2 March, 2020

Macro Research

Weekly update 10/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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Last week – the main takes

- **The coronavirus** is the one and only game in town (even our own town, it turned out). Our base case is still that a long term human and economic disaster will be avoided. The Chinese seem to have got the outbreak under control with very few new cases, and a sharp increase in the number of recoveries and the economy is slowly gaining speed again. However, last week's harsh news from Italy and South Korea surely increases the risk for trouble ahead there and everywhere else. Economic activity is already harmed outside China, like in the travel/conference industry as well in businesses hit by lack of deliveries from China. The (at least short term) macro consequences will be measurable, which the stock market finally acknowledged. The Fed did so too at Friday, as Powell stated *"Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy"* – following one of the largest weekly drops at the S&P500 last week. The 10y US treasury bond is 1.09 % this morning, down 80 bps since early January. The market expects a 50 bps cut in some weeks. Japan's BoJ will step into action as well

- The **Chinese PMIs** nosedived in February, but Markit's survey less than we assumed. Still companies are reporting a steep decline in activity, and the composite 'official' PMI fell to below 30. It is impossible to translate these uncharted territory numbers into a precise Q1 GDP estimate but the decline supports our well below consensus 10% q/q (-6% y/y) GDP growth estimate, which will take global GDP down q/q as well. The x China Feb PMI will decline by some will come down substantially as well, probably some 2 p (more than signalled by the preliminary indices published 1½ week ago) to close to 50, the lowest level since 2012. <u>All in all, we have revised our 2020 global GDP estimate down to closer to 2%, from 2.8% one month ago. The IMF last week signalled a 0.1 pp decline in the growth rate, to 3.2%</u>

- **Global trade flows** picked up in December and the trend through 2019 is not worse than flat. Wait for the Jan/Feb figures…

- US Q4 GDP unchanged at 2.1% q/q annualized. **Private consumption** rose just 0.1% in January, growth is no doubt slowing, even as **consumer confidence** remains elevated. **Core PCE deflator** up 1.6% y/y, missing expectations by 0.1 pp. **Core durable goods orders** and capital orders increased modestly in January, suggesting a small recovery in business investments. More upbeat housing market data; **new home sales** spiked in January and are up by 30% since the 2018 bottom. **Pending home sales** soared, more than reversing the Dec dip. **House price inflation** is rising but still moderate given the mild housing boom. **The trade deficit** is trending in, due to sagging imports. In January, both imports and exports decreased

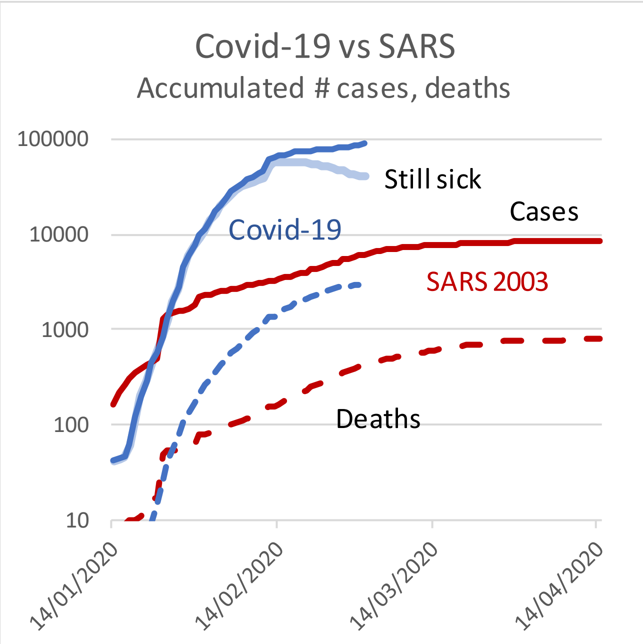
- Eurozone **economic confidence** is improving, adding to signs of a growth pickup (and confirming the preliminary Feb PMIs that rose further in early/mid February in spite of the 'Chinese' Covid-19 but they might have been the past week). **German GDP** came in marginally below the first report, up 0.1% q/q annualized. Both consumption and business investments inched up, net trade tumbled (but still flat y/y). The **German Ifo** survey has ticked up but does not yet signal any growth rebound.

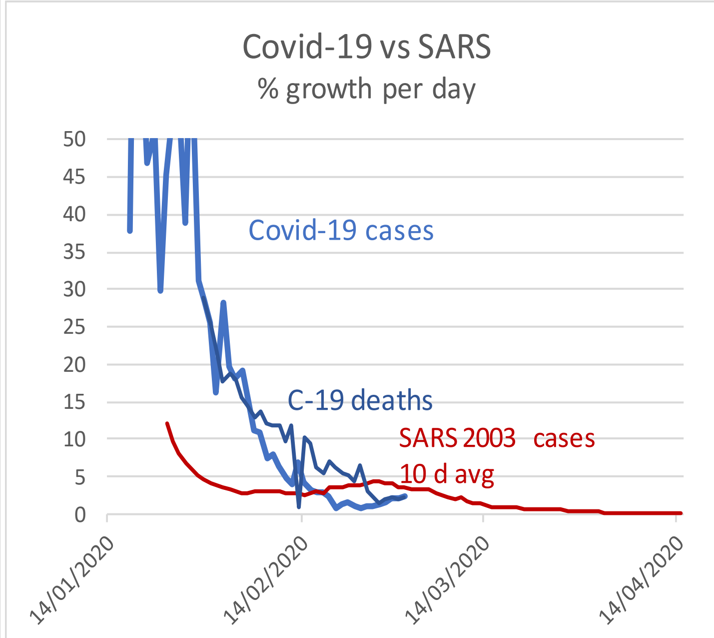
- **Swedish GDP** rose 0.6% q/q annualized, close to expectations. Household demand is the only growth engine, and public, marginally, while business investments are decreasing. Net exports declined in Q4 but are trending up

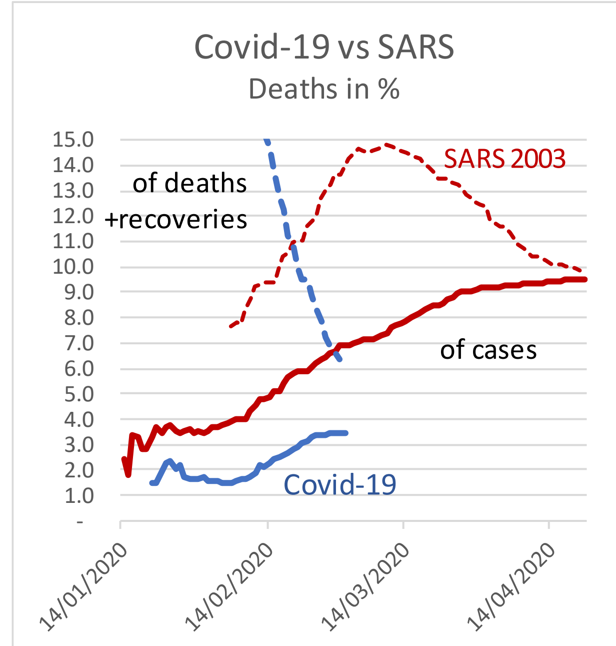
- **Norwegian registered unemployment** fell by 300 persons (500 incl. measures) in Feb, more than we expected. Thus, unemployment is still falling marginally, and the unempl. rate is below Norges Bank's f'cast. On the other hand, **LFS (SSB)** is reporting a more sudden labour market turnaround, with unemployment at 3.9%, but these data are more volatile. Both employment and participation rates have stalled the past few months. **Credit growth** fell to 5% y/y in January, the lowest in 3 years. Growth in both household and corporate debt is slowing but household debt a tad less than previously reported. **Retail sales** failed to rebound in January, up just 0.5%, after a 2% slip in Dec. Total consumption of goods is declining and the speed into Q1 is -2.5%. **Population growth** ticked up marginally to 0.6% q/q annualized in Q4 (adjusted for a new method for calculating emigration). Net labour market immigration has bottomed out.

Coronavirus contagion is slowing down in China, but is 'exploding' abroad

Overall growth is accelerating, due to many more cases in South Korea, Italy





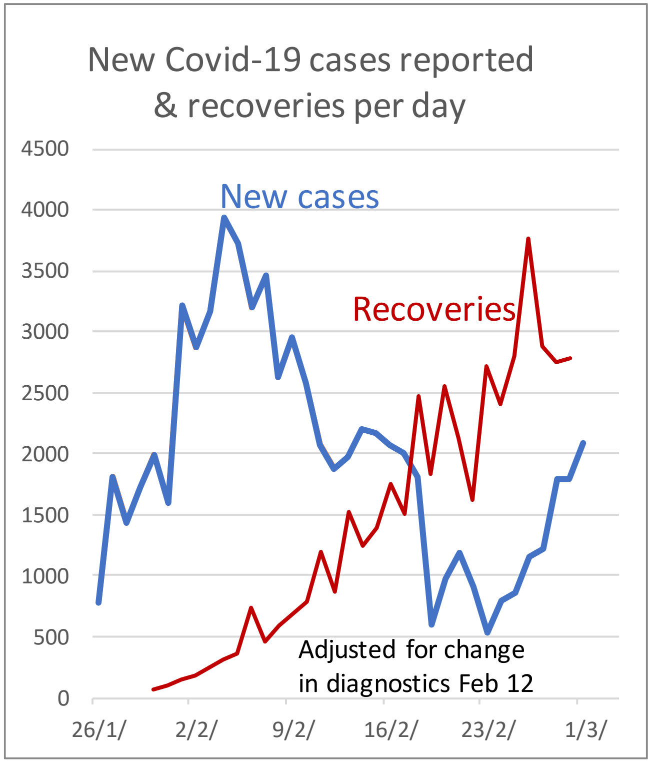


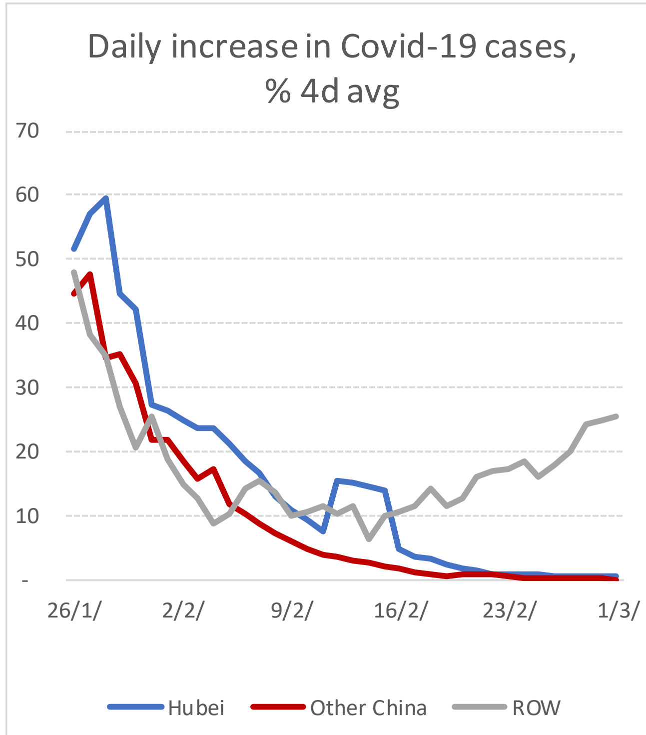
- The number of new cases has slowed to a trickle in China but not abroad, which was the bad news the last week (see more next page). The total number of cases has reached 89.000, more than 10 times more than SARS in 2003 at 8.000
  - Growth increased to above 2% last week, from 1% the prior week, due to the surge in new cases in South Korea, Italy, Iran and some other places. Almost 10.000 people are infected outside China
- The number of deaths has climbed to 3.000 (vs SARS at 800), and the death rate is, as we expected, trending up, and is now at 3.4% - *if the number of infected in the Hubei province is to be believed*
- The number of recoveries have shot up the past two weeks, and now half of those diagnosed as inflected have now recovered, and many more are added each day

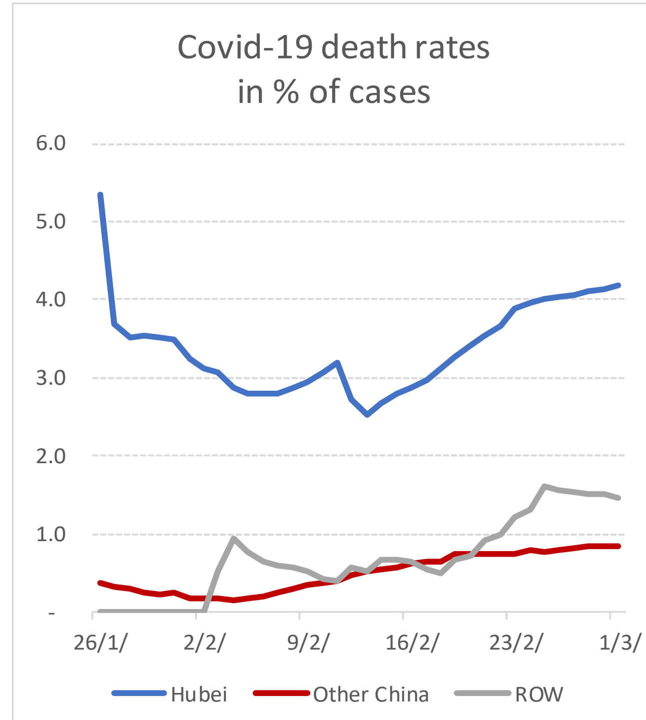
Source: Johns Hopkins University, WHO, SB1M calc. We have adjusted growth in cases and mortality for the change in diagnostic standards introduced Feb 12

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

However, no of new cases in ROW is accelerating and has reached 9.000





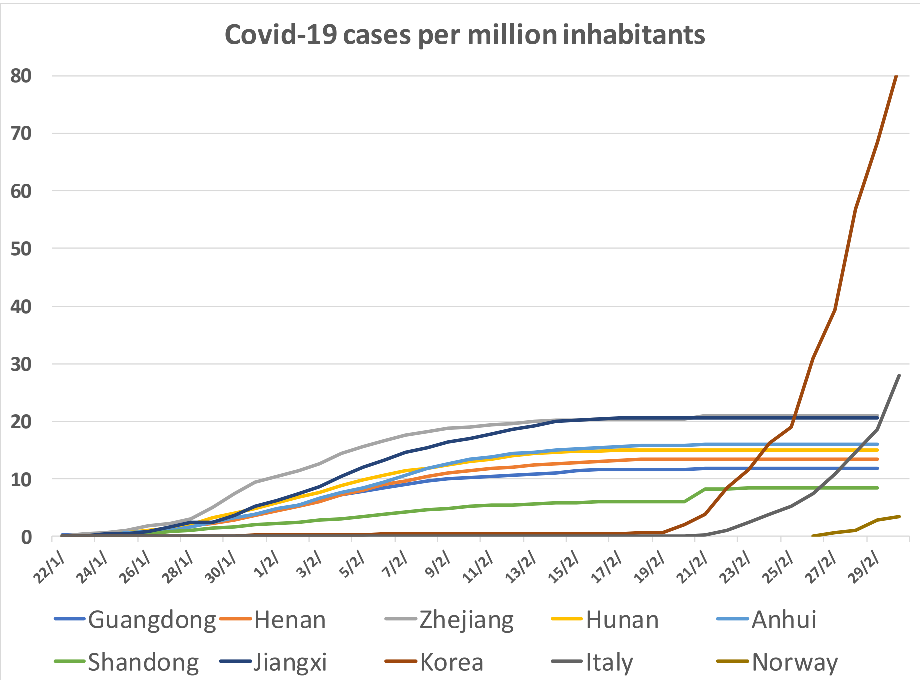


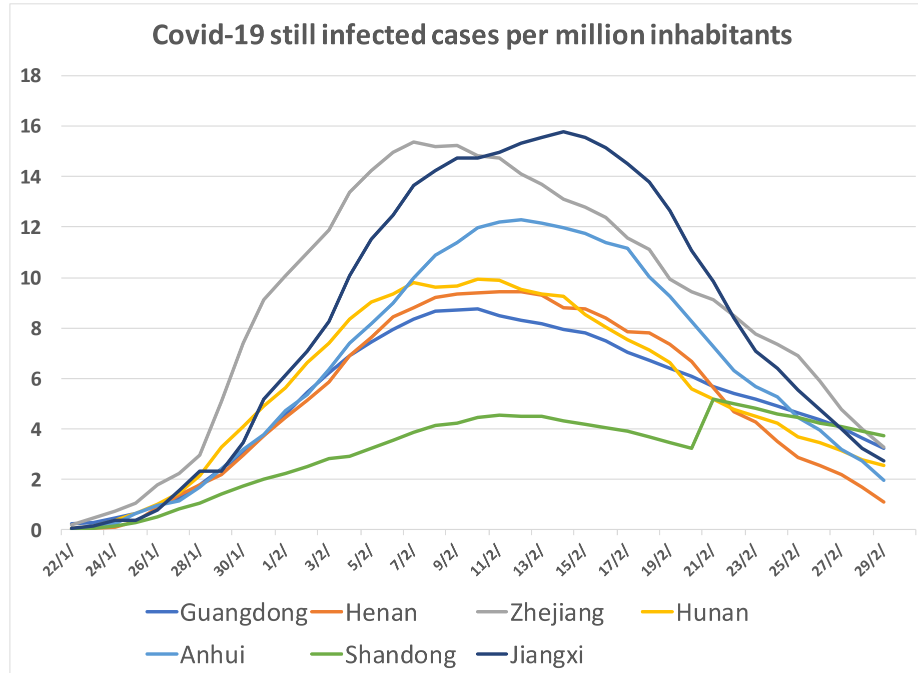
Source: Johns Hopkins University, WHO, SB1M calc. Data just partly adjusted for change in diagnostics

- The growth rate of new cases is now well below 1% per day in China, both inside and outside the Hubei province. Outside China, the growth rate is at 25% per day, and it has been accelerating sharply, as both South Korea and Italy is reporting many more cases (see next page too)
- The number of new recoveries has been increasing sharply in China, and is now well above the no of new cases. The number of recoveries now equals half the no of those who has been diagnosed as infected
- The death rate, calculated as deaths/cases in Hubei is at 4%, and still on the way up. It seems likely that the no of cases has been underreported, as the death rate in other parts of China is much lower, and still below 1%. However, there are more deaths in other parts of the world. Most researchers have estimated a 1% death rate

South Korea is much worse than China ex. Hubei, Italy is struggling too

In Hubei, 1.200 per million inhabitants were infected, elsewhere in China just 10 – 20 per million



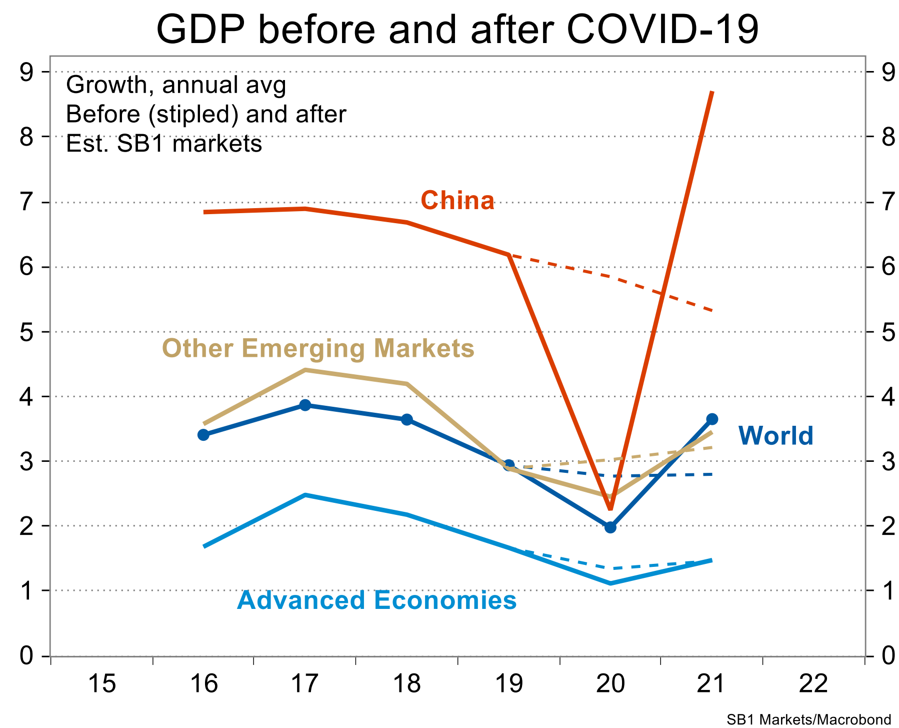


- The number of new cases is approaching zero in China, and the number for recoveries is increasing sharply. Thus, the number of people still sick has fallen sharply everywhere (also in Hubei, not shown on the charts above, *if the Chinese data are to be believed…*
- The number of cases in South Korea is still increasing rapidly, and the level, measured pr. inhabitant is now 4 times higher than in any Chinese province outside Hubei.
- The no of cases in Italy is now higher than any province ex Hubei too, and the number is still on the way up.

The coronavirus vs. Chinese & global GDP. More policy stimulus ahead?

It's getting more complicated, Q1 'a gonner', a Q2 recovery still most likely. But…

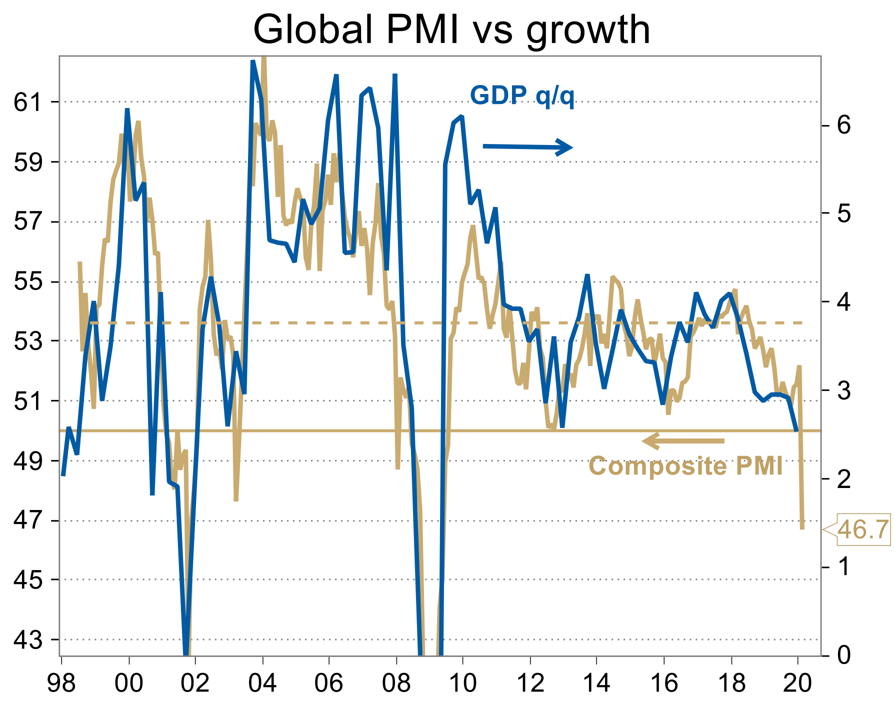
- The downside risk has no doubt increased substantially over the past week as both South Korea and Italy have reported a rapid rise in new cases
- **First, the good news**: Covid-19 is most likely brought under control in China, with a very low number of cases pr inhabitant outside the Hubei region, and 'low' death rates there. Economic activity will probably mostly return to a normal level the coming weeks (but travel will probably take a longer hit, and supply chains be rebuild)
- **The bad news:** Harsh measures were needed to win over Covid-19: We assume GDP fell by some 10% q/q in Q1, taking the annual growth rate down to -4%, from +6 in Q4
  - A guestimate: Economic activity has already been reduced by some 50% for three weeks, equalling 11,5% of the quarterly GDP. Activity is still way below a normal level (both due to gov. regulations, company decisions and lack of labour as migrant workers have not been able to return). The hit to Q1 GDP will be unprecedented, and China may report a -6% growth y/y, from +6% in Q4
  - IF activity recovers to almost a normal level in Q2/Q3, annual GDP growth in 2020 will be reduced by almost 4 pp to just above 2%!
- With the just the Chinese hit, global GDP will decline q/q in Q1, and the annual growth will be cut by almost 0.7pp!
- **Then, the ugly.** Italy, South Korea were both hard hit last week, and there are new cases in many other countries, including Norway
  - Then, it will not just be supply side challenges (due to China) but 'real' impacts in many other countries as well
  - The economic impact is impossible to quantify, but we have cut our x China global 2020 forecasts by 0.2 – 0.3 pp, with slower growth in both Q1 and Q2, and a recovery in H2.
- **Adding up: Global GDP growth could easily come down to 2% in 2020, which is equal to a 'normal' global growth recession**
  - Global corporate earnings will decline by some 5 – 10% in this scenario, from zero growth last year
- **A recovery in the global GDP growth rate is most likely in 2021**



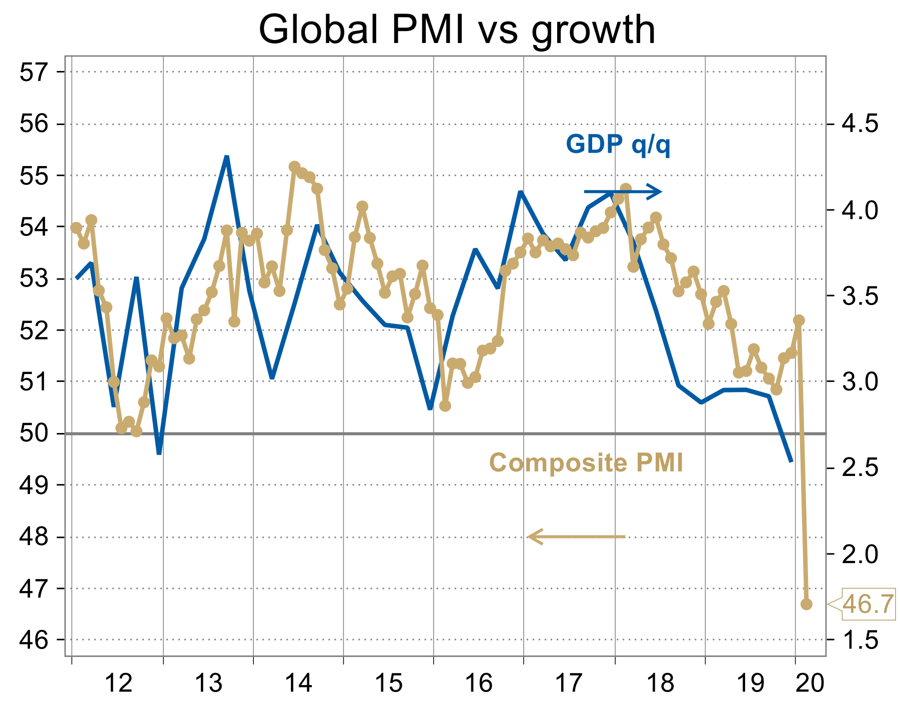
- **The real problem:** Global growth was anyway on the way down, due to a maturing cycle with too low unemployment, a profit (share) squeeze, and somewhat too high investments. The virus might of course be a good 'excuse' for a more pronounced downturn than we had forecasted in our (below consensus) base case. The risk has obviously tilted to the downside
- Central banks will probably respond by cutting rates, at least that's the hammer they got (plus securing bank liquidity), even if the initial problem is a supply side contraction, not demand shortfall

Global PMI will 'collapse' in February amid coronavirus distortions

Ex China PMI down 1.5 – 2 p, total down 5.5p?



SB1 Markets/Macrobond



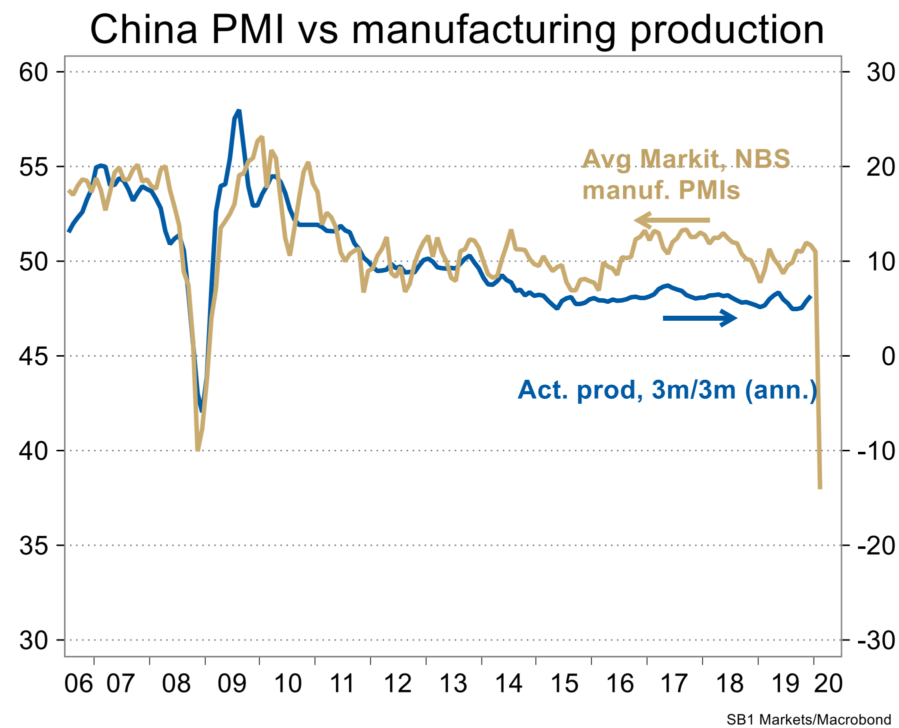
SB1 Markets/Macrobond

- The February Chinese PMIs were as we assumed reported sharply down, and the global PMI may decline 5 – 6p as we indicated one week ago.
- We estimate a 1.6 p – 2 p drop in the global composite PMI x China. The steep decline is no doubt mostly due to the Covid-19 outbreak, which has hampered activity in many sectors. Thus, the February data are rather useless in assessing the underlying growth momentum. Q1 global GDP will most likely decline substantially (even if we can not read that out of the Feb PMIs). We expect a comeback in Q2 as China (hopefully) recovers, but annual 2020 growth will anyway be substantially reduced. The PMIs later this spring will reveal more about the pace of recovery

Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US and partly China – and some few other Asian countries. The estimate is uncertain

Weakest Chinese manufacturing PMIs ever, of course

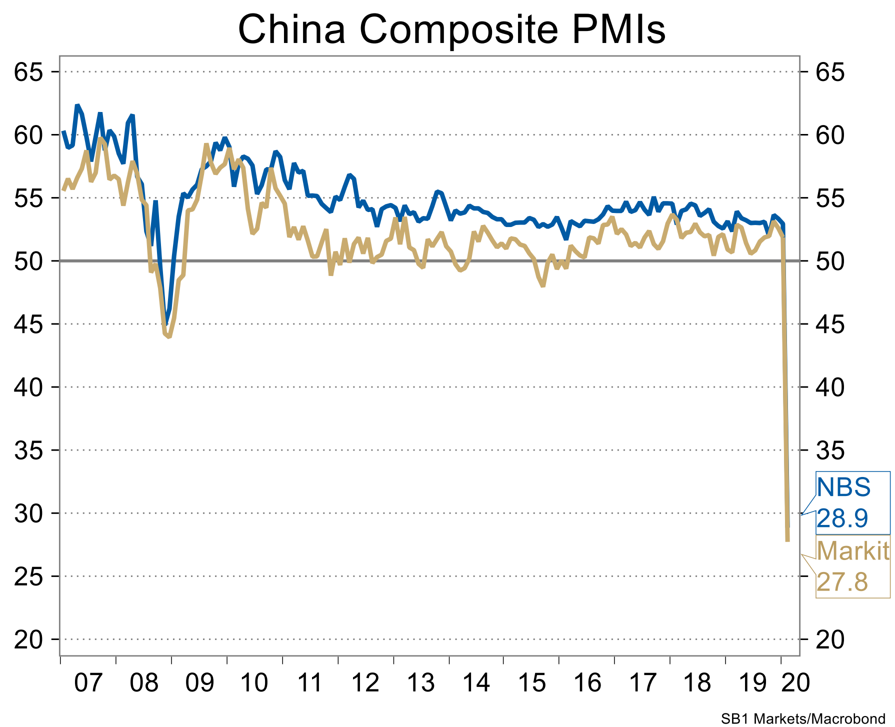
Unsurprisingly, businesses reported a drop in activity, Markit's PMI -10.8, NBS/CFLP plunged 14.3 p

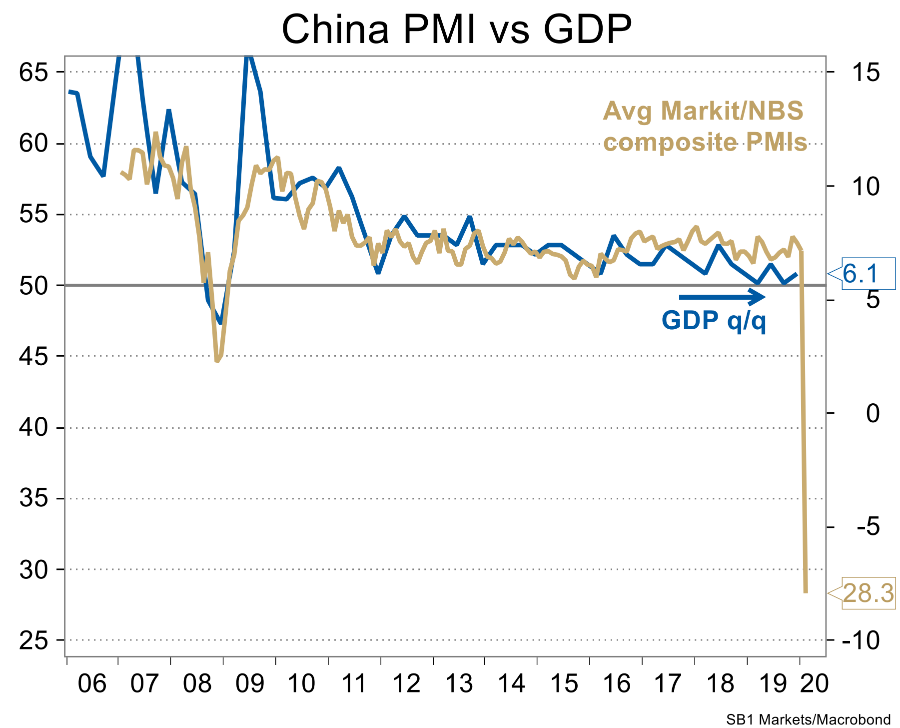


- Markit's manufacturing PMI fell to 40.3 in February, from 51.1. The decline was the largest and the level the lowest, ever
- The 'official' NBS/CFLP manufacturing PMI fell to 35.7 in February, by far the weakest level on record (since 2004). A PMI at 45 was expected, which was totally off mark, in our view. The index for total orders 'collapsed' to 29.3
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs signal a huge decline in manufacturing production in February
- <u>Policy implications: The Chinese authorities are now trying to speed up the recovery, from the February disaster. Liquidity support is probably much more important than lower interest rates or a fiscal stimulus, at least given today's problems</u>

A visible drop in the composite Chinese PMIs…

The avg of PMI surveys signals a steep decline in GDP in Q1

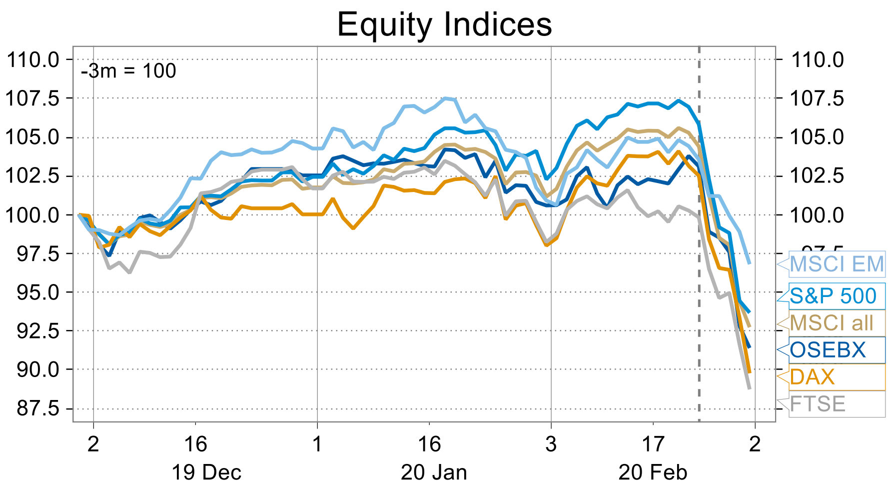




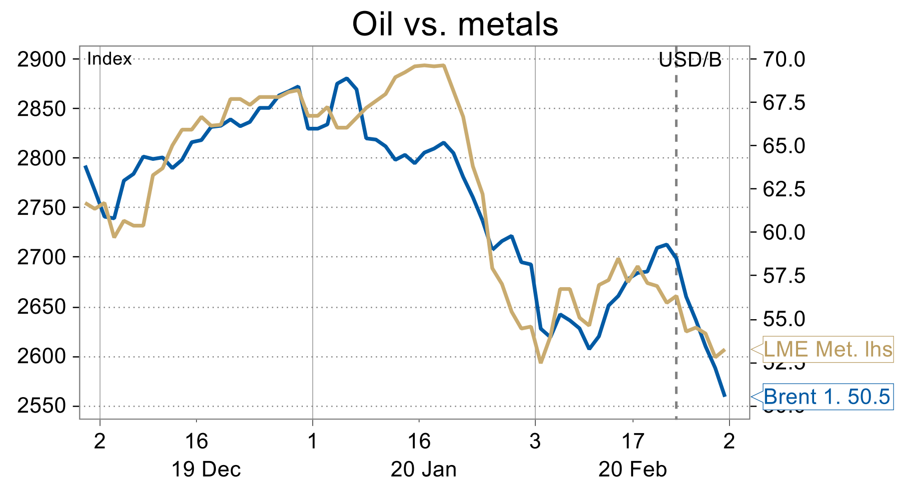
- NBS' 'official' composite PMI (CFLP) dropped 24 p to 28.9 in February. Services PMI fell even more than manufacturing, to 29.6. <u>The composite PMI suggest almost a 10% decline q/q annualized in Q1</u>
- Markit's composite PMI probably fell approx by the same amount (we do not have the service sector index yet, we have assumed a 25 p drop at the chart above)
- In avg, the two PMI data sets signal a harsh setback in the Chinese economy in Q1. So far, we have -10% guestimate

Risk markets tumble on virus outbreak

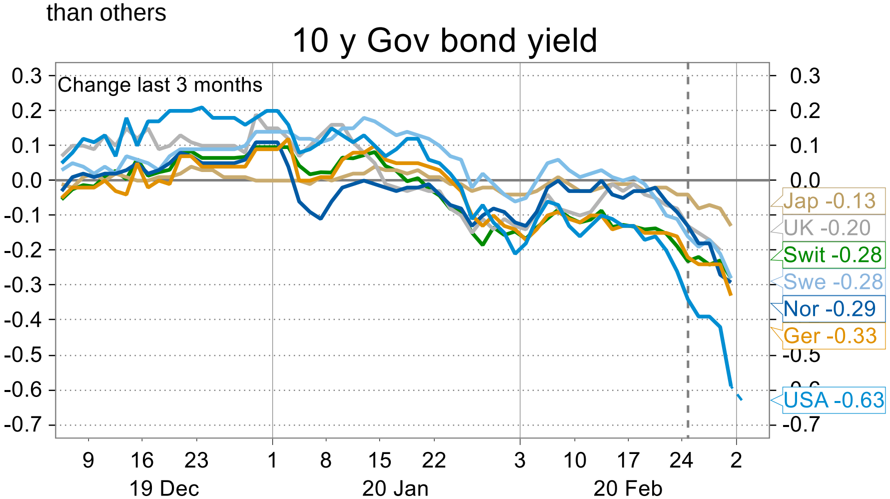
All markets in red last week, stock markets down 11-12% and bond yields dropped. Safe haven f/x up



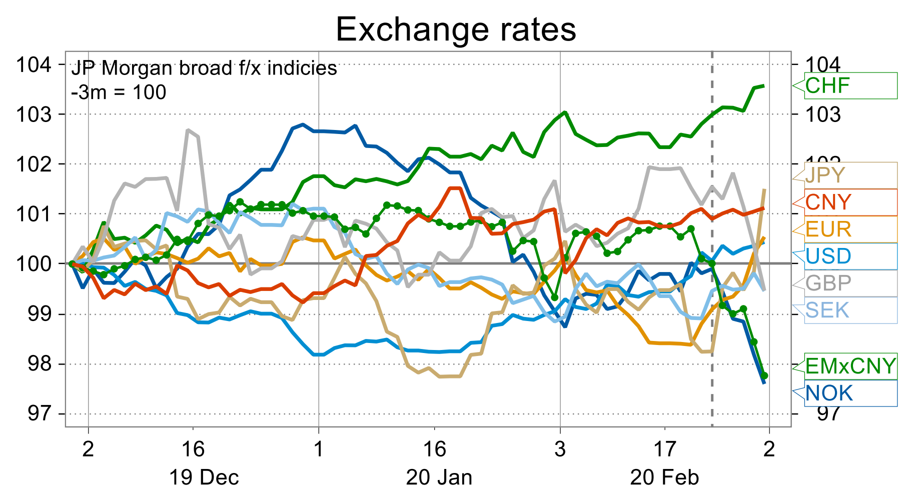
All stock markets 'collapsed' last week, and US and OSEBX more than others



Oil & metal prices have down again, oil price to USD 52/b



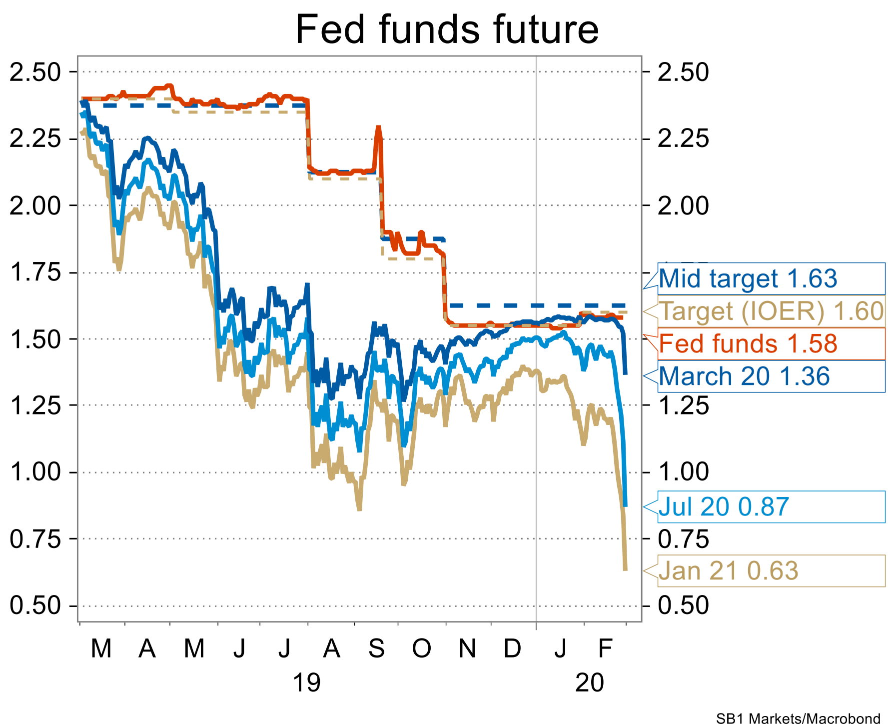
Bond yields steeply down all over, US 10 y gov at ATL

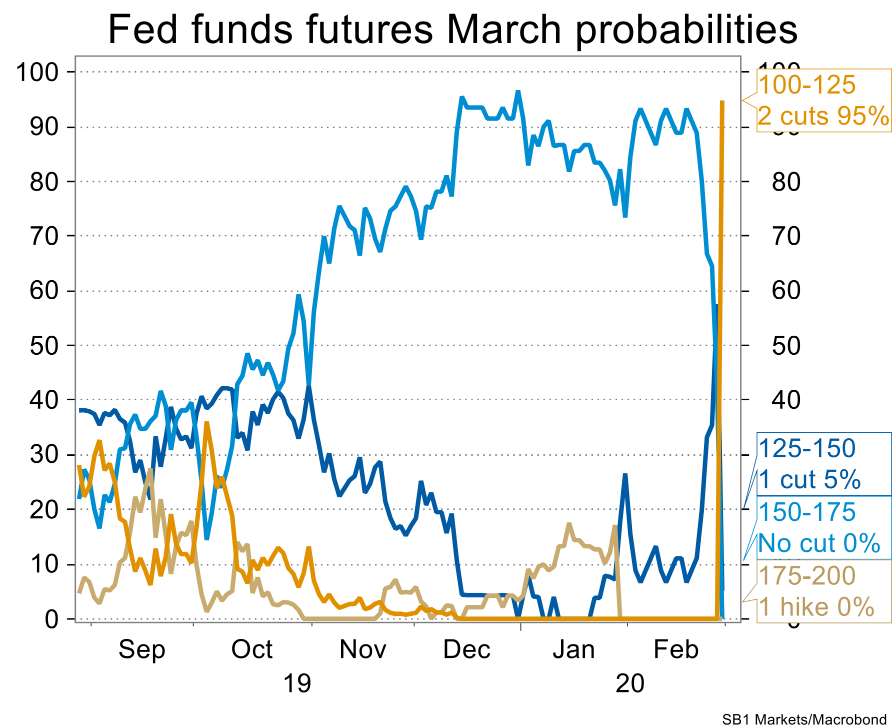


Risk off; USD, CHF, JPY and EUR appreciated while NOK and EM x China suffered last week. CNY steady

Fed fund futures drop, markets expecting a 50 bps March cut, and 50 more

Fed fund futures slipped all over the curve and cut expectations soared, by 100 bps in 2020

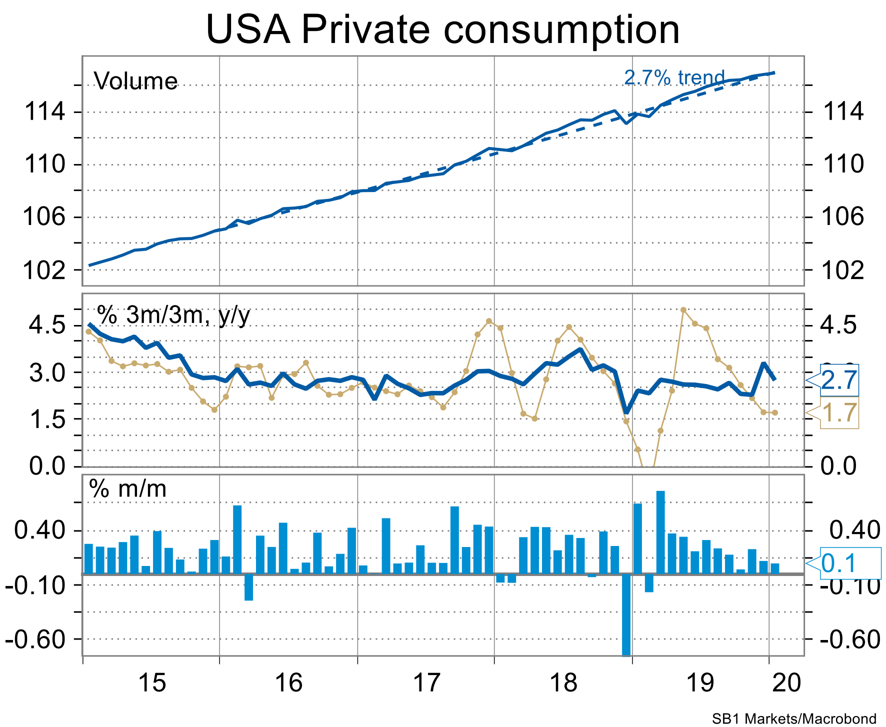


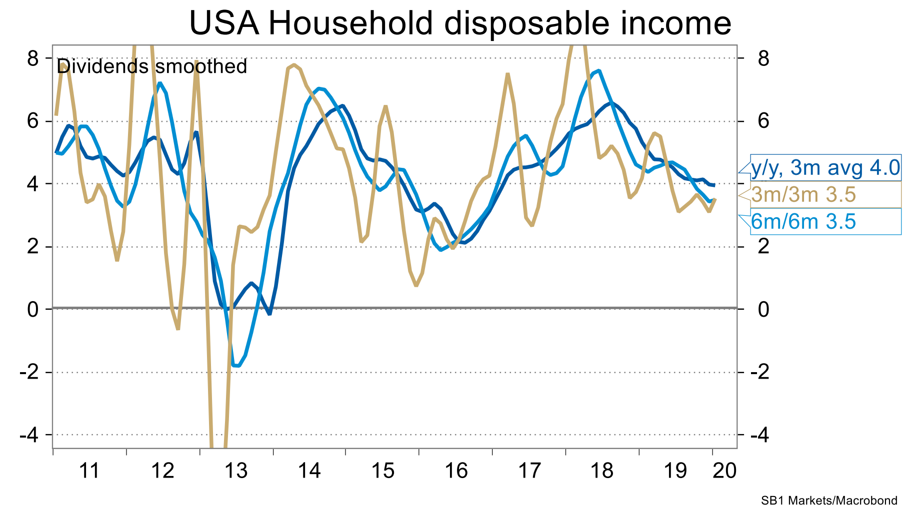


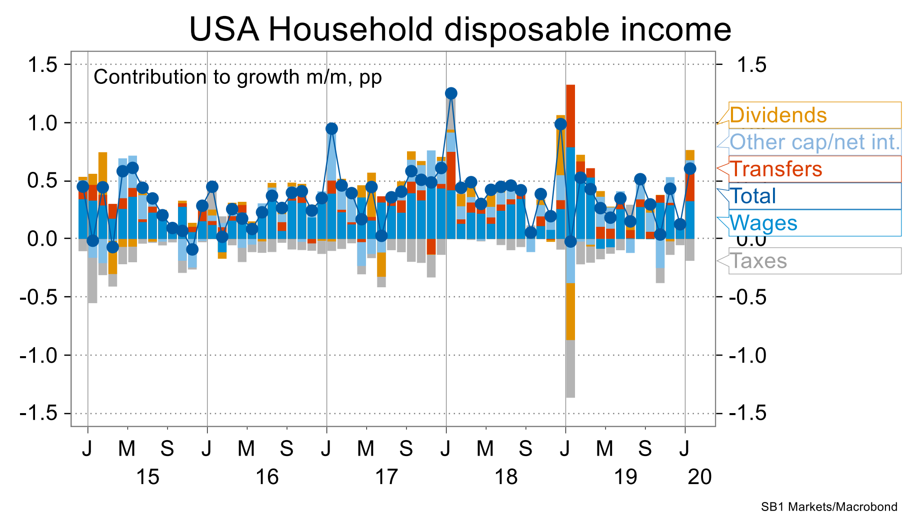
- The decline in the Fed Funds futures accelerated sharply last week, as the coronavirus spread and fears rattled financial markets. The January 2021 contract fell by almost 50 bps last week!
  - » Markets are fully pricing a Fed a 50 bps March cut, and by another 50 bps by the end of 2020. Two weeks ago, markets were fully pricing just 1 cut, and some 50% probability of 2 cuts this year

Consumption growth is slowly cooling, as income growth

Consumption rose just 0.1% in January, speed into Q1 is just 1%. Income growth is slowly ebbing







- Private consumption rose 0.1% in January, 0.2 pp weaker than expected. Underlying growth steady at 1.7%
- Households' nominal disposable income rose 0.5% m/m in Jan and the 3m/3m rate edged up to 3.5%. Growth peaked in 2018 and has slowed since then, the annual rate to 4.0%. Total wage & salary income was up 5.1% y/y (volatile data)
- The savings rate rose to 7.9%, a rather high level for the Americans

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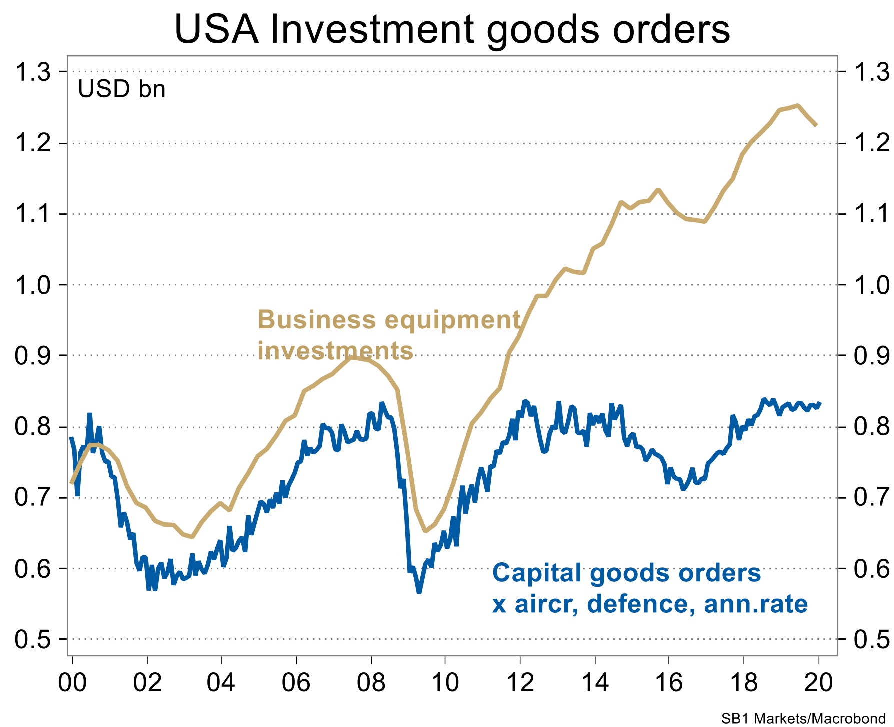
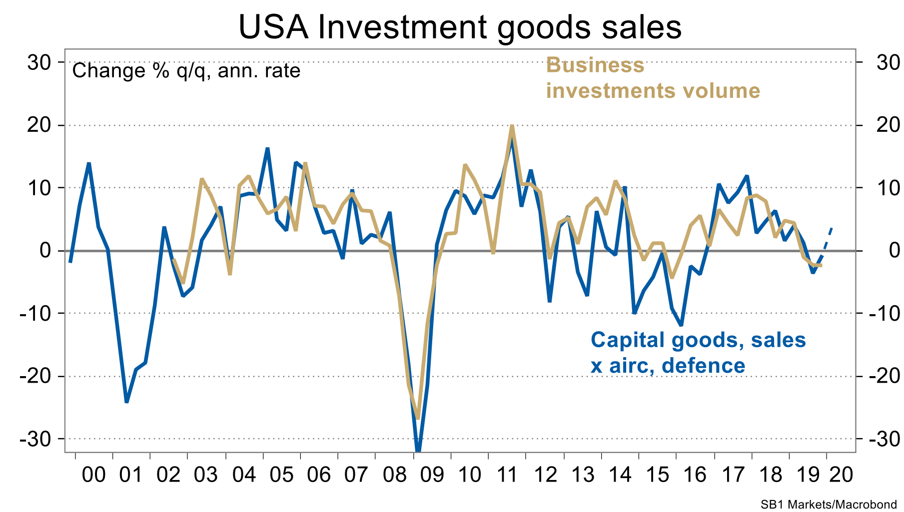
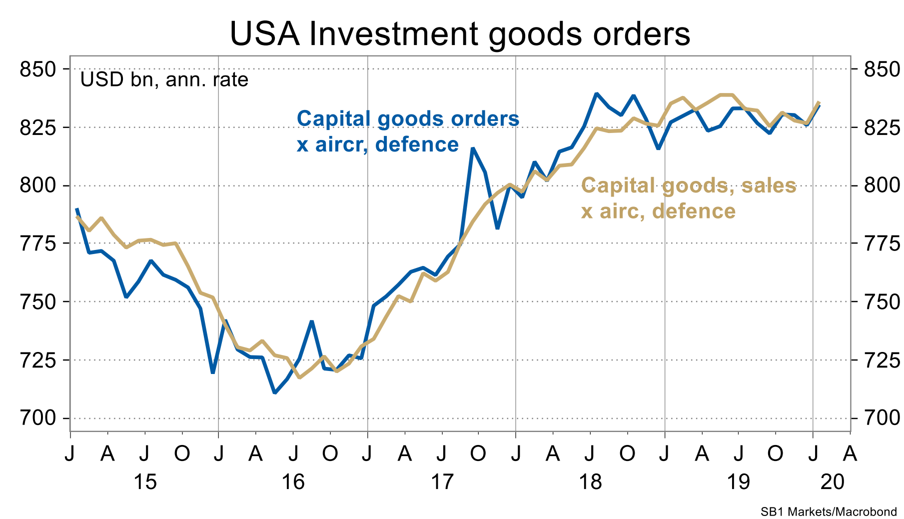
Capital goods orders/sales suggest a mild recovery in business investments

Core investment orders and sales increased in January, trending flat







- Investment orders (core) increased by 1.1% m/m in January, underlying growth has picked up to 1.8%
- Sales rose equally by 1.1%, still declining 3m/3m
- Business investments fell by 2.3% annualized in Q4, capital goods sales suggest a modest increase in investments
- The manufacturing PMI order index dropped in February, suggesting a moderate decline in business orders

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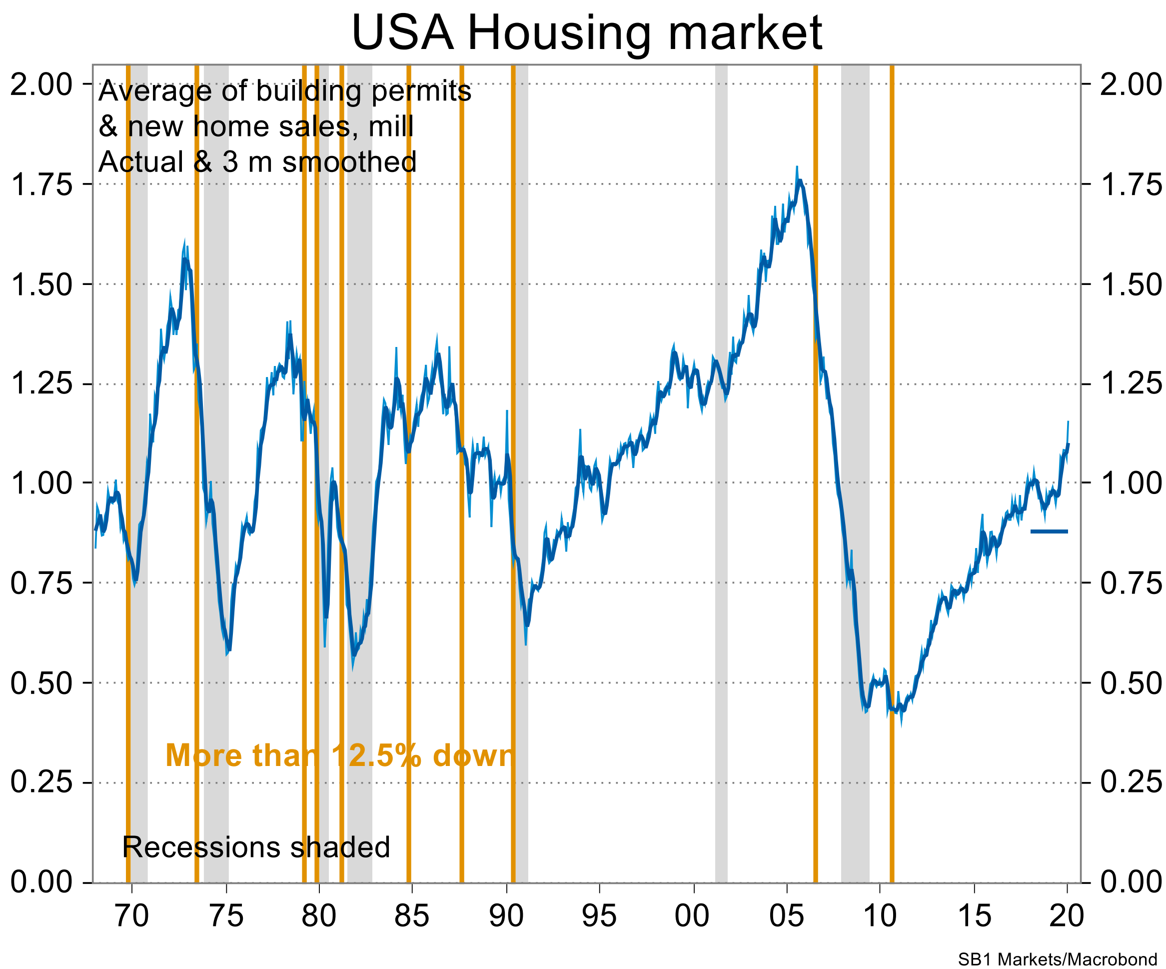
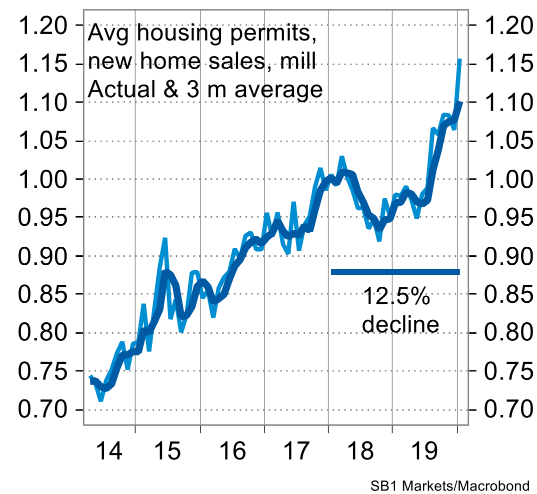
Housing vs. recessions: No warning sign now, to put it mildly

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





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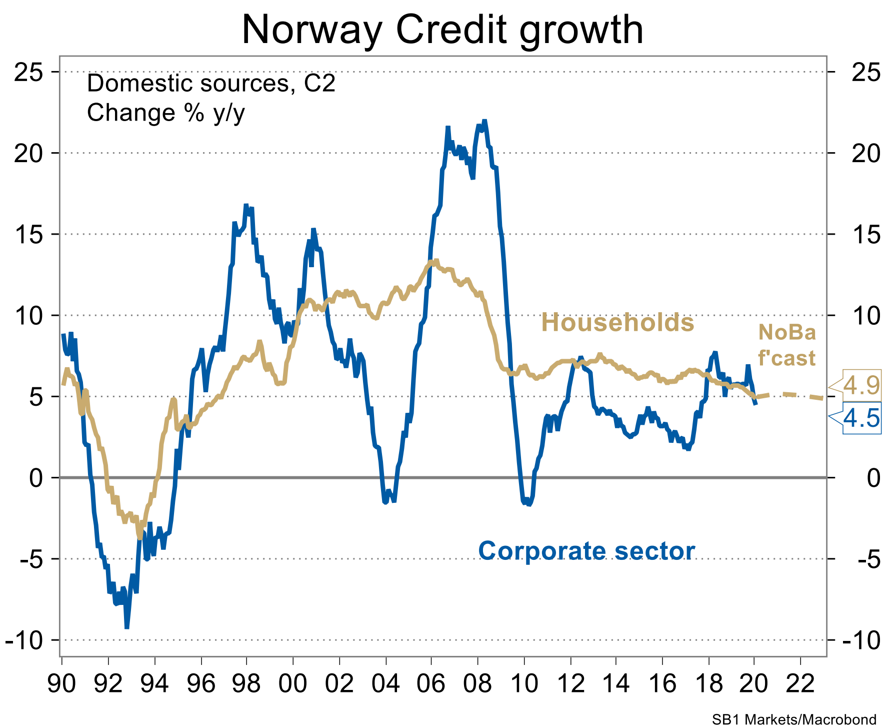
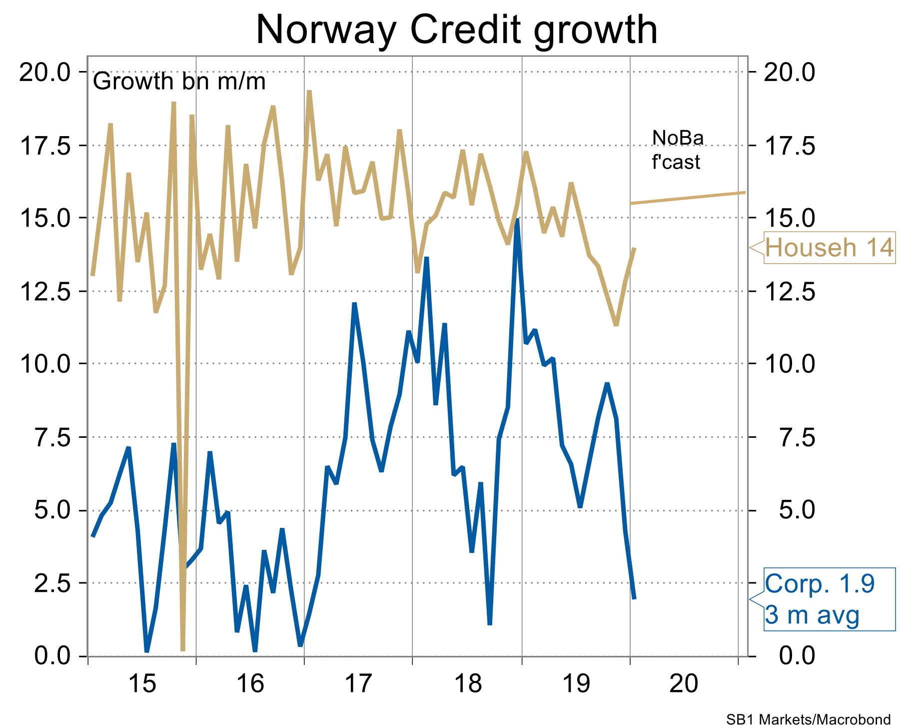
Households credit growth at 23 y low – but corporates slowing the most recently

Household credit growth turned up in Dec/Jan, corporate sagging the past few months

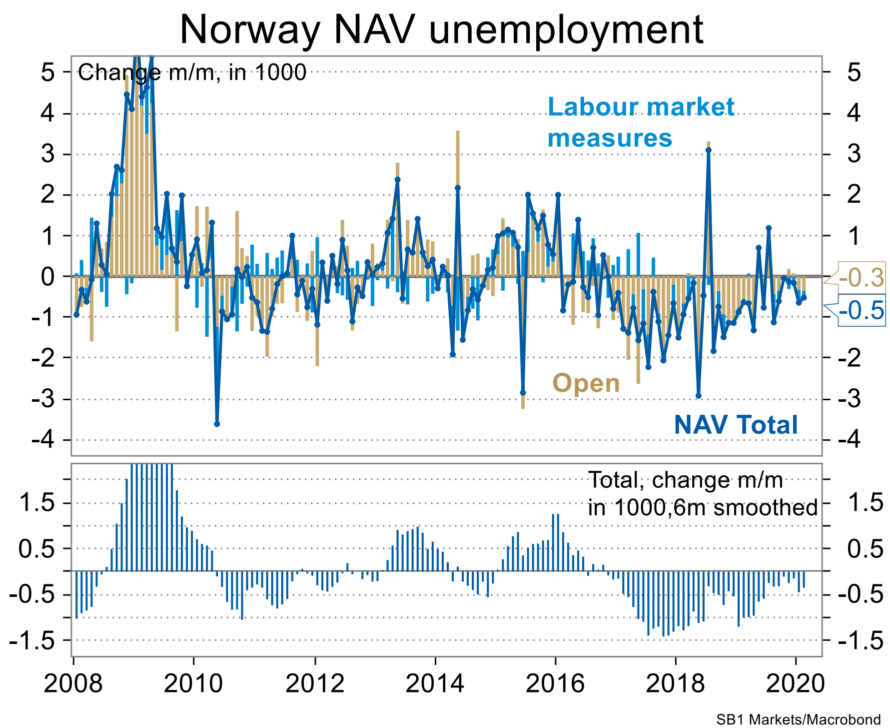


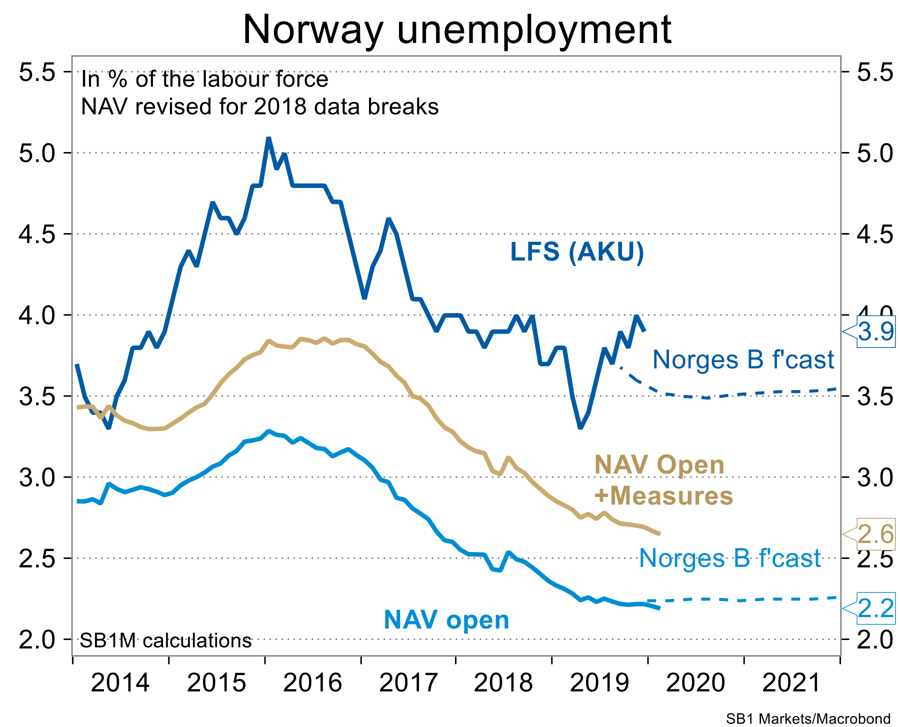


- Households' credit increased by NOK 14 bn m/m January, a 1 bn lift from an upward revised December (by 2 bn), and up from a 5 year low at 11 bn in November. Hence, credit growth is not 'collapsing', however, the trend is no doubt downwards. The y/y rate inched down to 4.9%, the lowest speed in 23 years
  - » Household credit growth has been slowing modestly since 2017. The slowdown has accelerated since last summer, probably due to the interest rates hikes and tighter consumer credit regulation/the new debt registers. Consumer (unsecured) credit has slowed, no doubt dragging total credit growth down. However, consumer credit cannot explain the entire downturn
- Corporate credit (in C2, domestic lending) rose by just NOK 2 bn in Jan, following a decline in Dec. At the chart above, we have added a 3m smoothing, these data are volatile. Growth has been waning the past 3-4 months, bringing the annual rate to 4.5%, below the long term avg

NAV unemployment still declining marginally, does not confirm the LFS increase

Open unempl. declined by 300 persons in Feb(total by 500), better than we expected

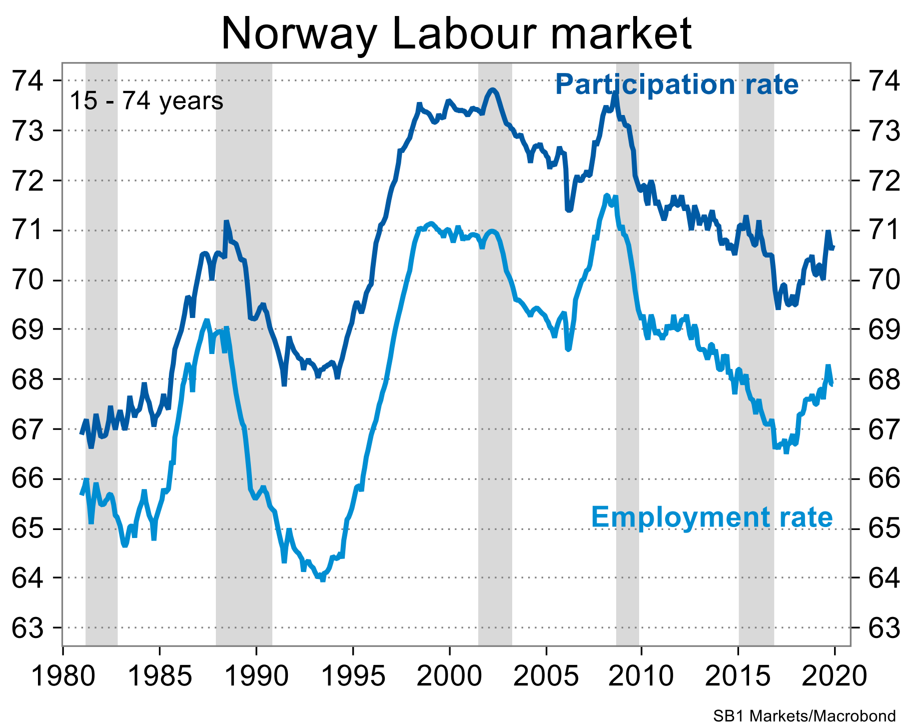


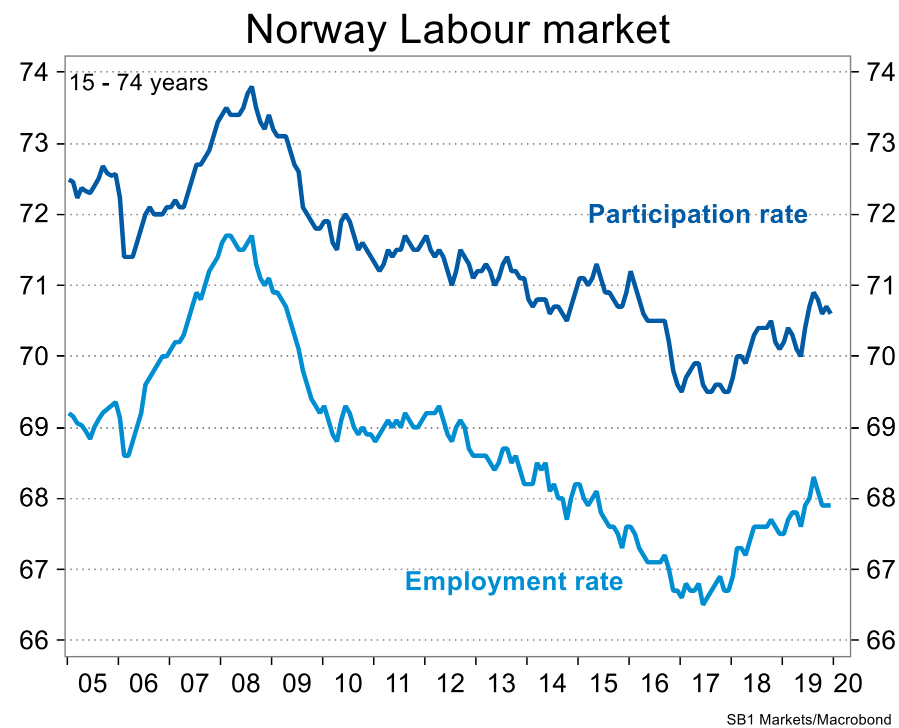


- NAV open unemployment fell by 300 persons in February and total unempl. (incl measures) declined by 500 persons, better than we expected (-600). The pace of decline has slowed substantially but growth has not turned negative. The 6m average decline rate was 350 persons m/m in February, better than 2-3 months ago (but substantially lower than in 2017-late 2019)
- The open unempl. rate unchanged at 2.2% (down 0.02 pp), 0.05 pp below Norges Bank's f'cast from December (but LFS unempl. is well above). The bank expects a steady unemployment rate through 2020
  » Other indicators confirm a slowly softening labour market – but no sudden setback
- LFS unemployment inched down to 3.9% in Dec. LFS unemployment is trending up since last spring, chiefly due to a rising labour force. These data are much more volatile than NAV's, our take is that a stabilization of unemployment is more likely

Labour market participation & employment down, trends still up

The uptick in participation since 2017 may reflect that there is still some excess capacity

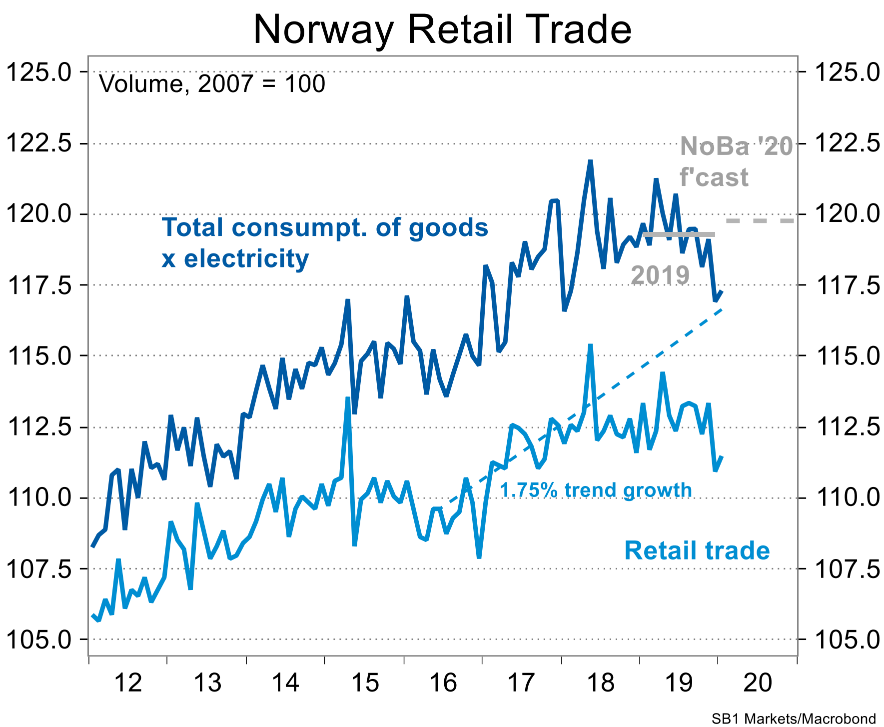


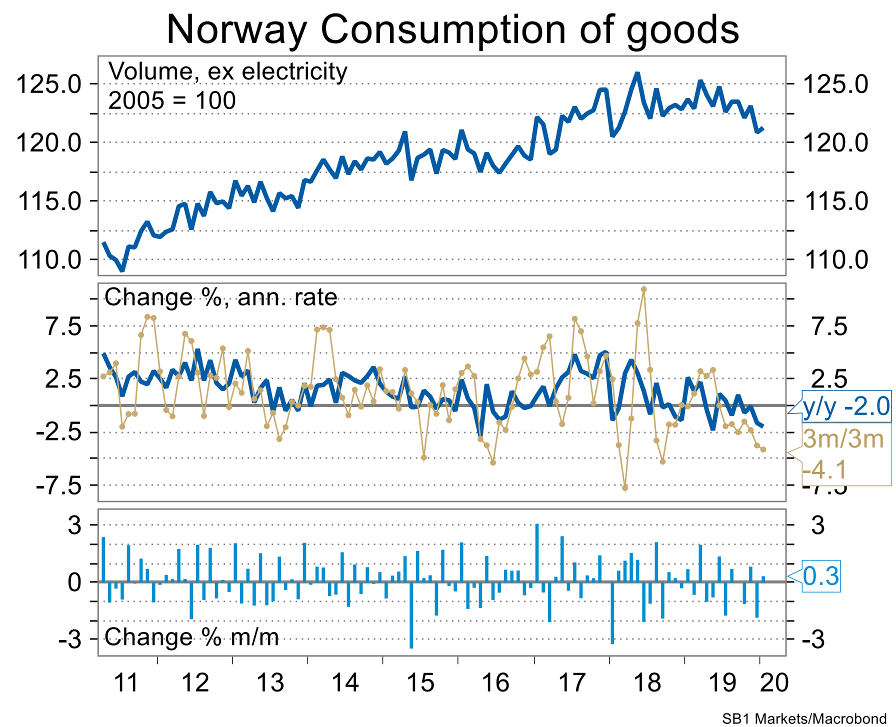


- The long term downturn in the participation and employment rates bottomed in 2017 and have turned up since then. Through most of 2019, the participation rate climbed speedily, up 0.9 pp in May-Aug, suggesting labour supply was responding to strong demand. The past few months, participation has retreated
  - » Demand for labour has been strong for a while, we are unsure why supply would suddenly respond now
- The employment rate is trending up too, but has turned down along with participation since August. As long as employment is rising at a moderate pace, we are not worried about any rapid labour market weakness

Retail sales failed to recover in January, private consumption sliding down

Retail sales up just 0.5% in Jan following the 2.1% Dec plunge





- Retail sales volume (ex auto) rose just 0.5% m/m in January, we f'casted a 1.7% lift (consensus 1.3%), following the 2.1% drop in Dec. Sales were flat through 2019, and the annual rate is -1.7%. The underlying pace is a 3.6% decline (measured 3m/3m annualized)
- Total consumption of goods (ex electricity) increased 0.3%. Consumption has been declining since the summer, partly driven by a steep drop in auto sales. The speed into Q1 is weak, -2.5%, annual rate down 2.0%
- Retail sales and total consumption of goods is declining. Consumer confidence has softened, as is the labour market and household credit growth. Consumers appears to slowly becoming more careful. Norges Bank expects a modest 1.6% growth total consumpton in 2020. The estimate does not seem to be on the pessimistic side…

SpareBank 1 MARKETS

The Calendar

In focus: Final February PMIs and ISM, China exports (?), US nonfarm payrolls, Norway house prices

Time	Country	Indicator	Period	Forecast	Prior
Monday Mar 2					
08:30	SW	PMI Manufacturing	Feb	--	51.5
10:00	NO	PMI Manufacturing	Feb	--	50.9
10:00	EC	Manufacturing PMI	Feb F	--	49.1
10:00	NO	OBOS Oslo Apartment Prices MoM	Feb		6%
10:30	UK	PMI Manufacturing	Feb F	--	51.9
15:45	US	Markit Manufacturing PMI	Feb F	--	50.8
16:00	US	ISM Manufacturing	Feb	50.5	50.9
17:00	WO	Global Manufacturing PMI	Feb		50.4
Tuesday Mar 3					
11:00	EC	CPI Core YoY	Feb P	1.2%	1.1%
11:00	EC	Unemployment Rate	Jan	--	7.4%
	US	Total Vehicle Sales	Feb	16.90m	16.84m
Wednesday Mar 4					
01:30	JN	PMI Composite	Feb F		47
02:45	CH	Composite PMI, Caixin/Markit	Feb	--	51.9
08:00	NO	Household Savings Rate	4Q	(8.1)	7.9%
08:00	NO	Current Account Balance	4Q		23.9b
08:30	SW	PMI Composite	Feb	--	52.2
10:00	EC	Composite PMI	Feb F	--	51.6
10:30	UK	Composite PMI	Feb F	--	53.3
11:00	NO	House Prices, Real Estate Norway MoM	Feb	(0.2)	0.9%
11:00	EC	Retail Sales MoM	Jan	--	-1.6%
14:15	US	ADP Employment Change	Feb	185k	291k
15:45	US	Markit Composite PMI	Feb F	--	49.6
16:00	US	ISM Non-Manufacturing Index	Feb	55.5	55.5
17:00	WO	Global Composite PMI	Feb		52.2
20:00	US	US Fed Beige Book			
Thursday Mar 5					
09:30	SW	Industrial Production MoM	Jan	--	-0.4%
13:30	US	Challenger Job Cuts YoY	Feb	--	27.8%
14:30	US	Nonfarm Productivity	4Q F	1.3%	1.4%
14:30	US	Initial Jobless Claims	Feb-29	--	--
Friday Mar 6					
08:00	GE	Factory Orders MoM	Jan	--	-2.1%
08:00	NO	GDP Mainland (MoM)	Jan	(0.3)	-0.3%
08:00	NO	Manufacturing Production MoM	Jan	(0)	0.0%
14:30	US	Trade Balance	Jan	-$48.8b	-$48.9b
14:30	US	Change in Nonfarm Payrolls	Feb	190k	225k
14:30	US	Unemployment Rate	Feb	3.6%	3.6%
14:30	US	Average Hourly Earnings YoY	Feb	3.0%	3.1%
Saturday Mar 7					
	CH	Exports YoY	Feb	--	--
Monday Mar 9					
00:50	JN	GDP QoQ Annualized	4Q F	--	-6.3%

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

- **Global February PMIs**
  - » **The Global PMI** will fall sharply due to the Chinese 'shutdown' and due to a 2 pp decline x China, as preliminary estimates will be revised down as more impacts from the Covid-19 are included. Services are taking the hardest hit outside China, but the virus is weighing on manufacturing too, we assume mostly due to supply chain disruptions. These and other surveys will be difficult to interpret, and they cannot help us estimate the underlying strength in the global economy now
- **China**
  - » If published, **trade data** will reveal a large drop in exports in February, due to the virus, and factory shutdowns. Imports are no doubt hurt substantially as well. The virus impact on January data should be modest
- **US**
  - » **Employment growth** has been accelerating since mid-2019. Participation is rising just marginally, we doubt there is much capacity left. Wage growth is subsiding but is not low compared to productivity or CPI inflation
  - » **The trade deficit** is shrinking as imports slow, and not just from China
  - » PMIs reported a steep slowdown in February, with corona as a drag on activity, will the **Fed's Beige Book** confirm the downturn? Regional surveys have not
- **Eurozone**
  - » **Unemployment** keeps declining, although at a much slower pace. Limited downside, as unemployment rates are very low in many countries
  - » We expect a strong rebound in **retail sales** in Jan, after the surprising dip in Dec
  - » **Core CPI inflation** remains subdued, no signs of pickup
- **Norway**
  - » **House prices** are rising moderately, we f'cast a 0.2% m/m speed (seasonally adjusted) in Feb, following the 0.9% jump in Jan
  - » **Growth in manufacturing production** is abating, surveys signal a stagnation

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 slowdown to 2.5% in 2020, as 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 will be much weaker. Global trade increased in Dec
China	Growth had slowed just marginally, and inched up through 2019. Now, all bets are off, as Covid-19 has 'killed' the economy in Q1. As the outbreak is now coming under control, we expect a substantial recovery in Q2, but not fully up to the Q4 2019 level, and the annual growth will be closer to 2%, from 6%, even if the activity level returns to the original growth path during H2. Before corona, we expected a 'controlled' slowdown, as over the previous years. There may be other downside risks now, if more companies should decide to reduce the supply chain risk vs China (both due to corona-like events, and due to the trade/technology tensions between US and China. We expect more policy measures to ensure a short term recovery in 2020	China PMIs fell like a rock, for good reason (even though consensus estimates were ridiculously upbeat). Q1 is a lost case, probably with a substantial decline in activity, even y/y.
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 from Q2. 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 is booming, and may get additional support from the collapse in interest rates. Price inflation is close to target, and the Fed can focus at the real economy – but now that includes possible corona impact. The Fed signalled willingness to cut rates at Friday. Recession risk is not overwhelming, short term. **Risks, except for corona: Policy uncertainty/trade/business investments &debt, not household demand or debt**	Q4 GDP growth unchanged at 2.1% in the 2nd estimate. Core capital orders/sales indicate a mild recovery in business investments. New home sales are soaring, and pending home sales heading up. House price inflation picks up. Strong consumer confidence but consumption growth is slowing. Core PCE 1.6%, underlying growth 1.3%
EMU	Will corona slow the EMU economy further? The next few weeks will be decisive. We expect some impact in Q1 and in Q2. Before corona, the manufacturing downturn was easing and 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 except for corona: Trade war**	Economic confidence is improving, along with PMIs and other surveys, confirming that manufacturing has bottomed out. German Ifo business survey a tad down, stabilized recent months
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 Jan jump). Growth in households' debt has slowed to close to income growth. **Risks: Debt, housing. A harsh global setback**	Credit growth is cooling. Registered unempl. down in Feb and is still declining marginally. LFS unemployment is trending up, employment has flattened. Retail sales/consumption are sluggish. Population growth bottomed out, still low

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

In this report

Global

- Covid-19 is not under control outside China
- Global macro data above f'casts (but who cares)
- Global trade picked up in Dec, trend flat, will 'collapse' in January/February
- Global PMI will 'collapse' in February amid coronavirus distortions

China

- Weakest Chinese manufacturing PMIs ever, of course

USA

- Q4 GDP growth steady at 2.1% in the 2nd est.
- Core PCE inflation up to 1.6% in January, Dec revised down
- Consumption growth is slowly cooling, as income growth
- Core durable goods orders marginally down
- A spike in new home sales in January; number of unsold homes down
- Pending existing home sales rebounded strongly in January, trend up
- CS house price inflation is gaining pace
- The trade deficit is shrinking as imports are waning, exports trending flat
- Conference Board's consumer sentiment steady at a high level in Feb
- Jobless claims steady at a very low level
- Nowcasters suggest higher growth, Activity Index does not confirm an upswing

EMU

- EU economic sentiment brightens, along with other surveys
- German Q4 GDP revised down marginally, muted household & business demand
- Ifo expectations improved marginally in Feb, no corona impacts - yet

Japan

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

Sweden

- GDP rose 0.6% annualized in Q4, marginally below exp. Productivity picks up
- Retail sales are expanding moderately
- Consumer confidence has stabilized below par
- The KI business survey is improving as manufacturing recovers

Norway

- Credit growth is ebbing, corporates the main drag recent months
- NAV unemployment still declining marginally, does not confirm the LFS increase
- LFS unemployment inched down to 3.9%, trend up, employment is slowing
- Population growth may have bottomed out, net immigration marginally up
- Retail sales failed to recover in January, private consumption sliding down
- Housing starts up in Jan, trend steeply down
- A crucial growth engine is about to change sign: Oil investments have peaked

Highlights

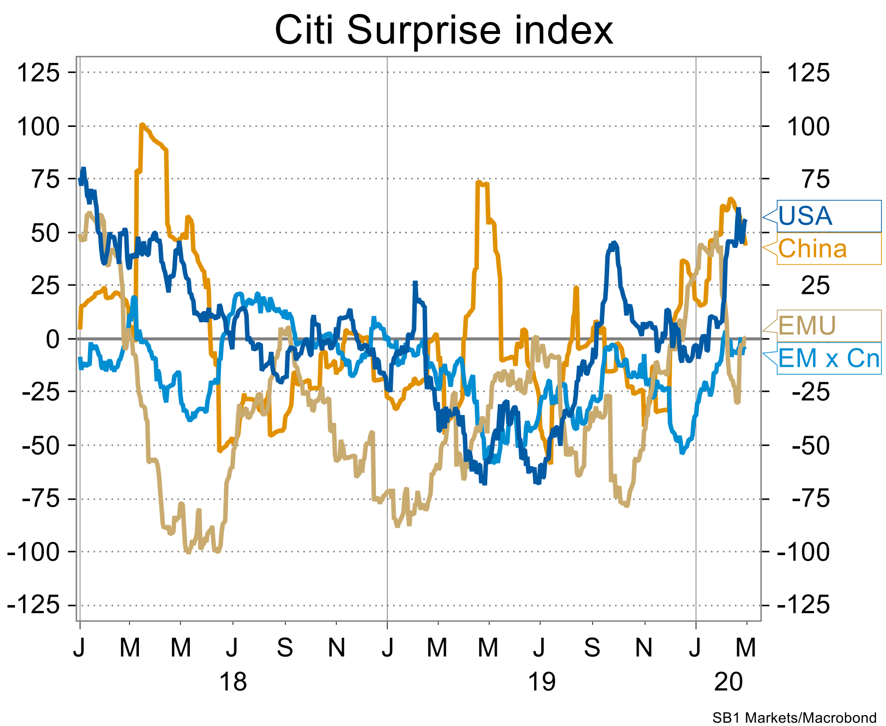
The world around us

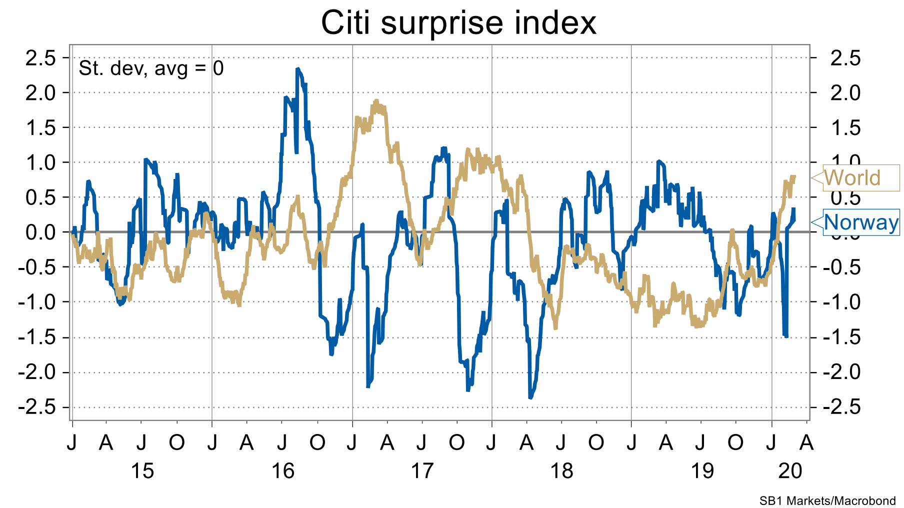
The Norwegian economy

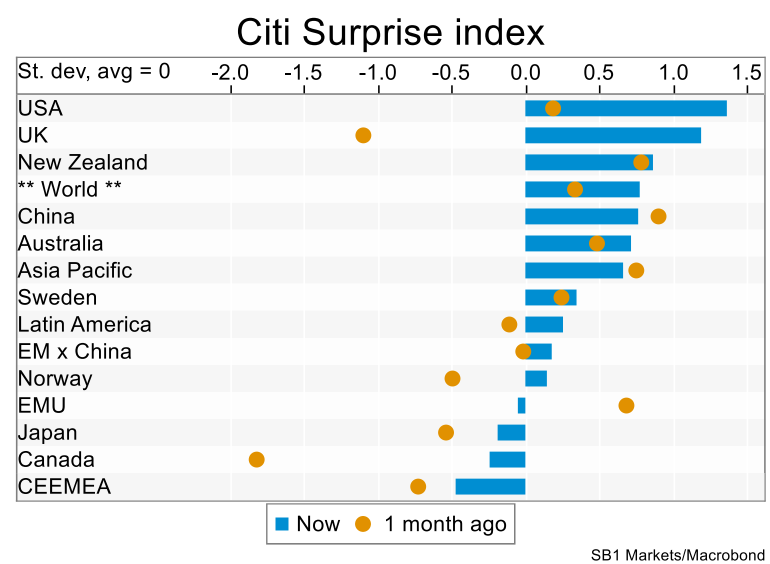
Market charts & comments

Global macro data above f'casts (but who cares, now)

Most upbeat US data flows in 2 years, China positive too, EM x China and Eurozone neutral





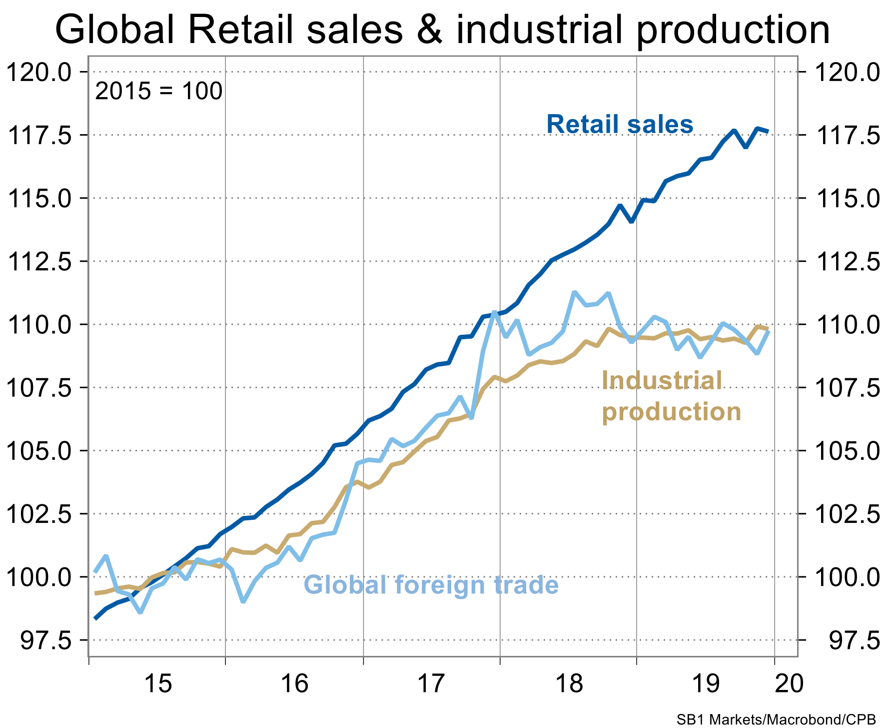


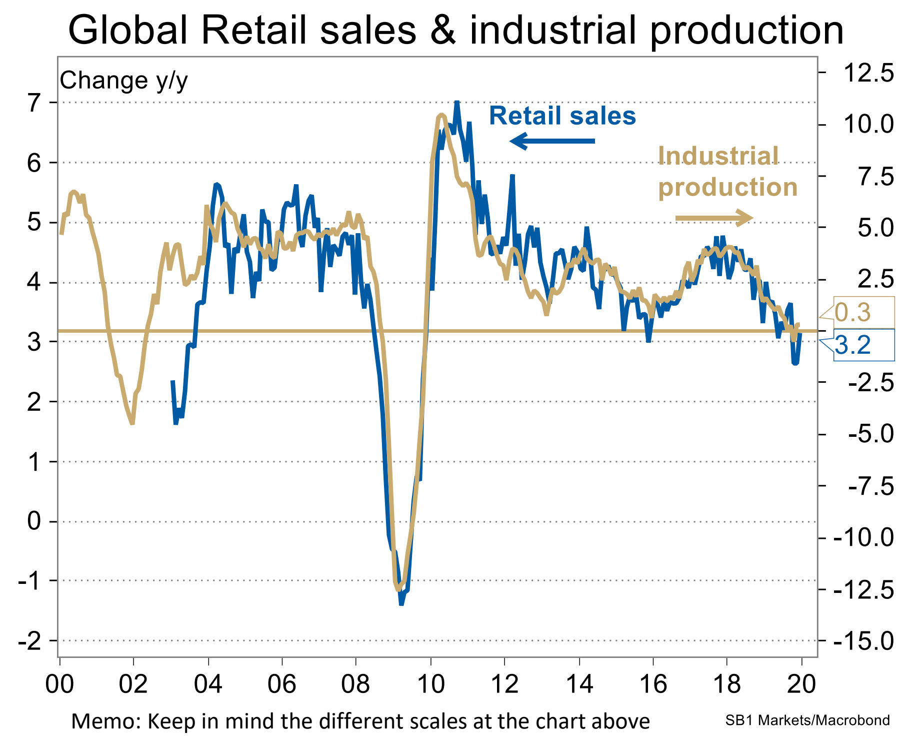
- Global macro data are in sum better than excepted, steady the past few weeks. The current level is the highest since March 2018!
- Stronger than expected Dec China data, inflation and most recently credit growth have lifted the Chinese surprise index. Other EM data are now neutral vs f'casts
- EMU figures are close to expectations, following some weeks of softer data
- The US surprise index is heading straight and is now the most upbeat! Housing, producer prices, CCI and the LEI have lifted the index, in spite the soft PMI surprise
- Norwegian data have been weaker than expected – until the surprising inflation jump caused a rapid rebound three weeks ago

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

Global trade picked up in Dec, trend flat, will 'collapse' in February?

Global trade has stabilized, industrial production recovering marginally, retail sales stalling

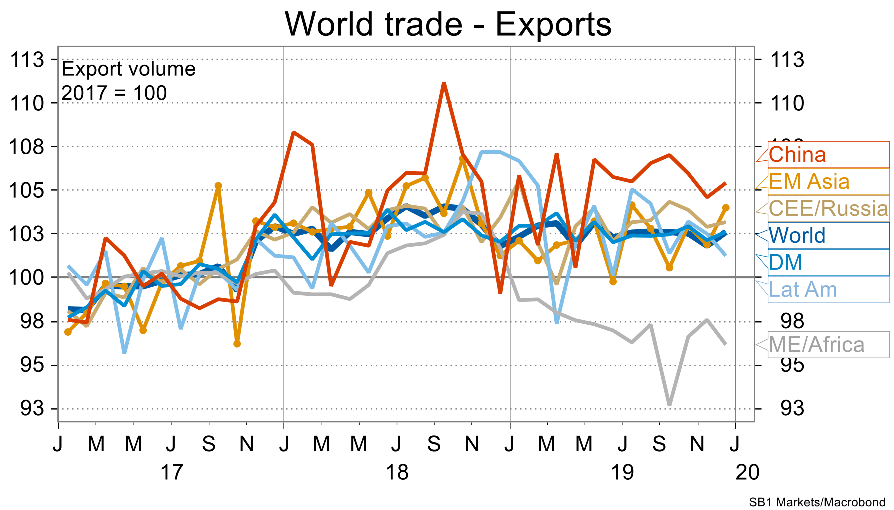


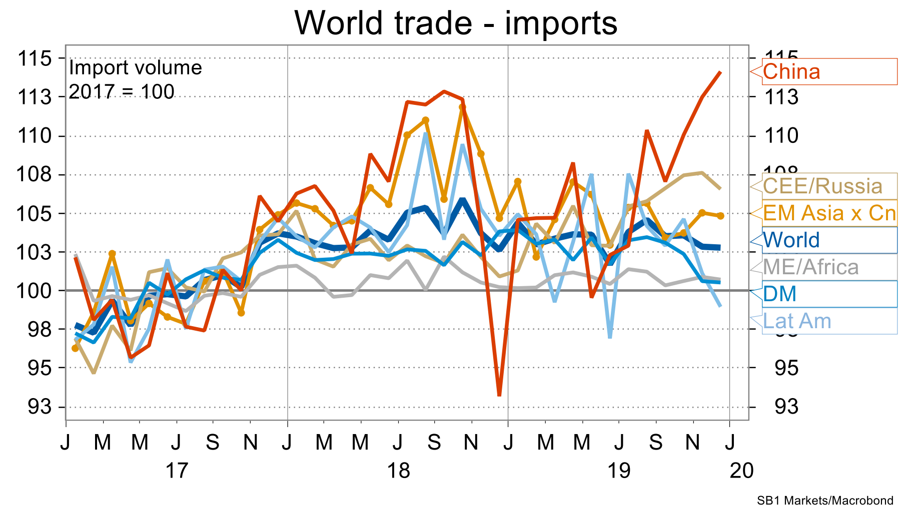


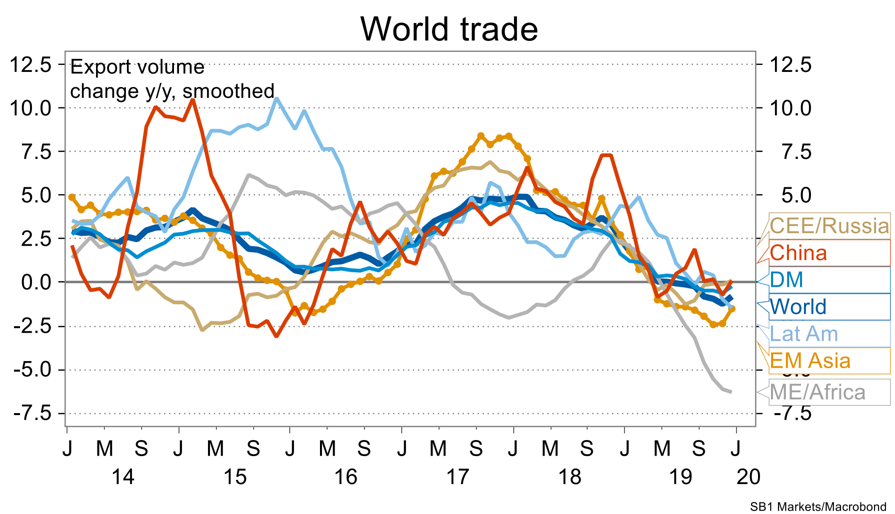
- **Global industrial production** probably inched down 0.1% m/m in December according to our estimate, following a strong Nov. Production is back at the Nov-2018 peak level. The global manufacturing PMI has recovered the past 6 months (until February, that is!!), signalling a 1% growth pace
- **Retail 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, although at a slower pace. EMU sales data on the weak in Dec
- **Global foreign trade** rebounded in December, up 0.9% m/m with our seasonal adjustment (0.3% unadjusted). Trade flows have flattened out since early 2019, and the annual rate is up 0.4% y/y. The 3m/3m underlying growth rate is down 1.5%. We suppose something happened in Chine in February – which would have an impact on both exports and imports

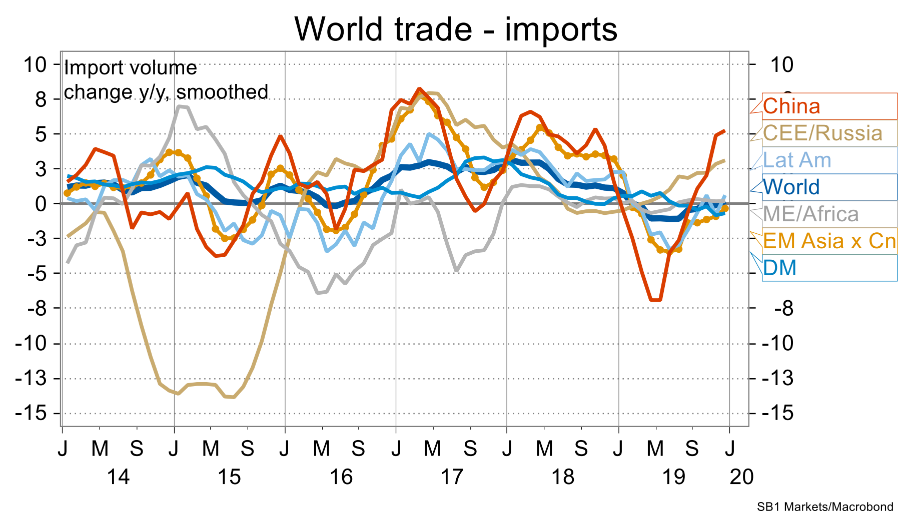
Global foreign trade flows had stabilized most places (before corona hit)

Chinese imports gaining pace, as are exports from other Asia. Latin America down





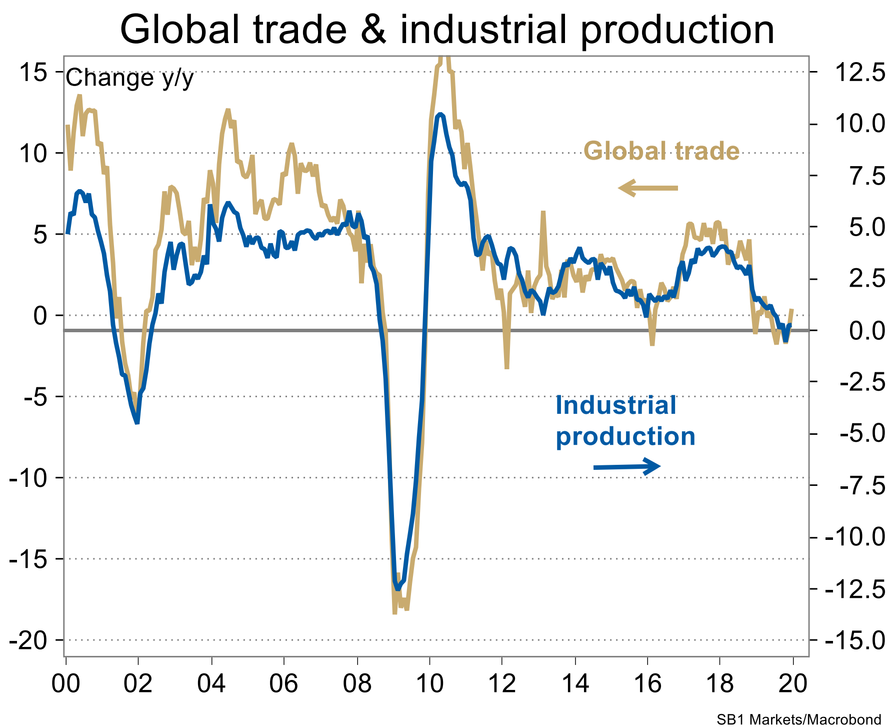


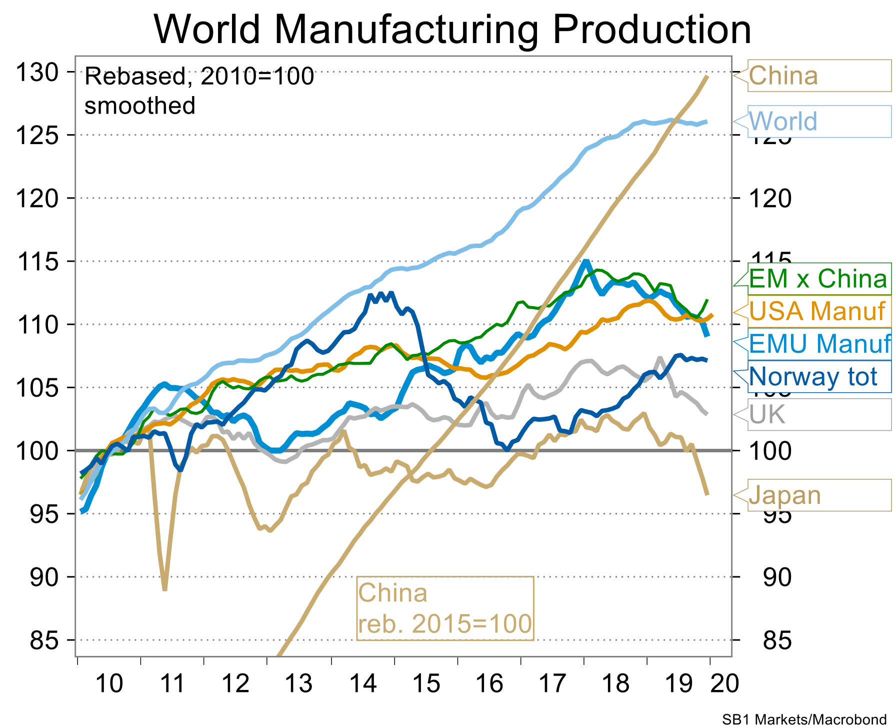


All foreign trade data from CPB, Netherlands. We have adjusted some CBP data for remaining seasonality, most important for Chinese exports

Global industrial production and trade flows are closely correlated

The past months, both have been regaining its footing (well, wait for Jan/Feb data..)

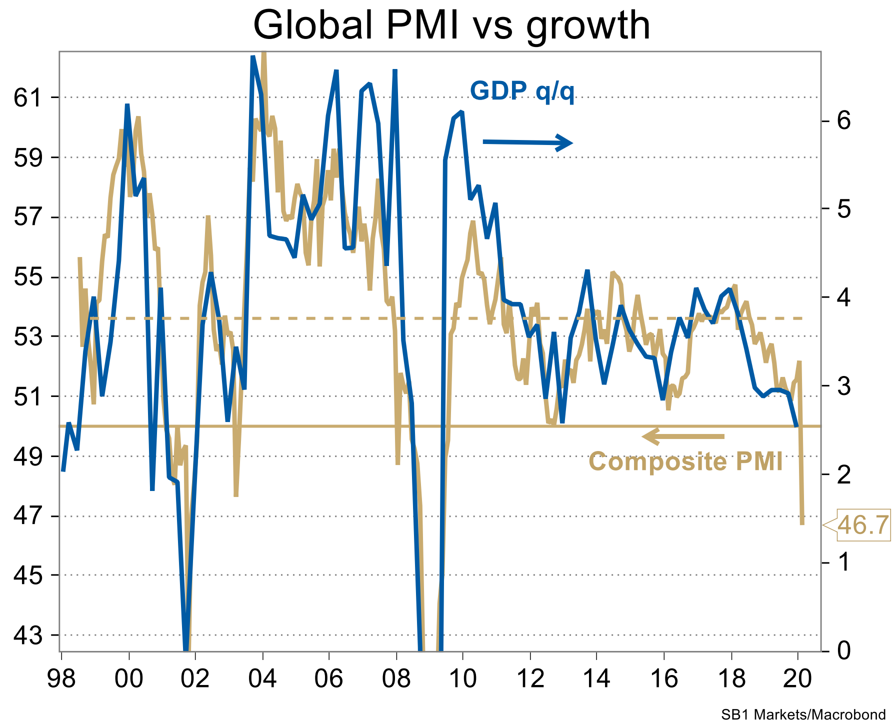


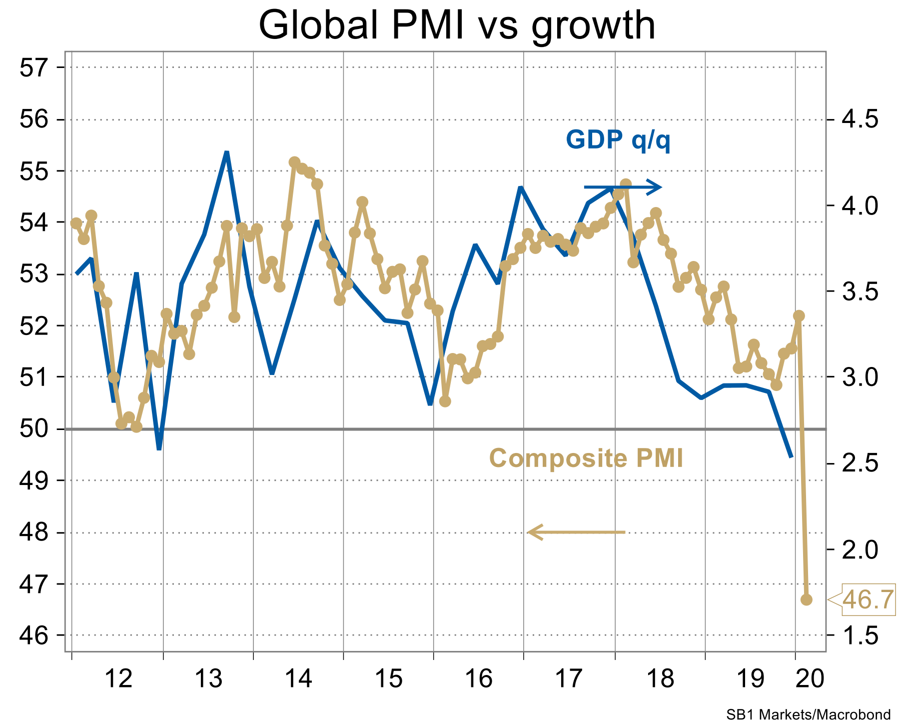


- Industrial production slowed most places through 2019, less so in China (wait for Jan/Feb data..). Most recently, production has turned in Emerging Markets, China (no Jan/Feb data, which will by heavily distorted by Covid-19) and the US. The Eurozone is still struggling, UK and Japan as well

Global PMI will 'collapse' in February amid coronavirus distortions

Ex China PMI down 1.5 – 2 p, total down 5.5p?



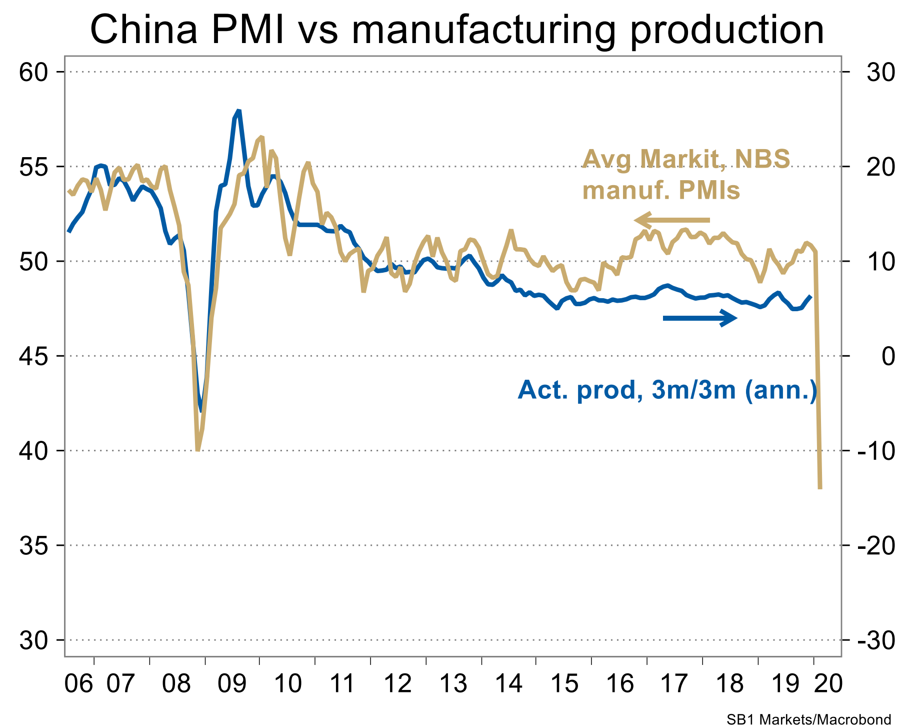


- The February Chinese PMIs were as we assumed reported sharply down, and the global PMI may decline 5 – 6p as we indicated one week ago.
- We estimate a 1.6 p – 2 p drop in the global composite PMI x China. The steep decline is no doubt mostly due to the Covid-19 outbreak, which has hampered activity in many sectors. Thus, the February data are rather useless in assessing the underlying growth momentum. Q1 global GDP will most likely decline substantially. We expect a comeback in Q2 as China recovers, but 2020 growth will anyway be substantially reduced. The PMIs later this spring will reveal more about the pace of recovery

Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US and partly China – and some few other Asian countries. The estimate is uncertain

Weakest Chinese manufacturing PMIs ever, of course

Unsurprisingly, businesses reported a drop in activity, Markit's PMI -10.8, NBS/CFLP plunged 14.3 p



- Markit's manufacturing PMI fell to 40.3 in February, from 51.1. The decline was the largest and the level the lowest, ever
- The 'official' NBS/CFLP manufacturing PMI fell to 35.7 in February, by far the weakest level on record (since 2004). A PMI at 45 was expected, which was totally off mark, in our view. The index for total orders 'collapsed' to 29.3
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs signal a huge decline in manufacturing production in February
- Policy implications: The Chinese authorities are now trying to speed up the recovery, from the February disaster. Liquidity support is probably much more important than lower interest rates or a fiscal stimulus, at least given today's problems

PMI order indices plunged, on both export and domestic demand

Business were probably not capable to receive orders at all

- The total order index in Markit's index fell to 34.9, from 52 in Jan. Export orders fell just as much as domestic orders
- The NBS/CFLP order index slipped to 29.3, the weakest ever. Export orders PMI fell to 28.7, 0.3 p lower than in November 2008
- PMIs will recover the coming month as businesses return to 'normal' activity

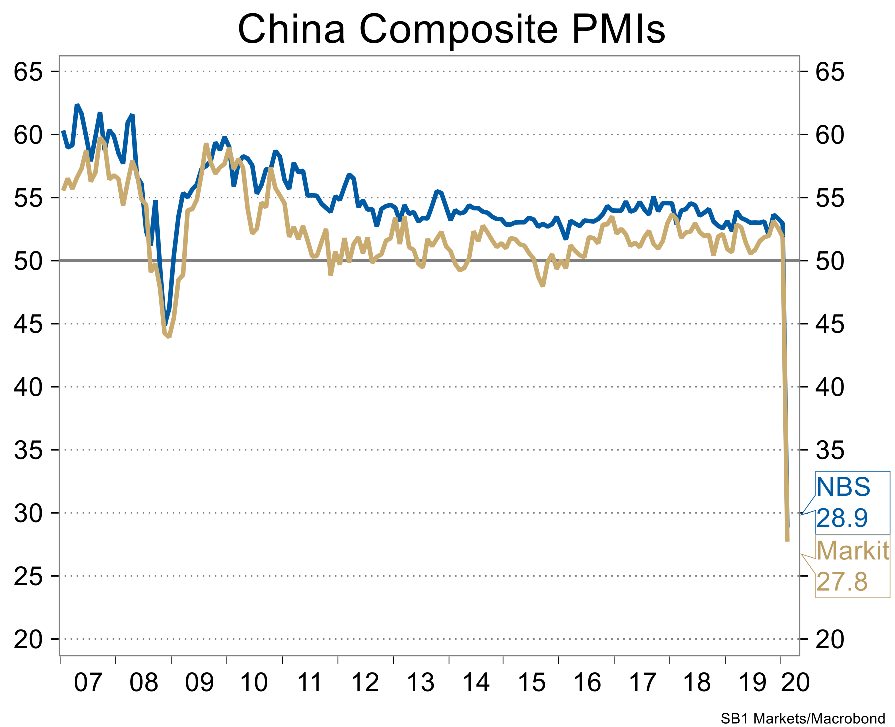
Export surveys down the drain in February

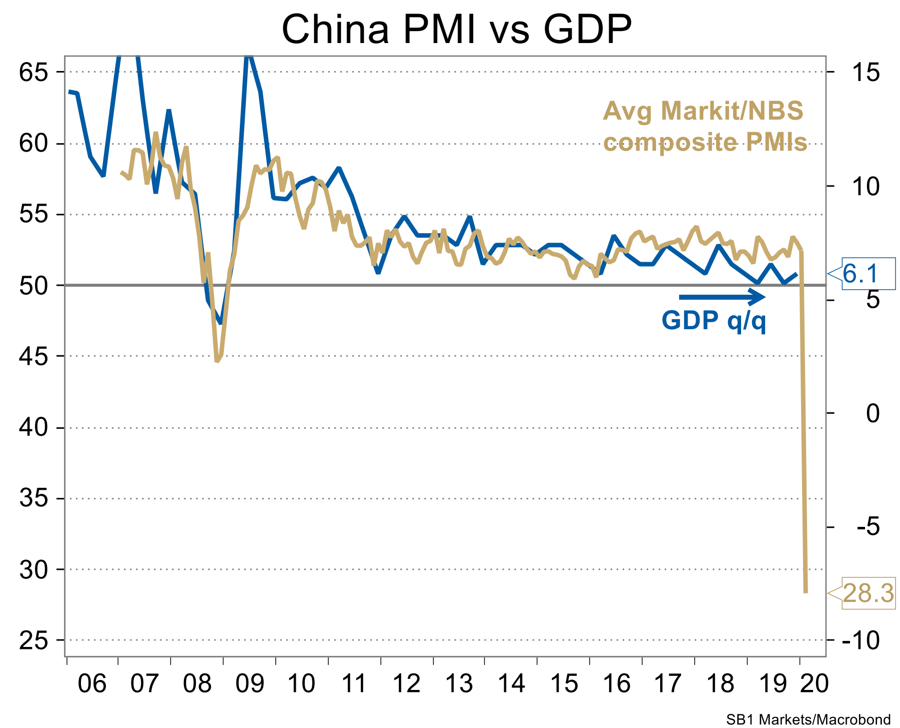
Exports surveys (2 PMIs + a climate index) fell to approx. the same level as during the financial crisis

- Until the corona setback, the downturn through 2019 was milder than in 2012, 2013 and 2015 and 2016. During these periods, export volumes flattened in 2012, 2013, and fell marginally in 2015/16 – without pushing the Chinese economy into tailspin
- Export volumes fell in 2018 and more or less stabilised in 2019

A visible drop in the composite Chinese PMIs…

The avg of PMI surveys signals a steep decline in GDP in Q1

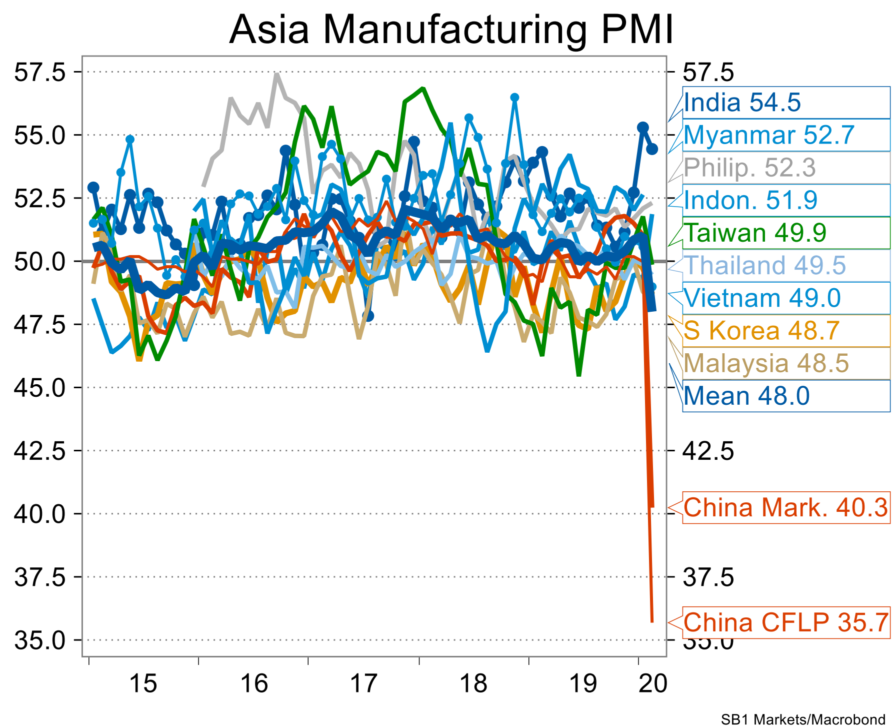


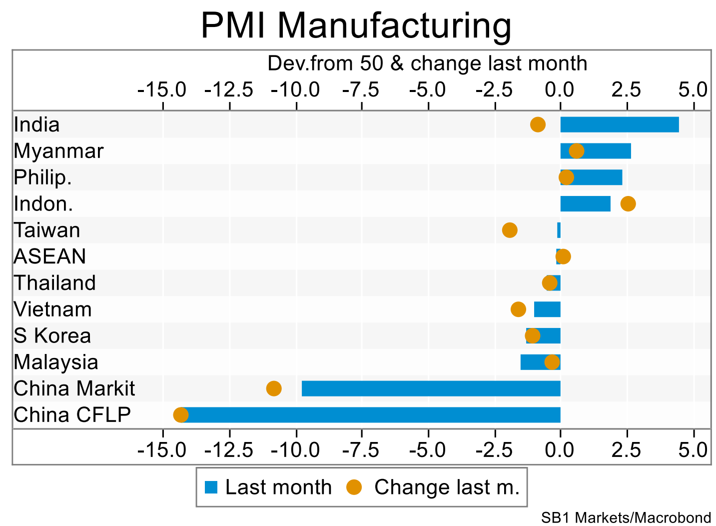


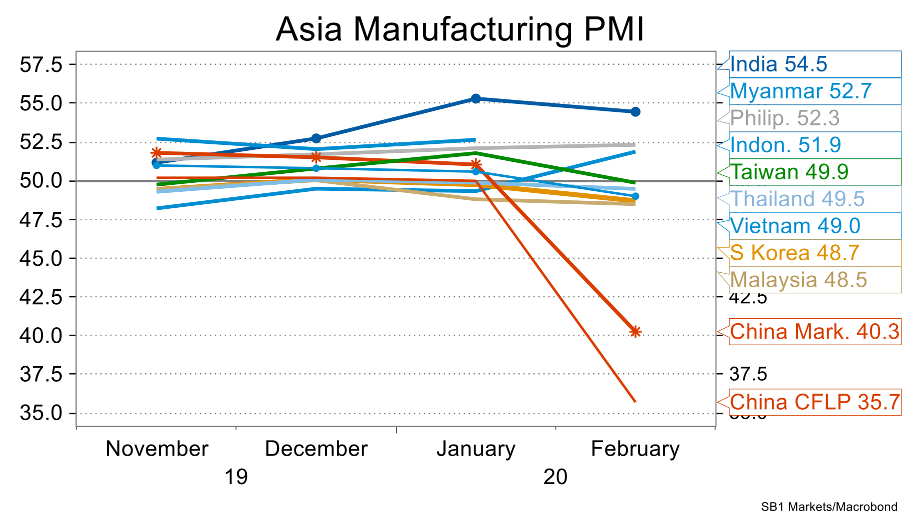
- NBS' 'official' composite PMI (CFLP) dropped 24 p to 28.9 in February. Services PMI fell even more than manufacturing, to 29.6. The composite PMI suggest almost a 10% decline q/q annualized in Q1
- Markit's composite PMI probably fell approx by the same amount (we do not have the service sector index yet, we have assumed a 25 p drop at the chart above)
- In avg, the two PMI data sets signal a harsh setback in the Chinese economy in Q1. So far, we have -10% guestimate

Covid-19 has created some problems, not a disaster outside China, says the PMIs

7 countries have reported lower PMIs but no disaster outside China. Just 1 up



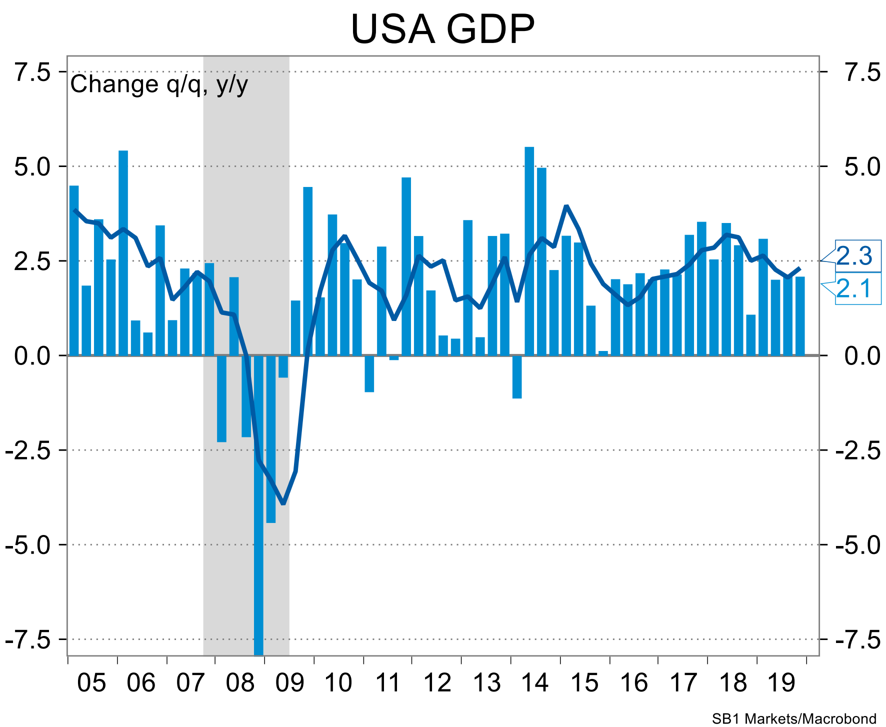


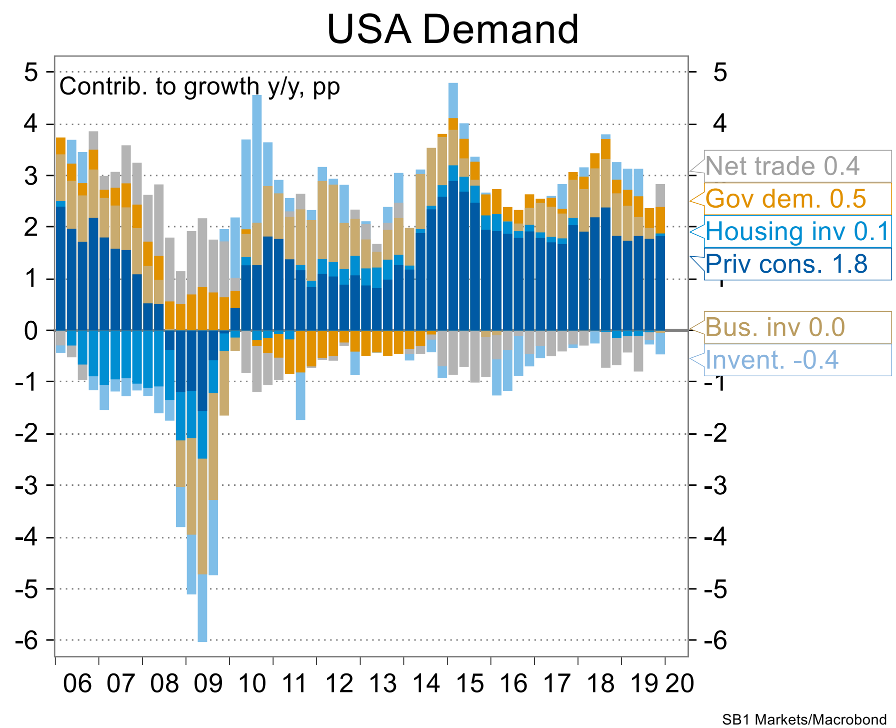


- South Korea and Taiwan down, but not by more than 1.5 – 2 p, less than we assumed
- The unweighted average of 12 indices fell more than 2.5p (Myanmar has not yet reported)
- We expect more problems, at least in South Korea in March

Q4 GDP growth steady at 2.1% in the 2nd estimate

Consumption and business investments revised down marginally, net trade slightly up

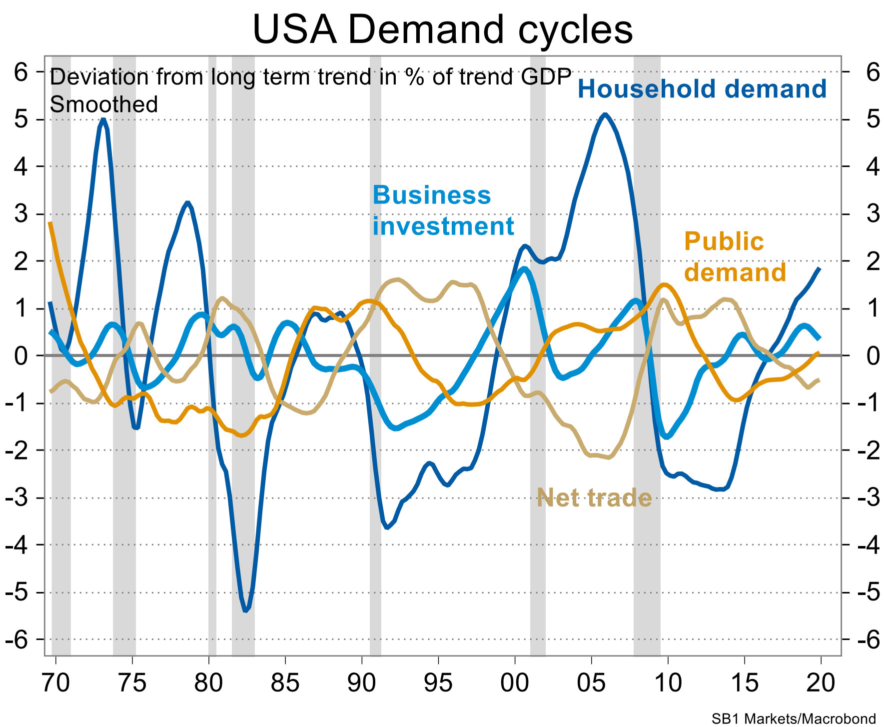


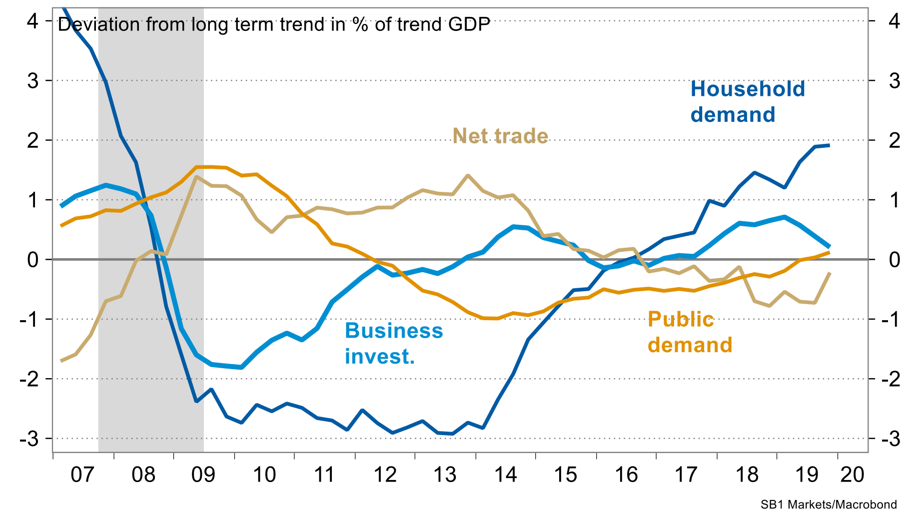


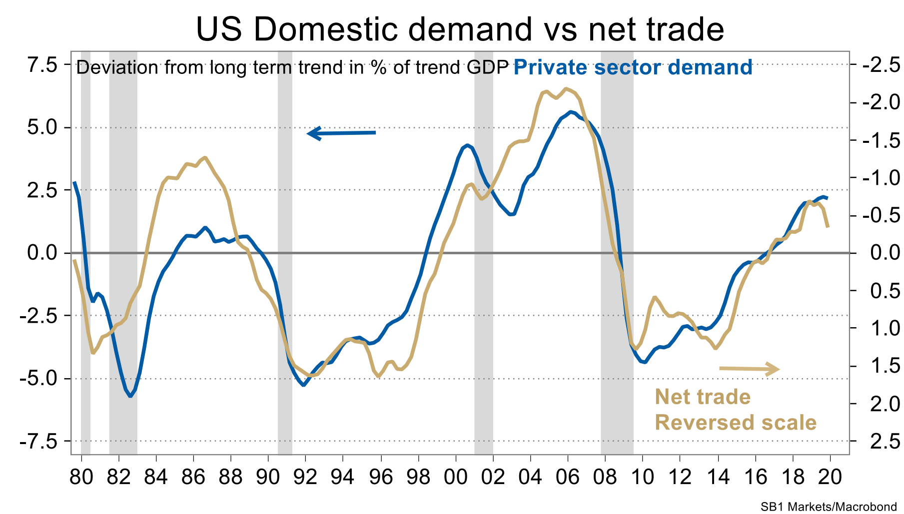
- GDP grew by 2.1% q/q annualized in Q4, unchanged from the 1st report and from the previous 2 quarters. Annual growth unchanged at 2.3%, an uptick from 2.0% in Q3
- Just some minor sector revisions; Consumption rose marginally less than first reported and business investments fell more. Housing and public revised up marginally, and net trade increased more
- Business investments fell the 3 last quarter, but is still flat y/y. Housing investments is up the way up again, and contributes marginally to GDP growth y/y. Consumption is the main growth driver, as usual. Government demand has gained pace recent quarters

Households are main demand force, business investments sagging

Public demand is increasing – and net trade may have bottomed out, due to waning imports



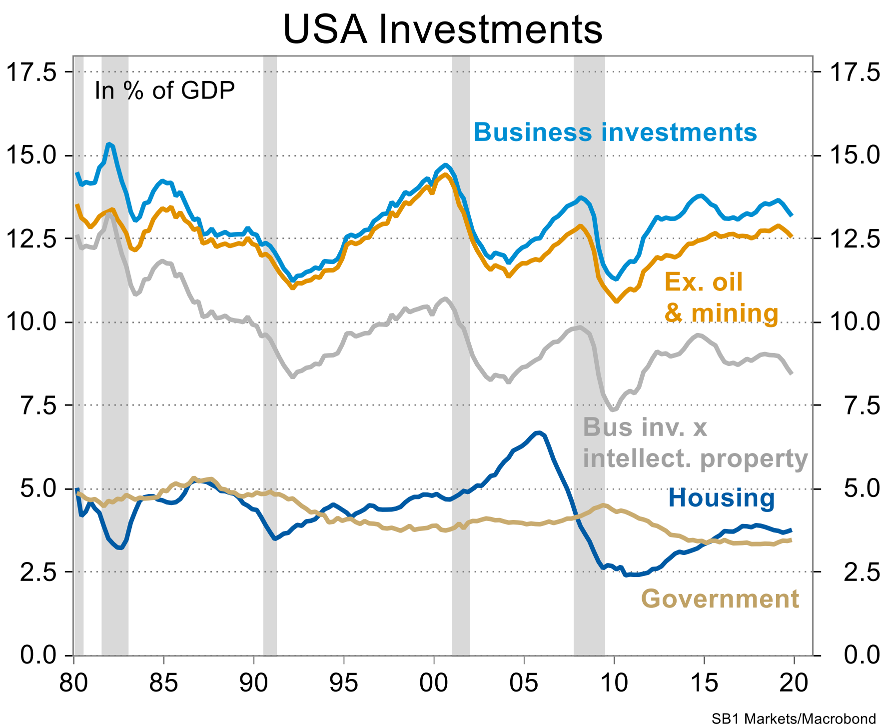


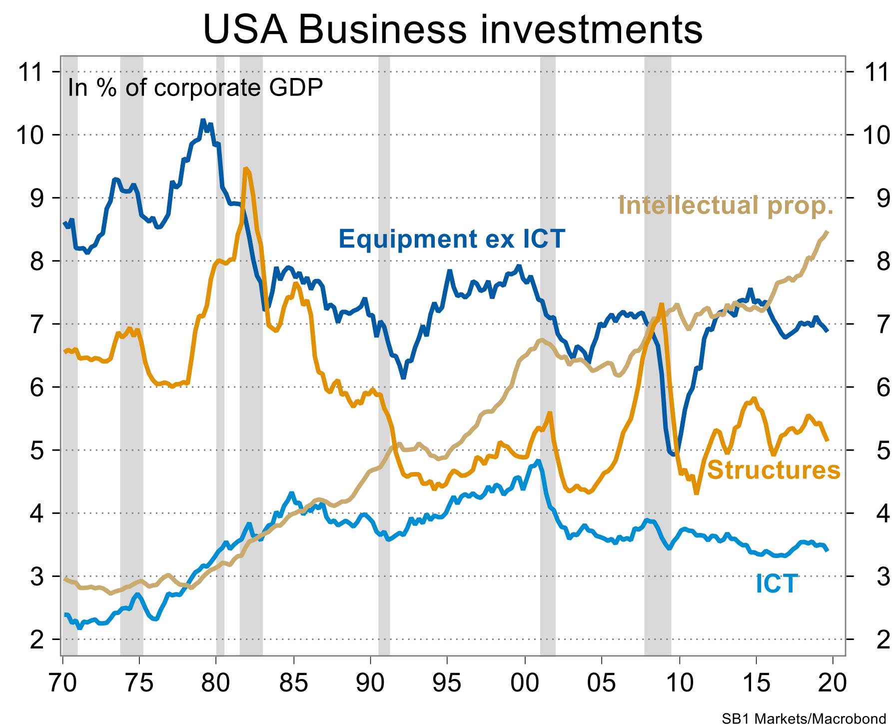


- A strong USD is not to blame for a negative growth contribution from net trade the past years, rather, it is a result of rising domestic demand (which is now slowing)
  - » Net trade correlates close to private US domestic demand
    - ▪ Net trade absorbs 1/3 of changes in private domestic demand. Now, imports have slowed somewhat more than domestic demand, due to both increased domestic oil production and less imports from China (tariff/trade war impacts)

In the long run: Business investments and housing have peaked

IP investments are still rising sharply, masking a decline in equipment and structures investments

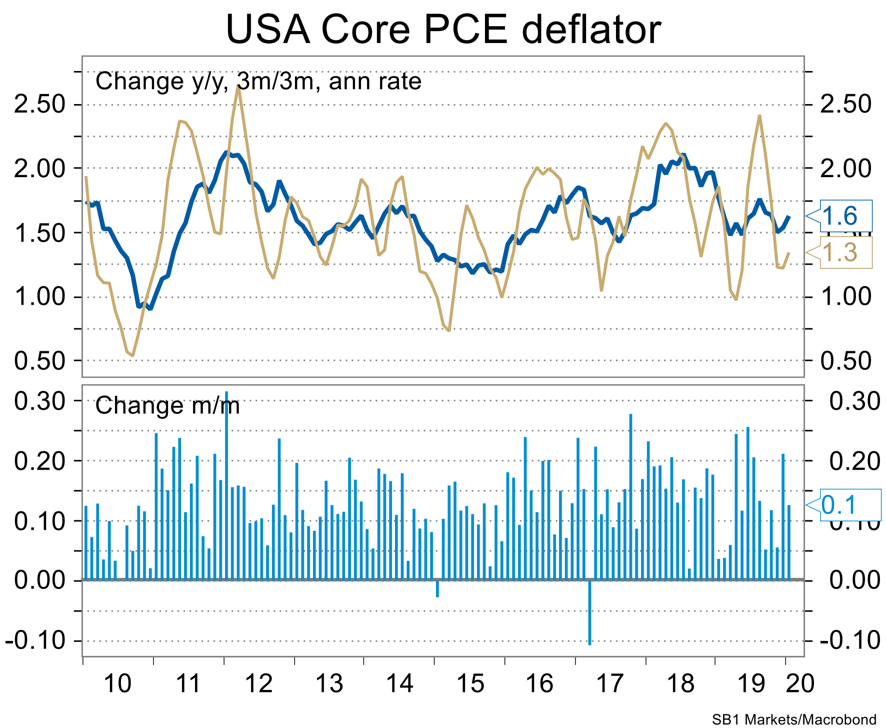


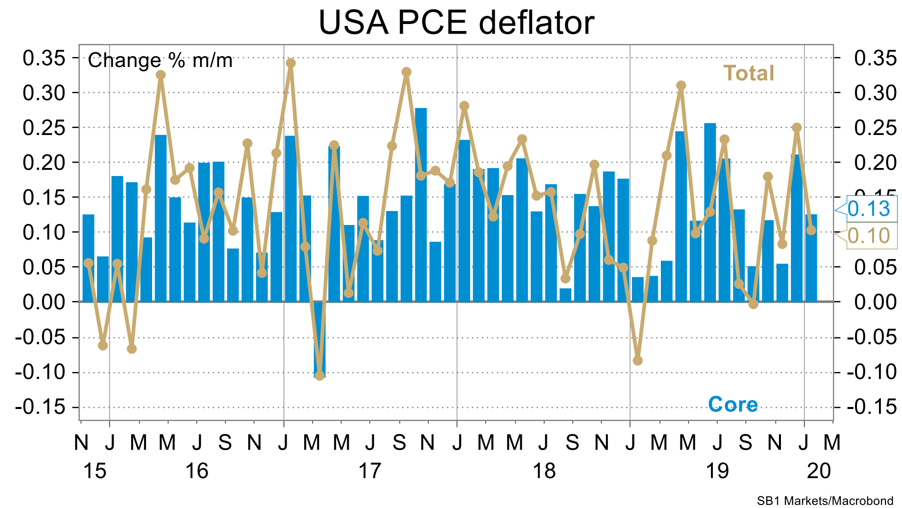


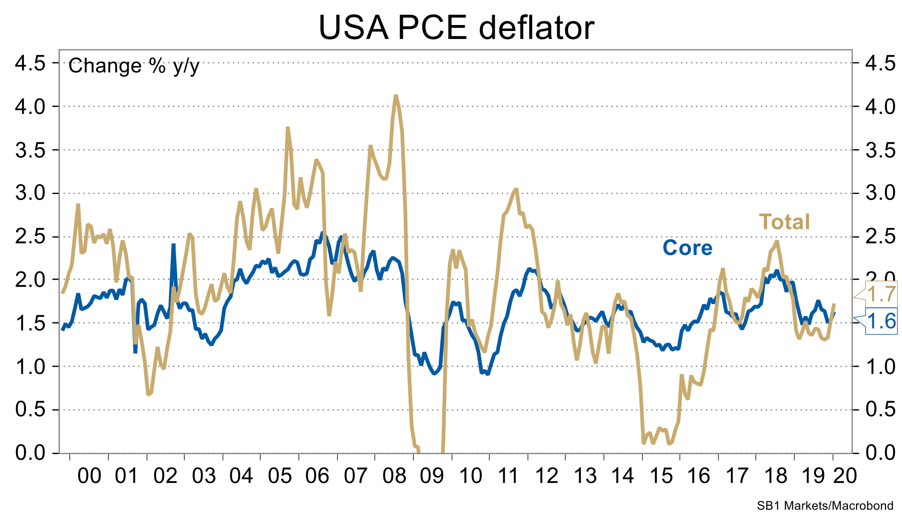
- Total business investments fell for the 3rd quarter in Q4, the first setback since 2015. Oil investments are sliding slowly down (but rose in Q4), after boosting business investments in 2017-2018
- IP/software investments are increasing at a high speed, up 7.5% y/y vs total investments 0.8%. IP investments constitute more than 1/3rd of all business investments. These investments have always been less cyclical than investments goods, indicating that cycles in total investments will be less harsh than before. In addition, business investments in structures are not dangerously high, neither are equipment investments
- Housing investments have increased slightly in % of GDP the past 2 quarters, after declining since early 2018. The level is not very high – and should the downturn come, it can not possibly be a large one. And now, housing starts are soaring, at the highest levels sine 2007

Core PCE inflation up to 1.6% in January, Dec revised down

Core PCE deflator rose just 0.1% m/m, 0.1 pp below expectations. Total PCE up to 1.7% y/y



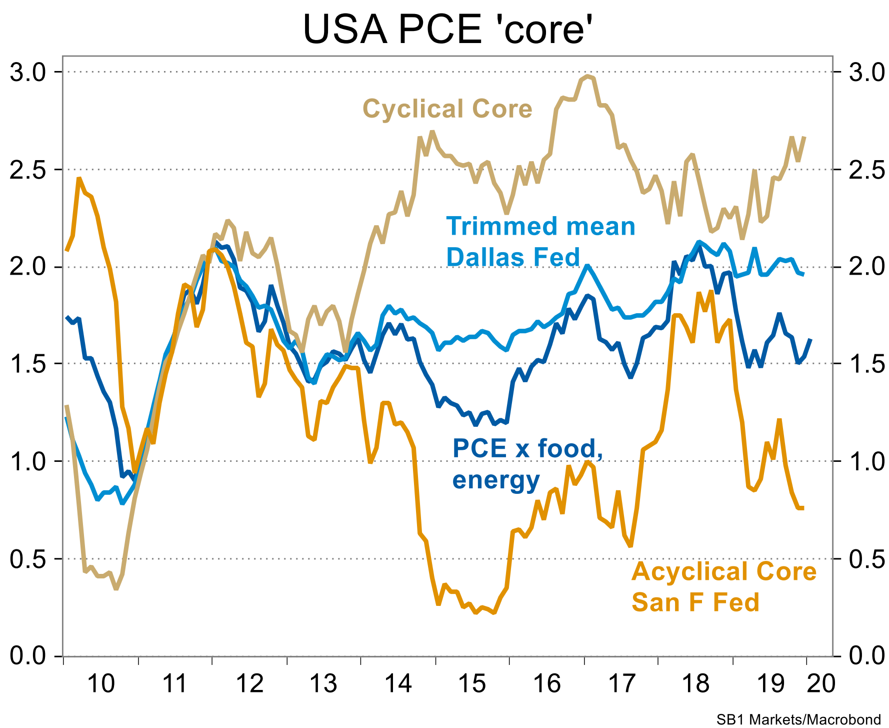


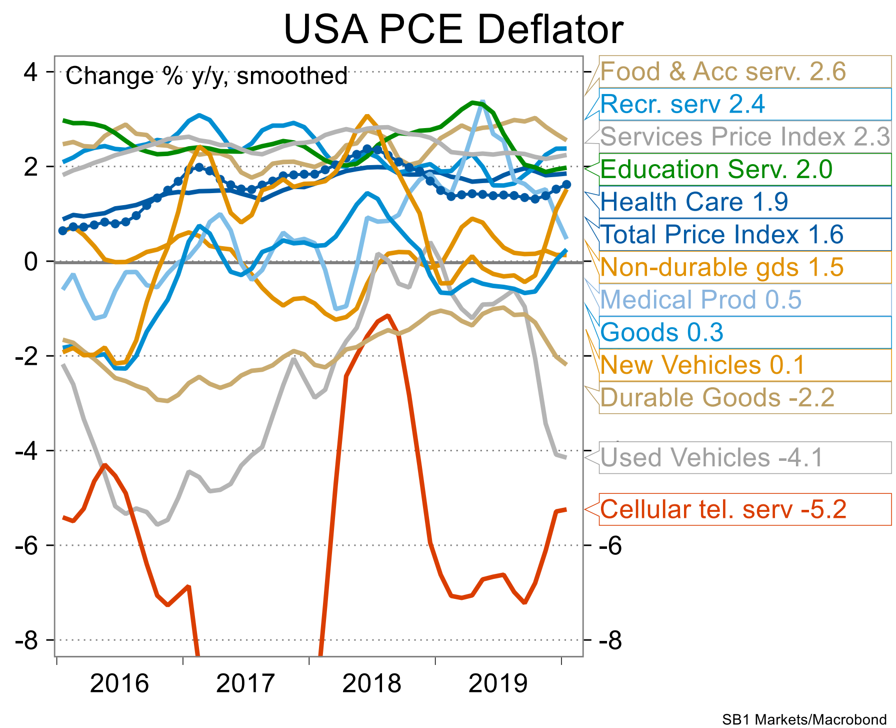


- The core price deflator rose by 0.1% in January, expected up 0.2%. The annual rate inched up to 1.6%, from a downward revised 1.5% in Dec (expected up to 1.7%)
- Total PCE inflation edged up 0.1 pp to 1.7% y/y, as the impact from energy prices has turned positive (will drop in Feb)
- Core PCE is 0.4 pp below Fed's price target, which is not sufficiently low to alter the Fed's stance on keeping rates on hold, unless the economy weakens substantially

Cyclical core PCE inflation at 2.7% and heading up

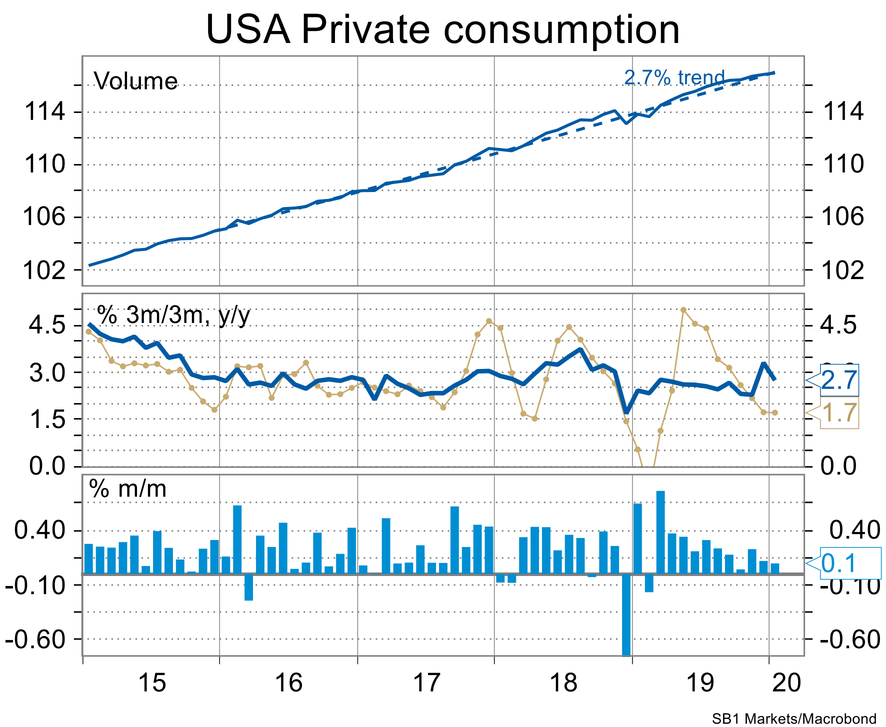
Growth has slowed/flattened in most sectors, but the trimmed mean is at the 2% target

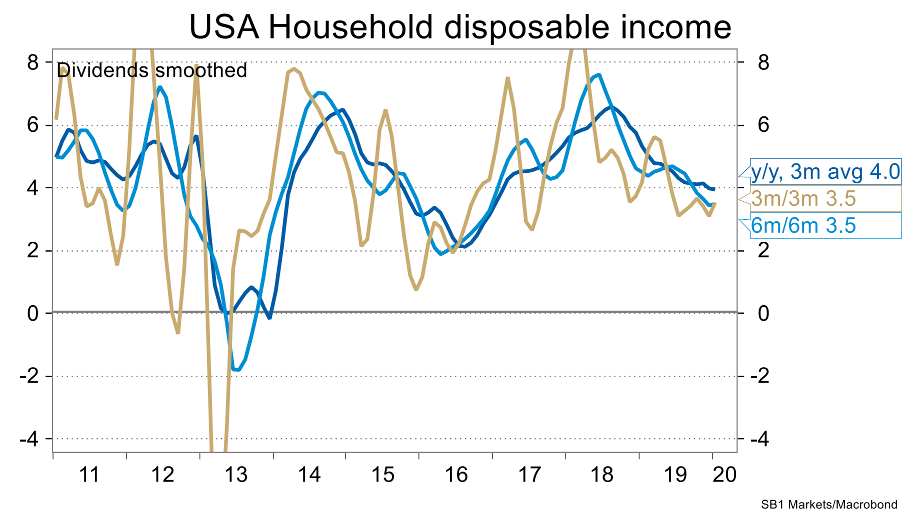


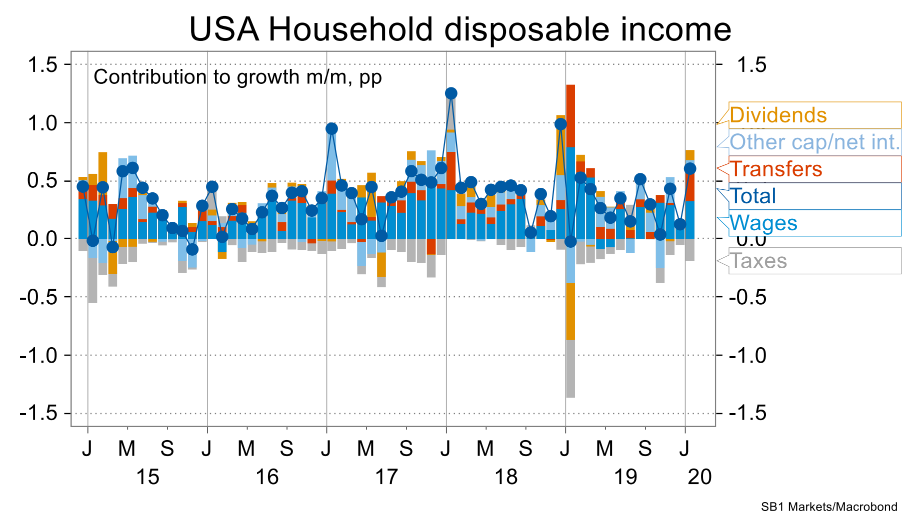


Consumption growth is slowly cooling, as income growth

Consumption rose just 0.1% in January, speed into Q1 is just 1%. Income growth is slowly ebbing



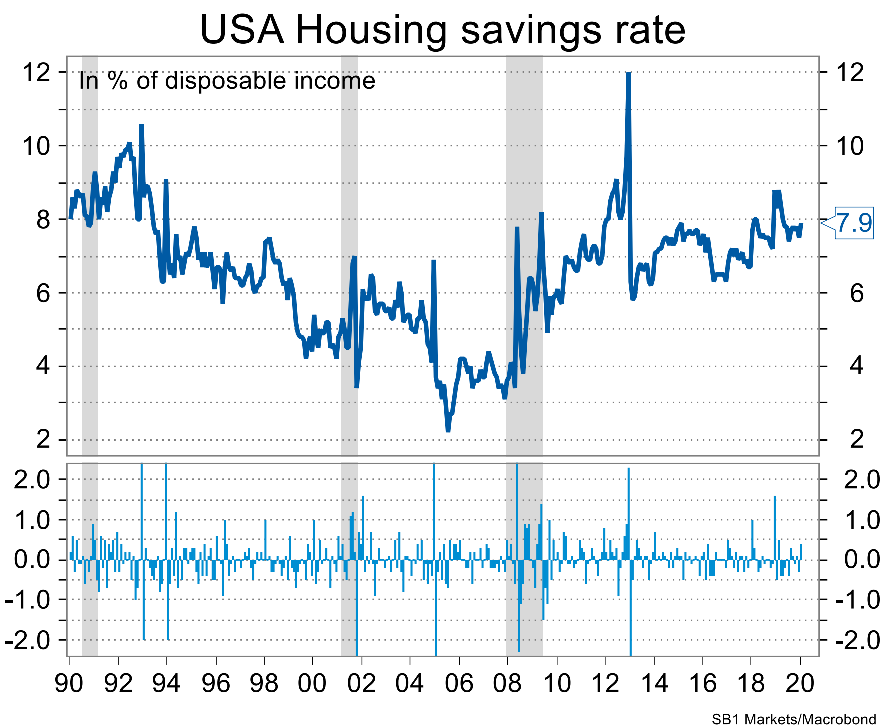


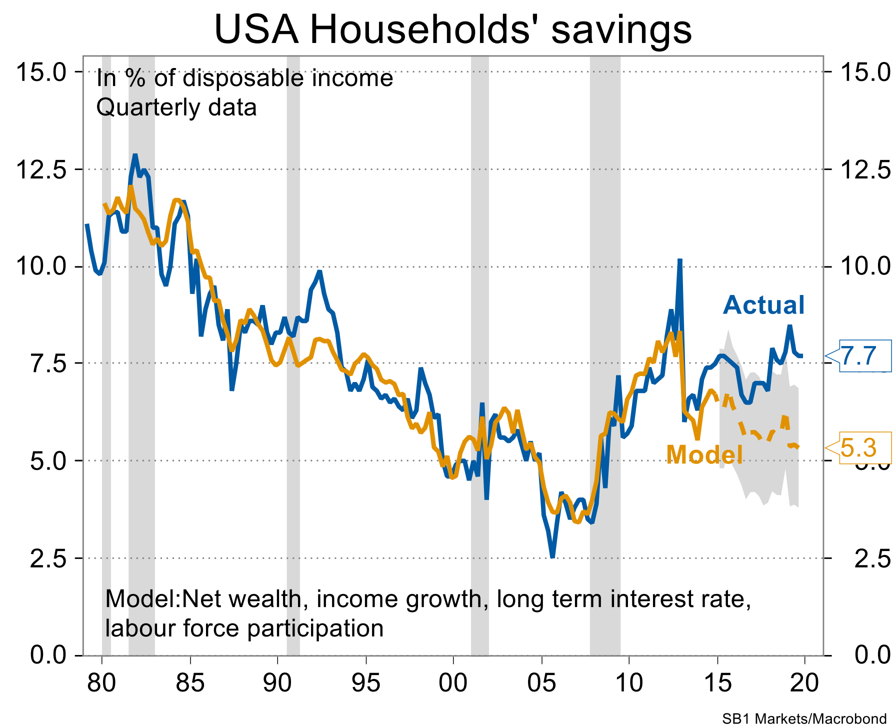


- Private consumption rose 0.1% in January, 0.2 pp weaker than expected. Underlying growth steady at 1.7%
- Households' nominal disposable income rose 0.5% m/m in Jan and the 3m/3m rate edged up to 3.5%. Growth peaked in 2018 and has slowed since then, the annual rate to 4.0%. Total wage & salary income was up 5.1% y/y (volatile data)
- The savings rate rose to 7.9%, a rather high level for the Americans

Households savings up to 7.9%

The savings rate fell through 2019, supporting consumption. The longer term trend is still upwards

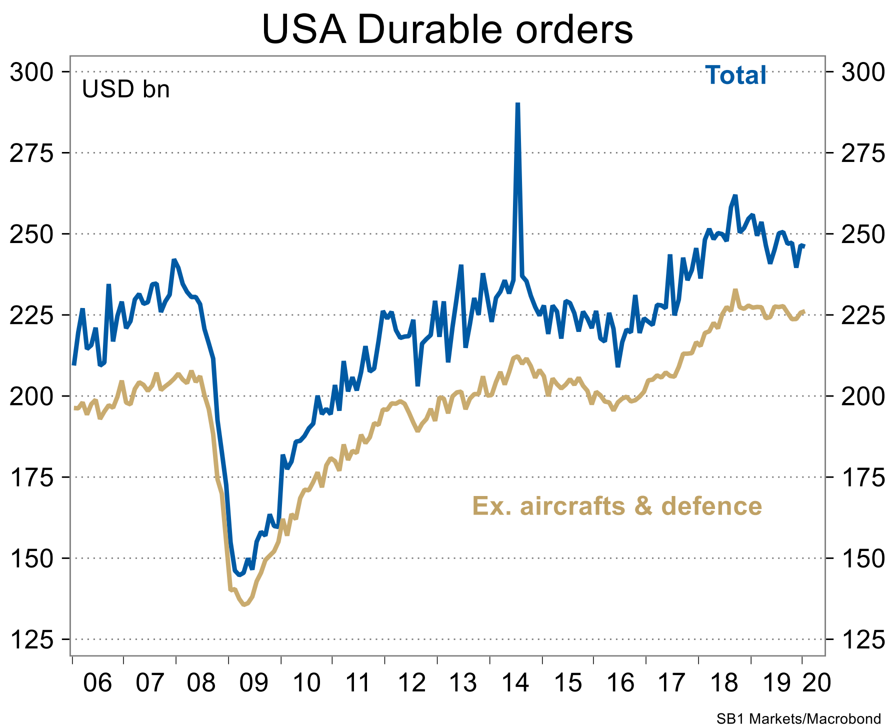


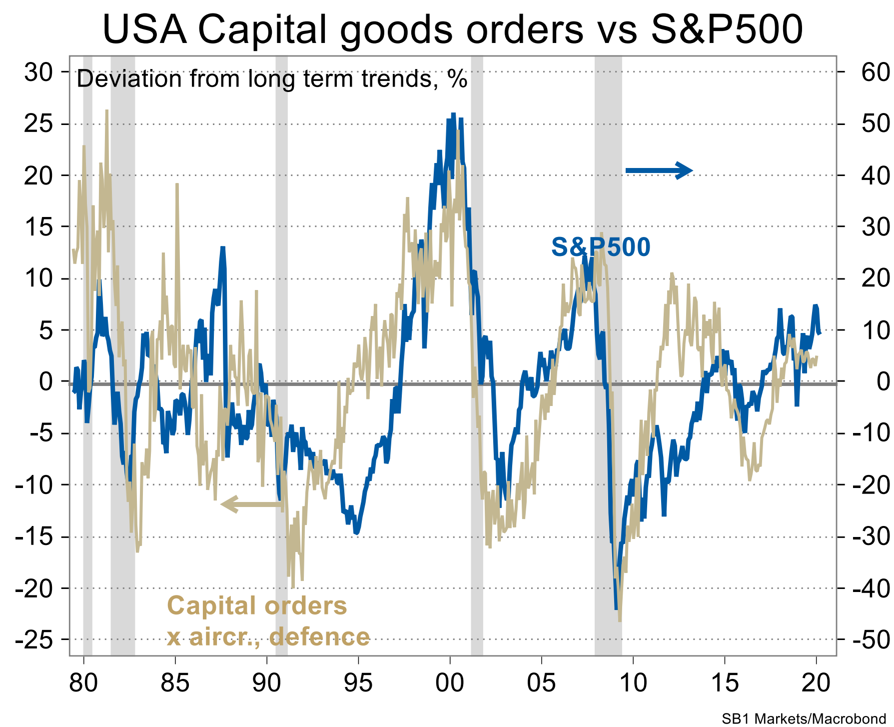


- Savings have increased from 7% in 2017 (after some substantial upward revisions earlier this year), far above our model f'cast. Household cash flows are strong. The rise in savings indicate that the tax cuts have largely been saved, and not spent

Core durable goods orders trending marginally down

Total orders inched down 0.2% in January, core orders up 0.2%

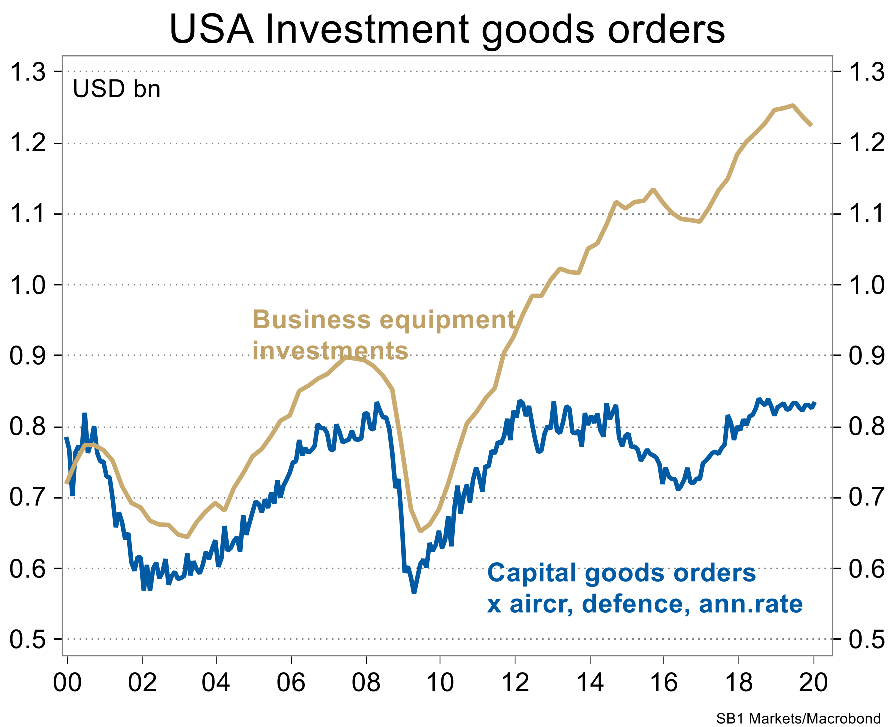


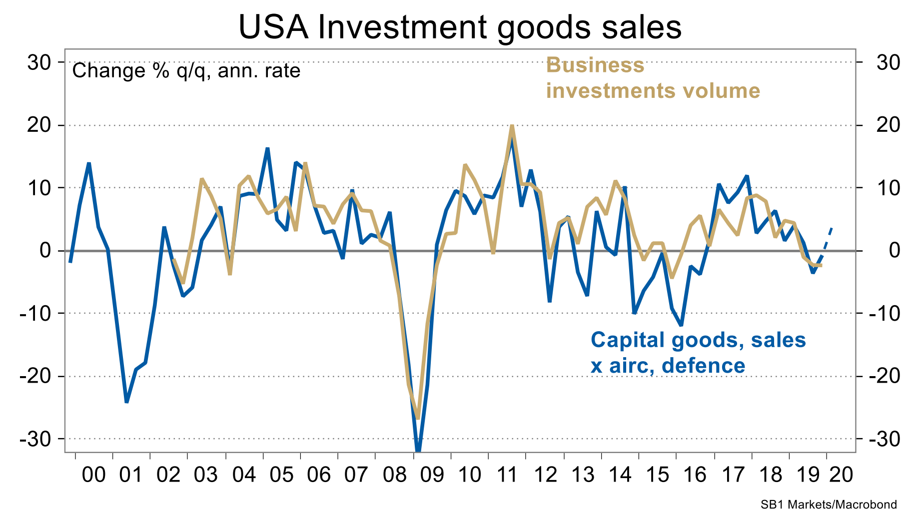


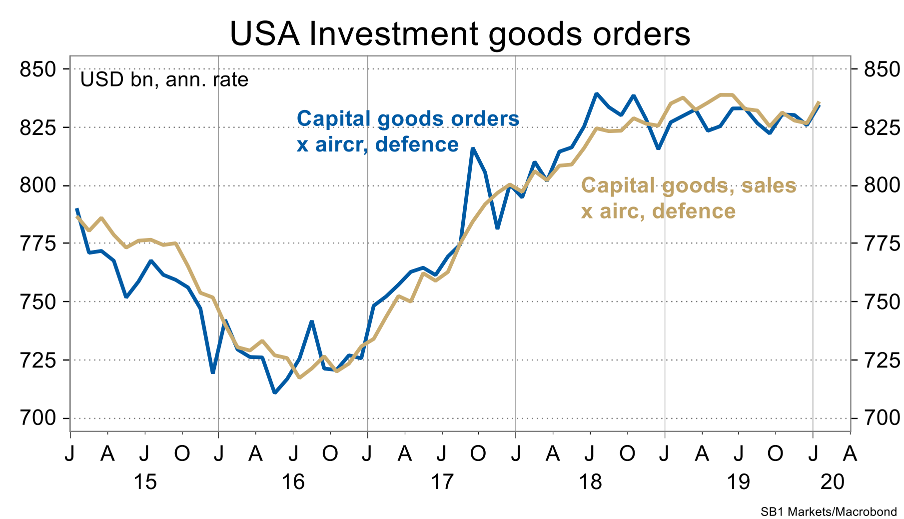
- Total durable orders have been heading slowly down since late 2018, mostly on lower aircraft orders, due to Boeing's troubles. In January, aircraft orders soared, defence orders declined
- Core orders (ex civilian aircrafts and defence orders) edged up 0.2% m/m in January. Core orders have been trending just marginally down for more than one year, the underlying pace is now -0.9% (measured 3m/3m annualized)
- Core capital orders improved in January and are trending flat. Capital goods sales suggest a modest upswing in investments

Capital goods orders/sales suggest a mild recovery in business investments

Core investment orders and sales increased in January, trending flat



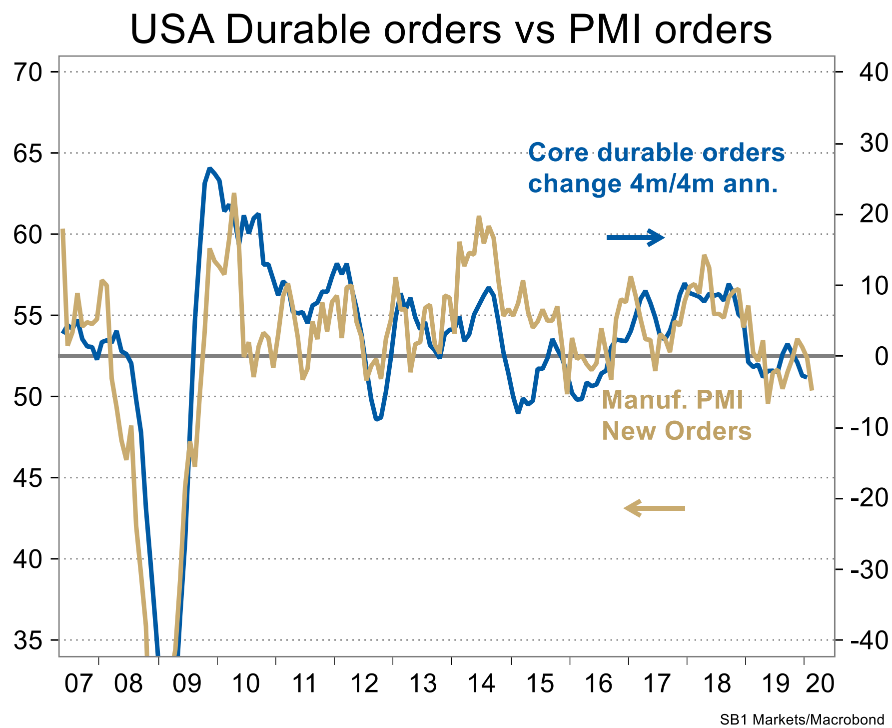


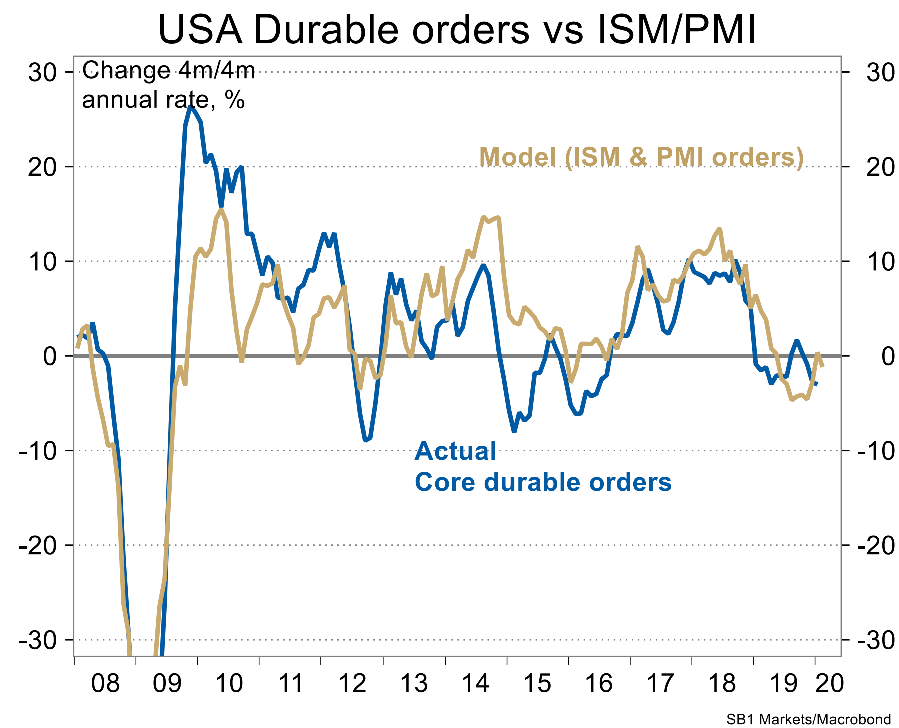


- Investment orders (core) increased by 1.1% m/m in January, underlying growth has picked up to 1.8%
- Sales rose equally by 1.1%, still declining 3m/3m
- Business investments fell by 2.3% annualized in Q4, capital goods sales suggest a modest increase in investments
- The manufacturing PMI order index dropped in February, suggesting a moderate decline in business orders

PMI/ISM orders point to a moderate decline

Markit's PMI reported a decline in orders in February, does not indicate an investment recovery

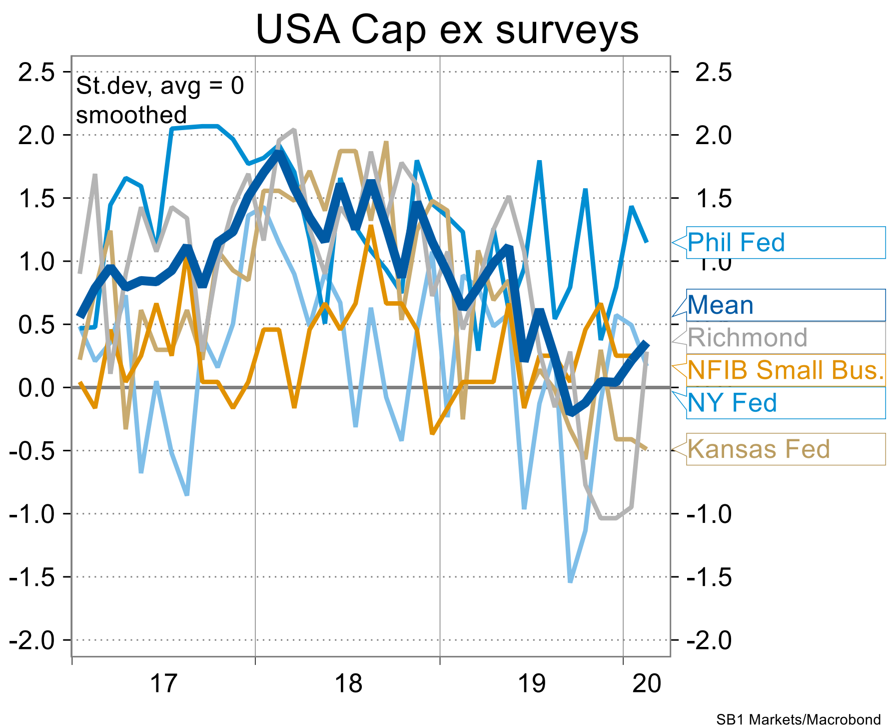


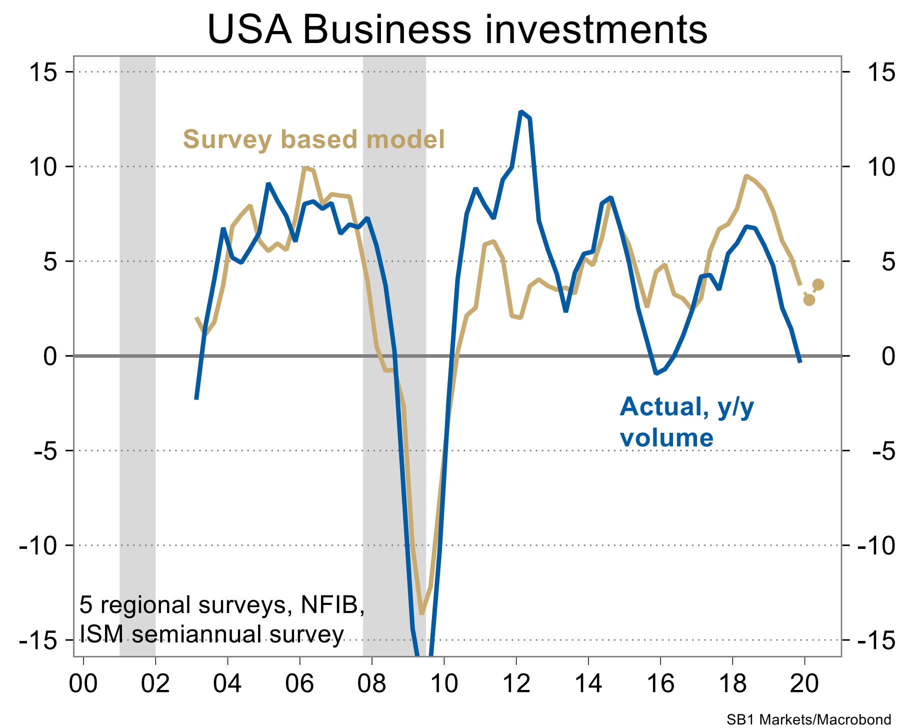


- A simple model, incorporating both surveys, signals a modest decline in core durable orders
- February data on the manufacturing ISM has not been released, we assume an equal decline as the PMI at the chart above

Investment surveys: Still not reporting investment cuts

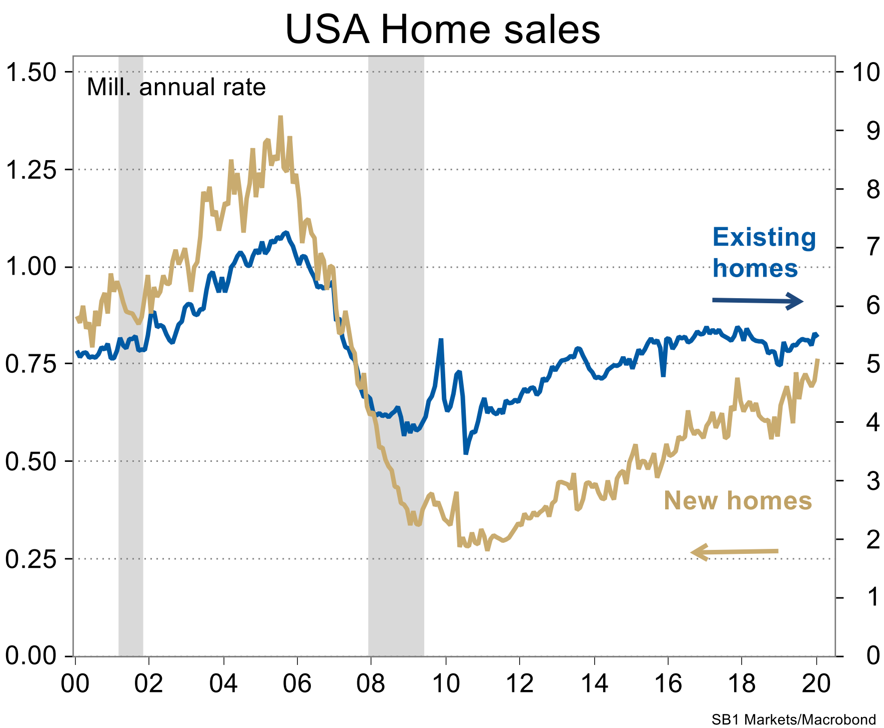
The avg of surveys have turned up since last autumn. However, they are not that reliable

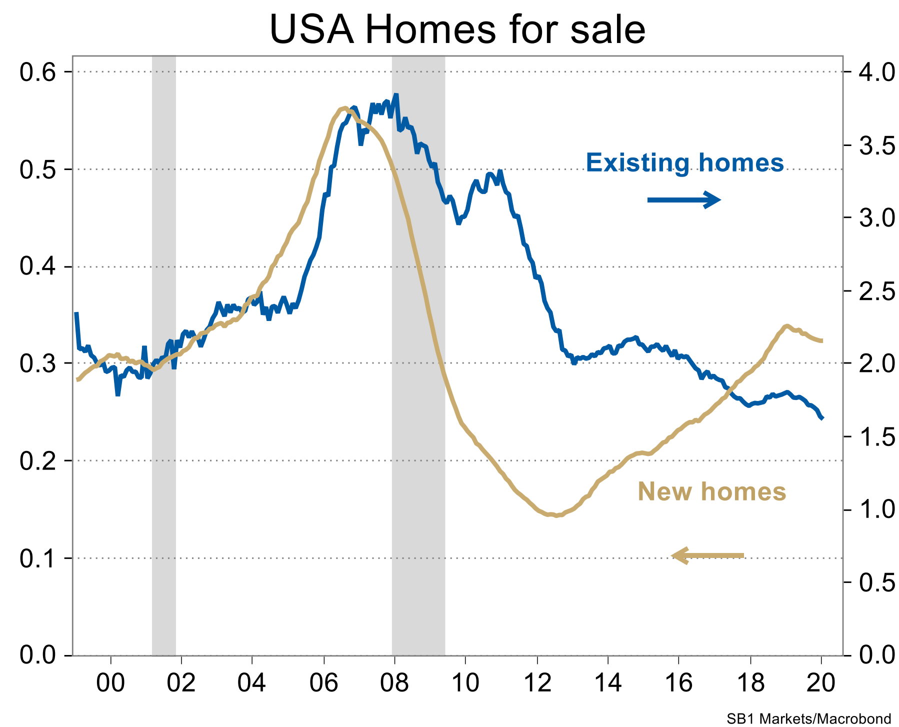




A spike in new home sales in January; number of unsold homes is declining

Sales are trending straight up, adding to signs of a mild housing market boom

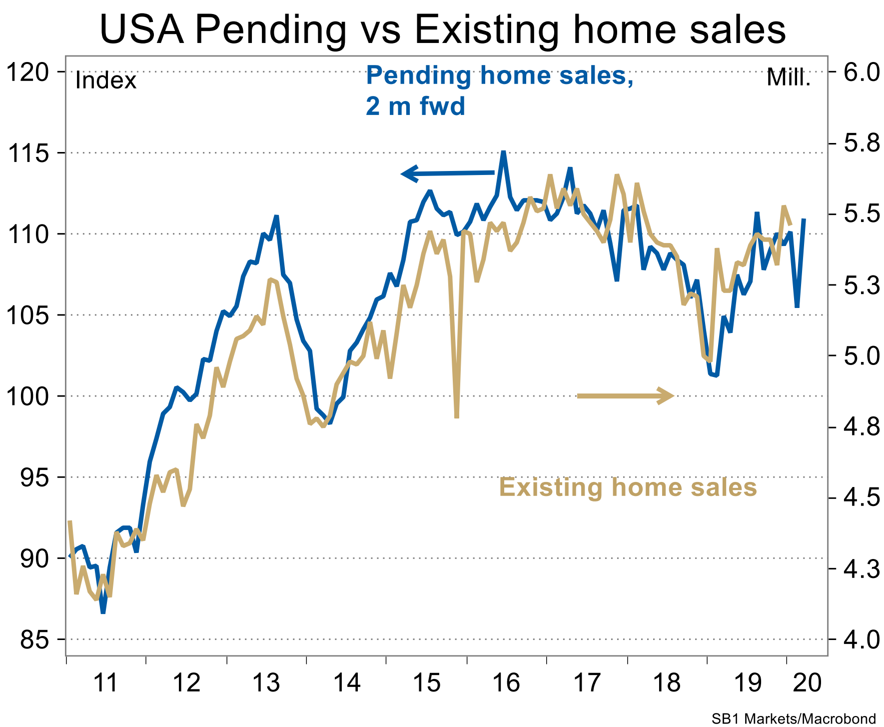


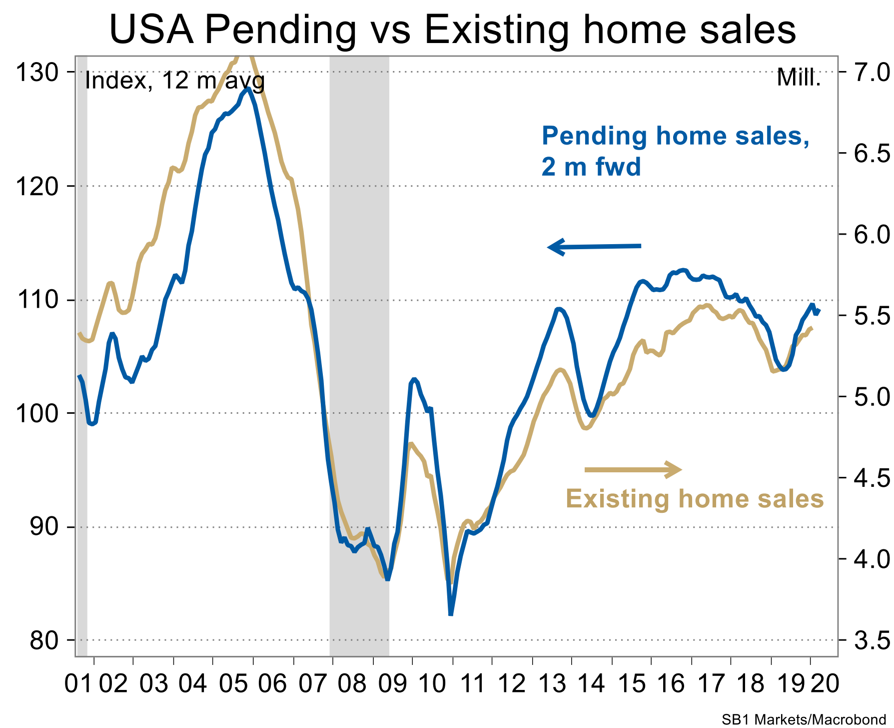


- New home sales rose by 7.9% m/m in January, to 746’, much higher than expected. Home sales are trending up, and have increased by 30% since Dec 2018, to the highest level since 2007. However, the level is far lower than pre-2007, indicating a smaller downside risk should the bust come
  - » The number of unsold homes is heading down, both for new and existing, reflecting strong housing demand. However, supply side factors may have contributed, the number of homes under construction is down 10% since early 2019 (but housing permits/starts are now soaring!)
- Existing home sales are confirming strong demand. As usual, the upturn is milder for existing homes than new

Pending existing home sales rebounded strongly in January, trend up

Pending home sales spiked in Jan, the upward speed has slowed somewhat but trend still up

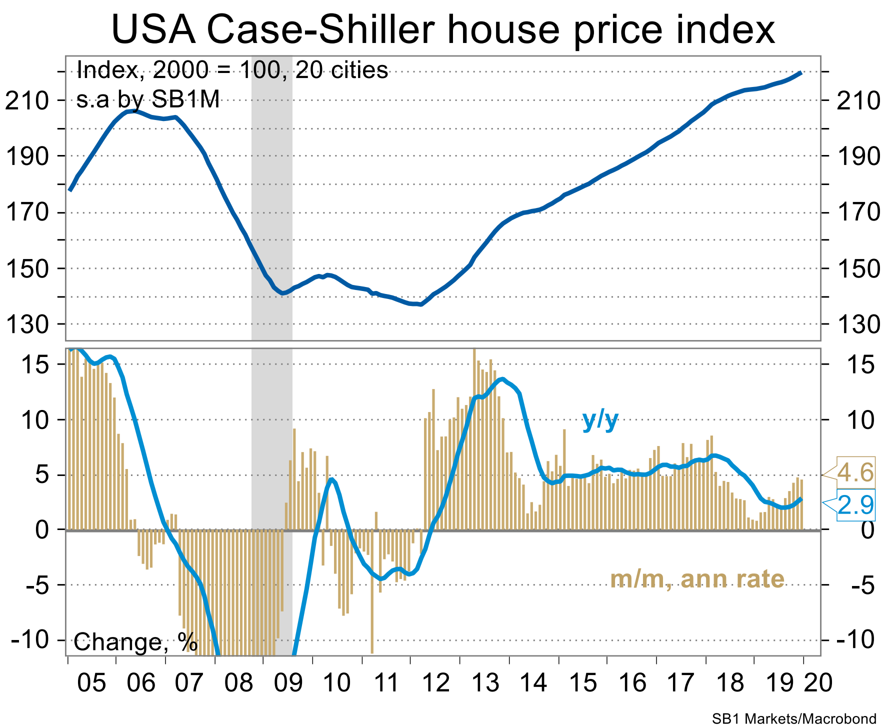


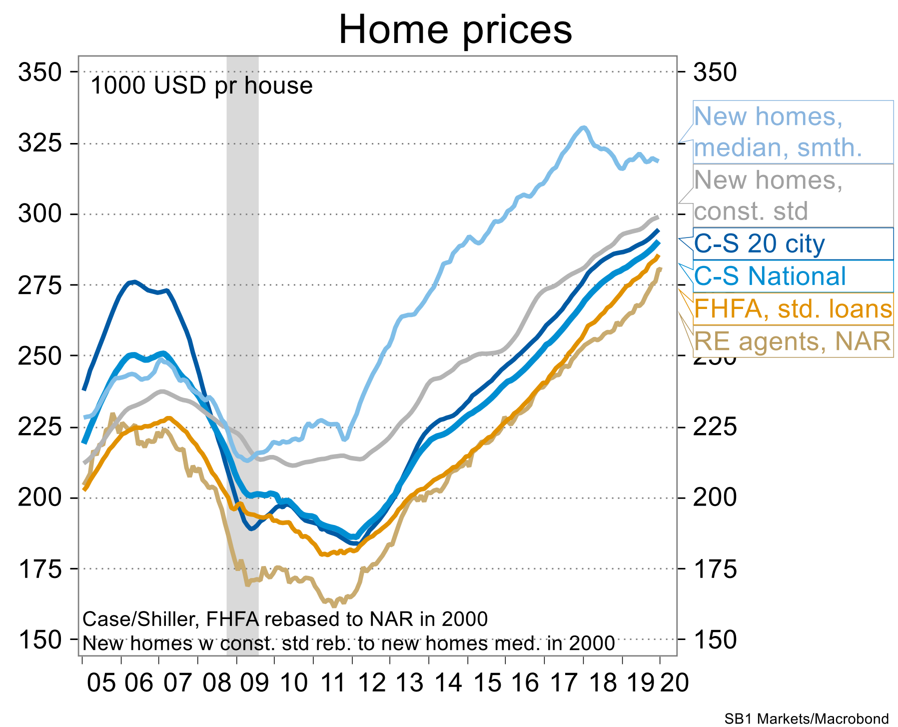


- Pending (existing) home sales jumped 5.2% m/m in January, more than reversing the 4.3% drop in December, as we expected. Sales are trending up, at approx. the same speed as actual existing home sales, confirming thriving demand for housing. Sales are up 5.7% y/y, level still below 2015-2020
- Pending sales, which are leading actual existing home sales, now signal steady existing home sales

Case Shiller house price inflation is gaining pace

C-S prices rose 3.9% annualised in Dec, still a moderate speed compared to other housing data

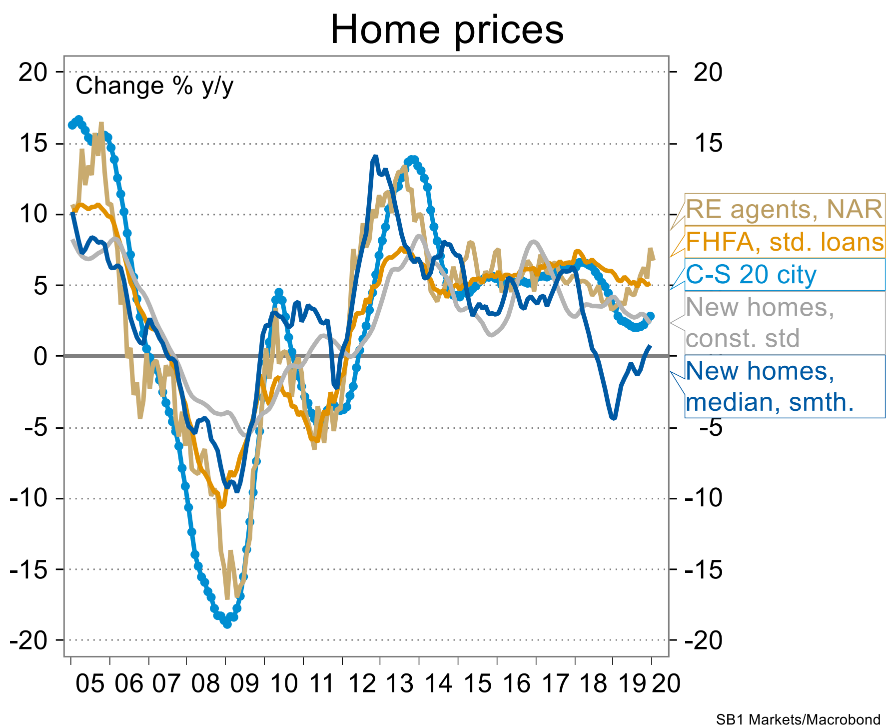


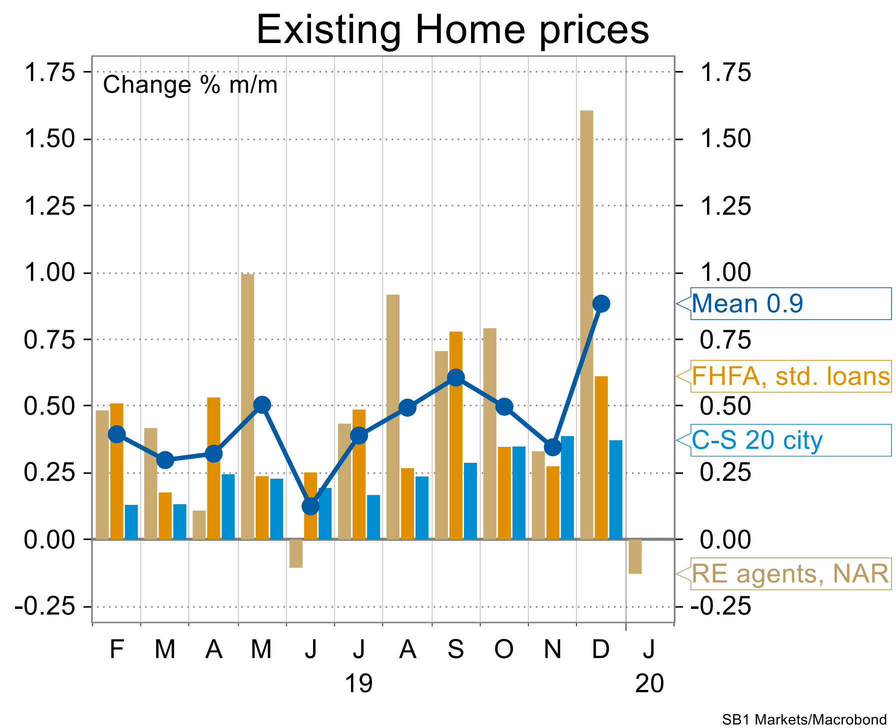


- Case-Shiller house prices rose by 0.4% m/m in December (expected 0.5%), equalling a 3.9% annualised speed, marginally lower than Nov. House price growth has slowly accelerated since early ‘19. Annual rate at 2.9%, still well below 2012-2018
  - » Other existing home price indices prices confirm an upturn. New home prices have stabilised following price cuts in 2019
- The CS 20 city (nominal) avg is 7% above the 2006-peak level. The national avg (including more than the 20 cities) is 16% above the peak (while the real price levels are well below previous peak and much lower vs household income)

Existing home prices are accelerating, new home prices have stabilized

The reports are mixed, in avg up 0.9% m/m in Dec, the highest in 4 years

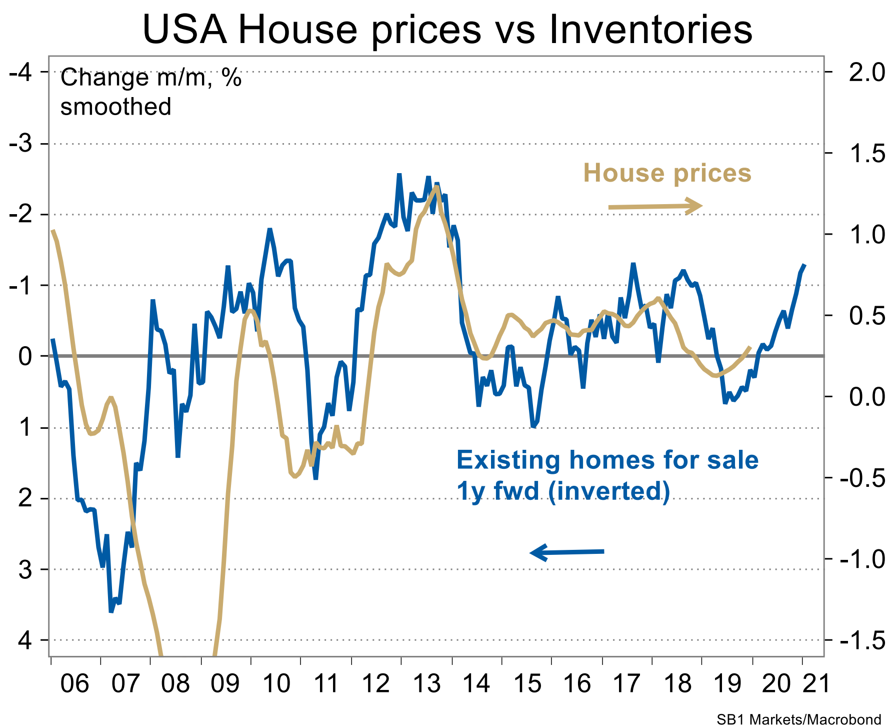




- The realtors' index (NAR), which is more volatile, soared 1.4% m/m in Dec (and fell 0.1% in Jan). Underlying growth at 8.8%
- The FHFA index (for homes financed by state guarantied loans) rose 0.6% in Dec. Underlying growth (measured 3m/3m) is up 5.5%, above the C&S index
- The C&S index reports a more moderate upswing, up 0.4% in Dec and 4.1% 3m/3m – slowly accelerating since last spring

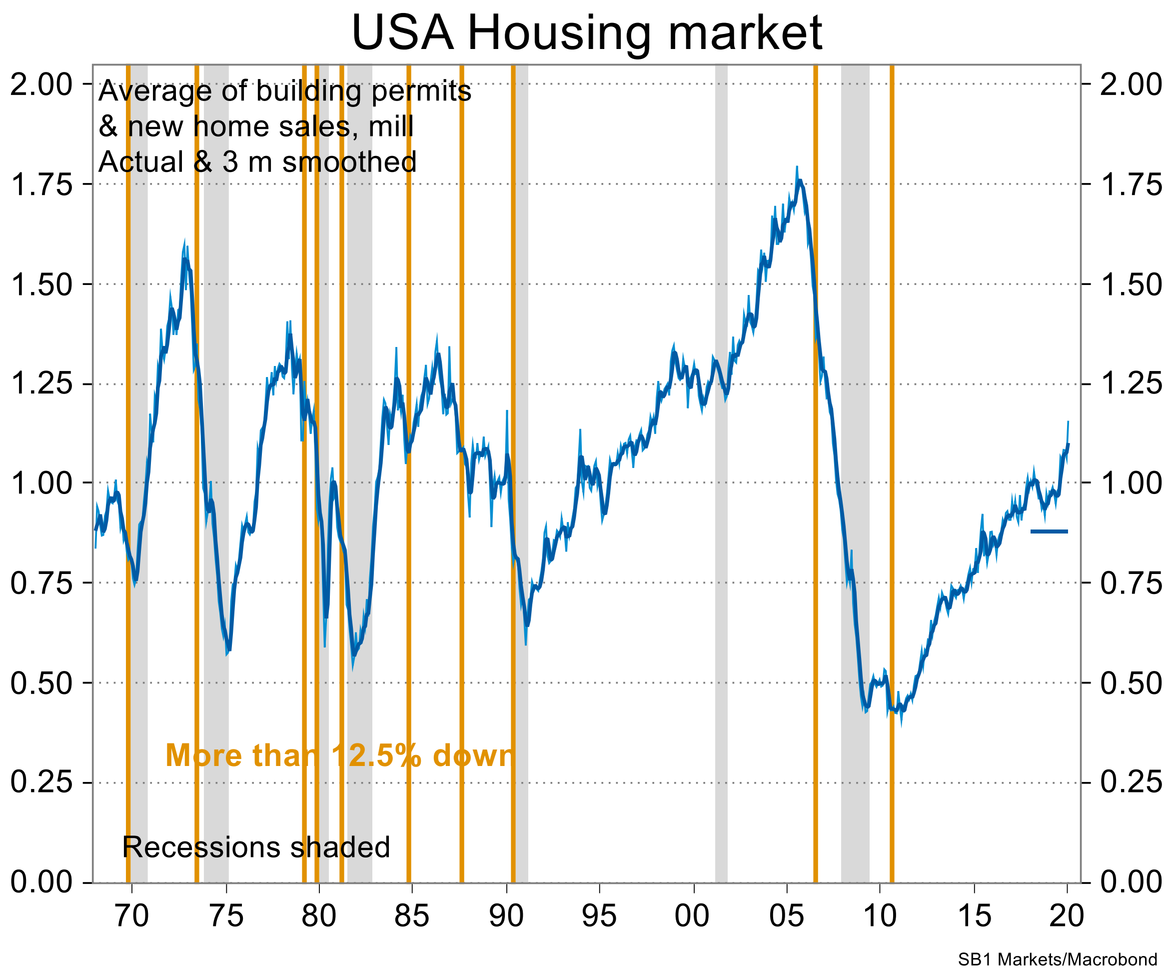
A low inventory of homes points to accelerating price growth

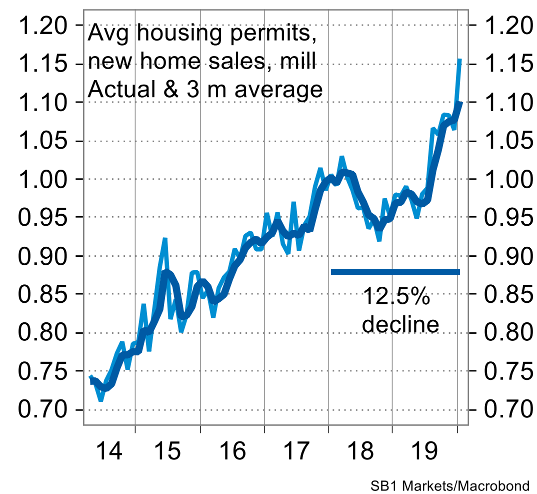
Price inflation is still moderate, a tumbling number of homes for sale suggests an upsurge



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

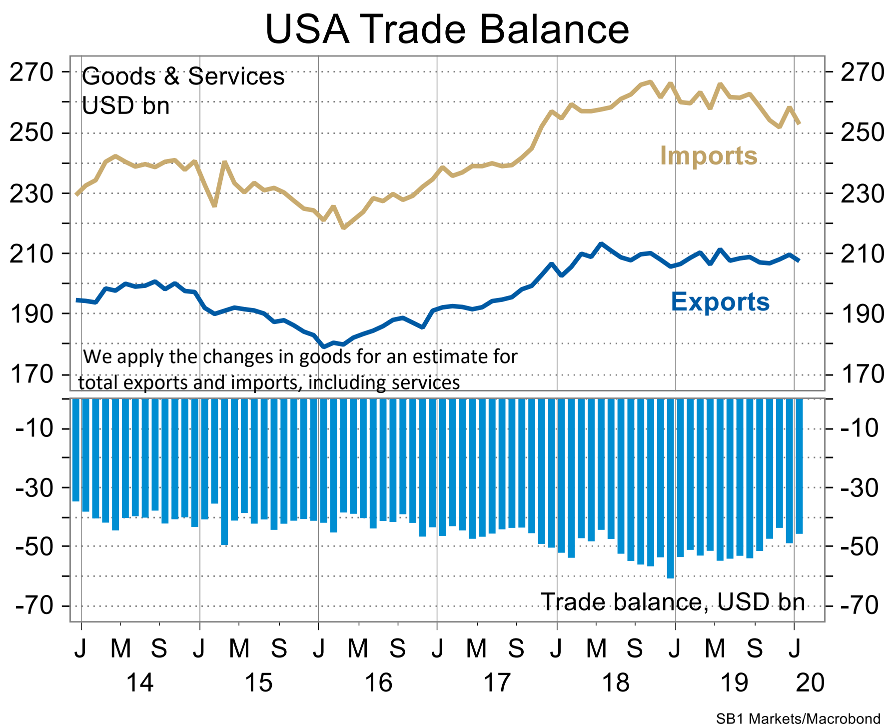
Both building permits and new home sales are climbing steeply, usually a good sign

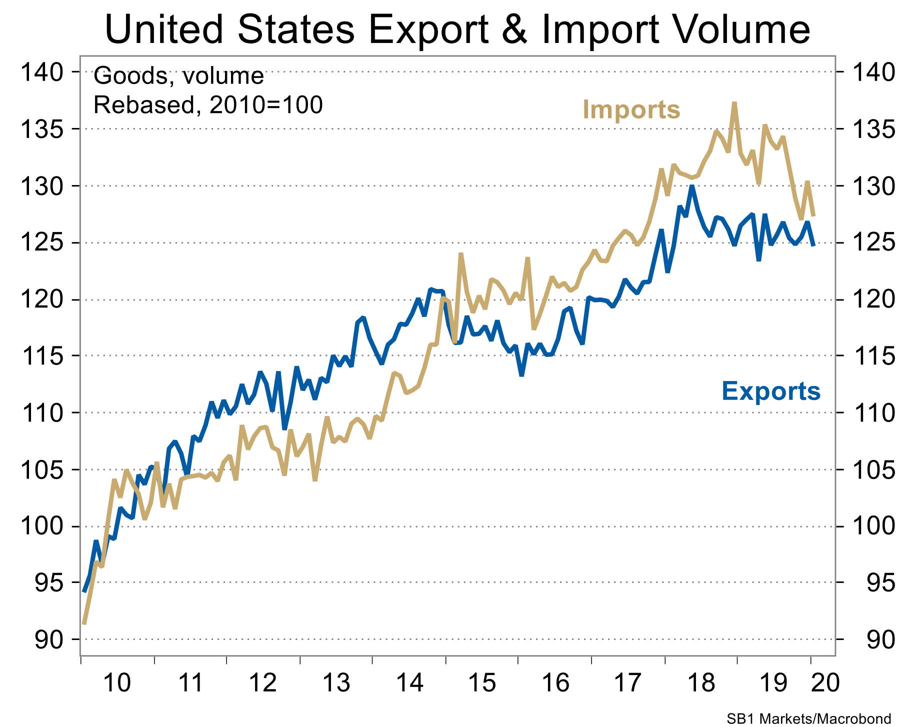




The trade deficit is shrinking as imports are waning, exports trending flat

In January, both exports and imports declined – and imports the most

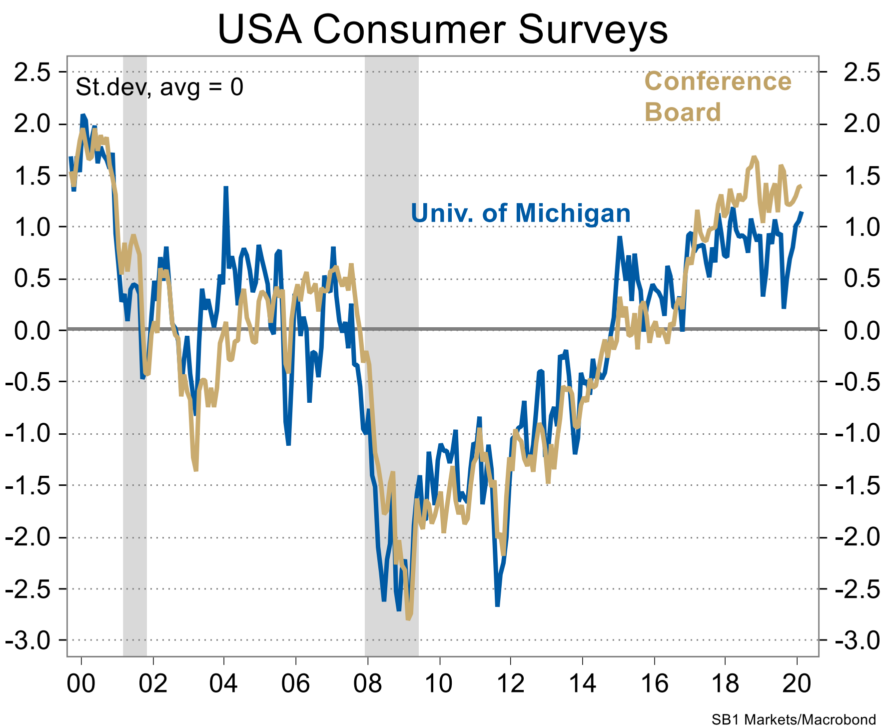


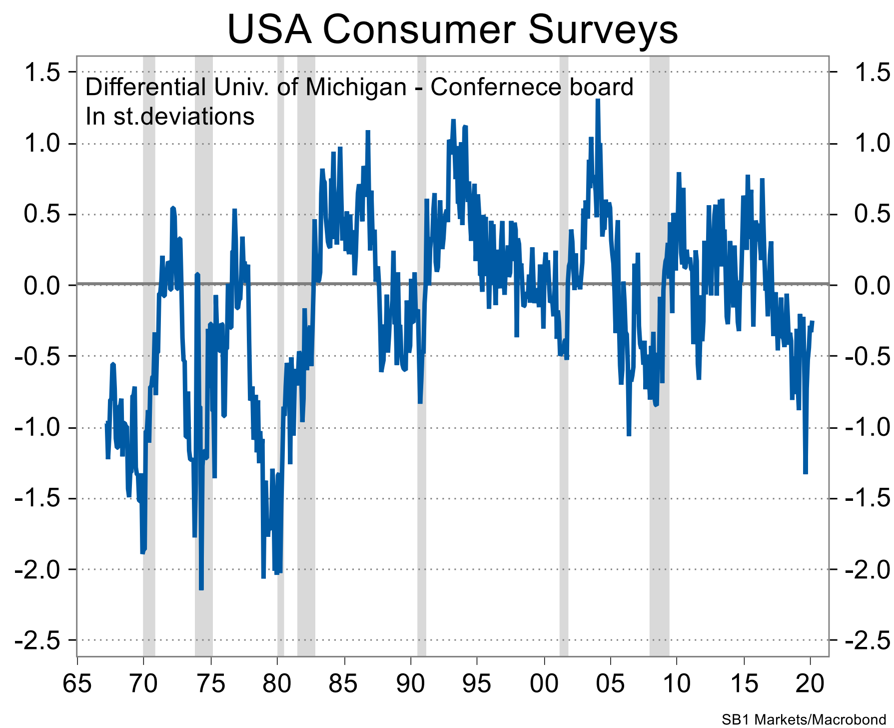


- The advanced trade deficit **in goods** shrank to USD -46 bn in January. The deficit has been trending in since mid-2019, due to weaker imports – and not rising exports. Still, the deficit is not lower than 'normal'
  - » Imports fell 2.4% m/m in volume terms in December – and are down 4.4% y/y. Softening domestic demand is one explanation, as well as lower imports from China (but deficits to most others are trending out). In addition, net petroleum exports have turned positive and explains 30-40% of the cut in the deficit since last summer – driven by higher shale oil production
  - » Export volumes edged down 1.7% in Jan and have completely flattened out the past year

Conference Board's consumer sentiment steady at a high level in Feb

Consumer confidence is strong, according to both main indices, signalling solid household demand

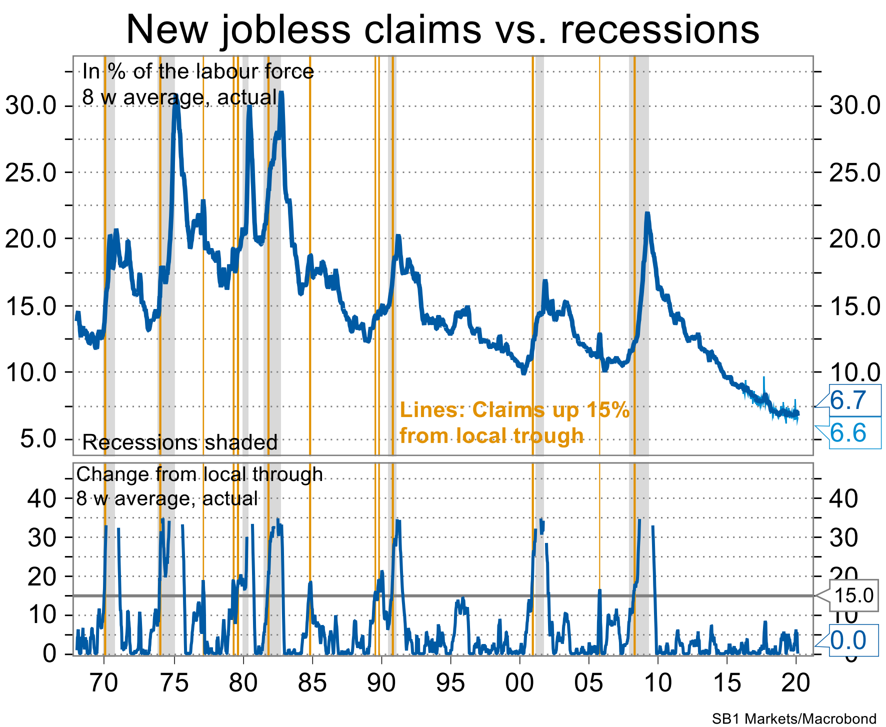


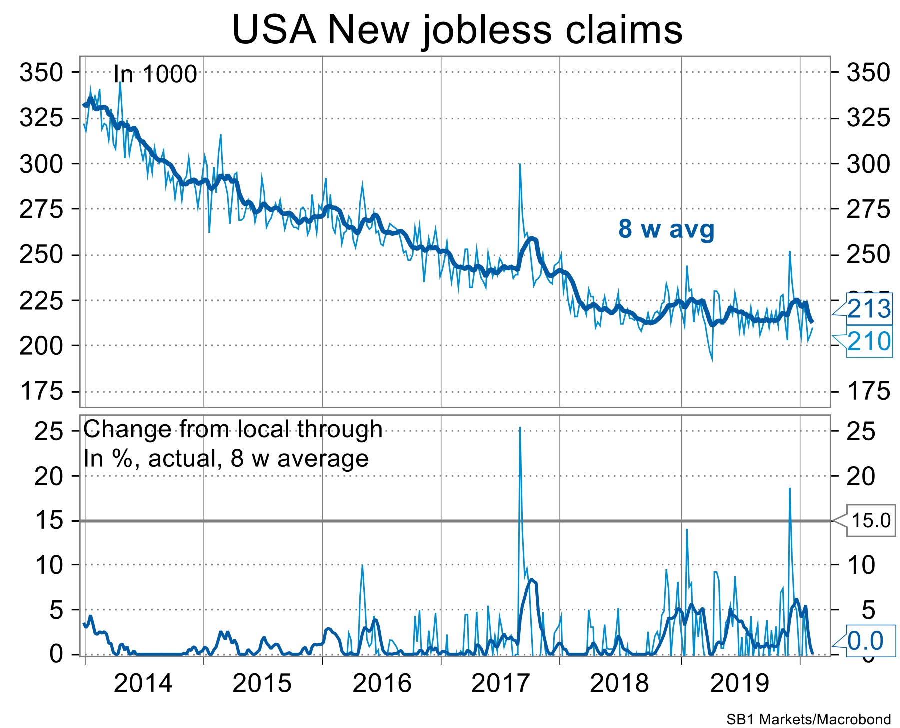


- Conference Board's consumer sentiment index inched up to 130.7 in Feb, and January was revised down marginally. The index has been rather steady over the past year, at a far higher level than 'normal' (+1.5 st.dev)
  - » UoM's sentiment index edged up to 100.9 in Feb, the highest level in 2 years
- Univ. of Michigan's consumer sentiment is marginally weaker then Conference Board's consumer confidence index, both are upbeat and do not confirm the slowdown in consumption which retail sales data indicate

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'



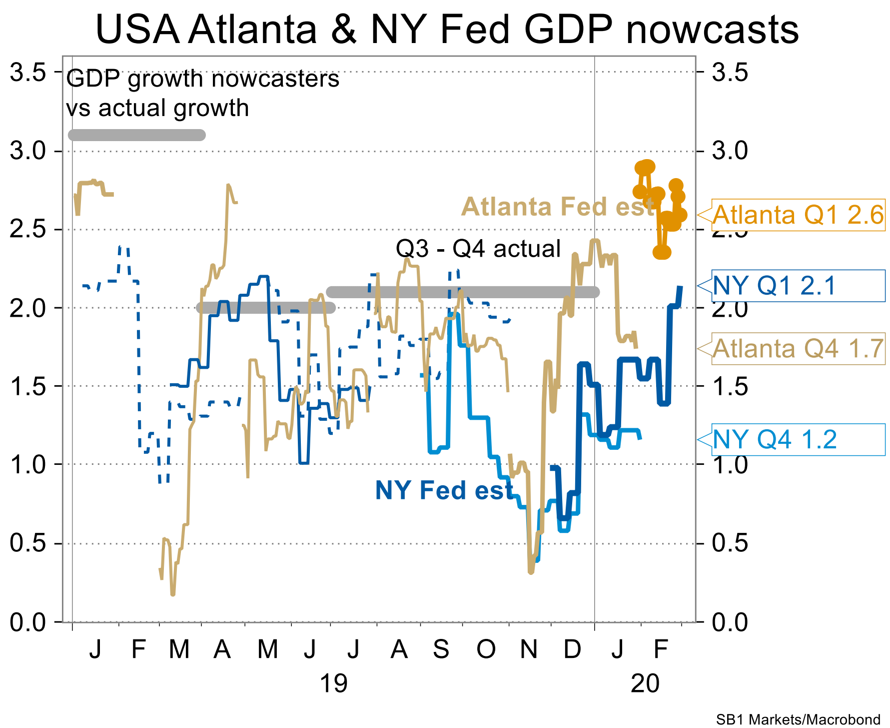


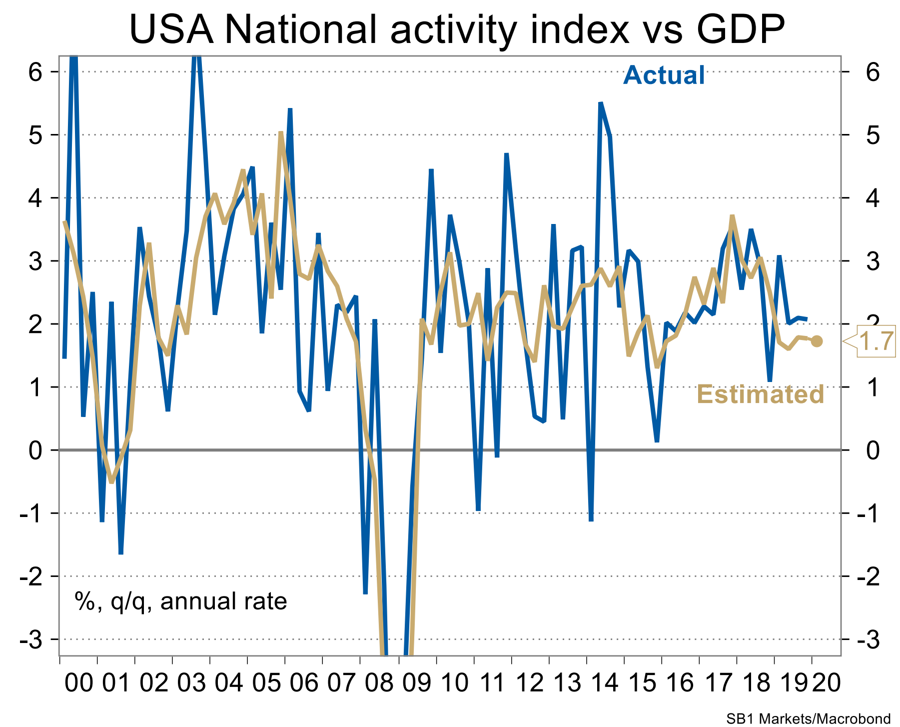
- Jobless claims have fallen down to very low levels again, after a temporary upturn in December. In Dec, jobless claims were distorted by a later than usual Thanksgiving holiday. Since then, claims have fallen down to very low levels, confirming that the upswing was not based on any underlying weakness
- 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

SpareBank 1 MARKETS

Nowcasters suggest above 2% growth in Q1, Activity index at 1.7%

NY Fed's model says 2.1% growth, Atlanta 2.6%, National activity index signals 1.7% growth in Q1

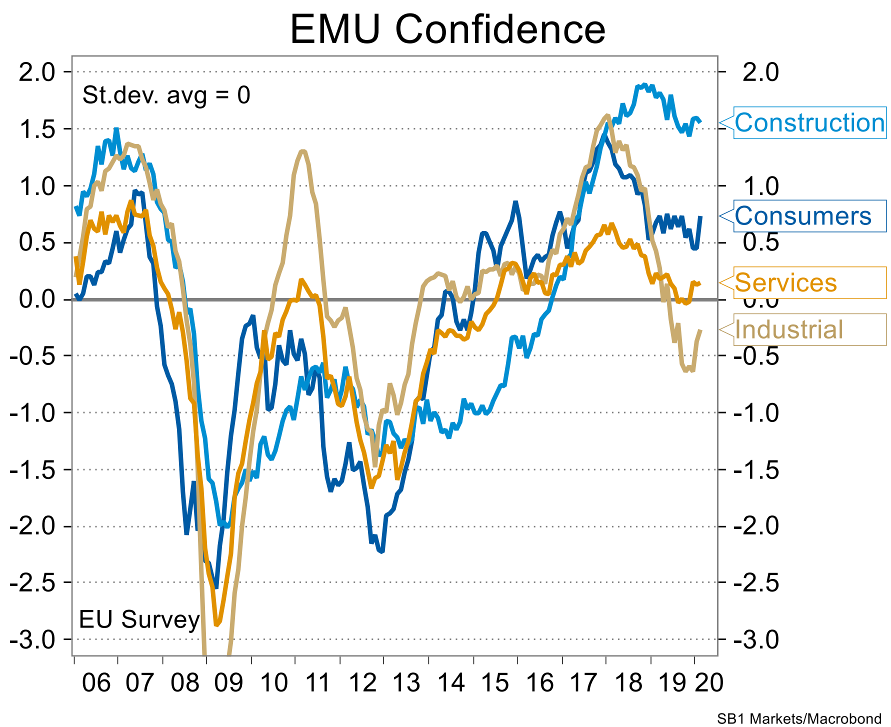


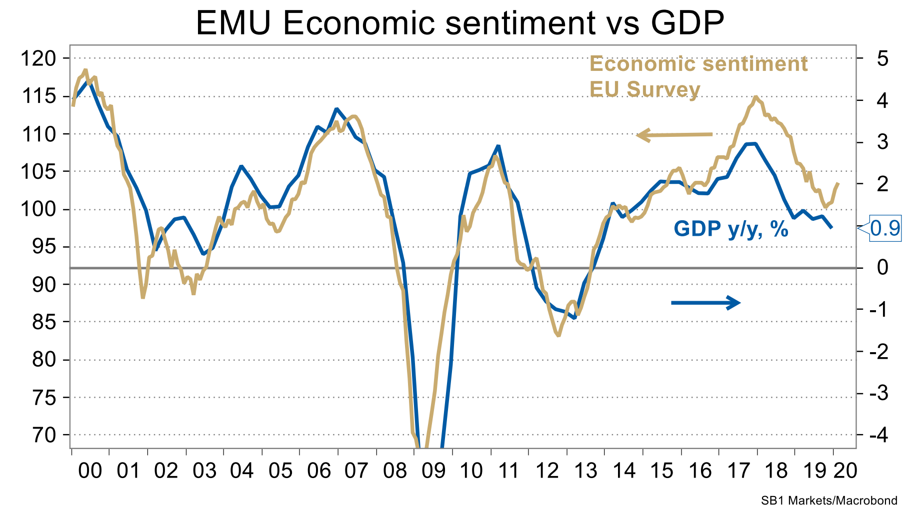


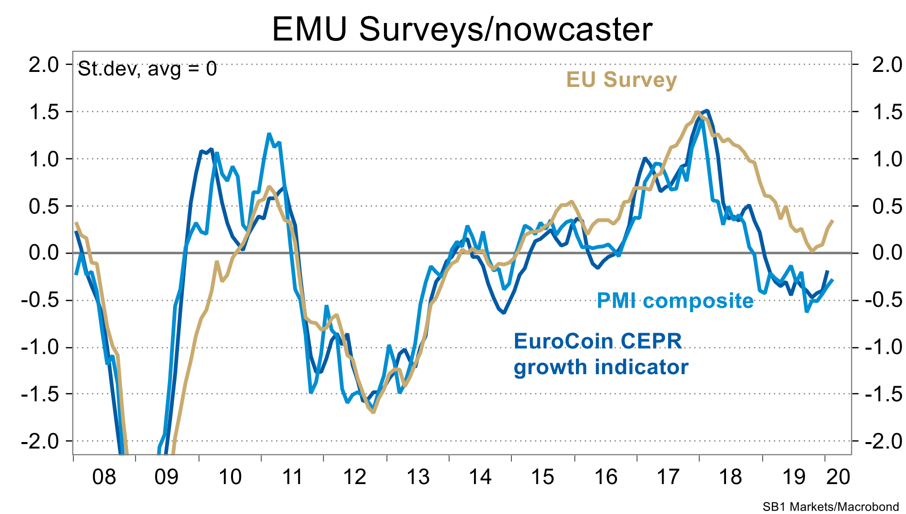
- The National Activity Index improved marginally in January, signalling 1.7% GDP growth into Q1, slightly lower than the reported GDP growth at 2.1% in Q4
- None of these nowcasters have yet incorporated any data eventually impacted by the Covid-19 outbreak

EU economic sentiment brightens, along with other surveys

The ECI ticked up for the 4th month in row, thanks to manufacturing, consumer sectors



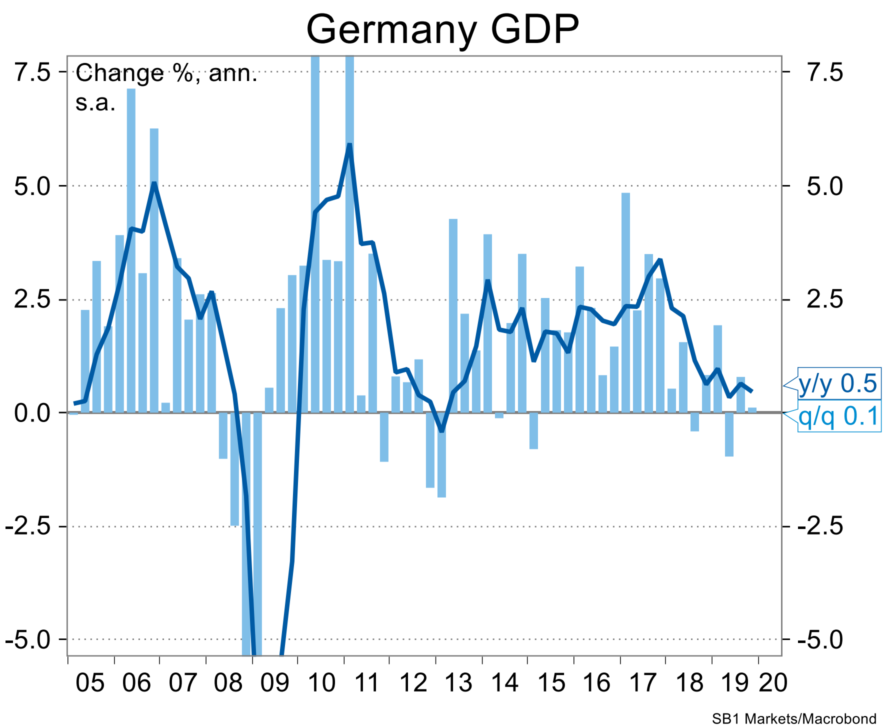


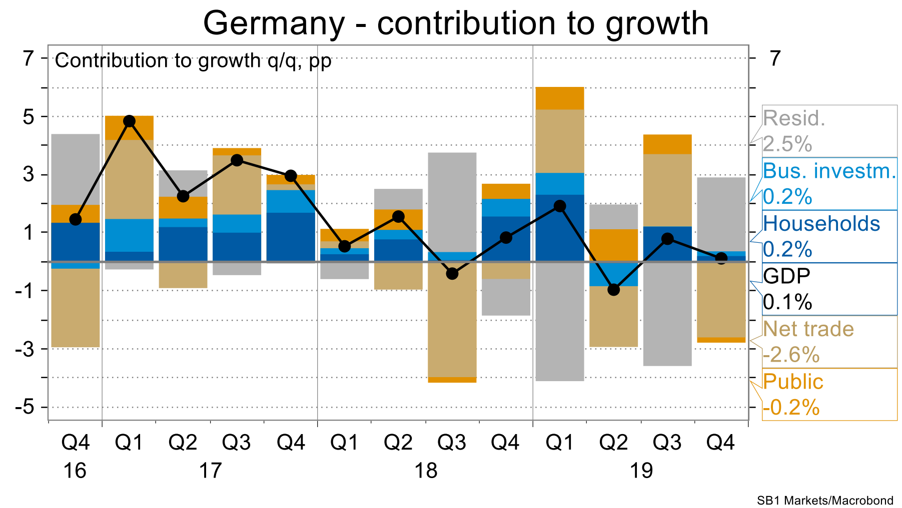


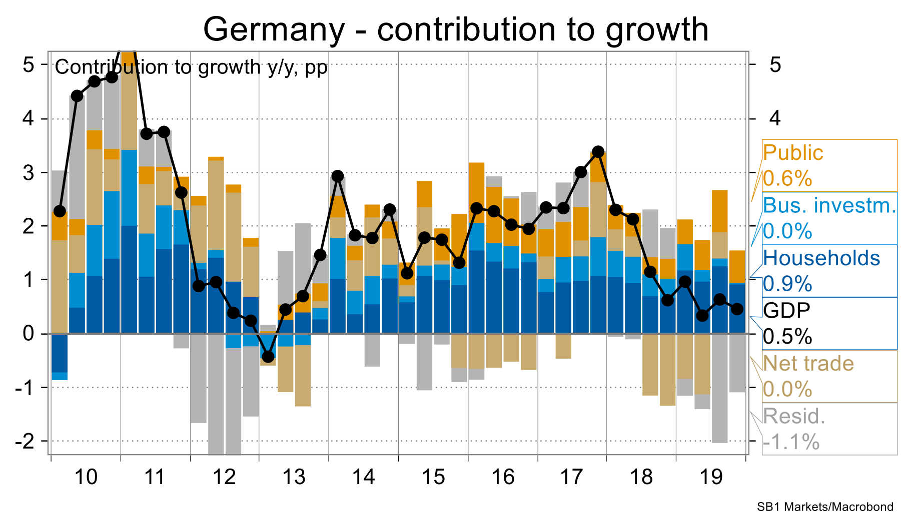
- Total sentiment rose to 103.5 in Feb, better than expected, and 0.4 st.dev above average. This survey has been far too optimistic vs growth and other surveys, the past two years, yet the upturn the past few months adds to signs of a Eurozone stabilization
  - » The survey is usually lagging the PMI and CERP
- The ECI confirms the sector outlook which others are reporting; manufacturing has bottomed out, services are growing moderately, just above average. Construction still elevated. Consumers are still quite upbeat – and more so in February

Q4 GDP revised down marginally, muted household & business demand

Business investments have stagnated, just household & gov. demand are lifting annual GDP growth



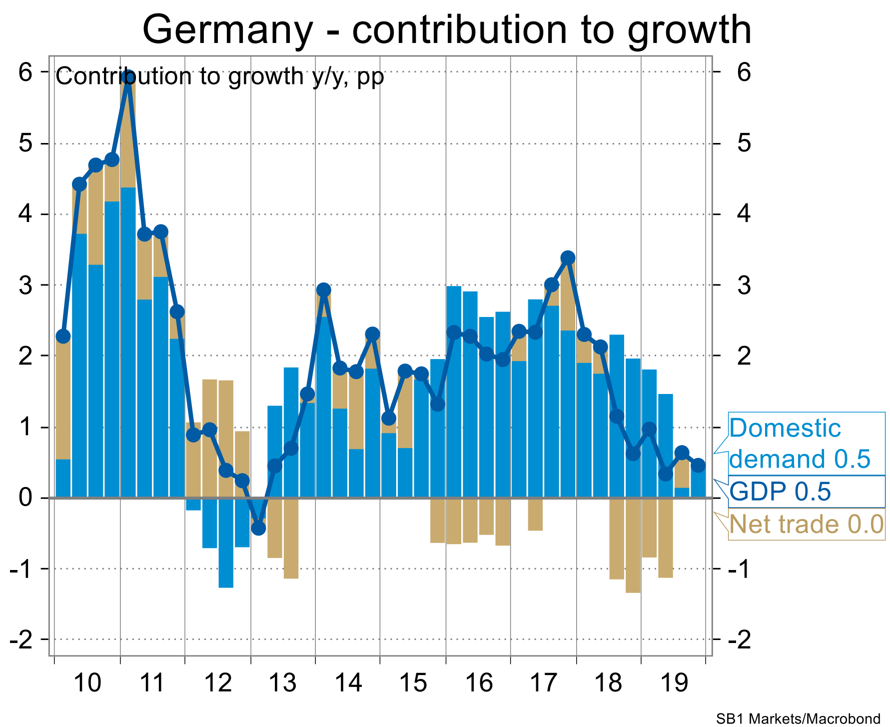


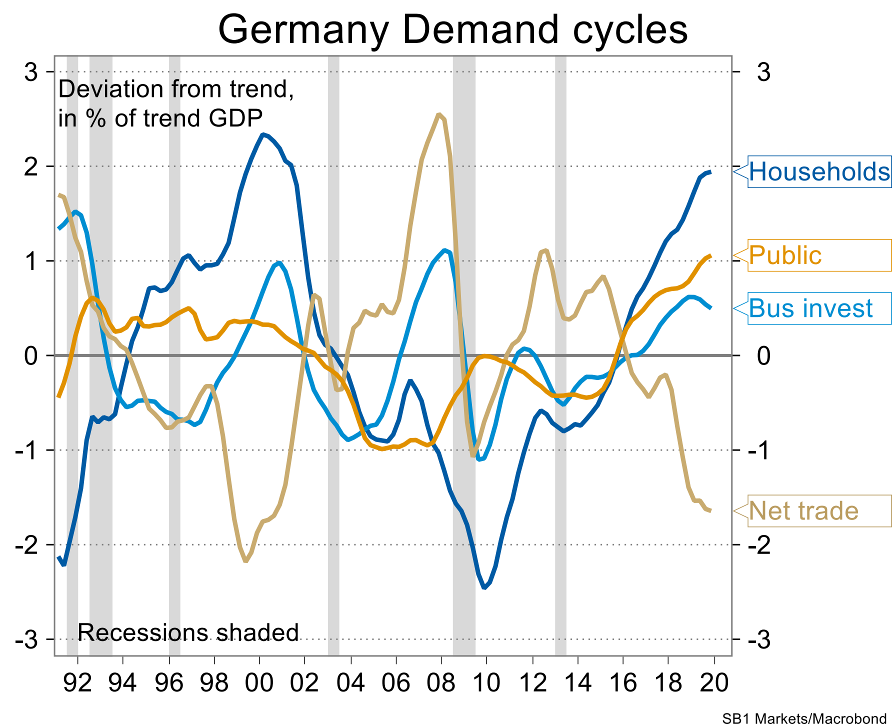


- GDP stalled in Q4, up 0.1% annualized, marginally weaker than first reported (0.3% annualized). Annual rate at just 0.5%
- Household demand (consumption + housing) inched up, a weak Dec dragged Q4 down. Business investments rose marginally too, but the contribution to annual growth has vanished. Net trade fell in Q4 as imports dropped, offset by inventory build-ups (residual). Public demand down in Q4 but boosting growth y/y by 0.6 pp!
- <u>Unless the coronavirus drags activity down, an uptick is likely in Q1, driven by a rebound in consumption</u>

Consumer sector is the major growth engine, followed by public

Net trade <u>has been</u> dragging growth down, and business investments are slowing

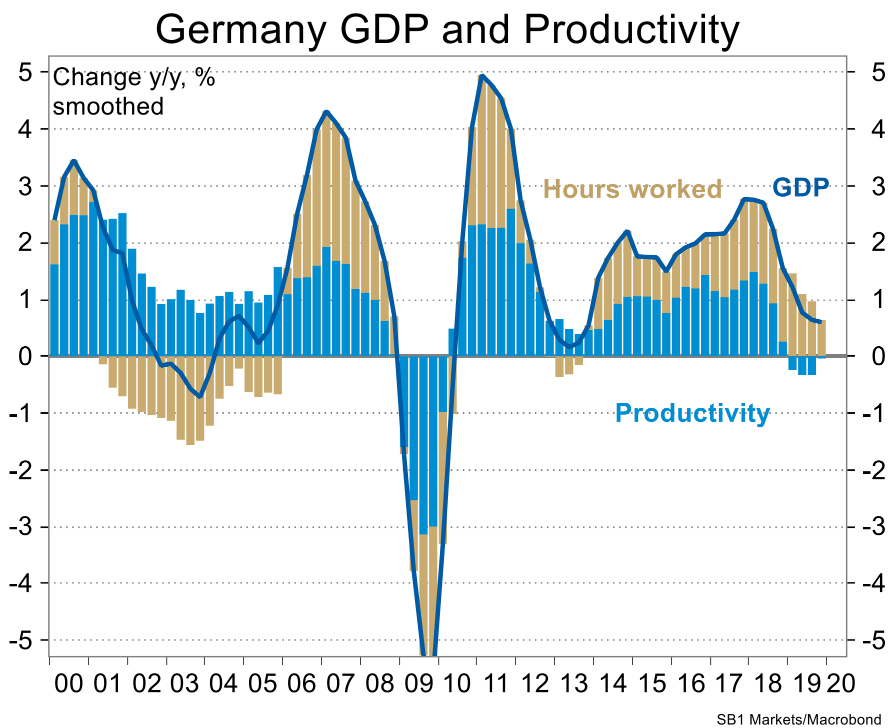


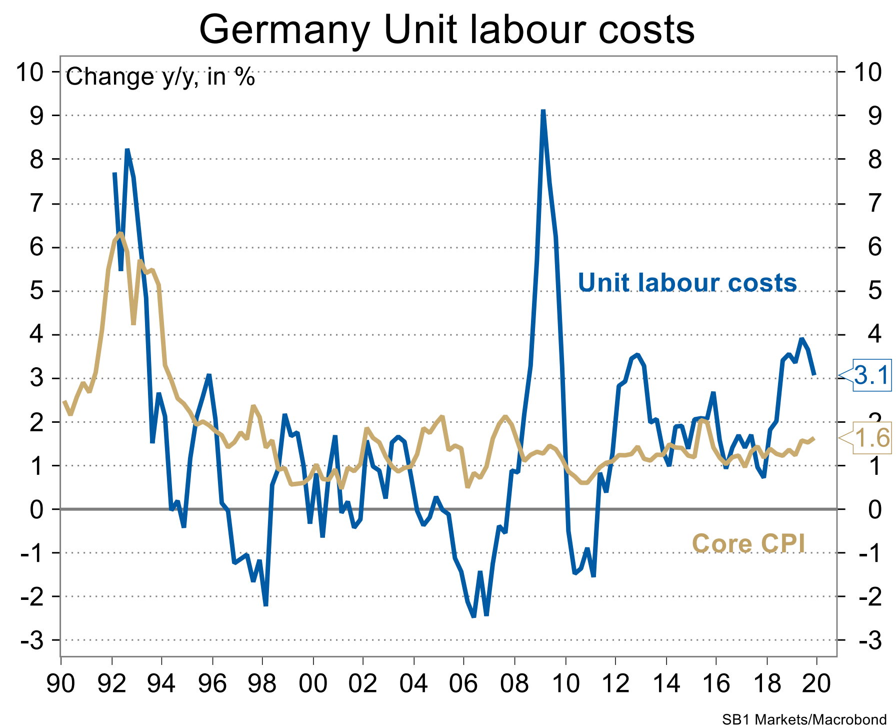


- Over the past 2 quarters, net trade contribution has been zero
- Household and public demand has been trending straight up, business investments are softening

Productivity has disappeared, ULC inflation is not low, profits under pressure

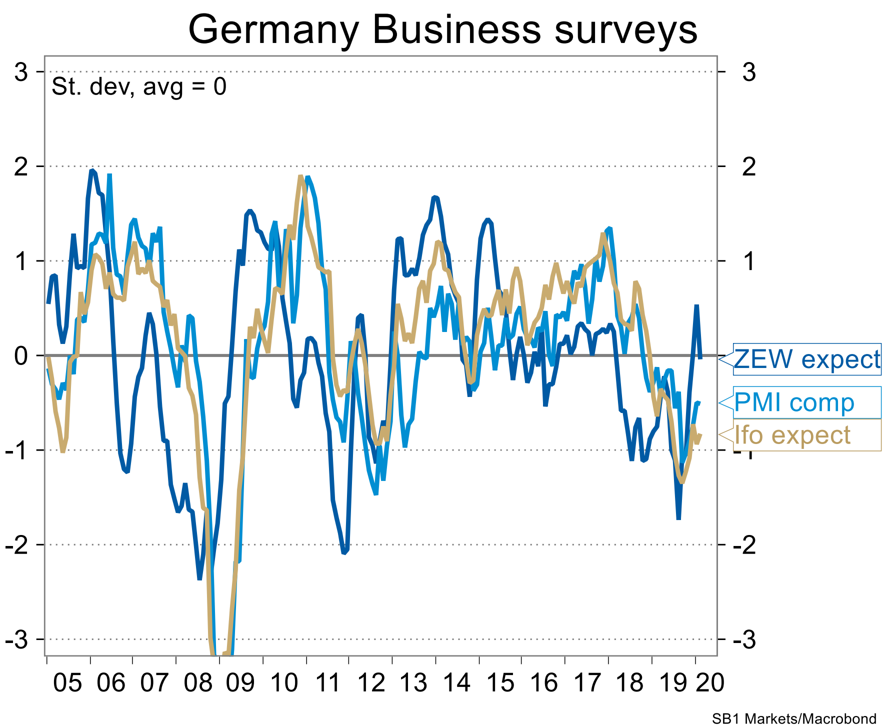
Cost inflation has been building up, to above 3%, as productivity is stalling/declining



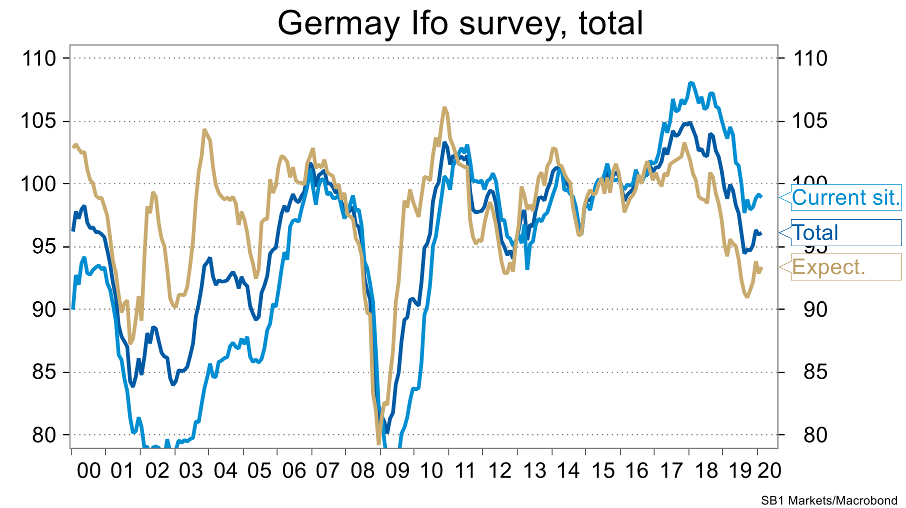


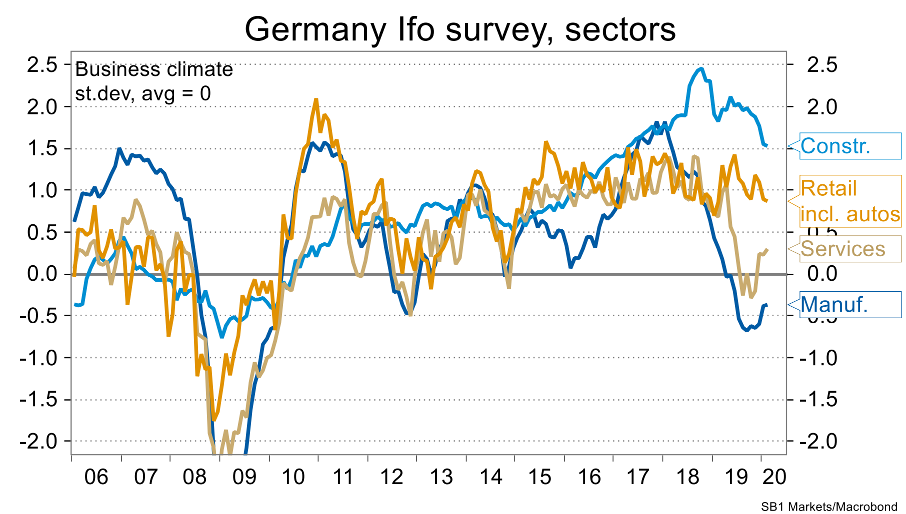
Ifo expectations improved marginally in Feb, no corona impacts - yet

Most sectors steady in Feb, the manufacturing contraction is slowly easing



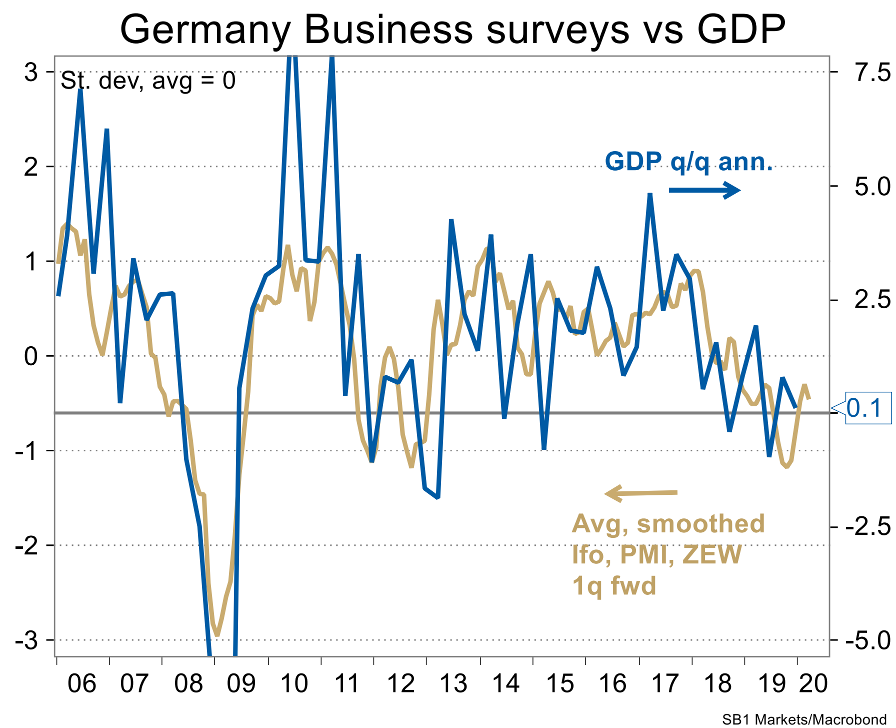
- Ifo business expectations inched up in February, better than expected. The level remains far below average and weaker than both PMI and the ZEW survey. ZEW is much more upbeat, even as the index tumbled on coronavirus fears in Feb (this is a sentiment survey, not a business survey like Ifo and PMI). Ifo and PMI did not confirm that activity is hampered by the virus so far
  - » Expectations rose marginally in Feb, the view of the current situation a tad down
- The manufacturing decline is slowly moderating. Services have picked up, still rather soft. Retail is growing at a decent speed, and construction activity is slowing, but from high growth pace





The German surveys suggest continued subdued GDP growth

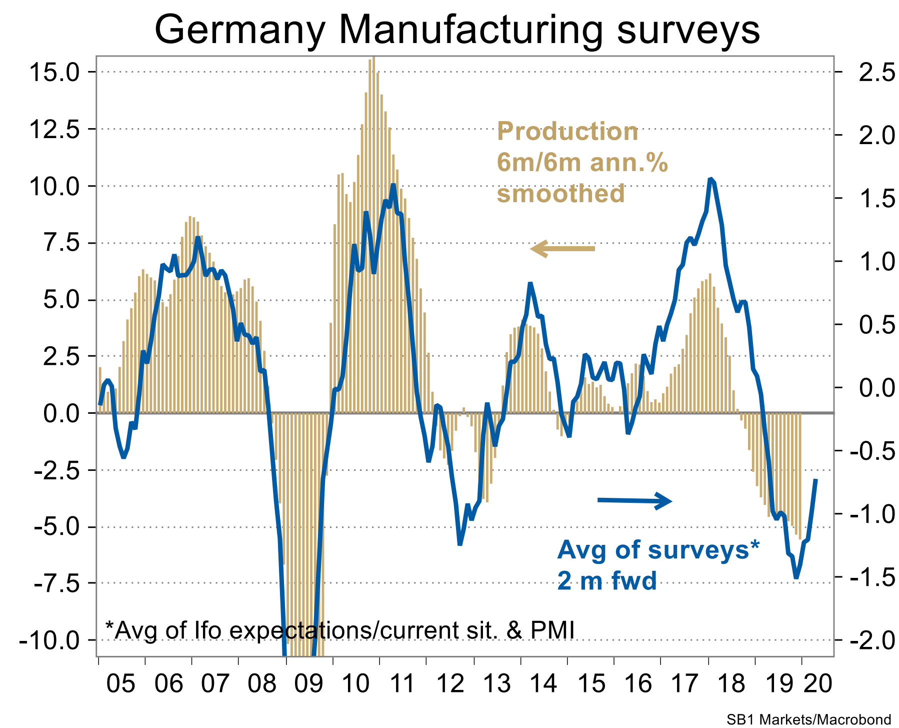
Ifo is more downbeat than the PMI and ZEW surveys, the avg points to below 0.5% GDP growth



- Ifo expectations still signals a contraction in German GDP. The avg of surveys has improved the past 5-6 months, but still signals meagre GDP growth, close to the Q4 pace of 0.3% (annualized rate)
- The surveys have been too downbeat vs actual growth over the past quarters - and the correlation is anyway not very strong, short term

All 3 manufacturing surveys have turned up, indicating a moderating decline

In avg, the surveys suggest some 2.5% decrease in production (measured 6m/6m), vs 5.6% now

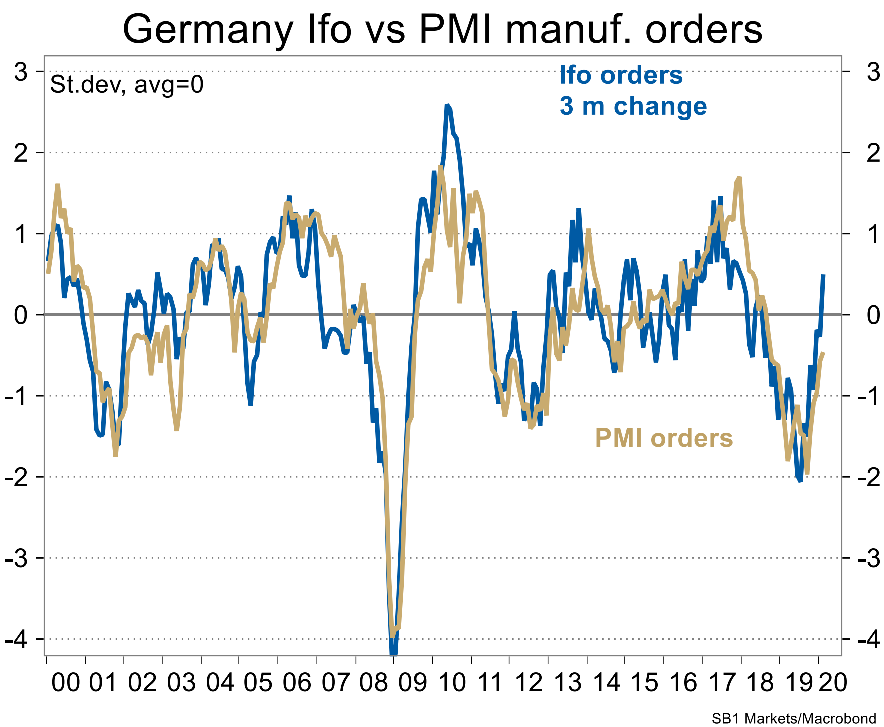


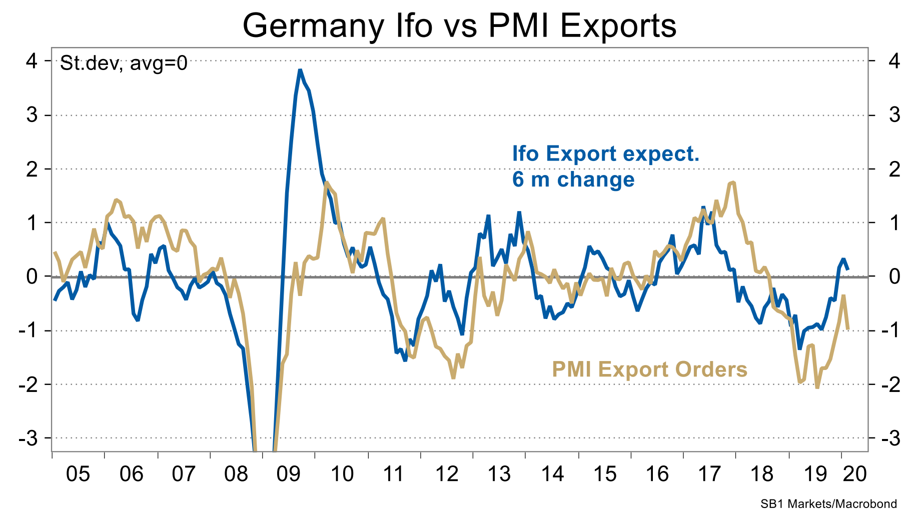
- The gap between the Ifo current situation index, Ifo expectations, and the PMI is now almost closed, measured in st.dev. All have improved the past months, production will have to follow soon?

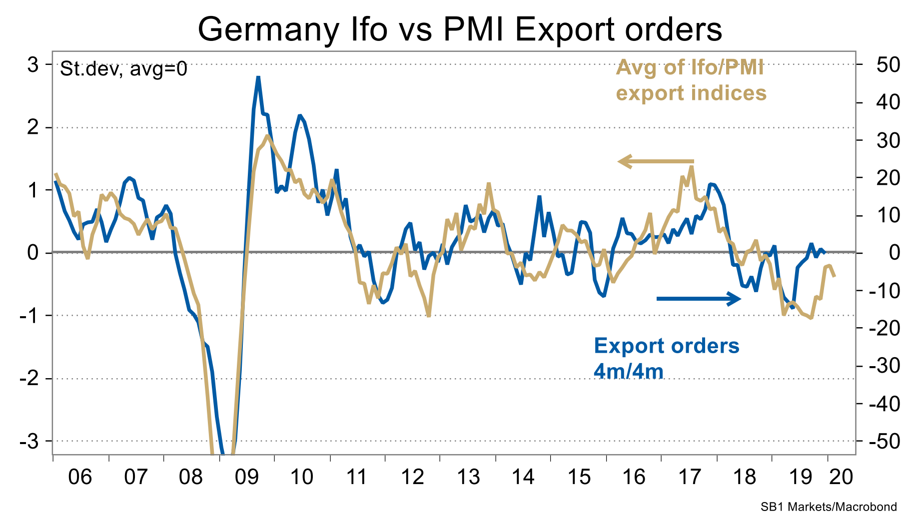
Germany

Ifo order assessments are signaling a stabilization in manufacturing orders

The avg of PMI and growth in Ifo export climate a tad down, do not signal growth in export orders



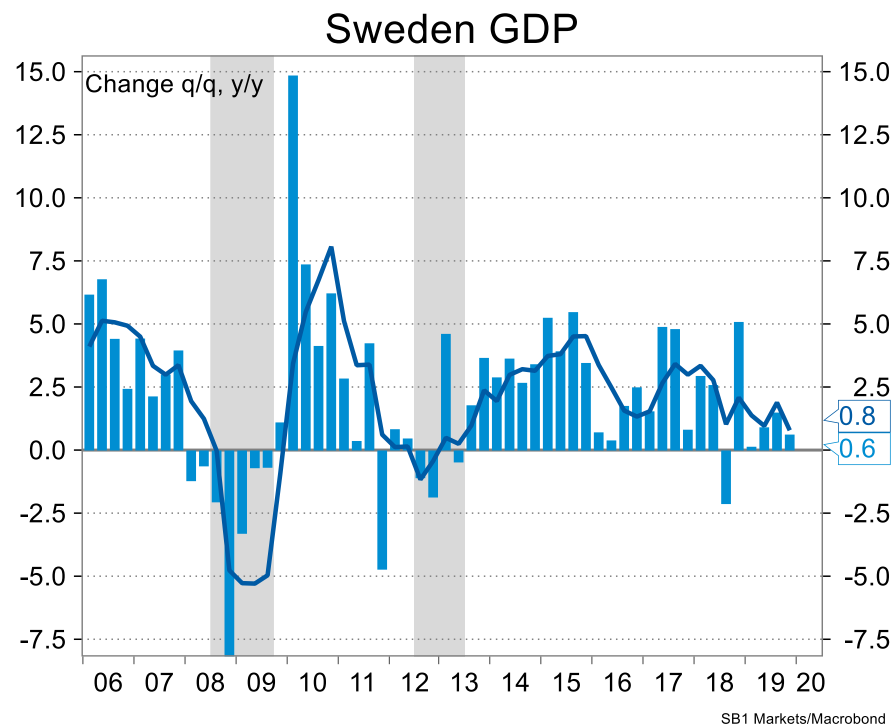


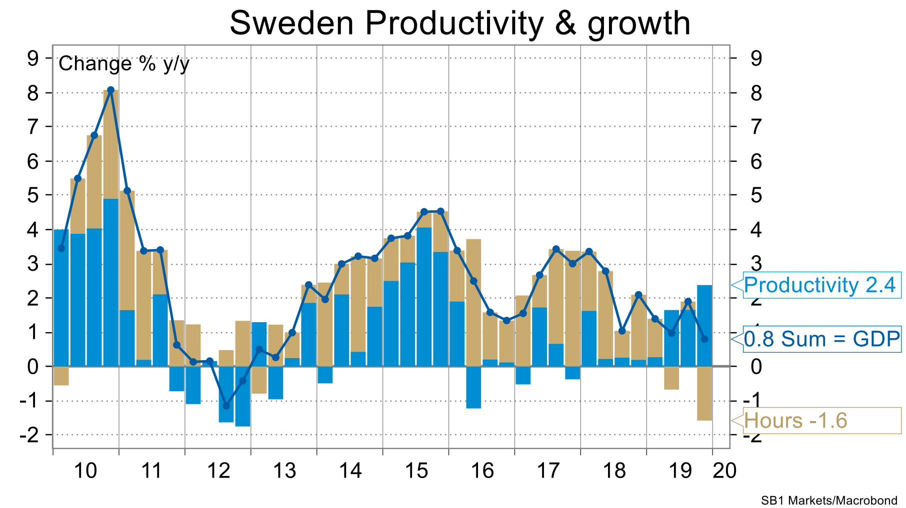


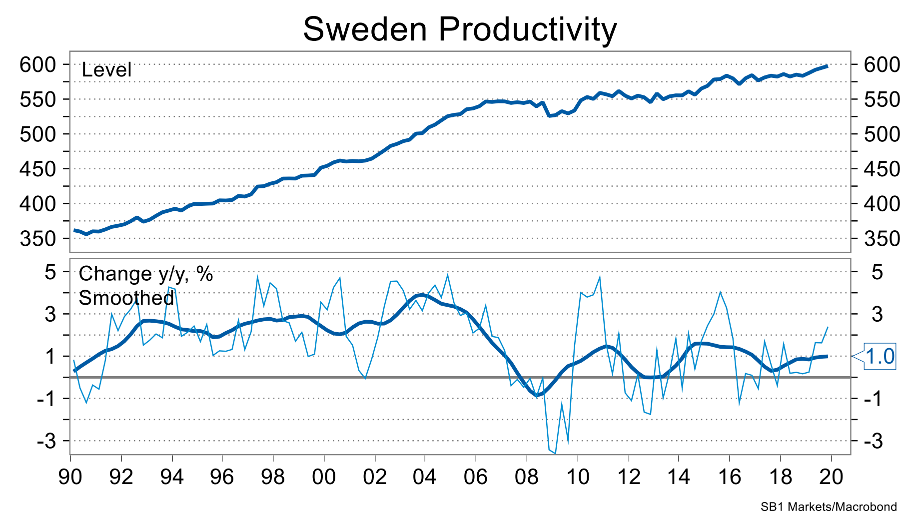
- The level of the Ifo order index is far above the PMI. However, the change in Ifo (here a 3 m change), is closely correlated to – but usually leading – PMI orders. Now, Ifo reports a stabilization in order inflows, the highest level in 2 years. The PMI has turned up too, but is still reporting a modest decline in orders
- An avg of Ifo/PMI still points to a mild decrease in export orders, yet much less rapid decline than some few months ago

GDP rose 0.6% annualized in Q4, marginally below exp. Productivity picks up

Household demand the only demand boost, business investments edged down



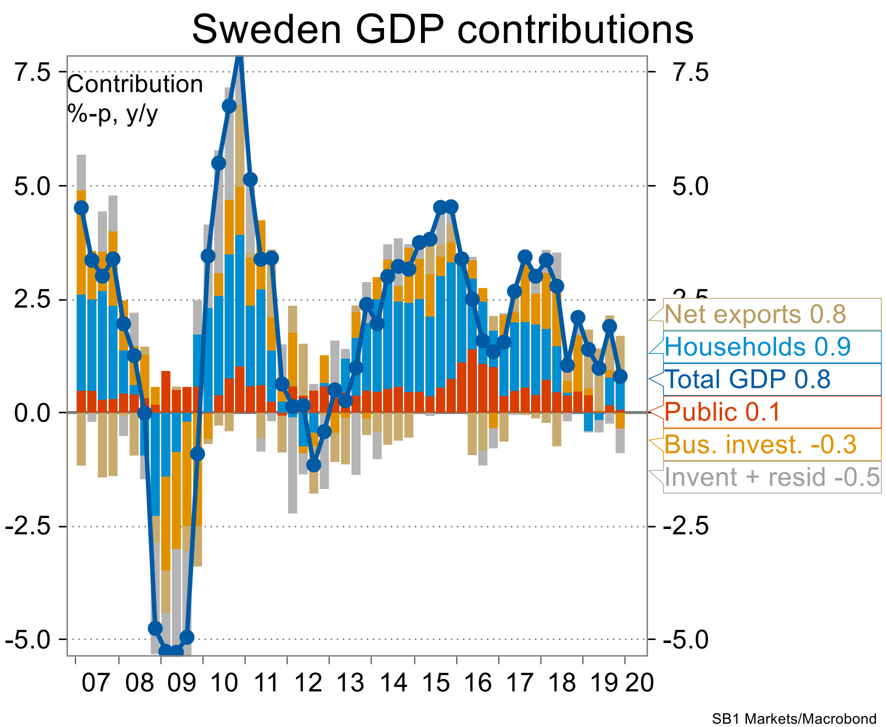


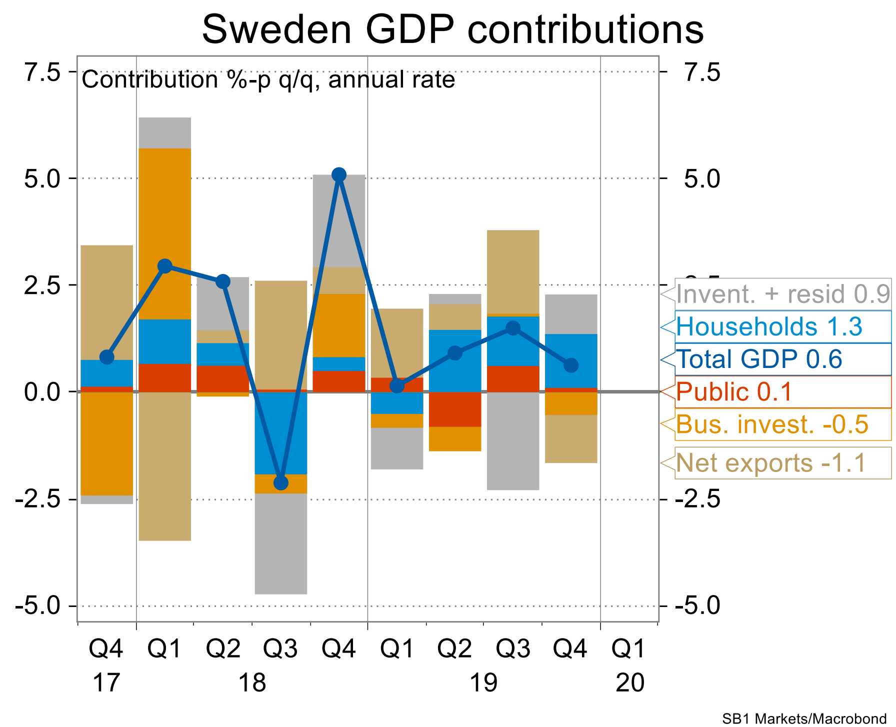


- GDP rose by 0.2% q/q (0.6% annualized), close to expectations. The annual rate fell to 0.8%, the lowest since 2013
- Just household demand increased substantially in Q4, and public marginally, while business investments fell. Net exports down
- Productivity growth rose to 2.4% y/y, hours worked down 1.6%. Productivity picked up the past 3 quarters, while hours worked are waning. However, productivity growth is still low, the smoothed rate at just 1%, indicating a limited growth potential

Household demand the only growth support

Net exports are lifting the annual rate, offset by inventories. Business invest. are a drag on growth

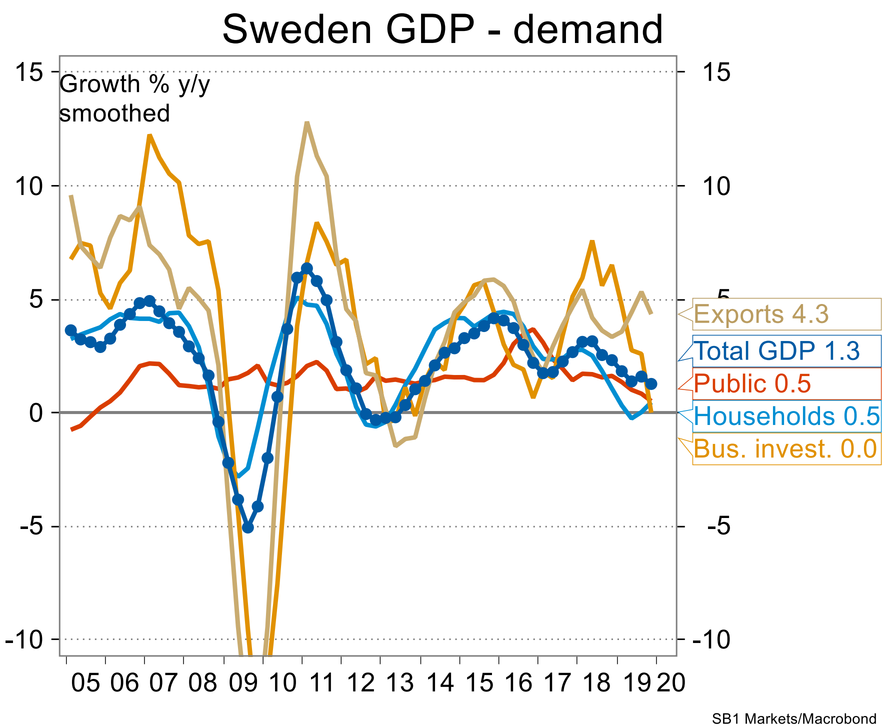


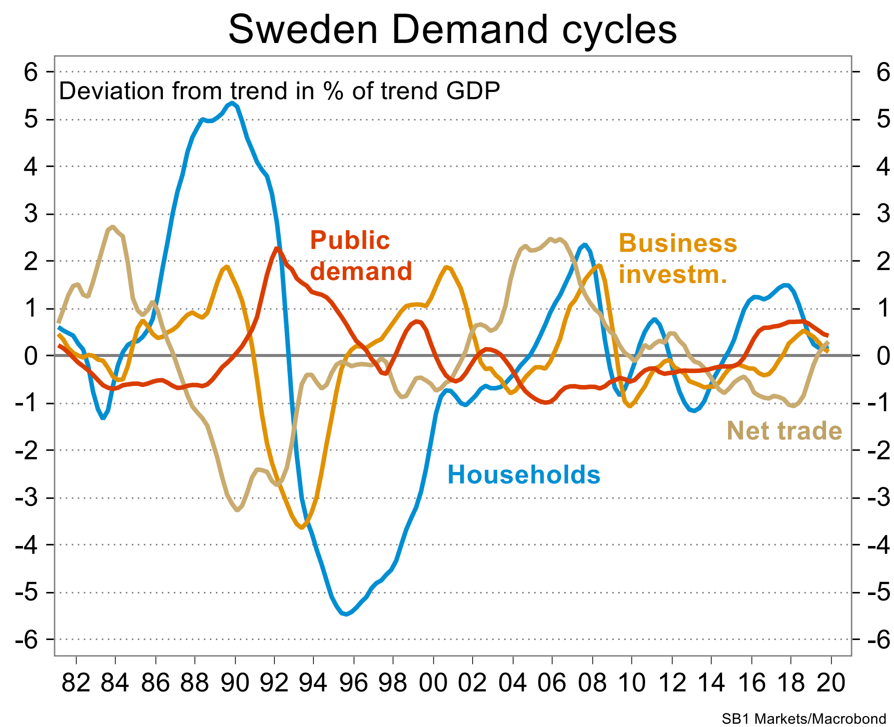


- Household demand (consumption + housing) lifted growth q/q by 1.3 pp annualized. Households' contribution to annual growth is much lower than in the years 2013-17. Private consumption accelerated somewhat in Q4, housing investments fell marginally
- Business investments are sluggish, as they have been many places in 2019. Investments fell by 1.7% q/q annualized and dragged growth down by 0.5 pp. Business investments have fallen slowly through 2019
- Net exports made a 1.1 pp negative contribution in Q4, as exports fell more then imports. The drop in net exports was offset by an inventory acceleration

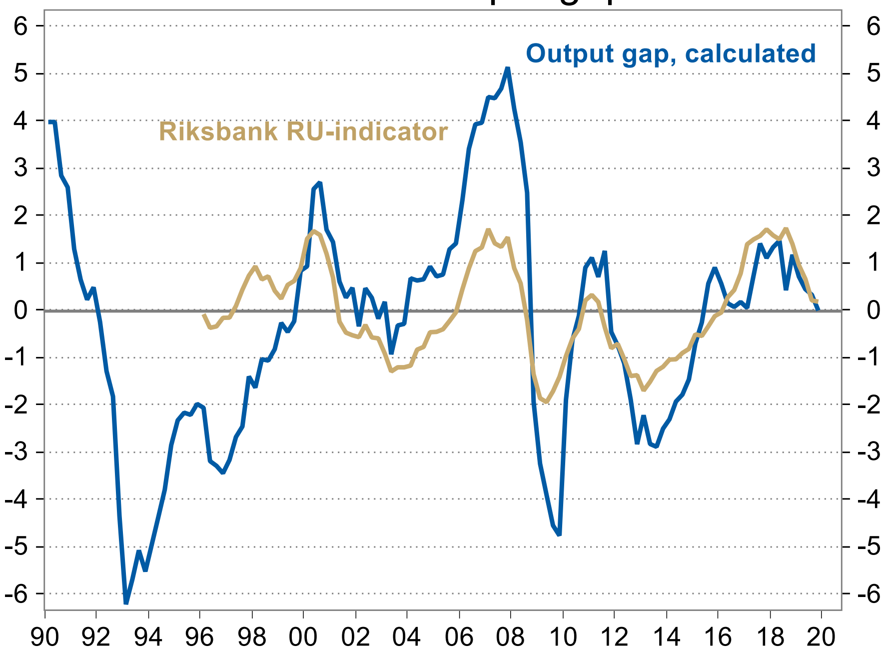
The demand cycles: Business, household and public down from peaks

Exports (!) have been increasing strongly, net trade marginally positive vs trend



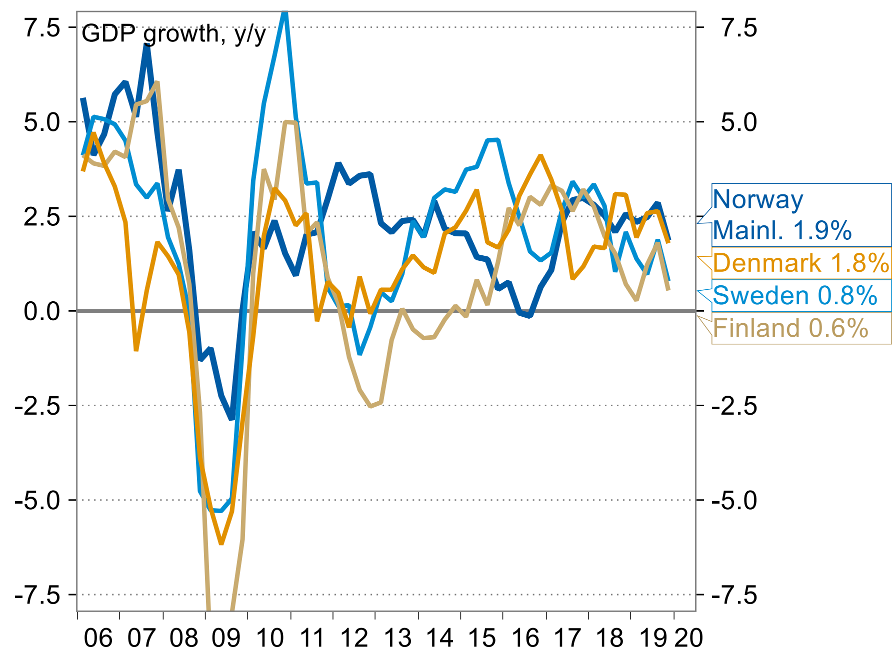


Sweden Output gap



SB1 Markets/Macrobond

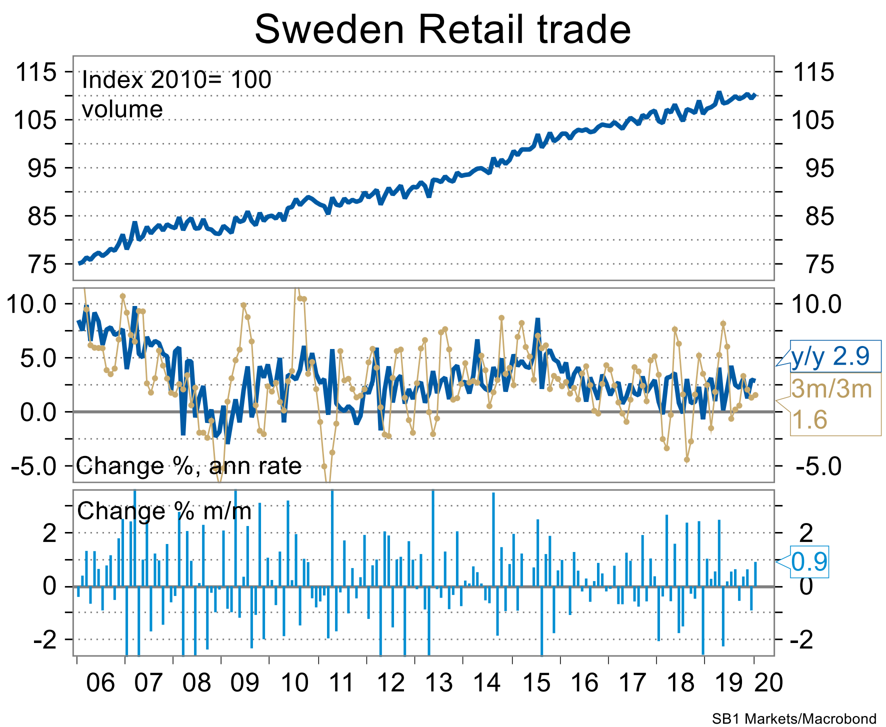
GDP Nordics



SB1 Markets/Macrobond

Retail sales are expanding moderately, growth at trend

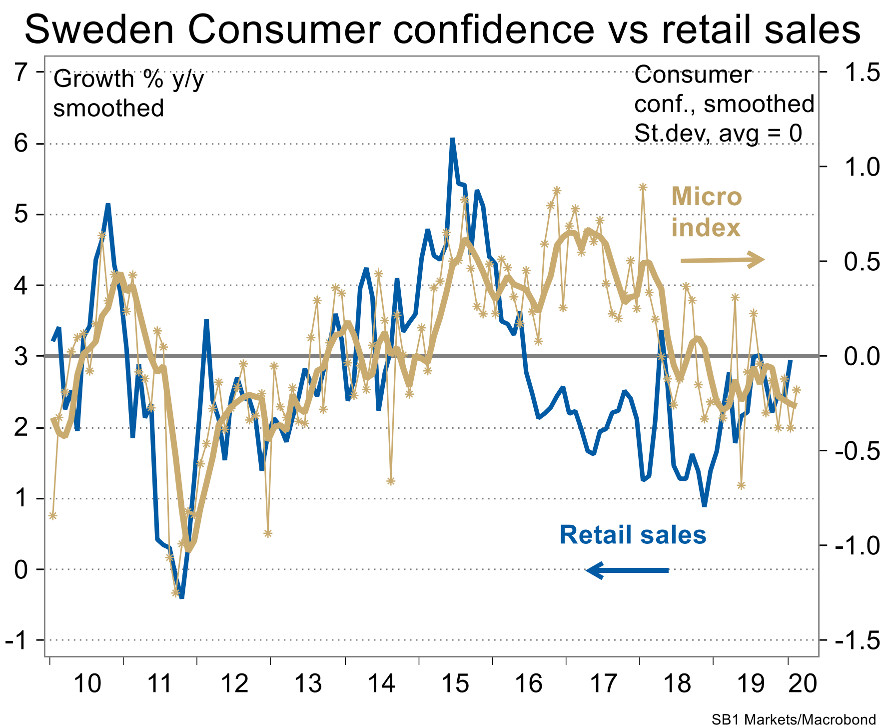
Sales rose 0.9% m/m in January, no signs of a consumption setback amid growth slowdown

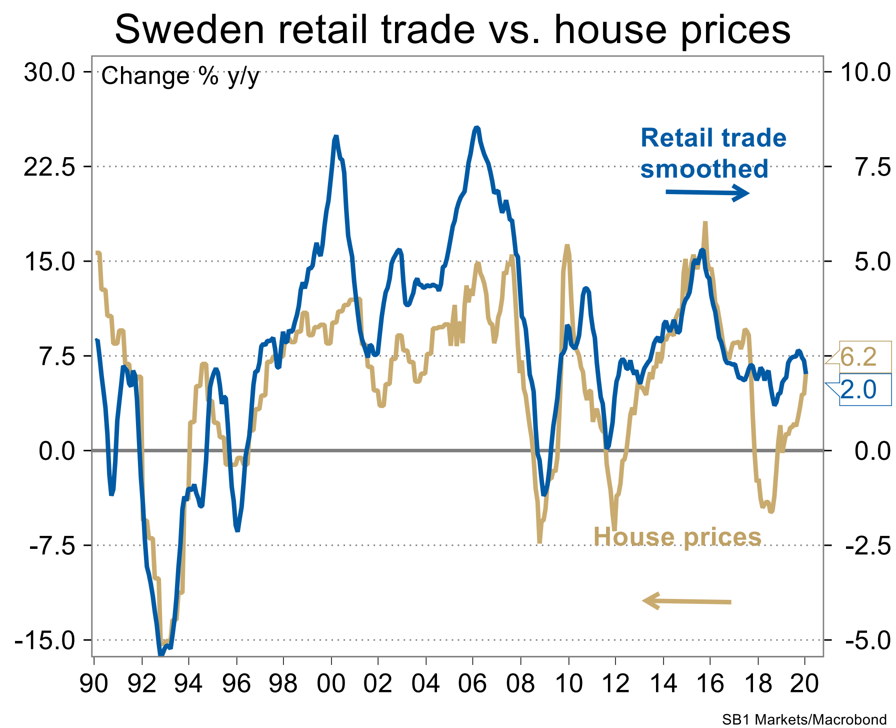


- Retail sales volume increased by 0.9% m/m in January and the underlying pace is 1.6%. The trend growth since 2015 is well intact. Retail sales growth has been substantially stronger than in Norway, which we find strange…
  - » Retail price inflation has been subsiding, supporting volume growth. Annual inflation up just 0.9% y/y
- Given several signs of a slowdown in the Swedish economy; climbing unemployment and soft consumer confidence, the consumption outlook is not upbeat. However, we do not expect a collapse either

Consumer confidence has stabilized below par

The confidence index does not signal much weaker consumption, neither do house prices

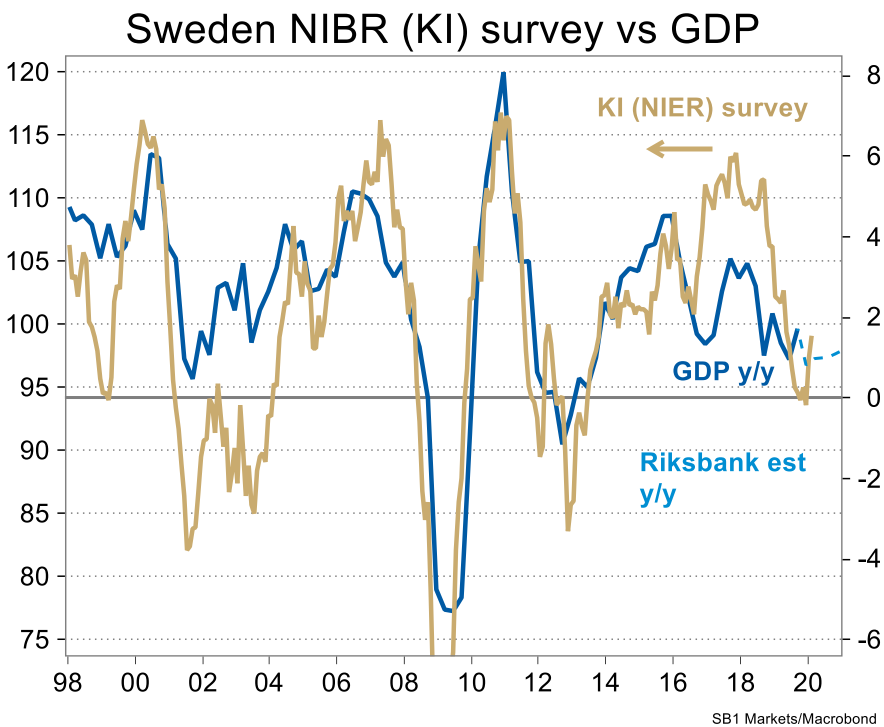


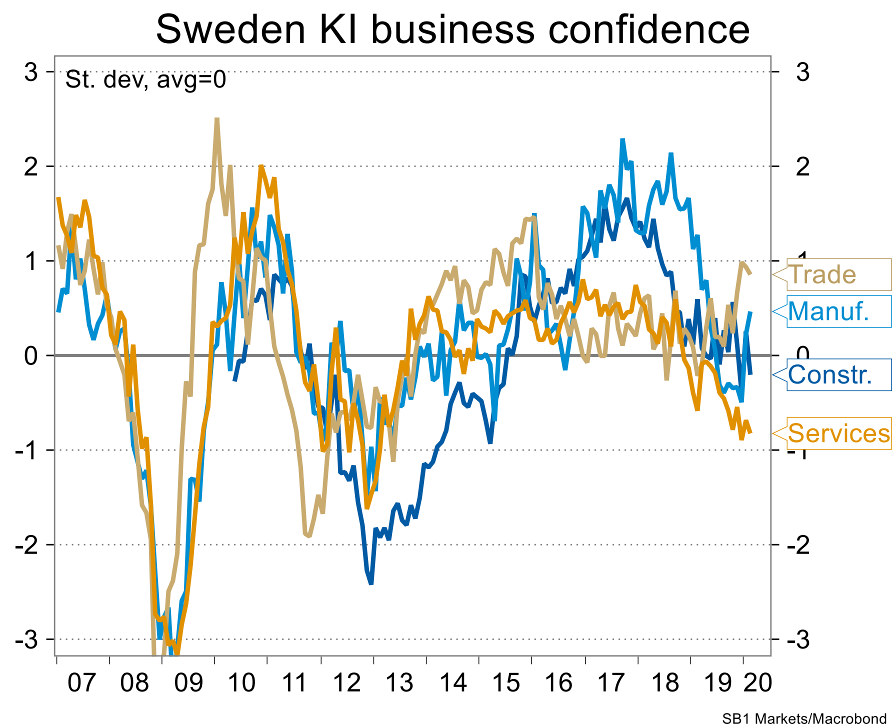


- The consumer confidence survey is volatile, and often zig-zags too much to give any useful signals. Still, the survey has fallen has stabilized the past year, following a drop in 2017-2018. The level is slightly below average but does not signal much weaker consumption. However, the correlation to consumption is not very strong
- House prices and retail sales are often quite closely correlated. Consumption did not follow house prices down in late 2017/early 2018 and now house prices are accelerating again, and real wages are on the rise
  - » On the other hand, a softening labour market is not a good sign!

The KI business survey is improving as manufacturing recovers

Services is the only sector well below par, retail trade the most upbeat

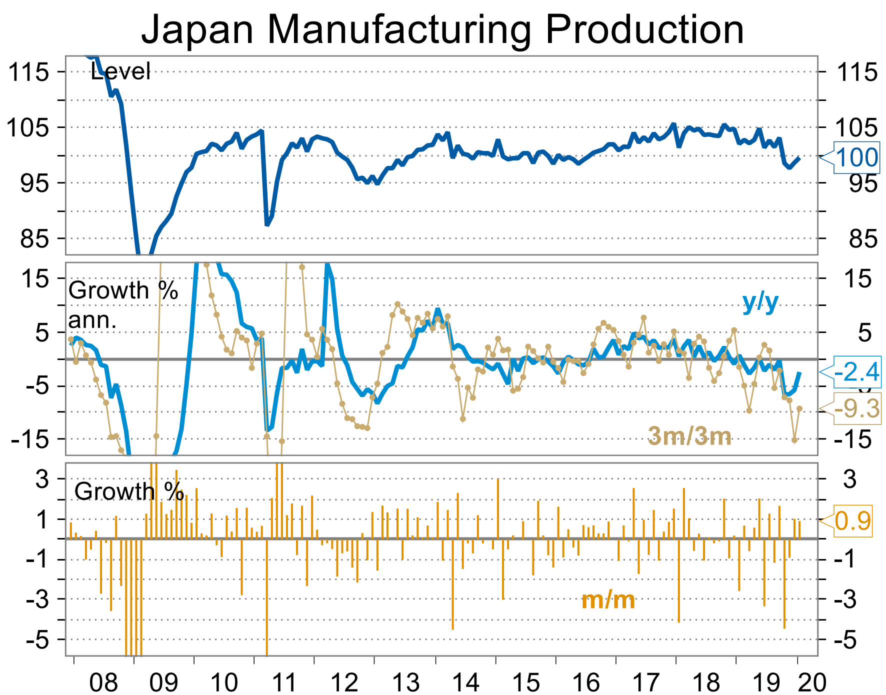


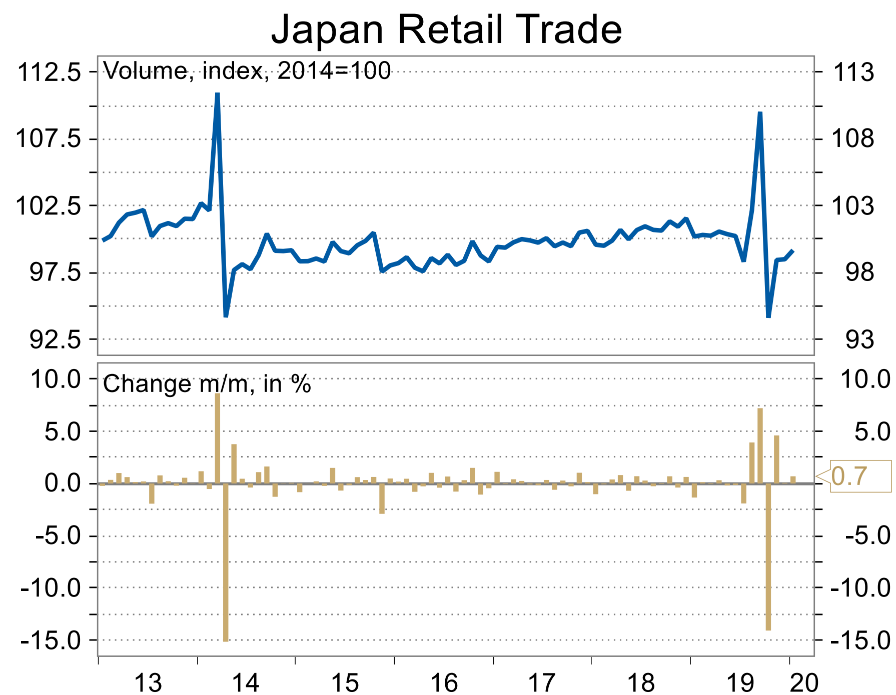


- The KI economic tendency survey, which usually correlates well with GDP growth, fell sharply through 2019 but has improved in January & February (like the PMIs). The index signals close to 2% GDP growth (but has been too upbeat vs GDP the past years)
  - » In February, retail trade reported stable growth, well above a normal level, while both construction and services inched down. Services are still reporting growth below trend
- Why did the the Swedish economy loose momentum?
  - » From the demand side: Companies has been reporting declining manufacturing order inflows, chiefly due to weaker domestic demand
  - » From the supply side: The best long term reason for slower growth is that productivity growth has almost vanished – and hours worked are cooling

Retail sales and manufacturing have not fully recovered from the VAT hike

Retail sales are 1% below the pre-VAT distortion level, manufacturing still 2% below

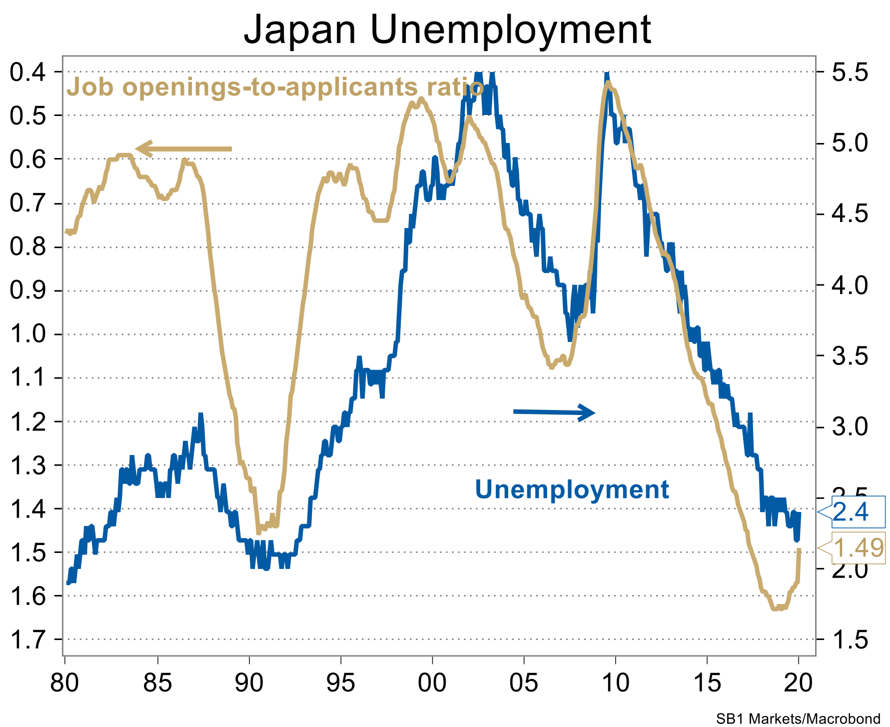


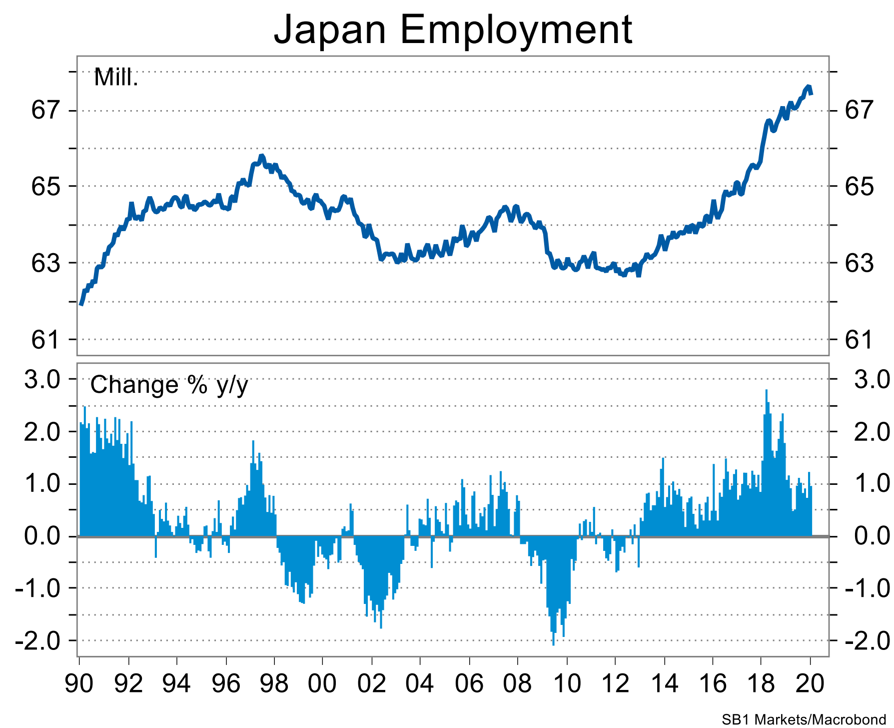


- Retail sales dropped 14% in Oct, as consumer taxes were hiked. Since then, sales have just partially recovered, and sales are still some 1% lower than the pre-VAT hike level. Sales rose 0.7% m/m in January, better than expected. In 2014, the last time the VAT was raised, sales were lower than the pre-VAT levels for several years. Hence, the retail sector may be off to a bumpy road
- Manufacturing production rose 0.9% m/m in January, and have recovered less than retail since the VAT increase. Something else may have hit Japanese manufacturing (even before corona). Underlying growth is down 9.3%, and the production level is 2% below the pre-VAT level. However, we do not expect any recovery in the short term, as Covid-19 no doubt hampered activity in February
- Both Japanese PMIs plunged in February, the coronavirus outbreak has hit part of the Japanese economy quite hard

Unemployment steady at a very low level, employment still increasing

Unemployment edged up to 2.4% in January, more or less flat since early 2018





- Unemployment has been more or less the past 2 years, at the lowest level in 27 years
  - » The job openings-to-application ratio has turned down, signalling some weakness? On the other hand, the level is the highest since the 1970'ies
- Employment is still climbing, annual rate at 1%. Employment rates have been soaring, and are record high for all ages/genders
- Still: Wage inflation has been declining the past year, zero growth y/y in January
- Barring the high corporate savings rate (partly offset by the public sector deficit – Japan is running a huge current account surplus) - what's really the Japanese problem – when employment is 'more than full'

Highlights

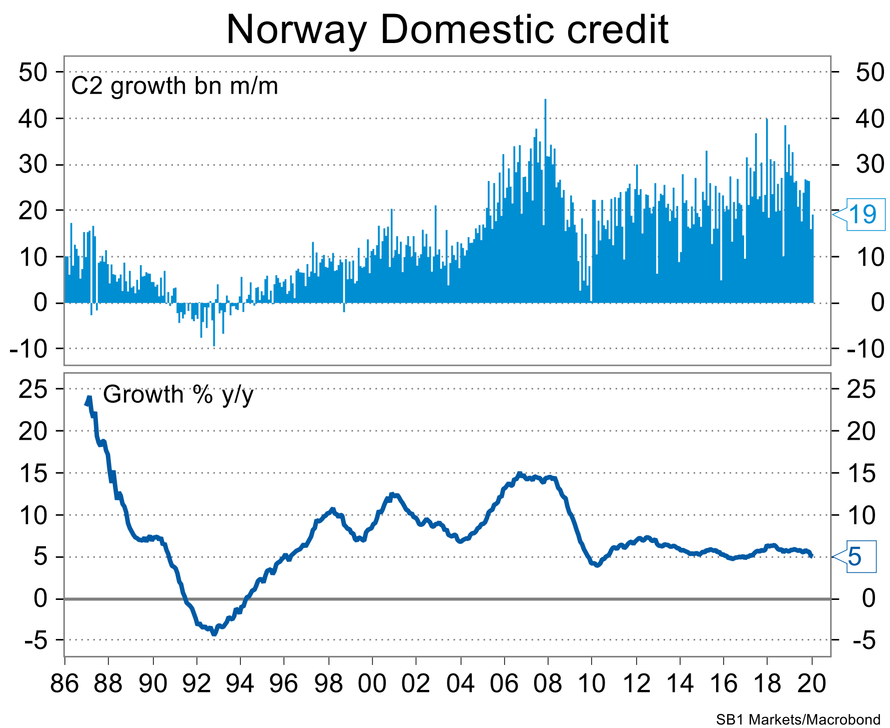
The world around us

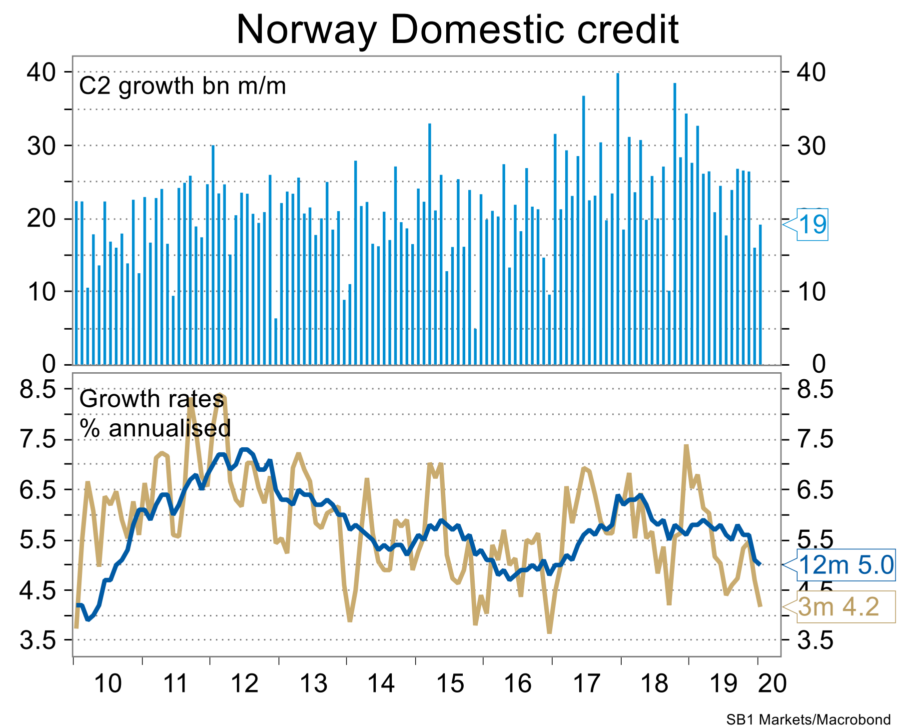
The Norwegian economy

Market charts & comments

Credit growth is ebbing, corporates the main drag recent months

Total C2 credit growth fell to 5.0% in January, household credit has picked up a little , corporate slowing

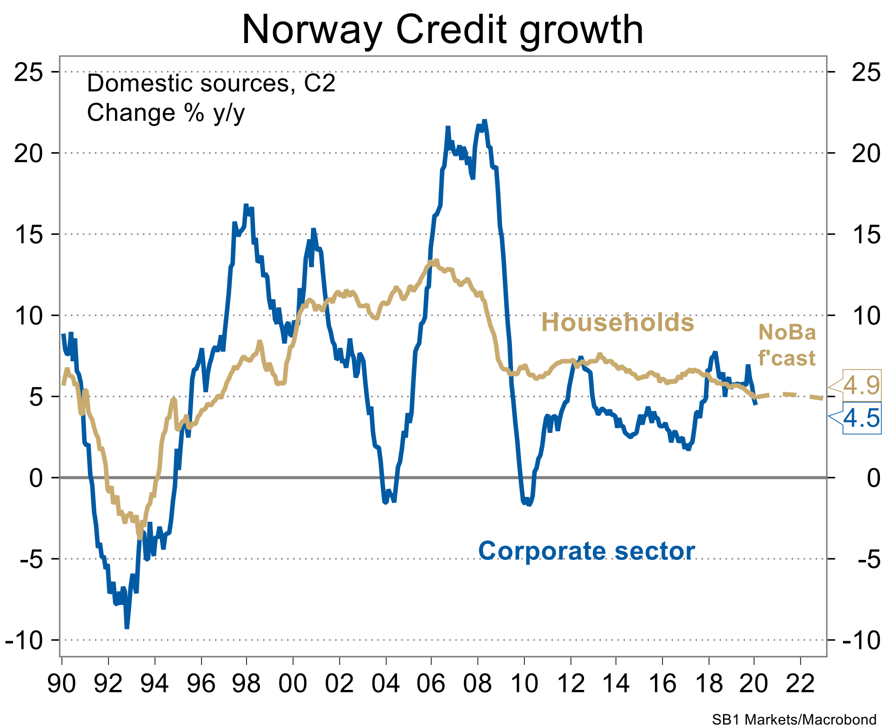


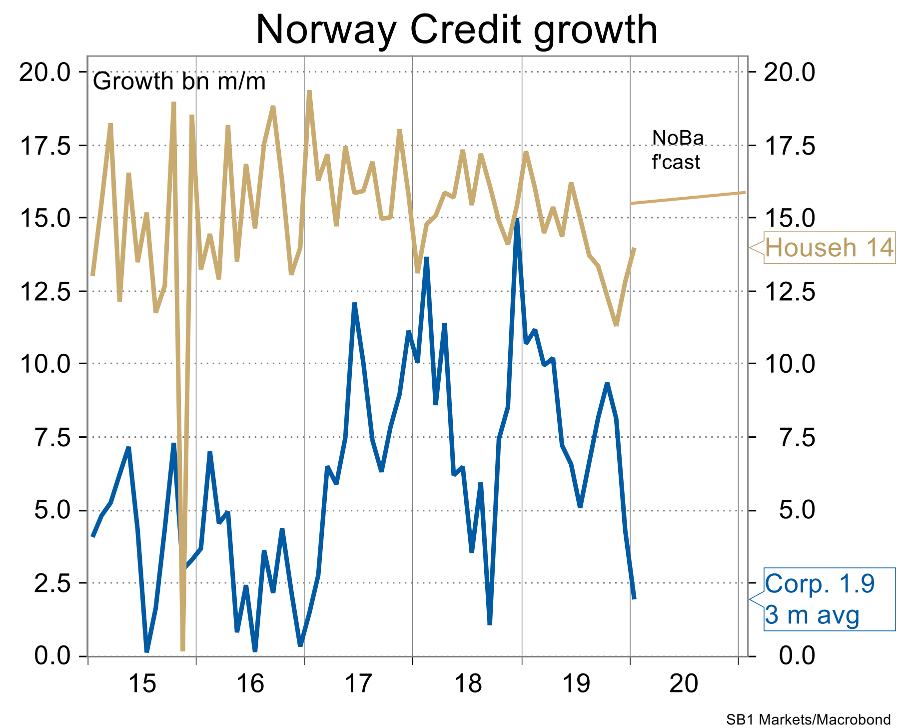


- Total domestic debt (C2) rose by NOK 19 bn m/m in January, Dec revised up by 3 bn. The annual rate inched down to 5.0%, slowing from 5.6% in November and the lowest growth in 3 years
  - Household credit growth has been slowing rapidly, the annual rate down to 4.9%, and household credit is now expanding at a slower speed than disposable income. However, growth has turned up the past 2 months, and the underlying pace has stabilized at 4.7%
  - Corporate credit growth has fallen the past 3-4 months, annual rate down to 4.5%, the lowest in 2 ½ years
  - Local governments are increasing their debt at an unsustainable pace, at 7%

Households credit growth at 23 y low – but corporates slowing the most recently

Household credit growth turned up in Dec/Jan, corporate sagging the past few months



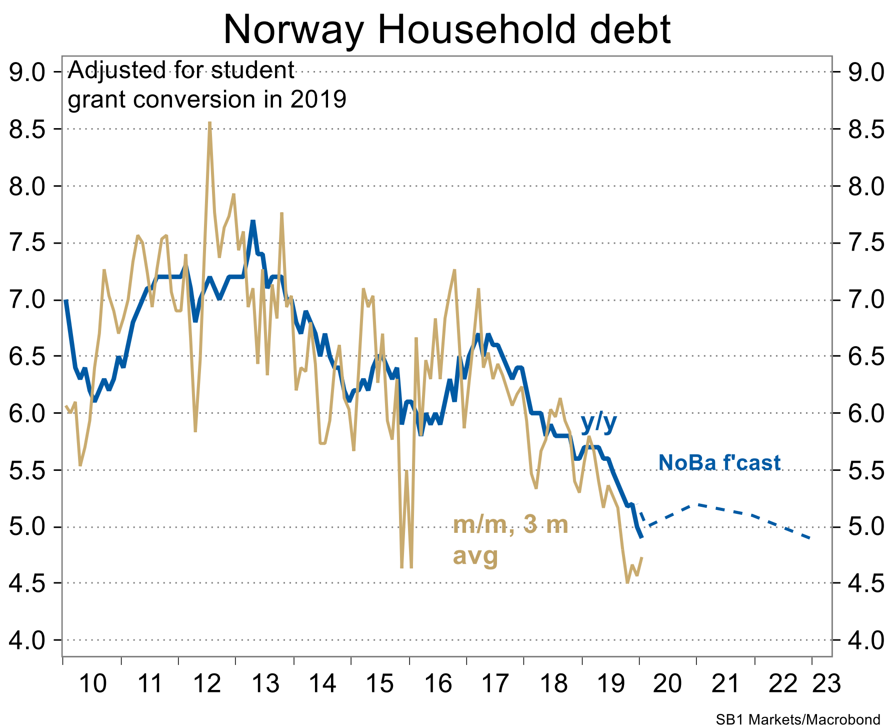


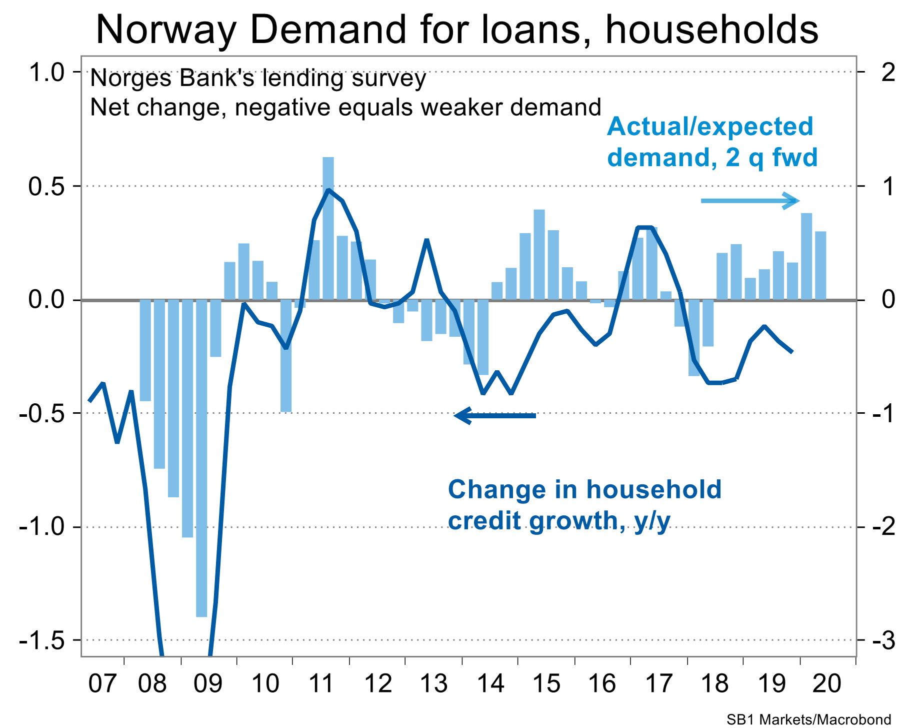
- Households' credit increased by NOK 14 bn m/m January, a 1 bn lift from an upward revised December (by 2 bn), and up from a 5 year low at 11 bn in November. Hence, credit growth is not 'collapsing', however, the trend is no doubt downwards. The y/y rate inched down to 4.9%, the lowest speed in 23 years
  - » Household credit growth has been slowing modestly since 2017. The slowdown has accelerated since last summer, probably due to the interest rates hikes and tighter consumer credit regulation/the new debt registers. Consumer (unsecured) credit has slowed, no doubt dragging total credit growth down. However, consumer credit cannot explain the entire downturn
- Corporate credit (in C2, domestic lending) rose by just NOK 2 bn in Jan, following a decline in Dec. At the chart above, we have added a 3m smoothing, these data are volatile. Growth has been waning the past 3-4 months, bringing the annual rate to 4.5%, below the long term avg

SpareBank 1 MARKETS

Household debt growth stabilised, well below income growth

Growth has been slowing rapidly, even as banks reported an <u>accelerating</u> in the Q4 lending survey



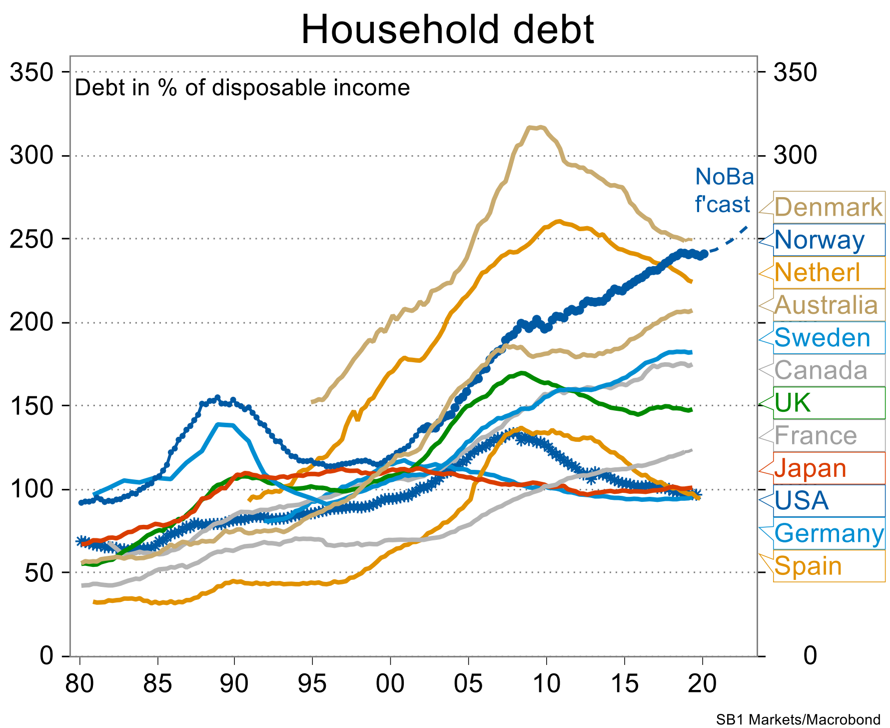


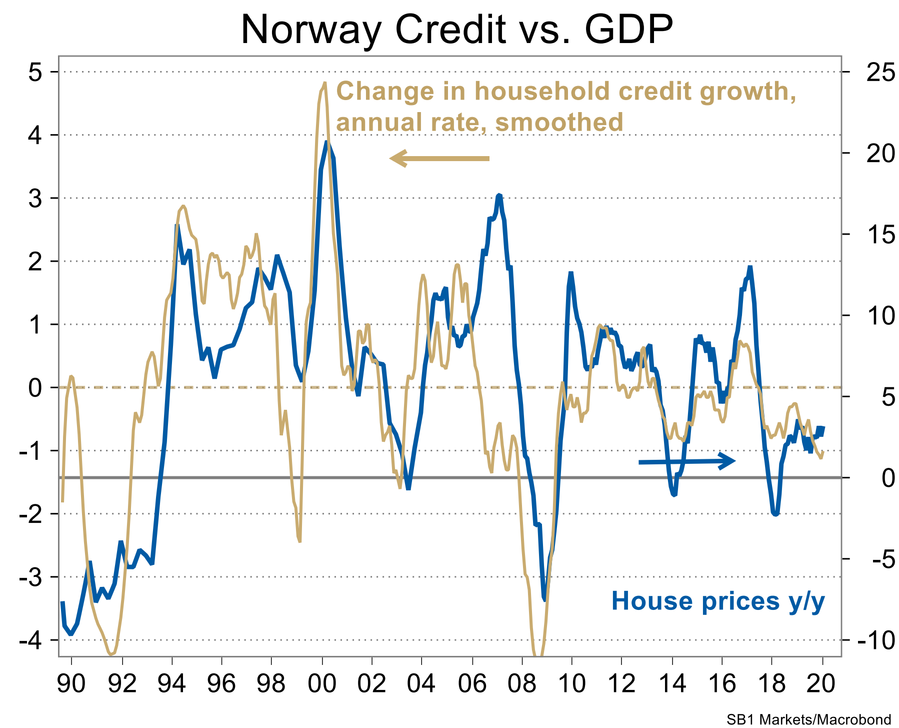
- The long view: household credit growth has slowed from above 7% in 2012-2013 to just below 5% now. The underlying growth rate slipped last autumn, to the lowest rates since 2009. In Nov-Jan, growth has stabilized, now running at 4.7%
  - » Household income growth has turned up, to 6.5% in Q3. Thus, the deb/income ratio is now declining slowly– but remain at a very high level
- Surprisingly, banks in NoBa's Q4 lending survey reported no signs of a slowdown in household demand for credit; in fact, they noted higher demand (for mortgages) and <u>expected another lift in Q1</u>

SpareBank 1 MARKETS

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

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

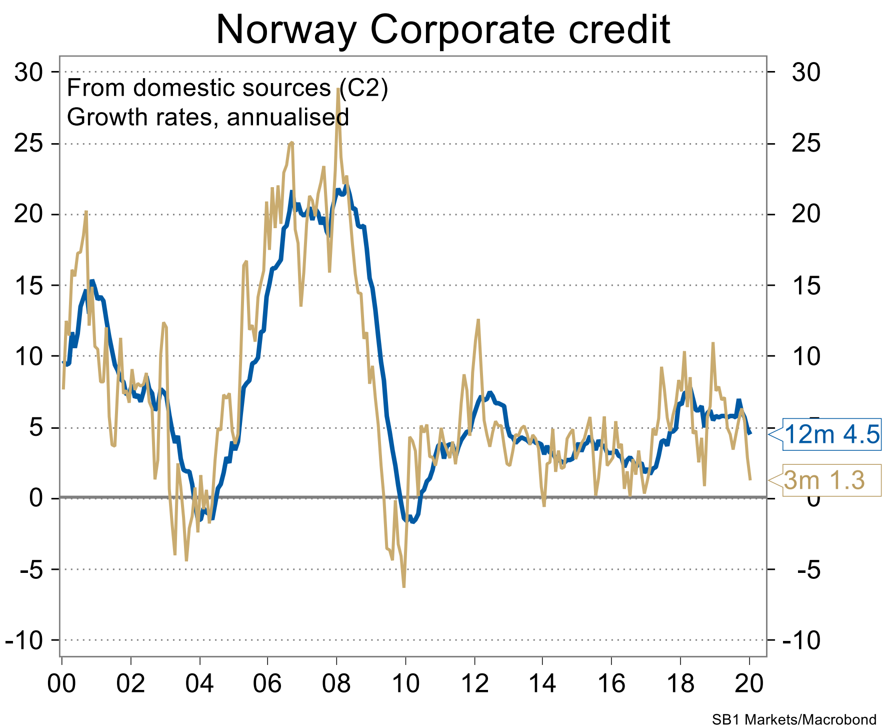


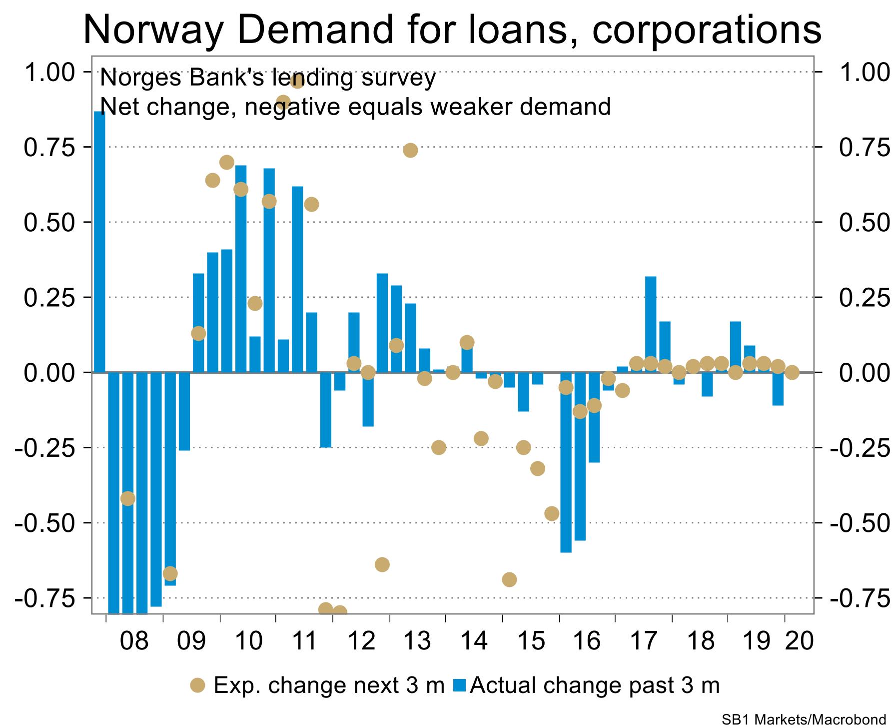


- Household debt is now growing slower than household disposable income, for the first time in 30 years (barring some small turbulence in 2008/09)
- Norges Bank expects a 5.2% household credit growth rate in 2020 (avg). As the Bank expects slower income growth, thus the debt ration will start increasing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

Corporate credit growth is turning down

Underlying growth slipped to 1.3% in January and the annual rate down to 4.5%

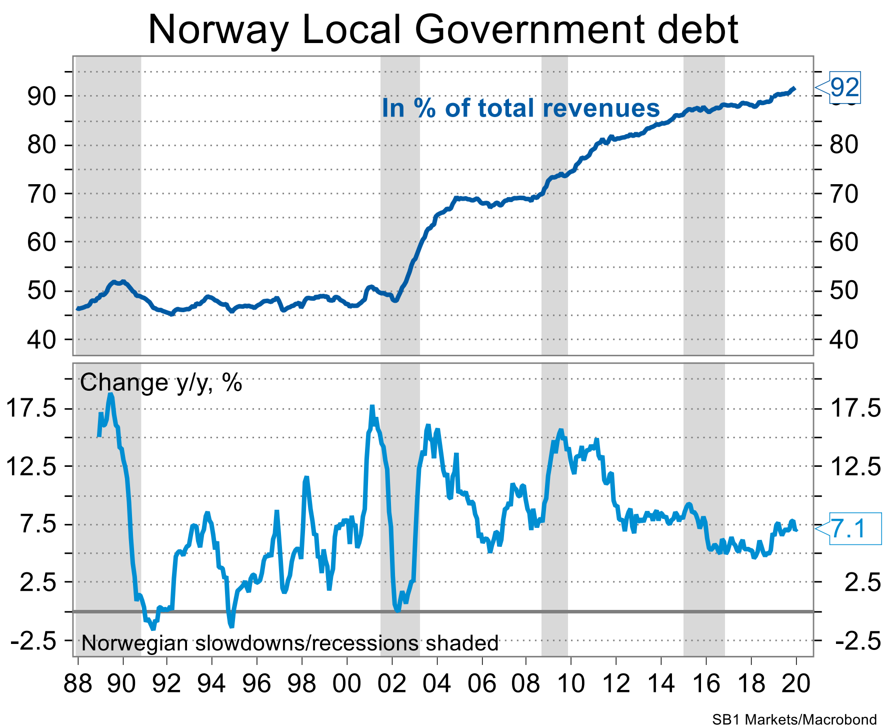


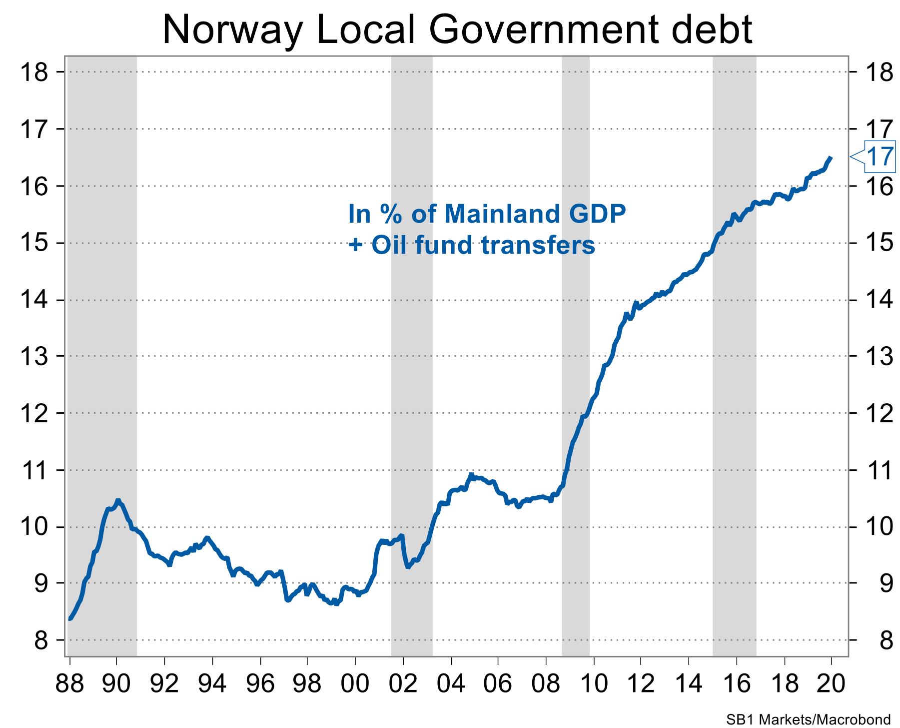


- Corporate credit growth kept steady through most of 2019, slowing rapidly since November. In January, underlying growth fell to 1.3%. The annual rate fell 0.4 pp to 4.5%, the lowest in 2 ½ years
- Credit growth may have been 'too' high in early 2019 and is now retreating. Still, given a modest to weak business investment outlook, the slowdown in credit demand is not surprising
  - » Corporate credit growth is more volatile than household credit
- In Q4, banks reported a marginal slowdown in corporate credit demand but expected a stabilization in Q1

Local government debt has been accelerating

Local government debt is increasing by 7.1% y/y and equals 92% of their income

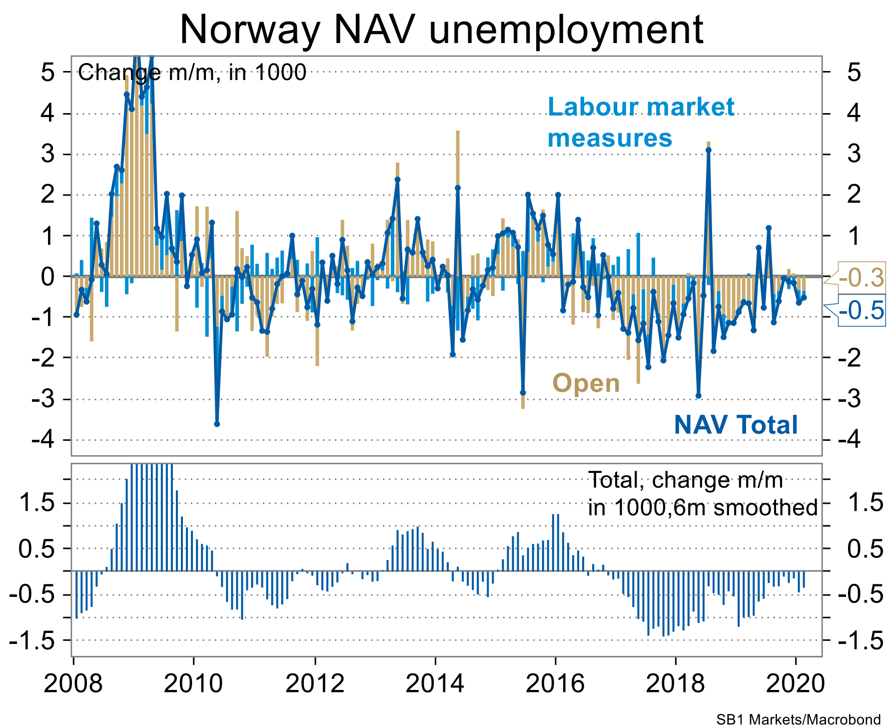


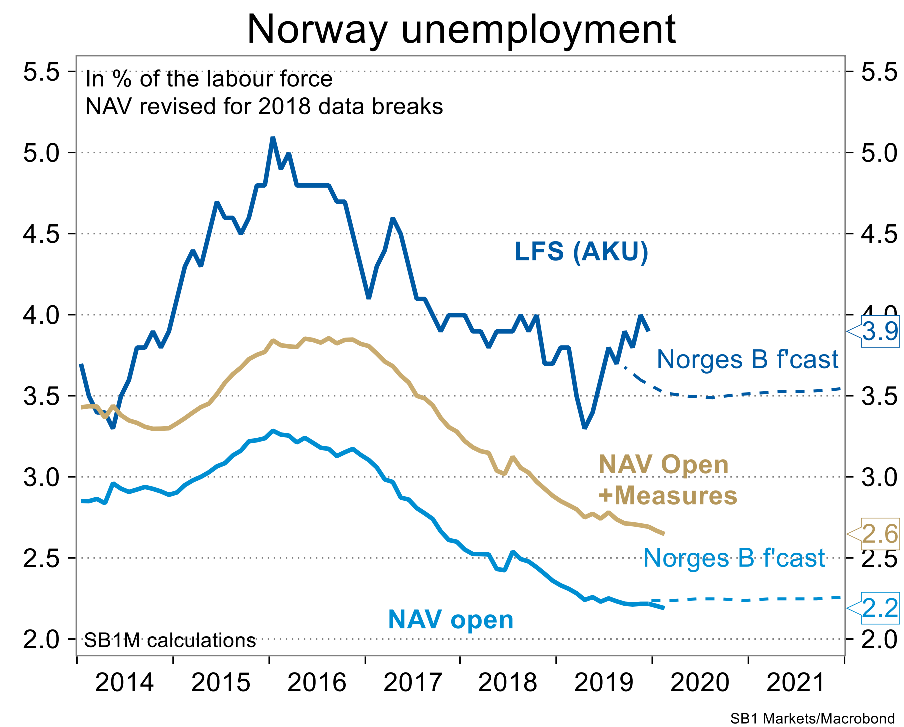


- The debt acceleration is partly due to strong growth in local government investments. Investments are up 7.5% y/y (4 q smoothed). Low interest rates have no doubt boosted credit growth, too

NAV unemployment still declining marginally, does not confirm the LFS increase

Open unempl. declined by 300 persons in Feb(total by 500), better than we expected

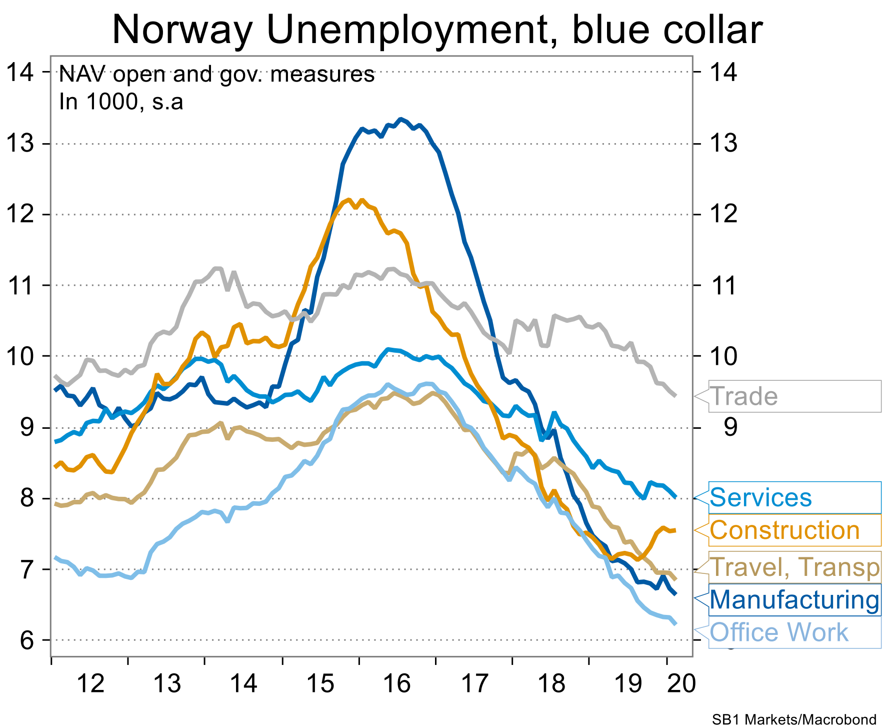


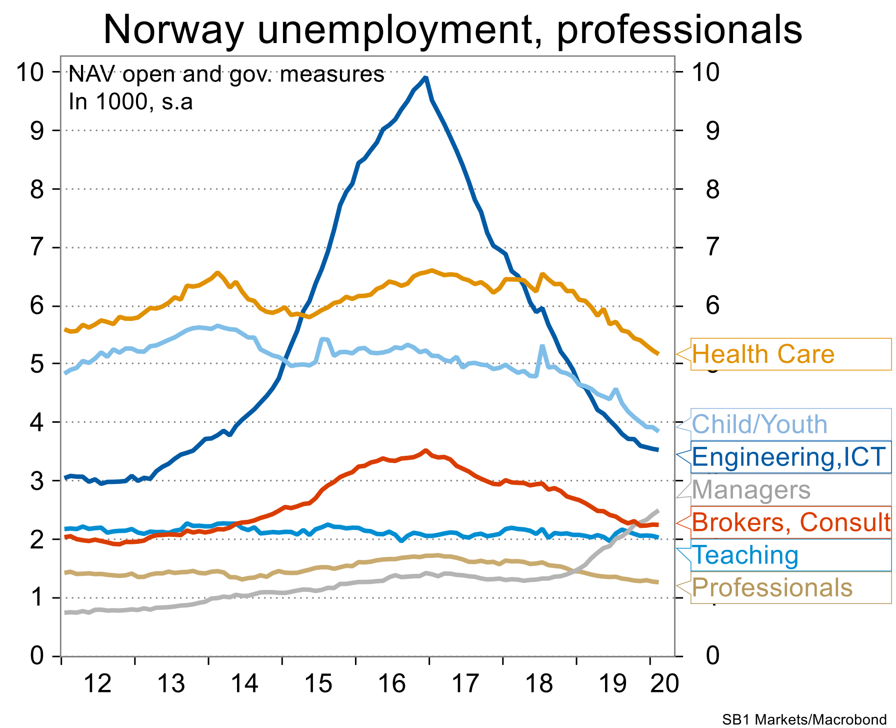


- NAV open unemployment fell by 300 persons in February and total unempl. (incl measures) declined by 500 persons, better than we expected (-600). The pace of decline has slowed substantially but growth has not turned negative. The 6m average decline rate was 350 persons m/m in February, better than 2-3 months ago (but substantially lower than in 2017-late 2019)
- The open unempl. rate unchanged at 2.2% (down 0.02 pp), 0.05 pp below Norges Bank's f'cast from December (but LFS unempl. is well above). The bank expects a steady unemployment rate through 2020
  - » Other indicators confirm a slowly softening labour market – but no sudden setback
- LFS unemployment inched down to 3.9% in Dec. LFS unemployment is trending up since last spring, chiefly due to a rising labour force. These data are much more volatile than NAV's, our take is that a stabilization of unemployment is more likely

Unemployment is climbing in construction, most other sectors are heading down

Most sectors are still declining, barring construction and services (flat). Even retail is declining



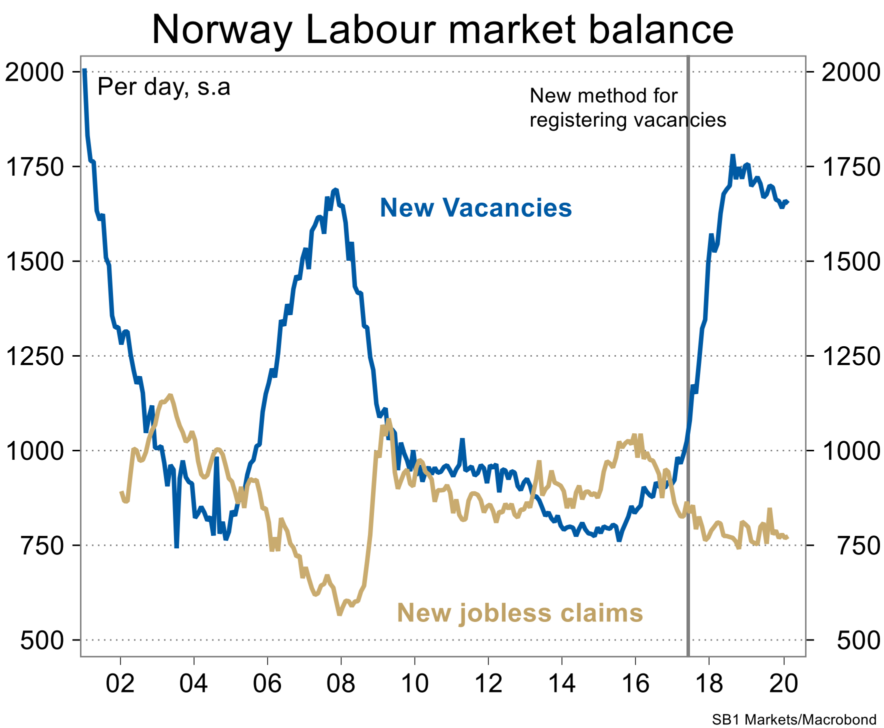


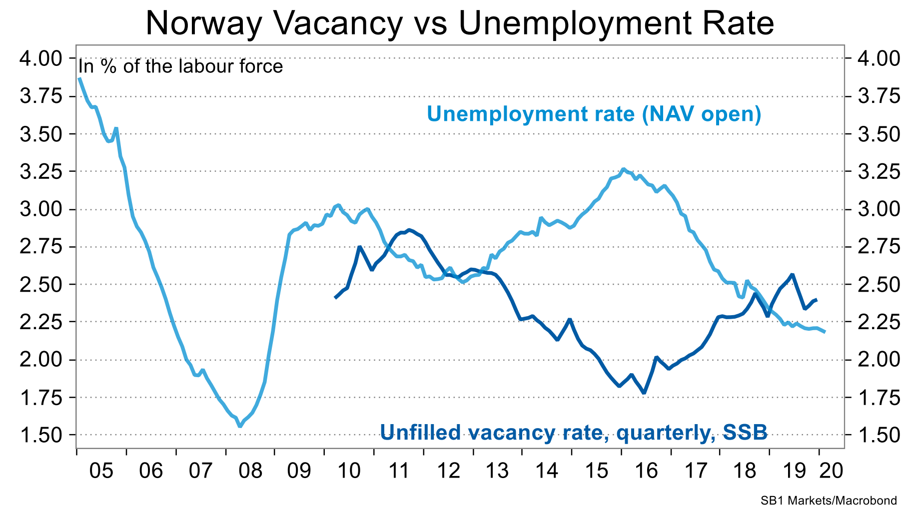
- Unemployment in the construction sector has turned up since late summer, flat the past 2 months. The upturn confirms the slowdown which the Regional Network has been reporting in this sector. Declining housing sales and starts are taking its toll on activity, as well as fewer infrastructure projects
- Unemployment rates in the engineering & ICT sectors, office works, travel & transport and health are still heading down, although the speed has slowed in some sectors. Even retail trade is heading straight down, which is very surprising, given sluggish retail sales
- In manufacturing, unemployment is still falling but the outlook is not upbeat, given reports on a stagnation in this sector. The upturn among managers is chiefly due to a change of registration definitions in December 2018

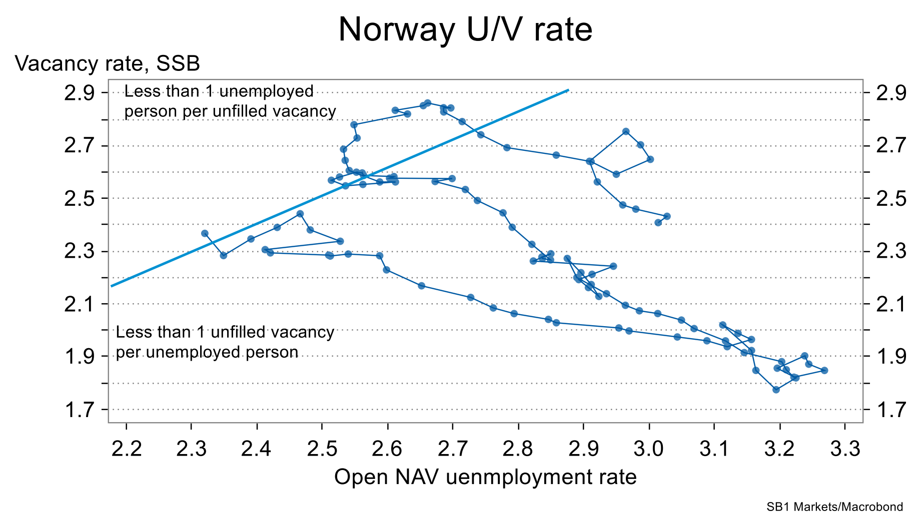
Occupancy unemployment series are not fully adjusted for 2018 changes in NAV unemployment data collection methods

New jobless claims remain flat, fewer (but not few) new vacancies

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



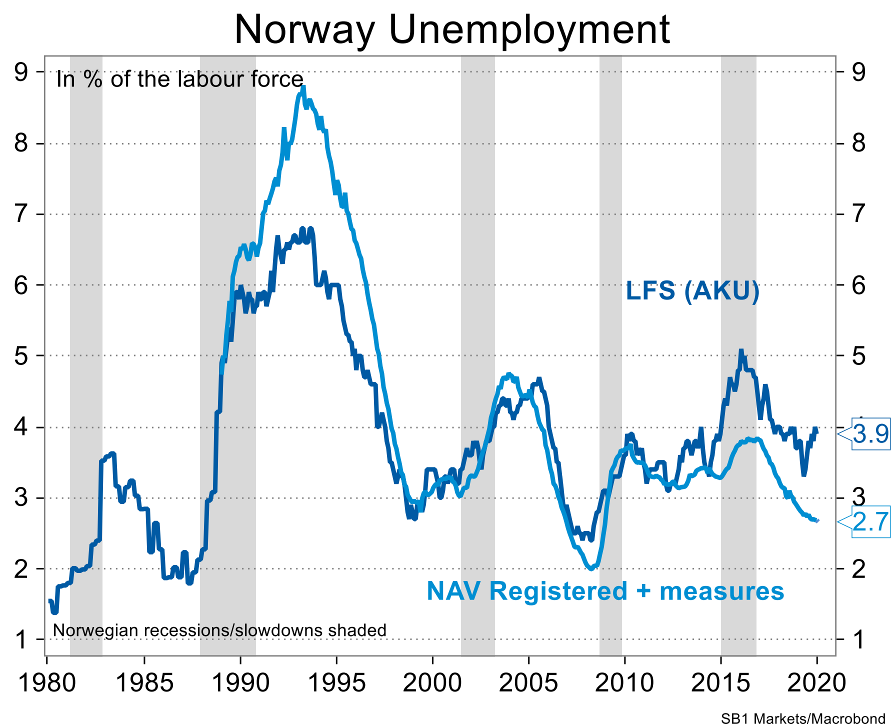


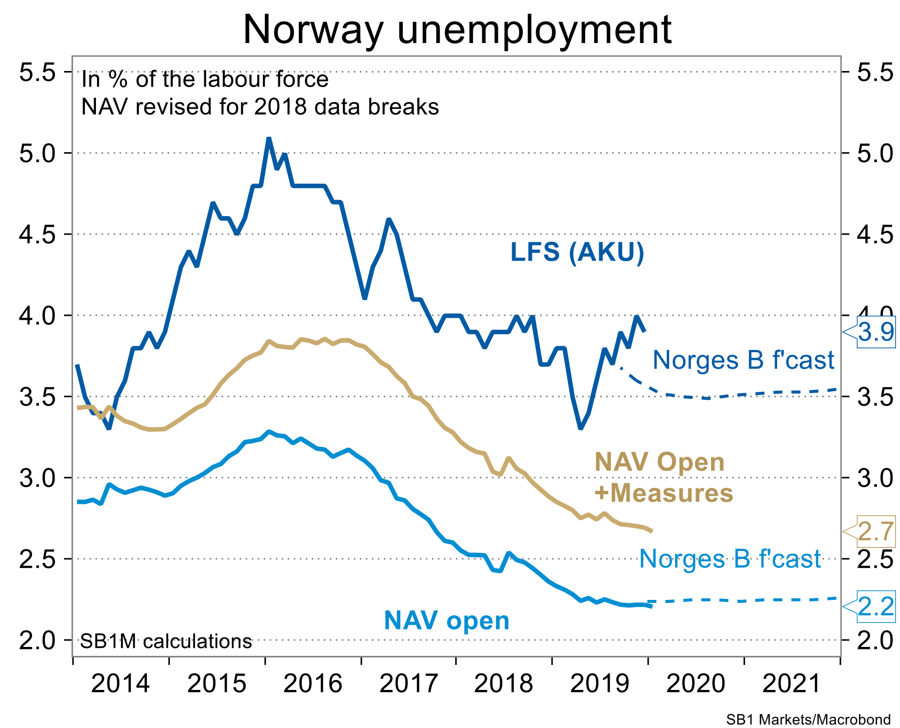


- New jobless claims inched up to 775/day in February. New claims are not trending down anymore, indicating that the labour market is not tightening. However, there are no signs of any rapid turnaround, either
- NAV is reporting a decline in the number of new vacancies, as it has since the peak in Aug '18. Due to new collection methods, the level is not comparable to old data – but the direction is anyway accurate
- SSB reported an uptick in the number of unfilled vacancies in Q4, flat since 2018, but still higher than the number of unemployed

LFS unemployment inched down to 3.9%, trend up, employment is slowing

Unemployment has turned up, according to LFS, partly due to somewhat higher participation





- LFS (AKU) unemployment fell marginally to 3.9% in Dec, (avg Nov-Jan), as we expected, consensus unchanged at 4.0%. Unemployment is unchanged from the last 3 month period (Sept) and has increased from 3.3% last spring spring
  - LFS unempl. is 0.3 pp above Norges Bank's f'cast from Dec, but registered unemployment is marginally below the bank's f'cast
- Labour market participation inched down in Dec, employment unchanged. The past year, participation has been climbing, and faster than employment, bringing unemployment up. Employment growth has slowed to 1.1%, from 1.8% one year ago. Employment is anyway growing faster than working age population, and the employment rate is trending up
- NAV unemployment has flattened out, confirming a cooling labour market. LFS data are often leading but are more volatile, we prefer NAV

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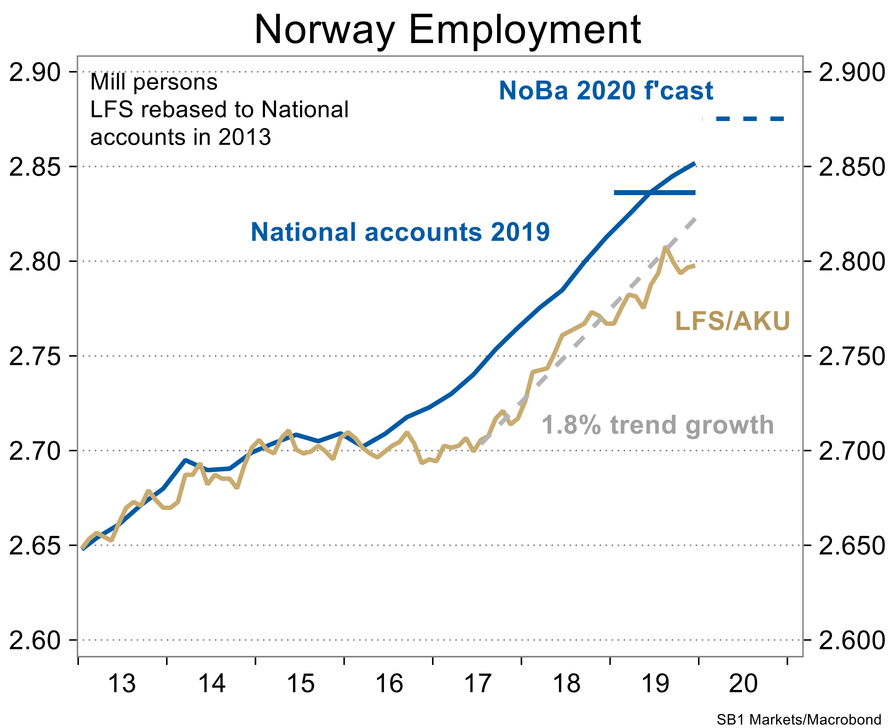
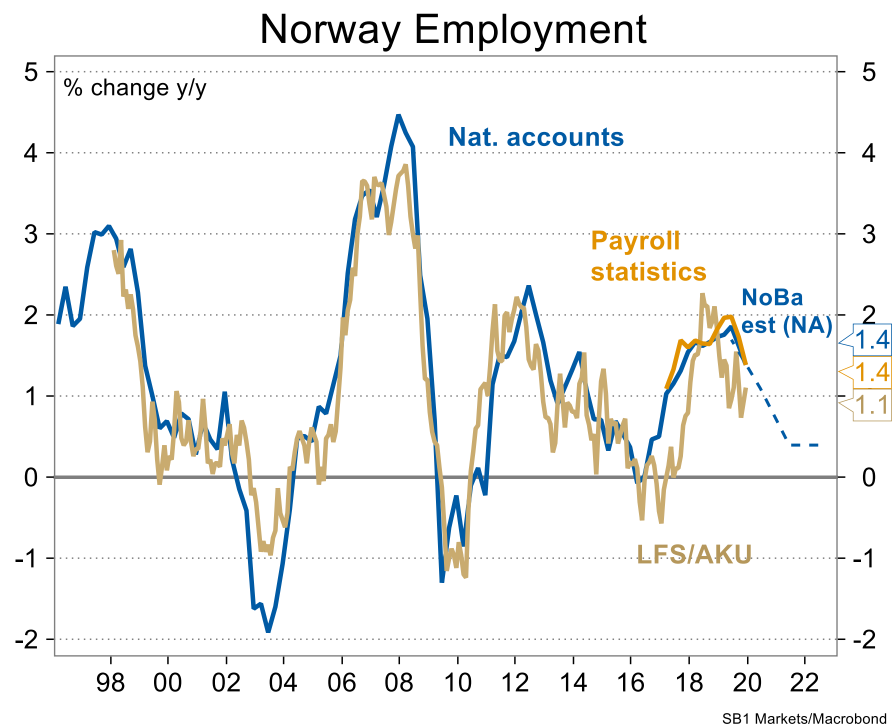
Employment down since late summer, growth is slowing

LFS empl. is up 1.1% y/y, 0.3 pp below the Q4 National Accounts and NoBa's f'cast

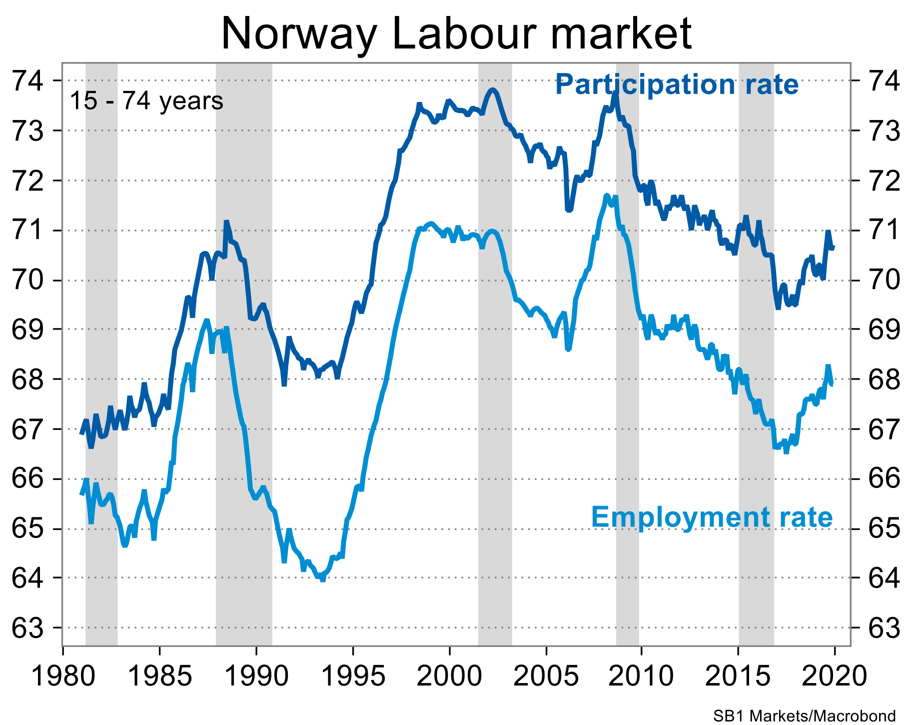


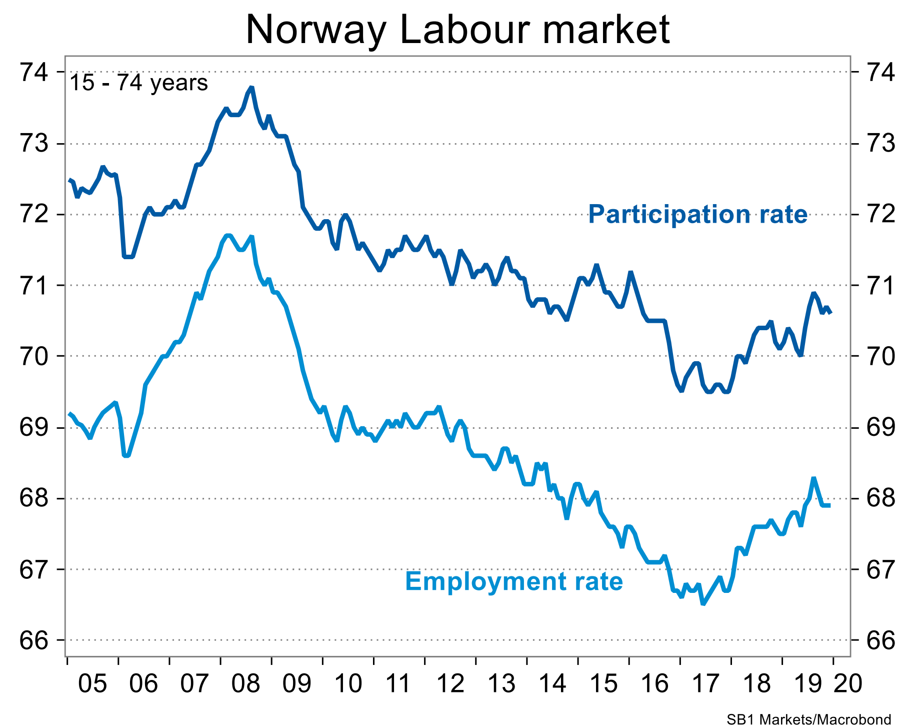


- Employment measured by the LFS accelerated through 2017 and H1 2018, to above 2%. Through 2019, employment growth slowed modestly, the annual rate to 1.1% in Dec, from 1.5% at the beginning of the year
  - » National accounts' employment figures (and the new quarterly registry statistics) are more accurate than the LFS survey's volatile data. Nat. Acc. confirms a slowdown, but less rapidly than SSB reports, up 1.4% y/y in Q4 . Q4 payroll statistics confirms 1.4% growth
  - » The working age population rose 0.6% y/y in Q4. Thus, a 1.4% (or 1.1%) employment growth is above trend, lifting the employment rate
- We expect a substantial slowdown in employment growth the coming quarters, both due to supply side and demand side factors

Labour market participation & employment down, trends still up

The uptick in participation since 2017 may reflect that there is still some excess capacity

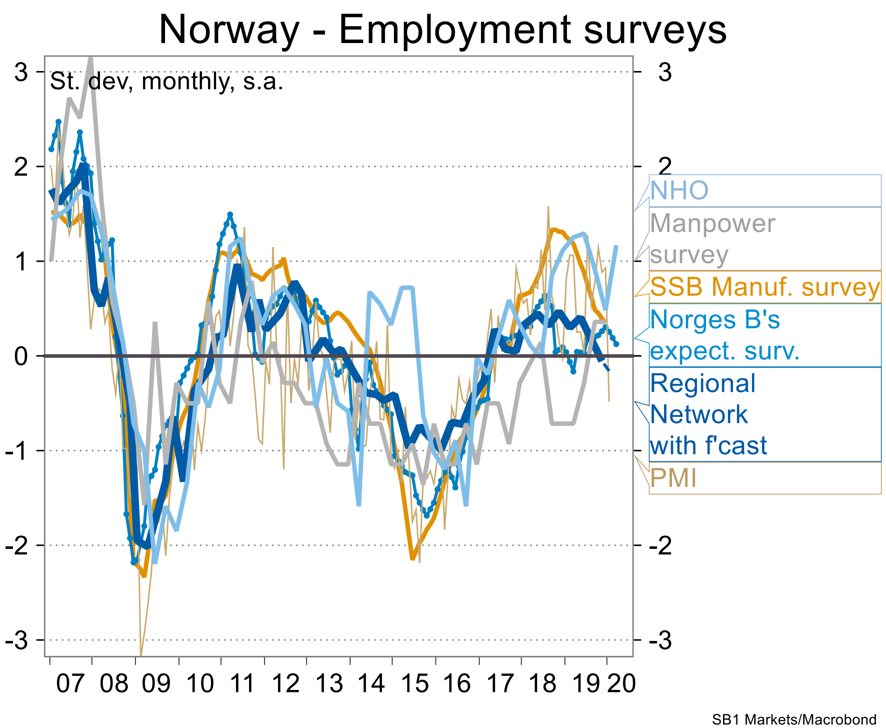


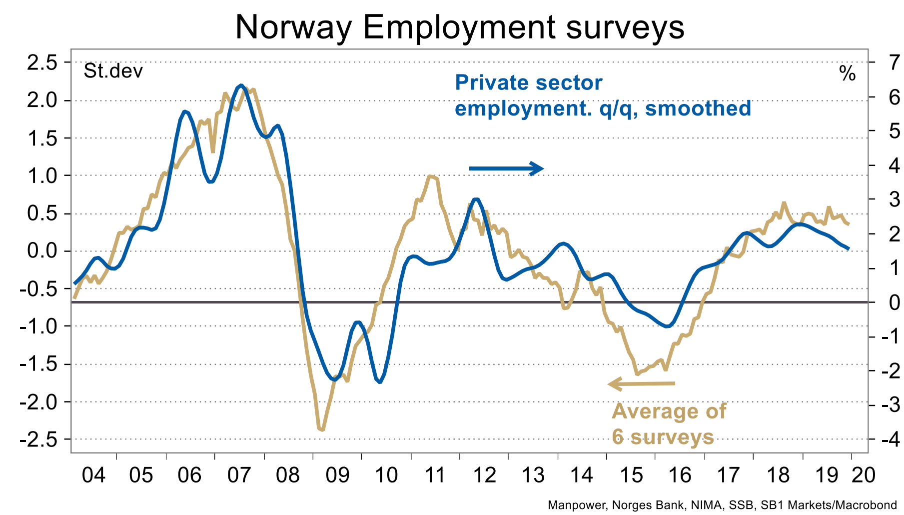


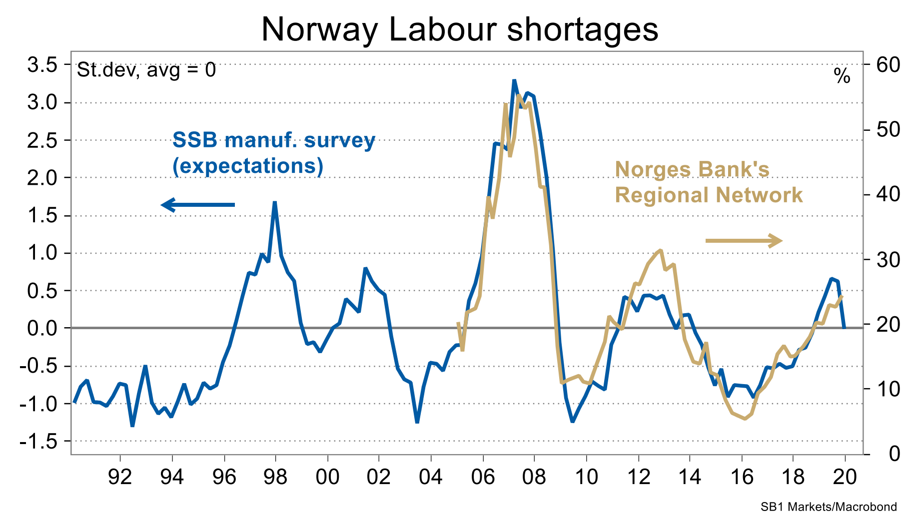
- The long term downturn in the participation and employment rates bottomed in 2017 and have turned up since then. Through most of 2019, the participation rate climbed speedily, up 0.9 pp in May-Aug, suggesting labour supply was responding to strong demand. The past few months, participation has retreated
  - » Demand for labour has been strong for a while, we are unsure why supply would suddenly respond now
- The employment rate is trending up too, but has turned down along with participation since August. As long as employment is rising at a moderate pace, we are not worried about any rapid labour market weakness

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

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







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

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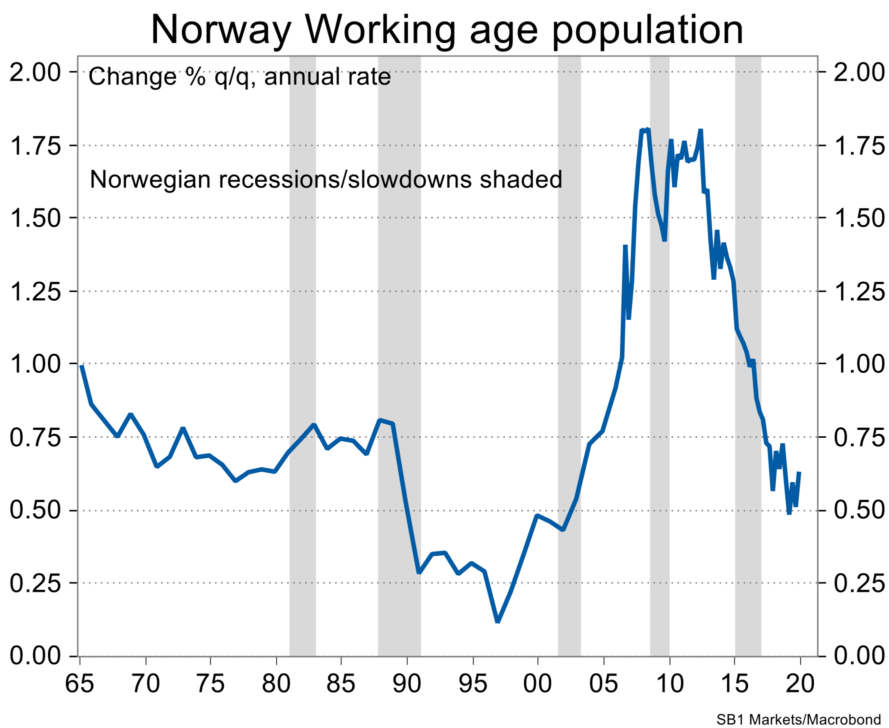
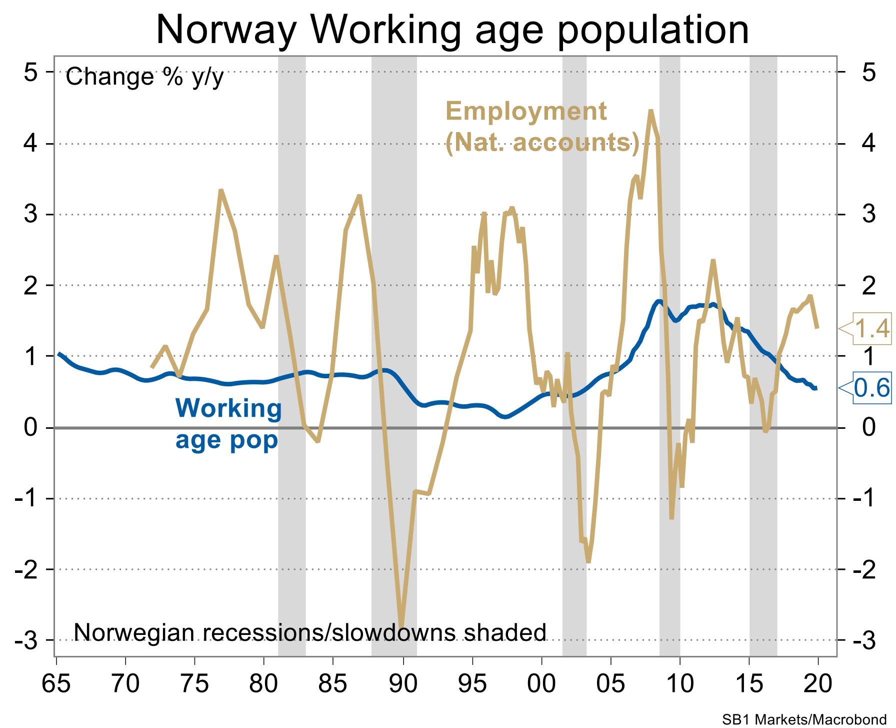
Working age population growth ticked up in Q4, still close to 2 decades' low

Over time, impossible to keep employment growth up at today's level

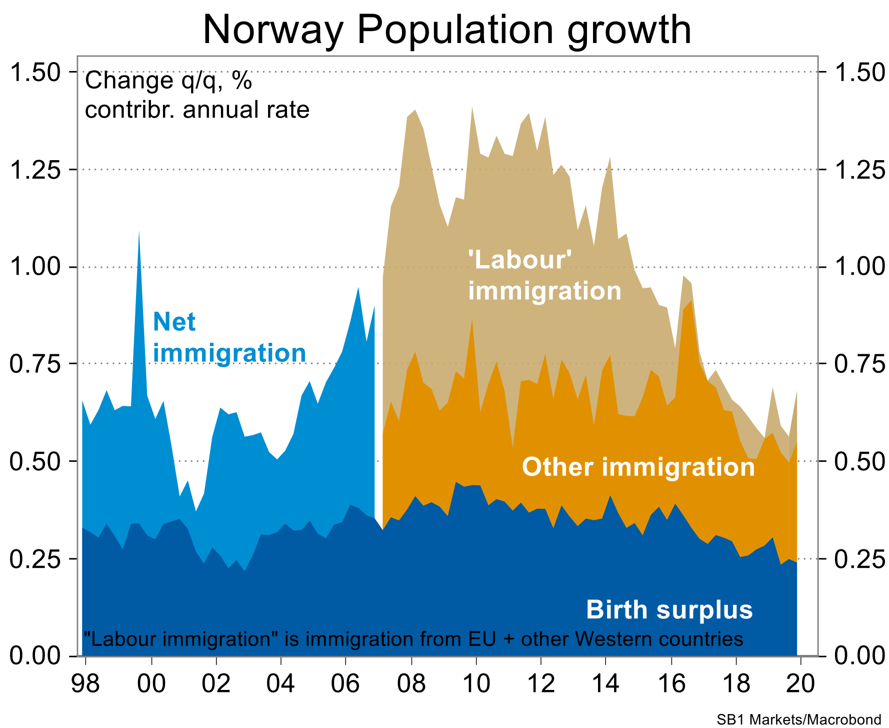


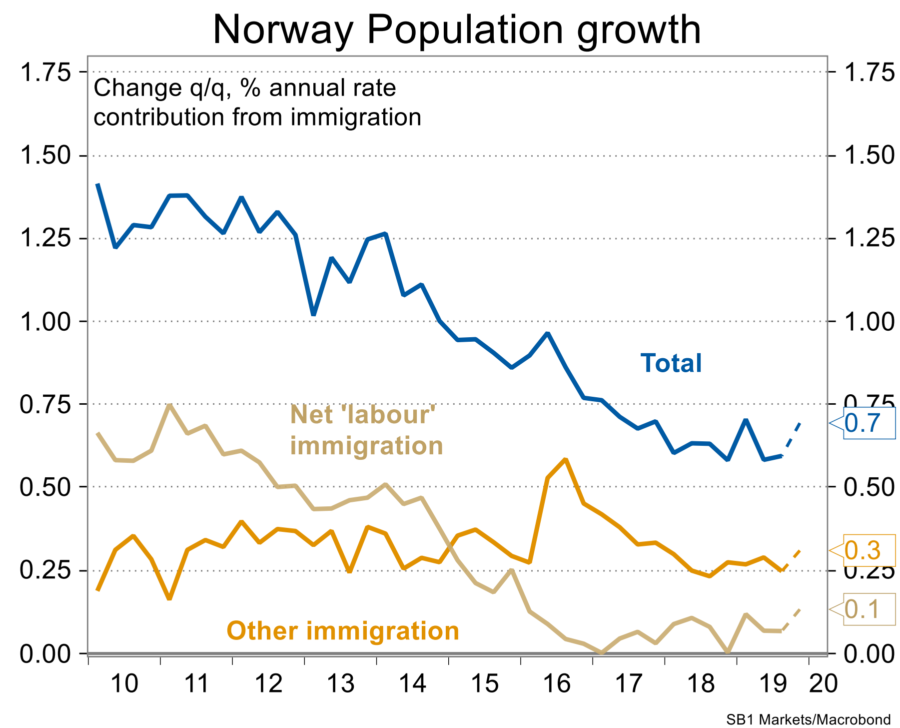


- Working age population rose 0.6% q/q annualized in Q4, and an equal pace y/y

Population growth may have bottomed out, net immigration marginally up

Growth in western ('labour') net immigration up to 0.3% in Q4, according to our adjusted figures





- Total population rose by 34' persons y/y in Q4, a modest uptick from Q3. Growth has stabilized since Q4 2018, at the lowest pace since 2005. Population is up 0.7% q/q annualised, up 0.1 pp from Q3. Growth has been sliding steadily down since 2012, from a 1.3% annualised speed (60' persons)
  - We have adjusted the figures for a change in methods of registration of emigration, barring these adjustment, population growth jumped to 1.1% q/q ann. Growth in net labour immigration (EU + other 'western') has probably bottomed out, after slowing rapidly in 2011-2016
  - Non-western immigration turned up marginally in Q4, flattening out since mid-2018
  - The net birth surplus has been steady the past year, at the lowest level since 2003, due to fewer births (not more deaths)

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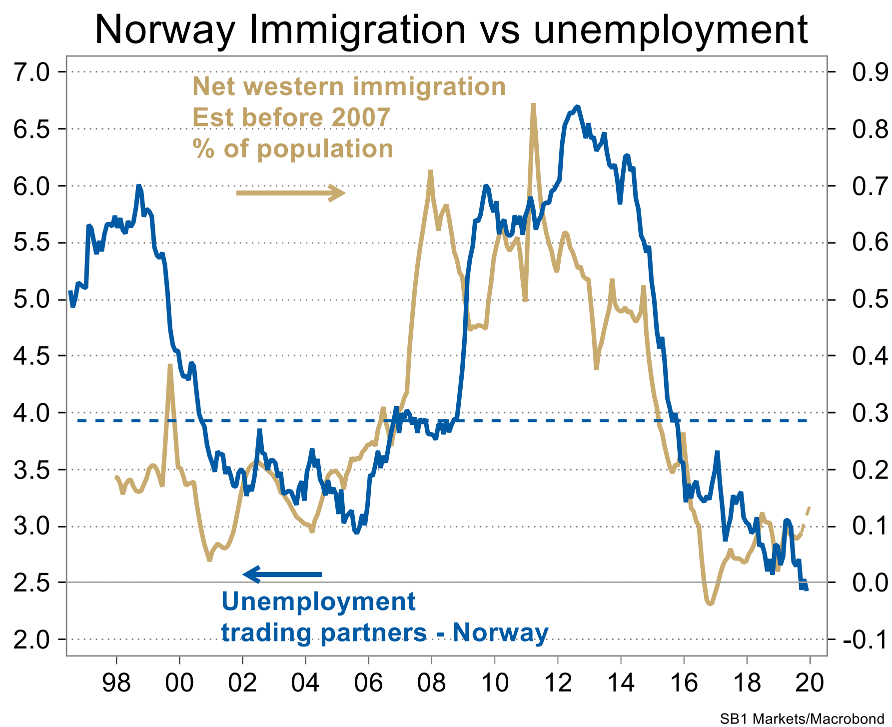
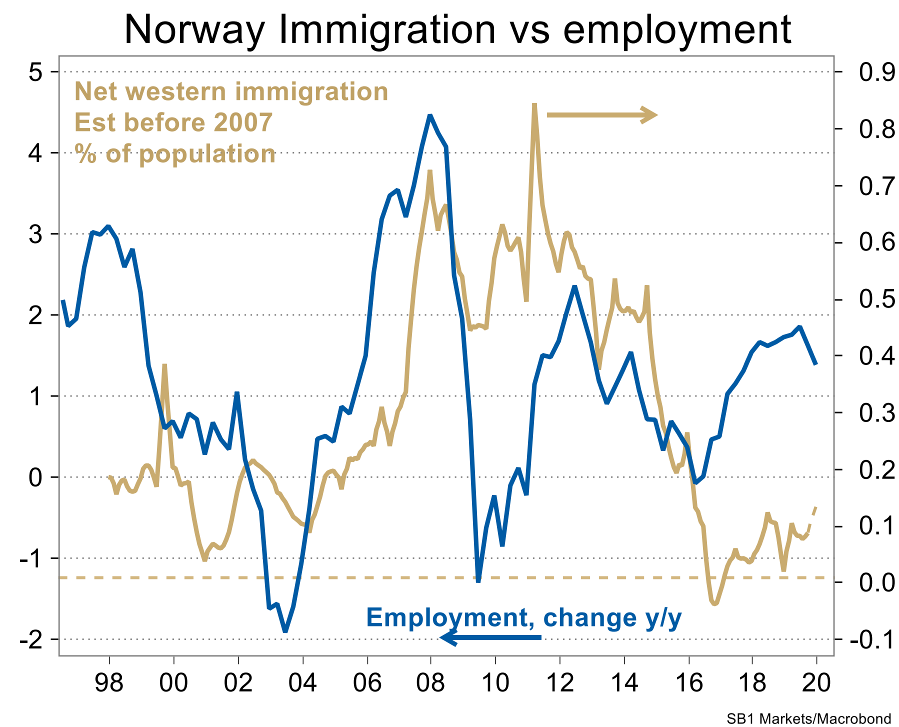
Labour immigration is mostly a cyclical phenomenon

Relative Norwegian unemployment (& employment) one of several elements

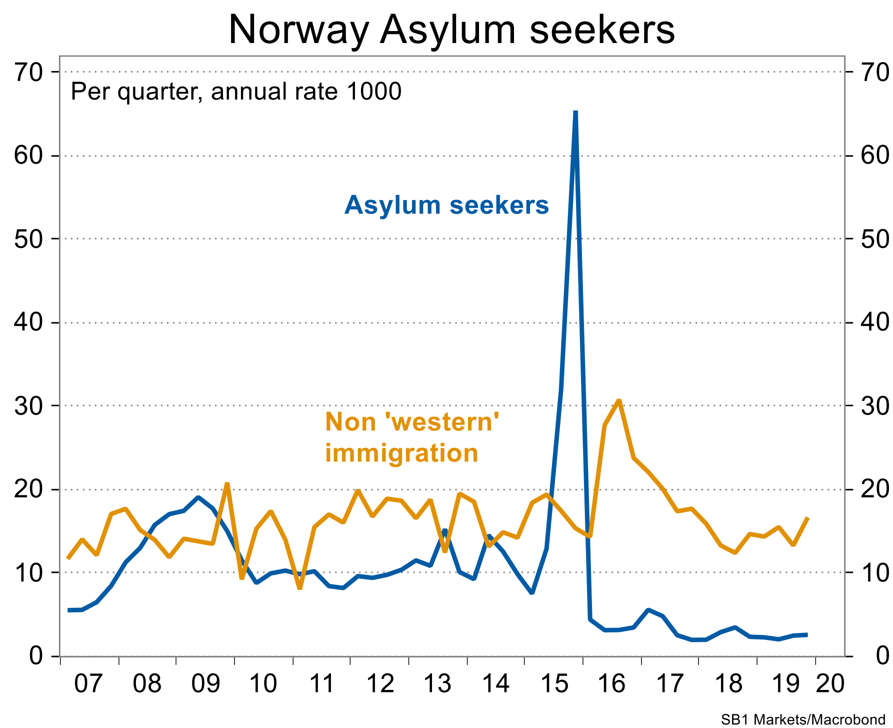


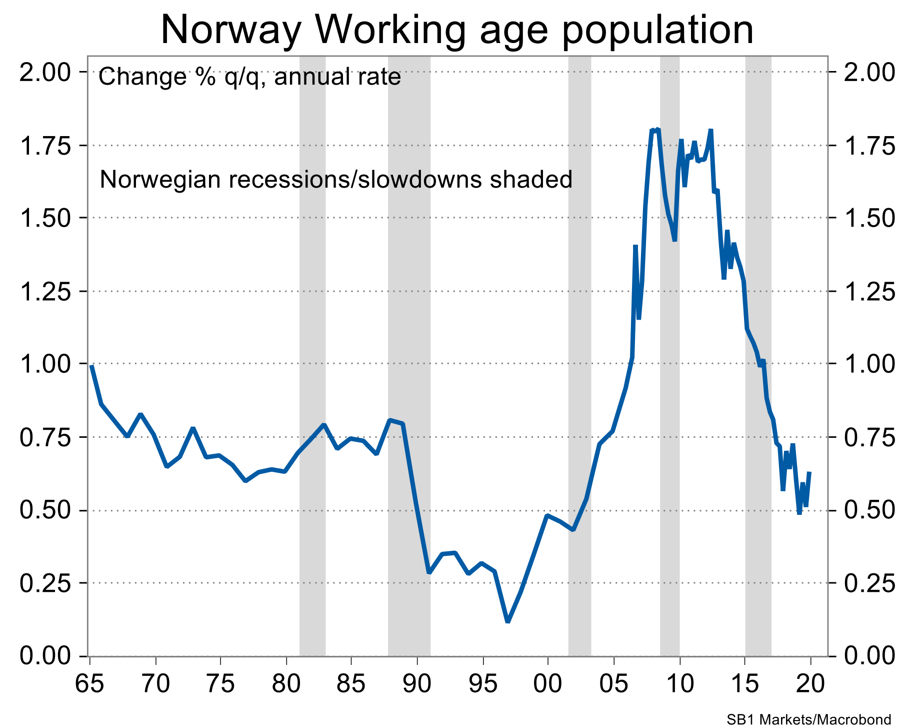


- Growth in labour immigration (in percent of the population) ticked up in Q4 (adjusted for changed methods of registration for emigration), trending modestly up from the 2016 bottom. Labour immigration fell sharply in 2011-2016
- Unemployment in Norway has been higher than 'normal' vs unemployment among our trading partners the past years. This partly explains the slowdown in western immigration since 2014. Relative unemployment does not point to any upswing in labour immigration – and the Norwegian labour market is softening now (but so are many trading partners)
- Employment is growing moderately, suggesting higher immigration. Yet, the correlation to employment is not that strong

Non-western immigration back to normal. Working age population grows by 0.6%

Growth in non-western immigration is close to the avg rate, asylum seeks well below

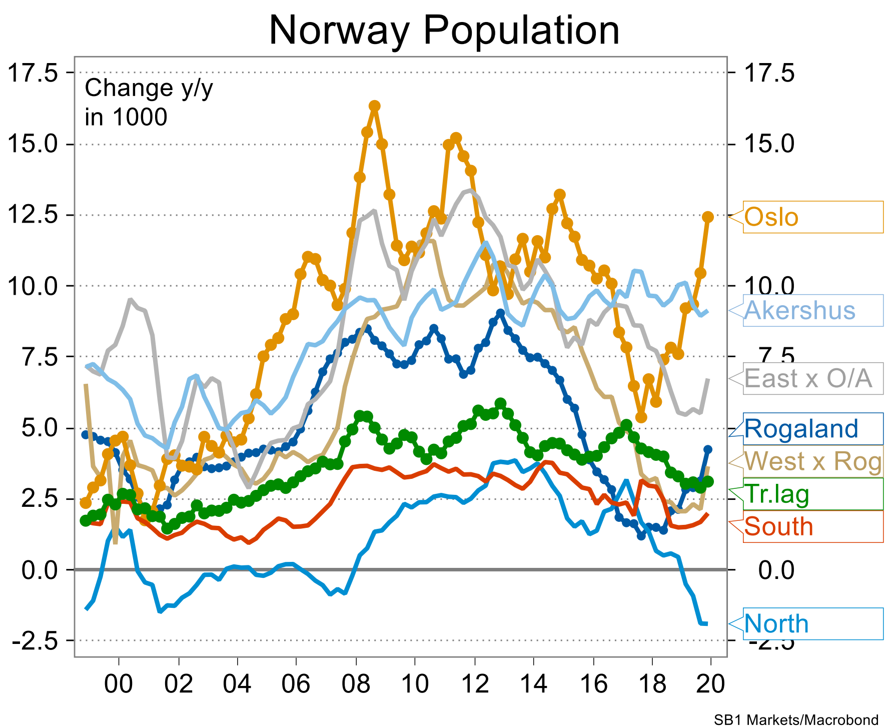


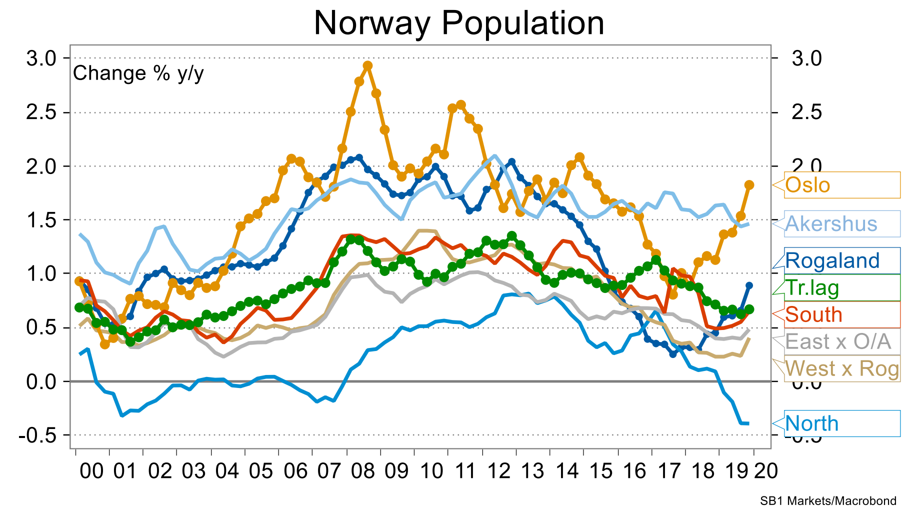


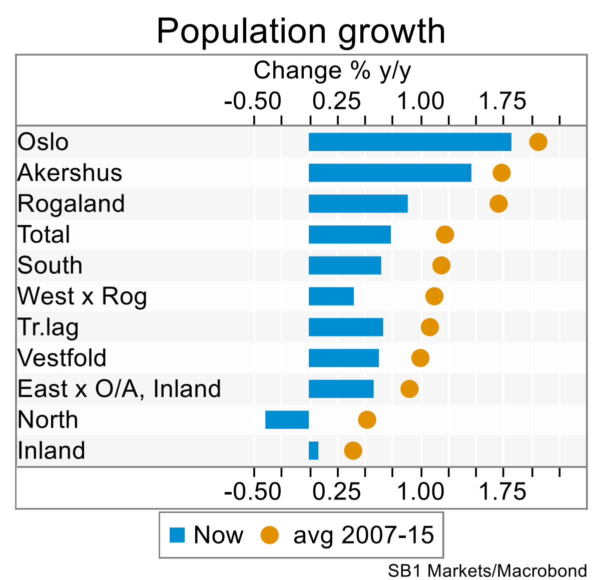
- Growth in non-western immigration is back to 'normal', following the 'Syrian' surge in 2016. The past year, non-western immigration has been expanding steadily, by approx. 15' per quarter
  - » The inflow of asylum seekers have stabilised at a low level, well below ½ of the 'normal' level. Signals a continued 'low' non-western immigration the coming quarters
- Growth in the working age population rose marginally in Q4, to 0.6%, from a downward revised 0.5% in Q3

Population growth soars in Oslo, turned up in Rogaland, Akershus steady

These figures are not adjusted for the change in method, thus, the Q4 upswing is exaggerated



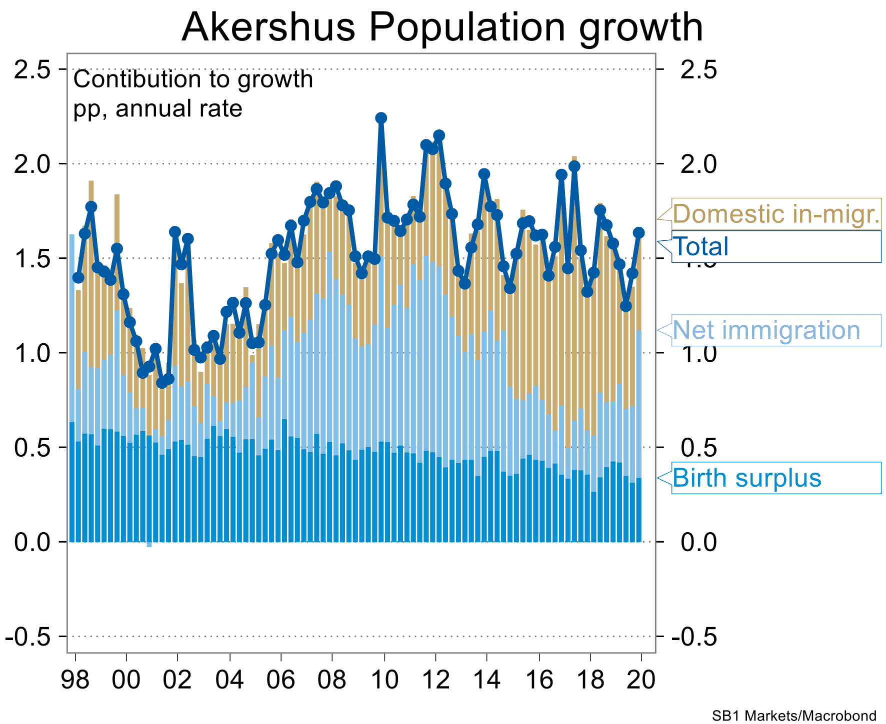


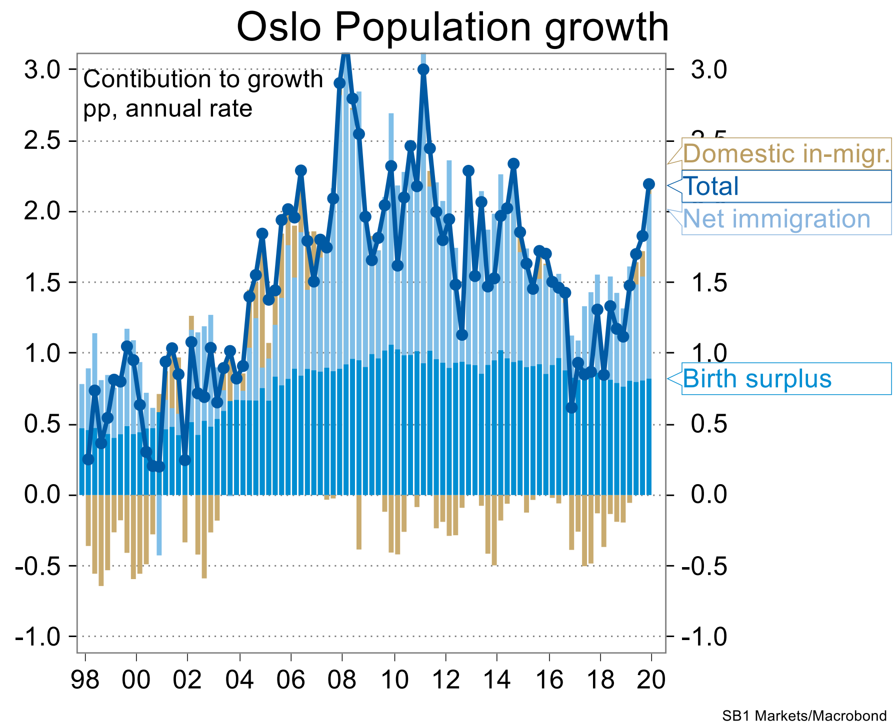


- From 2014-2018, population growth slowed in most regions, barring Akershus. Since then, Oslo has recovered steeply, and Rogaland is slowly gaining pace, but still far below the pre-2014 growth rates
- Population growth has cooled substantially in all other regions, below 2010-15 levels everywhere. But the South, West x Rogaland and East x O/A have stabilized probably stabilized. Due to accelerated domestic out-migration, population is falling rapidly in the 3 northern counties

Oslo population growth straight up, Akershus sliding slowly down

Population growth in Akershus has been kept up by a very high domestic in-migration





… While people have been out-migrating from Oslo to other parts of the country (as usual, but nobody knows it!!). However, the past three quarters, domestic in-migration in Oslo has turned positive, for the first time since 2006 (barring a small plus in 2016)

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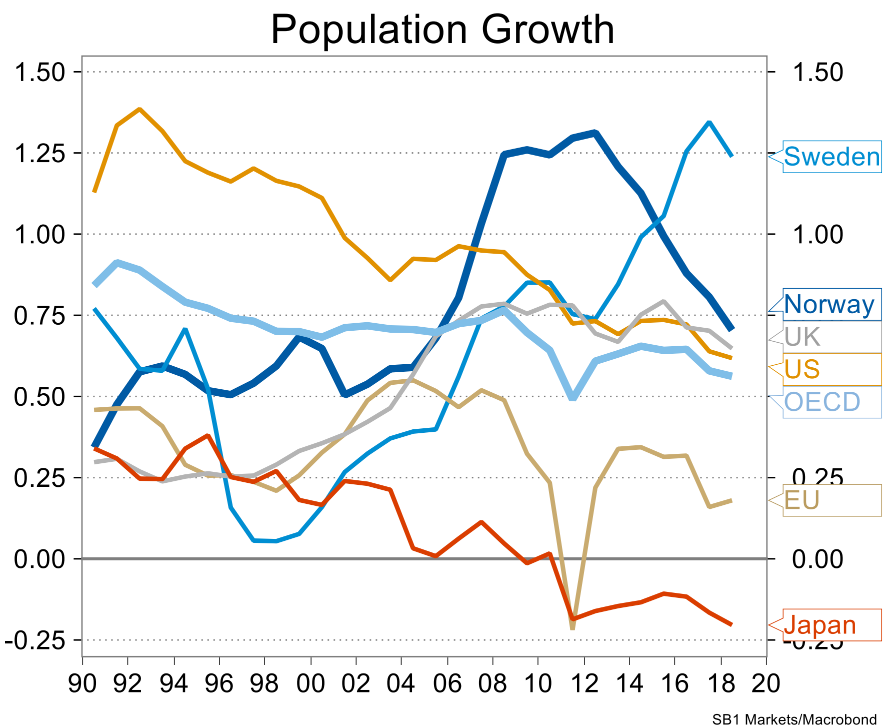
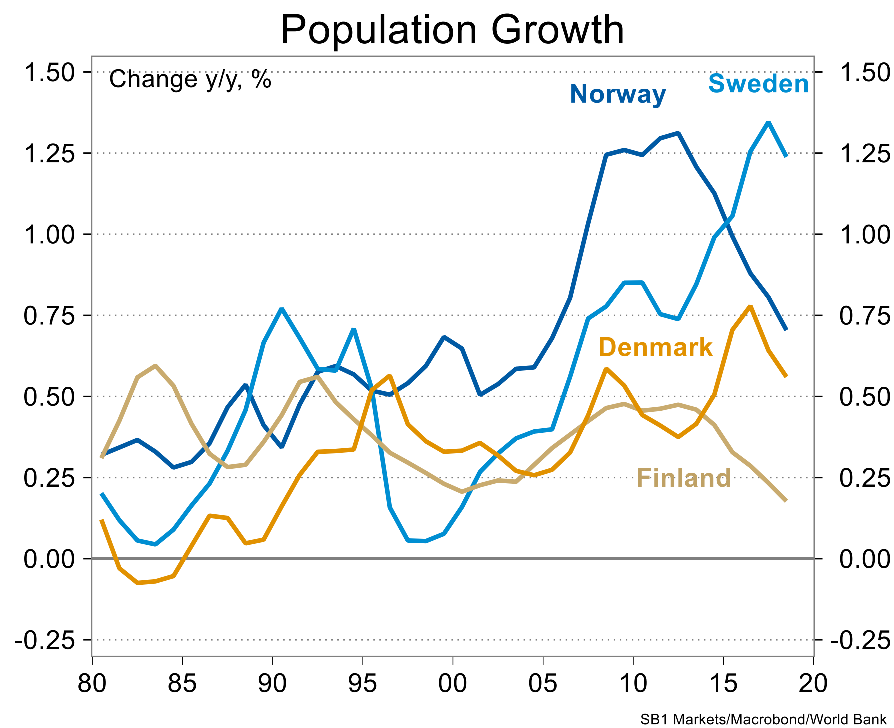
Population growth has slowed more rapidly than in Norway than other DM

.. Particularly compared to Sweden, where immigration is still high





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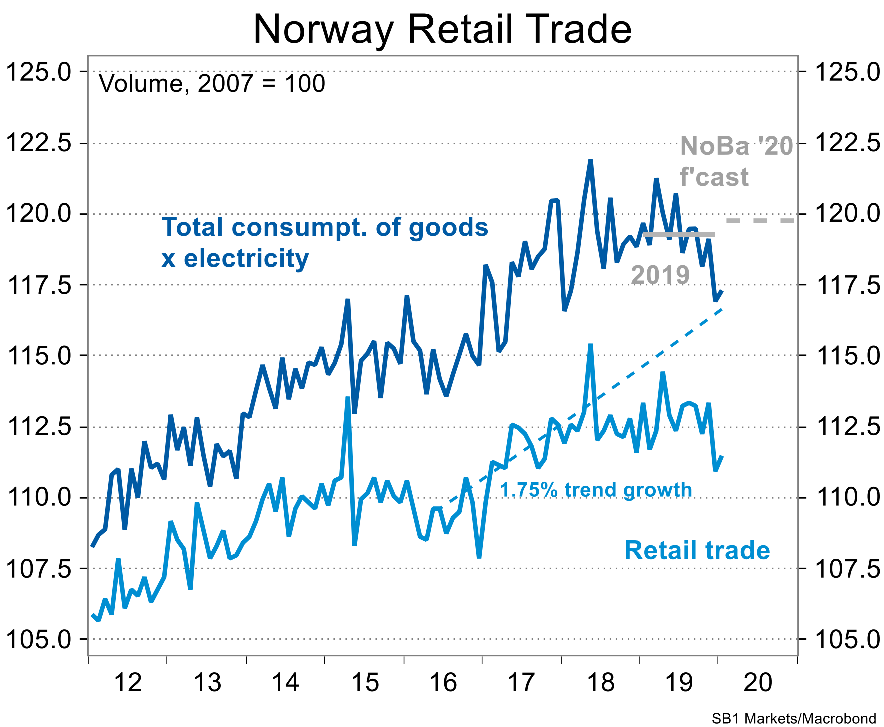
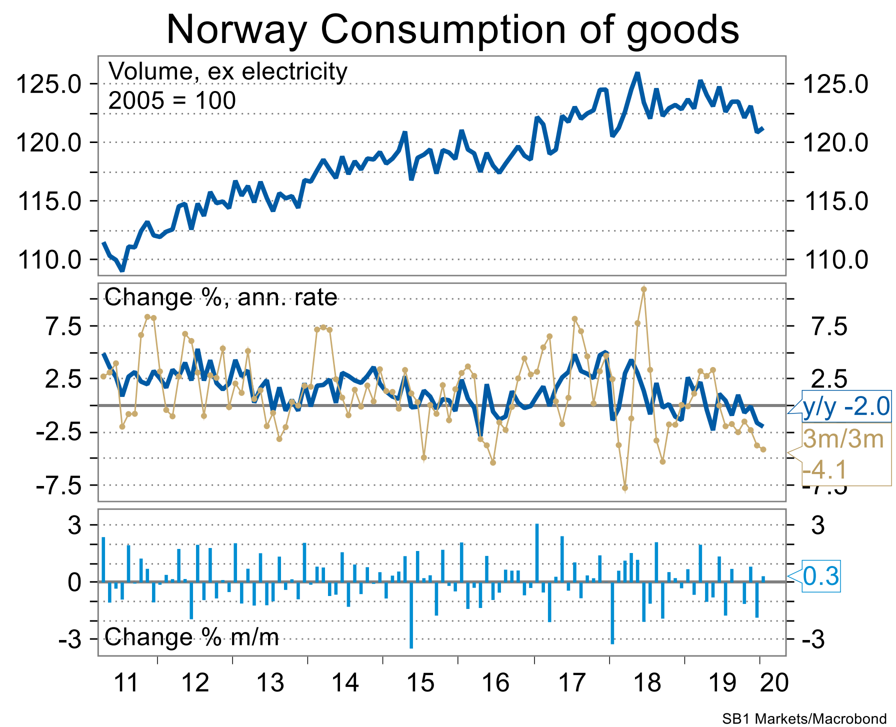
Retail sales failed to recover in January, private consumption sliding down

Retail sales up just 0.5% in Jan following the 2.1% Dec plunge

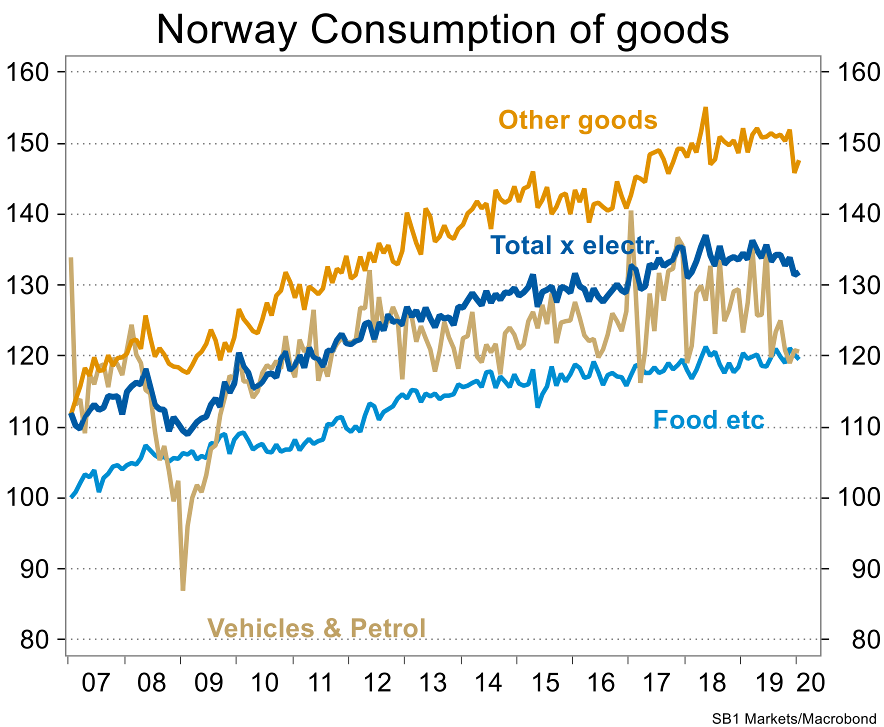


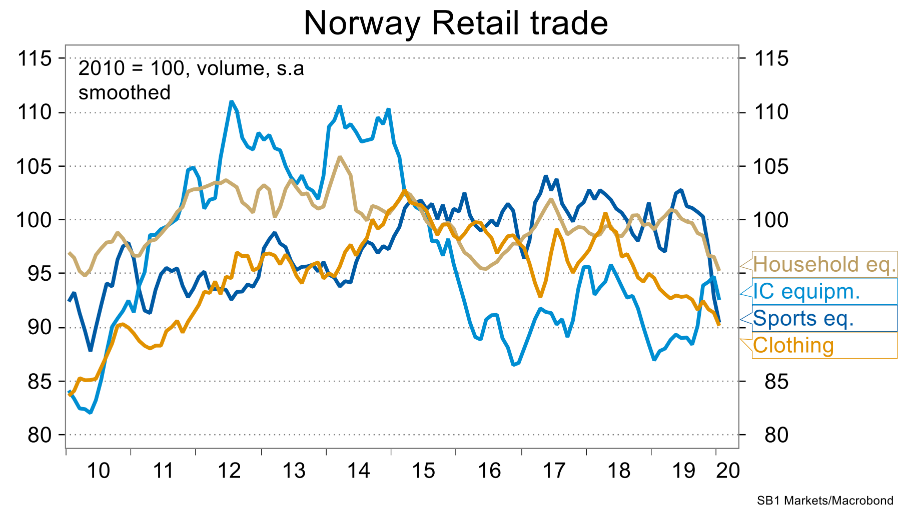


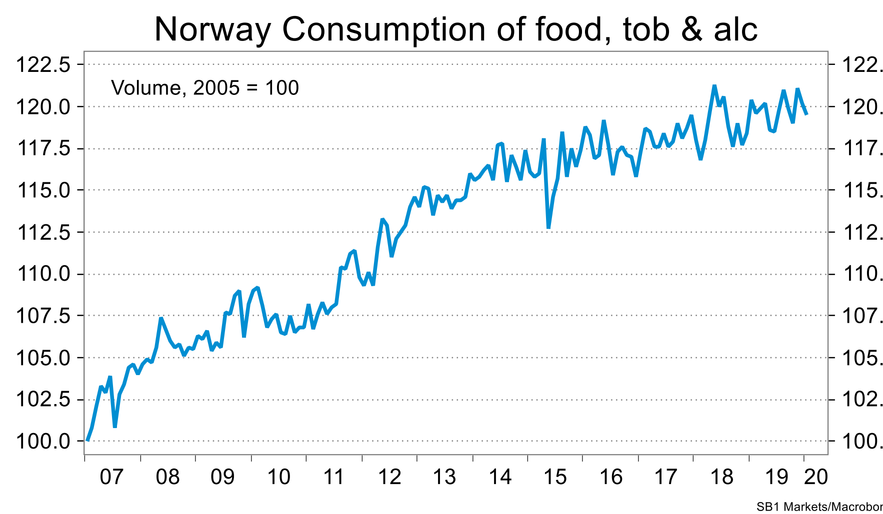
- Retail sales volume (ex auto) rose just 0.5% m/m in January, we f'casted a 1.7% lift (consensus 1.3%), following the 2.1% drop in Dec. Sales were flat through 2019, and the annual rate is -1.7%. The underlying pace is a 3.6% decline (measured 3m/3m annualized)
- Total consumption of goods (ex electricity) increased 0.3%. Consumption has been declining since the summer, partly driven by a steep drop in auto sales. The speed into Q1 is weak, -2.5%, annual rate down 2.0%
- Retail sales and total consumption of goods is declining. Consumer confidence has softened, as is the labour market and household credit growth. Consumers appears to slowly becoming more careful. Norges Bank expects a modest 1.6% growth total consumpton in 2020. The estimate does not seem to be on the pessimistic side…

Consumers spend less on most items – sport equip. are hurt the most, down 10%

Auto sales have fallen steeply. Food sales trending slowly up, flat the past year



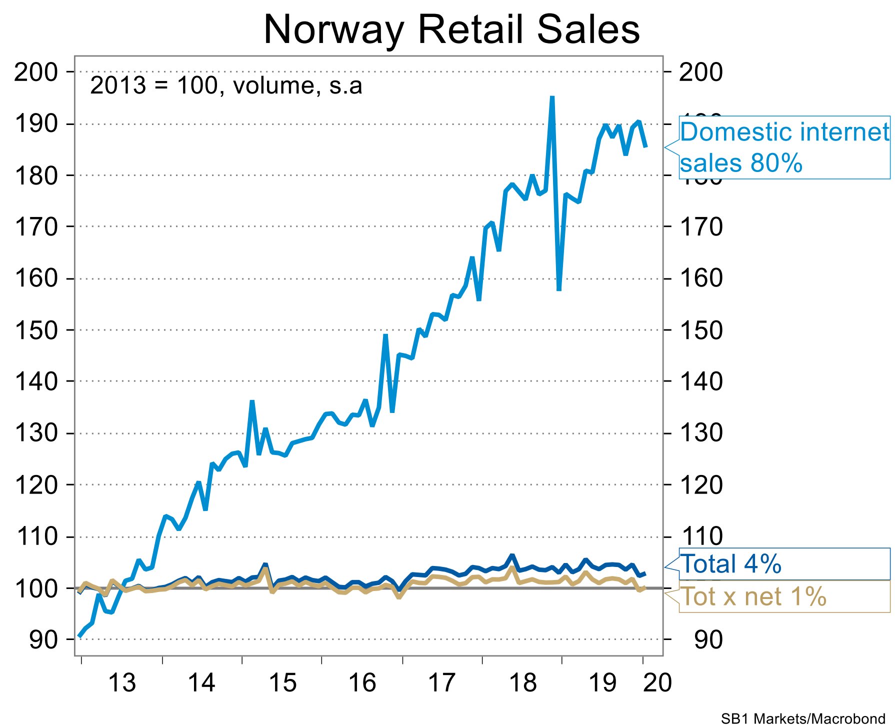


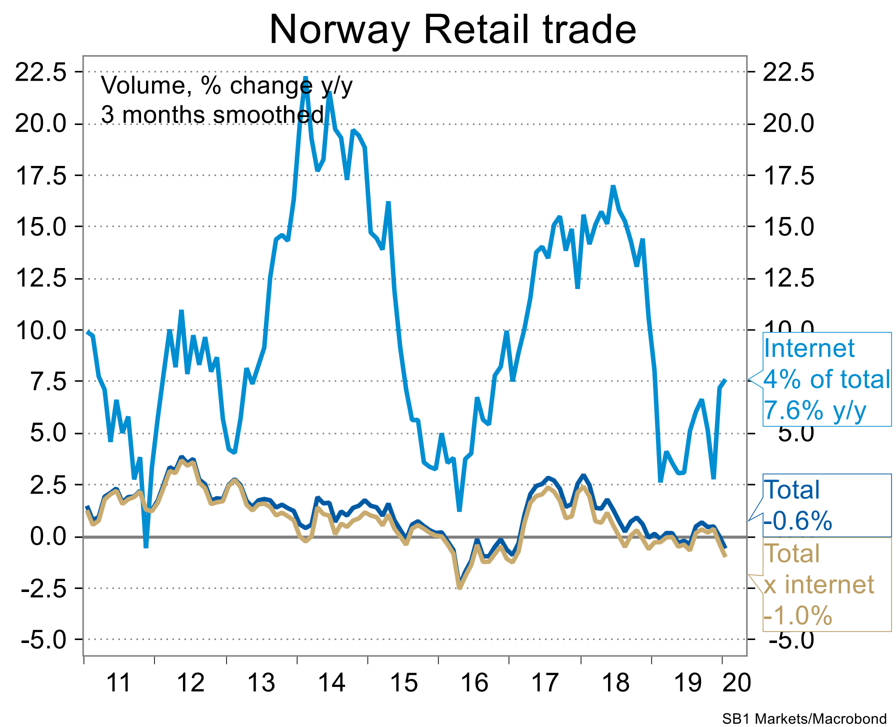


- Auto sales have fallen sharply. The volatility in auto sales since the summer may be partly due to supply bottlenecks on electrical vehicles and expiring auto leases on diesel cars. However, demand must have slowed as well, and sales did not rebound in January as expected
- Other consumer goods are not impressive. Clothing has declined steeply since mid-2018. Sales of household partly du blame. Just sales of ICT equipment is picking up speed, after a downturn in 2018
- And sales of sport equipment has fallen by 10% since November. Blame the weather

Internet sales (domestic) growth has slowed substantially

Still, over the past 6 years, almost no growth in sales from physical outlets, and a 1% decline y/y in Jan

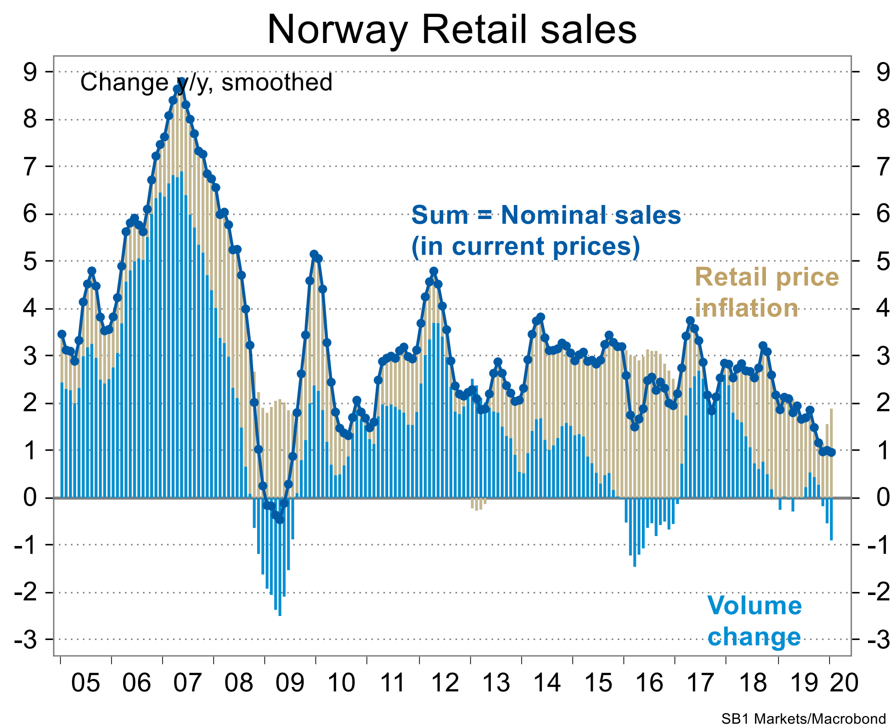


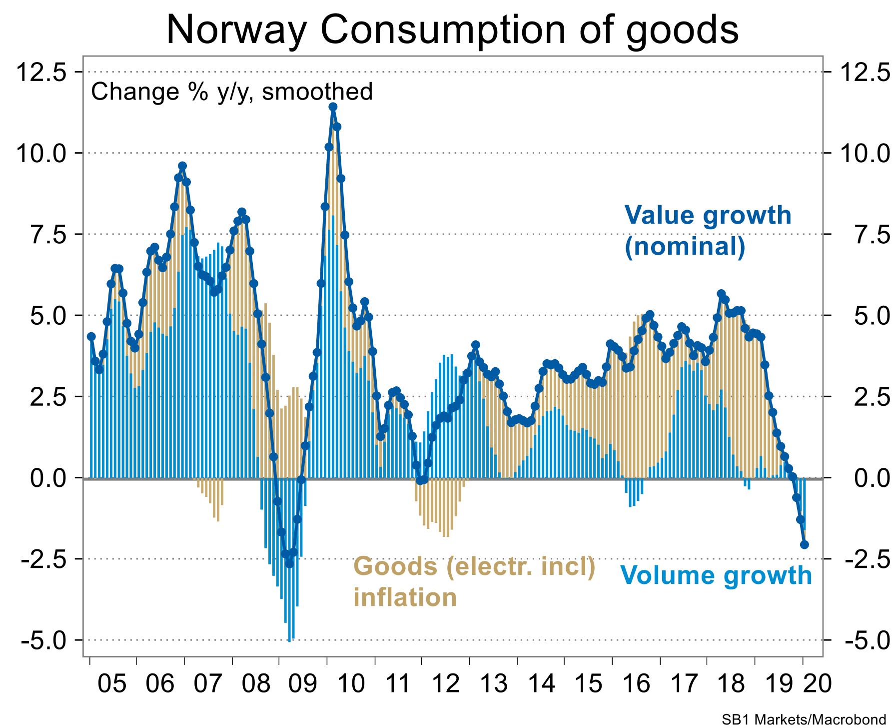


- The retail trade data cover only sales statistics from domestic outlets, not imports. From 2018, SSB included internet sales from abroad in the total consumption index but these figures are just estimates based on domestic internet sales
- SSB estimates that internet shopping from foreign sources (both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

Sales volumes are declining, in spite low price inflation

Retail price inflation up in Jan but total goods inflation has vanished, should support volume growth?

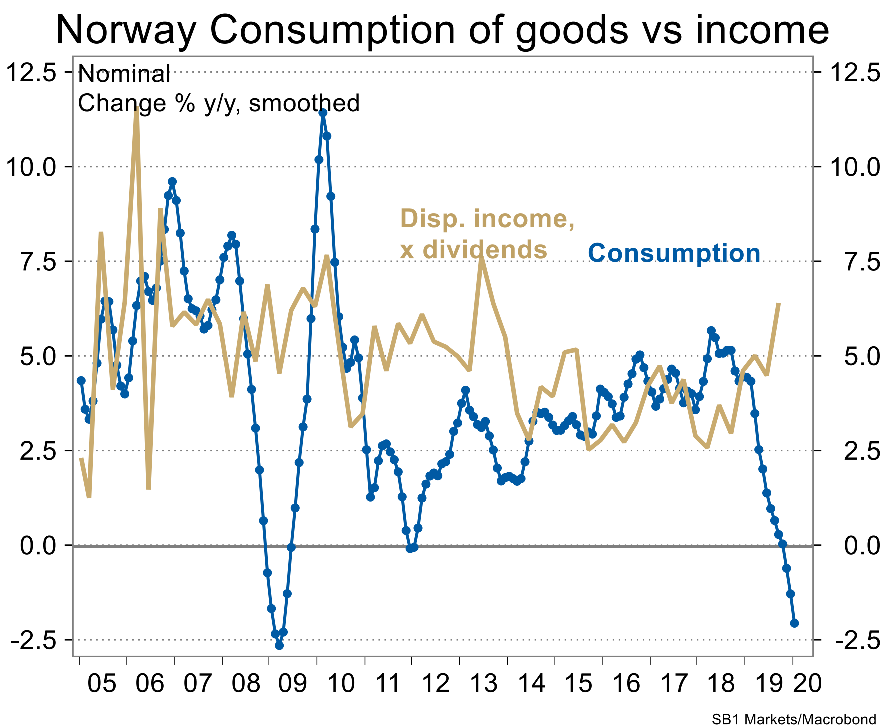


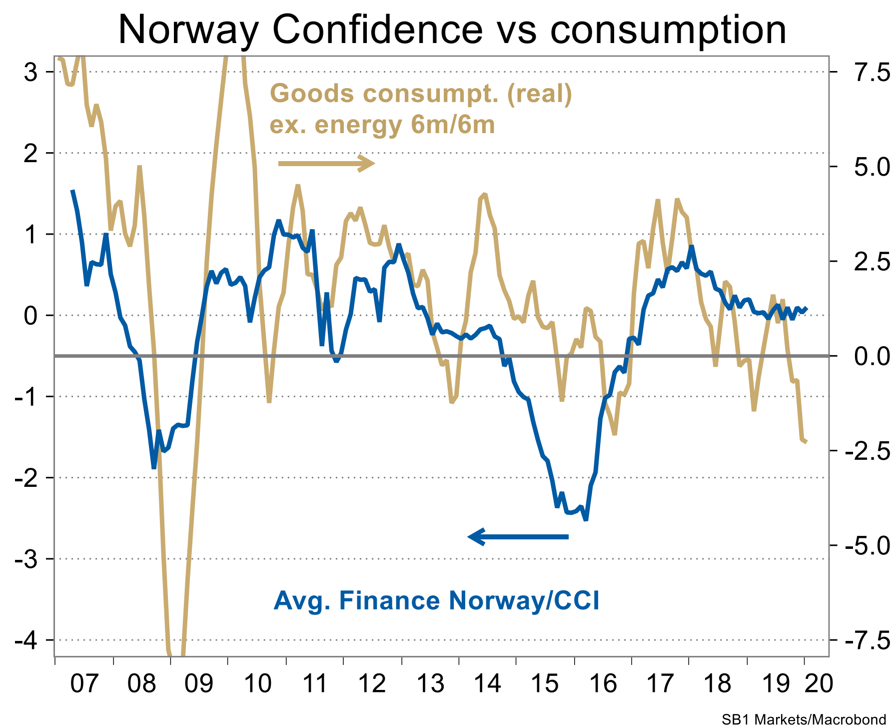


- Growth in nominal total consumption of goods is dropping, down 2.1% y/y in January (smoothed), the weakest since 2009. Retreating price inflation, primarily due to a sharp decline in electricity prices over the past year, has sent nominal growth down. However, there is no response from higher overall volume growth, which fell by 1.6% (annual rate). We expect muted inflation to eventually bring volume up (modestly, any swift recovery is unlikely)
- The annual growth in nominal retail sales is 1.0%. Volumes are declining, price inflation spiked in January, which will at least partly be reversed in February

Household income and consumer confidence do not signal any consumption dip

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

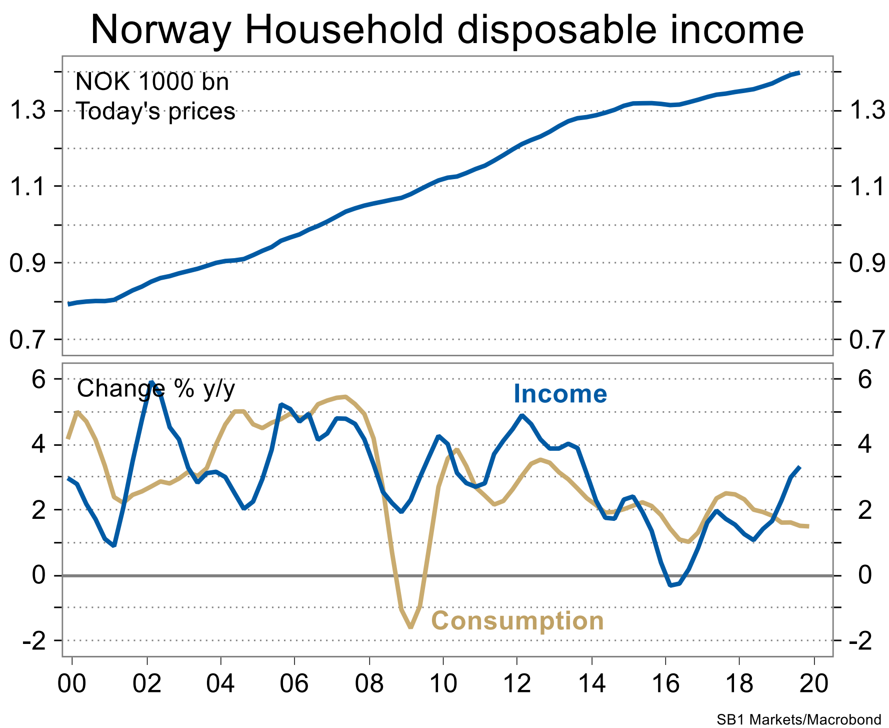


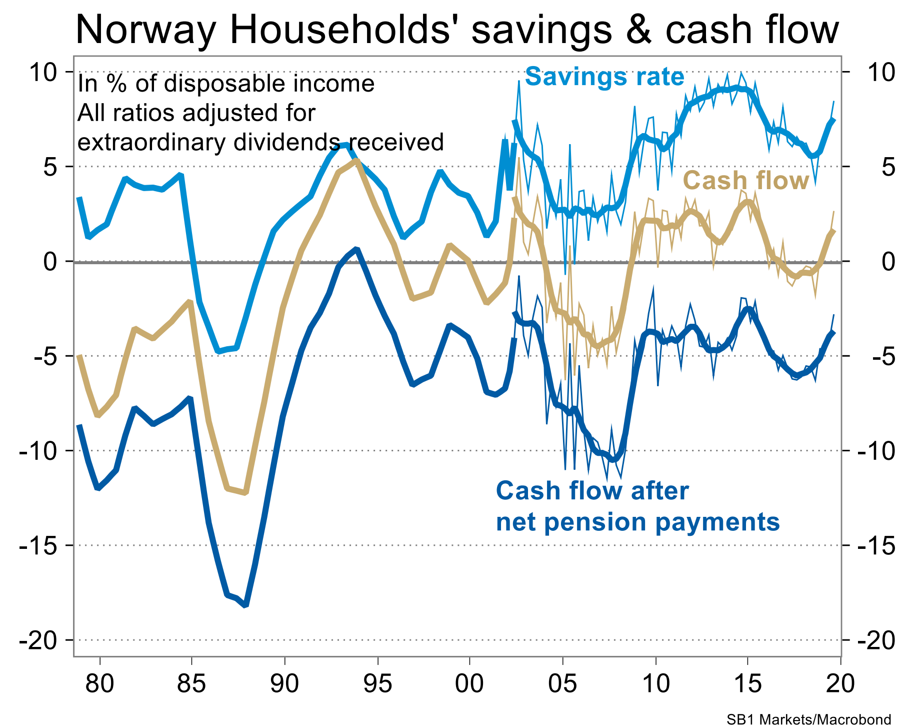


- Disposable income ex dividends was up 6.4% y/y in Q3, the highest since 2013, and the savings rate is now increasing as consumption growth is low (but higher than consumption of goods, as services are still on the way up)
  - » The savings rate is now recovering following the decline from 2015, check next page
- Consumer confidence has stabilised after a downturn in 2018. The avg of Finance Norway and Opinion's CCIs is precisely at the average level and do not signal any sudden consumption setback

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

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

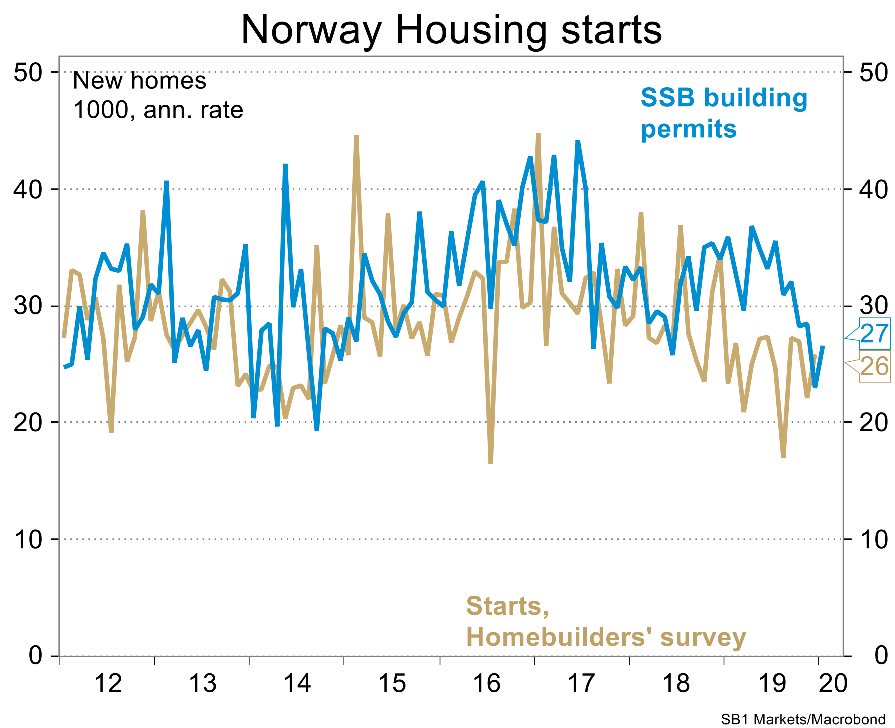


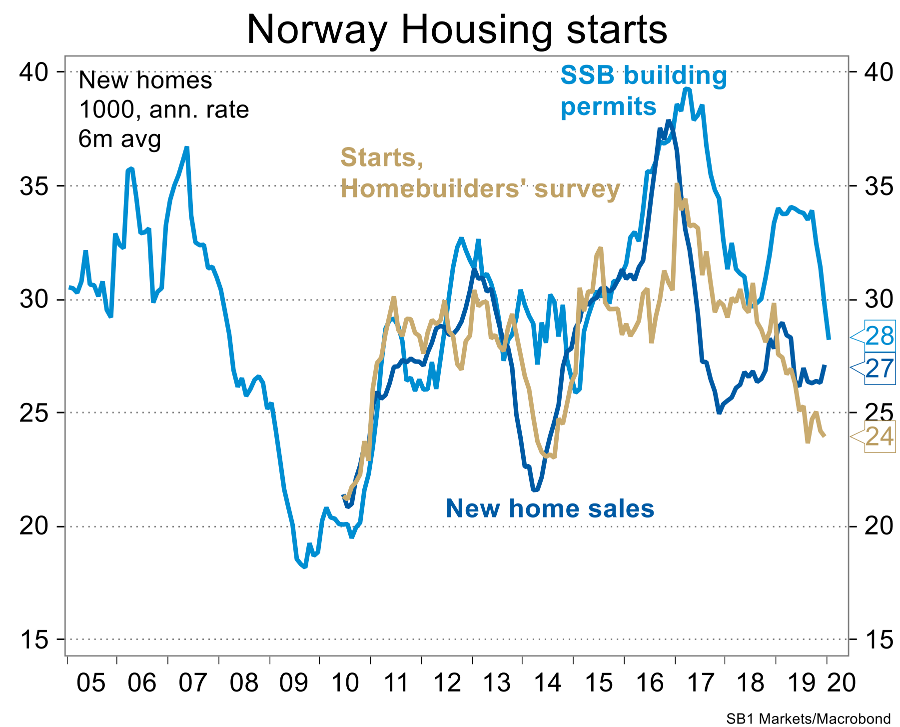


- Consumption is usually lagging income growth – and it is not unlikely that this will be the case this time too
- However, we expect income growth to slow soon as employment growth will turn down through 2020

Housing starts up in January, trend still steeply down

SSB confirms the downturn which the homebuilders have reported, lowest level in 5 years

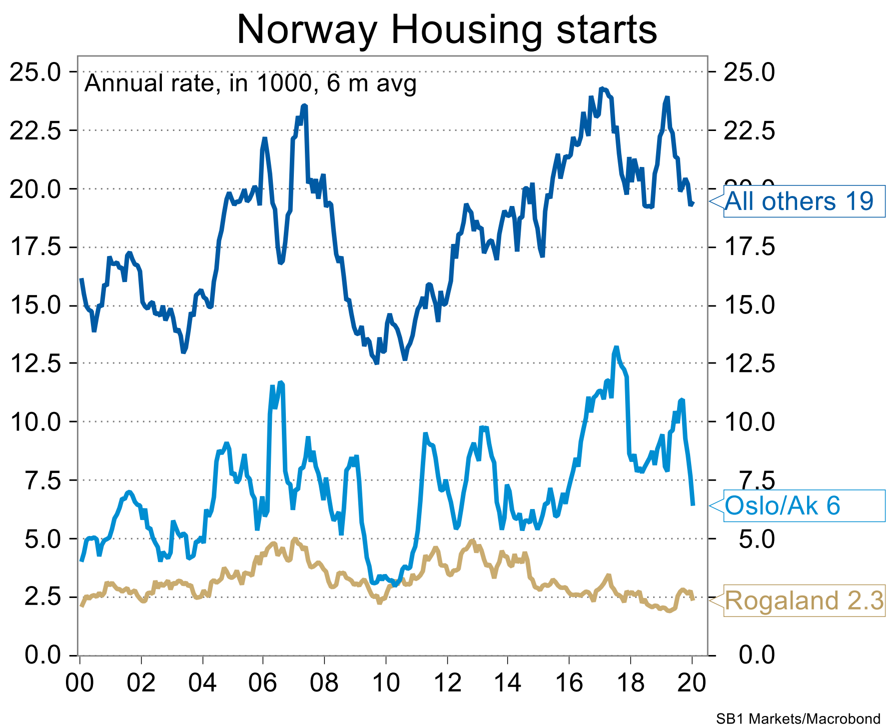


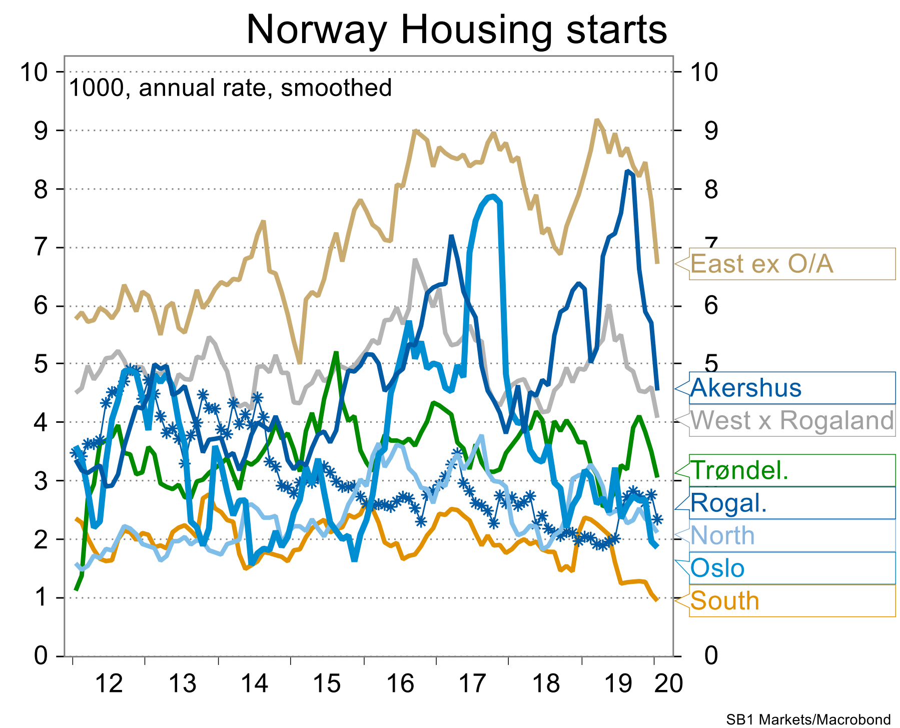


- SSB reported housing starts (building permits) rose to 27' in January, after dropping to 23' from 29' the prior month. The smoothed rate has fallen by almost 20%, to 28', from 34' last September, and is now well below the 2018 trough. Starts have not been lower since early 2015
  - » Unlike SSB, the Homebuilders have been reporting declining starts since 2017. Soaring building of student homes in early 2019, which is only included in the SSB figures, partly explains this. New home sales, reported by the Homebuilders, have flattened out the past 6 months and increased in December (no January data), do not signal additional decline of starts
- Housing starts suggest a further decline in housing investments. However, starts are not low; the level is at the avg level since 2000, and above the per capita avg – with population and real income growth much below what we have been used too

Starts have turned down everywhere – and rapidly in Akershus, East

In Oslo, starts have fallen since 2017, to below the 20 y average. Akershus still above

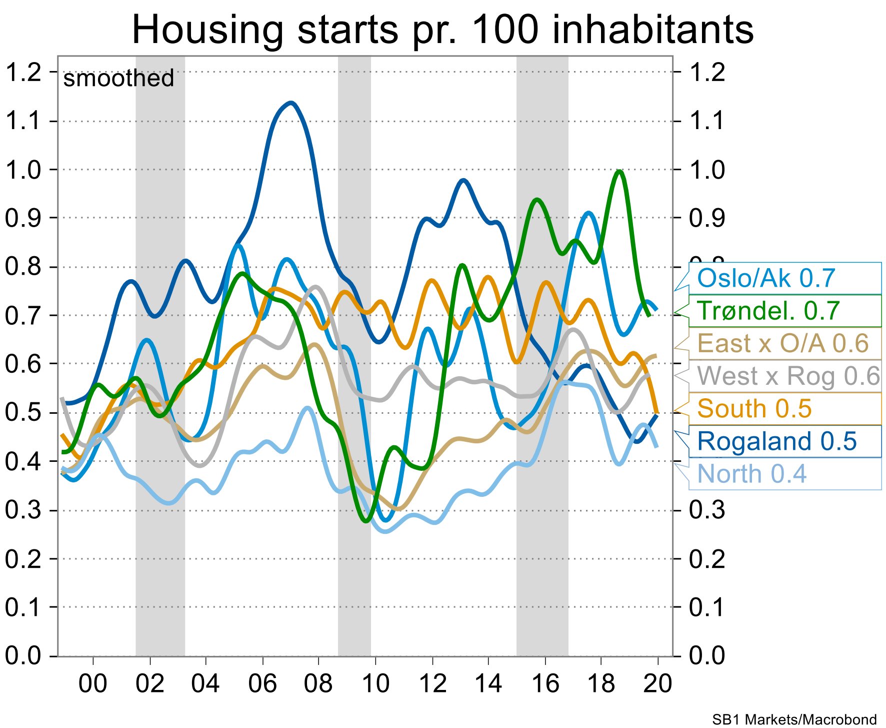


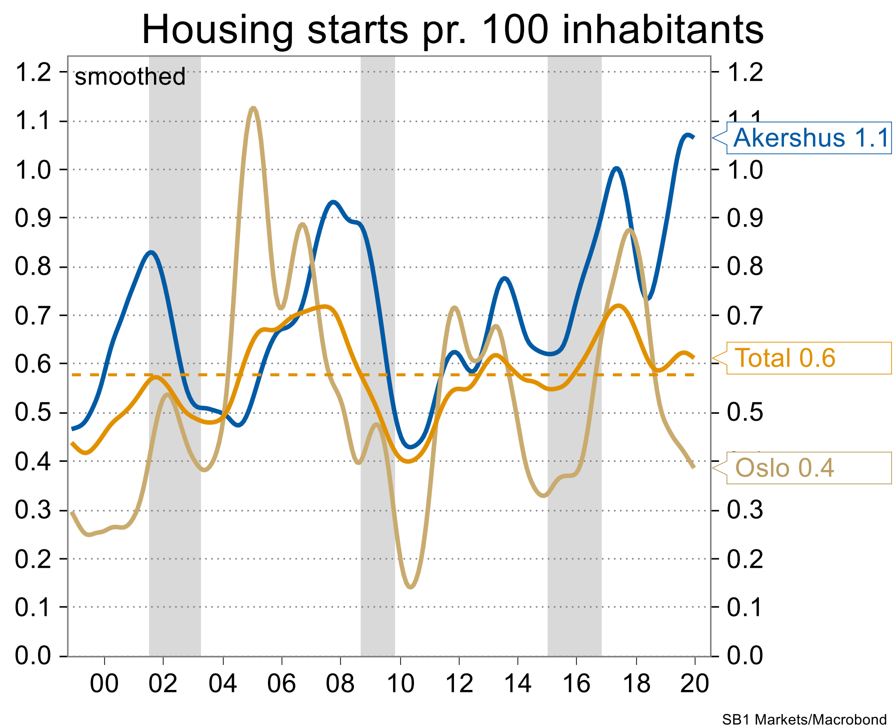


- Housing starts x Oslo and Akershus have fallen to below the 2018 trough, back to the 2015 level. The level is still somewhat higher than the 20 year average, of 18'. All ex Rogaland have turned down the past year, just Trøndelag still trending up (and fell in Q4), and Rogaland, from a low level
- In Akershus, starts have plunged since the summer but are still well above the 2018 bottom. The recent decline is partly explained by a spike in starts of student homes in Q1 and a following retreat partly explains the recent zig-zag. In Oslo, starts fell much more than in Akershus in late 2017-2018, as the builders were coping with a mild supply overhang. Now, there is most likely challenges on the supply side, as the Oslo housing market is not weak these days

Housing starts are now low vs the population

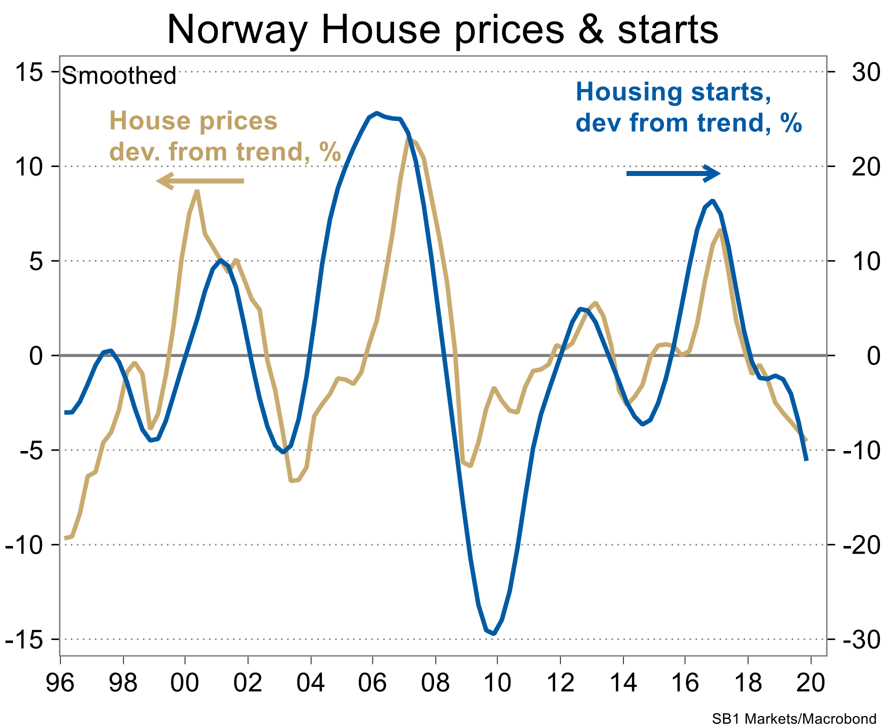
Well, Rogaland and South are lower than 'normal', while Akershus, East, Trøndelag are far above

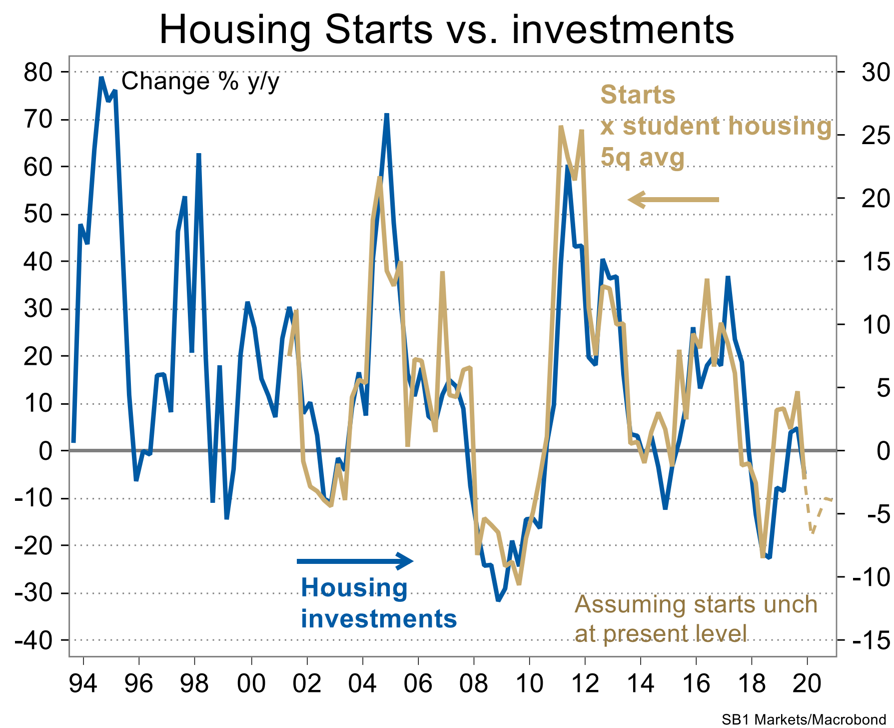




Modest house price growth indicates sagging starts and investments

However, the downside on starts is not that large, based on the normal correlation to house prices

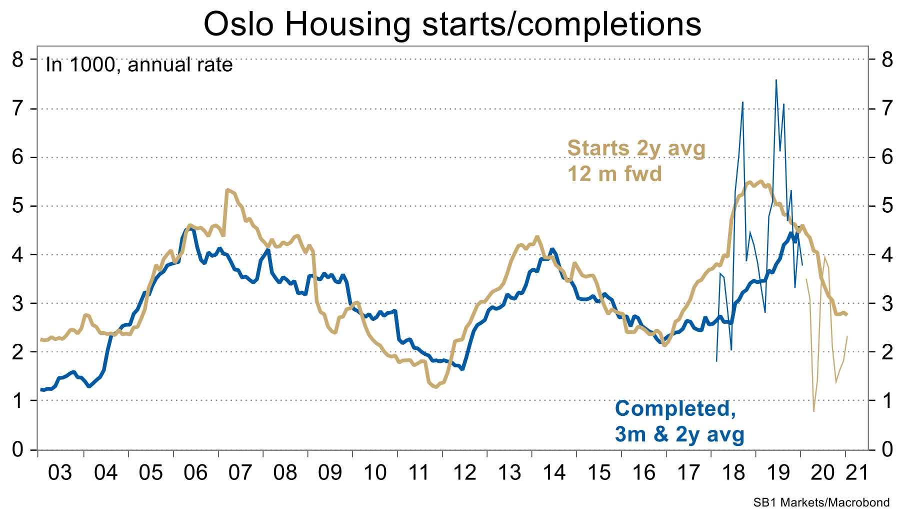


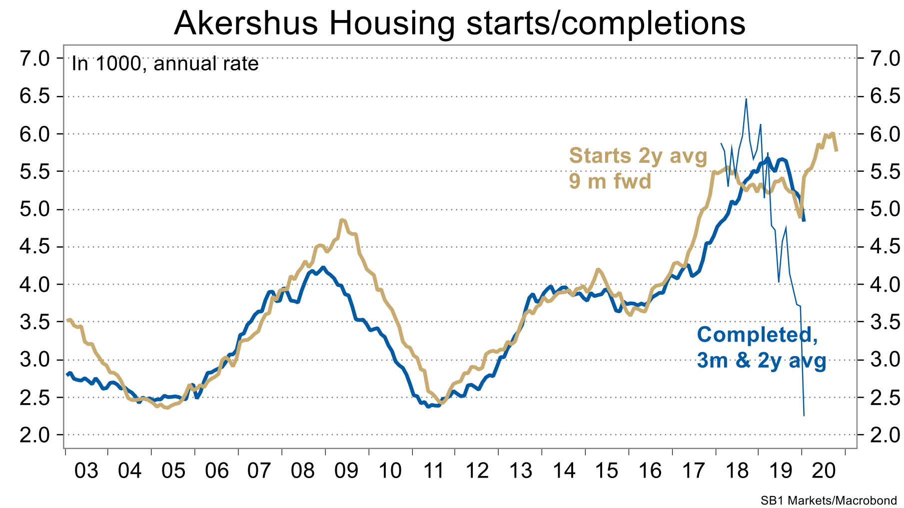


- Housing investments fell by 1.8% y/y in Q4, following a stabilization. If starts normalises at the present level, housing investments will decline some 5% in 2020 (which is our forecast)
  - » In the Dec Monetary Policy Report, Norges Bank nudged down its 2000 housing investments forecast to a 0.5% growth. Given the level of total starts, this estimate seems quite optimistic
- At the chart above, we have deducted student homes from starts, as they is contributing less to investments, per unit. Starts x student homes point to muted growth

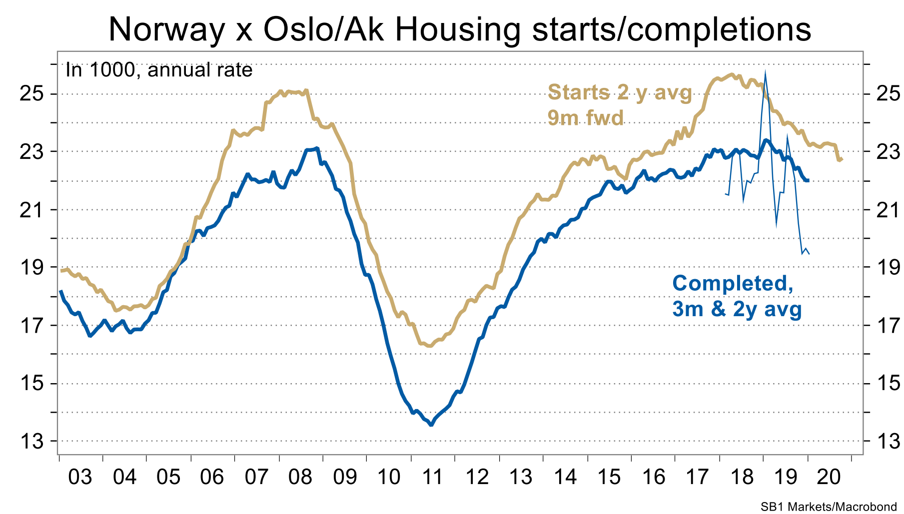
Housing completions are probably peaking

Oslo supply has been soaring and will probably remain high for some months, upside in Akershus?



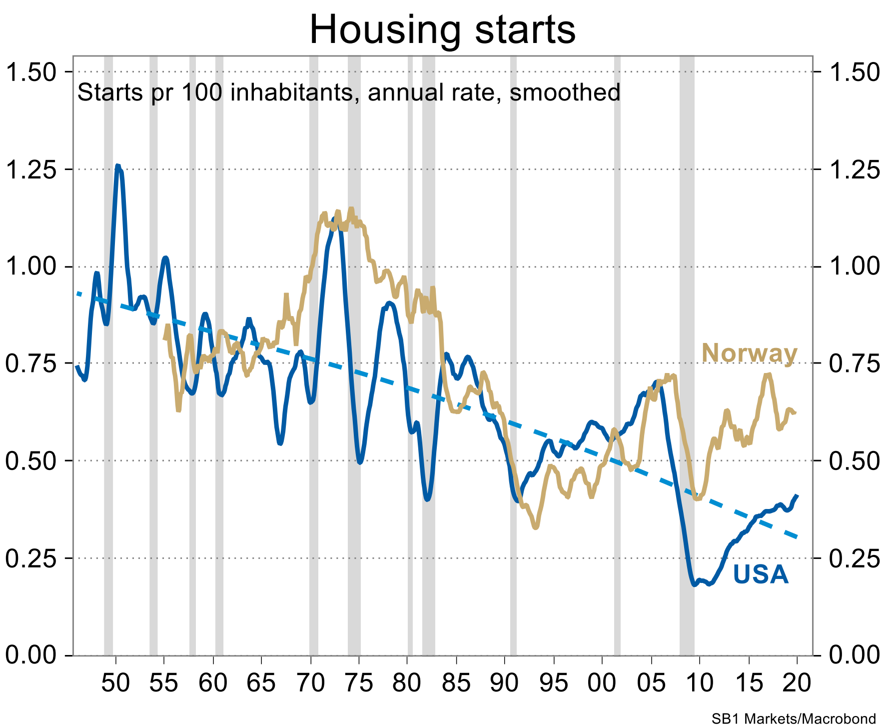


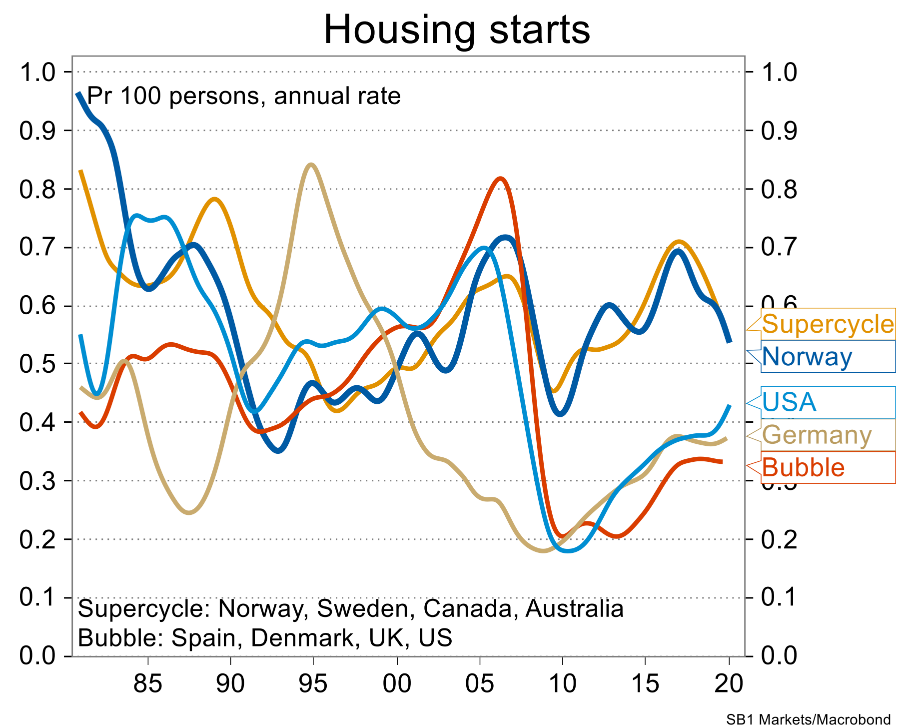
- The number of completed homes in Oslo has been rising steeply and will probably remain higher than 'normal' (the past 10 years) for some months. However, starts have fallen to a low level now, implying a low supply of finished homes some few months ahead
- In Akershus, supply upswing is probably <u>behind</u> us and completions have turned steeply down. The level of starts indicate higher completions, but the 2019 hike is least partly explained by student homes
- In the rest of the country, the number of completions is slowing, but the downside is not large, given the current level of starts
  - » Usually, some of the permits are not utilised and the supply of new homes is some per cent lower than the number of permits indicate



Home building is still quite high vs. other countries

Norwegian housing starts are in line with other 'supercycles', and much higher than in other DM

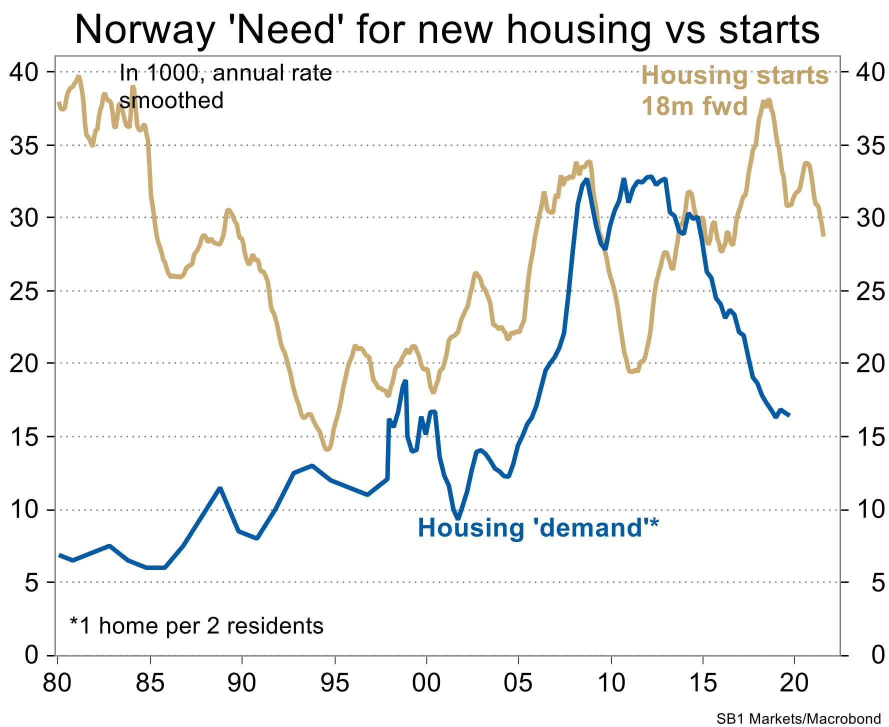


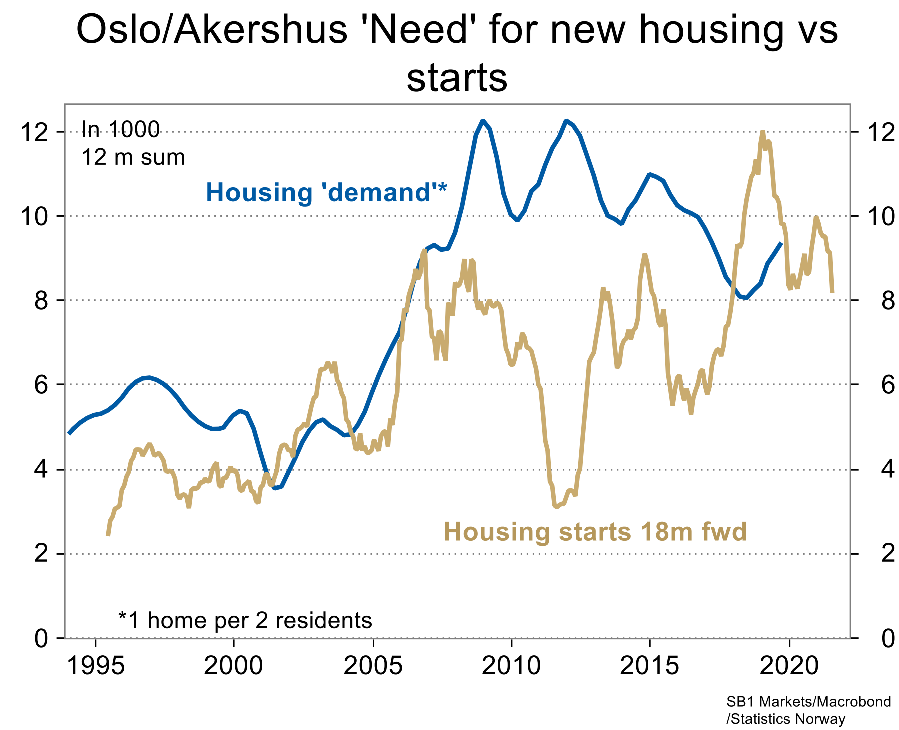


- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been quite closely correlated the past decades. Starts are falling in Australia, Sweden and Norway, and more modestly in Canada
- House prices and debt inflation are higher and rental yields are lower in these supercycle countries than other DMs. Because interest rates were cut to more or less the same level as in countries that actually needed a strong monetary stimulus?

One house per new inhabitant (or 2 new house per 'normal household)?

Based on pop. growth, too many homes have been built recently, except for Oslo/Akershus?

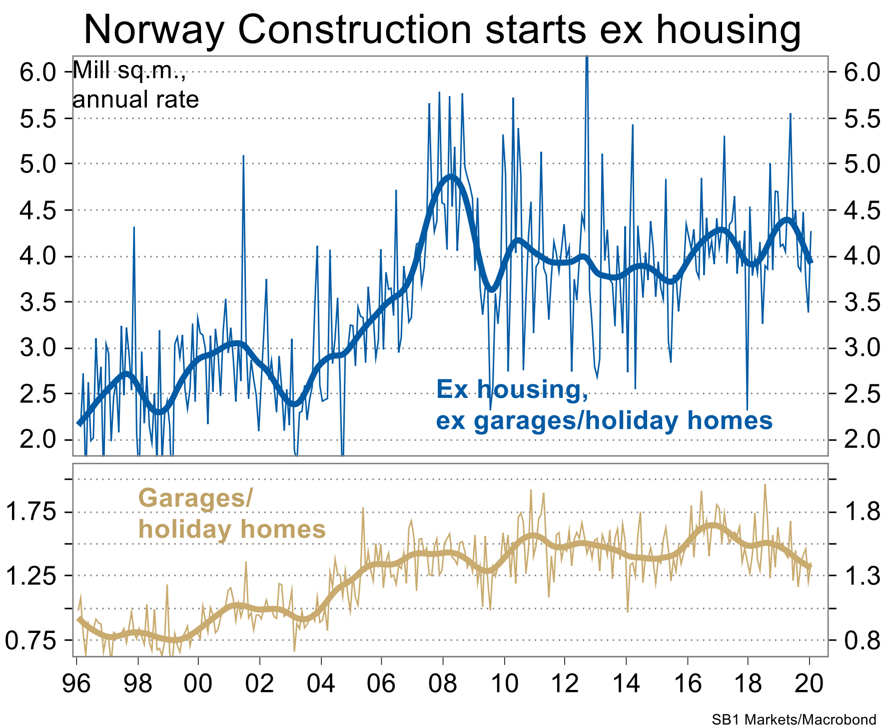


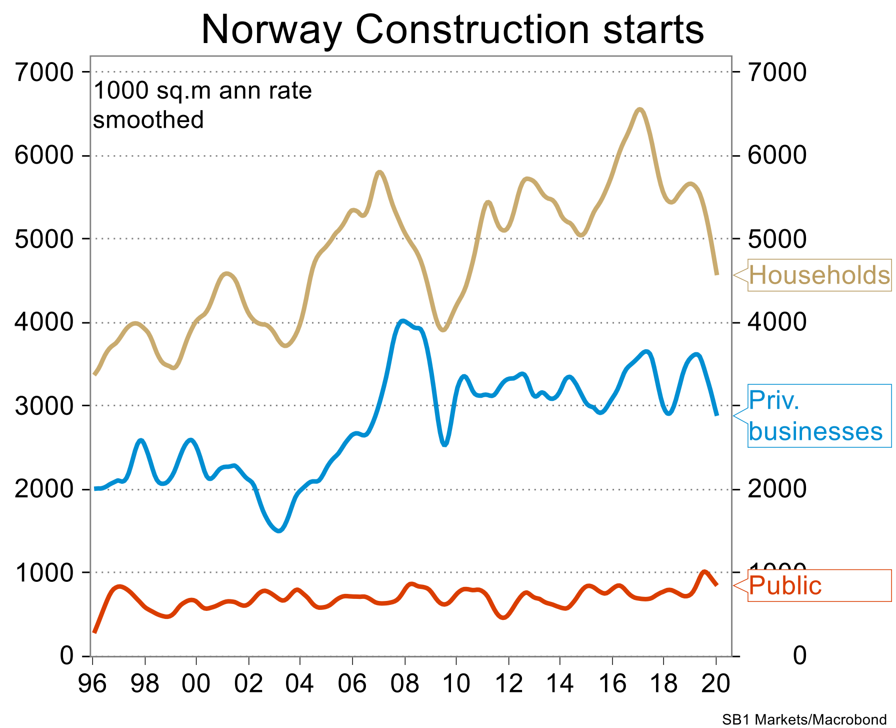


- More new homes than people have been the norm in periods with high domestic migration, which is not the case now

Construction ex. housing is slowing too

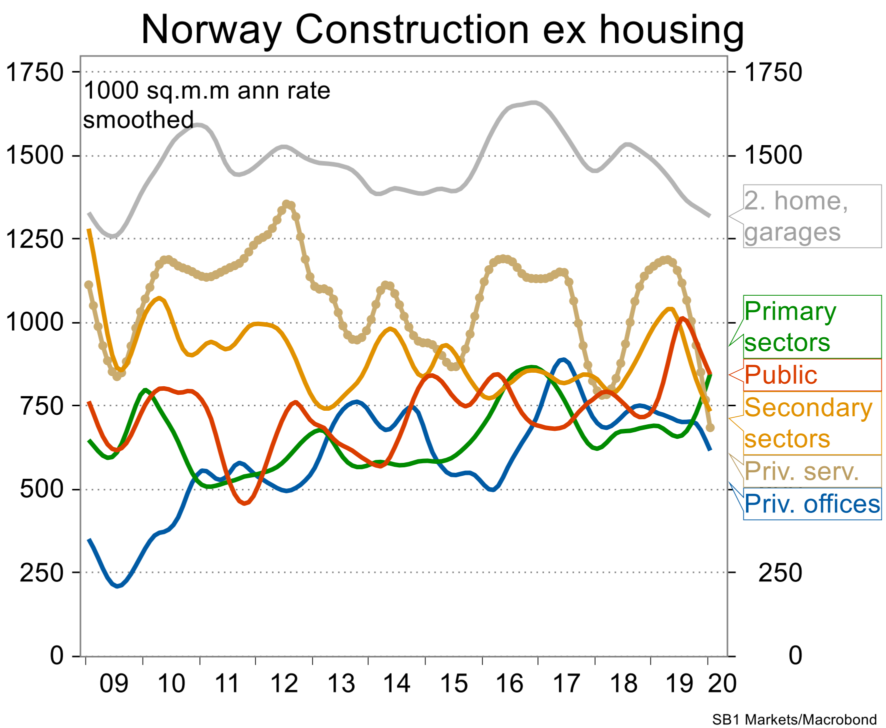
Business construction down from peak, and garages/2nd homes are also heading down

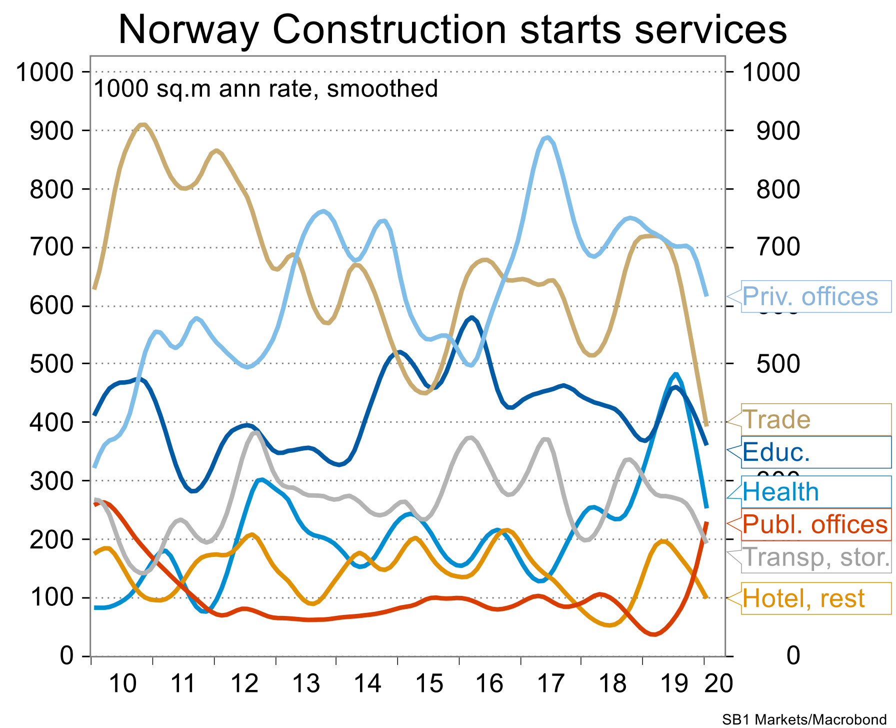




- Construction ex housing, garages/cabins has turned down since early 2019, after reaching the highest level since 2008
- Public sector construction starts were very high in the summer, as the new hospital in Stavanger was included. Construction of private offices slows modestly, primary sectors up
- Construction starts of cabins/garages are heading slowly down and the level is the lowest since 2009

Retailers are slamming the brakes, for a good reason, we suspect

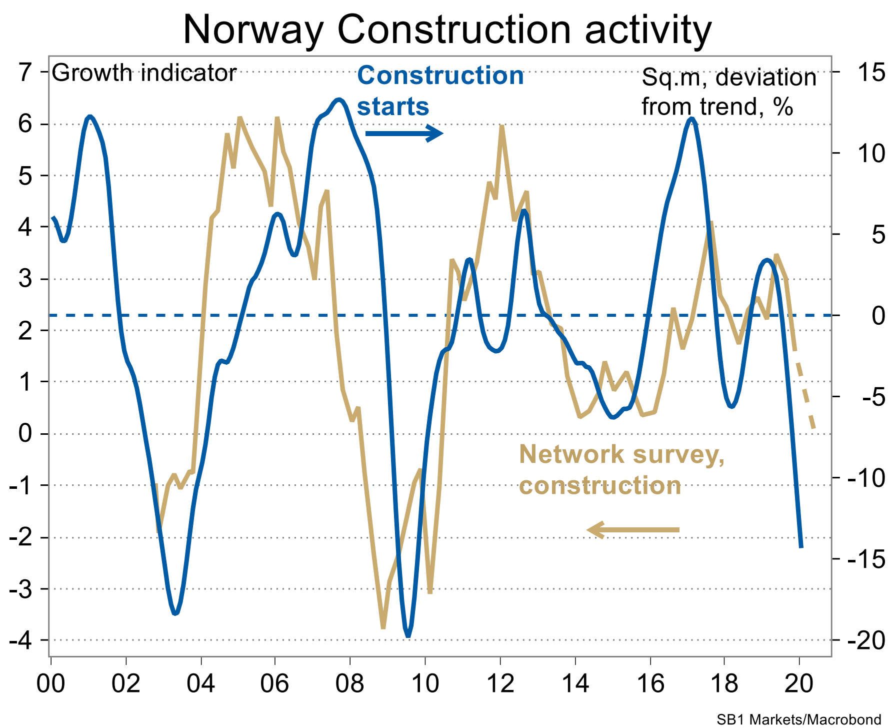




Public on the chart to the left: Construction starts in public administration, education and health

Regional Network signals zero growth. It is weaker already

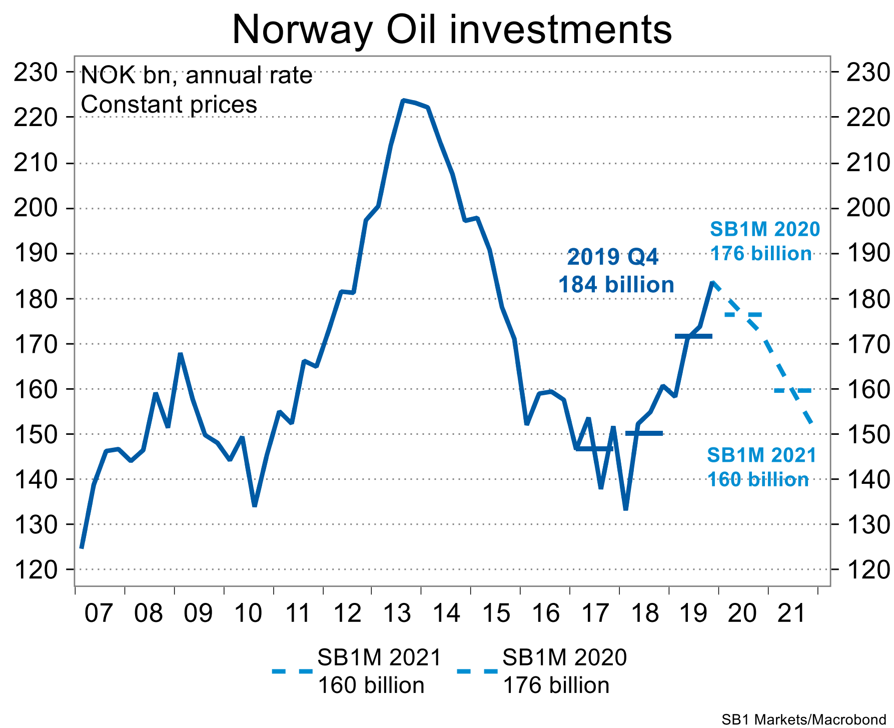
Construction has turned down within housing, business and public sector

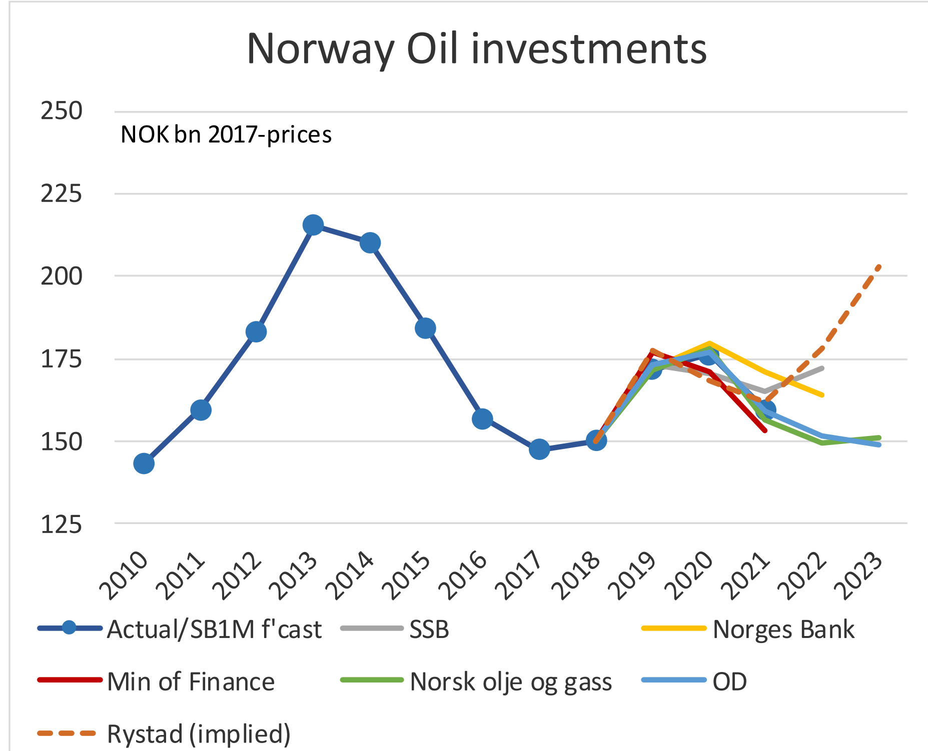


Public on the chart to the left: Construction starts in public administration, education and health

A crucial growth engine is about to change sign: Oil investments have peaked

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

Highlights

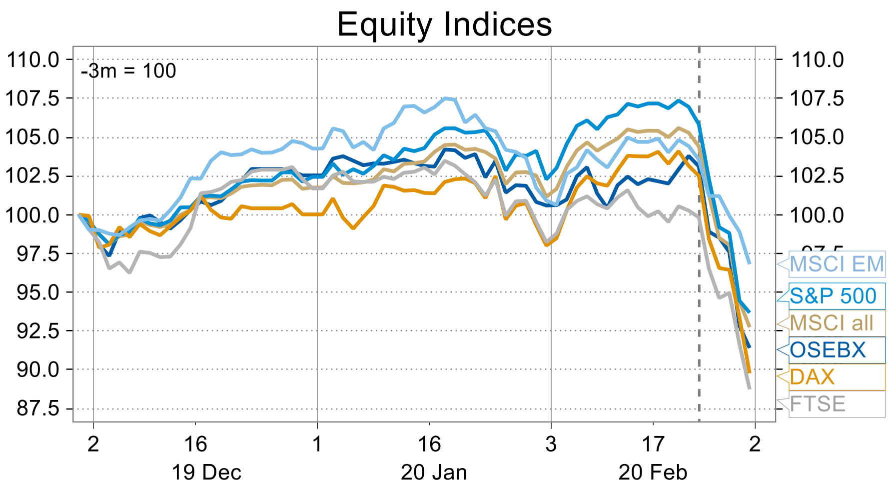
The world around us

The Norwegian economy

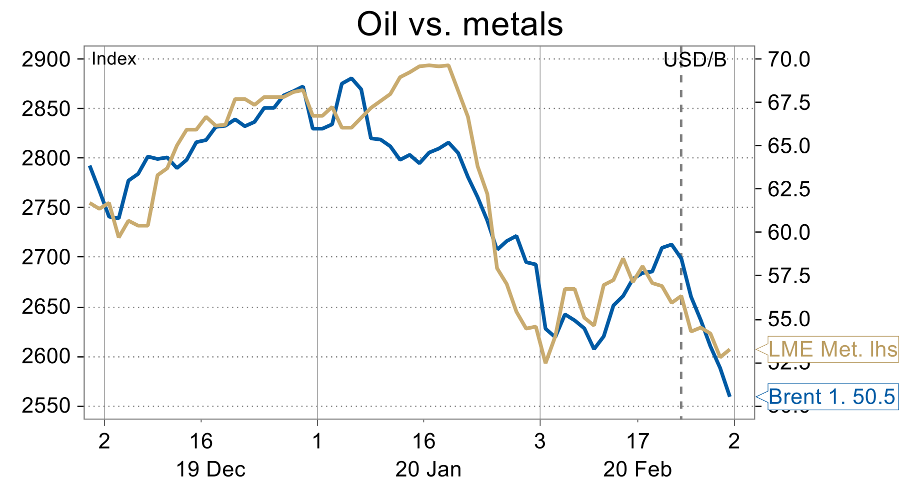
Market charts & comments

Risk markets tumble on virus outbreak

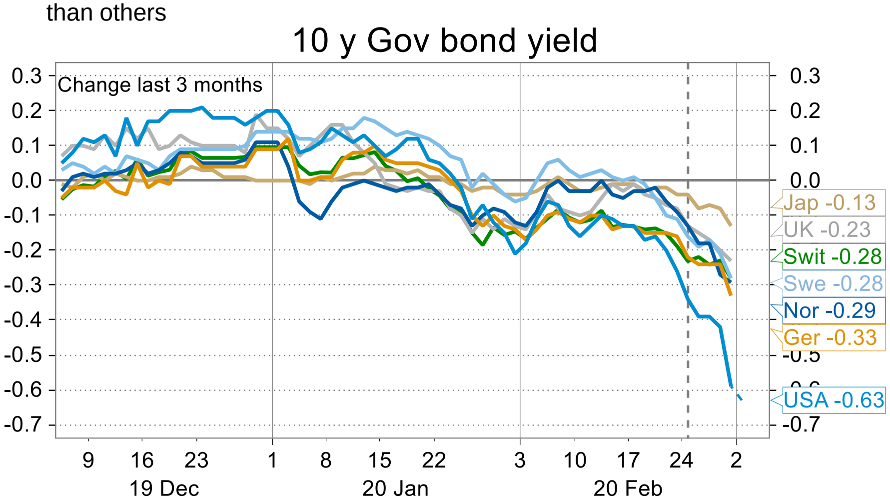
All markets in red last week, stock markets down 11-12% and bond yields dropped. Safe haven f/x up



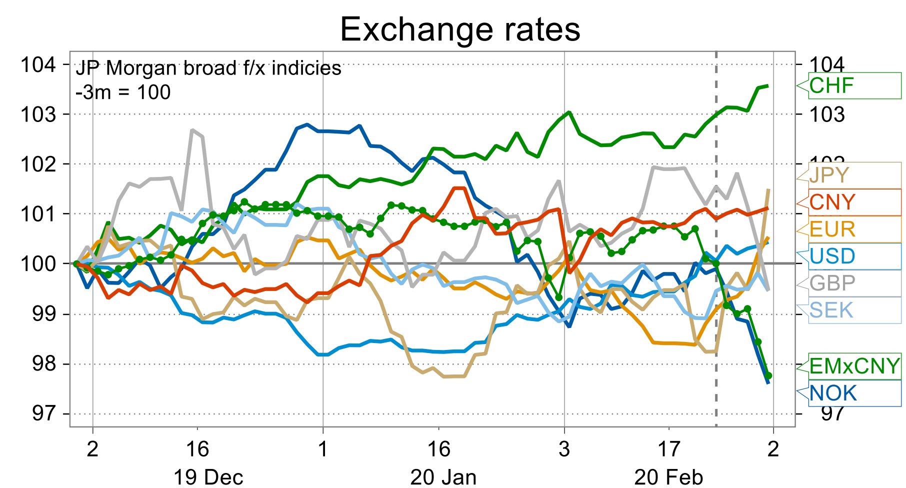
All stock markets ‘collapsed’ last week, and US and OSEBX more than others



Oil & metal prices have down again, oil price to USD 52/b



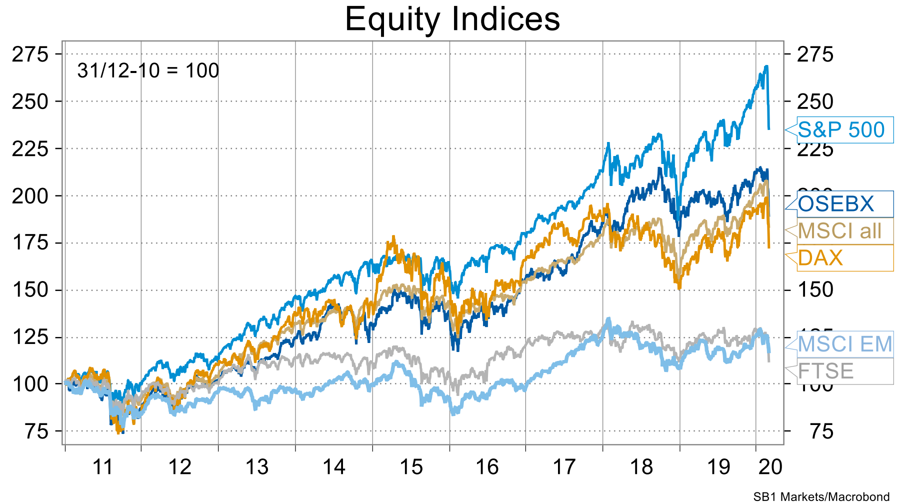
Bond yields steeply down all over, US 10 y gov at ATL

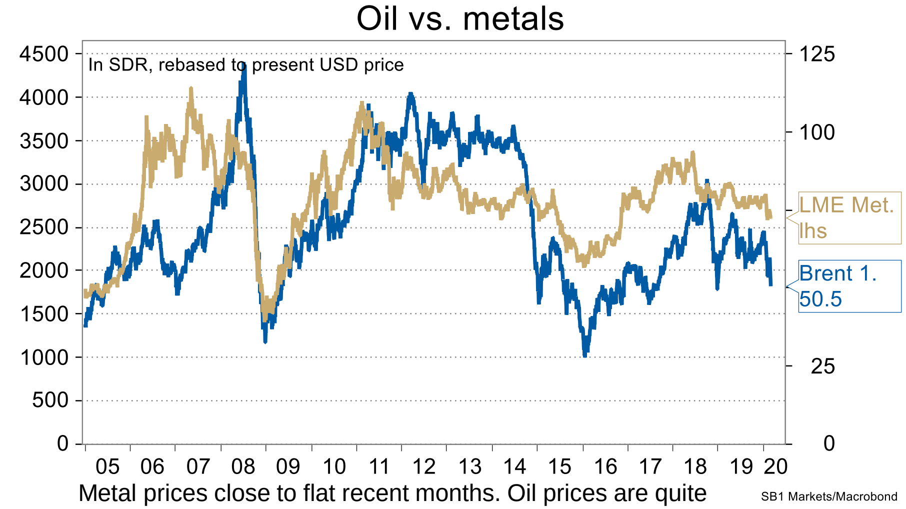


Risk off; USD, CHF, JPY and EUR appreciated while NOK and EM x China suffered last week. CNY steady

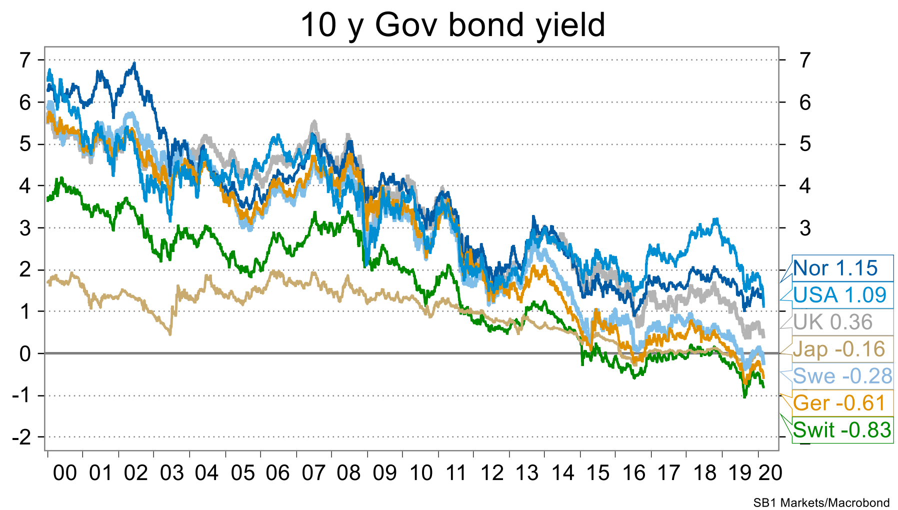
In the long run: The coronavirus setback now clearly visible from distance

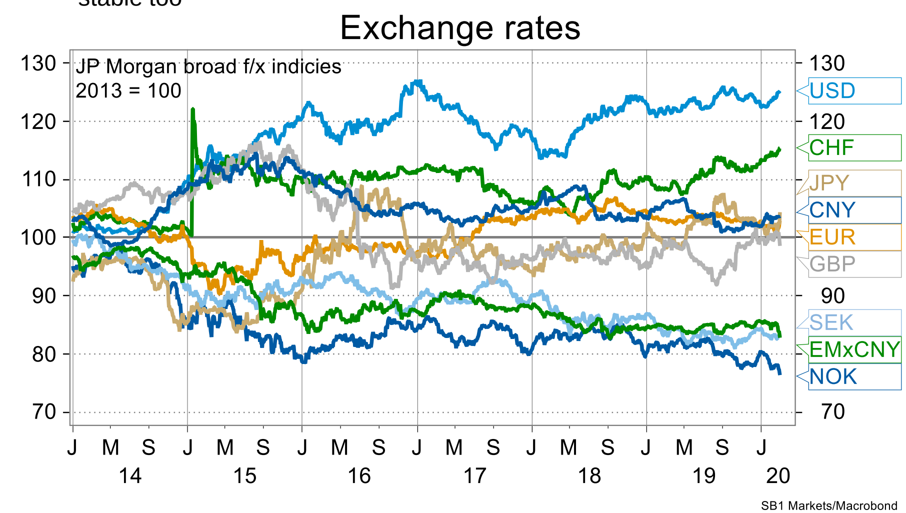
Stock markets plunge and bond yields are at/close to ATLs. Oil&metals back at early '19 levels





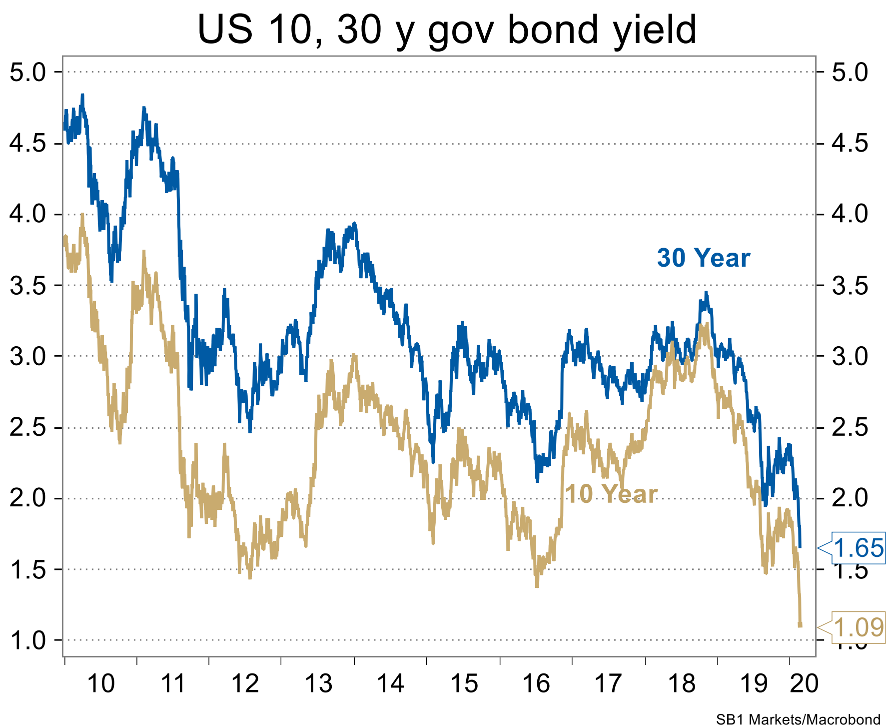
Metal prices close to flat recent months. Oil prices are quite stable too





New all time lows for long term US bond yields

Yields have fallen more 80 bps so far in 2020, growth angst due to Covid-19 the major reason

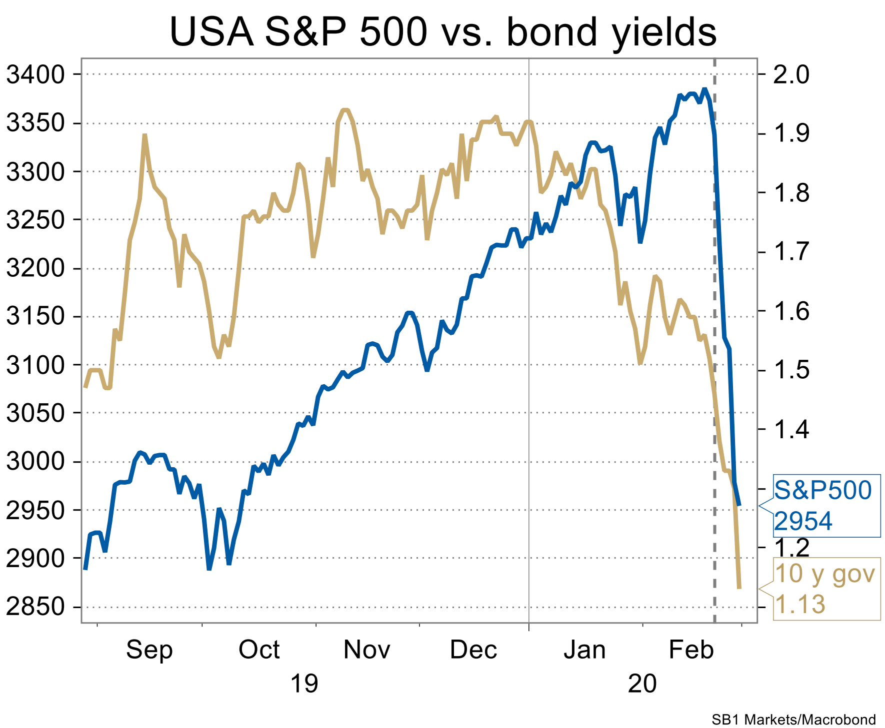


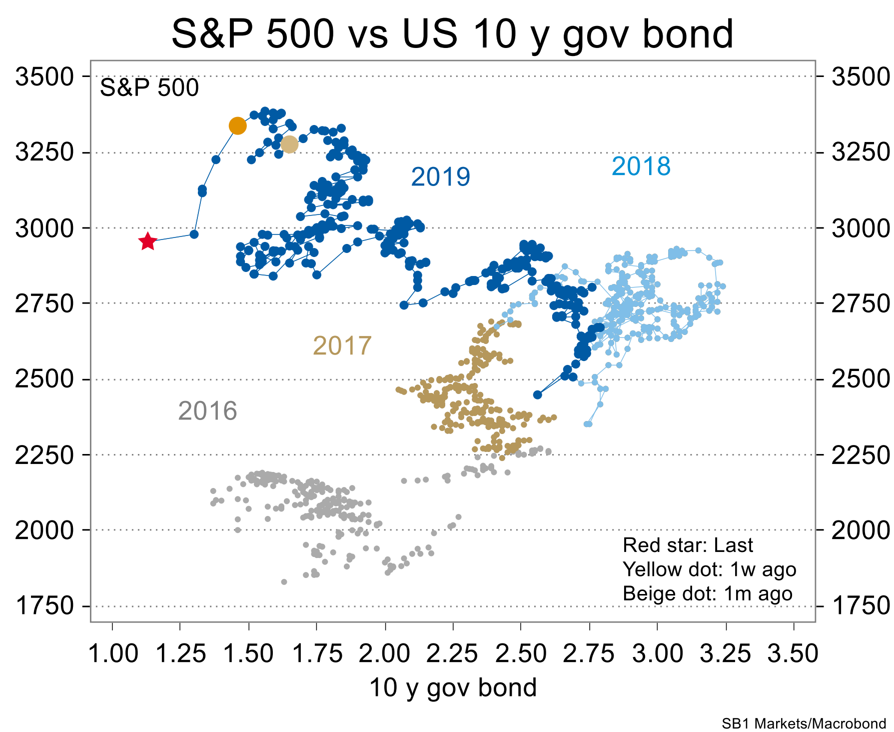
- One of the popular 'traditional' yield spreads, the 10 y – 2y spread is still positive (but the whole curve is at a very low level, of course)

SpareBank 1 MARKETS

Steepest weekly US stock market decline since 2011 (and 2nd since 2008)

S&P tumbled 11.5% last week, US 10y gov yield dropped 33 bps, to new ATL

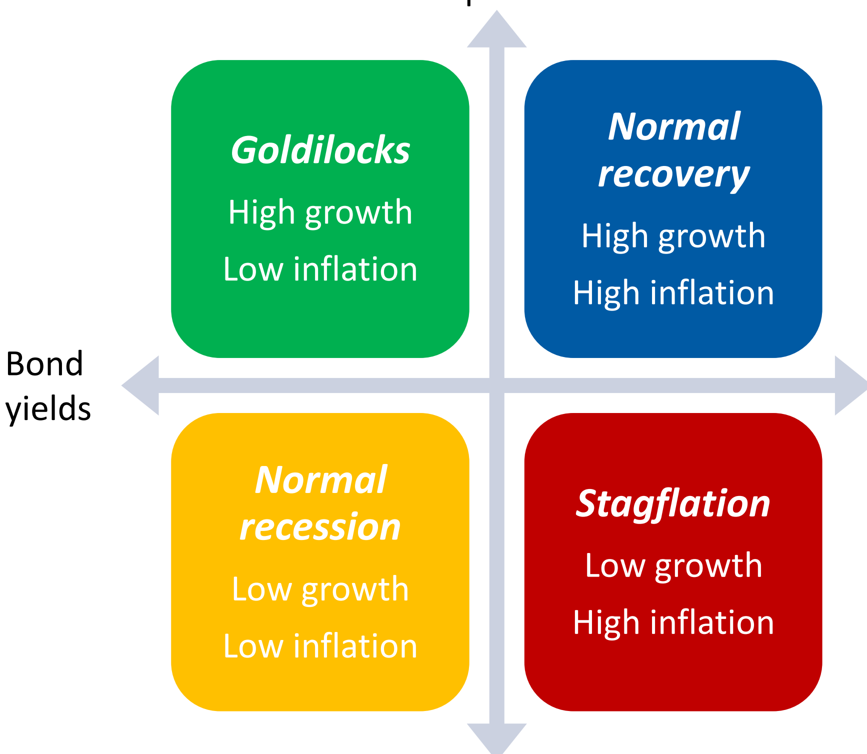


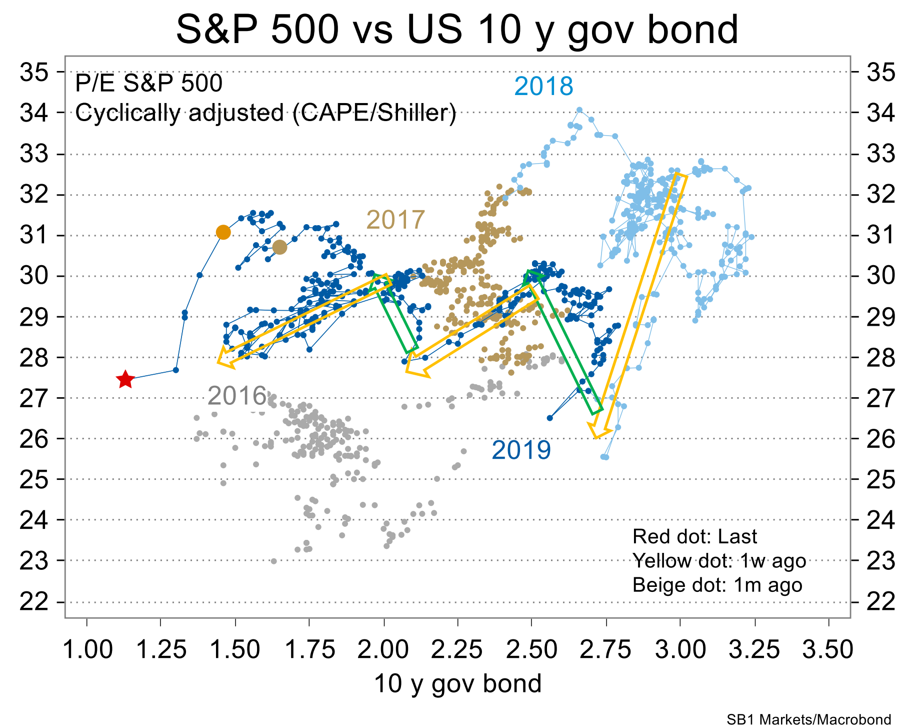


- Stock markets are back at the October 2019 levels, while bond yields are at the lowest levels on record. Both inflation expectations and real rates have plunged

Markets steeply into the 'recession corner'

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



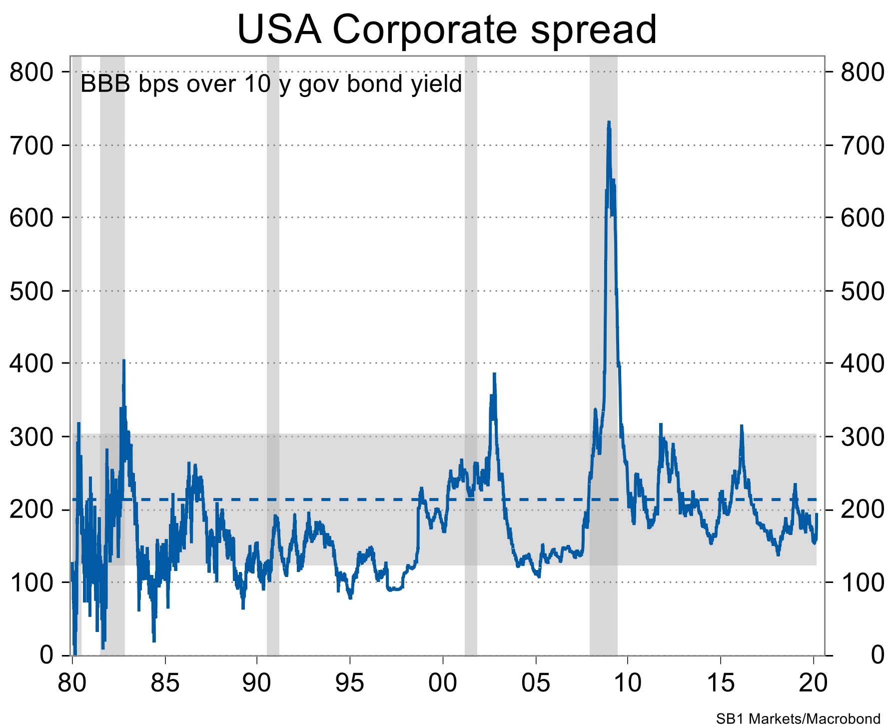


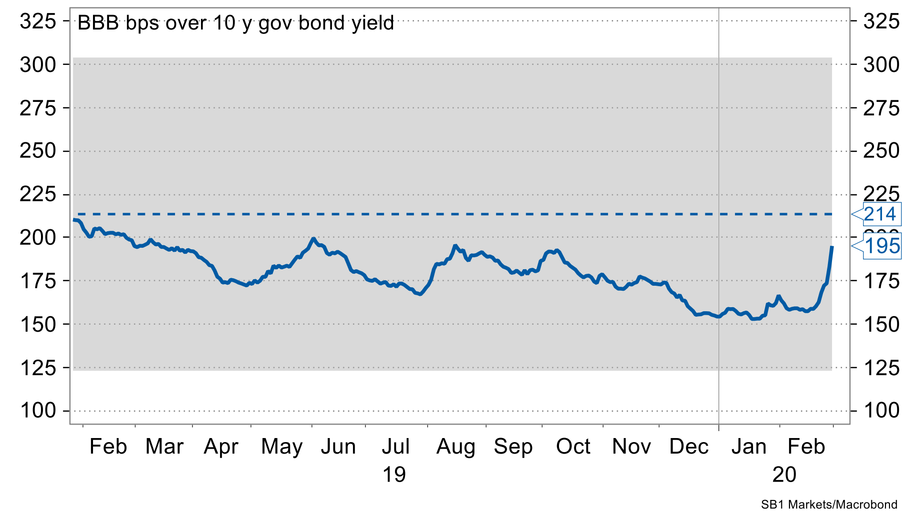
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. Last week, the decline accelerated as Covid-19 spread rapidly outside China, bond yields fell to the lowest level ever
- Should the virus outbreak not calm the coming weeks, markets will probably move closer to the recession corner. Bond yields are very low and the downside is limited, unless the world economy should move into a severe recession

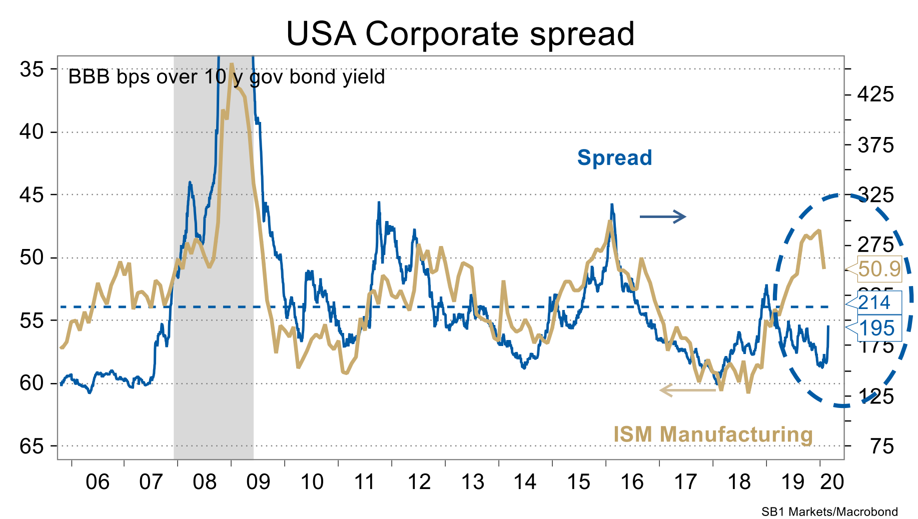
SpareBank 1 MARKETS

Credit spreads straight up but still below an average level

Spreads are still too low *if growth is slowing as surveys (here, the ISM) have been indicating*







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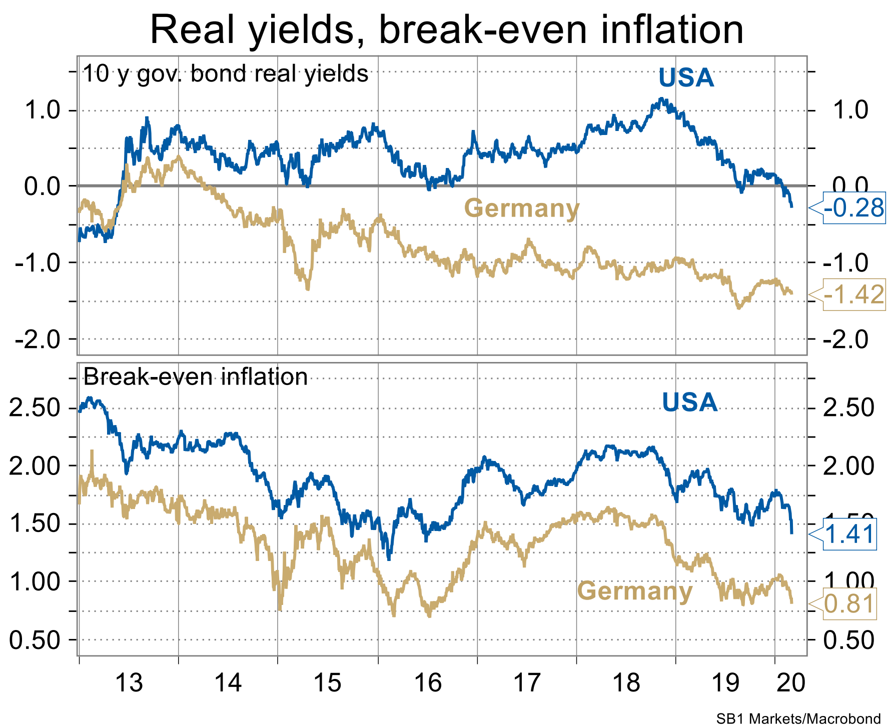
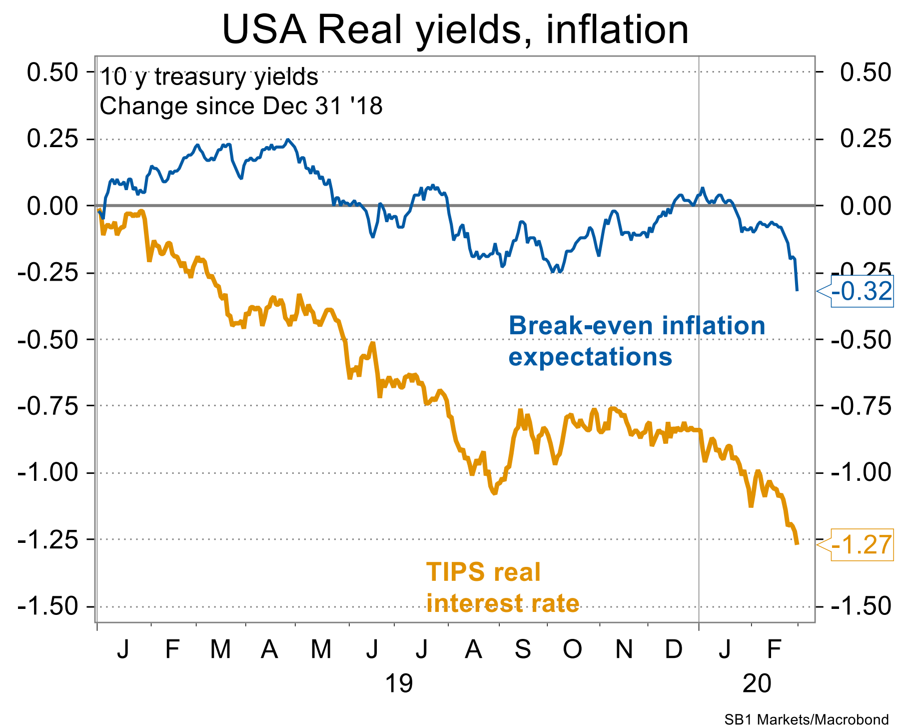
Real rates drop on growth concerns, inflation exp. dragged down by the oil price

US inflation expectations tumbled 20 bps last week, real rates 13 bps. German real rate 'just' 5 bps

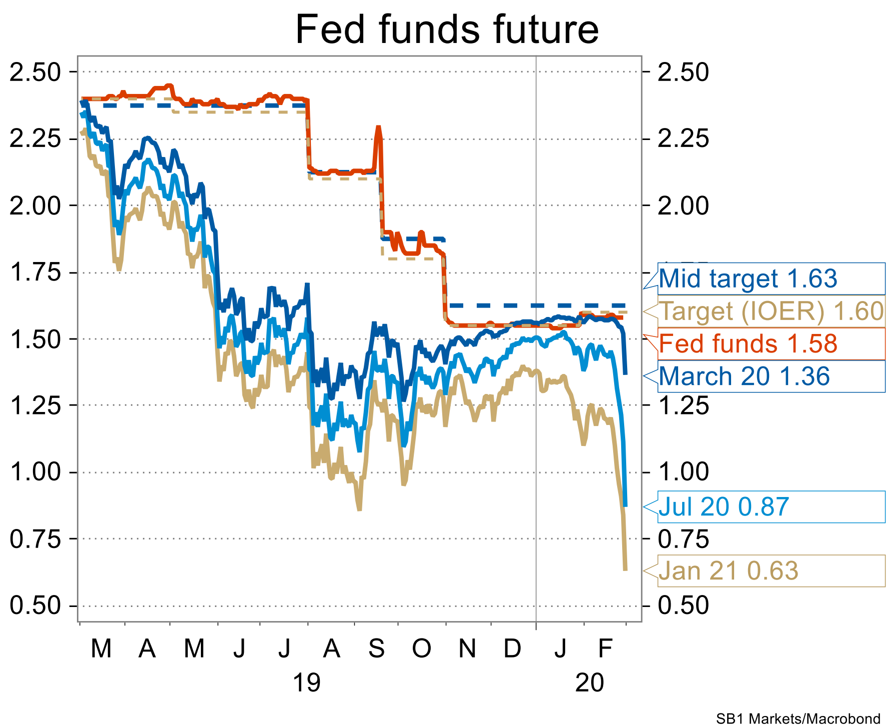


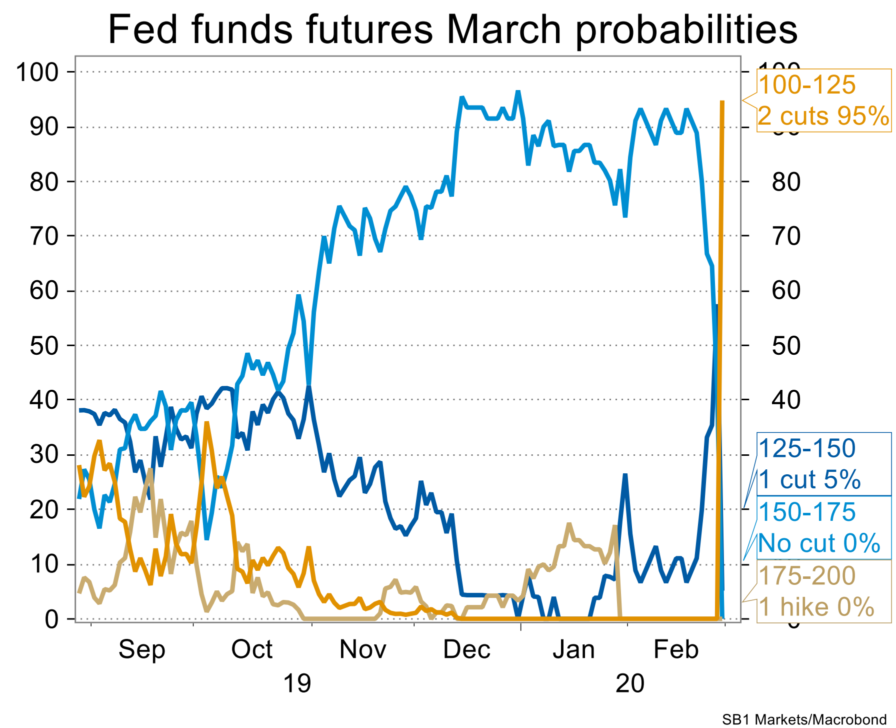


- Lower oil prices (due to demand concerns on the Covid-19 outbreak) have sent inflation expectations steeply down since early January, and real rates have fallen on growth concerns (corona infested) – and more steeply last week
  - » US real rates at 0.28% are the lowest since 2013. Inflation expectations at 1.41% are the lowest since 2016 and well below the inflation target
  - » The 10 y German real rate fell to -1.41%, still ridiculously low but well above the levels from last autumn. Inflation expectations are sliding down, to 0.81%, miles below the ECB's price target at close to 2%, and lower than actual core inflation the past couple of years

Fed fund futures drop, markets expecting a 50 bps March cut, and 50 more

Fed fund futures slipped all over the curve and cut expectations soared, by 100 bps in 2020

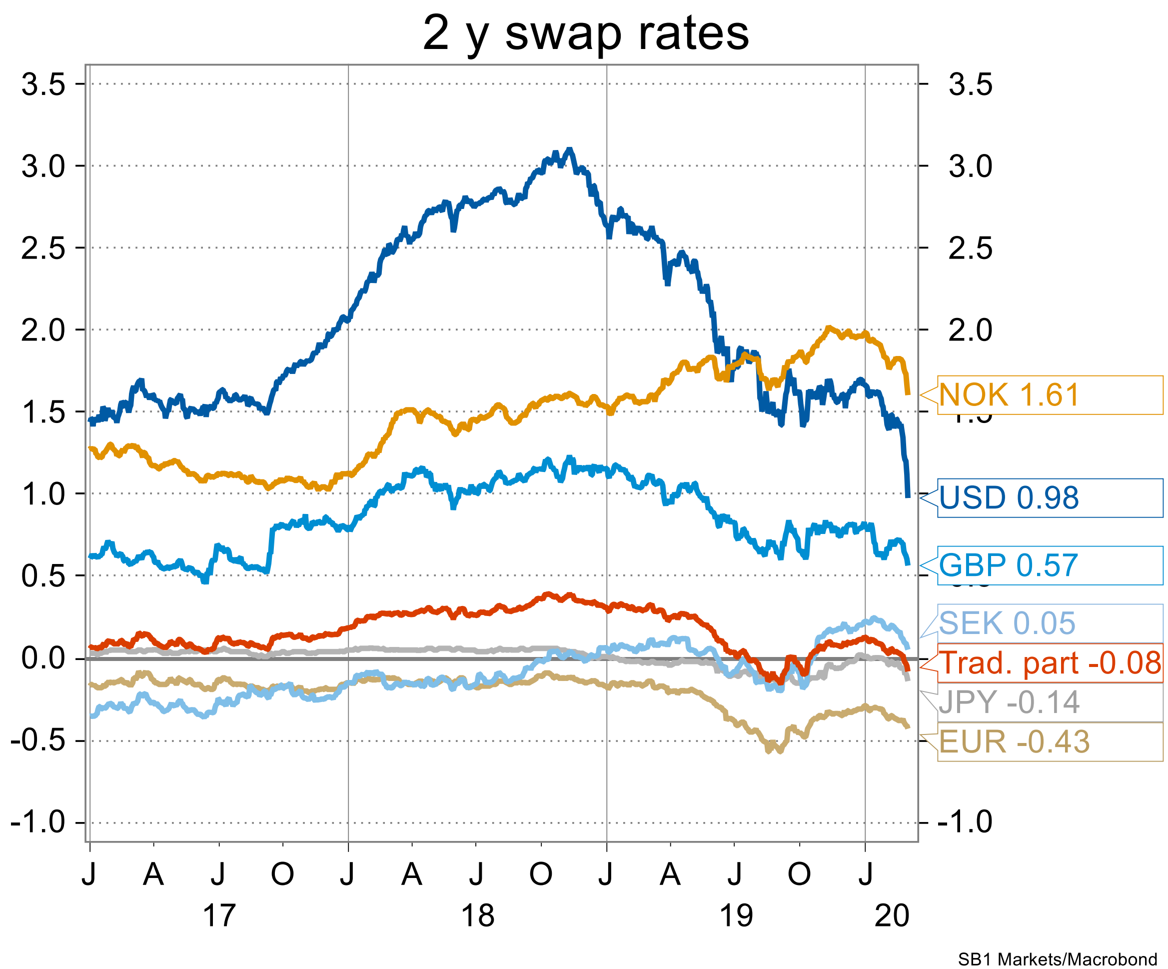


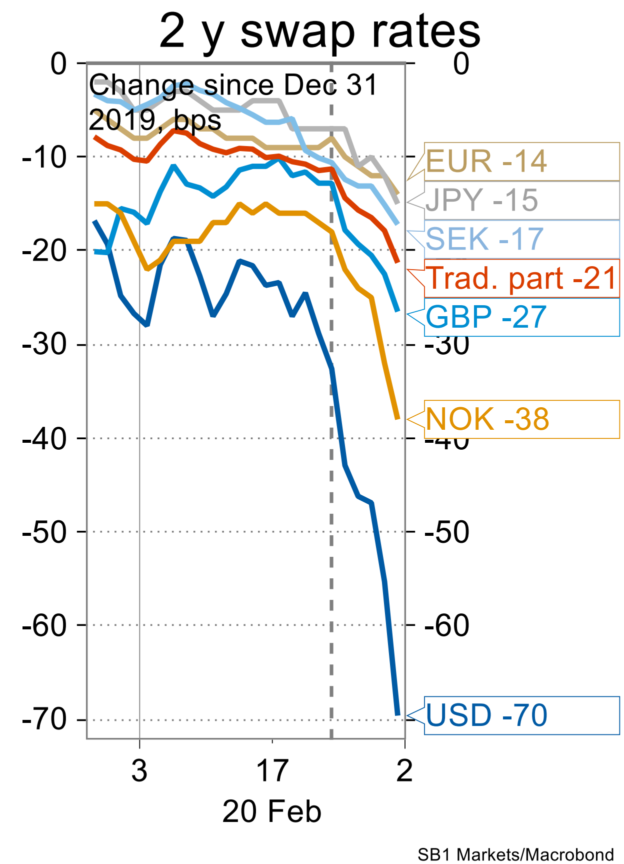


- The decline in the Fed Funds futures accelerated sharply last week, as the coronavirus spread and fears rattled financial markets. The January 2021 contract fell by almost 50 bps last week!
  - » Markets are fully pricing a Fed a 50 bps March cut, and by another 50 bps by the end of 2020. Two weeks ago, markets were fully pricing just 1 cut, and some 50% probability of 2 cuts this year

US and NOK short term rates shaply down, less elsewhere

The US 2 y swap rate dropped 37 bps last week, EUR ‘just’ -6 bps, NOK -20 bps





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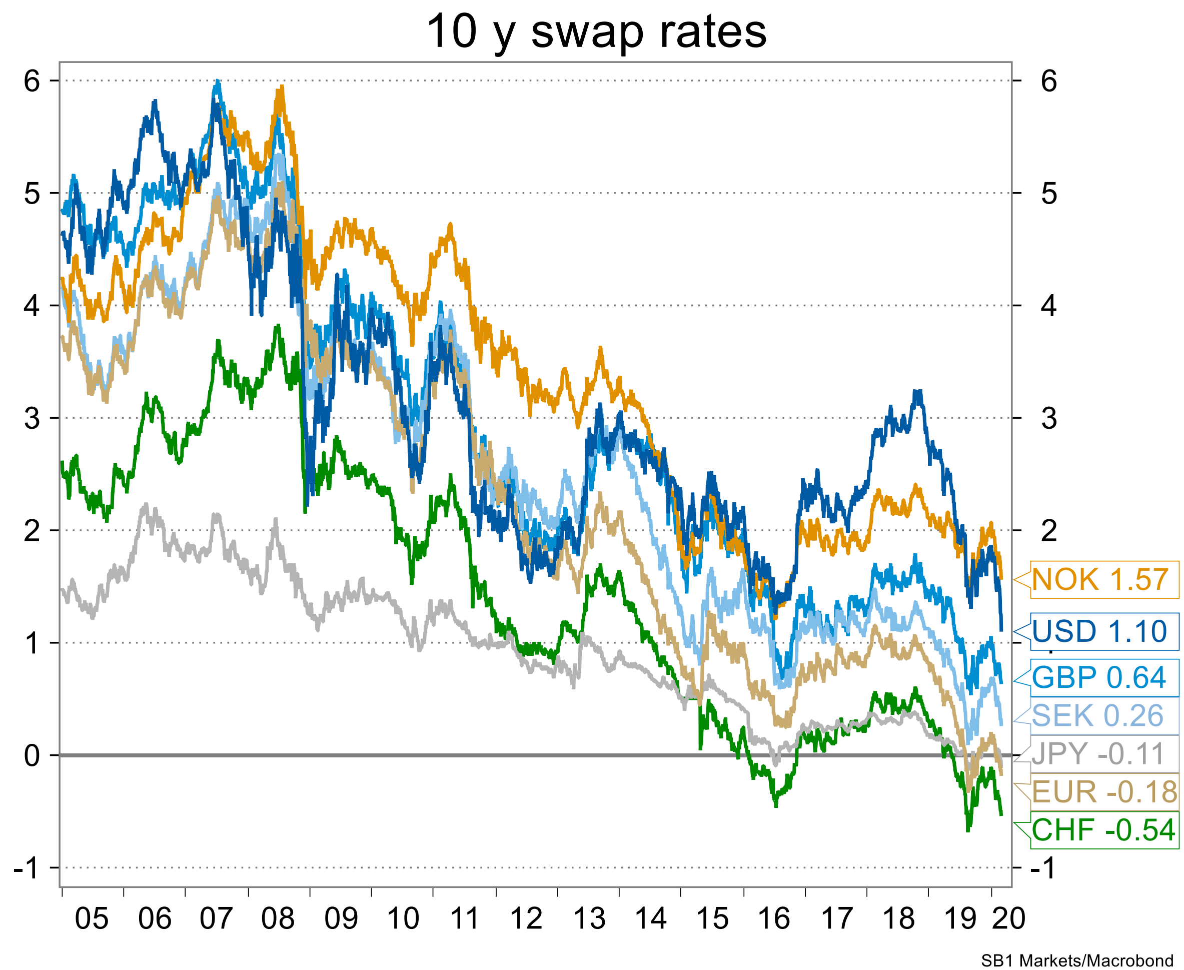
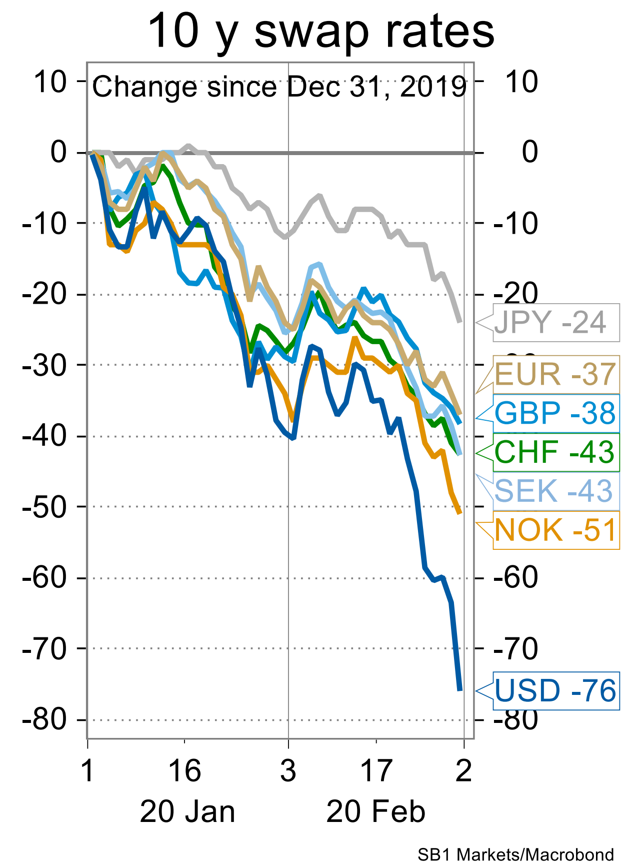
Long term swap rates down the drain on global (corona) growth angst

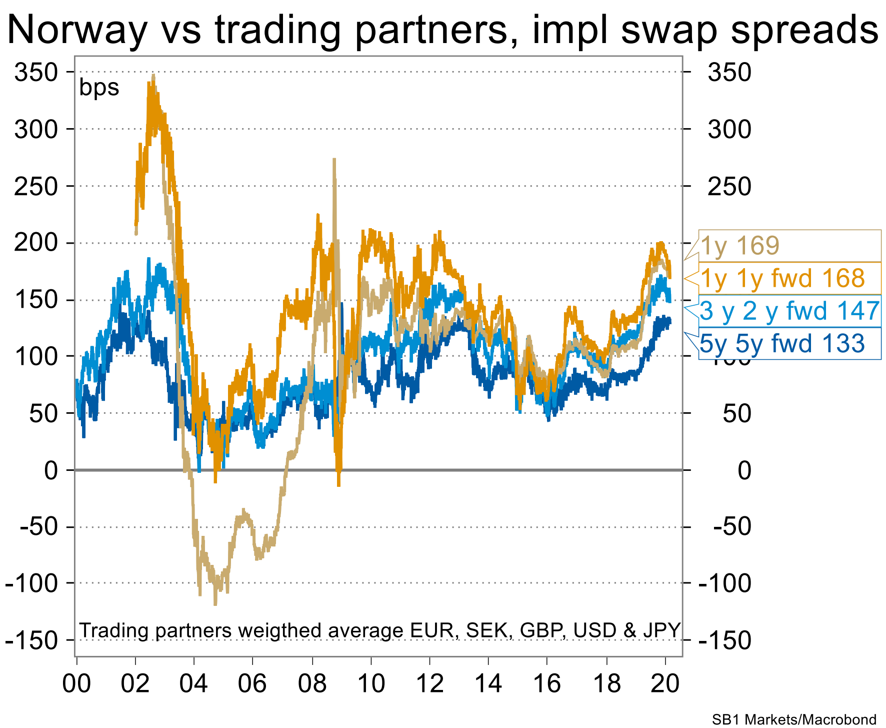
US 10 y swap rate fell to the lowest level ever last week, others still above Aug/Sept levels

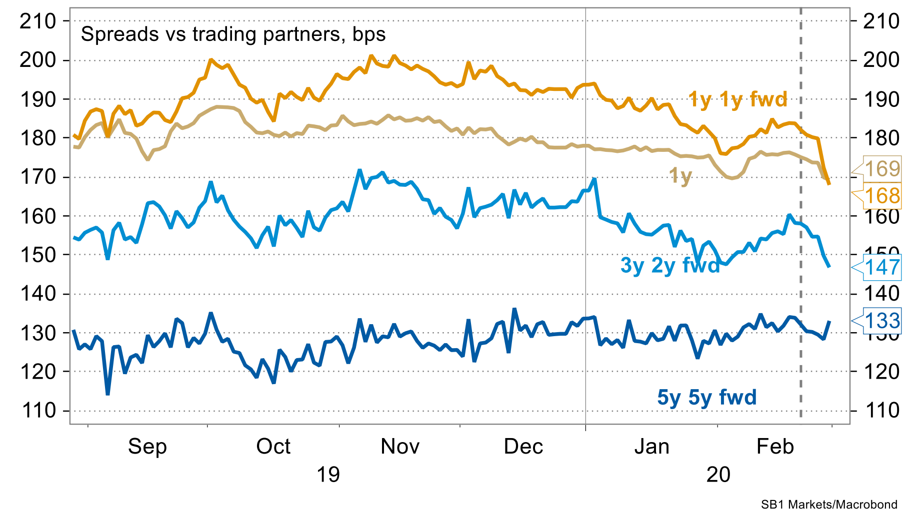


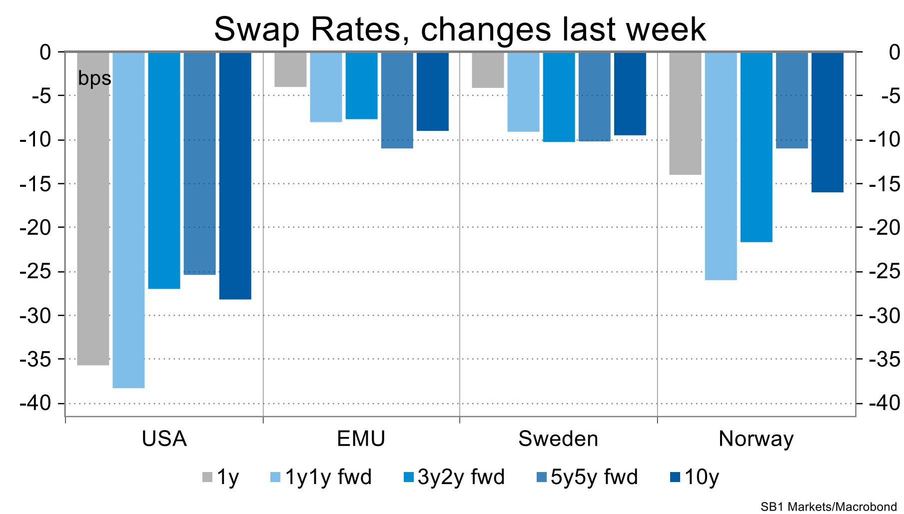


Swap spreads vs trading partners down, as NOK rates fall more than EUR, SEK

NOK rates dropped more than Eurozone, Sweden last week, but less than US rates





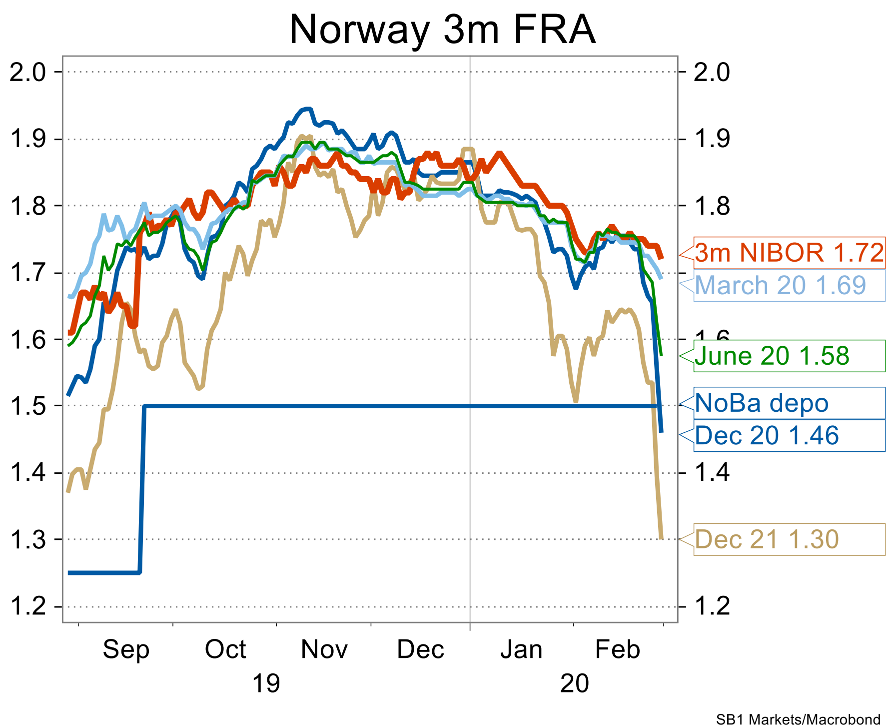


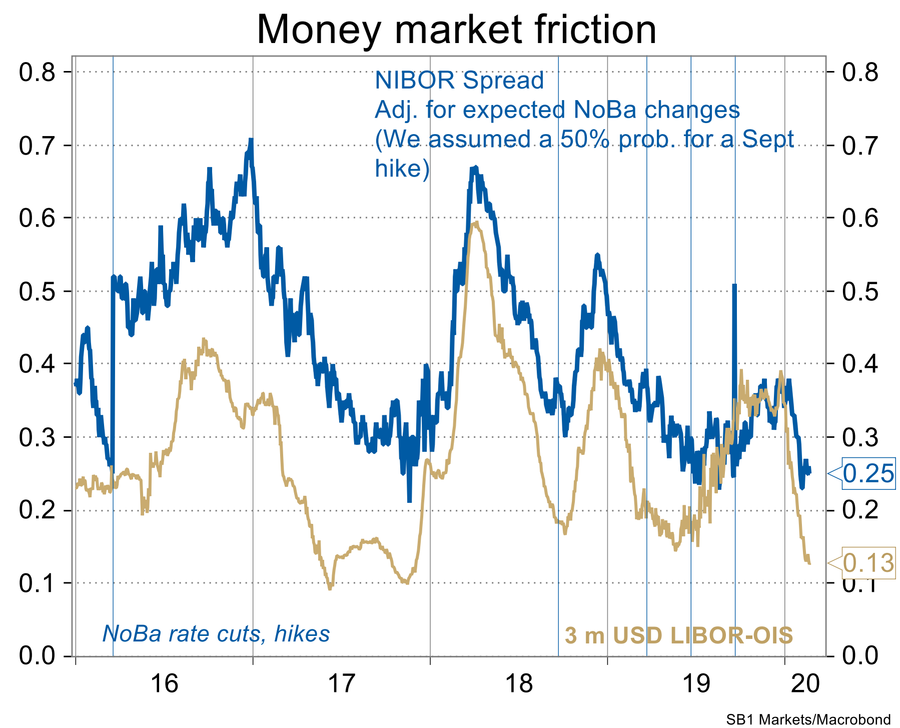
- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since Nov, spreads have trended down on the short end of the curve, spreads fell by 20 bps. At the long end of the curve, the spreads have flattened out. The past week, spreads fell, as NOK swap rates fell even more than the trading partner avg
- 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 133 bps is still too wide, long term

SpareBank 1 MARKETS

Norwegian FRAs collapsed, markets are fully pricing a 2020 NoBa cut

Following last week's 'collapse', markets are pricing some 80% probability of a cut by June

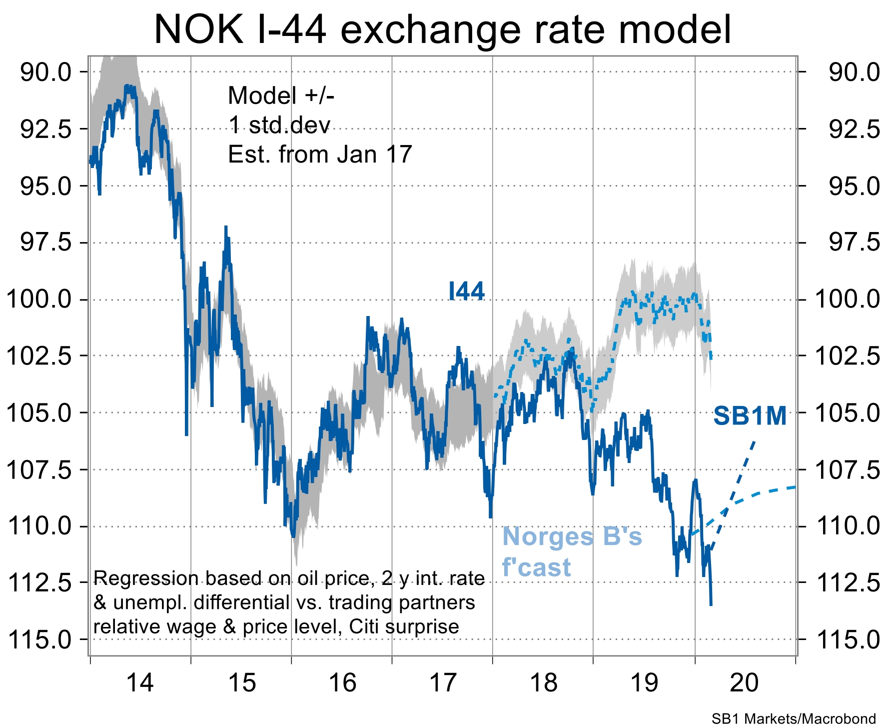


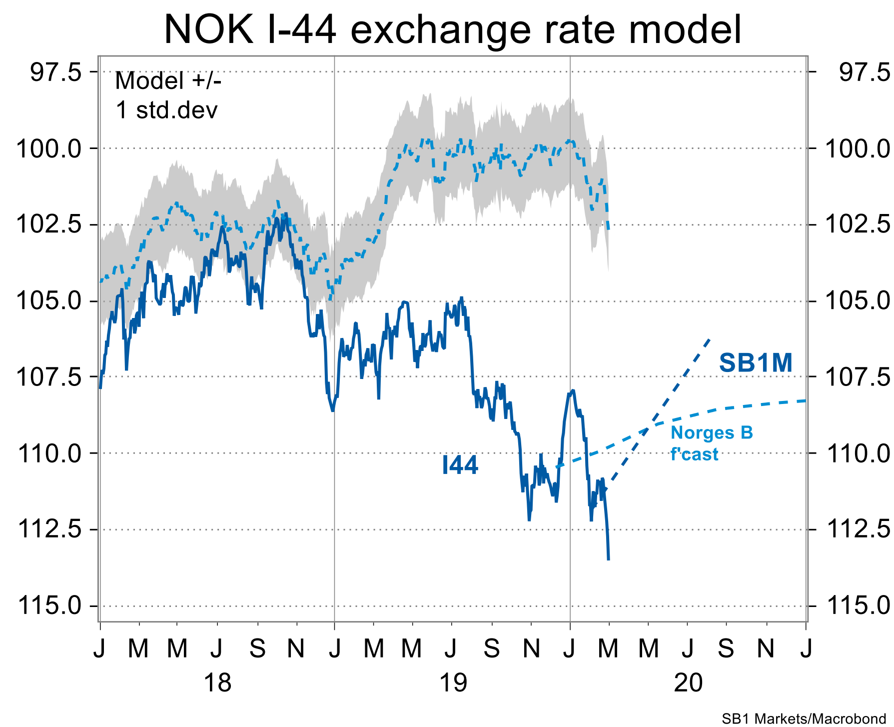


- The 3m NIBOR edged down last week, to 1.72%
  - The 3 m NIBOR implies just a 22 bps spread vs the signal rate given no cut expectations the coming 3 m, below Norges Bank's f'cast of 35 bps. Cut expectations can probably explain a few bps, but the spread has probably narrowed, like in the US. The US 3m LIBOR-OIS has turned steeply recent weeks, to XXX
- Longer dated NOK FRAs rates have fallen sharply. The FRA curve is tilted steeply downwards, no doubt due to increased expectations of an interest rate cut. Markets are fully expecting a 2020 NoBa cut (of 25 bps) from 20% probability last week (assuming a spread just below 30), with some 30% probability of two cuts. A cut by June is expected by approx. 80% prob!

Weakest NOK ever – the standard oil model explains most of the recent decline

NOK slipped 2% last week to the lowest level ever, the model down 1.5%

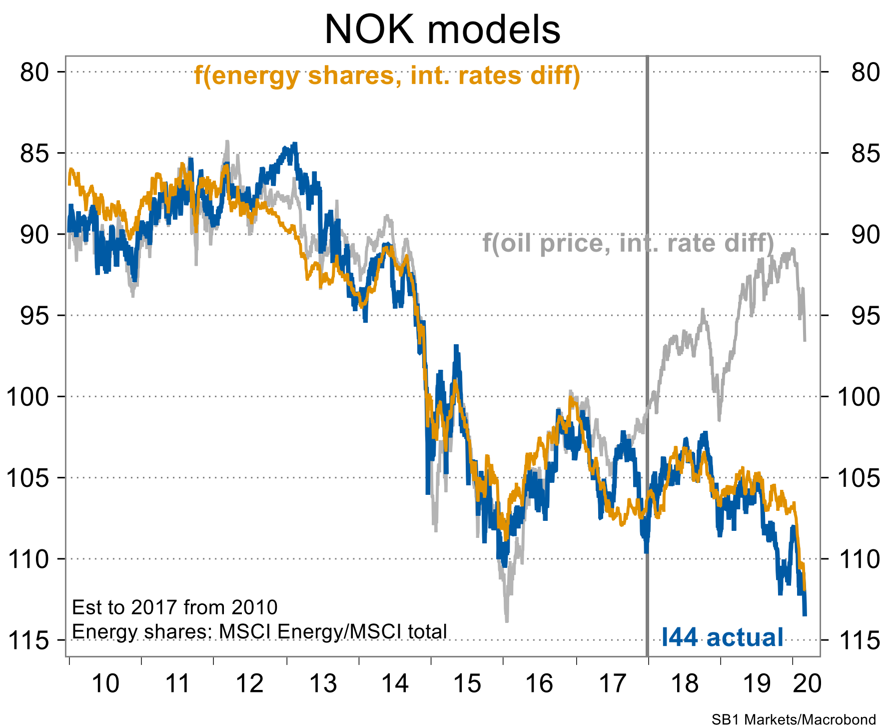


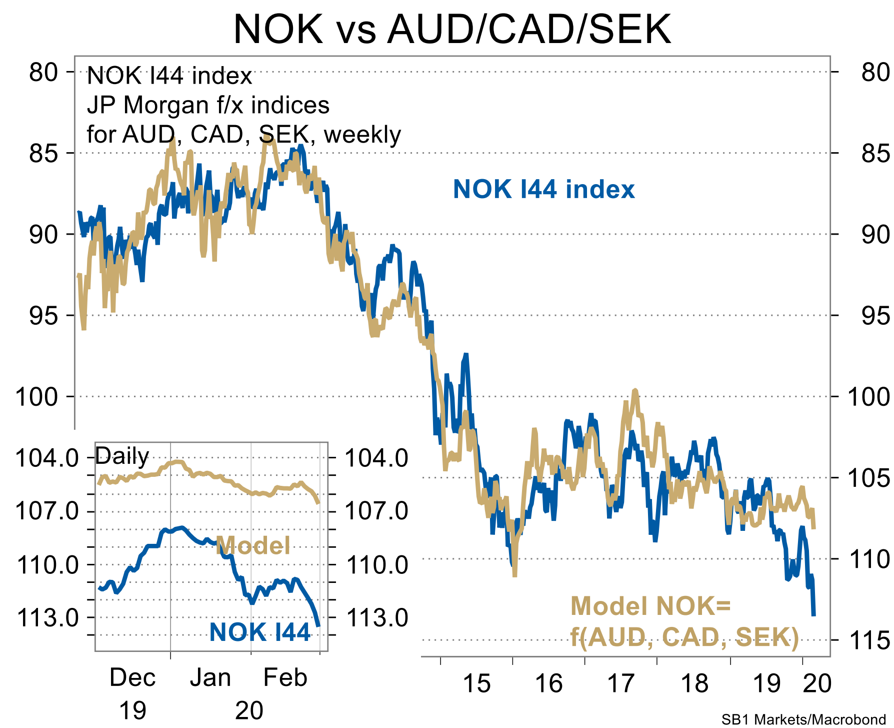


- NOK steeply down last week, of course on coronavirus fears and the oil price decline, to a new ATL, by far
  - » The gap between the our standard model estimate and the actual I44 index is still close to record wide, at 11%
- Both our 'new' models, based on the other super cyclical currencies (AUD, CAD, SEK) or energy (oil) equities fell steeply last week as well, and they explain the NOK much better than our standard model, check next page
- We stick to our **buy NOK** recommendation, in the long term, however, in the short term, there is still substantial downside risk should the decline in financial markets/commodity prices deteriorate and growth fears persist

NOK fell more our alternative model suggested

NOK is 5% too weak vs the 'supercycle' model and 1.4% 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, <u>but equally to AUD the past months</u>

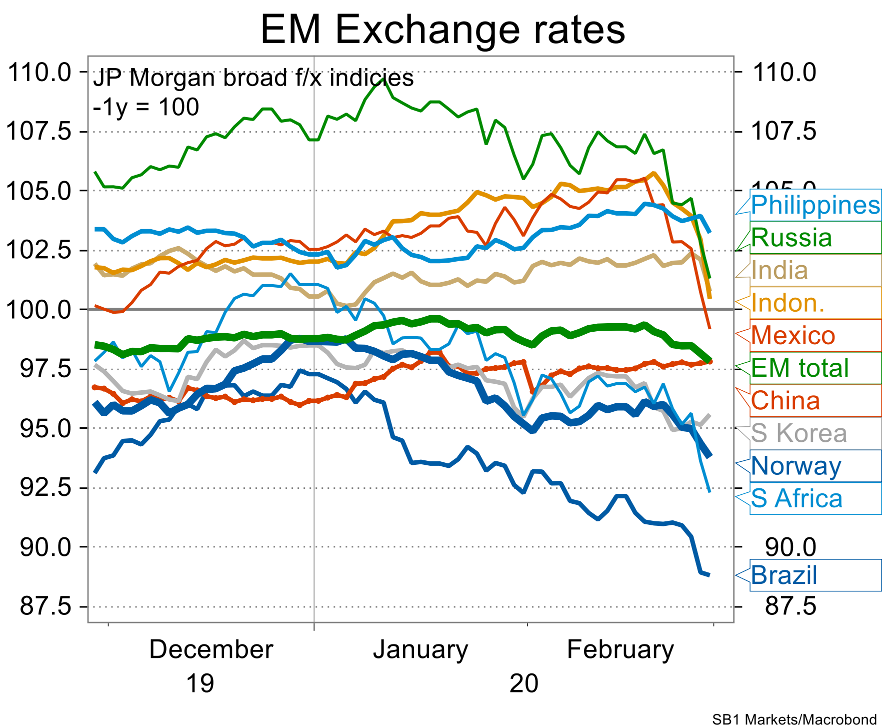
SpareBank 1 MARKETS

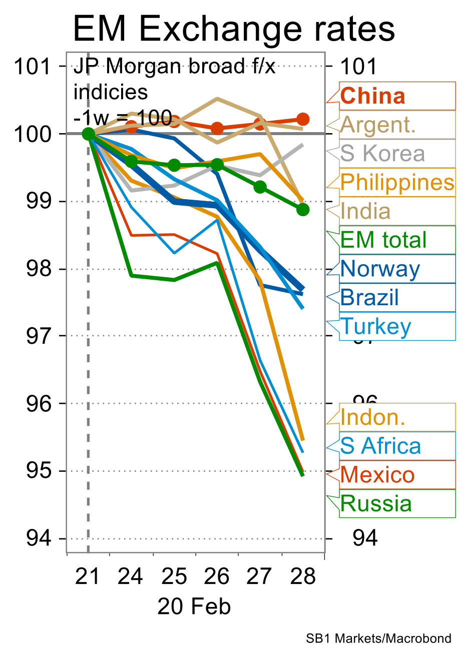
Down Under or Up North; NOK and AUD stabilized, after almost 4% decline

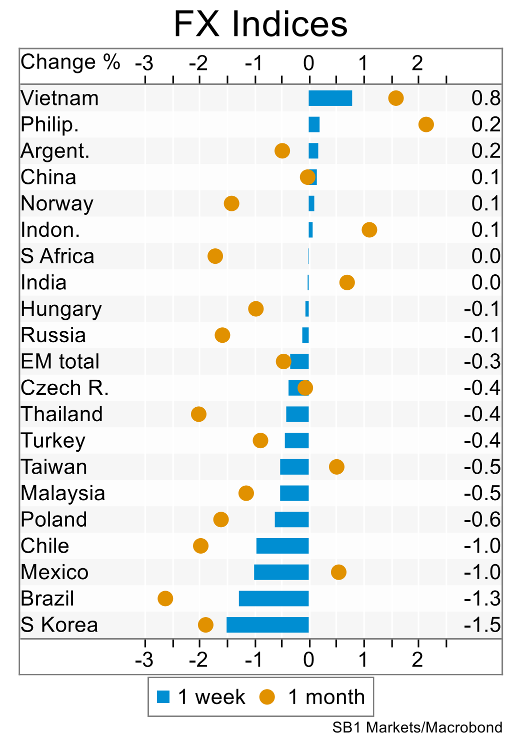
Both are sensitive to expectations of Chinese and global demand, recently slashed by the coronavirus

EM currencies steeply down as corona spread accelerates outside China

CNY has not weakened during the Covid-19 outbreak (and last week, growth in cases fell to 1%)







- Most EM (Emerging Markets) currencies have depreciated rapidly on the coronavirus outbreak, Russia, Mexico and South Africa suffered the most last week. And the weakest link in the chain was – for a good reason – South Korea

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