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Macro Research

Weekly update 7/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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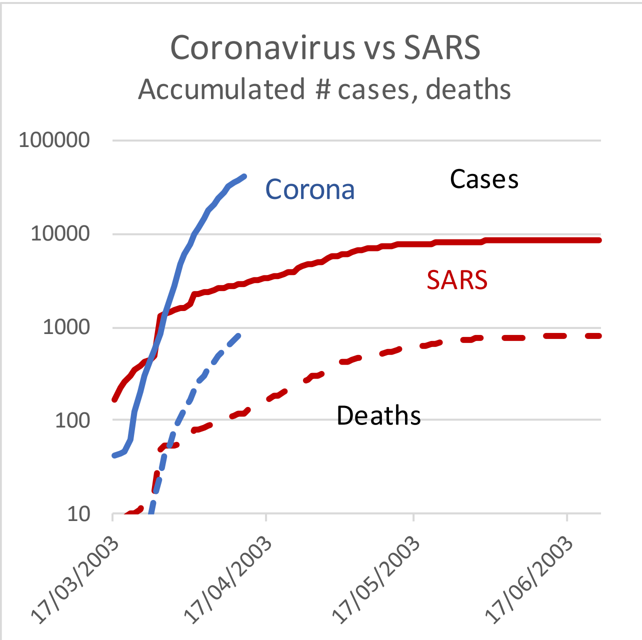
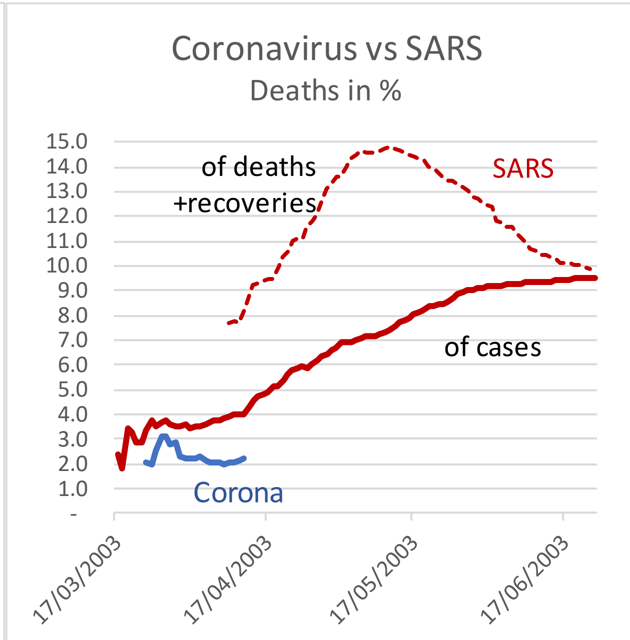
Last week – the main takes

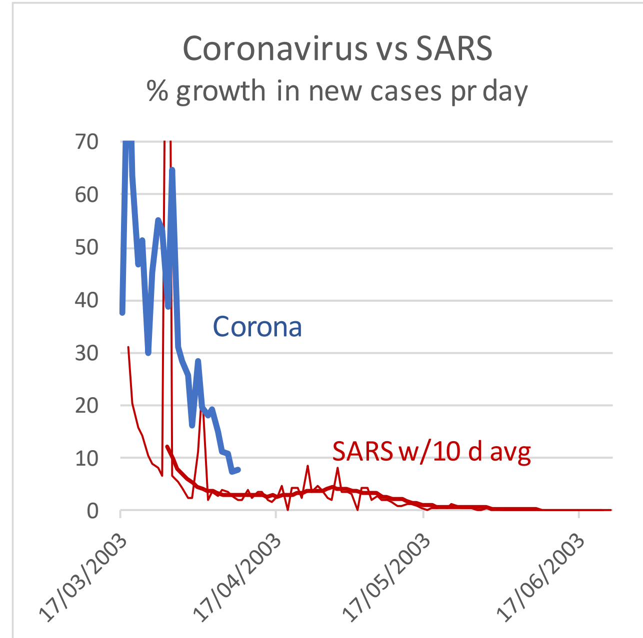
- **Growth in new coronavirus cases** is slowing rapidly but is still high (just below 10%), and the number of deaths have surpassed that of the 2003 SARS pandemic – and it is far from the peak level. Economic activity in China is seriously dampened, and even factories outside China has shut down due to lack of supplies
- **China** delivered a promised cut in tariffs on imported goods from USA. **Trump** was acquitted in the Senate trial, as everyone predicted
- **Chinese CPI inflation** spiked to 5.4% in January, up 0.9 pp, due to both energy prices and pork prices
- **Global composite PMI** increased by 0.6 p in January, to the highest level since March last year, at 52.2. The PMI points to an uptick in global GDP growth into 2020, to 3.25-3.5%, from 3% in Q1-Q3, 2.8% in Q4. Both manufacturing and services improved in January, with the major contribution coming from developed markets. Markit's composite PMI from China edged down to 51.9, still suggesting somewhat higher growth. **The US manufacturing ISM** jumped to 50.9, reversing a 5 months decline in 1 month. The upturn of the ISM offers some comfort on the manufacturing outlook – but manufacturing surveys are still not signalling growth in production. **Eurozon**e is slowly recovering, and businesses are reporting an easing decline in manufacturing. The **Norwegian manufacturing PMI** slipped to 50.9, thus, confirming the slowdown which all other surveys are signalling
- **Auto sales** rose marginally in the US in January, while sales in the Eurozone were plummeting. Norwegian sales failed to recover too, and regulations cannot be blamed anymore, is demand waning??
- **The US nonfarm payrolls report** came in above expectations, employment rose by 225' vs 165' expected and growth is trending up. Wage growth flat at 3.1%, after an upward revision of the previous months. Unemployment inched up to 3.6%, and the participation rate rose 0.2 pp**. Productivity** rose by 1.4% q/q annualized in Q4, as expected, following zero growth in Q3. Productivity growth remains sluggish but is at least trending up. Growth in labour costs per unit another tick up to 2.4% y/y, reducing corporate profits rates. **The trade deficit** shrank in December, trending out, as imports are sagging. A mix of softer domestic demand, higher domestic oil production and the US/China trade war probably to blame
- **Eurozone industrial production** probably slipped by some 2% in December, production fell broadly, and steeply in Germany. **Retail sales** dropped in Dec too and stagnated in Q4, however, we expect sales to pick up the coming months, back to the 2% upward trend. Some impact from one extra holiday (the 27th of December) may have distorted activity? If not, a 'collapse'. **German orders** are still declining yet signal an easing contraction in production. **German exports** have flattened out, imports still heading slowly up, no catastrophe
- **Norwegian Q4 Mainland GDP** rose 0.1 pp less than expected, up 0.2% q/q (0.7% annualized). However, the 'core' Mainl. GDP, excluding electricity and primary production increased by 0.4% q/q. Private consumption stalled, business investments rose modestly and oil investments increased somewhat less than we expected. **House prices** spiked 0.9% m/m seasonally adjusted in January, much higher than expected. Prices increased in all towns, and Stavanger recovered somewhat. Oslo prices still rising at the fastest speed. The no of unsold homes has turned up again, barring in Oslo. **Manufacturing production** unchanged m/m in December, growth is cooling, the slowdown is driven by both oil- and non-oil related sectors

Coronavirus contagion is slowing down but level still far from peak

Growth has slowed to 'just' below 10% per day, from 20% one week ago



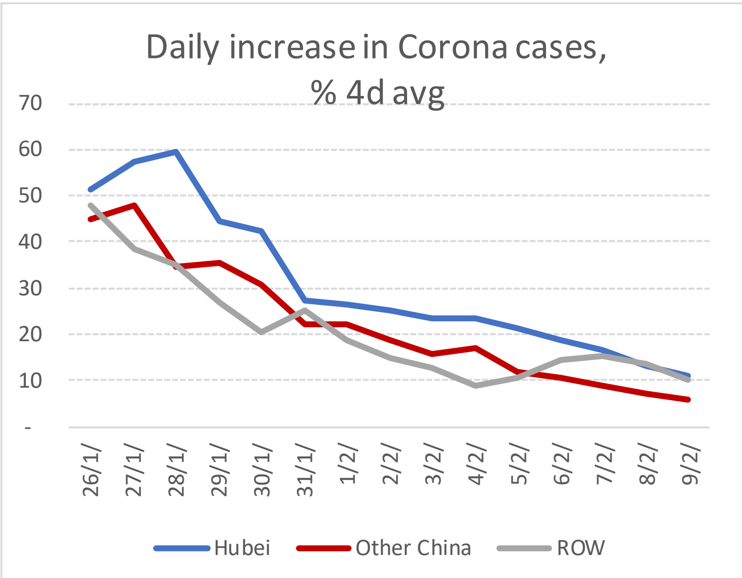


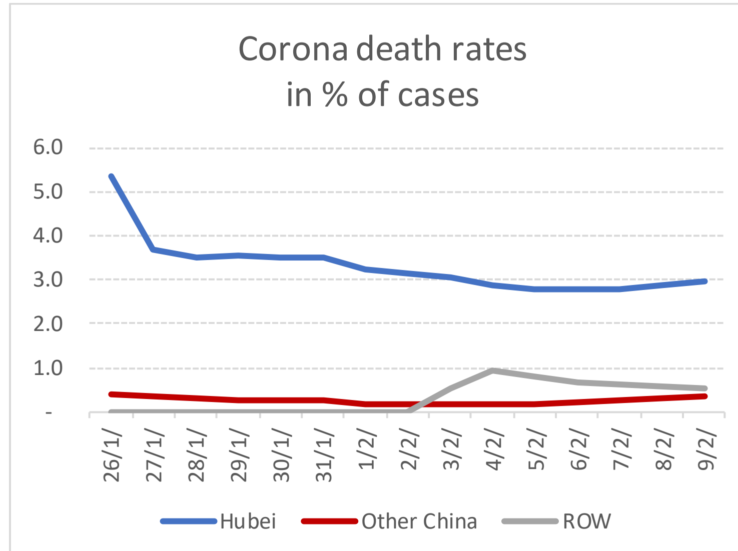


- Growth in number of new cases is slowing but it is still far higher than during the SARS pandemic in 2003. The growth rate has fallen to below 10% per day, from 20% one week ago (and 50% two weeks ago). However SARS spread at a far slower pace – and the no of coronavirus cases, now above 40.000 is far above SARS' 8000
- Death rates are very likely lower than for SARS (which reached almost 10%) but the no of recoveries is still very low as 90% of those who are declared infected are still sick; just 8% has recovered and 2.2% has died (910 persons this morning vs 800 killed by SARS). Thus, we do not know the real death rate. The best news is that deaths rates are still very low in China outside Hebei and in other countries

The coronavirus is spreading at a slower pace. Death rates still low…

… but still uncertain





- The growth rate of new cases are some 6% in China outside the Hubei province, compared to 10% in Hubei (but all growth rates are clearly trending down). Many of the new cases outside China are Chinese tourists abroad
- Death rates are much lower outside the Hubei province, well below 1% of cases, as in other parts of the world, vs vs 3% in Hubei province
- The outbreak is 'younger' outside Hubei, but even the deaths/(deaths+recoveries) ratio (deaths vs. all 'finished' cases) is dramatically lower outside Hubei, 2% in other China (8% in other countries) but still at 33% in Hubei
  - » The latter number is rather alarming but is probably partly due to lack of treatment/care capacity than to the 'normal' mortality rate of this virus given best care available

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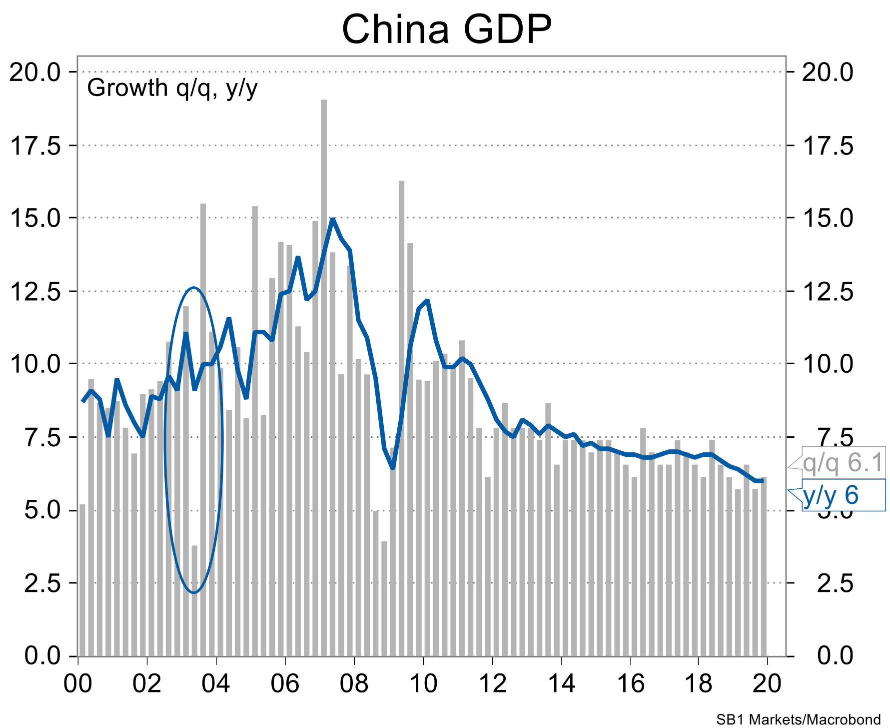
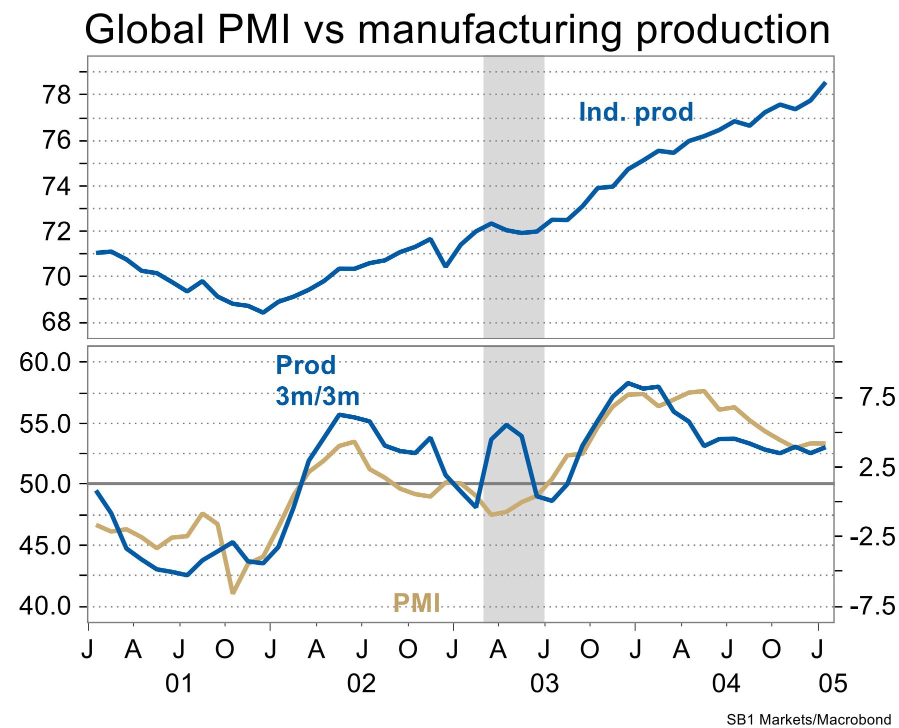
… and what about the Chinese or the world economy?

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





- During the SARS pandemic in Q2 2003, the Chinese GDP growth rate fell by between 1.5 and 2% q/q from Q1. In Q3, most of the Q2 setback was recovered (but not all), and the lost production in Q2 was not pushed forward to Q3
  - » The coronavirus very likely hurt the economy significantly more. The new year holiday was extended by one week (until today), and companies have reported shutdowns surpassing that extension. If ½ of China takes 1 week break, that equals almost 4% decline in the (not annualised) GDP growth rate in Q1, down from 1.5% in Q4 (A 4% slowdown will bring growth down to -2.5% (not annualised) in Q1, and the annual rate down to 2%, from 6%. Some stimulus measures are already announced and more are likely. A short term rate is cut by 10 bps, and banks are supported by more liquidity
  - » Without any impact on other countries, which of course is unlikely (factory shutdowns are already reported in other countries, due to lack of supplies), a 4 pp Chinese slowdown in Q1 will lower global growth by almost ¾ pp, taking global growth down to zero q/q in Q1. In 2003, the impact on global growth was not visible but China was then far smaller and less integrated in the world economy. These numbers are of course highly hypothetical but we have seen others make similar assumptions
- 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</u> the coming very few weeks. If not…

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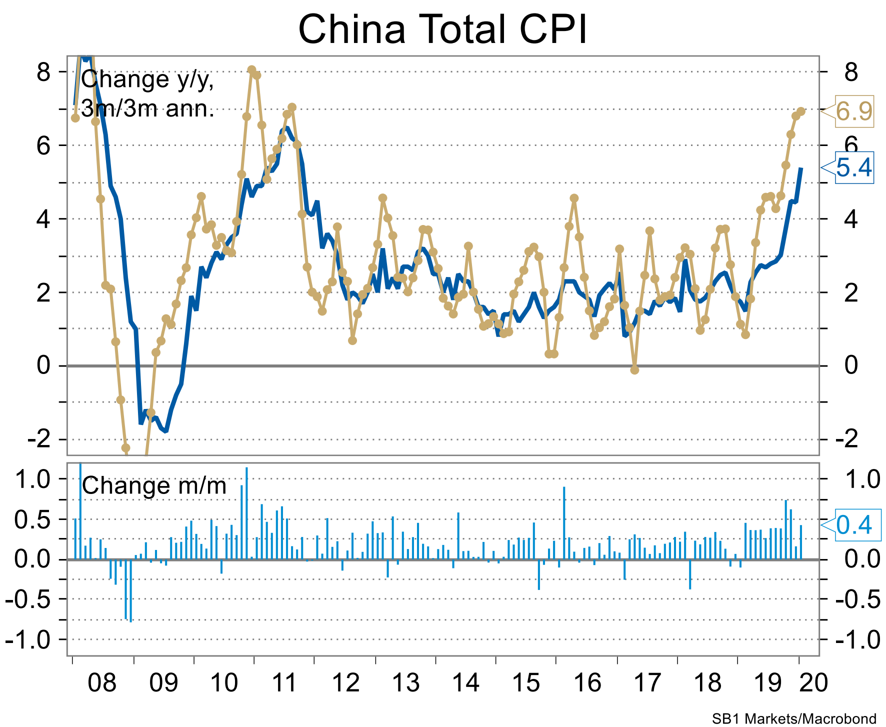
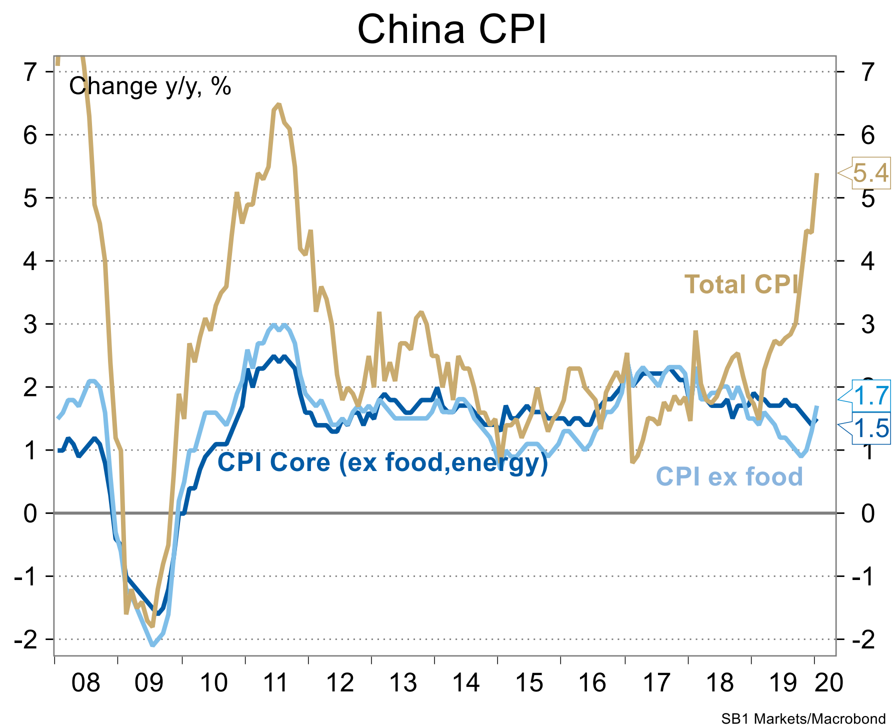
Total inflation up 0.9 pp to 5.4%, far above expectations

Both energy and pork prices contributed while core inflation is stable at 1.5%

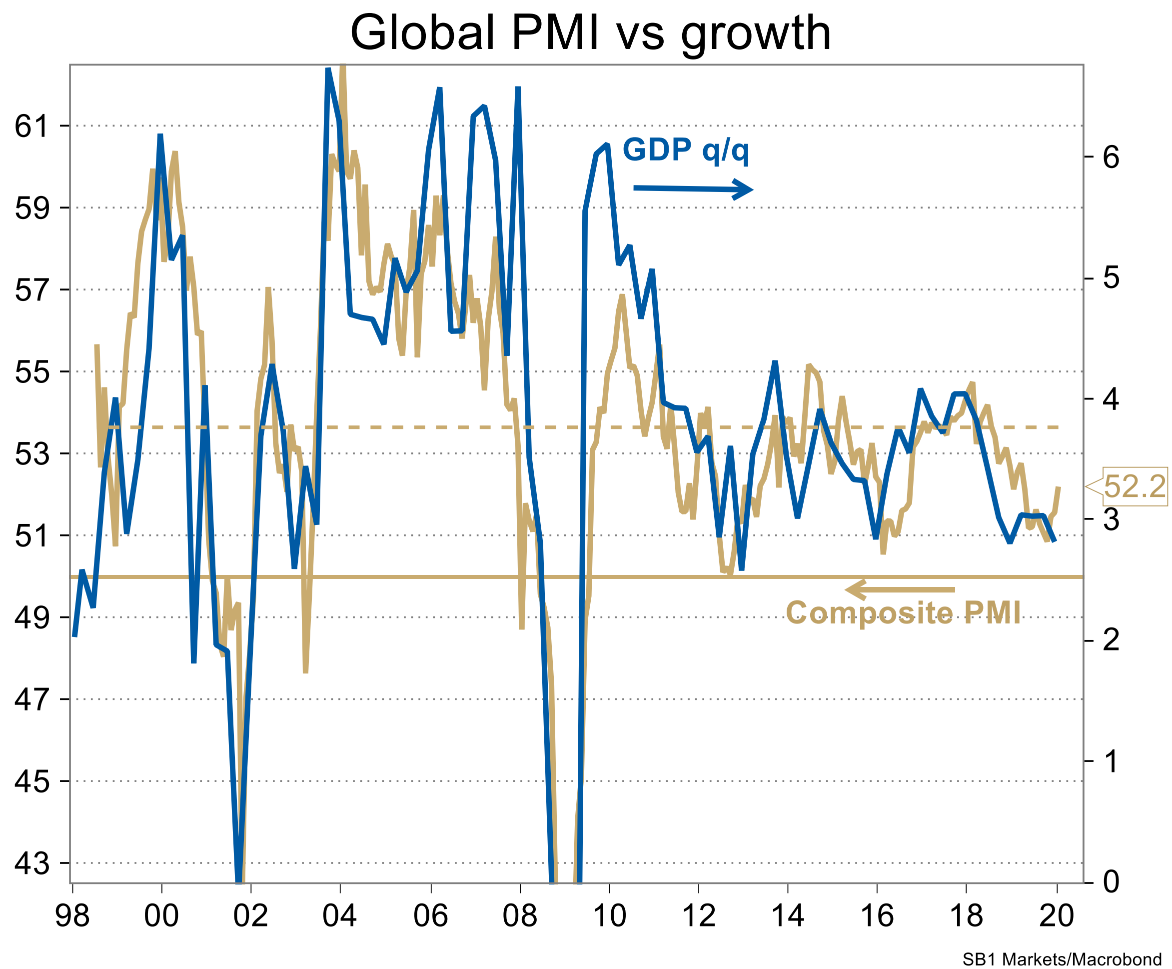


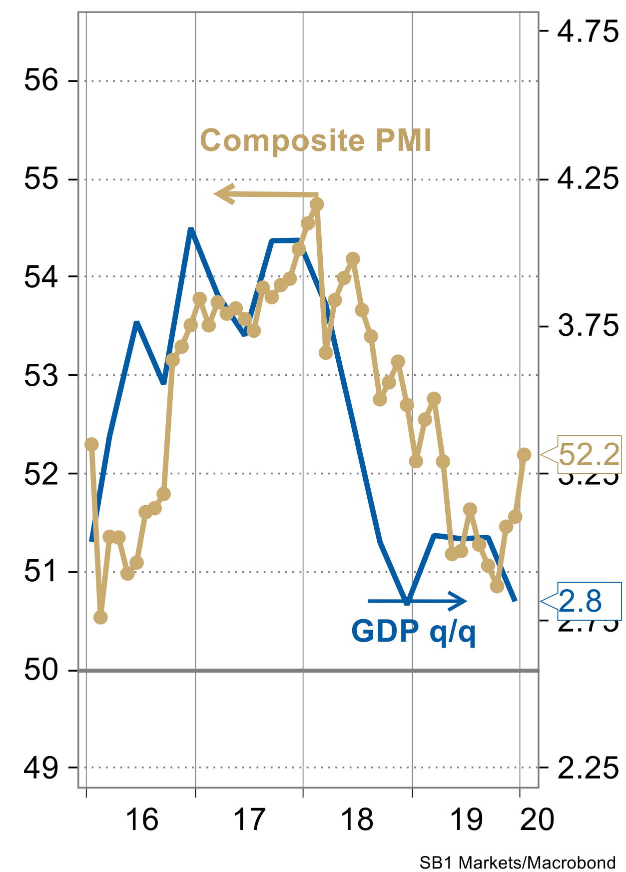


- Headline inflation accelerated 0.9 pp to 5.4% in Jan, expected up 0.4 pp to 4.9%. Total inflation is fuelled by accelerating food prices
  - » Food prices are up 20% y/y, due to the eased for the first time in a year in Dec, down 1.2% m/m and the annual rate ticked down to 17%. A steep increase in pork meat prices (up 97% y/y!) due to more than a doubling of pork prices following the swine fever.
- Core inflation (x food & energy) rose 0.1 pp to 1.5% but is trending slowly down. CPI ex food turned up in Dec, to 1.7% for 1.3%, as energy prices rose faster
- High CPI growth due to this supply shock is not any argument for a tighter monetary policy, rather the opposite. Higher total inflation is dampening real consumption growth

Global PMI up 0.6 p to 52.2 in January, best since March, signals higher growth

Actual growth fell to 2.8% in Q4, from 3.0% in Q3. The PMI indicates a 3¼ - 3½% growth pace

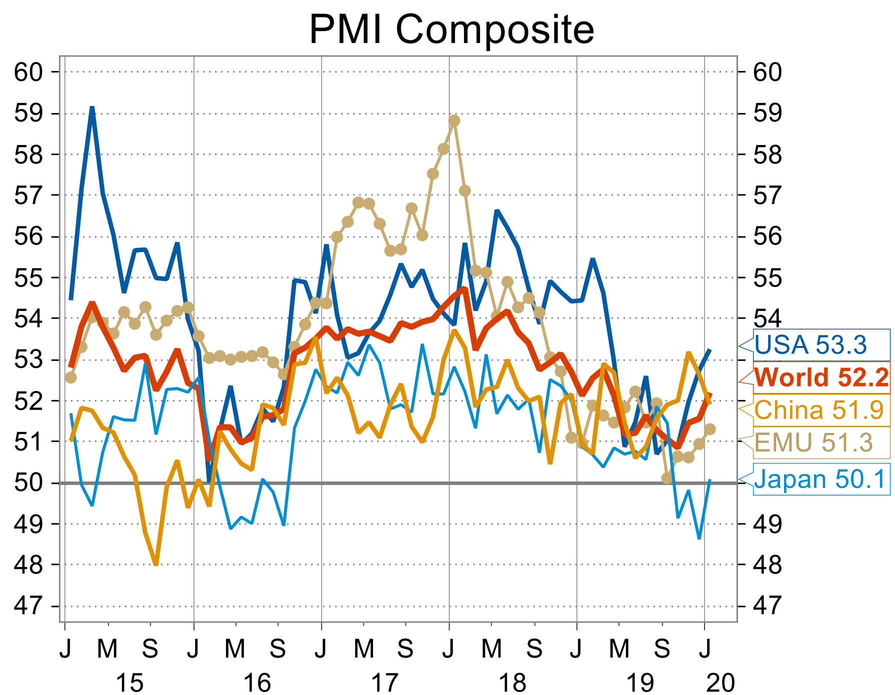


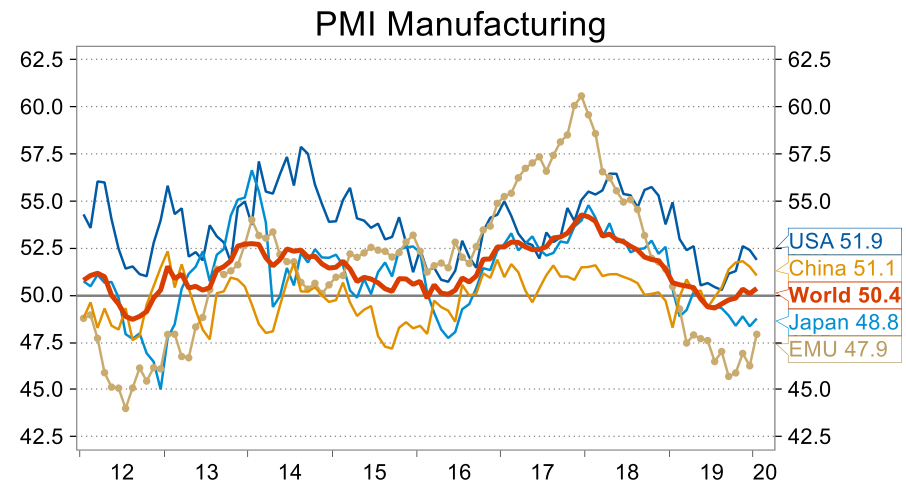


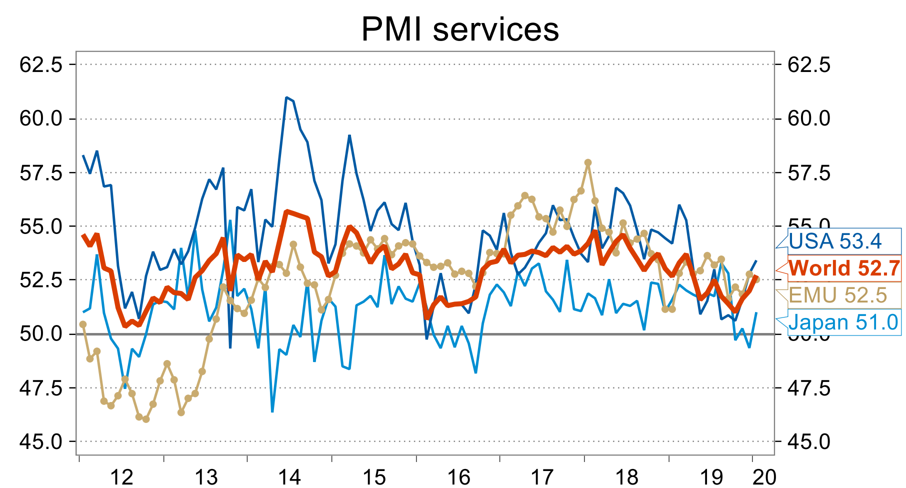
The Q4 GDP estimate is still preliminary

US, EMU and Japan are edging up, China slowing (but still signals higher growth)

Manufacturing is in recovery mode in the US, China, EMU still weak. Services stabilized, or better



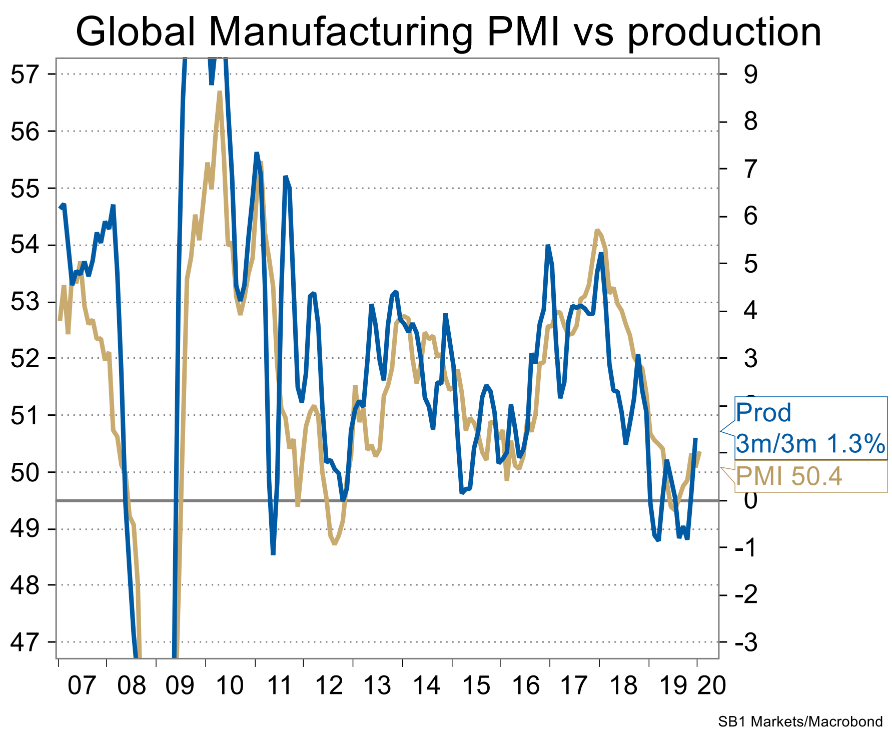


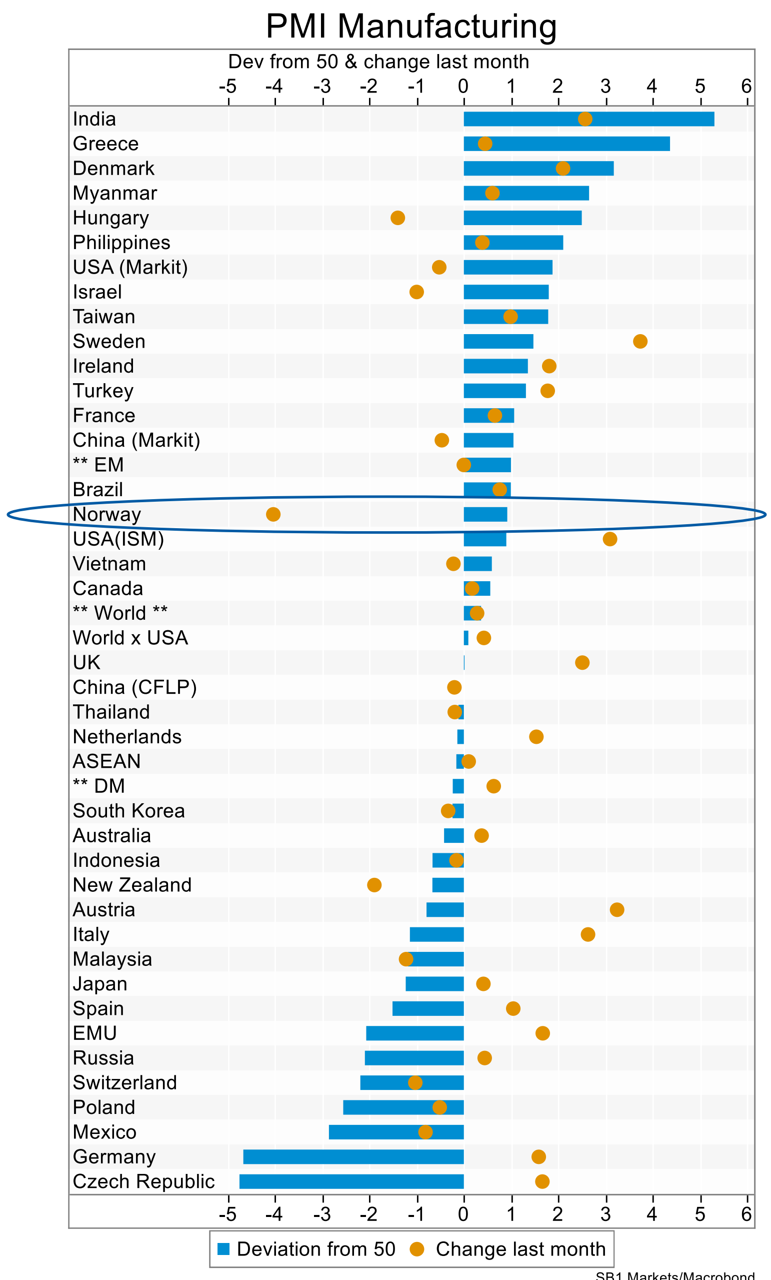


- The composite China PMI (from Markit) fell in both Dec and Jan but the level is decent following the previous 5 months recovery. Markit's PMI from the US rose further, and more than first reported. The EMU PMI climbs but remains at a low level (51.3)
- The service sector PMI rose further in Jan and the index has no doubt (at least) stabilized

Manufacturing PMI signals 1% growth

PMI up 0.3 p in Jan, a tad higher than in November, trend up





- PMI rose 0.3 pp to 50.4 in Jan, more than reversing the 0.2 p Dec decline. The PMI points to some 1% increase in global manufacturing production. Production has recovered in Nov and Dec, and rose 1.4% in Q4
  - » 28 (from 16) countries/region PMIs rose in Jan, and 11 fell (from 23)
  - » 20 (from 22) of 43 countries/regions are below the 50 line
  - » Developed Markets edged up 0.6 p, while Emerging Markets was unch
  - » The Norwegian PMI fell 4p to 50.9, more than any other country, and from the 1st to the 17th position. We expected a decline to 52 (consensus at 54.4)

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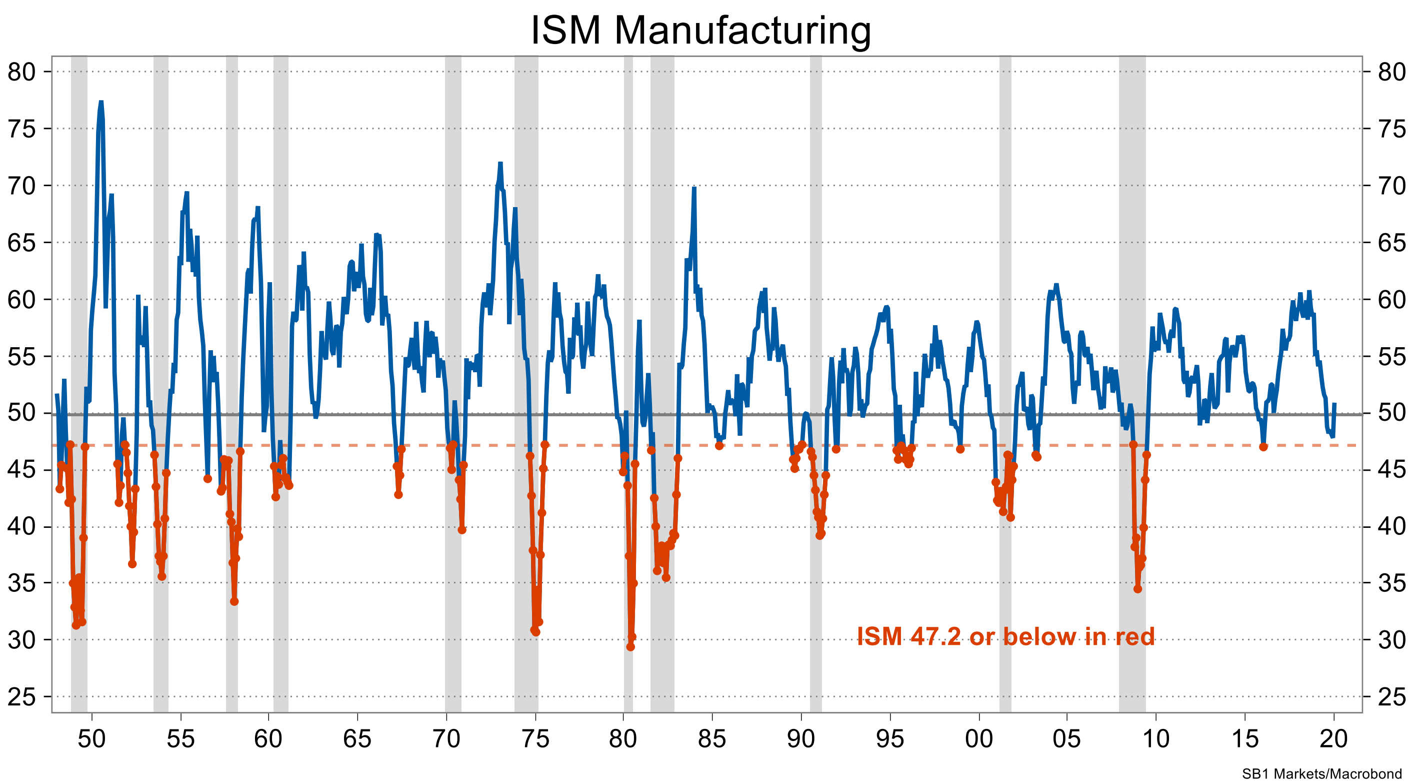
Manufacturing ISM finally recovered in January

The ISM jumped 3.1 p to 50.9, the highest since July, but not an impressive level



- Manuf. ISM soared to 50.9 in January, well above expectations of 48.4. The monthly rise in the index is the highest since 2013. The ISM is now more in line with other US surveys, adding to signs of a stabilization
  - » In the ISM survey, 8 out of 18 sectors reported growth (from 3 in Dec) and 8 (from 15) sectors reported a contraction, still a weak mix
  - » The recovery in global trade and the trade war de-escalation probably fuelled the upturn, the export order index recovered more than domestic orders. The ISM has been far weaker than other surveys the past months, perhaps because this survey is more tilted towards large, multinational companies
  - » The level the previous months have been marginally revised up in the annual recalculation of seasonal weights
- The manufacturing ISM was the only real recession signal last autumn. <u>Now, this signal has vanished</u>

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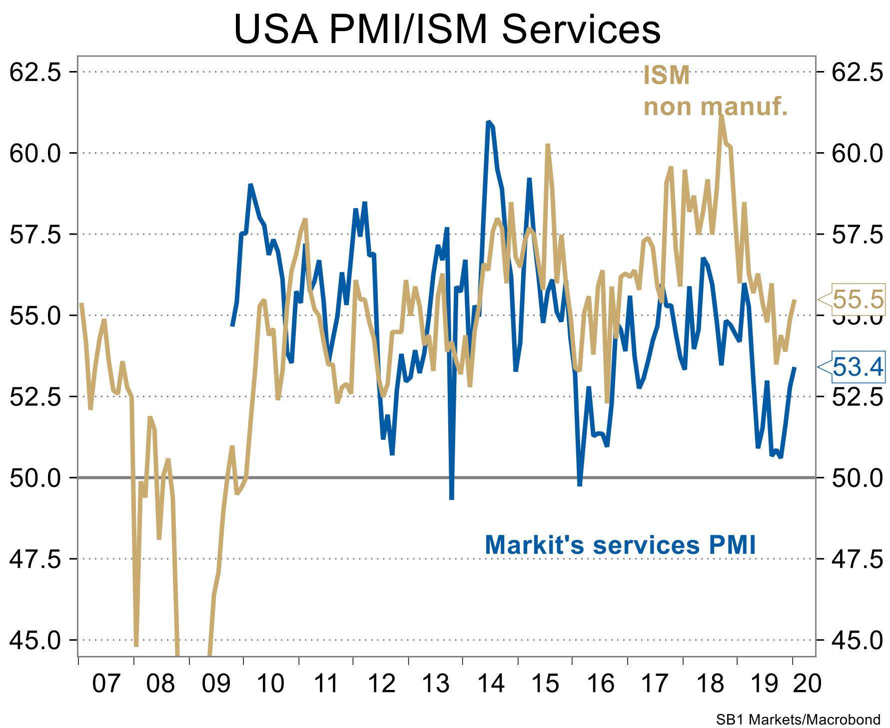
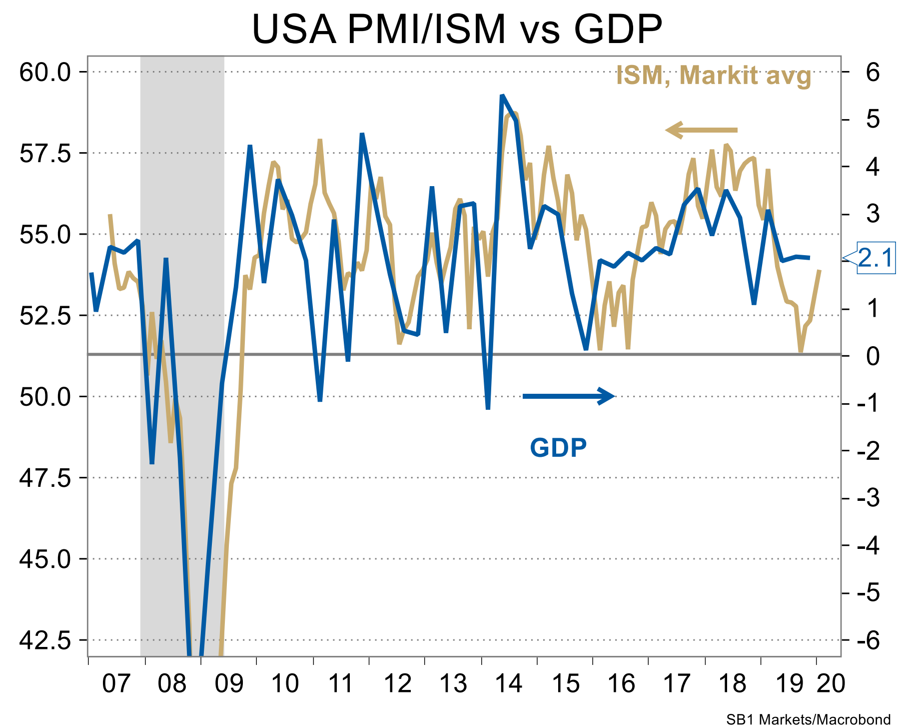
Non-manufacturing ISM further up in January, 'composite' ISM at 54.6

'Services' ISM rose 0.5 p in Jan. The avg of Markit's PMI/ISM signals steady growth, at approx. 2%

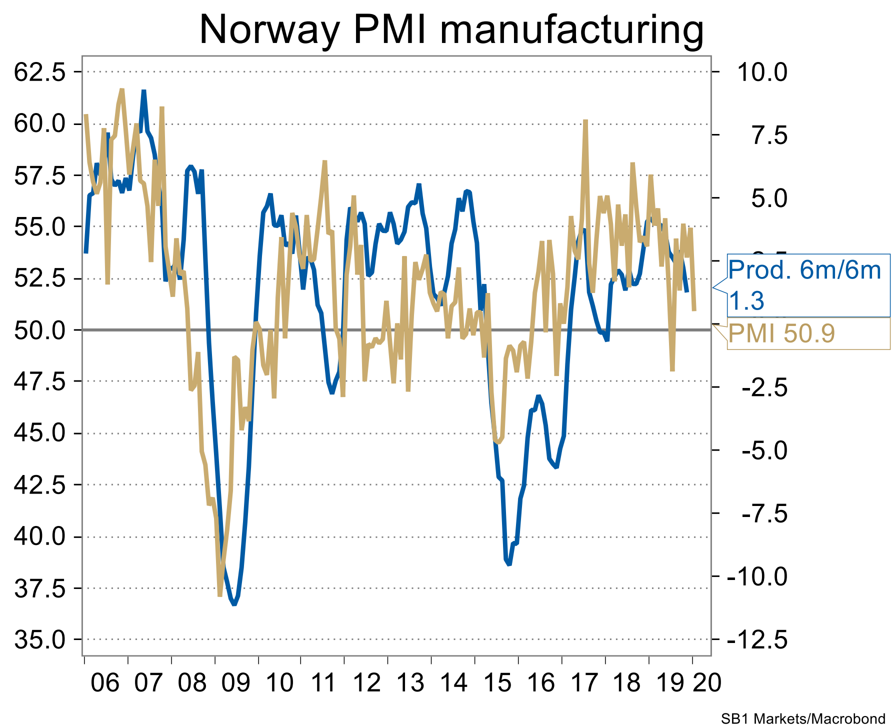


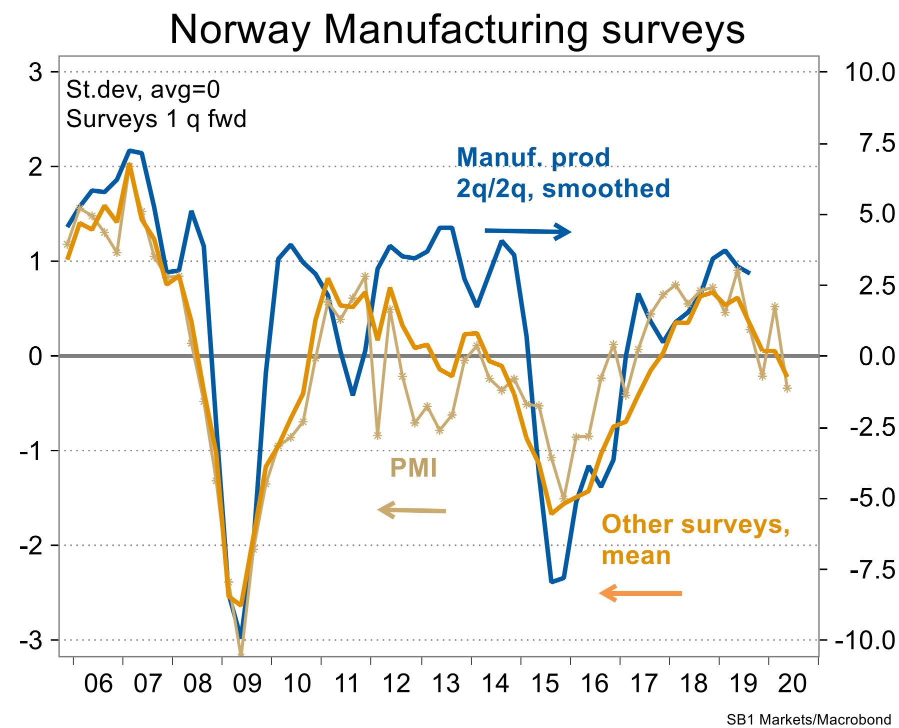


- Non-manuf. ISM edged up by 0.5 p in January, to 55.5, expected marginally up to 55.1. The index has turned up since September, along with Markit's services PMI
  - » 11 of 18 non-manuf. sectors reported growth, from 12 in Nov, and 6 reported a decrease (from 5)
  - » The details were not that upbeat; the new order index fell by 2.2 p to 54.9, and the employment index inched down (still at a solid level)
- Markit's service sector PMI ticked up 0.6 p in Jan, to 53.4, 0.2 pp better than first reported. Composite PMI rose to 53.3
- **The avg of the composite PMI/ISM does no longer point to a substantial slowdown in the US, rather, steady growth at around 2%**

Manufacturing PMI 'finally' followed other Norwegian surveys down

PMI dropped 4 p, and is now in line with other surveys, which all point to a marked slowdown

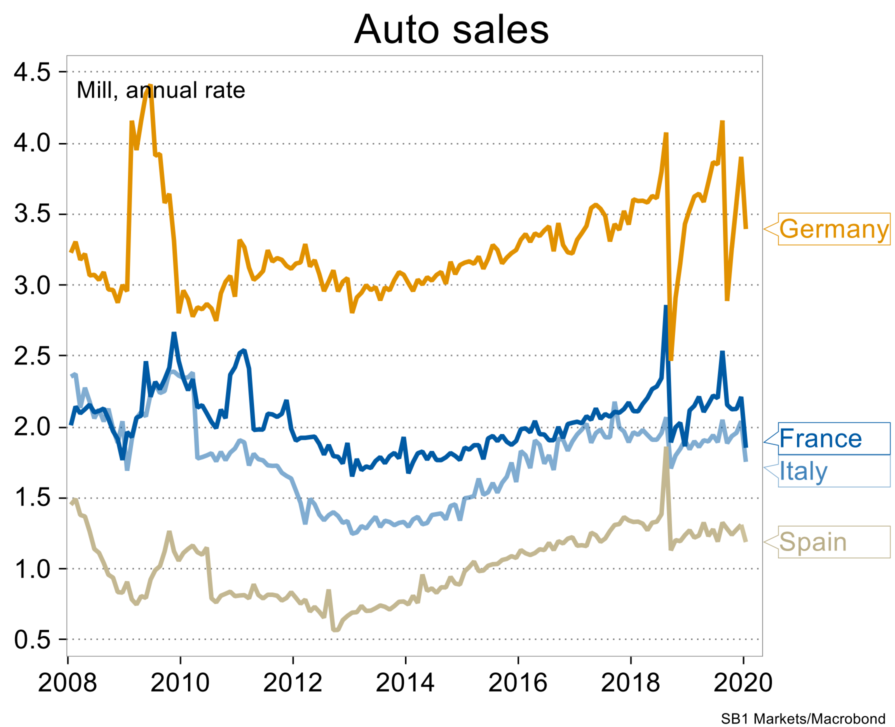


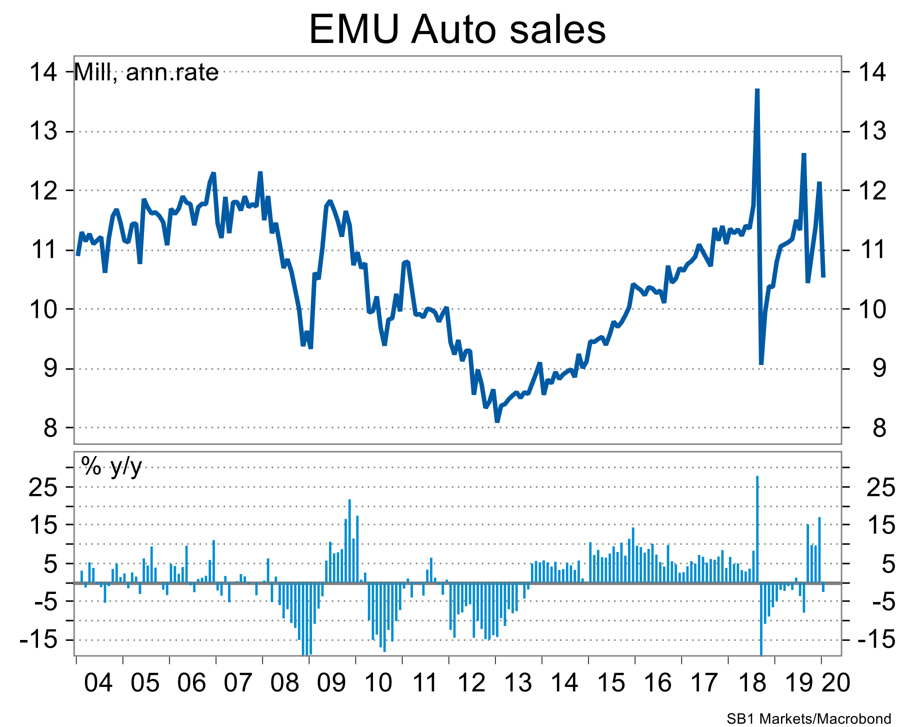


- The PMI slipped 4 p in Jan, to 50.9, we expected a 3 p decline to 52 (consensus 54.4). Barring July last year, this is the weakest level since early 2017. We have been surprised by the elevated level of the PMI the past few months, thus, the January drop was not that surprising
- PMI is now more in line with other Norwegian manufacturing surveys, which have been noting a downturn for some months. Taken together, manufacturing surveys signals a modest decline in manufacturing production into 2020

Auto sales sharply down in January

Sales fell almost 15% m/m. Regulations have probably destabilised sales but January was not good

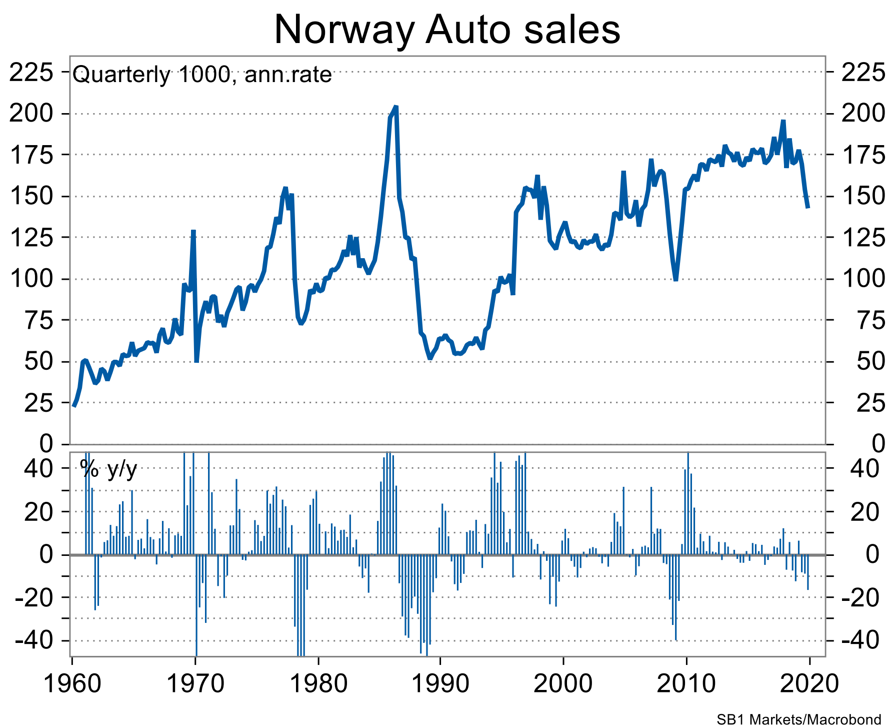


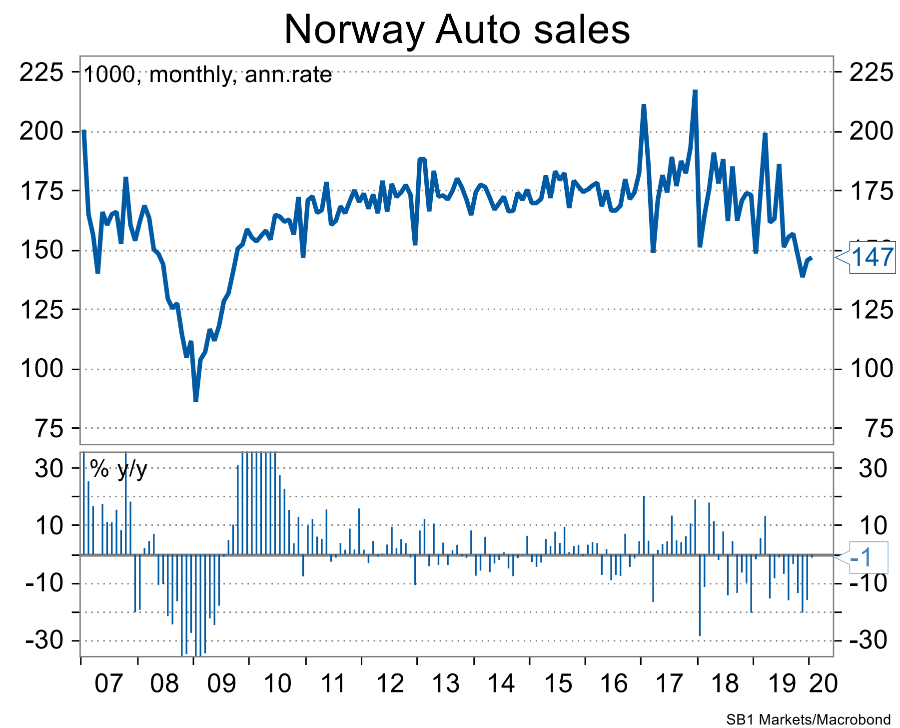


- Sales in the EMU at 10.6 mill (annual rate, our preliminary est) is well below a normal level. Sales have been heavily influenced by new EU regulations, and it not possible to be sure what the 'real' underlying trend in demand is
  - » From Jan, new EU emission regulation was implemented; the max avg emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. High sales in December indicates that inventories for high emission cars were cleared
- Sales rose by 2% in 2019, up from 1% in 2018, the 6th annual increase. Sales are up some 35% from the bottom in 2013
- Still, the auto industry is struggling, especially the German producers, check next page

Slow auto sales in January too

Sales did not recover in January. Are there still delivery problems, or is demand weakening?





- From January 2020, the new EU emission regulation were implemented; the maximum average emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. There was no obvious impact on sales numbers (like postponed sales of low emission sales last autumn would turn up in January)
- Expiring auto leases of hard to sell gas/diesel cars may have led to too large 2. hand inventories among dealers, keeping new car sales down
- However, as sales have been low for several months, the simple explanation may be that demand is waning

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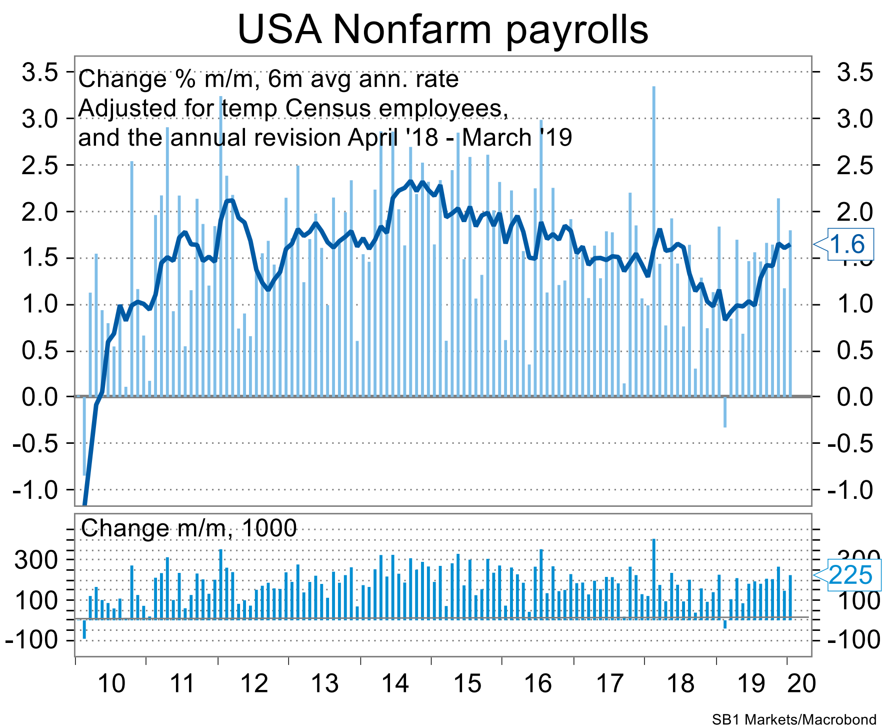
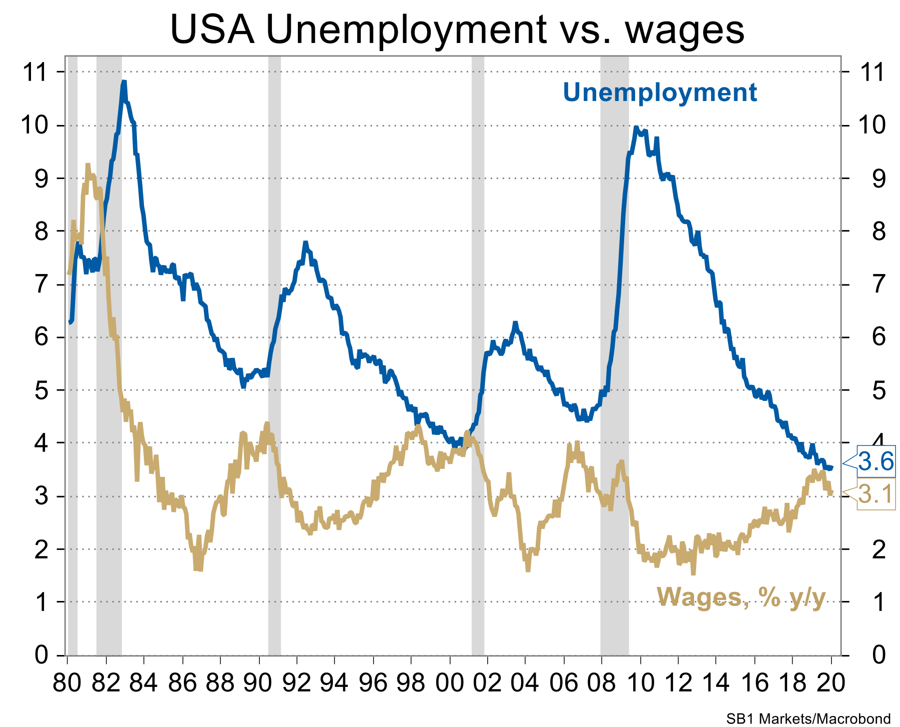
Strong growth in employment in January, wage growth slowing

Employment up 225’, 60’ above expectations. Unempl. inched up to 3.6%, wage growth ‘up’ to 3.1%

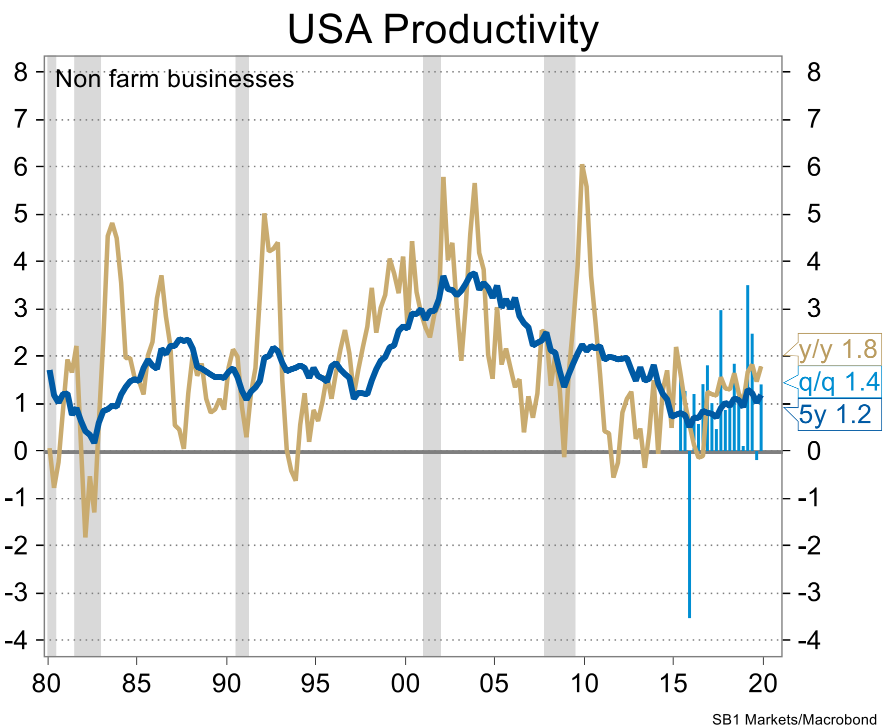


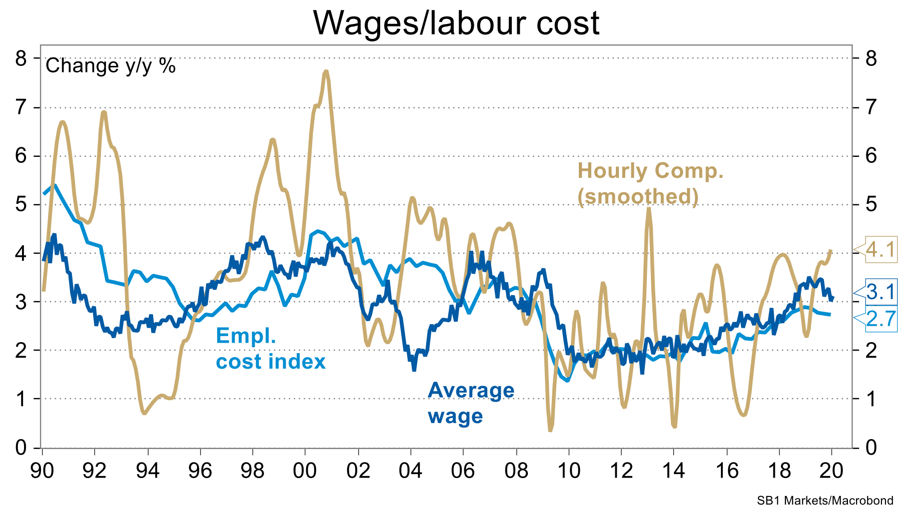


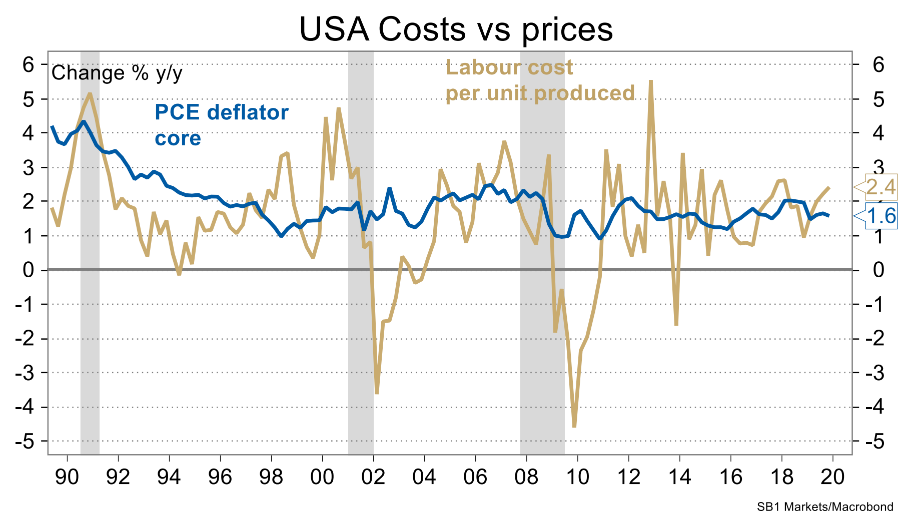
- **Employment** rose by 225’ in January, up from 147’ in December, and 60’ higher than expected. Employment growth has accelerated since mid-2019, the 6 m avg up to a 1.6% pace, from 1% in early 2019. Long term, employment growth is trending down
- **Unemployment** inched up to 3.6%. Both the participation rate and the employment rate edged up by 0.2 pp. Participation is heading slightly upwards but too little to suggest that the supply side is now responding. The labour market is no doubt tight
- **Wages** rose 0.2% m/m, 0.1 pp slower than expected. The annual rate was unch at 3.1% (but up 0.2 pp from the original Dec est.) Regardless, wage inflation peaked in mid-2019 and has turned slowly down since. Still, wage growth is not that low vs productivity
- <u>Overall, these data confirm that the labour market remains in a solid state, no argument for interest rate cuts this year!!</u>

Productivity growth returned in Q4, trending slowly up - but cost inflation up too

Productivity rose 1.4% q/q, as expected (1.8% y/y); unit labour cost inflation slowed to 1.4% q/q



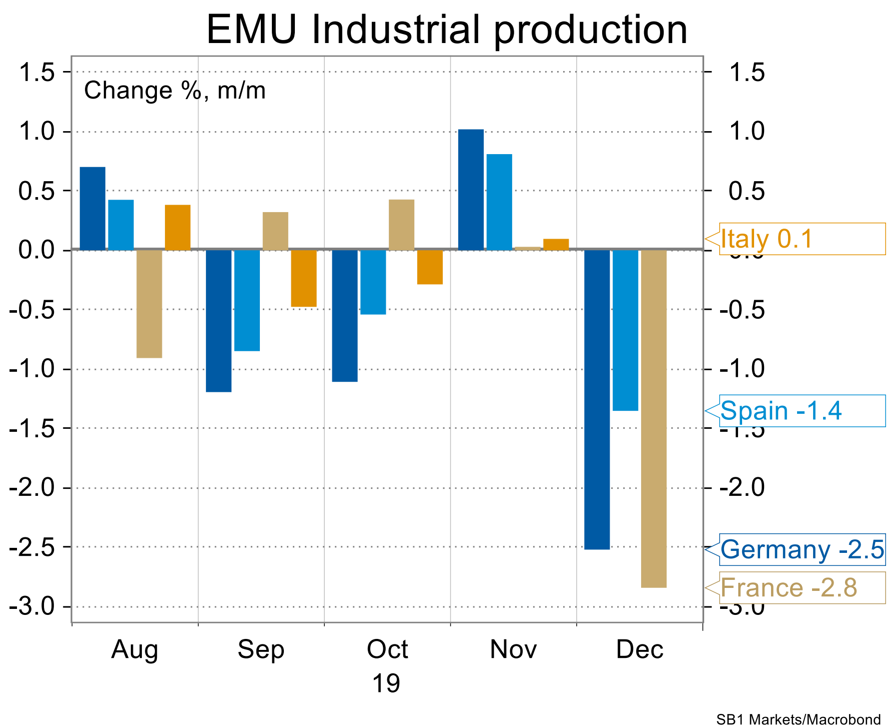


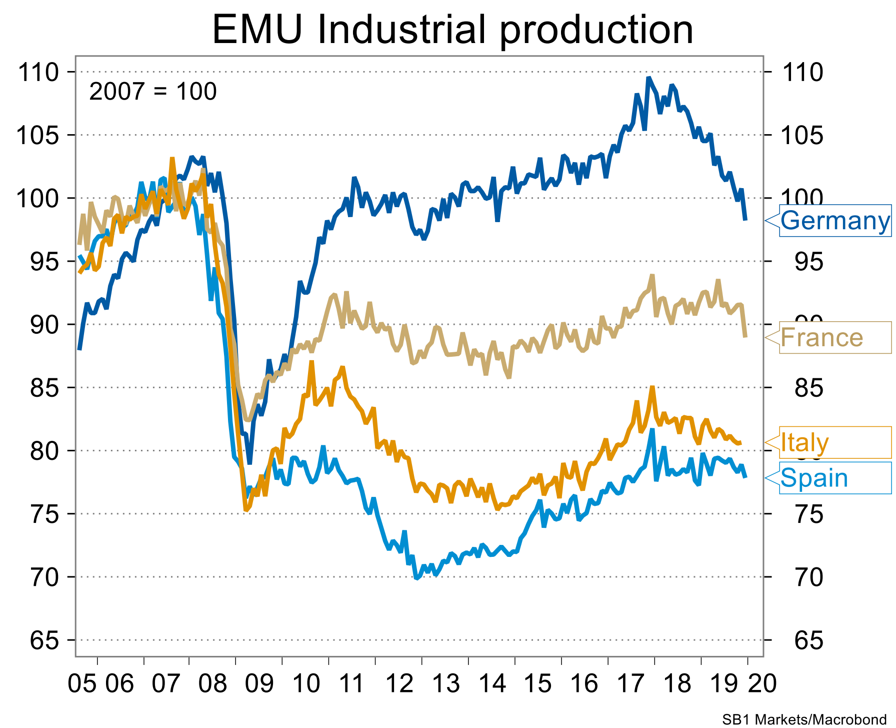


- Productivity increased by 1.4% annualized in Q4, after stalling in Q3. The annual rate ticked up to 1.8%, trending slowly up. The 5 y average is inching up too, to 1.2%, still a modest growth rate
- **At the same time, growth in labour compensation is accelerating**, thus bringing growth in unit labour costs up. ULC rose 1.4% q/q, a slowdown from Q3 but the annual rate climbed to 2.4%. Cost pressure is no doubt building up, taking its toll on corporate profits, the profit rate has fallen
- **Underlying total wage inflation is well above 3%, and underlying productivity growth at some 1.5%. <u>Underlying ULC inflation is probably not below 2%, like we have assumed for a while</u>**

Industrial production 'collapsed' in December

Germany, France and Spain report unusual declines (partly due to a too long Christmas holiday?)





- EMU industrial production (ex construction) most likely fell at least 2% m/m in December and by 5% to Q4 from Q4, and by 2% y/y – the trend is clearly down
  - » German production fell 2.5% m/m (but a better seasonal adjustment yields 'just' -1.2% - however Eurostat uses the former adjustment). In France production fell 2.8%. Spain, Netherlands and Ireland reported substantial declines too
  - » At least some of the Dec decline may be due to more days off than normal during the Christmas week
- Surveys have strengthened somewhat but are still signalling a decline in manufacturing production in the Euro Area

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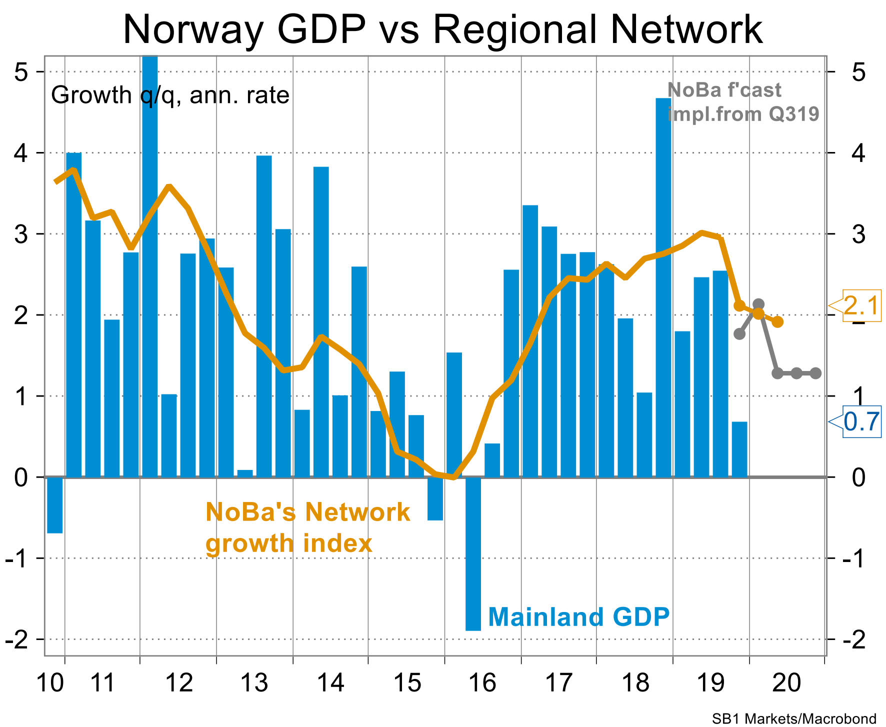
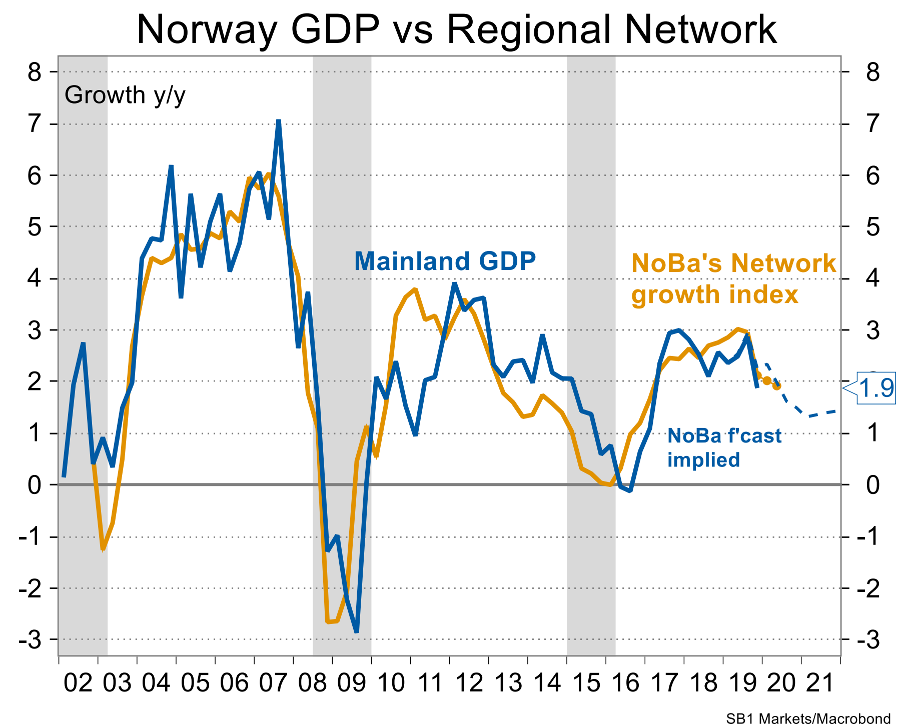
Mainland GDP growth slowed more than expected in Q4, cost inflation up

GDP rose 0.2% q/q (0.7% ann), below f'cast. Barring decline in primary & electricity prod: 0.4%/1.4%

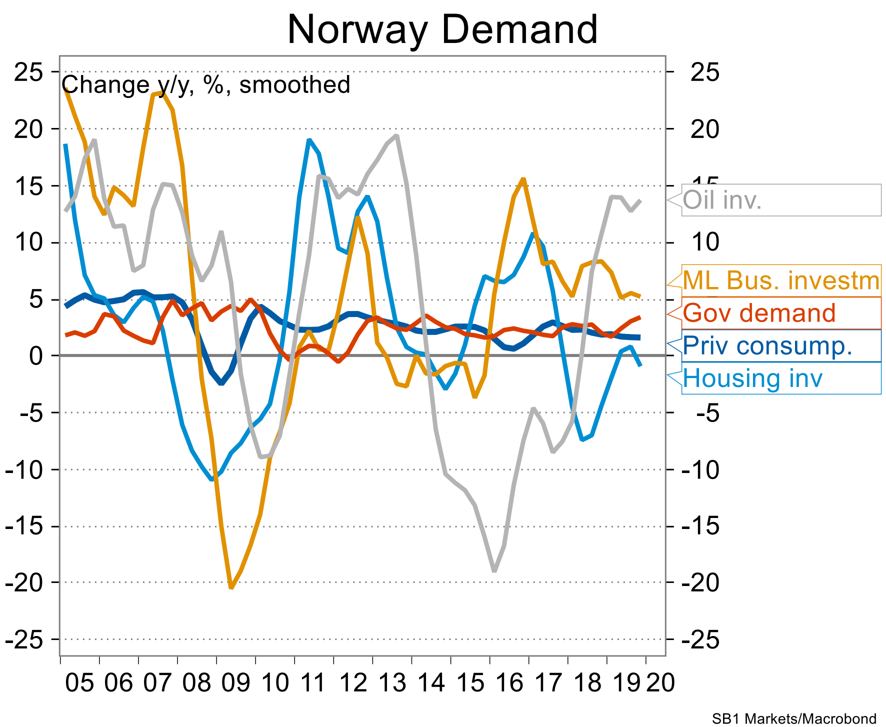


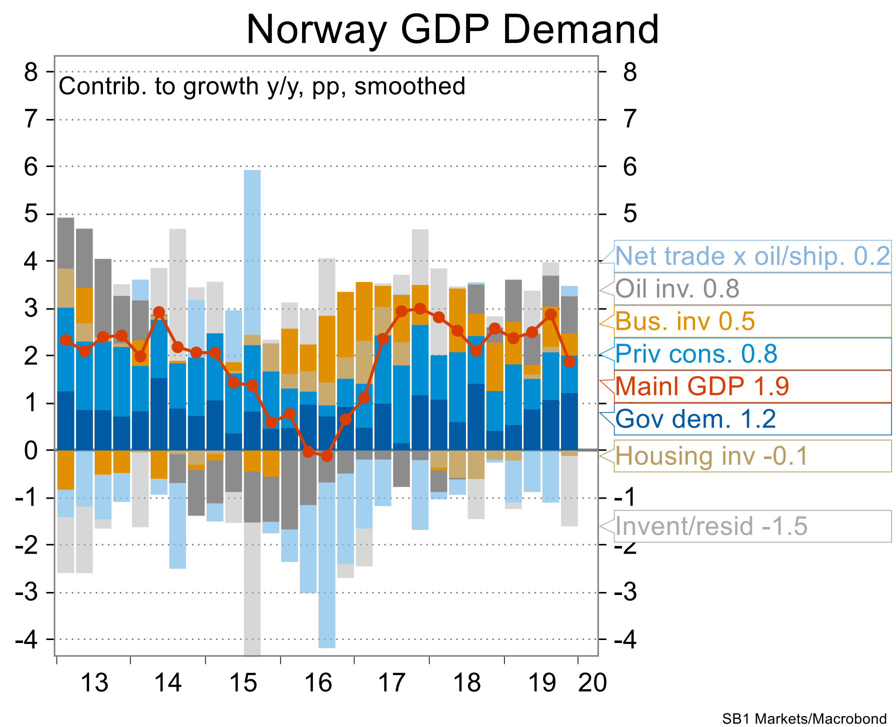


- Mainland GDP increased by 0.2% q/q (0.7% annualised), we and consensus expected 0.3%, Norges Bank 0.45%. Thus, Q4 ended as the weakest quarter since 2016, after solid growth rates in Q2/Q3. The annual rate fell to 1.9%, down 1 pp. Primary & electricity production fell, and 'core' GDP rose 0.4% (1.4%)
  - » Private consumption stagnated, Mainland business investments increased just modestly (after soaring in Q3) and housing investments declined. Oil investments accelerated sharply but at tad less than we assumed. Government demand increased marginally, following strong growth in Q2 and Q3. Net exports rose, as imports weakened and exports improved
  - » Employment growth is cooling, up 1% q/q annualized, the lowest since Q4 '16. Productivity growth almost vanished, up just 0.2% in Q4, while wage compensation is heading up, bringing production costs up and business profit rates down
- Growth has been above trend and cost inflation is trending up but growth is now slowing (even 'core' GDP) – and we expect more during 2020 due to no contributions from oil investments, and decreasing Mainl. business & housings investments. Norges Bank may have to nudge down its f'cast, but no substantial impact in the interest rate path (but the small probability for a H1 hike will be ruled out)

The big picture: Oil investments are peaking, and this time not offset by housing

Consumption is slowly softening, as are business investments, and housing is probably stalling

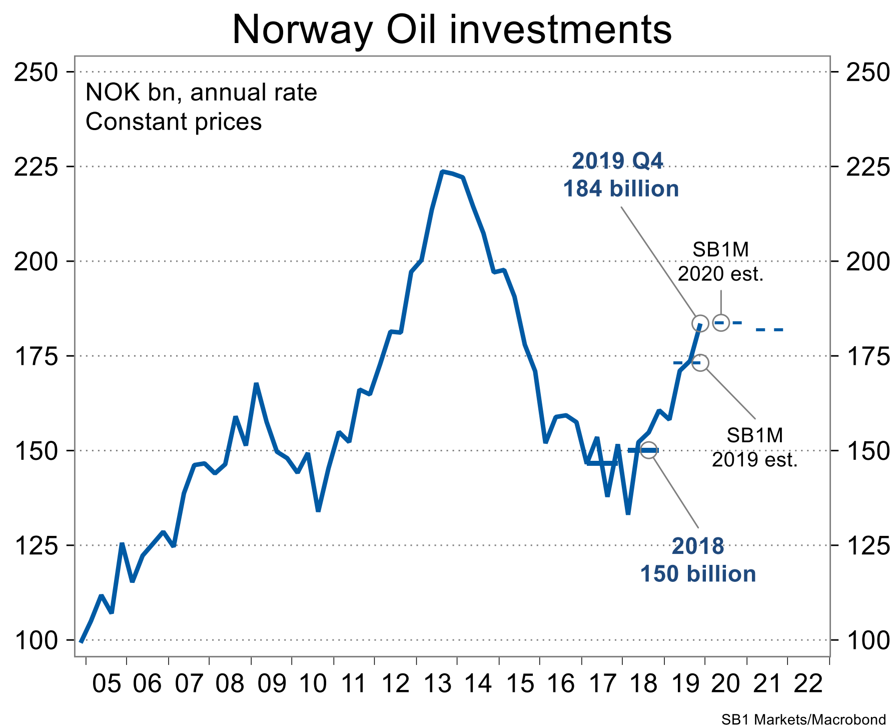


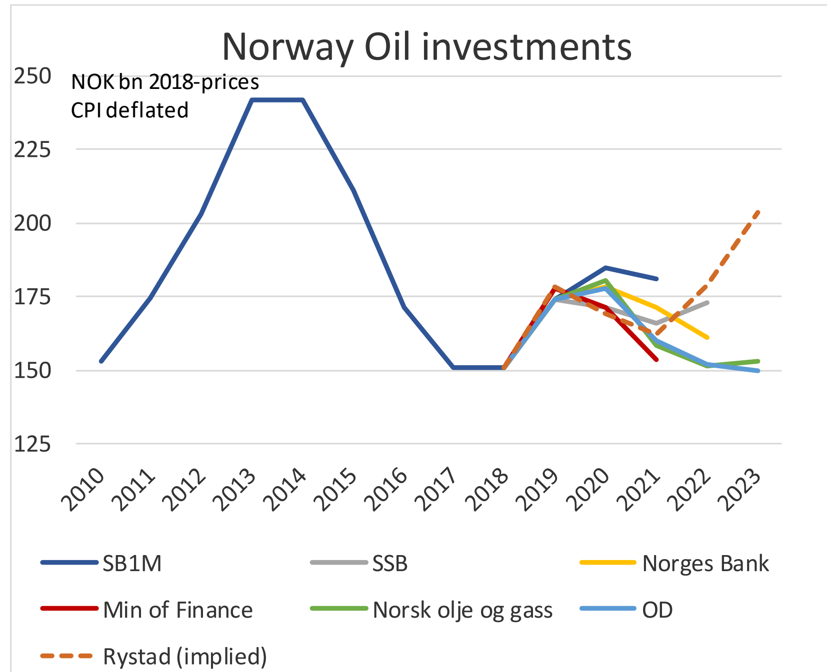


- Mainland business investments are growing strongly, up 5% y/y smoothed. However, growth is slowing and we expect a further slowdown the coming quarters, probably into negative territory
- Oil investments have been soaring but are probably peaking now. Annual growth at 14% y/y. More on the outlook here
- Housing investments have stabilized after the 2017/2018 setback. However, any positive growth contribution the coming quarters is unlikely, as housing starts are slowing. In Norges Bank's Q4 Regional Network, businesses reported a pronounced slowdown in construction activity
- Government demand is slowly accelerating, limited upside

Oil investments: Zero growth in 2020 vs the Q4 level?

Unless oil companies' lift their 2020 f'casts substantially, no growth in investments from here

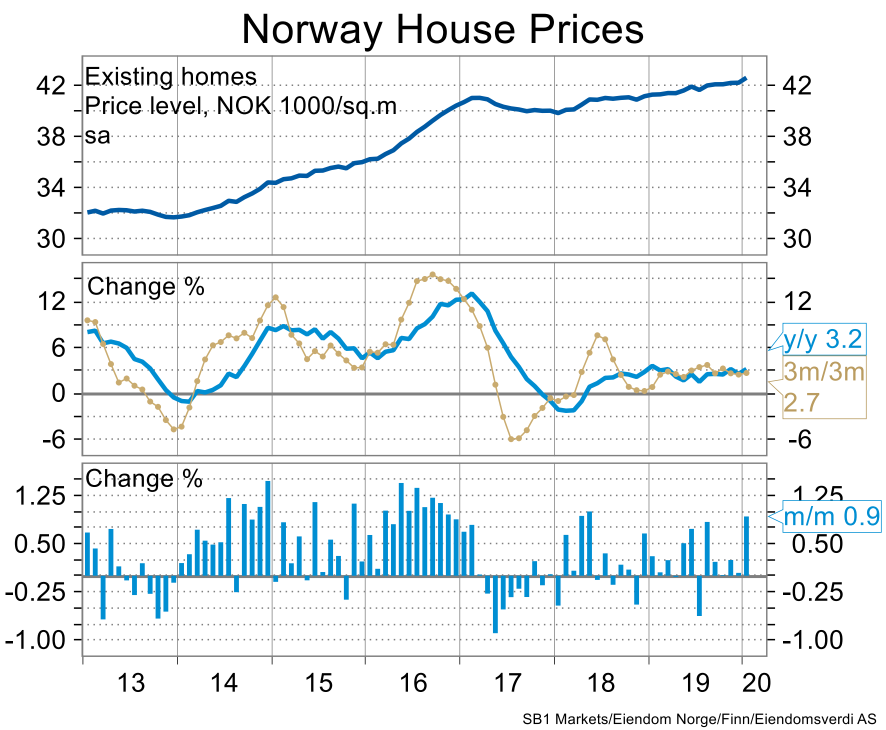


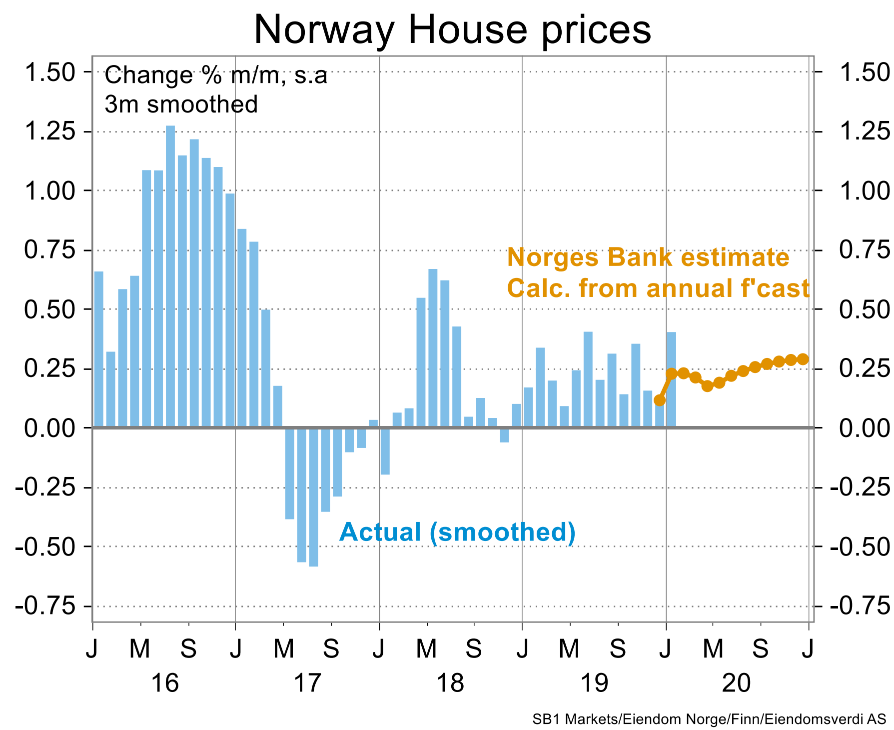


- Oil investments increased by 5.5% q/q in Q4, to NOK 184 bn (measured in constant prices), slightly lower than we expected. Even so, the Q4 investment level is equal to our estimate on the 2020 level, even if our f'cast is higher than most others' estimates. (2020 investments are of course higher than the average in 2019 but the lift happened through last year)
- **The growth boost from oil investments is behind us, even if average investments in 2020 are higher than the 2019 average**
  - » No doubt, the oil price will influence the investment level from 2021 onwards, as more (or less) projects may be added

House prices soared 0.9% in January, well above any forecasts

Prices up 3.2% y/y. All cities/regions contributed to the lift in January





- **House prices** jumped 0.9% m/m (seas. adj), the highest m/m rate since mid-2018. We expected 0.3%. Prices rose 3.3% not s.a. Underlying growth is still moderate at 2.7%, annual rate at 3.2%. Prices are growing faster than Norges Bank assumed in Dec
  - » Prices increased in all cities in January, the major surprise was probably Stavanger, in which prices recovered by 2.9% m/m s.a, after dropping the prior months. Oslo price inflation still in the lead, up 5% 3m/3m, slowing marginally.
- **The number of unsold homes** increased in January and the level is very high. However, the inventory has probably peaked, along with a downturn in the number of new listings, from a very high level, although it increased this month. The number of transactions has flattened at a high level
- **Short term dynamics signal moderate growth the coming months, in Norway total. The coming months/quarters, risks are tilted to the downside, as rates are hiked, and credit growth is now ebbing. And we may not have seen the full impacts of the rate hikes and debt registry**

The Calendar

In focus: China credit, US inflation, retail sales, manufacturing output, Norwegian CPI inflation

Time	Country	Indicator	Period	Forecast	Prior
	CH	Credit Growth CNY	Jan	4250.0b	2100.0b
Monday Feb 10					
08:00	NO	CPI YoY	Jan	1.2% (1.2)	1.4%
08:00	NO	CPI Underlying YoY	Jan	2.0% (1.9)	1.8%
Tuesday Feb 11					
06:00	SW	Unemployment Rate, Registered	Jan	--	4.0%
06:30	NO	Consumer Confidence, Finance Norway	Q1		13.4
10:30	UK	GDP QoQ	4Q P	0.0%	0.4%
10:30	UK	Manufacturing Production MoM	Dec	0.8%	-1.7%
12:00	US	NFIB Small Business Optimism	Jan	103.5	102.7
16:00	US	JOLTS Job Openings	Dec	6925	6800
Wednesday Feb 12					
08:00	NO	Employment, Register data	4Q	--	0.9%
09:30	SW	Riksbank Interest Rate	Feb-12	0.0%	0.0%
11:00	EC	Industrial Production MoM	Dec	-1.7% (-2.0)	0.2%
20:00	US	Monthly Budget Statement	Jan	$11.5b	-$13.3b
Thursday Feb 13					
14:30	US	CPI Ex Food and Energy MoM	Jan	0.2%	0.1%
14:30	US	CPI Ex Food and Energy YoY	Jan	2.2%	2.3%
14:30	US	Initial Jobless Claims	Feb-08	210k	202k
18:00	NO	Norges Bank Olsen Annual Address			
Friday Feb 14					
08:00	GE	GDP QoQ	4Q P	0.1%	0.1%
11:00	EC	Employment QoQ	4Q P	--	0.1%
11:00	EC	GDP QoQ, Revision	4Q P	0.1%	0.1%
14:30	US	Retail Sales Advance MoM	Jan	0.3%	0.3%
14:30	US	Retail Sales Core (Control Group)	Jan	0.3%	0.5%
15:15	US	Manufacturing Production	Jan	-0.1%	0.2%
16:00	US	Business Inventories	Dec	0.1%	-0.2%
16:00	US	UoM Consumer Sentiment	Feb P	99	99.8
Monday Feb 17					
00:50	JN	GDP QoQ Annualized	4Q P	-3.8%	1.8%
02:30	CH	New Home Prices MoM	Jan	--	0.4%

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

- **China**
  - **Credit growth** is slowly increasing as bank lending picks up and the credit impulse is turned marginally positive
- **US**
  - **Powell goes to Congress** and will both signal confidence in the US economy and Fed's monetary stance, and at the same time signal that Fed is prepared to act should the Chinese coronavirus create problems for the US economy
  - **Core CPI inflation** has eased marginally to 2.3% and decelerating producer prices suggest that the inflation peak is now behind us
  - **Manufacturing production** has stabilized the past few months. PMI/ISM and other surveys are improving yet do not signal growth in production
  - **Retail sales growth** is slowly ebbing, after soaring in mid-2019. However, there are no indications of a setback, **consumer sentiment** is very strong and employment and wages are growing moderately
- **EMU**
  - **The Q4 GDP** demand details are published this week. Consumption growth was probably slow, while business investments may have fallen
  - **German GDP** most likely stalled in Q4, the other country reports suggest a marginal 0.1% annualized growth (0.03% not ann.)
  - **Industrial production** plummeted in Dec, we expect a 2% decline
  - **Employment growth** is probably slowing along with GDP growth
- **UK**
  - **GDP** was probably close to flat in Q4, Brexit uncertainties took its toll on growth. Luckily, the Q1 outlook is better
- Norway
  - We expect **core CPI inflation** to tick up to 1.9% in January, from 1.8%
  - **Consumer confidence** is softening but just slowly. Finance Norway's Q1 survey is released this week

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 in 2020, corona will probably bring Q1 down**	Global composite PMI climbs further, to 52.2 in January, adding to signs of a modest growth revival into 2020 (well, before Corona, which no doubt will dampen Q1 growth). Manufacturing is slowly improving and services are growing moderately. PMI points to 3 ¼ to 3 ½ growth
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 composite PMIs edged down in January. Markit's PMI came down 0.7 p, to 52.4. The level do not signal any growth slowdown, and the manufacturing PMIs still suggest higher growth. Total CPI inflation soared to 5.4% in January
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**	Employment growth is accelerating, unemployment low, but wage growth easing. Manufacturing ISM finally recovered. Avg of composite ISM/PMI indicate steady GDP growth. The trade deficit is trending in, on waning imports. Productivity rose 1.4% as expected in Q4, trending slowly up. Cost pressure is rising
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**	Composite PMI climbed to 51.3, as services gain pace and manufacturing is declining at a slower pace. Retail sales slipped in Dec, a rebound is expected. Manufacturing production most likely fell steeply in December, broadly. Some holiday/calendar effects, or a complete 'collapse?
Norway	Growth has been above trend, will slow substantially in 2020 (and did so in Q4). Unempl. has flattened out. Wage inflation is above 3%. Oil investments have probably peaked. Mainland business inv. are not low, will slow substantially in '20. Housing starts are falling. Core inflation is still close to target. Growth in households' debt has slowed to close to income growth. **Risks: Debt, housing. A harsh global setback**	Mainland GDP growth was soft in Q4, up just 0.2% q/q, 0.1 pp below most f'casts. House prices soared 0.9% s.a in January and the increase was broad based. Manufacturing production slows

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

SpareBank 1 MARKETS

In this report

Global PMIs + Auto sales

- Global macro data are beating expectations, Norwegian has turned south
- Global industrial production probably further up in Dec, retail sales close to flat
- Corona is slowing down but still far from peak
- Global PMI up 0.6 p to 52.2 in January, best since March, signals higher growth
- US, EMU and Japan are edging up, China slowing (but still signals higher growth)
- China: Both composite PMIs down but just marginally, and level still 'high'
- US: Manufacturing ISM finally recovered in Jan
- EMU: Final January PMI better than first reported, up 0.4 p
- Norway: Manufacturing PMI 'finally' followed other Norwegian surveys down
- Global auto sales

China

- Total inflation up 0.9 pp to 5.4%, far above expectations

US

- Strong growth in employment growth in January, wage growth slowing
- Productivity growth returned in Q4, trending slowly up, and cost inflation faster
- Jobless claims dropped again, level is very low
- A wider trade deficit in December, trending in, due to waning imports
- Nowcasters are diverged on Q1 growth this far: 1.6% – 2.9%

EMU

- Retail sales slipped in Dec, due to a German dip, we expect a rebound
- Industrial production 'collapsed' in December
- German Manufacturing orders further down in Dec but still signal an easing contraction
- German Exports down in Nov & Dec but are still just flattish. Imports are trending up

Sweden

- Manufacturing production and orders down from peak but not dramatically

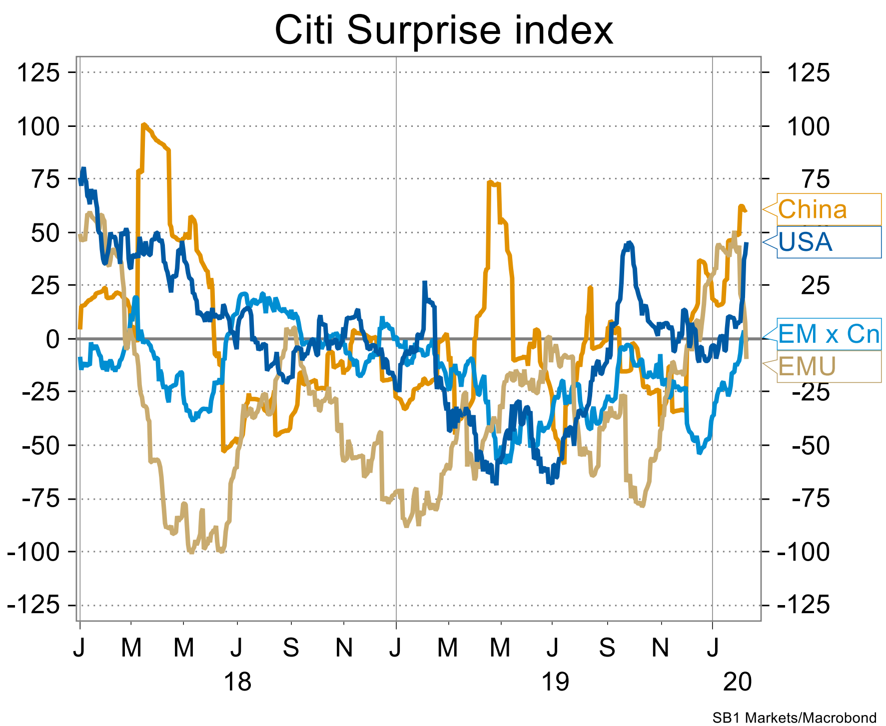
Norway

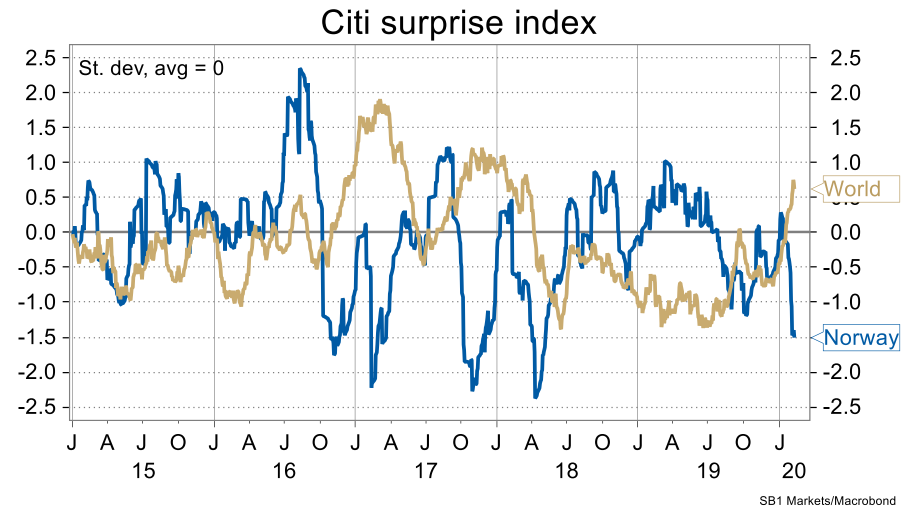
- Mainland GDP growth slowed more than expected in Q4
- A softer demand mix in Q4, just oil investments accelerated
- Manufacturing production flat in Dec, trend is flat, at best
- House prices soared 0.9% in January, well above any forecasts
- OBOS Oslo apartment prices jumped 6% s.a in January (following -3% in Dec)
- The Financial News Index climbed in January, trending down

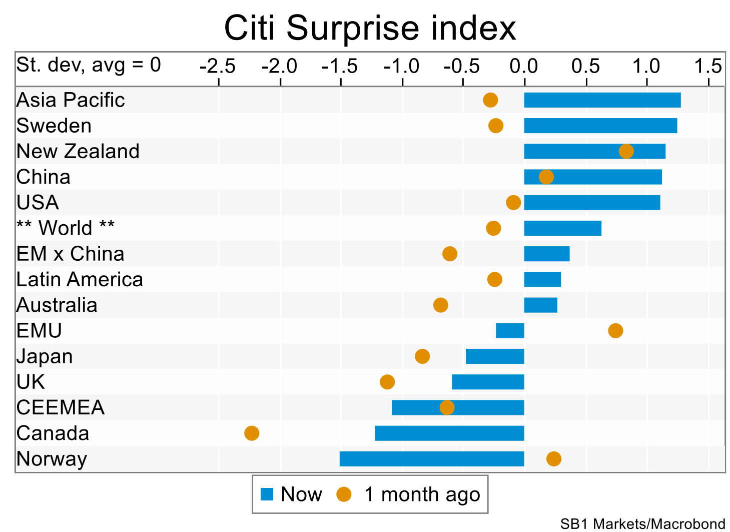
SpareBank 1 MARKETS

Global macro data are beating expectations, Norwegian has turned south

As has news from the EMU as well, following a better strike







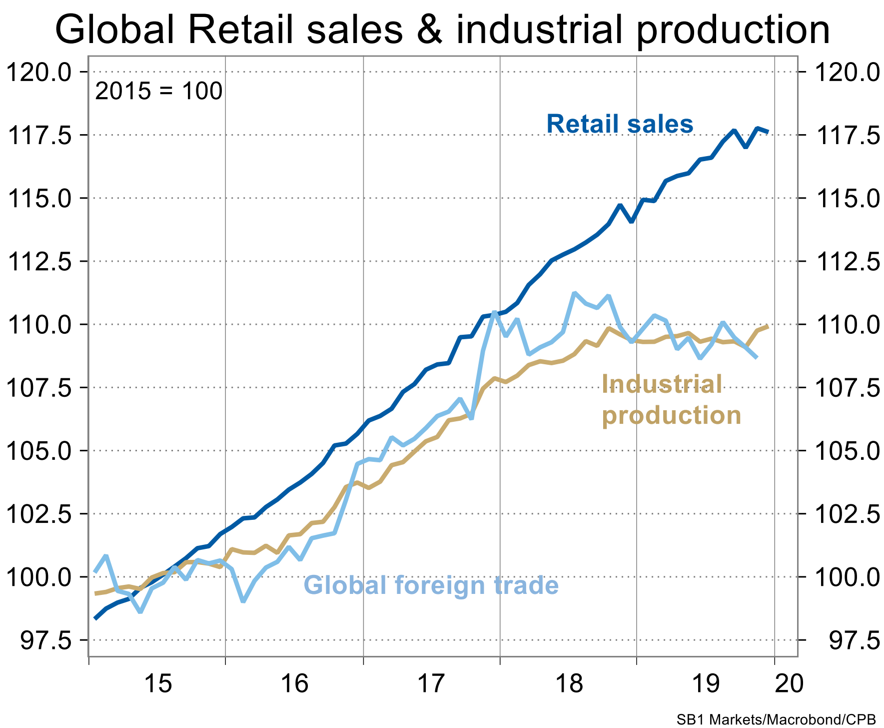
- Global macro data are in sum better than excepted and the global surprise index has climbed since mid-Dec. The current level is the highest since March 2018!
- Stronger than expected December/Q4 Chinese data have lifted the surprise index sharply. Other EM data are now marginally above neutral, for the first time in a year
- EMU has disappointed recently, like GDP, manufacturing & and retail sale data
- The US index spiked last week, with the manufacturing ISM and the labour market report as the major contributor, after hovering around a ‘neutral’ level since the autumn
- Norwegian data now the most disappointing vs f’casts; weak credit growth, retail sales and the PMI have pulled the index down most recently

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

SpareBank 1 MARKETS

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

Global trade has stabilized (at least until Nov), industrial production recovering, retail sales stalling

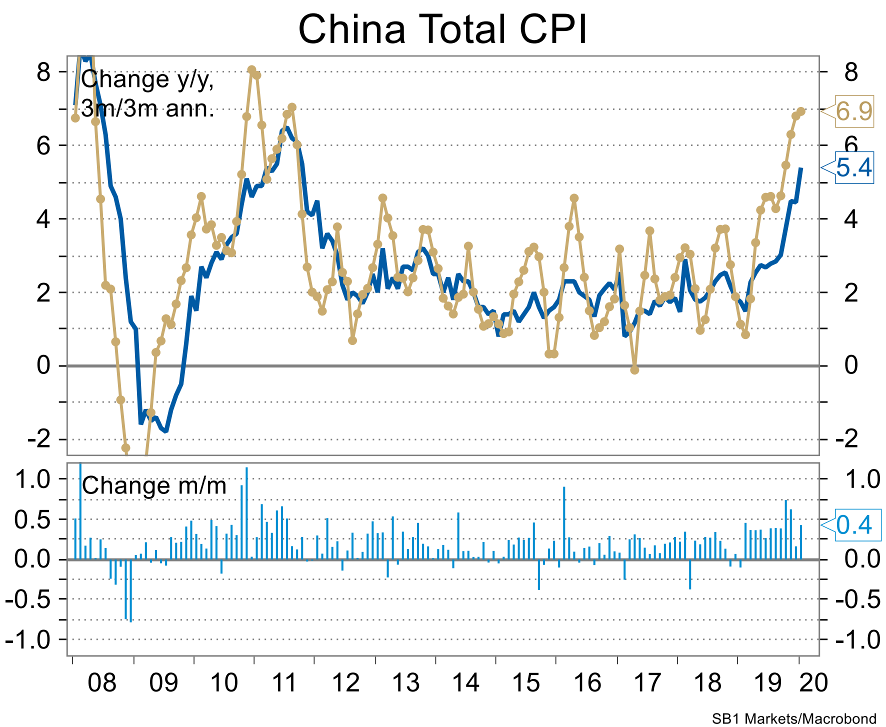


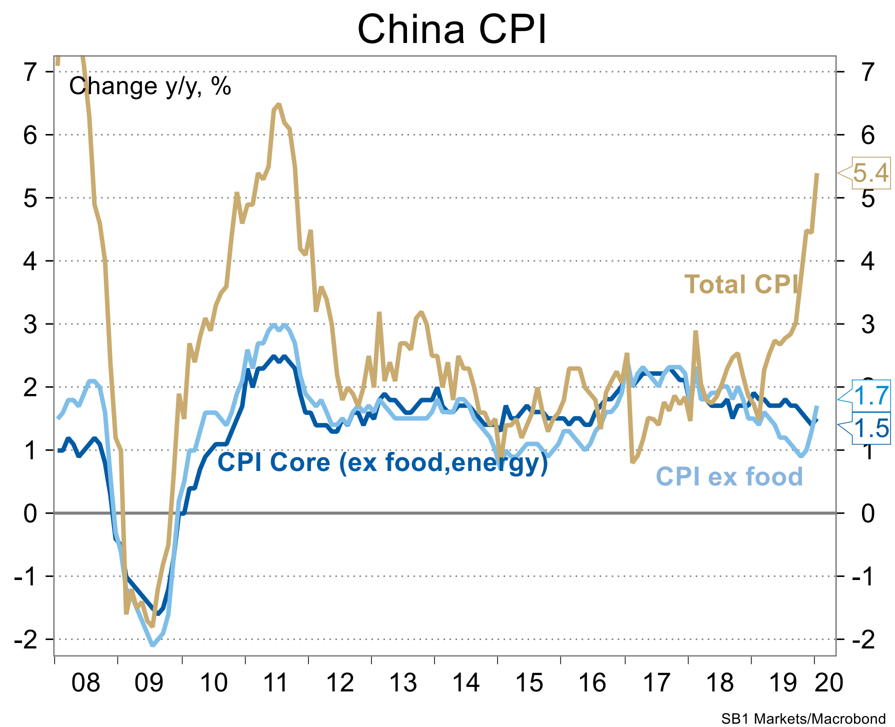
Memo: Keep in mind the different scales at the chart above

- **Global industrial production** rose by just 0.2% in December according to our prelim est (which was nudged down due to weak EMU data), possibly bringing production above the Nov-2018 peak level. Global PMI has recovered the past 6 months, now signalling a 1% growth pace, close to actual underlying growth in output
- **Retail sales** probably inched down 0.1% in Dec following the 0.7% increase in Nov. The recent volatility is mostly due to the VAT hike in Japan. EMU sales data were also on the weak side in Dec
- **Global foreign trade** fell another 0.4% m/m in November, with our seasonal adjustment (down 0.6% unadjusted). Trade flows have been sliding slowly down since Q3 2018 and the annual rate is down 1% y/y, as is the (volatile) 3m/3m underlying growth rate

Total inflation up 0.9 pp to 5.4%, far above expectations

Both energy and pork prices contributed while core inflation is stable at 1.5%





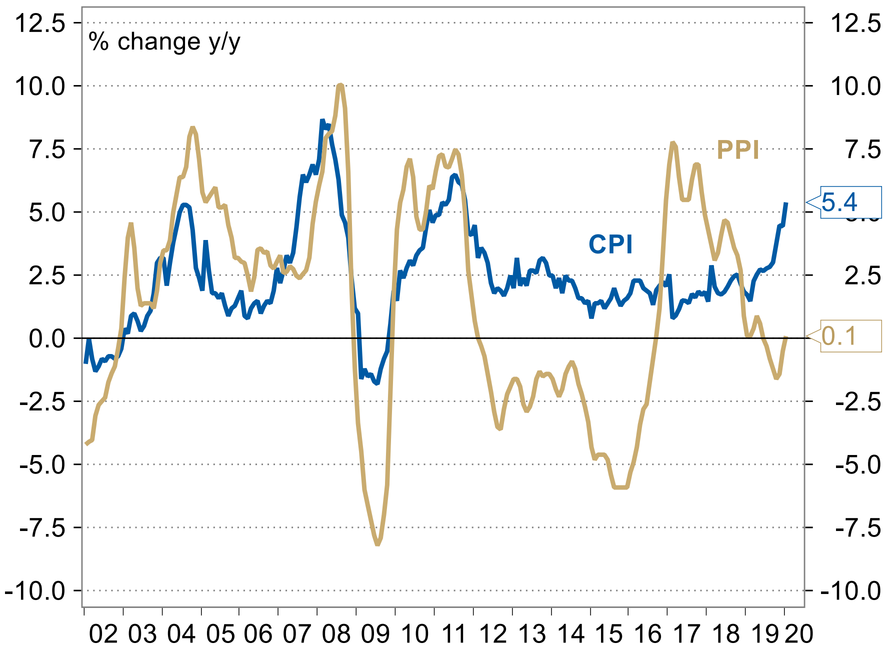
- Headline inflation accelerated 0.9 pp to 5.4% in Jan, expected up 0.4 pp to 4.9%. Total inflation is fuelled by accelerating food prices
  - » Food prices are up 20% y/y, due to the eased for the first time in a year in Dec, down 1.2% m/m and the annual rate ticked down to 17%. A steep increase in pork meat prices (up 97% y/y!) due to more than a doubling of pork prices following the swine fever.
- Core inflation (x food & energy) rose 0.1 pp to 1.5% but is trending slowly down. CPI ex food turned up in Dec, to 1.7% for 1.3%, as energy prices rose faster
- High CPI growth due to this supply shock is not any argument for a tighter monetary policy, rather the opposite. Higher total inflation is dampening real consumption growth

SpareBank 1 MARKETS

China producer prices are stabilising

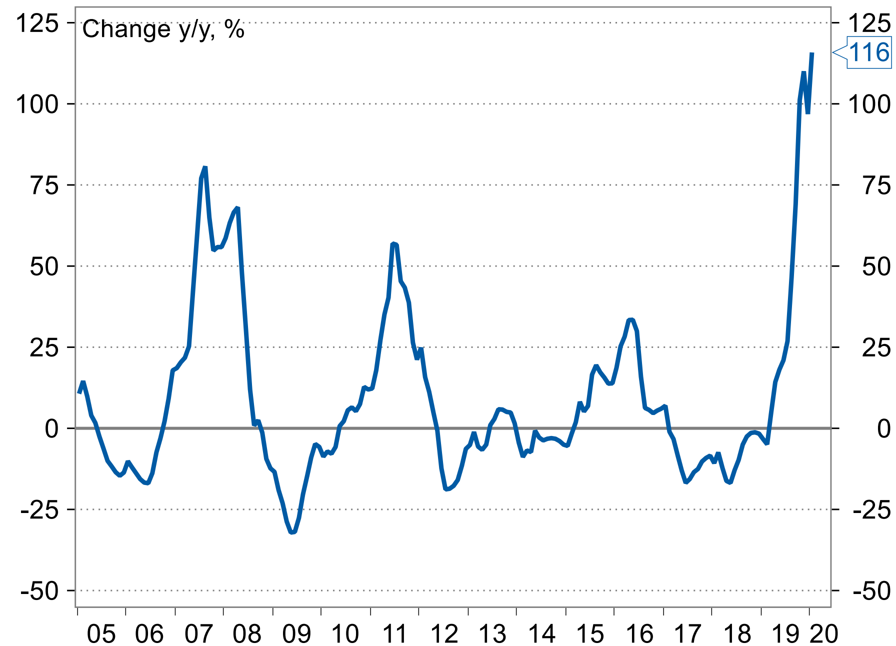
PPI up 0.1% y/y in January, supported by oil, raw materials

China CPI vs. PPI



SB1 Markets/Macrobond

China CPI Pork Prices

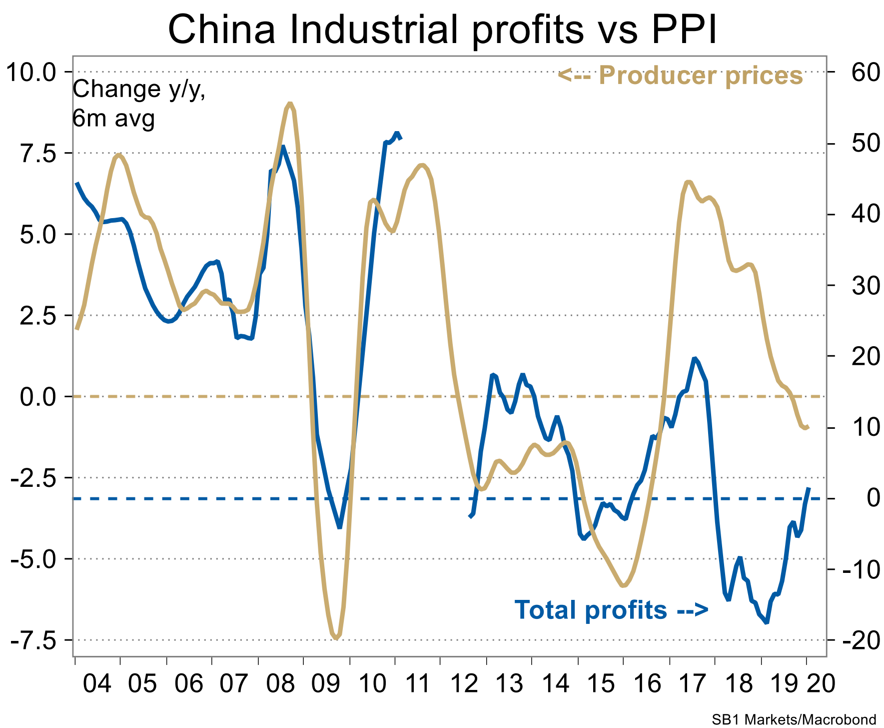


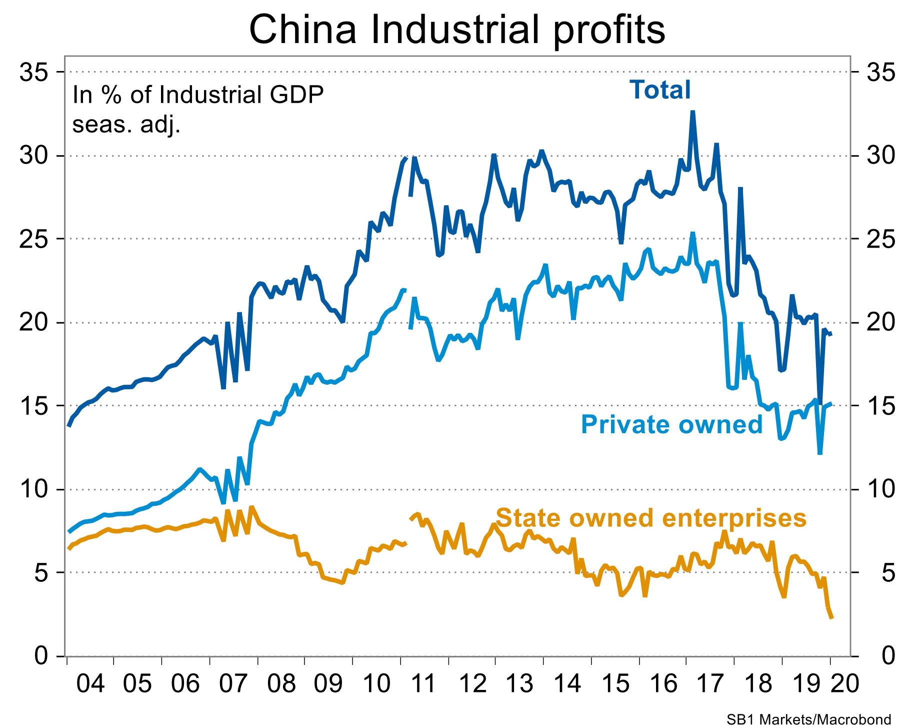
SB1 Markets/Macrobond

- The PPI has been under water the previous 6 months but the decline in prices have been moderate, in aggregate some 1%.
  - » From 2012 to 2016 prices fell by 3% per year in average, lowering the price level by more than 13%. Even that did not kill the Chinese economy. Now prices have fallen just around 1%!
- Pork meat prices are doubled due to the swine flue, driving total consumer price inflation up (meat constitute a very minor part of the PPI and does not influence PPI by much)

Industrial profits are stabilising, due to private sector companies

Profits have been weaker than what could be explained by PPI inflation – but have now stabilised



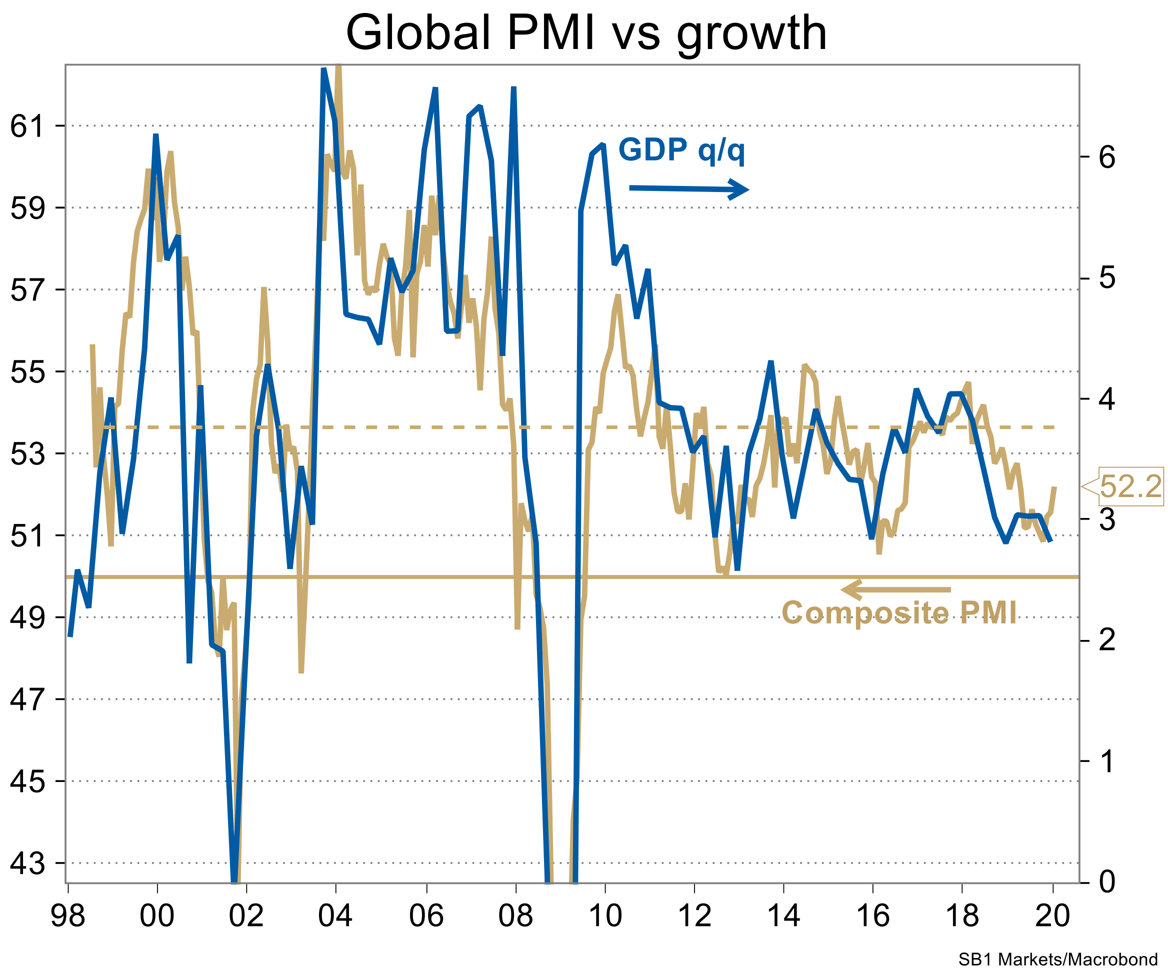


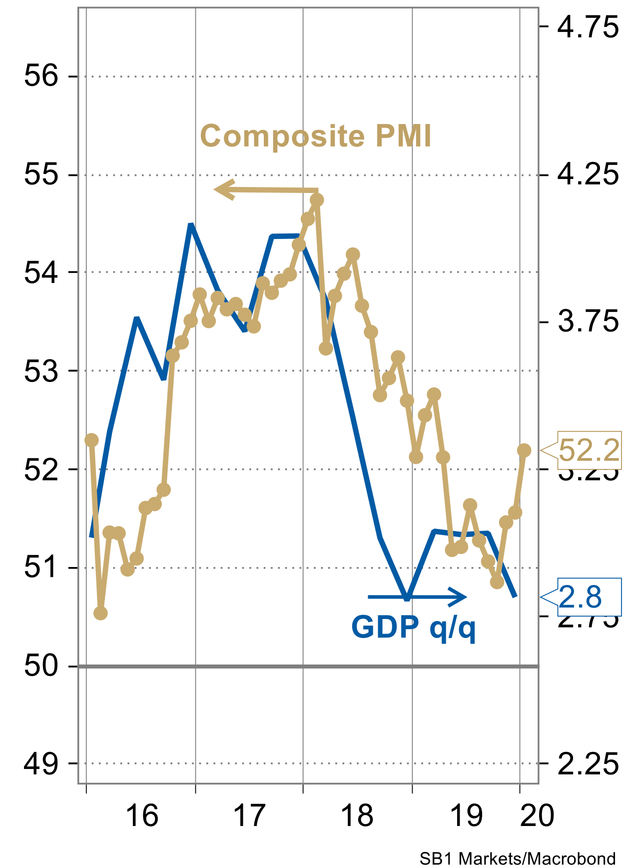
- Profits in state owned enterprises are falling sharply while profits in private sector companies have stabilised following a substantial decline (all measured in % of GDP)
- In total, no signs of any breakdown in the Chinese economy but the capacity to serve a high (and even higher) debt level is definitely not strengthened past few years

SpareBank 1 MARKETS

Global PMI up 0.6 p to 52.2 in January, best since March, signals higher growth

Actual growth fell to 2.8% in Q4, from 3.0% in Q3. The PMI indicates a 3¼ - 3½% growth pace

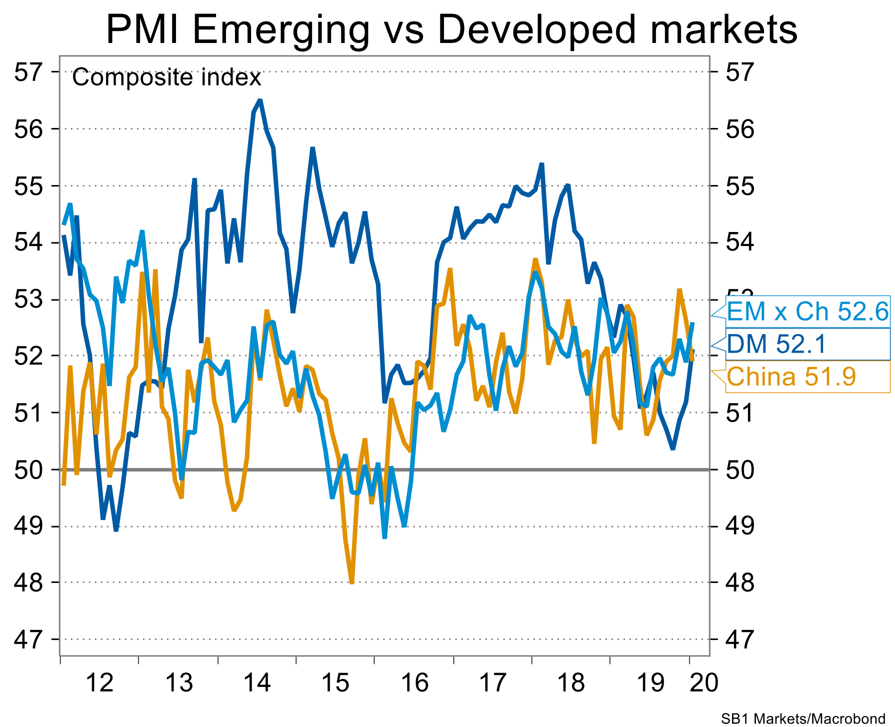


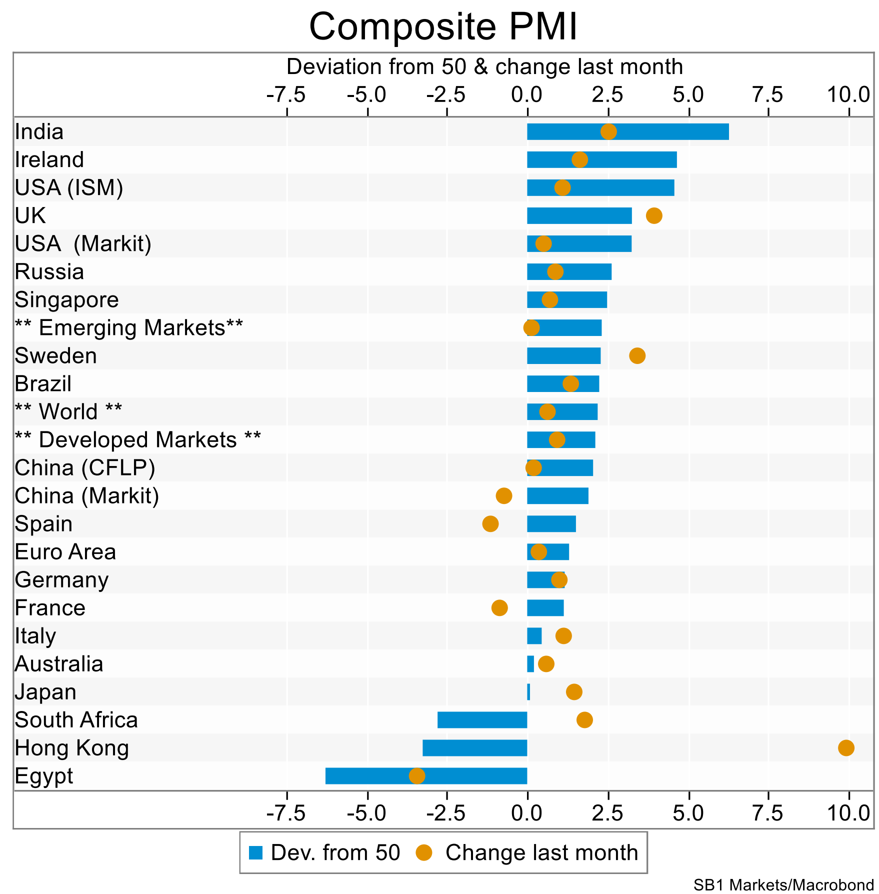


The Q4 GDP estimate is still preliminary

A broad uptick; 12 up, just 4 down. 3 below the 50 line. Better in both DM/EM

World, DM & EM averages clustered around 52

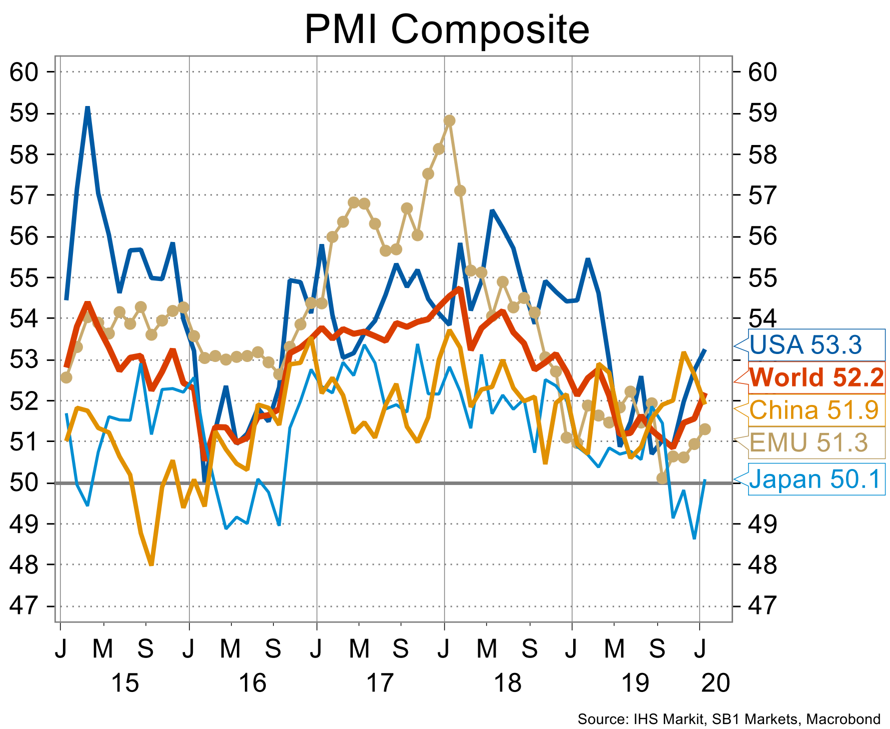


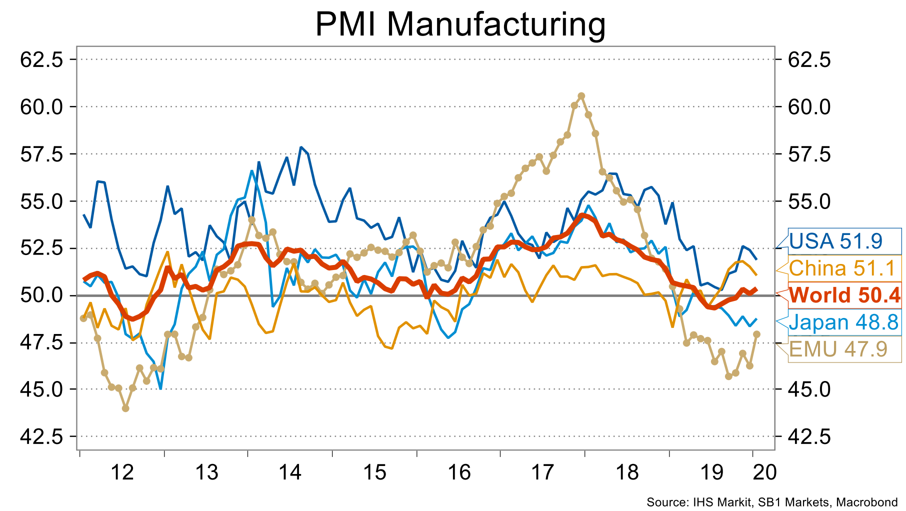


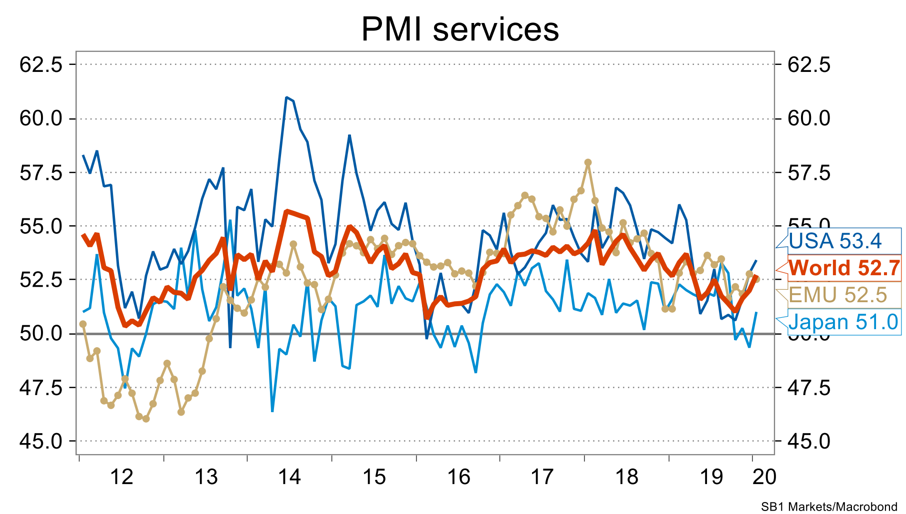
- 19 countries/regions reported an increase m/m (thus, activity accelerated or fell at a slower pace), up from 12 in Dec. Just 4 countries noted weaker activity (from 9)
- Most countries/regions are reporting growth; just 3 (from 8) countries below the 50-line, 22 above (from 16)
- DM average up 0.9 p in January, EM up just 0.1 p, as the Chinese composite PMI (Markit) declined by 0.7 p

US, EMU and Japan are edging up, China slowing (but still signals higher growth)

Manufacturing is in recovery mode in the US, China, EMU still weak. Services stabilized, or better



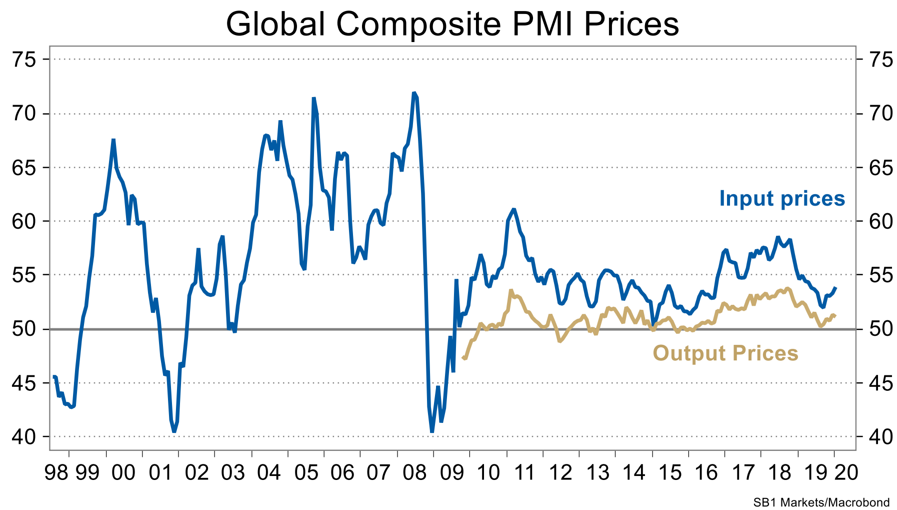


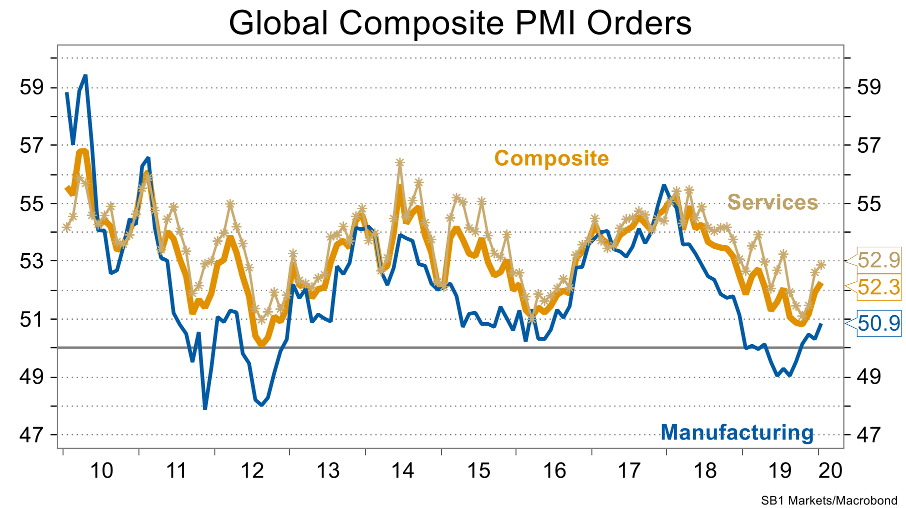


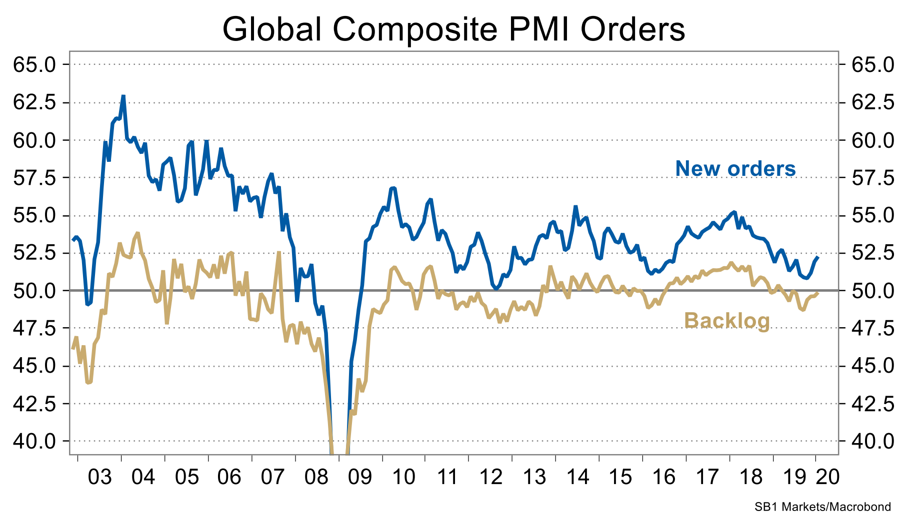
- The composite China PMI (from Markit) fell in both Dec and Jan but the level is decent following the previous 5 months recovery. Markit's PMI from the US rose further, and more than first reported. The EMU PMI climbs but remains at a low level (51.3)
- The service sector PMI rose further in Jan and the index has no doubt (at least) stabilized

Composite orders and prices have turned up, reflecting a soft demand rebound

Manufacturing orders are expanding and service orders strengthen



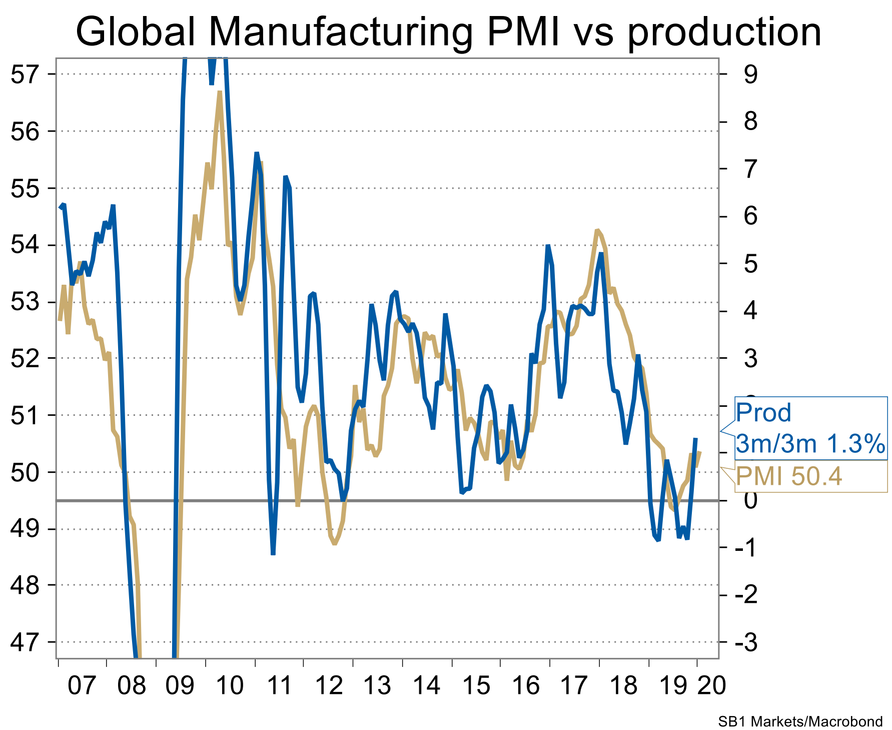


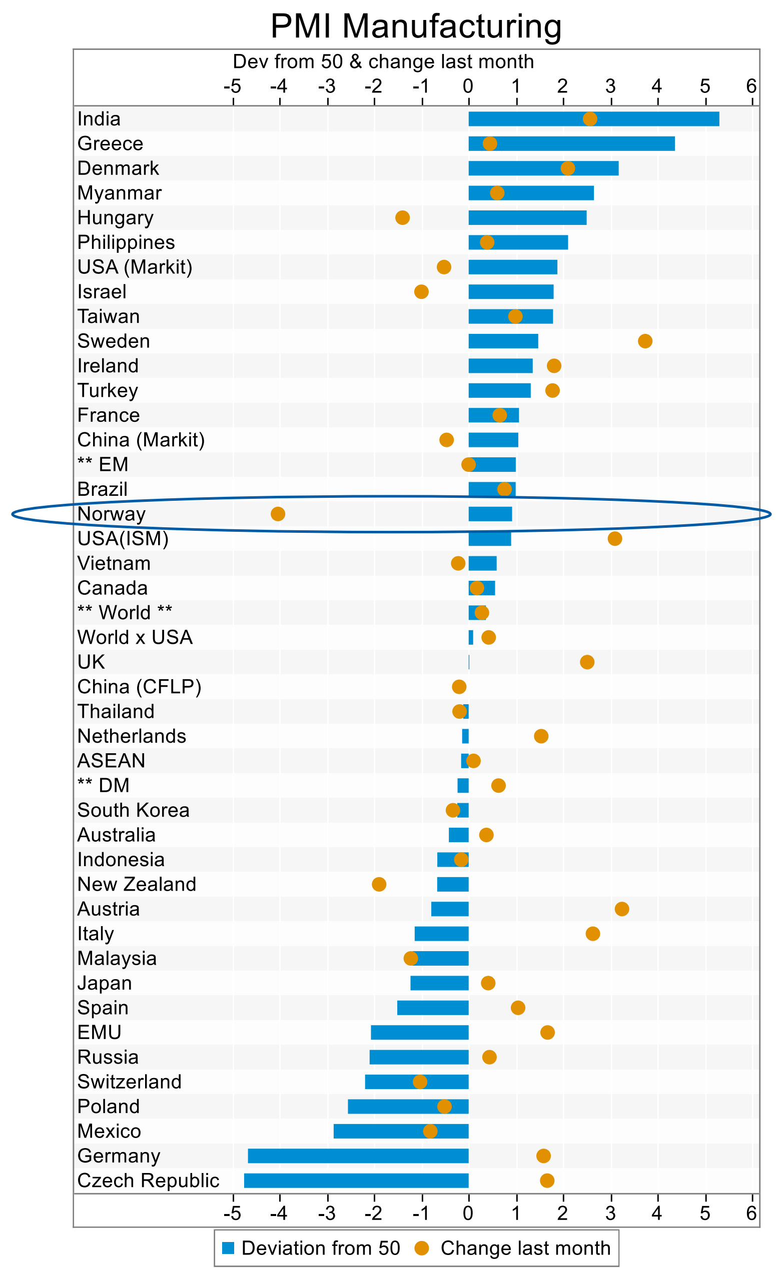


- The PMI manufacturing orders index rose to 50.9 in January, as businesses are reporting the fastest (but still modest) pace of growth since Dec 2018
- The volatile services orders PMI rose 0.1 p to 52.9, the 3rd month of increasing growth
- Both input and output price inflation have eased substantially but gained some speed the past 4 - 5 months

Manufacturing PMI signals 1% growth

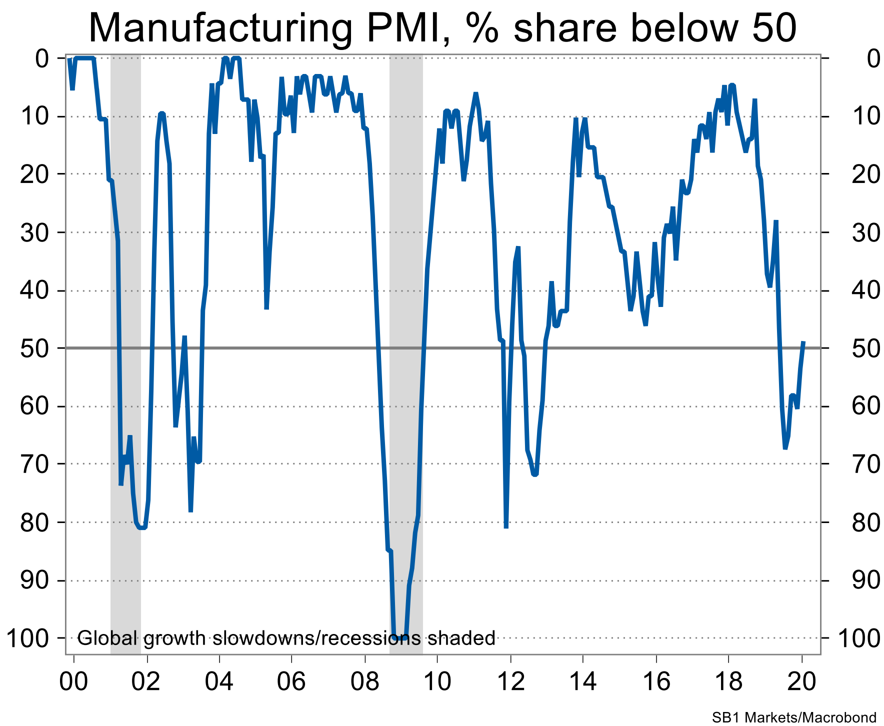
PMI up 0.3 p in Jan, a tad higher than in November, trend up

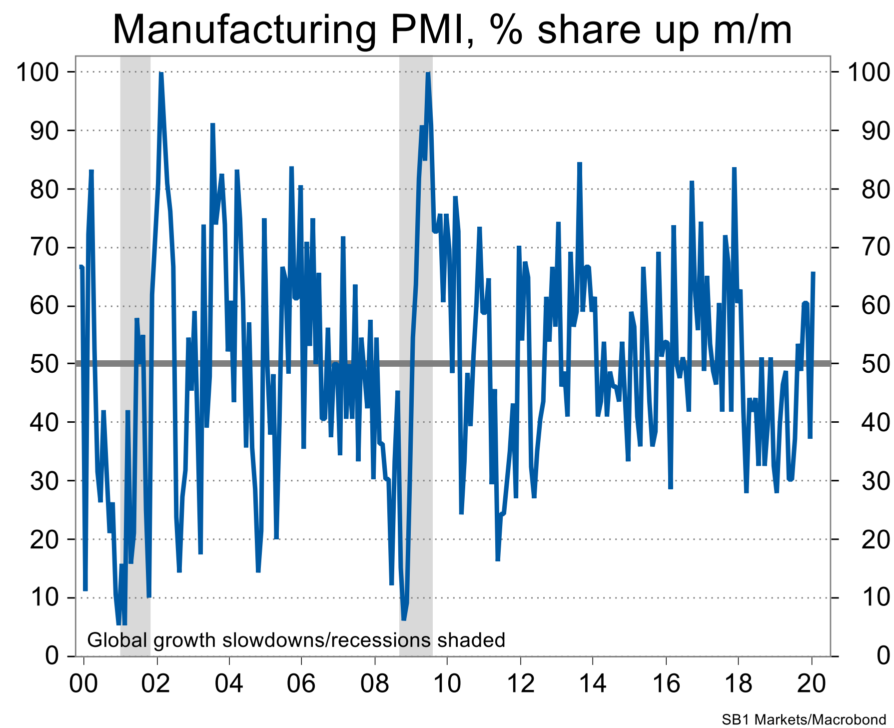




- PMI rose 0.3 pp to 50.4 in Jan, more than reversing the 0.2 p Dec decline. The PMI points to some 1% increase in global manufacturing production. Production has recovered in Nov and Dec, and rose 1.4% in Q4
  - 28 (from 16) countries/region PMIs rose in Jan, and 11 fell (from 23)
  - 20 (from 22) of 43 countries/regions are below the 50 line
  - Developed Markets edged up 0.6 p, while Emerging Markets was unch
  - The Norwegian PMI fell 4p to 50.9, more than any other country, and from the 1st to the 17th position. We expected a decline to 52 (consensus at 54.4)

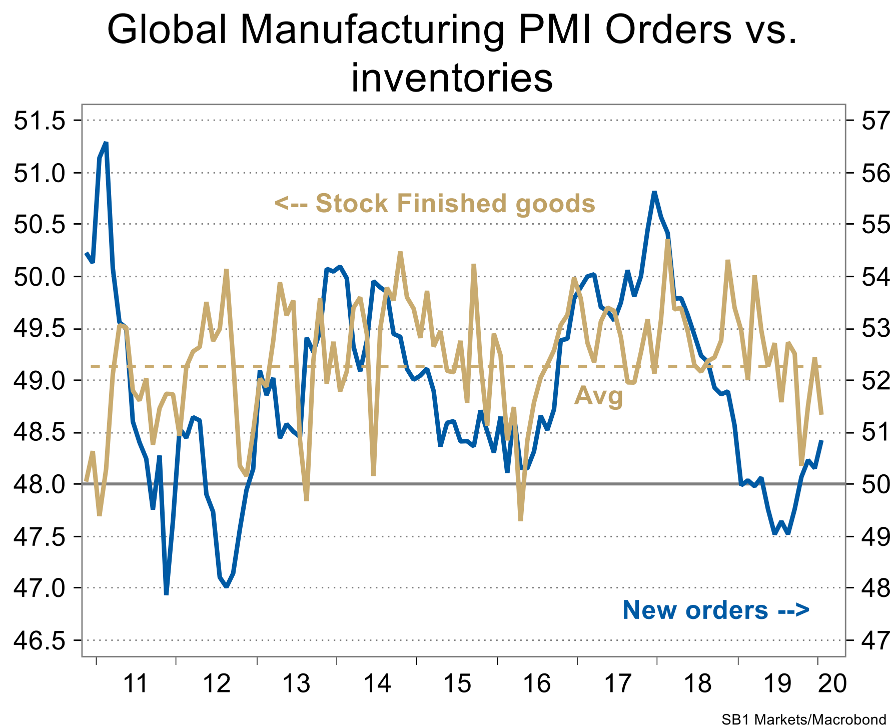
More countries above the 50 line than below, 65% up m/m in Jan





The global inventory/orders mix is promising

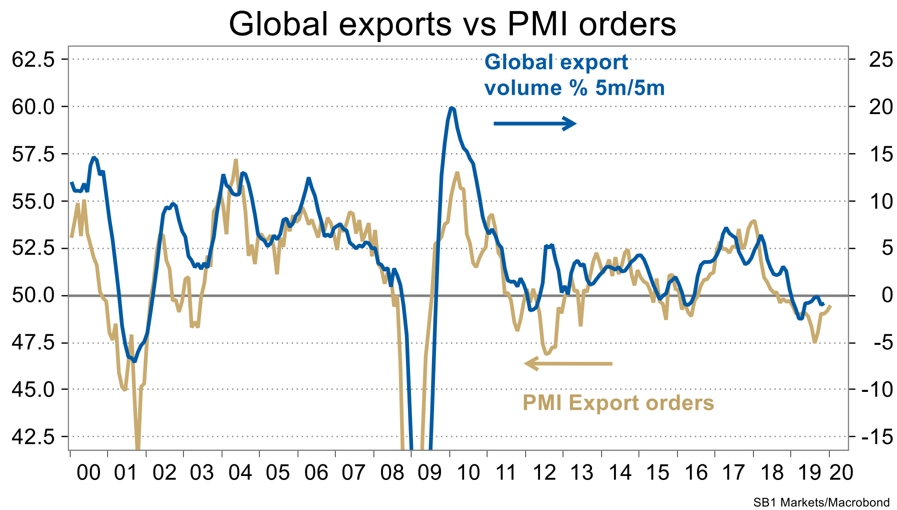
Inventory growth has been reduced and orders are increasing modestly

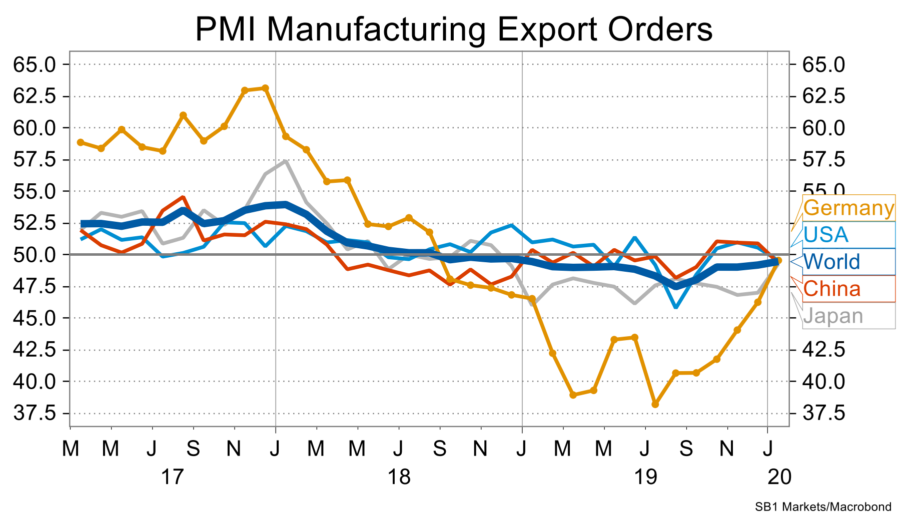


- Since the autumn, stocks have been built down and new orders are growing, after a contraction in the spring/summer. The inventory/order mix adds to signs of a manufacturing recovery

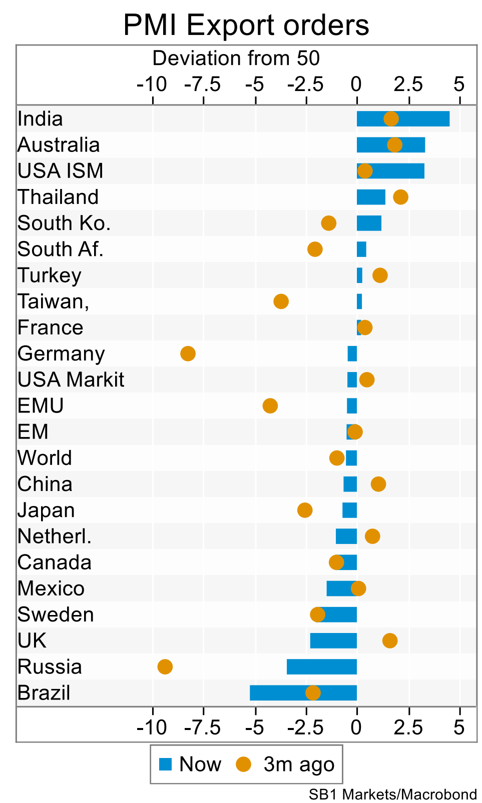
PMI export orders suggest a stabilization in global trade

Export orders PMI another tick up in January, to 49.5. US, China, Germany all close to stabilization



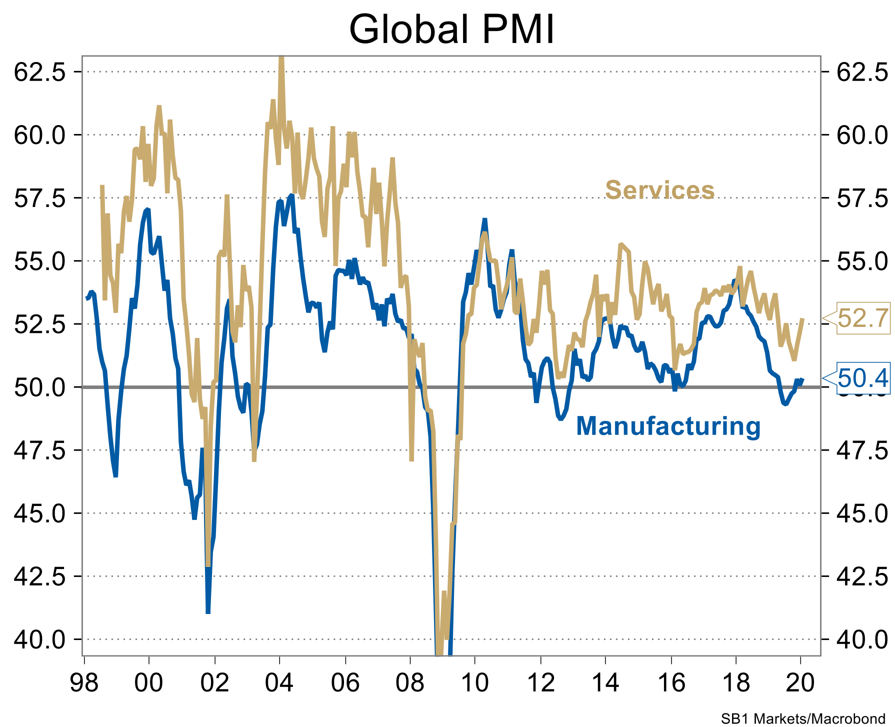


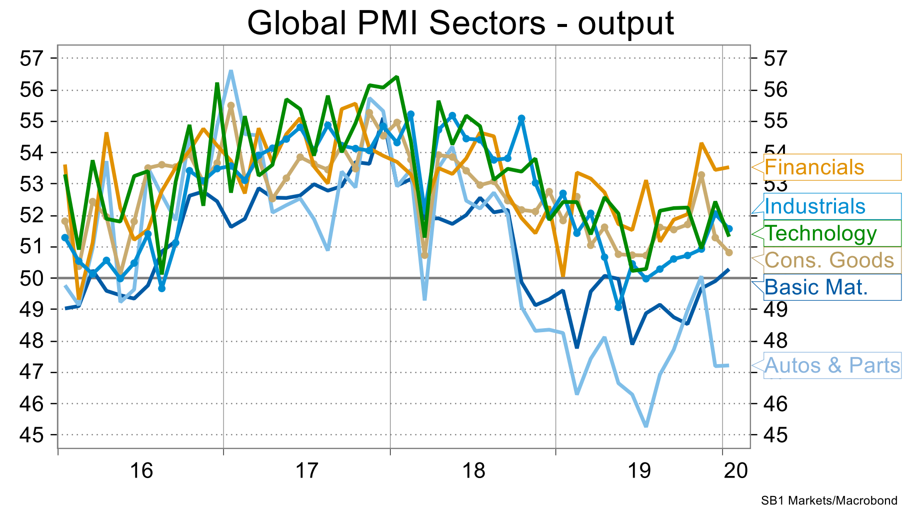
- Actual global export volumes have stabilized recent months, the 5m/5m rate is down just -0.8%, vs 3% in the spring. The PMIs confirms that the decline in orders have eased rapidly, to close to stabilization
- 11 of 23 countries are reporting a steeper rise or a milder decline in production vs 3 months ago, 8 a deterioration
- The German export order index has recovered to 49.5, from 38.1 in July!
- Chinese exporters are reporting a marginal decline in orders, the PMI (Markit) ticked down to 49.4
- US exports orders are declining marginally to, index at 49.5
- De-escalation of the US/China trade war and a soft Brexit have probably helped, and some recovery in the auto sector

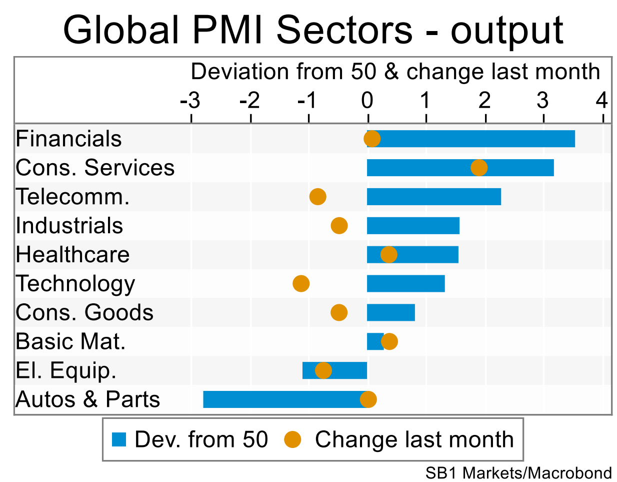


The manufacturing PMI stable since Nov, just above 50. Services up towards 53

The auto industry still reports a sharp decline in activity, but not faster than in December



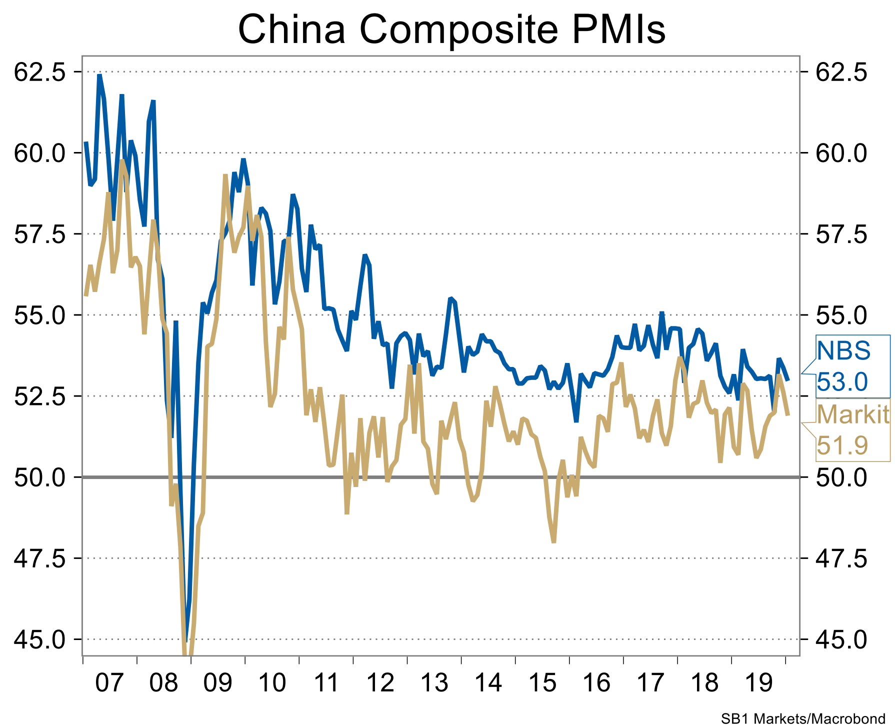


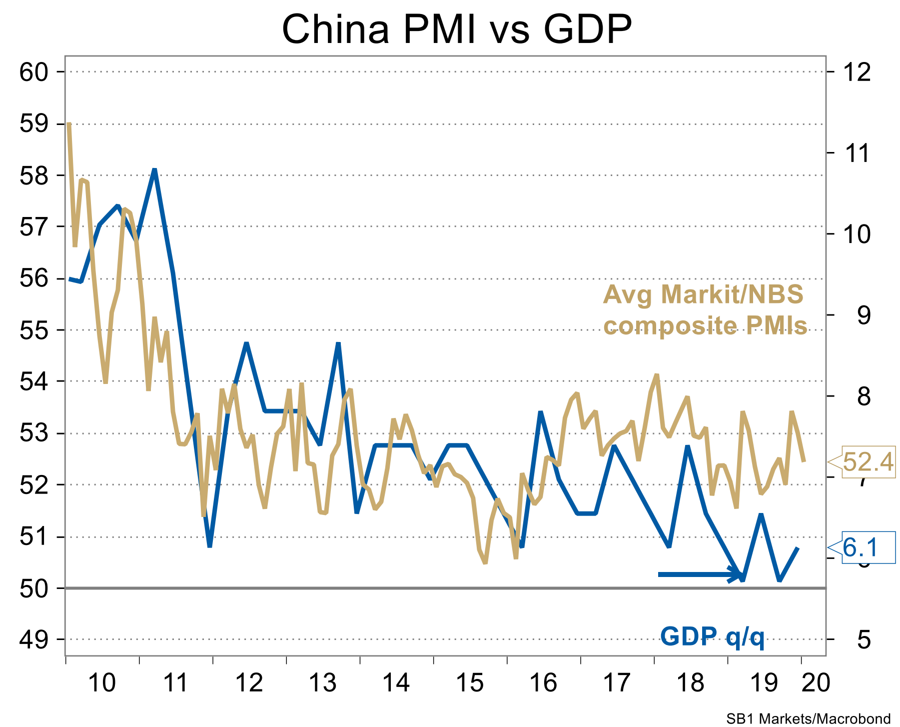


- The manuf. PMI bottomed out in July, recovering 1.1 p since
- Services have recovered past 3 months, the level is OK again
- Most sectors are reporting growth, barring electrical equipment and autos, the latter still deep in the red
- Consumer goods are slowing, not too promising, normally a leading index

Both composite PMIs down but just marginally, and level still ‘high’

The avg of PMI surveys signals <u>higher</u> GDP growth. Before corona took hold…





- NBS’ ‘official’ composite PMI (CFLP) fell 0.4 p to 53.0 in Jan, still reflecting higher growth than through most of 2019
- Markit’s composite PMI declined 0.7 p to 52.9 in Jan
- In avg, the two PMI data sets have recovered since the early summer, and signal higher, not lower growth

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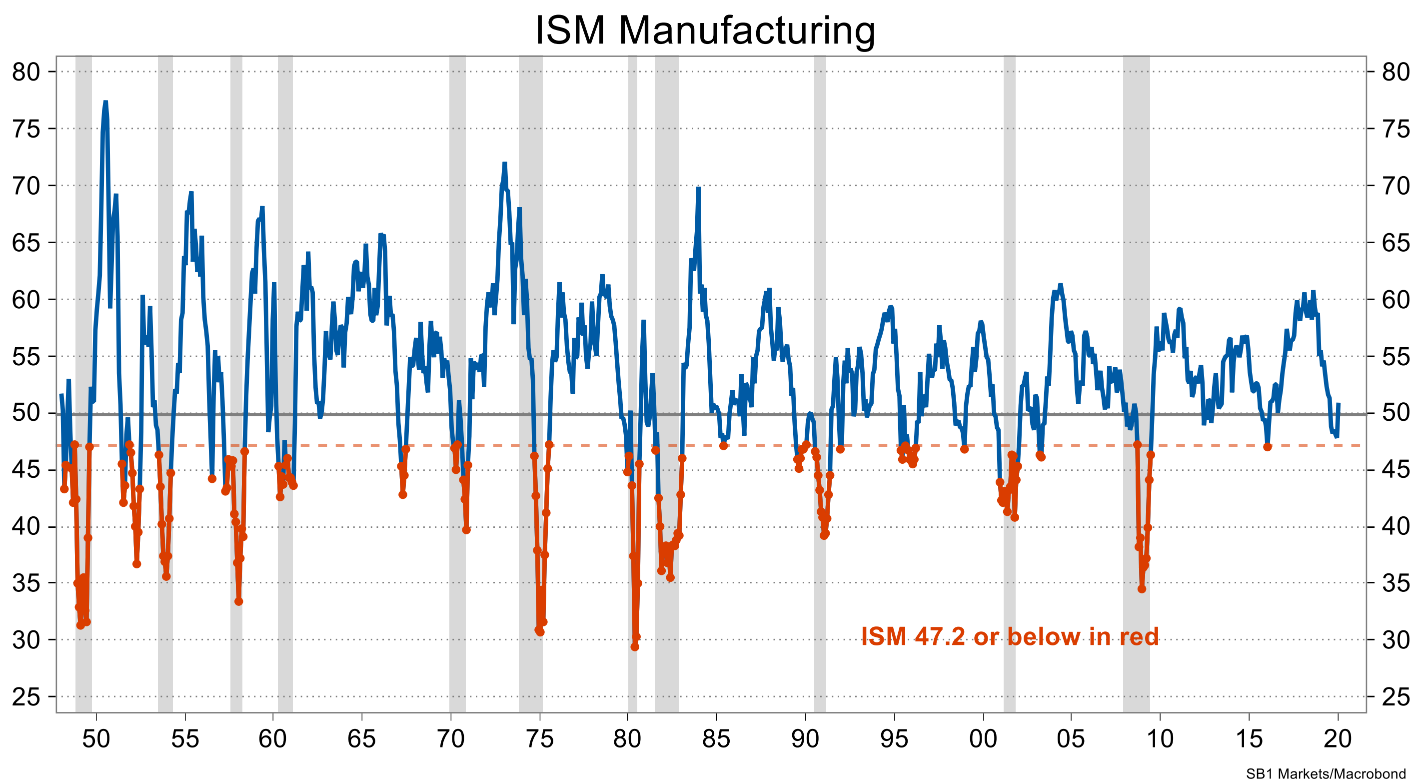
Manufacturing ISM finally recovered in January

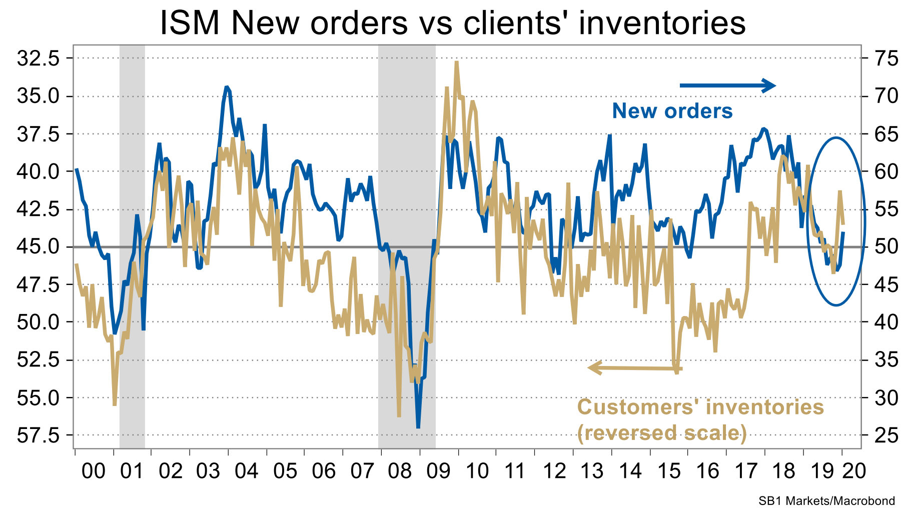
The ISM jumped 3.1 p to 50.9, the highest since July, but not an impressive level

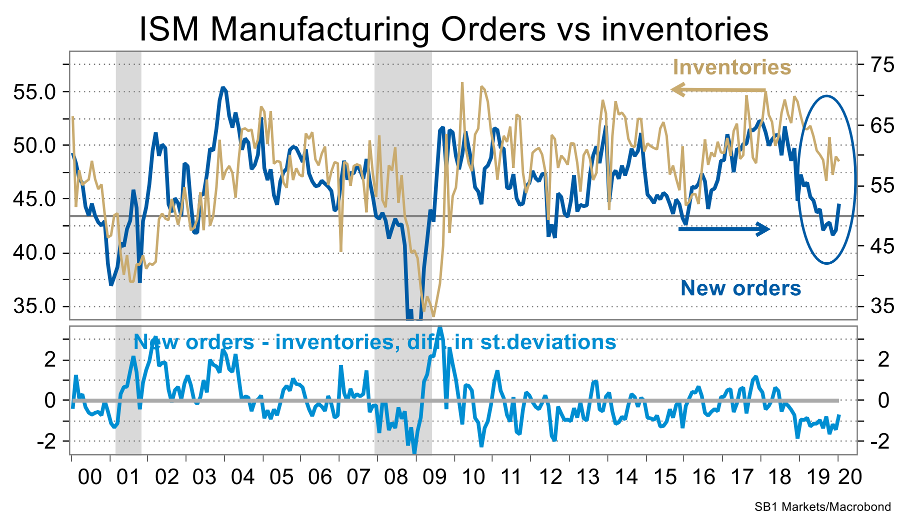


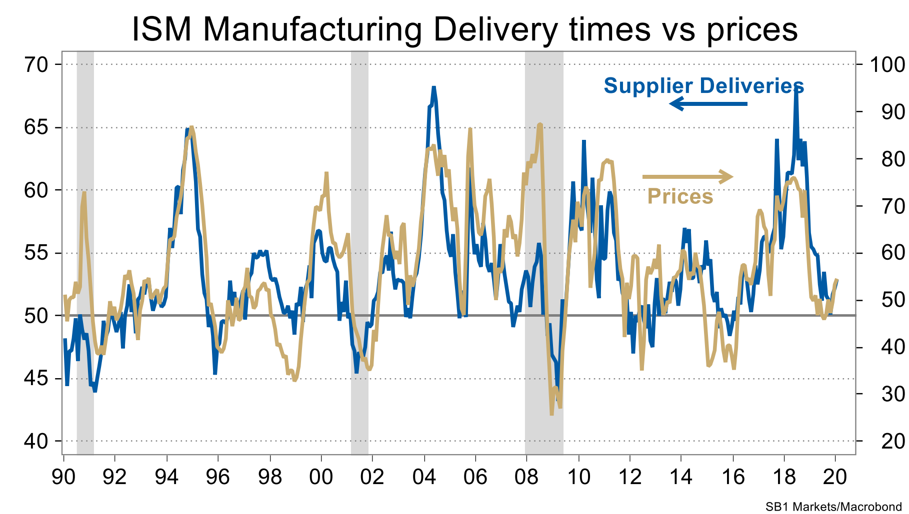
- Manuf. ISM soared to 50.9 in January, well above expectations of 48.4. The monthly rise in the index is the highest since 2013. The ISM is now more in line with other US surveys, adding to signs of a stabilization
  - » In the ISM survey, 8 out of 18 sectors reported growth (from 3 in Dec) and 8 (from 15) sectors reported a contraction, still a weak mix
  - » The recovery in global trade and the trade war de-escalation probably fuelled the upturn, the export order index recovered more than domestic orders. The ISM has been far weaker than other surveys the past months, perhaps because this survey is more tilted towards large, multinational companies
  - » The level the previous months have been marginally revised up in the annual recalculation of seasonal weights
- The manufacturing ISM was the only real recession signal last autumn. <u>Now, this signal has vanished</u>

Businesses report higher orders, reduced inventories among customers

Delivery times & prices turned up, confirming an uptick in demand







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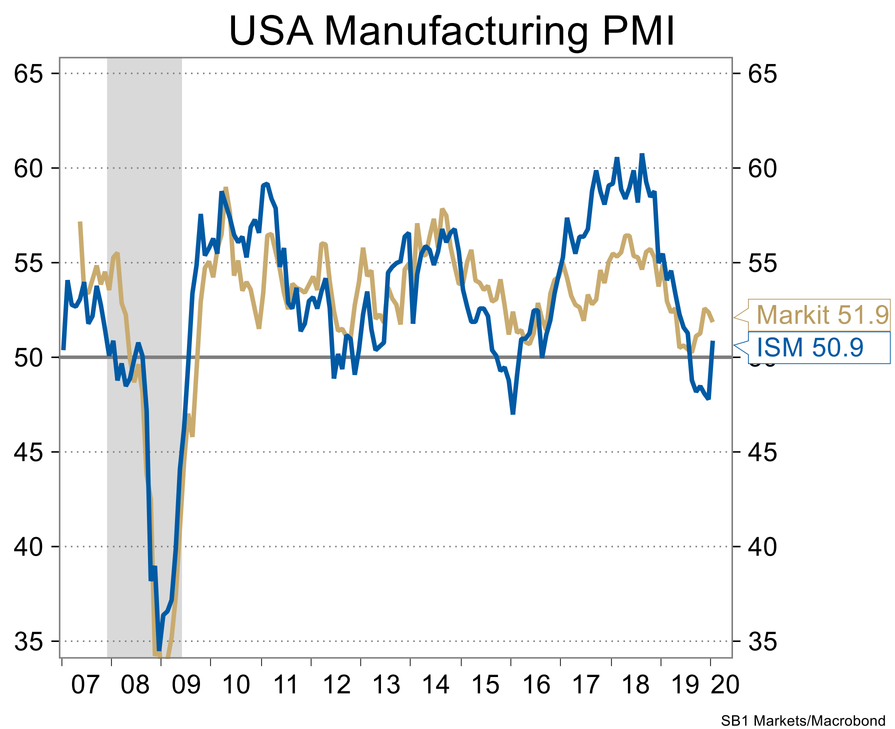
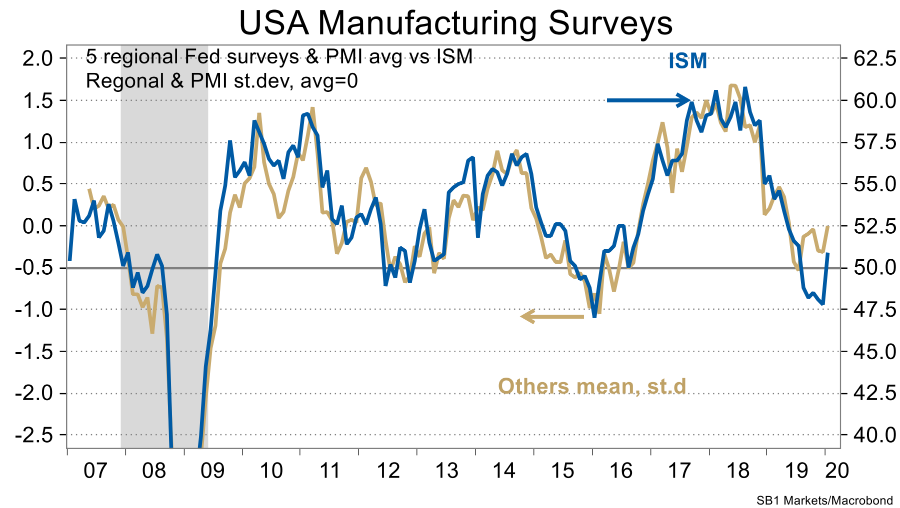
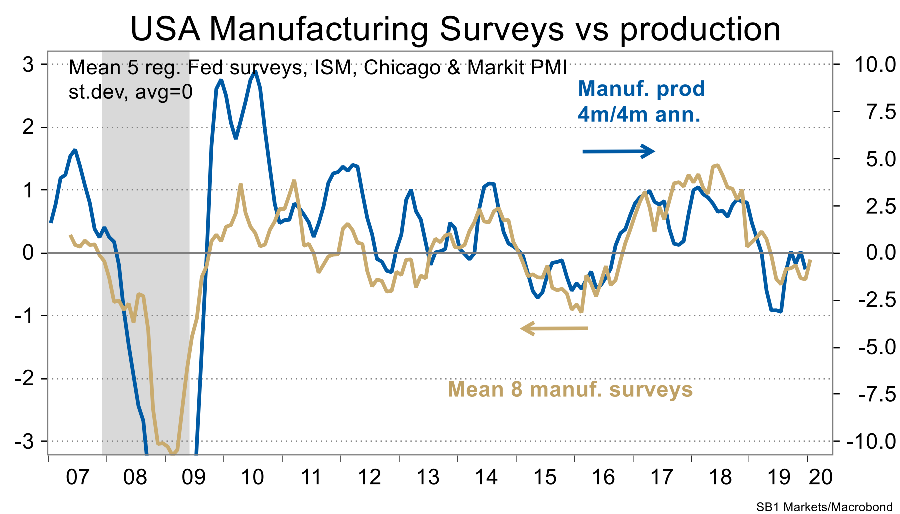
ISM still weaker than other surveys in average, but the gap is almost closed

The avg of surveys point to a stabilisation in the manufacturing sector







- Markit's manuf. PMI edged down 0.5 p in Jan, 0.2 pp less than first reported. 0.1 pp more than first reported. The level 51.9 signals marginally positive growth
- The regional Fed surveys were mostly more upbeat in January; 4 up (and 1 steeply), 2 down
- The past two years, the manufacturing ISM was much stronger than Markit's PMI. However, Markit has been closer to the ball vs actual production recent years

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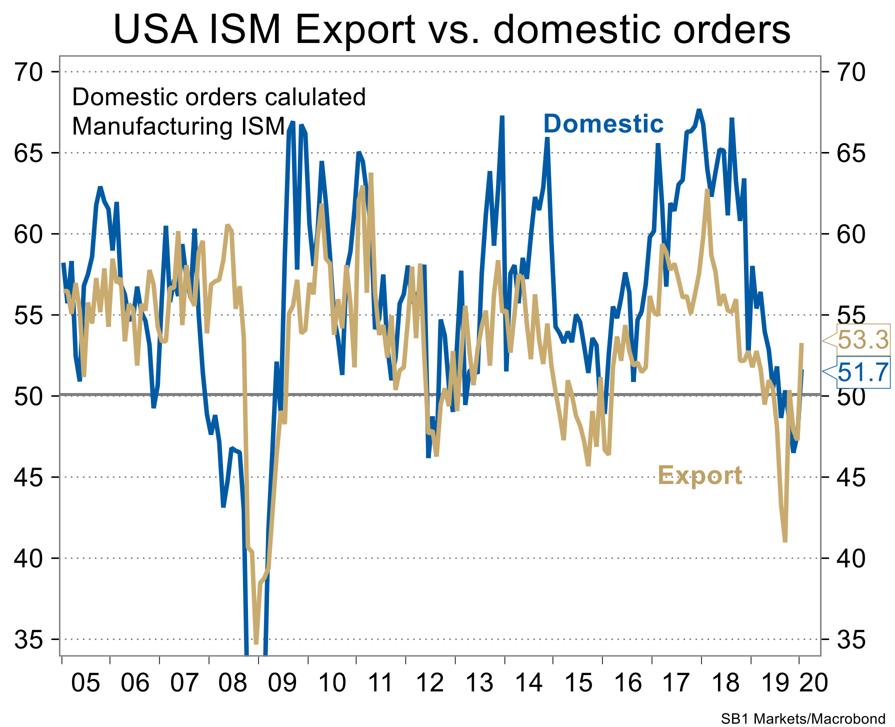
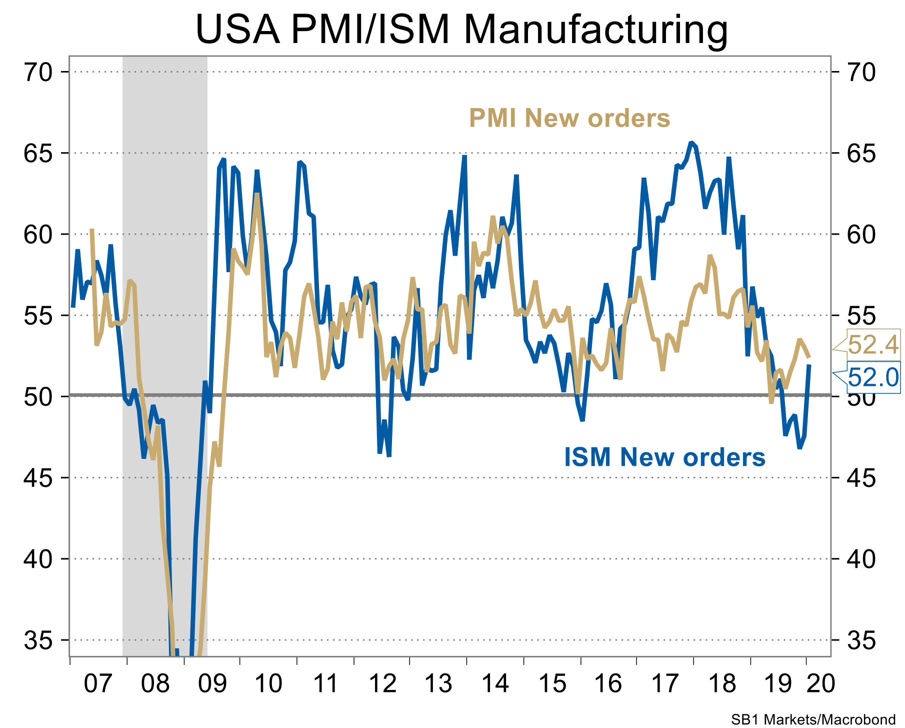
Manufacturing orders are recovering

Export orders are increasing faster than domestic, global demand must be improving

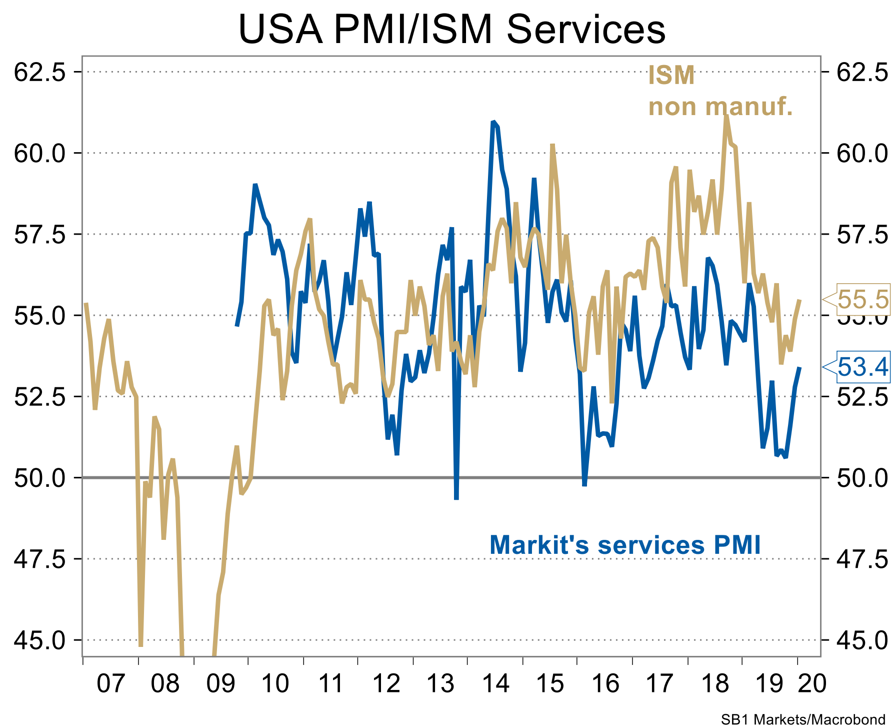


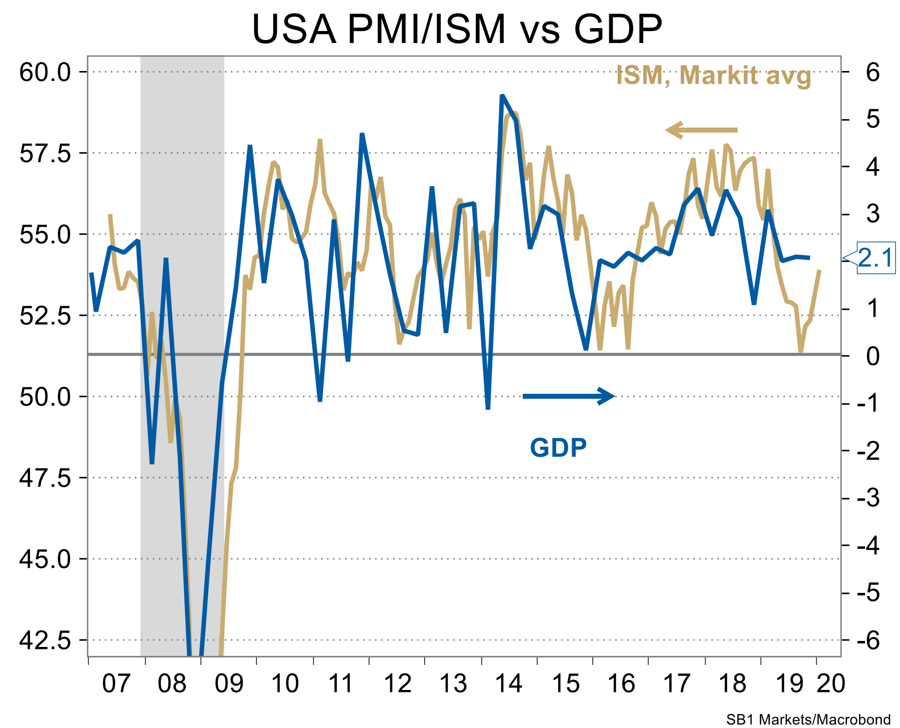


- In January, the PMI total order index edged down, after turning up the prior month. The level is decent, at 52.4, marginally below the average level
- The ISM total order index soared 4.4 p in January, to the highest level since May, still well below the long term average. Businesses reported a swift recovery in export orders, probably mirroring lower global uncertainties. Domestic orders (implicitly) are still much weaker than normal but less so in January

Non-manufacturing ISM further up in January, 'composite' ISM at 54.6

'Services' ISM rose 0.5 p in Jan. The avg of Markit's PMI/ISM signals steady growth, at approx. 2%

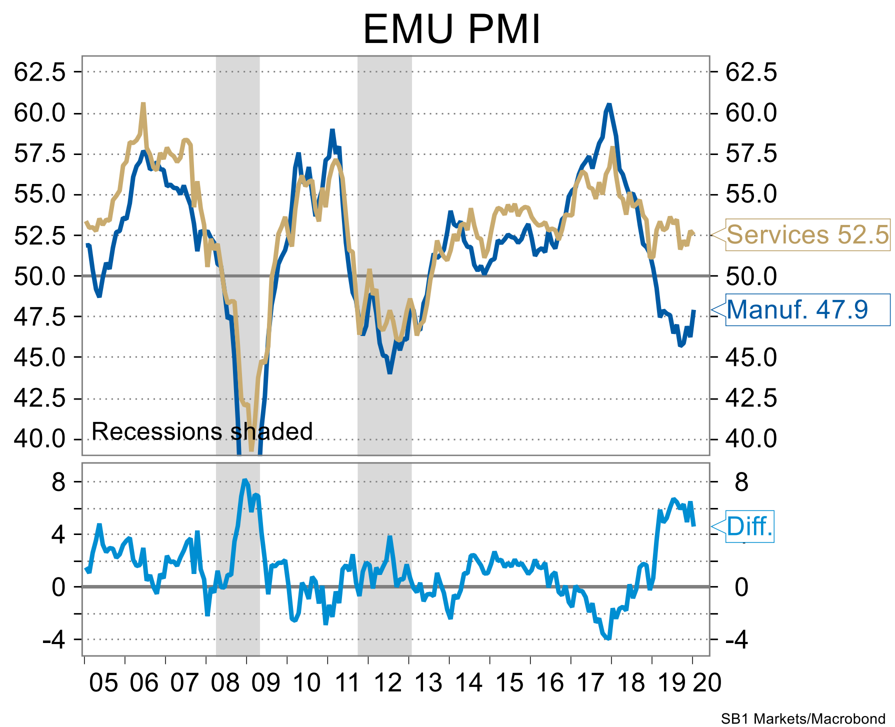


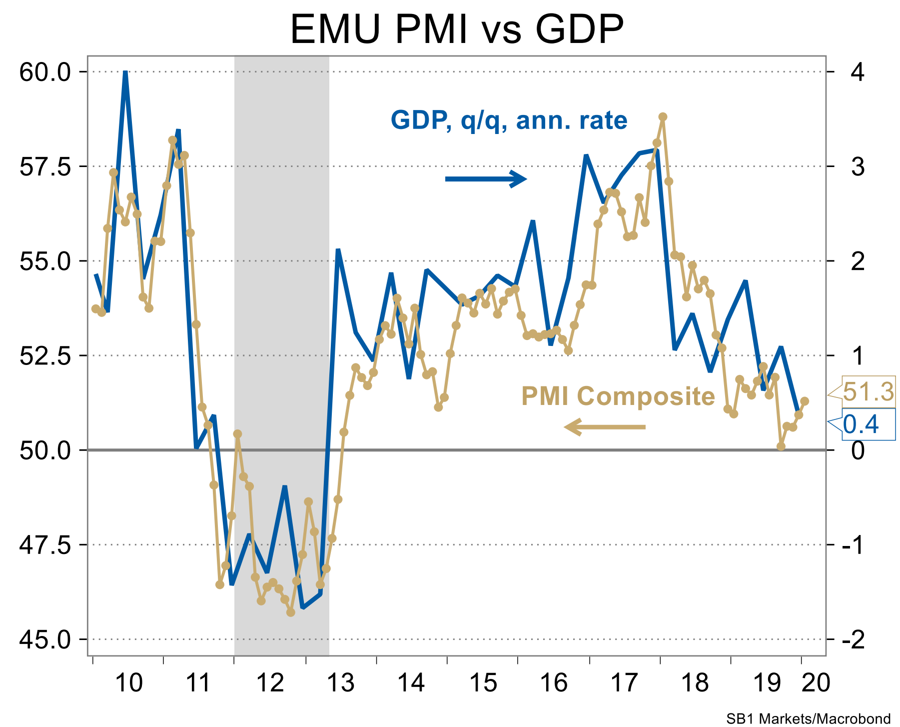


- Non-manuf. ISM edged up by 0.5 p in January, to 55.5, expected marginally up to 55.1. The index has turned up since September, along with Markit's services PMI
  - » 11 of 18 non-manuf. sectors reported growth, from 12 in Nov, and 6 reported a decrease (from 5)
  - » The details were not that upbeat; the new order index fell by 2.2 p to 54.9, and the employment index inched down (still at a solid level)
- Markit's service sector PMI ticked up 0.6 p in Jan, to 53.4, 0.2 pp better than first reported. Composite PMI rose to 53.3
- **The avg of the composite PMI/ISM does no longer point to a substantial slowdown in the US, rather, steady growth at around 2%**

Eurozone final January PMI better than first reported, up 0.4 p

Composite PMI climbed to 51.4, the 4th month of recovery, but still signals modest growth into 2020

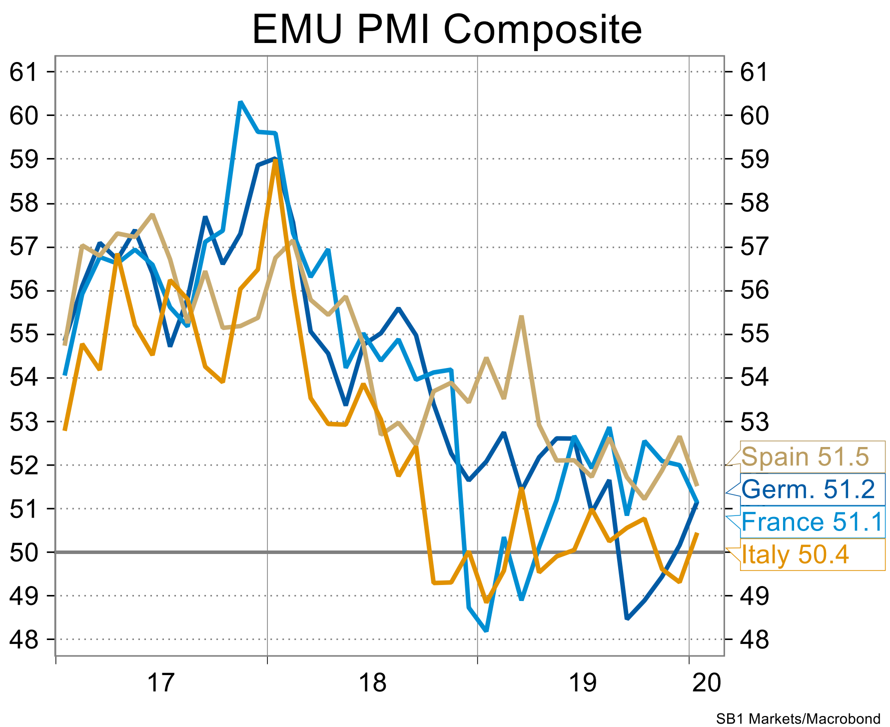


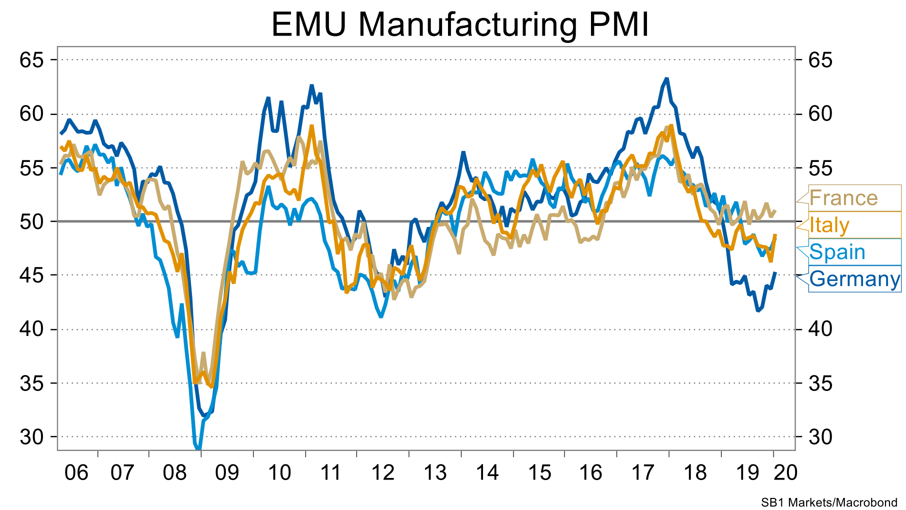


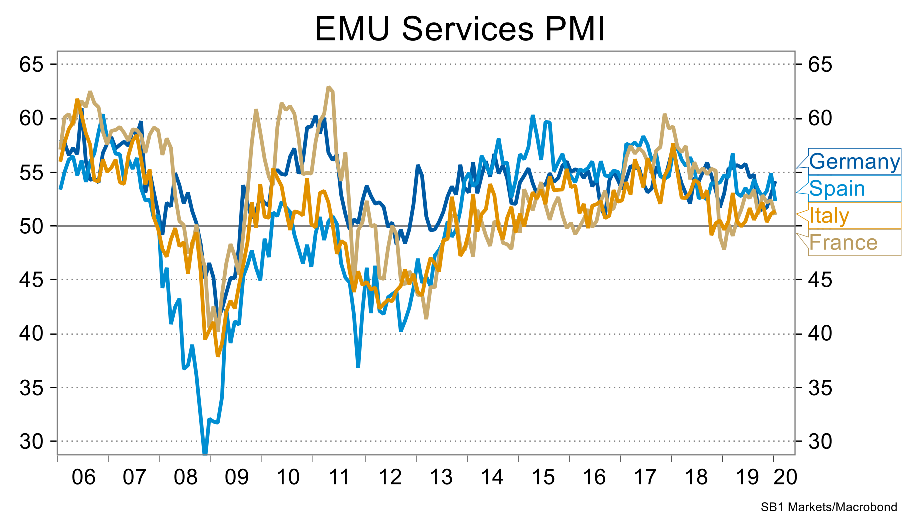
- The final EMU composite PMI edged up 0.4 p in January, first reported unchanged. The PMI is up 1.2 p since September. However, the level still reflects soft growth in the first month of 2020, just marginally faster than the 0.4% speed in Q4
  - » Manufacturing PMI continued to recover by a solid 1.7 p lift in Jan. The PMI indicates that the manufacturing contraction has bottomed out. Services inched down in Jan, at a solid level, and the trend over the past year is slightly upwards
- **Is the Eurozone economy about to rebound?** PMI and other surveys suggest a stabilization, this is not yet confirmer by 'hard data'. Manufacturing is still contracting, but the pace of decline is now slowing, along with the global manufacturing uptick. German business surveys have ticked up. Consumer confidence is still strong and consumption is increasing steadily. Household credit growth is increasing – but corporate is slowing, mirroring a setback in investments

All 4 major economies report growth in January

German manufacturing still the drag but the downturn is easing. Services are expanding moderately



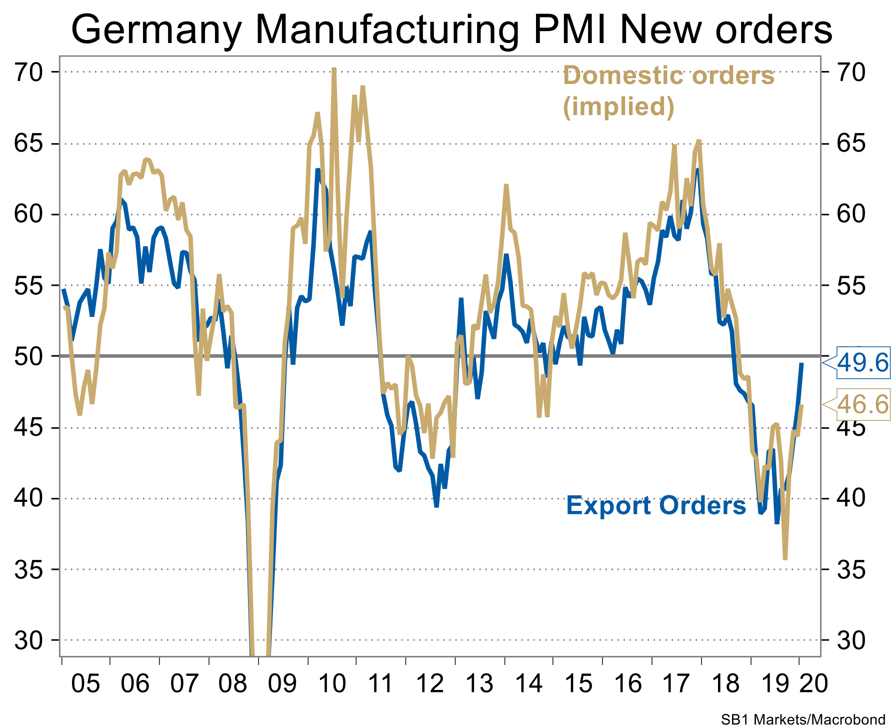


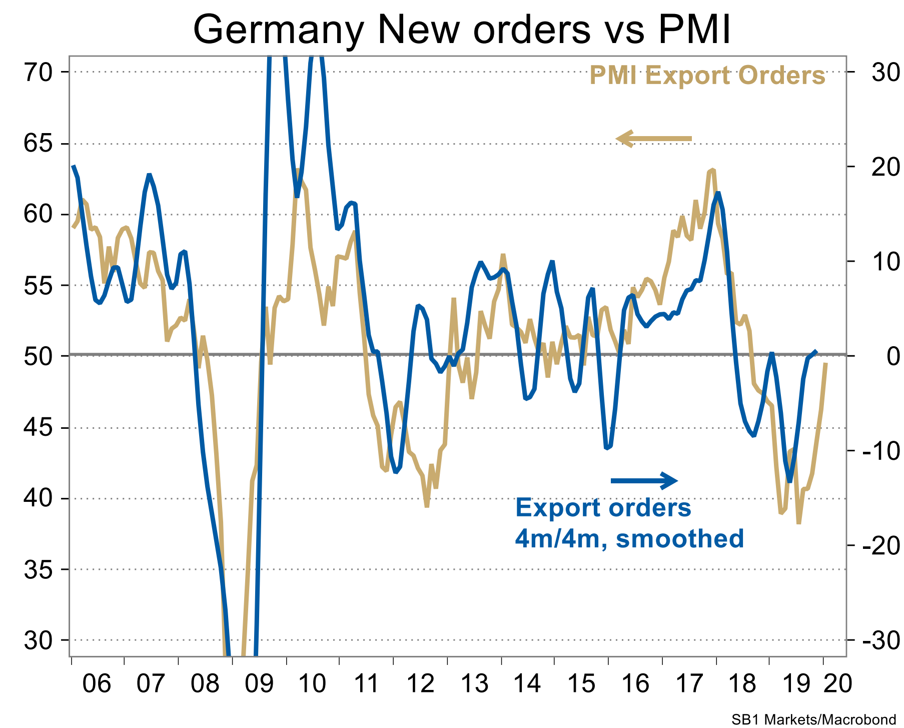


- Spain, France and Germany are all reporting decent growth rates in the total economy, Germany is in recovery mode. Italy still struggles but businesses reported marginally positive growth in January
- Composite orders are increasing modestly and manufacturing orders close to stabilization, the manufacturing order PMI jumped 2.4 p in Jan!

Orders are falling at the slowest pace in 15 months

Exports orders PMI straight up, suggesting global trade is recovering

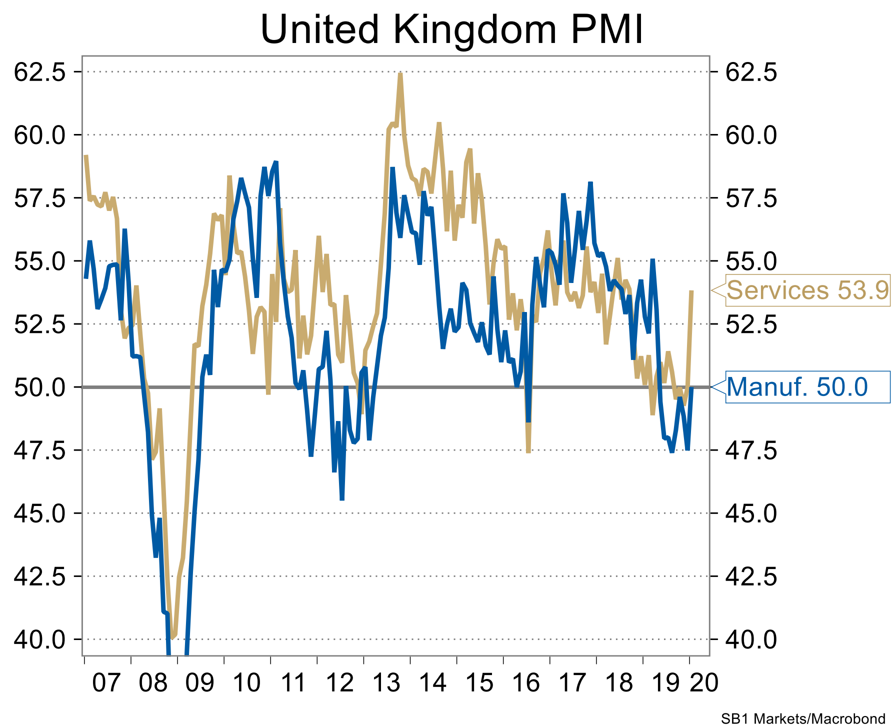


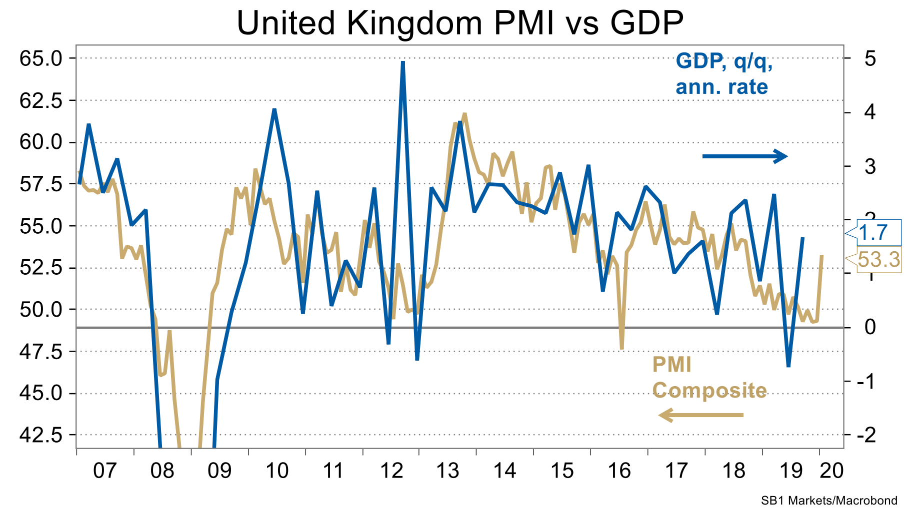


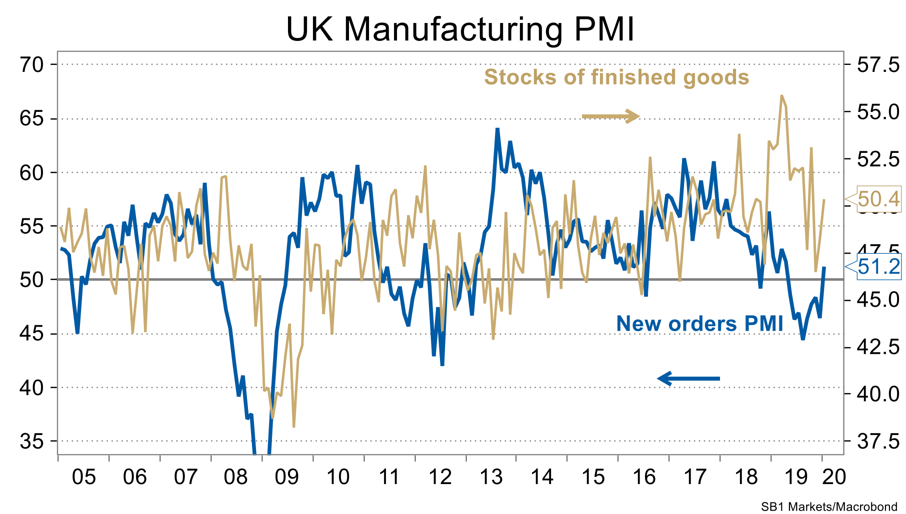
- In January, the total new orders PMI jumped to 48.1 p, up from 38.2(!) in Sept. Export orders PMI rose to 49.6, indicating that export orders are about to stabilize (as already confirmer by actual export orders)
- The most plausible explanation of the German dip in late 2018/2019 is probably a mix of a maturing manufacturing cycle, trouble in the auto industry and global uncertainties stemming from the trade war and Brexit influencing domestic demand. <u>Now, global uncertainties have eased and the auto industry is showing some early signs of a turnaround</u>

PMIs rebound strongly as political uncertainties ease

The composite PMI jumped 4 p in Jan, even more than first reported, fuelled by soaring services



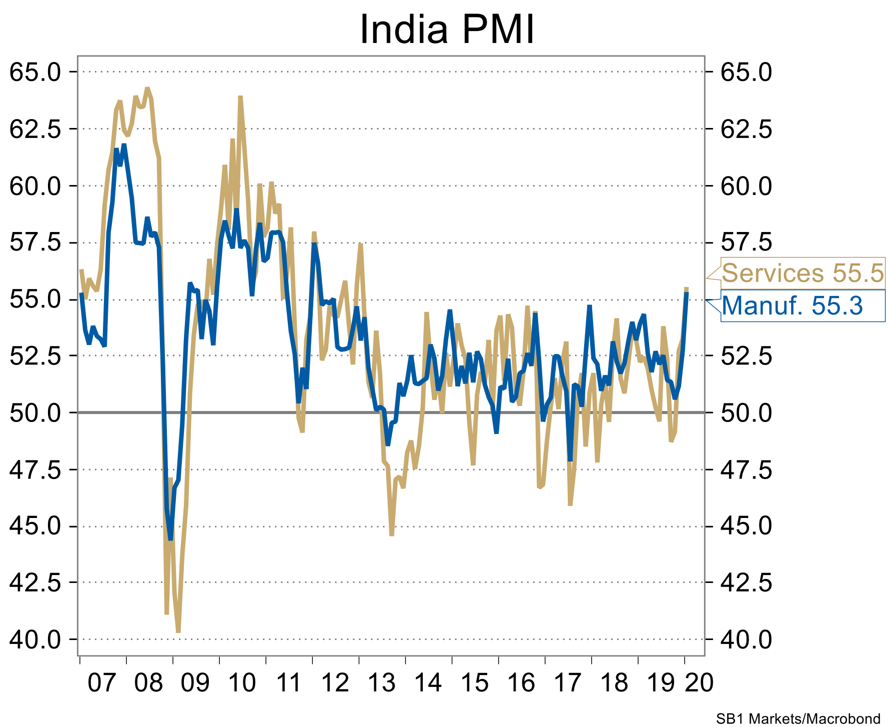


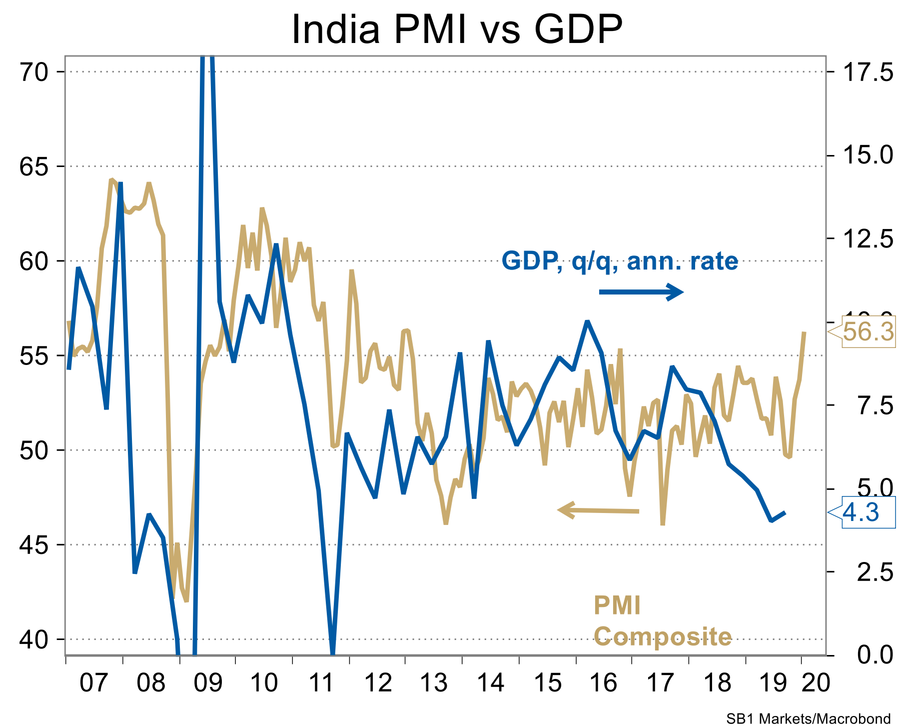


- Manuf. PMI spiked 2.5 p, signalling a stabilization, after struggling from Brexit uncertainties as well as inventory adjustments through 2019. New orders increased marginally, however, stocks were built up – which we cannot blame the formal Brexit for (no changes in trade regulations now)
- Services PMI soared 3.9 p to the highest level since Sept '18, and composite orders accelerated. The composite PMI at 53.3 signals at least 1% GDP growth (vs 1.7% in Q3)

Both PMIs are soaring, to 7 years highs!

Composite PMI at 56.3 suggests much higher GDP growth rates, but the correlation is rather weak

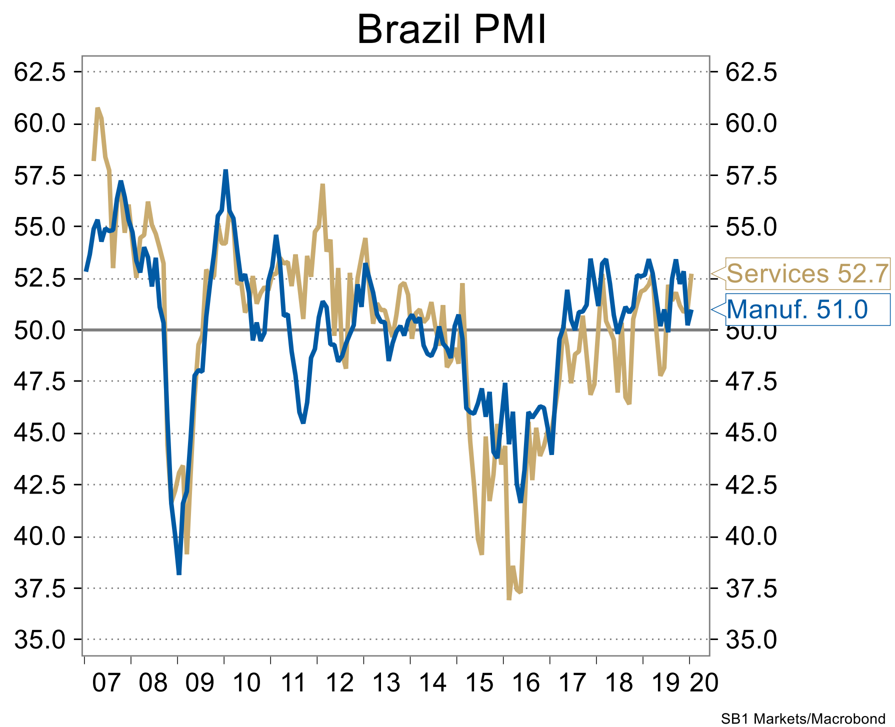


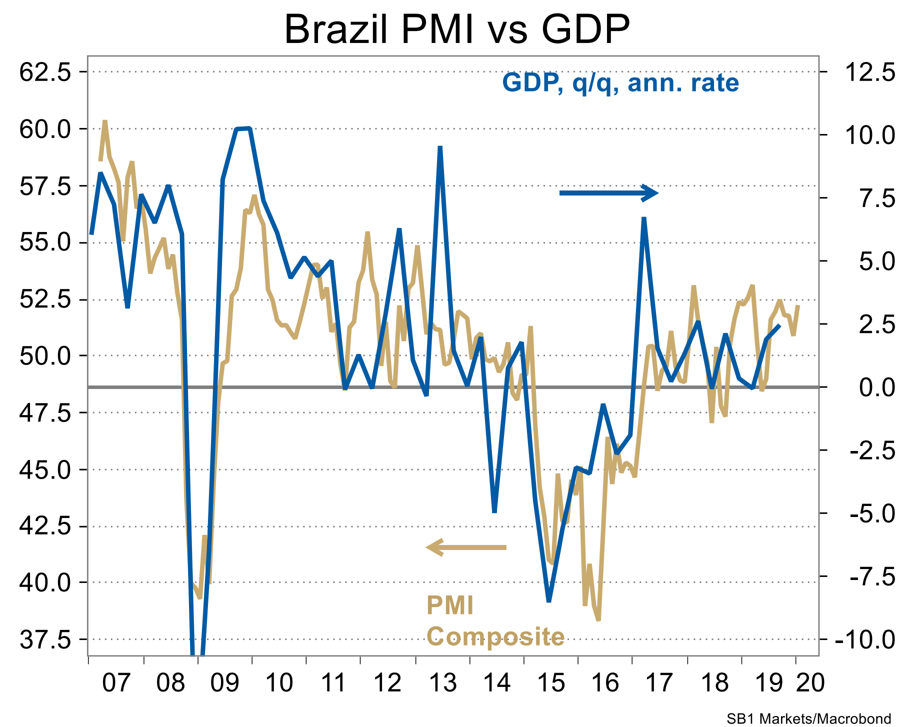


- The Indian PMI does not correlate well with reported GDP growth. The setback in GDP growth to 4% from 8% the past year has not been detected by the PMI. Anyway, the direction of the PMIs is promising

Composite PMI down, mainly due to services

Both manufacturing and services edged up in January. The composite signal some 2½% GDP growth

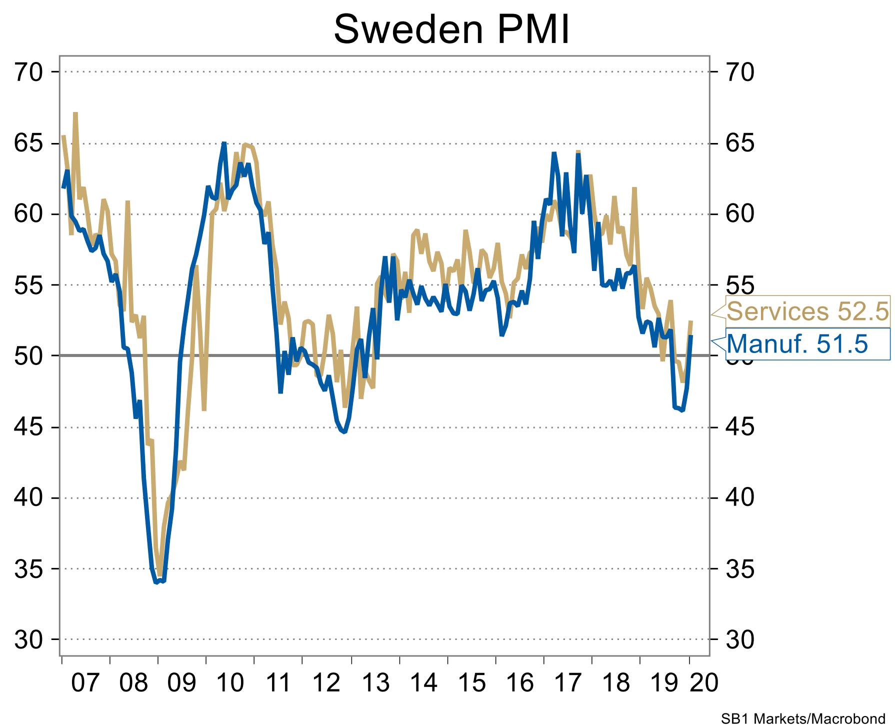


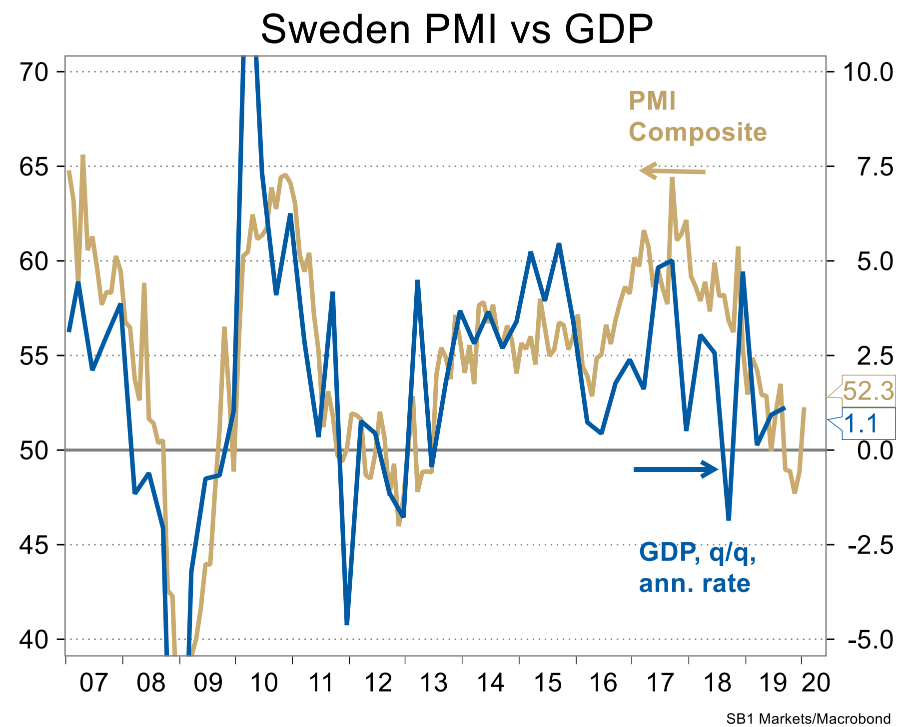


- GDP growth was up 2.5% in Q3, the 2nd quarter of recovery from a weak Q4/Q1
- Disclaimer: The Brazilian PMI is rather volatile –and does not predict quarterly GDP particularly well but the growth cycle is well represented by the PMI

PMIs are recovering, composite signals steady modest GDP growth (some 1%)

Both PMIs rebounded sharply January, after a steep drop. The level is still low

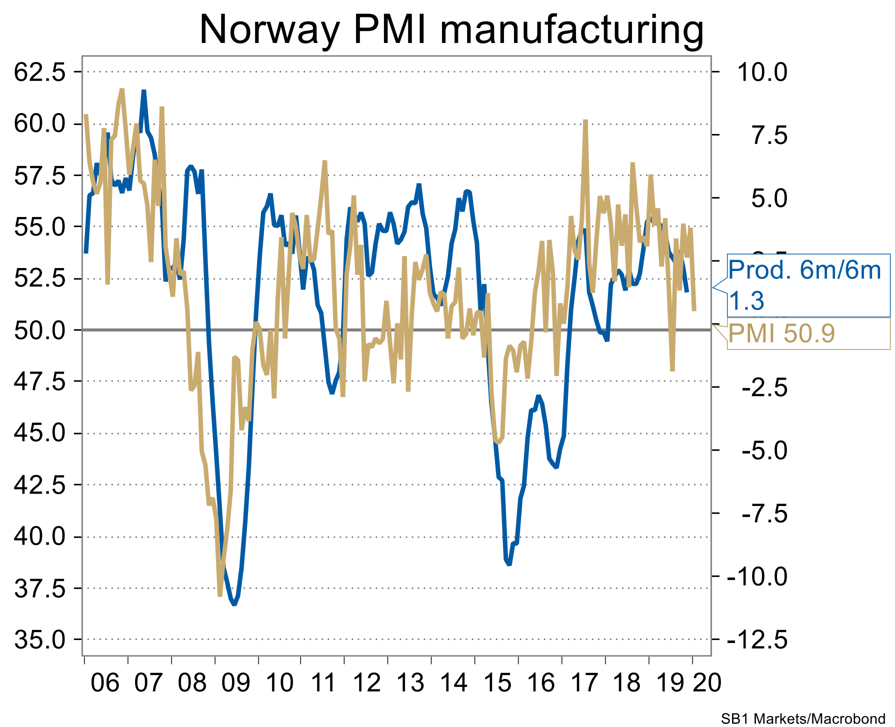


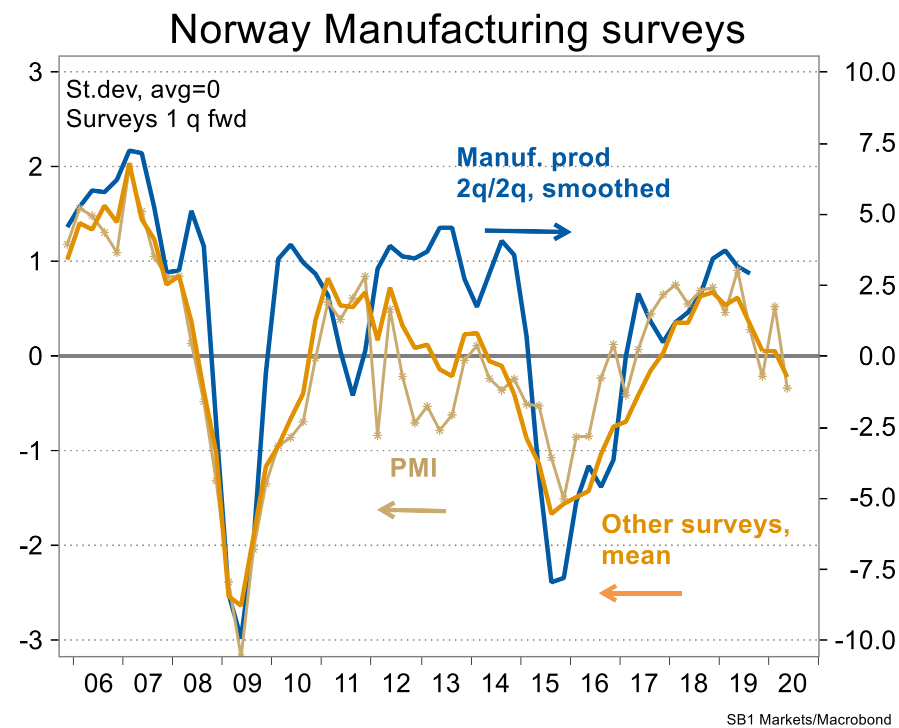


- Manufacturing PMI surprisingly soared 3.7 p in January, to a 5 month high at 51.5
- Services reported gains too, the PMI jumped to 52.5. Composite PMI at 52.3 still does not suggest any growth uptick in Q1, but no slowdown either
  - » Swedish economy is hit by global uncertainties but also sharp deterioration of domestic demand. Export order PMI has recovered more than domestic the past months, the recovery in global manufacturing is probably supporting growth

Manufacturing PMI 'finally' followed other Norwegian surveys down

PMI dropped 4 p, and is now in line with other surveys, which all point to a marked slowdown

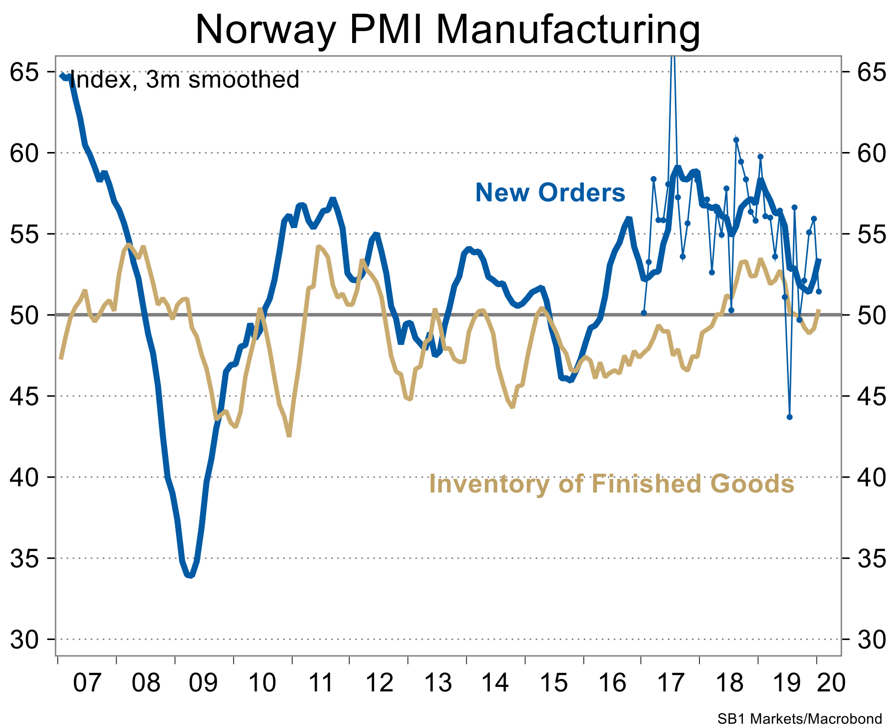


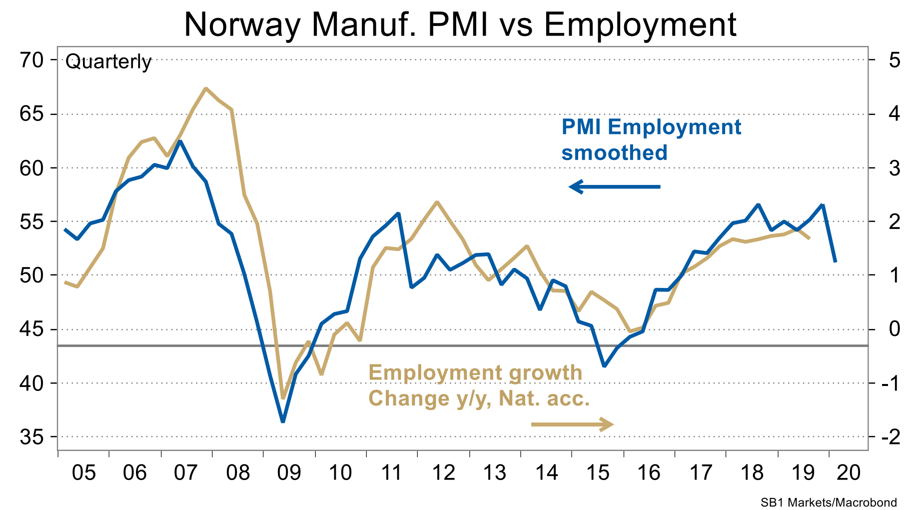


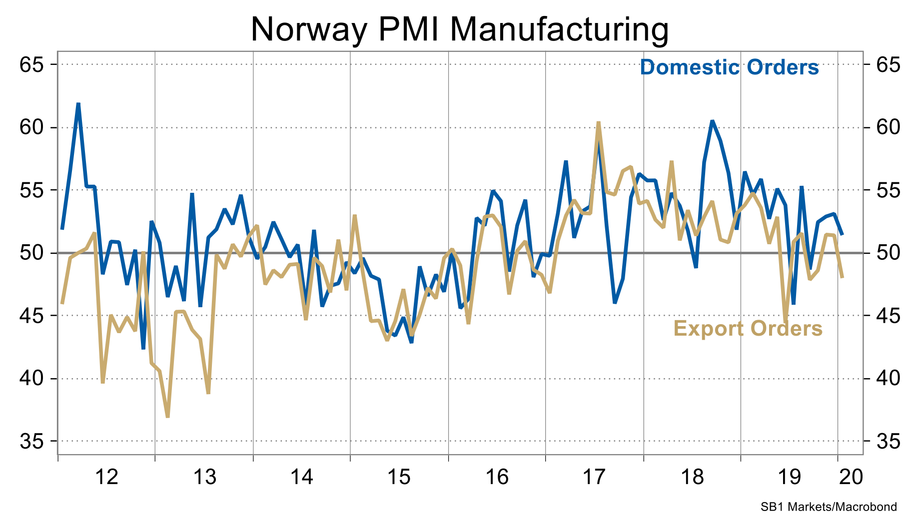
- The PMI slipped 4 p in Jan, to 50.9, we expected a 3 p decline to 52 (consensus 54.4). Barring July last year, this is the weakest level since early 2017. We have been surprised by the elevated level of the PMI the past few months, thus, the January drop was not that surprising
- PMI is now more in line with other Norwegian manufacturing surveys, which have been noting a downturn for some months. Taken together, manufacturing surveys signals a modest decline in manufacturing production into 2020

Orders and employment indices confirm a slowdown but do not signal a collapse

Orders have softened and manufacturers are reporting slower employment growth, to just above 1%







- The new orders index fell to 51.5 in January, still not a very weak level. Businesses are reporting retreating exports orders, while domestic are growing modestly
- The PMI manufacturing employment index plunged to 48.5 in January, the largest monthly slowdown since 2009. This index is volatile, we have applied a 3m smoothed, quarterly rate at the chart above

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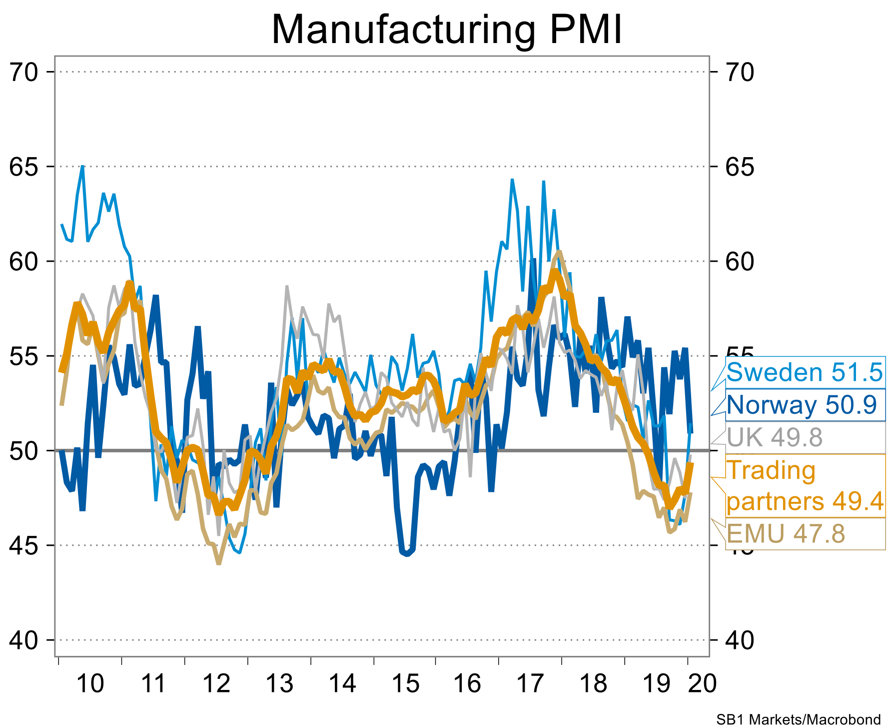
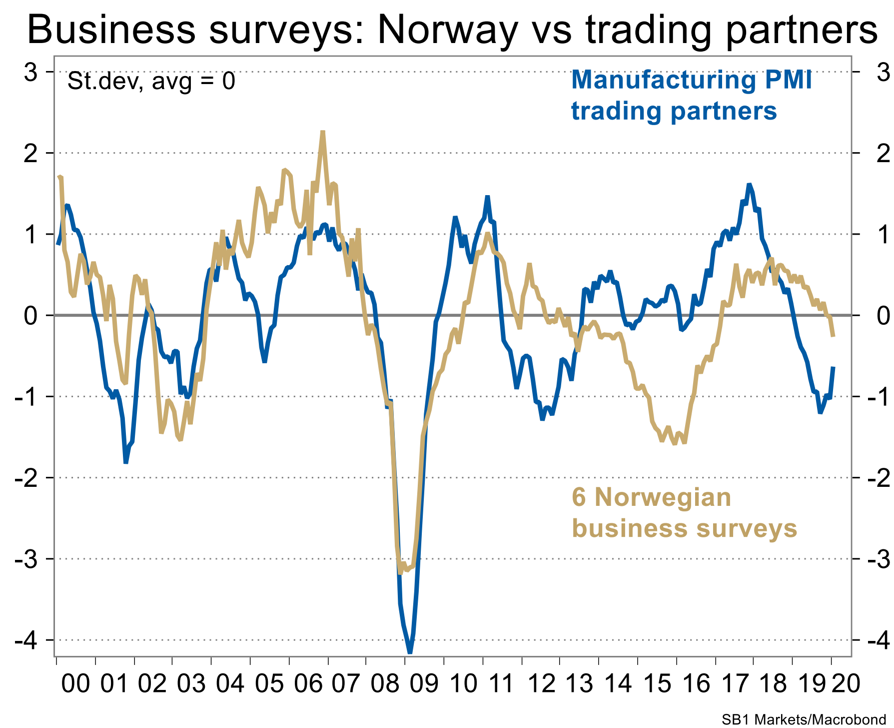
Norway is follow its trading partners down, as usual

Manufacturing held up much better in Norway in 2019, fueled by oil related sectors

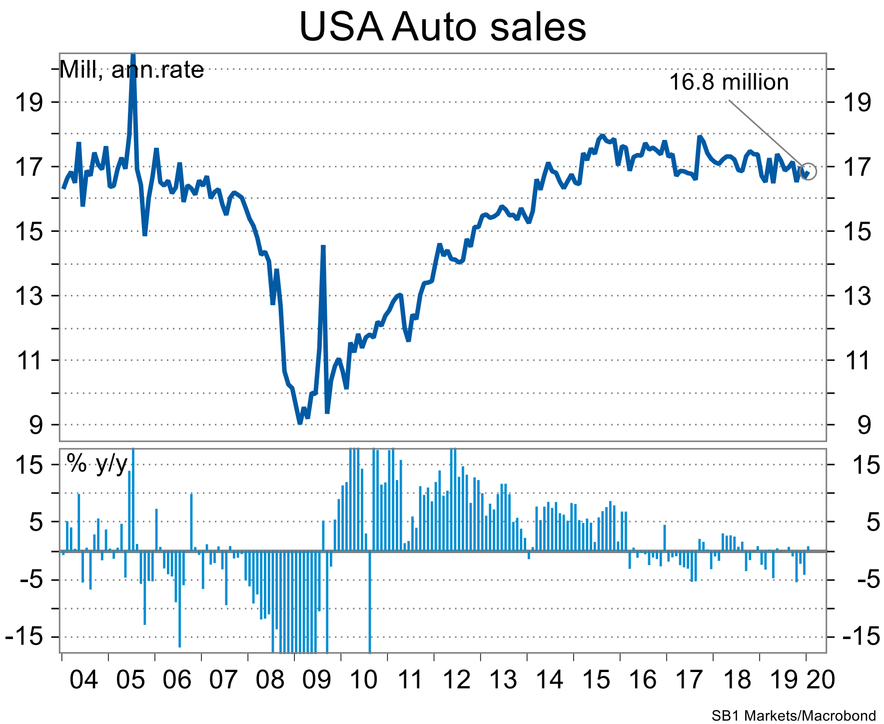


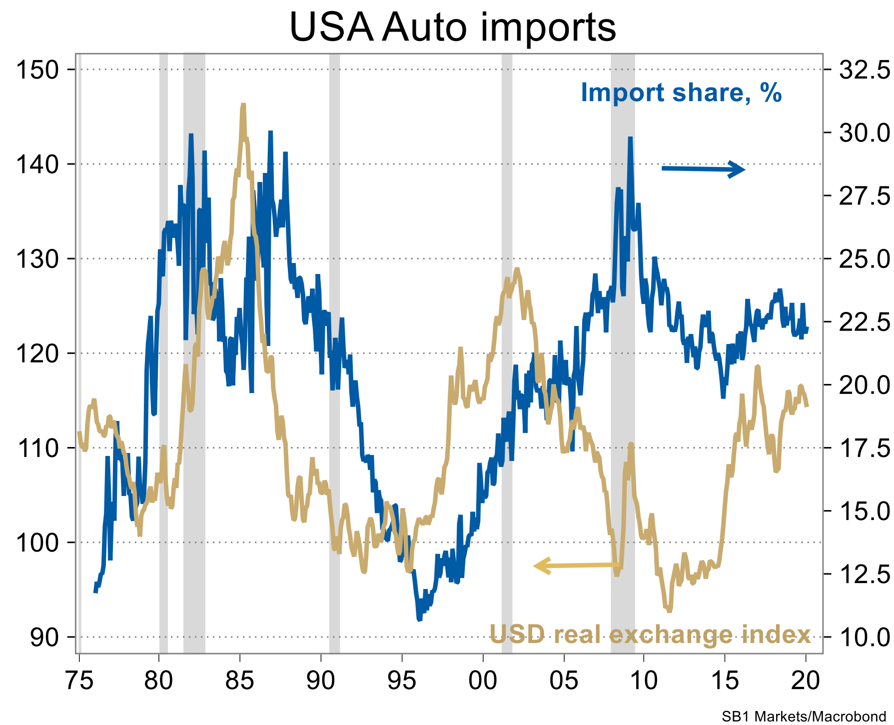


- The gap between the Norwegian PMI and the weighted avg of trading partners' is shrinking, as the Norwegian index slides down, while trading partners are improving (but still in contraction mode). The Norwegian PMI is normally lagging our trading partners by close to one year, the upturn among trading partners recent months may suggest that the Norwegian downturn will not be a very hard one
- The boost from oil & gas investments is anyway behind us – and we expect growth in production to slow substantially the coming months/quarters

Auto sales close to flat in January, are trending slowly down

Sales up 0.5% to 16.8 mill, a tad lower than expected

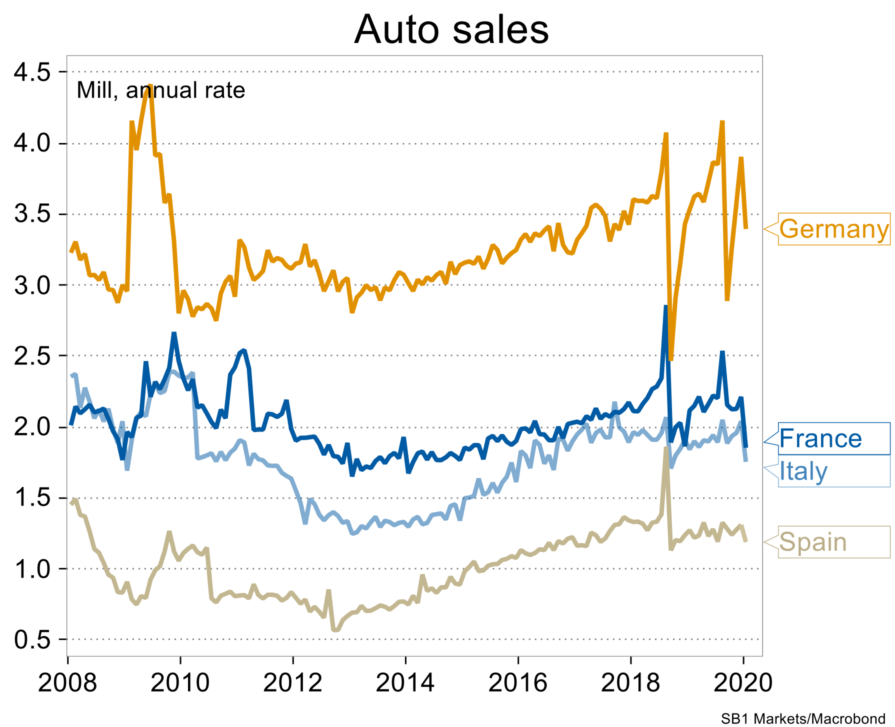


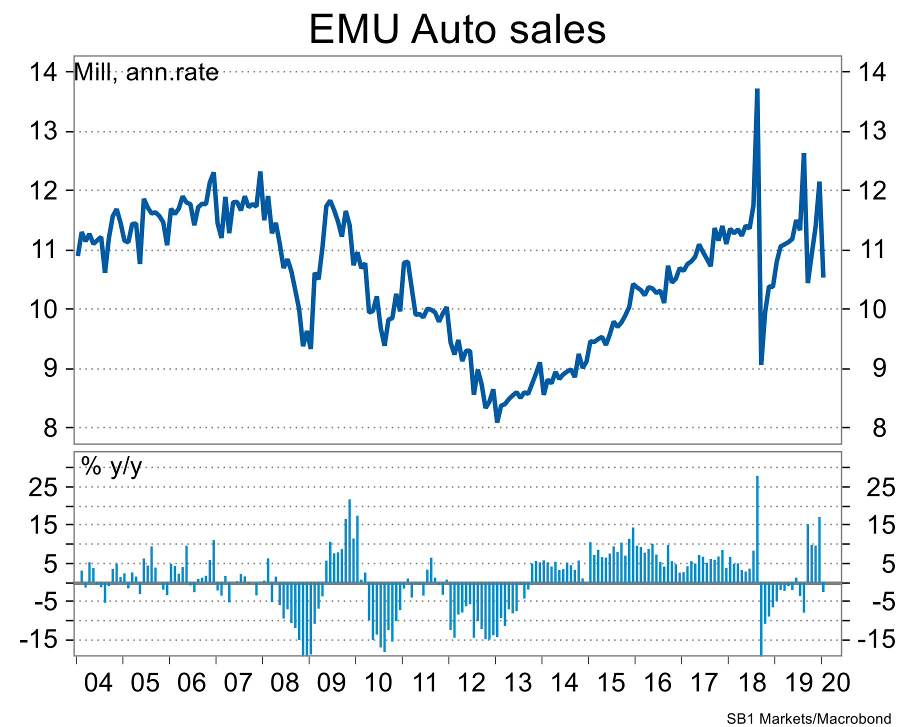


- Sales are trending slowly down, from the local peak in 2015 (!)
- The import share has stabilised – following a small decline from early 2018.
  At 22% the import share is above the long term average – but it has been far higher several times before.

Auto sales sharply down in January

Sales fell almost 15% m/m. Regulations have probably destabilised sales but January was not good



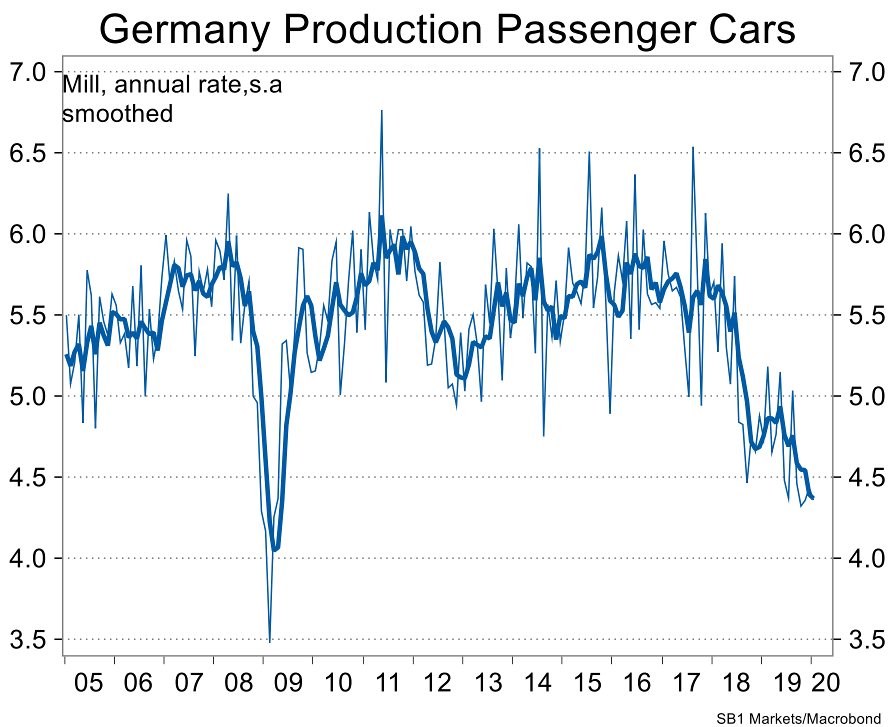


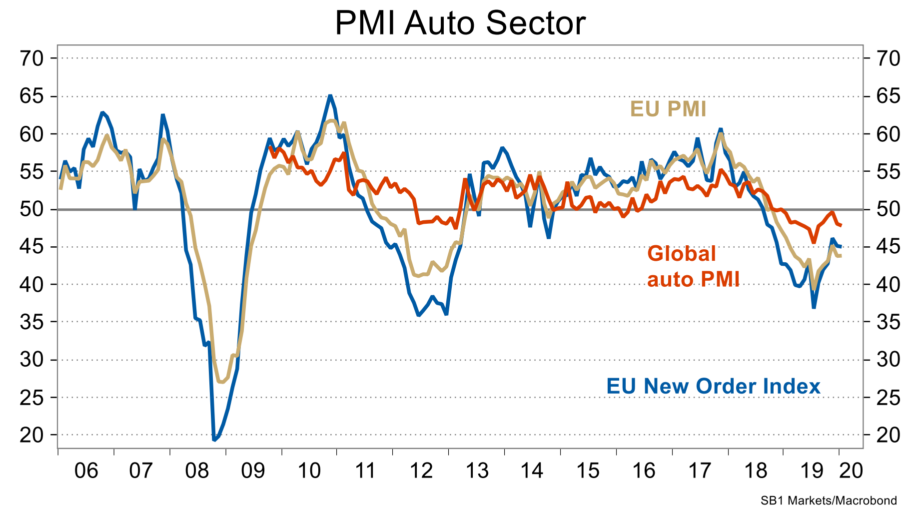
- Sales in the EMU at 10.6 mill (annual rate, our preliminary est) is well below a normal level. Sales have been heavily influenced by new EU regulations, and it not possible to be sure what the 'real' underlying trend in demand is
  - » From Jan, new EU emission regulation was implemented; the max avg emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. High sales in December indicates that inventories for high emission cars were cleared
- Sales rose by 2% in 2019, up from 1% in 2018, the 6th annual increase. Sales are up some 35% from the bottom in 2013
- Still, the auto industry is struggling, especially the German producers, check next page

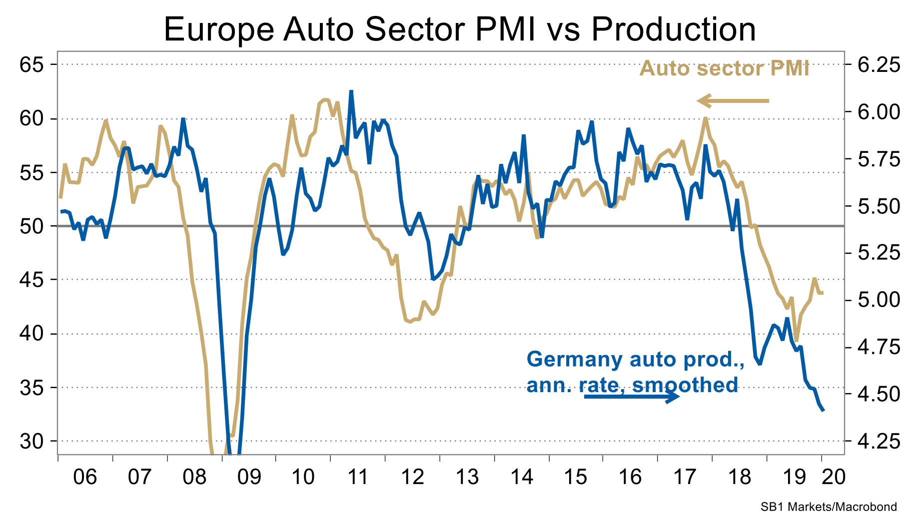
SpareBank 1 MARKETS

German auto production weak in Jan too, and the auto sector PMI still weak

German auto production is remarkably weak given German, European or global auto sales



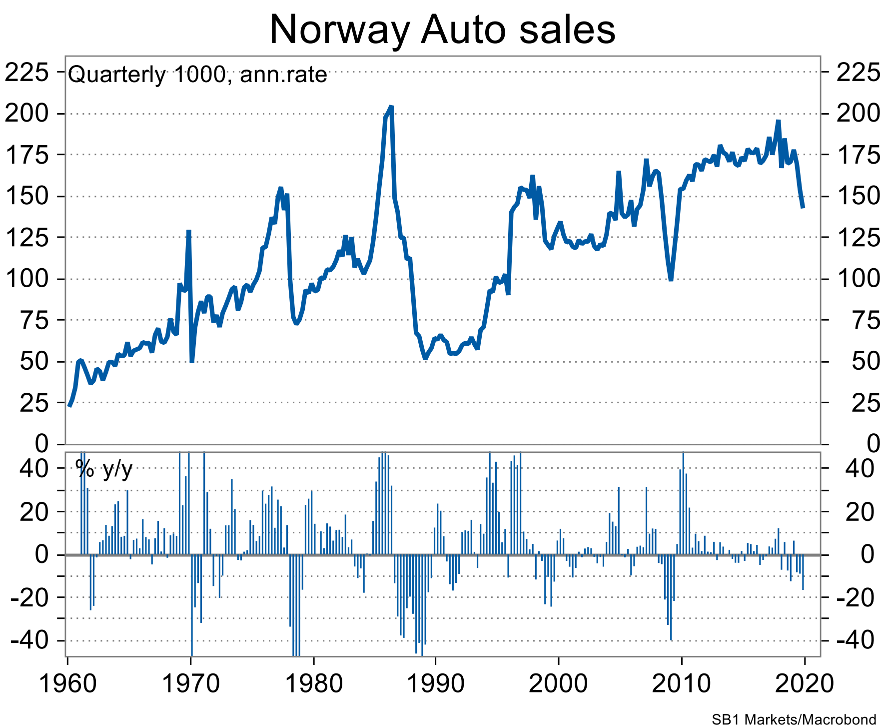


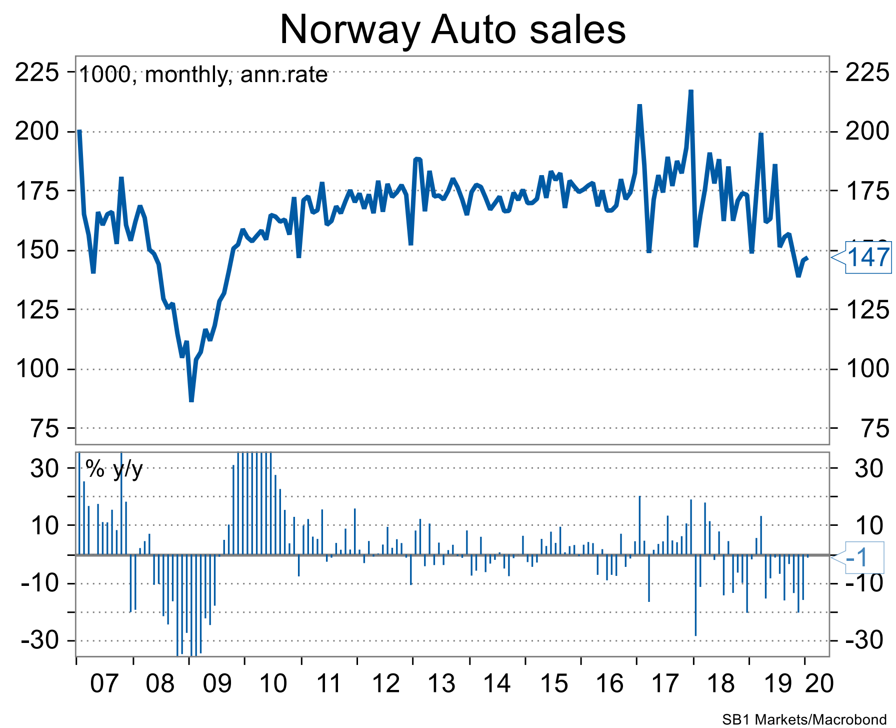


- German auto production is down almost 25%, an incredible number, given auto sales in Germany, EMU or even the world, which have fallen far less than 10% from the peak
- The European auto sector PMIs have recovered recent months, and sharply in Nov – but fell marginally in December and did not strengthen in January. The level is below 50, but is probably signalling higher production the coming months (the PMI is leading the production level by some months, and is not that closely correlated to growth in production)
- The global auto (total) PMI fell marginally to 1.5 p to 47.8 in January

Slow auto sales in January too

Sales did not recover in January. Are there still delivery problems, or is demand weakening?

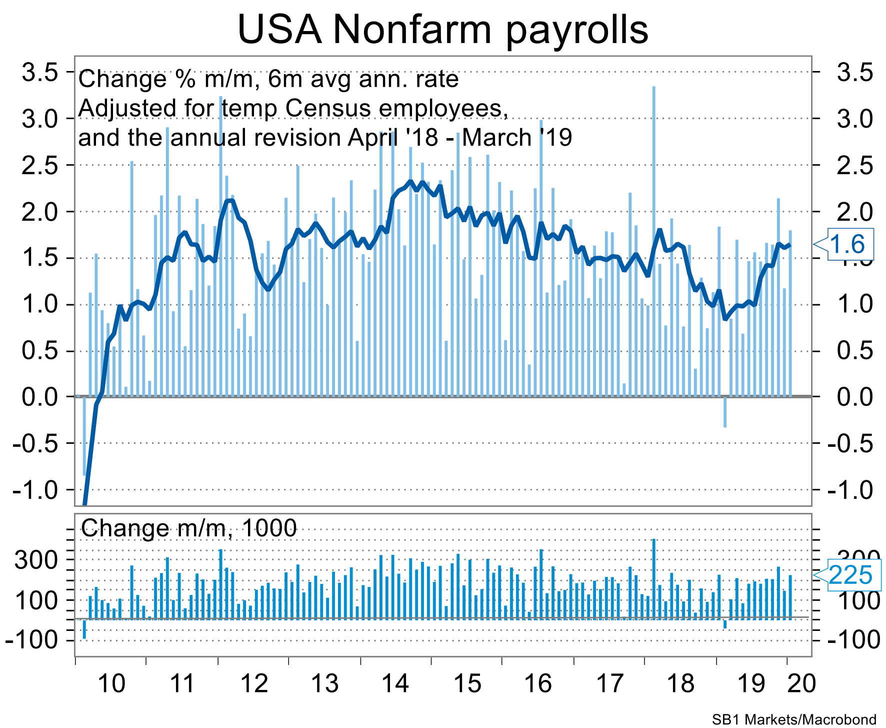


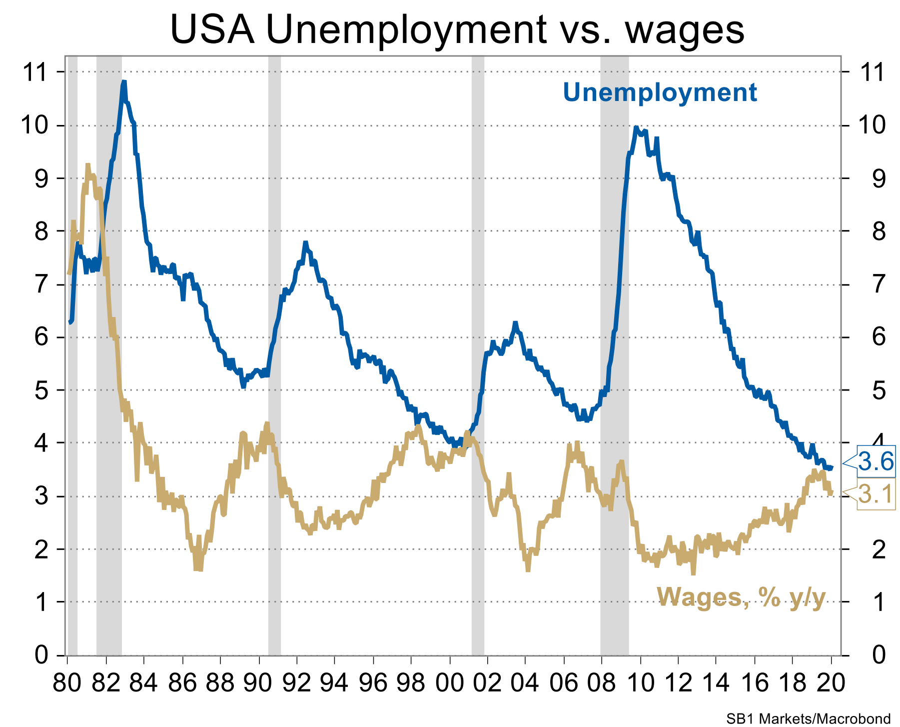


- From January 2020, the new EU emission regulation were implemented; the maximum average emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. There was no obvious impact on sales numbers (like postponed sales of low emission sales last autumn would turn up in January)
- Expiring auto leases of hard to sell gas/diesel cars may have led to too large 2. hand inventories among dealers, keeping new car sales down
- However, as sales have been low for several months, the simple explanation may be that demand is waning

Strong growth in employment in January, wage growth slowing

Employment up 225', 60' above expectations. Unempl. inched up to 3.6%, wage growth 'up' to 3.1%

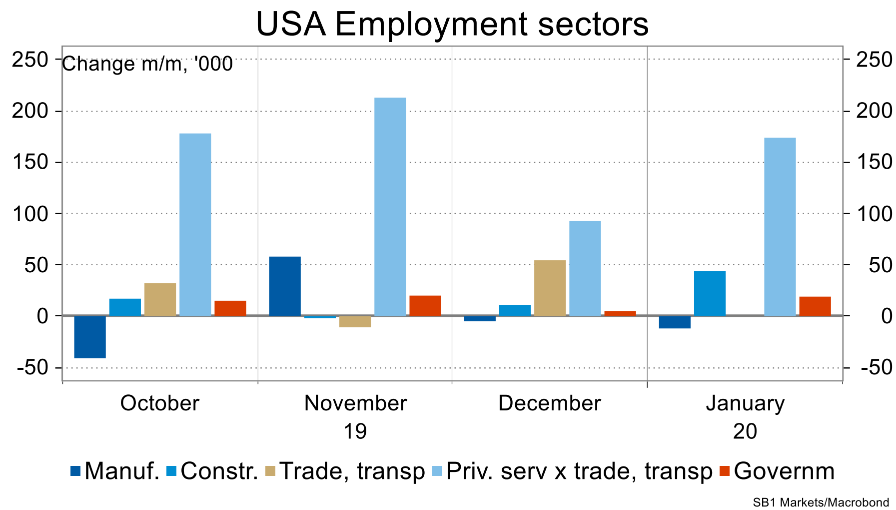


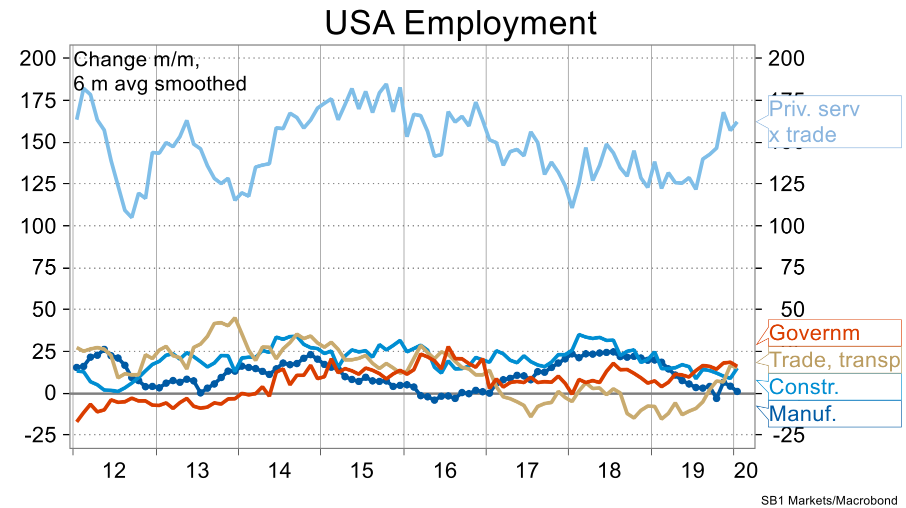


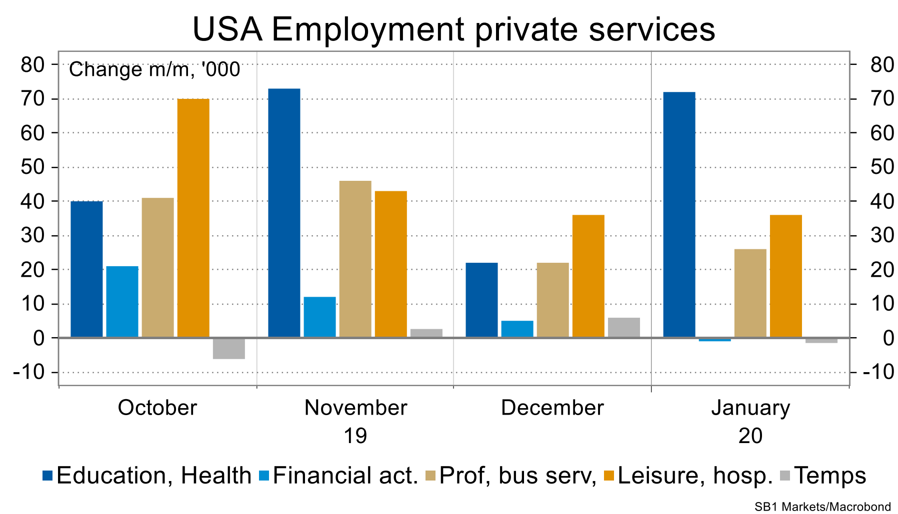
- **Employment** rose by 225' in January, up from 147' in December, and 60' higher than expected. Employment growth has accelerated since mid-2019, the 6 m avg up to a 1.6% pace, from 1% in early 2019. Long term, employment growth is trending down
- **Unemployment** inched up to 3.6%. Both the participation rate and the employment rate edged up by 0.2 pp. Participation is heading slightly upwards but too little to suggest that the supply side is now responding. The labour market is no doubt tight
- **Wages** rose 0.2% m/m, 0.1 pp slower than expected. The annual rate was unch at 3.1% (but up 0.2 pp from the original Dec est. Regardless, wage inflation peaked in mid-2019 and has turned slowly down since. Still, wage growth is not that low vs productivity
- <u>Overall, these data confirm that the labour market remains in a solid state, no argument for interest rate cuts this year!!</u>

Employment is increasing in all sectors barring manufacturing

Employment accelerates in private services, chiefly on hotels, leisure, and in trade & transport



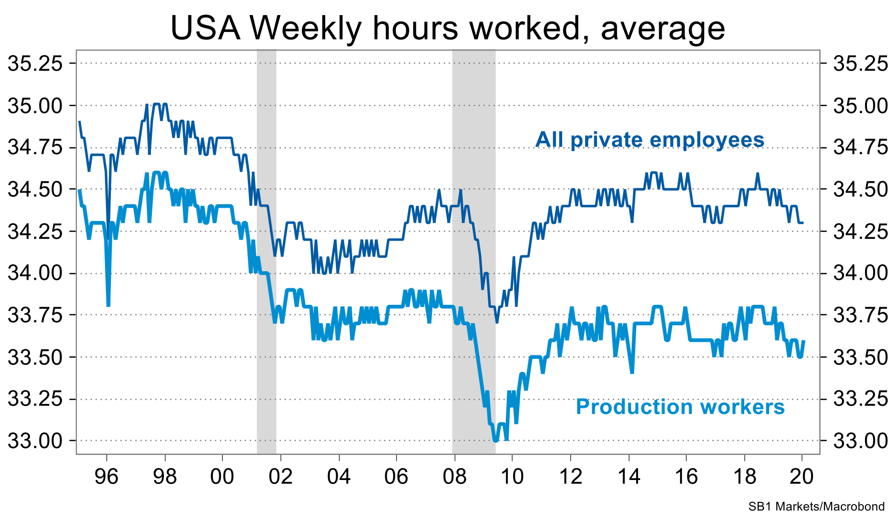


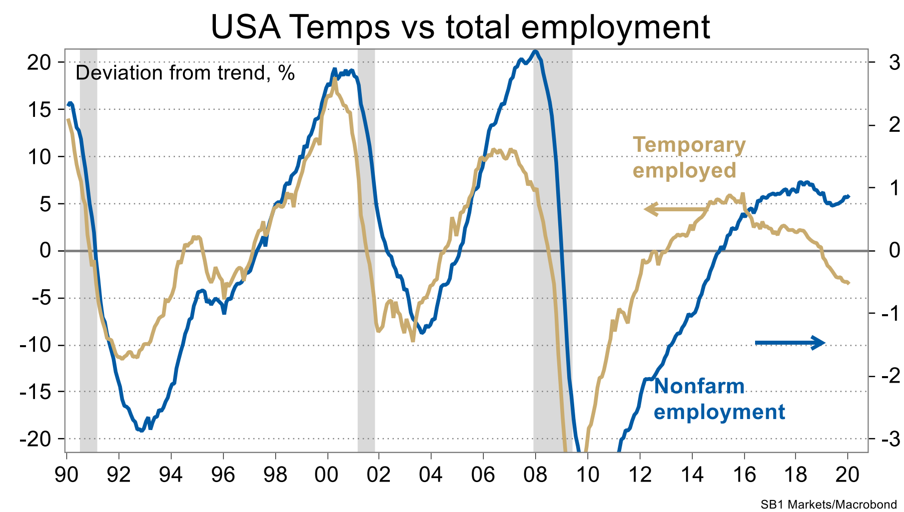


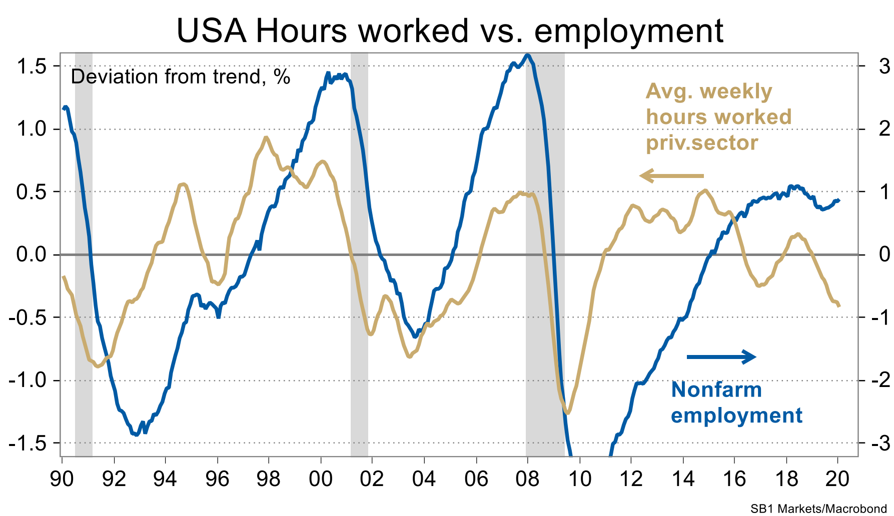
- **In January:** Employment in private services, construction and government rose moderately, while trade & transport stalled. Employment in manufacturing fell marginally
- **Recent months:** Employment growth has stagnated in manufacturing. Private services and trade & transport have been gaining pace, government and construction steady
- **Big picture:** Manufacturing and constriction both peaked in H1 2018. Private services x trade empl. have recovered rapidly the past year. Trade is picking up, after declining in late 2018-early 2019

Weekly avg hours are trending down, normally a 'first response'

Demand for temps has been slowing too, and more rapidly after revisions, usually not a good sign



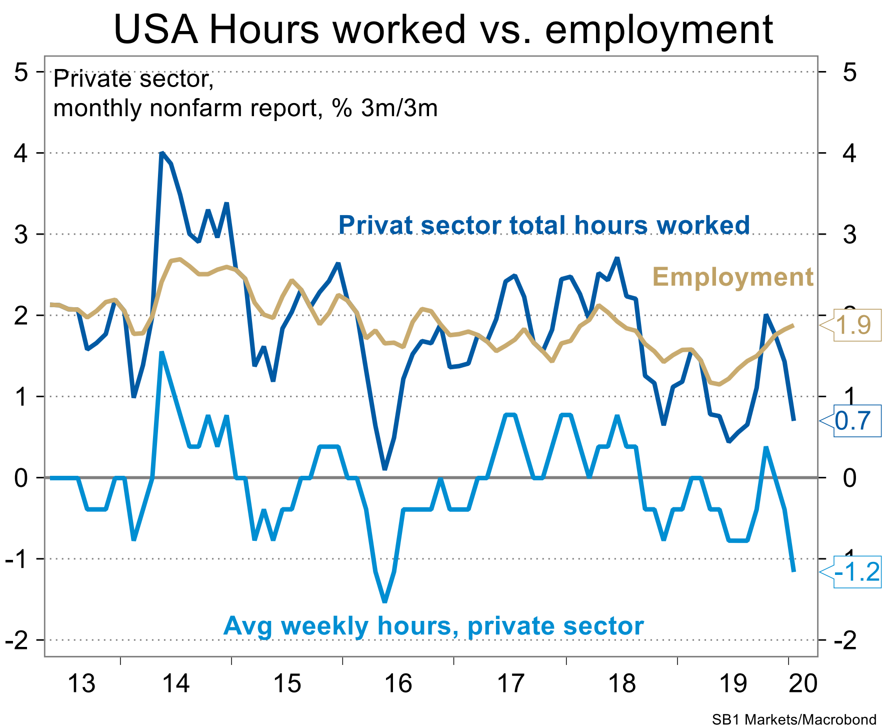


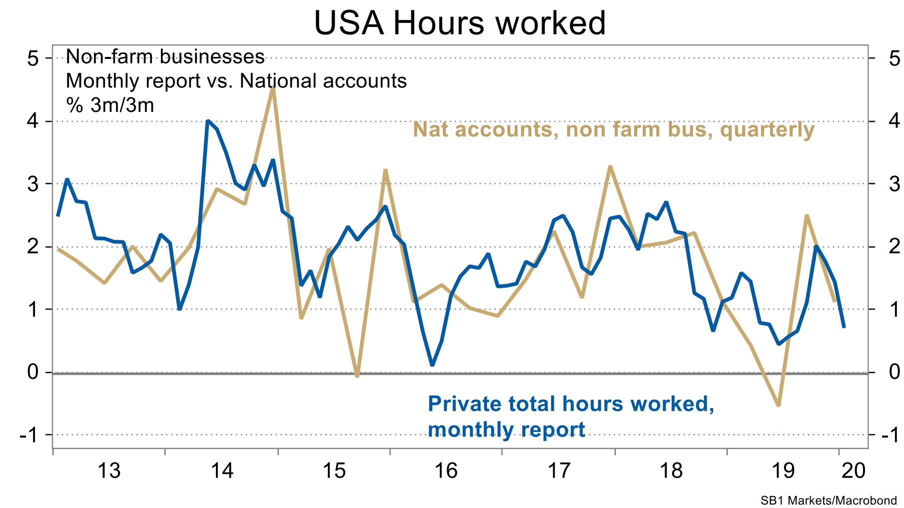


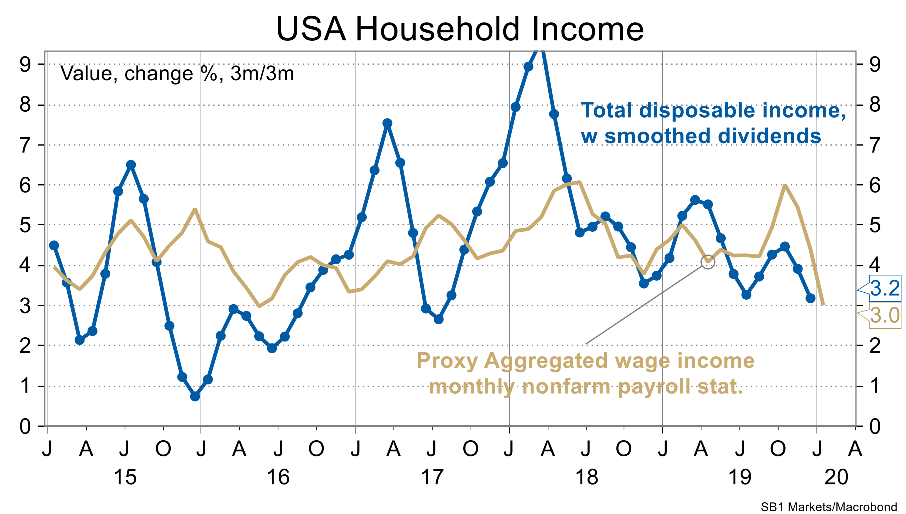
- Average weekly hours worked (in the private sector) is trending down, an argument in favour of a weaker-demand-for-labour-story. Hours were unch in December and January but are down 1.2% measured 3m/3m, the weakest since 2016
- On the other hand: Employers are still reporting aggressive hiring plans and massive problems filling positions, and the number of unfilled vacancies is high
- The number of temporary employed is waning and have been revised down, usually a leading indicator for future slower total employment growth

Avg hours worked are declining, total hours slowing

Growth in disp. income has turned up, and corp. profits are under pressure



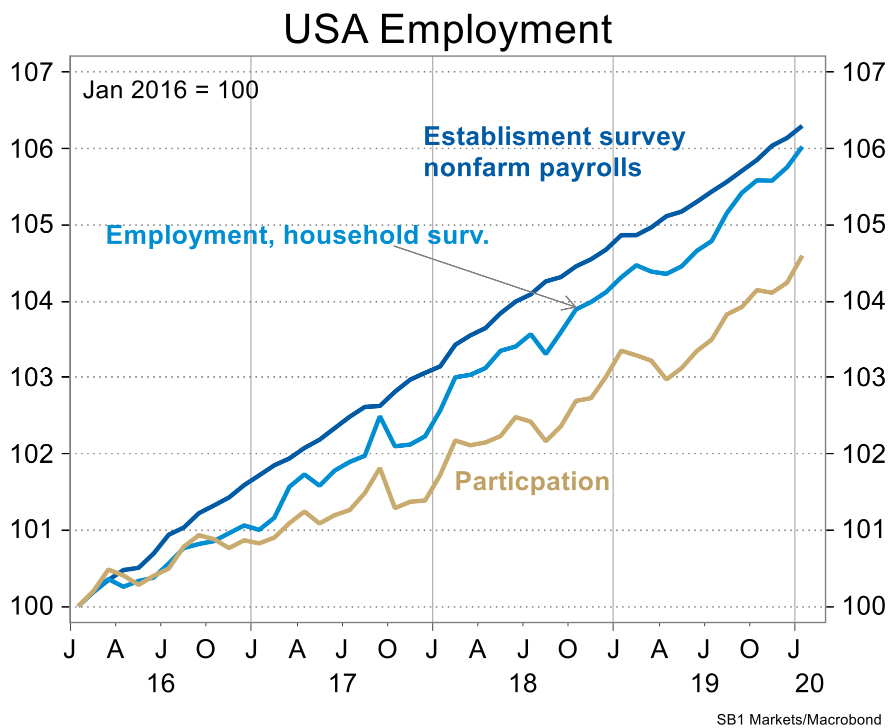




- The underlying decline in avg weekly hours (measured 3m/3m) accelerated to 1.2% in January. Total hours are still increasing, but the upward pace has slowed to 0.7%
- Growth in total wage income is trending slowly down, underlying growth to 3.2% in Dec, and the proxy estimate edged down to 3.0% in January. However, productivity growth is still moderate (but is trending up), and corporate profits are under pressure, at least that has been the case until now

The household survey is reporting accelerating growth in employment too

The LFS survey has been reporting a steeper increase in employment than the payrolls report

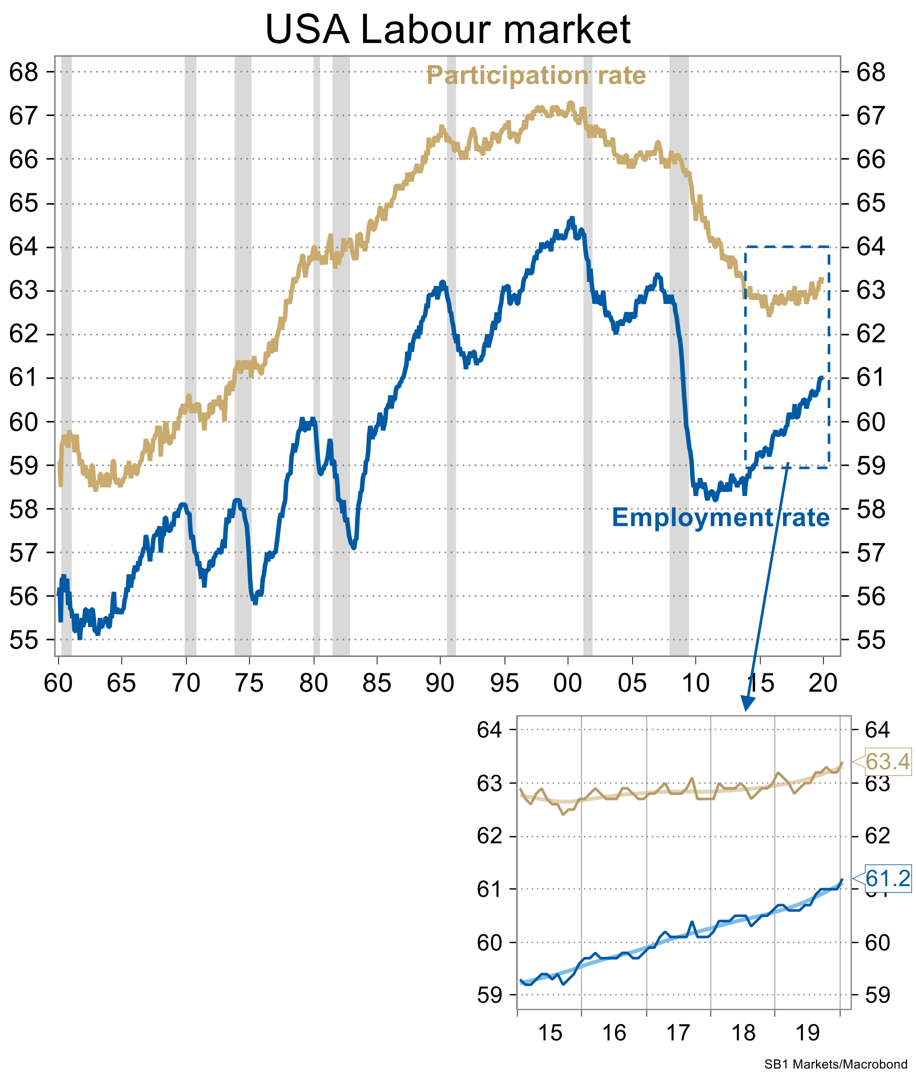


- The household Labour Force Survey (LFS/'AKU') reported slower growth in employment than payrolls in early 2019. Since the summer, LFS employment growth increased more than the payrolls report
  - » Total employment, defined as in the nonfarm payroll report surged by 926' in January (vs nonfarm up 225')
  - » The smoothed, annual rate is 2.2% according to the LFS survey (defined as in the payrolls report) and by 1.4% according to the nonfarm payrolls report
- The labour force rose in January, bringing the unemployment rate up. The participation rate ticked up 0.2 pp to 63.4%, as did the employment rate, to 61.2%
- The monthly household LFS survey employment data are much more volatile than nonfarm payrolls data, and are close to useless from month to month

We have adjusted the Household survey data for the 800.000 downward revision of the 16+ year population from Jan. 2019 and by an additional 811.000 from Jan 2020 (due to lower immigration than assumed)

Participation trending too slowly up, creating a tight labour market

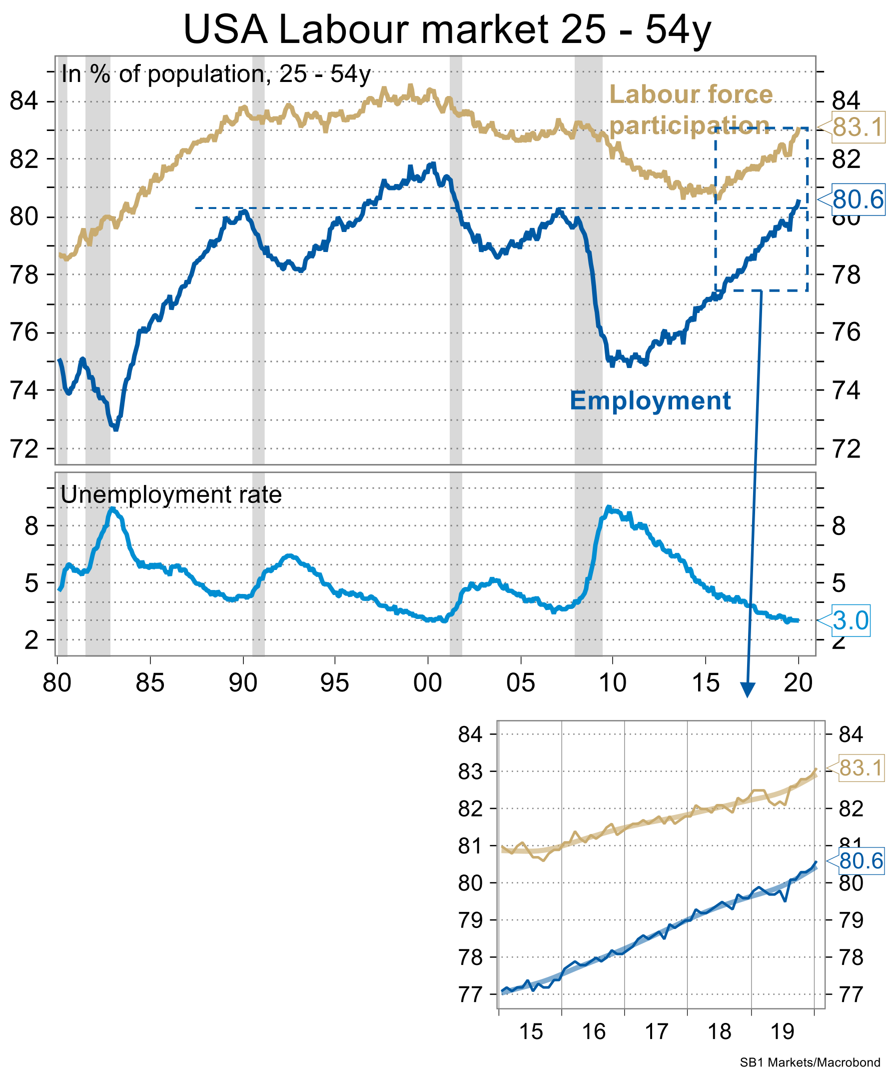
The participation rate may be heading slowly up, the level is low. The employment increases faster



- The employment rate rose 0.2 pp to 61.2 in January, trending decently upwards. The level is still well below the pre-financial crisis levels
  - » For the core age group, employment is back to a normal level (*see next page*). Youngsters (their employment rate is down) and the oldies (there are more of them, and fewer of them are working) have contributed on the downside on the overall employment and participation rates recent years. Employment rates for the core age group is back to a normal high level
- The participation rate ticked up 0.2 pp to, to 63.4%. The trend is slowly upwards and clearly less steep than the employment rate – that's why the unemployment rate is still trending down
  - » The gradual increase in the participation rate is surely one of the most positive signs from the US economy – the production potential is accelerating too, alongside the slowly increasing growth in productivity (check here)
- Participation & employment rates do not signal any weakness on the demand side of the labour market but rather a tight labour market, due to a still meagre supply side (participation) response

The core employment rate (25-54 y) is back at the pre-financial crisis level

Is this the most relevant employment rate? Most likely. Is there more to go?

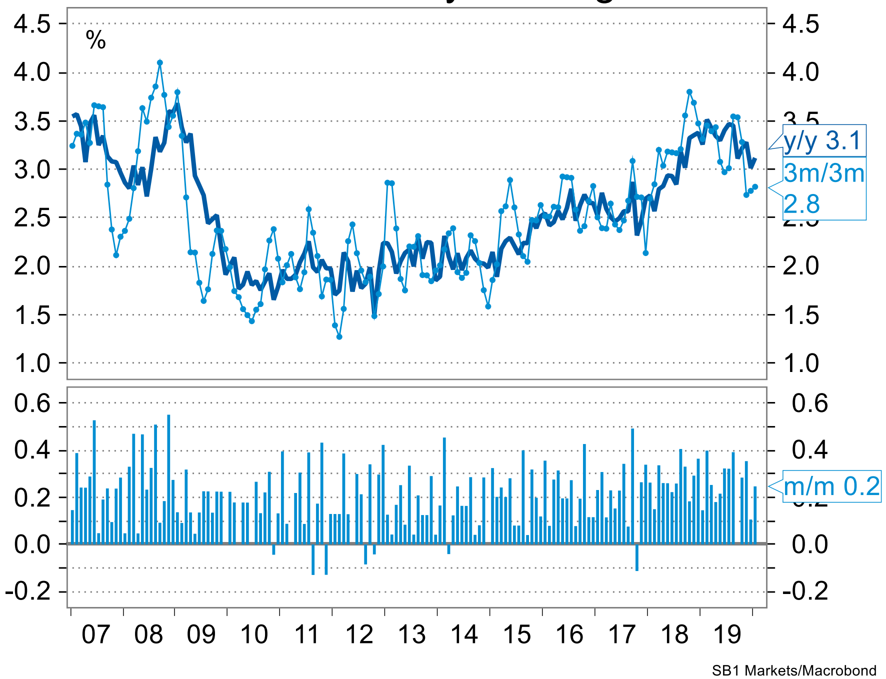


- While the total employment rate (over 16 y) is well below the pre-financial crisis level (by more than 2 pp), the core age group (25-54y) employment rate has been soaring and is now higher than at the 1990 & 2007 peak levels – but it is still 1.3 pp (1,6%) below the ATH in 2000
  - » The core employment/unemployment rate most likely gives the most relevant measure of the tightness of the labour market
- The 'core' participation rate egded up to 83.1 (up 0.2 pp) in January and the employment rate to 80.6%
  - » The 'core' unemployment rate was unch at 3.0%
- The good news is that the participation rate still is still heading up, implying that there may still be some reserves left
- However, given employers' unprecedented reported lack of labour, the increase in participation is far from impressive, *check here*

Wage growth is subsiding, but unchanged at upward revised 3.1% in Jan

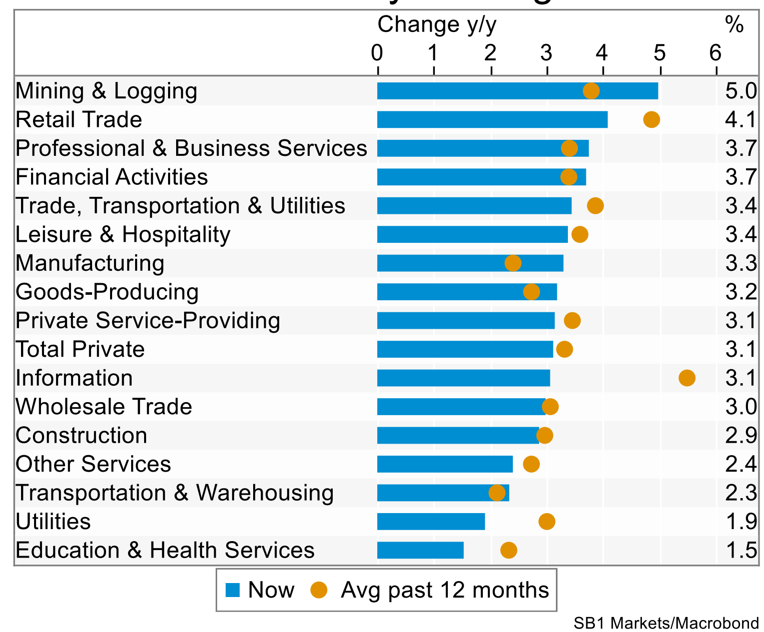
Wages rose 0.2% in January, 0.1 pp below expectations, but previous months were revised up

USA Hourly earnings



- Wage inflation is not high vs historical standards but it is not low vs. underlying CPI inflation, and not vs productivity growth, see three pages further out
- Small companies (NFIB) are reporting the most aggressive wage compensation plans since 1990

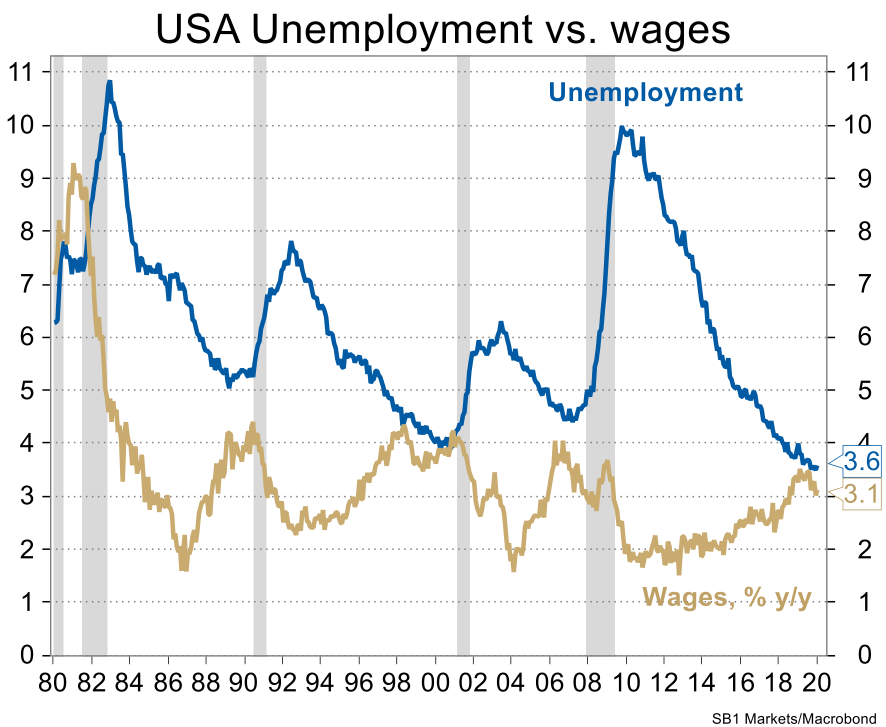
USA Hourly earnings

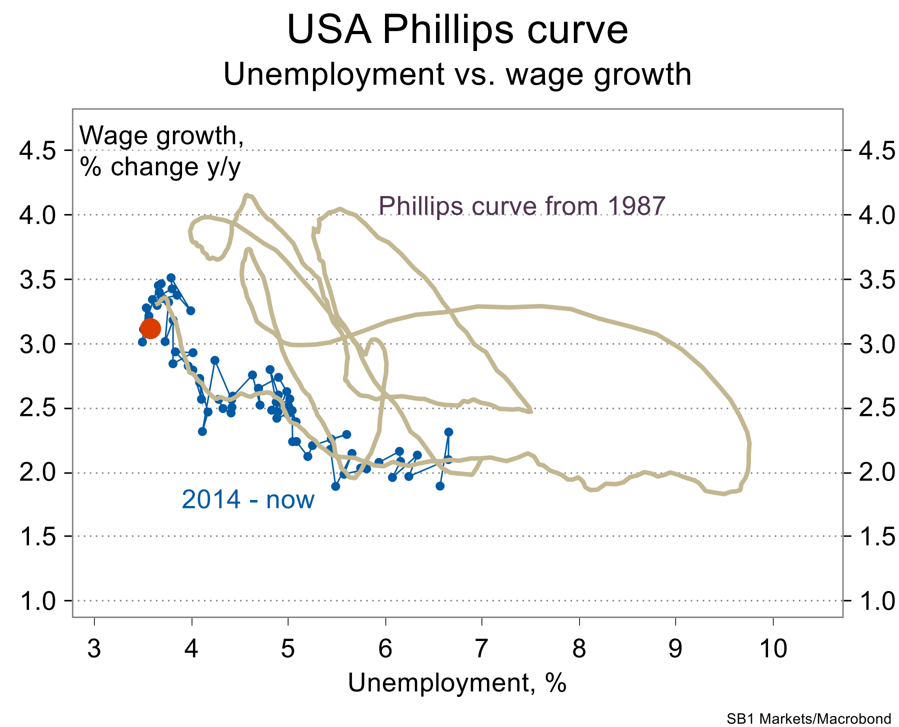


- Wages grew 0.2% m/m in January, expected up 0.3%. The annual rate held steady at 3.1%, but from an 0.2 pp upward revision of the previous months (at 2.9%). Anyway, wage growth peaked in mid-2019, at 3.5%, and has turned down since. Underlying growth steady at 2.8% (3m/3m)
- All indicators are pointing to a tight labour market, hence, the slowdown in wage inflation in 2019 is rather strange, at least if we forget trade war uncertainty and weak manufacturing surveys
- Annual wage inflation is decelerating vs. the past 12m average in 9 out of 17 sectors, accelerating in 6. Wages are now increasing at the fastest rate in mining & logging, retail trade and professional & business services

Wage inflation lower than 'usual' vs. the unemployment rate

Even if the Phillips curve is flatter than before it is definitely not flat

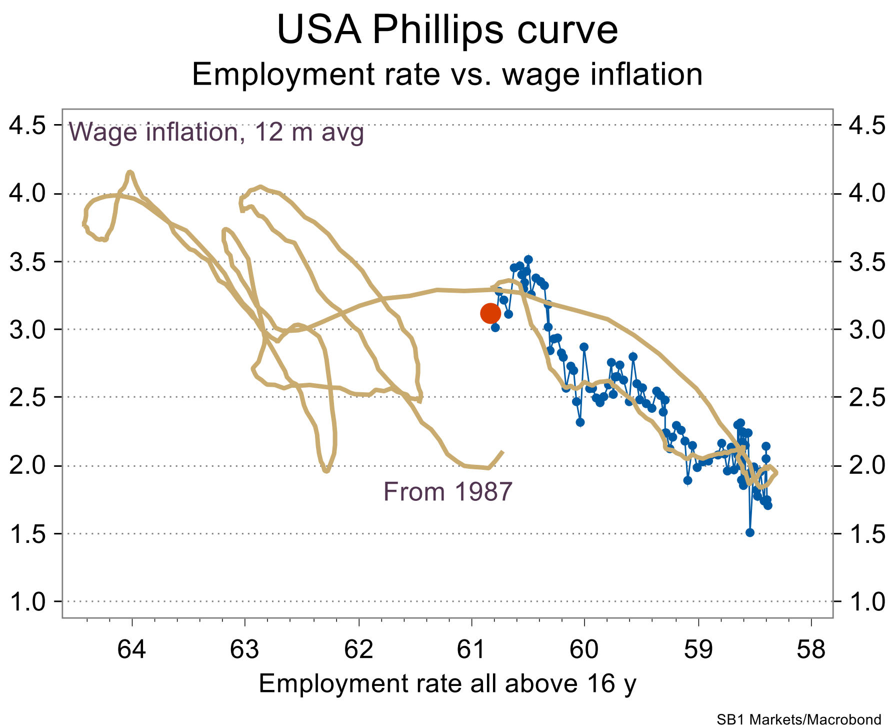


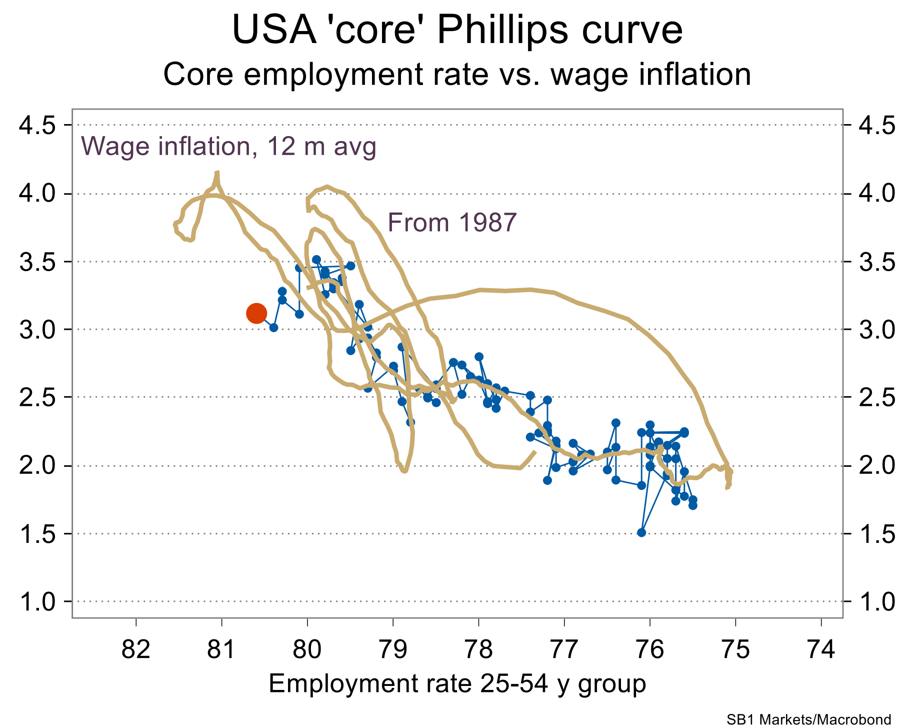


- However, we would not have guessed told in early 2019 that the unemployment rate should decline to 3.6% and that wage inflation should decrease to 3.1%, from 3.5%
- On the other hand, if we calculate the Phillips curve using the employment rate, or the core (25-55y) employment rate, the Phillips curve is either far to the 'right' (and not to the 'left' as at the chart above) or just pretty normal, check the next slide

Two alternative Phillips curves – wage inflation vs. employment rates

Wage inflation is lower than normal vs the core employment rate, but not vs total employment rate



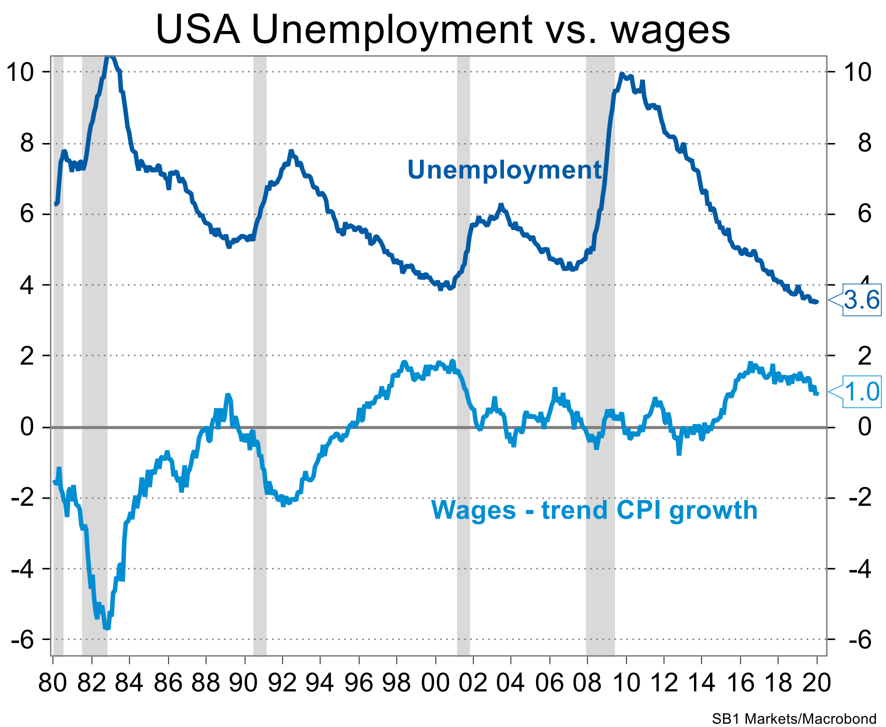


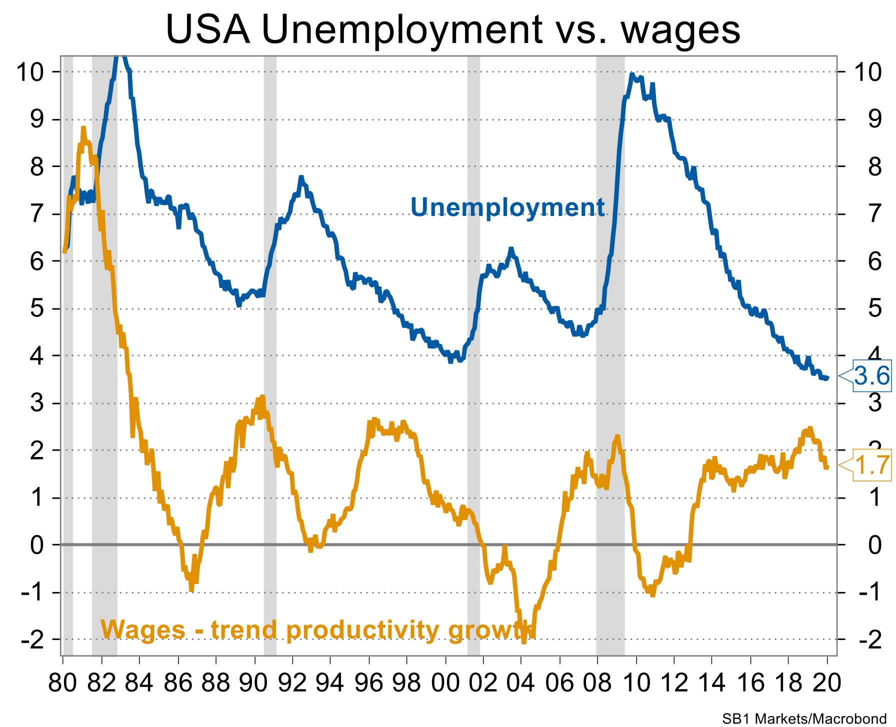
Wage inflation is

1) <u>Too low</u> vs. the unemployment rate (previous page)
2) <u>Too low</u> vs. the core employment rate (chart to the right) but not by much and *only recent five months*
3) <u>Too high</u> vs. the total employment rate, a least historically (chart to the left above)

Wage inflation is not low vs. prices or productivity

In fact, real wages are still increasing faster than normal, and more than normal vs. productivity

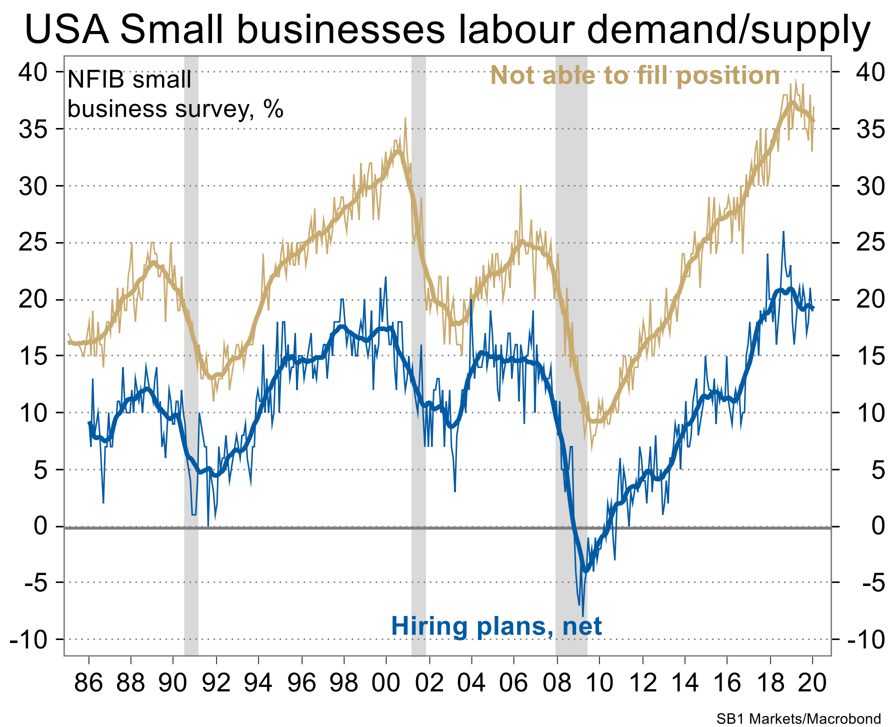


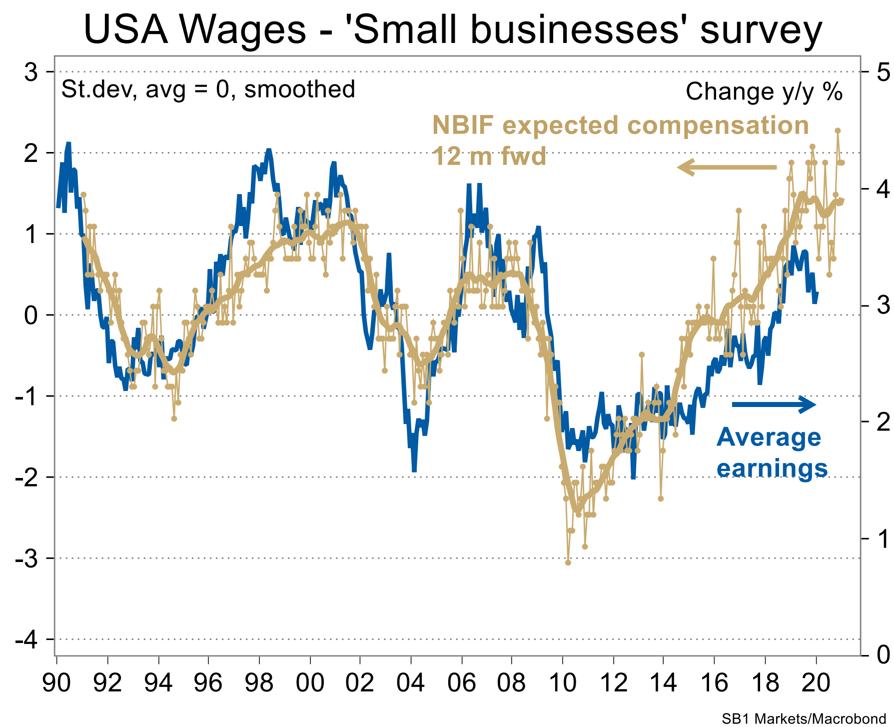


- The wage inflation – productivity growth gap, or labour cost per unit produced (ULC, unit labour cost, using the monthly wage data vs the underlying trend in productivity) is 1.7%, slowing from above 2% in early 2019, but higher than usual (avg since 1964 at 0.7%, or 0.6% since 2000)
- Another indication: The corporate profit share has fallen sharply the previous years because cost inflation (=wage inflation – productivity growth) has been higher than inflation, as normal when the labour market tightens
- Real wages have been increasing faster than normal too

Small companies still report record rapid wage increases, tight labour markets

The share of businesses not able to fill positions have turned down from peak but remains elevated



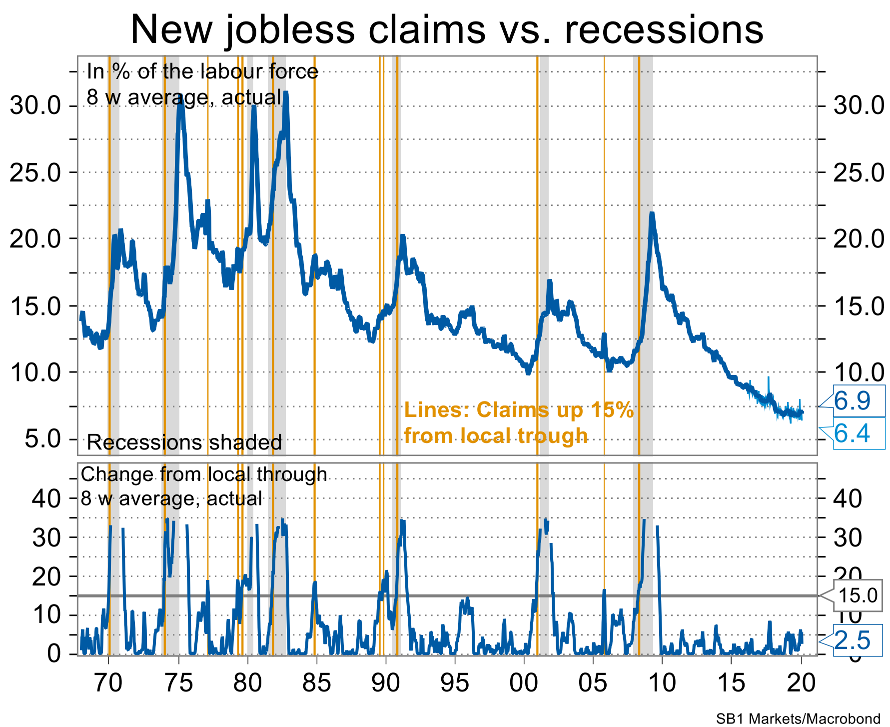


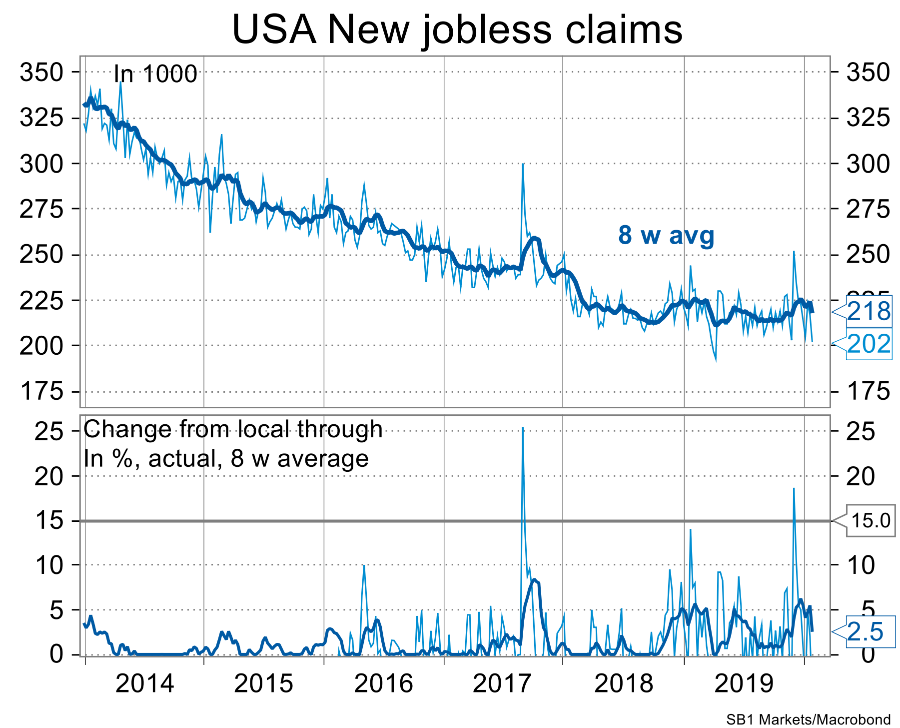
- SME companies are reporting aggressive hiring plans, although marginally less so than a year ago. That's may be an early sign of demand weakness, or just difficulties attracting labour. The level is anyway very close to record high
  - » Hiring plans are leading unemployment approx 8 months, unfilled vacancies by 6 months. As both have turned marginally down, it may be an indication that unemployment will turn up soon. On the other hand, these survey data confirm a tight labour market
- The share of companies reporting difficulties filling their vacancies have edged down since last spring. However, the level is still very high, and companies are also reporting unprecedented problems finding qualified labour (check next page)
- Compensation expectations are soaring and the level is the highest on record! Must be a sign of an acceleration in wage growth??

SpareBank 1 MARKETS

Jobless claims dropped again last week, level is very low

Claims edged down to 202' last week, the 3rd lowest in 50 years!

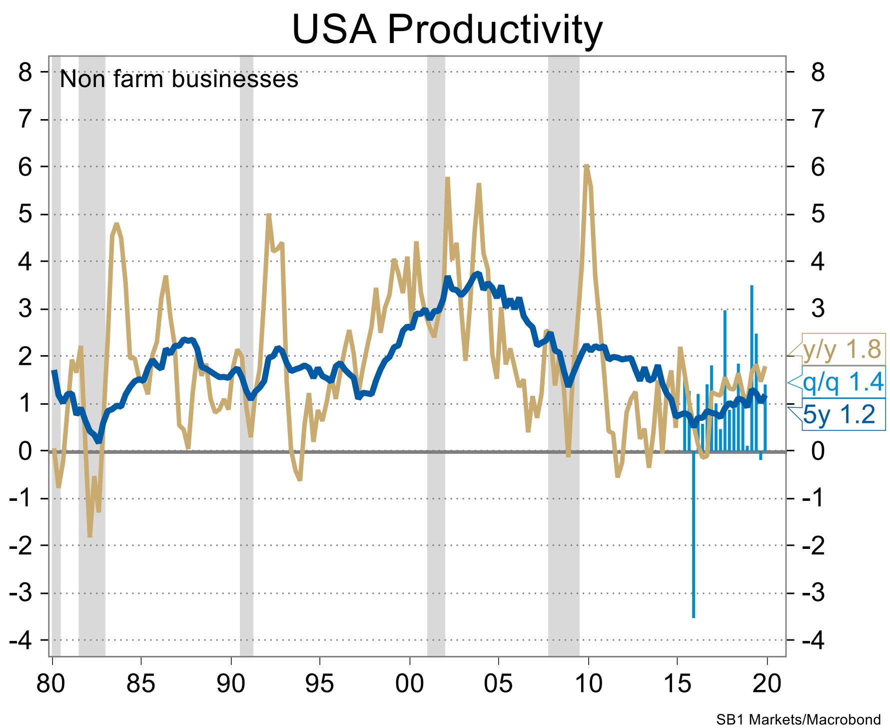


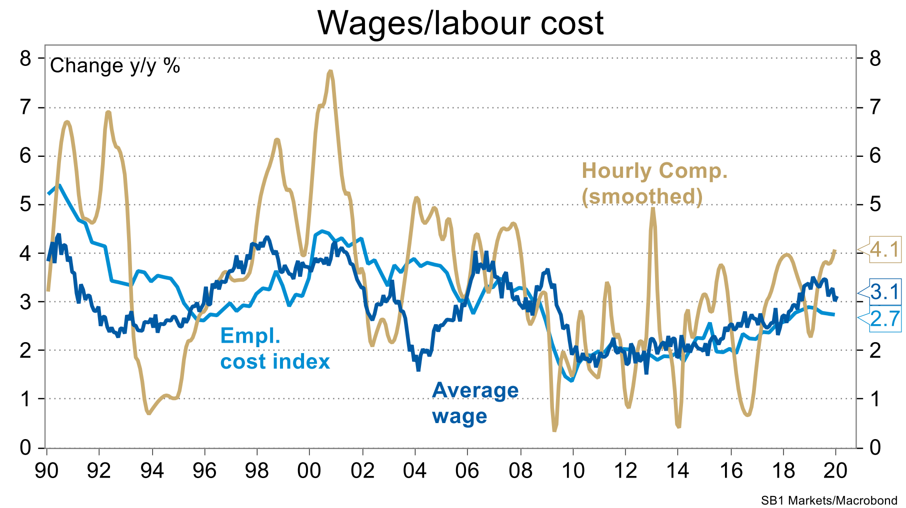


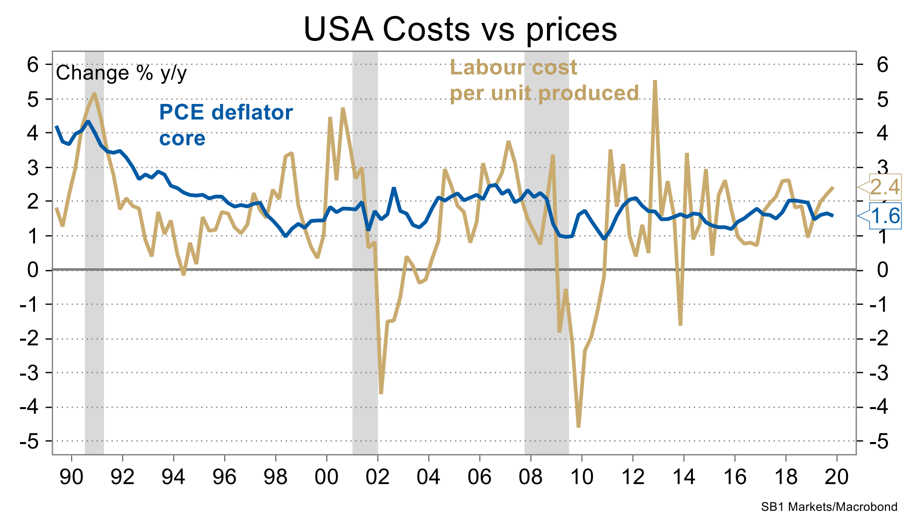
- In December, jobless claims were distorted by a later than usual Thanksgiving holiday. Since then, claims have fallen down to a very low level again, confirming that the upswing was not based on any underlying weakness
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually 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?

Productivity growth returned in Q4, trending slowly up - but cost inflation up too

Productivity rose 1.4% q/q, as expected (1.8% y/y); unit labour cost inflation slowed to 1.4% q/q



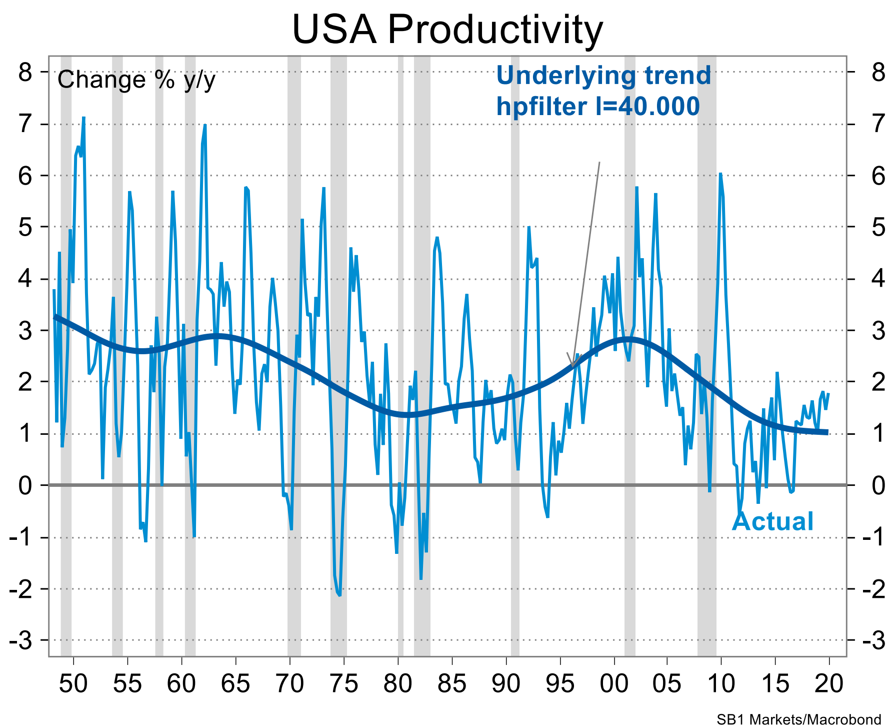


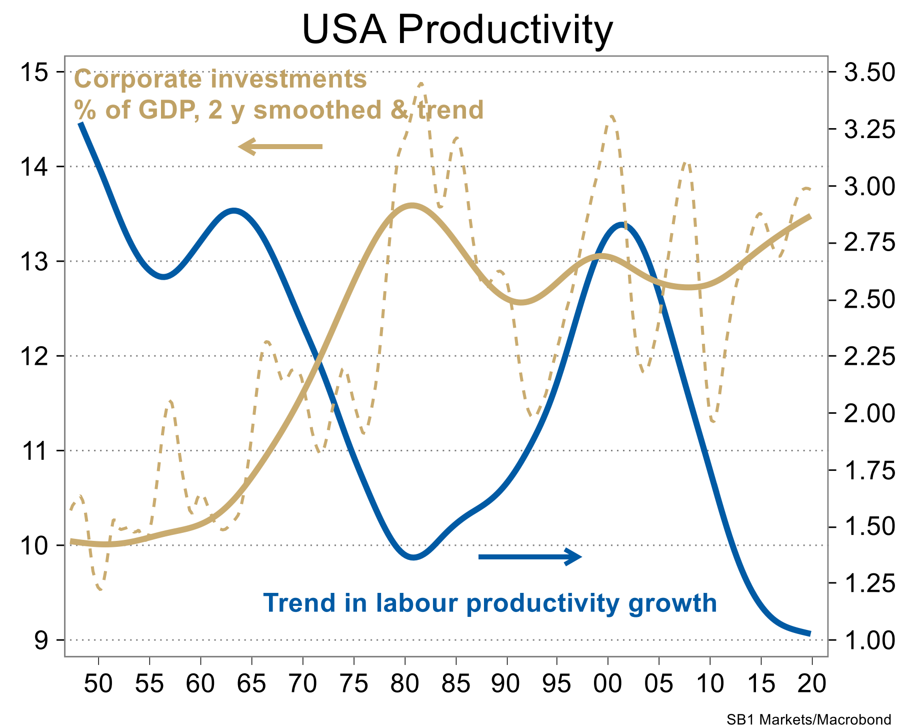


- Productivity increased by 1.4% annualized in Q4, after stalling in Q3. The annual rate ticked up to 1.8%, trending slowly up. The 5 y average is inching up too, to 1.2%, still a modest growth rate
- **At the same time, growth in labour compensation is accelerating**, thus bringing growth in unit labour costs up. ULC rose 1.4% q/q, a slowdown from Q3 but the annual rate climbed to 2.4%. Cost pressure is no doubt building up, taking its toll on corporate profits, the profit rate has fallen
- **Underlying total wage inflation is well above 3%, and underlying productivity growth at some 1.5%. <u>Underlying ULC inflation is probably not below 2%, like we have assumed for a while</u>**

Where is the trend productivity growth? The most important figure…

It is, per definition, impossible to know in real time where the long term trend is





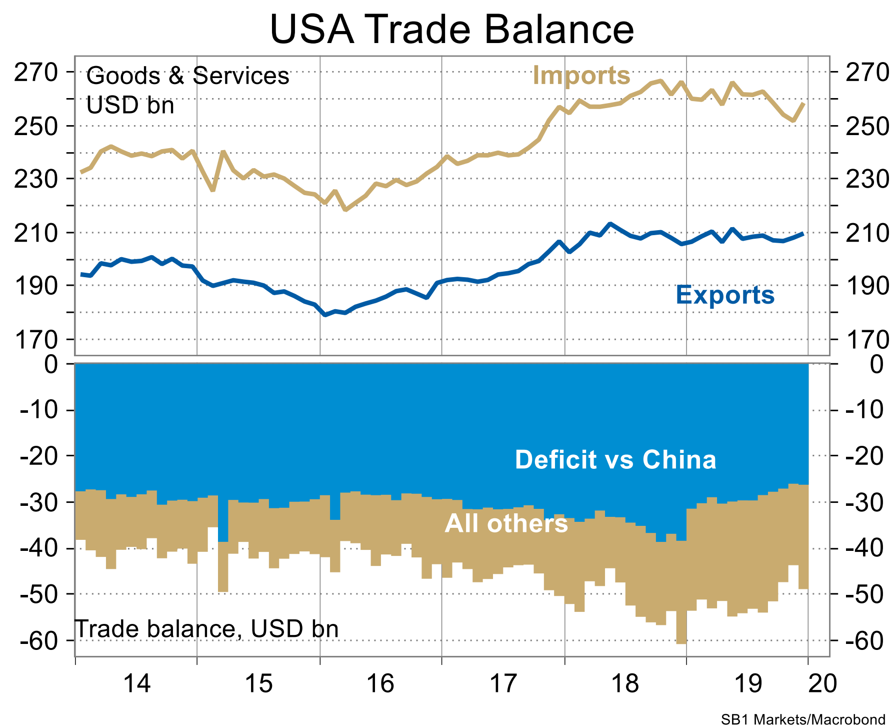
What is the underlying labour productivity growth now? We do not for sure know before well after the fact. We (always) have three alternatives:

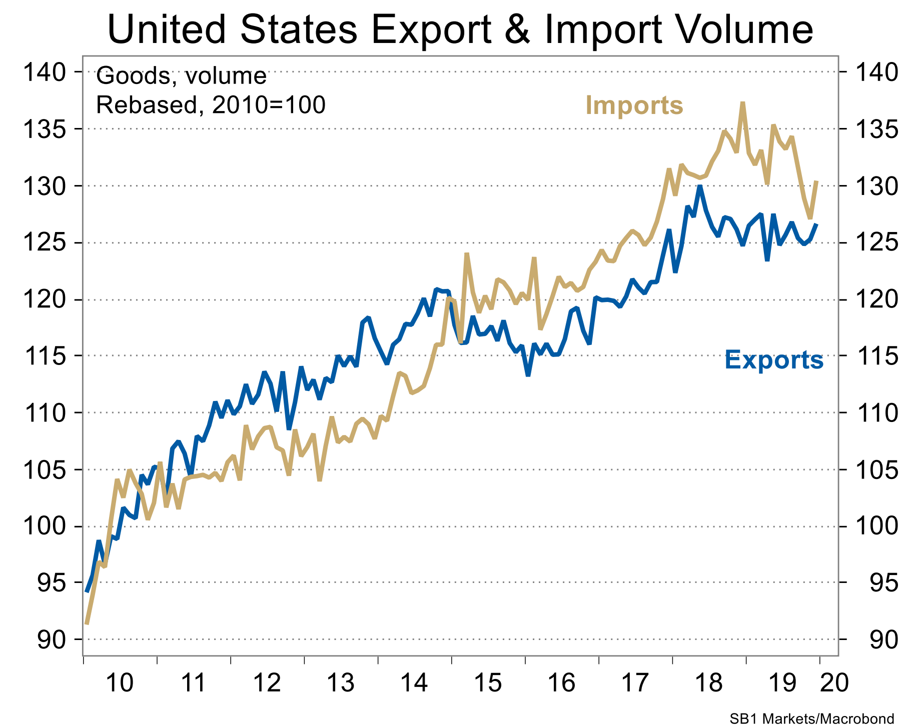
1) A normal short term impact due to a faster GDP-growth (hours worked is adjusted over time)
2) A medium term increase in productivity due to lack of labour and higher wages that incentivise companies to rationalise by utilising and investing in known technology, methods
3) A longer term in productivity growth due to a structural recovery, and implementation of new and more efficient technologies, possibly embedded in investments. However there is no close correlation between the smoothed investment ratio and trend in productivity growth

The good news: Growth in productivity has been slowly moving up since the bottom after the financial crisis recession

A wider trade deficit in December, trending in, due to waning imports

Import volumes fell in H2 (and marginally in 2019), exports completely flat

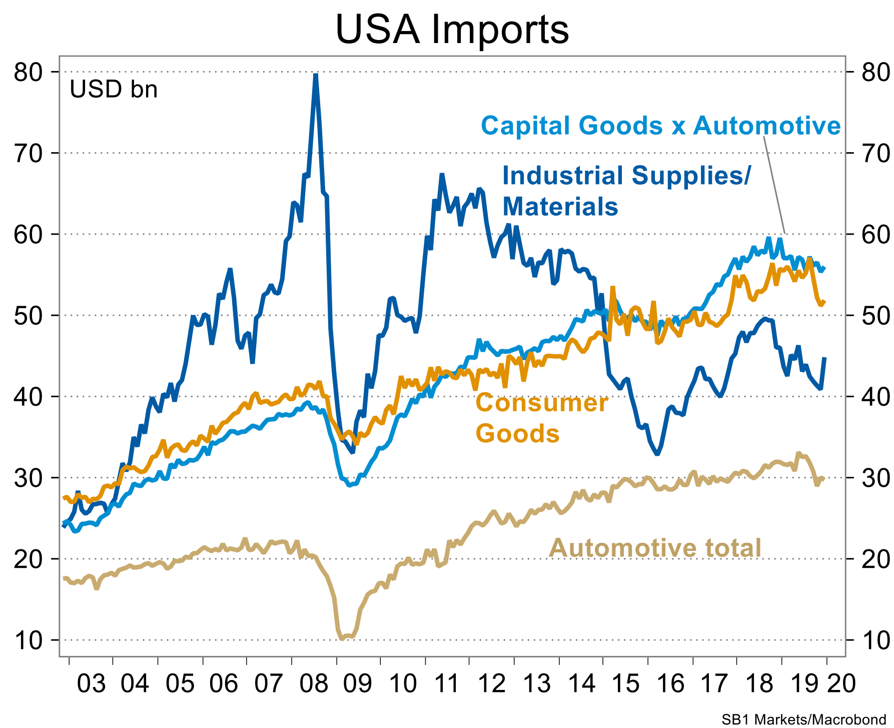


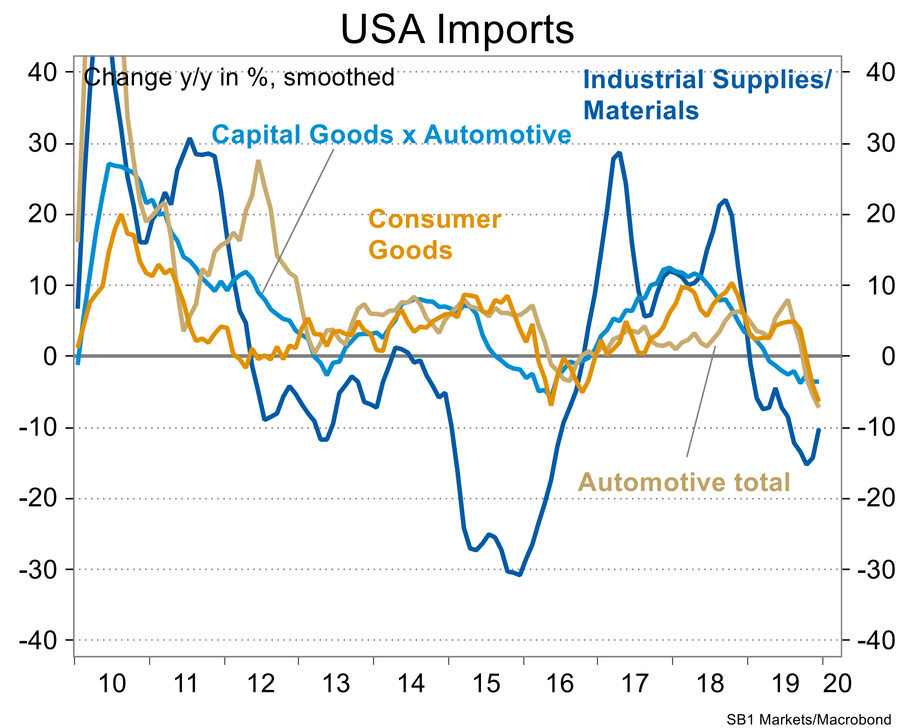


- The overall trade deficit of goods & services widened to USD 48.9 bn in December. The deficit has declined rapidly the past months, and probably more than cooling domestic demand explains; higher domestic oil production and some tariff impacts also to blame
  - » Imports rebounded 2.7% m/m in volume terms. Imports are down 3% y/y and fell by 9% annualized in Q4. Domestic demand is no doubt a drag. The deficit to China is shrinking, as the trade war/tariffs have dampened Chinese exports. In addition, net petroleum exports have turned positive and explains approx. 40% of the cut in the deficit since the summer – driven by higher shale oil production
  - » Export volumes rose 0.8% m/m in Dec, +0.1% in Q4. Exports have flattened out since mid-2018, the annual rate is up 1.9%, as Dec '18 was weak
- The deficit vs. China is reduced substantially, no doubt due to the trade war. The deficit is still widening vs most trading partners

A broad imports slowdown, led by industrial materials, now recovering

Capital goods have fallen the least, and less much than consumer goods recent months

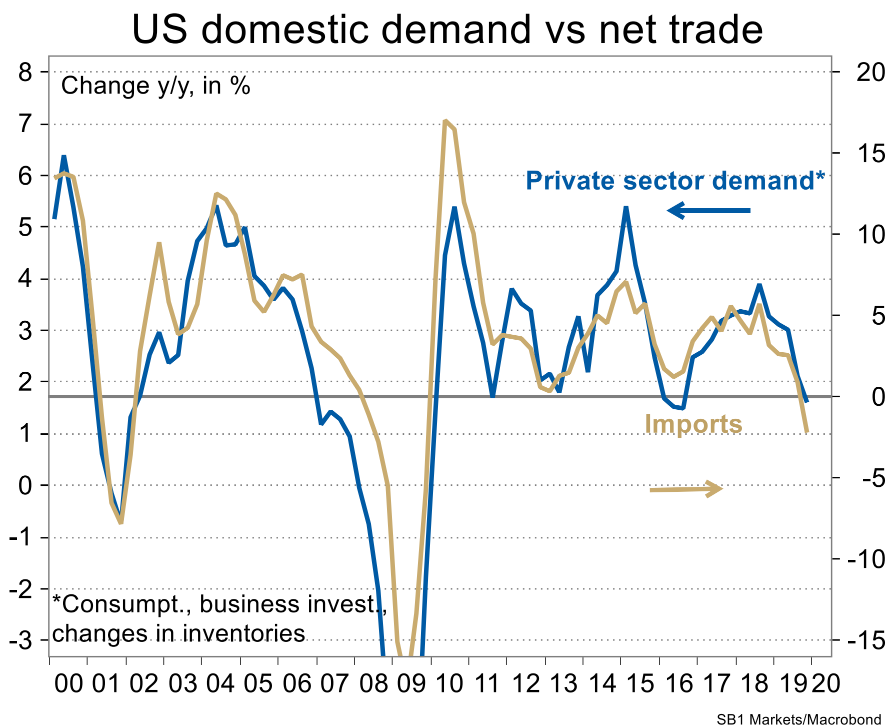


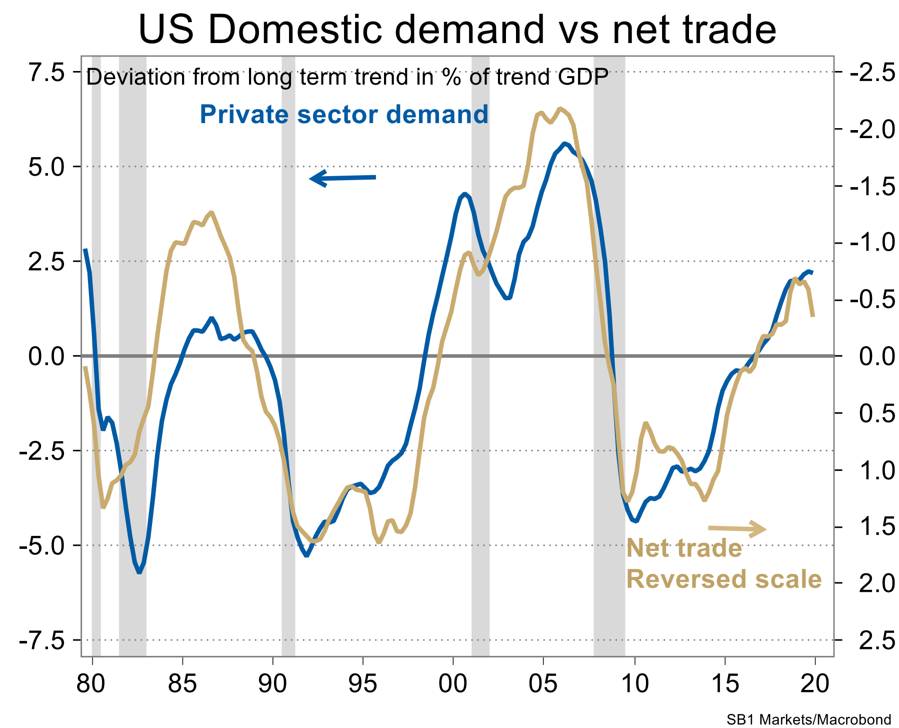


- Imports of industrial supplies and materials are more volatile than the other groups

Imports are always slowing along with softer private domestic demand

Now, imports have cooled somewhat 'more' than domestic demand, due to lower oil imports & China

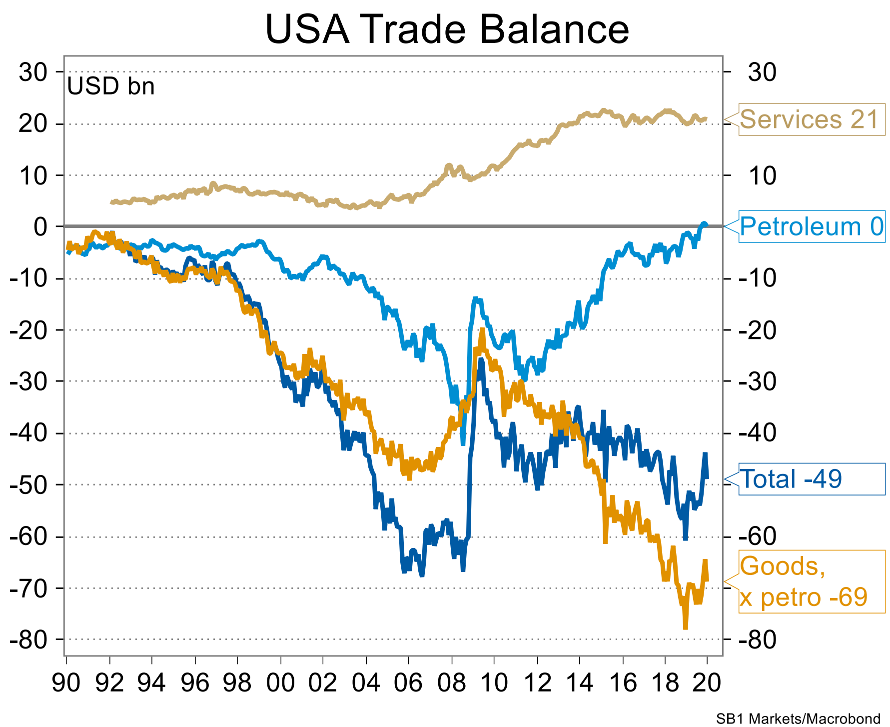


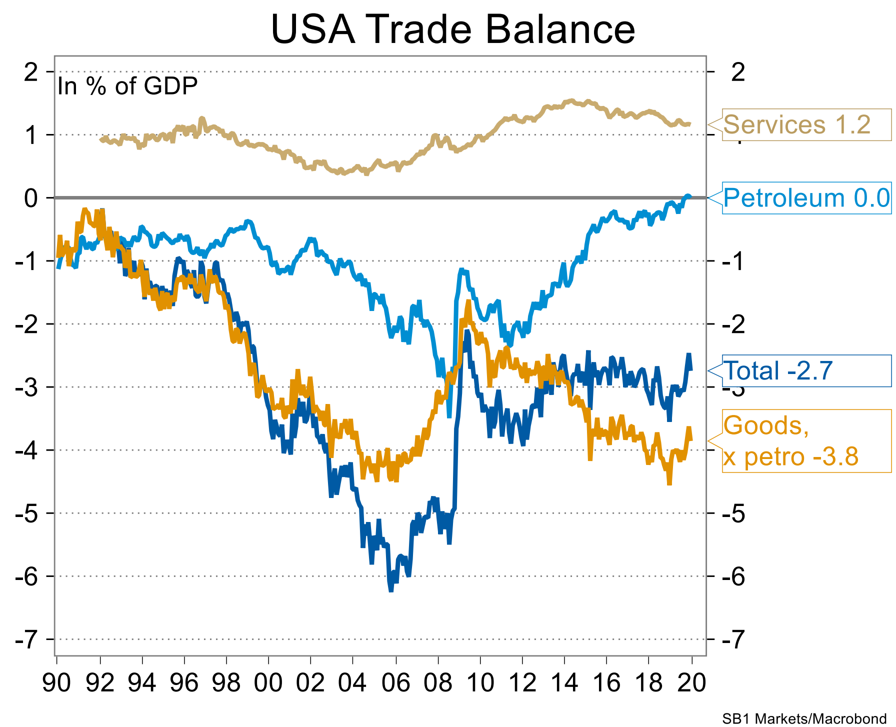


- The trade war may of course have dampened US investments and consumption. However, imports have not been reduced due directly to the tariffs (just to China, but other deficits have increased), global uncertainties probably more important

US is no longer running a deficit in petroleum; massively in other goods sectors

The goods deficit ex petroleum is shrinking but remains very high, even in % of GDP, at 3.8%



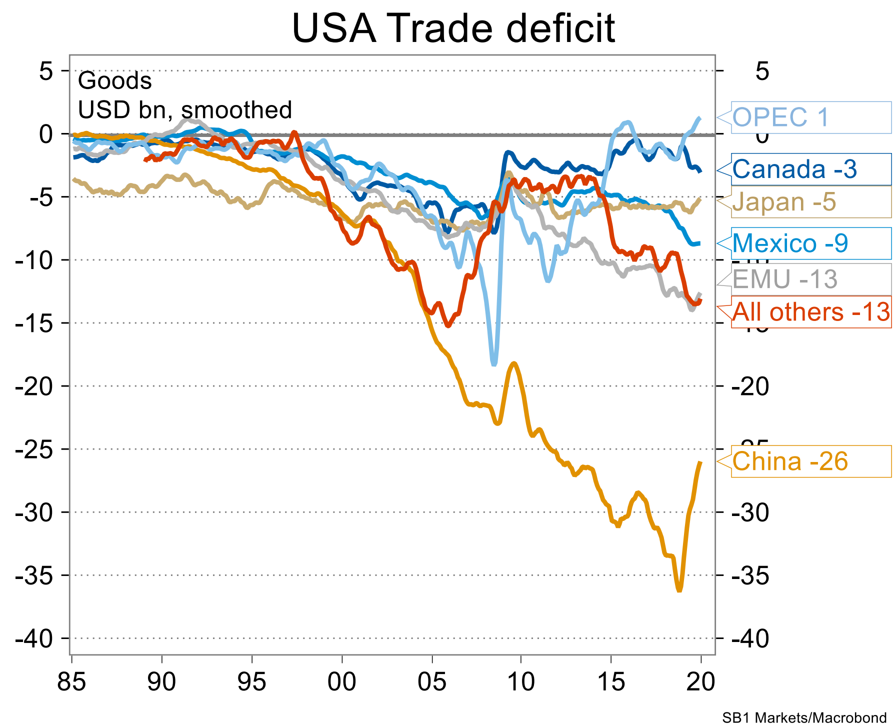


- In December, the goods x petro products deficit widened to USD -69 bn, or 3.8% of GDP. The deficit reached ATH in Dec '18 and has been slowly shrinking since then. The total trade deficit, including petroleum (and services), is at 2.7% of GDP, down from 3% in the summer
- The petroleum trade deficit has disappeared, from USD 30 bn/m in 2012
- The US is having a surplus in services at USD 21 bn, equalling 1.2 of GDP, trending slowly down now

SpareBank 1 MARKETS

The deficit vs. China is narrowing, due to lower imports from China

The deficit vs OPEC is turned to a small surplus. Deficits vs Mexico, Canada, Eurozone heading out

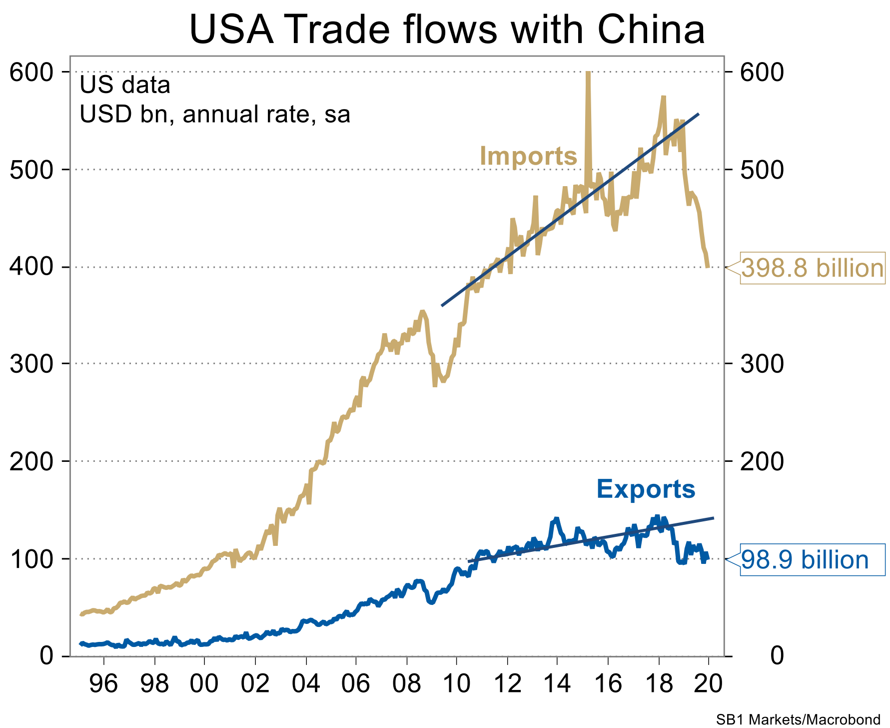


- The US deficit in goods (no services in these country stats) vs China equals 40% of the total deficit in goods
- The deficit vs Mexico has widened markedly the past 1 ½ year, vs EMU it trending out too, however it has declined the past 5-6 months. The deficit vs Canada is widening too, but close to balance
- The US runs a surplus vs OPEC countries, +USD 1 bn
- The deficits in goods vs most other countries have been widening sharply recent years, barring Japan (flat)

SpareBank 1 MARKETS

US imports from China have fallen more than exports to China

Tariffs have hurt bilateral trade significantly, and China more than US most recently

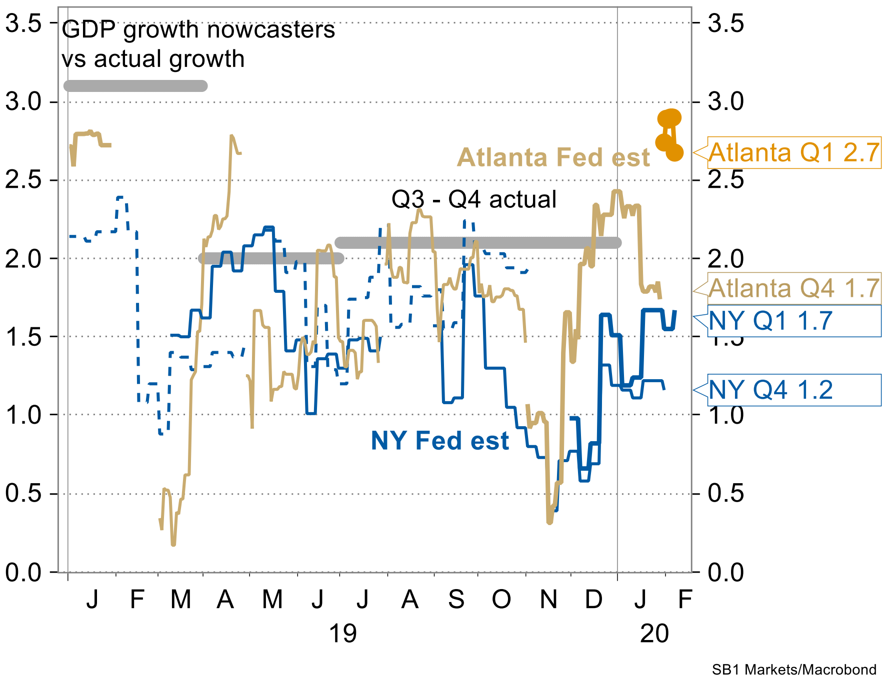


- According to US data, imports from China have fallen by 27%, and exports to China have fallen by 24% since January 2018, before the first tariffs were implemented. Measured in USD, the decline in imports from China is far larger the decline in exports – and the US deficit vs China has fallen by some USD 150 bn from the 2018 peak, to 300 bn now
- China reports a some USD 100 bn decline in the surplus, from the top. China has always reported a smaller surplus vs. US, than the US figure for deficit vs. China. The discrepancy has been stable over time and is very likely due to exports reported FOB and imports CIF included. (Their respective bilateral export/import data are also very similar, no fake news here)

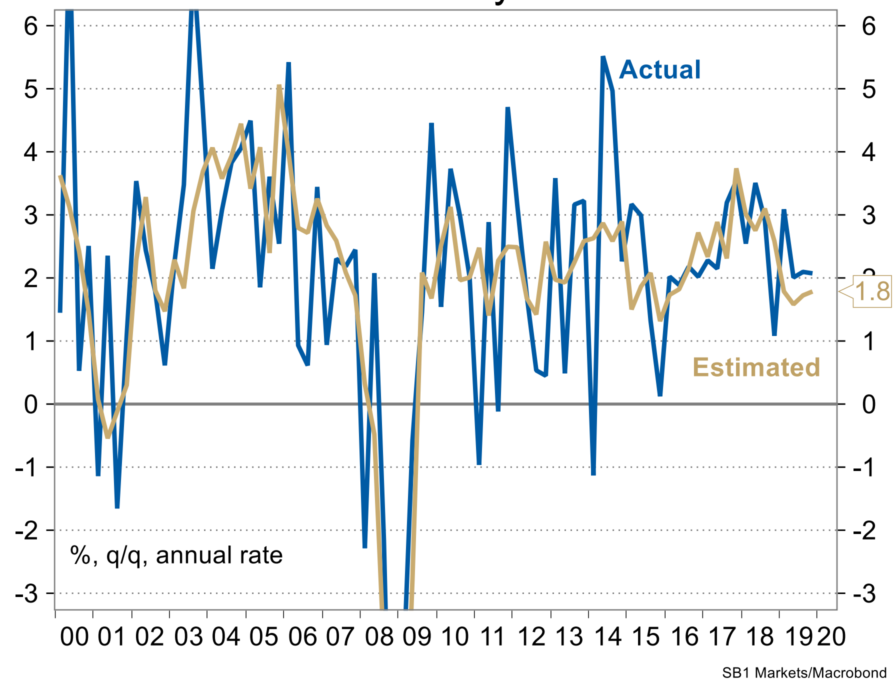
Nowcasters are diverged on Q1 growth this far: 1.7% – 2.7%

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

USA Atlanta & NY Fed GDP nowcasts



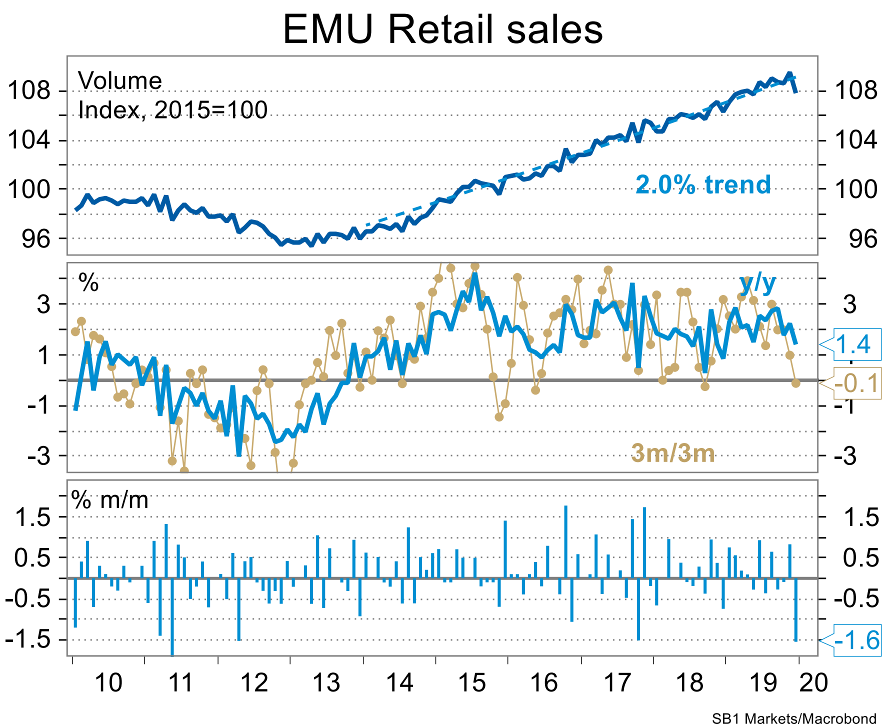
USA National activity index vs GDP

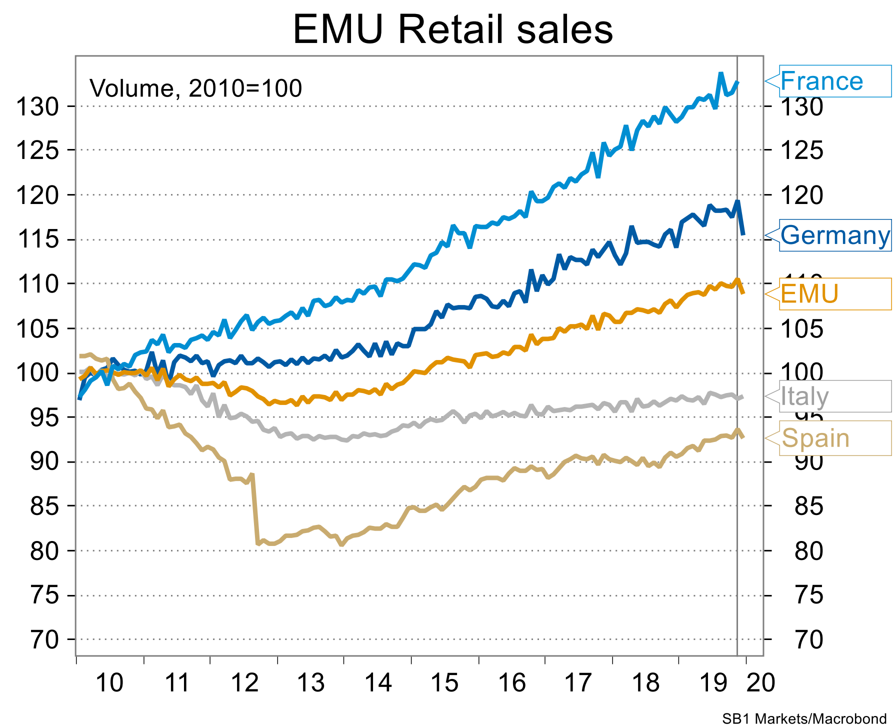


- The National Activity Index signalled a 1.8% growth rate in Q4, vs reported GDP growth at 2.1%

Retail sales slipped in Dec, due to a German dip, we expect a rebound

Sales stalled in Q4 but the moderate upward trend is most likely still intact

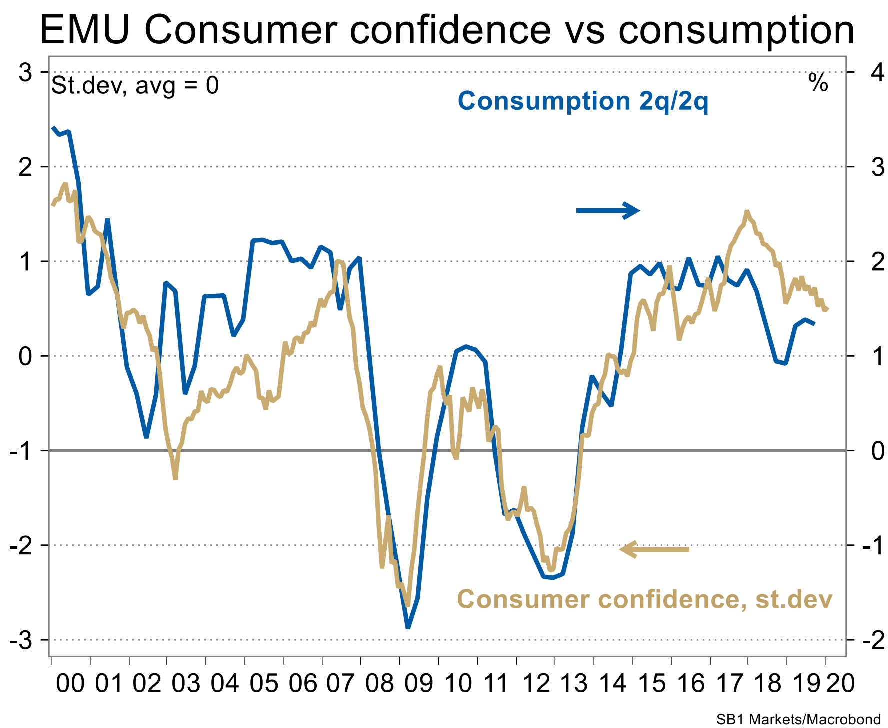


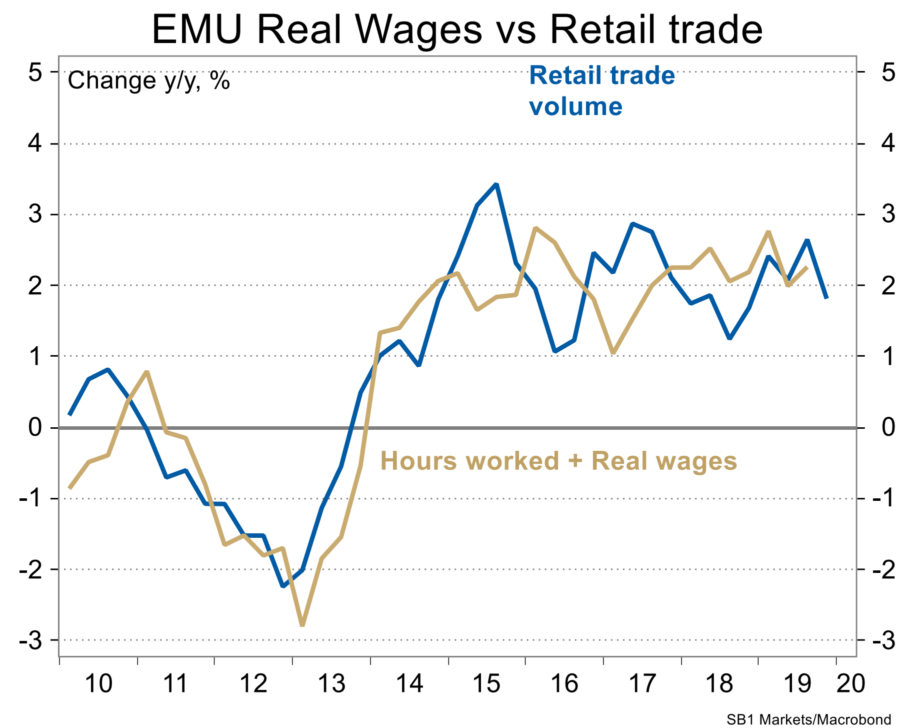


- Retail sales volume fell by surprisingly 1.6% in Dec, more than reversing the November upturn. Thus, sales stagnated in Q4, after growing steadily through most of 2019. The decline was due to a 3.3% plunge in German sales in December. Such steep monthly declines are often usually revised (and if not, reversed) and we have no other indications that consumption is yielding now, after growing steadily amid the manufacturing contraction
  - » Industrial production dropped broadly in Dec too, a longer Christmas holiday than usual (as many probably took the 27th off) may have dampened activity
- We expect continued moderate growth in sales the coming months. Consumer confidence has softened but the level remains elevated, and employment is still growing, although somewhat slower, bringing total wage growth down

Consumer confidence, income do not signal any rapid setback

However, the upside is probably limited, total disposable income growth is not increasing

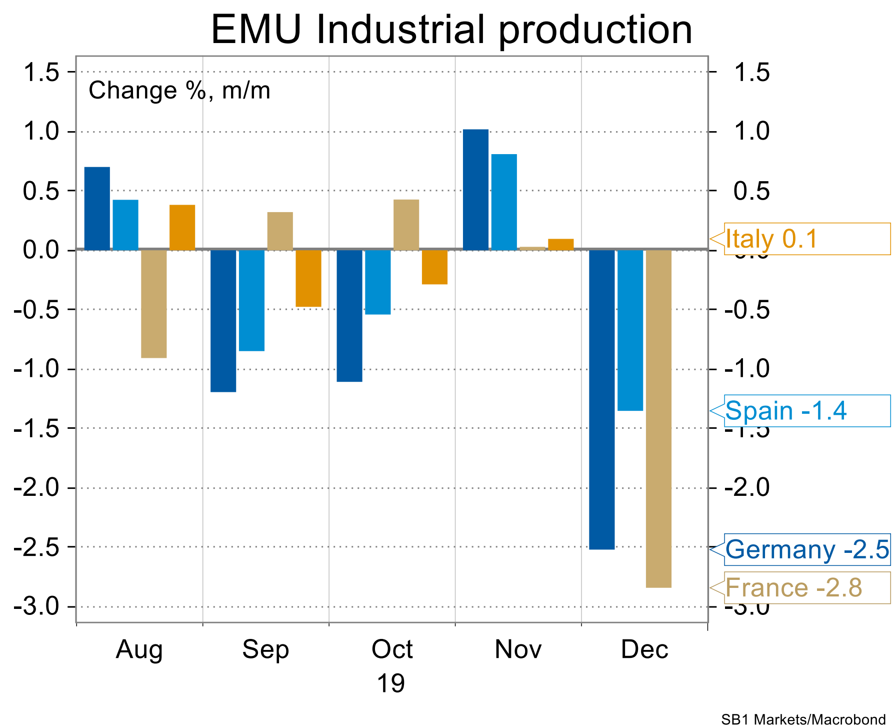


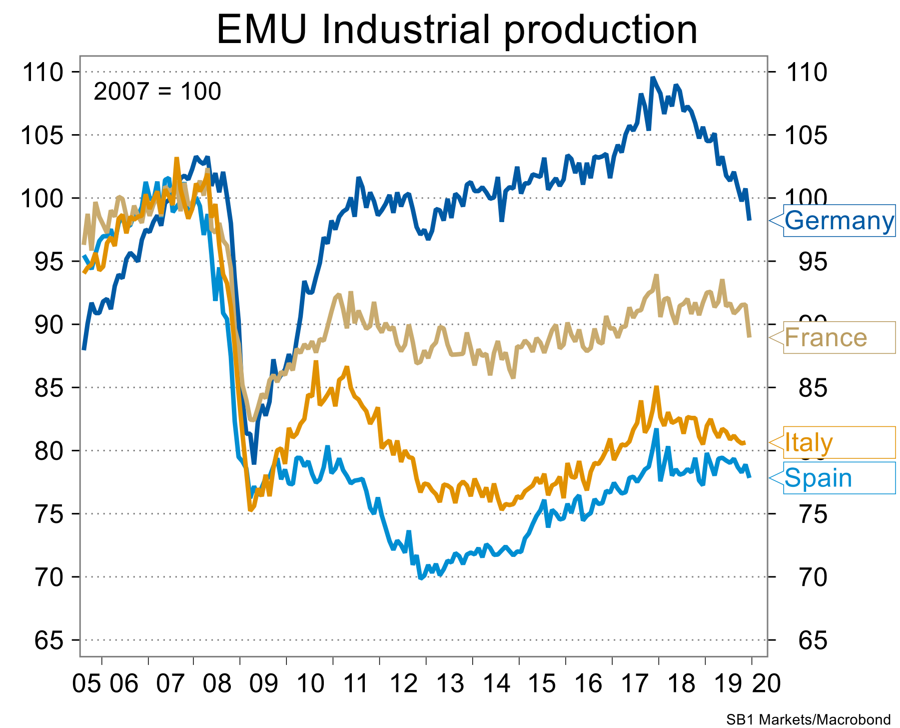


- Consumer confidence have been sliding just very slowly down recent months, the level is still rather high
- Real wages + hours worked, a good proxy of total disposable income has flattened out the past couple of years slowed somewhat the past quarters (barring a slight upturn in Q3). Total income is expanding at a slower speed than sales

Industrial production 'collapsed' in December

Germany, France and Spain report unusual declines (partly due to a too long Christmas holiday?)

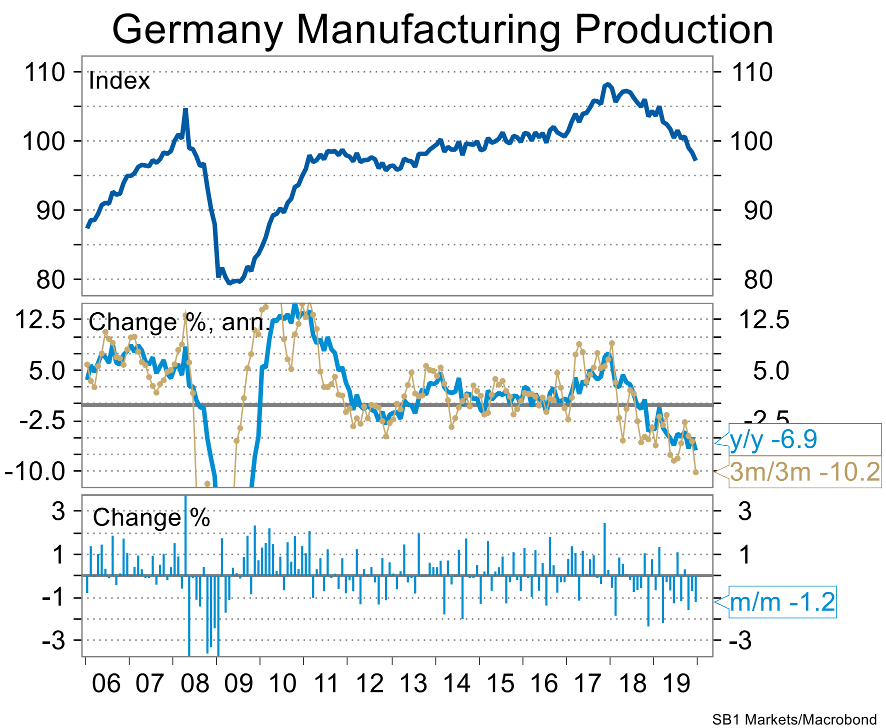


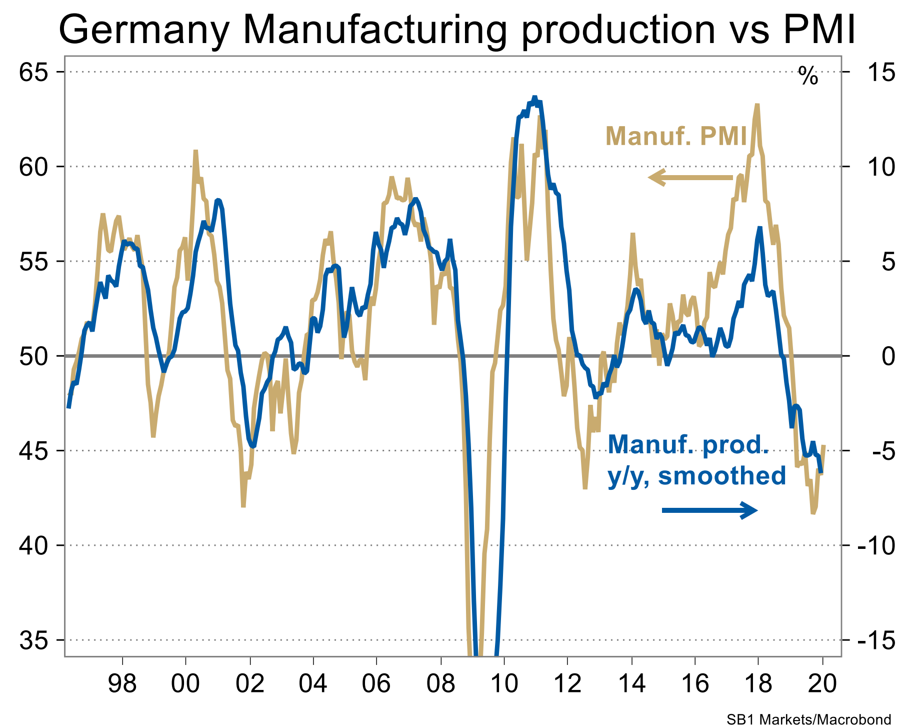


- EMU industrial production (ex construction) most likely fell at least 2% m/m in December and by 5% to Q4 from Q4, and by 2% y/y – the trend is clearly down
  - » German production fell 2.5% m/m (but a better seasonal adjustment yields 'just' -1.2% - however Eurostat uses the former adjustment). In France production fell 2.8%. Spain, Netherlands and Ireland reported substantial declines too
  - » At least some of the Dec decline may be due to more days off than normal during the Christmas week
- Surveys have strengthened somewhat but are still signalling a decline in manufacturing production in the Euro Area

The manufacturing contraction continues, down 10% from peak

Production down 1.2% (or 2.5%) m/m in December, Q4 a disaster

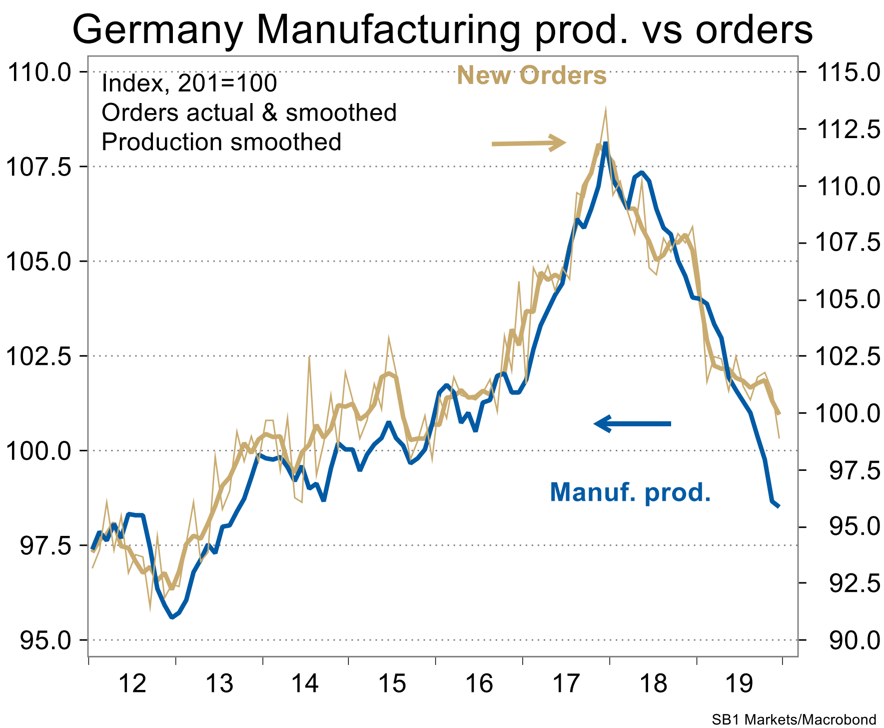


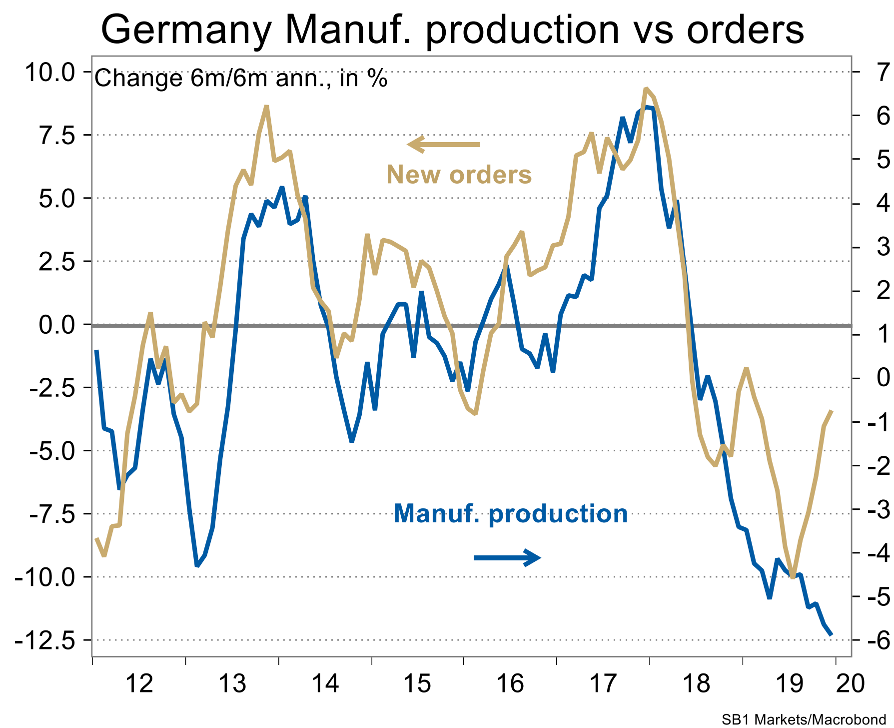


- Industrial (as manufacturing) production has been contracting since last summer, speed of decline now 6.9% y/y. Production fell 1.2% m/m in December (or -2.5% if the most used but far too volatile seasonal adjustment is applied). A modest 0.2% decline was expected.
  - » More days off than normal during the Christmas week may explain some of the weakness in December, but the trend is undisputable
  - » Trouble in the auto industries just partly to blame for the 10% (!!!) decline since early 2018, production drops in most sectors, check the 2 next pages. The trade war, Brexit uncertainties have contributed but the main culprit is domestic demand
- Some hope? PMIs and manufacturing orders are showing signs of recovery, check this slide for the PMIs and orders here

Manufacturing orders further down in Dec but still signal an easing contraction

Orders inflows down ‘just’ 2.2% in Q4, the mildest decline this year

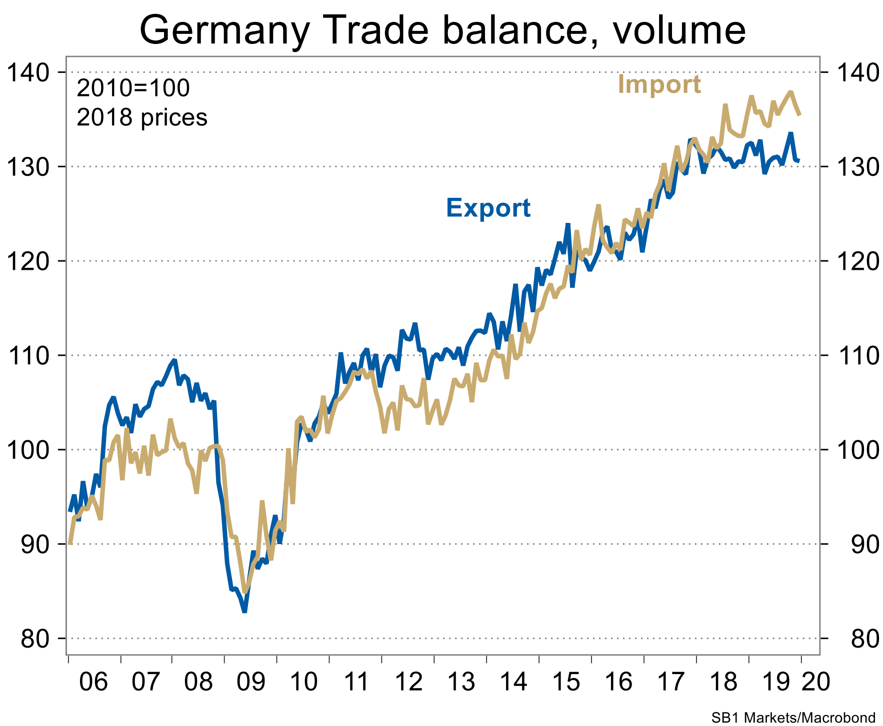


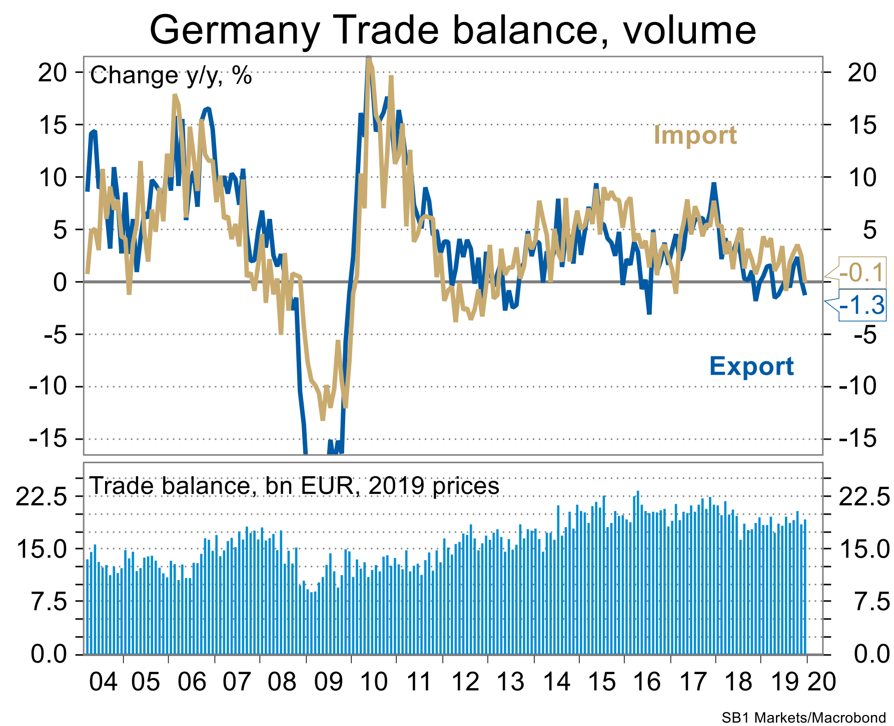


- Total manufacturing orders fell by 2.1% in December, much weaker than expected, after edging close to a stabilisation the prior months. The underlying pace of decline has anyway slowed substantially since the summer, suggesting that the steep decline in manufacturing production may have bottomed out
- The drop in December was driven by weaker export demand, which probably was a one off, as other export data and surveys suggest improving global trade

Exports down in Nov & Dec but are still just flattish. Imports are trending up

Where is the German 'collapse'? Not in exports, not in imports

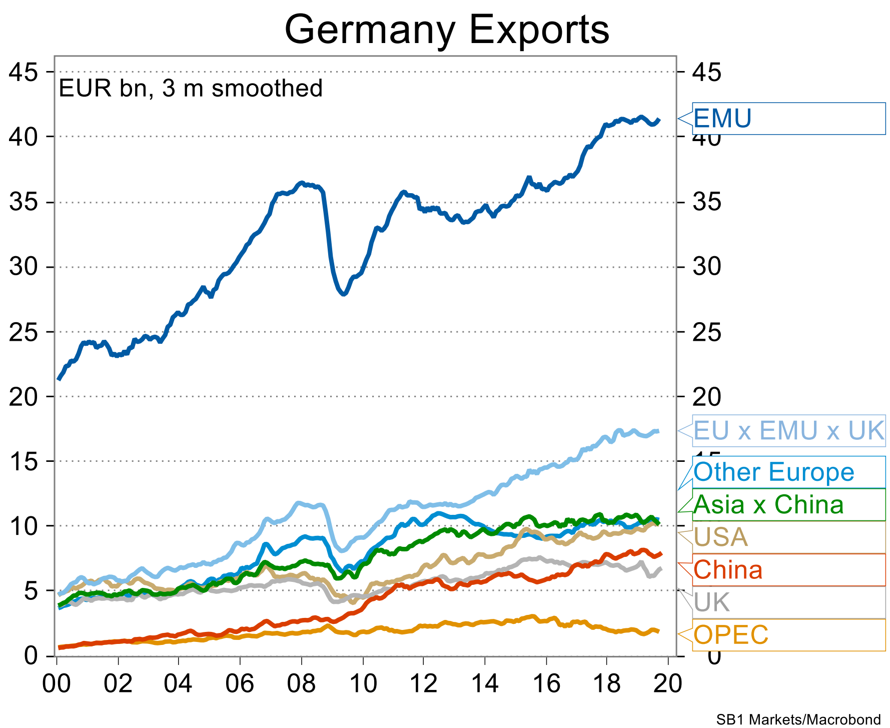


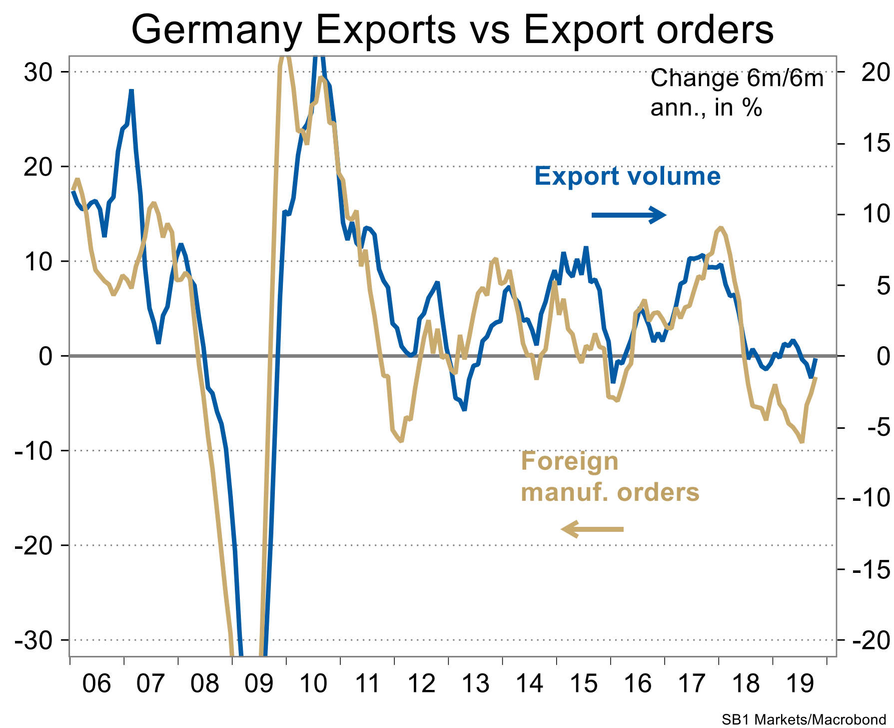


- Export volumes fell marginally in December, following the 2.2% drop in November. Exports have been trending more or less flat since early 2018
  - » Manufacturing production is much 'weaker' than exports, down 6% y/y . Production is a tad weaker than normal given exports, but not by much
  - » German exports have fared somewhat better than total global exports but the discrepancy is not significant. Imports are stronger than global trade
- Import volumes fell 0.8% m/m close to the decline rate in Nov. Imports are still trending up, normally indicating stronger domestic demand (which other data do not confirm)
- The German trade surplus has come down from 2017 but has been close to stable since mid 2018, at some 5.5% of GDP

Exports have flattened out in several directions, US still heading up

Foreign orders may have bottomed out, do not signal much weaker exports

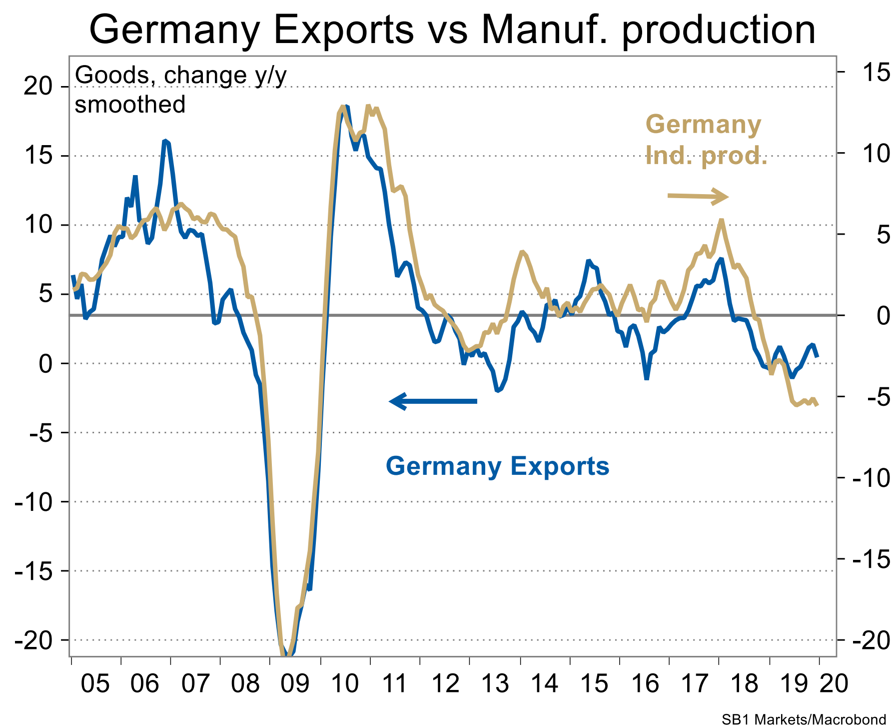




- Most likely, exports have been softening over the past year due to a global retreat in business investments, triggered by trade war/Brexit uncertainties and probably also a 'normal' mature cycle, in Germany and elsewhere
  - » Exports to China have slowed somewhat and are down 1.6% y/y, vs above +8% growth last spring. However, the impact on total exports is limited as exports to China constitutes just 7% of overall German export (contribution to y/y growth equals 0,1 pp)
  - » Exports to UK are recovering after a steep decline in the spring, during Brexit 'preparations'. Exports to the US is still trending up and are growing by some 6% y/y. Exports to other EMU partners have flattened. Exports to Europe x EU have flattened too
  - » Germany's main export markets: The other EMU countries (37%), other EU countries x UK (15%), Asia x China (9%), Europe x EU (10%), USA (9%), China (7%), UK (6%)

Guess what, German foreign trade is very closely correlated to…

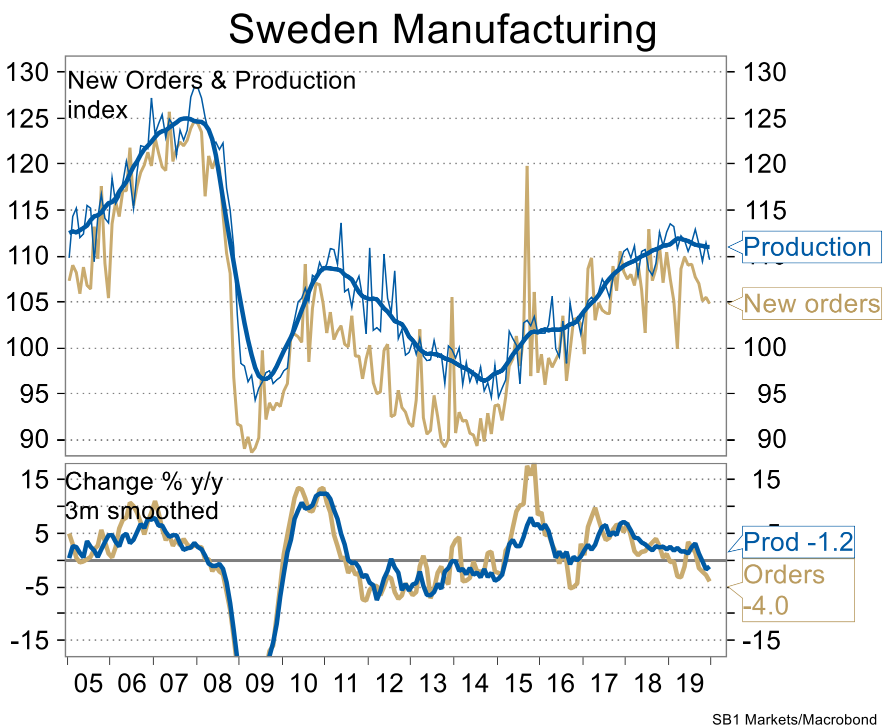
.. global trade. Now, both have been struggling amid trade uncertainties and a mature cycle

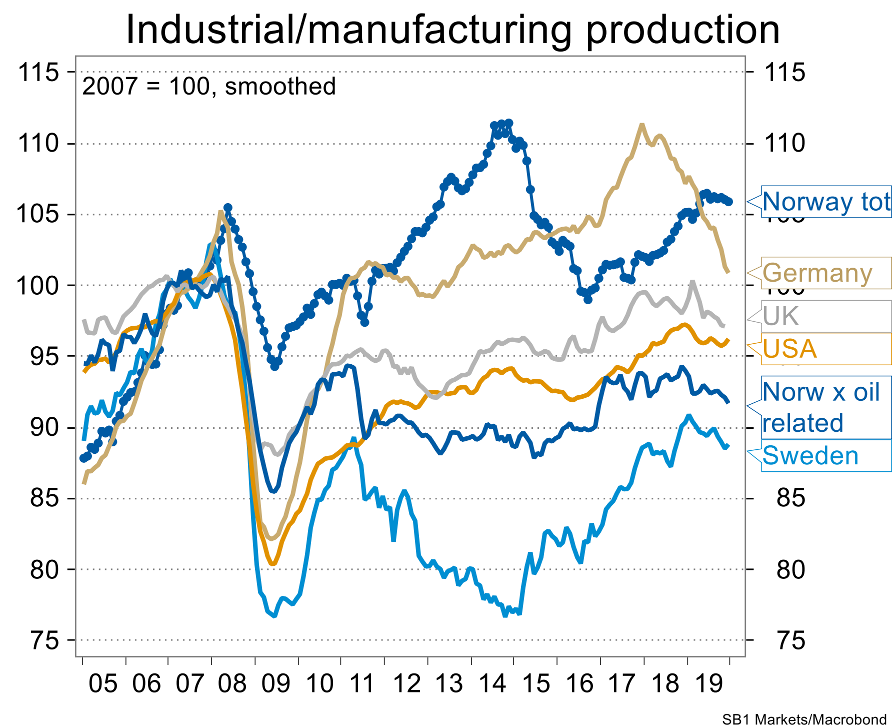


- Both German foreign trade (and thus global trade) is highly correlated to German industrial production, though with production growing at a slower pace. In addition, production is a tad more volatile than exports
  - » In sum, the current decline in production is slightly harsher than 'normal' vs exports, as exports have increased the past months, whereas manufacturing production has kept declining. However, the gap is not much larger than we have seen several times before
- The reason is that domestic demand weakens in line with global demand (or some inventories are emptied or imports have taken a larger market share). Given the upturn in exports and some signs of an easing manufacturing downturn from PMIs/other surveys, some hope??

Manufacturing production and orders down from peak but not dramatically

Production fell 6% in Q4 and manufacturing orders down 10%





- Swedish manufacturing production is down by a 1.2% speed y/y, after adding a 3m smoothing (without any smoothing, production fell 2.7% y/y, but these monthly data are volatile). The decline is rather modest, less than in 2011-2014
- Manuf. orders are down some 4% y/y and do not signal any upturn in production. The weakness is due to both softer domestic and foreign orders
- The manufacturing PMI recovered swiftly in January and suggests a manufacturing stabilization (as globally)

Highlights

The world around us

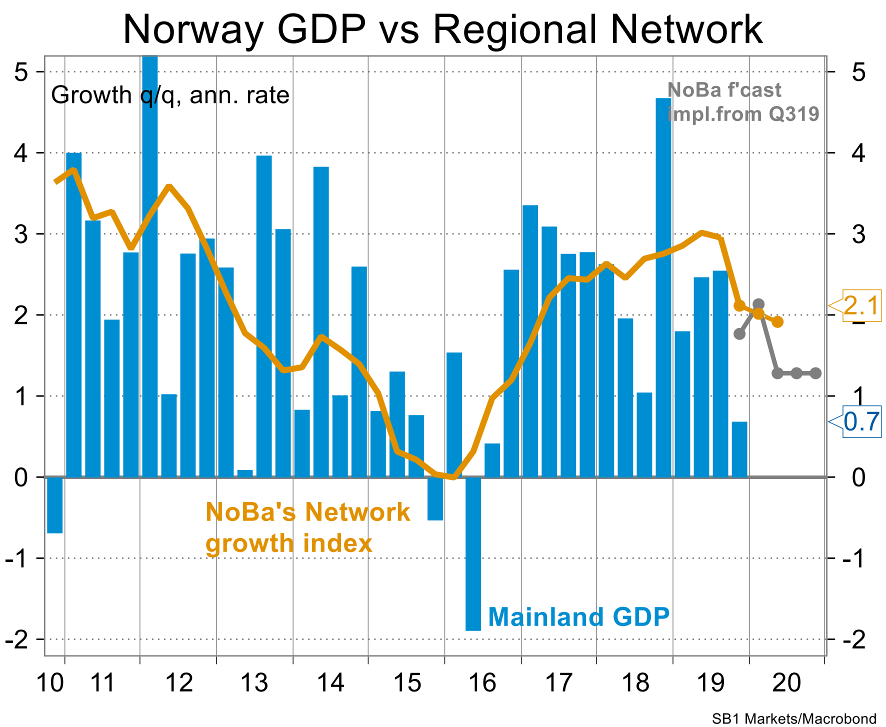
The Norwegian economy

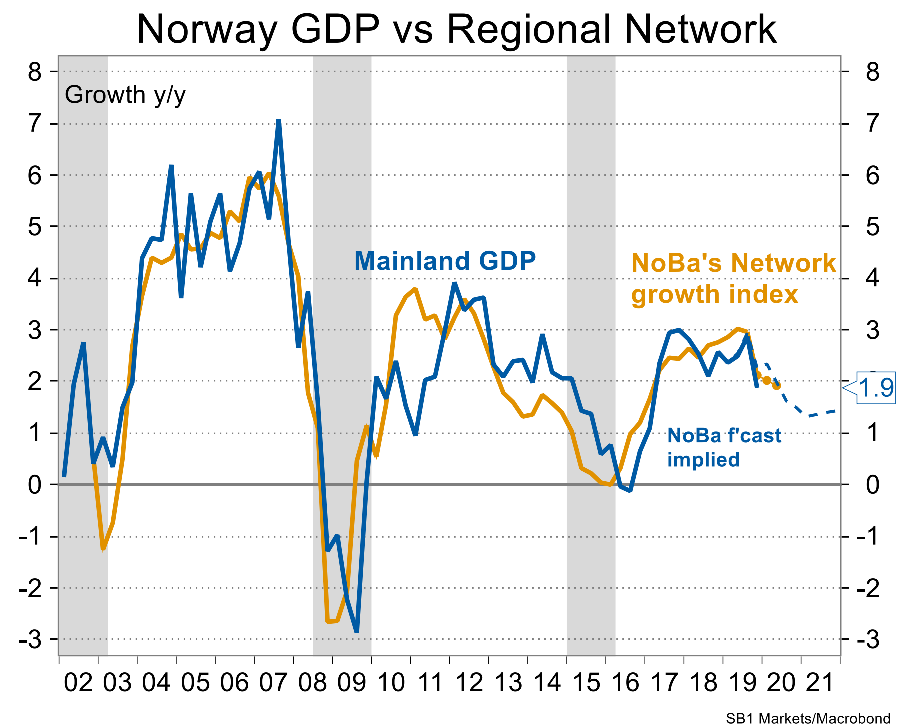
Market charts & comments

SpareBank 1 MARKETS

Mainland GDP growth slowed more than expected in Q4, cost inflation up

GDP rose 0.2% q/q (0.7% ann), below f'cast. Barring decline in primary & electricity prod: 0.4%/1.4%



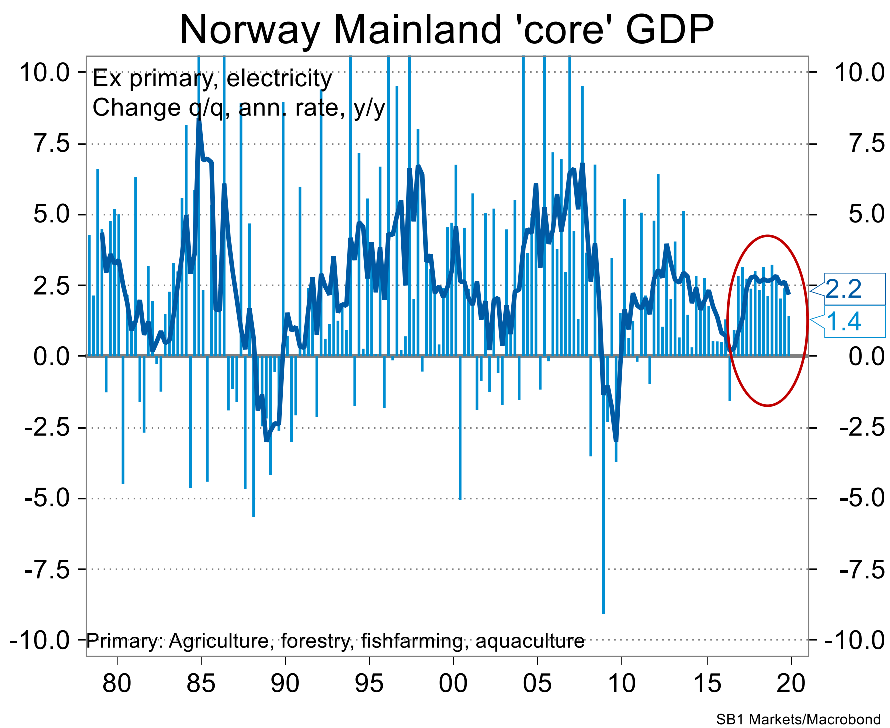


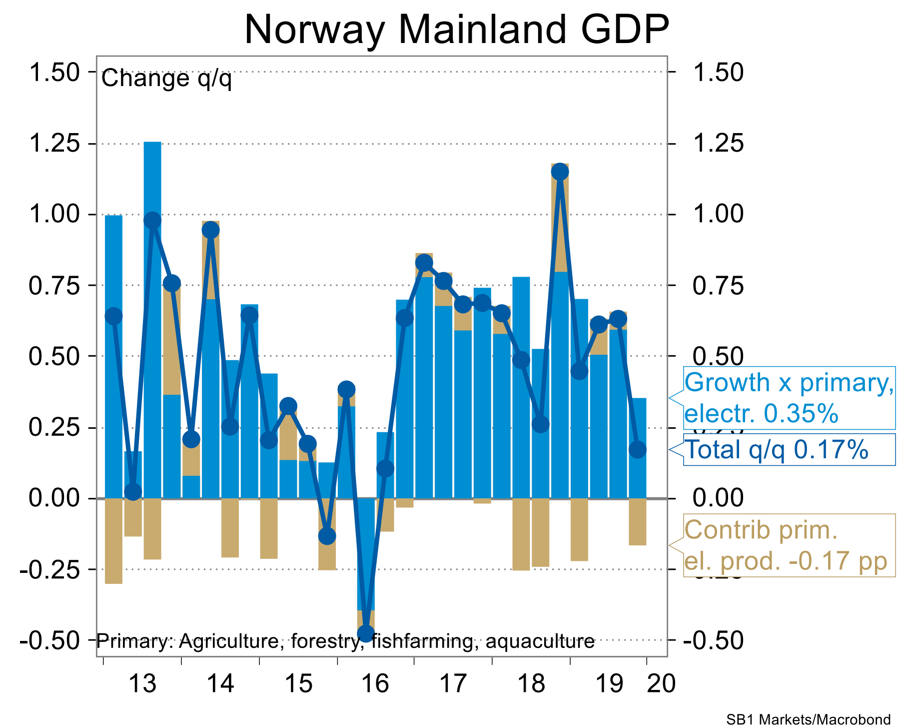
- Mainland GDP increased by 0.2% q/q (0.7% annualised), we and consensus expected 0.3%, Norges Bank 0.45%. Thus, Q4 ended as the weakest quarter since 2016, after solid growth rates in Q2/Q3. The annual rate fell to 1.9%, down 1 pp. Primary & electricity production fell, and 'core' GDP rose 0.4% (1.4%)
  - » Private consumption stagnated, Mainland business investments increased just modestly (after soaring in Q3) and housing investments declined. Oil investments accelerated sharply but at tad less than we assumed. Government demand increased marginally, following strong growth in Q2 and Q3. Net exports rose, as imports weakened and exports improved
  - » Employment growth is cooling, up 1% q/q annualized, the lowest since Q4 '16. Productivity growth almost vanished, up just 0.2% in Q4, while wage compensation is heading up, bringing production costs up and business profit rates down
- Growth has been above trend and cost inflation is trending up but growth is now slowing (even 'core' GDP) – and we expect more during 2020 due to no contributions from oil investments, and decreasing Mainl. business & housings investments. Norges Bank may have to nudge down its f'cast, but no substantial impact in the interest rate path (but the small probability for a H1 hike will be ruled out)

SpareBank 1 MARKETS

Electricity production & primary sectors down in Q4, but 'core' slowed too

'Core' GDP growth is slowly cooling, Q4 came at 0.4%, vs the usual 0.5-0.8% since early 2017



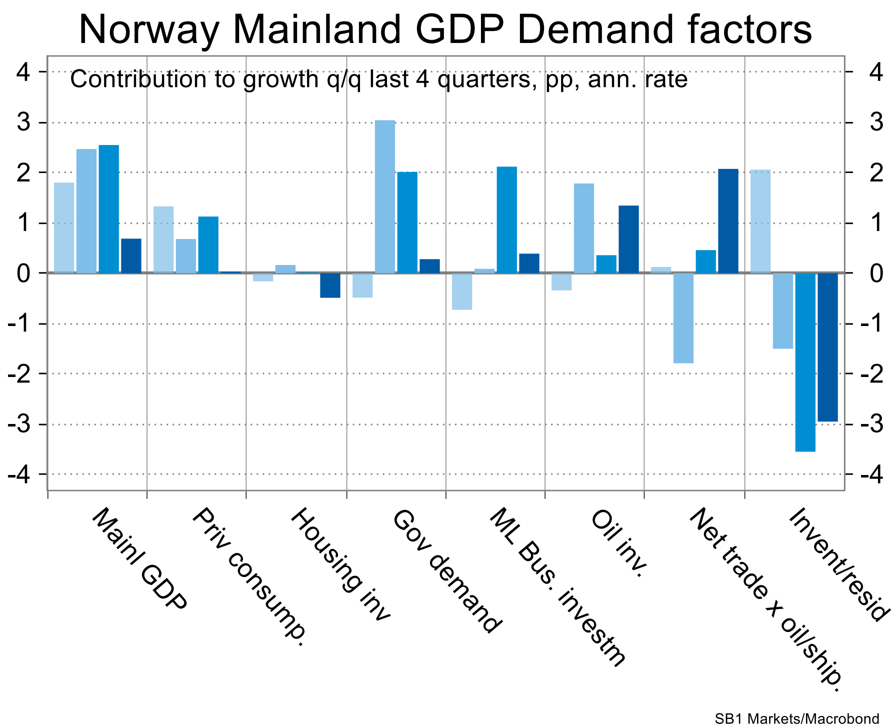


- Weather conditions affect the Norwegian economy in many ways, primary & electricity production are particularly exposed
- Production of electricity, agriculture and fishing fell in Q4 and dragged total Mainland GDP growth down by 0.2 pp. Barring these sectors; Mainland GDP ex these sectors rose 0.35% q/q (1.4% annual rate), 0.2/0.8 pp weaker than the avg since 2017
  - » Electricity production fell 14% q/q annualized, aquaculture & fishing down 19%, agriculture & forestry down 2% q/q ann.
- Since end of 2016, when the Norwegian economy entered the post oil downturn recovery, the 'core' quarterly growth rates have been among the more stable we have ever seen. In 2019, growth has been edging slowly down, we expect a continued modest slowdown the coming quarters

SpareBank 1 MARKETS

A softer demand mix in Q4, just oil investments accelerated

Zero growth in consumption, modest in business investments and housing investments fell

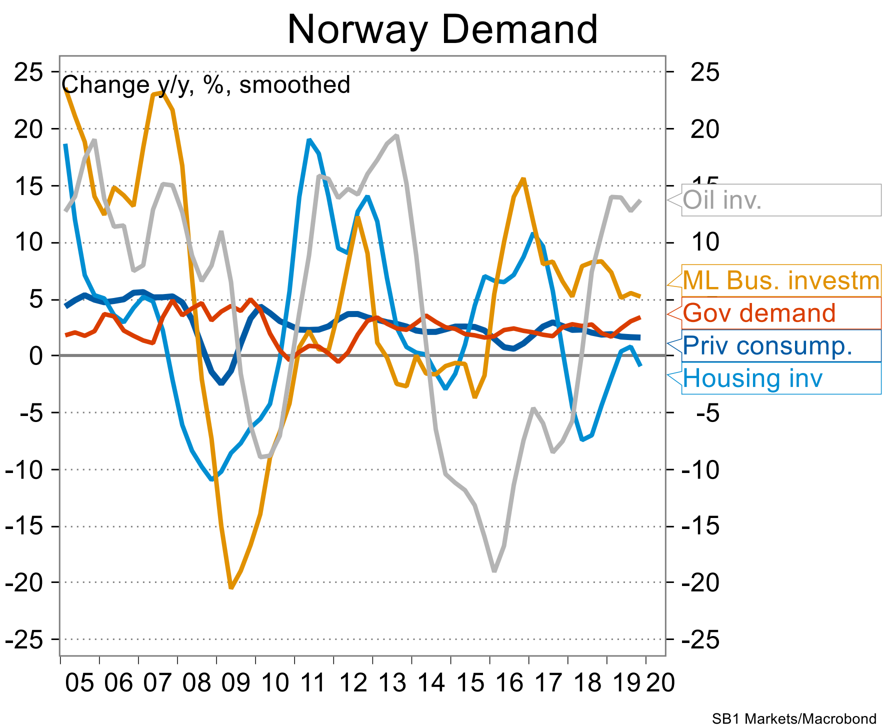


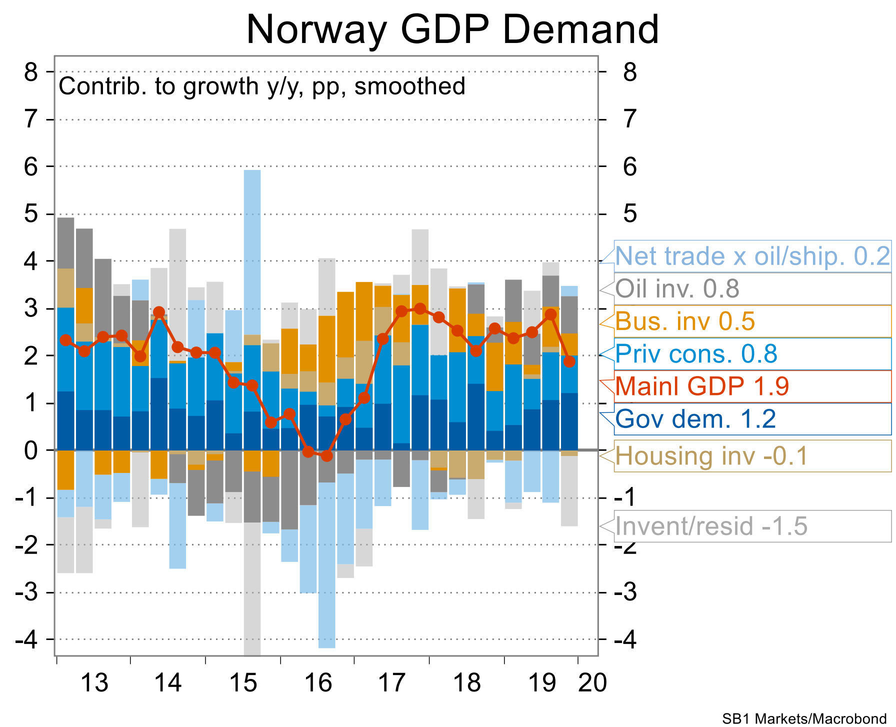
- **Private consumption** stalled and made zero contribution to growth in Q4, weaker than we expected. Declining consumption of goods was offset by increase in services. We expect modest growth the coming quarters
- **Housing investments** dragged growth down by 0.5 pp, after stabilizing the prior quarters. The decline was expected, as housing starts have been fallen substantially
- **Mainland business investments** increased by 0.9% q/q, equalling a 0.4 pp contribution to growth (annualized). A setback is expected the coming quarters – as manufacturing and electricity investments most likely will decline
- **Oil investments** were the major demand boost this quarter, with a 1.3 pp contribution. Still, oil investments increased less than we expected, by 5.5% q/q. We expect investments to at best flatten- and a crucial growth engine will subside
- **Government demand** rose marginally, after soaring in Q2/Q3. Government investments are at a high level
- **Mainland net exports** rose sharply, as total imports fell modestly, while Mainland exports rose. Total export rose much more as Johan Sverdrup came on stream, lifting total GDP by 1.6% (vs 0.2% ex. oil)
- **Inventories** fell sharply once again and partly offset the rise in exports (both oil and non-oil) and the steep rise in oil investments

SpareBank 1 MARKETS

The big picture: Oil investments are peaking, and this time not offset by housing

Consumption is slowly softening, as are business investments, and housing is probably stalling

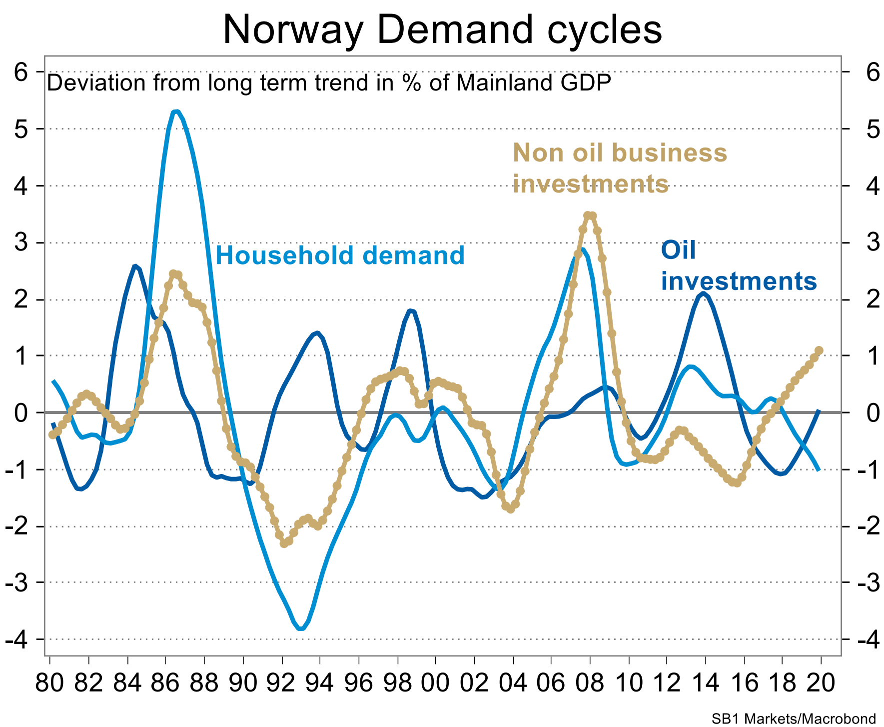


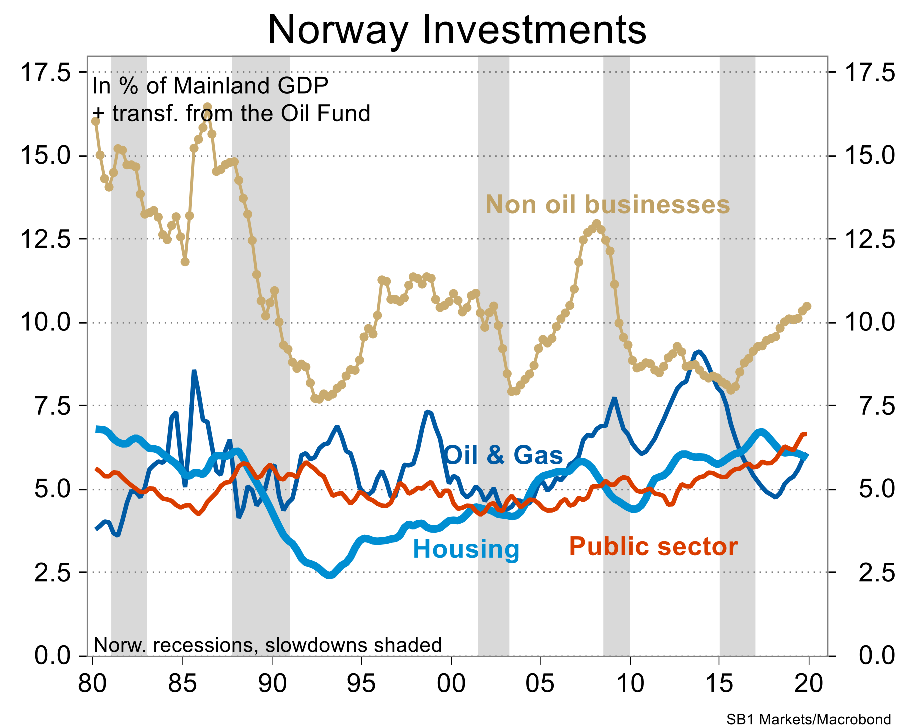


- Mainland business investments are growing strongly, up 5% y/y smoothed. However, growth is slowing and we expect a further slowdown the coming quarters, probably into negative territory
- Oil investments have been soaring but are probably peaking now. Annual growth at 14% y/y. More on the outlook here
- Housing investments have stabilized after the 2017/2018 setback. However, any positive growth contribution the coming quarters is unlikely, as housing starts are slowing. In Norges Bank's Q4 Regional Network, businesses reported a pronounced slowdown in construction activity
- Government demand is slowly accelerating, limited upside

The cycles: Household demand is sagging, mainland business and oil peaking?

Growth will most likely slow the coming quarters/years as the 'heavy lifters' will pull back

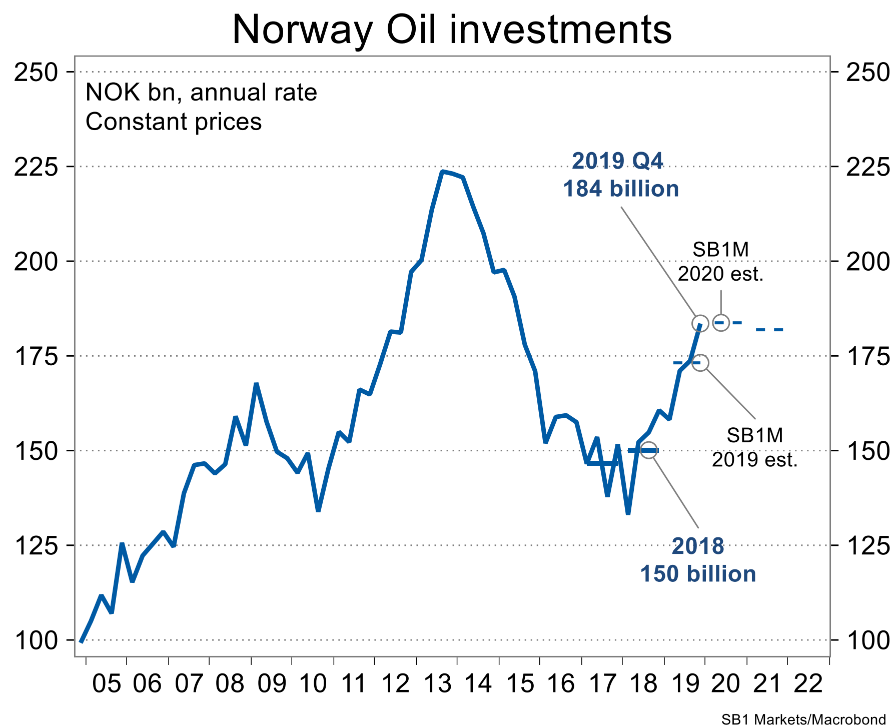


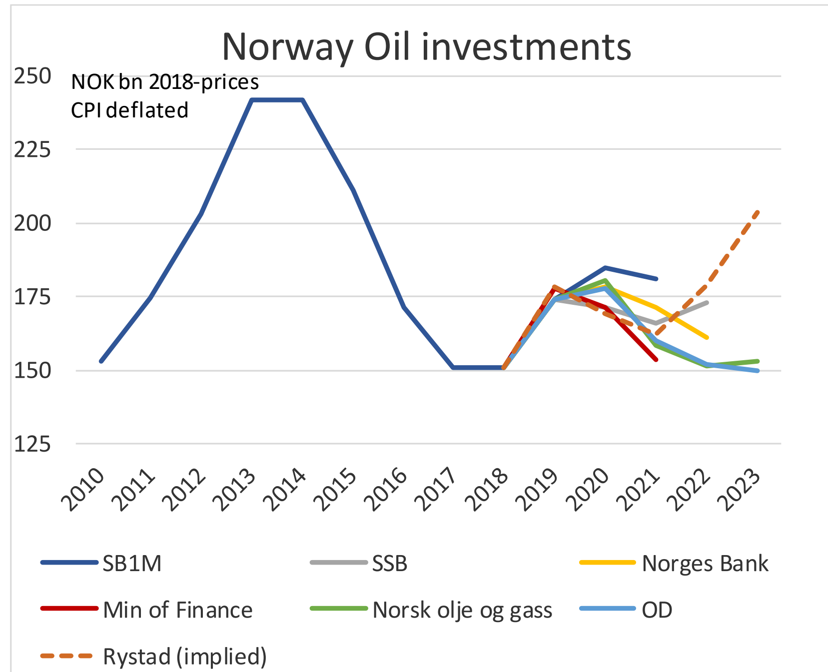


- Both manufacturing and power supply are reporting sharply declining investments in 2020, according to SSB surveys
- Housing investments are at a high level vs GDP but is not increasing anymore (flat, following the '17/18 mild setback)

Oil investments: Zero growth in 2020 vs the Q4 level?

Unless oil companies' lift their 2020 f'casts substantially, no growth in investments from here

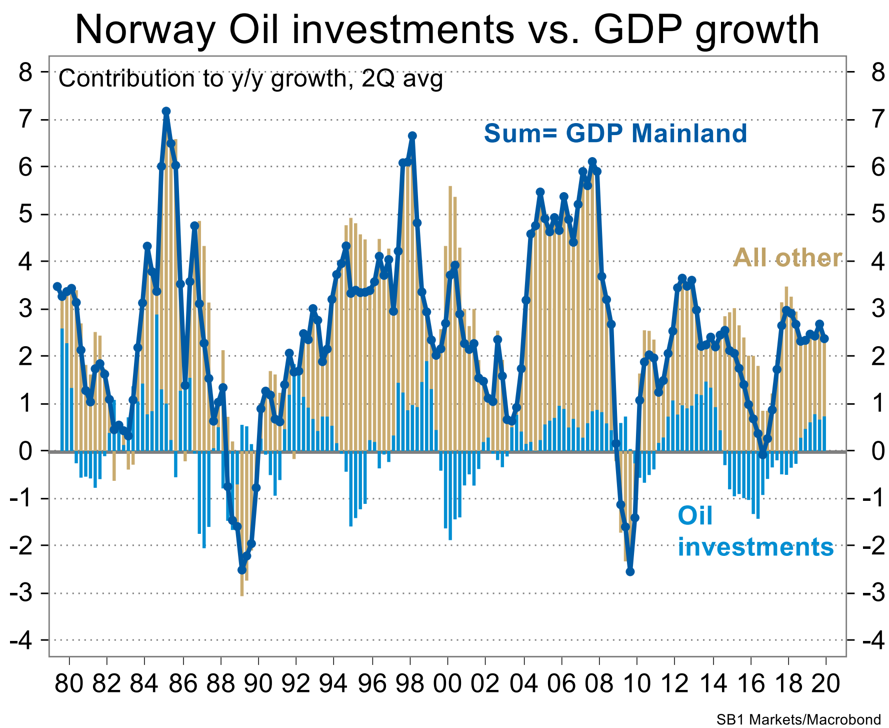




- Oil investments increased by 5.5% q/q in Q4, to NOK 184 bn (measured in constant prices), slightly lower than we expected. Even so, the Q4 investment level is equal to our estimate on the 2020 level, even if our f'cast is higher than most others' estimates. (2020 investments are of course higher than the average in 2019 but the lift happened through last year)
- **The growth boost from oil investments is behind us, even if average investments in 2020 are higher than the 2019 average**
  - » No doubt, the oil price will influence the investment level from 2021 onwards, as more (or less) projects may be added

The 'oil boom' was not that large – but has given a decent GDP support

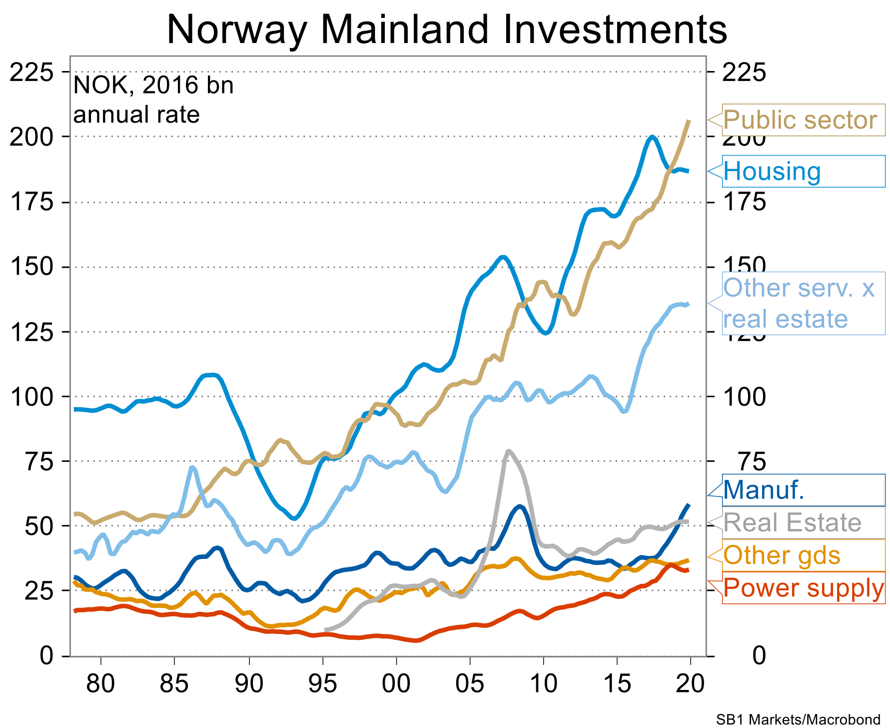
The contribution will rapidly decline towards zero the coming quarters, from some 0.7 pp now



- The contribution shown at the chart is not adjusted for direct and indirect import to oil sector investments – the net impact is less than the gross contribution

Public investments straight up, housing stabilized, private services at peak?

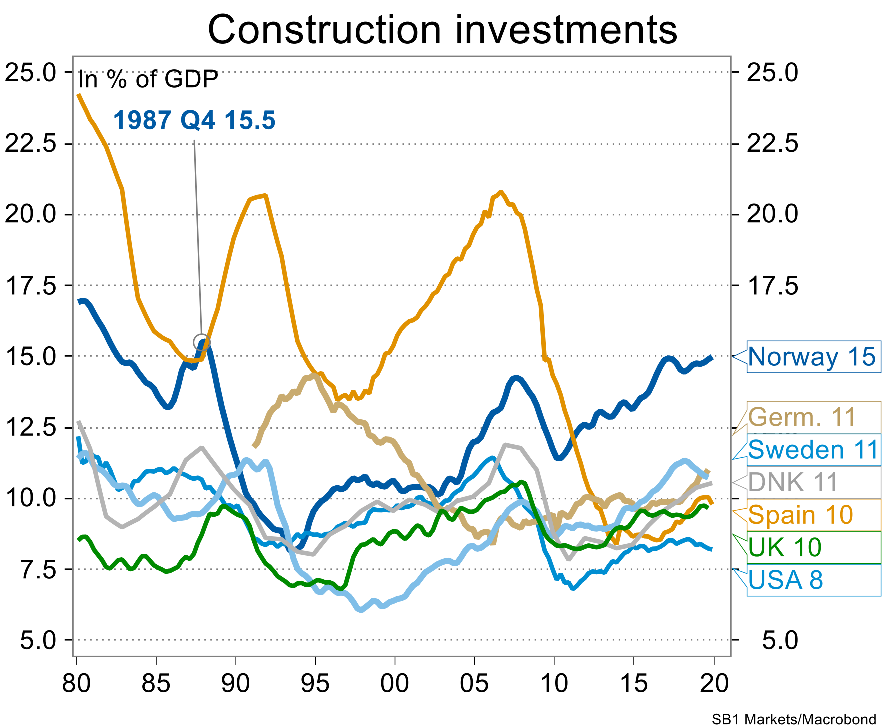
Manufacturing investments have been accelerating and will most likely slow substantially

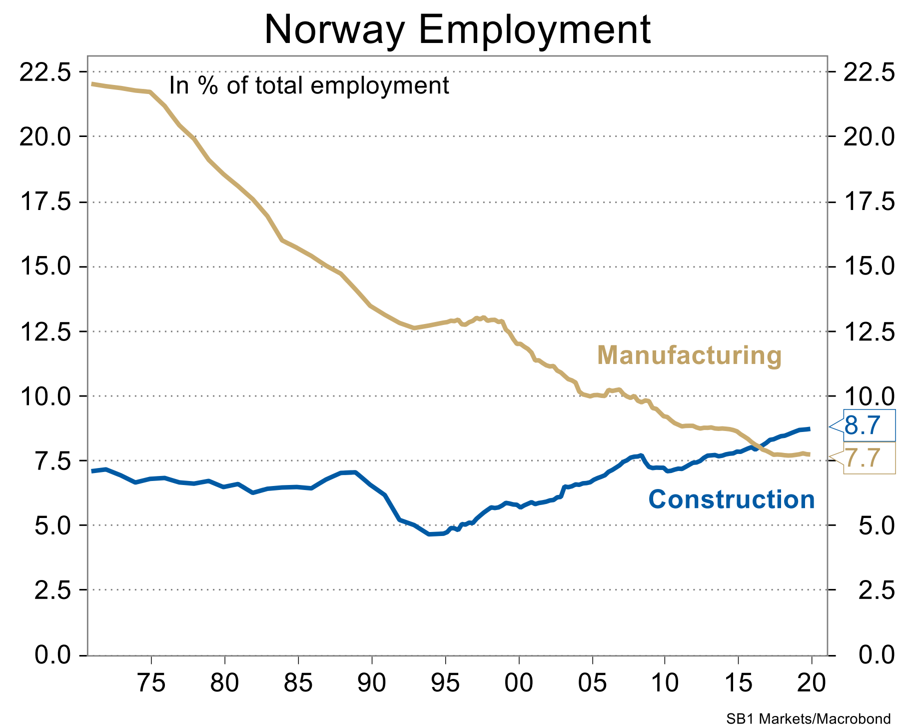


- Private services investments soared in 2016-2017 and have flattened out since then. The level is probably well above a reasonable long term level
- Manufacturing investments are still on the way up, but SSBs investment survey and other surveys indicate a steep decline this year
- Investments in power supply peaked in early 2019, and is now heading down – and will continue down in 2020, according to the investment survey for this sector
- Real estate is slowly increasing (at a slower pace)
- Public sector investments are soaring, and not only due to new fighters to the Air Force. Limited upside

Construction investments have been soaring

We are quite confident: Construction activity is higher than needed, long term



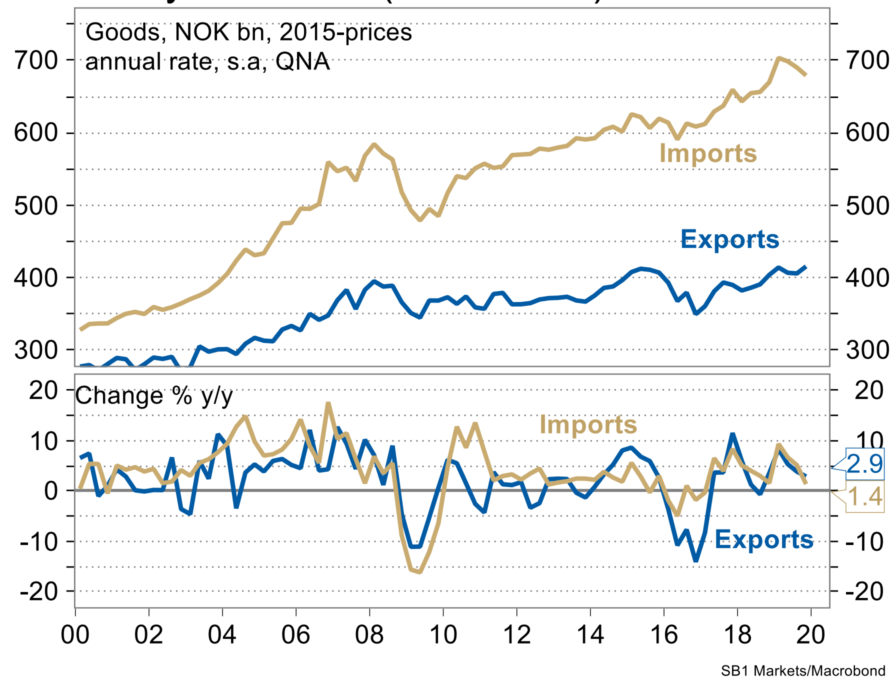


- Construction investments/GDP is climbing, and is back at the same level as in 2017
  - » We could have added the long term (assumed permanent) income from the Petroleum fund to GDP (in order to measure construction demand vs income), but the ratio would still have been very high, and much higher than in other countries
- Construction employment now equals 8.7% of total employment, much higher than anytime before
  - » Construction is larger than manufacturing industries, employment wise, probably for the first time in a civilised country (except Spain and Ireland before the financial crisis)

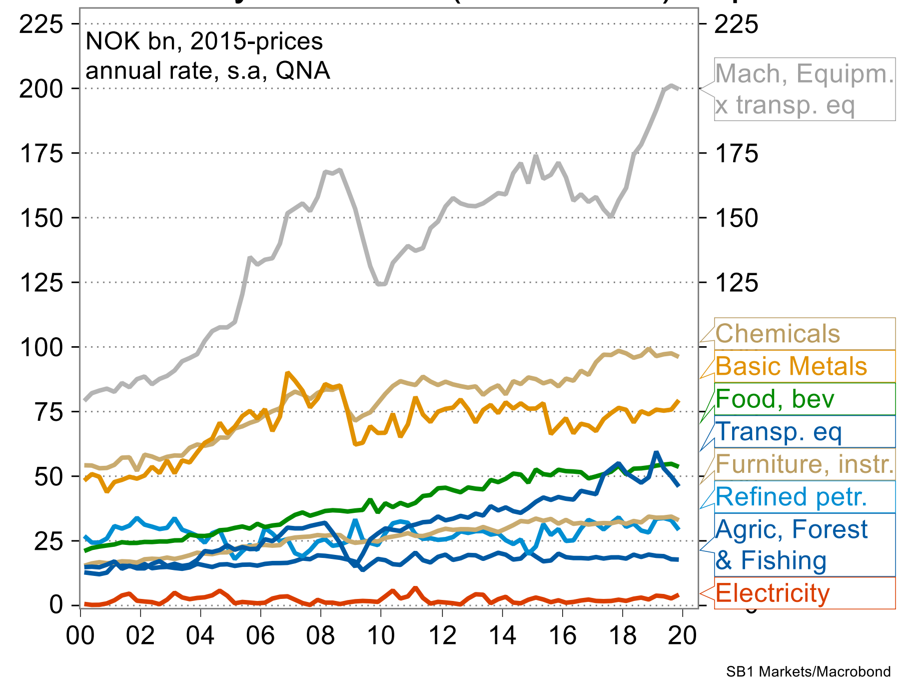
Goods imports are slowing, after a steep rise

Imports of machinery/equipment are surging, most other sectors are slowly increasing

Norway Mainland ('traditional') trade volume



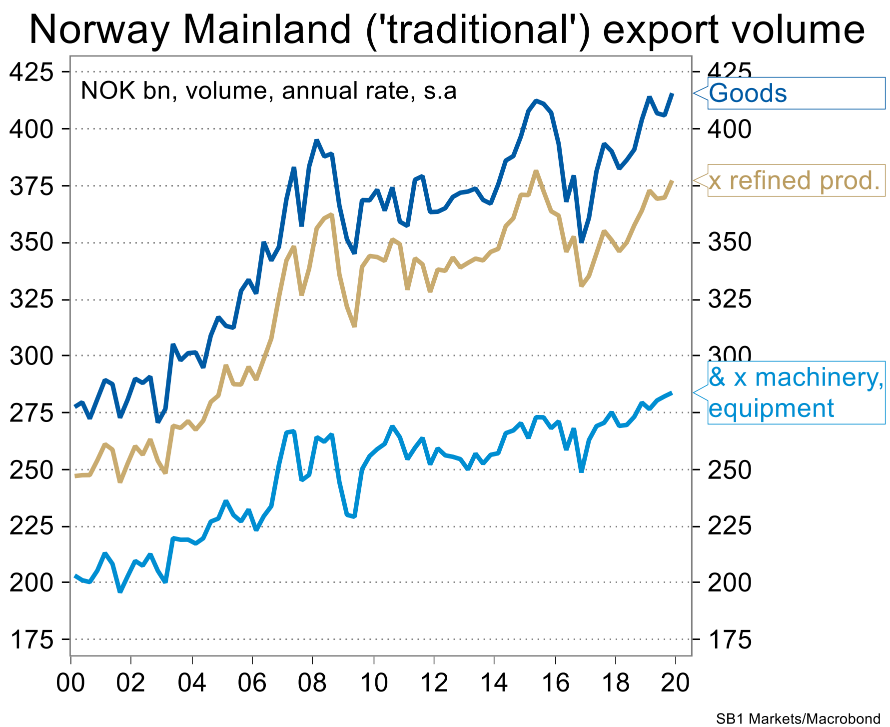
Norway Mainland ('traditional') import

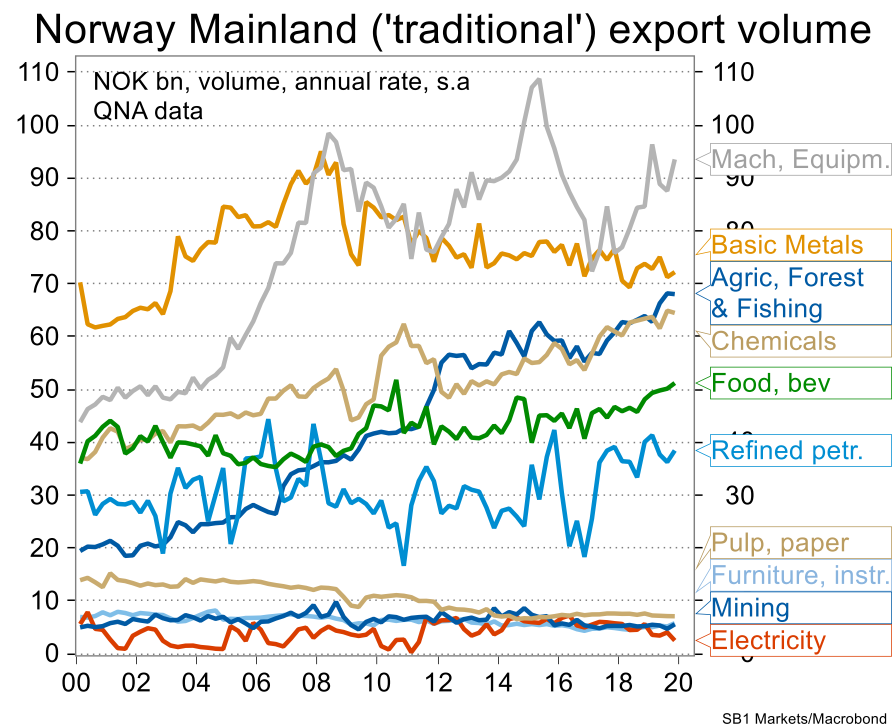


- Higher imports of machinery reflect higher oil investment demand, but also high investments in the manufacturing sector. Still, the level is rather high, and given the expected slowdown in investments, a decline is likely

Mainland good exports up, finally some NOK impacts?

Goods x oil related are trending up, lifted by fish exports, food and chemicals

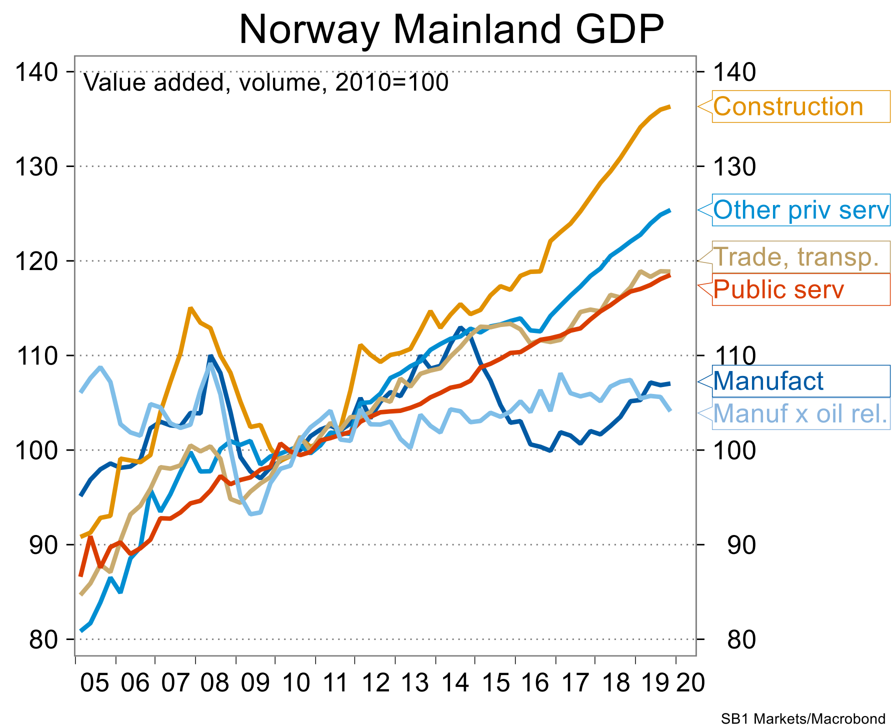


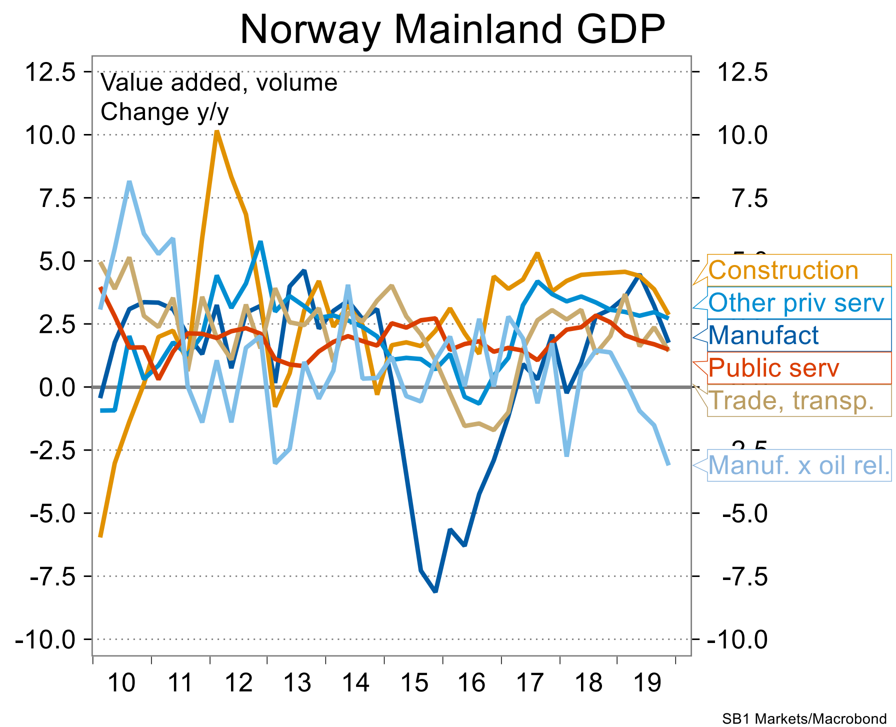


- In Q4, both total goods exports and exports excluding refined petro. and machinery equipment (oil related) increased. Exports of machinery & equipment and refined petroleum have stalled/slowed somewhat the past year, after a steep rise in 2017-2018
- Chemicals are steadily trending up, fish exports have been soaring (here, in volume terms, not in nominal!). Food exports are picking up speed too. Other sectors not that impressive

Production: Growth has peaked in most sectors

Manufacturing x oil related falls rapidly. Construction slows, and retail & private services, marginally



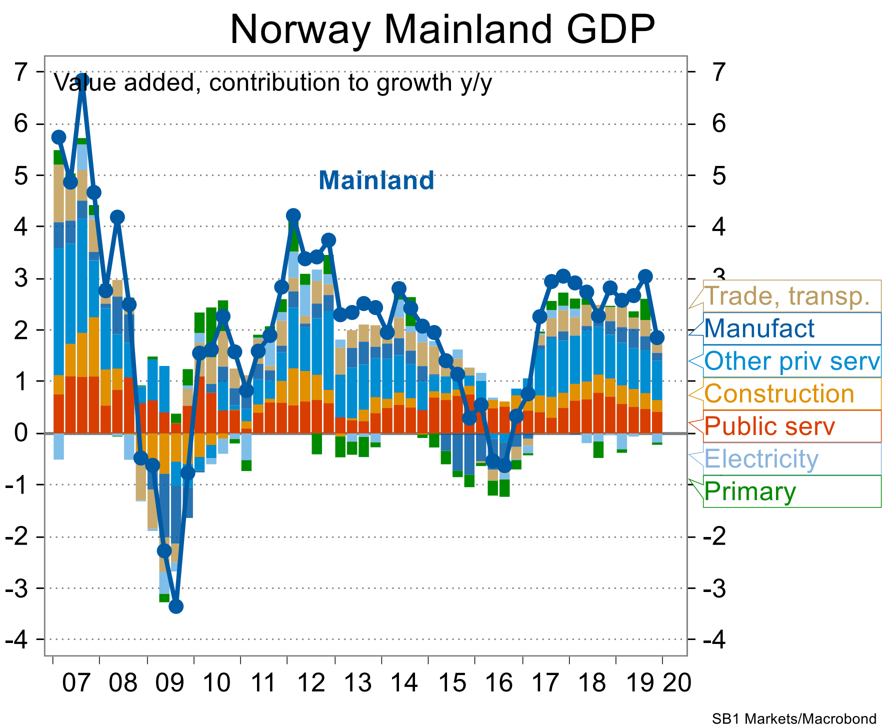


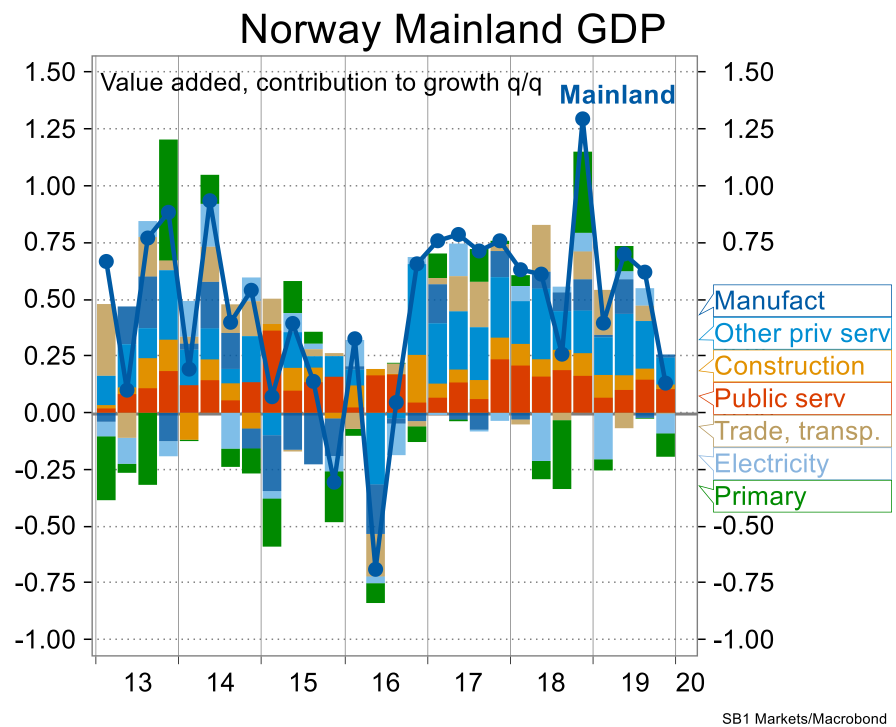
- Growth in private services has been hoovering around 3% recent quarters, slowing marginally since 2017
- Construction production cooled to a 2.9% speed y/y, down from 4.5% one year ago
- Total manufacturing slowed to a 1.8% pace, while manufacturing x oil related sectors is plummeting, down 3% y/y
- Production in retail trade and transport is increasing moderately, trending marginally down the past 2 years. The upward speed is still rather high given the softness in retail sectors

SpareBank 1 MARKETS

Production: Private & public services lifted growth in Q4

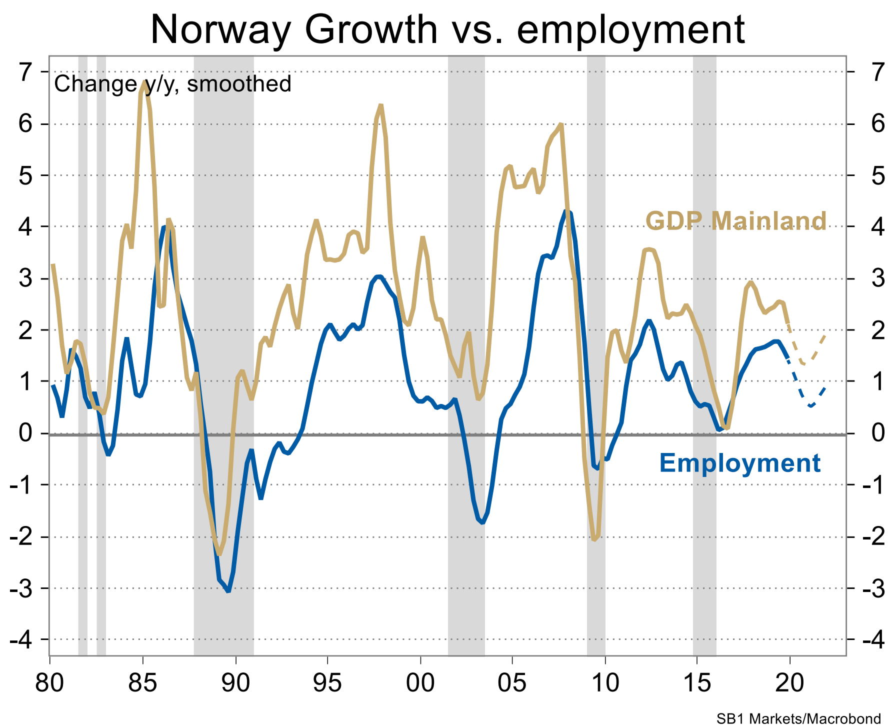
Electricity & primary sector production fell, muted growth in trade, manufacturing, construction

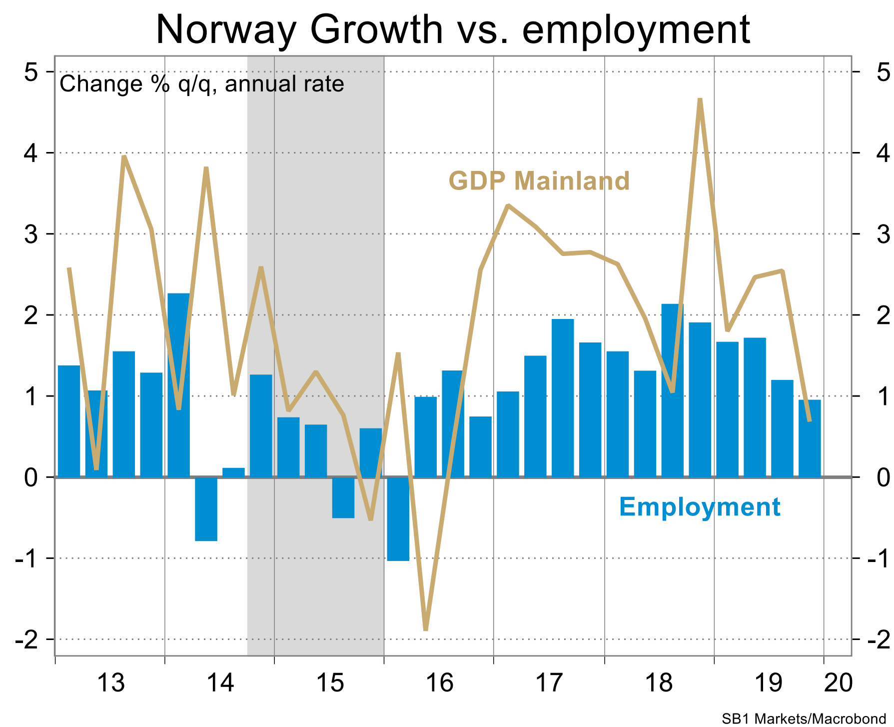




Employment growth is heading slowly, steadily down

Employment rose 1.0% q/q annualised in Q4 and the annual rate ticket down to 1.4%

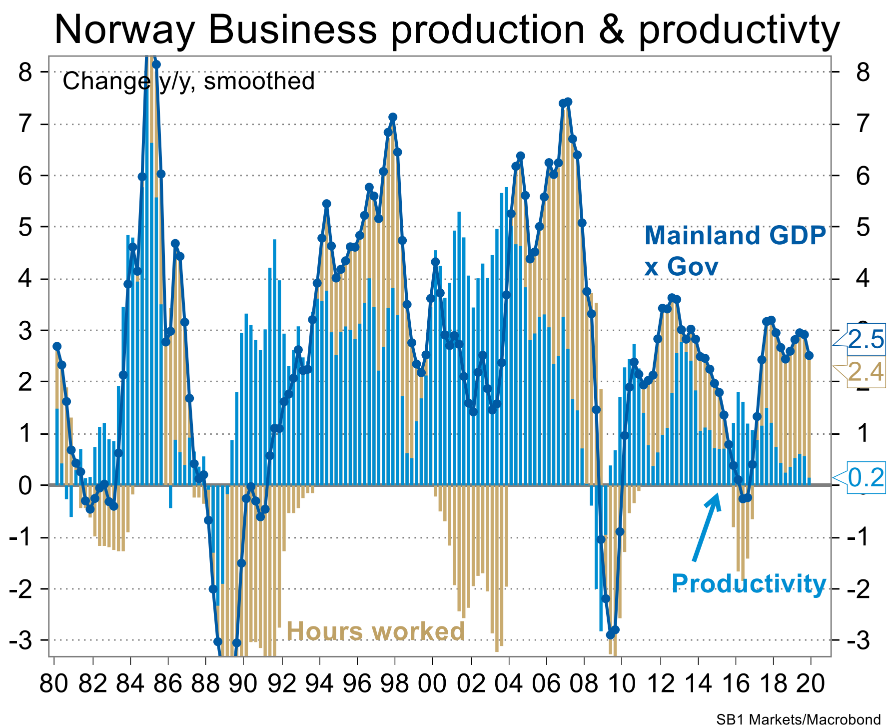


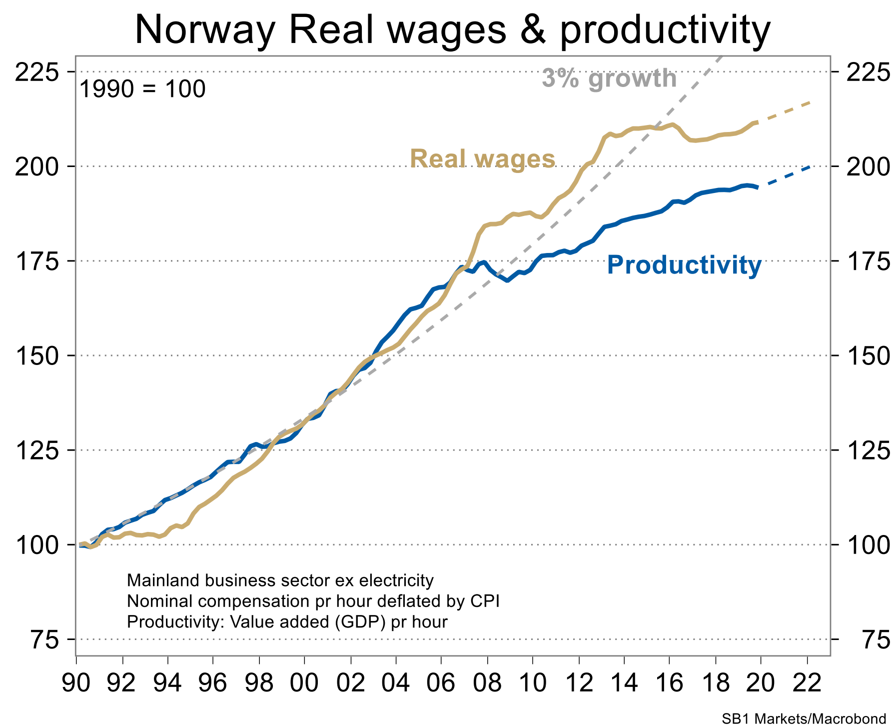


- Employment growth has slowed the past 4 quarters. Still, employment is rising faster than the working age population, which is expanding by just a 0.5% speed y/y

Productivity growth has almost vanished

Mainland productivity stalled in Q4, smoothed rate +0.2% y/y. Real wages are rising by some 1.2%

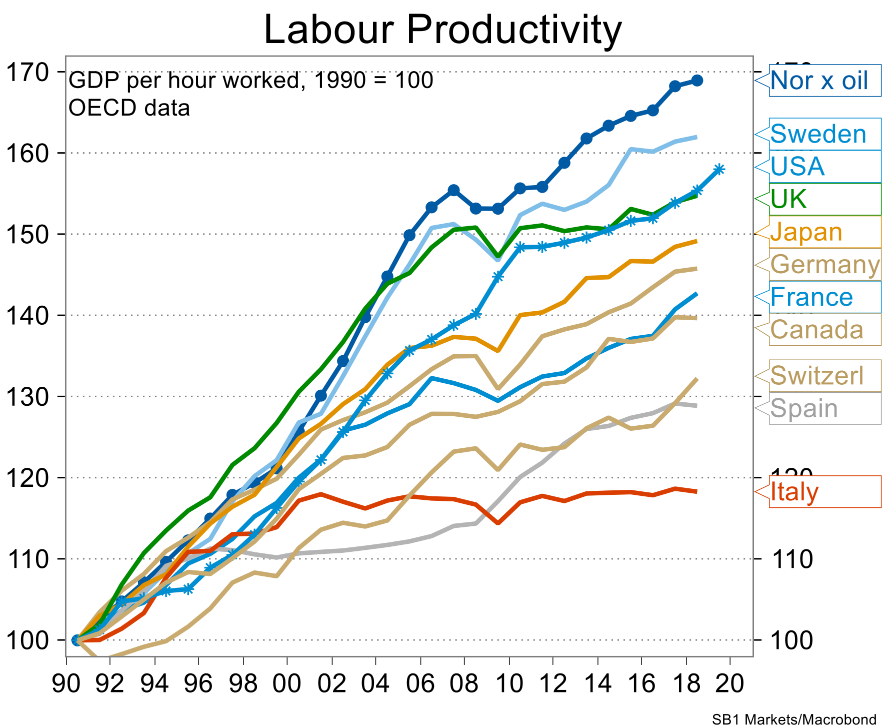


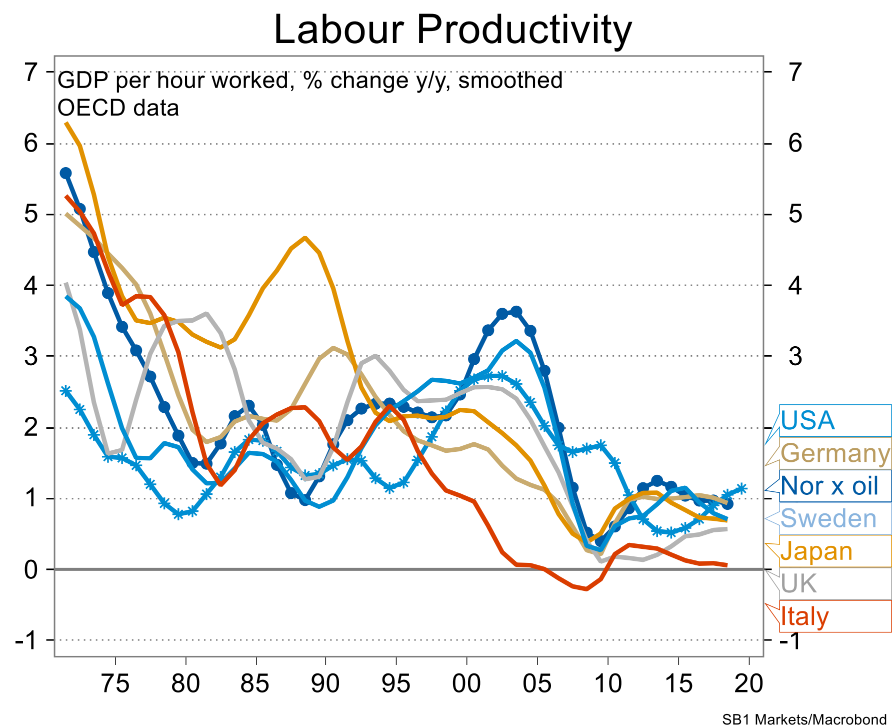


- Underlying productivity growth was muted in Q4 (down 0.5% q/q) and the smoothed, annual rate slowed to just a marginal 0.2% increase. Two years ago, productivity growth was just above 1%, and it was above 2% in 2011-2012
- Hours worked explains 2.4 pp of the 2.5% growth in Mainland x government GDP (1 y smoothed)
- Real wages are slowly increasing, up 1.2% y/y (when applying a heavy smoothing) following the decline in 2016. Still, real wages are not any higher than 5 years ago
- We expect just modest growth in real wages – as long as the underlying productivity growth is this slow

No specific Norwegian productivity slowdown

If anything, the opposite

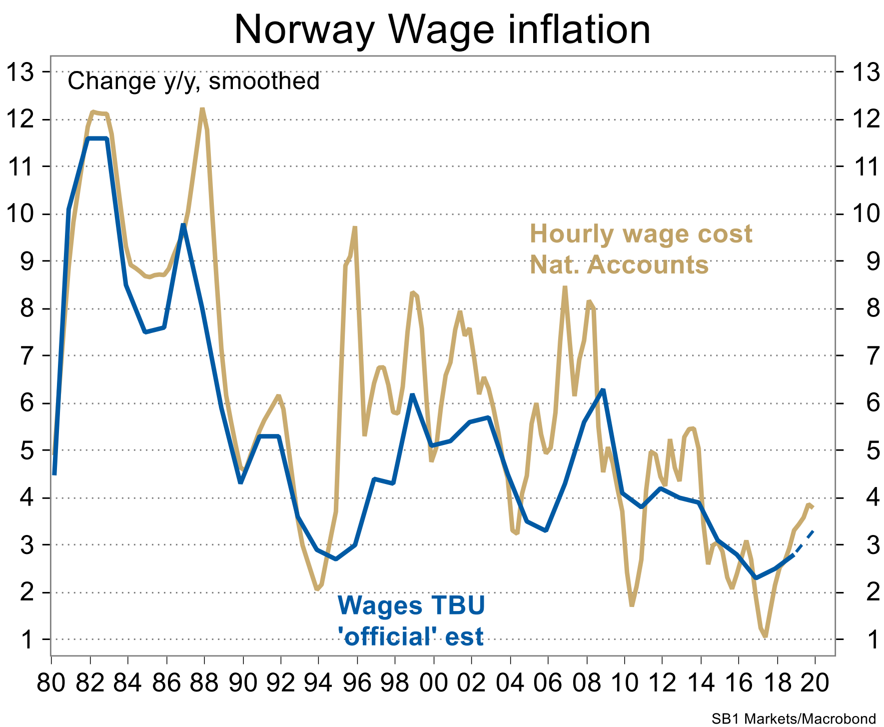


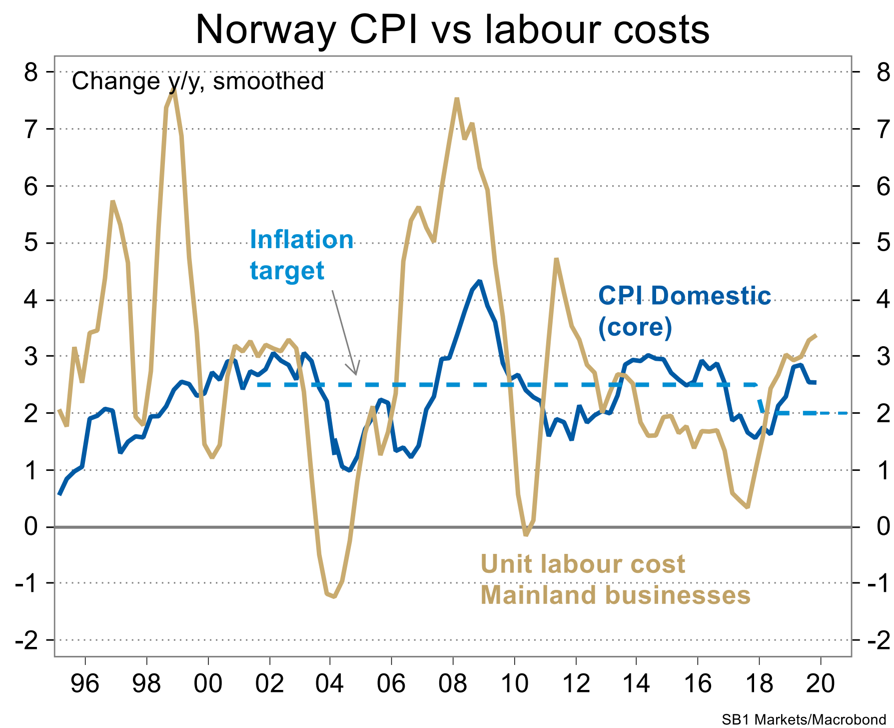


- Annual data compiled by OECD, last year is 2018

Labour cost inflation on the way up

(Volatile) hourly wage cost up 3.8% y/y, 0.1 pp slower than Q3. Unit labour cost inflation up to 3.4%

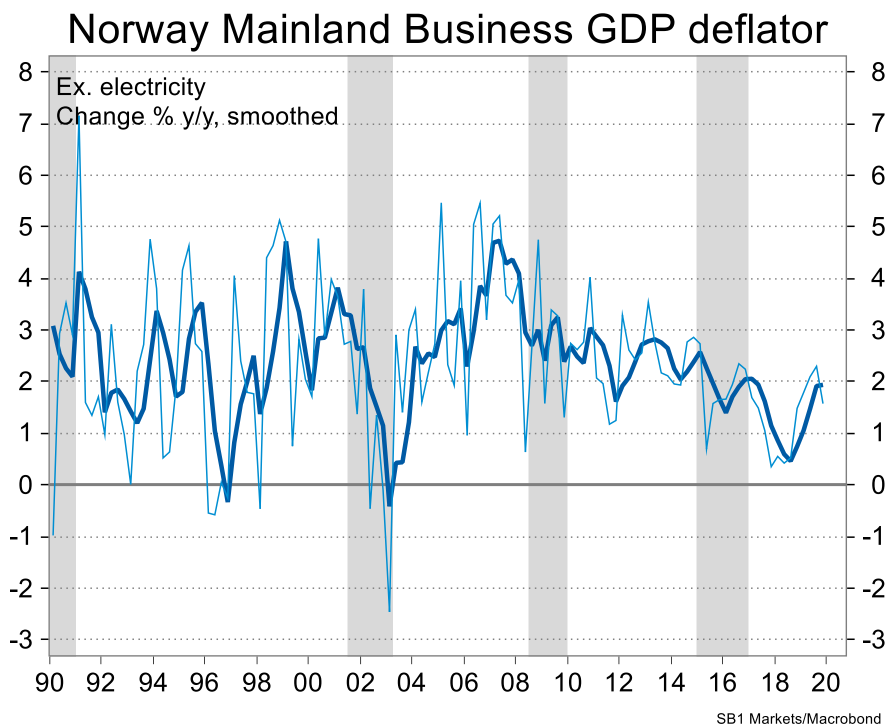


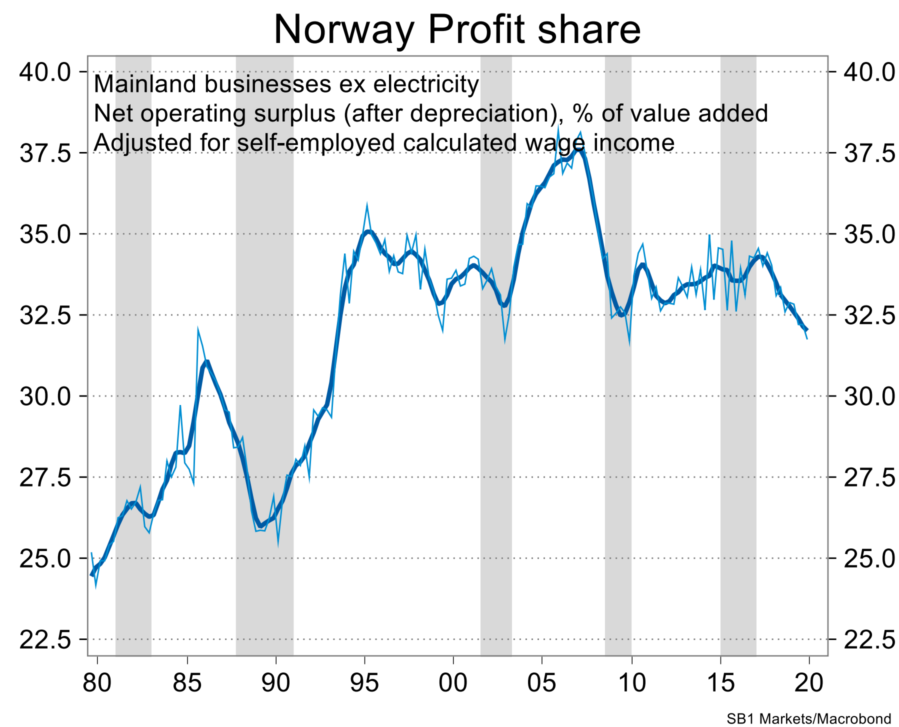


- Hourly wage costs bottomed out in Q2 2017 and are back at the 2014 level, still below ‘normal’ Norwegian wage inflation

The profit share is under pressure, profit rate at 27 y low

GDP price deflator is increasing by some 1.9% vs unit labour cost growth at 3.4%

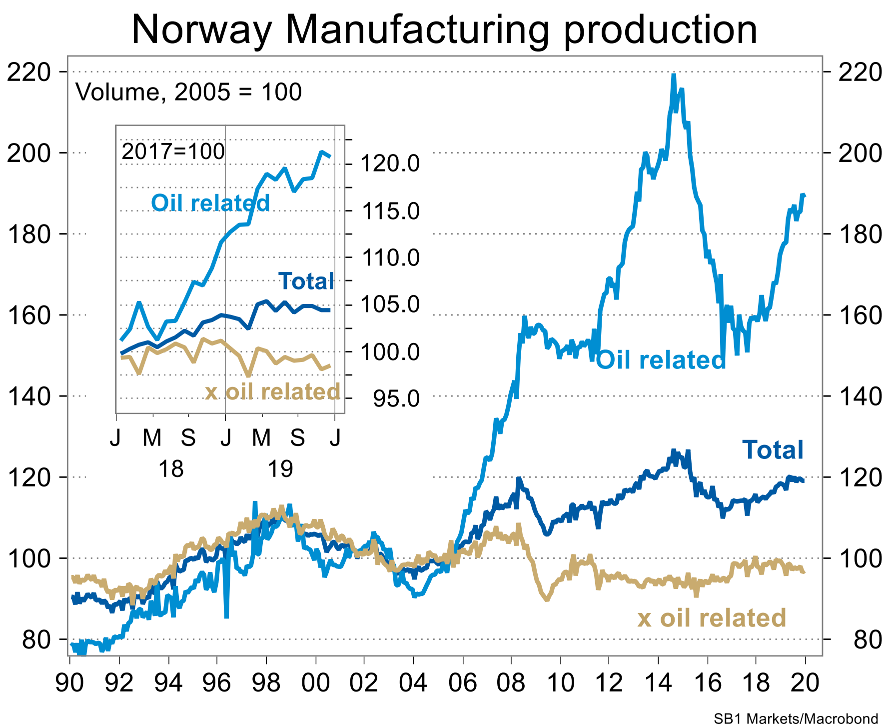


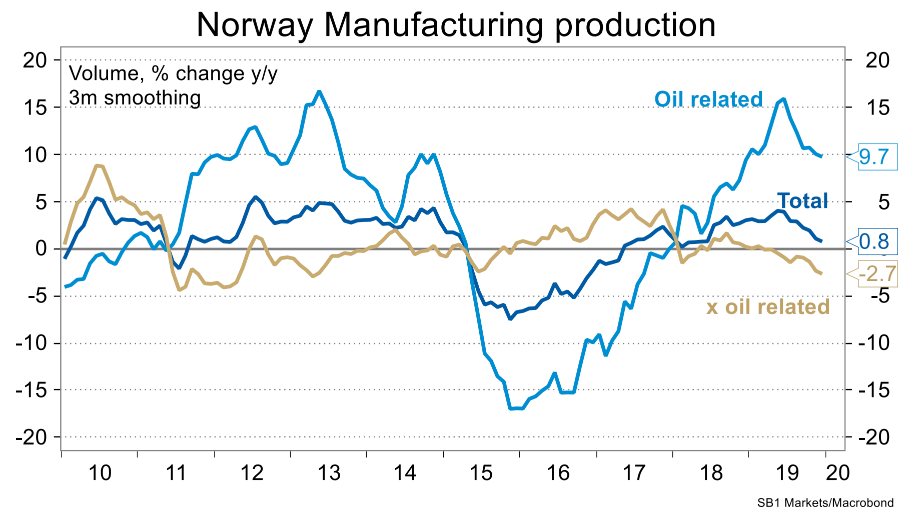


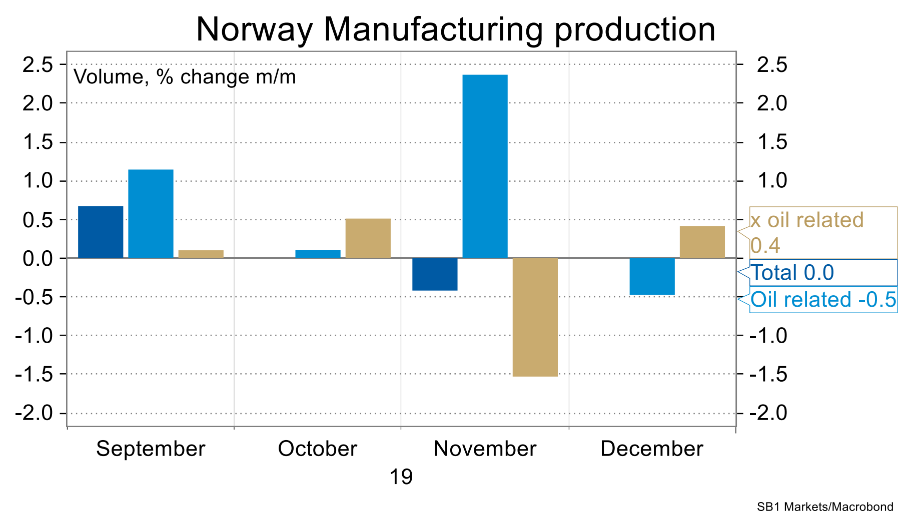
- The Mainland business GDP price deflator (ex the volatile electricity sector) was up 1.9% y/y in Q4 (smoothed). The price deflator is growing modestly compared to the history, but growth is 1.2 pp higher than one year ago
- As prices are rising slower than production costs (unit labour cost), the profit share in Mainland businesses is declining rapidly – as has been the case since 2017– and the profit share is probably too low now

Manufacturing production unchanged in Dec, trend is flat, at best

Total production down 0.4%, we expected unch. Non-oil related production down 1.5%





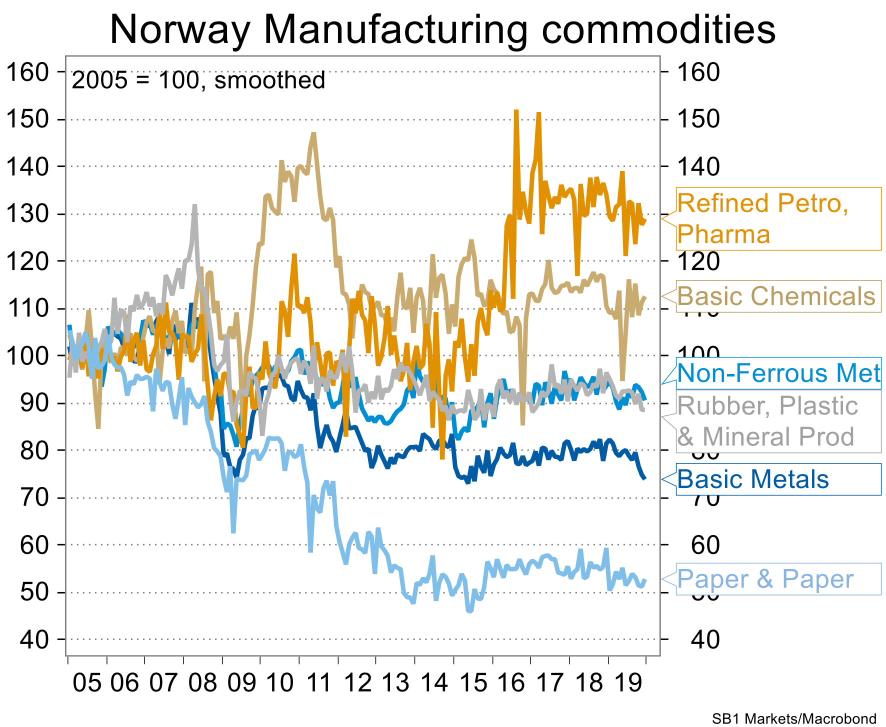


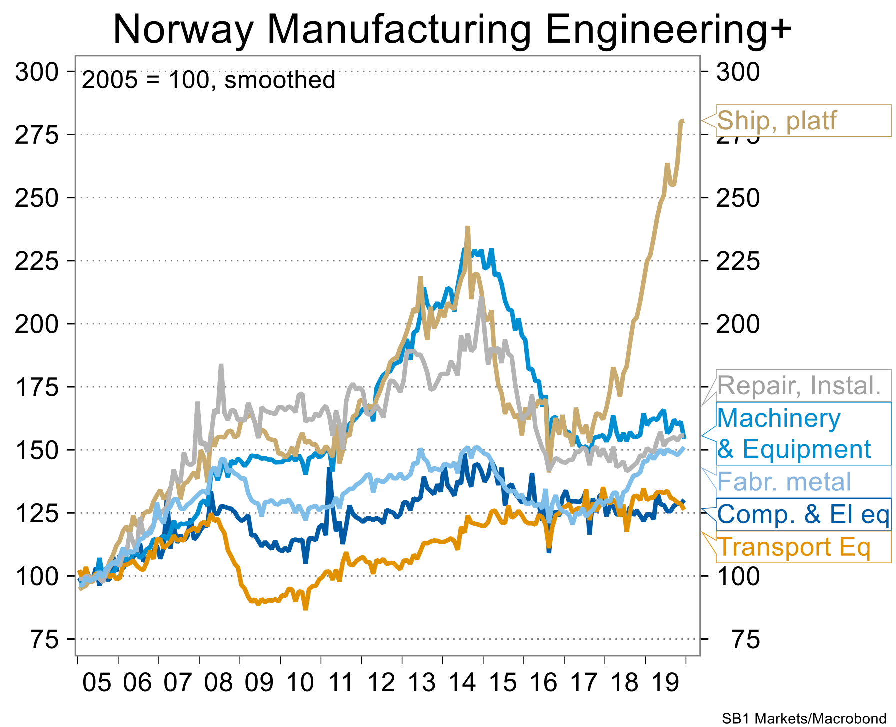
- Total manuf. production has been flat since the spring – even if oil related production has increased further. Production in other sectors is declining
  - » Production fell 0.8% in Q4 and is up just 0.5% y/y. Non oil related is down 2.7%, oil related 0.8%
  - » Production in oil related sectors is probably close to peak, as oil investments are most likely flattening from the level reached in Q4
  - » We have no reason to expect any recovery in non oil related sectors. Production is trending down, just like manufacturing production among our trading partners
- Surveys have softened – and are pointing towards zero growth, at best

SpareBank 1 MARKETS

Production of ships & platforms is soaring, other sectors not impressive

Most engineering sectors have softened, and production of ships/platforms will soon peak?

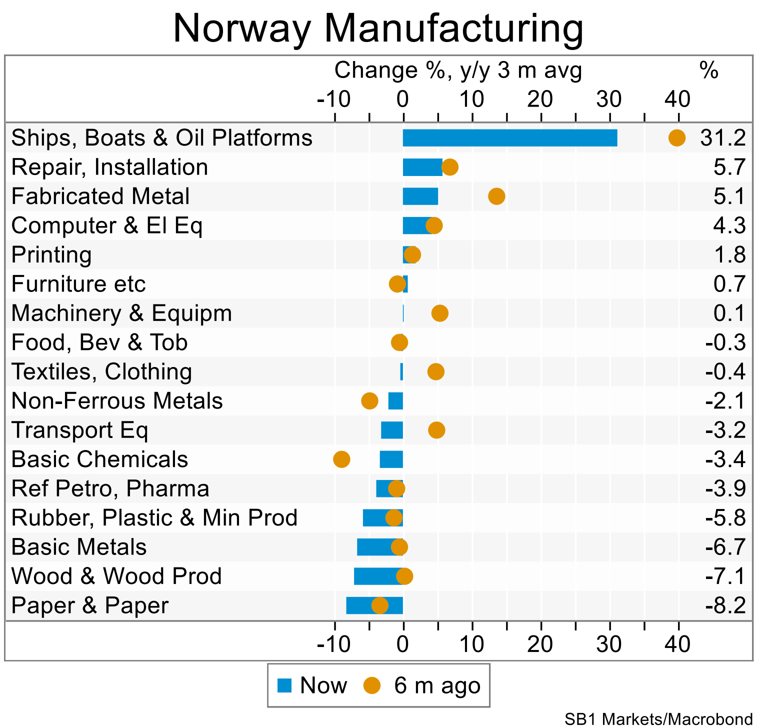


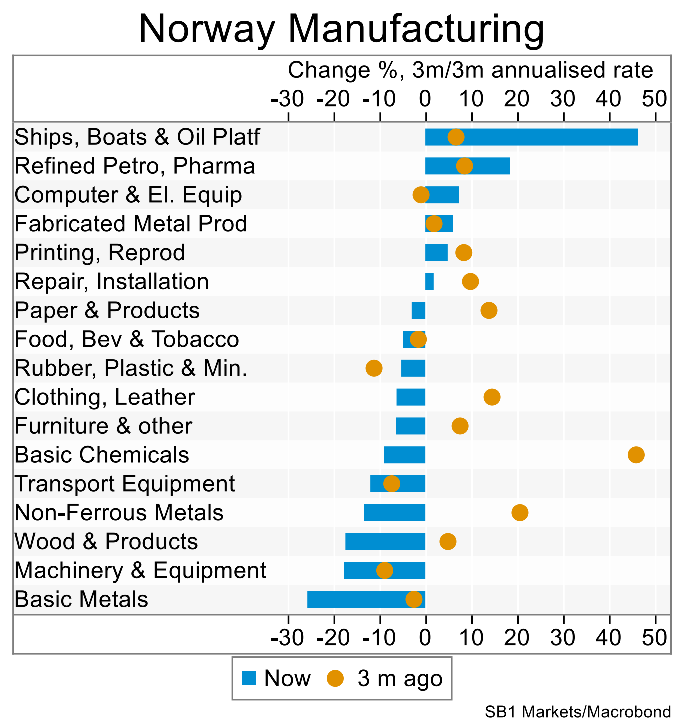


- It's almost as we do not believe it, production of ships and platforms is more than 20% higher than at the 2014 peak, in volume terms! However, overall petro related manufacturing and support activities are <u>down</u> some 15% from the peak
- Engineering sectors: Most partly oil-related sectors are trending up but most have lost some steam recent months, particularly machinery & equipment production
- Commodities: None are impressive, just basic chemicals on non-ferrous metals close to flat, others are trending down

12 of 17 sectors are slowing, just 4 gaining pace (and 1 slowing slower)

Production is up y/y in 6 sectors, down in 10

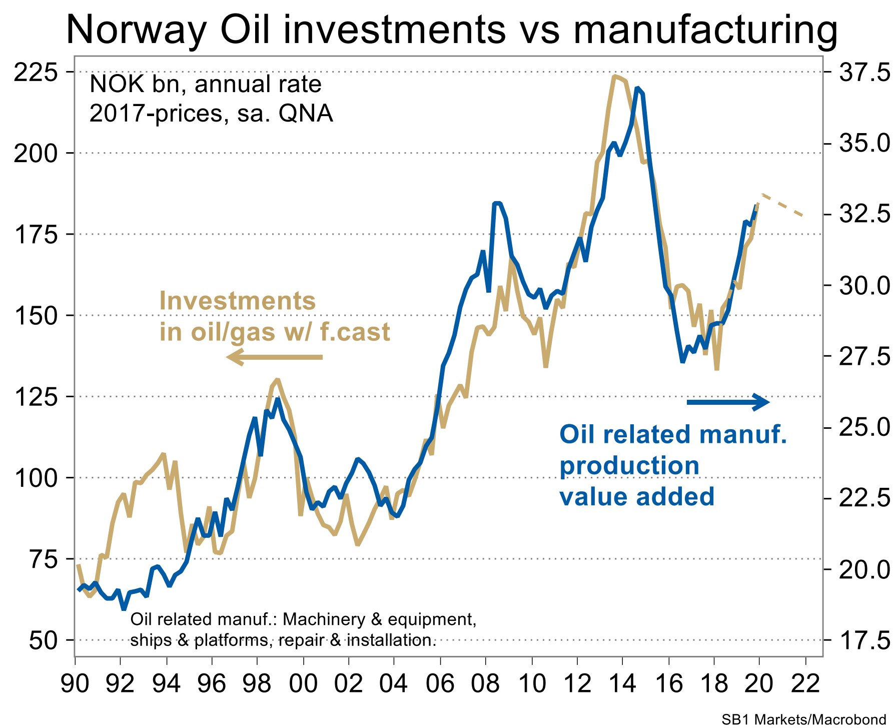




- Ships/platforms production is up 30% y/y (smoothed)
  - » Not that impressive in other oil related sectors; machinery up just 2.8% y/y (and production fell sharply in Q4), repair & installation up 6%
- Fabricated metals have been growing strongly, up 5% but slowing now
- Production of basic metals is falling sharply
- Production is declining y/y in 10 of the sectors

Oil related production probably at or close to peak

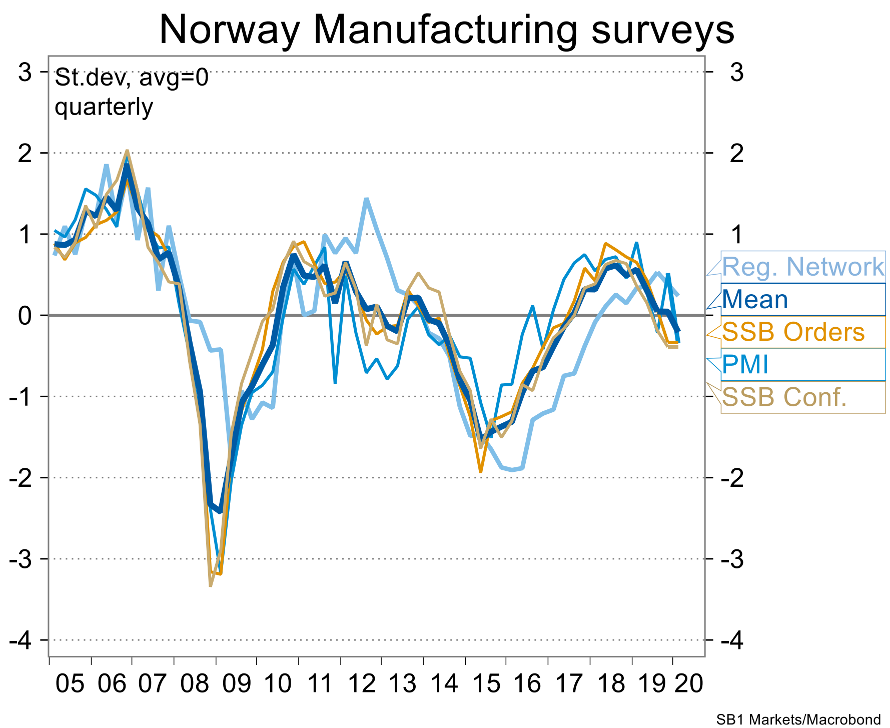
Oil investments are peaking now, so will production?

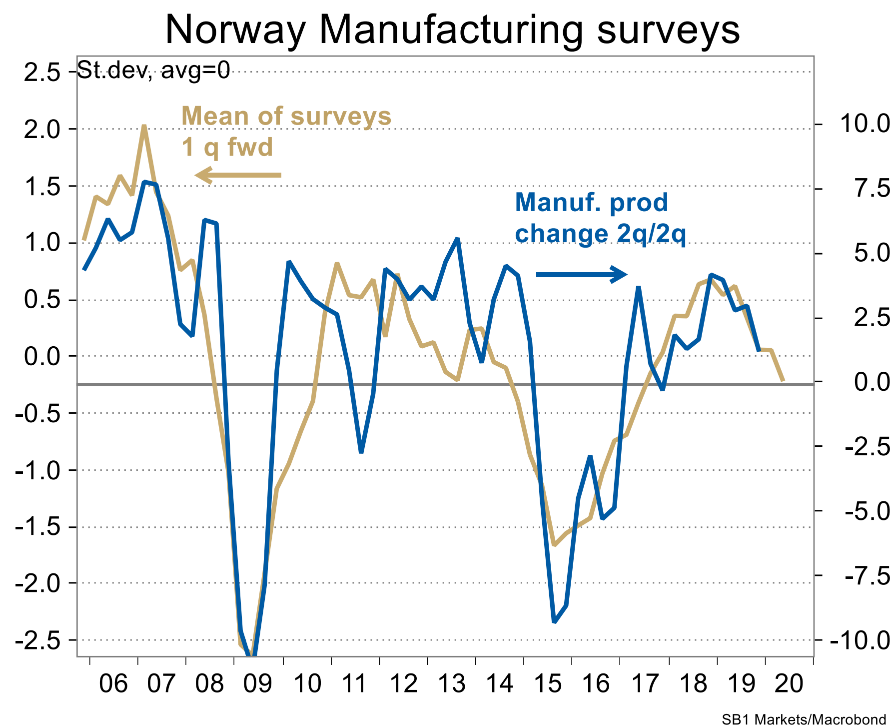


- Production in oil related industries have soared since late 2017, closely correlated to the increase in oil investments, as reported in the National accounts
- Oil investments are probably peaking now
  - » If Norwegian manufacturers do not gain market shares from foreign competitors – oil related production is now close to the peak
  - » Neither Norges Bank's regional survey nor SR-bank's regional survey signal a decline in the activity – but no doubt slower growth
- An important modification: Are oil related industries able to take market shares at other markets – or establish new markets – to compensate for lack of growth in deliveries to the oil sector? Most companies are trying to turn to renewables and shipbuilders are trying turning to non-oil related shipbuilding. A very weak NOK will help them get along
- However, some extra negative news for manufacturing production: Both manufacturing and power supply investments are expected sharply down in 2020, and some of the deliveries are from Norwegian manufacturers

Manufacturing surveys signal a standstill but (not yet) a setback

All manuf. surveys x Reg. Network have softened, SSB's confidence survey the most downbeat

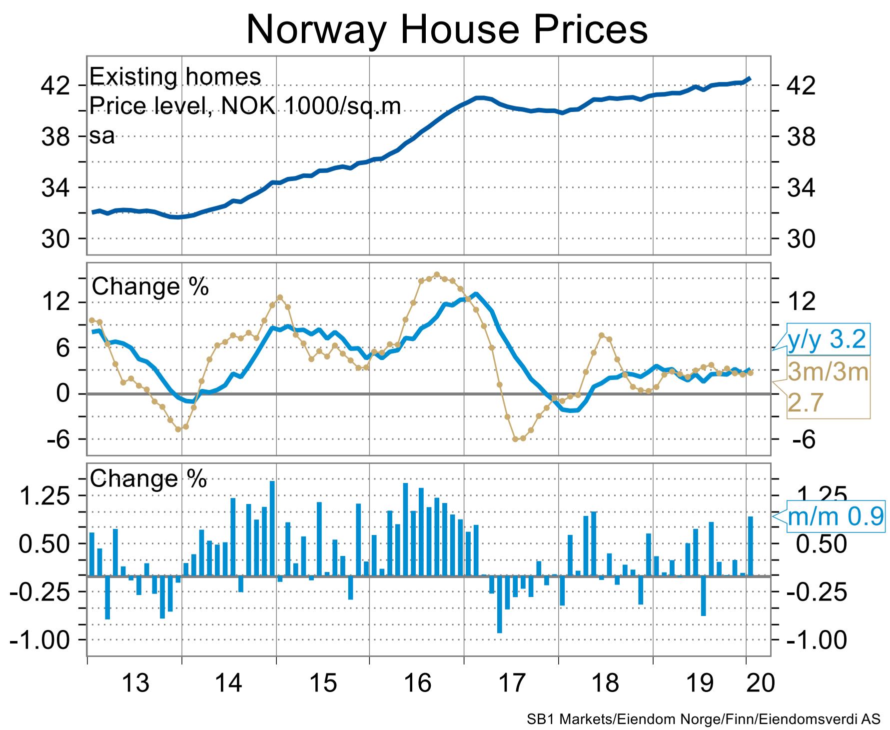


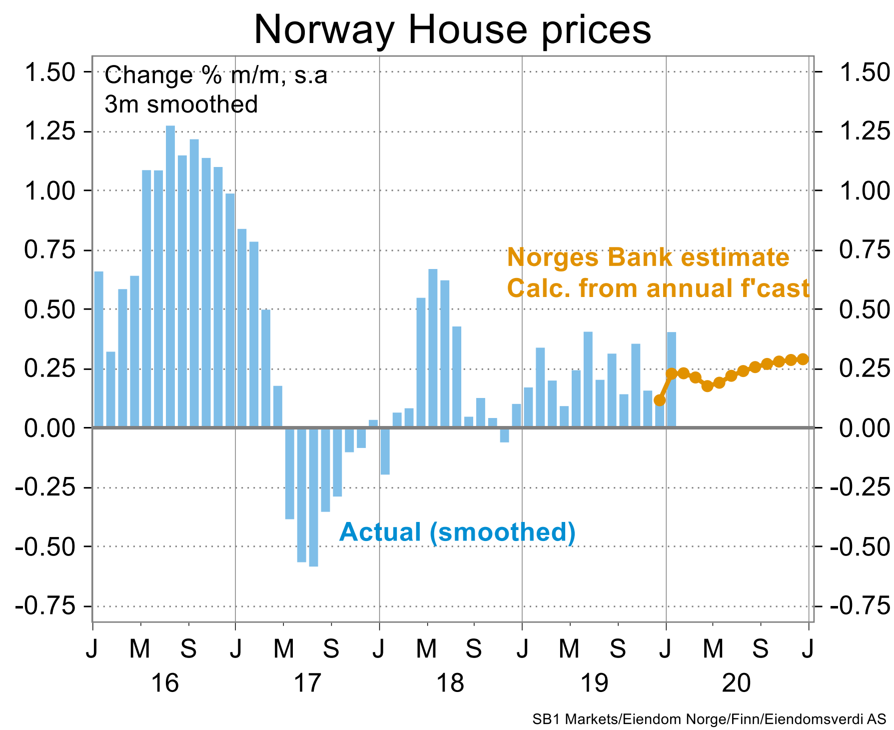


- In sum, the surveys suggest that the growth peak is behind us, signalling 1 – 2% growth
- SSB's industrial confidence survey points to a downturn to zero growth. The PMI is the most volatile of surveys, the level as been kept up surprisingly well recent months
- Norges Bank's Q4 Regional Network signalled slower growth in the manufacturing sector

House prices soared 0.9% in January, well above any forecasts

Prices up 3.2% y/y. All cities/regions contributed to the lift in January



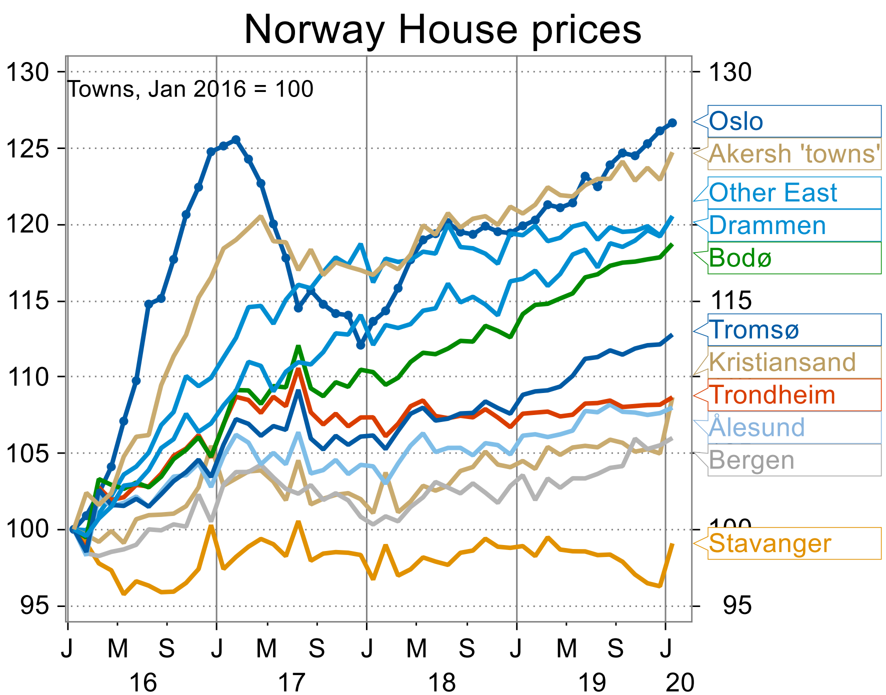


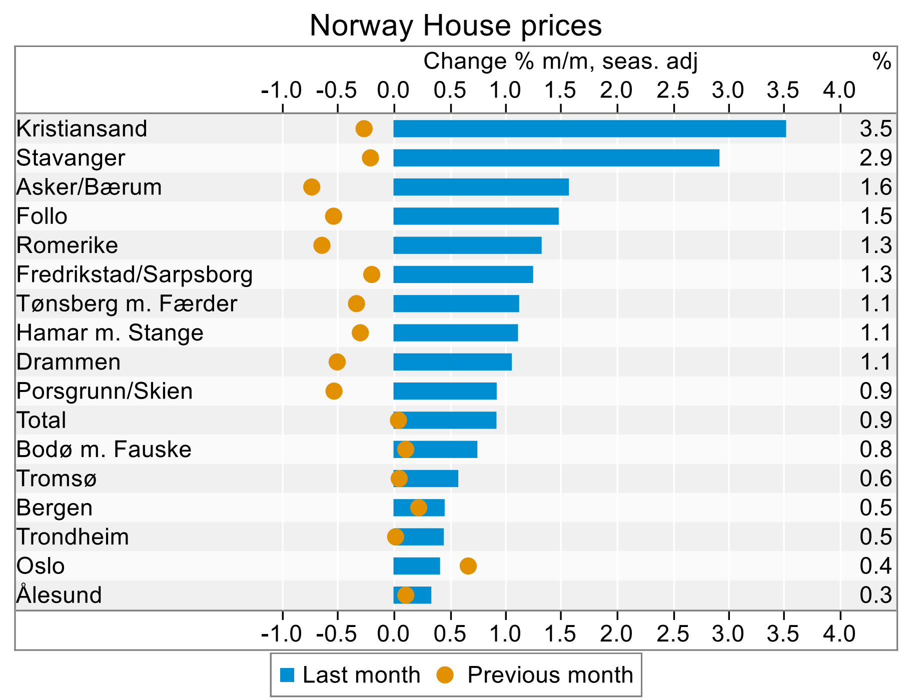
- **House prices** jumped 0.9% m/m (seas. adj), the highest m/m rate since mid-2018. We expected 0.3%. Prices rose 3.3% not s.a. Underlying growth is still moderate at 2.7%, annual rate at 3.2%. Prices are growing faster than Norges Bank assumed in Dec
  - » Prices increased in all cities in January, the major surprise was probably Stavanger, in which prices recovered by 2.9% m/m s.a, after dropping the prior months. Oslo price inflation still in the lead, up 5% 3m/3m, slowing marginally.
- **The number of unsold homes** increased in January and the level is very high. However, the inventory has probably peaked, along with a downturn in the number of new listings, from a very high level, although it increased this month. The number of transactions has flattened at a high level
- **Short term dynamics signal moderate growth the coming months, in Norway total. The coming months/quarters, risks are tilted to the downside, as rates are hiked, and credit growth is now ebbing. And we may not have seen the full impacts of the rate hikes and debt registry**

SpareBank 1 MARKETS

Prices rose m/m in all towns in January

Prices are zig-zagging on a monthly basis, mostly just noise



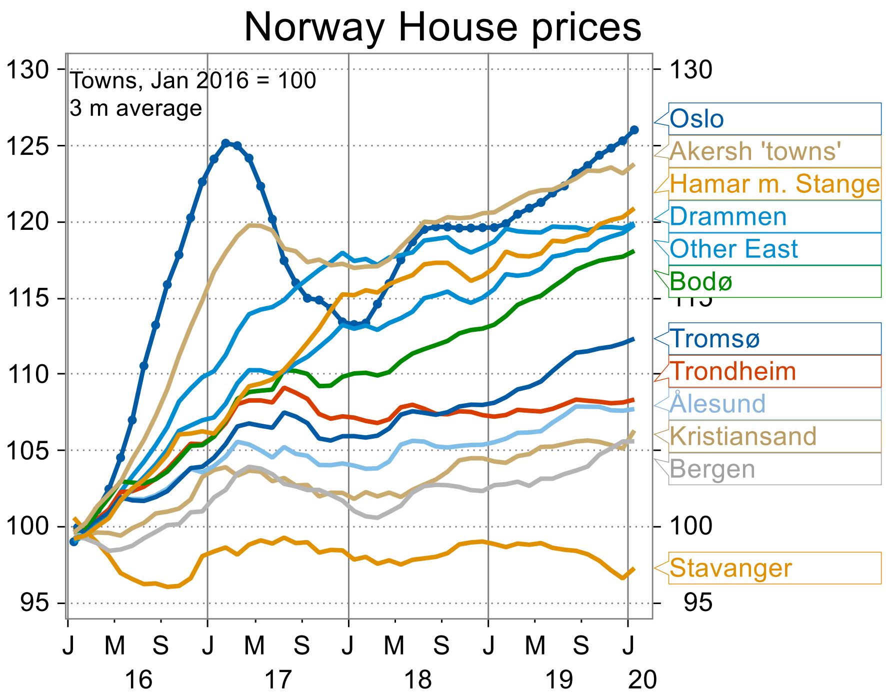


- The monthly data are too volatile, check the much more 'relevant' 3 month averages next page

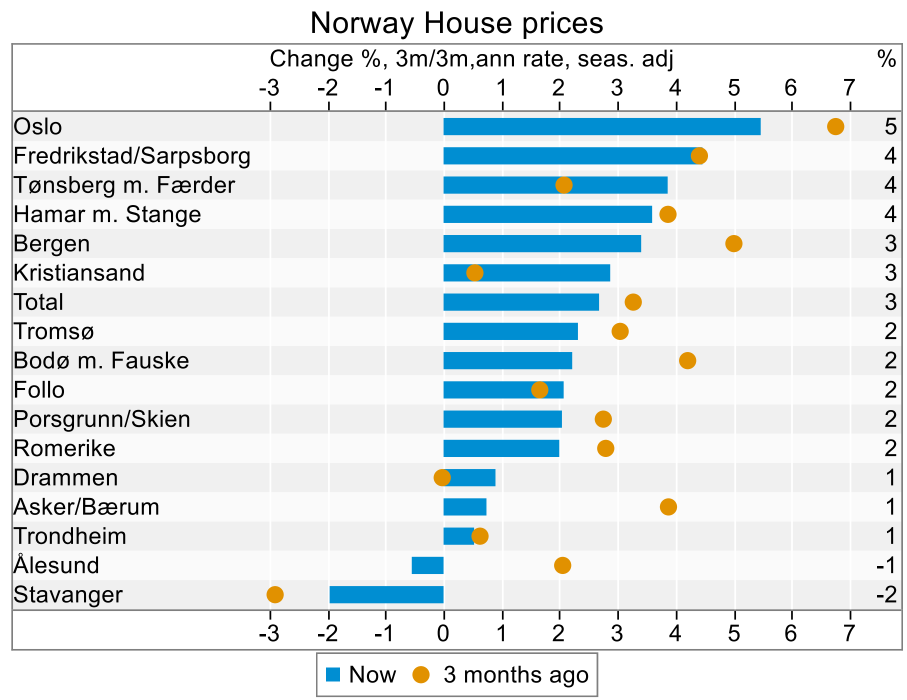
SpareBank 1 MARKETS

Recent months; Oslo prices are soaring, Stavanger tumbling, but turned up in Jan

Prices are increasing in all towns ex Stavanger and Ålesund, but somewhat slower recently



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

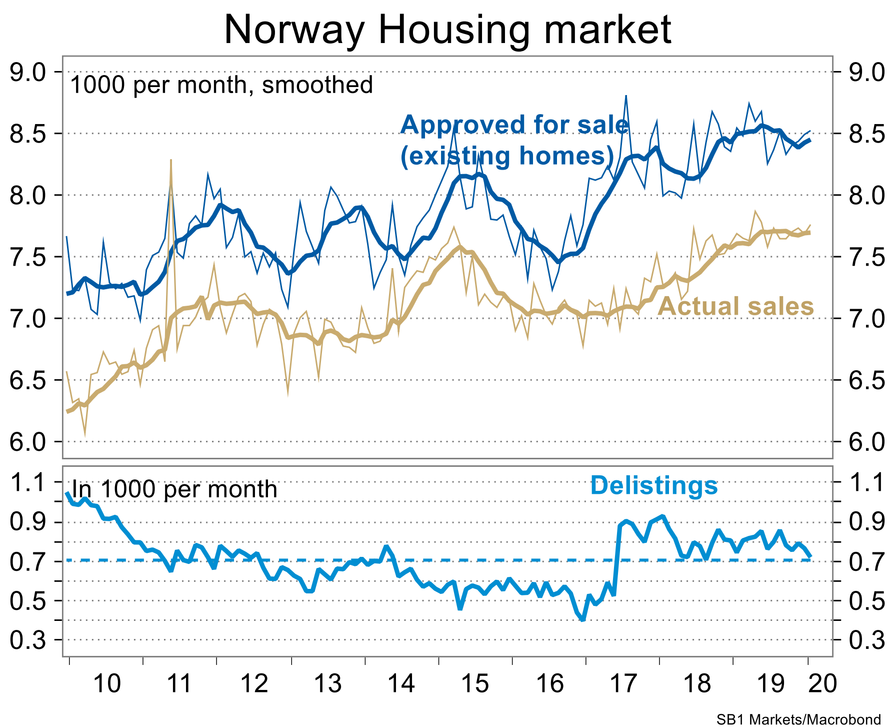


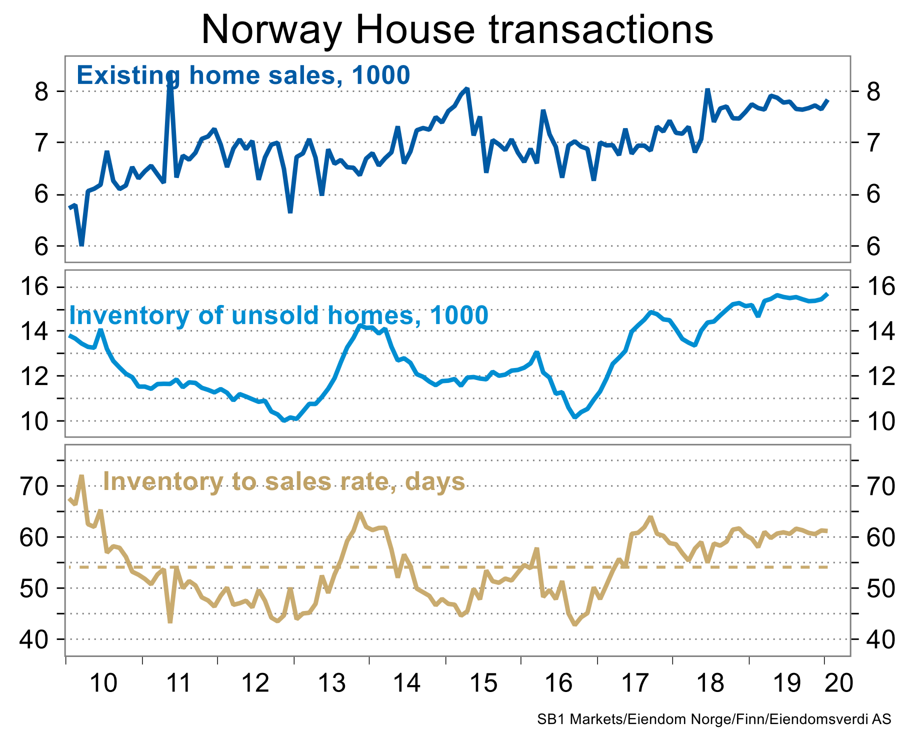
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Measured 3m/3m, prices are now rising in 14 of 16 cities and declining in just 2. Oslo prices are up 5.5% annualized, a tad lower than 3 months ago. Bergen is up a moderate 3%, Trondheim modest at 1%. Stavanger prices rose 2.9% m/m s.a in January, following a steep decline, and the underlying decline slowed to 2%, from 3% the prior month
- Compared to 3 months ago, prices are accelerating in 4 cities and slowing but still increasing in 8 regions, and falling in 2
- Prices in most cities are above the local 2017 peak levels everywhere x Stavanger and Trondheim (flat)
  - » Oslo prices are 0.9% above the 2017 peak level, Bergen 1.7% above. Fredrikstad, Hamar and Bodø (!) have increased the most since 2017. In Stavanger, prices are still 10% below the 2013 peak. Housing starts are reduced by some 50% since, but still many homes are built, we assume because 2.hand prices are still high enough to make new construction profitable

The inventory of unsold homes has turned up again, new listings have peaked

The number of unsold homes at 10 y high in January, due to a high supply in Norway x Oslo

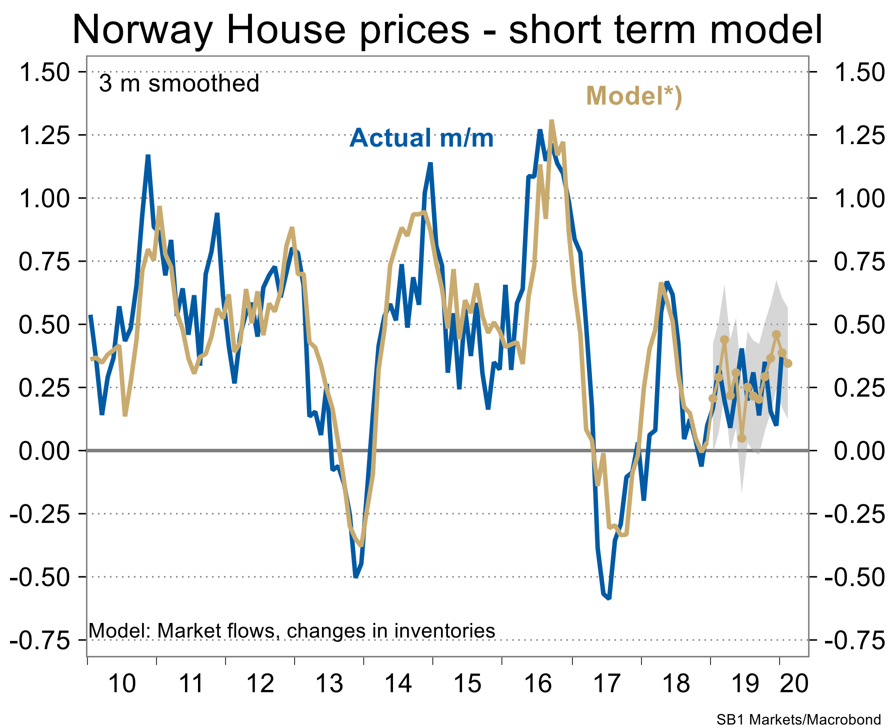




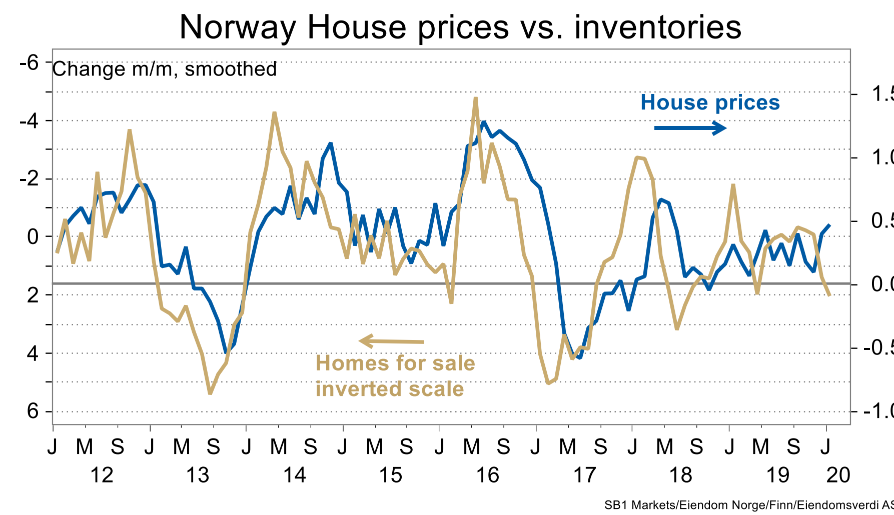
- **New listings of existing homes** have turned down from the peak in early summer. Still, the level is very high and it has increased the past few months, partly because many newly built homes are being completed
- **The number of sales** stabilized in the spring/summer. However, the past 3 months, the inventory has turned up again, and it rose to a 10 y high in January. Not due to weak demand, as sales have stabilized at a high level, but a still elevated supply of new homes (and somewhat lower delistings, implicitly). The overall inventory is soaring, while the Oslo inventory has fallen substantially
  - » The inventory to sales ratio (turnaround) is quite high, at 61 days, vs avg at 54
- The flow balance on the housing market indicates moderate price growth the coming months, check next page

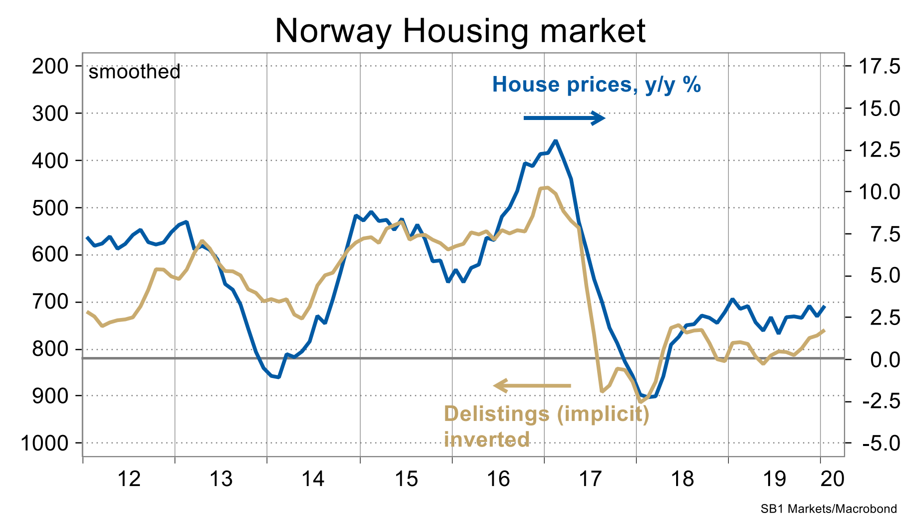
Market flows signal continued moderate price growth, other factors do not

The inventory suggests somewhat lower price inflation than now. And credit growth is slowing



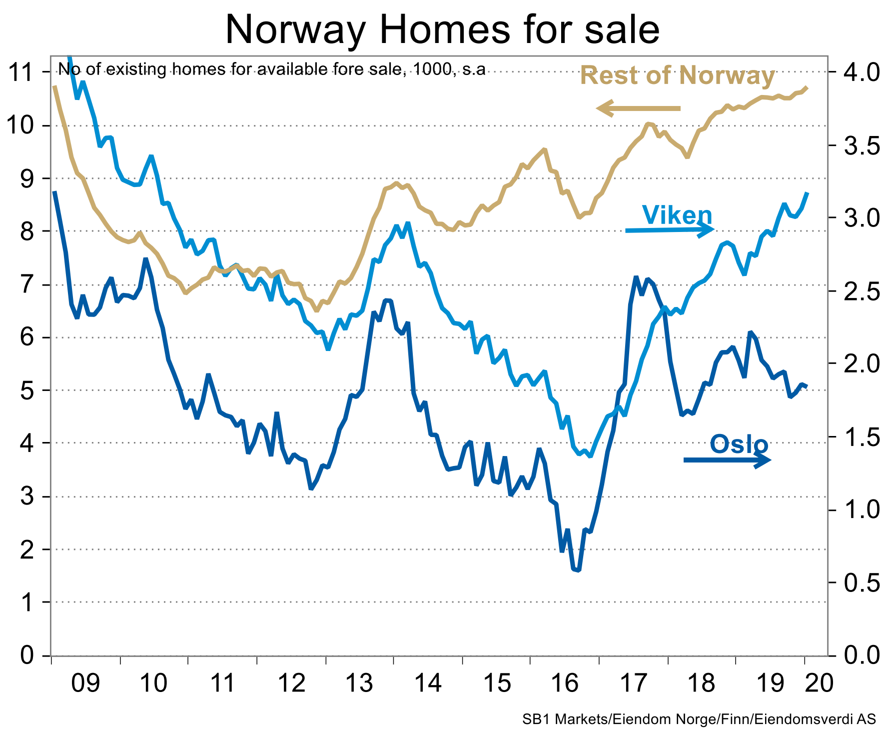
- The supply of new homes for sales and the inventory suggest 0.3-0.4% m/m growth the coming months, close to the 3m average pace
- On the other hand; other factors indicates lower growth; interest rates have been increased and credit growth is now cooling
- *This is <u>not</u> a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

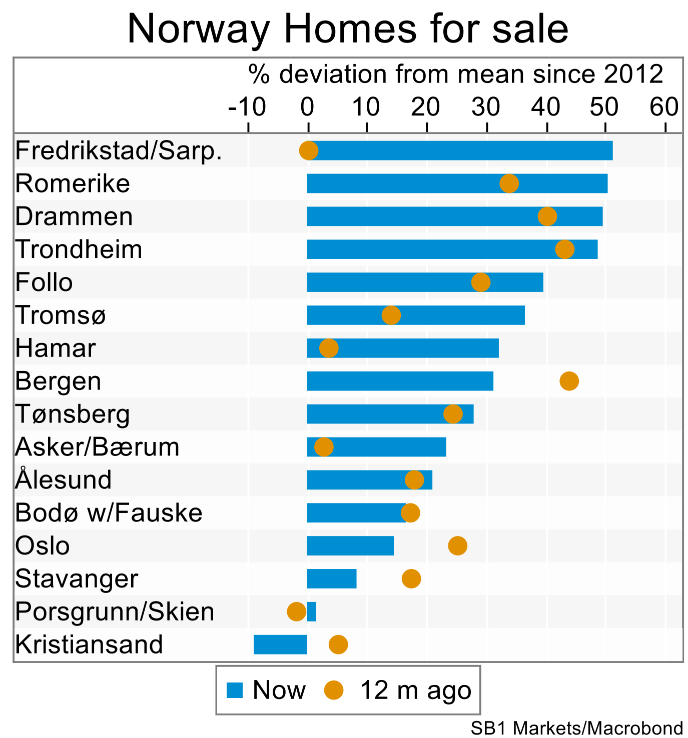




The number of homes for sale is increasing most places

... Barring Oslo, in which the inventory remains much lower than at the 2017 levels (but not low!)





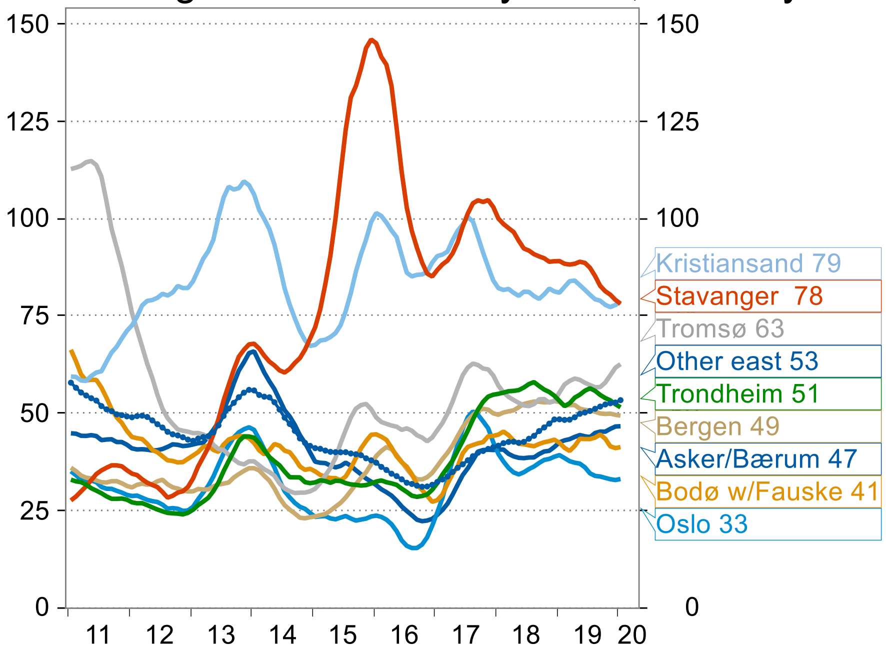
- The number of homes for sale have been increasing rapidly in most regions, except for Oslo since early last year
- The inventory is increasing sharply in Viken (Akershus, Buskerud, Østfold; or East x Oslo)
- Norway outside Oslo & Viken is still reporting a larger inventory of existing homes for sale, the highest since 2009
- The Oslo inventory has been reduced by almost 20% since last spring, but it is still larger than the average since 2012
- Inventories are reduced in Stavanger too, chiefly due to a lower number of new listings, not thriving demand

SpareBank 1 MARKETS

Inventories of homes are on the way up

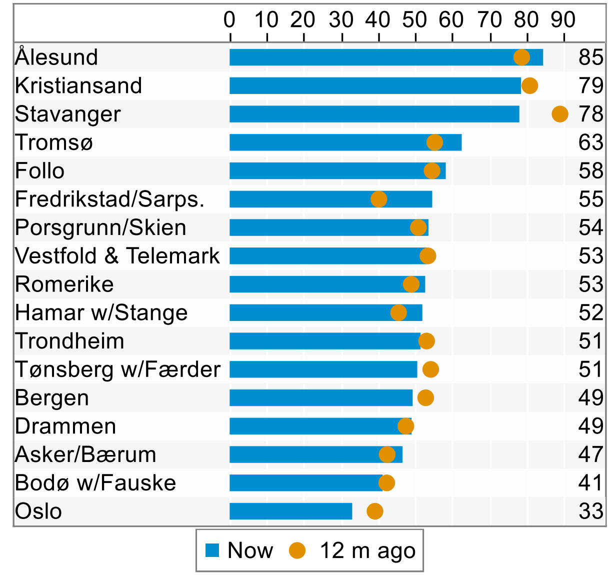
… and more than sales, most places

Existing homes Inventory/sales, # of days



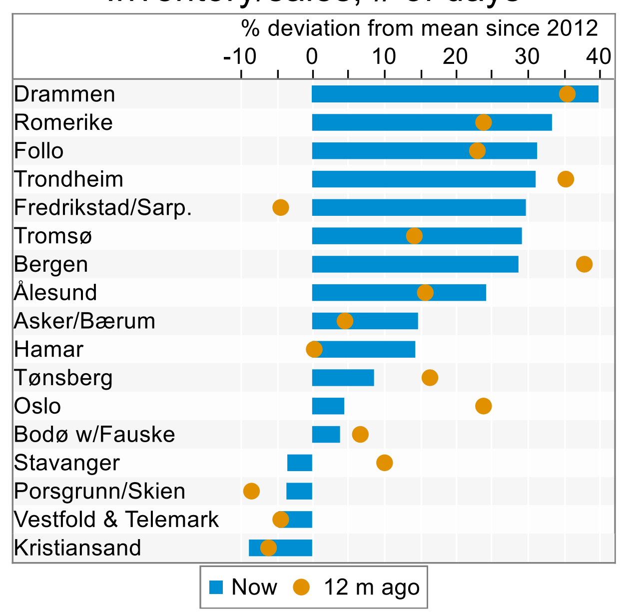
SB1 Markets/Macrobond

Inventory vs. sales, # days



SB1 Markets/Macrobond

Inventory/sales, # of days

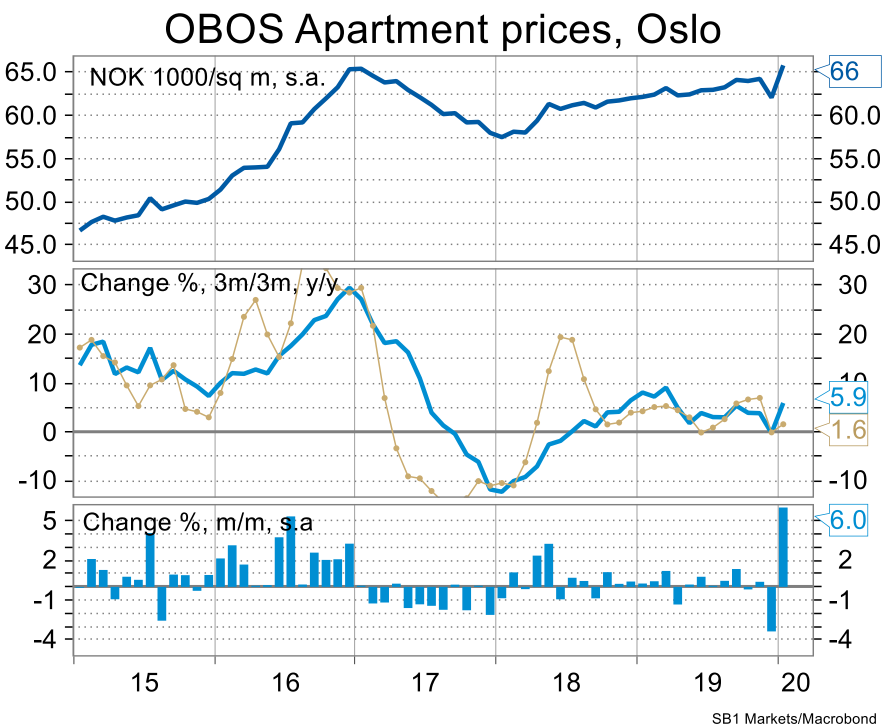


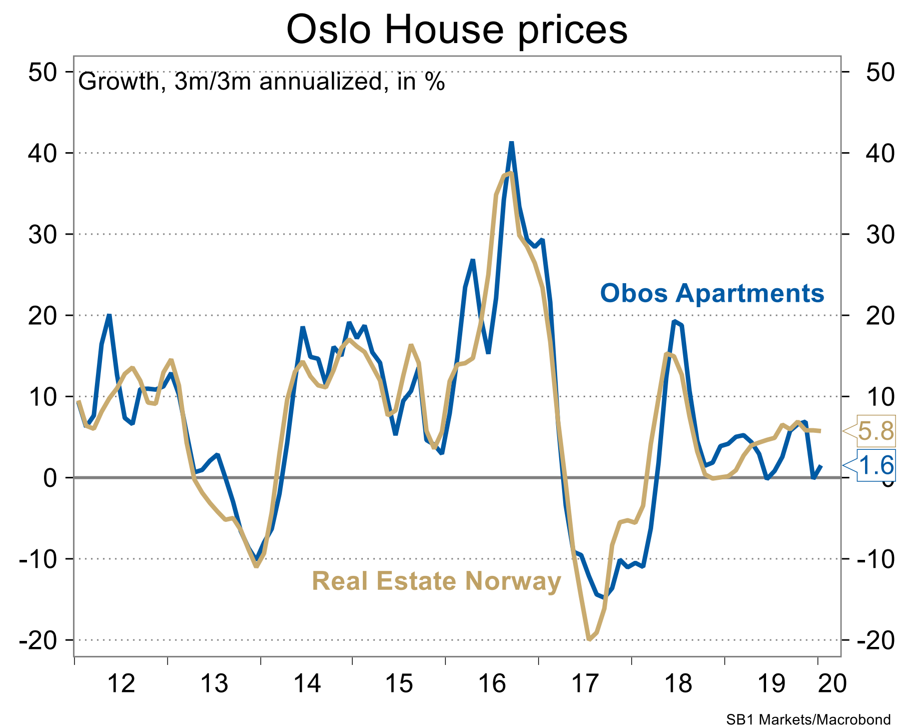
SB1 Markets/Macrobond

- The inventory/sales ratios are still high in Kristiansand and in Stavanger but they are declining. Ålesund has the highest inventory vs sales
- In Oslo, the inventory/sales ratio is declining, from a normal, low level
- In the rest of the country, the ratio is on the way up, and it is higher than normal

OBOS Oslo apartment prices jumped 6% s.a in January (following -3% in Dec)

OBOS prices rebounded strongly in January, these monthly data are sometimes ridiculously volatile

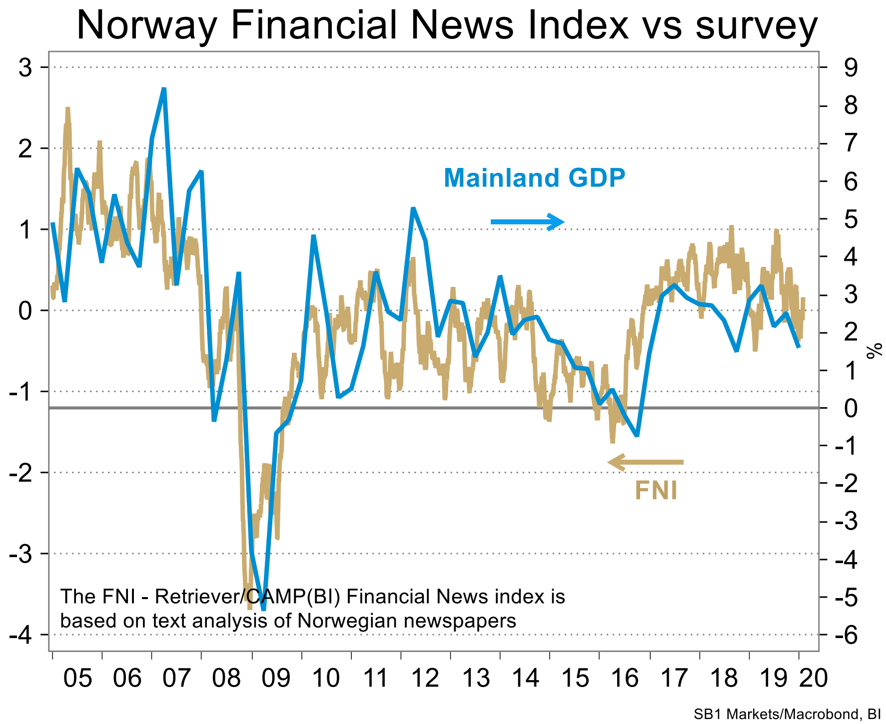


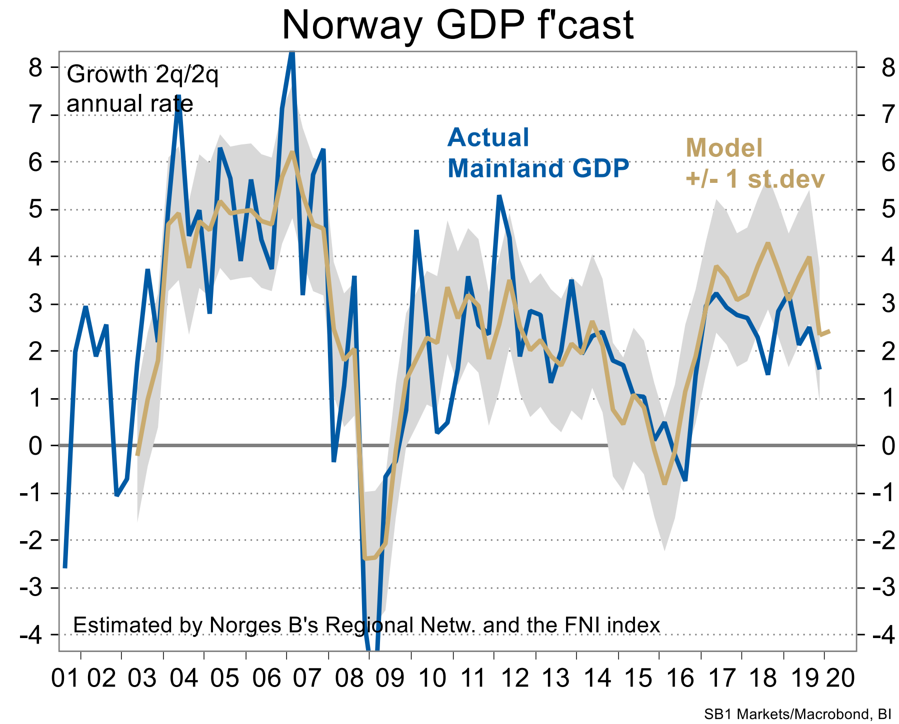


- OBOS Oslo apartment prices soared 6.0% m/m seasonally adjusted in December. The steep rise comes after a 3% decline the prior month, the avg of the two months is a 1% increase. Underlying growth is up 1.6%
  - » Prices in January were marginally higher than the local ATH in Jan 2017, for the first time
- OBOS' monthly data are more volatile than Real Estate Norway, which are reporting a 5.5% underlying speed

The Financial News Index climbed in January, trending down

FNI signals some 2.4% GDP growth, however, has been too upbeat vs GDP growth the past years





- The FNI tracks media reports on the economy. Trade tension, market turmoil, and a few softer key macro indicators created more negative news flow in financial media earlier in 2019. The index has stabilized since then, probably due to easing trade war/Brexit concerns and some strong global macro data (but it will drop in February!!)
- The index signals approx 2.4% GDP growth, probably far too optimistic (as it has been the past 2 years). The direction may be more accurate, pointing to a modest slowdown now. The Regional Network points to 1.9% growth

Financial News Index is based on an analysis of text in Norwegian newspapers covering the economy, tracking 'economic' words and assessments. The index follows the cycle well but is rather volatile, short term. The FNI is published by Retriever/CAMP(BI)

Highlights

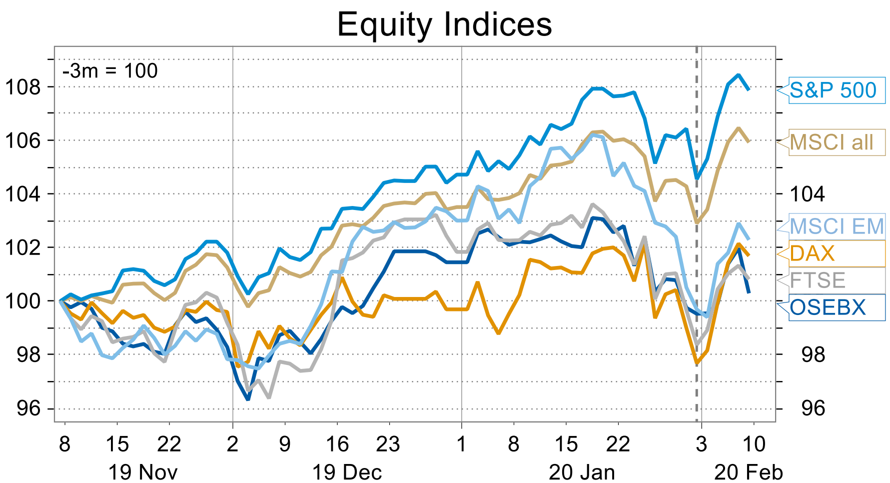
The world around us

The Norwegian economy

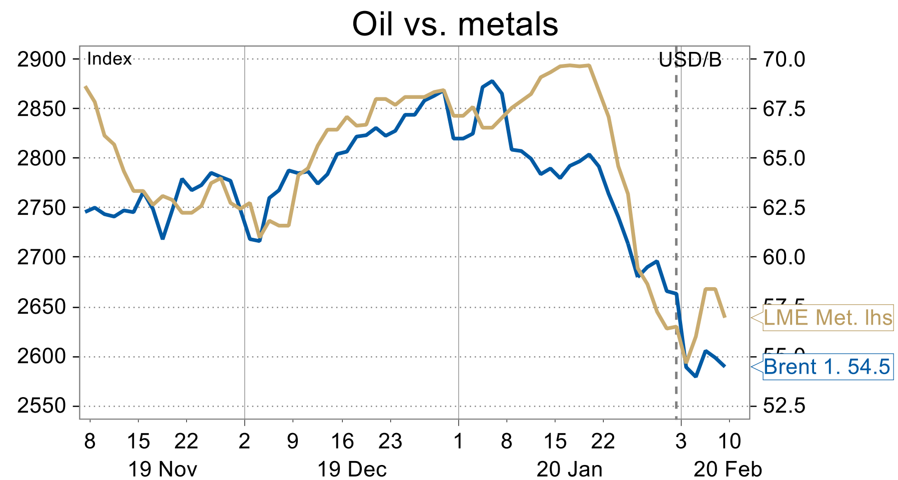
Market charts & comments

Markets shake off coronavirus fears (but Oslo hit by weak results/oil price)

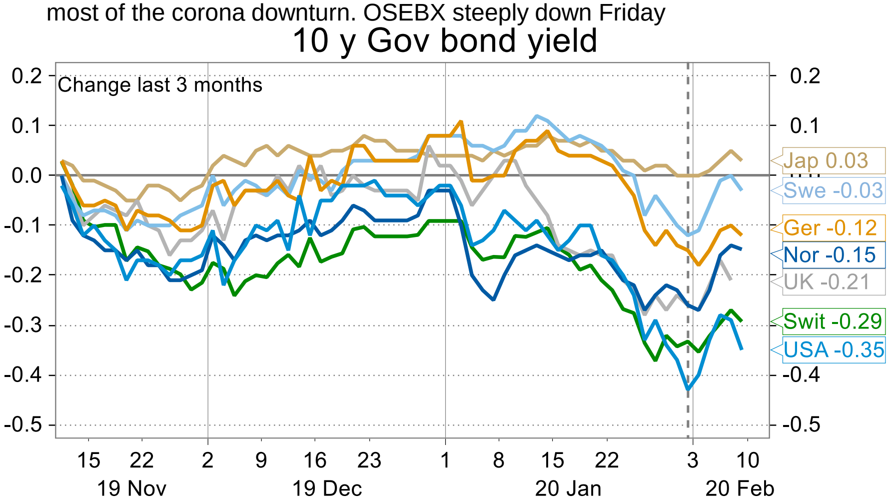
Stock markets recovered swiftly, S&P to new ATH. Bond yields, up, at least until Friday. USD up too. Oil not



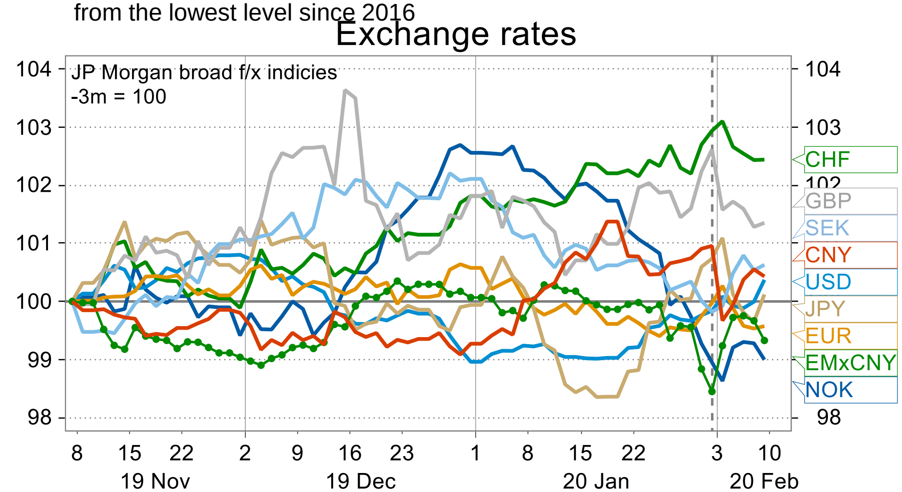
All stock markets were in recovery mode last week, reversing most of the corona downturn. OSEBX steeply down Friday



The oil price continued down.. Metal prices recovered modestly, from the lowest level since 2016



Bond yields turned up all over last week but are still well below the levels from early January, before the corona outbreak rattled markets



CNY and EM currencies recovered, USD steady, EUR down, probably on some very weak macro data

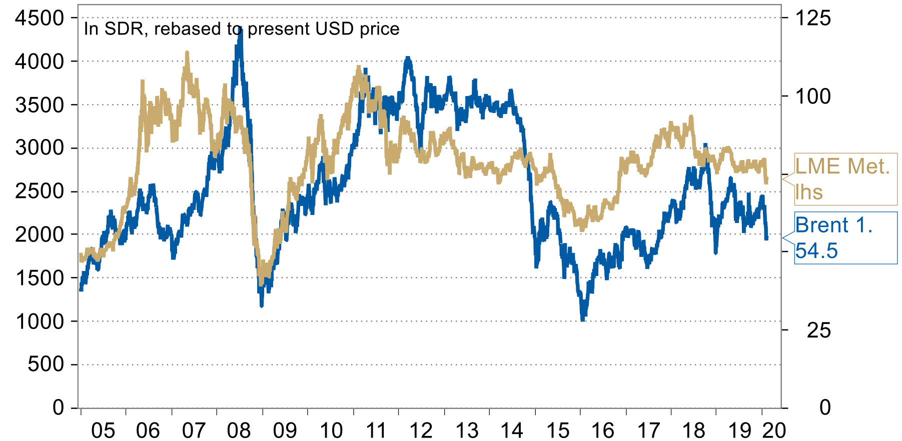
In the long run: The coronavirus setback barely visible from distance

However, metal prices at the lowest levels since 2016. Chinese growth will take a hit

Equity Indices

SB1 Markets/Macrobond

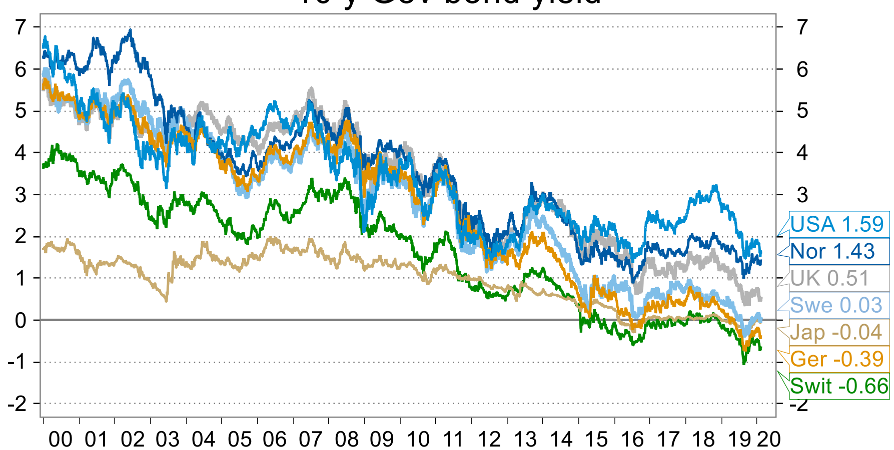
Oil vs. metals



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

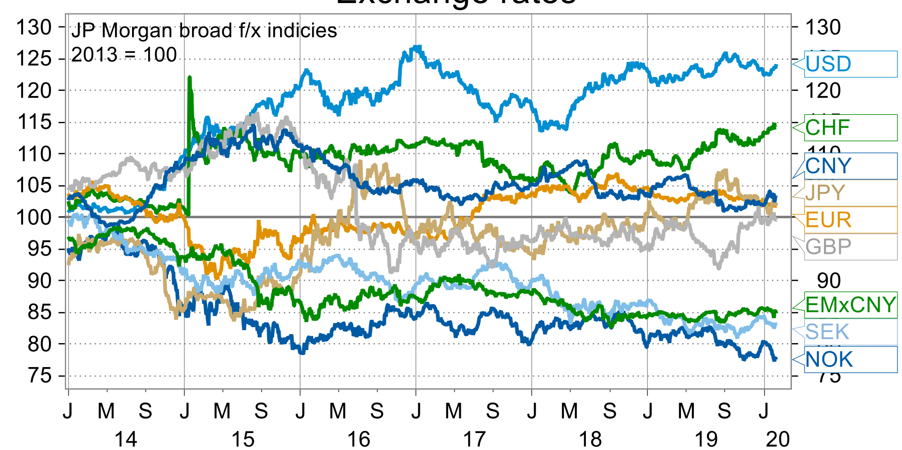
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

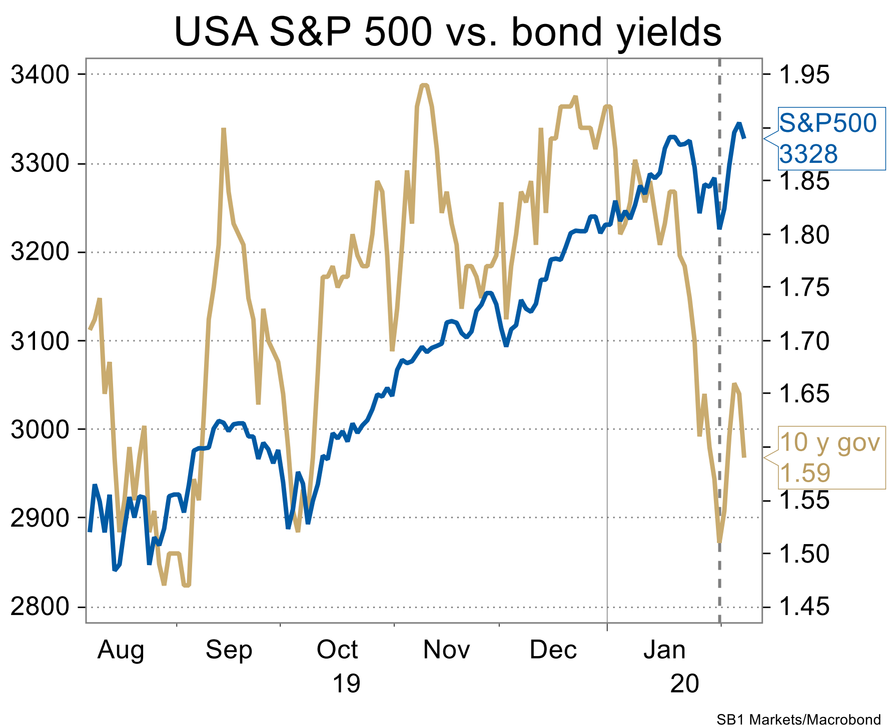
Exchange rates

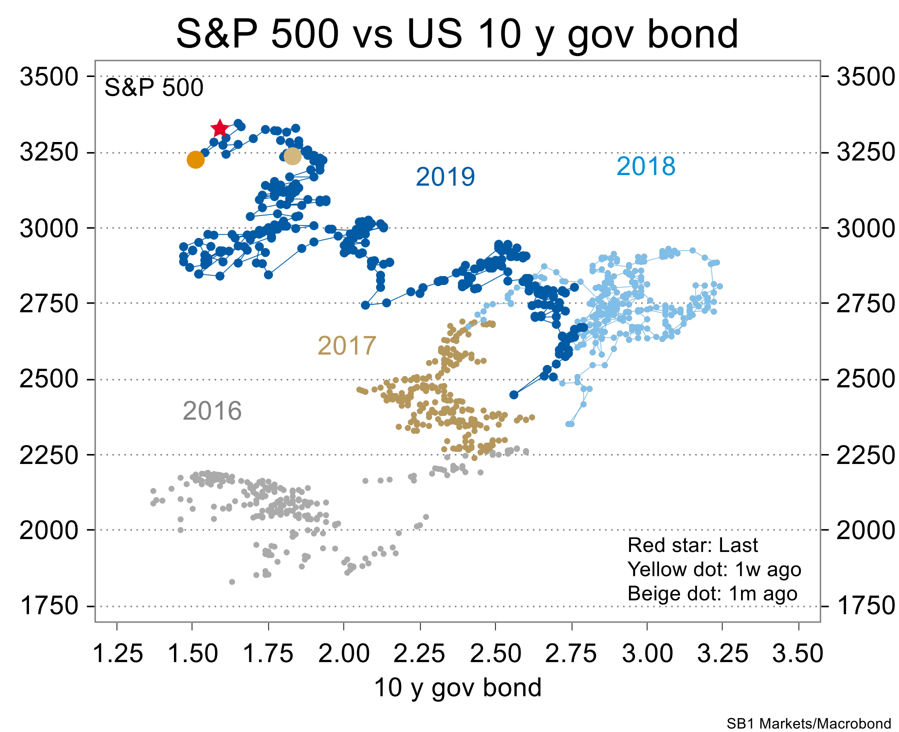


SB1 Markets/Macrobond

US: Stocks and (partly) bond yields are rebounding

S&P soared 3.2% via a new ATH, 10y gov up 8 bps, still 33 bps down from the Jan 1. peak



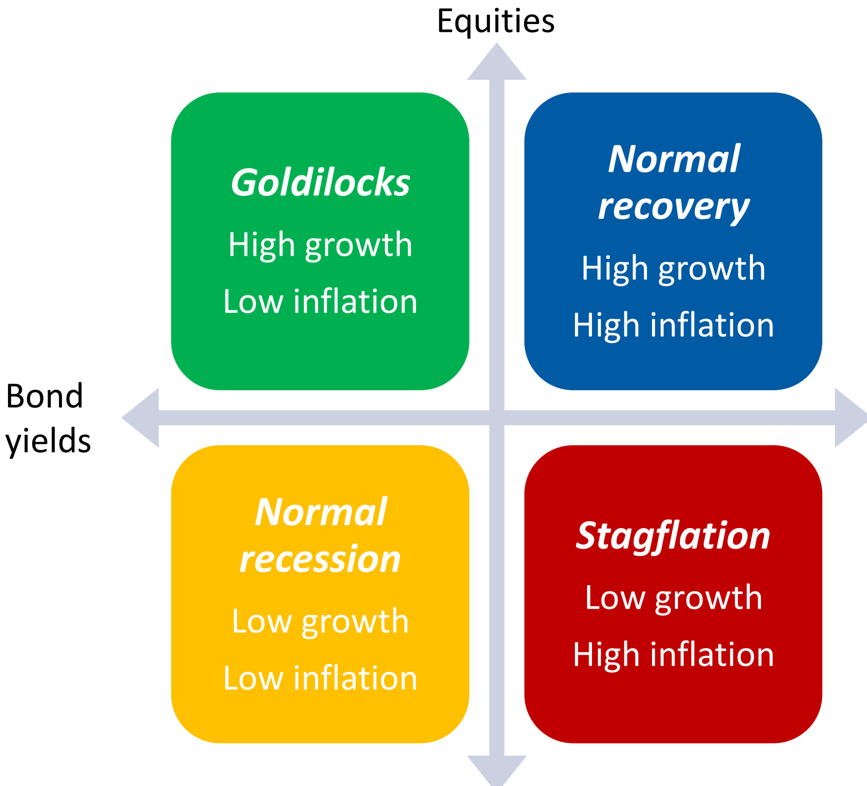


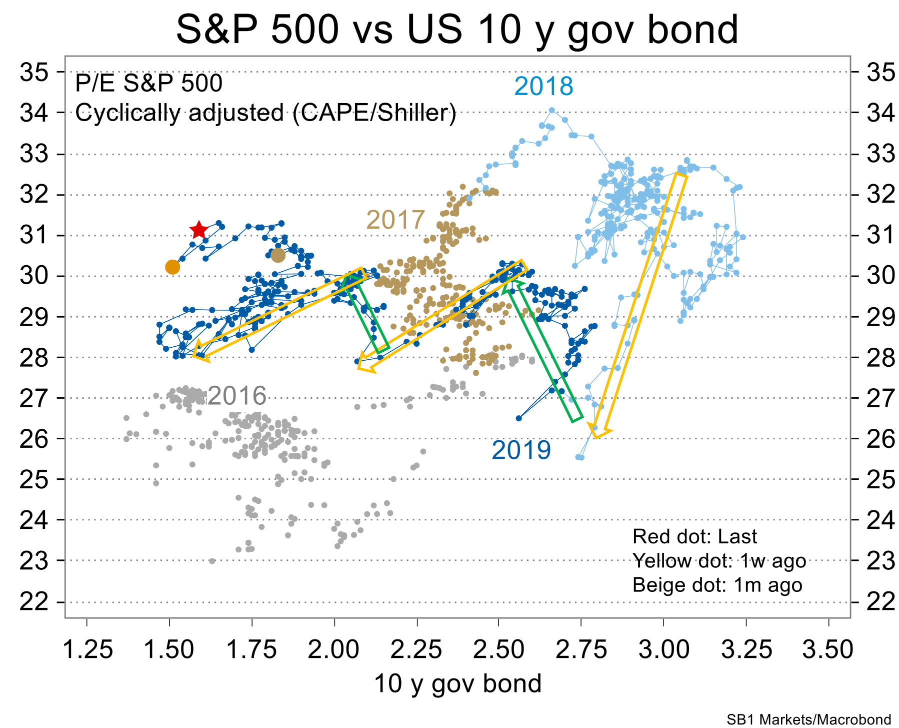
- Easing fears of the global growth impacts from the coronavirus lifted stock markets last week, and the virus spread at a slower speed. Strong US earnings and a spike in the US manufacturing ISM probably lifted the mood as well
- Bond yields recovered by 8 bps, still more than 20 bps below the pre-corona levels

SpareBank 1 MARKETS

A turn towards the 'normal recovery' corner last week

The past months, markets have moved (marginally) towards the Goldilocks' scenario

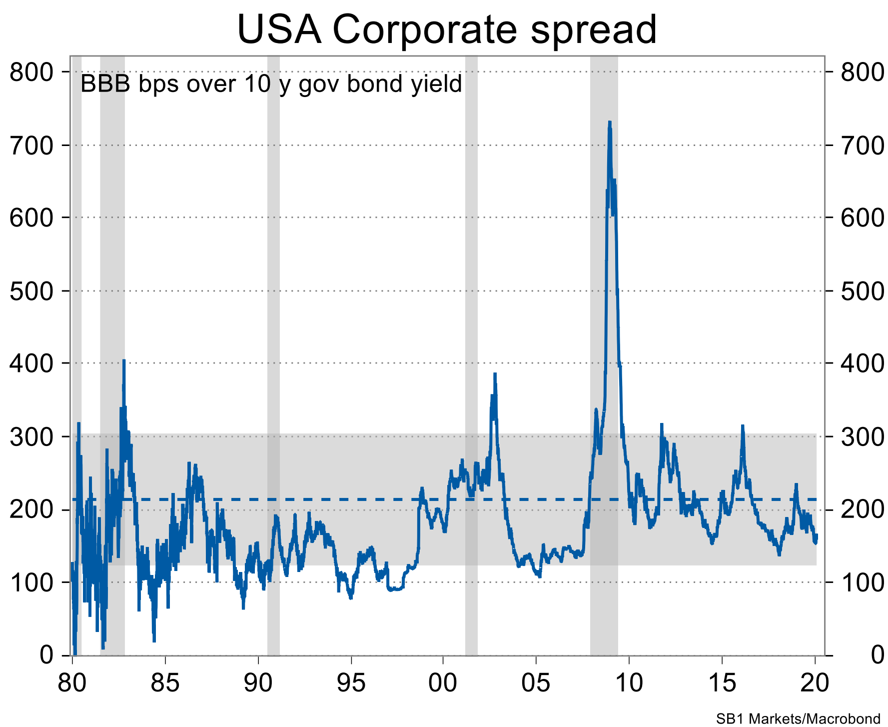


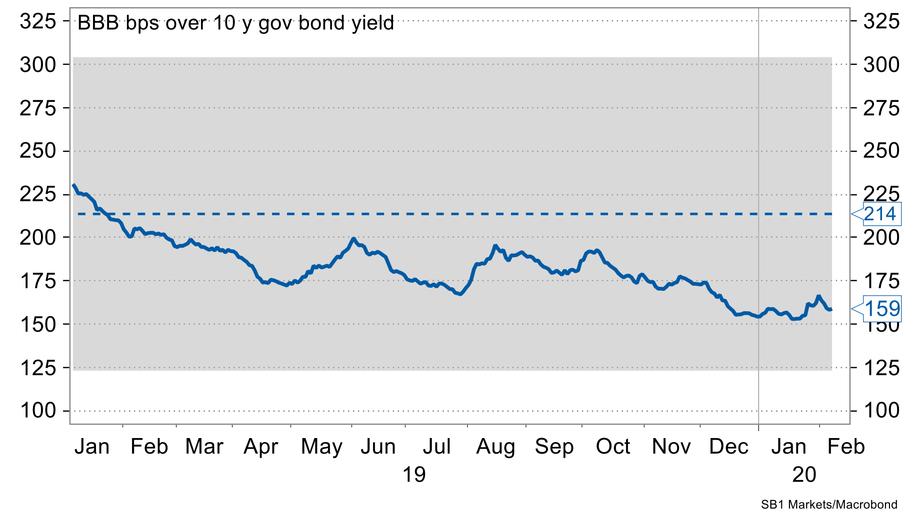


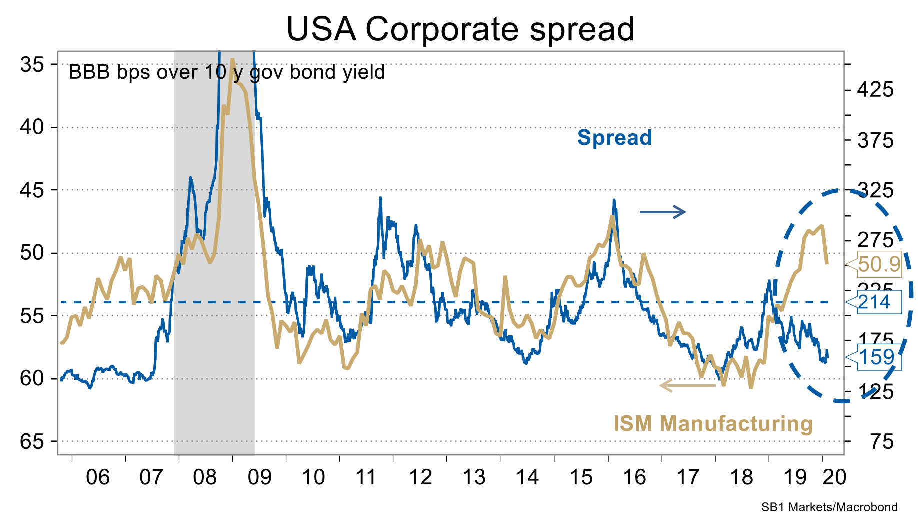
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The past week, both stocks and bond yields recovered (but stocks much 'more' than bonds)
- 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 – <u>growth</u> will be the main driver for both markets, <u>not inflation</u>

Credit spreads up but are still very low, well below an average level

Spreads are too low *if growth is slowing as surveys have been indicating*

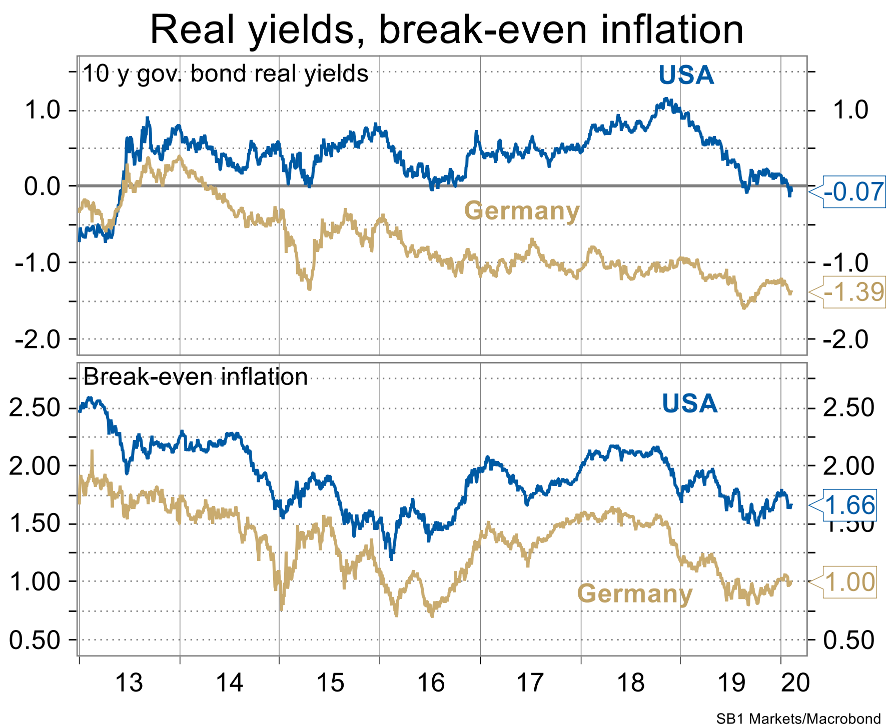


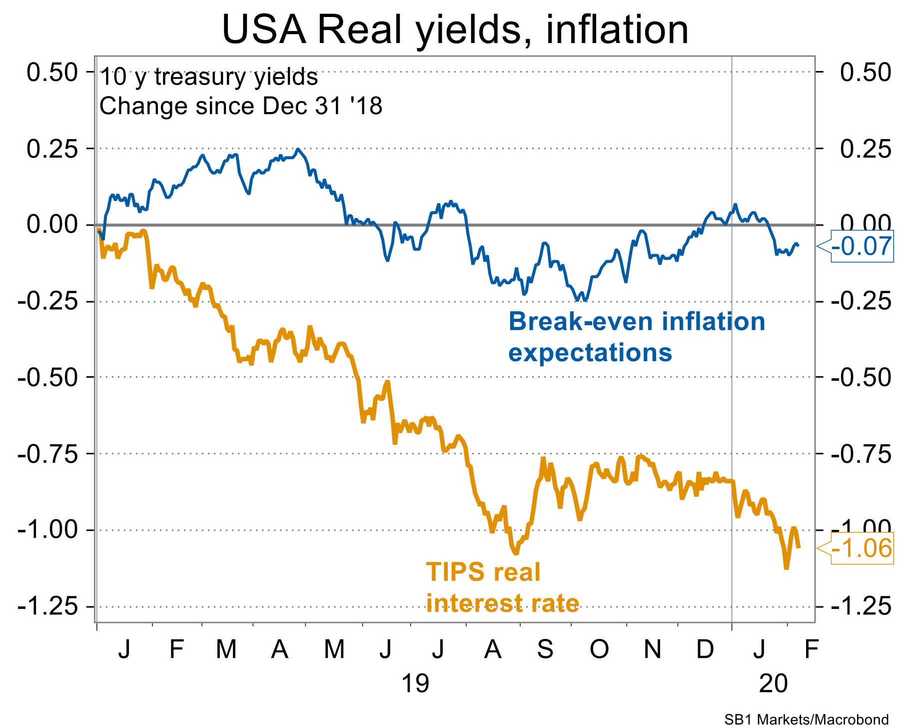




Real rates recovered last week, inflation expectations steady

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

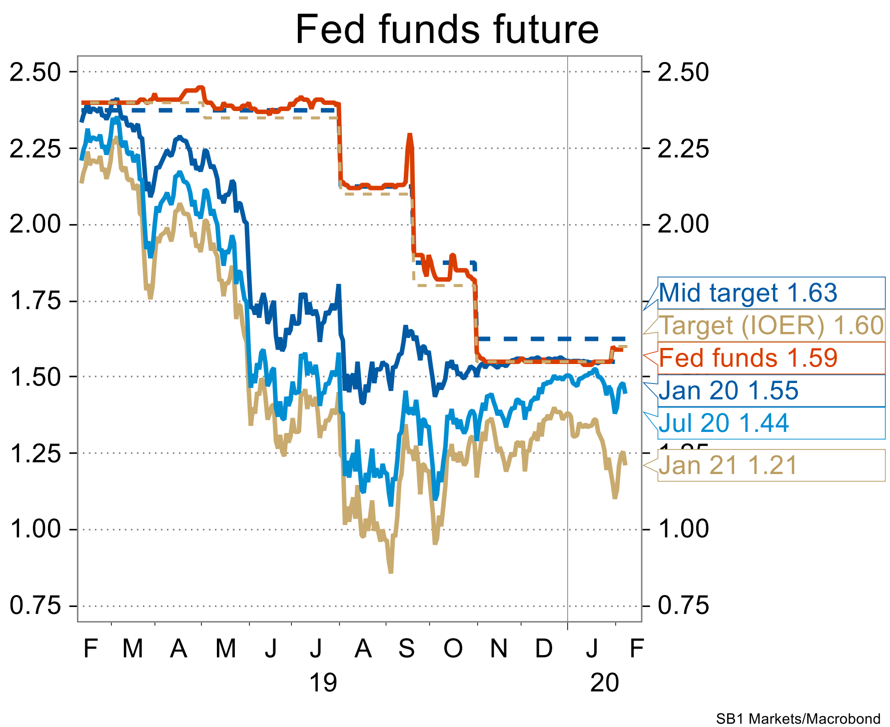


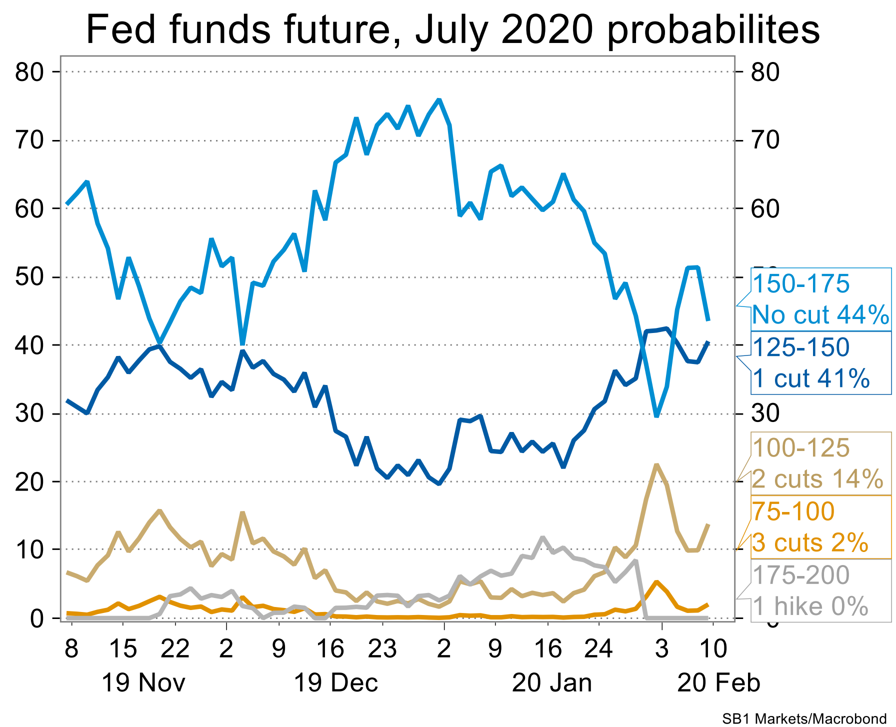


- In November-late December, US inflation expectations increased, while real rates retreated slightly. The pattern was similar in Germany. In January and early February, both yield components fell in the US and in Germany, and real rates more than inflation expectations, on fears of the corona virus. Last week, all turned up, and real rates more than inflation exp.
  - US 10y real rate rose 5 bps to -0.05%, still a very low level. Inflation expectations at 1.66% are not that far off
  - The 10 y German real rate at -1.39% is ridiculously low. Inflation expectations at 1% 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!)

Fed cut expectations have calmed, still 56% for one or more cuts before July

Fed fund futures edged up last week but are still well below the level before the coronavirus outbreak

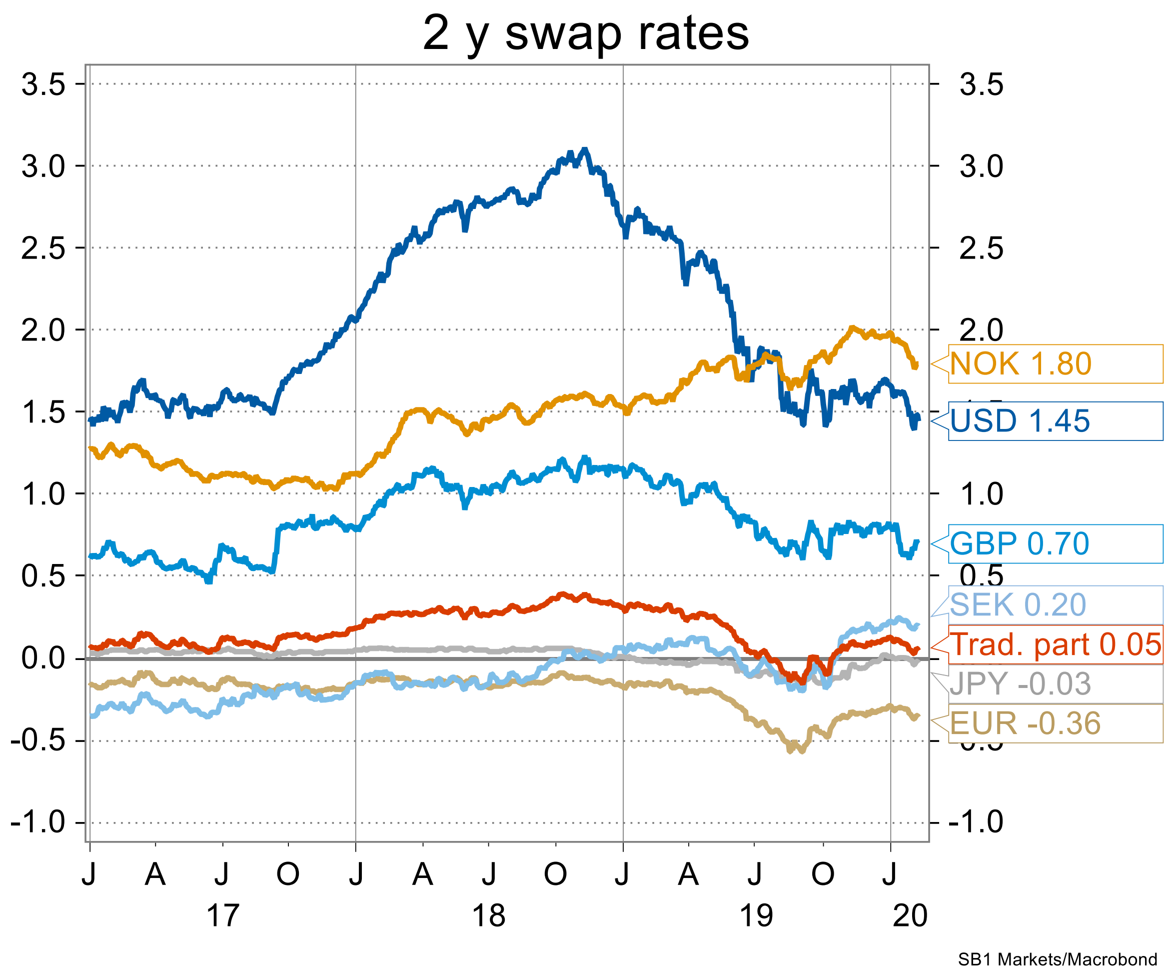


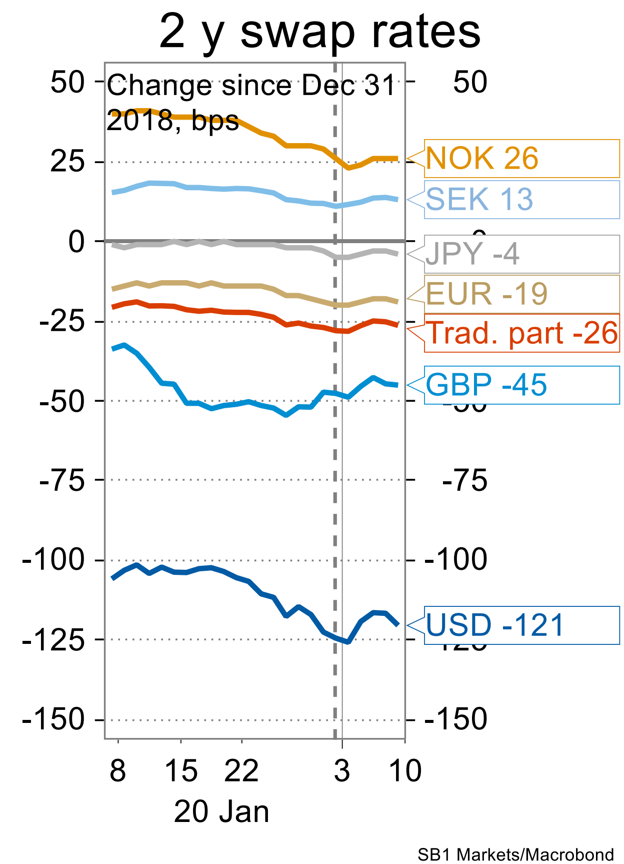


- Fed Funds futures dropped through January at coronavirus fears rattle financial markets. Last week, the FRAs turned up. The probability of at least one interest rate cut by July fell to 56%, from 70% at the peak two weeks ago. Markets are pricing in a second cut with some 40% probability
- The actual 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 in January)

Short term rates heading slowly down among trading partners and NOK

2 year swap rates slowly up last week among trading partners, NOK rates flat





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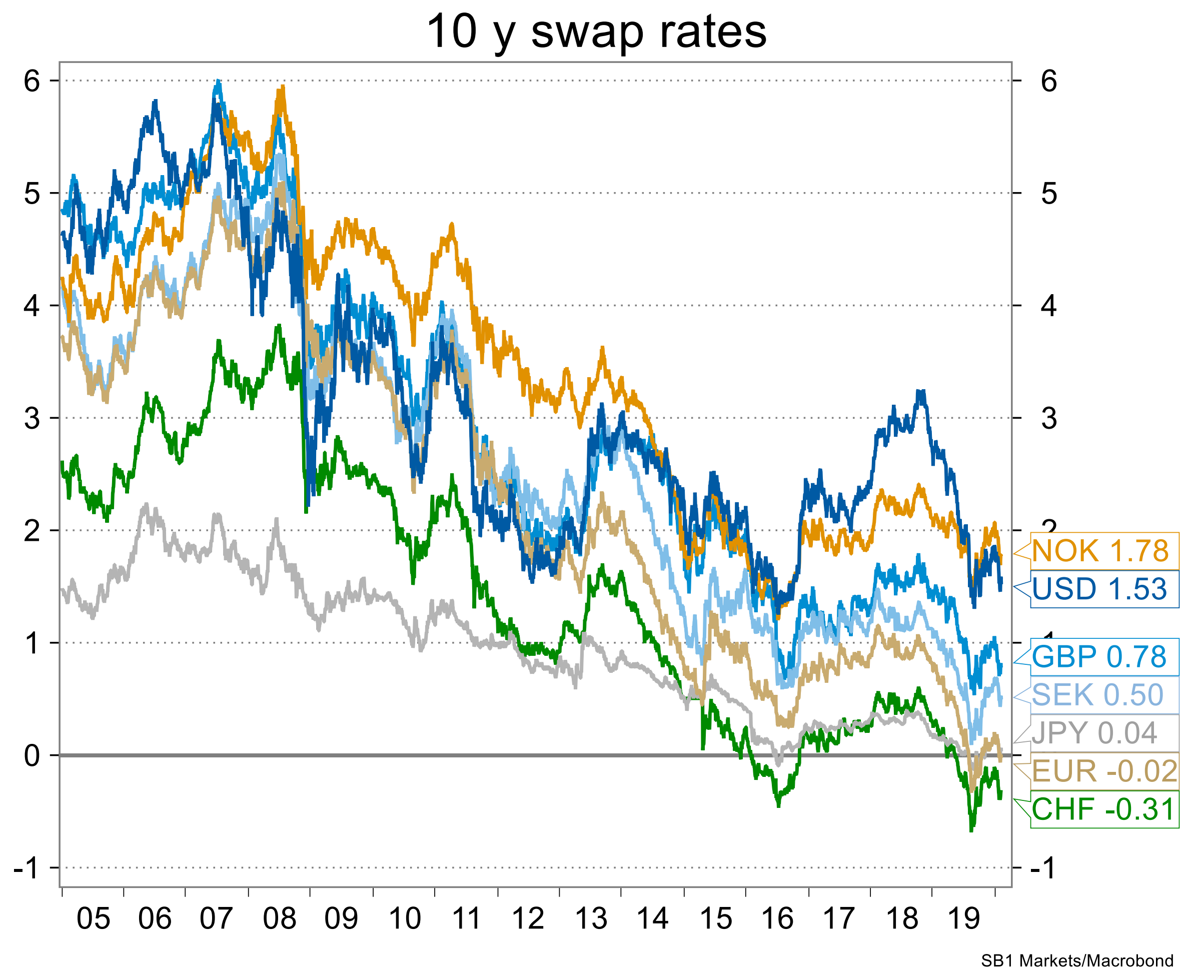
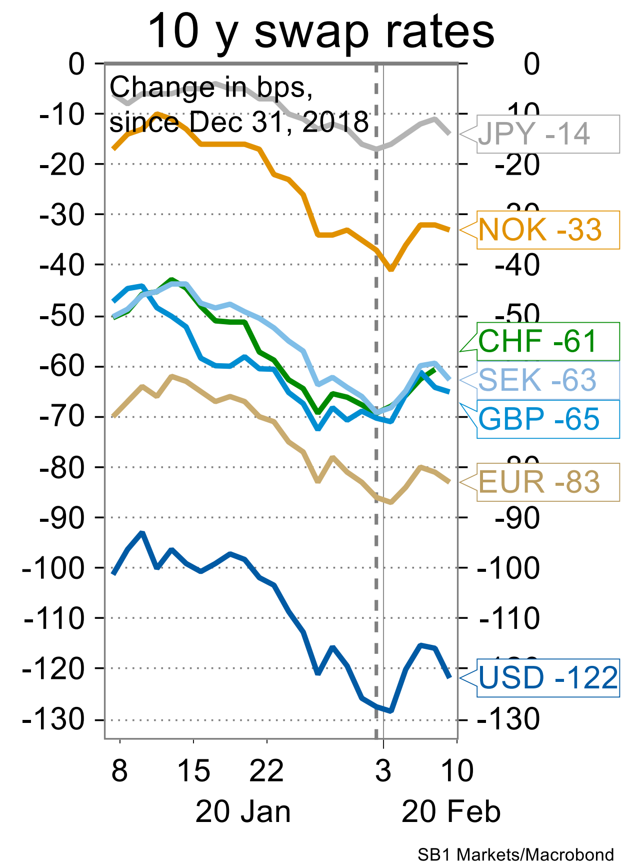
Long term swap rates are very low, recovered softly last week

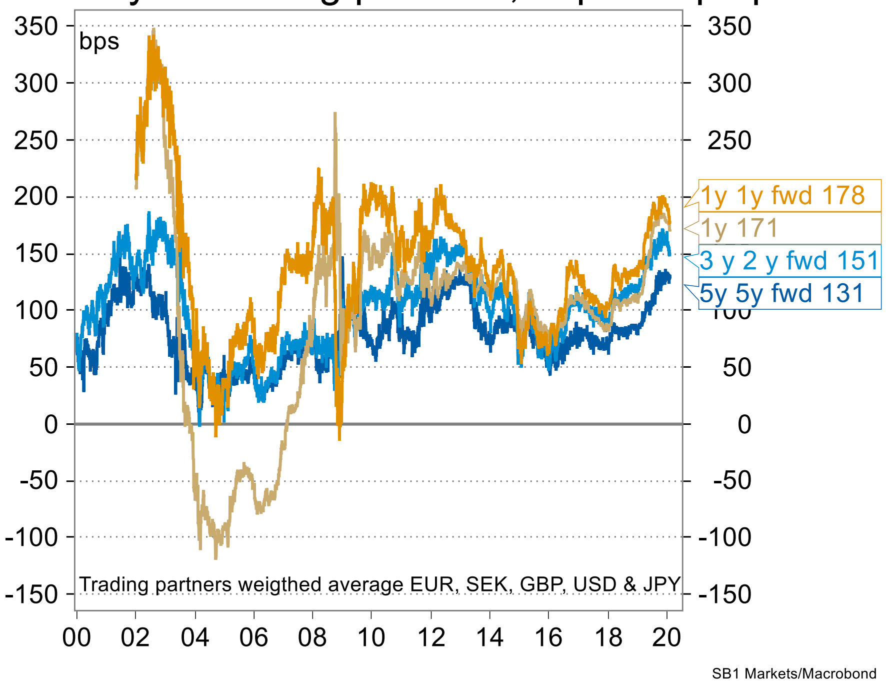


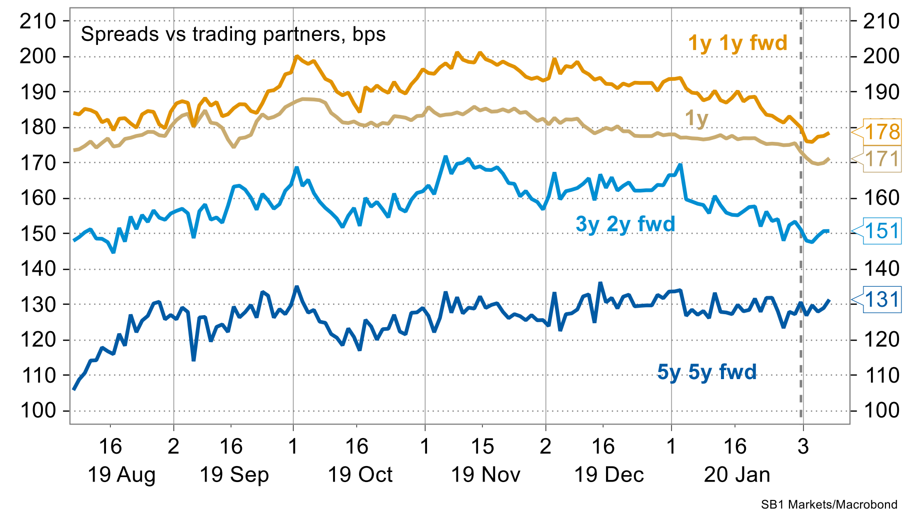


Swap spreads vs trading partners are shrinking

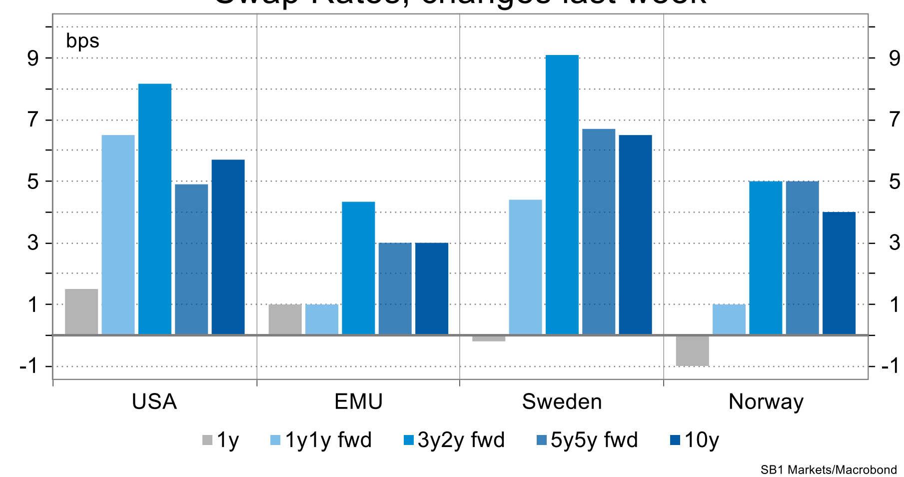
Short term spreads are down some 20 bp from peak, long term spreads just marginally lower

Norway vs trading partners, impl swap spreads





Swap Rates, changes last week



- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since November, spreads have been trending in on the short end of the curve, spreads are down 24 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

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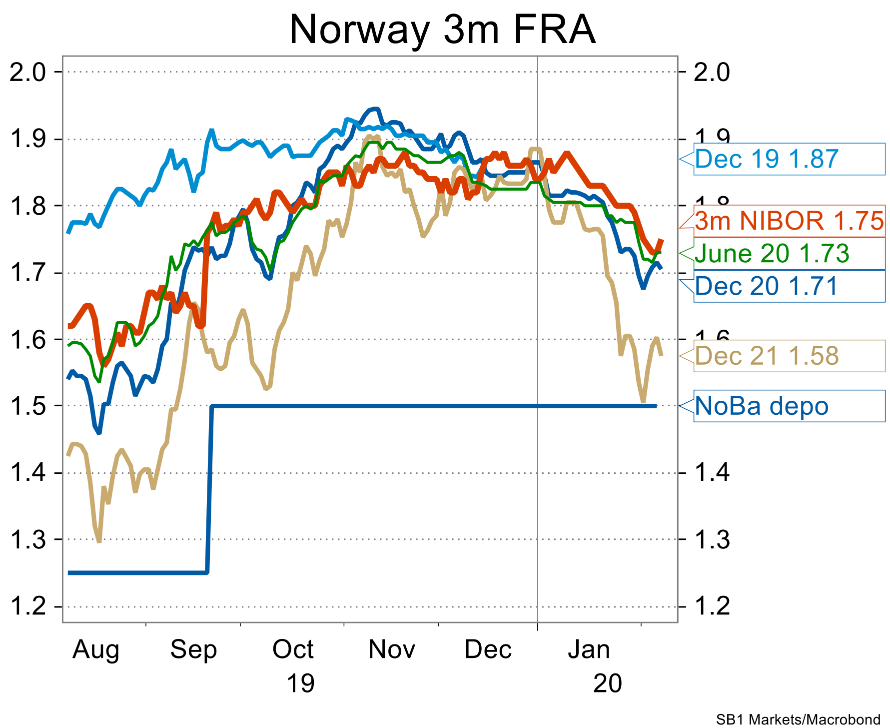
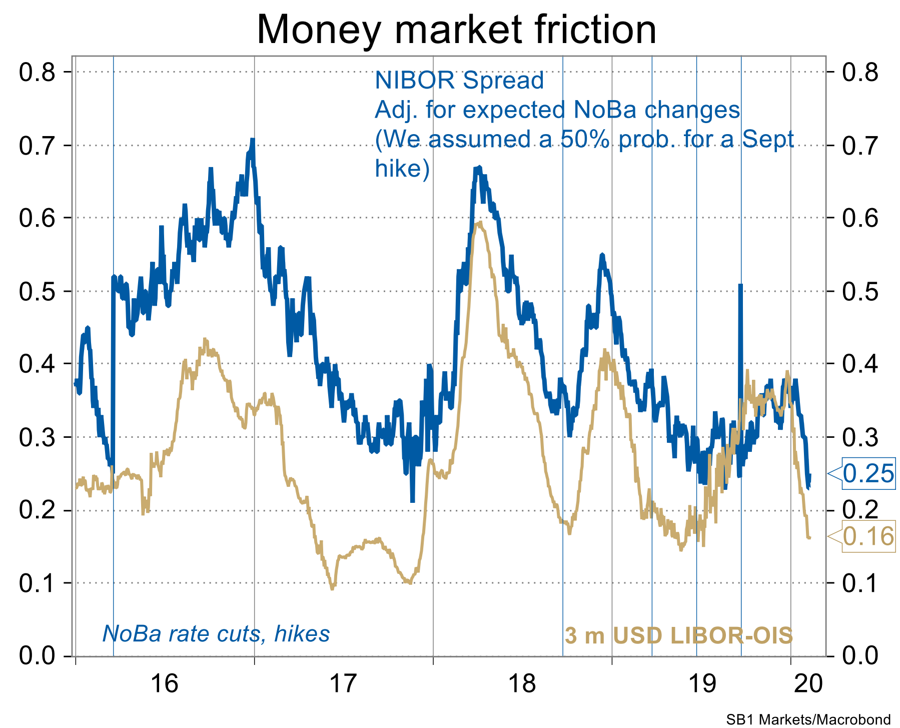
NIBOR tumbles on lower spread, longer dated FRAs have stabilized

Markets are pricing 30-40% probability of a 2020 NoBa cut

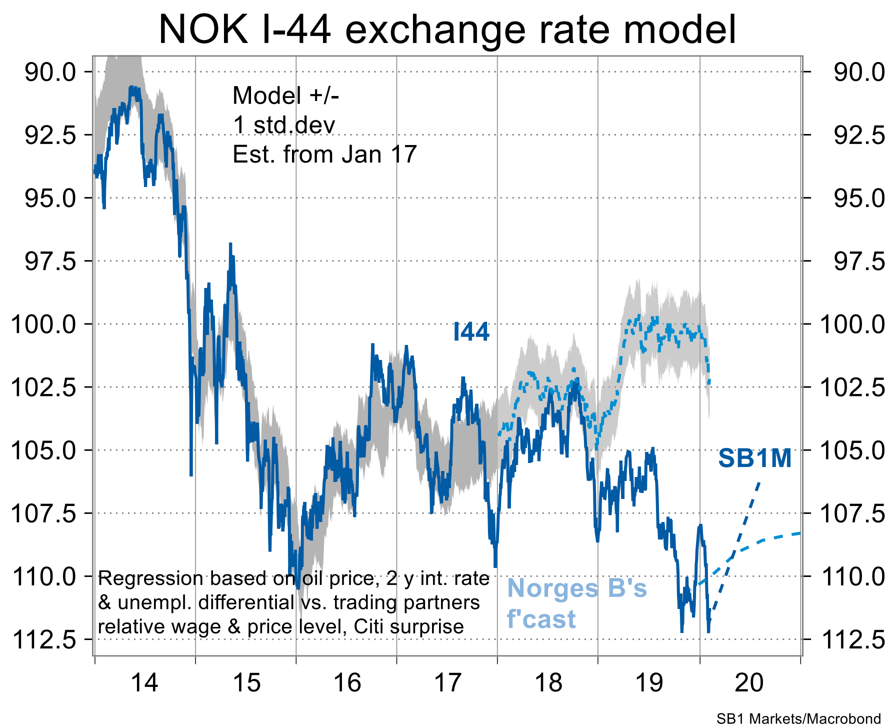


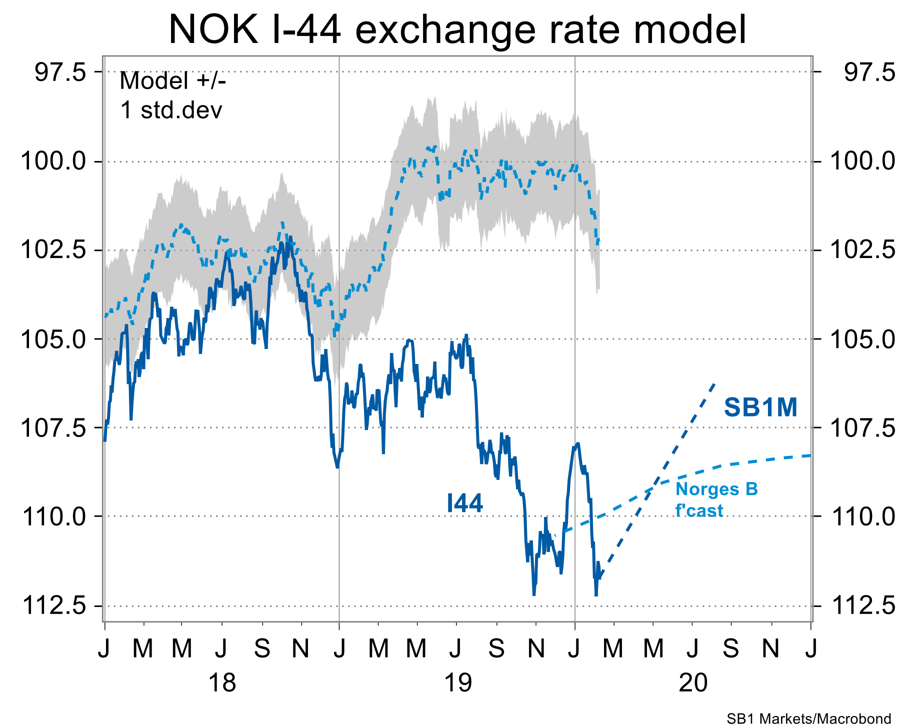


- The 3m NIBOR dropped another 4 bps last week, to 1.75%, down 15 bps from early Jan!
  - » The 3 m NIBOR implies a 25 bps spread vs the signal rate given no cut expectations the coming 3 m, much lower than Norges Bank f'cast of 35 bps. Cut expectations may explain some of the decline, however, most of it is probably due to a steep drop in the US spread. US 3m LIBOR-OIS has turned steeply down, to 16, from 40 before New Years.
- Longer dated FRAs rates turned steeply down through January, we assume mostly on oil price decline and fears of a global demand setback due to the coronavirus. The FRA curve is tilted downwards, we assume primarily due to increased expectations of an interest rate cut, not a collapse in NIBOR spread expectations. Markets are considering a cut already this year, by 30-40% probability (if spread expectations have been nudged down to 30 bps or slightly below). If so, markets are expecting a cut by the end of 2021 by 80% prob.

NOK stabilized after a steep downturn

NOK flat last week, while the old, standard model suggested a 0.5% depreciation

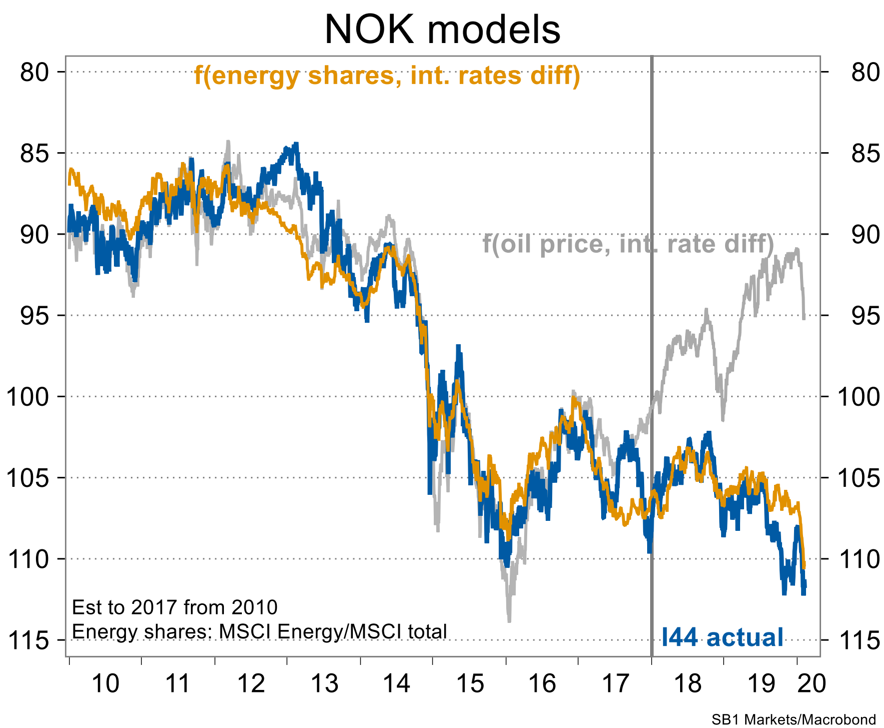


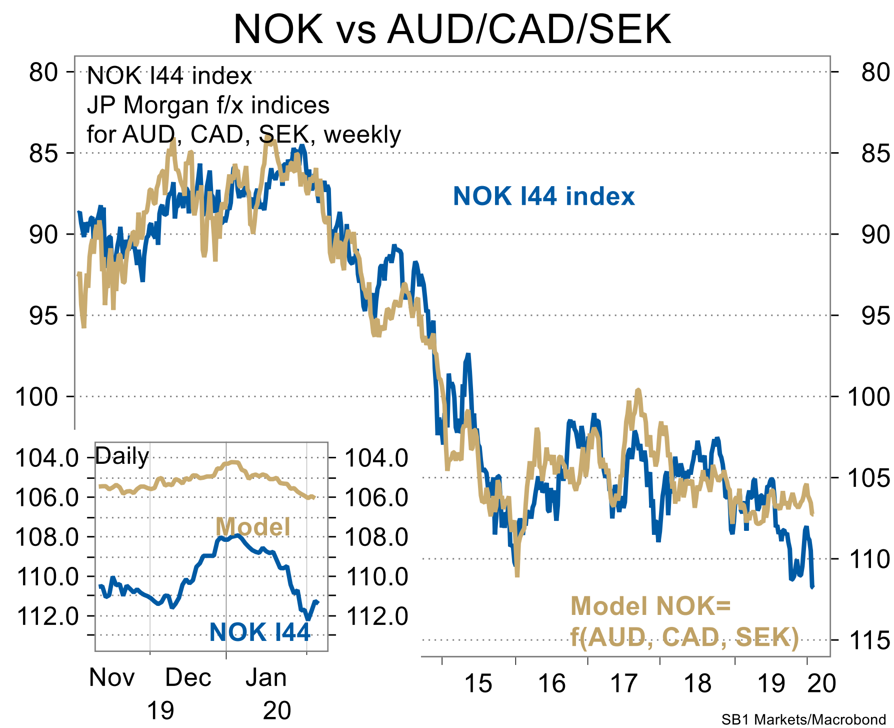


- In January and early February, NOK depreciated rapidly, by 3.8%, from the 'peak' in early January. Thus, the December upturn was more than reversed, the NOK fell to the weakest level ever (I44 0.01% below the previous late Oct ATL. Last week, NOK recovered modestly, with risk markets, and without any help from the standard model
- The gap between the our 'old', standard model estimate and the actual I44 index is wide, at 9%
- Both our 'new' models, based on the other super cyclical currencies or energy (oil) equities explain the recent NOK depreciation much better than the standard model, check next page
- We stick to our **buy NOK** recommendation

NOK is too weak vs our ‘alternative’ models

NOK is 5% too weak vs the ‘supercycle’ model but less than 1% below the oil stock price model





- Our NOK model based on pricing of oil companies has ‘explained’ the weak NOK much better than our traditional model since 2017, as have our ‘supercycle’ currency model (NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK). The EM x CNY currency aggregate is also quite closely correlated to NOK)
  - » The oil company share model has slipped along with the NOK the past few weeks, and the gap to NOK is below 1%
- Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook
  - » NOK has depreciated more than CAD and SEK, but equally to AUD, check the next slide

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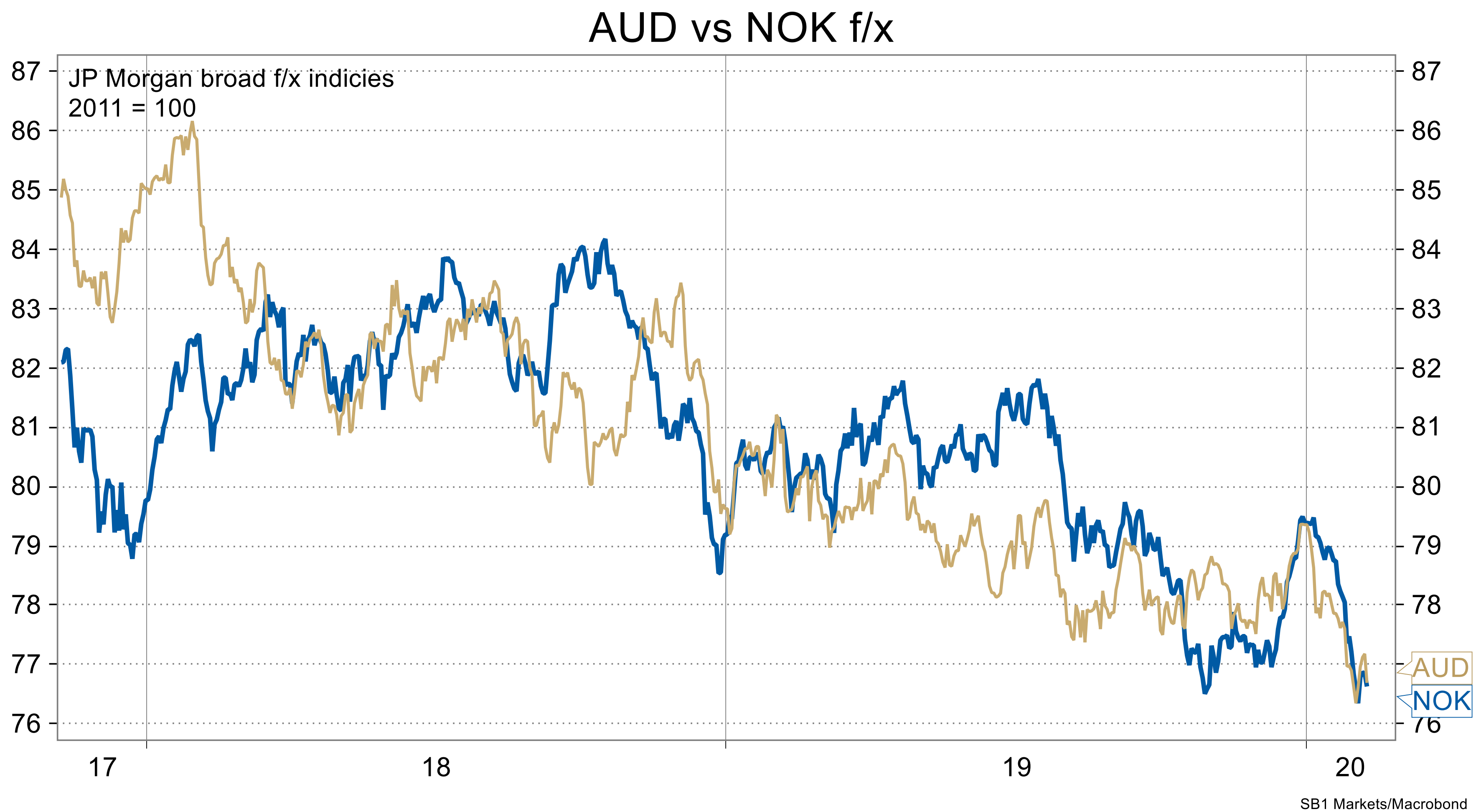
Down Under or Up North; NOK and AUD down 3% since Jan 1, stabilized now

Both are sensitive to expectations on Chinese and global demand, now slashed by the coronavirus



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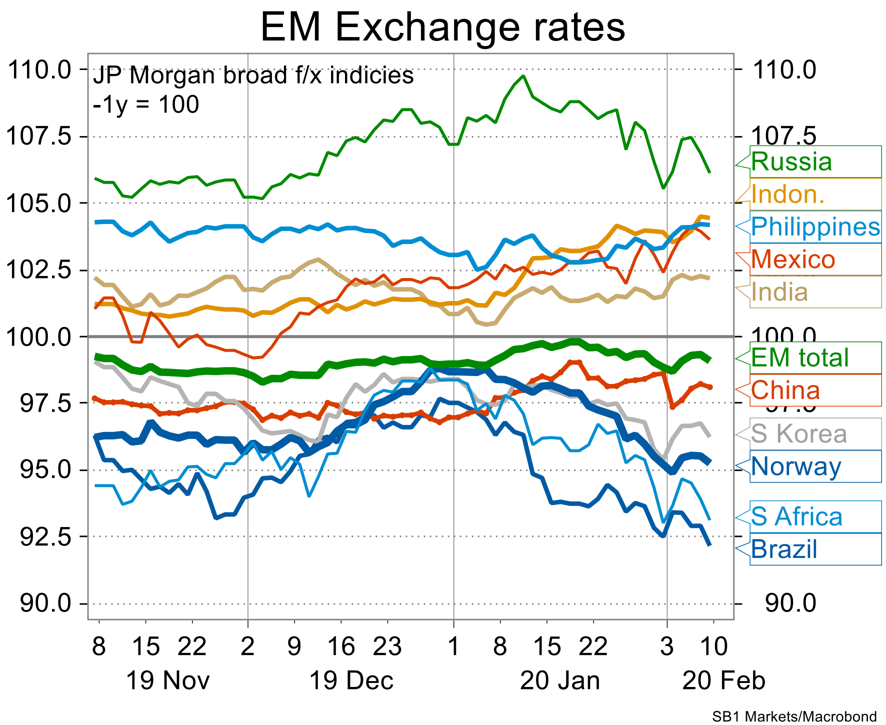
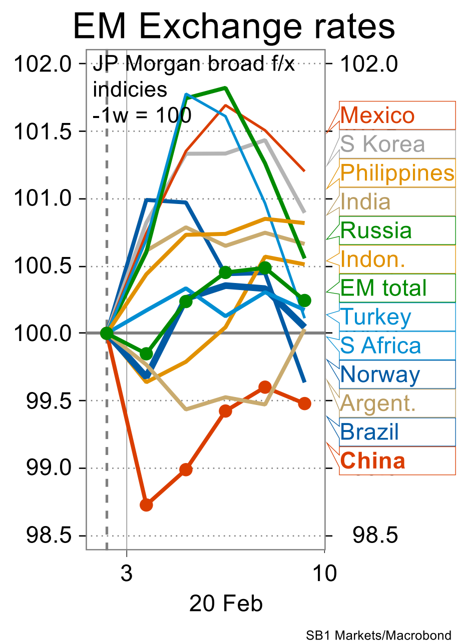
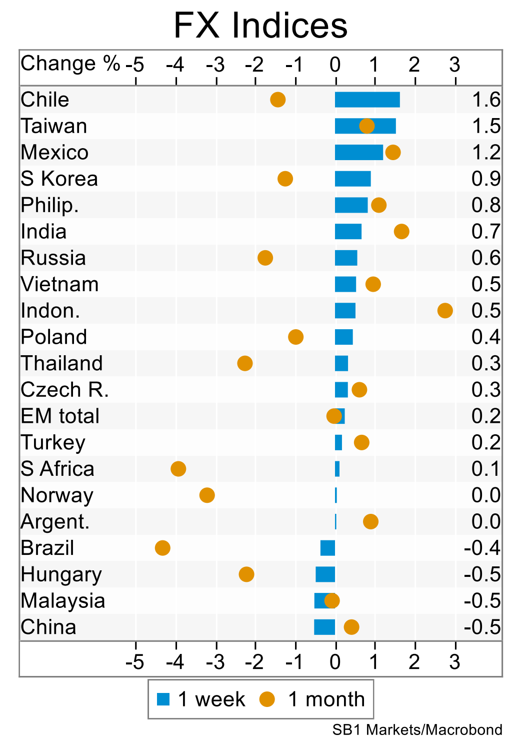
EM currencies recover along with CNY as coronavirus fears ease

The CNY dropped 1% when markets opened last Monday, slowly recovering later in the week







- Most EM currencies stabilised in the autumn, as trade war de-escalation and signs of a recovery in the global manufacturing sector supported sentiment. In January, EM currencies weakened along with fears of the global and Chinese growth impacts of the coronavirus. Last week, EM currencies turned up along with risk markets

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