30 March, 2020

Macro Research

Weekly update 14/2020

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- Highlights
- The world around us
- The Norwegian economy
- Market charts & comments

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

- **The coronavirus** is still spreading fast and the total number of cases is now above 700.000 and is still growing at a fast pace in many countries. The US surpassed China in the total number of cases, although more people may have been tested in the US. The number of deaths is still high in Italy, but the number may now be flattening out, as the lockdown must have reduced the growth in new cases
- **Everywhere, the authorities are promising to do 'whatever it takes'** in order to dampen negative impacts during the 'lockdowns', and to increase the likelihood of a demand recovery as soon as the production capacity is back (that is: how to ensure that households/businesses are able and willing to start spending, before they receive 'market' revenues)
  - » How this supply/demand 'coordination' problem can be solved is just as important as to keep households and businesses alive during the lockdown
- **Thus, massive fiscal and monetary stimulus measures are rolled out.** The USD 2 trl 10% of GDP package was approved by the Senate, the largest emergency bill in US history, partly gov. spending, partly loans and guarantees for the business sector. The Fed pledged unlimited QE, and has expanded the balance sheet by some 5% of GDP in one week, buying both treasuries and corporate bonds. The global fiscal policy stimulus is at least 2.5% of global GDP (cyclically adjusted).
- **In Norway**, the third aid package was announced Friday, the last one to fund struggling businesses paying their fixed cost (rents, insurance; labour costs are already taken care or). The public sector ex oil deficit may increase some 7 pp of GDP, still just 2% of the Oil fund.
- **The set of preliminary March PMIs** released last week confirm that the global economy is heading for a steep recession (in fact, we are already there). PMIs from the US, Eurozone, Japan and UK all crashed, and the service industry reported the steepest contractions on record. The final outcome will be weaker than a 10 avg decline in these countries but the Chinese PMIs released this week should recover sharply (we expect to above 50). Manufacturing fell in all countries, and the real decline was sharper than the headline PMIs indicate; the *output & orders* indices fell much more. A 1.5 – 2% decline in global GDP in 2020 is still our best guesstimate
- The unprecedented impacts on **labour markets** became apparent last week; the number of new jobless claims in the US soared to an extreme 3.3 million, far above any levels seen before, and the continued claims unemployment rate probably shot up to 3% from 1%. In Norway unemployment has soared to 11% from 2% in just two weeks, and may well increase to 15-20% the coming weeks; levels not seen since the Great Depression. At least 90% of the increase is due to the surge in (hopefully) temporary layoffs, fully compensated by the government (up to NOK 600' annual wage). Other countries will follow suit
- **Stock markets** rose sharply up as investors cheered the US stimulus package. Bond yields mostly flat. **NOK** recovered, still extremely weak

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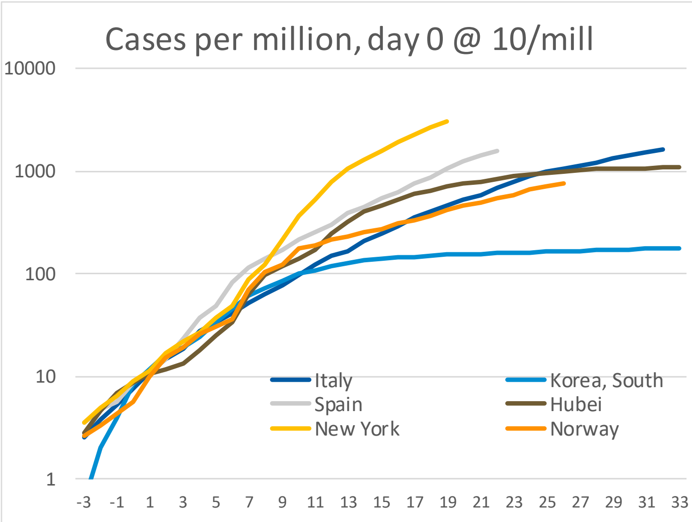
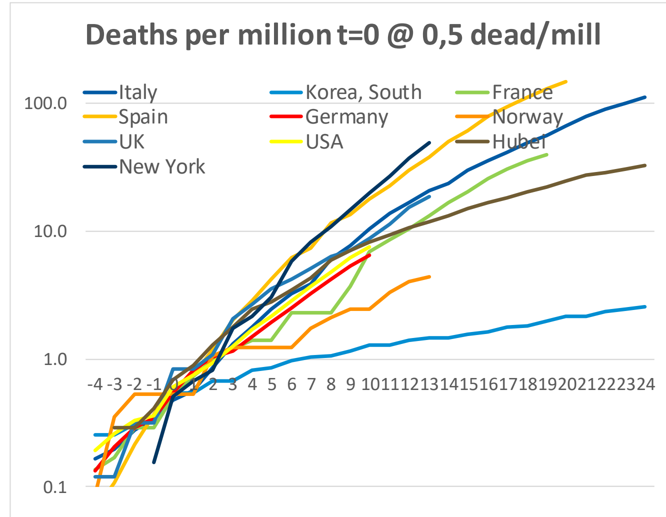
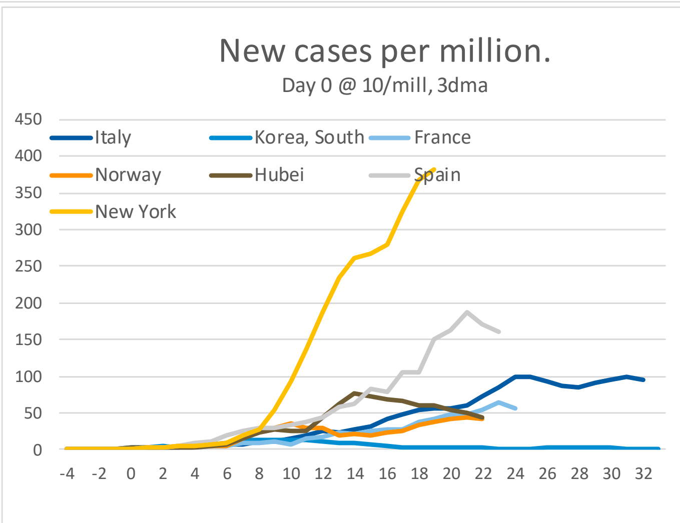
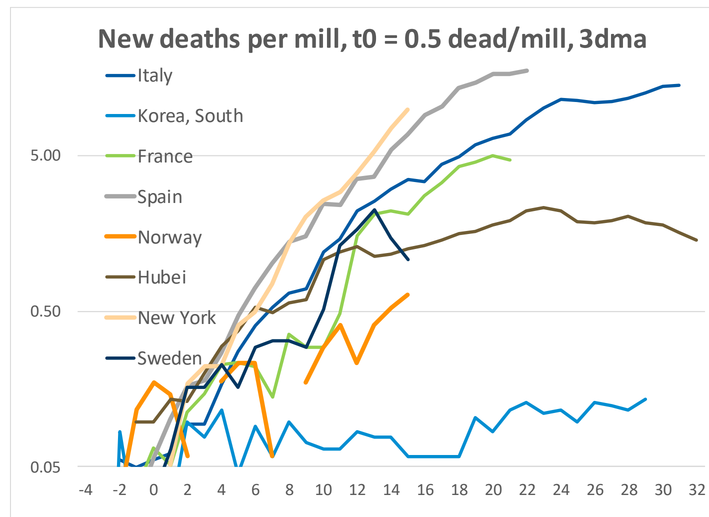
Our best corona charts: Italy starting to stabilize, US the major concern now

We are probably starting to see impacts of the lock downs after two weeks time (now; Italy)









The case number are strikingly similar, even if testing methods seem to differ. Sources: Johns Hopkins, SB1 Markets

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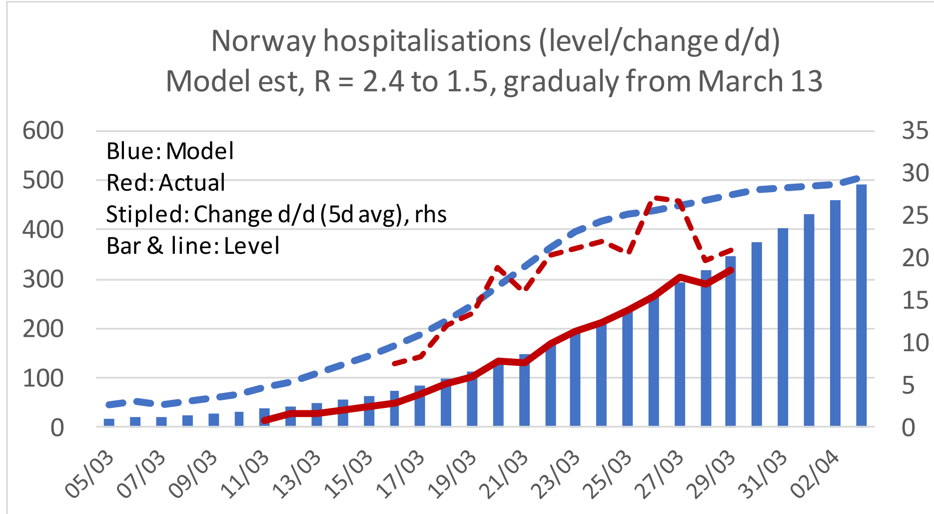
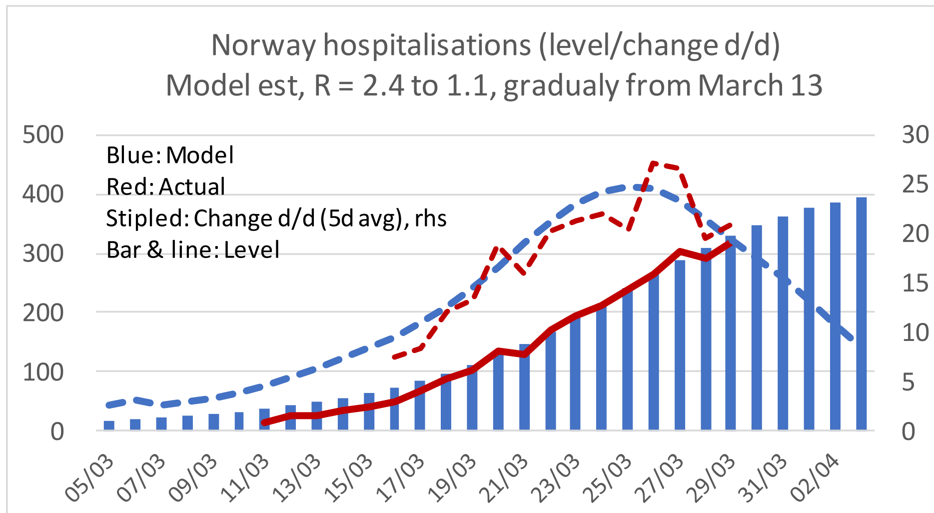
Norway needs an 'R' at close to 1.1, in order not to exceed intensive care capacity

If above 500 in hospitals next Friday: Not sustainable. If below 400; Almost in place

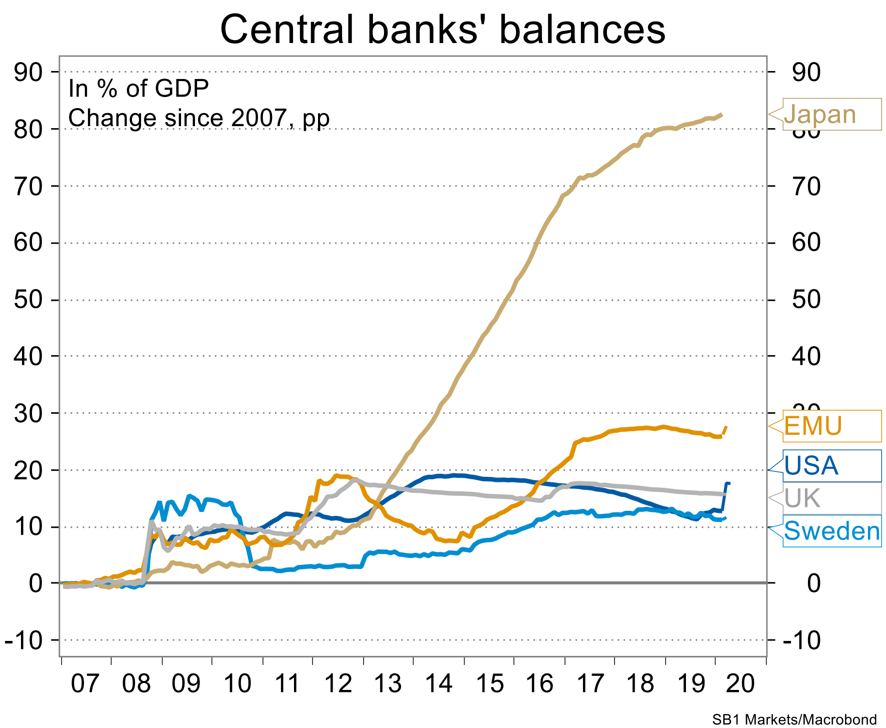
- The 'R' has to decline to close to 1 in order to prevent hospitals to get overwhelmed by ICU (intensive care units) vs the likely reproduction 2.4 initial (basic) level
- The reproduction number 'R' has most likely fallen substantially outside the families/households (which counts for some 1/3rd of the contagion process). Soon, household contagion will burn out, and the 'R' declines further, at least if social distancing remains at the present level
- Our baseline hypothesis is that the reproduction rate is pushed too far down in order to keep the corona virus well in check
- Growth in the number of hospitalisations in Norway has probably slowed – at least it is not accelerating following the partial 'lockdown' of the Norwegian society & economy from March 13
- It may be too early to draw any conclusion by the end of this week but if the number of covid-19 patients at the hospitals not has exceeded 400 at Friday vs 317 yesterday, spread of the virus has probably slowed
  - » Above a 500 level will signal that measures cannot be relaxed (though with a modification for inter family contagion, that may not yet have fully burned out)





QE is ramped up aggressively, more than 5% of GDP in one week in the US

ECB has pledged 7% of GDP QE, just 1 pp delivered. Huge fiscal packages, everywhere + gov. loans



Source: UBS/The Economist

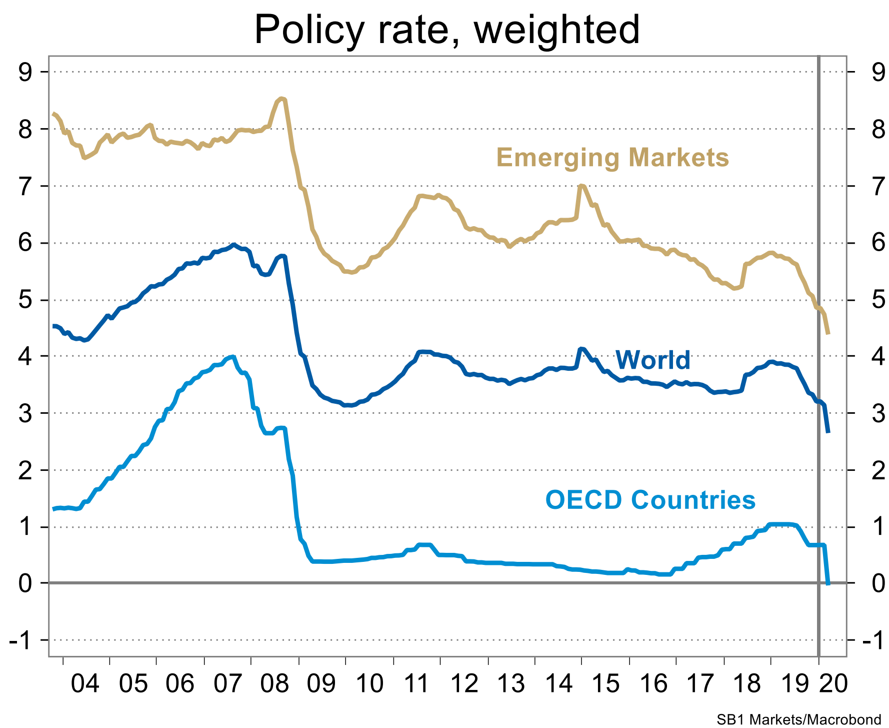
- It's hard to get track of all the measures now decided (some important data points next page). Most places, it is a mix
  - » **Outright public spending**, first like income transfers to households, then a second wave with transfers to the business sector. Further measures will be decided, if needed. The total cost will depend of the length/depth of the 'lockdown' and whether or not the economy 'automatically' recovers after the lockdown. So far, UBS (via Economist) has counted a 2.5% of global GDP fiscal stimulus, cyclically adjusted, implying that the actual stimulus may be some 1.5 pp higher, at 4% of GDP. Public debt will increase accordingly
  - » **Loans and guarantees from the government**, mostly to the business sector. More than half of the 10% of GDP US support package (and almost the half of the Norwegian measures) are loans/bond buying or guarantees. An unknown part of these will in the end be lost (and must be counted as money spent, not lent)
  - » **Monetary policy measures**. 22 out of 27 of the most important central banks have cut their interest rates, the DM average is now zero. Several banks have engage in heavy quantitative easing (QE) again, and have promised to do more – the Fed without limit, it seems. Both government bonds, corporate bonds and direct loans are on the menus. In the end, banks are able to stabilise financial markets so they do not make too much extra harm on the real economy

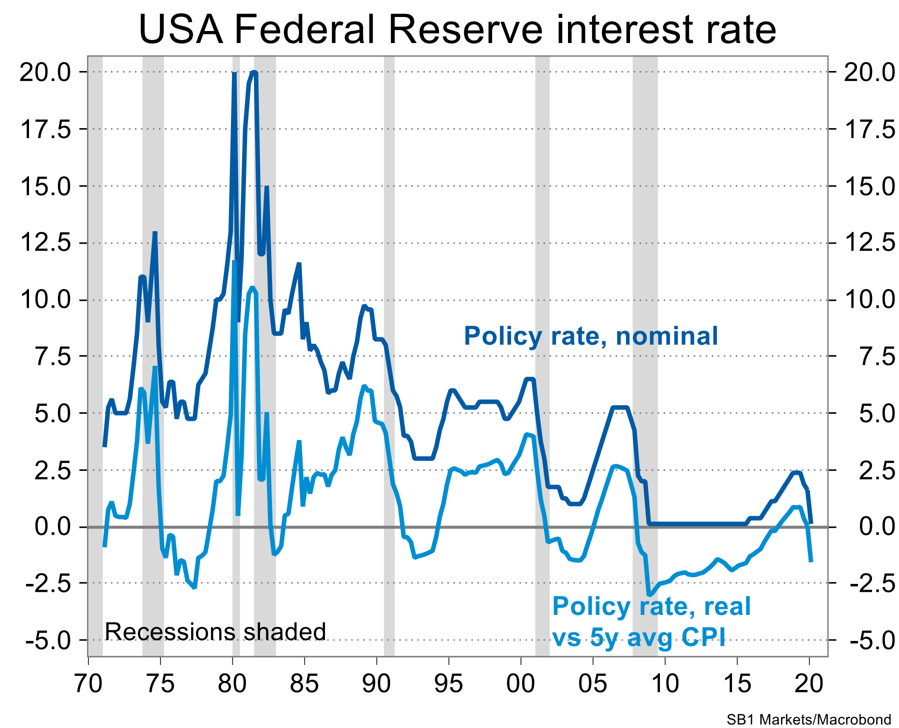
Central banks and governments have pledged 'whatever it takes'

- **The real economic loss is that production and income are not generated during the lockdowns, and these lost months cannot be recouped. How to compensate those who are now bearing this real cost, who should foot the bill (and when), and how to ensure that demand will be there when production can start up again, is largely up to the authorities to decide. We are now witnessing unprecedented policy decisions by the day**
- **US:** The Fed has taken unprecedented steps; The signal rate is cut to zero (0 – 0.25%) and 'unlimited' quantitative easing has been launched, including purchases of corporate bonds, 5% of GDP was bought last week. An enormous USD 2 trillion stimulus package (close to 10% of GDP), the largest stimulus bill in US history is decided. The package includes 'helicopter money' to all US households, better unemployment benefits, and support for businesses, both transfers and extremely soft loans, of which much will be forgiven
- **Eurozone:** The ECB launched a 'bazooka' of additional EUR 750 bn in QE (on top of the 120 bn announced prior to this), in what is called the *Pandemic Emergency Purchase Program*. The ECB will purchase both government bonds and corporate bonds, with the aim of keeping liquidity flowing
- **Germany:** Signalled that the 'zero black' (balanced budget) policy is abandoned for the time being, and deficit spending is agreed upon. A huge liquidity support to the corporate via the state owned KfW bank is decided
- **China:** The People's Bank of China cut the one week reverse repo rate to 2.2% this morning, from 2.4%. Reserve requirements have been cut, for the 7th time since 2018. Some fiscal measures are decided
- **UK:** BoE has cut the signal rate to 0.1%. Three stimulus packages have been announced, mostly fiscal support
- **Sweden:** The Riksbank offers loans to banks and will buy commercial bonds, the government has decided substantial fiscal stimulus
- **Norway:**
  - » Norges Bank cut the signal rate to 0.25%, the lowest level ever. The bank signals willingness to cut further
  - » New lending/guarantee program has been announced: Up to NOK 50 bn (1.7% of GDP) in guarantees for bank lending, mainly to SMEs
  - » The Government has reactivated The Government Bond Fund, administered by Folketrygdfondet. The fund will invest in Norwegian corporate bonds. The initial amount for this program is NOK 50 bn (out of a total market at some NOK 350 bn, a substantial support program)
  - » A fiscal emergency package of NOK 65 bn was announced the previous week, including a generous model for temporary lay offs, sickness leave etc.
  - » Last Friday, the government proposed another package, mostly towards the business sector, at an estimated cost of NOK 10-20 bn per month. The aim is to compensate businesses which are experiencing loss of revenue for their fixed costs such as rent and insurance bills
  - » The amounts are substantial (up to 10% of GDP, depending on the length/depth of the downturn. The government is strongly signaling that it would do 'whatever it takes', and foot the bill. Norway has no fiscal constraints, given the 3 x GDP Oil fund
- 22 out of 27 major countries have cut their policy rates, in average down to zero in developed markets. The room for further cuts is limited

Limited room for lower rates

Rates have been cut in many countries but the potential is limited, from 0.7% in avg before corona

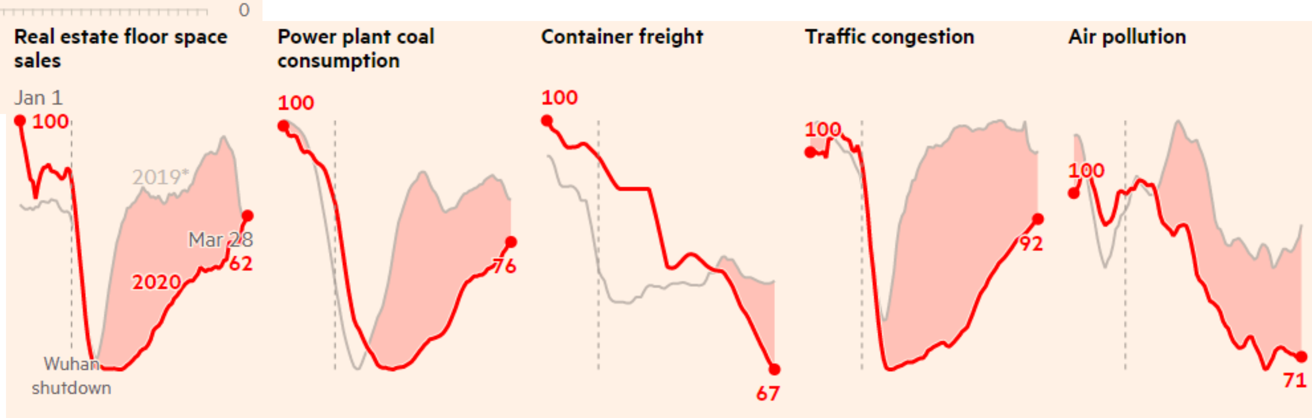




- During economic downturns rates are normally cut by some 4 – 6 pp, lowering the real interest rate to well below zero. Now, the average policy signal rate of the OECD countries is at 0%, from 0.7% before the epidemic hit. That's more or less all…
- Even so, monetary policy is not totally impotent, flip to the next page

The Chinese economy is slowly gaining speed, still far from fully back

Daily activity data signal a recovery in most sectors, barring transport

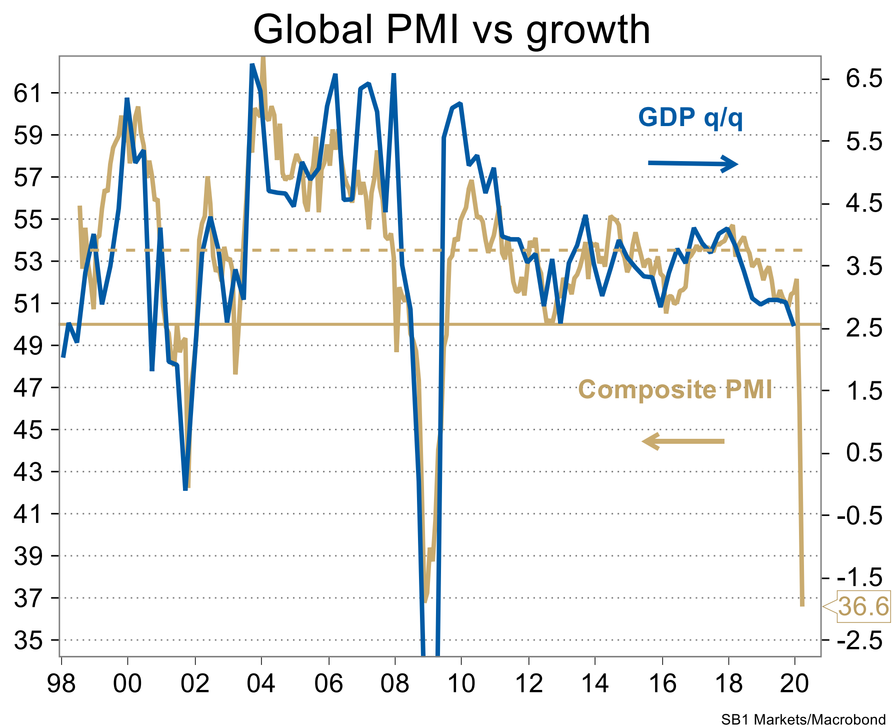


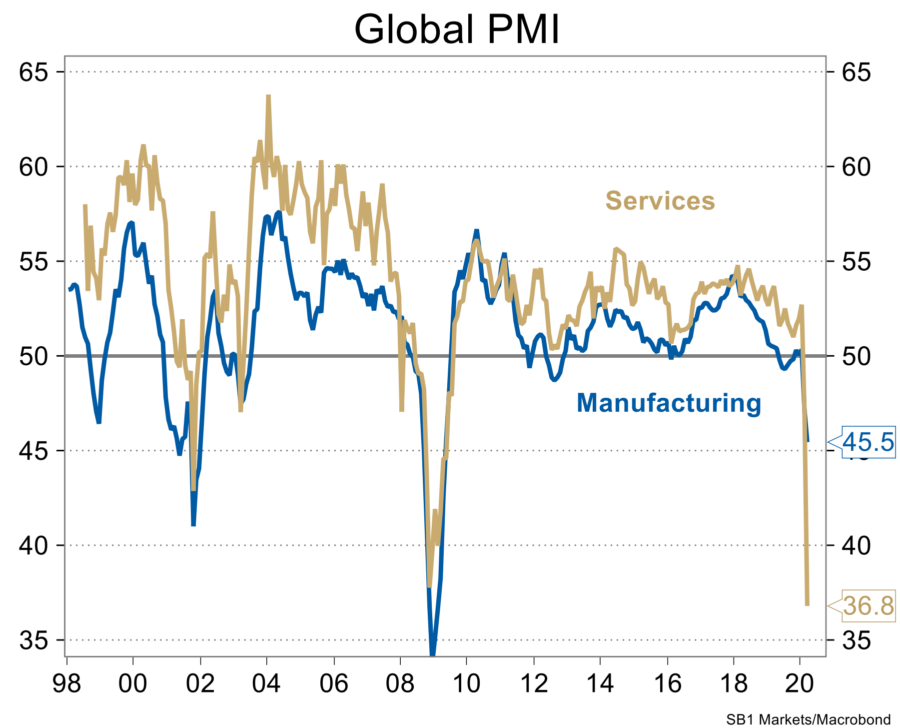
- Urban public transport is still slow but it is rising slowly, while freight activity (domestically, not international) is almost back to a normal level

Source: Financial times

The global PMI crashed in March, indicating the world is in a deep recession

Global PMI tumbled some 9 p (so far), as service industries collapsed amid the corona crisis





- Global composite PMI crashed 9.5 p to 36.6 in March, according to our estimate based on the preliminary PMIs from the US, Eurozone, UK and Japan. The level is marginally below the 2009 trough and an all time low for the PMI (starting in '98). Face value, the PMI suggests a 2% decline in global GDP – and we have probably not seen the bottom yet
  - » The Chinese PMI probably recovered in March (to above 50, we assume) as activity returned in many sectors, and may lift the global PMI. On the other hand, several other countries are likely to report steep declines in March – and the final March figures will no doubt be even worse than the preliminary results
- Covid-19 sent services into the sharpest contraction on record. Manufacturers are no doubt struggling too – and the manufacturing PMI was artificially boosted by a spike in delivery times (which this time was not due to strengthening demand!)

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

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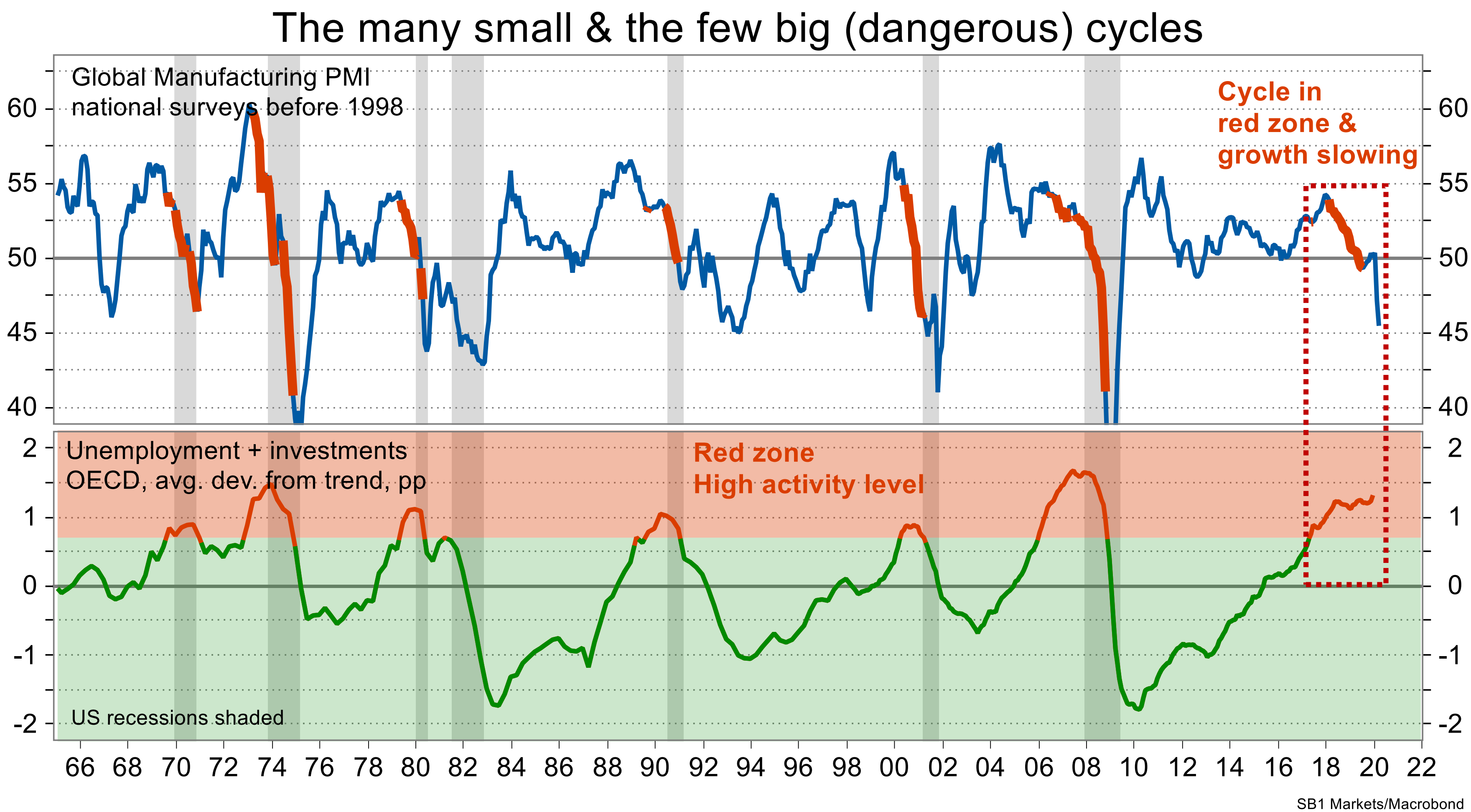
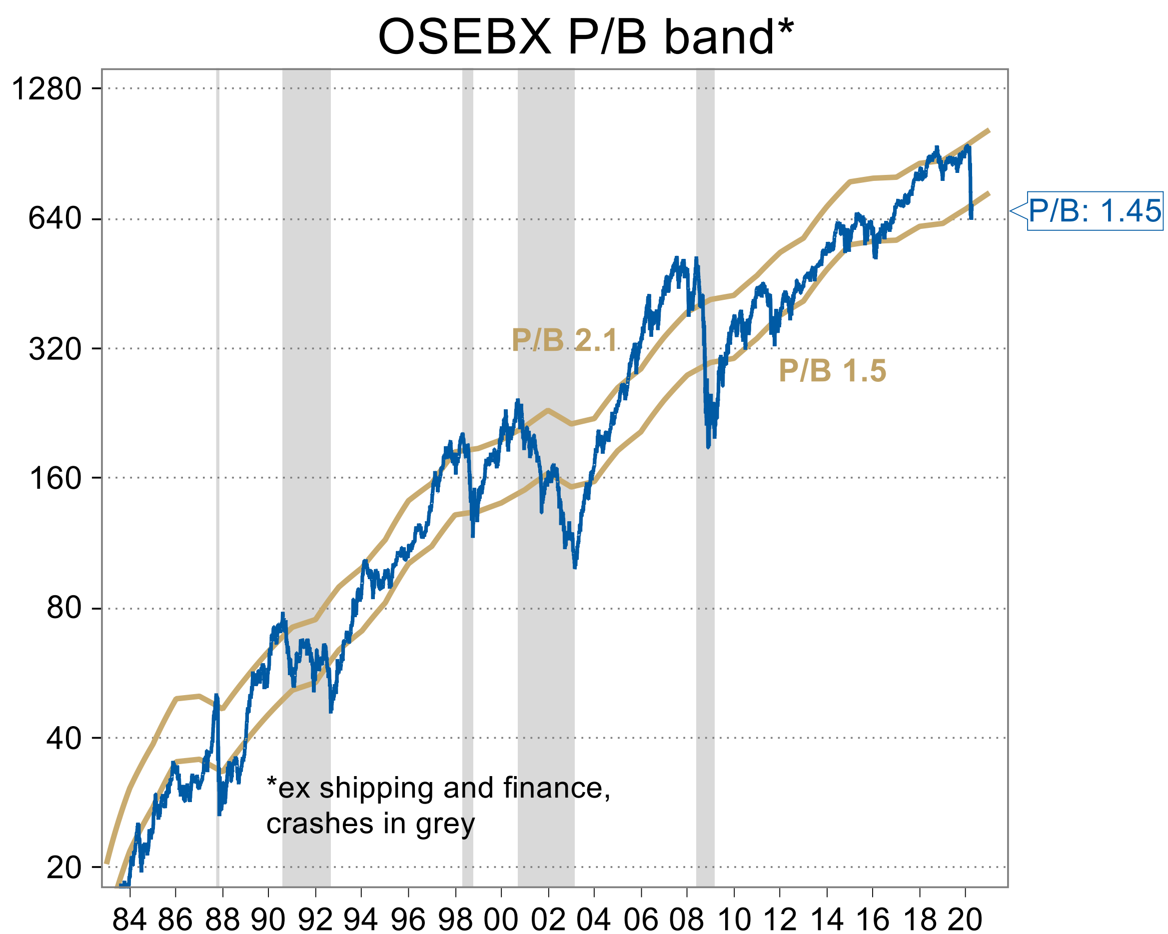
DANGER: A high activity level and a growth slowdown

Like now. Usually it takes time to recover after a recession, possibly also after a virus recession…

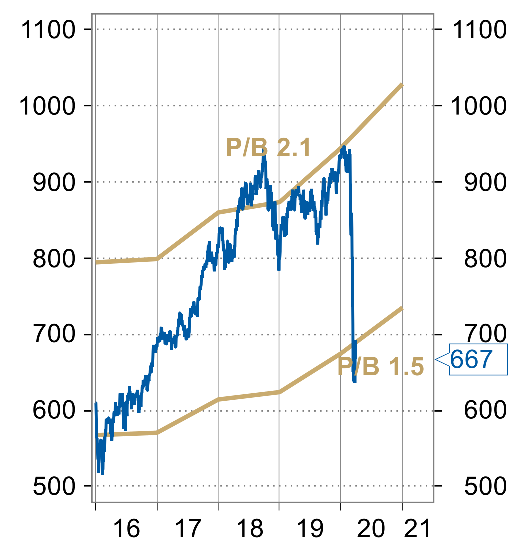


Oslo Stock Exchange: Was expensive. Ain't really cheap yet

But if you have a medium term horizon…



Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.



Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

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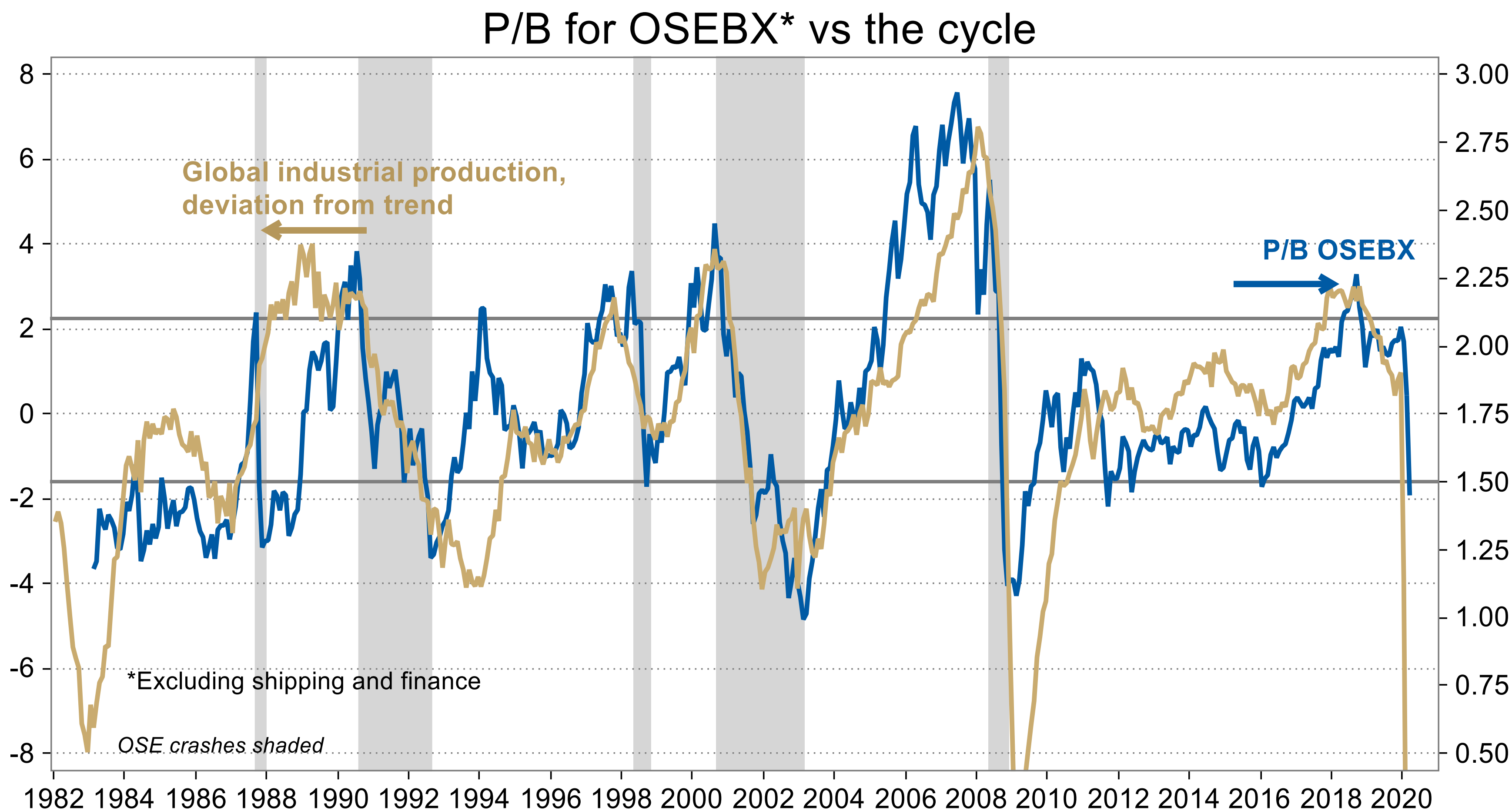
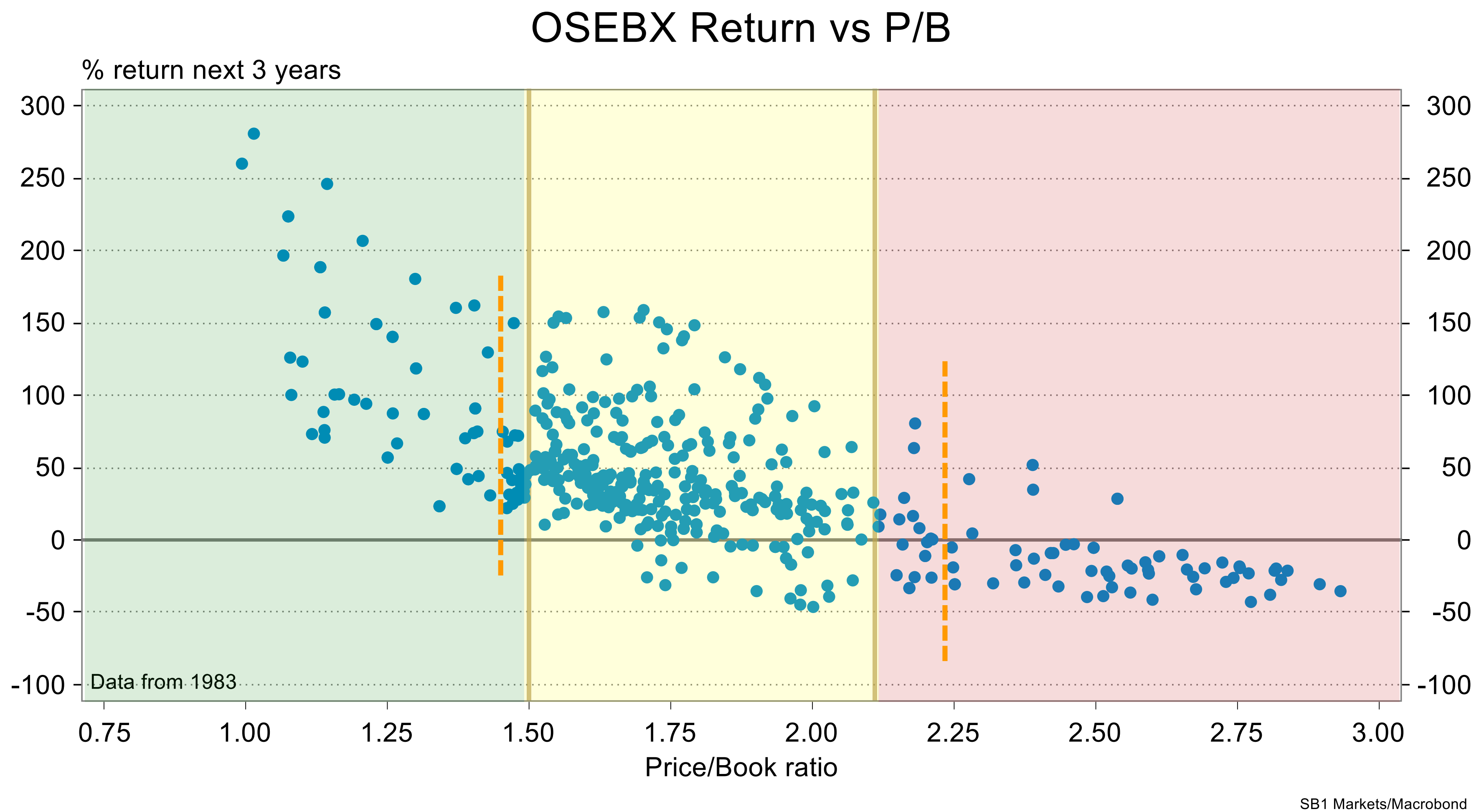
The economy & the stock market: Some very common cycles



Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

The basic trick when investing: Buy cheap!



Source: SB1 Markets, Macrobond.

The Calendar: Many key data points

In focus: March China PMIs, global PMI/ISM, US nonfarm payrolls, Norwegian unemployment

Time	Country	Indicator	Period	Forecast	Prior
Monday Mar 30					
11:00	EC	Economic Confidence	Mar	91.3	103.5
16:00	US	Pending Home Sales MoM	Feb	-1.8%	5.2%
Tuesday Mar 31					
01:30	JN	Jobless Rate	Feb	2.4%	2.4%
01:50	JN	Retail Sales MoM	Feb	-1.5%	0.6%
01:50	JN	Industrial Production MoM	Feb P	0.0%	1.0%
03:00	CH	Composite PMI, NBS/CFLP	Mar	43.2	28.9
08:00	NO	Credit Growth YoY	Feb	--	5.0%
10:00	NO	Registered Unemployment, Weekly	Mar-31		11%
11:00	EC	CPI Core YoY	Mar P	1.2%	1.2%
15:00	US	House Prices CS 20-City MoM	Jan	0.4%	0.4%
15:45	US	Chicago PMI	Mar	44	49
16:00	US	Conf. Board Consumer Confidence	Mar	114	130.7
Wednesday Apr 1					
02:30	JN	PMI Manufacturing	Mar F	--	44.8
03:45	CH	PMI Manufacturing, Markit/Caixin	Mar	45	40.3
08:30	SW	PMI Manufacturing	Mar	--	53.2
10:00	NO	OBOS Oslo Apartment Prices	Mar		0.5%
10:00	NO	PMI Manufacturing	Mar	--	52.2
10:00	EC	Manufacturing PMI	Mar F	44.7	44.8
10:30	UK	PMI Manufacturing	Mar F	47	48
11:00	EC	Unemployment Rate	Feb	7.4%	7.4%
14:15	US	ADP Employment Change	Mar	-125k	183k
15:45	US	Markit Manufacturing PMI	Mar F	--	49.2
16:00	US	ISM Manufacturing	Mar	46	50.1
16:00	WO	Global Manufacturing PMI	Mar	(45.5)	47.2
	US	Total Vehicle Sales	Mar	15.20m	16.83m
Thursday Apr 2					
13:30	US	Challenger Job Cuts YoY	Mar	--	-26.3%
14:30	US	Trade Balance	Feb	-$43.8b	-$45.3b
14:30	US	Initial Jobless Claims	Mar-28	--	3283k
Friday Apr 3					
02:30	JN	PMI Composite	Mar F	--	35.8
03:45	CH	PMI Composite, Markit/Caixin	Mar	--	27.5
08:30	SW	PMI Composite	Mar	--	55.7
10:00	EC	Composite PMI	Mar F	31.4	31.4
10:00	NO	Unemployment Rate, Registered	Mar	(14%) 13%	2.3%
10:30	UK	Composite PMI	Mar F	36.1	37.1
11:00	NO	House Prices, Real Estate Norway	Mar		0.5%
11:00	EC	Retail Sales MoM	Feb	0.1%	0.6%
14:30	US	Change in Nonfarm Payrolls	Mar	-81k	273k
14:30	US	Unemployment Rate	Mar	3.8%	3.5%
14:30	US	Average Hourly Earnings YoY	Mar	3.0%	3.0%
15:45	US	Markit Composite PMI	Mar F	--	40.5
16:00	US	ISM Non-Manufacturing Index	Mar	48	57.3
16:00	WO	Global Composite PMI	Mar	(36.6)	46.1

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

- **Global PMIs**
  - The **Chinese PMIs** are perhaps the most crucial data points this week, as they will give indications on the speed of recovery in China. The PMIs should rebound to well above 50, as activity most likely rose in March following the February slump. For other PMIs, there is substantial downside risk vs the preliminary surveys in the first half of March. The US manufacturing ISM is set to decline substantially (focus at new orders) while the non-manufacturing ISM will nosedive
- **US**
  - **Nonfarm payrolls** will no doubt note a decline in employment and a spike in unemployment in March. **New jobless claims** are rising by an unprecedented speed and will remain elevated for several weeks and the no of continued claims will surge
  - **Conference Board's consumer sentiment** is set to drop much more rapidly than the UoM index, as it was collected later in March
  - **Auto sales** are probably haltered by both negative demand and supply shocks in face of the corona outbreak
- **Eurozone**
  - **Economic confidence survey** will no doubt follow other surveys down the drain – and this survey is usually lagging the PMI
- **Norway**
  - **Registered unemployment** is soaring to levels we have not seen since the 1930's. Unemployment rose to 11% last week, we expect the March report to note a 14-15% rate
  - The impacts of Covid-19 on the **housing market** is uncertain, however, in the short term, we expect a drop in **prices** as real estate activity is halting
  - **Credit growth** was probably unaffected in February, we do not put much weight on these data. But growth is anyway decreasing

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle was maturing, and growth has been slowing for almost 2 years. The trade conflict no doubt contributed. Unemployment is low, wage inflation is not low vs. productivity. Investment are not low anymore. 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 had turned up until the coronavirus shock, which knocked the Chinese PMIs down. The virus will now hurt the world economy badly. A temporary setback in Q1 (primarily China) and partly in Q2 (other countries) which was our main case is now far too optimistic. **Global growth will fall into a recession (GDP growth below 2%). Growth has slowed to 3% from 4%, our baseline is now -1.5 to -2% y/y in 2020 (from 2.8% before corona), the uncertainties are extreme**	Global PMI no doubt crashed in March, due to the coronavirus outbreak and mitigating measures. Based on prelim. PMIs from the US, EMU, UK, Japan, we estimate a 9.5 p drop in the composite PMI, to 36.6, the lowest level since the PMIs were first published in '98. Services were the main drag but manufacturing is struggling too
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, we assume by 10% q/q, resulting in a -6% y/y growth, from +6% in Q4 . As the outbreak is now coming under control, we expect a substantial recovery in Q2, but not fully up to the Q4 2019 level. 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. **We expect more policy measures to ensure a recovery in during 2020**	Chinese industrial production, investments and retail sales fell like a rock in February, and more steeply than expected (well, in line with our guesstimates). Ind. prod. and investments both dropped 27% m/m, retail down 14% in Jan/Feb
USA	Before Covid-19 hit, we thought growth would must likely not accelerate in '20, from the 2% speed in '19. Unemployment is low but will now rise rapidly, as in other countries. Profits are under pressure, corporate debt is high. Business investments are above trend, now yielding. Households' debt burden is sharply reduced, and the savings rate is 'high', but consumption is now slowing. The housing market is booming, and may get some support from the collapse in interest rates but corona may hamper activity Price inflation close to target. The Fed has cut to zero, the stock marked has fallen sharply – and the economy can easily enter a recession. **Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt**	The USD 2 trl stimulus package (10% of GDP) was passed in the Senate. The preliminary PMI from Markit plunged to 40.5, suggesting a 5% decline in GDP, and April will probably be even worse. Continued jobless claims rose to 3% from 1%, in one week. Consumer sentiment falls
EMU	Corona will no doubt slash the Eurozone economic expansion. We expect a sizeable impact in Q1 mostly in Italy and Spain, and more in other countries in Q2. Before corona, the manufacturing downturn was easing and the consumer side had 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 much ammunition left, particularly after a huge ramp up of QE. Fiscal policy debate has turned, more stimulus is likely. **Italy is in recession, as is Spain and several others**	The Eurozone PMIs confirmed a deep economic contraction, the composite PMI collapsed to a record low 31.4. Service industries were hit hard, manufacturing at the weakest since 2012. Less dramatic in Germany than others, so far
Norway	Growth has been above trend, 2020 will be slashed by the corona shutdown. Unemployment is now increasing at an extreme speed, when temporary laid offs are added. Oil investments will decline through 2020. Mainland business inv. are not low, will slow substantially. Housing starts are falling. Growth in households' debt has slowed to close to income growth. **Risks, other than corona: Debt, housing. A harsh global setback, including a low oil price**	Unemployment is soaring to levels we have not since the Great Depression, 11% last week. Consumer confidence falls. Housing starts have been declining since the autumn

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

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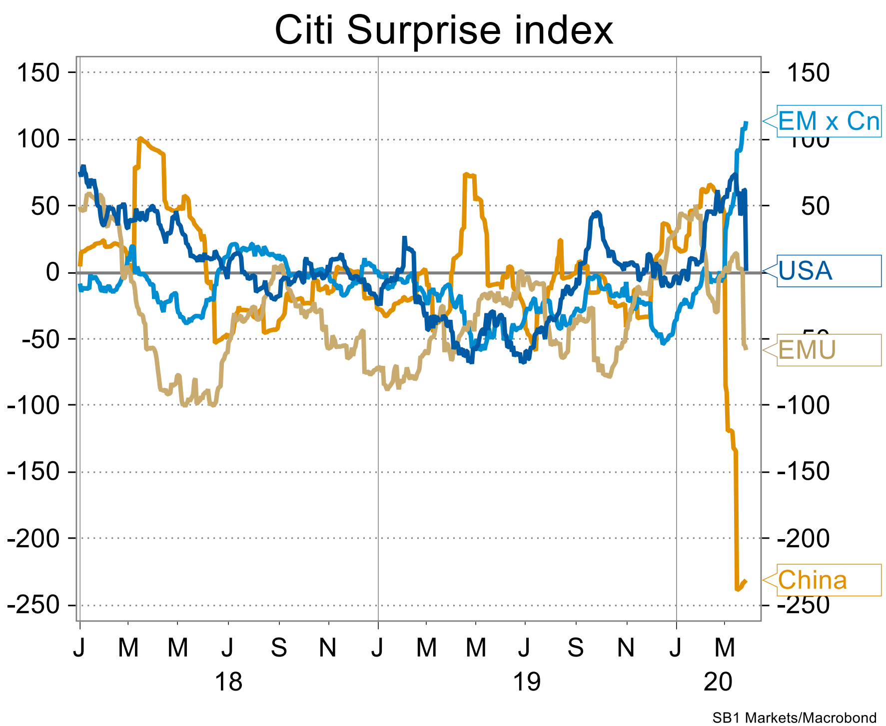
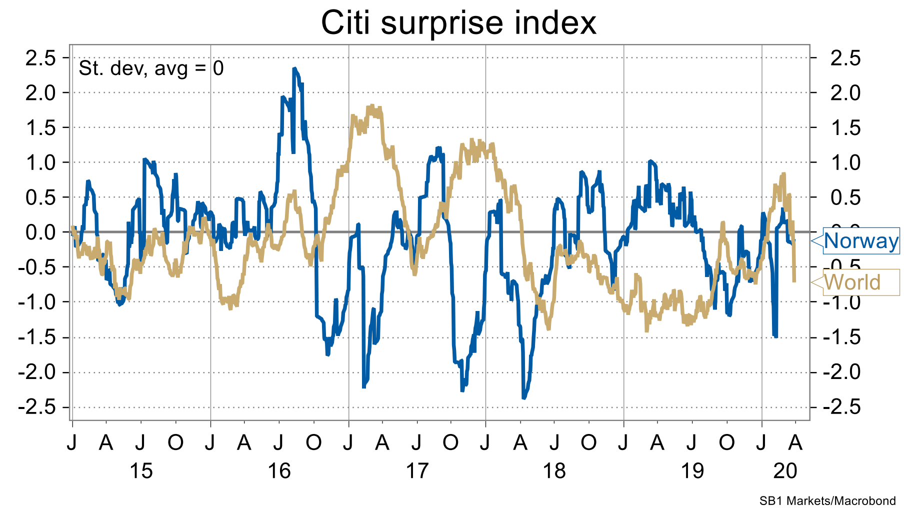
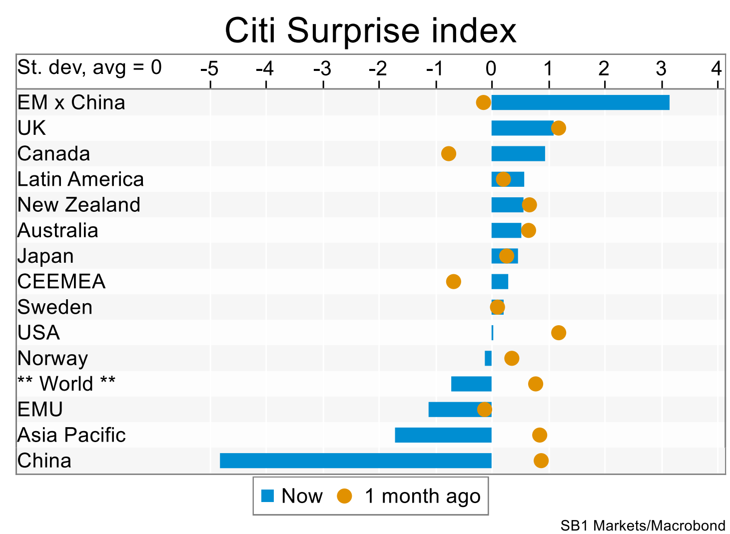
Global macro data flows are diving

World surprise index is on a steep downward path amid the corona crisis, and more will come





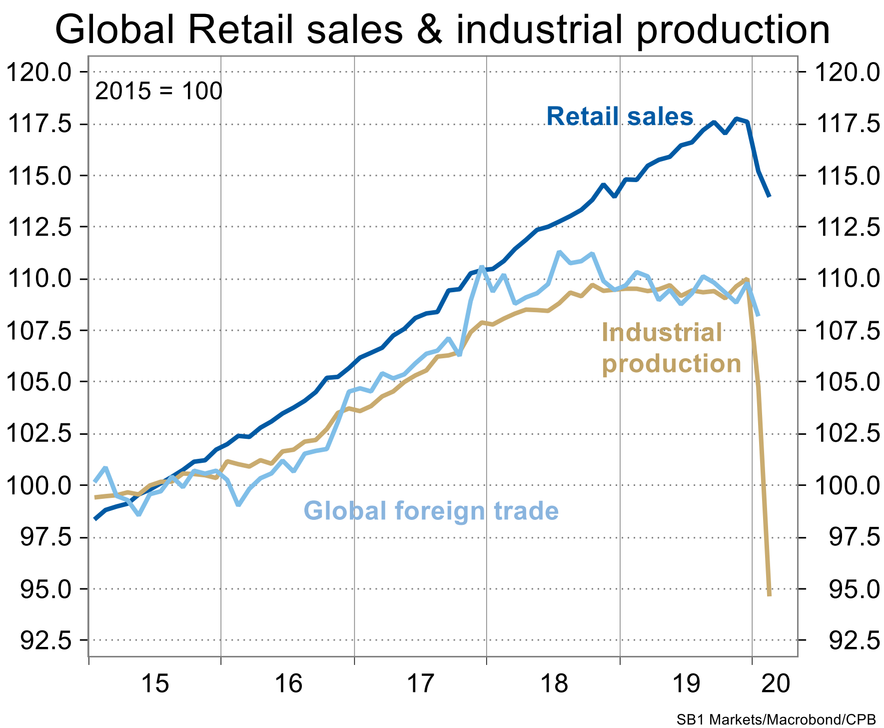


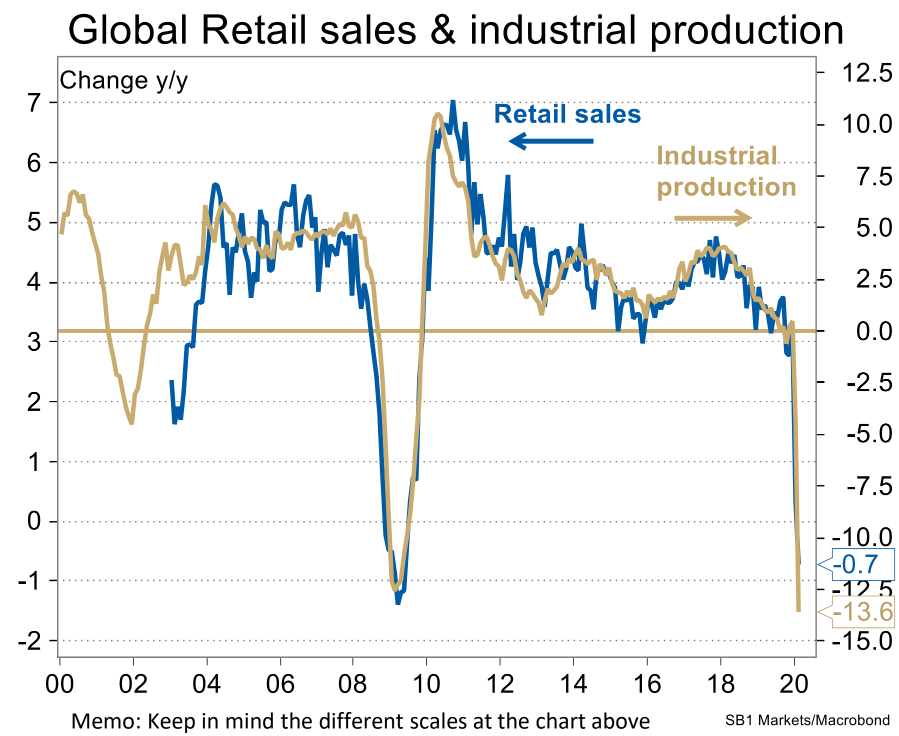
- Global macro data were in sum been better than excepted in early 2020. Now, the index is plummeting as the corona outbreak is impacting economic data, and we have just seen the beginning of this. The PMIs sent the Eurozone and US indices steeply down last week, consensus estimates were far too upbeat in our view
- EM x China so far at the top, but data will eventually turn down here to, as Covid-19 is spreading in more countries
- Norwegian data are marginally downbeat vs expectations but few data points from March have been published yet

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

Global retail sales and industrial production set to collapse in Feb/March

Chiefly due to rapid declines in Chinese industrial production and retail sales – and others will follow

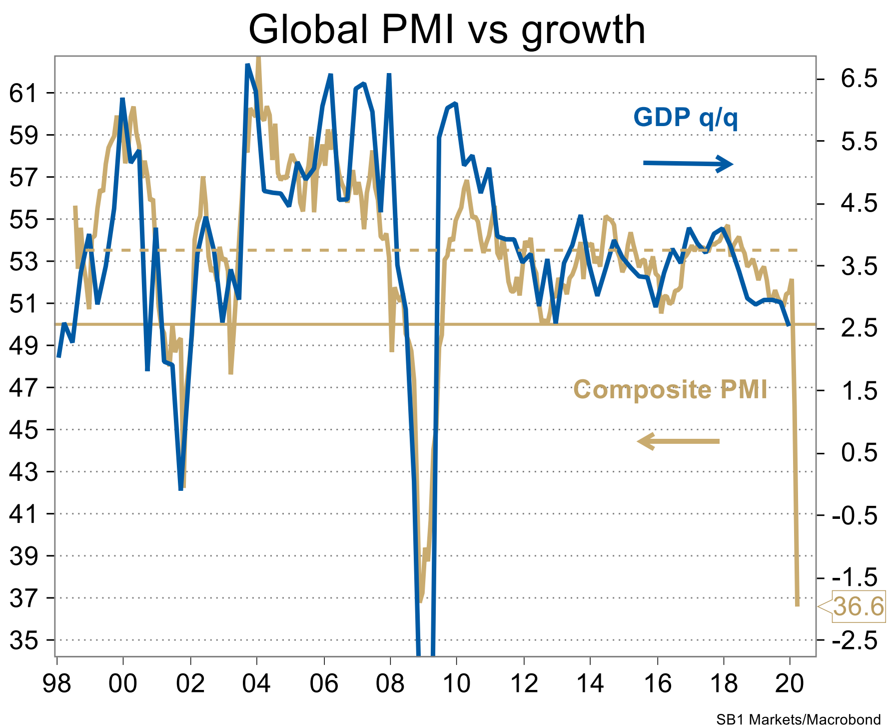


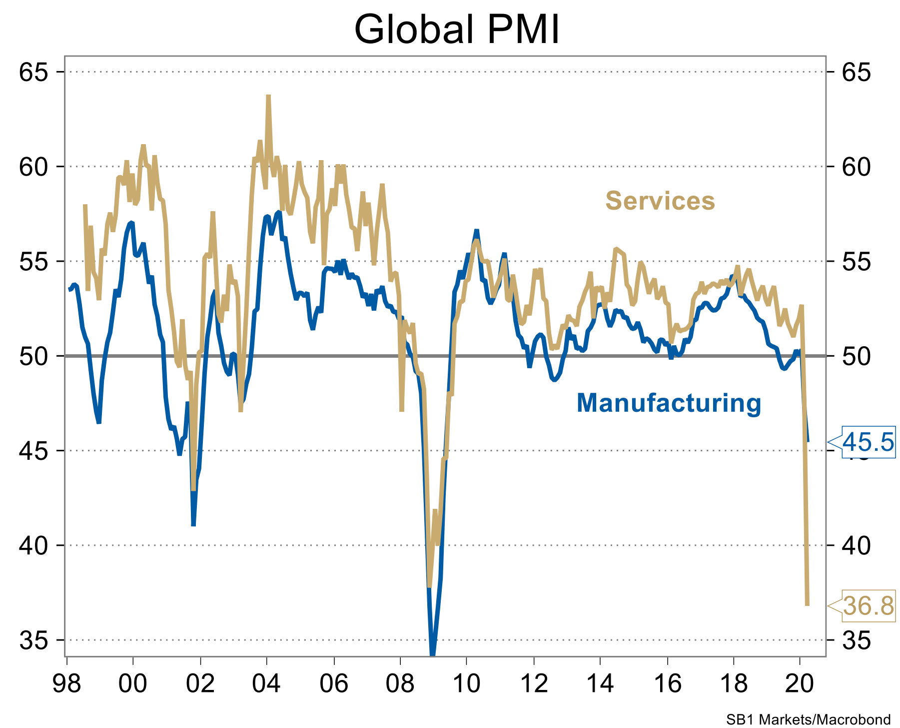


- **Global industrial production** fell by 4.8% m/m in January (our estimate). Production will no doubt plunge in February (-10%), due to a collapse in Chinese production (just China, the US and some few others have reported so far). In most other countries, production was probably not that heavily distorted by the coronavirus crisis in February – but it will in March. The global manufacturing PMI dropped to 45.5 in March, according to our estimate
- **Retail sales** dropped 2% m/m in January and another 1.1% in February, according to our preliminary estimate, chiefly on a steep drop in Chinese sales
- **Global foreign trade** rebounded in Dec, up 0.9% m/m. Covid-19 will no doubt hit global trade hard

The global PMI crashed in March, indicating the world is in a deep recession

Global PMI tumbled some 9 p (so far), as service industries collapsed amid the corona crisis





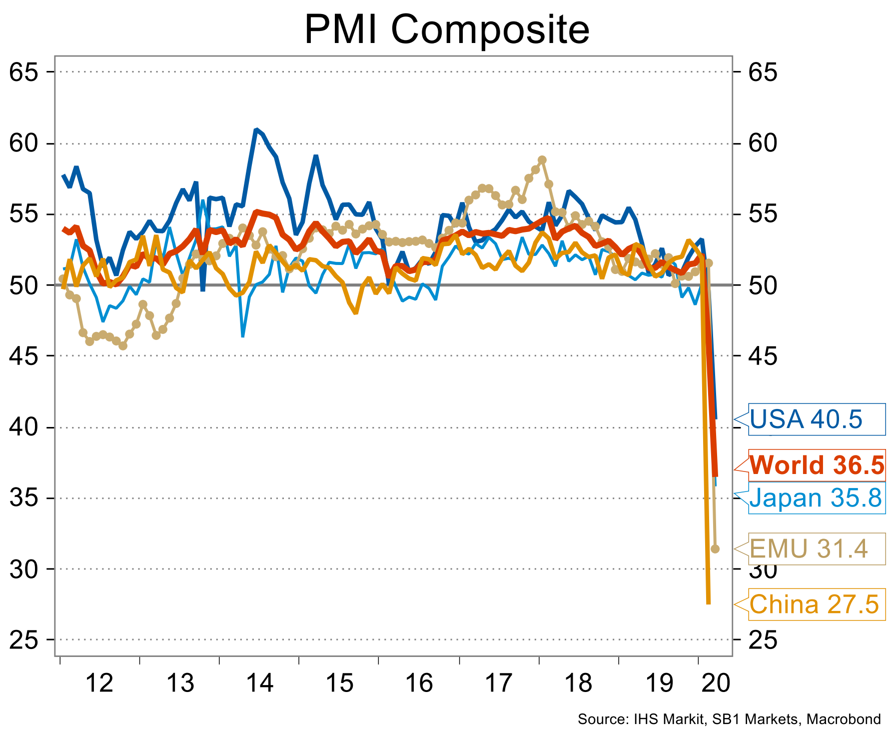
- Global composite PMI crashed 9.5 p to 36.6 in March, according to our estimate based on the preliminary PMIs from the US, Eurozone, UK and Japan. The level is marginally below the 2009 trough and an all time low for the PMI (starting in '98). <u>Face value, the PMI suggests a 2% decline in global GDP – and we have probably not seen the bottom yet</u>
  - » The Chinese PMI probably recovered in March (to above 50, we assume) as activity returned in many sectors, and may lift the global PMI. On the other hand, several other countries are likely to report steep declines in March – and the final March figures will no doubt be even worse than the preliminary results
- Covid-19 sent services into the sharpest contraction on record. Manufacturers are no doubt struggling too – and the manufacturing PMI was artificially boosted by a spike in delivery times (which this time was not due to strengthening demand!)

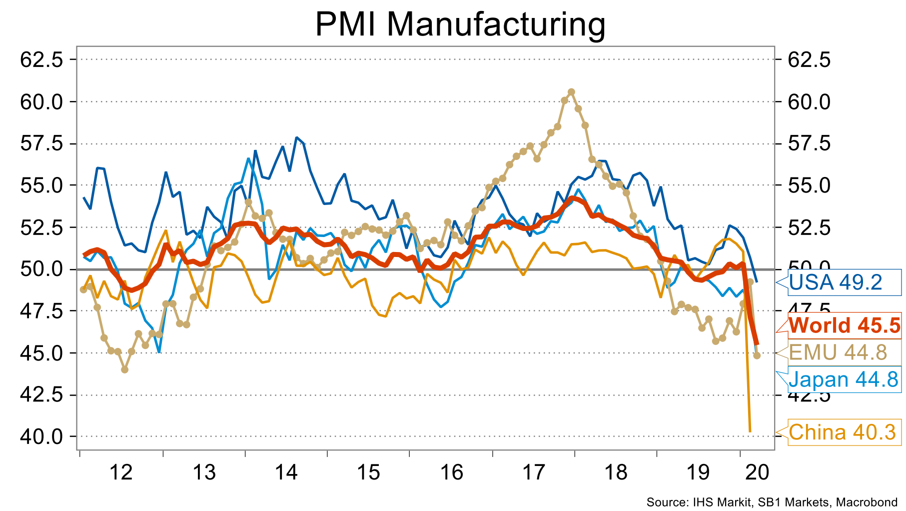
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

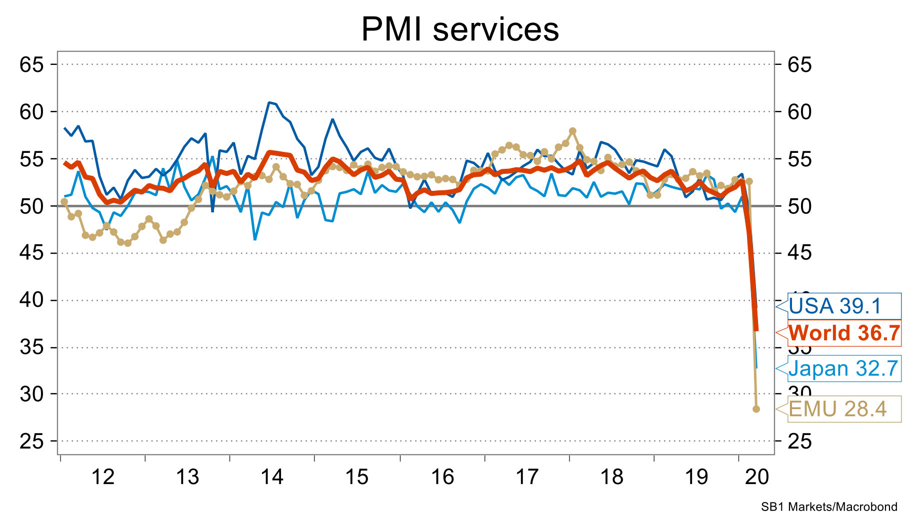
SpareBank 1 MARKETS

Covid-19 and mitigation measures hammer global service sectors

Composite PMIs plunged in the US, UK, Japan – and most rapidly in a coronavirus ravaged Eurozone



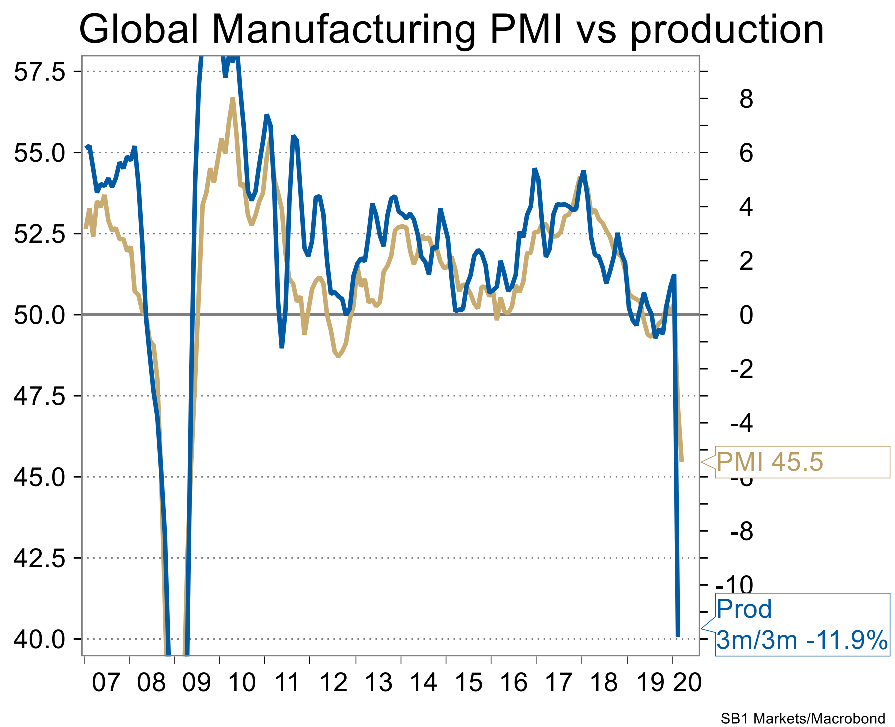


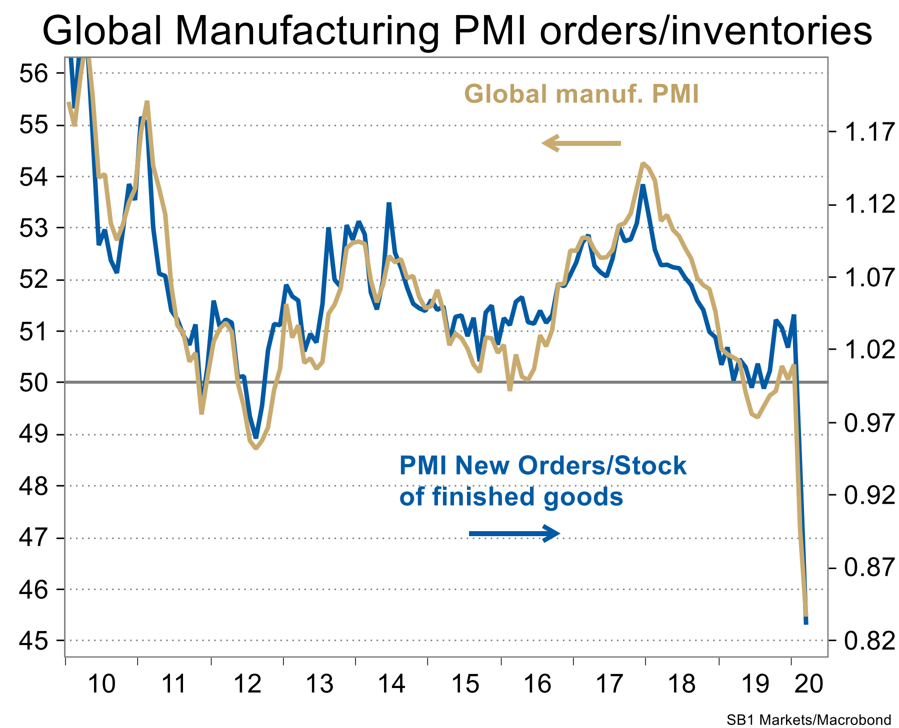


- Preliminary composite PMI dropped 9.1 p in the US, 11.2 p in Japan, 16 p in the UK and 20.1 p in the Eurozone (the Chinese composite PMI fell 24.4 p in Feb, no March data)
- Services were hit severely and the PMIs noted the steepest contractions in activity on record, as restaurants, shops, travel & tourism and others were put in 'lockdown'. Unfortunately, the final March PMI will most likely be even worse
- Manufacturing fell in all countries, although much less than services
- Memo:
  - » The last obs for world PMIs are our estimates, based on preliminary data from the US, EMU, Japan and UK. Markit has not yet reported PMIs from China

Global manufacturing is collapsing

We estimate a 1.7 p drop in the manufacturing PMI in March (before China reports)



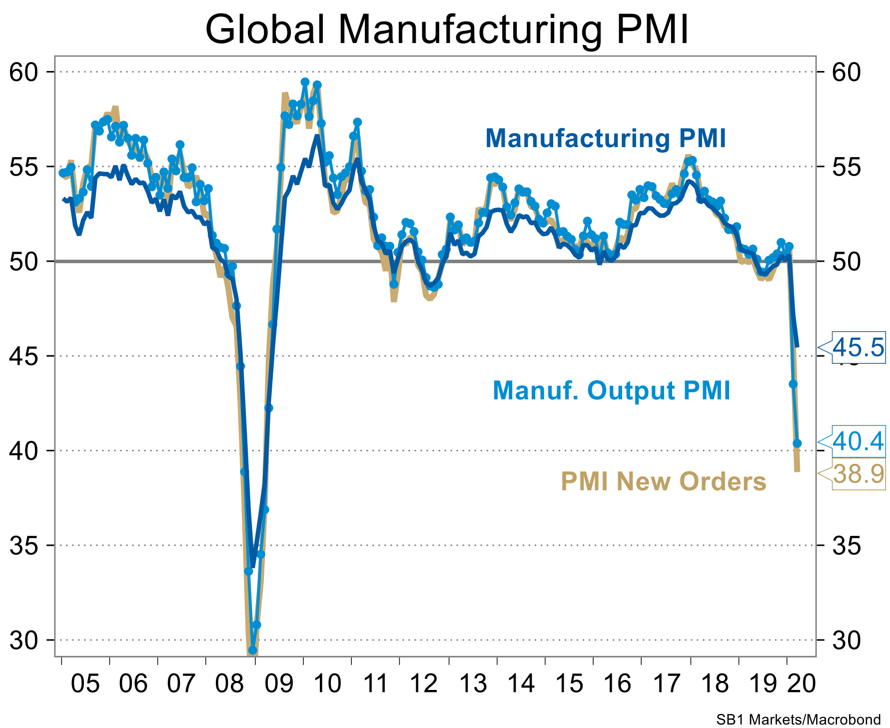


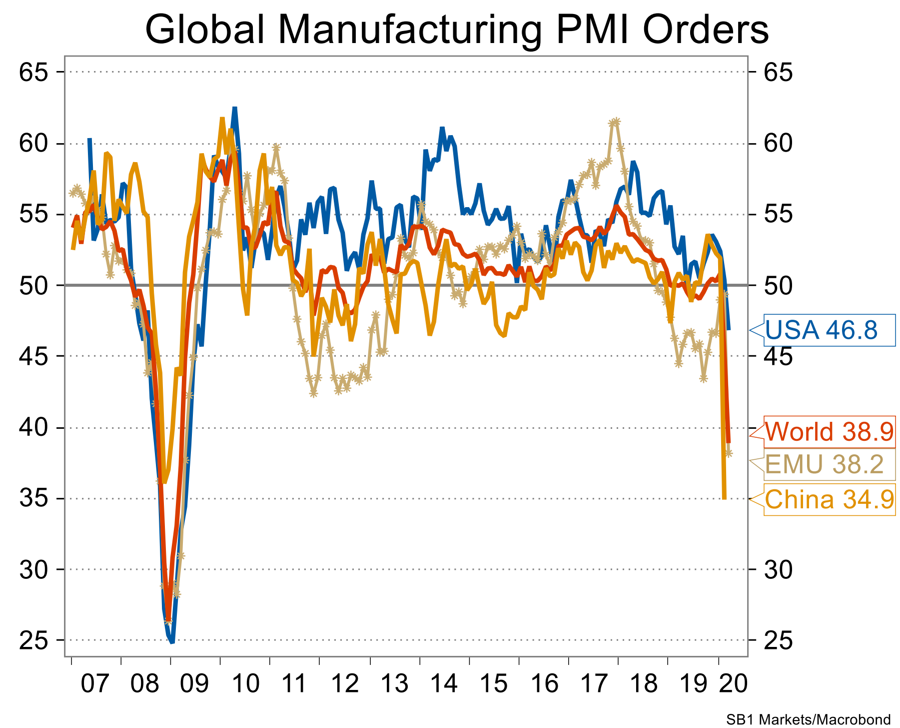
- The downturn in manufacturing is probably much steeper than the PMI reports, as it is artificially boosted by longer delivery times. The manufacturing output index fell more, check the next slide
- Global manufacturing production tumbled in February (by some 12% according to our very preliminary estimate). The drop is barely due to a collapse in production in China – which we expect to begin slowly recover from March
- The global manufacturing orders/inventory ratio is plummeting as orders are being cut back extensively

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

Manufacturing details are disturbingly weak, orders are tumbling

We estimate a drop in the global manufacturing orders PMI to 38.9 in March, from above 50 in Jan

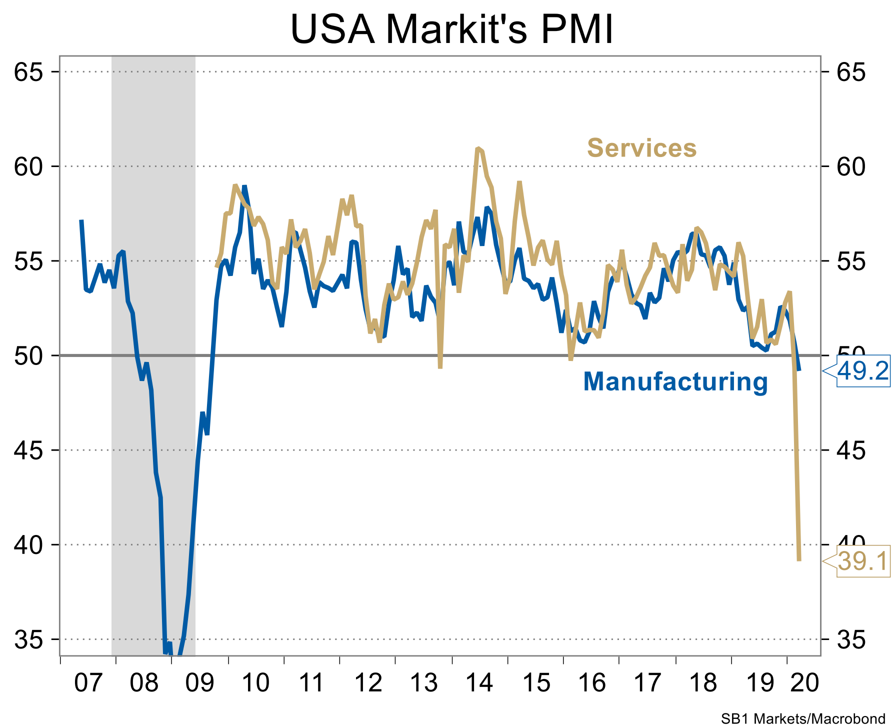


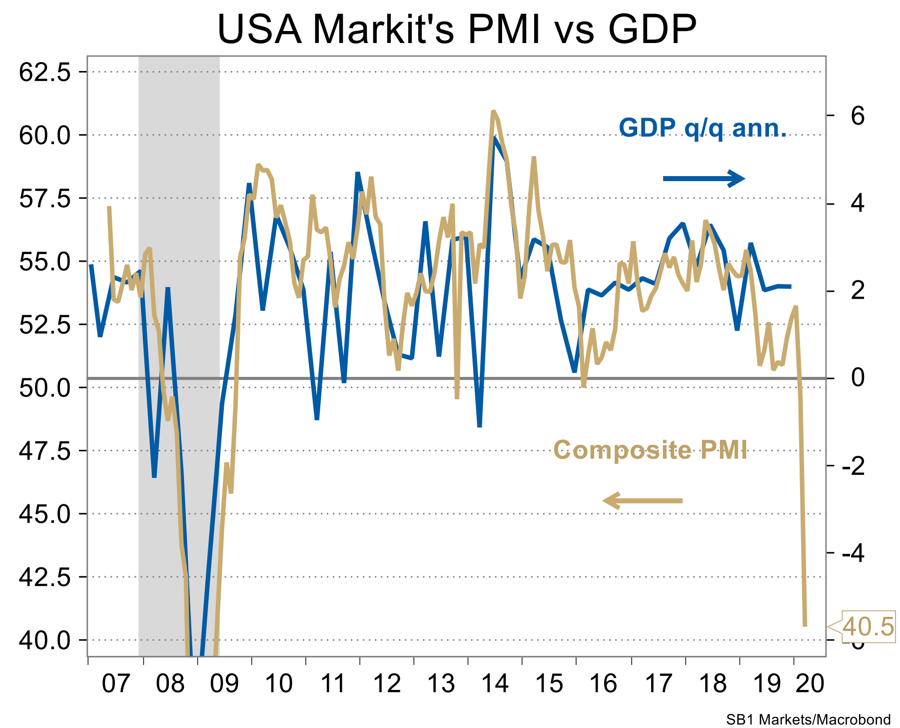


- The manufacturing output PMI fell 3.1 p in March vs the 1.7 p decline in the headline manufacturing PMI, according to our preliminary estimates (without China). The output index fell more in February too, as longer delivery times are lifting the total manufacturing PMI

Composite PMI at lowest levels since 2009, even in mid-March!

Services PMI crashed to 39.1 and has not reached bottom. Manufacturing is not shining either

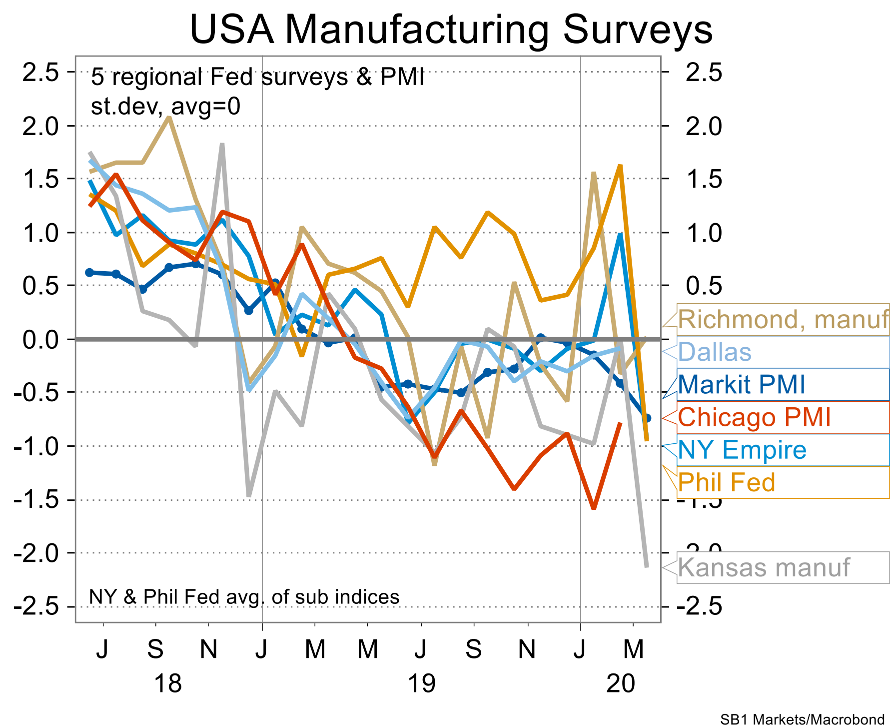


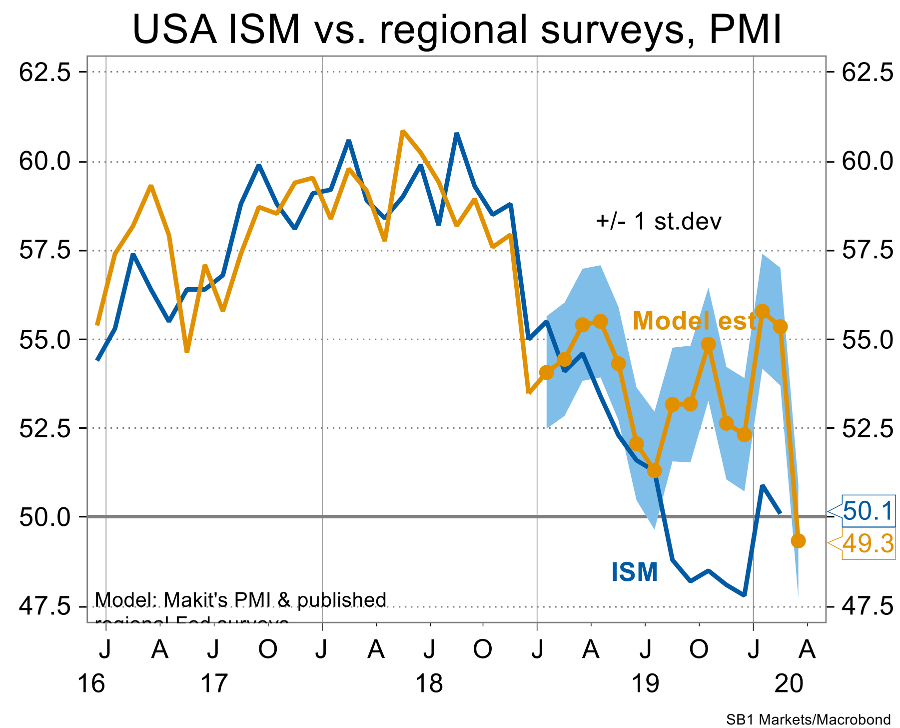


- The service sector PMI fell 10.2 p in the first part of March, reflecting an abrupt halt in activity as the corona outbreak hit the US. As the number of Covid-19 cases in the US is now rising rapidly, and more measures to limit the outbreak have been implemented (or decided by private companies/individuals), the final March PMI will probably be much worse.
  - In the Eurozone, the services PMI slipped 24 p in March. We doubt we will get a US/EMU recovery in April
- Manufacturers also reported a decline, but 'just' to 49.2. However, a steep rise in manufacturers delivery times due to supply side disruptions (closed factories etc) buoyed the manufacturing PMI. The new orders index slipped to 48.6 and both export and domestic demand fell. Wait for the figure for the whole month
- The preliminary composite PMI collapsed, to 40.5, the weakest level since 2009. The PMI points to some 5% decline in GDP, measured by the quarterly, annualized rate. The final result will be weaker as Covid-19 spread across the US during the latter part of March

So far in March: 3 manufacturing surveys steeply down, 1 up modestly

In total, Markit's PMI and the regional surveys signal close to a 4 p drop in the ISM



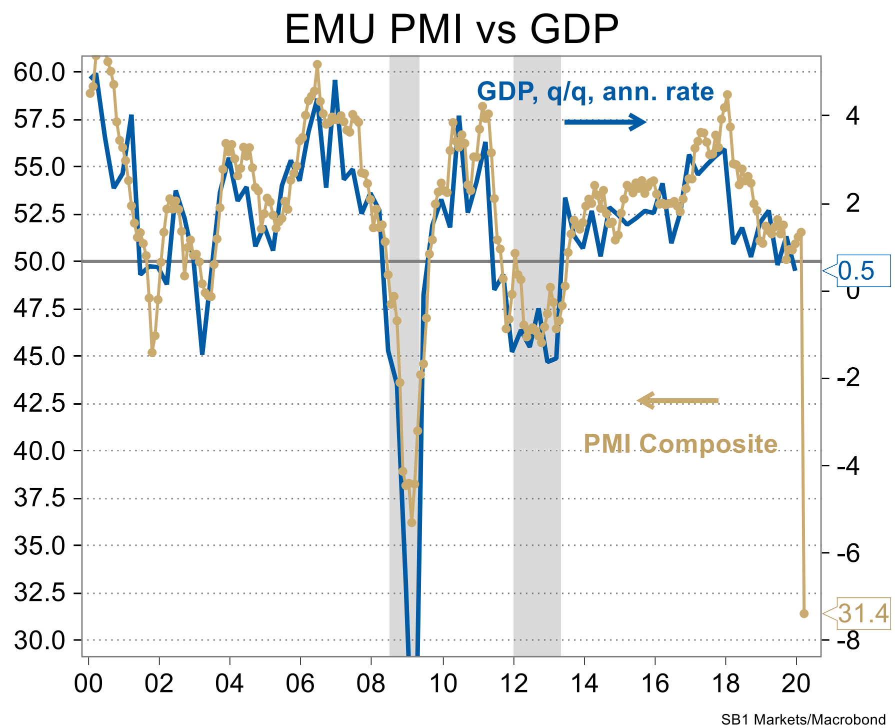


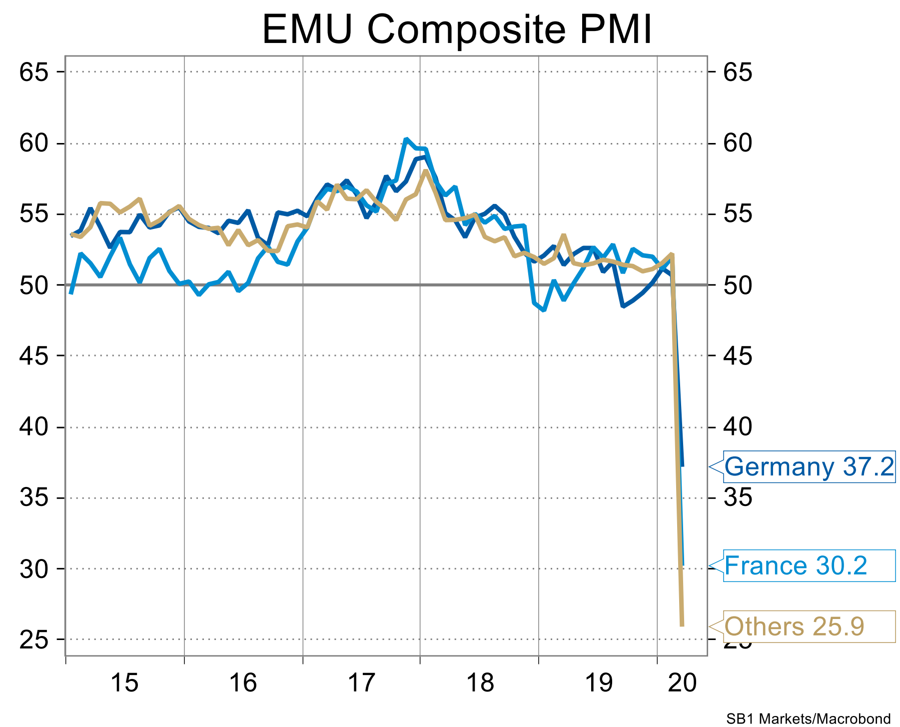
- Phil Fed's and NY Fed's manufacturing surveys both plunged in March as did Kansas', whereas Richmond Fed inched up. Markit's preliminary manufacturing PMI fell to the lowest level since the financial crisis
- Taken face value, these indices signal a 6 p decline in the manufacturing ISM in March. As the ISM will be collected later in the month, it may include a larger impact from the coronavirus restrictions and the risks are on the downside. The ISM index has been weaker than other surveys since mid-2019, the direction is probably more essential than the level now

SpareBank 1 MARKETS

Covid-19 deals the Eurozone economy the most severe blow on record

Composite PMI was slashed to 31.4, as service industries crashed in March

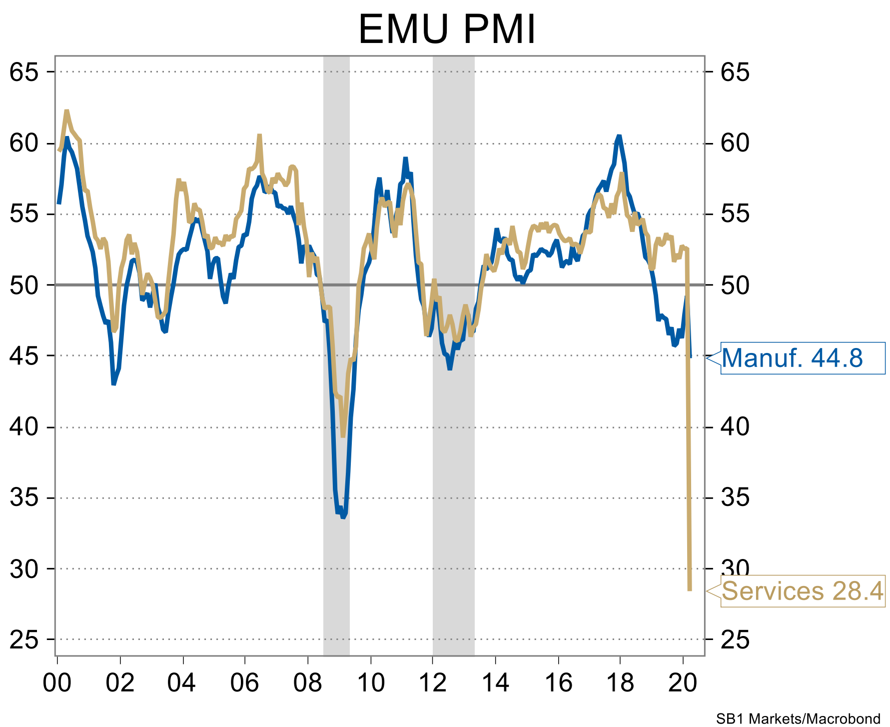


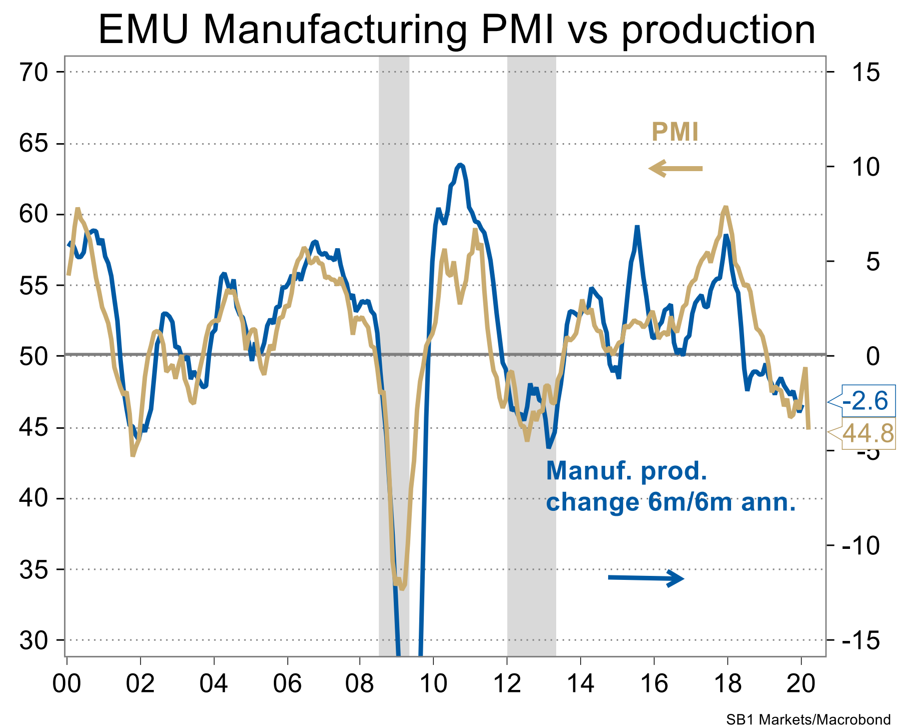


- The preliminary EMU composite PMI tumbled 20 p in March, by far the most rapid decline since the PMI were first published in 2000 (in comparison, the PMI fell 4.7 p in November 2008, when the financial crisis hit). The PMI indicates a steep recession in Eurozone, by a 7-8% drop in the annualized quarterly GDP rate
  - » Services received the largest blow, as tourism sectors, restaurants, events and much more was shut down. Manufacturing activity contracted at a more modest pace – but the decline was steeper than the PMI implies, as longer delivery times boosted the PMI
- The French PMI slipped to 30.2, Germany to 37.2 – and what must (unsurprisingly) have been disastrous figures from Italy and Spain sent the implicit average of the other countries (who have not yet reported) down to 25.9

An unprecedent collapse in services as businesses are put in lockdown

Manufacturing activity fell much less but the PMI probably masks a steeper decline



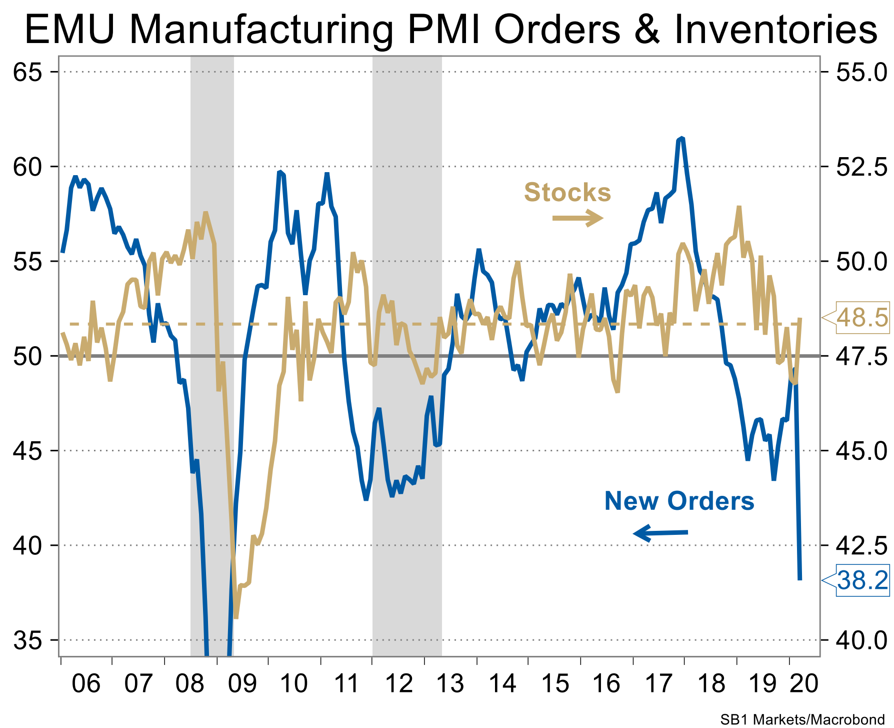


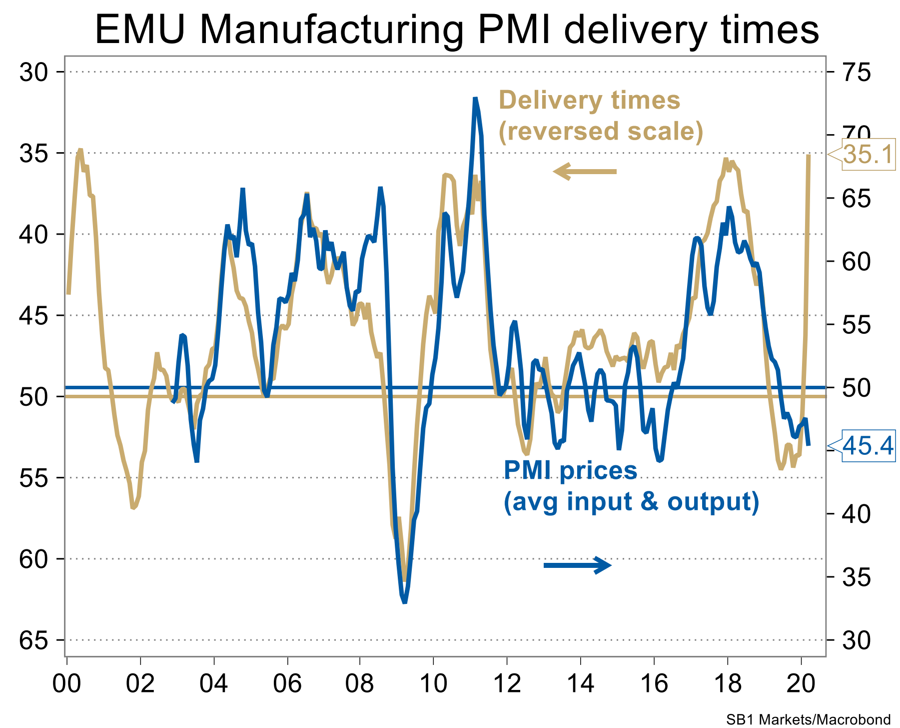
- Services received the largest blow ever seen (well, since the PMIs were first published 20 years ago), as tourism sectors, restaurants, cultural events an many other service industries were shut down. The PMI tumbled 24.2 p, similar to the drop of the Chinese PMIs in February
- Manufacturing activity contracted by the fastest pace since the euro crisis, although the decline was modest compared to services, a 4.4 drop from Feb. However, the decline in the manufacturing PMI was softened by a spike in delivery times, artificially boosting the PMI (as longer delivery times are usually linked to rising demand)

SpareBank 1 MARKETS

Manufacturing demand is crumbling, sharpest drop in new orders since the FC

Businesses report huge supply chain disruptions due to corona; delivery times are soaring

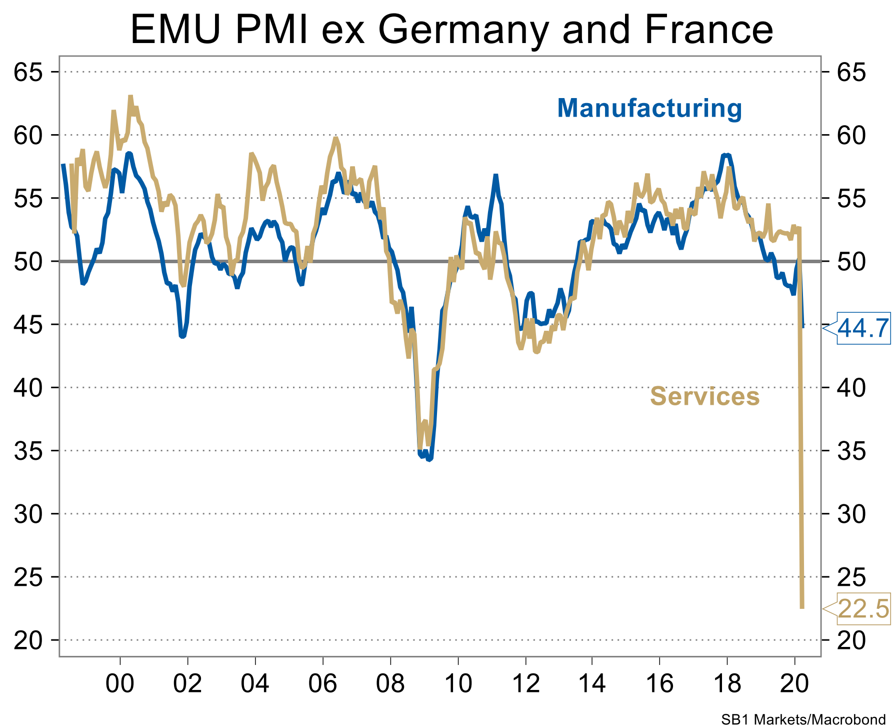


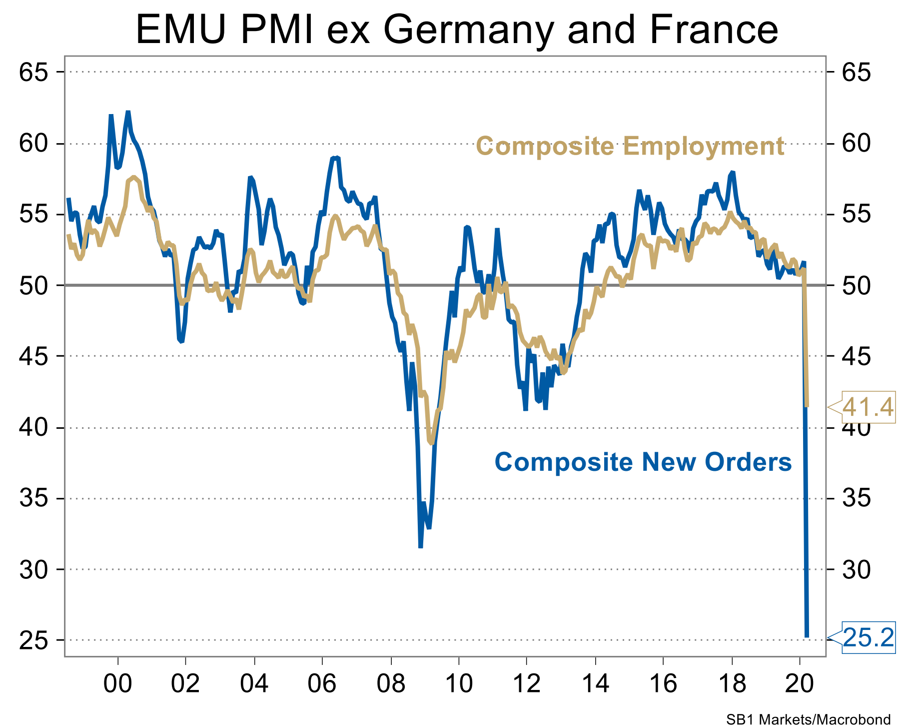


- The new orders PMI plunges 11.2 p in March, the highest monthly decline on paper. Businesses reported a 0.2 p milder decline in total orders in February, the highest level since Nov 18
- Businesses reported a rapid increase in manufacturing delivery times, to the highest level since early 00's. Longer delivery times are usually an indicator of rising demand and thus, lifting the headline manufacturing PMI. In March, lengthening delivery times were no doubt linked to factory shutdowns and disruptions all over the world, due to Covid-19
- Both input and output prices PMIs edged down in March, confirming weak demand

Barring Germany and France; an extreme collapse

The Italian and Spanish economies are contracting sharply amid corona lockdowns

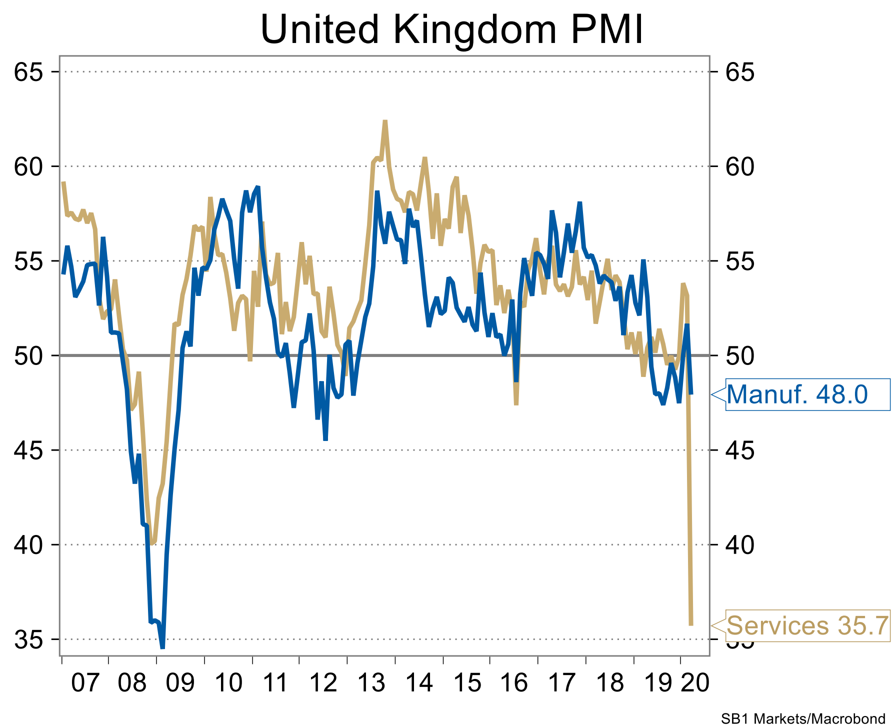




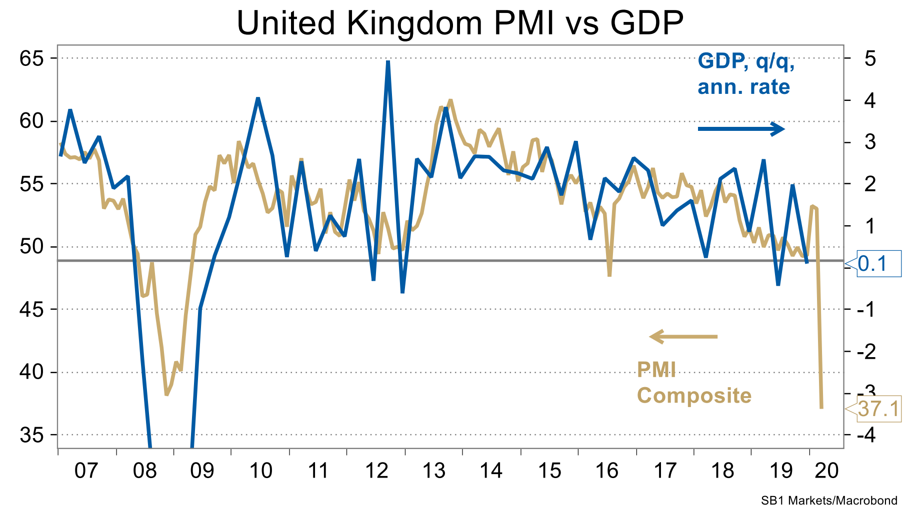
- Preliminary PMIs are only published for total Eurozone, Germany and Spain, and an implicit average of the others

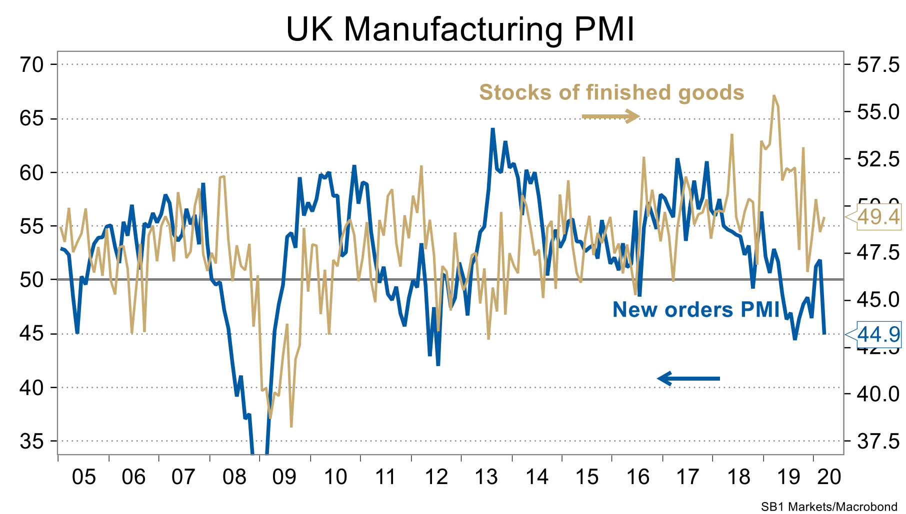
Composite PMI tumbles, suggesting 3-4% decline in GDP

Service industries were hit hard in the UK as well, manufacturing more moderately



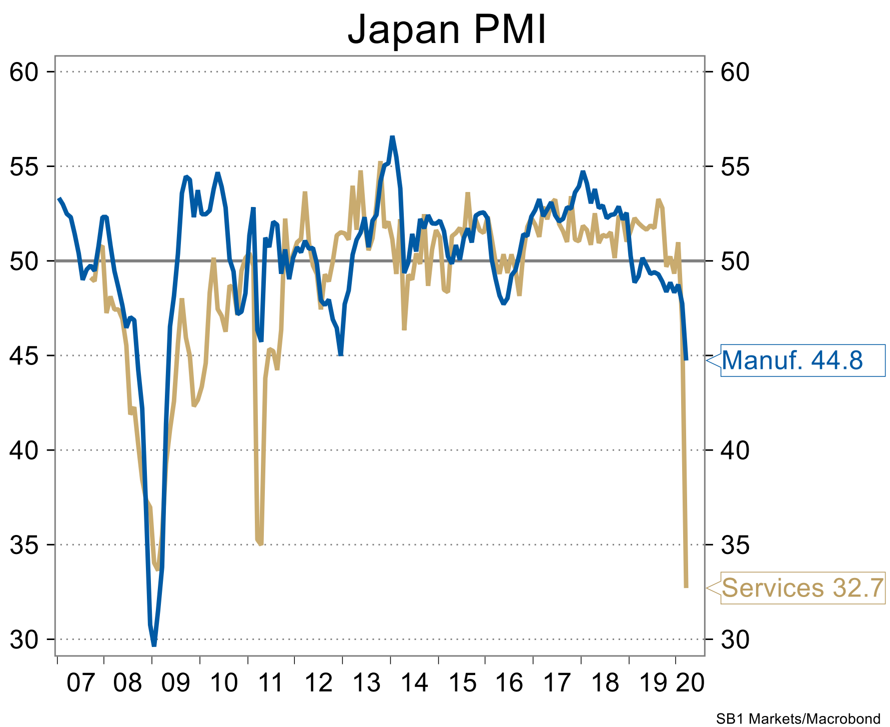
- Services PMI dropped 17.5 p, by far the steepest contraction we have seen (since '96). The PMI has probably not hit bottom, as new restrictions were announced last week
- Manuf. PMI fell 'just' 3.8 p, to 48, partly boosted by soaring delivery times (which are linked to closed factories and input delays, not rising demand). New orders fell, but not more than in August '19
- The composite PMI at 37.1 suggests a 3-4% decline in GDP

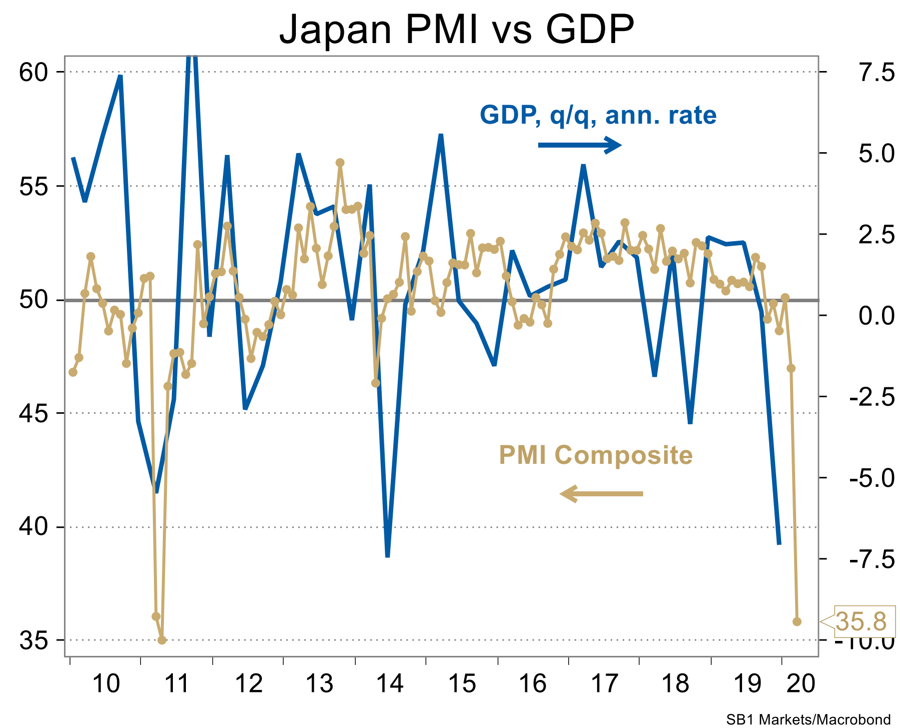




Japan PMIs are plummeting, services to the weakest level on record

Services PMI dropped 14 p in March, as several sectors were hit hard by the corona crisis

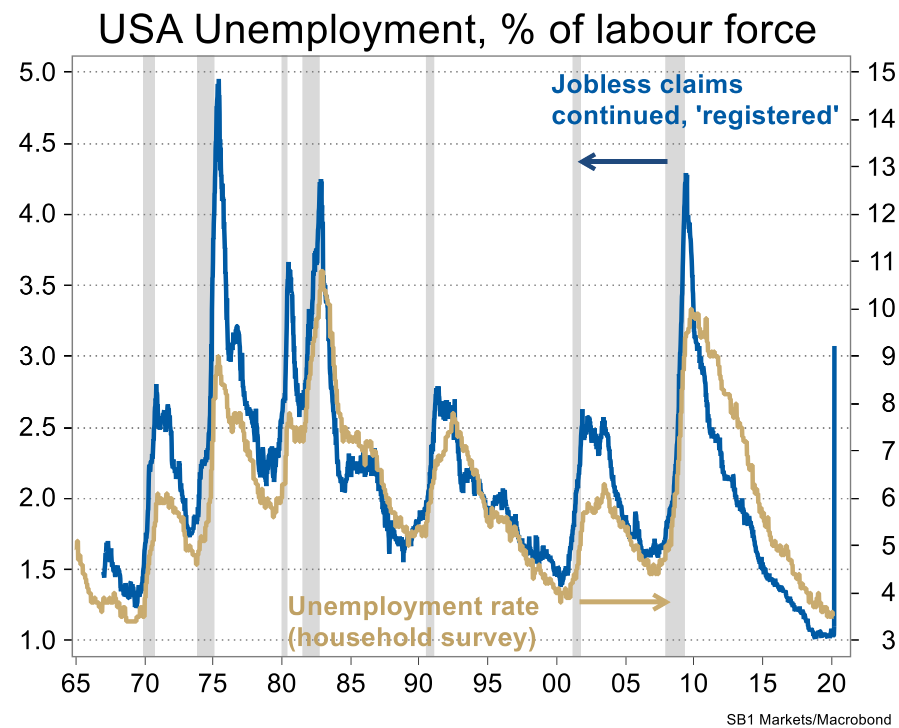




- Composite PMI slipped 11.2 p in March, to 35.8, the lowest level since 2011 (following the tsunami). The PMI suggests that the economic downturn will deepen from the 7.1% GDP drop in Q4. The timing of the corona crisis is horrible for the Japanese economy, which has been struggling with recovering from the consumer tax hike in October 2019
- The Covid-19 outbreak haltered output in the services sector, noting the steepest decline on record (even without a 'public shutdown', such as in Europe). Manufacturing is very weak but not a 'catastrophe'

Corona slashes the labour market; a totally unprecedented spike in jobless claims

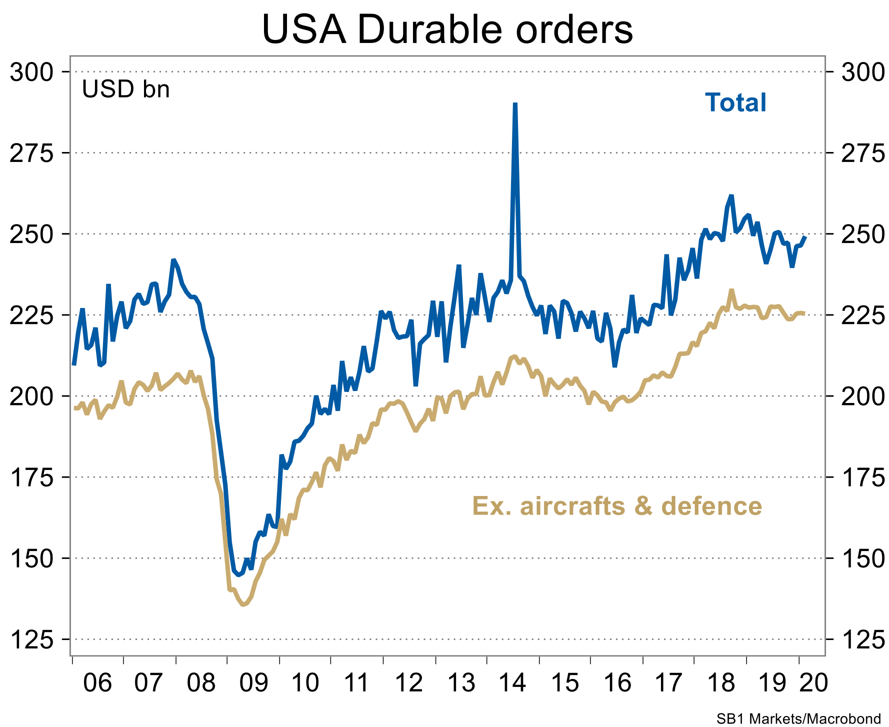
New claims skyrocket to 3.28 million last week, from 281', confirming a rapid plunge into recession

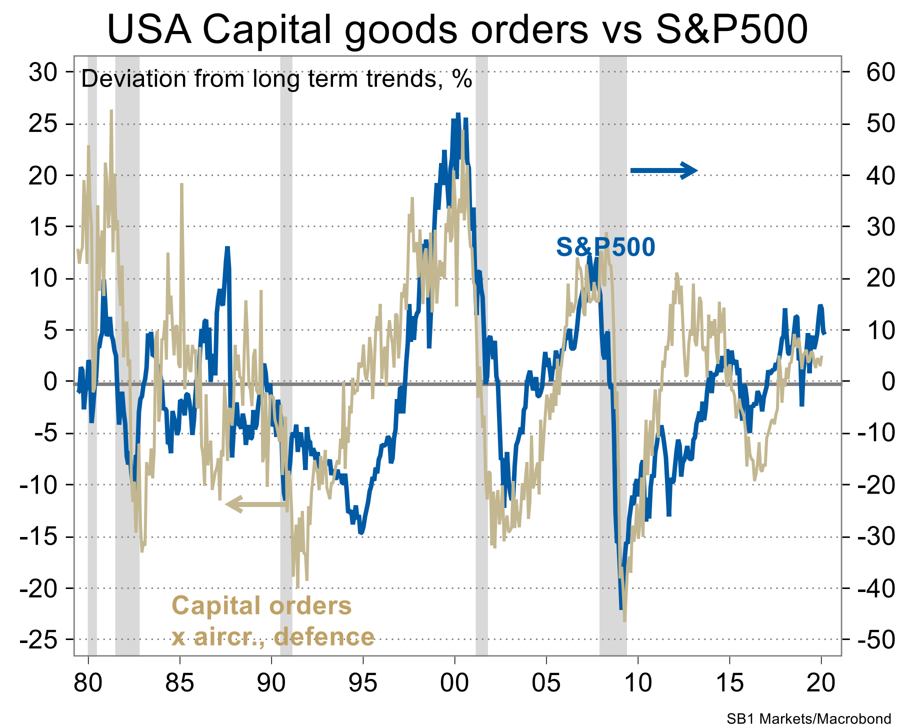


- The unprecedented hike was as expected (for those who checked the state data already published). Claims surged across the US and almost all states cited huge problems in service sectors due to Covid-19. We of course know that the US economy has now has entered a recession, so this data point is just a confirmation
  - » During the financial crisis, jobless claimed peaked at 655' at one single week. This shock is of course something totally different
- We estimate continued claims up to above 5 million last week (the figure will be published next week), equalling 3% of the labour force, up from 1% the previous week. Norway has experienced a much larger increase in two weeks, from 2 to 11%
  - » This 'registered' unemployment is usually some 1/3 of the official (labour force/household survey LFS/AKU) unemployment rate but the relationship is not that stable. The official unemployment rate will no doubt surpass 10% in some weeks time (though it is just measured monthly)

Core durable goods orders steady in February – wait for the corona crunch

No February Covid-19 impacts; Total orders inched up and core orders flat, better than expected

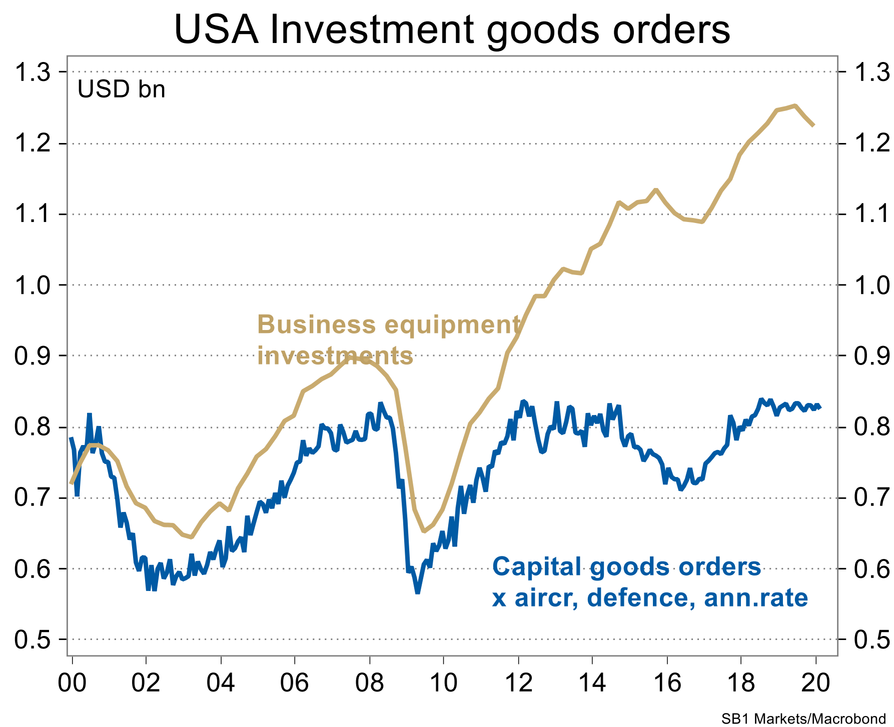


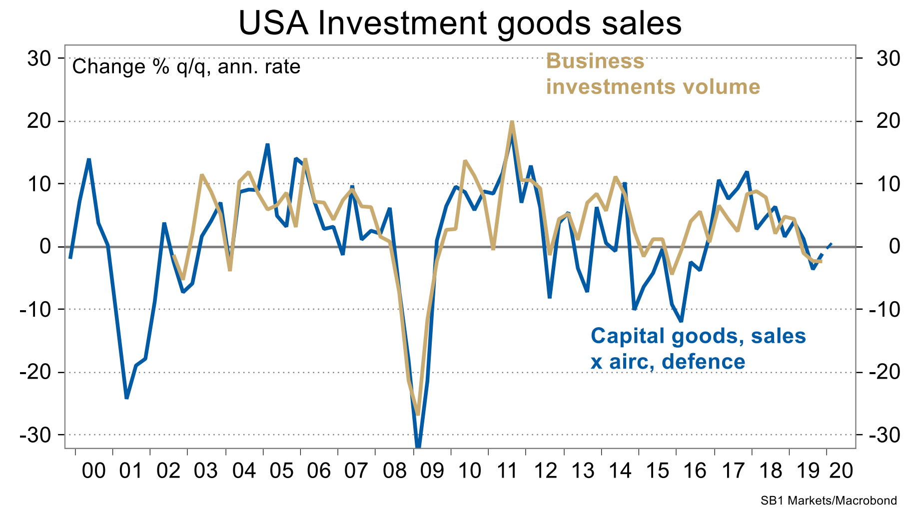


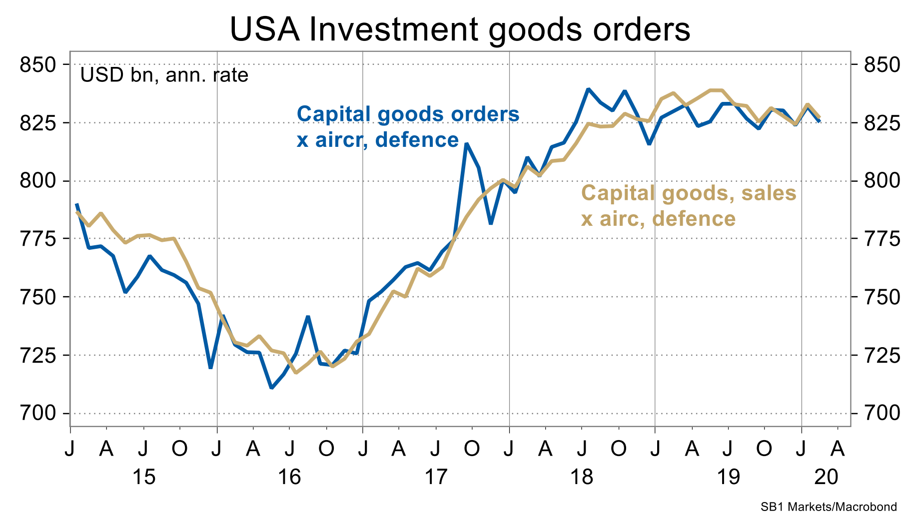
- Total durable orders have been steady the past months, following a downturn led by lower aircraft orders (Boeing troubles). In February, total orders increased by 1.2% vs expectations at -1%, driven by declining PMI and ISM order indices in Feb
- Core orders (ex civilian aircrafts and defence orders) decreased by a marginal 0.1% m/m in February. Core orders have been flat for 3 months and are trending just marginally down. The underlying pace is now +2% (measured 3m/3m annualized)
- Core capital orders improved in January and are trending flat
- These better than expected figures do not offer much comfort, as both PMI and other manufacturing surveys point to a steep drop in March, as the corona crisis and mitigating measures are curbing activity

Capital goods orders/sales stagnated, before…

Core investment orders and sales fell modestly in February, trending flat



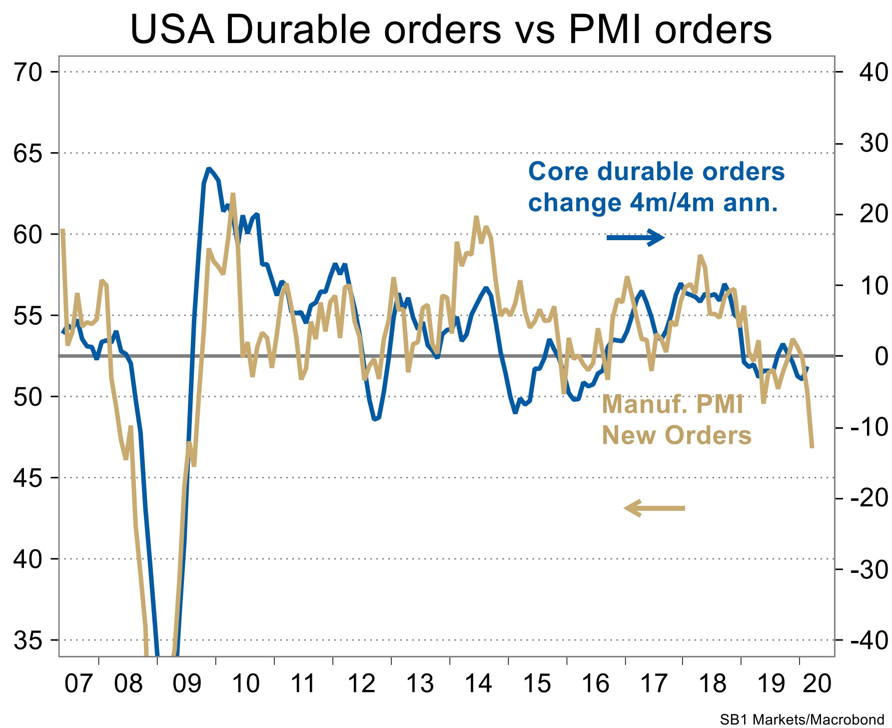


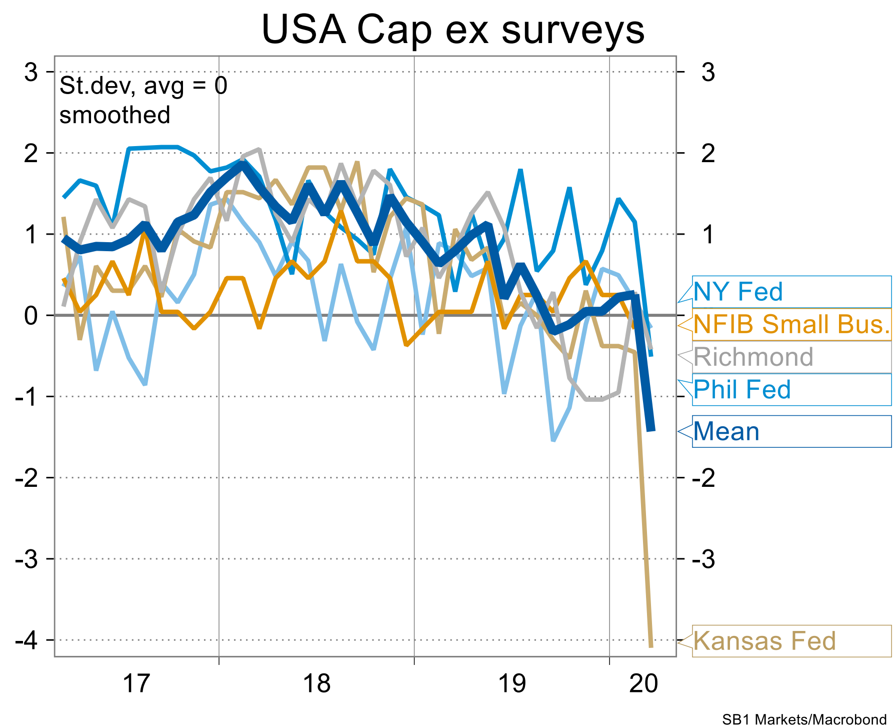


- Investment orders (core) declined by 0.8% m/m in February, underlying growth at -0.3%
- Sales fell by 0.7%, flat 3m/3m
- Business investments fell by 2.3% annualized in Q4, capital goods sales suggest a stabilization. <u>However, both orders and investments are set to crash in late March as businesses are closing down worldwide and increasingly in the US. Check the PMI March orders index at the next slide</u>

PMI/regional surveys point to a plunge in manufacturing orders/investments

Orders are set to decline rapidly in March – and April may be even worse

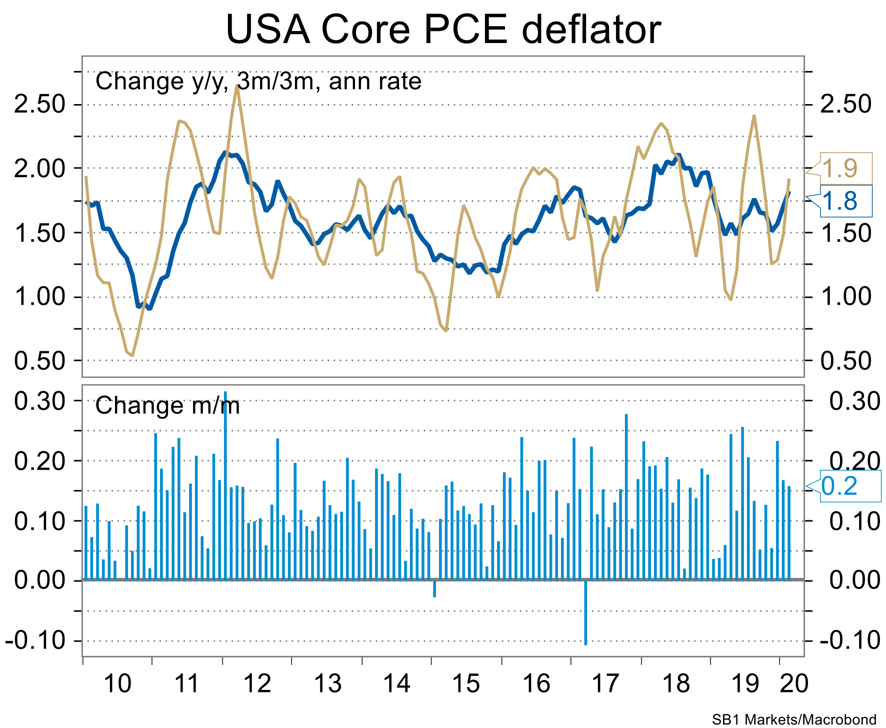


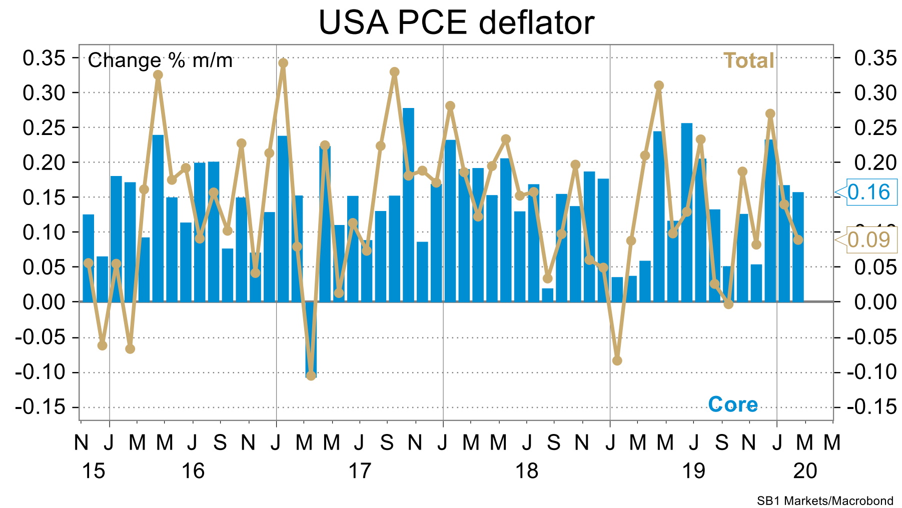


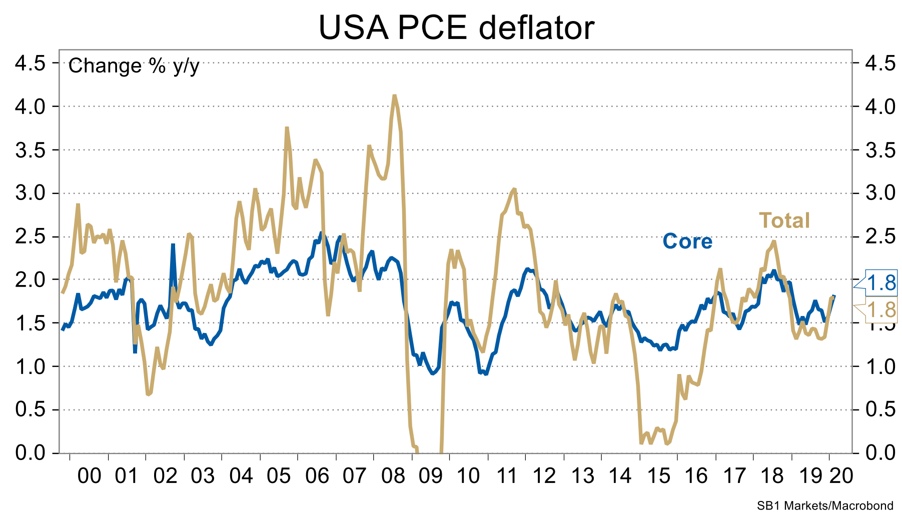
- More on the PMI on this slide

Core PCE inflation rose to 1.8% in February

Core PCE deflator rose 0.2% m/m and the annual rate ticked up to 1.8%, as expected



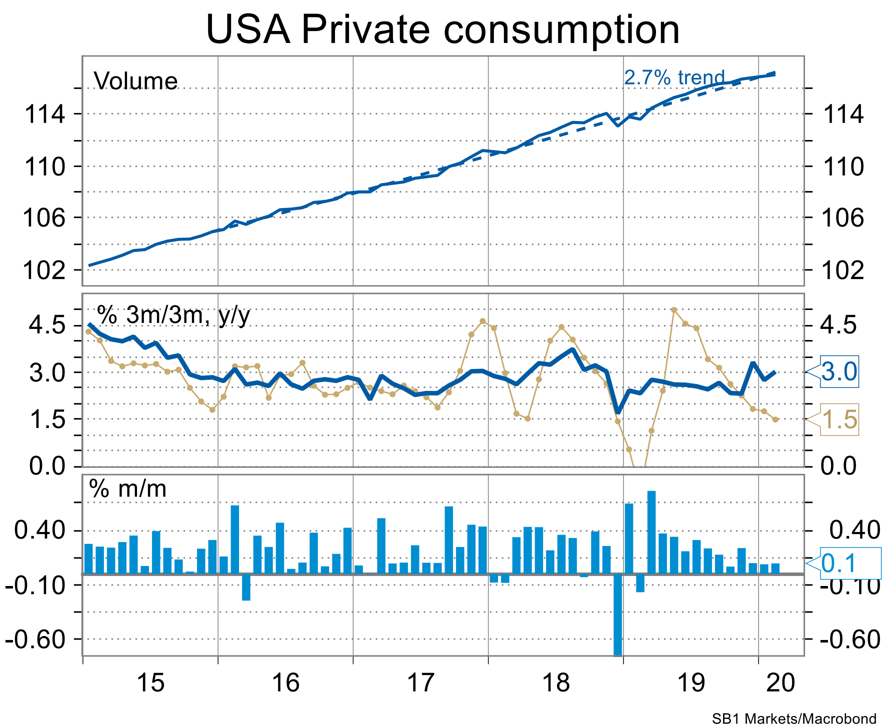


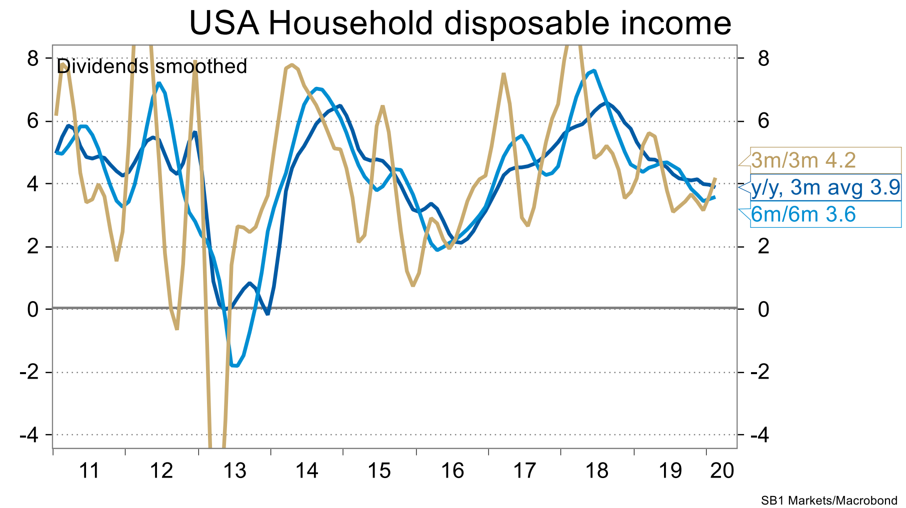


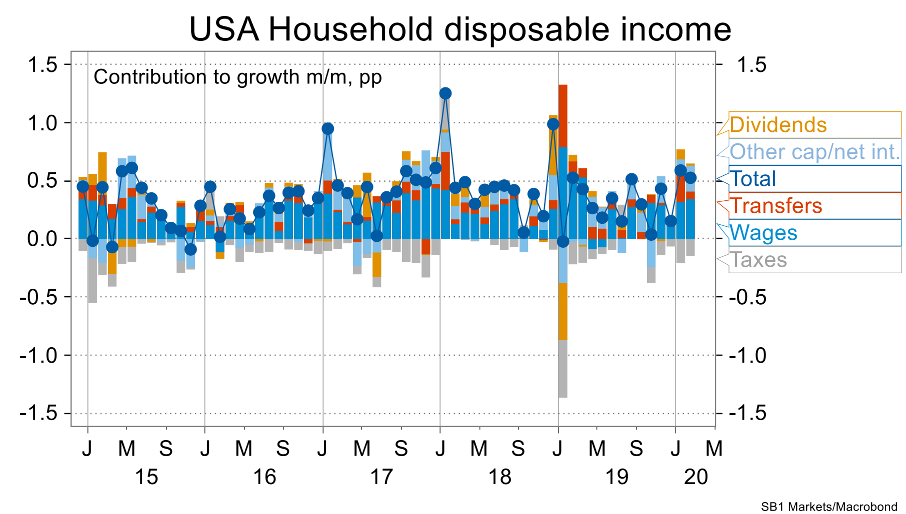
- The core price deflator rose by 0.2% in February. The annual rate climbed 0.2 pp to 1.8%, in line with expectations. The underlying speed has been picking up, however, we doubt any inflation pressure is building up now
- Total PCE inflation was flat at 1.8%, should soon turn down with energy prices ?
- Core PCE is just 0.2 pp below Fed's price target, however, inflation is obviously not what matters now

Consumption growth was cooling before corona hit, will drop in March/April

Consumption has increased just 0.1% m/m the past 3 months and income growth is slowly ebbing



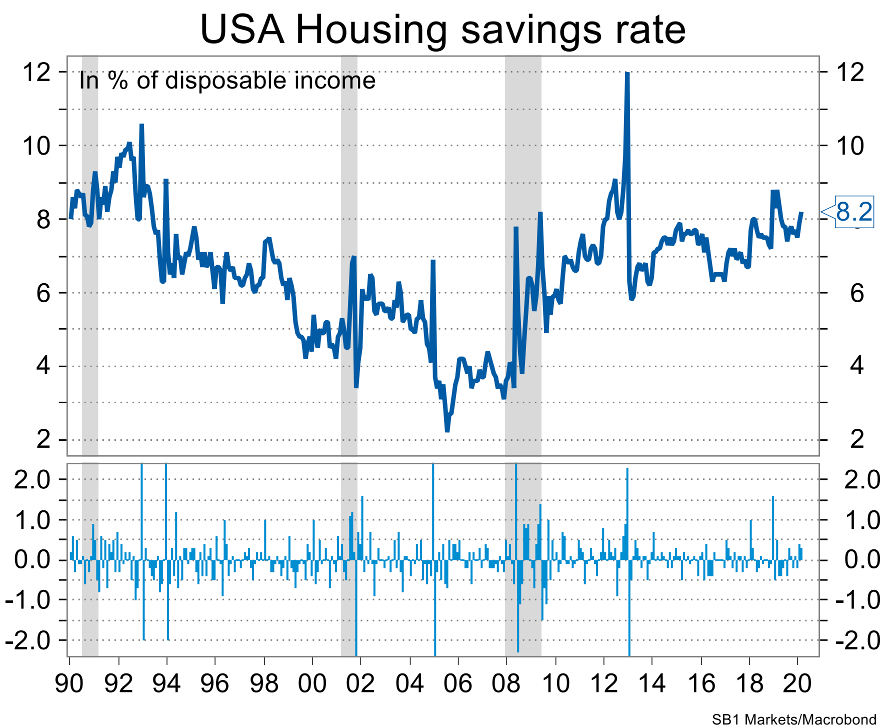


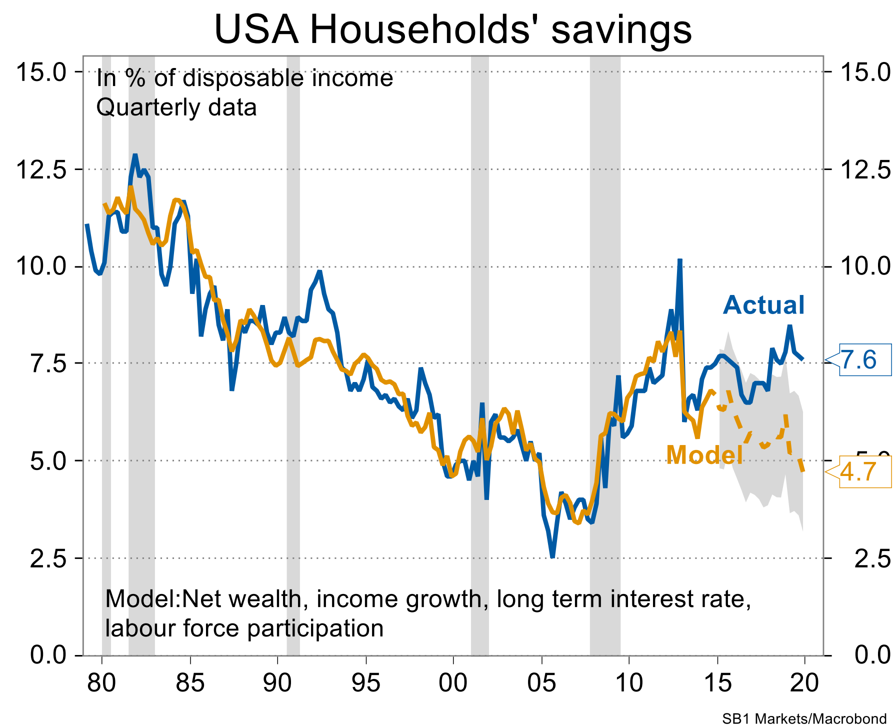


- Private consumption rose 0.1% in February, 0.2 pp weaker than expected. The underlying pace has slowed to 1.5%
- Households' nominal disposable income rose 0.5% m/m in February. Income growth has picked up to a 4.2% underlying growth rate, after slowing through most of 2019. The annual rate steady at 3.9%
- Luckily, the savings rate is rather high, indicating that households have cushions that can help in turbulent times

Households savings up to 8.2%, the cash flow has been strong

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

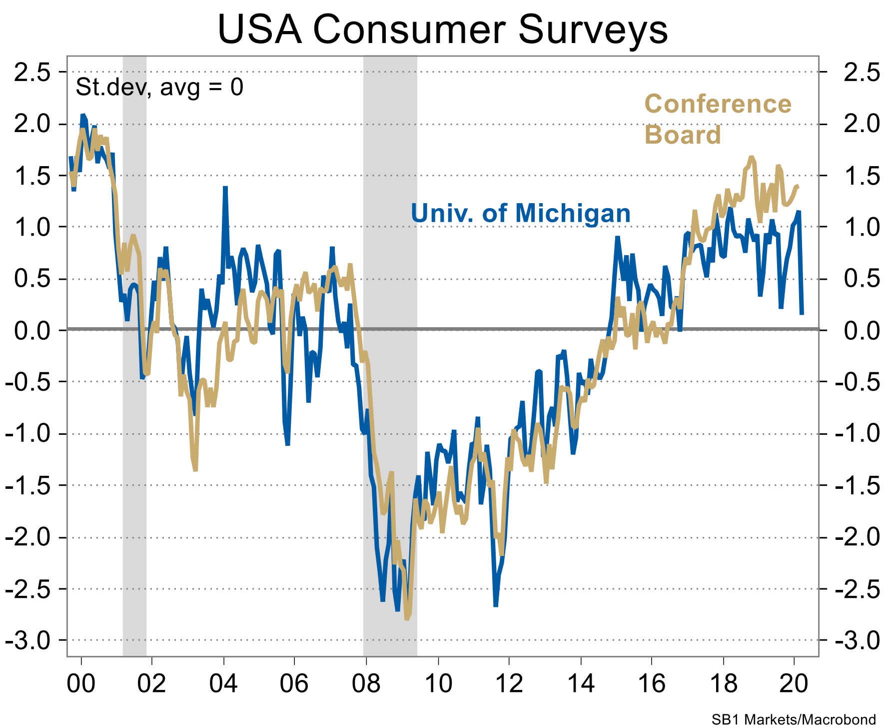


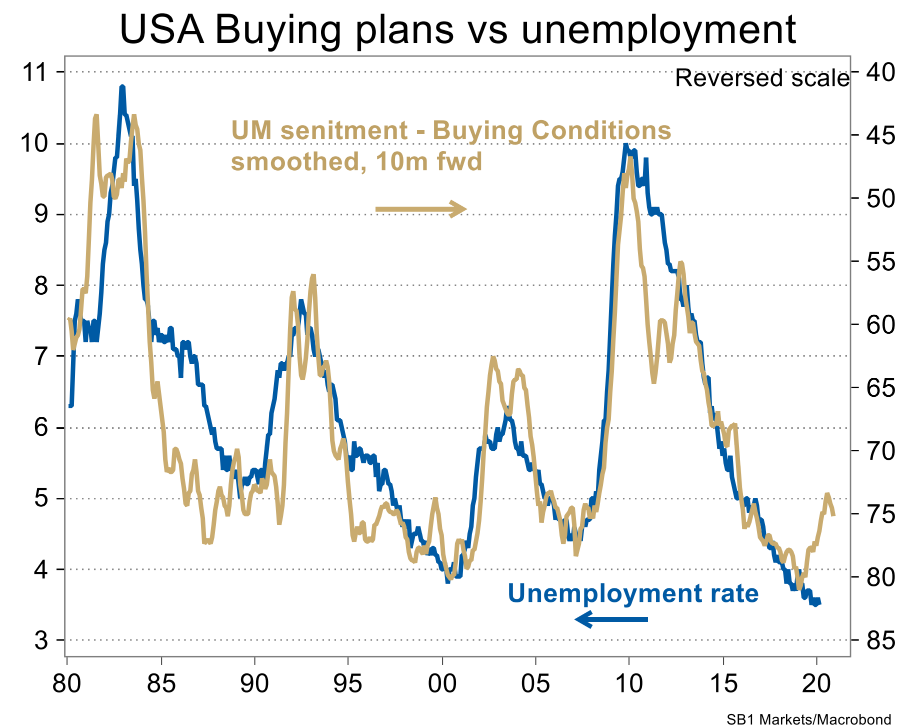


- Savings have increased from 7% in 2017 (after some substantial upward revisions earlier this year), far above our model f'cast. Household cash flows are strong. The rise in savings indicate that the tax cuts have largely been saved, and not spent. Thus, households were, in average, in a better financial position ahead of the Covid-19 outbreak than before the financial crisis, as they have been putting more money aside for rainy days now

UoM consumer sentiment dropped more than first reported in March

Consumer confidence fell to the lowest level since 2016 - and it is going to get much worse

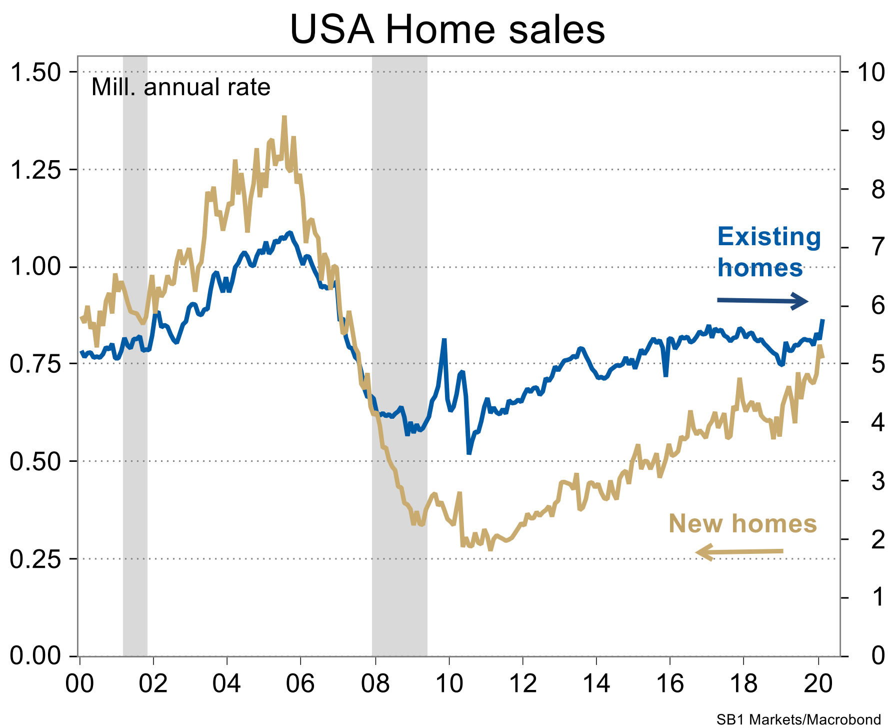


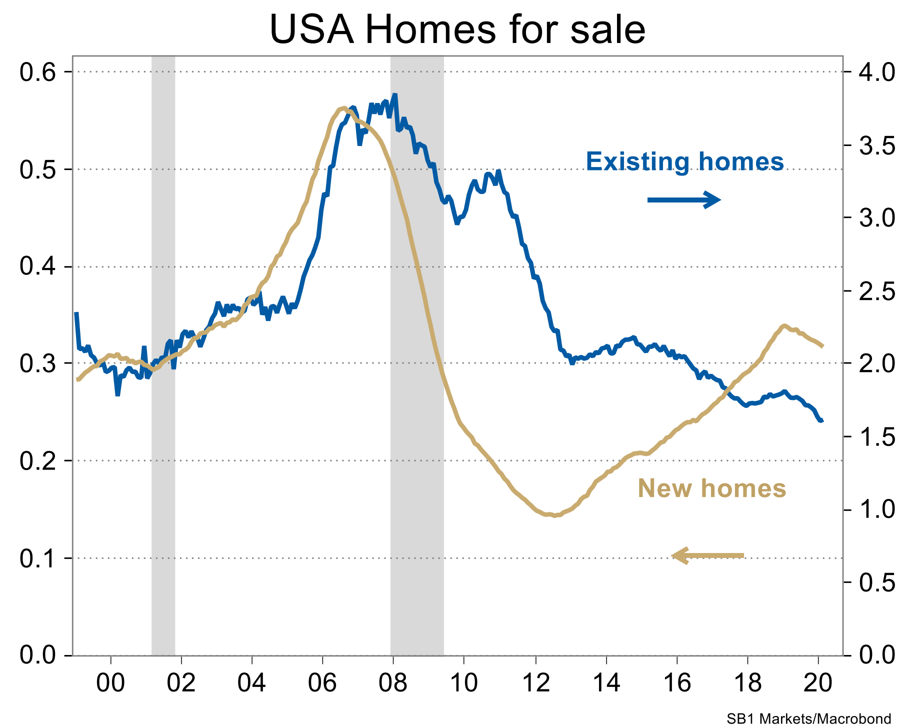


- University of Michigan's consumer sentiment fell to 89 p in the final March report, down from 95.9 in early March. A downward adjustment was expected due to the Covid-19 outbreak which has been accelerating in the US in late March, but the drop was (strangely enough) much steeper than expected. Still, the index is not yet very weak, just back to the 2016 level
  - » Both the view of the current situation and expectations on the future fell, the current sit. index is still far above the average level
- Conference Board's March consumer confidence index is reported this week

New home sales have been booming, pre corona

The next months, the corona crisis will probably hamper both demand and the supply side

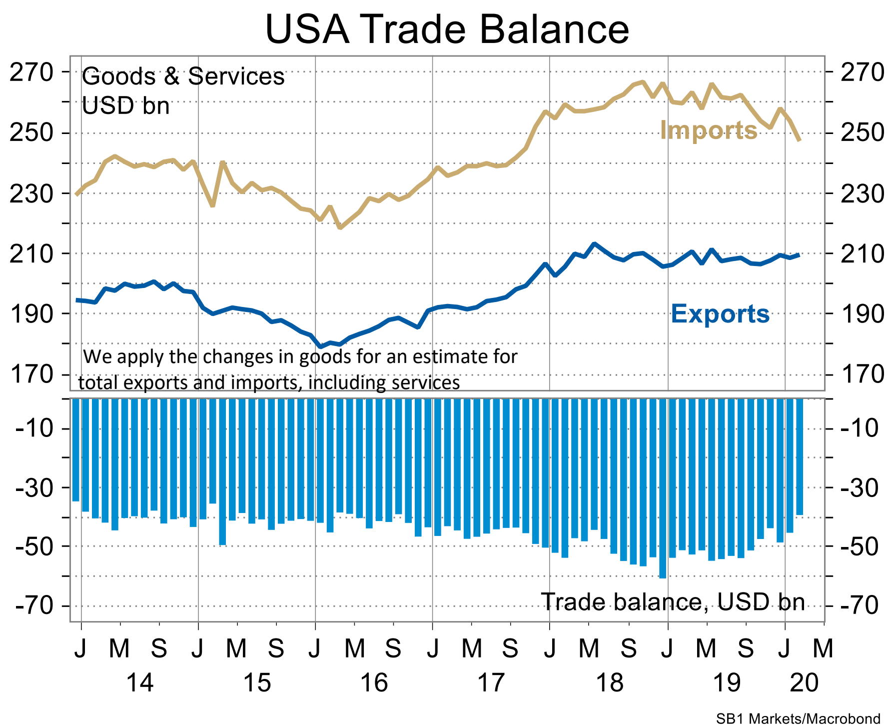


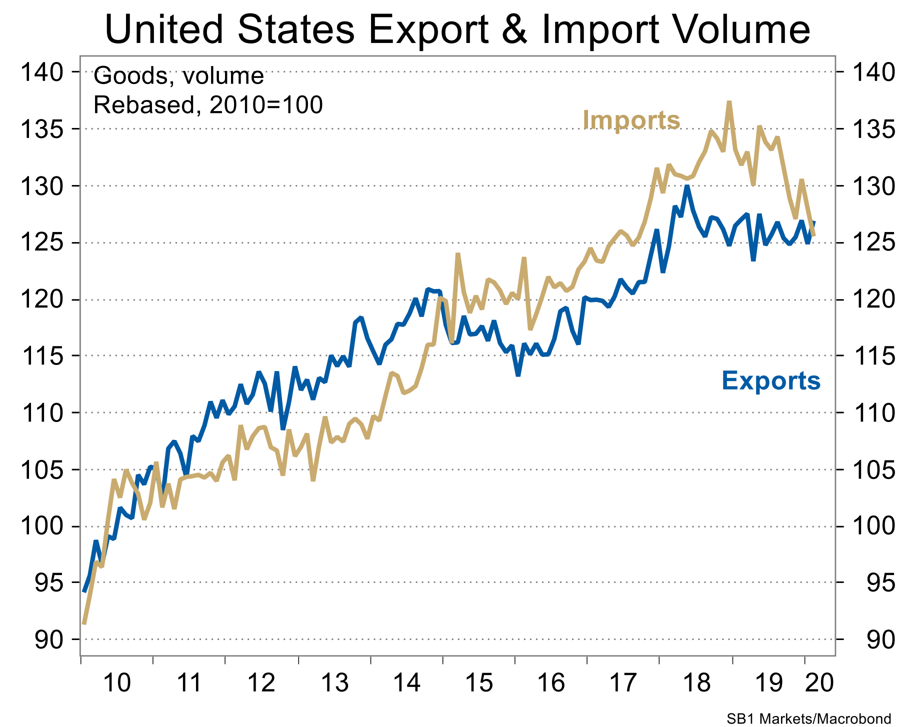


- New home sales fell 4.4% m/m in February but still came in above expectations, as January sales were revised up. Home sales are trending steeply up and are at the highest level since 2007.
  - » The number of unsold homes is heading down, both for new and existing, reflecting strong housing demand. However, supply side factors may have contributed, the number of homes under construction is down 10% since early 2019 (but housing permits/starts are increasing fast now)
- The Covid-10 outbreak, the following shutdowns and soaring layoffs will no doubt hamper demand in the short term. Luckily, the level is far lower than pre-2007, indicating a smaller downside risk should a total bust come

Lowest trade deficit in 3 ½ years as imports wane

Imports are heading down, exports completely flat

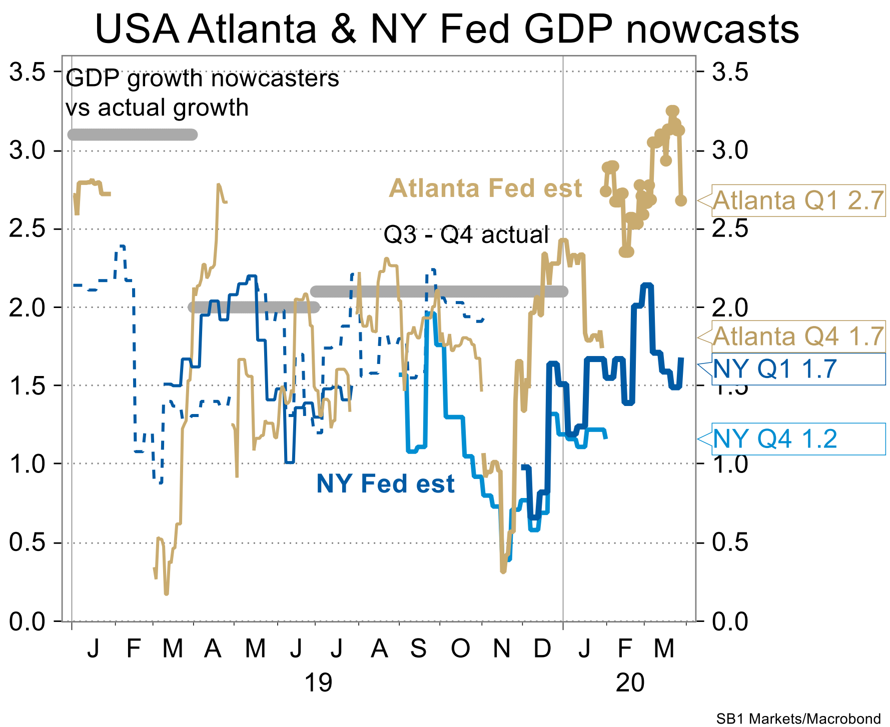


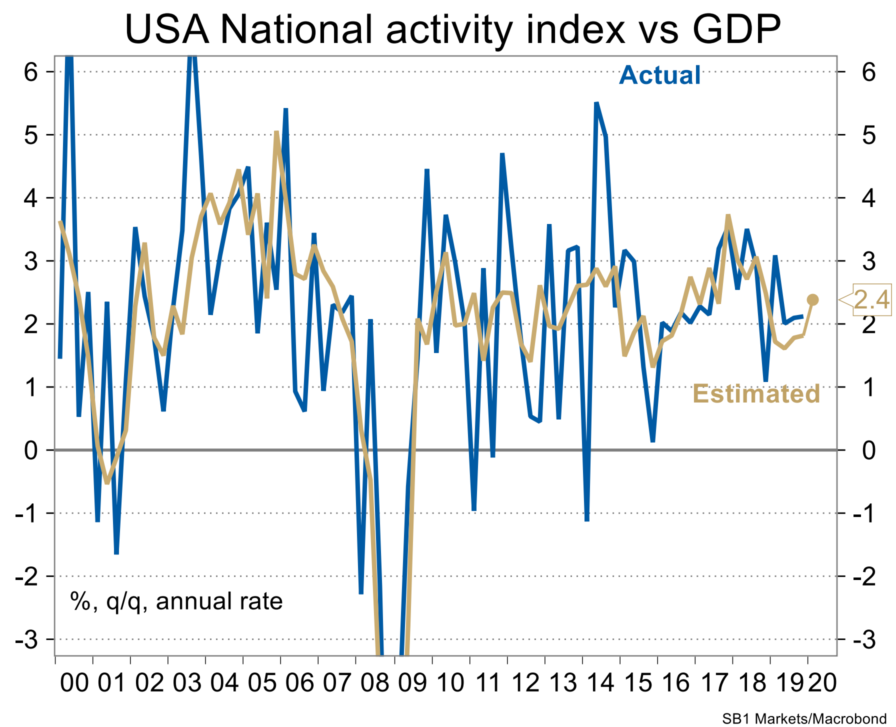


- The advanced trade deficit **in goods** shrank to USD -39 bn in February. The deficit has been trending in since mid-2019, due to weaker imports – whereas exports have flattened out. The Feb deficit is the lowest since Sept 2016
  - » Imports fell 2.6% m/m in volume terms and are down 4.8% y/y. Softening 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 inched up 0.5% in Feb and have completely flattened out the past year

Nowcasters signal 1.7 to 2.7% growth in Q1. Before corona is counted

NY Fed's model says 1.7% growth, Atlanta 2.7%, National activity index signals 2.4% growth in Q1



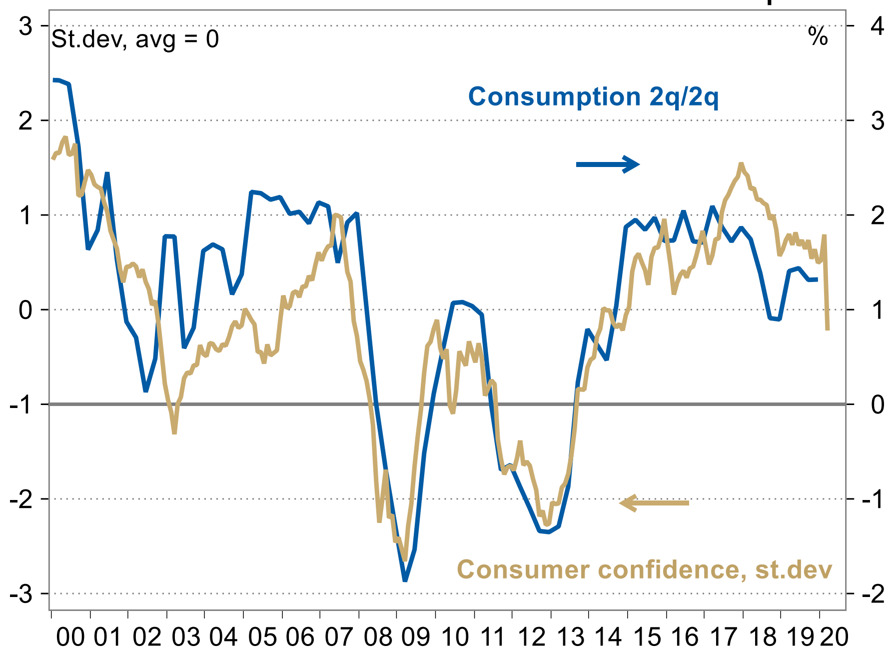


- The National Activity Index improved in February, signalling 2.4% GDP growth in Q1, before any corona impacts
- ***<u>None of these nowcasters have yet incorporated any data eventually impacted by the Covid-19 outbreak</u>***

Consumer sentiment tumbles in March, steepest decline on record

Unsurprisingly, Eurozone consumer confidence plunged in March (and probably more than reported)

EMU Consumer confidence vs consumption



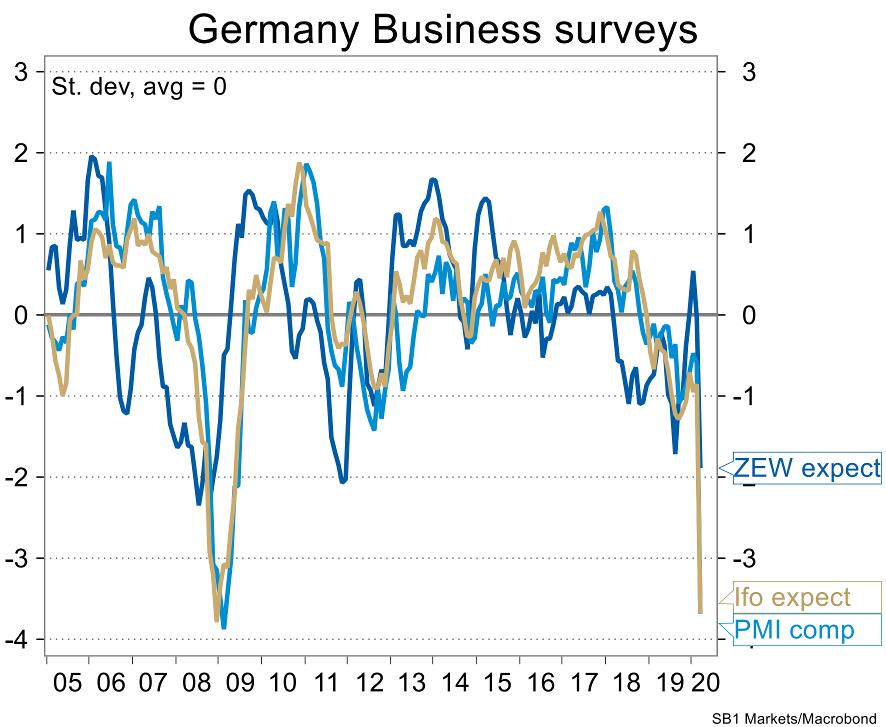
SB1 Markets/Macrobond

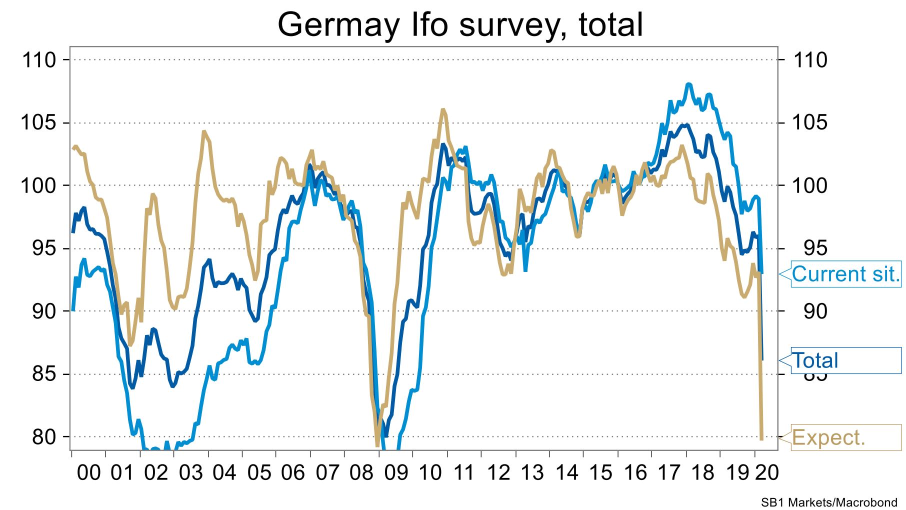
- No country or other details are reported in this preliminary consumer confidence index

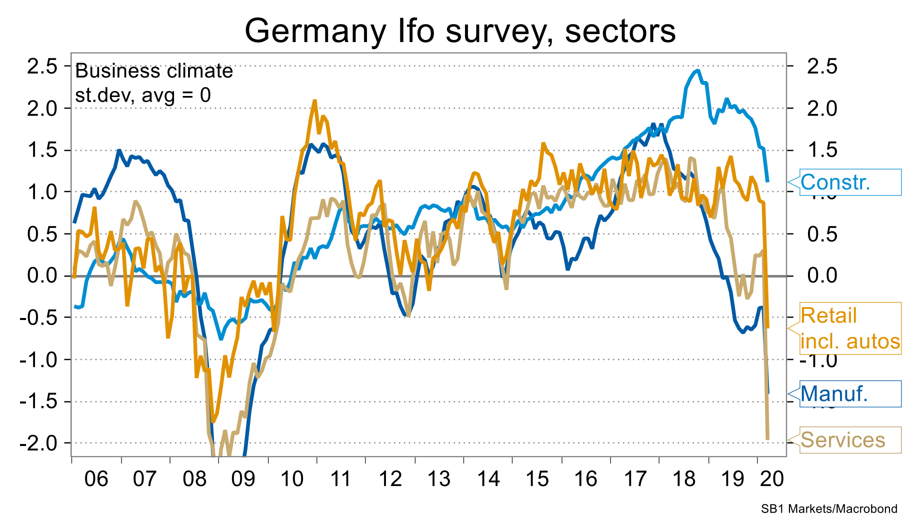
- Consumer confidence dropped 1 st.dev in March, as the corona crisis spread through Europe. The decline is by far the steepest monthly drop on record (since 1995) and the index is back to the 2014 level. Moreover, the March figure probably masks an even steeper drop, as the data collection was stopped somewhat earlier than the usual dates, due to corona disruptions. For the same reason, only some 15% of responses were collected
  - » No March country data have been released, but it is needless to say that confidence plummeted in Italy, Spain and other countries that have been hit very hard by the coronavirus outbreak

Ifo survey confirms PMI crash; the German economy is speeding into recession

All sectors plunged in March, as business expectations noted the steepest drop ever



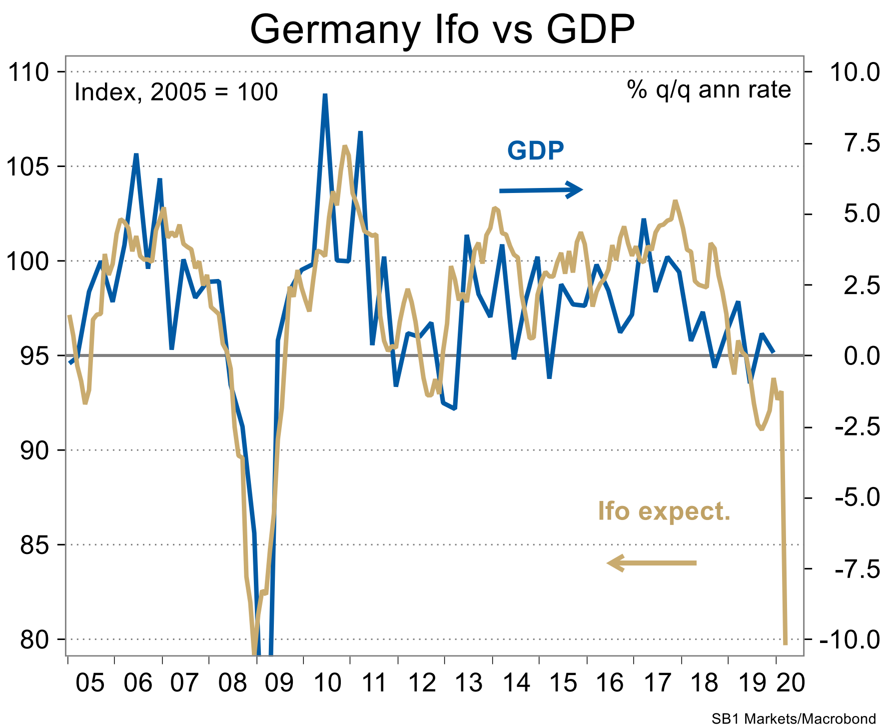


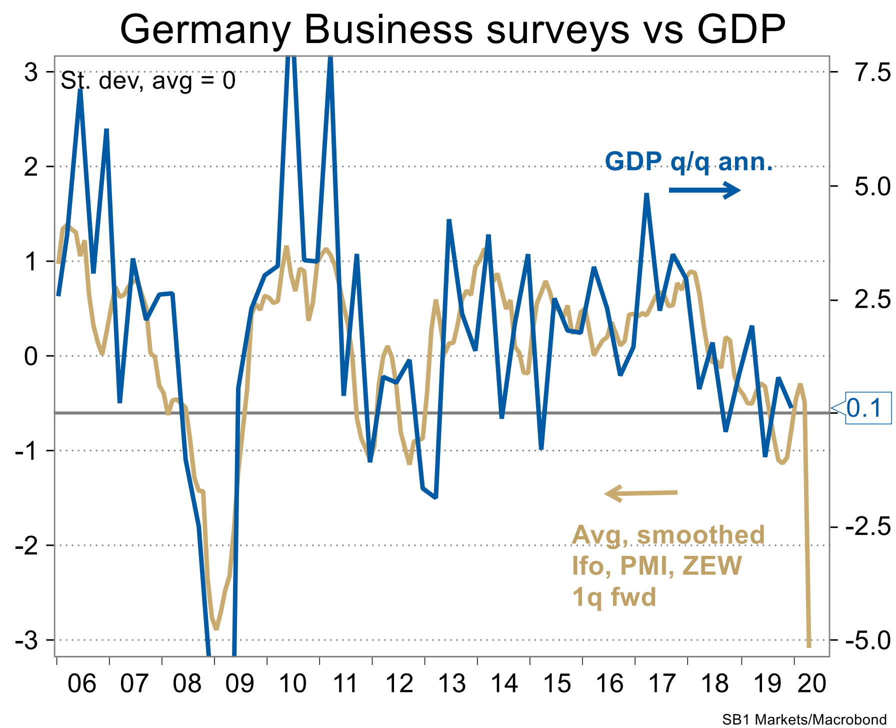


- Ifo business expectations slipped almost 3 st.dev. in March, the steepest monthly decline on record. The level is marginally above the 2009 trough and precisely as weak as the PMI, suggesting that Germany (like many others) is heading for a deep recession
  - » The view of the current situation fell less than expectations yet reached a 10 y low
- Services were hit the hardest, as everywhere else. Retail sectors crashed as well, from a high level. Manufacturing fell deeper into contraction, while business climate in construction is still at a rather high level (but much less than the past 3 years)

The German surveys suggest a 5% decline in GDP – and have not yet hit bottom

Ifo is more downbeat than the PMI and ZEW surveys vs the normal correlation to GDP growth

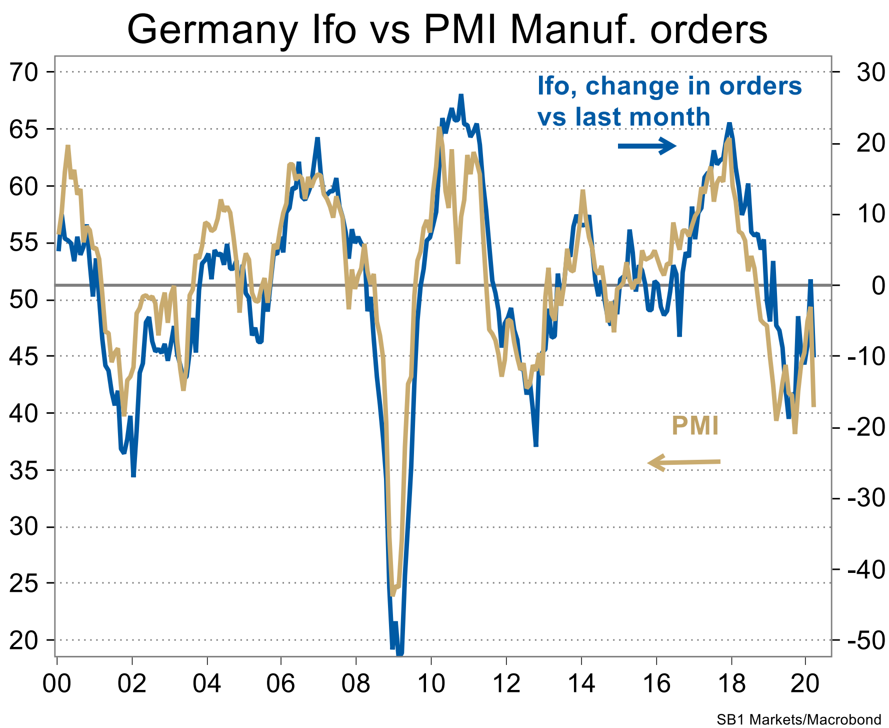


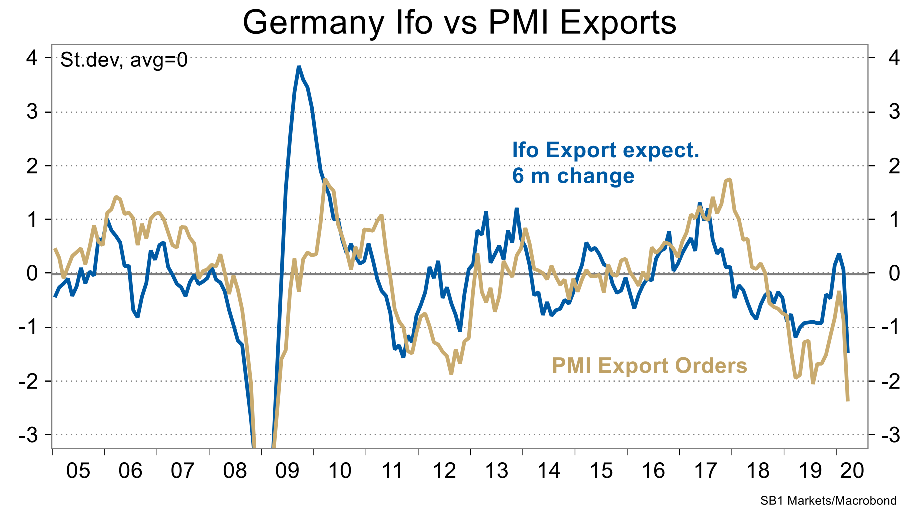


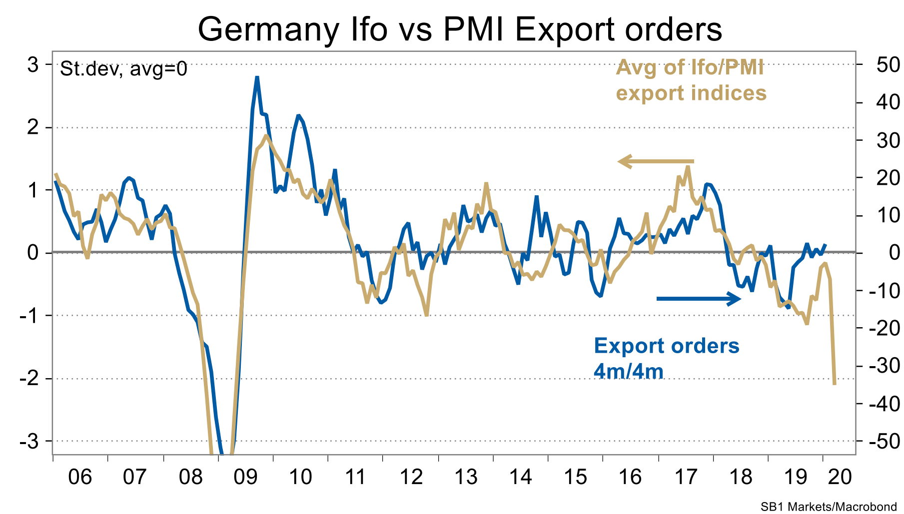
- Ifo expectations suggest an even steeper decline, at 10%. The avg of surveys Ifo, PMI and ZEW points to a 5% drop, held up by ZEW, which was collected earlier in March, thus, was less impacted by Covid-19 related restrictions
- The correlation to GDP growth is not very strong short term – but offers an useful indication of magnitude of the crisis

Ifo manufacturing orders fell in March but no collapse

However, exports are set to plummet







- The level of the Ifo order index is far above the PMI. We apply an index of the order assessment vs the prior month, which is more closely correlated to PMI orders. In March, businesses reported a decline in manufacturing orders, but somewhat more modest than the PMI. Both are falling less rapidly than in mid-2019
- Exports are plummeting, an avg of Ifo/PMI points to 30-40% drop

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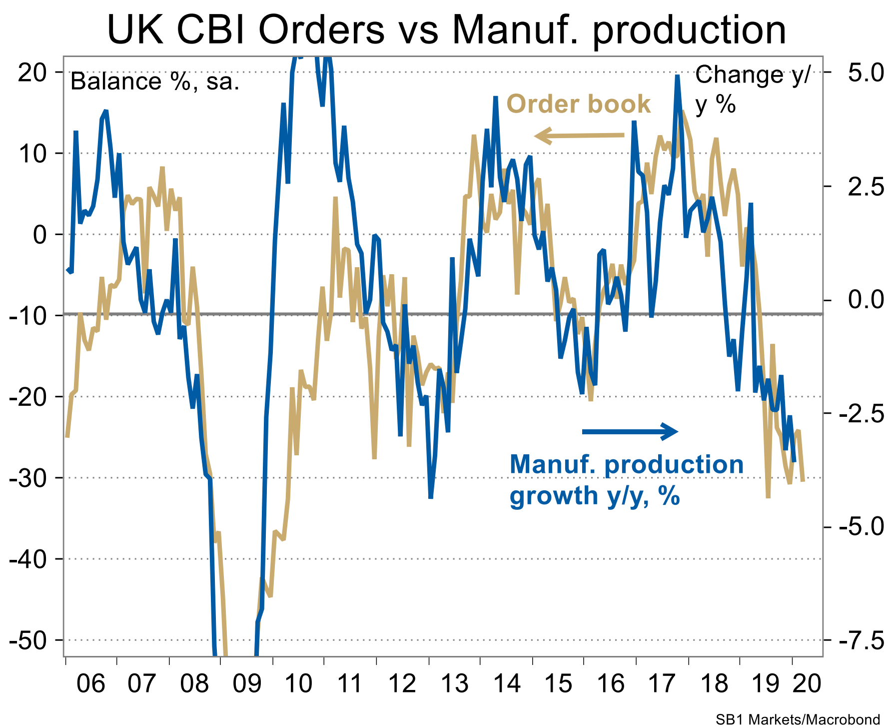
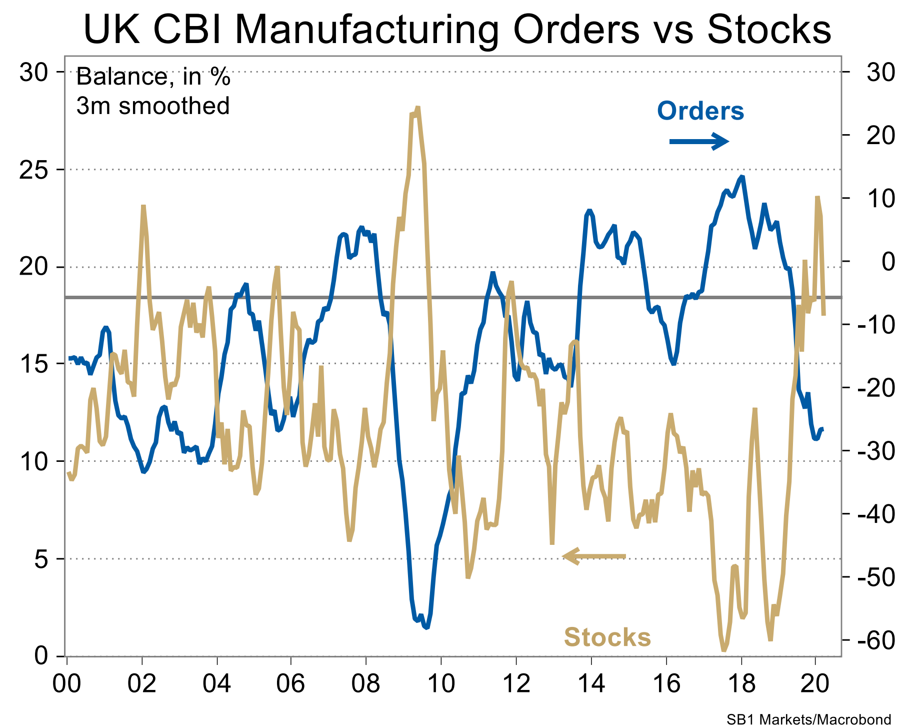
CBI manufacturing order index fell modestly, no doubt an understatement

The survey was collected until March 13, before many of the Covid-19 restrictions were implemented

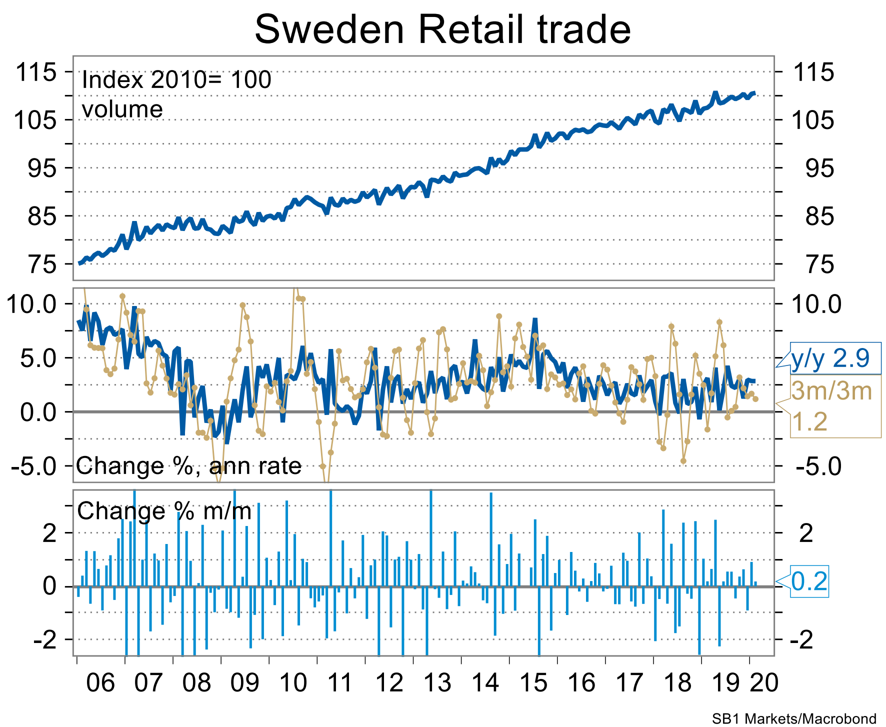




- The CBI order book index fell just modestly in March, back to the Dec '19 level. The level indicates a substantial decline in new manufacturing orders. However, the survey was undertaken just until March 13, thus, understating the impact of the shutdowns and emergency measures due to the corona outbreak
- According to the CBI, inventories have been built up rapidly the past year, stabilized the past few months

Retail sales expanding moderately ahead of corona crisis

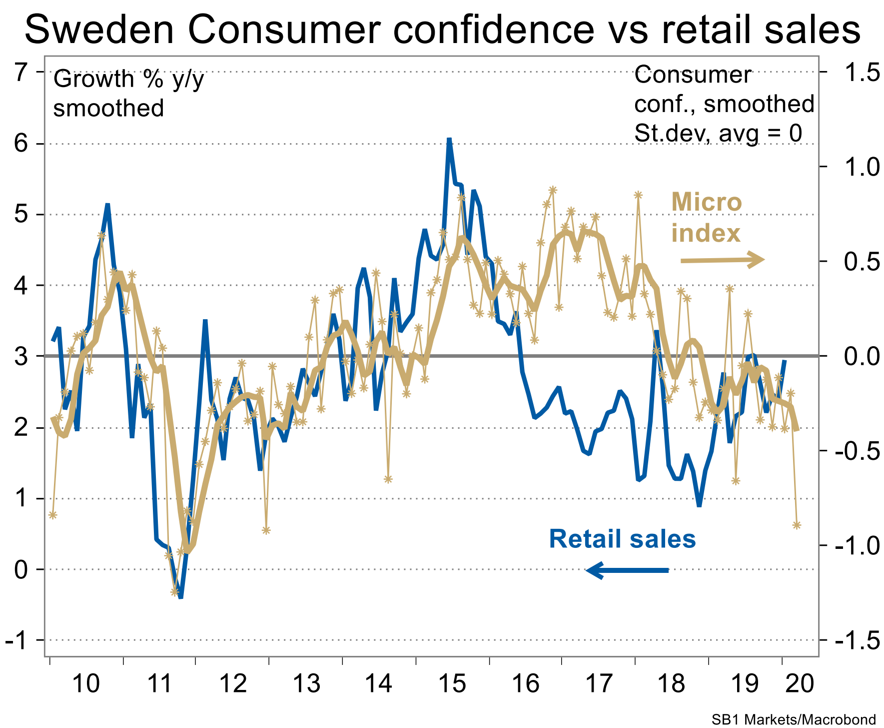
Sales have been held up much better than in Norway the past year or so

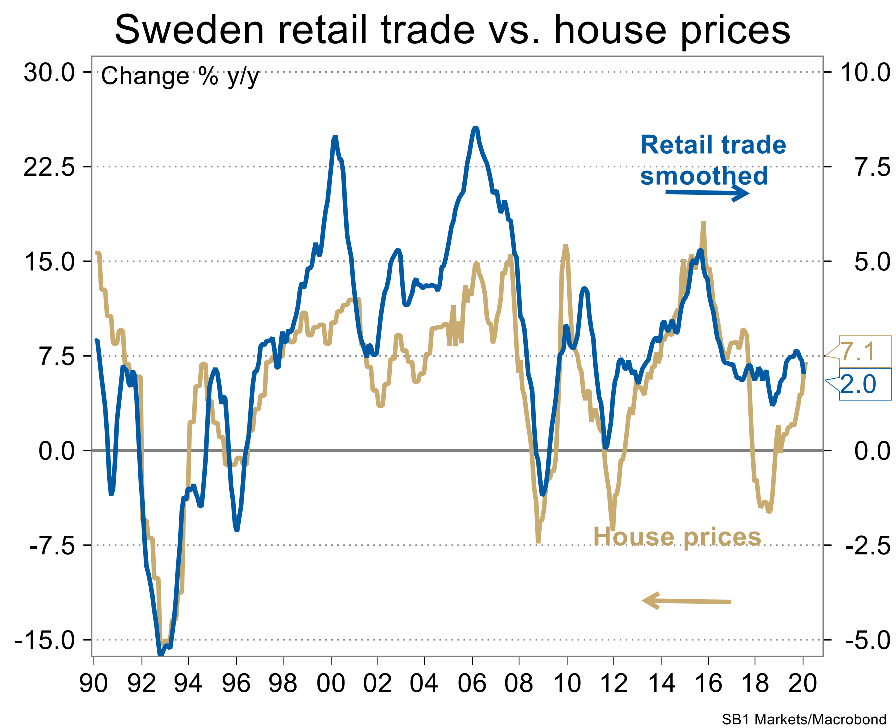


- Retail sales volume increased by 0.2% m/m in February and the underlying pace is 1.2%. The trend growth since 2015 is still intact. Retail sales growth has been substantially stronger than in Norway, which we find strange, as growth in total disposable income has picked up in Norway but slowed in Sweden
  - » Retail price inflation has been subsiding, supporting volume growth. Annual inflation up just 0.9% y/y
- The short term consumption outlook is not upbeat, as in other countries. However, consumption may be hit less hard than Norway and other Nordics, as Sweden has implemented less strict measures during the corona epidemic

Consumer confidence dropped in March, unsurprisingly

Private consumption are likely to follow although less than other Nordics, due to milder restrictions

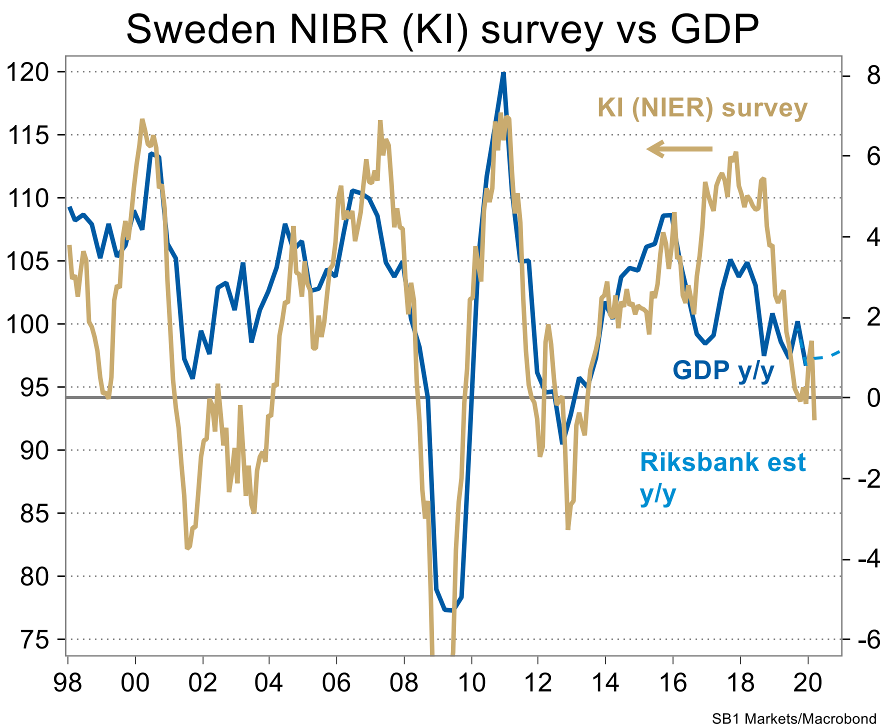


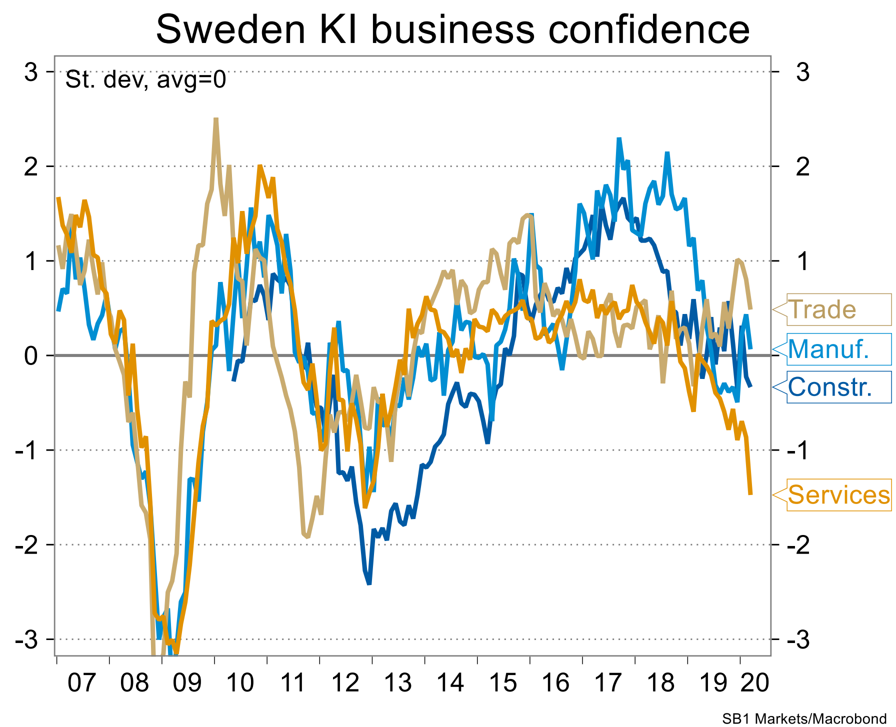


- Consumer confidence fell to the lowest level since 2013 in March, as Covid-19 spread. The CCI signals a rapid decline in consumption, although the correlation is not that strong. Consumption will probably be hit less hard than in other European countries, are the Swedes have imposed less strict measures

GDP is set to contract in Sweden, too

The KI survey down in March, due to services and trade, manufacturing still at a decent level





- The KI economic tendency survey, which usually correlates well with GDP growth, fell sharply through 2019. The survey improved in Jan/Feb, but fell back down in March, no doubt due to the corona crisis. The index signals a mild decline in GDP – but it has been too upbeat vs GDP the past years
  - » Service industries reported an accelerating decline in activity in March, as in other countries. Retail trade weakened too, yet the level is not bad, above average. Manufacturing slowed but not rapidly

Highlights

The world around us

The Norwegian economy

Market charts & comments

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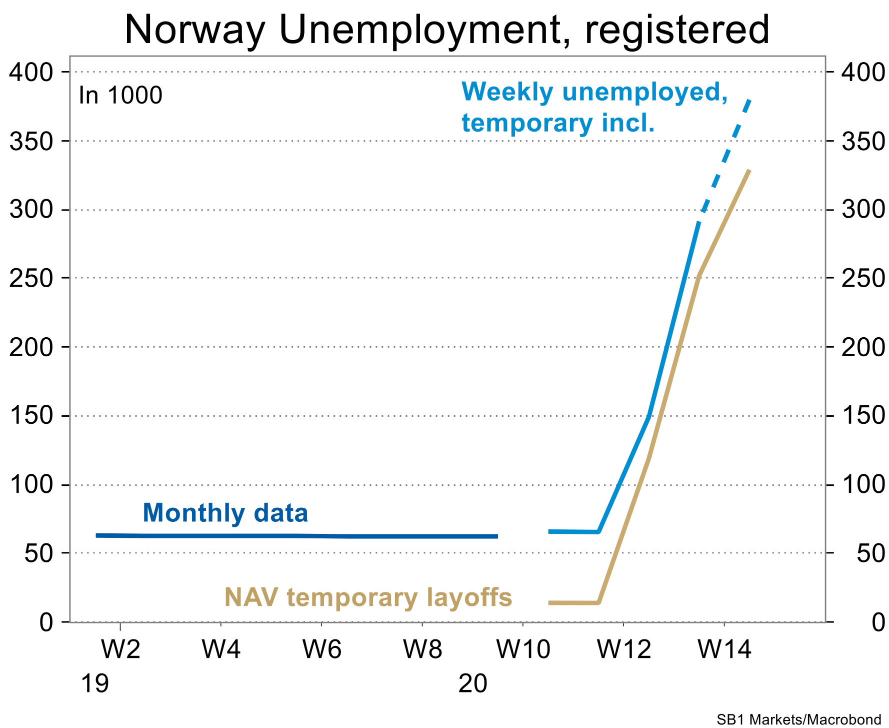
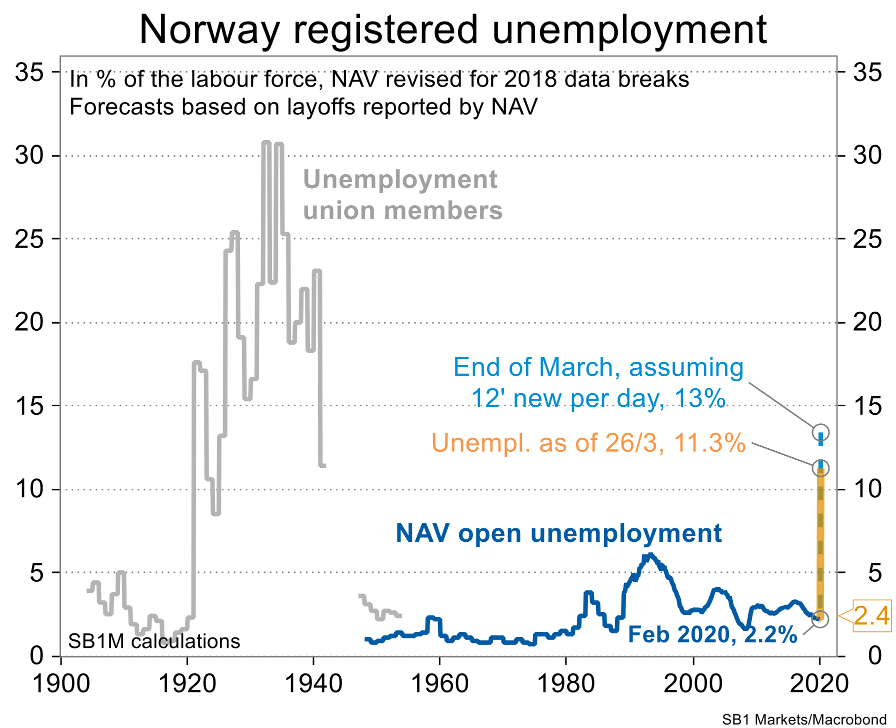
Unemployment is soaring, to the highest levels we have seen since the 30'ies

.. Chiefly due to temporary layoffs, but 'ordinary' unemployed is increasing as well

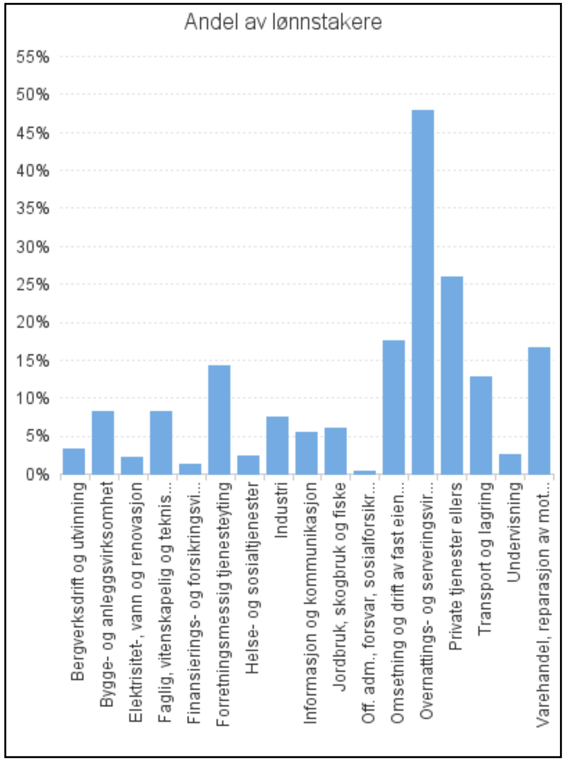




- NAV is reporting daily labour market data in order to keep track on the impacts of the coronavirus 'lockdown'
- Since March 12, before the Government announced the Norwegian 'lock down', 285.000 persons have applied for unemployment support, of which approx. 90% due to temporary layoffs, now being fully compensated by the Government
- The number of unemployed reached 319.000 late last week, equalling 11.3% of the labour force. We expect unemployment to rise further up to 14% the coming few days, and probably up towards 20% in April
- Hotels & restaurants have been hit the hardest, almost 50% of wage earners are laid off temporarily. Other private services, retail and real estate sectors are struggling as well, check the right chart above

Hotel, restaurant & retail trade works have taken the hardest hit

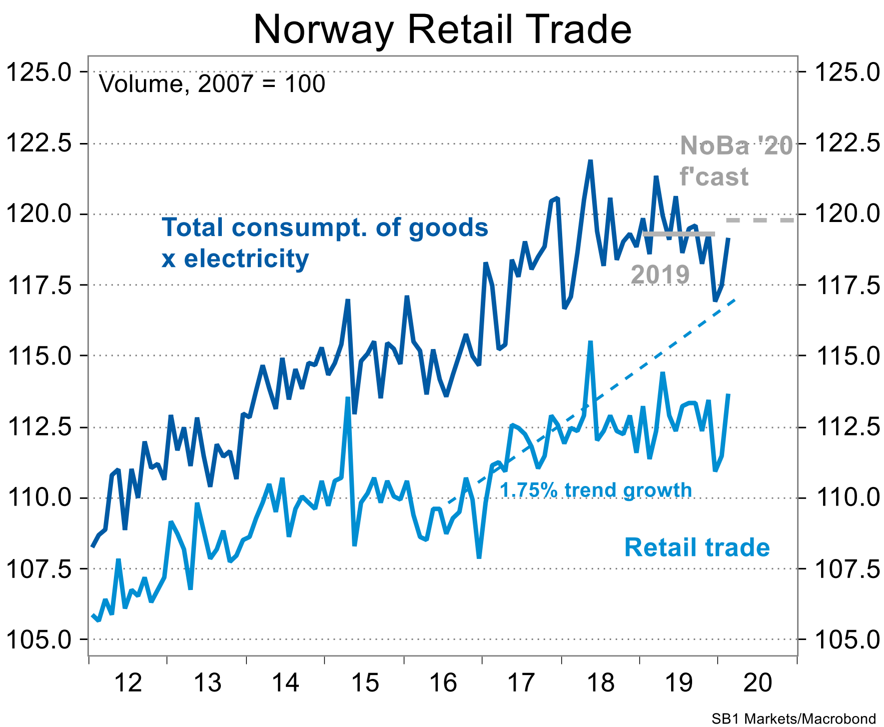
Applications for unempl. benefits

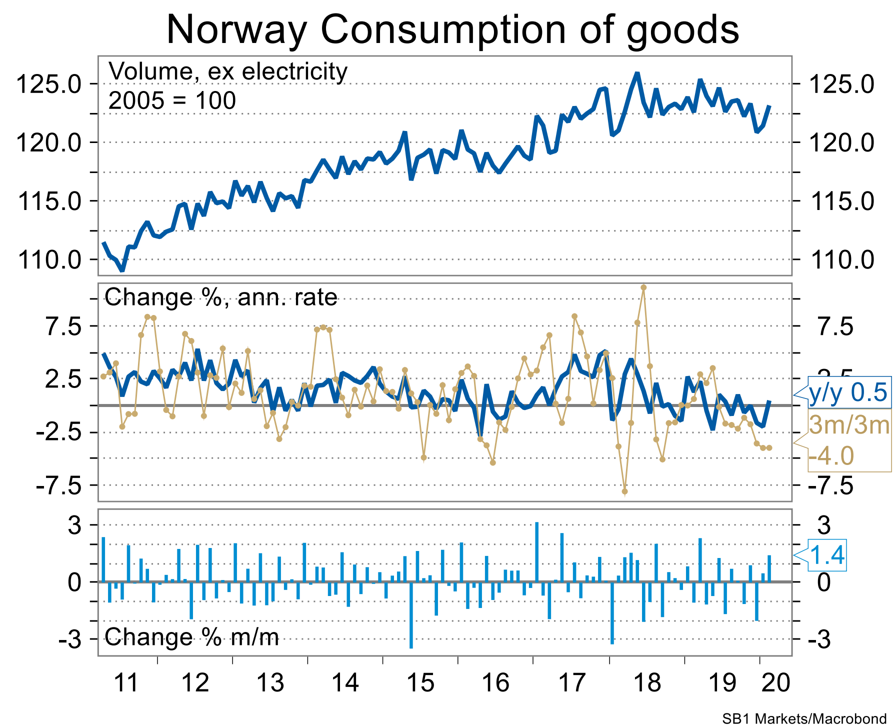


Source: NAV, 25/3/2020

Retail sales & consumption rebounding (temporarily) in February

Retail sales jumped 2% after some soft months. Sales will nosedive in March, with huge sector diff.

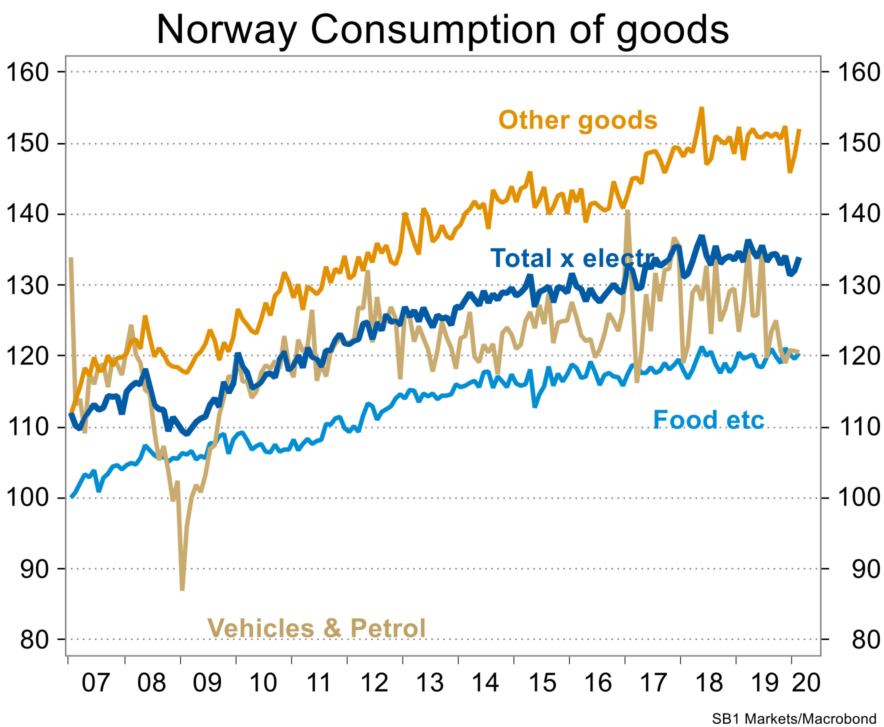


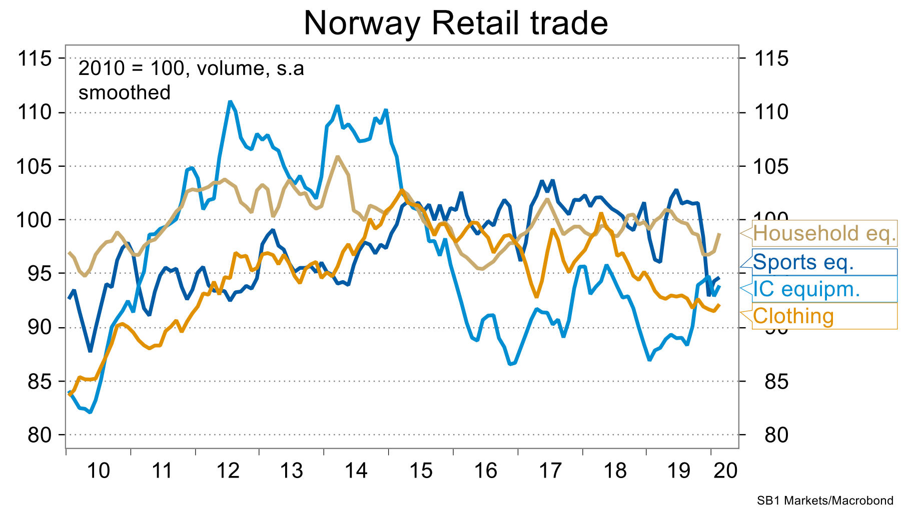


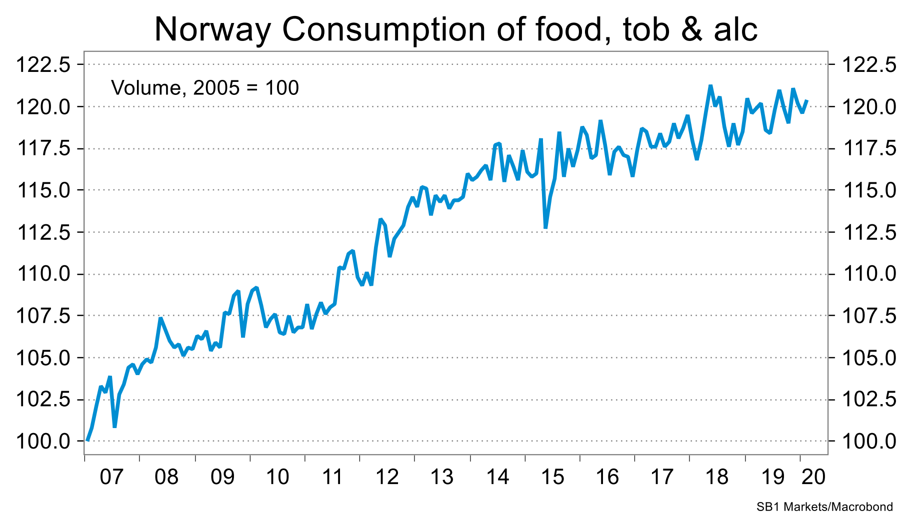
- Retail sales volume (ex auto) spiked 2% m/m in February, following a weak Jan & Dec. Sales have stagnated since 2018 and is far below the 'old' 1.8% trend path. The underlying speed is now -3.6% (measured 3m/3m annualized)
- Total consumption of goods (ex electricity) increased by 1.4%, after a steep decline in the late autumn/winter, partly driven by weak auto sales (which have failed to recovered). Consumption is still trending slightly downwards and the speed so far in Q1 is a 0.5% annualized increase
- Retail sales and total consumption of goods were already on a soft patch before the corona crisis hit. In March and April, consumption will no doubt collapse as costumers habits have turned on a dime (and primarily not due to government measures). Some sectors, as food and groceries, may see an upsurge in sales, whilst clothing, sports equipment and, no doubt, auto sales, are likely to suffer. Many will experience supply chain disruptions

Sport equipment and auto sales have been hurt the most recent months

In February, both sales of sport equip. and household equip. sparked, auto sales remained weak



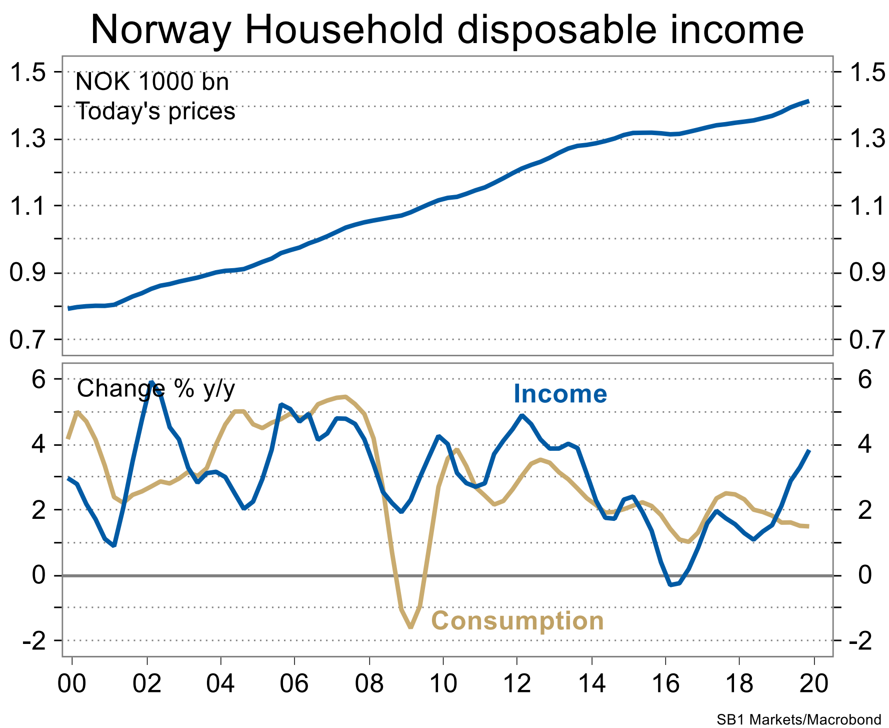


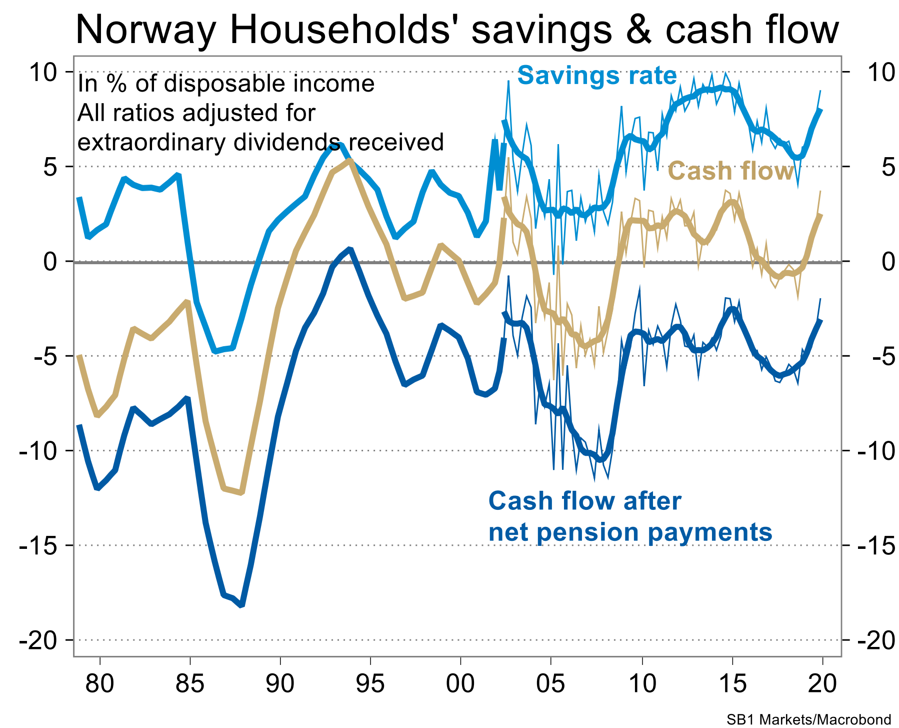


- Auto sales have fallen sharply. The volatility in auto sales since the summer may be partly due to supply bottlenecks on electrical vehicles and expiring auto leases on diesel cars. However, demand must have slowed and sales did not rebound in January/February as expected
- In February, sales of sports equipment bounced back up, after struggling during an unusually dry and warm winter (the figures a the chart to the right are smoothed). Household equipment has picked up. Clothing is heading steadily down. Just sales of ICT equipment have been picking up speed, after a downturn in 2018

Good news: Households' cash flow is in plus (the bad news; the debt level)

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





- 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 is hurt badly by the pandemic

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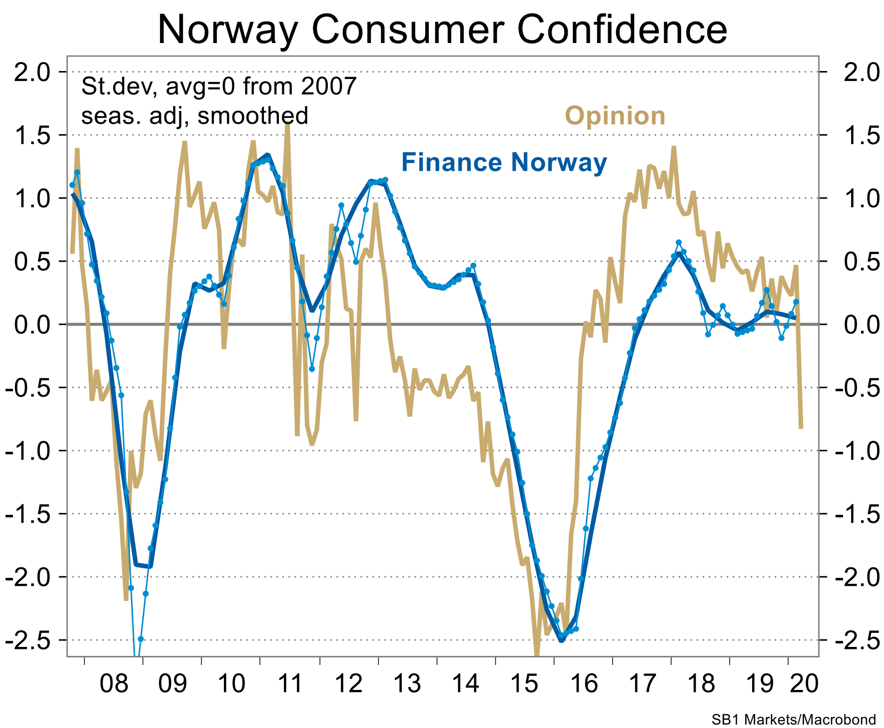
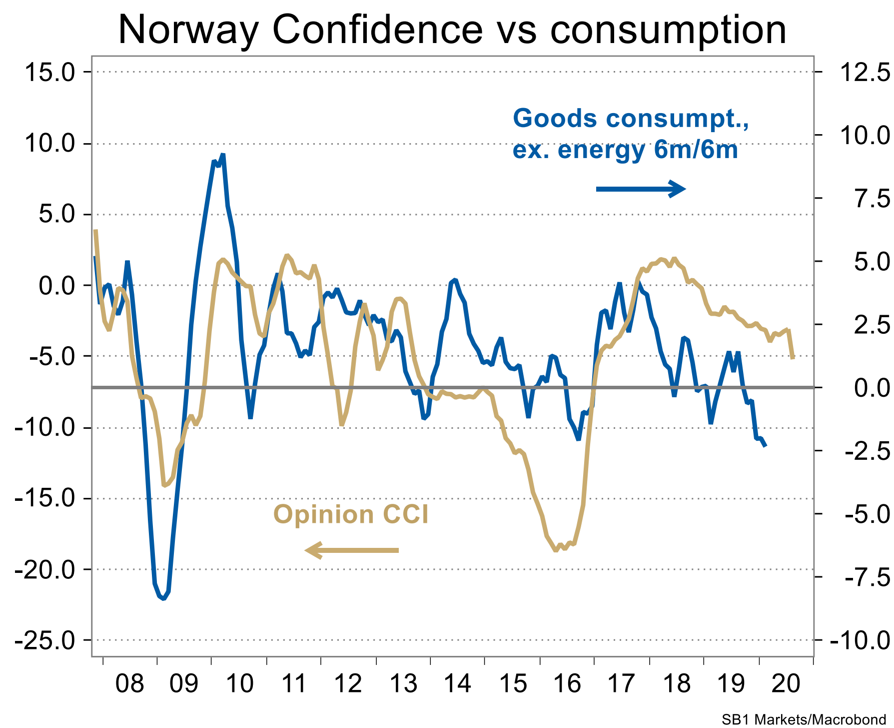
Consumer sentiment 'slipped' in March, unsurprisingly

Opinion's March CCI noted a steep drop in confidence, back to the 2016 level. More to come

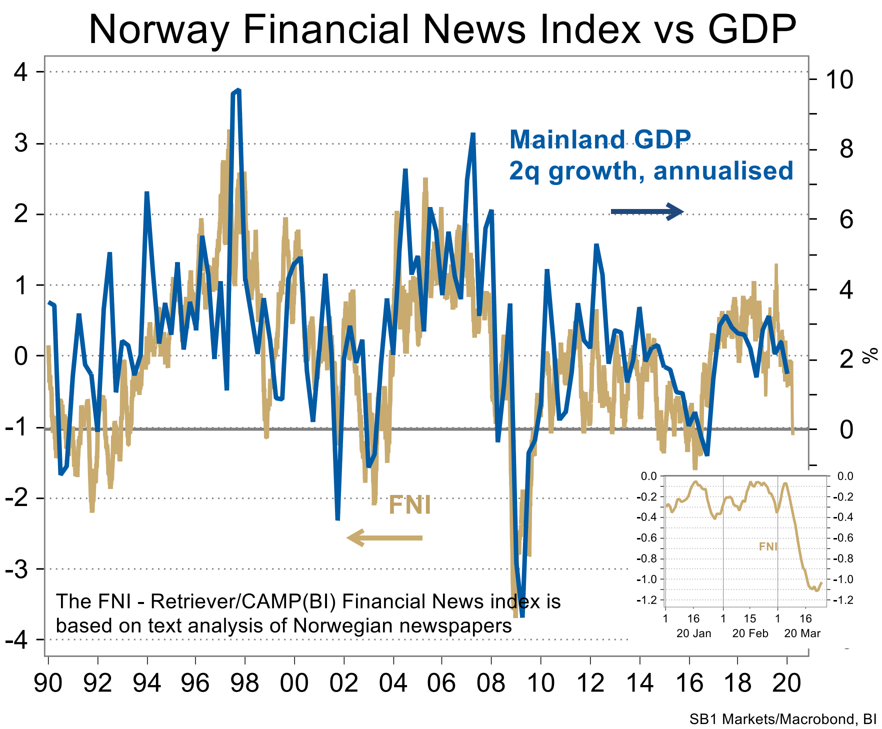


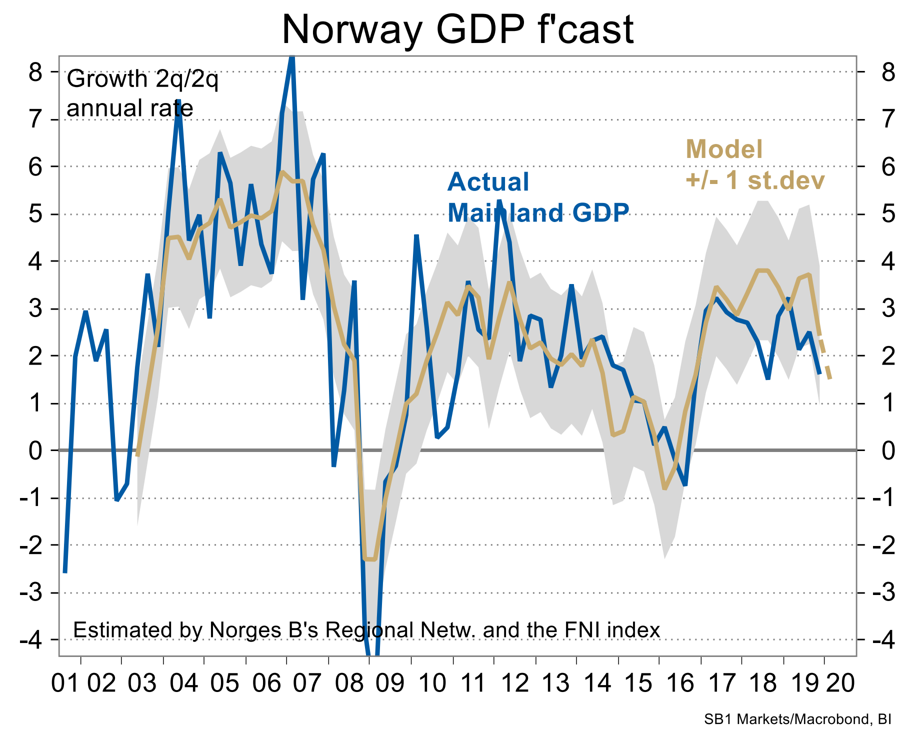


- Opinion's monthly consumer confidence index dropped 7.4 p in March, to -9.7(seasonally adjusted). This is the steepest monthly decline since 2011 and the lowest level since 2016
- The level of the survey still suggest higher growth on consumption, however, the direction is a more useful indication now. The corona outbreak and following lock down will no doubt dampen private consumption

The Financial News Index dropped in March, we are surprised by how little

Steep decline in March on Covid-19, the last FNI observation signals zero GDP growth



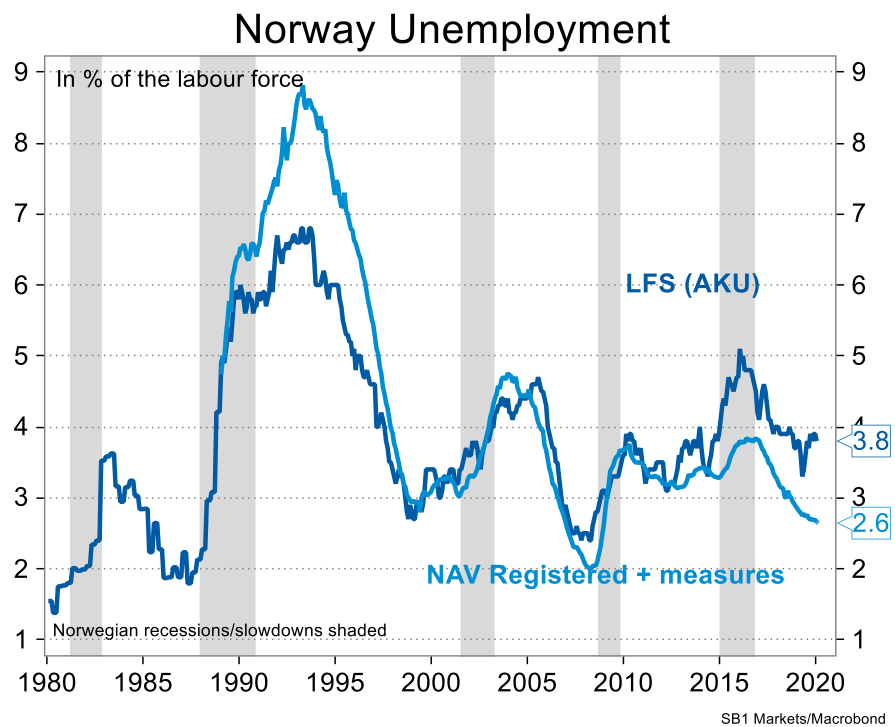


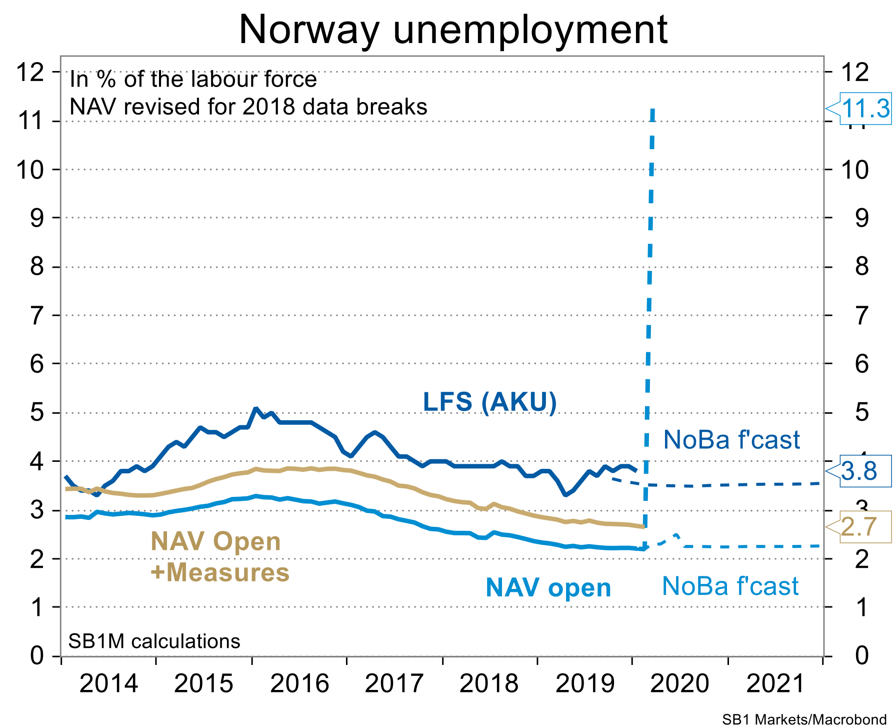
- The FNI tracks media reports on the economy. March, the corona epidemic and the economic impacts sent the index steeply down, to the lowest level since 2016. Given the magnitude of the crisis and the economic impacts, we are surprised the index did not fall by even more
- The level signals zero growth in GDP, which we find to be far top upbeat, as GDP is set to decline substantially

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

LFS unemployment inched down to 3.8%. In February that is…

LFS unemployment has stabilized – but these Dec-Feb data are totally insignificant now

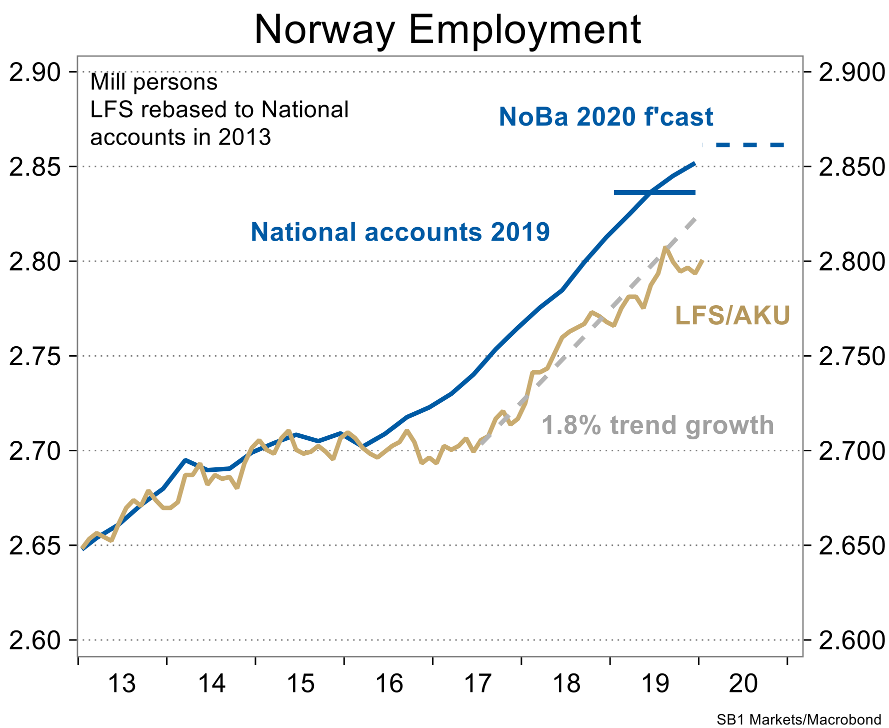


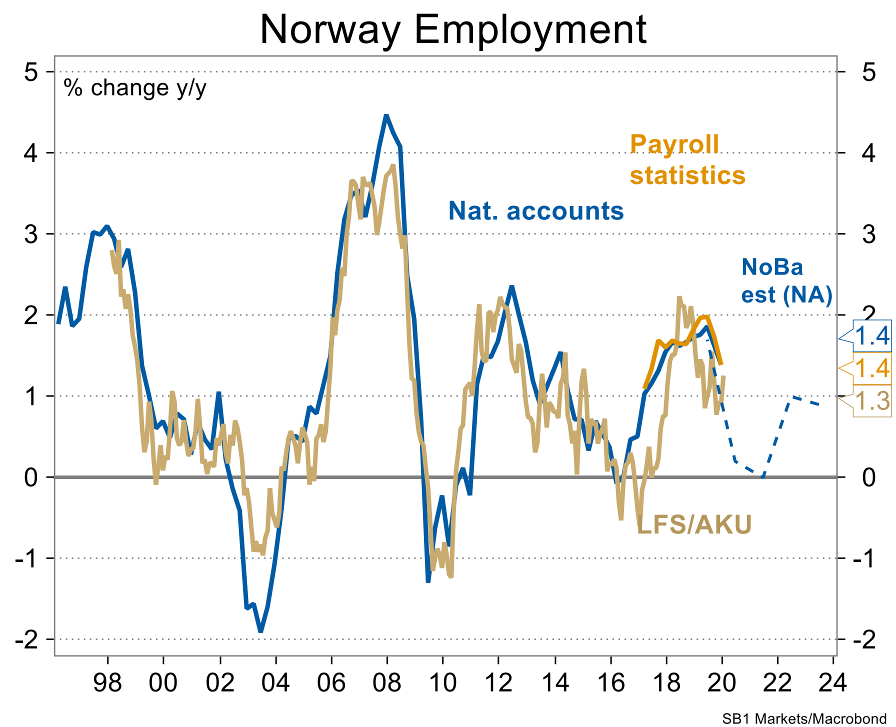


- LFS (AKU) unemployment fell marginally to 3.8% in Jan (avg Dec-Feb), expected unchanged at 3.9%. These figures are now rather useless, as unemployment is soaring amid the corona crisis. Check this slide for the newest data on registered unemployment. We have illustrated the increase in NAV unemployment at the chart to the right. Last week, unemployment sparked to 10%
- Both labour market participation and employment have inched down the past few months but are trending up. The stagnation of participation indicates that there is not much available labour, the labour market must have been rather tight. Employment growth has slowed to 1.3% y/y, from above 2% and employment will no doubt drop in March/April

Employment has stalled the past 6 months, will collapse

LFS employment was up 1.3% y/y in Jan, close to National Accounts and NoBa's December f'cast

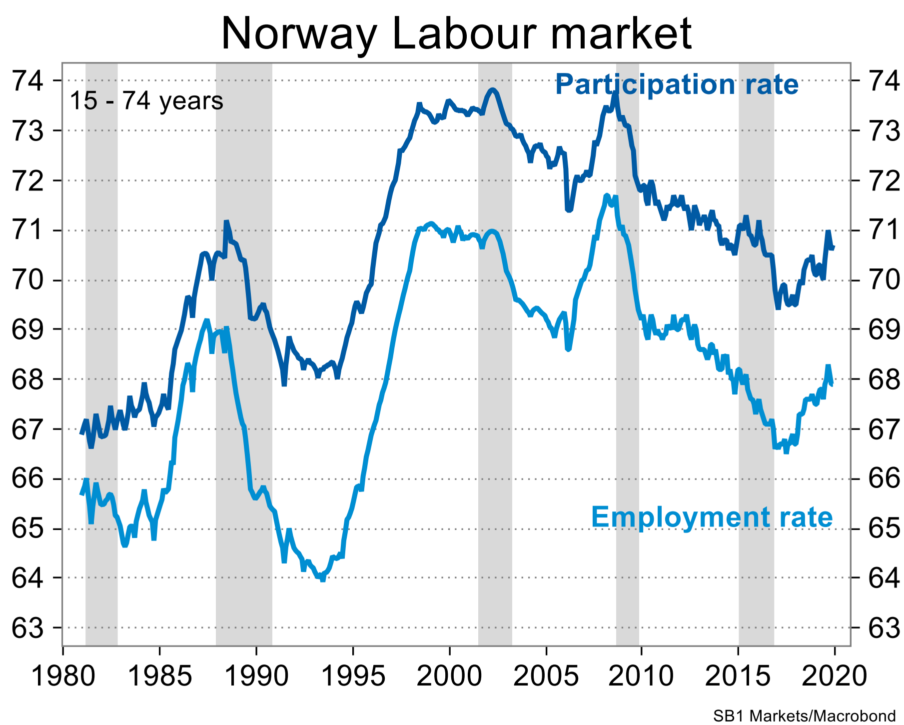


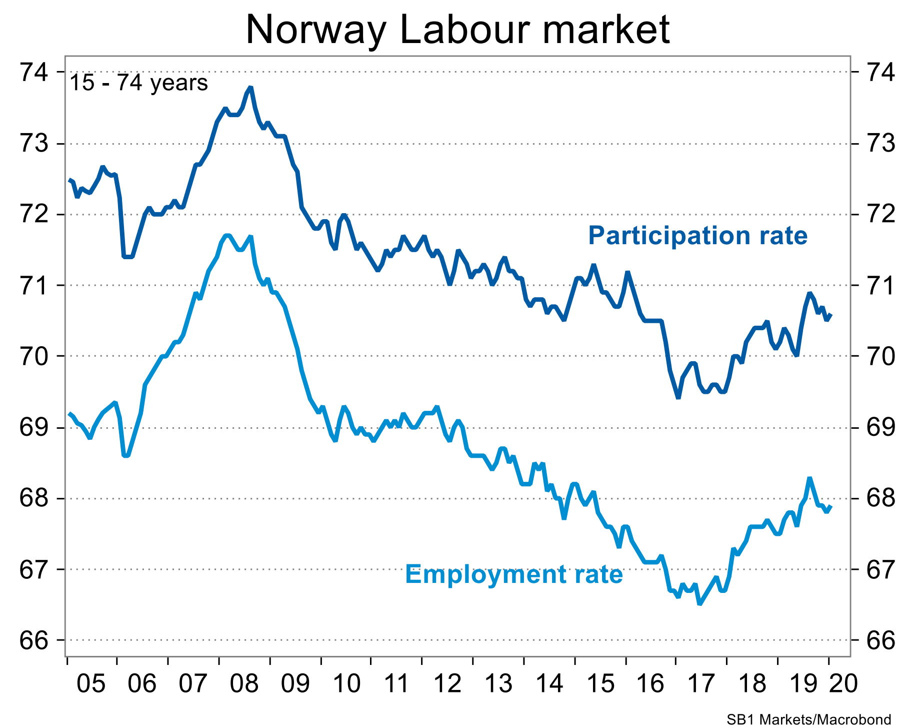


- Employment measured by the LFS accelerated through 2017 and H1 2018, to above 2%. Through 2019, employment growth slowed modestly, to just above 1% (and 1.3% in Dec-Feb)
  - » National accounts' employment figures (and the new quarterly registry statistics) are more accurate than the LFS survey's volatile data. Nat. Acc. confirms a slowdown, to 1.4%, which is also confirmed by the 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 drop in employment the coming months, as businesses are struggling heavily amid Covid-19 restrictions

Labour market participation & employment down, trends still up

The uptick in participation since 2017 probably does not indicate much excess capacity

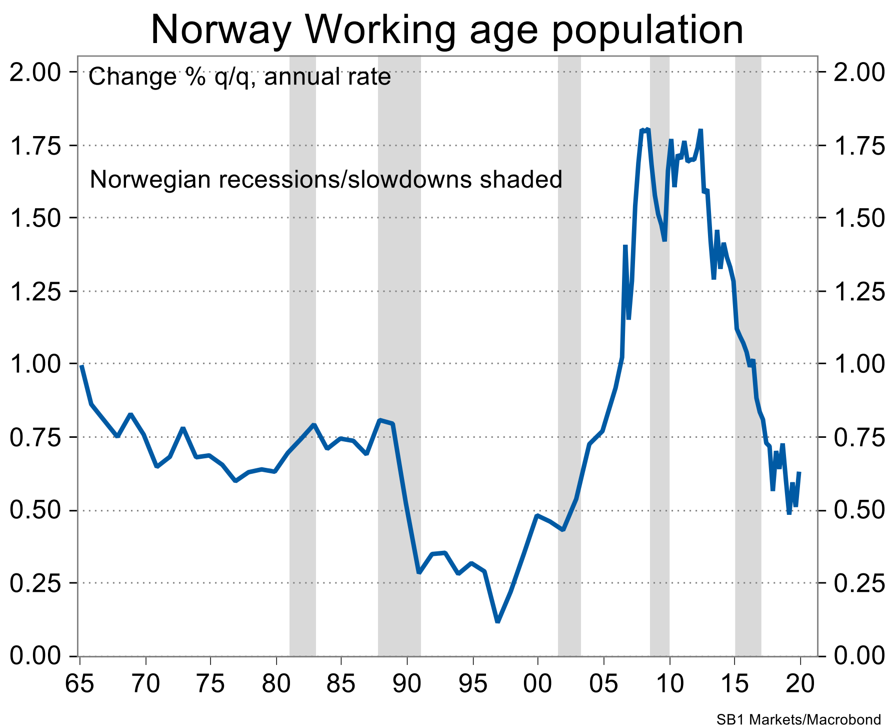


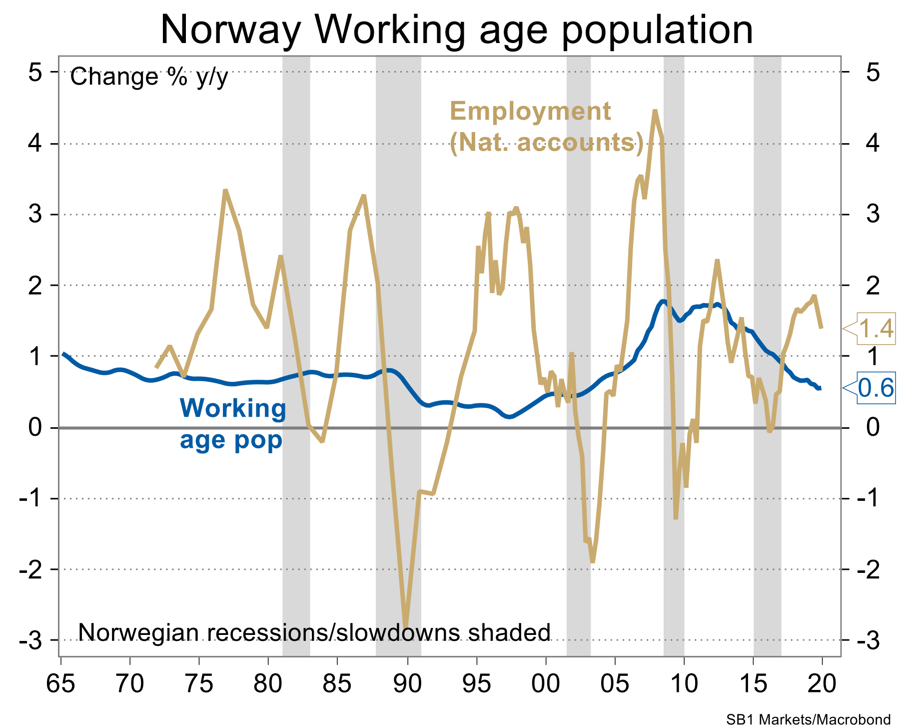


- The long term downturn in the participation and employment rates bottomed in 2017 and have turned up since. Through most of 2019, the participation rate climbed speedily, suggesting labour supply was responding to strong demand. However, late summer 2019, participation has retreated, not an indication of available capacity!
- The employment rate has turned down along with participation since August

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

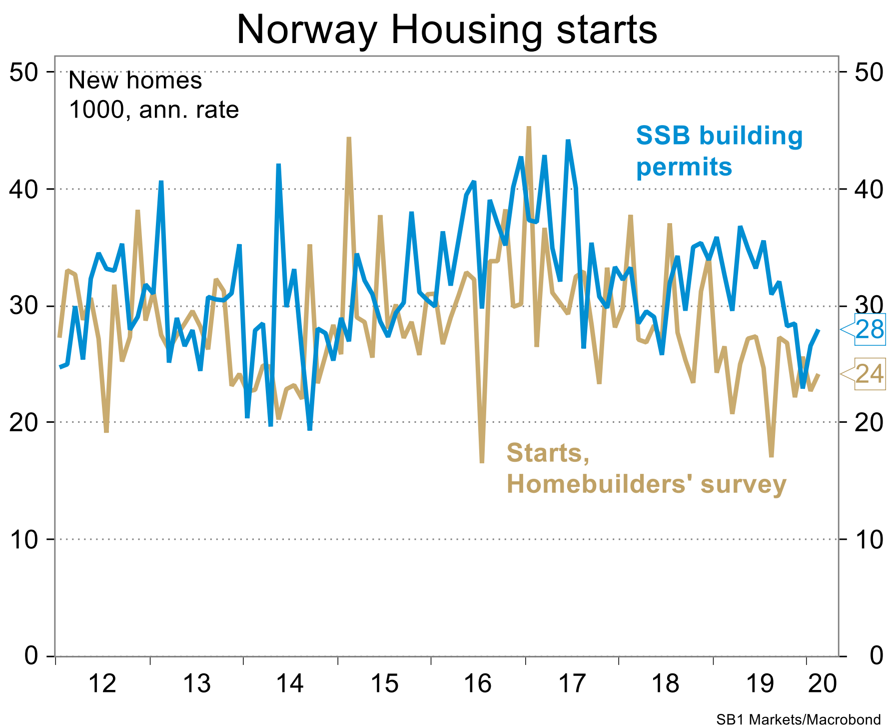


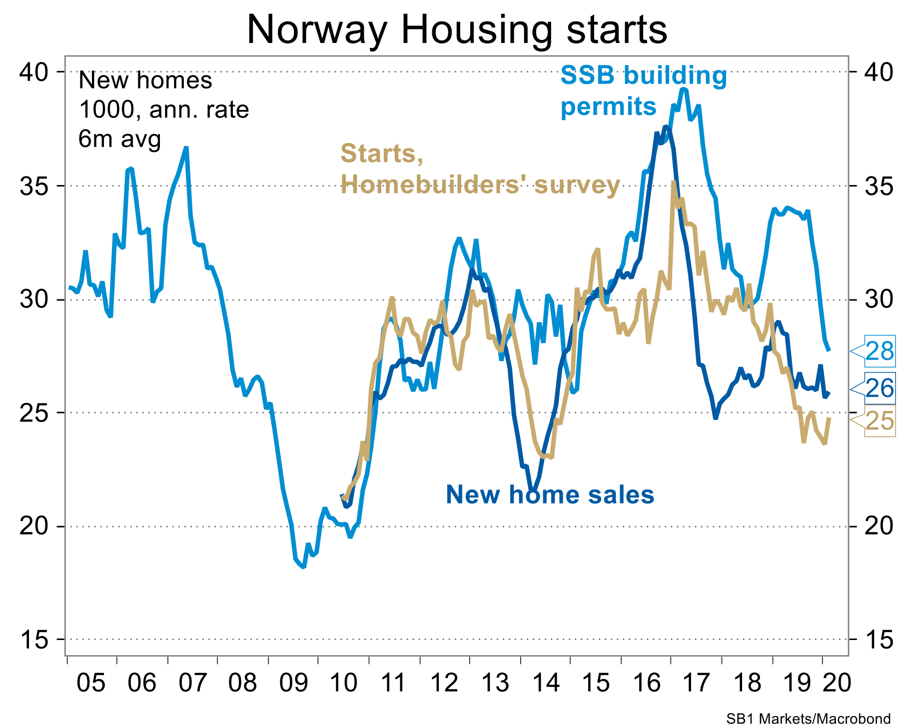


- Working age population rose 0.6% q/q annualized in Q4, and an equal pace y/y

Housing starts have turned down – (much) more to come

SSB's building permits rose in January & February, however, the direction is set



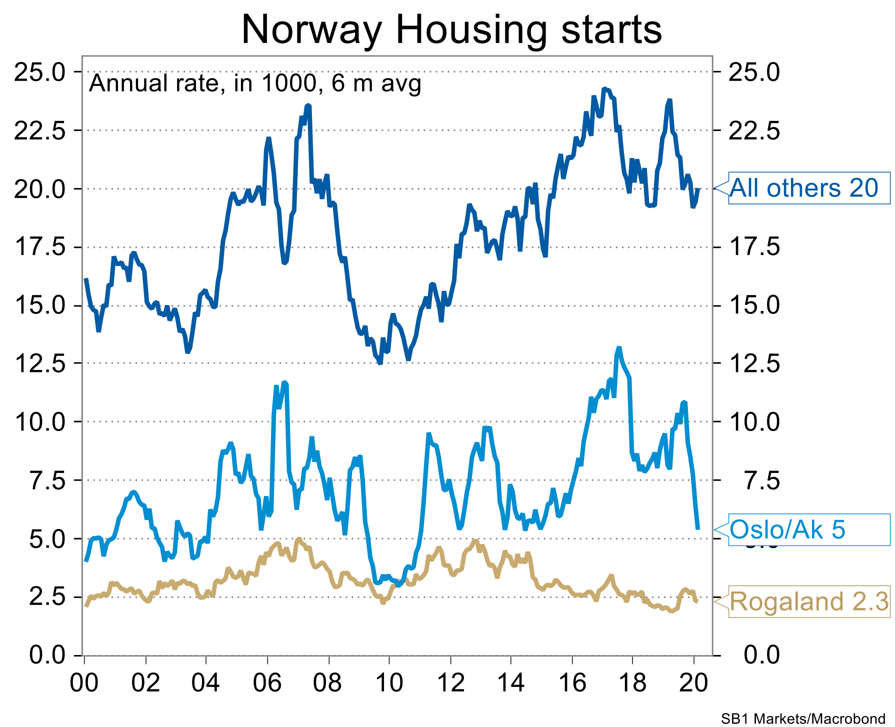


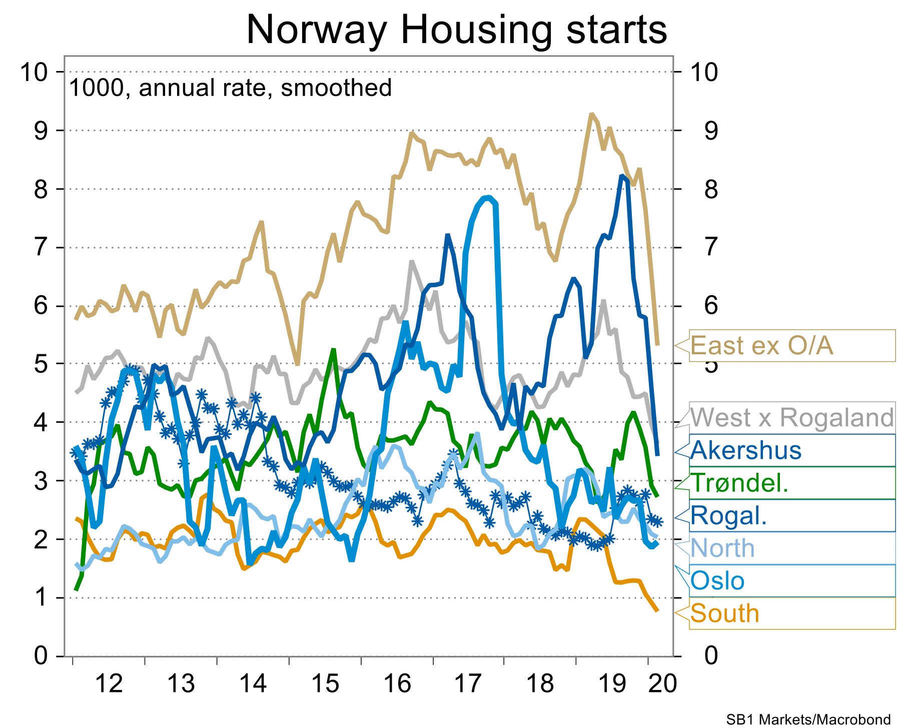
- SSB reported housing starts (building permits) inched up to 28' in February. The smoothed rate has fallen by almost 20%, to 28', from 34' last September, and is now far below the 2018 bottom. Starts have not been lower since early 2015
  - » New home sales, reported by the Homebuilders, have flattened out the past 6 months and do not signal additional decline of starts
- Housing starts suggest a further decline in housing investments. Still, 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
- The major question now is of course how the Covid-19 crisis will impact housing. In the short term, activity will no doubt be reduced and new projects postponed or terminated, homebuilders are already reporting substantial distortions. The longer term impacts are uncertain

SpareBank 1 MARKETS

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

In Oslo, starts have fallen since 2017, to below the 20 y average, as is Akershus



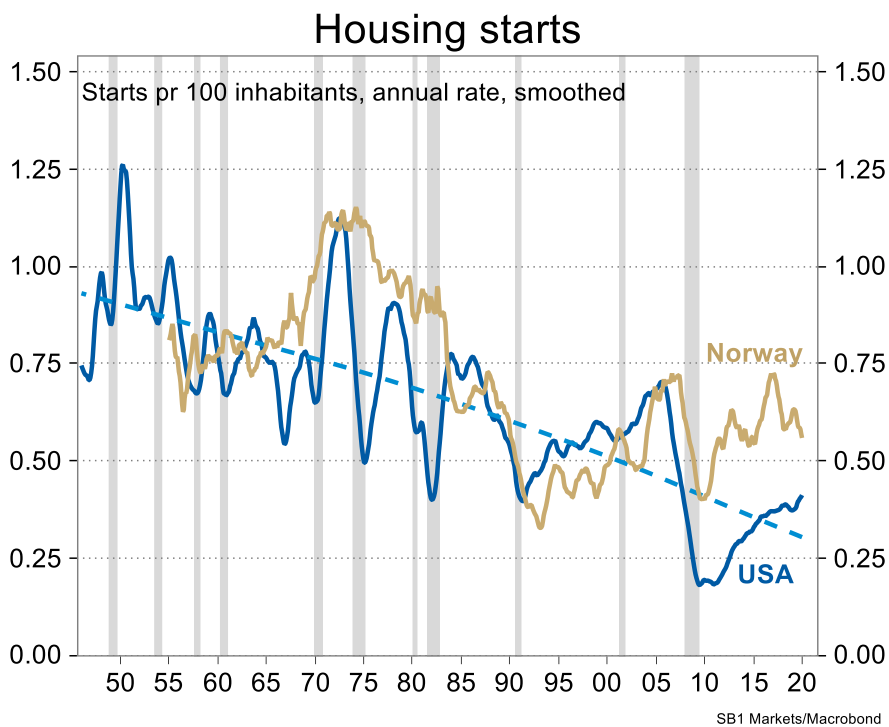


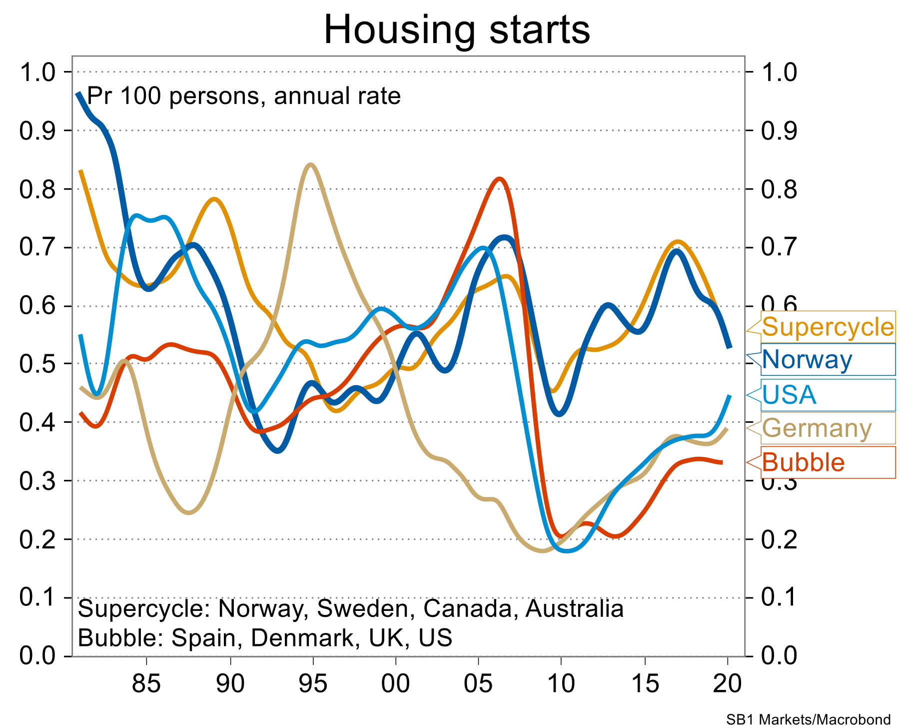
- Housing starts x Oslo and Akershus have fallen to below the 2018 trough, back to the 2015 level. The level is still somewhat higher than the 20 year average, at 18'. All regions ex Rogaland have turned down the past year
- In Akershus, starts have plunged since mid-2019 summer, following a boom. The level is now below the 20 year average. 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 has not been weak (well, until the Covid-19 outbreak came, that is)

SpareBank 1 MARKETS

Home building has been very high vs. other countries

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

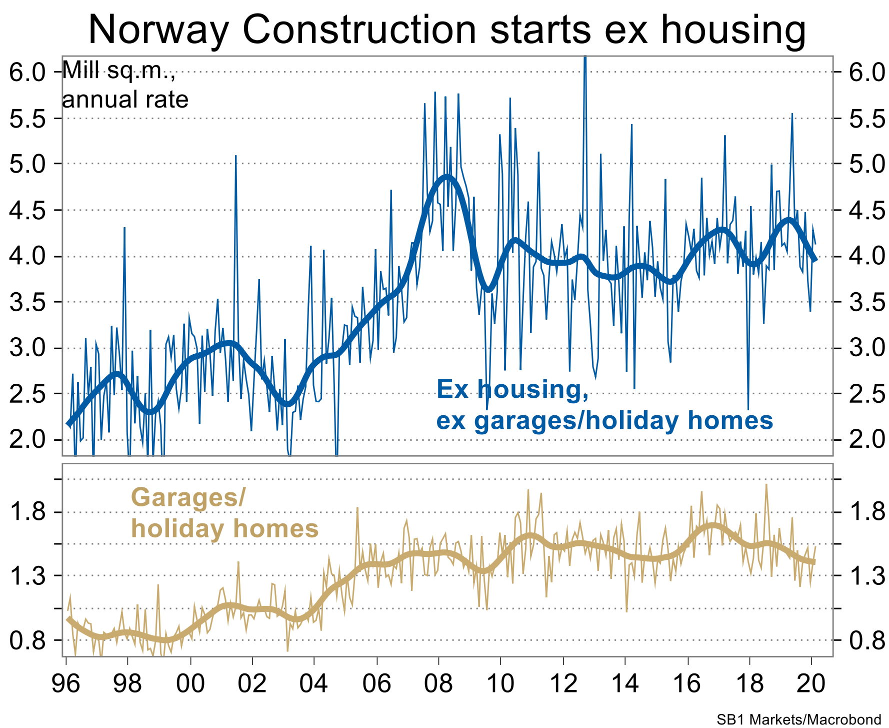


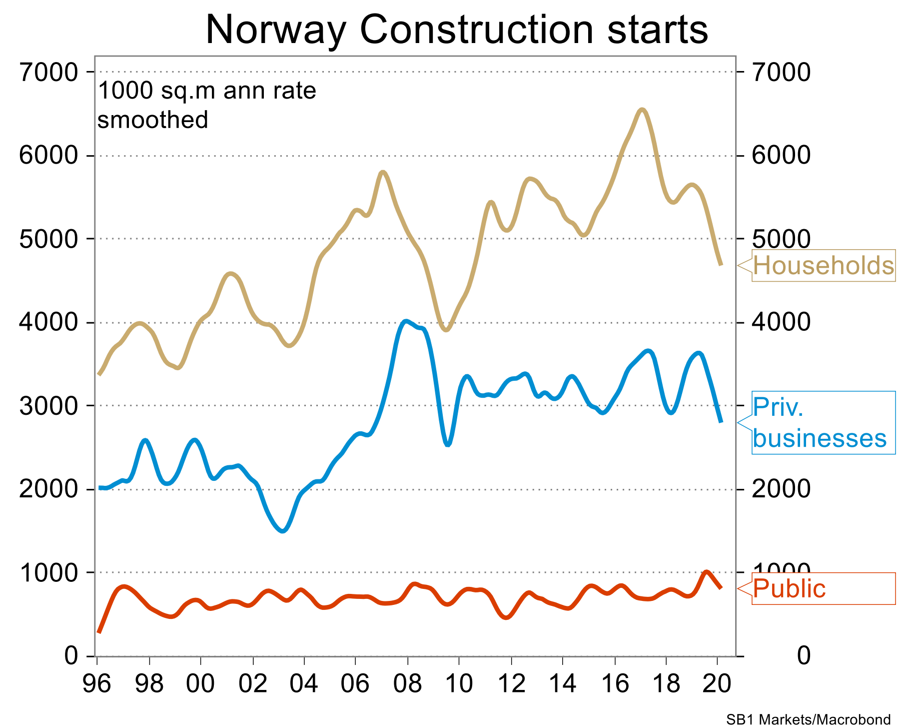


- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been quite closely correlated the past decades. Starts are falling in Australia, Sweden and Norway, and more modestly in Canada
- House prices and debt inflation are higher and rental yields are lower in these supercycle countries 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?

Construction ex. housing has been slowing too

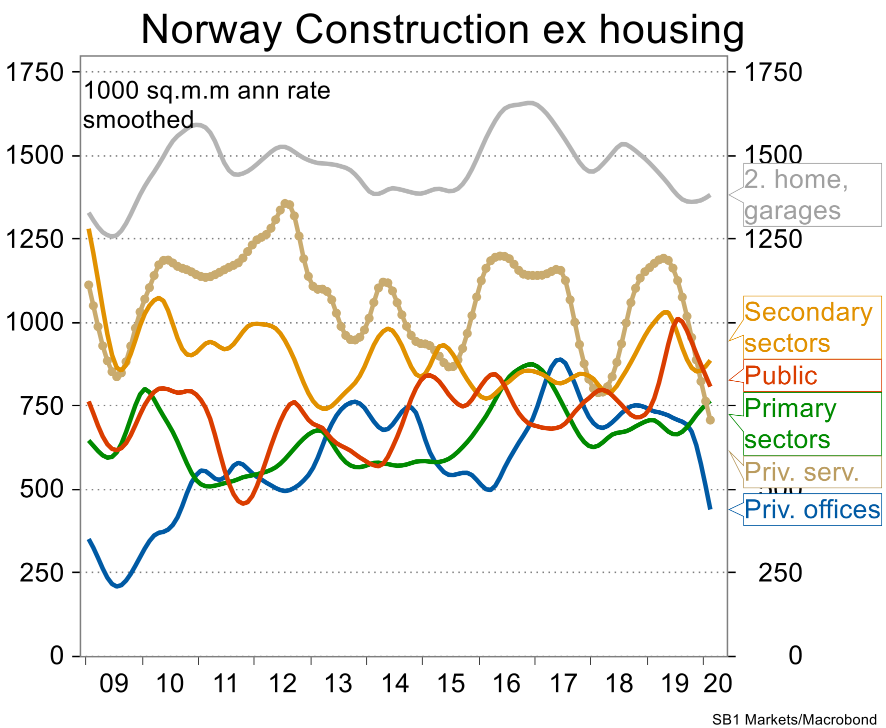
Business construction down from peak and garages/2nd homes/cabins are trending down

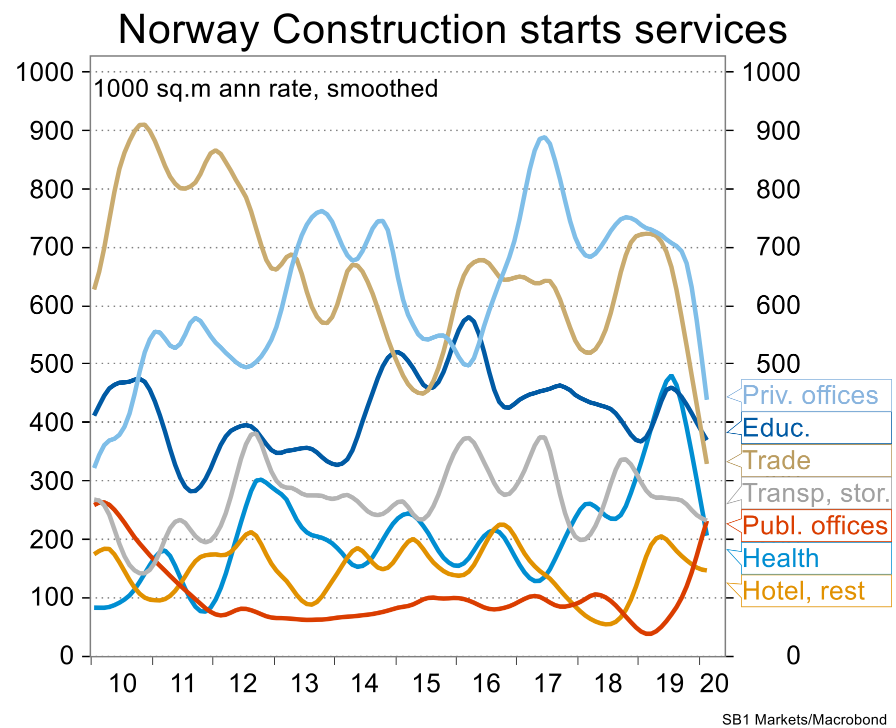




- Construction ex housing, garages/cabins has turned down since early 2019, after reaching the highest level since 2008
- Public sector construction starts were very high in the summer, as the new hospital in Stavanger was included. Construction of private offices slows modestly, primary sectors up
-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

Highlights

The world around us

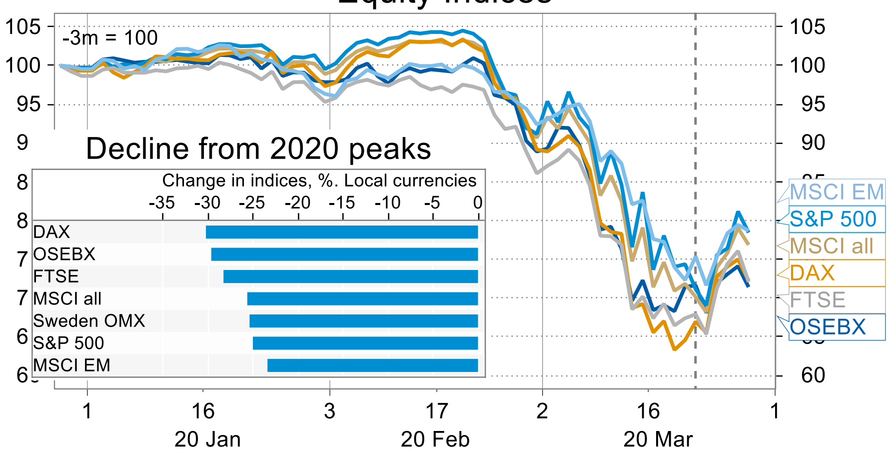
The Norwegian economy

Market charts & comments

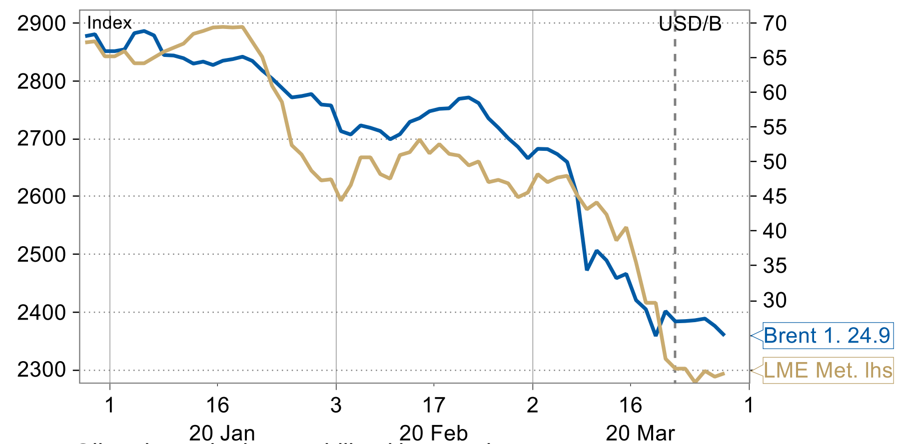
SpareBank 1 MARKETS

Stock markets gain ground on US stimulus deal and central bank support

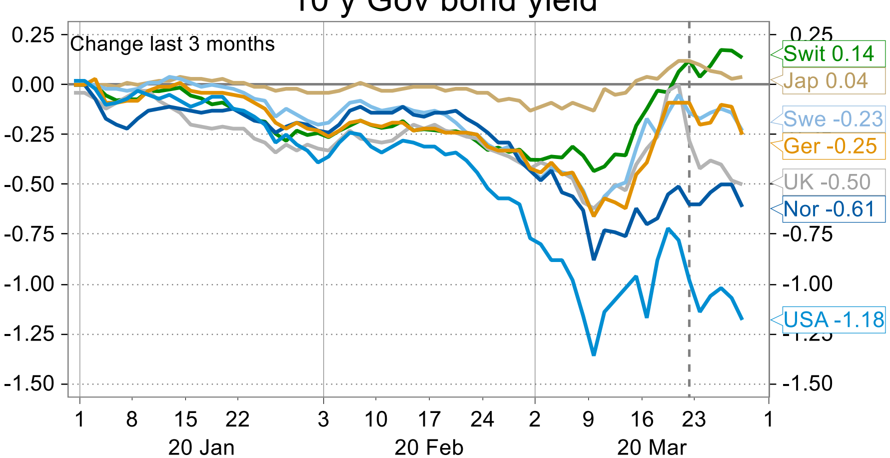
Oil price and bond yields held steady and the USD depreciated as financial stress abated somewhat



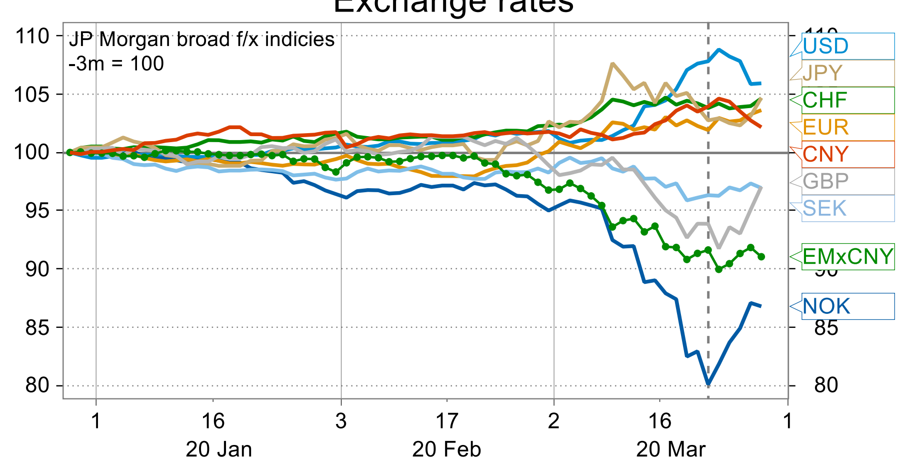
US equities +10%, still down 25% from peak



Oil and metal prices stabilised last week



Bond yields increased two weeks ago, due to forced liquidations among leveraged investors. Yields mostly fell last week, most in UK & US

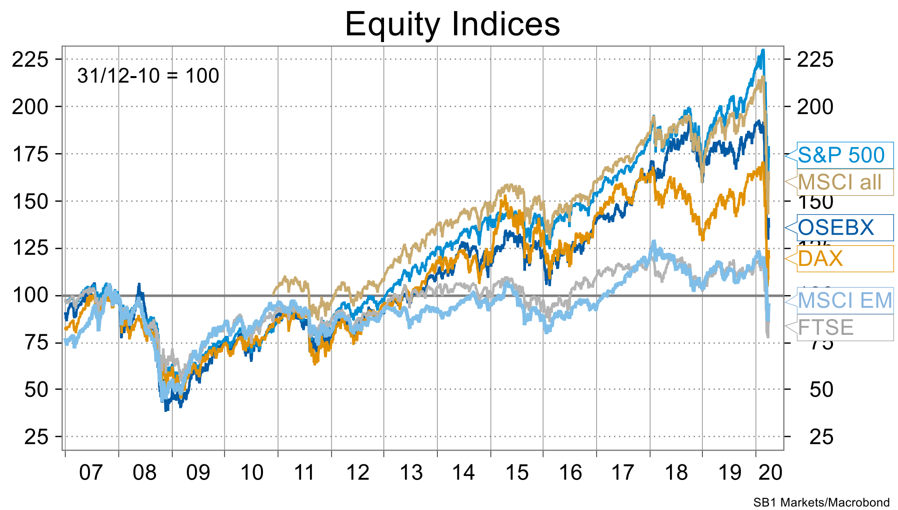


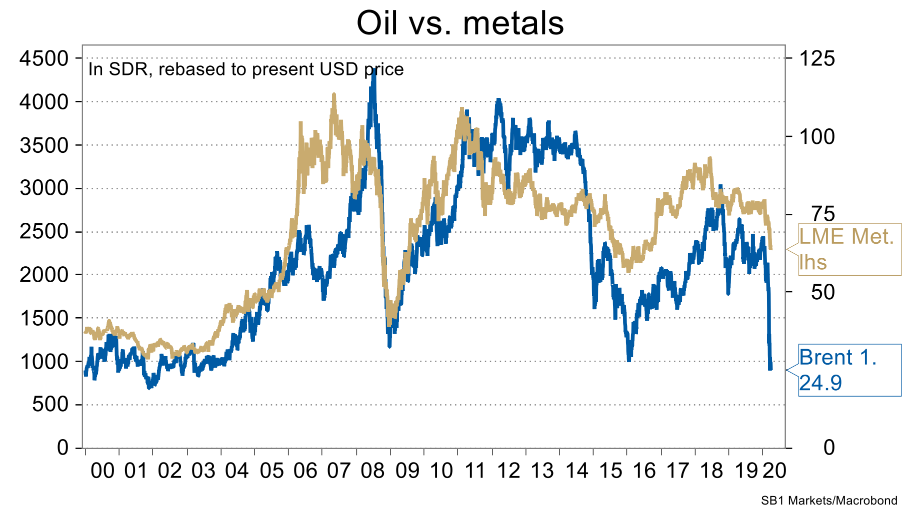
USD weakens, probably helped by the swap lines, as money market stress have been reduced. NOK recovered sharply, still very weak

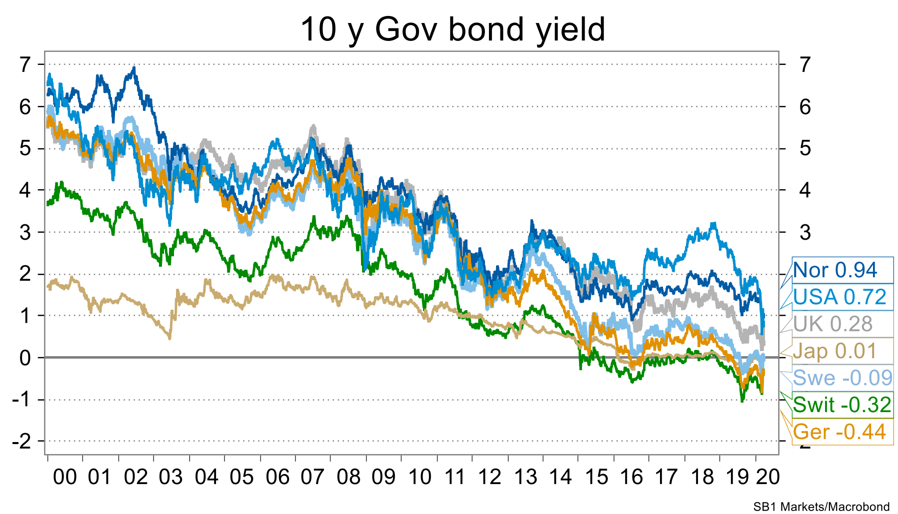
SpareBank 1 MARKETS

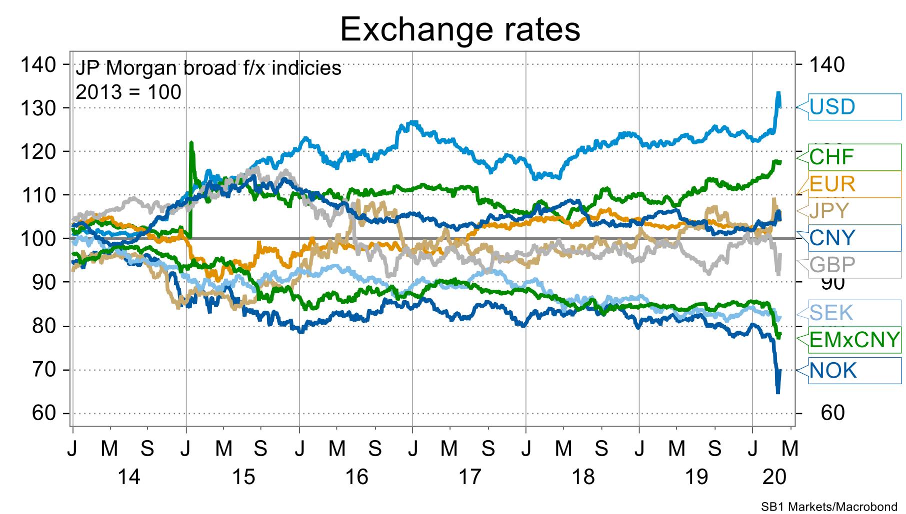
In the long run: Markets are tumbling, pricing a global growth recession

Stock markets down 20-30% and bond yields are at/close to ATLs. Oil lowest since 2004. Metals better





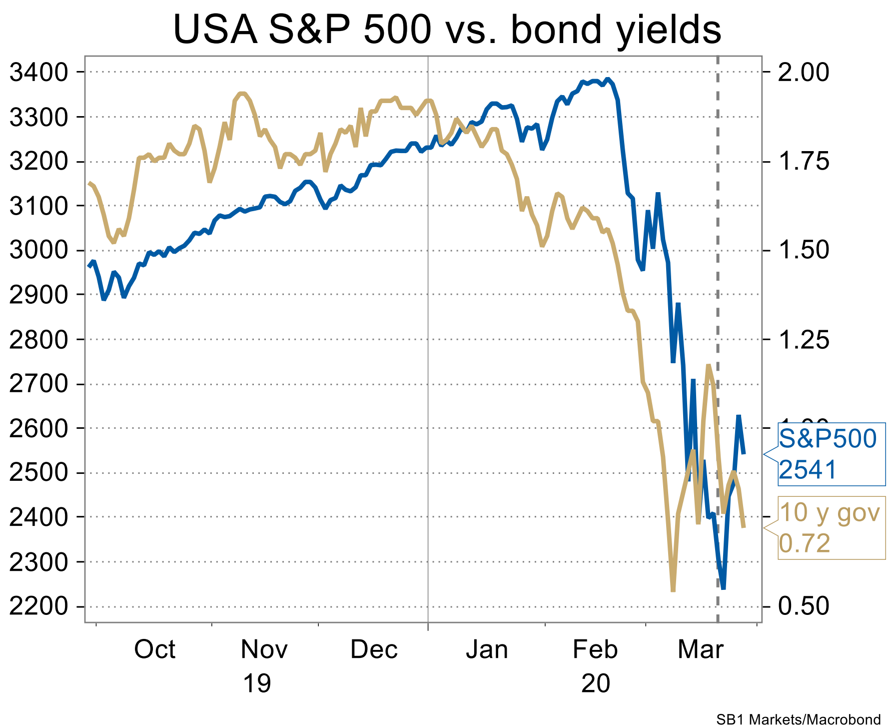


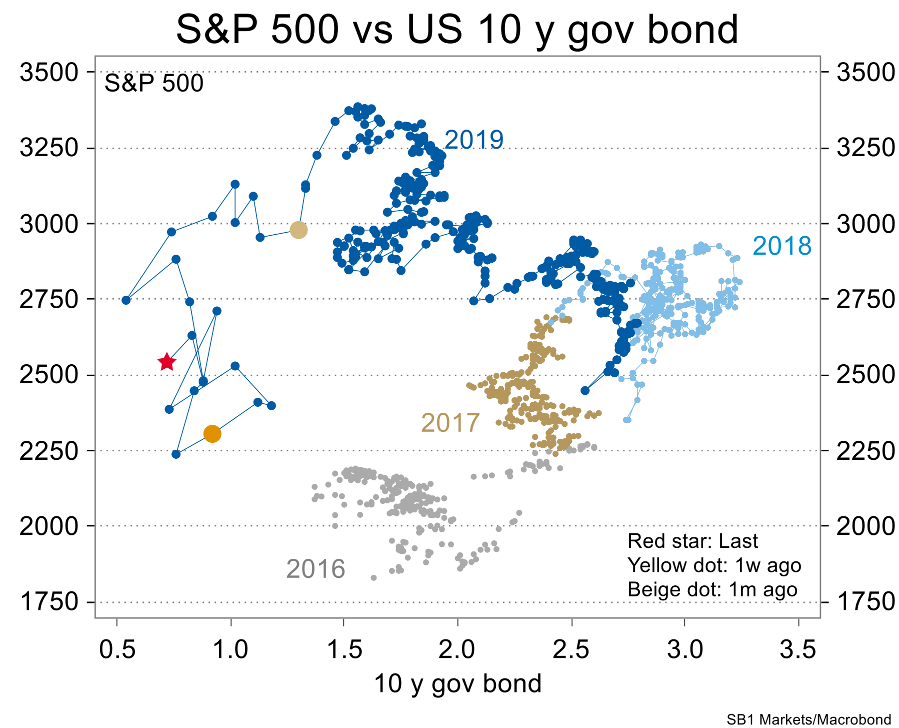


SpareBank 1 MARKETS

US stocks bounce up, bond yields extremely volatile

S&P spiked 10% last week, while 10 y gov bond yields ended the week down 20 bps!

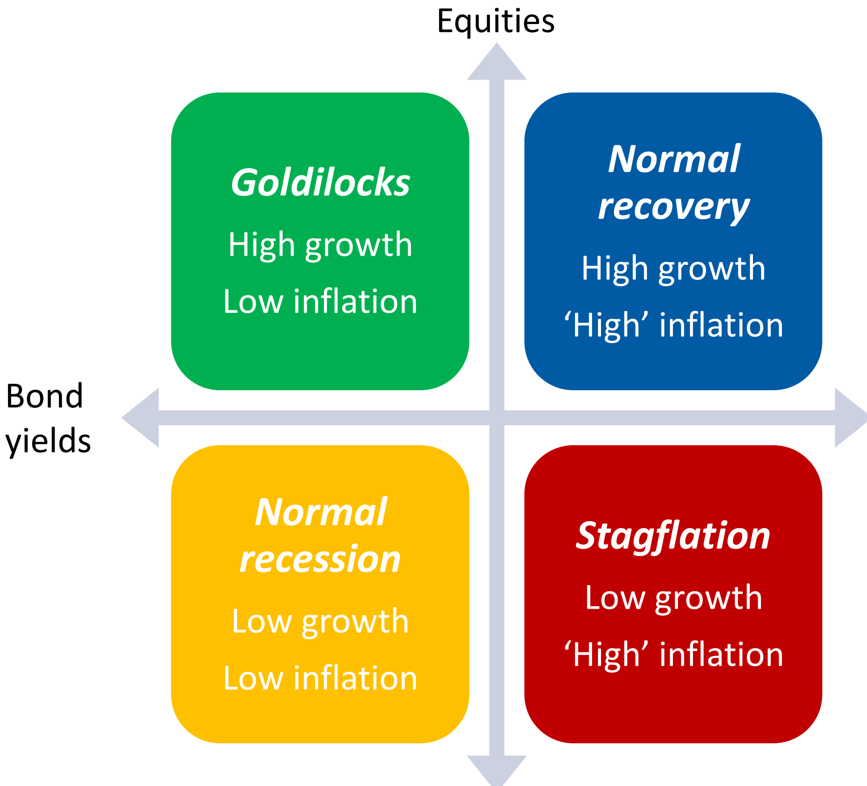


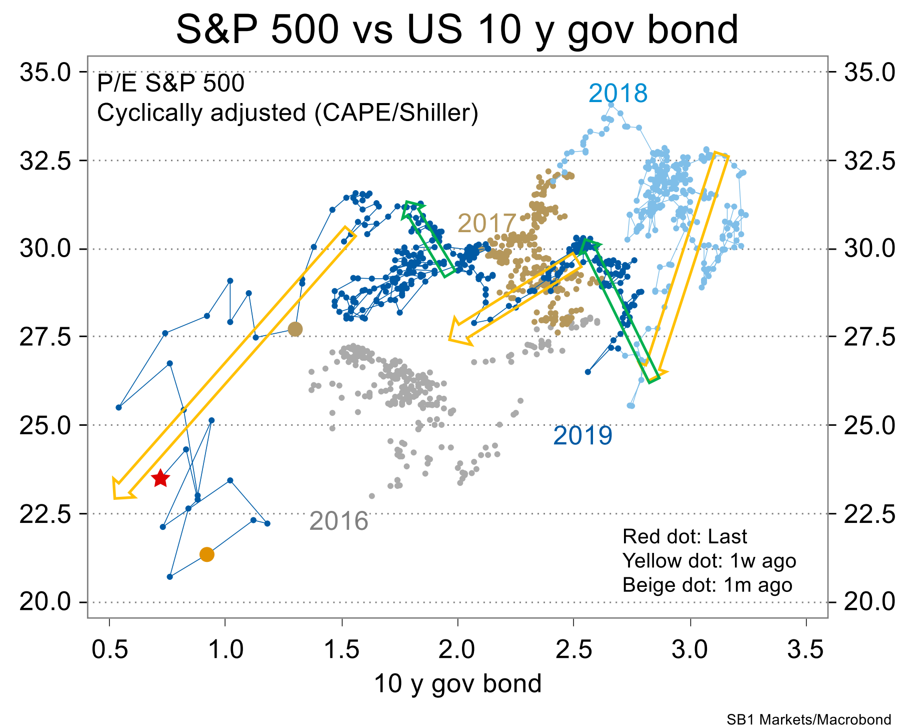


- The major question now is of course if stocks have hit bottom or of the current upturn is just a *suckers' rally*
- The 10 y gov bond yields have been zig-zagging upward but ended down last week. The recent volatility is most likely chiefly due to financial distress an need of liquidity among investors, which has now calmed somewhat – and not changes in 'real' assessment of the economic outlook/Fed actions

Markets have been on the way to the recession corner

Stocks down, bond yields down in the age of corona



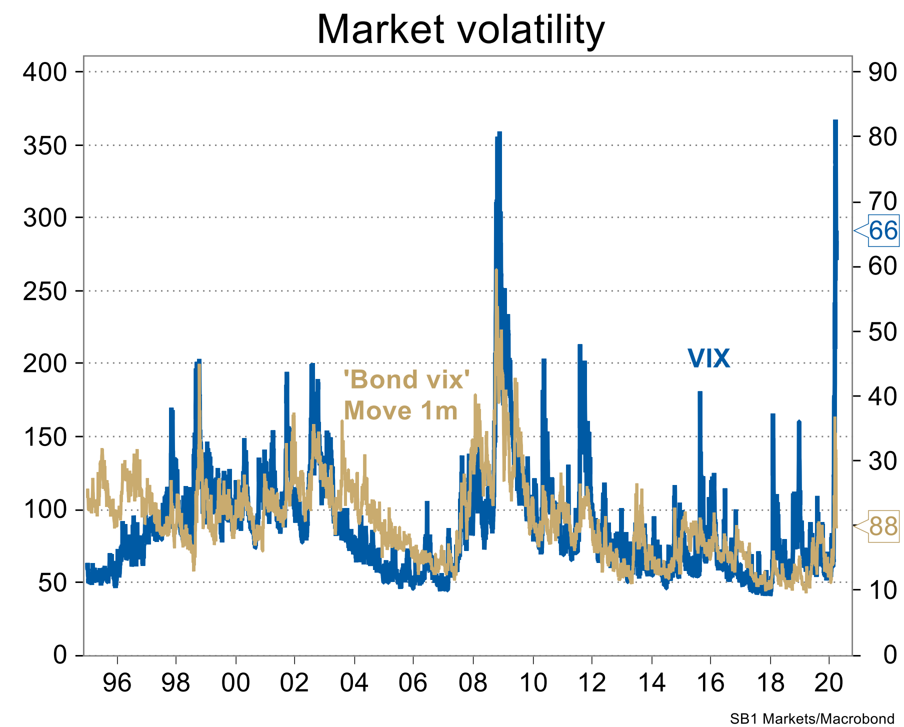


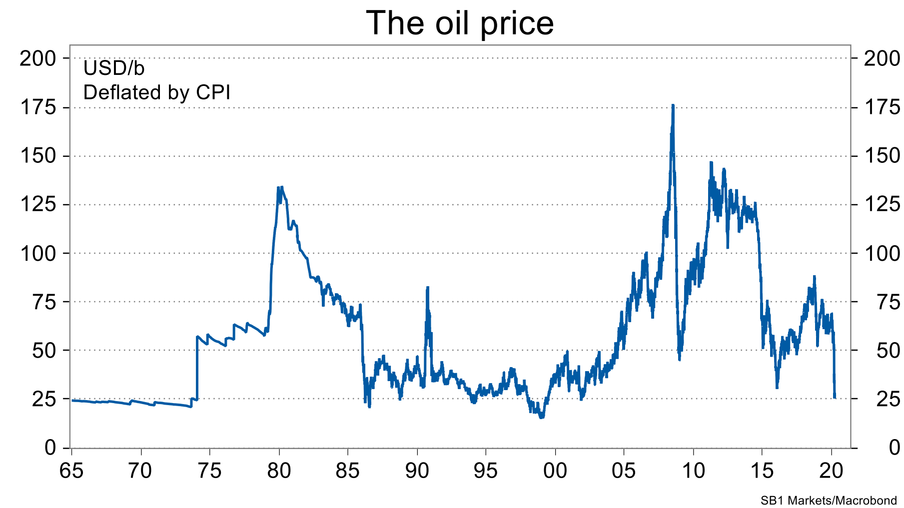
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn has accelerated in March as the Covid-19 pandemic is spreading and countries have been initiating lock downs
- We expect markets to move closer to the recession corner the coming weeks, should the coronavirus not calm sufficiently down. Bond yields are very low and the downside is limited, unless the world economy should move into a very severe recession (which is not possible might)

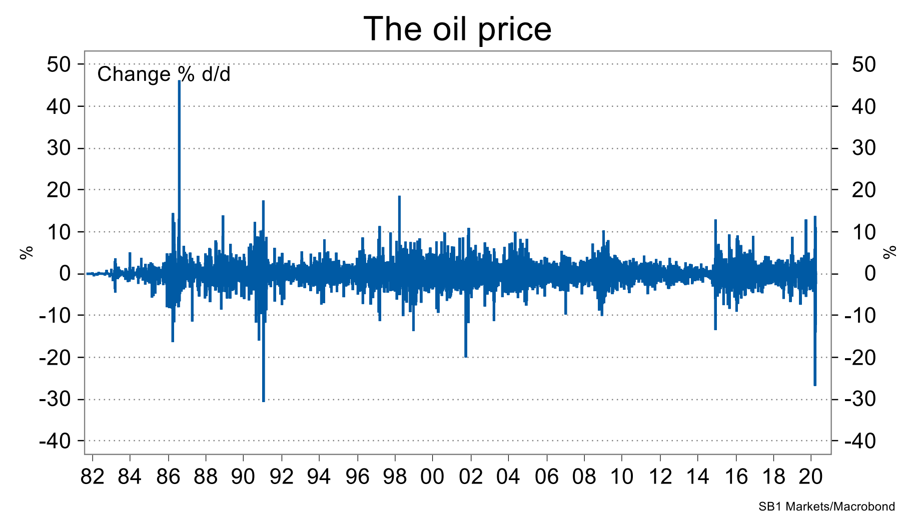
SpareBank 1 MARKETS

Volatility is back, for good reasons

VIX at the highest level ever, Move highest since 2009 – and they will remain high for some time







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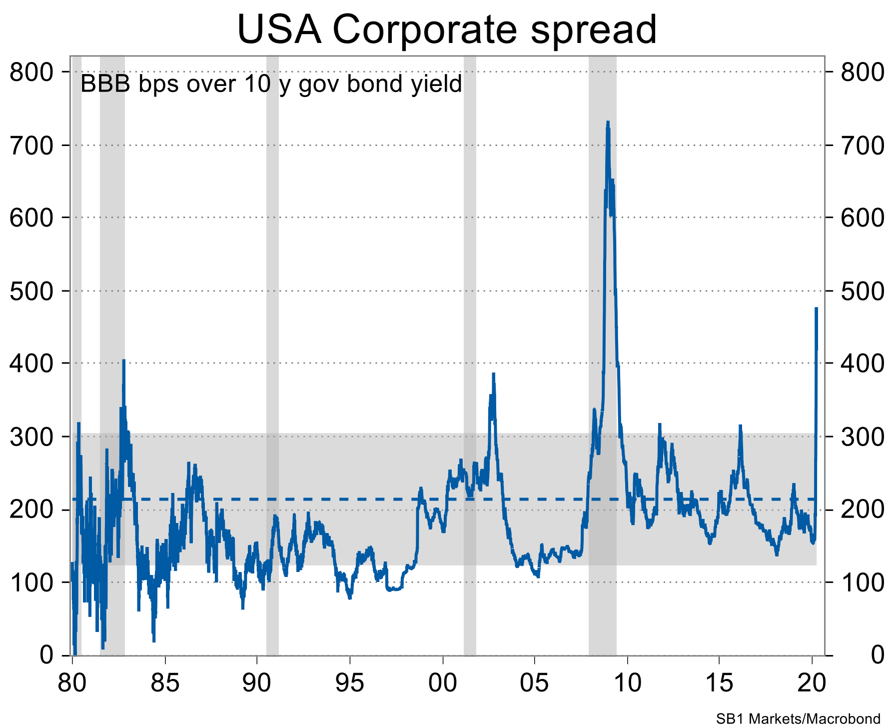
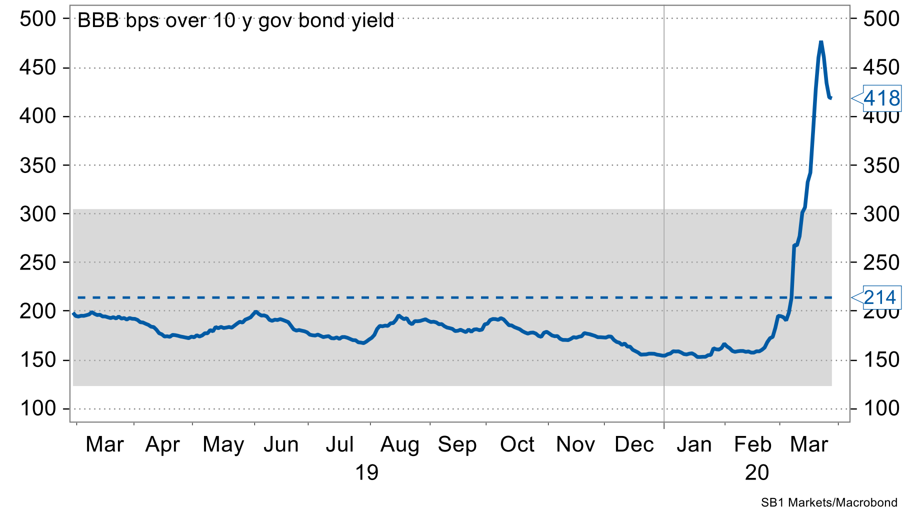
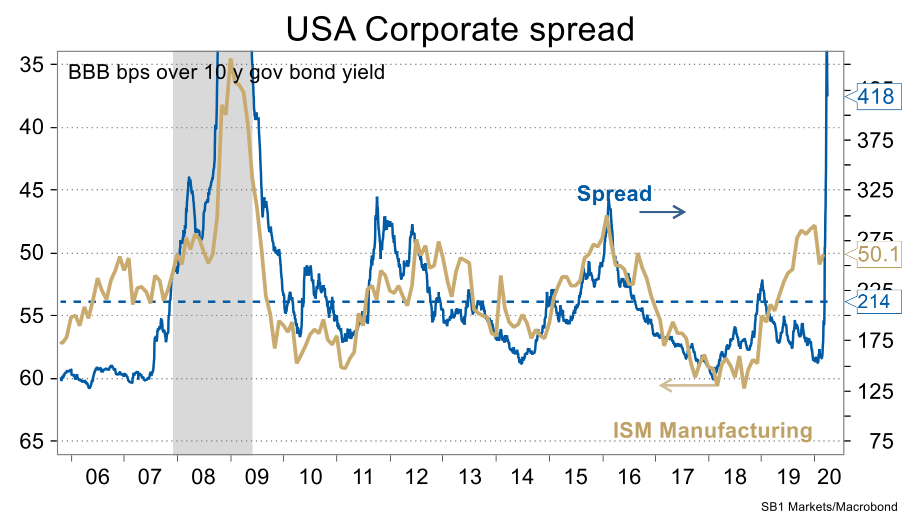
Credit spreads turned down, still elevated

A deep recession is now priced in

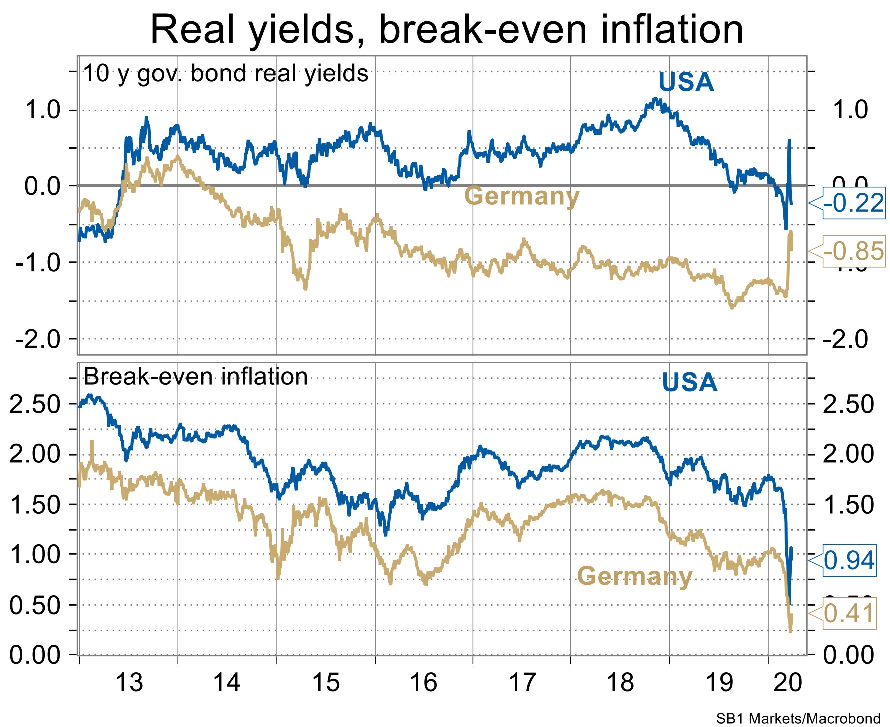


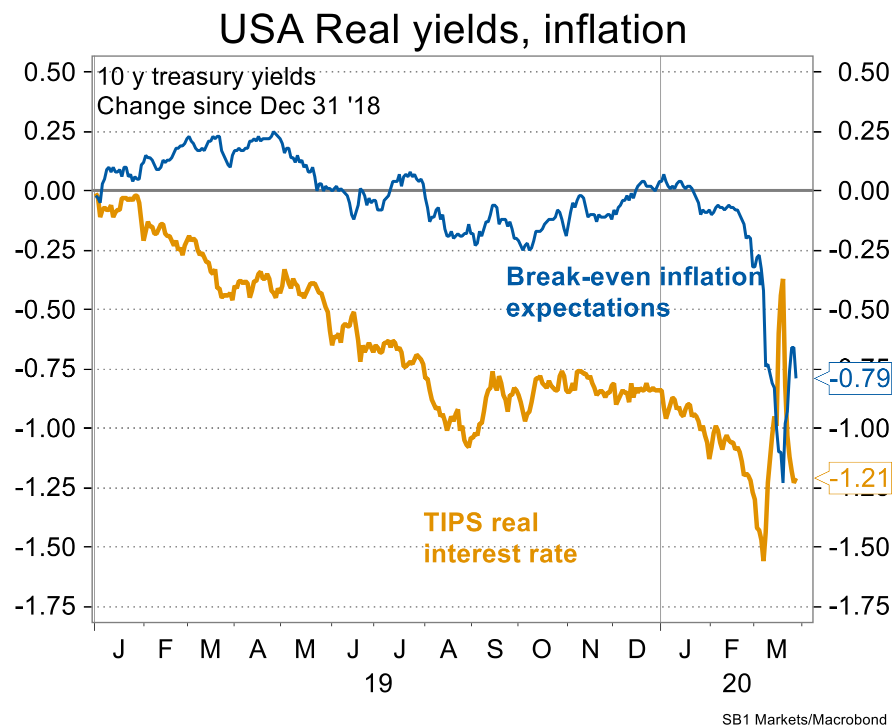




Real rates back down, liquidity squeezes calmed?

US real rates down 85 bps, while inflation expectation turned up, more than the oil price 'explains'

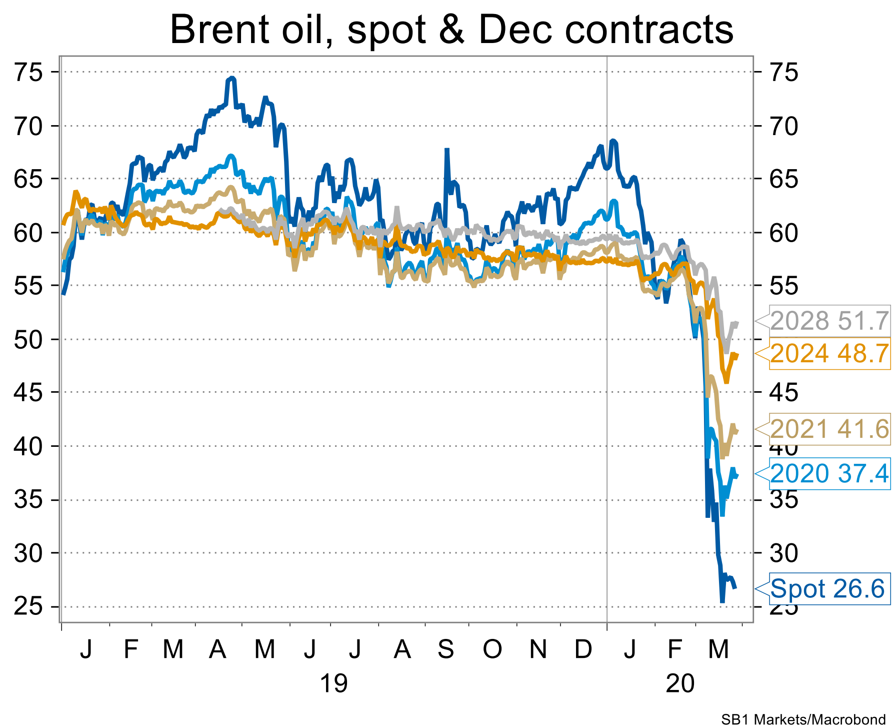


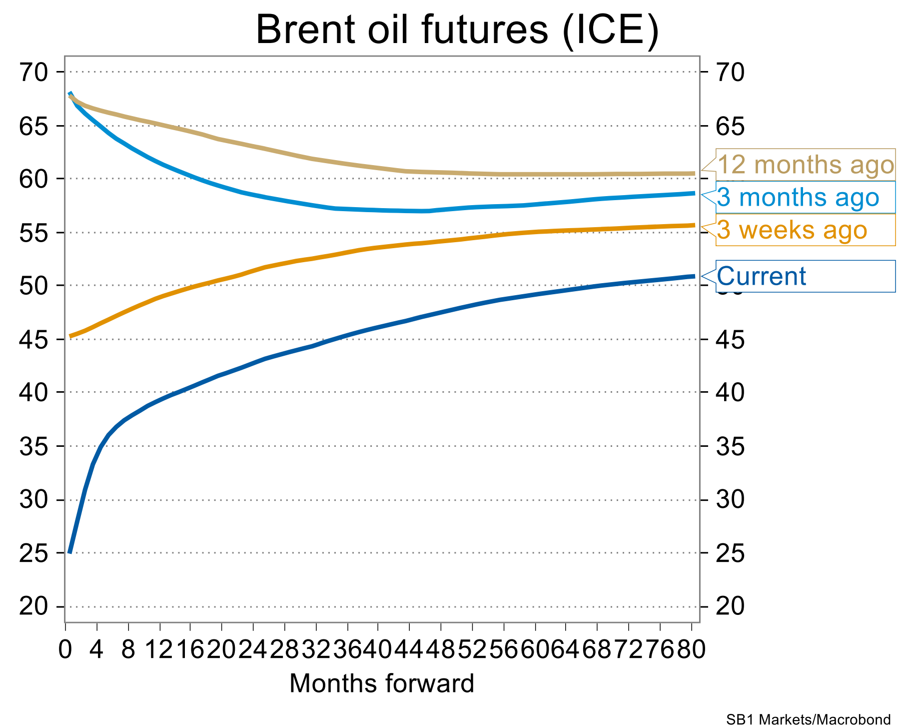


- US real rates rose steeply 2 weeks ago, to 0.62 at the 'peak'. The German real rate climbed too, to -0.58%. The main cause was probably due to liquidity issues as sellers who that need cash for other purposes were forced to sell. Financial distress seems to have been calmed, probably supported by massive central bank stimulus
- Inflation expectations are recovering after the 'collapse'. Inflation exp. are usually moving in once again in tandem with the on the oil price, however, last weeks' upsurge cannot be explained by the oil price, which flattened out. US inflation expectations are still very low, at 1.07% and German are close to record low, at 0.41%

Oil prices: Longer dated contracts have been sliding down as well

Last week, oil prices edged up all over the curve

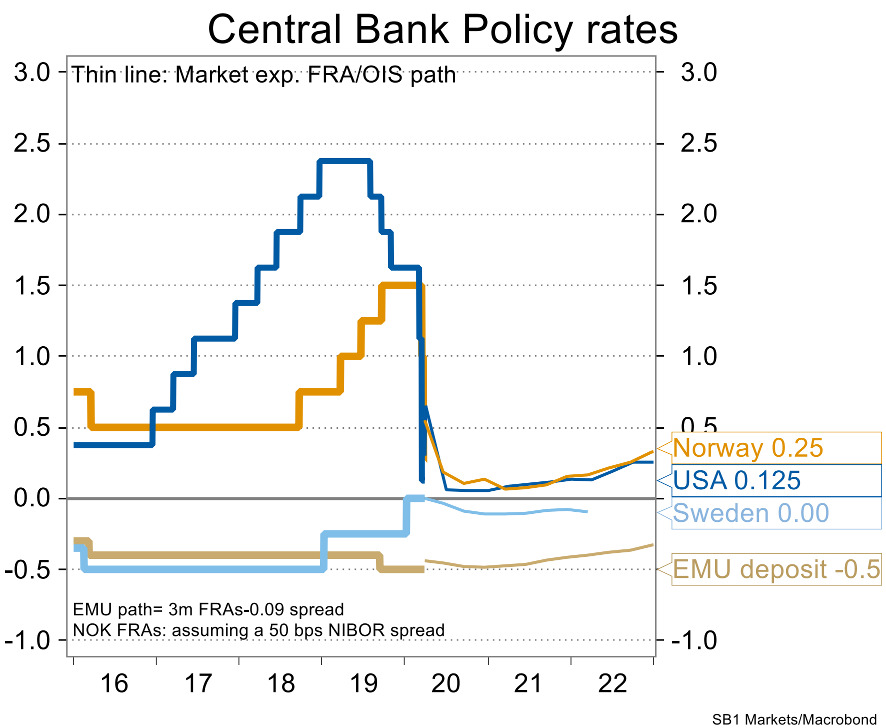


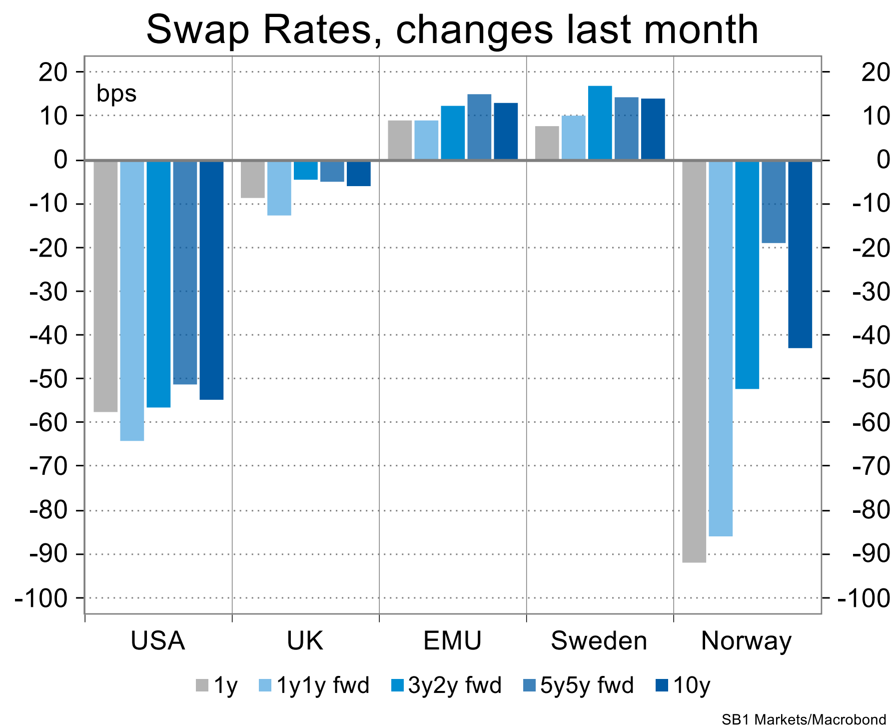


- The first part of the price decline as the coronavirus spread was understandable and due to a decline in expected demand from China and thereafter elsewhere
- The decline since SA started the price war vs. Russia (or both of them vs. US shale) three weeks ago is probably mostly due to the supply shock but demand estimates are collapsing as well, in line with the recognition of widespread drops in activity in many countries in the Western part of the world – and more countries in other parts of the world may follow

Interest rates have been slashed in the US & Norway, not much ammunition left

Markets are not discounting more cuts now, just a small probability in Norway & Sweden





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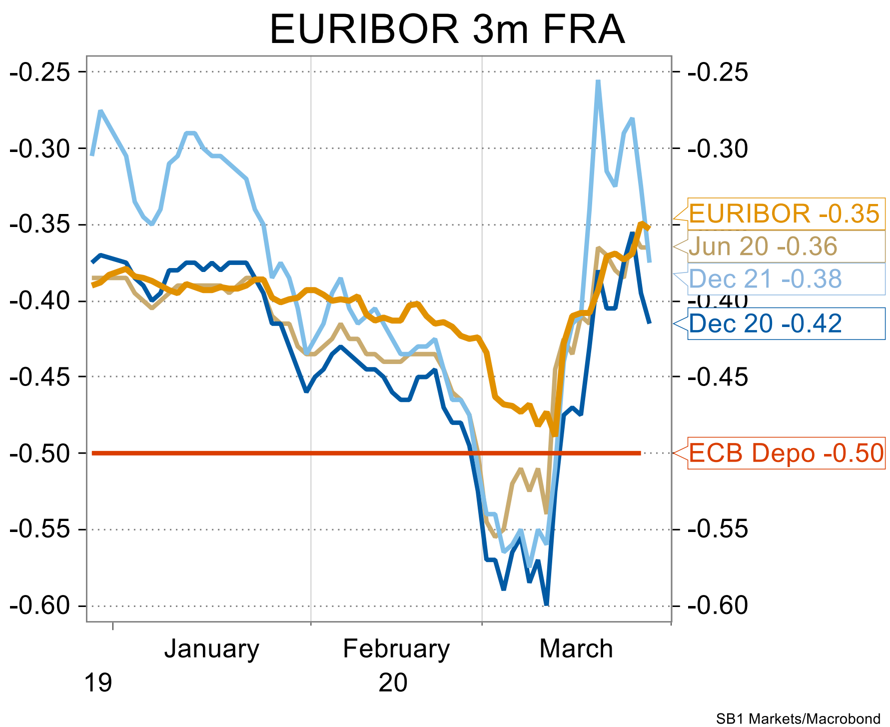
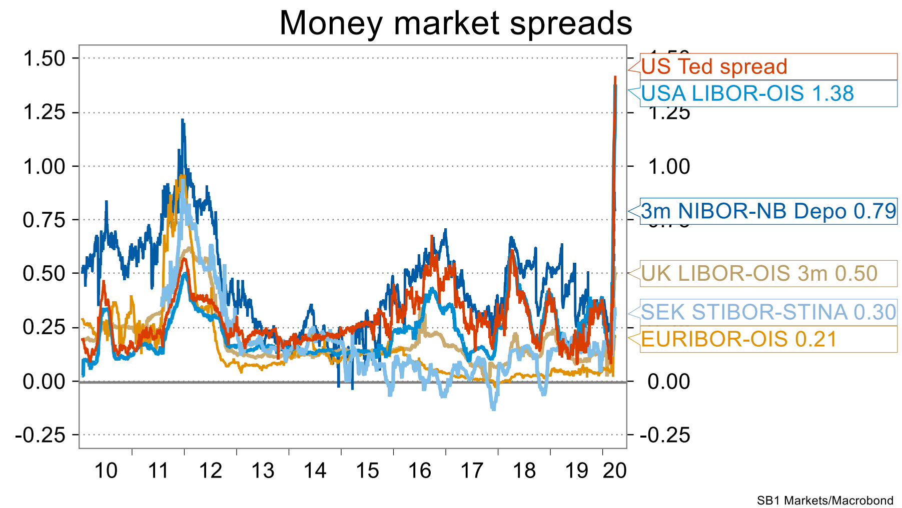
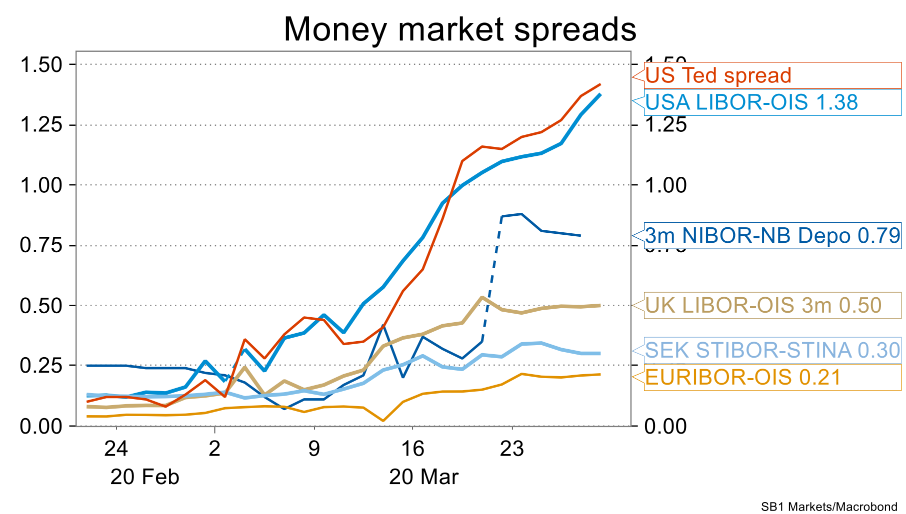
EURIBOR FRAs also somewhat dislocated, money market spreads have widened

However, spreads have stabilised in Europe, while they are still widening in the US

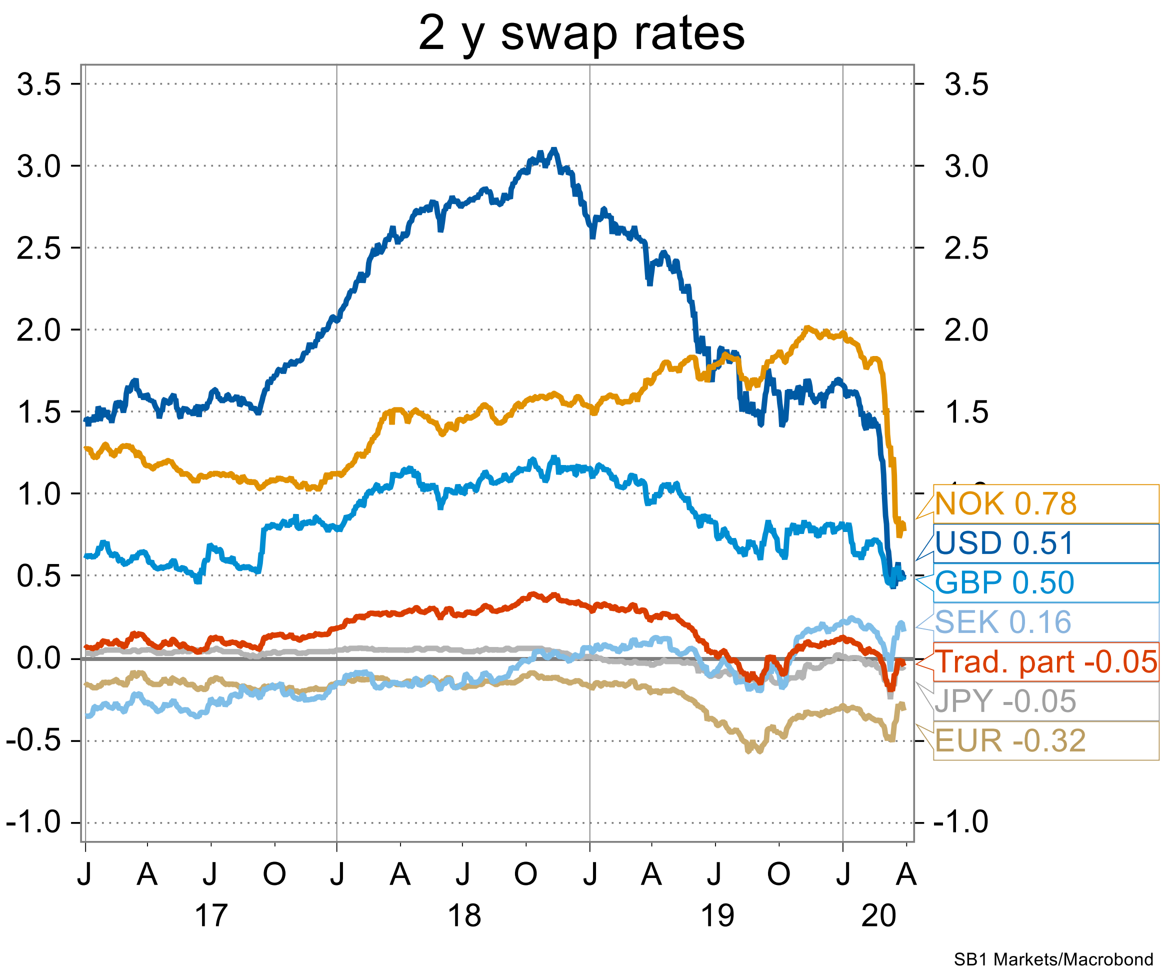


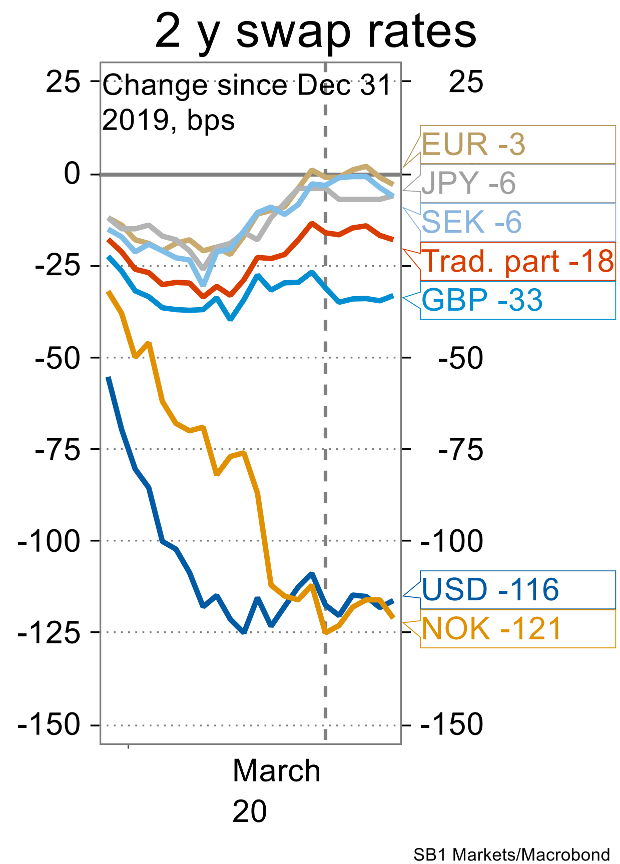




Short term swap rates have stabilized

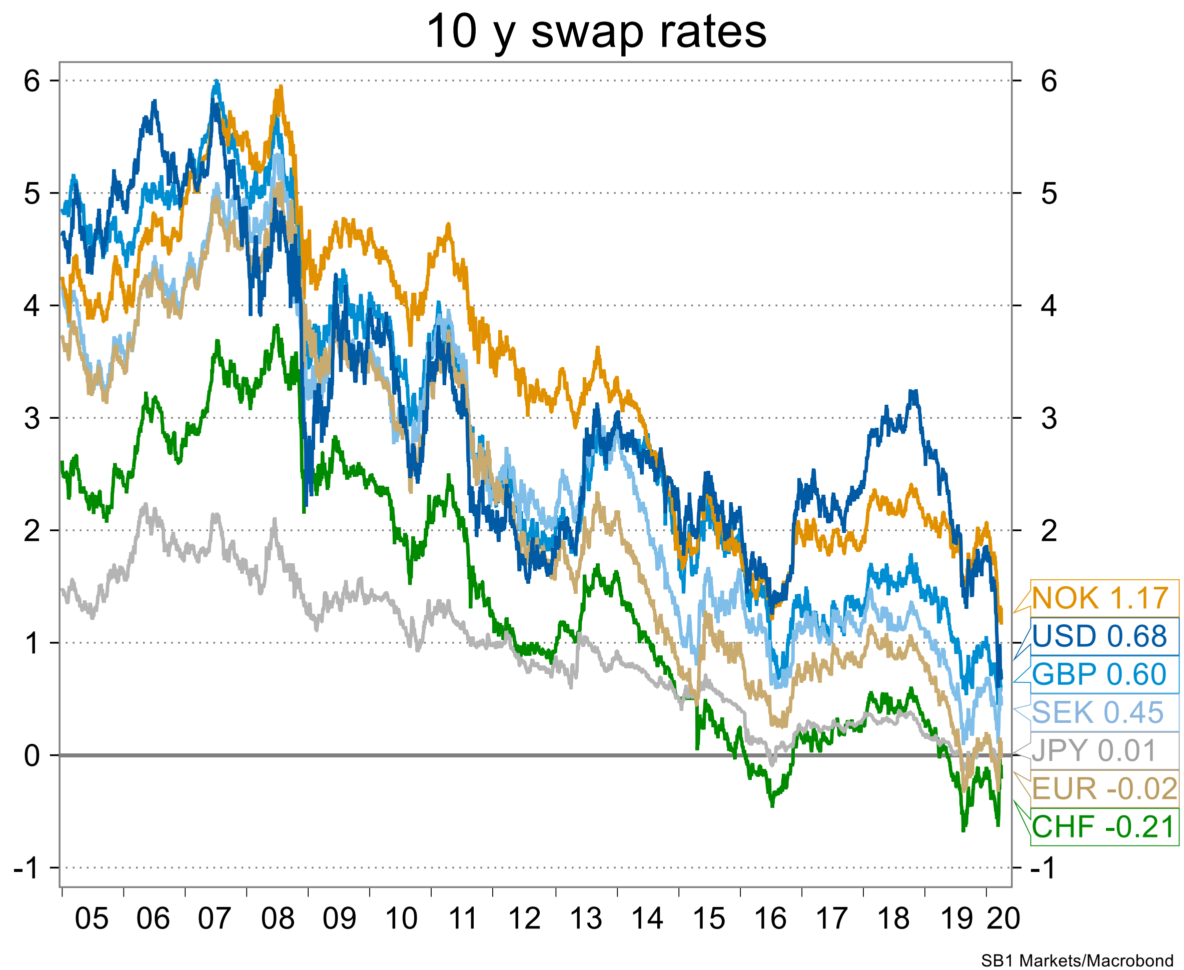
Even the NOK rate, which has fallen more than most other trading partners this month

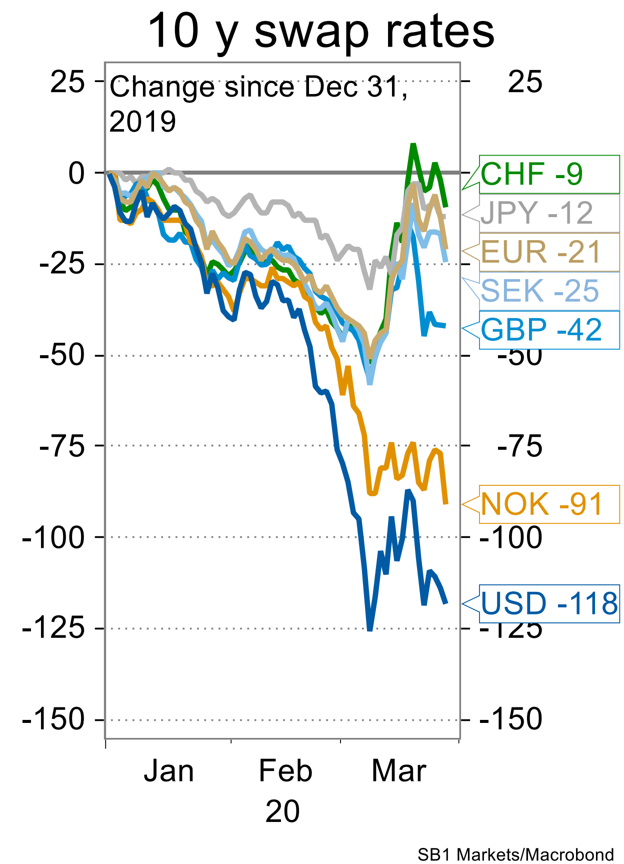




Long term swap rates down last week, following previous week's lift

Dislocation of markets as investors have been in need for cash a better explanation

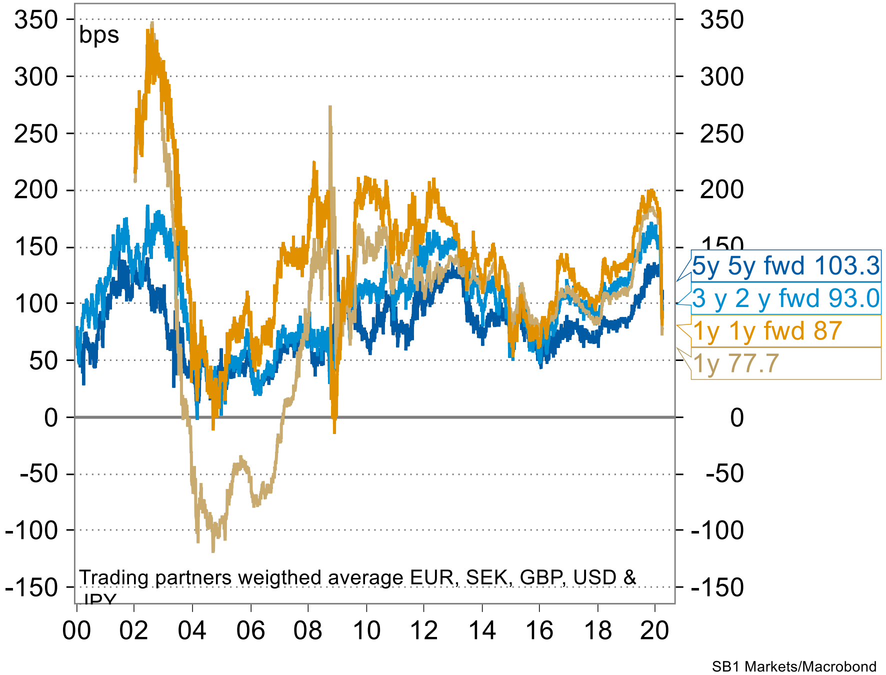


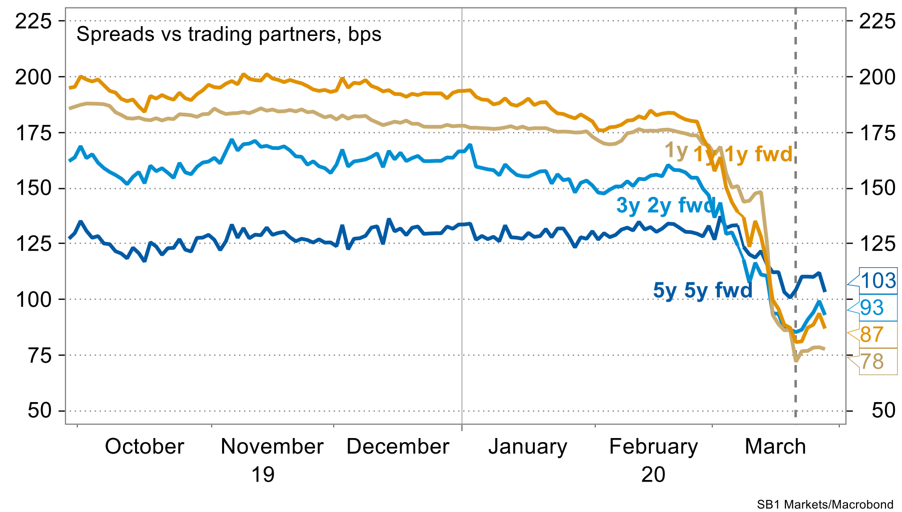


NOK swap spreads vs trading partners have tumbled but not further last week

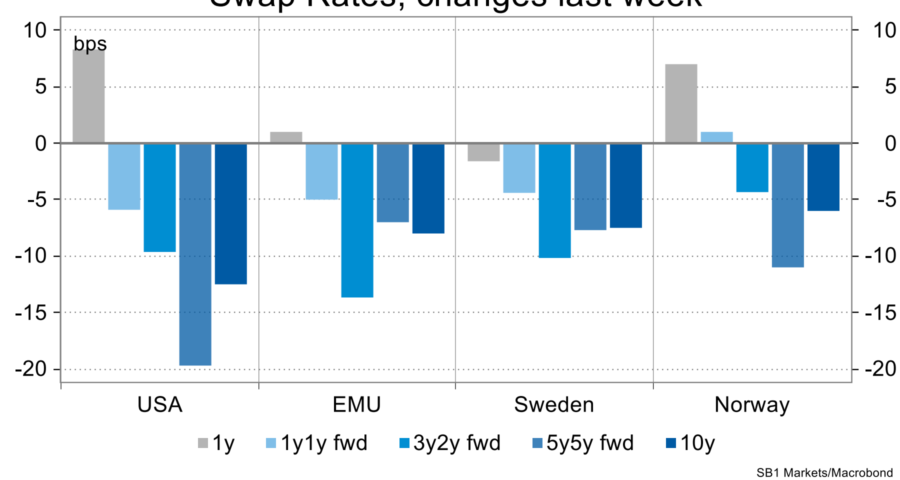
NOK short term rates have fallen much more than among our trading partners the past month

Norway vs trading partners, impl swap spreads





Swap Rates, changes last week



- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since late February, spreads have been falling sharply, as NOK rates have declined more rapidly than others (barring the US). Last week, spreads inched up
- Spreads are still not that low. Probably more to go

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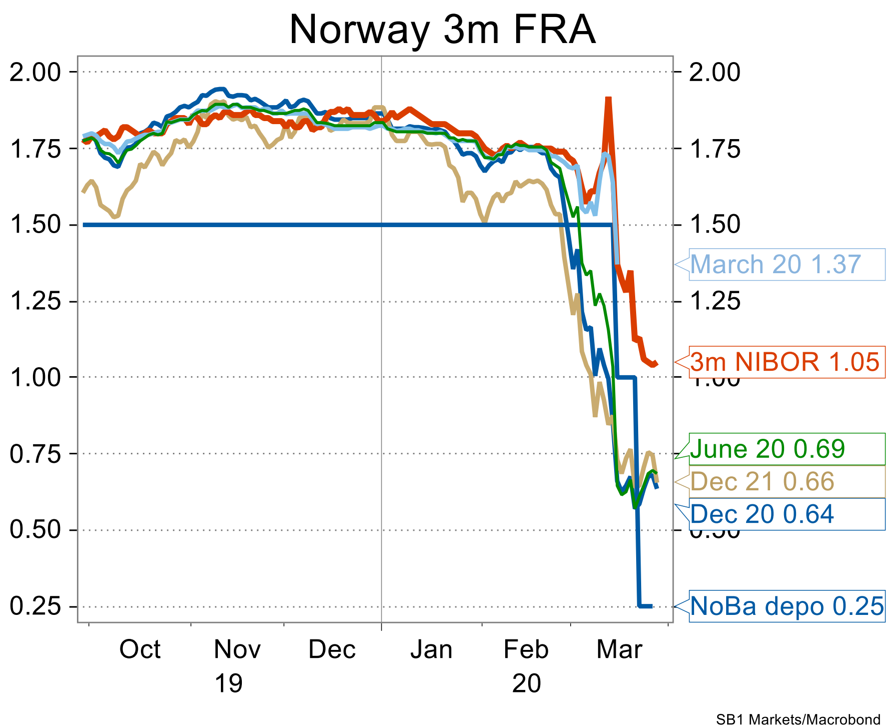
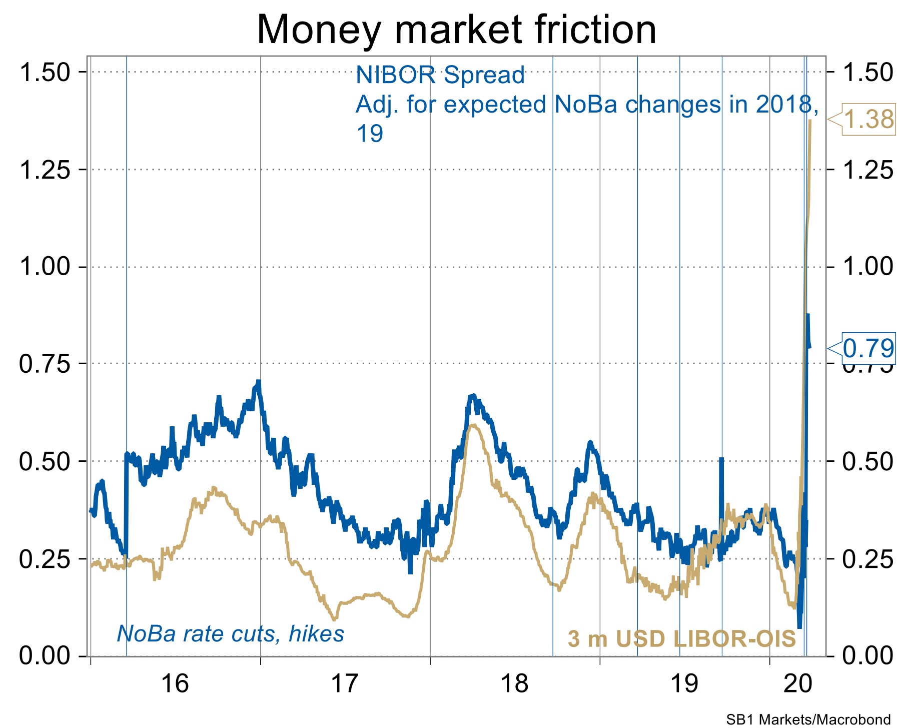
The NIBOR spread is still elevated but not like LIBOR spread in the US

FRAs rates are probably at least partly discounting another NoBa cut

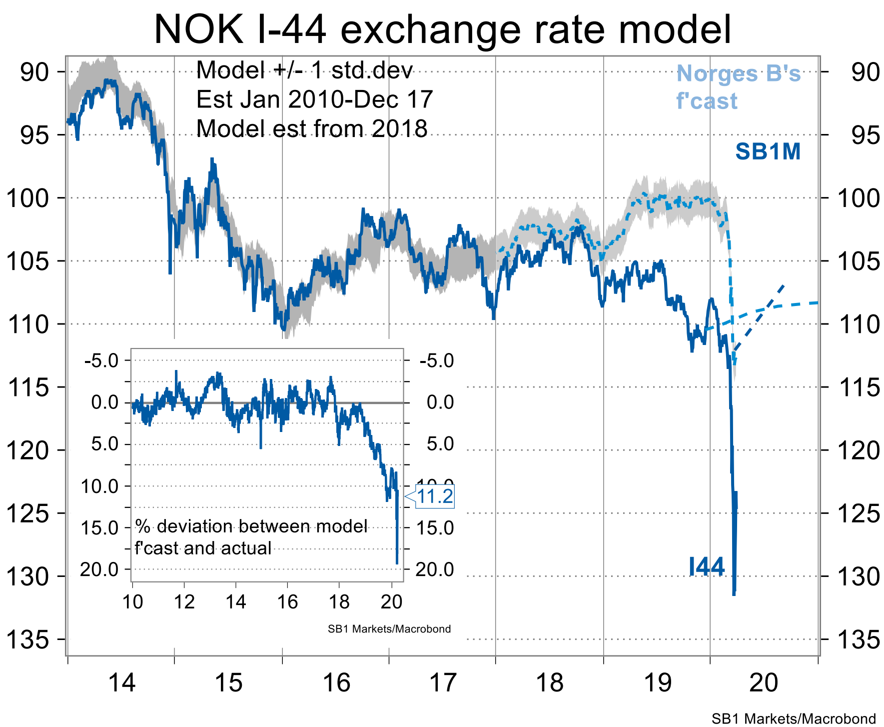


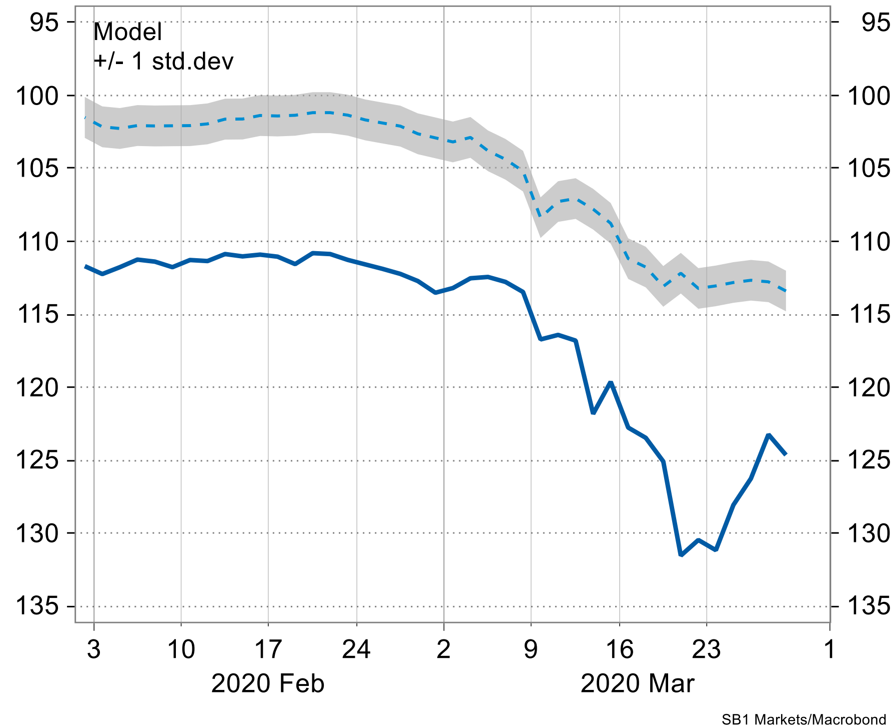


- The 3 NIBOR is still above 1% - because money market spreads are high – but far smaller than in the US now.
- The market is expecting a spread narrowing the coming months, as in the US
- 3 m NIBOR has fallen by just some 80 bps, even if Norges Bank has cut the signal rate buy 125 bps, the spread is up 45-50 bps
- The FRAs probably implies some probability of a NoBa cut to zero, depending on spread expectations

NOK gained ground, up 4.5% last week, without any 'help'

The NOK is of course still weak, however measured





- The NOK collapsed two weeks ago, without any assistance from the usual suspects:
  - » Not the oil price
  - » Not energy equity prices
  - » Not (enough) from the interest rate spread
  - » Not our supercycle friends' currencies, even not the AUD!
  - » In addition: Norway is not harder hit by the corona crisis than others (and we have more financial resources to fight it, economically. The relative cost level is lower than ever – even if we still have a 3 x GDP Oil fund
- NOK recovered some 4.5% last week, it was simply 'too' cheap. NOK is still weak vs. our f/x models, in average

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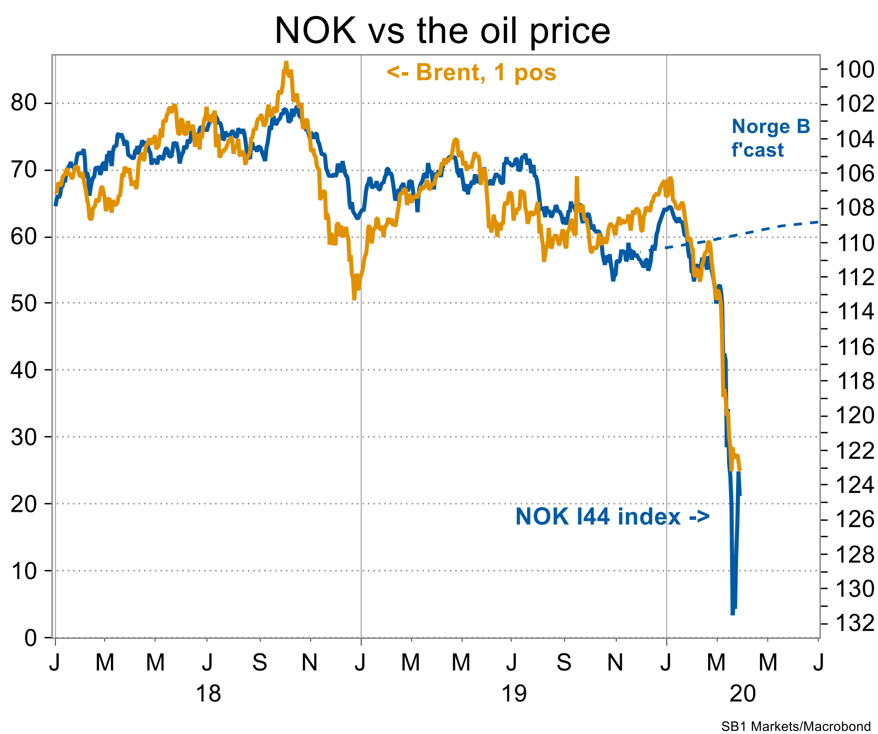
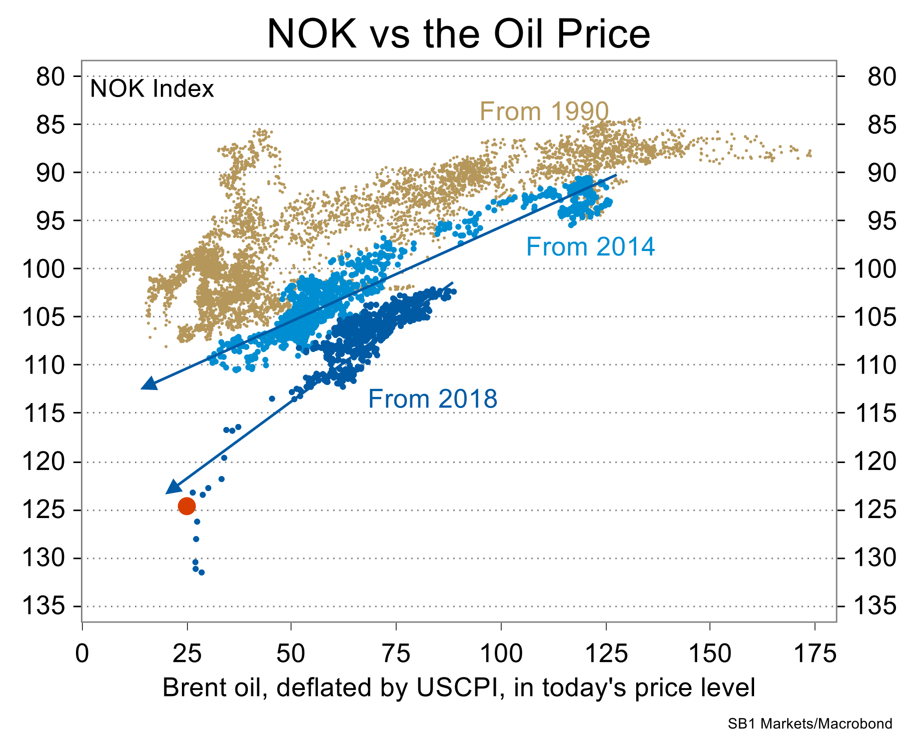
The 'gap' between the oil price and the NOK is almost 'closed'

… vs the short term relationship since 2018





- The NOK has been much weaker vs the oil price than normal the past few years but it is still correlated to the changes in the oil price like it used to be

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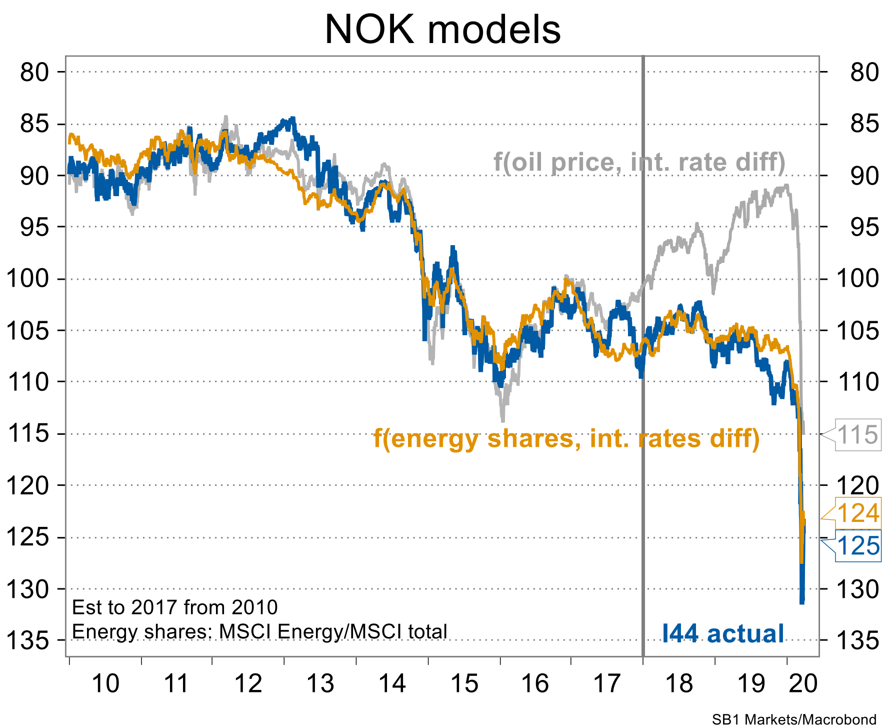
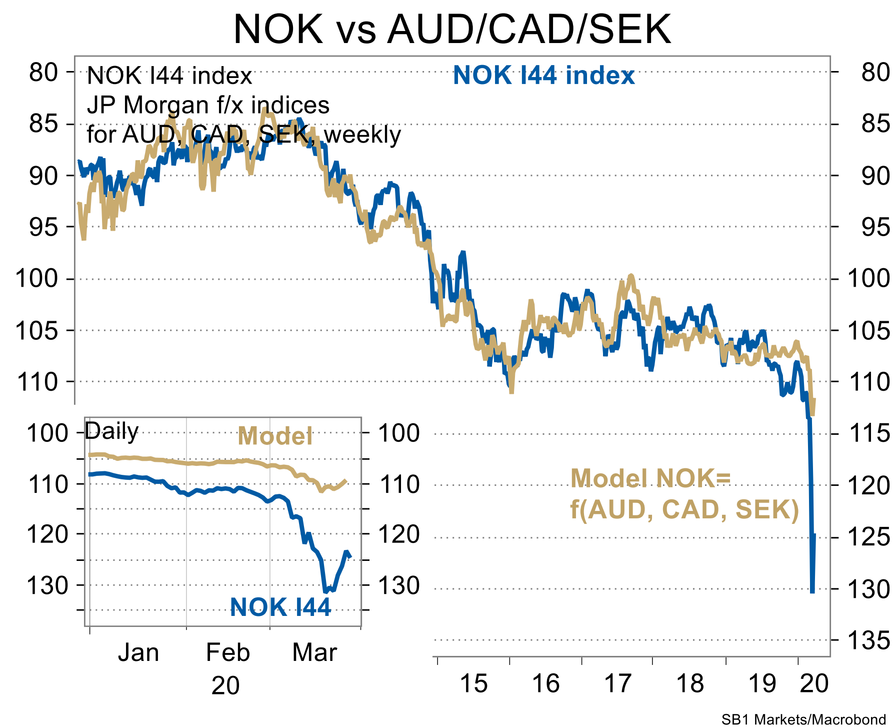
NOK still far too weak vs the supercycle model, just marginally vs oil stocks

NOK is 11% too weak vs the 'supercycle' model and 0.5% below the oil stock price model

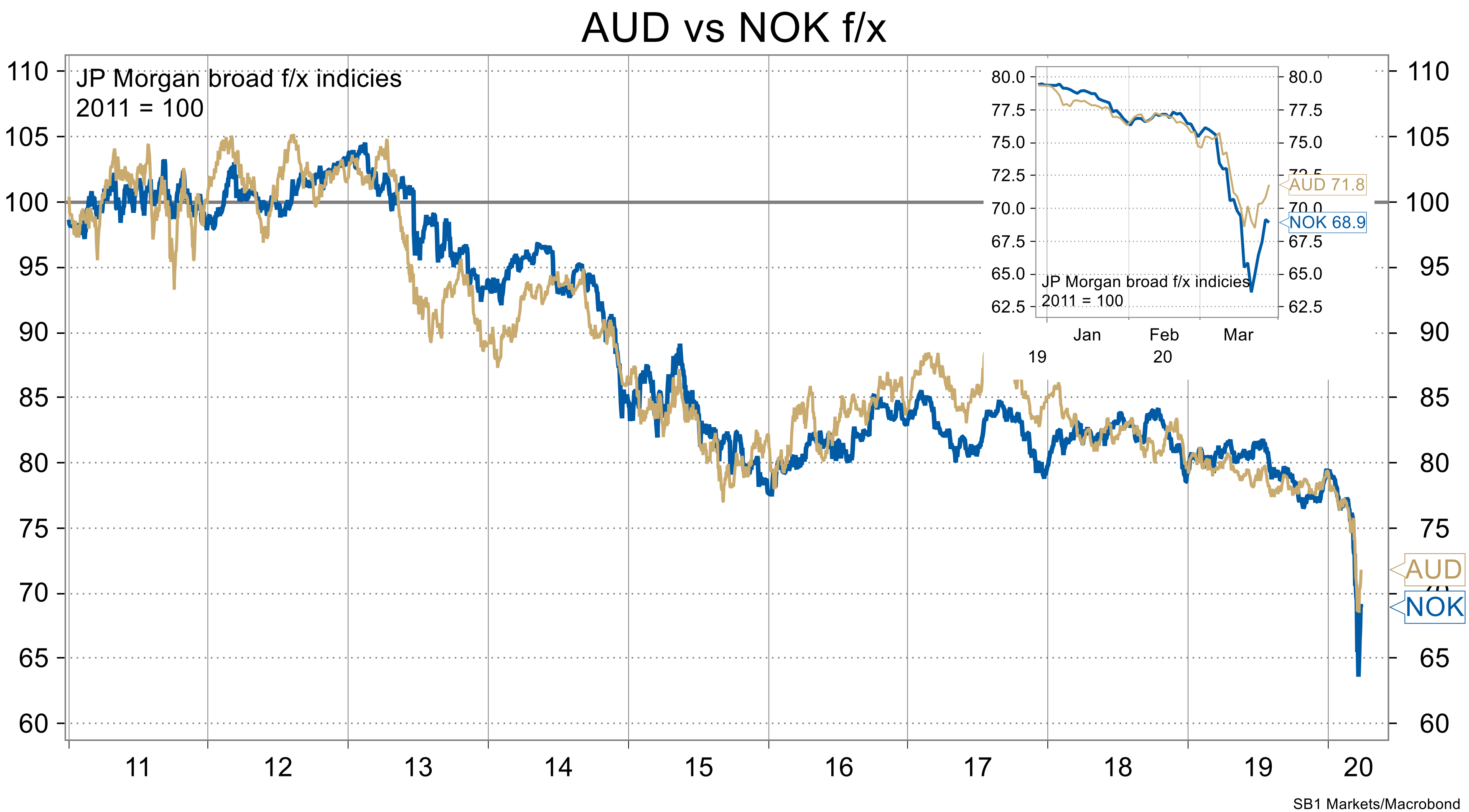




- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to NOK
  - » The oil company share has model slipped along with the NOK since early January and both gained ground last week. The NOK is now marginally 'too weak' vs the oil price model
  - » Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook. The past weeks, the NOK has depreciated much more than SEK, CAD or even AUD

NOK still 4% behind the AUD

Following the appreciation last week, the NOK the gap is reduced substantially



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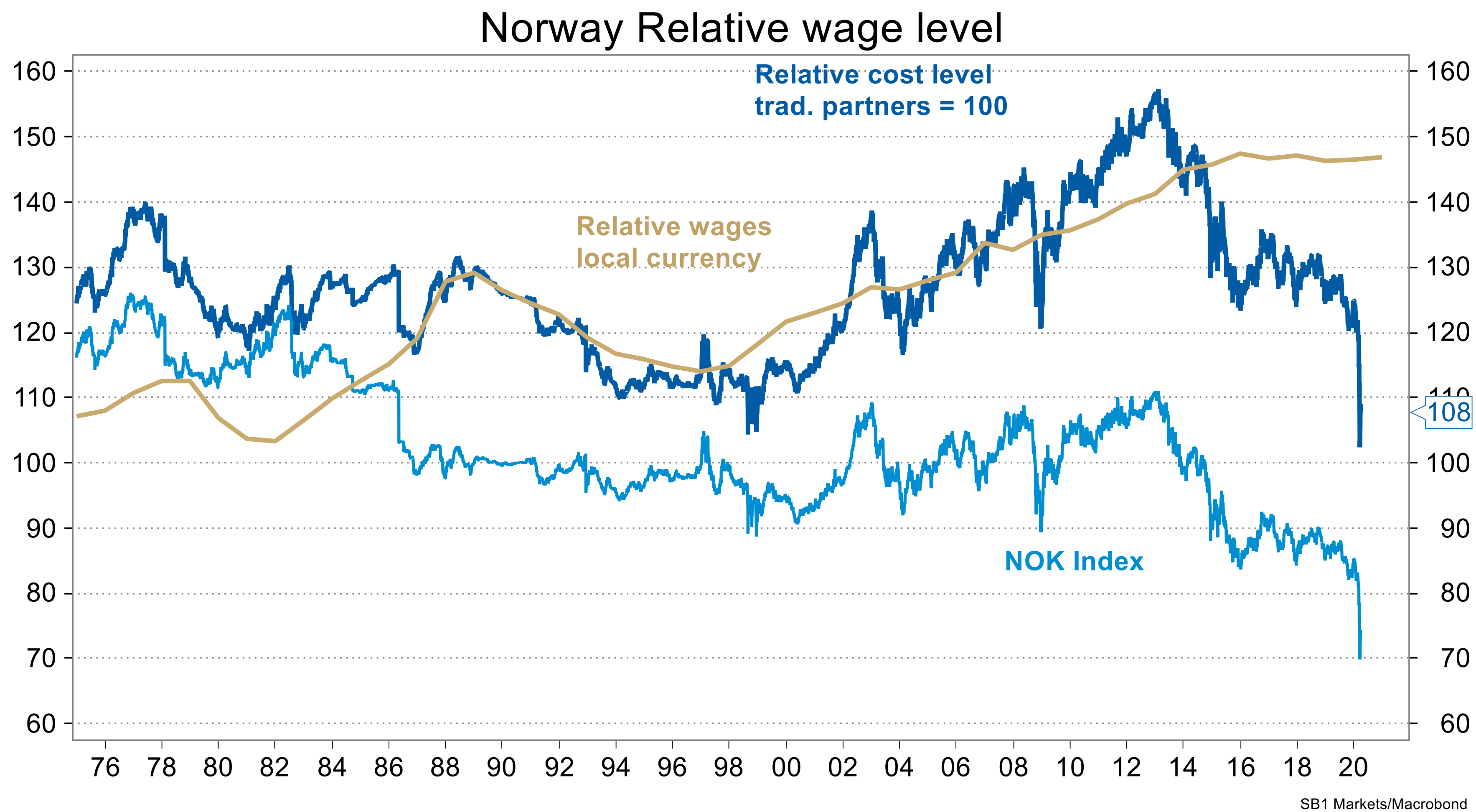
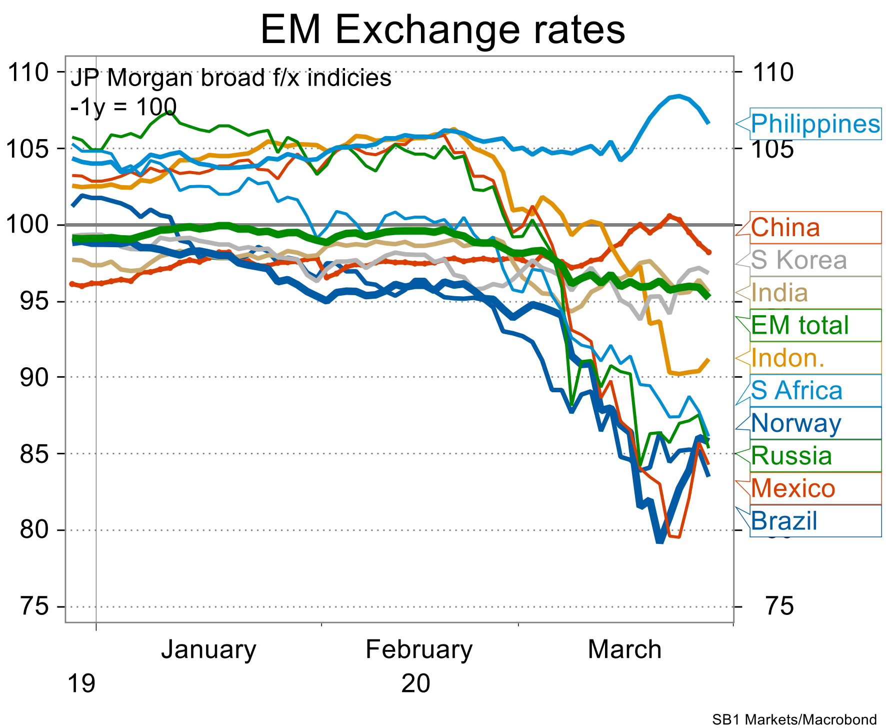
Get the fundamentals right: The Norwegian cost level has never been lower

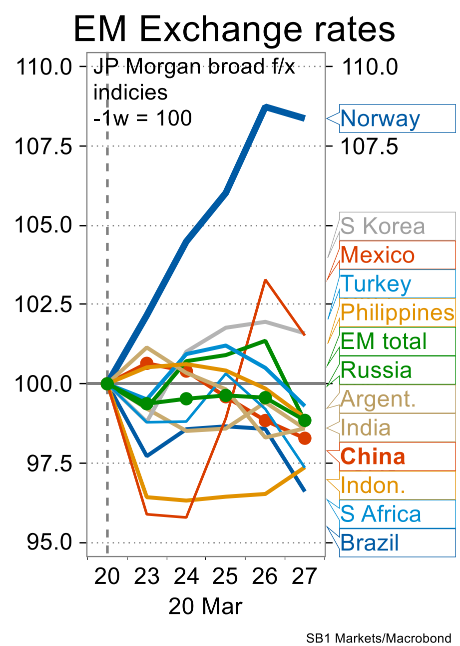
Even if the Oil fund can fund 1/4th of Mainland imports (if the real return remains at 3%, long term)

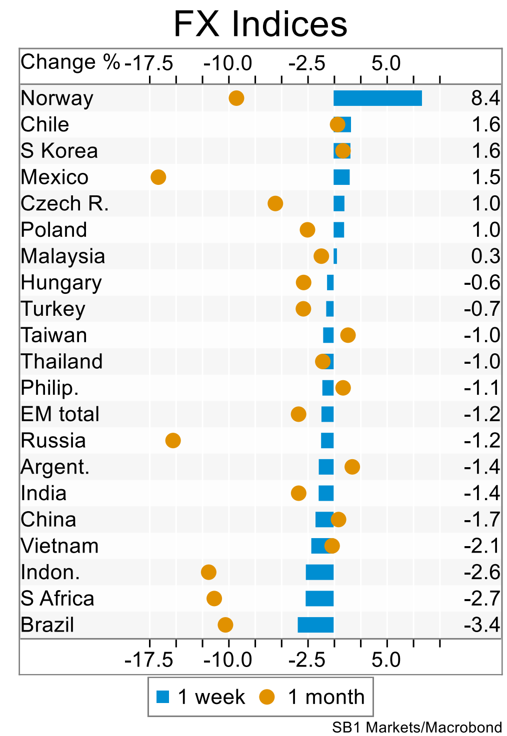


Emerging market f/x mostly down last week – as over the past month

… While NOK recovered sharply. The CNY fell past week but is flat since the corona outbreak







- Most EM (Emerging Markets) currencies have depreciated substantially on the coronavirus outbreak; Russia, Indonesia, Mexico and South Africa the most

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