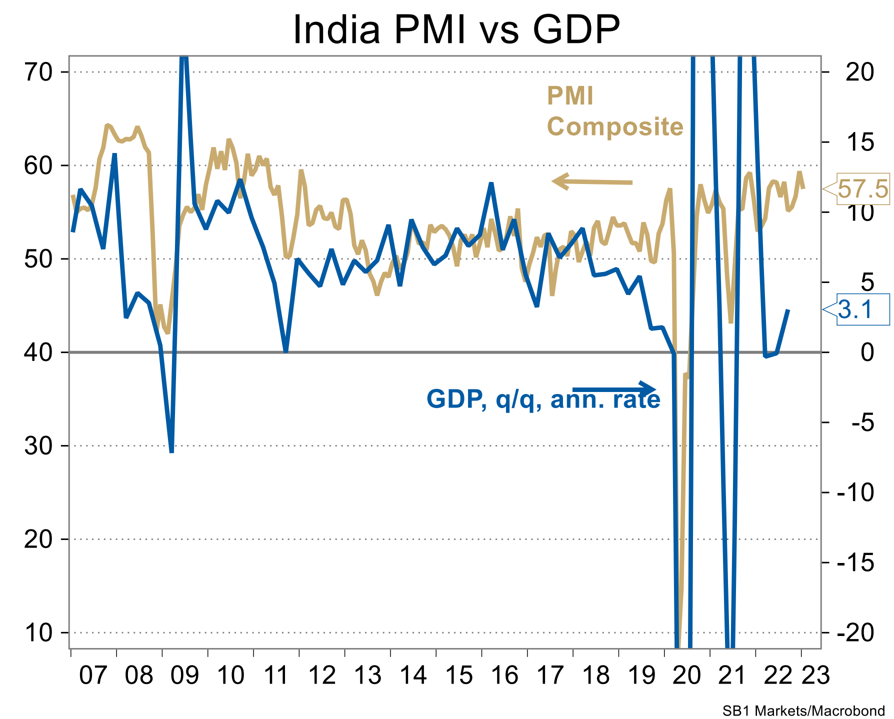


- **The composite PMI** still signals a contraction in GDP at a 3% pace
- **A reminder:** The PMIs are not sentiment surveys – respondents are asked about in changes in actual activity (new orders, output, employment, inventories) from the previous month

The Indian economy looks strong, even if the composite PMI fell 1.9 p

… as the level is very high, at 57.5. Both manufacturing and service sector PMI contributed to the decline

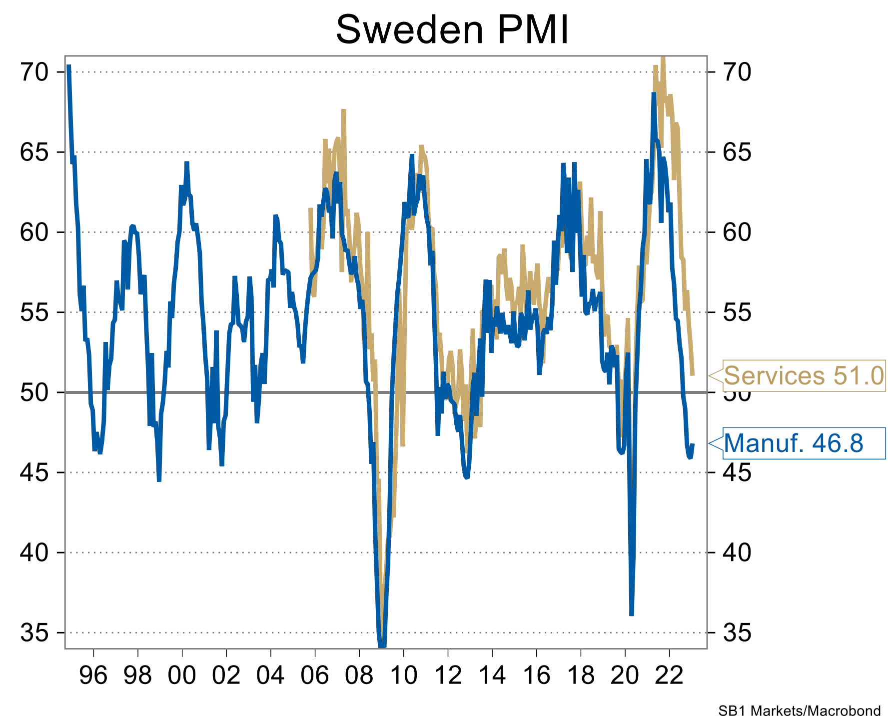


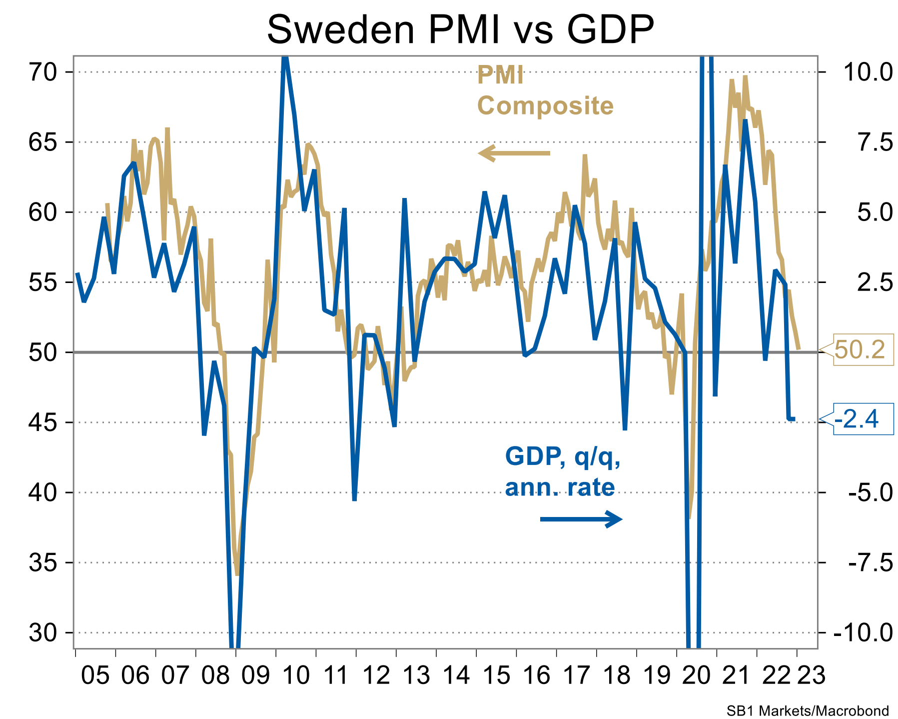


- Actual GDP data have been weak past 3 quarters, and not in sync with other activity indicators

The composite PMI down 2.5 p to 50.2 – which do not signal a recession

Growth in the service sector is slowing rapidly, the PMI down 1.9 p to 51.0. The total manufacturing PMI up 0.9 p to 46.8

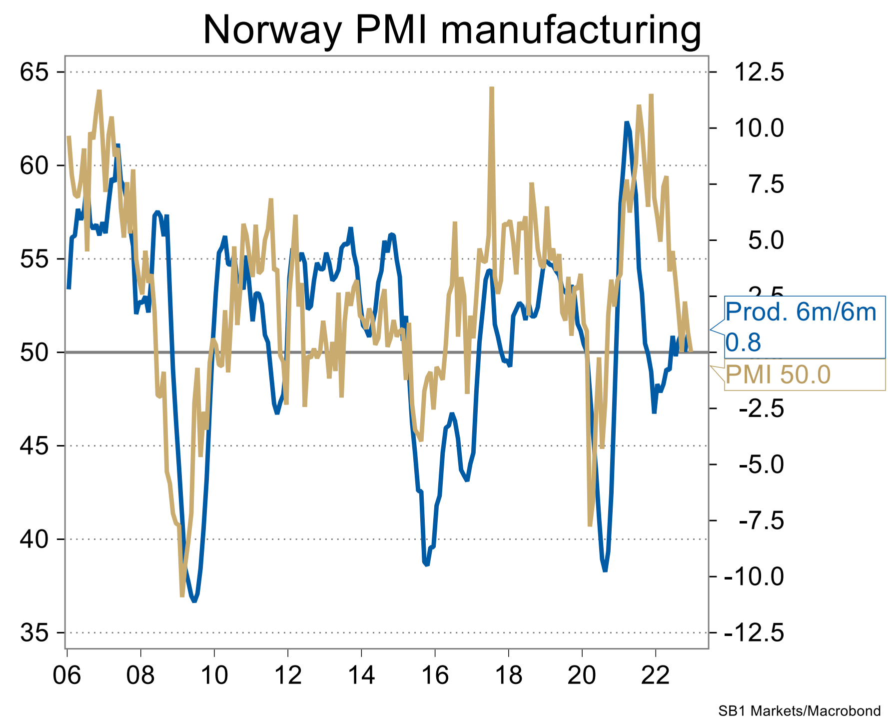


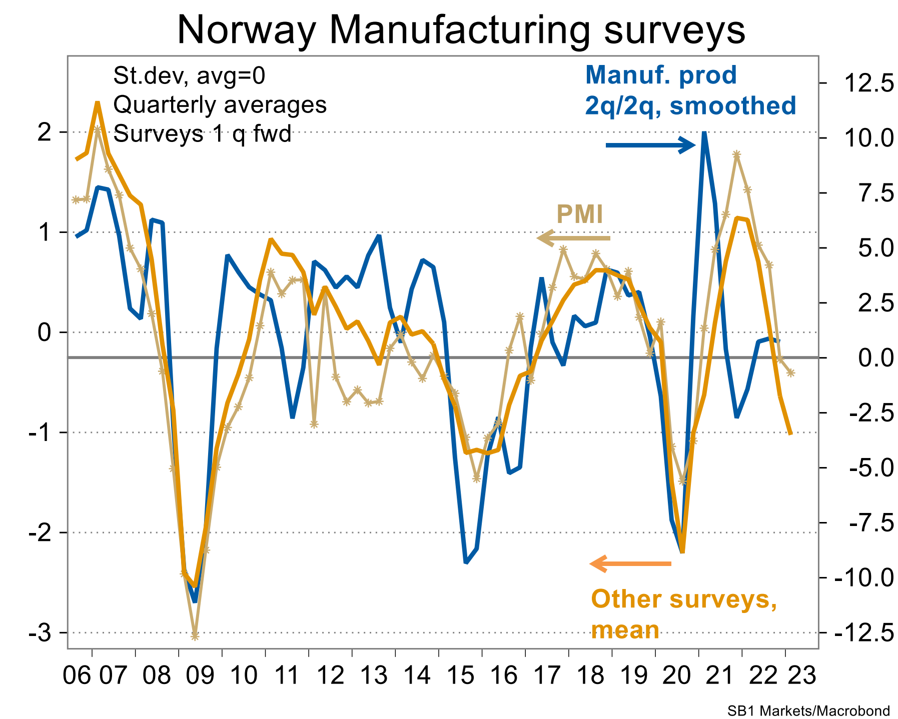


- **GDP** fell by 0.6% in Q4, far weaker than expected, and the history was revised down. The PMIs do not signal a further contraction in GDP

The Norwegian manufacturing PMI was unch. at 50 in January

The index signals flattish production – which has been the case for some time

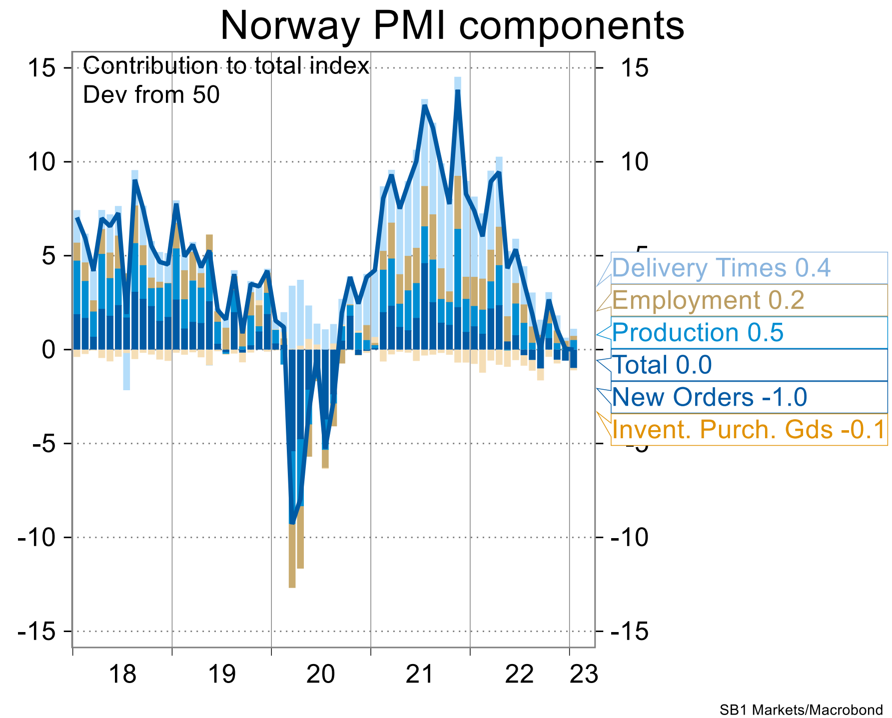


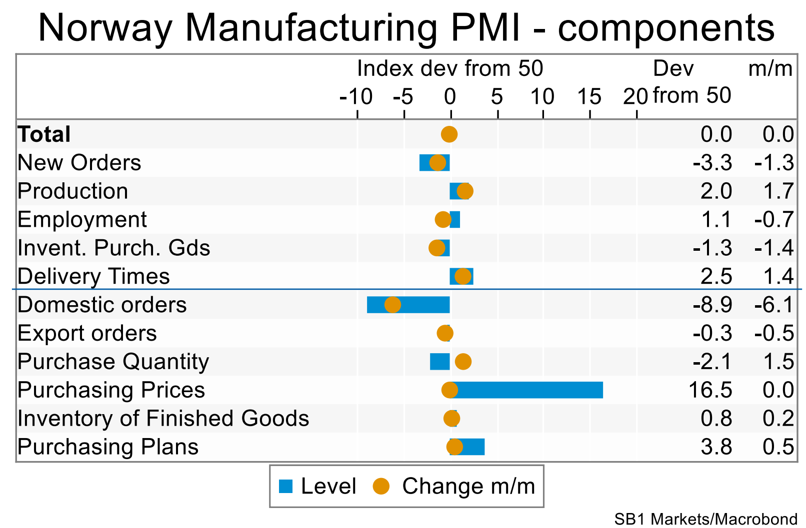


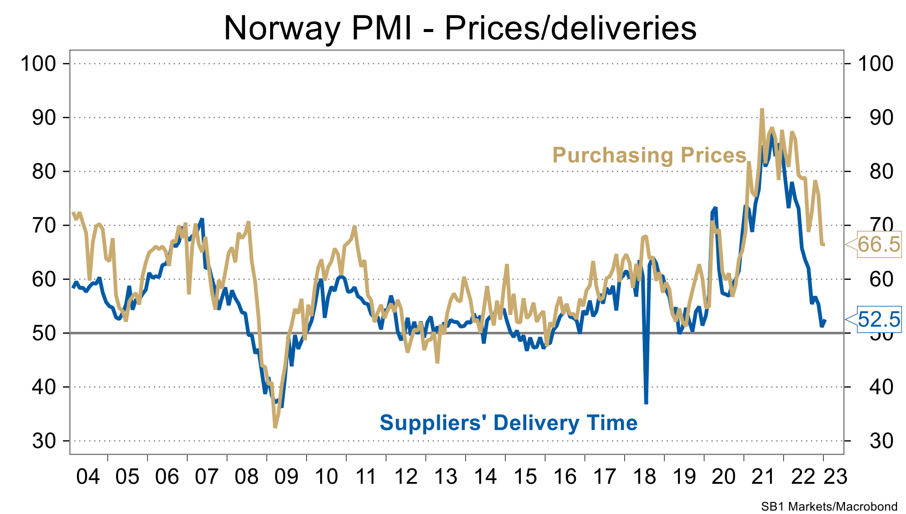
- The **manufacturing PMI index** was unch. at 50.0 in January, and the trend is clearly down. We expected a small uptick to 50.5
- Other **manufacturing surveys** are also on the weak side, like the SSB survey, NHO and Norges Banks' Regional Network, but seem to have turned up over the past month
- **Actual production** has been trending down since early 2021, and has – at best – stabilised recent months. Production was in fact down 0.5% m/m in November, and even oil-related manufacturing declined. December data out next week

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

Both production, and purchasing plans and employment are still expanding according to the PMI…





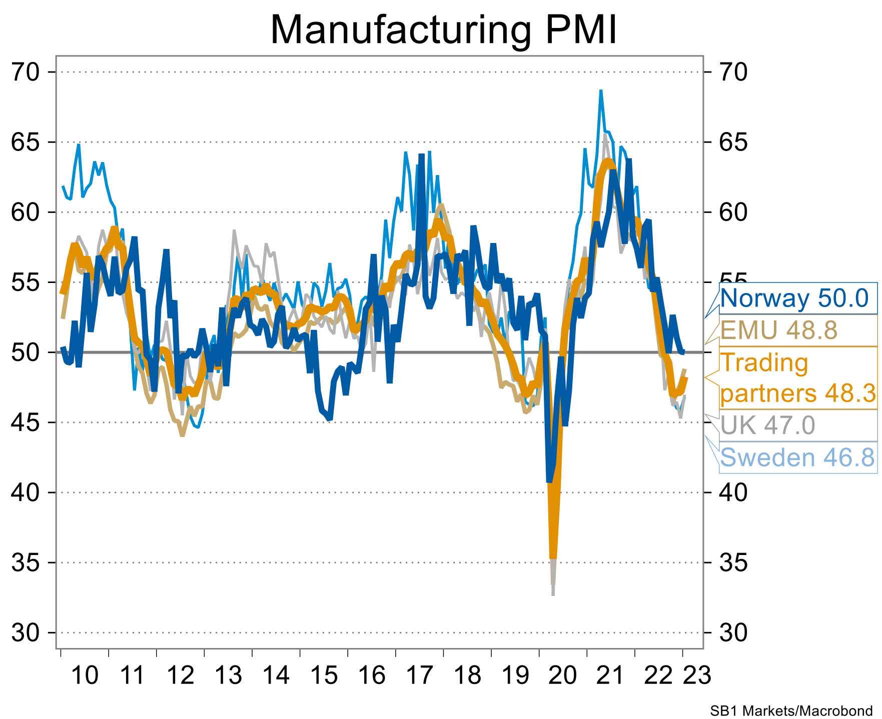


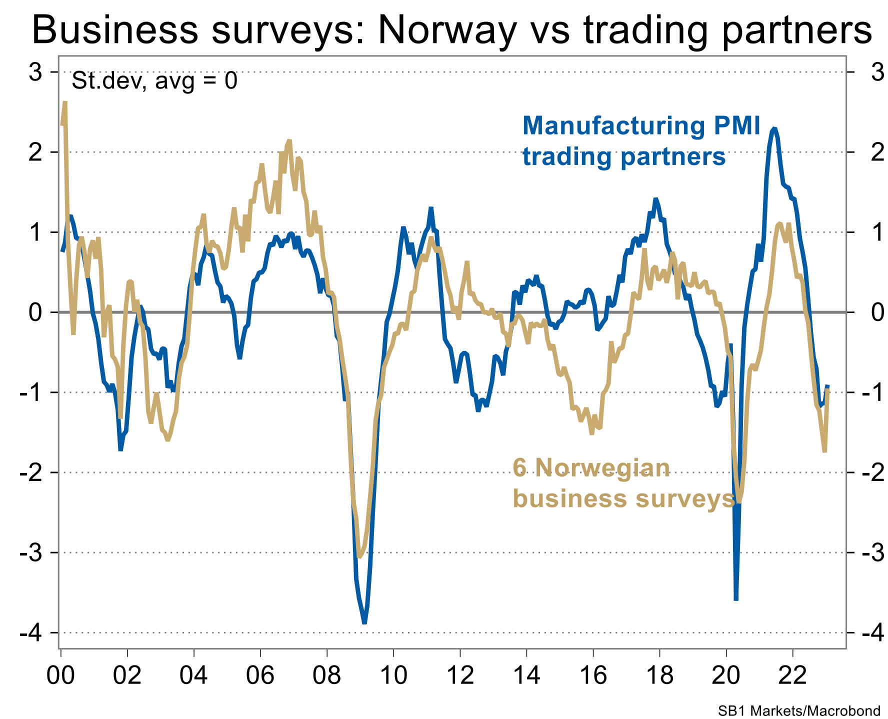
- …but the employment index was down in January, by 0.7 p to 51.1…
- …and orders have fallen over the past 3 months and the trend is down

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

Norwegian manufacturers normally follow the rest of the world

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

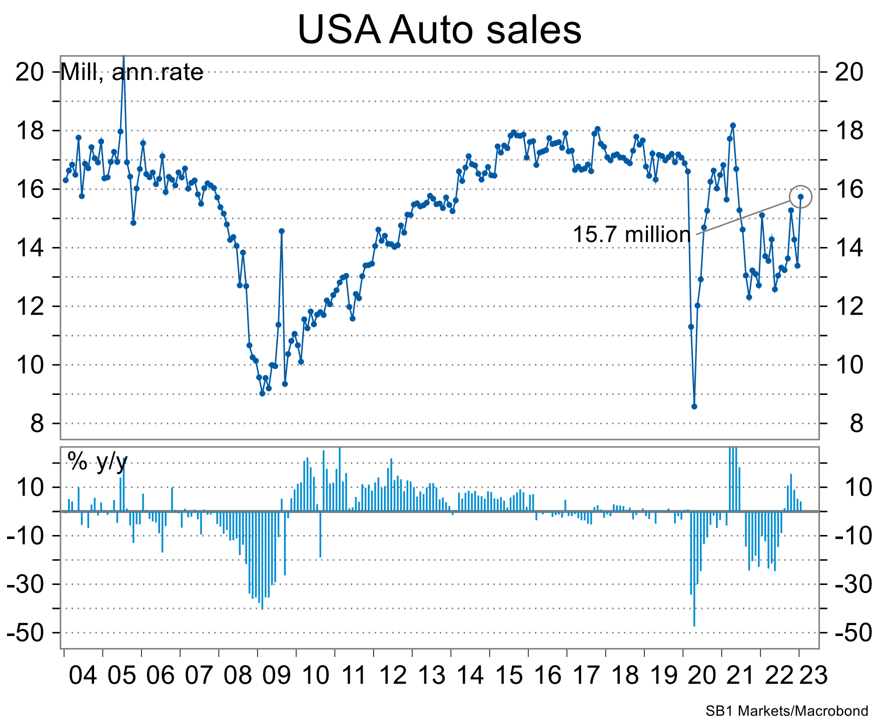


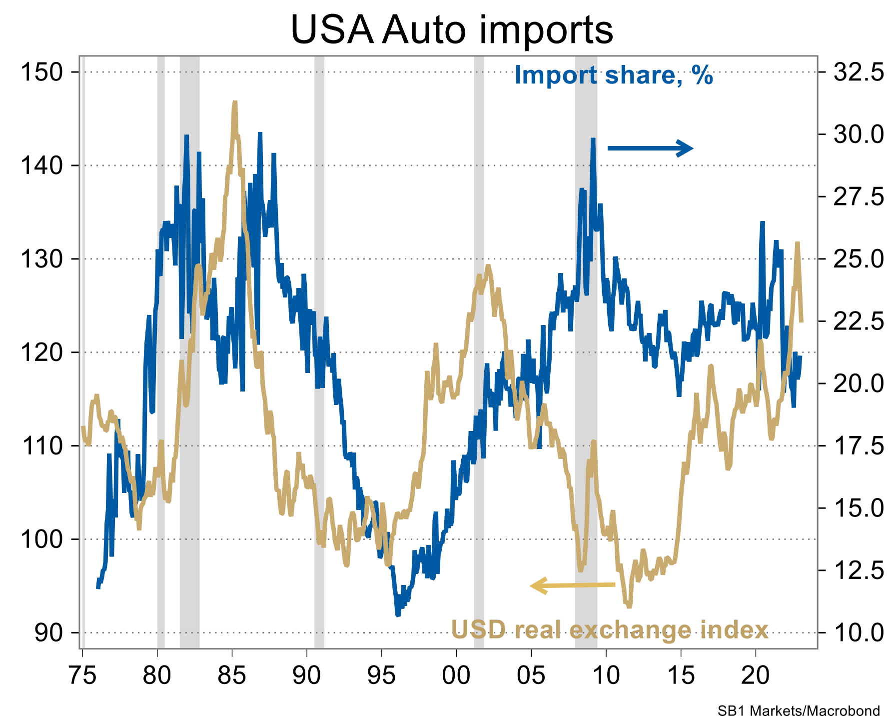


- Norwegian manufacturers may still be faring marginally betting than their peers abroad, due to a pickup in demand from the oil and gas sector
- Other Norwegian surveys confirm the PMI

US auto sales sharply up in January, best since March-21!

Sales rose to 15.7 mill, from 13.3 mill in Dec, expected up to 14.3 mill. Demand was not to blame for weak Nov & Dec?

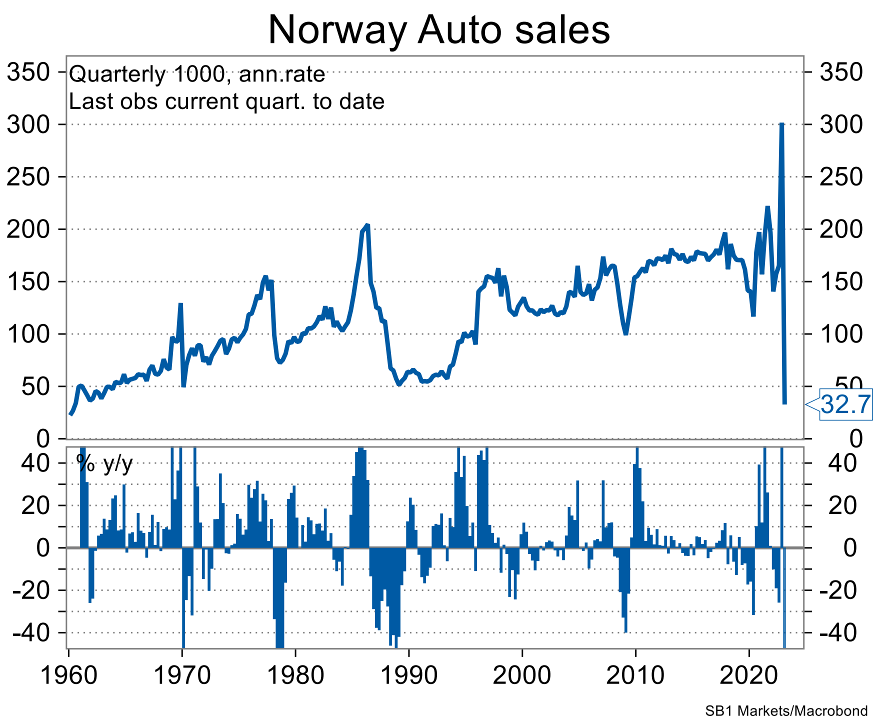


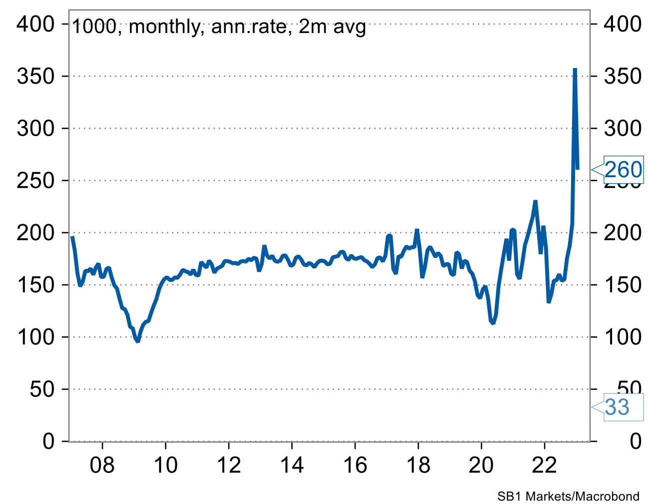


- Auto production in the US has recovered sharply recent months, to above the 2019 level – and we thought the slowdown in sales in Nov and Dec was due to weak demand. We may have been wrong
- The trend in sales is clearly upwards

Norway: The ~~highest~~ lowest auto registrations, 'ever'!

New registrations fell almost 90% in January, from the highest level in December, to the lowest since 1960!

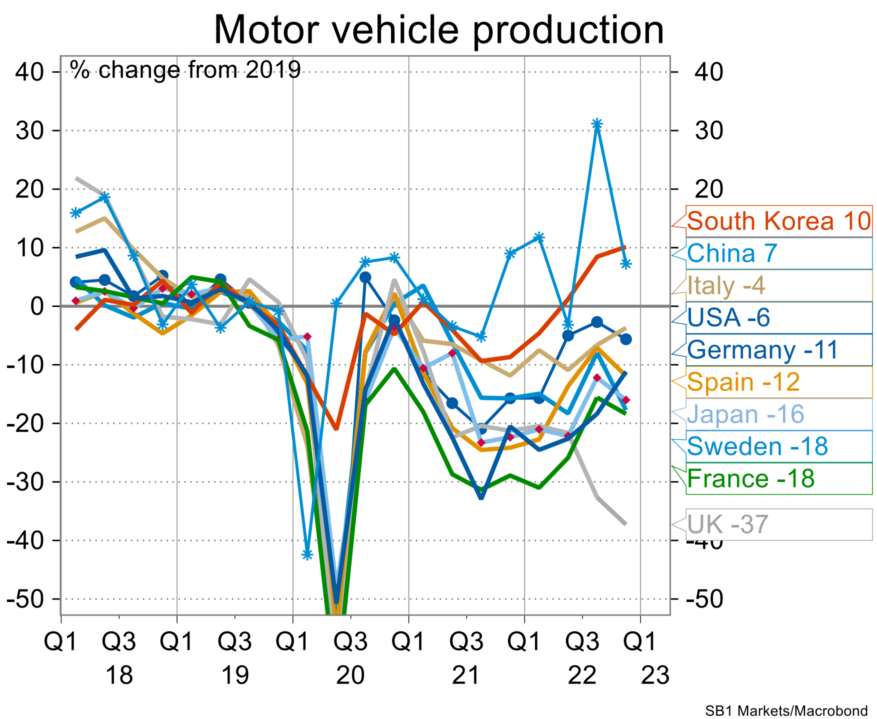




- This volatility is just due to the increase in sales of **electric vehicles** before taxes were lifted Jan 1.
  - We assume even February registrations will be influence by the Dec 'hoarding'
- The average over the two last months is still high – and the highest ever

Auto production is gradually recovering

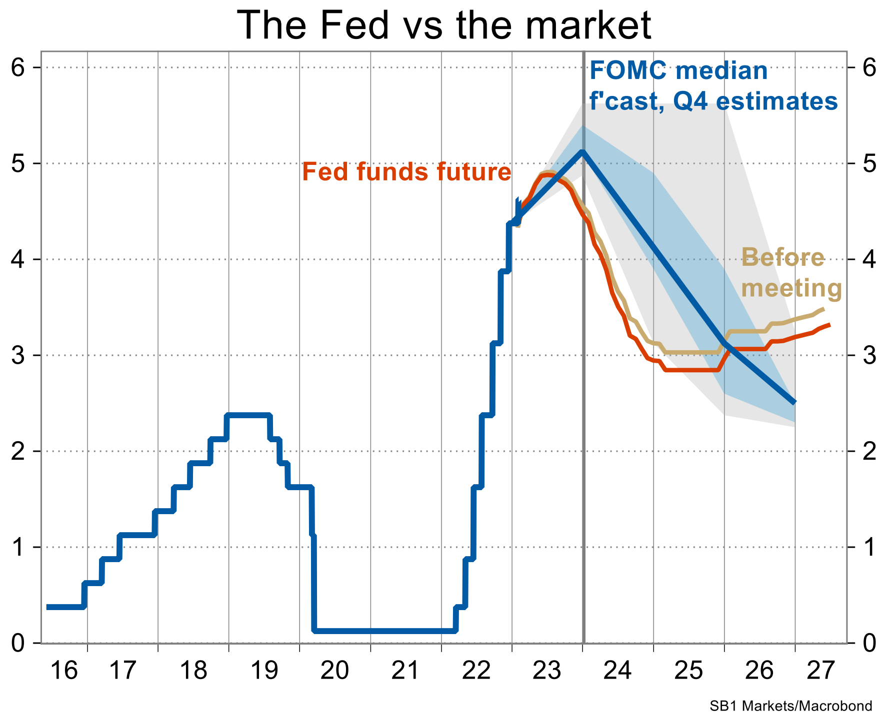
However, somebody hit the brake on Chinese production in Nov/Dec. We think we know why



- However, Chinese production remains 3% above the 2019 level

FOMC hiked, delivered a 'neutral' press release. But then Powell started to talk

We are not so sure he sounded that dowish but the market undoubtingly thought he was

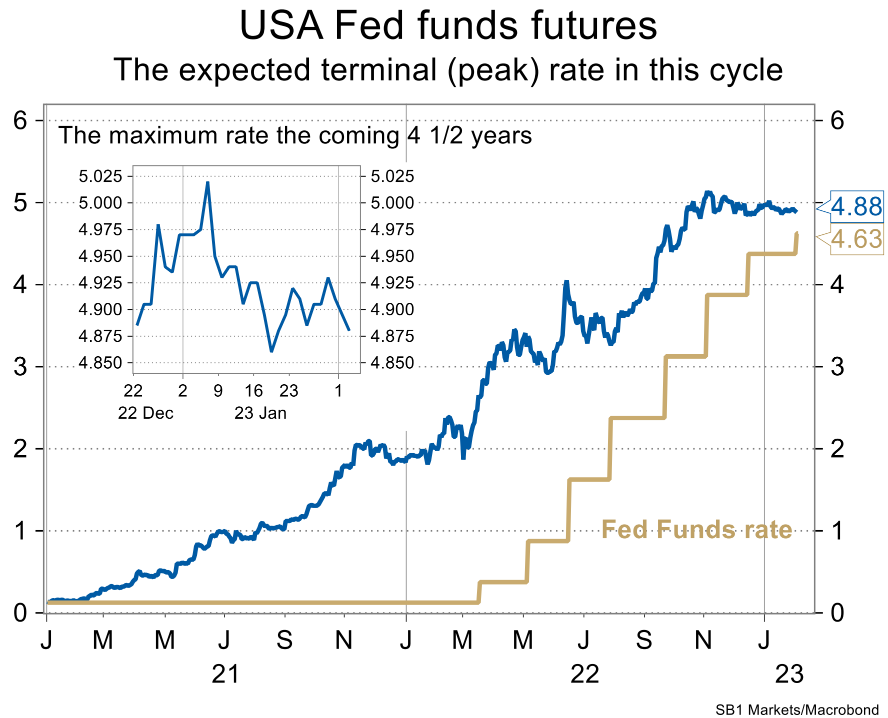


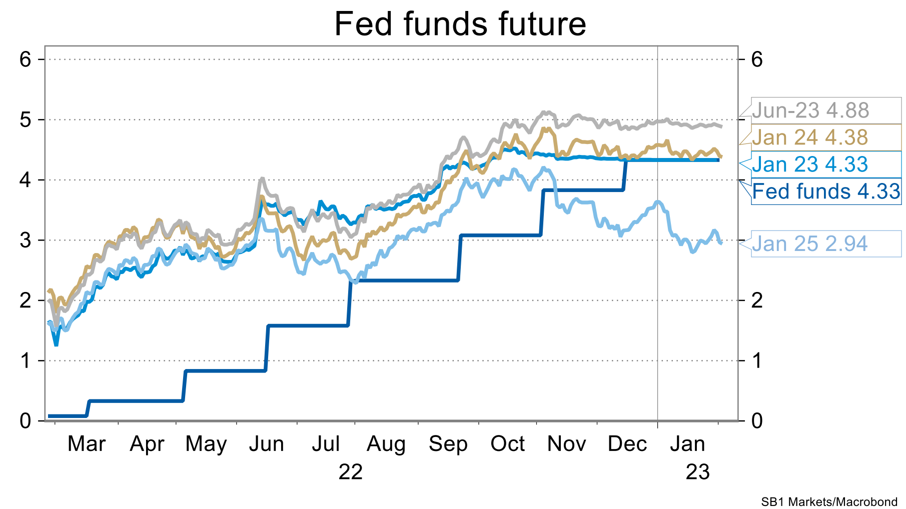
- **Market reactions**: in the very short end, limited. Further out, rate expectations fell more – and by up to 10 bps when the dust had settled. The 2% surge at NASDAQ was more spectacular
- However, interest rates fell further at Thursday

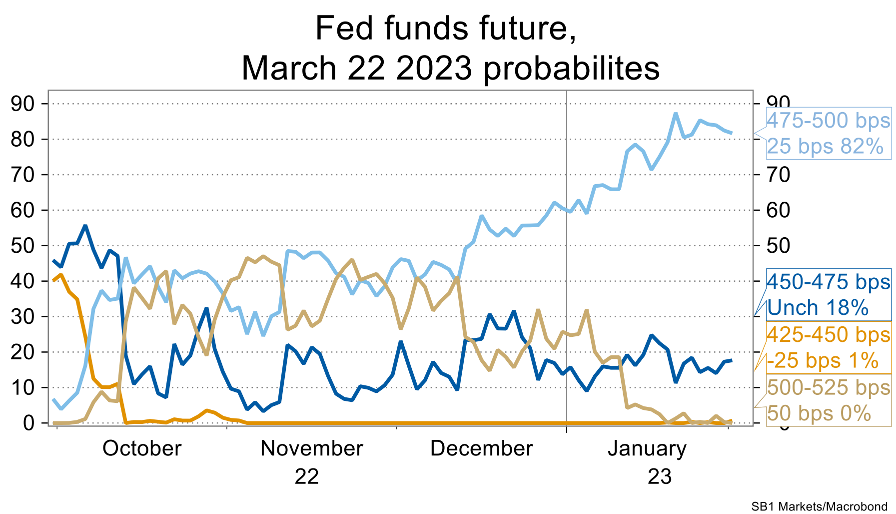
- As widely FOMC hiked the **Fed funds rate** by 50 bps to 4.50% – 4.75%
  - No new forecasts, dot plots at this meeting
- In the **press release** the FOMC – as we were sure the bank had to – acknowledged that "*inflation has eased somewhat but remains elevated*", the only change from the previous press release
- In the first part of the press conference, Powell reiterated the 'hawkish' stance, the urgent need to bring inflation down, signalling more rate hikes, and emphasised the still very hight labour market, and that the FOMC members had no plans for cutting rates later in 2023
- In the Q&A, he reflected on the tightening of financial conditions and said the impact on the economy was uncertain, but then repeated FOMC's mantra (and repeated in the press releaser), that "*the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation",* which was immediately was interpreted as a dovish message, as he did not refer to the recent easing of financial conditions as a challenge for the Fed
- On inflation he referred to the "disinflationary process" which was under way.
  - He also said it was encouraging that wage inflation had come somewhat without any increase in the unemployment rate, which underpinned the bank's assessment that inflation could be brought down to the 2% target without "*a really significant economic decline or a significant increase in unemployment*". A more optimistic signal than in December
- As the FOMC is coming closer to what the bank assumes is the terminal rate in this cycle, it is naturally the bank becomes more 'data dependent', a phrase Powell repeated several times. The market still expect the FOMC to hike the signal rate by 25 in March (82%, unch. 18%)

Small changes in the short end of the curve, a visible decline in further out

The expected terminal rate fell just 1 bps to 4.90, almost ‘one hike’ less than the FOMC signalled in December



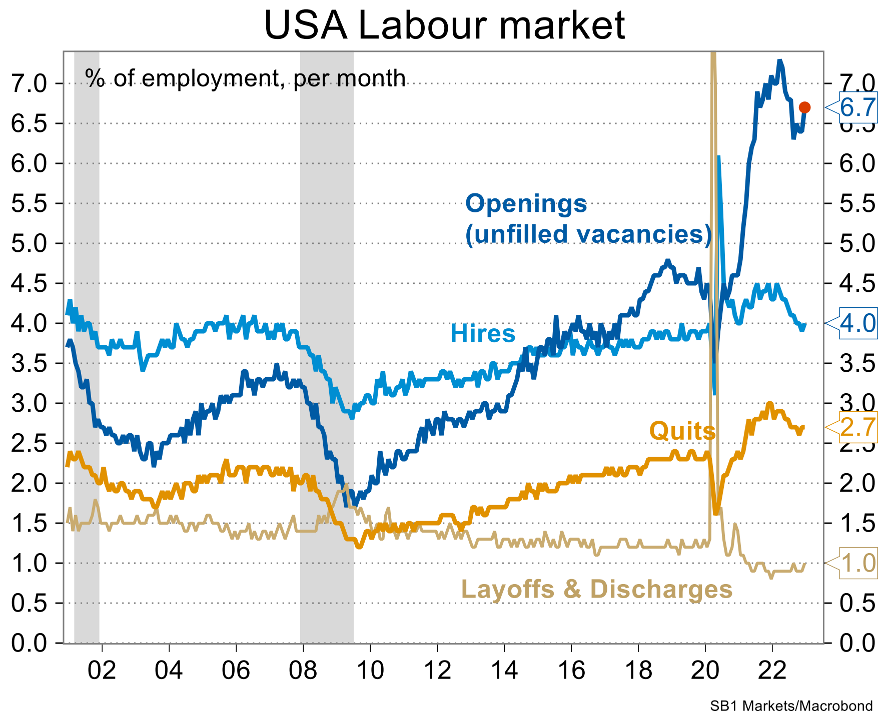




- Rate expectations fell further the next day, but they were lower two weeks ago

Job openings straight back up again, and voluntarily quits were up too!

The labour market remains remarkably resilient, but wage inflation has still slowed

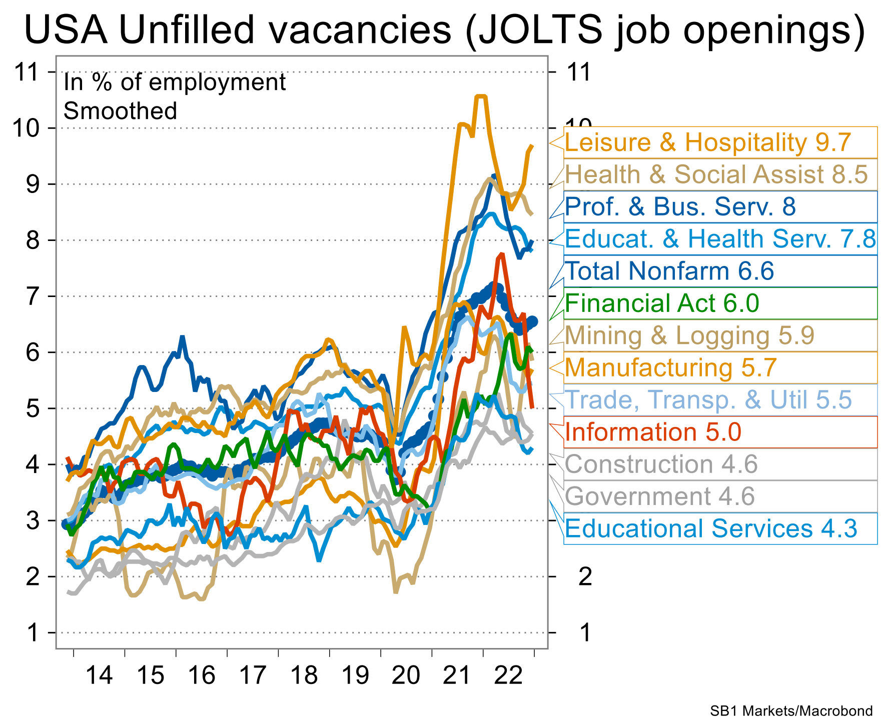


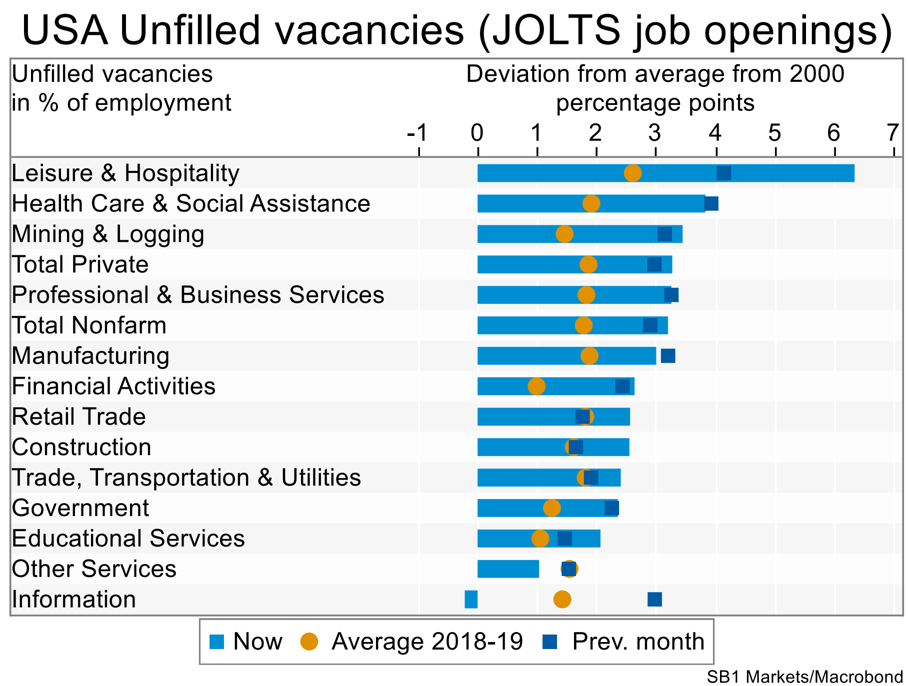
- **In sum:**
  The tide has turned but the labour market is still very tight, and it we doubt wage inflation will come down to and remain at sustainable level without a substantial decline in demand for labour. Job openings are no doubt stickier that what the Fed has hoped for, and are leading unemployment by some few months, though not by a stable lag (but the correlation is high). Actual unemployment was down 0.1 pp to 3.5% in Dec. New jobless claims, which leads the unemployment rate has fallen to the lowest level since the spring (and before that, 1969)

- The number of **unfilled vacancies** increased by 0,6 mill to 11,0 mill in December, far higher than the expected 10.3 mill, is almost back to the level in July. The vacancy rate was 6.7%, up from 6.4% in November
  - Vacancies are down from the peak in March (7.3%) but the level is still way above anything seen before. The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit. Now there are 1.9 available jobs per unemployed person
- **New hires** rose by some 130' to 6.17 mill in December, equalling 4.0% of the employment level. This is just underpins that the labour market is, of course, still very tight, even if there are fewer monthly hirings than at the peak (4.5%)
- The number of **voluntary quits** rose by 60' to 4.2 mill, leaving the rate to employment at 2.7%, down from 3% at the peak. The trend is still down, signalling that workers have become somewhat more cautious leaving their current jobs – but the quit level is still higher than anytime before the post pandemic surge!
- **Layoffs** equalled 1.0% of employment in Dec, up 0.1 pp from Nov– still not signalling any take-off in downsizing (the Challenger survey counted a significant increase in layoffs in January. Check some pages fwd)
- **The SMBs (NFIB survey)** reported that 45% of companies were not able to fill positions in January, up 4 pp from Dec. Hiring plans were up by 2 pp. The trend is down for both, but both remain far above average

Most sectors reported more job openings in December

…and all but information/other serv. have more vacancies than before the pandemic. Now leisure/hospitality sharply up

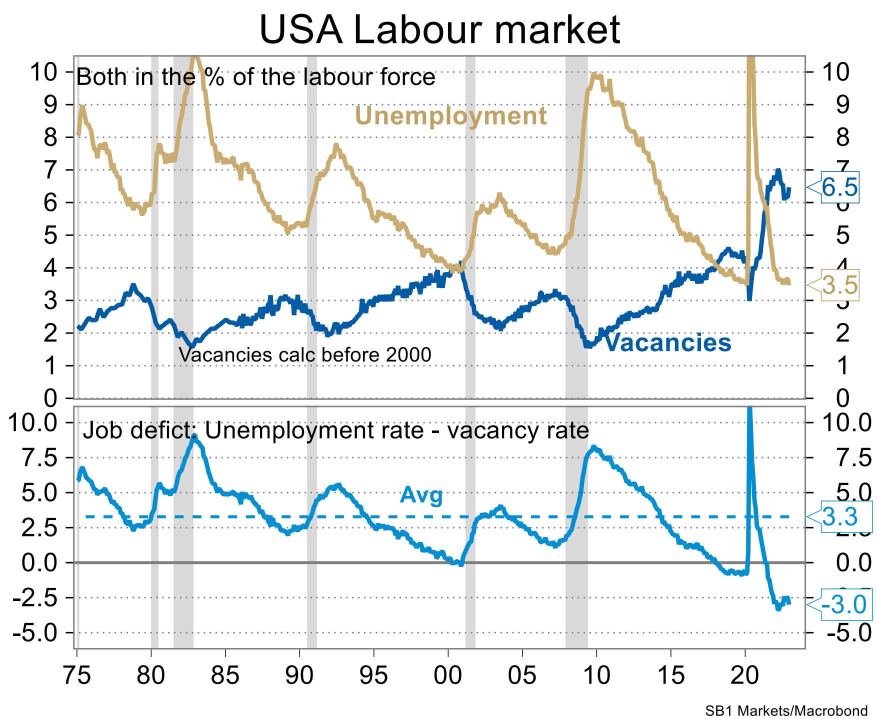


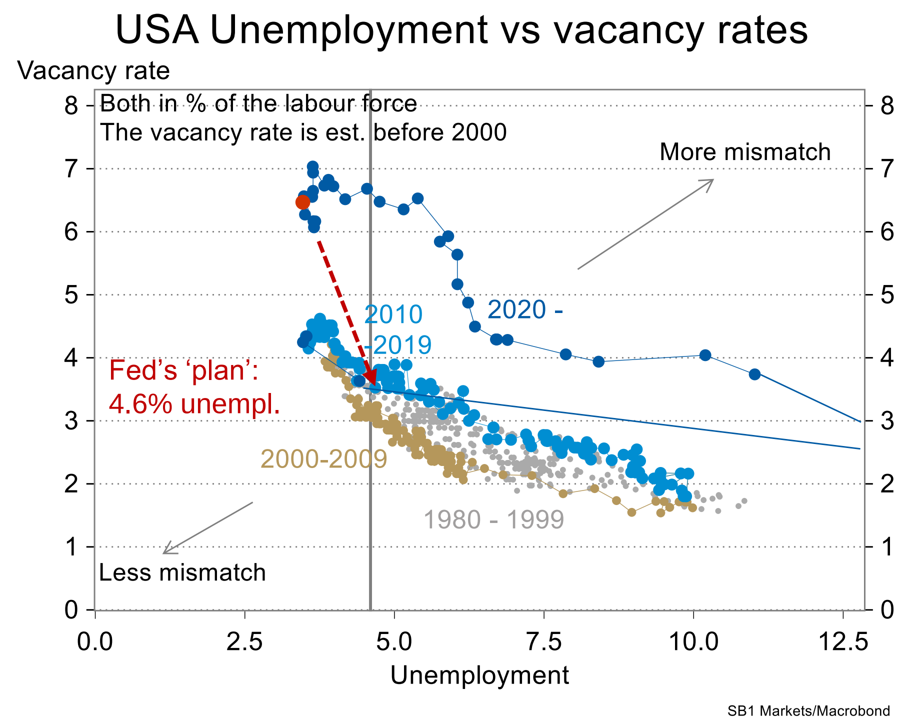


- Even if all sectors are down from the peak, labor shortages are still wide-spread

So far, job openings are down, without an increase in the unemployment rate

That's just what the Fed had hoped for, of course (and Powell appreciated that on Wednesday)

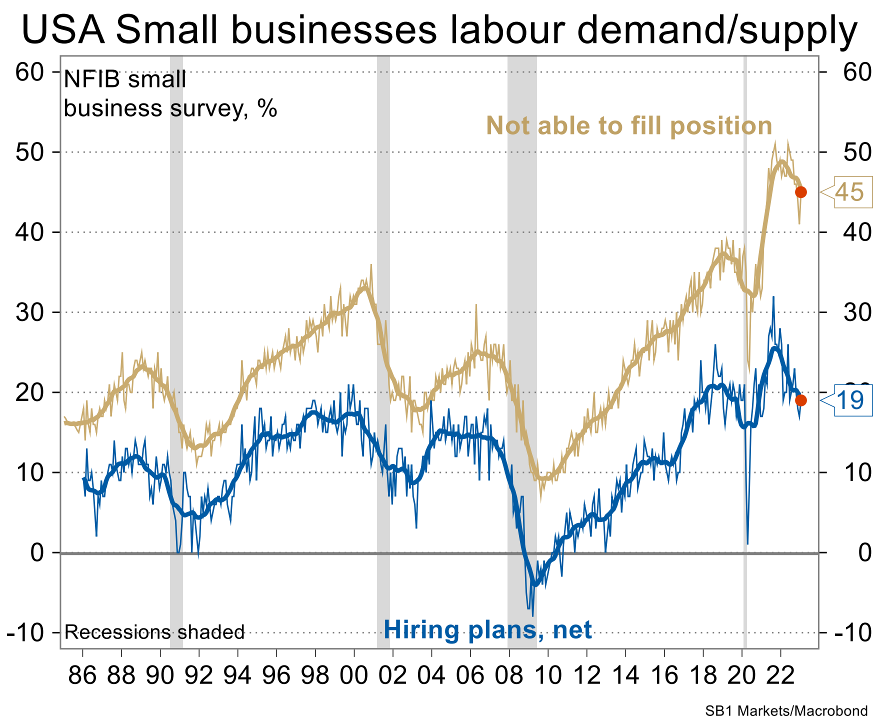


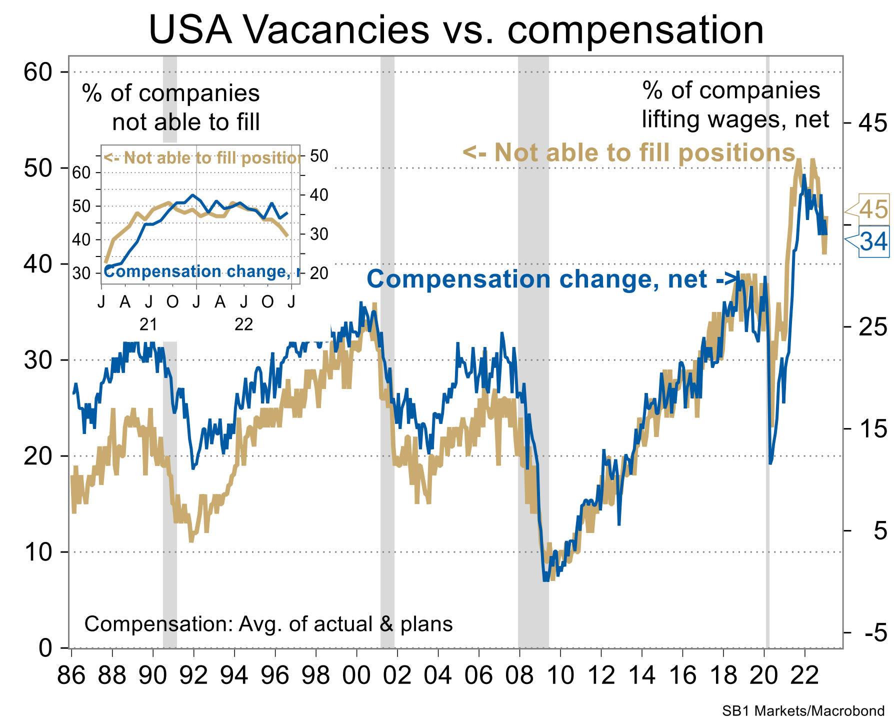


- In principle **vacancies may be reduced without pushing the unemployment rate** up (aka recession), as the vacancy rates is so much higher than normal, but we think it would be hard to achieve, over time. The Federal Reserve still assumes it will happen as the unemployment rate is expected to increase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

SMEs report more hiring, and more trouble filling open positions in January

Even so, compensation plans were revised slightly down - but are still signalling wage increase well above normal

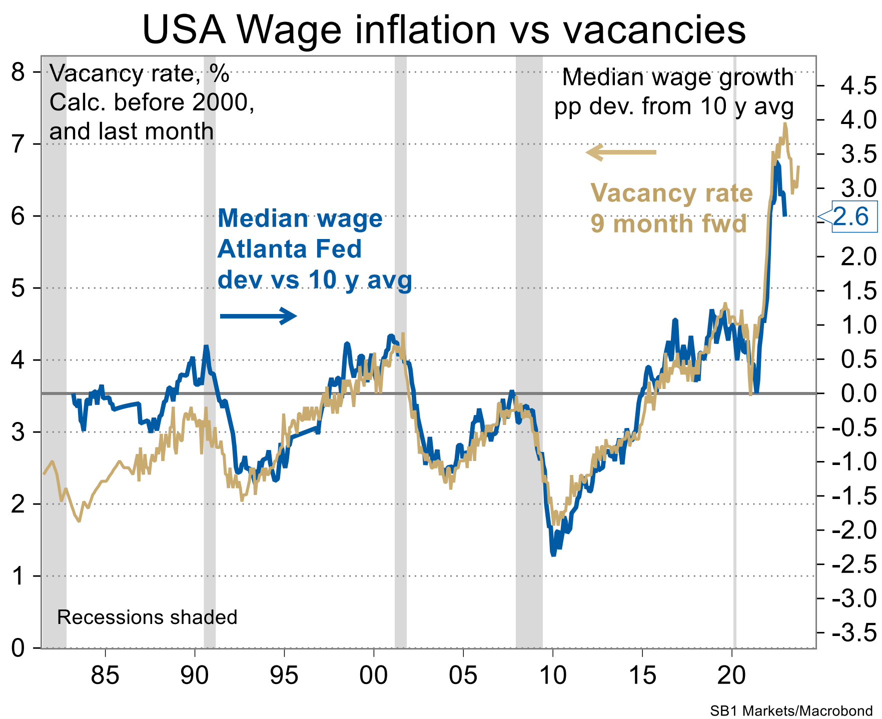


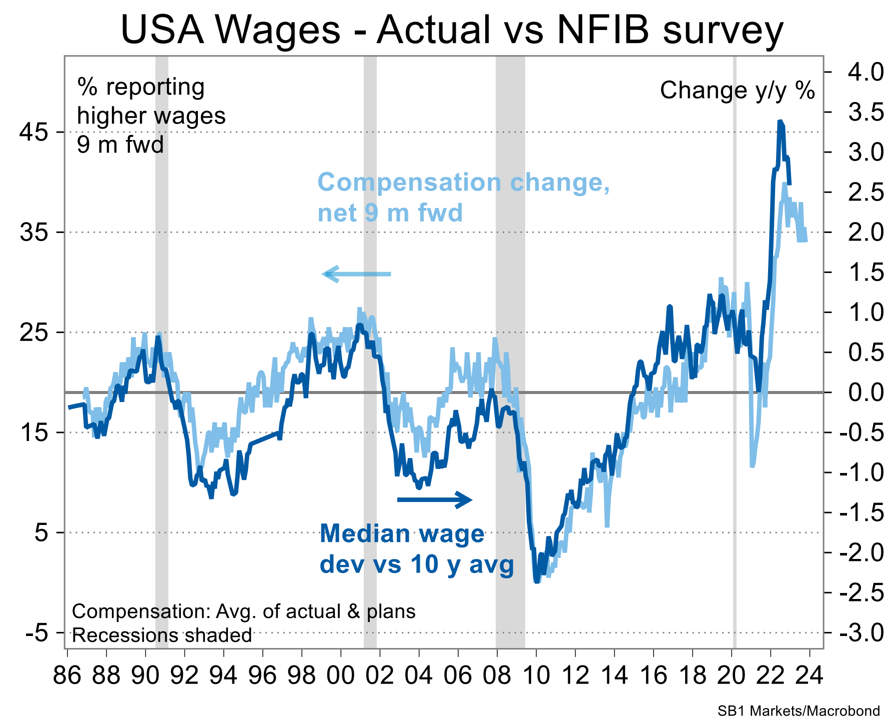


- 45% of SME's report they were **not able to fill open positions** in January, up from 41% in December, but still below the 51% peak early last yar. The average level is some 22%, and the highest before the pandemic was 39%. And now at 45%...
- 19% of companies **plan to hire**, 2 pp p from December, and well below the 32% at the peak in Aug-21. The trend is t down but the level is still well above an average 12% level, and this index has been sustained at this level in 2018/19
- 34% of companies report that they **plan to lift compensation** in the coming months, down from 36% in December. The peak was at 40% Dec-21. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth – has been at approx. 20%
- There is still *a ways to go*, it has just become somewhat shorter!

Vacancies up, harder to fill them – and wage plans are still very aggressive

Yes, wage inflation has come down, but it is not obvious that wages will return to '2% price inflation' level anytime soon

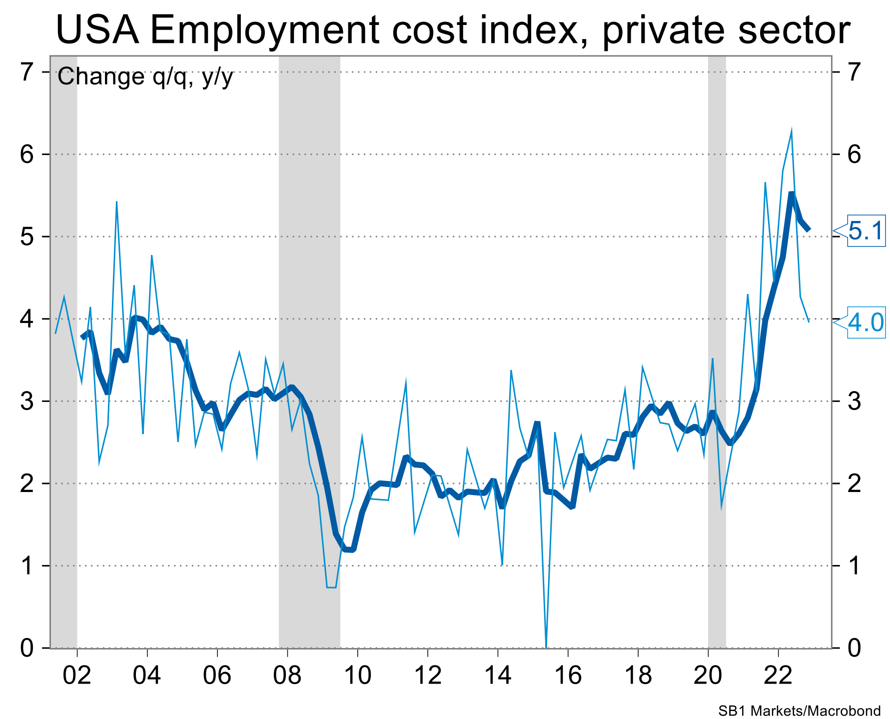


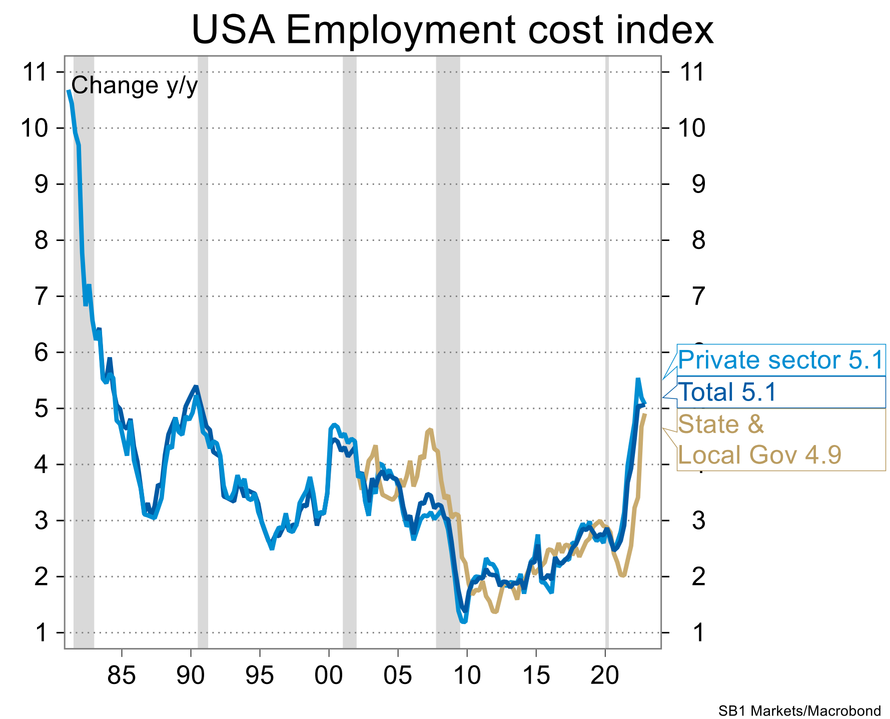


- **Our 'Phillips curve'** based on the vacancy rate signals continued wage inflation at some 2.6% <u>above</u> the normal level
- **Companies (SMEs) compensation plans** also signal continued high wage inflation but 'just' 2 pp higher than the past 10 y avg.
- **Demand for labour** probably has to be reduced in order to get wage inflation permanently back to a sustainable level
  - Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺)
  - The alternative good news: Wage inflation has peaked, both the Atlanta Fed media wage (at the charts above) and the wage indices presented at the next pages

Employment cost inflation IS slowing!

Employment both in the private sector and the overall economy grew by a 4.0% pace in Q4, 0.4 pp less than expected

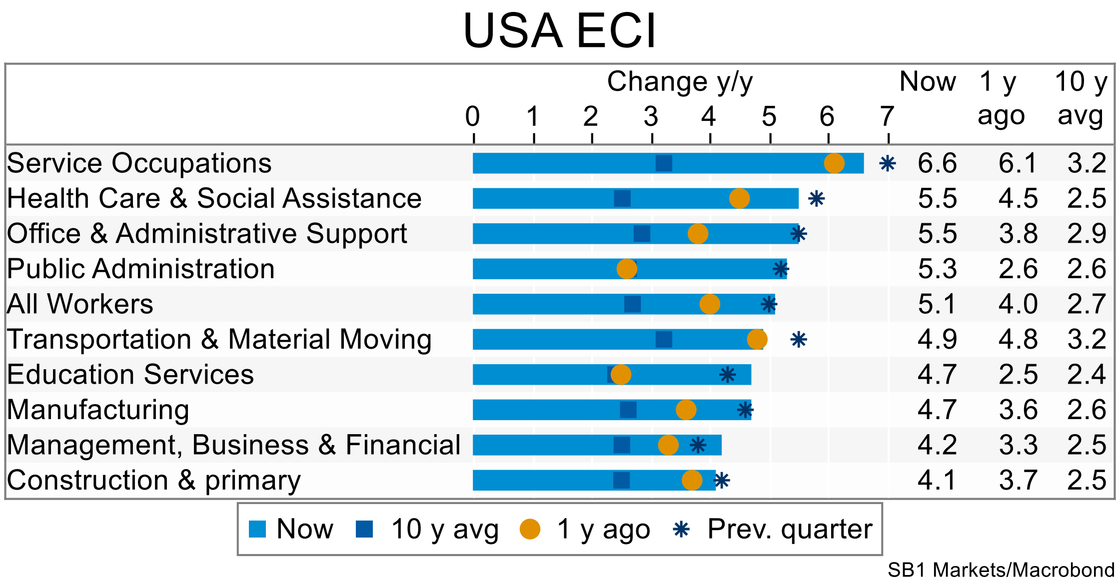




- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs (and is not influenced by changes in employment between sectors/type jobs), rose by 1.0 q/q in Q4, expected 1.1%, and down from 1.2% in Q3. The q/q increase in the private sector was the lowest since Q2-21 – and confirms that wage inflation is on the way down – before the unemployment rate has started to increase.
  - The annual rate was 5.1% for both, the highest level since 1990, and >2.5 pp above the 10 y average before the pandemic. So something had to give to prevent high cost inflation going forward – and the fight is still not won with a 4% growth in employment costs

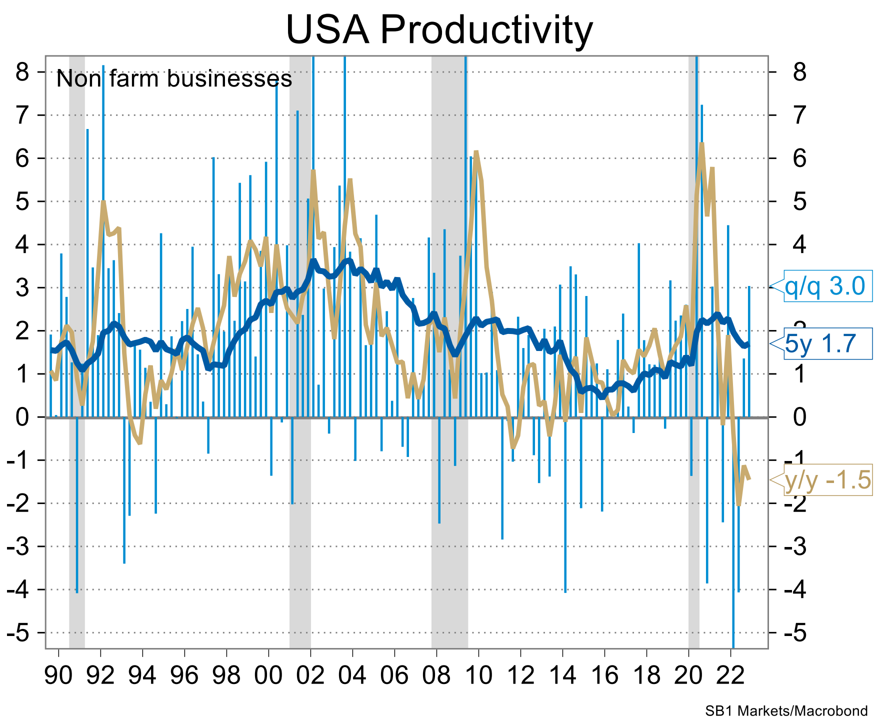
Employment costs have been increasing much faster than before, everywhere

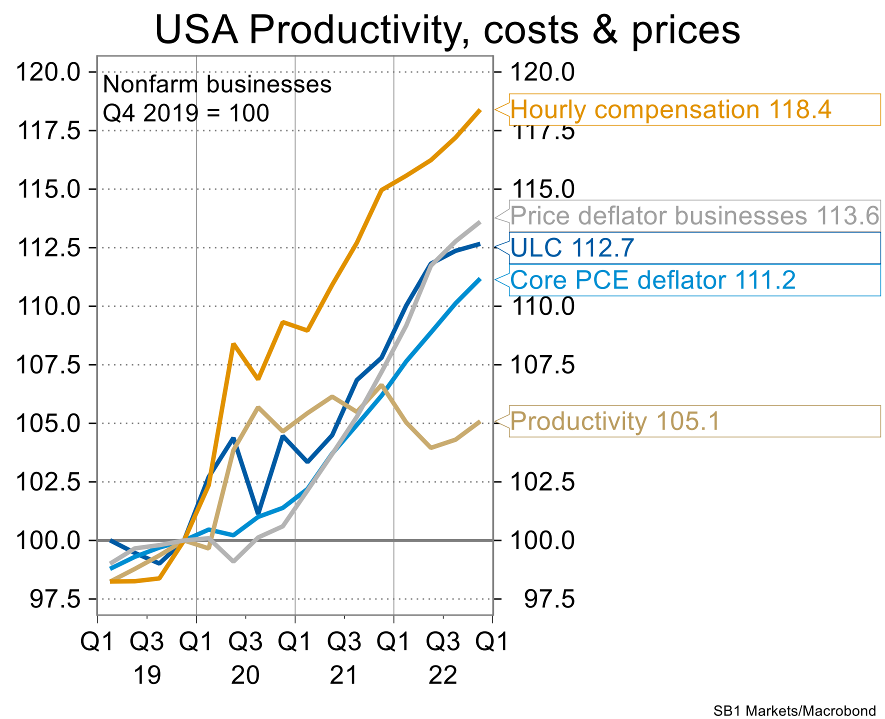
Q4: 4 sectors reported slower growth y/y, 5 sectors higher growth



Productivity up 3% in Q3, still down 1.5% y/y

… and Unit Labour Cost in the business sector grew by just 1.1% in Q4 (but by 3.9% y/y). Compensation growth is slow.

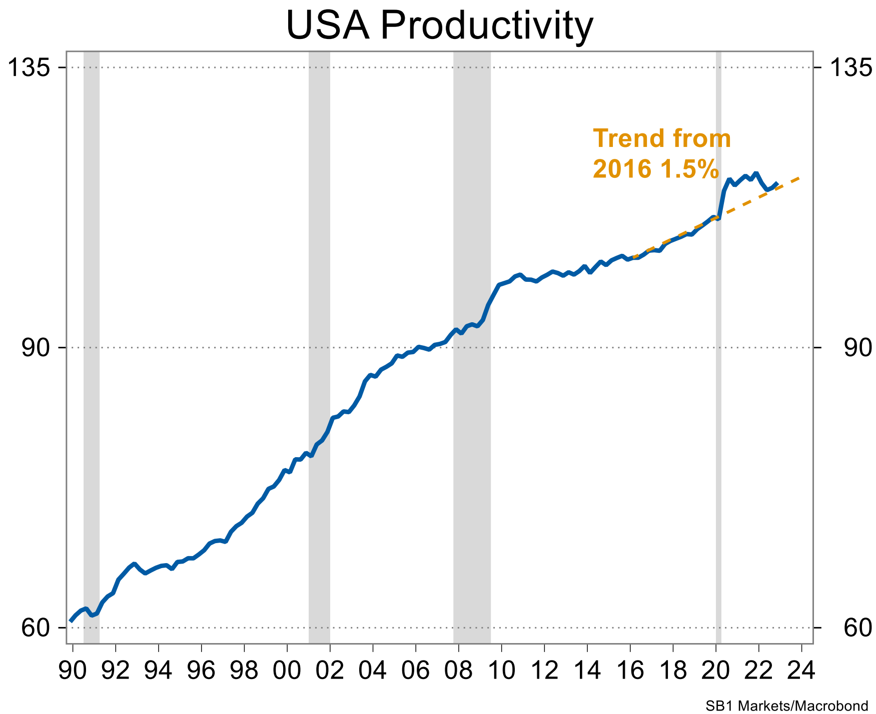


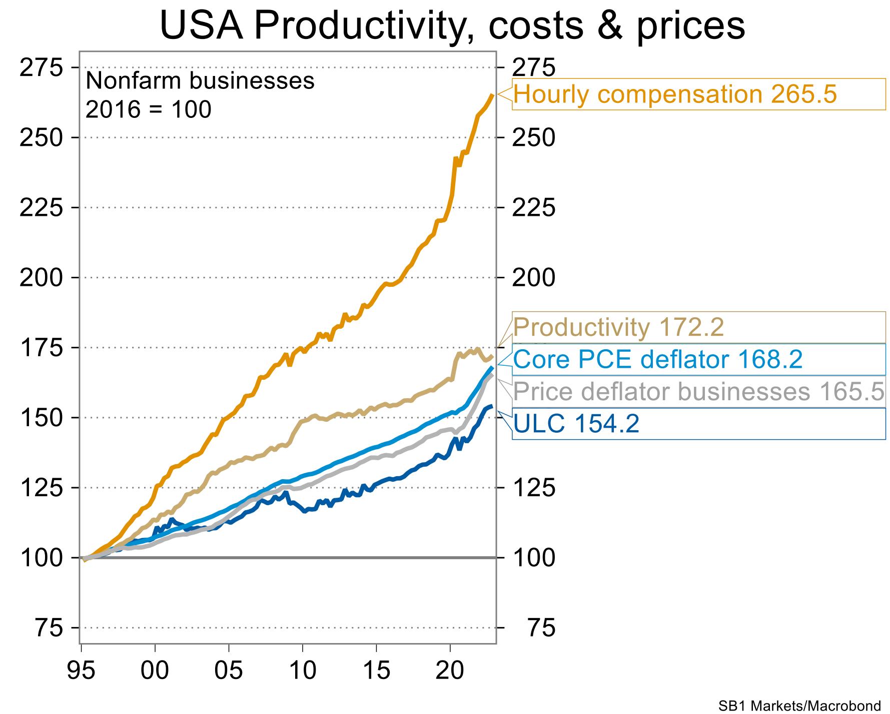


- **Productivity** increased by 3.0% in Q4 (annualised), up from the initial estimate of 1.4% in Q3, expected 2.4%, following the unusual steep decline during H1. Over the past four quarters, productivity has decreased by 1.5% due to the return of less productive (and lower-paid) service sector workers after the pandemic. Since late 2019 productivity has been increasing at 1.7% pace, slightly above the pre-pandemic trend (check next page)
- **Hourly compensation (wages ++)** grew at a 3.2% pace in Q4, from a downward revised 2.3% pace in Q4 4.0%. Average growth since Q4-19 is 5.8%. Growth has slowed, but not that convincing as lower paid service sector workers have returned to work, taking the average wage down. However, the ECI, which adjust for changes in the employment mix has also comedown (but it is up 4% q/q and 5% y/y)
- **Unit labour costs** (hourly compensation – productivity) grew by 1.1 % in Q4, up 4.0% y/y. Since Q4-19, ULC has grown at a 4.7% pace, revised down from 6.4% but still far above a normal level – which of course is incompatible vs the 2% inflation target

Trend productivity growth is probably marginally above 1.5%

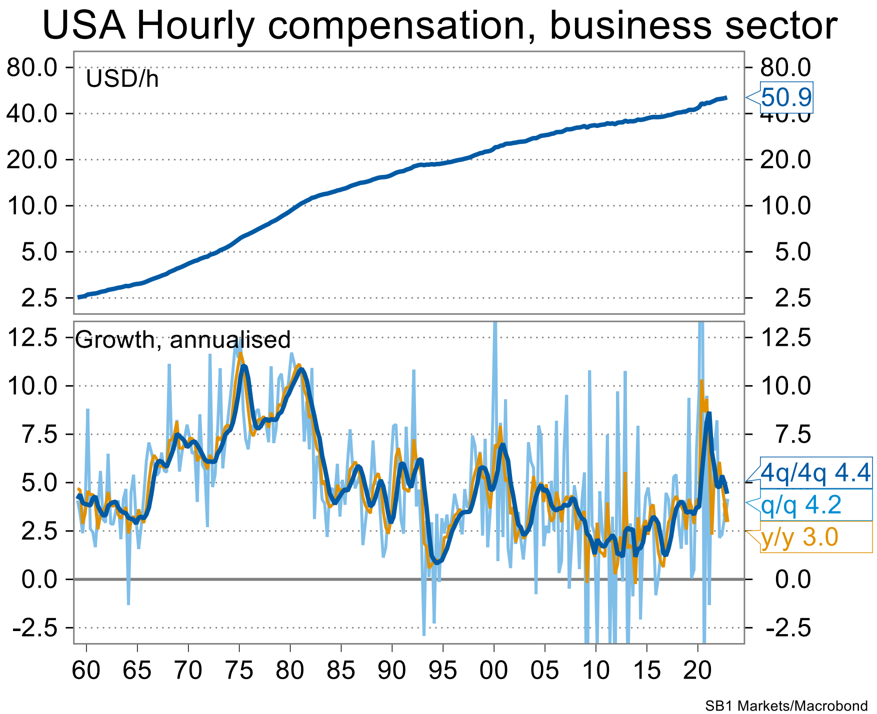
… as was the trend before the pandemic too

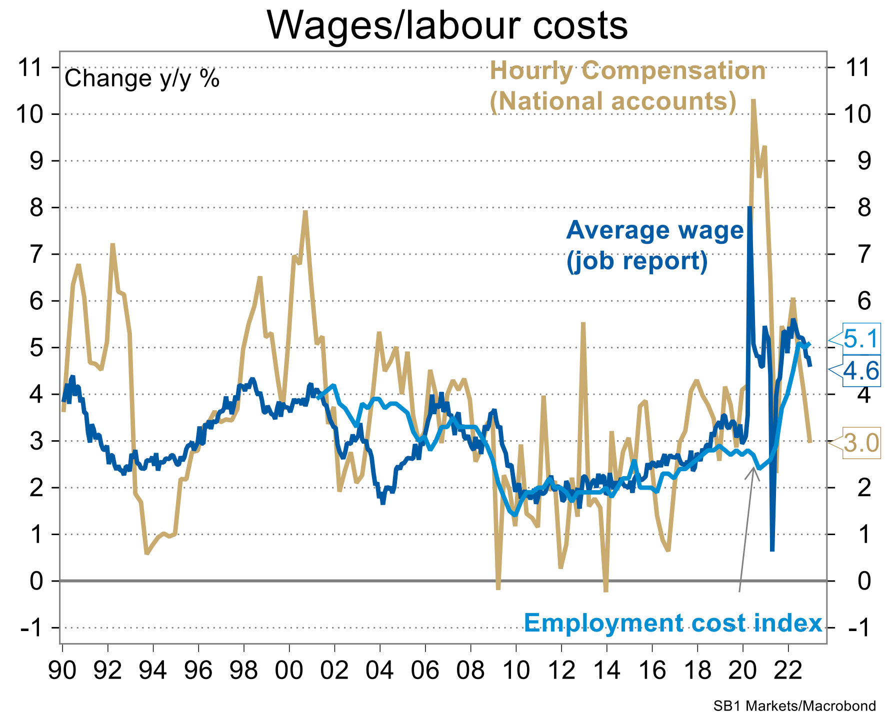




Hourly wage cost inflation has peaked, may have come down to an OK level

Wage inflation has slowed, but at least partly because the less paid service sector workers have returned

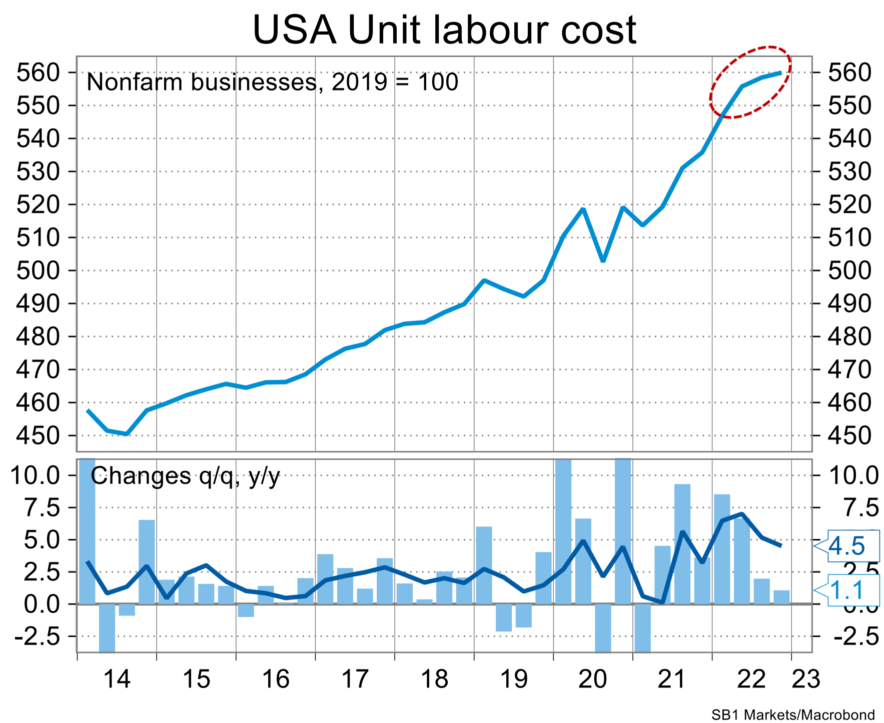


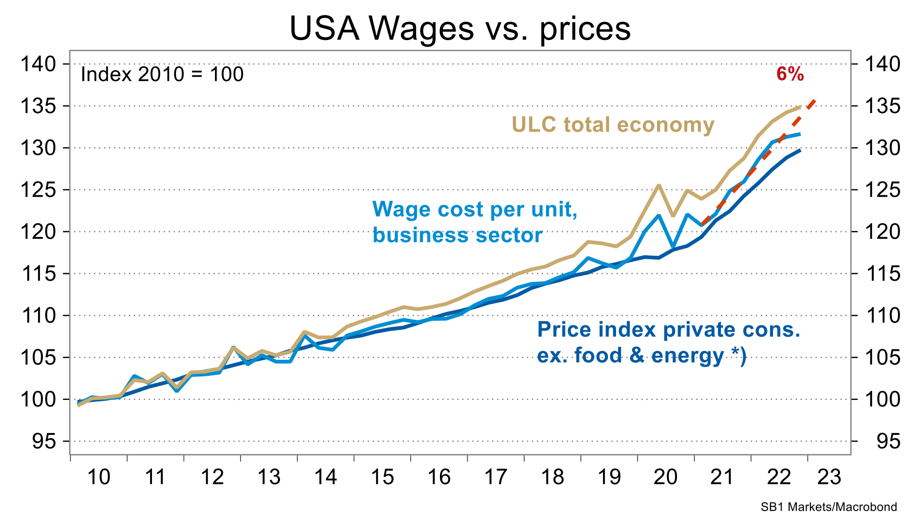


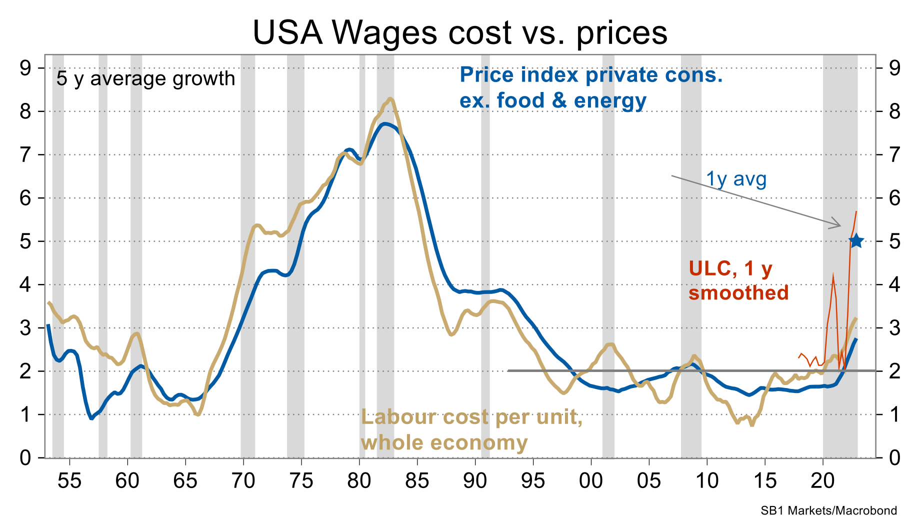
- Hourly compensation rose by 4.2% in Q4, up from 3.2% in Q3. Compensation is up by just 3% y/y, and smoothed 4q/4q at 4.4%, well below other wage indicators
  - HC is the ‘ultimate’ expression of the wage cost in the economy, calculated as a part of the National accounts. However, too volatile short term, check the chart to the right above
  - The average growth rate over the 10 years before the pandemic was 2.7%
- The Employment Cost Index (ECI), which is far more stable and reliable short term as it adjusts for the changes in the composition in employment – is still reporting 4% growth q/q, and 5% y/y. Atlanta Fed’s median wage tracker still reports 6% y/y wage inflation

Unit labour cost inflation came down in H2

ULC are volatile (but less than hourly compensation) and most likely, cost inflation has slowed. Which is very good news



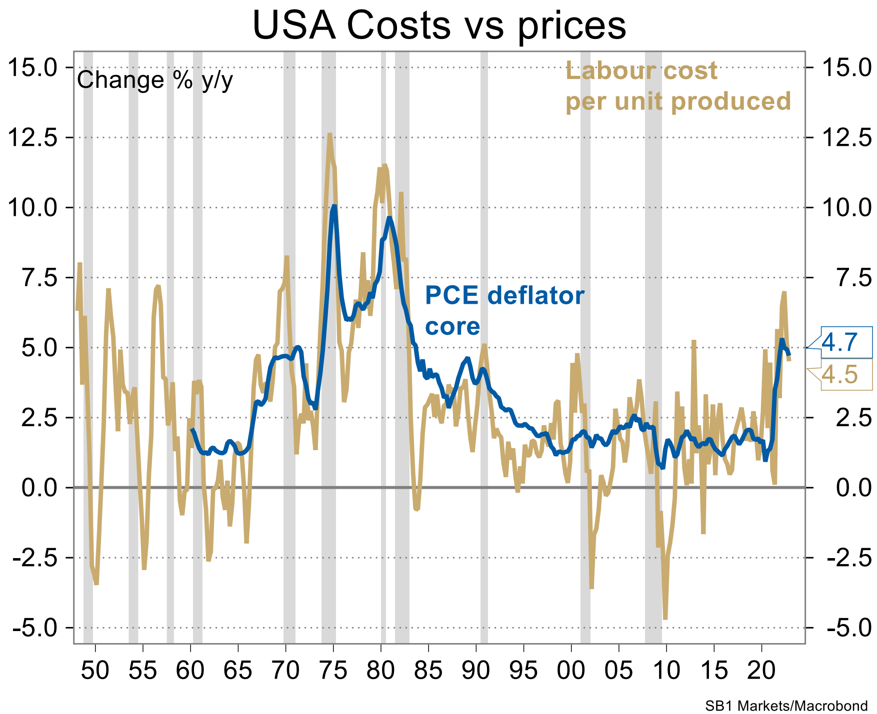


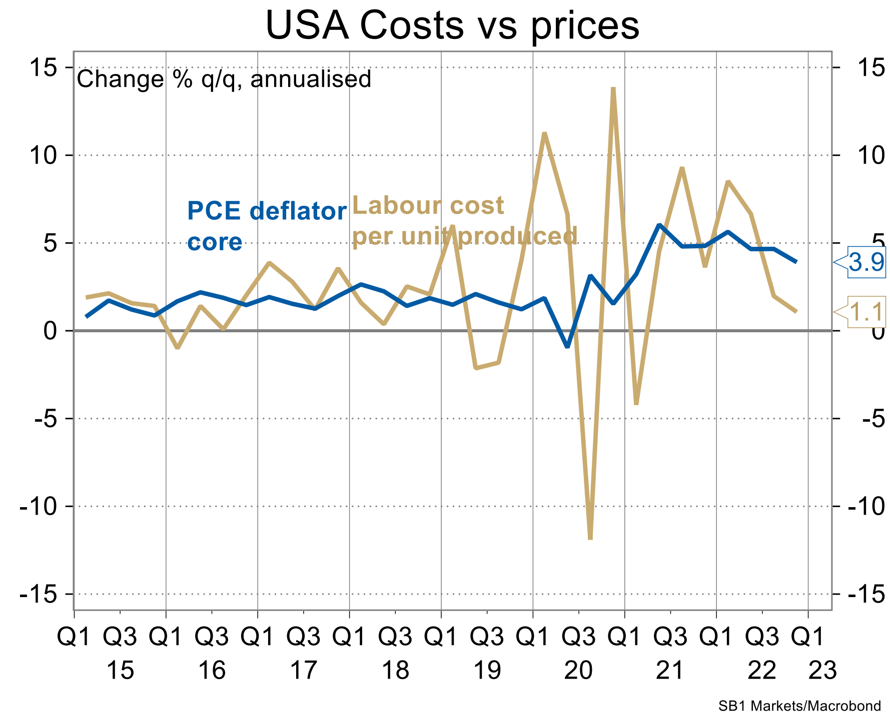


- Over time, ULC (wage growth – growth in productivity) is over time the only factor that decides inflation
- While ULC has slowed in H2, the annual rate is still far above a level that will yield 2% inflation over time

ULC vs inflation: Short term, volatility is substantial

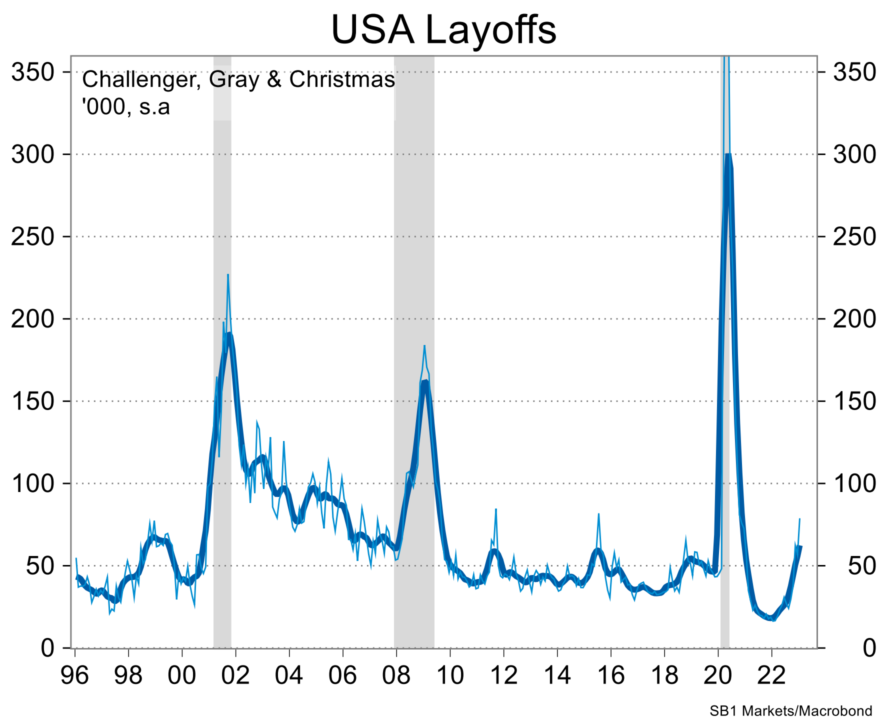
Growth in ULC the previous quarters has been the highest in 4 decades – but it is not very likely slowing

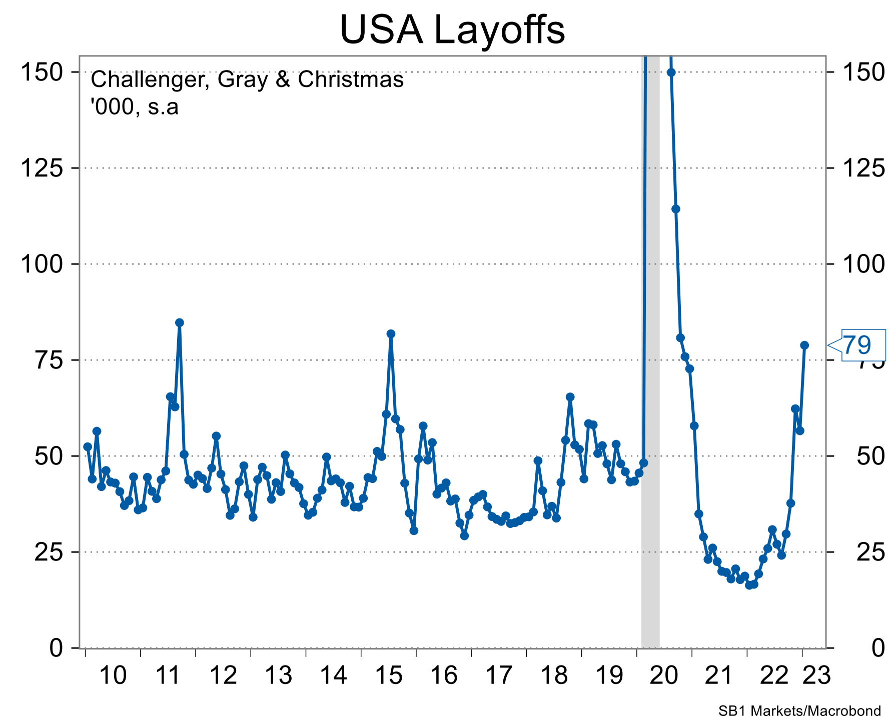




‘Finally’, a lift in layoffs up to a higher level than normal – still less than 80’

Challenger job cuts up to 79’ in January, up from 57’ in December, the double of the normal level in ‘good times’

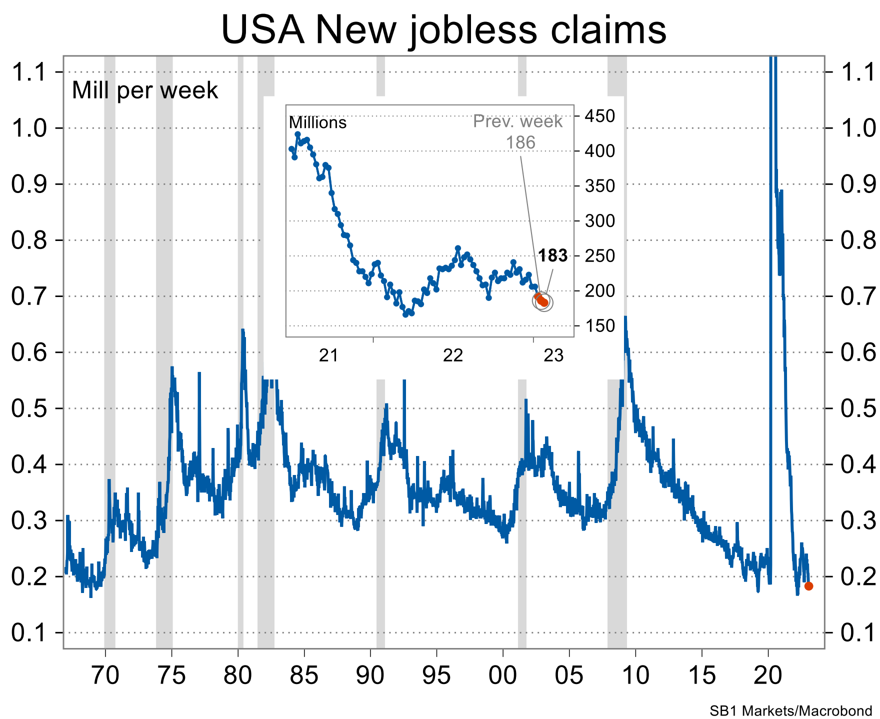


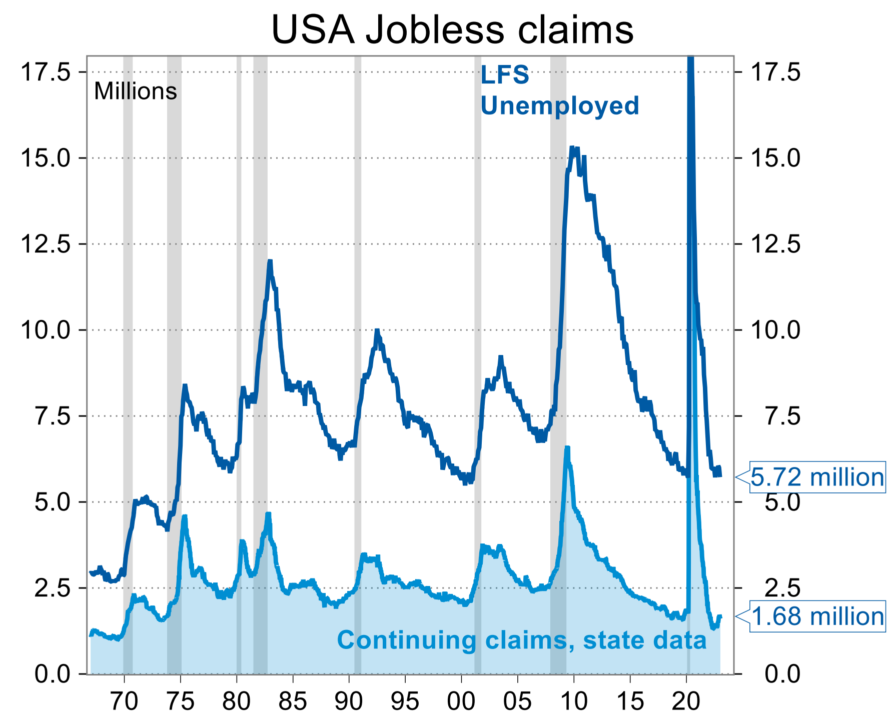


- **At the bottom** less than 20’ layoffs were announced per month – but that was the lowest ever
- **The tech sector** is responsible for more than half of the layoffs in recent months (42’ in Jan) – which seems reasonable given what we have seen in media
  - The **retail industry, finance and health** follow next, with 10’, and 5’ & 5’ resp.
- In the JOLTS report, layoffs also rose (in December) but less than indicated by the Challenger data for December

Where have all (the laid off) workers gone? Not to the dole, anyway

Just 183' new jobless claims last week, not far above the lowest level since 1969

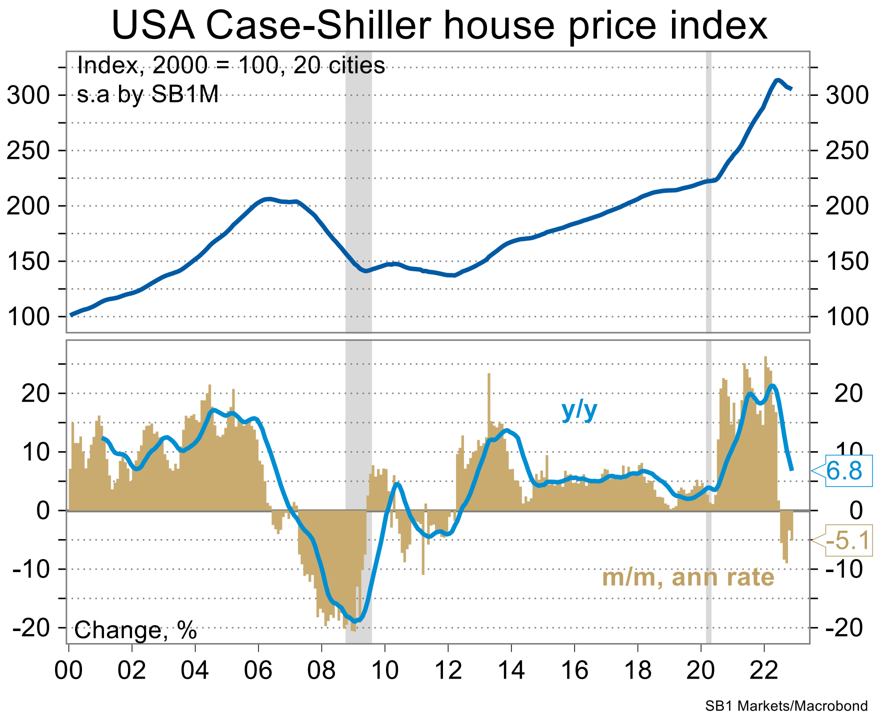


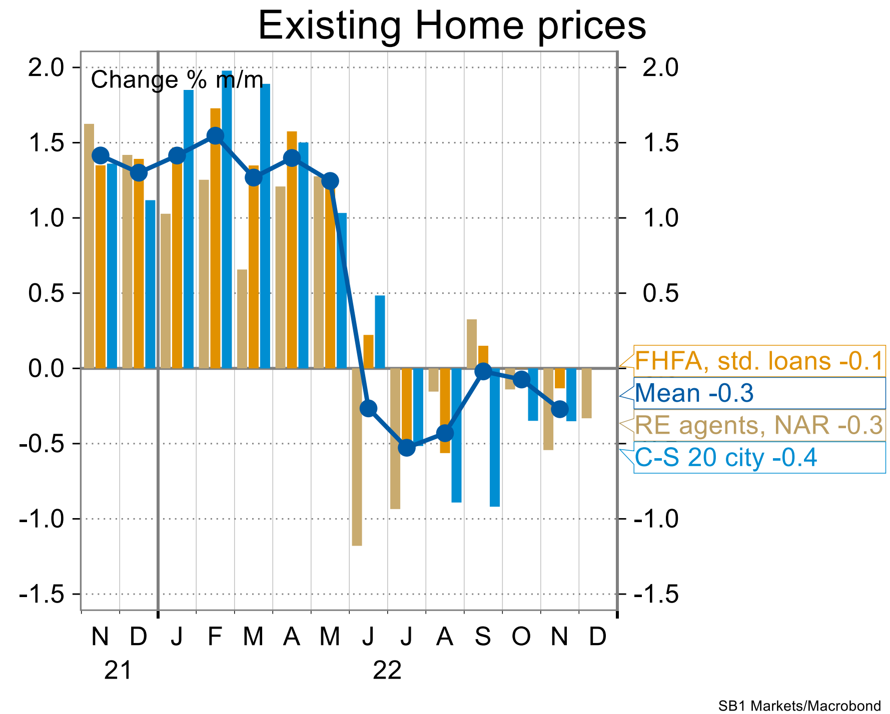


- **New jobless claims** fell by 3' to 184' last week, expected up to 200'. The inflow has not been lower since last spring
- **Continuing claims** rose fell 11' to 1,66' in week 3. The trend is slightly upwards but the level remains very low still
- Both still indicate a **tight labour market** – a 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)

Case/Shiller house prices down again in Nov, but again less than expected

Prices fell 0.4%, expected -0.6%, and the FAFA index was down just 0.1%

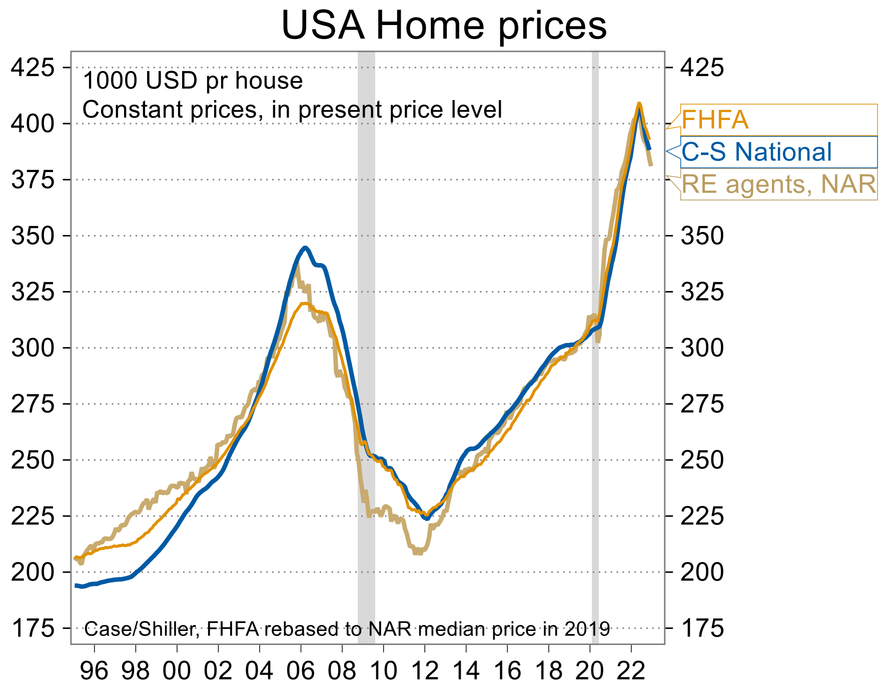




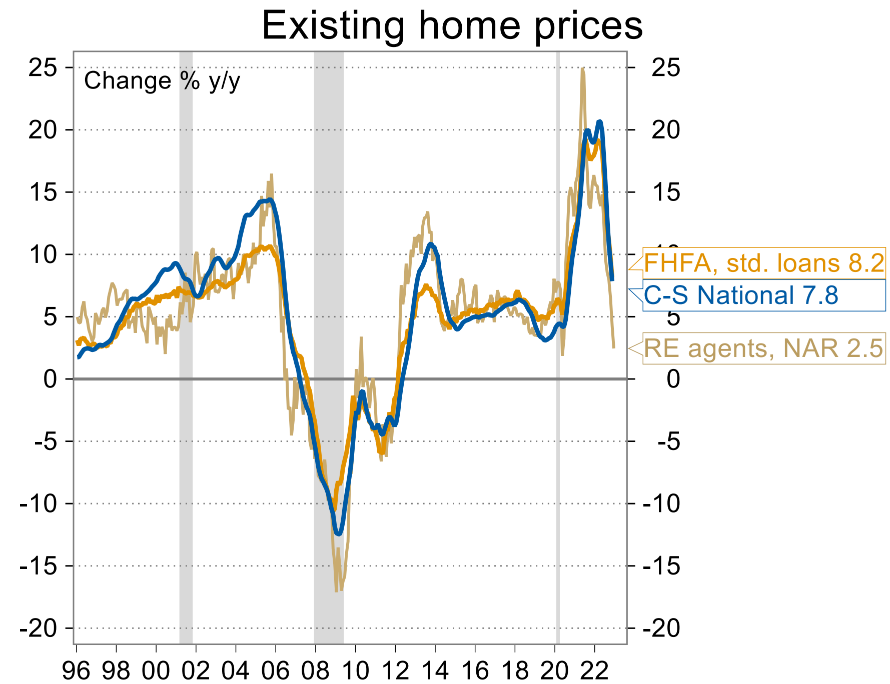
- **S&P's Case/Shiller's 20 cities** price index fell by 0.4% in Nov (Oct - Dec avg., our seas. adj, -0.5% the 'official' seasonal adjustment, 0.1 pp less than expected). The index is still up 6.8% y/y, but the rate is falling rapidly
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), declined by 0.1% in November
- Realtors reported a 0.3% decline in house prices in December
- We still expect prices to yield substantially the coming months, following the unprecedented 42% lift since before the pandemic to the peak in June and the still much higher than normal mortgage rates

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

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



SB1 Markets/Macrobond

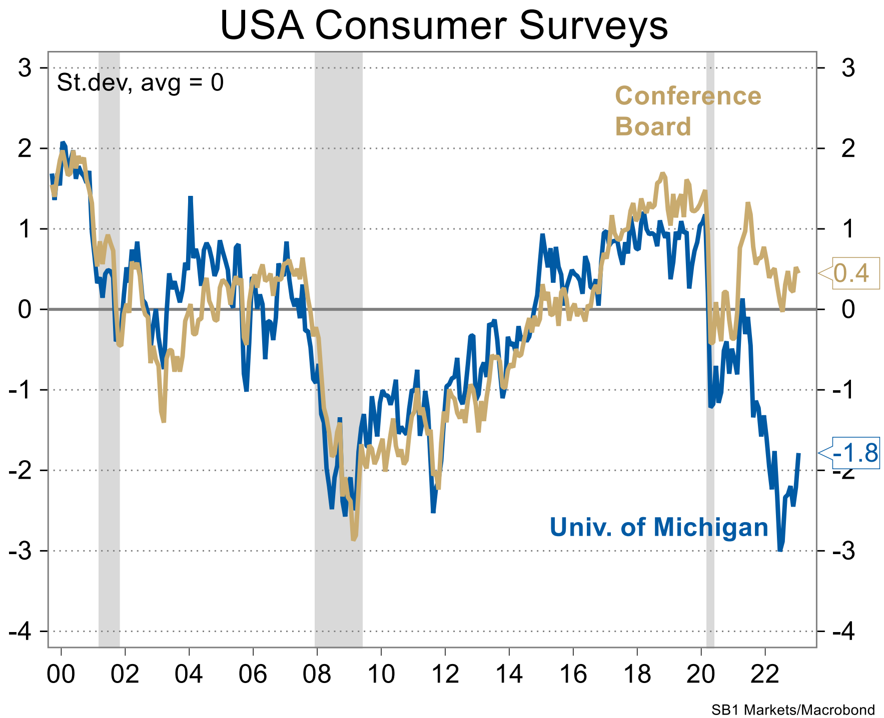


SB1 Markets/Macrobond

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

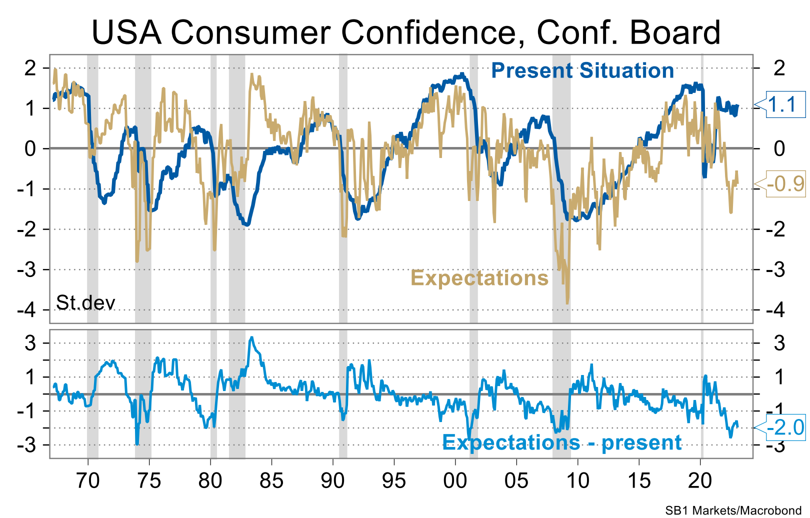
Conf. Board's Consumer confidence marg. lower in January, still above avg.

However, expectations are below average, normally a warning sign. Inflation expectations marginally up



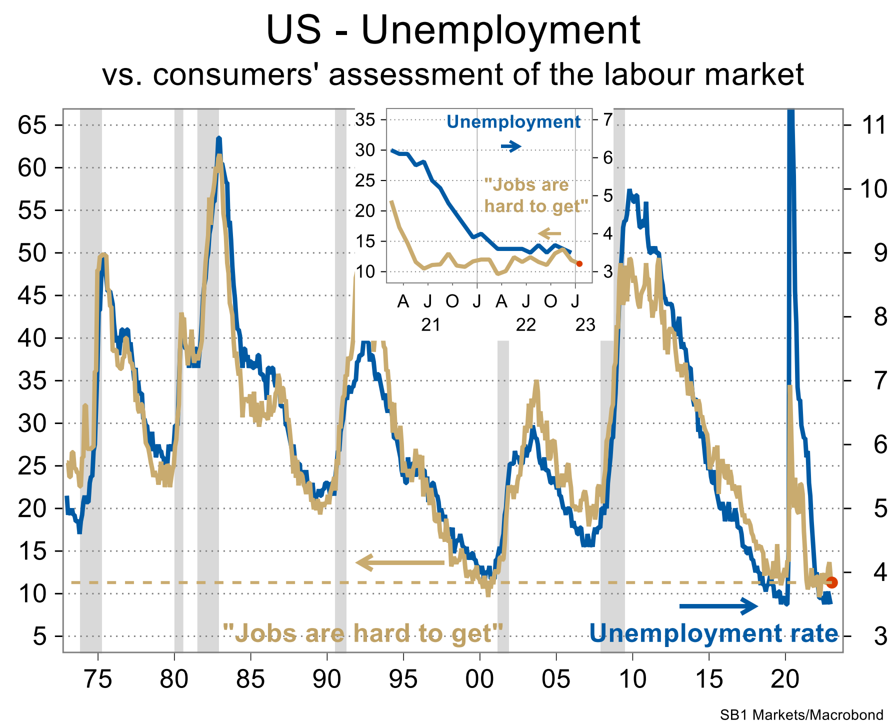
- **The other consumer** surveys we follow are on another planet, even if they have recovered somewhat since the summer. University of Michigan's sentiment is at 1.8 st.dev below average – which is still a very low level even if the index is up from -3 st.dev at the bottom
  - Two other confidence surveys, from IBD/TPP and Univ. Florida are not much better than the UM survey – and Conf. Board's survey is an outlier

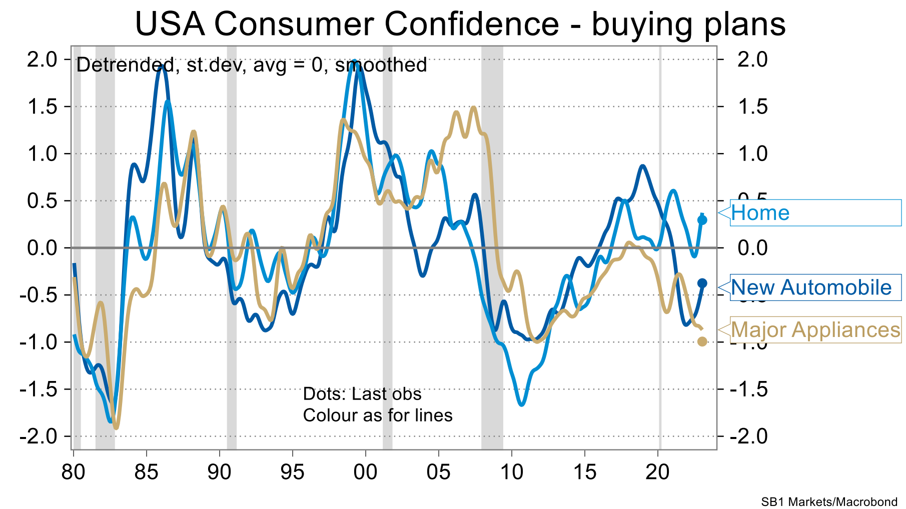
- The main index declined by 1.9 p to 107.1 in Jan, below expectations at 109. The present situation index improved marginally and is at a level well above average, while the expectation index fell declined – and is well below average
  - The decline in the main index equalled 0.1 st.dev, and the index remains 0.4 pp above average – due to a still strong present situation index, at +1.1 st.dev.
  - **Expectations** are weak, 0.9 st.dev below average, which is normally seen in recessions (but not only)
  - **The difference** between households' assessment of the present situation and their expectations is at -2 st.dev. The gap is always the largest just before or when a recession hit, check the chart below

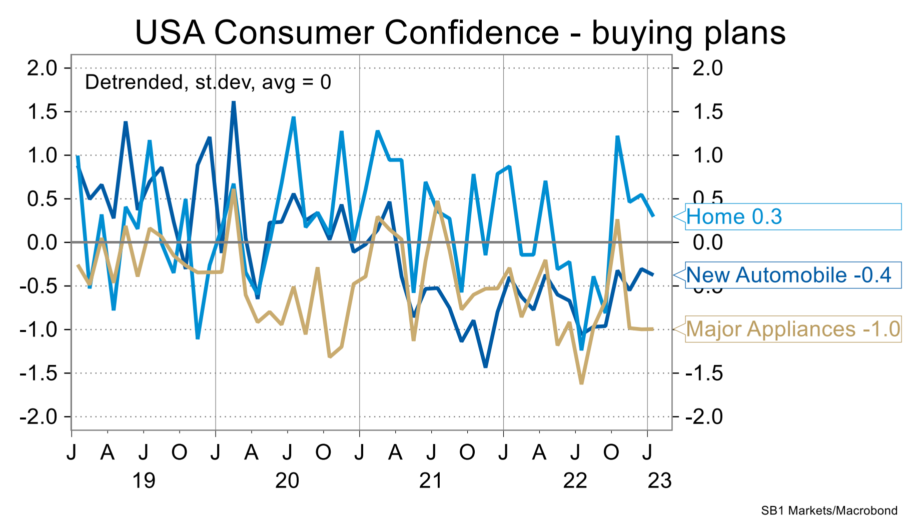


Home buying plans further down in January, but still <u>higher</u> than normal!

Rather surprising given the surge in mortgage rates recent months, in addition to high inflation



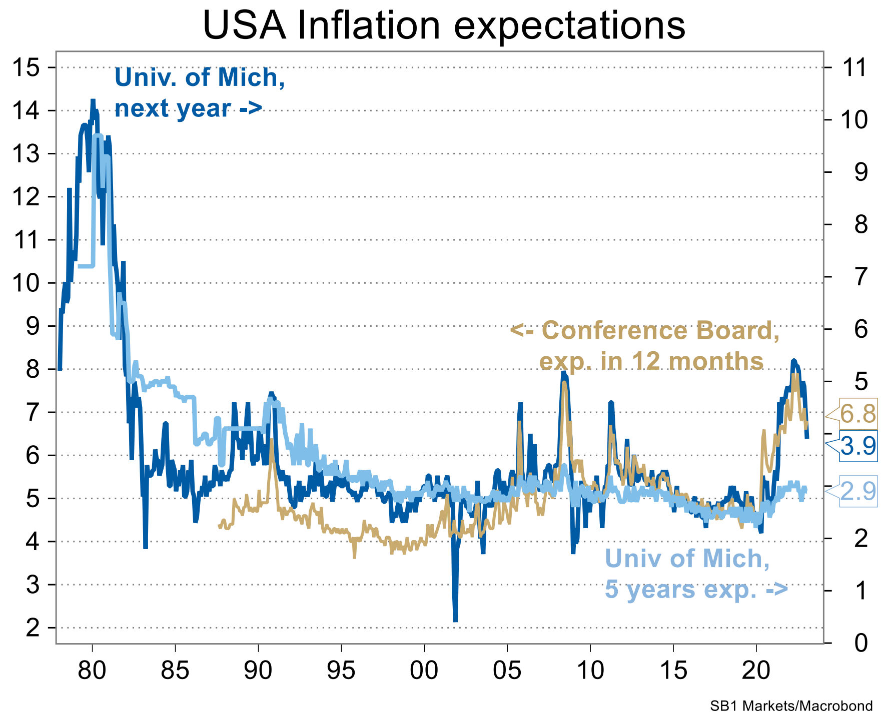


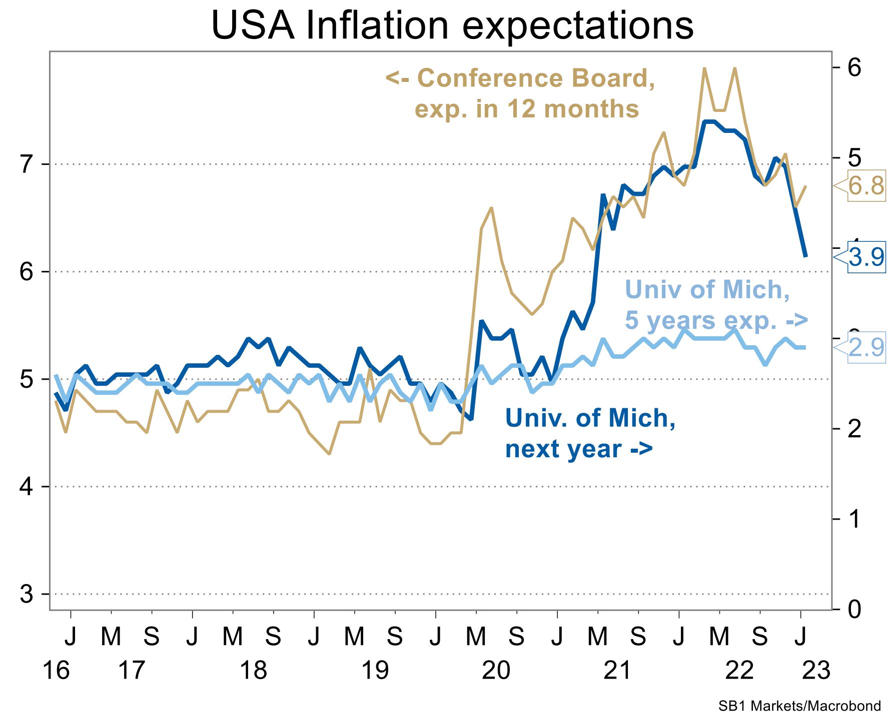


- Other buying plans are below par and plans to buy a new auto fell in January, but is this index is trending upwards
- Furthermore**, households do not find that jobs are hard to get**. They are somewhat more cautions than last summer, but <u>fewer</u> thought that jobs were hard to get in January than during the past 3 months!

CB's inflation expectation inched upwards in January – but is trending down

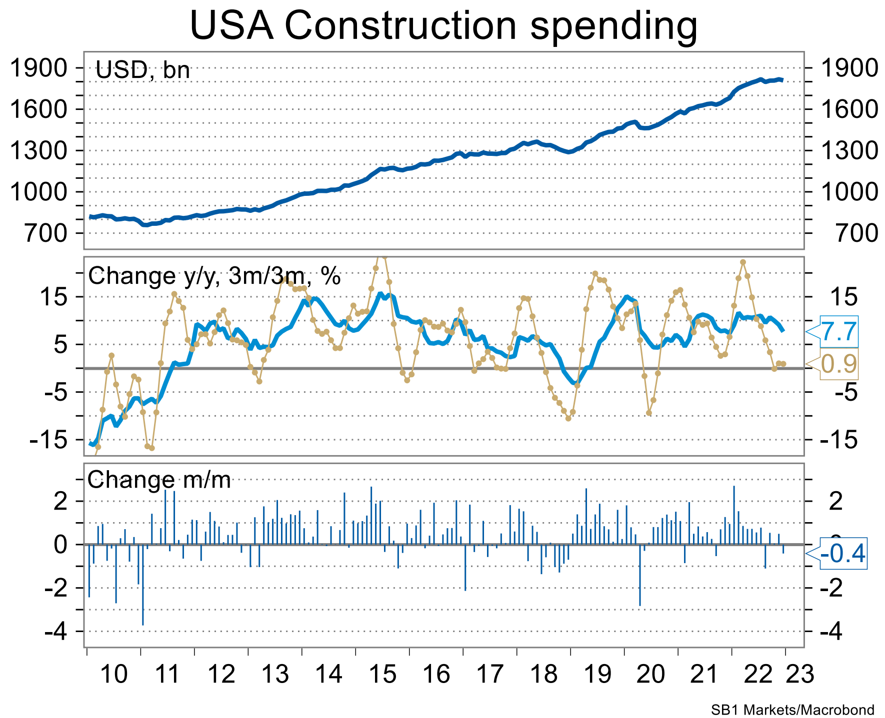
Other inflation expectations are also heading downwards

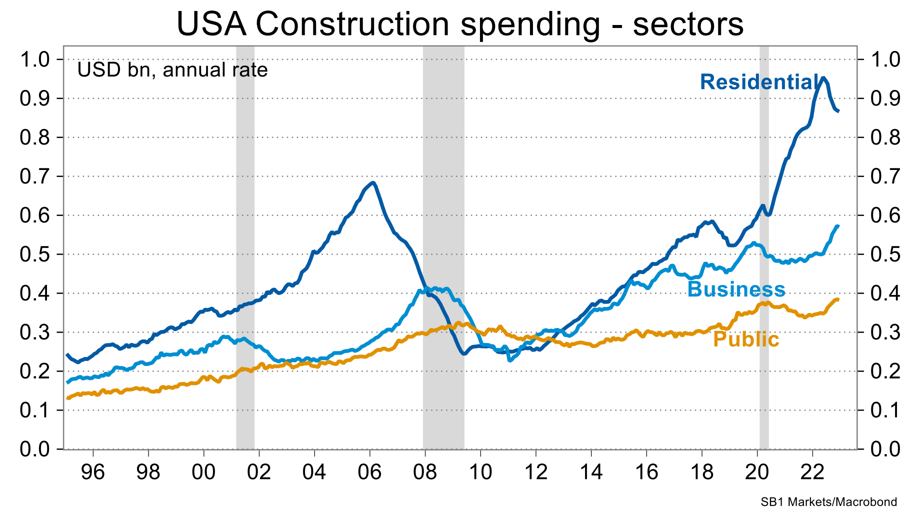


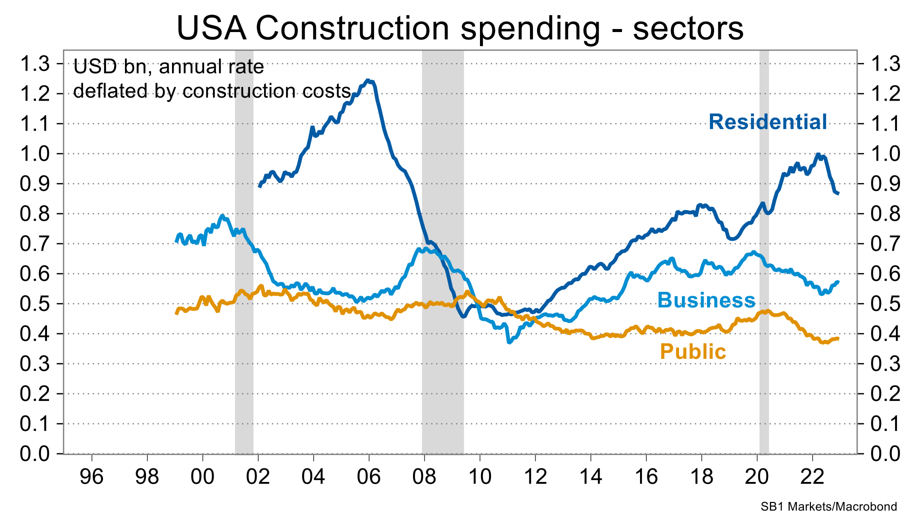


Construction spending fell by 0.4% in December, as flattened (nominally)

Residential spending is falling rapidly, while <u>both businesses and the public sector are on the way up</u>, even in volume!



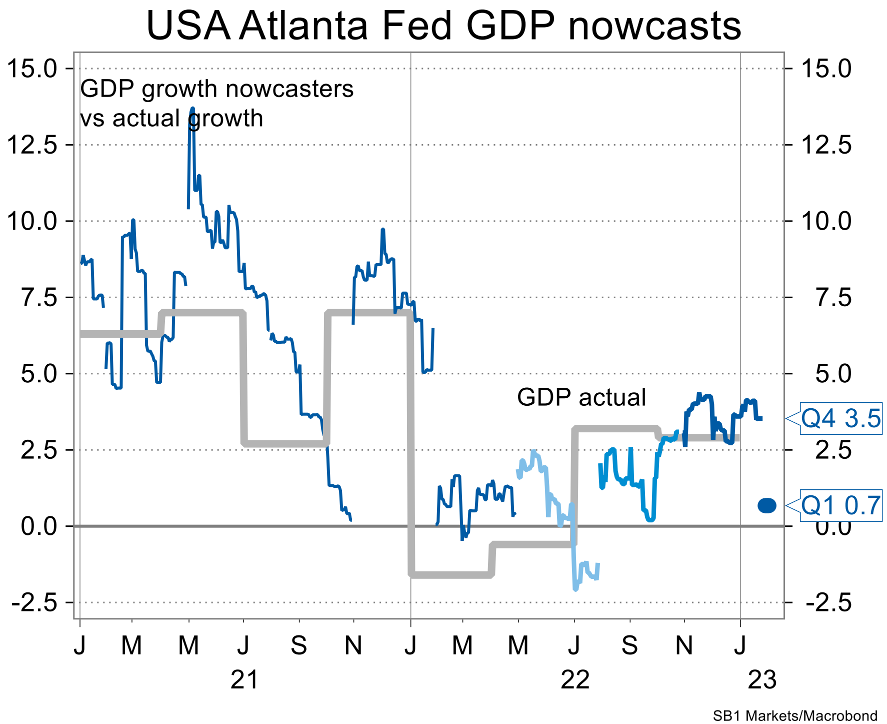


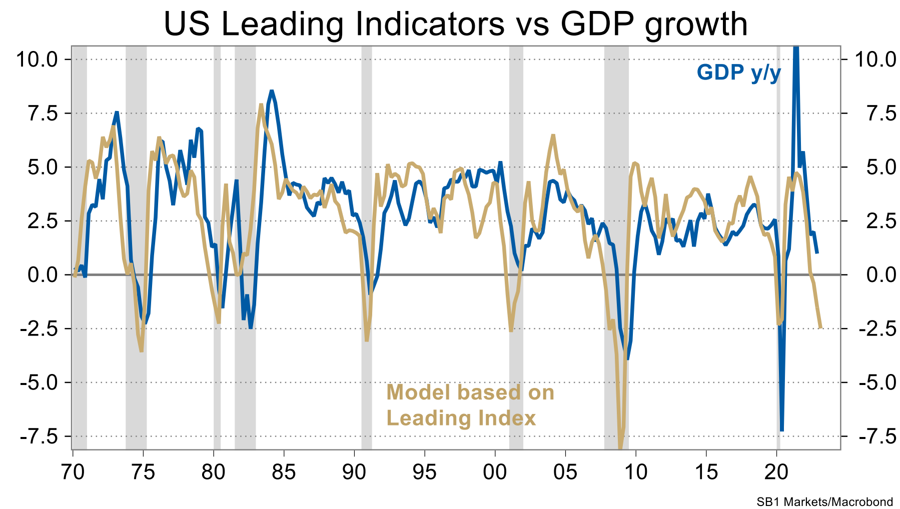


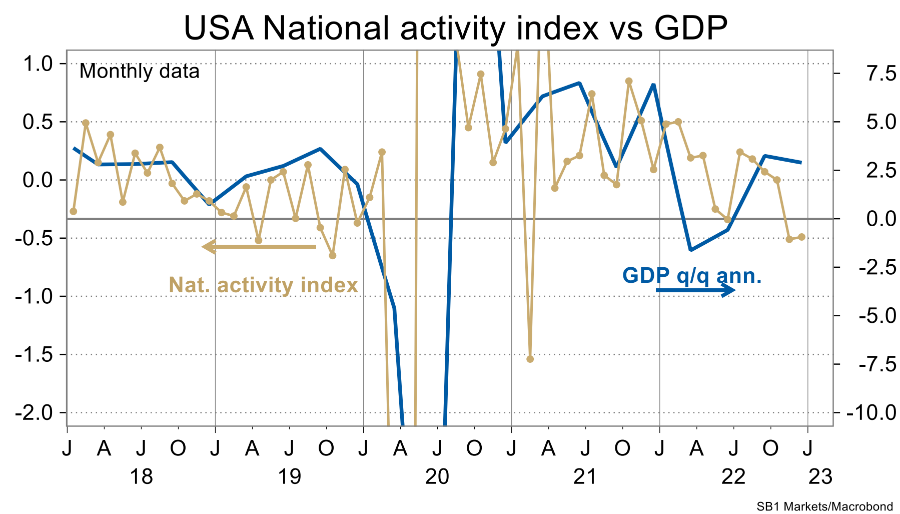
- **Spending data** are published in nominal terms, and are up 0.9% 3m/3m, still up 7.7% y/y. In volume terms, spending is down, by 10% from the peak (while nominal spending is close to the peak)
- **Residential construction investment** has fallen sharply, but less than 10% in even in volume terms
- **Business construction investment** are on the way up, also in volume terms!
- **Public sector investment** fell from Dec-20 until Sept-21, but is now back to mid 2020 levels – and activity is on the way up, even in volume terms

Atlanta Fed Q1 estimate at remains at 0.7%

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

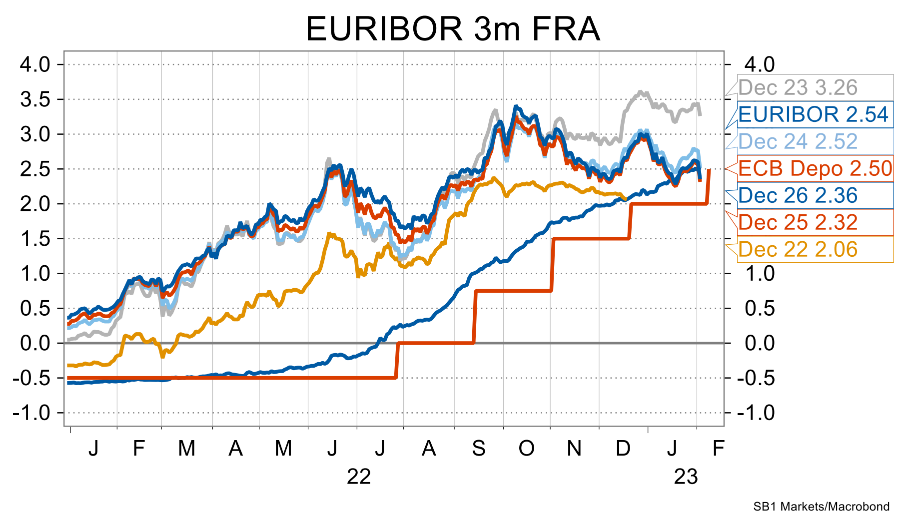


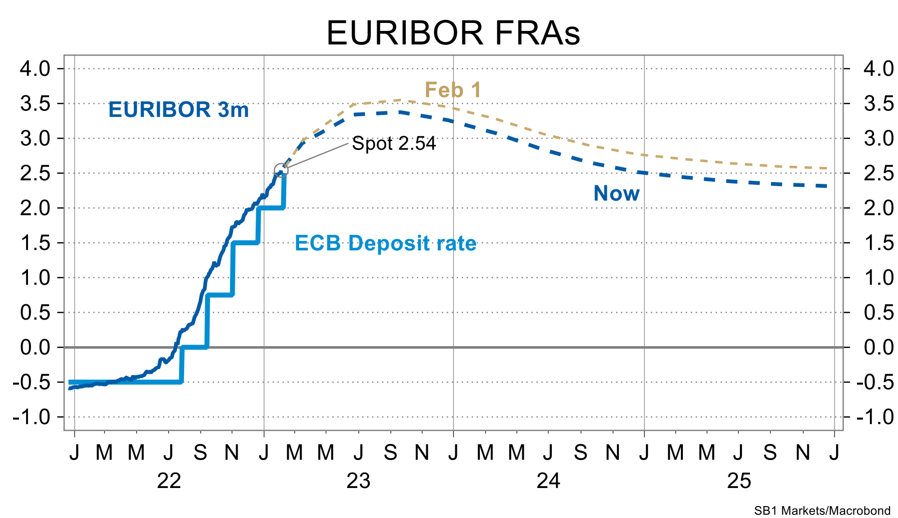




ECB hiked by 50 bps, promises more, but rate expectations/yields nosedived!

A global phenomenon, central bankers talked interest rate expectations sharply down this week. Hope it was intended

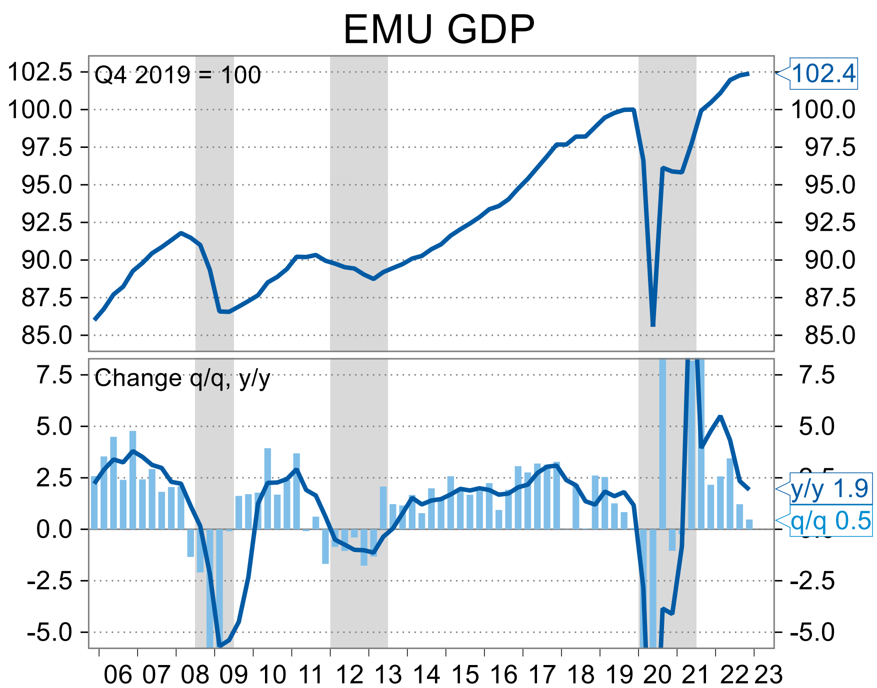




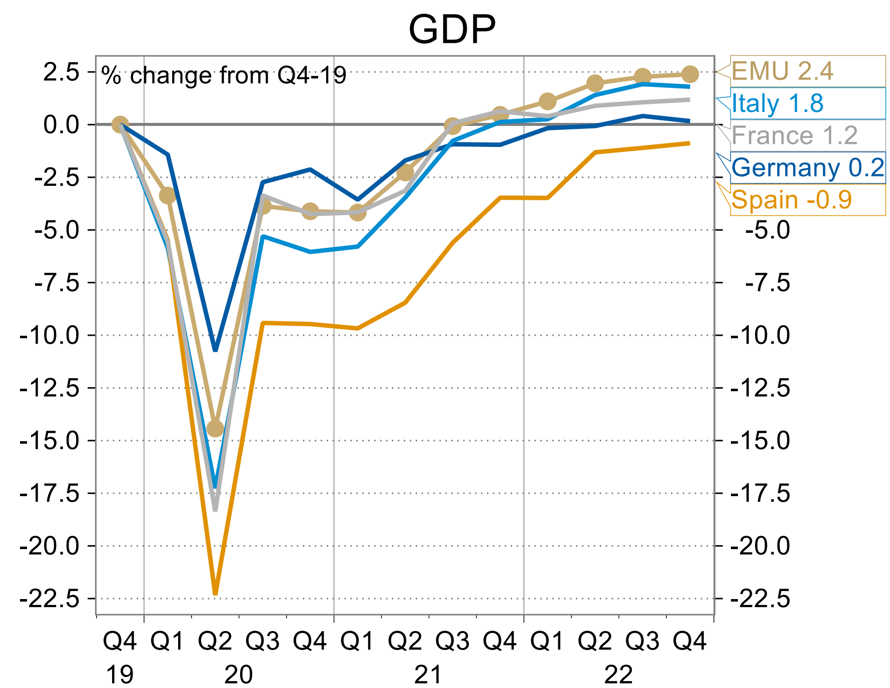
- **The 50 bps hike** to 2.5% was expected
- Face value, the press release and Lagarde's initial comments were not that dovish. The bank said it "*intends to raise interest rates by another 50 basis points at its next monetary policy meeting in March and it will then evaluate the subsequent path of its monetary policy"*
- **Lagarde** reiterated the need for further rate hikes of the same size, in order to curb inflation, by slowing the economy, and to keep inflation expectations in check. "*When the policy rate was lifted into restrictive territory we will want to stay there sufficiently"*
- However, policy is not longer on autopilot – and in March new signals are possible – at least that the hiking steps thereafter could be reduced to 25 bps. In addition, Lagarde's language vs the need for tightening was not as aggressive as on the December meeting. She said that inflation risks are now more balanced – which is rather obvious
- The market response was unusual.
  - The market revised the expected terminal rate by almost 20 bps to 3.35 % even if the market accepts the 50 bps March hike. The first hike is discounted late 2023 or more likely in early 2024
  - Further out on the curve, rate expectations by 20+ bps. The 10 y Bund fell 21 bps to 2.09%. Just once, rates have fallen more during one day since 2000 (but rates have fallen by the same amount 3 times before). Even so, the yield is higher than 2 weeks ago
  - The 10 y Italian bond yield fell even more, by 44 bps but the level is still higher than 2 weeks ago
  - The EUR lost 1% vs the USD, but just fell back to the same level as before Powell's comments on Wednesday – and the EUR is up on the week

GDP growth slowed to a 0.5% pace in Q4, expected flat

No recession yet, and surveys do not signalling it either, at least most of them



SB1 Markets/Macrobond



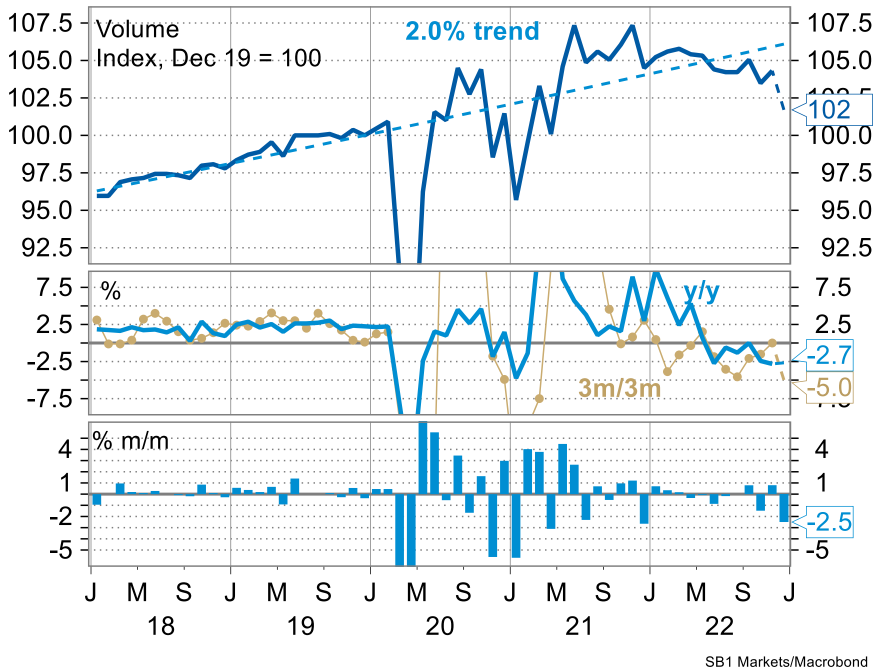
SB1 Markets/Macrobond

- **GDP** grew 0.1% in Q4 (0.5% annualised) down from 1.2% in Q3 – and better than expected zero growth rate
  - GDP was up 1.9% y/y, and by 2.4% vs the Q4-19 level
- **Spain** is still the laggard and GDP as 0.9% below the pre-pandemic level but had the strongest growth out of the big 4 countries, up 0.2% in Q4. **French** GDP growth was down 0.1% in Q4
- The **German** GDP was down 0.2% in Q4 - but is up 0.2% vs. Q4-19 (and the 0.4% growth rate for the region was secured by

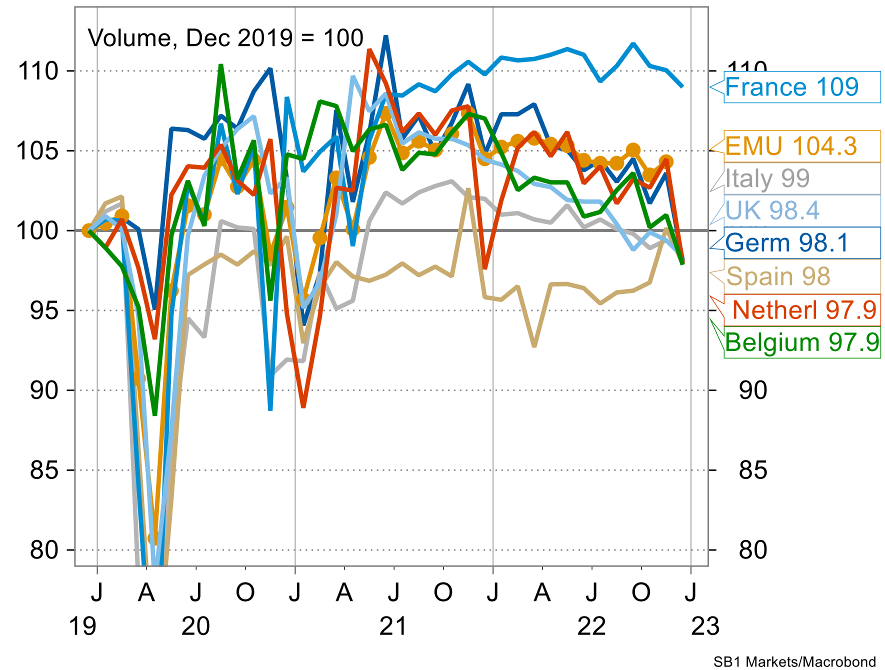
Retail sales very likely plunged in December (like in Norway & Sweden)

German sales were down 5.3% m/m, expected +0.2%, and sales fell in France and Spain as well

EMU Retail sales

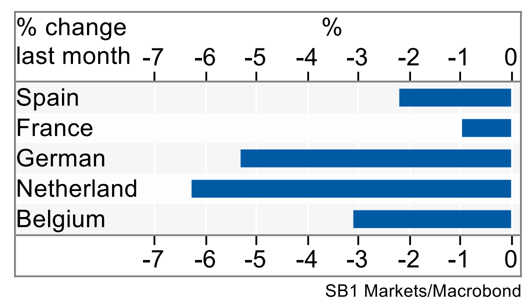


Retail sales



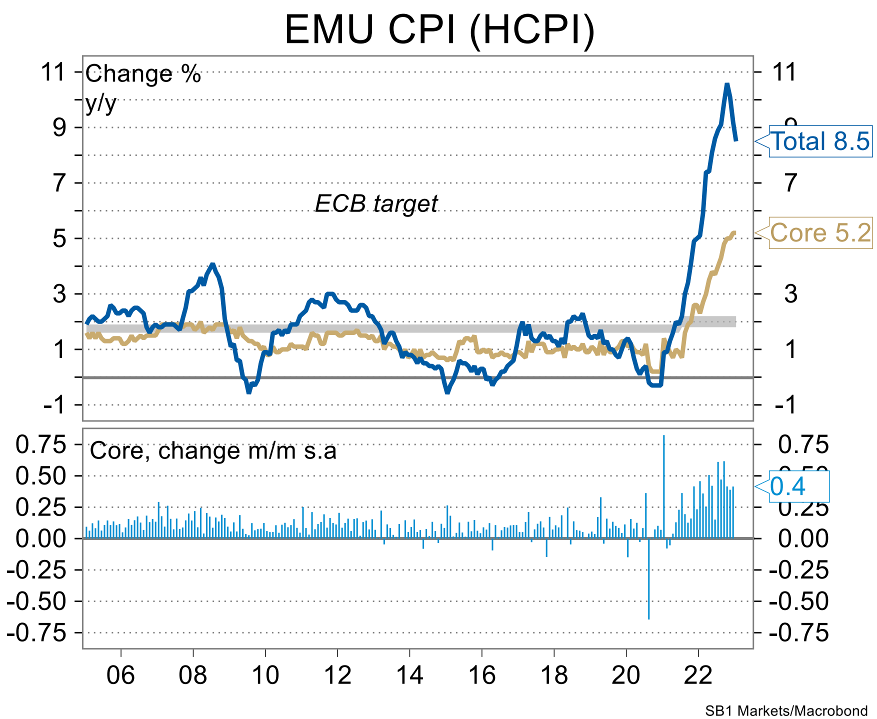
- The recent setback in sales is larger than during last spring in Germany. In December, retail sales declined in France and Spain as well – Italy has not yet reported. In Netherlands, sales fell like in Germany, and Belgium sales fell sharply as well
- At the chart above, we have illustrated a 2.5% decline for the total euro area in December. Given such a drag from private consumption of goods (autos not included) the small increase in GDP in Q4 may not be a done deal

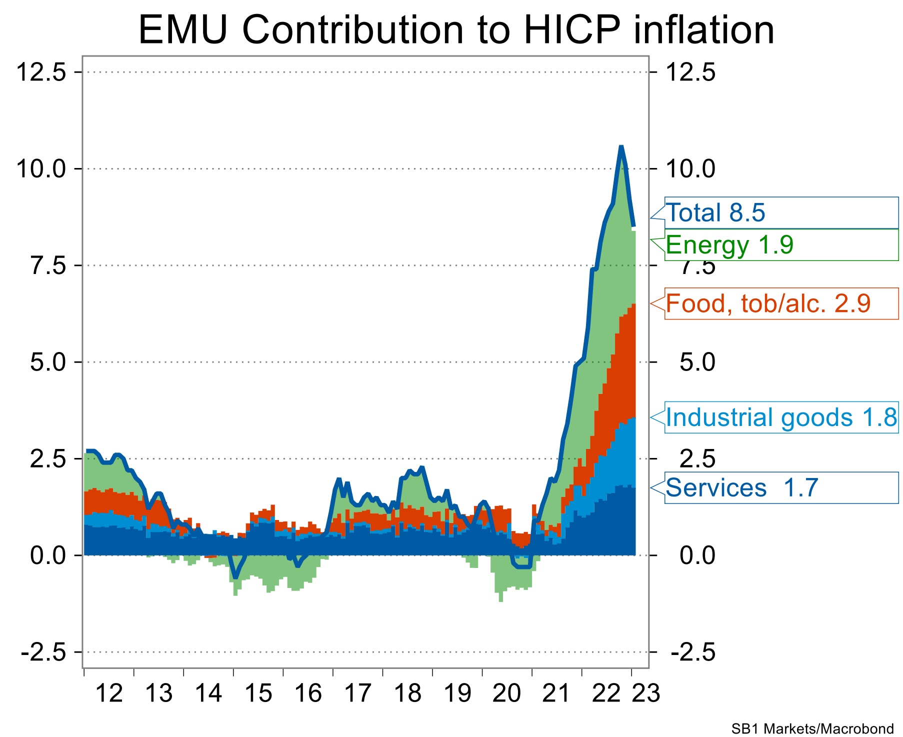
Retail sales



Inflation keeps coming down – headline CPI down 0.7 pp to 8.5% y/y

.. and 0.5 pp lower than expected. However, the core rate is stickier and remained unchanged at 5.2% in January

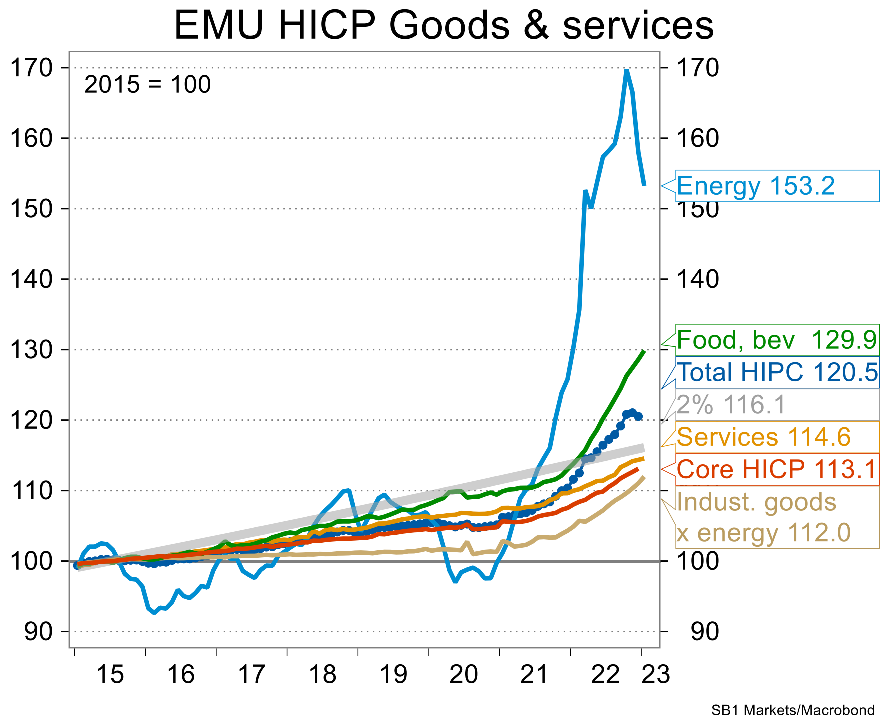


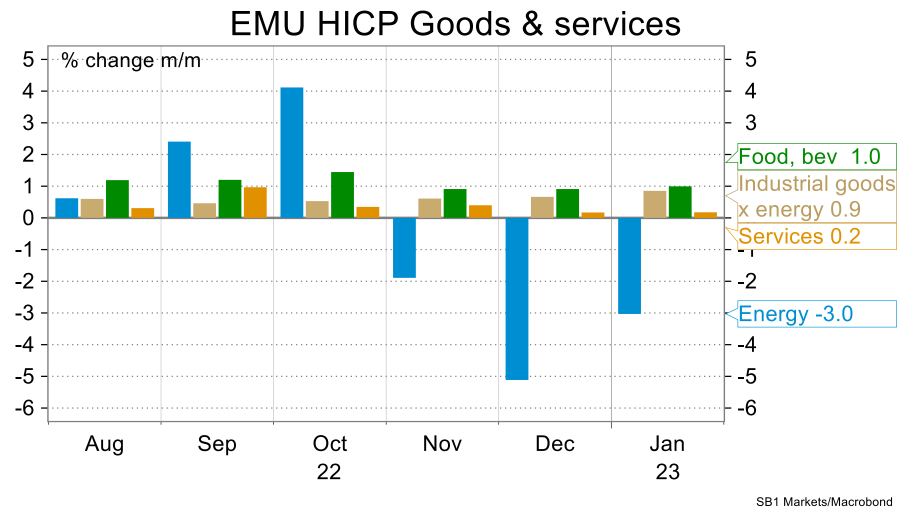


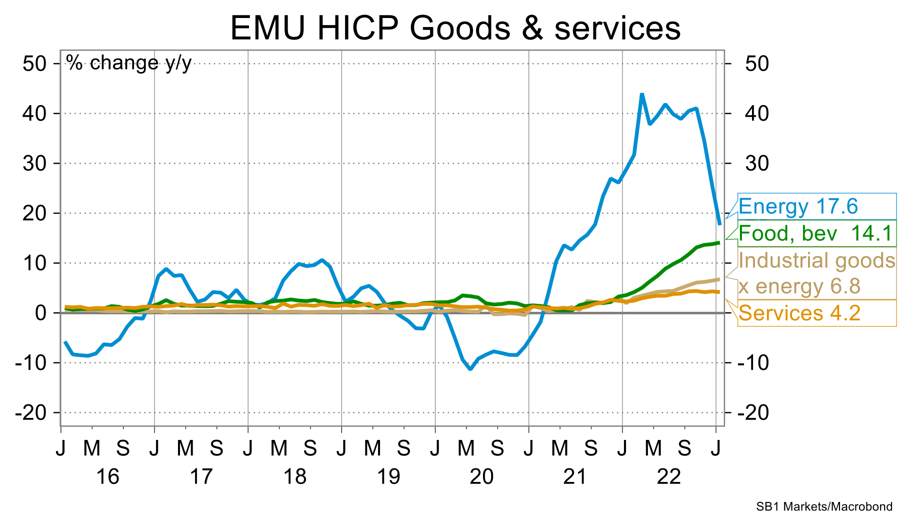
- The **total HICP** fell 0.4% m/m in Jan (seas adj), and is up 8.5% y/y, which is down 0.7 pp from December and 0.5 pp below expectations
  - **Energy prices** were down 3% m/m, and are up 18% y/y (down from 26% a month ago), and still contribute 1.9 pp to the headline rate. Food prices rose 1% m/m - and are up 14% y/y, contributing 2.9 pp to overall CPI growth!
- **The core** rose 0.4% m/m. Goods prices rose 0.9%, and services 0.2%. The annual rate was unch. at 5.2%, and still the highest ever…
- …and this is the **ECB's problem**, and why they are adamant about sticking to a 50-bps pace, even after hiking to 2.5% this week

Energy prices down another 3% in January, everything else up

…but still up close to 18% y/y, and all other items are up at a more than 2% pace



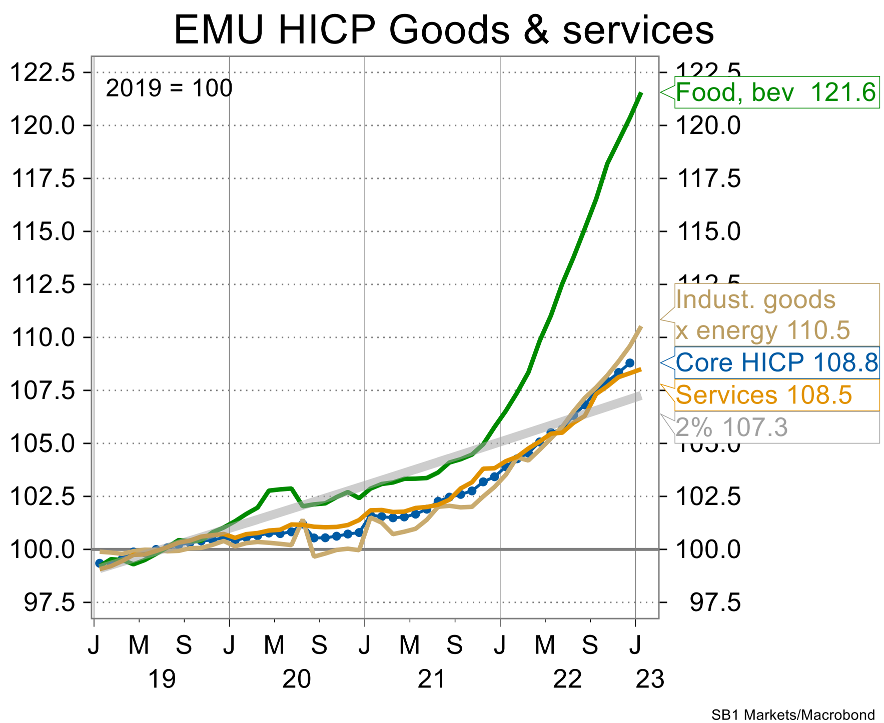


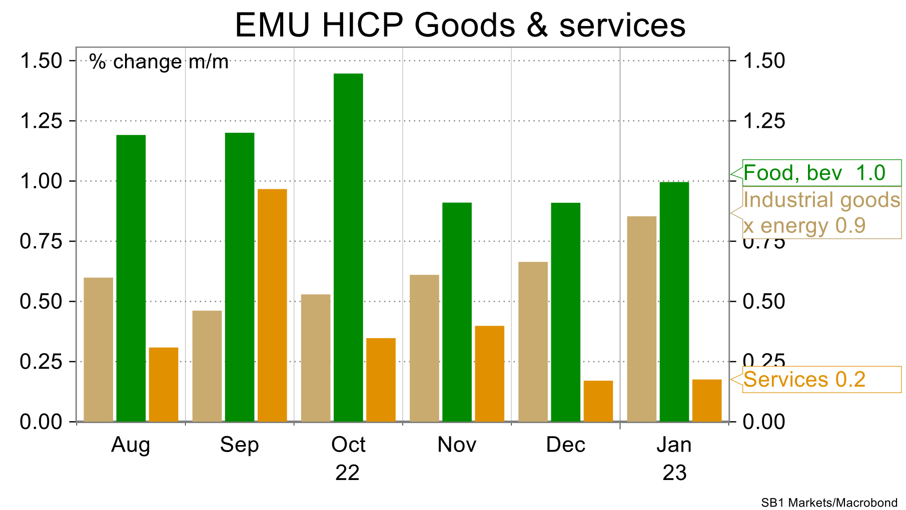


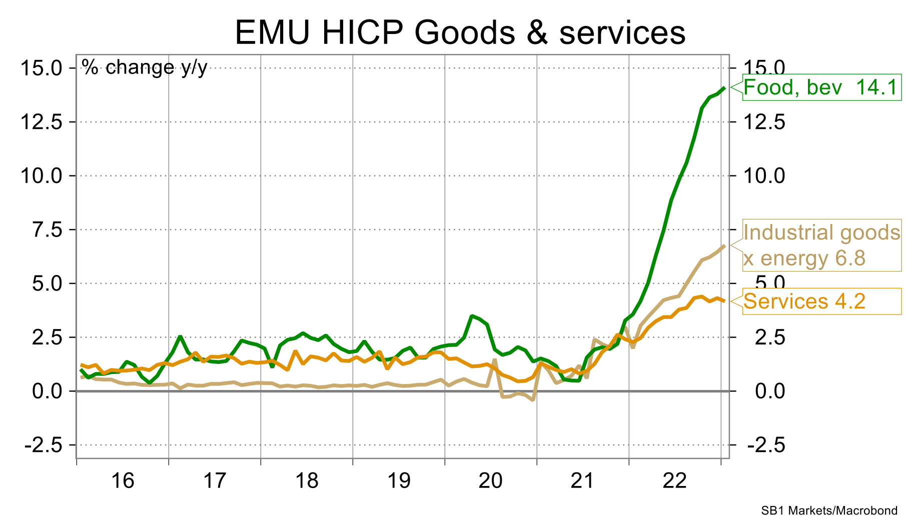
- **Gas prices** have fallen sharply since early December and the decline is now visible in the CPI as well. The headline HICP will probably decline sharply the coming months
- **Food prices** rose 1% in January, marginally more than the monthly increases the previous couple of months. Prices are up 14.1% y/y – probably close to the peak (as we have said for a while)

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

Industrial goods x energy are up 6.8%, and accelerating. Services 4.2%, but are flattening. The target is still 2%...



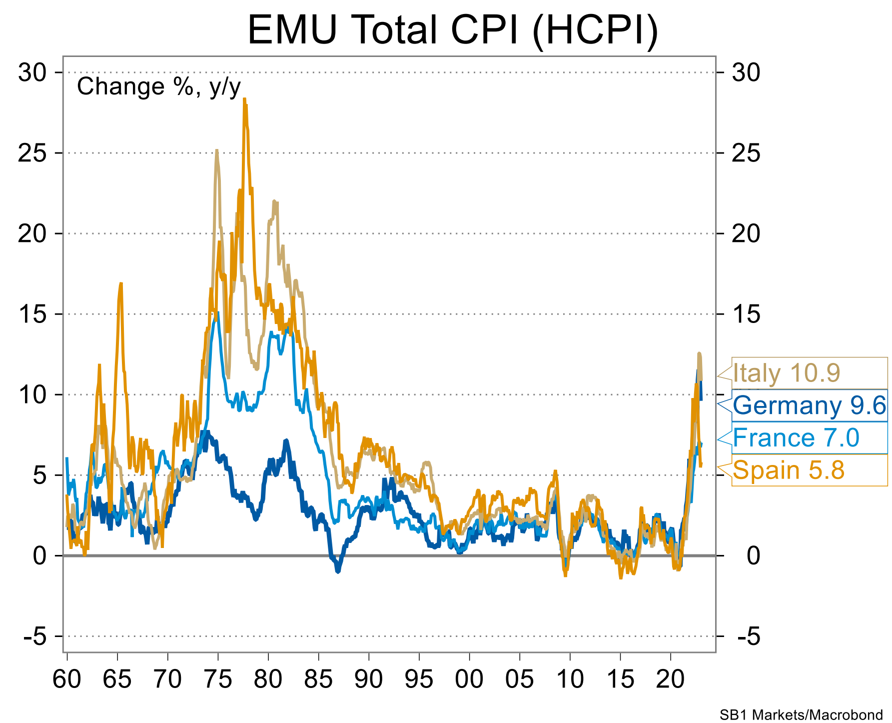


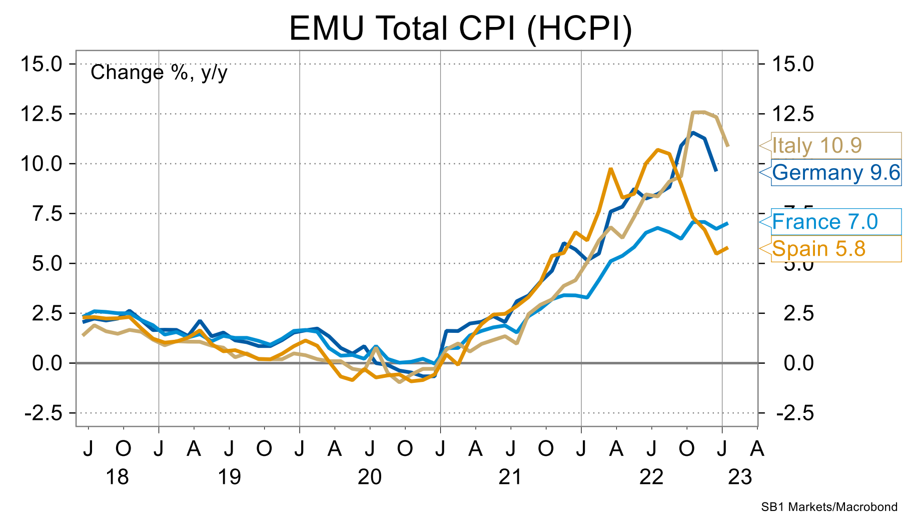


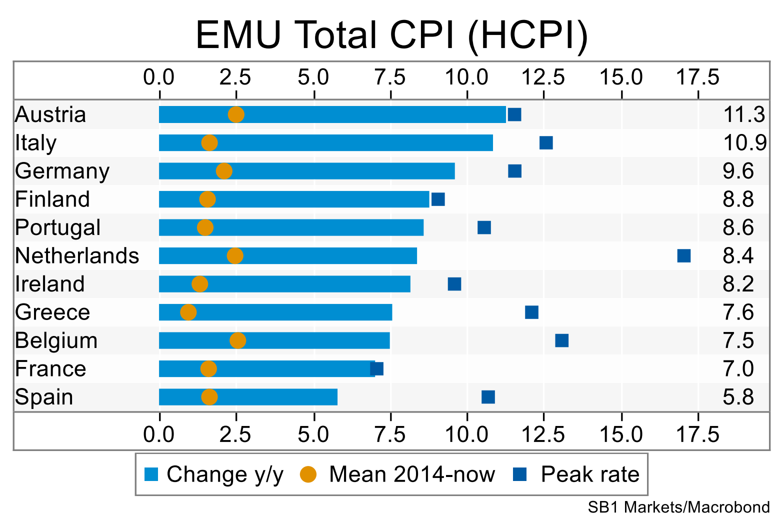
- **Industrial goods** prices increased 0.9% in January, and are up 6.8% y/y, and there is no sign of slowing measured m/m rather the opposite, the underlying 3m/3m rate is at 7.6%! These prices are far above a 2% path since 2019.
- **Services prices** gained 0.2% in January, as in the month before, and these prices are also above a 2% path vs the 2019 level – they are up 4.2% y/y. Transport and hotels/restaurants have contributed on the upside last year
- (No further details in the preliminary HICP report)

Inflation is high across the union – but is now falling everywhere

All countries x France reported lower inflation rates than at the peak. The problem is that inflation is still too high



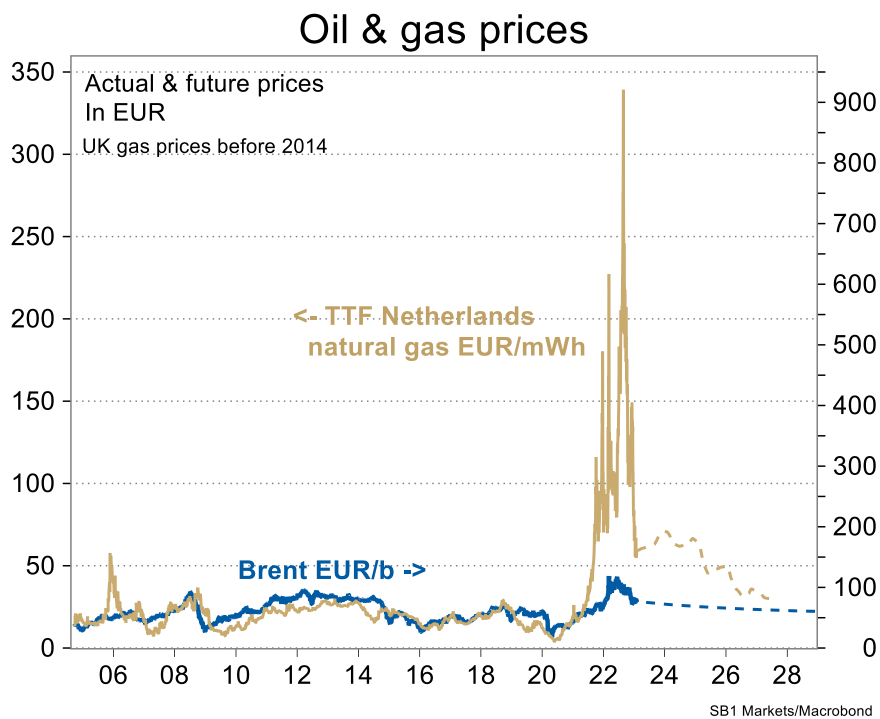


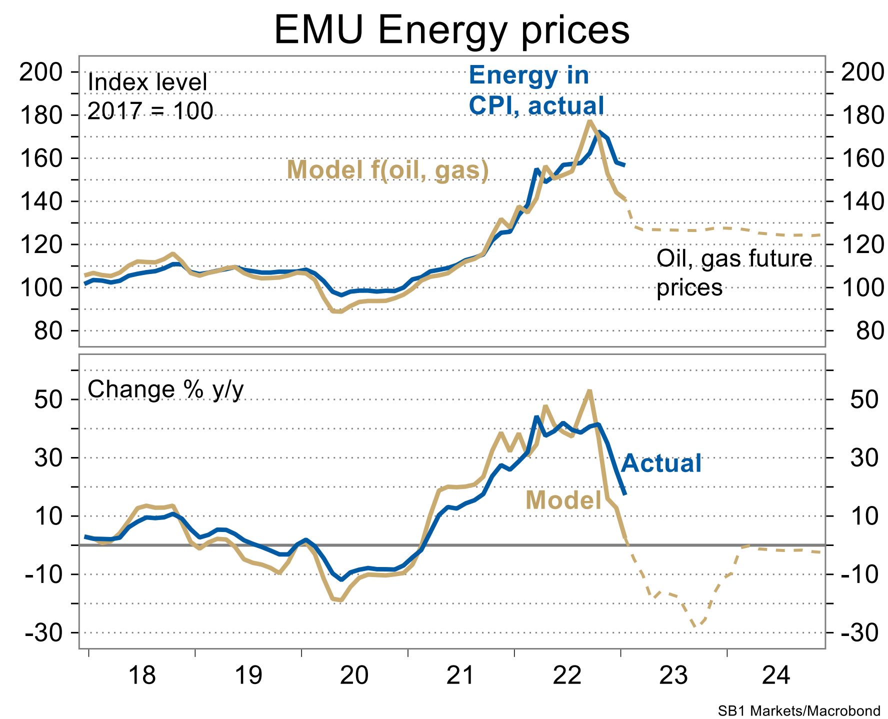


- The Spanish headline CPI (HICP) was up 0.2 pp to 5.8% in January, but the monthly rate was in the neg. at -0.5
- The Italian CPI print was down 1.4 pp to 10.9%, roughly in line with consensus f'cast
- Germany has not reported yet (data out Friday Feb 10th)

Gas prices are keep moderating, will take the headline HICP further down

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

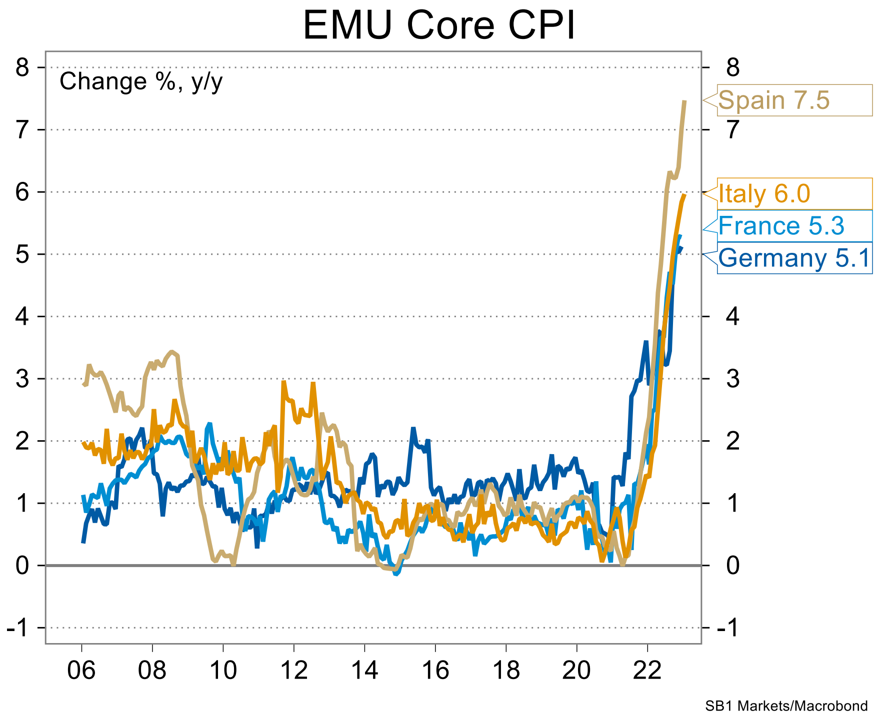


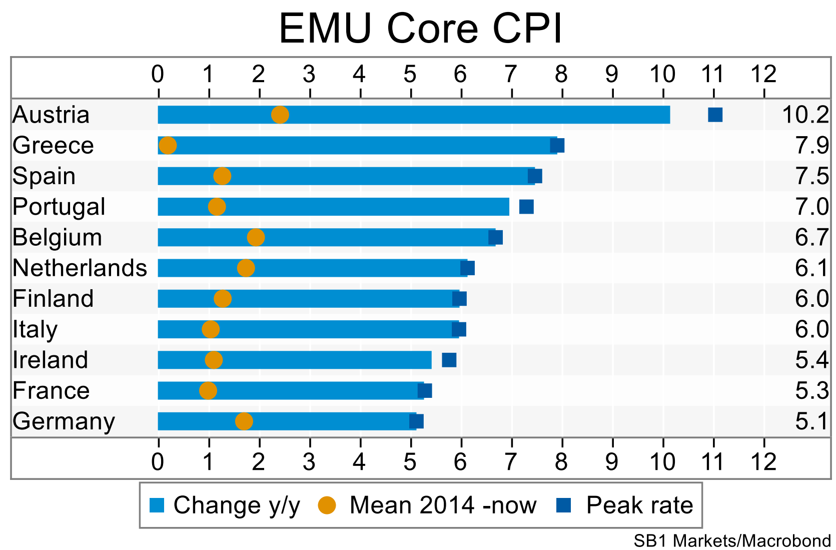


- Gas prices have fallen sharply since the peak, both in the short and the long end of the price curve
  - Our model suggests a further decline in the energy component in the HICP the coming months – and it should turn negative y/y
  - Energy subsidies may of course have some impact – but they will probably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

Core inflation is, of course, far too high, and at peak levels almost everywhere

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



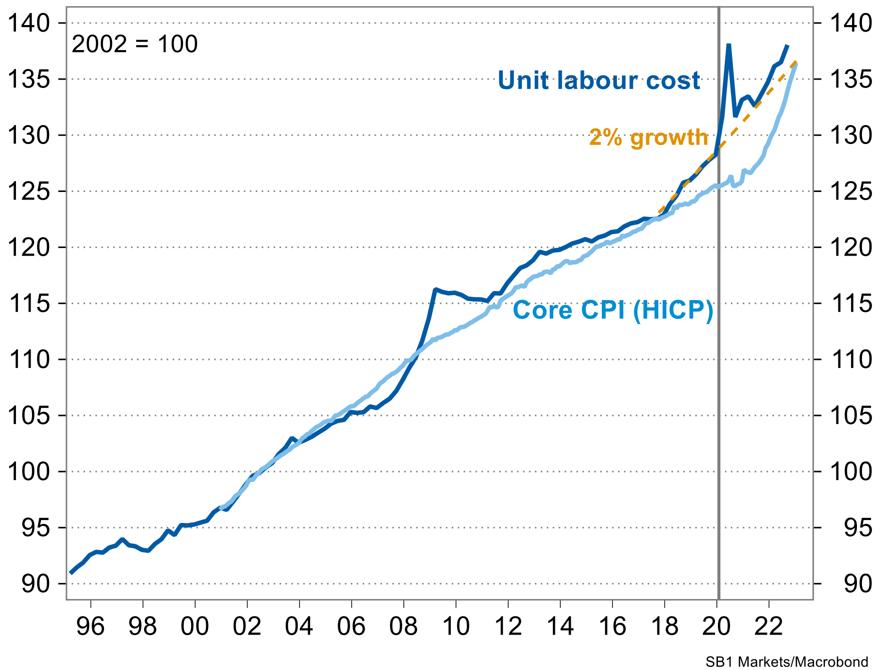


- On this page: The last obs. is partly December, partly January

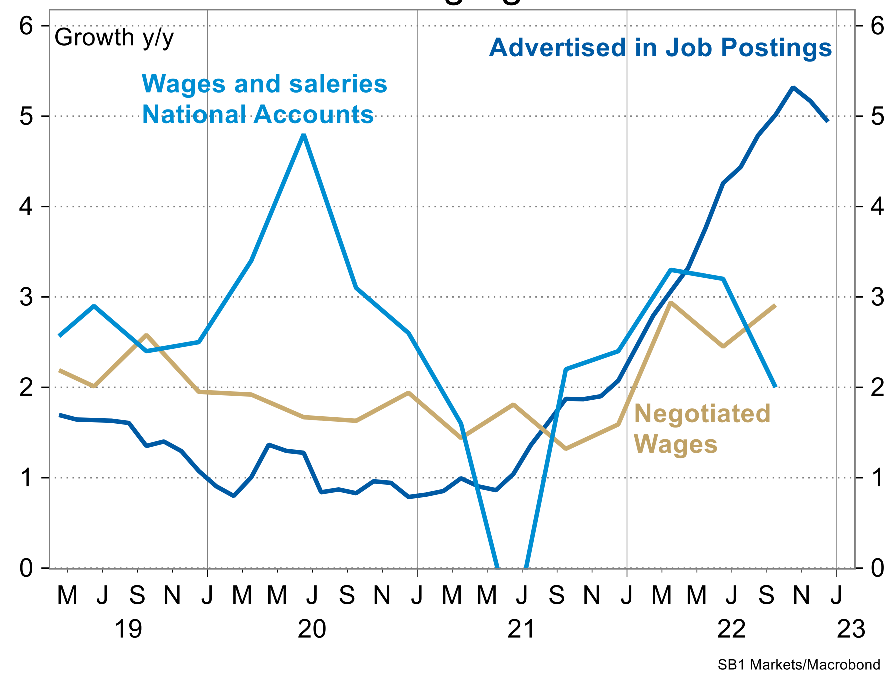
Unit labour cost inflation suggest ~~limited~~ some risk to inflation

The ULC inflation has accelerated to an above 3% path. The ECB is watching

EMU Unit labour cost & core CPI



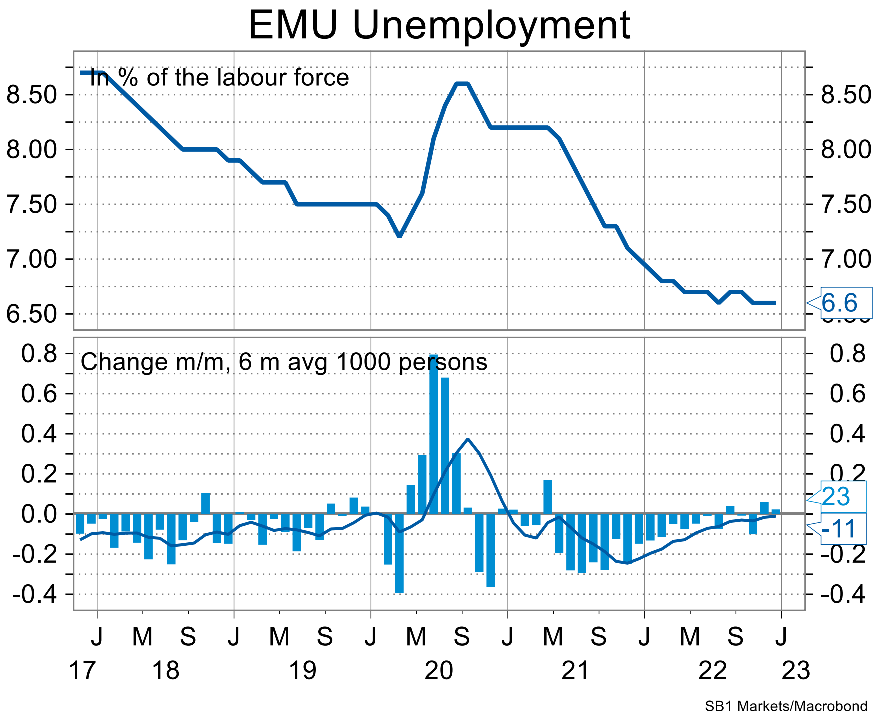
EMU Wage growth

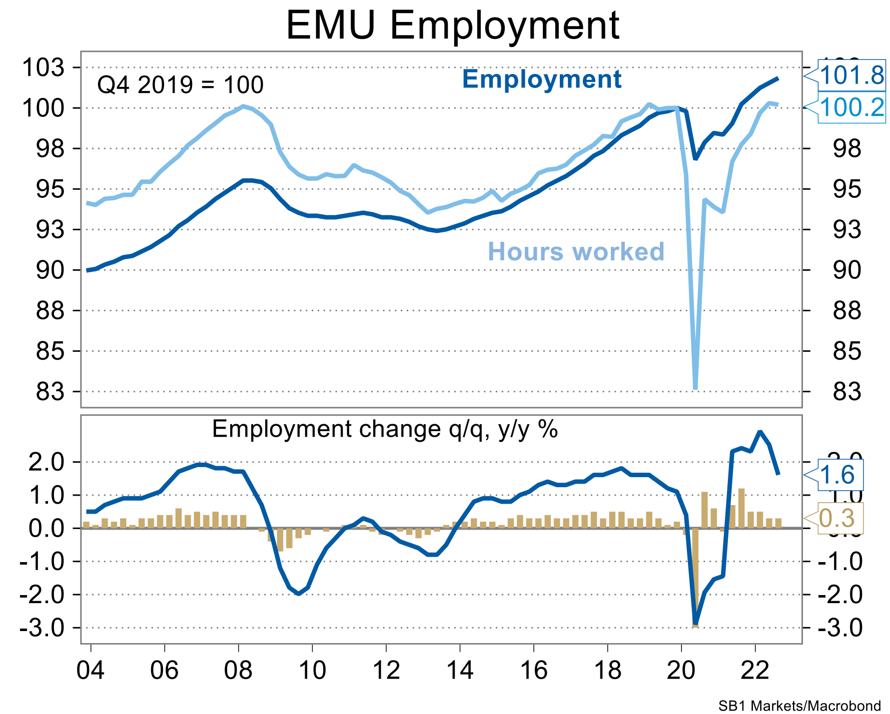


- **Unit labour cost** (labour cost per unit produced = wage cost/production volume, growth in UCL= wage growth – productivity growth) has accelerated to above 3% from 1% before the pandemic.
  - The 1% growth in unit cost corresponded to the long-term growth in core rate of inflation at 1%, well below ECB's 2% target – and a ULC inflation above 3% will <u>over time</u> yield a price inflation rate above 3%
- The ECB is signalling that it is uncertain if official wage statistics, based on national accounts data, are correct. An index based on job opening advertisements signals higher growth. We are not sure whether this new stats

Unemployment stable at 6.6% in December, the lowest level since 1981

But we are at the bottom? The no. of unemployed increased by 23

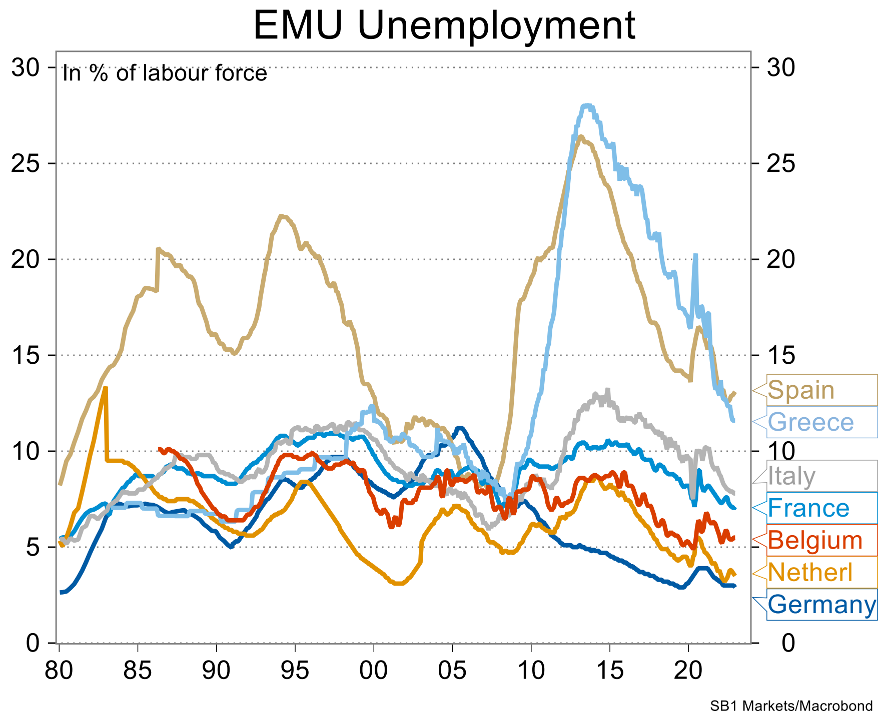


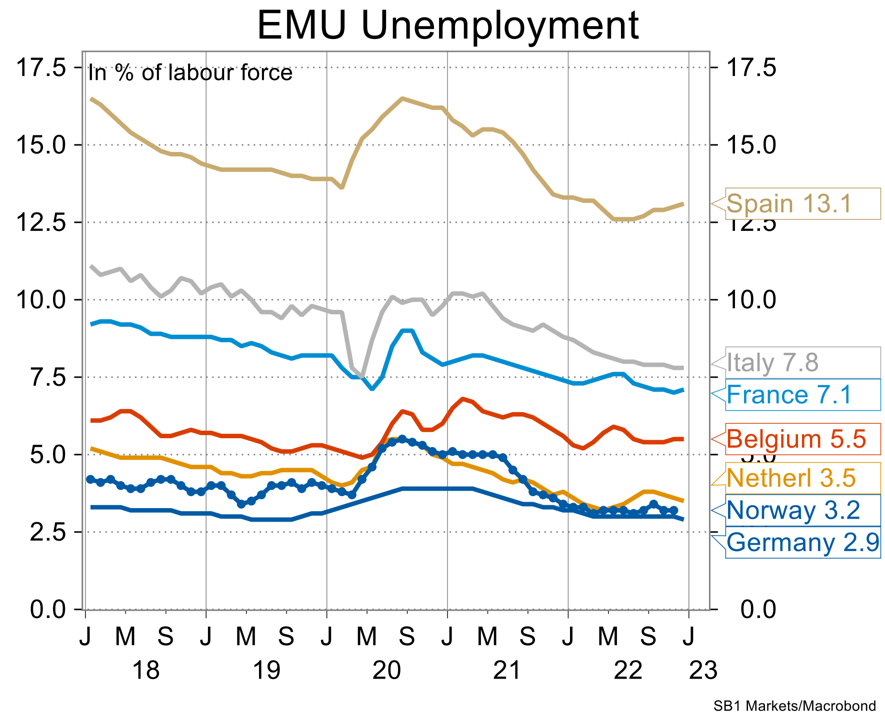


- **The unemployment rate** was unch. at 6.6% (November data revised up by 0.1 pp to 6.6%). The number of unemployed persons rose by 23'
- **Employment** grew by 0.3% in Q3 (not annualised). The employment level & the employment rate are both higher than before the pandemic
- The number of **unfilled vacancies** is still high, but seems to have peaked
- The labour market is no doubt still very tight – until further notice
- **Wage cost inflation** may have accelerated somewhat, and ULC inflation may be running above 3%

Unemployment is lower than normal everywhere

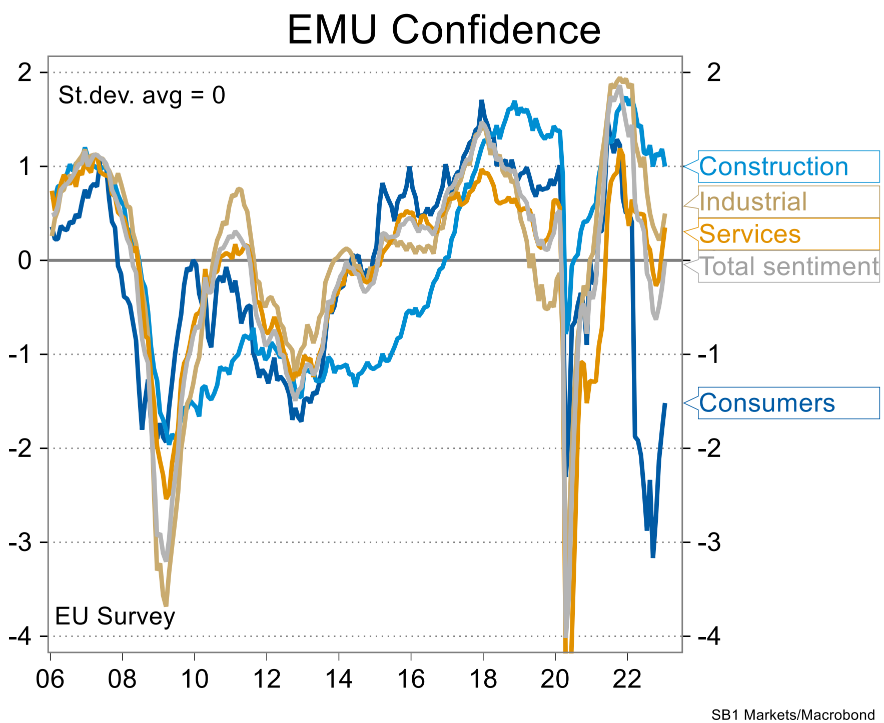
Unemployment in France and Spain is marginally up from a local bottom, others are flat or are trending down

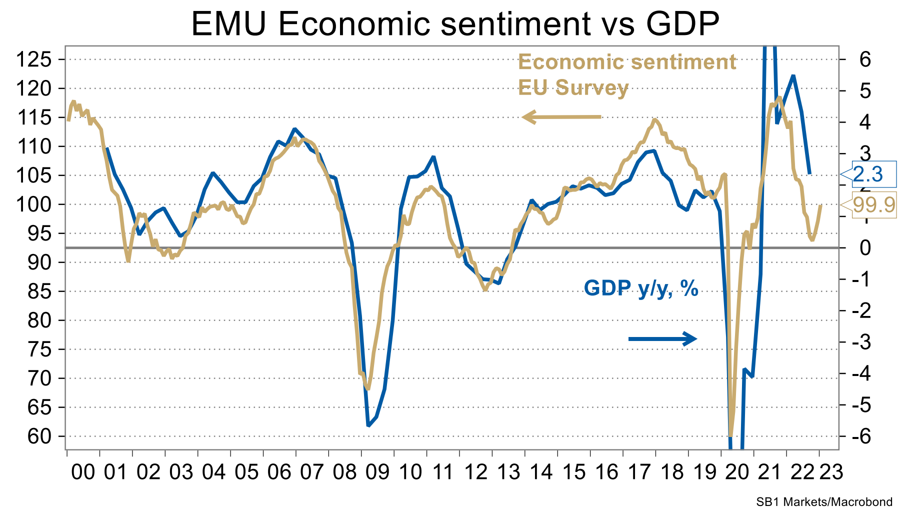


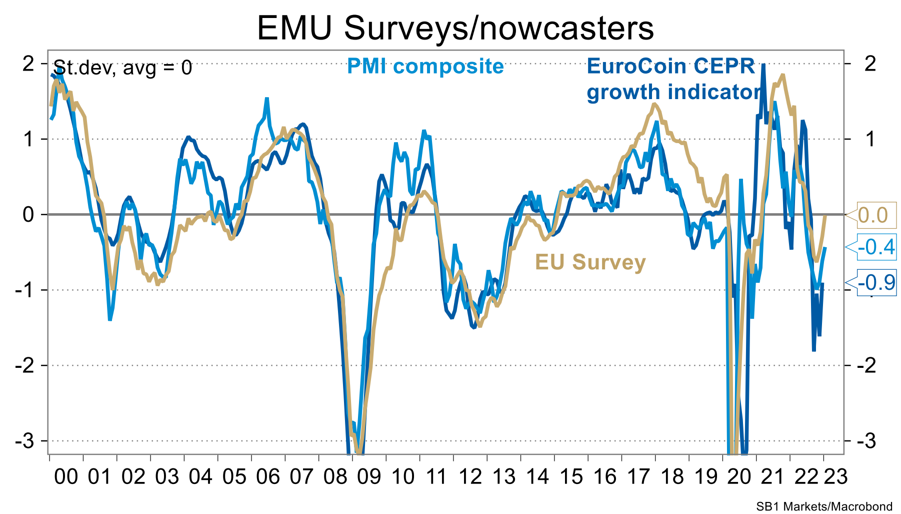


Sentiment has bottomed?! All surveys have turned up

In the EU survey, businesses are signalling a 1.4% GROWTH rate, not a recession



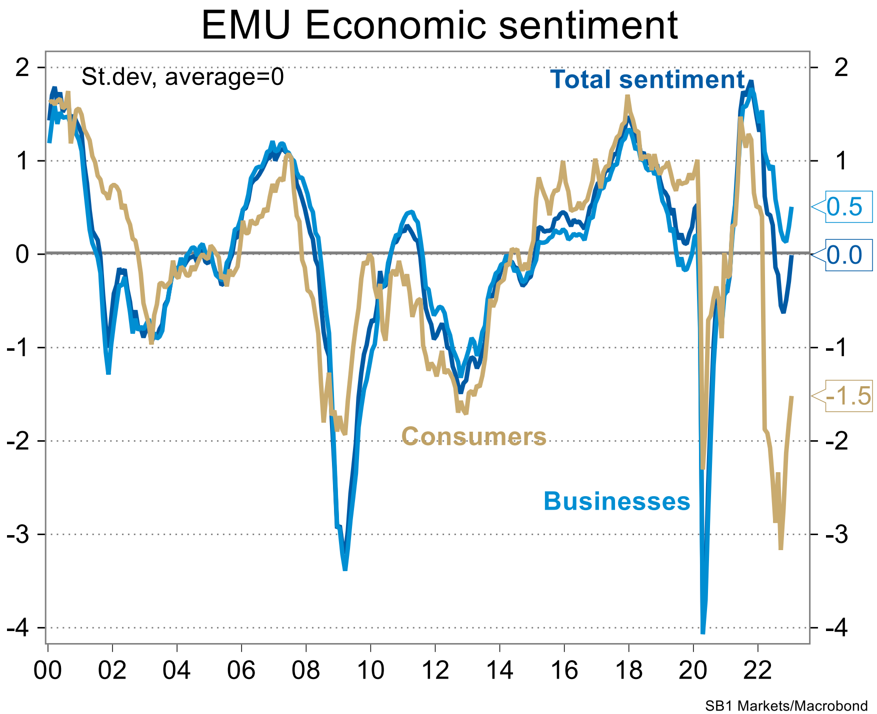


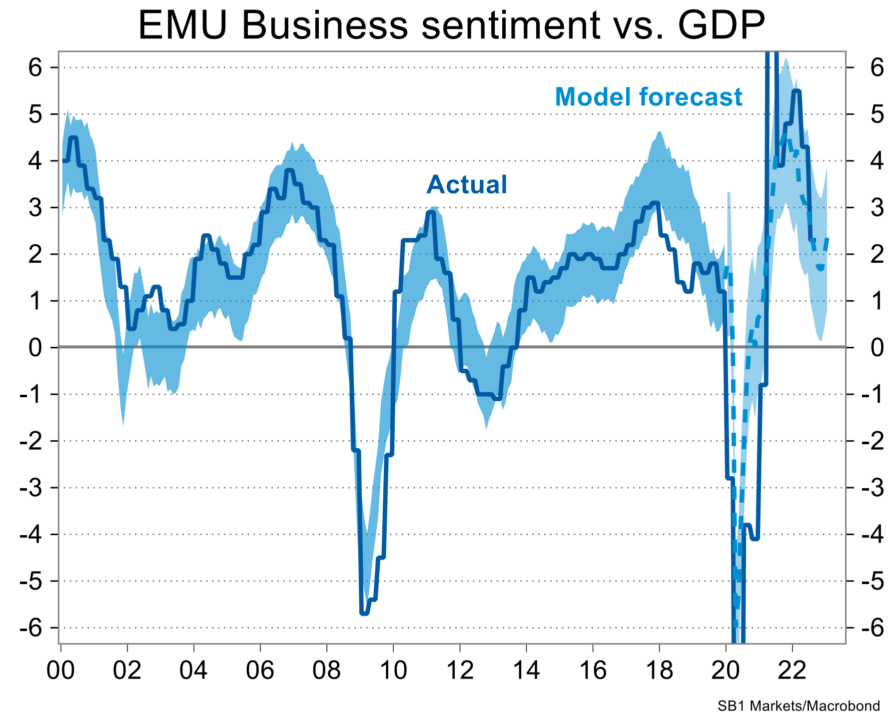


- **The Economic sentiment index** rose 2.8 p in to 99.9 in January from and upward revised December print. The index as expected at 97.0. The index is now at an average level, even with a large negative drag from households, the business sector index is at an average level
- Thus, even if there is war nearby, an energy crisis, inflation & interest rates are surging, businesses are reporting growth close to trend (charts next page). Consumers are pessimistic, but historically their views on the economy has been irrelevant vs. GDP growth. **Most other business surveys/nowcasters are less positive but all have turned up in Dec/Jan**

Businesses are reporting average growth, rather surprisingly

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

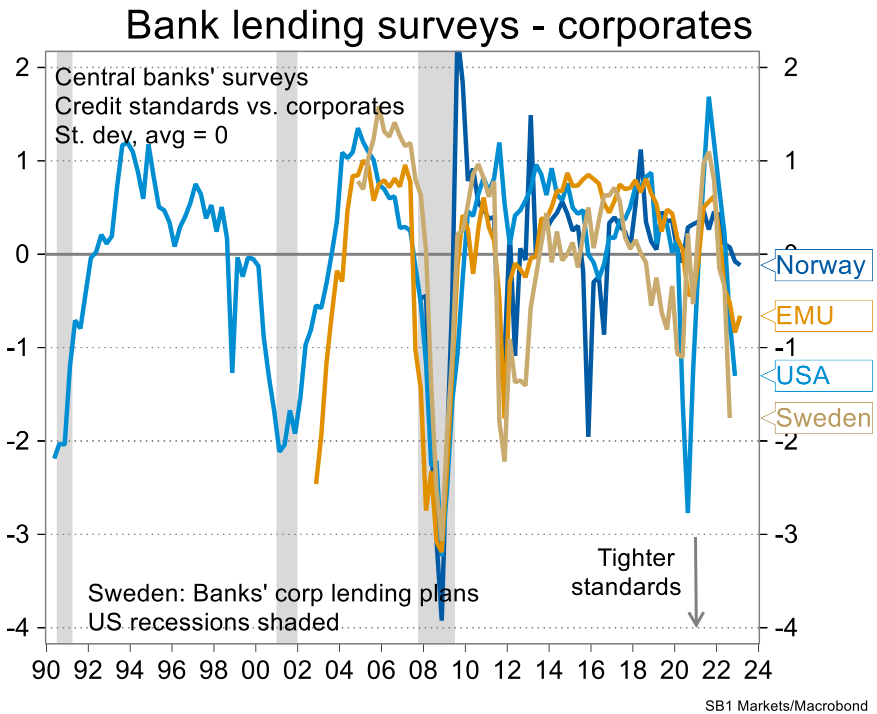


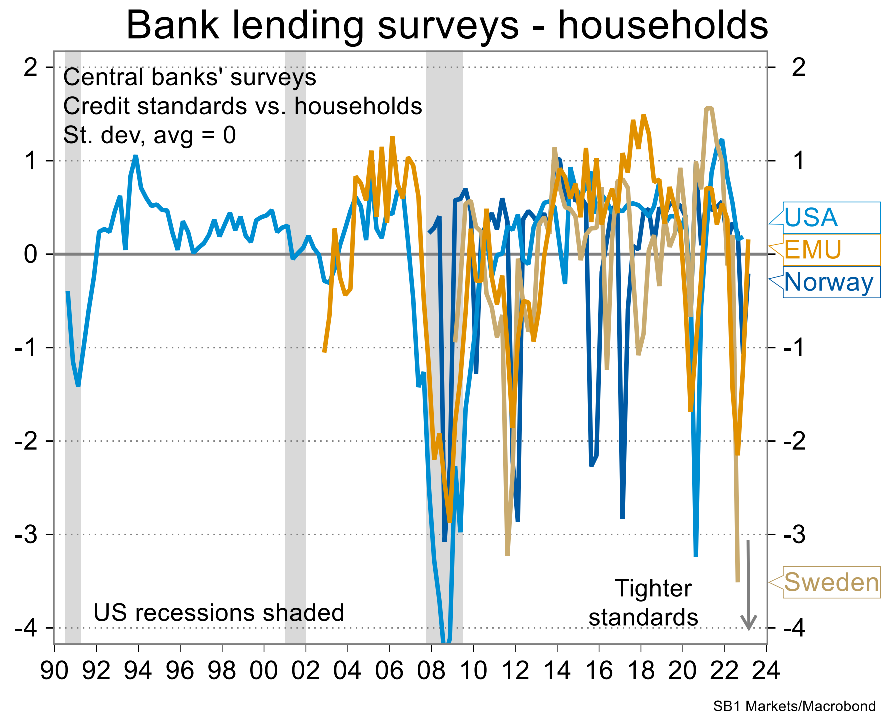


- (However, the gap between business and consumer confidence has never been that large, and our model estimates may be uncertain)

European banks are now loosening standards towards households!

…are standards are somewhat less tight vs. businesses too

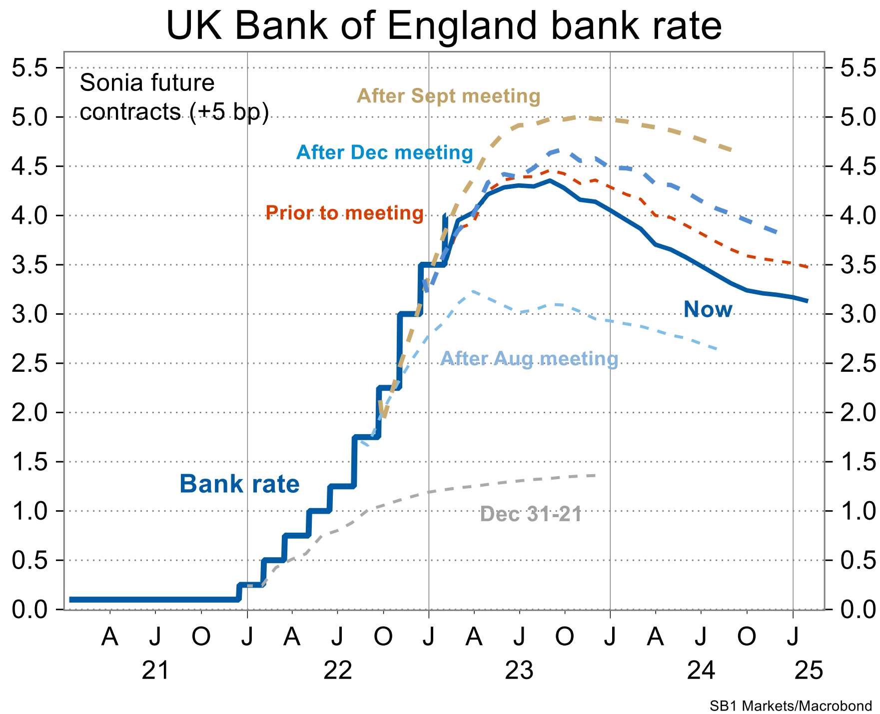




- But EMU banks are tightening standards vs. **businesses**, and more than since the euro crisis
- **US banks** are signalling tighter lending standards vs corporate sector but not vs households
- **Norwegian banks** are slightly below neutral vs the corporate sector, and there is some tightening vs. household, banks reported
- **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)

Bank of England raises rates by 50 bps – but the end is in sight. If wages….

The bank revised down its inflation forecast significantly, and signals that the bulk of the hikes is behind us

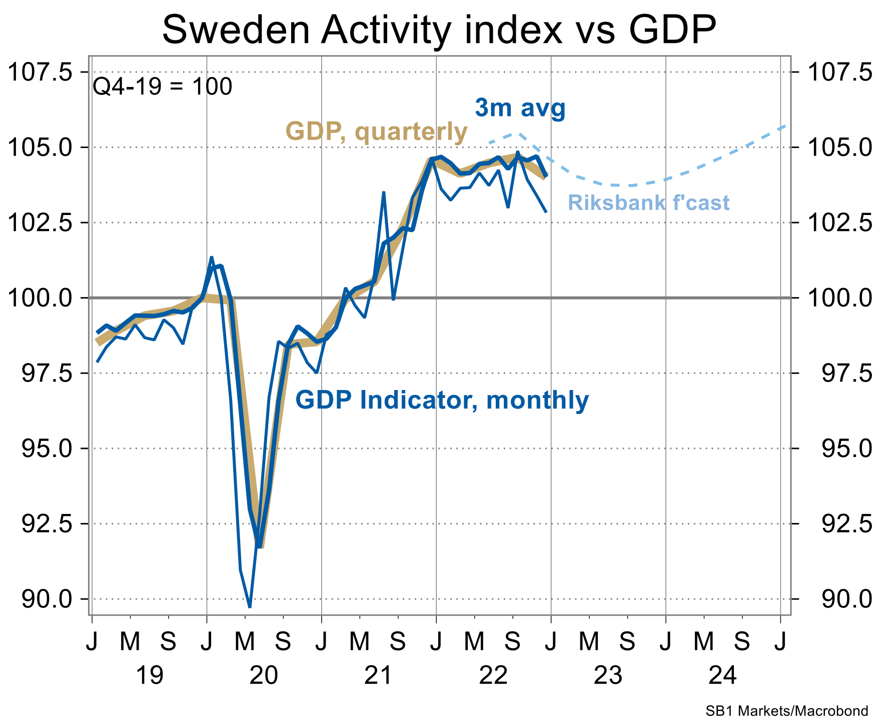


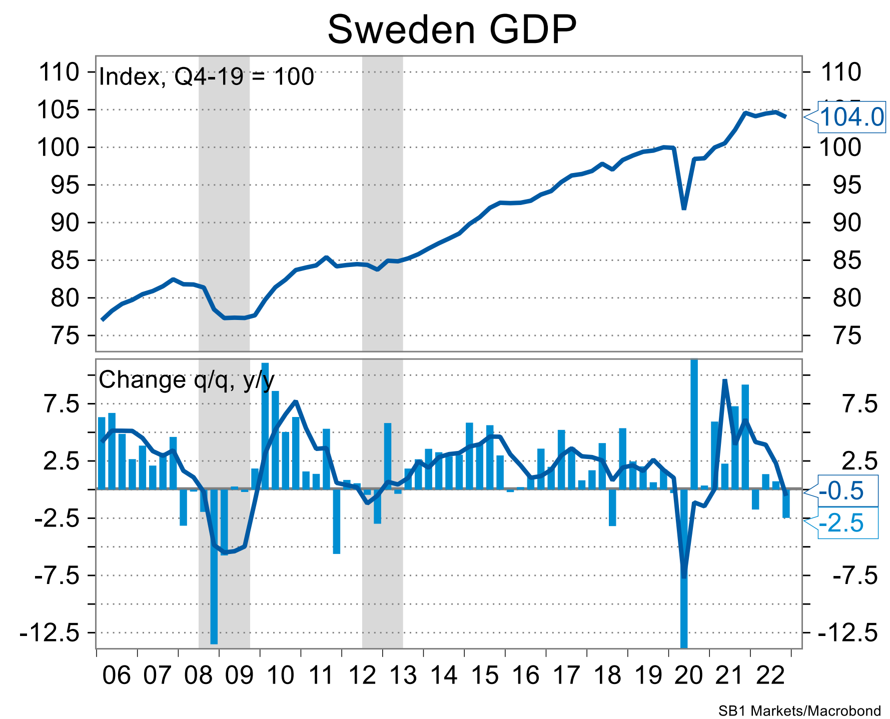
- The **Market** had fully discounted the hike, and some more hawkishness of the BoE. As the bank signalled that the end of the hikes was in sight, the expected terminal rate fell by 10 bps, to 4.35% - and the rest of the curve fell more, as everywhere else

- **The policy rate** was lifted by 50 bps to 4.0%, as widely expected, the 10th increase in row
  - 7 of 9 MPC members voted for a 50 bp hike, 2 members voted to keep the rate unchanged. Last time, 1 was against
  - In its statement, the bank projects a 1% contraction in GDP for 5 quarters, but signalled that the bulk of the rate hikes is behind us, but that some further increases are needed to bring inflation back to the target of 2% not before too long
  - Inflation is expected to have peaked in 2022 and is forecasted to fall to 3% at the end of 2023, down from 4% in the last MPR. Unemployment is forecasted rise only marginally this quarter from the historically low 3.7%, and rise to 4.4% by 2024 (down from 5.2%)
  - In its statement, the bank expects GDP to fall by 0.1% in Q4 and by 'just' 0.7% in 2023 (up from -2%!)
- The problem is of course that wage inflation has become much higher than the bank anticipated: Thus, the bank ended its statement by saying: "*The MPC would continue to monitor closely indications of persistent inflationary pressures, including the tightness of labour market conditions and the behaviour of wage growth and services inflation. If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required*".

Suddenly, Swedish GDP turned out to be almost 2 % lower than expected

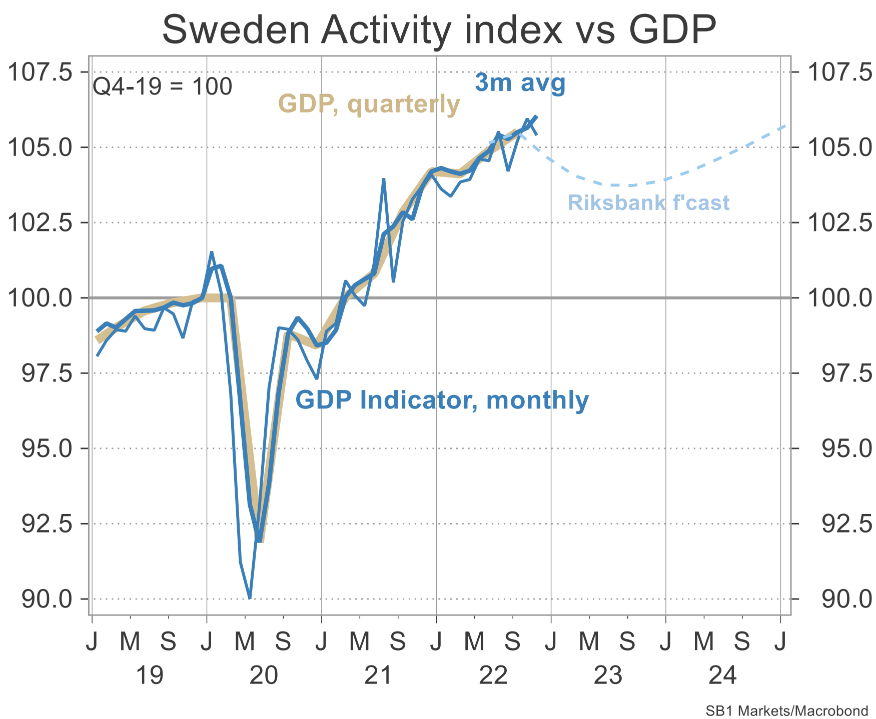
A substantial downward revision – and December was far weaker than expected. Q4 GDP down 0.6% q/q & y/y

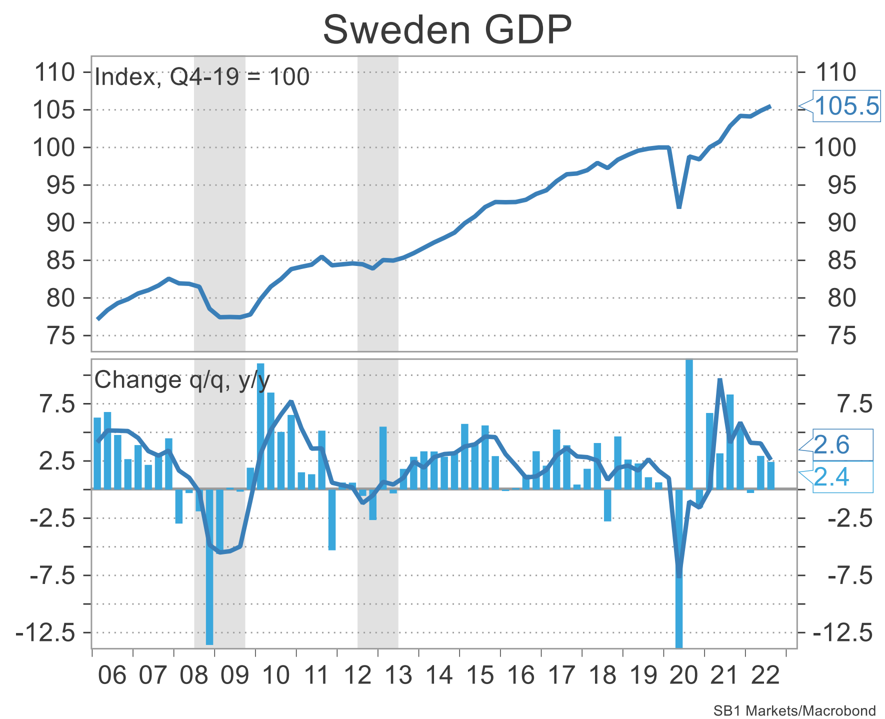




- **One month ago**, we assumed a 0.6% <u>positive</u> growth rate in Q4 was likely (check data we had at hand next page!)
- **GDP** fell by 0.6% in December and Q4 by the same amount, expected UP 0.1%. The annual growth rate was -0.6%, expected +1.2%, a 1.8 pp miss – as the history was revised down too → <u>GPD has flattened</u>
  - Before you lough too loud, do not forget that even SSB in Norway recently has revised its GDP data significantly (though with the opposite sign)
- **The Riksbank** expected an 0.8% decline q/q in Q4, but from a higher level than SCB now reported in Q3
- **Business surveys** do not yet signal a decline in GDP

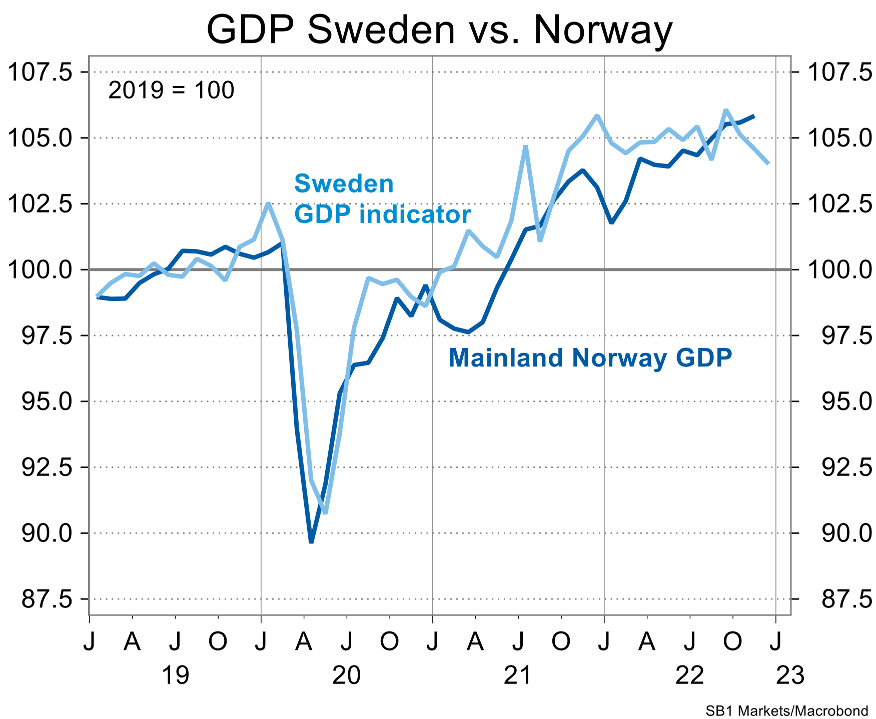
Here is how it looked one month ago!

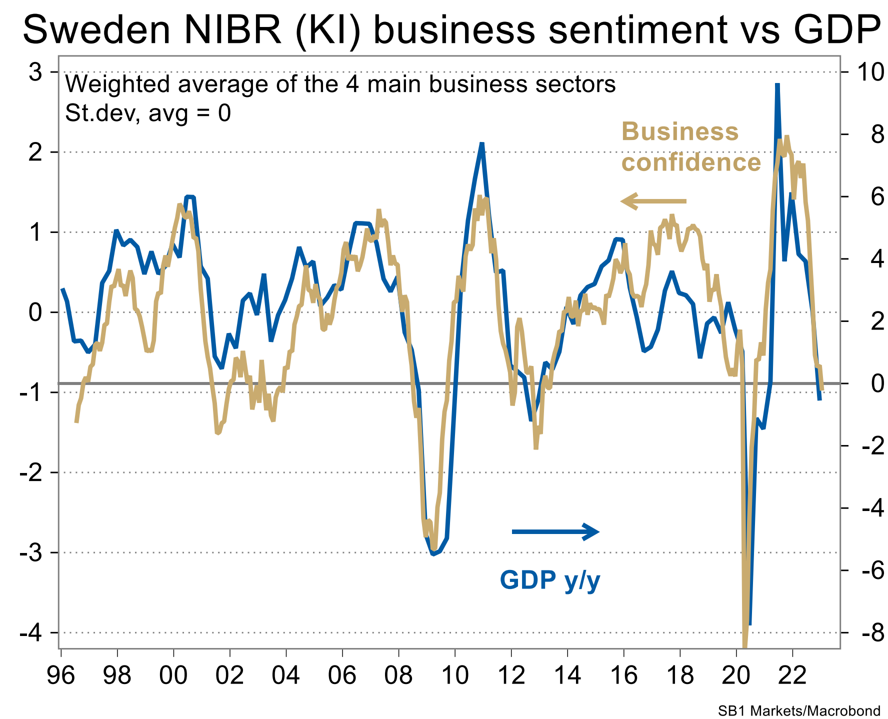




Norway used to be well behind Sweden growth wise since Q4-19

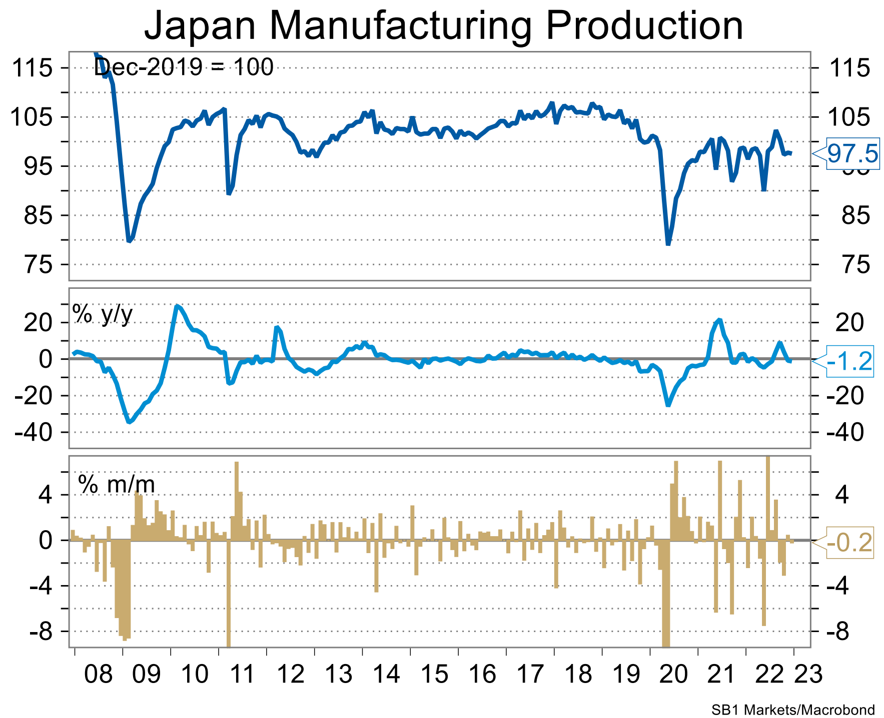
…then Mainland GDP was revised up, and Swedish GDP down, and Norway is ahead, even if oil investments are down

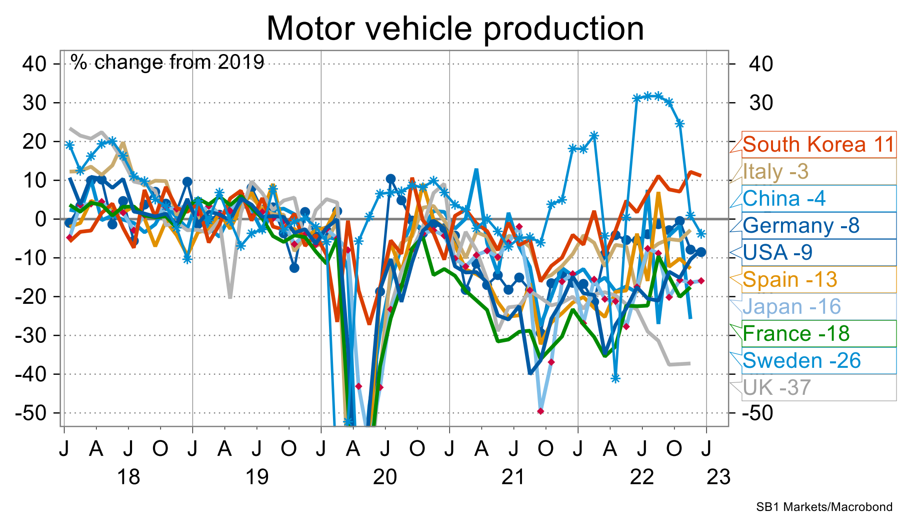


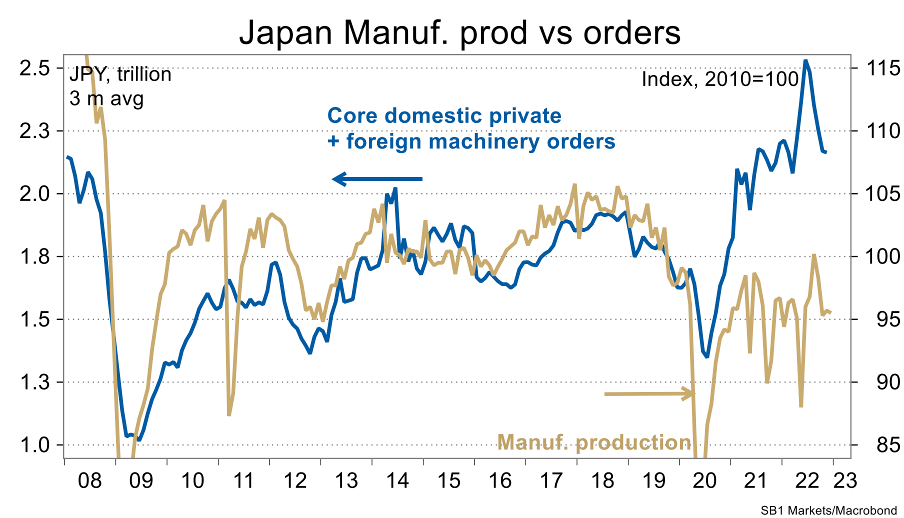


Manufacturing production down 0.2%, in December

… following the 0.4% increase in November – the trend is flat



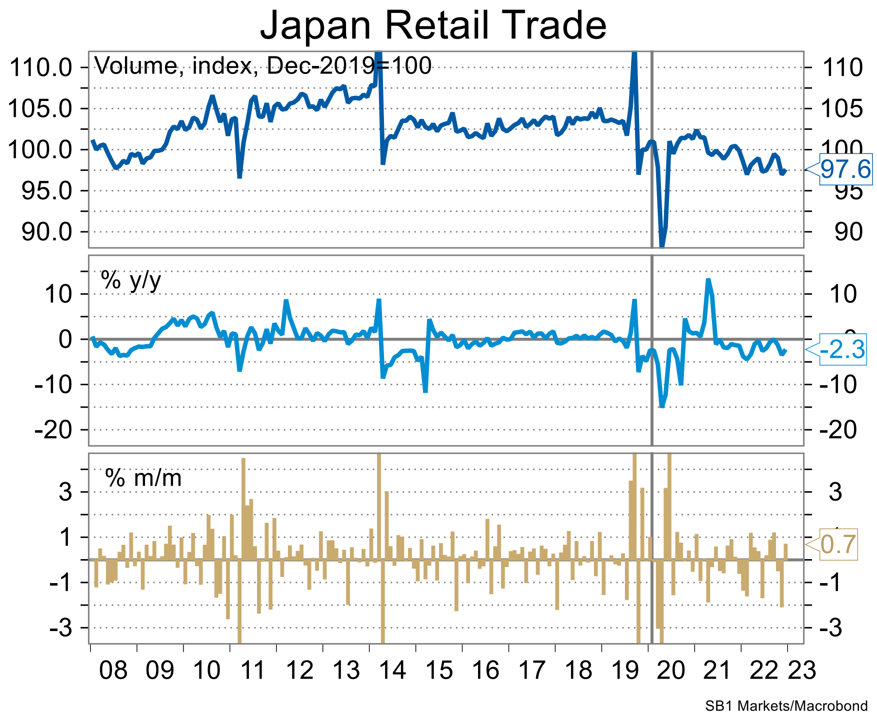




- **Production** is down 4.7% from the local peak in August, and auto production is still 16% below the pre-pandemic level
- **Overall order inflow** has strengthened substantially through 2021, and into 2022. The declining JPY explains at least part of the increase, probably also higher prices. Orders have fallen somewhat past 3-4 months but remain at a very high level

Retail sales rebounded in December, but the trend is down

… and the level is still very low. Sales up 0.7% m/m xxtall stemmer ikke med Bloom/offisiell stat xx



- Sales are down 3.8% y/y, above expectations at 3.0%

Highlights

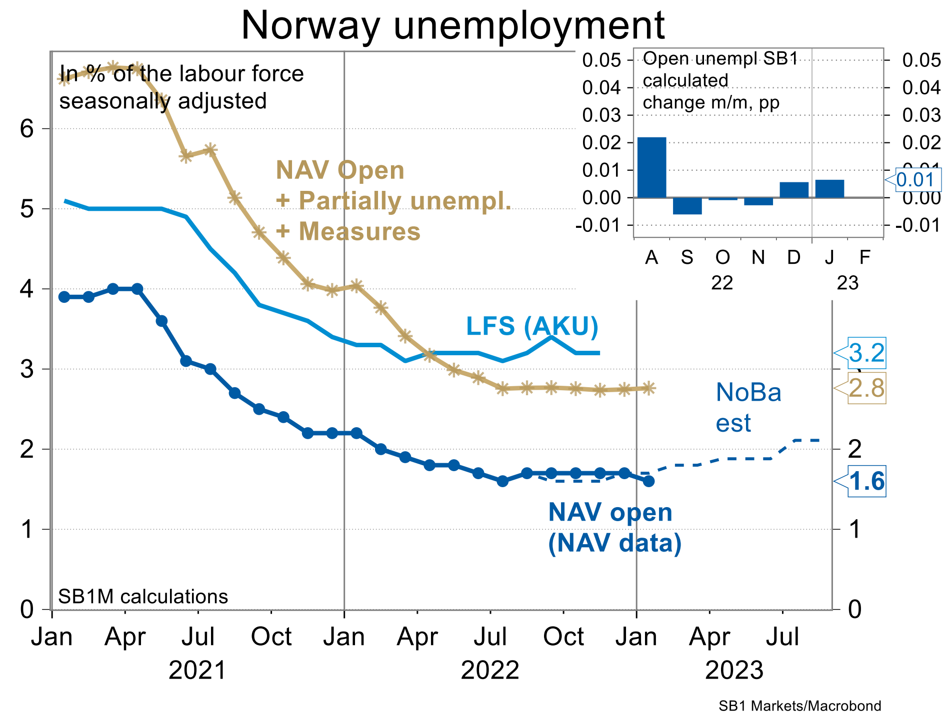
The world around us

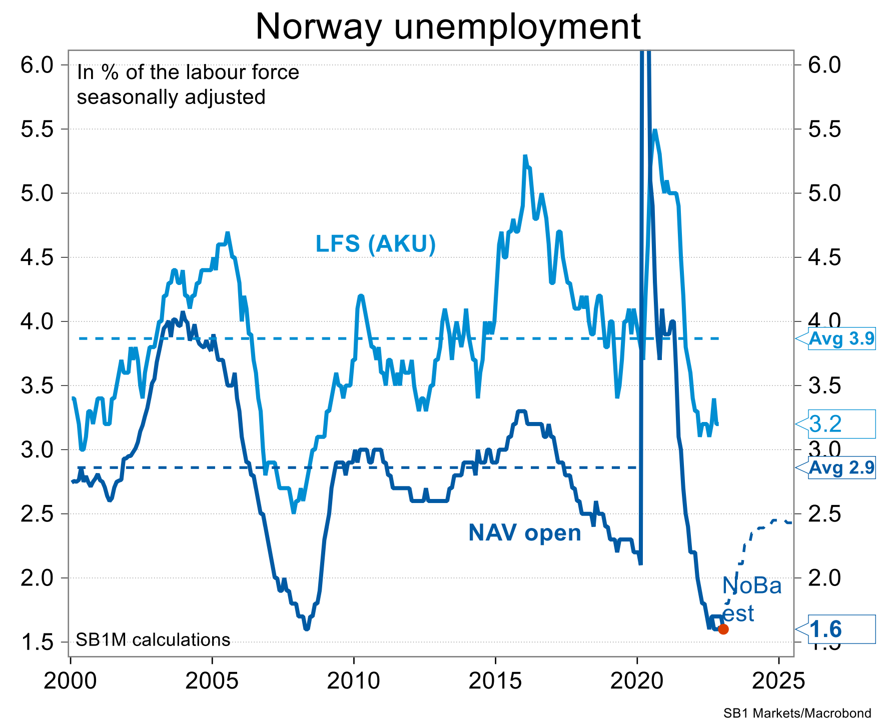
The Norwegian economy

Market charts & comments

NAV unemployment has turned slightly up (or not)

Open unemployment has been revised marginally up, and the no. of unemployed rose in Jan – but NAV's rate fell!

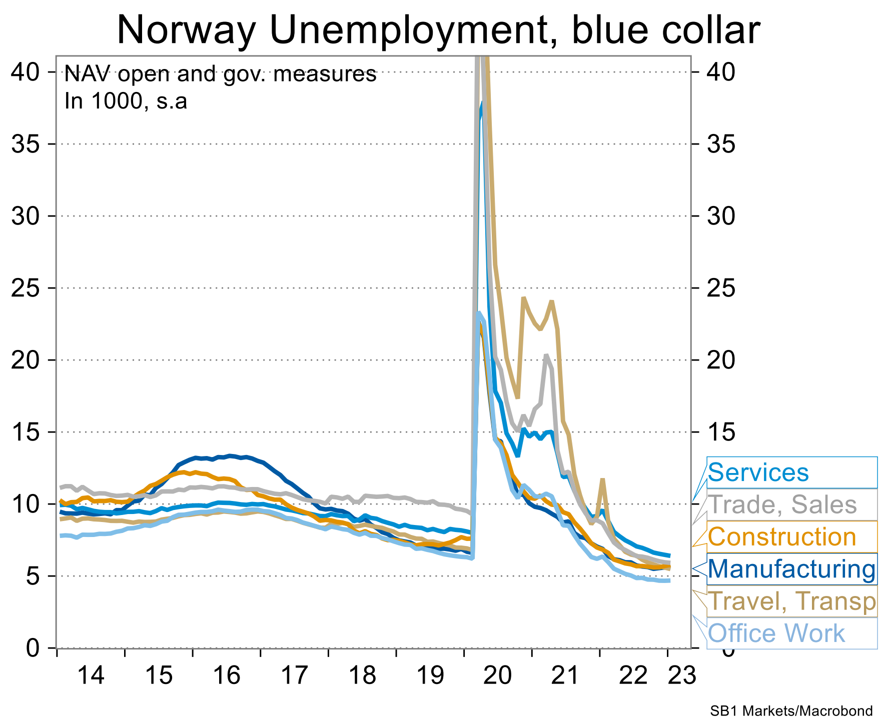


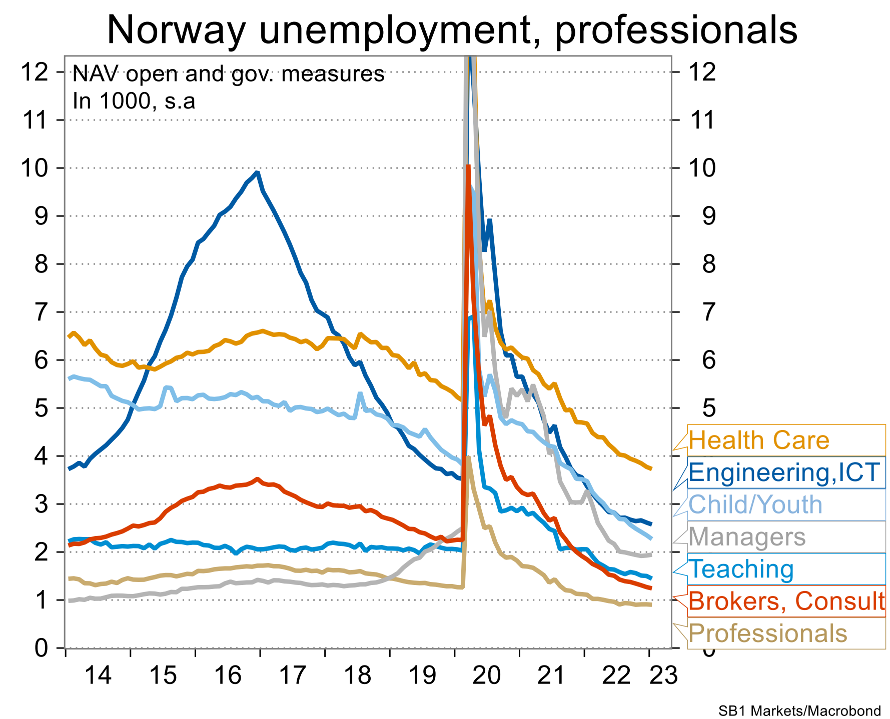


- **The 'full time' open NAV unemployment**, rose by 200 persons in January, as in December. We expected +300. The level the previous months was revised up by up to 600 persons, and the unemployment rate was revised to 1.7% from 1.6%. Even the no. of unemployed rose in Jan, NAV estimate a decline the unemployment rate to 1.6%, the level we expected – which still is 0.1 below NoBa's f'cast
  - The unadjusted rate rose by 0.3 pp to 1.9%, we expected 1.8%, which also was the consensus
- **Including labour market measures**, unemployment climbed by 400' persons, we expected +300. The rate is unch. at 2.0% (our calc). **Total unemployment**, including partially unemployed was rose 0.1 pp to 2.8% (or more precise, to 2.76% from 2.75%)
- The inflow of **new job seekers** is trending upwards, but rose in both Dec and Jan, and the level is still very high.
- **The LFS (AKU) unemployment rate** is at 3.2%, marginaly up from the bottom at 3.1% last year

Unemployment is on the way down for almost all sorts of labour

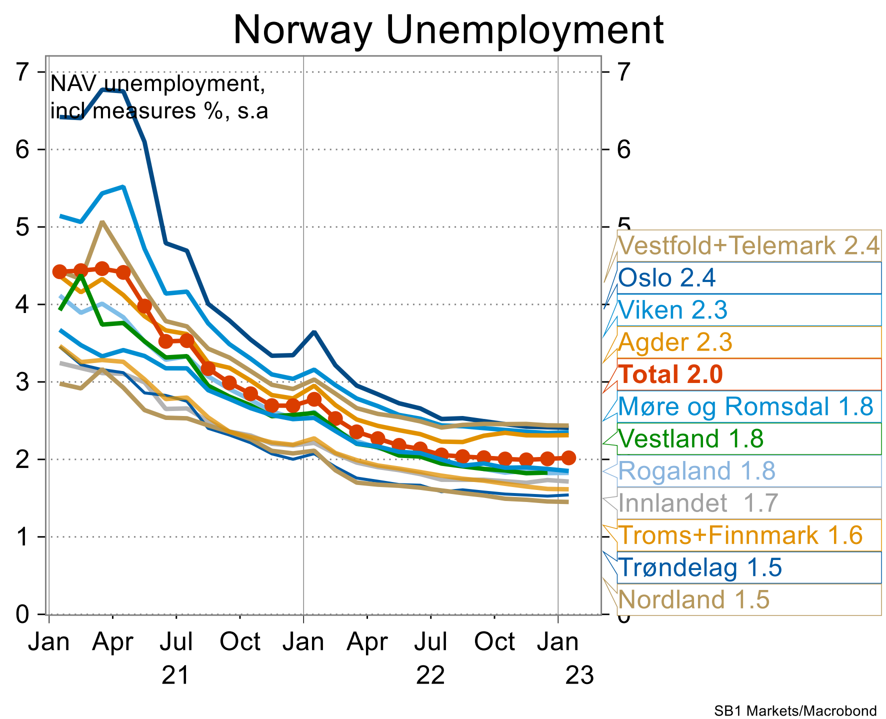
However, it is flattening in construction and manufacturing

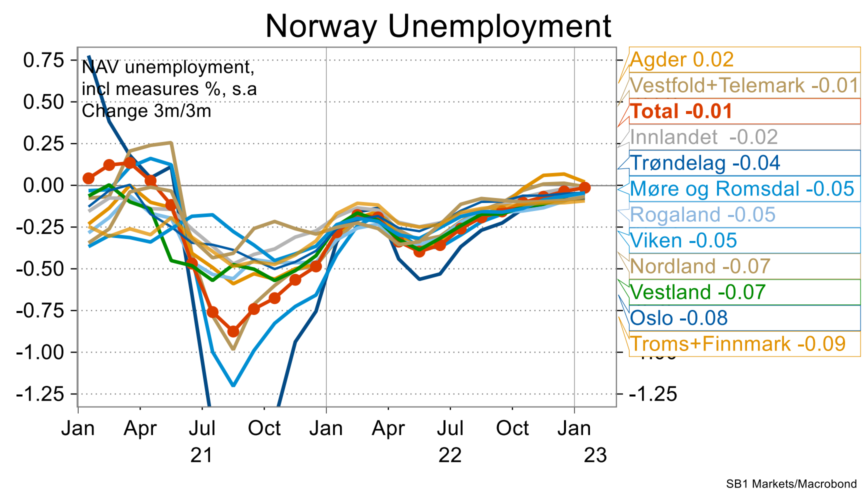


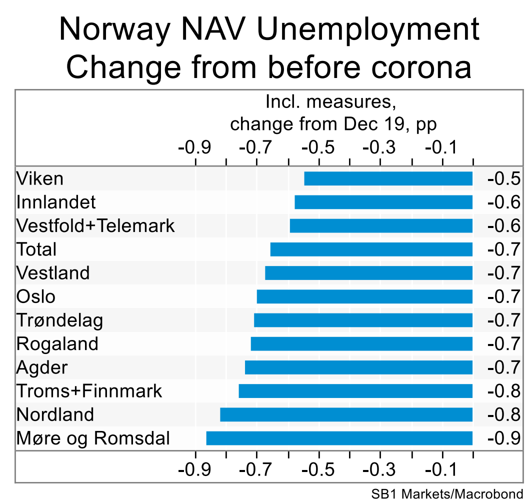


Unemployment is still trending down most places

Barring Agder



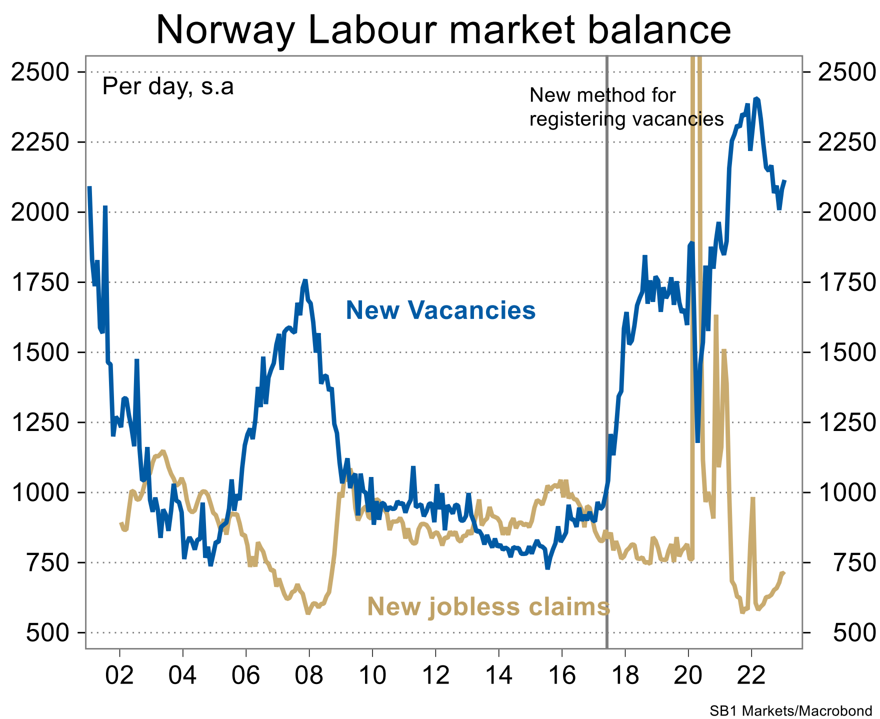


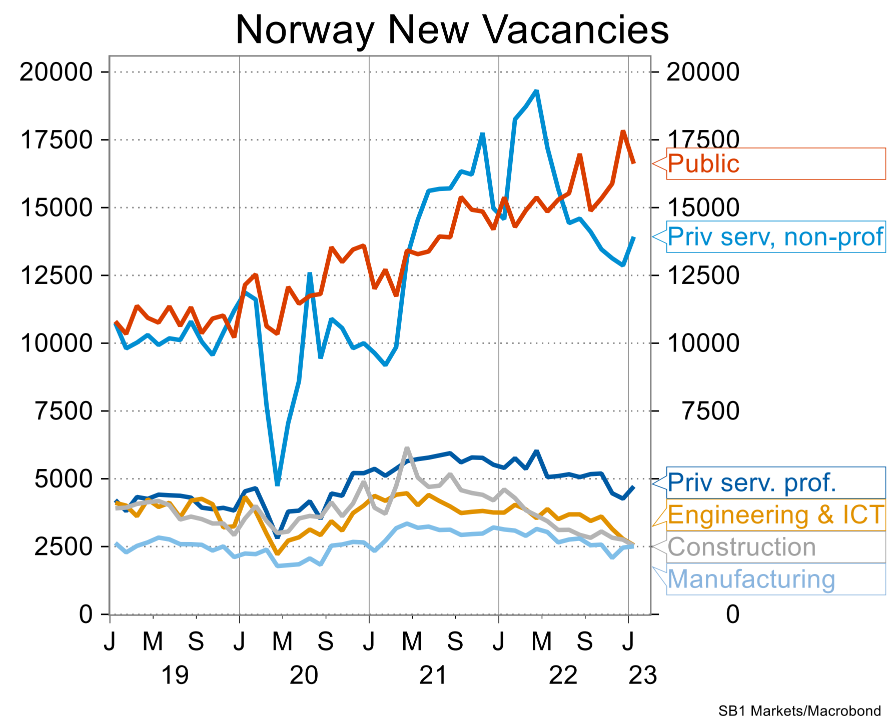


- The unemployment rate in Agder rose marginally in both September and October
- Nordland and Trøndelag at the bottom – Oslo at the top, as usual, now joined by Vestfold & Telemark

New job openings up again in Dec and Jan but the trend is down

.., in the private sector – but up in the public sector. However in Jan, just the private sector (services) contributed

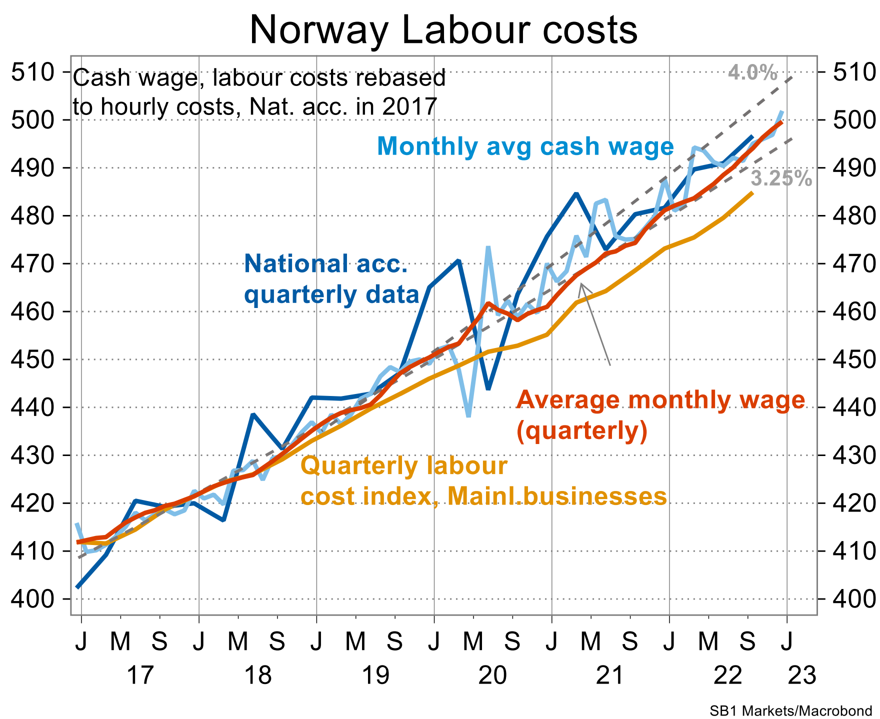


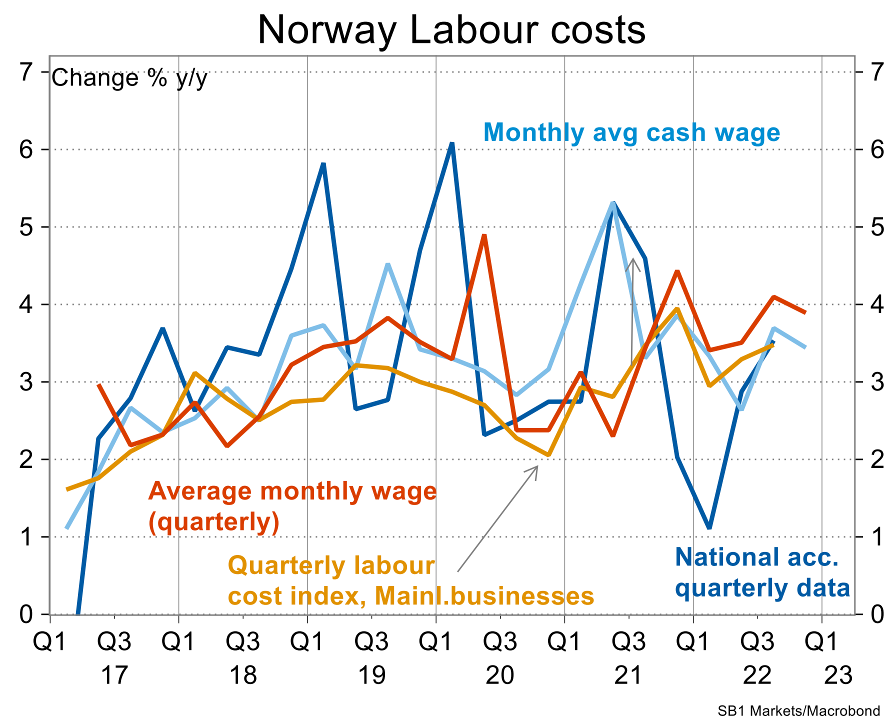


- The no. of new vacancies rose in both Dec and Jan
- Most sectors have announced somewhat fewer new vacancies recently, like in non-professional private services (hotels/rest, admin support), construction and manufacturing
- The no. of new jobless claims are slowly increasing but the level is still very low
  - There are 3x as many new vacancies per day than new jobless claims
- In sum: A very tight labour market even if the tide has turned

Wage inflation probably higher than we have assumed. Monthly wage +3.7%

However, avg working hours have fallen. The full day equivalent wage is up 4.4%, on an accrued basis (4.6% cash bas.)

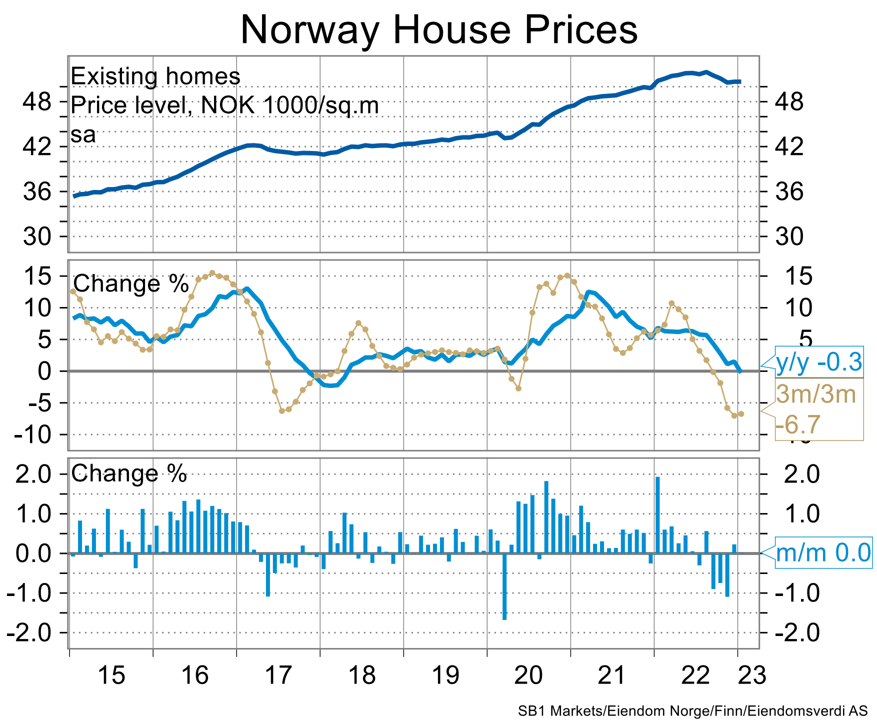


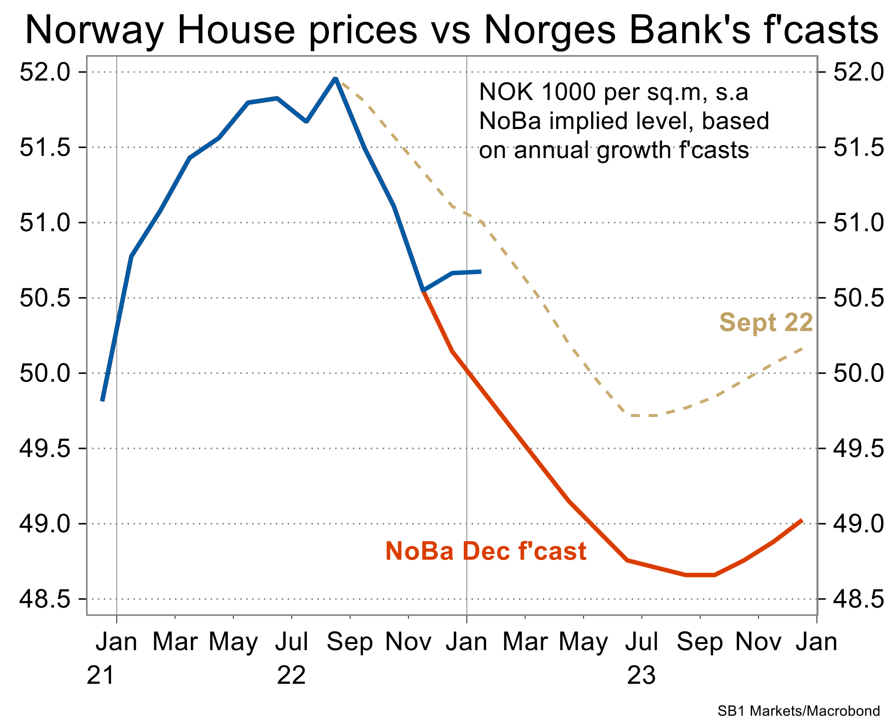


- Rather confusing, several different wage concepts – but that's life. It now seems likely that the average wage rose more than 3.9% which SSB and Norges Bank have assumed.
- This increases the risk for some groups claiming compensation in this spring's wage negotiations (even if it just a mid term round, with restrictions on what is on the table) as wages rose more than the assumed 3.8% in last year's wage round (and all have not received the 4.4% average wage increase.
- The quarterly labour cost index report a 3.5% growth y/y in Q3, up from 3.4% in Q2 – and the trend is not higher (data out last week)

House prices unch in January, following the 0.2% December lift

So, something has happened: Eased mortgage regulations? Optimism has returned? Even if cons. conf is very weak?

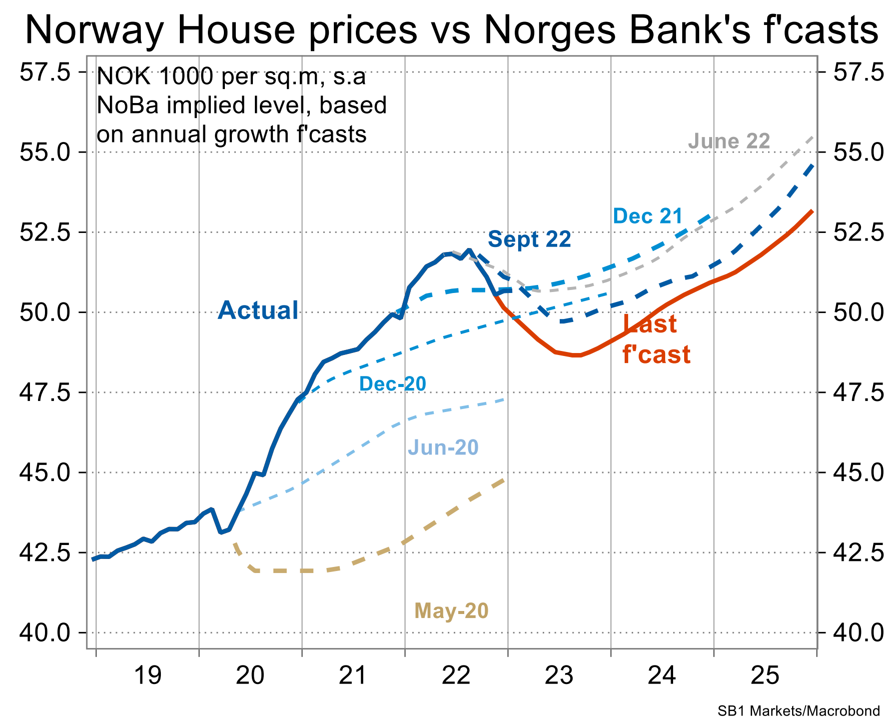




- **House prices** was flat m/m, we expected a 0.5% decline, in line with Norges Bank's estimate. Since August, prices are down 2.6%, still the steepest 4-month decline since late 2008, and prices are down 0.3% y/y.
- **Prices rose** in 11 cities, and fell in 5. Stavanger at the top, Trondheim at the bottom. Oslo marginally up, 0.2% less than signalled by some realtors
- **Existing home transactions climbed slightly to** 7.7' which is 15% below the peak during the pandemic but still at the average 2019 level. The inflow of of **homes approved for sale** fell further and is close to a normal level
- **The inventory of unsold homes** decline by 400 units in Jan, the first decline since last April. The inventory is still higher than normal, but not by that much, and the i/s ratio fell by 4 days to 54, just 2 days above the long term average.
- In December the Government eased mortgage regulation by lowering the **rate hike in the stress test of borrowers**, to 3 pp from 5 pp (though minimum with a 7% rate) from Jan 1. Was that sufficient to ignite the animal sprit at the housing market? If so, one worry less for Noba, the hikes have not killed the Norwegian economy.

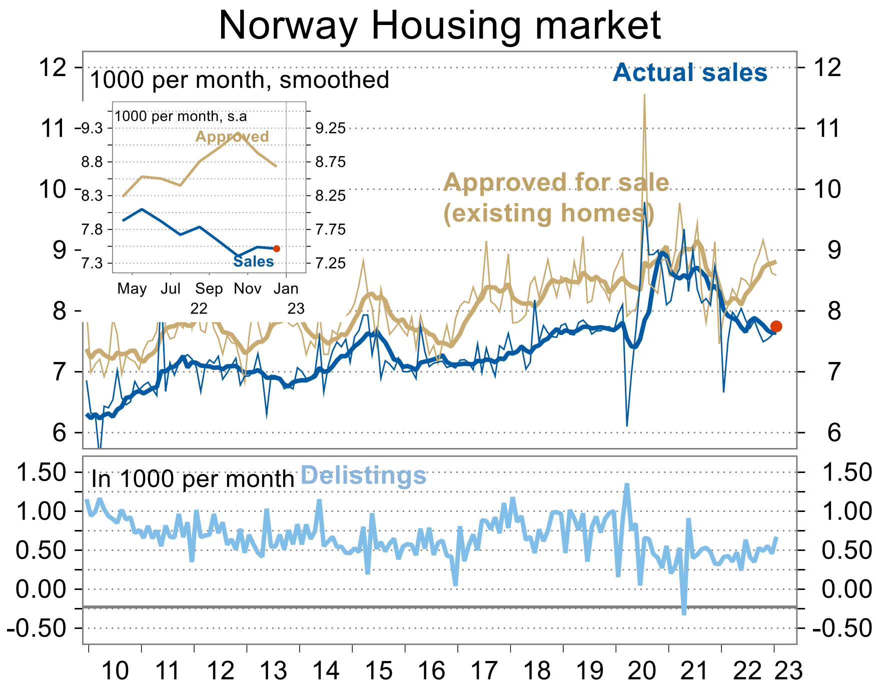
Just a reminder: Norges Bank and most others always have a forecast

… which often is heavily revised

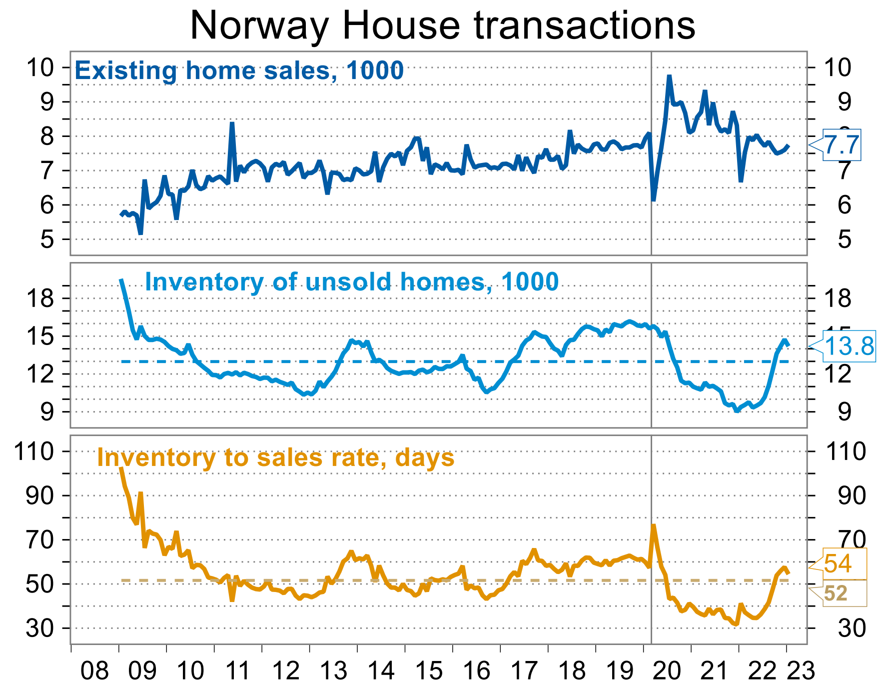


Sales up in January, fewer homes approved for sale, and the inventory fell!

Even so, the inventory is larger than normal, following the steepest increase on record since last July



SB1 Markets/Macrobond

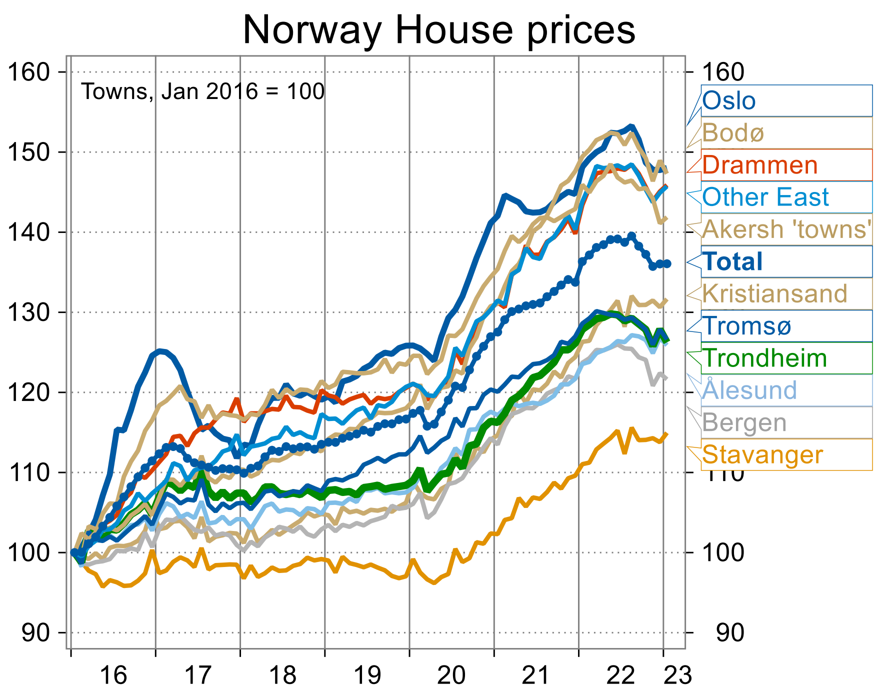


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

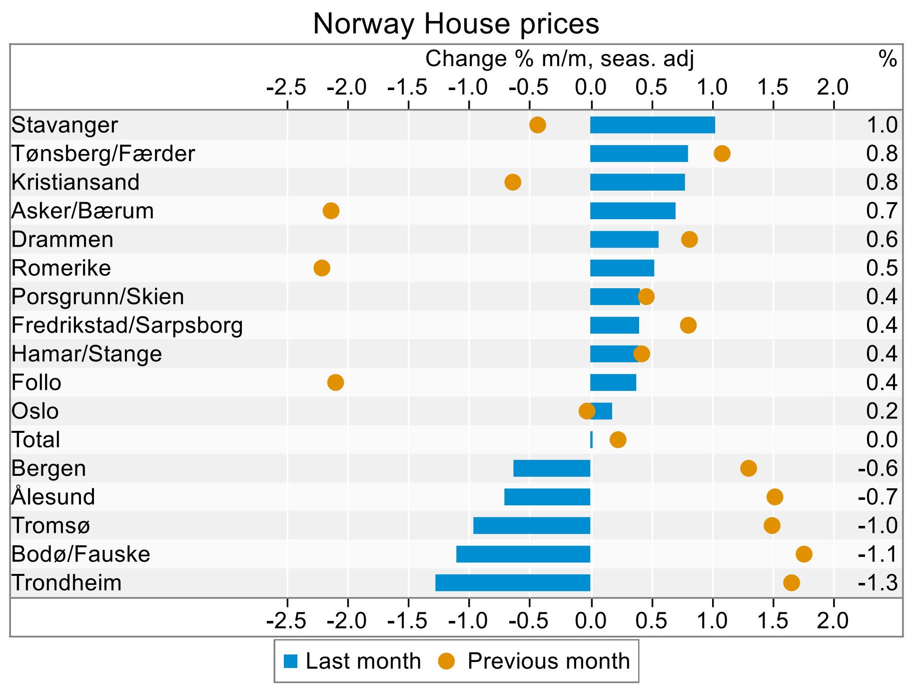
- The **number of transactions** was rose to 7.7' in Jan from 7.5', a 'normal' level, even if it is 14% below the peak level during the pandemic
- The **supply of new existing homes for sale (approvals)** fell slightly but remains at a normal level
- The **inventory of unsold homes** declined by 400 homes, the first decrease since last April. The level is still above average
- The **inventory/sales ratio** declined 4 days to 54 days, vs an average at 52 days – that is close to average
- The **time on market** for those homes actually sold rose by 5 days to 42 days, equal to the long term average- probably as some shelfwarmers finally were sold as demand from homebuyers strengthened

Some mean reversion, the strongest cities in Dec reported decline in Jan

Prices rose m/m in 11 cities, fell in 5. Stavanger up 1%, Trondheim down 1.3% Oslo prices rose 0.2%



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

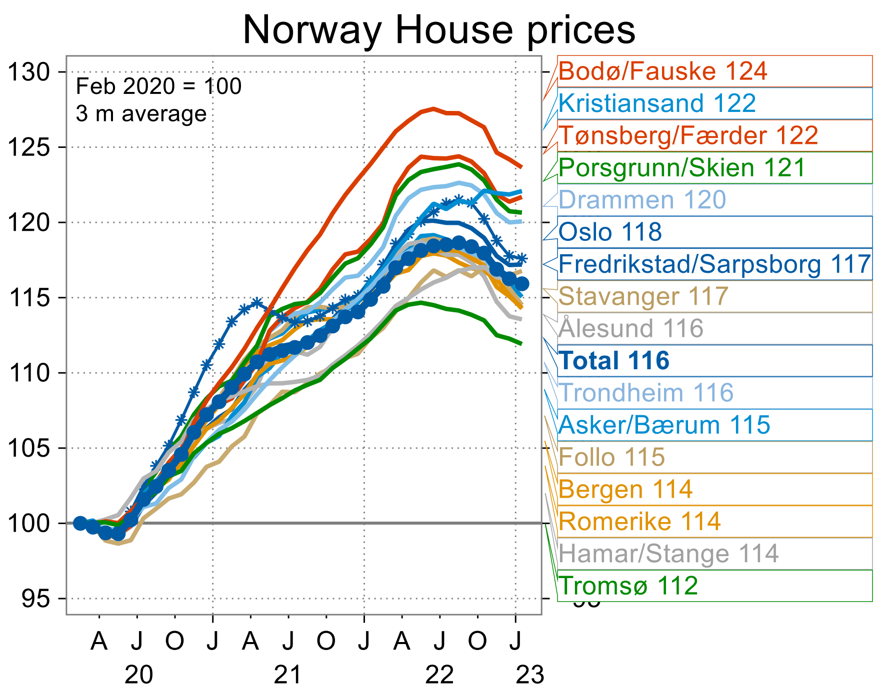


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

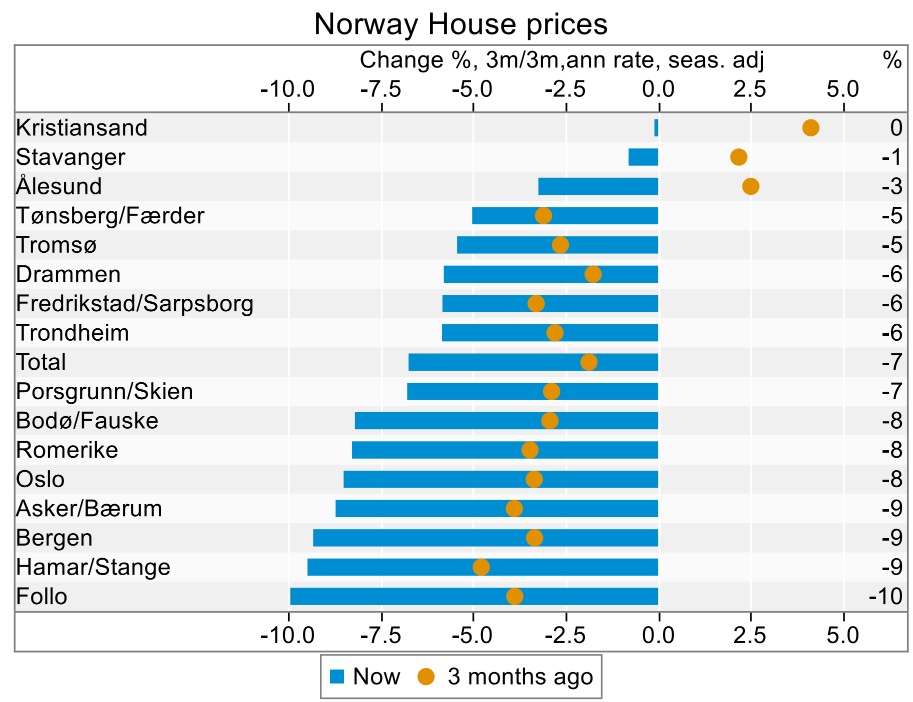
- The price increase in Oslo was less than realtors had ‘announced’

The big picture: 2 months do not establish a new trend, 15 of 16 down 3m/3m

Kristiansand is flat, all others down



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

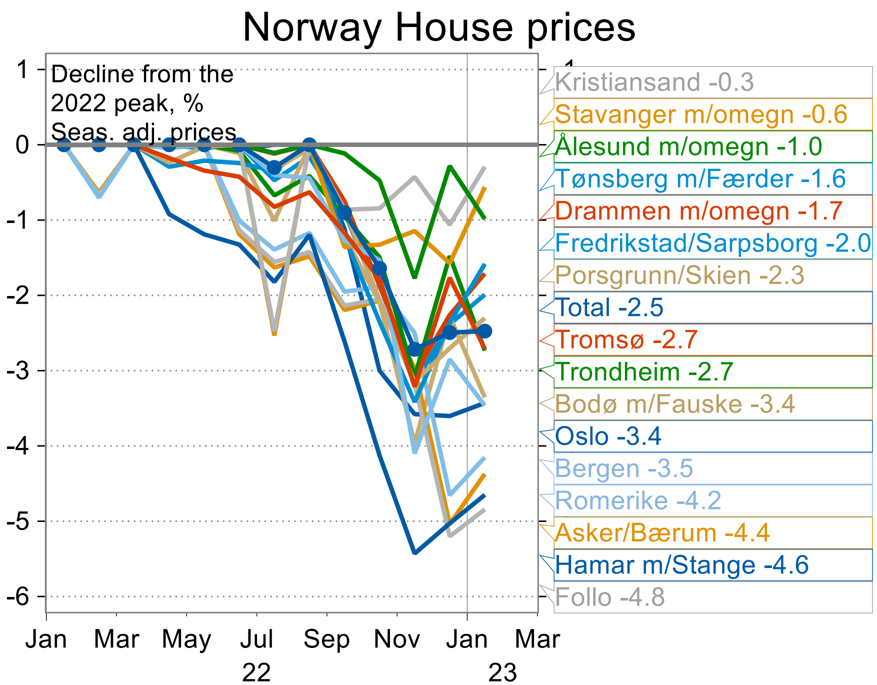


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Bodø was the winner through the pandemic (and since 2016)

The 2022 setback: Some regional differences

Kristiansand at the top vs. the peak level, together with Ålesund, Stavanger

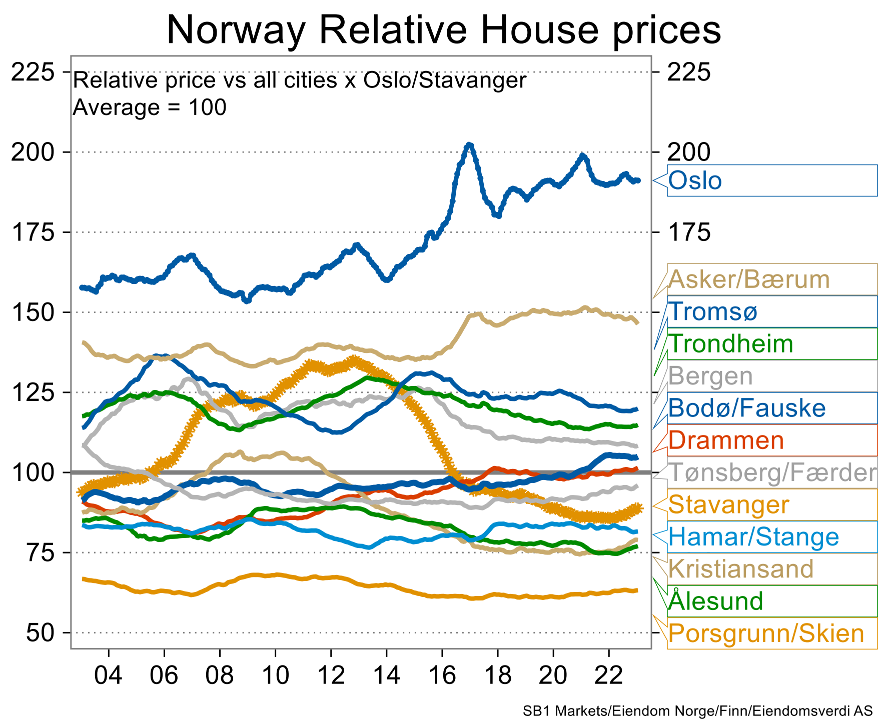


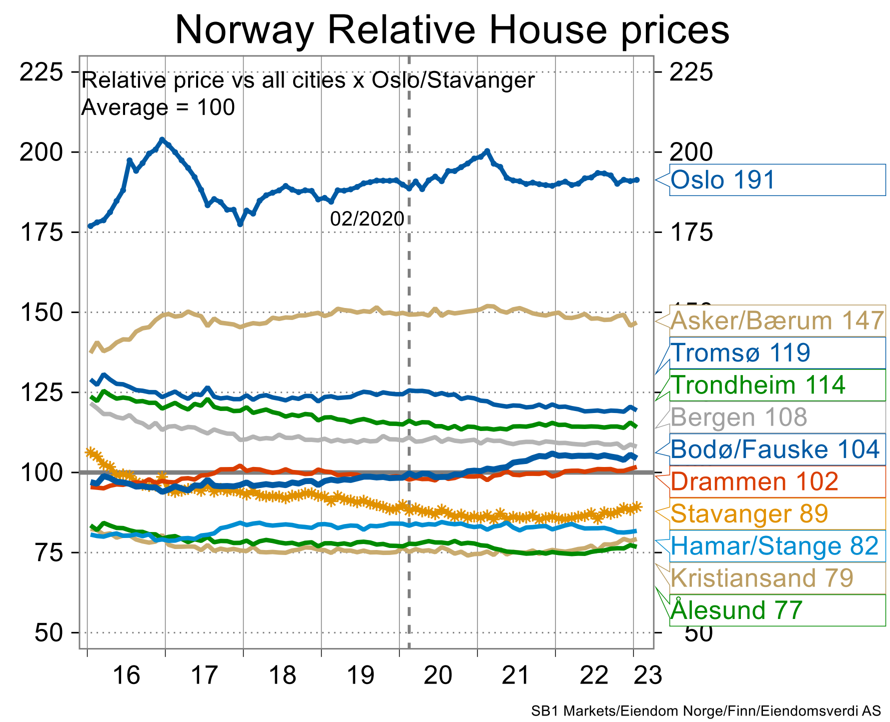
SB1 Markets/Macrobond

- Asker/Bærum, Follo & Hamar have reported the steepest price declines so far, by up to 5%.

Stavanger is recovering, relatively, from a low level

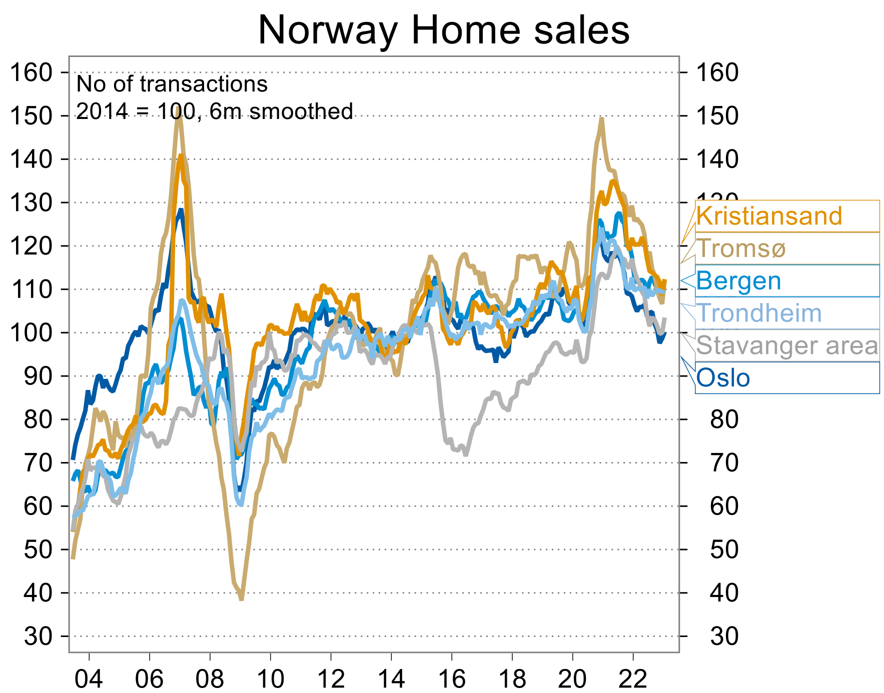
Stavanger has been slowly recovering, as have Kristiansand and Ålesund, vs the rest of the pack



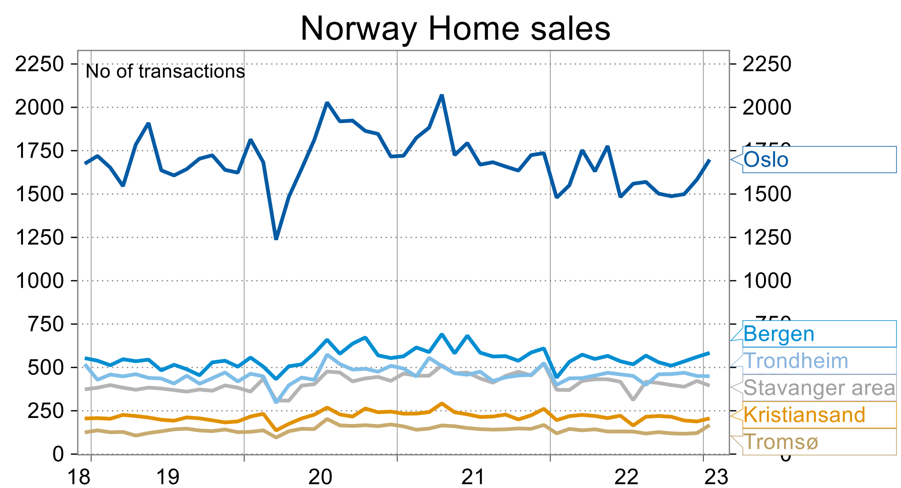


Sales rose in most cities in January, after a slowdown

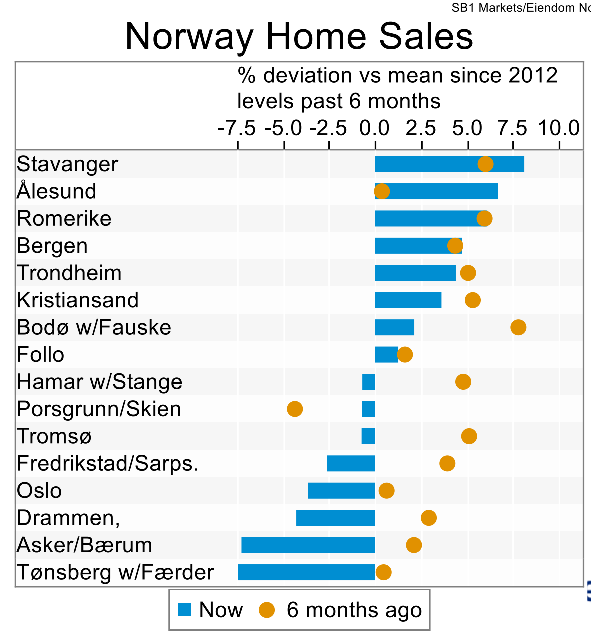
Mix regionally but sales are weaker in and around Oslo (in average) Sales are stronger in Stavanger, Bergen & Tr.heim



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

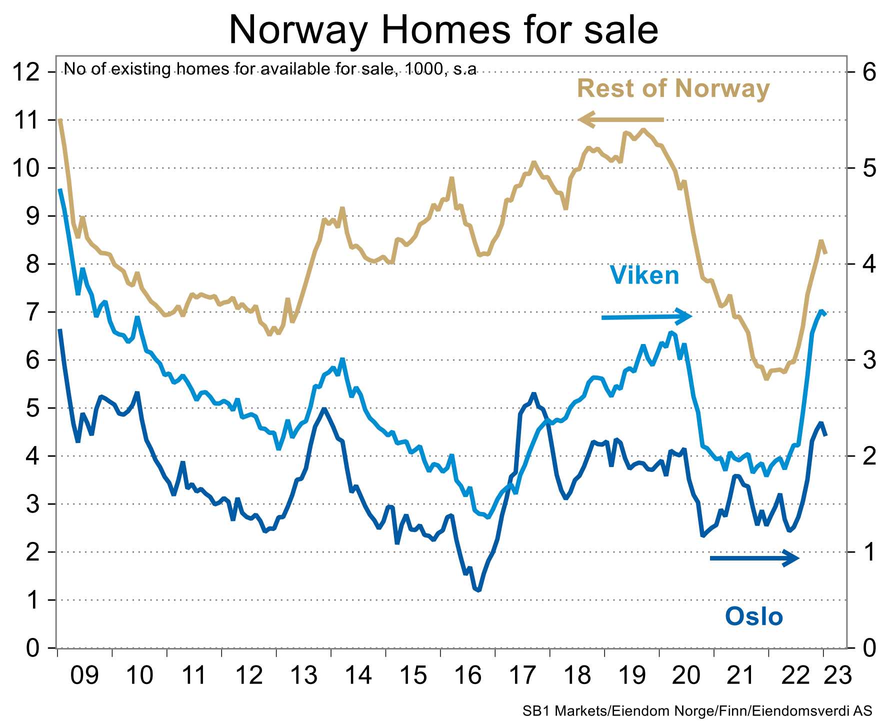


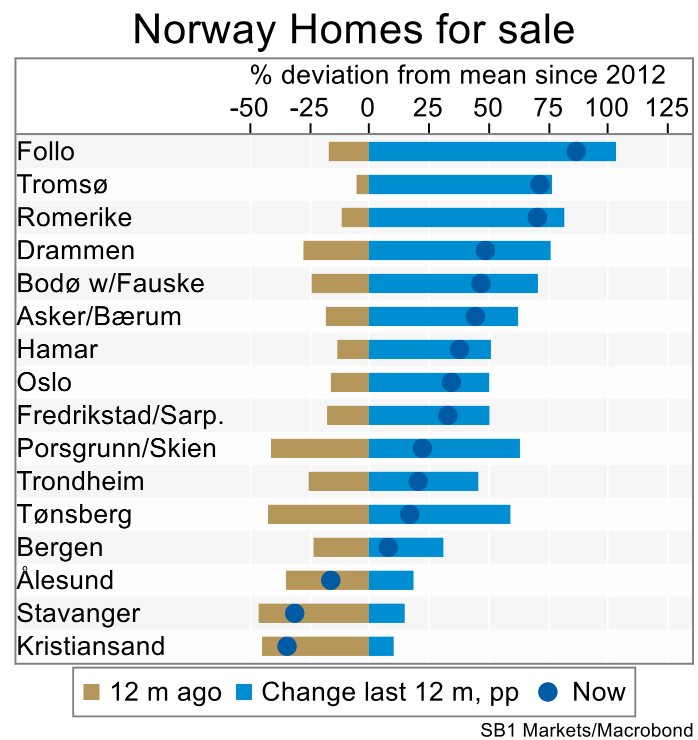
SB1 Markets/Macrobond

- However, sales have not fallen by much recent months

The inventory fell most places in January – after an unprecedented surge

And inventories are still much higher than normal

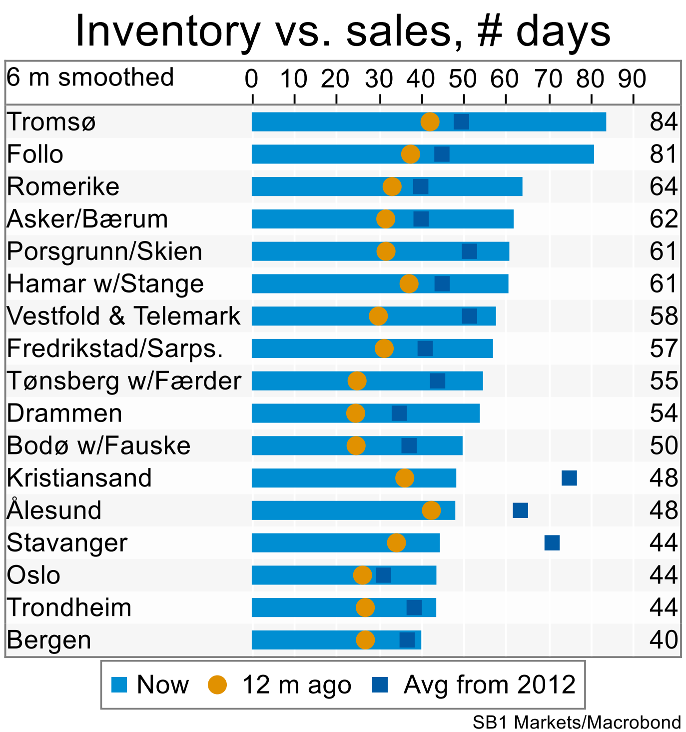




- Follo is reporting the largest increase over the past year, and the inventory is 85% above the average since 2012! Tromsø no. 2 on the list, followed by other 'cities' around Oslo. Viken reports the highest inventory level since 2010!
- The inventory in Oslo is also well above a normal level – but below previous peak levels

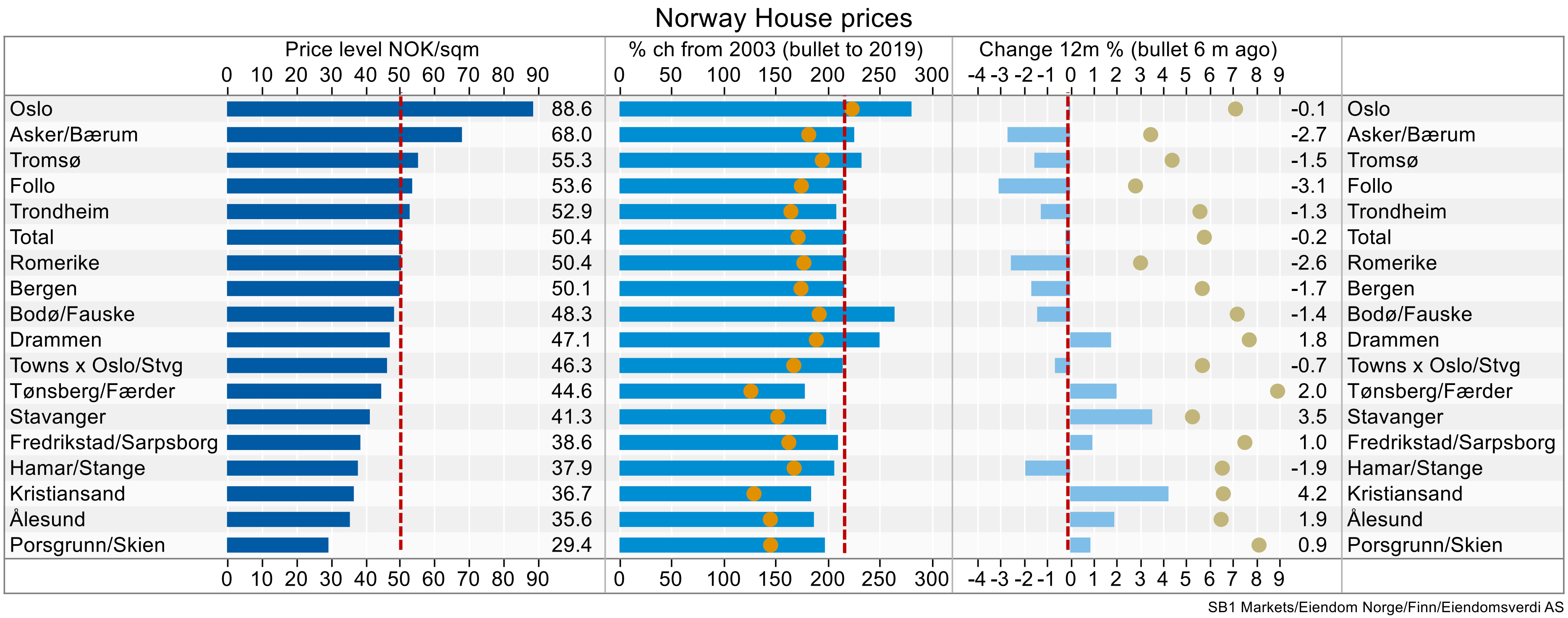
The inventory is turned around slower than normal almost everywhere

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



10 cities are still up y/y – 10 are down, most in and around Oslo

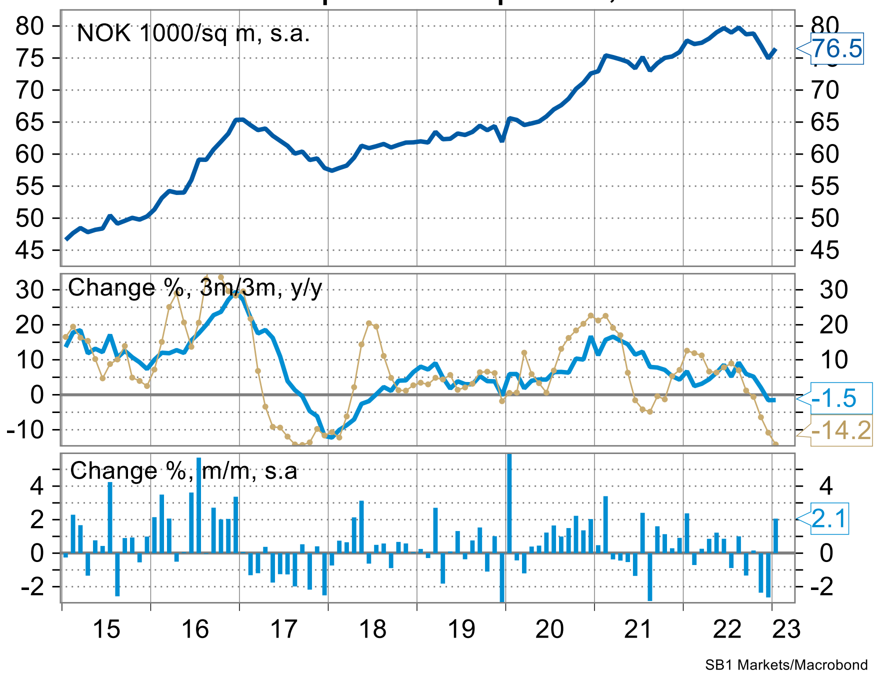
Kristiansand in the lead, up 4.2%, even if mortgage rates surged! Stavanger is up 3.5%



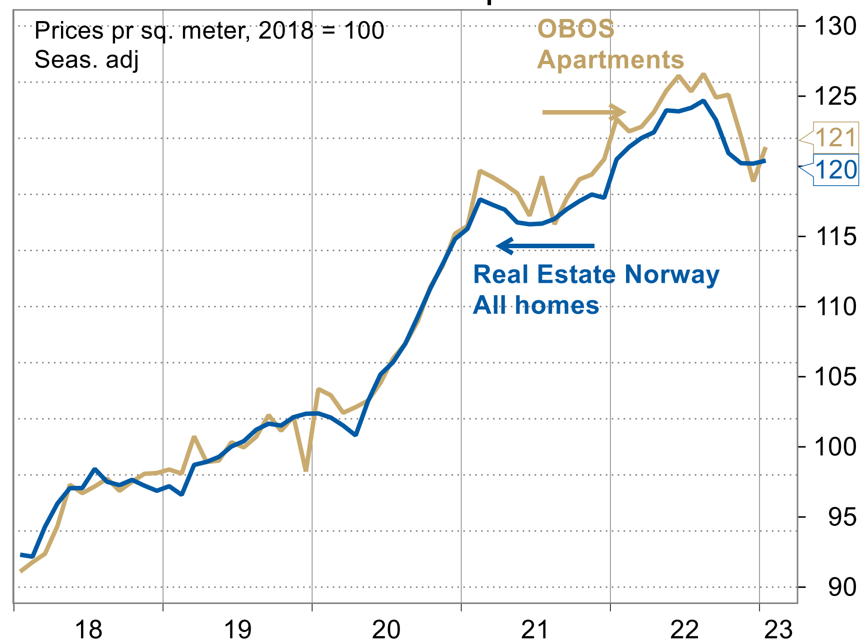
Oslo co-op prices rose 2.1% in Jan, after the almost 5% decline in Nov/Dec

Realtors' Oslo index reported a 0.2% lift in Jan, but a much smaller decline in Nov/Dec

OBOS Apartment prices, Oslo

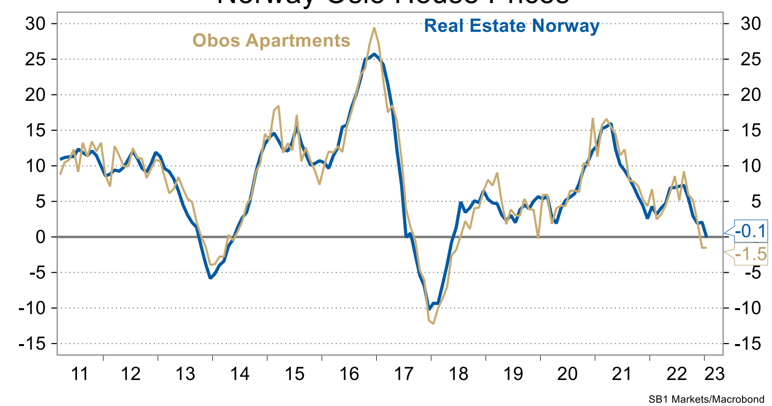


Oslo House prices



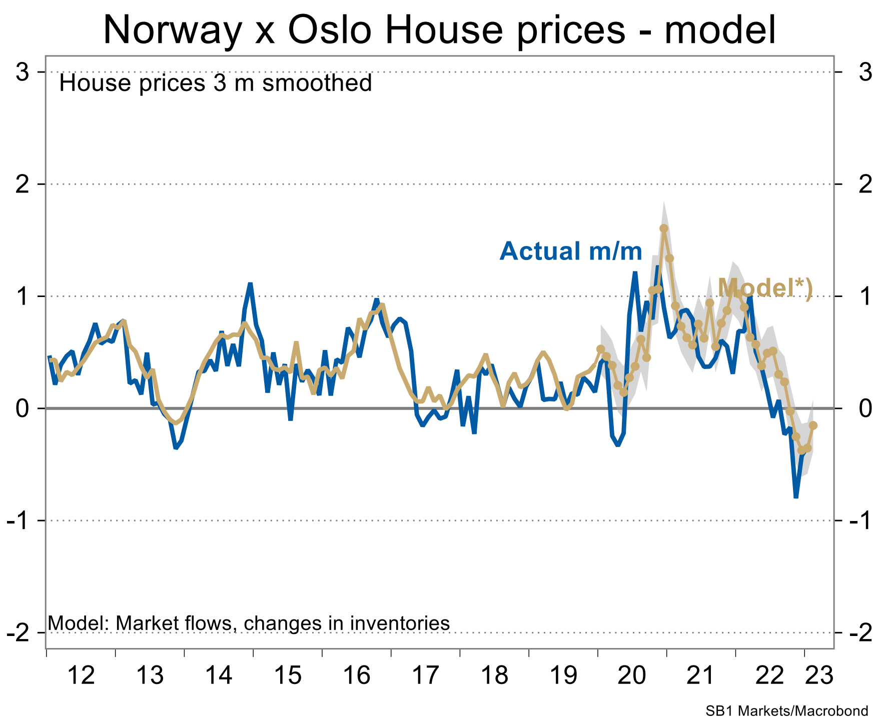
- The co-op Obos prices are down 1.5% y/y. vs -0.1% for the overall Oslo market
- Over time, these two prices surveys are close to identical, but OBOS data are more volatile

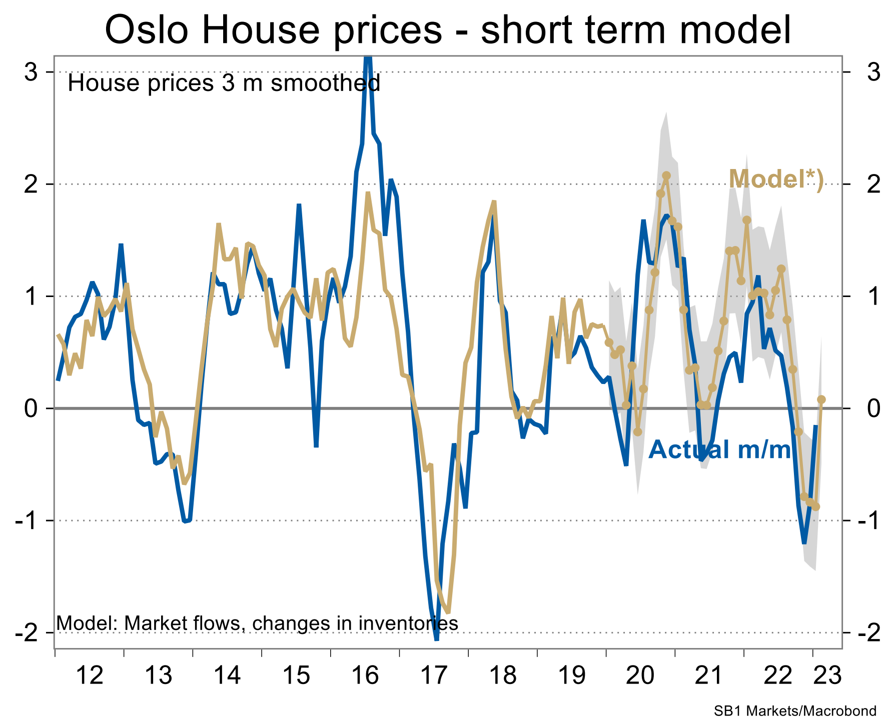
Norway Oslo House Prices



Short term market flows suggest stable house prices!

Up from the suggested 0.5% decline in Norway x Oslo, and -1% for Oslo!

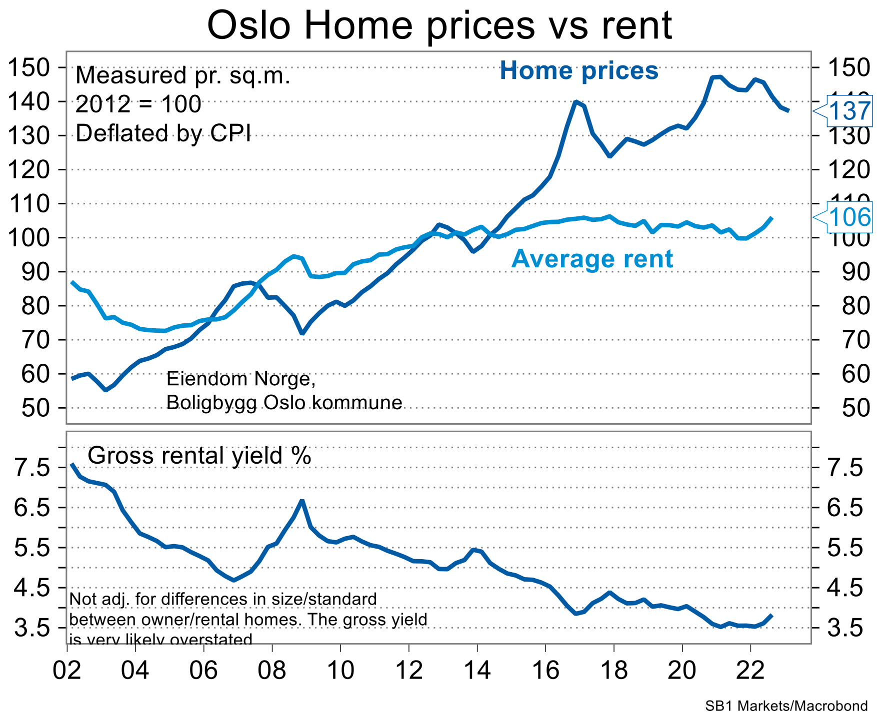


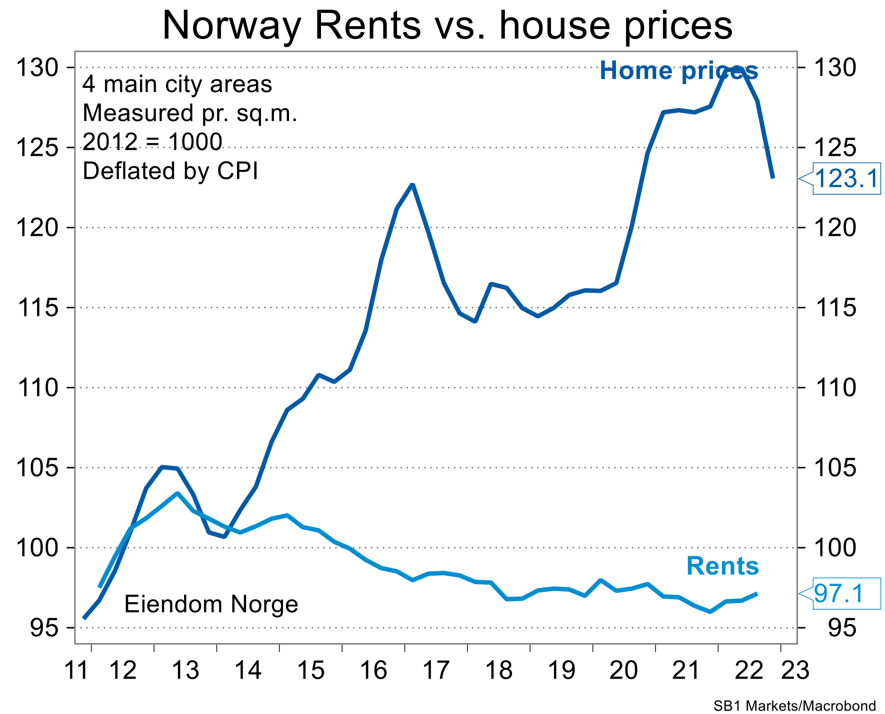


- Our **national x Oslo model** based on flows and the inventory signals a 0.1% fall in house prices (in comparison, prices in Norway x Oslo were flat in January
- Our **Oslo model** signals stable prices, up from almost -1% last month
- **Mortgage rates** are not included in these short-term market models, because they have not consistently added to the models' performance. Still, over time, mortgage rates and credit growth are important driver for the flows at the housing market, and now rates are rapidly on the way up
- *These models are not long-term price models, just short-term models based on flows of (existing) houses approved for sale, actual sales and changes in inventories – which are normally correlated to prices*

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

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

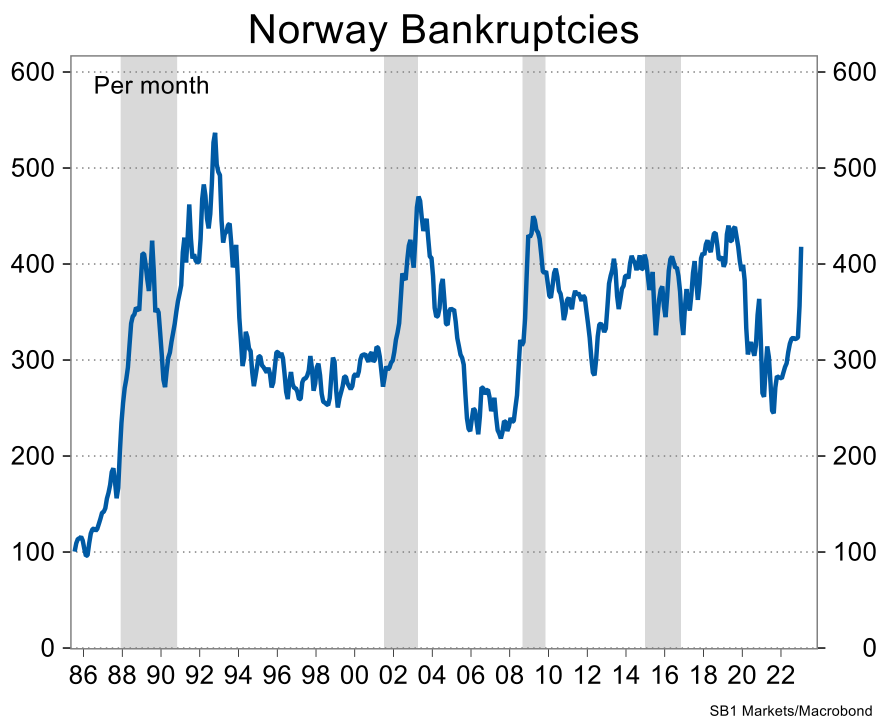


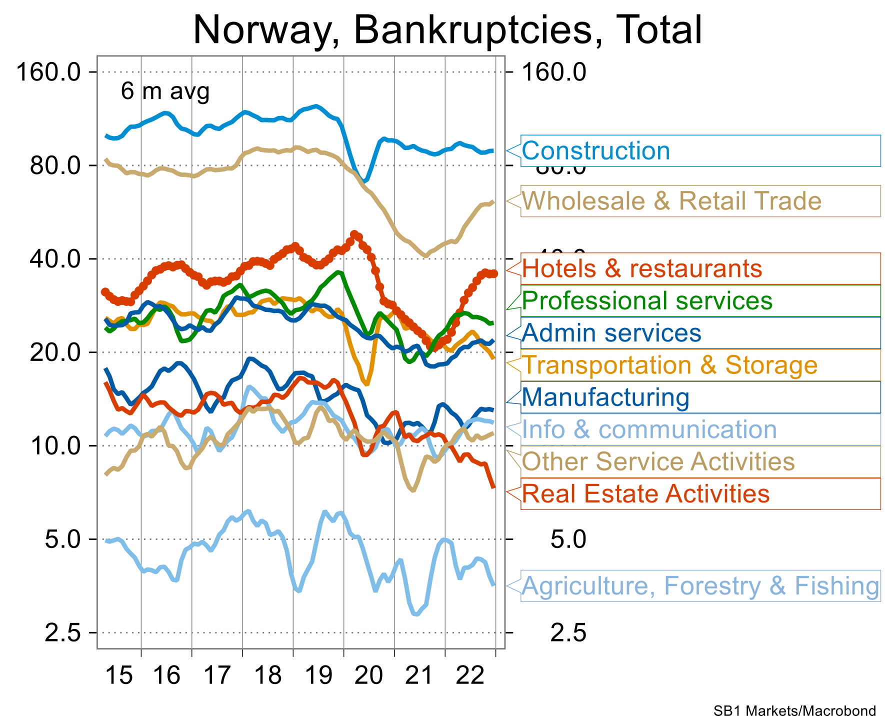


- **Yield compression**, as interest rates were low vs. income expectations
  - Rents have been close to flat in real terms the past 10 years in Oslo, while prices are up 42% in real terms (almost 4% per year)
  - Rents have fallen by 3% in real terms in the average of Oslo/Bergen/Trondheim and Stavanger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

Finally, bankrupcies back to a normal level

A sharp increase in December, from a very low level during and after the pandemic

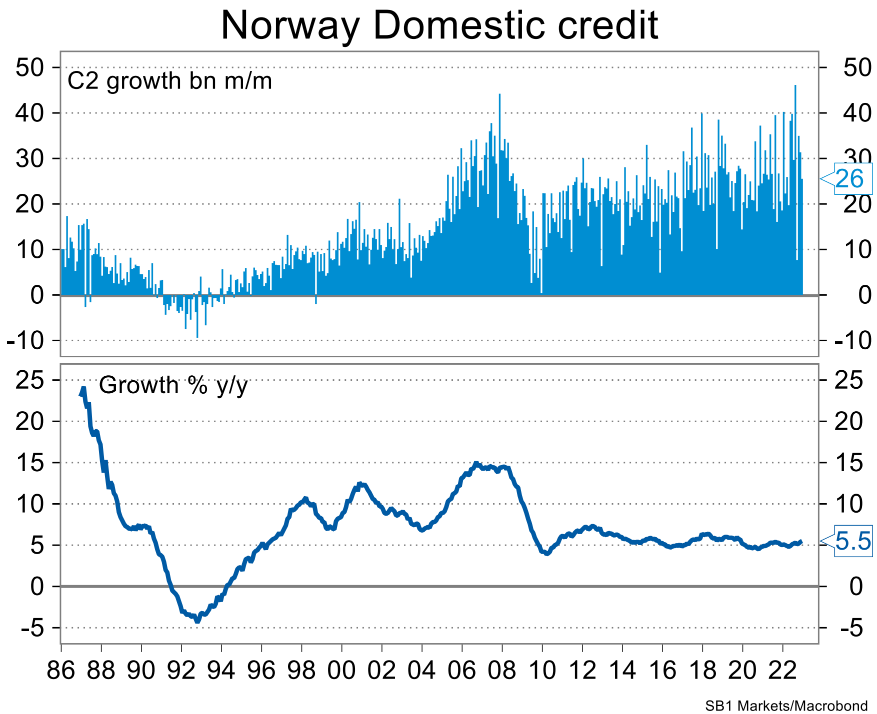


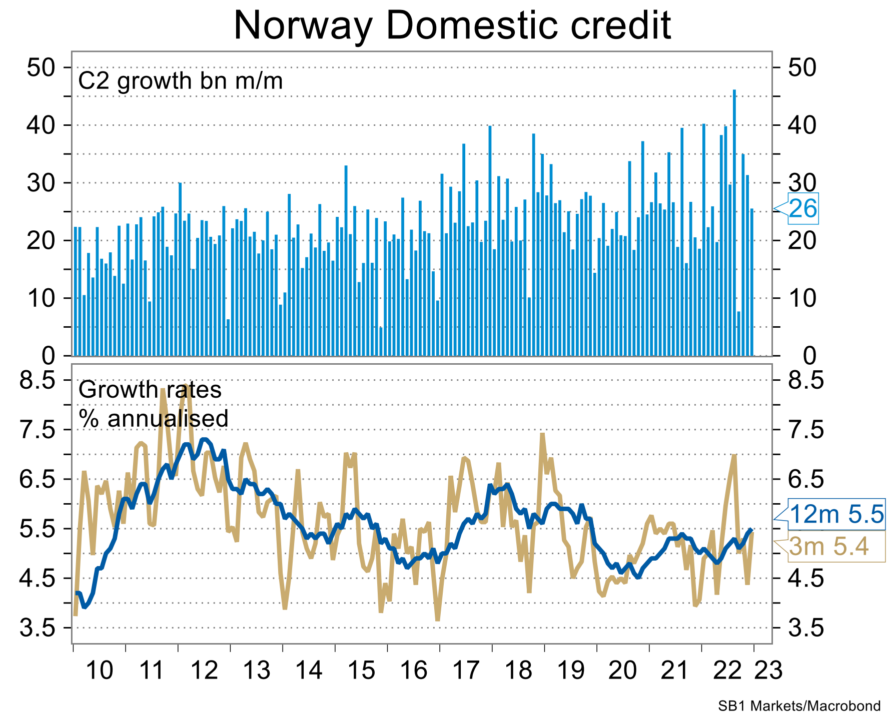


- Construction, trade & hotel/restaurants in the lead – which is the normal

Household credit growth is not slowing anymore? Corporate debt up 8.8%

Total C2 growth accelerated to 5.5% (as we expected), the highest growth rate since before the pandemic!

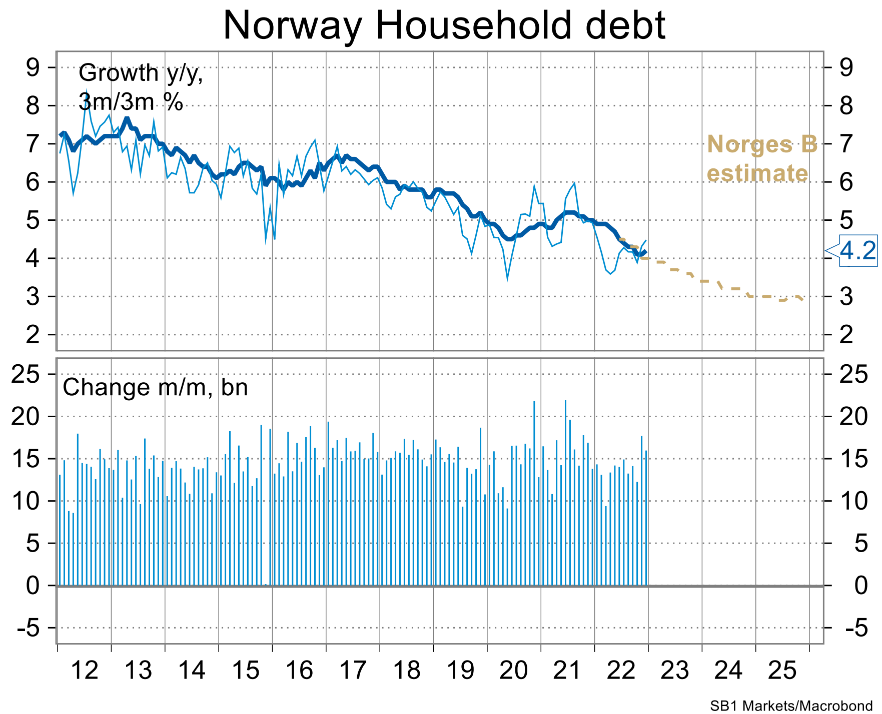


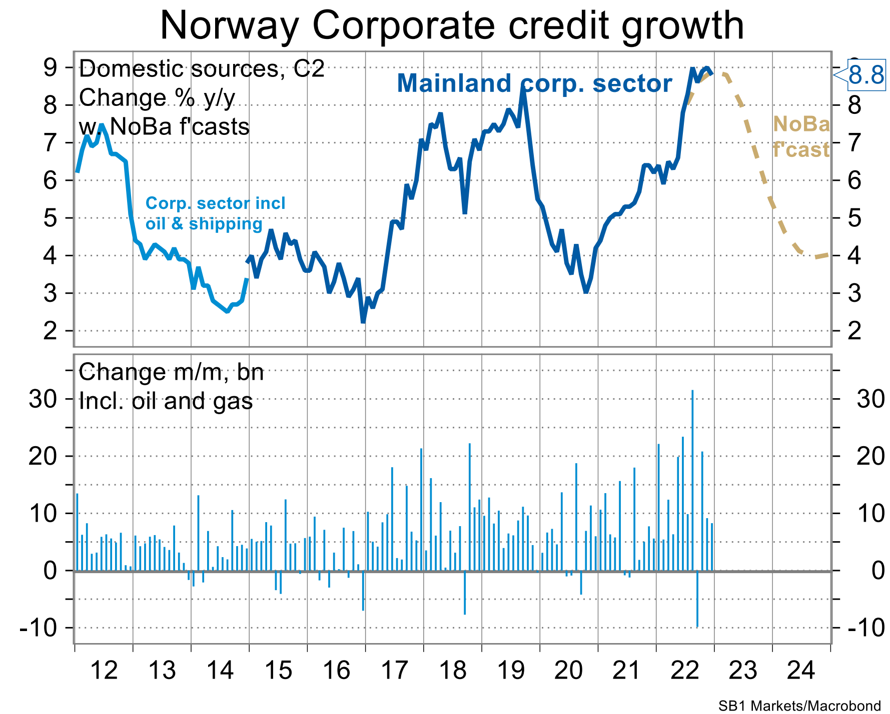


- **Total domestic debt** (C2) rose by NOK 26 bn in Dec, as we expected. The annual growth rate rose 0.1 pp to 5.5%, as we expected – and the highest annual growth rate since before the pandemic. The very volatile 3m/3m growth rate accelerated to 5.4%
- **Household credit** rose by NOK 16 bn in Dec,3 bn more than we expected. The annual rate gained 0.1 pp to 4.2%, we expected it to remain unchanged. Measured 3m/m growth has accelerated somewhat recent months, even if the annual rate is still trending down. No impact from higher interest rates, a cooling housing market?
- **Corporate C2 credit** added NOK 8 bn in Dec, 3 bn less than we expected. The annual rate accelerated 0.2 pp to 8.0%, as expected. For Mainland companies, the annual rate fell 0.1 pp to 8.8%. The unusual volatility recent months may be due to transfers of debt to and from abroad
- **Local governments** added NOK 1 bn in Dec, 1 bn less than we expected. The annual growth rate is 5.7% Finally, local gov's are not increasing their debt/income ratio

Household credit has accelerated slightly recent months (but data are volatile)

…while growth in credit to the corporate sector is higher than since before the Financial Crisis

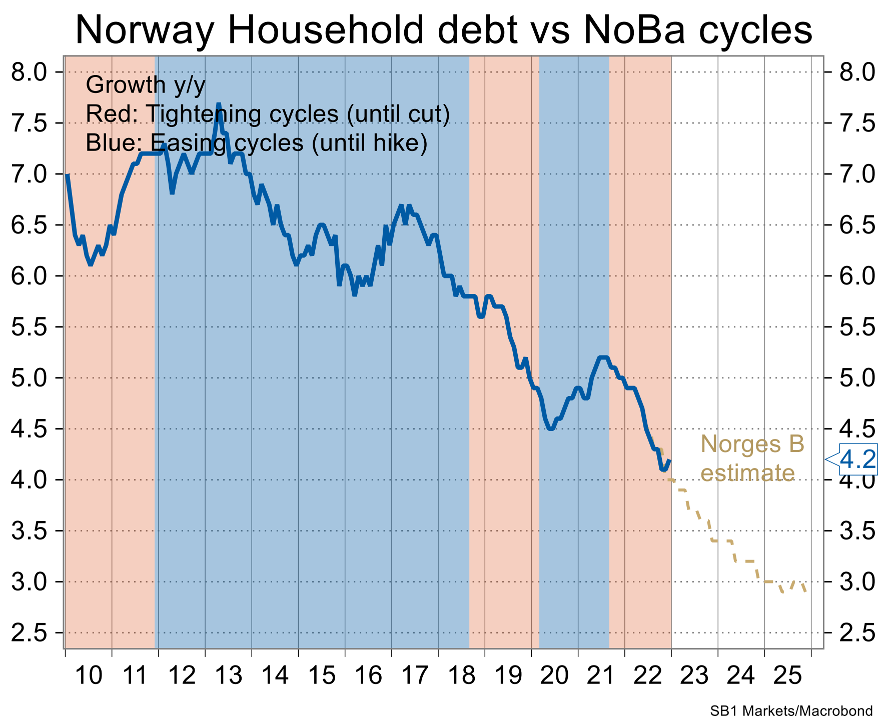


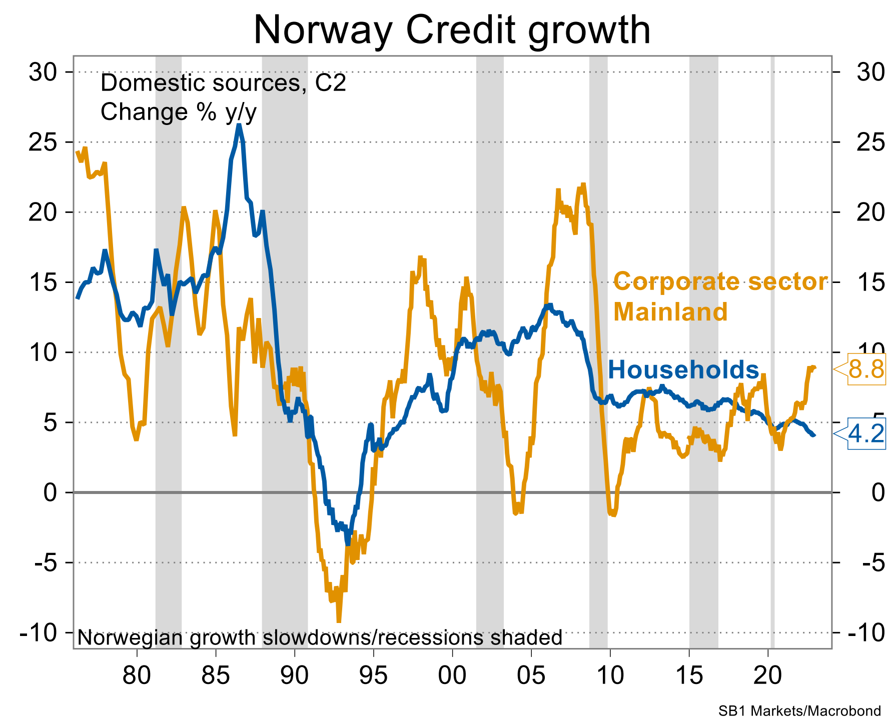


- **Household credit** growth slowed until early 2022 but has increased somewhat recent months, measured 3m/3m, from below 4% to almost 4.5% now. The annual rate has still been trending downwards, towards 4% and the debt/income ratio is finally declining. We expected a cooling housing market and far higher interest rates to calm demand for loans, but so far growth has kept up well
- Monthly growth in **corporate domestic credit** is very volatile, most likely because loans are transferred to or from abroad, and the NOK 8 bn lift in Dec was lower than we expected. Growth in Mainland business debt has shot up recent months, and is at 8.8%, finally in line with NoBa's f'cast (from the Dec MPR). NoBa expect credit growth to slow the coming years, but nothing like during slow-growth periods (check next page)

SpareBank 1 MARKETS

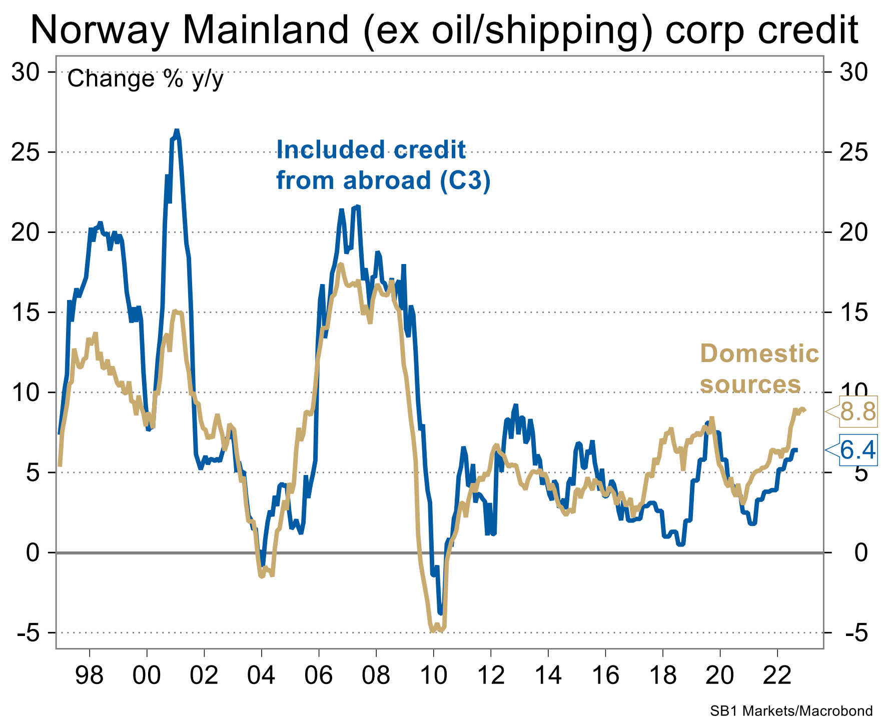
Credit growth slows during economic slowdowns, recessions

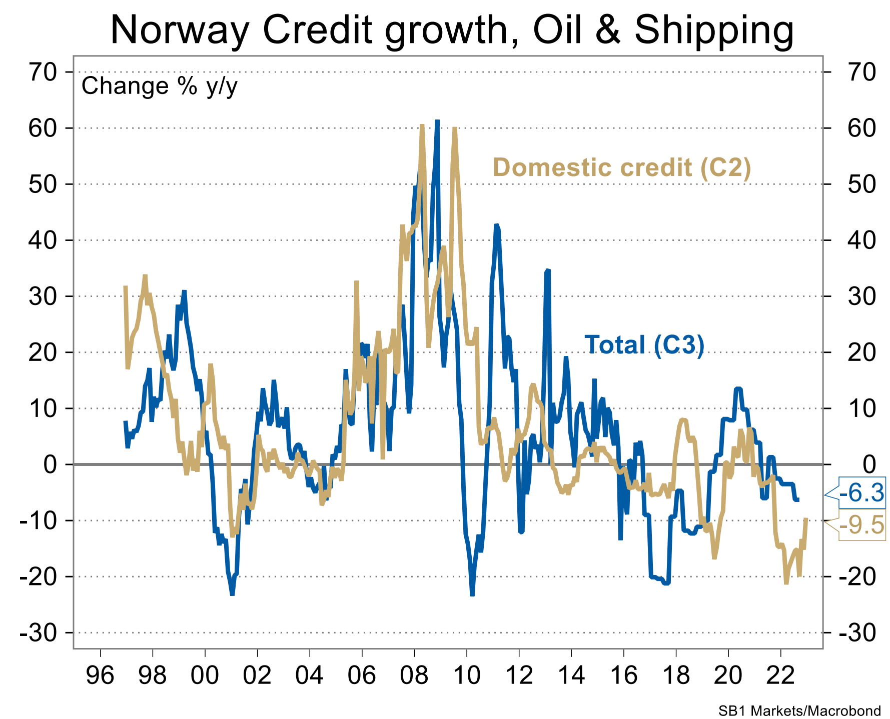




Mainland corporates increased their total debt (incl. foreign credit) by 6.4%

… in Q3. Debt from domestic sources (in C2) was up 8.8% in December. Some transfer of foreign loans?

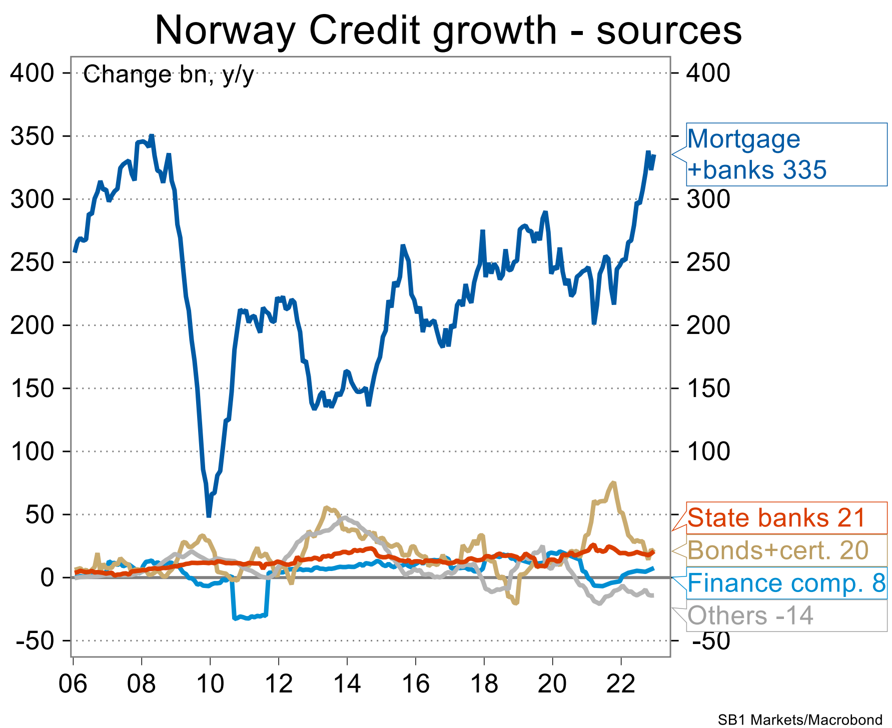




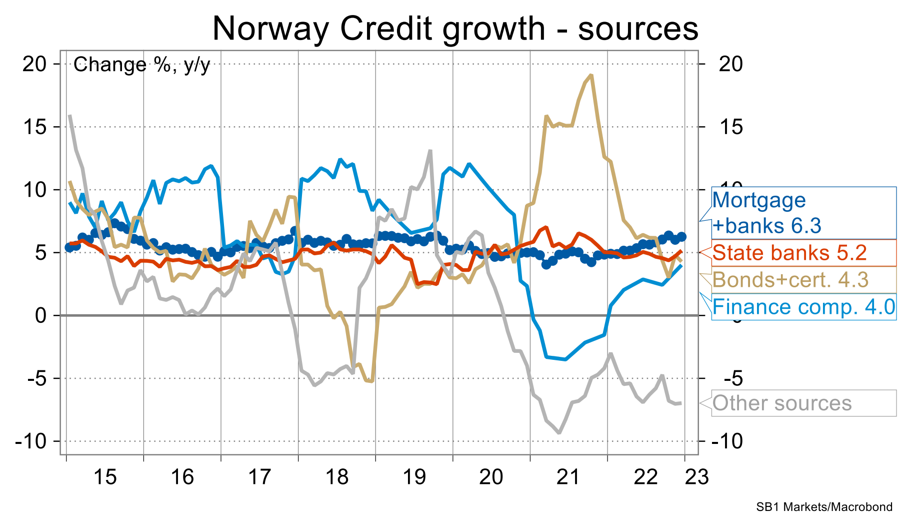
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is down 6.3% (Q3). Domestic debt is down 9.5% (via transactions) in December

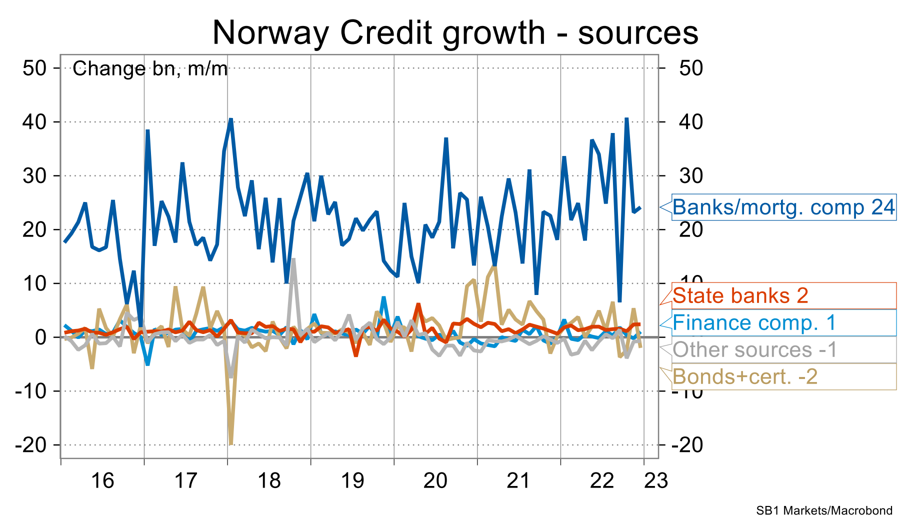
Banks are increasing their large market share further

Bond market borrowing has slowed substantially recently



- Banks/mortgage companies are up NOK 335 bn (6.3%) y/y
- Net issuance of bonds (to non-financial sector) is up NOK 20 bn (4.3%) y/y – a normal growth rate but well down from the peak late last year (75 bn, 19%). The credit cycle has turned
- Finance companies are up 4.0% y/y, while all 'others' (except state banks +5.2%) have reduced their lending
  - Both insurance/pension funds as well as Statens Lånekasse, Eksfin are included in our residual 'others', but just the sum of SL & Eksfin is down

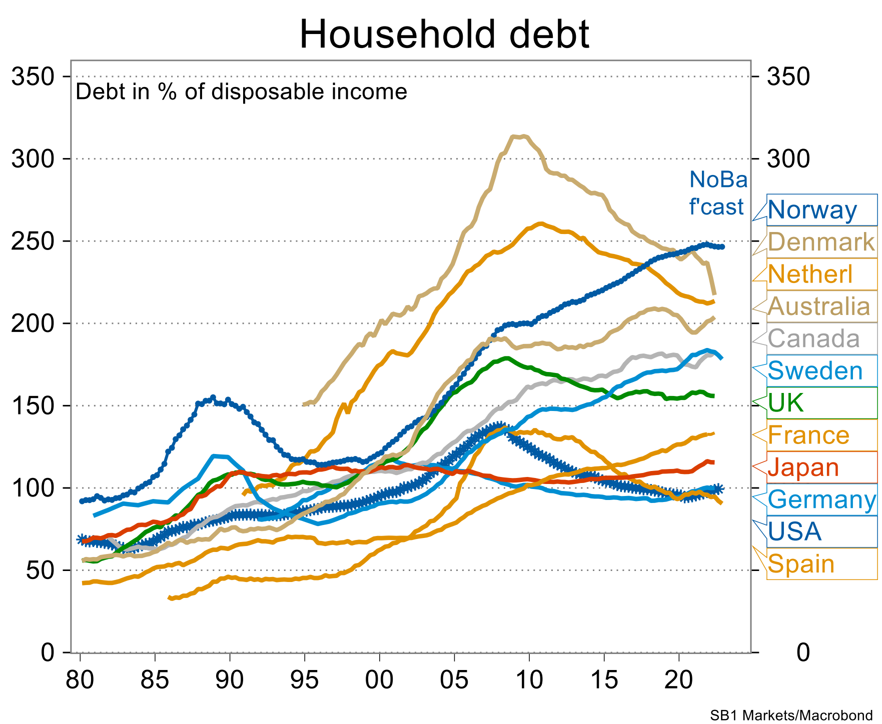


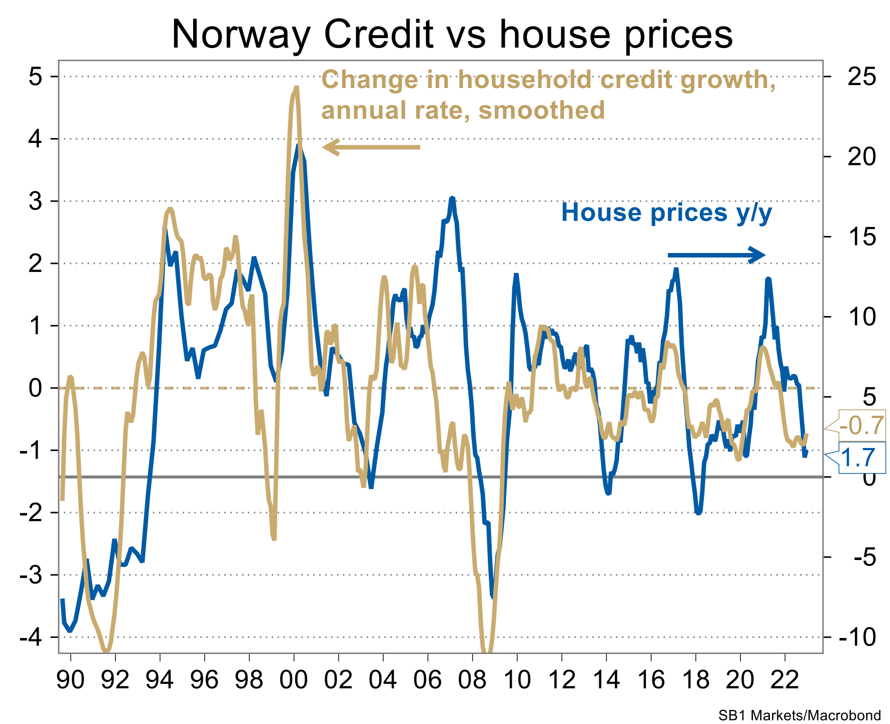


The seasonally adjusted 'sum of the parts' credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

Household debt/income: We are no. 1! But the debt/income ratio turns down

... And the downside may be substantial – at least if the housing market goes into reverse

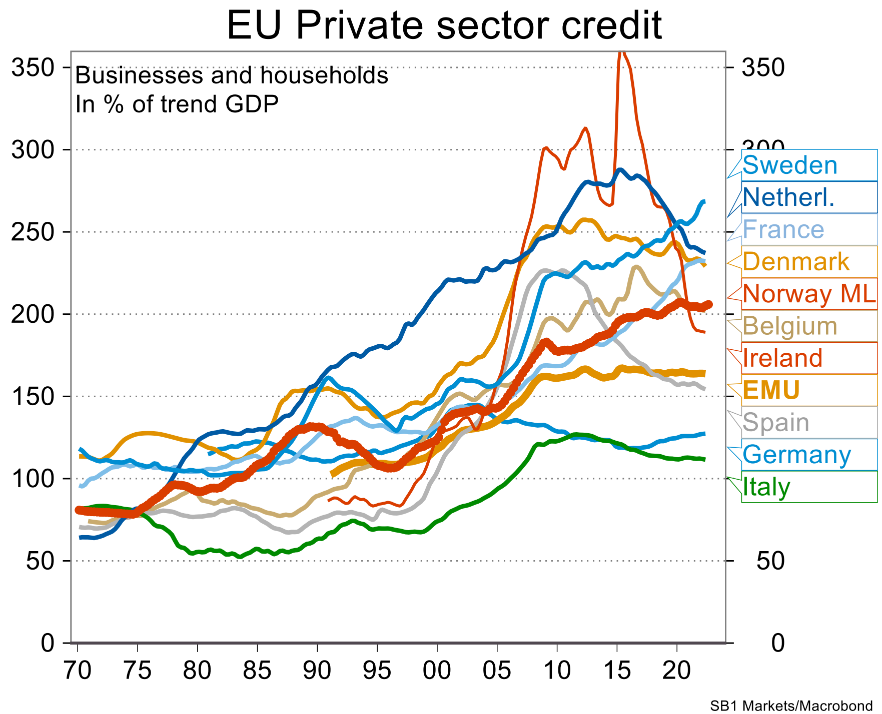


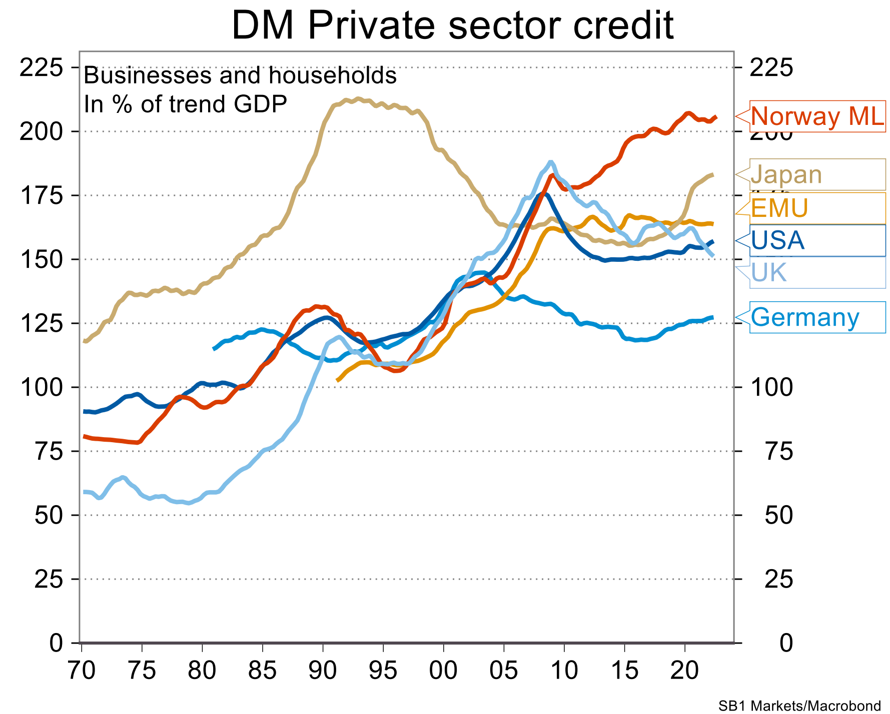


- **Norwegians households' debt has** steady been growing faster than income <u>but not more since last year</u>
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated to economic growth, and asset markets – including growth (1st derivative) in house prices
  - A slow retreat in the debt ratio will probably be healthy in the long run, and if it is gradual, it will not be too painful - even not for the housing market
  - If credit growth slows less than 1 pp per year, that is – say from a 4% growth rate to 3% next year, and then down to 2% etc, house prices should just flatten

The private sector has mostly been deleveraging since the Financial crisis

… and credit growth has been moderate during the pandemic, at least most places





- But not everywhere: Not in Norway, Sweden (+Canada & Australia, of course). The French have been accumulating debt as well
- Rather interesting: Debt ratios in Germany and Japan have turned up recently – and the Americans are borrowing more again

Highlights

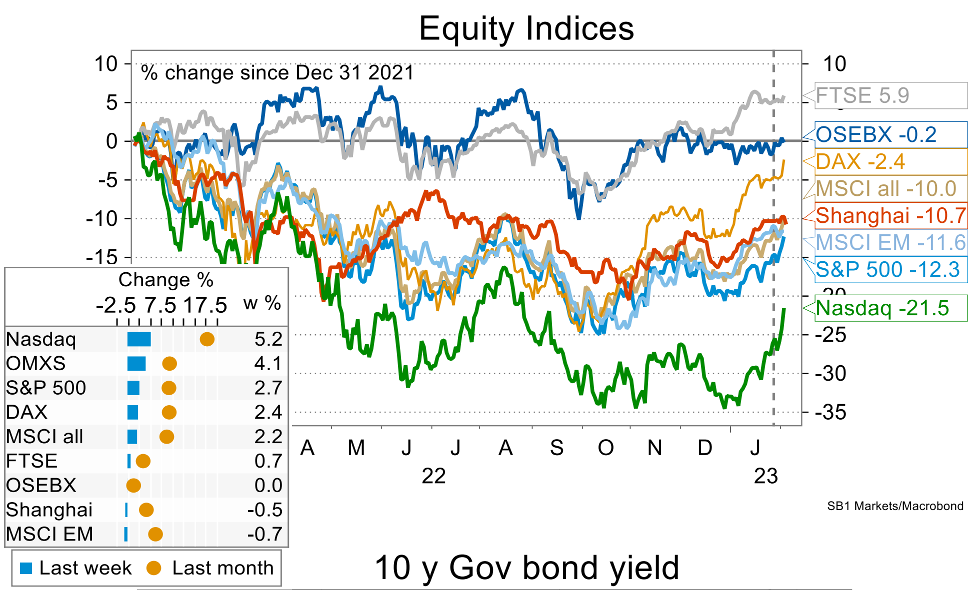
The world around us

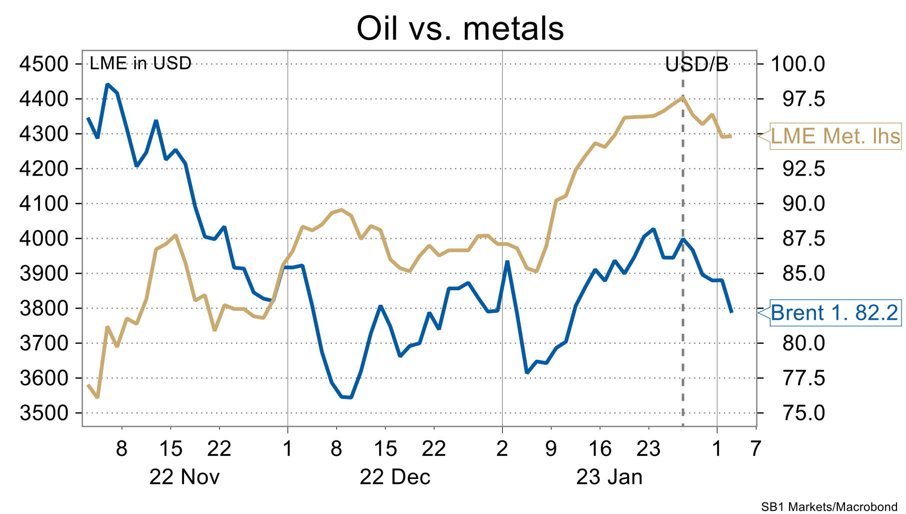
The Norwegian economy

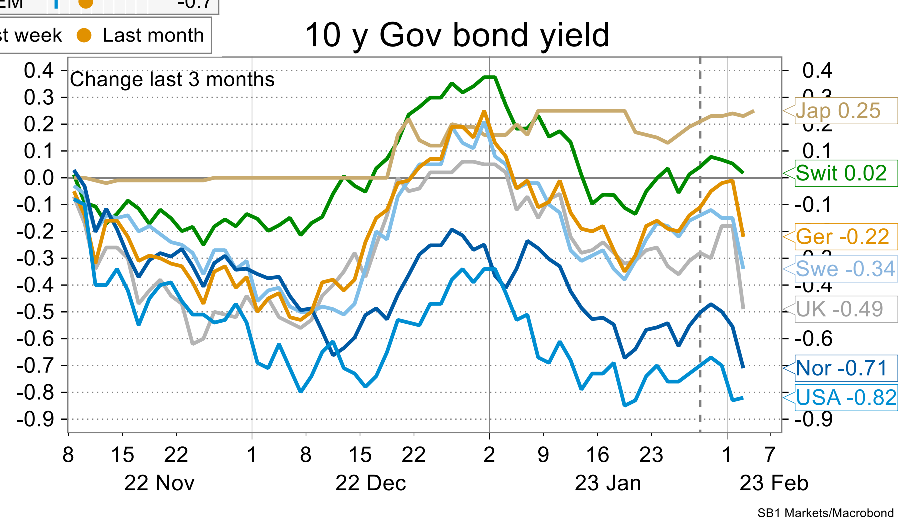
Market charts & comments

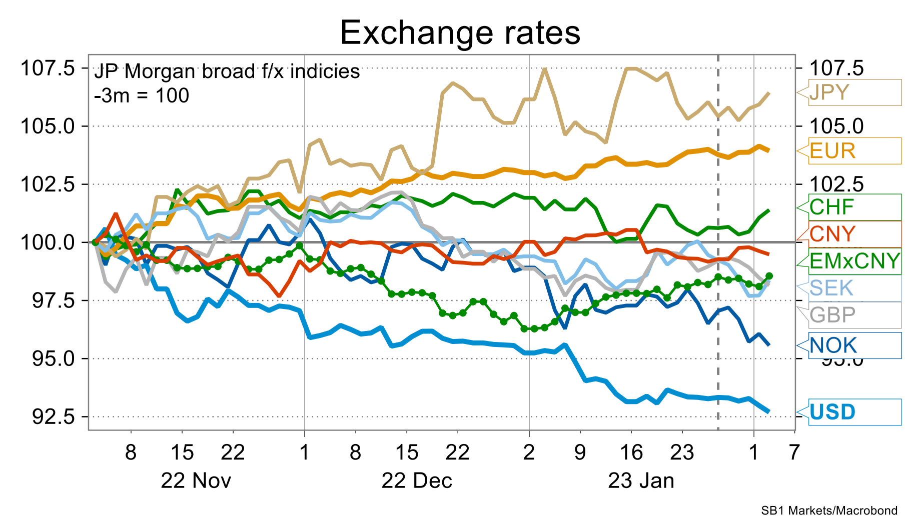
Risk on, equities rapidly up (abroad). Bond yields down

… but most bond yields were lower 2 weeks ago. Commodity prices (oil incl) mostly down. USD & NOK down





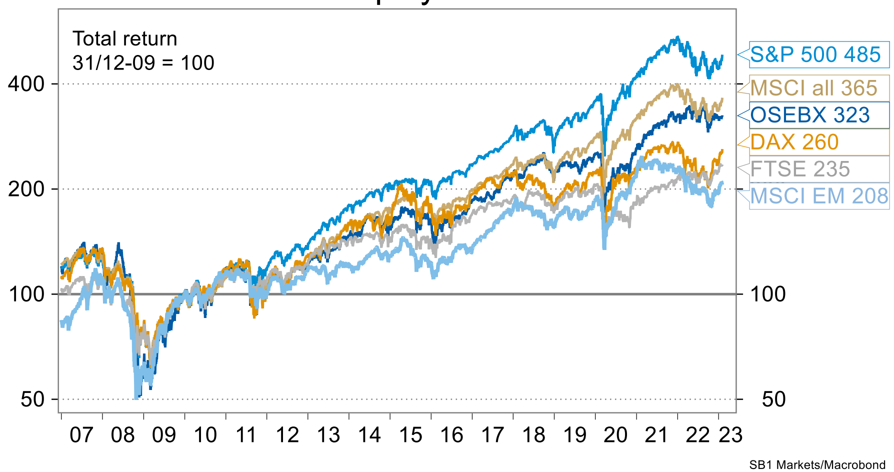




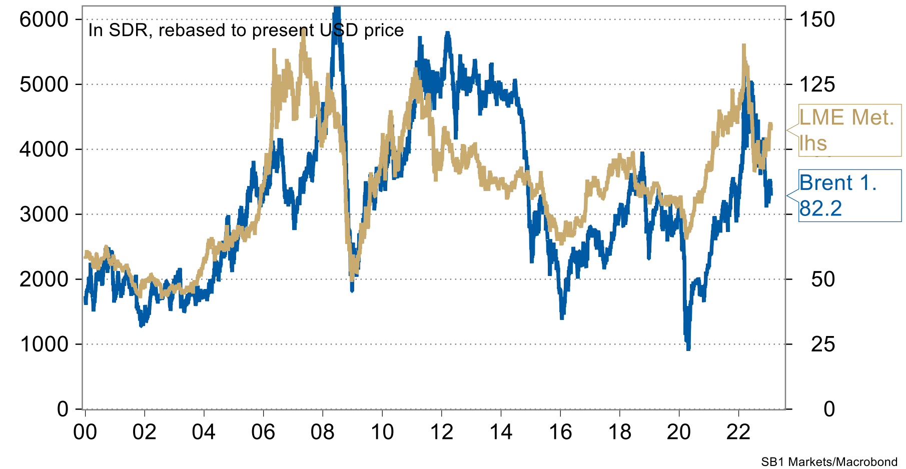
The long-term picture: Turning points? Equites on the way up again

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

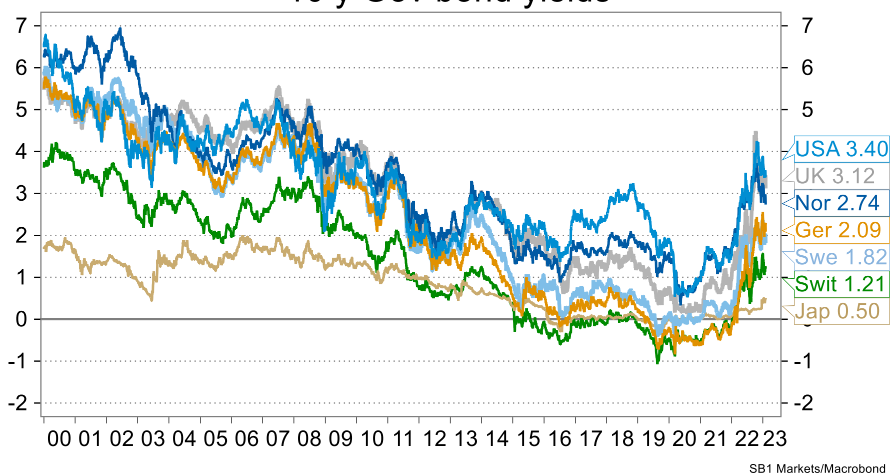
Equity Indices



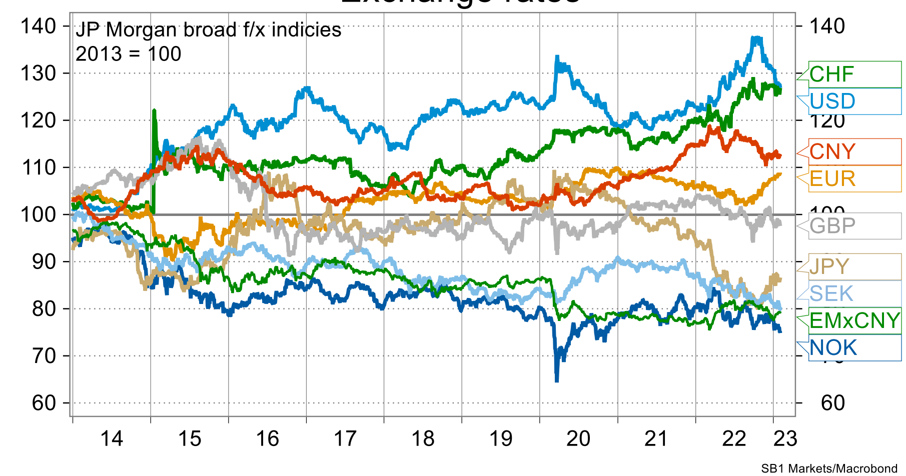
Oil vs. metals



10 y Gov bond yields



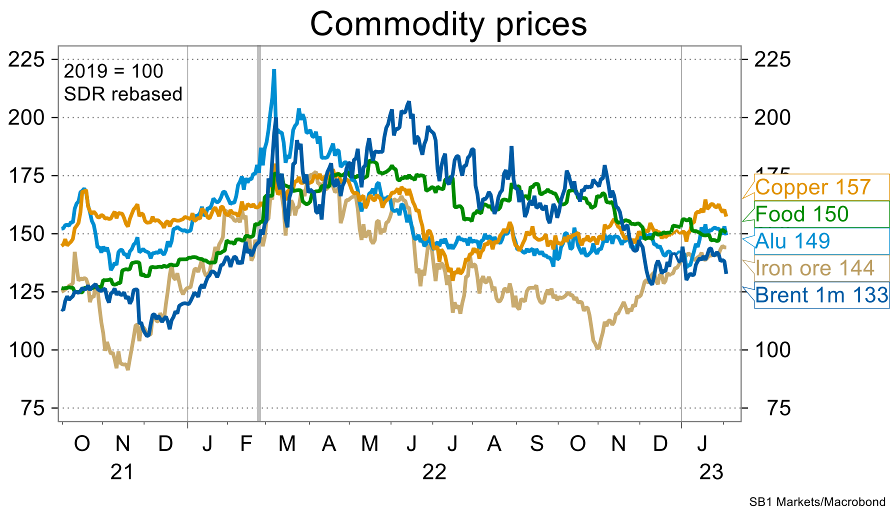
Exchange rates

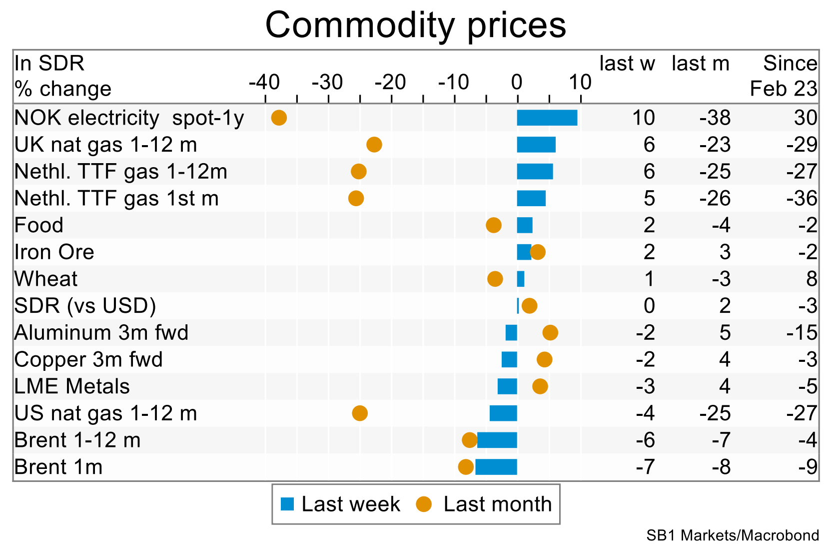


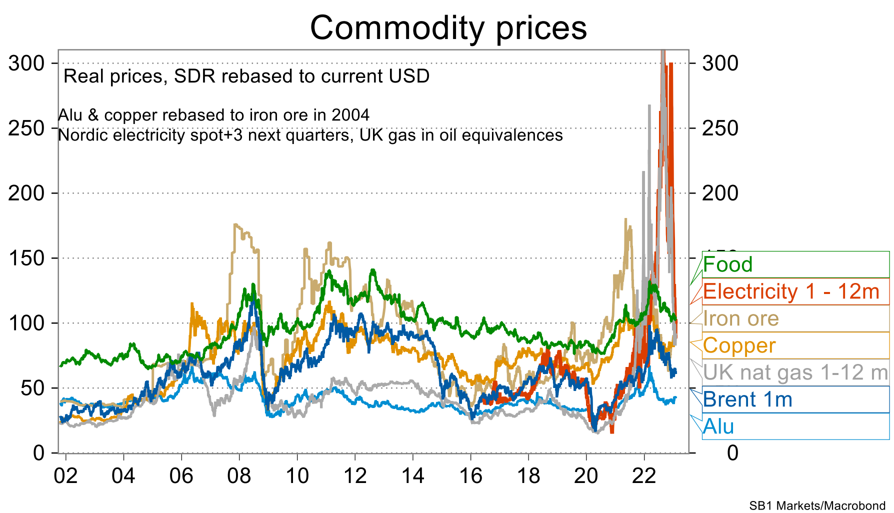
SpareBank 1 MARKETS

European energy prices up. Food prices up too, other commodities down

However, iron ore continued upwards





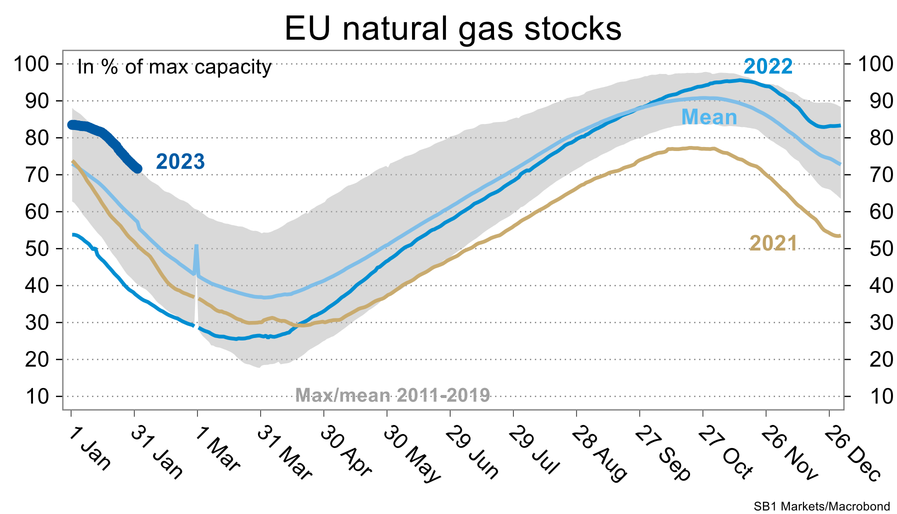


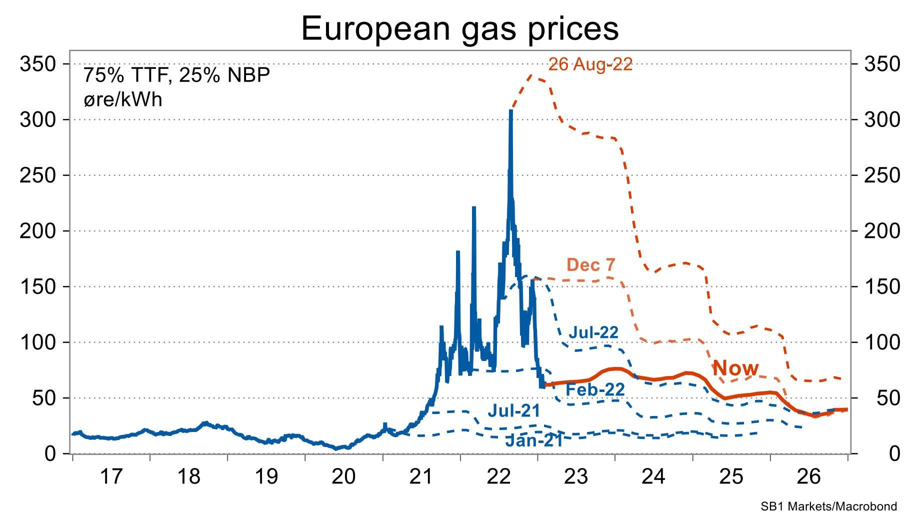
Last week – prices in SDR

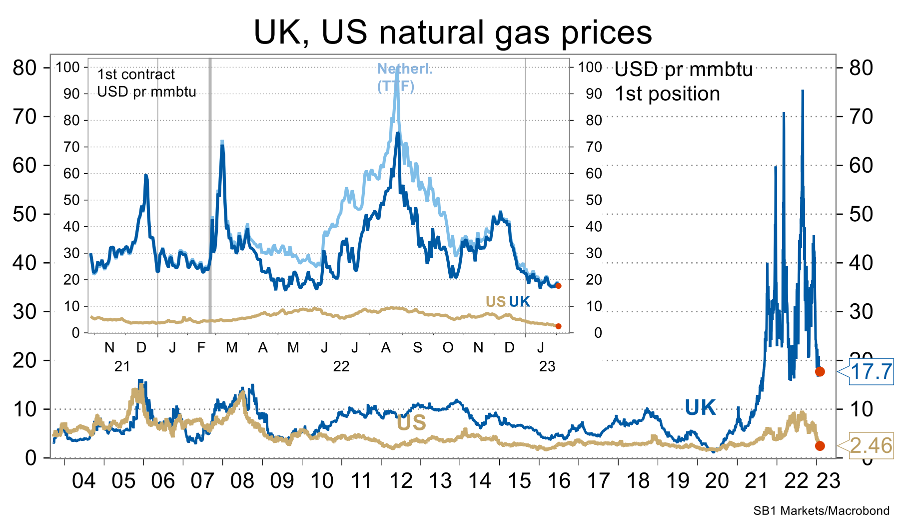
- **Oil prices** fell 6 – 7%
- **European natural gas** prices gained 5 – 7% - but the level is still 'low'
- **Iron ore** prices are still drifting upwards, just like other metals in the weeks prior, on hopes for a recovery in the Chinese demand following scrapping of Covid restrictions and Chinese stimulus measures (metal prices fell last week)
- **Food prices** rose, but is trending down

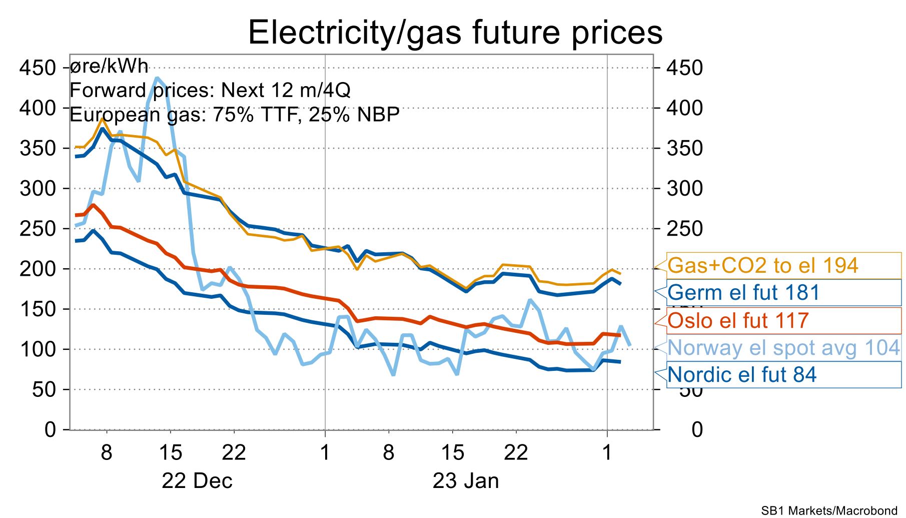
European gas stocks the highest ever but gas prices rose margianlly

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



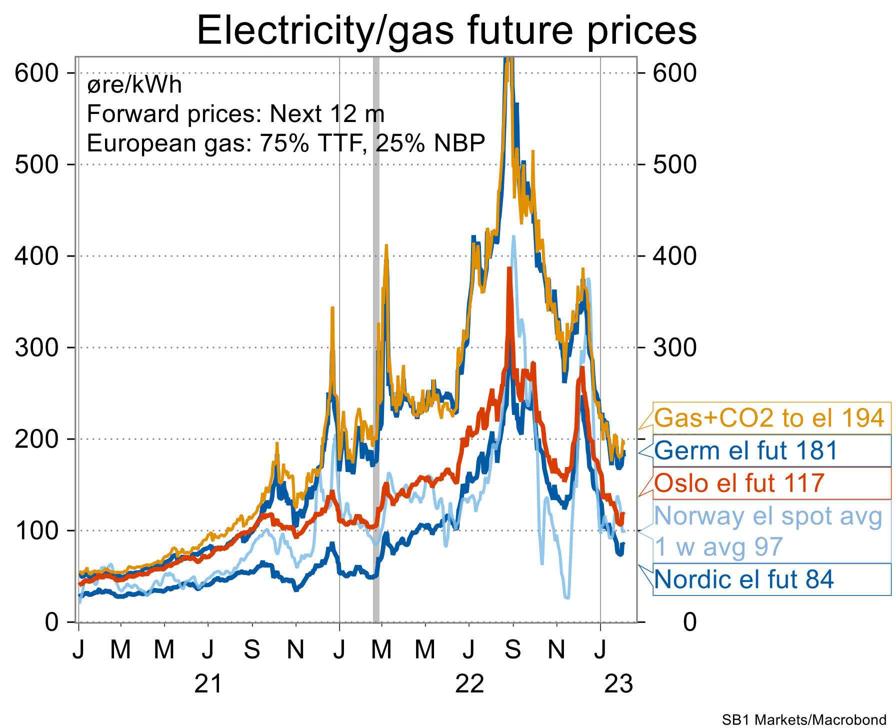


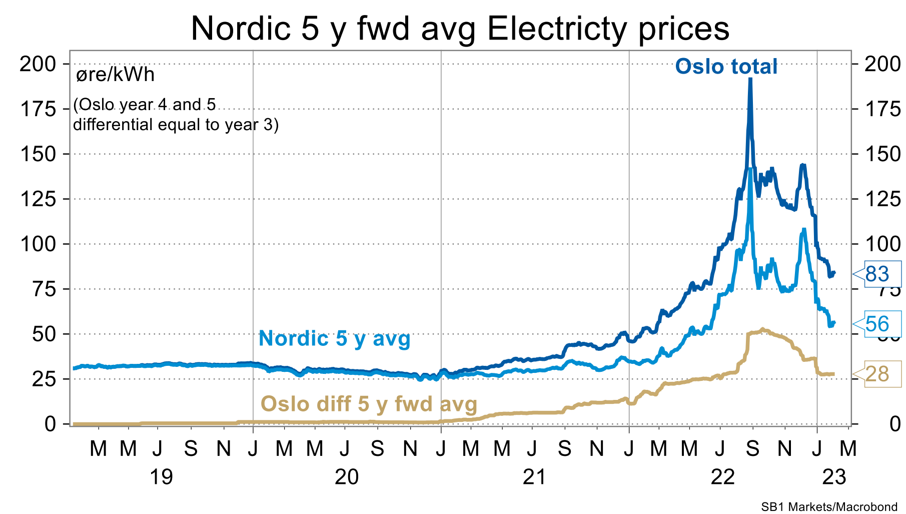


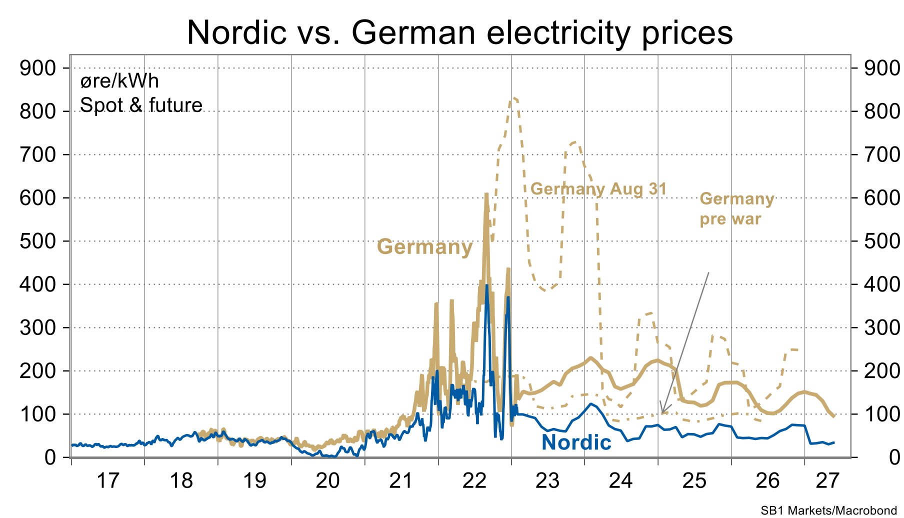


European gas/el. prices have fallen substantially

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

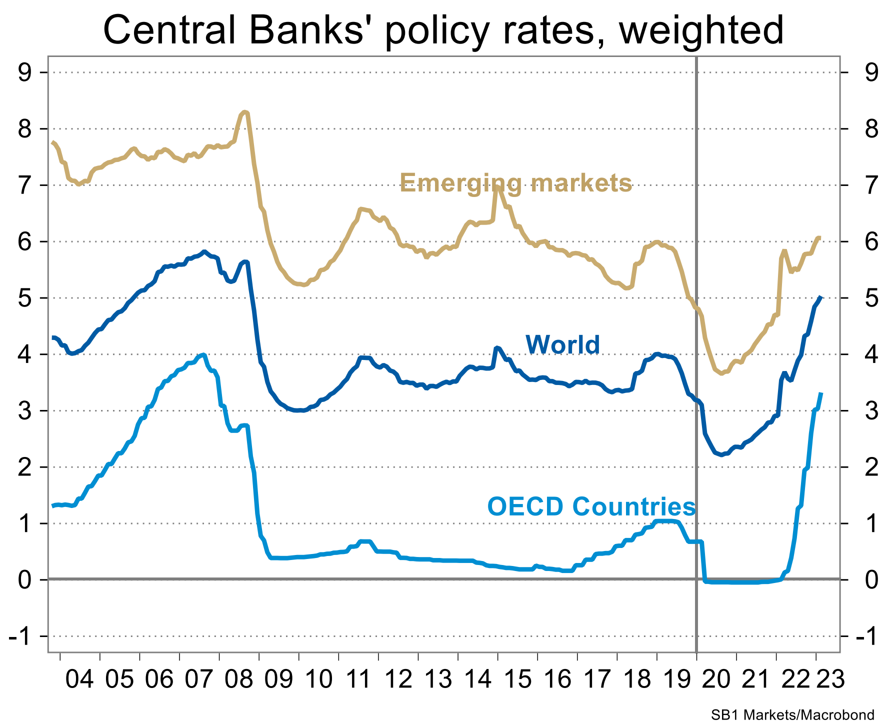


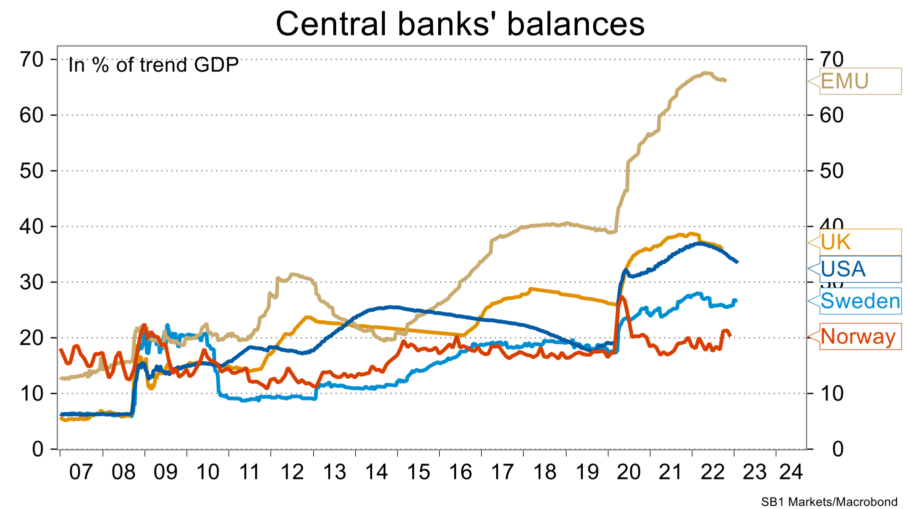


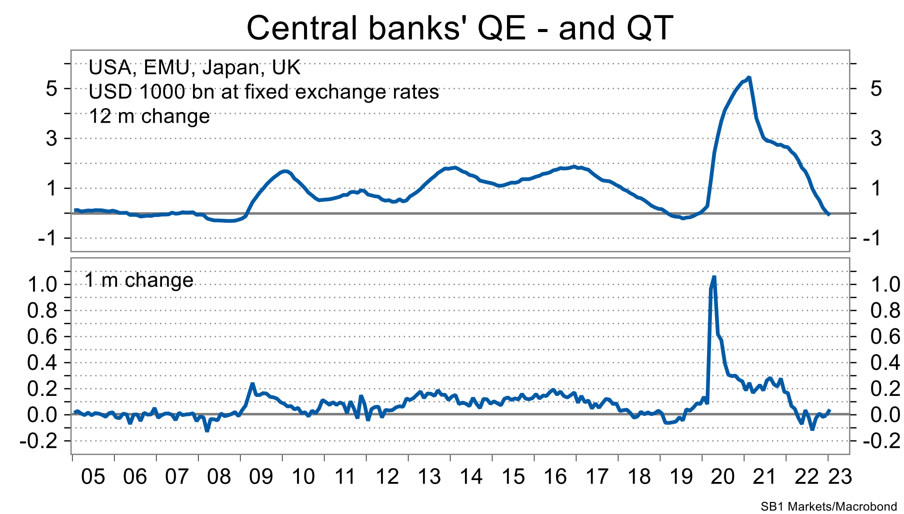


The global average signal rate is up to 5% from 2% at the bottom

… and 2.9% one year ago, +3.3 pp to 3.3% in rich countries. And now QE programs have turned into QT programs

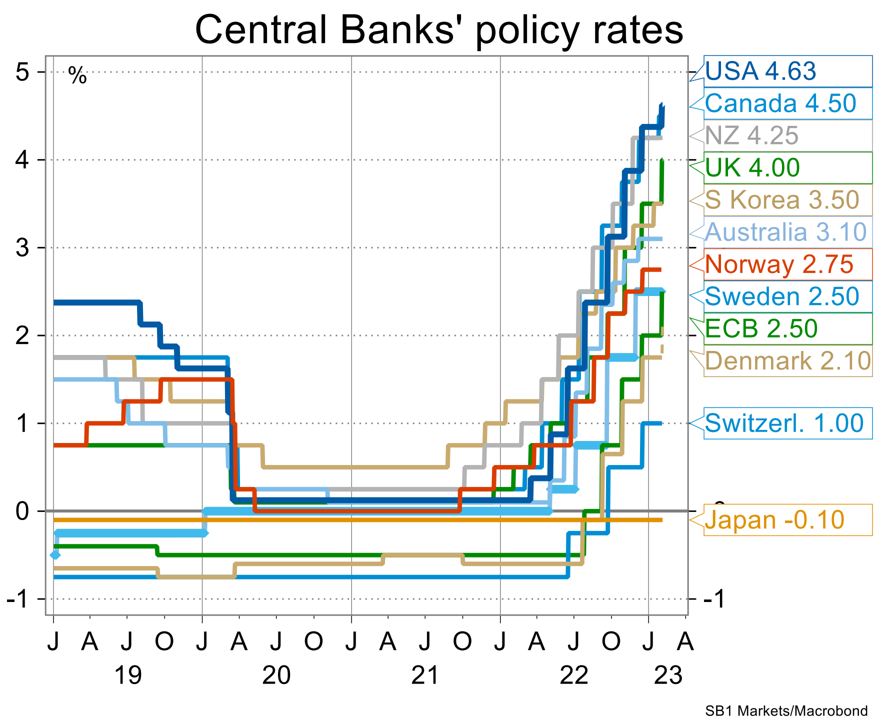


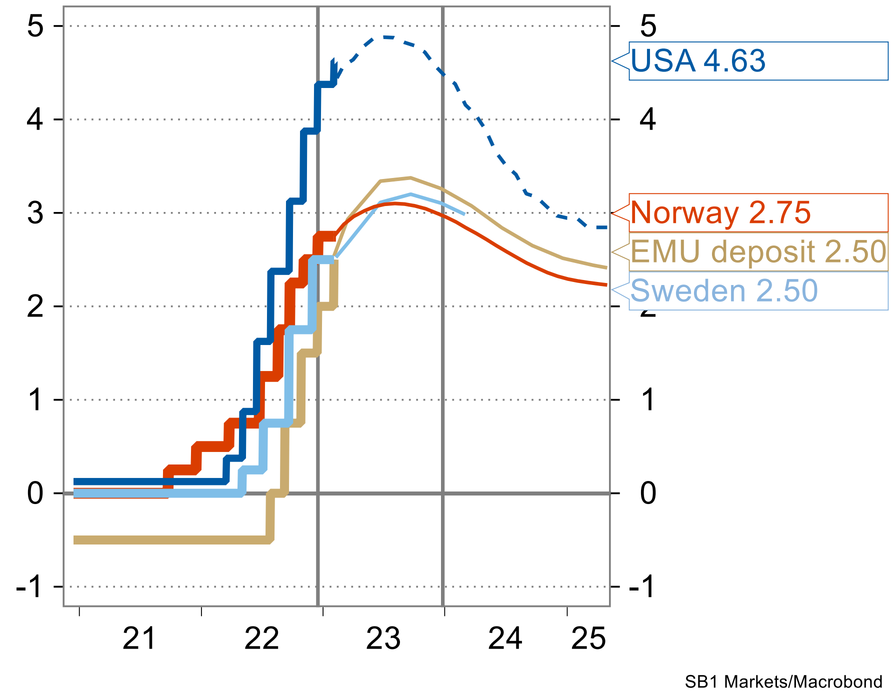




- The **EM average policy rate** is on the way up again, after a decline, due to the cut in the Russian and Turkish signal rates
- In addition to rate hikes, most central banks have ended their **QE buying programs**. Most banks have embarked on cutting back on their holdings, moving into the **QT zone**.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

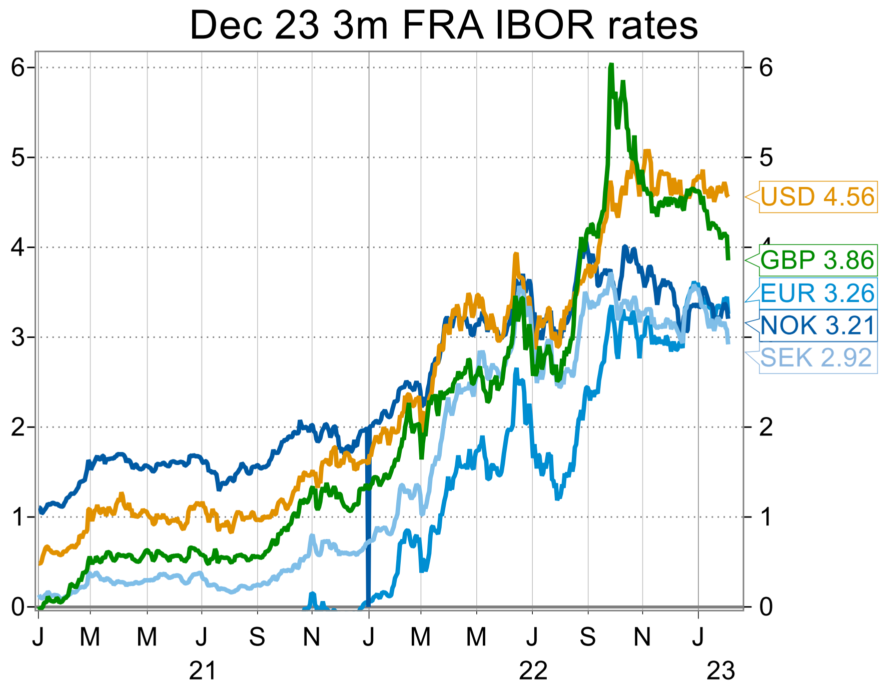
The they 'all' hiked once more. US is back in the lead

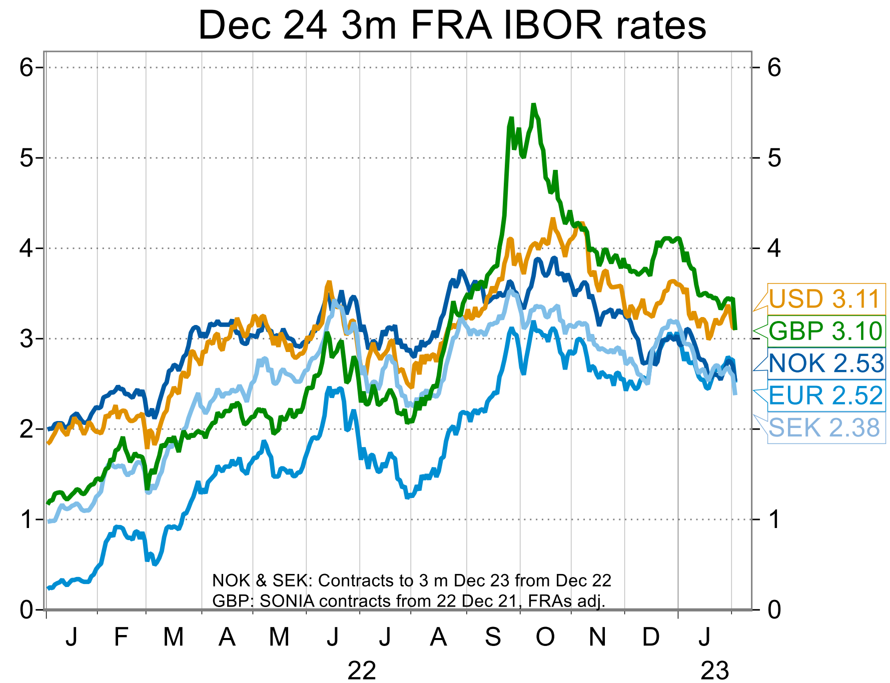




FRAs down all over, an by up to 30 bps (UK)

Substantial rate cuts are expected from mid-23





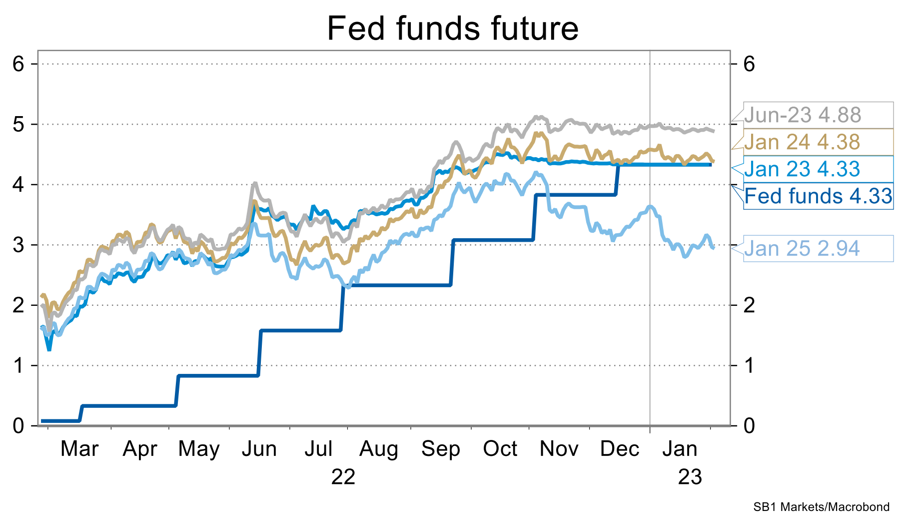
Dec 24 3m FRAs

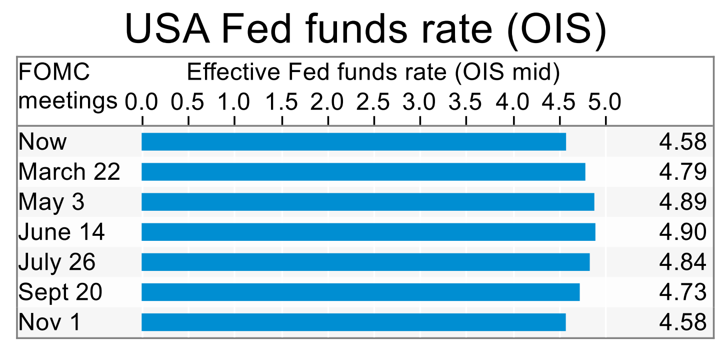
	Close	1w	1m	YDT
USD	3.11	-0.13	-0.49	-0.49
GBP	3.10	-0.28	-1.02	-1.02
NOK	2.53	-0.09	-0.41	-0.51
EUR	2.52	-0.17	-0.45	-0.55
SEK	2.38	-0.24	-0.75	-0.82

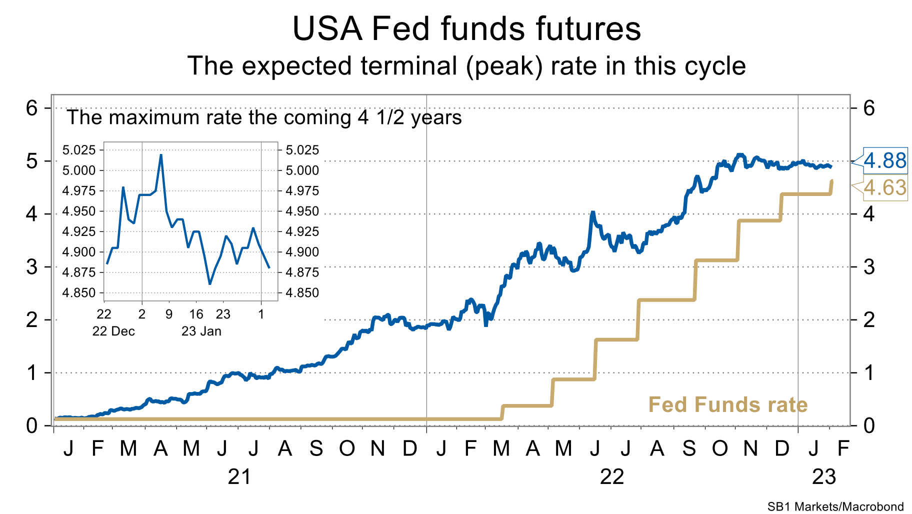
SB1 Markets/Macrobond

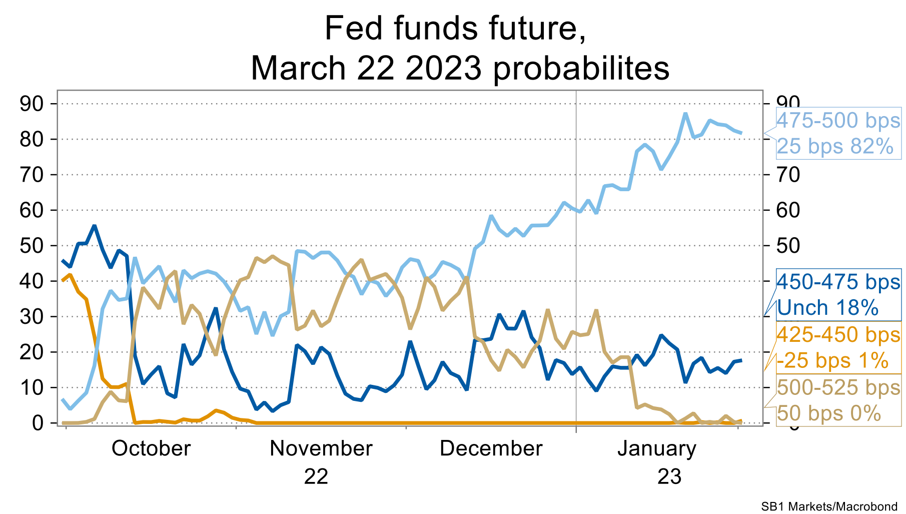
A further hike in March is most likely – but not a done deal

The expected peak – terminal – rate fell is unchanged vs. last week, and higher than two weeks ago





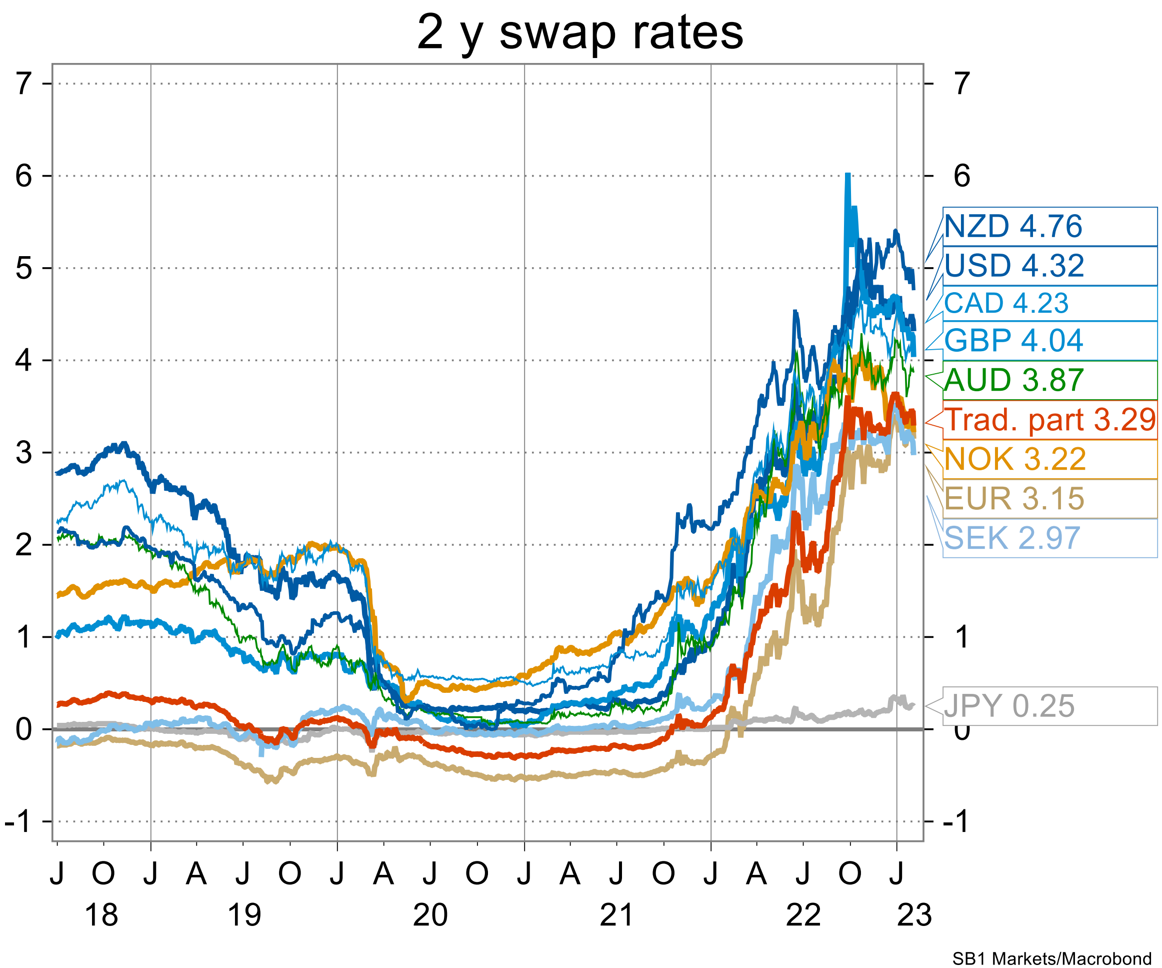


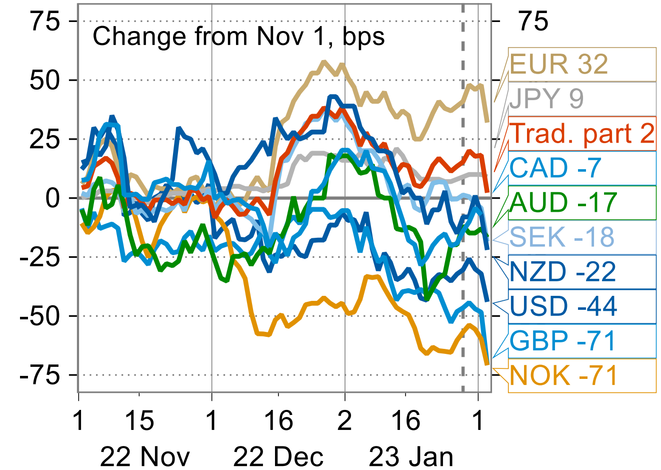


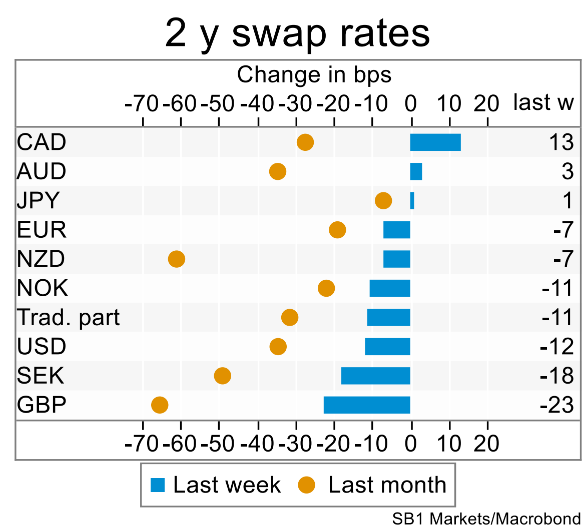
SpareBank 1 MARKETS

2 y swaps mostly down last week – and the most in GBP. The trend is down

CAD and AUD rates rose

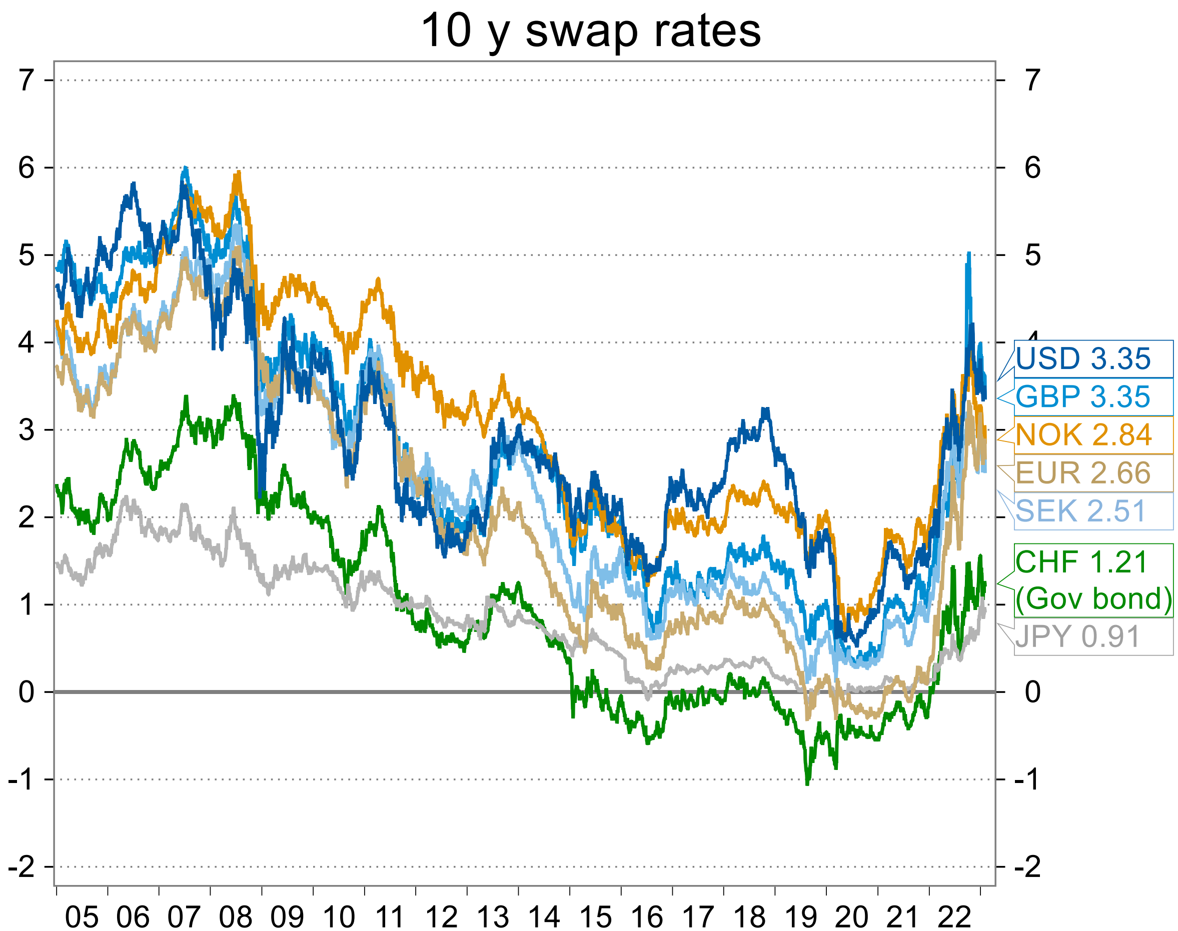




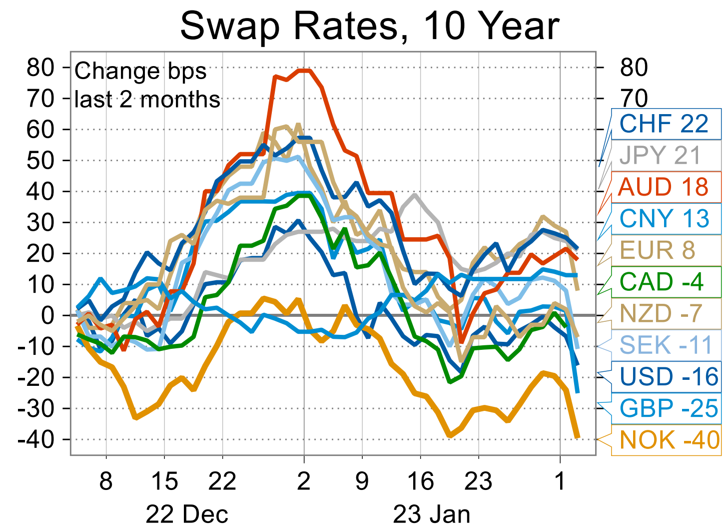


10 y swaps mostly down last week – and the most in GBP. The trend is down

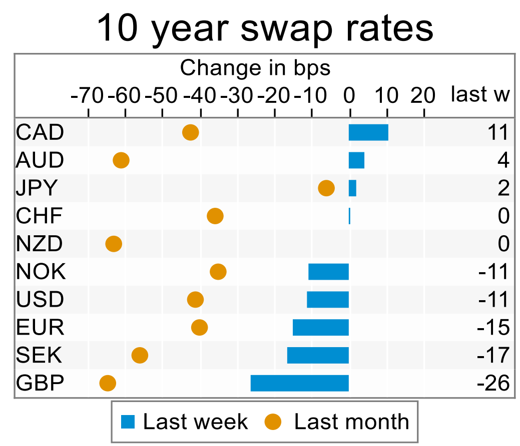
CAD and AUD rates rose



SB1 Markets/Macrobond



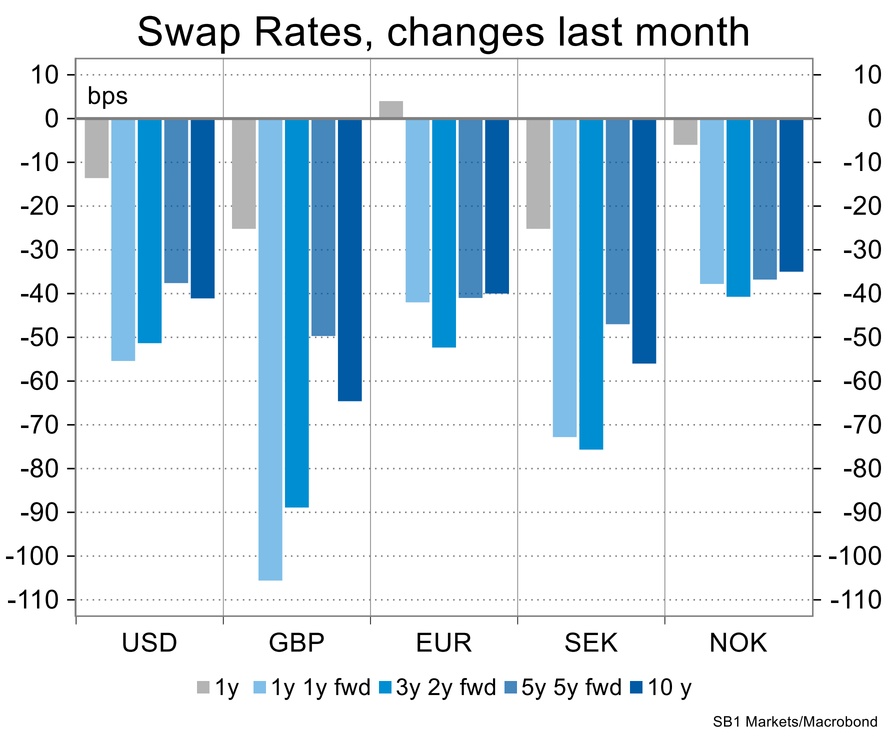
SB1 Markets/Macrobond

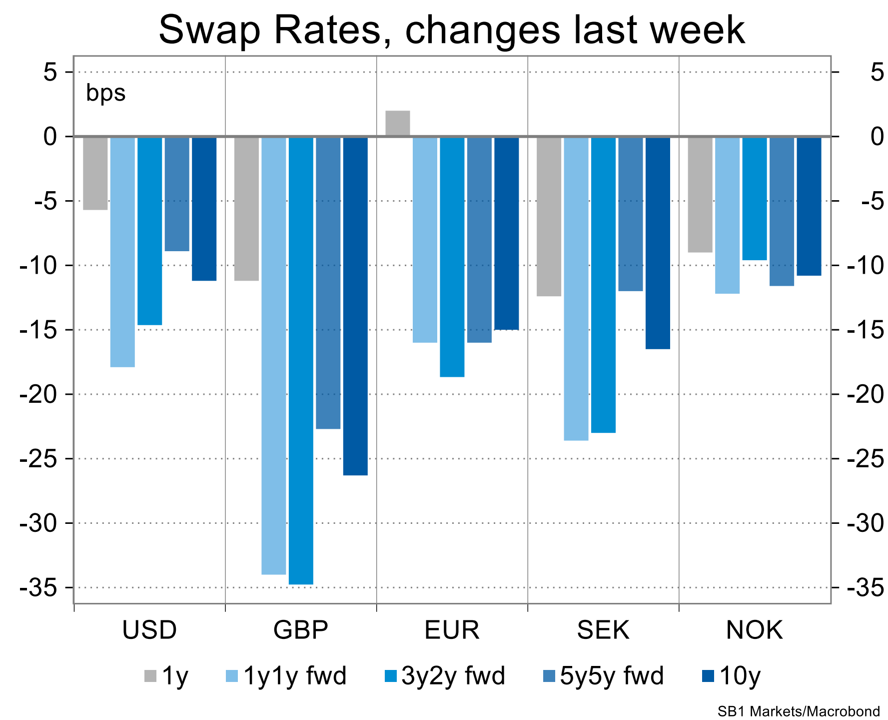


SB1 Markets/Macrobond

A massive decline in interest rates last week, and by the most in UK

NOK fell the least, together with USD rates

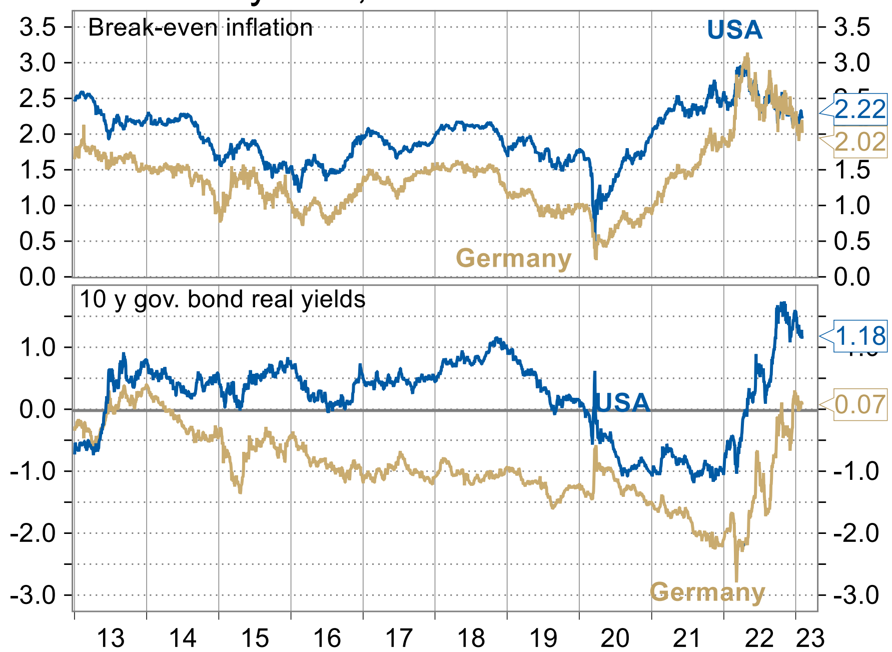




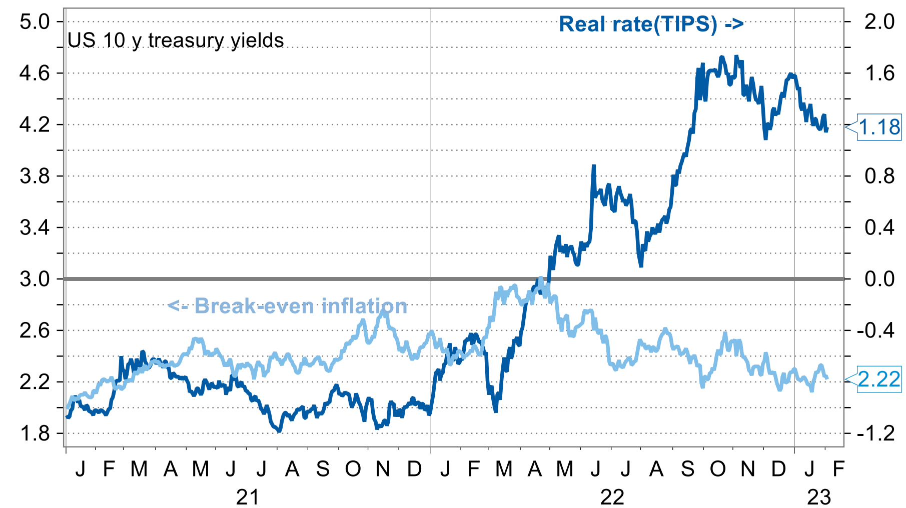
US real rates rose marginally last week, while inflation expectations fel

The sum fell 9 bps to 3.40%. A parallel change in Germany!

Real yields, break-even inflation



SB1 Markets/Macrobond



- In the US, a 10 y CPI expectation at 2.22% 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 last week
- The German 10 y break-even is around zero – a low level. In the EUR swap market, real rates fell by 16 bps

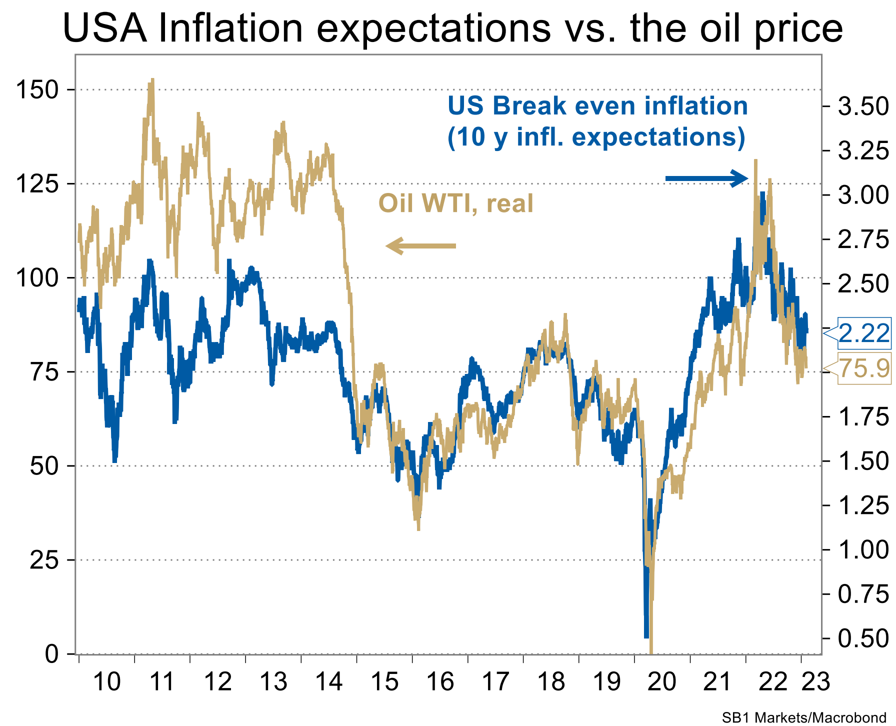
US & Germany 10 y Gov bond yield

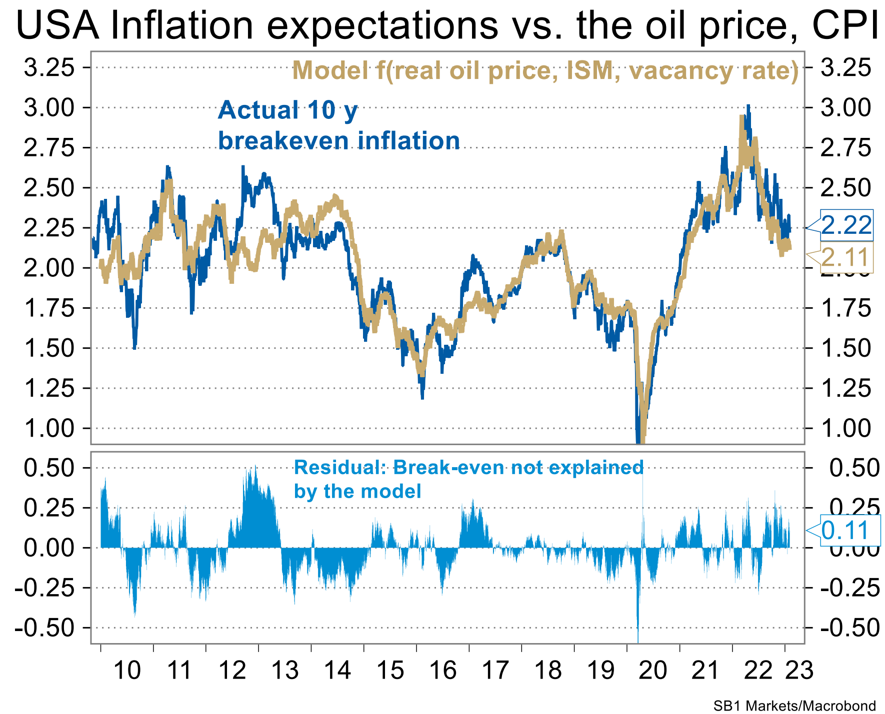
	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	3.40	-0.09	-0.48	-0.48	0.52
.. break-even inflation	2.22	-0.11	-0.08	-0.08	1.06
.. TIPS real rate	1.18	0.02	-0.40	-0.40	-1.19
Germany nominal bund	2.09	-0.08	-0.35	-0.47	-0.64
.. break-even inflation	2.02	-0.09	-0.19	-0.27	0.42
.. real rate	0.07	0.01	-0.16	-0.20	-2.80

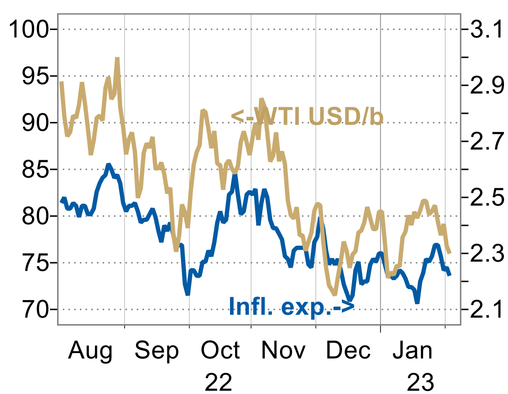
SB1 Markets/Macrobond

US inflation break-even inflation expectations are trending down

The current break-even is 11 bps above our model current f'cast (based on the oil price, ISM & the vacancy rate)

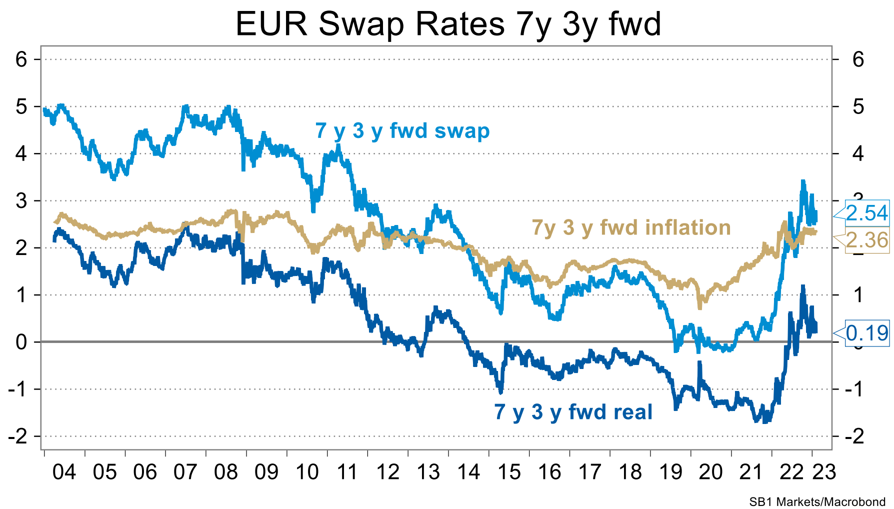


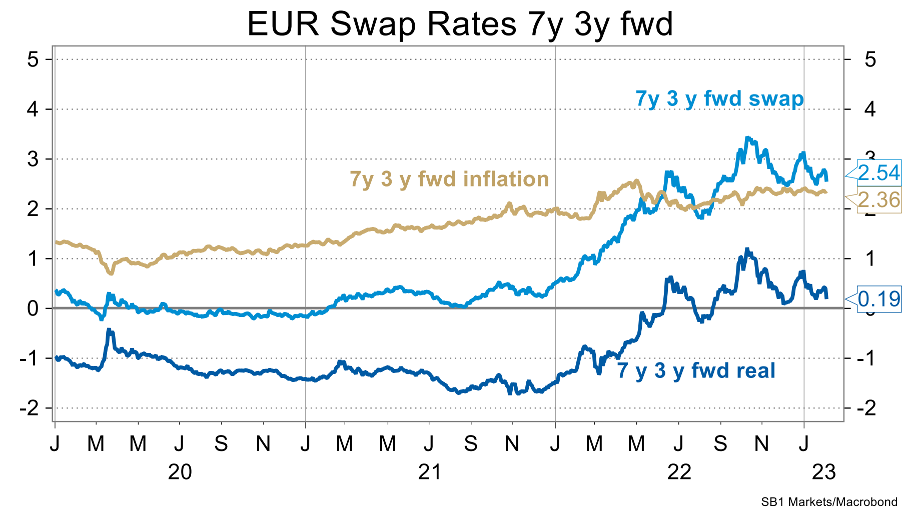


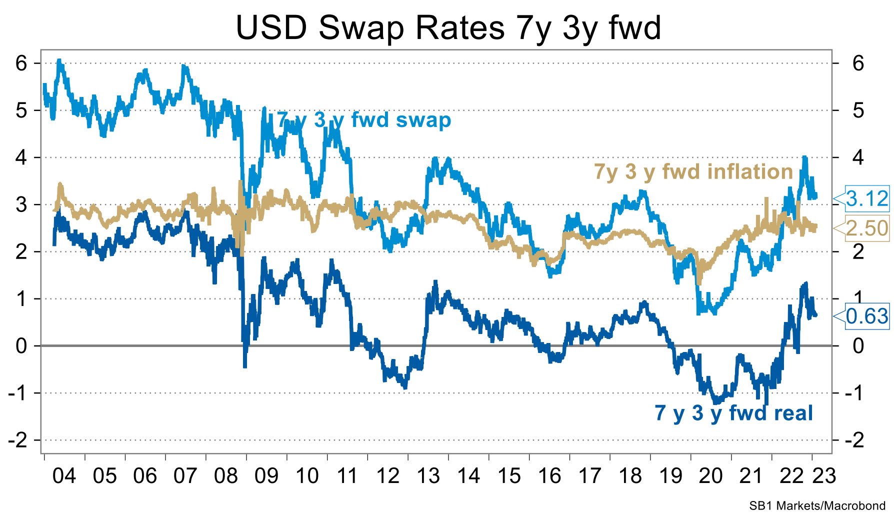


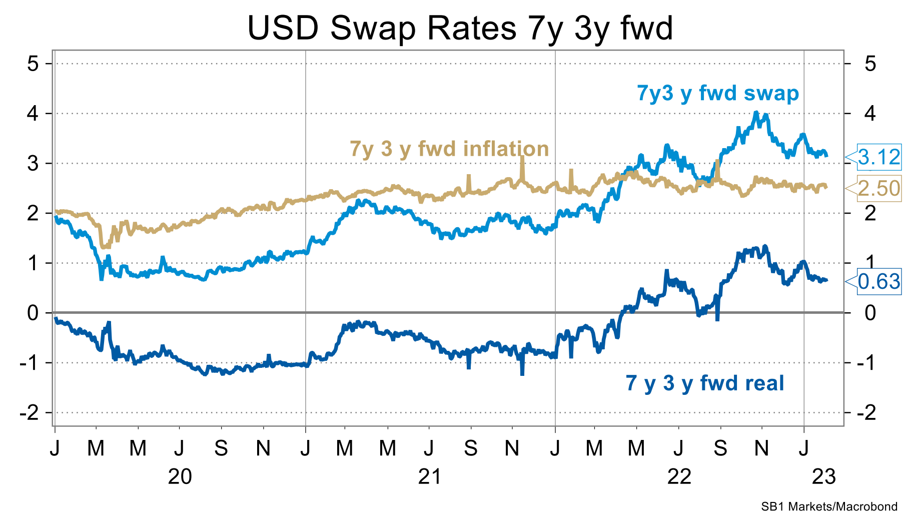
- A simple model including the spot oil price, the current ISM and the current vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve
- What now? The actual break-even is in line with the model forecast. We are uncertain about the oil price, but rather 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 labour market vacancy pts, (to 3.2% from 6.5%): -36 bps
  - - 10 USD/b: -10 bps

European real (swap) rates down last week

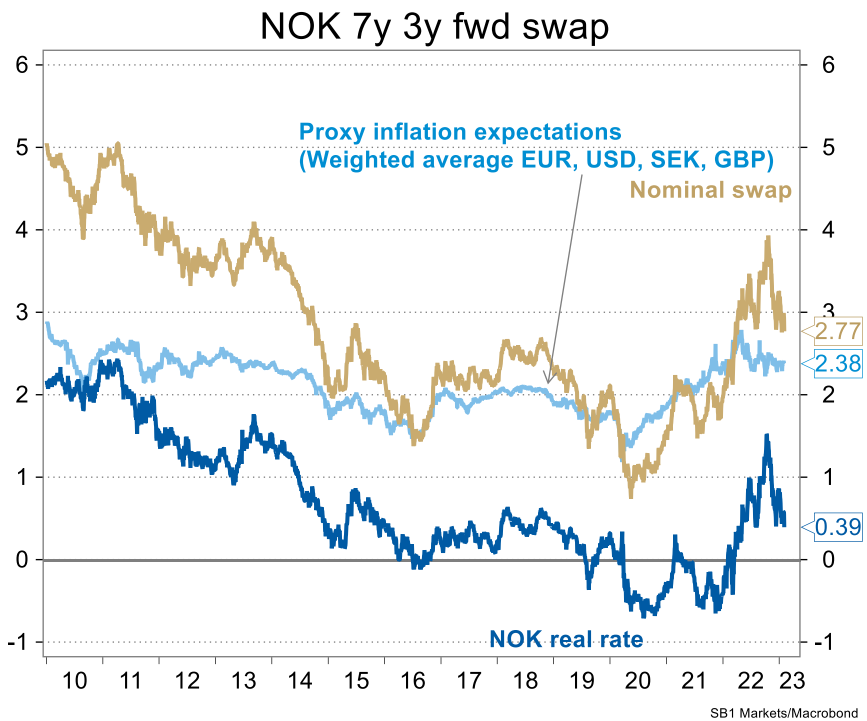


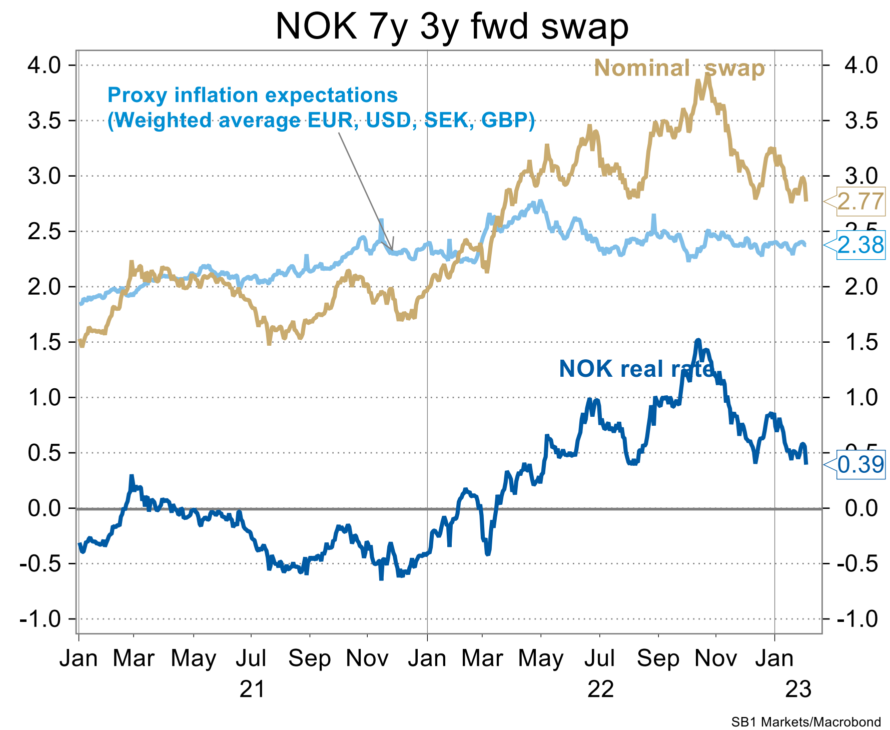


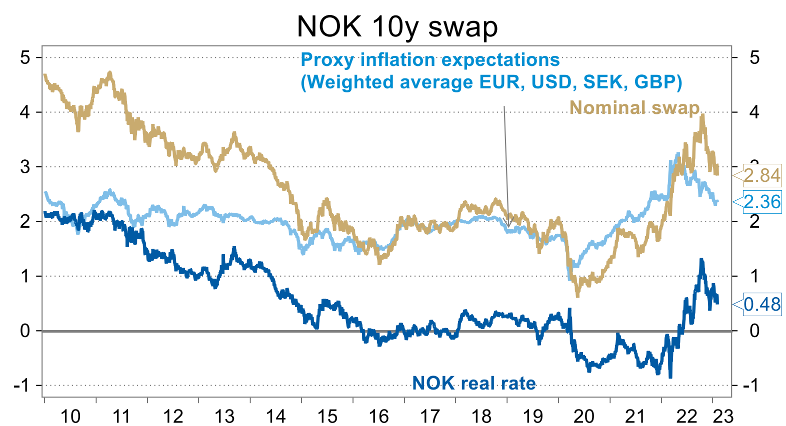




NOK real rates also down last week



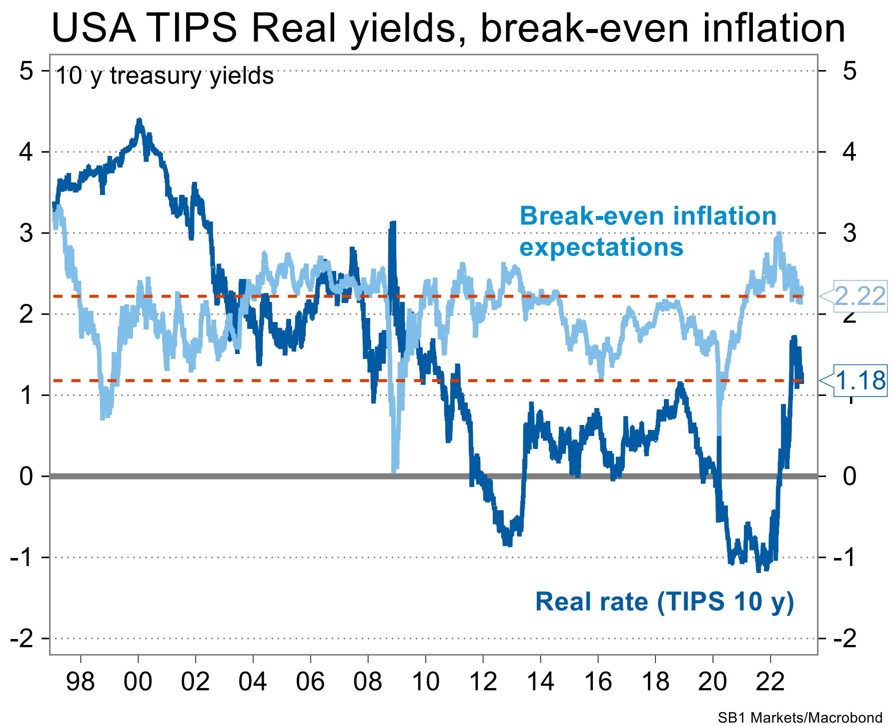


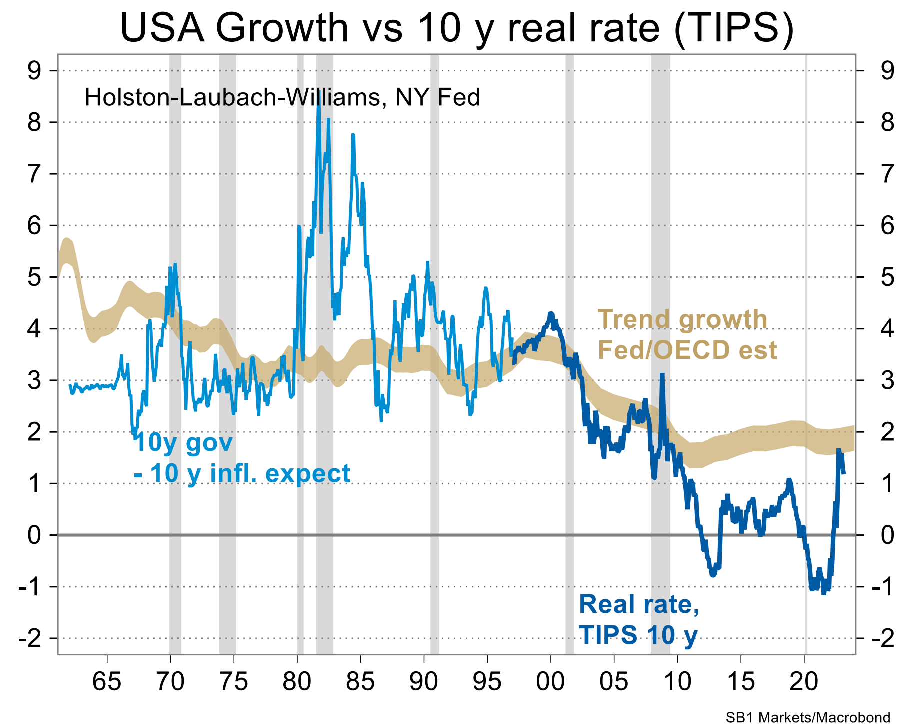


Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys

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

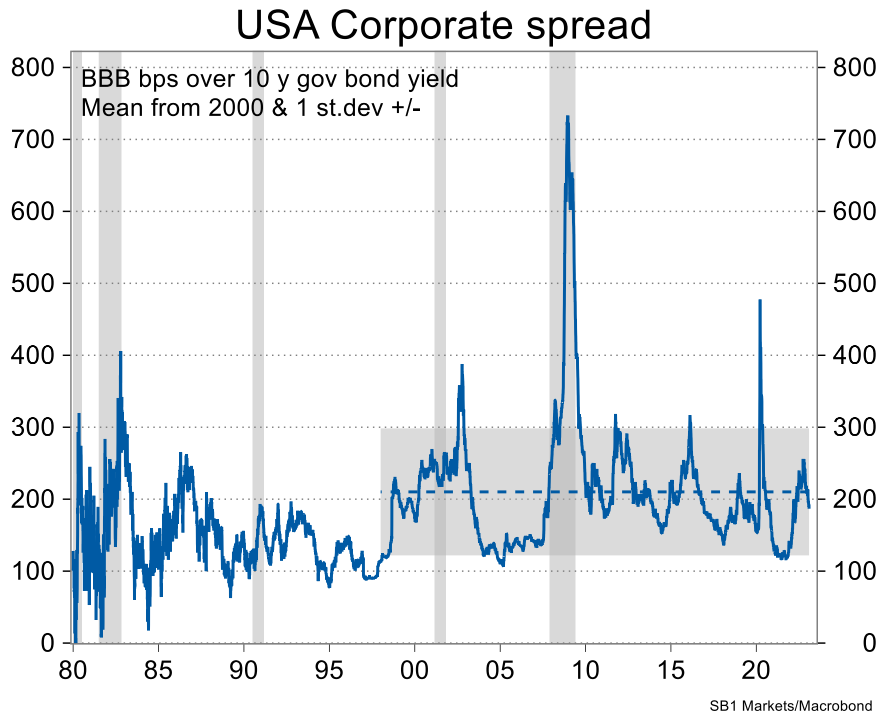
At least not compared to the differential during the pandemic

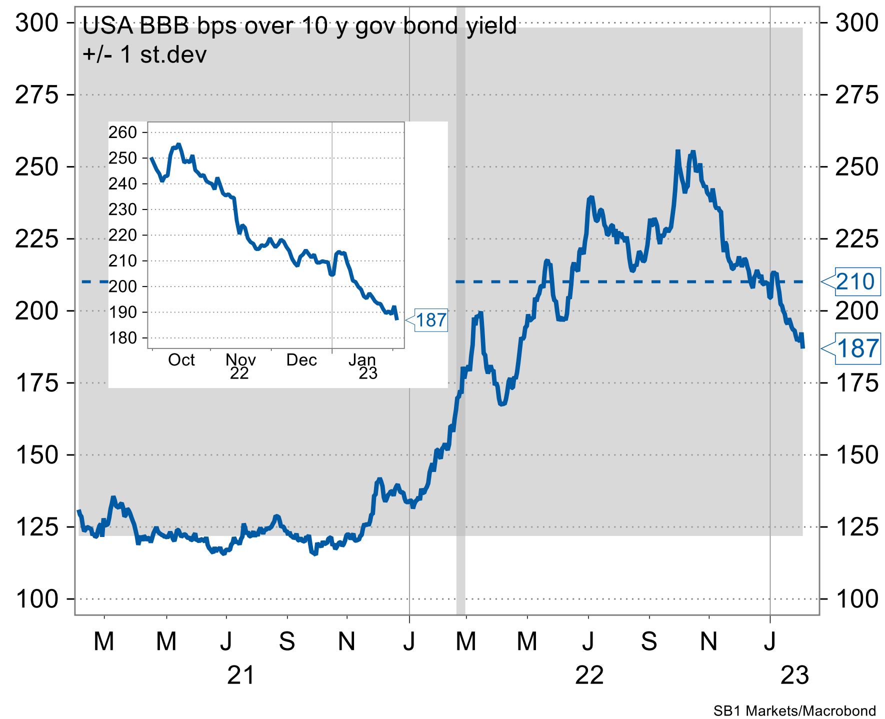




Risk on: Credit spreads further down

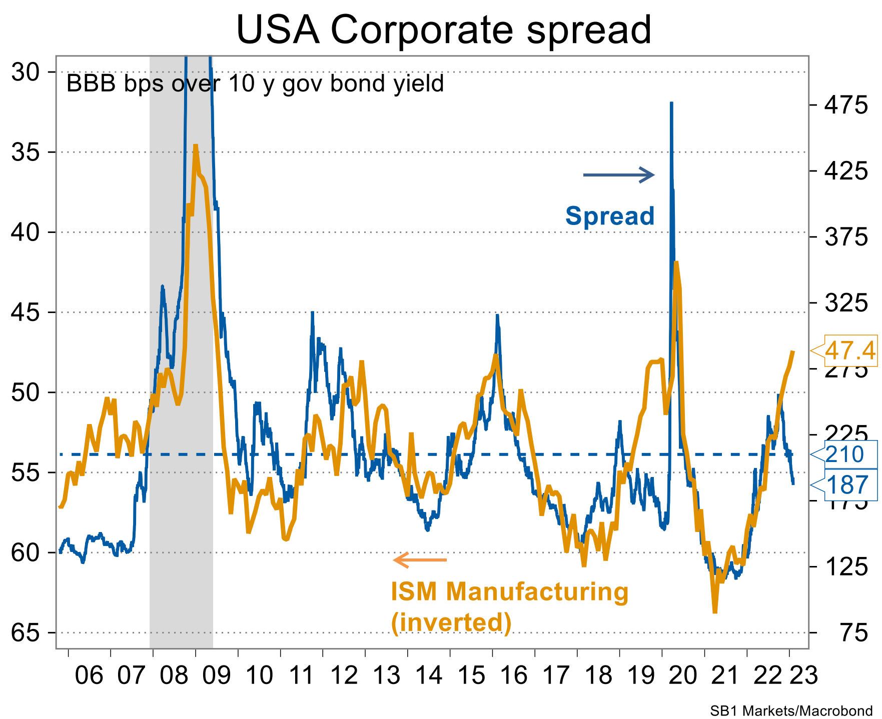
Even so, we think the spreads are exposed to a weakening economy

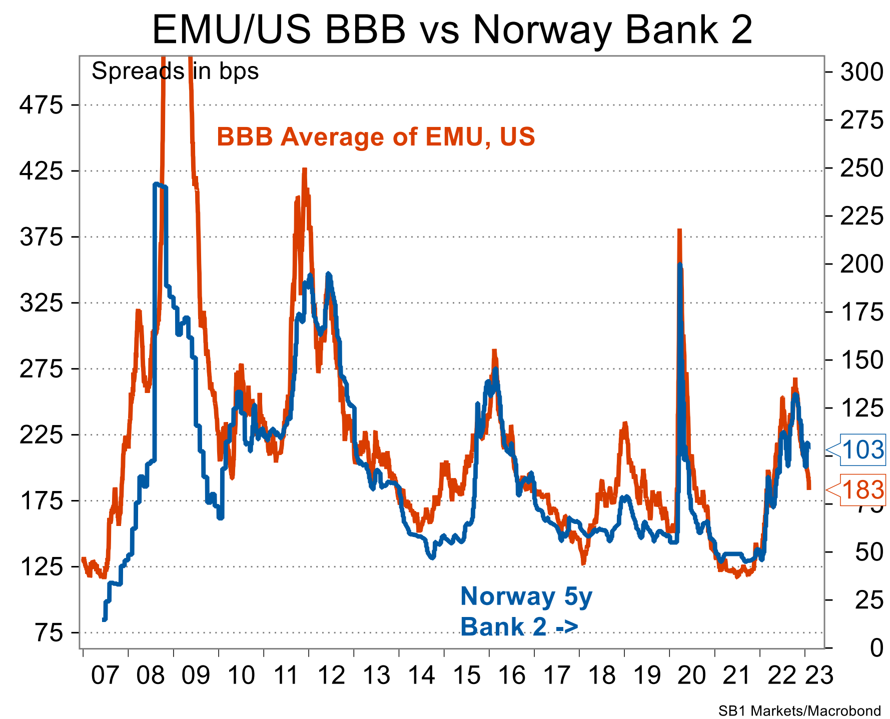




Mind a new gap: The economy is weakening (ISM), and spreads are narrowing

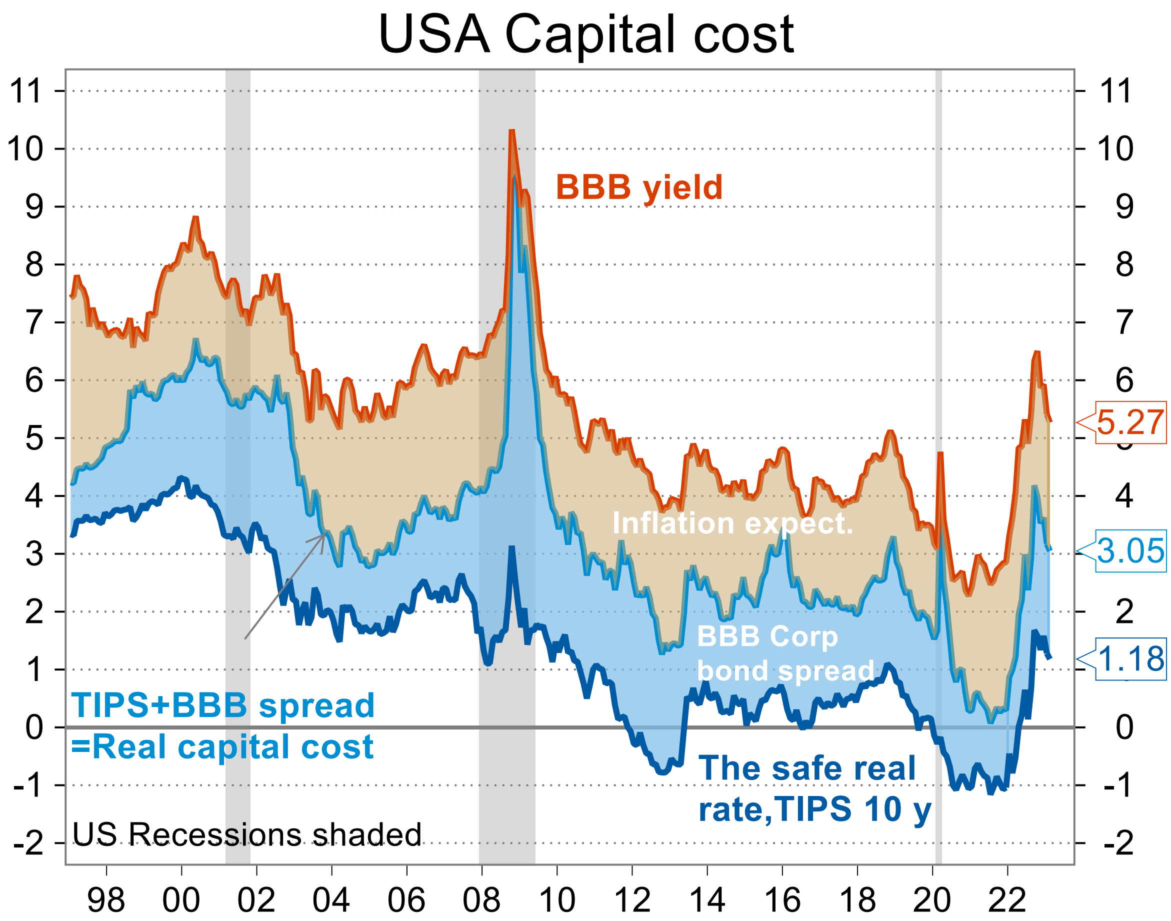
What do you think is more likely: An ISM at 45 or 55 before summer? We are quite sure, it's at 47 already





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

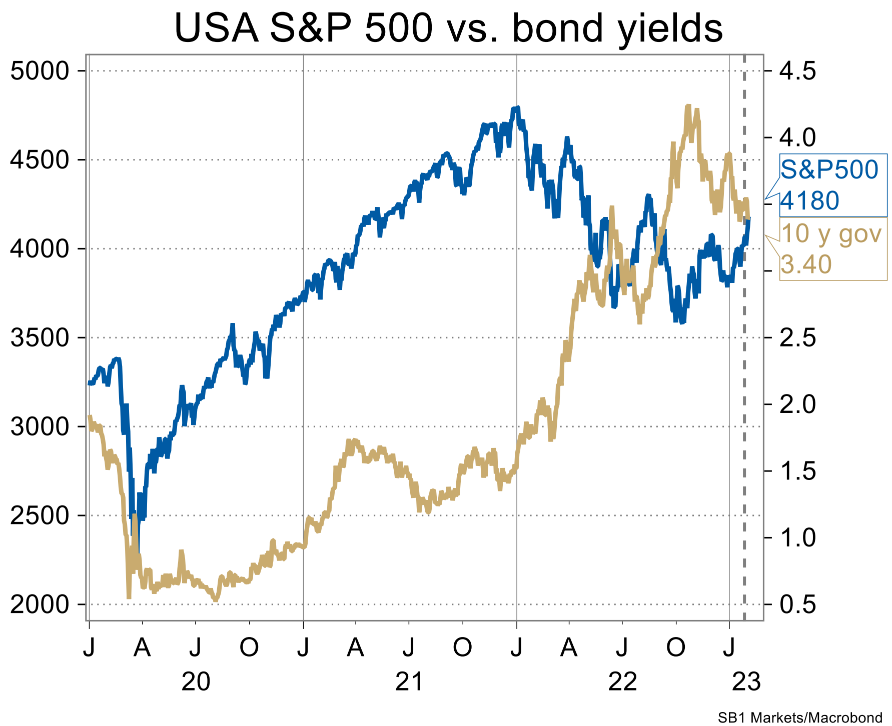
All valuation metrics have changed dramatically. *As have all calculations of return on capital*

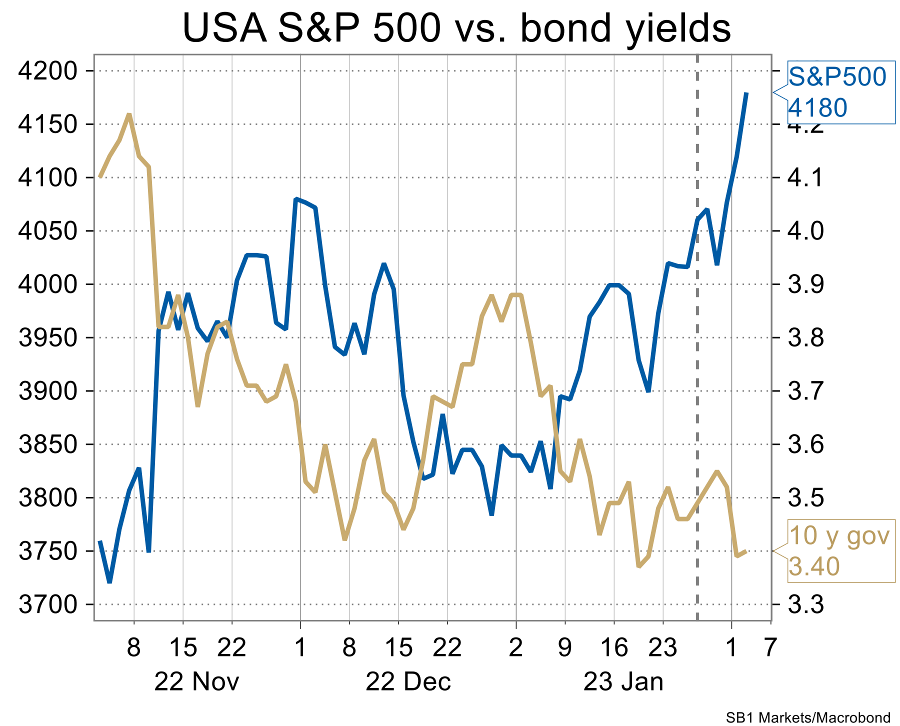


SB1 Markets/Macrobond

- **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 + 118 bps
  - The BBB corporate investment grade spread is up from 120 bps to 187 bps
- Add on modest inflation expectations, the nominal borrowing cost has increased from well below 3% to 5.3% (though down from 6.7% at the local peak last October)

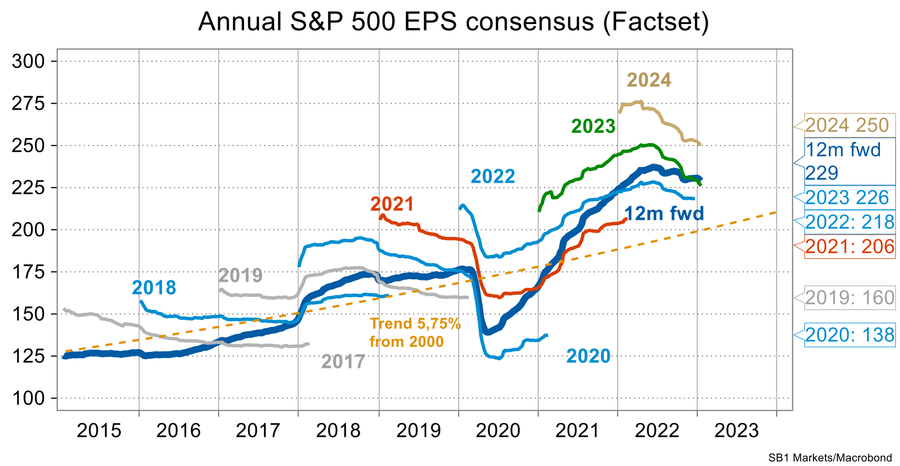
S&P up 2.7%, the 10 y bond yield down 9 bp to 3.40%

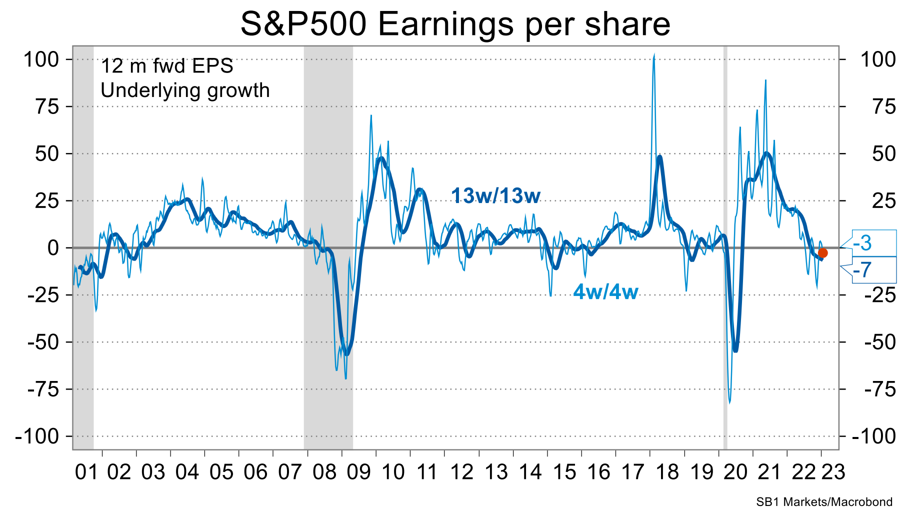


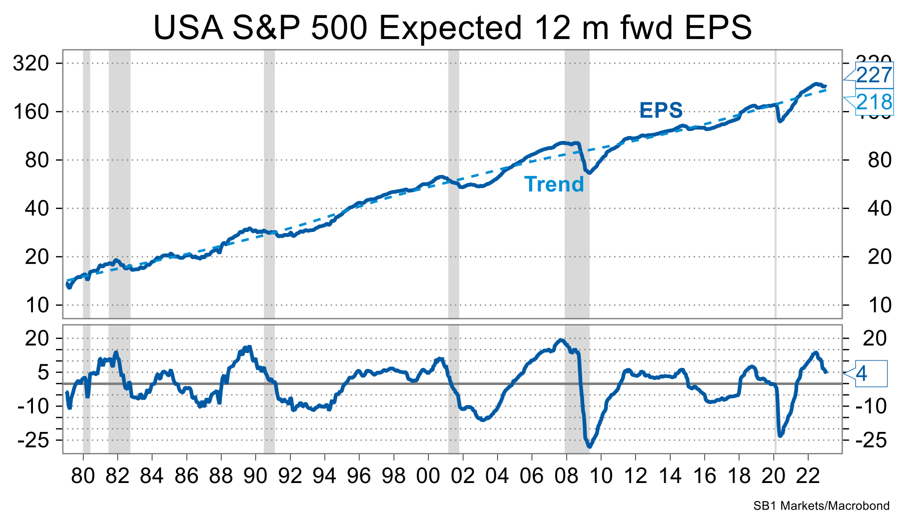


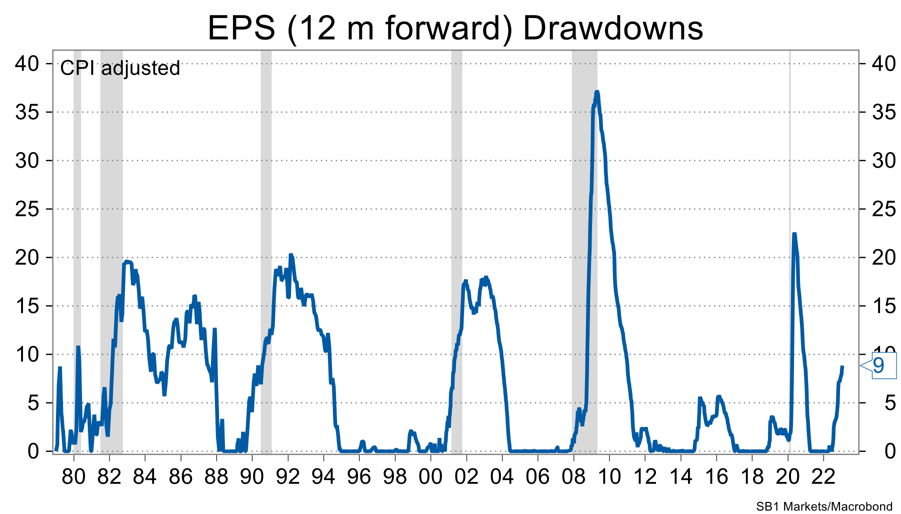
Earnings forecasts have almost stabilised – but the risk still on the downside

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





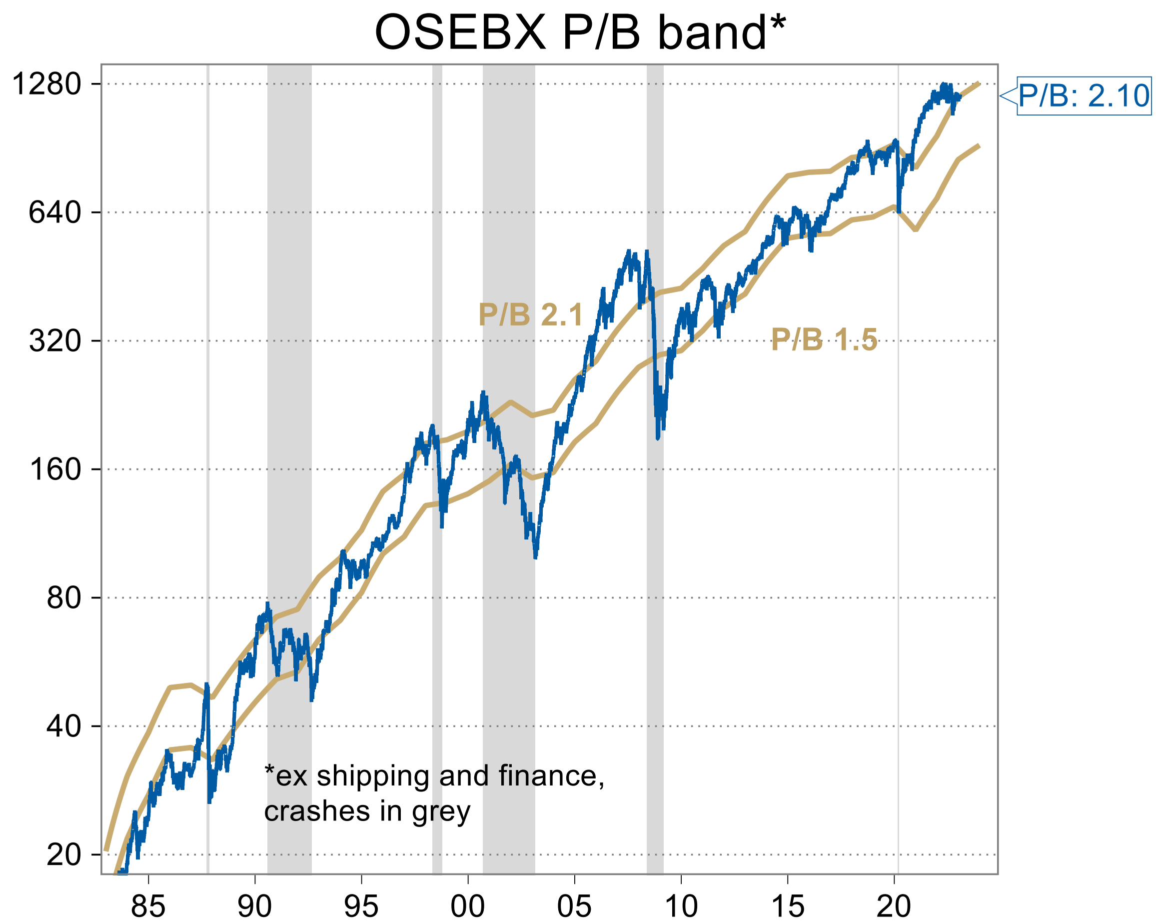




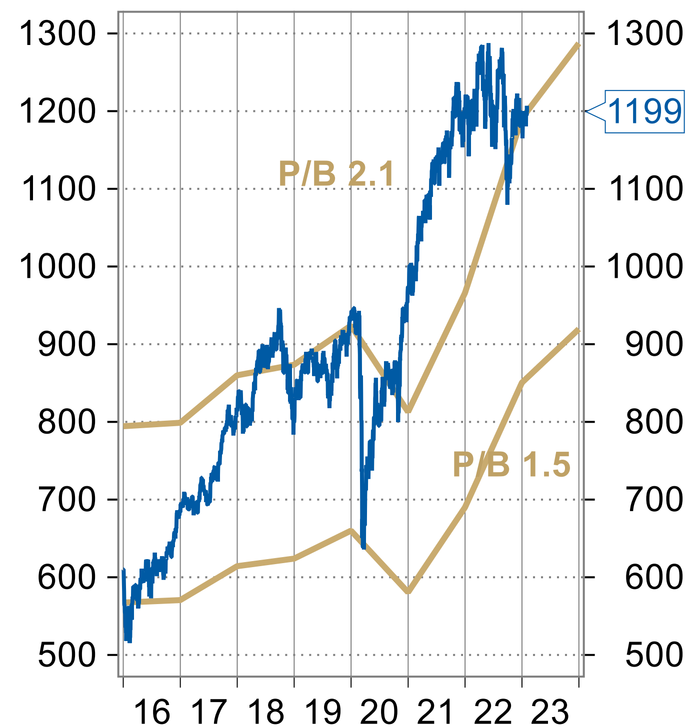
SpareBank 1 MARKETS

The OSEBX unch last week – and 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??



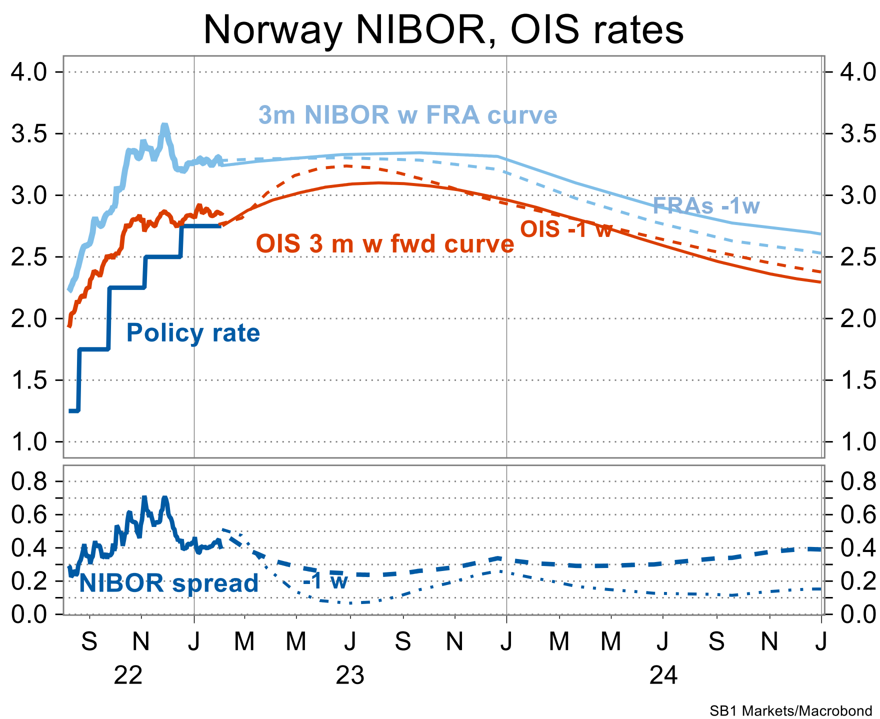
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

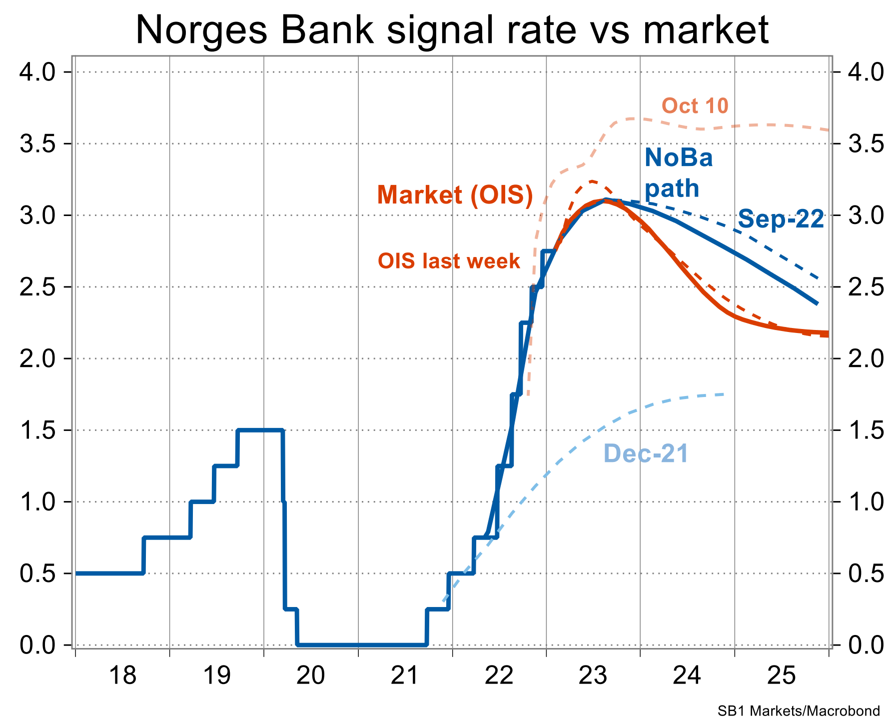


Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

The expected NoBa peak rate down some 15 bps – down to NoBa's Dec path

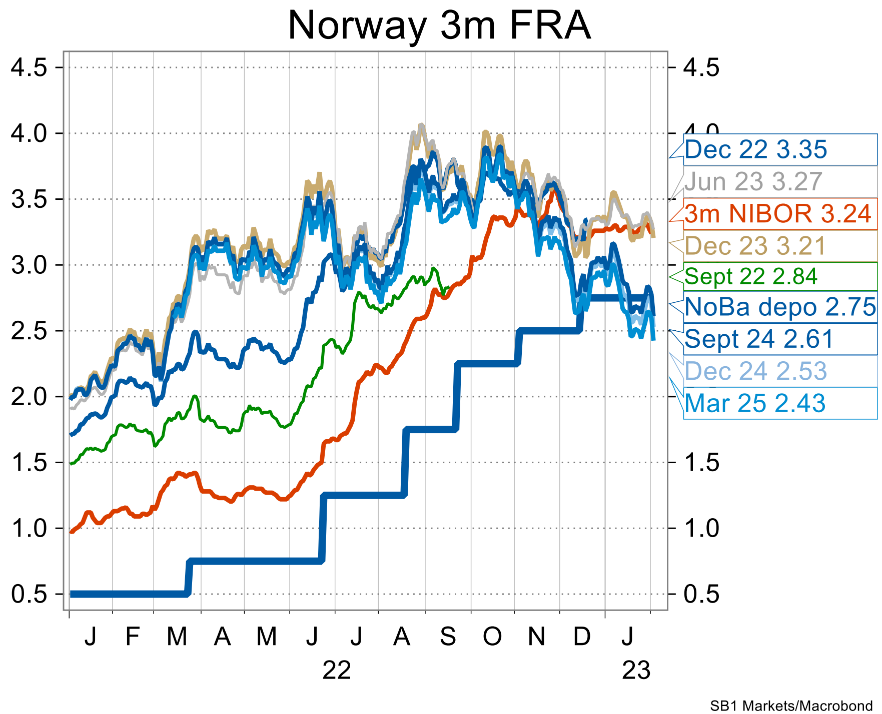
Still the market assumes a 1/3 probability for a 2nd 2023 hike, in June. A cut is discounted in early 2034

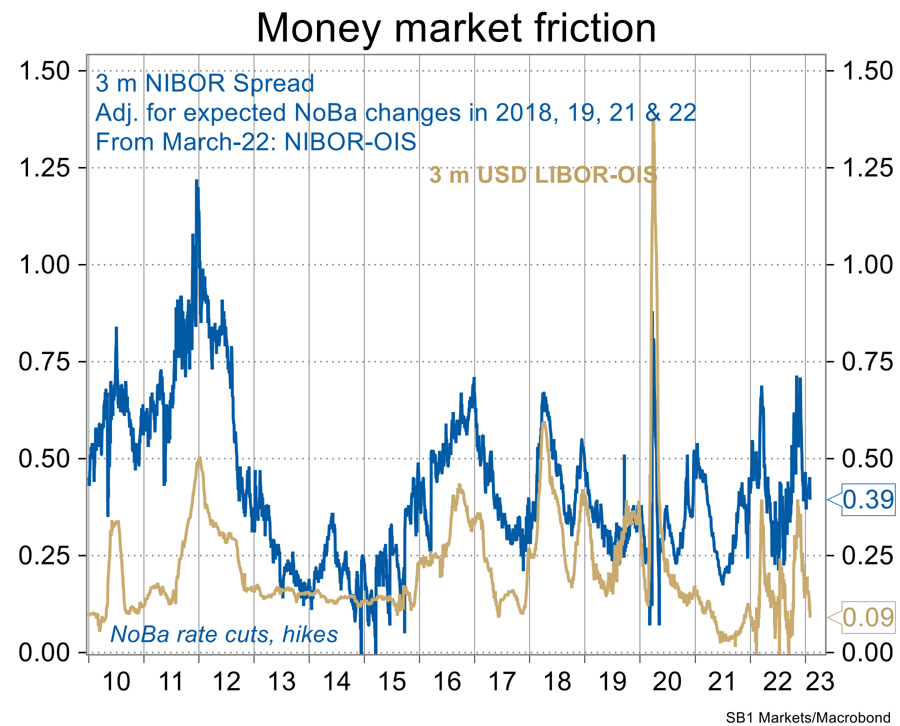




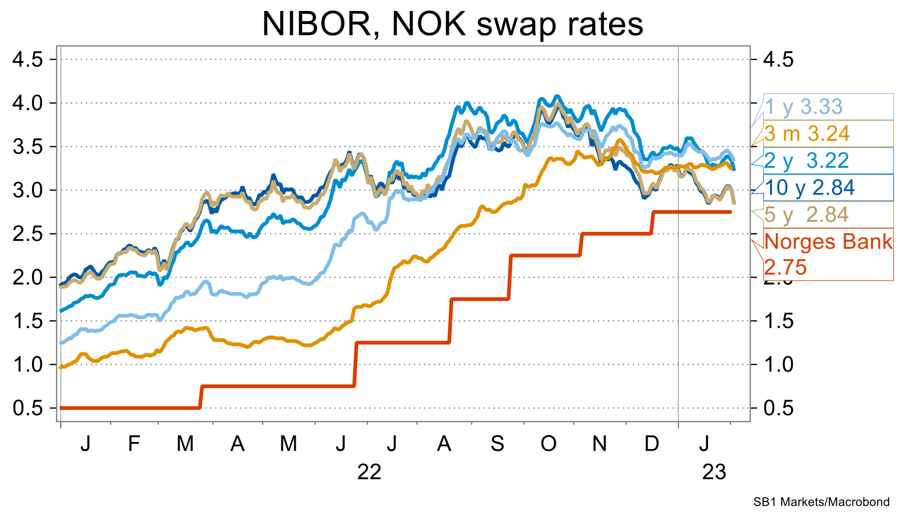
The NIBOR spread down to 39 bps – as the 3 m NIBOR fell 7 bps to 3.24%

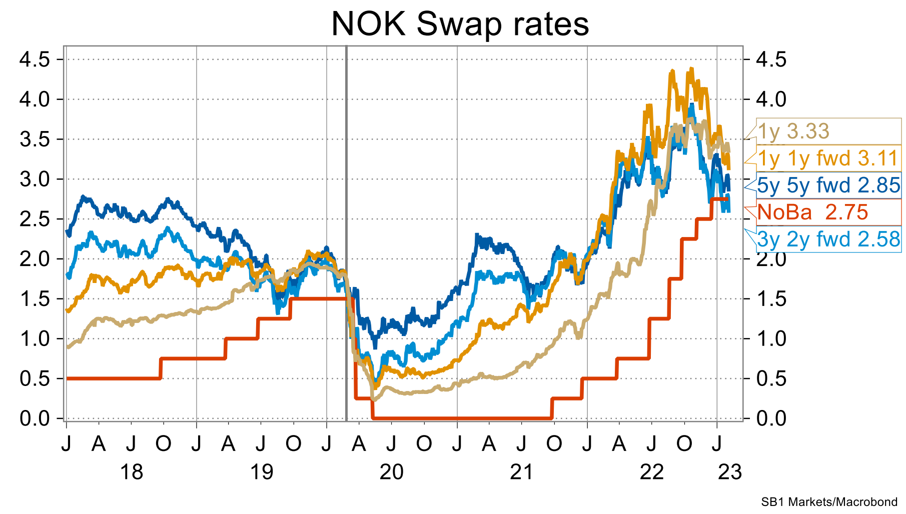
Dec-23 FRAs are still higher than in December, and 2 weeks ago. Longer dated FRAs are trending down

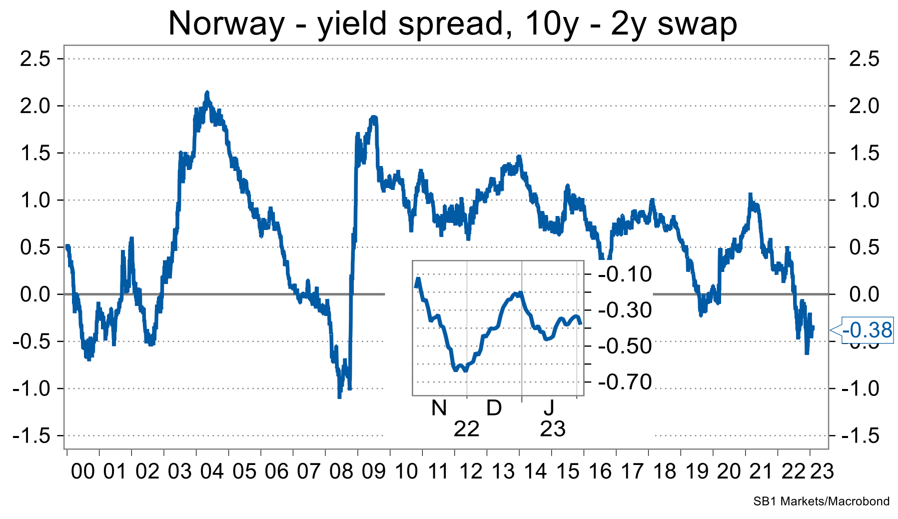


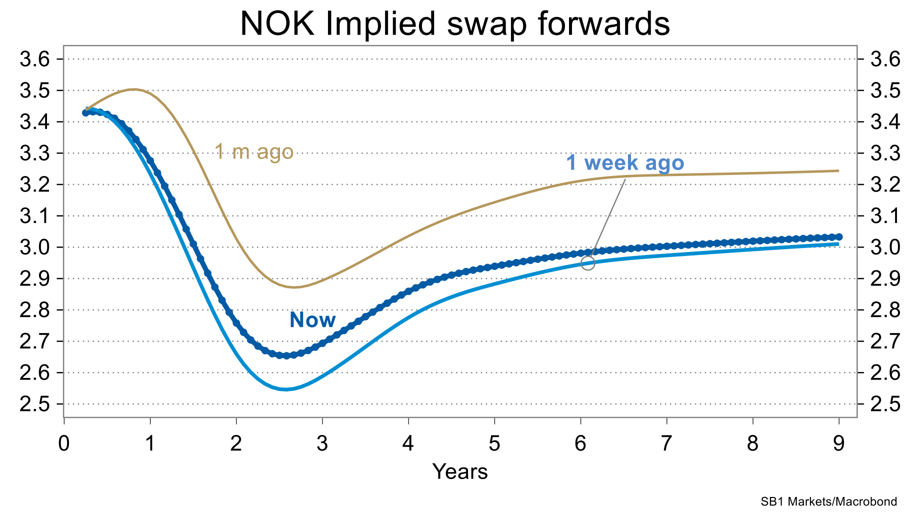


Implied swap rates down all over the curve, most in the 2 – 3 y segment





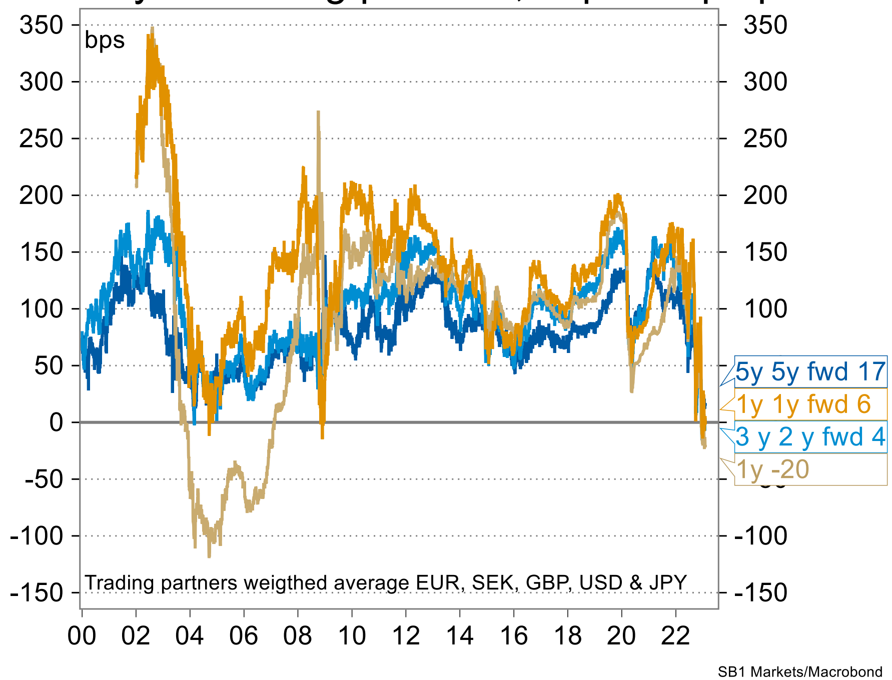


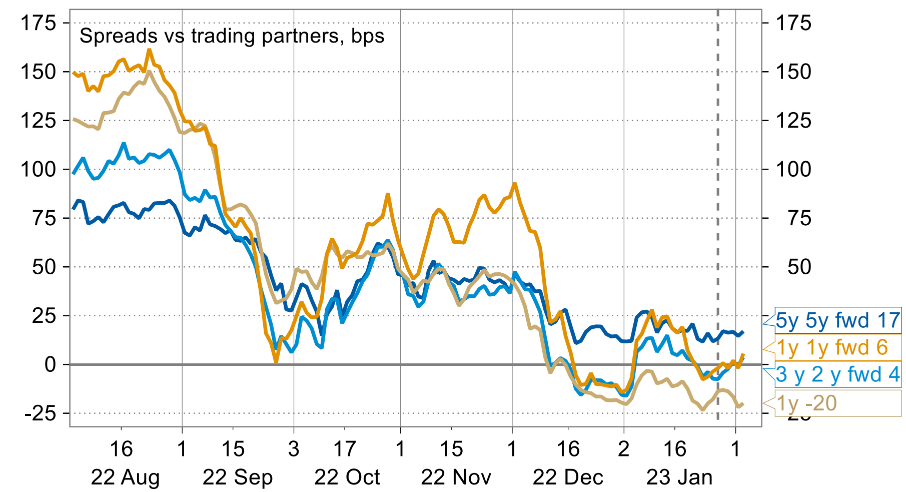


Spreads marginally up last week too, the level is still very low

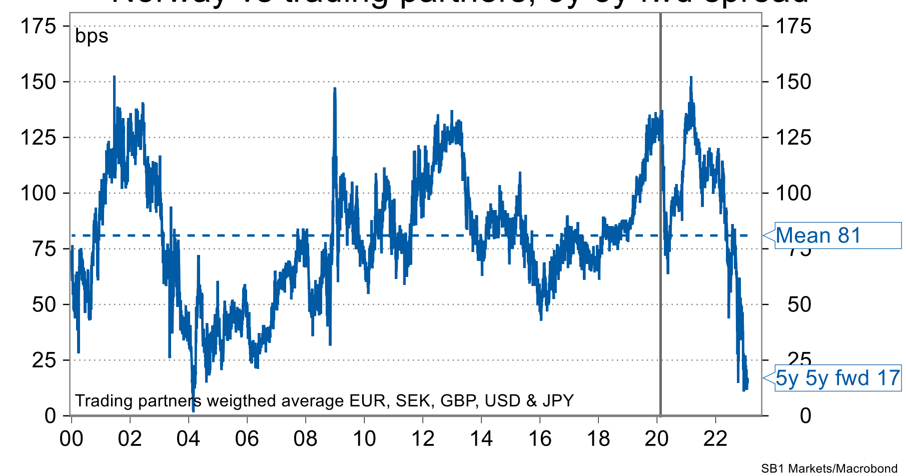
NOK (implied) rates are lower than the average among in the very short end of the curve, marginally above from there

Norway vs trading partners, impl swap spreads



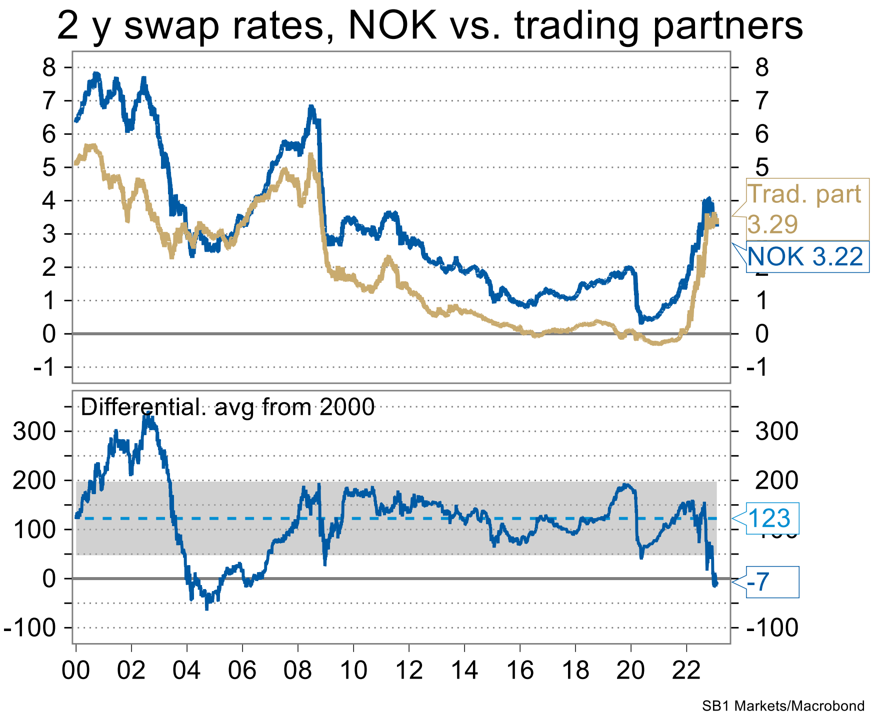


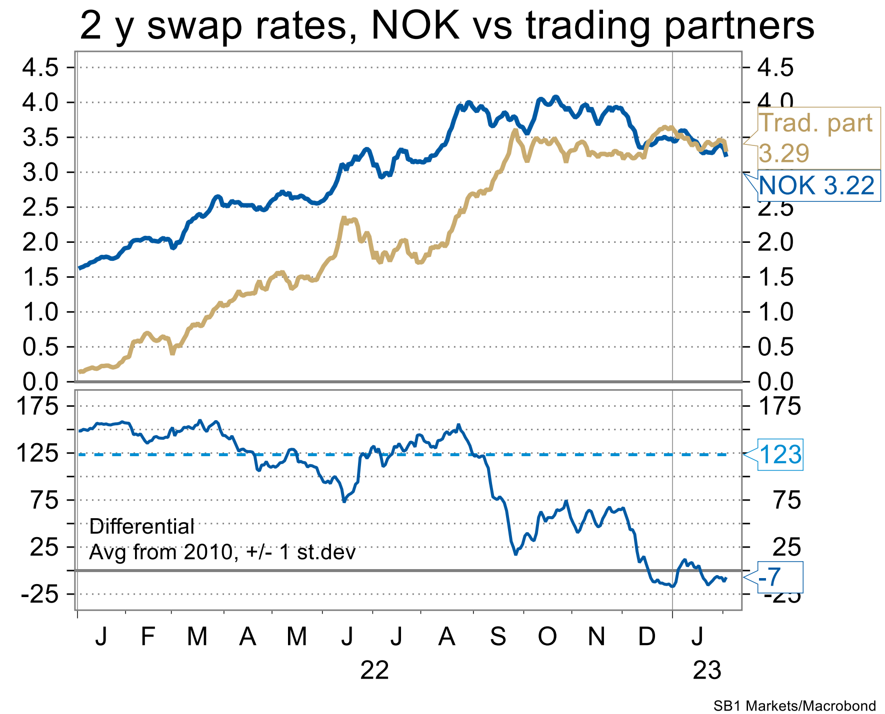
Norway vs trading partners, 5y 5y fwd spread



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

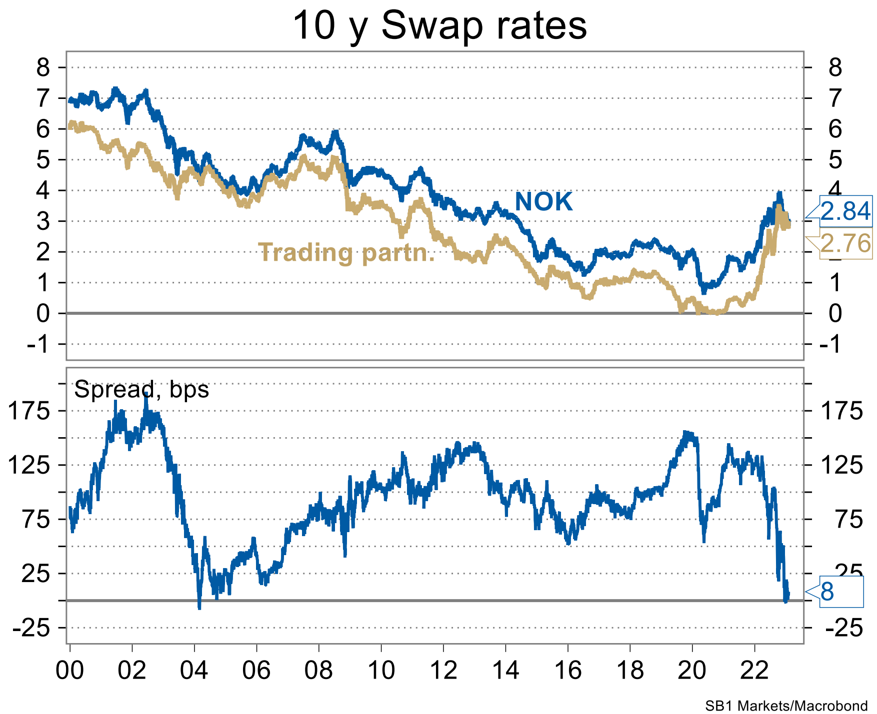
The spread vs. trading partners has fallen to close to zero

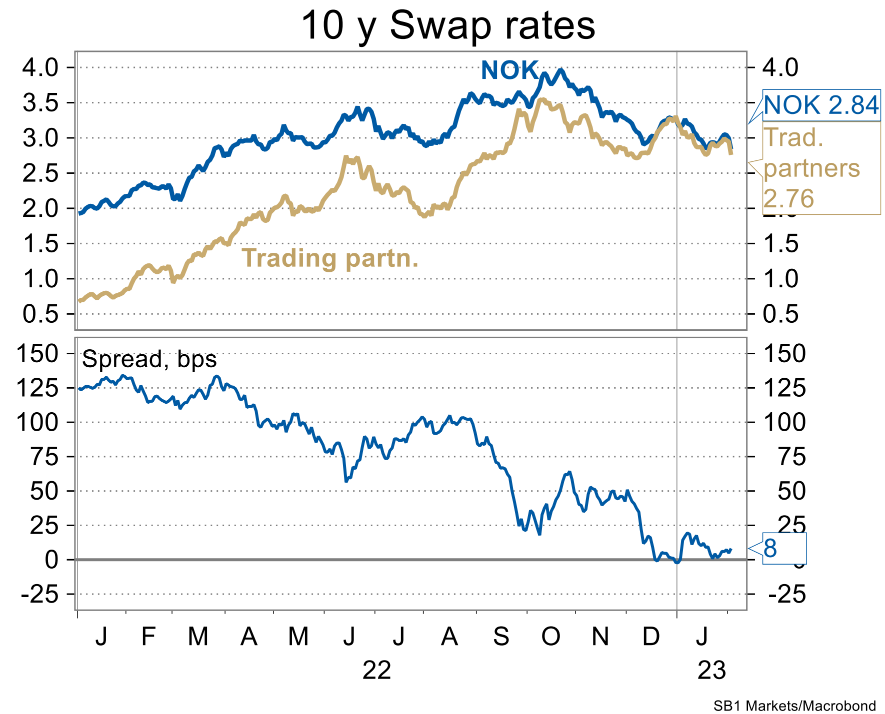




- See the comment on the previous page

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





- See the comment two pages back

NOK last week' loser too, down 1.5%, to the lowest level since late 2020

The EUR fell on Thursday, but is still up from one week ago – and the trade weighted USD fell (as did SEK, GBP)

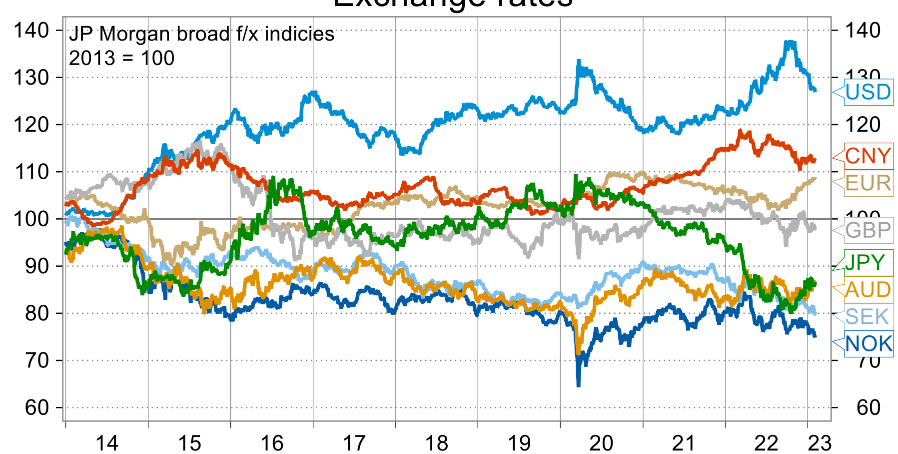
EURUSD

SB1 Markets/Macrobond

NOK vs EUR & USD

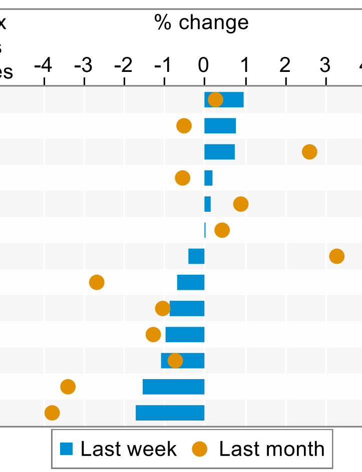
SB1 Markets/Macrobond

Exchange rates



SB1 Markets/Macrobond

F/x markets

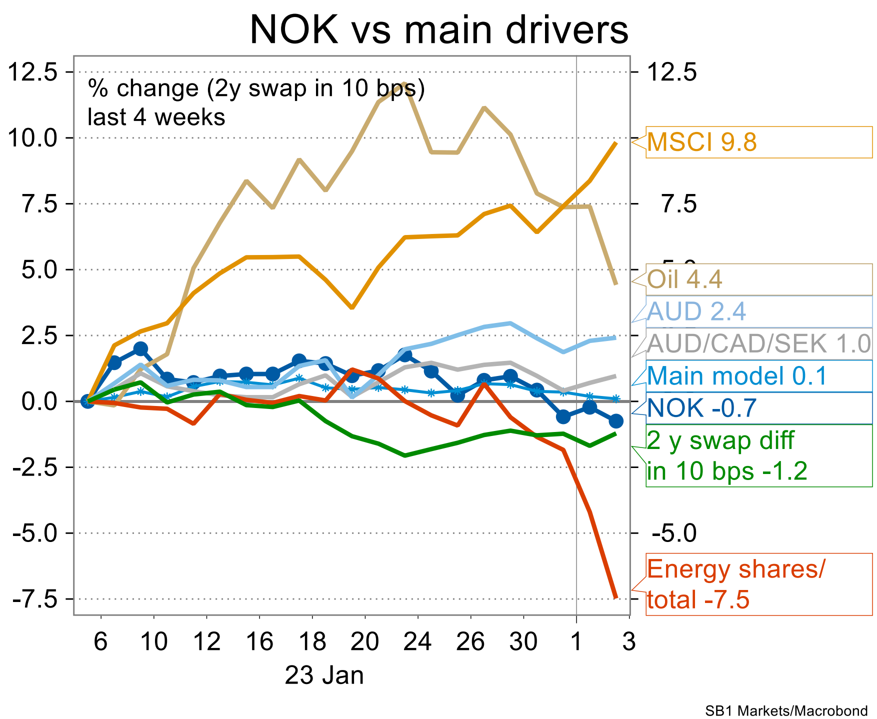


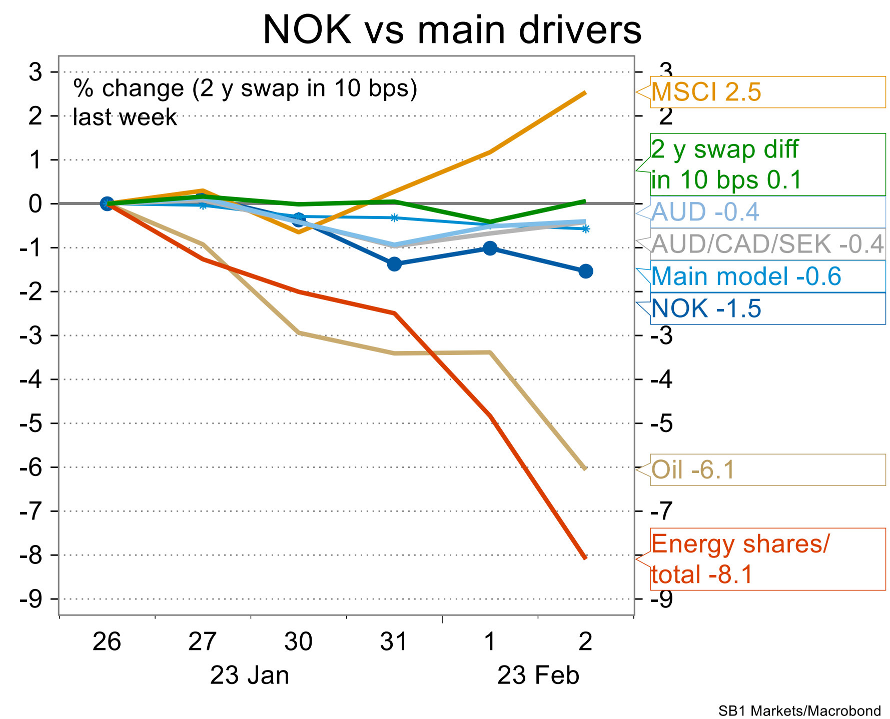
JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
JPY	1.0	0.3
CHF	0.8	-0.5
EURUSD	0.8	2.6
CNY	0.2	-0.5
EUR	0.2	0.9
CAD	0.0	0.4
AUD	-0.4	3.3
USD	-0.7	-2.7
SEK	-0.9	-1.0
NOKUSD	-1.0	-1.3
GBP	-1.1	-0.7
NOK	-1.5	-3.4
NOKEUR	-1.7	-3.8

SB1 Markets/Macrobond

NOK down 1.5%, our model indicated -0.6%

The oil price fell. ‘Risk on’ was not sufficient to prevent another NOK decline

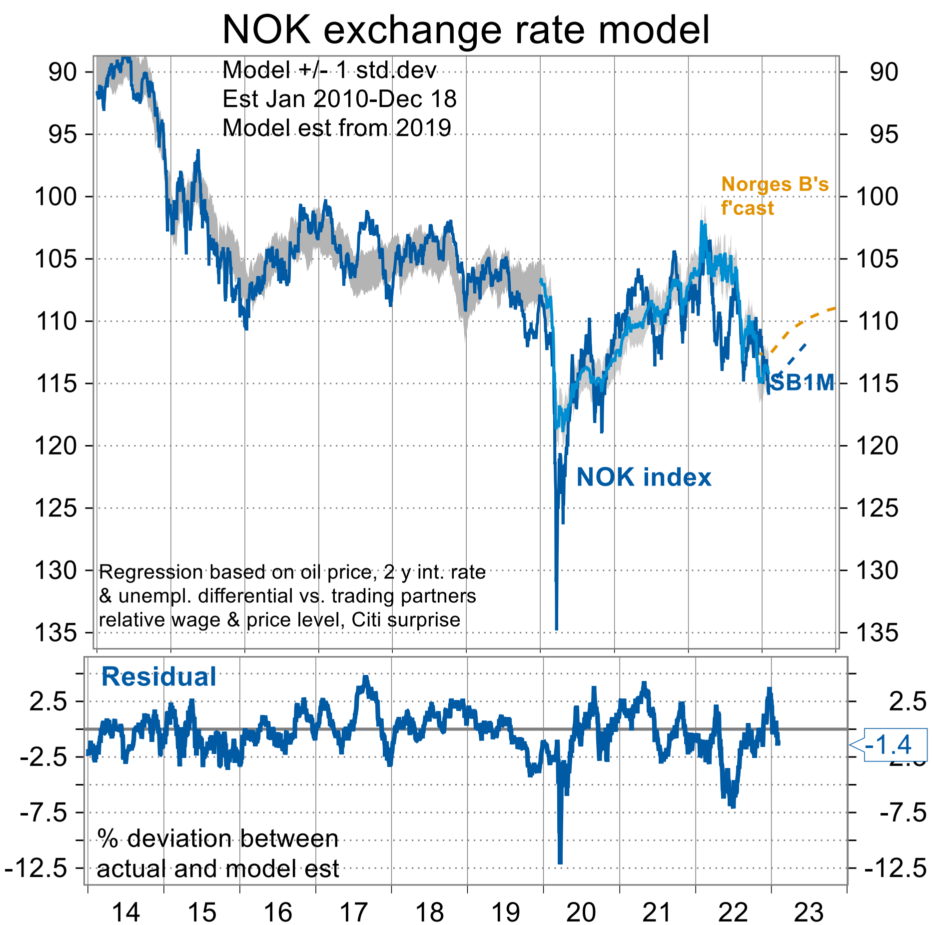


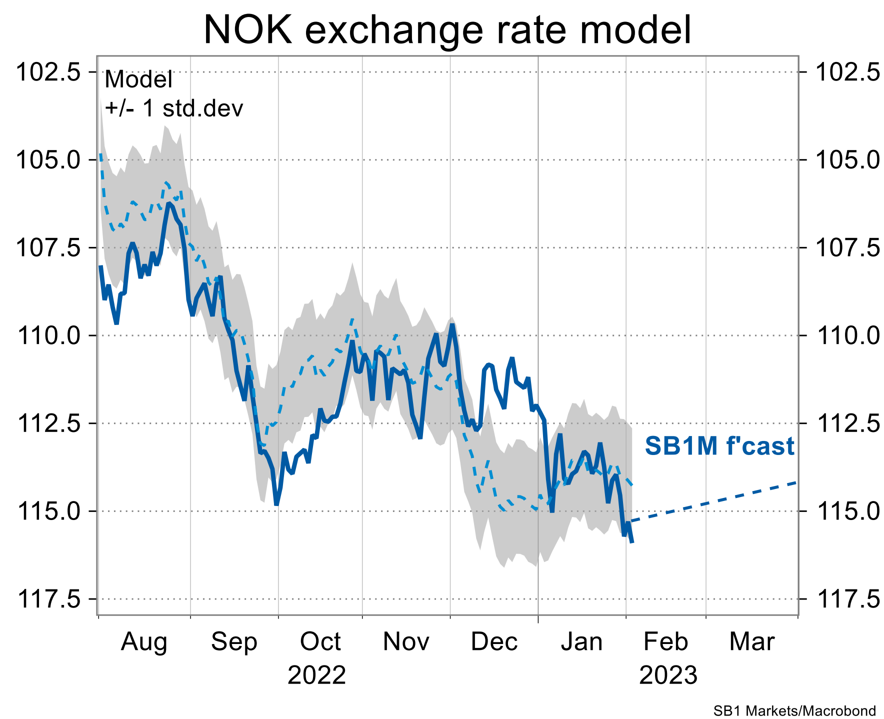


- NOK is 1.4% below our **main model estimate** (from -0.4%)
- The NOK is 9% weaker than our **AUD/CAD/SEK-model**, our ‘super-cycle peers’, predicts, a substantial weakening (from -7%.)
- NOK is 1% weaker than an estimate from a model that includes global **energy companies’ equity prices** (vs the global stock market) (from -2%)

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

NOK has fallen to below our model forecast

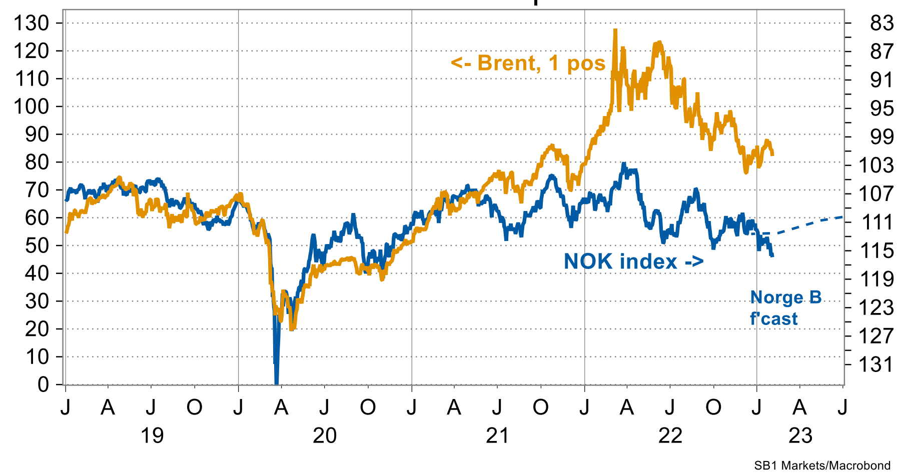




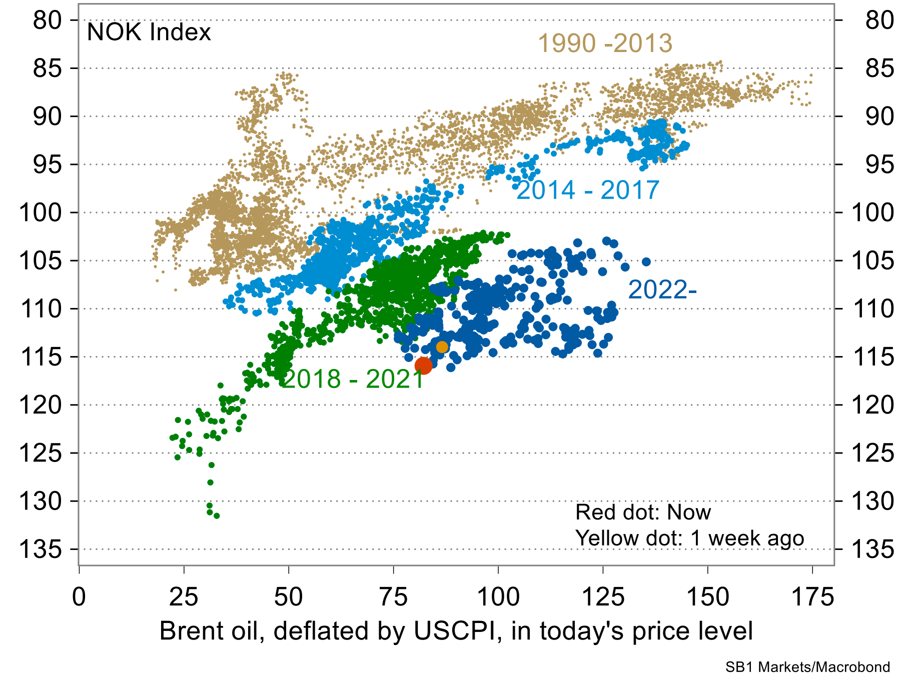
Oil and NOK down in tandem – by luck and accident?

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

NOK vs the oil price

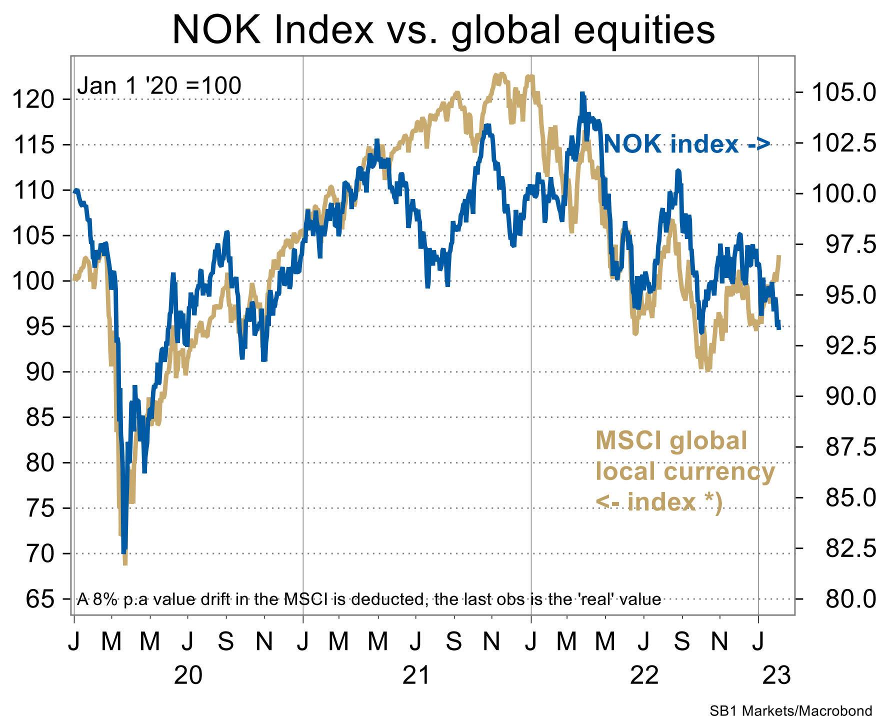


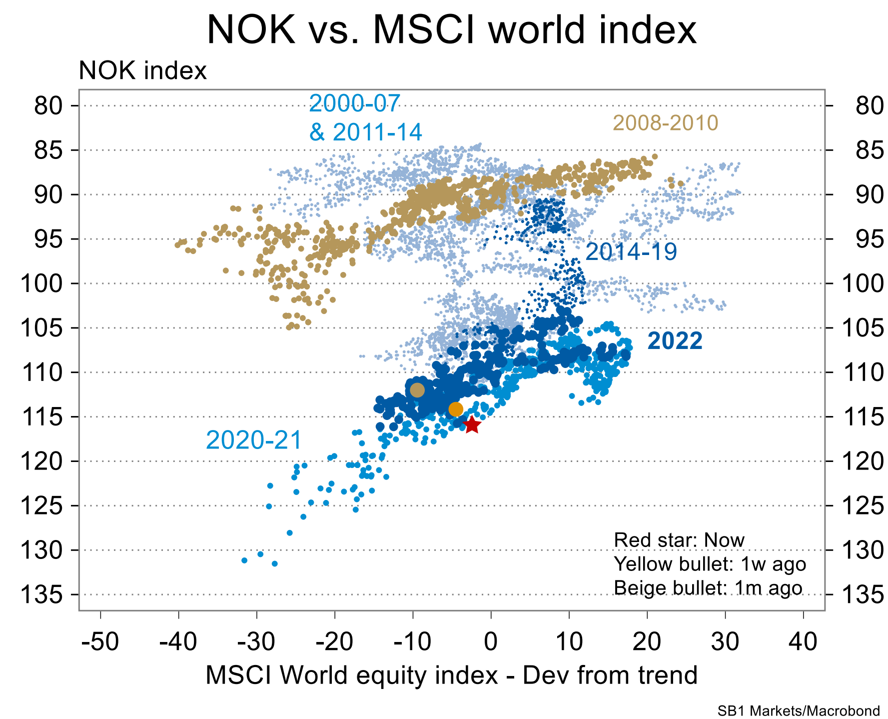
NOK vs the Oil Price



Global equities up, NOK not. This week too. Is the connection broken, again?

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



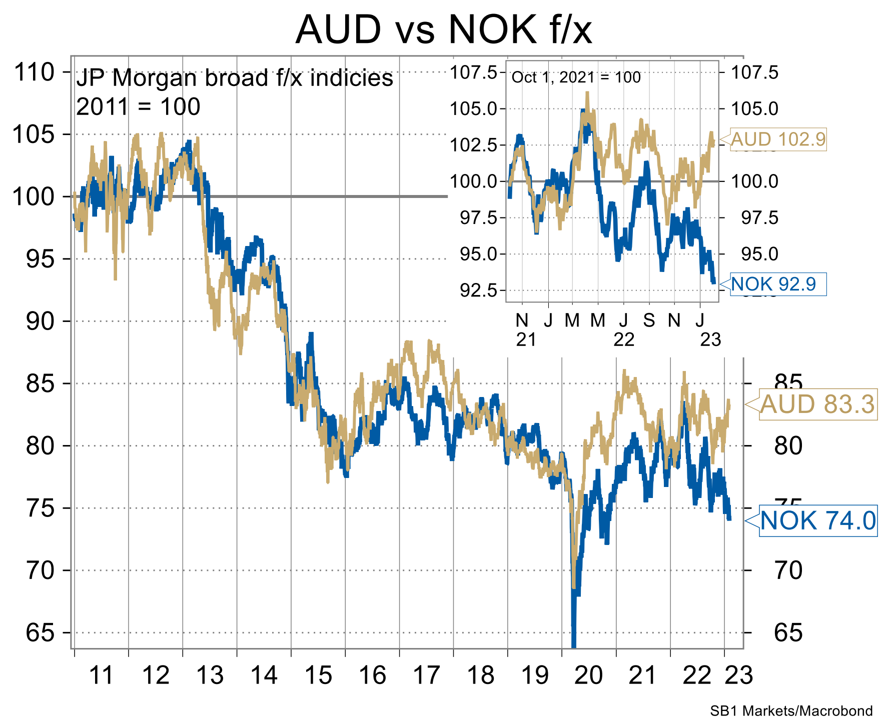


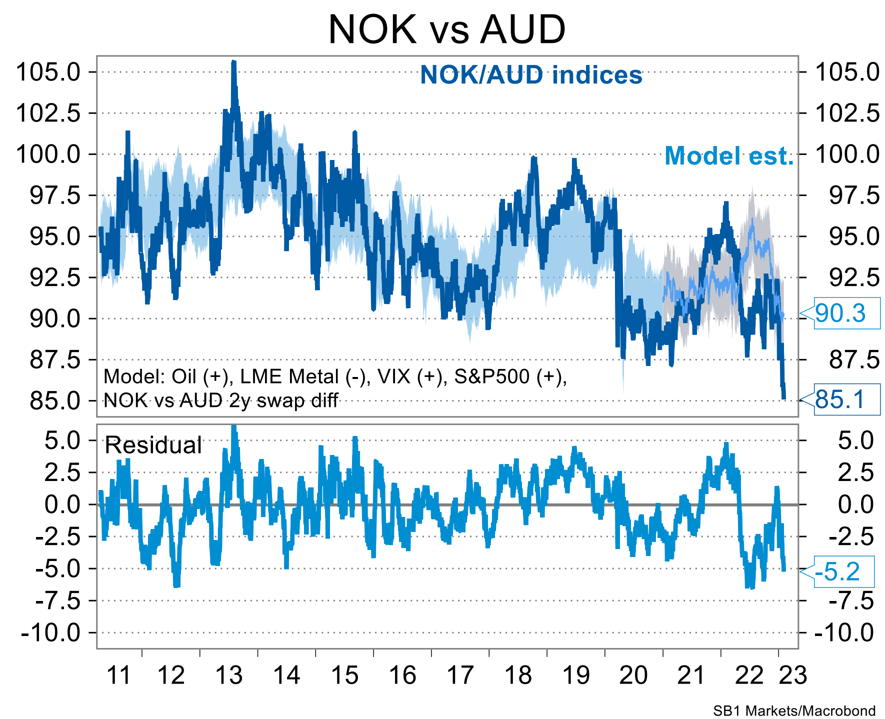
- There has not been any stable correlation over time, and when it is, the oil price is normally the real driver. *Not so much recent weeks*

SpareBank 1 MARKETS

The NOK/AUD gap widened last week

The NOK/AUD (indices) are weaker than we normally can explain by our model

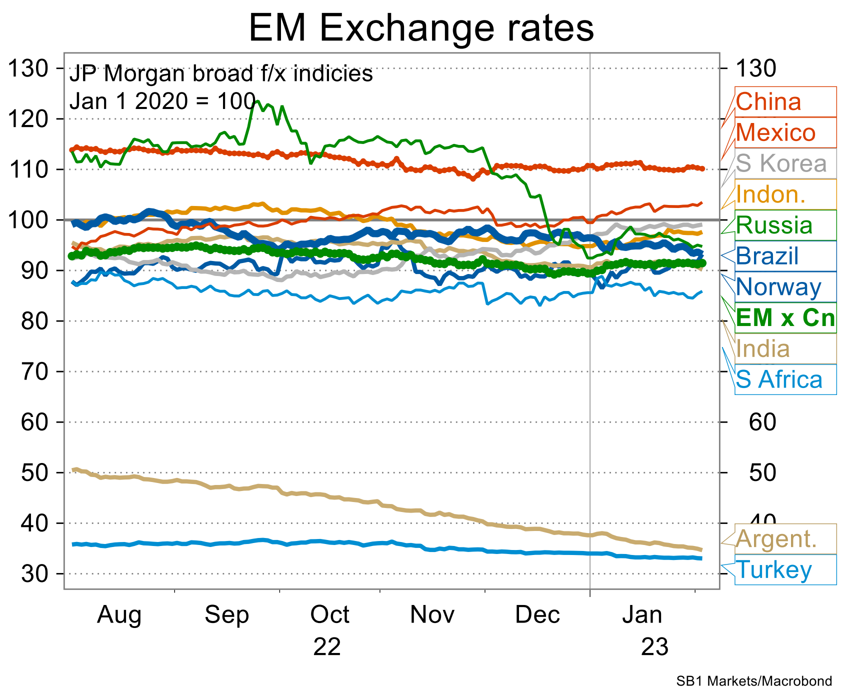


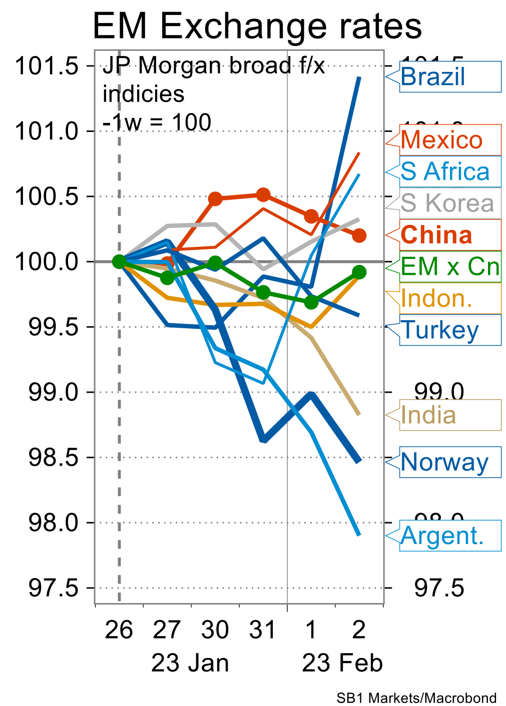


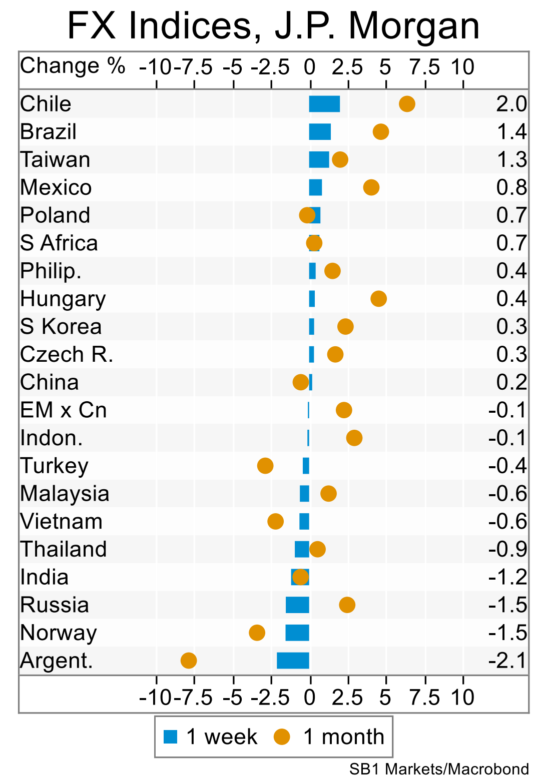
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases. The impact of interest rate differentials vs trading partners is added back to the model

EM f/x markets rather calm, even if equities, bonds are volatile

Russia, Norway, and Argentina at the bottom of the list last week (if we include NOK in the EM space, that is…)







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.