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Macro Research

Weekly update 9/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

The headlines are linked to the relevant section in the report
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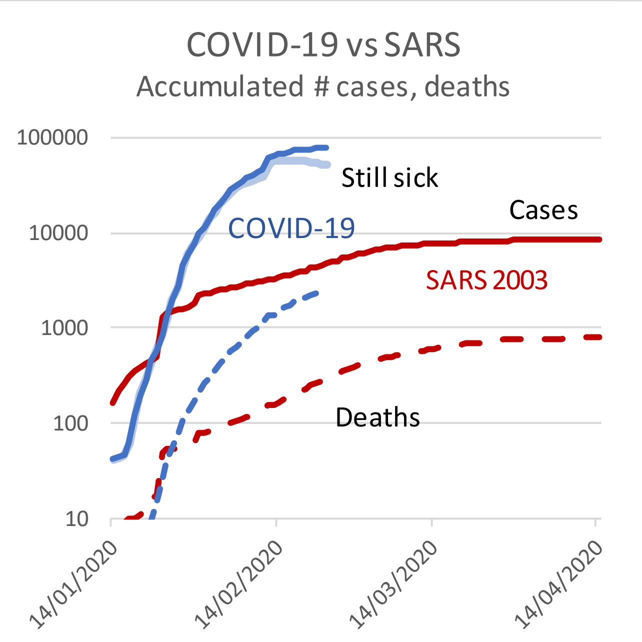
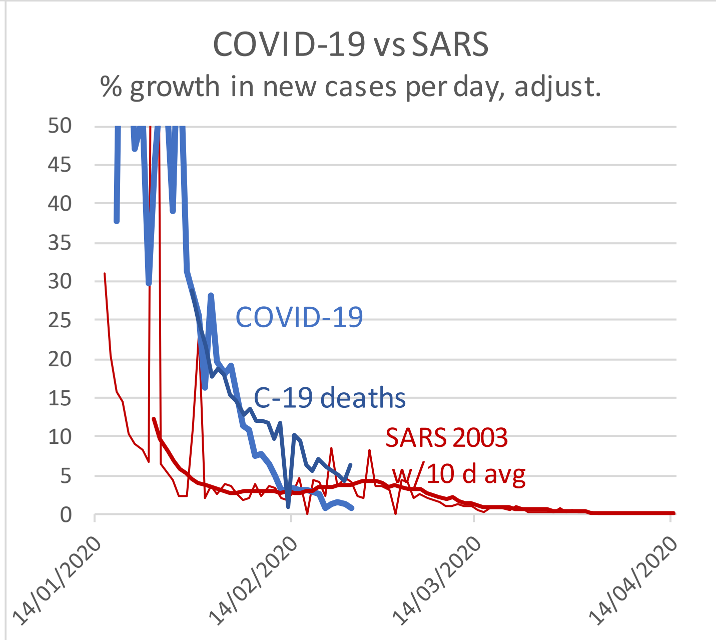
Last week – the main takes

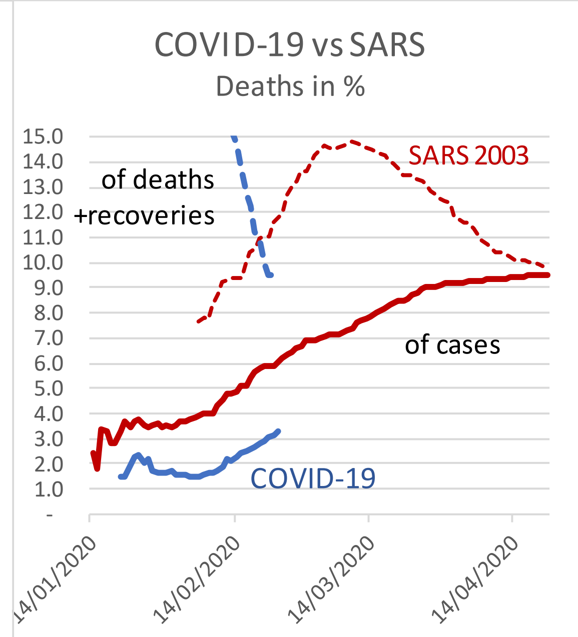
- The **Covid-19** is spreading at a much slower pace in China, but not abroad where both Italy and South Korea have reported many more cases and deaths. Both countries have imposed local restrictions on activity. The number of recoveries is increasing and the no of people still stick is finally declining. Still, the death rate is on the way up, and will no doubt increase further (from 3.3%), as many more of the 65% still stick will die. **Stock markets** retreated at the end of last week and in the US, the 30 y gov **bond yield** fell to the lowest level ever
- **The first February PMIs are sharply down, even without Chinese surveys published. The x China global PMI probably fell 1.5- 2 p, to the lowest level since 2016 or 2012**, now doubt due coronavirus headwinds. Preliminary PMIs from the US, Japan, EMU and UK indicate a 1.6 p drop, but the final outcome will be much worse (China and other Asian countries has not yet reported, and the impacts elsewhere are most likely weaker for the whole of Feb vs the first part of the month). Services were the major drag, as travel and tourism have been hit hard by the virus outbreak. However, we struggle to fully explain the steep drop in the US PMI (composite to the lowest level since 2013!) by the virus, as neither the Eurozone nor the UK confirmed such a massive impact (remember, the PMIS are dot sentiment surveys but reports on <u>actual</u> orders/activity etc). The **Eurozone PMI** continued <u>upwards</u> and manufacturing PMI is improving. Some good news; German domestic orders <u>increased</u> in Feb! **UK** continued to signal a recovery on reduced political uncertainties. The PMIs from **Japan** plunged, service sector no doubt suffering amid the Covid outbreak. Anyway, we know that there will be substantial short term impact from Covid-19, the uncertainty is how fast activity will resume, especially in China
- **The People's Bank of China** cut interest rates as expected, the benchmark bank lending rate by 10 bps. More stimulus is likely to be rolled out the coming weeks especially to secure liquidity to the business sector. **Credit growth** accelerated in January, and shadow banking activity spiked (probably temporarily). Growth in bank lending is trending up, and the credit impulse is positive
- **US housing starts and permits** are soaring and came in far above expectations in January. **The Homebuilders' index** inched down and does no signal a further lift in starts. **Existing home sales** inched down in Jan, trend up. **Producer prices** surprisingly jumped in January, particularly at early production stages. **Minutes from Fed's January meeting** did not reveal any news, the FOMC highlighted that downside risks have been reduced. Both first February **regional manufacturing surveys** rebounded strongly, suggesting an uptick in the ISM. **The leading index** spiked, to the highest level since 2017, a signal of a growth acceleration into Q1
- **Eurozone consumer confidence** improved substantially in February, at a rather elevated level. **The German ZEW** weakened, but we put more weight on the unchanged PMI, which is not a sentiment survey like ZEW
- **Swedish unemployment** continues to climb and growth in employment is slowing visibly. **Core CPIF inflation** may be peaking, at 1.6%. **House price inflation** is accelerating, in spite the growth slowdown and cooling credit growth. We doubt it will last
- **The Norwegian Q1 oil & gas investments survey** indicates a steeper downturn than we so far have assumed. We reduce our 2020 volume f'cast to a 2.7% growth, from 5.5%, implying that investments will decline by 6% <u>through</u> 2020. In 2021, we f'cast a 9.5% decline. **Manufacturing investments** are set to decline rapidly this year, we estimate a 15% drop. On the other hand, businesses' expectations on 2020 **power supply investments** came in above our expectations, indicating just a marginal decline vs the 2019 level. New wind power projects are lifting investments. **The number of unfilled vacancies** has flattened out, as several other labour market indicators. **Norges Bank's expectations survey** in sum unchanged in Q1, suggesting a moderate growth slowdown

Coronavirus contagion is slowing down in China, not abroad

Overall growth has slowed to below 1% per day, from above 3% one week ago







- The number of new cases is slowing sharply in China, but not abroad (see more next page). Last 24 hours just some 500 new cases have been reported. The number of cases has reached 79.000, 10 times more than SARS in 2003 at 8.000
- The number of deaths has climbed to 2.600 (vs SARS at 800), and the death rate is, as we expected (or rather knew), trending up, and is now above 3% - and it will climb further as 65% of the patients are still sick
  - » The good news is that the number of patients that are still sick is now declining, as the no of recoveries has increased at a fast pace (check chart next page). More than 30% of the patients have now recovered, up from 14% one week ago.
  - » Death rate is 4% in the Hubei province but 'just' 1% in other provinces as well as abroad. However, the ROW death rate is rising

Source: Johns Hopkins University, WHO, SB1M calc. We have adjusted growth in cases and mortality for the change in diagnostic standards introduced Feb 12

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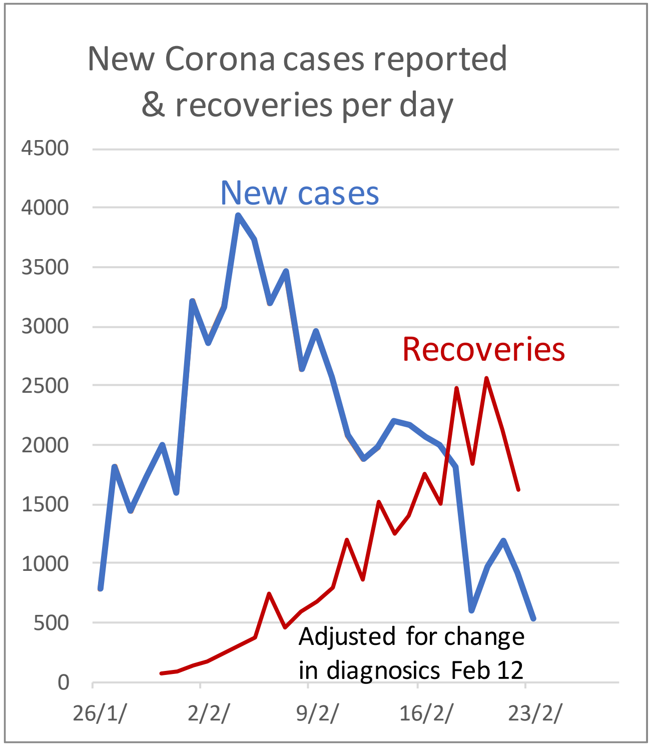
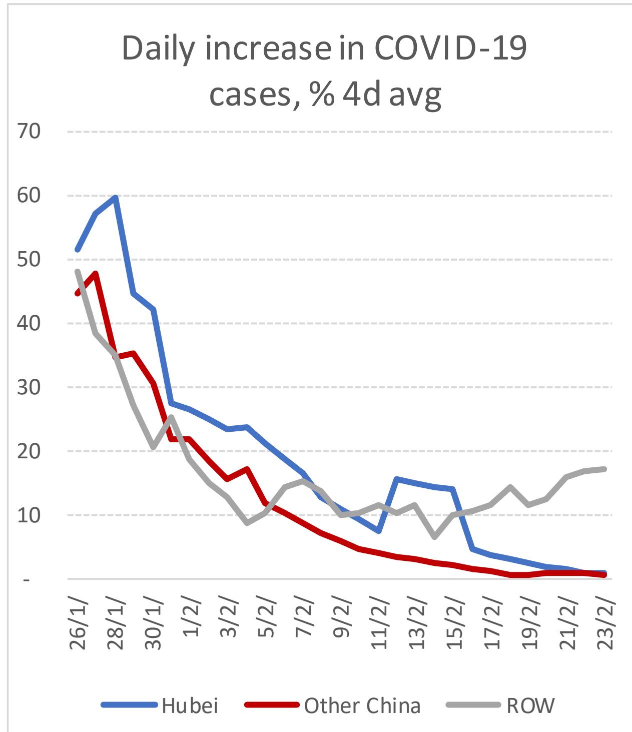
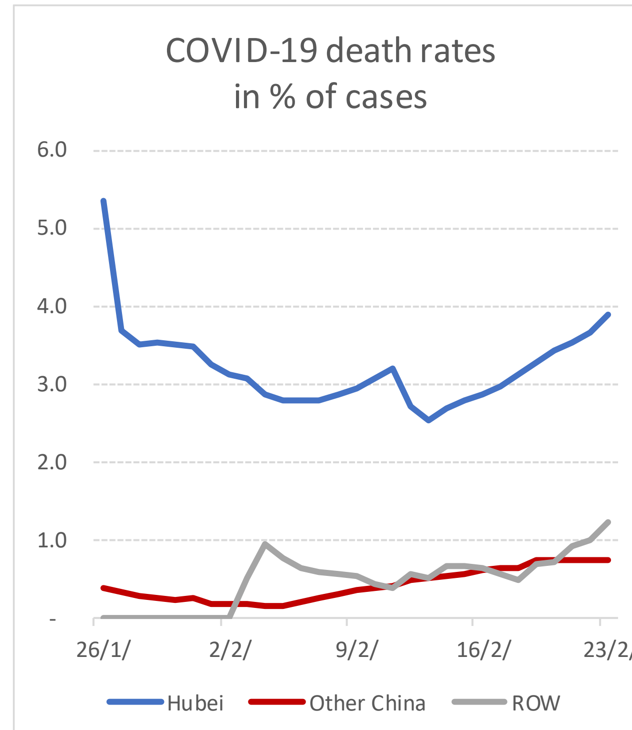
The coronavirus is spreading at a slower pace, in China…

However, no of new cases in ROW is accelerating, albeit from a low base (2.200 so far)







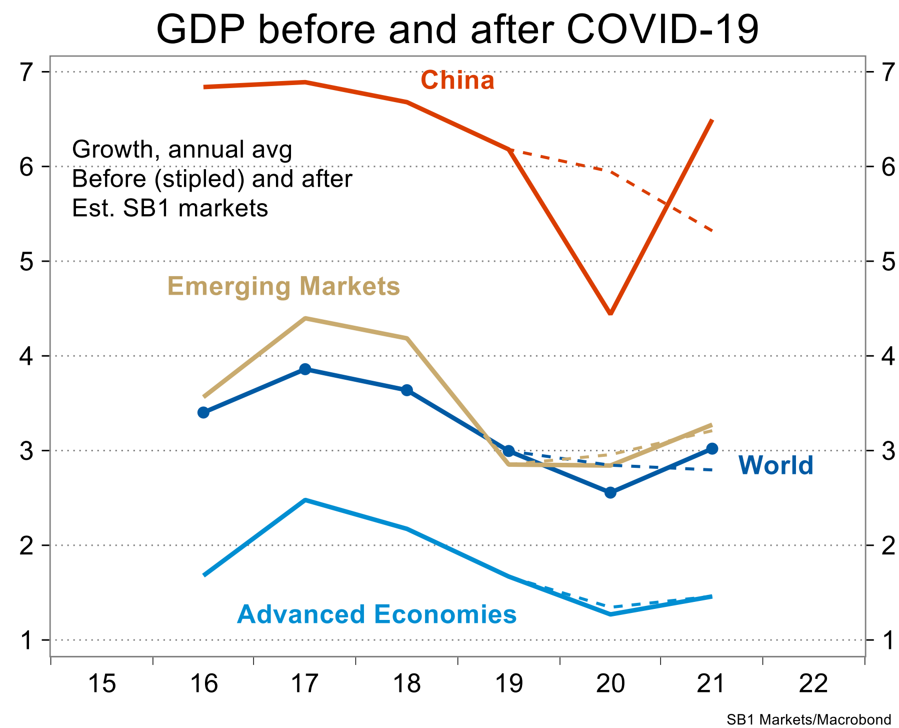
Source: Johns Hopkins University, WHO, SB1M calc. Data just partly adjusted for change in diagnostics

- The growth rate of new cases is now below 1% per day in China, both inside and outside the Hubei province. Outside China, the growth rate is at almost 20% per day, and it has been accelerating. Italy has reported a substantial increase, and some smaller cities have been quarantined (schools are closed, several football matches and the carnival in Venice are cancelled). More cases in South Korea, Iran as well
- The number of new recoveries has been increasing, and is now well above the no of new cases. Thus, the number of sick patients is now finally declining (the level is shown at the previous page, changes in recoveries/cases d/d at the chart to the left above)
- The death rate, calculated as deaths/cases is on the way up, and will continue upwards for a long while. Luckily, the death rate in other parts of China, where the disease has been around for a while is still moderate, at below 1% (vs close to 4% in Hubei). However, there are more deaths in other parts of the world

The coronavirus vs. Chinese & global GDP growth

Substantial interruptions in production & demand, probably just in Q1, growth back on track in Q2

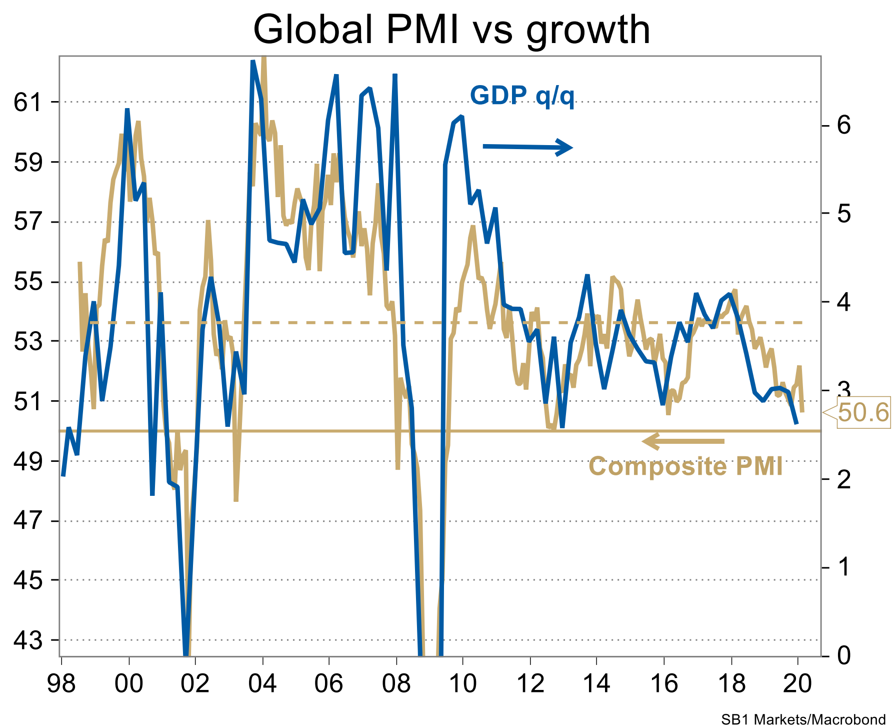
- Our base case is that COVID-19 is brought under control the coming weeks, enabling normal economic activity from Q2.
- A 10 day extended holiday season, travel/transport bans, fear of travelling, just a gradual ramp up of production the previous & coming weeks (both due to measures against COVID-19 spreading further, lack of labour and supply chains challenges) could easily reduce q/q GDP growth in China by 6 pp in Q1, vs the 'normal' 1.5% growth pace, thus declining 4.5%**, taking the y/y Q1 growth rate down to zero**. An even sharper decline can not be ruled out
  - » A week completely shutdown equals 7% of GDP in a quarter
- GDP in Q2 should marginally overshoot the normal growth path, as some production will be transferred to Q2 from Q1
  - » However most of the production loss in Q1 will not be recovered (typically in services, but also partly in production of goods, as some factories a normally running at a high capacity utilisation and cannot increase production substantially
  - » We assume rich liquidity supplies to compensate for income shortfalls
- A 4.5% decline in GDP in Q2 and just a marginally transfer into Q2 will cut **Chinese GDP 2020 growth by 1¼ pp, to 4.5%.** China constitutes almost 20% of global GDP (PPP weighted), and the direct impact on global 2020 GDP is ¼ pp, say to 2.75% growth from originally 3% (approx. consensus, we had slightly below 3% before COVID-19)

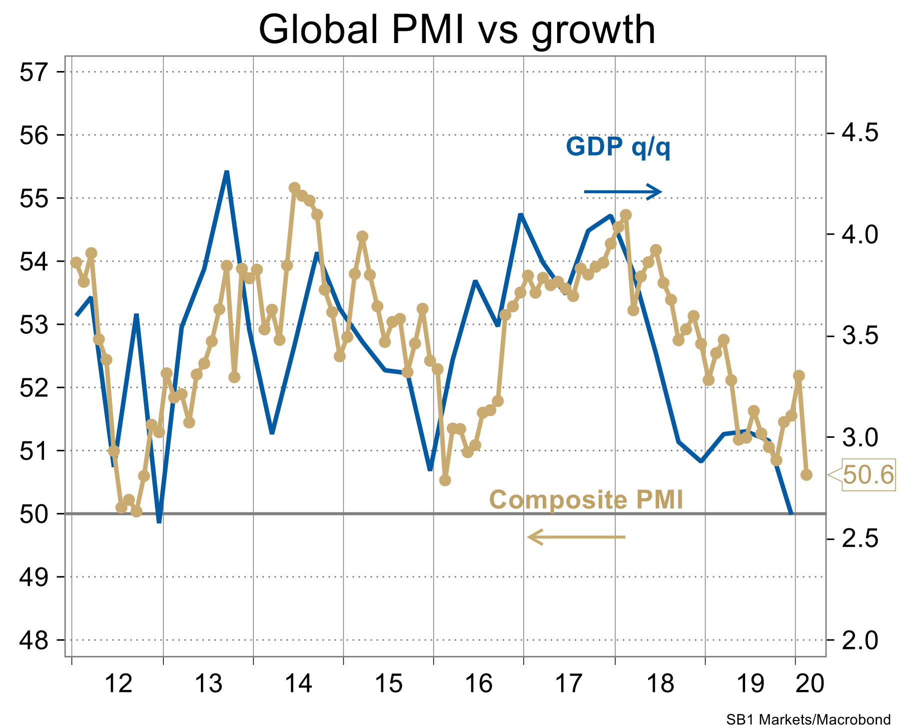


- However, production in other countries/sectors that are closely connected to supply chains where production in China is essential will be somewhat hurt (say in 'obvious sectors like auto/electronic industries, air traffic, tourism etc, and in neighbouring Asian countries), but also other places. This impact is even more uncertain than the direct impact but will probably be limited compared to the direct impact on global growth due lower growth in China. Even so, we add on a 0.1 – 0.2 pp GDP growth impact from countries other than China
- Adding up, global GDP will contract by some 0.5% q/q in Q1, and **2020 GDP growth will be reduced by some 0.25 – 0.5 pp, to 2½ – 2¾ %, implying 2 – 5% slower growth in global corporate earnings, and some 30 bps lower long term interest rates. And then, a reversal in 2021!**

Global PMI will 'collapse' in February amid coronavirus distortions

Ex China PMI down 1.5 – 2 p, when China & co reports down 5 p, or more?





- Based on the preliminary PMIs released this far (US, EMU, UK and Japan), we estimate a 1.6 p drop in the global composite PMI x China. The steep decline is no doubt at least partly due to the Covid-19 outbreak, which have hampered activity in many sectors. Thus, the February data are rather useless in assessing the underlying growth momentum. Q1 GDP growth will be reduced substantially (we expect a contraction by some 0.5% q/q). We expect a comeback in Q2, but 2020 growth will anyway be reduced. The March/April PMIs will reveal more about the pace of recovery
- The final PMI will be much weaker. Firstly, China will no doubt report a steep decline in activity (down 20 – 30 points, or even more?). Secondly, the final February PMIs will probably be revised down, as the full impact of the coronavirus has yet to be inflicted on the surveys outside China

Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, and US. The estimate is uncertain

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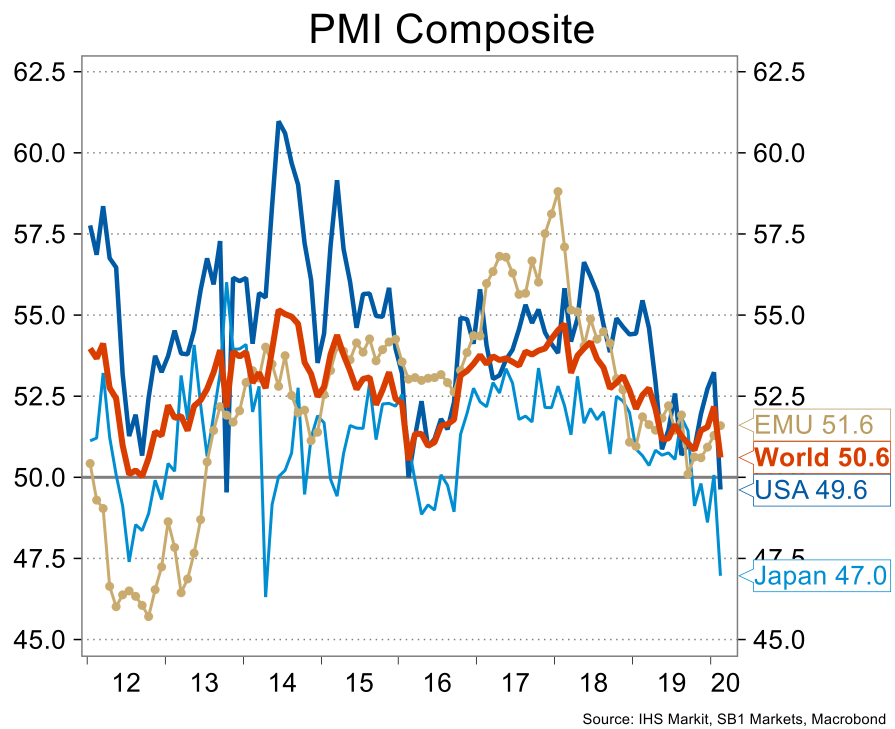
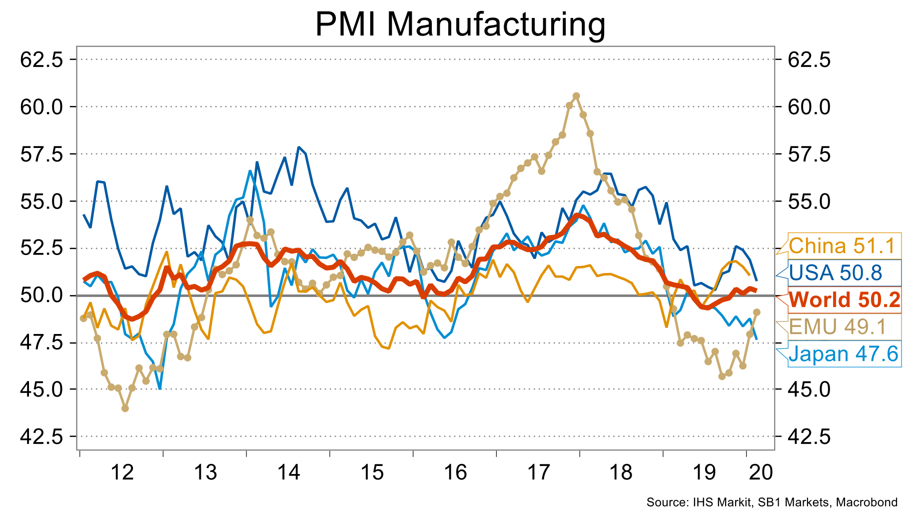
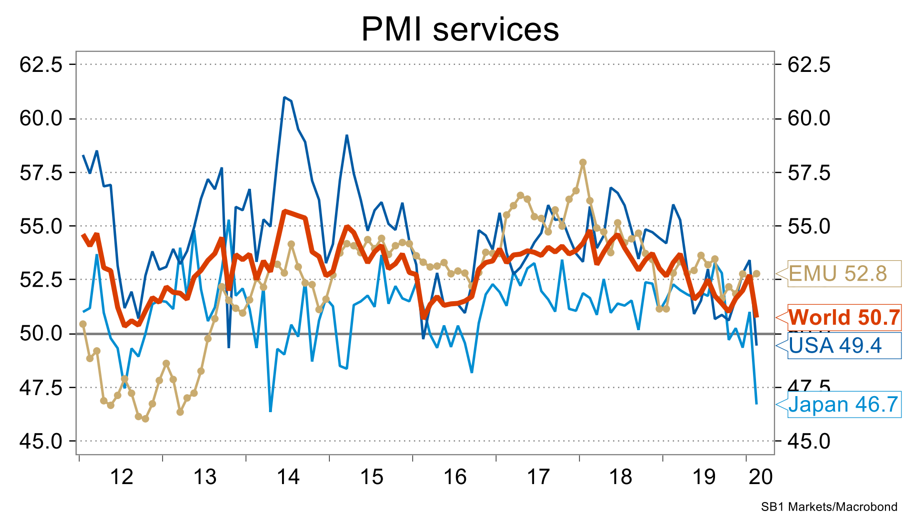
Coronavirus weighted on services, manufacturing mixed

US and Japan 'collapsed'; US hit much harder by corona than the Eurozone, or something else?



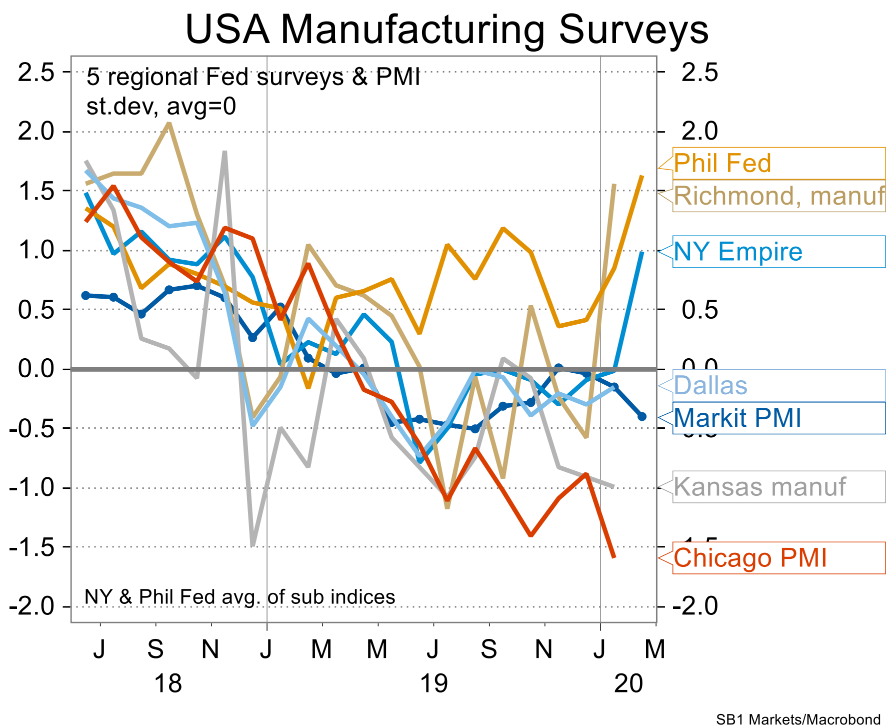


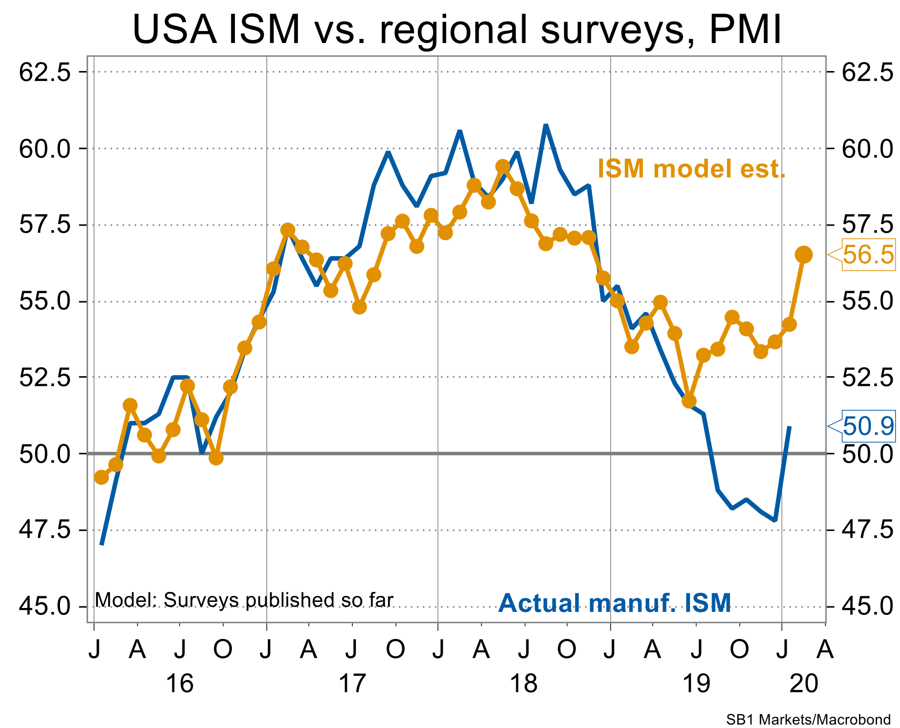


- Composite PMIs slipped in the US and Japan, EMU rose modestly
- Mixed manufacturing PMIs but they do not appear to be hit very hard by the coronavirus. Wait for the China manufacturing PMI..
- Services tumbled in the US and Japan, improved marginally in the EMU (and fell just modestly in the UK). We are unsure why US tourism sectors would be hit much harder by corona than the Eurozone or UK. March/April data will be more useful than these distorted figures
- Memo:
  - » The last obs for world PMIs are our estimates, based on preliminary data from the US, EMU, Japan and UK. Markit has not yet reported PMIs from China

So far: The 2 regional manufacturing surveys straight up, Markit's PMI down

In total, the 3 manufacturing surveys signal a substantial rise in the ISM in February

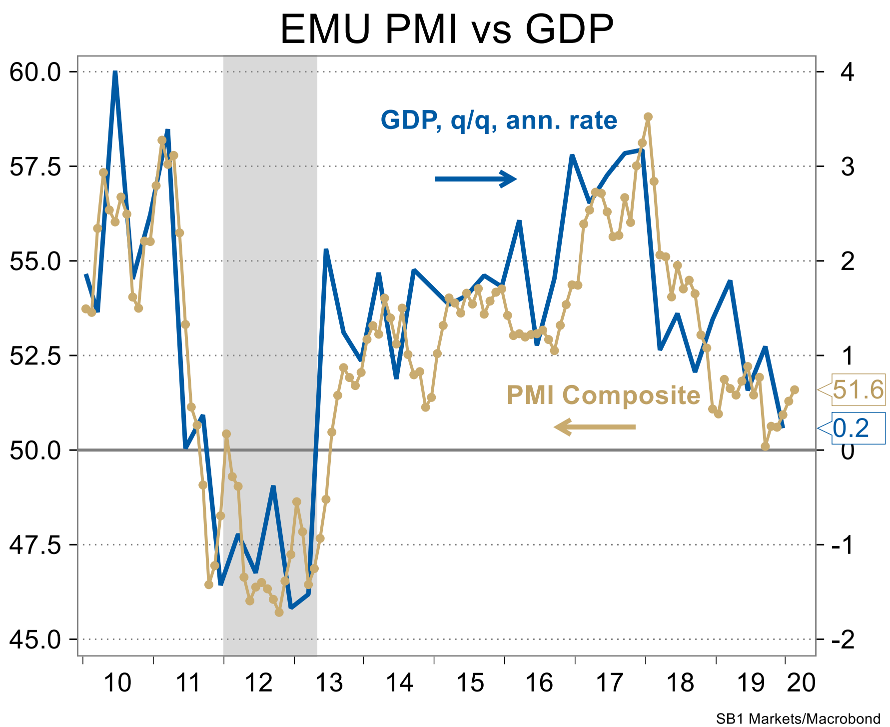


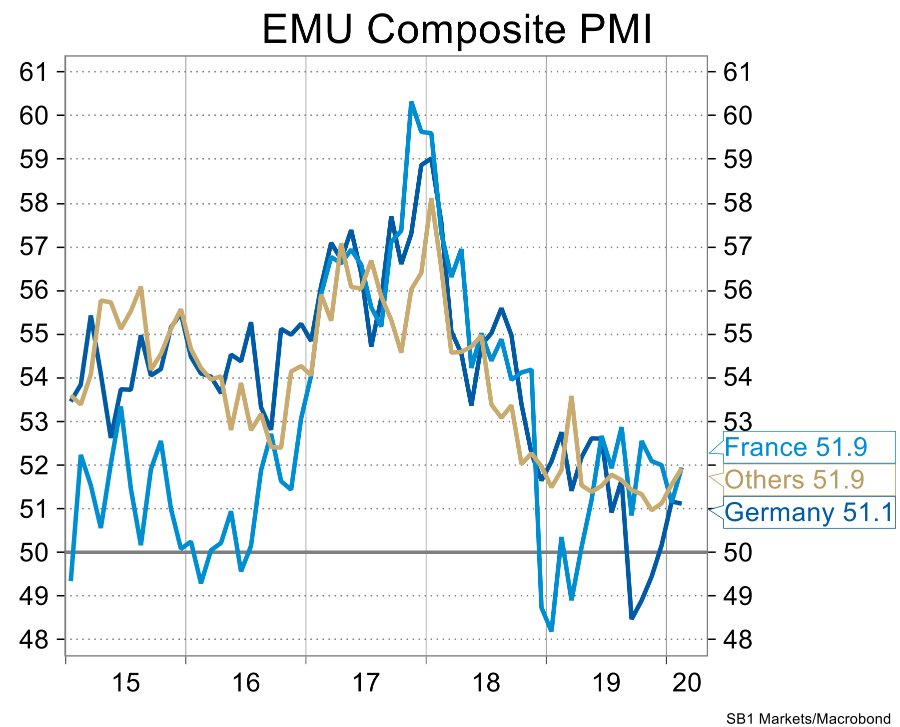


- Phil Fed's and NY Fed's manufacturing surveys both rebounded strongly in February, to the highest levels since 2018. Phil Fed's survey has been more upbeat than the other survey since 2019, while the NY Empire index has been more in line with others. Markit's manufacturing PMI (preliminary) fell by 1.1 p
- Taken face value, these indices signal a 2.3 p lift in the manufacturing ISM in February. However, as the ISM will be collected later in the month and therefore probably include a larger impact from the coronavirus, we highly doubt such an increase. Moreover, the ISM index has been weaker than other surveys since mid-2019

The Eurozone is slowly picking up momentum, PMI signals a tad higher growth

Composite PMI climbed another 0.3 pp to 51.6 in February – but downside risks on the final PMIs

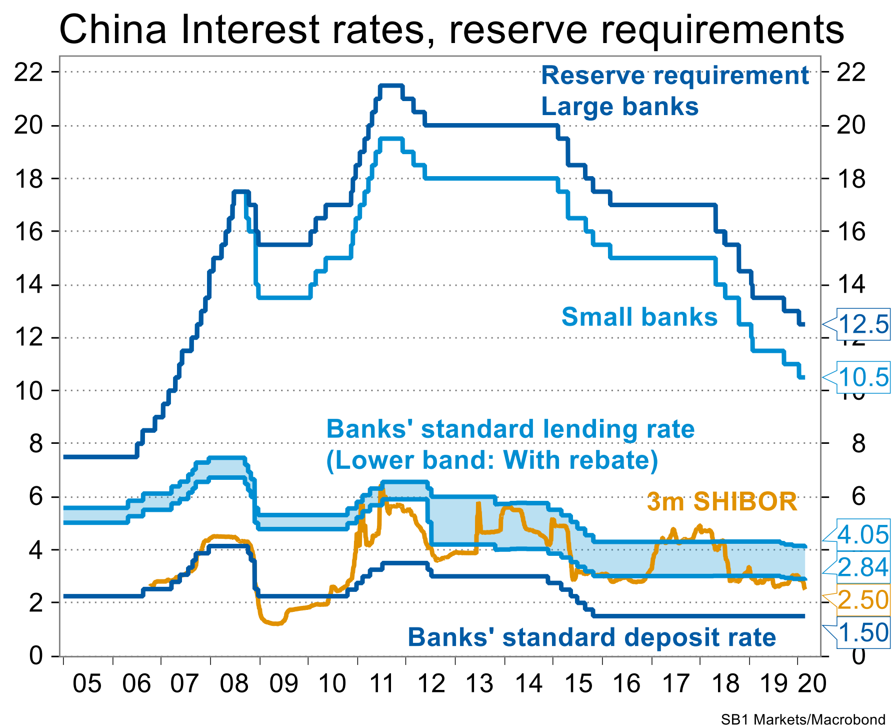


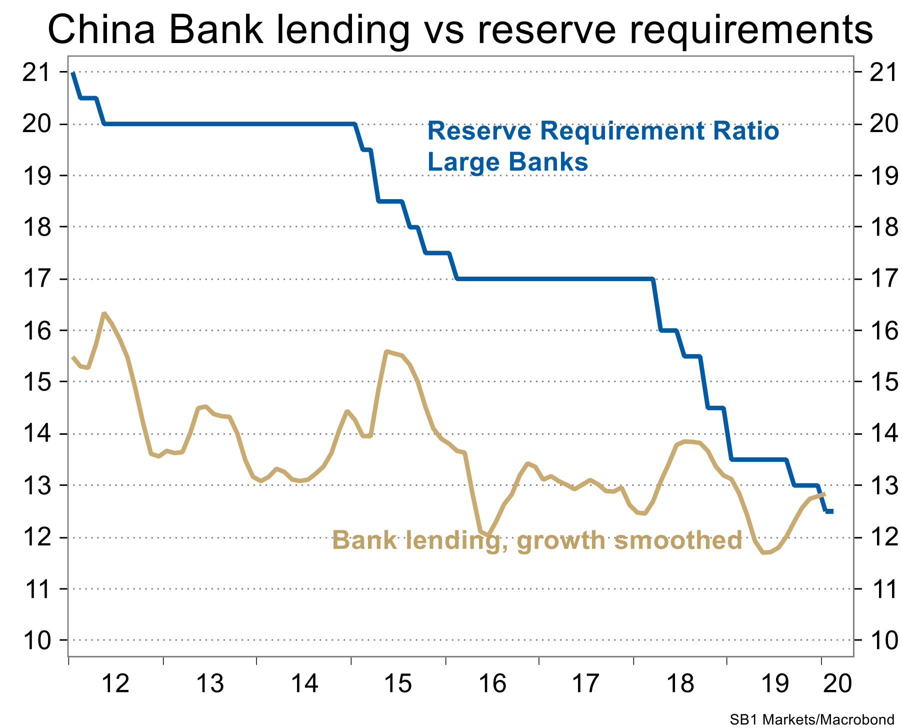


- The preliminary EMU composite PMI rose 0.3 pp in February, a 0.3 pp decline was expected. The PMI has climbed 1.5 p since September, and signals a modest pickup in GDP growth in Q1, to 0.6-0.7% (annualized)
  - » The impacts from the coronavirus was rather muted, even as businesses within tourism and travel reported a slowdown, as well as some supply chain disruption. A larger drag is likely when the final PMIs are reported, and also in March, as the full impacts become apparent
- The composite German PMI held steady at 51.1, but the manufacturing PMI recovered by the fastest speed since 2013! Services edged down but are still expanding at a moderate pace. PMI increased in France, so did the implicit average of other countries

PBoC is slowly easing monetary policy; benchmark lending rate cut by 10 bps

Additional cuts in the reserve requirements and rate cuts are expected the coming weeks

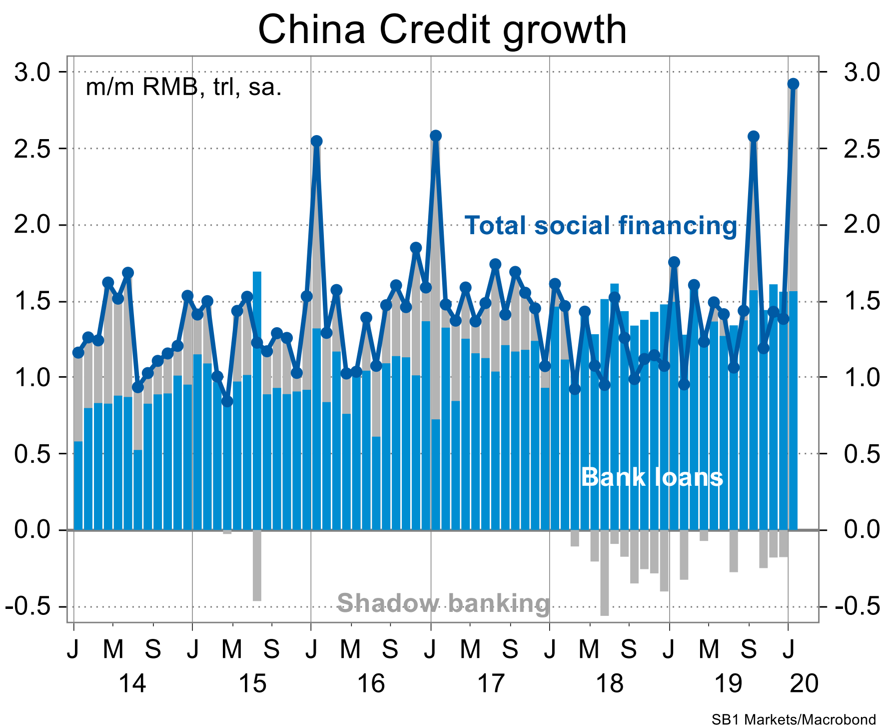


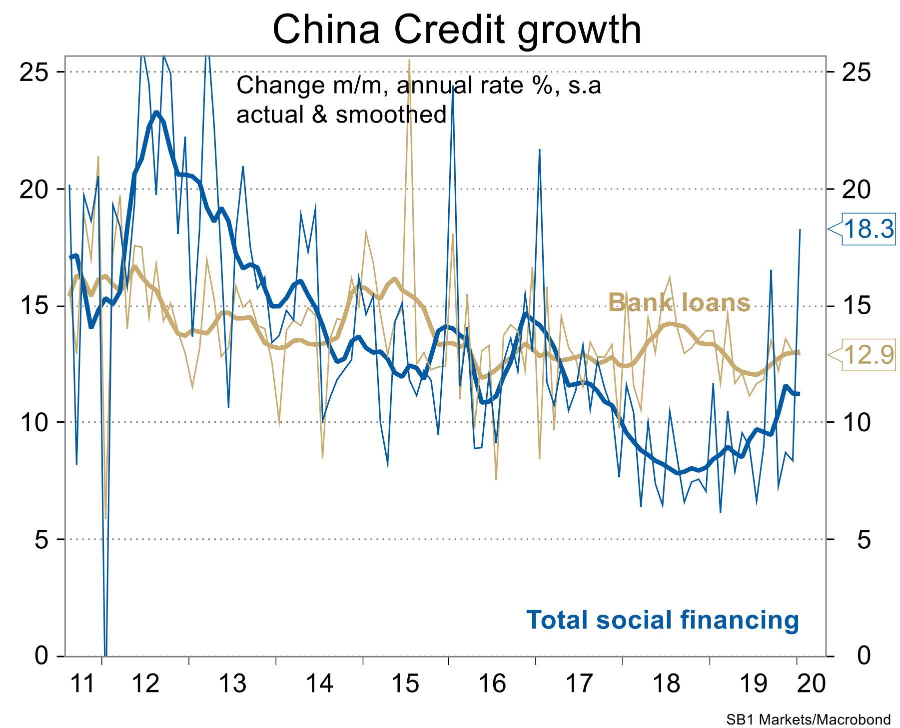


- Last Thursday, the PBoC announced a 10 bps cut in the benchmark rate, the 1 year loan prime rate, to 4.05%. The cut was widely expected. The 5 year loan rate was lowered by 5 bps, to 4.75% last Monday, a medium term lending rate was cut 10 bps
- The authorities will probably roll out more monetary easing the coming weeks, as well as securing liquidity in the banking system and by encoring (forcing?) banks to support cash constrained companies with liquidity too. However, the PBoC will have to balance the need for short term stimulus with it's long term challenges of an elevated growth in debt. Fiscal stimulus is probably under consideration too.
- Banks' reserve requirement have been cut 7 times, substantial cuts are expected to stimulate lending to offset the growth disruptions from the coronavirus outbreak

Credit growth surged in January, on a lift in shadow banking activity

Bank lending is trending up too and the credit impulse has tilted upward, boosting growth

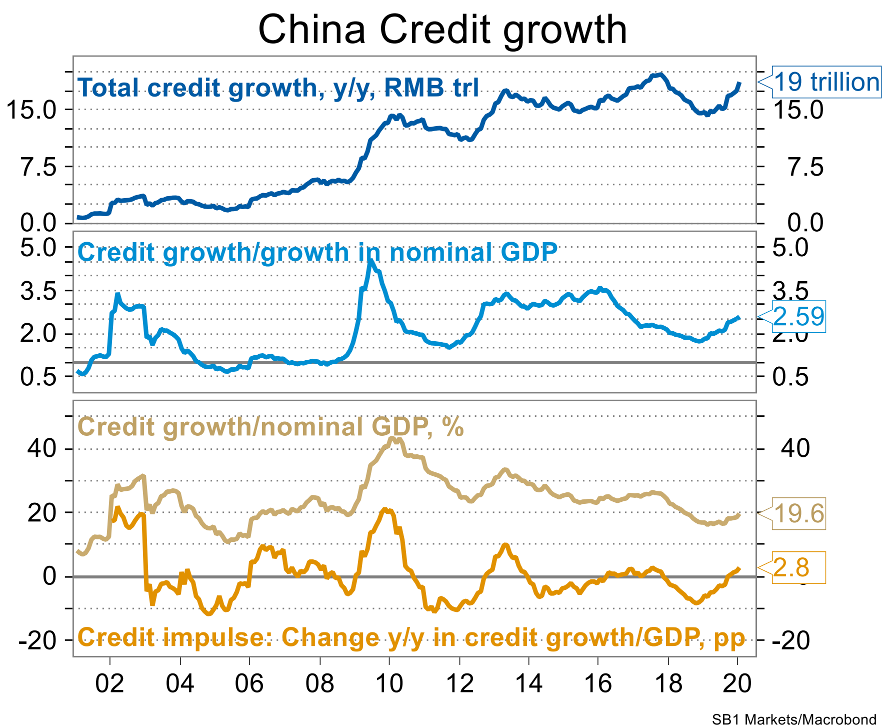


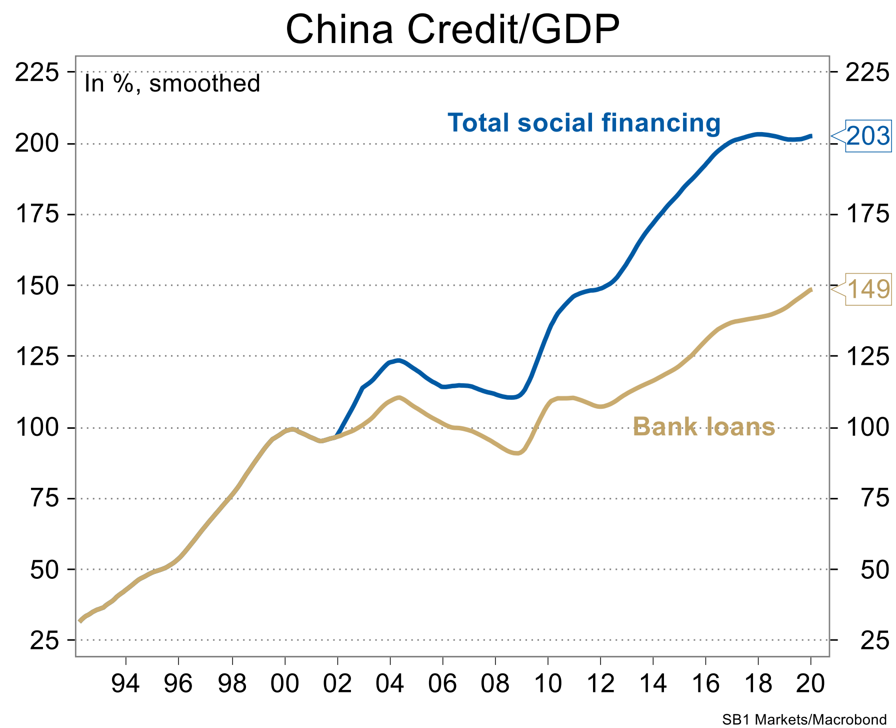


- Total credit increased by 18% m/m annualised in January, the steepest rise in 3 years. In RMB, credit rose by 2.9 trl (s.a, 4.2% not adjusted, higher than expected). The credit spike was driven by shadow banking loans, partly government bonds, which occurs in January from time to time. Thus, we expect a reversal in February. Regardless, total credit growth is climbing, as bank lending has accelerated since mid-2019. 7 cuts in the banks' reserve requirements have probably boosted lending
  - » Credit supply through the non-bank ('shadow') credit market is heading up again. Shadow banking has accounted for some 25% of total credit supply since 2000
- The underlying trend of total credit is slowly up since early '18, the credit impulse (y/y) is modestly positive
- The PBoC is turning more expansionary to stimulate the economy amid coronavirus struggles. Interest rates were cut last week, so far just modestly, and the PBoC has set up lending programmes. However, there are good arguments against pushing the credit accelerator very hard. Credit growth is well above growth in nominal GDP, and high debt ratios are climbing – and construction activity remains very strong

Credit impulse has turned slightly positive

Credit growth in line with GDP growth (in per cent, that is)

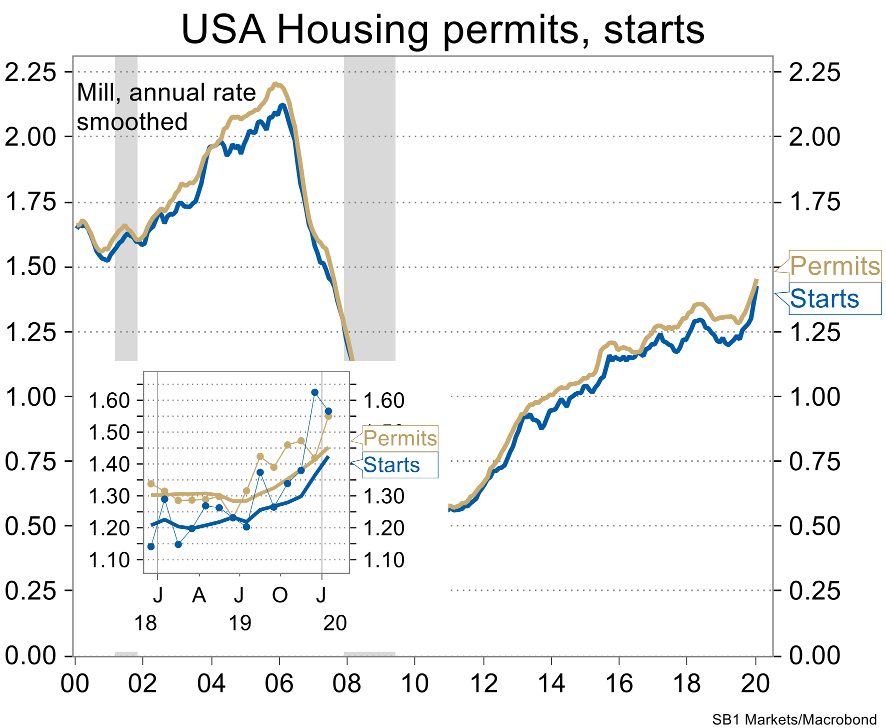


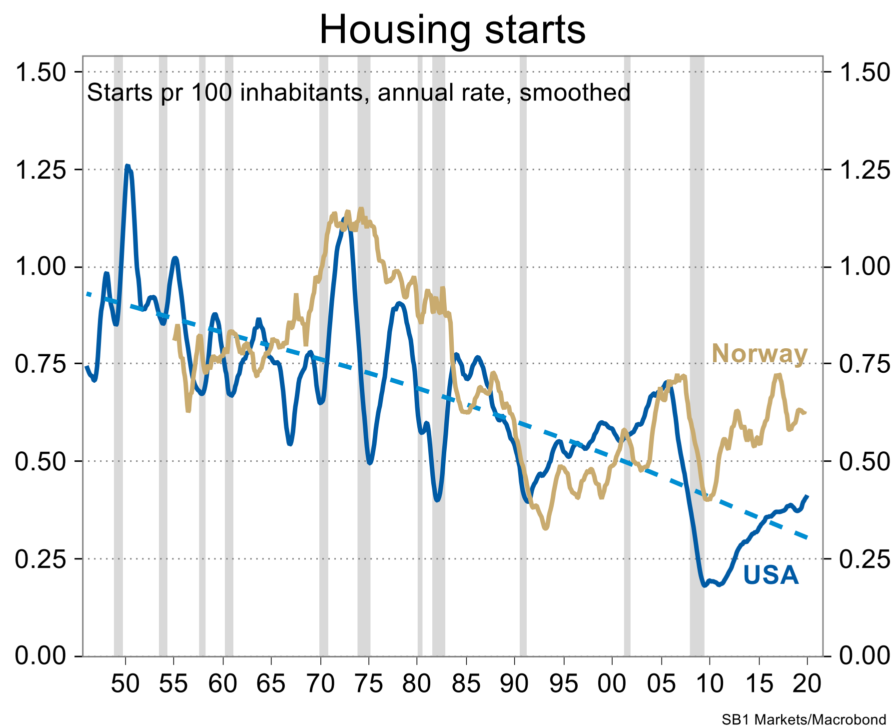


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - Now, the credit impulse has risen to marginal positive
- We are uncertain how far the authorities are willing or able to bring credit growth back up, even as stimulus is needed short term to support the economy during the 'corona setback'. The credit/income level has flattened but the level is disturbingly high. In addition, for every RMB GDP grows, credit increases 2.6 by RMBs, and each year growth in credit equals almost 20% of GDP. <u>That's not sustainable in the long run, neither for lenders nor borrowers, as nominal GDP growth is well below 10%</u>. The Government may succeed in increasing credit supply short term (if they dare to, vs long term risks) but the problem may turn out to be demand for credit

Housing booming, highest starts & permits since 2007

Both starts and permits were well above expectations in Jan, trending steeply up. Limited upside?

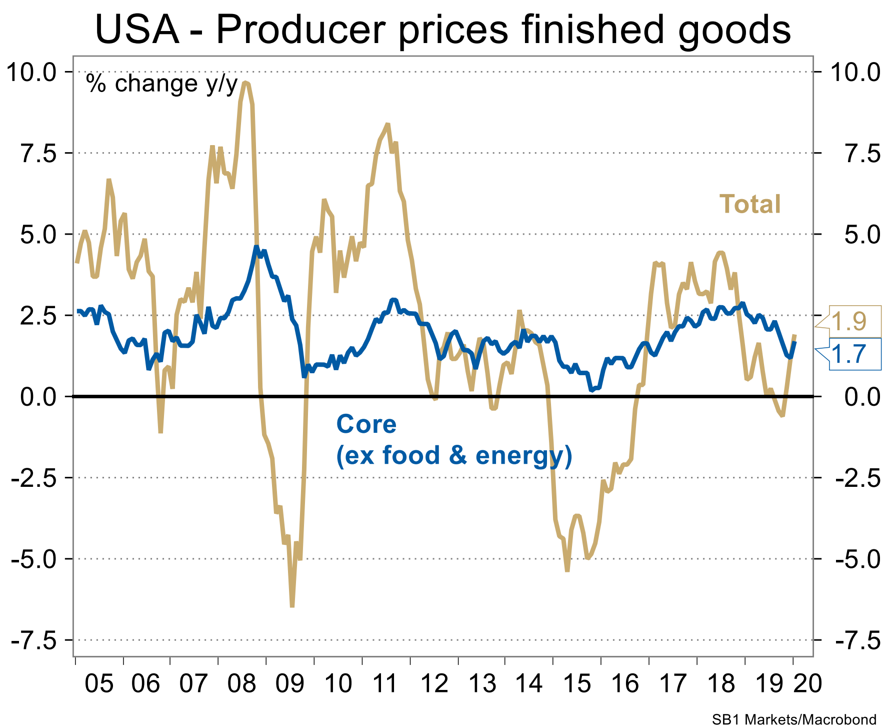


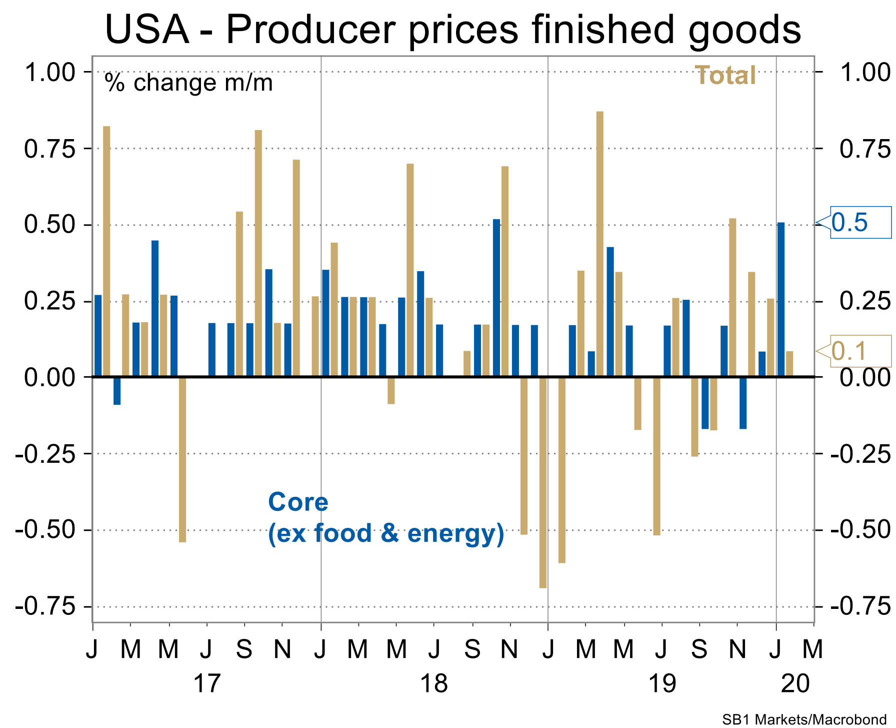


- Housing starts fell by just 3.4% m/m in January, a smaller decline than expected, after soaring 17.7% in December (the steepest increase in 3 years). Starts are trending steeply up and the smoothed rate is at the highest level since 2007!
- Housing permits spiked 9.2% m/m, the steepest monthly increase in 2½ years. The level is the highest since early 2007 and the smoothed rate is 7% above the 2018 peak. Permits usually are less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts
- Housing starts/permits reflect thriving demand for housing, boosted by low mortgage rates and an overall strong economy. The Homebuilders' index confirms brisk demand but does not suggest another lift. The level of starts is not very high, historically, and the downside is modest compared to 2006-2009

Core producer price inflation picked up in January

Core finished goods prices spiked 0.5% m/m and the annual rate rose to 1.7%, 0.4 pp above f'casts

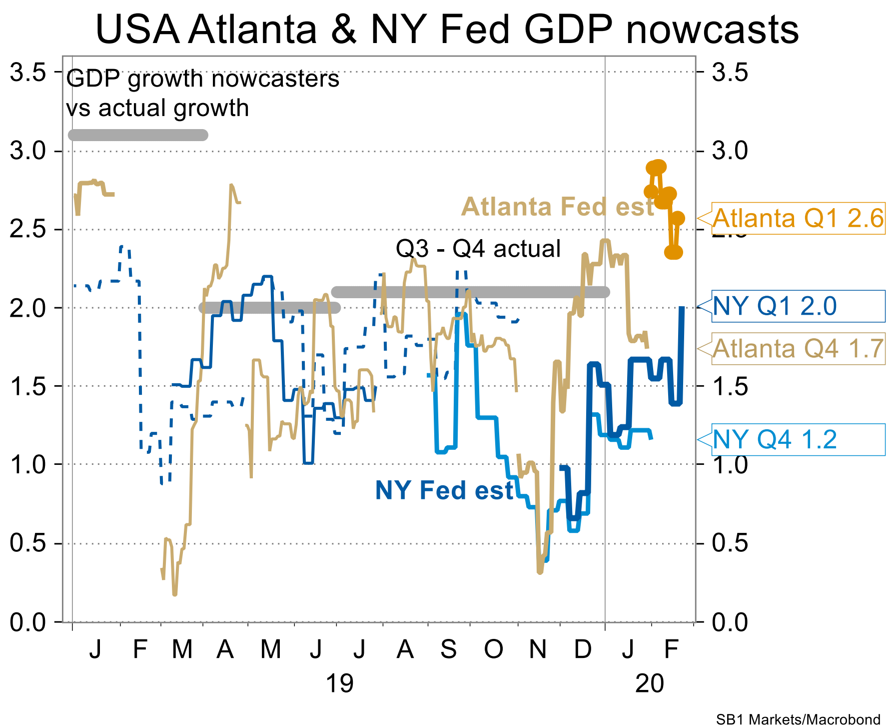


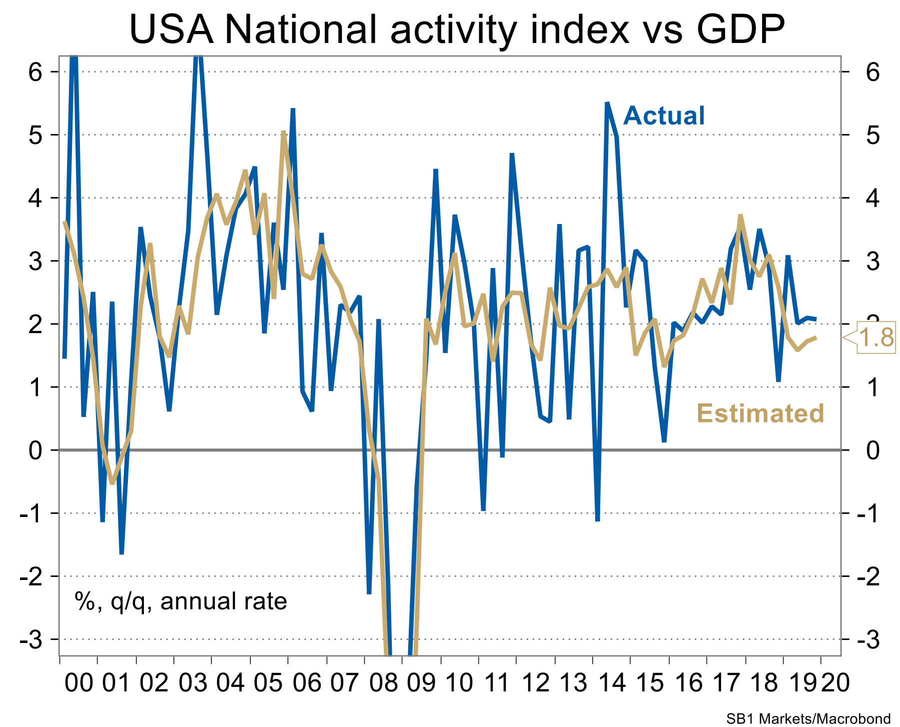


- Core finished goods x food & energy PPI increased much more than expected in January, up 0.5% m/m vs expectations at 0.2%. The annual rate edged up to 1.7%, a 0.5 pp increase. Core producer price inflation has slowed rapidly the past year and underlying growth is still just at 0.5% (measured 3m/3m)
- Headline PPI rose just 0.1% m/m but the annual rate jumped to 1.9%, from 1.2%, due to a steep decline in January last year. Higher energy prices have been lifting total PPI inflation recent months, we expect a partial reversal, as energy prices fell steeply in January
- Core producer price inflation do not signal any uptick in core consumer inflation, but no slowdown either?

Nowcasters suggest higher growth too

Nowcasters up last week, NY Fed's model says 2%, up from 1.4%, Atlanta 2.6%, from 2.4%

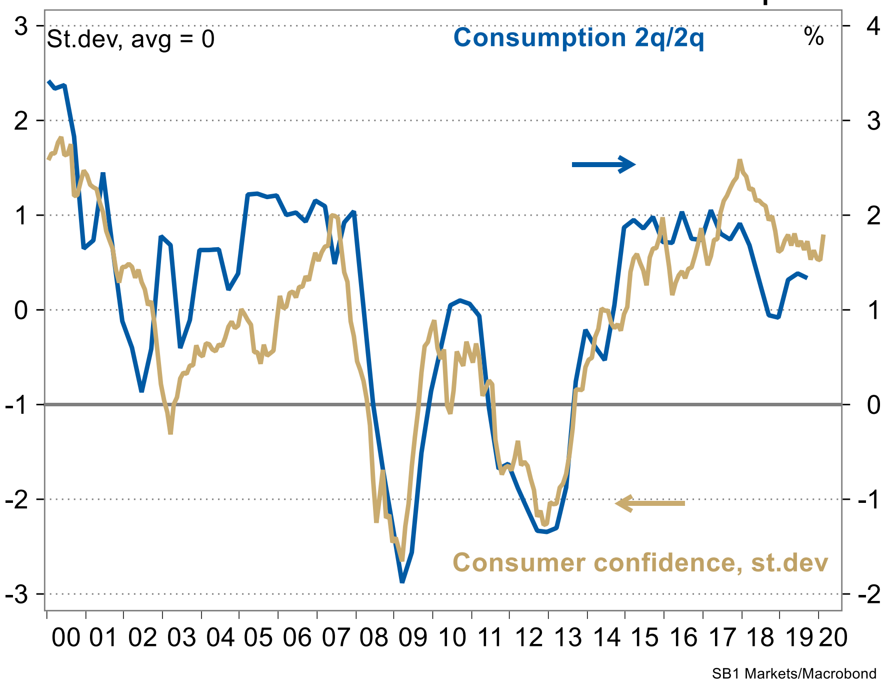


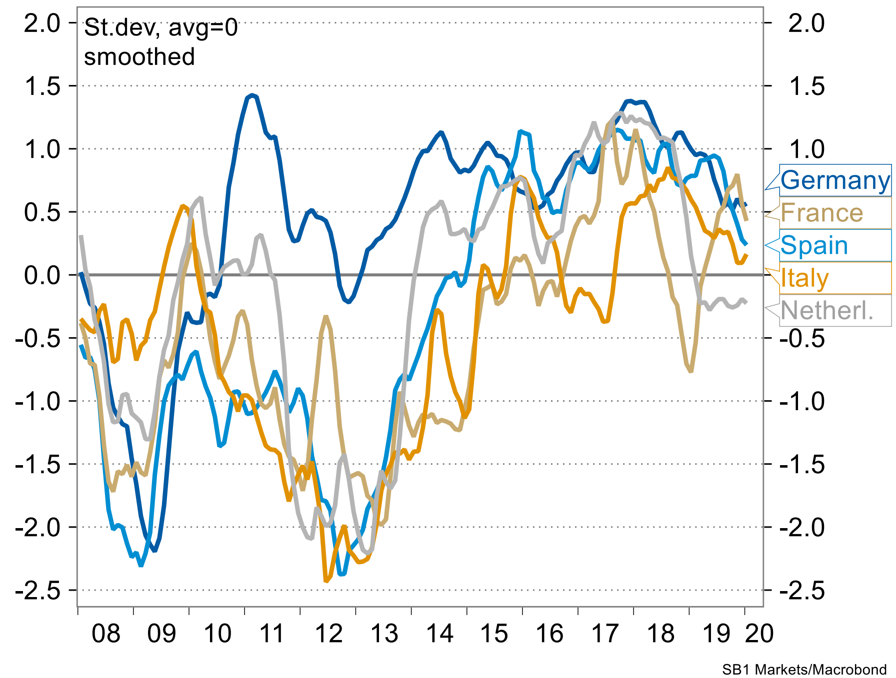


- The National Activity Index signalled a 1.8% growth rate in Q4, vs reported GDP growth at 2.1%
- None of these nowcasters have yet incorporated any data eventually impacted by the Covid-19 outbreak

Consumer sentiment rebounded strongly in February

Consumer confidence spiked in February, after sliding slowly down the past year

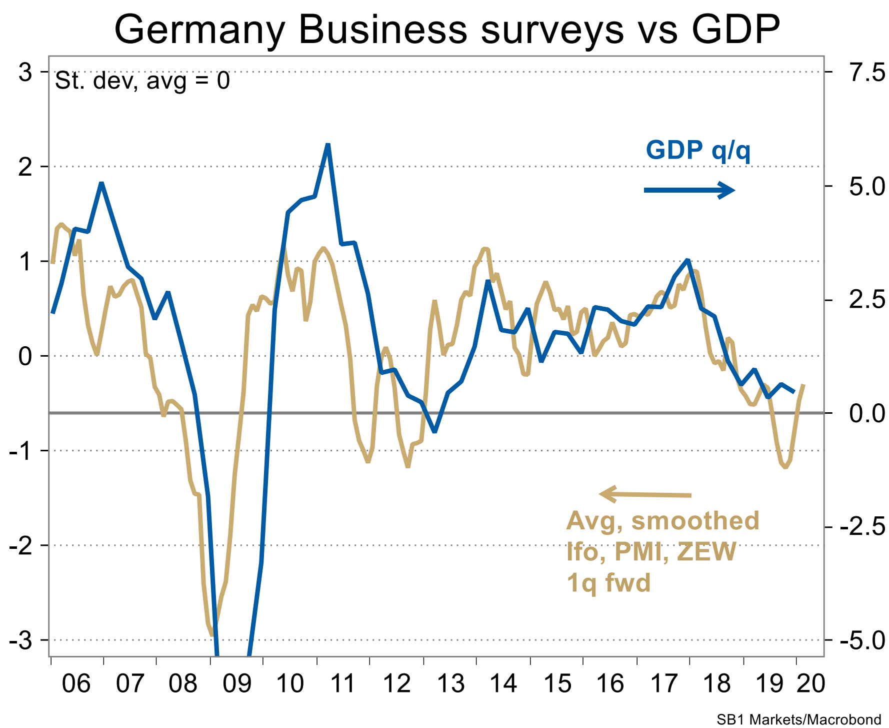


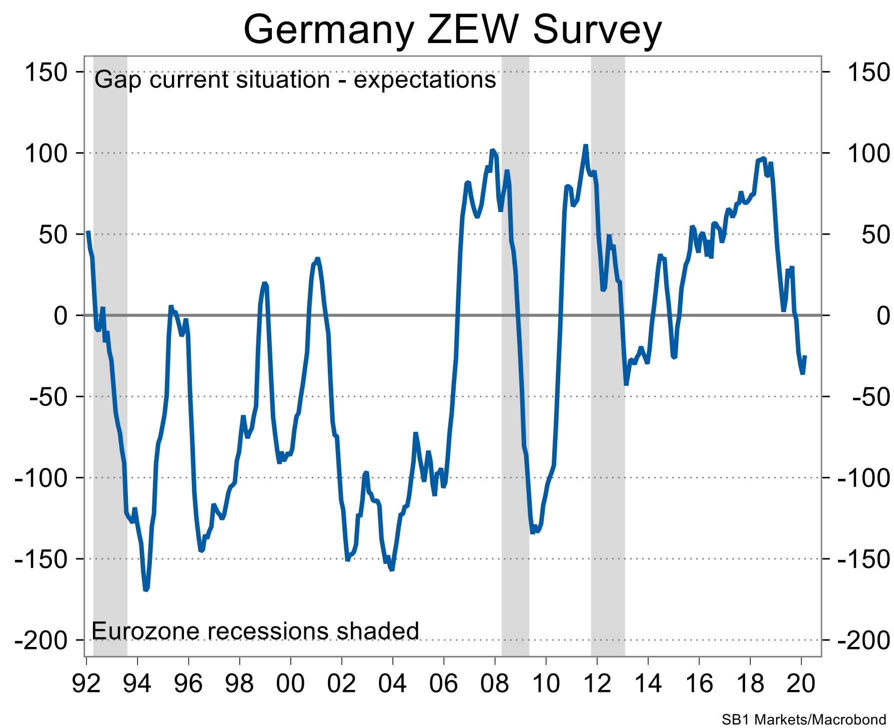


- Consumer confidence improved in February, after heading slowly down since early 2019. The level is 0.8 st.dev above the avg. CCI reflects that household demand has been solid amid the manufacturing dip
  - » No February country data have been released, but confidence improved in Italy, Spain and France in January, Germany flat. All four are above the average levels
- The CCI do not signal any slowdown in private consumption. Real wages + hours worked, a good proxy of total disp. income, expanded by 2.3% in Q3, do not signal weaker sales

Surveys do no longer point to GDP decline

The avg level of PMI, Ifo and ZEW do not signal any strong recovery but the direction may?

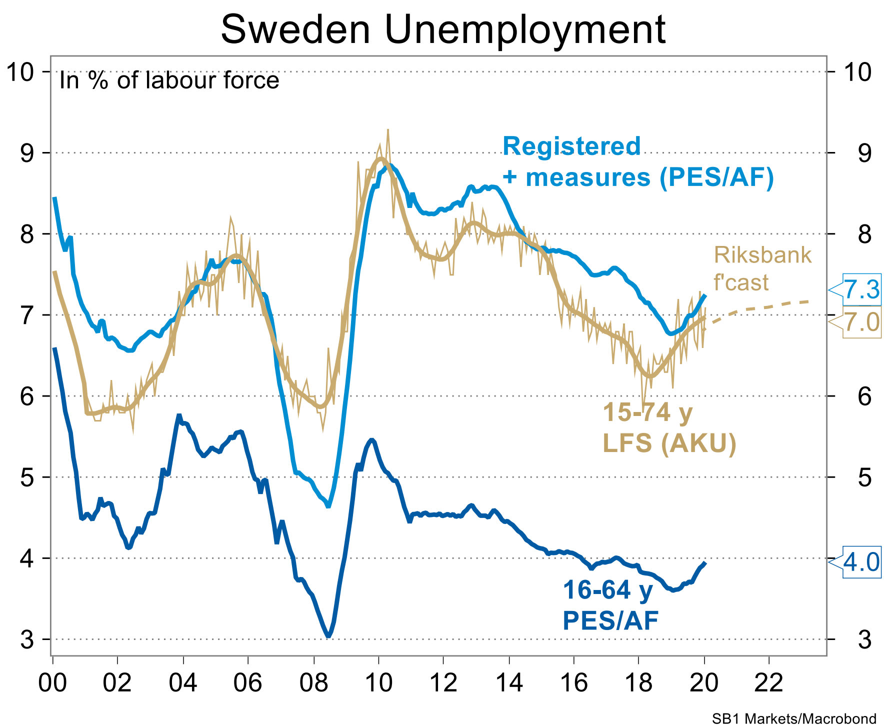


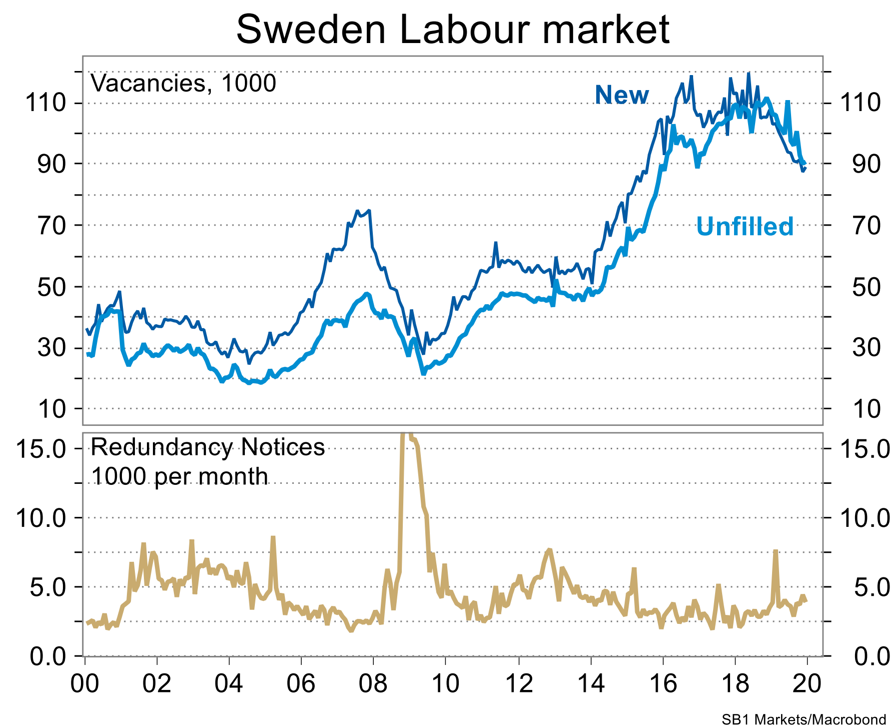


- The gap between the ZEW current situation and expectations is now closing (and even reversed). Just before recessions hit (the 3 recessions since 1990 at least), the expectations component of the ZEW survey has fallen steeply, while the view of the current situations remains elevated. So, some comfort now?
  - » We doubt the EMU (or Germany) is in/on the edge of a recession, as parts of the economy are holding up well in spite the manufacturing dip; consumer demand is still growing moderately, credit is increasing and overall unemployment is still declining

LFS unemployment climbs and employment growth is ebbing

LFS unemployment (smoothed) rate unchanged at 7.0% in January, trending up





- LFS unemployment was unchanged at 7.0%, measured by the smoothed rate, up from 6.3% in early 2018. The unadjusted, volatile rate, which zig-zags almost every month, increased to 7.1%, from 6.6%
  - » The PES/AF registered unemployment rate, which is less volatile than LFS data, confirms an upswing. Open unemployment rose to 4.0% in January, up 0.4 pp from the bottom. Both new and unfilled vacancies have fallen from the peak
- The labour market is no doubt weakening. The good news; Employment is still inching up, although the upward speed has slowed substantially. Labour market participation is increasing at a faster pace than employment. We would be much more concerned of a rapid downturn in the Swedish economy if the unemployment uptick was due to declining employment!

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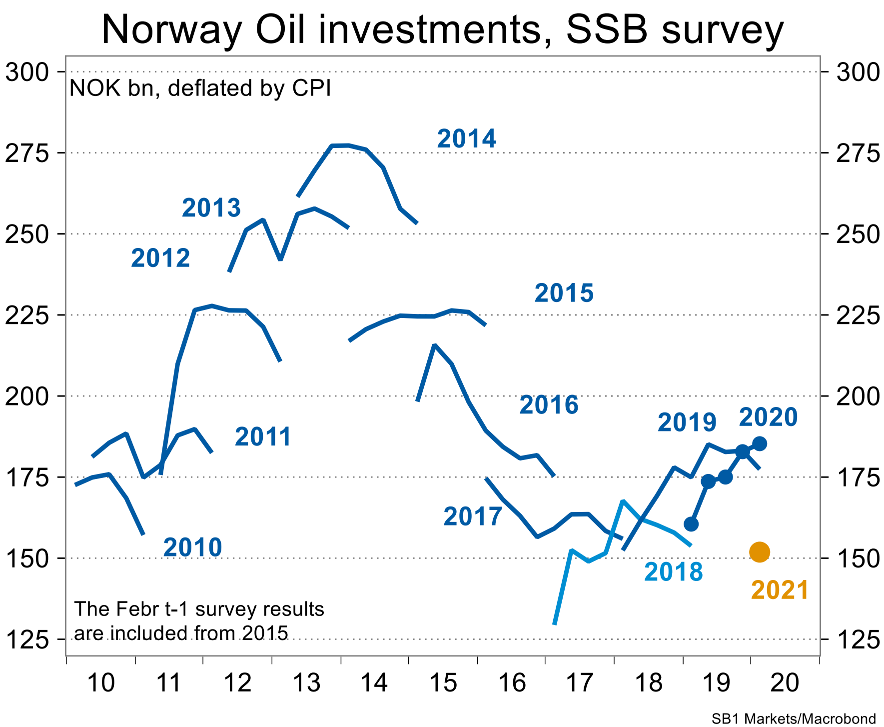
Oil investment survey implies a much steeper decline than we expected

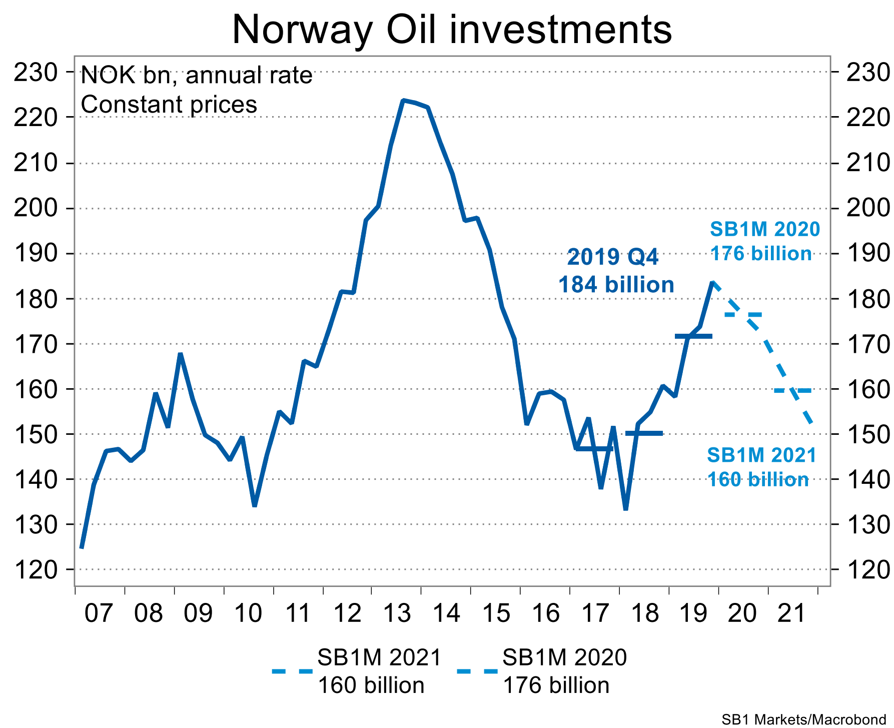
Oil investments most likely peaked in Q4 '19 and will decline by 6% through '20, and by 12% next year

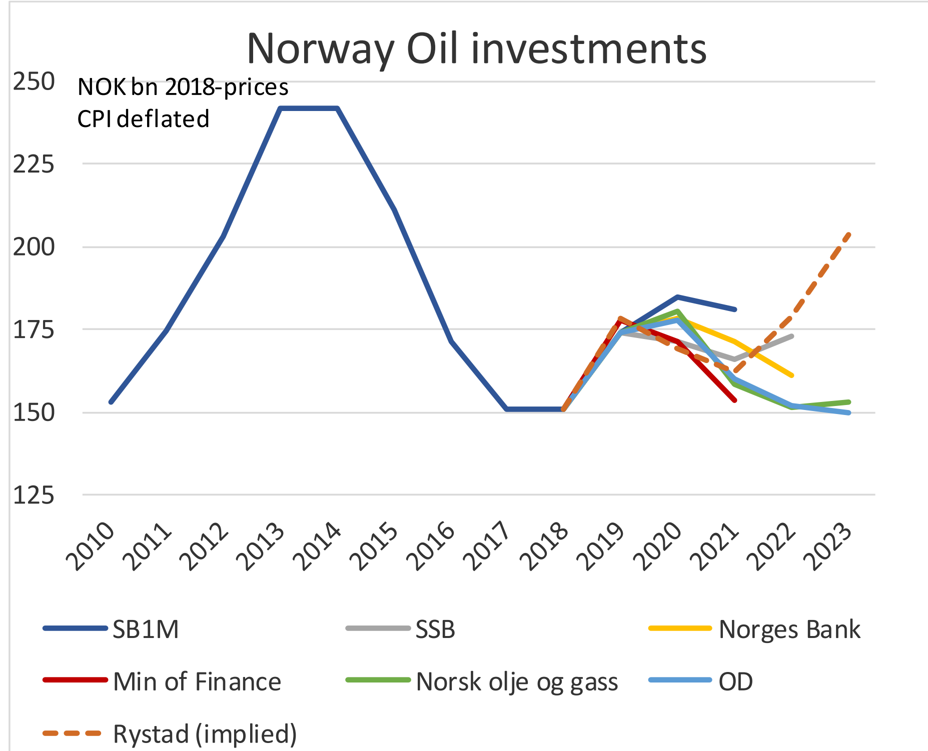


- In SSB's Q1 oil & gas investment survey, companies adjusted their **2020 investment f'cast** up by NOK 2 bn to 185 bn, close to our expectations. This estimate is 6% above the equivalent 2019 f'cast, however, fewer projects is set to be included through the year than in 2019. <u>We nudge down our volume growth estimate to 2.7% in 2020, from 5.5%</u>
  - » If our estimate is correct, investments in 2020 (in average) will be 4% lower than the investment level in Q4 2019 (see chart next p.)
  - » Norges Bank expected 4.5% growth in the Dec MPR
  - » Investment goods & services price inflation has picked up, we estimate 2.5% price growth in 2020
- **The first 2021 estimate** at NOK 152 bn, somewhat lower than we expected, and 4% below the equivalent 2020 f'cast (from 2019). Moreover, f'cast will probably be nudged up less than 2020 f'cast was. <u>We estimate a 7% nominal decline and a 9.5% drop in in volume terms in in 2021</u>
  - » If so, the average 2021 investment level will be 13% lower than the Q4 2019 level, and by Q4 2021, oil investments would have fallen by 17% from Q4 '19 (given a linear decline)
  - » Norges Bank f'casted a 5% 2021 decline in the December report
- Hence, the growth boost from oil investments is now turning to a drag. We expect Mainland GDP growth at 1.5% in 2020 (nudged down 0.1 pp) and 1.3% in 2021 – however still close to Norges Bank's f'casts – and still not an argument for lower interest rates

A crucial growth engine is about to change sign

Our 2020 volume growth estimate at 2.7% implies an average 2020 level 4% below Q4 2019





- **We nudge our 2020 volume growth estimate down to 2.7%** (from 2019), from 5.5%, down to an average level at NOK 176 bn. In Q4, oil investments rose by NOK 184 bn (annual rate), 4% higher than the 2020 estimate. Thus, we expect a substantial decline through 2020, and investments in Q4 2020 will be 6% below the Q4 2019 level
- Based on the oil companies' 2021 f'cast and prospects of new projects, **we expect a 9.5% decline in investment volumes in 2021**. This is a substantial adjustment, our prior f'cast was a 1% decline. Our f'cast implies that oil investments will have dropped by 17% by late 2021, compared to the Q4 2019 level (given a linear motion)
  - » Norges Bank projected a 4.5% growth in 2020 and -5% in 2021, the bank will probably revise down its f'casts. But not enough to indicate an interest rate cut in 2020
- The adjustments implies a 0.1 pp decline in our 2020 Mainland GDP growth f'cast, to a 1.6% rate. Norges Bank expected 1.9% in Dec, before the weak Q4 GDP data were known

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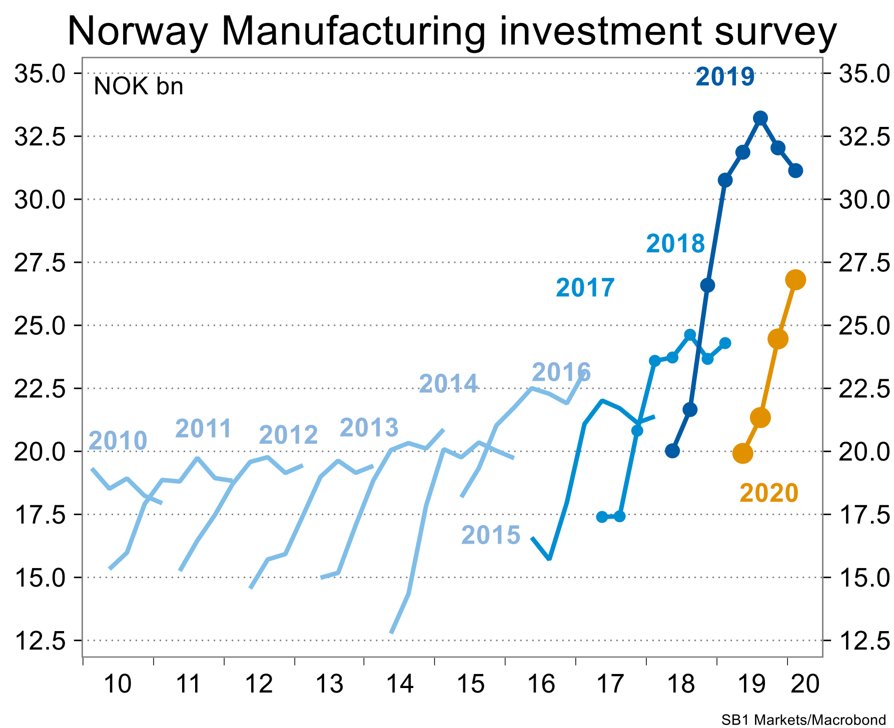
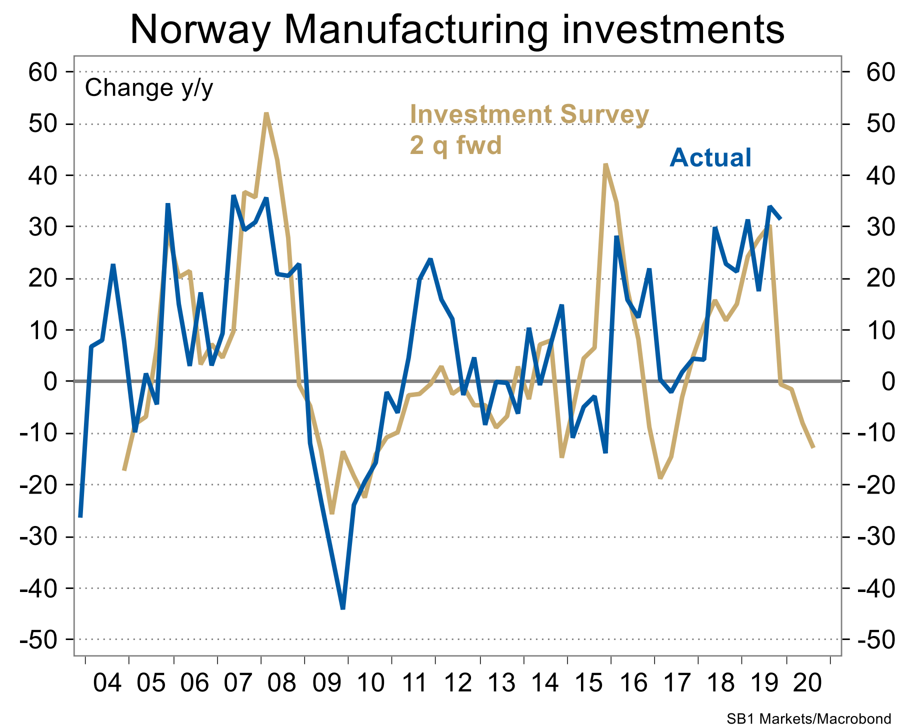
Manufacturing investments set to drop 16% in 2020

We expect a substantial cut in investments this year, following the 2019 boom



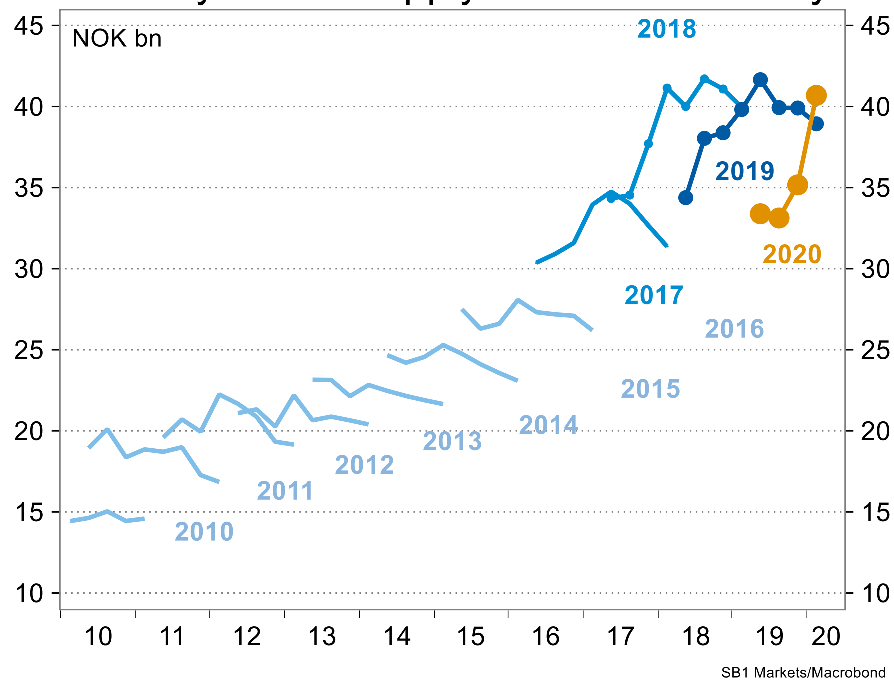


- Manufacturing companies adjusted their 2020 investment estimate up by NOK 2 bn in Q1, to NOK 27 bn. The estimate is 13% lower than the equivalent 2019 estimate (from Q1 2019)
- We expect a 14% drop in nominal investments in 2020 – and a 16% decline in volume, following a 26% growth in 2019. Even so, the investment level will not be low, check next page
  - » Investments in refined petro., chemicals and metals are the major drags in 2020, after soaring in 2019

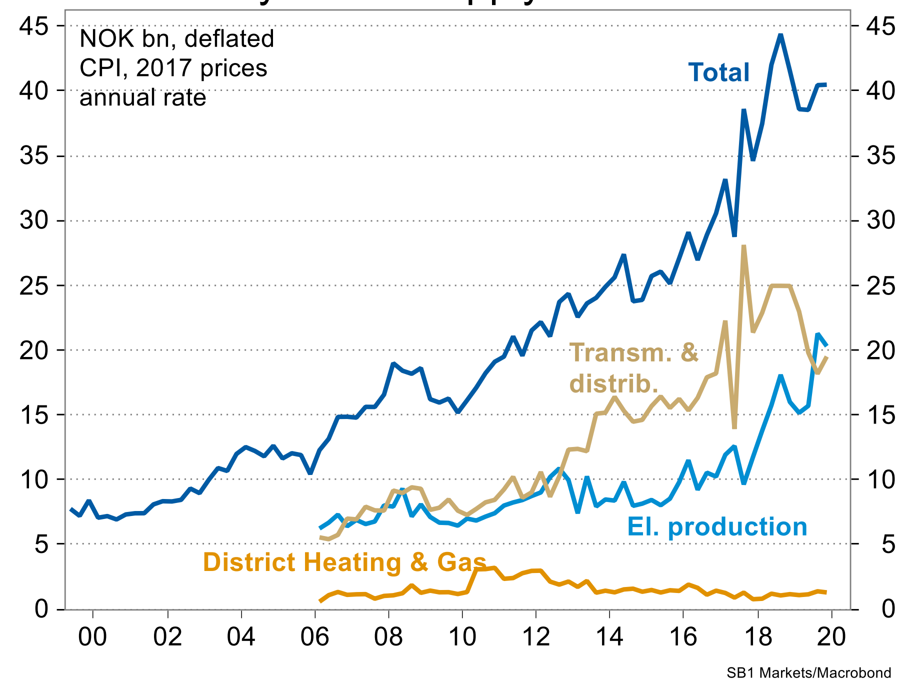
Power supply: No downturn in investments? Seems so!

2020 investment estimates revised up by NOK 6 bn (17%), saved by new wind power projects

Norway Power supply investment survey



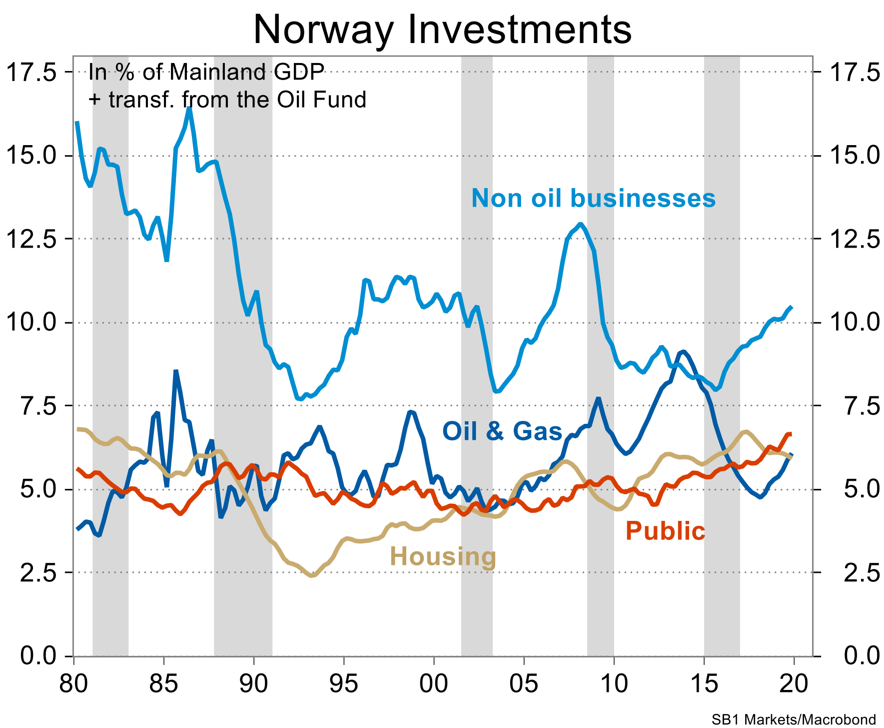
Norway Power supply investments



- Power supply (production & distribution) companies nudged up their 2020 investment f'cast by NOK 6 bn to NOK 41 bn. This was a much steeper increase than we expected and more usual due to a new wind power project. The 2020 forecast is now 2.5% higher than the equivalent 2019 f'cast (last quarter, the 2020 estimate was 9% lower than the 2019 f'cast). Hence we revise up our 2020 f'cast to zero growth, in volume terms
- In 2019, power supply investments rose by 3% vs the 2018 level (both nominal and real), after soaring by 21% in 2018. Investments have more than quadrupled in 25 years, more than 10% p.a in average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades

The investment cycles: A broad slowdown the coming years

Mainland business investments are not low anymore, but probably at a cyclical peak



- **Oil investments** have accelerated since late 2017, probably peaked in Q4 2019 and is now turning down
- **Mainland businesses** have increased their investments sharply since ’16, and the level is not low anymore. They are probably at peak, too, as manufacturing and power supply investments are set to decline, and the upside on service investments is probably limited
- **Government investments** are the highest in decades, vs GDP. Will come down long term, but limited downside short term
- **Housing investments** stabilized in 2018 and 2019, sagging housing starts indicate a downturn. Still, the downside is not large compared to the dips in oil investments (barring a total housing market breakdown)

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The Calendar

In focus: China PMIs, US GDP revision, consumption, Norwegian unemployment, credit, retail sales

Time	Country	Indicator	Period	Forecast	Prior
Monday Feb 24					
08:00	NO	Housing Starts, SSB	Jan		23'
10:00	GE	IFO Expectations	Feb	92.1	92.9
14:30	US	National Activity Index	Jan	-0.16	-0.35
Tuesday Feb 25					
08:00	GE	GDP QoQ, details	4Q F	0.0%	0.0%
15:00	US	CS House Prices MoM	Dec	0.5%	0.5%
15:00	WO	CPB World Trade Volume, MoM	Dec		-0.4%
16:00	US	Conf. Board Consumer Confidence	Feb	132.1	131.6
Wednesday Feb 26					
08:00	NO	Unemployment Rate, LFS	Dec	4%(3.9)	4.0%
16:00	US	New Home Sales	Jan	710k	694k
Thursday Feb 27					
08:00	NO	Retail Sales MoM	Jan	1.3%(1.7)	-2.0%
08:00	NO	Population Growth, QoQ Annualized	Q4		0.6%
09:00	SW	Economic Tendency Survey	Feb		97.1
09:00	SW	Consumer Confidence	Feb		92.6
09:30	SW	Retail Sales MoM	Jan	-0.2%	0.5%
11:00	EC	Economic Confidence	Feb	102.5	102.8
14:30	US	GDP 1st. Revision	4Q S	2.2%	2.1%
14:30	US	Durable Goods Orders	Jan P	-1.5%	2.4%
14:30	US	Capital Goods Orders Core	Jan P	0.2%	-0.8%
14:30	US	Initial Jobless Claims	Feb-22	211k	210k
16:00	US	Pending Home Sales MoM	Jan	2.0%	-4.9%
Friday Feb 28					
00:30	JN	Jobless Rate	Jan	2.2%	2.2%
00:50	JN	Retail Sales MoM	Jan	-0.2%	0.2%
00:50	JN	Industrial Production MoM	Jan P	0.2%	1.2%
08:00	NO	Credit Indicator Growth YoY	Jan	(5.0)	5.1%
09:30	SW	GDP QoQ	4Q	0.2%	0.3%
10:00	NO	Unemployment Rate, Registered	Feb	2.3%(2.3)	2.4%
14:30	US	Advance Goods Trade Balance	Jan	-$68.5b	-$68.3b
14:30	US	Personal Income	Jan	0.3%	0.2%
14:30	US	Personal Spending	Jan	0.3%	0.3%
14:30	US	PCE Deflator Core YoY	Jan	1.7%	1.6%
Saturday Feb 29					
02:00	CH	Composite PMI, NBS/CFLP	Feb		53
Monday Mar 2					
01:30	JN	Manufacturing PMI	Feb F		--
02:45	CH	Manufacturing PMI, Markit/Caixin	Feb	49.4	51.1

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

- **Global**
  - **Global trade volumes** stabilized last autumn, after a sluggish H1 2019. Export orders PMIs signal continued stabilization in Dec/Jan
- **China**
  - **February PMIs** will be heavily influenced by the COVID-19 outbreak, and a huge plunge is for certain (if the Chinese have been able to produce the survey). The PMIs will give a first, preliminary insight into the magnitude of the economic slowdown in February but nothing about what is much more relevant, the timing of the recovery
- **US**
  - We expect **Q4 GDP growth** to be nudged down, due to weaker consumption data than previously reported
  - **Core durable and capital goods orders** have turned down marginally, with business investments. PMI/ISM do not suggest any uptick
  - **Personal consumption** most likely increased modestly in January, as retail sales volume vanished and auto sales edged up
  - **Core PCE inflation** has slowed to 1.6%, a pickup to 1.7% is expected
  - **New home sales** have calmed somewhat and **pending home sales** slipped in Dec, we expect a rebound. **House price** growth gains pace
- **Sweden**
  - Most macro data point to a slowdown in **GDP growth in Q4** from the meagre 0.3% in Q3. Moderate consumption probably the main boost
- **Norway**
  - **Registered unemployment** has flattened out and the more volatile LFS unemployment rate has ticked up, with the labour force. As long as registered unemployment does not increase, we are not that worried
  - **Household credit growth** is abating and the debt/income ratio is turning down, which is good news, as long as credit growth does not 'collapse'
  - **Retail sales** were sluggish in Q4, a mild recovery is likely

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 bring Q1 growth down**	Global composite PMI no doubt fell steeply in February, as the coronavirus outbreak hampered activity in many countries/sectors. The preliminary PMIs published so far indicate a 1.6 p ex, China drop, and the final outcome, at least with China included, will be much weaker
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 have been 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 too hard now, barring a serious economic dip (which could take place if the impacts of the virus are more persistent than assumed now). **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**	Chinese monetary policy slowly turning more expansionary, interest rates cut by 5-10 bps last week. Credit growth is slowly trending up, and shadow banking activity spiked temporarily 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', but consumption is now slowing. 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**	Markit's PMI surprisingly dropped, partly on corona distortions, but also weaker domestic demand. Housing starts and permits are trending steeply up, highest levels since before the FC. The leading index soared in January, signaling a growth pickup into Q1. Both regional manufacturing surveys notes strong rebounds. Producer prices rose more than expected
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**	PMI came up another tick in February and points higher, but still subdued GDP growth. The good news is that the manufacturing contraction is easing substantially. Consumer confidence improved, no weakness in consumer sectors
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 will decline through 2020. Mainland business inv. are not low, will slow substantially in '20. Housing starts are falling. Core inflation is still close to target (at least until the Dec jump). Growth in households' debt has slowed to close to income growth. **Risks: Debt, housing. A harsh global setback**	Oil investment survey indicates a sharper decline in investments through 2020 than expected, and more so in 2021. Our f'cast on 2020 investments is 2.7% growth (vs 2019), -9.5% in 2021

In this report

Global + PMIs

- Coronavirus contagion is slowing down, death rates are rising but still below SARS'
- Global macro data above f'casts, lifted by China & US, EMU back in negative
- Global PMI probably 'collapsed' in February, amid coronavirus distortions
- US Composite PMI plunged in Feb, corona headwinds probably just partly to blame
- The Eurozone is slowly picking up momentum, PMI signals a tad higher growth
- Japan PMIs hit by the coronavirus outbreak, services at 6 y low

China

- PBoC is slowly easing monetary policy; benchmark lending rate cut by 10 bps
- Credit growth surged in January

USA

- No surprises from the Jan Fed minutes
- Home building is booming, highest starts & permits since 2007
- Homebuilders' confidence marginally softer, at an elevated level
- Existing home sales edged down, trending up
- Core producer price inflation picked up in Jan
- The Leading indicators jumped in January, suggesting an uptick in GDP growth
- Jobless claims steady at a very low level, no weakness spotted
- Nowcasters suggest higher growth too

EMU

- Consumer sentiment rebounded strongly in Feb
- ZEW down to mean in February, on coronavirus fears and weak macro

UK

- Unemployment flattens out – but employment straight up!
- Retail sales rebounding in January, after a steep slowdown
- Core CPI inflation bounced back to 1.6%, trending down
- Not all sunshine; manufacturing orders still low and stocks are high

Japan

- Core CPI inflation down to 0.4%, headline +0.6%, where is the VAT impact?
- Core machine orders slide down but no 'collapse' since the VAT increase

Sweden

- Core inflation ticked down in January, missing expectations by 0.3 pp
- LFS unemployment climbs and employment growth is ebbing
- House price inflation is accelerating

Norway

- Q1 Oil investment survey implies a steeper decline than expected
- Manufacturing investments set to drop 15%
- Power supply: A milder investment downturn in 2020 than previously projected
- Unfilled vacancies flat since mid-2018
- Norges Bank expectation survey steady in Q1
- Mainland exports are trending up, imports slowing recent months

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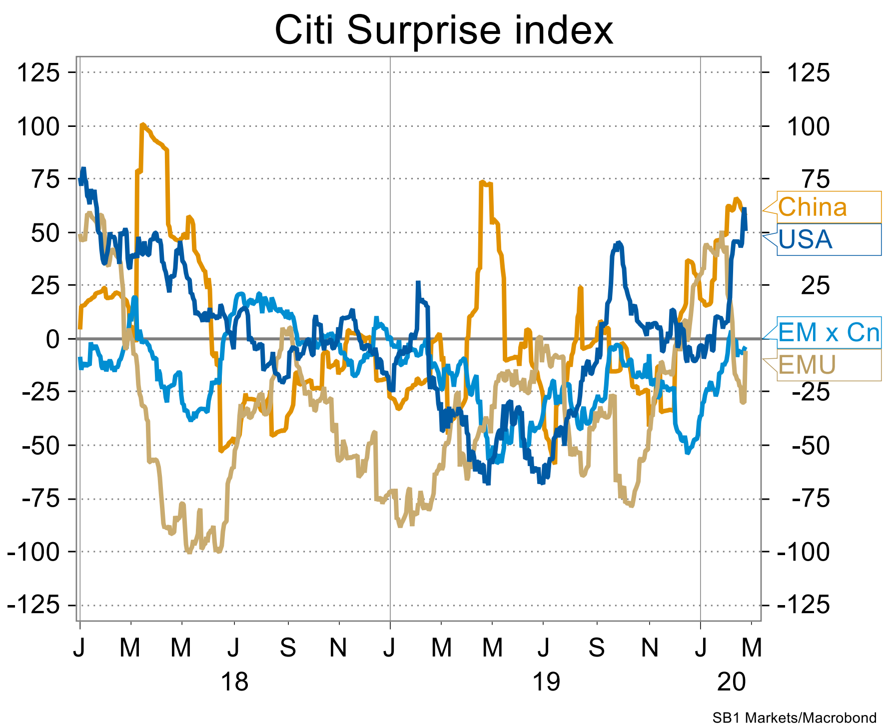
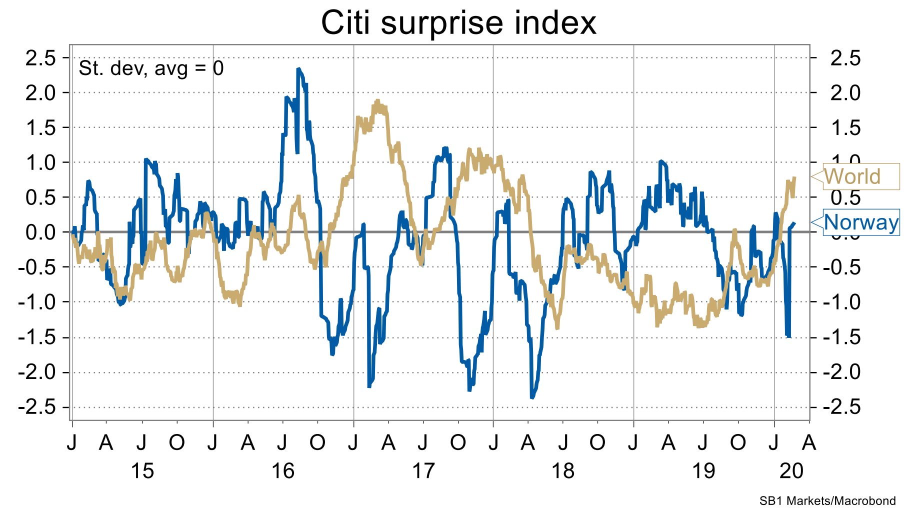
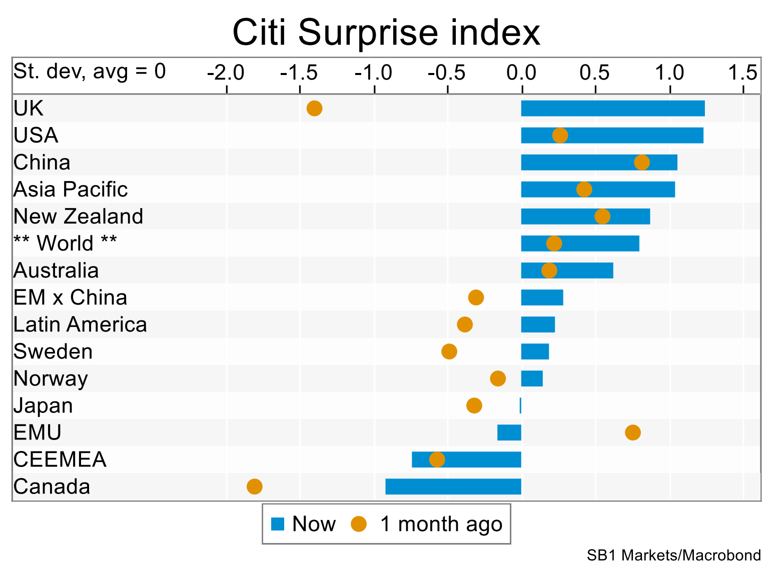
Global macro data above f'casts, lifted by China & US, EMU back in negative

Most upbeat US data flows in 2 years, China miles above too, while the Eurozone has slipped in Feb







- Global macro data are in sum better than excepted, steady the past two weeks. The current level is the highest since March 2018!
- Stronger than expected Dec China data, inflation and most recently credit growth have lifted the Chinese surprise index. Other EM data are now close to neutral vs f'casts
- EMU figures are weaker than expected, due to Q4 GDP, manufacturing & and retail sales data
- The US surprise index is heading straight up and housing starts, producer prices, the LEI and manufacturing surveys lifted the index further last week
- Norwegian data have been weaker than expected – until the surprising inflation jump caused a rapid rebound two weeks ago

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

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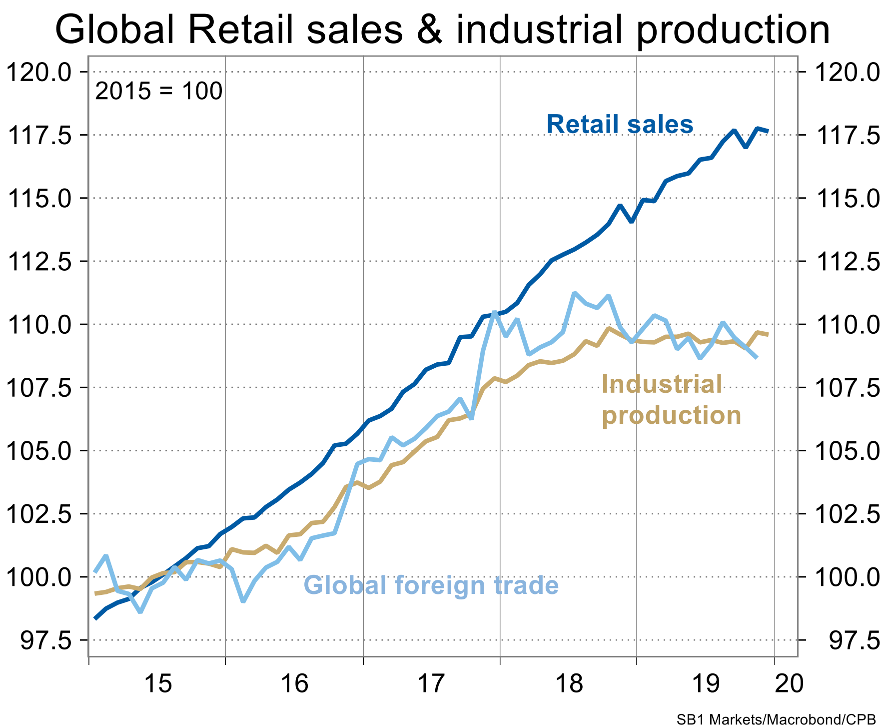
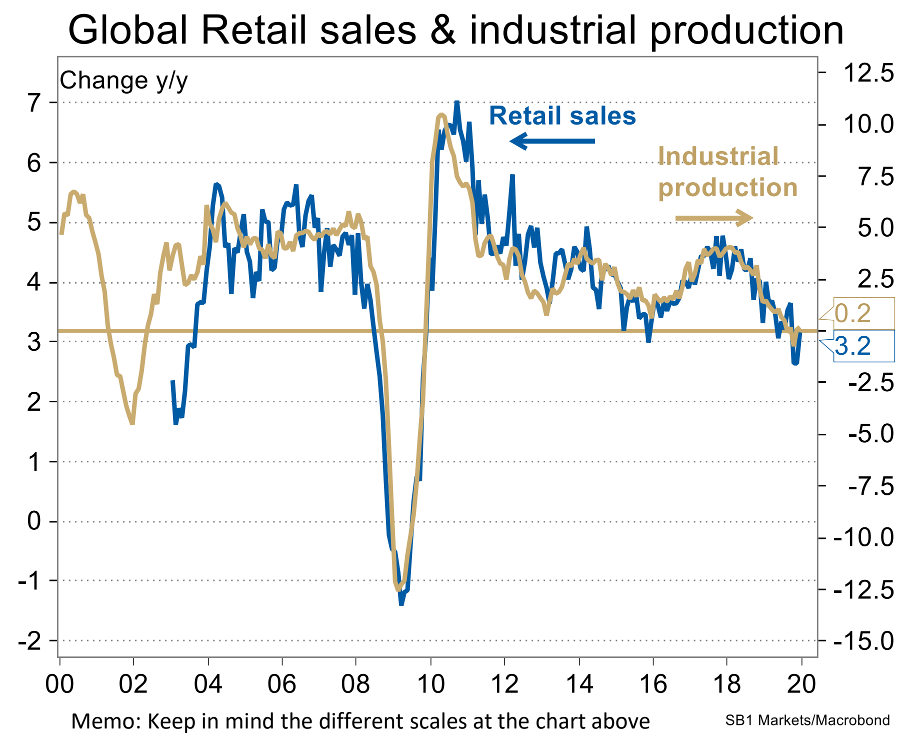
Global industrial production and retail sales marginally down in Dec

Global trade has stabilized (as of Nov), industrial production recovering marginally, retail sales stalling





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

- **Global industrial production** probably inched down 0.1% m/m in December according to our estimate (which has been nudged down, chiefly due to weak EMU data), following a strong Nov. Production is back at the Nov-2018 peak level. The global manuf. PMI has recovered the past 6 months, now signalling a 1% growth pace
- **Retail sales** inched down 0.1% in Dec too (our est), following the 0.7% increase in Nov. The recent volatility is mostly due to the VAT hike in Japan, most other major countries are still heading up, at a slower pace. EMU sales data 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

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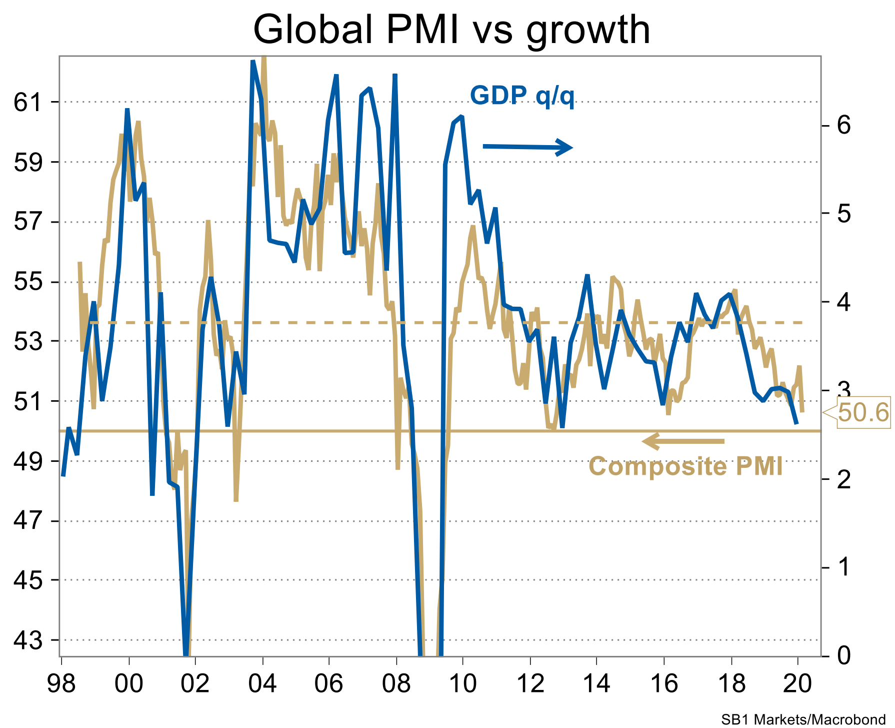
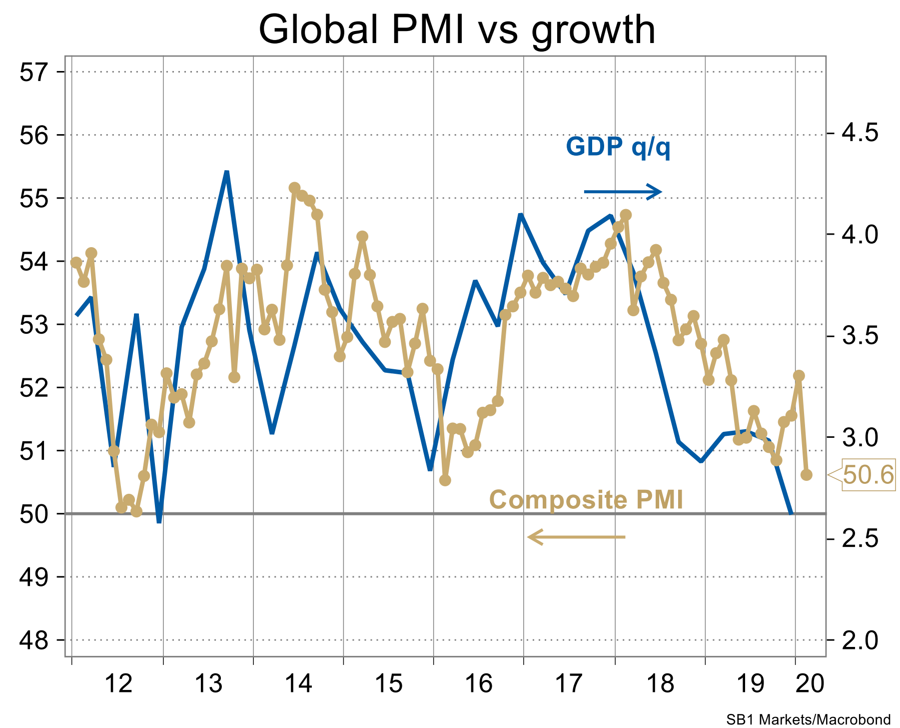
Global PMI will 'collapse' in February amid coronavirus distortions

Ex China PMI down 1.5 – 2 p, when China & co reports down 5 p, or more?



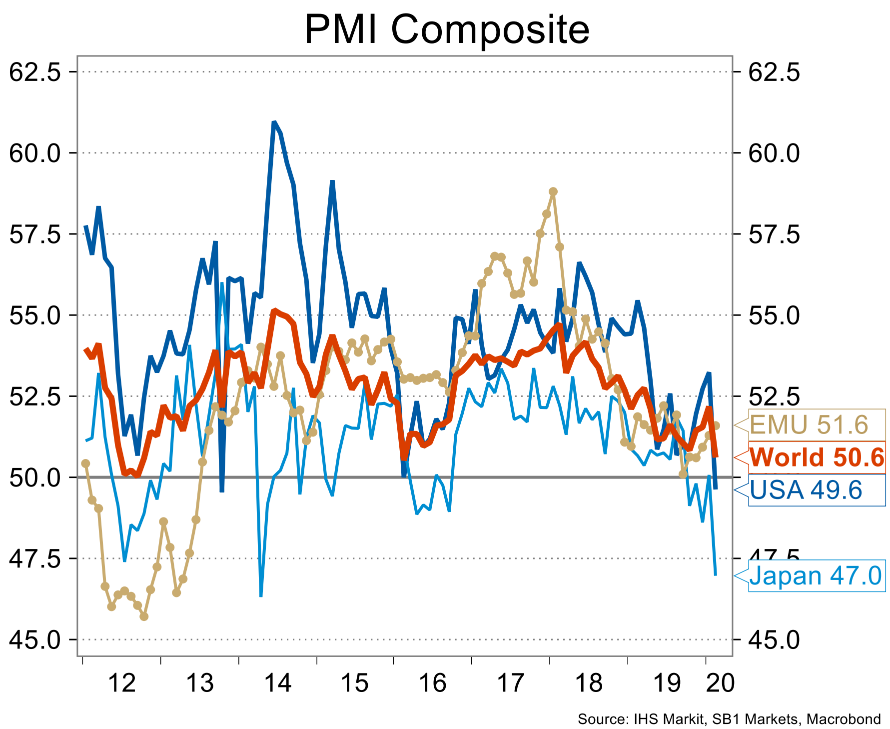


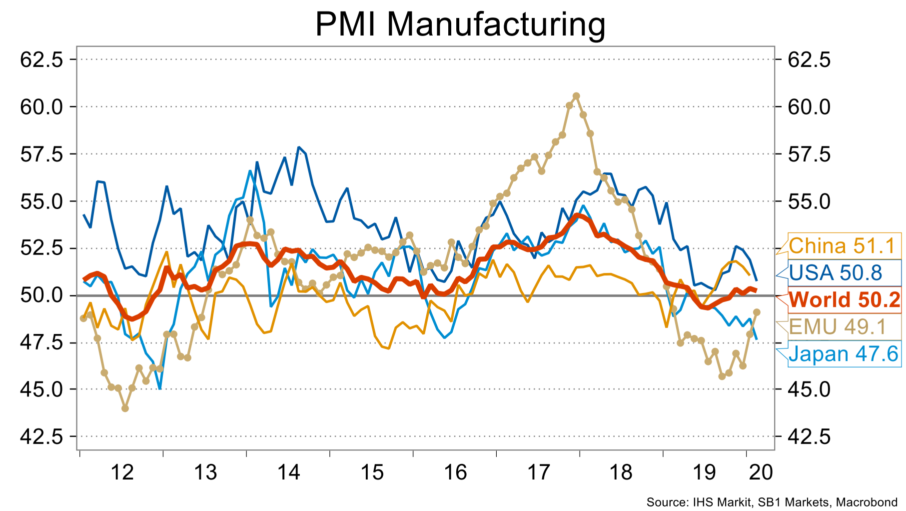
- Based on the preliminary PMIs released this far (US, EMU, UK and Japan), we estimate a 1.6 p drop in the global composite PMI x China. The steep decline is no doubt at least partly due to the Covid-19 outbreak, which have hampered activity in many sectors. Thus, the February data are rather useless in assessing the underlying growth momentum. Q1 GDP growth will be reduced substantially (we expect a contraction by some 0.5% q/q). We expect a comeback in Q2, but 2020 growth will anyway be reduced. The March/April PMIs will reveal more about the pace of recovery
- The final PMI will be much weaker. Firstly, China will no doubt report a steep decline in activity (down 20 – 30 points, or even more?). Secondly, the final February PMIs will probably be revised down, as the full impact of the coronavirus has yet to be inflicted on the surveys outside China

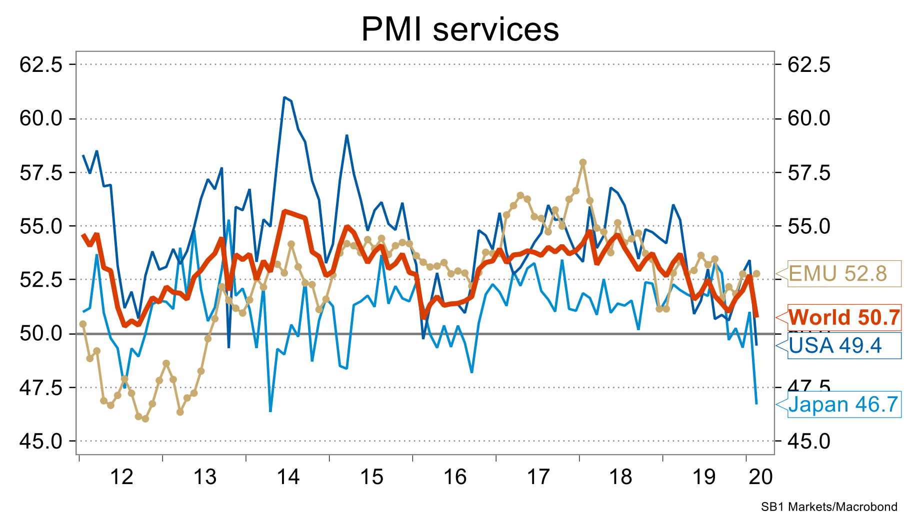
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, and US. The estimate is uncertain

Coronavirus weighted on services, manufacturing mixed

US and Japan ‘collapsed’; US hit much harder by corona than the Eurozone, or something else?







- Composite PMIs slipped in the US and Japan, EMU rose modestly
- Mixed manufacturing PMIs but they do not appear to be hit very hard by the coronavirus. Wait for the China manufacturing PMI..
- Services tumbled in the US and Japan, improved marginally in the EMU (and fell just modestly in the UK). We are unsure why US tourism sectors would be hit much harder by corona than the Eurozone or UK. March/April data will be more useful than these distorted figures
- Memo:
  - The last obs for world PMIs are our estimates, based on preliminary data from the US, EMU, Japan and UK. Markit has not yet reported PMIs from China

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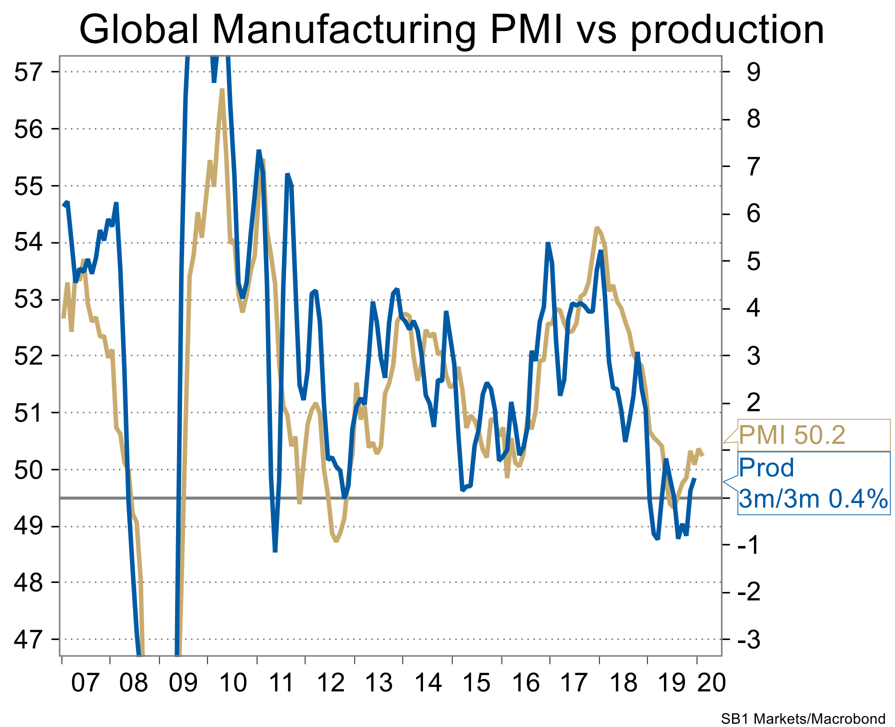
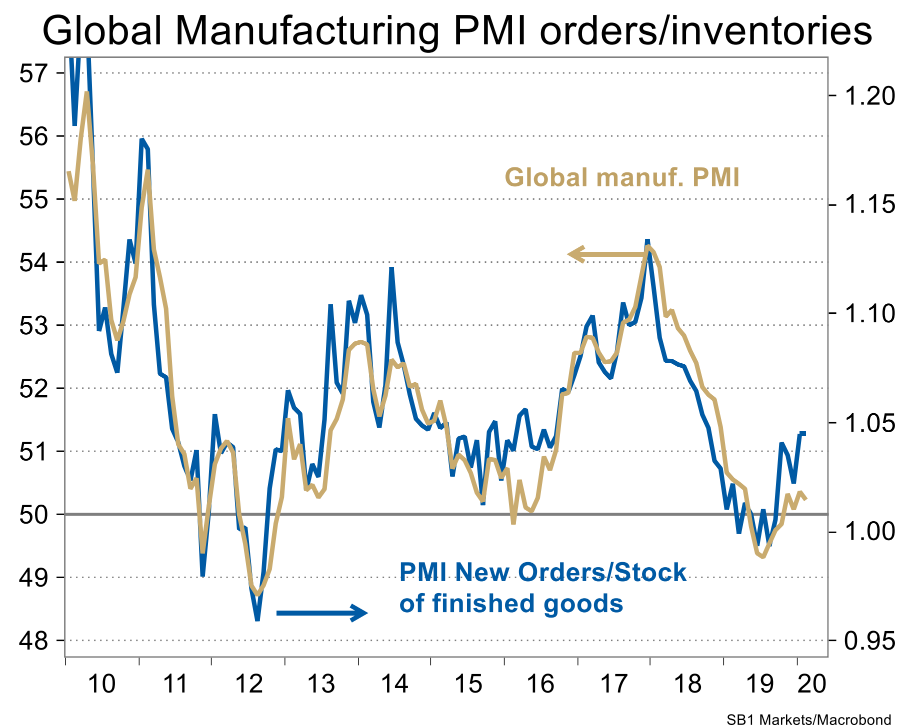
Global manufacturing x China PMI so far just marginally down in February

We estimate a 0.2 p decline, still pointing to 1% growth in global production (but China…)



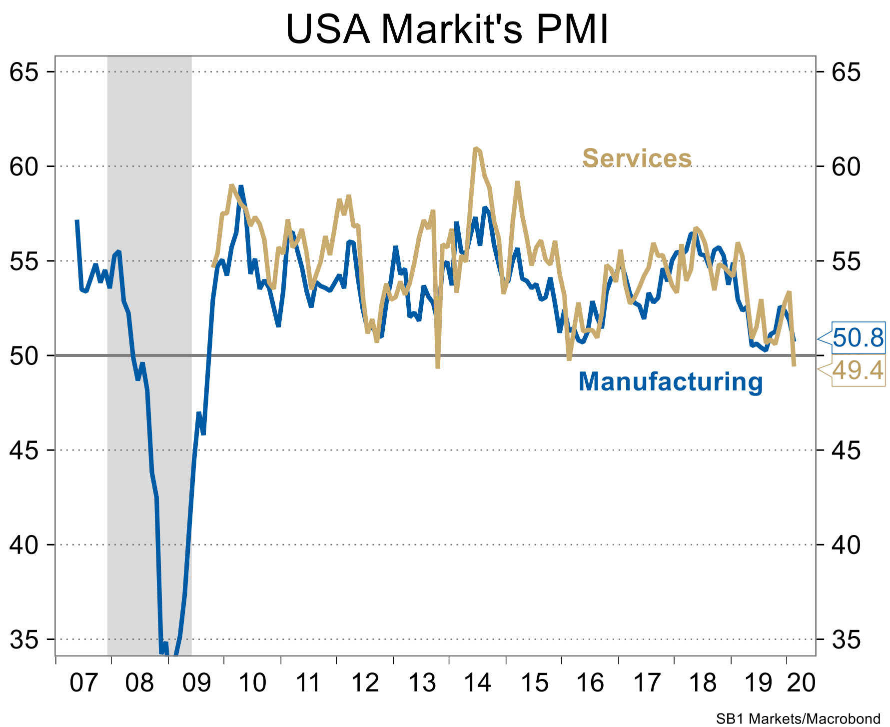


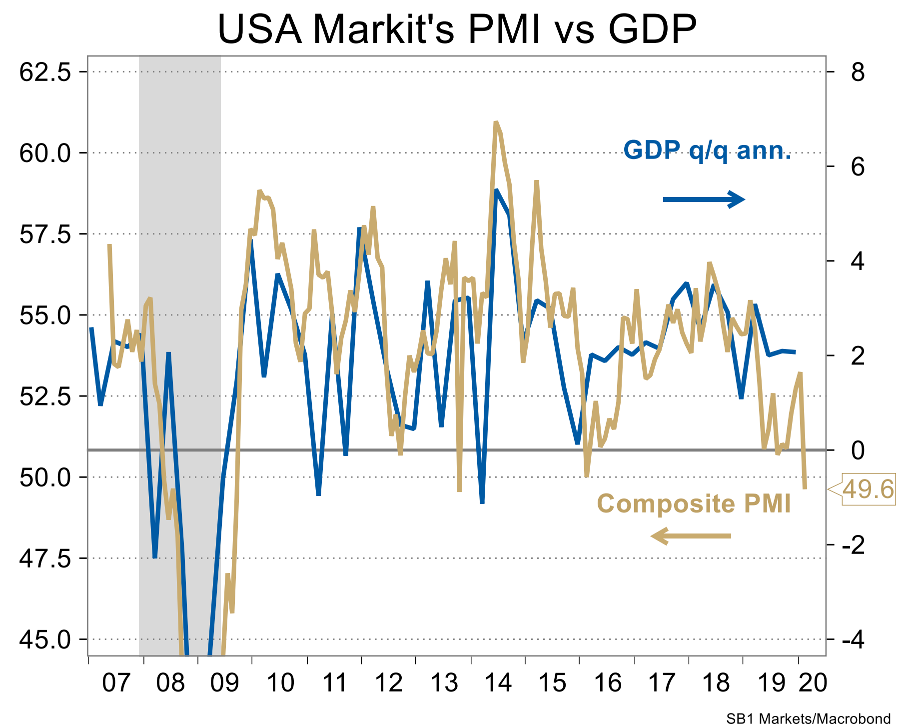
- The global manufacturing orders/inventory ratio was probably unchanged in February, at least based on the countries reporting so far. Since August, orders have been recovering, while growth in inventories has slowed, a favourable mix. Thus, the order/inventory ratio has climbed, normally a good signal – however not a leading indicator

Memo: the last PMI data are our estimates on November PMI

Composite PMI plunged in Feb, corona probably explains the most?

Services PMI noted the steepest monthly drop since 2013, bringing composite PMI down to 49.6

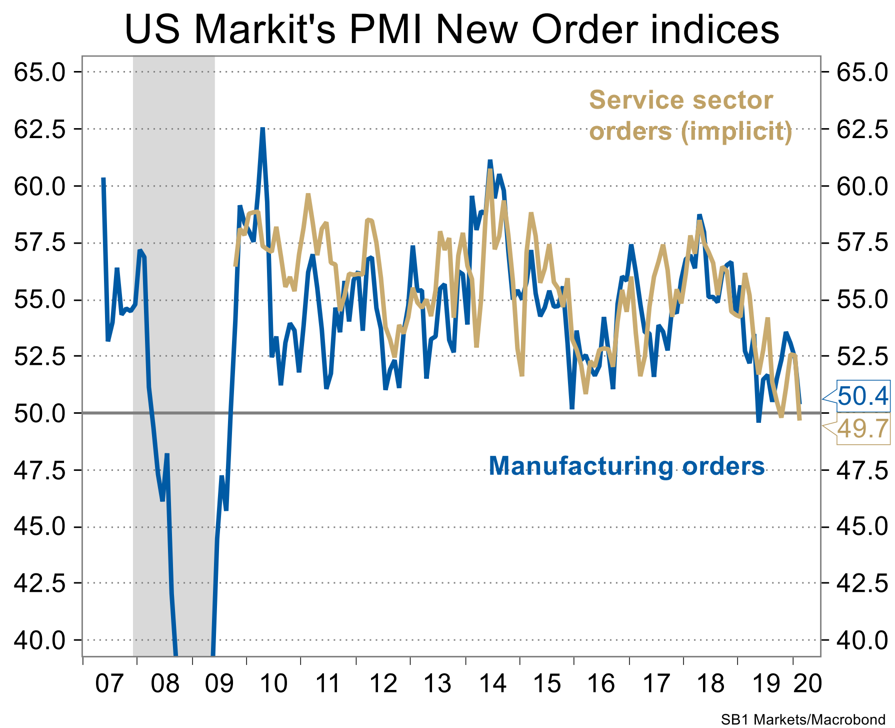


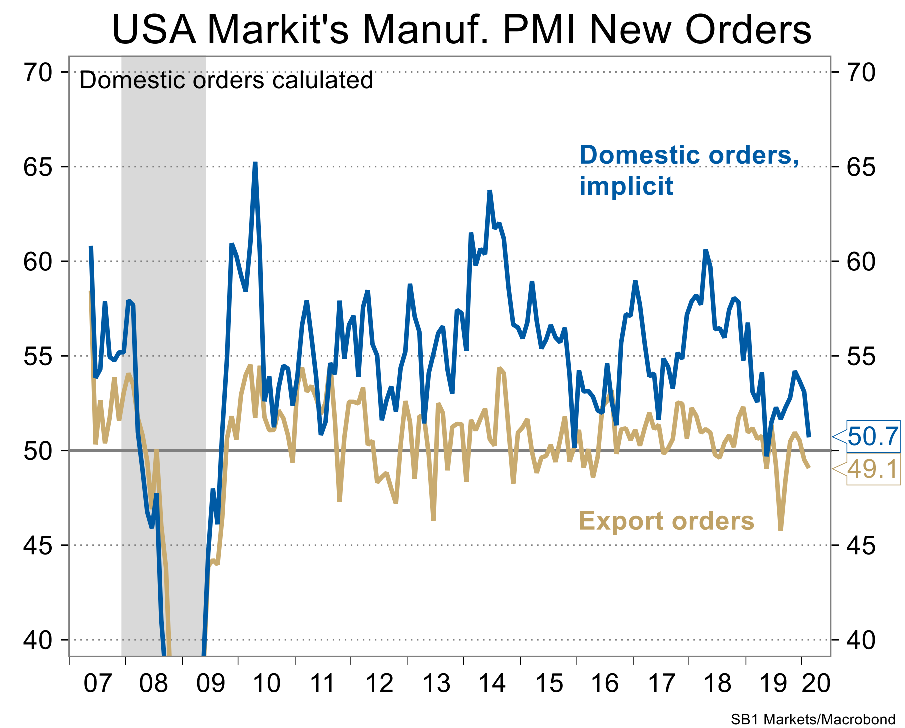


- The service sector PMI slipped 4.0 p in February, to 49.4. This is the first contraction in 4 years and the weakest level since 2013. The most plausible explanation is that businesses within tourism and travel have been hurt by the coronavirus outbreak. So, just noise then? Well, Eurozone PMI did not confirm a broad corona related slowdown (even as the Japanese PMI slipped). Moreover, some of the setback may be due to an underlying change in demand, retail sales have slowed substantially
- Manufacturers also reported a slowdown, although more modest than services (down 1.1 p). The PMI at 50.8 points to a decline in production - which has stabilized recent months. Businesses report supply delays and following the virus outbreak. However, to other manufacturing surveys report accelerating growth in February, check 2 pages out in this report
- The preliminary composite PMI 'collapsed', to 49.6, the lowest level since 2013. We are unsure if all of this can be attributed to corona, thus, these data are useless for assessing the underlying growth momentum. However, activity in Q1 will probably be hurt

Both manufacturing and services stagnated in Feb, and not just on corona?

… And domestic orders slowed more than exports, suggesting a domestic demand slowdown

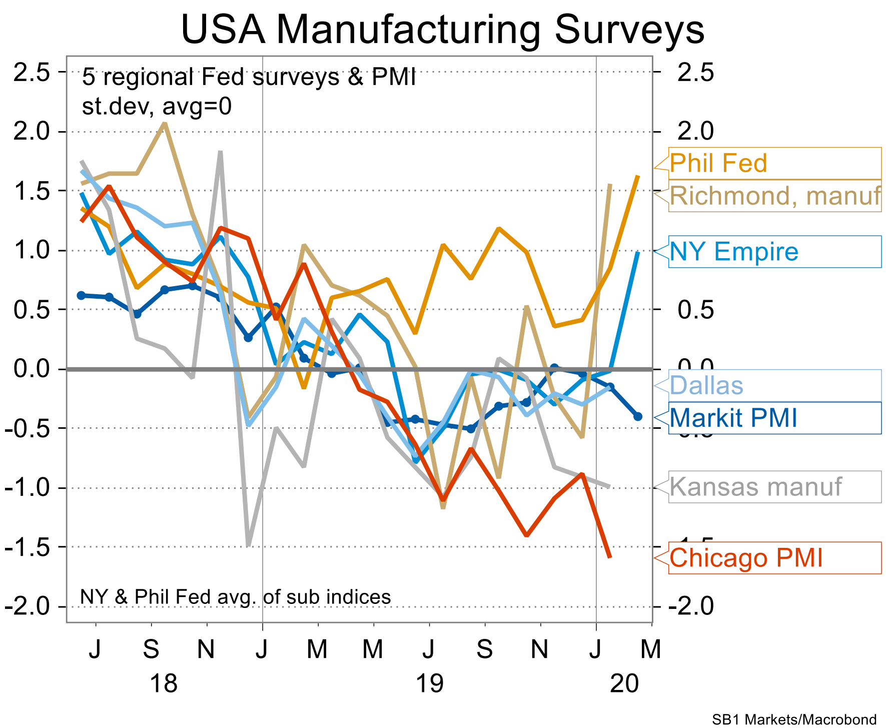


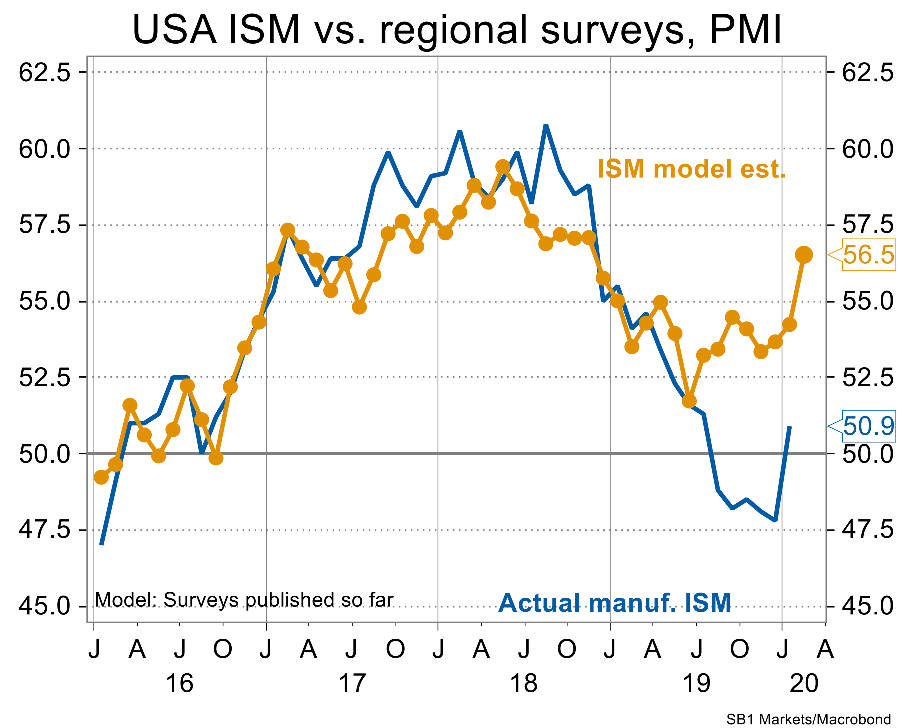


- Businesses reported stagnating orders in both manufacturing and services (implicit) in February, following a recovery

So far: The 2 regional manufacturing surveys straight up, Markit's PMI down

In total, the 3 manufacturing surveys signal a substantial rise in the ISM in February

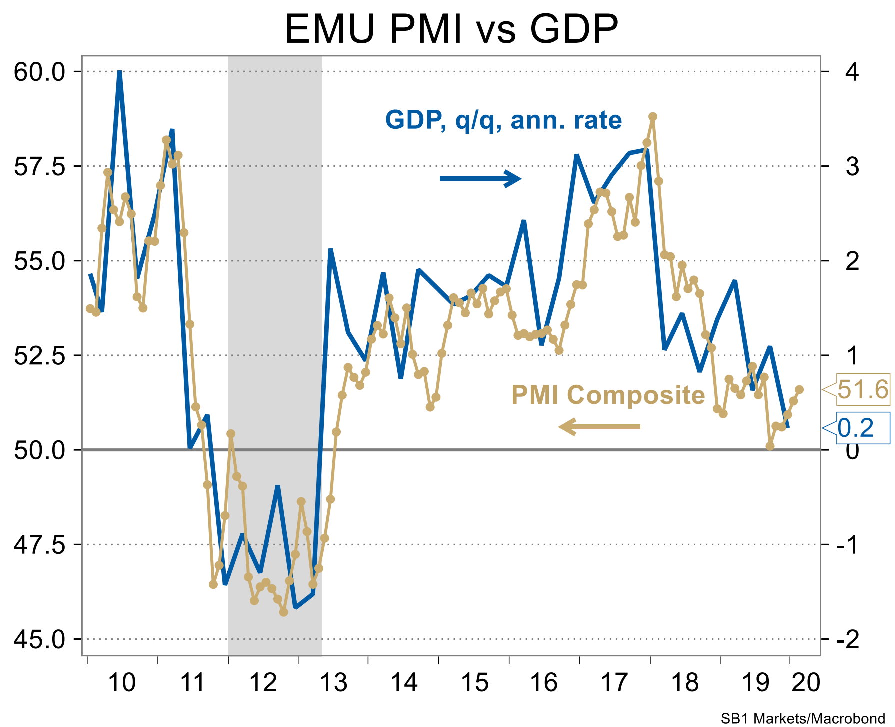


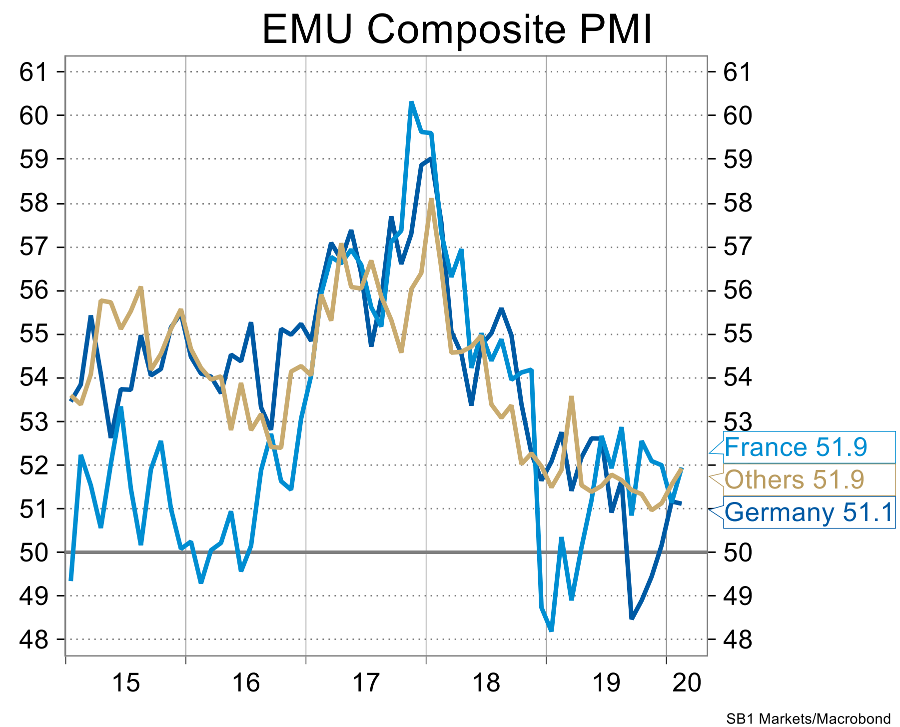


- Phil Fed's and NY Fed's manufacturing surveys both rebounded strongly in February, to the highest levels since 2018. Phil Fed's survey has been more upbeat than the other survey since 2019, while the NY Empire index has been more in line with others. Markit's manufacturing PMI (preliminary) fell by 1.1 p
- Taken face value, these indices signal a 2.3 p lift in the manufacturing ISM in February. However, as the ISM will be collected later in the month and therefore probably include a larger impact from the coronavirus, we highly doubt such an increase. Moreover, the ISM index has been weaker than other surveys since mid-2019

The Eurozone is slowly picking up momentum, PMI signals a tad higher growth

Composite PMI climbed another 0.3 pp to 51.6 in February – but downside risks on the final PMIs



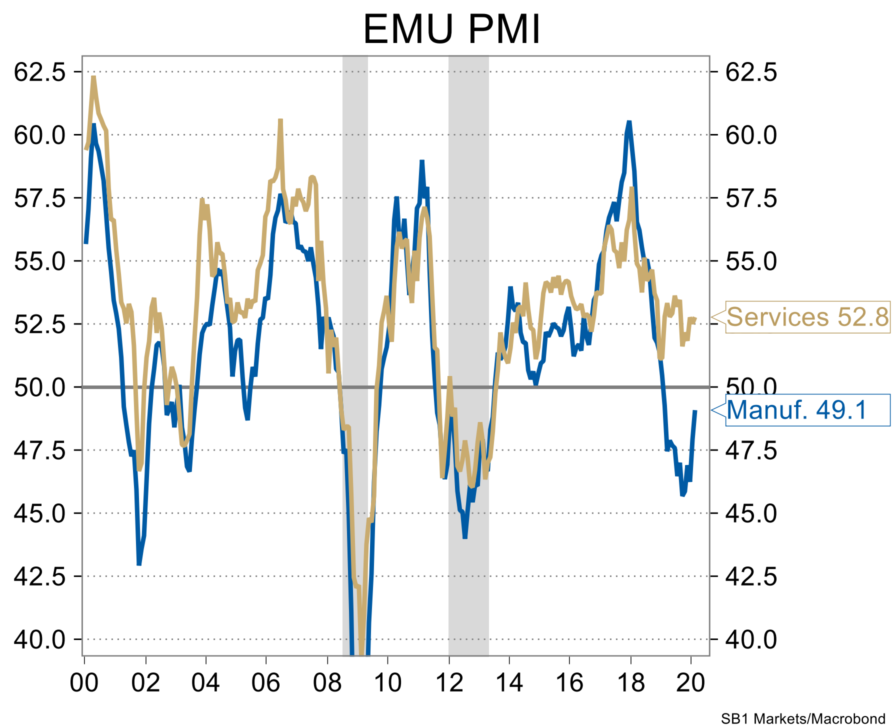


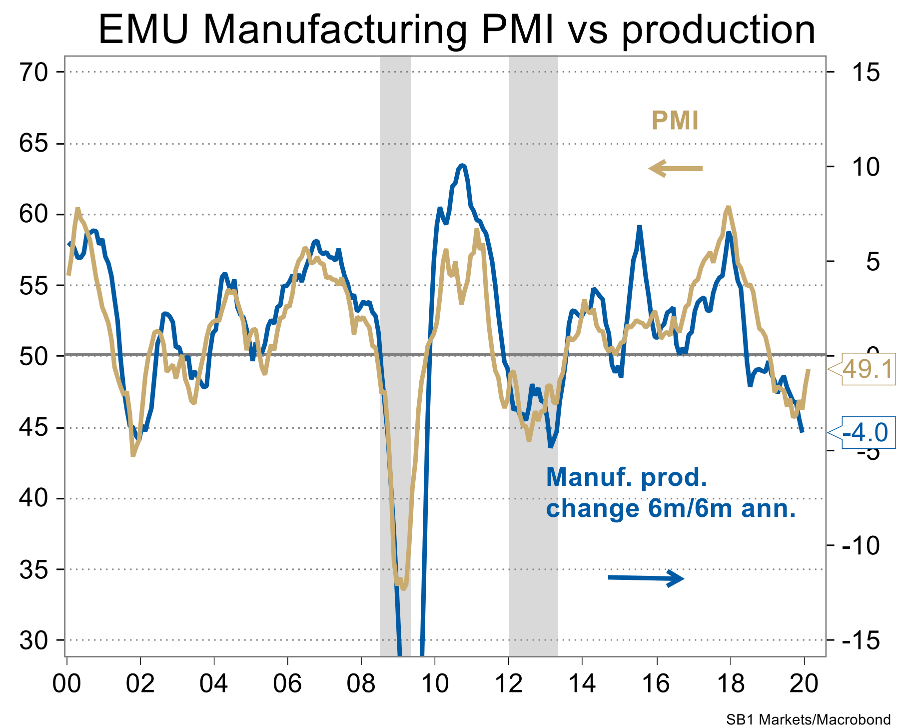
- The preliminary EMU composite PMI rose 0.3 pp in February, a 0.3 pp decline was expected. The PMI has climbed 1.5 p since September, and signals a modest pickup in GDP growth in Q1, to 0.6-0.7% (annualized)
  - » The impacts from the coronavirus was rather muted, even as businesses within tourism and travel reported a slowdown, as well as some supply chain disruption. A larger drag is likely when the final PMIs are reported, and also in March, as the full impacts become apparent
- The composite German PMI held steady at 51.1, but the manufacturing PMI recovered by the fastest speed since 2013! Services edged down but are still expanding at a moderate pace. PMI increased in France, so did the implicit average of other countries

SpareBank 1 MARKETS

Manufacturing moves closer to stabilization, services expanding steadily

Businesses are reporting a moderating decline in manufacturing, production should soon follow up

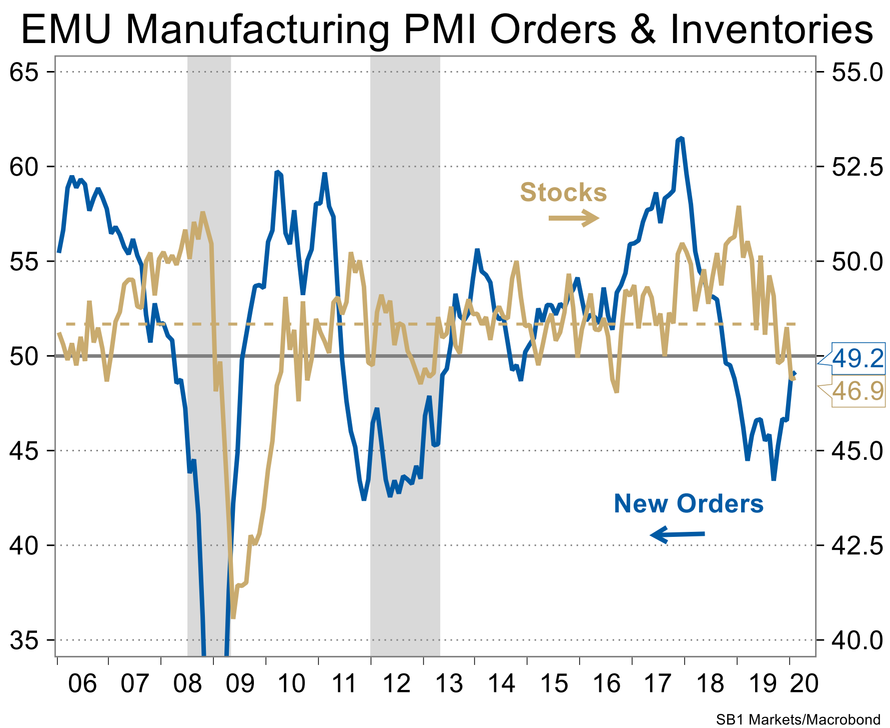


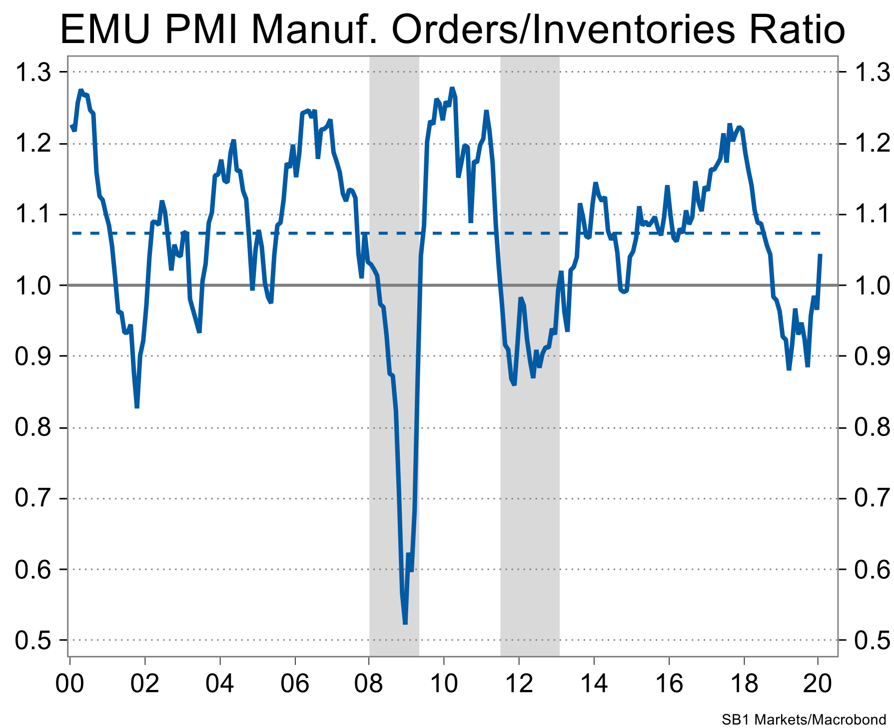


- Manufacturing PMI rose by 1.2 p in February to 49.1, the highest since Feb last year. The PMI still implies a decline in manufacturing production, however, at a substantially lower pace than the current decline in production. Manufacturing PMI is usually leading by 2-3 months on underlying growth in production, thus, an uptick is expected
- The services PMI increased by 0.3 p, to 52.8. Businesses have been reporting more or less steady growth over the past year, at a moderate speed. Hence, the manufacturing contraction has not brought the rest for economy to a halt

Signs of recovery; Orders close to stabilization and stocks are reduced

The decline in manuf. orders is the mildest in more than a year and the inventory PMI at 3 year low

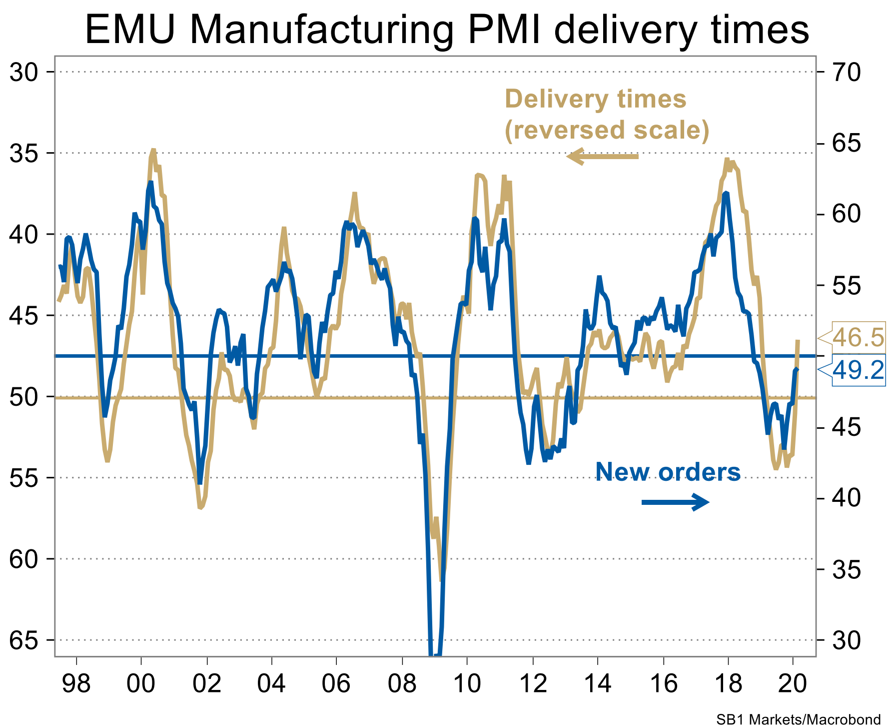


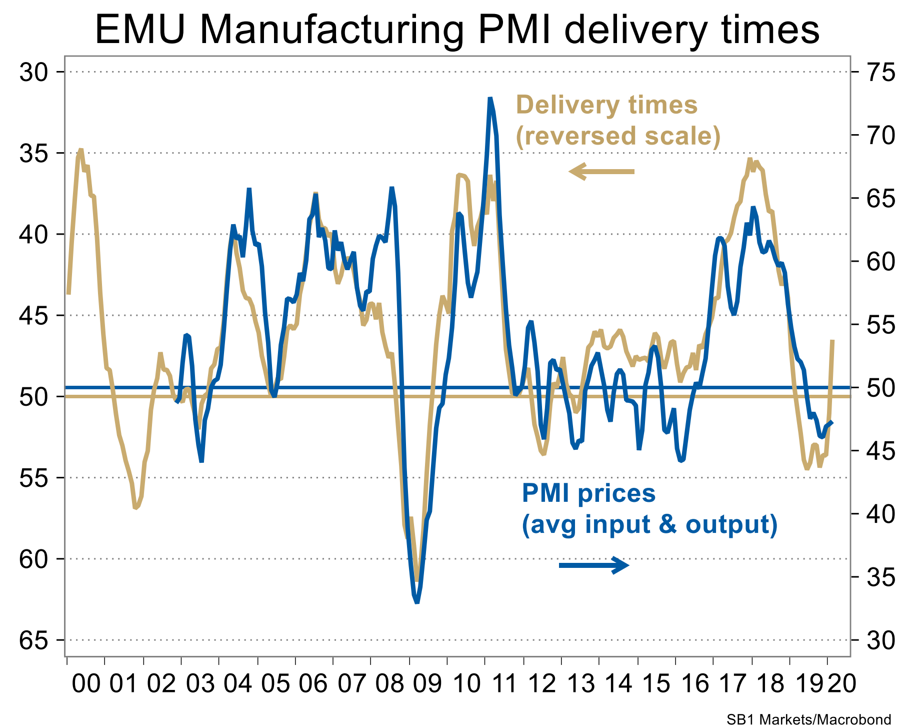


- Businesses reported a 0.2 p milder decline in total orders in February, the highest level since Nov 18
- The inventories of finished goods index fell to 46.9, after a steep decline in January, reflecting the largest inventory draw back since 2016. Thus, an inventory adjustment cycle may be underway, a promising sign!

Supply chains may be disrupted by the coronavirus outbreak

Delivery times rose in February, due to stronger order inflow (higher activity) or supply problems?

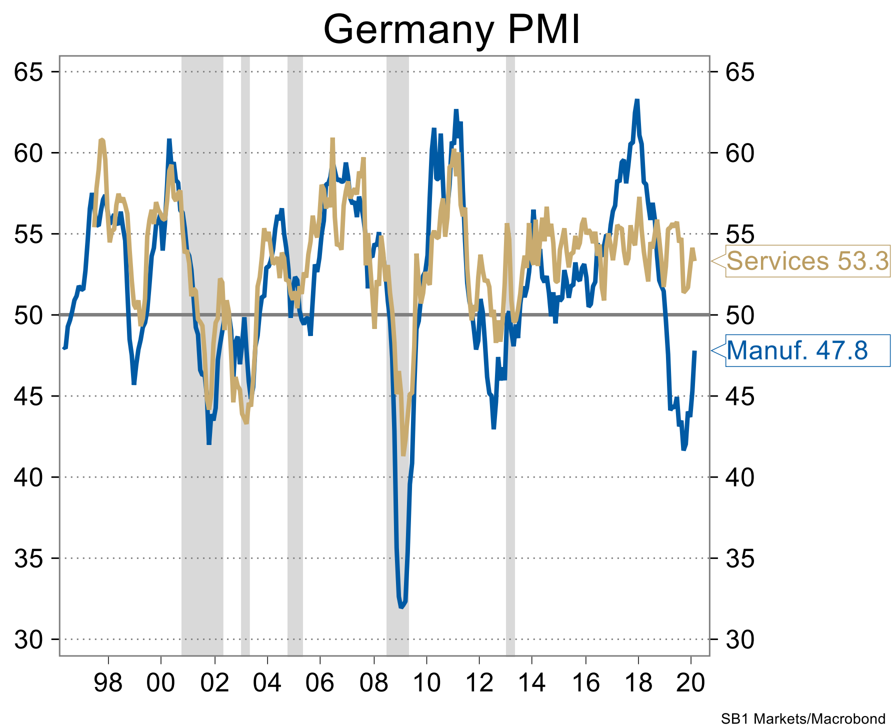


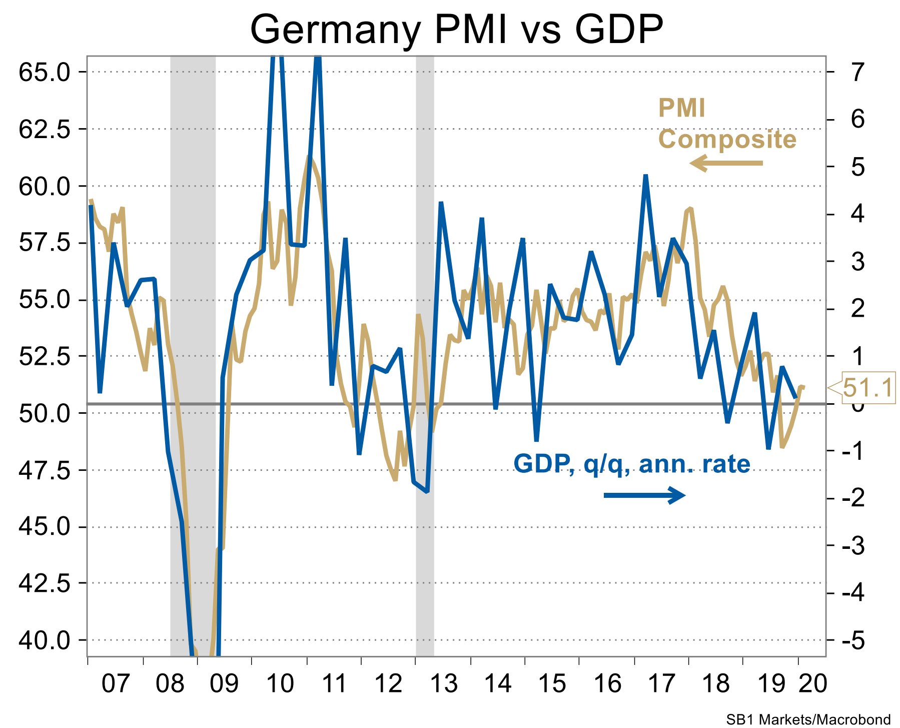


- German businesses noted large impacts from supply disruption from China, and the hike in the EMU index is probably due to the same

The manufacturing decline is easing, but composite PMI still signals slow growth

Composite PMI flat at 51.1, a spike in the manuf. PMI offset by softer growth in services

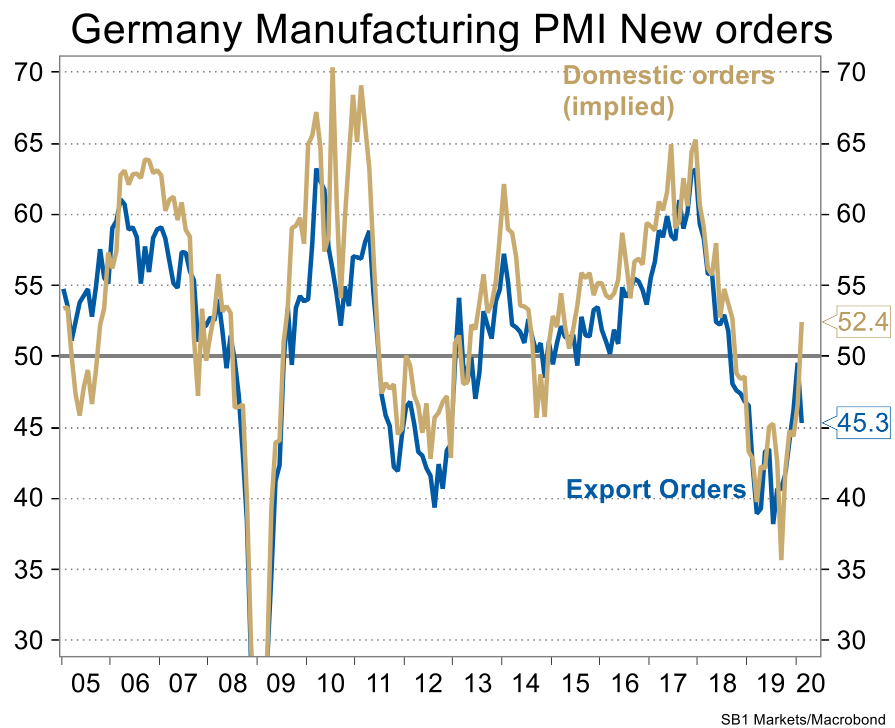




- The manufacturing PMI jumped 2.5 p in February, the highest monthly increase since 2013! Actual manufacturing production is falling by 6.5% measured 6m/6m, the PMI indicates a rapidly easing contraction
- The services PMI edged down 0.8 p, following 4 months of increase. The level indicates solid growth in services
- The composite PMI at 51.1 does not indicate any marked recovery but rather a steady growth rate of 0.25-0.5%

Domestic orders are recovering, export orders hit by the coronavirus

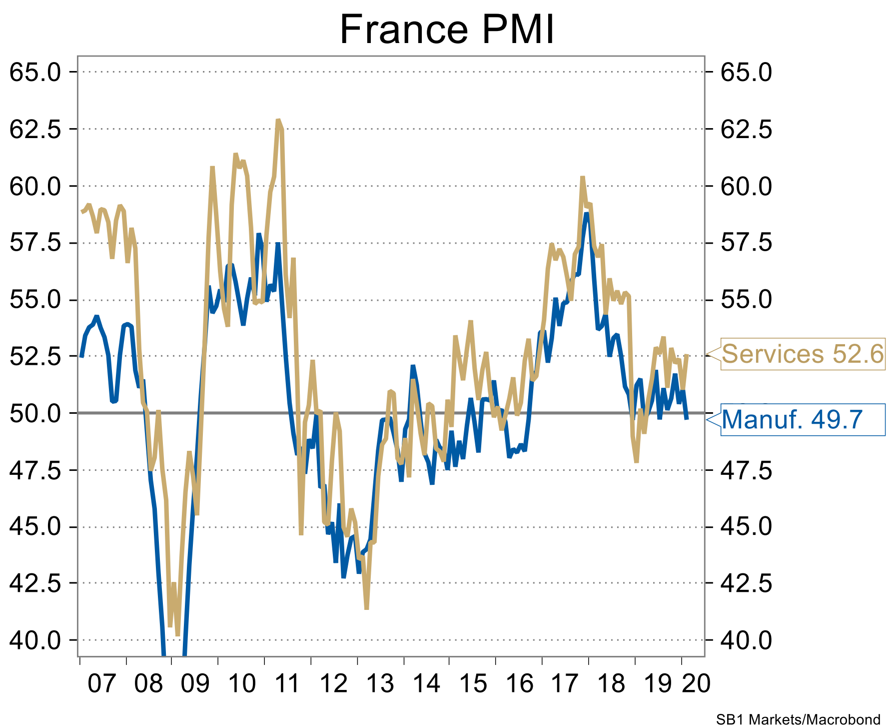
Domestic (implicit) manufacturing orders expanded for the first time in 1 ½ years

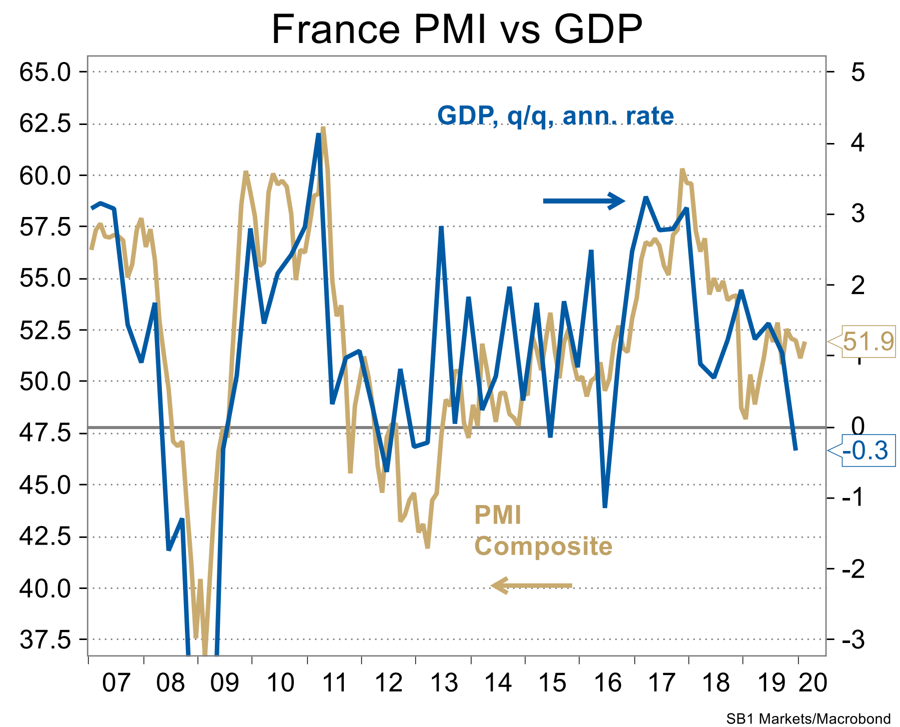


- In February, the total new orders PMI ticked up to 48.9, still implying a decline in total manufacturing orders, but the mildest one since Sept 2018. The upturn from the 38.2(!) bottom in Sept ‘19 is no doubt a step towards a recovery
- Domestic orders PMI (implicit) jumped to 52.4, reflecting the first increase in domestic orders in 1 ½ years! The upturn in domestic demand was partly offset by an accelerating decline in export orders. Businesses note that orders were hit by weaker demand from China and globally, as well as supply chain disruptions. A recovery is likely, at least in a couple months time. Actual orders have stabilized

PMI edged up in February, signals 1%+ GDP growth

Manufacturing PMI fell back down in contraction mode, while services rebounded

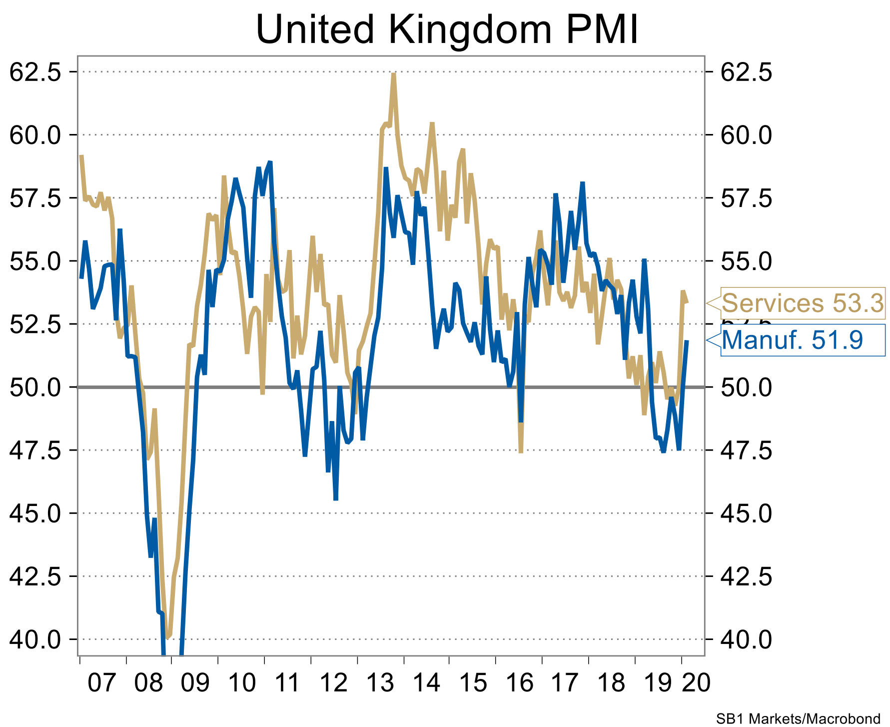


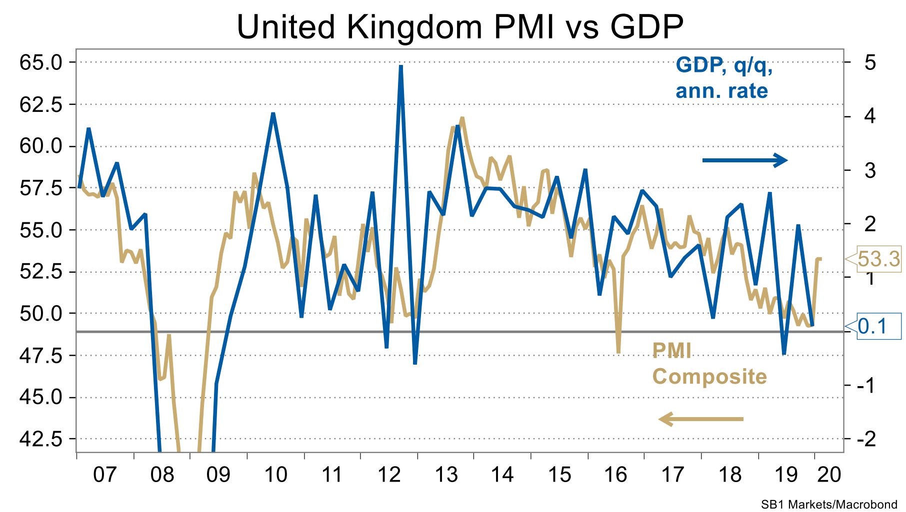


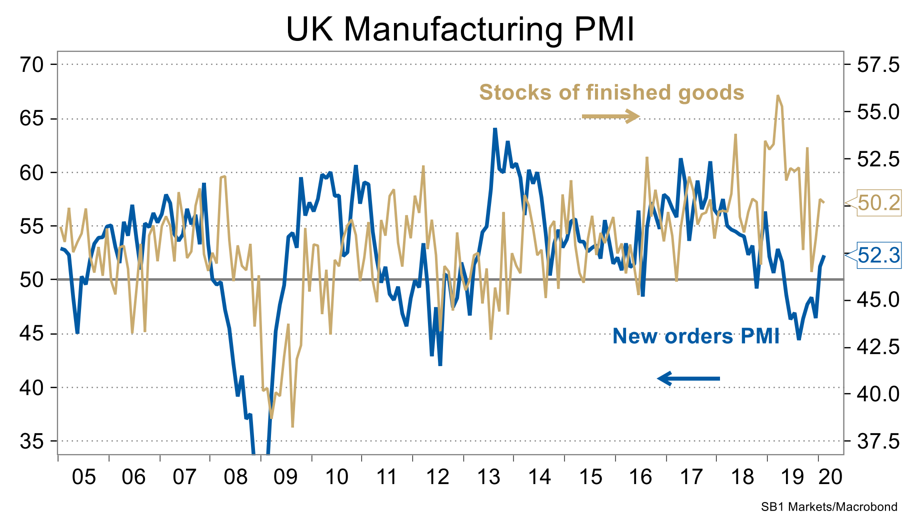
- Businesses in the service industry reported an acceleration in activity in February, the level has been rater steady
- Manufacturing PMI slipped to 49.7, after hoovering just above 50. Businesses cited softer demand in the auto sector and disruptions related to the coronavirus. Still, manufacturing has been holding up better than other major Eurozone countries, we are not very concerned about a persistent downturn
- Composite PMI rose to 51.9, pointing to a modest, stable GDP expansion at just above 1%, miles above the 0.3 drop in Q4

Composite PMI remain strong following 'Brexit recovery'

Manufacturing is recovering, services still strong. Composite PMI signals a GDP rebound in Q1



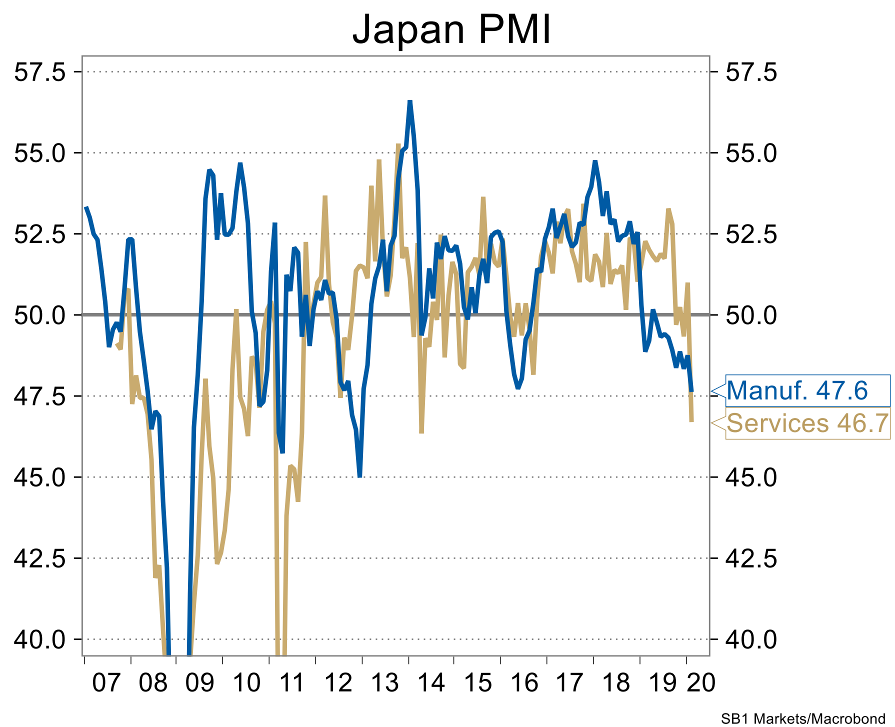


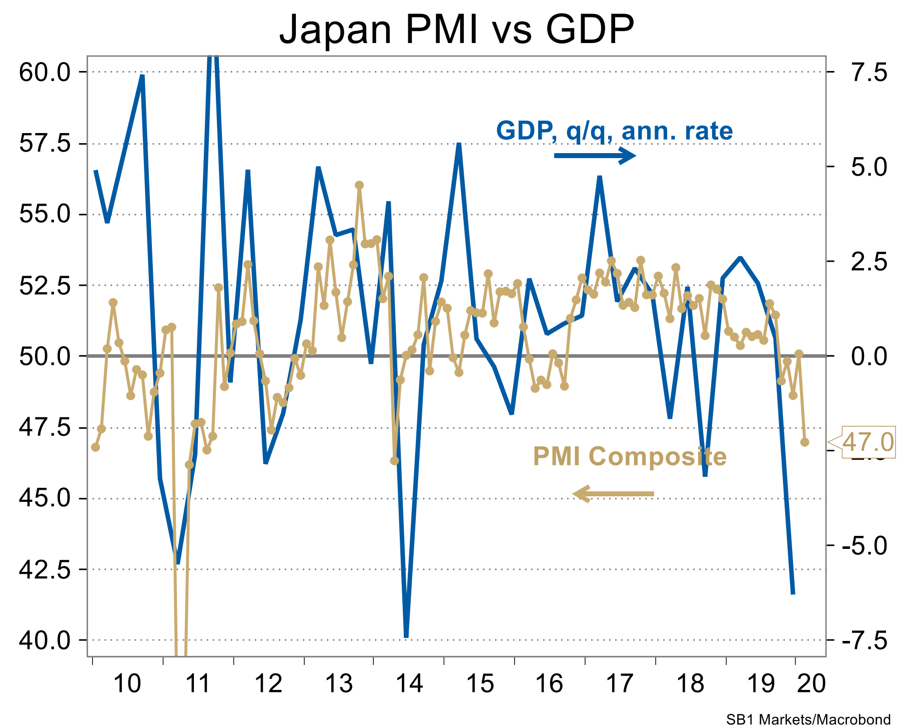


- Manuf. PMI rose 1.9 p in Feb, the second month of a rapid increase. The PMI signals a recovery in manufacturing, after struggling from Brexit uncertainties as well as inventory adjustments through 2019. New orders are rising, however, stocks will have to be drawn down eventually?
- Services PMI inched down 0.5 p, after soaring 3.9 p in Jan. Composite PMI flat at 53.3, signals some 1.3-1.4% GDP growth, vs the stagnation in Q4

Japan PMIs hit by the coronavirus outbreak, services at 6 y low

Services PMI plunged 4.3 p in Feb, as tourism suffered from corona impacts

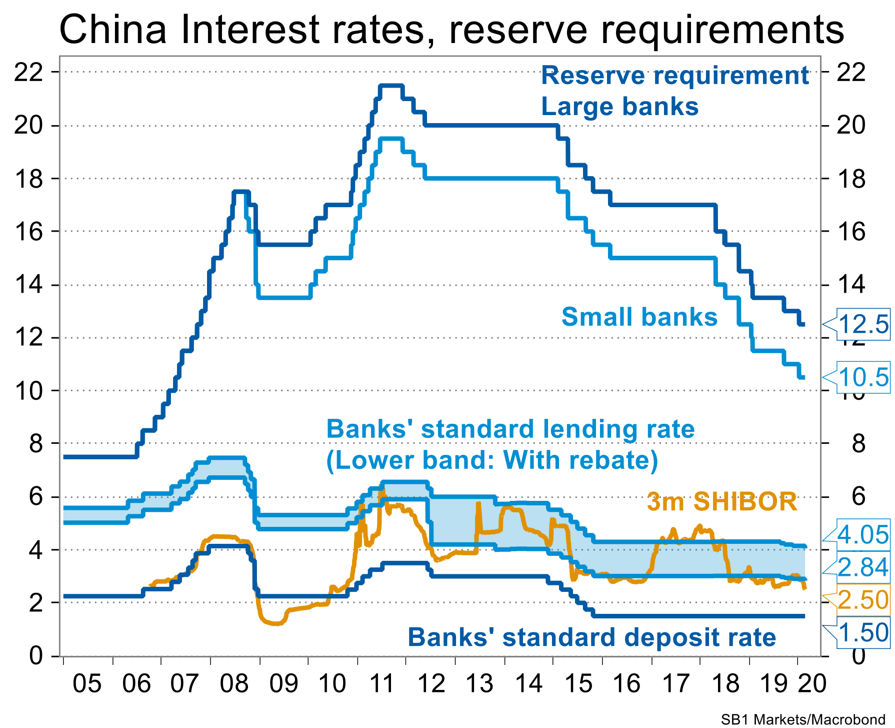


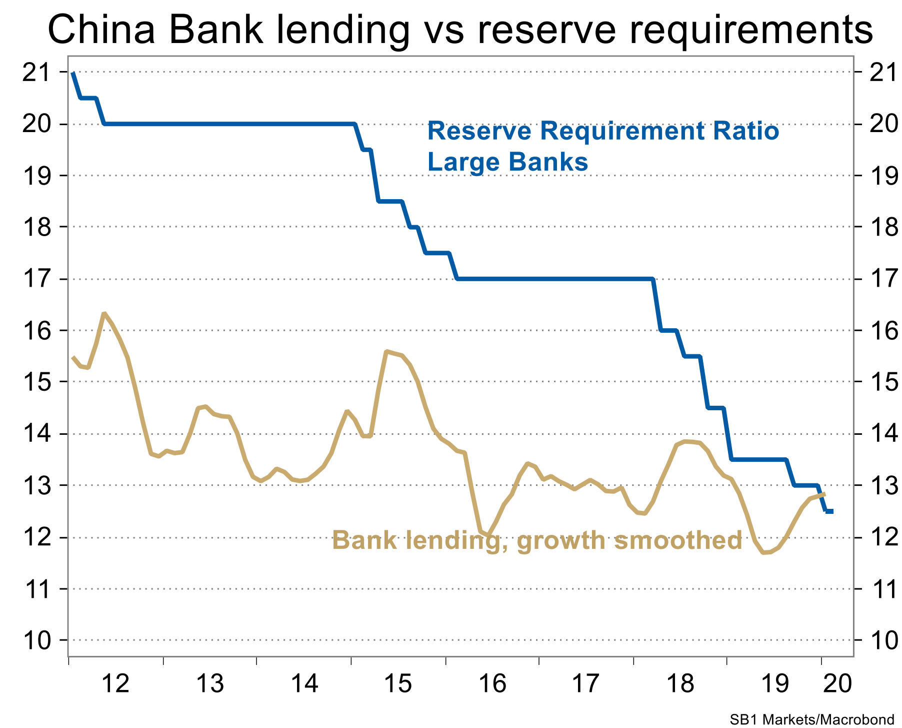


- Composite PMI slipped 2.9 p in February, to 47.0, the lowest level since 2014 (when the economy struggled with an increase in consumer taxes). The economy was it hard by the coronavirus outbreak, suggesting a continued decline in GDP into the first quarter of 2020. Moreover, we have probably not seen the full impacts, downside risk on final PMI
  - » Services noted the steepest decline in activity since 2014. The spread of corona hit tourism and travel sectors. The manufacturing PMI edged down too, by 1.1 pp, weaker global demand due to corona and supply chain disruptions are likely explanations

PBoC is slowly easing monetary policy; benchmark lending rate cut by 10 bps

Additional cuts in the reserve requirements and rate cuts are expected the coming weeks



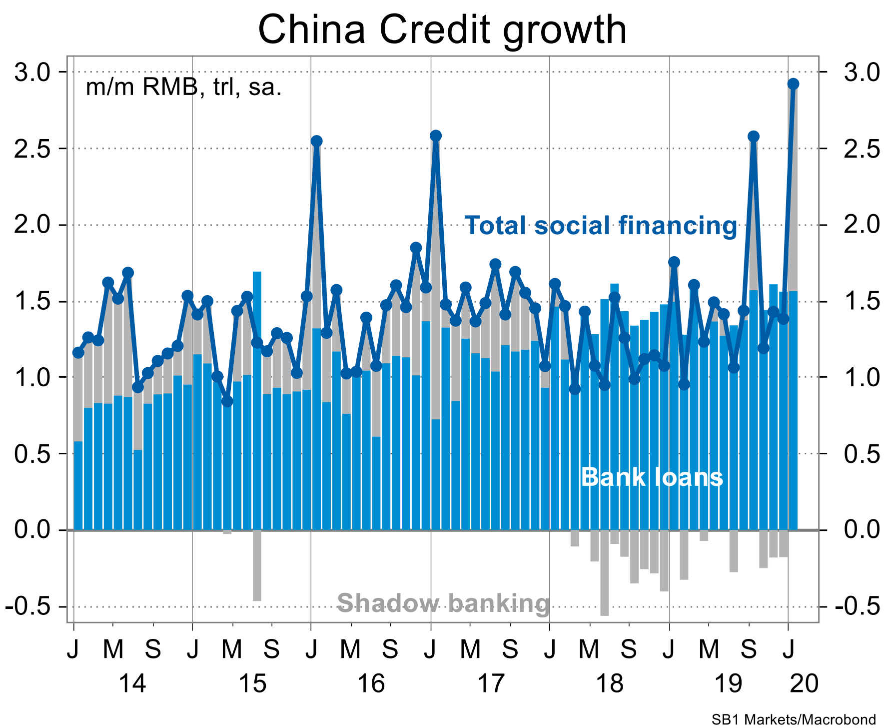


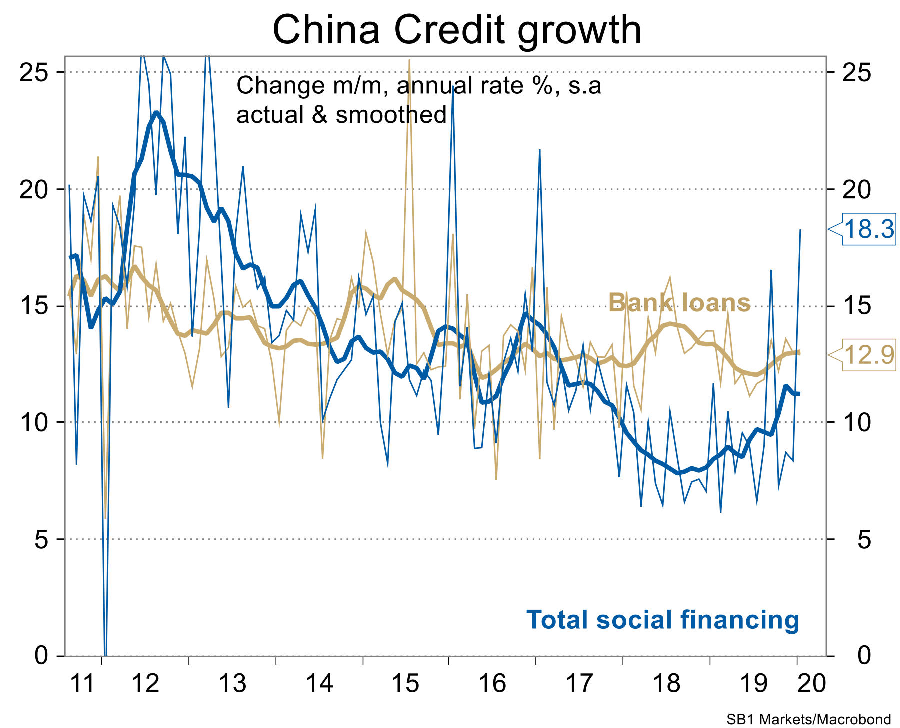
- Last Thursday, the PBoC announced a 10 bps cut in the benchmark rate, the 1 year loan prime rate, to 4.05%. The cut was widely expected. The 5 year loan rate was lowered by 5 bps, to 4.75% last Monday, a medium term lending rate was cut 10 bps
- The authorities will probably roll out more monetary easing the coming weeks, as well as securing liquidity in the banking system and by encoring (forcing?) banks to support cash constrained companies with liquidity too. However, the PBoC will have to balance the need for short term stimulus with it's long term challenges of an elevated growth in debt. Fiscal stimulus is probably under consideration too.
- Banks' reserve requirement have been cut 7 times, substantial cuts are expected to stimulate lending to offset the growth disruptions from the coronavirus outbreak

SpareBank 1 MARKETS

Credit growth surged in January, on a lift in shadow banking activity

Bank lending is trending up too and the credit impulse has tilted upward, boosting growth

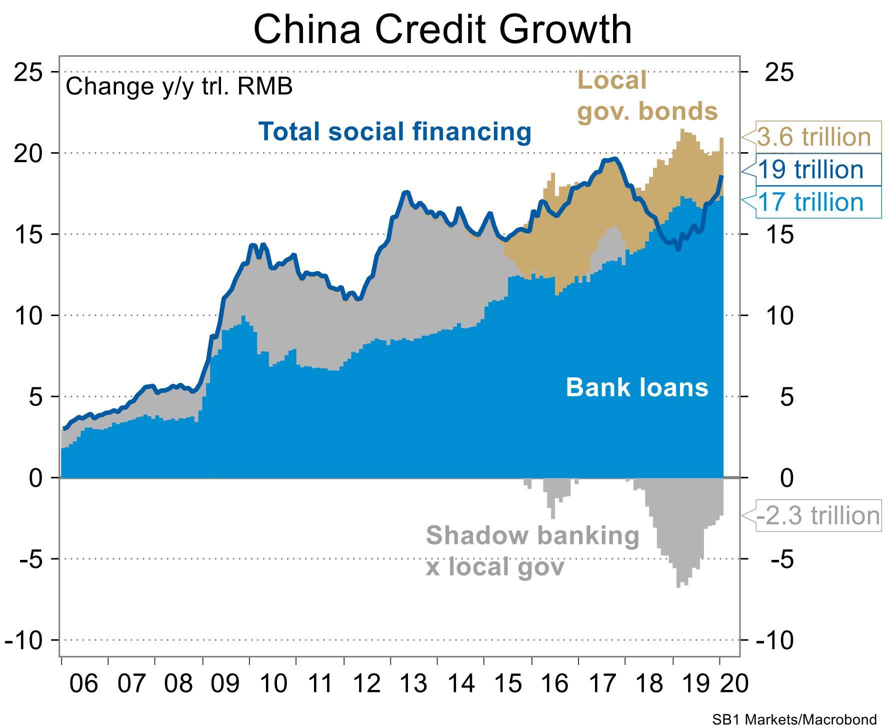


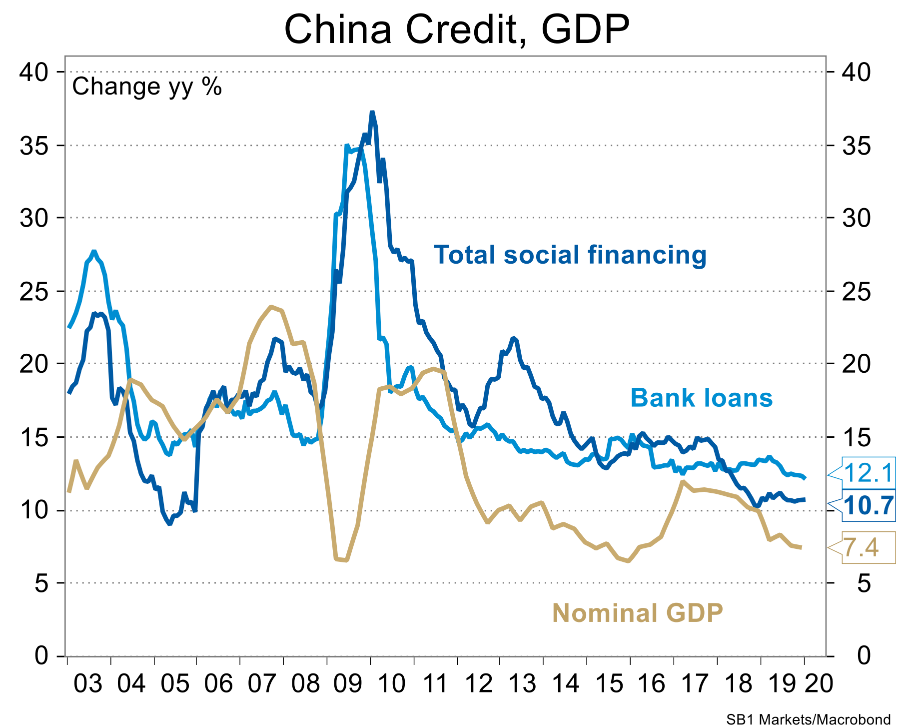


- Total credit increased by 18% m/m annualised in January, the steepest rise in 3 years. In RMB, credit rose by 2.9 trl (s.a, 4.2% not adjusted, higher than expected). The credit spike was driven by shadow banking loans, partly government bonds, which occurs in January from time to time. Thus, we expect a reversal in February. Regardless, total credit growth is climbing, as bank lending has accelerated since mid-2019. 7 cuts in the banks' reserve requirements have probably boosted lending
  - » Credit supply through the non-bank ('shadow') credit market is heading up again. Shadow banking has accounted for some 25% of total credit supply since 2000
- The underlying trend of total credit is slowly up since early '18, the credit impulse (y/y) is modestly positive
- The PBoC is turning more expansionary to stimulate the economy amid coronavirus struggles. Interest rates were cut last week, so far just modestly, and the PBoC has set up lending programmes. However, there are good arguments against pushing the credit accelerator very hard. Credit growth is well above growth in nominal GDP, and high debt ratios are climbing – and construction activity remains very strong

Credit growth has accelerated over the past year

Bank lending has slowed y/y, the shadow banking market filled the void

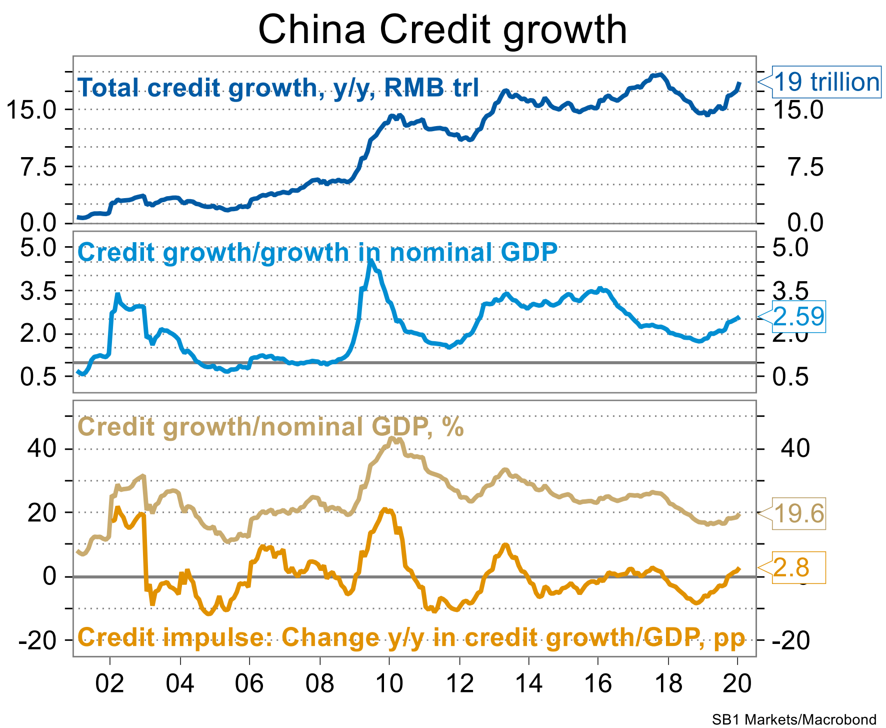


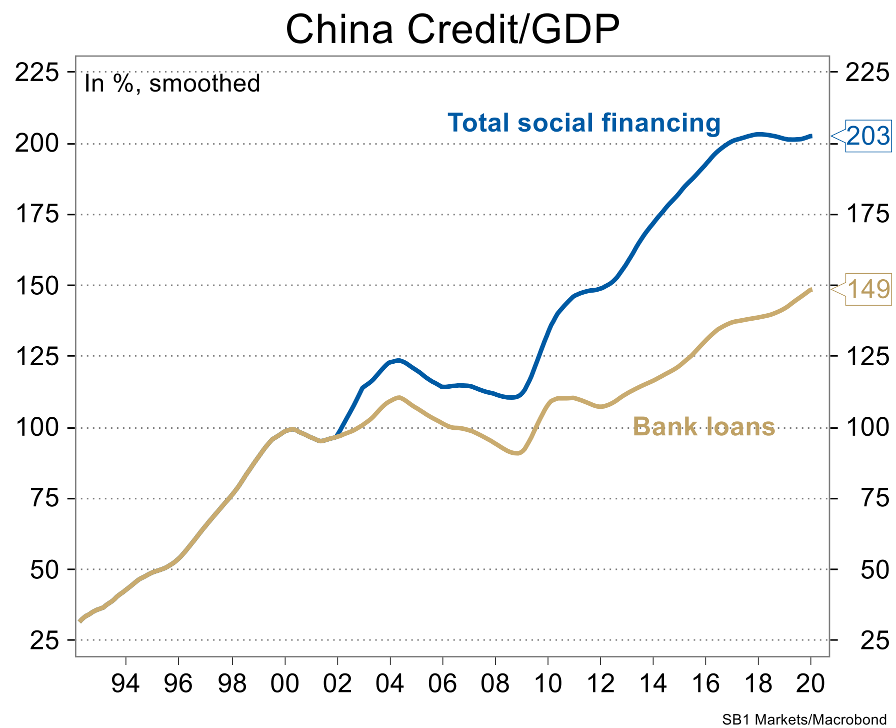


- Over the past year, total credit has grown by CNY 19 trl, equalling close to 20% of GDP
- Banks supplied CNY 17 trl of the y/y increase, equalling almost all of the volume through last year
- Local governments increased their debt rapidly in January. Government bonds are up by RMB 3.6 trl over the past year
- Other credit – via the shadow credit market x local gov bonds rose in January too, but is still down 2.3 trl y/y
- Total credit growth at 10.7% is somewhat higher than growth in nominal GDP (7.4%), and debt/income is still on the way up

Credit impulse has turned slightly positive

Credit growth in line with GDP growth (in per cent, that is)

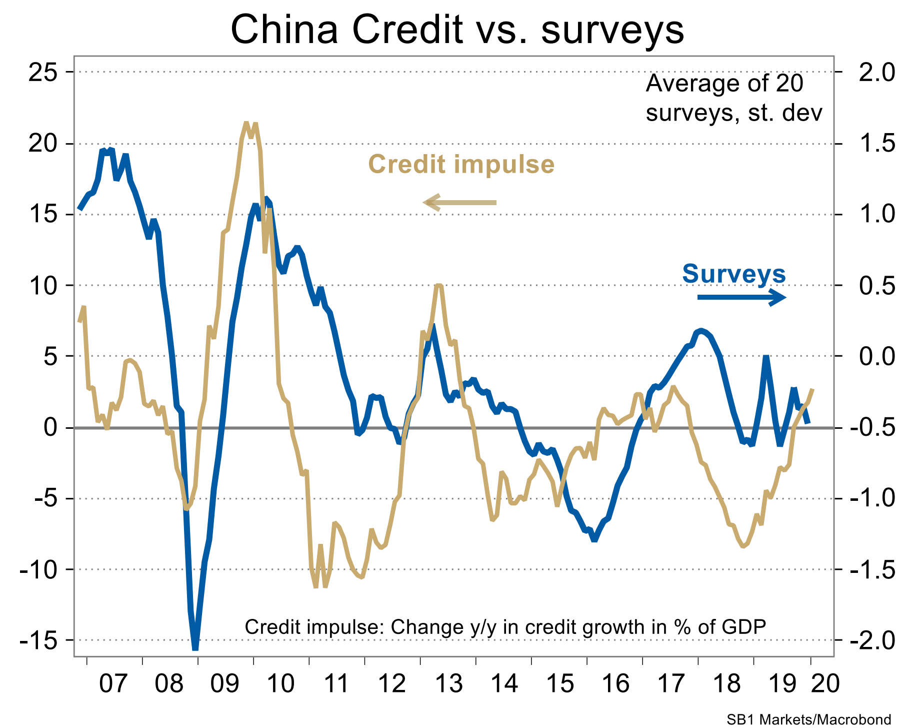




- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » Now, the credit impulse has risen to marginal positive
- We are uncertain how far the authorities are willing or able to bring credit growth back up, even as stimulus is needed short term to support the economy during the 'corona setback'. The credit/income level has flattened but the level is disturbingly high. In addition, for every RMB GDP grows, credit increases 2.6 by RMBs, and each year growth in credit equals almost 20% of GDP. That's not sustainable in the long run, neither for lenders nor borrowers, as nominal GDP growth is well below 10%. The Government may succeed in increasing credit supply short term (if they dare to, vs long term risks) but the problem may turn out to be demand for credit

Credit has turned positive, providing a modest growth boost

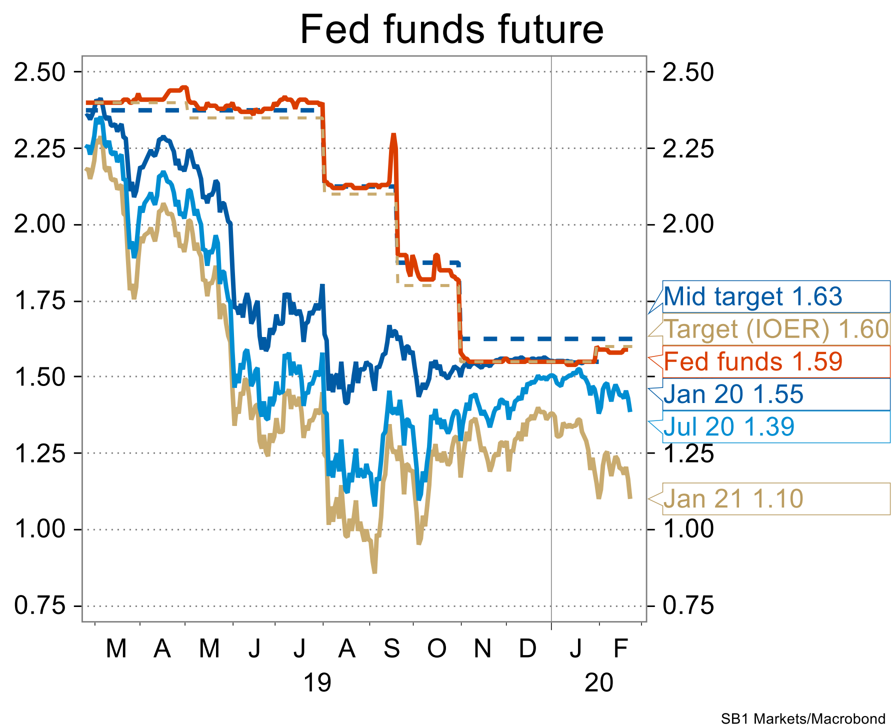
Credit was tightened in 2018, dampening growth

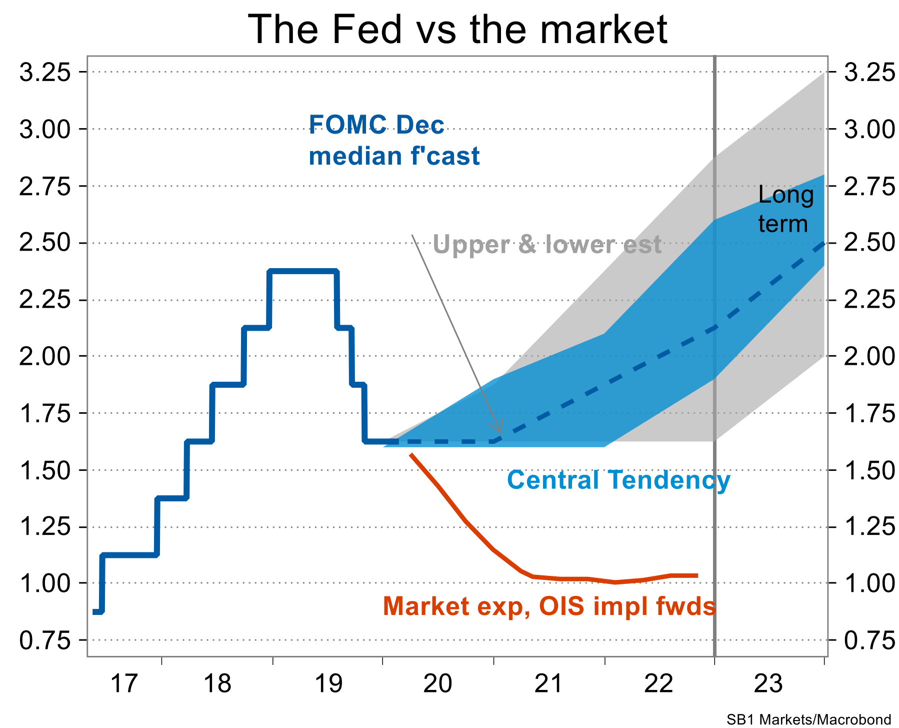


- An avg of Chinese business & consumer surveys indicates that growth slowed in early 2019 but have stabilized since then. The level is close to an historical average and above the 2018 level (and it was weaker in 2014-2016 and 2012).
- Surveys will no doubt drop substantially the coming months, as the impacts of the coronavirus hit

No surprises from the Jan Fed minutes, FOMC is 'cautiously optimistic'

The FOMC highlighted that the risks to the outlook had diminished from the last meeting

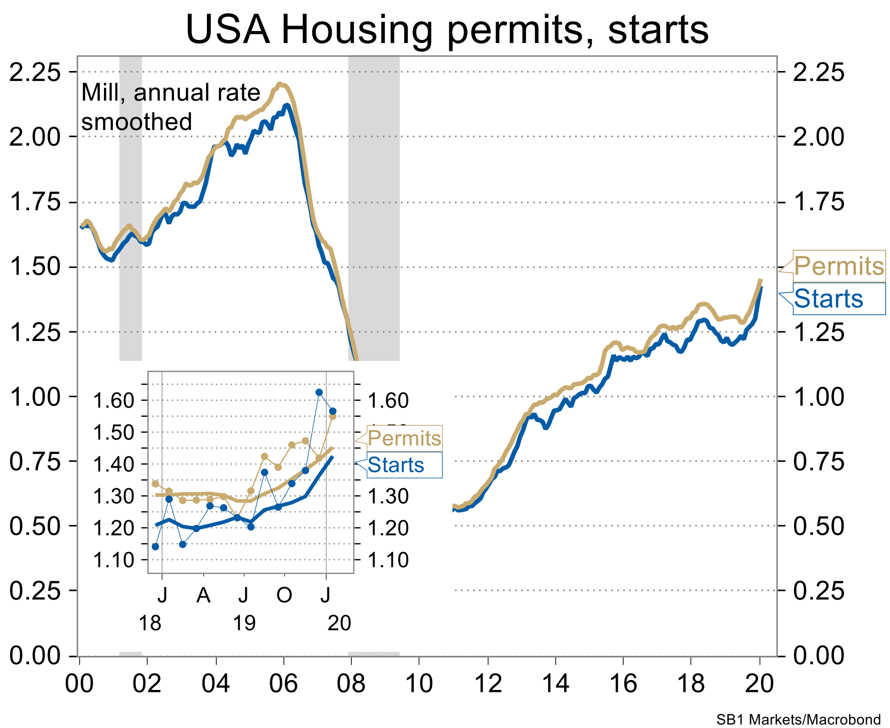


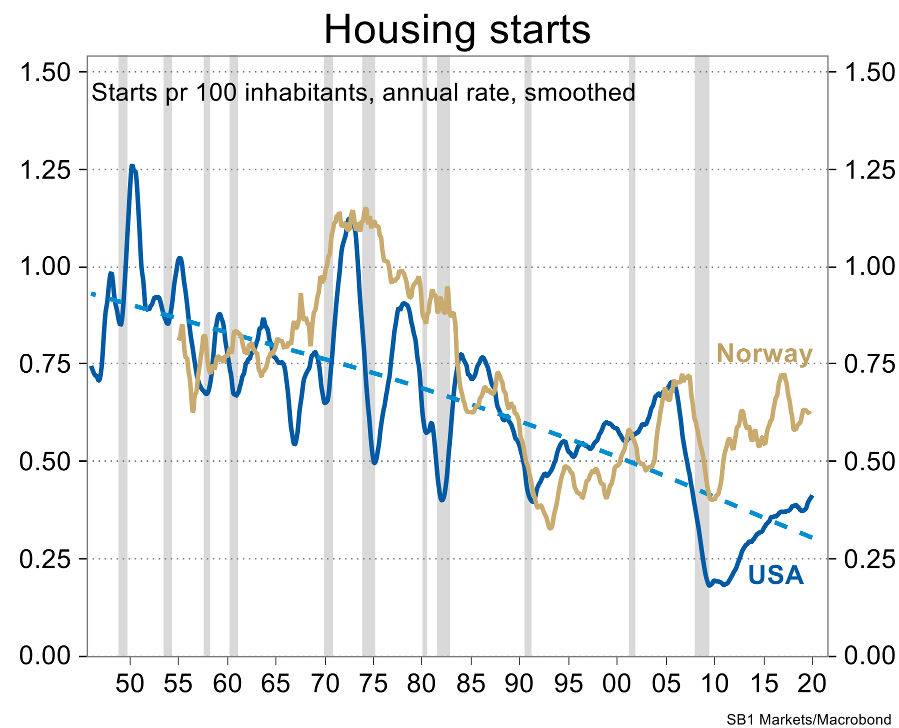


- Minutes from the January 29 meeting, at which the Fed kept the Fed funds rate unchanged at 1.5-1.75%, did not reveal many signals, if something, the minutes were marginally more upbeat than expected
  - » FOMC continued to expect the economy to expand moderately. There was no new dot plot or projections at this meeting, however, it was noted that growth projections prepared for the meeting were stronger than in December. Moreover, risks to the outlook were judged to be more favorable, chiefly due to the US China phase 1 trade deal and several signs of a stabilization in global growth
  - » The coronavirus was stated as a new risk to the global outlook, however, the virus had just taken hold when the meeting was held
- No substantial market reactions, market rates inched up. However, later in the week interest rate expectations fell sharply, and the market is now assuming a 73% probability for å cut before end of July

Housing booming, highest starts & permits since 2007

Both starts and permits were well above expectations in Jan, trending steeply up. Limited upside?

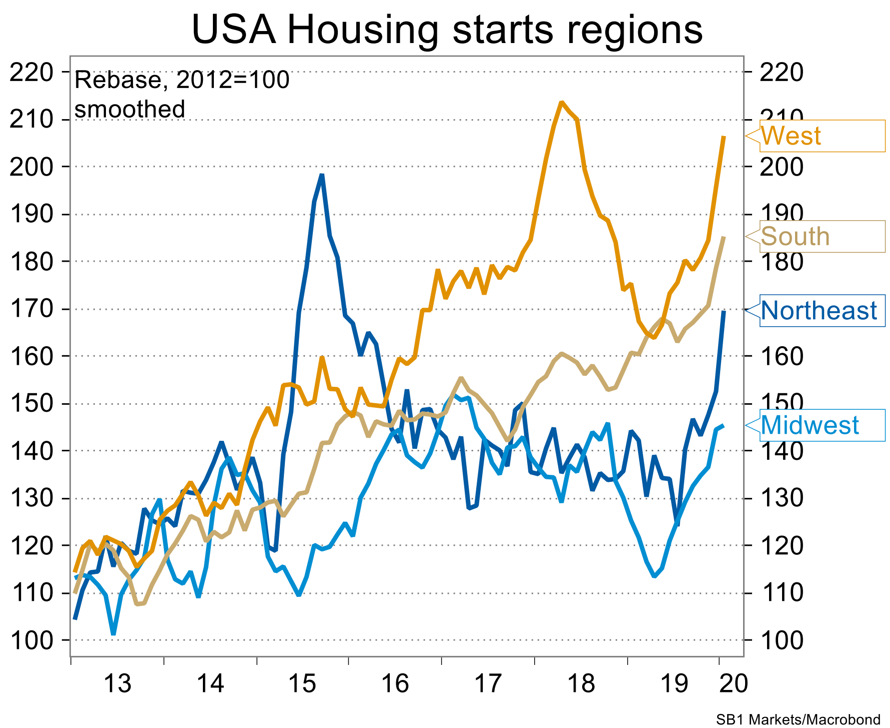


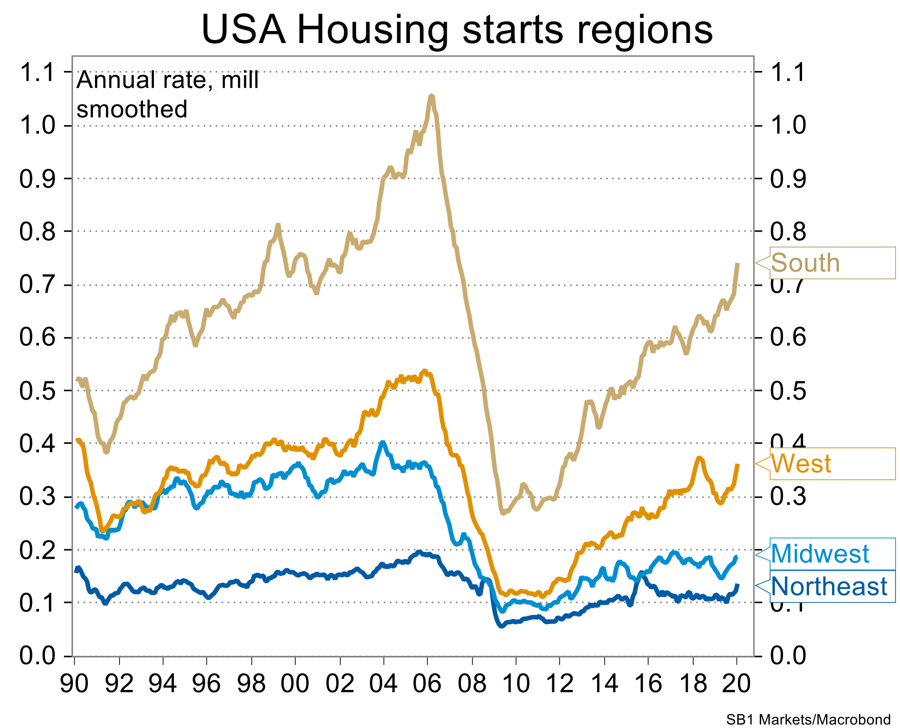


- Housing starts fell by just 3.4% m/m in January, a smaller decline than expected, after soaring 17.7% in December (the steepest increase in 3 years). Starts are trending steeply up and the smoothed rate is at the highest level since 2007!
- Housing permits spiked 9.2% m/m, the steepest monthly increase in 2½ years. The level is the highest since early 2007 and the smoothed rate is 7% above the 2018 peak. Permits usually are less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts
- Housing starts/permits reflect thriving demand for housing, boosted by low mortgage rates and an overall strong economy. The Homebuilders' index confirms brisk demand but does not suggest another lift. The level of starts is not very high, historically, and the downside is modest compared to 2006-2009

A broad housing market upturn; home building is soaring all regions

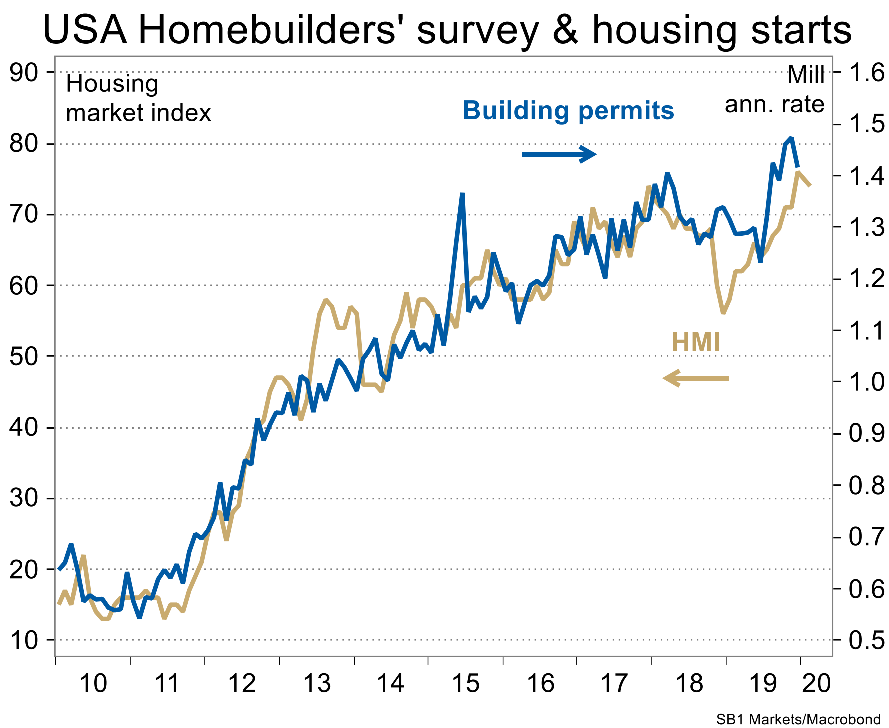
Housing starts are increasing the most in the Northeast and Western regions

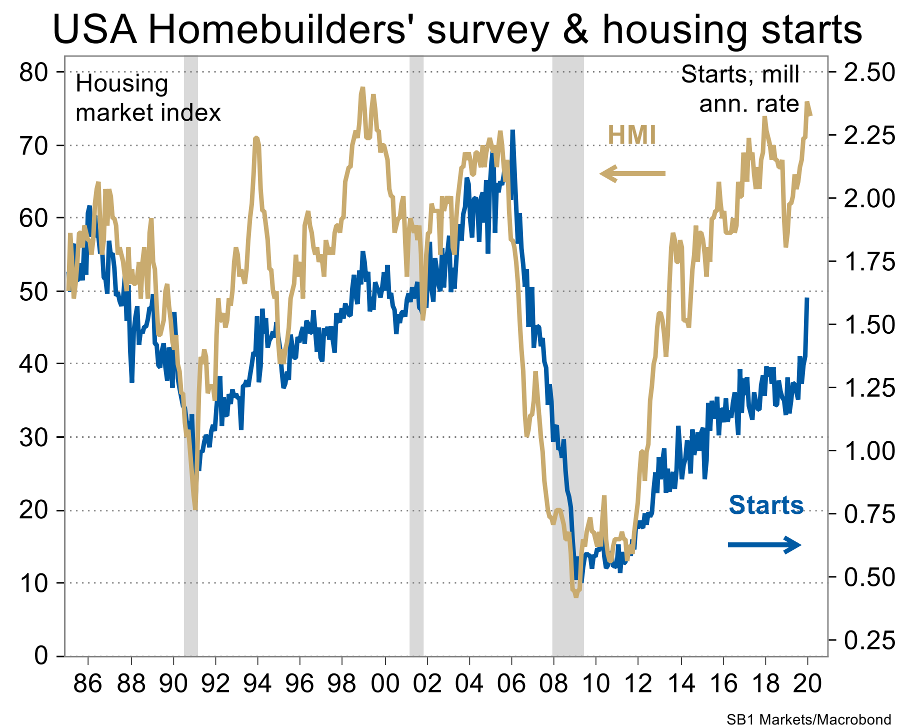




Homebuilders’ confidence marginally softer, at an elevated level

The HMI inched down in February, the level does not point to higher housing starts/permits



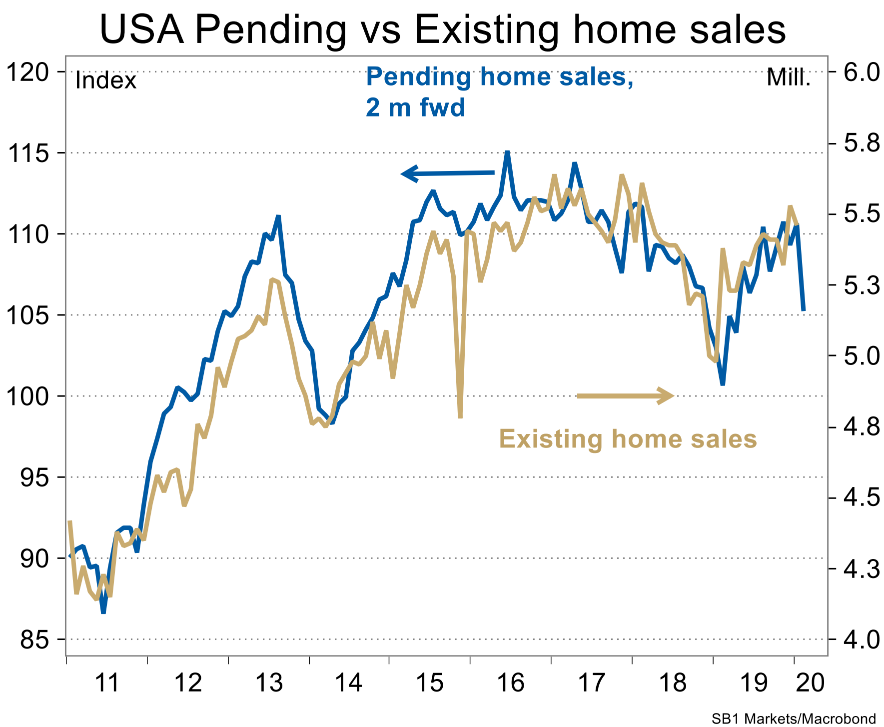


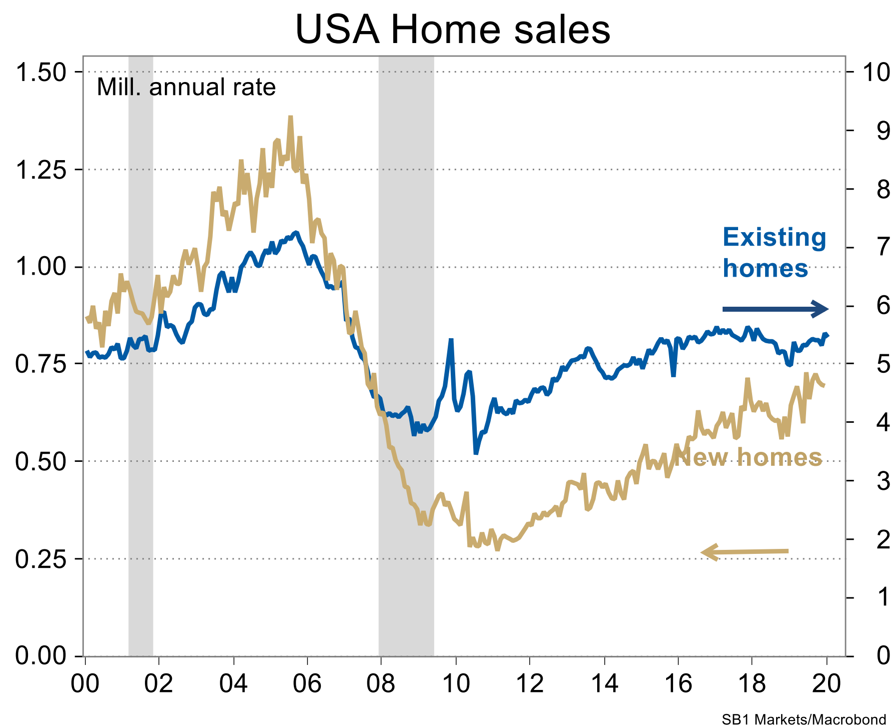
- The housing market index (HMI) ticked down one point in February, to 74, expected unchanged. Homebuilders have reported a strong housing market rebound the past year, to a 20 y high – and a marginal slowdown in the two first months of 2020
  - » According to the homebuilders, low mortgage rates, a low supply of existing homes and strong demand (fuelled by a strong labour market) have been boosting activity. The builders are complaining about supply side constraints; lack of labour and lack of building lots
- Building permits/starts have been soaring, however, the HMI does not signal another lift (given the short term correlation). Historically, the index has been leading both permits and starts by approx one year – limited upside on permits

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

Existing home sales edged down in January, trending up

Actual sales did not confirm the drop in pending home sales, some downside risk the next months?

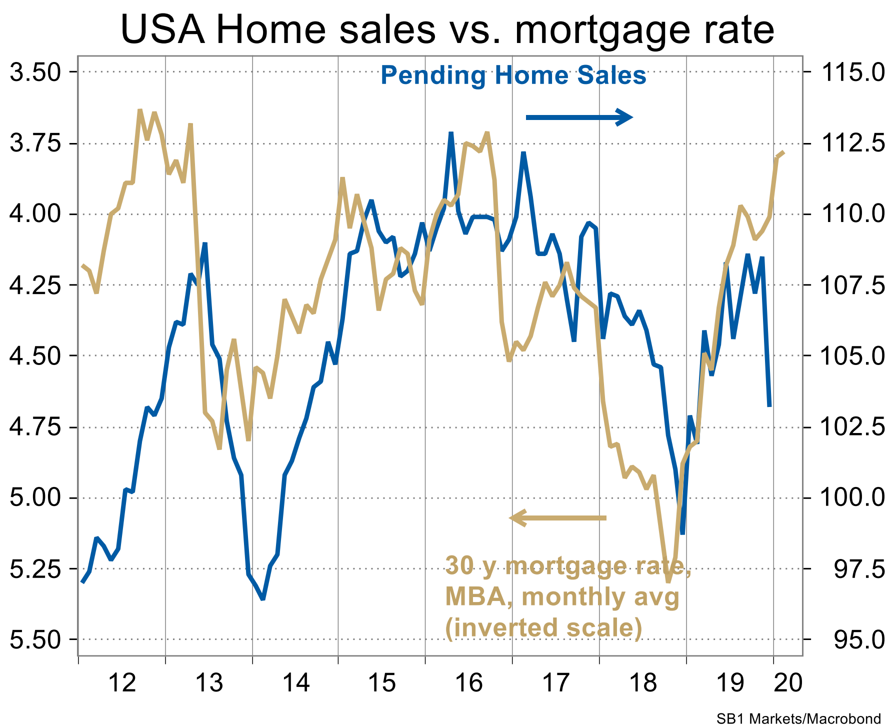


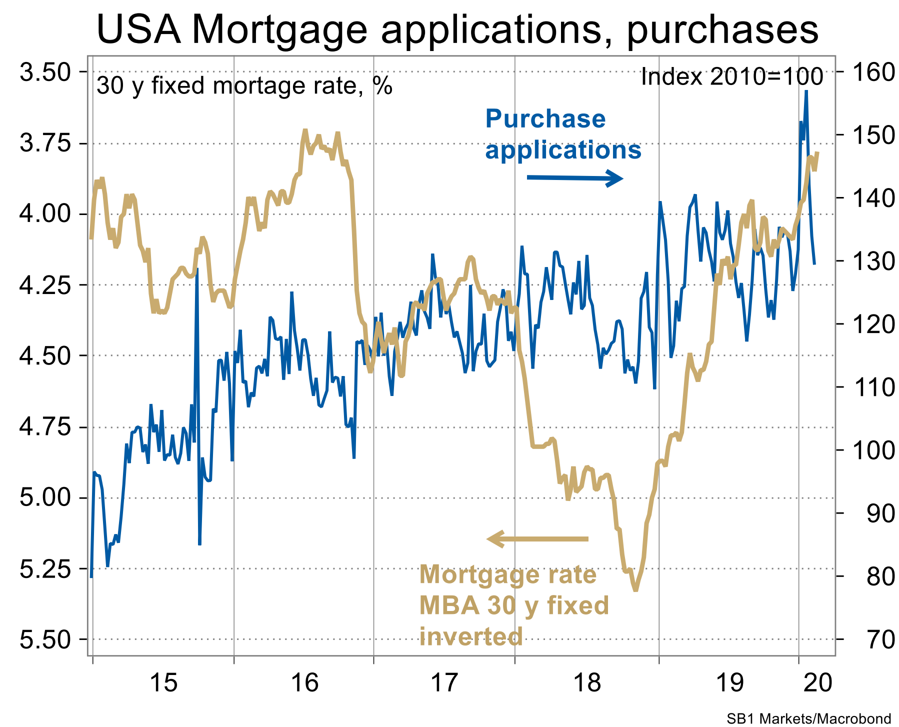


- Existing home sales fell by 1.3% m/m in January, to 5.46 mill (annual rate), marginally weaker than expected. Sales are trending up and have increased by some 10% since the bottom in late 2018
  - » Pending (existing) home sales surprisingly tumbled in December, we expect a rebound as there are no other indications of a housing market slowdown
- Housing market data are upbeat, demand must be booming, supported by low mortgage rates

Mortgage application down from peak, level still rather high

Most other housing demand indicators mirror a solid expansion, we doubt demand is softening



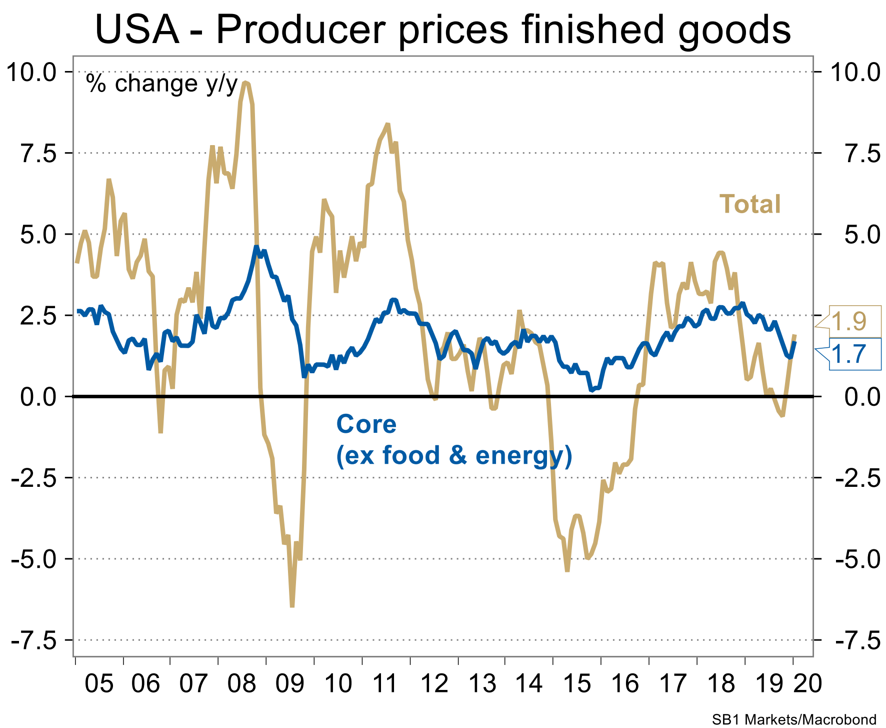


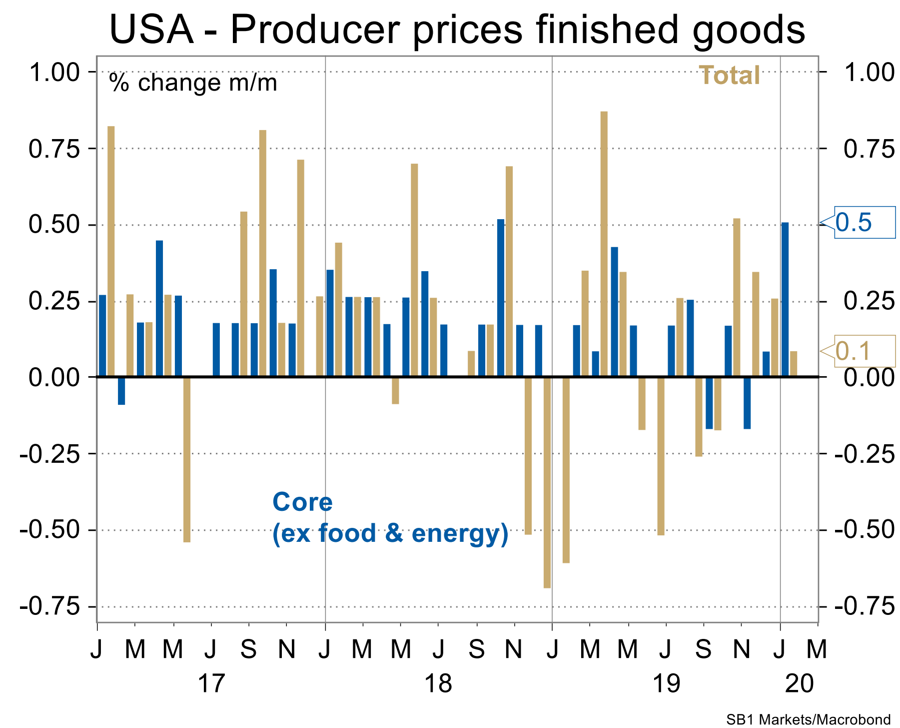
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market

SpareBank 1 MARKETS

Core producer price inflation picked up in January

Core finished goods prices spiked 0.5% m/m and the annual rate rose to 1.7%, 0.4 pp above f'casts



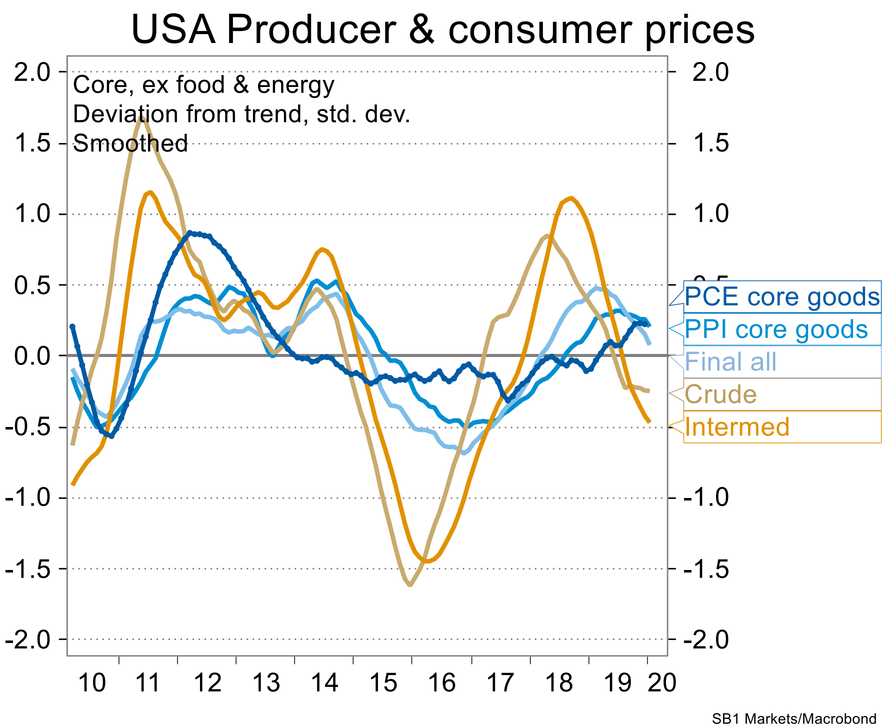


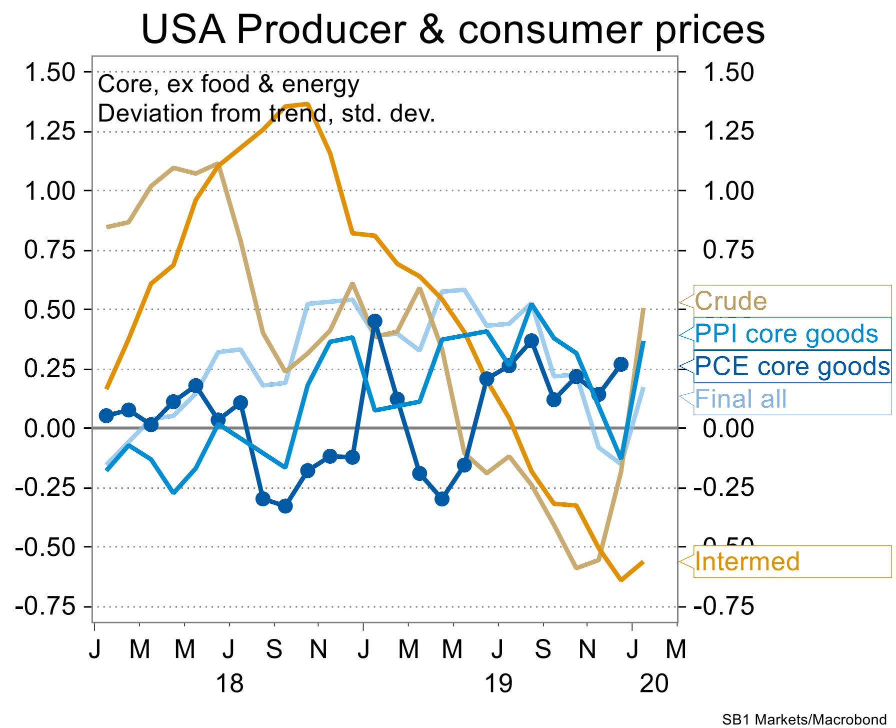
- Core finished goods x food & energy PPI increased much more than expected in January, up 0.5% m/m vs expectations at 0.2%. The annual rate edged up to 1.7%, a 0.5 pp increase. Core producer price inflation has slowed rapidly the past year and underlying growth is still just at 0.5% (measured 3m/3m)
- Headline PPI rose just 0.1% m/m but the annual rate jumped to 1.9%, from 1.2%, due to a steep decline in January last year. Higher energy prices have been lifting total PPI inflation recent months, we expect a partial reversal, as energy prices fell steeply in January
- Core producer price inflation do not signal any uptick in core consumer inflation, but no slowdown either?

SpareBank 1 MARKETS

Producer prices rebounding at early production stages

An upturn in crude PPI prices suggests that prices at later production stages may follow up

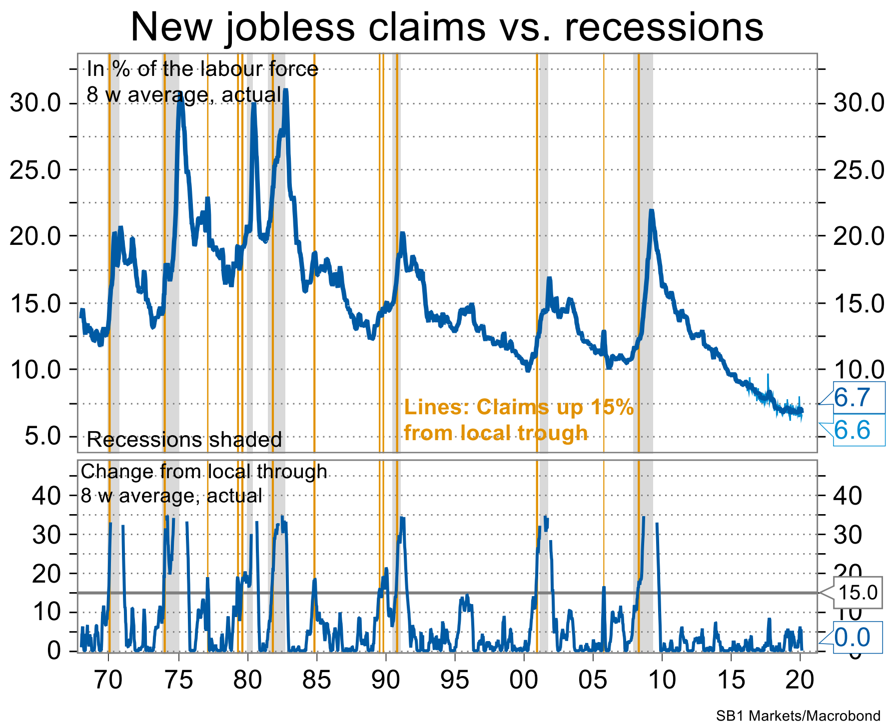


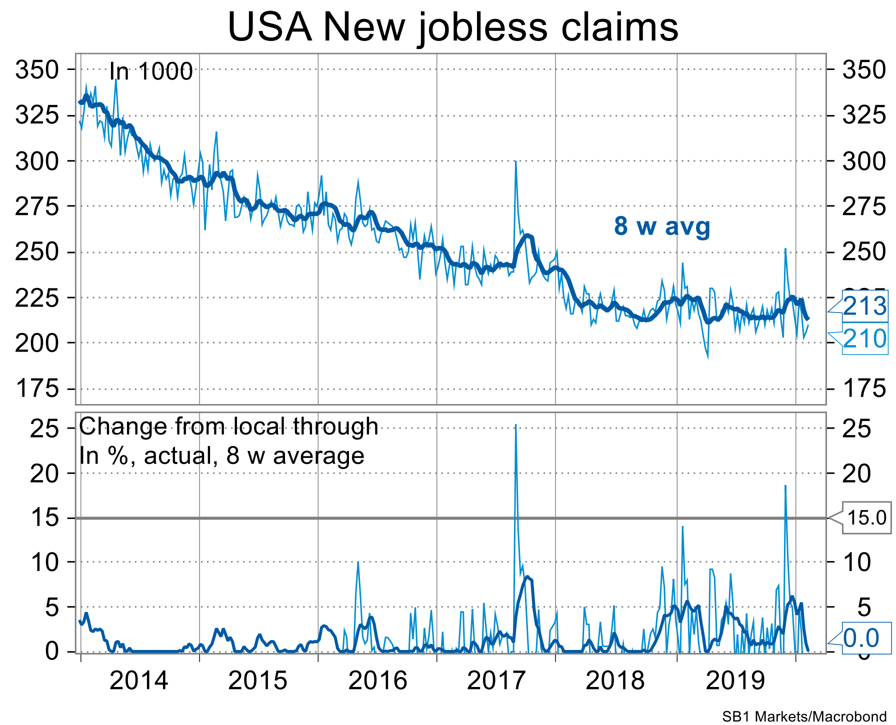


- Crude PPI prices (ex food & energy) were heading steeply down through most of 2019, but soared in December and January, to the highest since early ’19. Steel and iron prices increased rapidly. Higher crude material prices may signal a lift in prices at later production stages; intermediate goods prices are still sliding straight down. Core consumer goods prices at the producer level increased in January, and do not signal any substantial slowdown in price growth at the consumer level (but probably not an increase either)

Jobless claims steady at a very low level, no weakness spotted

Claims inched up to 210' last week and the 8 w average is sliding down again, to 213'

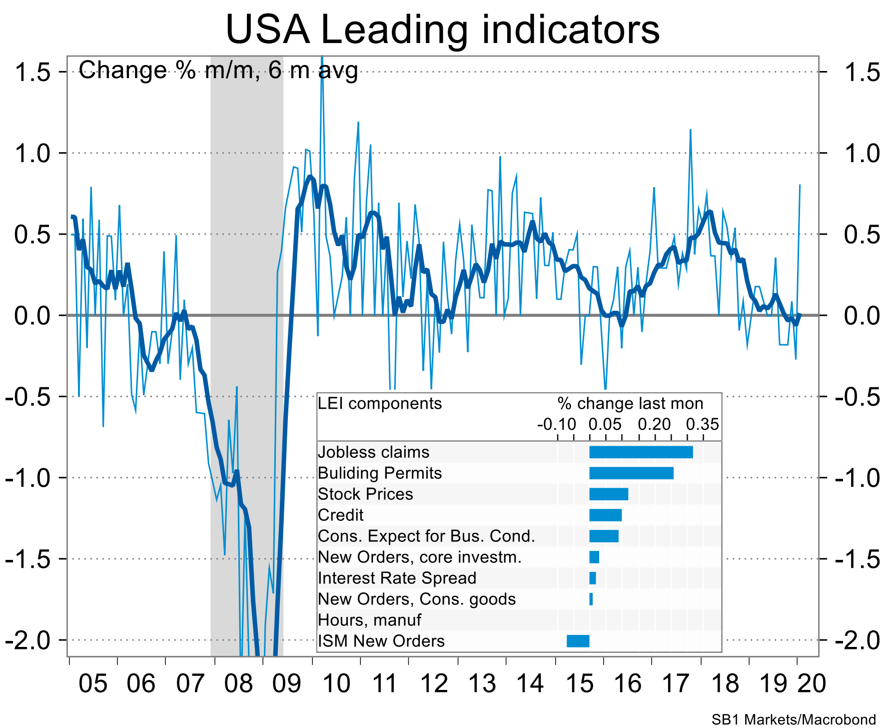


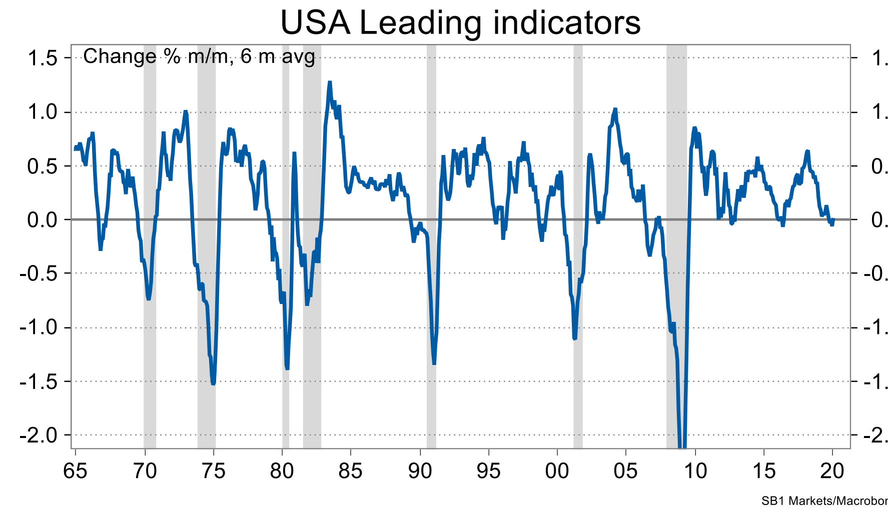


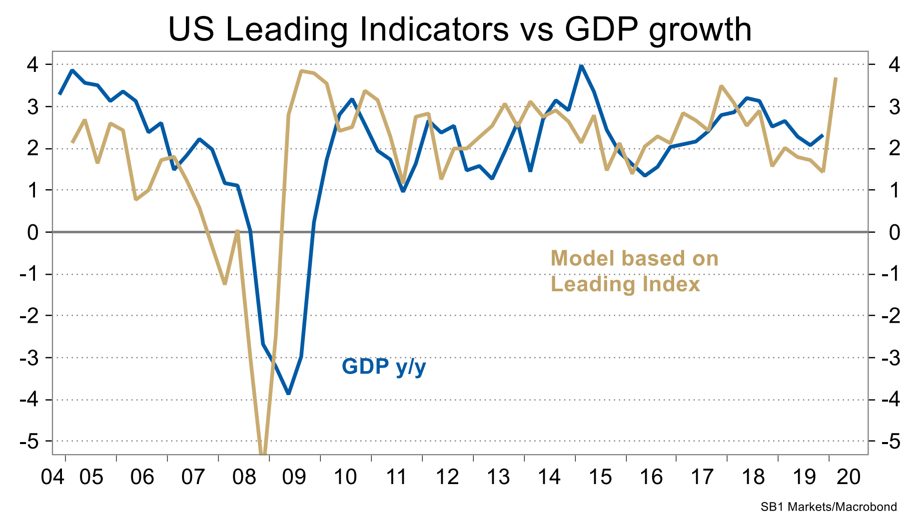
- Jobless claims have fallen down to very low levels again, after a temporary upturn in December. In Dec, jobless claims were distorted by a later than usual Thanksgiving holiday. Since then, claims have fallen down to very low levels, confirming that the upswing was not based on any underlying weakness
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

The Leading indicators jumped in January, suggesting an uptick in GDP growth

The LEI noted the steepest increase since 2017, and points to 3.7% growth?? We doubt so





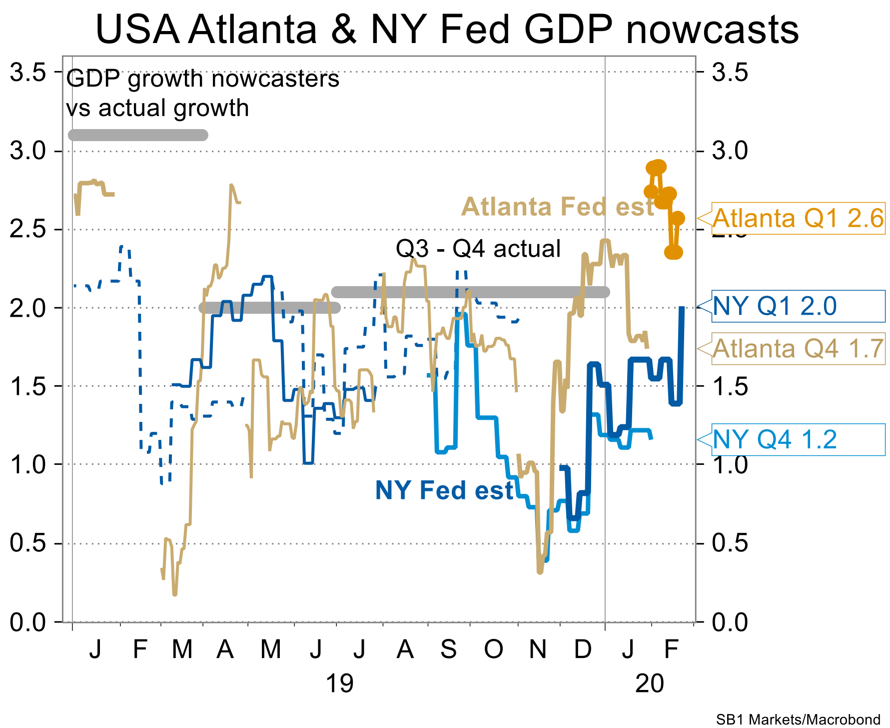


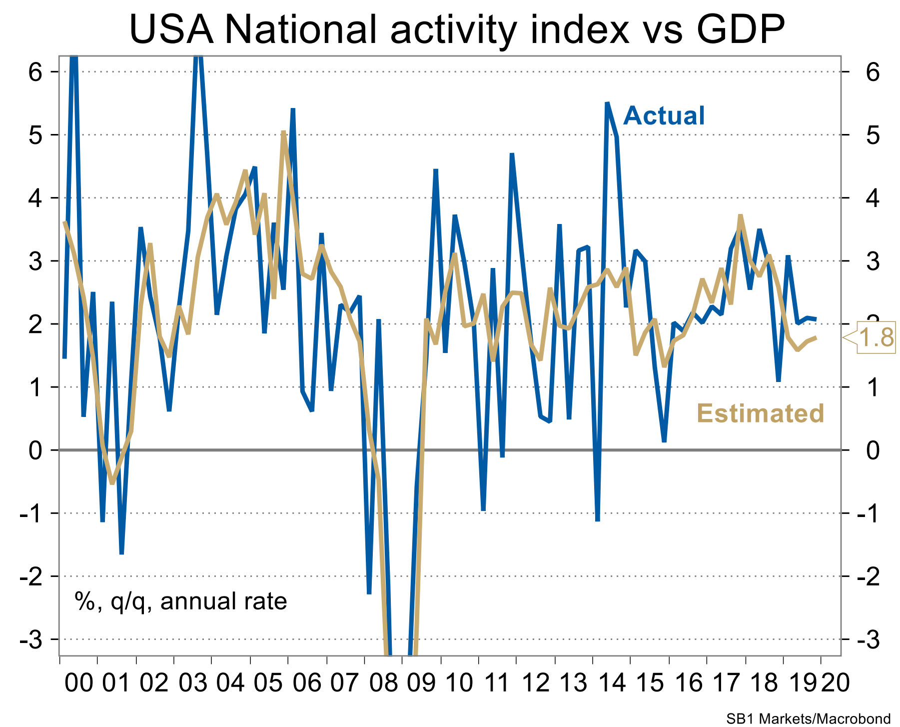
- Conference Board's Leading indicators soared 0.8 m/m in January, far above expectations. The 6m average m/m change has stabilized, the same low level as in 2016 and 2012, signaling growth well below trend
  - » Jobless claims, building permits, stock markets, credit and consumer confidence lifted the index. Just new orders softened
- Face value, the LEI is signals 3.7% GDP growth into Q1!

Conference Board's Leading Index (LEI) is a composite index based on ten already published leading indicators that are judged to be leading the overall cycle

Nowcasters suggest higher growth too

Nowcasters up last week, NY Fed's model says 2%, up from 1.4%, Atlanta 2.6%, from 2.4%



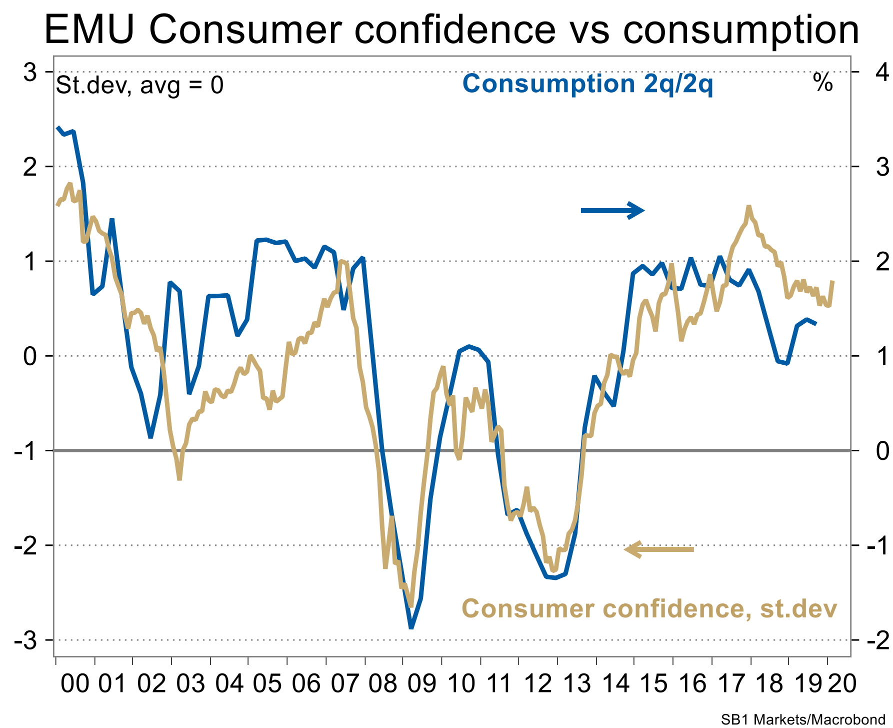


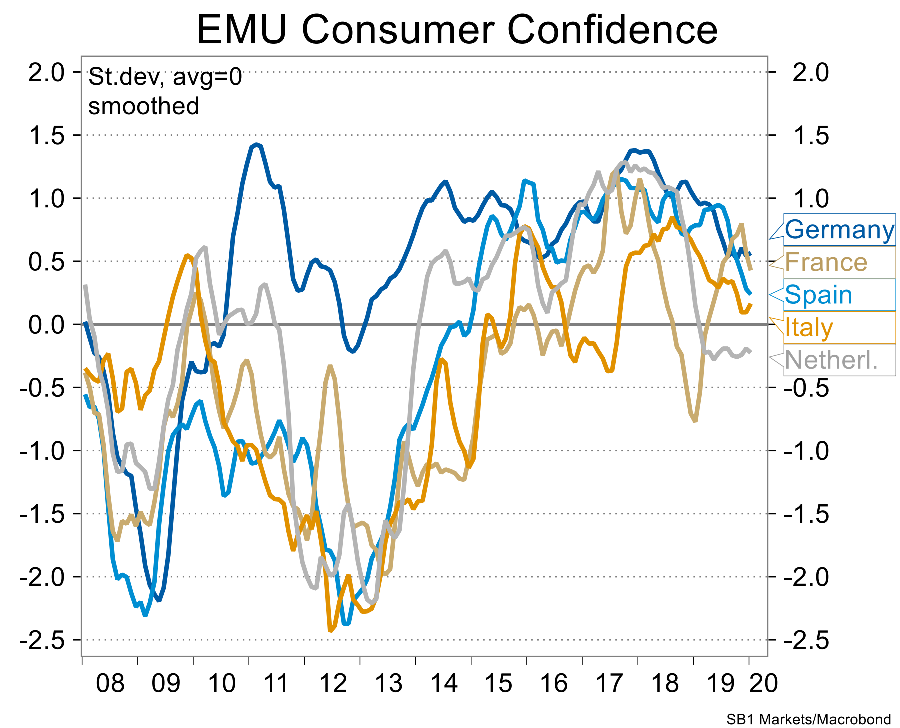
- The National Activity Index signalled a 1.8% growth rate in Q4, vs reported GDP growth at 2.1%
- None of these nowcasters have yet incorporated any data eventually impacted by the Covid-19 outbreak

SpareBank 1 MARKETS

Consumer sentiment rebounded strongly in February

Consumer confidence spiked in February, after sliding slowly down the past year

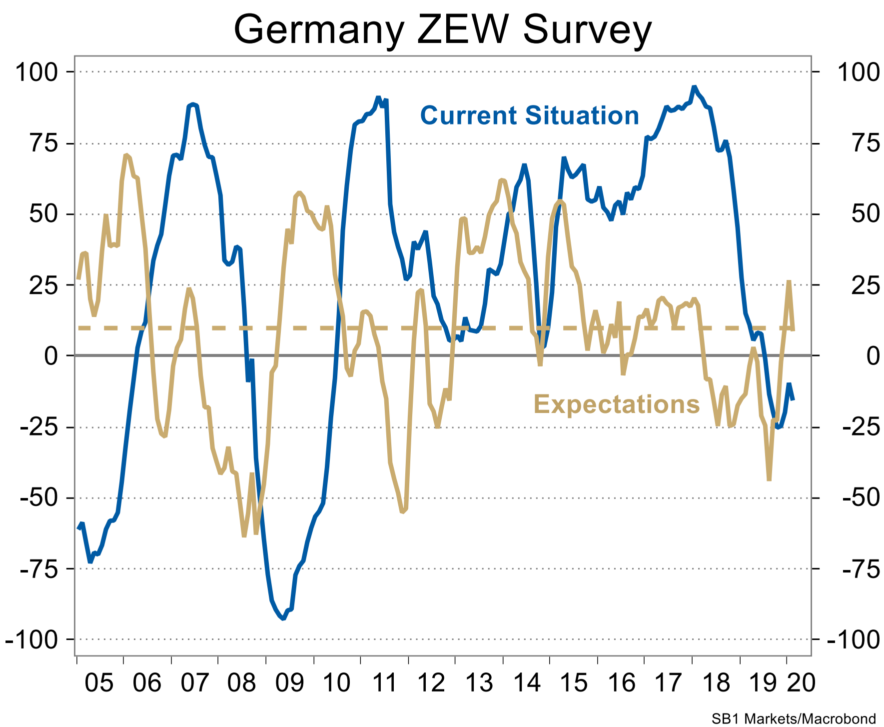


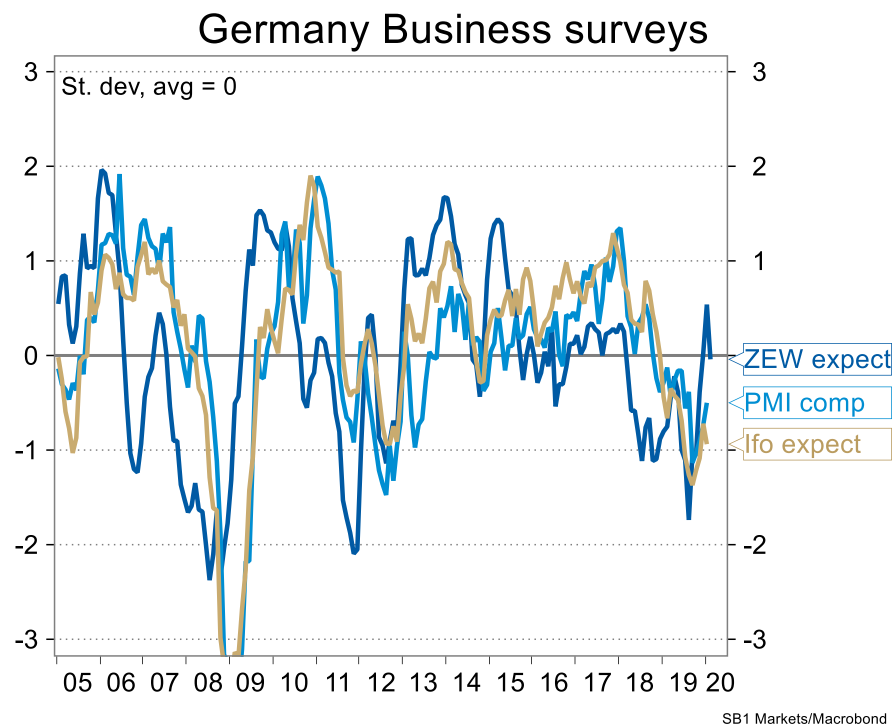


- Consumer confidence improved in February, after heading slowly down since early 2019. The level is 0.8 st.dev above the avg. CCI reflects that household demand has been solid amid the manufacturing dip
  - » No February country data have been released, but confidence improved in Italy, Spain and France in January, Germany flat. All four are above the average levels
- The CCI do not signal any slowdown in private consumption. Real wages + hours worked, a good proxy of total disp. income, expanded by 2.3% in Q3, do not signal weaker sales

ZEW down to mean in February, on coronavirus fears and weak macro

Expectations came back to an average level, still more upbeat than other surveys

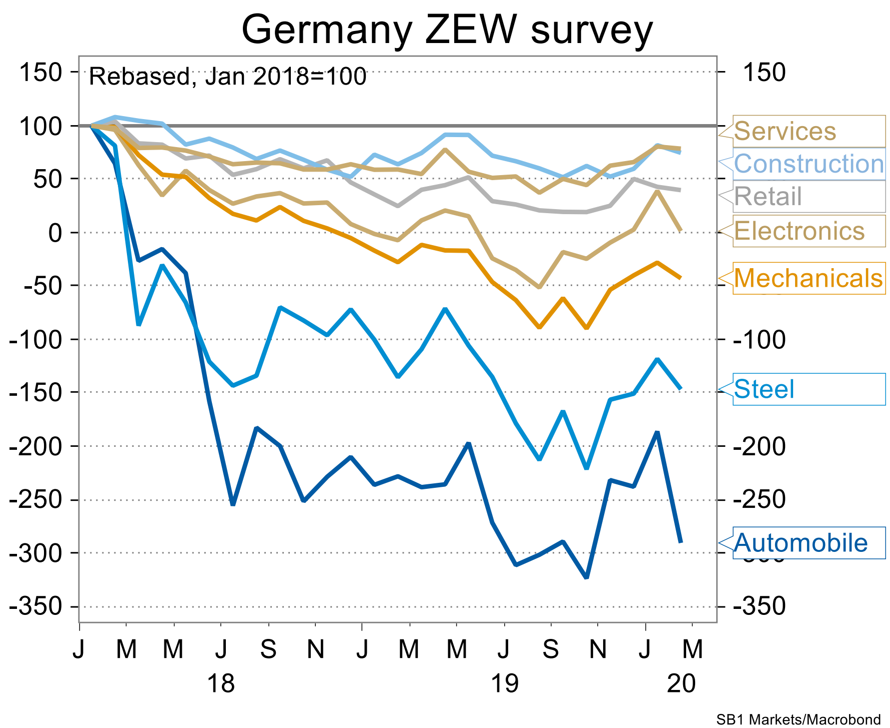


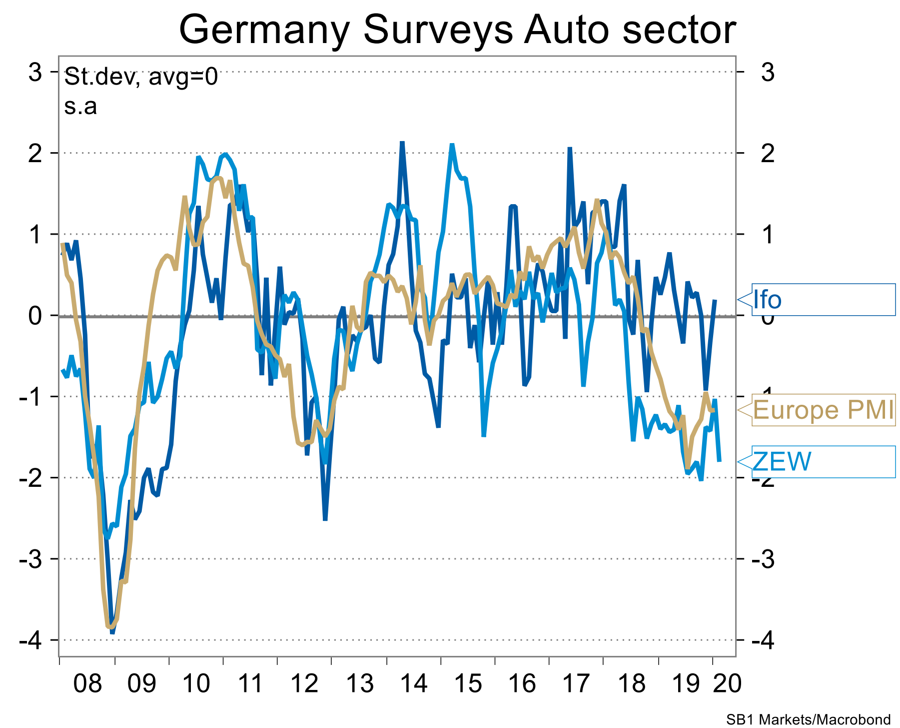


- Since the autumn, expectations in the ZEW survey have rebounded swiftly, as the US/China trade dispute calmed, uncertainties regarding the Brexit process eased and PMIs/other indicators improved somewhat
- In February, fears of the negative effects on global demand from the coronavirus and some subpar domestic data (industrial production, retail sales dropped in Dec, GDP failed to increase in Q4) sent both expectations and the view of the current situation down
- We do not put too much emphasis on this survey, as ZEW is a sentiment survey among economists and investors, and not a business survey, as the PMI and Ifo. ZEW has anyway been too upbeat vs PMI/Ifo the past couple of months and the correlation to actual economic growth is weaker than the two other surveys. We prefer the business surveys

ZEW: All sectors have edged up but the auto sector retreated sharply in Feb

Both ZEW and the PMI report weak activity in the auto industry, IFO at tad better in Jan

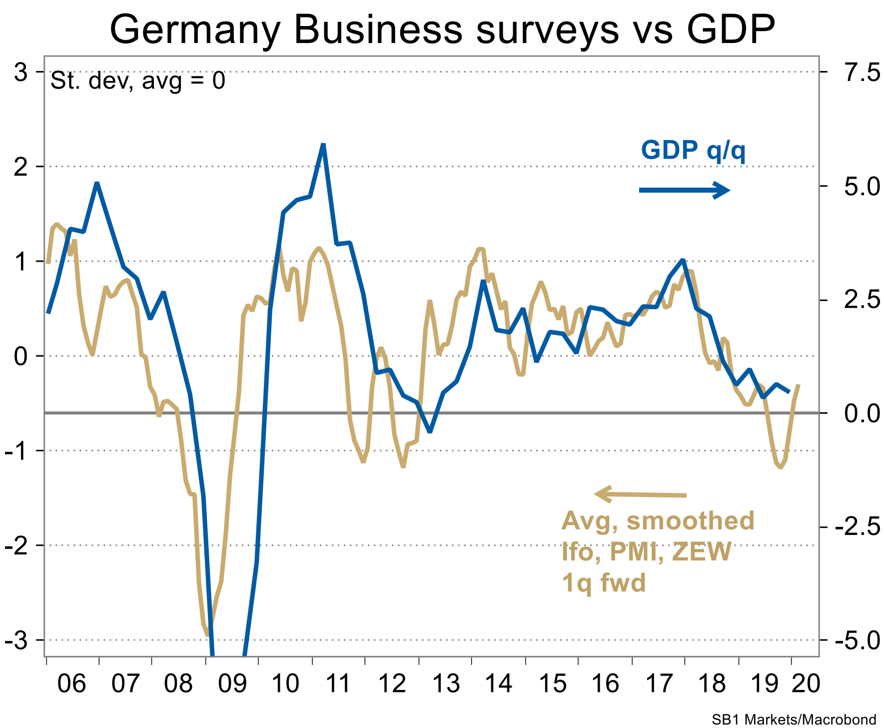


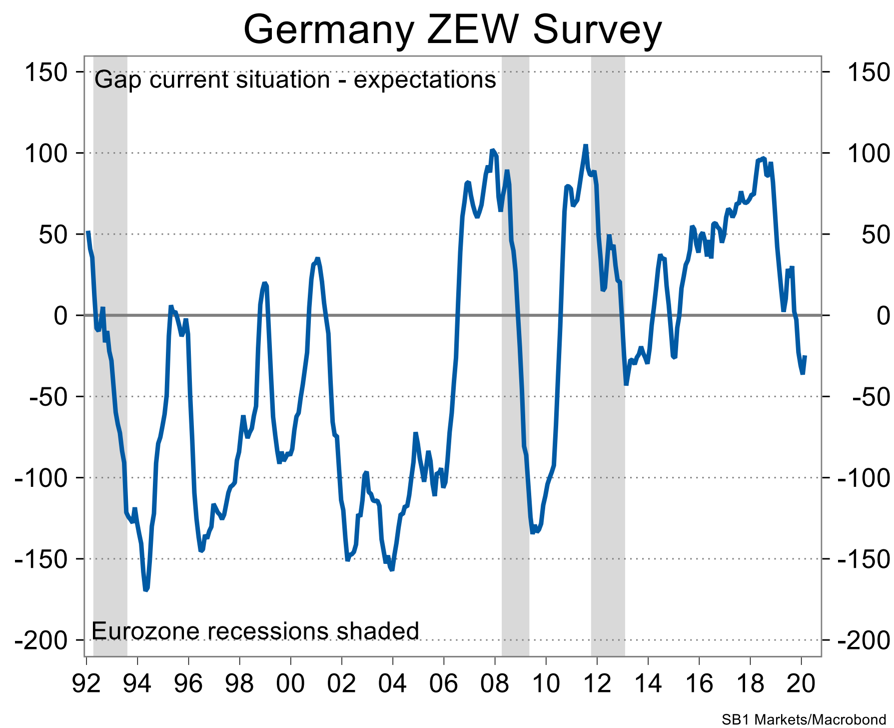


- Expectations on the auto sector were probably hit hard by concerns of weaker demand for exports, due to corona

Surveys do no longer point to GDP decline

The avg level of PMI, Ifo and ZEW do not signal any strong recovery but the direction may?



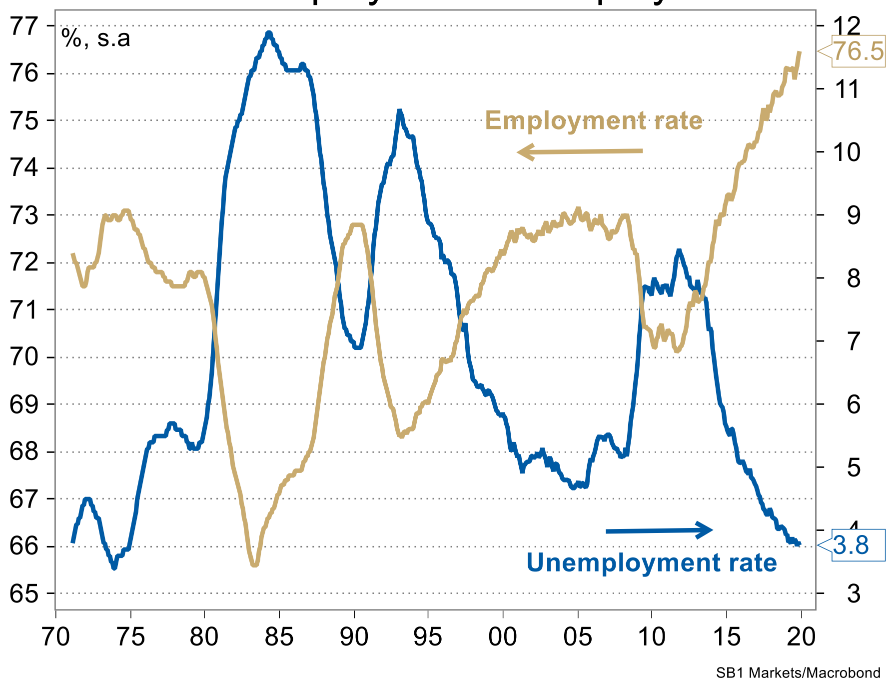


- The gap between the ZEW current situation and expectations is now closing (and even reversed). Just before recessions hit (the 3 recessions since 1990 at least), the expectations component of the ZEW survey has fallen steeply, while the view of the current situations remains elevated. So, some comfort now?
  - » We doubt the EMU (or Germany) is in/on the edge of a recession, as parts of the economy are holding up well in spite the manufacturing dip; consumer demand is still growing moderately, credit is increasing and overall unemployment is still declining

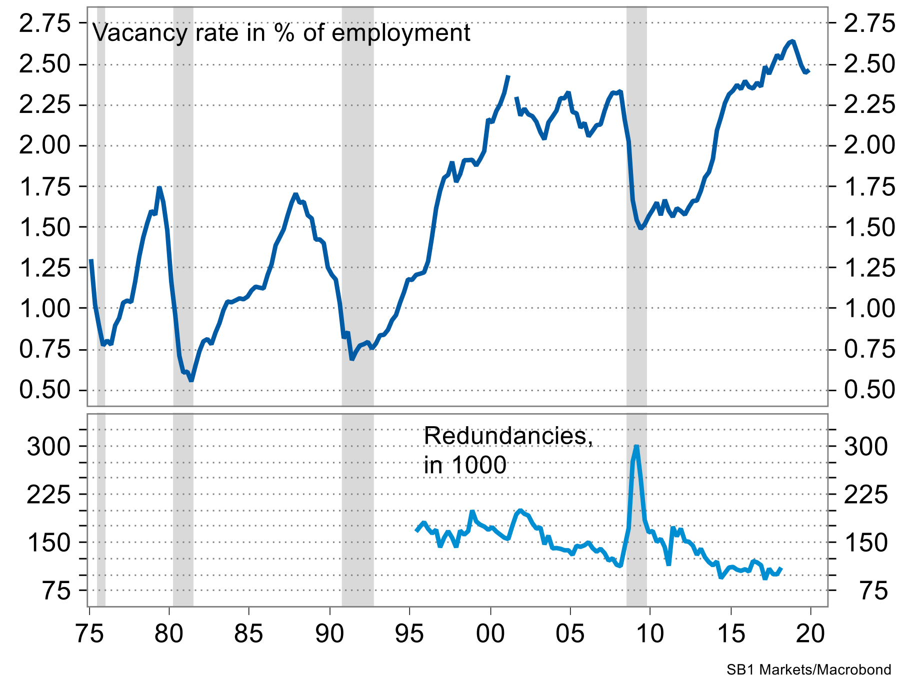
Unemployment flattens out – but employment straight up!

Unemployment at 46 y low, employment is soaring, still wage growth is cooling off

UK Unemployment & Employment



UK Job Vacancies

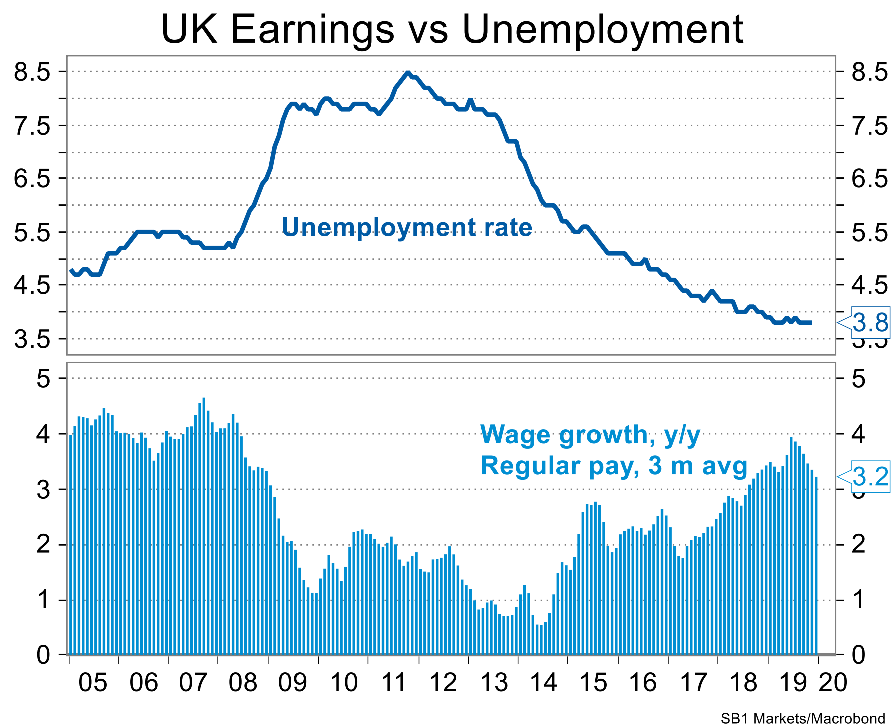


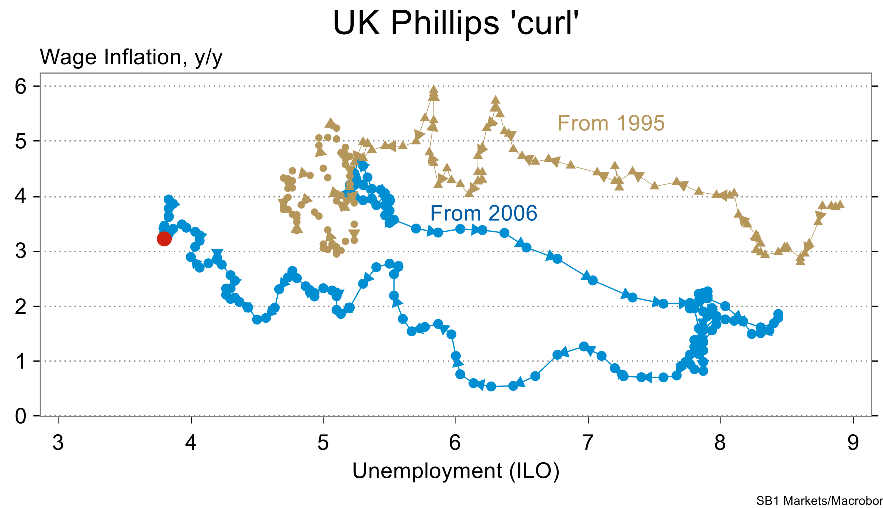
- Unemployment (LFS/ILO) was flat at 3.8% in Nov (avg Oct-Dec), flattening out at the lowest level since 1974
- The employment rate ticked up 0.2 pp to 76.5, by far the highest after steep increase the past 3 months, after stabilizing in H1 2019. Employment is increasing by 1% y/y, growing steadily for the past 3 years
- The vacancy ratio has fallen to 2.5% (in Q4), down marginally from the 2018 peak. Announced redundancies remain low
- These data signal that the labour market is very tight, however, wage growth is slowing

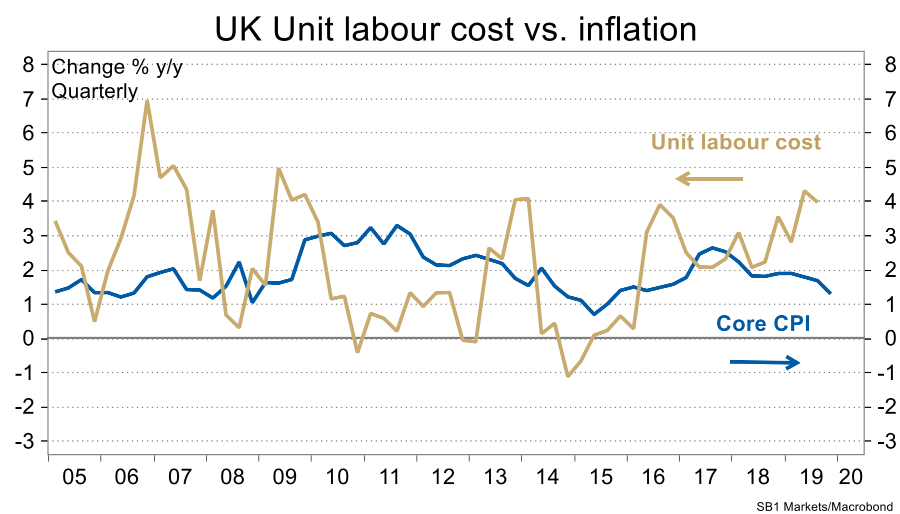
SpareBank 1 MARKETS

Wage inflation is slowing, to 3.2%, still a rather high level...

.. without productivity growth, cost inflation at 4%...



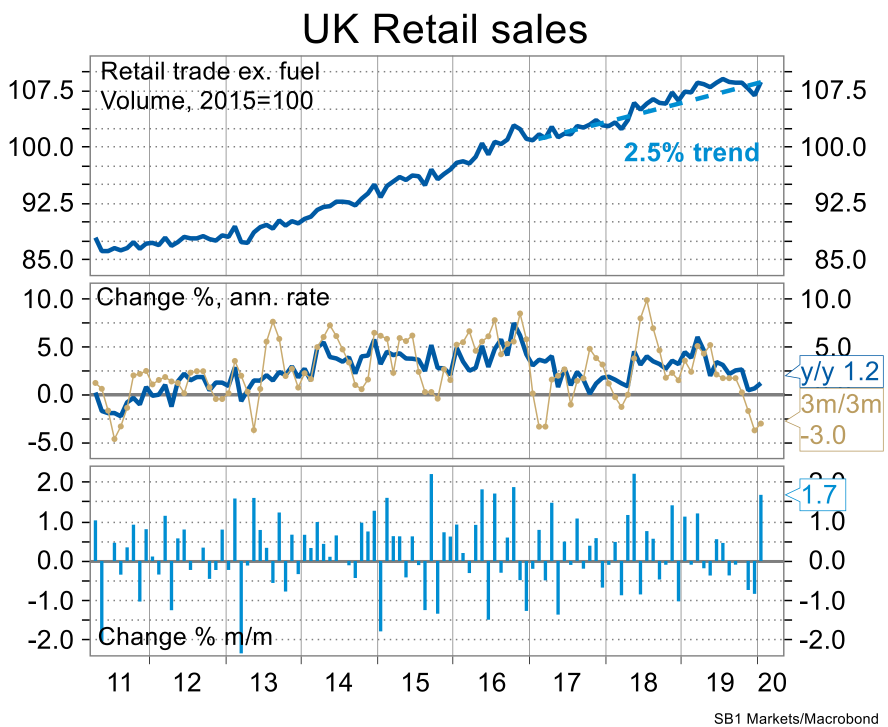


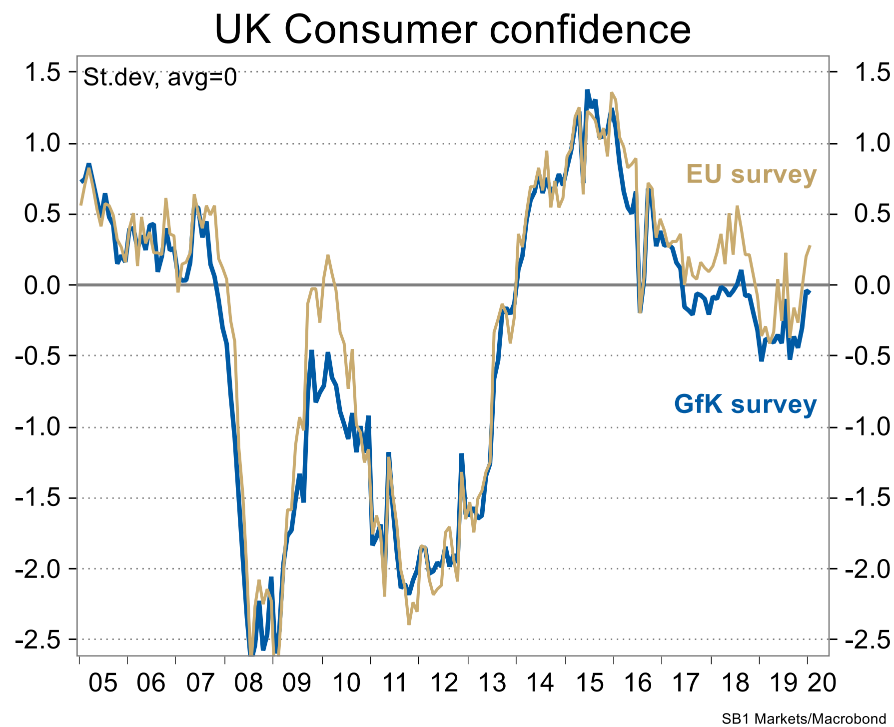


- Wage growth (regular pay) was unchanged at 3.2% y/y in Dec, after peaking at 4% in mid-2019. The smoothed rate fell to 3.2%, the 6rd month of deceleration
- Still, it is too early to the death of the Phillips curve, just check the chart to the right. And with UK productivity growth close to zero, unit labour cost inflation is now running at 4% (in Q3). Cost pressures are building up and profits are under pressure, regardless of the retreat in the nominal wage growth

Retail sales rebounded in January, after a steep slowdown

Sales jumped 1.7% m/m, following a 5 months decline, and consumer confidence is improving



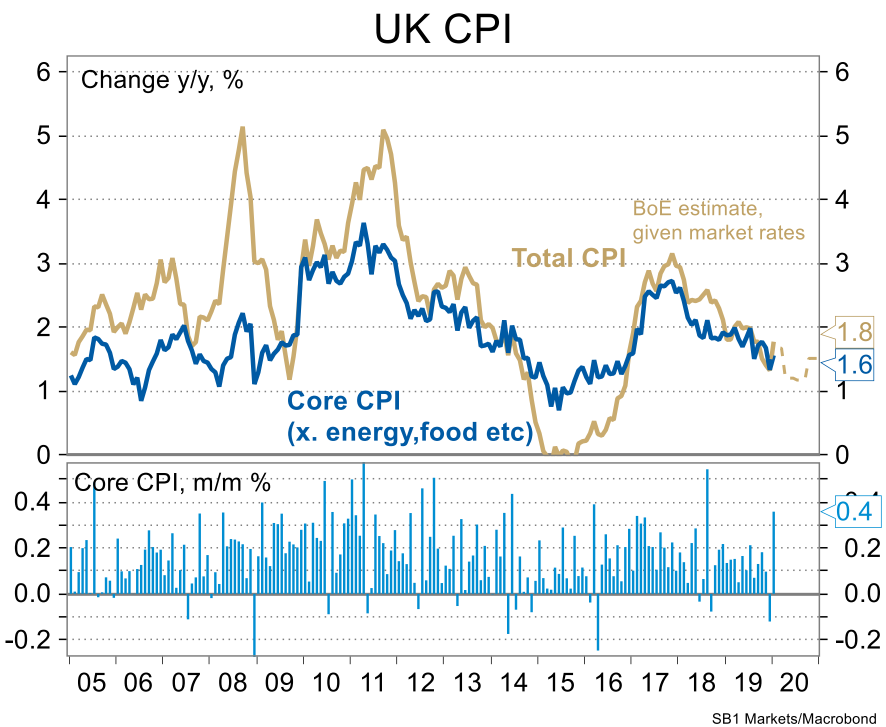


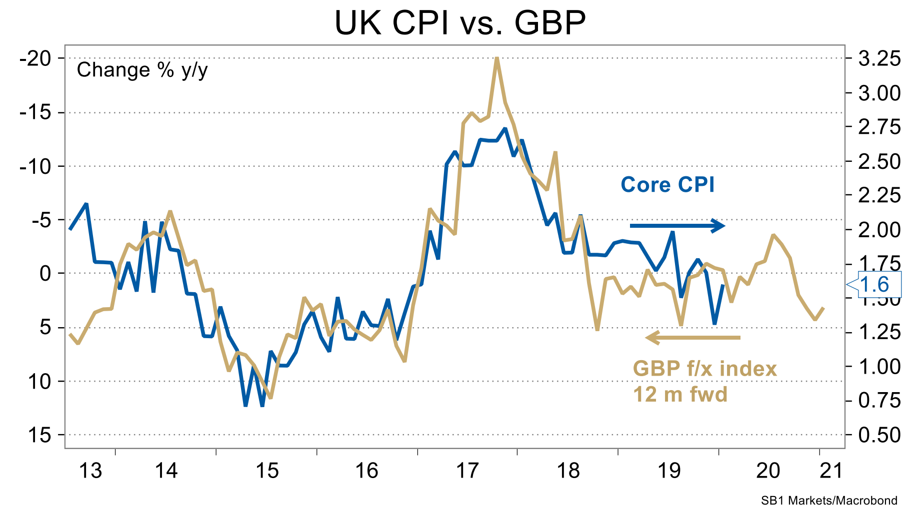
- Sales soared 1.7% m/m in January, the steepest increase since mid-2018, and higher than expected. Sales weakened rapidly in H2 2019 and the underlying speed is still down 3% (measured 3m/3m annualized)
  - » A steep decline in the savings rate has funded much of the increase in consumption. In 2018 and 2019, the savings rate stabilised at 6%
- Two major consumer confidence surveys have turned up recent months, to or above the average levels. The (so far) soft Brexit has probably boosted confidence, and other surveys, such as the services PMI confirm higher activity

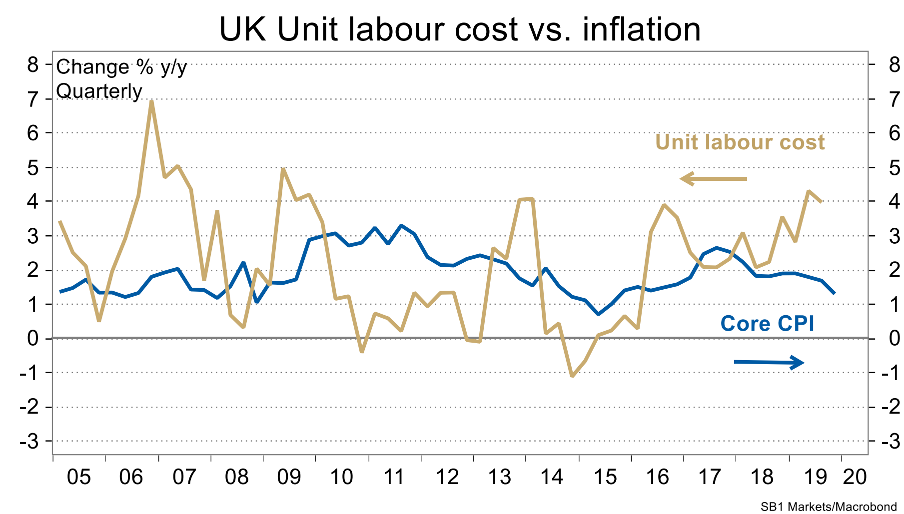
SpareBank 1 MARKETS

Core CPI inflation bounced back to 1.6%, trending down

Core CPI jumped 0.4% m/m in January, above exp. Total inflation has bottomed out, up to 1.8%



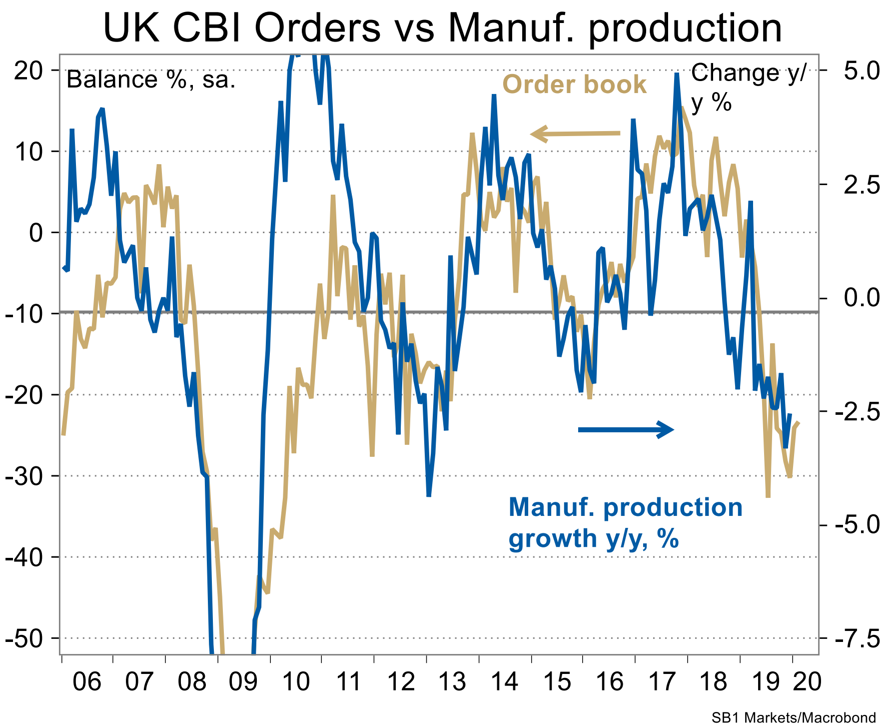


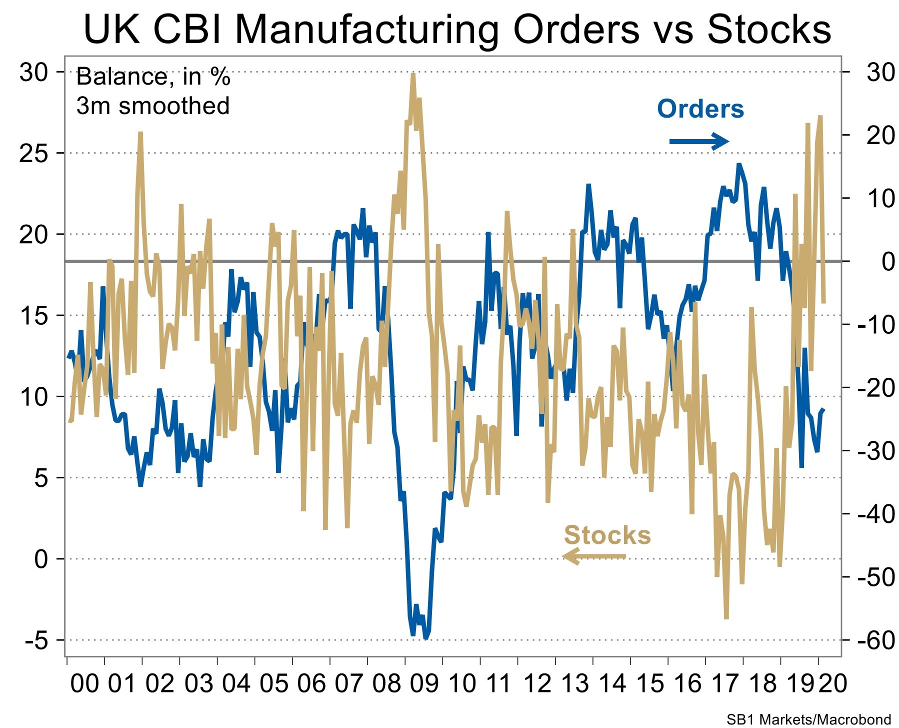


- Core CPI rose by 0.4% m/m in January, and the annual rate edged up 0.3 pp, to 1.6%, expected 1.5%. Even with the January rebound, inflation is tilting slowly downwards
- Our simple f/x based model indicates that the impact from the GBP depreciation in 2018 is taken out, the slowdown in the UK economy is probably more important now. Still, domestic cost inflation is at 4%, and wage inflation is above 3%!

Not all sunshine; manufacturing orders still low and stocks are high

UK businesses have been struggling with massive Brexit inventory build ups, weak orders

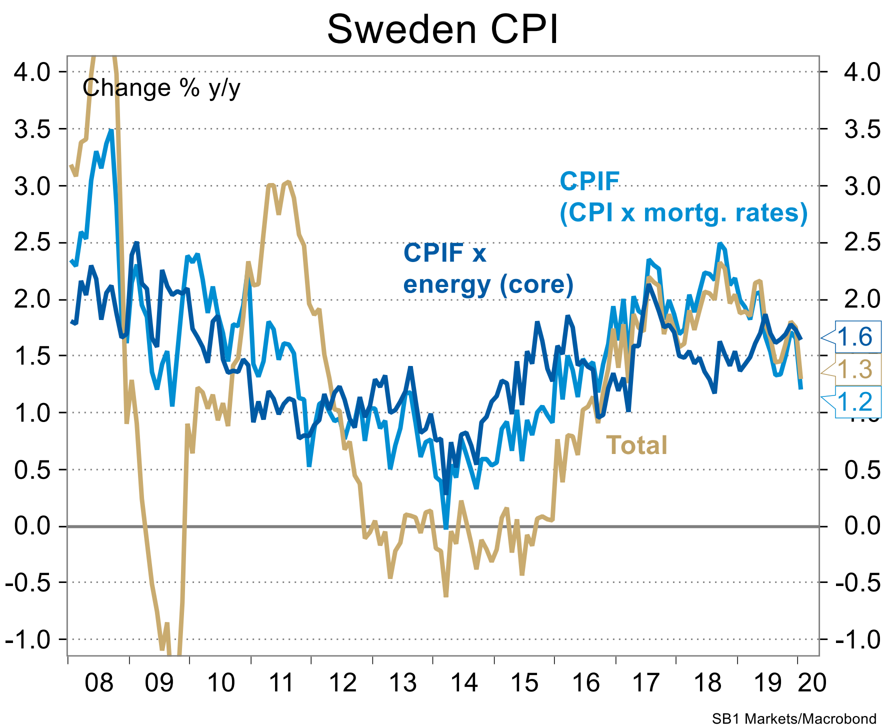


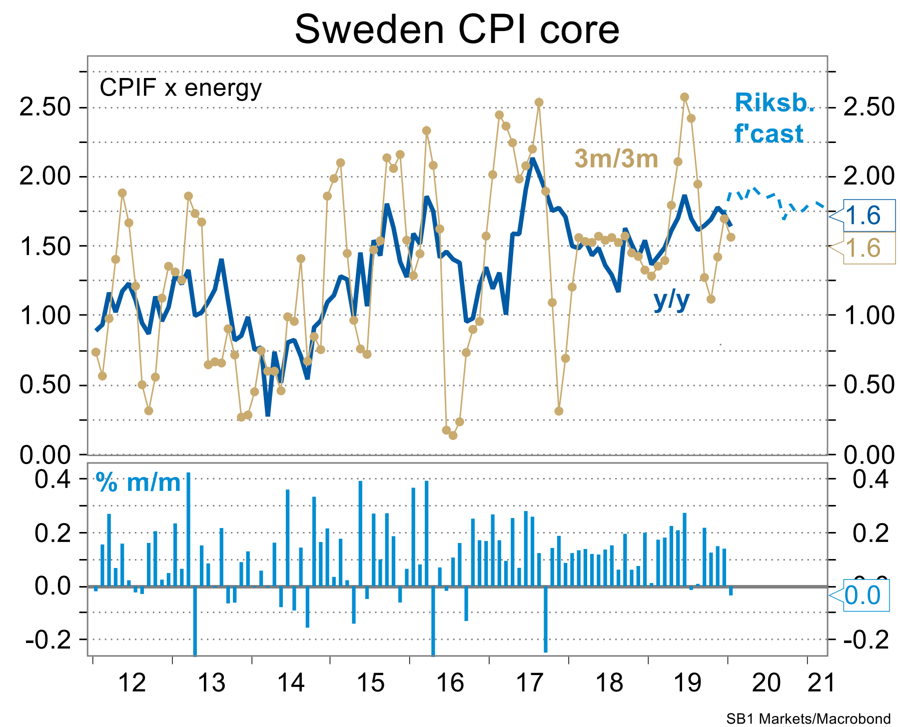


- The CBI order book index inched up to -23 in February, from -24 (seasonally adjusted). The index is still indicating a steep a decline in manufacturing orders – and do not point to any recovery in manufacturing production
  - » UK manufacturers have been through several rounds of Brexit preparation which later have been hurting activity. Orders tumbled in the aftermath of the emergency stockpiling ahead of the original Brexit deadline in March. Since then, businesses have reducing new orders significantly, even as they built up inventories once again before the October deadline. Both domestic and export orders are still falling
- According to the CBI, inventories have been built up rapidly, and are still increasing (even as the non-smoothed index fell in February). At one point, inventories will have to be trimmed, thus, any upturn in orders is unlikely in the short term

Core inflation ticked down in January, missing expectations by 0.3 pp

Core CPIF inflation slowed to 1.6%, expected up to 1.9%, and total inflation at 3 year low



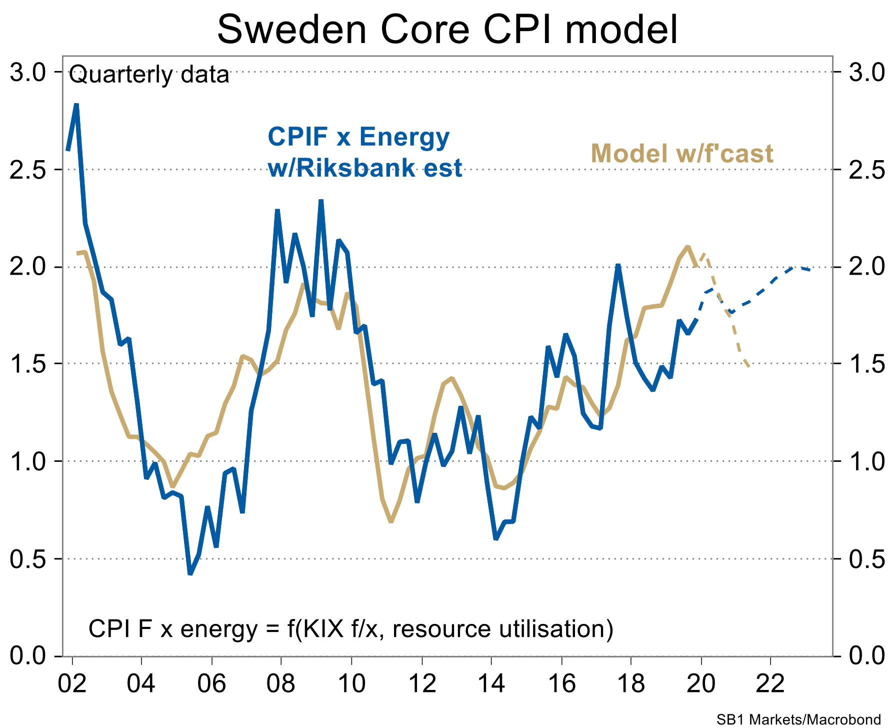


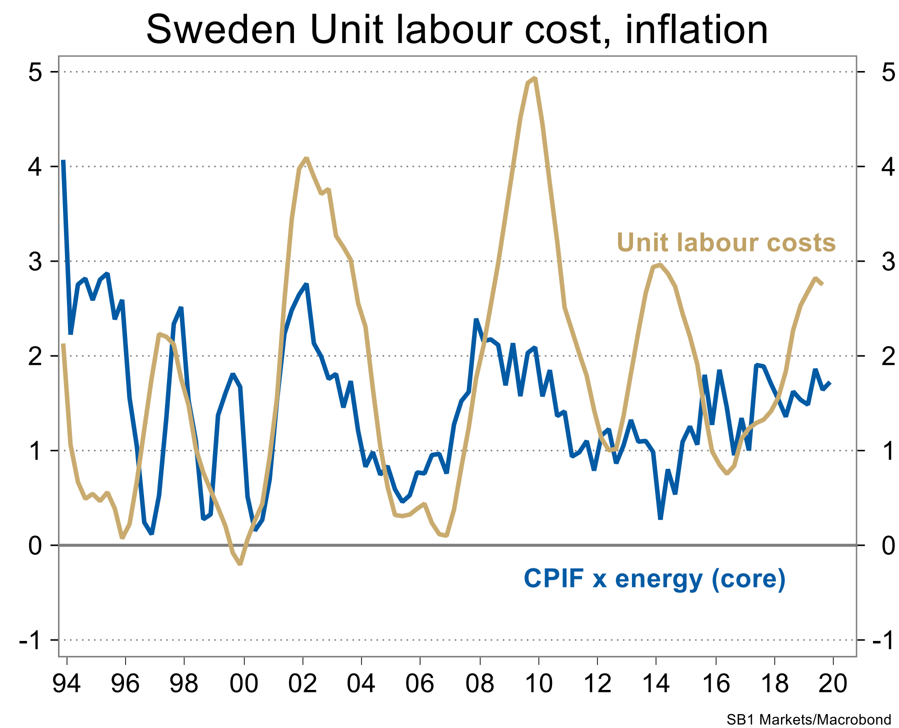
- The 'real' core (CPIF ex energy) stalled m/m in January, and the annual rate slowed by 0.1 pp to 1.6%. Both consensus and the Riksbank (from Dec) expected a pickup to 1.9%. Core inflation has flattened out since the summer
  - » CPIF (ex mortgage rates) rose by 1.2% y/y, a 0.5 pp drop, dragged down by tumbling energy prices. Total inflation down to 1.3%
  - » The Riksbank expects core inflation to stabilize at 1.9% the coming months, probably somewhat too 'optimistic'. Our simple model suggests that inflation is peaking now, check the next slide for more
- The Riksbank will keep rates on hold at 0 for a long time, if the economic outlook should not shift substantively

SpareBank 1 MARKETS

Our model says inflation at peak (at a higher level)

Lower capacity utilisation indicates an inflation slowdown, SEK and unit labour costs do not

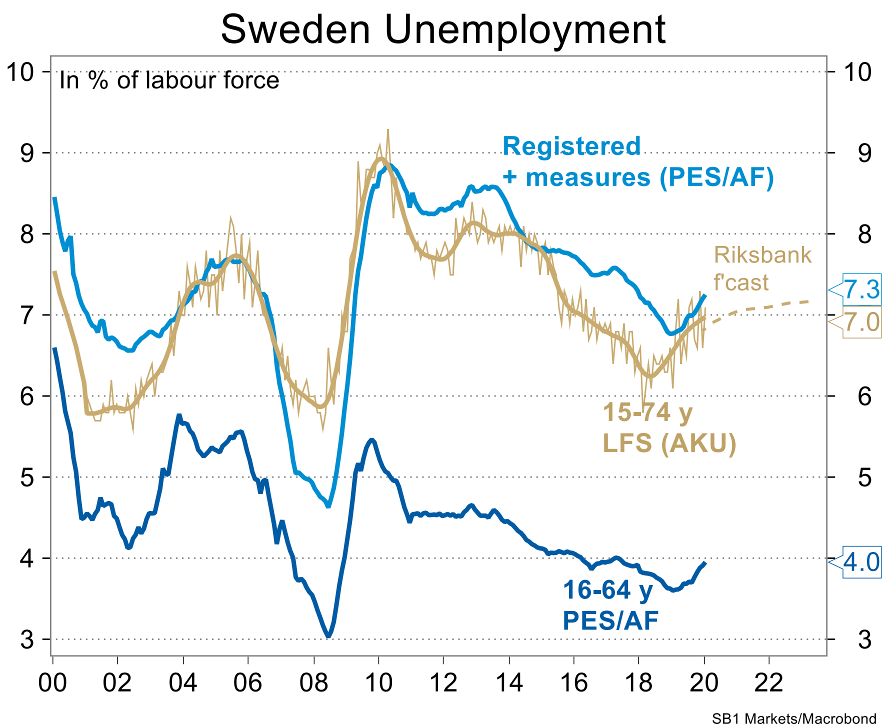


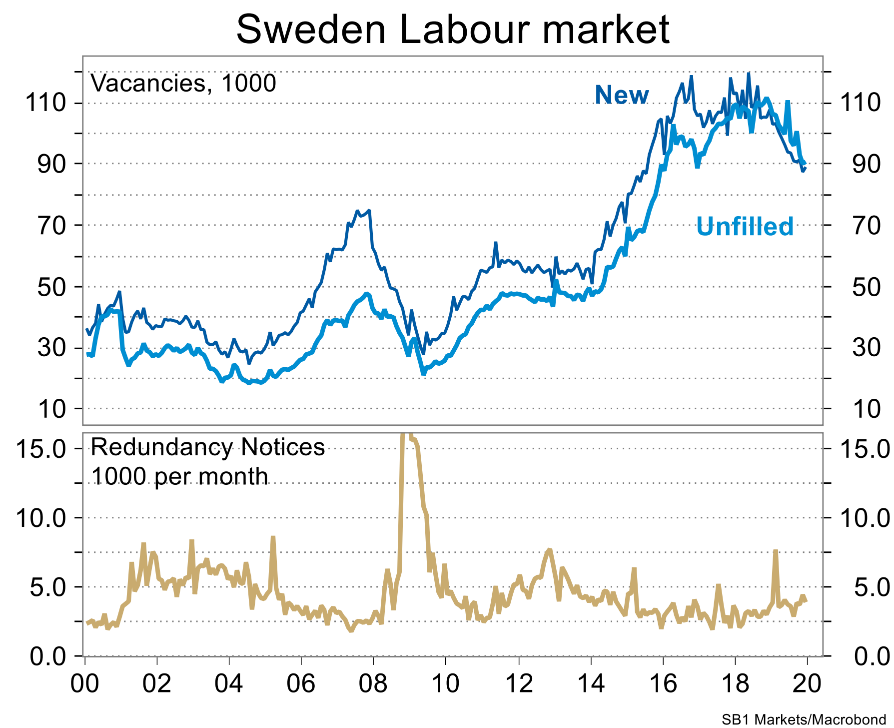


- Our model includes SEK and the Riksbank's Resource Utilisation indicator, measuring deviation from potential GDP growth. The RU indicator turned steeply down in 2019, to just 0.2 pp above the average level. The inflation model suggests higher inflation now, at 2.1% in Q1 vs the 1.6% in January. The models points to a 0.4 pp slowdown through 2020
  - » A weakening labour market and a softer economic surveys have pulled the RU indicator steeply down
- On the other hand, productivity has almost disappeared, up just 0.7% y/y in Q3 (smoothed) and unit labour costs are up 2.8% y/y (with a heavy smoothing, these data are volatile). Hence, the cost pressure is not low at all!

LFS unemployment climbs and employment growth is ebbing

LFS unemployment (smoothed) rate unchanged at 7.0% in January, trending up

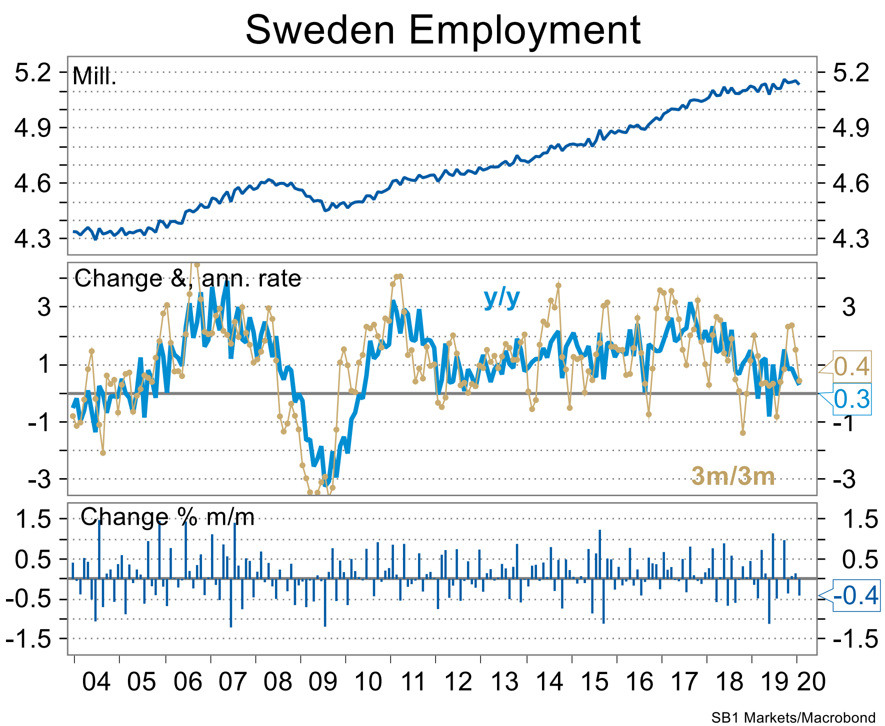


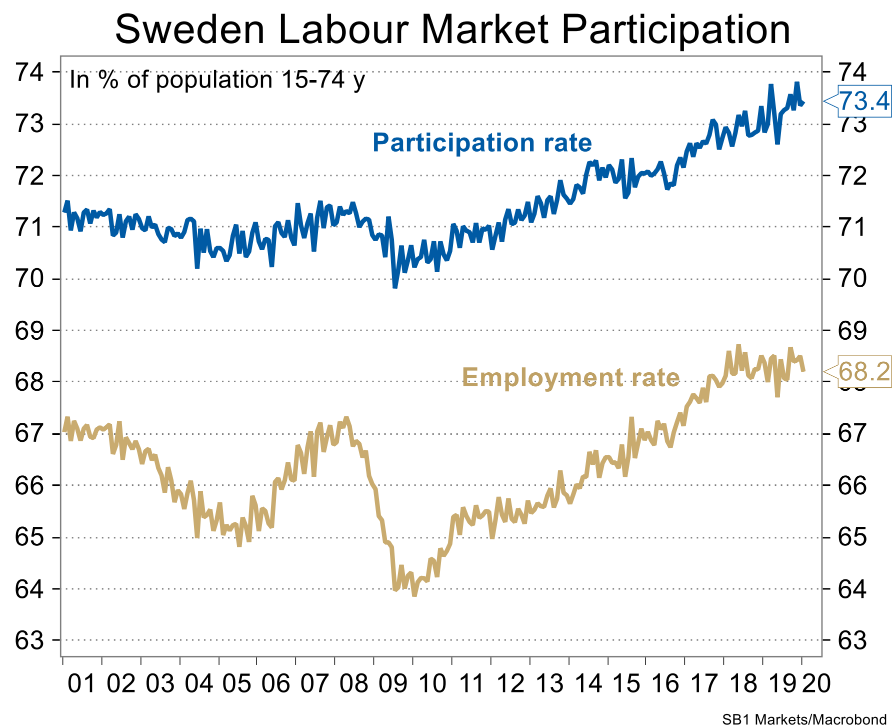


- LFS unemployment was unchanged at 7.0%, measured by the smoothed rate, up from 6.3% in early 2018. The unadjusted, volatile rate, which zig-zags almost every month, increased to 7.1%, from 6.6%
  - » The PES/AF registered unemployment rate, which is less volatile than LFS data, confirms an upswing. Open unemployment rose to 4.0% in January, up 0.4 pp from the bottom. Both new and unfilled vacancies have fallen from the peak
- The labour market is no doubt weakening. The good news; Employment is still inching up, although the upward speed has slowed substantially. Labour market participation is increasing at a faster pace than employment. We would be much more concerned of a rapid downturn in the Swedish economy if the unemployment uptick was due to declining employment!

Employment is slowing, participation still heading up

The employment rate has flattened out, while participations is climbing, bringing unempl. up

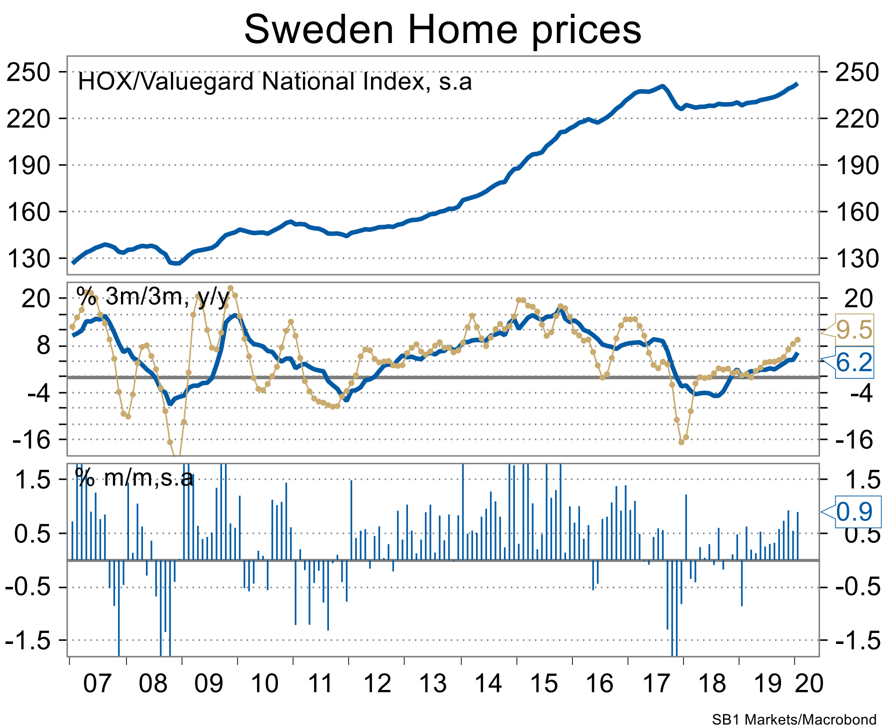


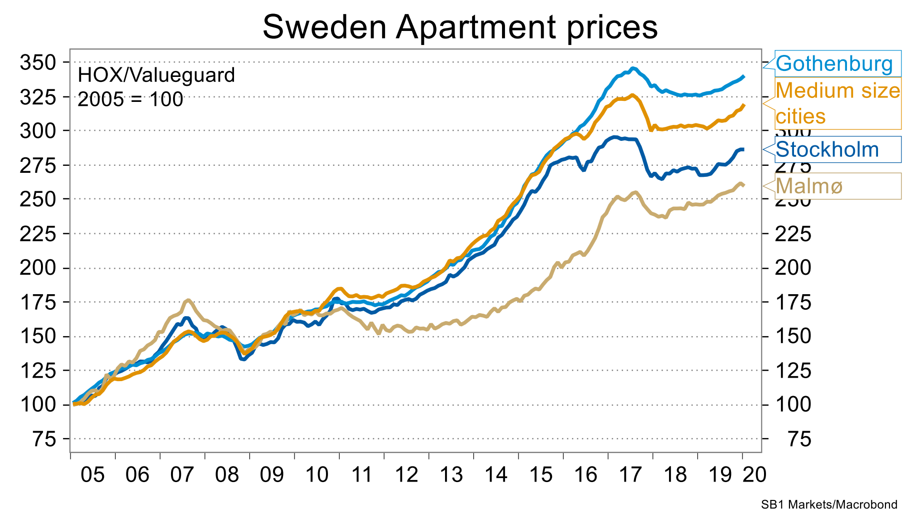


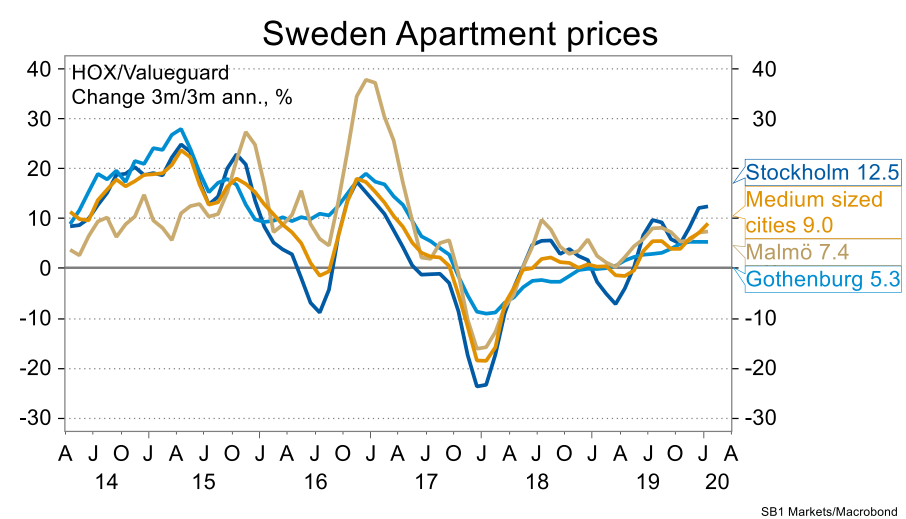
- Employment fell by 0.4% m/m in January and the underlying pace slowed substantially, to just 0.4% annualized growth. The annual rate up just marginally, 0.3%. The employment rate edged down to 68.2, flattening out since early 2018
- Labour market participation was unchanged at 73.4% in January and is still trending up. Since January last year, the participation rate has increased by 0.8 pp, employment just 0.1 pp

House price inflation is accelerating

Prices jumped 0.9% m/m in January and underlying growth is soaring, up to 9.5%



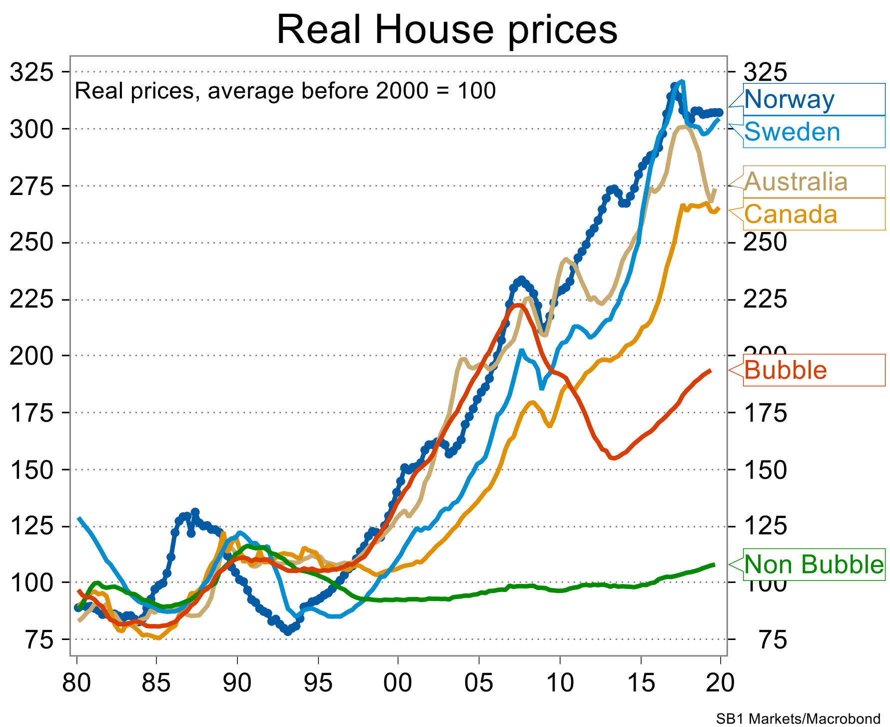


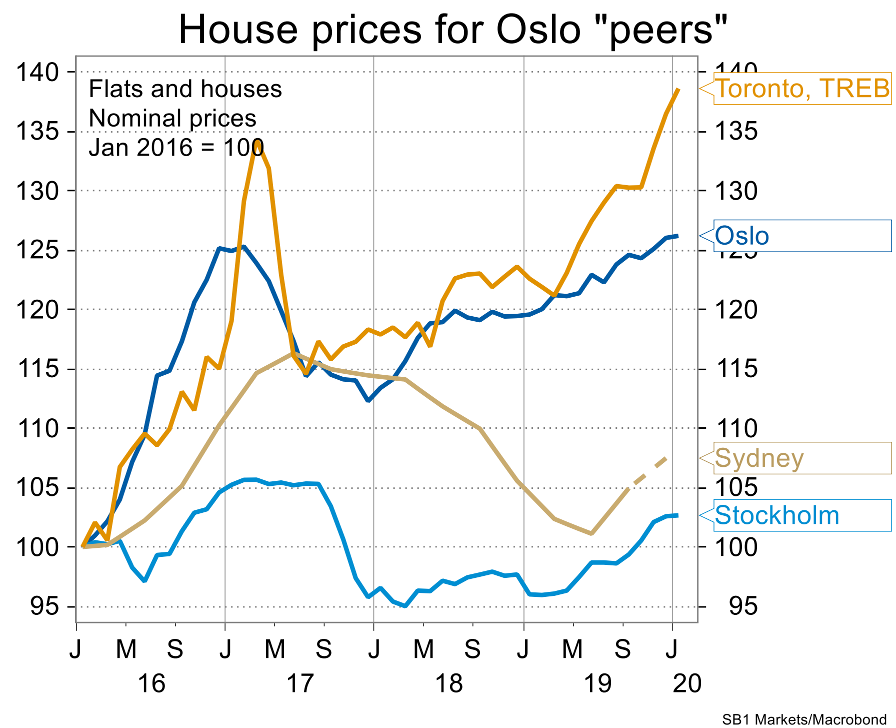


- House prices rose 0.8% m/m seasonally adjusted in January and Dec was revised up to a 0.5% pace. The price level is now marginally above the 2017 peak level, whereas real prices are still significantly lower than at that peak
  - » Soaring Stockholm prices lifts price inflation, but all are increasing
- The number of transactions is heading up, demand must be strong. Given several signs of slowdown in the Swedish economy, limited upside on the housing market?

Supercycle home prices on the way up again

Following weakness in 2017/18, prices are now climbing. Real prices still well below peak

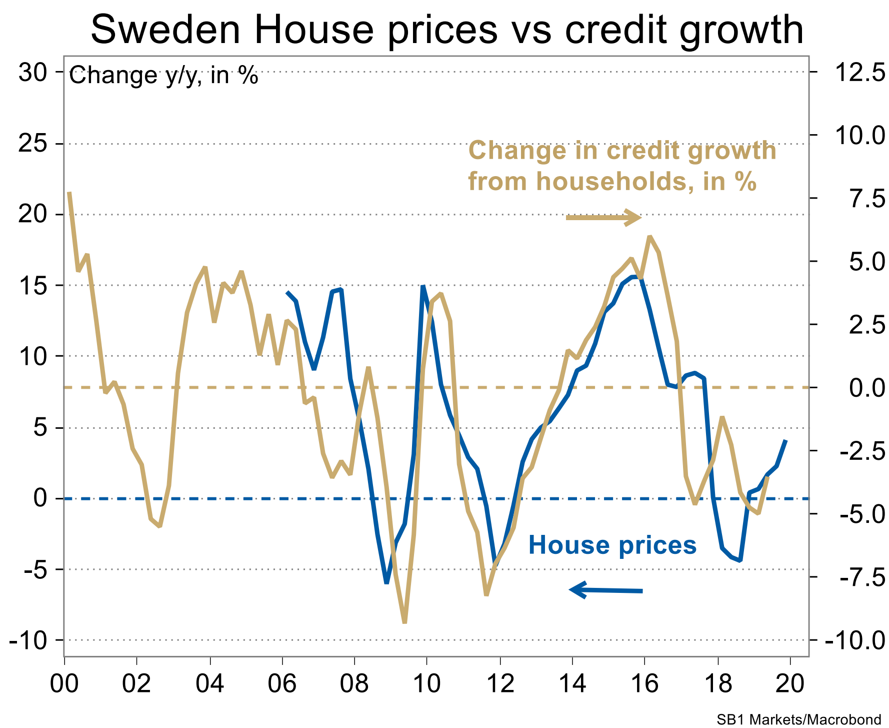


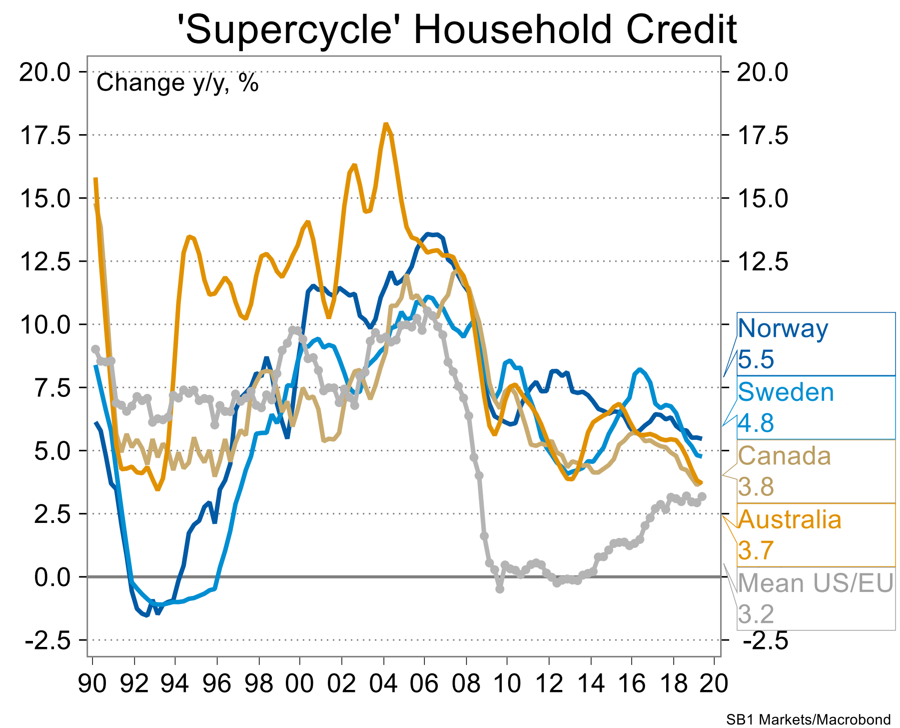


- Price growth have picked up among the supercycle guys recently, Oslo and Stockholm prices are increasing, Toronto soaring, and Sydney has sharply gained pace since the summer (interest rates have been cut, and lending standards eased)
- Still, household credit growth is slowing in all these countries, and unemployment rates have flattened out (and unemployment is increasing in Sweden and Australia), the upside on the housing market must be limited
- New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – probably created 'some turbulence' in 2017 and 2018, prices slowed or decline in all countries

House price inflation gains pace while credit growth is abating

Decelerating household credit growth may signal a slowdown in price growth

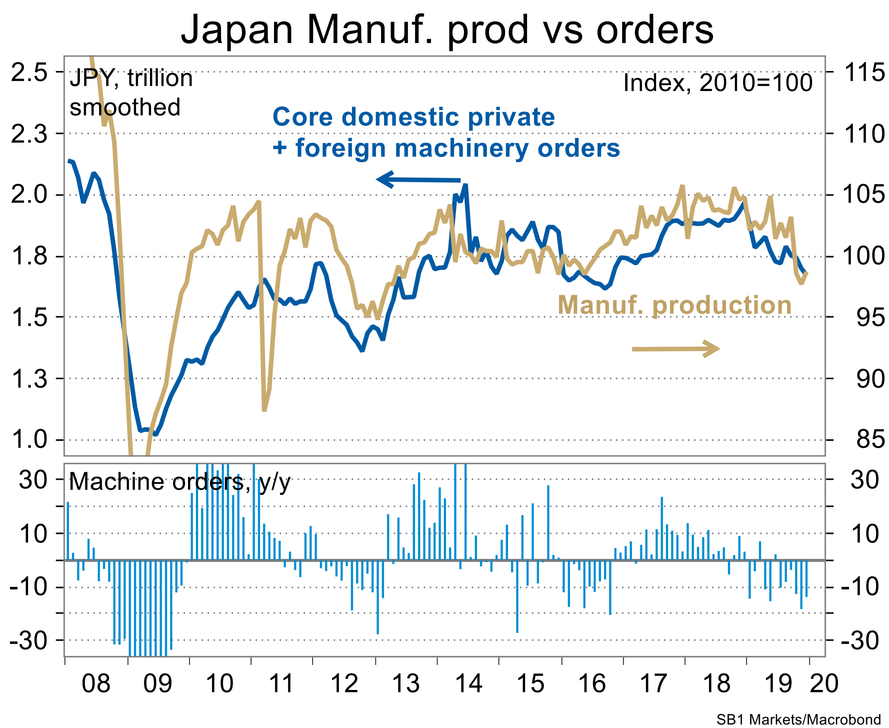


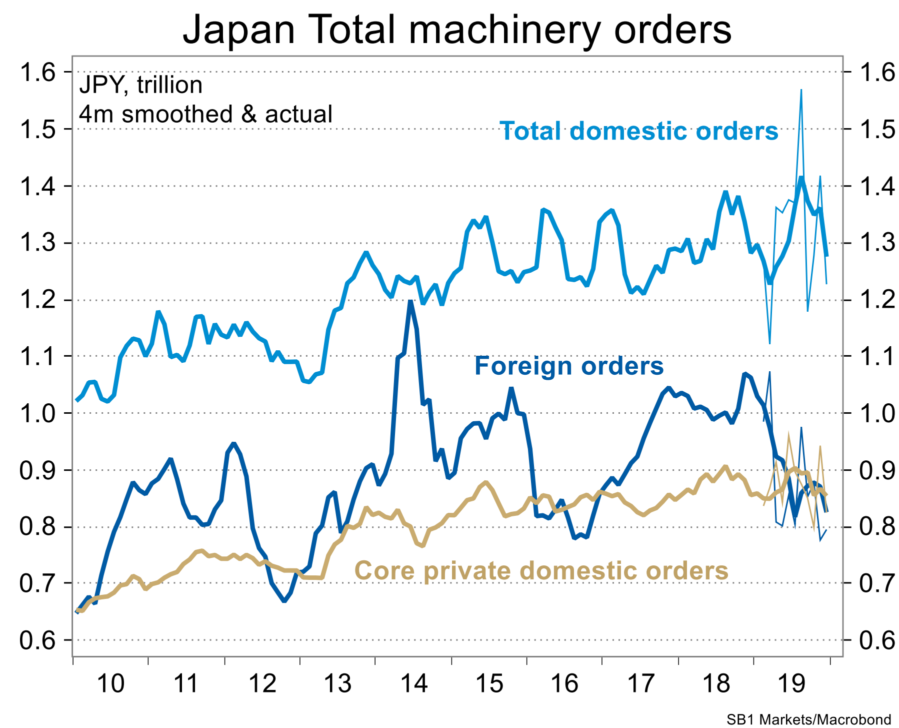


- Credit growth is slowing in all supercycle countries (thus, the 2nd derivate is negative at the chart to the left). At the same time, house price inflation is picking up in all these countries. Limited upside??
- On the other hand, the current household debt slowdown may be a consequence of sagging housing markets in 2017/2018. However, as the growth momentum in most supercycle countries is not shifting down, we doubt credit growth (and house prices) will accelerate much. In Sweden, like in Norway, lending regulations has dampened – and will continue to limit the upside for debt inflation, even if households should want to borrow more

Core machine orders slide down but no 'collapse' since the VAT increase

Foreign orders have stabilized after a steep decline, domestic orders have been cut recent months





- Core private domestic machinery orders fell in December. Orders have slowed somewhat since the summer but are trending flat over the past two years. Including foreign machinery orders, orders are still sliding down, by a 14% annual pace (smoothed)
  - » Foreign orders have more or less stabilized, after a rapid decline until last summer. Total domestic orders (incl. public) have slowed but are not weaker than in early 2019
- Manufacturing production is best correlated with private domestic orders + foreign orders, not total domestic orders. These orders do not signal any recovery in manufacturing production, which are falling by almost 6% y/y. Japanese manufacturing has no doubt been hit by weaker global trade and trade disputes, and when uncertainties eased last autumn, the economy was knocked by the VAT hike..

Highlights

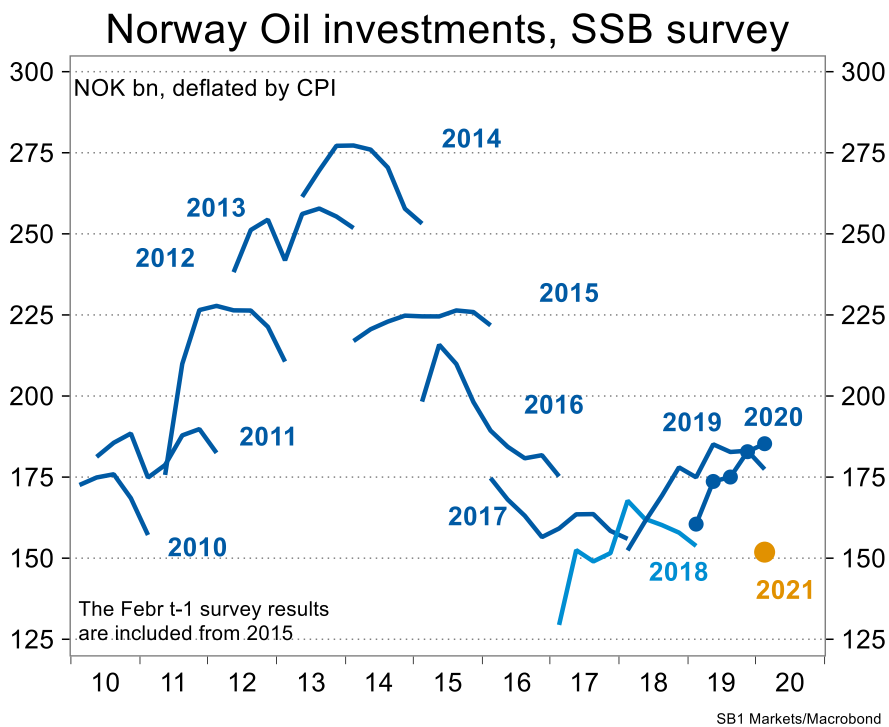
The world around us

The Norwegian economy

Market charts & comments

Oil investment survey implies a much steeper decline than we expected

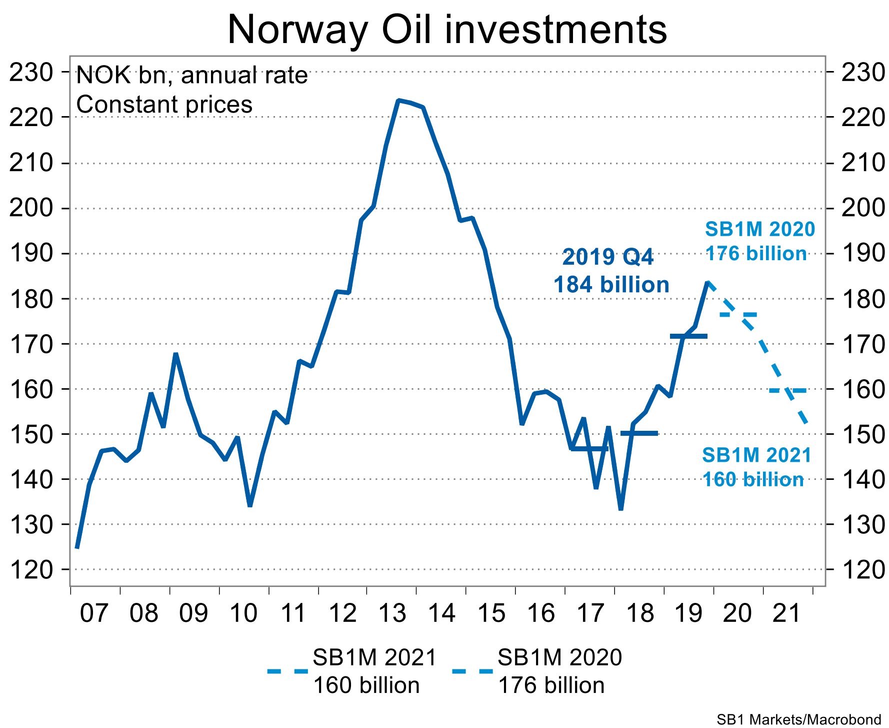
Oil investments most likely peaked in Q4 '19 and will decline by 6% through '20, and by 12% next year

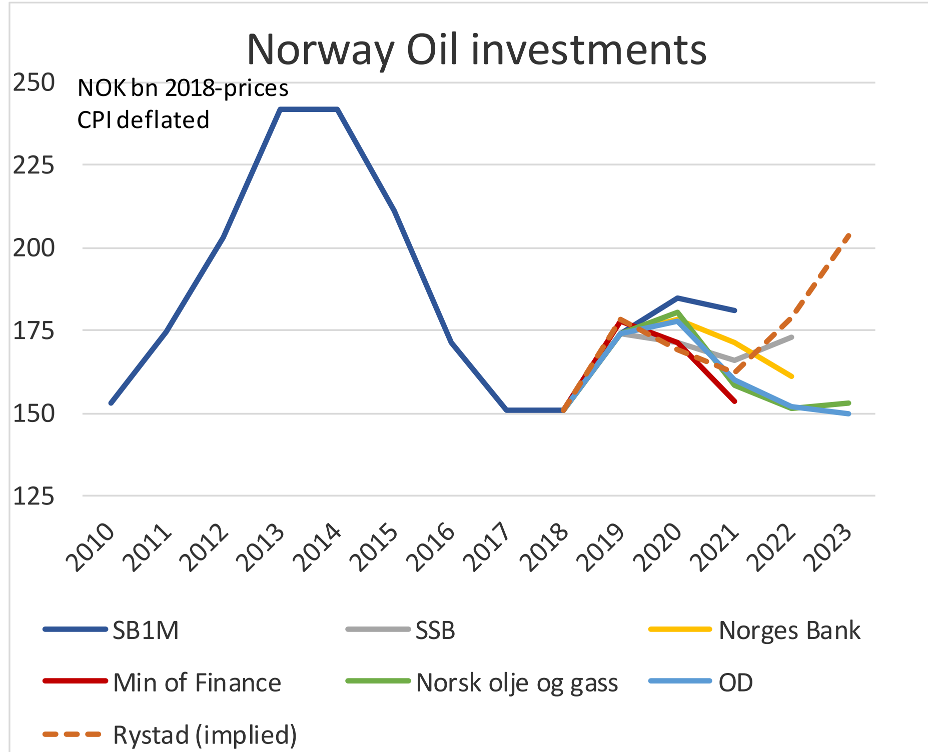


- In SSB's Q1 oil & gas investment survey, companies adjusted their **2020 investment f'cast** up by NOK 2 bn to 185 bn, close to our expectations. This estimate is 6% above the equivalent 2019 f'cast, however, fewer projects is set to be included through the year than in 2019. <u>We nudge down our volume growth estimate to 2.7% in 2020, from 5.5%</u>
  - » If our estimate is correct, investments in 2020 (in average) will be 4% lower than the investment level in Q4 2019 (see chart next p.)
  - » Norges Bank expected 4.5% growth in the Dec MPR
  - » Investment goods & services price inflation has picked up, we estimate 2.5% price growth in 2020
- **The first 2021 estimate** at NOK 152 bn, somewhat lower than we expected, and 4% below the equivalent 2020 f'cast (from 2019). Moreover, f'cast will probably be nudged up less than 2020 f'cast was. <u>We estimate a 7% nominal decline and a 9.5% drop in in volume terms in in 2021</u>
  - » If so, the average 2021 investment level will be 13% lower than the Q4 2019 level, and by Q4 2021, oil investments would have fallen by 17% from Q4 '19 (given a linear decline)
  - » Norges Bank f'casted a 5% 2021 decline in the December report
- Hence, the growth boost from oil investments is now turning to a drag. We expect Mainland GDP growth at 1.5% in 2020 (nudged down 0.1 pp) and 1.3% in 2021 – however still close to Norges Bank's f'casts – and still not an argument for lower interest rates

A crucial growth engine is about to change sign

Our 2020 volume growth estimate at 2.7% implies an average 2020 level 4% below Q4 2019





- **We nudge our 2020 volume growth estimate down to 2.7%** (from 2019), from 5.5%, down to an average level at NOK 176 bn. In Q4, oil investments rose by NOK 184 bn (annual rate), 4% higher than the 2020 estimate. Thus, we expect a substantial decline through 2020, and investments in Q4 2020 will be 6% below the Q4 2019 level
- Based on the oil companies' 2021 f'cast and prospects of new projects, **we expect a 9.5% decline in investment volumes in 2021**. This is a substantial adjustment, our prior f'cast was a 1% decline. Our f'cast implies that oil investments will have dropped by 17% by late 2021, compared to the Q4 2019 level (given a linear motion)
  - » Norges Bank projected a 4.5% growth in 2020 and -5% in 2021, the bank will probably revise down its f'casts. But not enough to indicate an interest rate cut in 2020
- The adjustments implies a 0.1 pp decline in our 2020 Mainland GDP growth f'cast, to a 1.6% rate. Norges Bank expected 1.9% in Dec, before the weak Q4 GDP data were known

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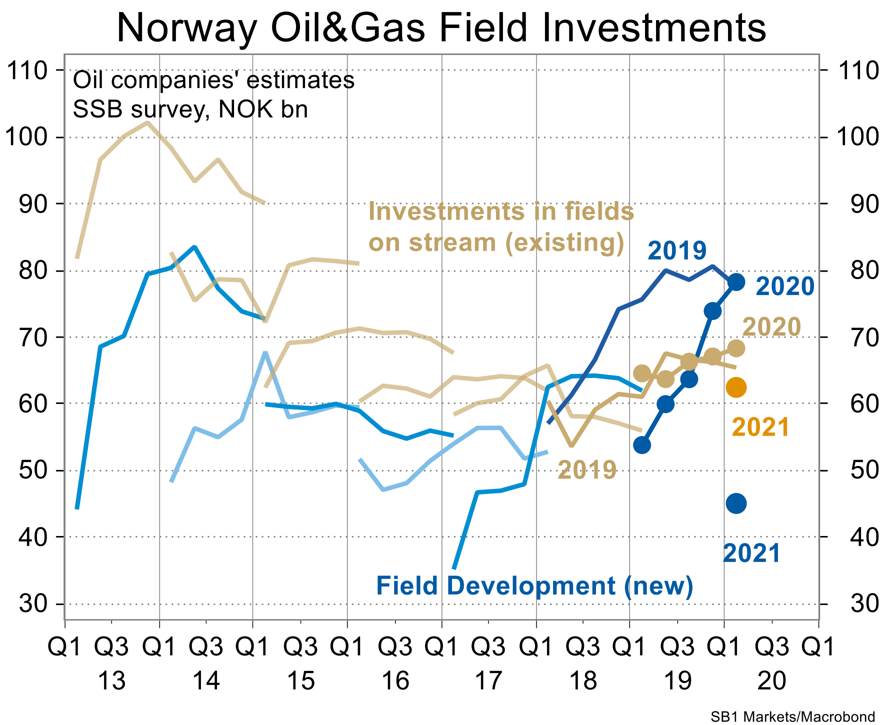
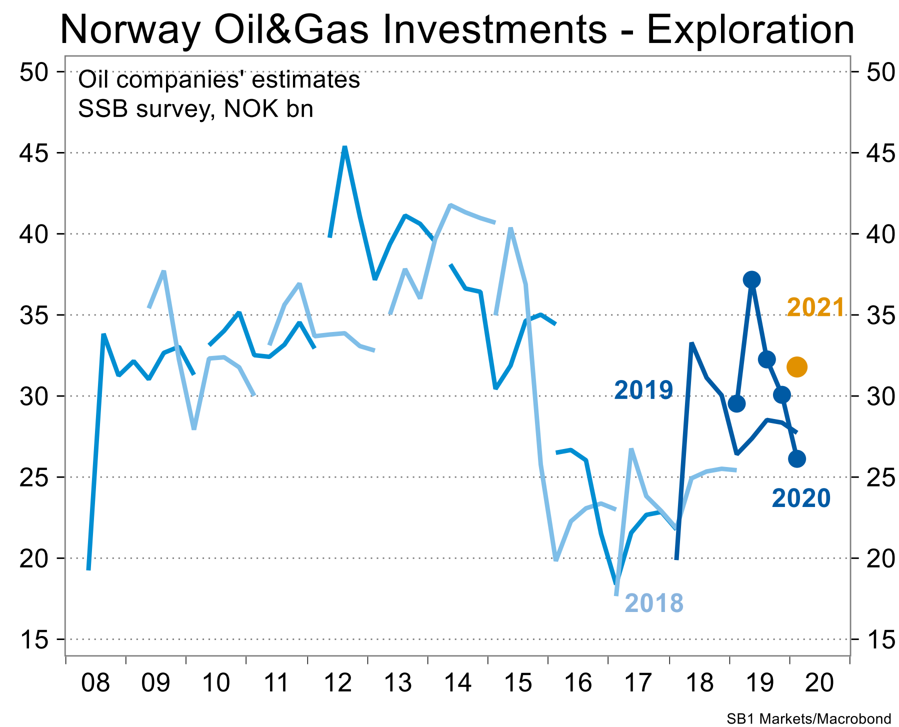
Field investments are set to decline rapidly next year, but exploration up

2021 f'cast on investments in new fields down 17% vs the '20 estimate, existing fields down 5%

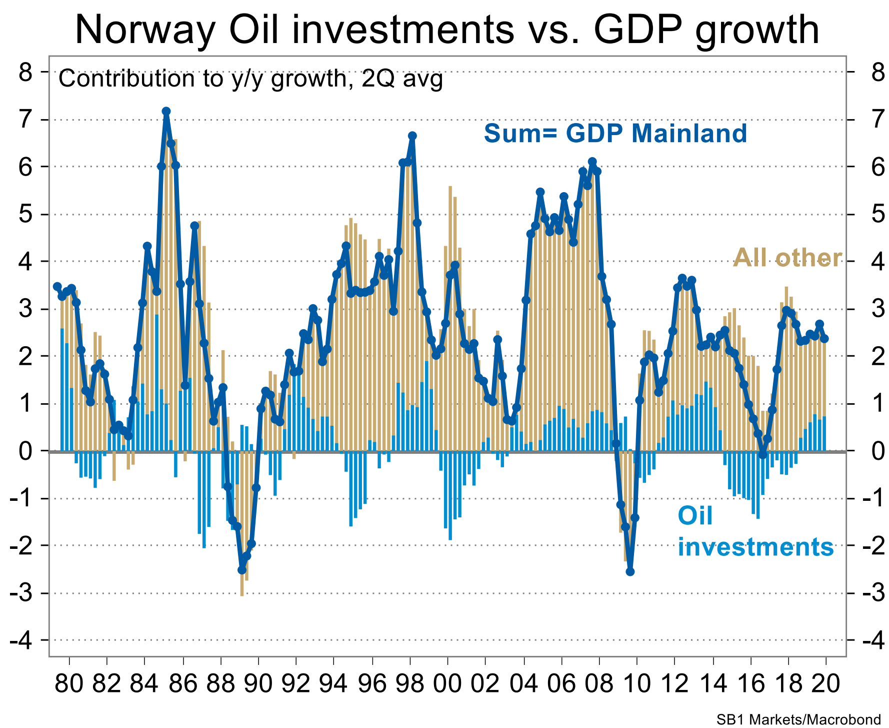




- One new PDO (plan for development and operation) is included in the Q1 survey. SSB expects several more PDOs this year, and most are expected for 2020, thus, few are left for 2021. Moreover, fewer projects will be included through the year than in 2019
- 2020 **exploration investments** were nudged down by NOK 4 bn (and NOK 12 bn from the May 19 est), and is now signalling a decline in 2020. The first 2021 f'cast came in at NOK 32 bn, suggesting 7% growth (vs the first 2020 f'cast), hence, offsetting some of the expected decline in field developments
- F'casts for 2020 investments in **existing fields** are 12% above the equivalent 2019 f'cast, while the 2021 f'cast suggest at least 5% decline vs 2020 (and probably more, as f'casts through the year are likely to be revised down). 2020 **investments in field developments (new fields)** are 3% higher than the 2019 f'cast, however, the first 2021 f'cast is 17% below the first 2020 f'cast as Johan Sverdrup investments are completed

The ‘oil boom’ was not that large – but gave a decent GDP support

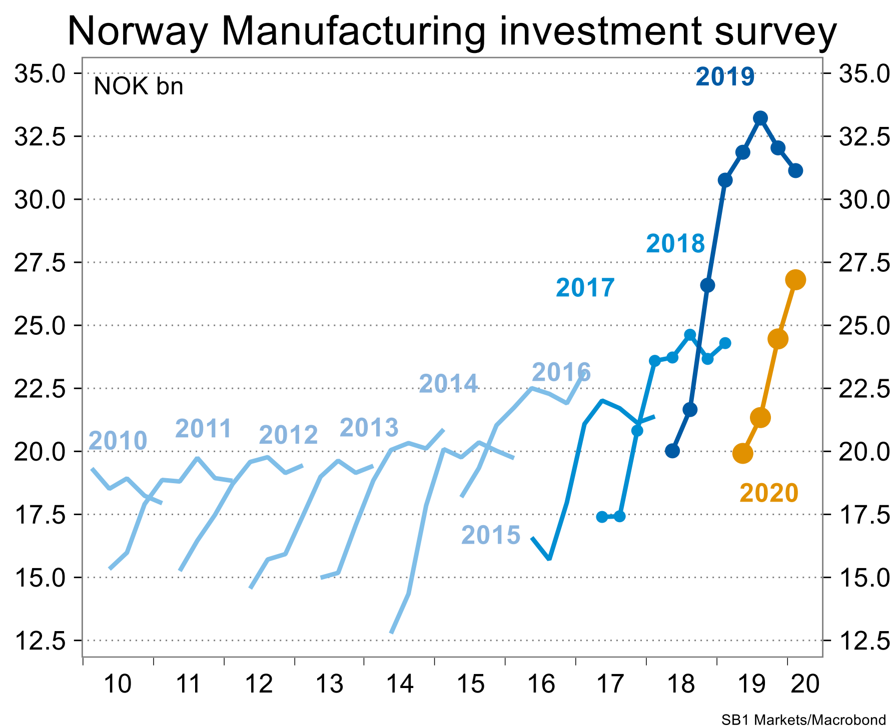
The contribution will turn to zero and later to a negative contribution, from some 0.7 pp in Q4

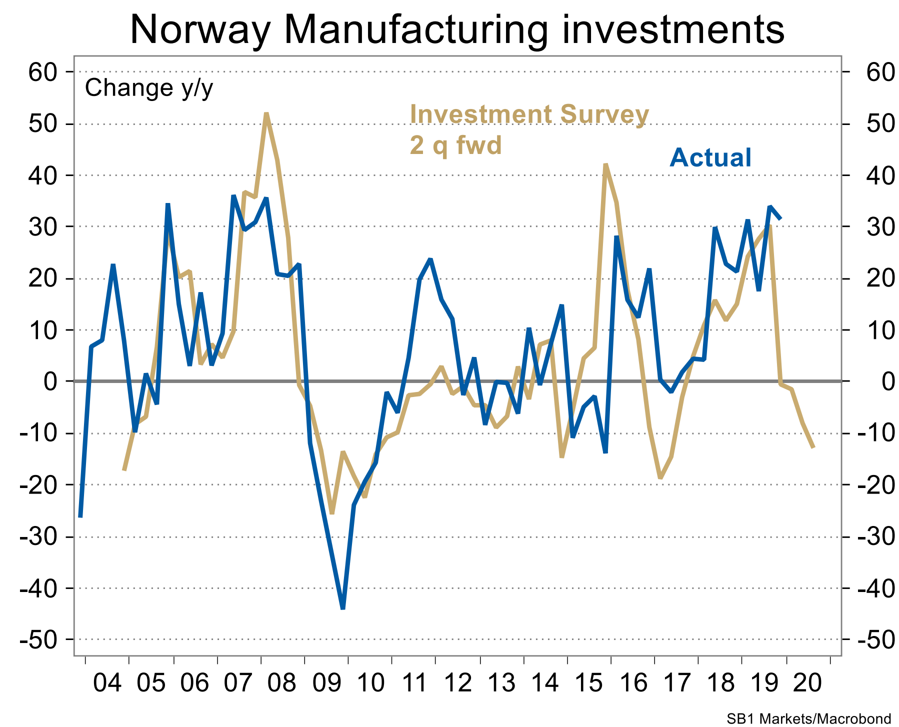


- The contribution on the chart is not adjusted for direct and indirect import to oil sector investments – the net impact is less than the gross contribution.
  - » On the other hand, the income multiplier is not included either

Manufacturing investments set to drop 16% in 2020

We expect a substantial cut in investments this year, following the 2019 boom





- Manufacturing companies adjusted their 2020 investment estimate up by NOK 2 bn in Q1, to NOK 27 bn. The estimate is 13% lower than the equivalent 2019 estimate (from Q1 2019)
- We expect a 14% drop in nominal investments in 2020 – and a 16% decline in volume, following a 26% growth in 2019. Even so, the investment level will not be low, check next page
  - » Investments in refined petro., chemicals and metals are the major drags in 2020, after soaring in 2019

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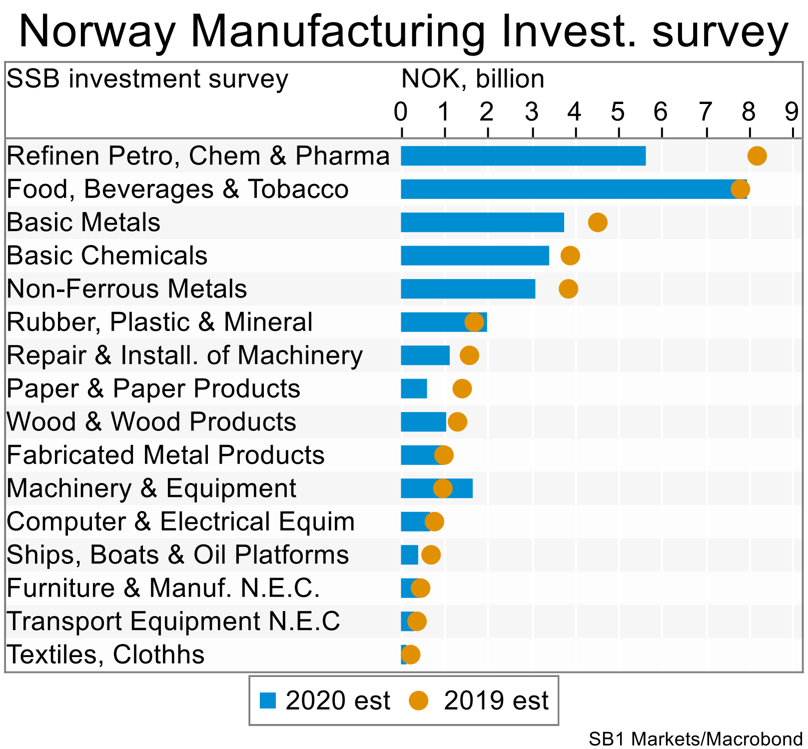
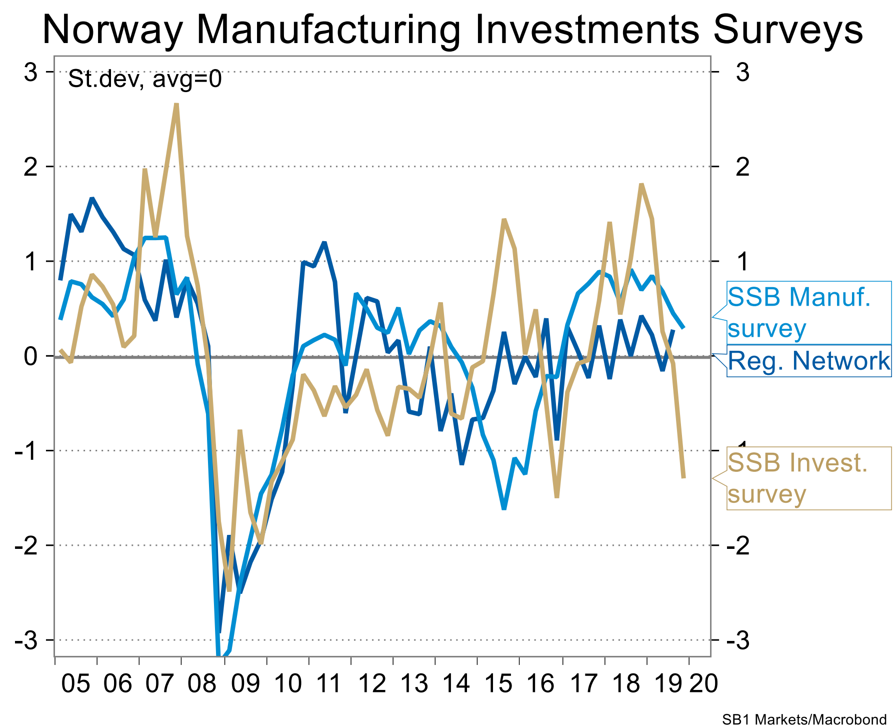
The boost from refined petro, metals & chemicals will reverse

2020 f'casts have been nudged down vs the '19 f'casts in most sectors





- In late 2018 and early 2019, the SSB manuf. investment survey was much more upbeat than other surveys (and it was right, as usual). Now, however, the level is far weaker. SSB's manufacturing survey (not investment survey) point to slower growth, Norges Bank's Network (until Q3) quite stable, at an average level
- The investment survey signals a steeper downturn than other surveys, but SSB's manufacturing survey (not the investment survey) confirms a marked downturn. SSB's investment survey is usually quite precise

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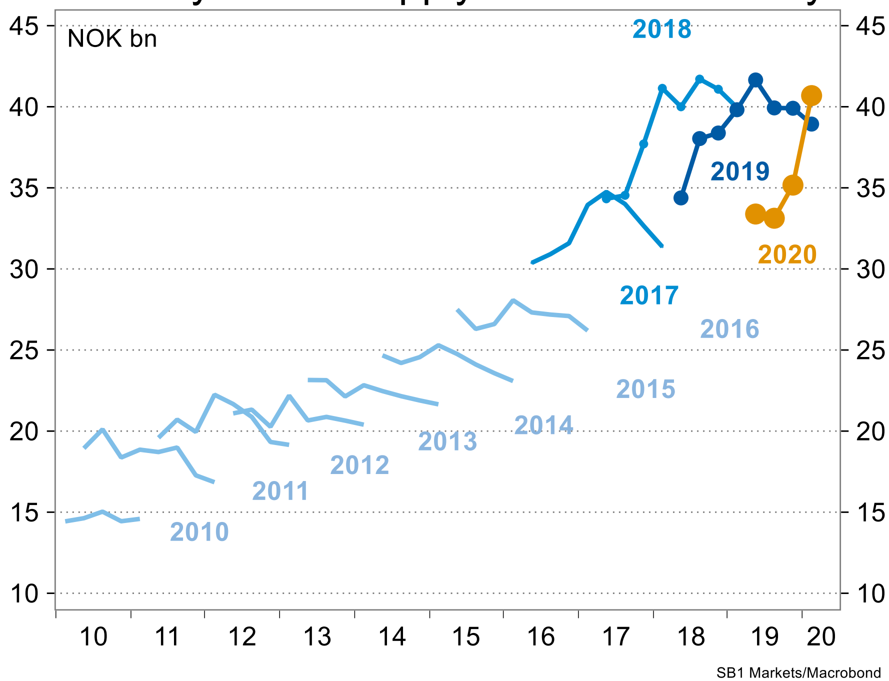
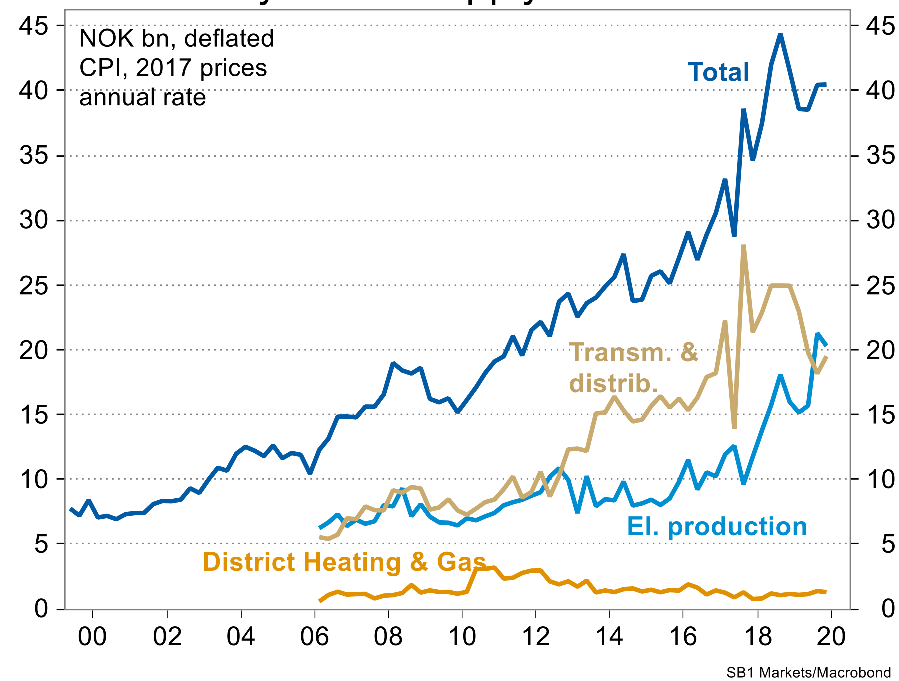
Power supply: No downturn in investments? Seems so!

2020 investment estimates revised up by NOK 6 bn (17%), saved by new wind power projects

Norway Power supply investment survey



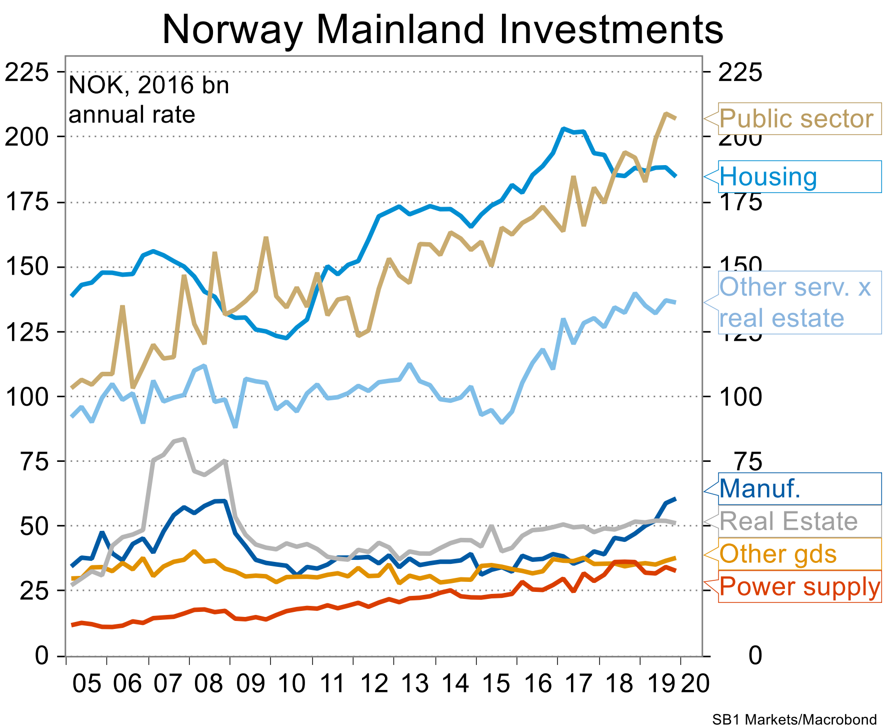
Norway Power supply investments

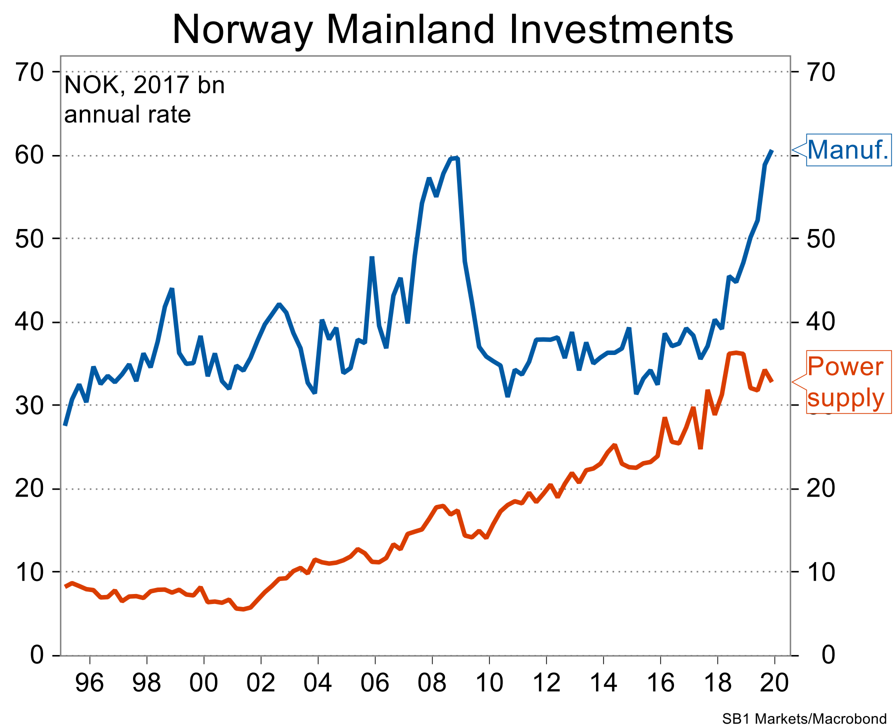


- Power supply (production & distribution) companies nudged up their 2020 investment f'cast by NOK 6 bn to NOK 41 bn. This was a much steeper increase than we expected and more usual due to a new wind power project. The 2020 forecast is now 2.5% higher than the equivalent 2019 f'cast (last quarter, the 2020 estimate was 9% lower than the 2019 f'cast). Hence we revise up our 2020 f'cast to zero growth, in volume terms
- In 2019, power supply investments rose by 3% vs the 2018 level (both nominal and real), after soaring by 21% in 2018. Investments have more than quadrupled in 25 years, more than 10% p.a in average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades

Power supply investments have peaked, manuf. investments peaking now

Both equal 1 - 2% of Mainland GDP and 5-8% of Mainland investments





- In volume terms, investments in the manufacturing have accelerated sharply the past two years, but companies are signalling a sharp decline in 2020
  - » Real estate investments and investments in other private services are the main components in Mainland business investments – and they are still at rather high levels
- The outlook for Mainland investments is not upbeat, given the expected drop in investments in manufacturing and the modest decline power supply - and probably a limited upside on real estate investments, as housing starts are slowing. The public sector cannot continue to climb for a long time either? Check the next slide for more

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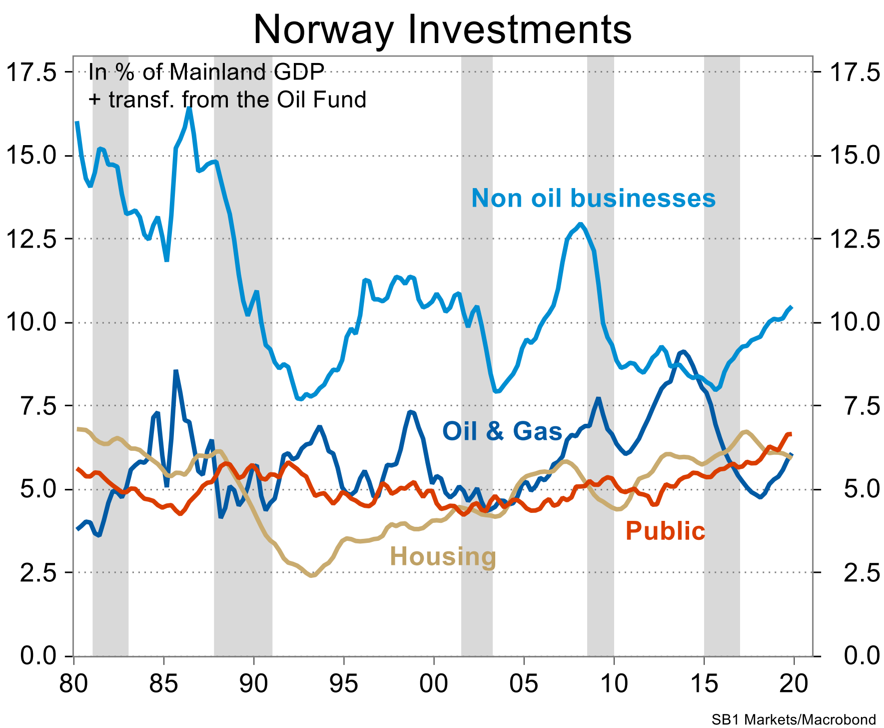
The investment cycles: A broad slowdown the coming years

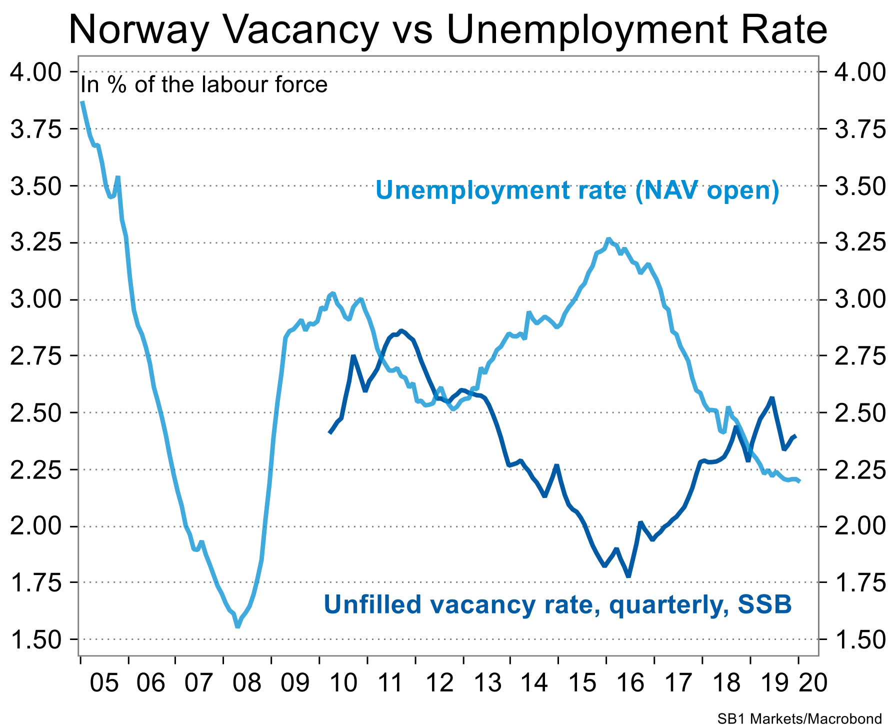
Mainland business investments are not low anymore, but probably at a cyclical peak

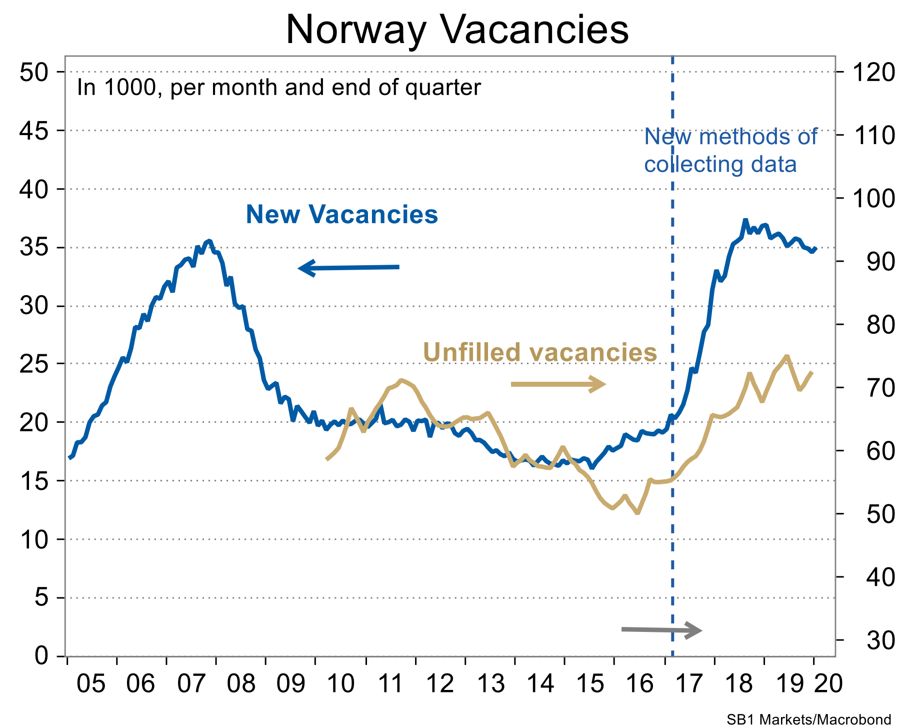


- **Oil investments** have accelerated since late 2017, probably peaked in Q4 2019 and is now turning down
- **Mainland businesses** have increased their investments sharply since '16, and the level is not low anymore. They are probably at peak, too, as manufacturing and power supply investments are set to decline, and the upside on service investments is probably limited
- **Government investments** are the highest in decades, vs GDP. Will come down long term, but limited downside short term
- **Housing investments** stabilized in 2018 and 2019, sagging housing starts indicate a downturn. Still, the downside is not large compared to the dips in oil investments (barring a total housing market breakdown)

Unfilled vacancies marginally up in Q4, flat since mid-2018

Vacancy rate inched up to 2.4%, there are still more vacancies than unempl. (in % of labour force)

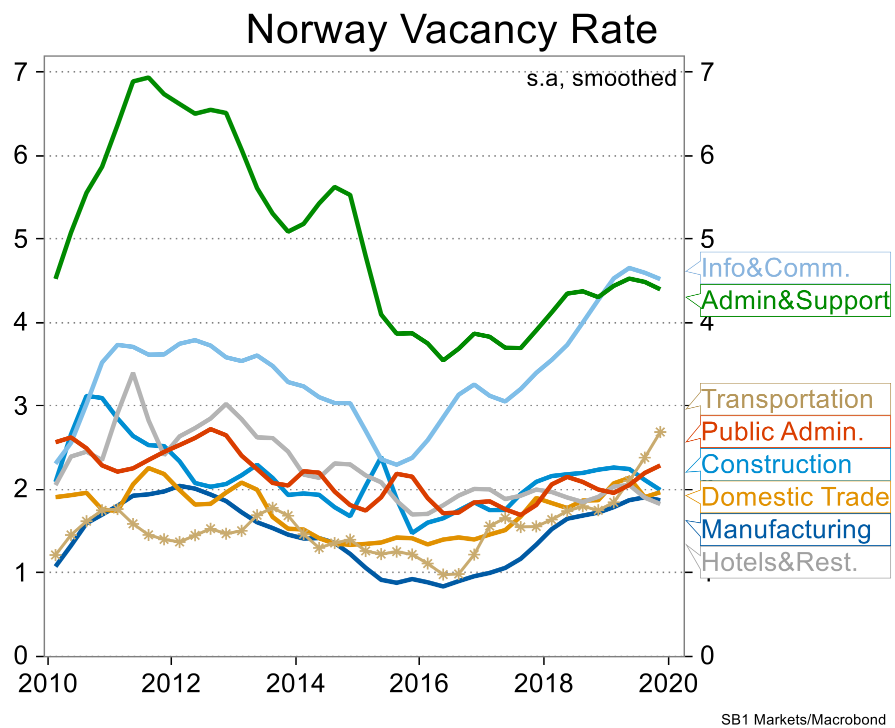


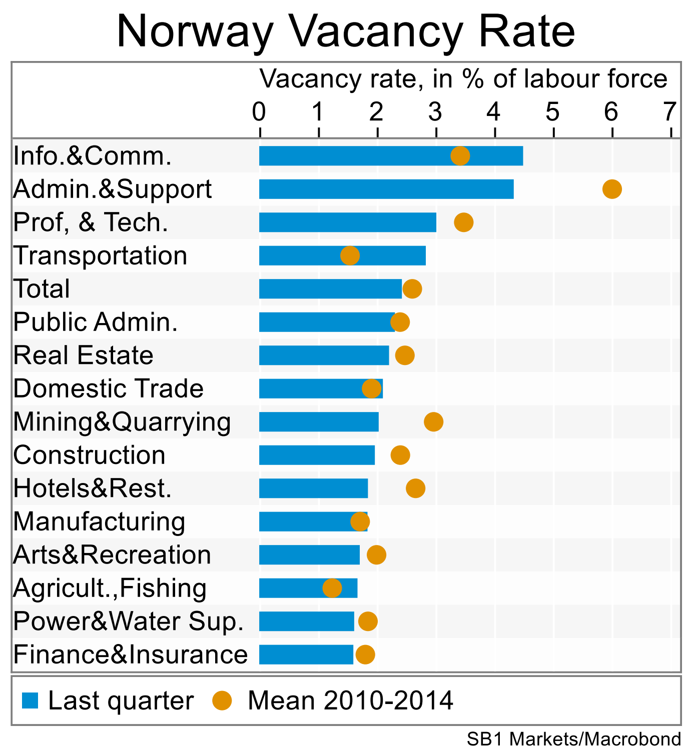


- The vacancy rate increased to 2.4% of the labour force in Q4, from 2.3%. The vacancy rate has flattened out since mid-2018, at a lower level than in 2010-2013. The vacancy rate is still 0.2 pp above the share of unemployed, thus, the labour market is tight
  - » The number of unfilled vacancies (at the end of quarter) increased by 3’ in Q4, reversing half of the Q3 decline
- A stagnating vacancy rate adds to sign of a slowly softening labour market. Registered unemployment is no longer declining
- The number of new vacancies, reported by NAV, has been inching down since 2018. NAV reported a much sharper rise in new vacancies in 2017-2018, partly due to a new method of collection, thus, the numbers from early 2017 an onwards are not comparable with previous figures. The direction the past year anyway confirms the stabilization which SSB reports

Unfilled vacancies are flattening out in most sectors

Just transportation, public and manufacturing are still more unfilled vacancies

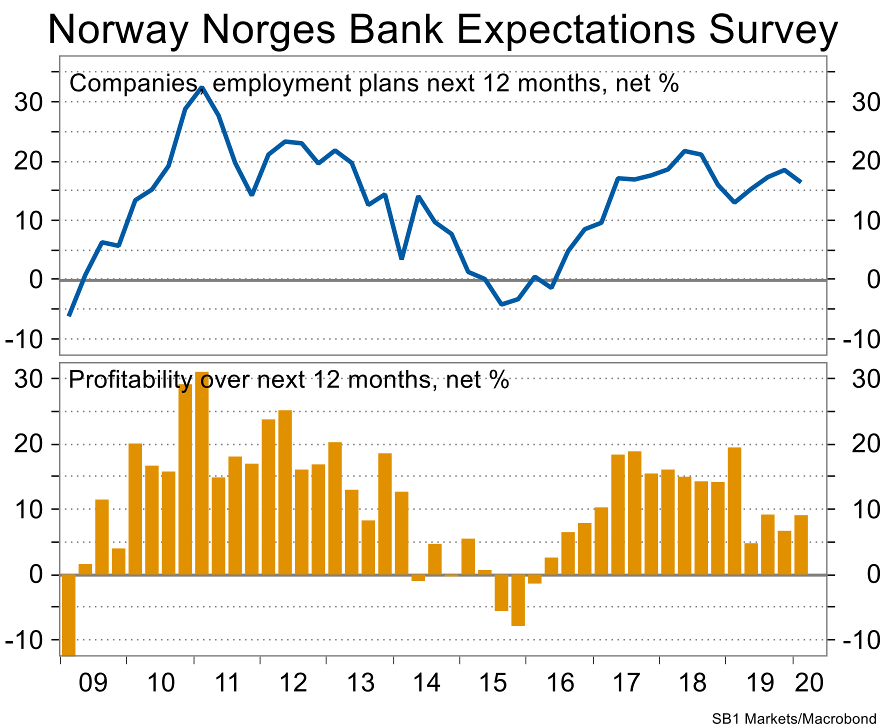


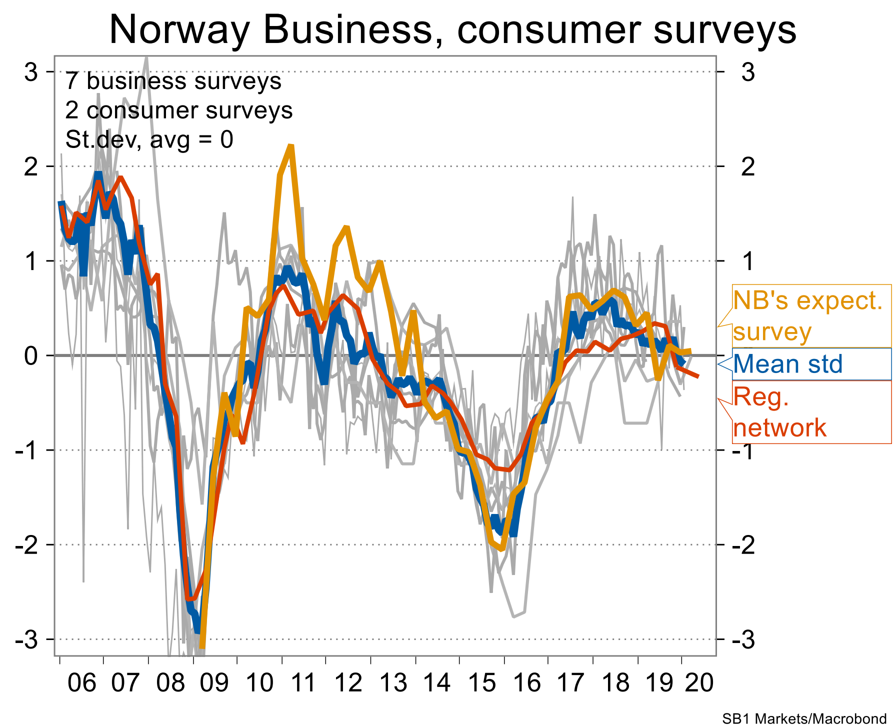


- The vacancy rates is highest in information & communication sectors and administrative positions, however, the latter is much lower than in 2010-2014
- Vacancy rates have edged up since 2016 in all sectors. Still, vacancies are lower than the pre-2014 oil downturn averages in 10 sectors, and above just in 5 sectors

Norges Bank expectation survey steady in Q1, at an average level

Profitability, expectations were nudged up, employment plans a tad down, but are not weak

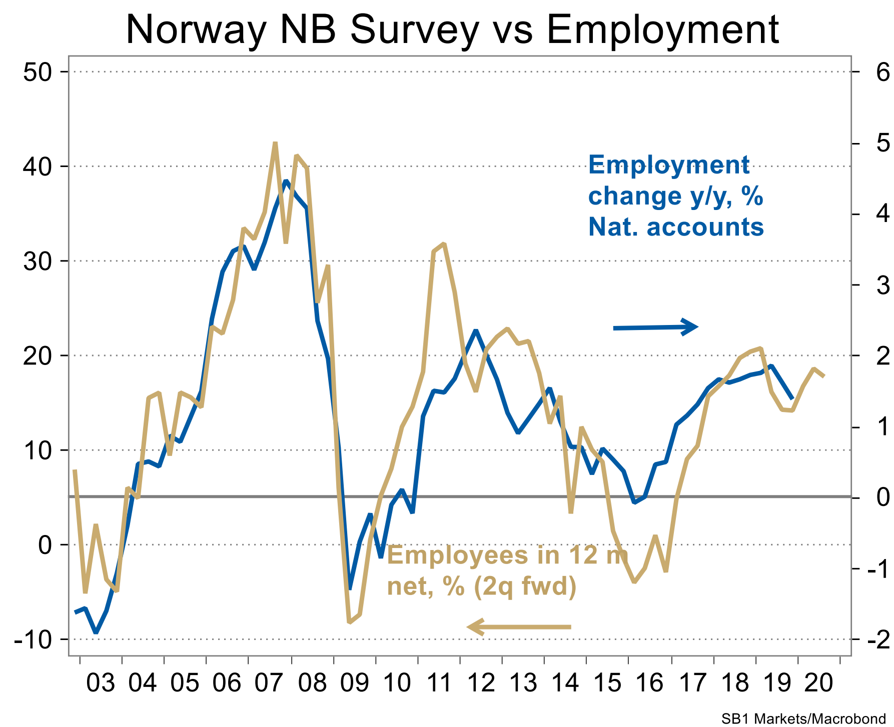


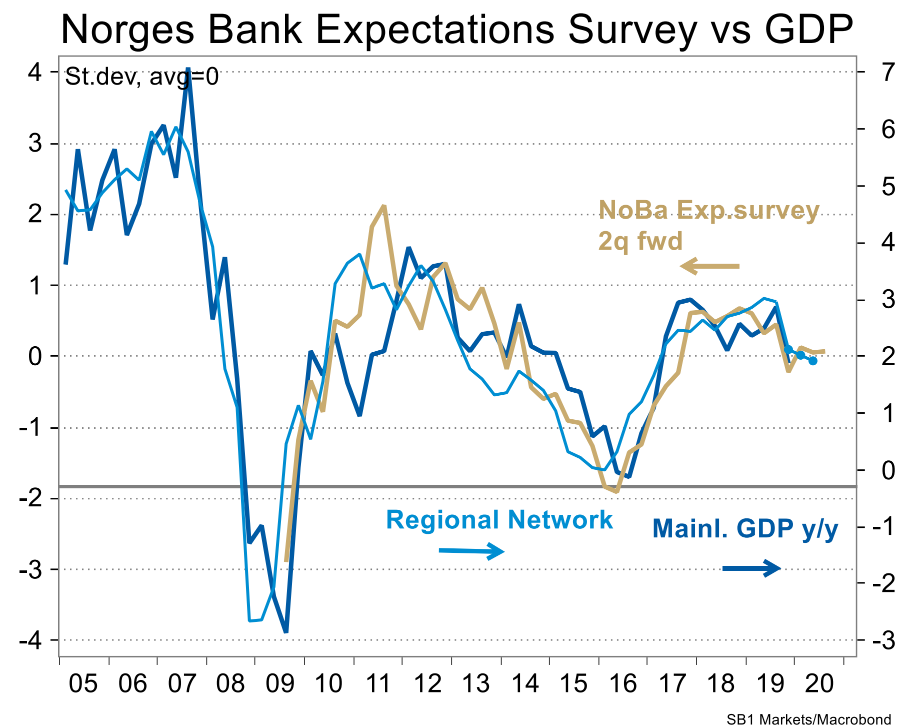


- Norges Bank's expectation survey (not the Bank's Regional Network survey) was unchanged in Q1, measured by the sum of businesses' employment plans and profitability expectations. The 'composite' index has stabilized at an average level, marginally more upbeat than the avg of all Norwegian business surveys
- Expectations of businesses' profitability the next 12 months edged up, but the past 4 quarters have been lower than 'usual'. Employment plans have turned up the past year, pointing to an uptick in empl. growth, which we highly doubt

NoBa survey signals steady growth, and higher employment growth??

Employment expectations have been nudged up, we think too much

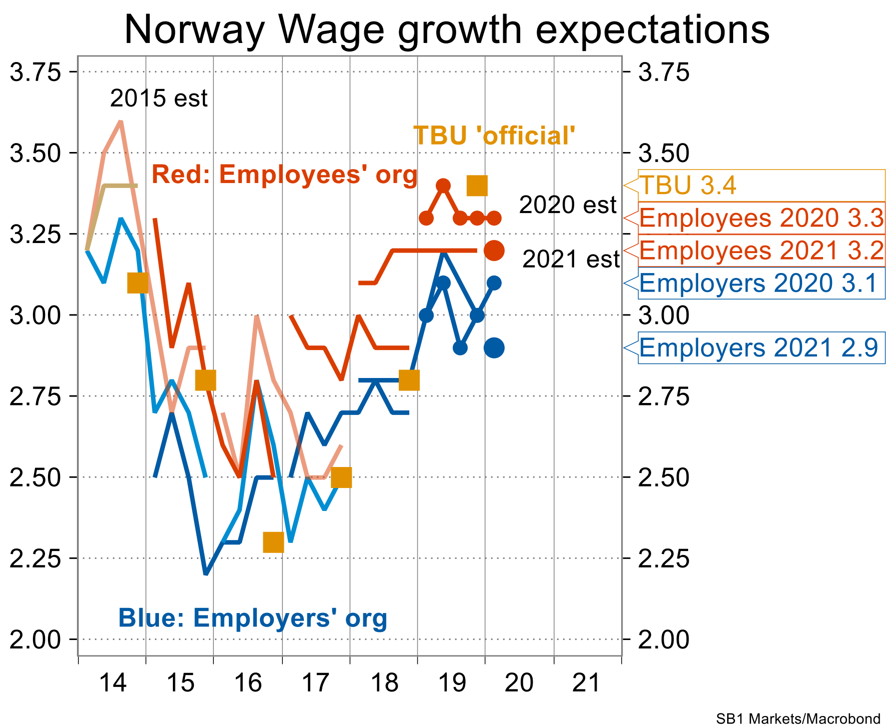




- The 'composite' index has stabilized the past few quarters, whereas most others have turned down, signalling a growth slowdown. The expectations survey suggest marginally higher growth than Norges Bank's Regional Network, both suggest growth to remain at the 'low' speed from Q4, at approx. 2% y/y

2020 wage expectations flat/up, lowered next year

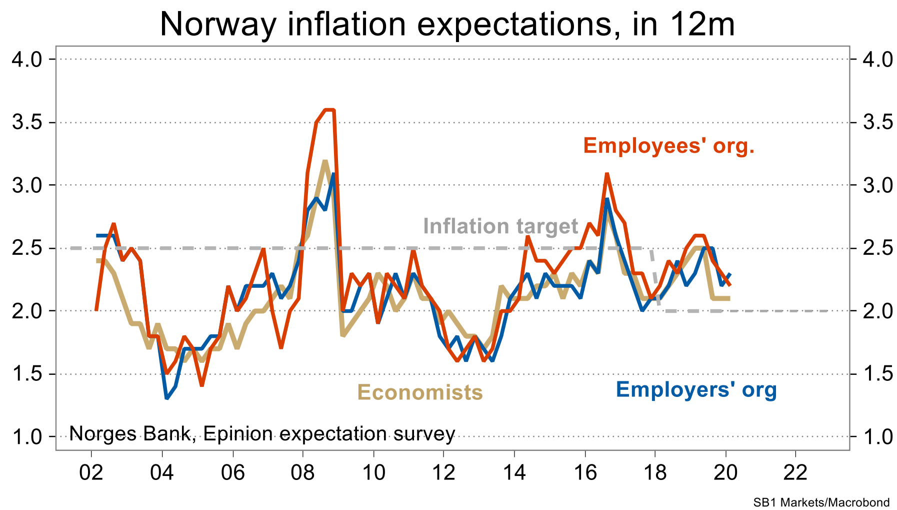
Employees’ organisation are expecting 3.3% growth in ’20, employers’ up 0.1 pp to 3.1%

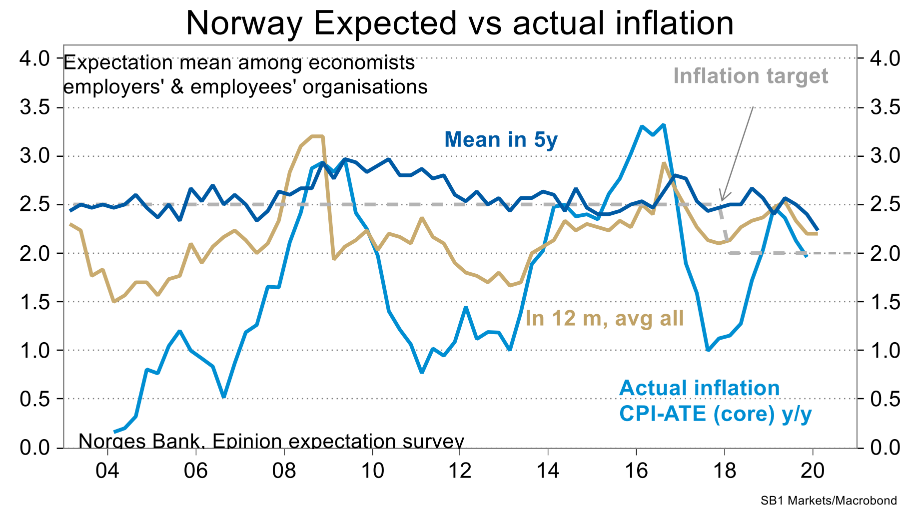


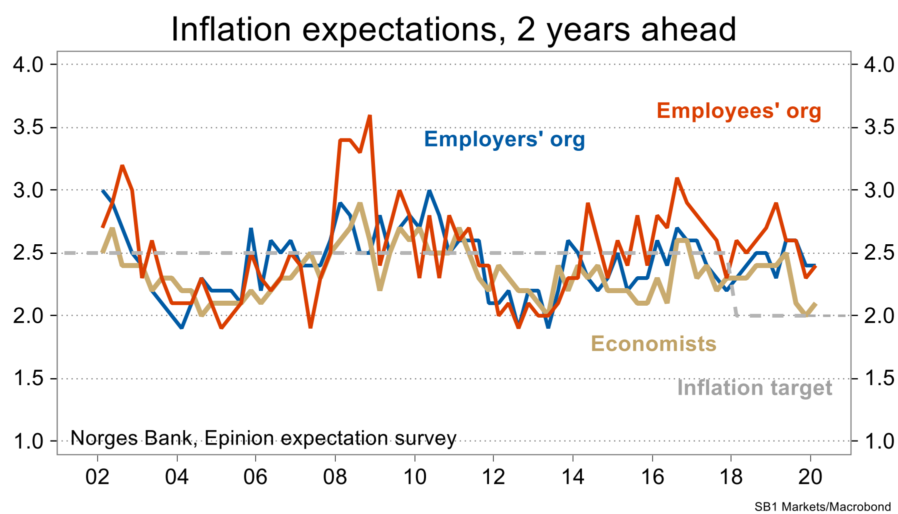
- **2018:** Wages rose 2.8%, according to the ‘official’ TBU estimate
- **2019:** Wages increased by 3.4%, according to the preliminary TBU report
  - » The outcome is well above both economists in both employers’ and employees’ organisations reported (3.2% and 3% resp.)
- **2020:** The employees’ organisations held their 2020 wage growth estimate unchanged at 3.3%, while the employers’ organisations nudged up their f’cast to 3.1%, from 3.0%
  - » In general, employees’ org expects higher wage growth than their peers at the employer side, as one should expect
- **2021:** The employees’ organisations lowered held their forecast to 3.2% from 3.3%, while the employers’ organisations nudged up their f’cast down to 2.9%, from 3.1%

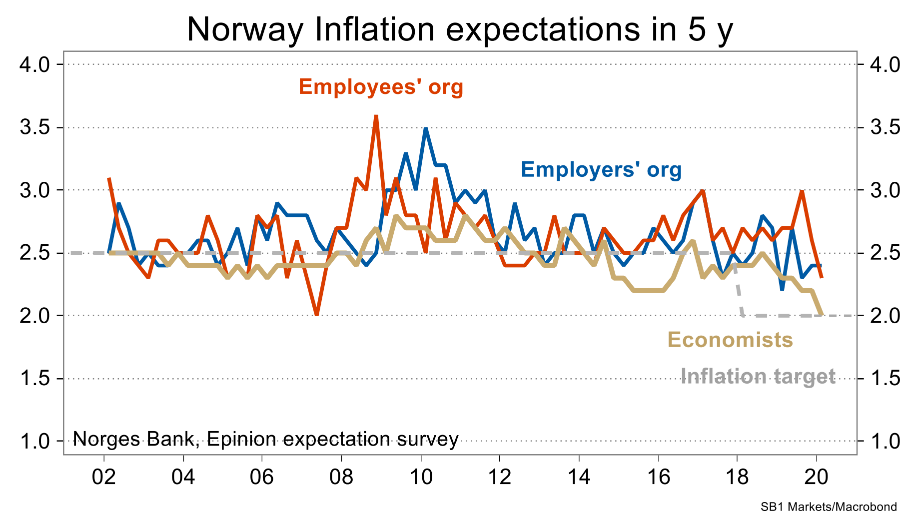
Inflation expectations are approaching the 'new' 2% target

Expectations the next year are not that far off anymore but organisations' 2-5 y f'casts still elevated



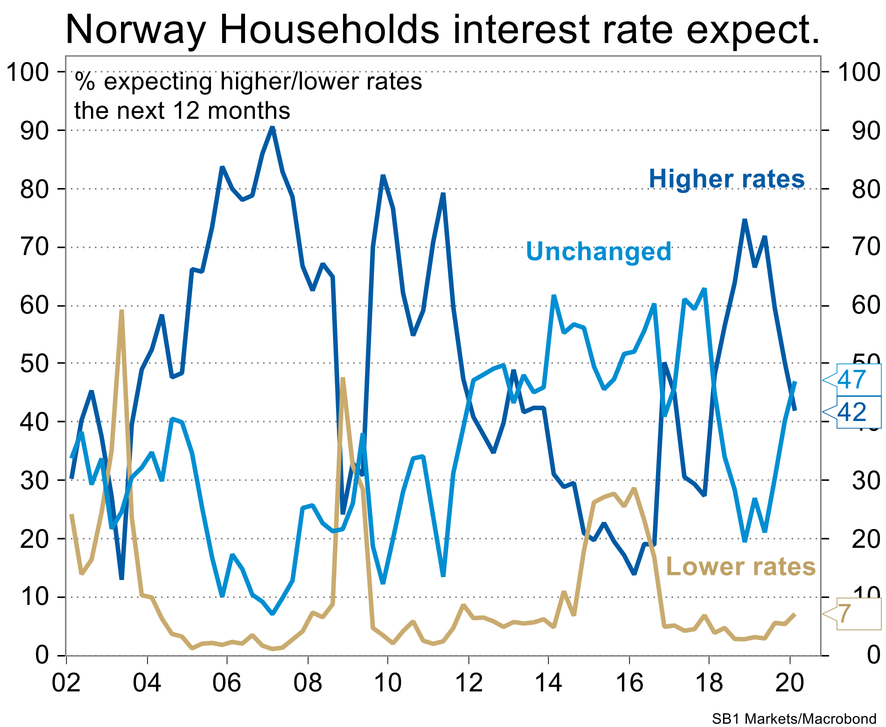






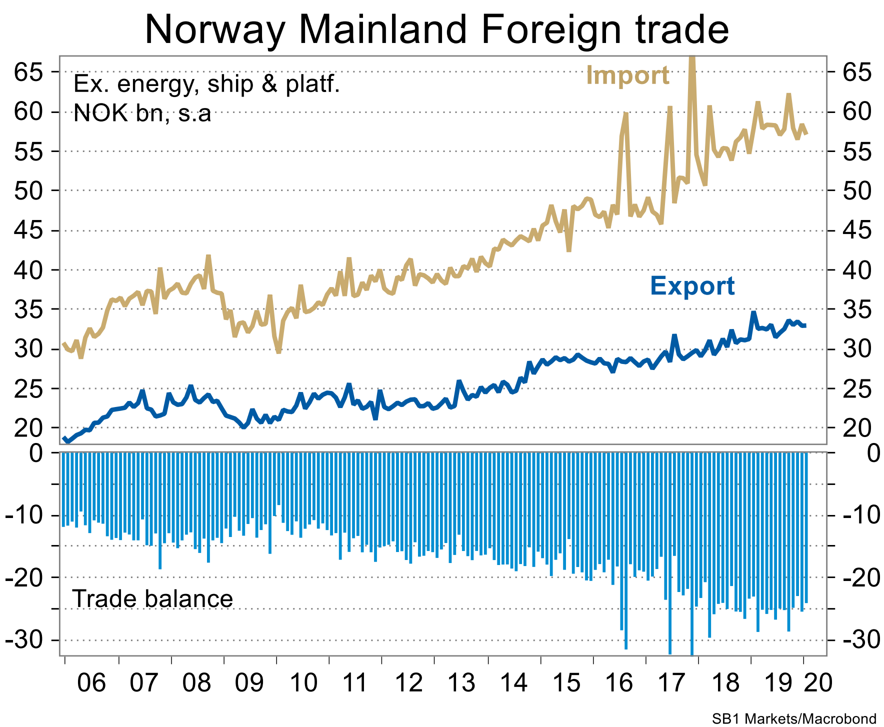
Most households are expecting unchanged interest rates

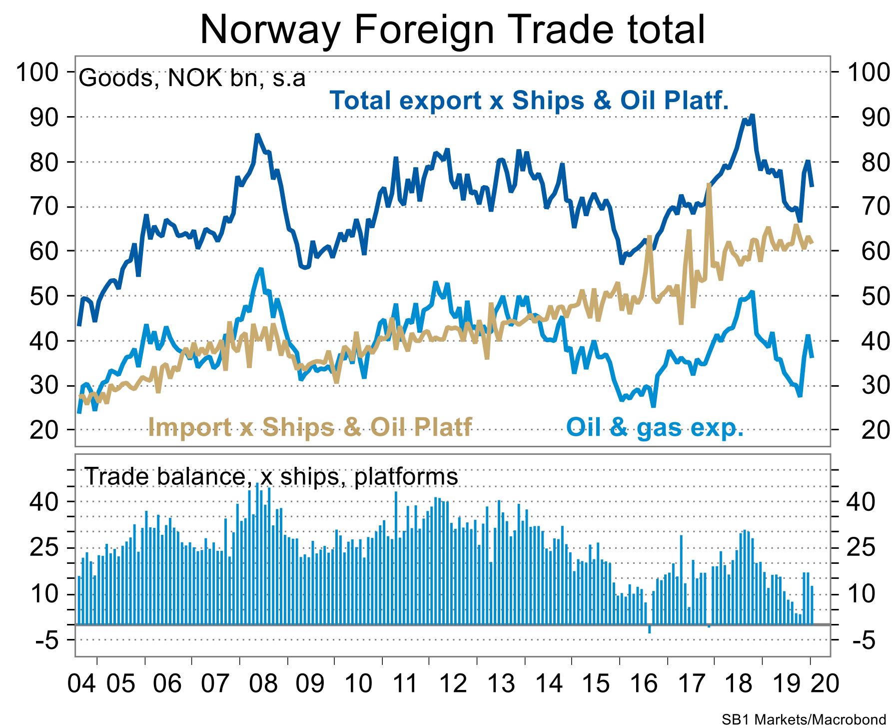
Still, 42% are expecting higher rates, just 7% expect lower



Mainland exports are trending up, imports slowing recent months

The Mainland trade deficit is shrinking marginally. Oil exports slowed in January, after a rebound





- The <u>Mainland (non energy) trade deficit</u> declined to NOK 24.1 bn in January. The deficit has been shrinking marginally since mid-2019, due to slower growth in imports. The longer term trend is anyway a widening deficit
  - Imports (in value) fell by 2.3% m/m in January. Monthly imports are volatile, due to some large projects, but are now heading marginally downward, after soaring the prior two years. Imports are up 3.9% y/y (smoothed)
  - Mainland exports increased by 0.1% m/m. Exports are trending slowly up, annual rate at 3.9%. The weak NOK is boosting export businesses, however, there has not been any take off in export values
- The overall trade <u>surplus</u> (incl oil & gas, ex ships & platforms) shrank to NOK 12.6 bn, as oil exports fell with the oil price in January. Recent years, the total trade surplus has equalled approx. 6% of total GDP

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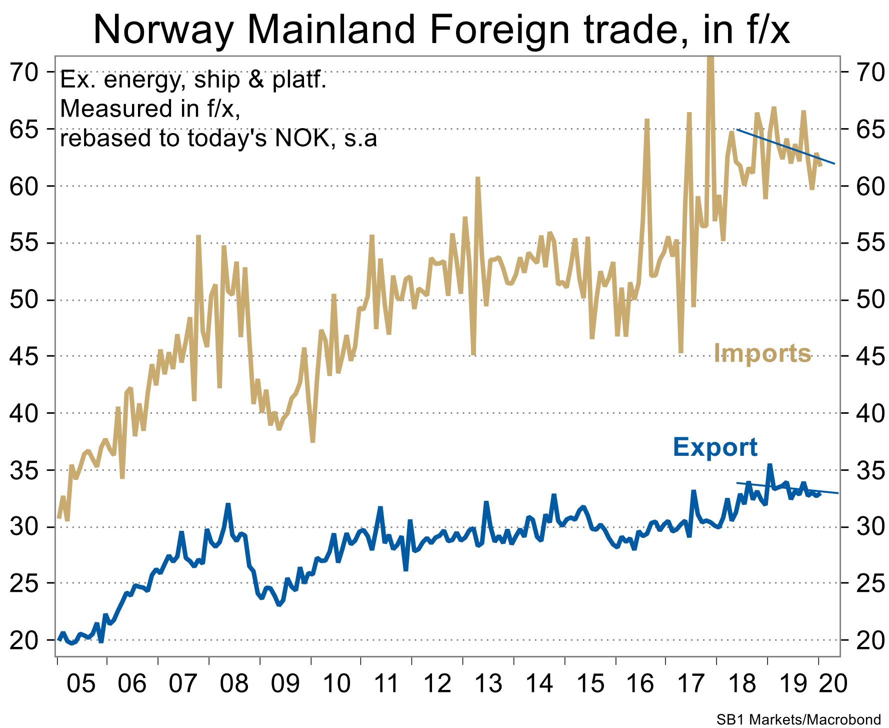
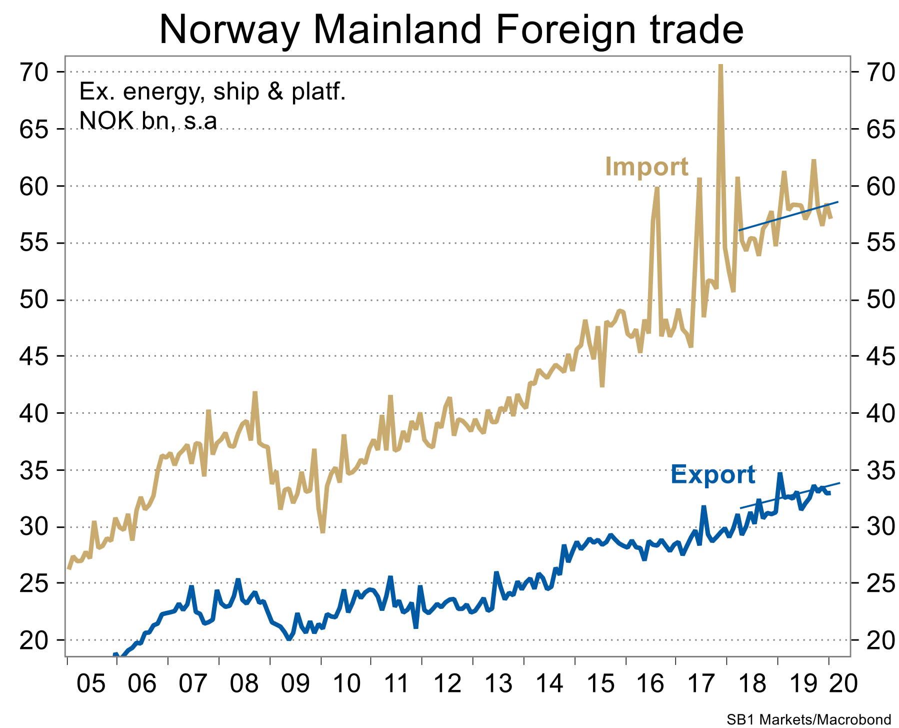
… in f/x, not that impressive

The NOK depreciation has lifted trade values in NOK. In f/x trade values are flattish, at best

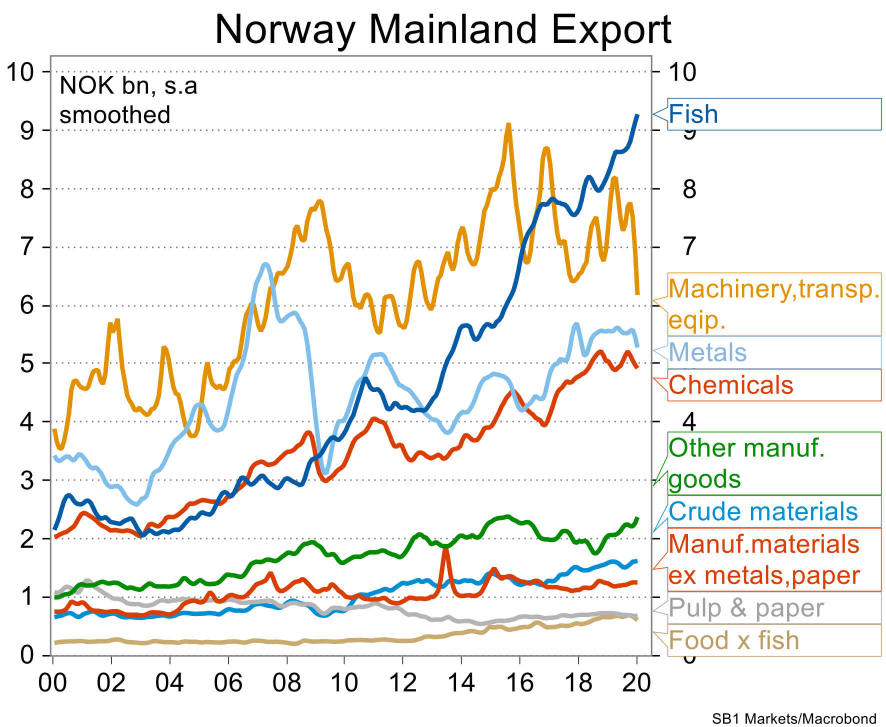


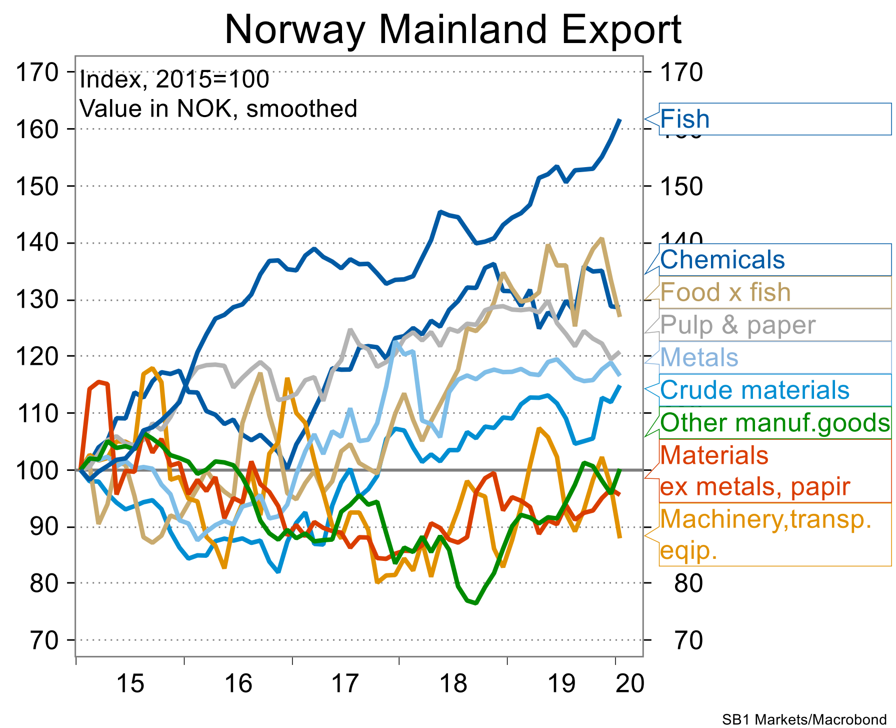


- At the chart to the left, trade values are rebased to today's NOK I-44 index

Exports of fish are soaring, others not so impressive

Exports of fish and food and manufacturing goods are increasing rapidly, machinery is losing speed

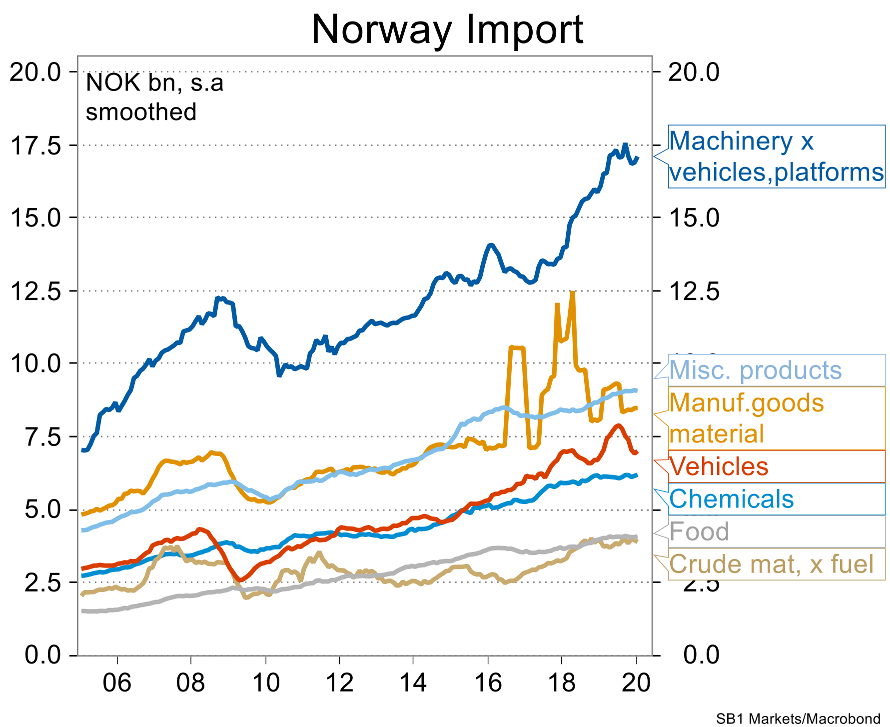


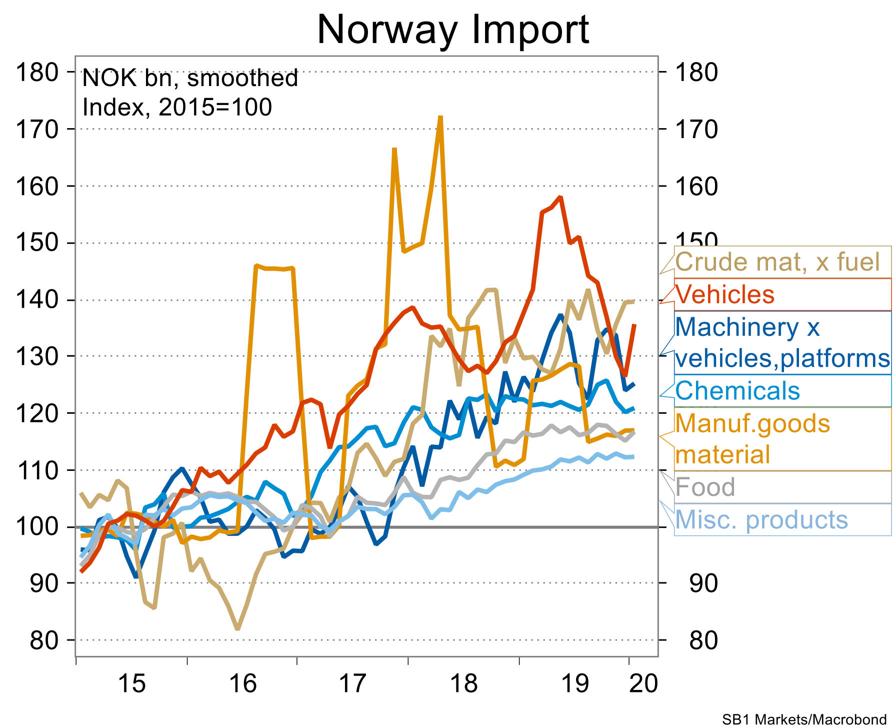


- Fish exports have been soaring both in value and volume recent years
- Exports of machinery and transport equipment (of which much is related to oil activities abroad) are volatile and dropped in January. Exports of chemicals, metals and food x fish have flattened out the past year. Crude materials picking up

Imports of machinery equipment may be at peak, most others flattening

Imports of vehicles up in Dec & Jan, suggesting a slight recovery in waning auto sales?

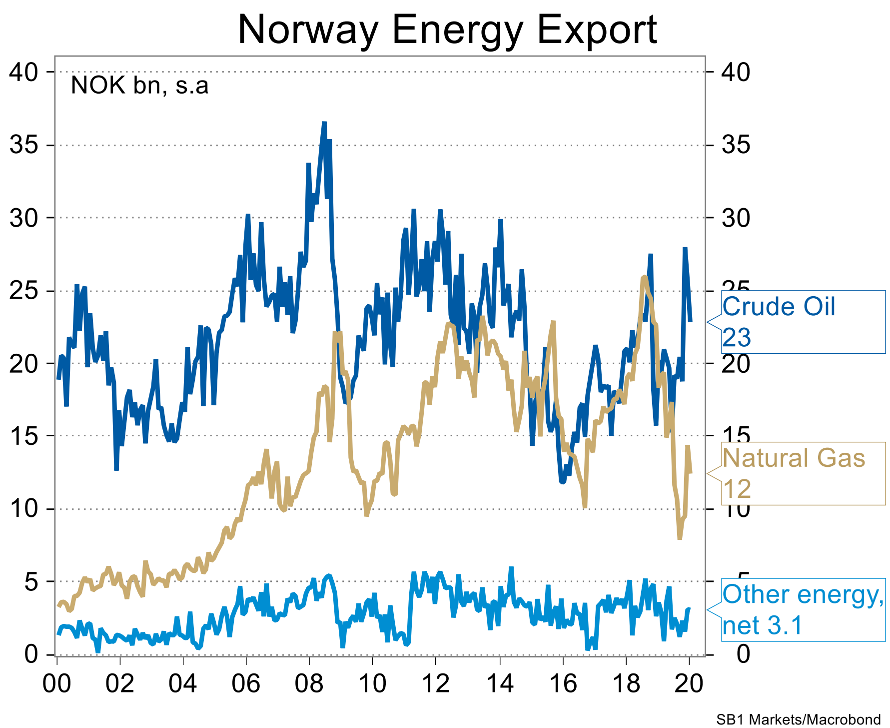


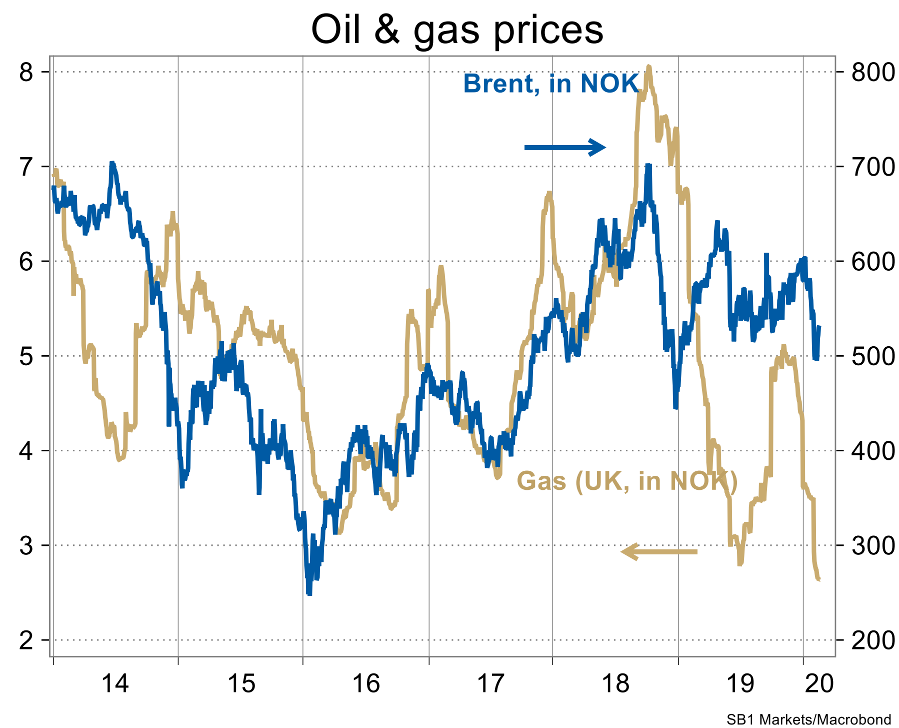


- Imports of crude materials are still expanding, as well as miscellaneous products. Manufacturing materials may be trending up too, but these data are ridiculously volatile, , due to some massive transactions of oil platforms, wind mills and combat airplanes
- Most other sectors have slowed or flattened out the past year
- Vehicle imports slowed rapidly in H2 2019, along with auto sales. In Dec and Jan, imports picked up, the non-smoothed rate is back at the early 2019 levels, both in tons and in NOK. A signal of a recovery in auto sales, which have slowed rapidly the past months? Unfortunately, imports are not leading on sales, and it might as well be due to a larger share of electrical cars (which are heavier, and more expensive)

Oil exports have been surging, Sverdrup on stream. Gas exports recovered too

Oil and gas exports fell in Jan, with oil & metal prices, after soaring in Nov/Dec





- **Crude oil** exports (in NOK bn) slowed to NOK 23 bn in January, after soaring to the highest level since 2014 in Dec, due to the start up of production at the Sverdrup field. The oil price dropped January, on coronavirus concerns. Oil exports are up 42% y/y, smoothed, in value terms (no January volume data)
- **Gas** export values came down to NOK 12 bn, following a steep decline in the summer/autumn, as gas prices fell rapidly. Gas exports are still down 43% y/y (smoothed)

Highlights

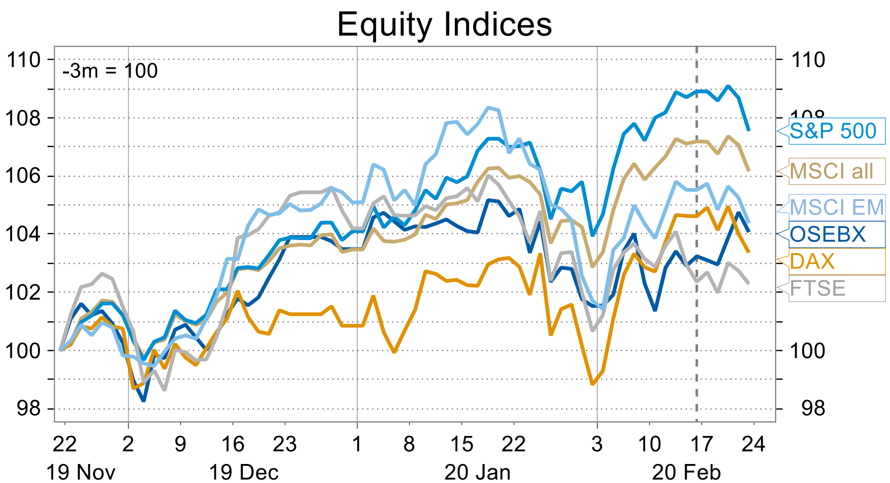
The world around us

The Norwegian economy

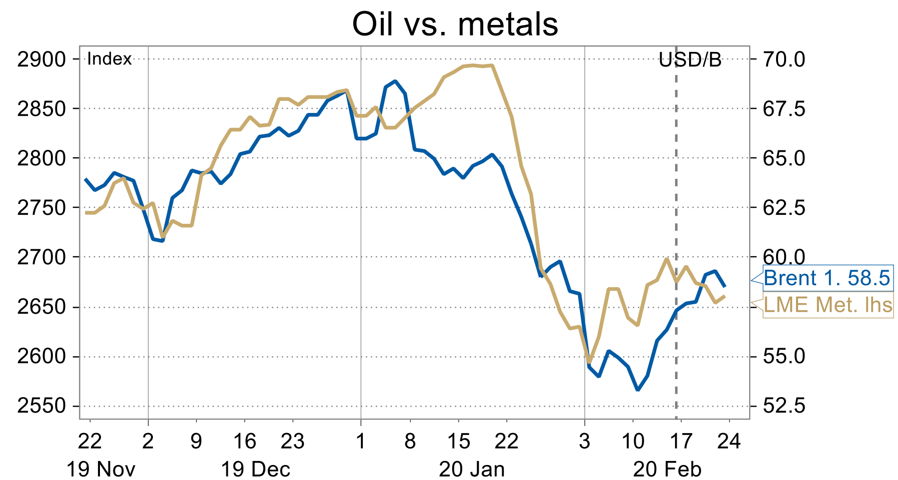
Market charts & comments

US bond yields sharply down (30y ATL), stocks down too, most places

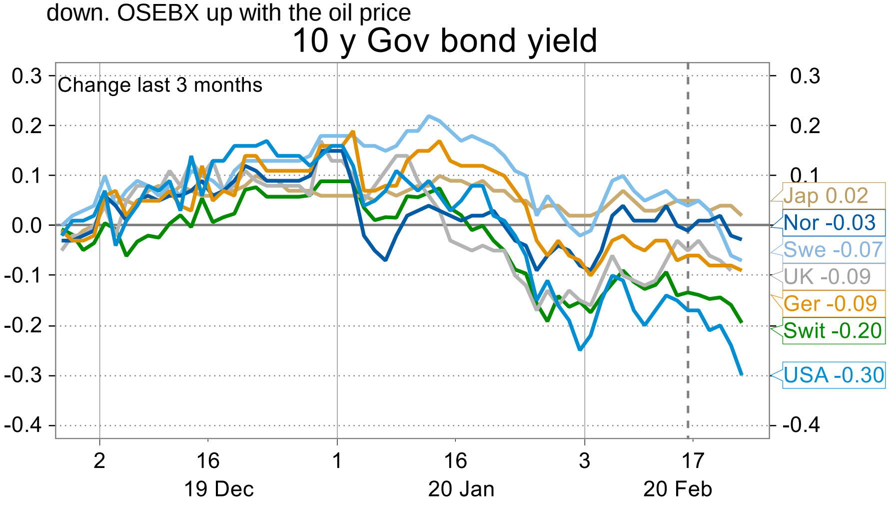
A late Covid-19 stock market reaction? Bonds have been falling heavily for a while. Oil up last week



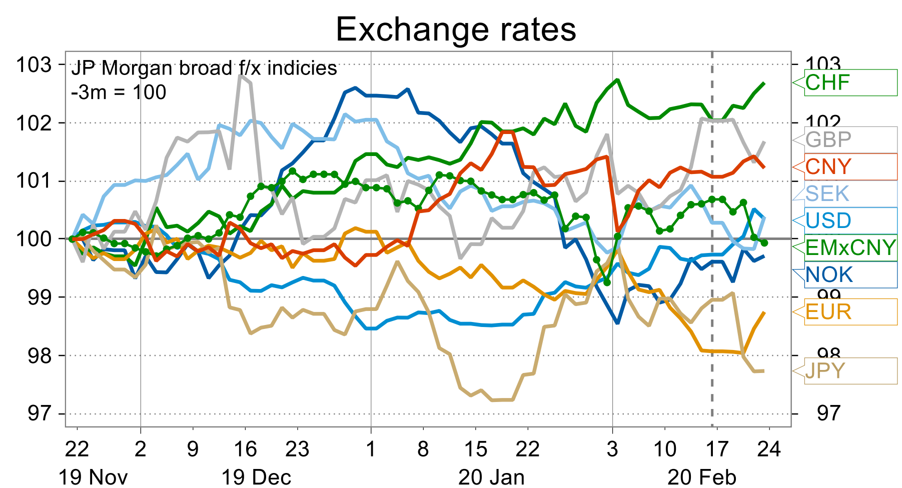
Stock markets mostly flat last week, until Friday, when all turned down. OSEBX up with the oil price



Oil & metal prices have regained ground after the Jan decline



Bond yields turned down again last week and are well below the levels before the corona outbreak started rattle markets, and by the most in the US

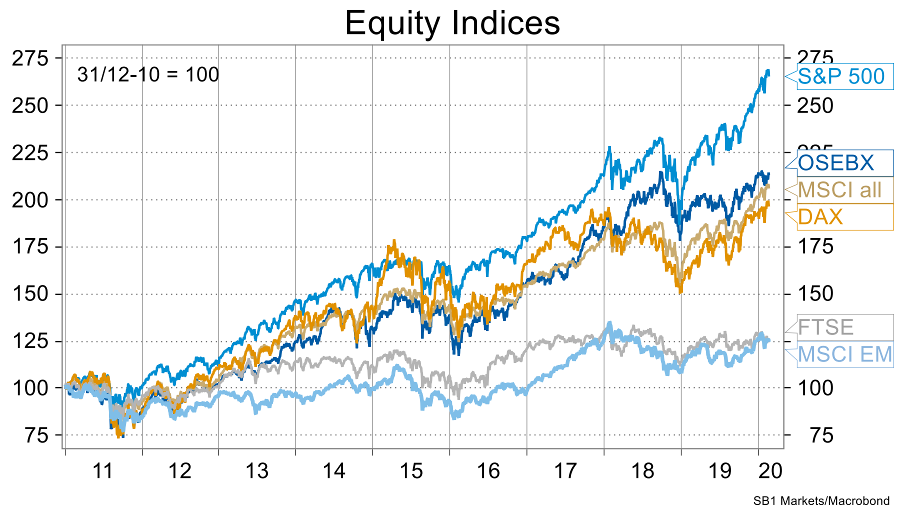


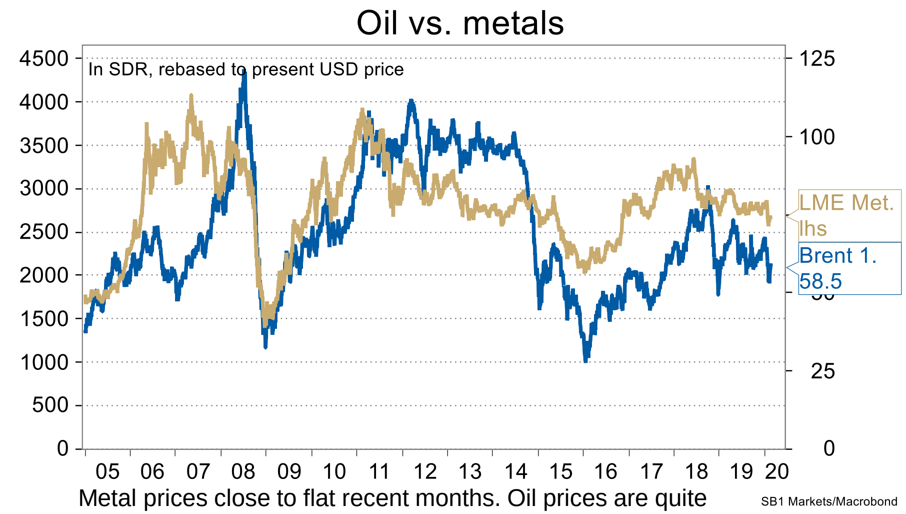
USD continues to strengthen, CNY has appreciated, in spite of Covid-19 fears in other markets. EUR up last week, still down so far in '20. JPY sharply down, data are not strong

SpareBank 1 MARKETS

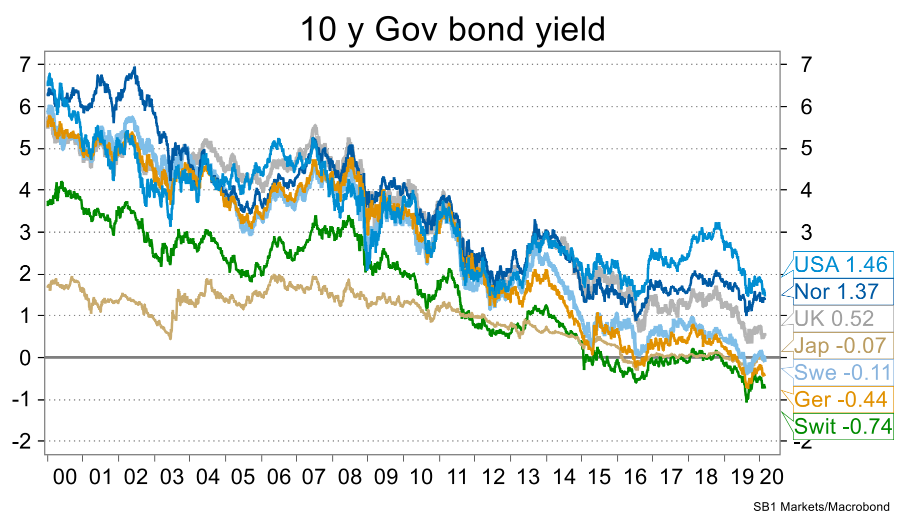
In the long run: The coronavirus setback not visible from distance

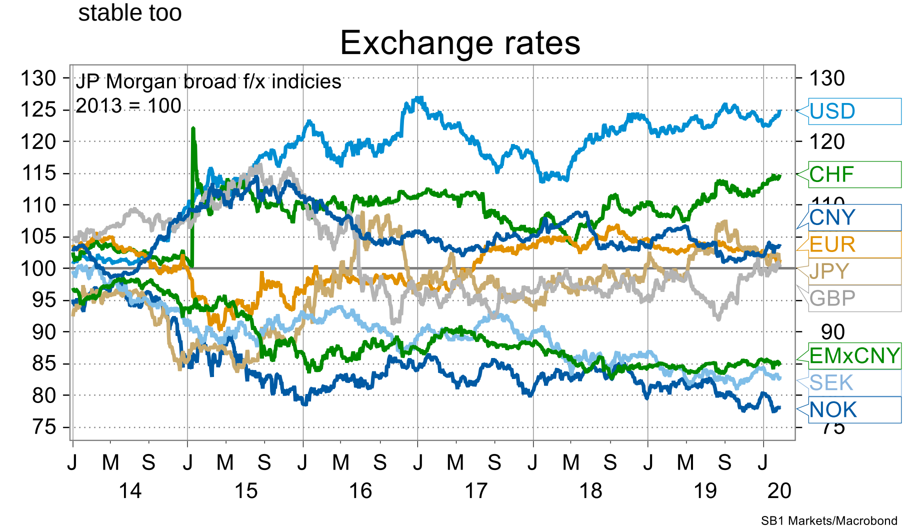
At least not at stock markets. However, metals & and oil prices are down





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





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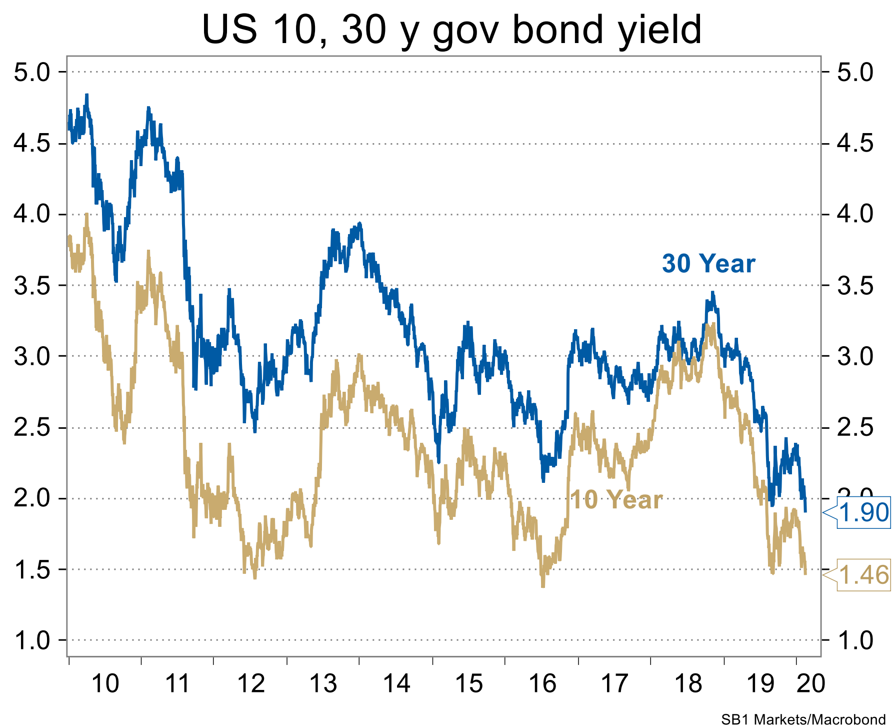
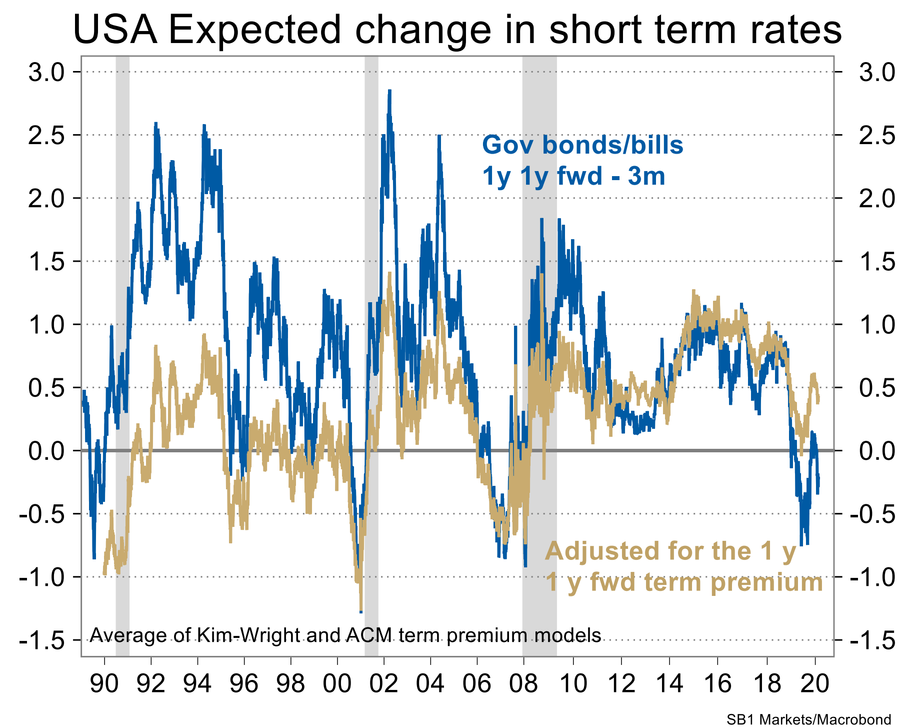
New all time low for the US 30 y gov, 10 y close to the bottom

Yields have fallen almost 50 bps so far in 2020, growth angst due to Covid-19 at least one reason





- The market is expecting the Fed to lower rates, by not more than by 50 bps from the present level, here measured by the spread between 1y 1y fwd gov bond yield and the 3 m treasury bill.
  - » However, even such 'modest' cut expectations have turned out to be a bad omen – they have been right (because the US fell into a recession, and the Fed had to cut rates)
- However, a declining term premium may explain the drop in the short end of the curve. According to different models, the term premium has turned negative, all over the gov bond curve. If so, markets do not anticipate cuts the coming two years, rather a small hike
- One of the popular 'traditional' yield spreads, the 10 y – 2y spread is still positive (but the whole curve is at a very low level, of course)

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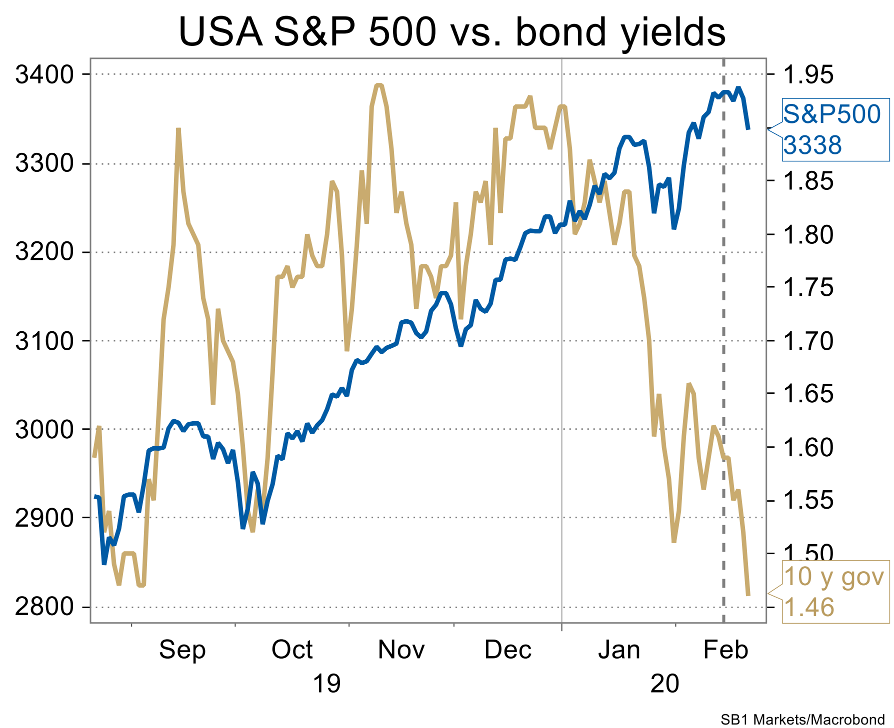
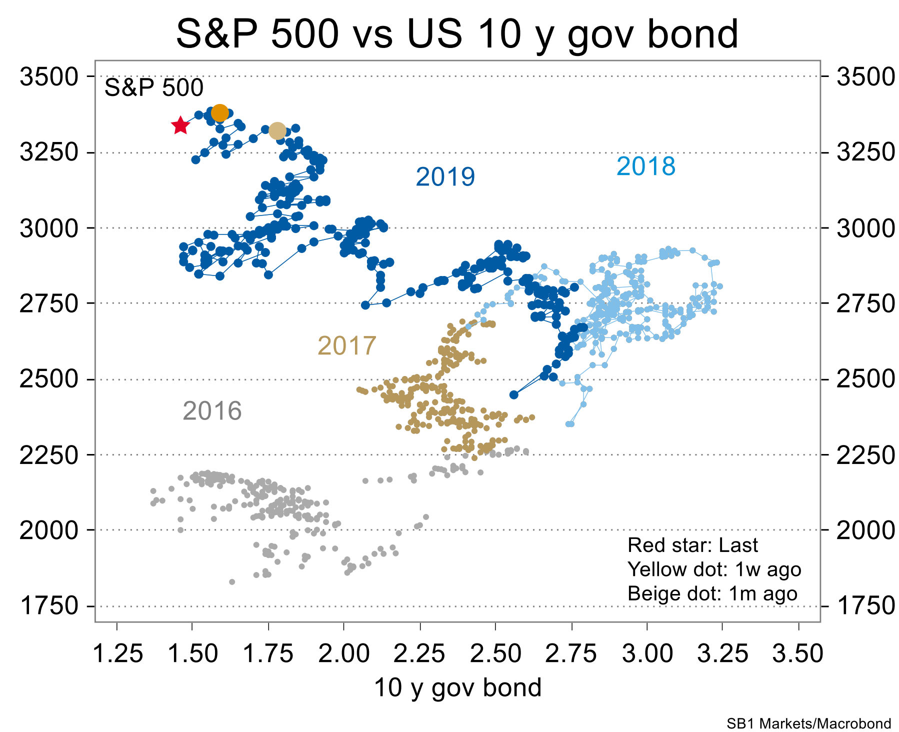
Diverging US markets; stocks up 4% this year, bond yields down 40 bps

S&P flat last week, US 10y gov yield ticked down another 7 bps





- A tale of two stories; Stock markets have shook off coronavirus concerns, although the Apple reports of delayed deliveries due to supply disruptions in China sent markets down modestly. In contradiction, bond yields have continued to slide down, and are 40 bps below peak on January 1st, before the coronavirus hit. Both the inflation expectations component and the real rate have fallen, on fears of a global growth setback and a lower oil price

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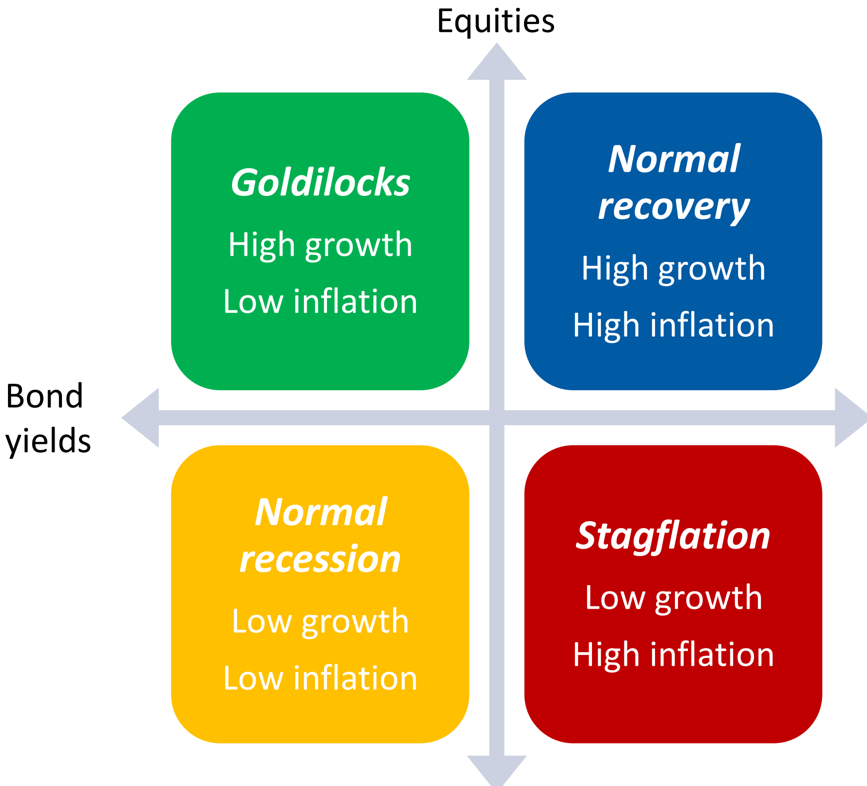
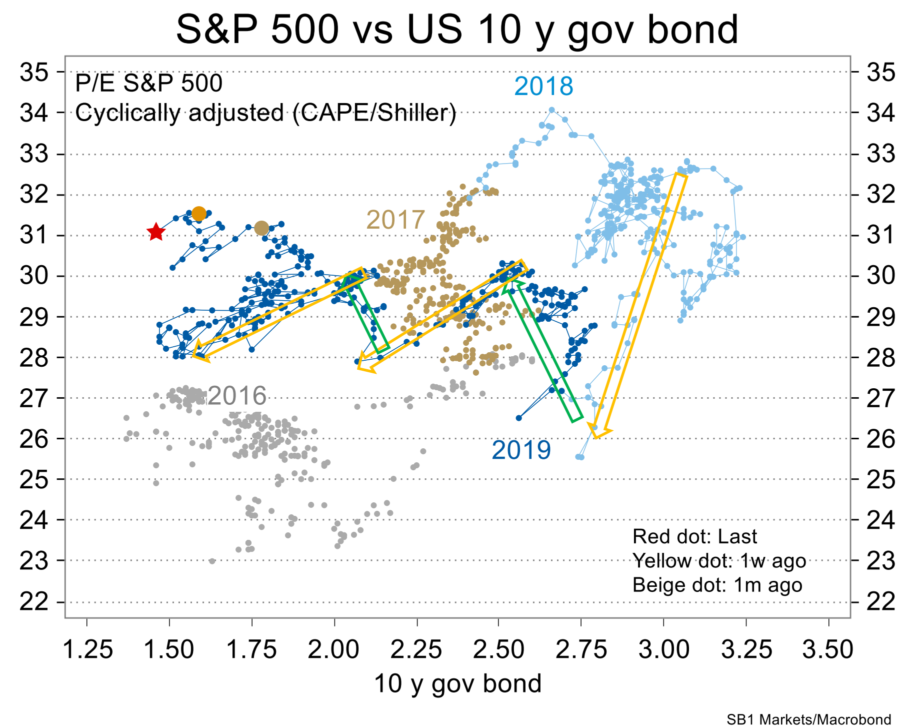
Markets have been moving in the Goldilocks' direction but not last week

Last week: Both yields and equities down, a normal low growth response





- 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 weeks, stocks have been rising while bond yields are falling (last week, stocks stagnated too)
- We do not think a long term Goldilocks scenario is likely. Should yields decline from here, it will be due to weak economic news, which will not be good news for the equity markets. And if growth is picking up, as stock markets are pricing, bond yields will increase. We are not 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– growth will be the main driver for both markets, not inflation

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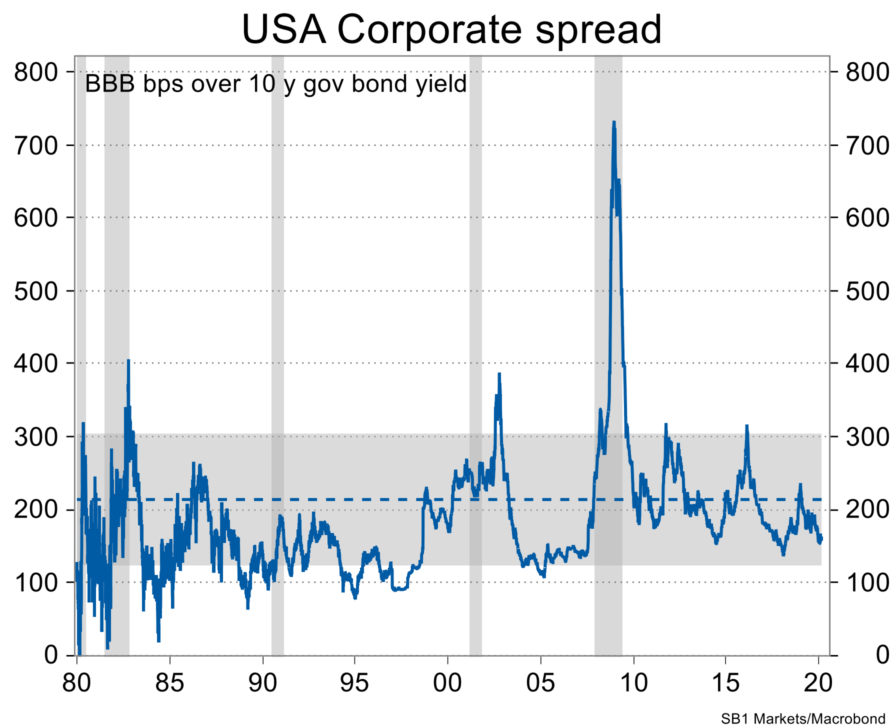
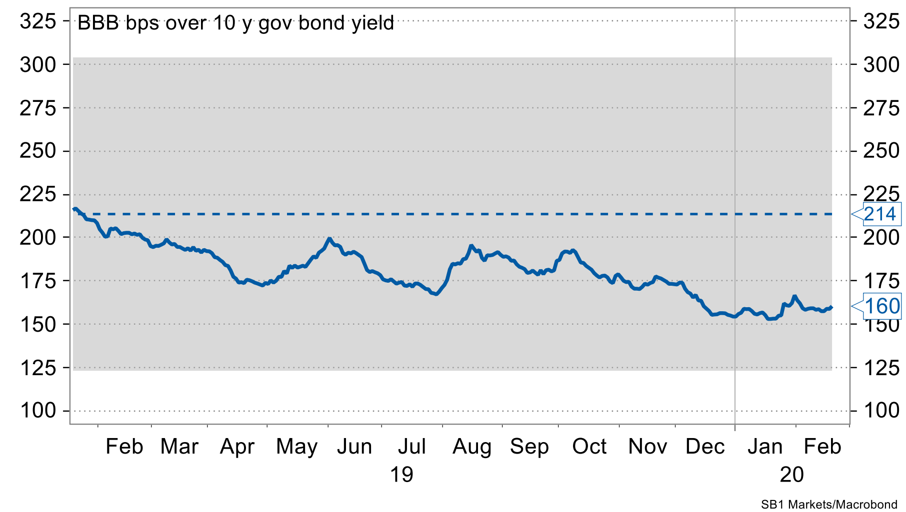
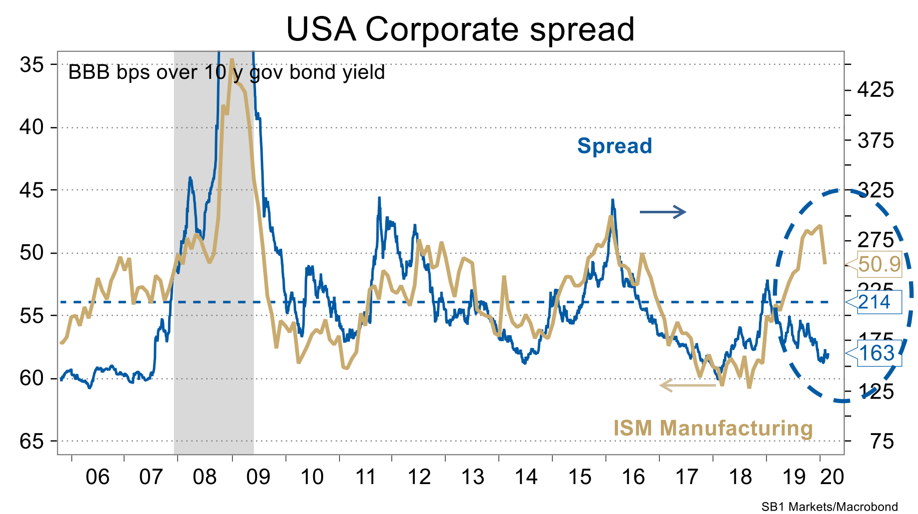
Credit spreads up but are still very low, well below an average level

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



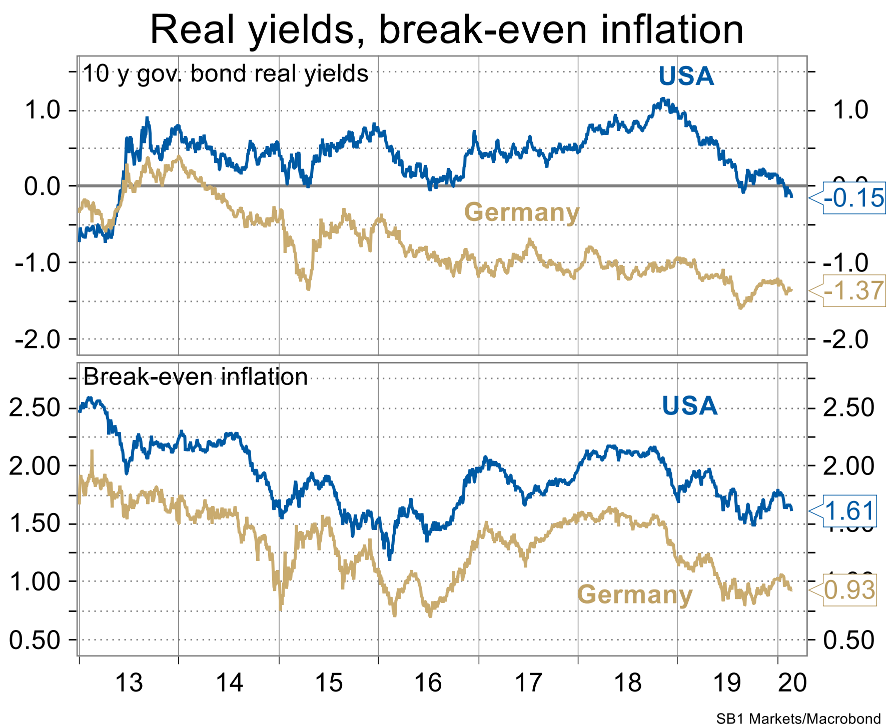


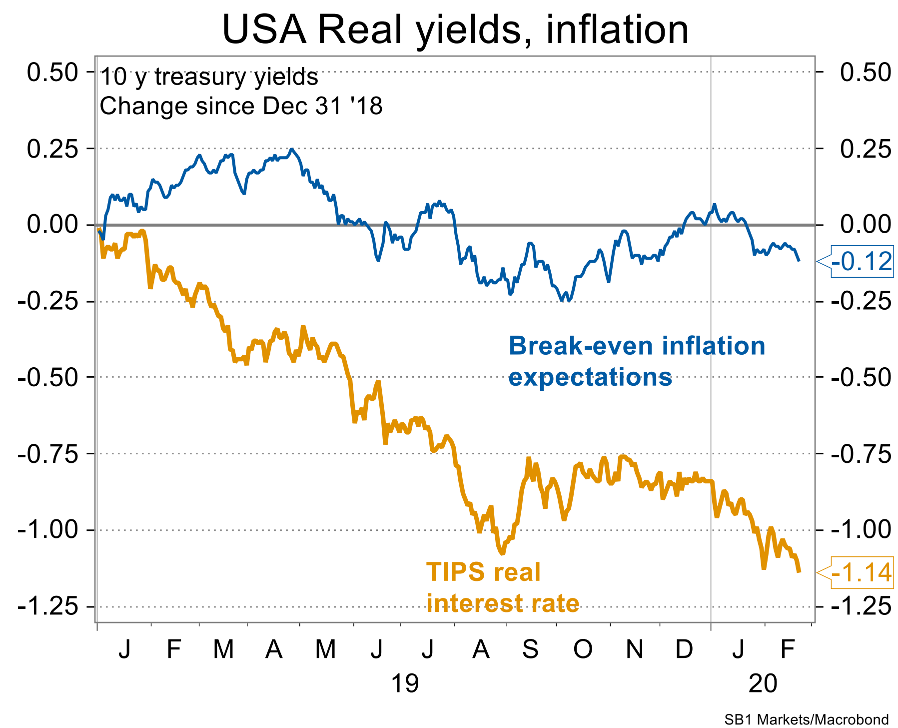


SpareBank 1 MARKETS

Mostly real rates to blame for the decline in nominal rates

The past month, US real rates have fallen the most, German real rates just marginally down

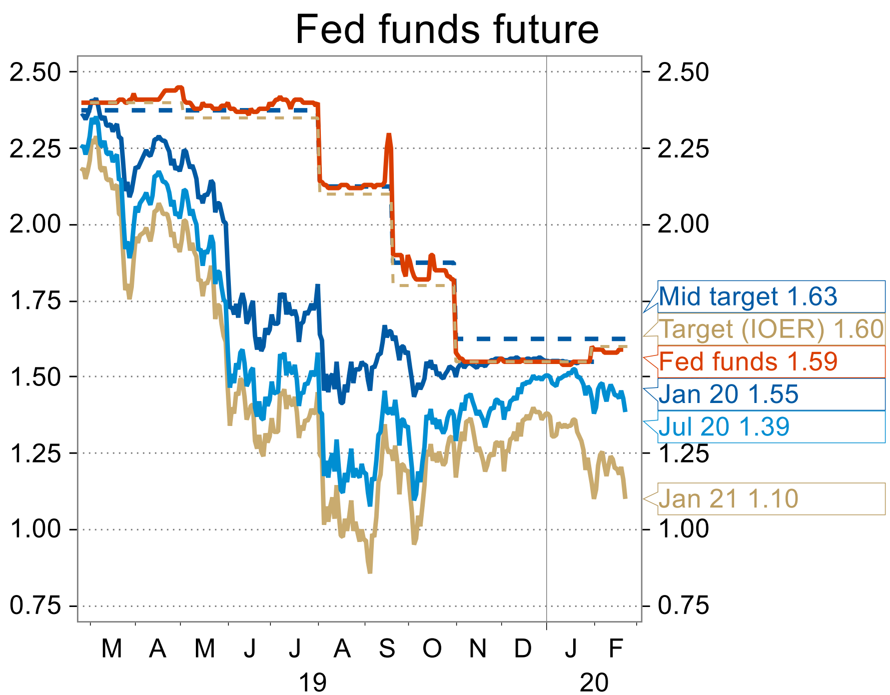


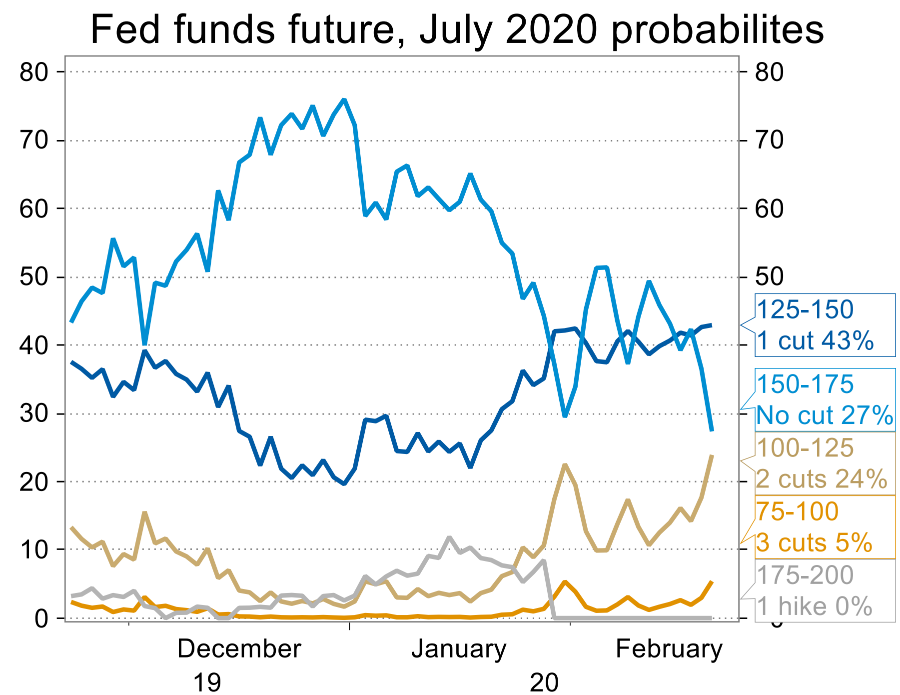


- Lower oil prices have sent inflation expectations steeply down since early January, and real rates have fallen on growth concerns (corona infested), in both US and Germany
  - » US real rates are still sliding down, although less so in February than in January. The level -0.15% is very low. Inflation expectations at 1.61% appear somewhat too low, but not that far off
  - » The 10 y German real rate increased has stabilized, at -1.37%, which is still ridiculously low. Inflation expectations are sliding down, to 0.93%, far below the ECB's price target at close to 2%, and lower than actual core inflation the past couple of years

Fed fund futures sharply down again, 73% for one or more cuts before July

Fed fund futures down all over the curve, markets are pricing a cut in/before July

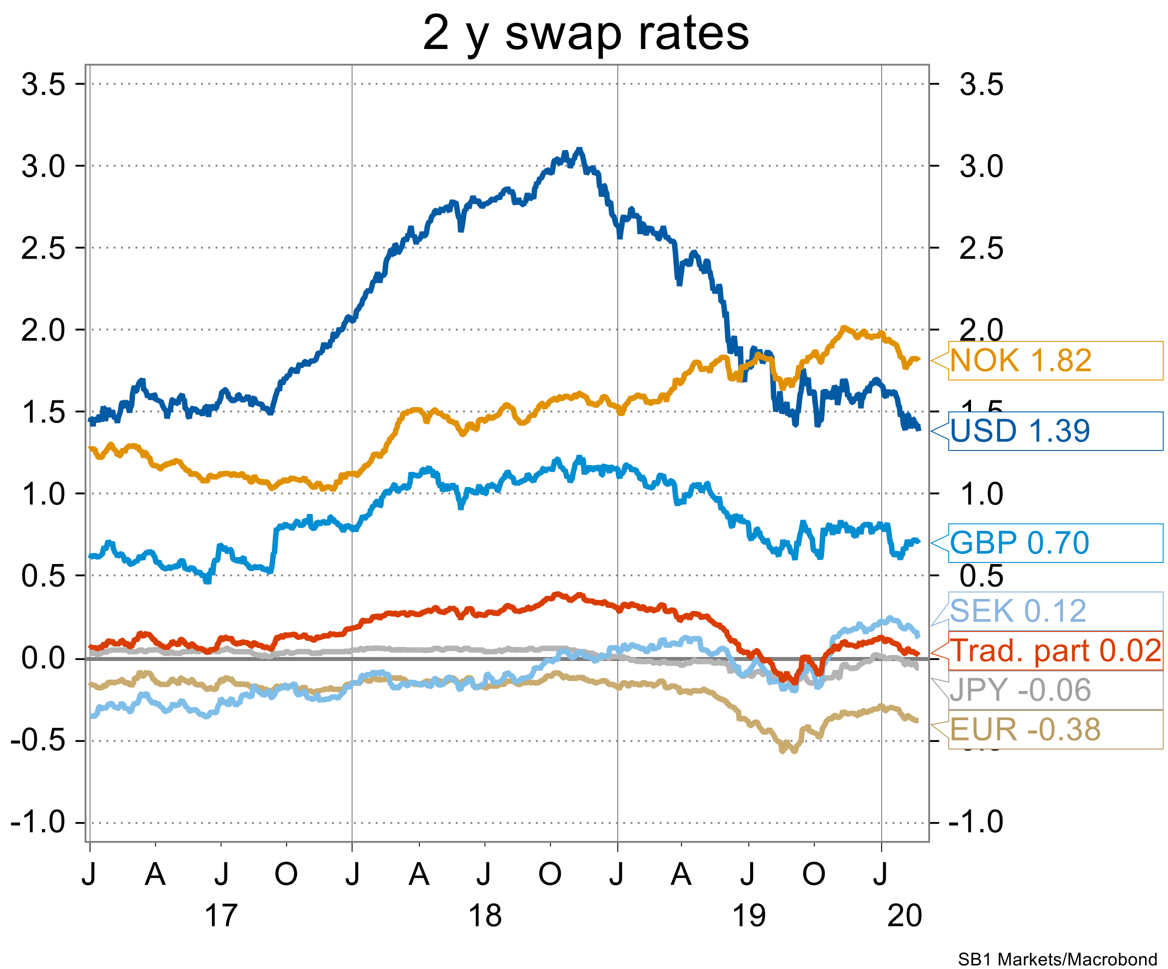


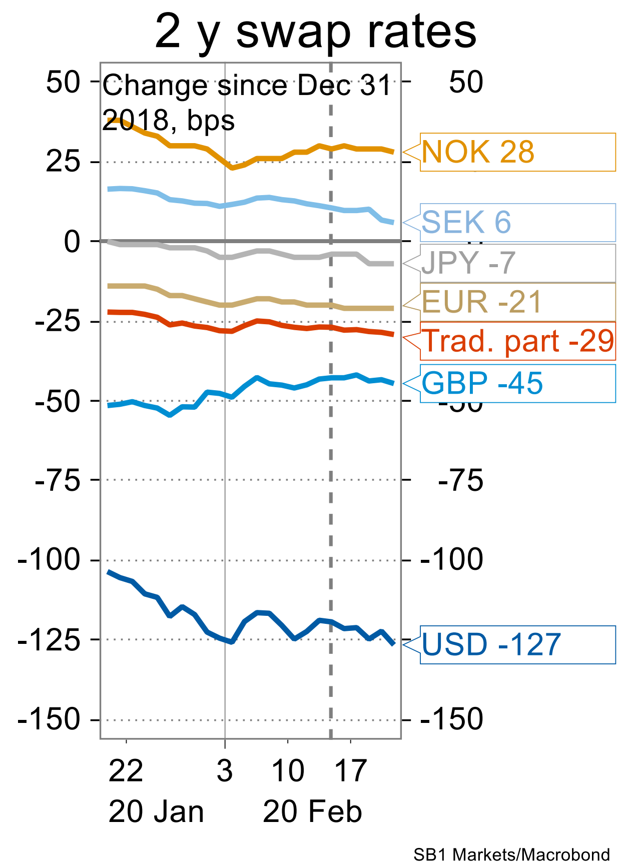


- Fed Funds futures dropped in last week of January as coronavirus fears rattled financial markets. After a recovery, rate expectations fell again last week, down to the late January levels
  - » The probability of at least one interest rate cut before or at the July FOMC meeting rose to 73%. Markets are fully pricing a cut by the end of the year, and a high probability of a second cut (of 25 bps)
- 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% in January)

Short term rates heading slowly down, stabilized in February

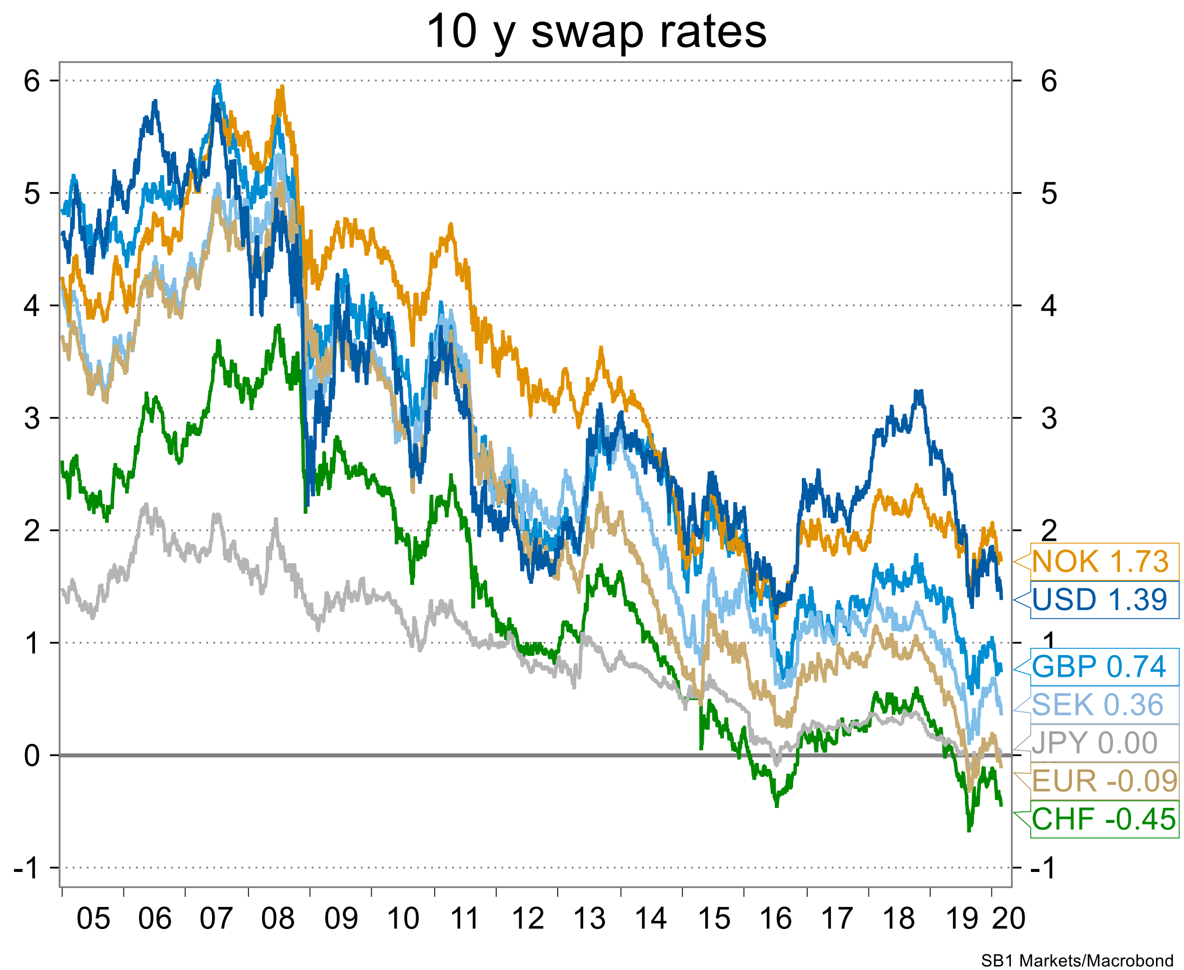
This year, US 2 y swap rates have fallen the most, followed by NOK. EUR down less than others

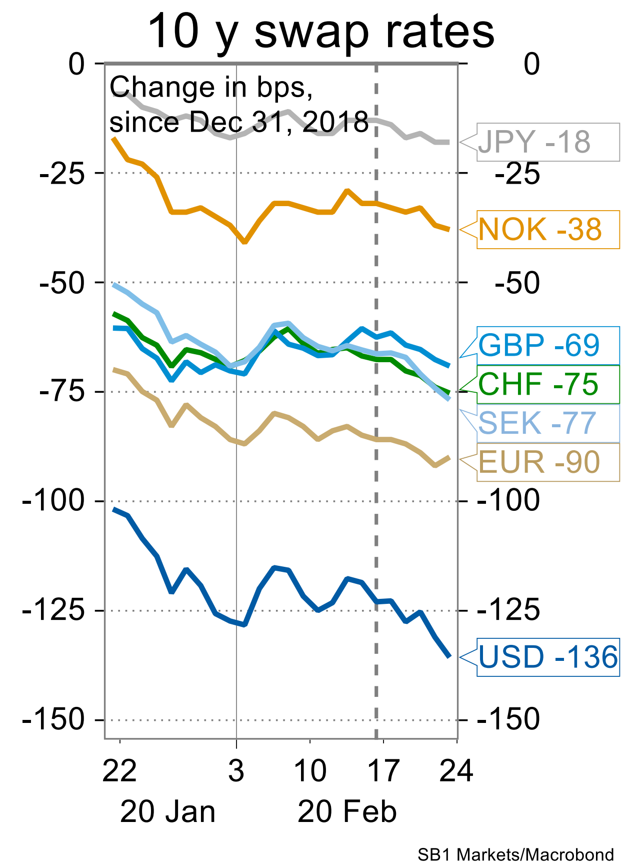




Long term swap rates down on global growth angst

Swap rates are just slightly higher than the January bottom, NOK and GBP more than others





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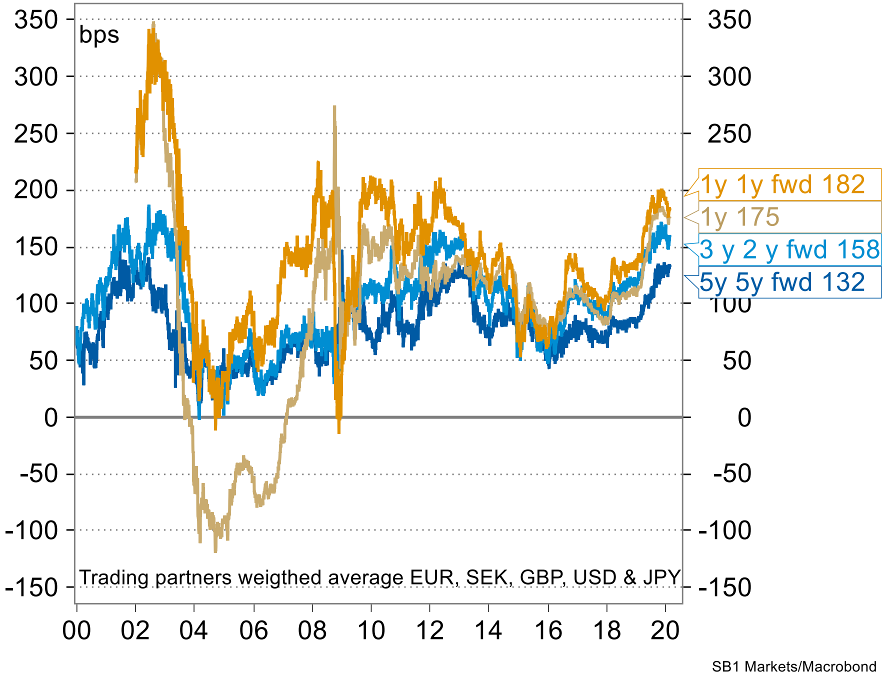
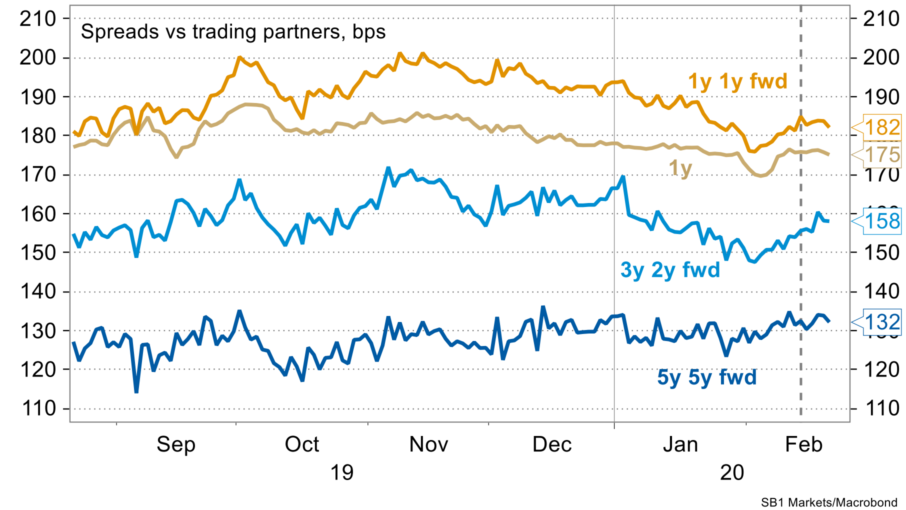
Swap rates down everywhere, less in Norway than among trading partners

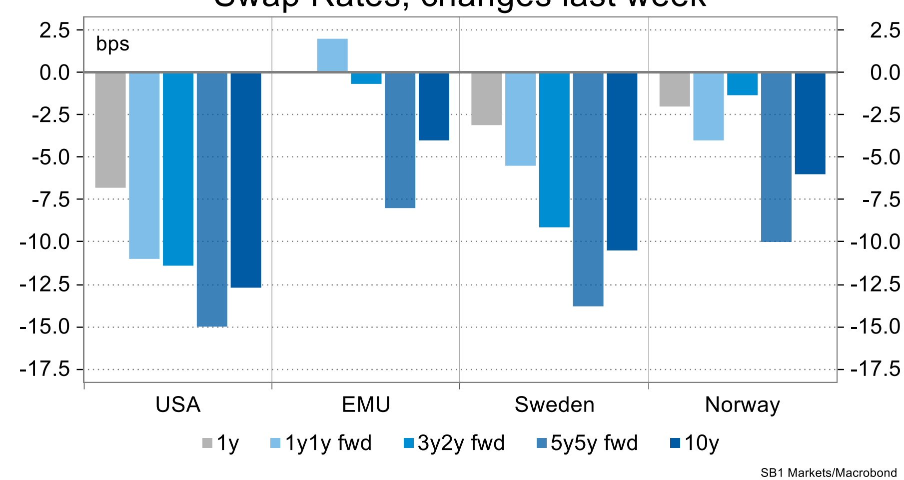
Short term spreads have been shrinking since Nov. Last weeks, NOK rates held up better than others

Norway vs trading partners, impl swap spreads





Swap Rates, changes last week

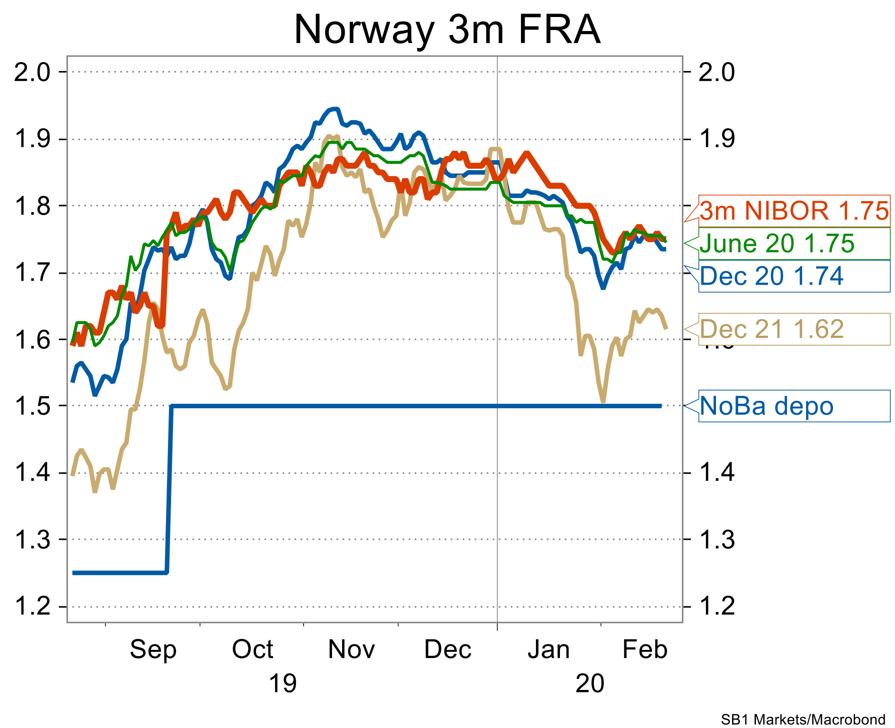


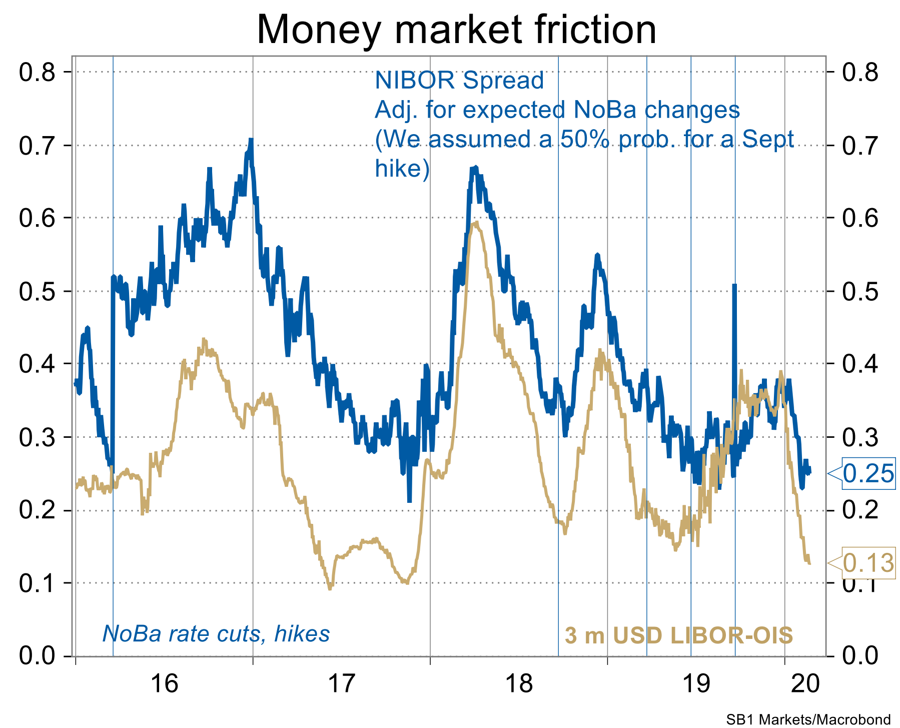
- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since Nov, spreads have trended down on the short end of the curve, spreads fell by 20 bps. At the long end of the curve, the spreads have flattened out. The past weeks, spreads have widened all along the curve, as swap rates have fallen more among trading partners. **The super-high Norwegian CPI explains part of it, but not all**
- 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 134 bps is too wide, long term

SpareBank 1 MARKETS

FRAs have gained ground, 2020 cut expectations almost vanished

Market expectations of a 2020 NoBa cut are subdued, and just some 50% probability of a 2021 cut

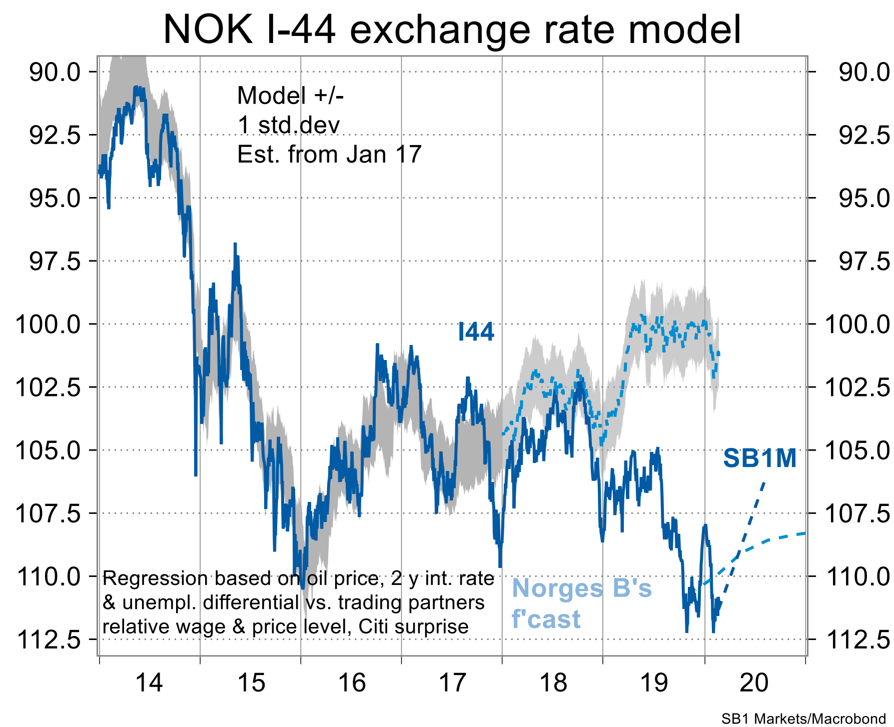


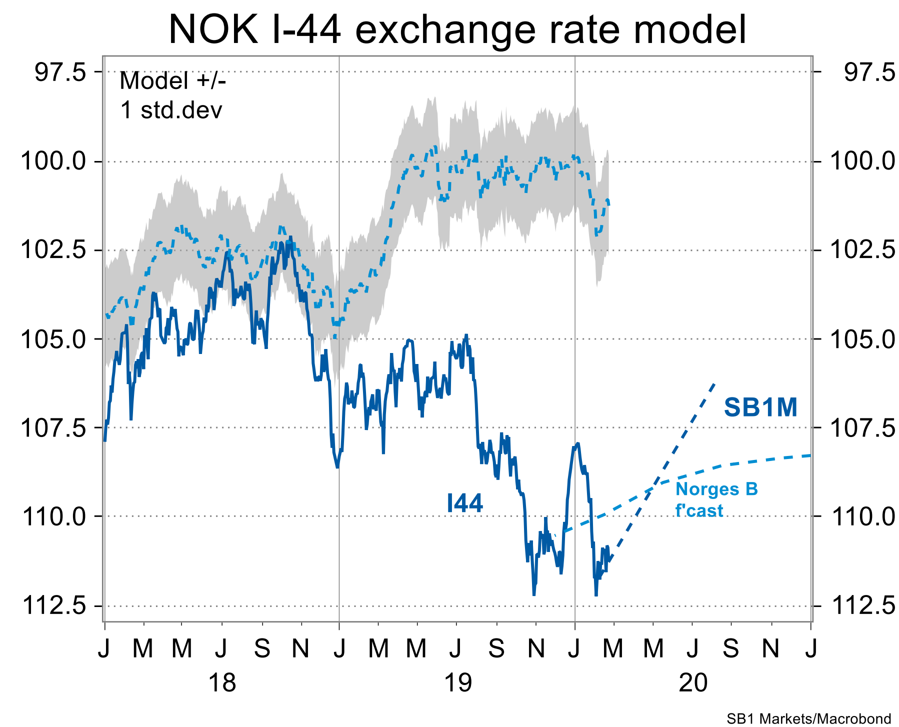


- The 3m NIBOR has stabilised the past two weeks, down 1 bps last week, to 1.75%
  - » The 3 m NIBOR implies just a 25 bps spread vs the signal rate given no cut expectations the coming 3 m, below Norges Bank's f'cast of 35 bps. We doubt cut expectations can explain much of the decline, it is the spread that has narrowed, like in the US. The US 3m LIBOR-OIS has turned steeply recent weeks, to 13 bps, from almost 40 before New Year's eve
- Longer dated NOK FRAs rates have recovered just partly. The <u>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 expectations of a 2020 cut have been reduced to less than 20% probability (assuming a spread just below 30 bps), and to approx. 50% probability of a 2021 cut</u>

NOK stabilized after the January 'collapse'

NOK 0.3% down last week, our model signaled no change





- In January and early February, NOK depreciated rapidly, by almost 4% from the 'peak' in early January, and down to the weakest level ever (I44). The past three weeks (but not further last week), NOK has been recovering modestly, marginally less than the old, oil dependent model indicates
- The gap between the our standard model estimate and the actual I44 index is still close to record wide, at 10%
- Both our 'new' models, based on the other super cyclical currencies (AUD, CAD, SEK) or energy (oil) equities explain the NOK much better than our standard model, check next page. Both models have stabilized the past few weeks
- We stick to our **buy NOK** recommendation

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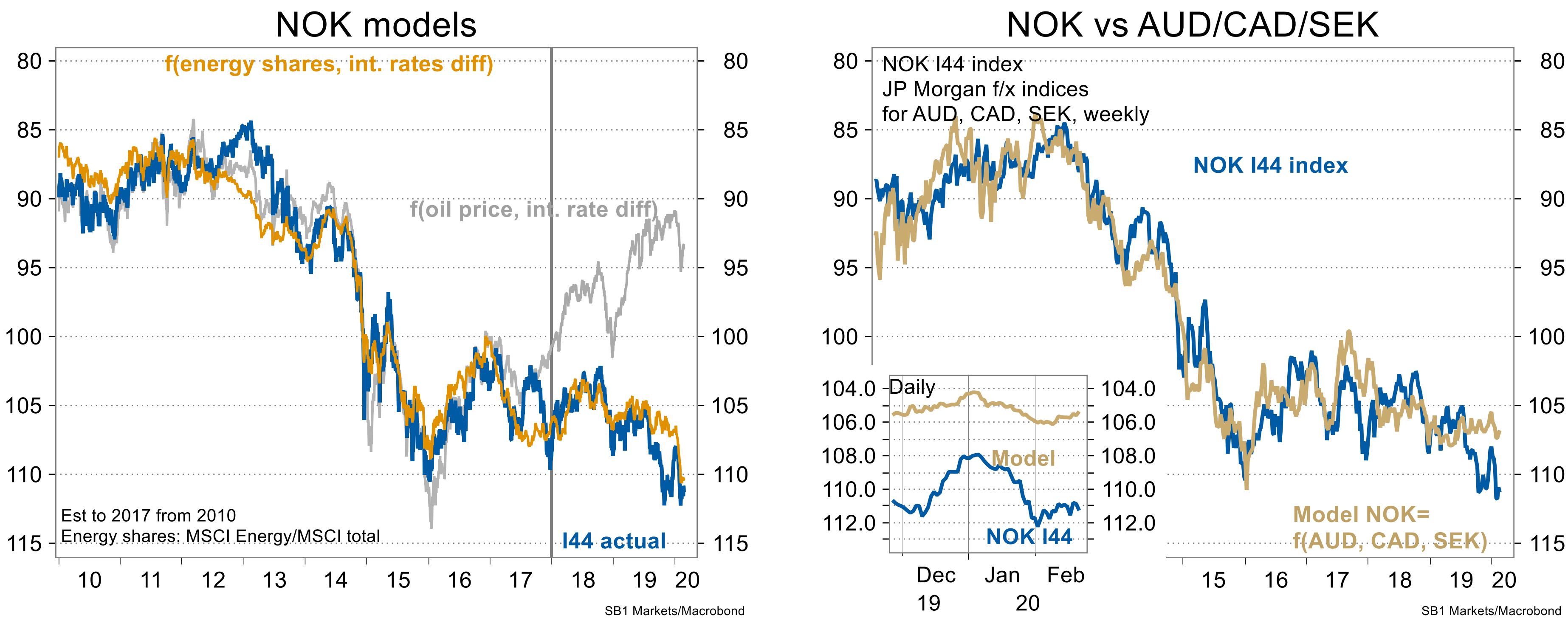
NOK still weak vs other supercyclicals – but the gap to energy shares is closed

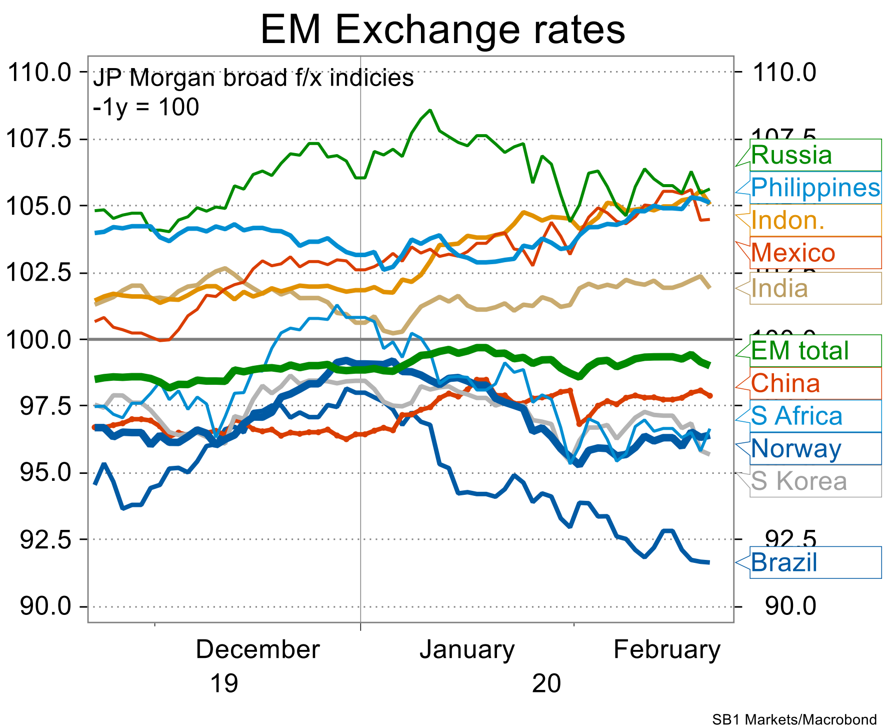
NOK is 4% too weak vs the 'supercycle' model but just 0.6% below the oil stock price model

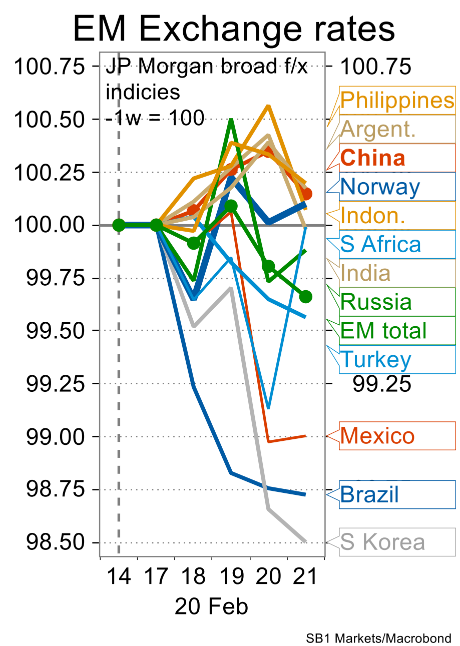


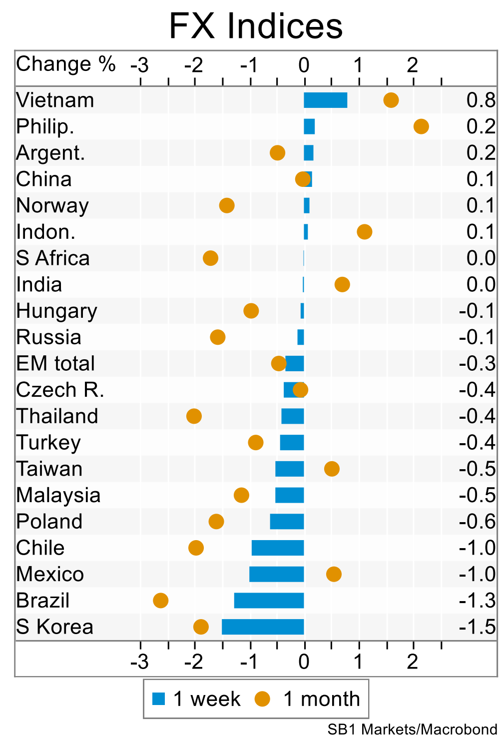
- Our NOK model based on pricing of oil companies has 'explained' the weak NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to NOK.
  - » The oil company share model slipped along with the NOK since early January, and have stabilized the past two weeks
  - » 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 the past months, check the next slide. However, last week, AUD depreciated while NOK held steady

EM currencies down last week but not the CNY

CNY has – strangely enough – not weakened during the Covid-19 outbreak







- Most EM (Emerging Markets) currencies have depreciated the last week – and the past 4 weeks, even if risk markets have strengtened. The Covid-19 could have been a good explanation if the Chinese CNY had not appreciated (marginally)

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