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Macro Research

Weekly update 4/2020

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SpareBank 1 MARKETS

Last week – the main takes

- **US and China** signed the phase 1 deal to pause the trade war**. Key takeaways:** China will boost purchases of US goods and services by USD 200 bn over two years (if possible, at market conditions…) China has also committed to not manipulate the RMB (which is has not done). In exchange, the US will reduce tariffs on USD 120bn of Chinese exports, and not hike other tariffs further, which is real, good news. Some Chinese promises on intellectual property, marked access etc (which has been given before). Muted market reactions, as the deal was widely expected – and it is of limited scope, failing to address many other challenges, pushed over to a future phase 2 deal

- **Chiefly strong China data from Q4/December**; **GDP** rose 6.0% y/y as expected, unchanged from Q3, and the quarterly growth rate was unchanged too, at 1.5%, 0.1 pp higher than expected. **Growth in industrial production** is accelerating, confirming the upturn which the PMIs have noted. **Investment growth** increased somewhat in December too, and not due to any fiscal stimulus. The only soft spot is **retail sales**, rising price inflation is dampening volume growth (but nominal sales are not thriving either). **Credit growth** came down just marginally in Dec, growth has accelerated somewhat since early 2019. The credit impulse is turned slightly positive. **Exports** rose strongly in Dec, to an ATH, while imports inched down. Both exports and imports are trending up, no signs of any slowdown in the Chinese economy!

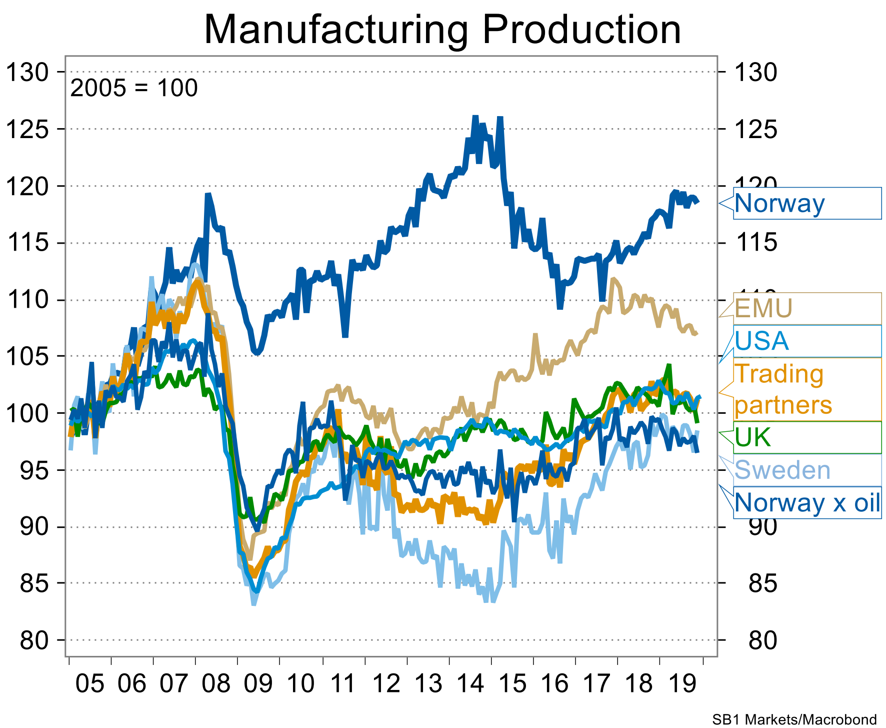
- **US Retail sales** accelerated in Dec but the prior slowdown was larger than previously reported, and Q4 growth forecasts were slashed. **Core CPI inflation** held steady at 2.3% but producer price growth is softening, suggesting that consumer price inflation may now be peaking. **Manufacturing production** up 0.2% in Dec, flattening out since the spring. **Fed's Beige Book** continued to report modest growth and widespread labour market tightness. **The small business survey** stayed at an elevated level in Dec, but some details were sluggish. **Housing starts** jumped to the highest level in 13 years in Dec, both starts and permits are trending straight up, reflecting a blooming housing market. **Unfilled vacancies** are sliding down from the peak, but jobless claims dropped, do not confirm any labour market weakness. **Consumer confidence** remains strong

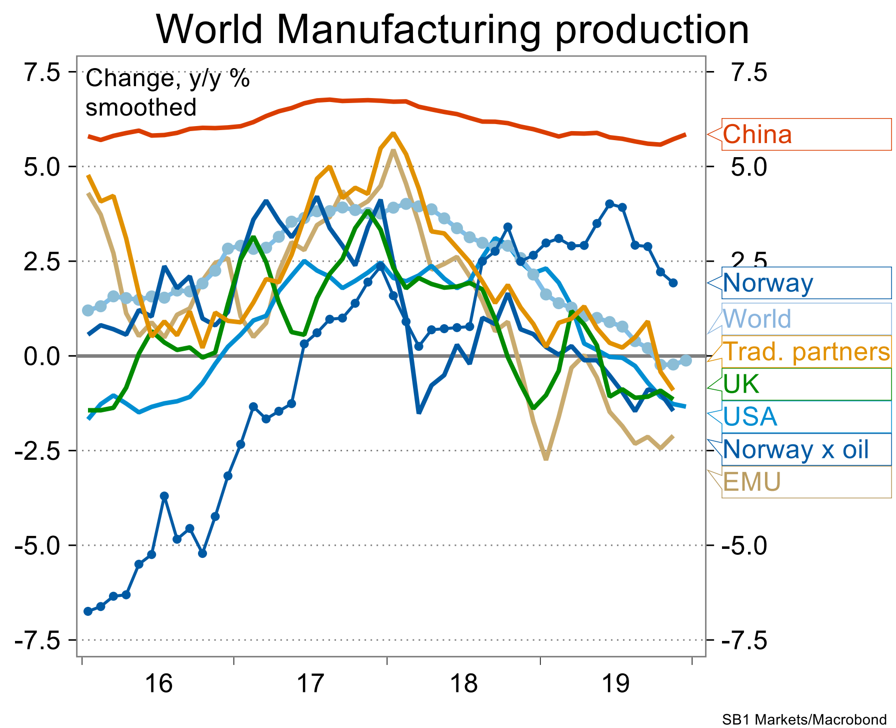
- **Eurozone industrial production** rose less than expected in Nov (0.2%) and the downward trend is not abating. Hence, the small upturn in the manufacturing PMI has not yet materialized in a slower decline in production

- **Norges Bank's Q4 lending survey** did not signal any slowdown in demand for credit from households. That surprised us, as actual growth has softened recent months. **The Mainland trade deficit** widened in December but net trade is set to provide a decent Q4 GDP contribution, as exports volumes have turned up

Industrial production is sagging in all DM, barring Norway incl. oil related

The manufacturing downturn is widespread, but EMU is struggling more than other trading partners





- Excluding oil related sectors, Norwegian manufacturing is retreating, even slightly faster than the speed down among trading partners (in avg)!
- Adjusted for growth in working age population, the speed of decline in the US and EMU is quite similar

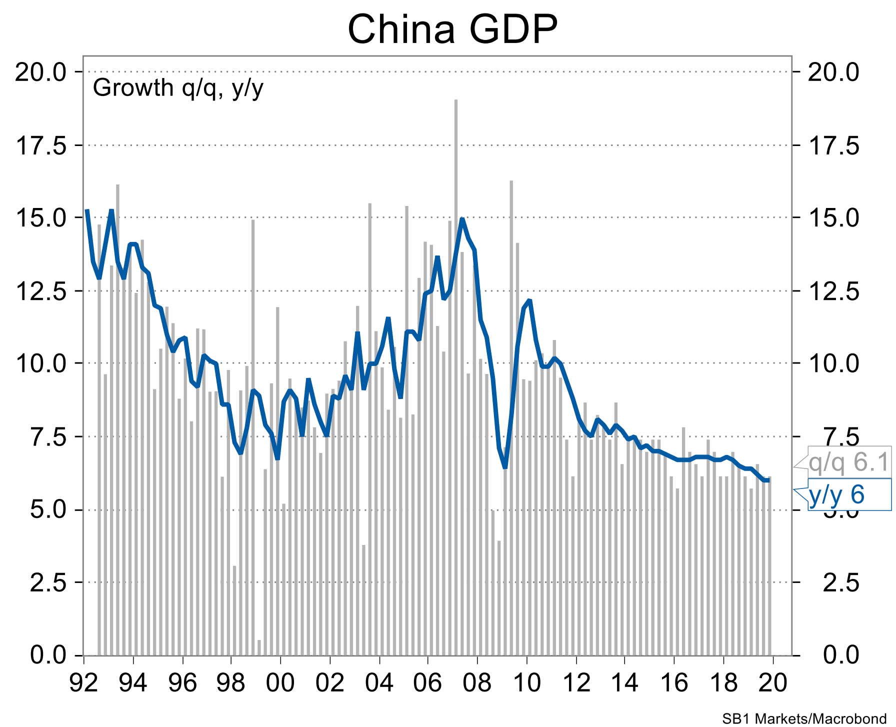
December data mostly upbeat, retail sales the only soft spot

GDP rose 6.1% ann. in Q4, industrial production and investments gained pace, just retail sales sagging

- **The Q4/December data confirm a stabilization, as PMIs and other surveys have signalled. There are no signs of any trade war related setback, just retail sales are softening, partly due to accelerating price inflation following the swine fever**
- **GDP** rose 1.5% q/q, 0.1 pp above expectations and unchanged from Q3 (up 6.4% annualized). The annual rate held steady at 6.0%. GDP grew 6.2% in 2019, the lowest rate in 30 y, within the growth target
- **Industrial production** rose 0.6% m/m and accelerated to a 6.4% speed in Q4, much higher than the avg speed through 2018 and 2019! The (useless!) official y/y rate shot up to 6.9, 1.0 pp higher than expected. The production data confirms the upturn which the PMIs have reported
- **Retail sales volume** rose by a meagre 0.3% m/m in Dec, according to our estimates, and growth slowed to 3.7% in Q4, 0.5 pp weaker than in Q3. In value, sales slowed just marginally (and the official rate unchanged). Rising price inflation is curbing purchasing power
- **Investments** accelerated marginally in Dec and are up 5.3% y/y, nominally, well below growth in nominal GDP. The official YTD y/y rate rose more than expected. Real growth rose to 4%, from zero in 2018
- **Credit growth** held steady in December, trending slowly up the past year and the credit impulse is now positive again, following the 2018 contraction

Steady GDP growth in Q4, marginally above expectations

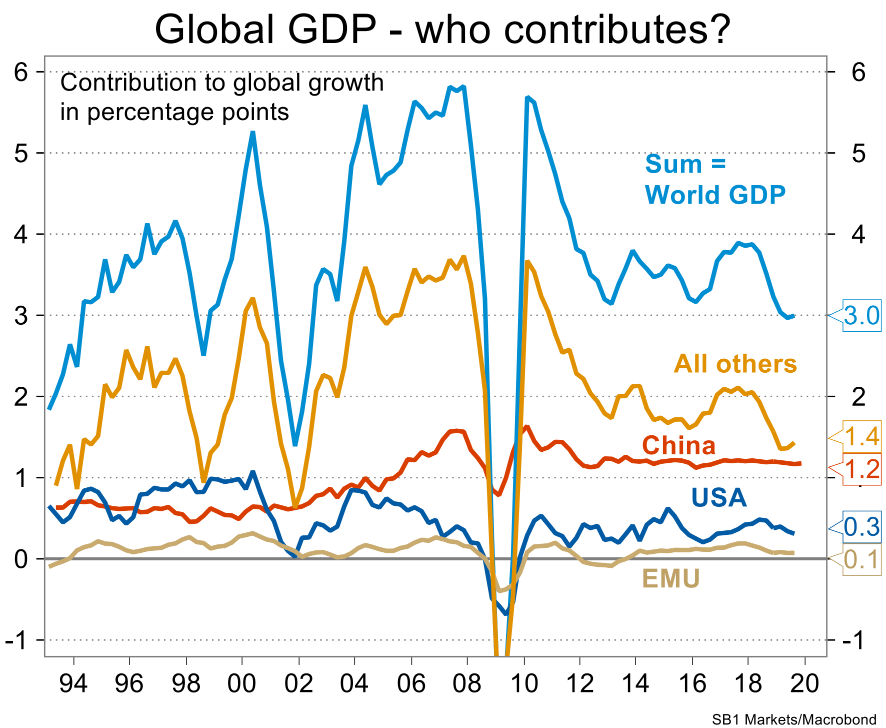
Growth slowed slightly faster than ‘usual’ in 2019, but the speed through 2019 is not weak at all!



- GDP grew 6.0% y/y in Q4, as expected and unchanged from Q3 (the lowest y/y rate on record). The annual growth rate has fallen 0.3 pp from Q4 last year. Nominal growth came down marginally to 7.4%, the GDP price deflator inched down to 1.4%
- GDP grew 1.5% (6.1% annualised) in Q4, unchanged from Q3 and 0.1 pp higher than expected. Quarterly growth did not slow through 2019, in fact, Q4 came in 0.4 pp higher than Q1 (annualized rate)
- Big picture: Growth is slowing at a modest pace; from 6.6% in 2018 to 6.2% in 2019, a 0.2 pp steeper decline than the avg of the past 5 years. The authorities’ 2019 growth target was 6 - 6½%. Growth was the slowest since early 1990’ies – but that’s old news
  - Are the official GDP reliable? Goods research suggests that growth is some 2pp lower than reported, mostly due to a much slower growth in investments

What a Chinese blow to the global economy!

Well, please check the facts (as usual)



Chinese economy

Slowing Chinese growth delivers blow to global economy

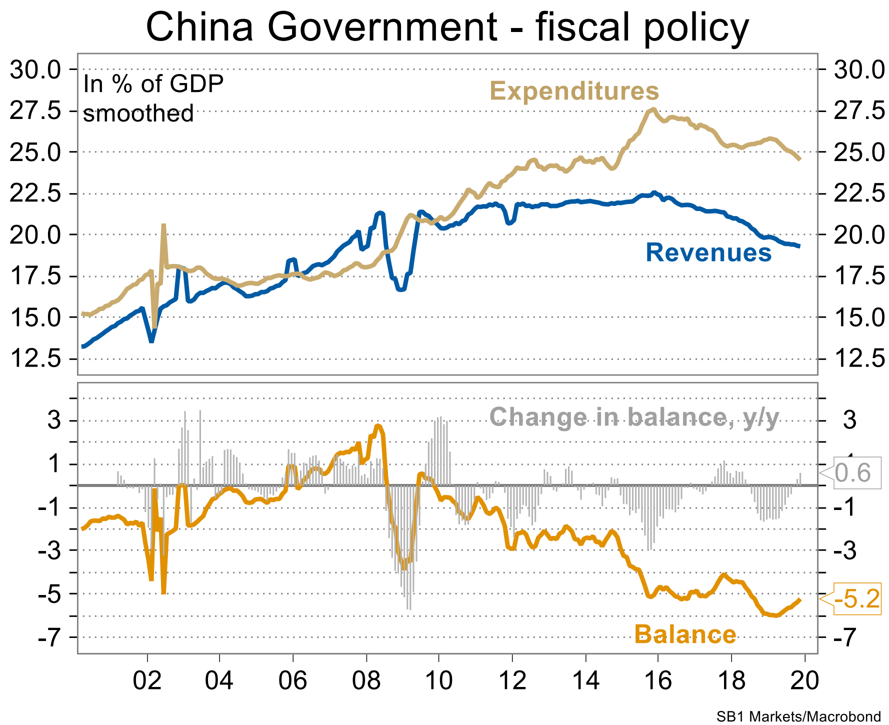
Expansion of 6% is worst in three decades due to trade war with US and cooling investment

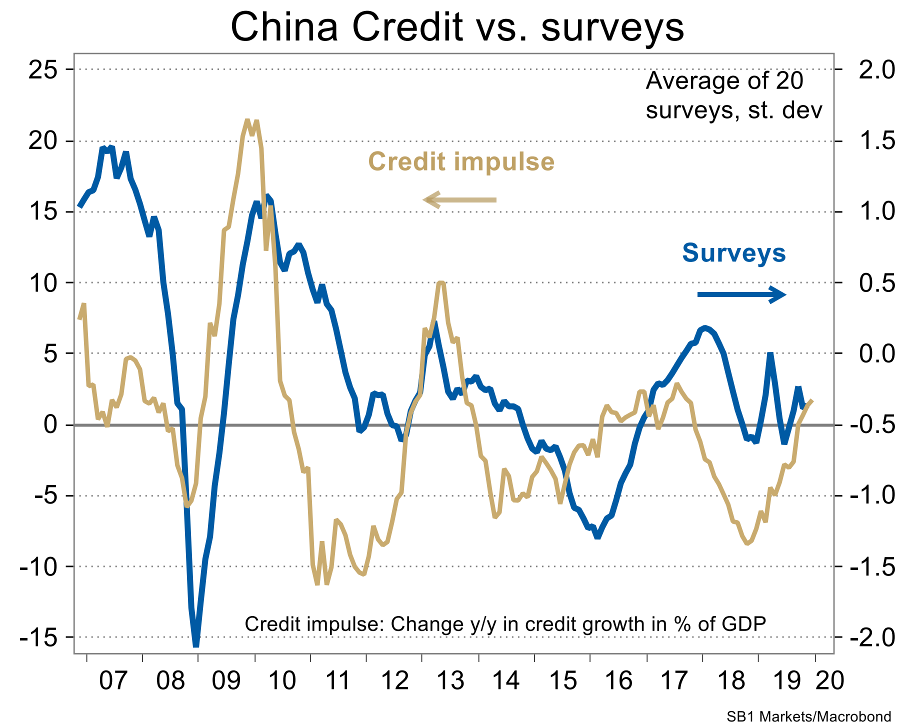
- European auto stocks in reverse while China's growth disappoints
- Chinese local government funds run out of projects to back
- IMF slashes global growth forecast on trade war fears

Top, front page
Fin Times, Oct 18

No more fiscal stimulus (and nothing happened on the expenditure side)

Still, the budget deficit is large, at 5.2%. Credit growth has accelerated modestly over the past year

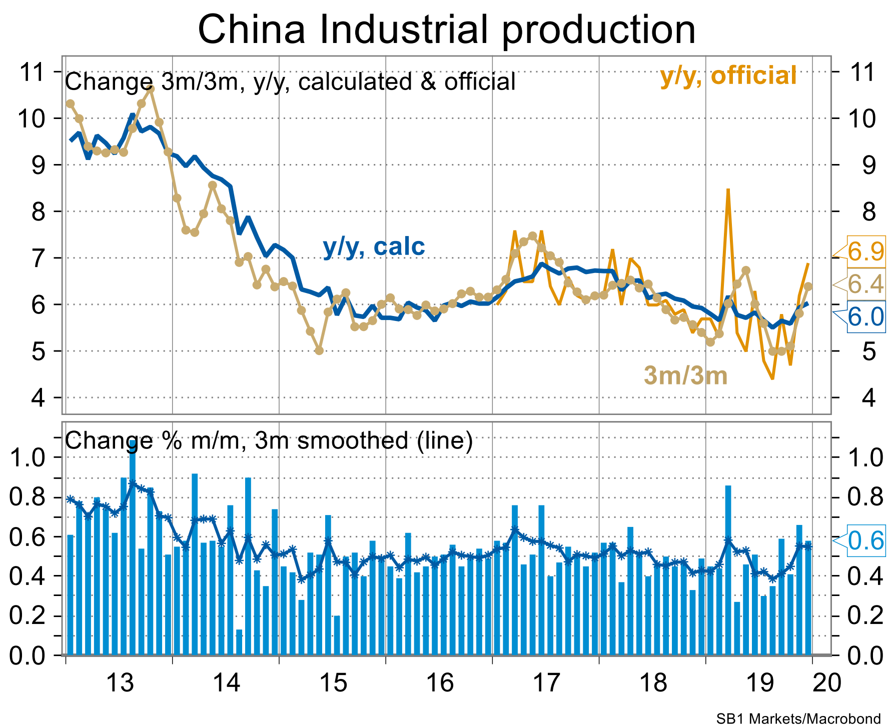


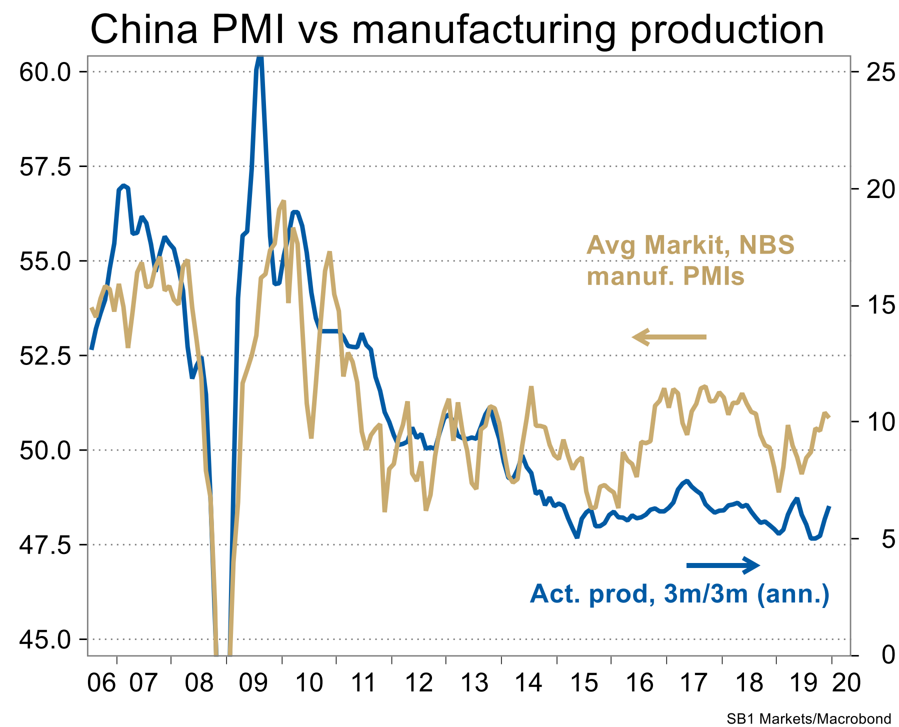


- Fiscal policy: Taxes are cut, spending programs decided – but the latter are not easy to reveal in aggregated spending numbers, the expenditure/GDP ratio has fallen. Revenues have been declining vs. nominal GDP too, but slower! <u>Over the past year, the budget deficit is cut, fiscal policy is contractionary</u>
- Credit growth is slowly accelerating, and the credit impulse has turned marginally positive, from sharply negative. See more further out in this report

Industrial production gains momentum, as surveys have indicated

Production continued to expand strongly in Dec, up 0.6%, and accelerated to 6.4% q/q in Q4

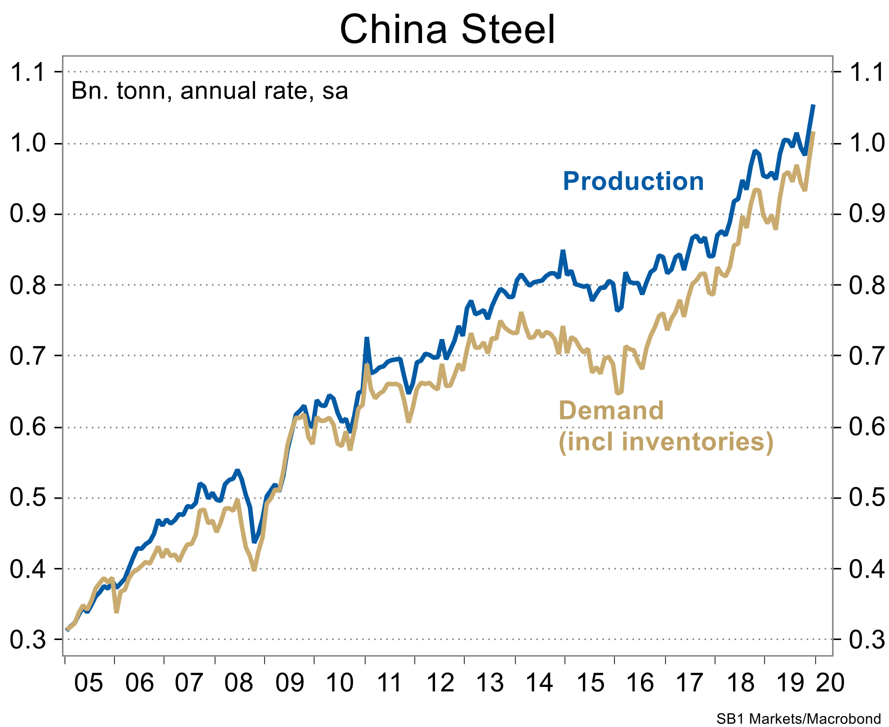




- Production rose 0.6% m/m in Dec, higher than the avg pace through 2019 of 0.5%. Following a strong Nov (revised down by 0.1 pp), production rose 6.4% annualized in Q4, up from 5.0% in Q3 and a higher speed than through most of 2018! Our y/y rate one inch up to 6.0% - it bottomed out at 5.5% in August
- The official y/y growth rate is 'useless', far too volatile as it is not adjusted for holidays or working days. In Dec, growth accelerated by 0.7 pp to 6.9%, 1.0 pp higher than expected
- The two PMIs have both improved substantially since the local trough in June and are now signalling higher growth. Export volumes are trending up and are at ATH levels. Hence, China has most likely not been brought to a halt!

Steel production (and demand) straight up in Nov & Dec

Both demand and production at ATHs. Construction starts have slowed marginally, limited upside?



- Production is up 4.5% y/y (smoothed), demand 5.9%, an uptick from the prior months but still well below the growth rates in most of 2018 and 2019
- Growth in construction starts has slowed somewhat. Auto production fell in 2018 but has stabilised in 2019
- China is still a net steel exporter, but far less than during the 2015-16 setback in domestic demand. Back then, production was cut by far less than domestic demand and net exports soared. Now, net exports are far lower (and domestic demand closer to production)

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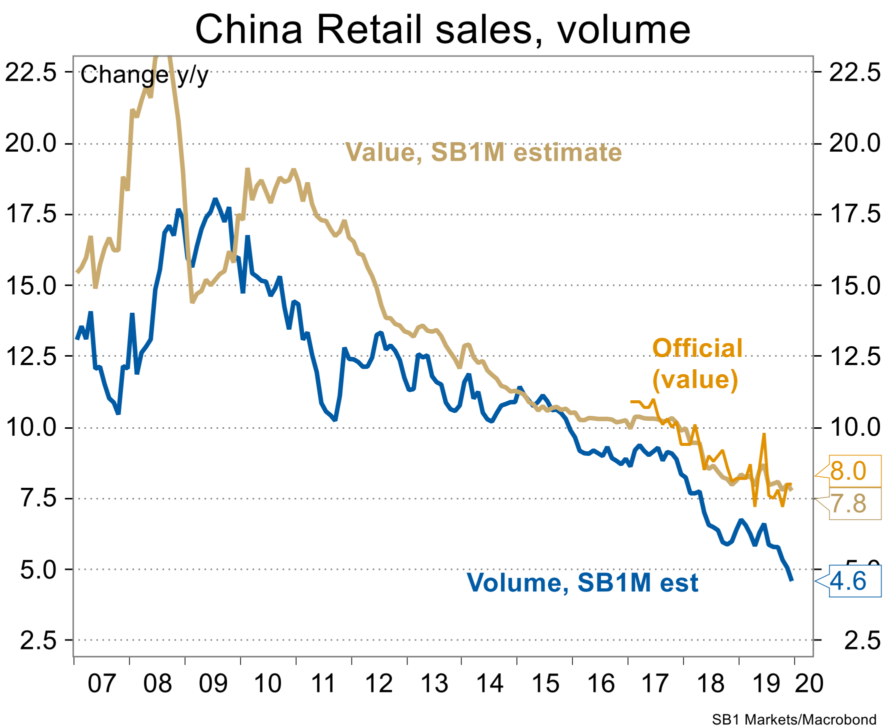
Retail sales volume growth drops, dragged down by the swine fever

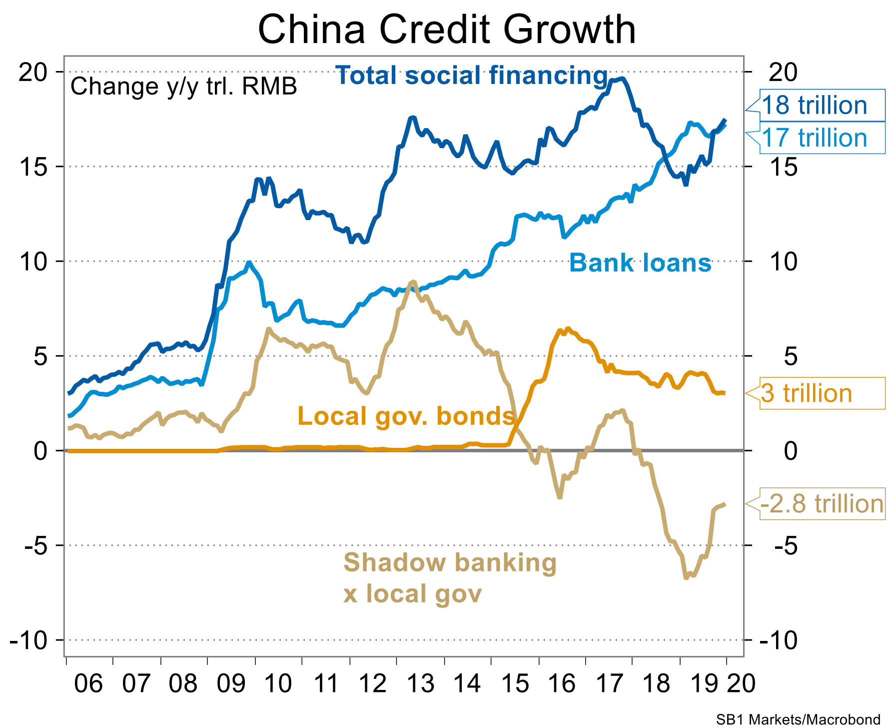
Sales rose just 0.3% m/m in Dec, according to our volume estimate. In value terms, marginally down

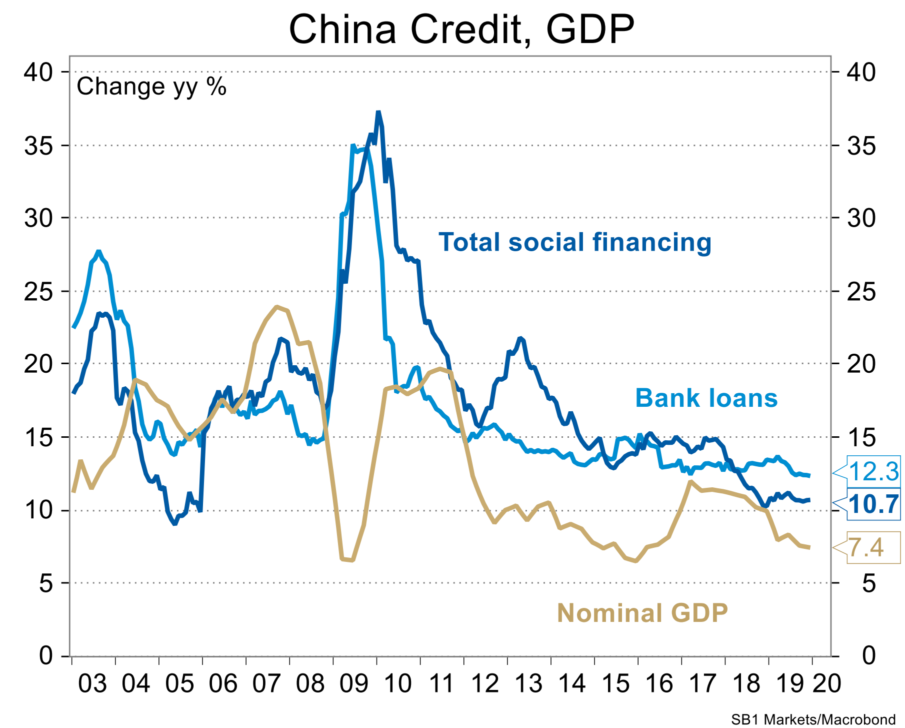


- The official value growth rate held steady at 8%, expected down to 7.9%. Our far less volatile value growth estimate (based on monthly seas adj. data) yields a 7.8% speed, a 0.2 pp slowdown from November. Value growth is no doubt cooling, however, the deceleration has been slower in 2019 than through 2018
- We estimate a 0.3% m/m volume growth. The annual rate dropped to 4.6% in Dec, from 5% in Nov. Inflation has accelerated due to the high pork meat prices. Total inflation is at 4.5%, retail inflation 3% (must be 'too' low??) curbing real income growth sharply
- Growth in consumption is slowing, even larger tax cuts may be needed to bring consumption growth up. On the other hand , consumer confidence is very high and does indicate any demand weakness – and at some stage pork meat prices will decline (perhaps more American pork meat now??), boosting overall buying sharply

Credit growth has accelerated slowly over the past year

Bank lending has slowed somewhat y/y, the shadow banking market (ex local gov) filled the void

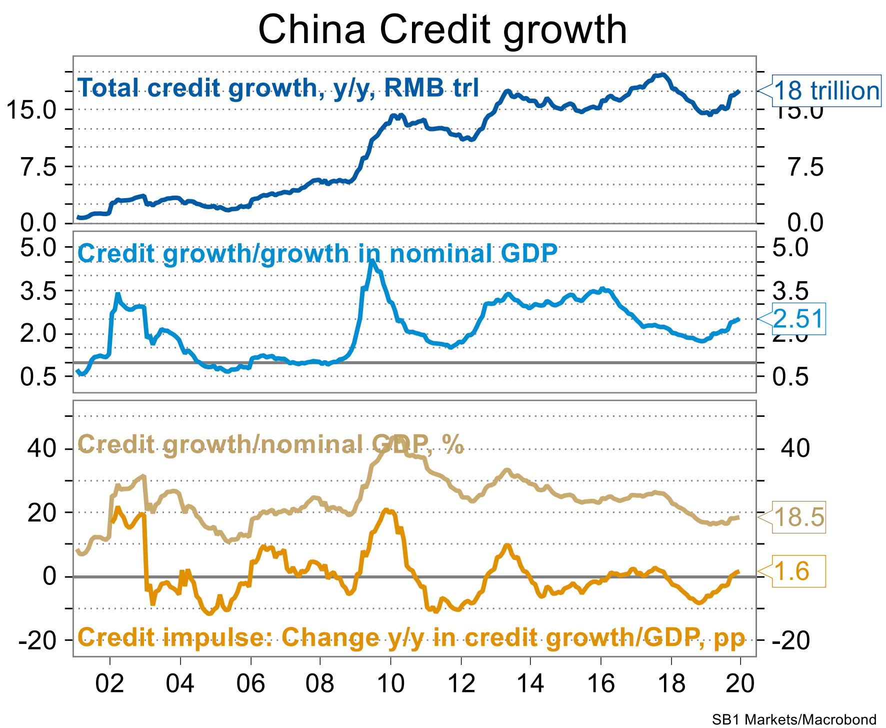


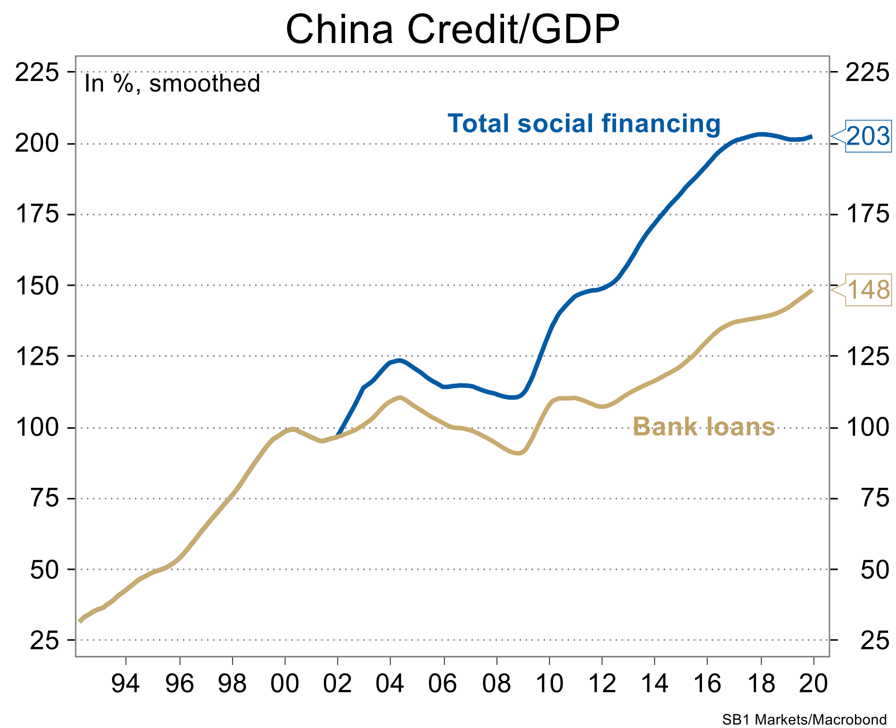


- Over the past 12 months, total credit has grown by CNY 18 trl, equalling close to 20% of GDP (revised down from 21 trl)
- Banks supplied CNY 17 trl of the y/y increase in Dec (unrevised), equalling almost all of the volume through last year
- Local governments increased their debt by CNY 3 trl in the bond market last year. Growth has been slowing since 2016
- Other credit – via the shadow credit market x gov bonds – is down 2.8 trl y/y in Dec, following a substantial data revision (from +1.6)
- Total credit growth at 10.7% is somewhat above growth in nominal GDP (7.4%), and debt/income is still on the way up

Credit impulse has turned marginally positive, from negative

Credit growth has come down to GDP (income) growth

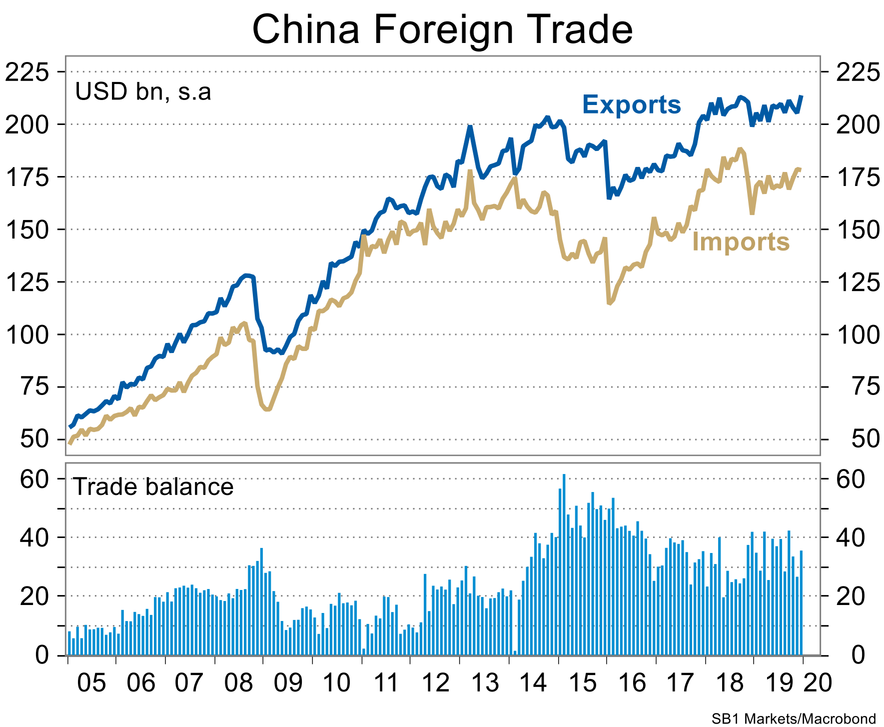


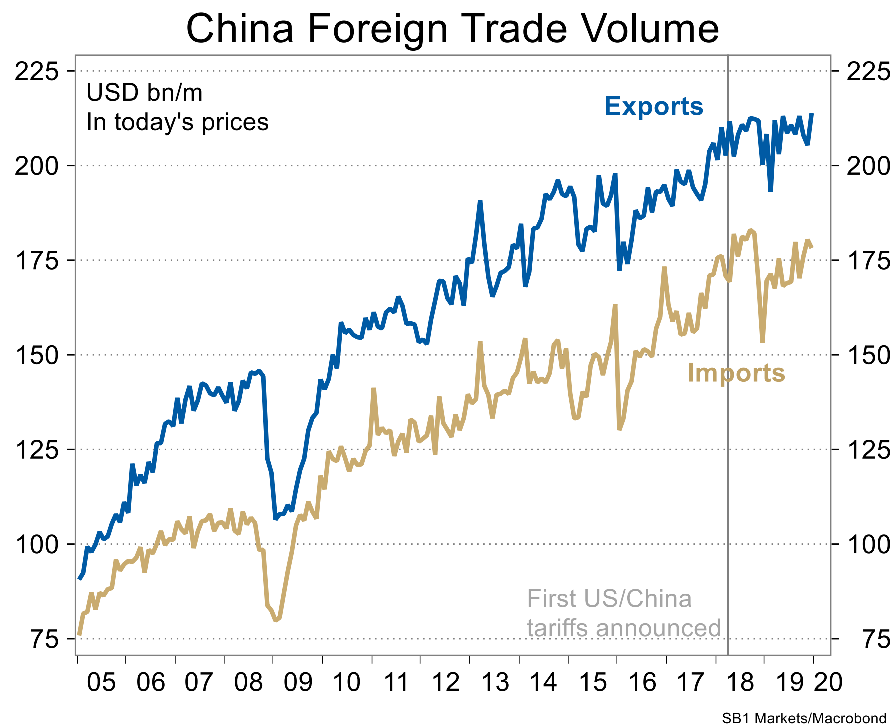


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - Now, the credit impulse has risen to marginal positive
- We are uncertain how far the authorities are willing or able to bring credit growth back up. The credit/income level has flattened but the level is disturbingly high. In addition, for every RMB GDP grows, credit increases 2.5 by RMBs, and each year growth in credit equals almost 20% of GDP. That's not sustainable in the long run, neither for lenders nor borrowers, as nominal GDP growth is well below 10%. The Government may succeed in increasing credit supply short term (if they dare to, vs long term risks) but the problem may turn out to be demand for credit

Exports at ATH (and world record) after a jump in December, imports fell marg.

No signs of an abrupt slowdown in China, both exports and imports trending up the past year

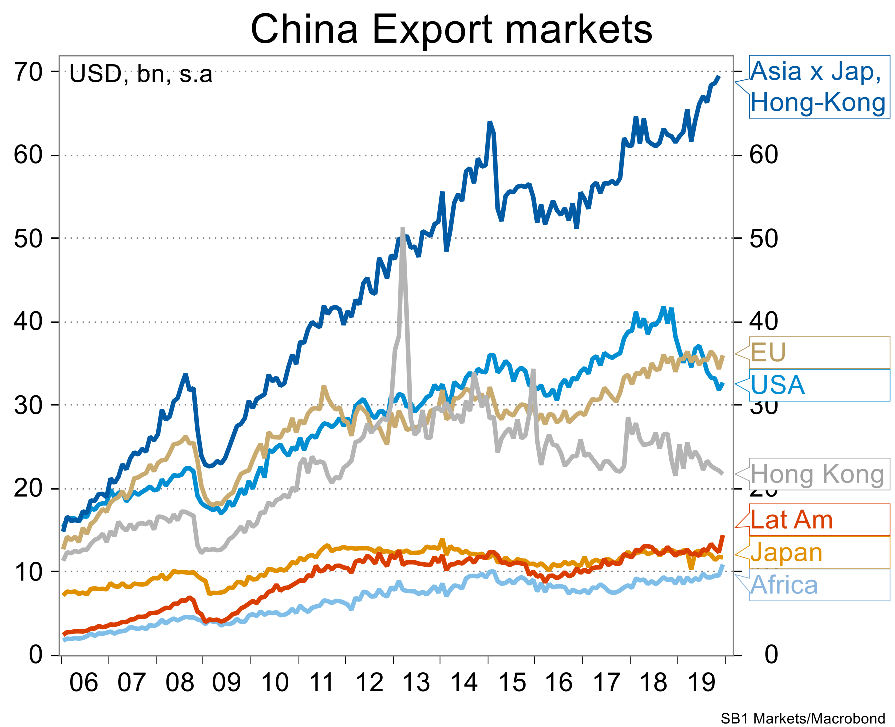


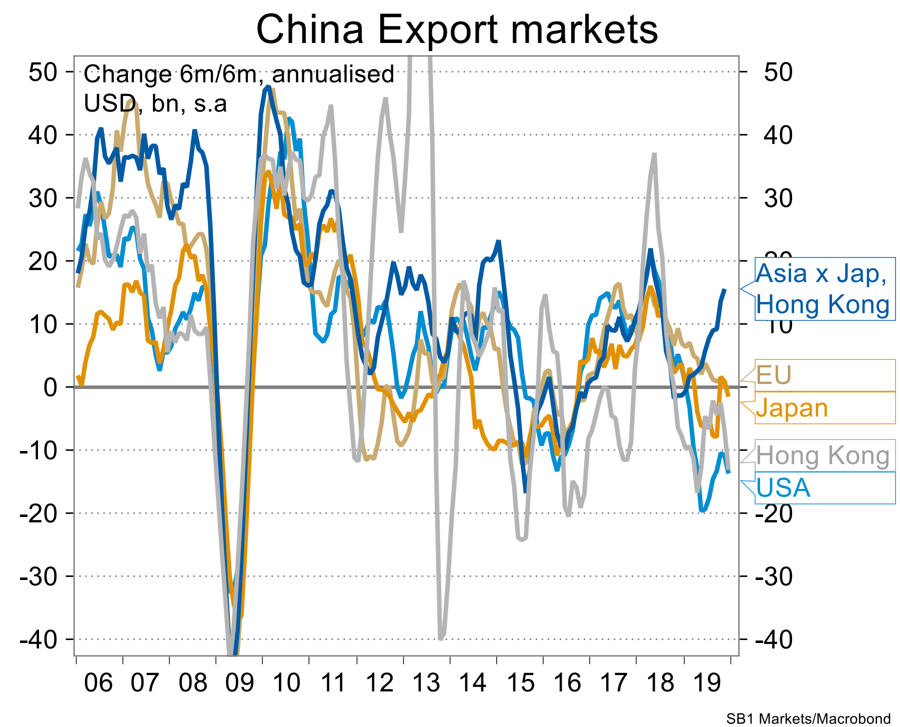


- Exports were reported up 16% y/y in USD in Dec, far above expectations, yet these unadjusted annual data are rather useless. On a monthly basis, exports rose 4.1% seasonally adjusted in Dec (in value terms), to a new ATH, and are up 7.5% from the local bottom in Dec last year. **No country has ever exported more in one month than China did in Dec 2019!** Export volumes probably jumped too, trending modestly up, annual growth at 0.5% in Q4. Net exports dampened GDP growth in Q4 as import volumes rose more
  - » Exports to the US have fallen by more than 20% since the peak in 2018. Exports to other regions have compensated for the decline in export to US, exports to the rest of Asia x Japan and Hong Kong are soaring. However, growth has slowed to H-K too, and EU most recently
- Imports fell 0.3% m/m, but are trending steadily up the past year (annual rate at 13.6%, but Dec last year was artificially low). Import volumes are heading straight up – and are not far from ATH levels. **NO SIGN OF ANY SLOWDOWN IN CHINA**
- The trade deficit rose to USD 36 bn (seas adj). The deficit stabilized in 2019, after sliding down since 2015. China is running a small current account surplus

Exports to the US down 20%, but there is a ROW; exports to Asia sharply up

Exports to H-K have fallen too, while exports to most of the rest of the world are still on the way up

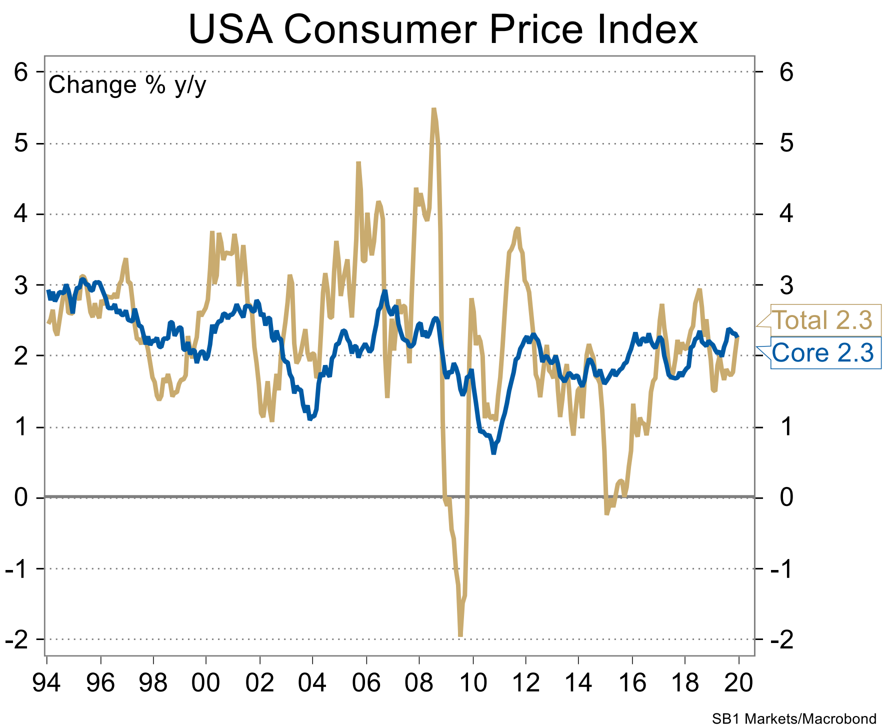


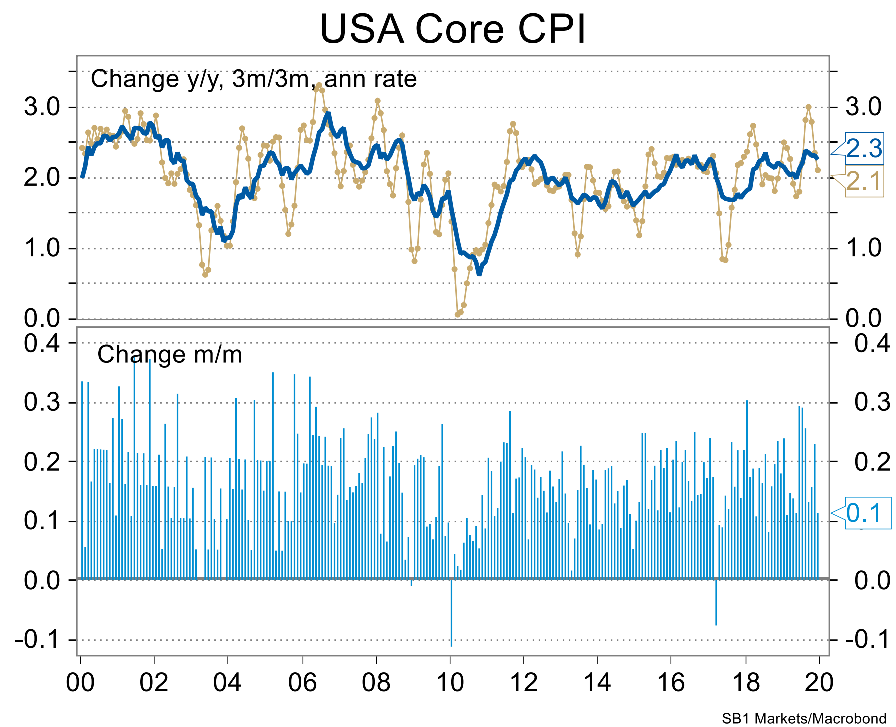


- Exports to the US are hurt by the tariffs, and are down more than 20% from the peak in early '18, equalling 4% of all China exports
  - Exports to the US equalled 18% of total Chinese goods exports before the tariffs (now 15%), and exports to EU 17%, rest of Asia 50%
  - Total exports equal some 20% of GDP, exports to the US some 3% of GDP – now down 22% from the peak, subtracting 0.7 pp from GDP growth. However, the impact is dampened by lower need for imports as inputs for these exports. In addition, exports to other Asian countries are rising
- The real economic risk for China & elsewhere: Trade uncertainties <u>are hurting investments</u> as companies may postpone or cancel investment decisions– and both Chinese and foreign company are reallocating from China to other countries

Core inflation steady at 2.3% in Dec, peaking now?

Core CPI rose 0.1% m/m, 0.1 pp below f'casts. Total inflation up to 2.3%, on higher energy prices

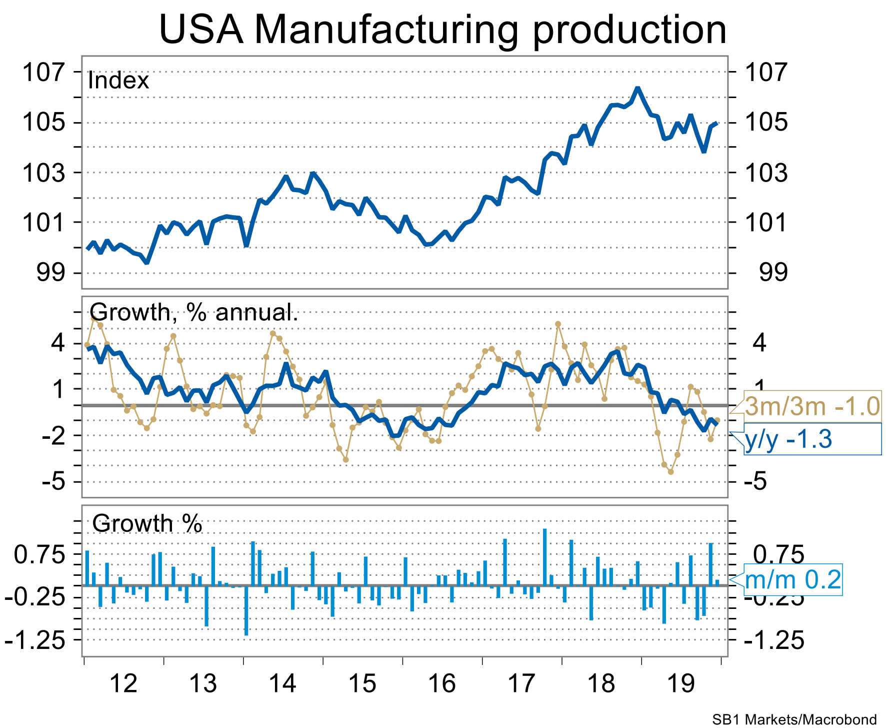


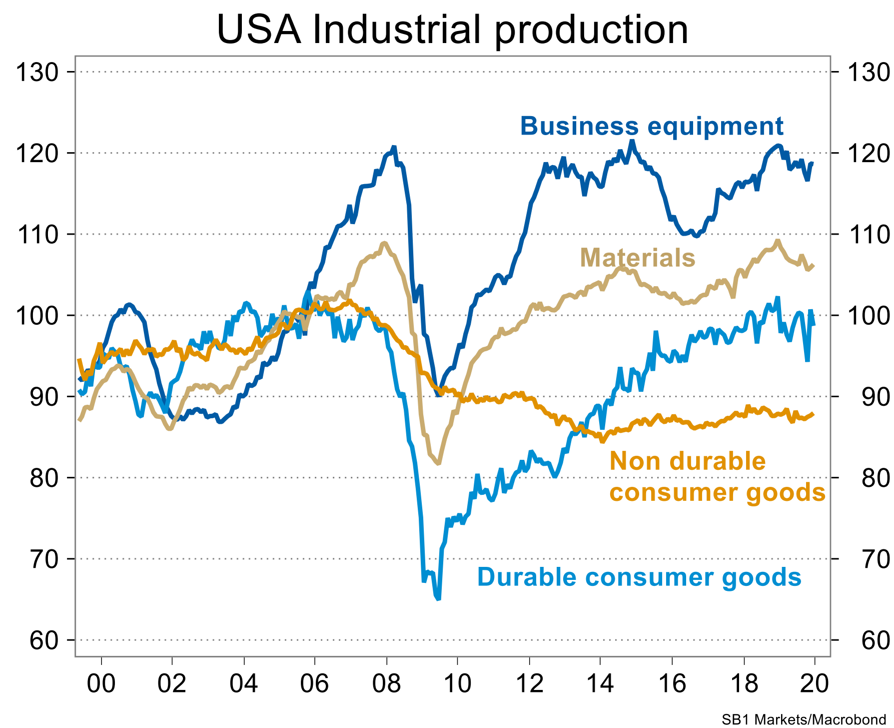


- Core CPI increased by just 0.1% m/m in Dec, 0.1 pp below expectations. The annual rate held steady at 2.3% (but fell by 0.04 pp), in line with f'casts. The underlying speed has slowed to 2.1% and does no longer suggest much higher annual rates. Moreover, producer prices and inflation models indicate that inflation may be peaking now. But it is not 'too' low, at least according to the core CPI index
  - » Fed preferred price measure, the core PCE (the consumption deflator) is up 'just' 1.6% (in Nov), below Fed's 2% price target
- Headline inflation edged up to 2.3%, a 0.3 pp increase. Total CPI inflation was pulled down by lower energy prices in late 2018/early 2019, this impact is now turning as energy prices are slowly climbing

Manufacturing production recovered in Nov/Dec, still down 1% in Q4

Production rose 0.2% in Dec, as expected, trend still no more than flat

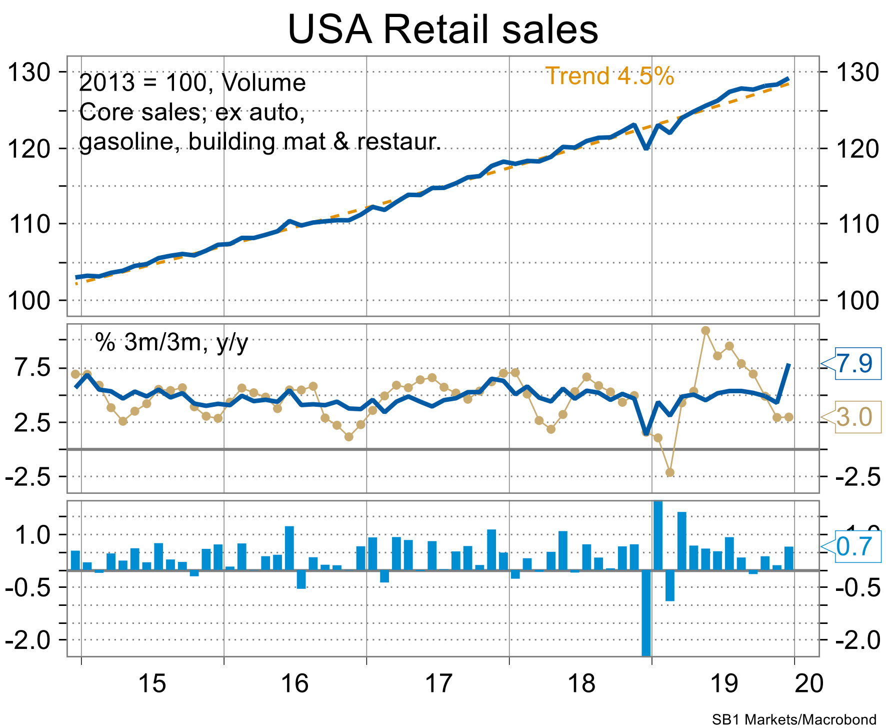


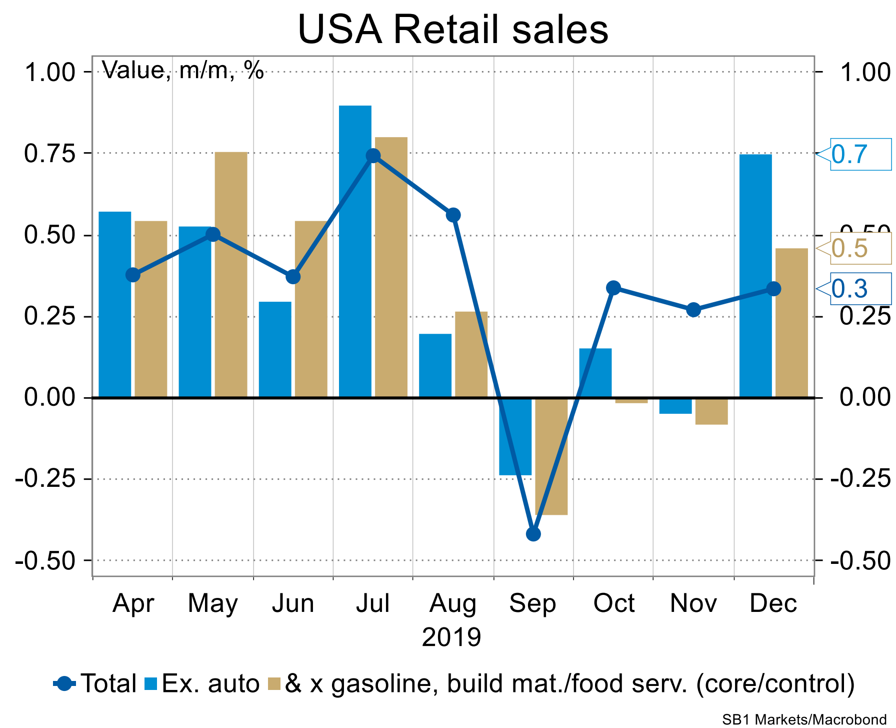


- Manufacturing production inched up 0.2% m/m in Dec, after a swift recovery in November (from the GM strike). Production has flattened out since the spring, Q4 ended down 1% annualized
  - » Total industrial production including energy & mining fell 0.3% m/m
  - » Production has slowed in most sectors, including business equipment & consumer durable goods - in sum weaker than signalled by durable orders, which has just stalled
- Manufacturing surveys are mixed but in sum they signal modest decline in production
  - » The 2 regional manufacturing surveys published so far in January both rose modestly

Retail sales growth is cooling, but accelerated in December

Core sales up 0.5% m/m in value terms, but history revised down, Q4 weaker than expected

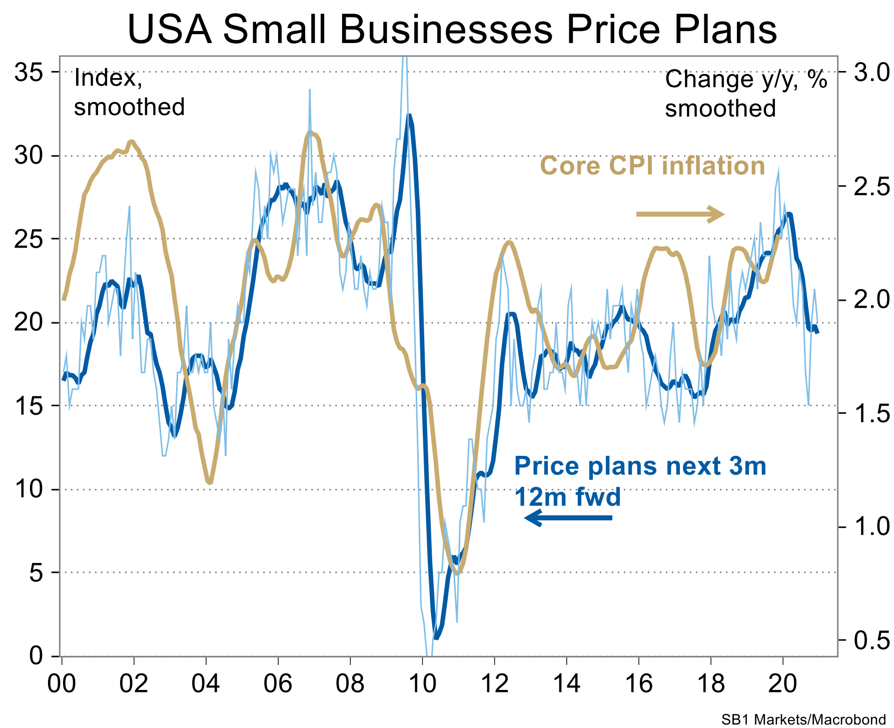


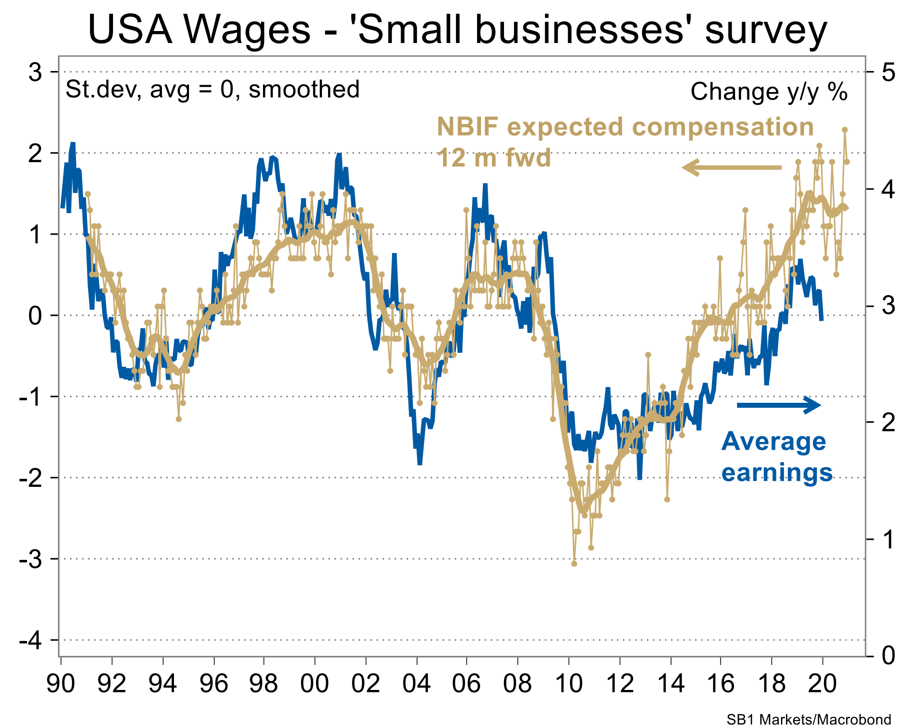


- Core retail sales (ex. auto, gas, building materials & restaurants; control group) rose 0.5% m/m nominally in December, 0.1 pp higher than expected. November was revised down by 0.2 pp to a 0.1% decline
  - » Total retail sales increased by 0.3% and the prior month was revised up 0.1 pp. Auto sales fell modestly in December, ex auto sales soared 0.7%
- We estimate a 0.7% m/m lift in core sales volume. November sales volume came in 0.1 pp weaker than we assumed, up 0.1% Thus, underlying growth stabilized at 3%, providing a solid GDP contribution in Q4, yet much less than in Q2/Q3, and less than assumed before Dec data/revisions. The annual rate spiked to 7.9%, due to the 2.7% drop in Dec last year
  - » Income growth has slowed somewhat the past year but consumer confidence remains strong, we do not expect any hard downturn now

SME survey suggests lower consumer inflation, but higher wage growth?

Price plans have been nudged down the past year, wage plans steady, at a very high level

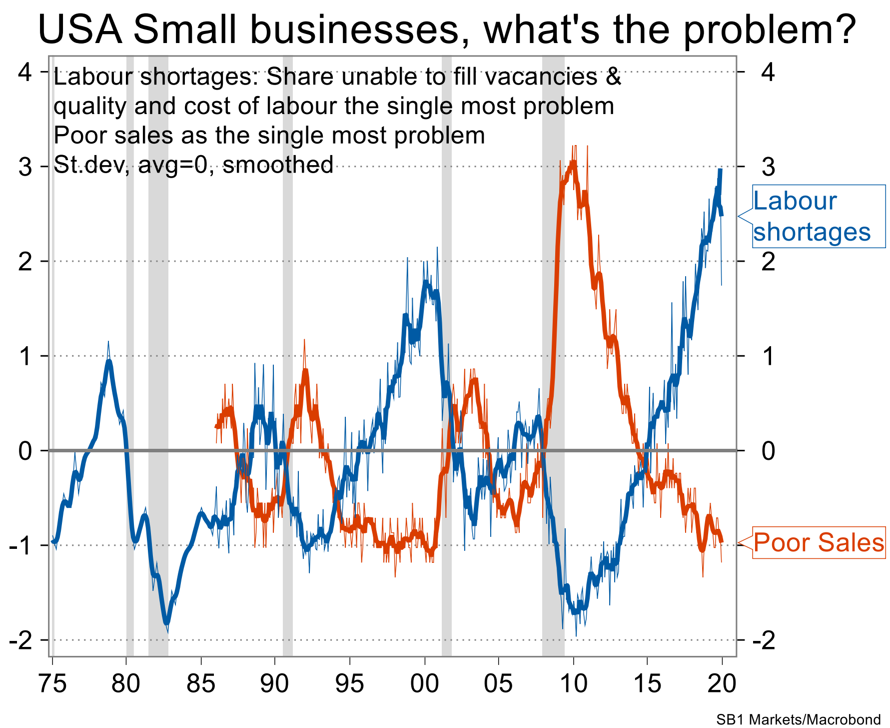


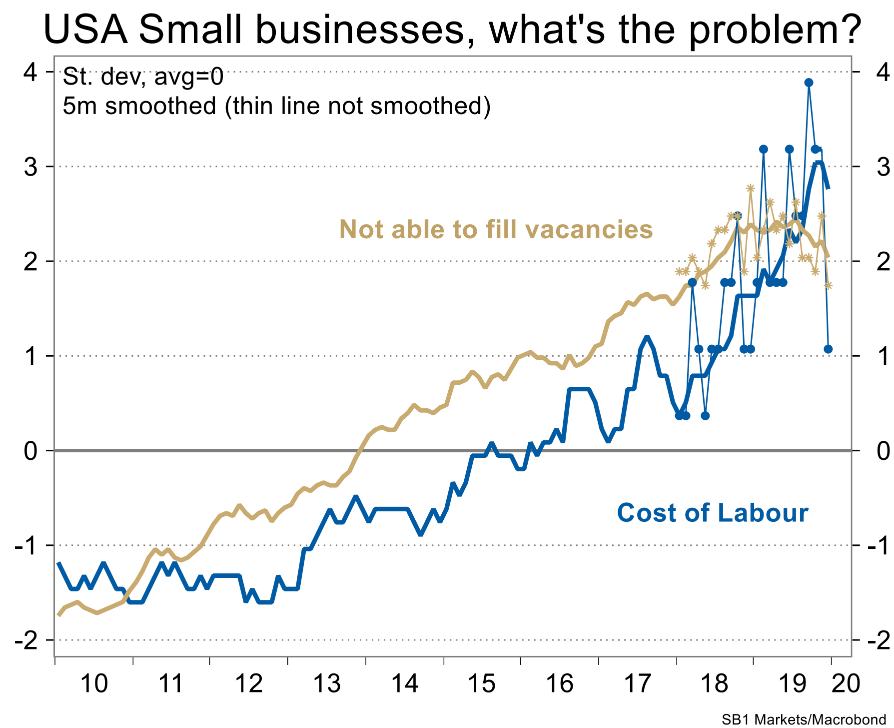


- 20% of small businesses are planning to hike prices in the December survey, up from 16% in September – but down from 29% one year ago. We do not put much weight on these monthly data, the smoothed share has fallen steeply, as price plans were nudged down rapidly in the summer. Demand must have slowed, even as optimism has stabilized
- Businesses are still reporting record aggressive plans to raise compensation, although have not increased the past year. Actual wage growth has cooled, the survey is not signaling any slowdown but probably not a steep acceleration either

What, small businesses' view of cost of labour steeply down in December??

The trend is strong and we do not put too much weight on one month's results, but still.. A signal?





- All 3 labour market assessment indices fell in December, the share which reported 'cost of labour' as the chief problem by far the most (it dropped by 2 st.devs), back to the Dec 2018 level

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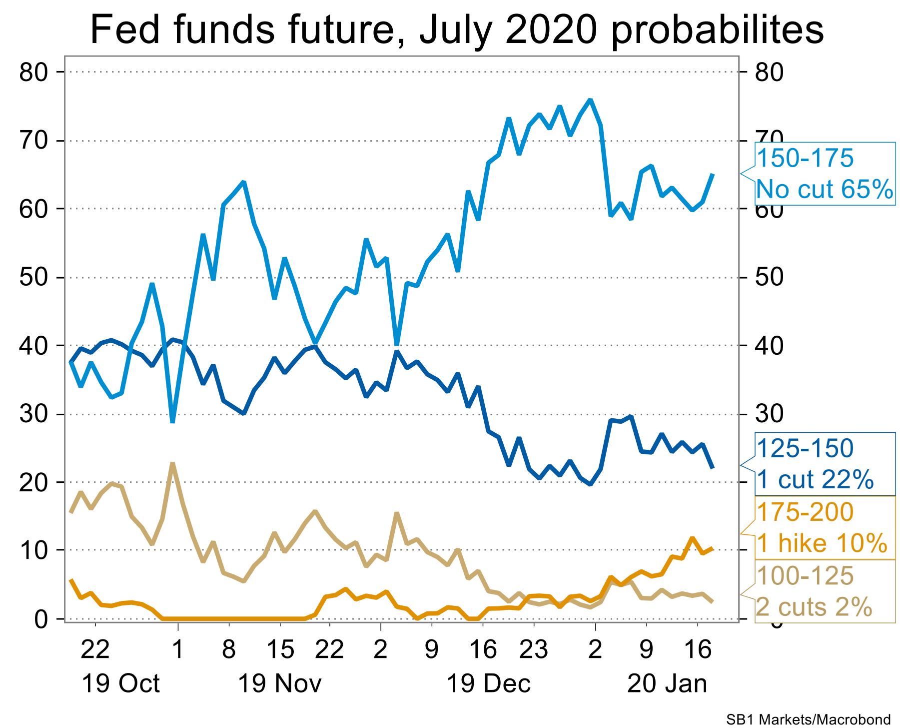
Fed's Beige Book reports steady growth and tight labour markets

Fed's 'regional network' continue to note 'modest' growth – with rising capacity constraints

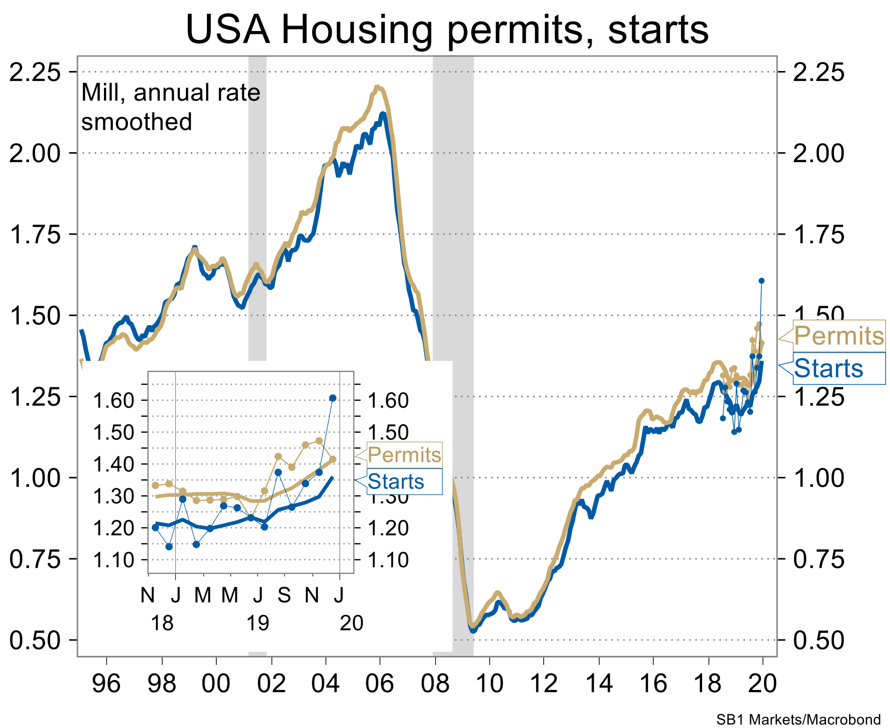
- Economic activity expanded at a '*modest*' rate in December and early January, according to the Beige Book, unchanged from the last report
- On the demand side
  - » Consumer spending remained solid and several Districts reported a pickup from the last report. Auto sales rose moderately most places
  - » Home sales were reported flat, while construction activity in the housing market expanded modestly. Some signs of a cooling housing market upturn?
- On the supply side
  - » Manufacturing were cited as flat, another sign of a manufacturing stabilization (although with lower hiring)
- Labour market
  - » Employment continued to rise at a modest pace, and labour shortages persisted
  - » Still, wages rose 'just' modest to moderately
- Prices
  - » Still modest inflation but some sectors reported that they are now passing on tariff costs to consumers
- **In total, the Beige book signals steady growth in the US economy, but with a limited upside on growth, due to widespread capacity constraints**

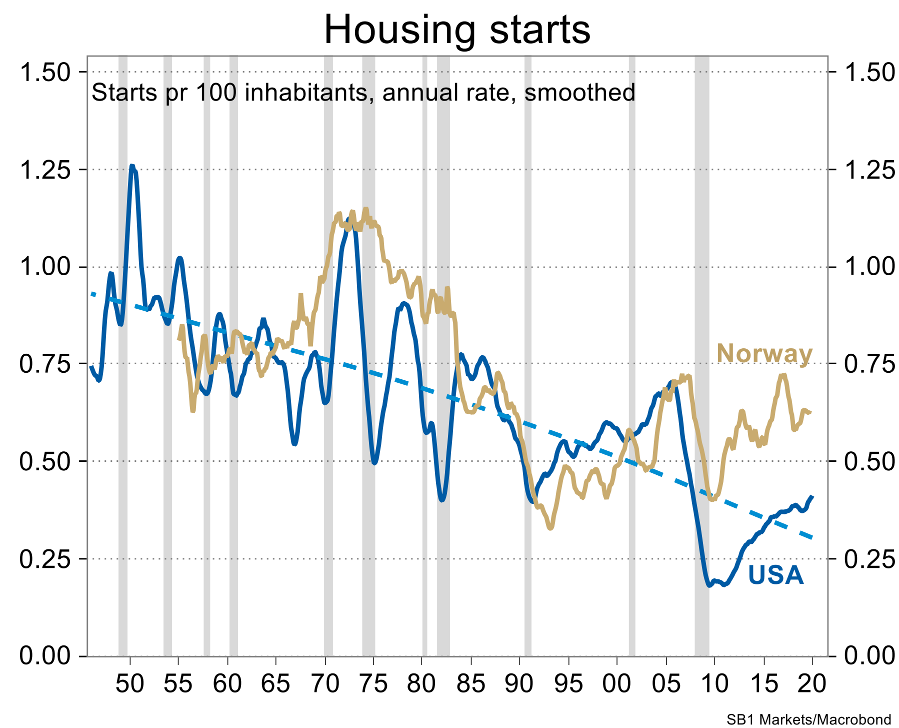


The market is pricing an unchanged Fed funds rate in H1, though with some 25% probability of a cut before July. By the end of 2020, the probability of a cut has increased to 80%, according to the market

Housing permits & starts are soaring, highest since before the Financial Crisis

Starts spiked, while permits retreated in Dec, both trending steeply up. Limited upside?

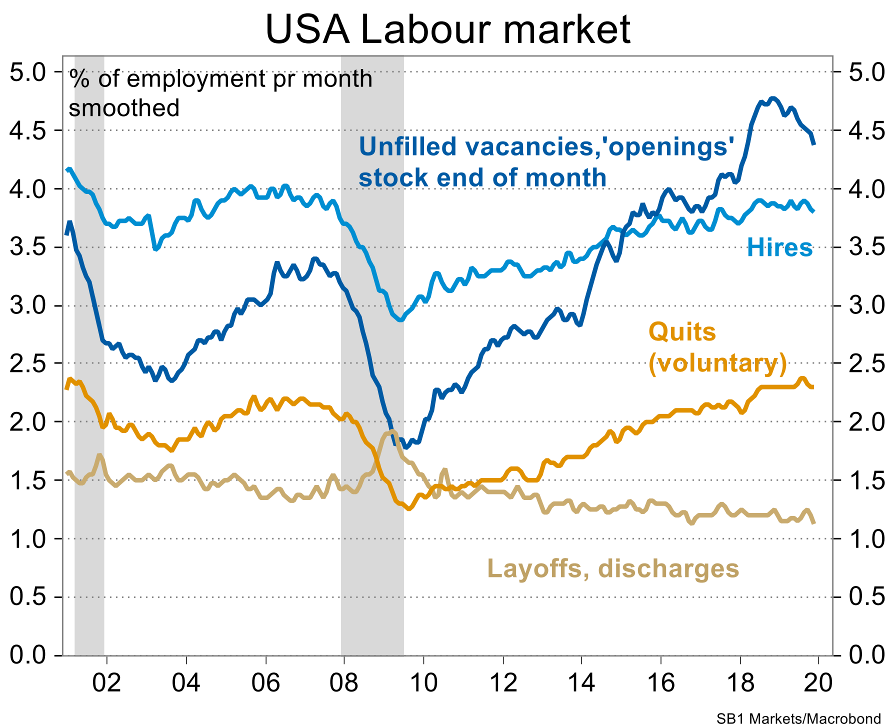


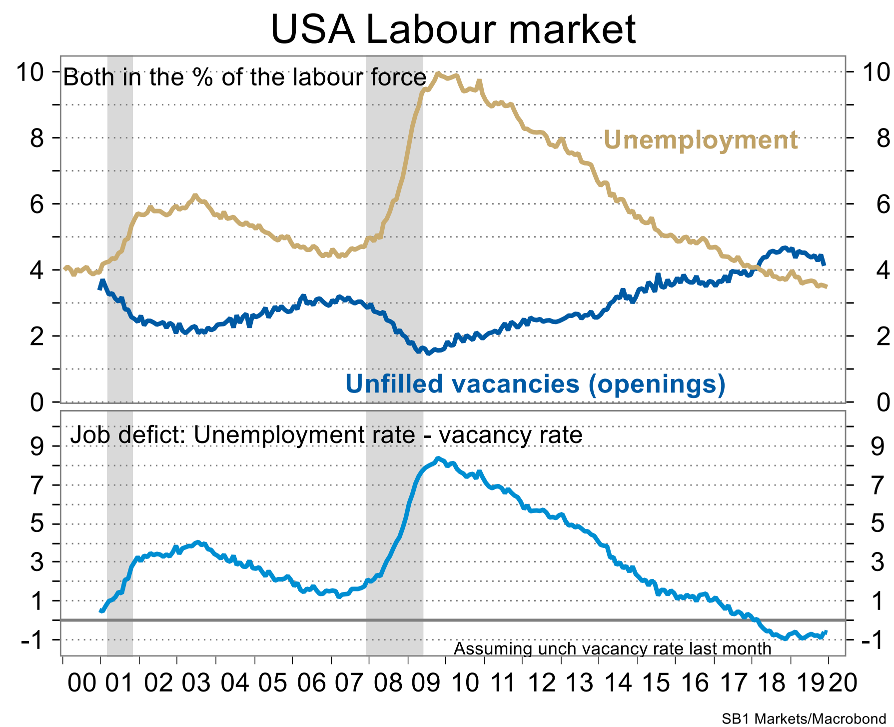


- Housing starts soared by a ‘ridiculous’ 17% m/m in Dec, the steepest increase in 3 years, to the highest level since December 2006! These monthly rata are volatile, particularly on starts, but the smoothed rate is heading straight up too, above the 2018 peak level
- Housing permits fell by 3.9% m/m, following strong growth the prior months. The level is the highest since early 2007. Permits usually are less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts. The smoothed rate is 4% above the 2018 peak
- Housing starts/permits reflect thriving demand for housing, probably boosted by low mortgage rates. The Homebuilders’ index confirms brisk demand but does not suggest another lift. The level of starts is not very high, historically, and the downside is modest compared to 2006-2009

Unfilled vacancies further down from peak, may be an early sign of weakness

Still, other indicators do not confirm a slowdown; hires & voluntary quits stable at high levels

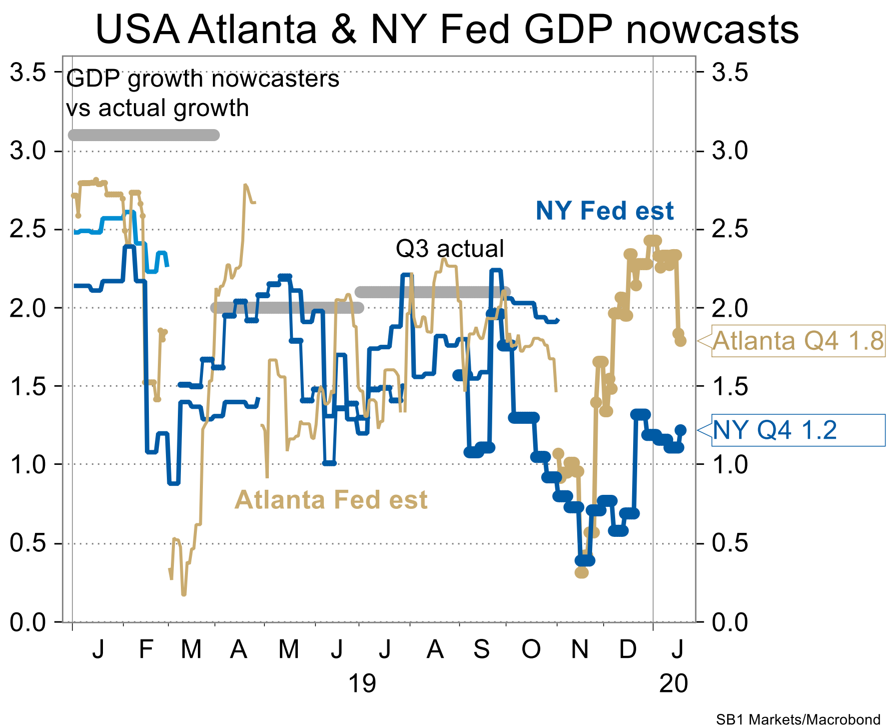


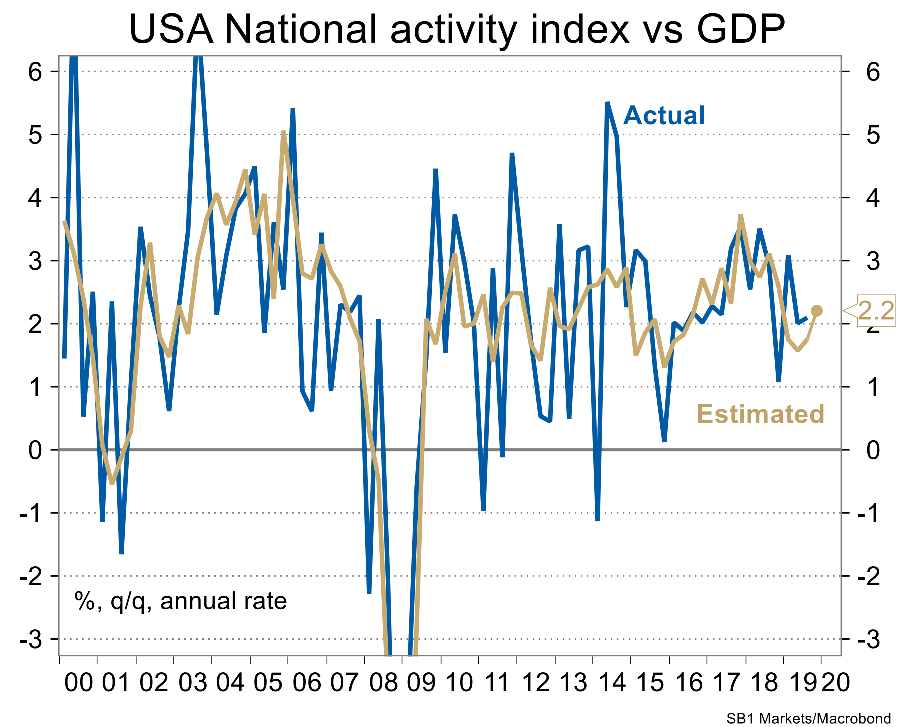


- In November, job openings (unfilled vacancies) increased to 4.4% of employment, down 0.1 pp from Oct (we apply a 2 month smoothing). Unfilled vacancies has been sliding down the past year, may be a very early sign of a cooling labour market. The vacancy rate is leading unemployment by approx. 6 months. However, the level remains high and the labour market is no doubt tight; there are still more unfilled jobs (4.1%) than unemployed (3.5%), in % of the labour force
  - Monthly (gross) hiring equals 3.8% of total employment and is not increasing anymore, probably because businesses struggle to attract labour
  - The number of voluntary quits is rising marginally, at a very high level – as many employees leave for better (paid) jobs
  - Layoffs fell in Nov and are trending marginally down, at very low level. However, it's a lagging indicator

Nowcasters signal 1.2 – 1.8% Q4 GDP growth

Altanta Fed's nowcaster reported lower Q4 growth Friday, due to lower consumption growth

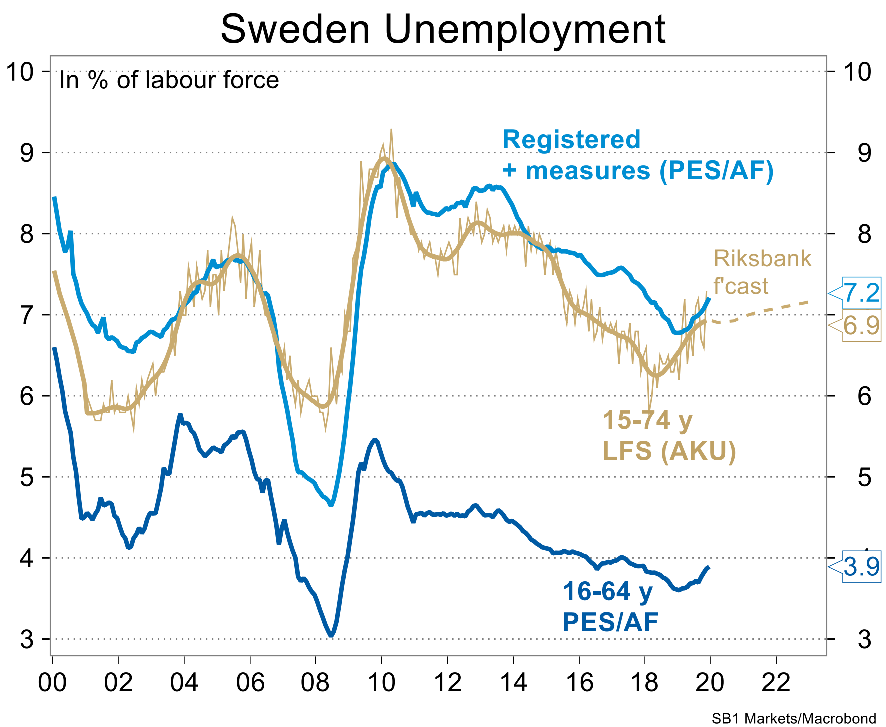


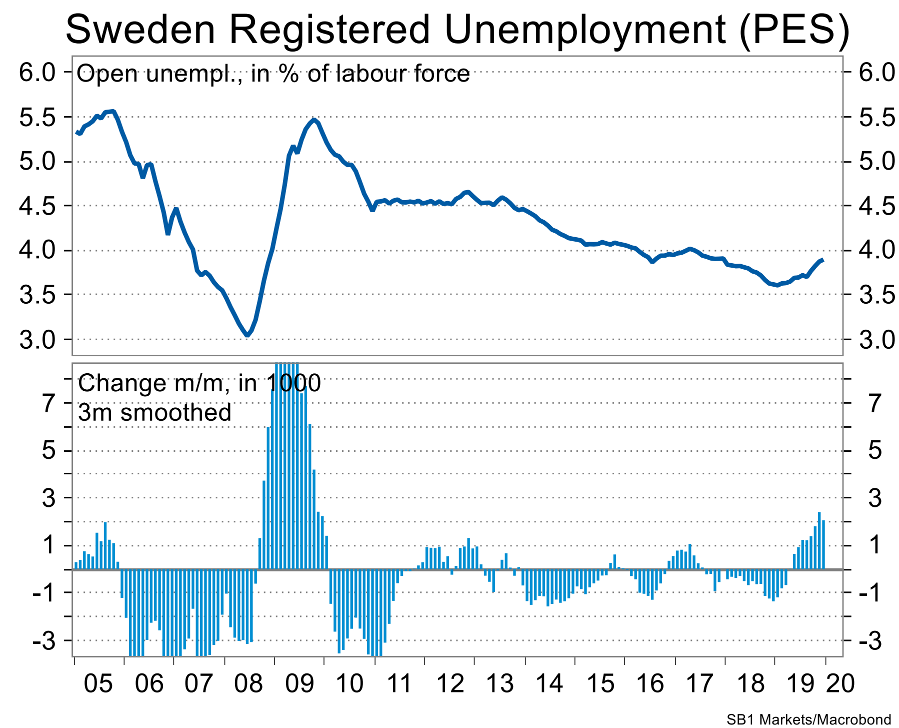


- The National Activity Index rose sharply in November and now signals 2.2% growth in Q4, up from 0.3% based on the October print (Dec data out this week)

Registered unemployment confirms a souring labour market

Registered unemployment (PES) another (marginal) tick up in Dec, up 0.3 pp the past year

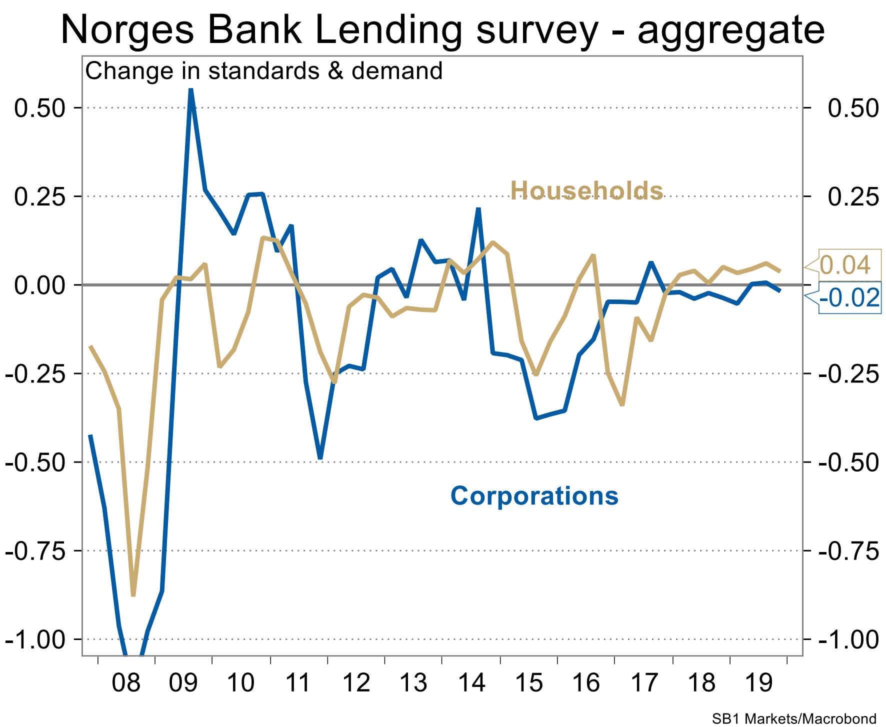


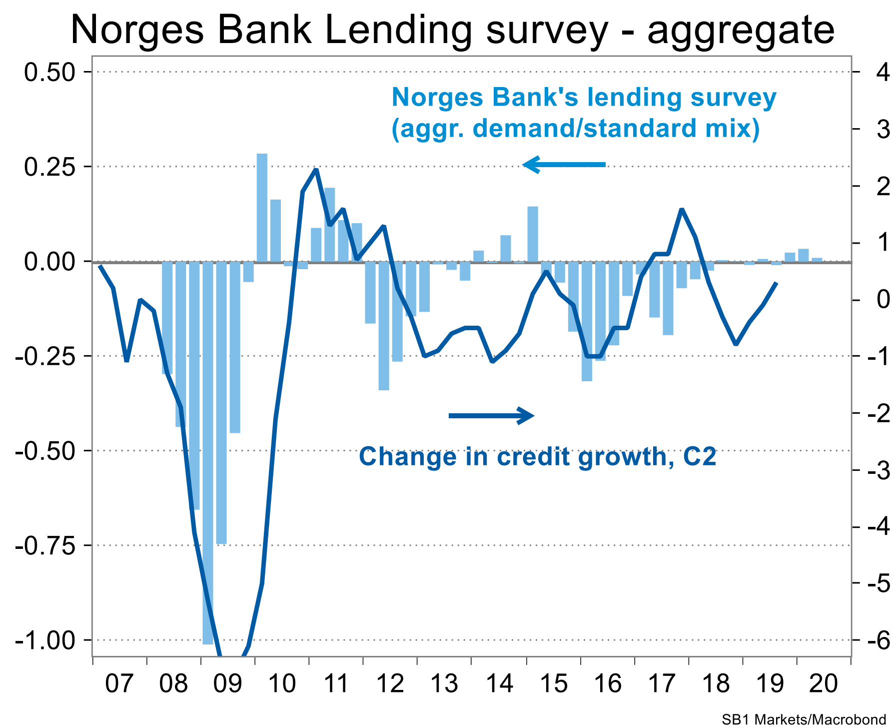


- The PES/AF registered unemployment rate (far less volatile than LFS data) rose marginally in Dec, unchanged at 3.9% at the first decimal (7.2% incl. measures). Unemployment is slowly climbing, up 0.3 pp since early 2019
  - » LFS unemployment has increased by 0.6 pp since last spring (measured by the smoothed rate). The unadjusted, volatile rate spiked 3 ½ year high in Oct
- Both new and unfilled vacancies have declined since mid-2018, confirming a cooling labour market
- The good news; Employment is still inching up, although the upward speed has slowed substantially. Labour market participation is increasing at a faster pace, bringing unemployment up. We would have been much more concerned if the unemployment uptick was due to lower employment

Surprisingly, banks do not confirm any slowdown in mortgage demand

Banks report an acceleration in mortgage demand in Q4, and high growth in Q1 too



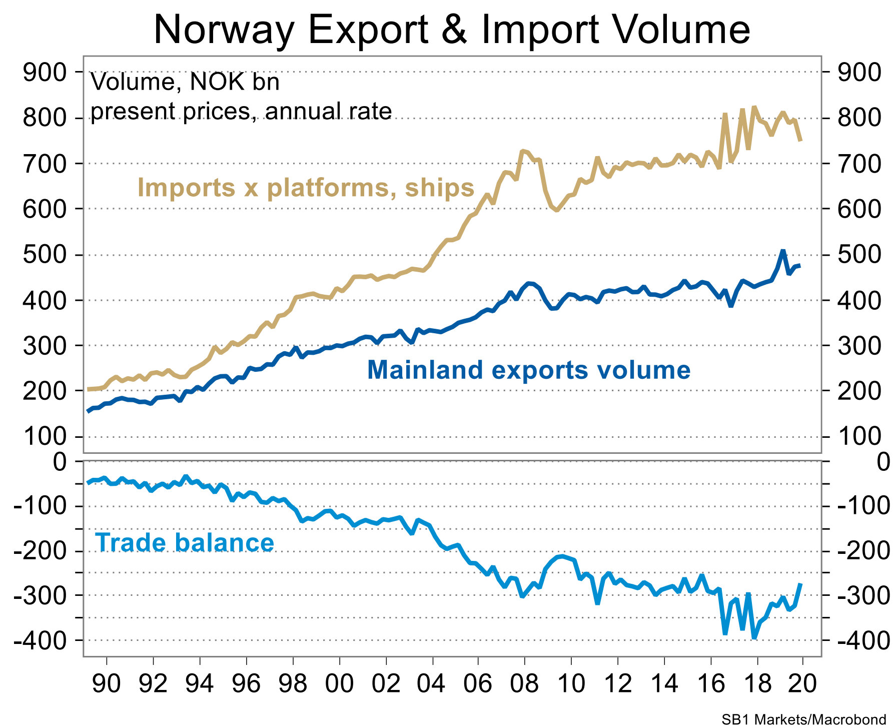


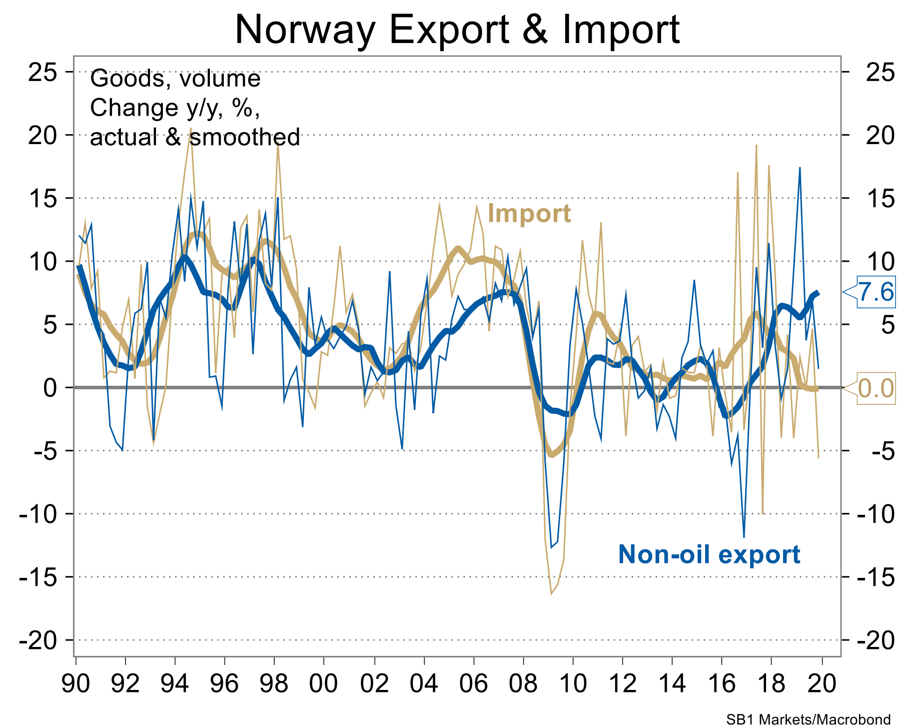
- Banks in Norges Bank's Q4 Lending Survey report higher credit demand from households and marginally lower demand from the corporate sectors. Our aggregate lending survey indicator (demand + standards reported in Q4 and Q1 expectations, both sectors) was close to flat, reflecting steady credit demand/standards
  - » Banks report a lift in mortgage demand in Q4, in contradiction to slowdown in actual household credit growth. Declining consumer credit may explain some half of the slowdown in household credit growth, as the lending survey only covers mortgages, however, it cannot possibly explain the entire downtick
  - » Credit demand from corporations was slightly lower in Q4, banks expects unchanged demand the coming quarter

Data in this section are seasonally adjusted

Finally, Mainland exports volumes have turned up

Brisk underlying growth past two years, now some 8% y/y. Import volumes are flat





- A faster growth in trade partners' imports can not explain the 'surge' in Mainland exports
- Higher exports of oil related manufacturing goods, and a possible impact of the 25% depreciation of the NOK is obvious explanations
- For the record: National accounts have so far (until Q3) reported somewhat lower growth in Mainland exports for goods (5% vs. 8%) – still trending up

The Calendar

In focus: The first January PMIs, ECB & NoBa, Norwegian LFS Unemployment, Manuf. survey

Time	Country	Indicator	Period	Forecast	Prior
Monday Jan 20					
05:30	JN	Industrial Production MoM	Nov F	--	-0.9%
06:00	SW	House Prices, Valuegard	Dec		1.0%
08:00	NO	SSB Industrial Confidence Survey	4Q	(2.0)	2.5
Tuesday Jan 21					
	JN	BOJ Policy Balance Rate	Jan-21	-0.1%	-0.1%
10:30	UK	Average Weekly Earnings YoY	Nov	3.1%	3.2%
10:30	UK	ILO Unemployment Rate	Nov	3.8%	3.8%
11:00	GE	ZEW Survey Expectations	Jan	15	10.7
Wednesday Jan 22					
12:00	UK	CBI Trends Total Orders	Jan	-25	-28
14:30	US	National Activity Index	Dec	0.15	0.56
15:00	US	FHFA House Price Index MoM	Nov	0.3%	0.2%
16:00	US	Existing Home Sales	Dec	5.43m	5.35m
Thursday Jan 23					
05:30	JN	All Industry Activity Index MoM	Nov	0.4%	-4.3%
08:00	NO	Unemployment Rate, LFS	Nov	3.8(3.8)	3.8%
08:00	NO	Housing Starts	Dec		29'
09:30	SW	Unemployment Rate, LFS	Dec	7.1%	7.3%
10:00	NO	Norges Bank Deposit Rate	Jan-23	1.5 (1.5)	1.5%
13:45	EC	ECB Deposit Facility Rate	Jan-23	-0.5%	-0.5%
14:30	US	Initial Jobless Claims	Jan-18	214k	204k
16:00	EC	Consumer Confidence	Jan A	-7.9	-8.1
16:00	US	Leading Index	Dec	-0.2%	0.0%
Friday Jan 24					
00:30	JN	Natl CPI Core YoY	Dec	0.9%	0.8%
01:30	JN	PMI Composite	Jan P	--	48.6
10:00	EC	Manufacturing PMI	Jan P	46.8	46.3
10:00	EC	Services PMI	Jan P	52.8	52.8
10:00	EC	Composite PMI	Jan P	51.1	50.9
10:30	UK	Composite PMI	Jan P	50.7	49.3
15:45	US	Markit Services PMI	Jan P	52.5	52.8
15:45	US	Markit Composite PMI	Jan P	--	52.7
15:45	US	Markit Manufacturing PMI	Jan P	52.6	52.4

Source: Bloomberg. SB1M est. in brackets. The key data points are highlighted

- **Preliminary January PMI**
  - Will the **first January PMIs** continue to signal a modest pickup in global growth? PMIs from the US, EMU, UK and Japan will provide us with a decent guesstimate on the global PMI
- **US**
  - **Existing home sales** are heading up, although less so recent months. Pending sales suggest an uptick. **House prices** (existing) are accelerating
  - In November, the **National Activity Index** signalled a 2.2% GDP speed in Q4, the nowcasters now reports 1.1 – 1.8%
  - **The Leading index** is somewhat more modest, pointing to 1.5% growth
- **Eurozone**
  - **ECB** will leave interest rates on hold and most likely make no substantial changes to its f'casts, attention is shifting to the broader strategic review
  - **The German ZEW survey** has improved more than other surveys recently
- **Sweden**
  - **LFS unemployment** is climbing, as labour market participation is rising, while employment is sagging. Still, another spike in Dec is unlikely
  - **House price inflation** has been speeding up, limited upside?
- **Norway**
  - **Norges Bank** will keep the signal rate unch at 1.5% and will not signal any changes in the outlook for the economy or monetary policy
  - **LFS unemployment** rate fell one tick in Oct (Sept-Nov), and we expect an unch. print in Nov
  - **SSB industrial confidence** survey has fallen some 2 p per quarter in the first 3 quarters in 2019, and we expect a similar decline in Q4 – if so, signalling a decline in manufacturing production

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. The trade conflict has no doubt contributed to the slowdown, especially in the manufacturing sector. Unemployment is low, wage inflation is not low vs. productivity. Most emerging countries (EM) x China are in recovery mode, but have been slowing somewhat too. Some hotspots EMs will get burned, as usual – but there are fewer EM imbalances than normal. The global PMI has stabilized. Barring policy mistakes, the global economy is not rigged for a *hard* downturn. Investment rates are not far too high, and there are few debt bubbles this time. **Growth has slowed to 3% from 4%, but has stabilized since Q4 2018. We expect a modest slowdown to 2.8% in 2020, even if trade conflicts are 'solved'**	Global composite PMI ticked up 0.2 p in Dec, 0.3 p better than we expected, due to a lift in services. The PMI at 51.7 signals above 3% GDP growth. The manufacturing PMI inched down 0.2 p, to 50.1, still suggesting a mild recovery in global production
China	Growth has slowed just marginally, and inched up through 2019, we do not expect a collapse in 2020 either. Surveys and data indicate a mild recovery at the end of '19, even without much extra policy stimulus, especially on the fiscal side. Exports to the US is down but total exports not. The invest/GDP ratio is sliding gradually down. Debt growth turned up in '19, and the authorities do not want to push the accelerator, barring a serious economic dip. **De-escalation of the trade war is fine but the real risks are the high debt level & possible over- investments**	GDP growth held steady in Q4, up 6% y/y. Industrial production is gaining pace, and investments, marginally. Retail sales volume slides down. Credit growth slowly accelerating, steady in Dec. Exports rose to an ATH in Dec!
USA	Growth will most likely not accelerate in 2020, from the 2% speed in H2. Unemployment is low, profits under pressure, and corporate debt is high. Business investments are above trend, and have yielded in H2. Households are in a much better shape, the debt burden is sharply reduced, and the savings rate is 'high'. The housing market seems balanced. Just a marginal fiscal stimulus in 2020 but the impact of 3 Fed cuts last year are not yet consumed. Price inflation is close to target, and the Fed can focus at the real economy. Recession risk is not overwhelming, short term, and further rate cuts are unlikely, barring a much weaker economy. **Risks: Trump/trade/business investments &debt, not household demand or debt**	Core CPI inflation flat at 2.3%, slowing producer prices indicate that CPI inflation is peaking now. Retail sales gained speed in Dec after some soft months, Q4 ended at a solid 3% pace. Housing starts and permits are soaring, and the HMI remained upbeat in Jan. Manufacturing production up 0.2% in Dec but fell 1% in Q4
EMU	Growth will remain muted in 2020 but there are few signs of hard landing. The manufacturing downturn may be easing, at least that is what some surveys are indicating. The consumer side has been quite resilient. The labour market is tight, and labour cost infl. is back to a normal level. Investment ratios are above trend. Credit growth is increasing, but still muted. Household savings are high, still consumption has kept up well. Policy: ECB does not have that much ammunition left, barring a huge QE, and the ECB policy makers are split. Fiscal policy debate has turned, some stimulus possible. **Risks: Trade war (but less risk for a US/EU war after G7). Italy, as always**	Industrial production rose 0.2% m/m in Nov, trending down. The downturn is led by Germany but few countries are growing.
Norway	Growth has been above trend, will slow substantially in 2020. Unempl. has flattened out. Wage inflation is above 3%. Oil investments probably peaked in Q4. Mainland business inv. are not low anymore, will slow substantially in '20. Housing starts are slowing. Electr. prices have taken the headline CPI down, core is still close to target. Growth in households' debt has slowed to close to income growth. **Risks: Debt, housing. A harsh global slowdown**	Banks in Norges Bank's Q4 lending survey are noting no slowdown in mortgage demand, in fact, they report a slight acceleration! Strange, we doubt credit growth will turn up now. Mainland exports have gained some pace, imports flat

Colour codes: Green=more to go. Yellow=the cycle is maturing, close to peak. Orange=at peak, downside risk. Red=recession level

In this report

Global

- Global macro data are no longer disappointing vs expectations
- Global foreign trade has not recovered, retail sales still struggling from VAT hike
- Industrial production is sagging in all DM, barring Norway incl. oil related

China

- December data mostly upbeat, retail sales the only soft spot
- Steady GDP growth in Q4, marginally above expectations
- Industrial production gains momentum, as surveys have indicated
- Retail sales volume growth drops, dragged down by the swine fever
- Growth in nominal investments marginally up in December
- New home starts trending up but slower, sales steadily up
- House price inflation has been slowing, now slowly gaining pace
- Credit growth steady in December, bank lending picks up
- Exports at ATH (and world record) after a jump in December, imports fell marginally

US

- Core inflation steady at 2.3% in Dec, peaking?
- Manufacturing production recovered in Nov/Dec, still down 1% in Q4
- Both first regional manuf. surveys up in Jan
- Retail sales growth is cooling, but accelerated in December
- Consumer sentiment remains at a high level
- Small businesses' optimism steady at high level
- Fed's Beige Book reports steady growth
- Housing permits & starts are soaring
- Homebuilders' confidence steady at an elevated level in January
- Unfilled vacancies further down from peak
- The federal budget deficit is trending out

EMU

- Industrial production has not yet hit bottom, even as surveys improve

UK

- Manufacturing production slumps
- Retail sales growth is losing speed, will be a drag on growth in Q4
- Core CPI inflation surprisingly eased to 1.3%

Sweden

- Registered unemployment confirms a souring labour market
- Core inflation a tad down in Dec, to 1.7%, total CPIF up 1.8%

Norway

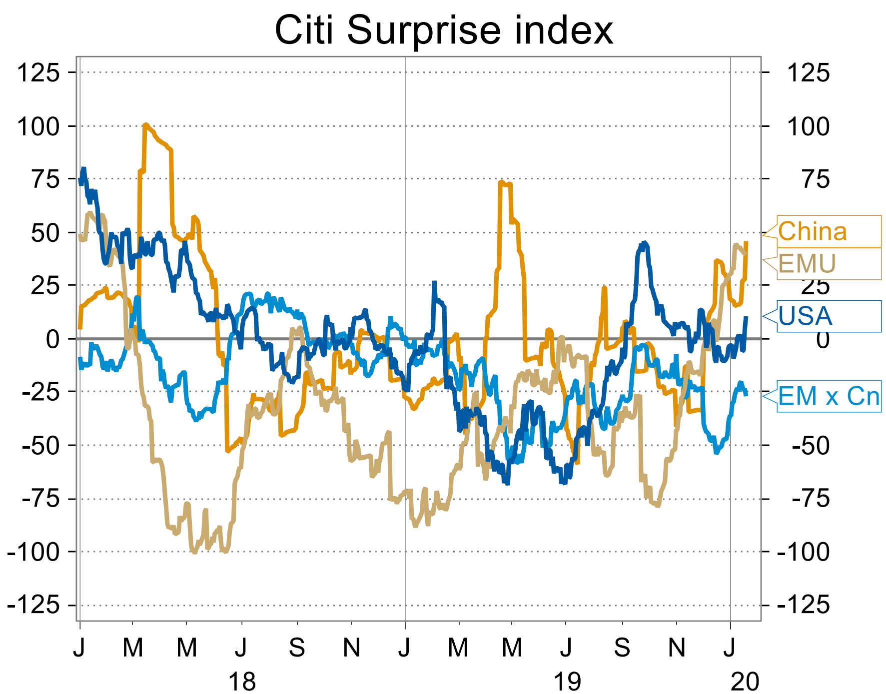
- Banks do not confirm any slowdown in mortgage demand, surprisingly
- Exports rose and imports retreated in Q4, both trending moderately up

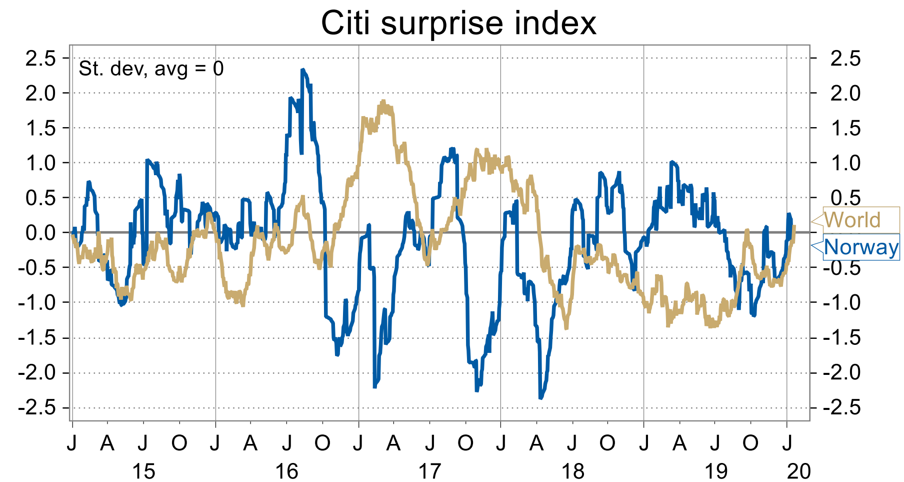
SpareBank 1 MARKETS

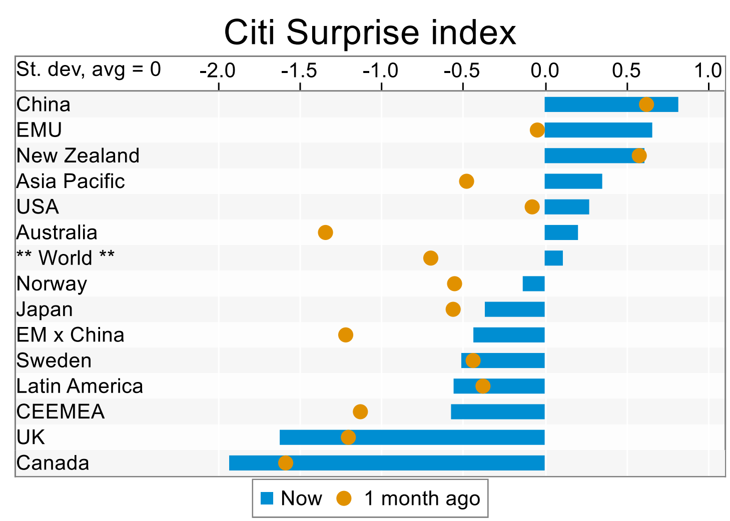
SpareBank 1 MARKETS

Global macro data are no longer disappointing vs expectations

China and EMU are reporting much better data than expected, USA marginally at the upside





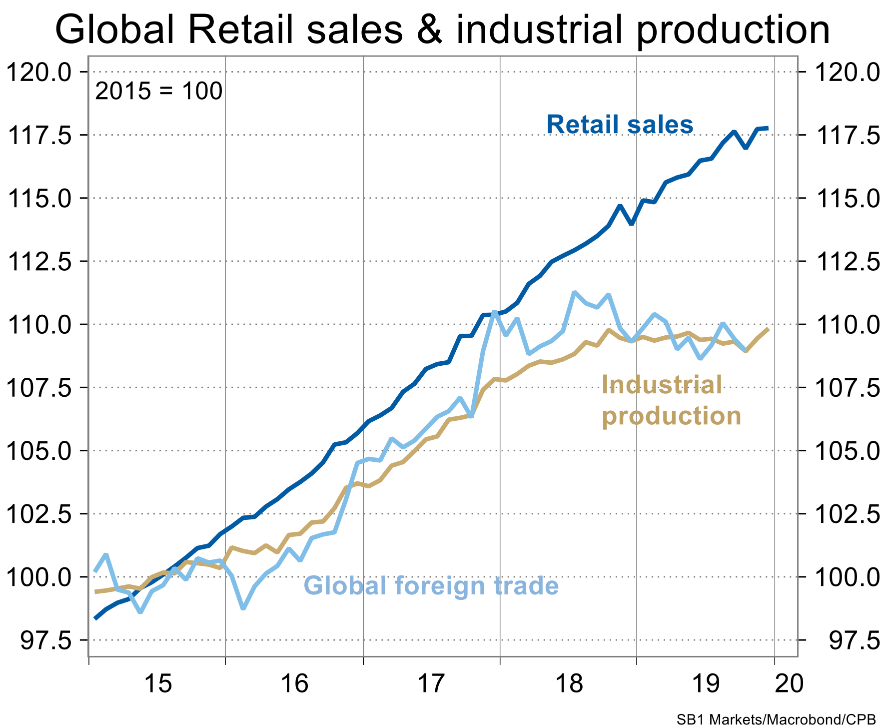


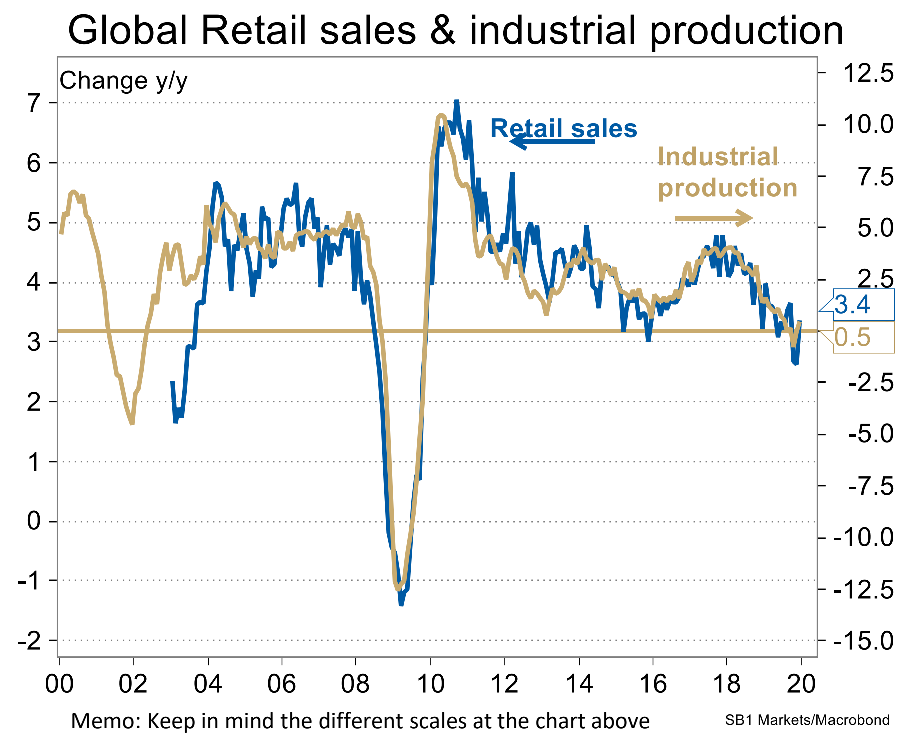
- Global macro data have in sum been disappointing vs expectation since early 2018, barring one spike up to neutral in Sept. The surprise index has edged up since mid-Dec , close to neutral now
- Des/Q4 Chinese data better than expected and the surprise index best since last May. Other EM data are still on the weak side
- EMU data are upbeat vs expectations, the best in 2 years. UK still very weak
- Since October, the US surprise index has been hovering around a ‘neutral’ level
- Norwegian data are close to neutral

Surprise-indices measure the difference between economists’ expectations and the actual outcome over a 3 month rolling window

Global industrial production probably further up in Dec, retail sales close to flat

Still few Dec data available but industrial production probably rose

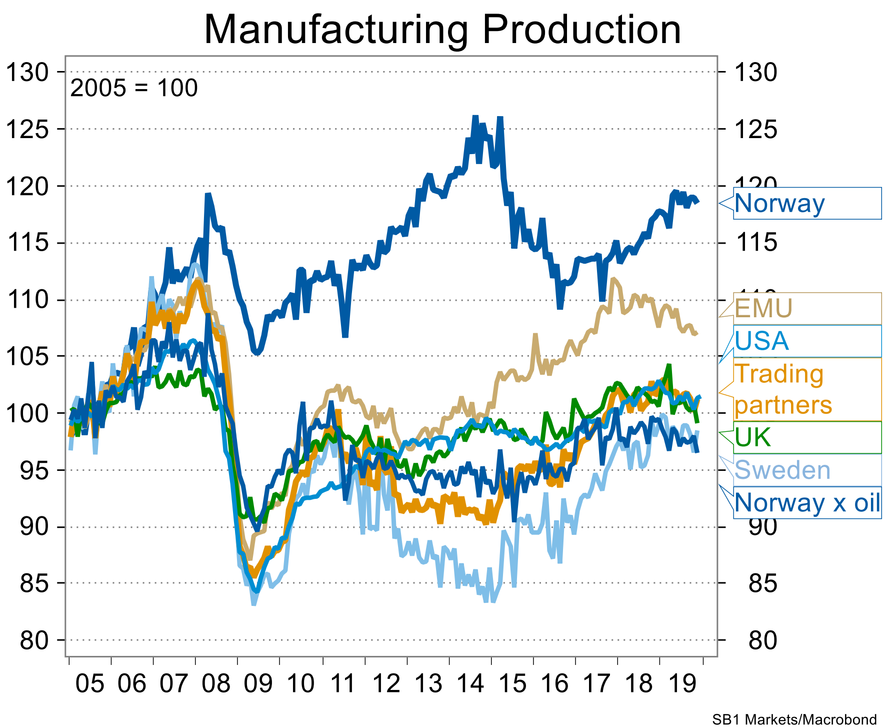


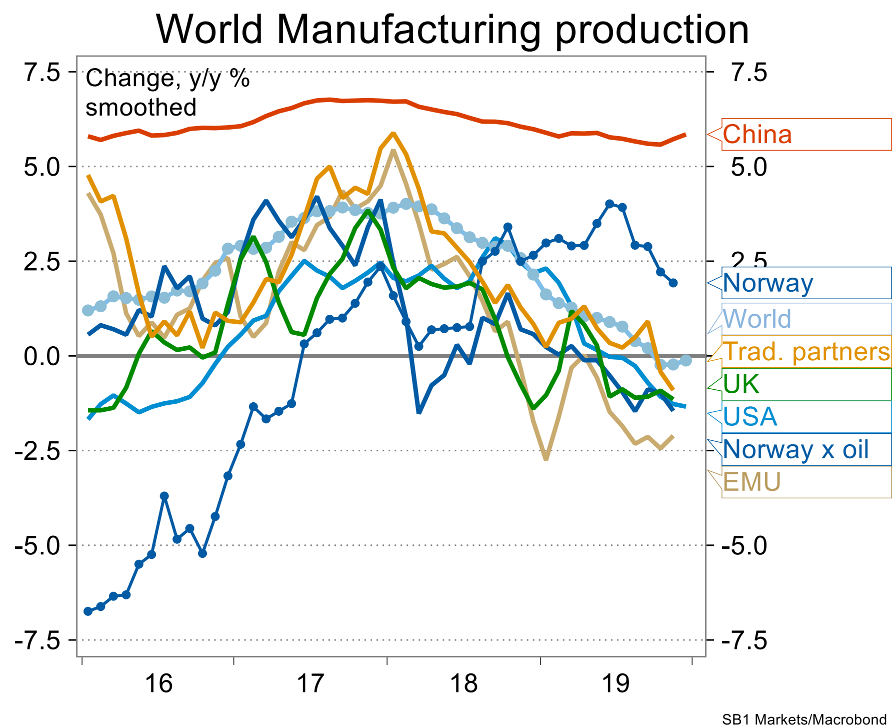


- **Global industrial production** rose by 0.3 % in December (our prelim est), possibly bringing production back to the Nov 2018 peak level, following the 0.4% lift in Oct. Global PMI has recovered the past 5 months, now signalling a 0.5 - 1% growth pace
- **Retail sales** ware probably close to flat in Dec after the 0.7% increase in Nov. The recent volatility is mostly due to the hike in VAT in Japan, that pushed sales forward to Aug/Sept, before they collapsed by 14% in October, like 'normal' following Japanese VAT hikes (check for more here). However, sales rose in many other countries in Nov, and a slowdown in Dec is likely
- **Global foreign trade** dropped by 0.4% m/m in October, with our seasonal adjustment (up 0.4% unadjusted). Trade flows have been sliding slowly down since Q3 2018 and the annual rate is down 2% y/y, however, following the uptick in the late summer, underlying growth has ticked up to 1% (measured 3m/3m), reflecting a stabilization since the spring

Industrial production is sagging in all DM, barring Norway incl. oil related

The manufacturing downturn is widespread, but EMU is struggling more than other trading partners





- Excluding oil related sectors, Norwegian manufacturing is retreating, even slightly faster than the speed down among trading partners (in avg)!
- Adjusted for growth in working age population, the speed of decline in the US and EMU is quite similar

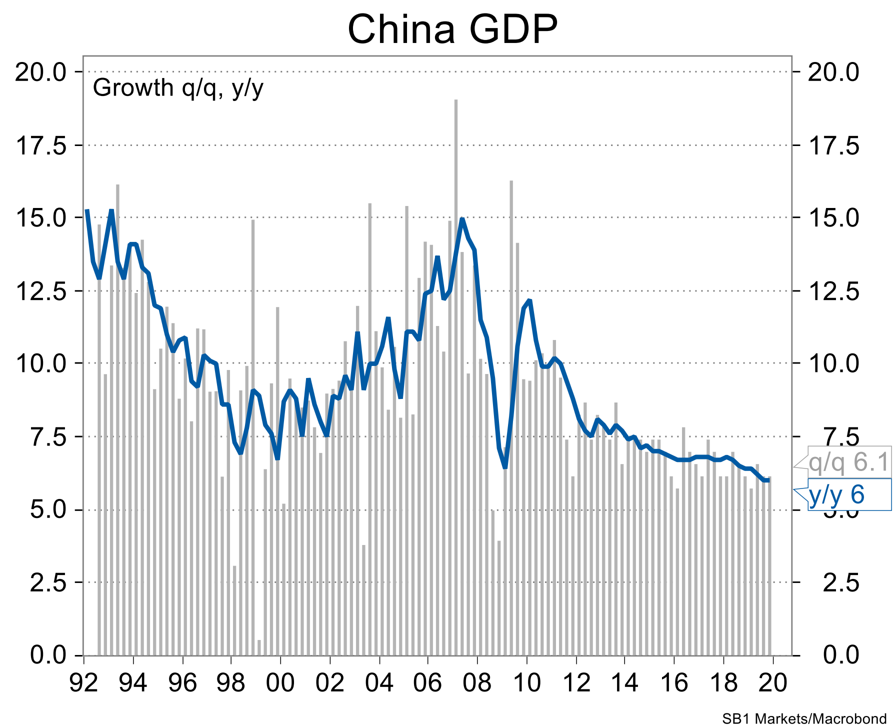
December data mostly upbeat, retail sales the only soft spot

GDP rose 6.1% ann. in Q4, industrial production and investments gained pace, just retail sales sagging

- **The Q4/December data confirm a stabilization, as PMIs and other surveys have signalled. There are no signs of any trade war related setback, just retail sales are softening, partly due to accelerating price inflation following the swine fever**
- **GDP** rose 1.5% q/q, 0.1 pp above expectations and unchanged from Q3 (up 6.4% annualized). The annual rate held steady at 6.0%. GDP grew 6.2% in 2019, the lowest rate in 30 y, within the growth target
- **Industrial production** rose 0.6% m/m and accelerated to a 6.4% speed in Q4, much higher than the avg speed through 2018 and 2019! The (useless!) official y/y rate shot up to 6.9, 1.0 pp higher than expected. The production data confirms the upturn which the PMIs have reported
- **Retail sales volume** rose by a meagre 0.3% m/m in Dec, according to our estimates, and growth slowed to 3.7% in Q4, 0.5 pp weaker than in Q3. In value, sales slowed just marginally (and the official rate unchanged). Rising price inflation is curbing purchasing power
- **Investments** accelerated marginally in Dec and are up 5.3% y/y, nominally, well below growth in nominal GDP. The official YTD y/y rate rose more than expected. Real growth rose to 4%, from zero in 2018
- **Credit growth** held steady in December, trending slowly up the past year and the credit impulse is now positive again, following the 2018 contraction

Steady GDP growth in Q4, marginally above expectations

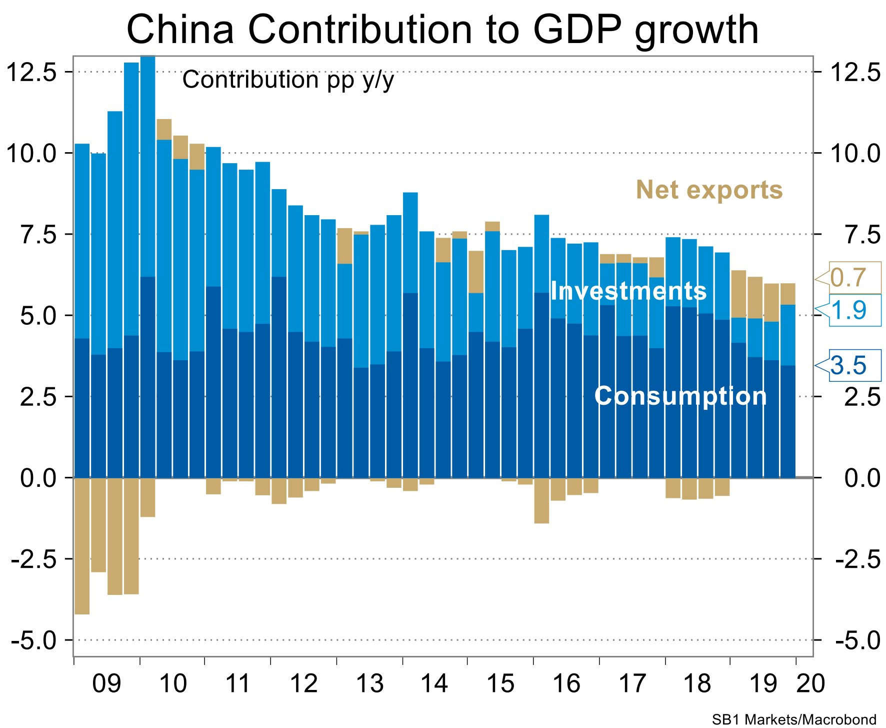
Growth slowed slightly faster than 'usual' in 2019, but the speed through 2019 is not weak at all!

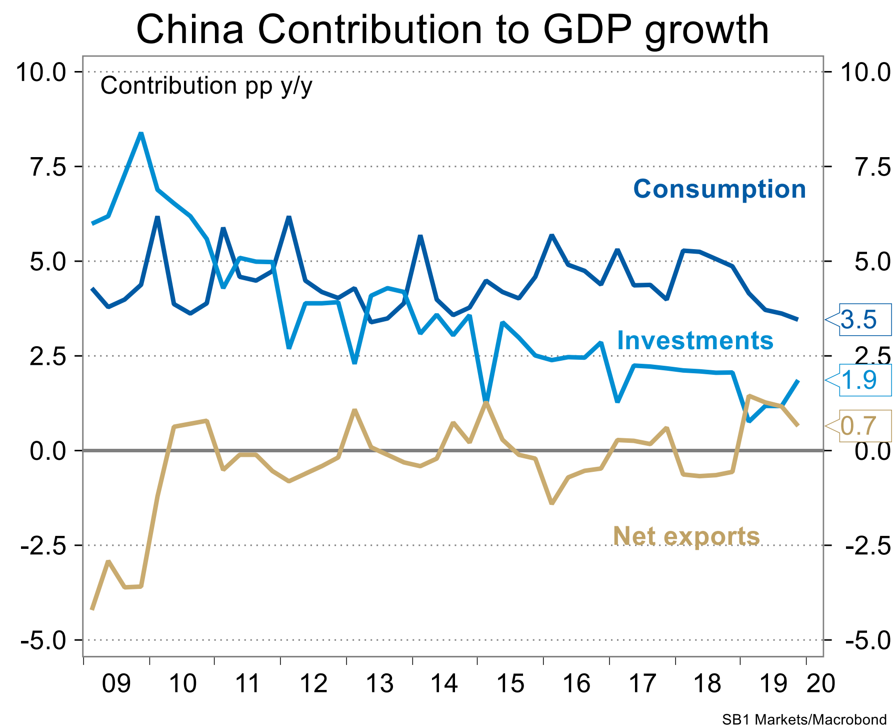


- GDP grew 6.0% y/y in Q4, as expected and unchanged from Q3 (the lowest y/y rate on record). The annual growth rate has fallen 0.3 pp from Q4 last year. Nominal growth came down marginally to 7.4%, the GDP price deflator inched down to 1.4%
- GDP grew 1.5% (6.1% annualised) in Q4, unchanged from Q3 and 0.1 pp higher than expected. Quarterly growth did not slow through 2019, in fact, Q4 came in 0.4 pp higher than Q1 (annualized rate)
- Big picture: Growth is slowing at a modest pace; from 6.6% in 2018 to 6.2% in 2019, a 0.2 pp steeper decline than the avg of the past 5 years. The authorities' 2019 growth target was 6 - 6½%. Growth was the slowest since early 1990'ies – but that's old news
  - » Are the official GDP reliable? Goods research suggests that growth is some 2pp lower than reported, mostly due to a much slower growth in investments

A lift in investments boosted Q4 growth, consumption cools, net trade up in '19

The trade war is not curbing the economy, the drag on growth is consumption, not investm./exports!

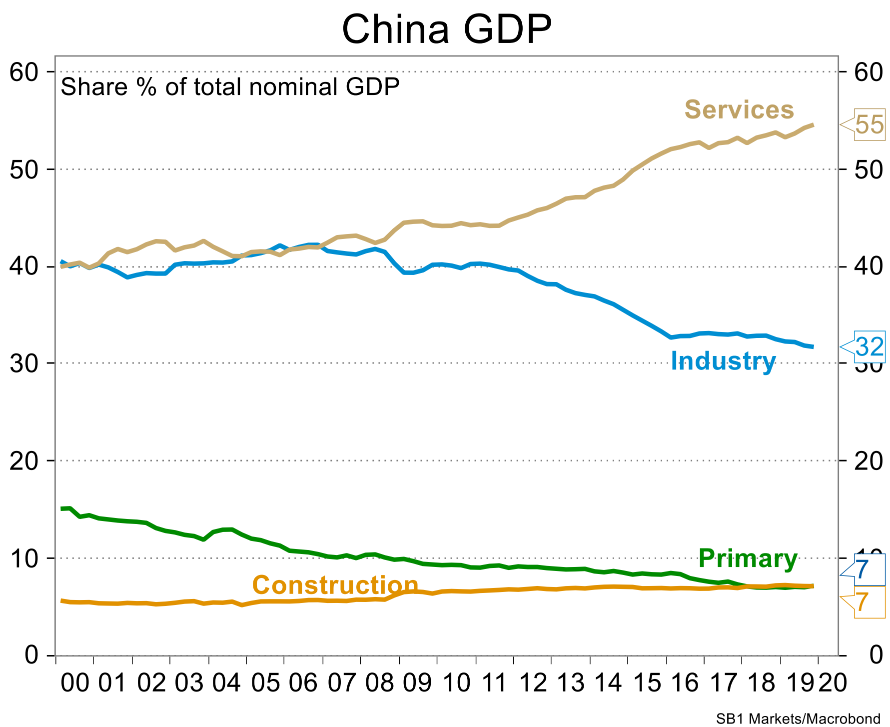




- Growth in investments (private & public) gained pace through 2019, after slowing the prior years. The contribution to annual GDP growth rose to 1.9 pp, the highest since the 2.1 pp in Q4 2018 (5 years ago, the contribution was 3.6 pp)
  - The government's so far moderate stimulus measures may have supported investments, but public investments have not accelerated (if data are correct)
  - The slowdown recent years has been very gradual, we assume in line with the authorities' ambitions in order to get the investment ratio further down to reduce the risk for heavy overinvestments (which still is a substantial risk!)
- Net exports contributed to 0.7 pp of y/y Q4 GDP growth, a smaller contribution than the two past quarters, but still higher than the avg recent years (which has been negative since 2011). No trade war drag on Chinese trade, seems like… The slowdown in Q4 is due to an uptick in imports which sent the trade surplus down in this quarter
- Consumption (private & public) contributed to 3.5 pp growth in Q4, a tad lower than in Q3 and sharply down from 2018 (above 5%). Accelerating price inflation due to the swine fewer outbreak is probably one explanation, as sales volumes have been dampened

Construction slowed steeply in Q4, services a tad down, industries up

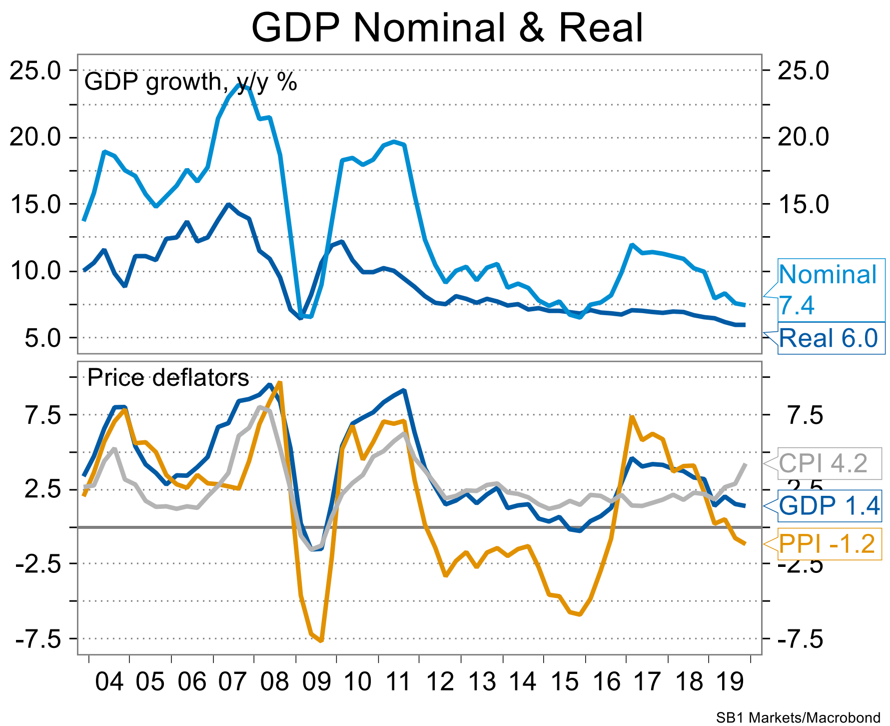
Nominal growth has slowed in the main production sectors



- Services are now contributing to 55% of GDP

GDP price deflator stable at 1.4%, nominal GDP 7.4%

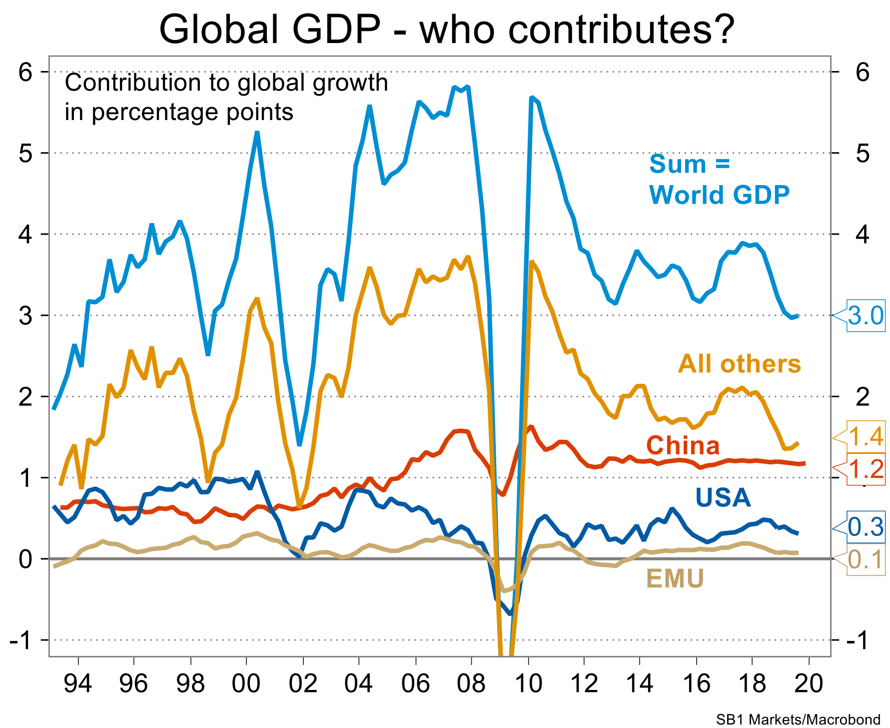
Growth in nominal GDP has fallen to 7.4% from well above 10% 2 years ago



- Manufacturing producer prices (PPI) are down 1.2% y/y, down from 5.9% 2 years ago. CPI up 4.2% in Q4 in average, an acceleration from 1.8% in Q1 – entirely due to soaring pork meat prices caused by the serious swine fever outbreak

What a Chinese blow to the global economy!

Well, please check the facts (as usual)



Chinese economy

Slowing Chinese growth delivers blow to global economy

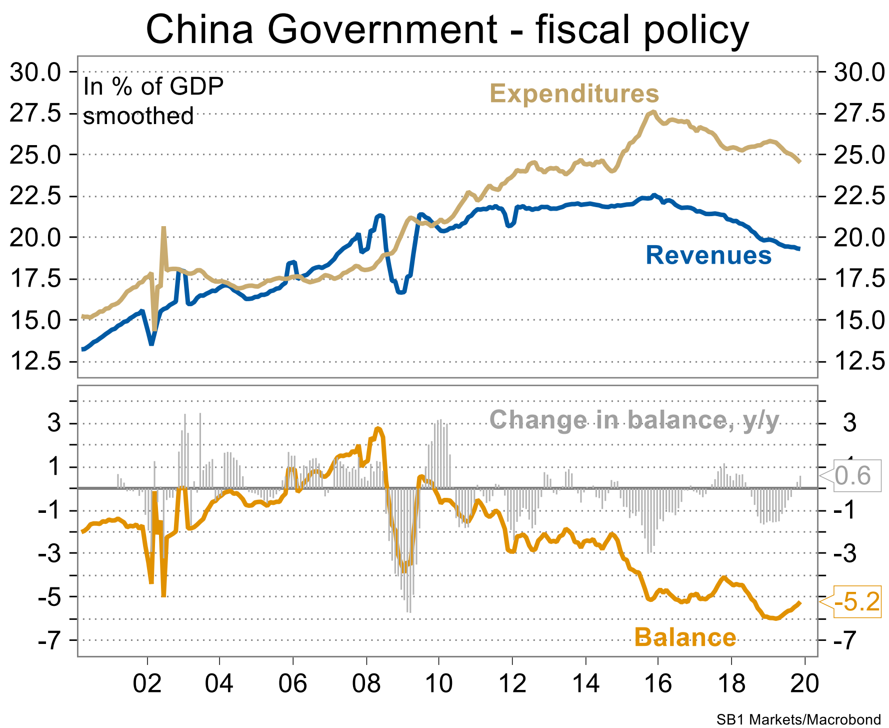
Expansion of 6% is worst in three decades due to trade war with US and cooling investment

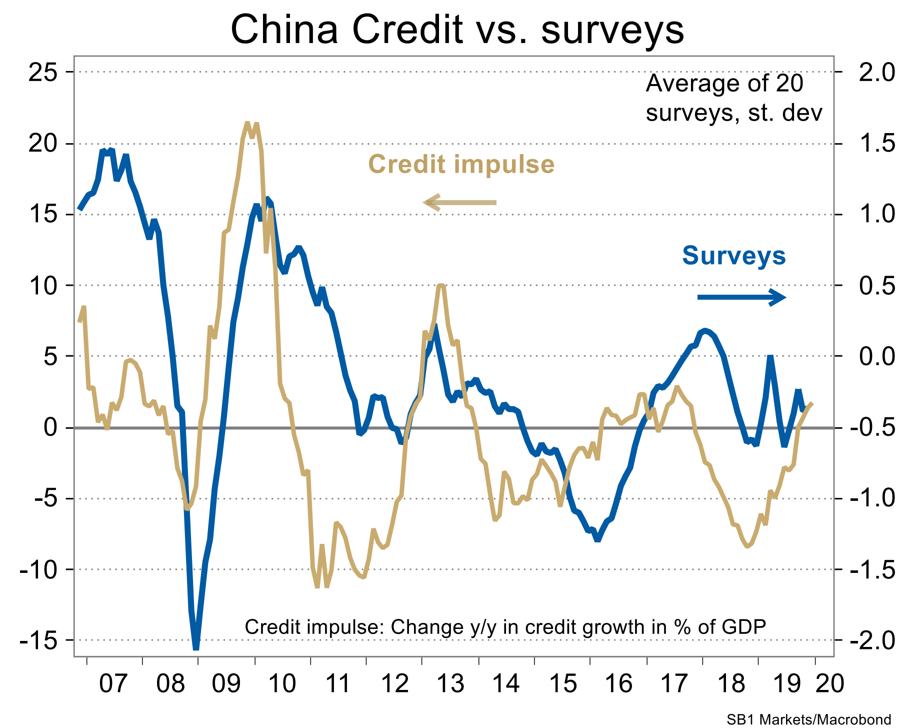
- European auto stocks in reverse while China's growth disappoints
- Chinese local government funds run out of projects to back
- IMF slashes global growth forecast on trade war fears

Top, front page
Fin Times, Oct 18

No more fiscal stimulus (and nothing happened on the expenditure side)

Still, the budget deficit is large, at 5.2%. Credit growth has accelerated modestly over the past year



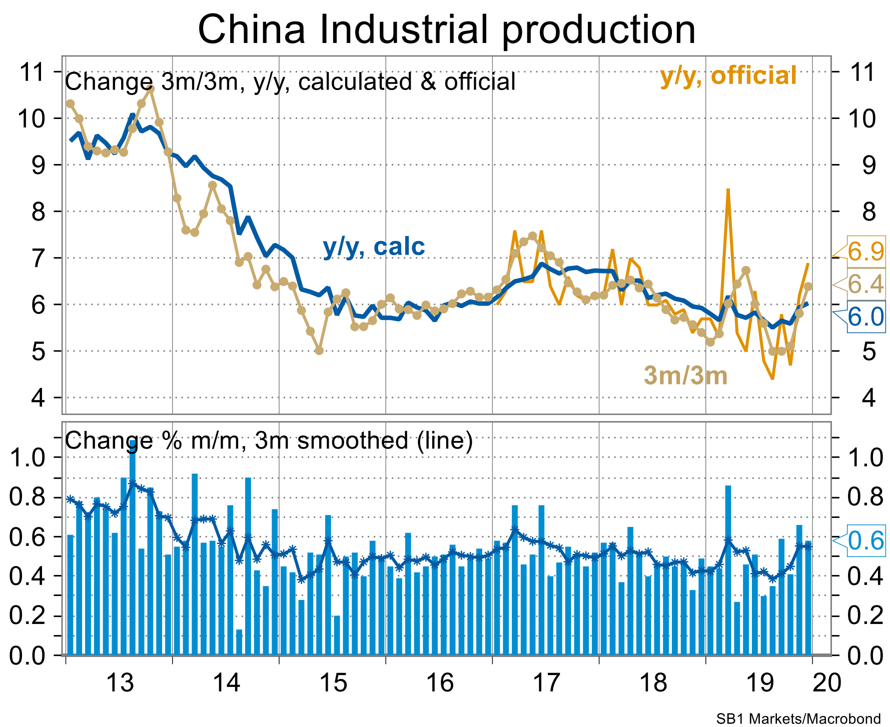


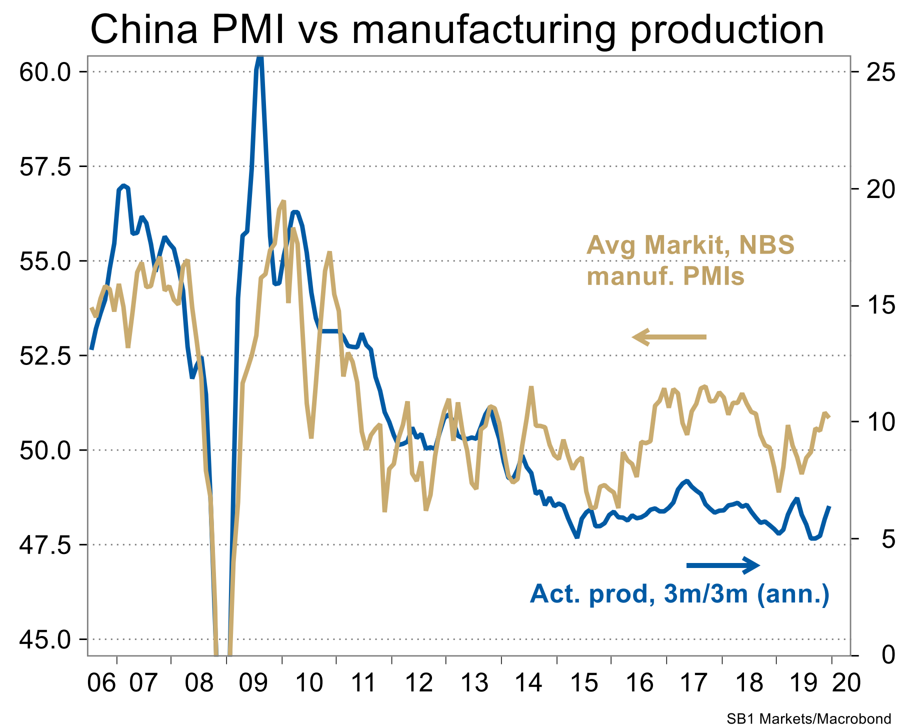
- Fiscal policy: Taxes are cut, spending programs decided – but the latter are not easy to reveal in aggregated spending numbers, the expenditure/GDP ratio has fallen. Revenues have been declining vs. nominal GDP too, but slower! Over the past year, the budget deficit is cut, fiscal policy is contractionary
- Credit growth is slowly accelerating, and the credit impulse has turned marginally positive, from sharply negative. See more further out in this report

SpareBank 1 MARKETS

Industrial production gains momentum, as surveys have indicated

Production continued to expand strongly in Dec, up 0.6%, and accelerated to 6.4% q/q in Q4

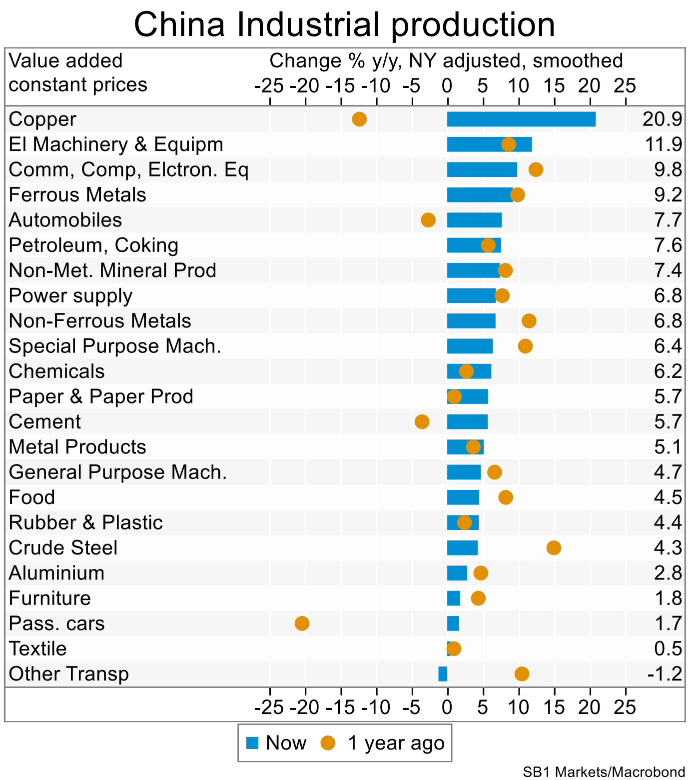




- Production rose 0.6% m/m in Dec, higher than the avg pace through 2019 of 0.5%. Following a strong Nov (revised down by 0.1 pp), production rose 6.4% annualized in Q4, up from 5.0% in Q3 and a higher speed than through most of 2018! Our y/y rate one inch up to 6.0% - it bottomed out at 5.5% in August
- The official y/y growth rate is 'useless', far too volatile as it is not adjusted for holidays or working days. In Dec, growth accelerated by 0.7 pp to 6.9%, 1.0 pp higher than expected
- The two PMIs have both improved substantially since the local trough in June and are now signalling higher growth. Export volumes are trending up and are at ATH levels. Hence, China has most likely not been brought to a halt!

Growth y/y in 22 of 23 production sectors, even autos

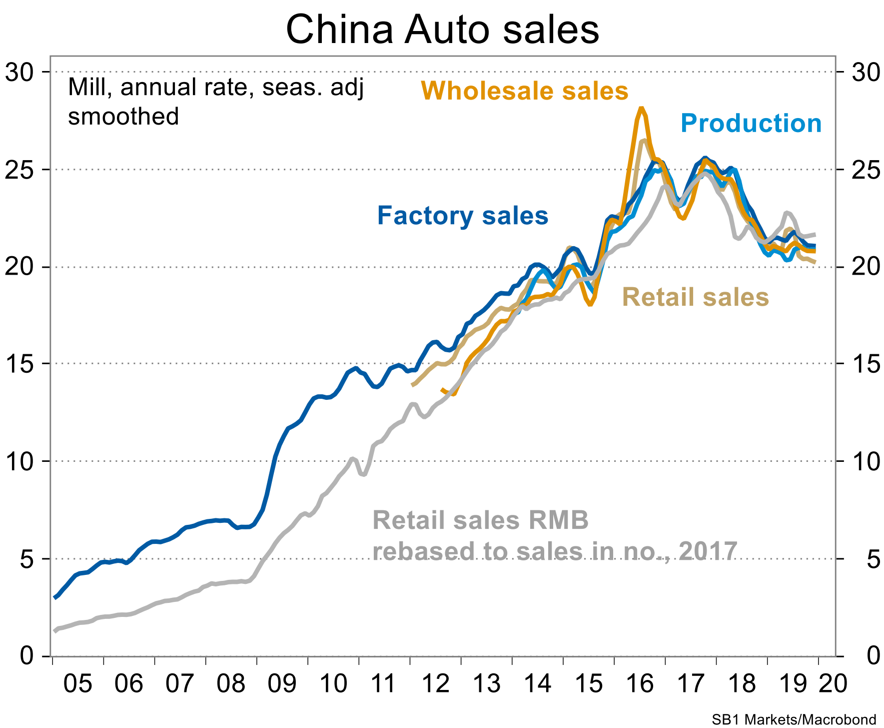
Compared to one year ago, 10 sectors are accelerating, 9 slowing (and 4 flattish)

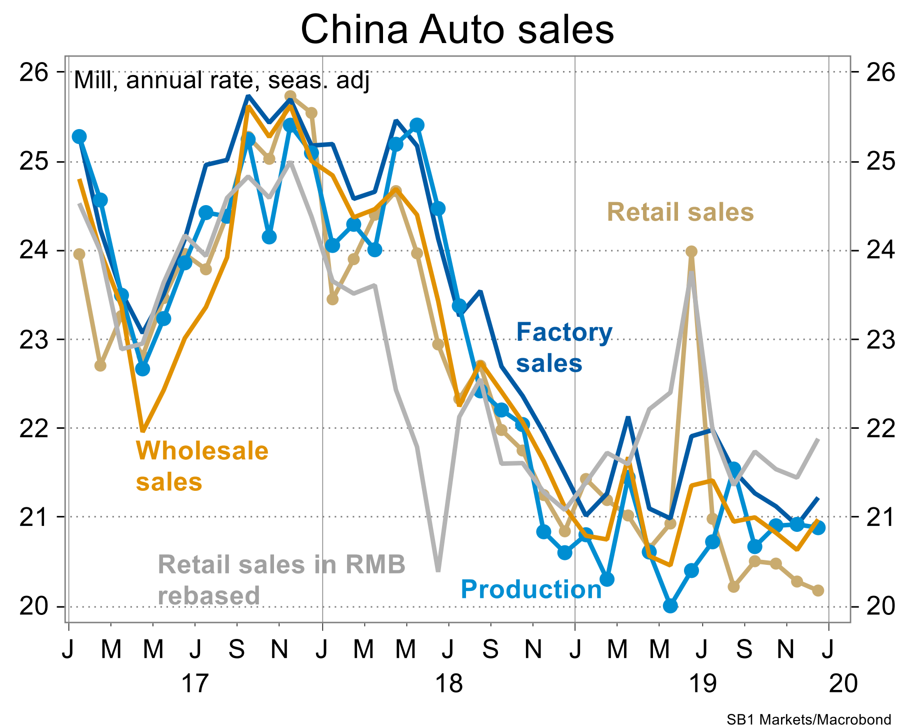


- Production of all building materials have accelerated the past months;
  - Crude steel production soared in Nov/Dec, annual growth +4.5% (3 m smoothed)
  - Aluminium production is still recovering from the downturn in 2017 and is increasing by 2.8% y/y
  - Cement production marginally down in Dec, trending slowly upwards, +5.5% y/y
  - Copper production has recovered steeply in 2019, and is up 20.8% y/y (Nov data)
- Auto production (valued added) has been hurt by weaker sales, however, production bottomed in May and is now slowly growing, even if most sales indicators are still weak (next page). Production is flat y/y (smoothed) from -23% in the spring. Auto sales are down 20% from the peak

Broad signs of stabilisation in the auto sector (but no recovery)

Most indicators have flattened out through last year, and are flat/ just marginally down y/y

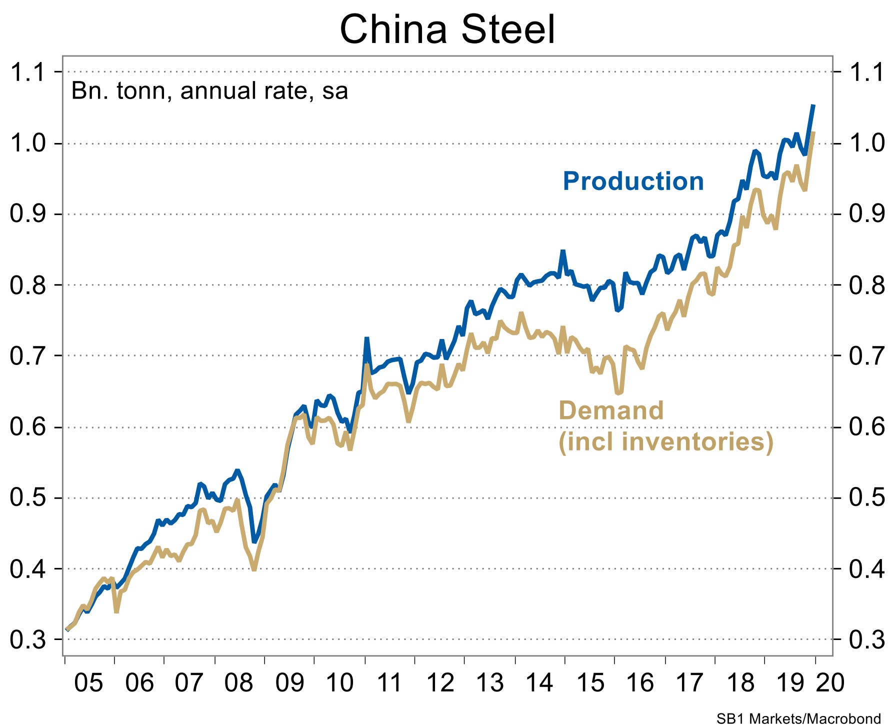




- Production: Production in factories in China, in number of units (now marginally up y/y)
- Factory sales: Deliveries from factories in China or imported cars, in units, the most common used data series for Chinese auto sales. Now down 1.2% y/y, from a 17% decline in early 2019!
- Wholesale sales: Sales from wholesalers, in units, -0.7% y/y
- Retail sales: Sales from retailers, in units, down 3.2% y/y. This measure is the closest to definitions of auto sales in other countries (sales from retailers in the US, first time registrations in most other countries.)
- Retail sales RMB: Value of sales from retailers, in renminbi. Rebased to retail sales in units in 2017. Now up 3.8% y/y

Steel production (and demand) straight up in Nov & Dec

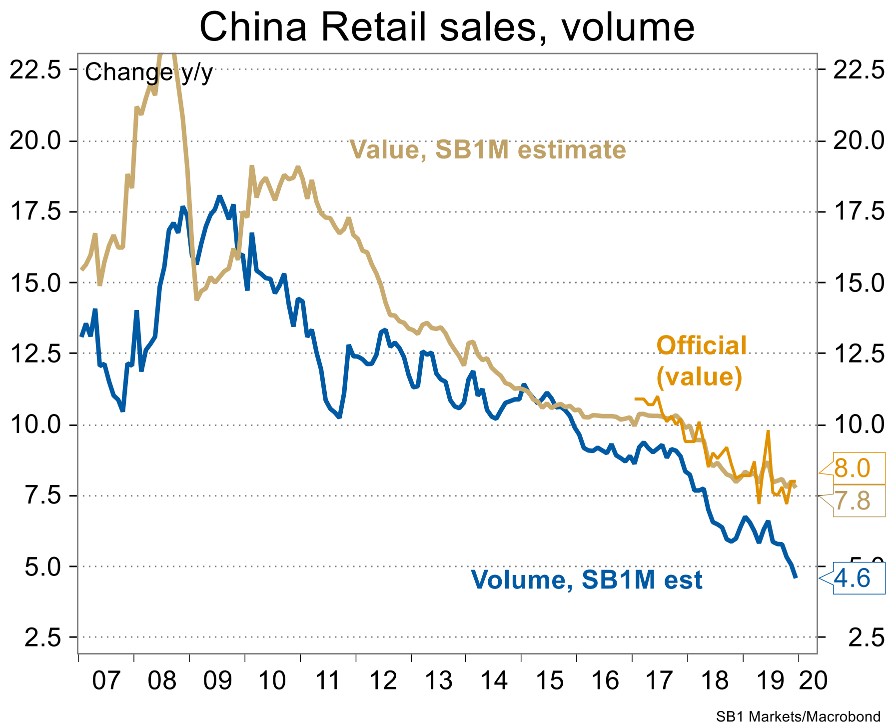
Both demand and production at ATHs. Construction starts have slowed marginally, limited upside?

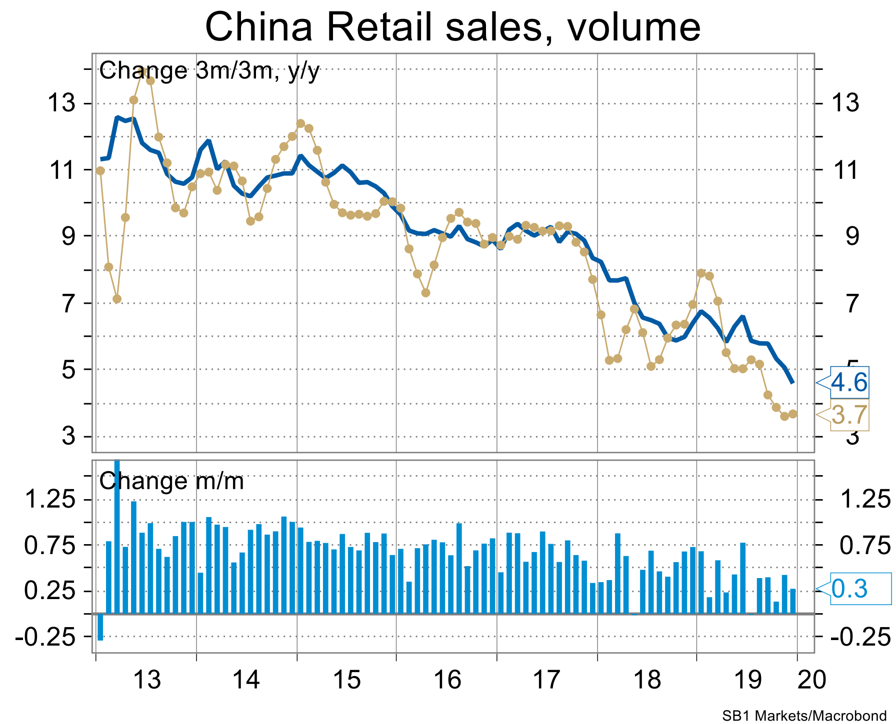


- Production is up 4.5% y/y (smoothed), demand 5.9%, an uptick from the prior months but still well below the growth rates in most of 2018 and 2019
- Growth in construction starts has slowed somewhat. Auto production fell in 2018 but has stabilised in 2019
- China is still a net steel exporter, but far less than during the 2015-16 setback in domestic demand. Back then, production was cut by far less than domestic demand and net exports soared. Now, net exports are far lower (and domestic demand closer to production)

Retail sales volume growth drops, dragged down by the swine fever

Sales rose just 0.3% m/m in Dec, according to our volume estimate. In value terms, marginally down

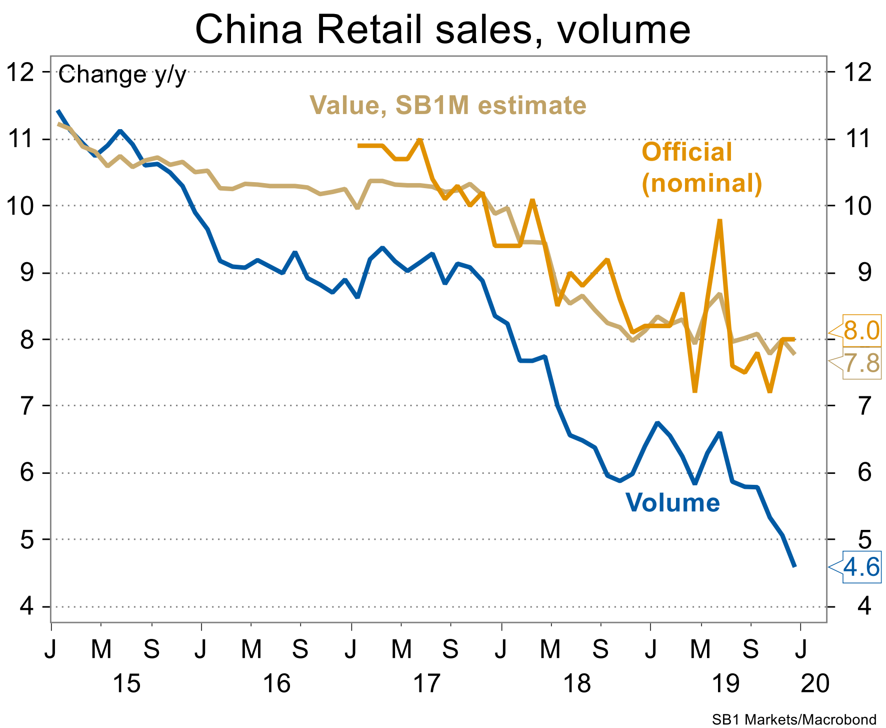


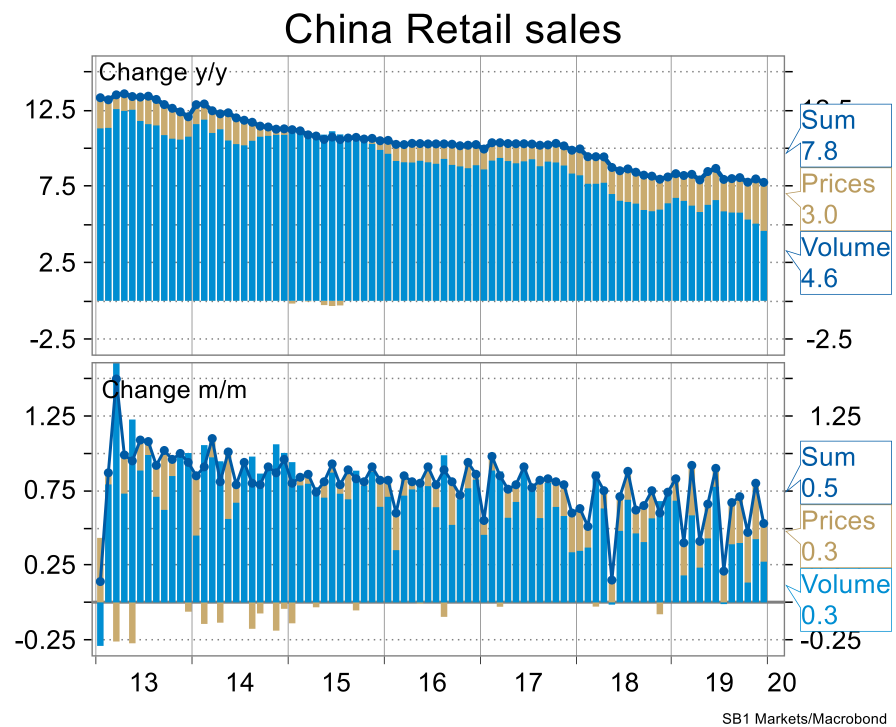


- The official value growth rate held steady at 8%, expected down to 7.9%. Our far less volatile value growth estimate (based on monthly seas adj. data) yields a 7.8% speed, a 0.2 pp slowdown from November. Value growth is no doubt cooling, however, the deceleration has been slower in 2019 than through 2018
- We estimate a 0.3% m/m volume growth. The annual rate dropped to 4.6% in Dec, from 5% in Nov. Inflation has accelerated due to the high pork meat prices. Total inflation is at 4.5%, retail inflation 3% (must be 'too' low??) curbing real income growth sharply
- Growth in consumption is slowing, even larger tax cuts may be needed to bring consumption growth up. On the other hand , consumer confidence is very high and does indicate any demand weakness – and at some stage pork meat prices will decline (perhaps more American pork meat now??), boosting overall buying sharply

Retail sales: A closer look

Price inflation has gradually taken a larger proportion of the slowing nominal growth

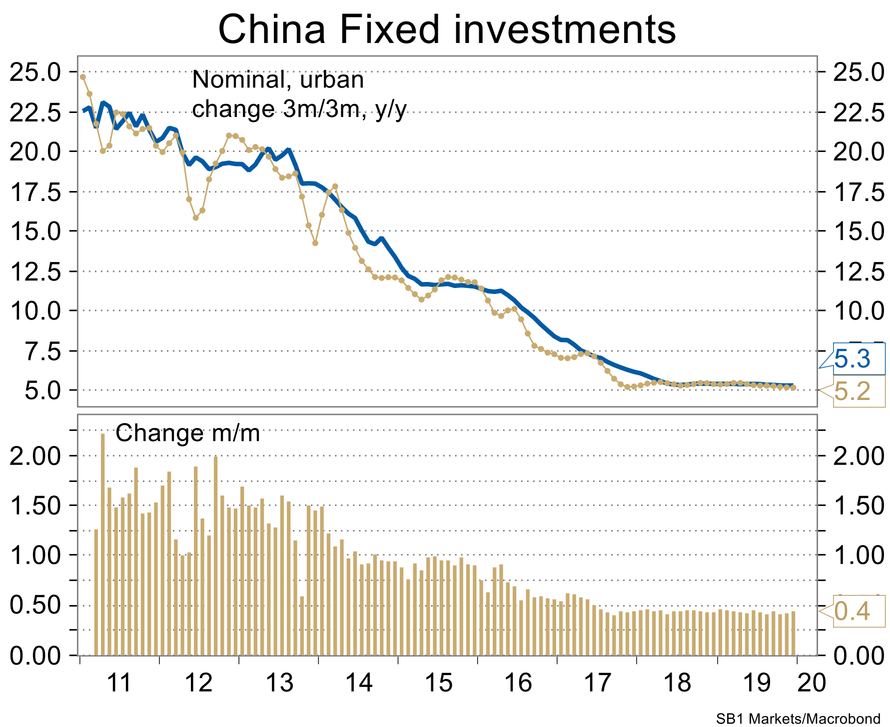




- Nominal sales rose 0.5% m/m in Dec, volume just 0.27% and retail prices up 0.26%
- According to the NBS, retail price inflation has been accelerating the past months, to 3.0% y/y growth now, while the total CPI is up 4.5% y/y. The reported retail price inflation is low, given the 17% annual lift in food prices (and the overall CPI at 4.5%). The main differences between the two indices is that clothing has a much larger weight in the RPI than in the CPI (and housing and services are included in the CPI)

Growth in nominal investments marginally up in December

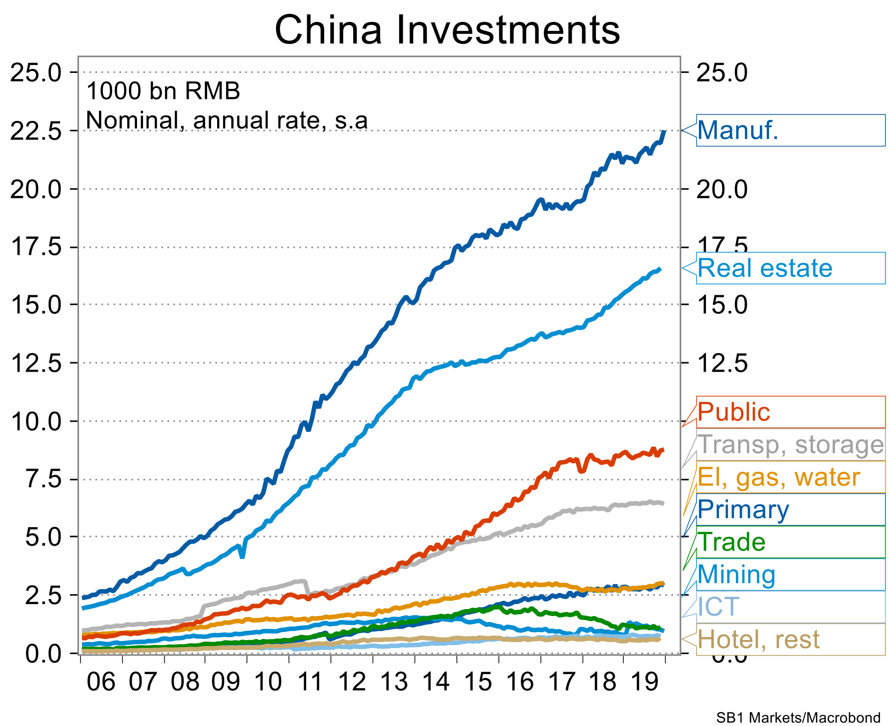
The long term decline in investment growth has halted, at a comfortable, low level

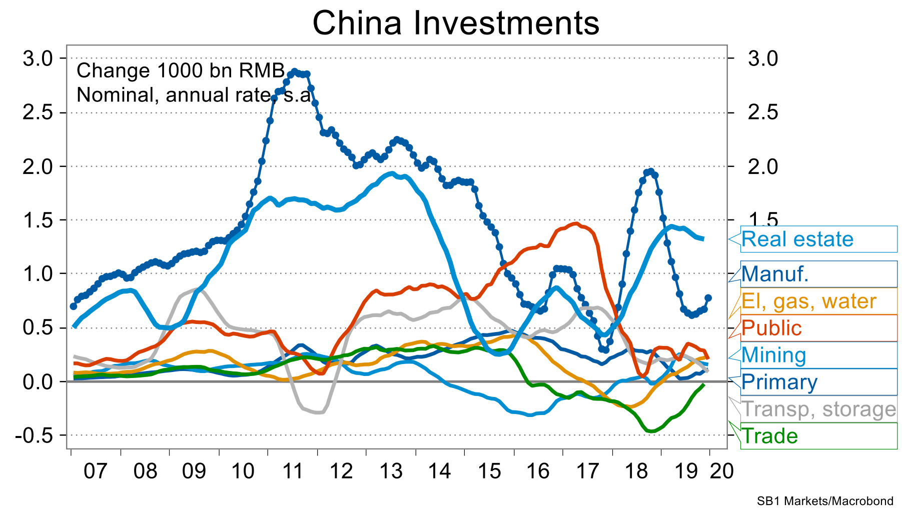


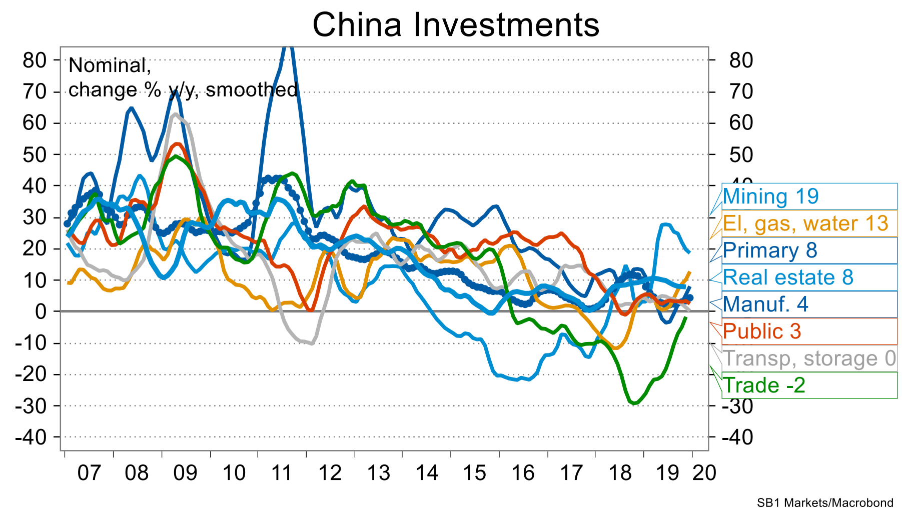
- Urban investments increased by 5.4% y/y ytd in Dec, up 0.2 pp, according to the official data, expected unchanged
- Our less volatile calculation (the blue line at the chart above) yields a 5.3% y/y growth, trending flat the past year. The m/m rate rose marginally to 0.44% (unchanged at 0.4% at the first decimal). The monthly growth rate has been steady since late 2017. In real terms, we assume an acceleration to 4% y/y growth, up from close to zero last year
- Manufacturing investments accelerated in Dec, after slowing through most of 2019. Retail trade investments are slowing but just marginally, while real estate is booming. No boost from public investments, which are increasing just modestly and at a much slower pace than recent years
- Long term, nominal investment growth (measured this way) has been on a downward path, from 25-30% before 2009 – but it has now stabilised, well below nominal GDP or income growth. The investment ratio is continuing down

Manufacturing investments rebounded in Dec, real estate is peaking?

Public sector investments have stalled, no signs of any fiscal stimulus





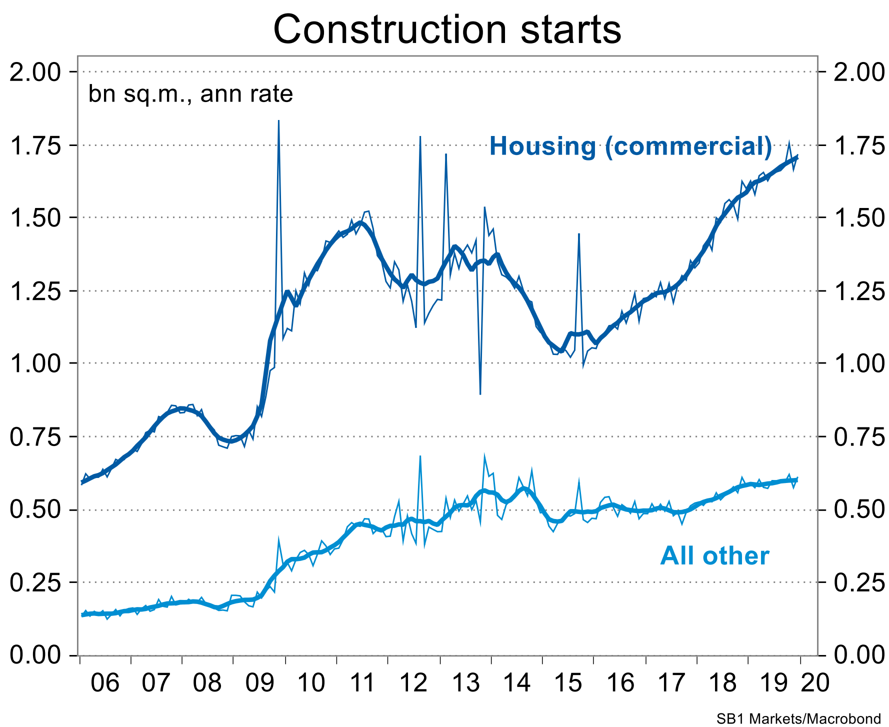


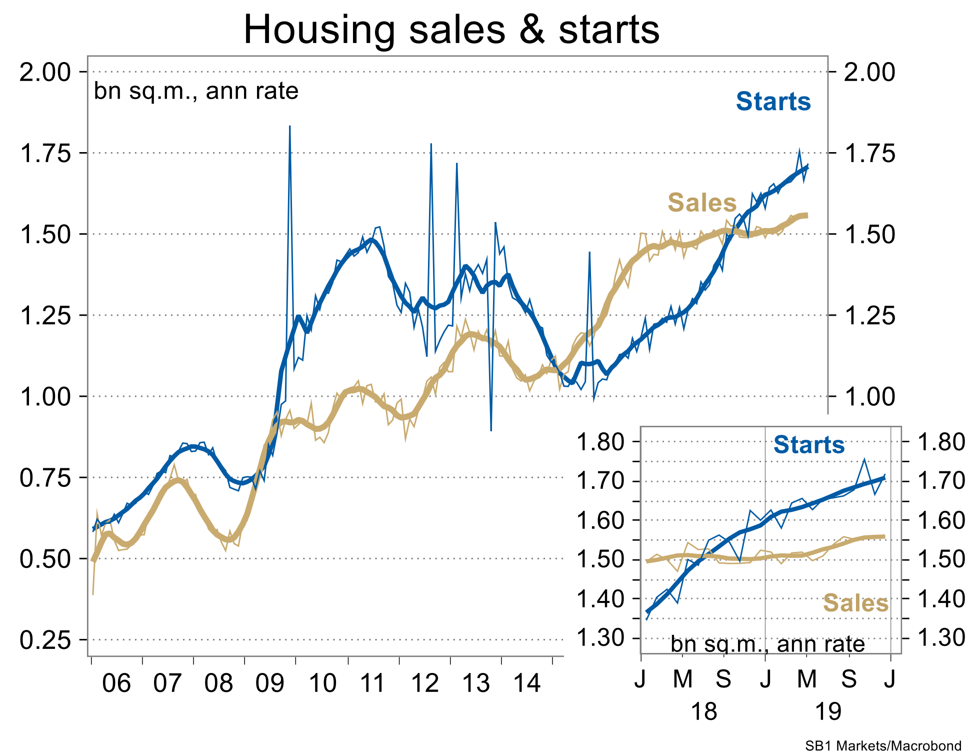
Not all sectors have reported data for the last month

- Manufacturing investments have been slowing since late 2018, most likely at least partly due to the trade war. In Dec, investments gained pace again, annual rate up 4.4 % (smoothed, from 3.5%
- Weak retail sales through 2018 brought investments in trade sharply down; but the level is stabilising now
- Real estate investments are now the only big growth engine. Not sure that's what the authorities aimed for… But growth may have peaked now
- Public sector investments slowed in '17 and most of '18, have picked up just marginally through '19. **No signs of any substantial fiscal stimulus**

New home starts trending up but slower, sales steadily up

New home starts have slowed from a 20% y/y speed to 5% now

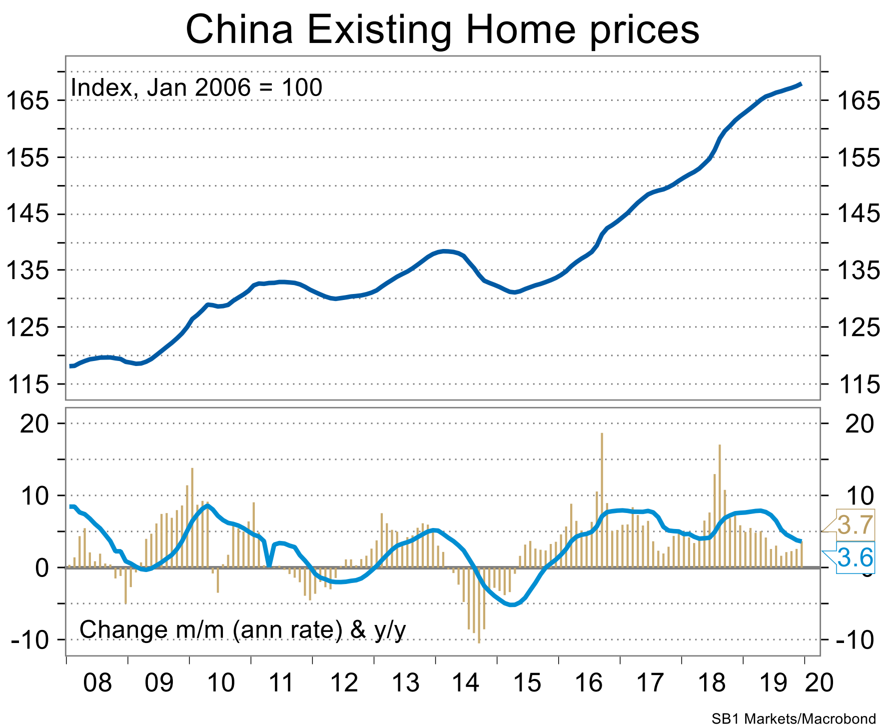


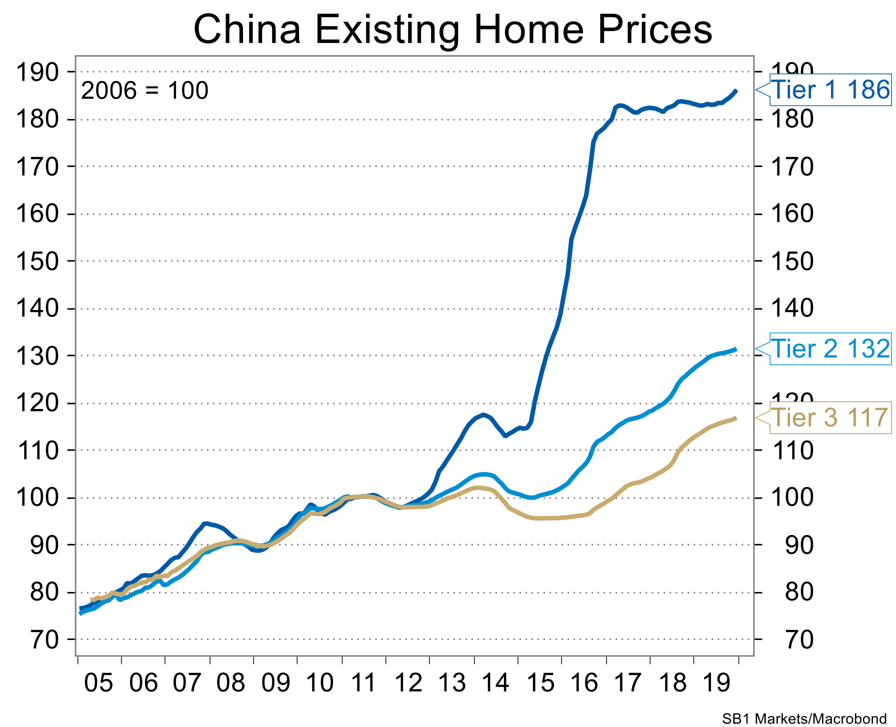


- Housing starts edged up in Dec, after a steep decline in Nov. The upward pace has eased the past year. Still, starts are up almost 70% from the 2015 trough, to a high level. Close to peak? The level is high (in sq.m. growth per pers) and there are plenty reports on unsold homes
- New home sales have more or less flattened during the autumn, and the level is below new housing starts. Sales are below starts (implying an increasing inventory) but the inventory is probably not a problem following the substantial drawdown 2014 – 2018
- Other construction starts also increased in Dec and have reached a new ATHs recent months, although the level is not that much higher than 5 years ago. Still, starts have now flattened out y/y
  - » The cycles in non residential construction have been and still is very close to the cycle in residential construction

House price inflation has been slowing, now slowly gaining pace

Price growth up to 3.7% annualised in Dec, still much lower than the 2018 speed (6% one year ago)

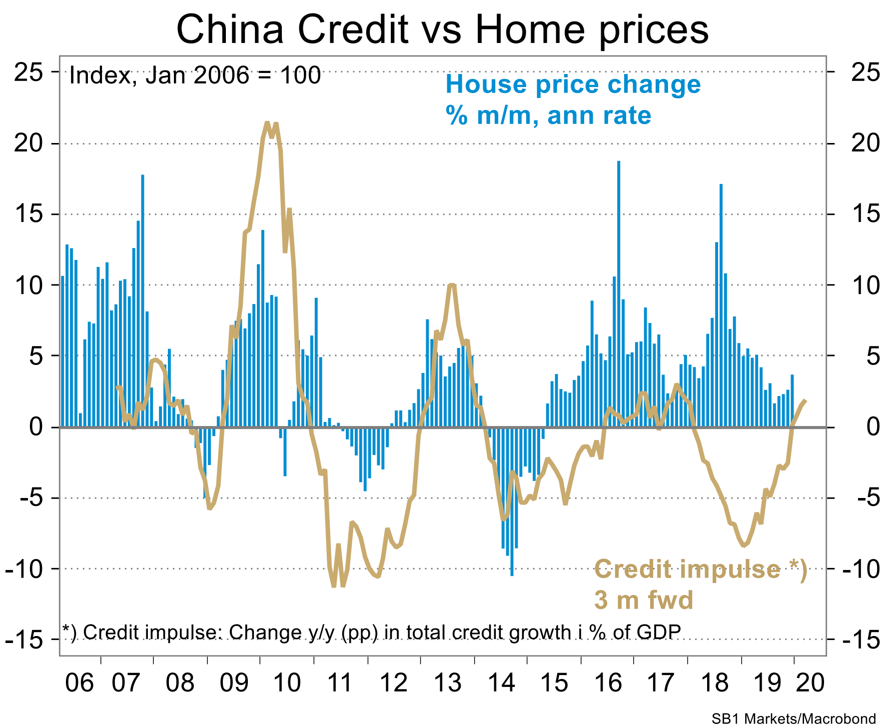


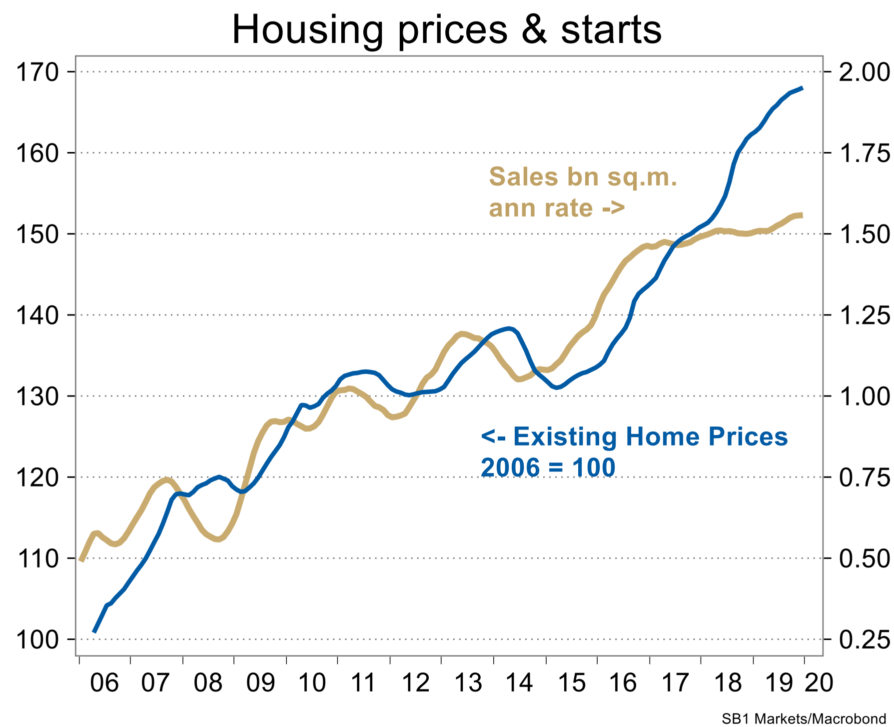


- The annual growth rate came down to 3.7% in December, down 0.2 pp from the prior month. Prices rose 0.3% m/m, or 3.6% in annualised rate, the highest in 7 months. Growth has slowed gradually since mid-2018, when the monthly growth rates were very high. Since late summer, price inflation has edged slowly up
  - » Prices in the four tier 1 cites have accelerated softly recent months, after remaining flat since early 2017 (following a 60% lift prior 2 years), prices in the 'smaller' cities are still on the way up, but at a slower pace than in early 2019
  - » SouFun reported an uptick to 5.1% in the m/m annualized rate in December, confirming that price growth may have turned up
- The credit (impulse) contraction in 2017 and into 2018 was most likely the main reason for the mild downshift in late 2018. Now, the authorities are stimulating lending – and the credit impulse is turned marginally positive, probably boosting price inflation

Credit impulse slightly positive, should support house prices

The 2018 credit slowdown did not take house prices down, just slowed them…

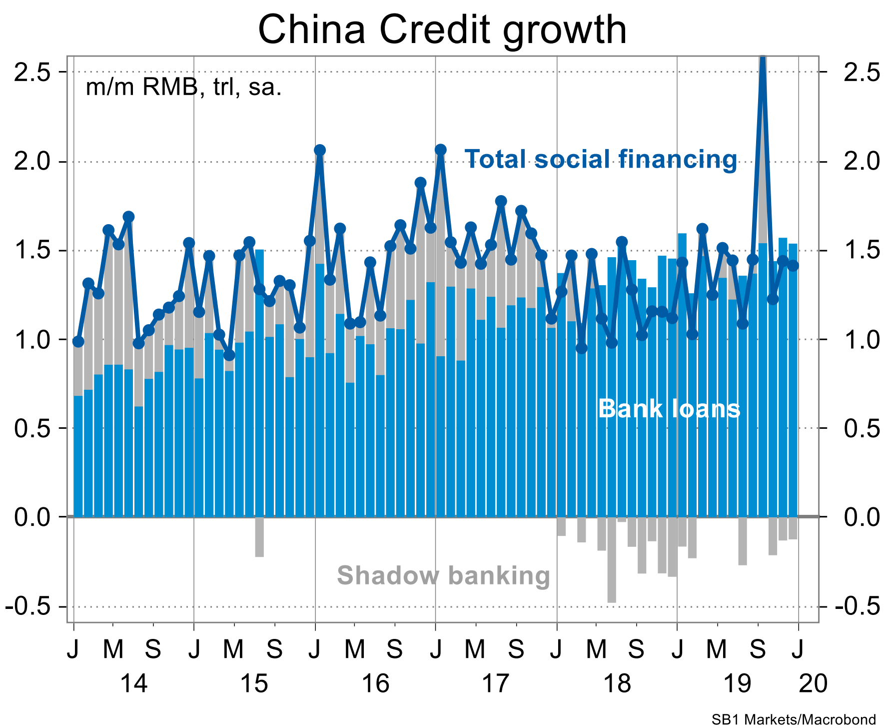


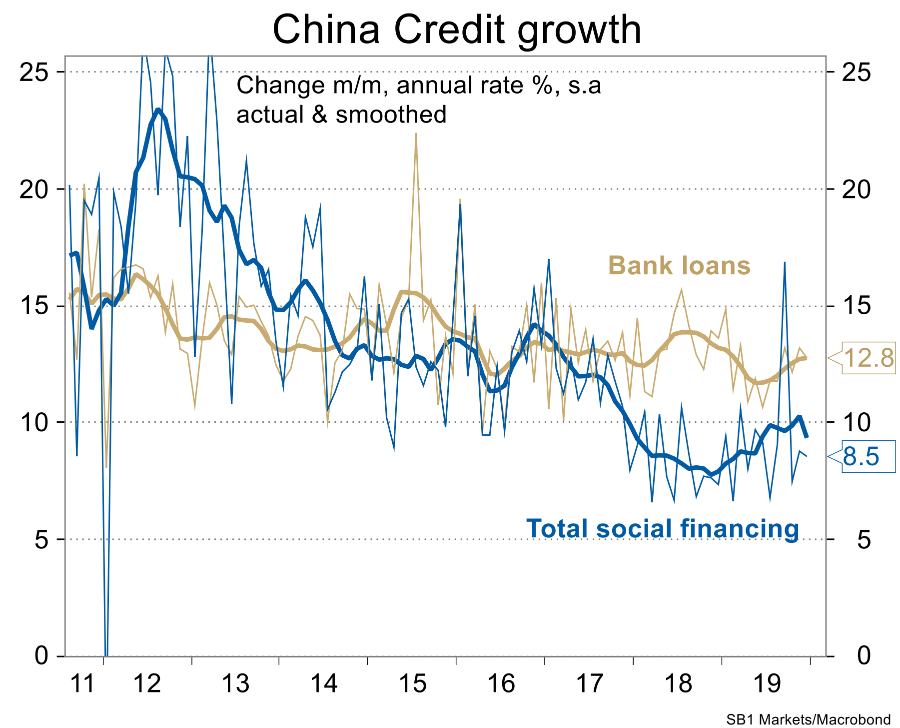


- Through 2018, house prices kept up surprisingly well, given the negative credit impulse
  - » That has been the case with new homes sales too – and sales are still trending slowly up
- Now, the authorities are pushing the credit accelerator – and they may succeed, as many times before, at least the credit impulse have turned marginally positive
- New home sales are still moving upwards, normally a sign of higher existing house prices

Credit growth steady in December, bank lending picks up

Bank lending trending up recent months, while shadow banking activity is cooling



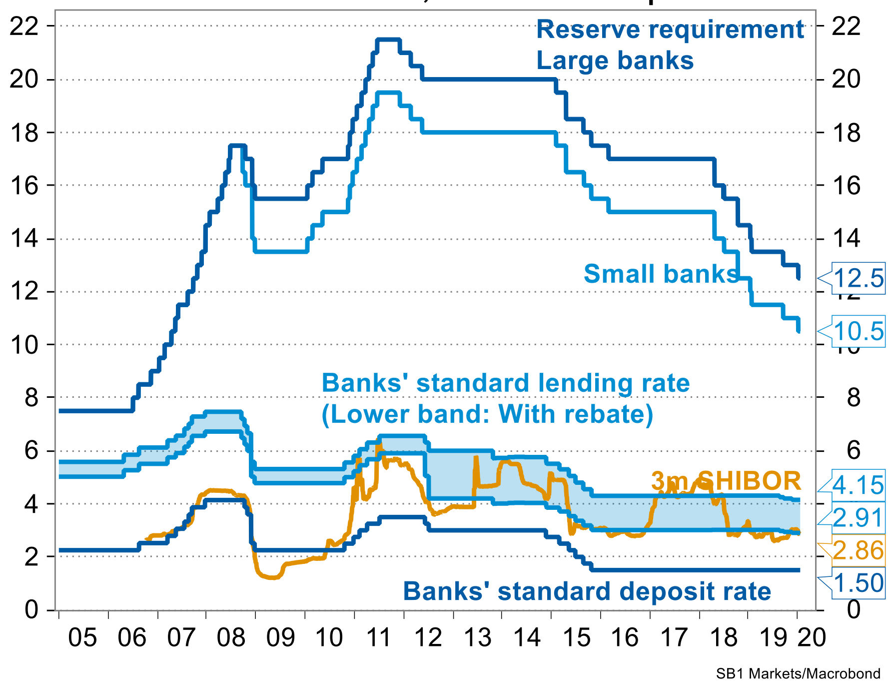


- Total credit rose by 8.5% m/m annualised in Dec, marginally slower than the prior month. In RMB, total credit rose by 1.1 trl, expected at 1.7 trl (not seas. adj). The underlying trend is slowly up since early '18, the credit impulse (y/y) is marginally positive
  - » Growth in bank lending har accelerated since the summer, probably partly boosted by cuts in reserve requirements. They have been cut 7 times, releasing some 5% increase in lending capacity. Credit supply through the non-bank ('shadow') credit market is slowly easing. Shadow banking has accounted for some 25% of total credit supply since 2000 but such lending is contracting now, following several measures to curb this credit channel recent years
  - » Chinese credit data have been revised. Growth in shadow banking credit has been revised down in 2018 and '19.
- What's next? Many expect the PBoC to turn more expansionary, interest rates have so far been cut just marginally. However, there are good arguments against pushing the credit accelerator even harder. Credit growth is well above growth in nominal GDP, and high debt ratios are climbing – and construction activity remains very strong. Overall growth has not slowed that much either

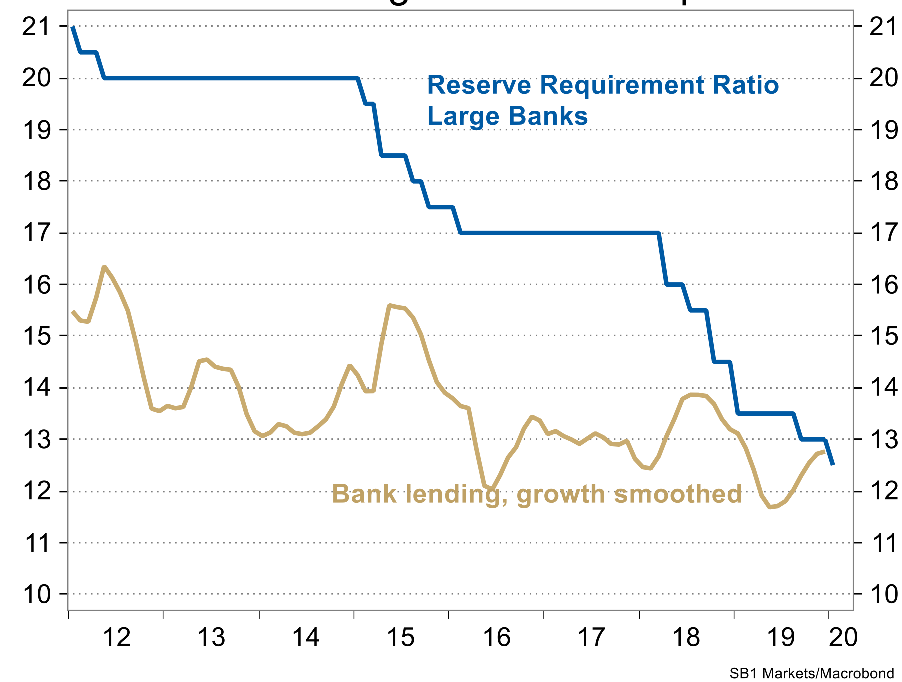
Rates just marginally cut so far but reserve requirements are slashed

In January, rates were kept on hold

China Interest rates, reserve requirements



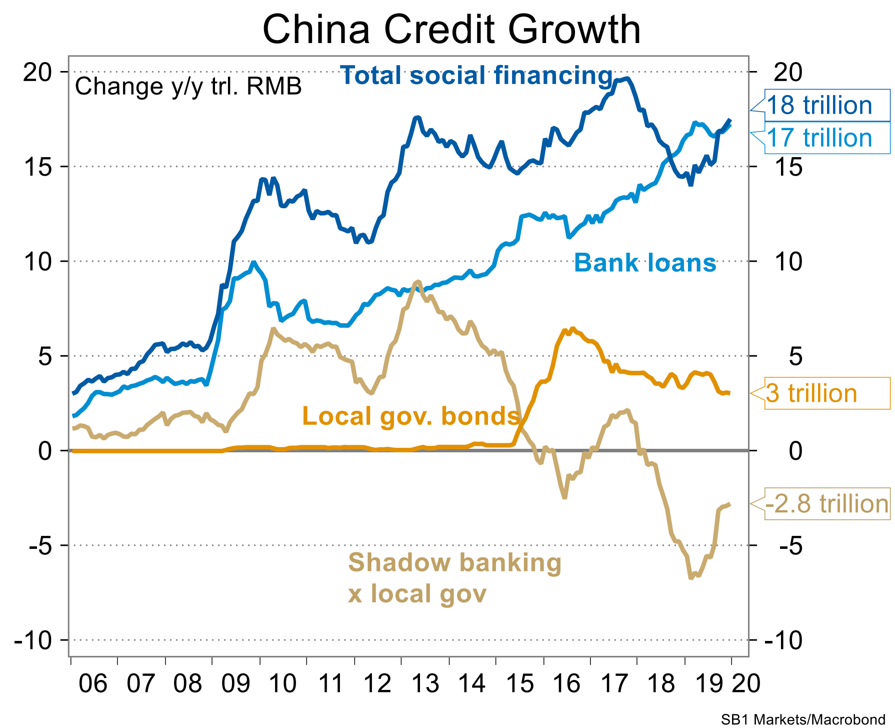
China Bank lending vs reserve requirements

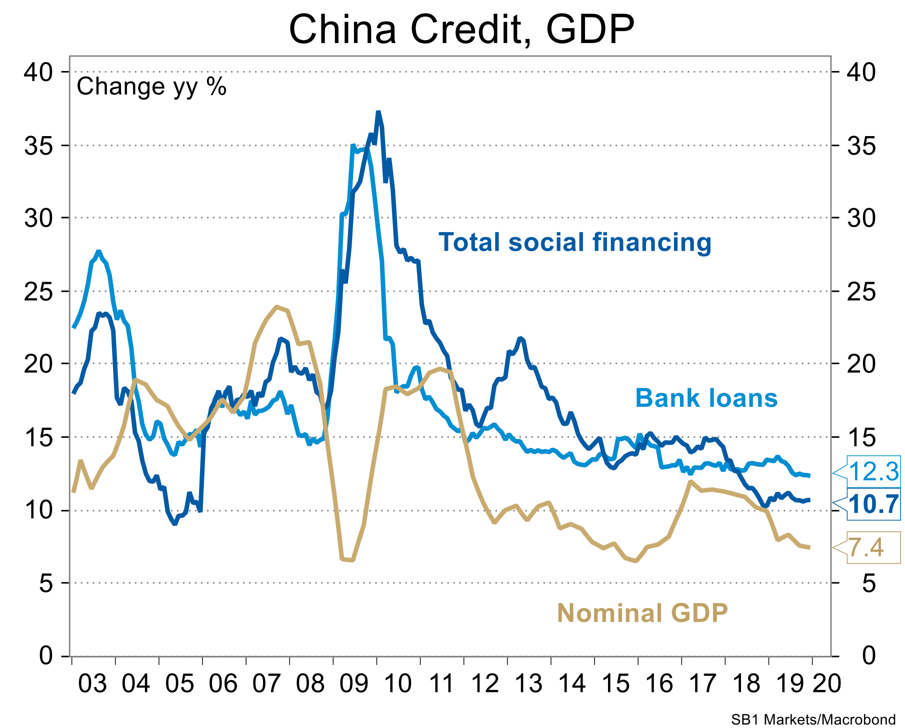


- In October, the PBoC announced a CNY 200 bn cash injection into the banking system to ease lending conditions. This amount equals just 1/10th of one month's increase in bank lending, and cannot have any significant impact on credit condition
- The PoBC's signal rates have been cut 3 times since Sept, but no more than some 5 bps each times, and they were held unchanged in January

Credit growth has accelerated slowly over the past year

Bank lending has slowed somewhat y/y, the shadow banking market (ex local gov) filled the void

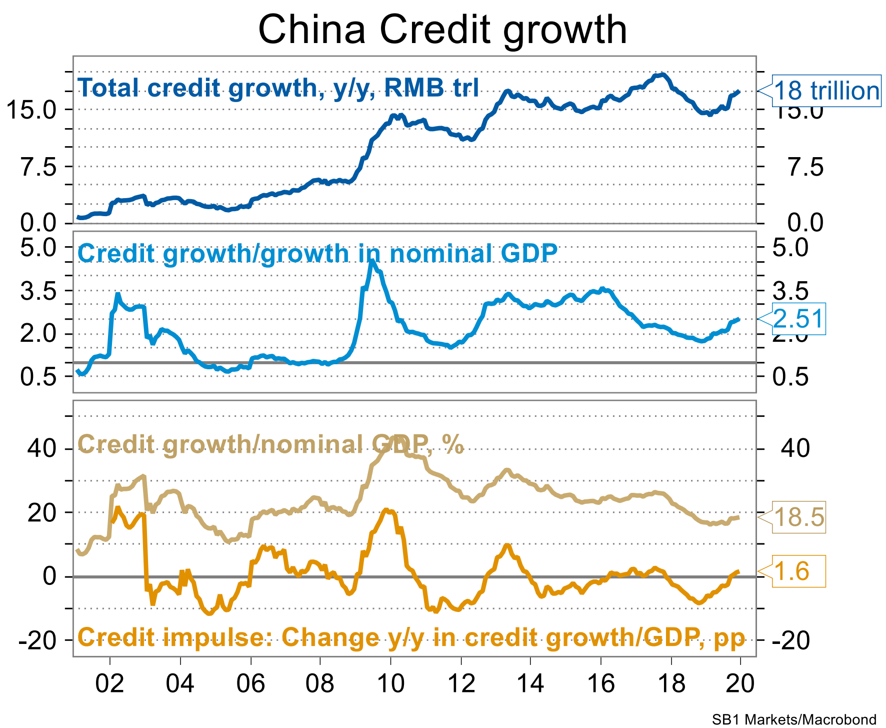


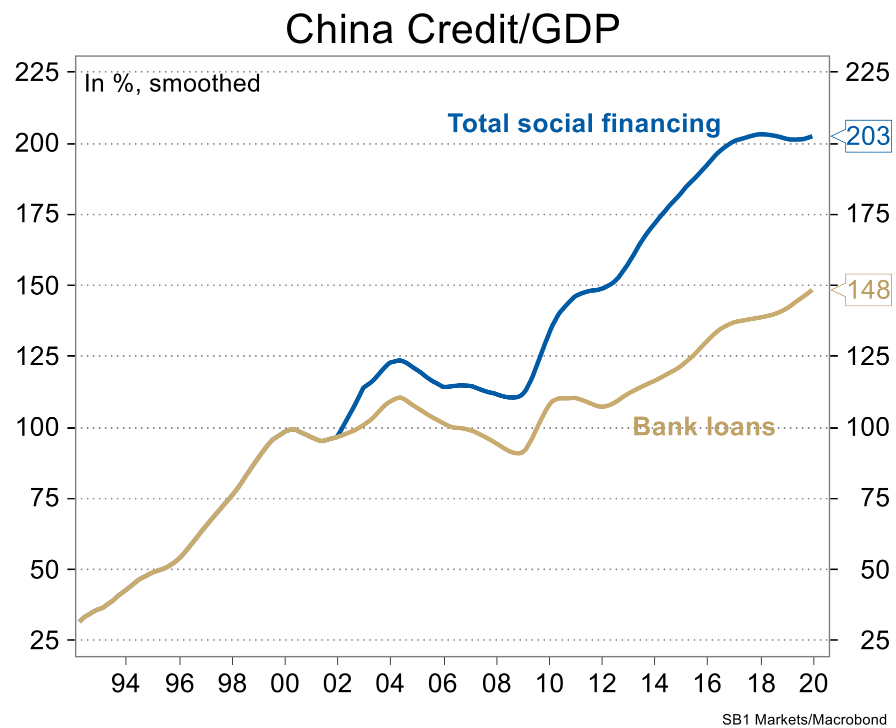


- Over the past 12 months, total credit has grown by CNY 18 trl, equalling close to 20% of GDP (revised down from 21 trl)
- Banks supplied CNY 17 trl of the y/y increase in Dec (unrevised), equalling almost all of the volume through last year
- Local governments increased their debt by CNY 3 trl in the bond market last year. Growth has been slowing since 2016
- Other credit – via the shadow credit market x gov bonds – is down 2.8 trl y/y in Dec, following a substantial data revision (from +1.6)
- Total credit growth at 10.7% is somewhat above growth in nominal GDP (7.4%), and debt/income is still on the way up

Credit impulse has turned marginally positive, from negative

Credit growth has come down to GDP (income) growth

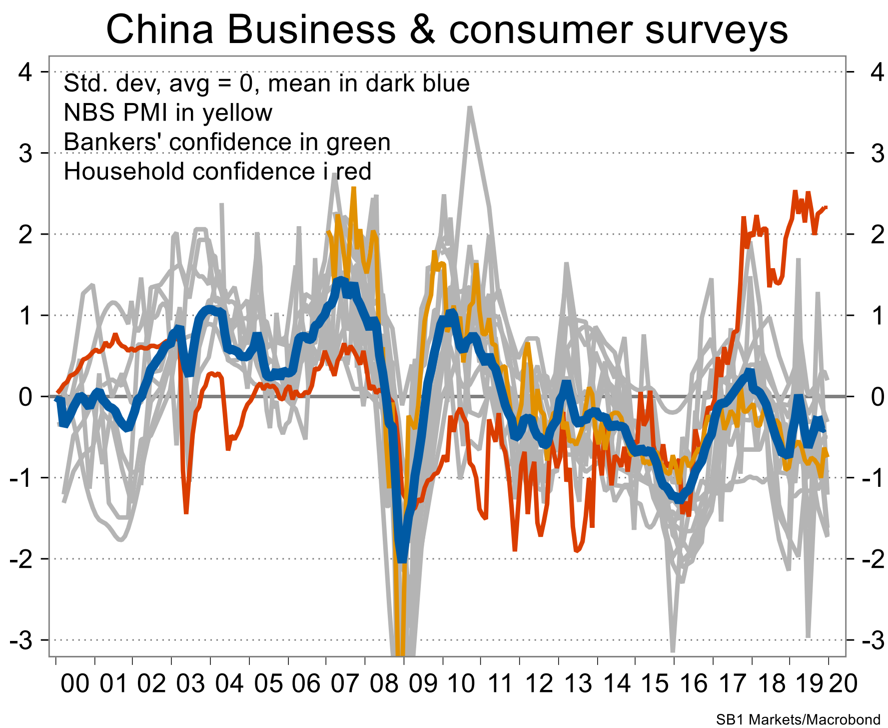


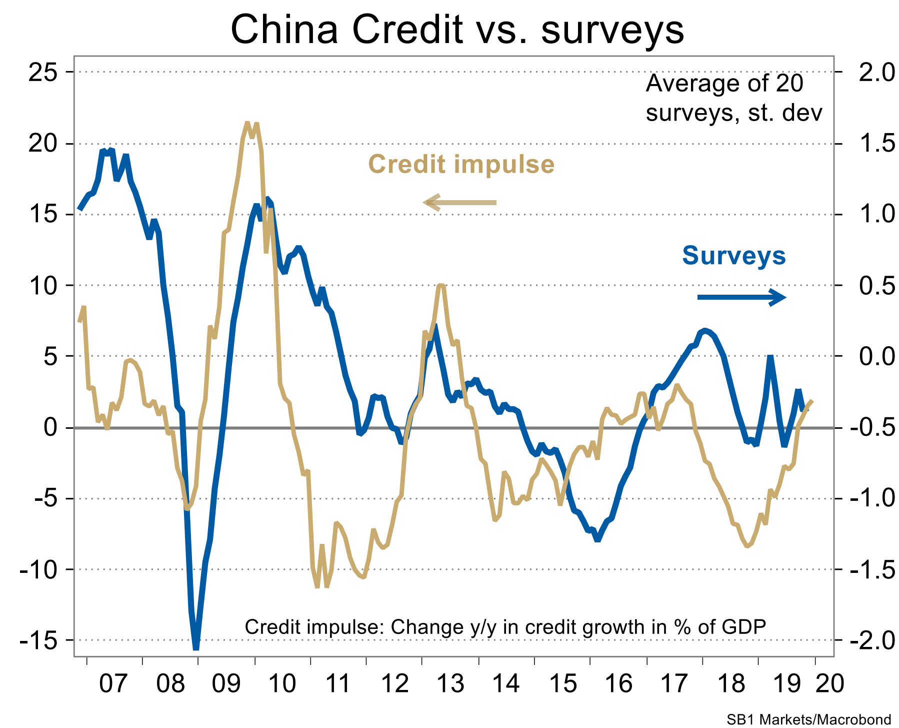


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » Now, the credit impulse has risen to marginal positive
- We are uncertain how far the authorities are willing or able to bring credit growth back up. The credit/income level has flattened but the level is disturbingly high. In addition, for every RMB GDP grows, credit increases 2.5 by RMBs, and each year growth in credit equals almost 20% of GDP. That's not sustainable in the long run, neither for lenders nor borrowers, as nominal GDP growth is well below 10%. The Government may succeed in increasing credit supply short term (if they dare to, vs long term risks) but the problem may turn out to be demand for credit

Credit has turned slightly positive, a modest growth boost

Credit was tightened, dampening growth. Now, credit can't be blamed if growth should slow further

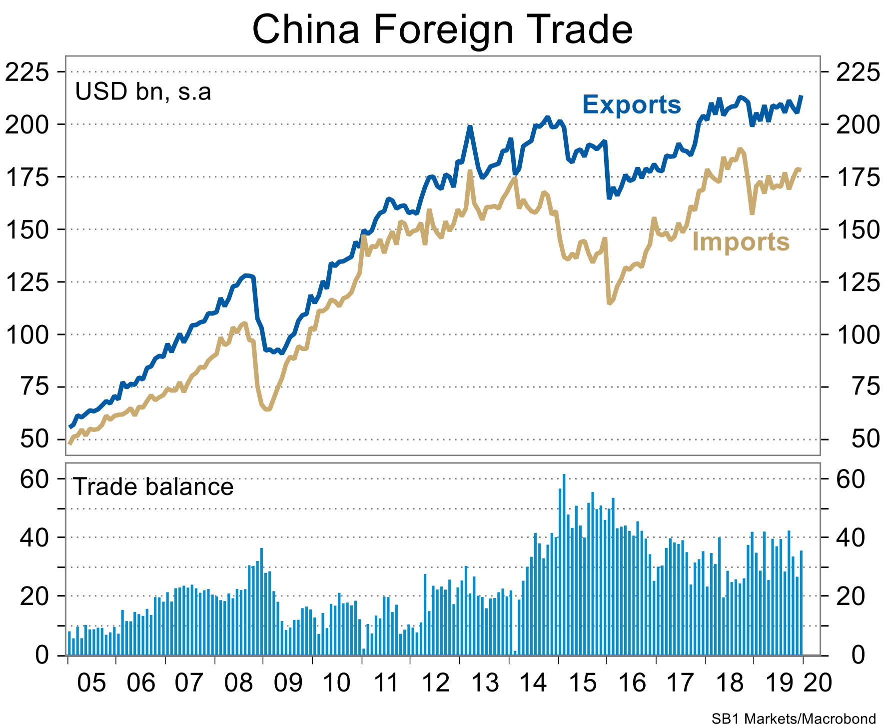




- An avg of Chinese business & consumer surveys indicates that growth slowed in early 2019 but picked up somewhat in H2. The level is close to an historical average and above the 2018 level (and it was weaker in 2014-2016 and 2012)

Exports at ATH (and world record) after a jump in December, imports fell marg.

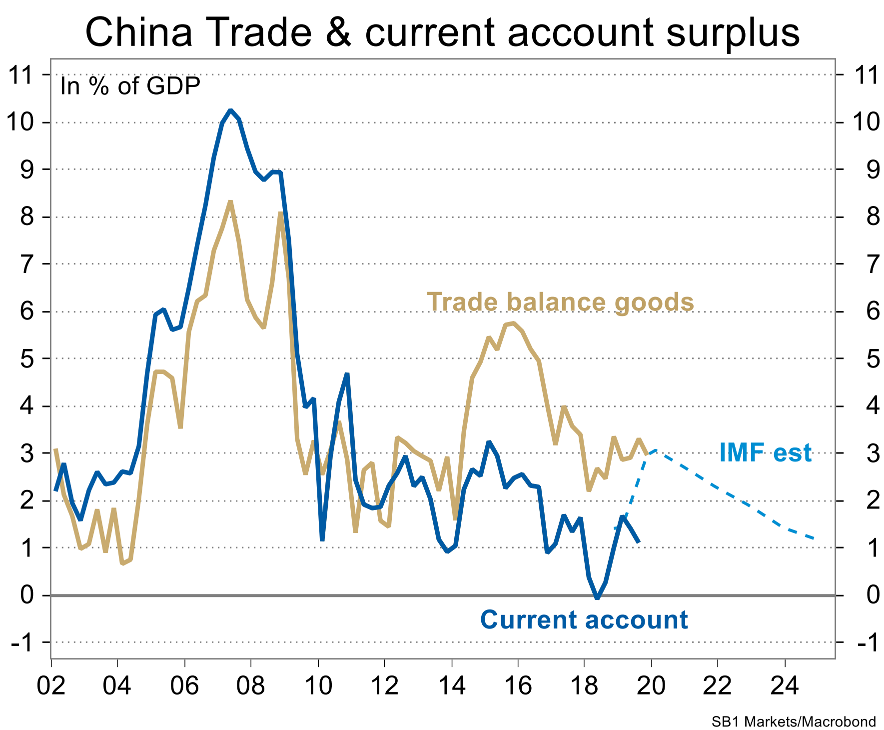
No signs of an abrupt slowdown in China, both exports and imports trending up the past year

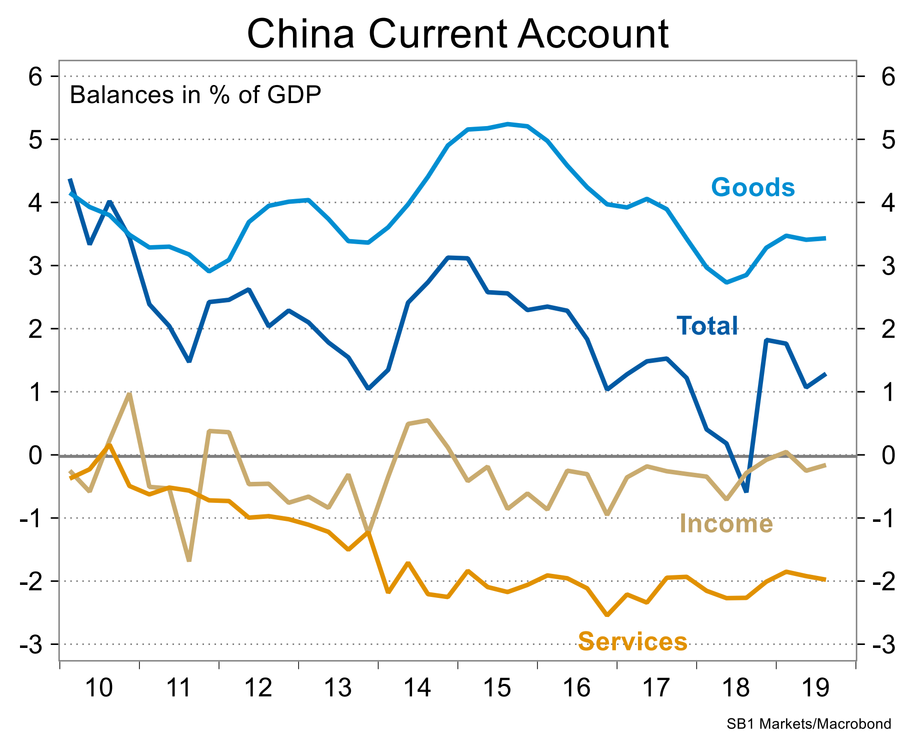


- Exports were reported up 16% y/y in USD in Dec, far above expectations, yet these unadjusted annual data are rather useless. On a monthly basis, exports rose 4.1% seasonally adjusted in Dec (in value terms), to a new ATH, and are up 7.5% from the local bottom in Dec last year. **No country has ever exported more in one month than China did in Dec 2019!** Export volumes probably jumped too, trending modestly up, annual growth at 0.5% in Q4. Net exports dampened GDP growth in Q4 as import volumes rose more
  - » Exports to the US have fallen by more than 20% since the peak in 2018. Exports to other regions have compensated for the decline in export to US, exports to the rest of Asia x Japan and Hong Kong are soaring. However, growth has slowed to H-K too, and EU most recently
- Imports fell 0.3% m/m, but are trending steadily up the past year (annual rate at 13.6%, but Dec last year was artificially low). Import volumes are heading straight up – and are not far from ATH levels. **NO SIGN OF ANY SLOWDOWN IN CHINA**
- The trade deficit rose to USD 36 bn (seas adj). The deficit stabilized in 2019, after sliding down since 2015. China is running a small current account surplus

China runs a modest surplus at the current account

The C/A surplus was above 10% of GDP in 2007. It was zero in early 2018, now at 1%

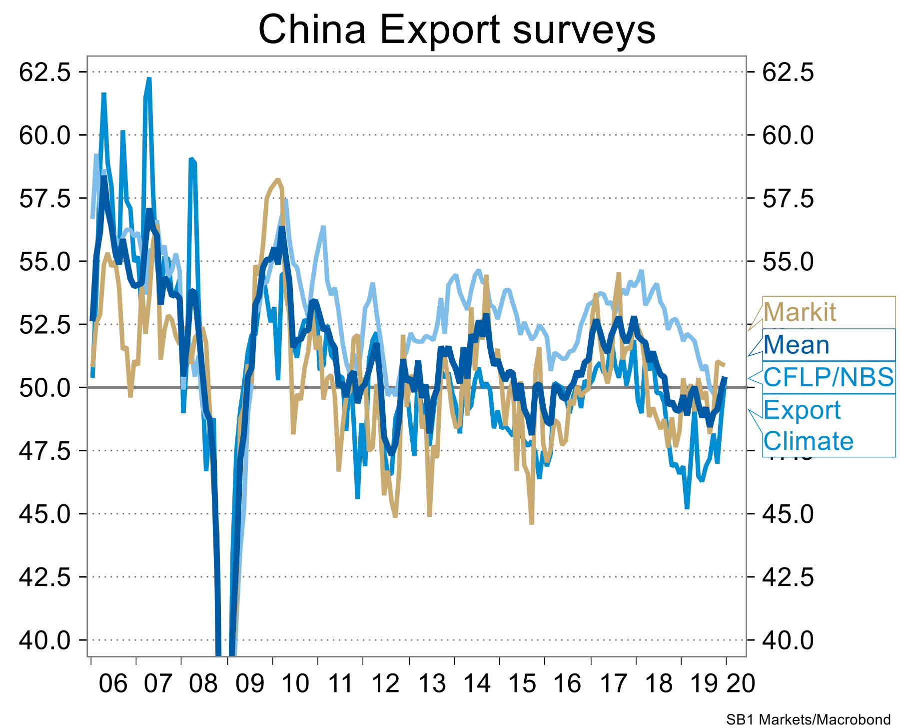




- The trade surplus in goods is hovering just above 3% of GDP. Still probably too high vs a balanced world economy but down from 7 – 8% 10+ years ago
- In services, China runs a 2% deficit, down from zero 8 years ago, mostly due to a huge increase in Chinese tourists going abroad
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

Export surveys are improving, signalling a small upturn in exports

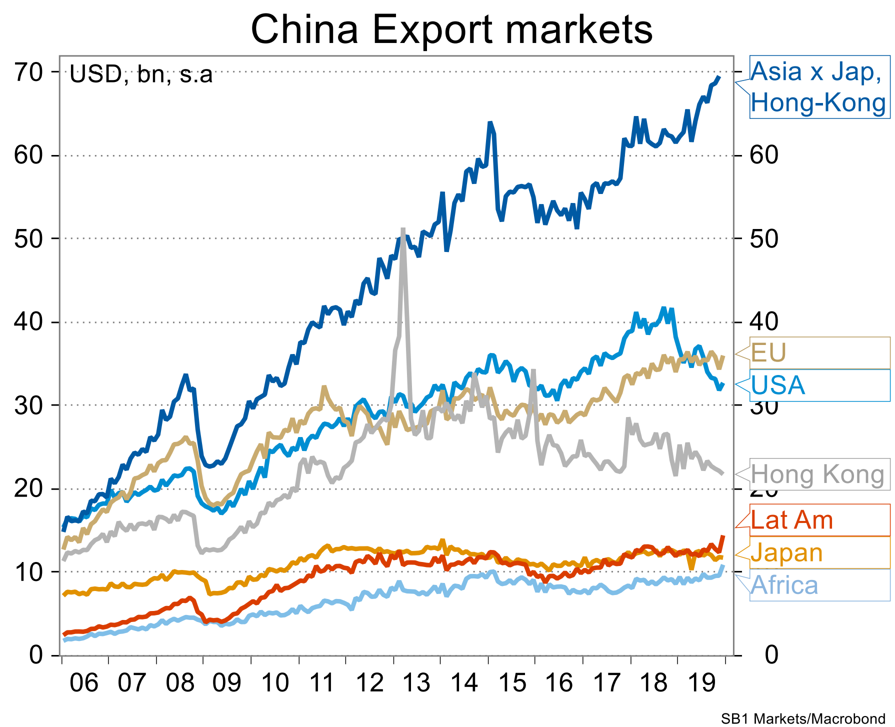
Exports have more or less flattened out, equal to or milder than slowdowns in 2011, '13, and '15/16

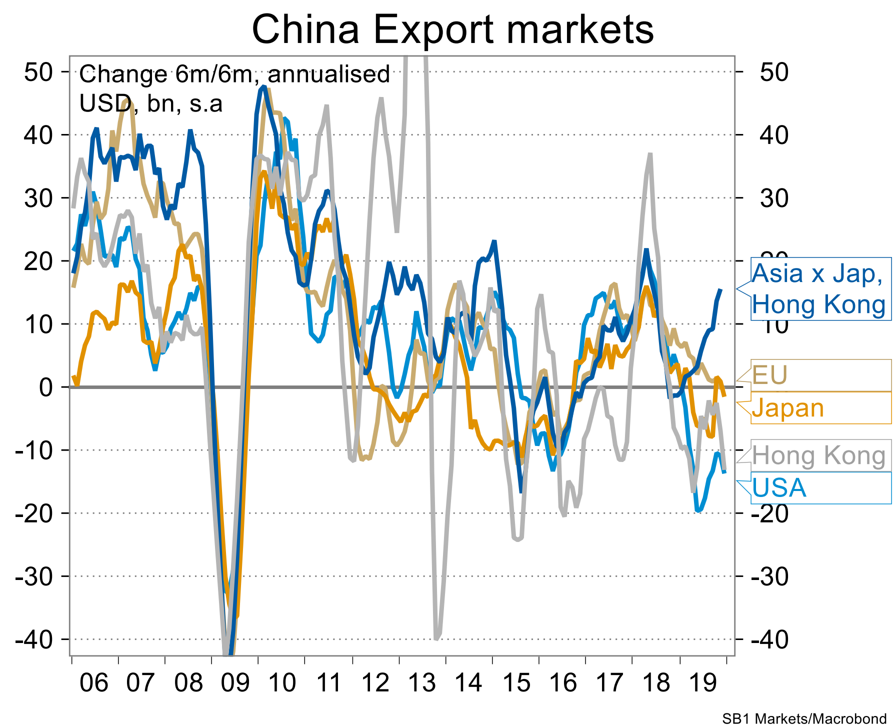


- .. And actual export volumes fell in 11/12, were flat in 13 and fell in 2015 – without creating huge problems in the Chinese economy
- Now, export volumes are flat y/y (we apply a 6m smoothing at the chart to the right), but trending up since last December

Exports to the US down 20%, but there is a ROW; exports to Asia sharply up

Exports to H-K have fallen too, while exports to most of the rest of the world are still on the way up

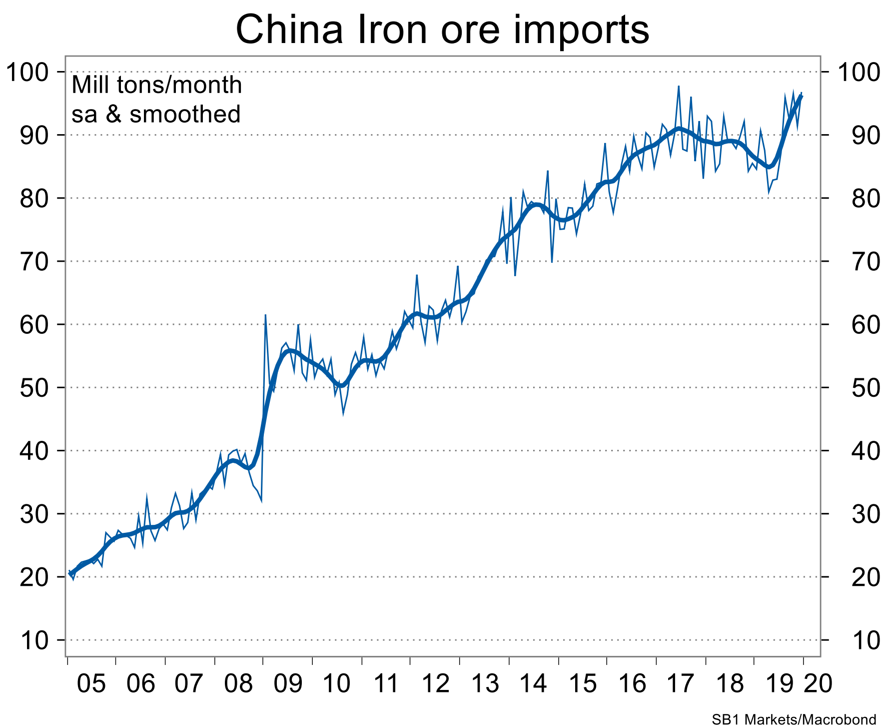


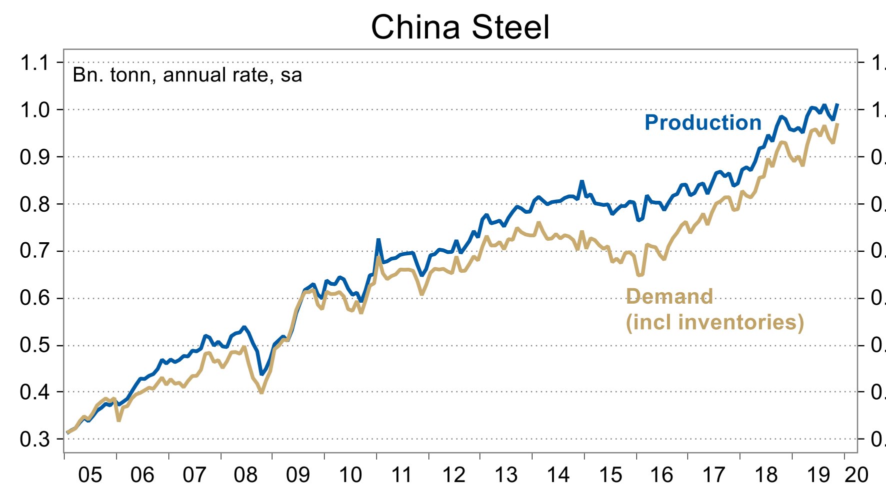


- Exports to the US are hurt by the tariffs, and are down more than 20% from the peak in early '18, equalling 4% of all China exports
  - » Exports to the US equalled 18% of total Chinese goods exports before the tariffs (now 15%), and exports to EU 17%, rest of Asia 50%
  - » Total exports equal some 20% of GDP, exports to the US some 3% of GDP – now down 22% from the peak, subtracting 0.7 pp from GDP growth. However, the impact is dampened by lower need for imports as inputs for these exports. In addition, exports to other Asian countries are rising
- The real economic risk for China & elsewhere: Trade uncertainties <u>are hurting investments</u> as companies may postpone or cancel investment decisions– and both Chinese and foreign company are reallocating from China to other countries

Iron ore imports are soaring, close to record high

Ore imports slowed in 2017-18, while steel production rose. In H2 2019, ore imports surged

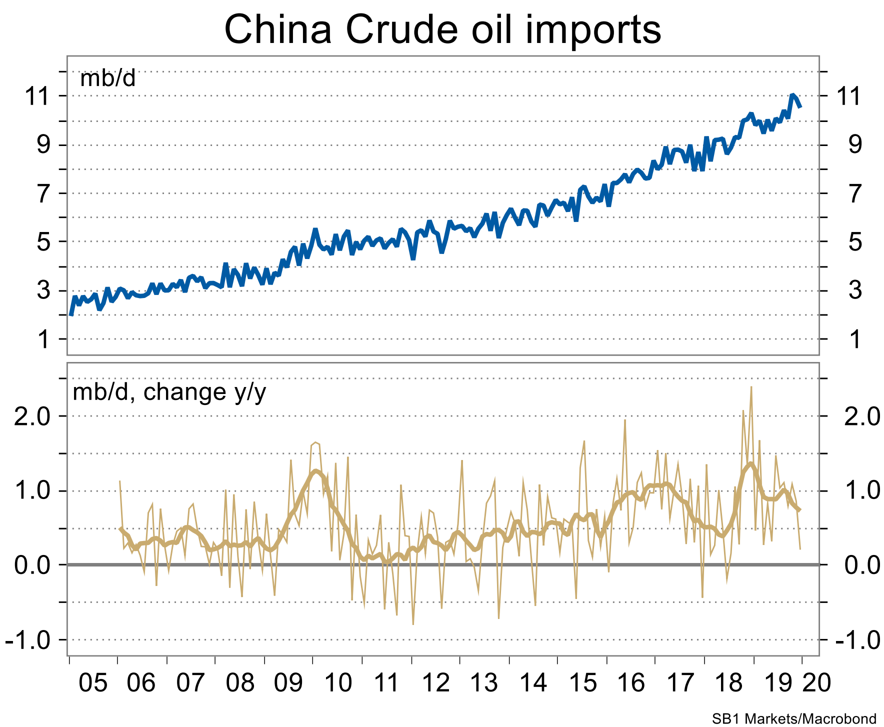


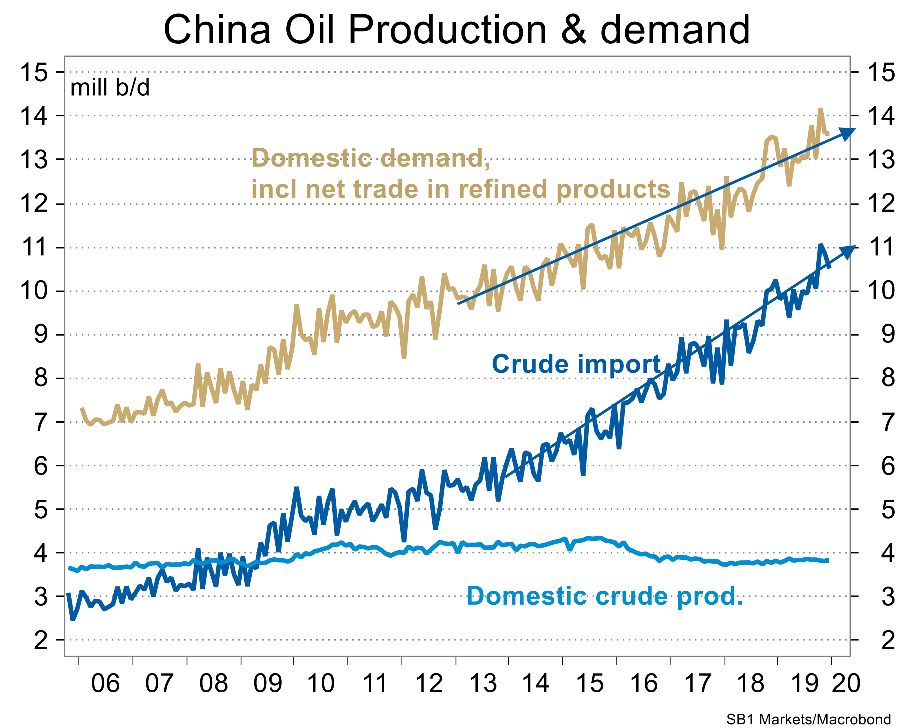


- Iron ore imports were dragged extra down during last spring, due to production problems in Brazil. Following a 15%+% surge in the summer/autumn, imports are now at a record high levels
- Steel production is heading up, at a slower pace than in 2016-2018. Chinese (apparent) consumption is heading up equally. Limited upside for ore imports?
- Net steel exports equals some 5% of Rest of World production, probably still too high. However, 3-4 years ago it equalled 13%!

Oil imports slipped in Dec, say Chinese stats, trend straight up

Crude imports are volatile short term but trending up by 0.7 mb/d per year, a tad faster than ‘normal’

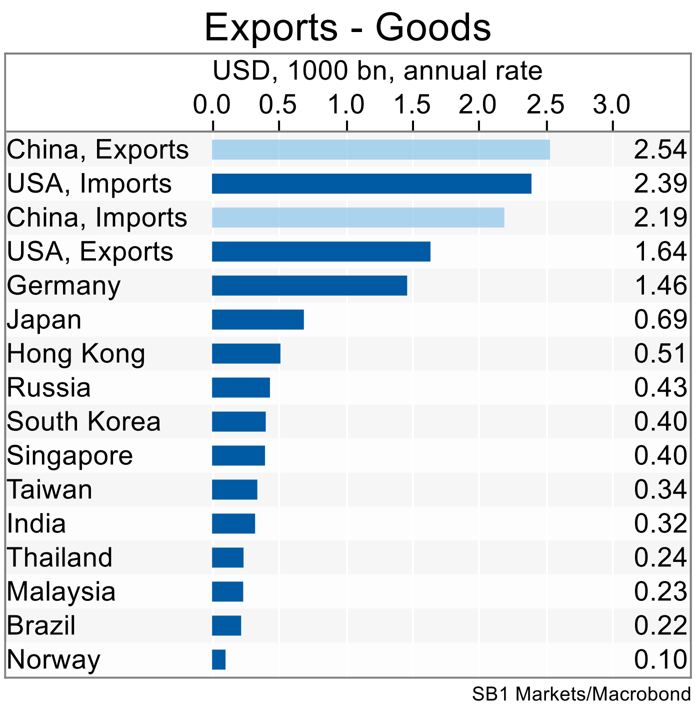


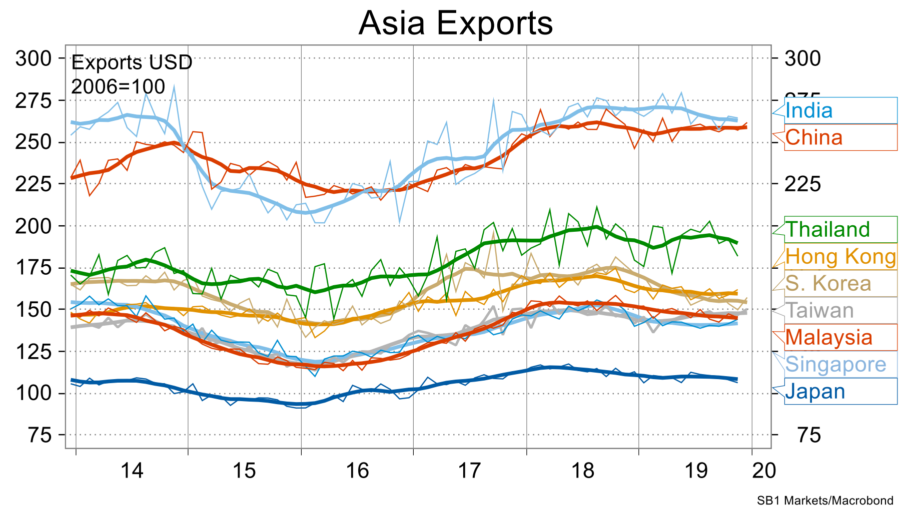


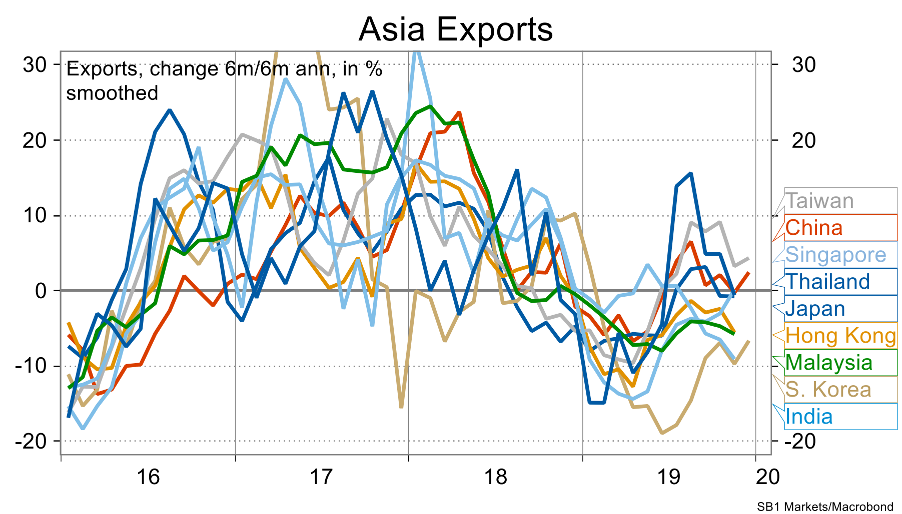
- Crude oil imports dropped in Dec, to 10.5 mb/d, after soaring to a record high 11.1 mb/d in October. Domestic ‘demand’ fell less than imports, no signs of any slowdown
- China is of course world’s biggest oil importer, by far

Not many bright Asian export spots barring China, just Taiwan slightly up

However, the downturn has eased somewhat the past few months, x India



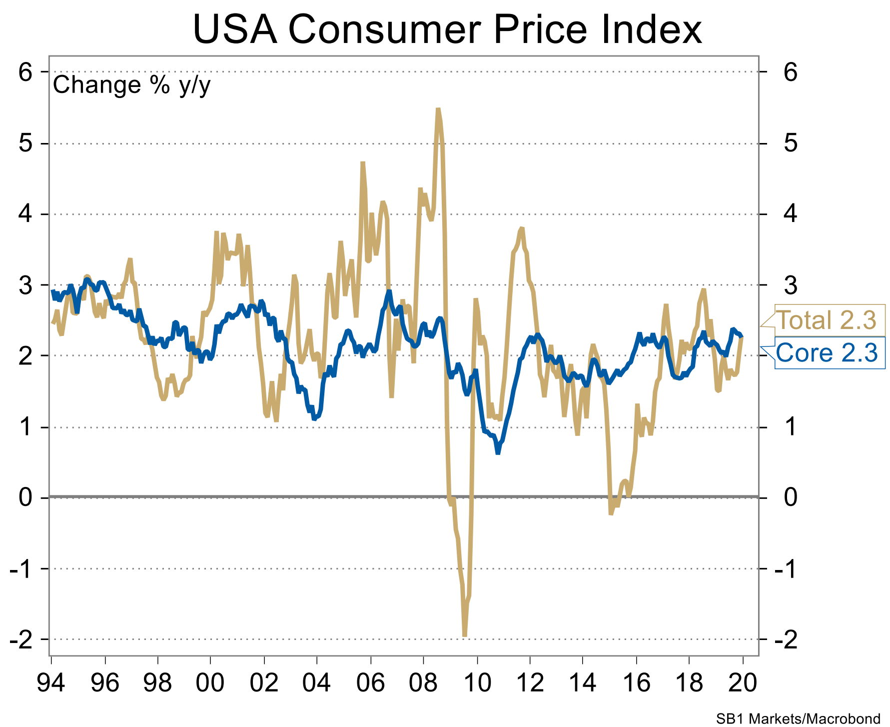


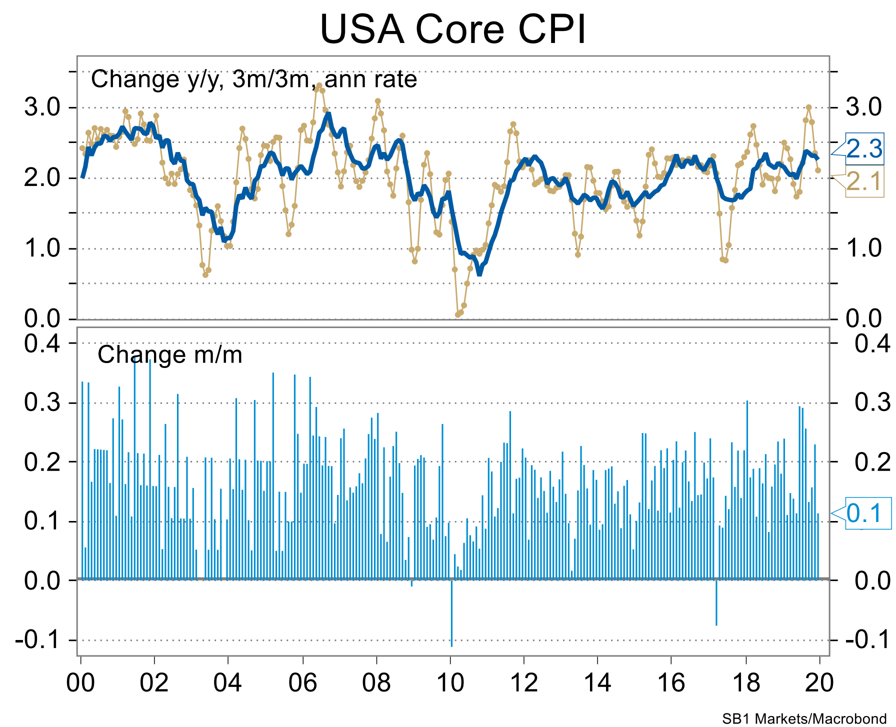


- Taken together: Exports have slowed in most countries but some signs of stabilisation recent months
- China is of course the world's biggest export country (55% larger than the US!) – and the 2nd biggest importer!
  - » China will probably take the pole position in imports too, in some few years time

Core inflation steady at 2.3% in Dec, peaking now?

Core CPI rose 0.1% m/m, 0.1 pp below f'casts. Total inflation up to 2.3%, on higher energy prices

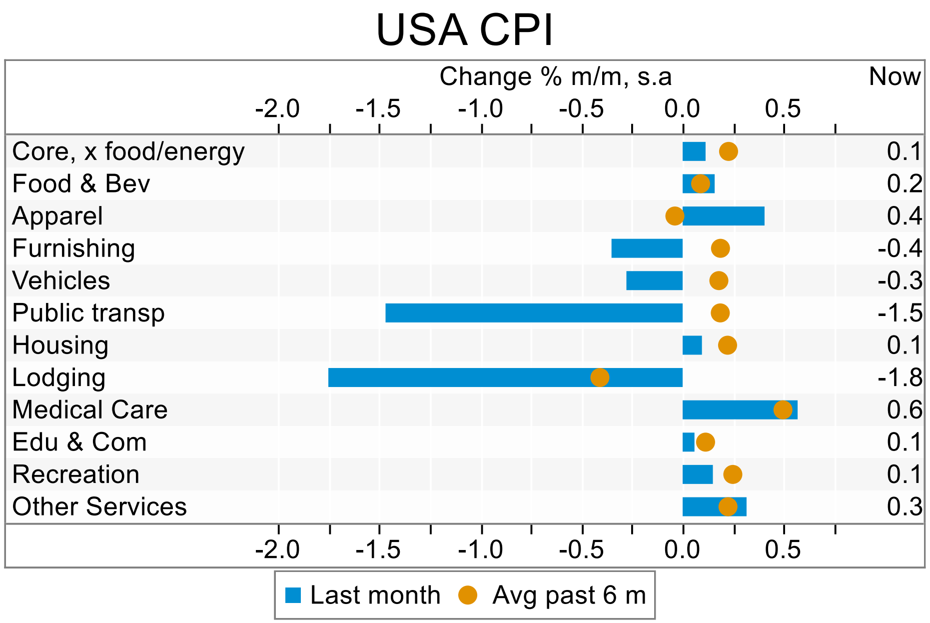




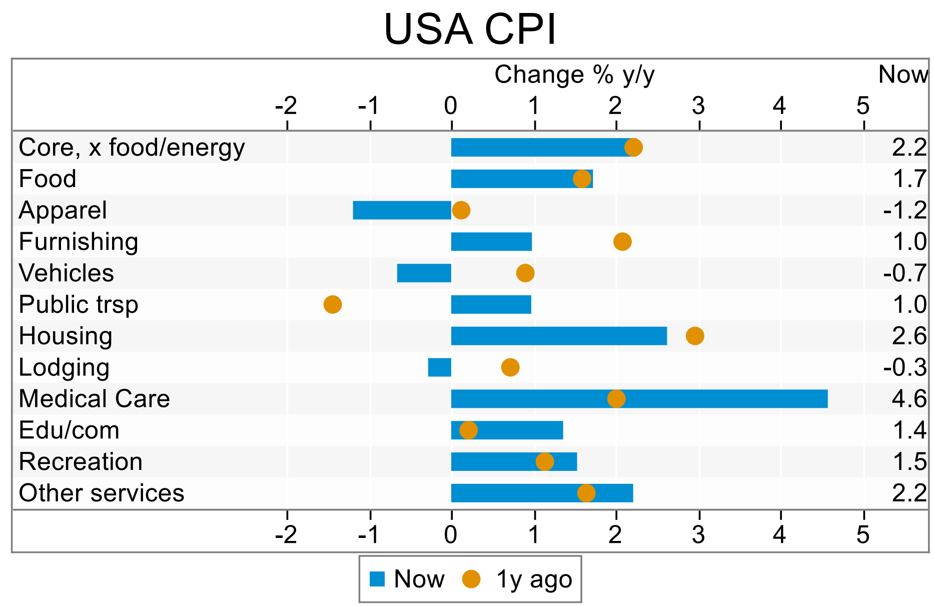
- Core CPI increased by just 0.1% m/m in Dec, 0.1 pp below expectations. The annual rate held steady at 2.3% (but fell by 0.04 pp), in line with f'casts. The underlying speed has slowed to 2.1% and does no longer suggest much higher annual rates. Moreover, producer prices and inflation models indicate that inflation may be peaking now. But it is not 'too' low, at least according to the core CPI index
  - » Fed preferred price measure, the core PCE (the consumption deflator) is up 'just' 1.6% (in Nov), below Fed's 2% price target
- Headline inflation edged up to 2.3%, a 0.3 pp increase. Total CPI inflation was pulled down by lower energy prices in late 2018/early 2019, this impact is now turning as energy prices are slowly climbing

Lower prices on lodging and public transport pushed monthly inflation down

8 of 11 sectors are rising, just apparel, vehicles (sales are softening) and lodging are declining y/y



SB1 Markets/Macrobond

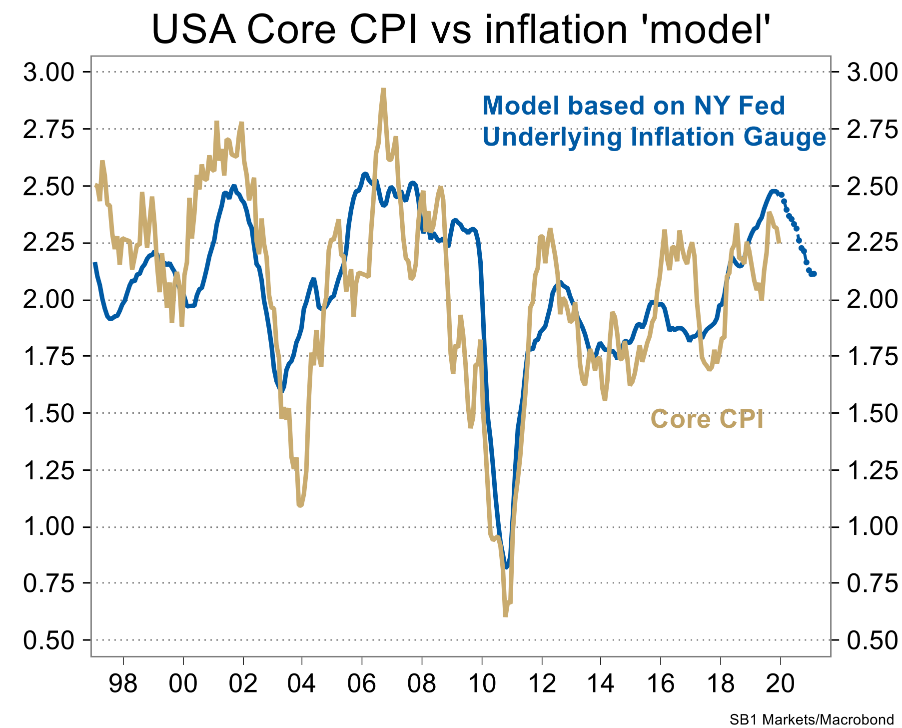


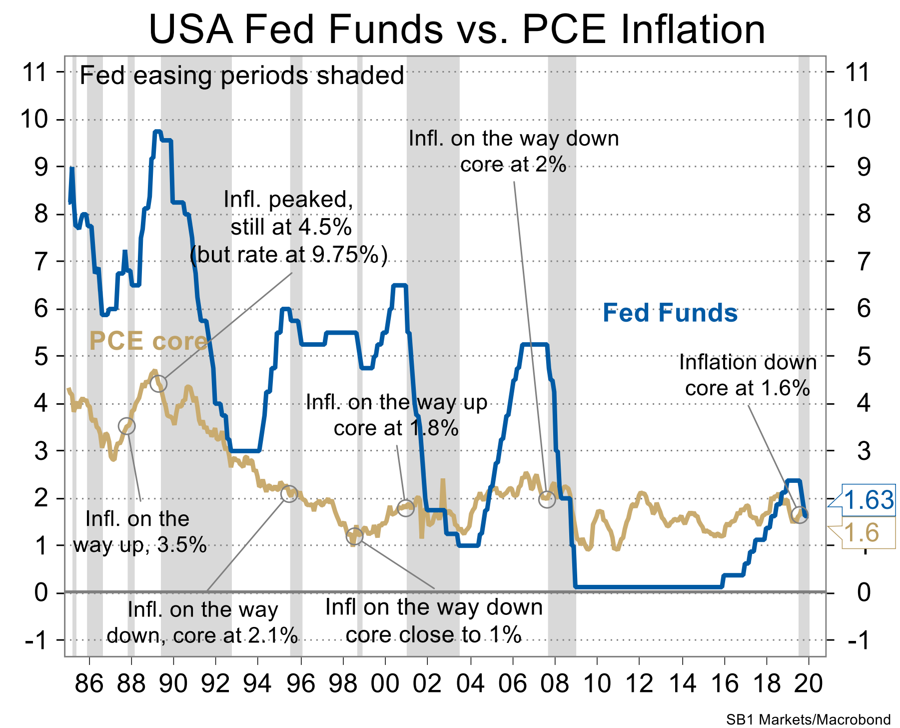
SB1 Markets/Macrobond

- Prices are increasing faster than one year ago in 5 of 12 sectors, unchanged in 2 and declining in 3 sectors
- Higher prices on medical care, housing (rents & services) and food are boosting annual inflation
- In December, a drop in prices on lodging and public transport dampened monthly price growth. Probably due to some Holiday effects, were there fewer tourists than normal, or did the Americans stay at home during the Christmas break?

NY Fed's inflation model suggests that inflation is close to peak

The model signals 2.5% inflation now – and a slowdown the next year

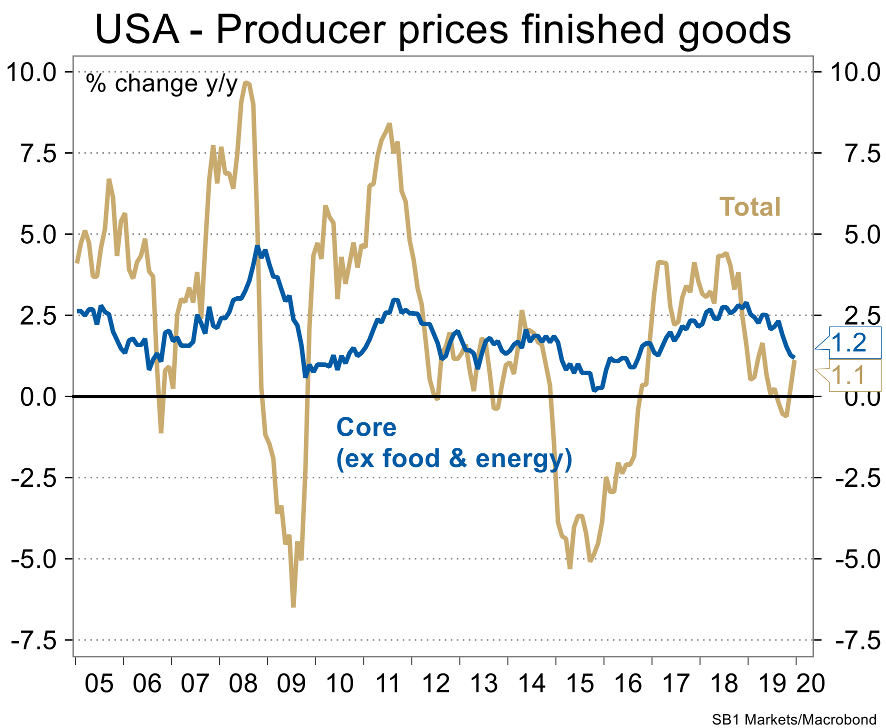


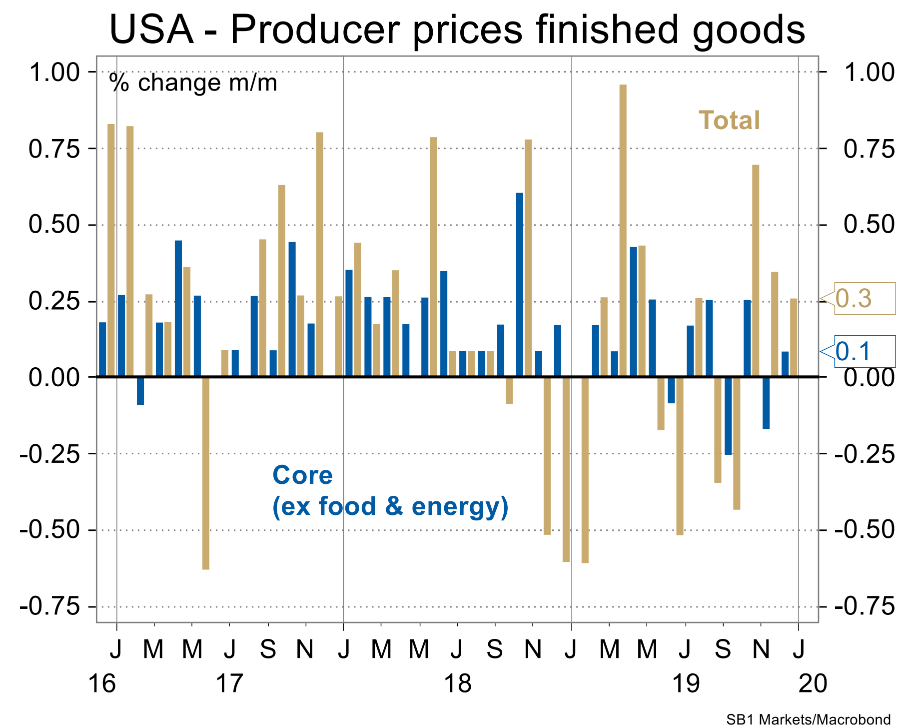


- The NY Fed's Underlying Inflation Gauge model includes a wide range of macroeconomic and financial components in addition to some CPI components. The UIG model leads the actual inflation rate by some 15 – 20 months. The model now signals somewhat lower inflation than it did some months ago, and does no indicate much higher inflation than today
- The personal consumption expenditure price deflator (PCE deflator) is the Fed's preferred inflation measure, not the CPI. The core PCE (ex food, energy) was up 1.6% y/y in Nov, below Feds inflation target at 2% - but it rose by 2.2% in Q3 (from Q2, annualised)
- Fed's actual rate setting has not been well explained by actual inflation during the past two decades. Wage inflation is a far better indicator. PCE inflation below target has been one of the arguments used in favour of the interest rate cuts this autumn. The economy – taking care of the 'dual mandate', full employment – will anyway decide Feds action from here, more than inflation (as almost always, BTW)

Core producer price inflation cools, does not signal higher consumer inflation

Core finished goods prices rose 0.1% m/m in Dec and are up 1.2% y/y, 0.1 pp below expectations

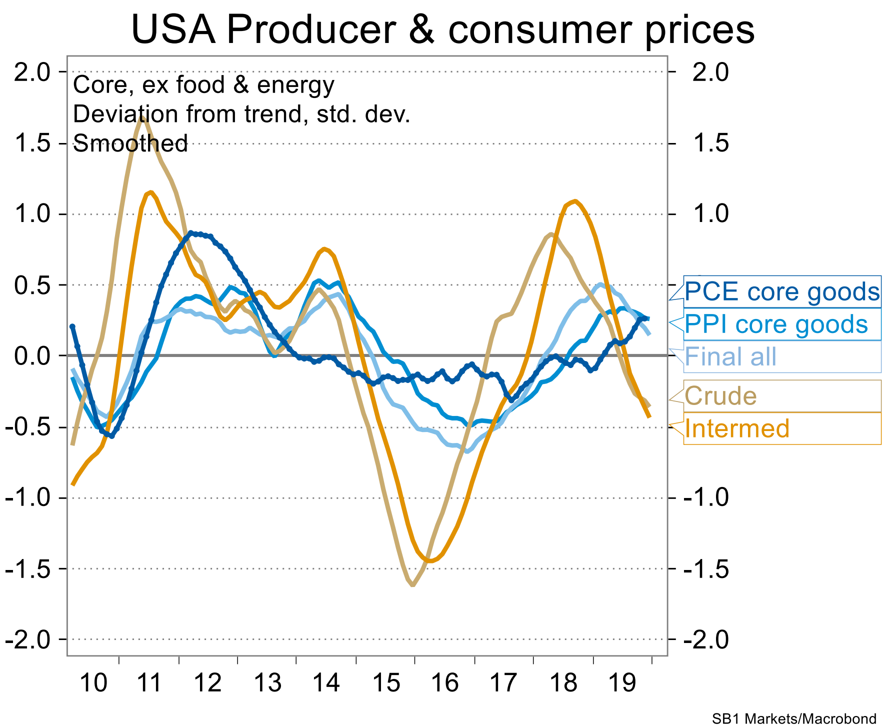


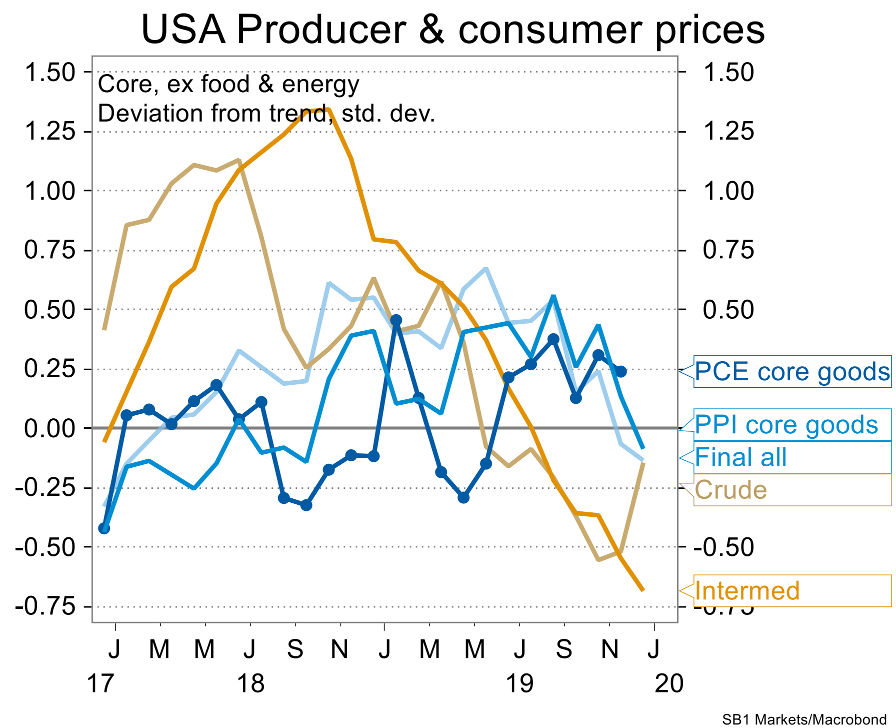


- Core finished goods x food & energy PPI increased by 0.1% m/m in December, 0.1 pp weaker than expected. The annual rate inched down to 1.2%, the lowest in more than 3 years, down from above 2.5% late 2018. Underlying growth (measured 3m/3m) has dropped to 0.3%
- Headline PPI increased by 0.3% m/m, 0.1 pp higher than expected. The annual rate spiked to 1.1%, up 0.8 pp, as the impact from lower energy prices the past year is now changing sign
- Easing core producer price inflation indicates that core consumer inflation is now at a peak

Prices (PPI) are slowing at all production stages

Intermediate, crude (not in Dec), and consumer prices; core producer prices signal softer PCE growth

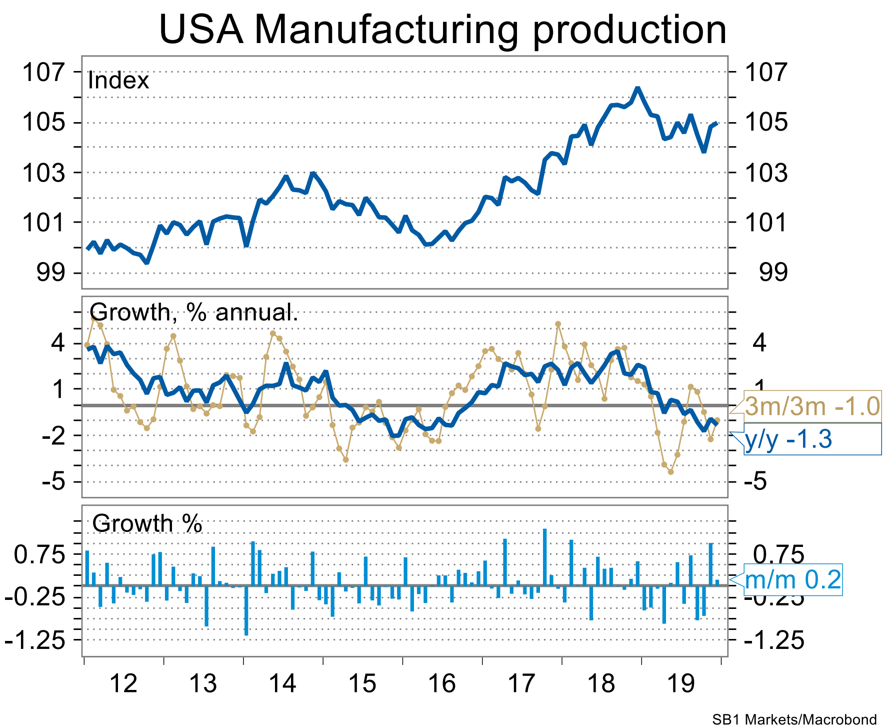


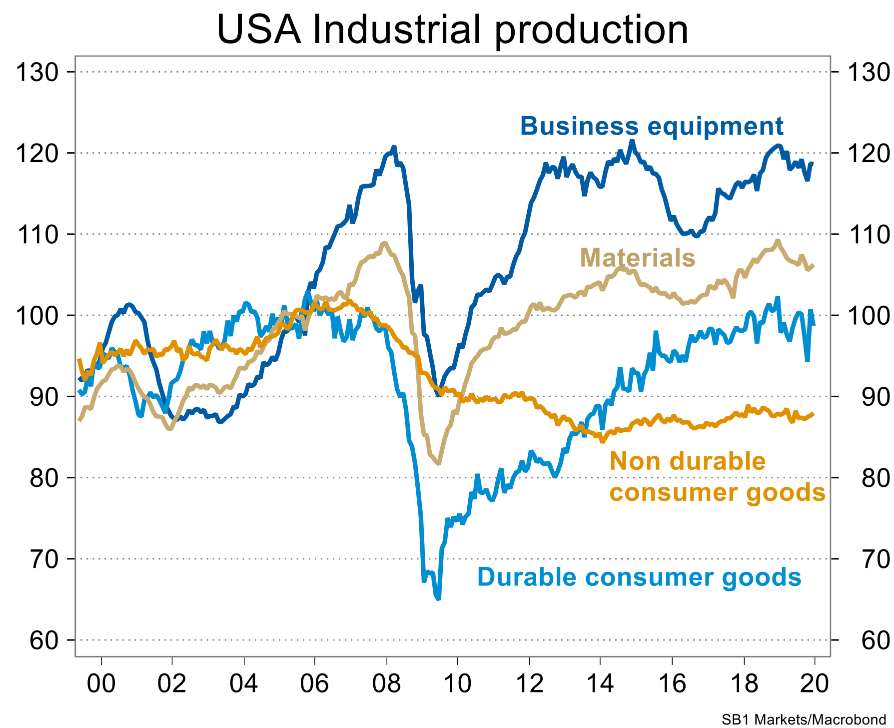


- Crude PPI prices (ex food & energy) have been heading steeply down, then soared in December, up 3.3% m/m. Intermediate goods prices are sliding straight down. Core consumer goods prices (at the producer level) fell marginally in Dec, trending down and will over time slow further if prices at earlier stages do not recover

Manufacturing production recovered in Nov/Dec, still down 1% in Q4

Production rose 0.2% in Dec, as expected, trend still no more than flat

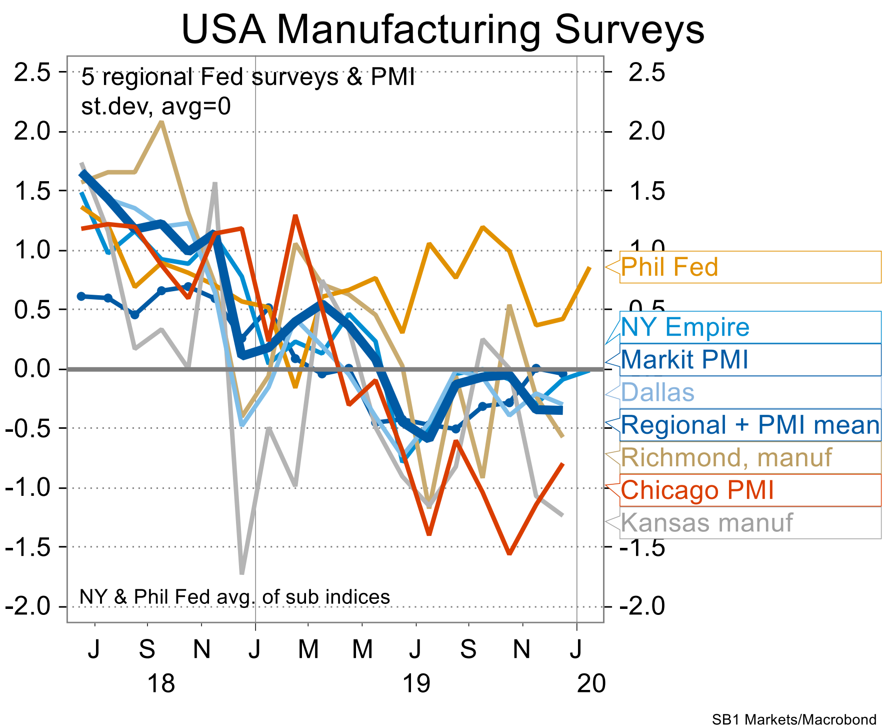


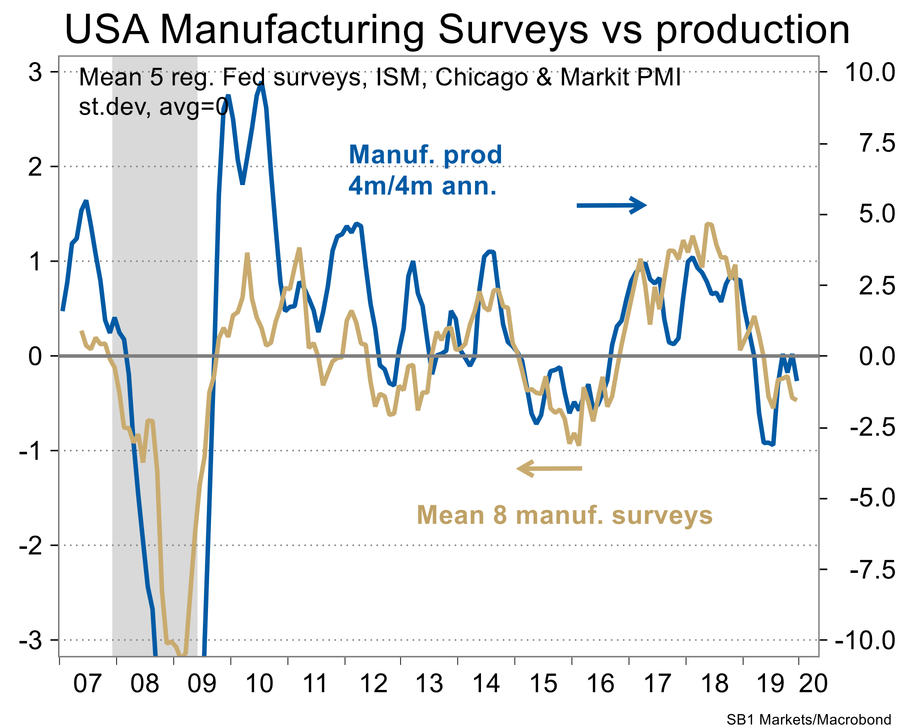


- Manufacturing production inched up 0.2% m/m in Dec, after a swift recovery in November (from the GM strike). Production has flattened out since the spring, Q4 ended down 1% annualized
  - » Total industrial production including energy & mining fell 0.3% m/m
  - » Production has slowed in most sectors, including business equipment & consumer durable goods - in sum weaker than signalled by durable orders, which has just stalled
- Manufacturing surveys are mixed but in sum they signal modest decline in production
  - » The 2 regional manufacturing surveys published so far in January both rose modestly

Both first regional manufacturing surveys edged up in January

An average of surveys signals a modest decline in production and orders point to just a stagnation

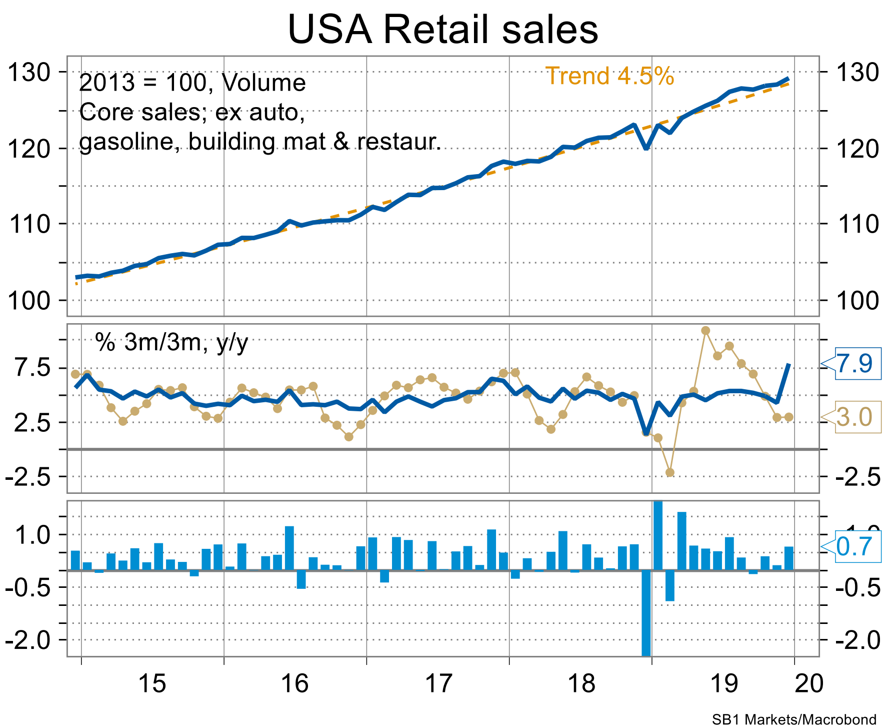


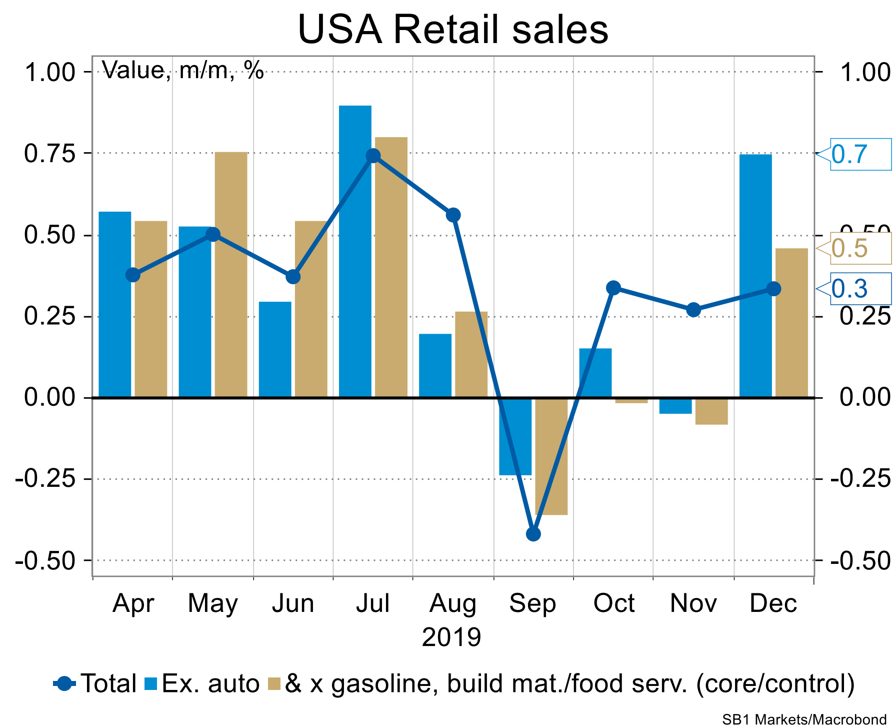


- Phil Fed's manufacturing survey recovered in January, the index is still well above the average level but has been more upbeat than all the other surveys since early 2019. The NY Empire index, which has been more in line with other surveys, inched up in January, back to the average level
- Taken together, the manufacturing surveys in pointed to a continued soft deterioration in manufacturing production

Retail sales growth is cooling, but accelerated in December

Core sales up 0.5% m/m in value terms, but history revised down, Q4 weaker than expected

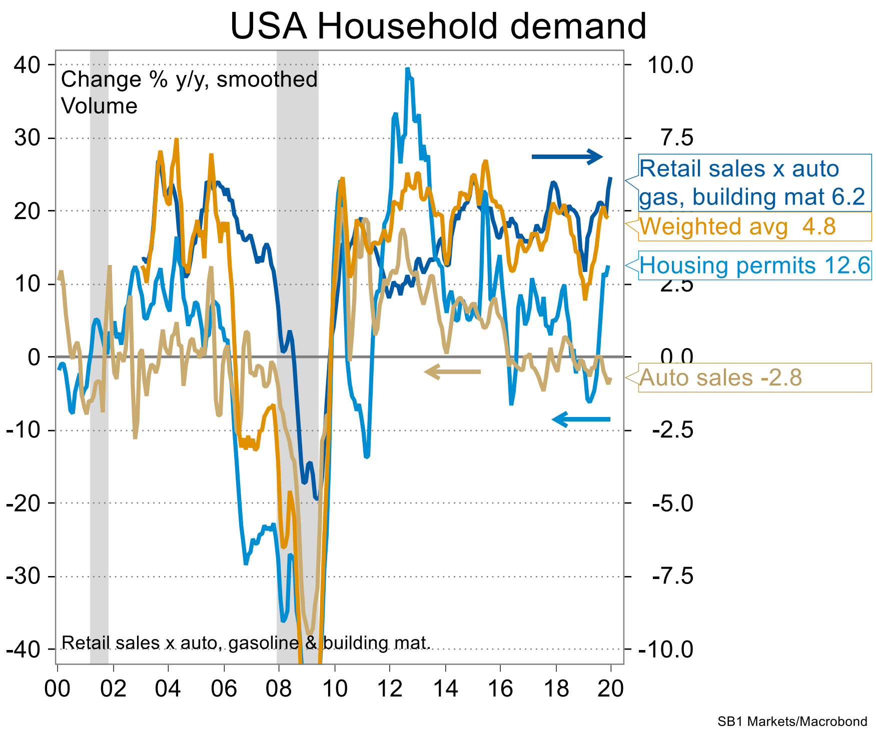


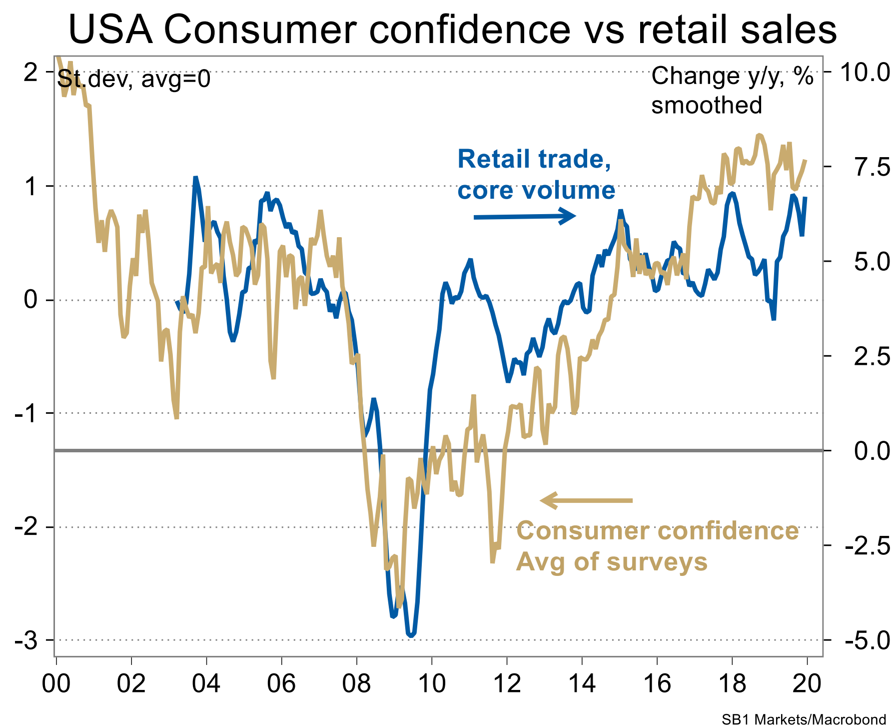


- Core retail sales (ex. auto, gas, building materials & restaurants; control group) rose 0.5% m/m nominally in December, 0.1 pp higher than expected. November was revised down by 0.2 pp to a 0.1% decline
  - » Total retail sales increased by 0.3% and the prior month was revised up 0.1 pp. Auto sales fell modestly in December, ex auto sales soared 0.7%
- We estimate a 0.7% m/m lift in core sales volume. November sales volume came in 0.1 pp weaker than we assumed, up 0.1% Thus, underlying growth stabilized at 3%, providing a solid GDP contribution in Q4, yet much less than in Q2/Q3, and less than assumed before Dec data/revisions. The annual rate spiked to 7.9%, due to the 2.7% drop in Dec last year
  - » Income growth has slowed somewhat the past year but consumer confidence remains strong, we do not expect any hard downturn now

Household demand is still strong, in sum, close to peak?

Retail sales up 6% y/y, housing has accelerated, while auto sales are trending slowly down



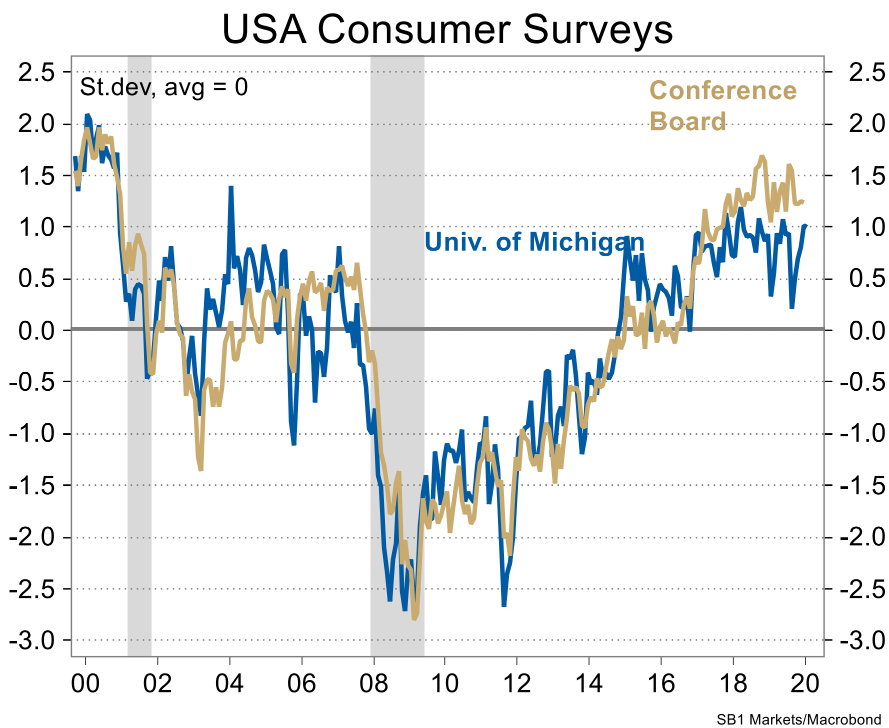


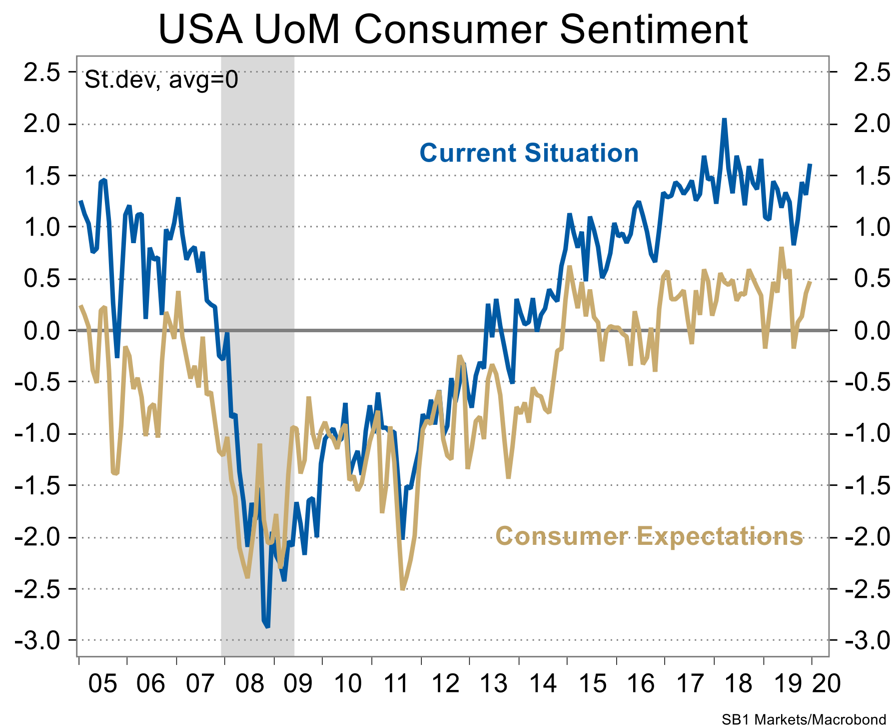
- Total household demand cannot be blamed for a slowdown in the US economy. The weakness is stemming from businesses demand, not the consumers (and not from net foreign trade either)
- Consumer confidence (measured by the avg of University of Michigan's and Conference Board's indices) remains at an elevated level. Jobs are extremely easy to get and unemployment is at a 50 y low
- Still, given that retail sales growth has been slowing somewhat, and auto sales are heading slowly down, household demand may be close to/at peak now? The housing market upside is probably not that large, either

SpareBank 1 MARKETS

Univ. of Michigan consumer sentiment remained at a high level in Jan

Both the current situation & expectations indices rose. No signal of consumer retreat, of course

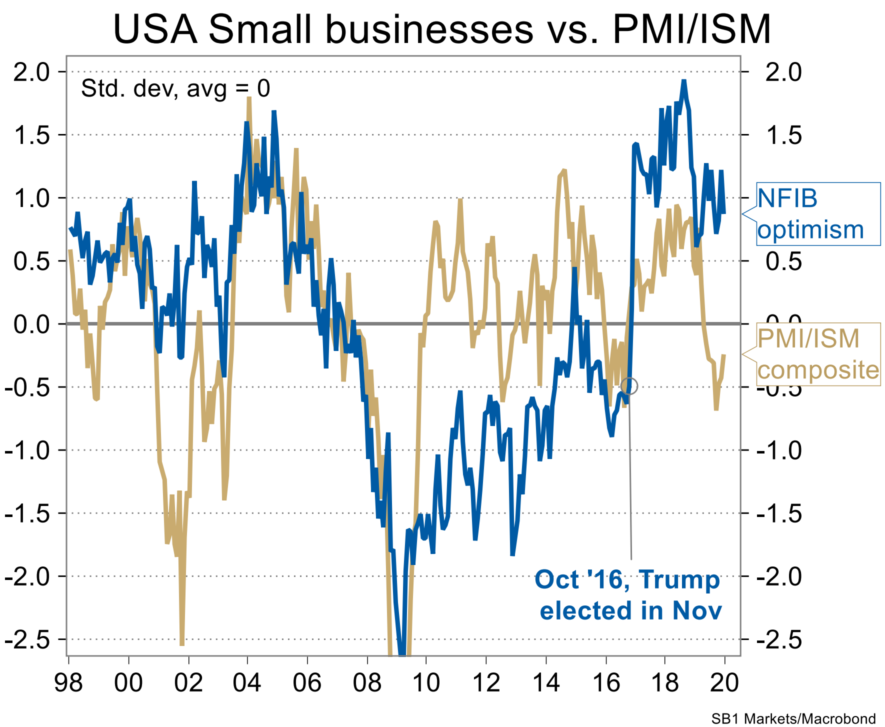


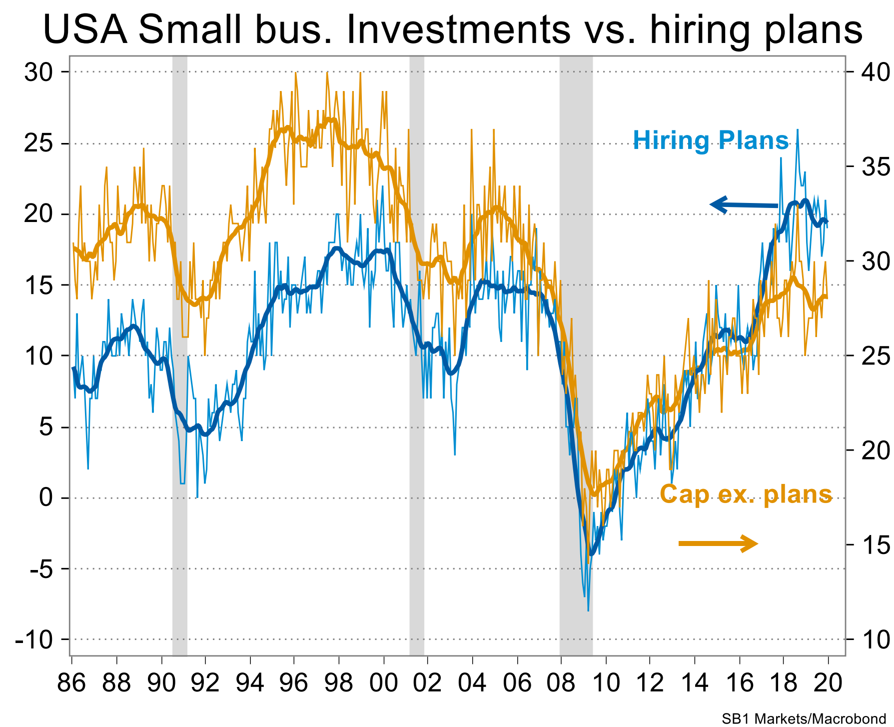


- The total sentiment index inched down to 99.1, from 99.3 in Dec, close to expectations
  - » The index is 1 st.dev above avg and just marginally below the 2018/2019 peak levels
- Univ. of Michigan's consumer sentiment is marginally weaker then Conference Board's consumer confidence index, both are rather upbeat and do not signal any consumption setback

Small businesses' optimism steady at a high level, miles above PMI/ISM

NFIB optimism index has stabilized since early 2019 but some details are somewhat less upbeat

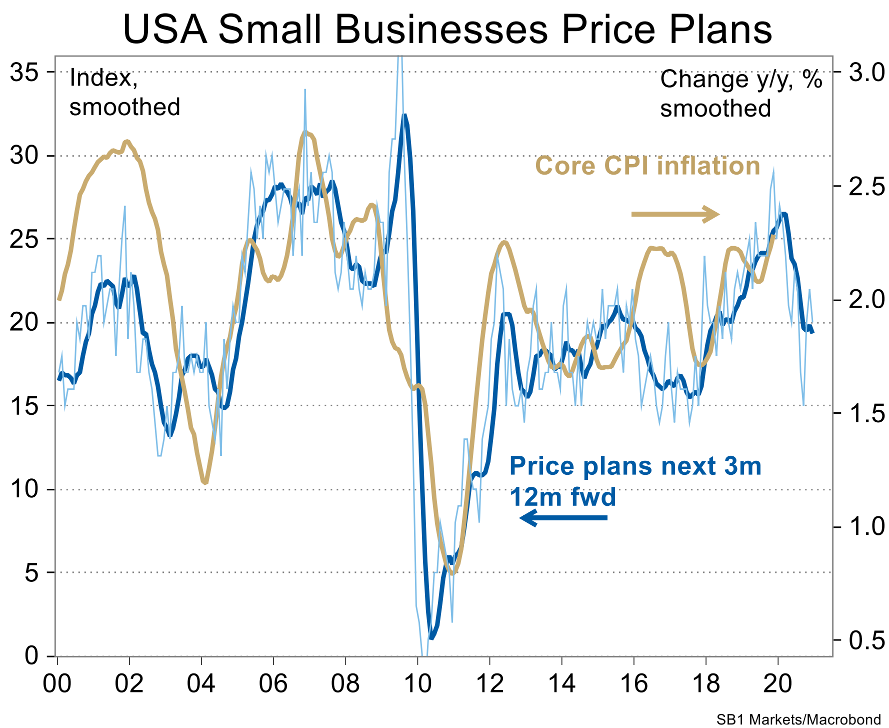


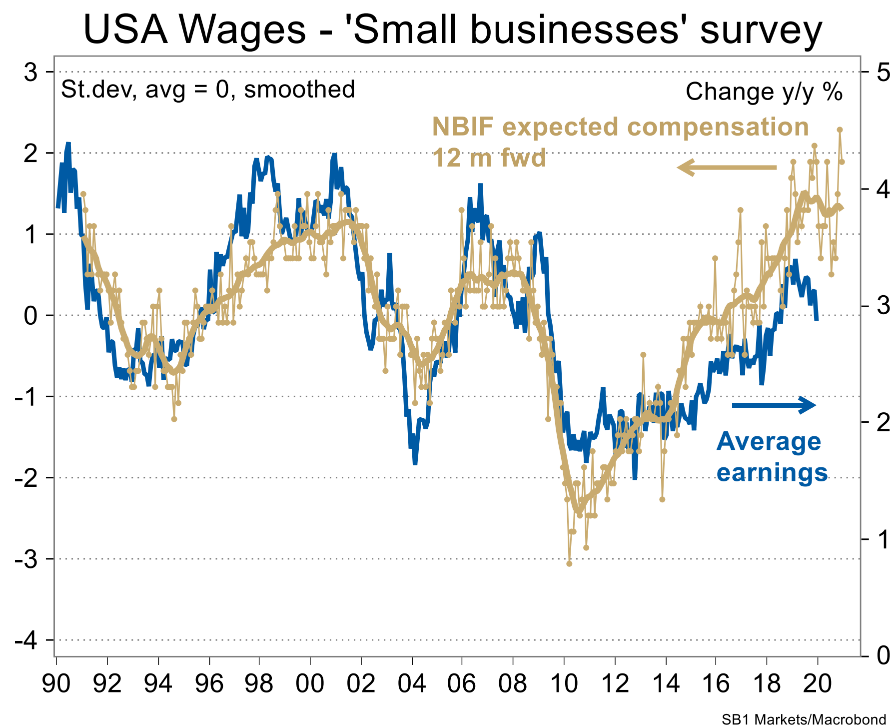


- The NFIB optimism index, measuring small businesses' expectations on business conditions, ticked down to 102.7 in Dec, expected unchanged. Still, the index has stabilised the past year, at a rather high level, after dropping in late 2018
  - » The NFIB optimism index is 0.9 st.dev above average (since 1998). The avg of the surveys from the ISM/Markit PMI is 0.2 st. dev. below average. These different measures are not very closely correlated. The difference may be due to the SME's exposure to the domestic market, while larger companies in the PMI/ISM (particularly the latter) are more influence by trade war/global uncertainties
- Investment plans slowed somewhat in 2018, have inched up since early 2019. The level is anyway not high
- Hiring plans have peaked but they are still aggressive. Companies are still not able to fill vacant positions – and they plan record high wage compensation!

SME survey suggests lower consumer inflation, but higher wage growth?

Price plans have been nudged down the past year, wage plans steady, at a very high level

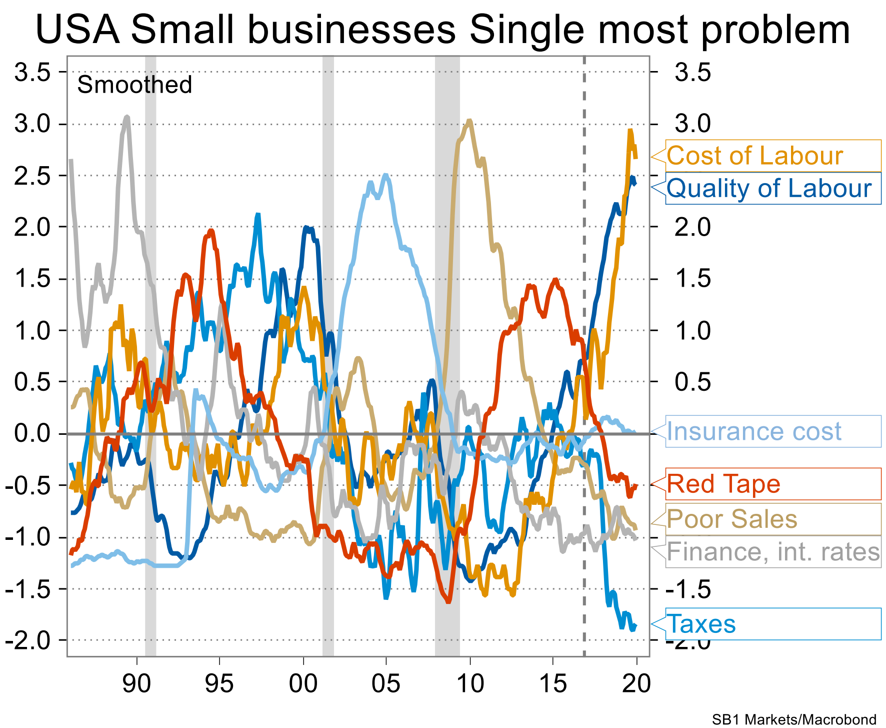


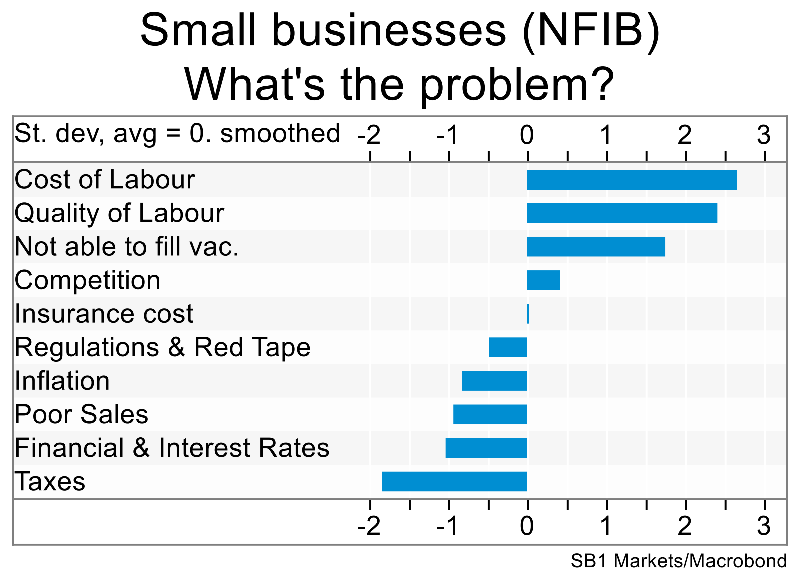


- 20% of small businesses are planning to hike prices in the December survey, up from 16% in September – but down from 29% one year ago. We do not put much weight on these monthly data, the smoothed share has fallen steeply, as price plans were nudged down rapidly in the summer. Demand must have slowed, even as optimism has stabilized
- Businesses are still reporting record aggressive plans to raise compensation, although have not increased the past year. Actual wage growth has cooled, the survey is not signaling any slowdown but probably not a steep acceleration either

What's the problem? Cost, quality, supply of labour, not sales, interest rates, tax

Yet, fewer SMEs noted cost of labour as a problem in Dec and they report less tight labour markets

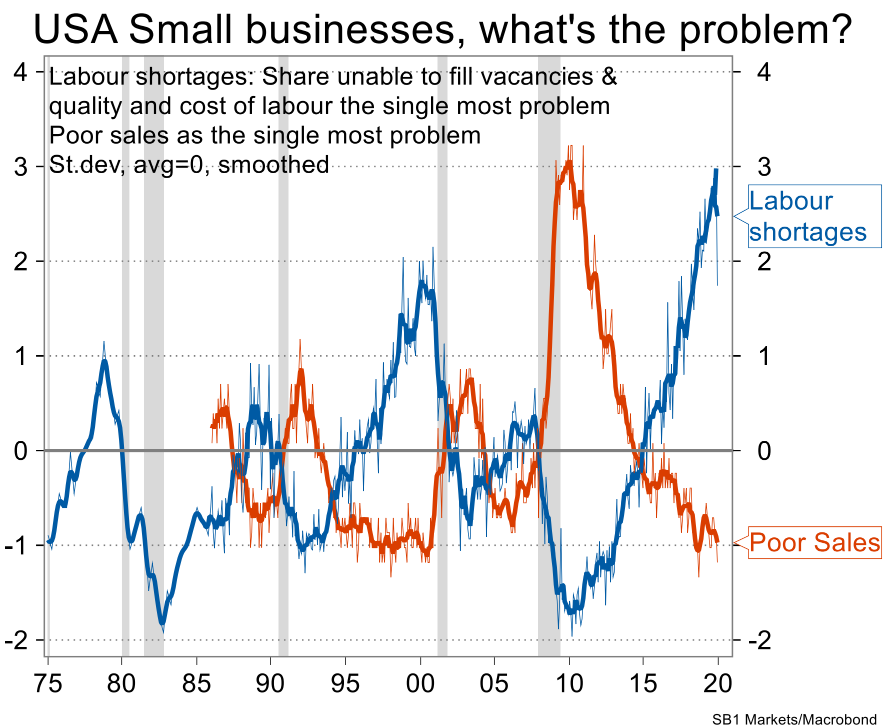


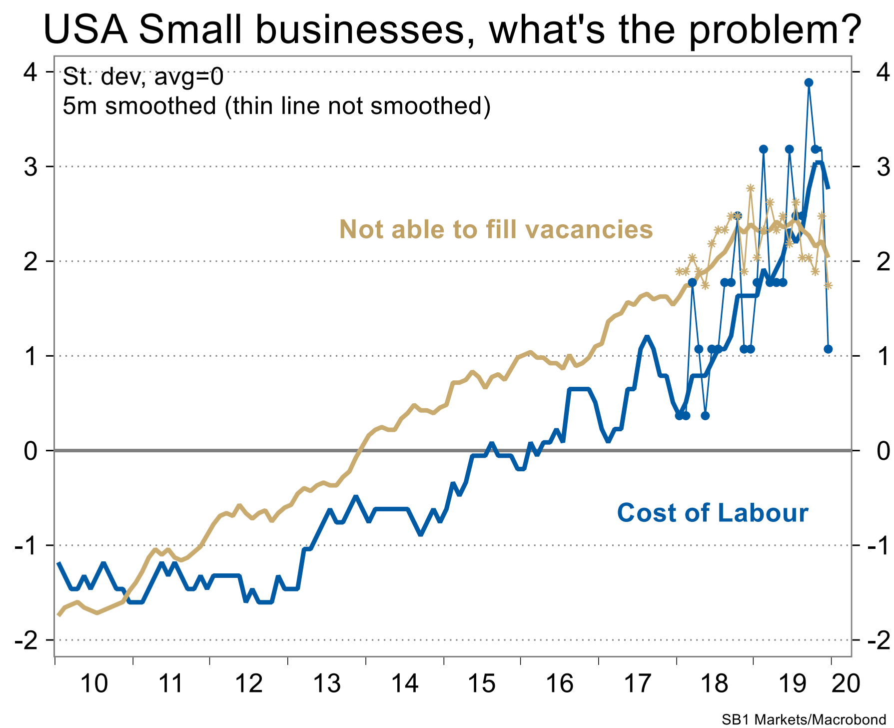


- Unusually few are complaining about finance/interest rates and about taxes, following last year's tax cuts
- Sales are not the problem either, almost 20 year since so few stated sales as the most important problem
- The share of businesses that have been noting problems with tight labour markets have been record high; both the ability to fill vacancies', cost of labour and quality of labour have been reported as huge problems. However, in December, fewer businesses reported cost of labour and availability of labour as a problem, an early sign of weaker demand?

What, small businesses' view of cost of labour steeply down in December??

The trend is strong and we do not put too much weight on one month's results, but still.. A signal?



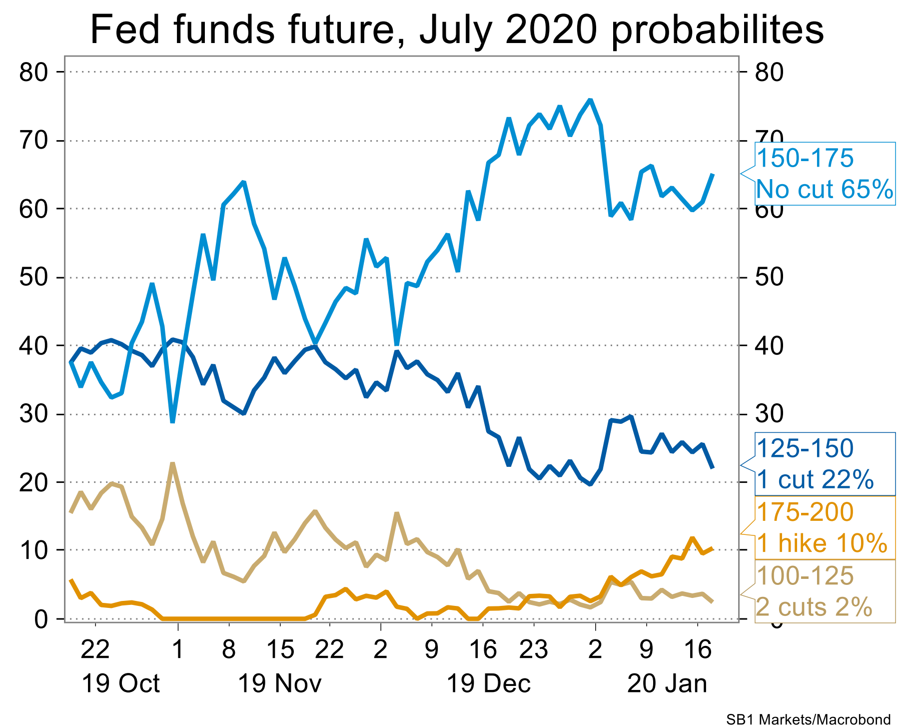


- All 3 labour market assessment indices fell in December, the share which reported 'cost of labour' as the chief problem by far the most (it dropped by 2 st.devs), back to the Dec 2018 level

Fed's Beige Book reports steady growth and tight labour markets

Fed's 'regional network' continue to note 'modest' growth – with rising capacity constraints

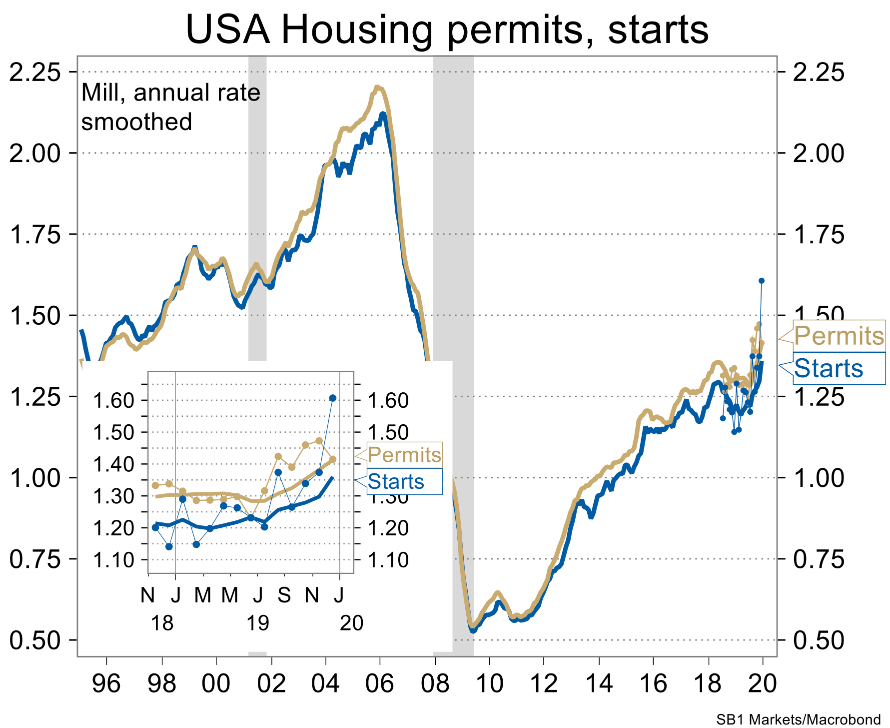
- Economic activity expanded at a '*modest*' rate in December and early January, according to the Beige Book, unchanged from the last report
- On the demand side
  - » Consumer spending remained solid and several Districts reported a pickup from the last report. Auto sales rose moderately most places
  - » Home sales were reported flat, while construction activity in the housing market expanded modestly. Some signs of a cooling housing market upturn?
- On the supply side
  - » Manufacturing were cited as flat, another sign of a manufacturing stabilization (although with lower hiring)
- Labour market
  - » Employment continued to rise at a modest pace, and labour shortages persisted
  - » Still, wages rose 'just' modest to moderately
- Prices
  - » Still modest inflation but some sectors reported that they are now passing on tariff costs to consumers
- **In total, the Beige book signals steady growth in the US economy, but with a limited upside on growth, due to widespread capacity constraints**

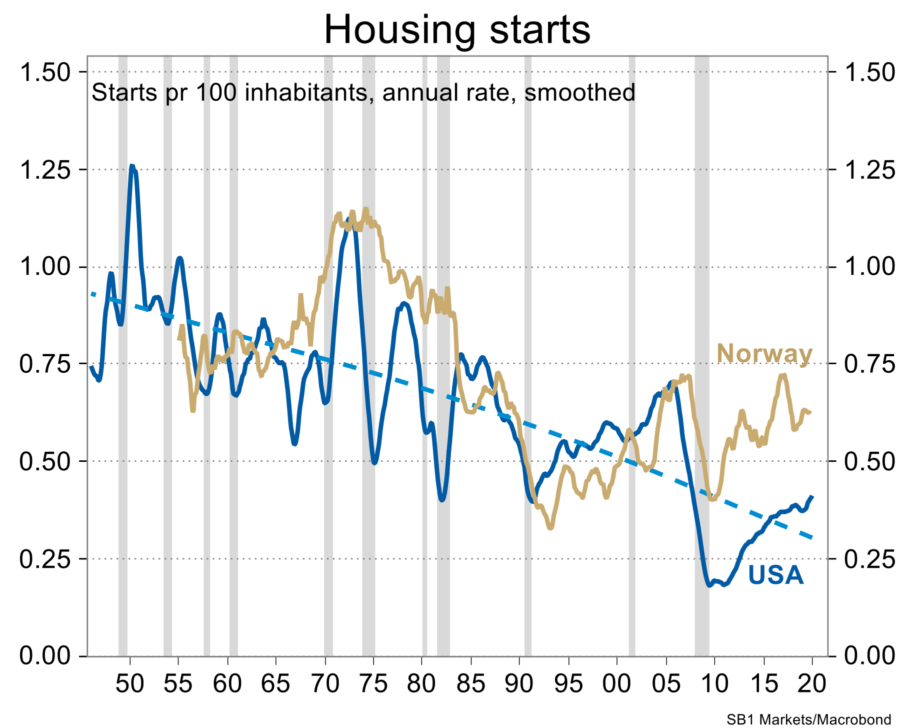


The market is pricing an unchanged Fed funds rate in H1, though with some 25% probability of a cut before July. By the end of 2020, the probability of a cut has increased to 80%, according to the market

Housing permits & starts are soaring, highest since before the Financial Crisis

Starts spiked, while permits retreated in Dec, both trending steeply up. Limited upside?

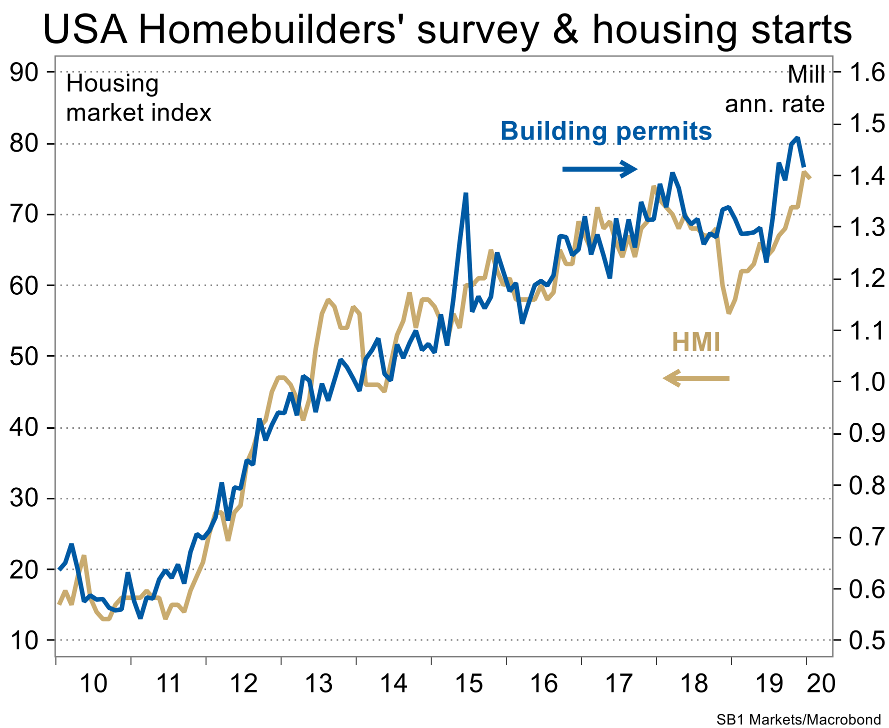


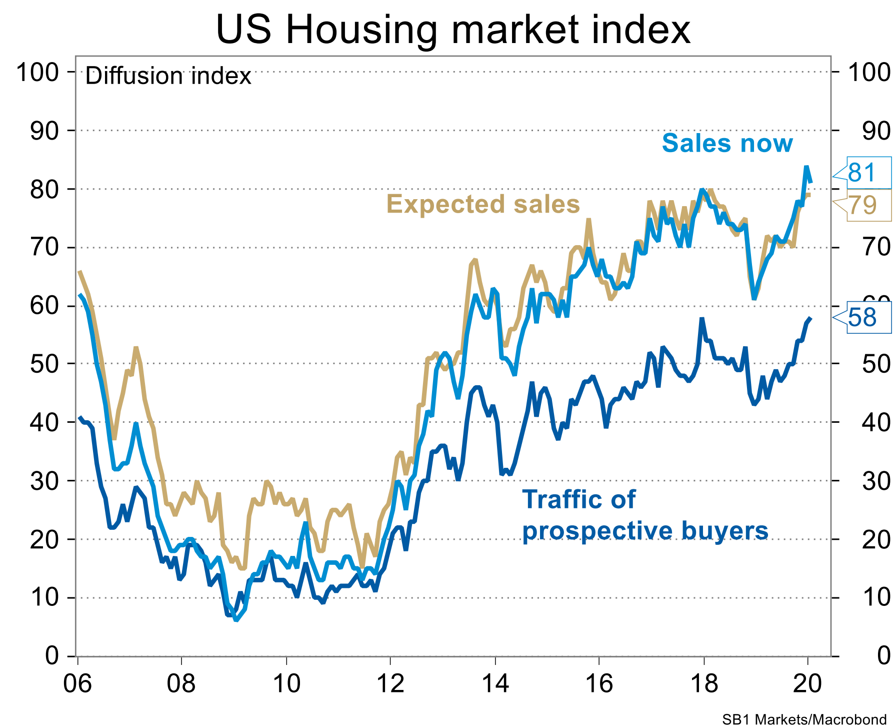


- Housing starts soared by a 'ridiculous' 17% m/m in Dec, the steepest increase in 3 years, to the highest level since December 2006! These monthly rata are volatile, particularly on starts, but the smoothed rate is heading straight up too, above the 2018 peak level
- Housing permits fell by 3.9% m/m, following strong growth the prior months. The level is the highest since early 2007. Permits usually are less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts. The smoothed rate is 4% above the 2018 peak
- Housing starts/permits reflect thriving demand for housing, probably boosted by low mortgage rates. The Homebuilders' index confirms brisk demand but does not suggest another lift. The level of starts is not very high, historically, and the downside is modest compared to 2006-2009

Homebuilders' confidence steady at an elevated level in January

HMI fell marginally, still above the 2018 peak. Yet, the level does not signal higher housing starts



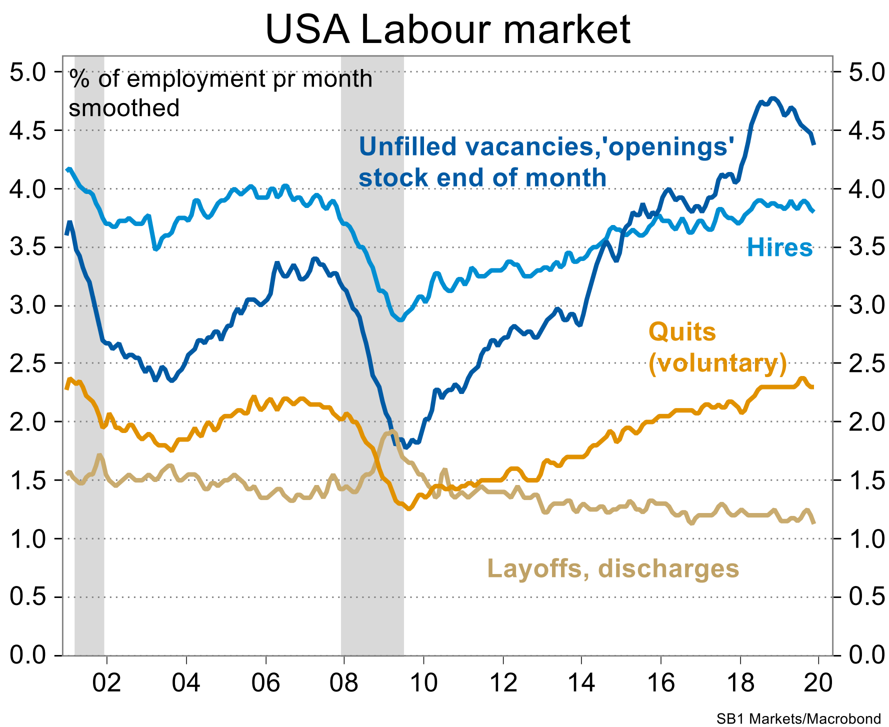


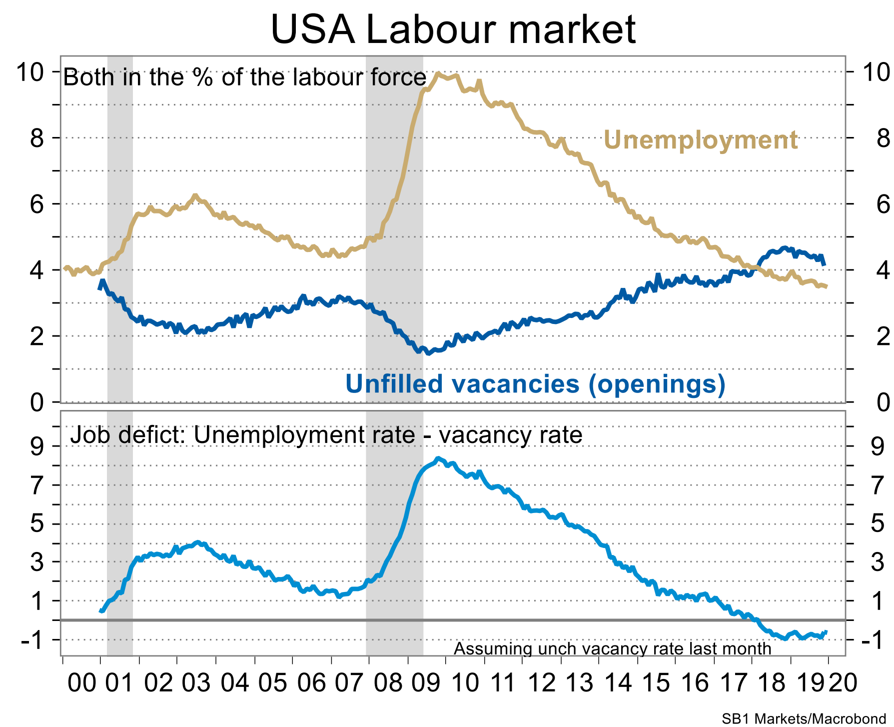
- The housing market index (HMI) edged one point lower in Jan, to 75. The homebuilders have been reporting a strong housing market rebound the past year, the HMI index is at the highest level since 1999!
  - » According to the homebuilders, low mortgage rates, a low supply of existing homes and strong demand (fuelled by a strong labour market) are boosting activity. The builders are complaining about supply side constraints; lack of labour and lack of building lots
- Building permits/starts are soaring, however, HMI does not signal another lift (although it has been too downbeat for the past year). Historically, the index has been leading both permits and starts by approx. one year – limited upside on permits

HMI is a based on a sentiment survey of US homebuilders, in which the respondents rate housing market conditions at the present time and the next six months. The index ranges from 0 to 100

Unfilled vacancies further down from peak, may be an early sign of weakness

Still, other indicators do not confirm a slowdown; hires & voluntary quits stable at high levels

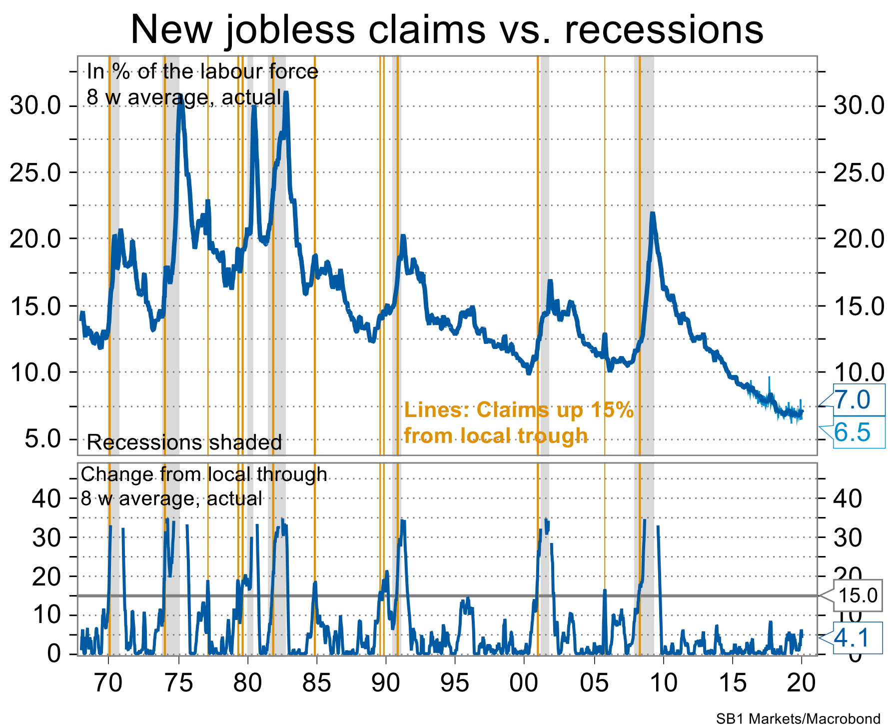


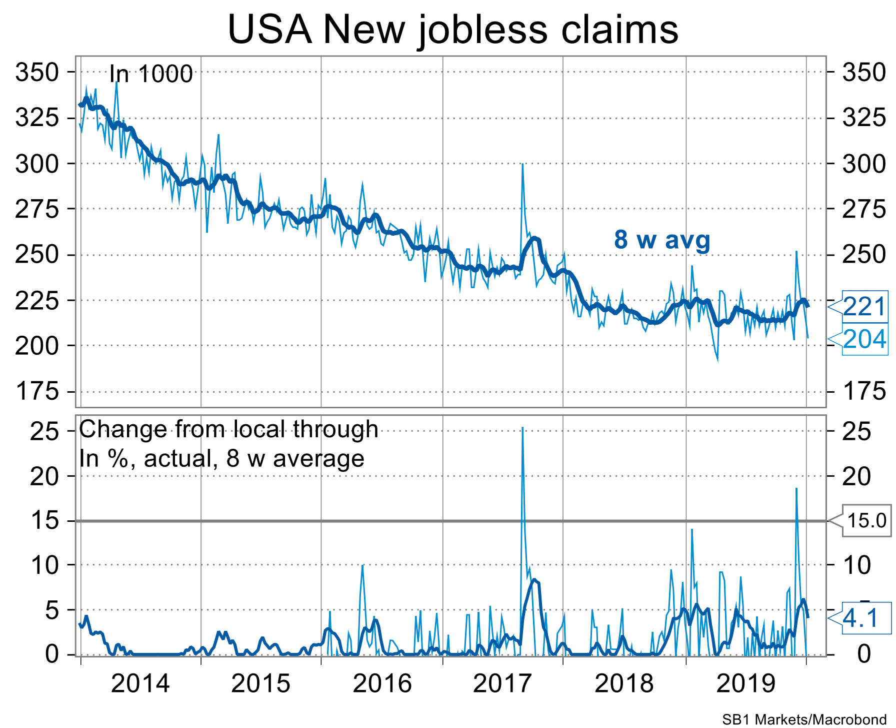


- In November, job openings (unfilled vacancies) increased to 4.4% of employment, down 0.1 pp from Oct (we apply a 2 month smoothing). Unfilled vacancies has been sliding down the past year, may be a very early sign of a cooling labour market. The vacancy rate is leading unemployment by approx. 6 months. However, the level remains high and the labour market is no doubt tight; there are still more unfilled jobs (4.1%) than unemployed (3.5%), in % of the labour force
  - » Monthly (gross) hiring equals 3.8% of total employment and is not increasing anymore, probably because businesses struggle to attract labour
  - » The number of voluntary quits is rising marginally, at a very high level – as many employees leave for better (paid) jobs
  - » Layoffs fell in Nov and are trending marginally down, at very low level. However, it's a lagging indicator

Jobless claims back to a very low level

Claims dropped to 204' last week, the 4th lowest ever. Thus, no labour market weakness spotted!

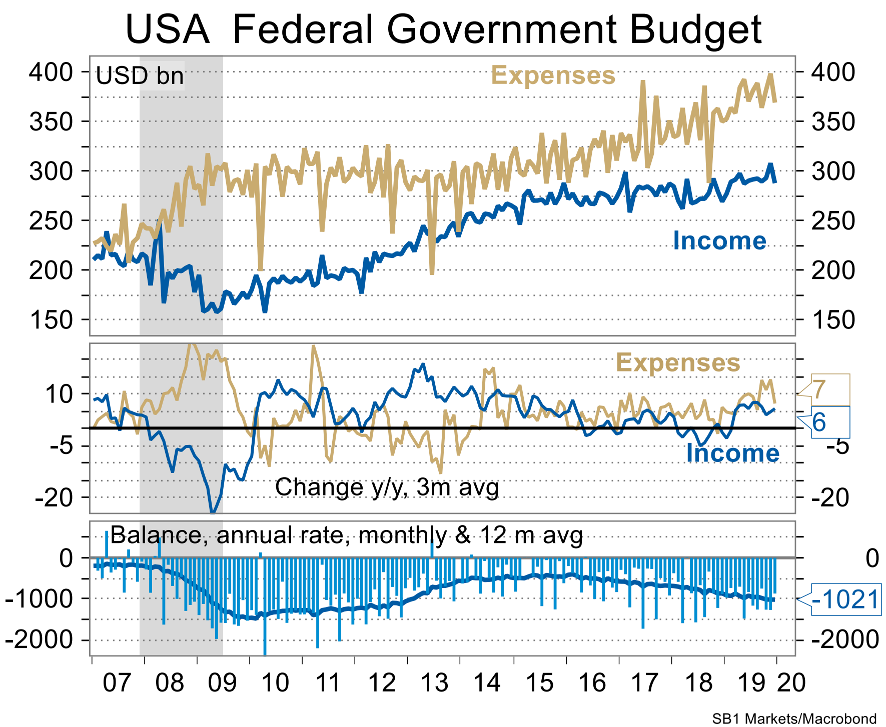


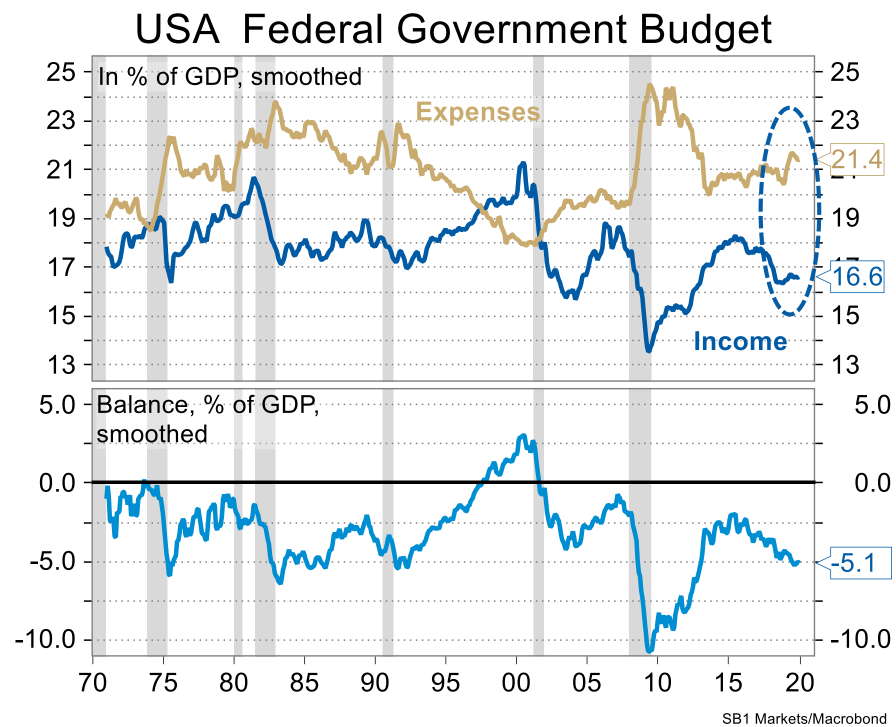


- The past few weeks, jobless claims have been distorted by a later than usual Thanksgiving holiday. Now, claims have fallen down to a very low level again, confirming that the upswing was not based on any underlying weakness
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

The federal budget deficit shrank in December but is trending straight out

The federal deficit has widened to 5.1% of GDP, and the total public sector deficit at 7.4% of GDP!



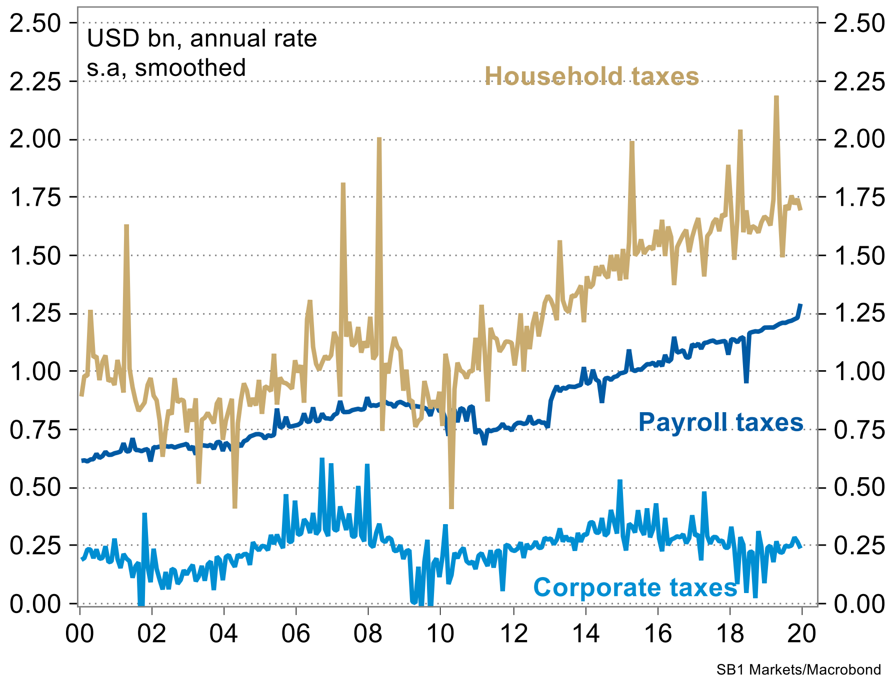


- The budget deficit came in to USD 873 bn in annual rate in December (seas. adj), down 400 bn from Nov. The 12 m avg was close to stable at 1.021 bn, rising steadily from USD 400 bn since 2016. The deficit equals 5.1% of GDP. Including local government etc, the US ran a full employment, peacetime deficit at 7.4% in Q3, totally unprecedented!
  - » Federal spending is up 7% y/y 3m smoothed, down from 14.2% in Nov, and still well above nominal GDP growth. Income is up 6% y/y (smoothed)
- In % of GDP, federal spending equals 21.4%, way above a normal level (except for during recessions). Regrettably, federal income equals just less than 16.6% of GDP, much lower than normal in a blooming economy – of course because taxes have been cut
  - » A divided Congress has agreed upon a modest further increase for the '20 deficit, but no more than some 0.2 pp of GDP

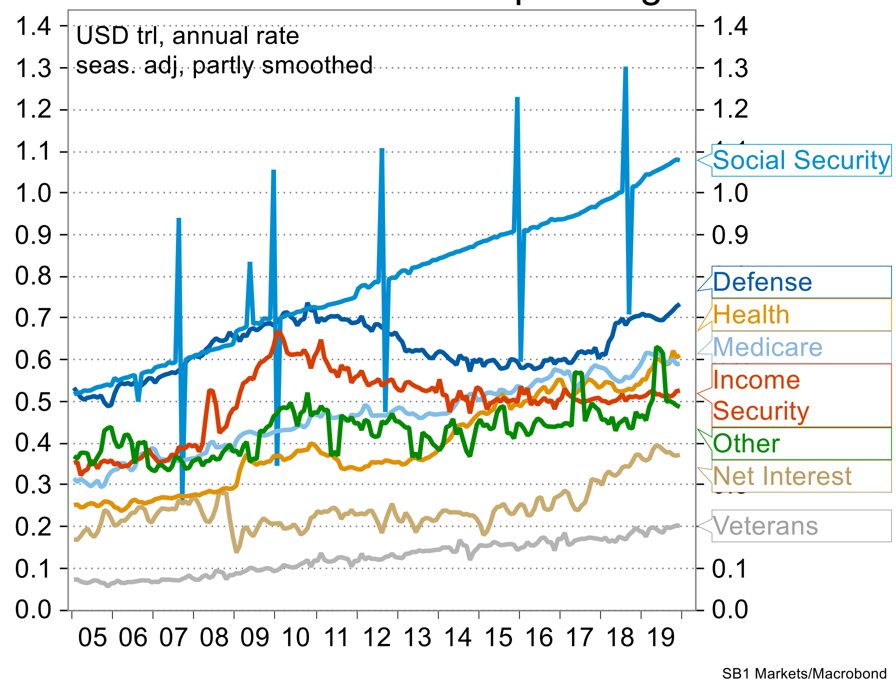
Corporate taxes zigzag upwards but remain low

More money spent on… everything?

USA Federal Taxes



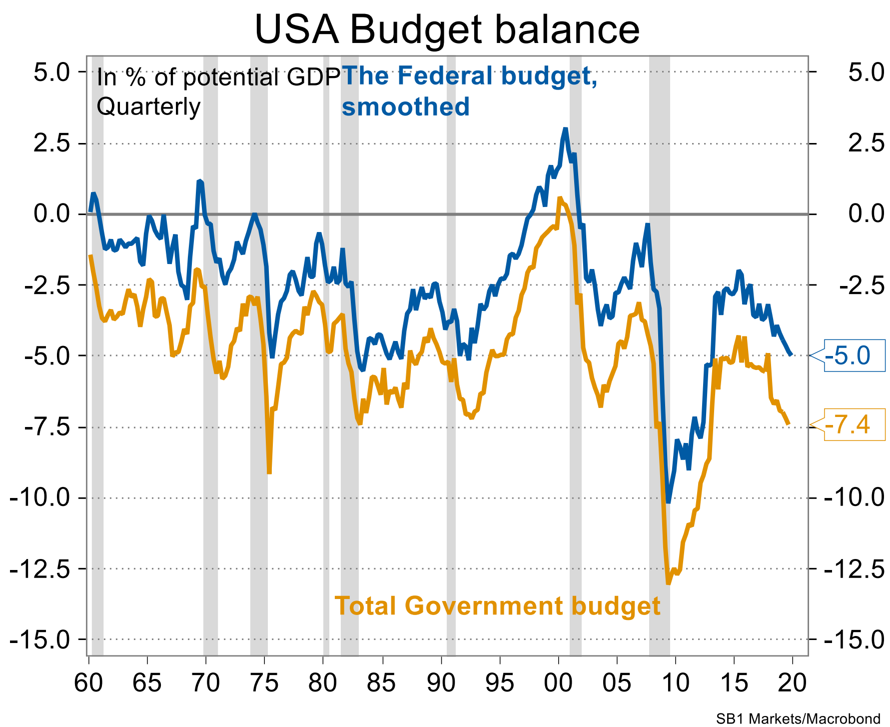
USA Federal spending

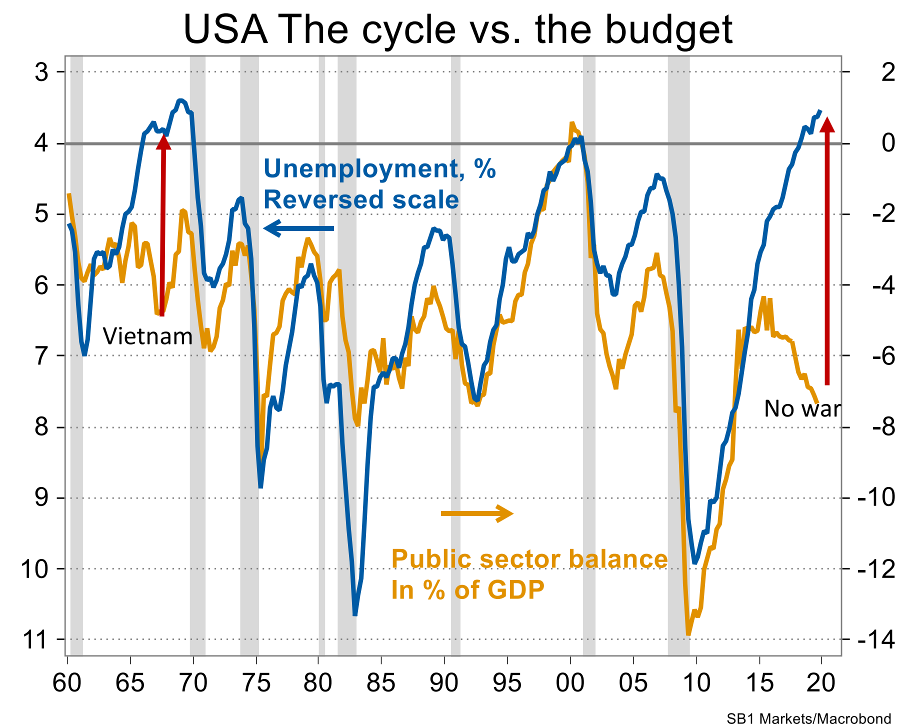


- Spending on defence, health, medicare and net interest payments (even as interest rates are rather low…) have all been accelerated the past couple of years

The public sector deficit widened to 7.4% of GDP in Q3

With an unemployment rate below 4%! We have NEVER seen anything like this before

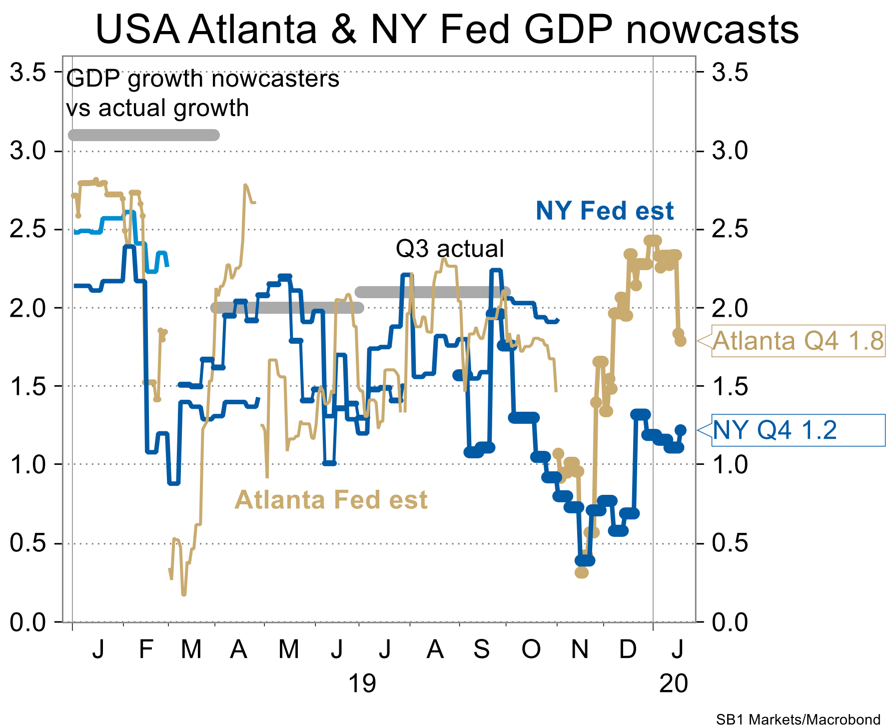


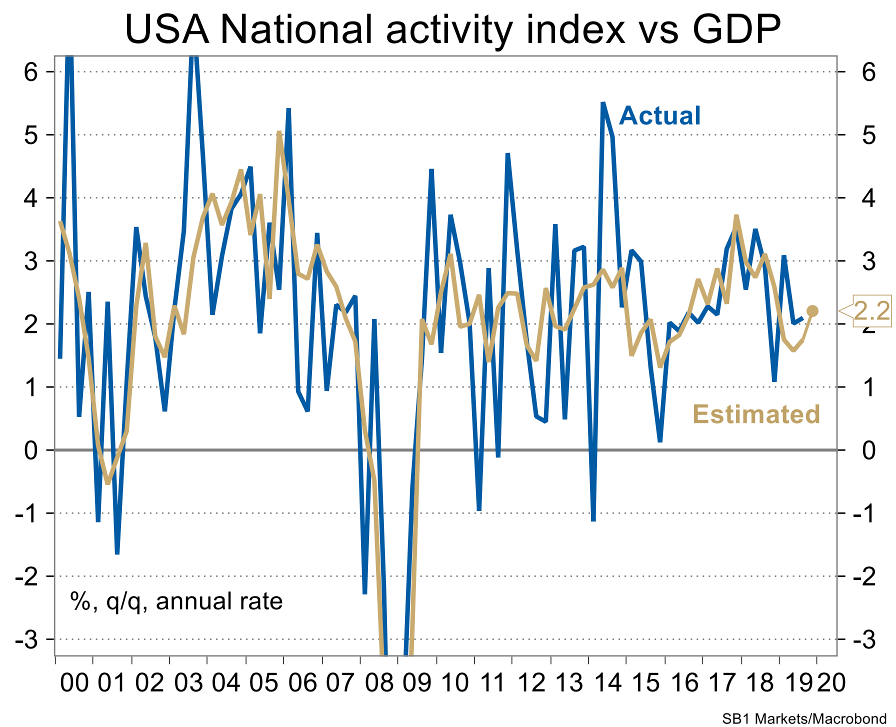


- The deficit has never been anywhere close to the present level in peace time when unemployment is as low as now
  - » We have not seen anything like this in other countries either (except Greece in 2007, partly Japan)
  - » The deficit at 5% was large vs the unemployment rate in 1967 too, when the Vietnam war was fought. BTW, afterwards, inflation and a lot of other problems turned up
- *The total public sector deficit is larger than the Federal Government's, as local gov. & social security are included*

Nowcasters signal 1.2 – 1.8% Q4 GDP growth

Altanta Fed's nowcaster reported lower Q4 growth Friday, due to lower consumption growth

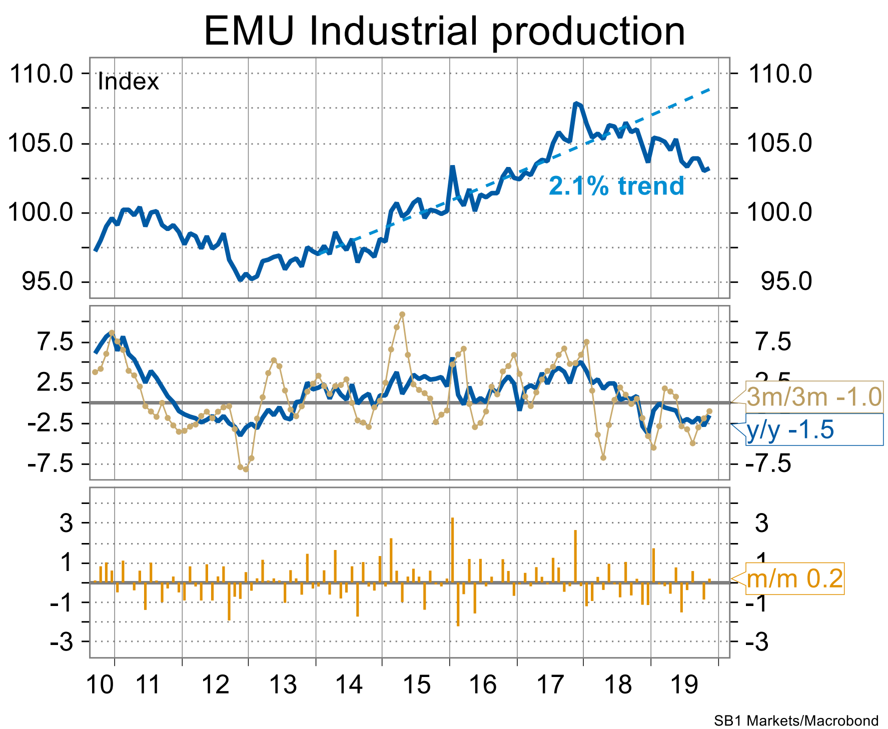


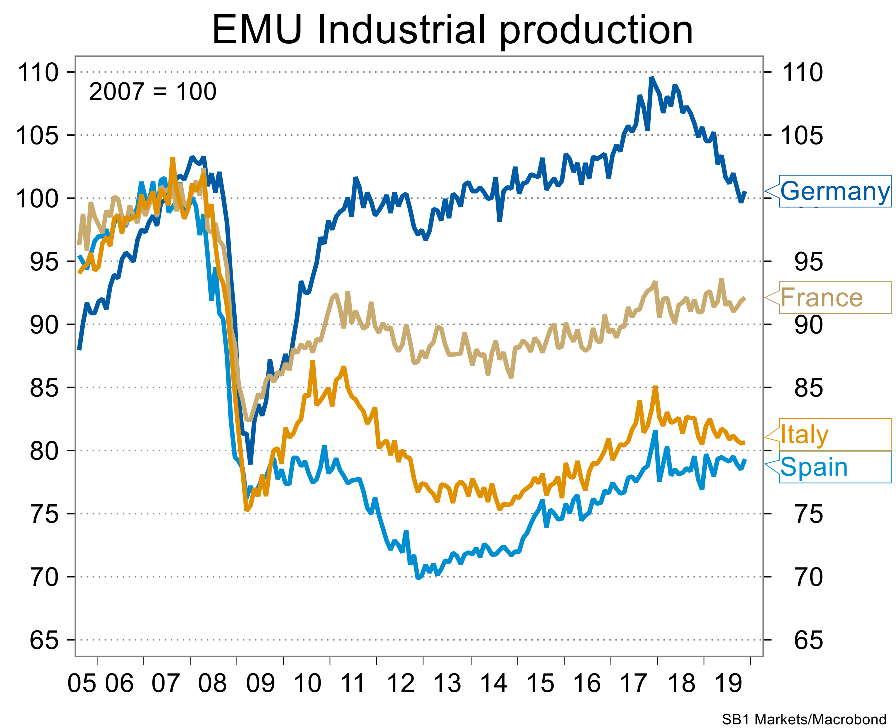


- The National Activity Index rose sharply in November and now signals 2.2% growth in Q4, up from 0.3% based on the October print (Dec data out this week)

Industrial production has not yet hit bottom, even as surveys improve

Production rose just 0.2% in Nov. Germany deep into contraction, Italy slides down, France/Spain flat

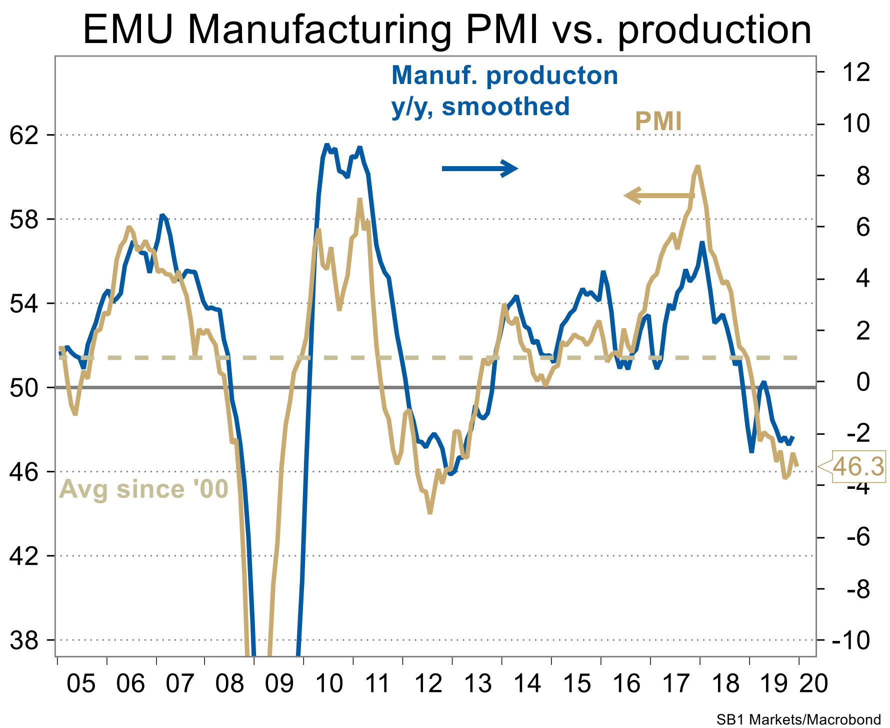


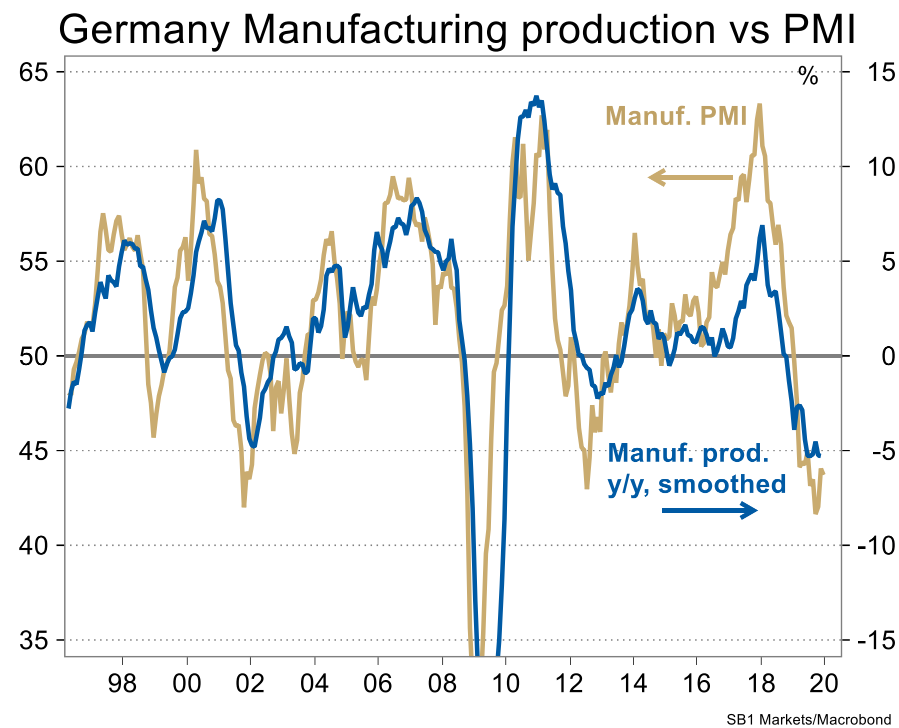


- EMU industrial production (ex construction) inched up just 0.2% m/m in Nov, we f'casted +0.5% (Netherlands, Belgium & Ireland was weaker than we assumed). Production in the region is sliding steadily down, even as the underlying decline has slowed somewhat, to -1% (3m/3m). The annual rate is -1.5%
  - » Production recovered by 0.9% in Germany but is trending steeply down, down some 8% from the peak in 2018. Spain and France both improved in Dec, trending more or less flat. Italy reported a marginal increase and production is contracting
- Manufacturing PMI is still very weak but may signal that the manufacturing dip is to bottom out, check the next slide

The manuf. PMIs have inched up, may signal a moderating contraction

Yet, the outlook is far from bright, according to manufacturers, PMI still signals a steep decline

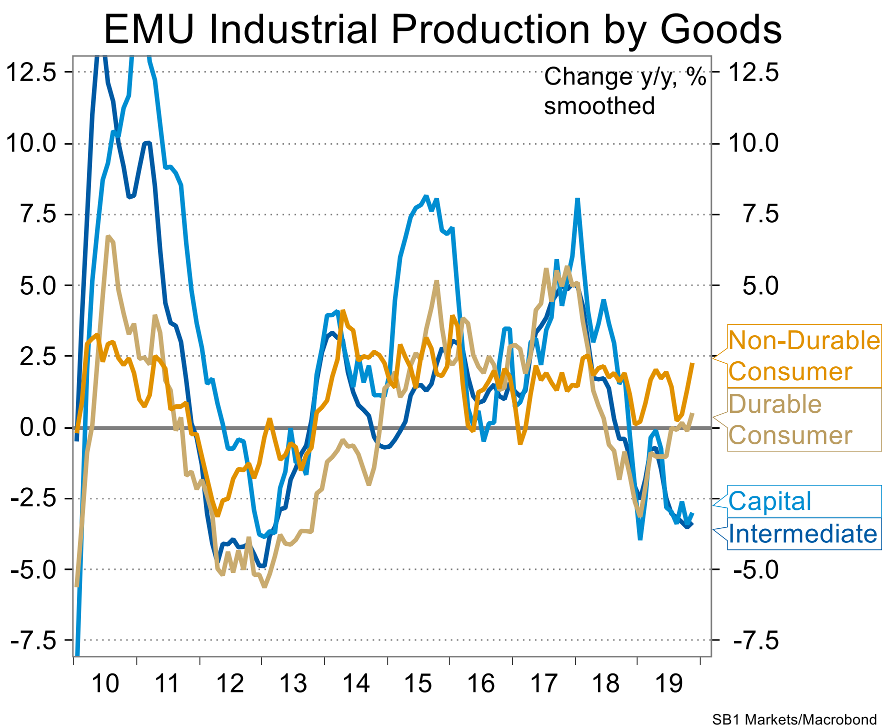


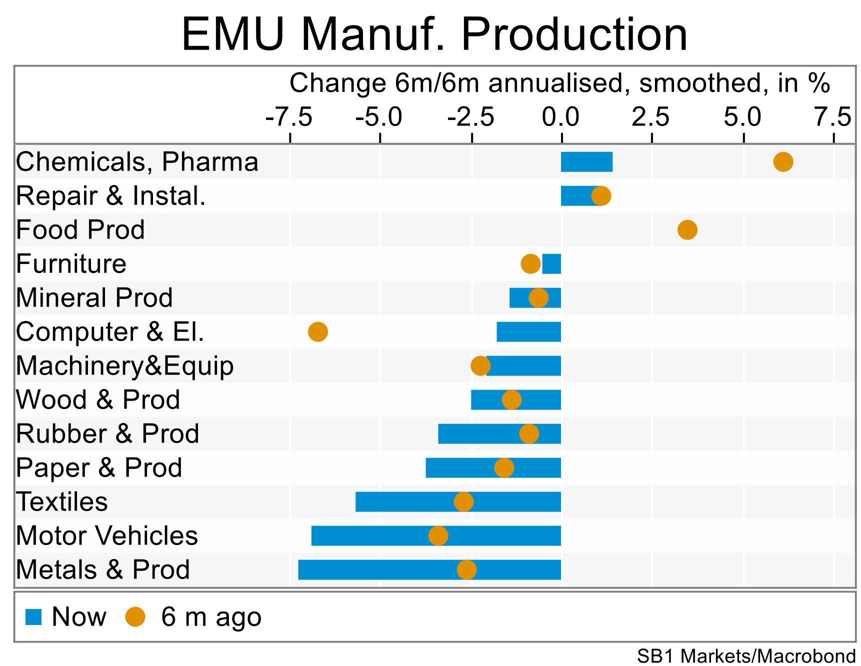


- The German manufacturing PMI has turned up to 43.7 in Dec, from 41.7 in Sept

A broad downturn among manufacturing sectors, just 2 of 13 are growing

Autos, metals are still struggling the most among manufacturers. Consumer goods are holding up

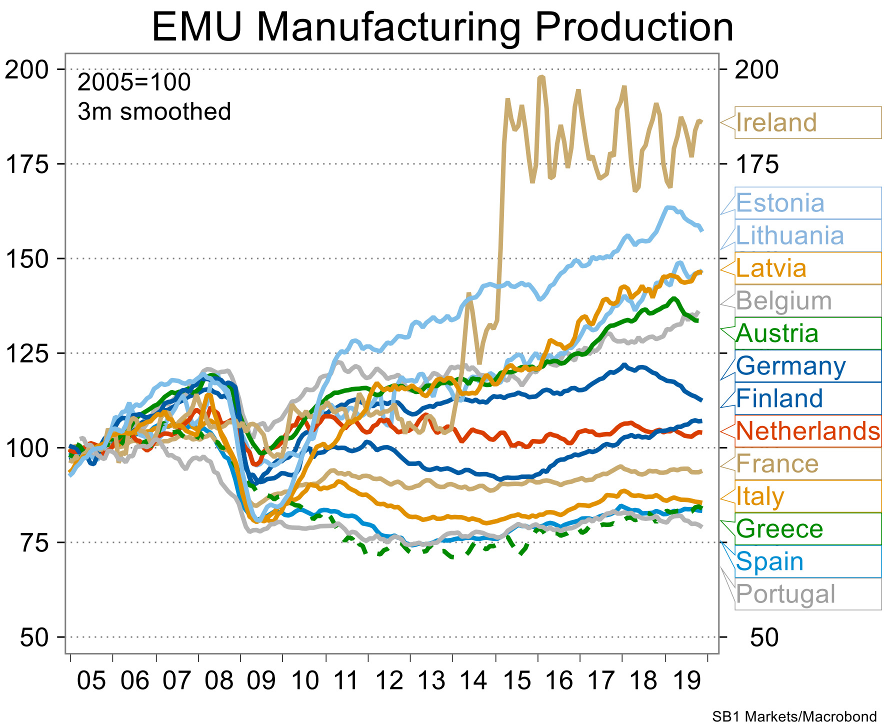


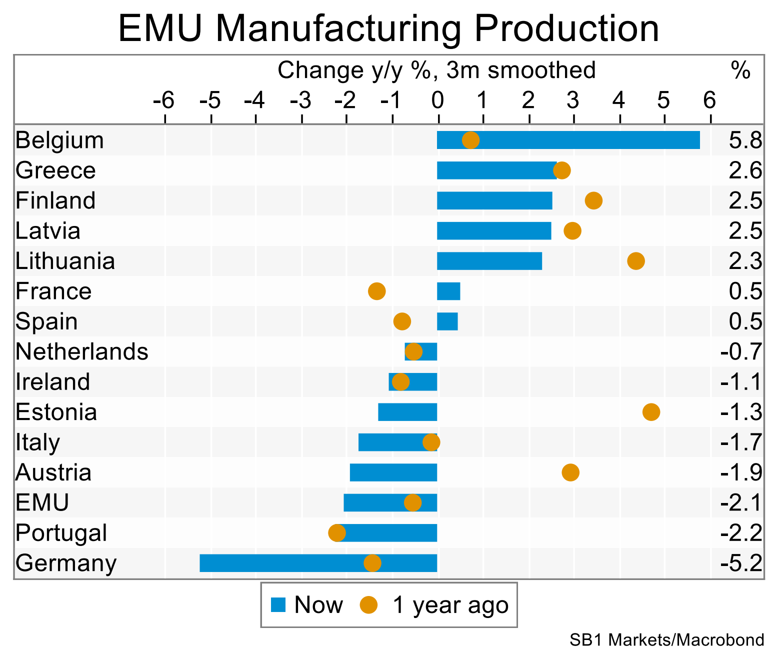


- In November, just 2 of 13 manufacturing sectors were expanding (measured 6m/6m), 1 flat and the other 10 declining
- Of the 10 sectors which are reporting decreasing production, the downturn is accelerating in 7 sectors
- All the typical 'cyclical' manufacturing sectors are declining, led by autos and metals
- Production of non-durable consumer goods are increasing moderately and faster recently, and durable consumer goods are rising marginally. Probably because household demand is holding up much better than business investments

Production is declining in half of the 'main' EMU countries

Production is heading up in Belgium, Greece (from a low level), Finland and Eastern Europe

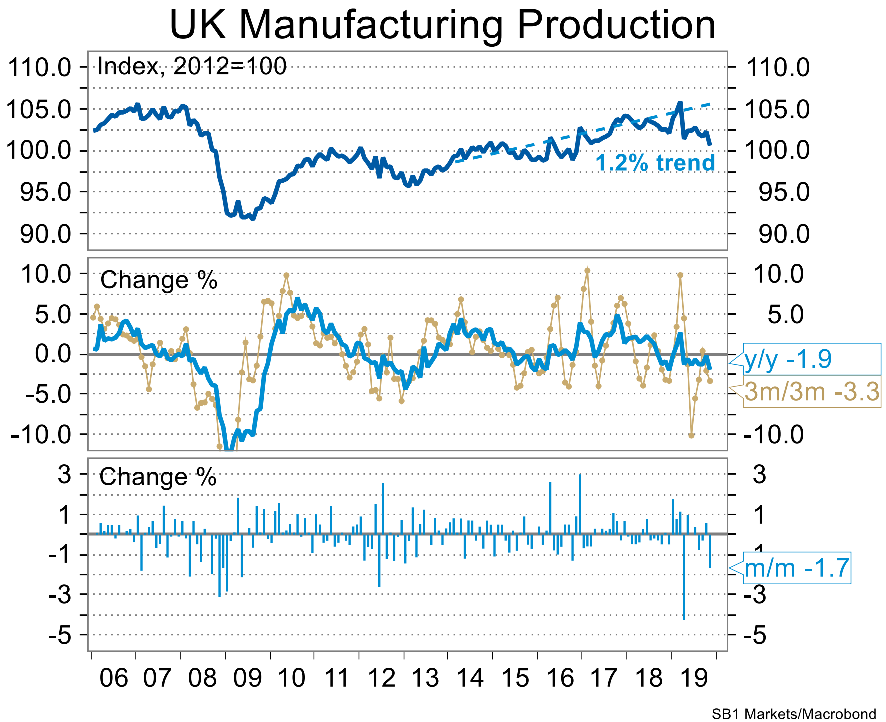


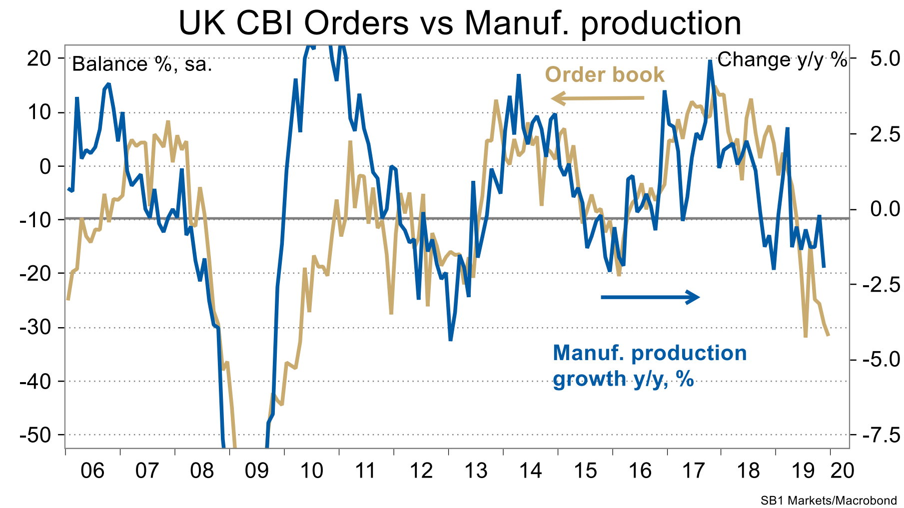


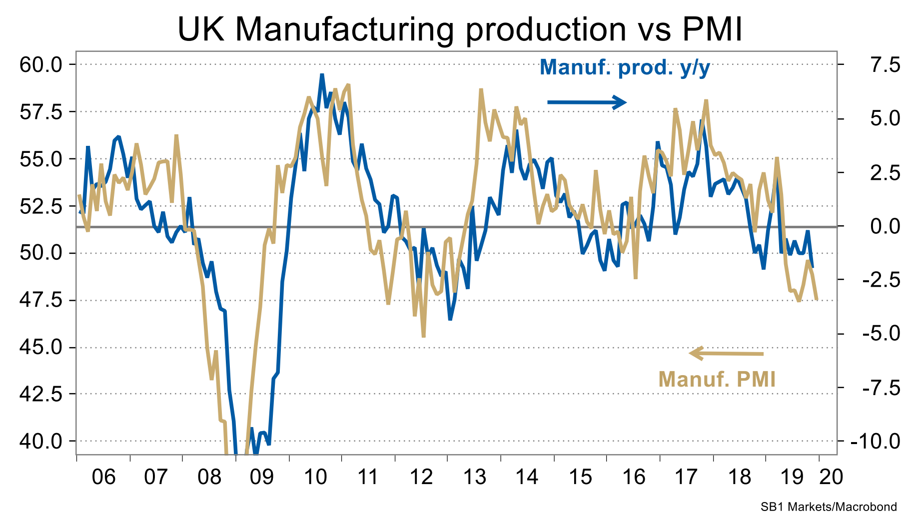
- Production is growing y/y in 7 of 14 countries. Greece and Belgium are now at the top, followed by Eastern Europe and Finland. Spain and France are increasing marginally y/y, both have flattened out. Growth is accelerating just in Belgium
- 7 of the Eurozone countries are reporting a decline in production, Germany by far steeper than the others, and still accelerating. Portugal, Italy and Austria are struggling too
- The slowdown has been broad sector wise too, *check next page*

Manufacturing production slumps and the outlook is rather cloudy

Production slipped by 1.7% in Nov as manufacturers are building down their (Brexit) inventories







- Manufacturing production is contracting, down 1.9% y/y
- Brexit uncertainties have caused turbulence; Production was 'artificially' high in March, as inventories were built up before the previous Brexit deadline, and fell rapidly after, followed by an inventory build down. A milder stockpiling occurred ahead of the assumed October deadline, and an car factory was closed in Nov.
- Both orders and the PMI point to a steeper downturn
- GDP was probably flat in Q4, check 2 p fwd

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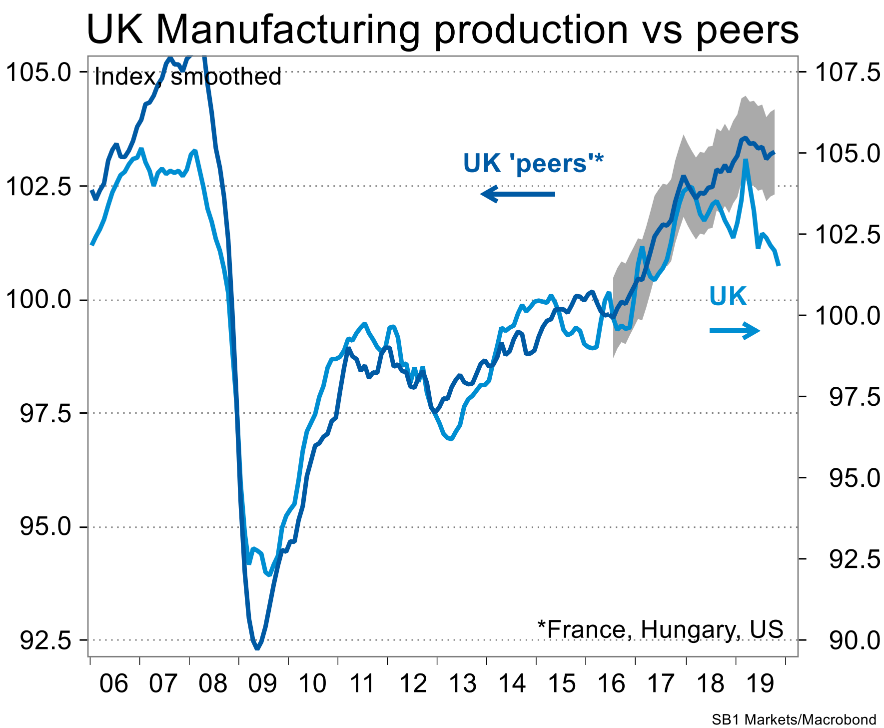
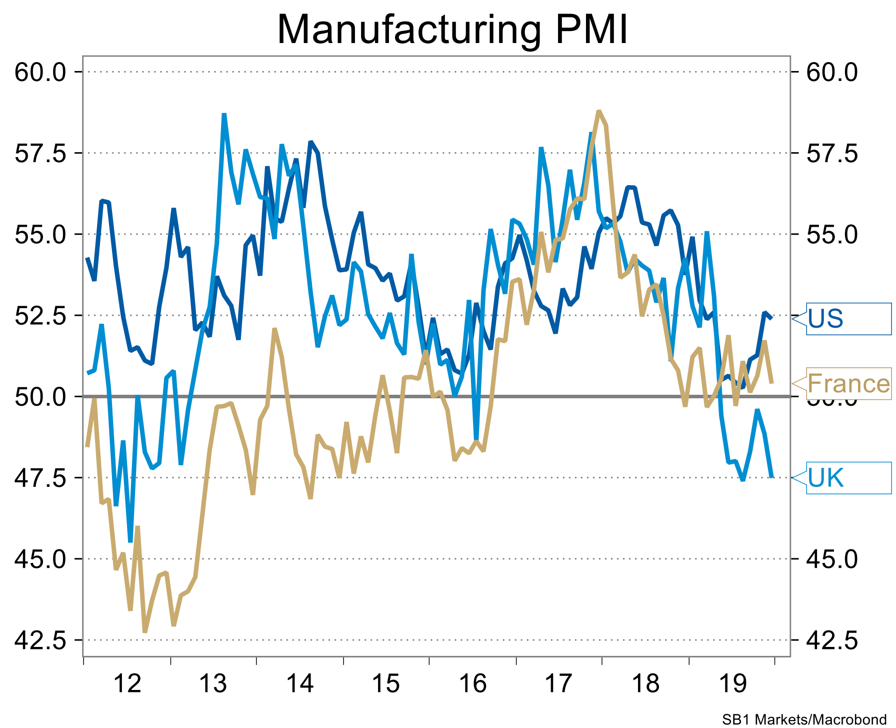
Manufacturing has slowed more in the UK than among it's 'peers'

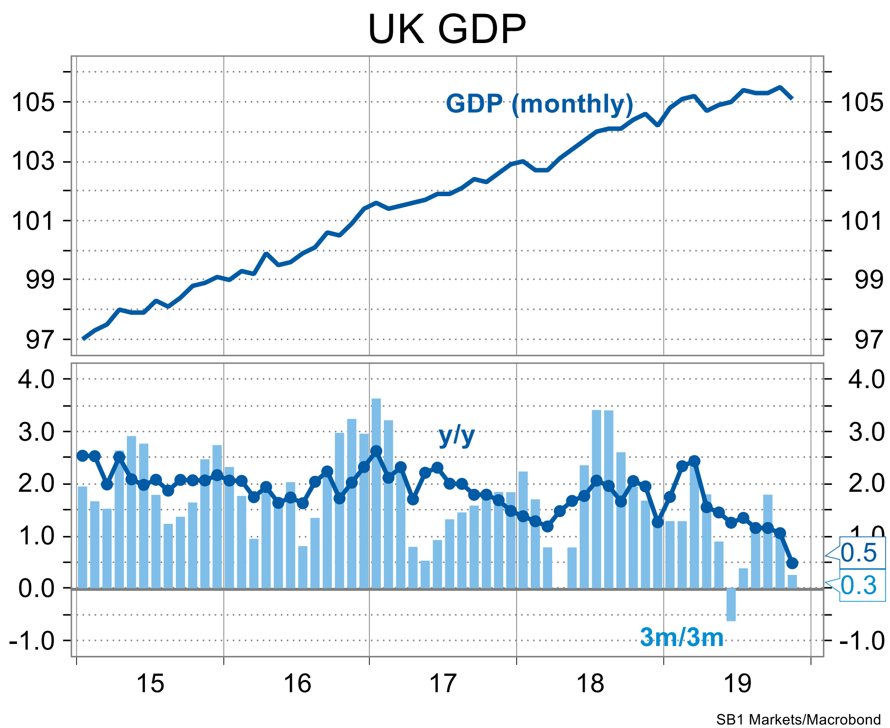
Brexit uncertainties have no doubt been weighing on UK manufacturers

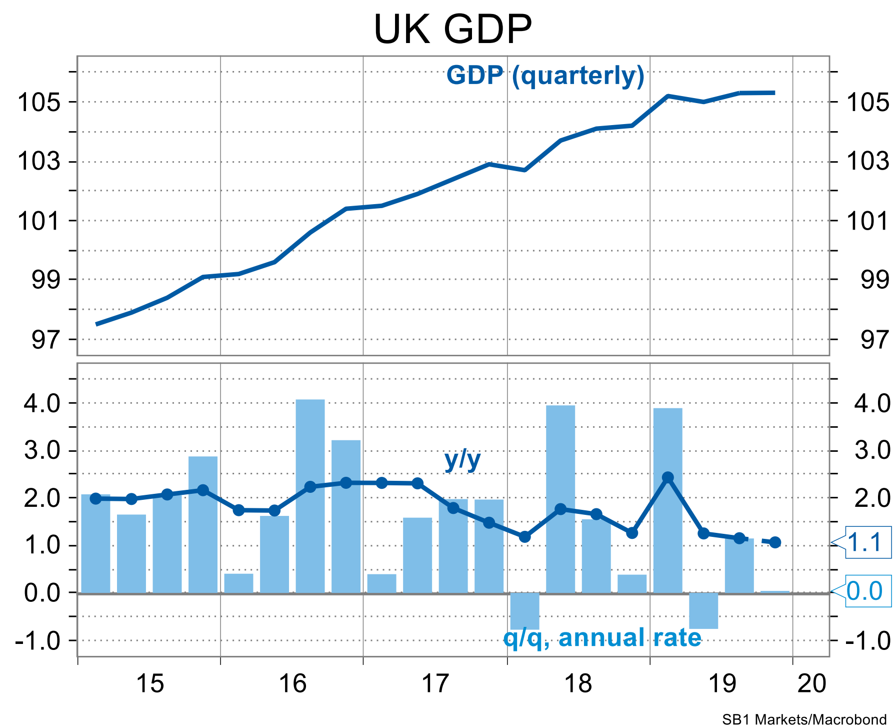




Goods production took GDP down in November, probably close to flat in Q4

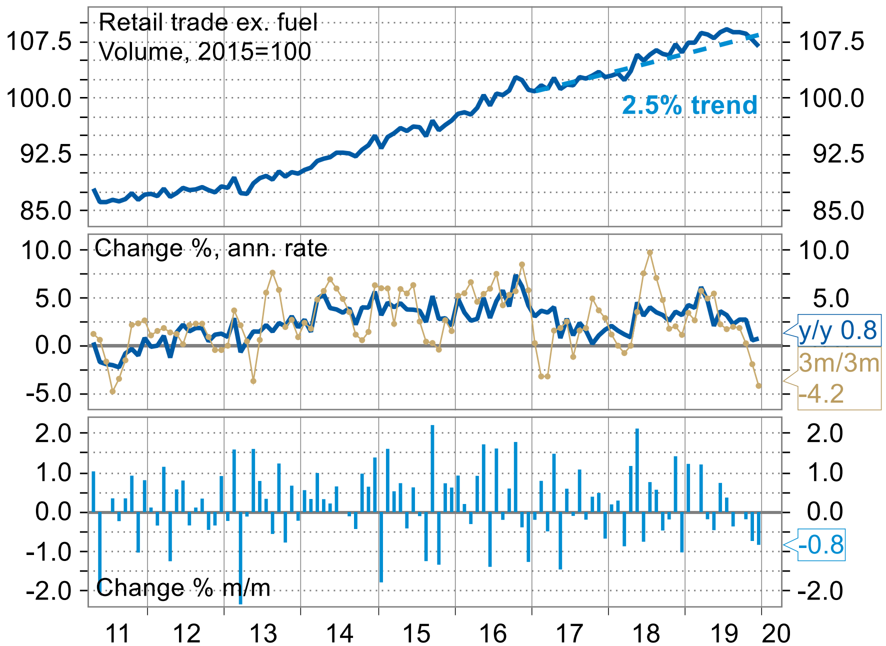
GDP was weaker than expected in Nov, down 0.2%. A reversal in Dec: Zero growth in Q3



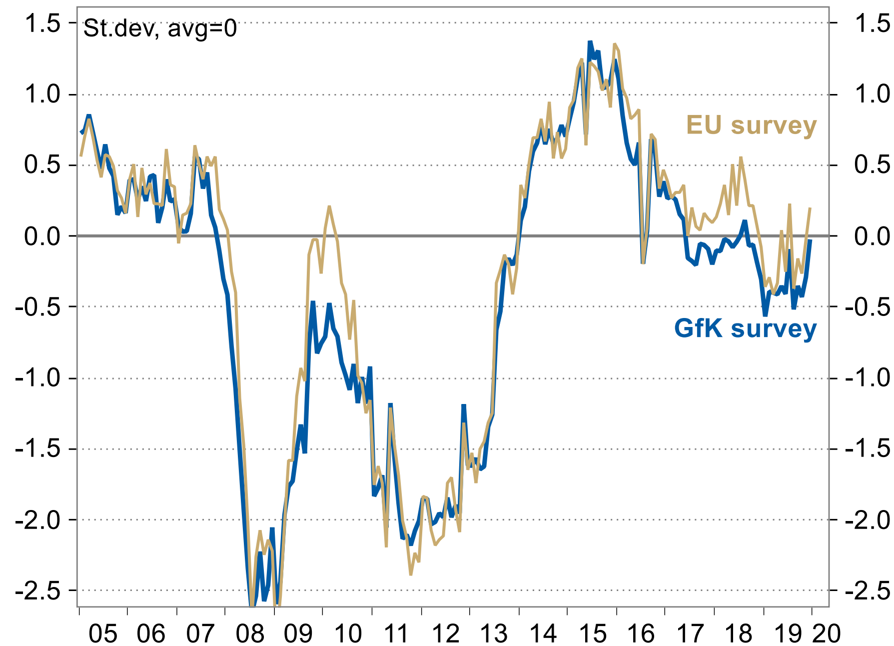


Retail sales growth is losing speed, will be a drag on growth in Q4

Sales slipped for the 2nd month in Dec, down 4.2% in Q4. But consumer confidence is improving??



SB1 Markets/Macrobond



SB1 Markets/Macrobond

- Sales dropped 0.8% m/m in Dec, following a 0.7% decline in Nov, and miles below expectations. Sales dropped 4.2% annualized in Q4, the steepest decline since 2011, and will damped Q4 GDP growth substantially
  - » A steep decline in the savings rate has funded much of the increase in consumption – but the savings rate has stabilised as growth in consumption is now slowing (no Q4 data on savings are published yet)
- On the other hand, both consumer confidence surveys have turned up recent months, to or above the average levels. Confidence is probably affected by the Brexit, and the past months, of an orderly, soft Brexit have supported confidence. The current level of confidence does not signal any rapid setback in consumption!

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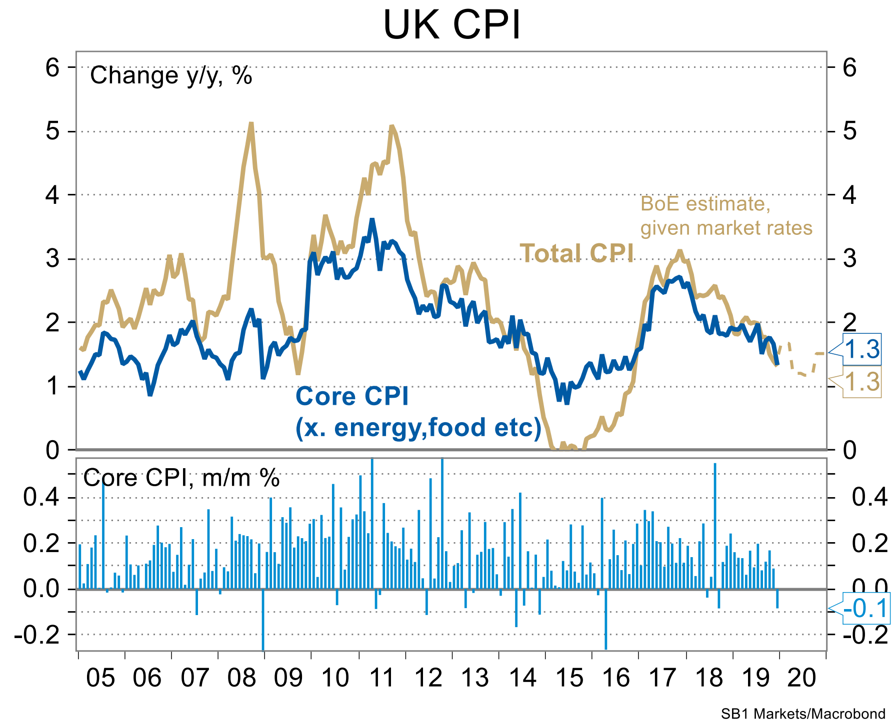
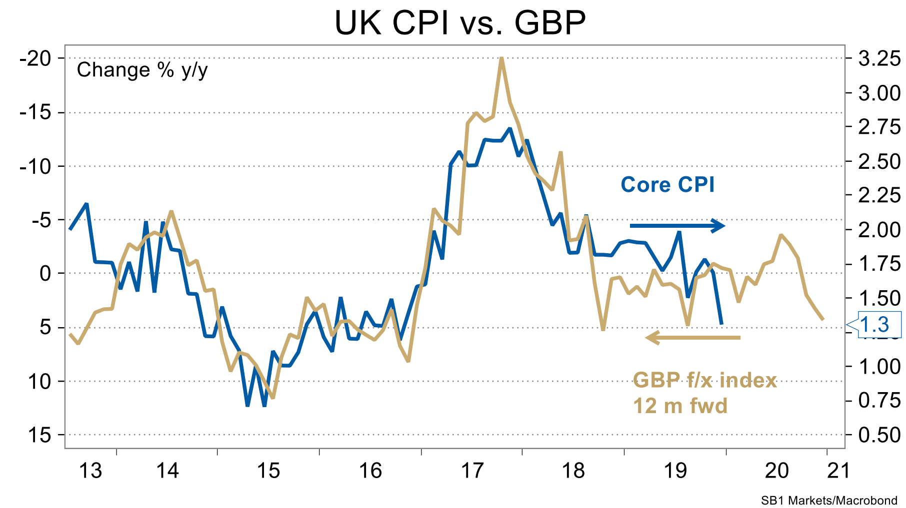
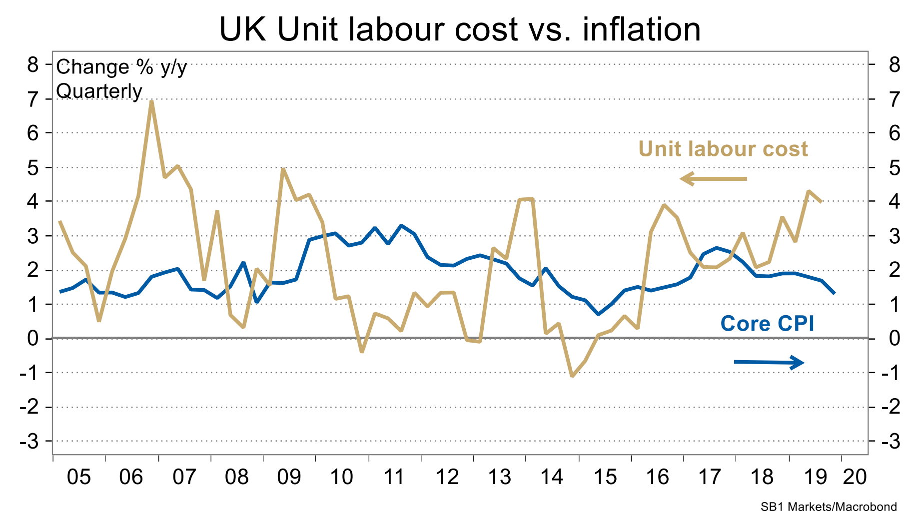
Core CPI inflation surprisingly eased to 1.3% in Dec

Core CPI fell 0.1% m/m, 0.3 pp weaker than expected. Total inflation fell to 1.3%, bottoming now?



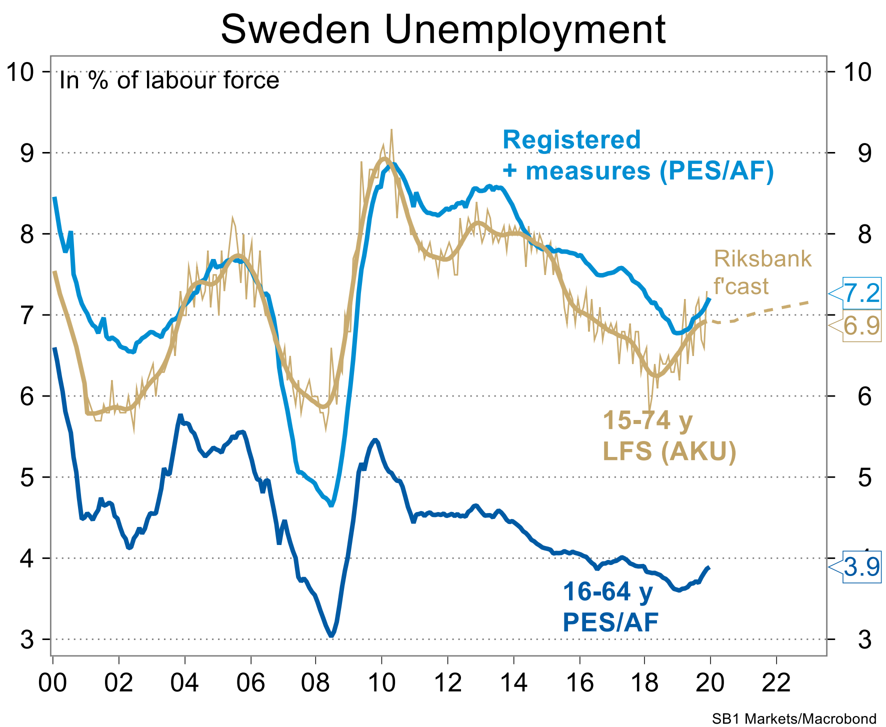


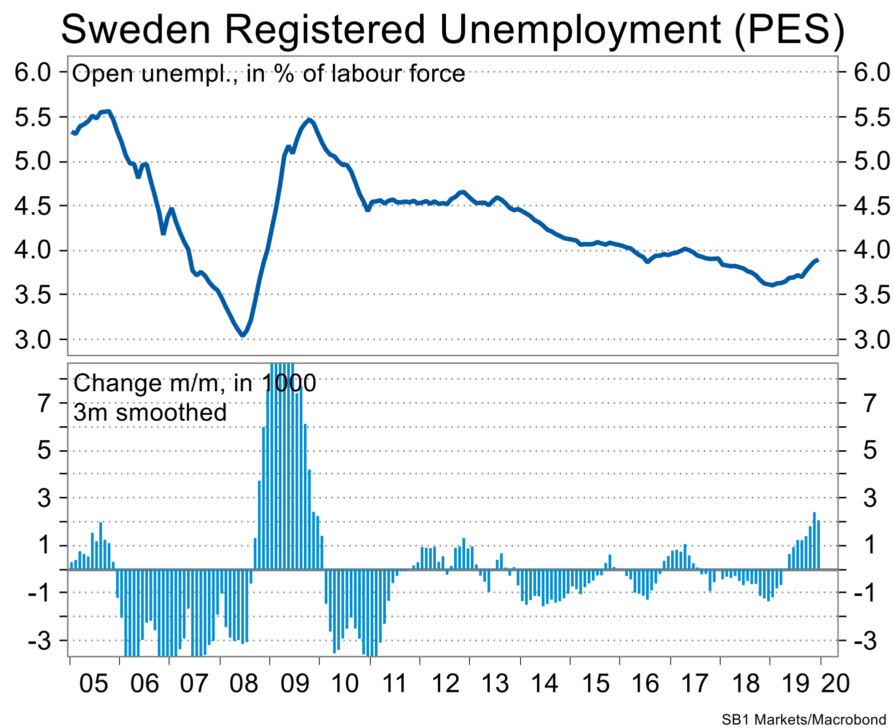


- Core CPI declined by 0.1% m/m in Dec and the annual rate dropped 0.4 pp to 1.3%, expected unchanged (BoE f'casted 1.4%). Even with a rebound in Jan, inflation is tilting slowly downwards
- Inflation came down through 2018, as the upward pressure from the GBP depreciation in 2016 changed sign. Our simple f/x based model indicates that the GBP impact is taken out, the slowdown in the UK economy is probably more important now. Still, domestic cost inflation is at 4%, and wage inflation is above 3%!

Registered unemployment confirms a souring labour market

Registered unemployment (PES) another (marginal) tick up in Dec, up 0.3 pp the past year

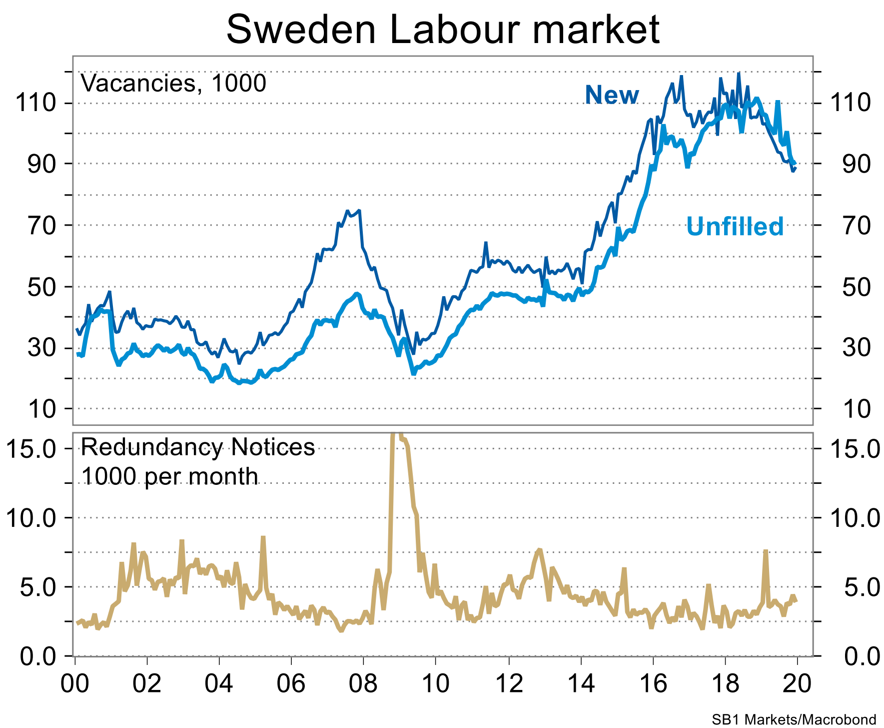


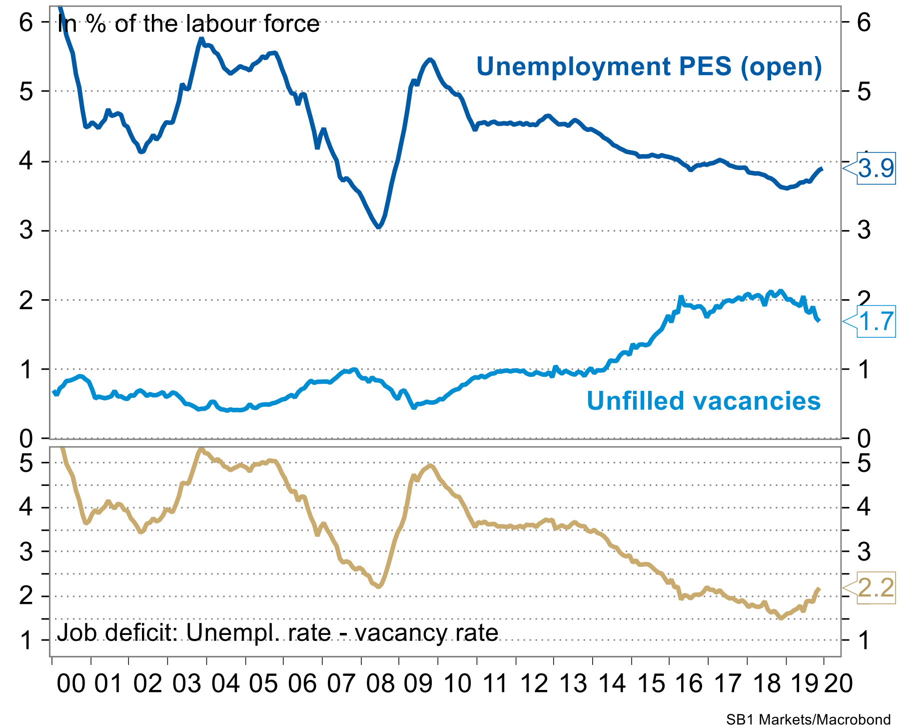


- The PES/AF registered unemployment rate (far less volatile than LFS data) rose marginally in Dec, unchanged at 3.9% at the first decimal (7.2% incl. measures). Unemployment is slowly climbing, up 0.3 pp since early 2019
  - » LFS unemployment has increased by 0.6 pp since last spring (measured by the smoothed rate). The unadjusted, volatile rate spiked 3 ½ year high in Oct
- Both new and unfilled vacancies have declined since mid-2018, confirming a cooling labour market
- <u>The good news;</u> Employment is still inching up, although the upward speed has slowed substantially. Labour market participation is increasing at a faster pace, bringing unemployment up. We would have been much more concerned if the unemployment uptick was due to lower employment

Unfilled vacancies down from peak as the labour market softens

Demand for labour must be sagging, unfilled vacancies have turned down from a very high level

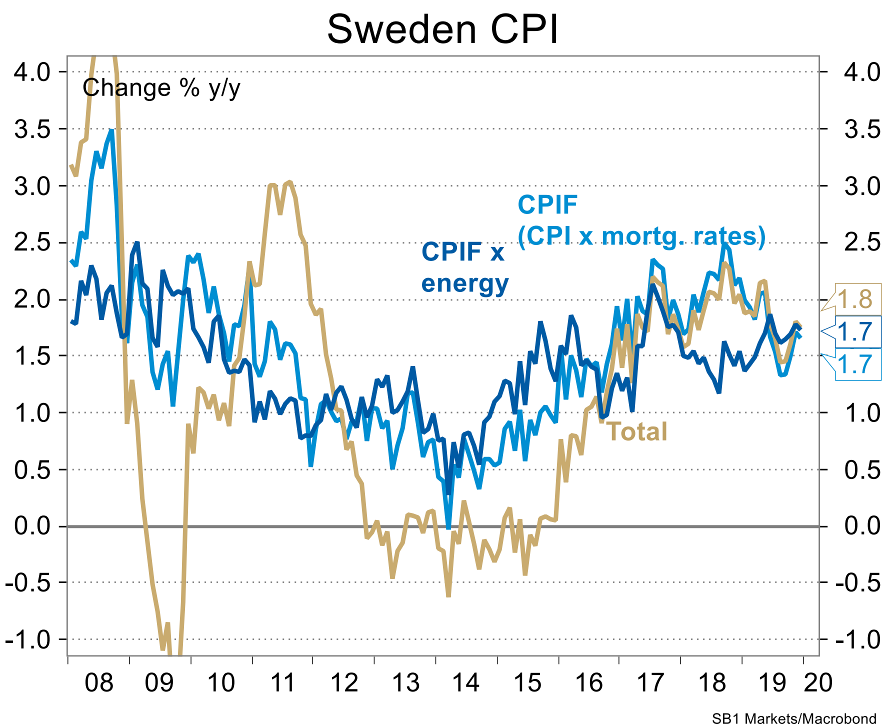


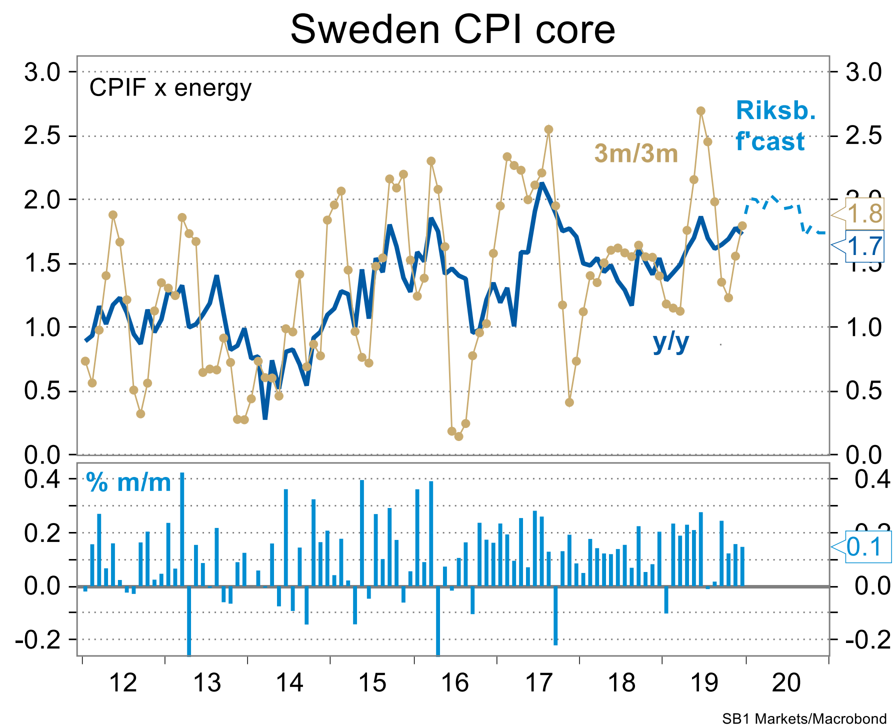


- The unfilled vacancy rate (in % of the labour force) peaked at just above 2% in late 2018, the highest level on record
- Even as the unfilled vacancy rate was rather low given the unemployment rate, the unemployment-vacancy gap was the lowest on record in 2018. Now, the gap is widening, suggesting a less tight labour market

Core inflation a tad down in Dec, to 1.7%, total CPIF up 1.8%

Core CPIF inflation slowed marginally to 1.7%, expected unch, and will most likely turn in up Jan





- The 'real' core (CPIF ex energy) increased by 0.1% m/m in December. The annual rate came down 0.1 pp to 1.7, expected unchanged. Core inflation has turned slowly up the past months, underlying growth up to 1.8%
  - » CPIF (ex mortgage rates) held steady at 1.7% y/y. CPIF has been running lower than core CPIF, due to lower energy prices, will prob. turn up
  - » The Riksbank expects an acceleration to 2% in January, probably slightly too 'optimistic', even as an uptick is likely (due to a 0.1% decline in Jan last year). Our simple model suggests that inflation is peaking now, check the next slide for more
- The Riksbank hiked to 0% in Dec and will keep rates on hold for a long time (if the outlook should not shift substantively)

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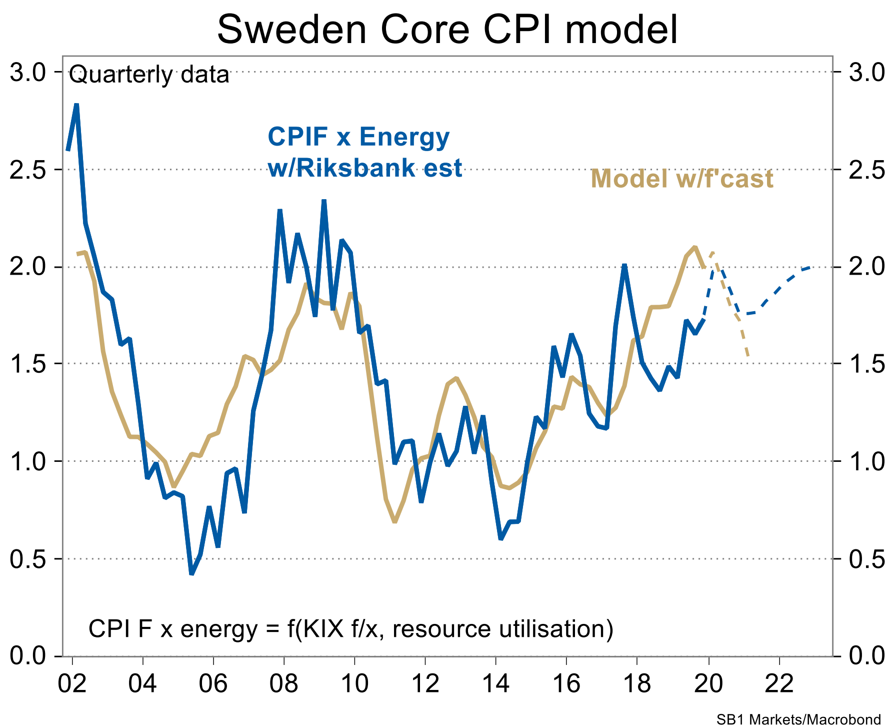
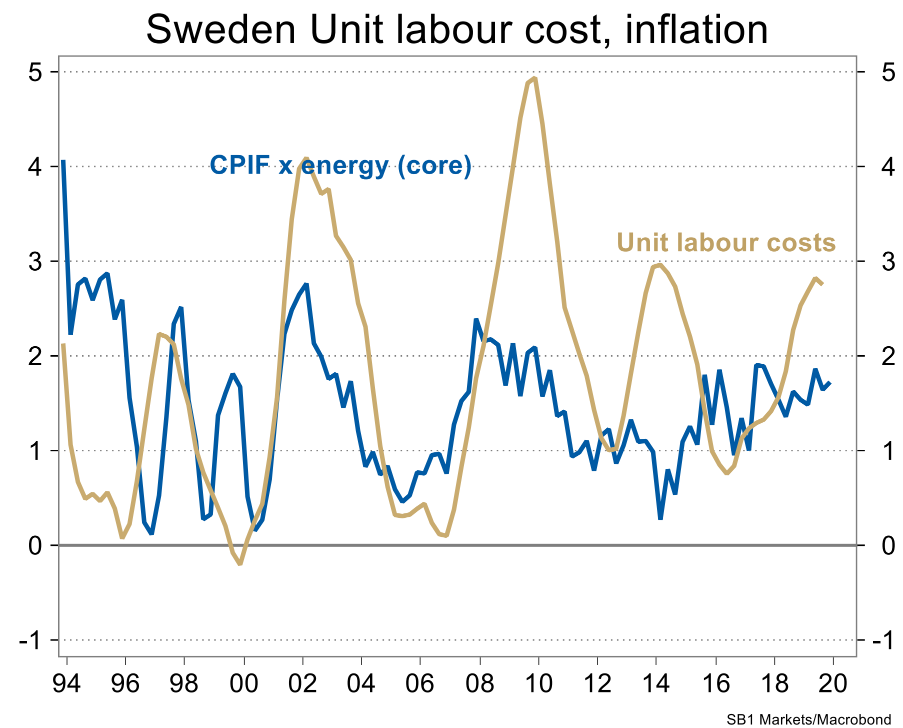
Our model says inflation is peaking now (at a higher level)

A softening capacity utilisation does not indicate higher inflation but SEK and unit labour costs do





- Our model includes SEK and the Riksbank's Resource Utilisation indicator, measuring deviation from potential GDP growth. Capacity utilisation has weakened rapidly this year, according to this index, it fell to just 0.2% in Q3, thus, still marginally higher than normal. The inflation model points to higher inflation now, at 2.0%, vs actual Q4 growth at 1.7%, before easing next year
  - » A weakening labour market and a softer economic surveys have pulled the RU indicator steeply down
- On the other hand, productivity has almost disappeared, up just 0.7% y/y in Q3 (smoothed) and unit labour costs are up 2.8% y/y (with a heavy smoothing, these data are volatile). Hence, the cost pressure is not low at all!

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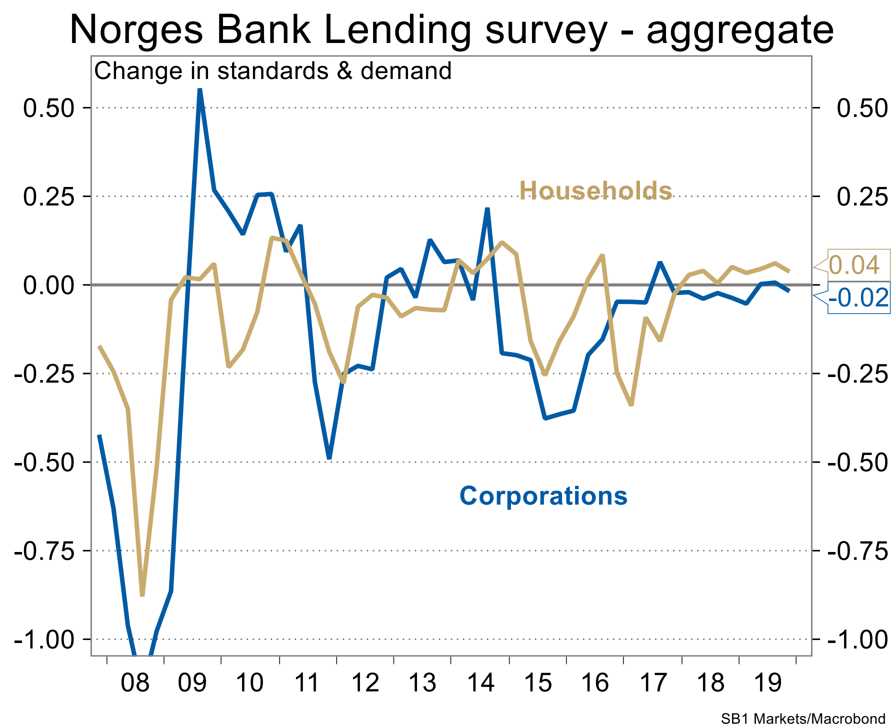
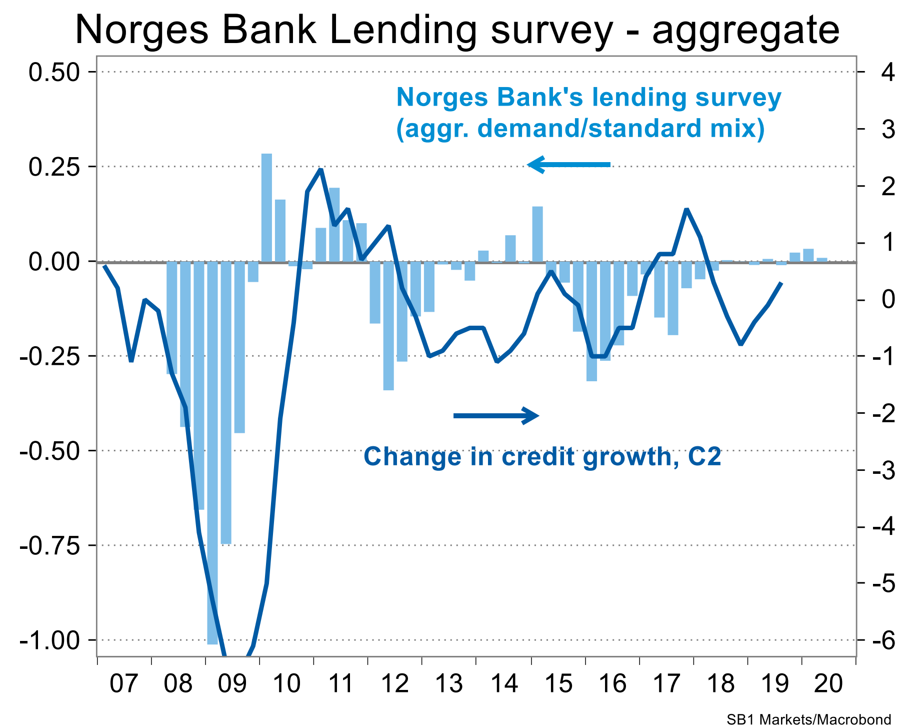
Surprisingly, banks do not confirm any slowdown in mortgage demand

Banks report an acceleration in mortgage demand in Q4, and high growth in Q1 too



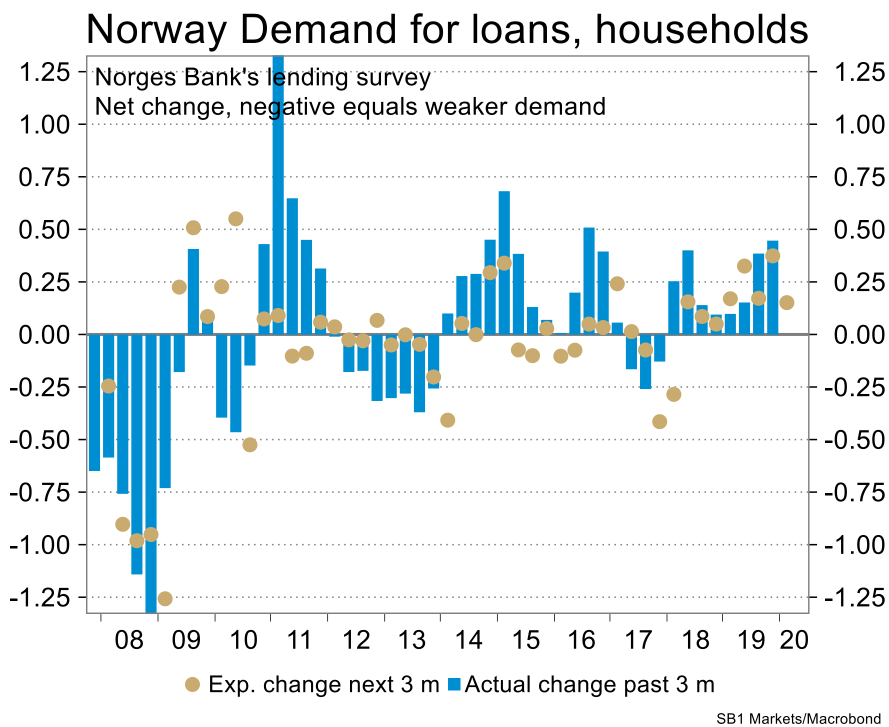


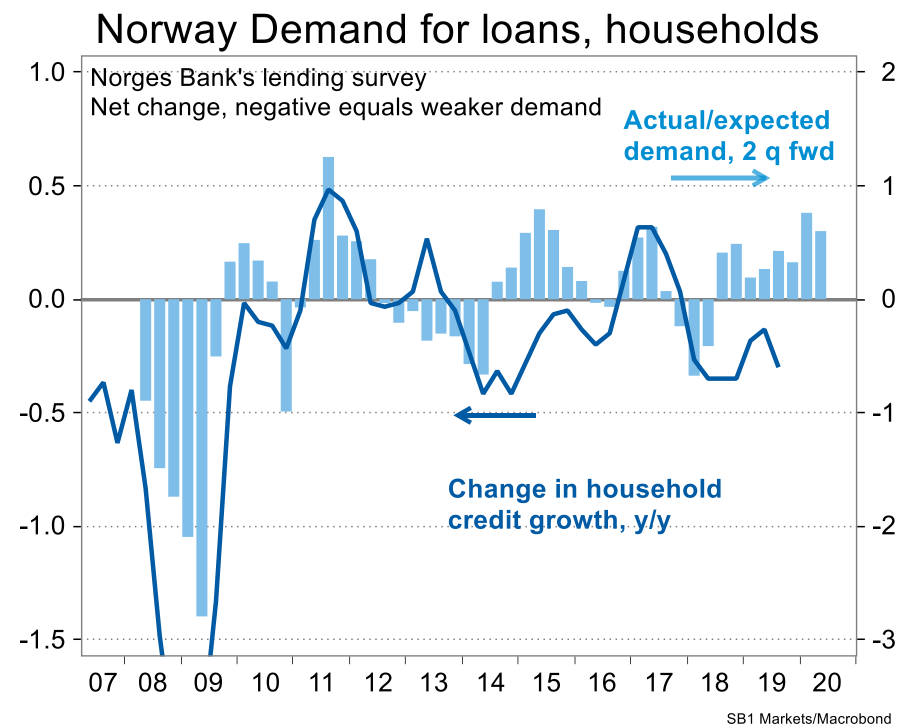
- Banks in Norges Bank's Q4 Lending Survey report higher credit demand from households and marginally lower demand from the corporate sectors. Our aggregate lending survey indicator (demand + standards reported in Q4 and Q1 expectations, both sectors) was close to flat, reflecting steady credit demand/standards
  - Banks report a lift in mortgage demand in Q4, in contradiction to slowdown in actual household credit growth. Declining consumer credit may explain some half of the slowdown in household credit growth, as the lending survey only covers mortgages, however, it cannot possibly explain the entire downtick
  - Credit demand from corporations was slightly lower in Q4, banks expects unchanged demand the coming quarter

Data in this section are seasonally adjusted

If the banks' projections are correct, credit growth should turn up (we doubt!)

Banks report accelerating household loan (mortgage) demand, while actual credit is softening

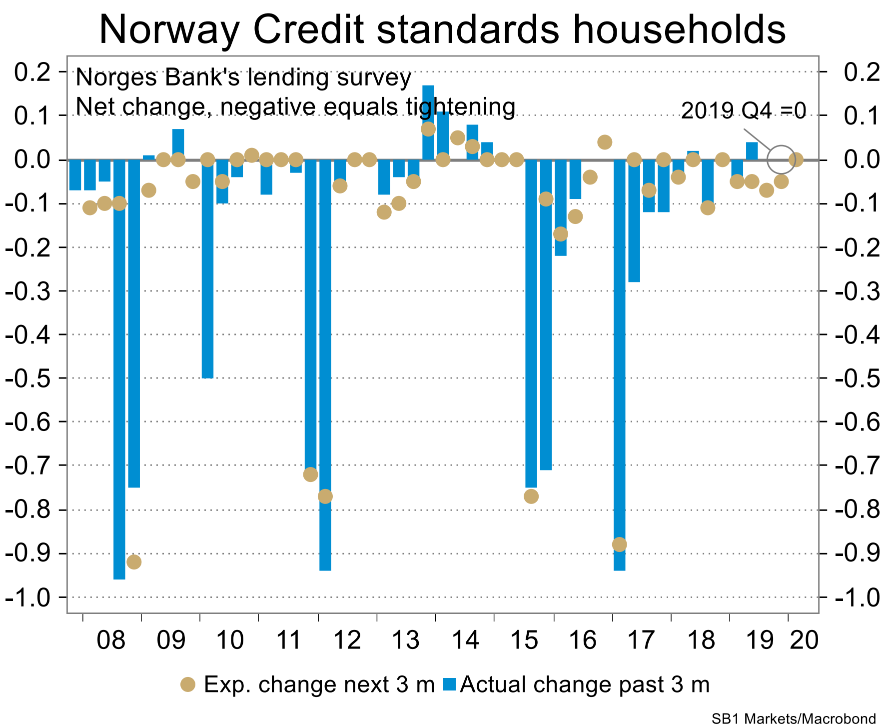


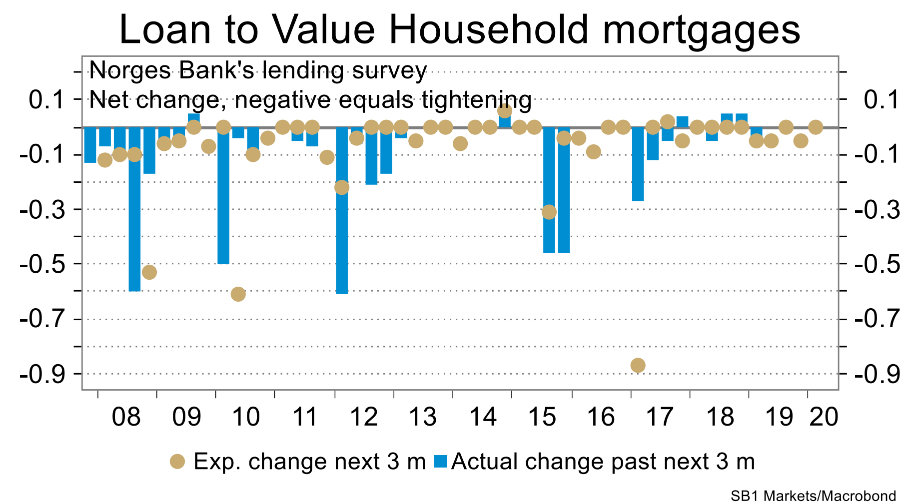


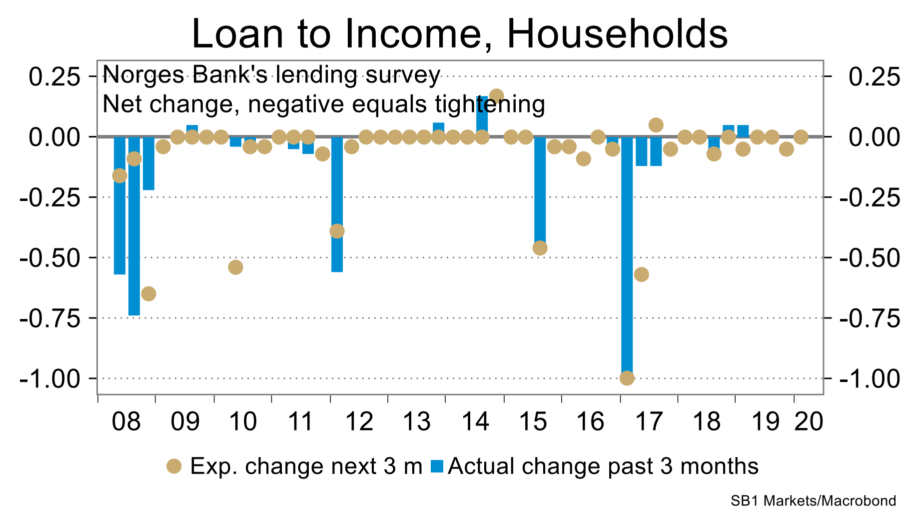
- Banks report a moderate lift in mortgage demand in Q4, close to what they expected in the previous report. In Q1, they expect a marginal increase in demand. The uptick is rather surprising, given that interest rate have been hiked
  - » High activity at the housing market, low unemployment and an overall solid economy may be offsetting the negative effects on demand from higher interest rates. Most banks nudged up their mortgage rates in Q4, following the September hike (as announced) s
- Actual credit growth from households has been sliding down visibly since the summer. A downturn in consumer credit may partly explain the slowdown, yet, this sector is too small to explain the entire shift. The lending survey now points to an in credit growth, however, the precision is not impressive. <u>We highly doubt credit will accelerate now!</u>

No changes in credit standards vs households

Credit standards have been more or less unchanged since the mortgage regulations came in 2017





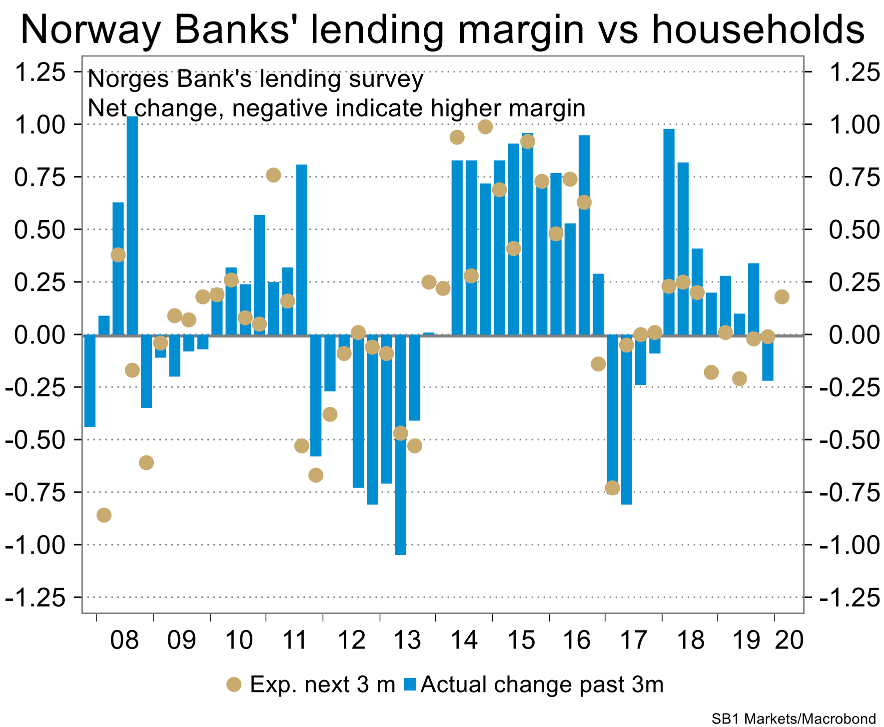


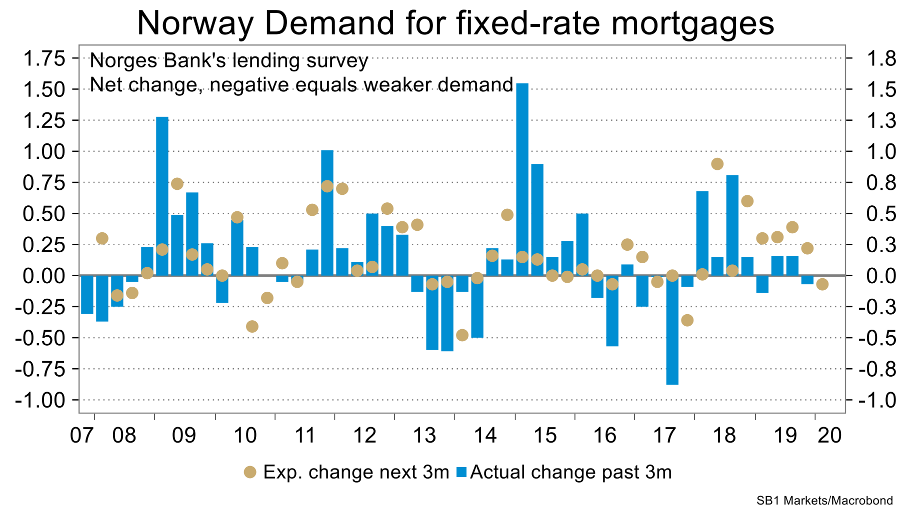
- Few changes in credit standards since the banks implemented the new mortgage regulations in Q1 2017

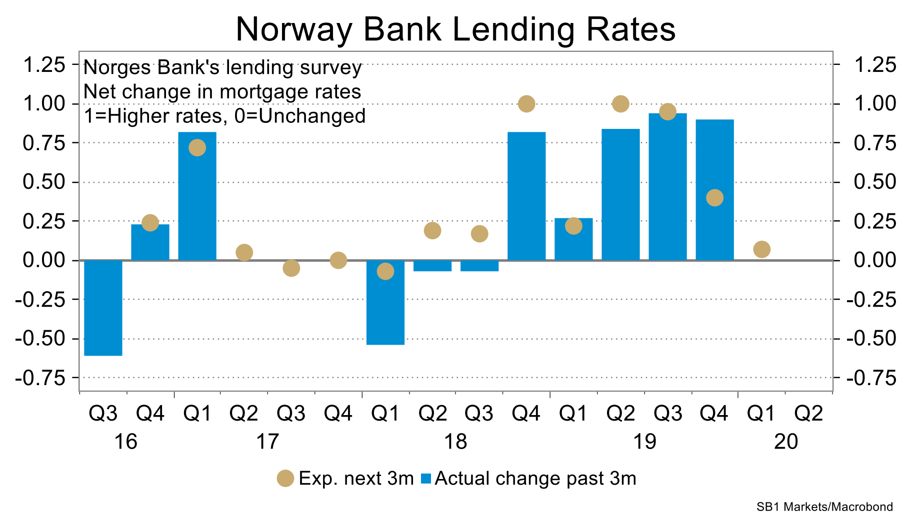
SpareBank 1 MARKETS

Rising funding costs pushed margins slightly down in Q4, expected up in Q1

Most banks nudged up mortgage rates in Q4, none are planning another hike in Q1





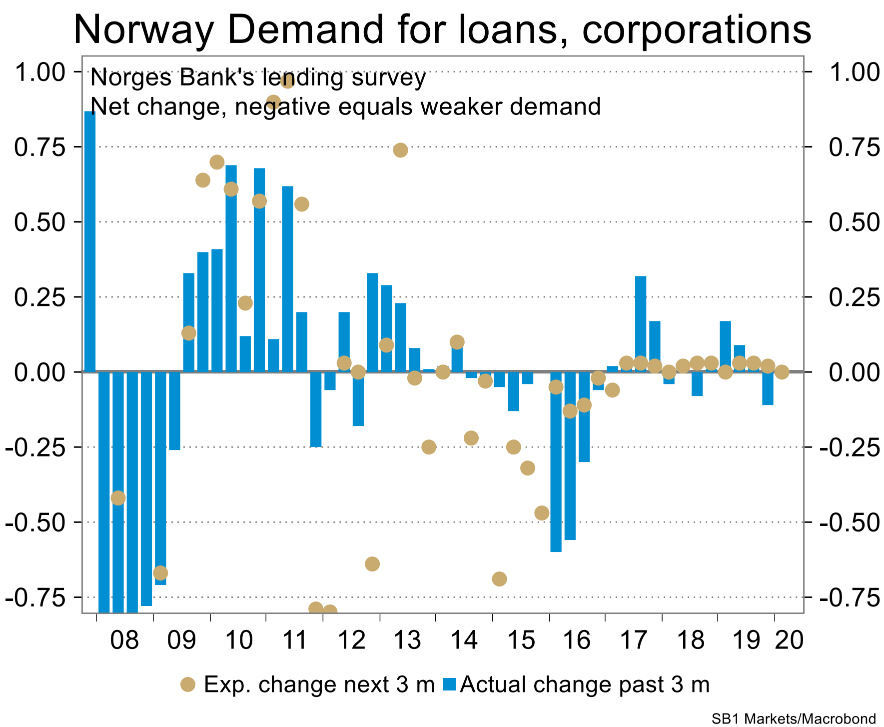


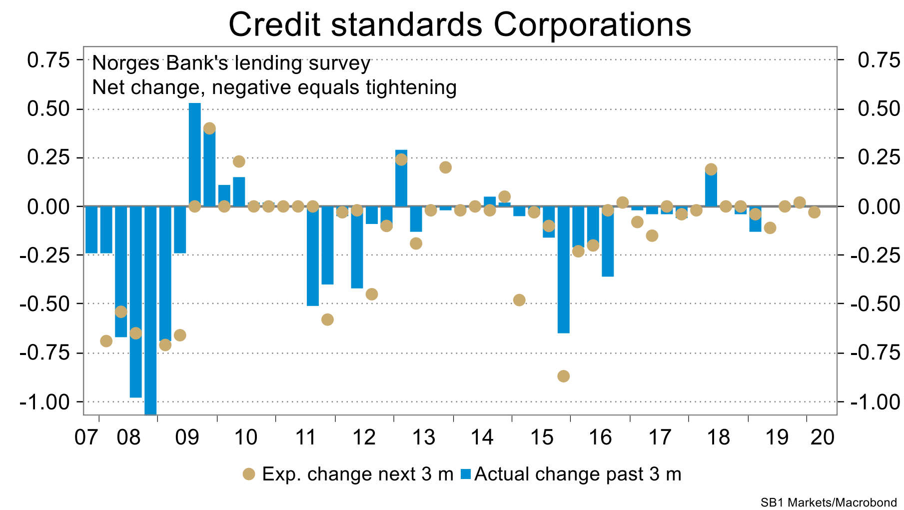
- Most banks raised mortgage rates in Q4, following Norges Bank's September hike
- Demand for fixed-rates was broadly unchanged in Q4 and no changes are expected

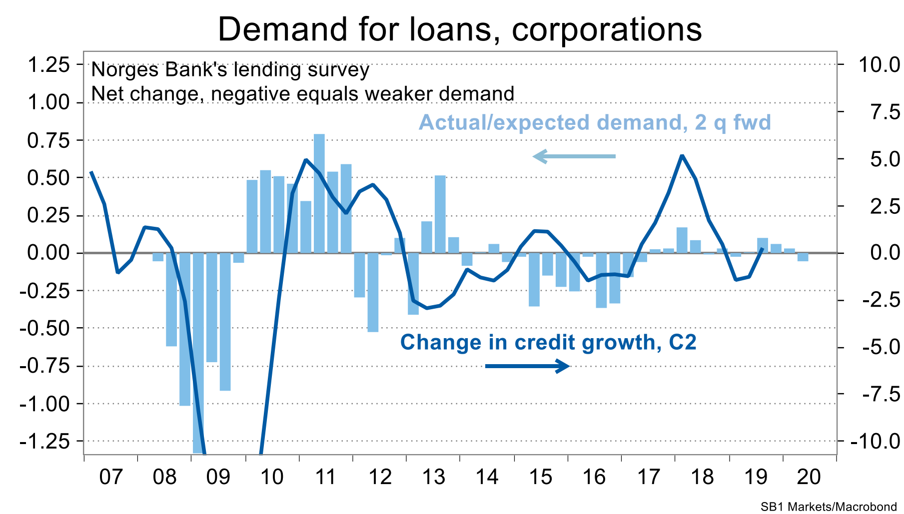
SpareBank 1 MARKETS

Marginally lower corporate loan demand in Q4, unchanged standards

A tad lower demand in Q4, expected unchanged in Q1. Broadly in line with actual credit growth



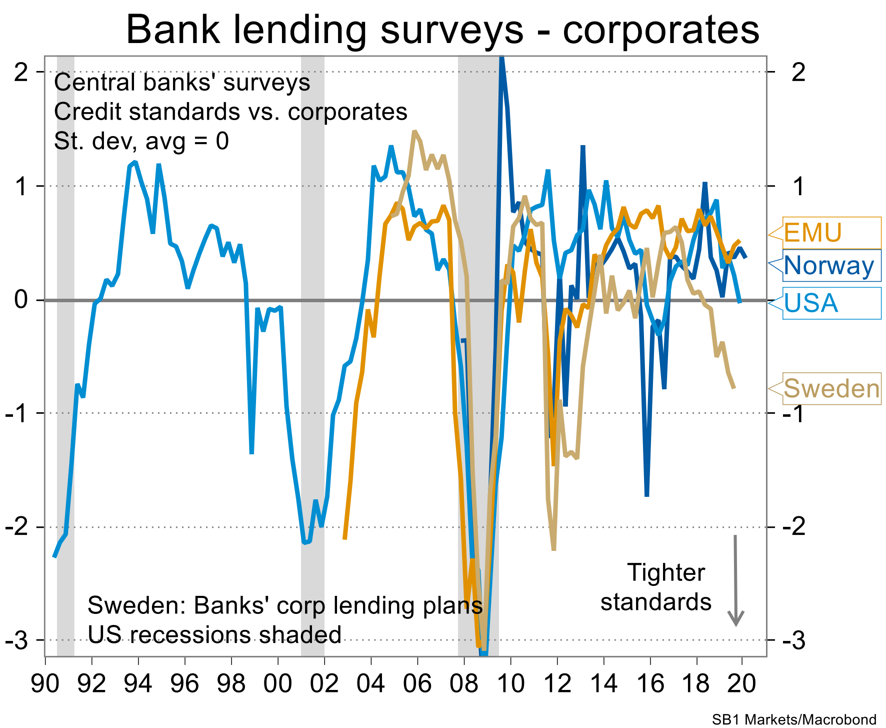


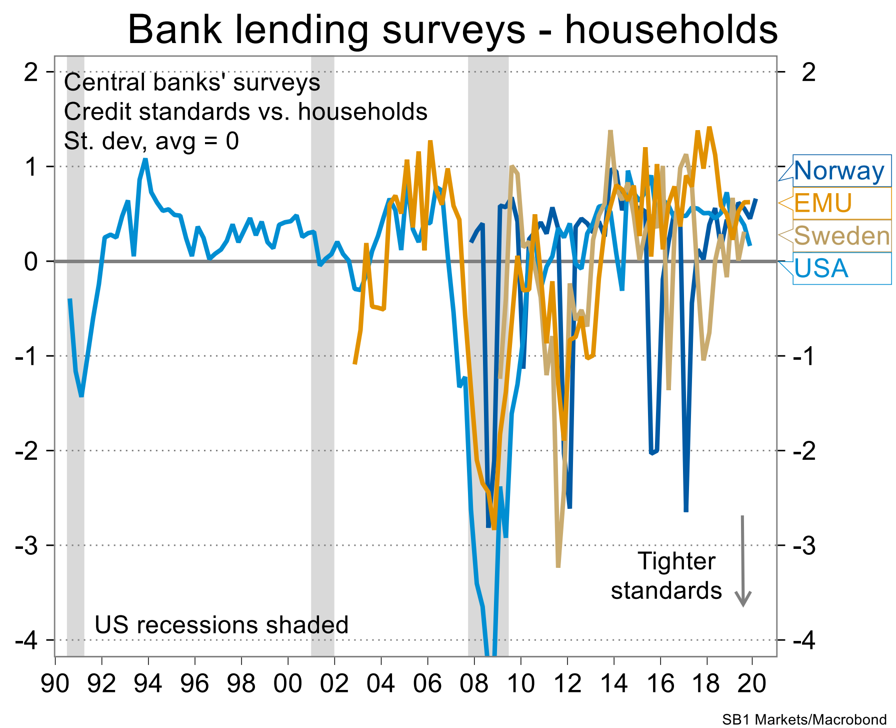


- Actual lending to the corporate sector (domestic C2) is rebounding softly, following a slowdown in 2018. The Q4 lending survey signals continued stable corporate credit demand going forward
- Credit standards are being held unchanged

Global view: Credit easing in the Eurozone, Norway, US close to ‘neutral’

But banks are becoming a tad less upbeat vs. the corporate sector, and Swedish banks to cut lending?

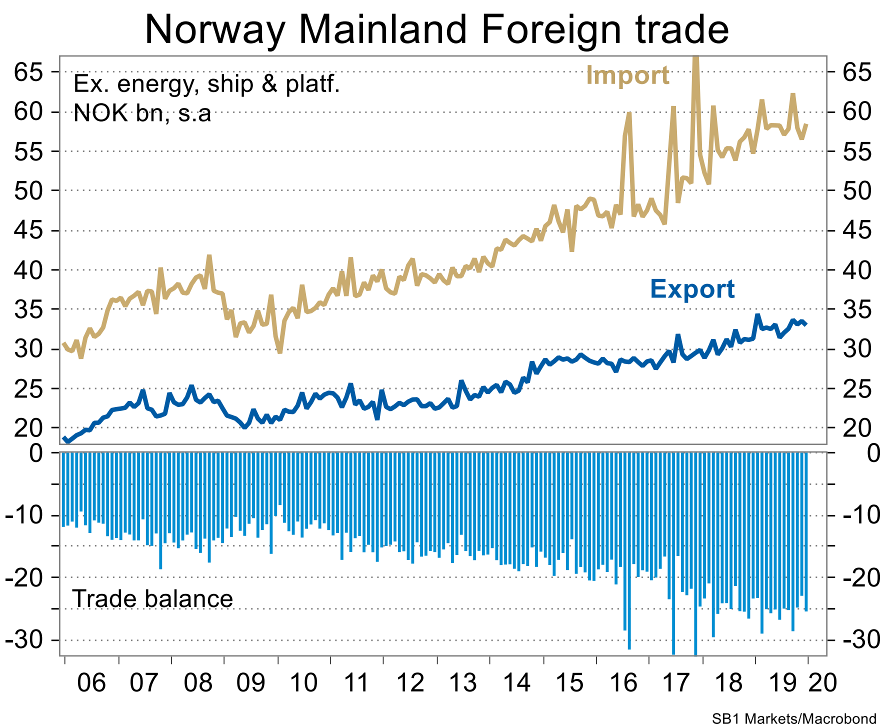


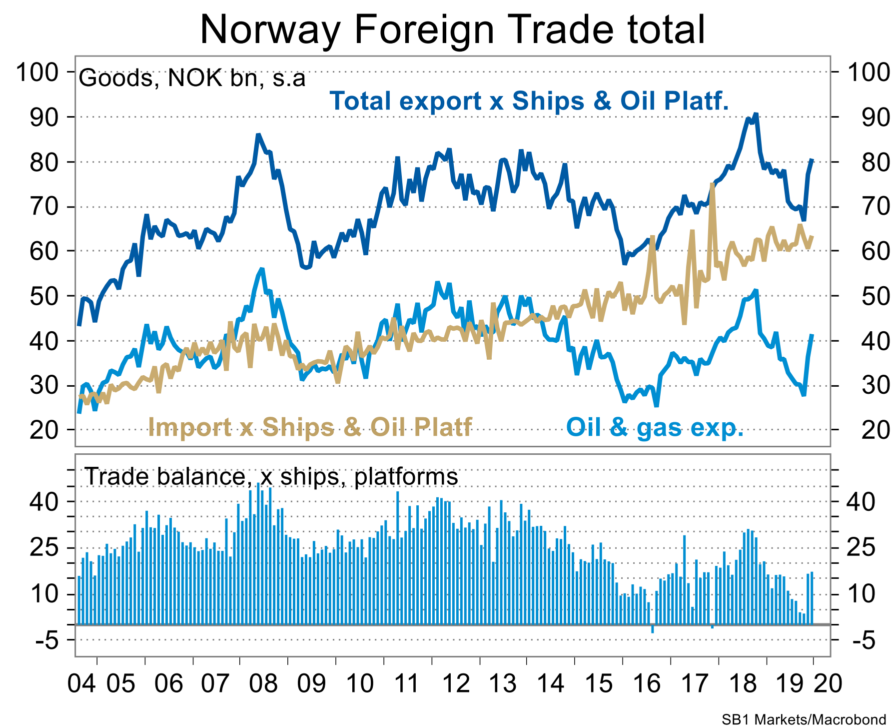


- Credit standards implemented on corporates have eased most places, although standards in the US are not loose anymore, as were in 2018. Norwegian banks have been loosening standards vs corporations the past year. Swedish banks are planning to pull back lending (not standards)
- Banks are reporting easing credit standards vs households in both the US and the Eurozone (although less so the past quarters) and marginally in Sweden. Standards in Norway have been eased after the implementations of new mortgage regulations in 2017

Exports rose and imports retreated in Q4, export volumes are on the way up?

In Dec, the Mainland trade deficit widened, as imports edged up. Strong rebound in oil exports



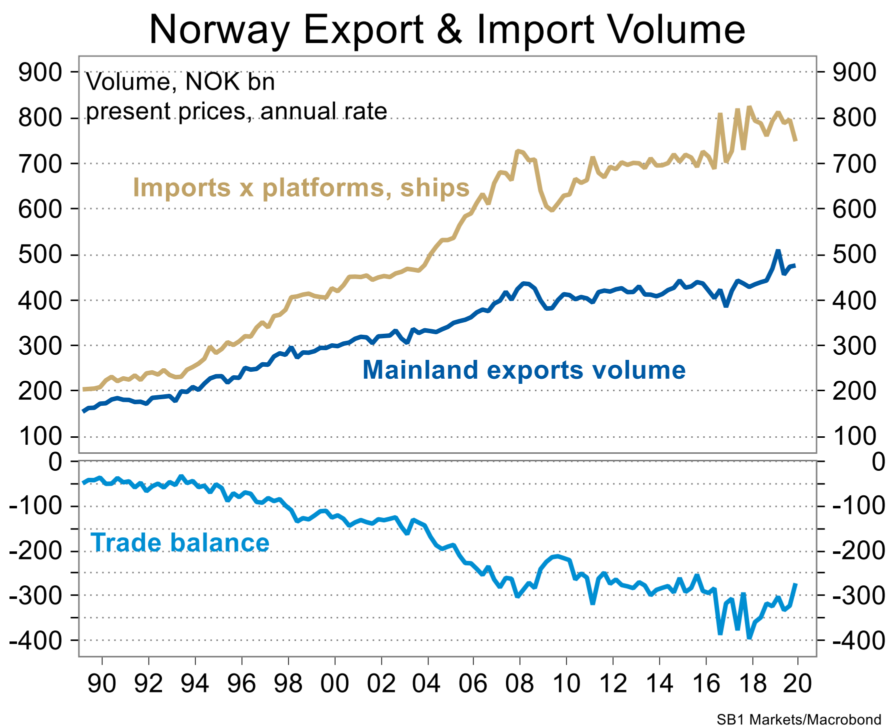


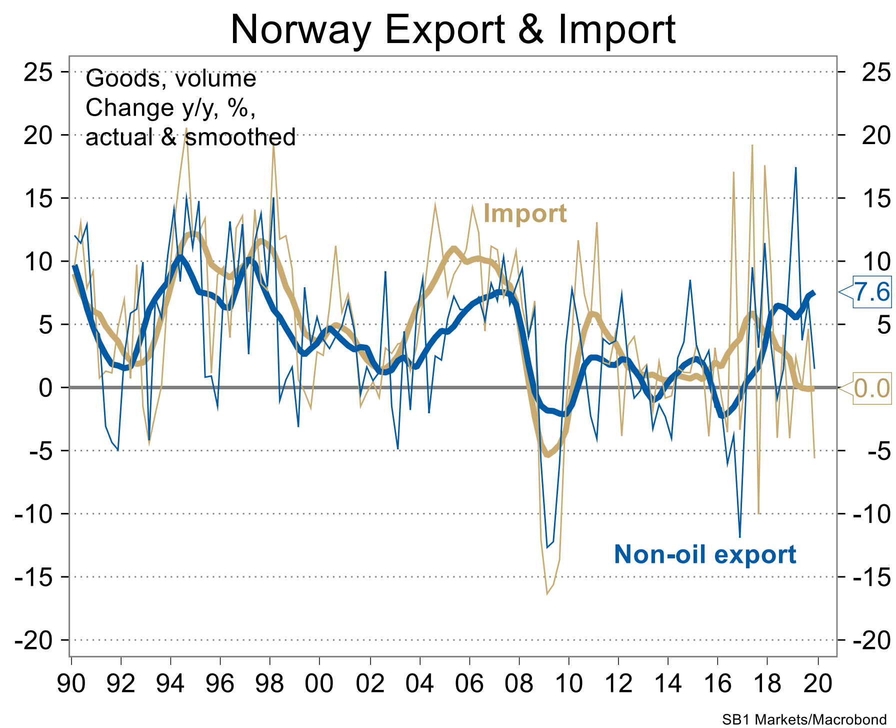
- The Mainland (non energy) trade deficit widened to NOK 25.5 bn in Dec. The deficit was more or less steady through 2019 (and 2018). The longer term trend is a widening deficit. Measured in goods & services, as reported in the monthly national accounts (no Dec data), net trade is so far set to boost GDP growth in Q4
  - » Imports increased by 3.5% m/m in Dec, after dropping in Oct/Dec. Imports are volatile, due to some large projects, the annual rate is +4.7% (smoothed). Mainland exports fell by 1.6% m/m but are increasing by 5.8% y/y. The weak NOK is probably boosting export businesses, however, there has not been any take off in export values
- The overall trade surplus (incl oil & gas, ex ships & platforms) is recovering, at NOK 17.2 bn in Dec, from 3.3 bn in Oct. Oil exports are soaring, chiefly due to Johan Sverdrup field coming on stream. Recent years, the total trade surplus has equalled approx. 6% of total GDP

SpareBank 1 MARKETS

Finally, Mainland exports volumes have turned up

Brisk underlying growth past two years, now some 8% y/y. Import volumes are flat

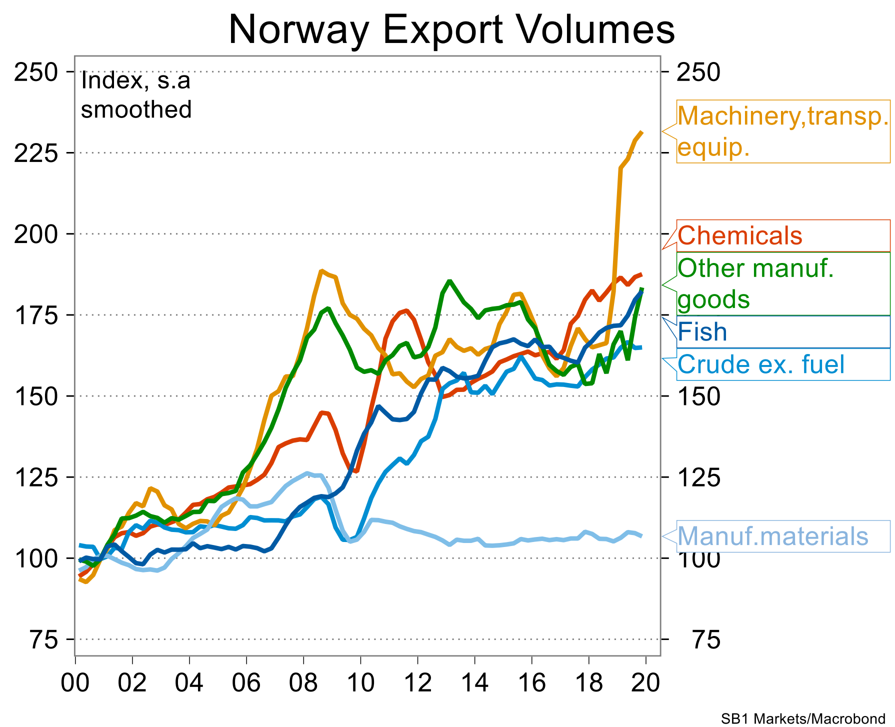


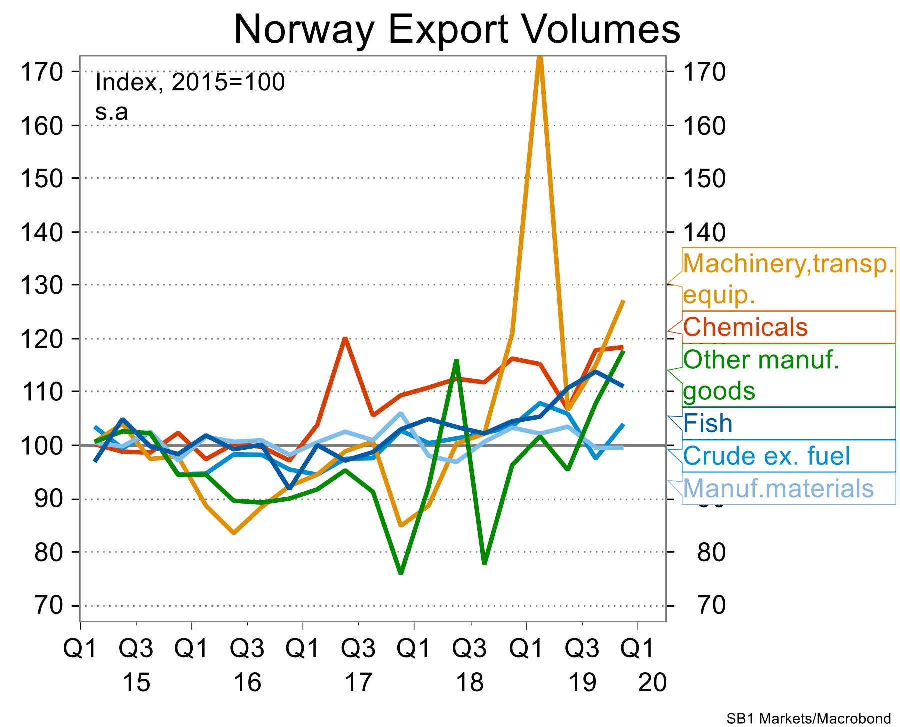


- A faster growth in trade partners’ imports can not explain the ‘surge’ in Mainland exports
- Higher exports of oil related manufacturing goods, and a possible impact of the 25% depreciation of the NOK is obvious explanations
- For the record: National accounts have so far (until Q3) reported somewhat lower growth in Mainland exports for goods (5% vs. 8%) – still trending up

Exports volumes in most sectors are heading up, barring manuf. materials

Exports of machinery & transport equipment (much oil related) are soaring

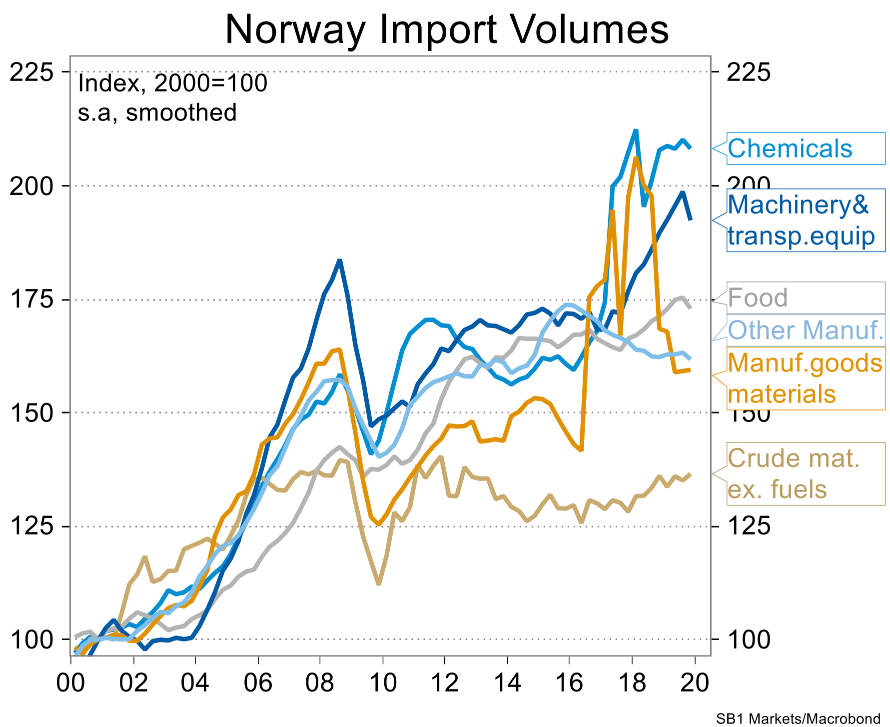


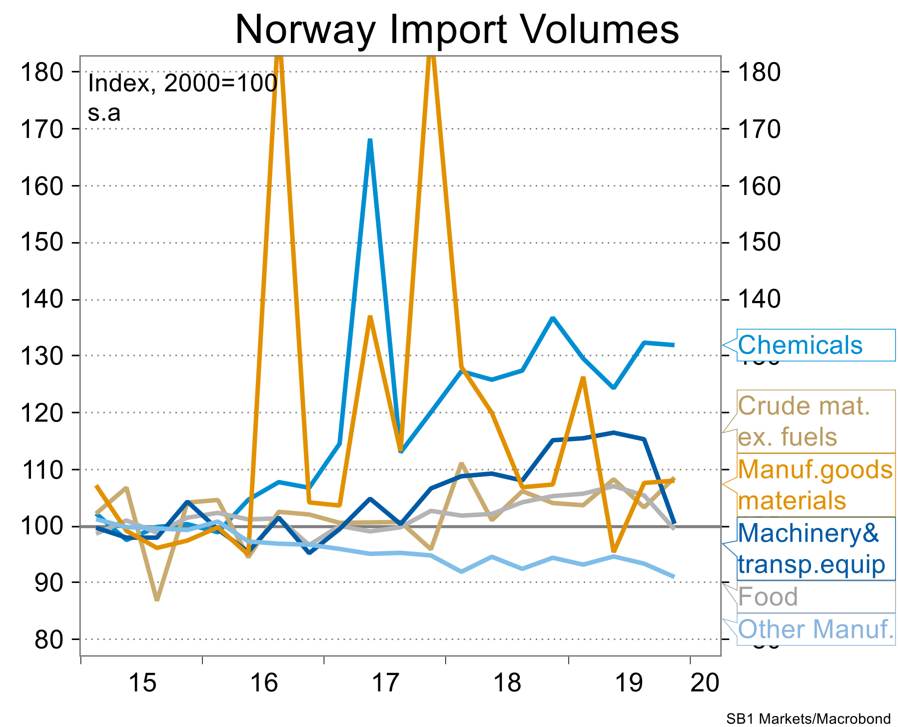


- Machinery & transport equipment (primarily oil-related) export volumes are accelerating, these data are volatile. Export volumes of chemicals, fish, manufacturing goods and crude materials ex. fuels are all trending up. Manufacturing materials have increased just marginally since 2015, and flat the past year

Import volumes of machinery, chemicals have been soaring, at peak?

Manufacturing materials & products are retreating, following a huge lift in 2018

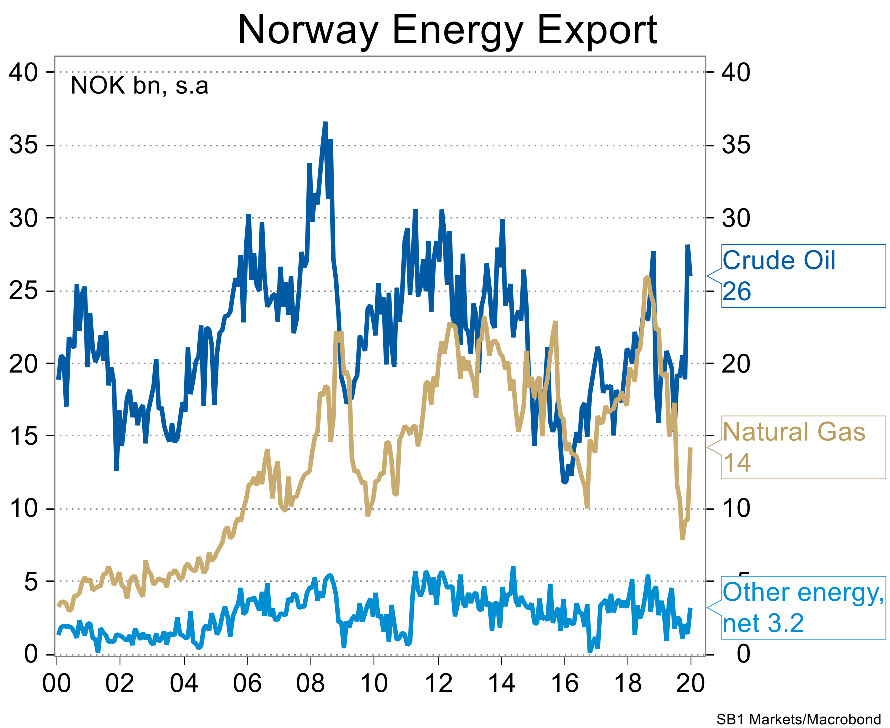


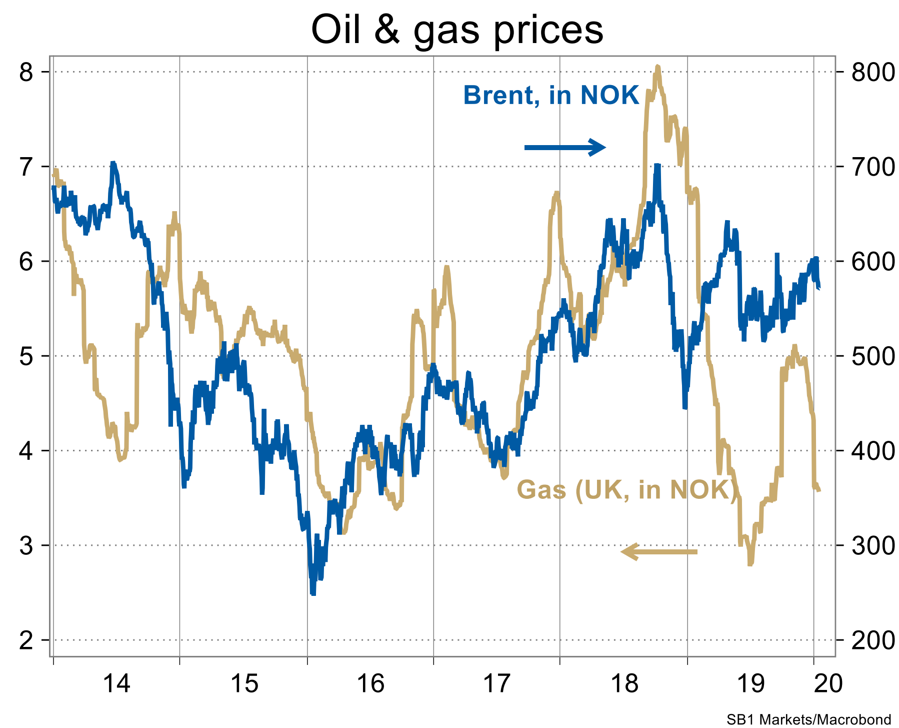


- Import volumes are still heading up in most sectors, just manufacturing materials and other manufacturing goods have turned down the past year
  - » Imports of manufacturing goods & materials have been tremendously volatile the past 2 years, due to a few huge transactions; primarily the delivery of a gas platform and new combat airplanes
- Imports of machinery & transport equipment (much oil related + some wind mills) have been soaring, at least until Q4. Given the oil investment outlook, these imports are likely to be peaking now. Chemicals have flattened out after surging in 2017 and 2018. Food imports are heading up, crude materials slowly expanding

Oil exports spiked in Nov/Dec, Sverdrup on stream! Gas exports recovered too

Oil exports are up 40% since two months ago, mostly due to the opening of the Johan Sverdrup field





- **Crude oil** exports (in NOK bn) remained high in Dec, at NOK 26 bn, after jumping in Nov, to the highest level since 2014. The start up of production at the Sverdrup field are boosting oil exports, with some support from ending maintenance programs. Oil exports are up 18% y/y, smoothed, (and some 20% in volume)
- **Gas** export values recovered partially in Dec, to NOK 14 bn, following a steep decline in the summer/autumn, as gas prices fell rapidly. Gas exports are down 53% y/y (smoothed). In volume terms, exports are down just 1% y/y

Highlights

The world around us

The Norwegian economy

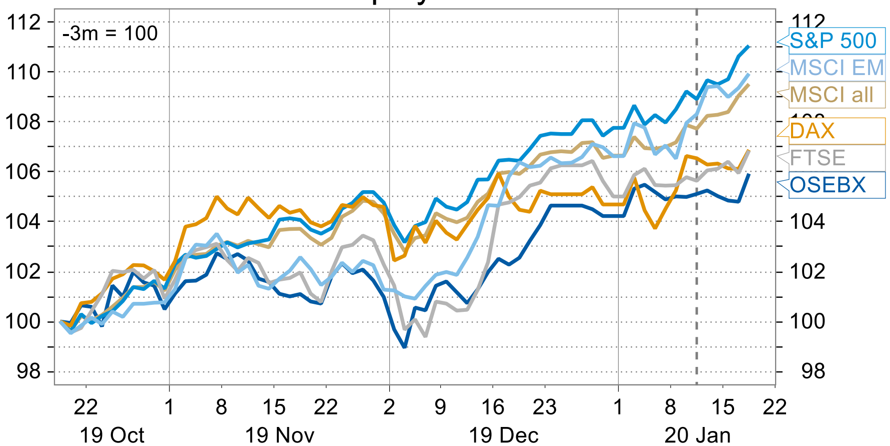
Market charts & comments

SpareBank 1 MARKETS

The phase 1 trade deal signed (and data somewhat better), risk on!

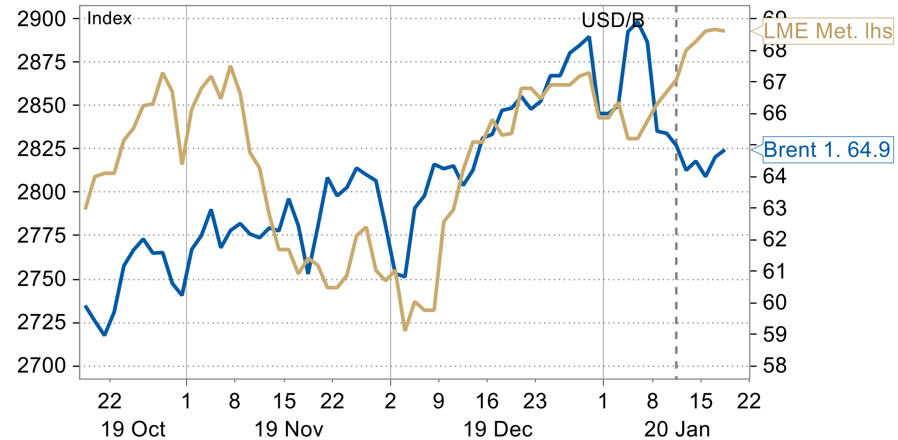
New ATHs in many markets. Metals straight up. The CNY too. Still, bonds mostly down

Equity Indices



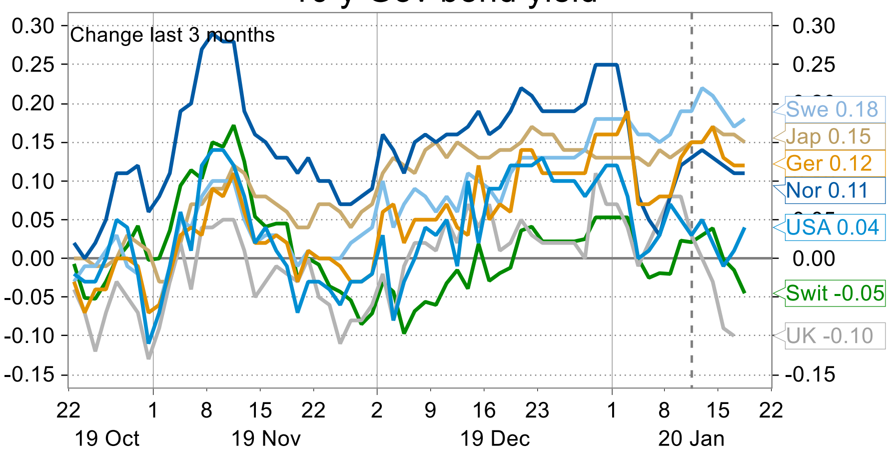
Most stock markets up, several markets, incl. OSE up to ATH (close) SB1 Markets/Macrobond

Oil vs. metals



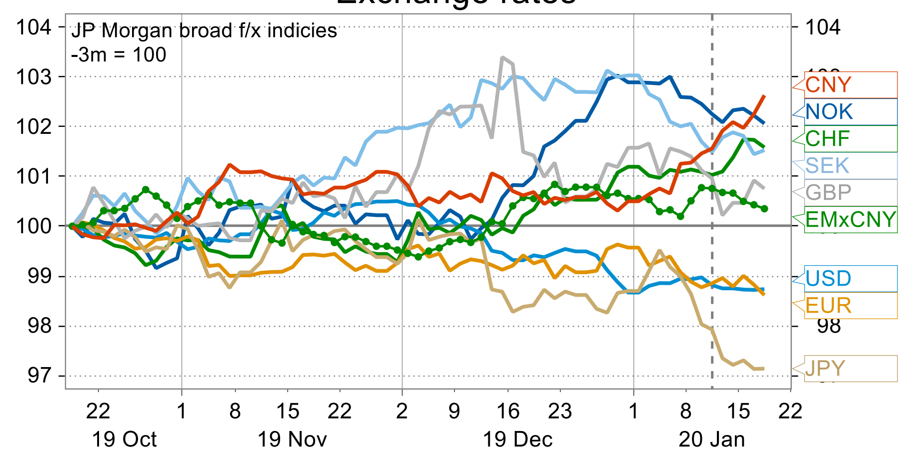
The oil price has more than reversed the US/Iran upturn. Metals up, on a more positive growth outlook SB1 Markets/Macrobond

10 y Gov bond yield



Bond yields retreated everywhere last week, without any really weak macro data or geopolitical news (barring a soft US PPI report). BoE sent soft signals SB1 Markets/Macrobond

Exchange rates



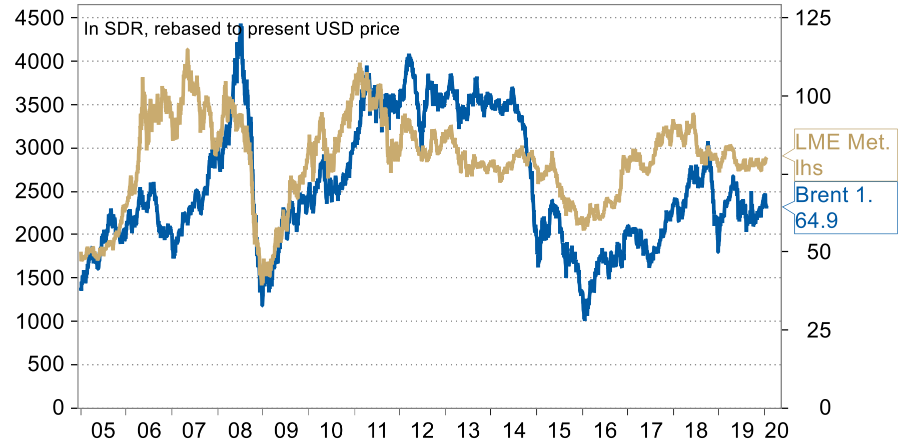
USD has depreciated modestly the past month, along with EUR. JPY down last week, CNY climbs, NOK marginally weaker SB1 Markets/Macrobond

In the long run: US stocks at ATH, bond yields not that far above ATL

Raw material prices have not followed equities up

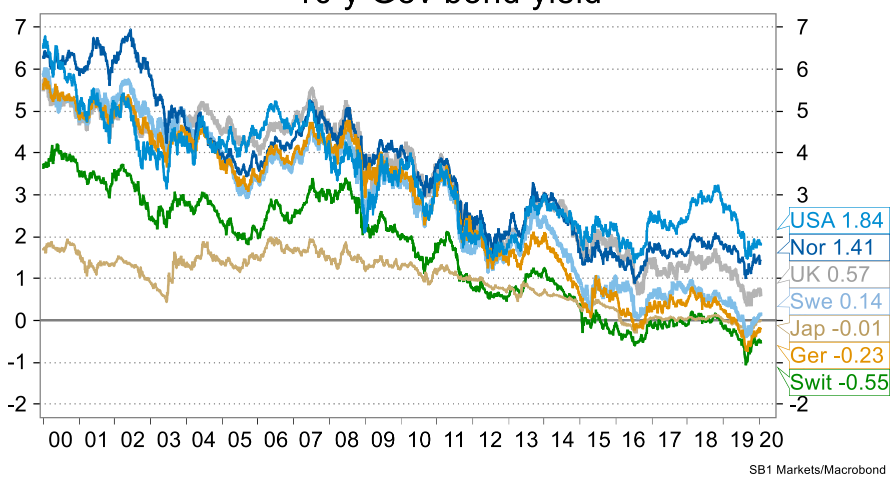
Equity Indices

Oil vs. metals

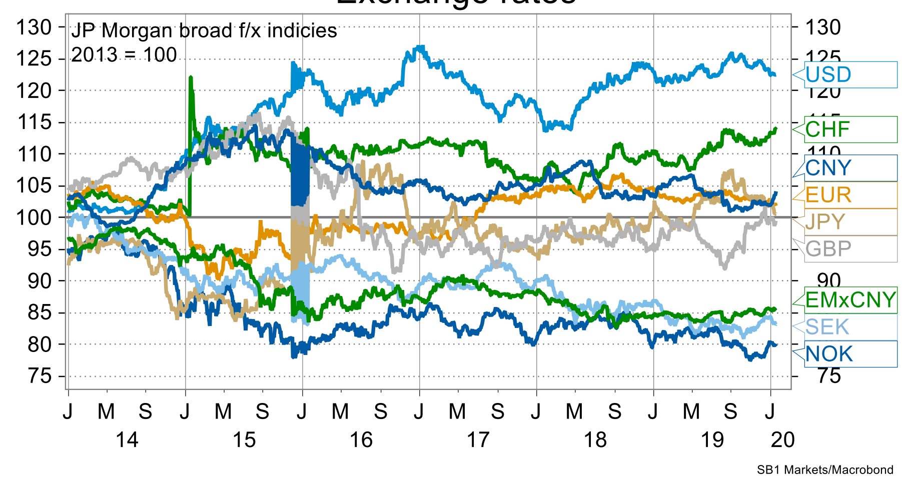


Metal prices close to flat recent months. Oil prices are quite stable too

10 y Gov bond yield



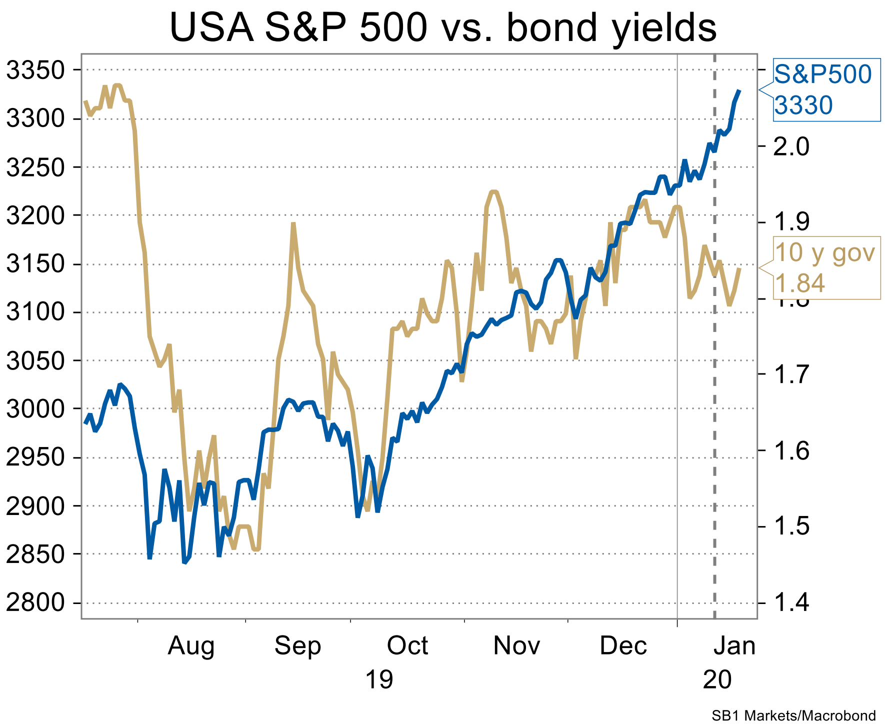
Exchange rates

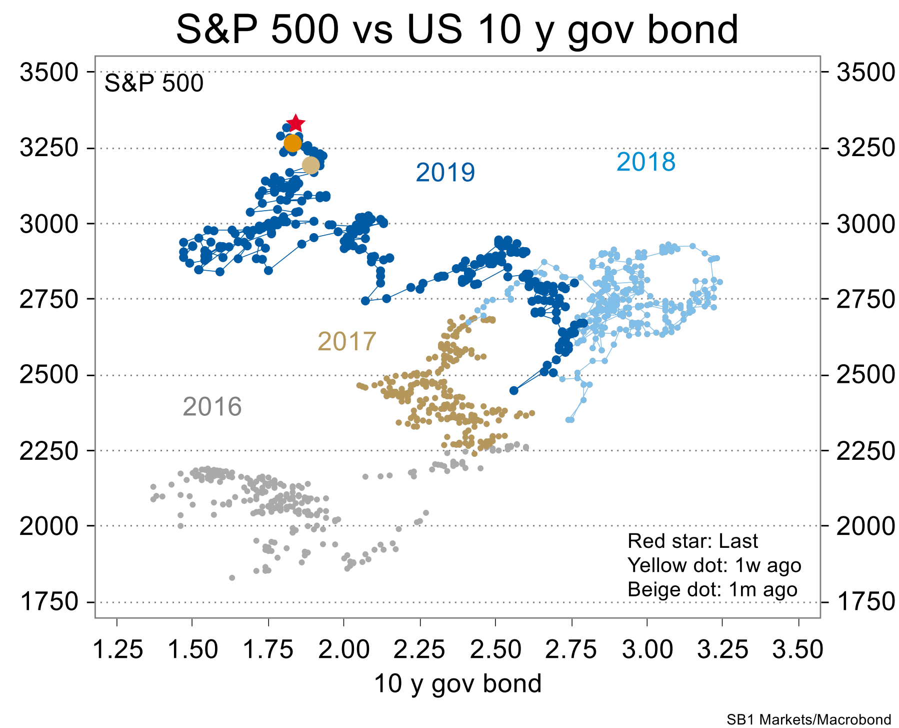


SpareBank 1 MARKETS

US: Stock markets are surging, bond yields are not following

S&P jumped 2.0% last week, 10 y bond yield just marginally up, even with mostly strong macro data

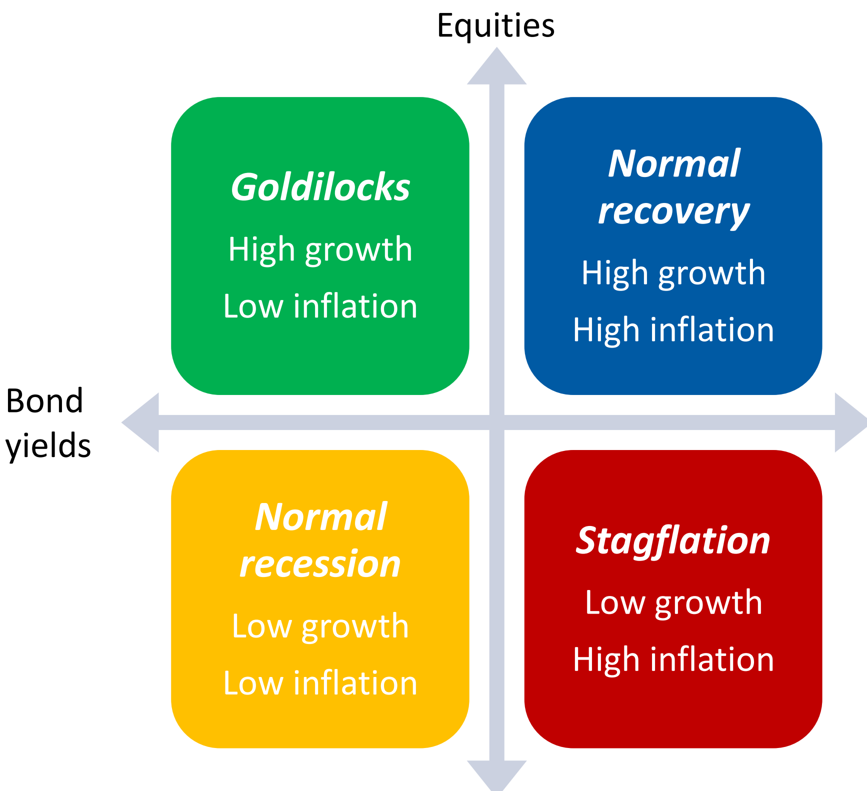


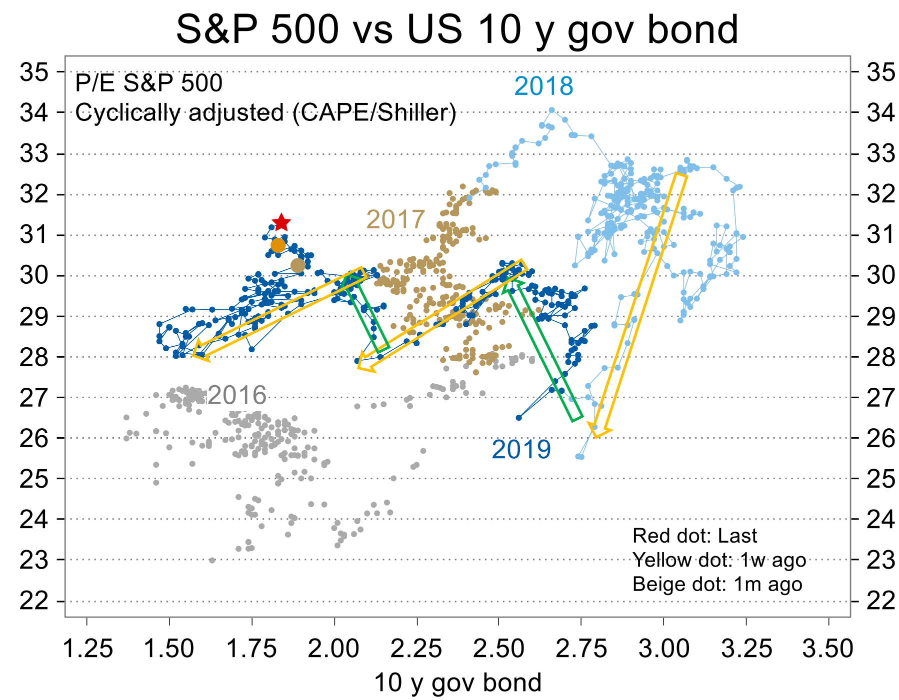


- Stock markets swiftly shook off concerns of a further escalation in the US/Iran conflict. Last week, stock markets soared, strong company earnings reports and some upbeat macro data lifted sentiment. The market reaction to the US/China phase 1 trade deal was muted (at least initially), as the deal turned out to be just as narrow as expected
- Bond yields have not fully recovered following the US/Iran induced drop. Last week, somewhat softer than expected core CPI inflation and producer prices sent the inflation expectations component down 3 bps. Other, more upbeat macro data failed to offset the negative CPI/PPI impact

US markets mostly moving in the Goldilocks' direction the past month

Stock markets are climbing and bond yields retreat, we doubt this trend will last



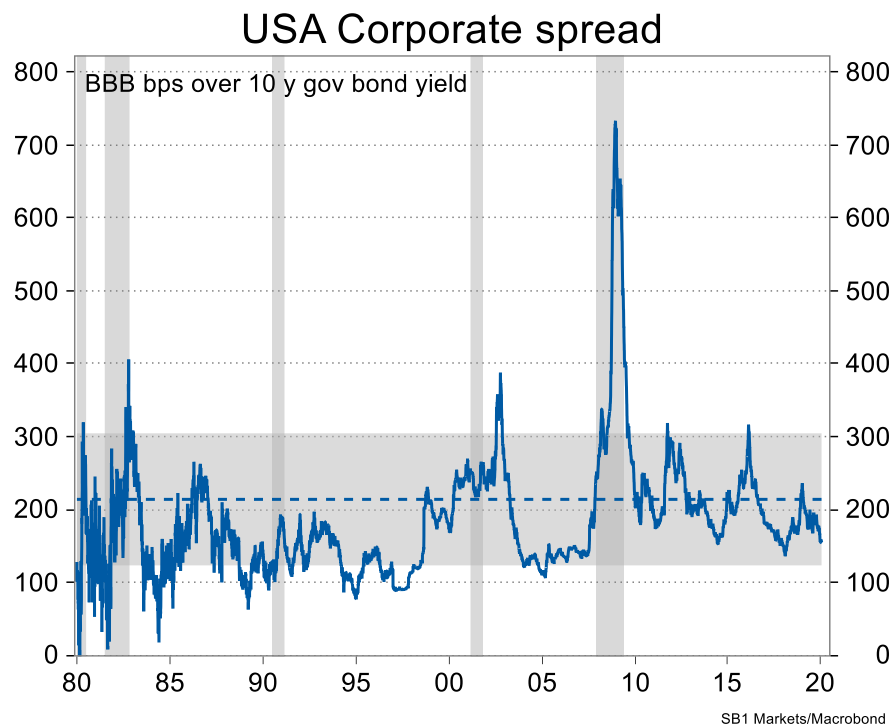


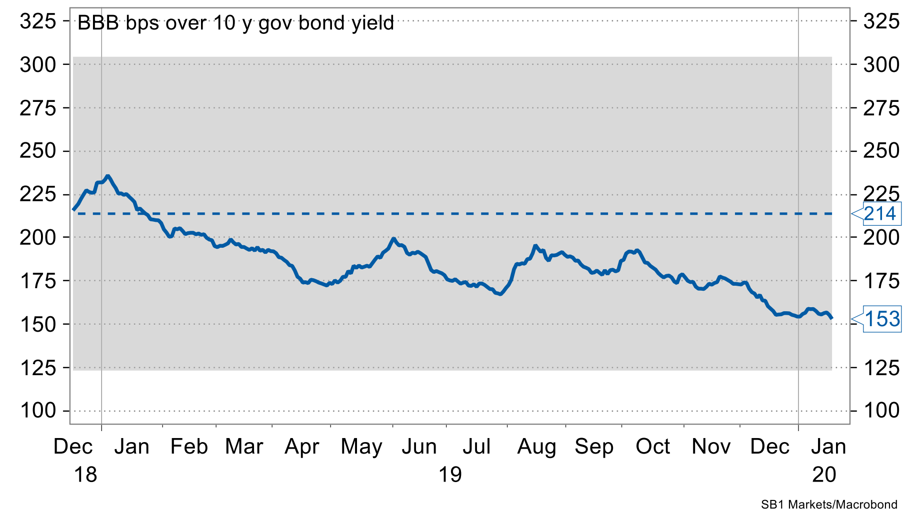
SB1 Markets/Macrobond

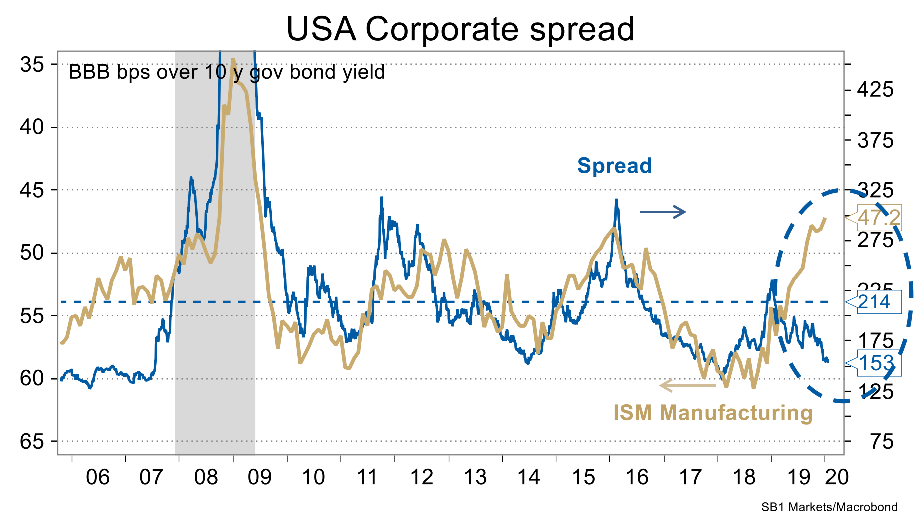
- Recent months, markets have been zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. The past month, stock markets have surged, while bond yields have turned down, towards a Goldilocks' scenario
- We do not think a long term Goldilocks scenario is likely. Should yields decline substantially, it will be due to really weak economic news, which will not be good news for the equity markets. We are not that worried for the 'Stagflation' corner either; a take off in inflation without strong growth seems unlikely. Thus, the normal recession/recovery axis is the most likely in the short term – growth will be the main driver for both markets, not inflation

Credit spreads are very low, well below an average level

Spreads are <u>far too low</u> if the ISM is correct; that is, <u>*if growth is slowing*</u>



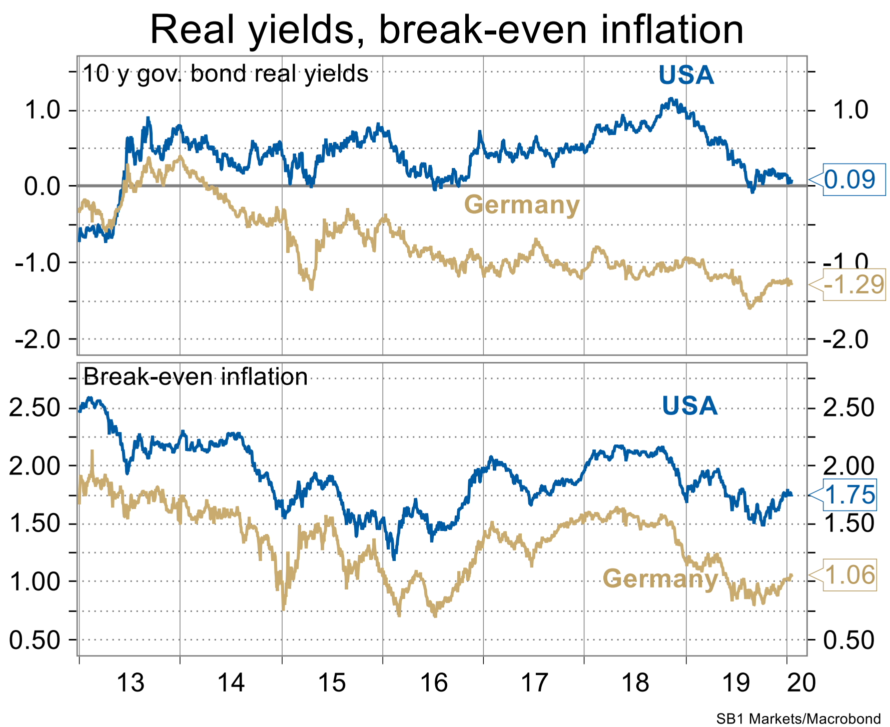


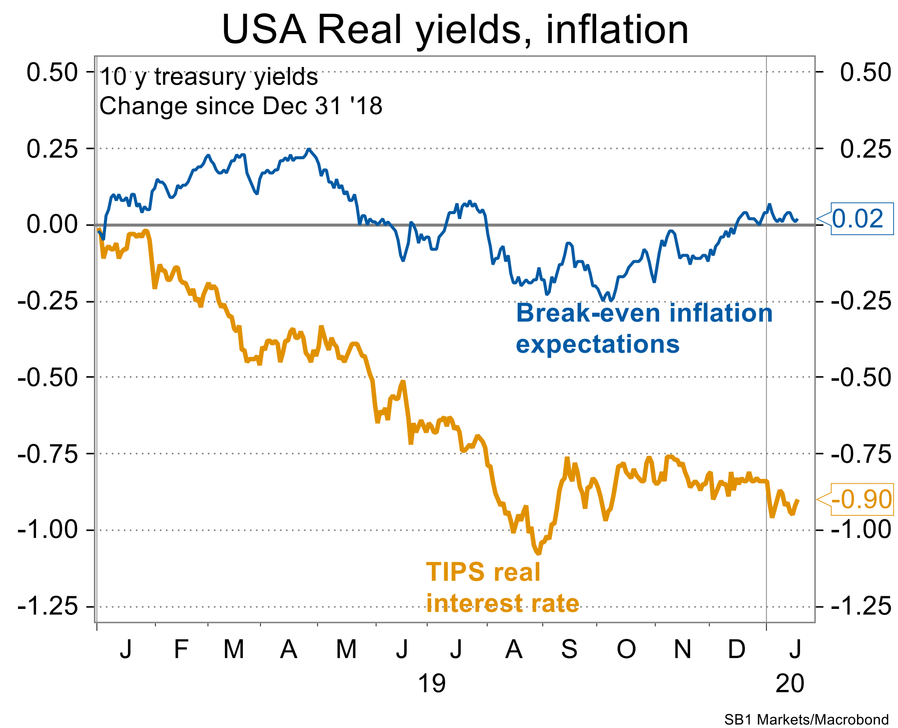


SpareBank 1 MARKETS

Higher inflation expectations recent months, real rates flat/down

This month, real rates have edged down, even as macro data are improving, geopolitical tension ease

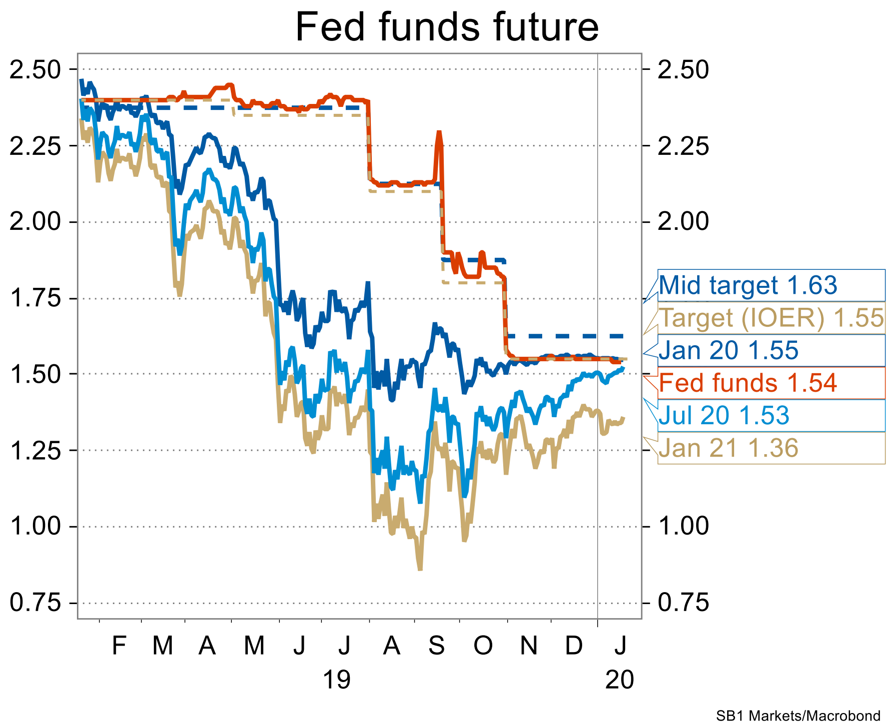


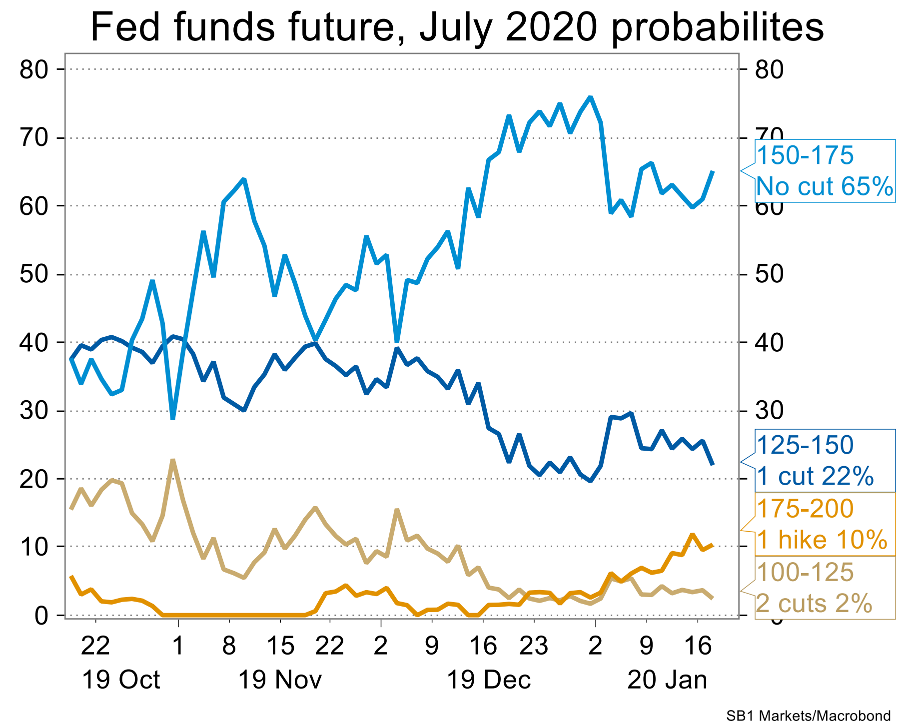


- In November-late December, US inflation expectations increased, while real rates retreated slightly. The pattern was similar in Germany. So far in January, US inflation expectations have stabilized and real rates edged down. Whereas the German real rates have followed the US down, inflation expectations have increased, probably due to a small lift in core CPI inflation
  - US 10y real rate at 0.09% is not far above the local bottom last August
  - The 10 y German real rate at -1.29% is still ridiculously low. Inflation expectations at 1.06% are not that far off, although well below the ECB's price target at close to 2%

Short term FRAs are inching up, longer term down recent weeks

Markets are almost fully pricing a 2020 cut (of 25 bps), but just 25% of a cut in H1



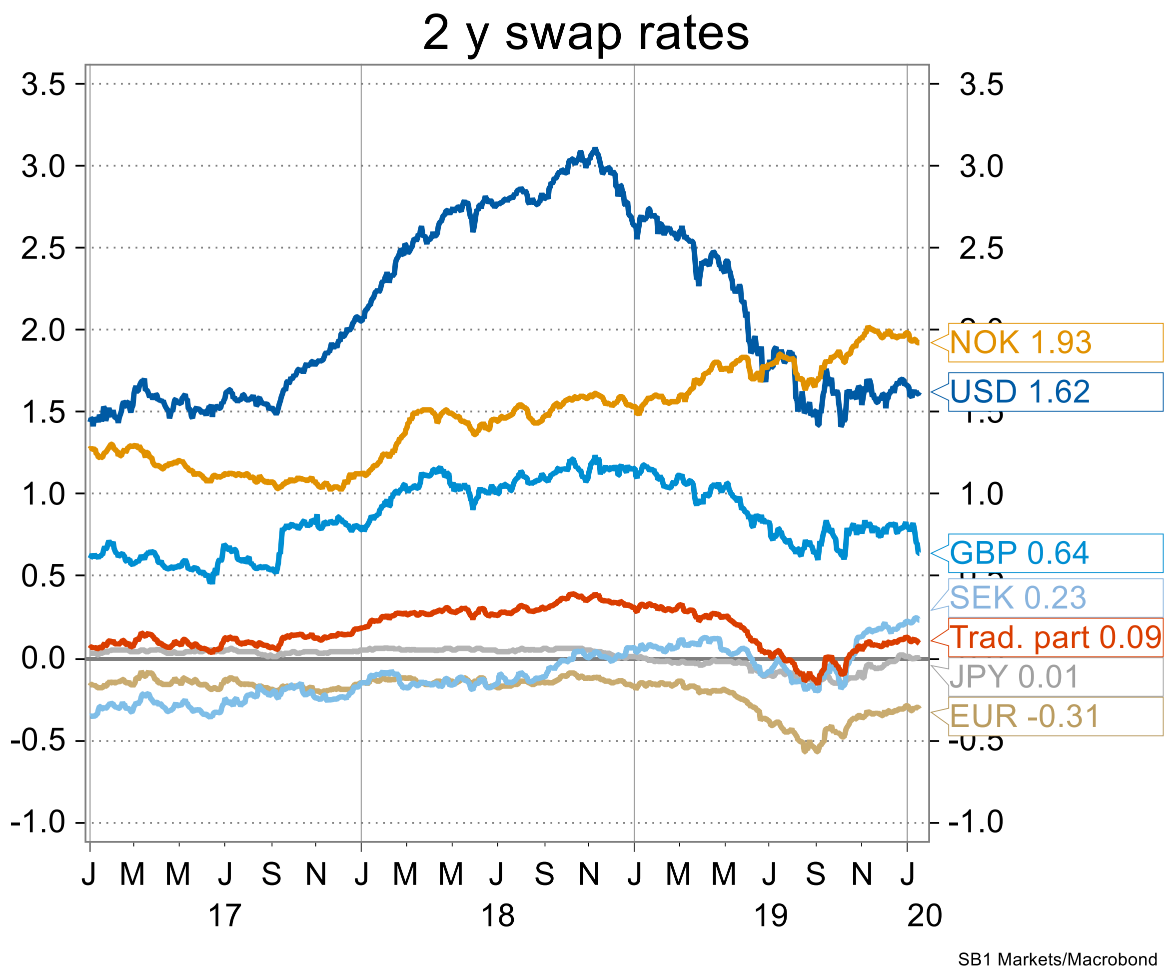


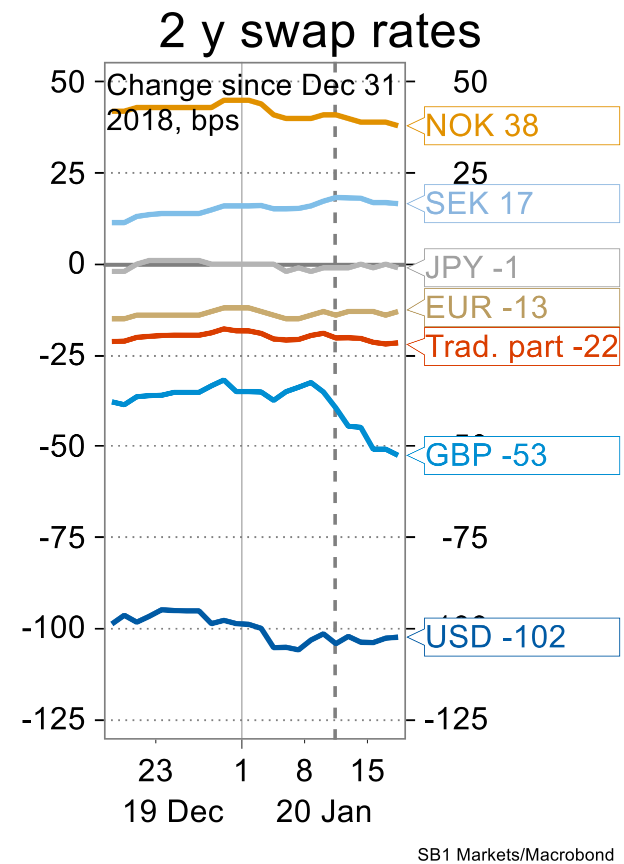
- Fed Funds futures climbed steadily through December and dropped on the Iran/US tension in early January. Since then, rates have stabilized, but the January '21 contract is still lower than before the escalation
- Markets are expecting a cut by the end of 2020 (by some 80% prob.). Probabilities of a H1 cut are still subdued, below 30%
- The actual Fed funds (daily clearing) rate remains close to the target IOER (rate on bank's excess reserves at the Fed) at 1.55%, as the Fed has gained control on the short end of the curve

SpareBank 1 MARKETS

Short term rates slowly down among trading partners, NOK rates down too

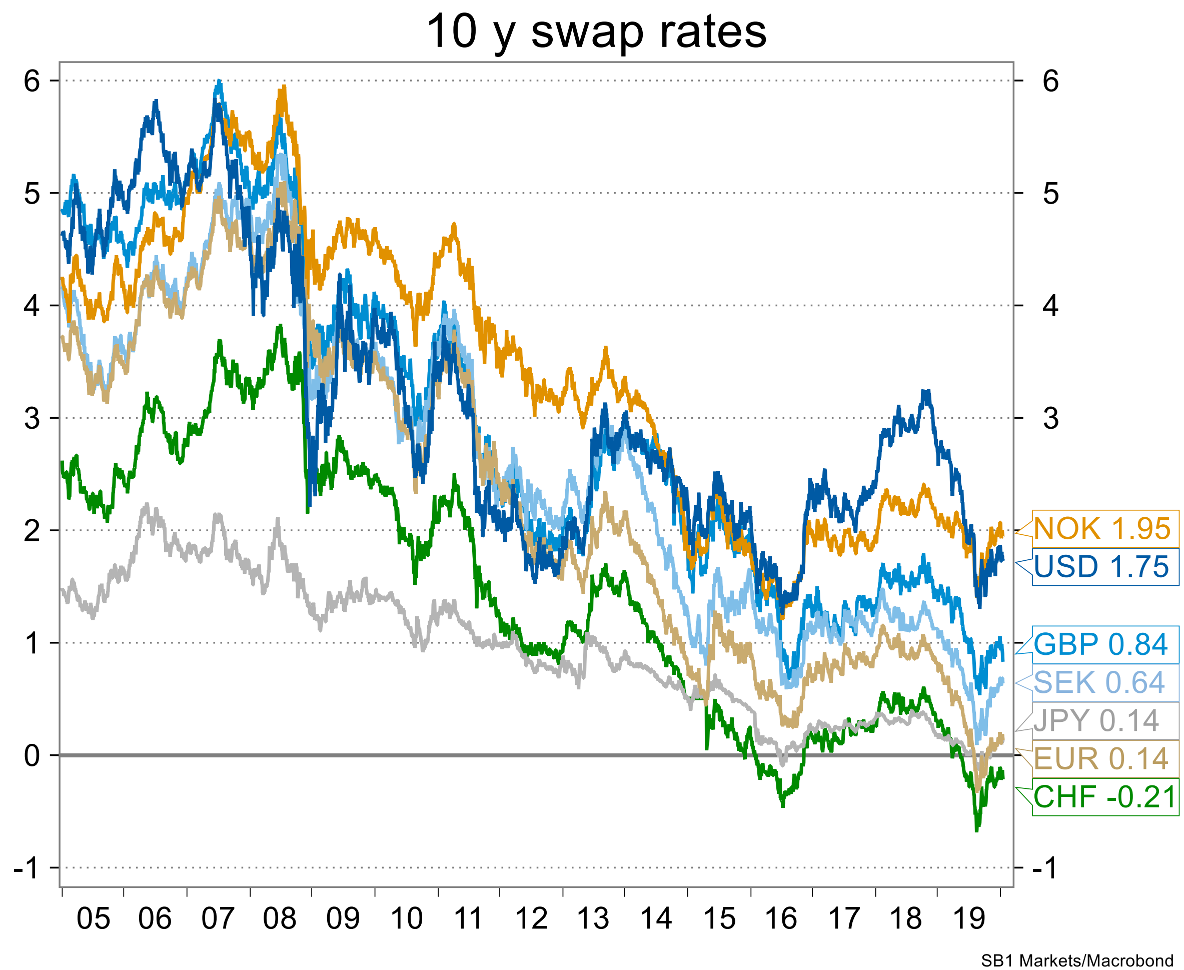
Last week, rates inched down most places and steeply in the UK, on BoE talk of cuts and weak macro

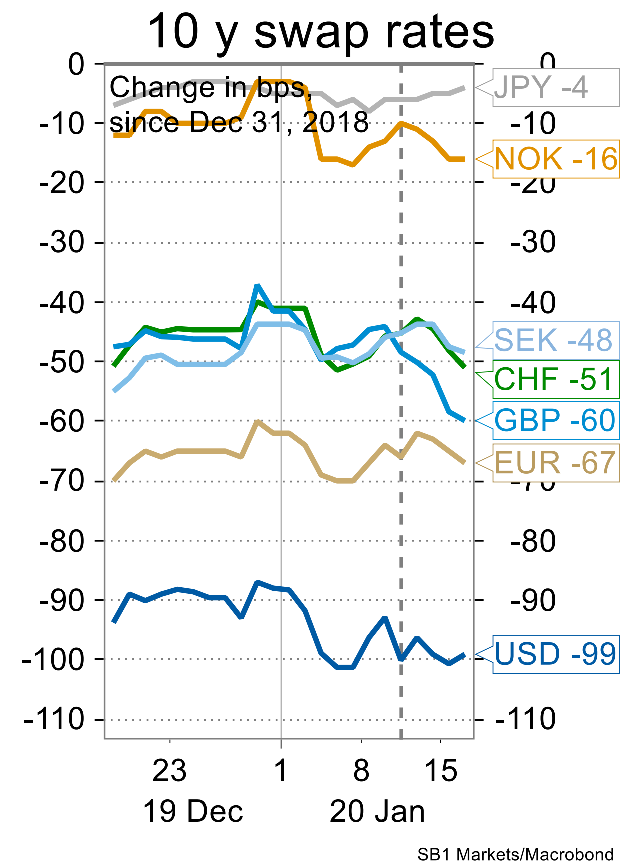




Long term swap rates up from the bottom everywhere, down in January

Markets were not impressed by the US/China deal, 10 y swap rates fell 'everywhere' last week

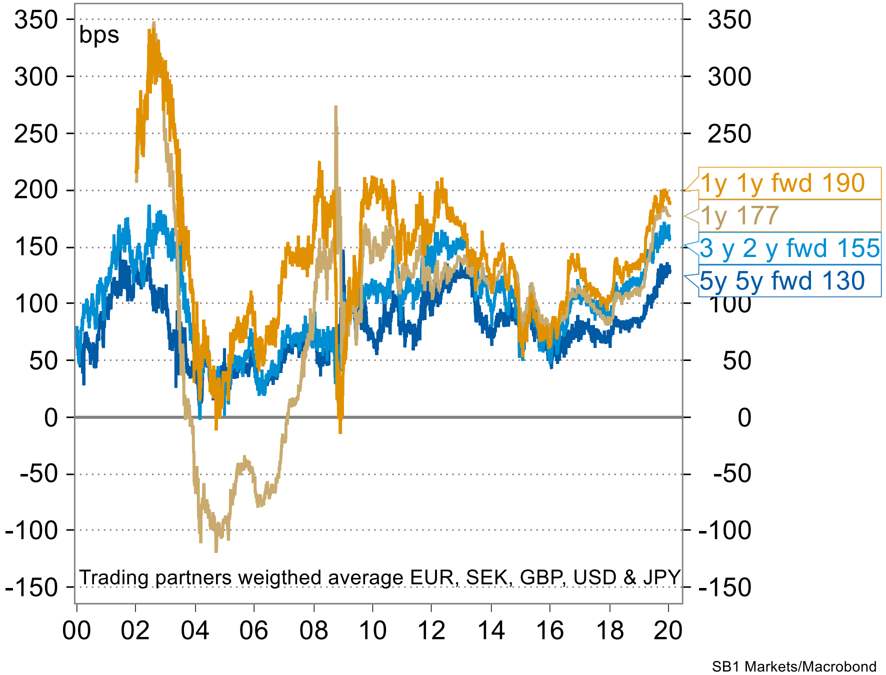




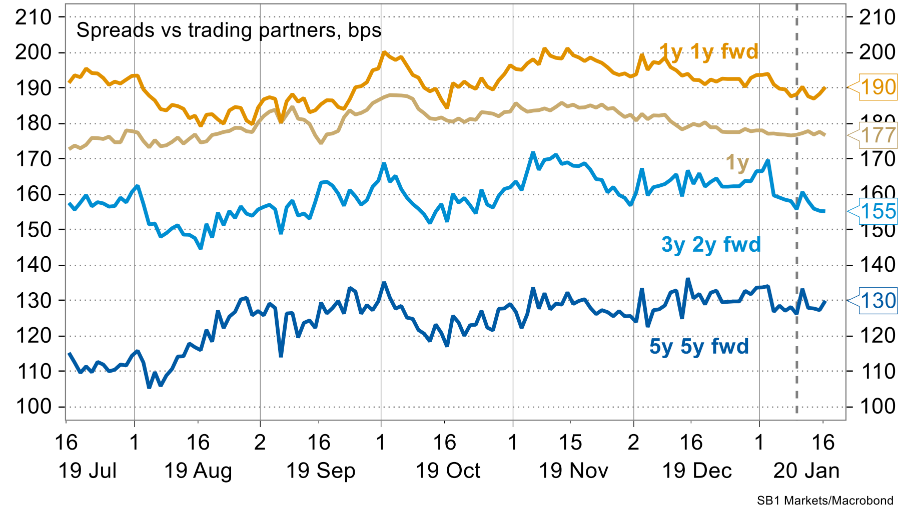
Swap spreads vs trading partners are shrinking, finally

Spreads are down from peaks all along the curve, mixed last week, as rates edged down everywhere

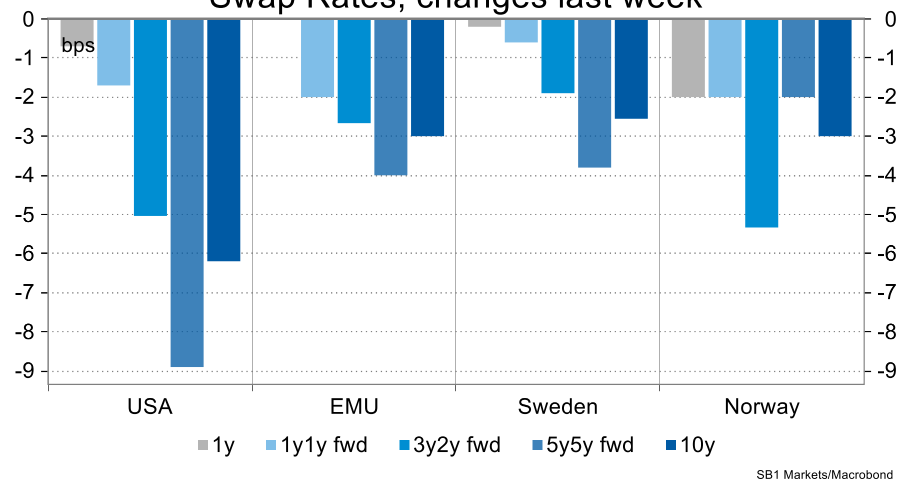
Norway vs trading partners, impl swap spreads



- Swap spreads between NOK rates and our trading partners have been widening rapidly the past year, all over the curve. Since November, spreads have been trending in on the short end of the curve, spreads are down some 10 bps. At the long end of the curve, the spreads have flattened out
- While the short term spread has bee well explained, we have been surprised by the wide spread in the long end of the curve. A 5y 5y fwd spread at 130 bps is still too wide, long term

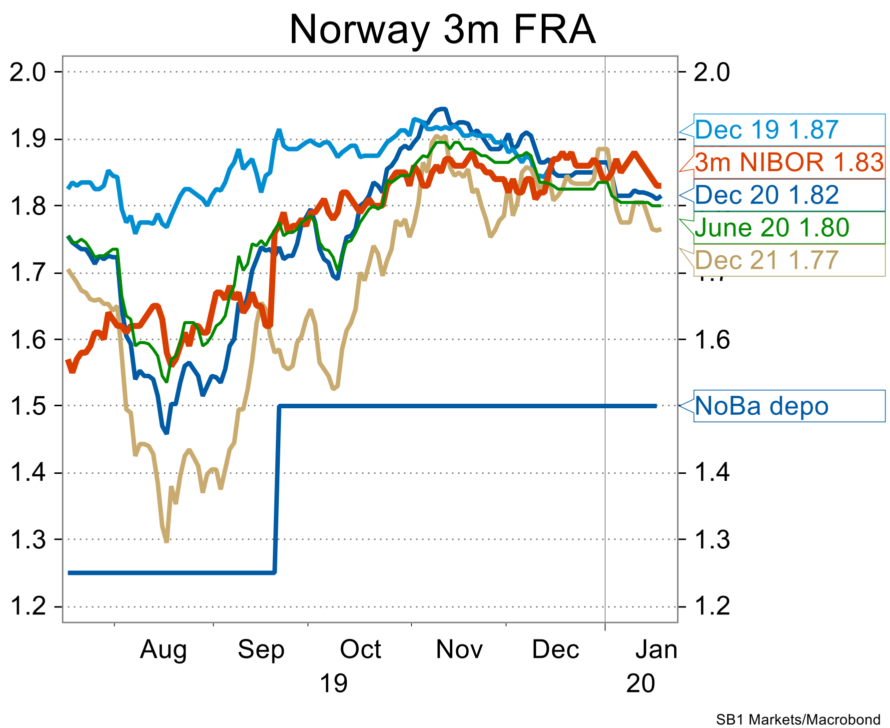


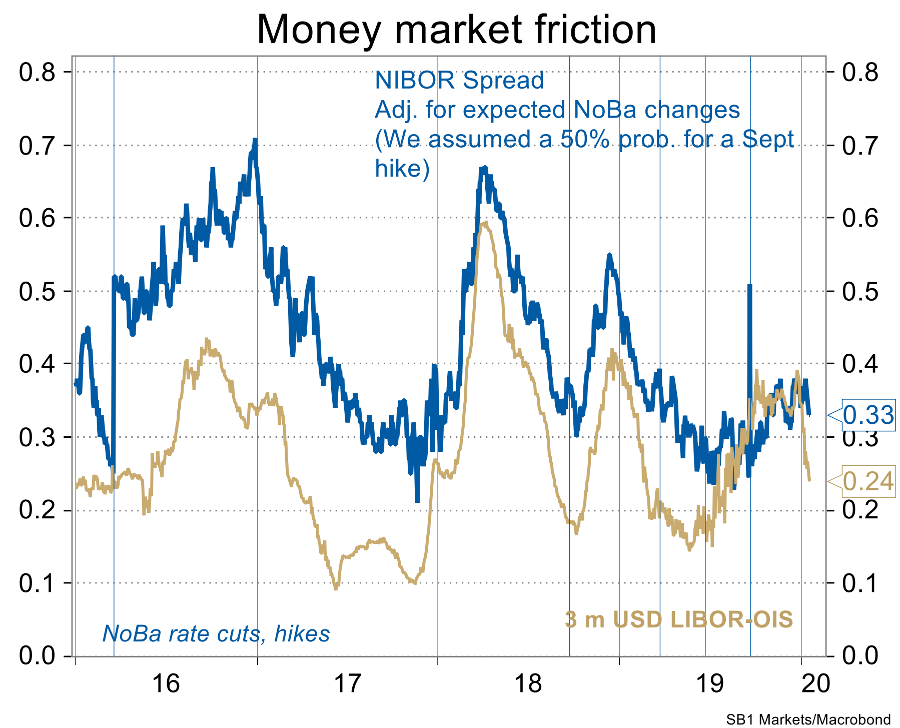
Swap Rates, changes last week



FRAs are sliding down but the curve remains close to flat

3m NIBOR edges down, probably not due to any substantial shifts in interest rate expectations

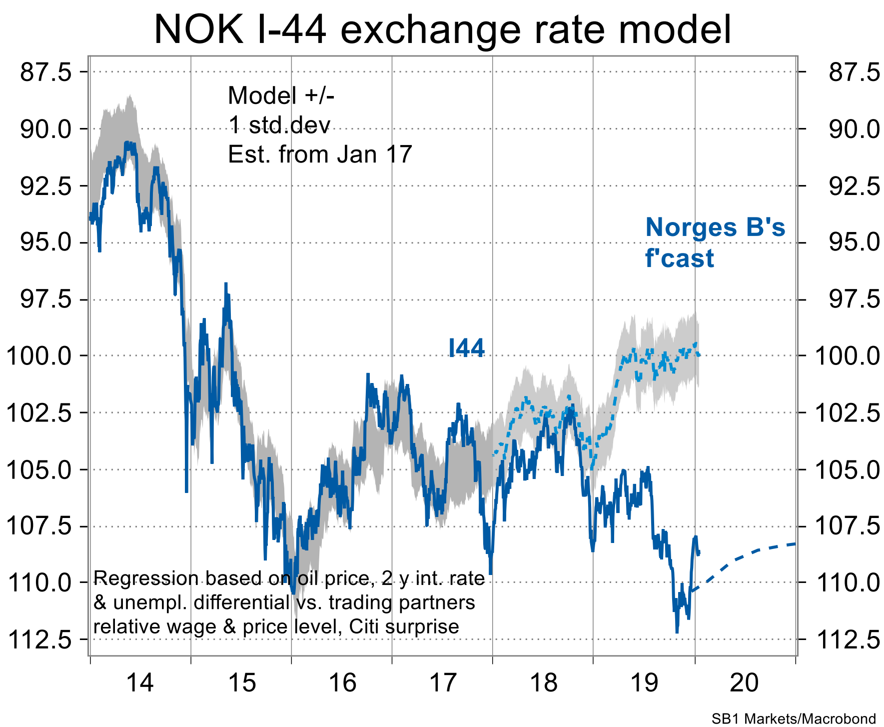


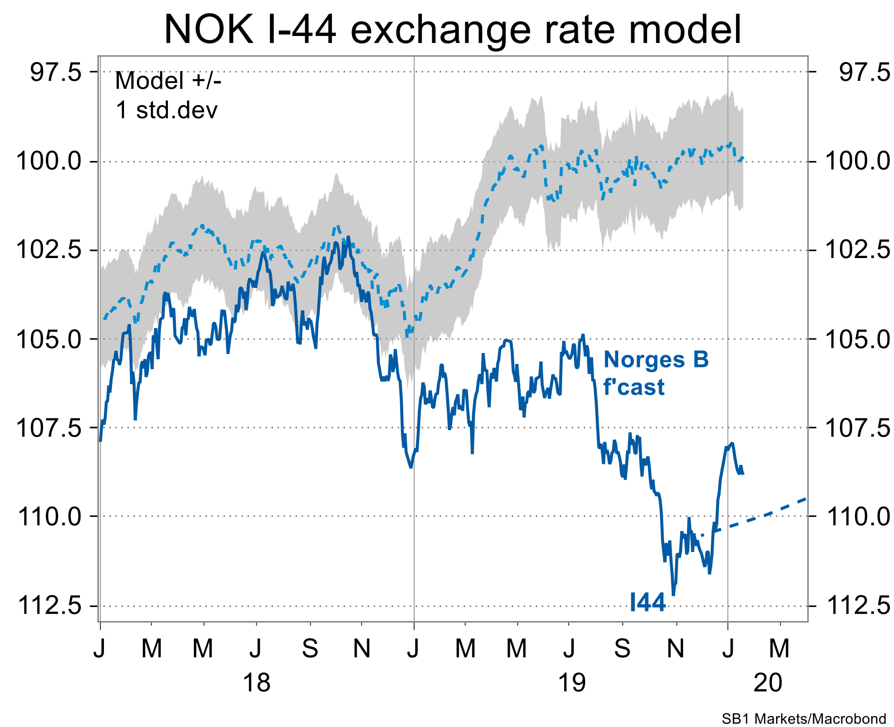


- The 3m NIBOR fell 4 bps to 1.83% last week, after stabilizing at approx. 1.87% since before Christmas
  - » NIBOR now equals a 33 bps money market spread. In December, Norges Bank nudged down the money market spread forecast to 35 bps, from 40
  - » The US the LIBOR-OIS spread has fallen to 24 bps, from almost 40 before new years eve. Historically, the NIBOR spread has been significantly wider than the LIBOR-OIS spread. Thus, the current US spread is not a good argument for narrower NIBOR spread – but certainly not at argument for a higher spread
- Longer dated FRAs rates edged up through December and have turned down so far in January. <u>The close to flat FRA curve still reflects expectations of an unchanged NoBa signal rate, but the implies more than 30 probability of a 2021 cut, from 15% two weeks ago</u>

NOK marginally down with the oil price, after a 3% recovery (without oil)

NOK is far too weak vs our 'old' model and somewhat too weak vs our alternative models

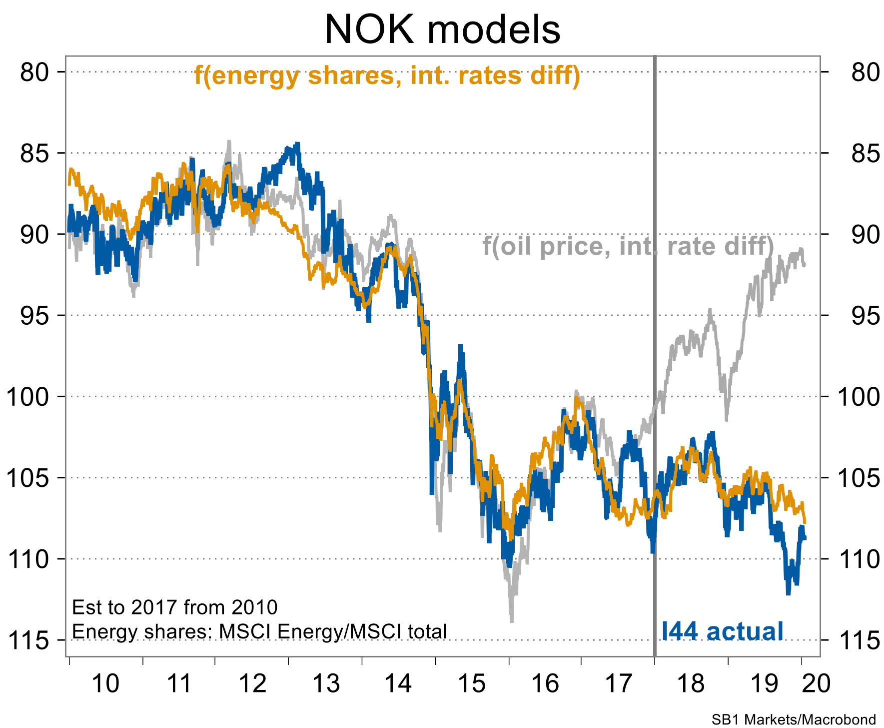


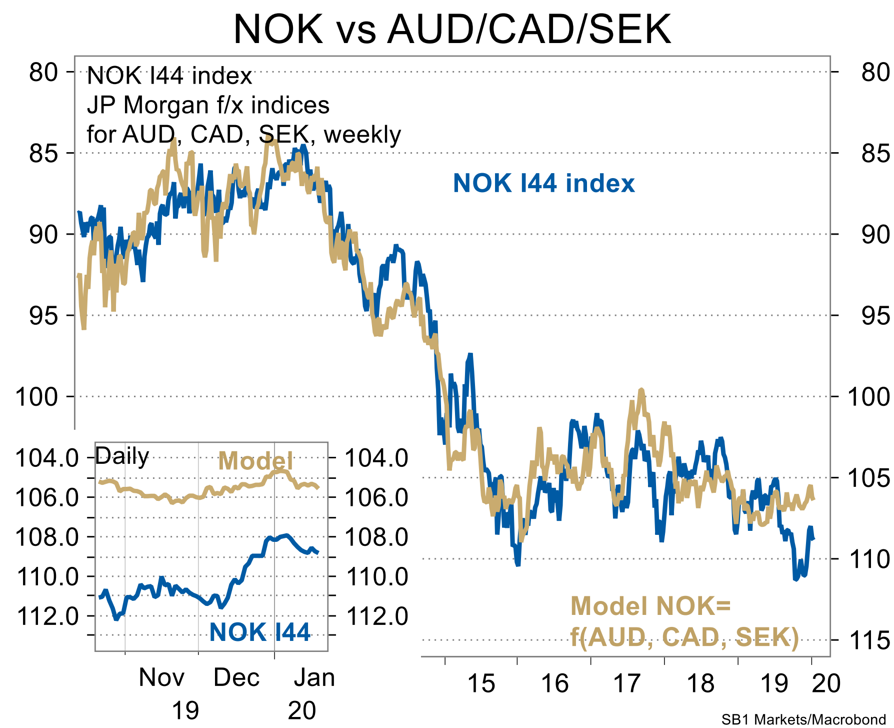


- NOK has strengthened by 4% from the late Oct ATL and close to 3% from the local bottom at Dec 10, but has fallen by 1% the past two weeks, partly explained by a retreating oil price (of which 0.1% last week). The gap between the our 'old', standard model estimate and the actual I44 index narrowed to 'just 8.8%, from ATH at 12% in Oct/Dec!
  - » Reduced global uncertainties following the UK election and the US/China partial trade deal may have supported the NOK the past month. Still, NOK did not follow the pound or risk markets up in the autumn when markets discounted less risk for a hard Brexit and for an escalation of the trade war
  - » NOK has very often been temporary weak in Dec, perhaps due to thin f/x markets. This year, the NOK was already 'too' weak ahead of the Holidays
- Our 'new' models, based on the other super cyclical currencies or energy (oil) equities are far closer to the ball (check next page), and the NOK is just marginally 'too' weak vs these models now
- We stick to our **buy NOK** recommendation

NOK still (marginally) too weak vs our ‘alternative’ models

NOK is 2% too weak vs the other ‘supercycle’ currencies and just 1% below the oil stock price model!

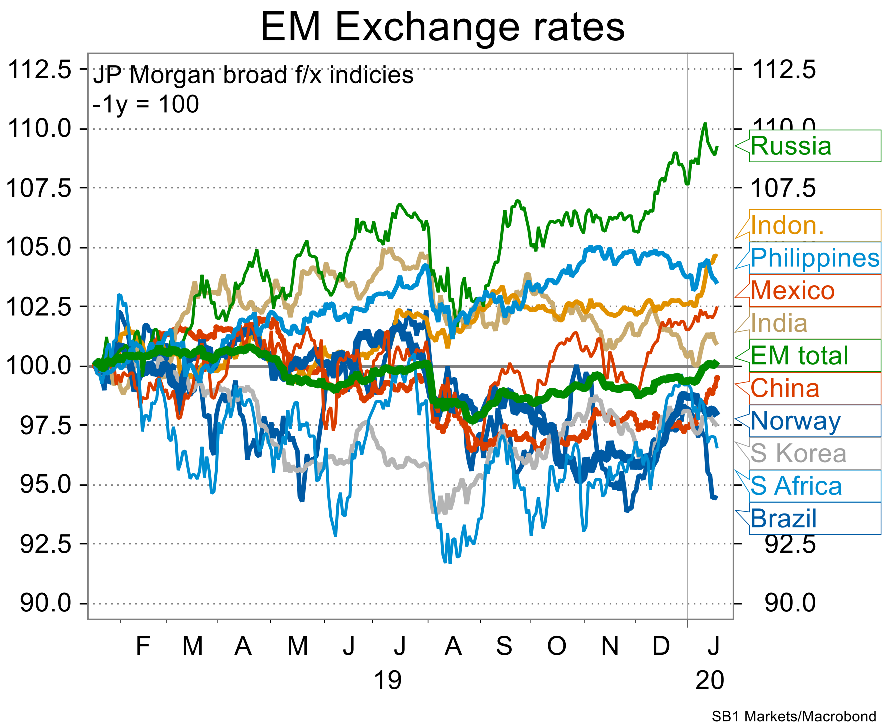


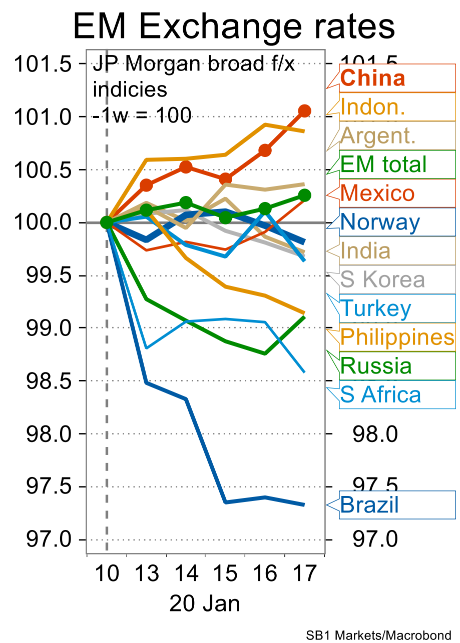


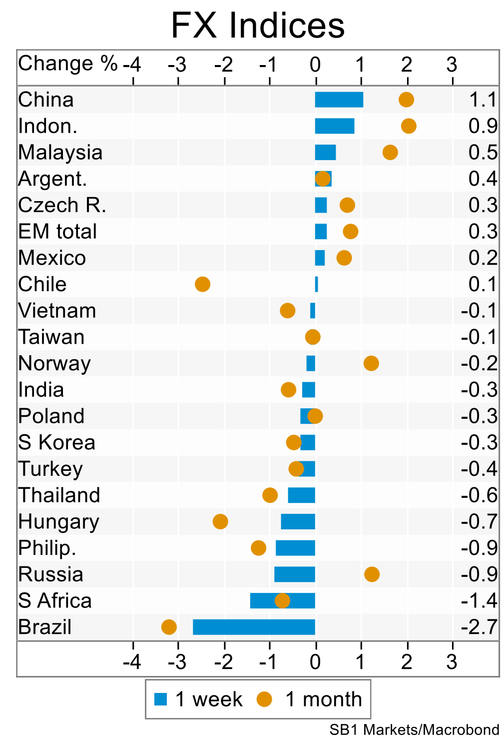
- Our NOK model based on pricing of oil companies has ‘explained’ the weak NOK much better than our traditional model since 2017, as have our ‘supercycle’ currency model (NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK). The EM x CNY currency aggregate is also quite closely correlated to NOK)
- Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook
  - » CAD and SEK have been much stronger than the NOK since September, at least until late December. The past month, NOK has appreciated much more than AUD and CAD, and AUD weakened substantially in early January

EM currencies strengthen as geopolitical tension ease, US/China sign deal

The CNY has strengthened 2.5% in January, total EM average at the highest level since August







- Most EM currencies stabilised/recovered in the autumn, trade war de-escalation and signs of a slight recovery in the global manufacturing sector probably the best explanations. Since November, the EM average has been rather stable

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