3 February, 2020

Macro Research

Weekly update 6/2020

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The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
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Last week – the main takes

- **Corona:** Growth of new cases is slowing but is still very high, close to 20% per day. The 'official' death rate is still low but since the virus is spreading rapidly, many of the sick have been sick for just some few days. The number of recovered is very low too. The impact to the Chinese (and world) economy will be highly visible in Q1 but previous pandemics have not left lasting growth scars. We expect the Chinese authorities to take draconian fiscal (or even monetary/credit measures) to mitigate the impacts. **Brexit:** UK has left the EU but no material changes regarding trade ect. before end of 2020. **Trump** is heading for acquittal in the Senate impeachment process

- Both **Chinese composite PMIs** probably fell in January but just marginally. The level do not signal any slowdown in the economy, even if exports orders were a tad weaker. However, the focus is now at February…

- **US GDP** rose by 2.1% in Q4, unchanged from Q3 and in line with expectations (but higher than PMIs, nowcasters and others signalled). Private consumption slowed, to a 1.8% annualized pace, business investments fell, and just government demand and housing (marginally) accelerated. In addition, net trade spiked, as imports dropped. The core PCE deflator (Fed's preferred price measure) slowed to a 1.3% q/q rate. Both **durable goods orders and capital orders** have stagnated, signals no growth in business investments. **The Fed** held the interest rate unchanged at 1.5-1.75%, as expected and the Fed promised to continue its Treasury purchases at least until the spring. **New home sales** have calmed somewhat recent months and pending sales may have turned down. Still, demand for housing is brisk and house prices are accelerating. **Consumer confidence** is steady, at a high level

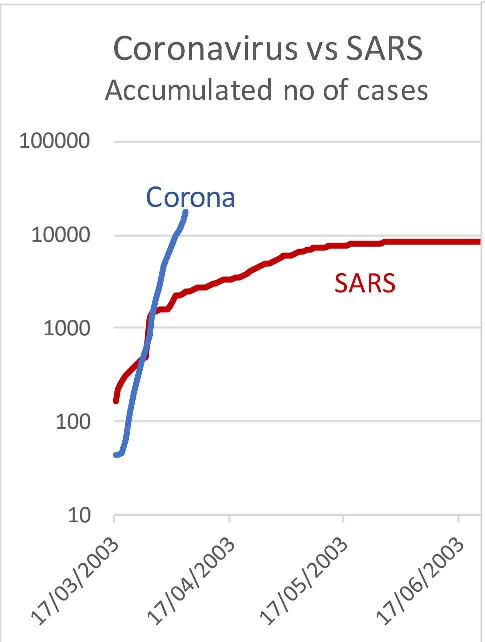
- **Eurozone GDP** came in below expectations, up just 0.1% q/q (0.4% annualized). Both France and Italy in contraction mode, Spain accelerated and Germany probably increased just marginally. No sector details. **Core CPI inflation** fell back down to 1.1%. **Unemployment** declined marginally to 7.4% in Dec, trending flat, at a low level. **Credit growth** is stagnating, due to a slowdown in corporate credit growth (along with softening investments). **The German Ifo survey** did not confirm the brisk recovery which ZEW signalled, however, manufacturers are reporting a moderating contraction

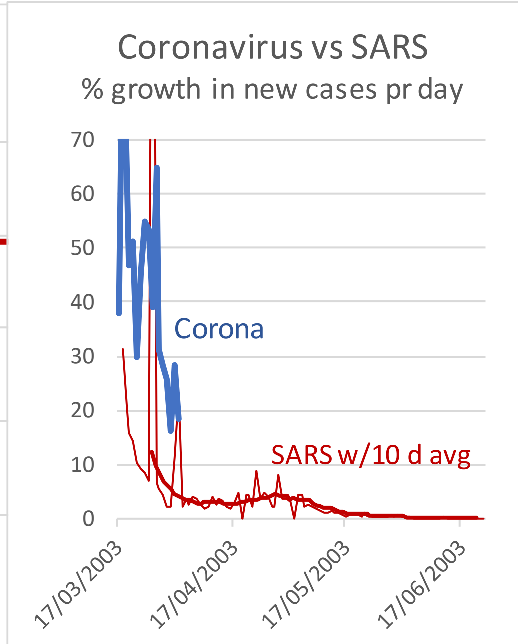
- **The Bank of England** kept the interest rate in hold at 0.75% in the most uncertain BoE meeting in a long time. Ahead of the meeting, a cut was expected by a 45% probability but just 2 out of 9 voted for a cut, fewer than expected. The bank lowered the GDP growth f'casts, and signalled that rates will be cut if the outlook should not improve according with projections

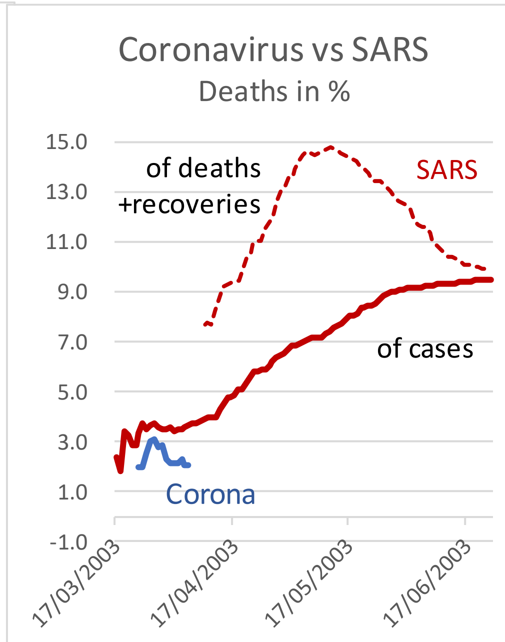
- **Norwegian retail sales** slipped 2% in Dec, albeit following a better November. Still, sales fell by 1% in Q4 (3.9% annualised) and will be drag on Q4 GDP growth (still sales are flat y/y). Savings are increasing, probably because the savings rate fall too much to 2018 from 2015. **Norwegian registered unemployment (NAV)** fell by 300 persons in Jan (and by 600 including measures), better than we expected. NAV unemployment figures have stabilised, and does not confirm the marked upturn which the LFS has reported. **Credit growth** eased more than expected in December, both households and the corporate sector contributed. Household credit growth has slowed substantially, to below income growth, and the debt/income ratio is finally declining!

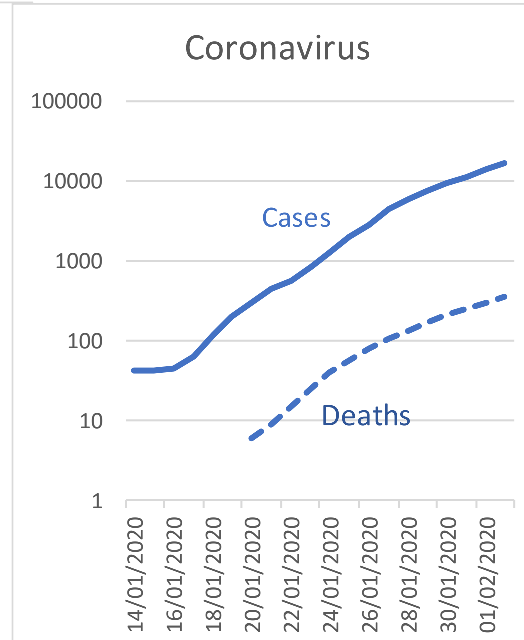
Corona is slowing down but still far from peak

Growth has slowed to ‘just’ 20% per day







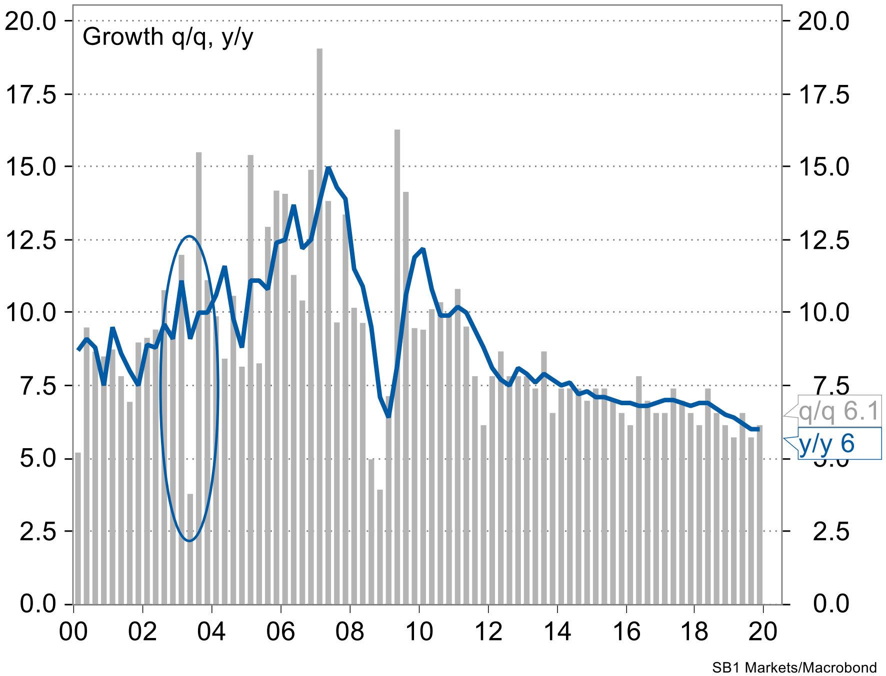


- Growth in number of new cases is slowing but it is still far higher than during the SARS pandemic in 2003. The growth rate has fallen to approx 20% per day, from 50% one week ago. However SARS spread at a far slower pace – and the no of corona cases, now at 17.300, is more than double of the SARS peak, which was reached after months, not weeks
- Death rates are very likely lower than for SARS (which reached almost 10%) but the no of recoveries is still very low as 95% of those who are declared infected are still sick; just 3% has recovered and 2.1% has died (362 persons). Thus, we do not know the real death rate. Assuming a 4 day sickness period (before death or recovery), the death rate is still 6%!
- There are still substantial uncertainty whether the Chinese authorities are able to register all new cases/deaths
- The no of deaths will very likely surpass that of SARS (800)

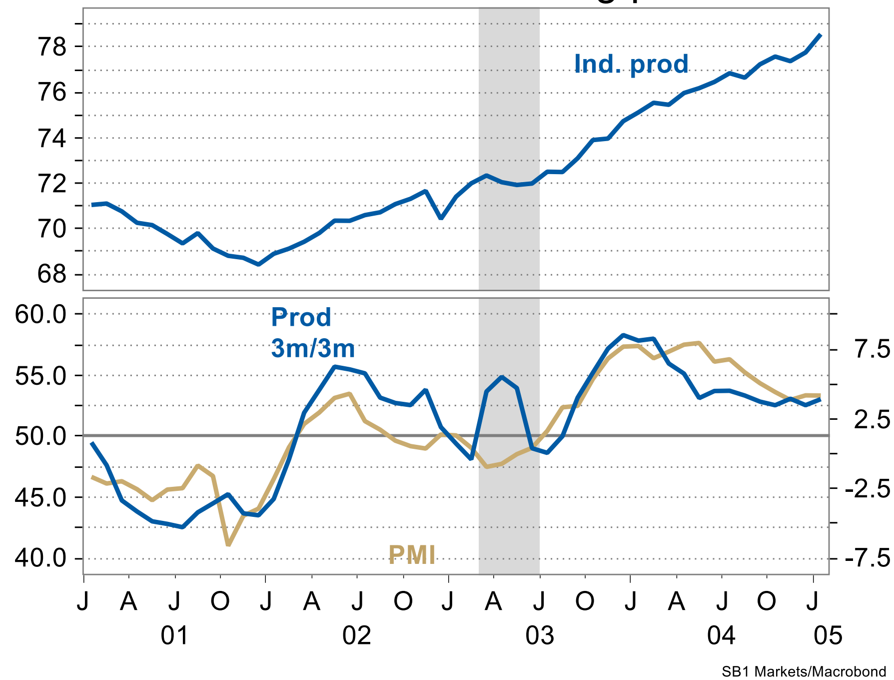
… and what about the Chinese or the world economy?

China will probably report negative GDP growth q/q in Q1, global down to zero?

China GDP



Global PMI vs manufacturing production



- During the SARS pandemic in Q2 2004, the Chinese GDP growth rate fell by between 1.5 and 2% q/q from Q2. The economy more or less fully recovered in Q3, it was back on track
- The measures taken by the Government this time will probably hurt the economy more. The national new year holiday is extended by one week and companies all over China have reported plant/shop/airline shutdowns. If ½ of China takes 1 week break, that equals almost 4% on the (no annualised!) GDP growth rate, which was 1.5% in Q4. A 4% slowdown will bring growth down to -2.5% (not annualised) in Q1. Some measures are already announced and we expect that the Chinese authorities will implement serious fiscal (or even monetary/credit) measures in order to dampen the impacts on the economy
- Without any impact on other countries, which of course is totally unlikely, a 4 pp Chinese slowdown in Q1 will lower global growth by almost ¾ pp, taking growth down to zero in Q2. In 2003, the impact on global growth in Q2 was not visible but China was then far smaller and less integrated in the world economy. These numbers are of course highly hypothetical, and is just an illustration.
- Even if the Chinese/world economy should slow sharply, the impact will be just very short term, <u>if the coronavirus is brought under control the coming days or very few weeks</u>. If not…

The Calendar

In focus: Global PMIs/ISM, China trade balance, US nonfarm payrolls, Norwegian Q4 GDP

Time	Country	Indicator	Period	Forecast	Prior
Monday Feb 3					
08:30	SW	PMI Manufacturing	Jan	47.8	47.1
09:00	NO	PMI Manufacturing	Jan	54.4(52)	55.5
10:00	NO	OBOS Oslo Apartment Prices	Jan		-2.3%
10:00	EC	Eurozone Manufacturing PMI	Jan F	47.8	47.8
10:30	UK	PMI Manufacturing	Jan F	49.8	49.8
15:45	US	Markit Manufacturing PMI	Jan F	51.7	51.7
16:00	US	ISM Manufacturing	Jan	48.4	47.2
	US	Total Vehicle Sales	Jan	16.80m	16.70m
17:00	WO	Global Manufacturing PMI	Jan	(50.4)	50.1
Tuesday Feb 4					
Wednesday Feb 5					
01:30	JN	PMI Composite	Jan F	--	51.1
02:45	CH	PMI Composite, Markit/Caixin	Jan	--	52.6
08:30	SW	PMI Composite	Jan	--	48.3
09:30	SW	Industrial Orders MoM	Dec	--	0.8%
10:00	EC	Eurozone Composite PMI	Jan F	50.9	50.9
10:30	UK	Composite PMI	Jan F	52.4	52.4
11:00	NO	House Prices Real Estate Norway	Jan	(0.3)	0.1%
11:00	EC	Retail Sales MoM	Dec	-0.6%	1.0%
14:15	US	ADP Employment Change	Jan	150k	202k
14:30	US	Trade Balance	Dec	-$47.4b	-$43.1b
15:45	US	Markit Composite PMI	Jan F	--	53.1
16:00	US	ISM Non-Manufacturing Index	Jan	55.1	55.0
17:00	WO	Global Composite PMI	Jan	(52.2)	51.7
Thursday Feb 6					
08:00	GE	Factory Orders MoM	Dec	0.6%	-1.3%
13:30	US	Challenger Job Cuts YoY	Jan	--	-25.2%
14:30	US	Unit Labor Costs	4Q P	0.9%	2.5%
14:30	US	Nonfarm Productivity	4Q P	1.40%	-0.2%
14:30	US	Initial Jobless Claims	Feb-01	--	216k
Friday Feb 7					
	CH	Exports YoY	Jan	-4.5%	7.6%
08:00	GE	Trade Balance	Dec	14.0b	18.3b
08:00	GE	Industrial Production MoM	Dec	-0.2%	1.1%
08:00	NO	GDP Mainland QoQ	4Q	0.3%(0.3)	0.7%
08:00	NO	Manufacturing Production MoM	Dec	(0.2)	-0.4%
08:45	FR	Manufacturing Production MoM	Dec	--	-0.1%
14:30	US	Change in Nonfarm Payrolls	Jan	160k	145k
14:30	US	Unemployment Rate	Jan	3.5%	3.5%
14:30	US	Average Hourly Earnings YoY	Jan	3.0%	2.9%
Monday Feb 10					
02:30	CH	CPI YoY	Jan	--	4.5%

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

- **Global January PMIs**
  - » We expect an substantial uptick in the **global January PMIs**. The manufacturing sector PMI probably rose some 0.3 pp, and the global composite index by close to 0.6 p, both up to the best level since early 2019
- **China**
  - » In December, China exported more in one month than any country has ever done before. Actual January **goods exports** are probably not influenced by the corona virus outbreak but February goods exports probably will. Imports are on the way up. Industrial activity and surveys indicate a further rise in both exports and imports
  - » **CPI inflation** may have peaked – at a high level 4.5% due to the surge in port meat prices due to the swine flu
- **US**
  - » Growth in **nonfarm payrolls** was lower than expected in Dec, and is expected to remain at a 'moderate' level in Jan – however high enough to bring employment down over time. Unemployment is trending down but so too is wage growth, surely a surprising mix
  - » **Total labour costs** (ECI) will be reported alongside **productivity growth.** The latter has recovered somewhat but remains at rather low level (1.5% in the business sector)
  - » **Auto sales** are trending slowly down but is expected marginally up in Jan
- **EMU**
  - » **Retail sales** have not at all been weak through 2019. Following the 1% lift in Nov, a decline in Dec is likely. **Auto sales** rose further, and broadly in Dec, perhaps as many got rid of high emission cars ahead of the tighter regulation from Jan. Or will more low emission cars flow the market now?
  - » **Germany industrial production** has been a catastrophe. Surveys and orders point towards a slower decline
  - » **German exports** have flattened, just like global trade –and foreign orders have fallen
- **Norway**
  - » **Mainland GDP** growth most likely slowed substantially in Q4, and somewhat more than Norges Bank assumed in Dec. We expect a 0.3% (1.2% annualised) growth rate. Growth in consumption is muted, and housing investments fell. However, oil investments rose sharply, probably up to the peak level in this cycle
  - » **House prices** are climbing slowly but steady, though with substantial regional differences. The inventory is trending slowly down, usually signalling modest price hikes, we expect 0.3% in Jan, a bit higher than over the previous months.
  - » **Manufacturing production** has got a boost from the surge in oil investments but that's now history, and production growth will probably turn negative in at least parts of 2020

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 turned up. 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 Q3 2018. We expect a modest slowdown to 2.8% in 2020, even if trade conflicts are 'solved'**	We estimate a 0.5 - 0.6 p lift in the global PMI in January, both manufacturing and services contributed. If correct, the level at 52.2 is the highest in 10 months, pointing to an acceleration to 3.3-3.4% global GDP growth (vs 3.0% in Q3). The recovery is rather broad among the major economies. At least it was, until January…
China	Growth has slowed just marginally, and inched up through 2019, we do not expect a collapse in 2020 either, barring the (likely) short term impact of the coronavirus outbreak. Surveys and data are indicating a mild recovery, 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 longer term impact for the virus outbreak or a serious economic dip for other reasons. **De-escalation of the trade war is fine but the real risks are the high debt level & possible over- investments. + Some virus uncertainty, short term**	Both January manufacturing PMIs edged down but still suggests a growth rebound. Exports orders a tad softer, total orders not weak. Composite PMIs probably fell marginally (Markit has not reported services PMI)
USA	Growth will most likely not accelerate in 2020, from the 2% speed since Q2. Unemployment is low, profits under pressure, and corporate debt is high. Business investments are above trend, and 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 fully 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**	Q4 GDP growth held steady at 2.1%, higher than most surveys/nowcasters indicated. Consumption still the main engine (but slowing), business. invest, fell. Imports plunged in Q4, exports a tad down. Core PCE inflation slowed to 1.3%. Durable/capital core orders have stalled. Housing demand seems strong, mixed sales data
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 the surveys are indicating. The consumer side has been resilient. The labour market is tight, and labour cost infl. is back to a normal level. Investment ratios are above trend. Credit growth may be flattening out, as corporate demand slows. 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, Italy, as always**	Q4 GDP growth slowed to 0.4% annualized in Q4, weaker than expected, in spite several signs of stabilization. Core CPI inflation fell back to 1.1%. Unemployment marginally down, trending flat. Corporate credit growth is easing, households up.
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**	Registered unemployment declined modestly in January but have flattened out. Credit growth slowed substantially in Dec and household credit is now growing lower than disp. income. Retail sales and consumption are sluggish

In this report

Global
- Corona is slowing down but still far from peak
- Global macro data are beating expectations, Norwegian has turned south
- Global industrial production probably further up in Dec, retail sales close to flat

China
- Manufacturing PMIs still point to a further rebound
- Both composite PMIs probably down but just marginally, and level still 'high'

US
- The Fed stands firm, raised the IOER and promises to continue buying Treasuries
- GDP growth held steady at 2.1% in Q4 but the details are not impressive
- Consumption growth cools off, still not 'dangerously' slow
- Core PCE inflation up to 1.6% in Dec, from a downward revised 1.5% in Nov
- Durable goods orders up in Dec but are trending slowly down
- The trade deficit widened in Dec as imports recovered mildly
- New home sales have inched down for 3 months, still trending up
- Pending existing home sales fell in Dec, but less dramatic than reported
- Case Shiller house price inflation gains pace
- Consumer confidence stabilized in January
- Jobless claims tilting marginally upwards, level still very low
- US surveys ahead of the ISM: 4 up, 3 down

EMU
- GDP growth slowed more than expected in Q4
- Core CPI inflation back to 1.1% in January
- Unemployment still declines marginally
- EMU Credit growth flattens, corporate lending growth is slowing
- EU economic sentiment brightens in January, more upbeat than other surveys
- German Ifo expectations edged down in Jan, but the sector details are encouraging

Japan
- Retail sales and manufacturing have not yet recovered from VAT hike
- Unemployment steady at a very low level, employment still increasing

Sweden
- Retail sales are expanding modestly, just marginally below trend
- Consumer confidence sliding slowly down
- The KI business survey up in January, level still low

Norway
- NAV unemployment has stabilized, but does not confirm any upswing
- Credit growth is ebbing, households the major drag
- Retail sales tumbled in Dec and private consumption is sagging
- Consumer sentiment is slowly softening, level not weak

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Highlights

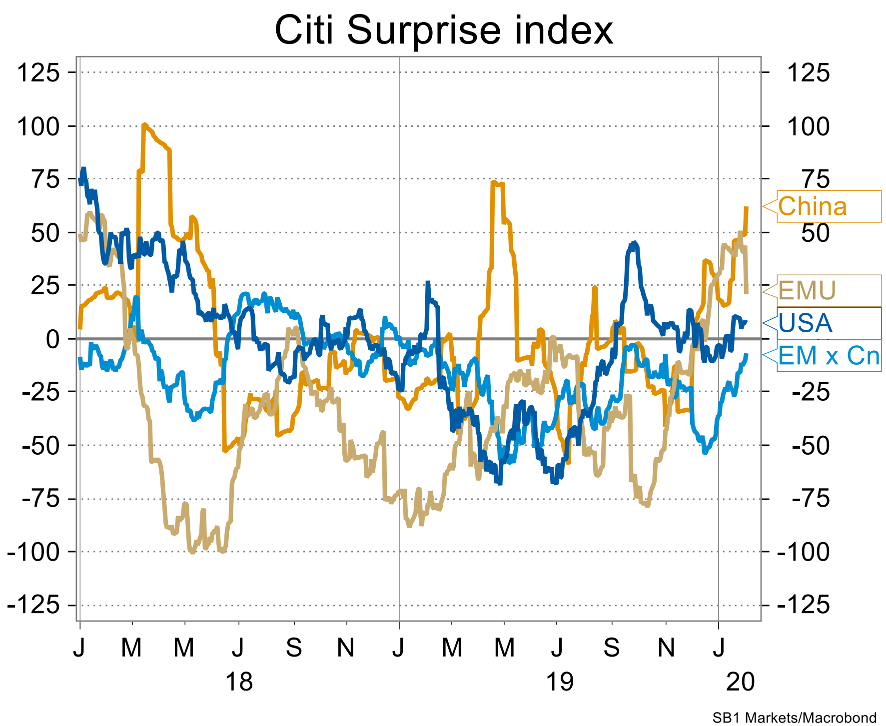
The world around us

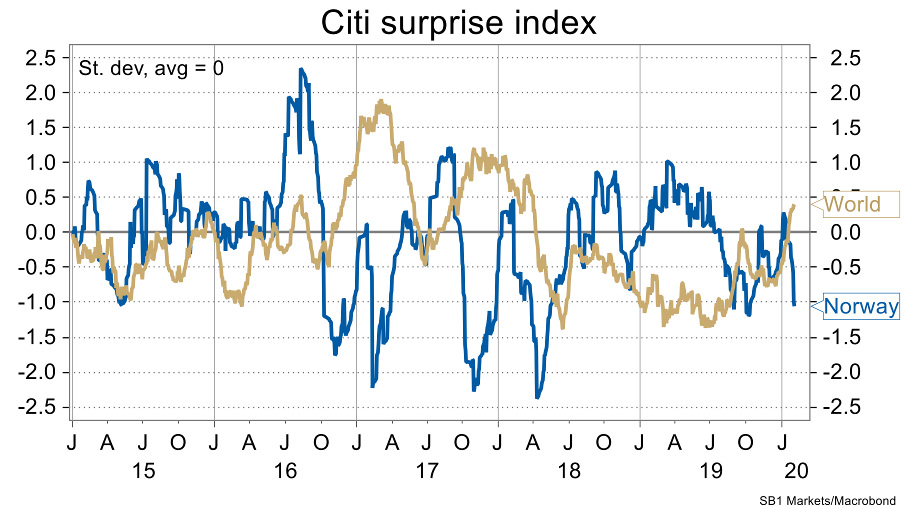
The Norwegian economy

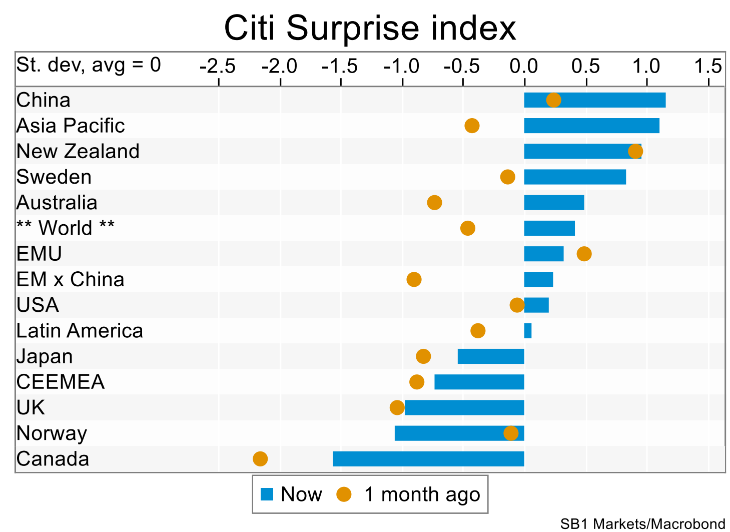
Market charts & comments

Global macro data are beating expectations, Norwegian has turned south

Data from China, EMU, US are all more upbeat then expected, and EM x China less disappointing







- Global macro data are in sum marginally better than excepted, for the first time since April 2018 (barring one day in Sept). The surprise index has moved up since mid-Dec
- Stronger than expected December/Q4 Chinese data and PMIs have lifted the surprise index sharply. Other EM data are just marginally on the weak side
- EMU data are upbeat vs expectations, the highest level in 2 years. UK still very weak
- The US index has been hovering around a 'neutral' level since the autumn
- Norwegian data are more disappointing vs f'casts; weak credit growth and retail sales pulled the index down last week

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

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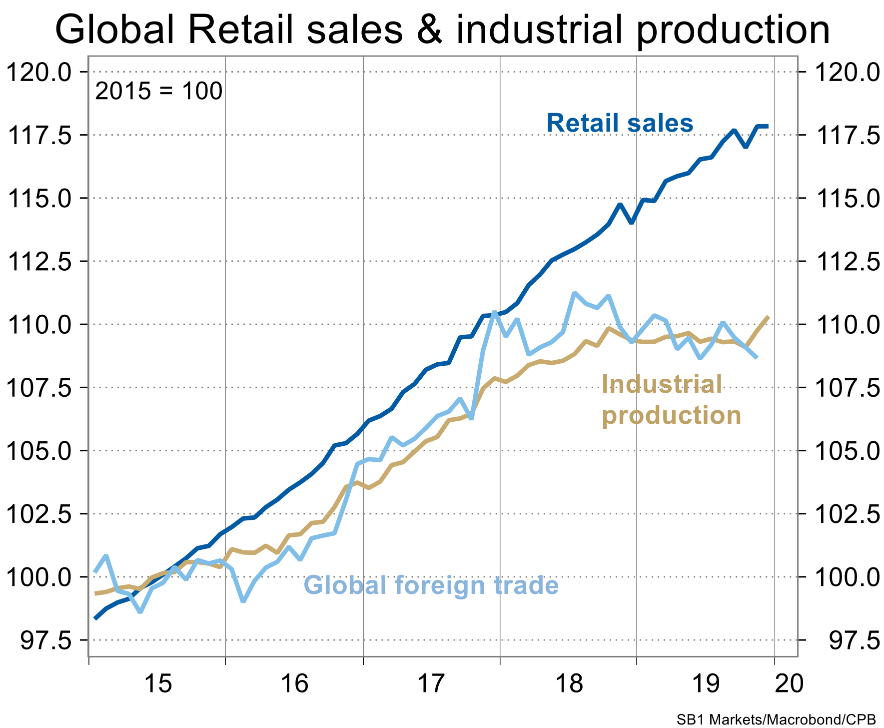
Global industrial production probably further up in Dec, retail sales close to flat

Global trade stabilized in the autumn, industrial production is recovering, retail trade stalling

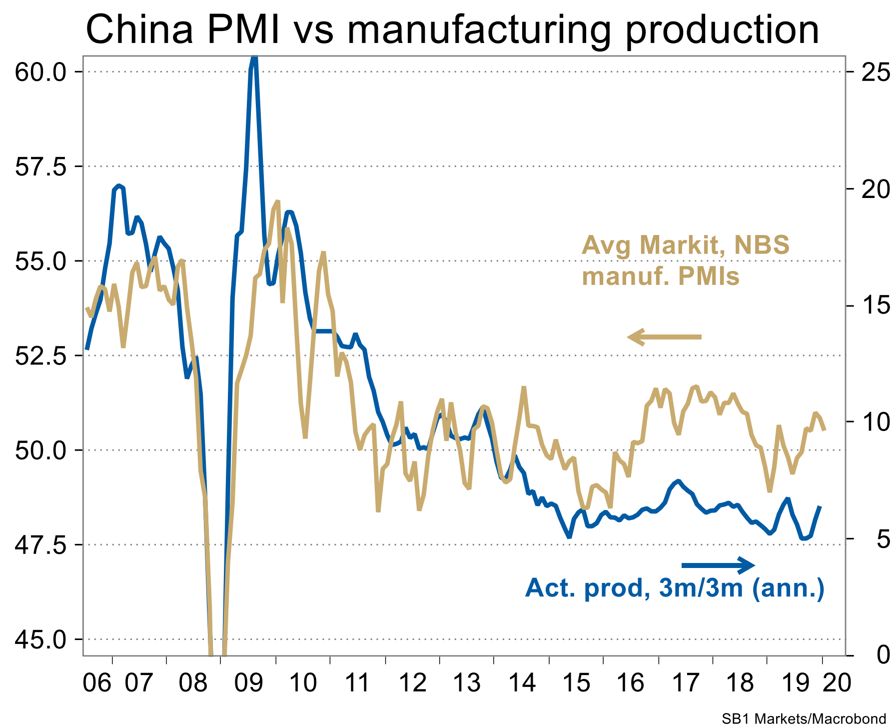


Memo: Keep in mind the different scales at the chart above

- **Global industrial production** rose by 0.5% in December (our prelim est), possibly bringing production above the Nov 2018 peak level. Global PMI has recovered the past 5 months, now signalling a 0.5 - 1% growth pace
- **Retail sales** were probably close to flat in Dec after the 0.7% increase in Nov. The recent volatility is mostly due to the VAT hike in Japan, which pushed sales forward to Aug/Sept, before collapsing in October, like 'usual' following such VAT hikes
- **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

Manufacturing PMIs still point to a further rebound

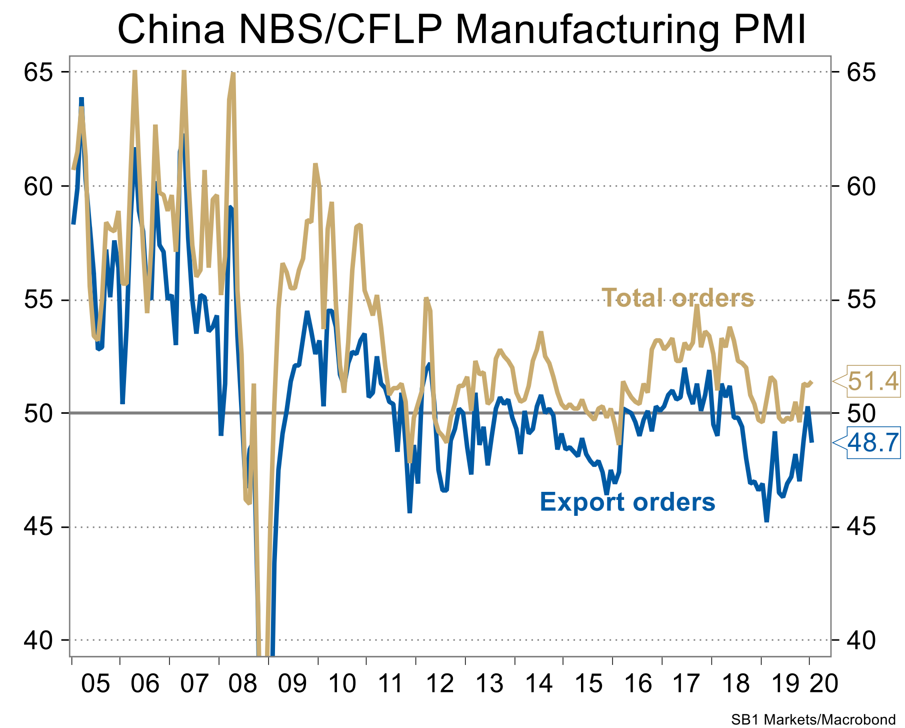
Markit's manufacturing PMI edged down 0.4 p to 51.5, NBS/CFLP inched down to 50.0



- Markit's manufacturing PMI fell to 51.1 in January, from 51.5, expected down to 51.0. The level is still well above the average over the past year or years
- The 'official' NBS/CFLP manufacturing PMI edged down to 50.0 in January, from 50.2. The index for total orders rose marginally to 51.4, signalling decent order growth. The export orders PMI fell to 48.7, which is still higher than most months the past 2 years
  - The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs is suggesting faster growth in the manufacturing sector
- <u>Policy implications: That's history. Now it's the coronavirus and its implications</u>

PMI order indices flat/down in January, exports somewhat weaker

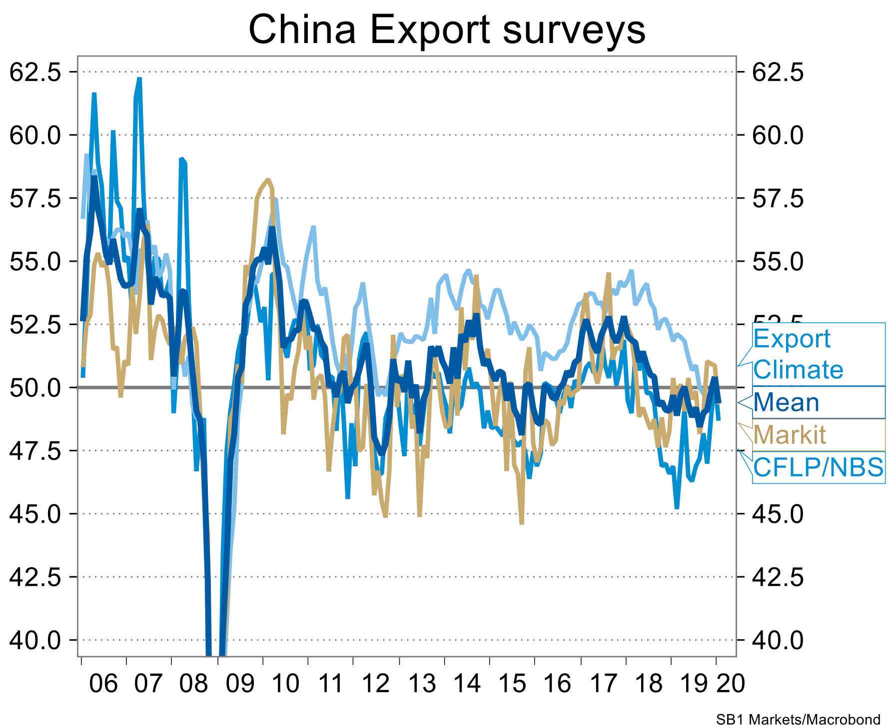
Markit's index at tad more upbeat than NBS' index



- The total order index in Markit's index inched down in January too, after a strong upturn in the autumn. The level at 51.9 signals growth well above the average recent years. The export component fell to below 40 but is not weak either
- The NBS/CFLP order index rose marginally to 51,5 while the export orders index fell to below 50 again, and is somewhat below par (but well above the average over the past two years

Export surveys down in January but not weak

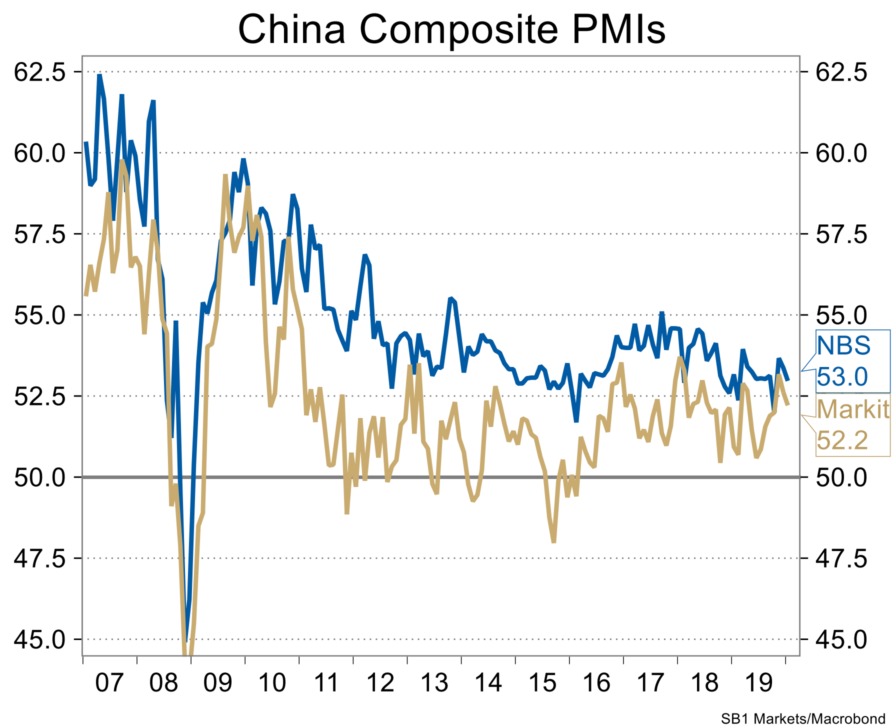
Exports surveys (2 PMIs + a climate index) have recovered recent months – and exports are steady

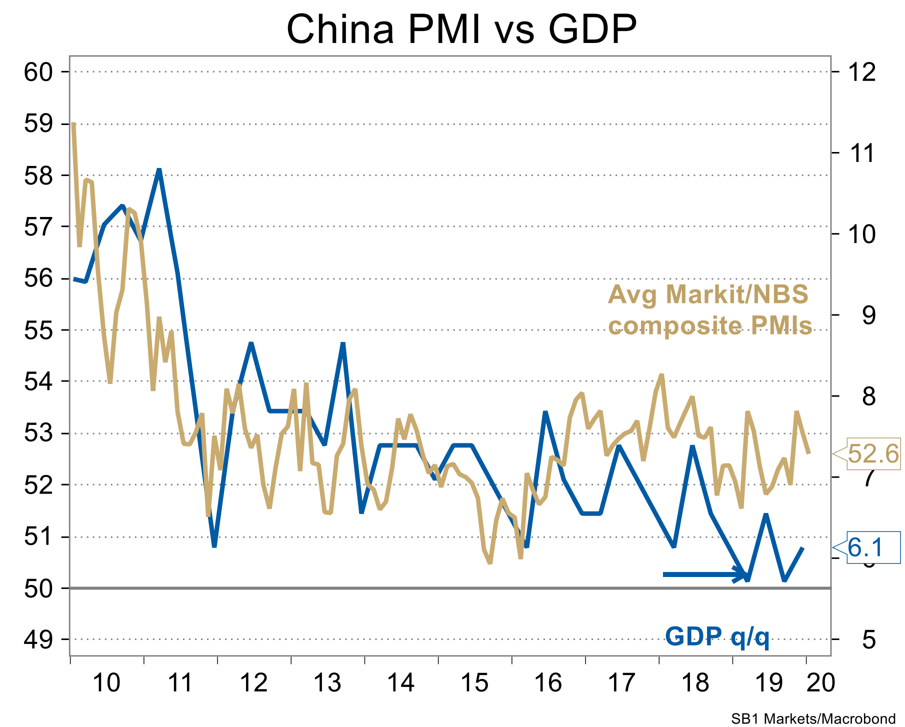


- The surveys we are following fell 0.9 p to 49.4 in January (in avg). The downturn through 2019 was milder than in 2012, 2013 and 2015 and 2016. During these periods, export volumes flattened in 2012, 2013, and fell marginally in 2015/16 – without pushing the Chinese economy into tailspin
- Export volumes fell in 2018 and more or less stabilised in 2019. Surveys do not indicate any downturn, rather, an upswing, even as exports to the US have fallen sharply

Both composite PMIs probably down just marginally, and level still 'high'

The avg of PMI surveys signals higher GDP growth

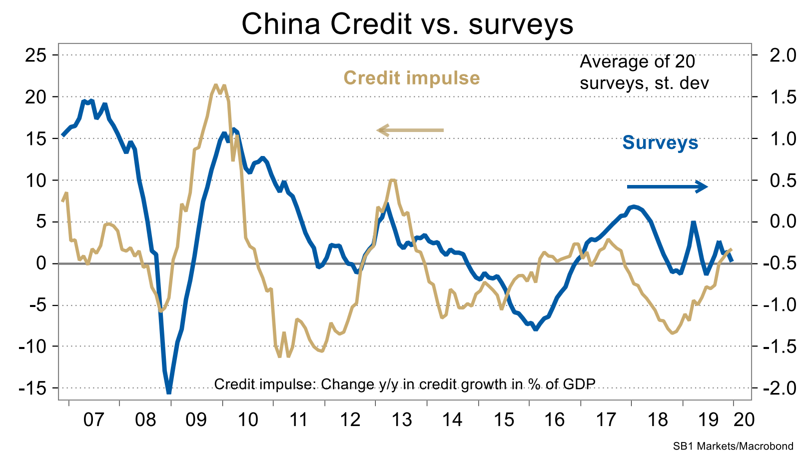


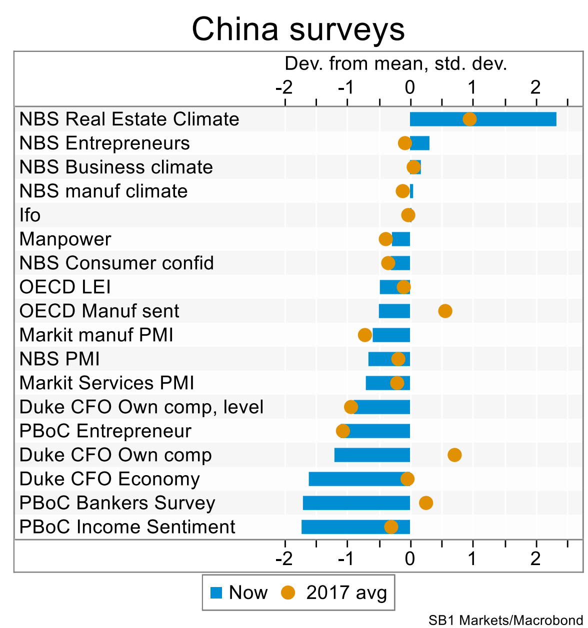


- NBS' 'official' composite PMI (CFLP) fell 0.4 p to 53.0 in January, on a slightly weaker growth in manufacturing. The composite PMI at 53.0 is still suggesting a somewhat higher GDP growth than the 6.1% speed in Q4
- Markit's composite PMI probably fell approx by the same amount (we do not have the service sector index yet)
- In avg, the two PMI data sets have recovered since the early summer, and signal higher, not lower growth

Surveys have stabilised amid government stimulus and easing trade headwinds

Consumer confidence is still sky-high and businesses sentiment is not weak

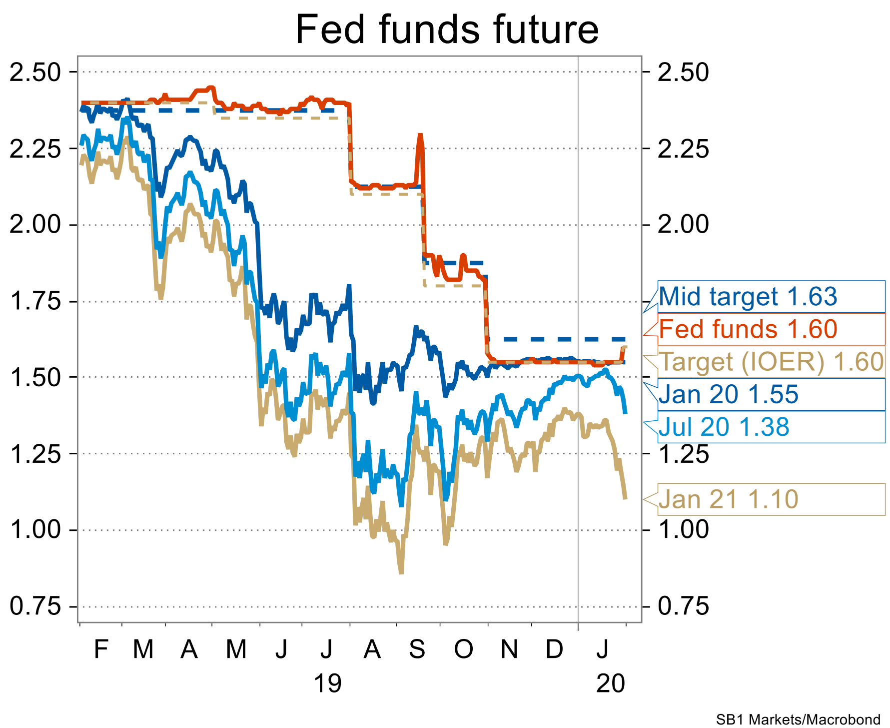


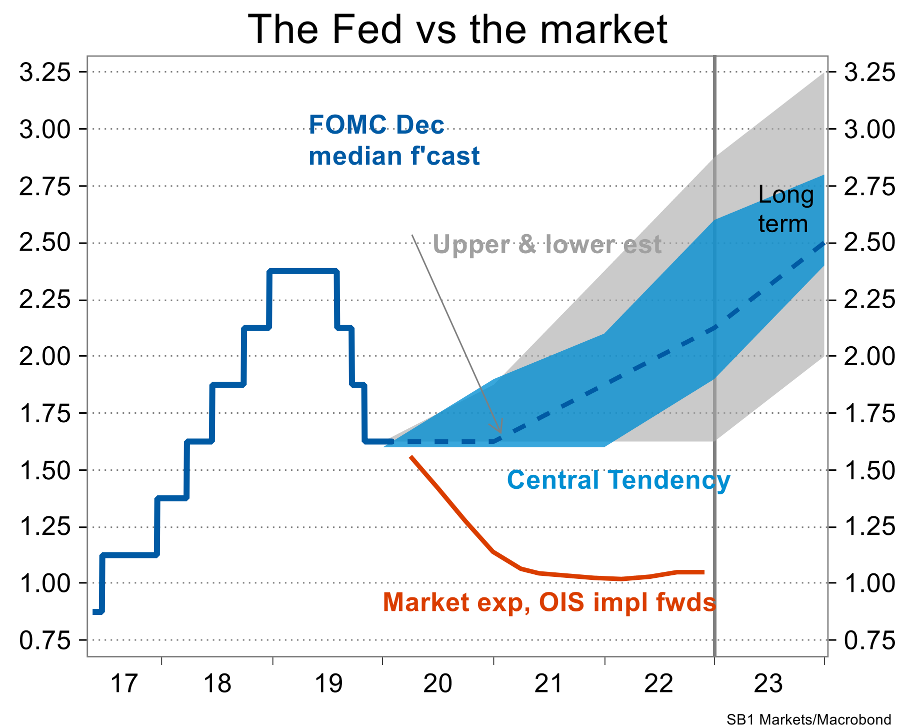


- Trade war worries partly explain the slowdown in China through 2018 but the credit tightening in 2017 (especially vs. the shadow banking market), that dampened credit growth substantially is probably more important. The credit impulse (the 2. derivative) turned negative, and the economy slowed, as usual
- **In 2019**, the authorities have been pushing the credit accelerator again. The credit impulse has turned positive. In addition, fiscal policy has been turned expansionary, both by cutting taxes and increasing expenditures, especially in infrastructure (equalling 1% of GDP)

The Fed stands firm, raised the IOER and promises to continue buying Treasuries

FOMC remains patient but appeared marginally on the dovish side

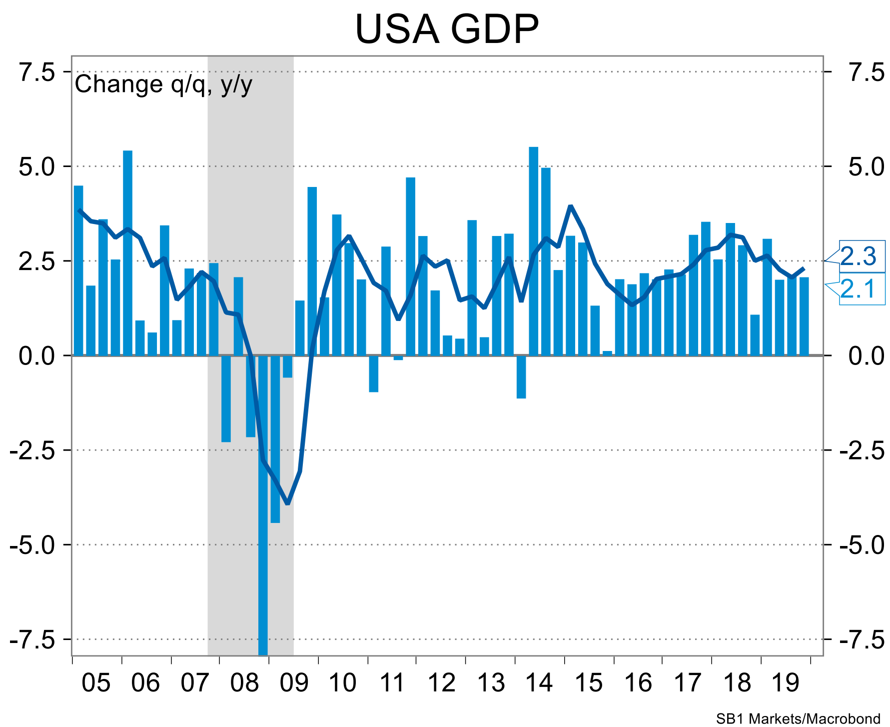


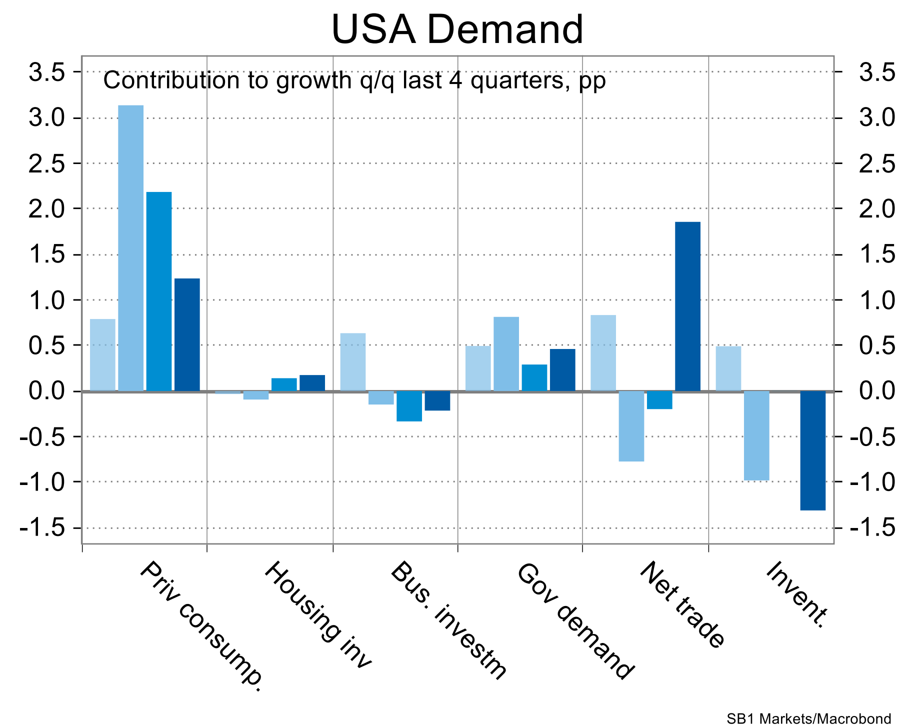


- The FOMC kept the Fed funds rate unchanged at 1.5-1.75%, as everyone anticipated. The decision was unanimous. No new dot plot or f'casts. In December, the FOMC signalled that the interest rate will be held unchanged interest rate through 2020 and hiked in 2021
  - » Few changes were made to the statement, the assessment of private consumption was less upbeat (rightfully)
- The interest rate on banks' excess reversed at the Fed, the IOER, was raised by 5 bps to 1.6%. The adjustment was done to bring the Fed funds rate, which has been in the low end of the target, closer to its mid-target range. The purchases of US Treasury bills will continue at 'least into Q2' and the repo operations will be conducted at least through April
- Market reactions: Stock markets cheered some comments from Powell, which they took to be dovish. The Fed funds rates declined marginally, and market expectations of one or more interest rate cuts (by 25 or 50 bps) in July were raised to 47%, from 44% the prior day. Now, the probability has increased to 70% - mostly due to corona fears. The market is now pricing in more than two cuts in total

GDP growth held steady at 2.1% in Q4 but the details are not impressive

Private consumption cooled, business invest. continued to decline modestly and imports dropped

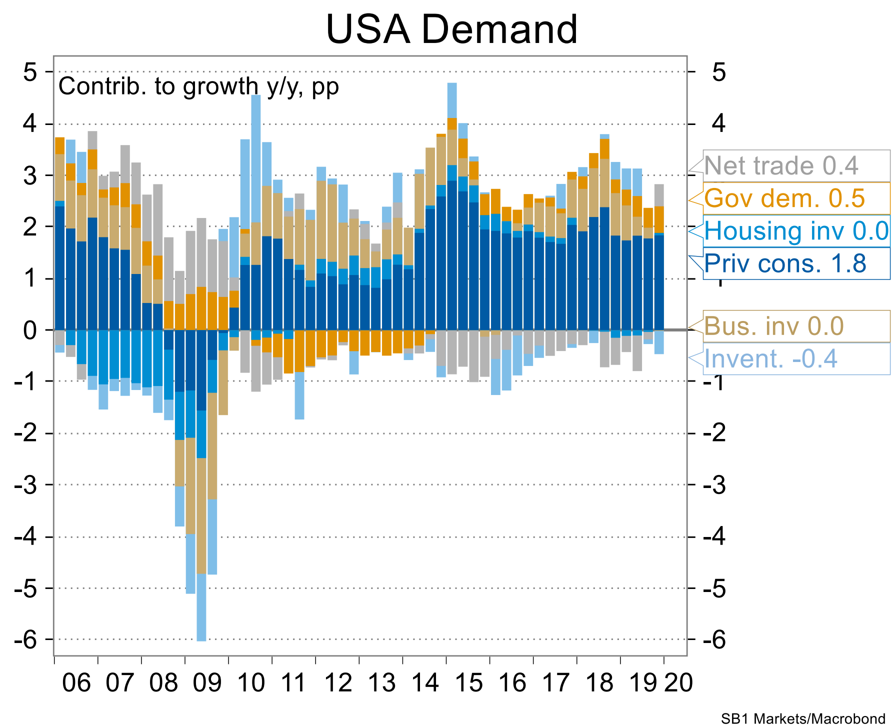


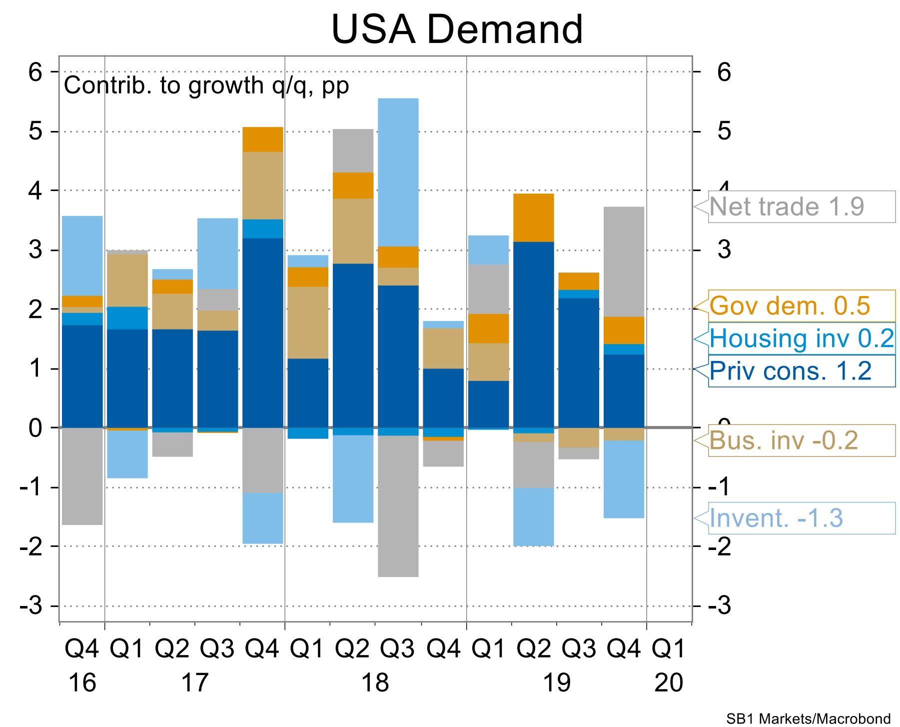


- GDP grew by 2.1% q/q annualized in Q4, just in line with consensus, but tad better than most nowcasters and surveys signalled. The quarterly rate was unchanged from Q3 and the annual growth rate ticked up to 2.3%, from 2.1%. Growth has been 2.1% in average the past 5 quarters (and 2.3% the past 4, that is y/y)
- However, the details are upbeat than the headline figure suggests. Consumption slowed to a modest 1.8% pace and business investments continued to decline, although by marginally less than in Q3, down 1.5%. Government demand accelerated (contributed 0.5pp). Housing investments picked up. Net trade soared as imports plunged 8.7%, perhaps partly influenced by the trade war) while exports rose modestly. The net trade contribution was an unusual 1.9 pp! The spike in net trade was offset by a negative impact from inventories, by 1.4 pp. Thus goods were taken from the shelfs, rather than imported from abroad, in this quarter
- Core PCE inflation (Fed's price measure) eased to 1.3%, lower than expected, will probably fuel hopes of a continued dovish Fed

Private consumption is slowly moderating, still the main growth engine

Government demand and net trade the other contributors through 2019

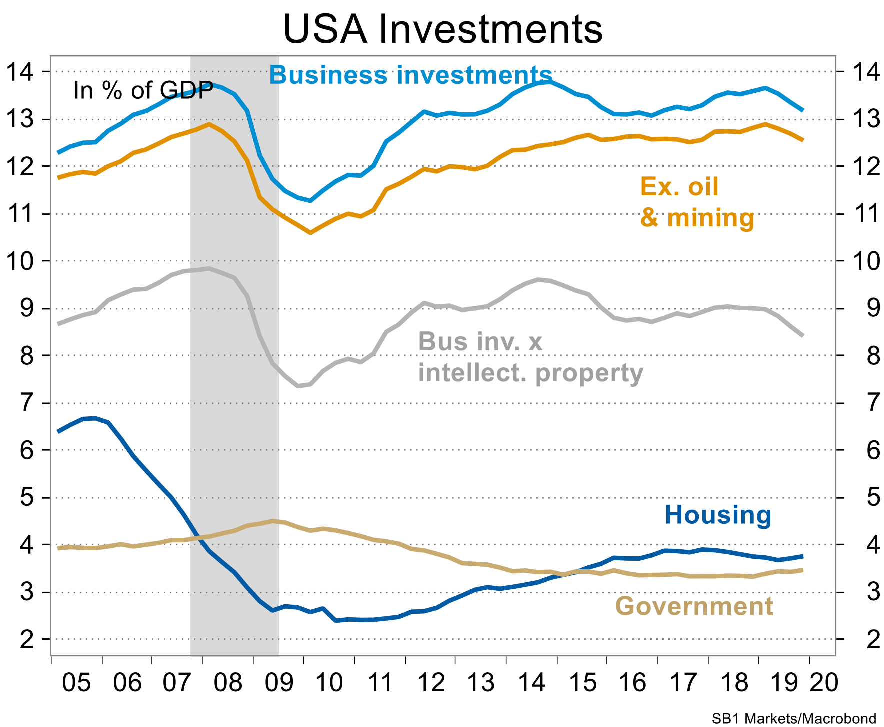


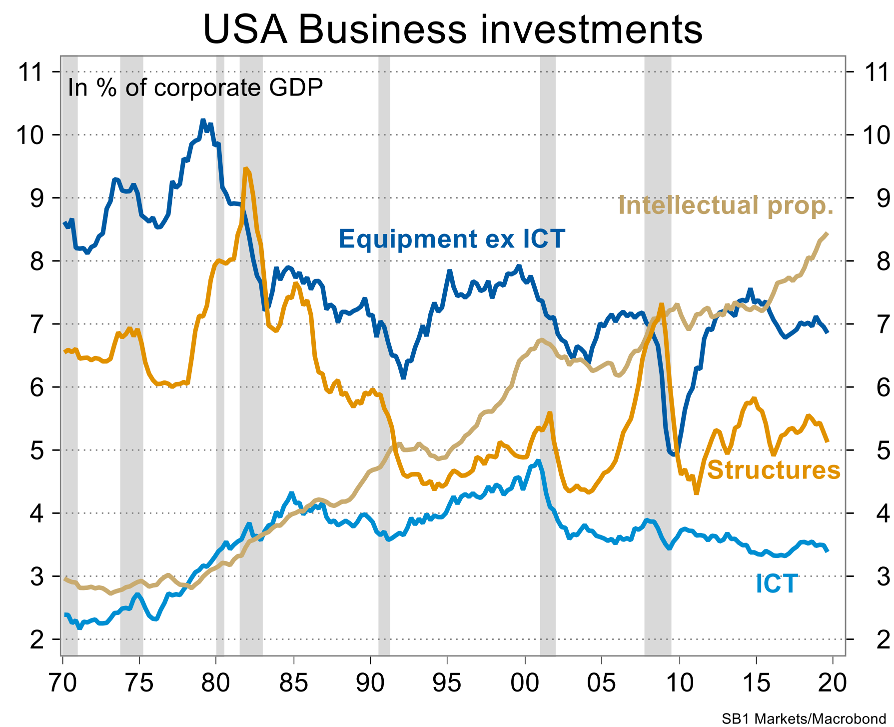


- Private consumption lifted growth by 1.2 pp q/q and by 1.8 pp y/y, out of total GDP growth at 2.3 (!). Housing investments made a marginally positive contribution, by 0.2 pp on the quarterly rate but zero to the annual rate
- Business investments dragged growth down by 0.2 pp in Q4, the 3rd negative print in row. Thus, investments did not contributing to growth y/y,, the weakest since 2016 (then just because oil investments collapsed - and before that, the Financial Crisis)
- Government demand has been accelerating the past 2 years and lifted both the q/q and y/y rates by 0.5 pp, as it is growing by 3% y/y! With the lowest unemployment rate in 50 years….
- Imports fell steeply in Q4 while exports increased modestly; net trade made a 1.9 pp contribution, chiefly offset by a 1.3 pp drag from inventories

Business investments have turned down, from a rather high level

Housing investments have stabilized, government investments are slowly increasing (in % of GDP)

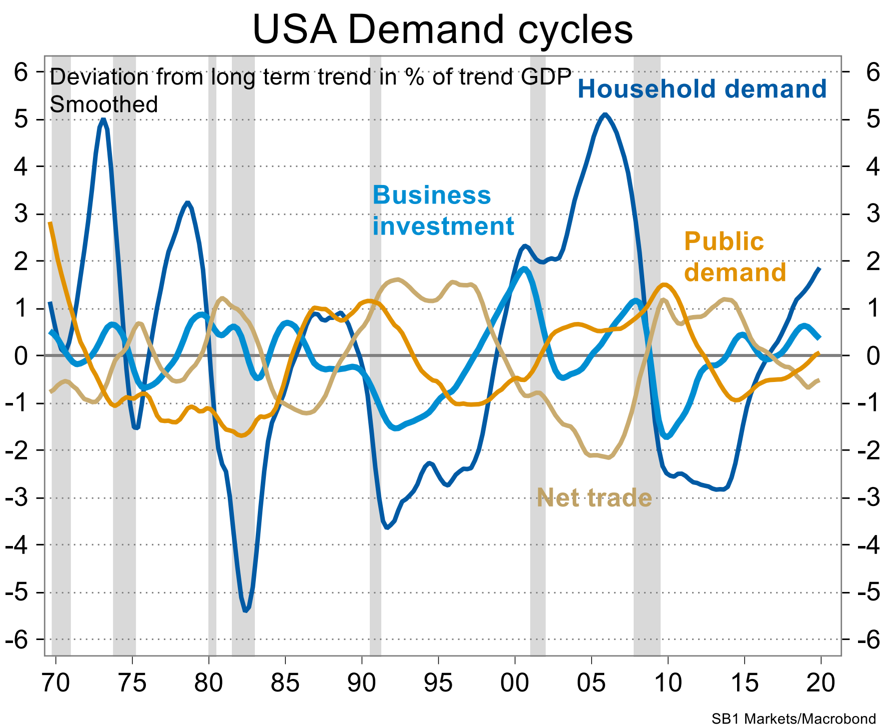


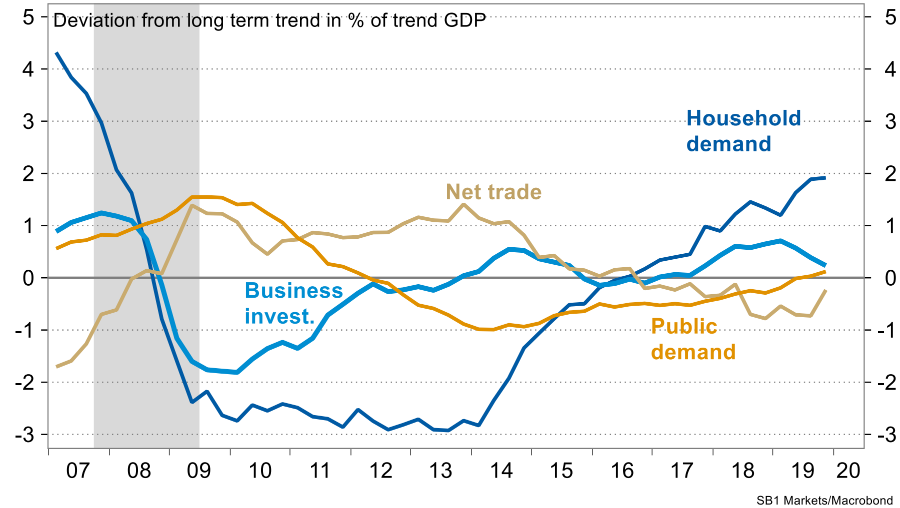


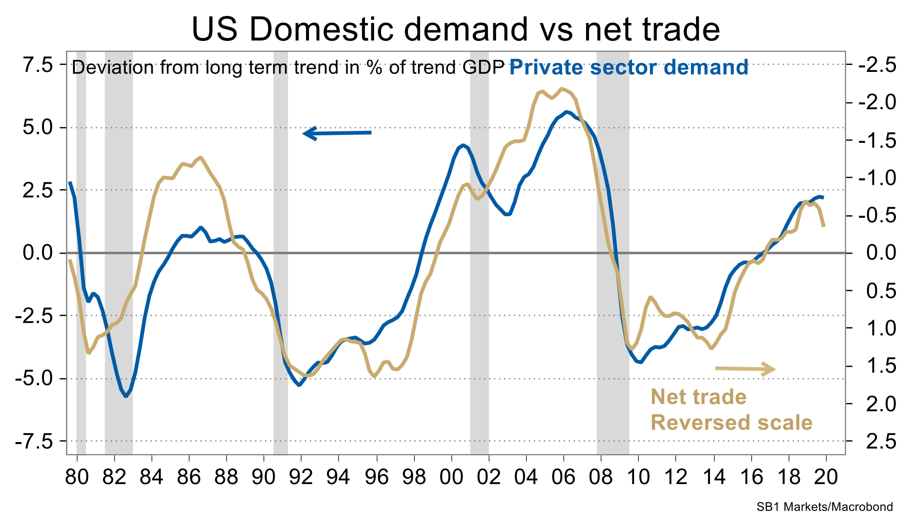
- Total business investments have fallen for three consecutive quarters, the first decline since Q4 ‘15. Oil investments were the main driver for higher business investments in 2018. In Q4, oil investments increased, after having been reduced substantially in Q3, annual rate -0.1%
- IP/software investments are still increasing at a high speed (some 8% y/y), and now constitutes more than 1/3rd of all business investments. These investments have always been less cyclical than investments goods, indicating that cycles in total investments will be less harsh than before. In addition, business investments in structures are not dangerously high, neither are equipment investments.
- Housing investments have turned up modestly in Q3 and Q4, offsetting a small share of the slowdown in business investments. The level is not very high – and should a housing market downturn come, it can not impossible be a very large one

Long term; households the main demand force, public sectors has recovered

Net trade may have bottomed out – but underlying just due to weaker domestic demand?





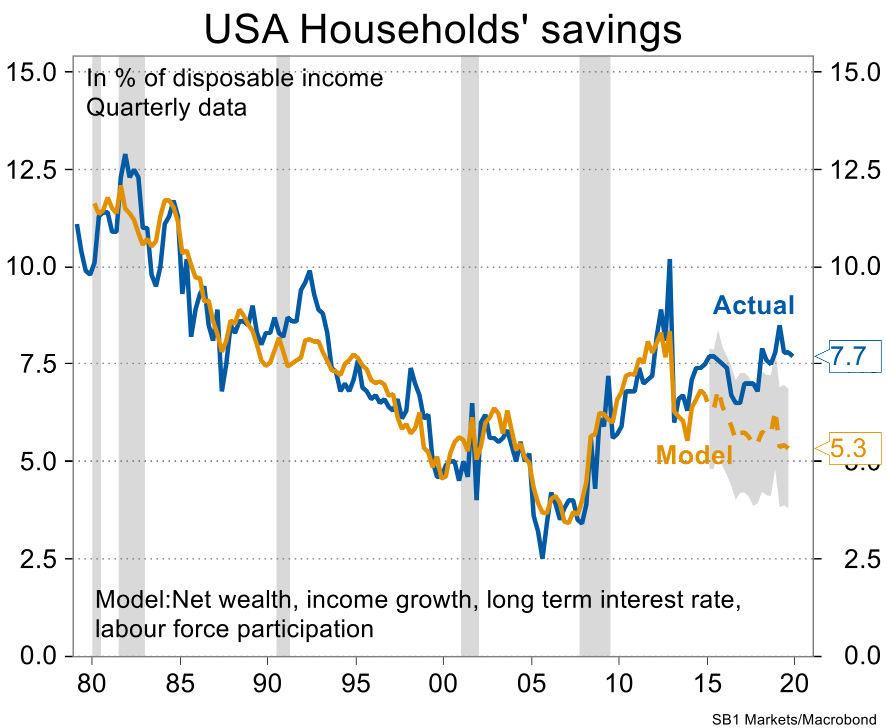


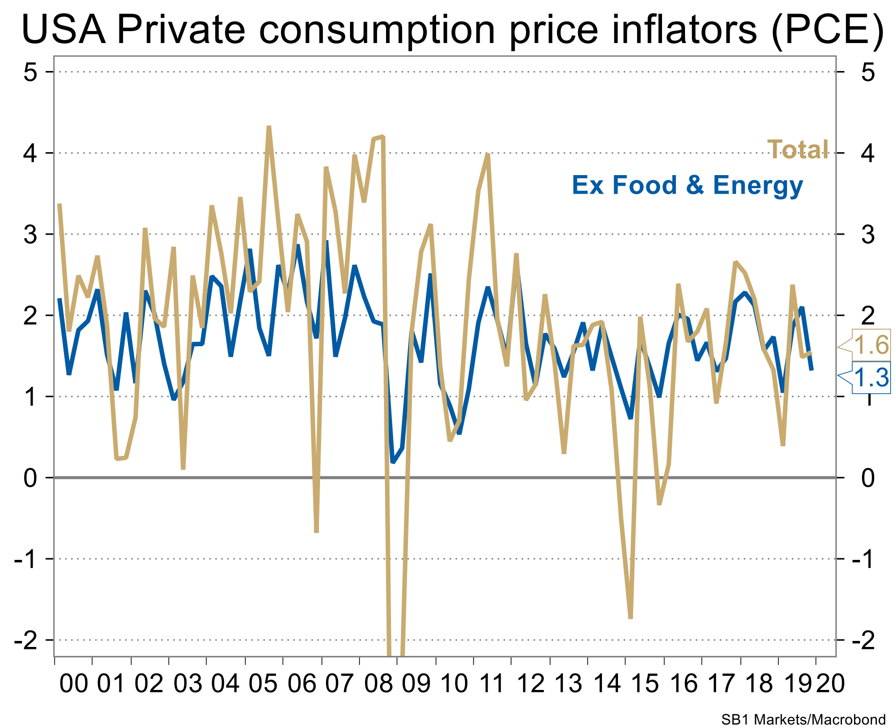
- A strong USD is not to blame for a negative growth contribution from net trade the past years
- Net trade correlates close to the activity level in the US, or rather more precise, to private domestic demand in the US. Lately, tariff effects and a higher domestic oil production may have dragged imports down too
  - Net trade absorbs 1/3 of changes in private domestic demand, the inevitable net trade 'leakage', as domestic production can not take the whole adjustment

SpareBank 1 MARKETS

Household savings a tad down in Q4, still rather elevated

The savings rate indicates that tax cuts have largely been saved, not spent, signalling robustness

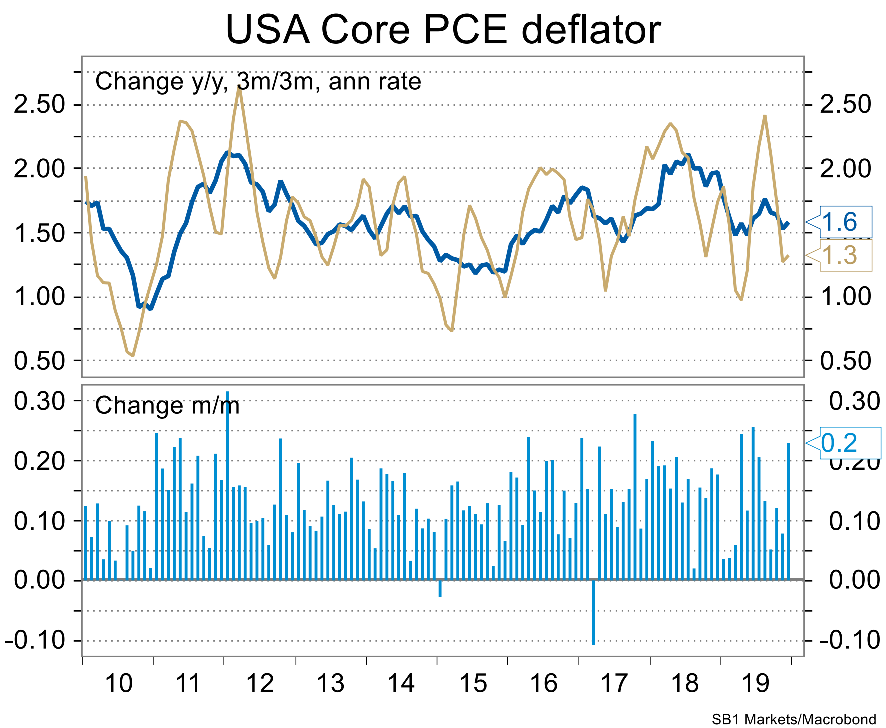


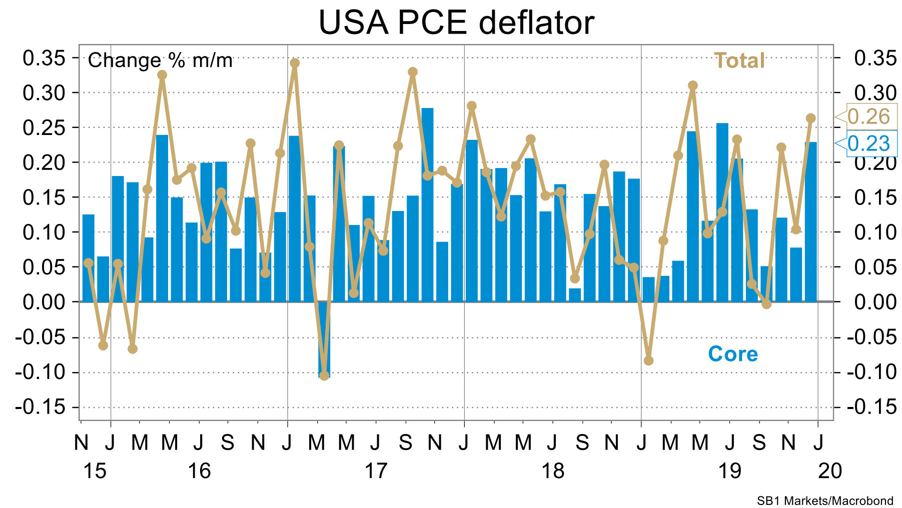


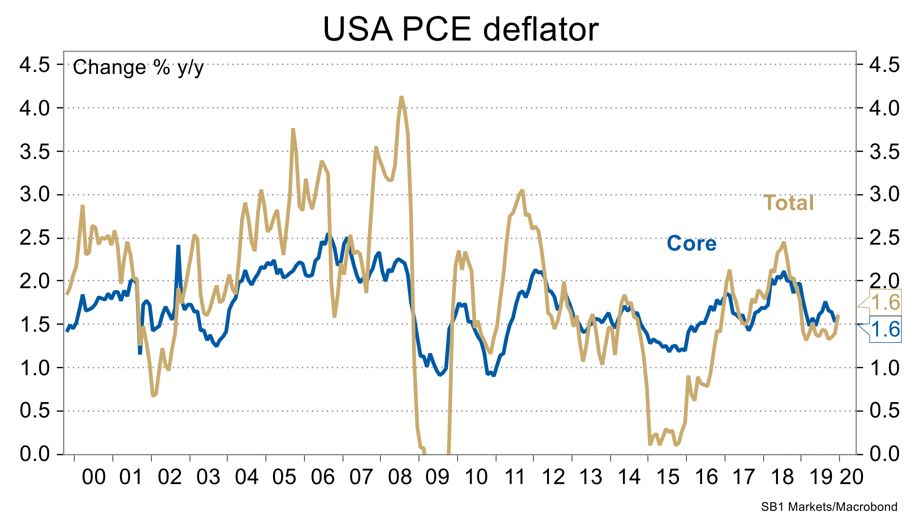
- The savings rate edged down to 7.7%, down from 7.8% in Q3 (previously reported at 7.9%). Savings have increased from 7% in 2017 (after some substantial upward revisions earlier this year), far above our model f'cast. Household cash flows are strong.
- The core PCE price deflator dropped to 1.3% in Q4, from 2.2% in Q3 and 0.7 pp below the Fed's long term target. However, in Q3, the deflator was 0.2 pp above the long term target. The Fed will wait and see? (Monthly data next page)

Core PCE inflation up to 1.6% in Dec, from a downward revised 1.5% in Nov

Core PCE deflator rose 0.2% m/m, 0.1 pp higher than expected. Total PCE +0.3%, annual rate up to 1.6%



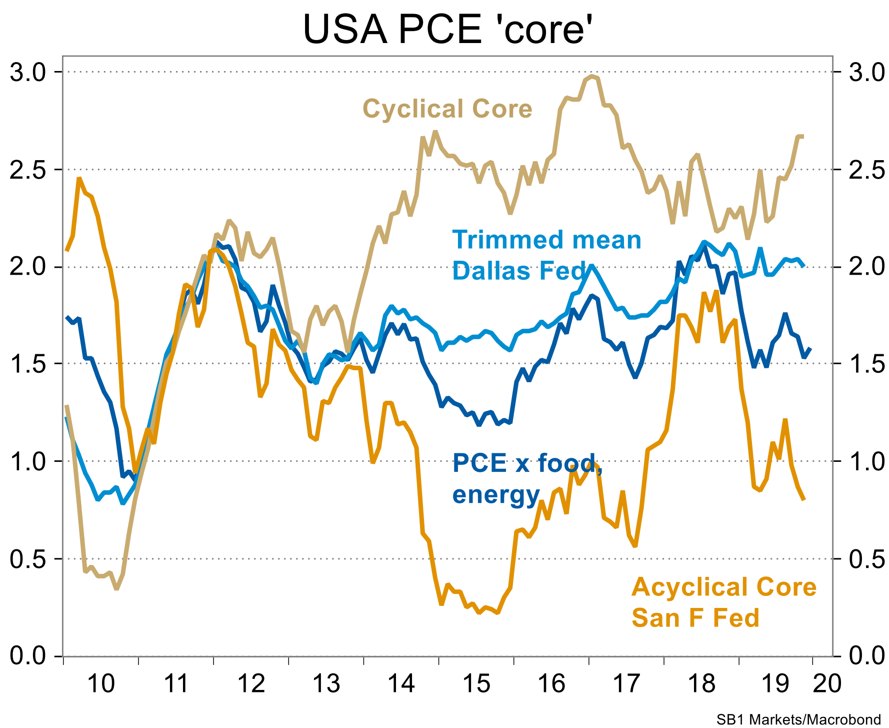


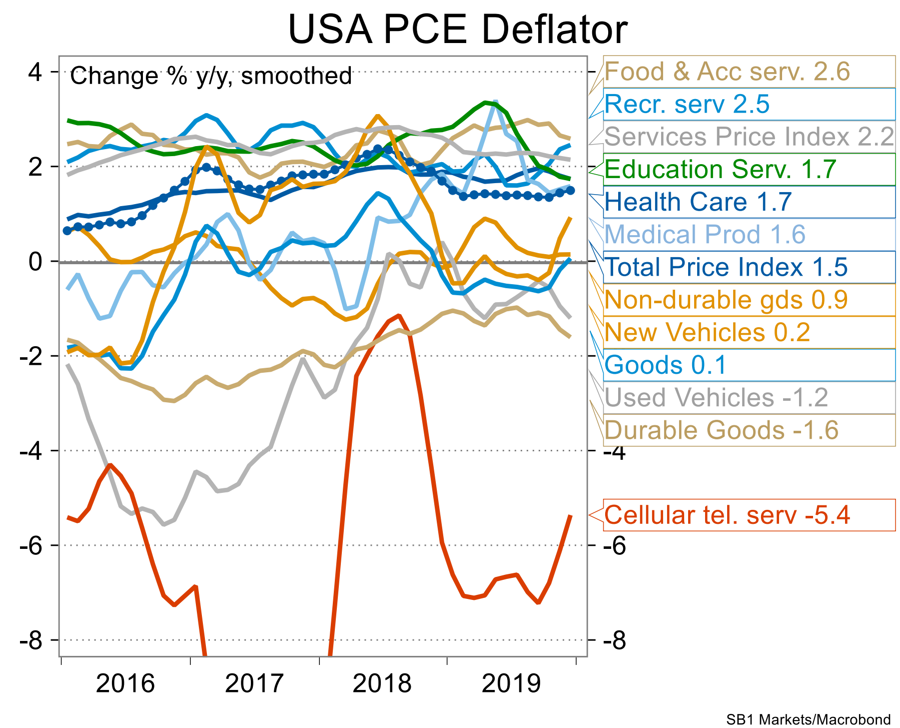


- The core price deflator rose by 0.2% in Dec, expected up 0.1%. In Q4, the deflator dropped to a 1.3% pace
- Total PCE inflation edged up 0.2 pp to 1.6% y/y, as the impact from energy prices has turned positive
- Core PCE is 0.4 pp below Fed's price target, which is not sufficiently low to alter the Fed's stance on keeping rates on hold, unless the economy weakens substantially

Cyclical core PCE inflation at 2.7% and heading up

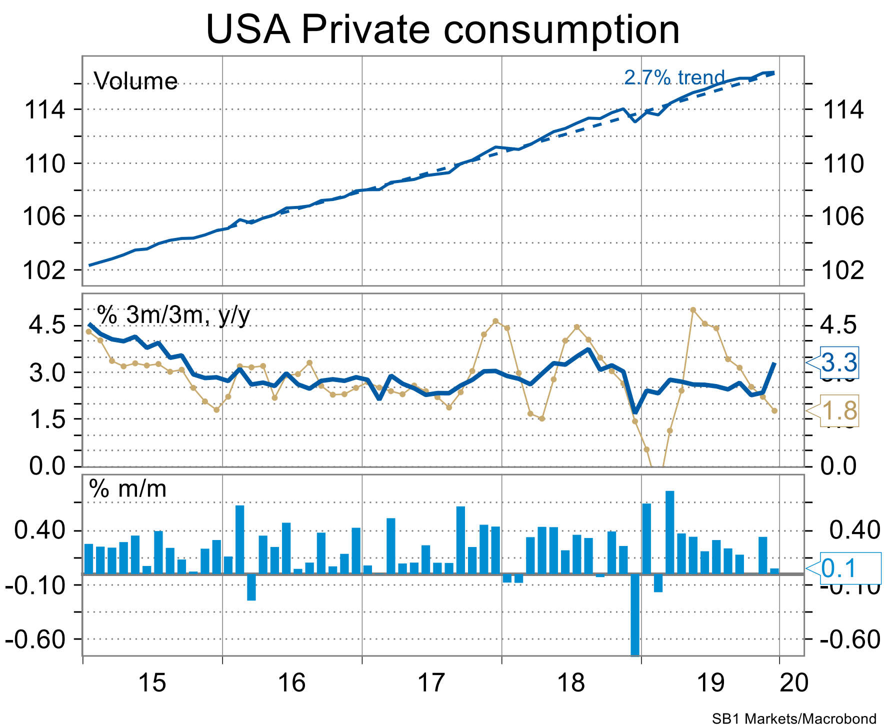
Growth has slowed/flattened in most sectors, but the trimmed mean is at the 2% target

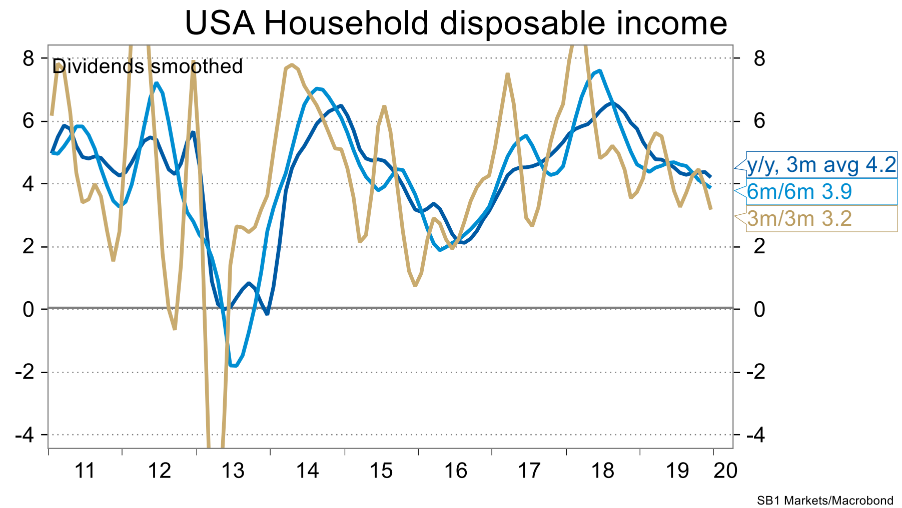


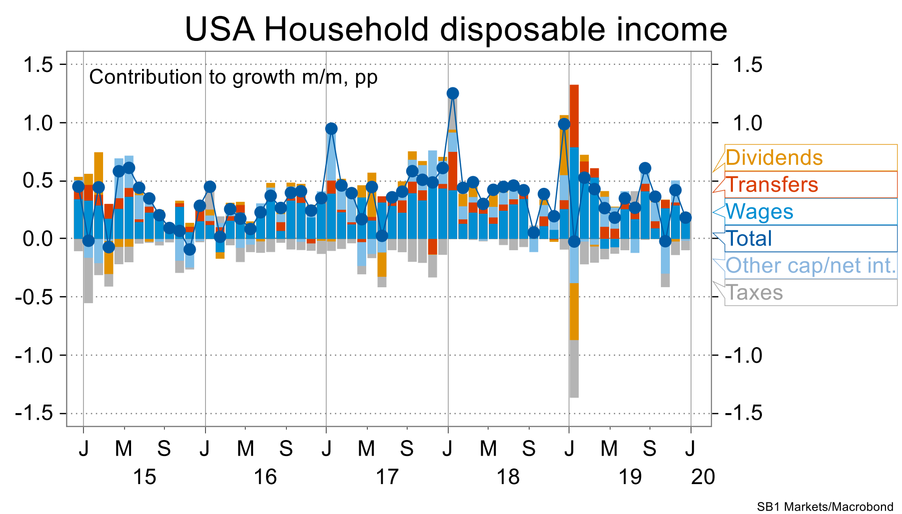


Consumption growth cools off, still not ‘dangerously’ slow

Consumption rose just 0.1% in Dec and up 1.8% in Q4. Income growth is slowly slowing



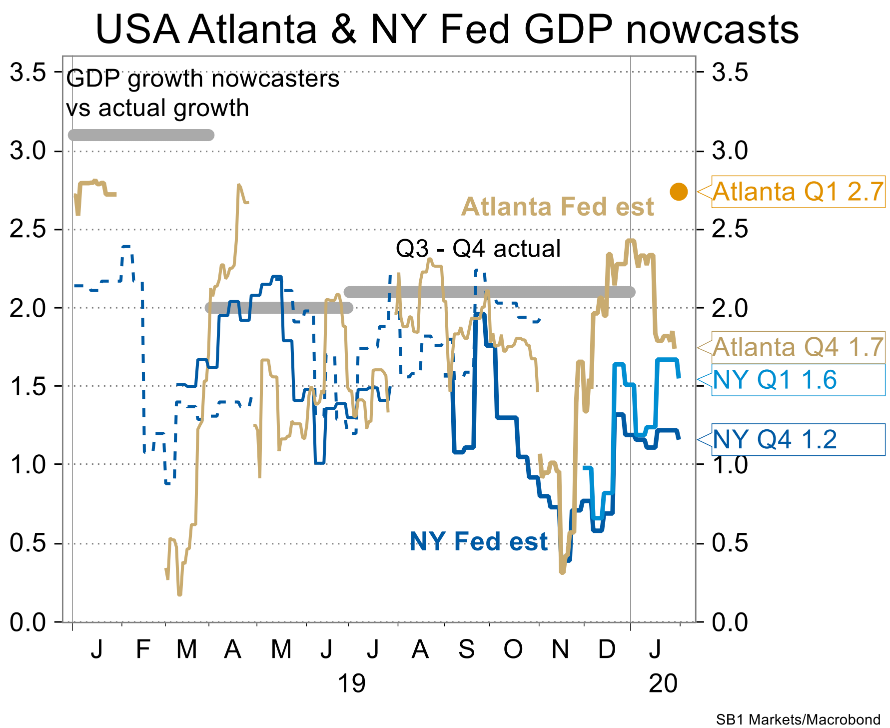


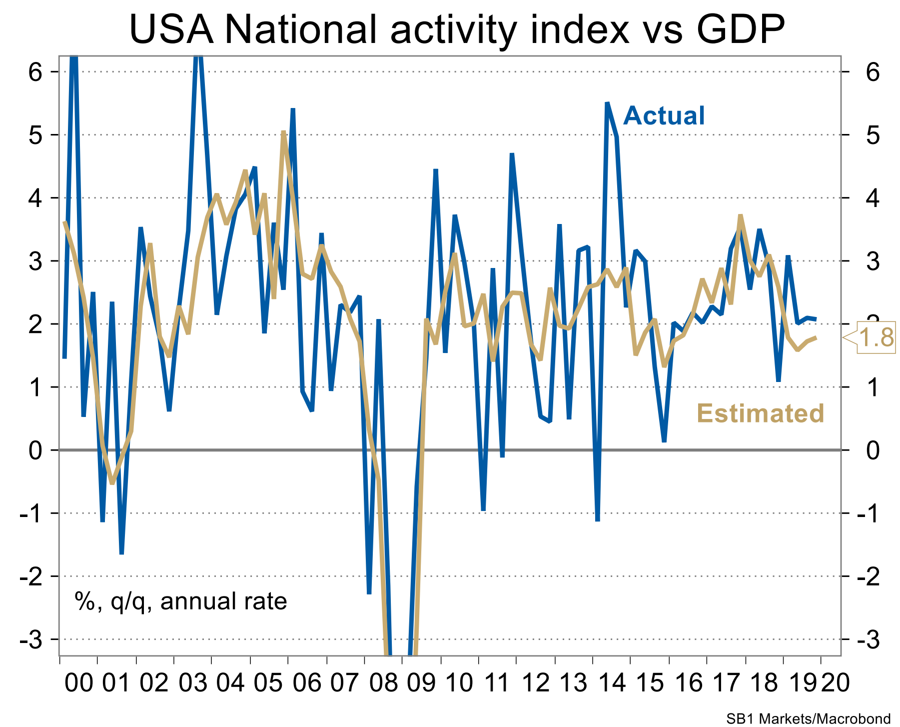


- Private consumption rose 0.1% in Dec, up 1.8% in Q4, down from a 3.1% pace in Q3 and 4.6% in Q2
- Households’ nominal disposable income rose 0.2% m/m in Dec and growth slowed to 3.2% in Q4, from 4.3% in Q3. Growth peaked in 2018 and have slowed since, the annual rate to 4.2%. Total wage & salary income was up 5.2% y/y (volatile data)
- The savings rate came down marginally to 7.6% - a rather high level for the Americans

Nowcasters signalled 1.2 – 1.7% in Q4, the first Q1 f'casts at 1.6% – 2.7%

NY and Atlanta Fed's suggest higher growth in Q1 than they did in Q4, which both underestimated

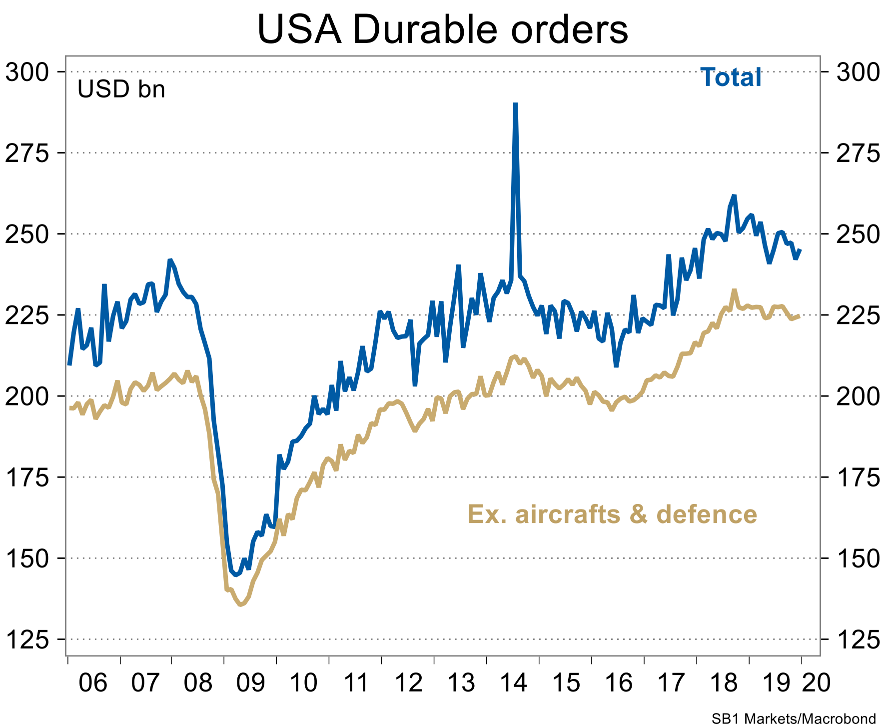


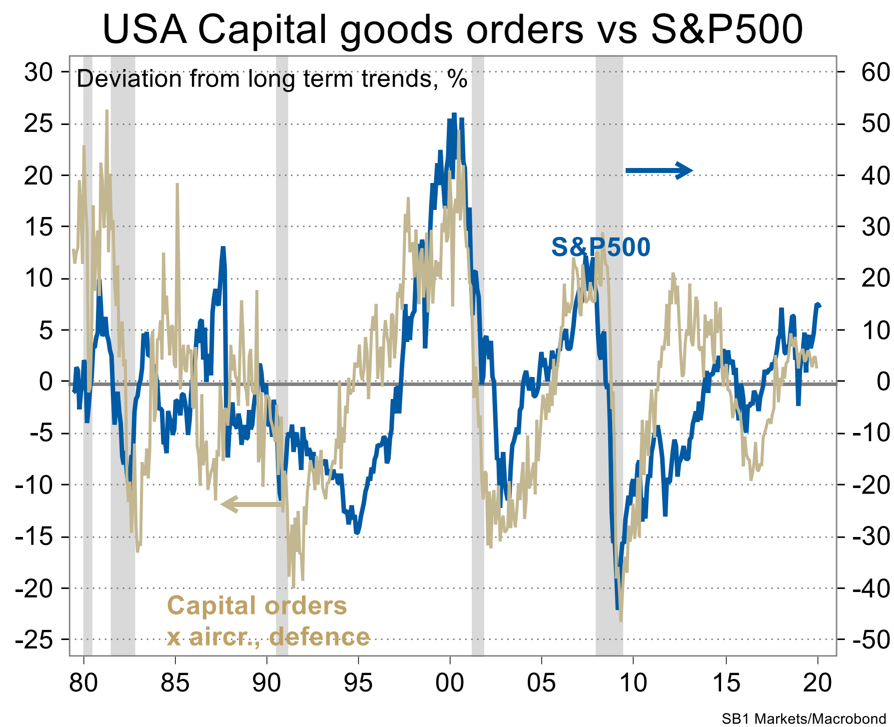


- The National Activity Index signalled a 1.8% growth rate in Q4

Durable goods orders up in Dec but are trending slowly down

Total orders up 2.4% m/m, core up 0.4%



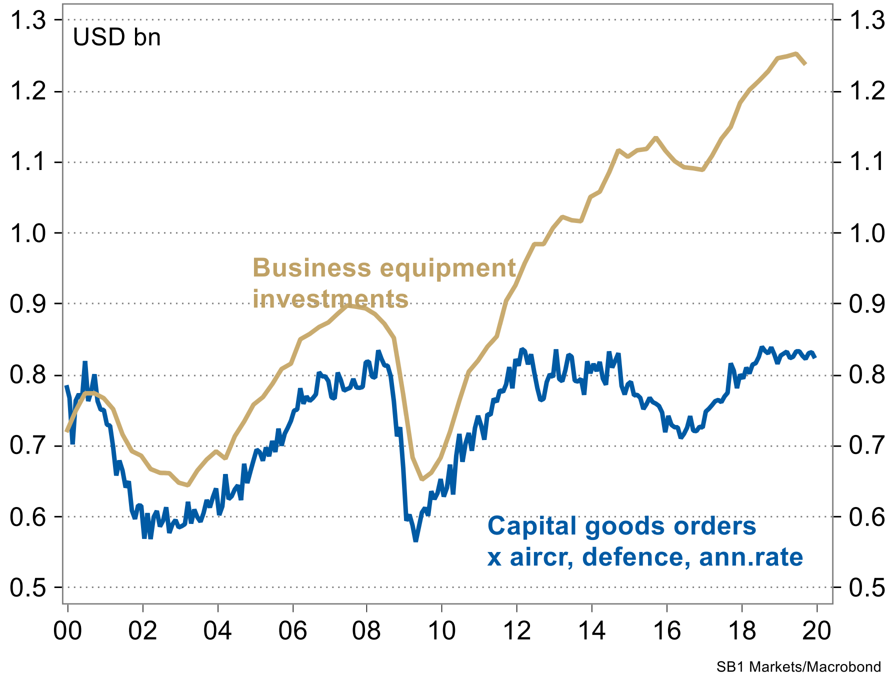


- Total durable orders recovered most of the November loss in December, but the trend has been slowly down, mostly due to lower aircraft orders due to Boeing's troubles. In Dec, aircraft orders almost hit the runway (just 10% of a 'normal' level), while defence orders surged by almost 100%, or USD 9 bn (while total orders rose by less than USD 6 bn)
- Core orders (ex civilian aircrafts and defence orders) nudged up 0.3% in Dec. Core orders have been trending slowly down for more than one year but just by less than a 1% speed of decline
- Core capital orders fell by 1% in Dec, and the trend is no better than flat. Capital goods sales fell too, and is trending down, and do no signal any recovery in business investments, which has fallen marginally the last 3 quarters

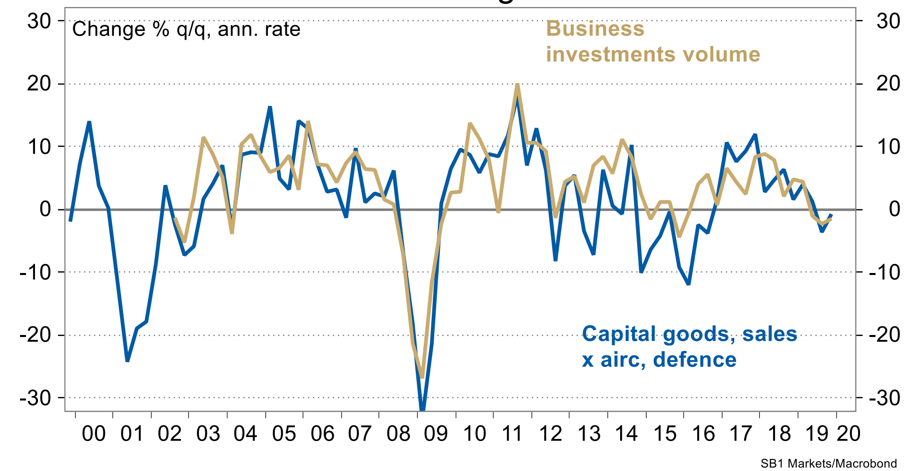
Capital goods orders/sales do not suggest any recovery in business investments

However, core investment orders/sales do not signal any steep downturn either

USA Investment goods orders



USA Investment goods sales

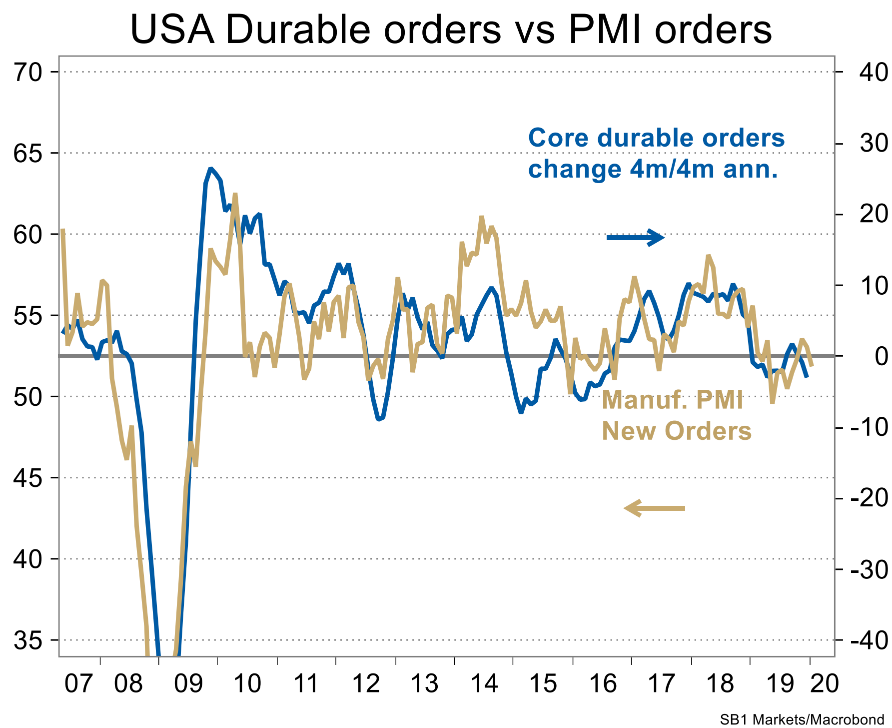


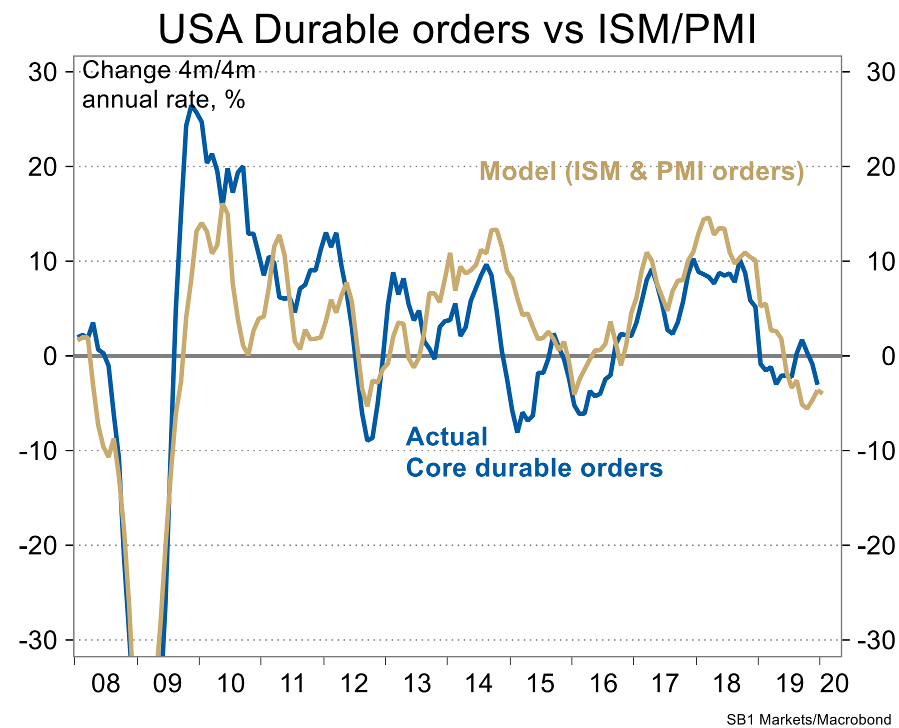
USA Investment goods orders

- Investment orders (core) declined by 1% m/m in Dec. Underlying growth is close to zero
- Sales fell by 0.3% % m/m in Dec, and have been sliding down recent months. Business investments fell in Q4 too
- The PMI/ISM orders signal a moderate decline in business orders, check next page

Mixed signals but in sum, PMI/ISM orders point to a moderate decline

Markit's PMI reports a stabilization, the ISM a drop, but it is less correlated to actual orders

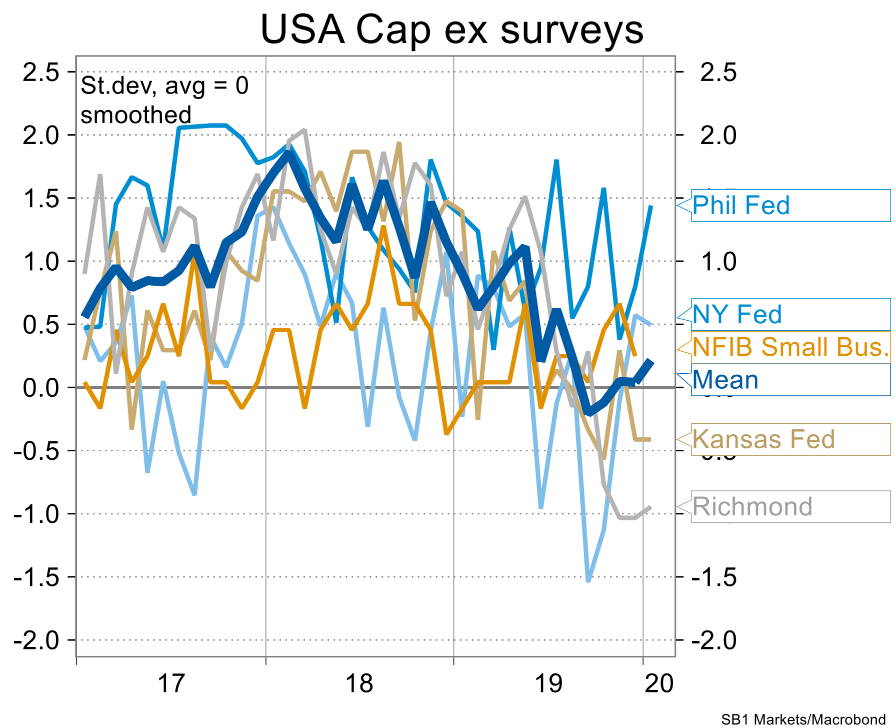


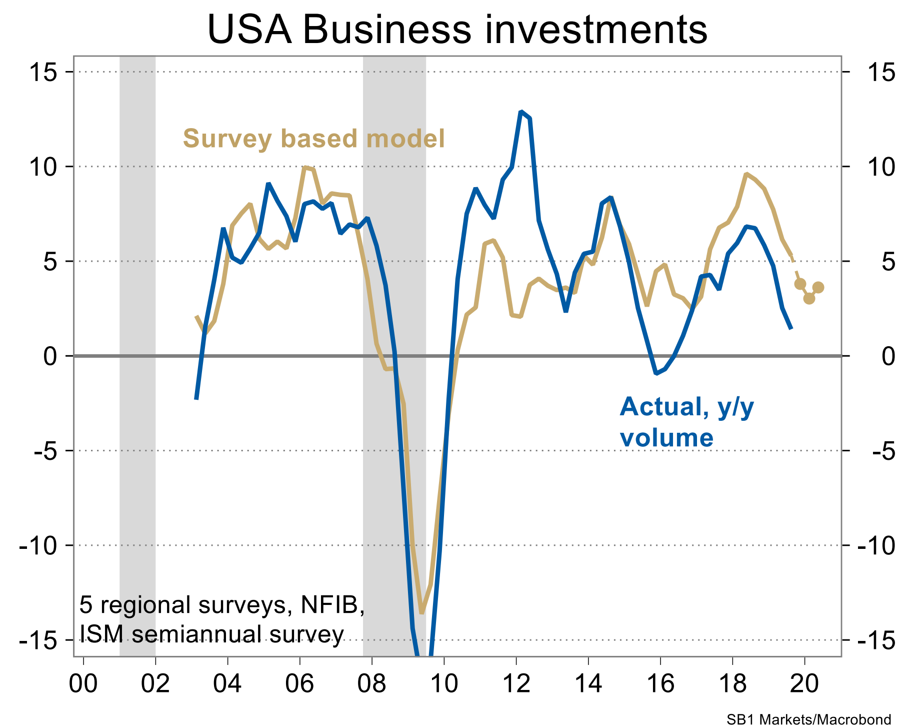


- A simple model, incorporating both surveys, signals a modest decline in core durable orders

Investment surveys: Still not reporting any investment cuts

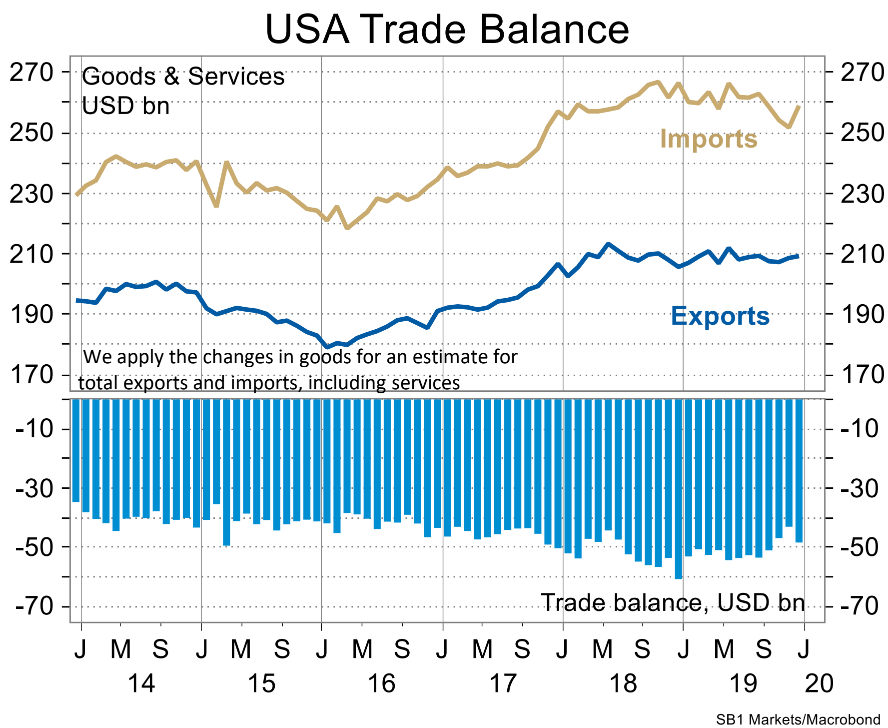
However, they are not that reliable

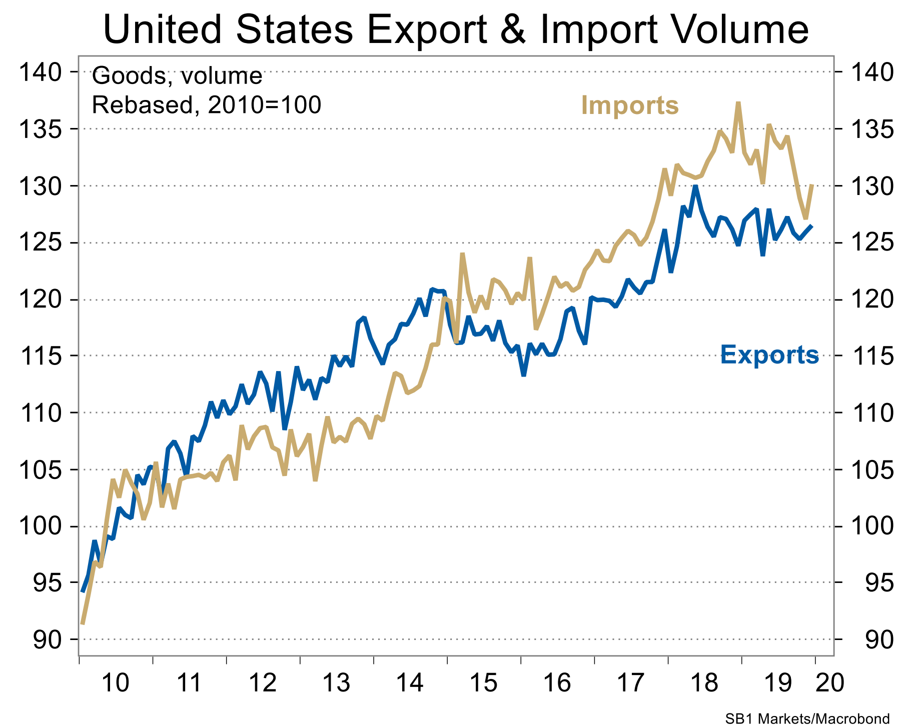




The trade deficit widened in Dec as imports partly recovered

Imports are waning, exports trending flat; net exports supported Q4 GDP growth

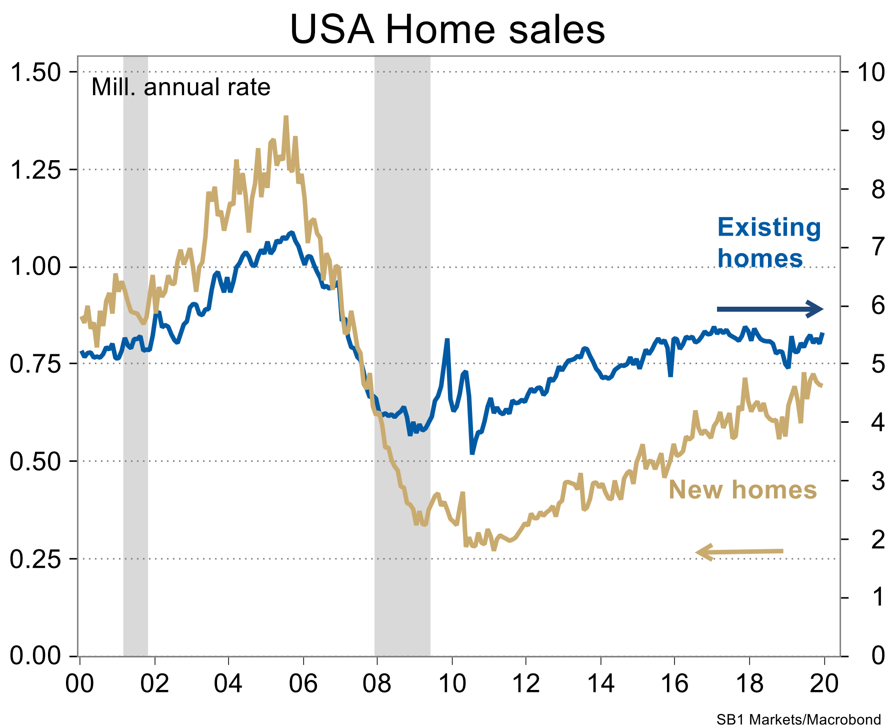


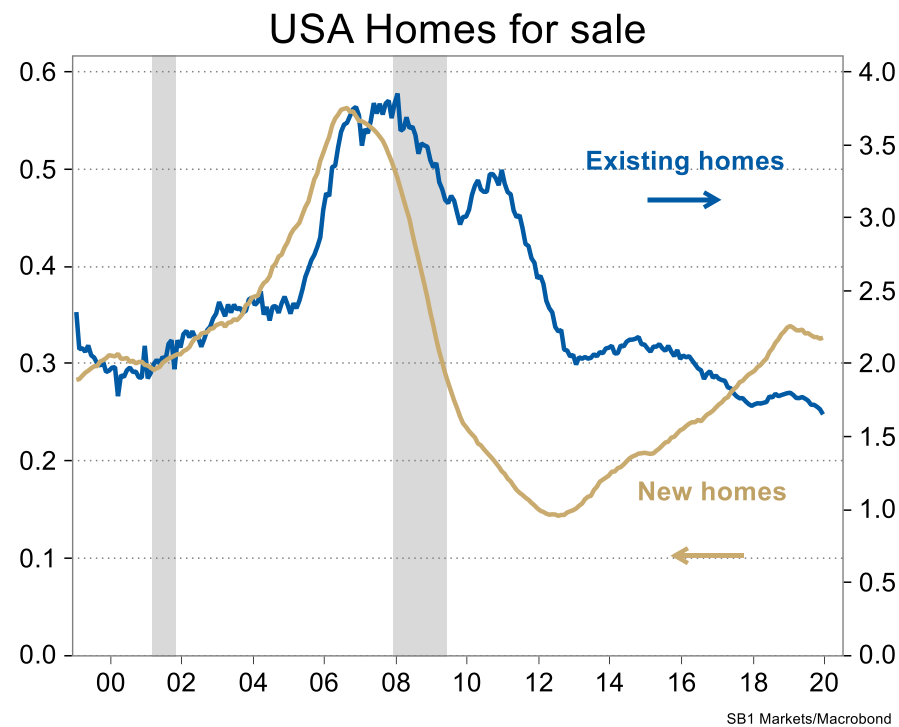


- The advanced trade deficit **in goods** widened to USD -48 bn in Dec, from a 2 y low of 43 in Nov. The deficit has been trending in since early autumn, due to weaker imports – not rising exports
  - » Imports rose 2.4% m/m in volume terms in December – but dropped 12.6% q/q annualized in Q4, the steepest decline since 2009. Softening domestic demand is probably a drag, as well as lower imports from China (but most others are trending out). In addition, net petroleum exports have turned positive and explains 30-40% of the cut in the deficit since the summer – driven by higher shale oil production
  - » Export volumes edged up 0.5% in Dec, down 1.6% in Q4 (annualized rate).. Exports have completely flattened out the past year
  - » Net trade made a substantial positive contribution to Q4 GDP growth, by 1.9 pp on the q/q rate, flip to this slide for more

New home sales have inched down for 3 months, still trending up

Sales soared in H1 and have more or less flattened since, and homes for sale are sliding down

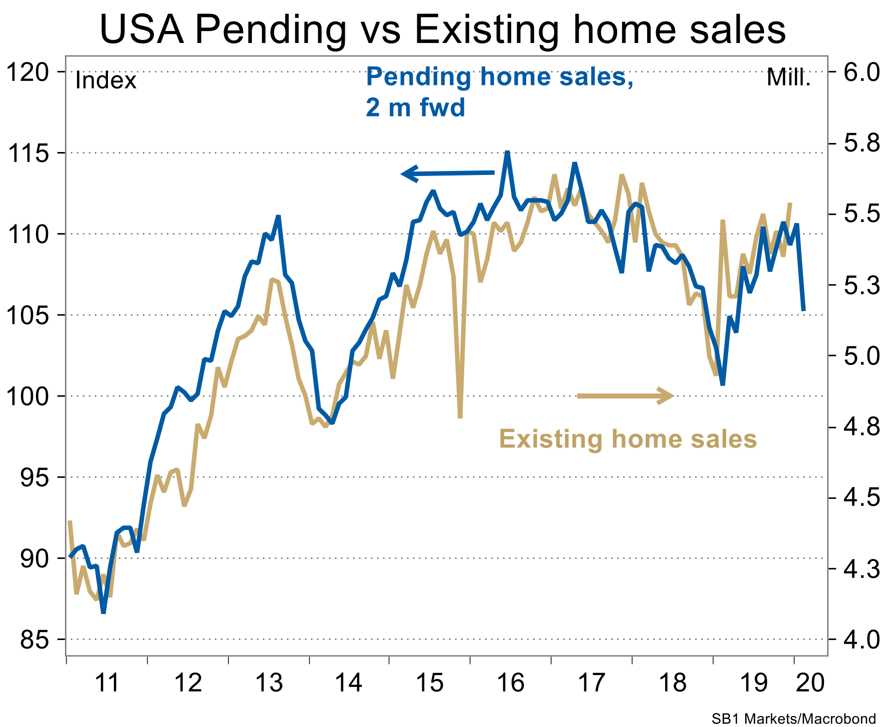


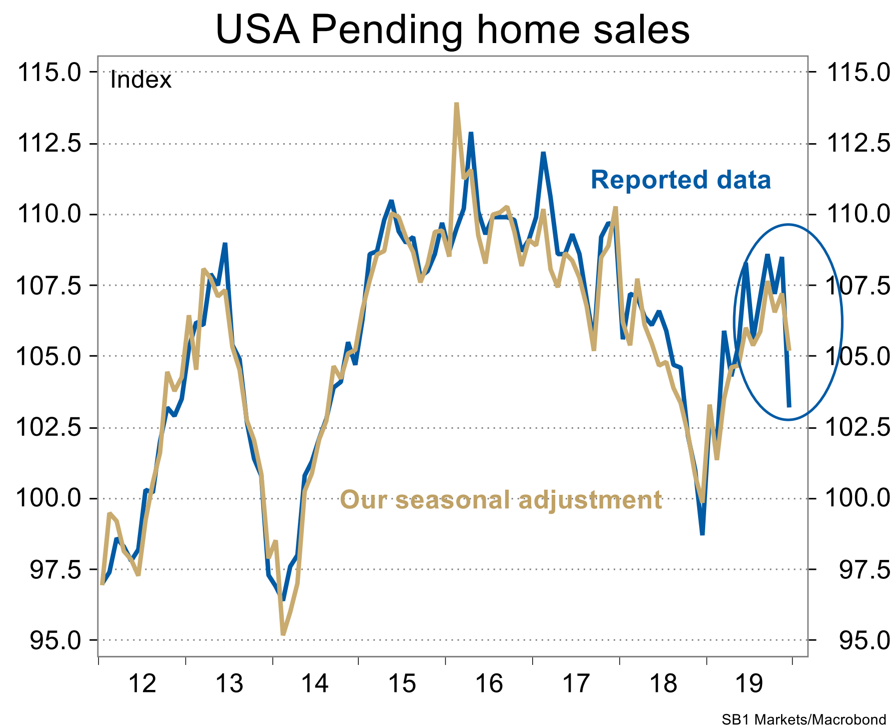


- New home sales inched down 0.4% m/m in December, an uptick was expected. Sales have slowed the past 3 months and have not increased since June. Regardless, these monthly data are volatile and sales may have calmed after a 'too' steep rise in the first half of 2019. Home sales are sales are trending up and have increased by some 20% since Dec 2018!
  - » The number of unsold homes is heading down, both for new and existing, reflecting strong housing demand. However, the decline in new home sales may partly be due to lower supply of new homes, the number of homes under construction is down almost 10% since early 2019 (but housing permits/starts are now soaring!)
- Existing home sales are climbing moderately, confirming a solid housing market, but some weakness in pending sales

Pending existing home sales fell in Dec, but less dramatic than reported

Still, pending sales have turned down and point to a downtick in actual existing sales

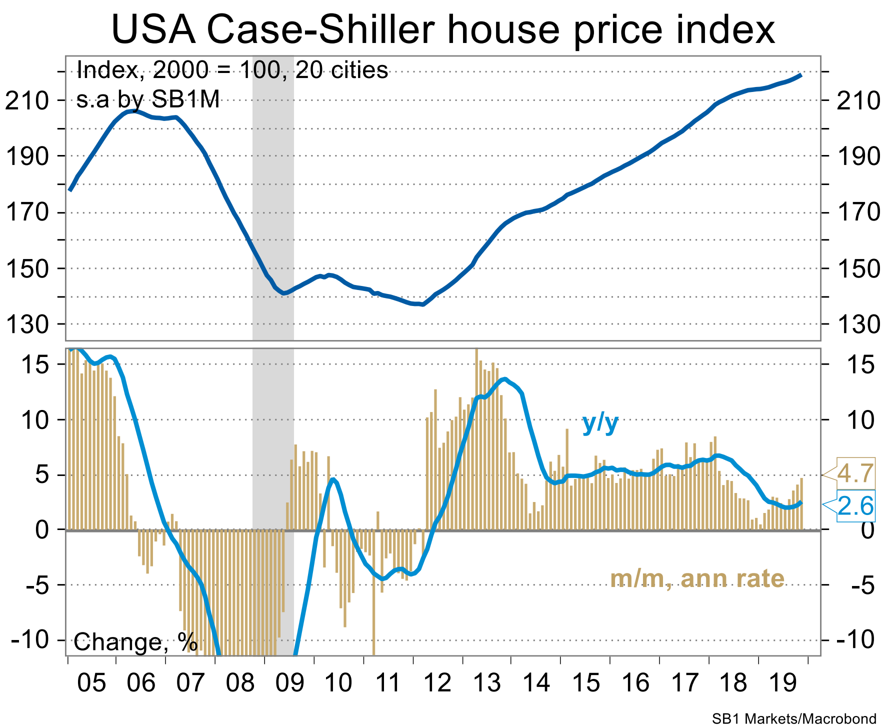


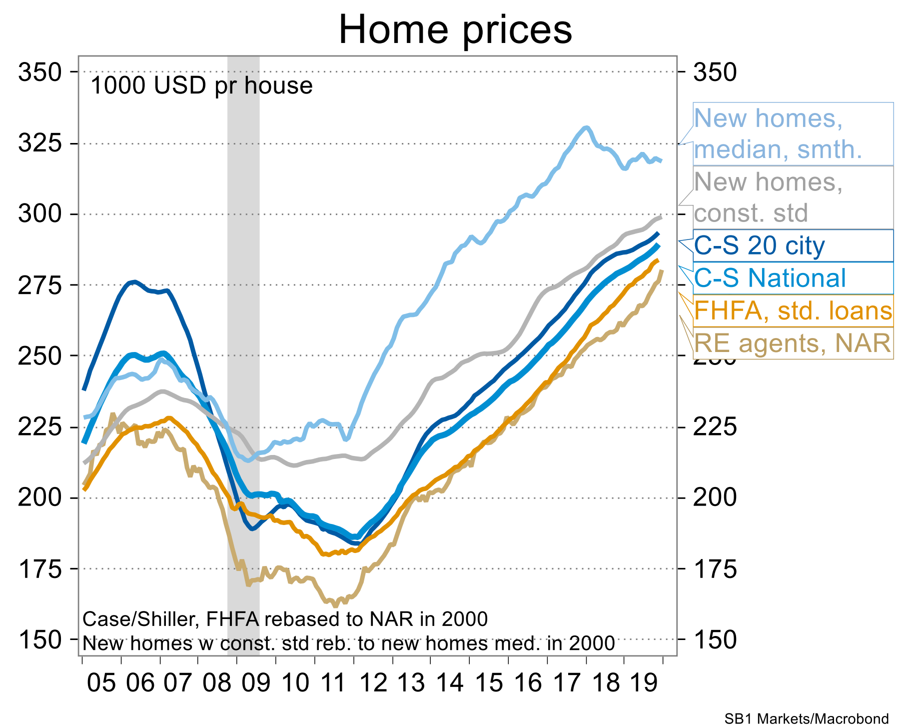


- Pending (existing) home sales were reported down 4.9% m/m in Dec, the steepest decline since 2010. However, there seems to be some seasonality left in these data; after applying another seasonal adjustment, sales are less volatile, and fell by 'just' 1.9% in Dec, a more normal deviation
- Even with our adjustments, pending sales suggest that actual existing home sales may turn down the coming months, following a strong increase in Dec. A low supply of new listings of homes for sale may explain the slowdown, we doubt that demand is waning now

Case Shiller house price inflation is gaining pace

C-S prices rose 4.7% annualised in Nov, highest in almost 2 years, reflecting an upbeat housing market



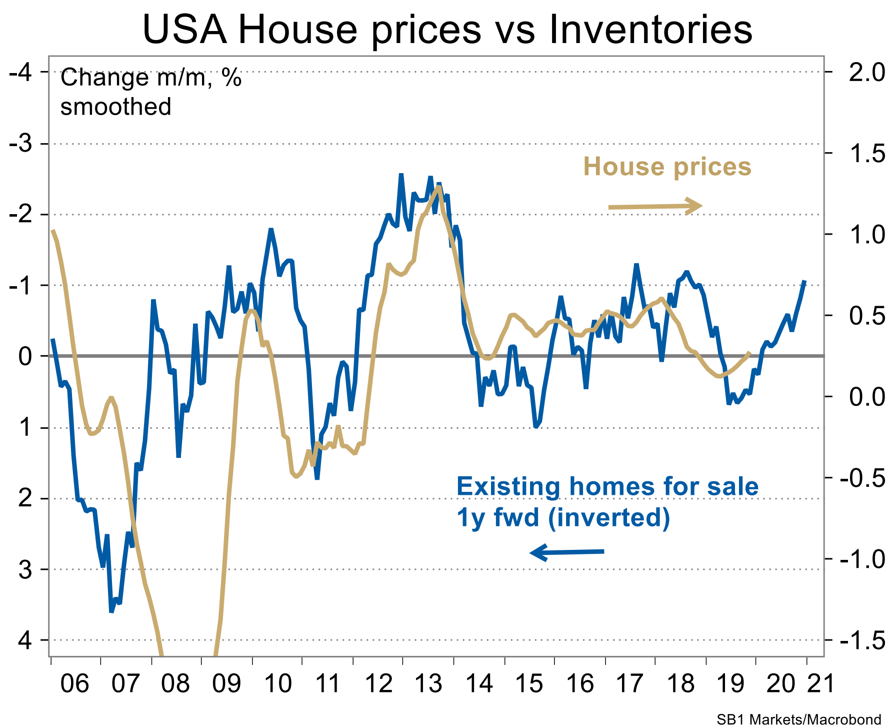


- Case-Shiller house prices rose by 0.4% m/m in November, equalling a 4.7% annualised speed (from an upward revised 363% in Oct). This is <u>the highest growth pace since early 2018</u>. House price inflation has slowly accelerated since early 2019. Annual rate at 2.2%
  - » We apply our own seasonal adjustment, which is needed because there is a substantial residual seasonal pattern in the 'official' data. The official Nov figure was +0.5% m/m growth
  - » Other existing home price indices prices confirm an upturn. However, new home prices have just stabilised following price cuts in 2019 (at least measured before adjustment for size (!) and standard; the constant standard price index is still on the way up)
- The CS 20 city (nominal) avg is 6% above the 2006-peak level. The national avg (including more than the 20 cities) is 15% above the peak (while the real price levels are well below previous peak and much lower vs household income)

SpareBank 1 MARKETS

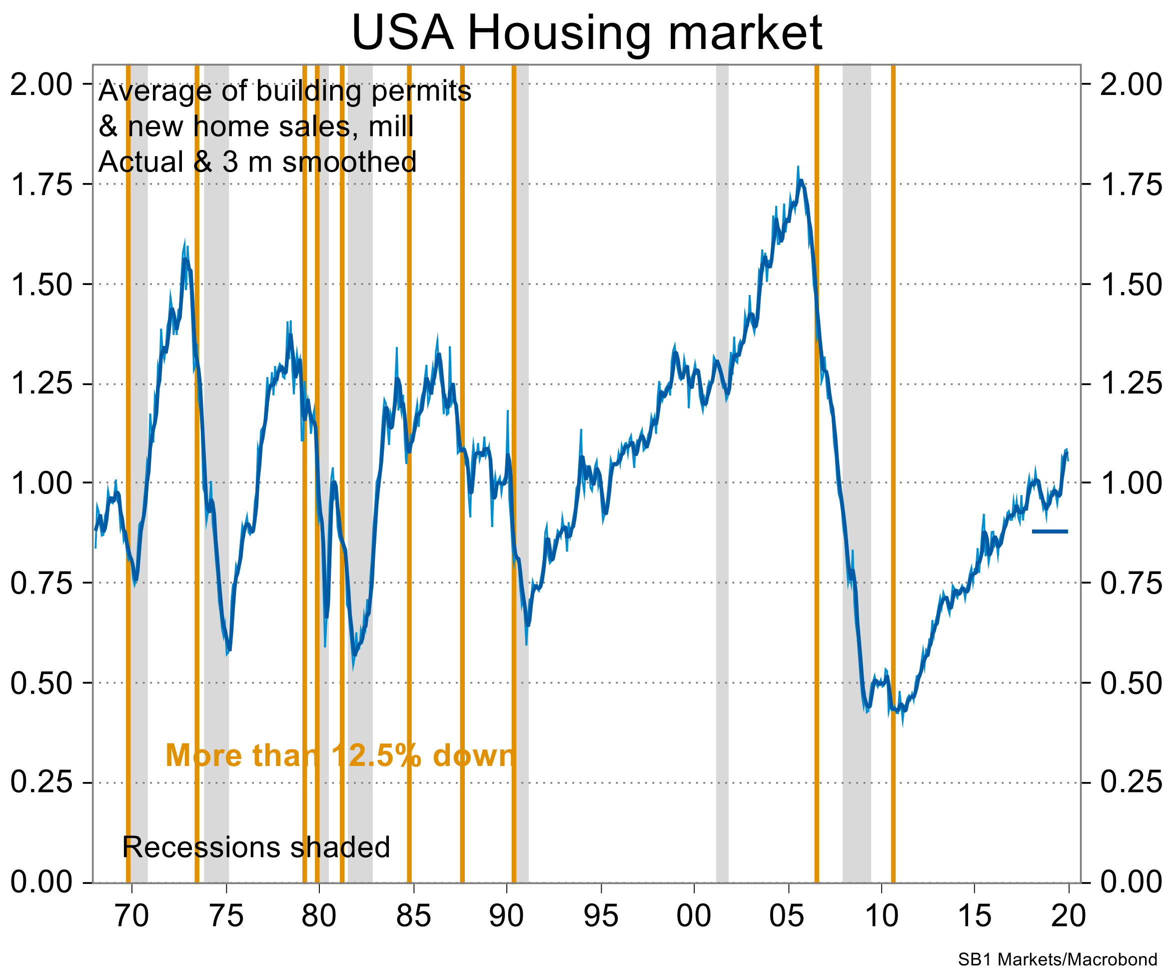
A low inventory of homes points to accelerating price growth

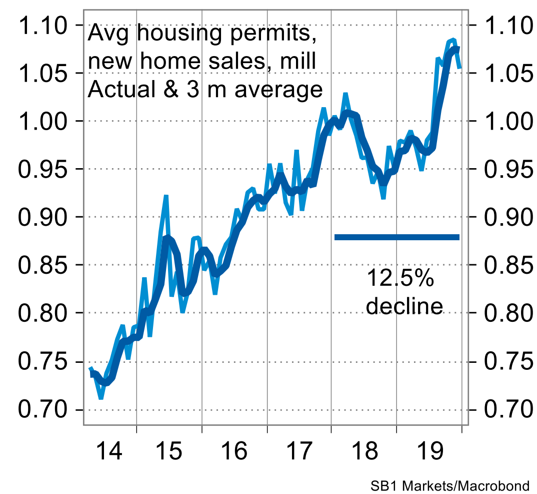
Price inflation is still moderate, a dropping number of homes for sale suggests an upsurge



Housing vs. recessions: No warning sign now, to put it mildly

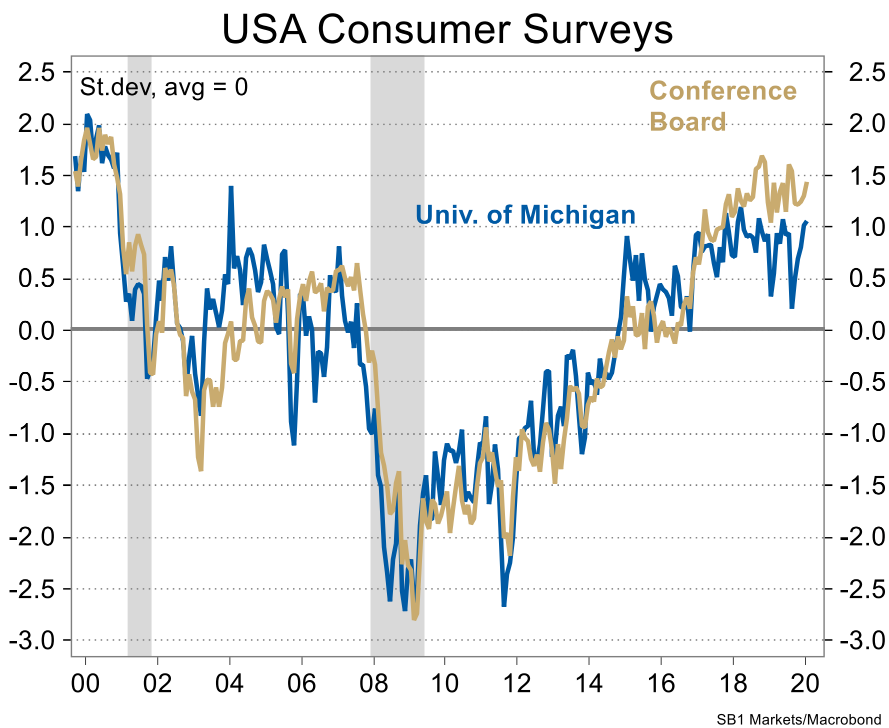
Both building permits and new home sales are heading up steeply, usually a good sign

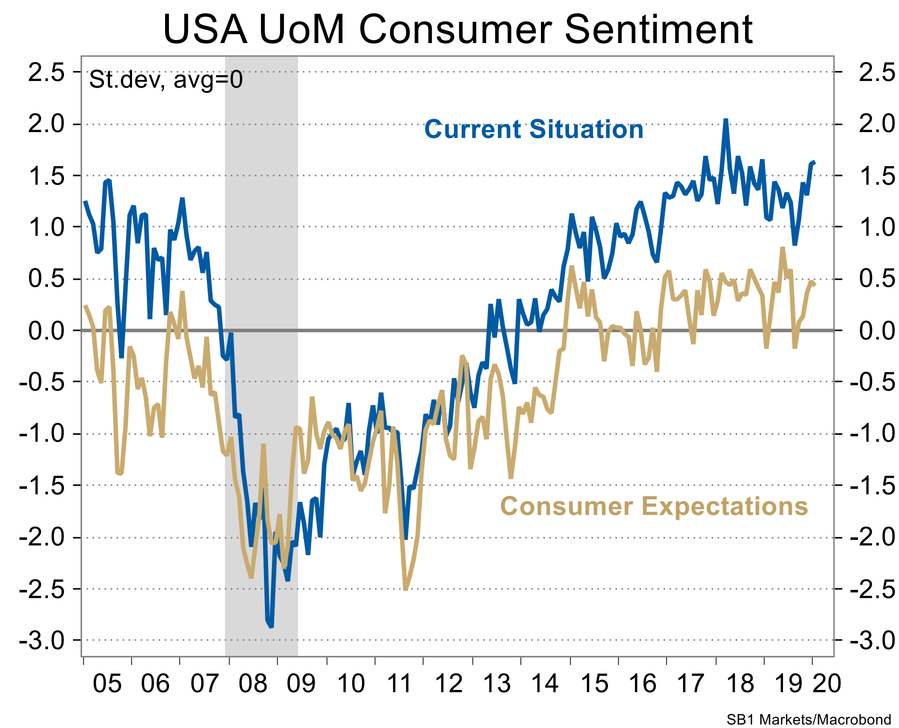




Consumer confidence stabilized in January

The level is well above avg for both the two main surveys, no signal of household withdrawal

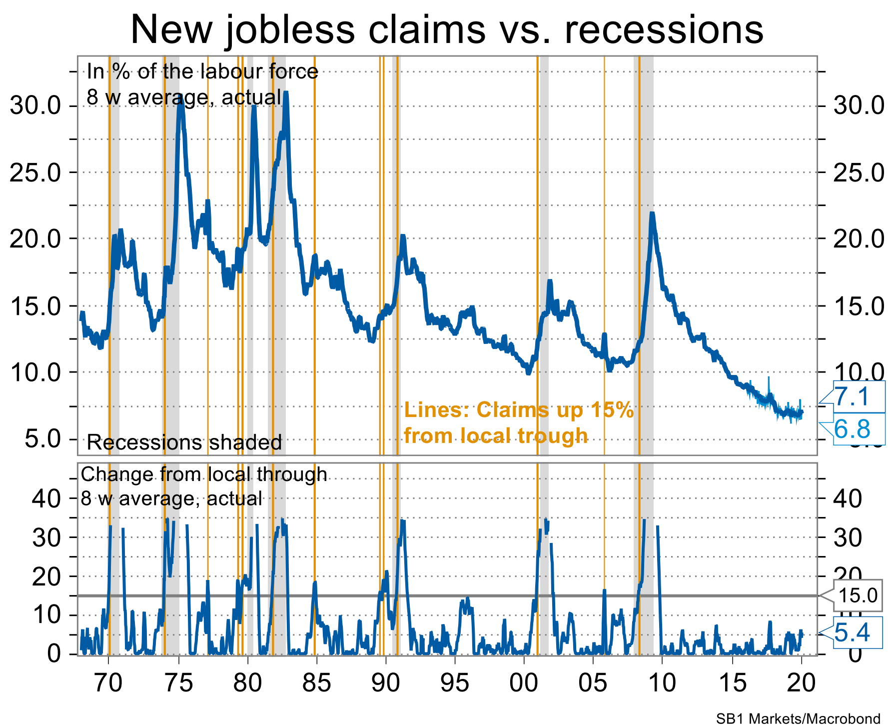


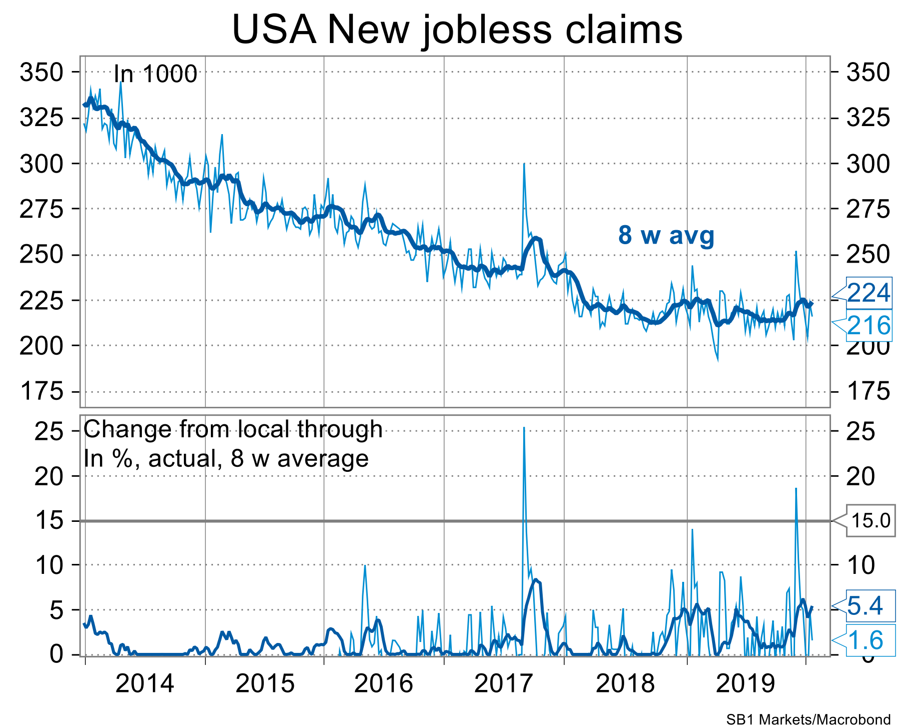


- Conference Board's consumer confidence index fell by a marginal 0.2 p to 99.1 in January. Expectations fell slightly more than the assessment of the current situation rose. Both sub indices are above average
  - » The composite index is 1 st.dev above avg and just marginally below the 2018/2019 peak 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

Jobless claims tilting marginally upwards, level still very low

Claims edged down to 216' last week, no labour market weakness spotted

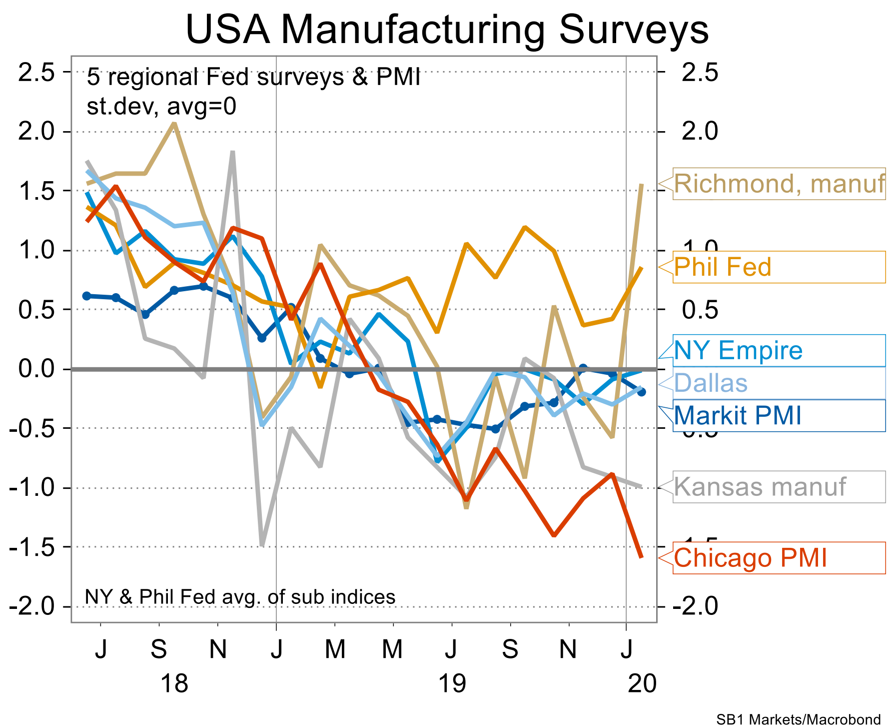


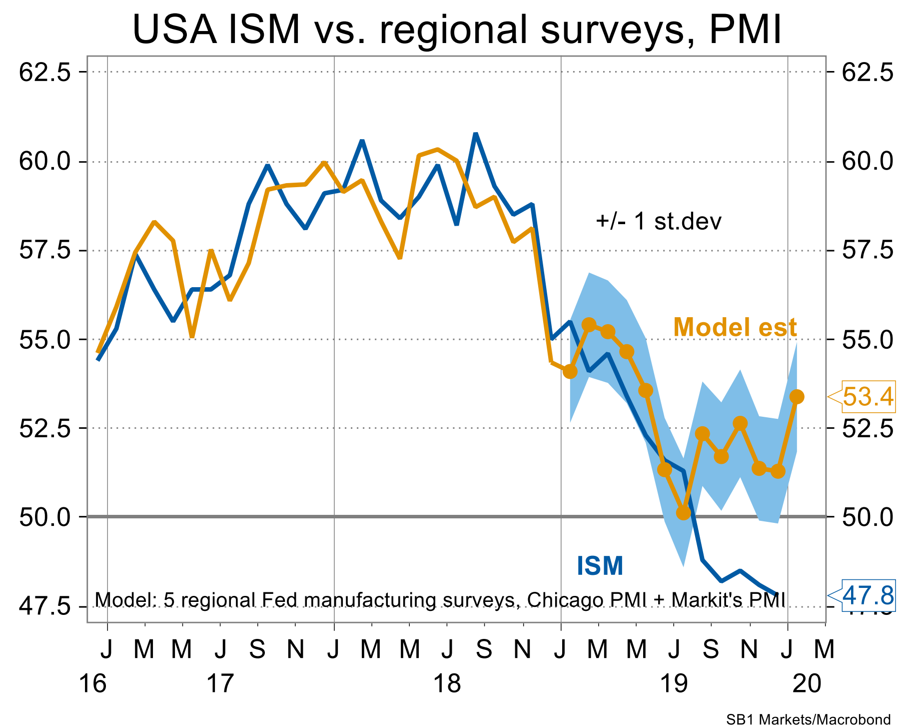


- In December, jobless claims were distorted by a later than usual Thanksgiving holiday. In January, claims have fallen down to a very low level again, confirming that the upswing was not based on any underlying weakness
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, not much reason to worry now? (the 8w average at the chart above is affected by the Thanksgiving impact)

US Manufacturing surveys ahead of the ISM: 4 up, 3 down in January

Richmond Fed's index up by 2 (!) st.dev, others mixed but in sum suggesting an uptick in the ISM

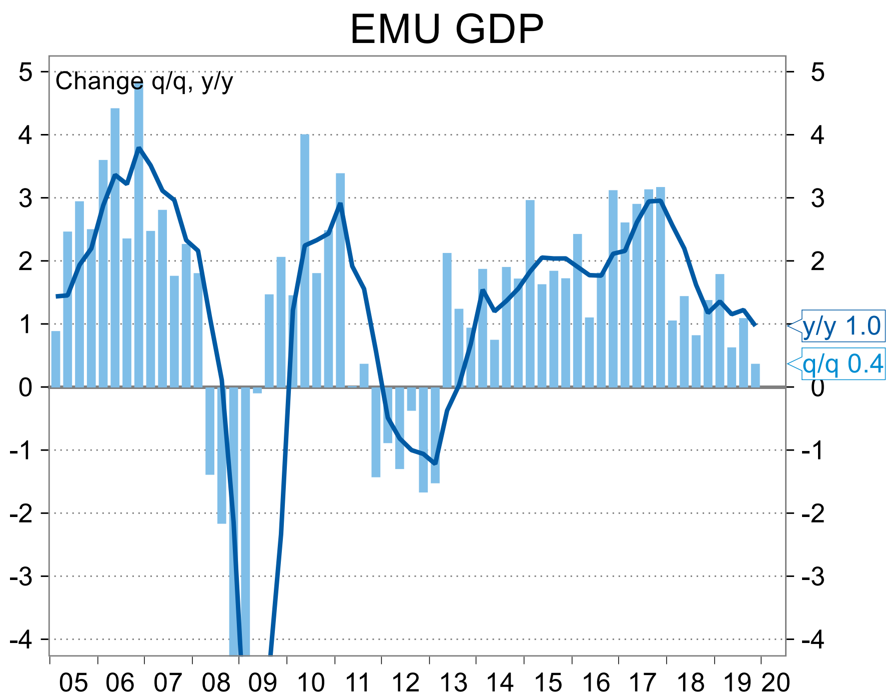




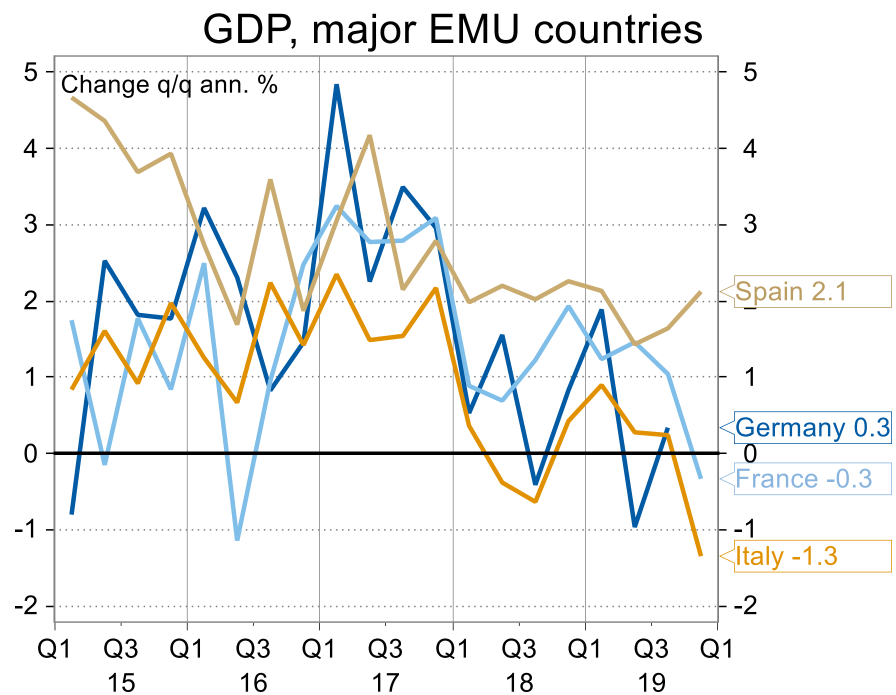
- The ISM has been much more downbeat than the regional Fed manufacturing surveys and Markit's manufacturing PMI since mid-2019

GDP growth slowed more than expected in Q4

GDP rose just 0.1% q/q (0.4% annualized), expected 0.2%. France came in surprisingly weak



SB1 Markets/Macrobond

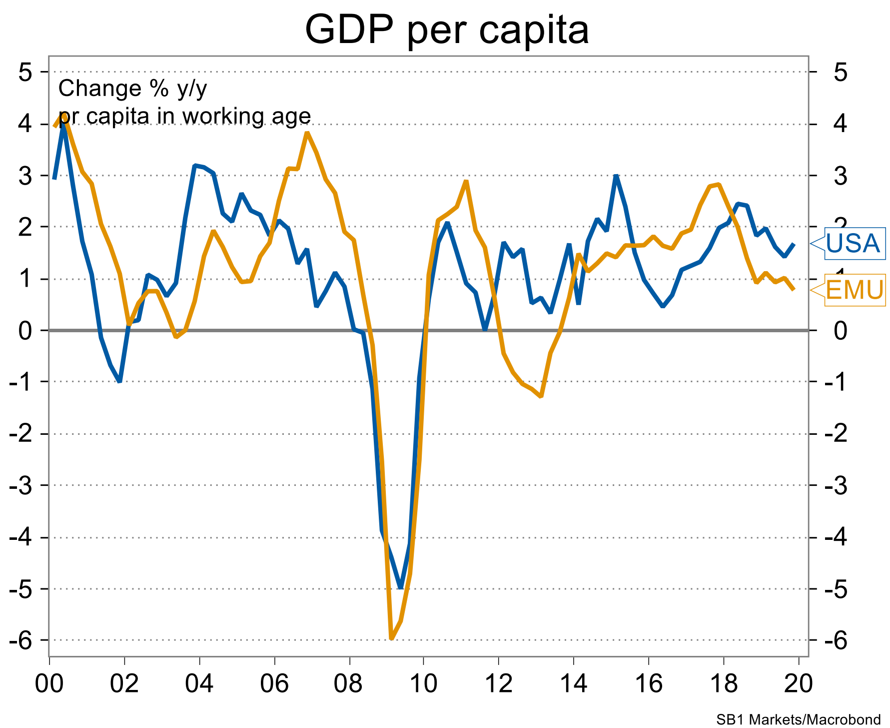


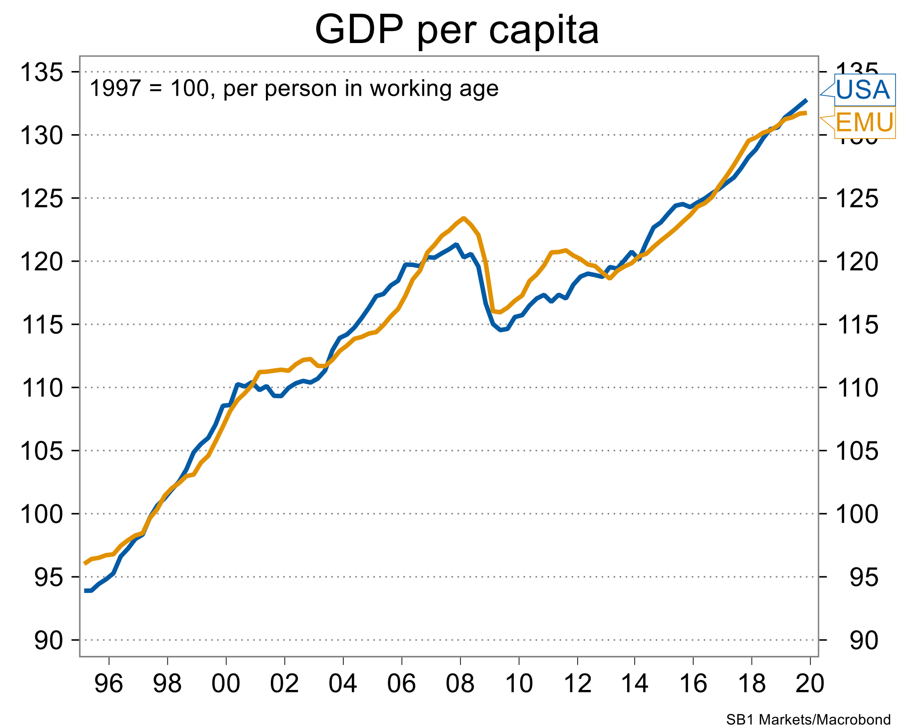
SB1 Markets/Macrobond

- GDP increased at the softest pace since the 2011-2013 euro crisis in Q4, up just 0.4% q/q annualized. Thus, growth slowed by 0.6 pp from Q3, in spite several surveys, such as the PMIs, pointing to a stabilization in late 2019. The annual rate edged down to 1%, from 1.2%
- France reported a surprising 0.3% decline (annualized), from 1% in Q3. In Spain, growth accelerated a tad to 2.1% while Italy reported the steepest decline since 2013. Germany has not yet reported Q4 data (but has reported 0.6% growth for the year, however not working days adjusted). Data from the other 3 major countries and the total EMU figure indicate a marginally positive growth rate in Germany
  - » No sector details are published yet, we assume that private consumption was the major growth driver while business investments fell

EMU vs US: Spot any important differences, long term?

US has been growing faster since early 2018 (not adjusted for fiscal or monetary policy differences)

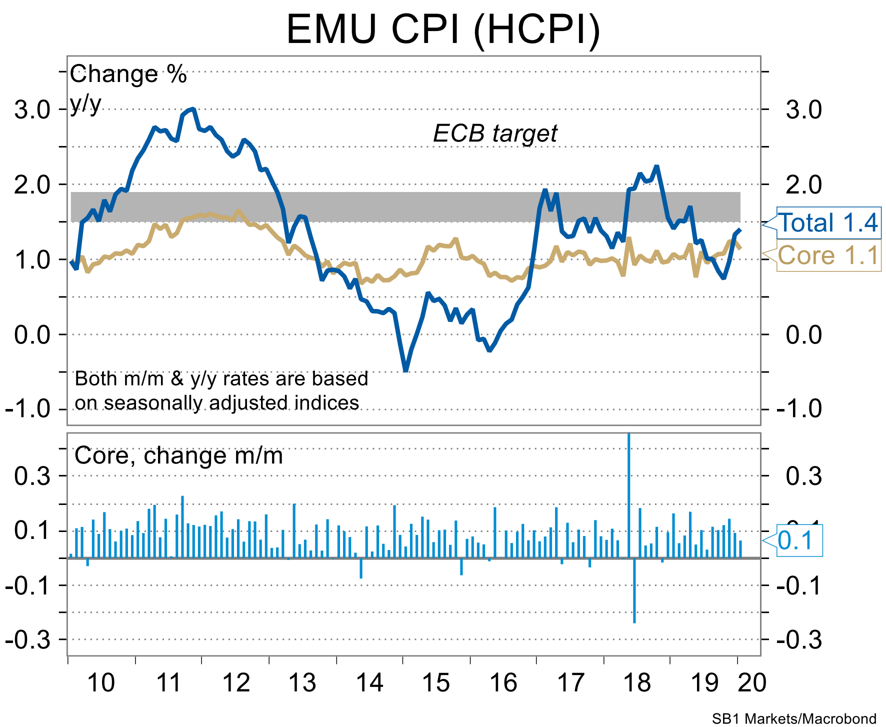


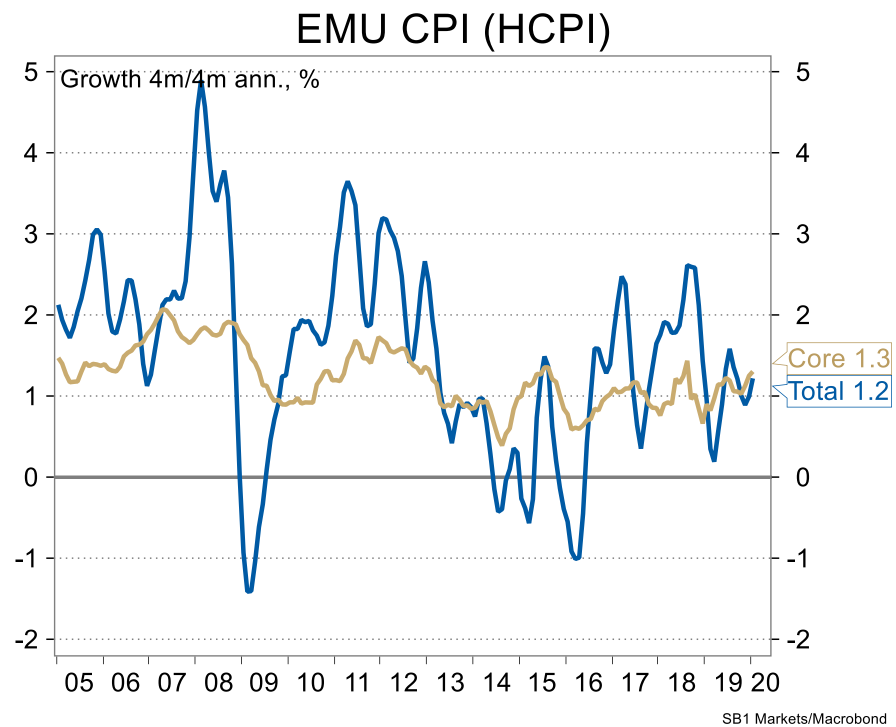


- However, over the past 20 years – or more – GDP per person in working age has been growing at exactly the same speed, just with some unimportant +/- differences through the cycles

Core CPI inflation back to 1.1% in January

Core CPI up 0.1% m/m and the annual rate edged down 0.1 pp, trending marginally upwards

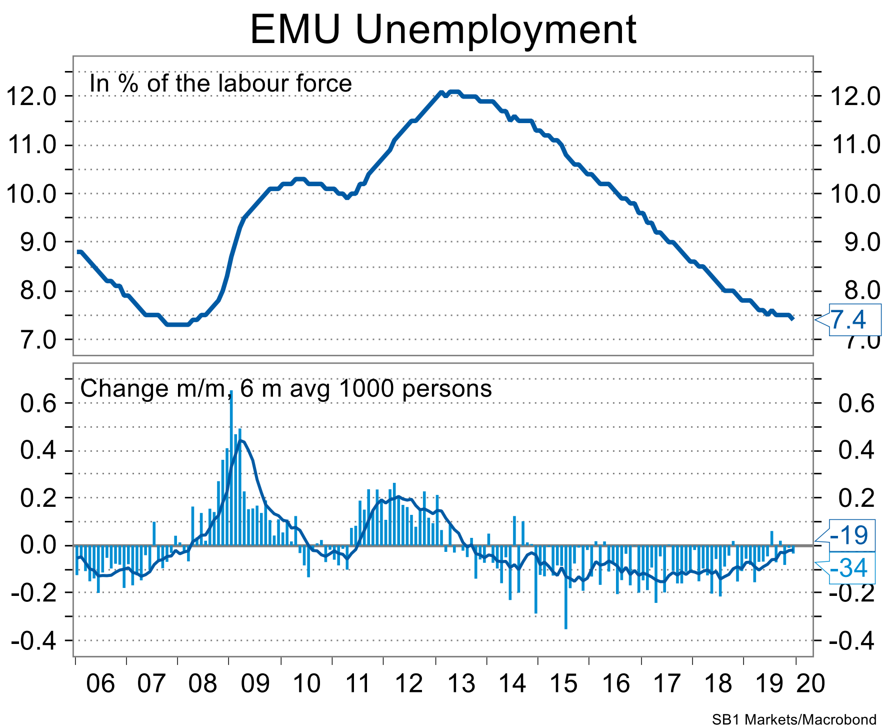


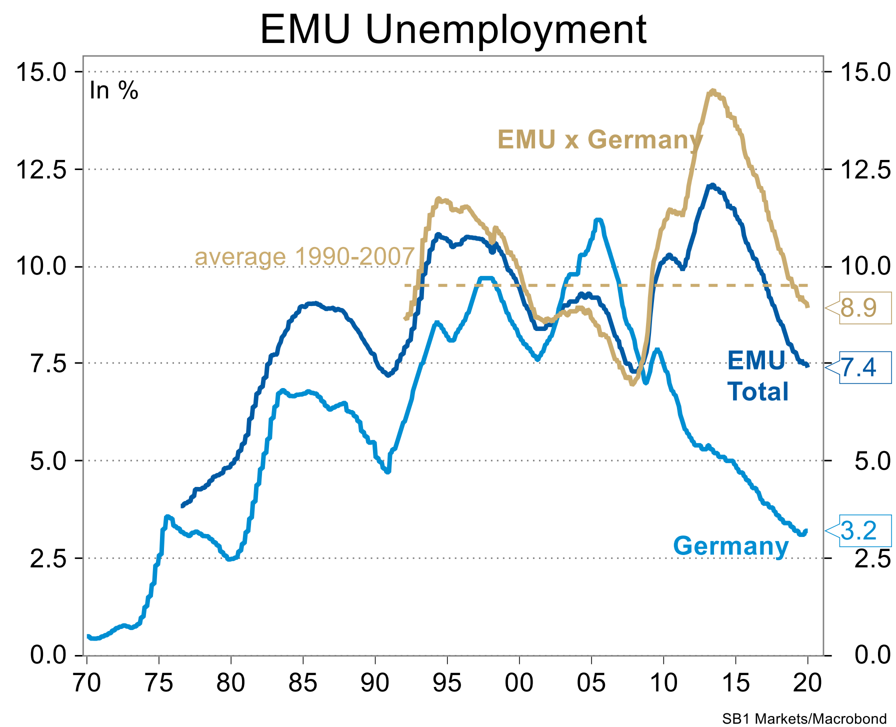


- Core CPI rose 0.1% m/m in January and the annual rate fell 0.1 pp, as expected. Nov & Dec rates were revised down to 1.2%, from 1.3%. Underlying growth (measured 4m/4m at the chart above) has turned up to 1.3%, however we doubt any upward trend is persistent as there are few signs of an uptick, core inflation has been completely flat for 3 years
- Total CPI growth edged up 0.1 pp to 1.4%. The oil price decline in the spring sent total inflation down from above 1.5%, this effect is now changing sign

Unemployment still declines marginally

The no of unemployed inched down in Dec, bringing the unempl. rate down to a 11 year low of 7.4%





- The unemployment rate came down one tick to 7.4% in Dec, after remaining more or less flat at 7.5% the past 6 months. The number of unemployed fell by just 34' and the 6 m average decline has eased to just 19', from 100' one year ago
- Unemployment in total EMU is well below the 1990-2007 avg, and it has fallen below the average in EMU ex Germany
  - In Germany, the unemployment rate bottomed at 3.1% in May, the lowest rate 40 years but rose during the autumn

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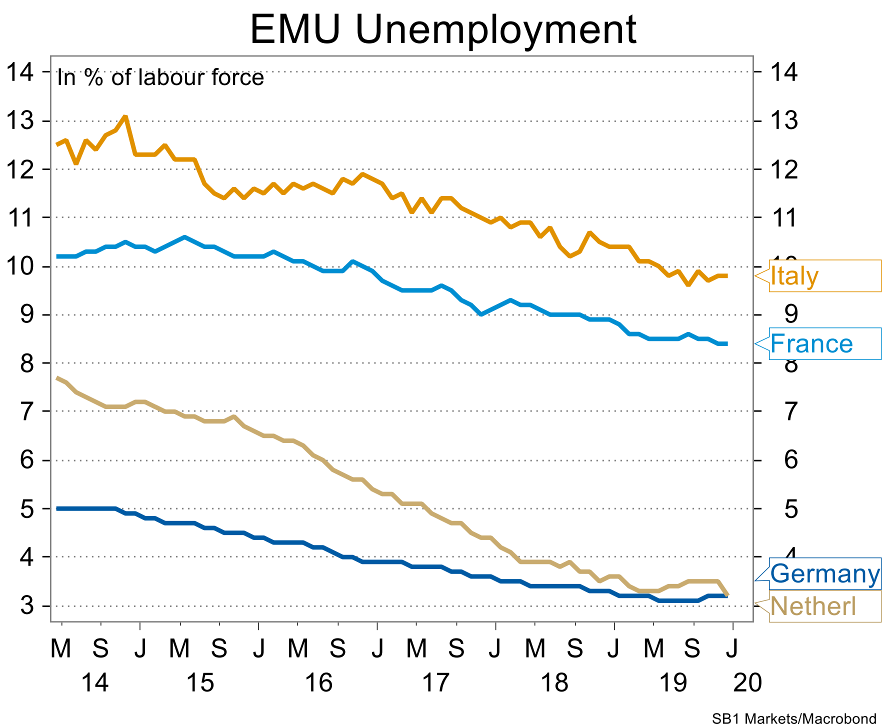
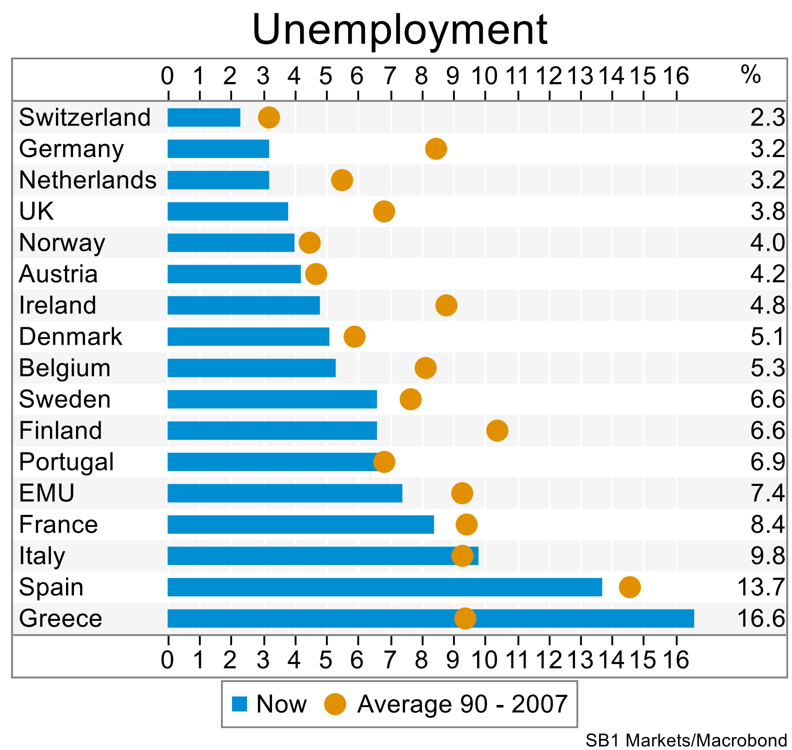
Unemployment is stabilising at low levels in many EMU countries

Unempl. is higher than 'normal' (avg 1990 – 2007) only in Greece (and marginally in Italy)

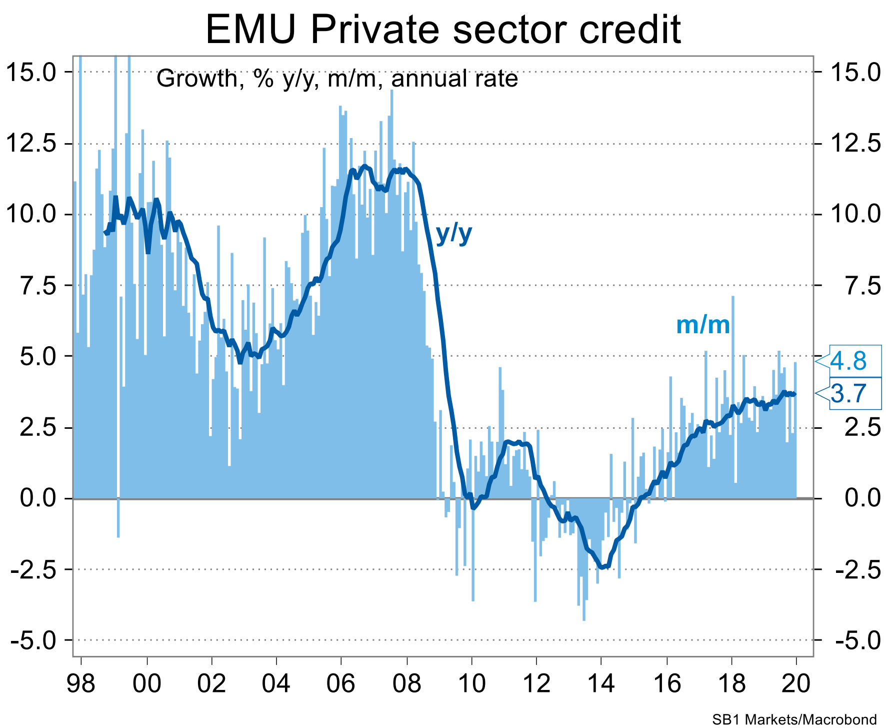


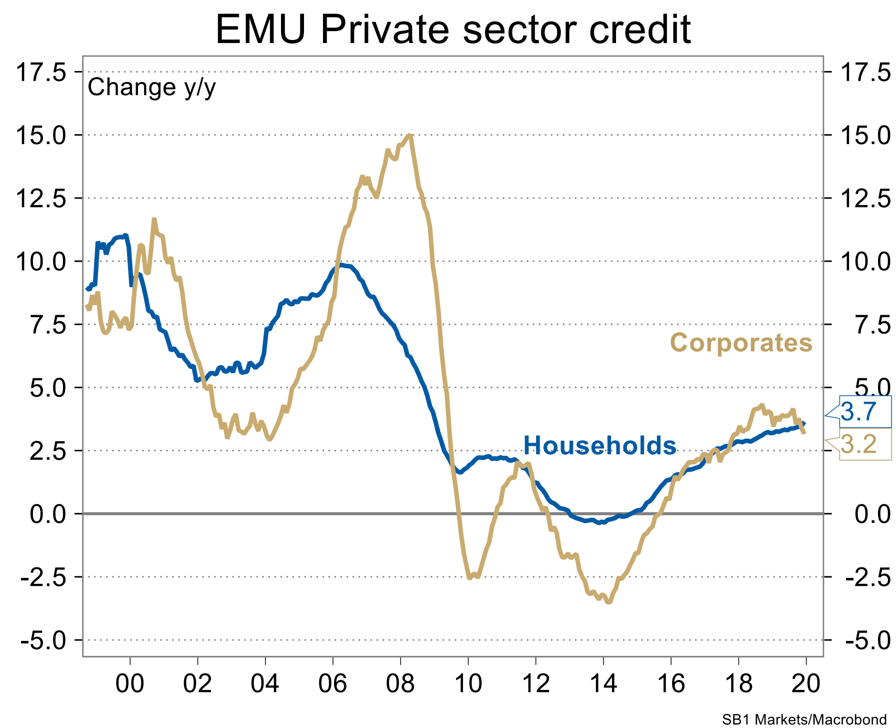


- Unemployment rates in Greece and Spain have fallen steeply since 2013, from awfully high levels. Unemployment is still very high in Greece, at 17%. Spain down to 14% from 26%, and still sliding down
- Unemployment in Germany and the Netherlands have fallen to very low levels, limited downside potential. Recent months, both have flattened out. In France, unemployment is still declining marginally. Italy stabilized
- Employment rates are in general high – but lower than before the GFC in Greece, Spain and France (but not in Italy)

Credit growth flattens, corporate lending growth is slowing

Corporate credit growth slowed to 3.2% in Dec, households accelerated to 3.7%

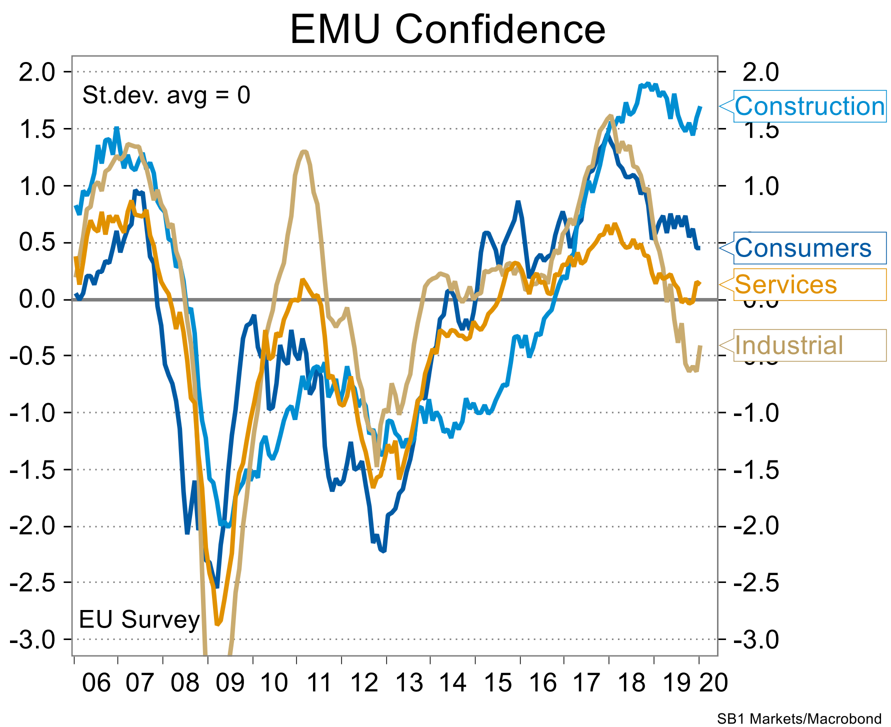


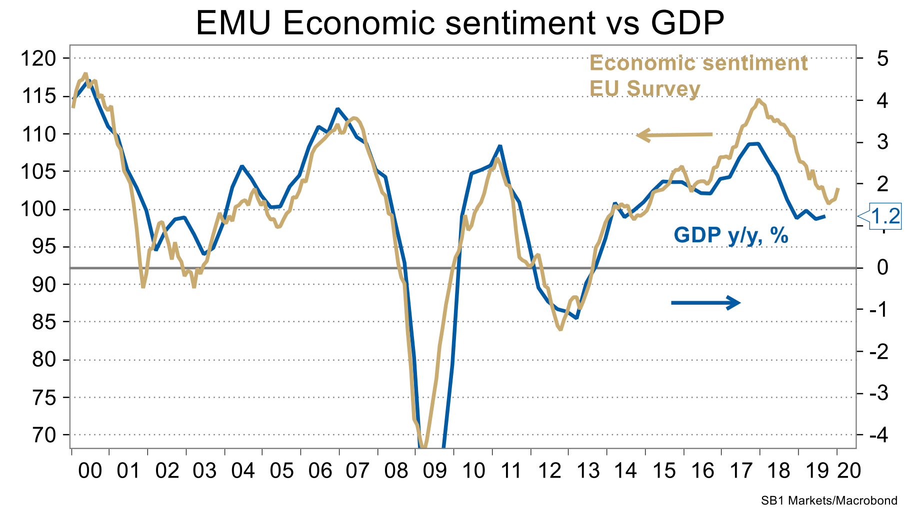


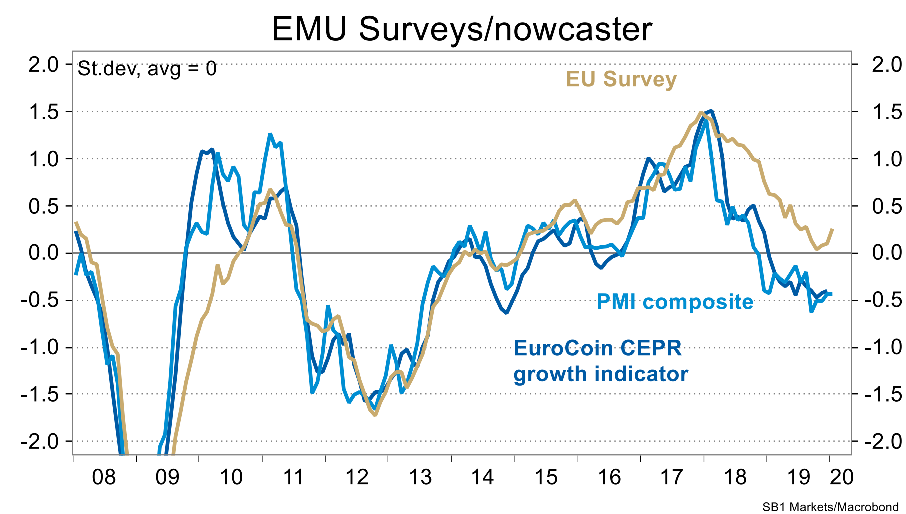
- The slowdown in corporate borrowing signals a slowdown in business investments

EU economic sentiment brightens in January, more upbeat than other surveys

The ECI edged up for the 3rd month in row, thanks to manufacturing, construction



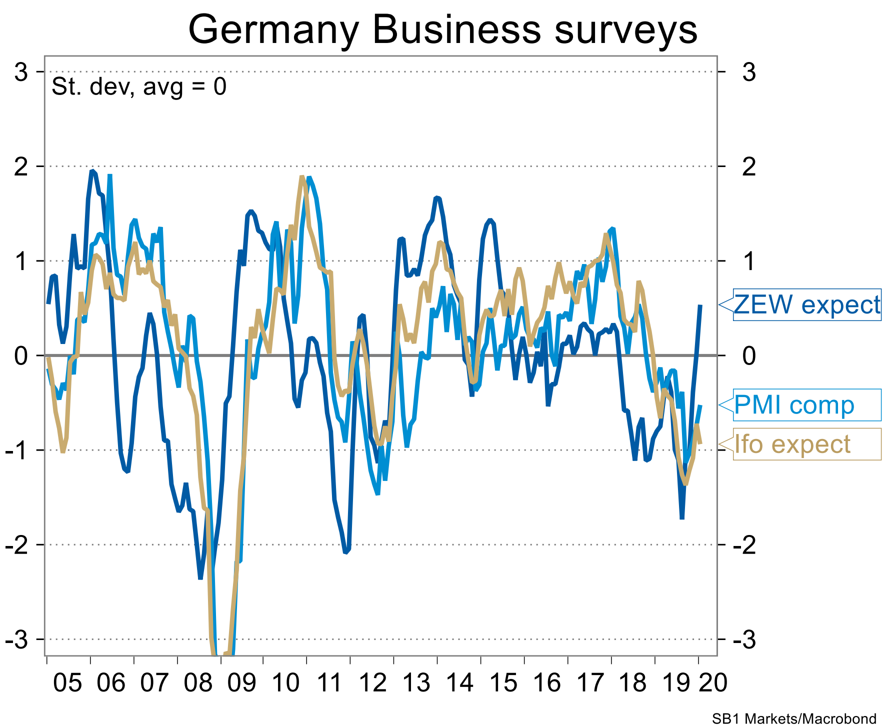


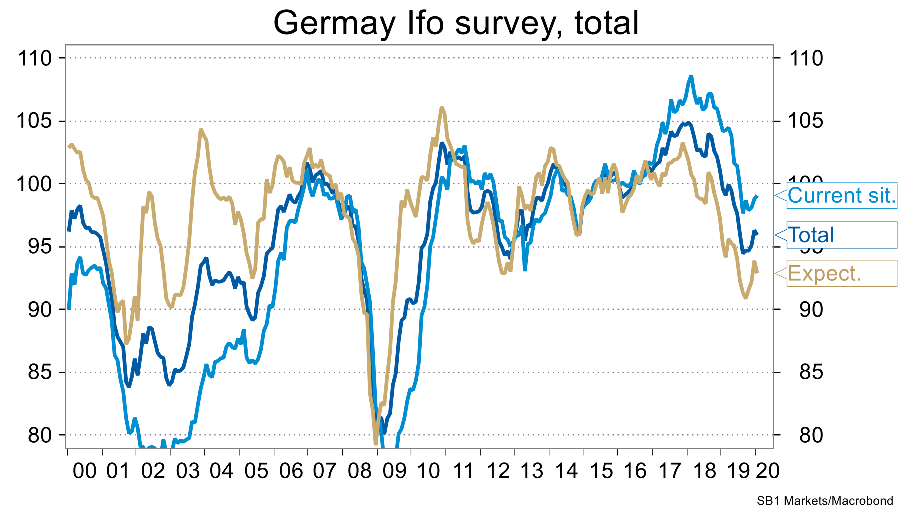


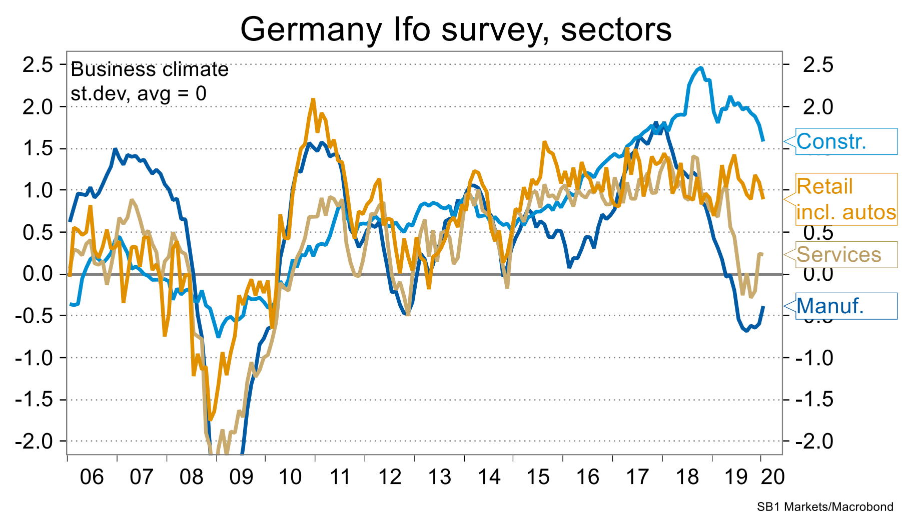
- Total sentiment inched up to 102.8 in Jan, better than expected and just above the average level. This survey has been far too optimistic vs growth the past two years, yet the upturn the past few months adds to signs of a Eurozone stabilization
  - The survey is usually lagging the PMI and CERP
- The ECI confirms the sector outlook which others are reporting; manufacturing has bottomed out. Services are growing moderately, just above average. Construction still elevated. Consumers are still quite upbeat, although the CCI is trending down

Ifo expectations edged down in Jan, but the sector details are encouraging

The manuf. dip eases, services recovering, retail steady, construction slows, from an elevated level



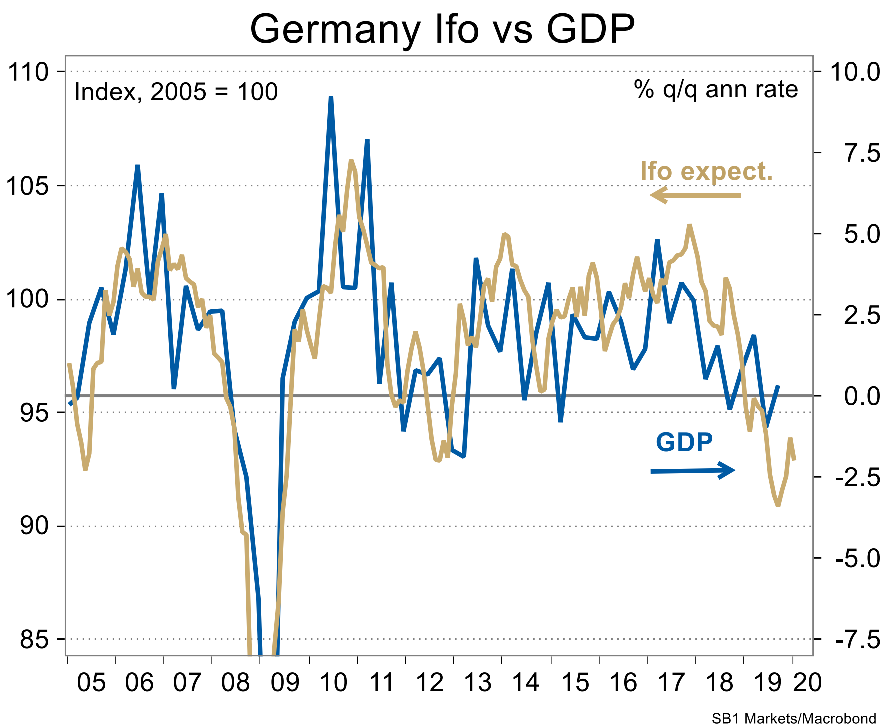


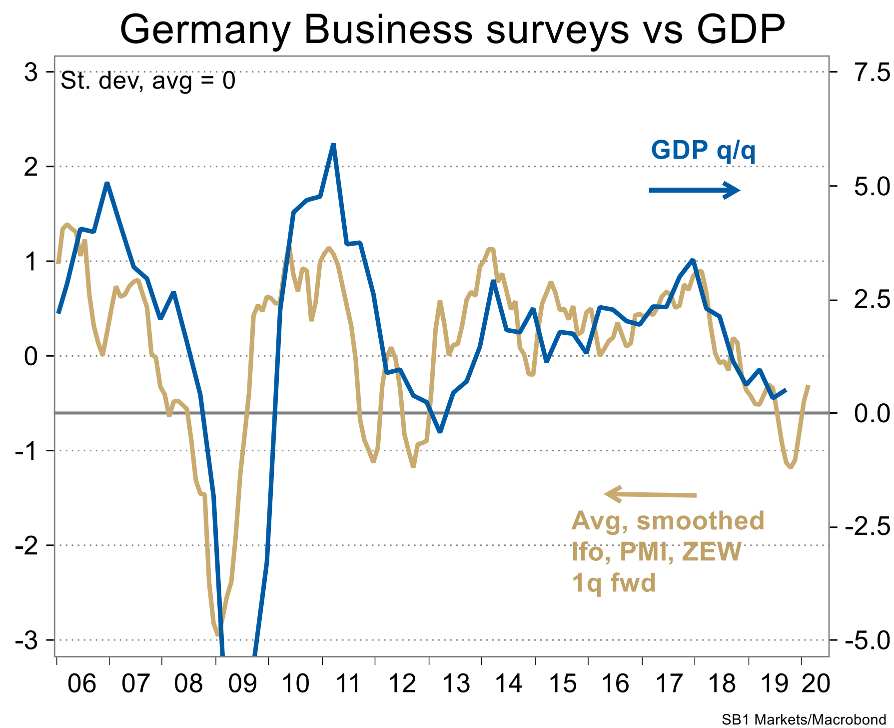


- Ifo business expectations softened in January, after 3 months of a soft recovery. The level remains weak. Businesses' view of the current situation improved, the 5 month of upturn
- The bright spot was manufacturing, the monthly increase was the highest since 2016. Services have recovered from a small downturn. Retail weakened in Jan, trending flat. Construction activity is slowing, from a very high level
- In our view, the Ifo survey does not dent hopes of a German rebound, as the manufacturing contraction eases and other sectors are not weak

The German surveys suggest steady, subdued GDP growth

Ifo is more downbeat than the PMI and ZEW surveys, in avg pointing to some 0.5% GDP growth





- The surveys have been too downbeat vs actual growth over the past quarters - and the correlation is anyway not very strong, short term
- Ifo expectations still signals a contraction in German GDP. The avg of surveys signals some 0.5% GDP growth (q/q, annualized rate), close to the Q3 pace

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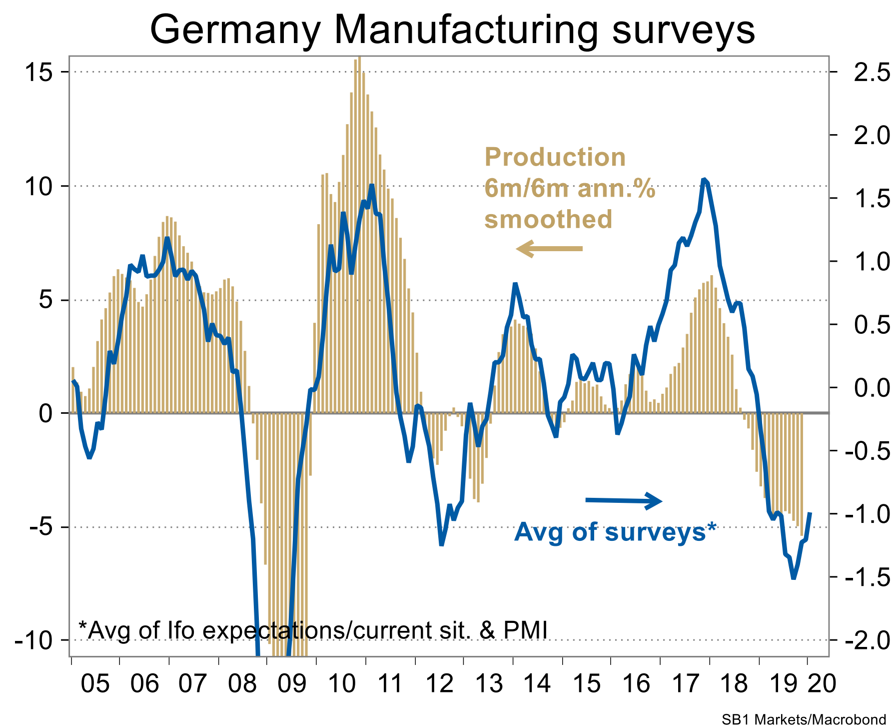
All 3 manufacturing surveys point to a softening contraction

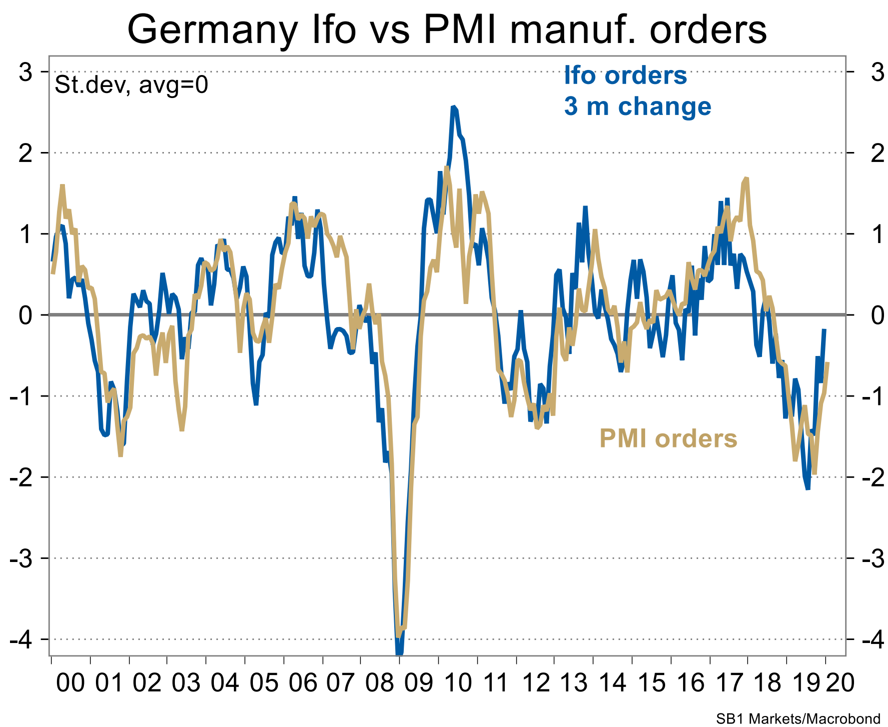
In avg, the surveys still suggest a 1% decline in production but the direction is encouraging

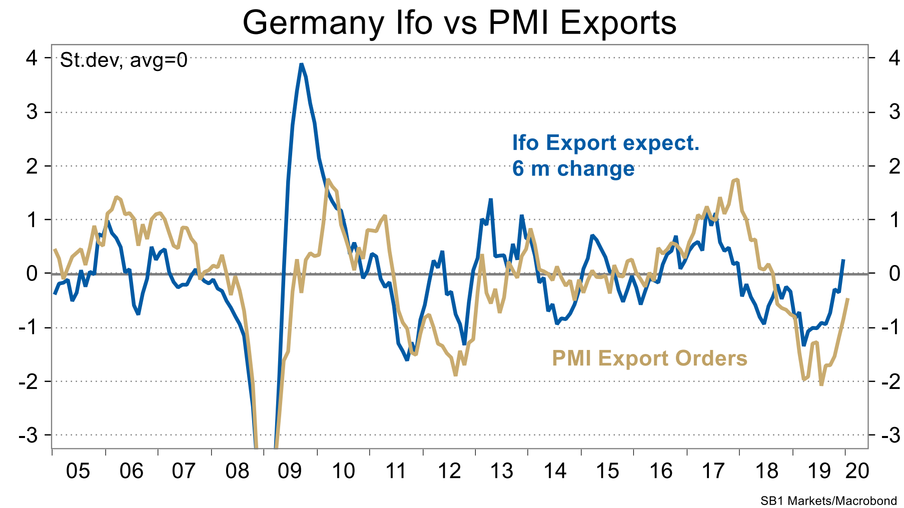


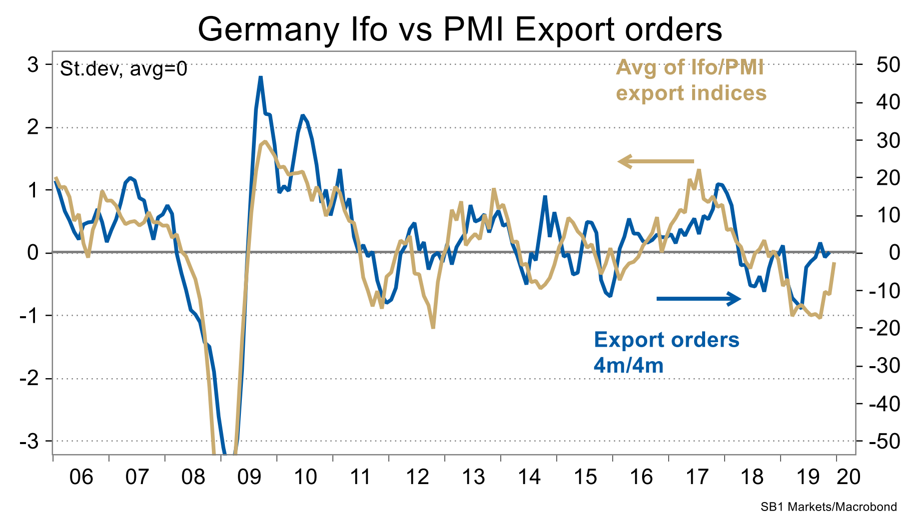
- The Ifo current situation index is more upbeat than expectations, particularly the ZEW survey (which is usually lagging the Ifo expectations and the PM). However, the direction is the same

Order assessments are signaling an easing downturn – and steady exports

The avg of PMI and growth in Ifo export climate does no longer signal weaker exports orders



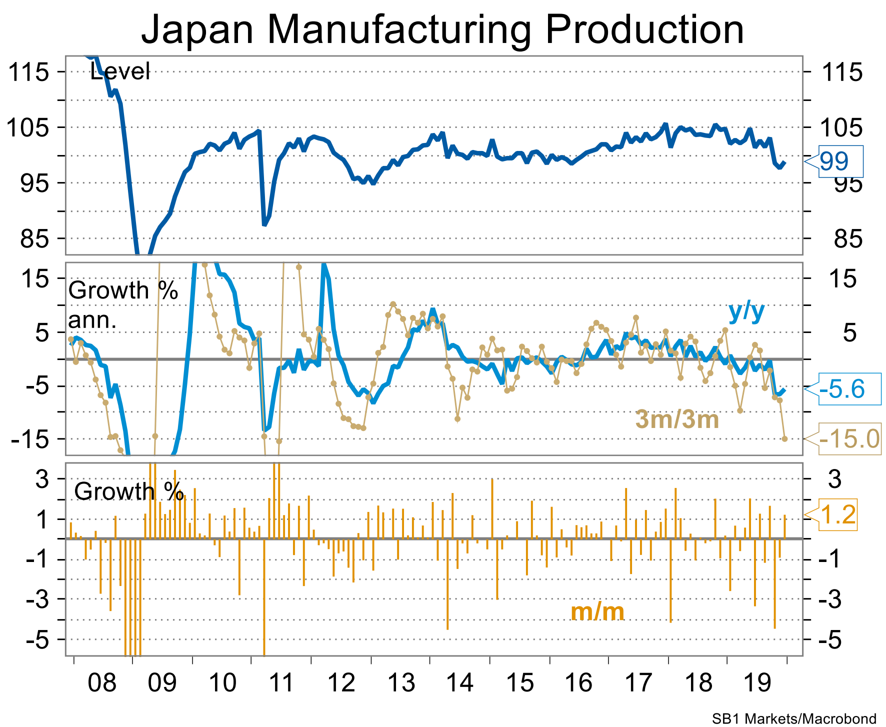


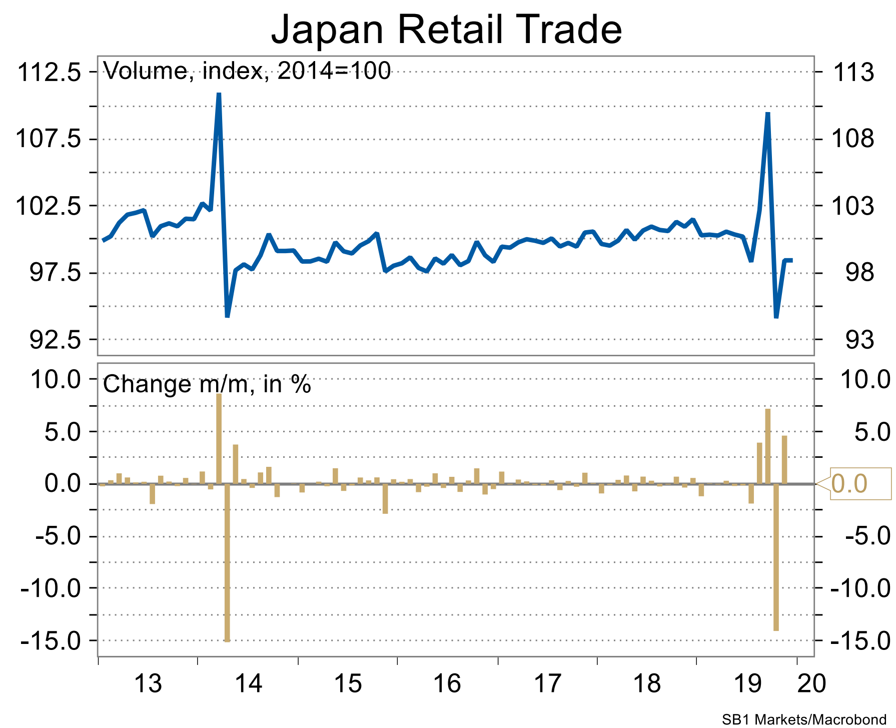


- The level of the Ifo order index is far above the PMI. However, the change in Ifo (here a 3 m change), is closely correlated to – but usually leading – PMI orders. Now, both are reporting a less steep decline in order inflows, the change in the Ifo survey is the highest in 1 ½ years! PMI is lower but it may have bottomed out
- An avg of Ifo/PMI points to close to zero growth in export orders, a much less rapid decline than some few months ago

Retail sales and manufacturing have not yet recovered from VAT hike

Retail sales are still some 2% below the pre-VAT distortion level, manufacturing close to 3% below

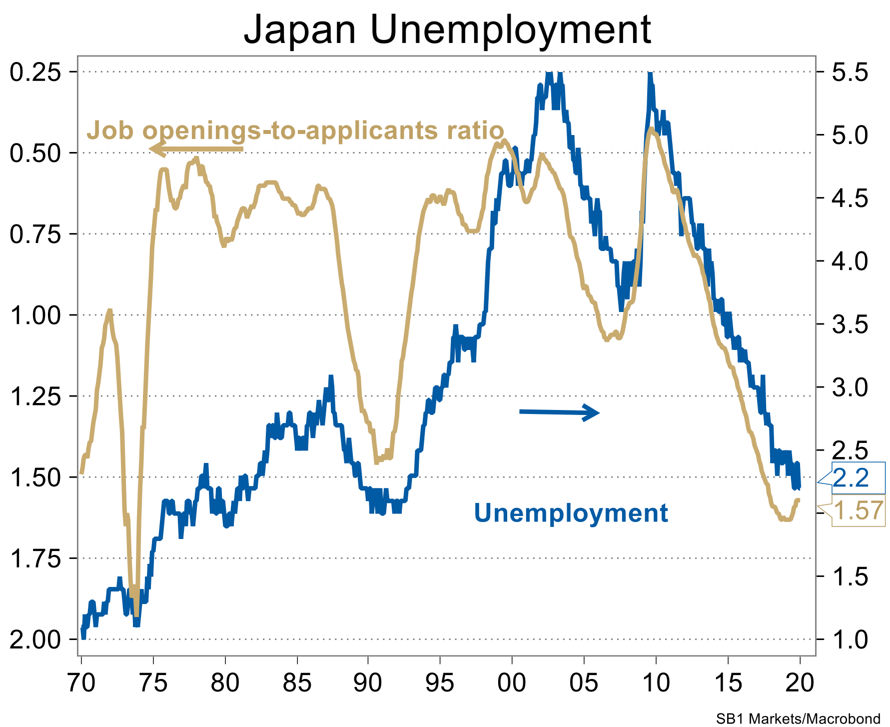


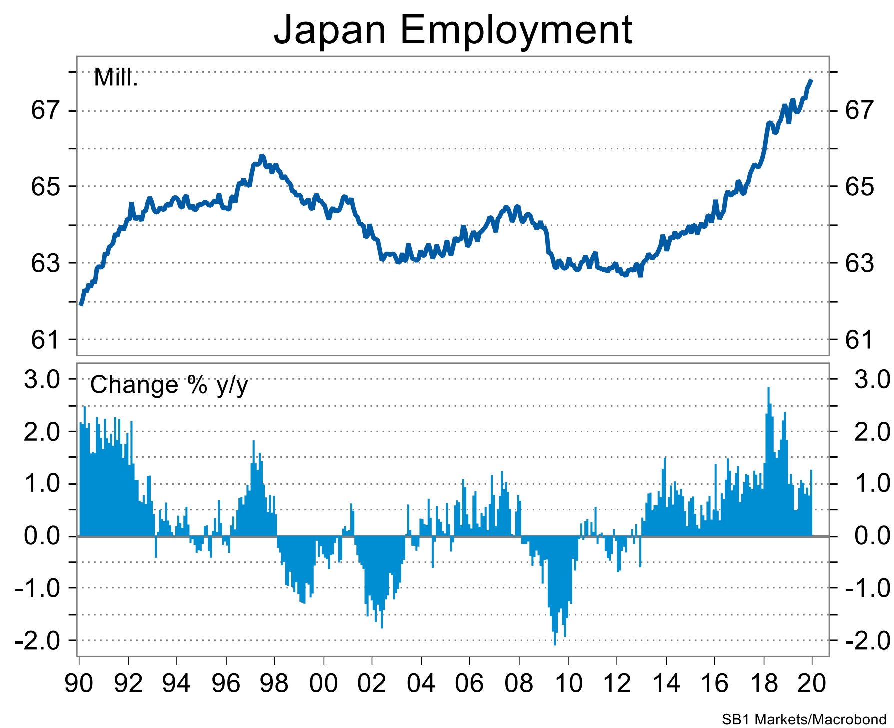


- Retail sales dropped 14% in Oct, as consumer taxes were hiked (and soared ahead of the implementation). In Nov, sales recovered partially, a stronger rebound than in 2014, and remained unchanged in Dec. However, in 2014, the last time the VAT was raised, sales were lower than the pre-VAT levels for several years. The retail sector may be off to a bumpy road
- Manufacturing production slipped 4.2% m/m in Oct and kept declining in Nov. In Dec, production rose just 1.2%, and the underlying decline is the steepest since 2011. A soft upturn is expected the coming months. Regardless, production is not shining, production was down a 2% y/y even before the Oct drop
- The good news; Services PMI jumped in January and manufacturing PMI improved, signalling better days ahead

Unemployment steady at a very low level, employment still increasing

Unemployment unchanged at a 27 y low of 2.2% in Dec, and employment growth picks up

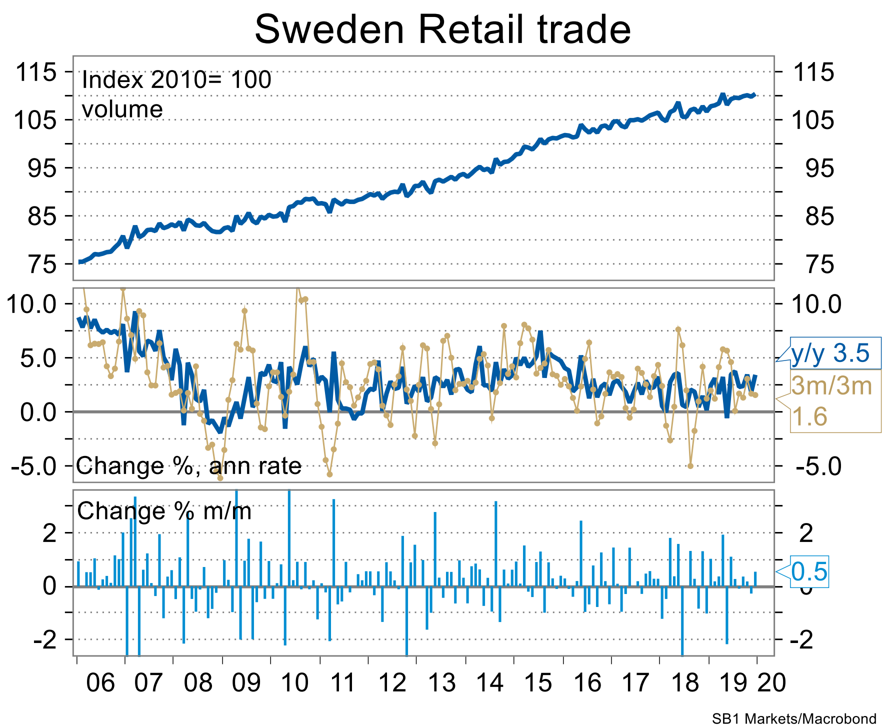




- Unemployment has flattened out the past year, at the lowest level in 27 years
  - » The job openings-to-application ratio has turned down, signalling some weakness? On the other hand, the level is the highest since the 1970'ies
- Employment is still growing at a decent speed, and faster recent months, annual rate at 1.3%. Employment rates have been soaring, and are at record high levels for all ages/genders
- Still: Wage inflation has fallen steeply this year
- Barring the high corporate savings rate (partly offset by the public sector deficit – Japan is running a huge current account surplus) - what's really the Japanese problem – when employment is 'more than full'

Retail sales are expanding modestly, just marginally below trend

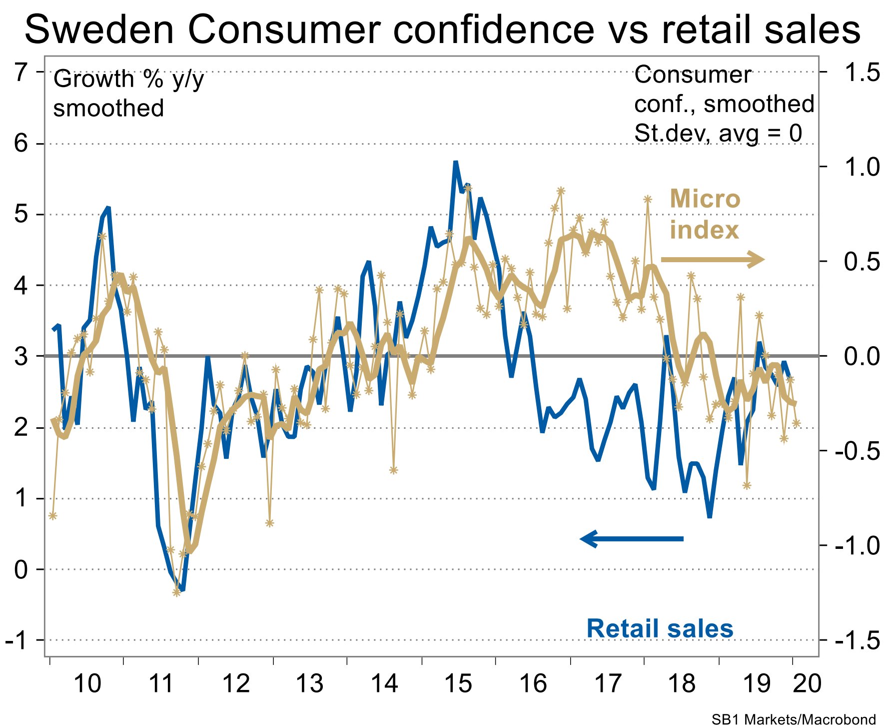
Sales rose 0.5% in Dec and 1.6% in Q4, no signs of a consumption setback amid growth slowdown

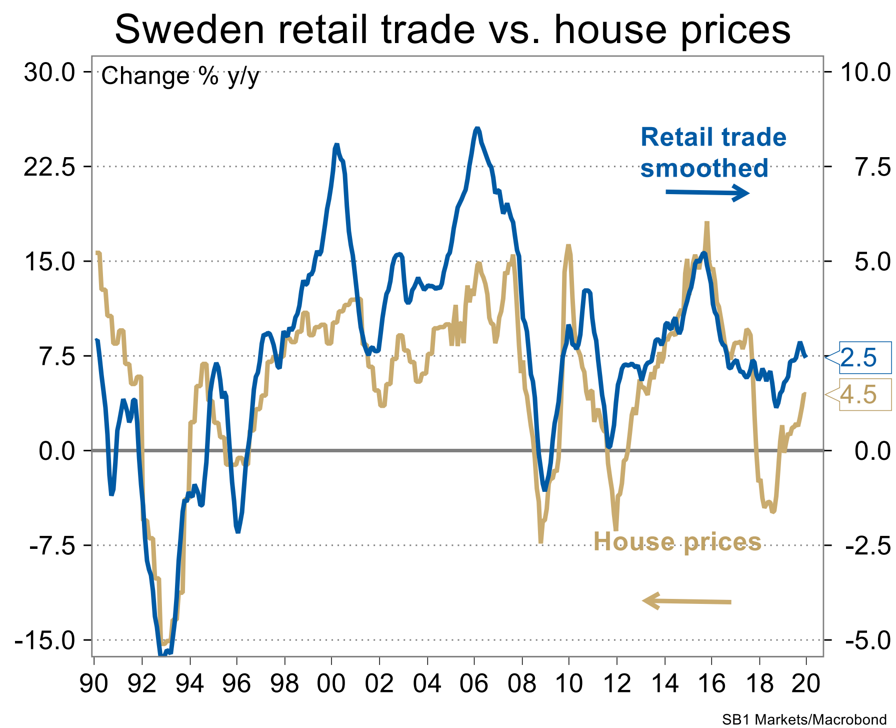


- Retail sales volume increased by 0.5% m/m in Dec and was up 1.6% annualized in Q4, marginally faster than in Q3. The growth path is not far below the trend growth since 2015. Retail sales growth has been substantially stronger than in Norway, which we find strange…
  - » Retail price inflation is easing, supporting volume growth. Annual inflation at 0.7% in Dec, 0.6 pp lower than in early 2019
- Given several signs of a slowdown in the Swedish economy; climbing unemployment and soft consumer confidence, the consumption outlook is not upbeat. However, we do not expect a collapse either

Consumer confidence sliding slowly down

The confidence index has declined somewhat since last summer but does not signal weak consumpt.





- The consumer confidence survey is volatile, and often zig-zags too much to give any useful signals. Still, the survey has fallen somewhat since last summer, and does not point to any steep drop in consumption, even as the level is below average. However, the correlation to consumption is not very strong
- House prices and retail sales are often quite closely correlated. Consumption did not follow house prices down in late 2017/early 2018 and now house prices are climbing again, and real wages are on the rise. On the other hand, a softening labour market is not a good sign!

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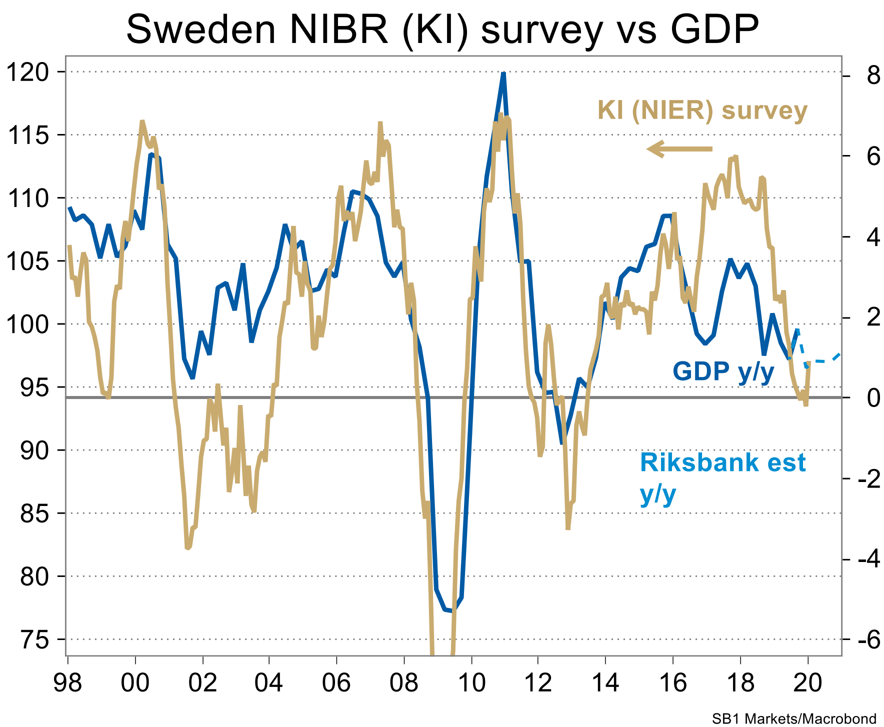
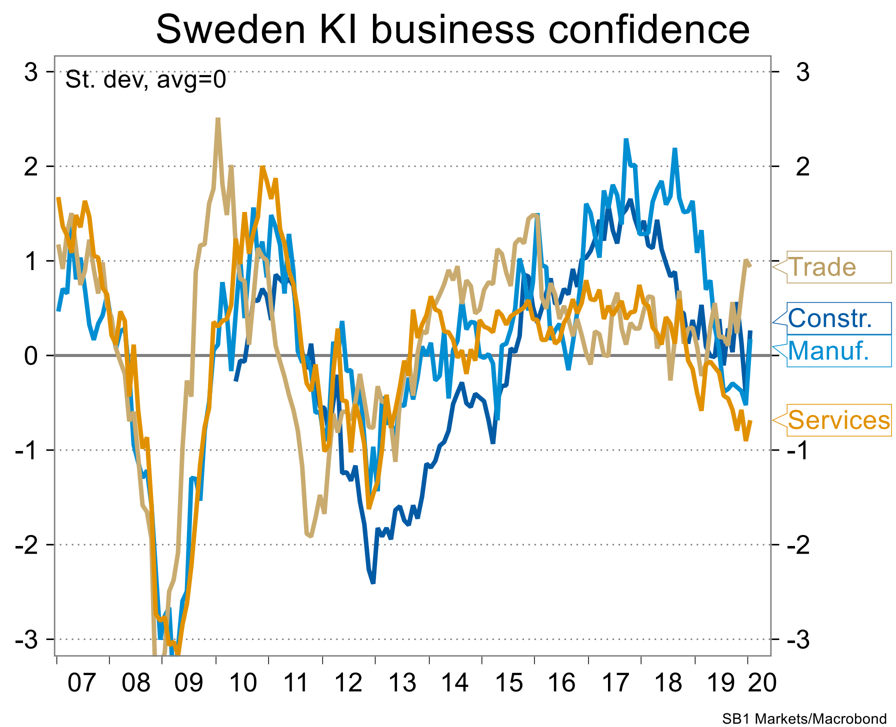
The KI business survey up in January, level still low

Services is the only sector below par, after a steep rise in the manuf./constructing indices





- The KI economic tendency survey, which usually correlates well with GDP growth, fell sharply through 2019 but recovered somewhat in January, still signalling less than 1% GDP growth
  - In January trade reported stable growth above normal, while both manufacturing and construction turned positive from negative in Dec. Services are still reporting growth below trend
- Why has the the Swedish economy lost momentum?
  - From the demand side: Companies has been reporting declining manufacturing order inflows, chiefly due to weaker domestic demand
  - From the supply side: The best long term reason for slower growth is that productivity growth has almost vanished – and hours worked are cooling

Highlights

The world around us

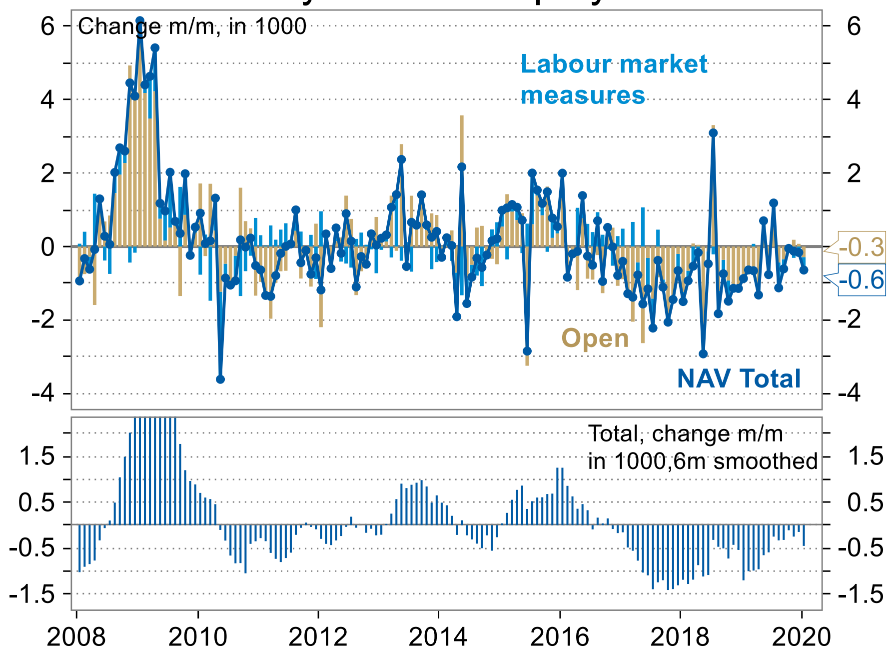
The Norwegian economy

Market charts & comments

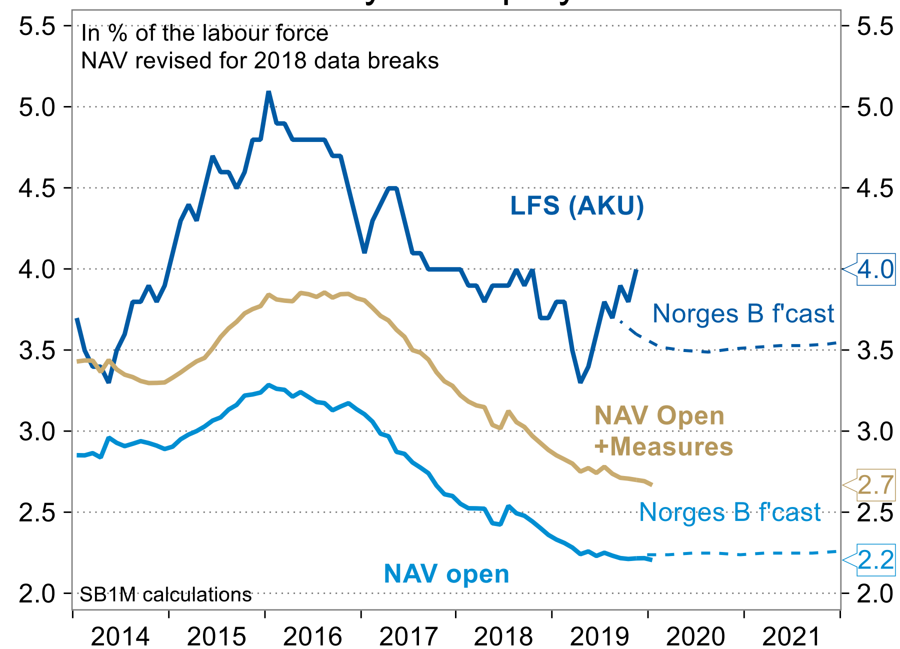
NAV unemployment has stabilized, does not confirm the LFS ‘take off’

Open unempl. declined by 300 persons in Jan (and total by 600), better than we expected

Norway NAV unemployment



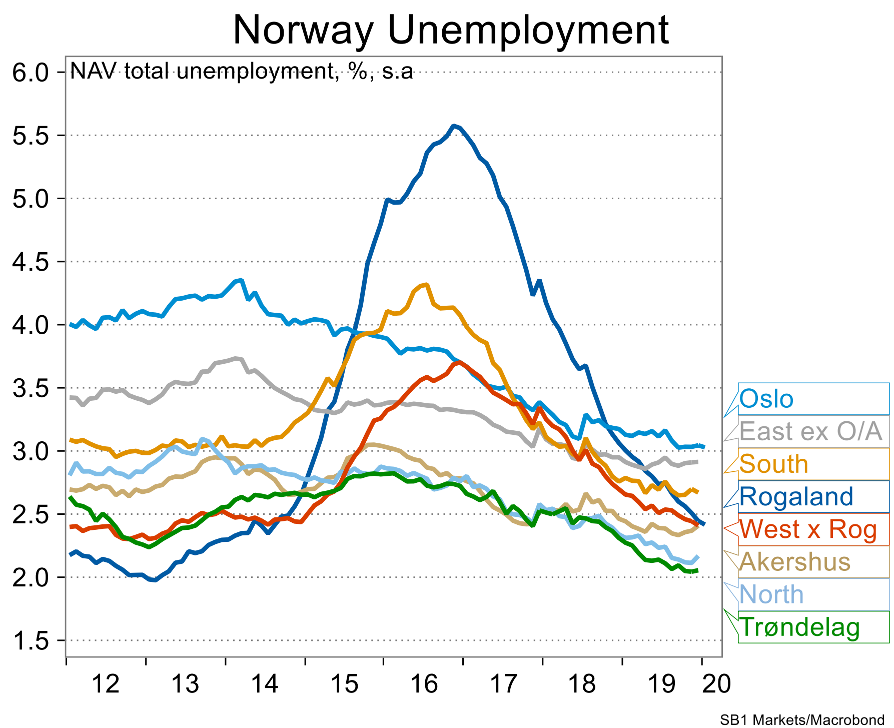
Norway unemployment

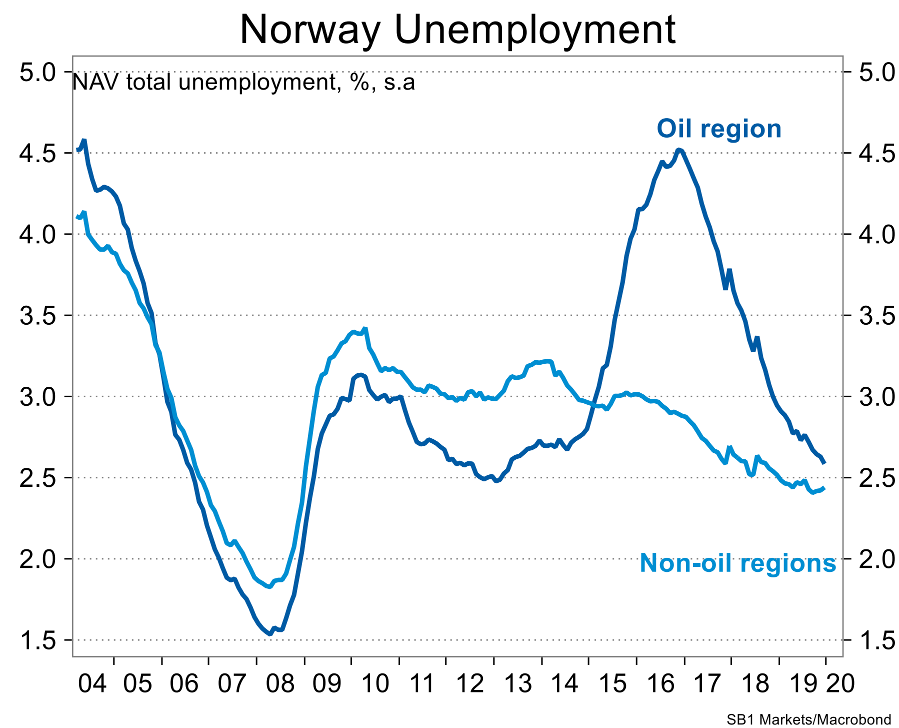


- NAV open unemployment fell by 300 persons in January total unempl. (incl measures) declined by 600 persons, we expected a modest increase. The pace of decline has slowed substantially and almost vanished since early 2019. The 6m average decline rate accelerated to 500 persons m/m in Jan, from 1000 in early ‘19
- The open unempl. rate held steady at 2.2% (down 0.01 pp), marginally below NoBa’s last f’cast
  - » Other indicators confirm a slowly softening labour market: New jobless claims have flattened out, and the number of vacancies is slowly declining
- LFS unemployment has soared to 4.0%, chiefly due to a rising labour force. These data are much more volatile than NAV’s, our take is that a stabilization of unemployment is more likely. As long as employment is still growing at a decent pace, we are not too worried, short term
- A stabilizing unemployment is in line with Norges Bank’s projections. NoBa expects NAV unempl. to hold steady at the current rate through 2020

Unemployment has stabilized in non-oil regions, oil regions still heading down

Unempl. is flattening out in Oslo, South and North, Akershus & other East slowly up

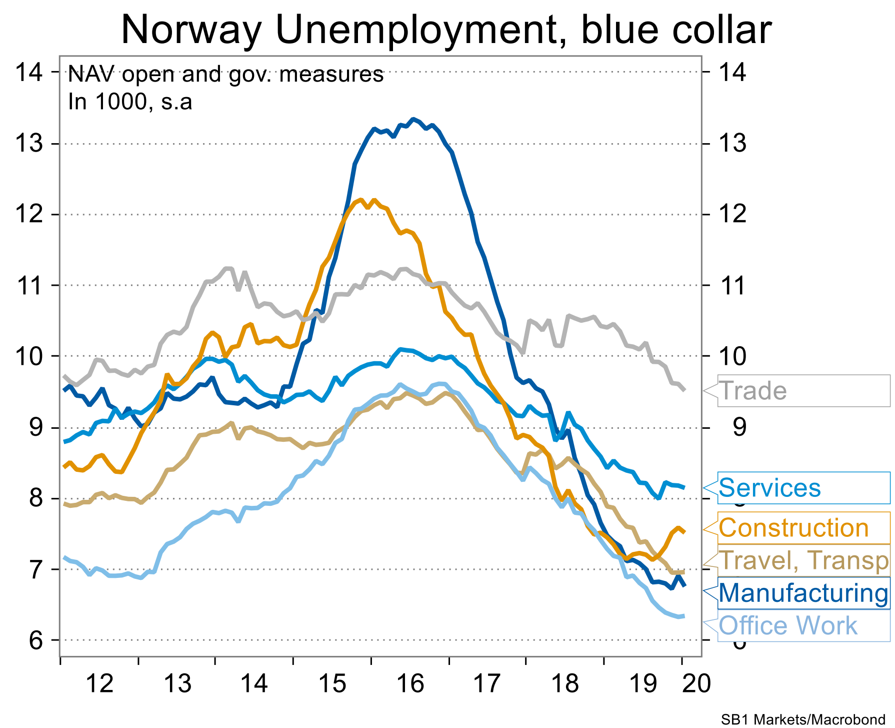


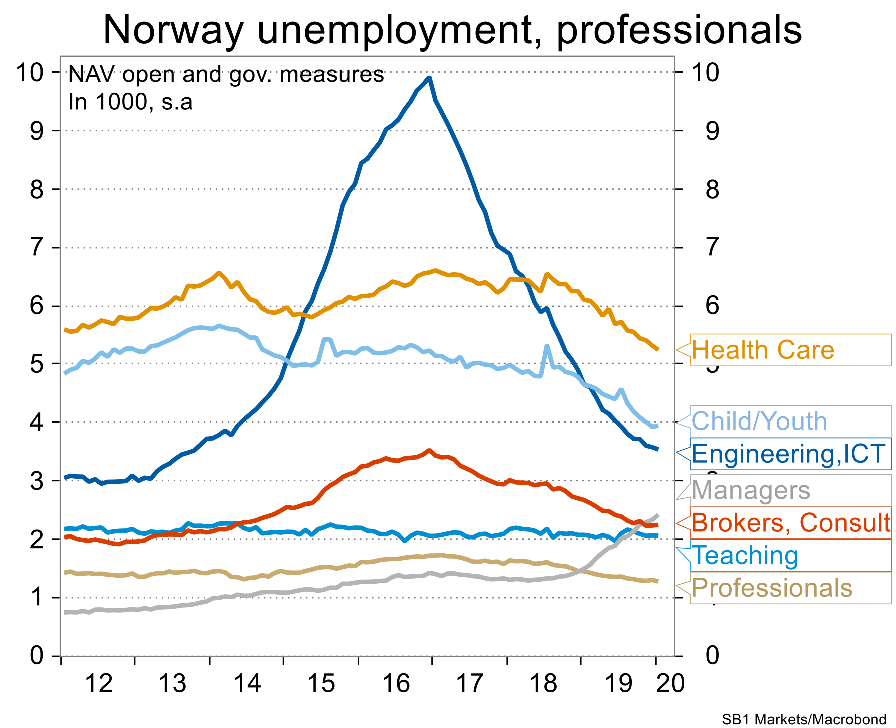


- Unemployment rates have flattened out in Oslo the past months, Akershus and other Eastern counties are inching up. South probably flattening out too. In the North, unemployment have increased marginally the past 2 months. Trøndelag flat recent months, with the lowest unemployment rate
- Unempl. in Rogaland and the rest of the Western (oil) coast keeps falling steadily
- The unemployment rate in the 'oil region' (Agder, Rogaland, Hordaland, Sogn & Fjordane, Møre & Romsdal) has dropped to 2.6%, from 4.5% at the peak in late 2016 and is just 0.2 pp above the non-oil regions

Unemployment is increasing in construction, flat in manufacturing, services

Most sectors still heading down. Construction is sagging, and Reg. Network reported a stagnation



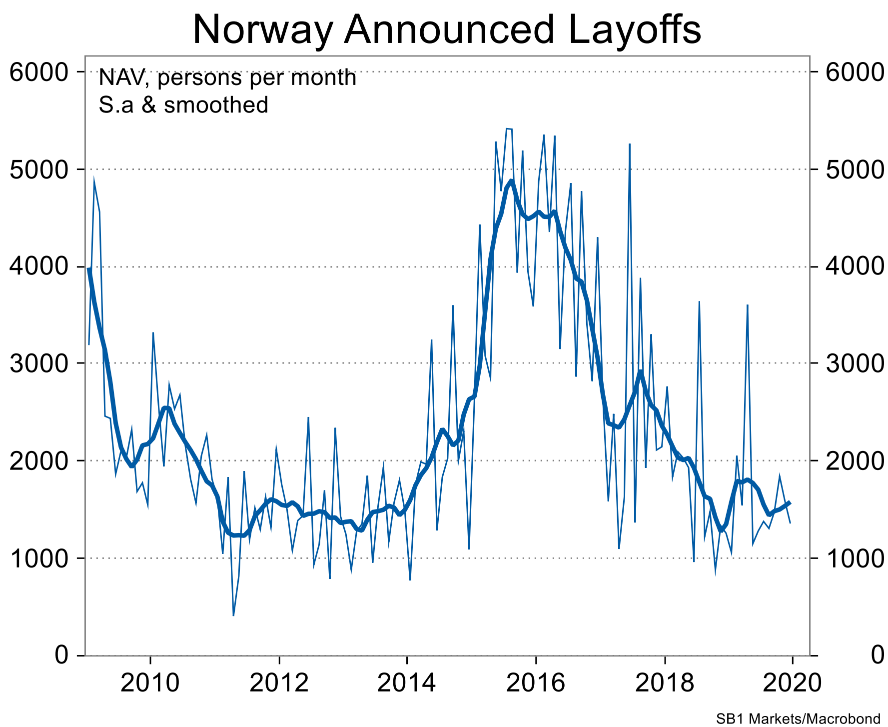


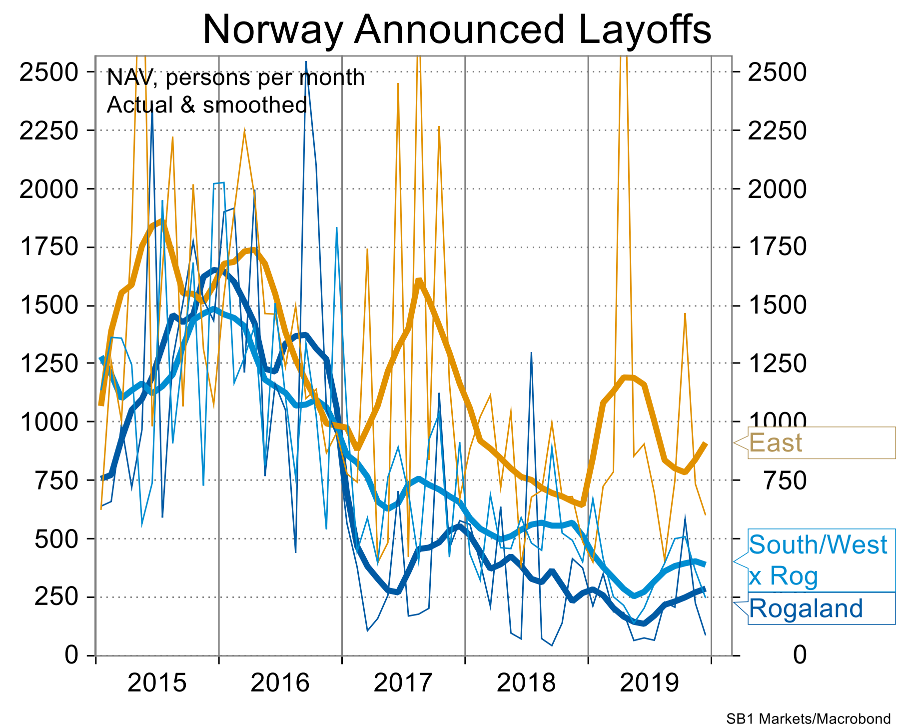
- Unemployment rates in engineering & ICT sectors, office works, travel & transport and health are still heading down. Even retail trade is heading straight down, which is very surprising, given soft retail sales
- Unemployment in construction sectors has turned up since late summer (but not further in January). The upturn confirms the slowdown which the Regional Network has been reporting; a substantial slowdown in Q4, and businesses expect a stagnation the coming 2 quarters. Lower housing sales and starts are taking its toll on activity, as well as fewer infrastructure projects
- Unempl. in manufacturing has flattened out, which is not surprising, given reports on slower growth in this sector. The upturn among managers is chiefly due to a change of registration definitions in December 2018

Occupancy unemployment series are not fully adjusted for 2018 changes in NAV unemployment data collection methods

Still a low level of layoffs

The number of layoffs has been rather stable at a low level, no warning signal to find here

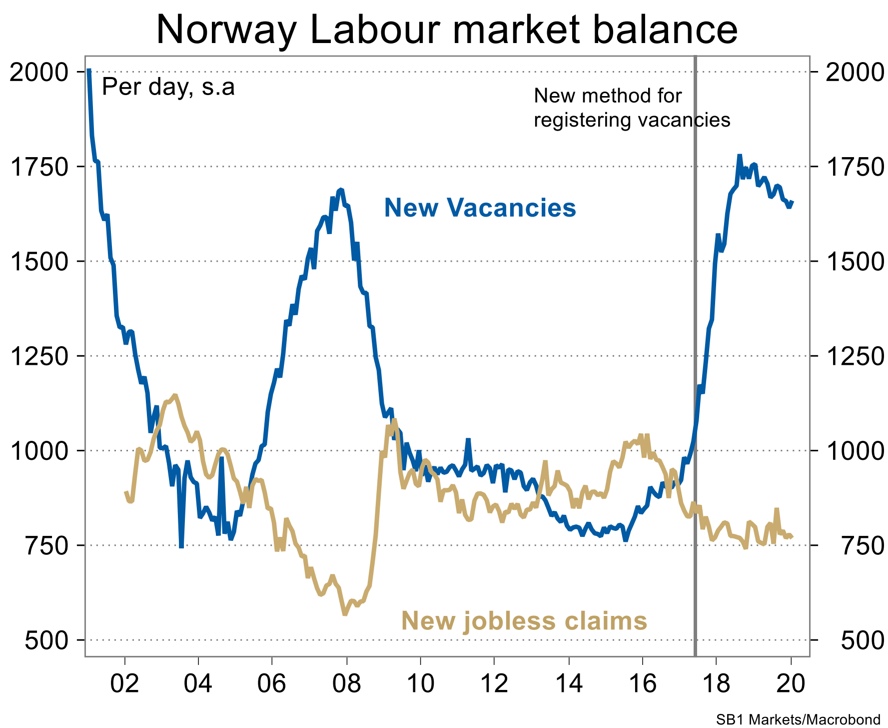


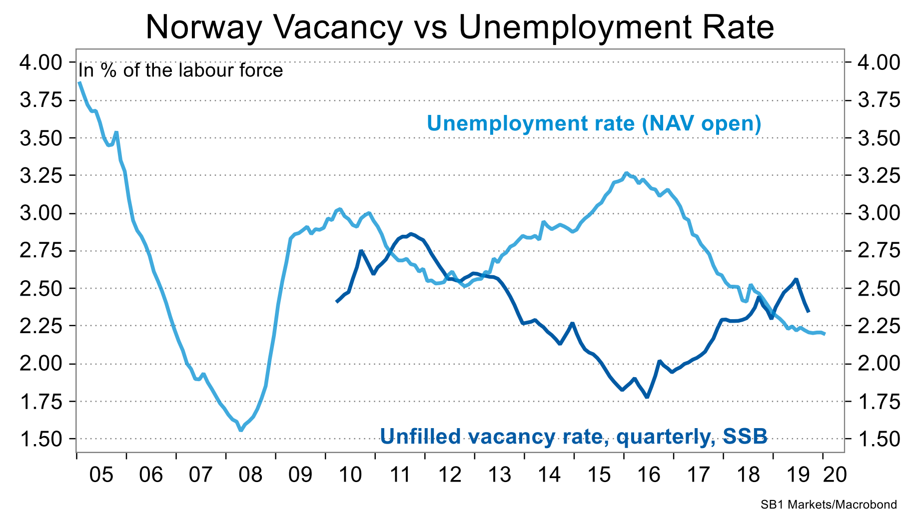


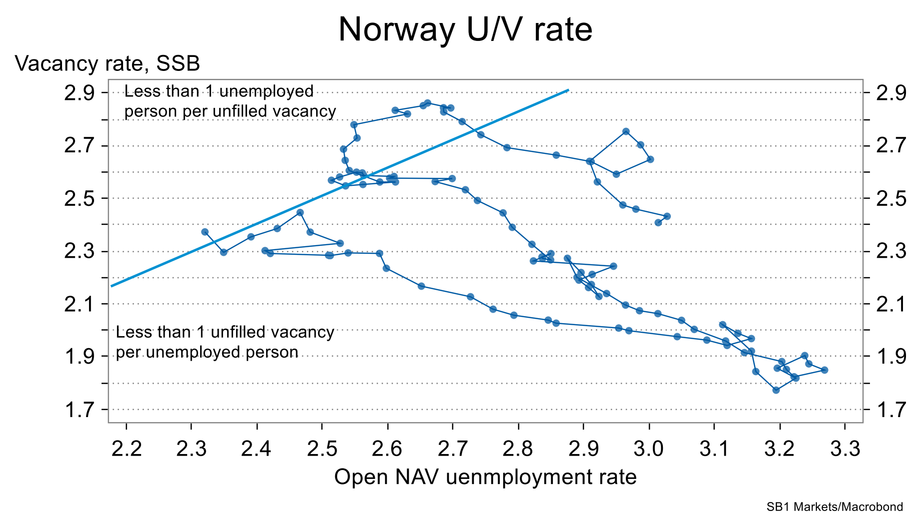
- These monthly data are very volatile and should not be taken too literally from one month to the next. The average of the past months is low, just slightly above the 2018 trough

New jobless claims have flattened out, fewer (but not few) new vacancies

Several signs of a somewhat calmer labour market, and SSB reported fewer unfilled vacancies in Q3





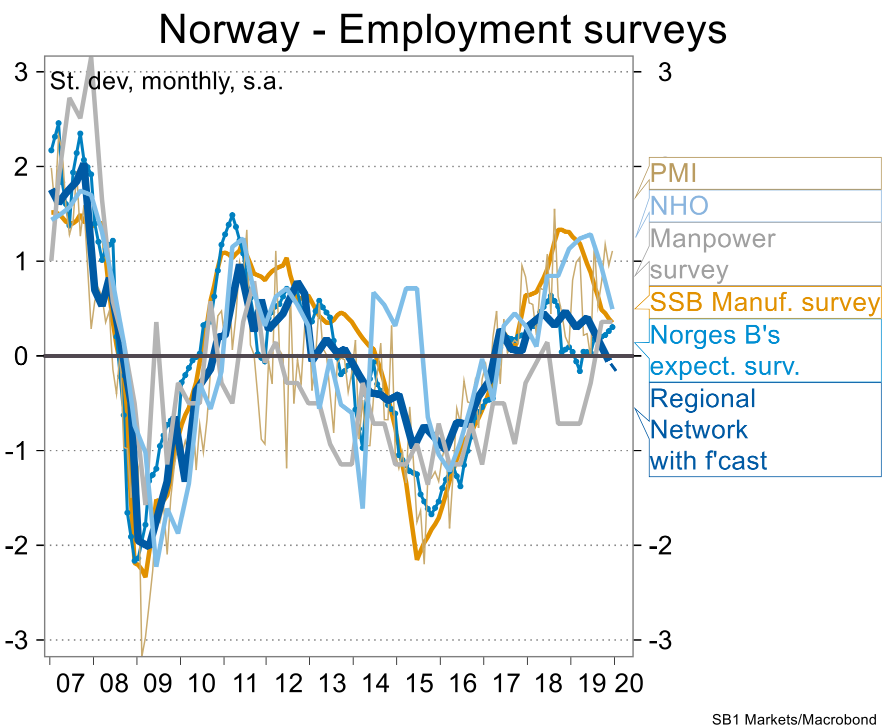


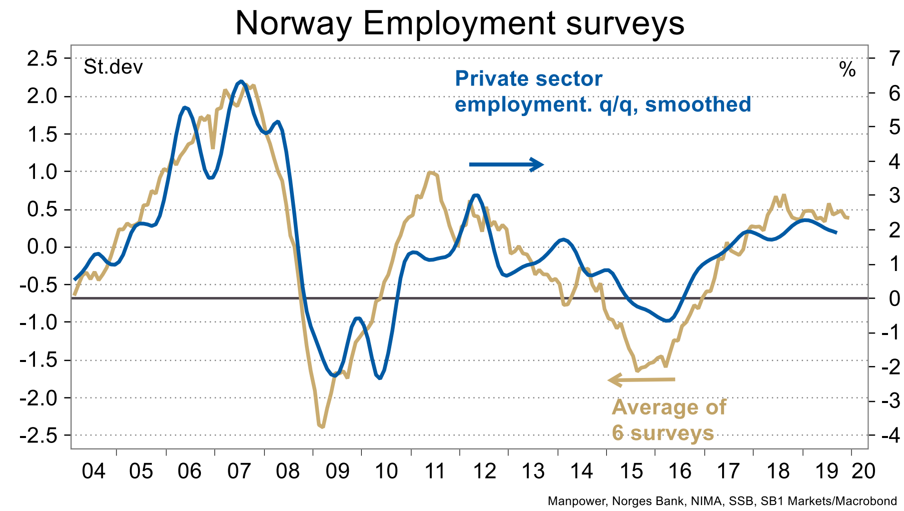
- New jobless claims inched down to 770/day in January. New claims are not trending down anymore but is not in the way up yet, at least not significantly
- NAV is reporting a decline in the number of new vacancies, as it has since the peak in Aug '18. Due to new collection methods, the level is not comparable to old data – but the direction is anyway accurate
- SSB reported an decline in the number of unfilled vacancies in Q3, confirming a less tight labour market

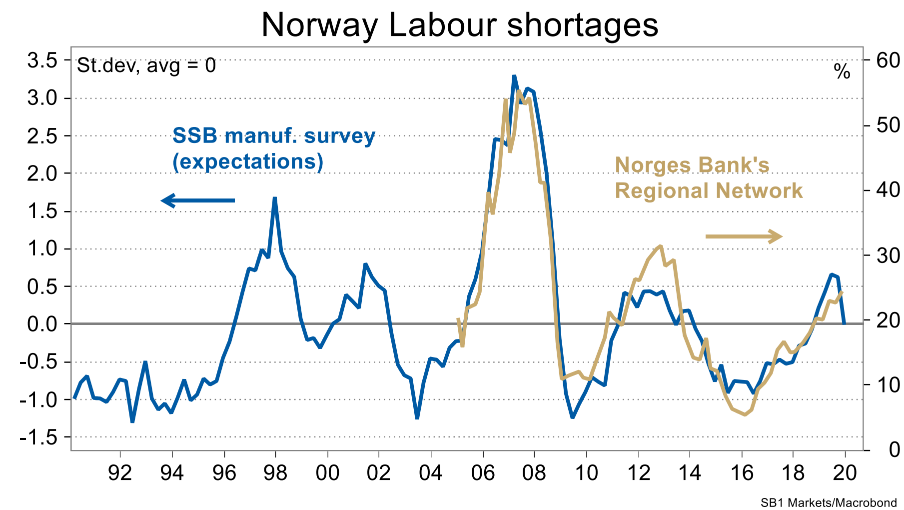
SpareBank 1 MARKETS

Many employment surveys are heading down, avg still not signal a slowdown

The level of labour shortages is modest, do not mirror a very tight labour market



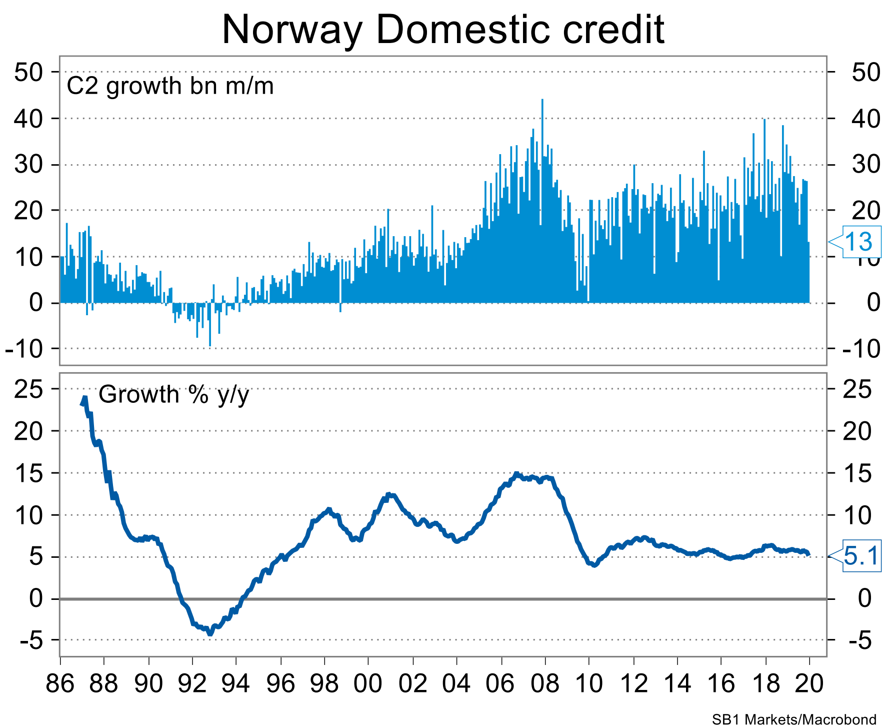


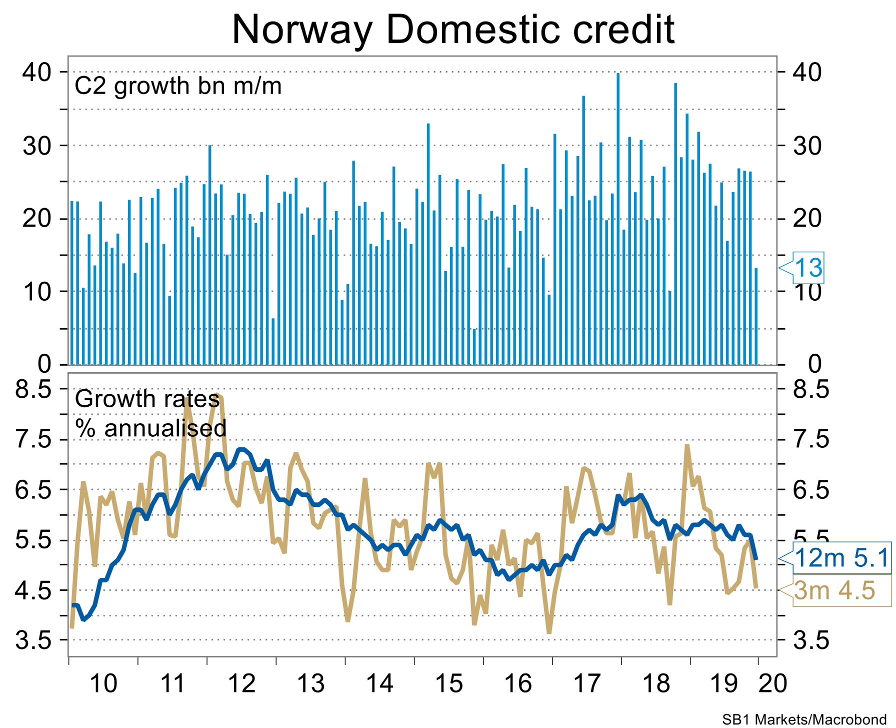


- Employment surveys are mixed, the avg of 6 surveys do not point to any slowdown. However, some of the most reliable of surveys, like NoBa's Reg. Network, points to substantially softer growth in employment
- The Regional Network reported higher labour shortages in Q4, however, the level is rather low, indicating that the labour market tightness is not very pronounced

Credit growth is ebbing, households the major drag

Total C2 credit growth dropped to 5.1% y/y in Dec, as both household and corporate credit growth cooled

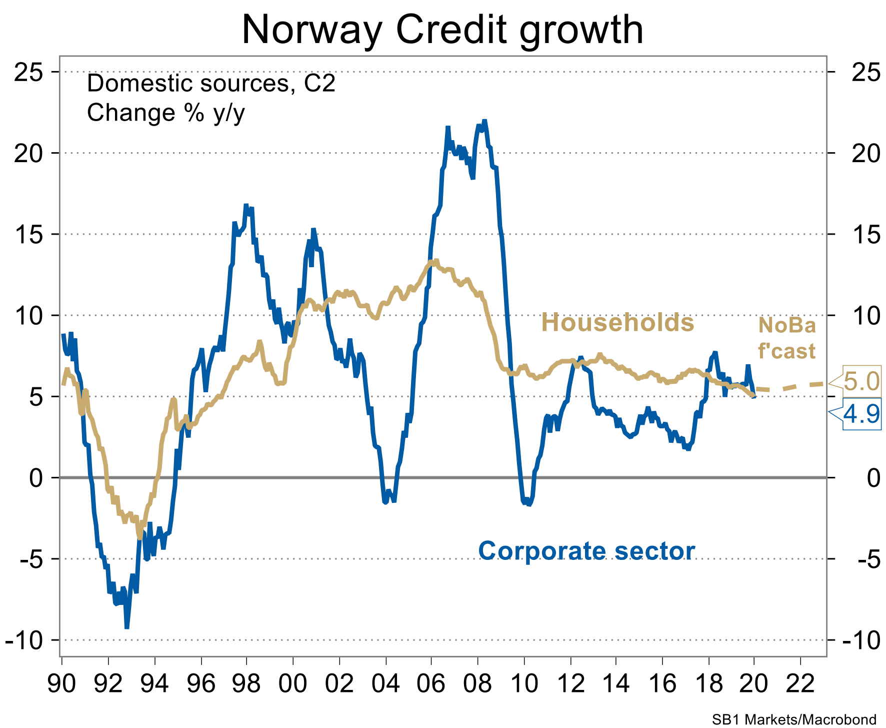


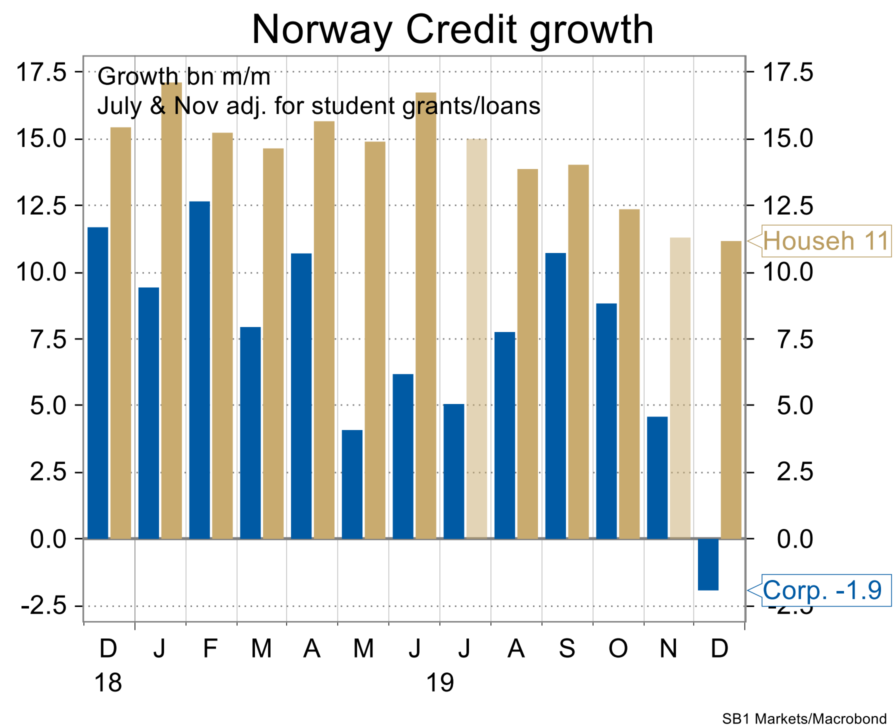


- Total domestic debt (C2) rose by just NOK 13 bn m/m in December. The annual rate declined by 0.5 pp to 5.1%, the lowest in almost 3 years and a much steeper slowdown than expected (we and consensus at 5.4%). Both households and corporates contributed
- Household credit growth is clearly slowing; the annual rate down to 5.0% and underlying growth to below 4.5%. Thus, household credit is now expanding at a slower pace than disposable income. Interest rate hikes have probably dampened mortgage demand, along with slower growth in consumer credit loans following tighter regulations, and the debt registries
- Corporate credit growth has eased the past few months too, after holding steady through most of 2019. Annual rate down to 4.9%
- Local governments are increasing their debt at an unsustainable pace, at 7%

Household credit growth abates, annual growth at 23 y low

Household credit growth has slowed more rapidly but corporate tilting down the past months



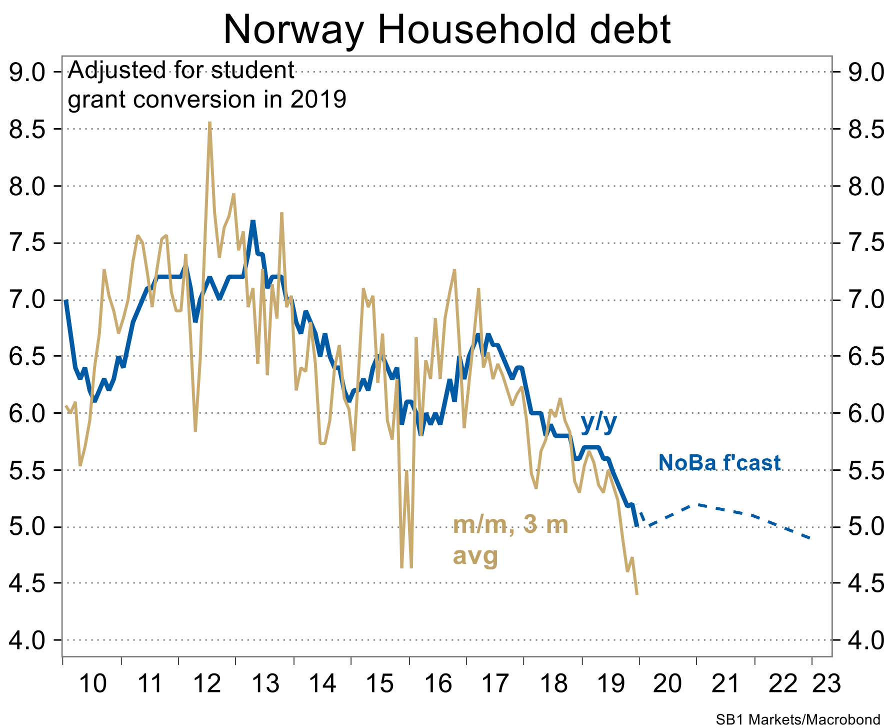


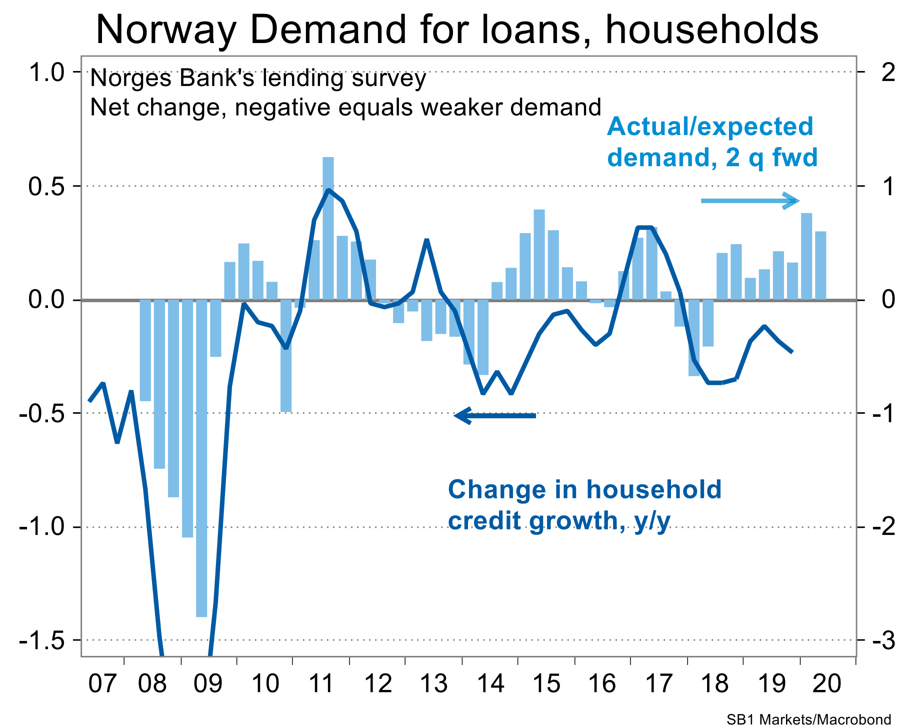
- Households' credit increased by NOK 11 bn m/m in December, the lowest m/m rate since one month in 2015, and the prior month was revised down to an equal pace. Credit has been slowing visibly since the summer and underlying growth is falling steeply. The y/y rate ticked down 0.2 pp to 5.0%, the lowest in 23 years
- Household credit growth has been trending slowly down since 2017. In H2 2019, the slowdown has accelerated, probably due to the interest rates hikes and/or tighter consumer credit regulation/the new debt registers
  - Consumer (unsecured) credit declined marginally in Q3, no Q4 data. Over the past year, monthly growth (implicit, only quarterly data are published) has slowed by some 1 bn. Total household monthly credit growth has slowed by approx. 3 bn by Q3, thus, consumer credit may explain just 1/3rd of the slowdown in household credit
- Corporate credit (in C2, domestic lending) fell by NOK 1.9 bn in Dec, the weakest in 15 months. The annual rate dropped to 4.9%, from 5.7%, underlying growth has slowed to 2.6%

SpareBank 1 MARKETS

Underlying growth straight down, clearly below income growth

Growth is slowing swiftly, in contradiction to the acceleration which banks have been reporting

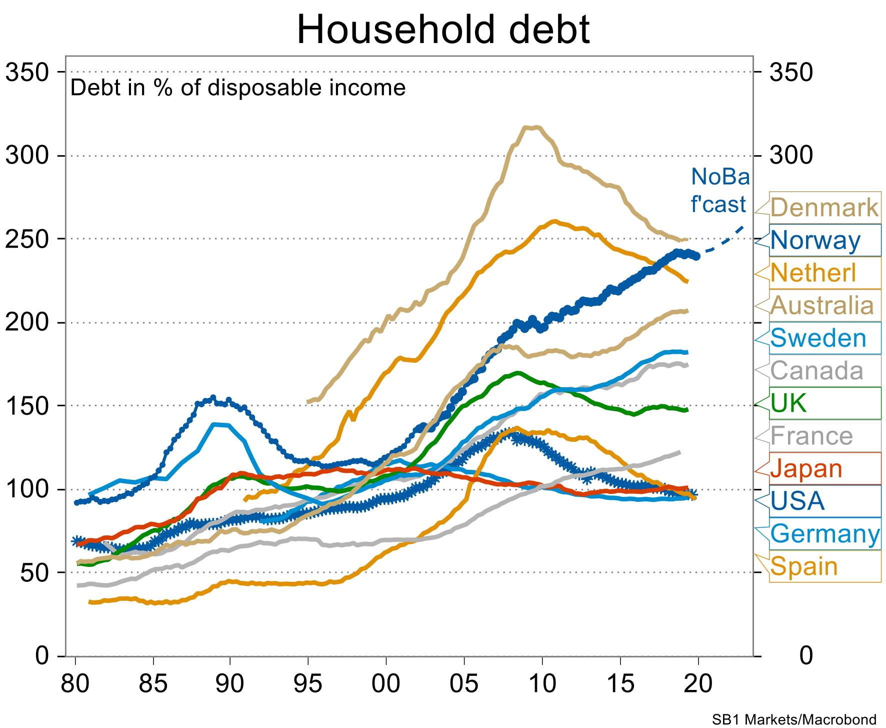


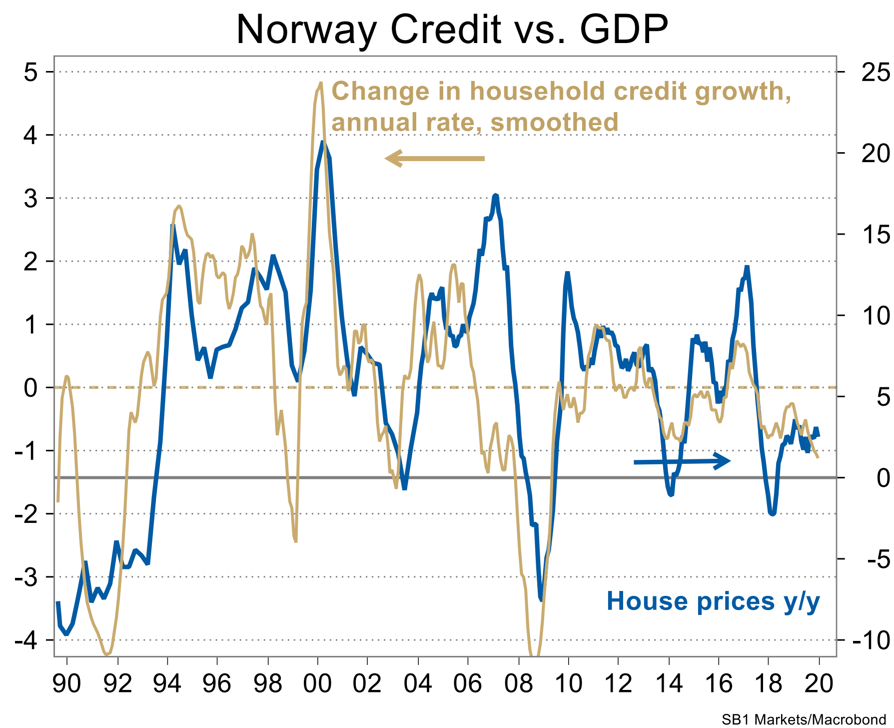


- In the longer term, household credit growth is slowing, from above 7% in 2012-2013 to 5% now. The underlying growth rate has dropped since the summer and fell to 4.4% in Dec, the lowest since January 2009!
  - » Household income growth has turned up, to 6.5% in Q3. Thus, the deb/income ratio has fallen marginally – but remain at a very high level
- Surprisingly, banks in NoBa's Q4 lending survey once again reported higher household loan demand (for mortgages) and they even expected another lift in Q1. Strange, as slowing consumer credit most likely cannot explain the entire downturn in total credit growth

Finally, the debt/income ratio has turned down, so far at a measured pace

Which is very good news. However, the level may still be a problem…

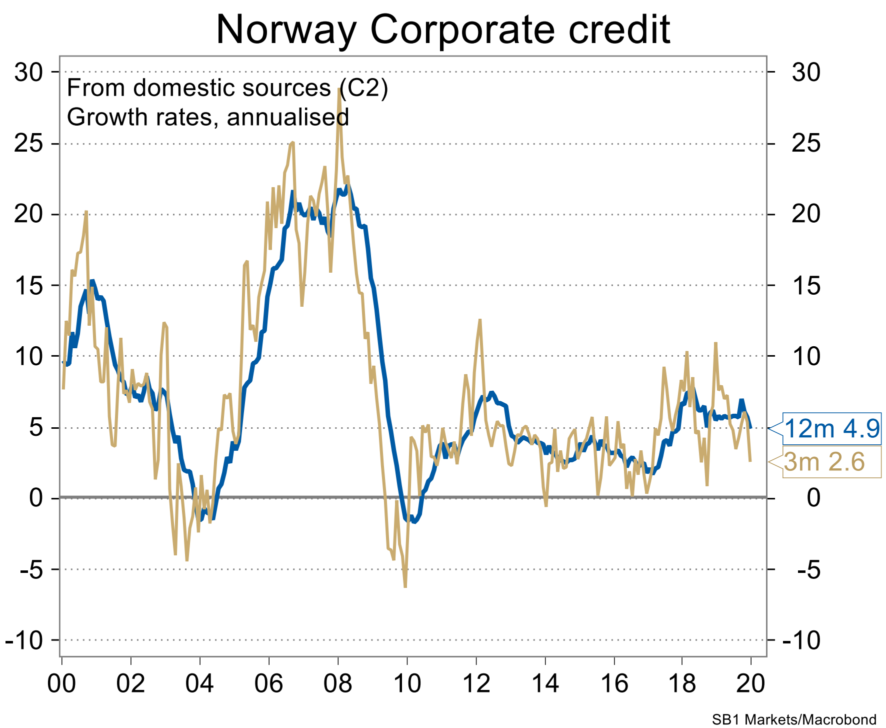


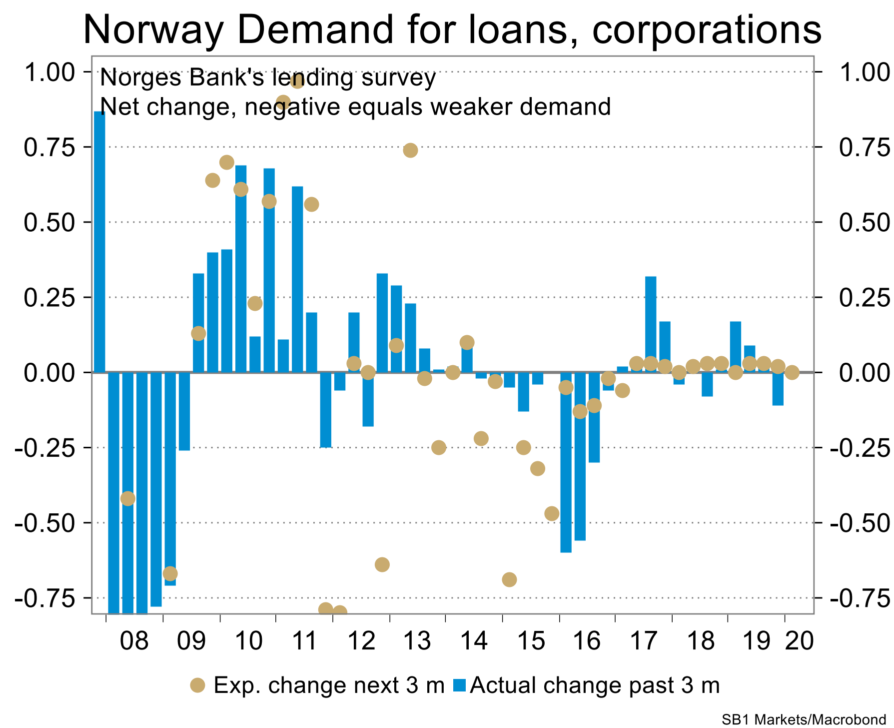


- Household debt is now growing slower than household disposable income, for the first time in 30 years (barring some small turbulence in 2008/09)
- Norges Bank expects a 5.2% household credit growth rate trough 2020. As the Bank expects slower income growth, the debt ration will start increasing again. May the bank be too optimistic vs credit growth in 2020?
- A slow retreat will be healthy in the long run, and if it is gradual, not too harmful, even not for the housing market
  - » *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market

Corporate credit growth is turning down too

Underlying growth is declining, but these monthly data are quite volatile

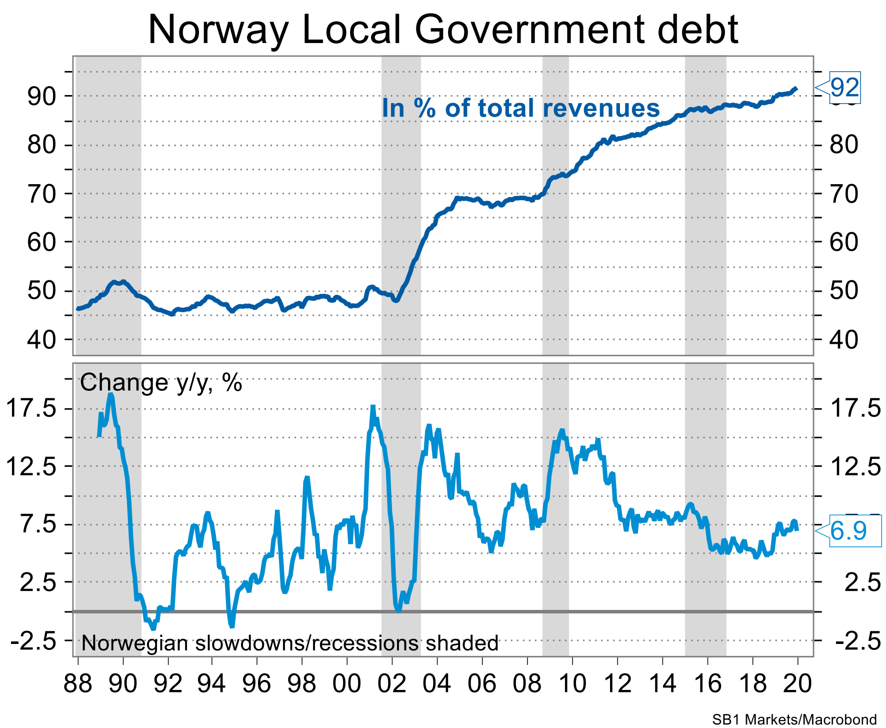


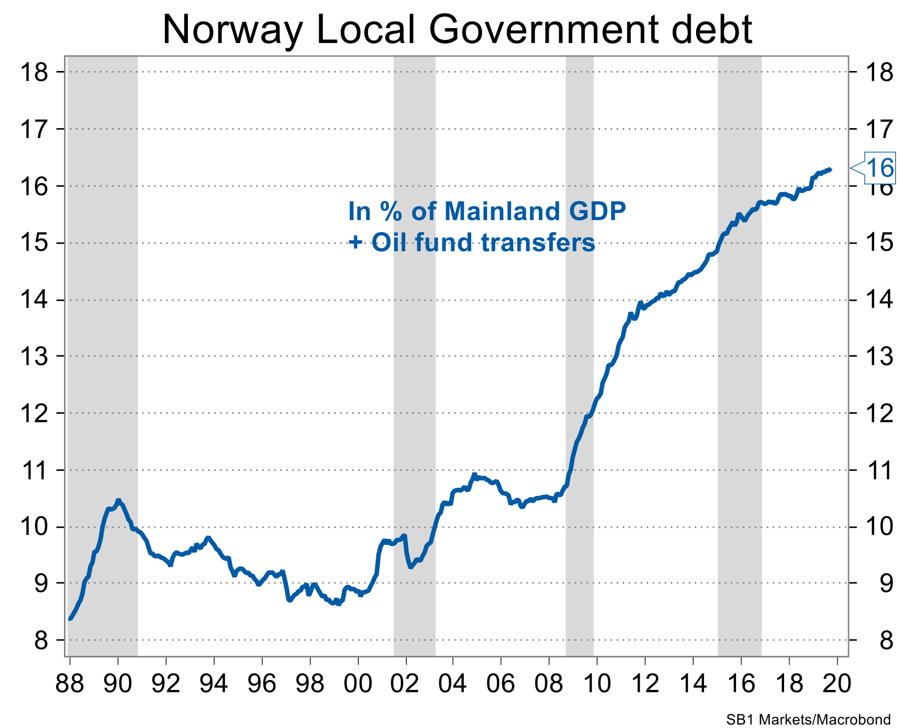


- Corporate credit growth kept steady through most of 2019, the annual rate at just below 6%. In December, the annual rate dropped to 4.9%, from 5.7%
- The underlying growth rate (3m) fell steeply to 2.6%, and growth is no doubt trending downwards
- Corporate credit growth is more volatile than household credit. Given modest to weak investment surveys, we expect mainland business investments to slow in 2020. If so, demand for credit will slow too
- In Q4, banks reported a marginal slowdown in corporate credit demand but expects a stabilization in Q1

Local government debt is accelerating

Local government debt is increasing by 6.9% y/y and equals 92% of their income



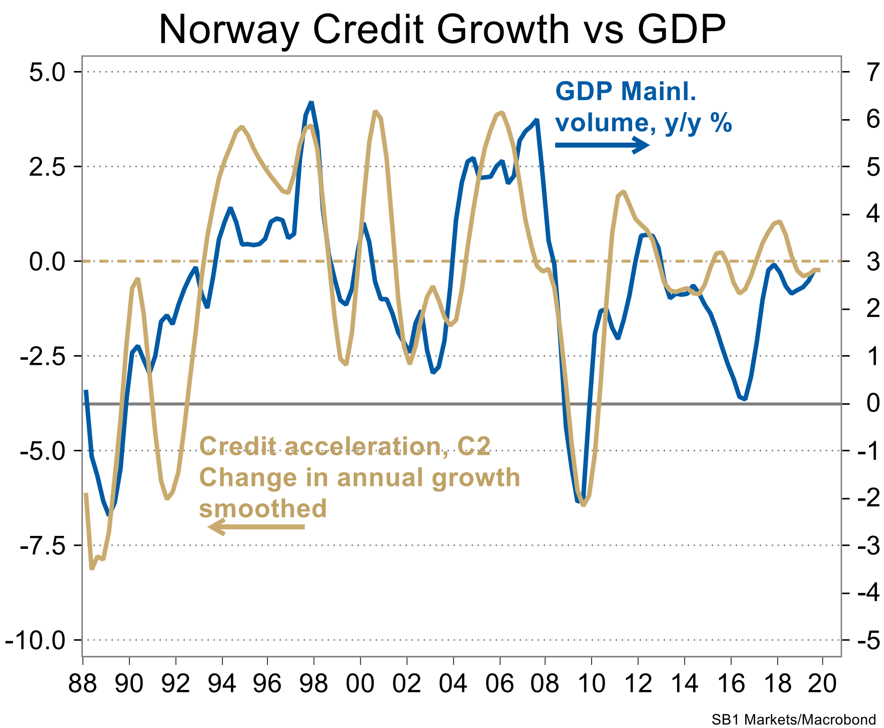


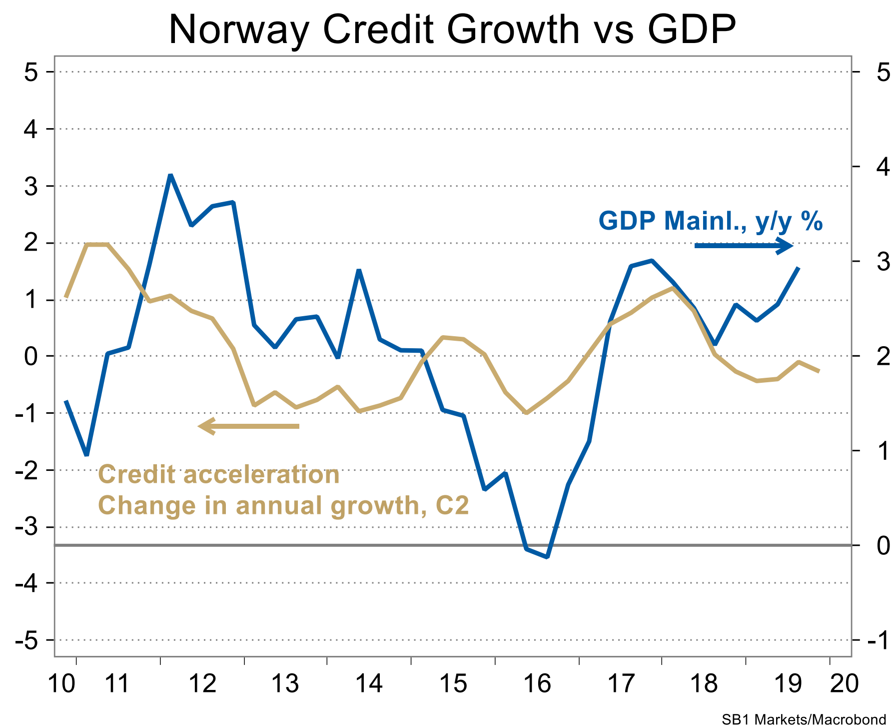
- The debt acceleration is partly due to strong growth in local government investments. Investments are up 7.5% y/y (4 q smoothed). Low interest rates have no doubt boosted credit growth, too

SpareBank 1 MARKETS

Credit and GDP growth are quite correlated – now both are at peak levels?

Total C2 credit growth is quite stable (the 2nd derivative), but GDP growth will slow substantially

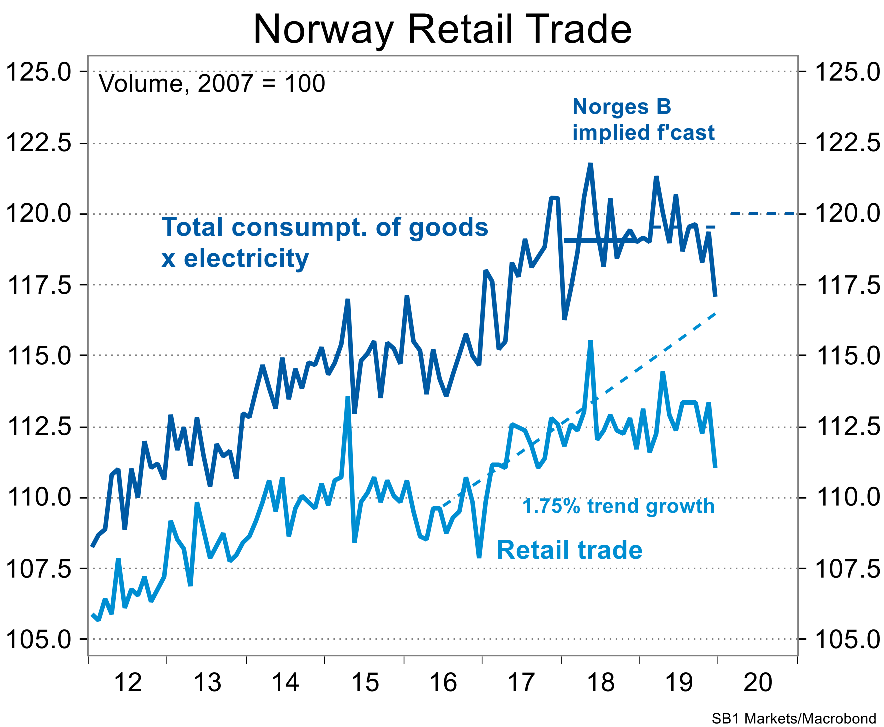


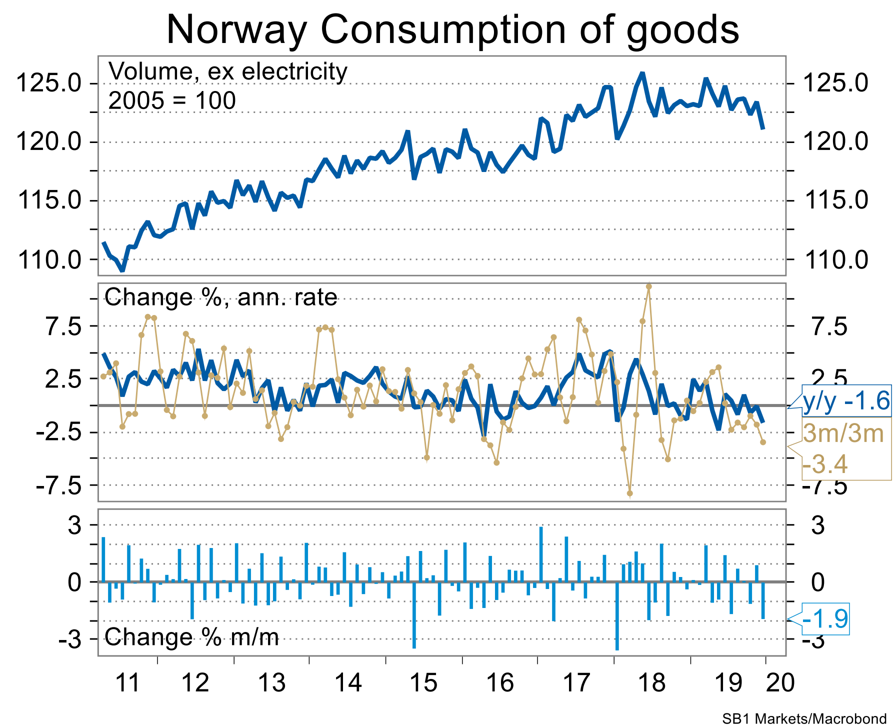


- GDP growth is quite coincident with changes in credit growth
- GDP growth at zero or below is usually associated with a decline in credit growth of some 3 pp over one year, say to 5% from 8%
  - » During the 2015/16 oil induced slowdown, domestic credit growth did not slow by much – at least partly because interest rates were cut

Retail sales tumbled in Dec and private consumption is sagging

Retail sales dropped 2% and early Christmas shopping cannot explain all

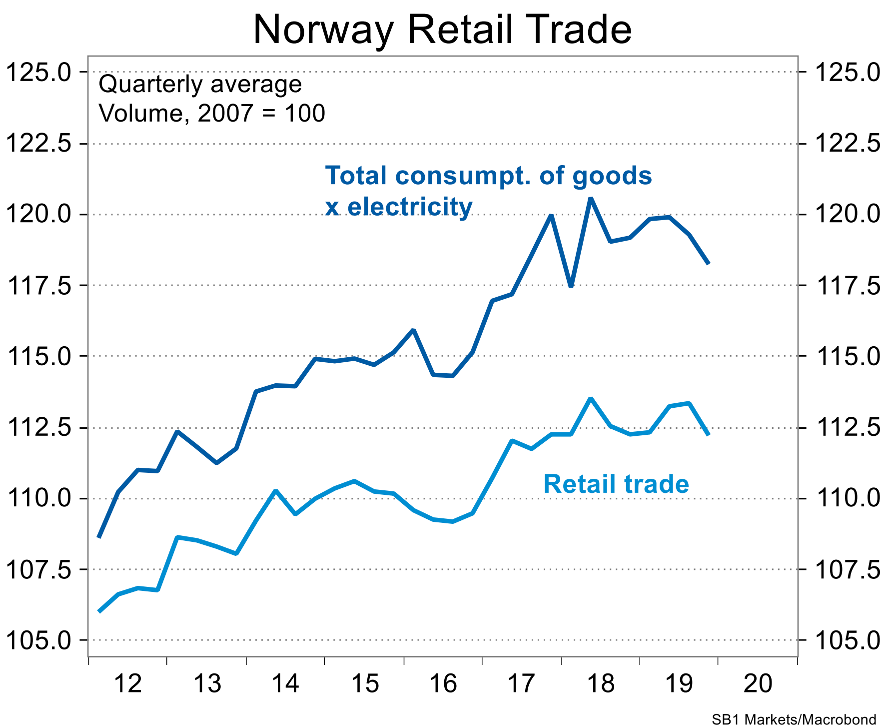


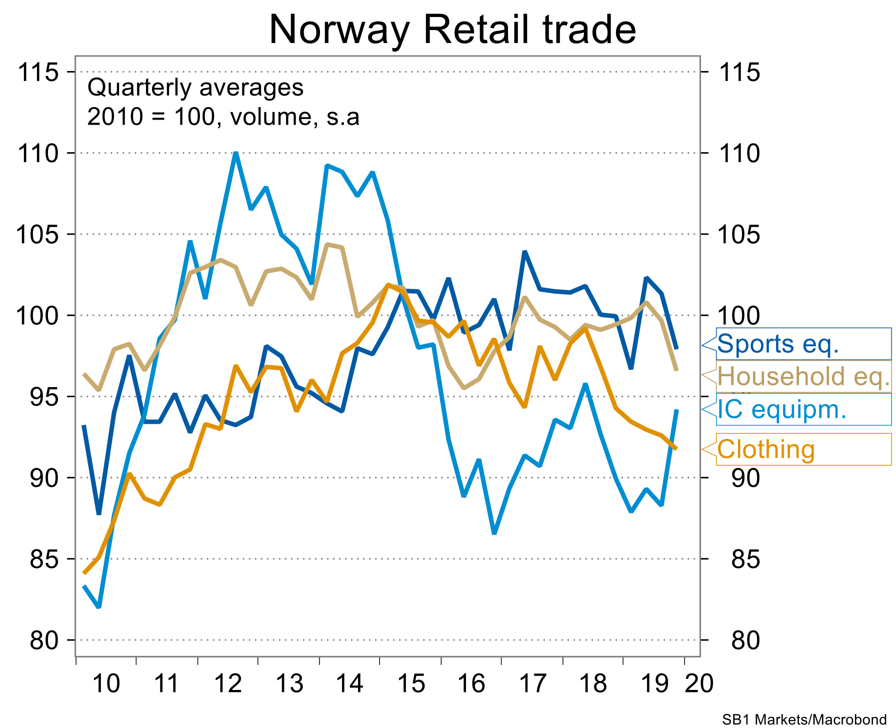


- Retail sales volume (ex auto) dropped 2.0% m/m in December, after a 1% rise in November. Thus, the Dec drop may partly be explained by changing Christmas shopping patterns, as a larger share of the purchases are being done in November (due to Black Friday etc). There might have been fewer 'real' trading days, given the unusual 'two week' Christmas holiday period, and sport sales were hit by a mild winter. Average Nov/Dec sales were at the October level, but October was quite weak too, and sales fell 3.9% annualized in Q4 – and the trend is not upwards even if sales were flat y/y in 4Q
- Total consumption of goods (ex electricity) slipped 1.9% m/m. Consumption has been sliding down since the summer, partly driven by lower auto sales. Q4 ended with a 3.4% annualized decline, and total consumption growth (including services) will be close to zero in Q4
- Retail sales are flattish, at best, and total consumption of goods is declining. Consumer confidence has softened, as is the labour market and household credit growth. Consumers appears to slowly becoming more careful. Norges Bank expects a modest 1.6% growth in 2020. The estimate does not seem to be on the pessimistic side…

Quarterly data less dramatic, but retail sales down 3.9% from Q3 – flat y/y

The quarterly rate is annualised (-1% actual). Total consumption peaked in Q2





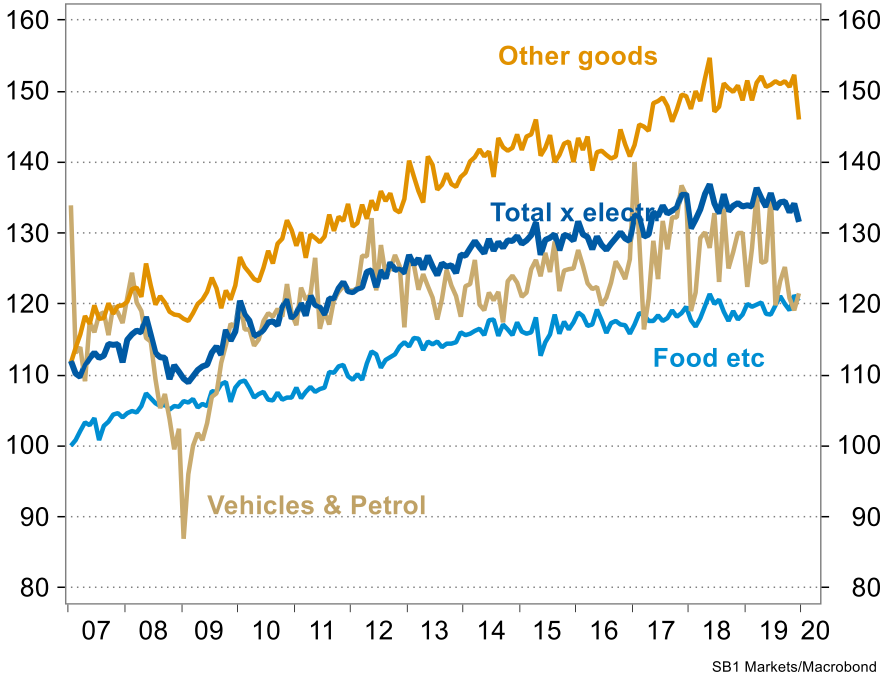
- Retail sales and goods consumption data are rather volatile and the decline in Q4 is far from unprecedented

SpareBank 1 MARKETS

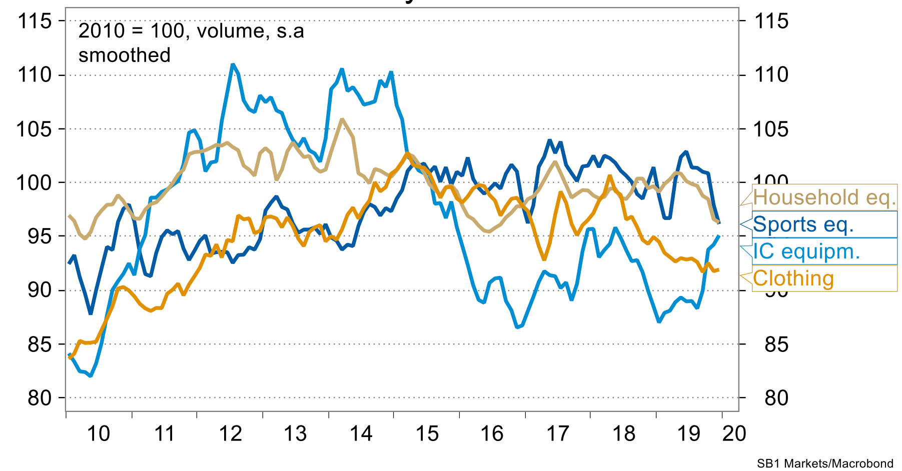
Consumers spend less on most items, just IC equipment (and food) trending up

Auto sales have fallen steeply in Q3/Q4, a rebound in Q1 is expected. Food sales trending slowly up

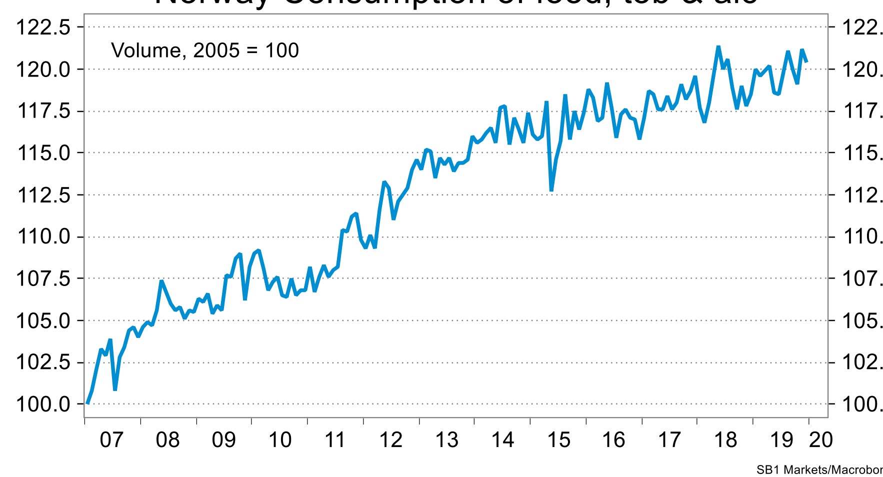
Norway Consumption of goods



Norway Retail trade



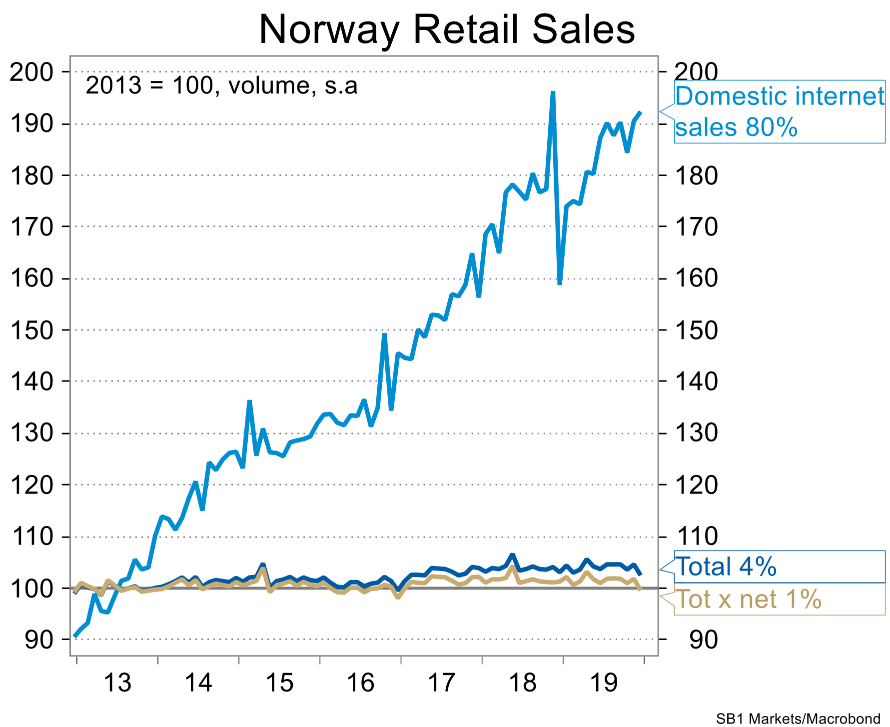
Norway Consumption of food, tob & alc

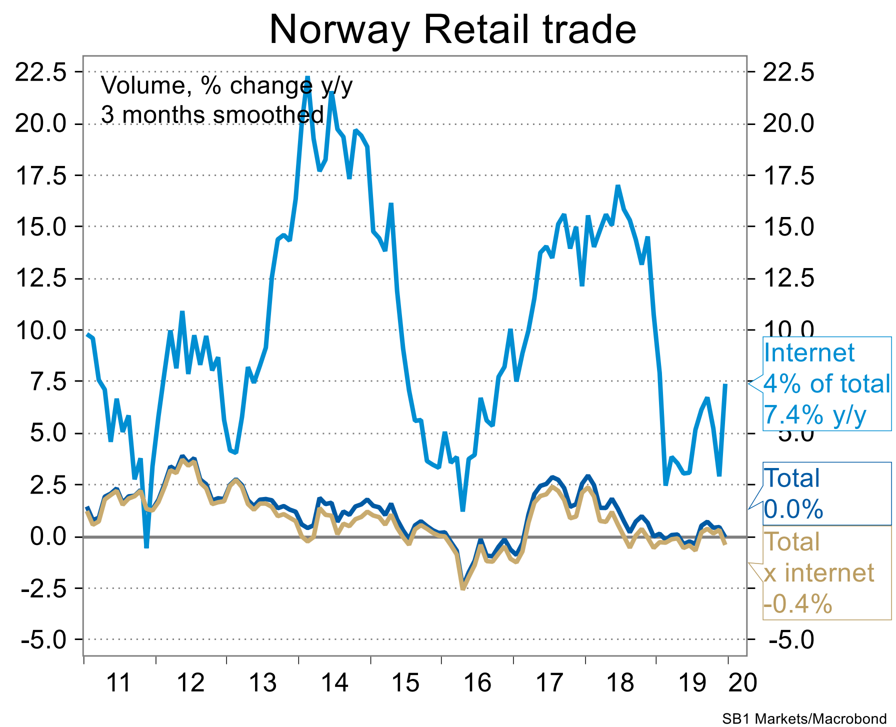


- Auto & gas sales have fallen sharply. The volatility in auto sales since the summer is probably due to supply bottlenecks on electrical vehicles, new regulations and expiring auto leases on diesel cars. Thus, the dip in sales may not be due to lower auto 'real' demand
- Other consumer goods are not impressive, clothing has declined steeply since mid-2018. Sales of household equipment are slowing, as are sports equipment, following brisk growth in the spring – and mild winter weather now (however, the sales level is not that low, we assume capacity is too high!) Just sales of ICT equipment is picking up speed, after a downturn in 2018

Internet sales (domestic) growth has slowed substantially

Still, over the past 6 years, almost no growth in sales from physical outlets. -0.4% y/y growth in Dec



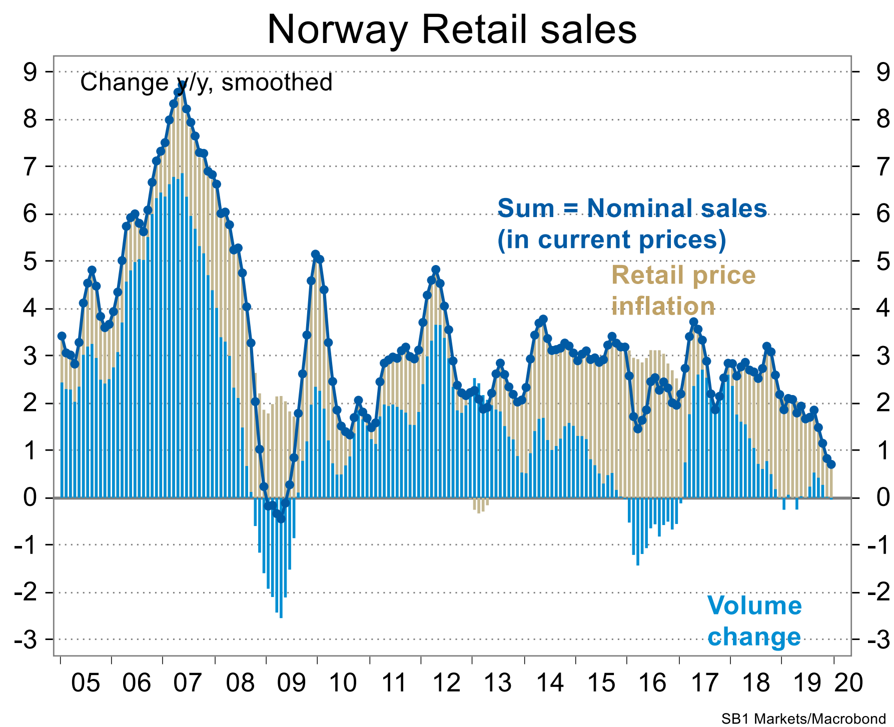


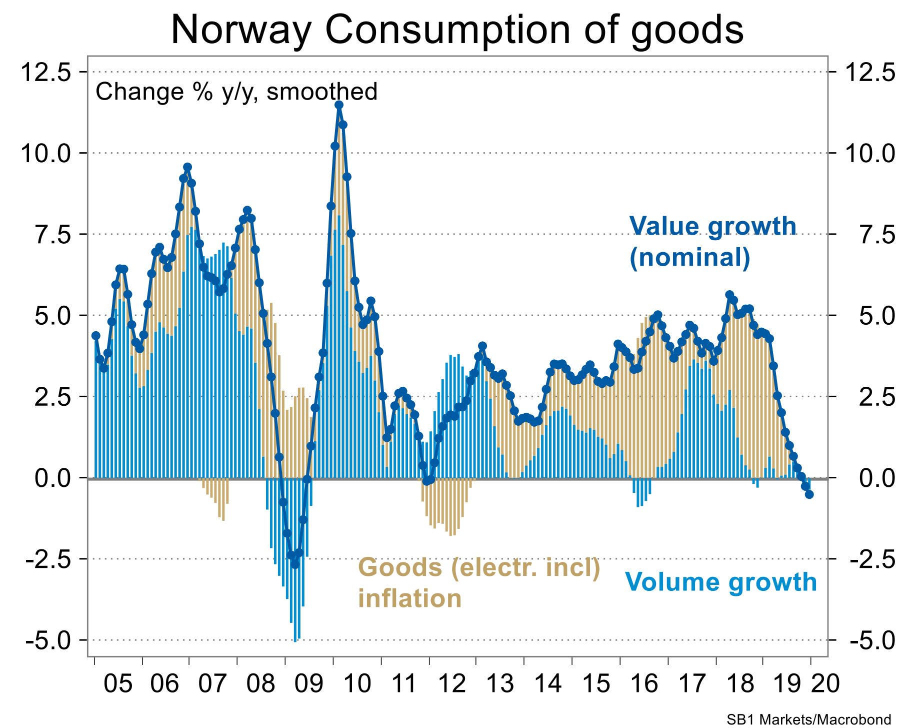
- The retail trade data cover only sales statistics from domestic outlets, not imports. From 2018, SSB included internet sales from abroad in the total consumption index but these figures are just estimates based on domestic internet sales
- SSB estimates that internet shopping from foreign sources (both services and goods) equalled NOK 60 bn in 2017, of which goods constitute some 40%, some NOK 23 bn. Internet import of goods have doubled past 5 years, more or less like sales from Norwegian outlets
  - If so: 'Direct' imports have increased by NOK 13 bn since 2013, equalling more than 2% of domestic retail sales since 2013
  - Domestic sales (in volume terms) is up 4% since 2013. If we add on somewhat more than 2 pp contribution from internet sales from abroad, the total is up 6%.
  - Out of these 6%, 1 pp is increased sales in ordinary shops domestically, 2.5% via domestic net outlets, and 2.5% via foreign sites

SpareBank 1 MARKETS

Volume growth has disappeared, in spite subdued price inflation

Total goods prices are decreasing marginally and retail up 0.7%, should support volume growth?

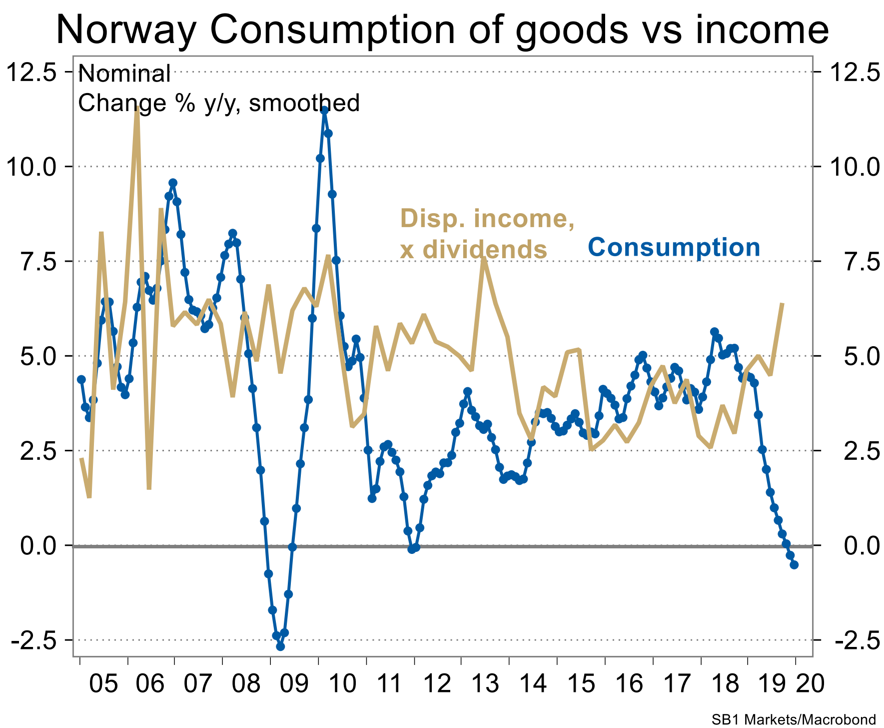


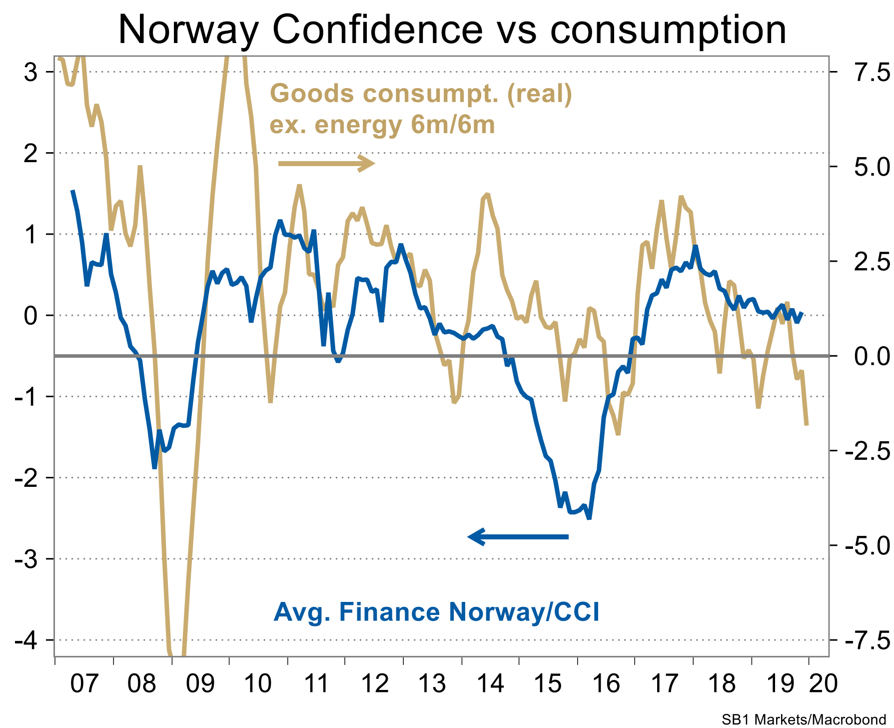


- Growth in nominal total consumption of goods has plunged, to -0.5% y/y in Dec (smoothed). Retreating price inflation, primarily due to a sharp decline in electricity prices over the past year, has sent nominal growth down. However, there is no response from higher overall volume growth, which fell by 0.4% annual rate. We expect muted inflation to eventually bring volume up (but a swift acceleration is unlikely!)
- The annual growth in nominal retail sales is 0.7%. Volume growth has vanished, even as price inflation is decelerating

Household income signals higher consumption, confidence too?

Disposable income growth point to a consumption rebound, confidence not that weak either

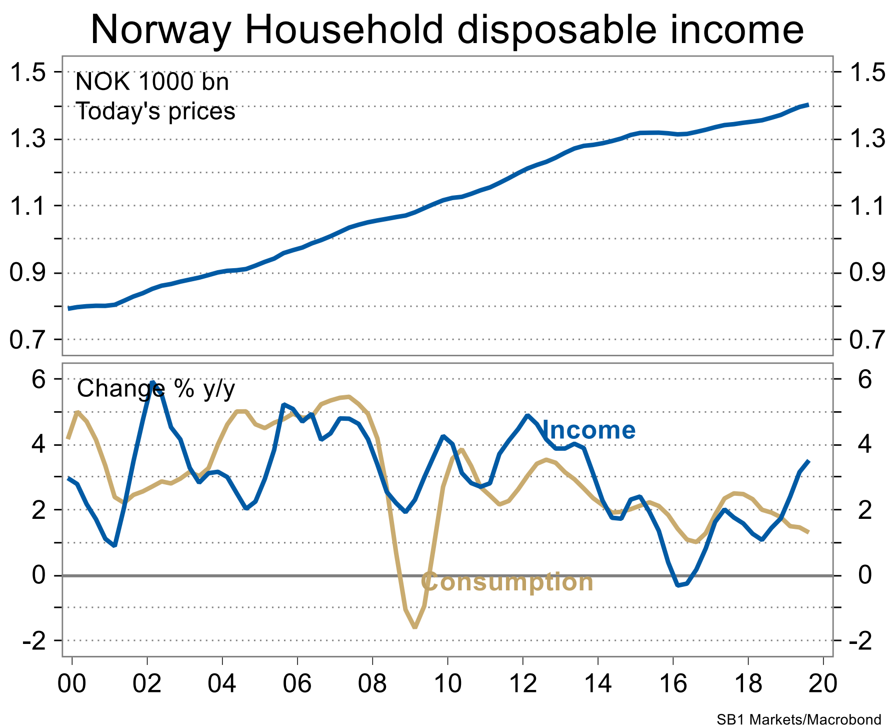


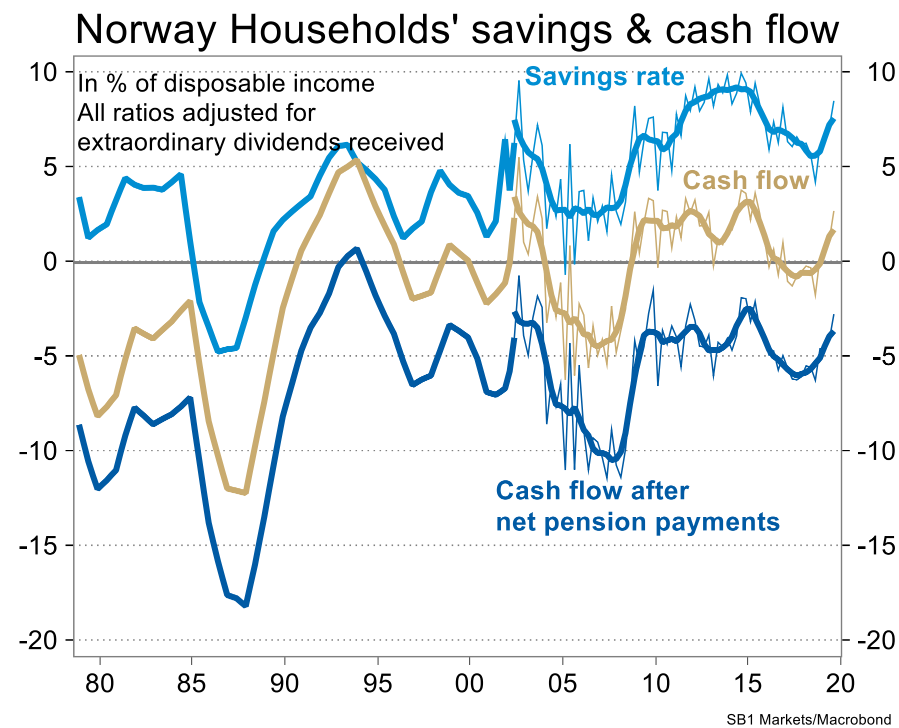


- Disposable income ex dividends was up 6.4% y/y in Q3, the highest since 2013, and the savings rate is now increasing as consumption growth is low (but higher than consumption of goods, as services are still on the way up)
  - » The savings rate is now recovering following the decline from 2015, check next page
- Consumer confidence is sliding down, but is not yet weak, the avg of Finance Norway and Opinion's CCIs is precisely at the average level (see more two pages out in this report). The level suggests stronger consumption than now, but the direction is probably more important (and the correlation is anyway not that strong)

The savings rate fell sharply 2015 – 2018, recovered last year

Households were probably not aware of the slowdown in disposable income growth, is now adjusting

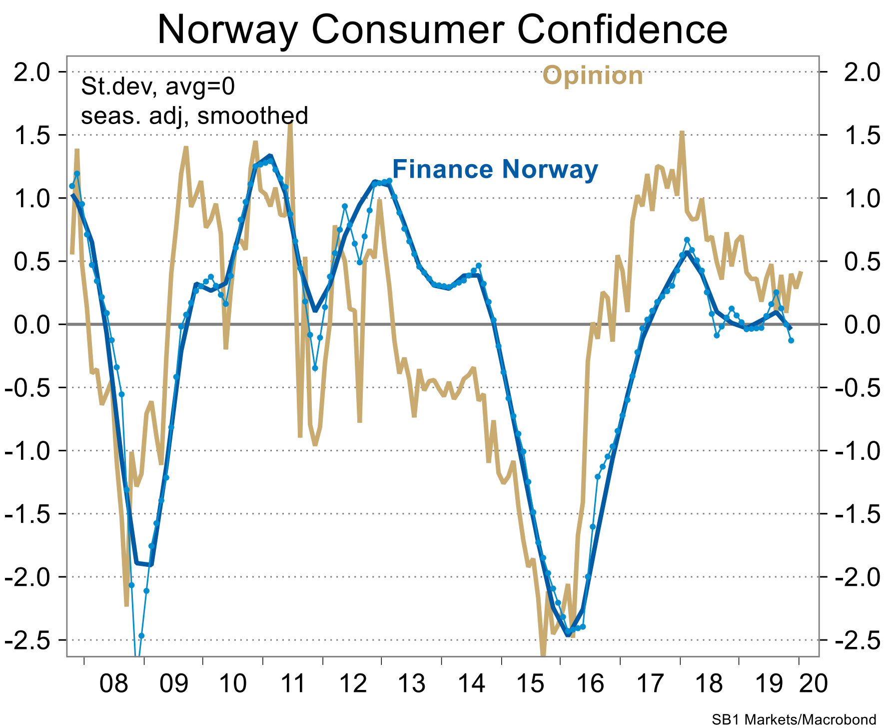


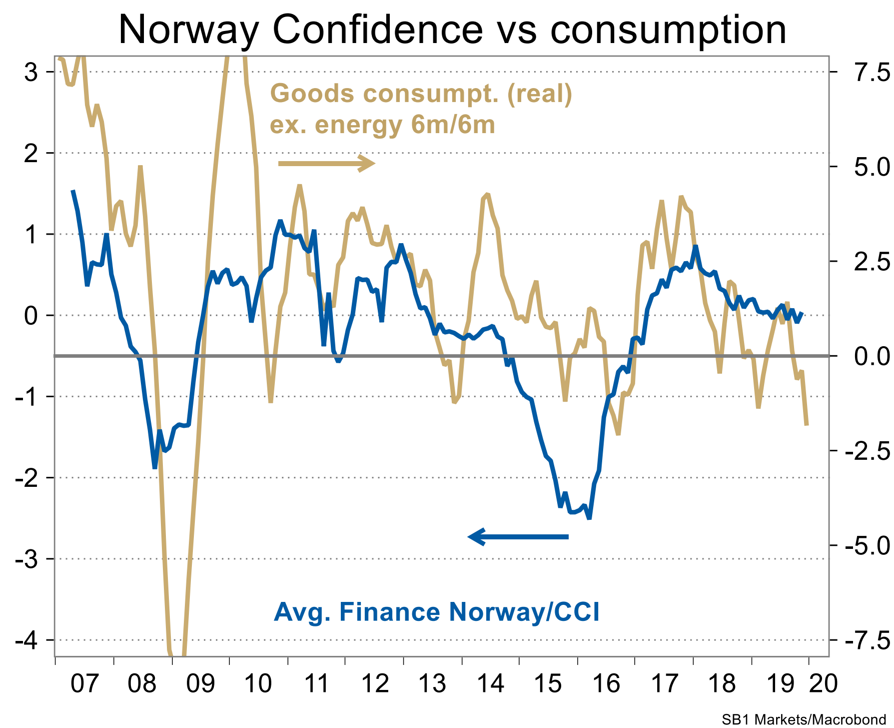


- Consumption is usually lagging income growth – and it is not unlikely that this will be the case this time too
- However, we expect income growth to slow soon as employment growth will turn down through 2020

Consumer sentiment is slowly softening, level not weak

Opinion Norway's CCI inched up in January, stabilized the past 5-6 months, just above the avg level



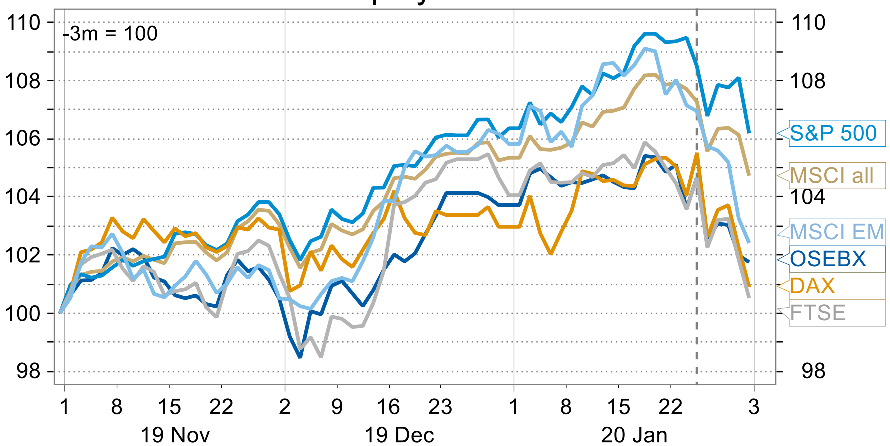


- Opinion's monthly CCI increased by 0.1 st.dev in Jan, stabilized since late summer, after sliding down since Jan 2018
- Finance Norway's quarterly consumer confidence index slipped to 12.1 p in Q4, (seasonally adjusted), from 16.8 in Q3. The trend adjusted index fell to just 0.04 st.dev below the avg level since 2007, the softest print since 2017
- The avg of the two surveys is sliding slowly down and does not signal any abrupt slowdown in consumption. Consumption of goods has been softer than indicated by the sentiment surveys (although the correlation is not strong). Slow growth in nominal and real income, low population growth may explain some of this gap, the 'new normal' is lower than before

Coronavirus fears rattle risk markets; stocks, yields, oil & metals down

Stock markets wipe out the prior January gains as the corona virus spreads. NOK, EM currencies down

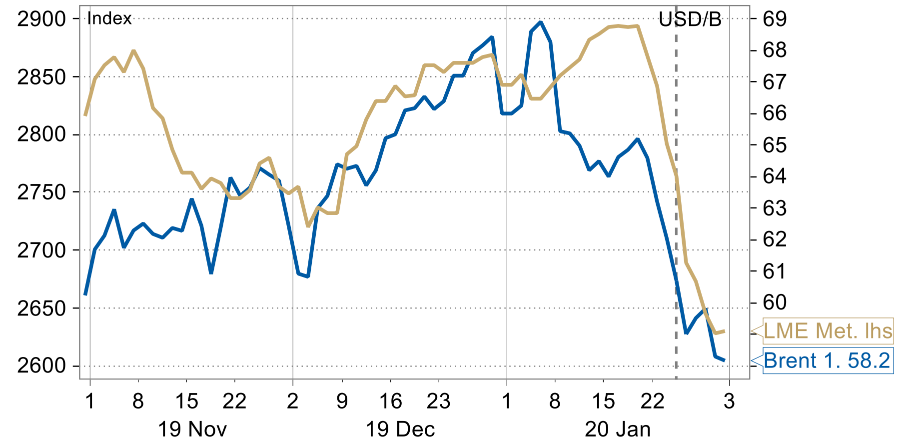
Equity Indices



SB1 Markets/Macrobond

S&P fell less than other markets, down 2%, as strong US earnings sent equity prices up early in the week. European markets -4%

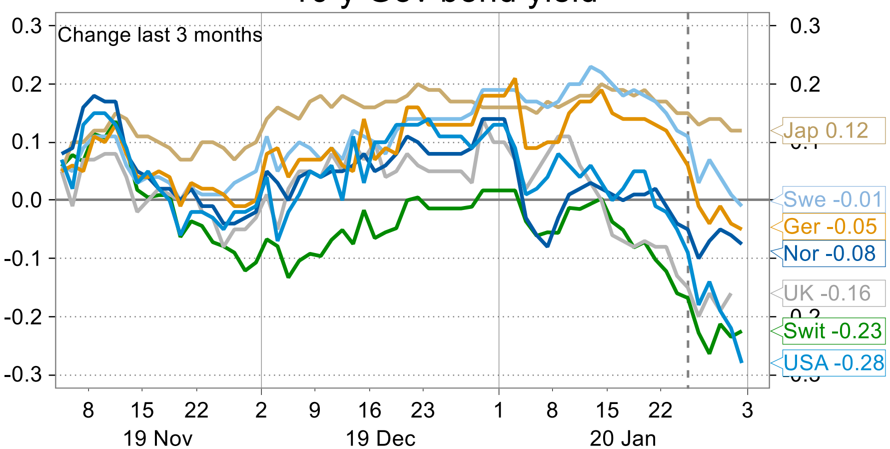
Oil vs. metals



SB1 Markets/Macrobond

Oil & metal prices tumble, oil price lowest since October and metal since 2016!

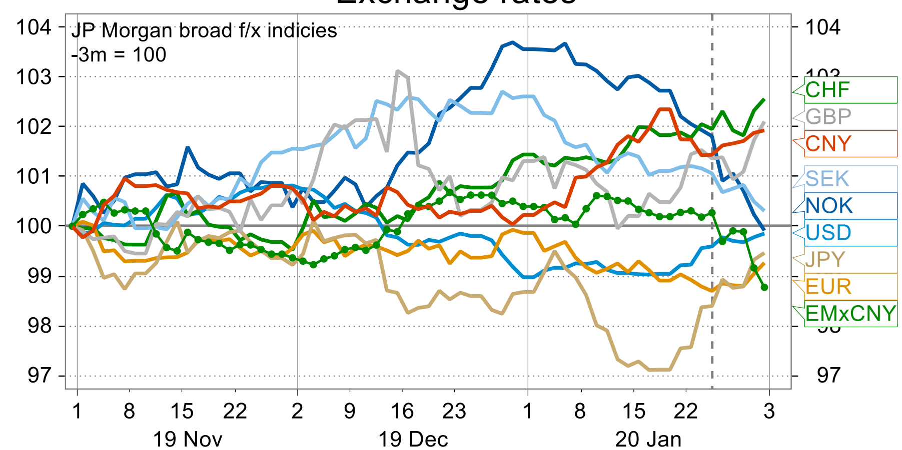
10 y Gov bond yield



SB1 Markets/Macrobond

Bond yields have been sliding down everywhere since mid-January, as the Coronavirus sparks global growth fears. Yields up in UK on hawkish BoE

Exchange rates



SB1 Markets/Macrobond

Risk off; EM, NOK fell steeply; JPY, US, CHF climb, along with the GBP, driven by Bank of England 'hawkish' stance

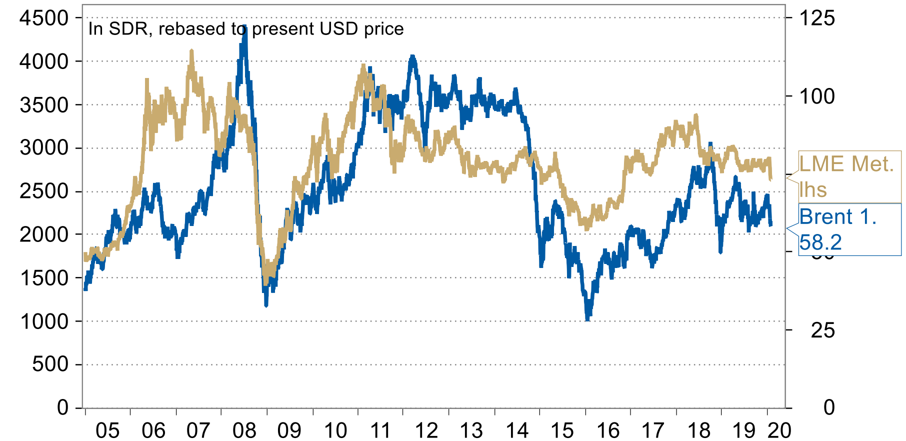
SpareBank 1 MARKETS

In the long run: The coronavirus setback cannot be seen from distance. Not yet

Metal prices at the lowest since 2016

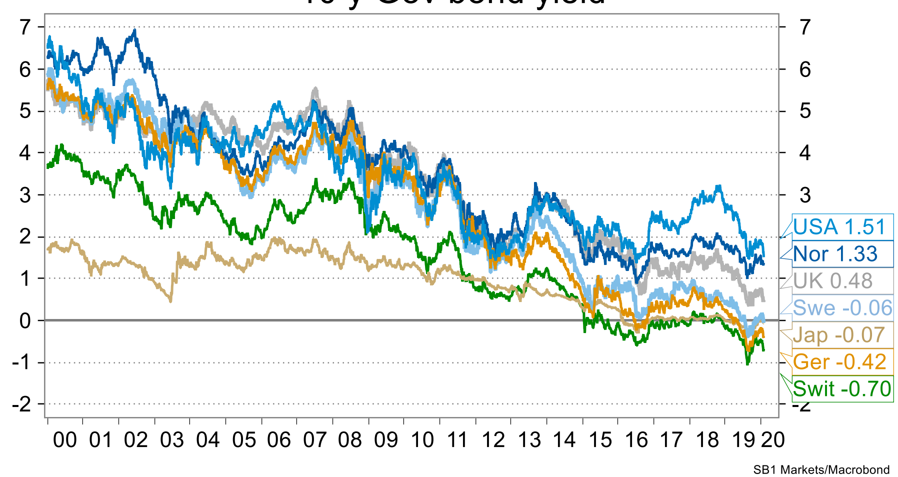
Equity Indices

Oil vs. metals

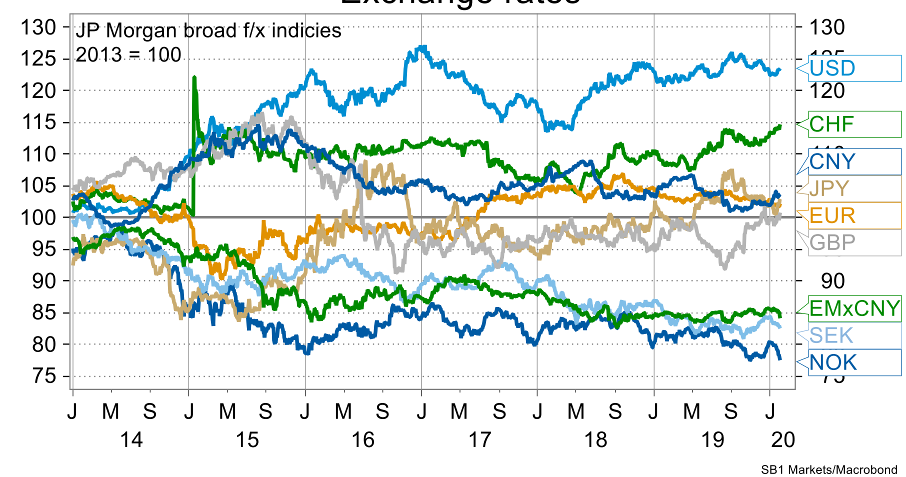


Metal prices close to flat recent months. Oil prices are quite stable too

10 y Gov bond yield

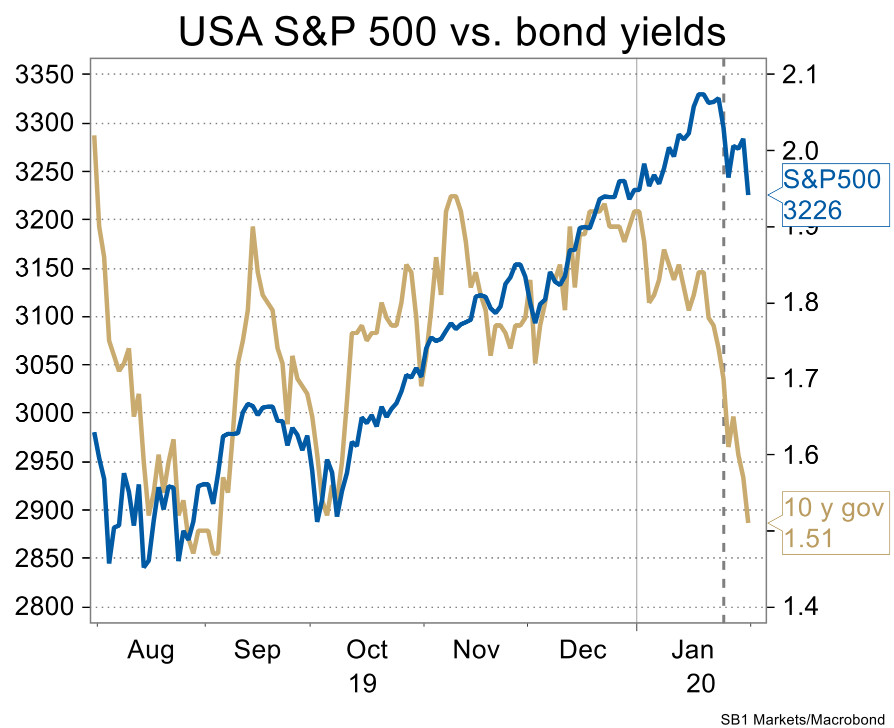


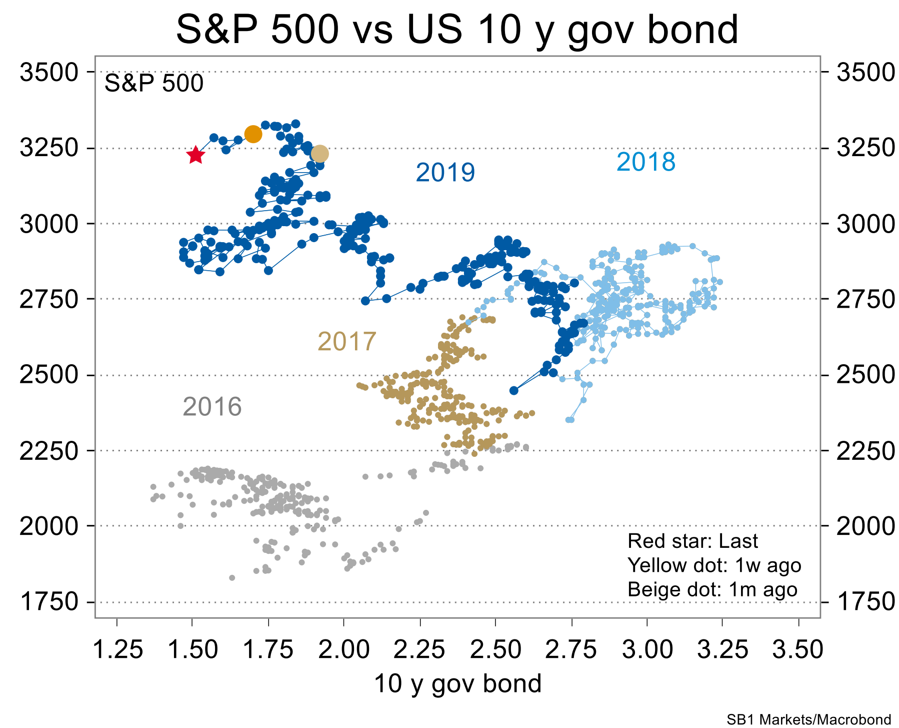
Exchange rates



US: S&P wiped out early January gains, bond yields down 40 bps this month

Strong US earnings offset corona fears until Friday, when S&P slipped 1.8%. 10y gov down 19 bps

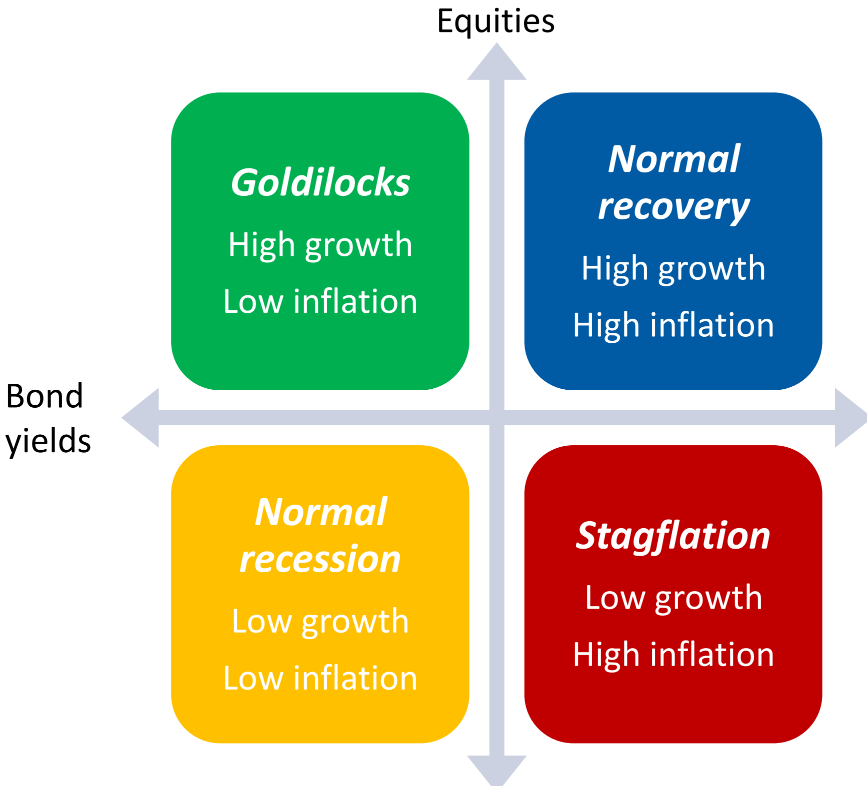


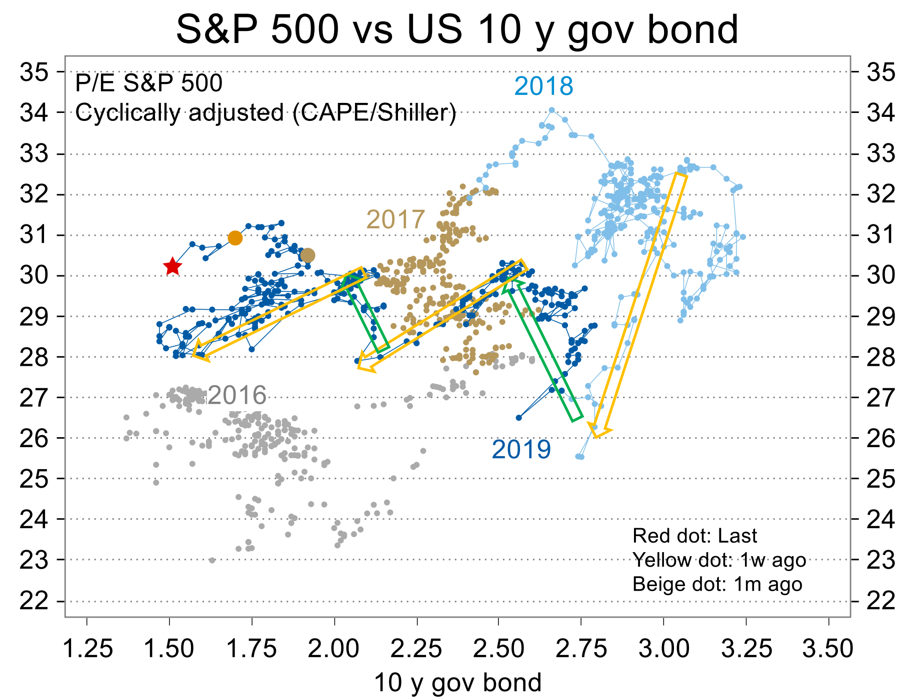


- S&P fell another 2% last week, reversing the entire early January rally. Fears that the spreading coronavirus will dent global growth more than offset some positive US earnings reports, even as stocks rose early in the week
- Bond yields are tumbling, the 10 y gov bond dropped 19 bps to 1.51% last week, the lowest since early September. Bond yields slipped 41 bps through January, of which at least 30 bps can be attributed to the Coronavirus outbreak

A turn towards the 'normal recession' corner

Stock markets and bond yields down on disease angst the past 2 weeks



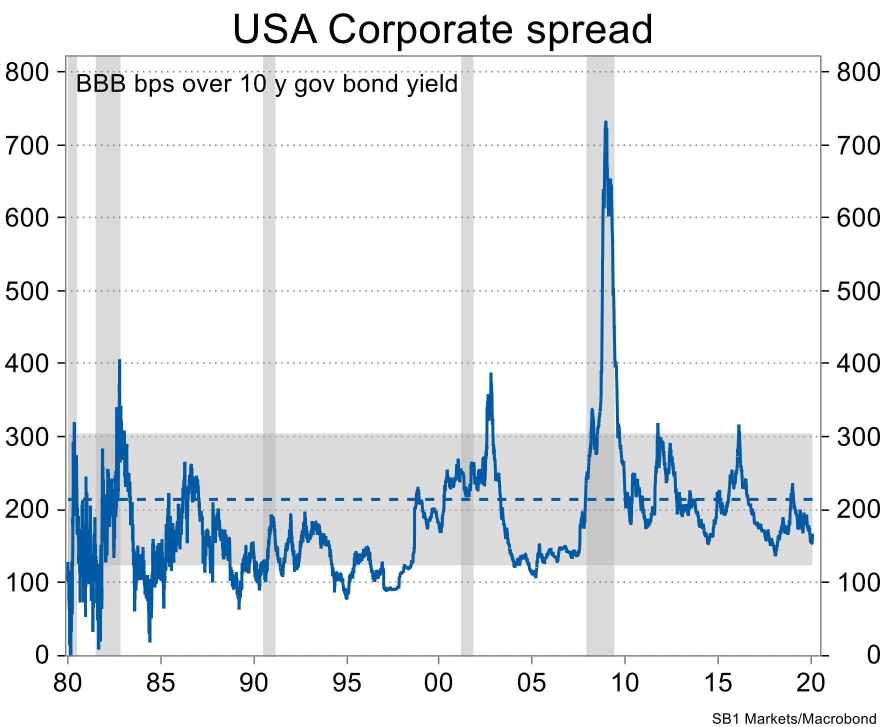


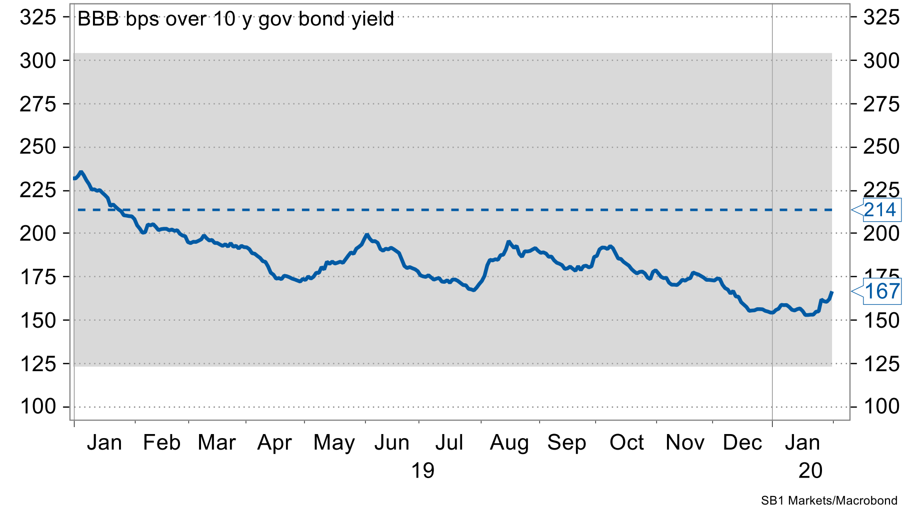
SB1 Markets/Macrobond

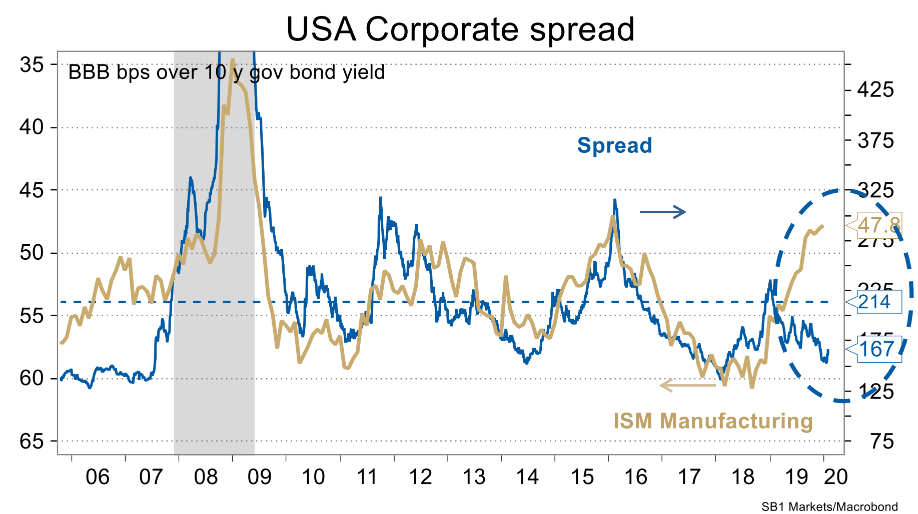
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In the first two weeks of 2020, stock markets surged, while bond yields turned down, towards a Goldilocks' scenario. The past 2 weeks, the coronavirus outbreak has sent markets towards the 'normal recession' corner
- 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 up but are still very low, well below an average level

Spreads are <u>far too low</u> <u>*if growth is slowing*</u> as ISM (and even stronger surveys) are indicating

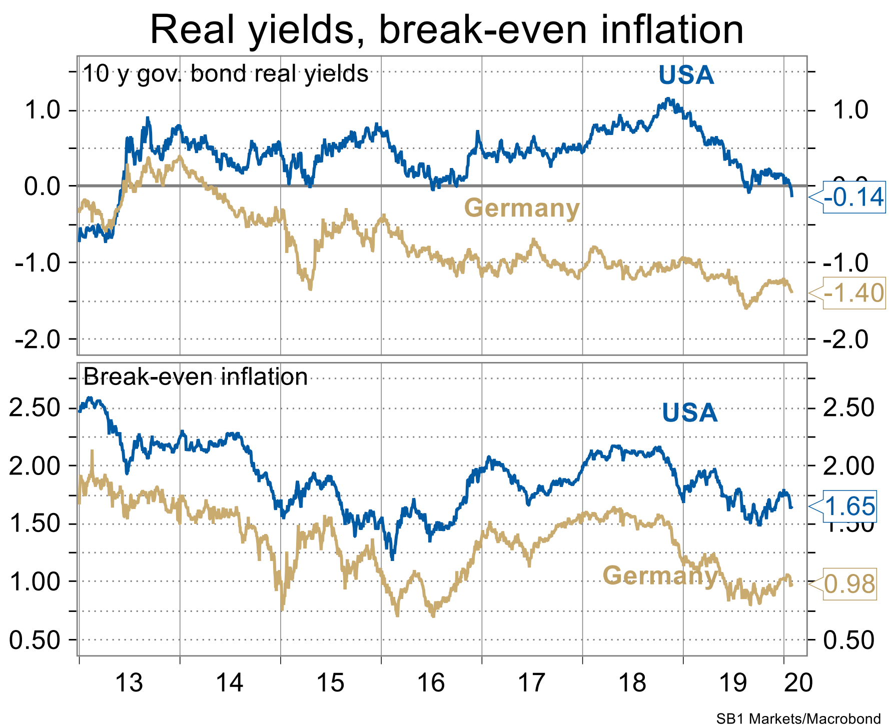


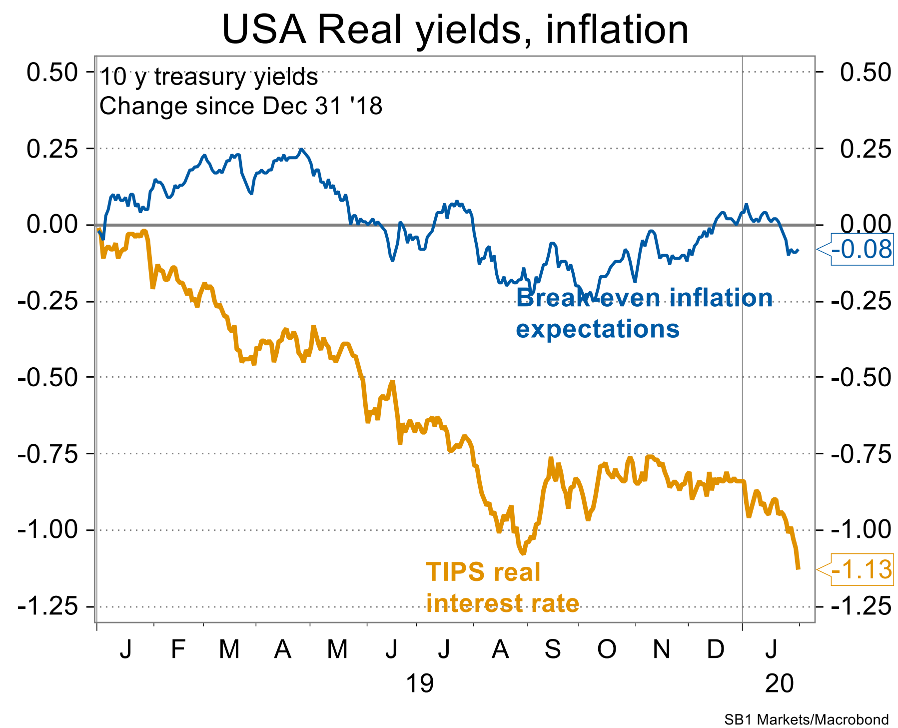




US real rates down, lowest since 2013. Inflation expect. down too

Lower oil prices have sent inflation exp. down, real rates down on growth concerns (corona infested)

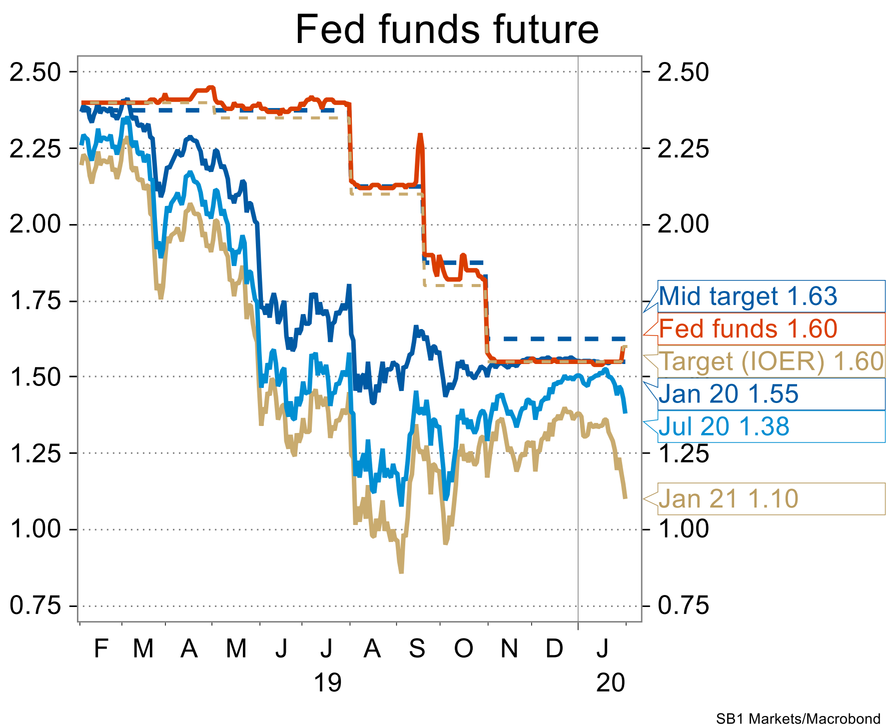


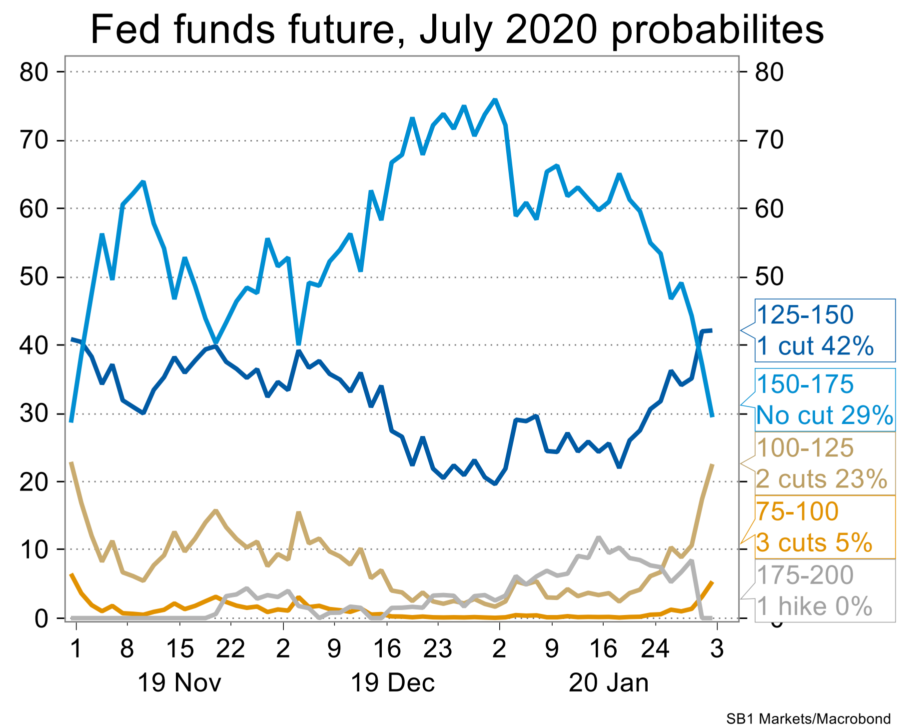


- In November-late December, US inflation expectations increased, while real rates retreated slightly. The pattern was similar in Germany. In January, both yield components have fallen in the US and in Germany, and real rates more than inflation expectations
  - » US 10y real rate at -0.14% is the lowest since mid-2013! Inflation expectations at 1.65% are not that far off
  - » The 10 y German real rate at -1.4% is the lowest since October, and ridiculously low. Inflation expectations at 0.98% are well below the ECB's price target at close to 2% (but not much lower than what core inflation has been the past 2 years!)

FRAs steeply down, July Fed cut expectations spiked to 70%

Markets are pricing in cut before or at the July meeting, fueled by fears of the global growth

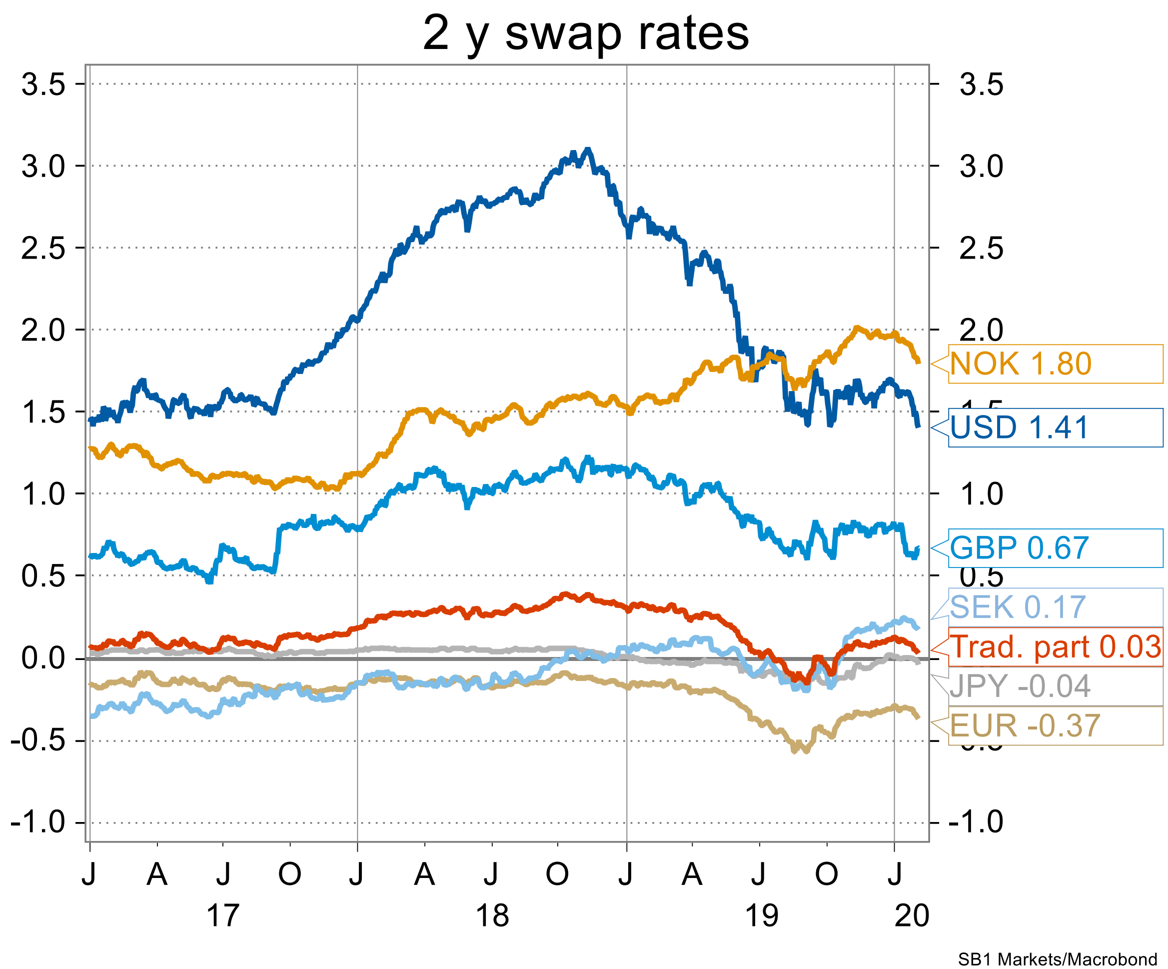


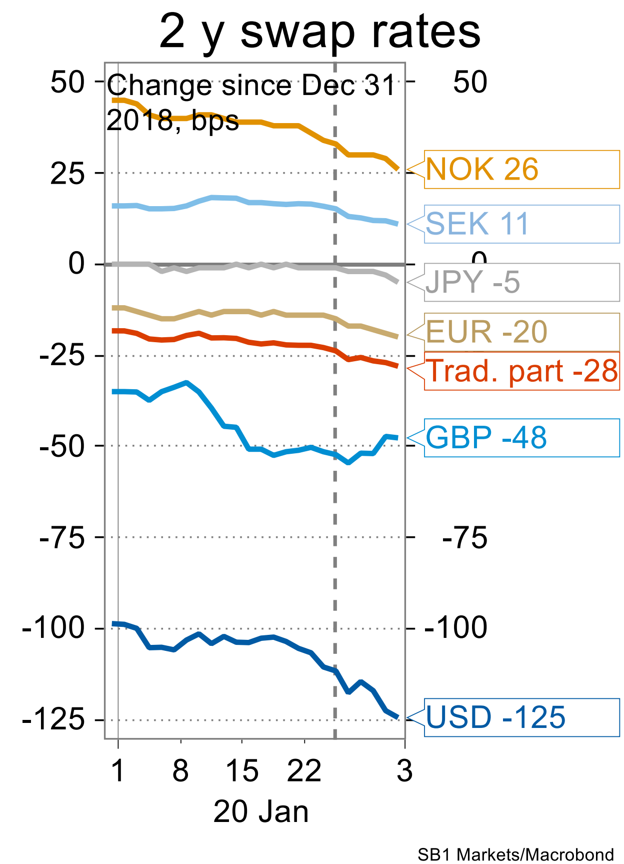


- Fed Funds futures climbed through the first weeks of January but have plunged since then, on the virus outbreak. Last week, probabilities of one or more Fed cuts by July spiked to 70%, from 40% the prior week! Markets are now fully expecting two cuts by the end of 2020 (of 25 bps each), one cut was expected before the corona outbreak
- The actual Fed funds (daily clearing) rate is close to the target IOER (rate on bank's excess reserves at the Fed), which the Fed raised to 1.6% (from 1.55%, decided in December but announced and implemented last week)

Short term rates slowly down among trading partners and NOK

2 year swap rates fell everywhere last week, barring the GBP. Bank of England was ‘hawkish’





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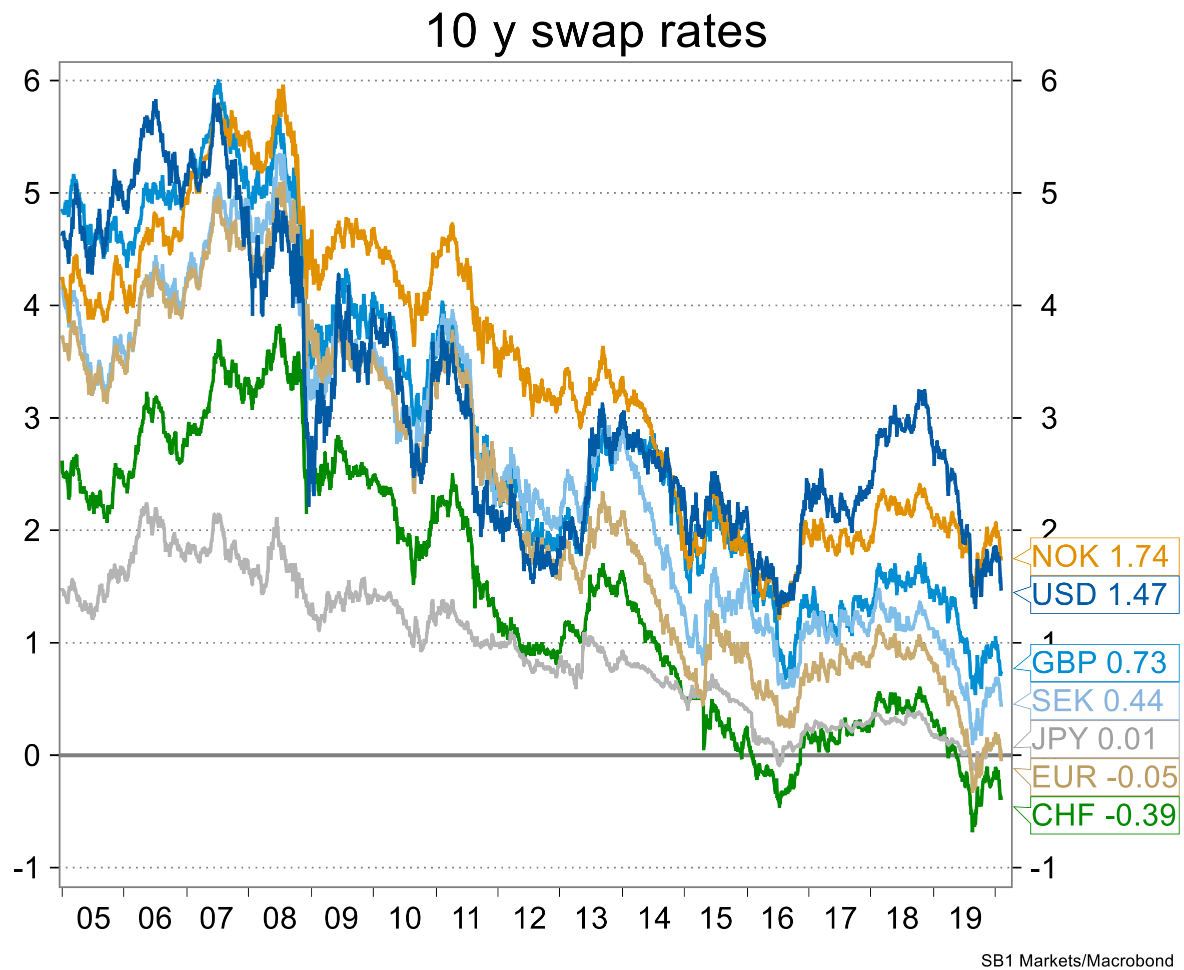
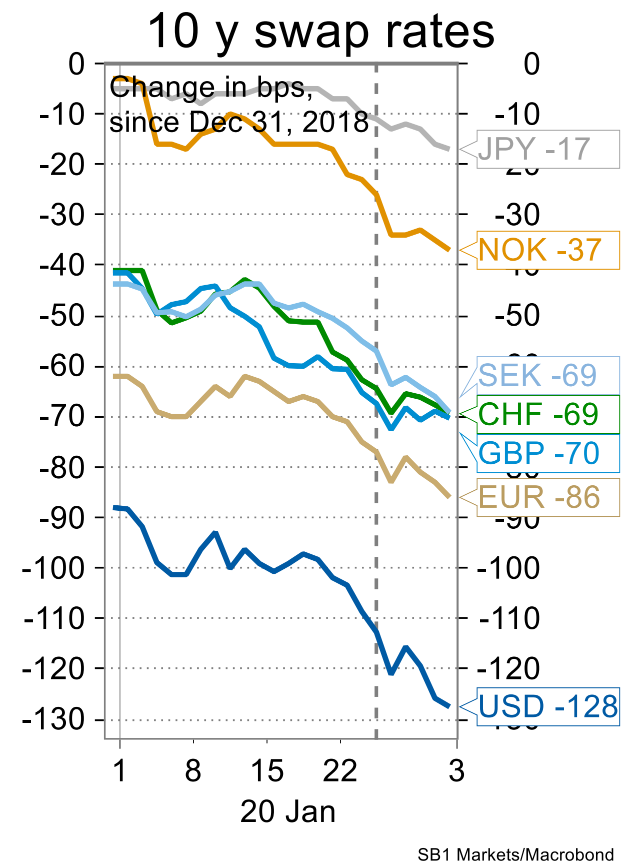
Long term swap rates; Down, down, down

USD swap rates are just 16 bps higher than at the Sept trough, EUR +26 bps, NOK +22





Rates down 3 – 15 bps last week, most in the US, the least in UK where BoE turned out to be more hawkish than expected

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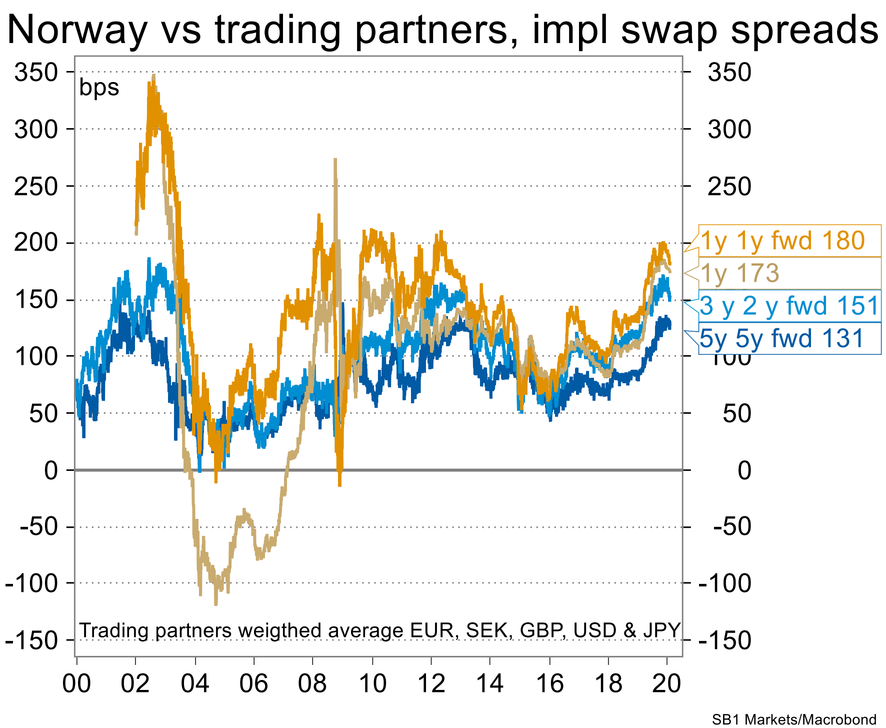
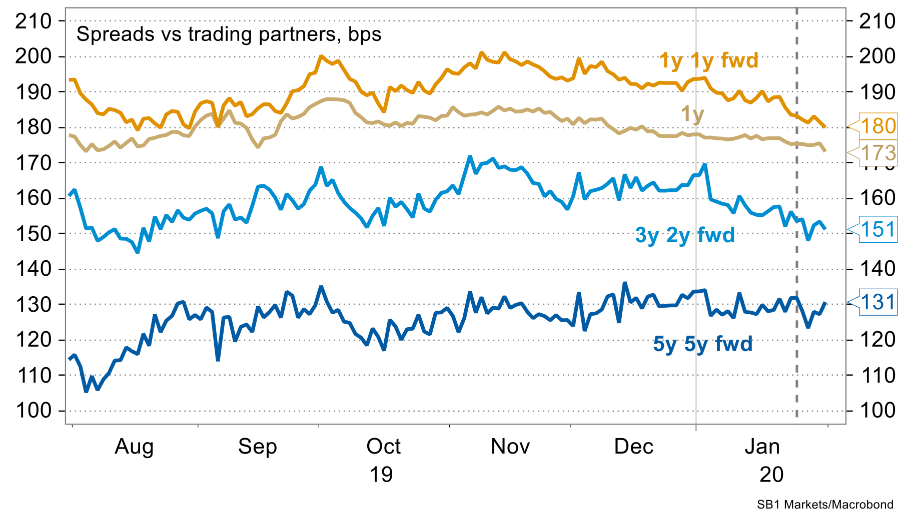
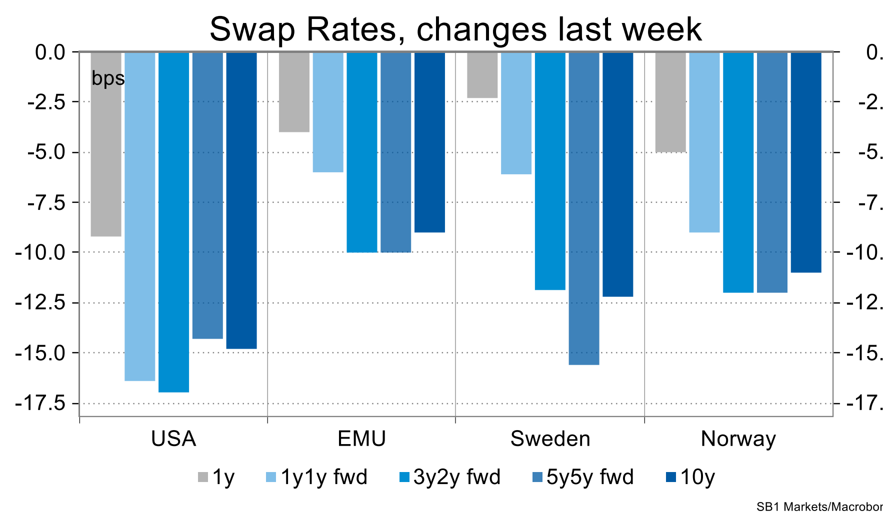
Swap spreads vs trading partners are shrinking, at least in the short end

The past month, NOK rates have fallen more than the avg of trading partners



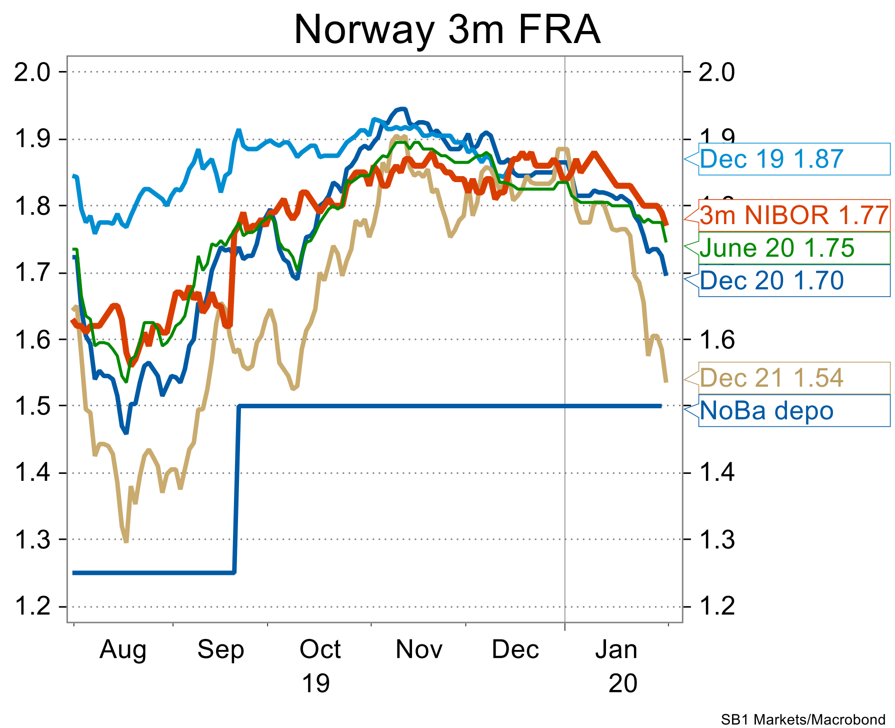


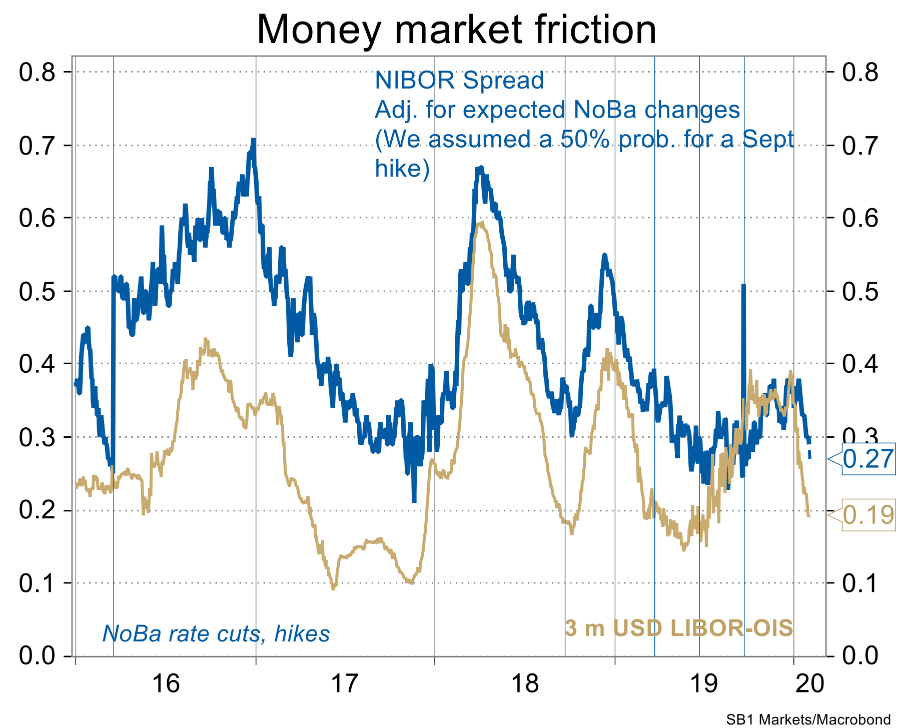


- Swap spreads between NOK rates and our trading partners have been widening rapidly the past year, all over the curve. Since November, spreads have been trending in on the short end of the curve, spreads are down some 20 bps. At the long end of the curve, the spreads have flattened out
- While the short 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 131 bps is still too wide, long term

FRAs tumble, alongside lower rates abroad

3m NIBOR down to 1.77%, markets are starting to consider a 2020 cut





- The 3m NIBOR fell another 3 bps to 1.77% last week, the third week of decline, following a steady Dec/early Jan
  - » The 3 m NIBOR implies a 27 bps spread vs the signal rate (given no cut expectations the coming 3 m), lower than Norges Bank f'cast of 35 bps
  - » The US 3m LIBOR-OIS spread has fallen to 19 bps, from almost 40 before new years eve. Historically, the NIBOR spread has been significantly wider than the LIBOR-OIS spread
- Longer dated FRAs rates have turned steeply down the past month too, tilting the FRA curve downwards, we assume due to increased expectations of an interest rate cut, not a collapse in NIBOR spread expectations. Markets are starting to consider an interest rate cut already this year, by some 40% probability, if spread expectations have been nudged down to 30 bps, which seems reasonable. If so, markets are fully expecting a cut by the end of 2021

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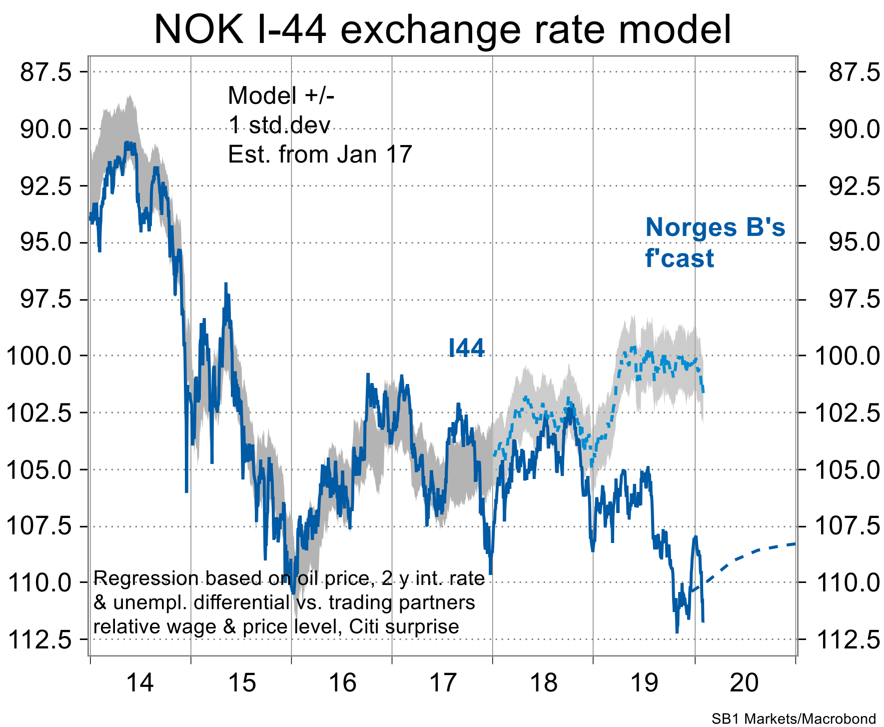
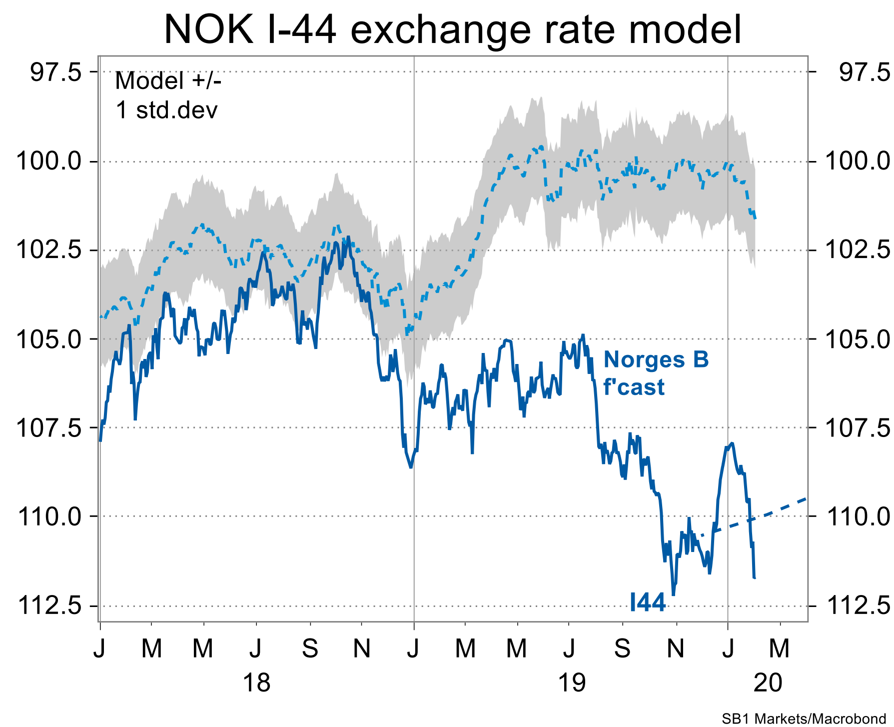
NOK down 2% last week, wiping out the entire December upturn

Our 'old' explained just 0.3 pp of the decline – and the NOK is weak vs. all models

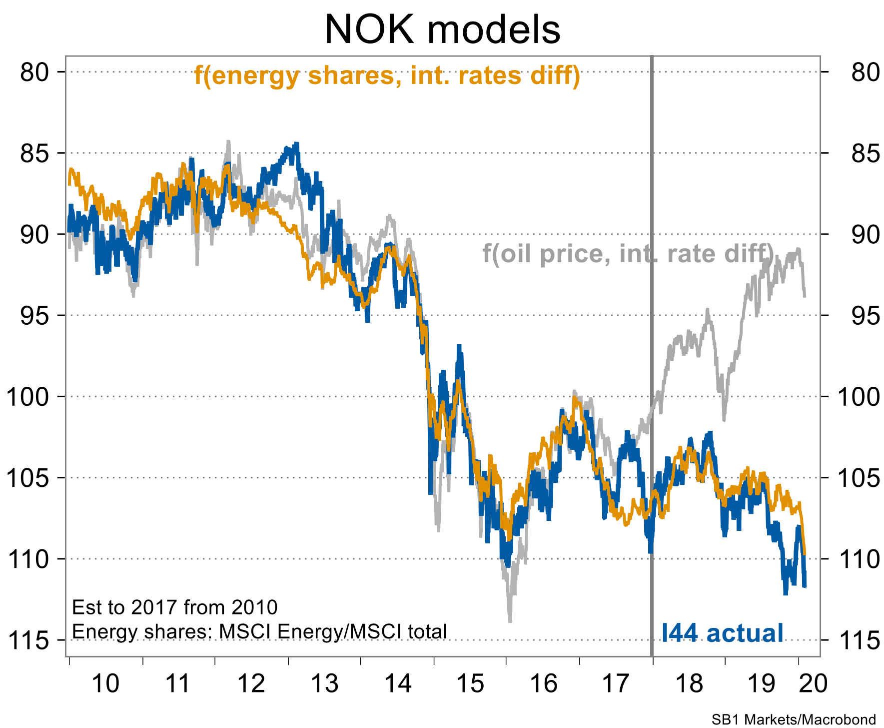


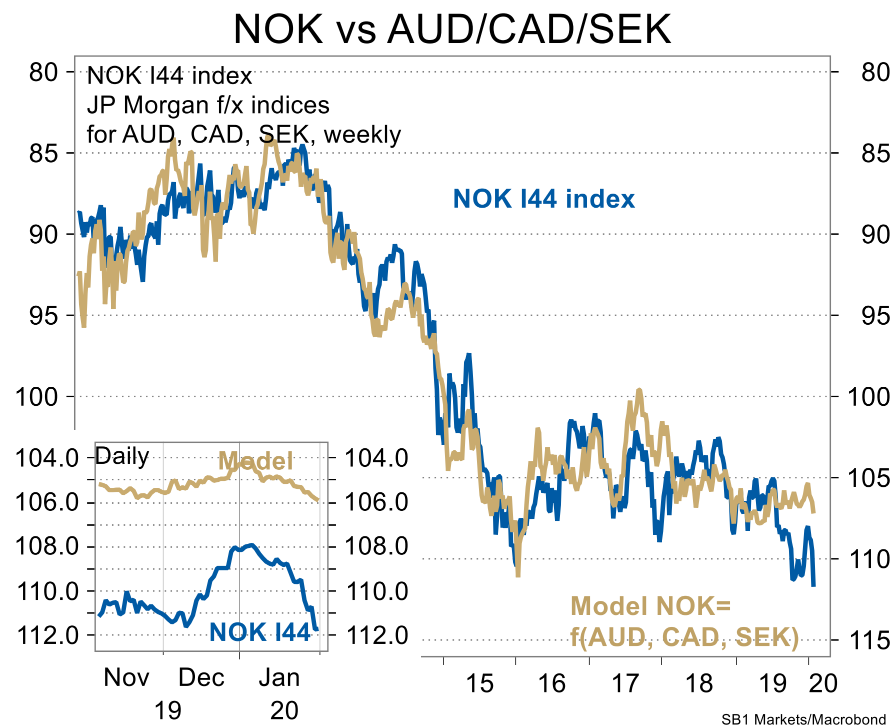


- Until January, NOK strengthened by 4% from the late Oct ATL and by some 3% from the local bottom at Dec 10. This month, NOK has depreciated almost 3.5%, of which 2% last week, thus, is back at the Dec trough level
- The gap between the our 'old', standard model estimate and the actual I44 index has widened to 10%
  - » Last week, neither the oil price, EM currencies, other supercycle currencies can fully explain the steep NOK drop, however, the 'oil company share' model does
- Both our 'new' models, based on the other super cyclical currencies or energy (oil) equities are far closer to the ball on the NOK than the standard model (check next page)
- We stick to our **buy NOK** recommendation

NOK is too weak vs our 'alternative' models

NOK is 4% too weak vs the other 'supercycle' currencies and 2% below the oil stock price model

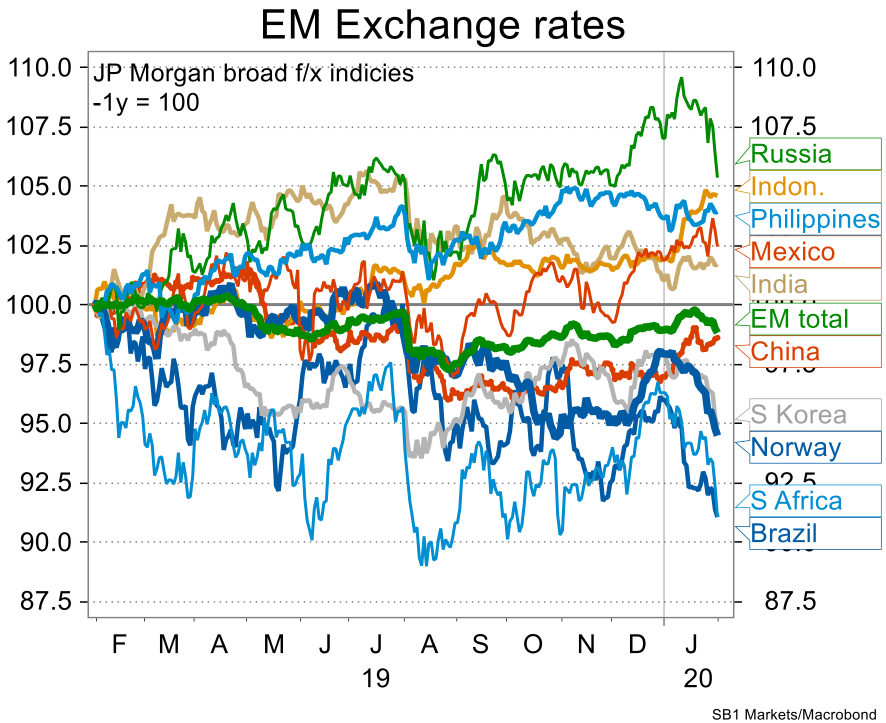


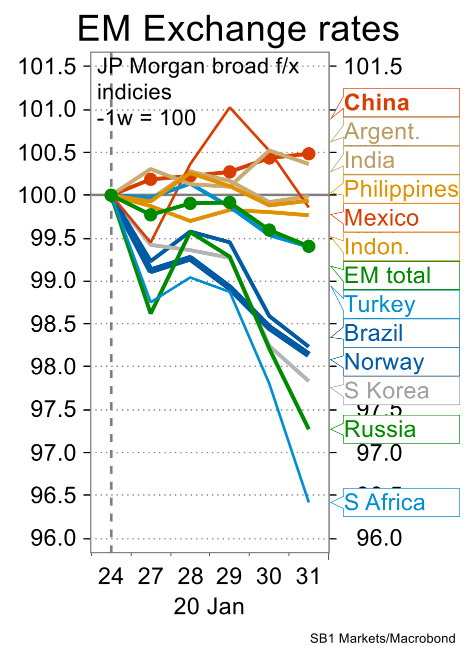


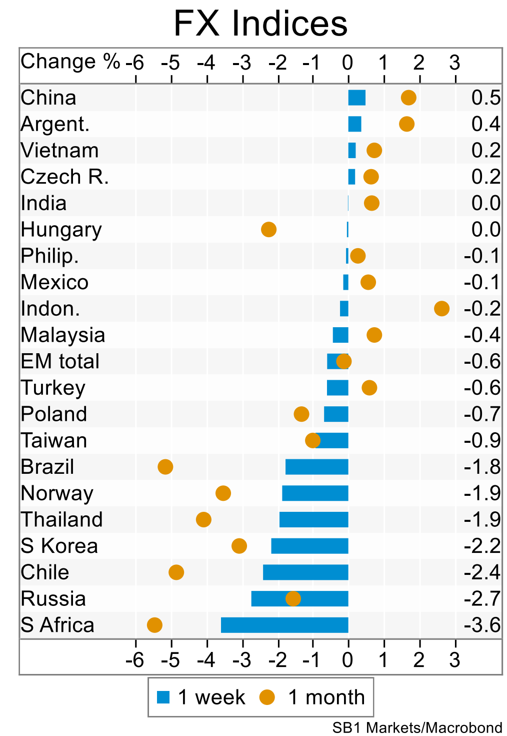
- Our NOK model based on pricing of oil companies has 'explained' the weak NOK much better than our traditional model since 2017, as have our 'supercycle' currency model (NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK). The EM x CNY currency aggregate is also quite closely correlated to NOK)
  - » The oil company share model slipped along with the NOK last week, and the gap to NOK is not that large anymore, just below 2%
- Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook
  - » Last week, supercycle currencies weakened, as did EM currencies, bot NOK fell more than any of the others

EM currencies down as coronavirus triggers risk off sentiment

Most EM f/x weakened last week, while the CNY surprisingly climbed







- Most EM currencies stabilised/recovered in the autumn and have remained rather stable since then, trade war de-escalation and signs of a slight recovery in the global manufacturing sector have supported sentiment. Last week, EM f/c indices fell 0.6% (in avg)

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