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# Macro Research

## Weekly update 15/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

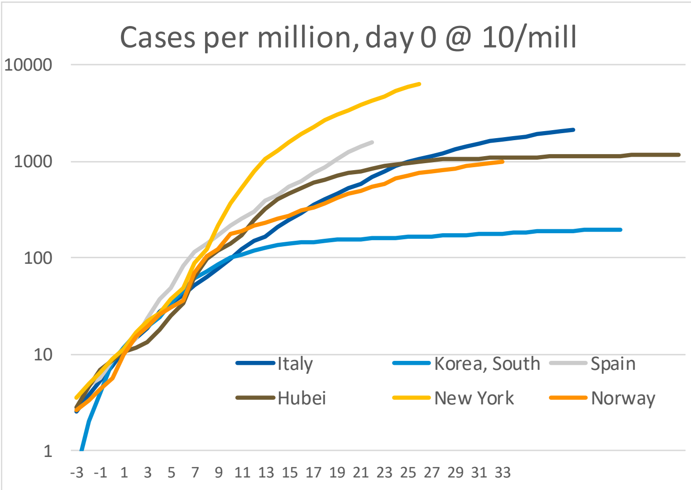
*The headlines are linked to the relevant section in the report*
*The elements on the the page "In this report" are linked*
*A top right button will bring you back to the content page*

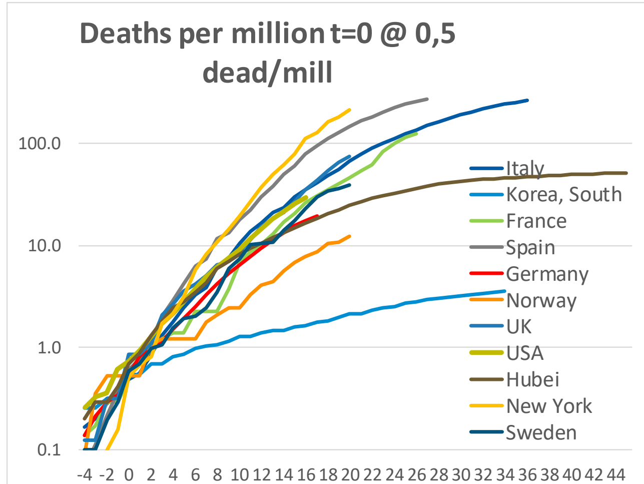
# Last week – the main takes

- **The coronavirus** is still spreading fast and the total number of cases is now above 1.2 million. Health services are overstretched many places; Italy, Spain and New York a catastrophe. The good news is that the spreading has now stabilized in many countries (both Italy, Spain and Norway recently, the latter at a comfortable low level) after 2 - 3 weeks of strict measures/lockdowns.
- **The economic impacts are tremendous**, measured by the unprecedented decline in economic activity 'everywhere', almost at the same time. The major questions now are 1) ***when and how much the restrictions can be lifted*** without risking new rounds of outbreaks (incl. what new treatments may deliver) and 2) whether ***demand is there*** when the societies are 'opened up', which will decide the economic cost, the aggregated loss of output over the whole 'virus cycle'. Given what we have learned so far, some measures may be loosened but it may still take a long time before 'normal' activity is resumed. China date indicates that many sectors are still far below normal levels even as the lockdowns are lifted. Estimates of decline of output vs. the previous trend are revised up by the day, and less than 6 - 7% seems unrealistic. The aggregated loss of out may turn out to be larger than during the Financial crisis, at least vs. the expectations ahead of the crisis
- **Macro data are slowly starting to show the economic depth of the Covid-19 crisis. Global composite PMI** tumbled to 39.4 in March, the lowest level since the financial crisis. The world ex China index fell even more, to 37.6, as the Chinese PMIs rose following the economic standstill in February. However, the Chinese indices do not imply any strong recovery in March, one PMI suggests modest growth from February to March, the other another decline. Globally, the service industry noted the sharpest contraction since the PMIs were first released in '98, whereas manufacturing fell more moderately
- The unprecedented impacts on **labour markets** are becoming increasingly apparent. The number of new jobless claims in the US soared to an extreme 6.6 million, far above any levels seen before. The nonfarm payrolls survey reported a 0.9 pp increase in unemployment but this data were partly conducted before corona hit the US economy. Given the upsurge in new jobless claims, we expect unemployment to already have increased above 10%, possibly to 15%. Employment fell by 701', much more to come. In Norway **unemployment** has soared to 12% (10% by end of March), and 15% when including partially unemployed and labour market measures. **Norwegian house prices** slipped 1.4% m/m in March, we assume some 3% decline after the Norwegian economy was partly 'shut down' on March 12
- **Everywhere, the authorities have promised 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. Massive fiscal and monetary stimulus have been rolled out. The Fed pledged unlimited QE and expanded the balance sheet by 7% of GDP in just two weeks. The ECB so far by 3%, has promised 7%. And will soon announce more? Fiscal policy has turned extremely expansionary, some 4% of GDP in average in rich countries, more than 6% in Norway (depending on how long/how deep the recession will be)
  - » In Norway, a substantial support to the business sector was finalised last week, implying a monthly cash support of some 8% of (monthly) GDP in direct cash support, in addition to more generous temporary unemployment benefits
- **Stock markets** retreated modestly through the week after a rebound the prior week. The oil price spiked to USD 34 on Trump's 'promise' of a Russia/Saudi (& Opec and US?) deal on production cuts. We are not so sure. NOK is recovering, still weak

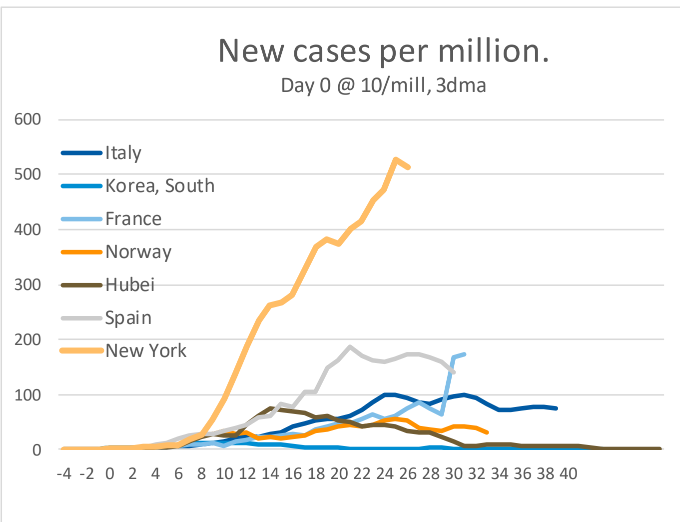
# Curves are flattening but at disastrously high levels some places

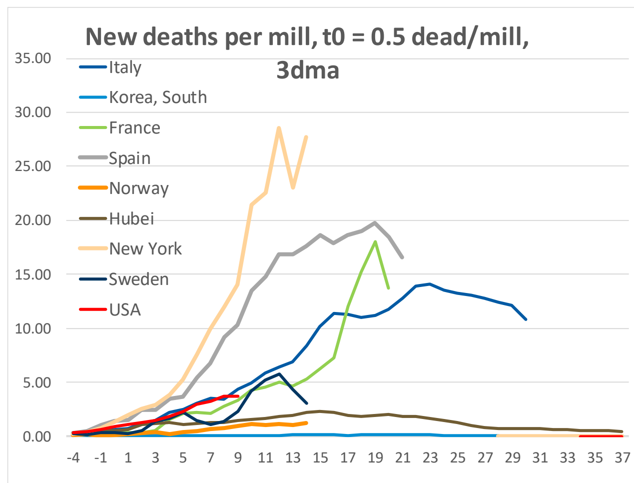
## We now know that the spreading stabilizes after two/three weeks of lockdown




- The virus outbreak has run out of control in many countries, overwhelming the health system
  - » Spain, Italy and New York are struggling hard, so will France soon
  - » Norway has probably brought the virus under control early enough to prevent a health catastrophe, and some measures may probably soon be lifted



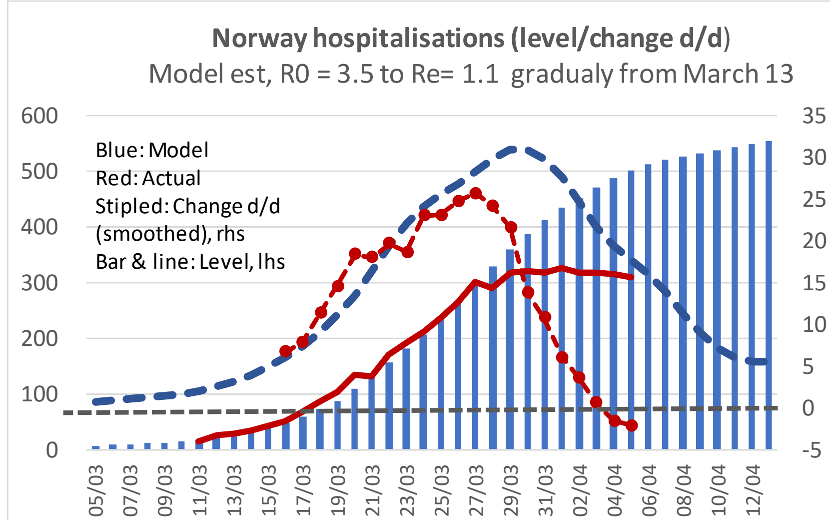



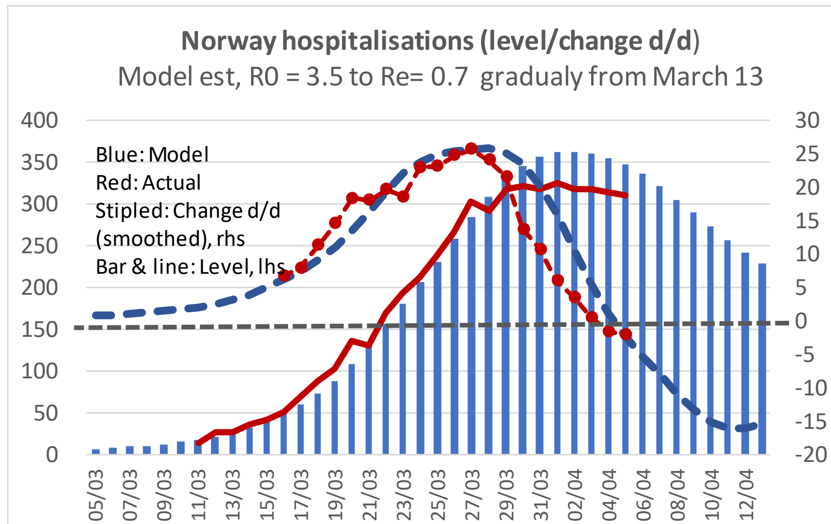

Sources: Johns Hopkins, SB1 Markets

# Norway: The numbers of hospitalised patients & in intensive care have peaked?

## Just 310 Covid-19 patients are hospitalised, down since last Sunday

- One week ago, we indicated less than 400 patient signalled a reproduction ratio of 1.1
  - » We have recalculated our model, based on new research from Imperial Collage (especially an higher R0). The model now yields 450 with a reproduction ratio at 1.1, gradually introduced from March 13
- The slight decline over the past week indicates that the reproduction ratio 'R' has fallen to below 1 due to 'social distancing' and other measures taken to contain the corona virus. If so, the measures may be too tough, if the aim is to mitigate the spread, and 'flatten the curve', not to supress it. The Norwegian authorities are not crystal clear at this point
- The number of patients in intensive care and in ventilators have also fallen recent days
- Still, it is too early to declare Victory, and it is even more uncertain how much measures could be lifted (like kindergartens and schools for the youngest) without lifting the 'R' too much. The margins may be quite narrow
- The Government will present new analysis and decide if some measures should be lifted after Easter tomorrow or at Wednesday




Sources: SB1M, Helsedirektoratet, own calculations

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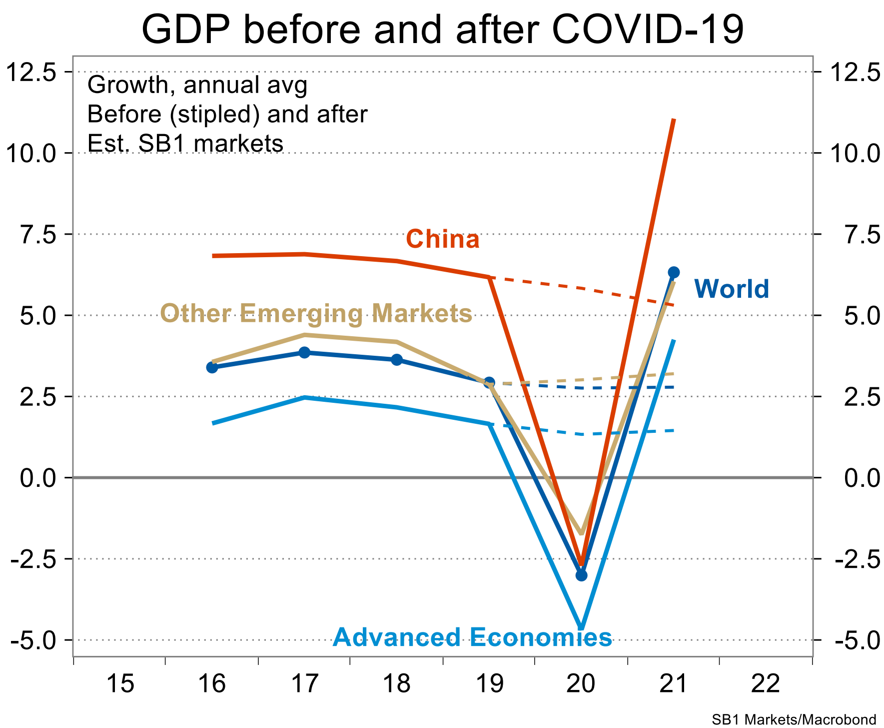
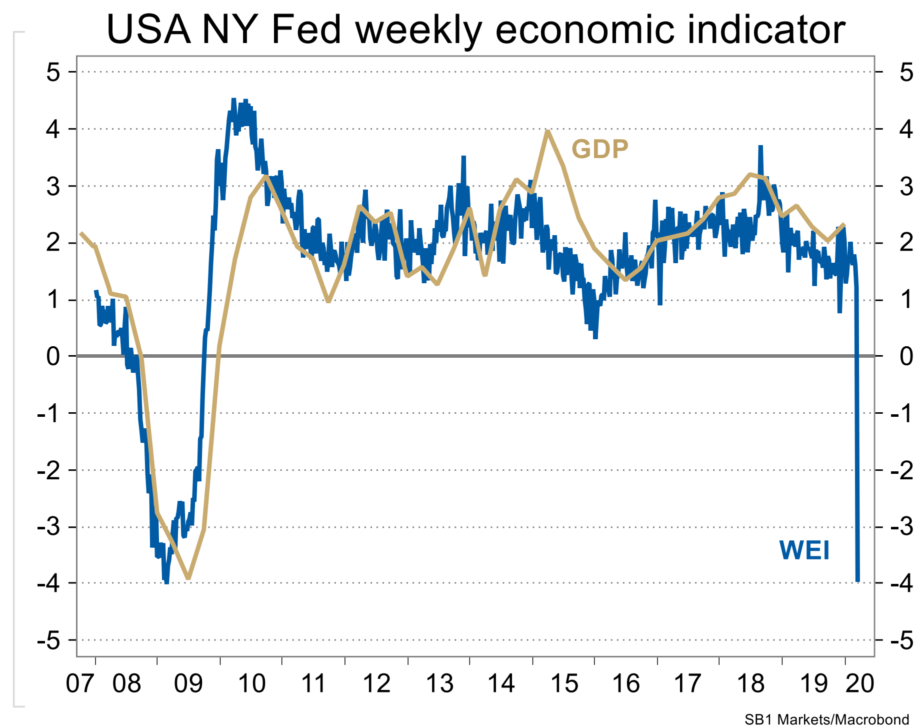
# Are we heading for a U, V, or W? Or an L? Depends on the length of lockdowns

## The uncertainties are extreme but our base case is some 2-3% drop in global GDP in 2020

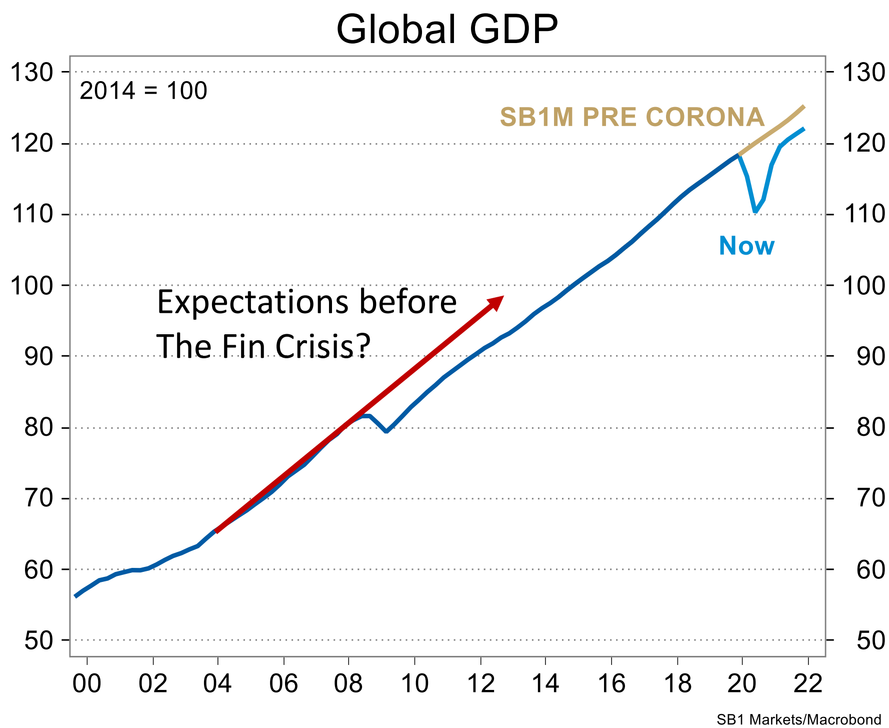


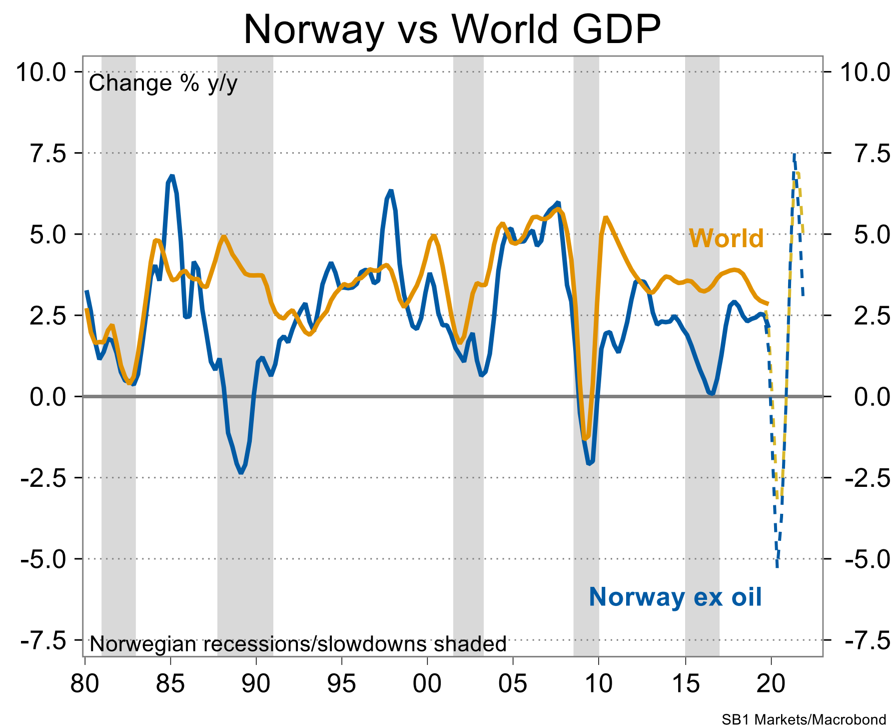




- The uncertainties are of course extreme. Our base case is now a 2 – 3% decline in global GDP in 2020 and a rebound in 2021. If it turns out that economic activity cannot return towards 'normal' levels from Q3 onwards, the final outcome will be even worse
- As of the Norwegian economy, we estimate a 4-5% decline, if the society soon 'opens up', at least partially. Some businesses will go bust, but most will survive, as the government is covering a large share of the losses (takes care of labour cost for temporary layoffs, covering fix costs for businesses that looses more than 30% of revenues etc.)

# Global GDP sharply down, and much more than during the Financial Crisis

That's a done deal now. The question is when, and how rapid the output gap will be closed

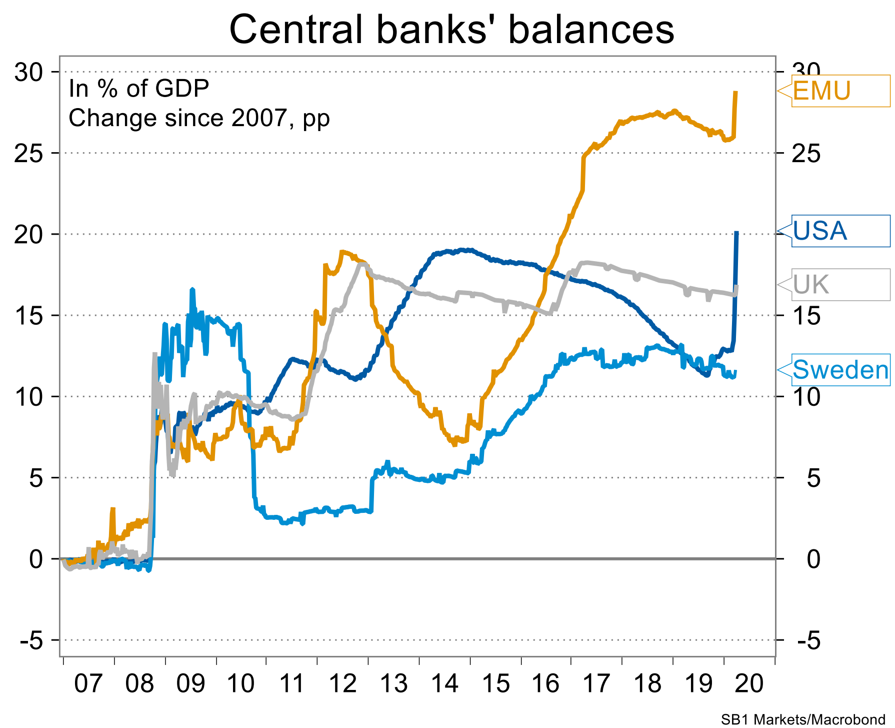


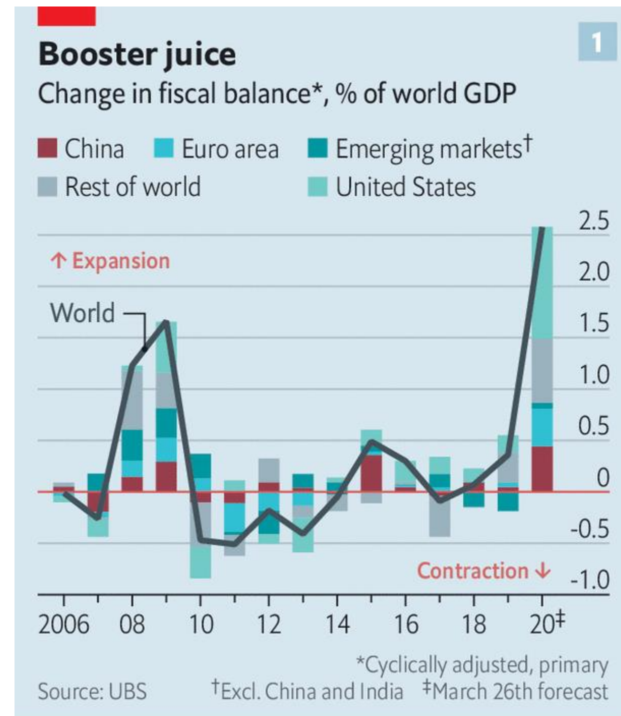




- The decline in the GDP level is doubt much larger than during the Financial crisis. The economic cost, is decided also by the length of the downturn
- We expect a decline in GDP at some 25% per month of closedown lasting 2 months, distributed over Q1, Q2 and Q3 for different countries/regions, then a gradual recovery, starting in Q3 for the global economy
- We still think the aggregated loss of output, vs expectations ahead of the downturn, will not be larger this time, than the loss vs. expectations that occurred during the financial crisis. The need for reallocation of resources is not necessarily larger this time

# QE is ramped up aggressively, 8% of GDP in two weeks in the US!

## ECB has pledged 7% of GDP QE, 3% delivered. Huge fiscal packages, everywhere




The Economist

- It's hard to keep 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

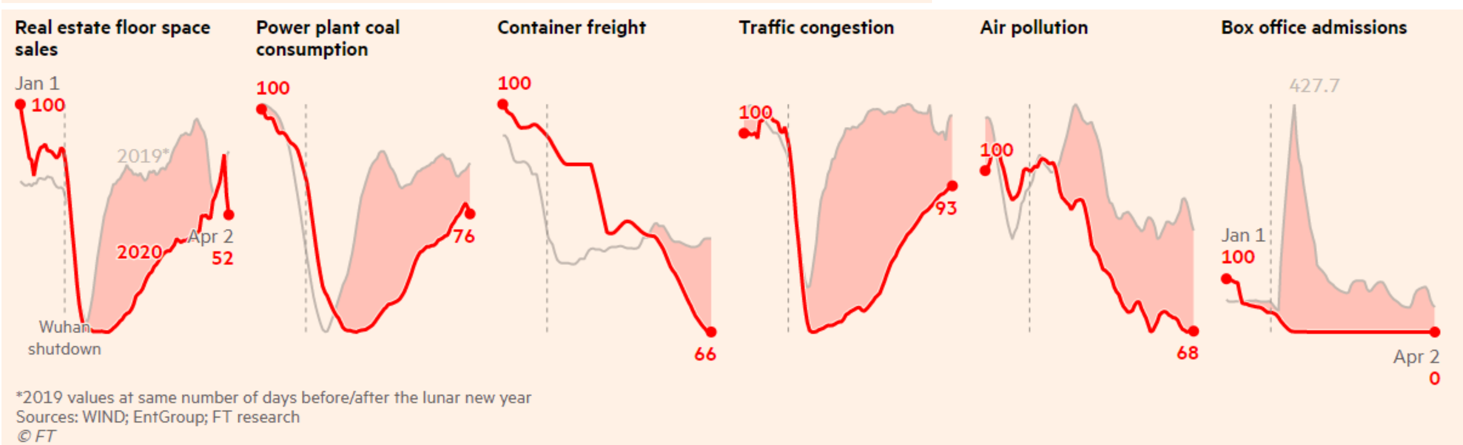
# Central banks and governments have pledged 'whatever it takes'

- **The real loss is that production and income are not generated, and the lost months cannot be recovered. 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% last week, from 2.4%. Reserve requirements have been cut, for the 7th time since 2018. Several fiscal measures are decided, but no money so far 'seem' in data
- **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 has been announced, including a generous model for temporary lay offs, sickness leave etc.
  - A package towards the business sector, at an estimated cost of NOK 25 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. 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 avg down to zero in OECD. The room for further cuts is limited

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

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

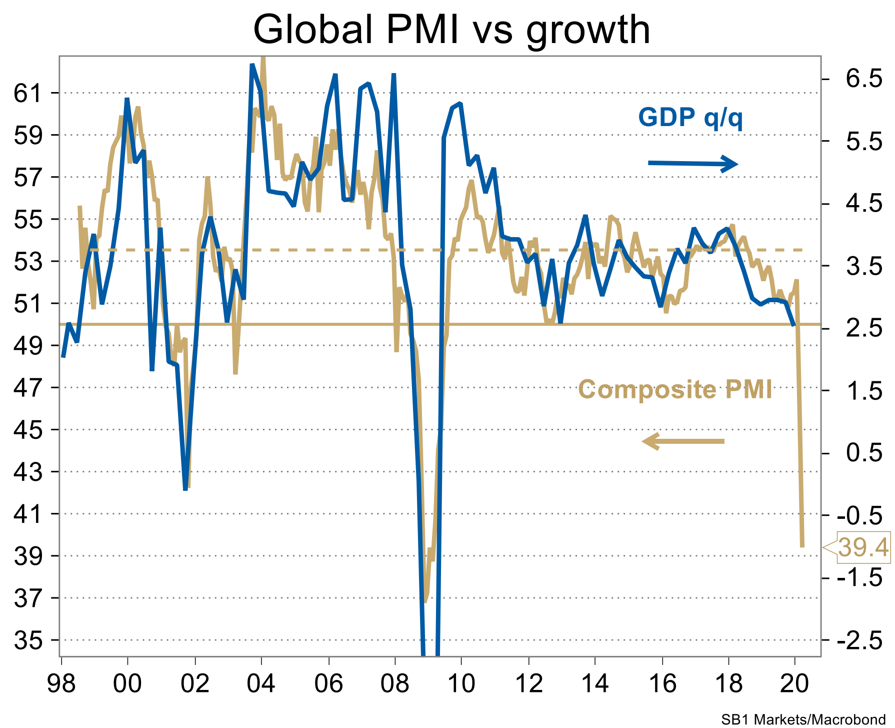

- Activity has been slowly increasing through March. A setback in the first 2 days of April

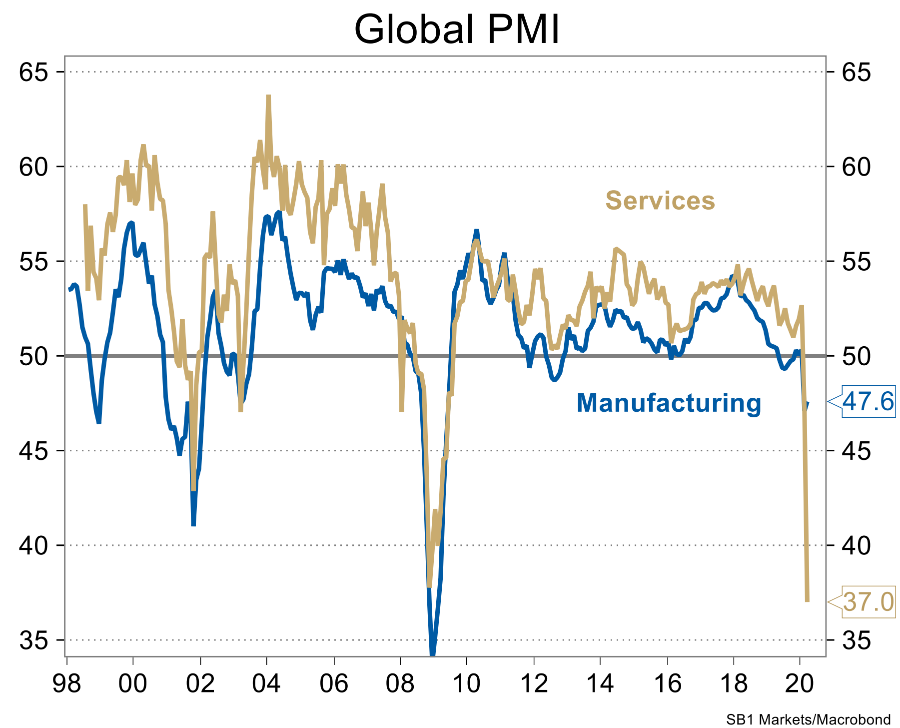



Source: Financial times

# Global PMI dives on corona shock

## Global PMI down 6.7 p in March as service industries in the world ex China collapsed

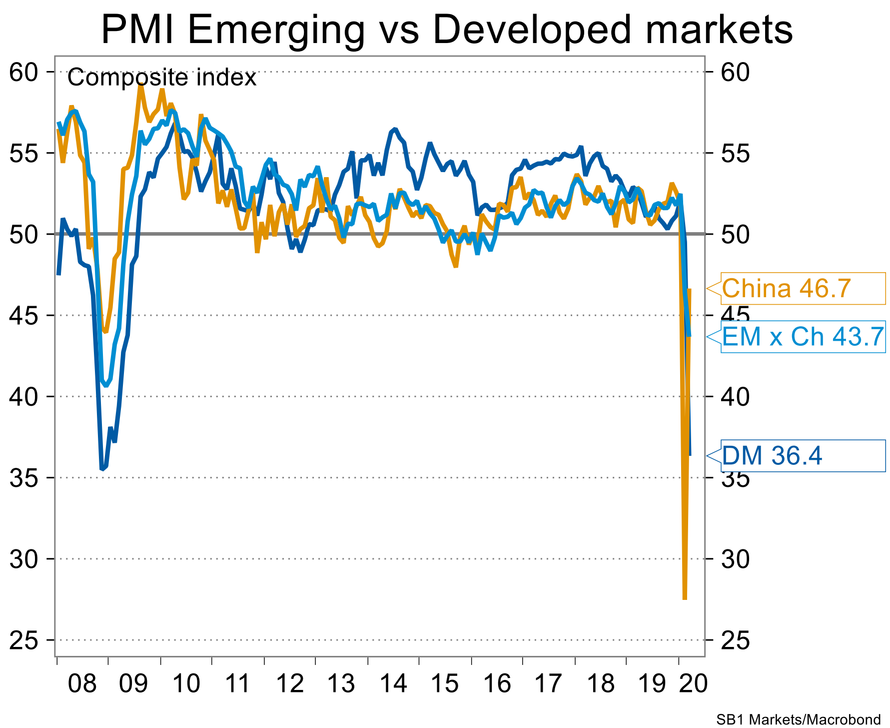


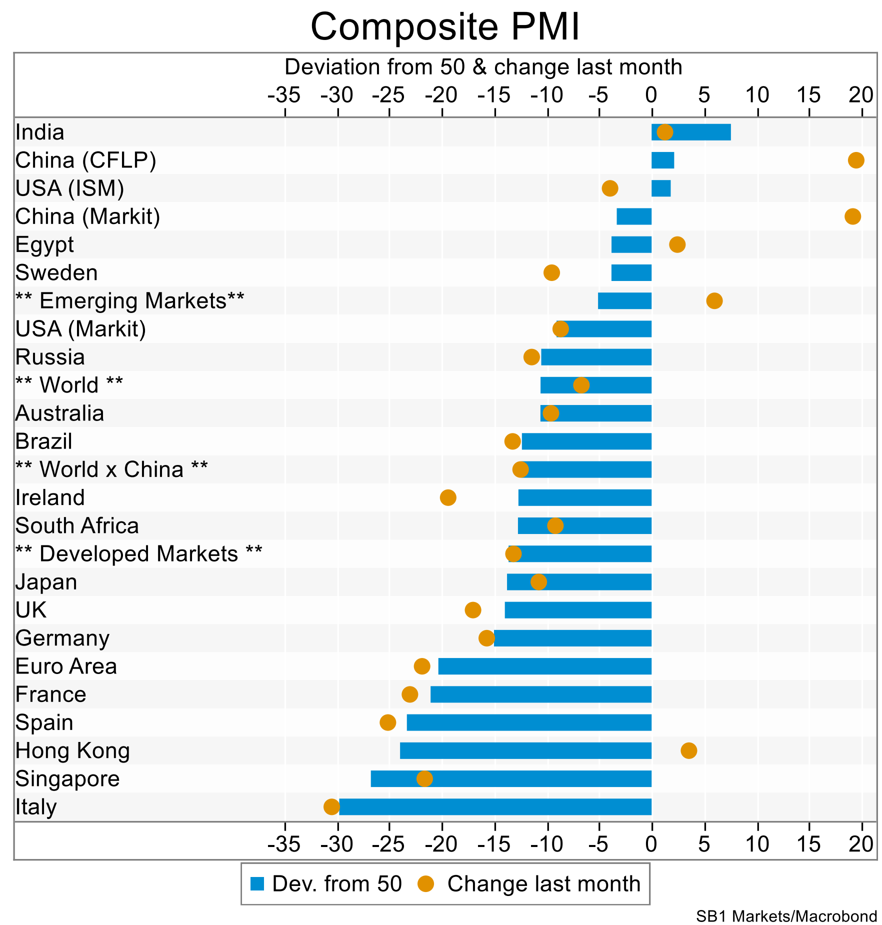




- Global composite PMI fell to 39.4, the lowest level since the financial crisis. The global economy is no doubt in a recession and the PMI is now probably not a good indication of the depth of the downturn, we expect a much steeper drop in GDP
- The March setback was broad, in fact, all countries (that report PMIs) barring China and India noted a contraction. The Eurozone, UK and Japan were hit the hardest, whereas a soft rebound in the Chinese PMIs lifted the global index. The world ex China PMI fell to 37.6
- Service industries are tumbling, the global services PMI fell below the 2009 levels, even with a 'boost' from the Chinese index, which rose to 43, from 26.5. Manufacturing PMI inched up but just due to China, most others reported falling activity. Delivery times have soared, and this time not due to a booming cycle. Excl. the delivery times sub index, the global manuf. PMI is at 45.5, not 47.6

# 18 PMIs down, 5 up in March, Developed markets down to 2009 levels

Just China and India above the 50-line, indicating growth, all others (barring irrelevant ISM) below

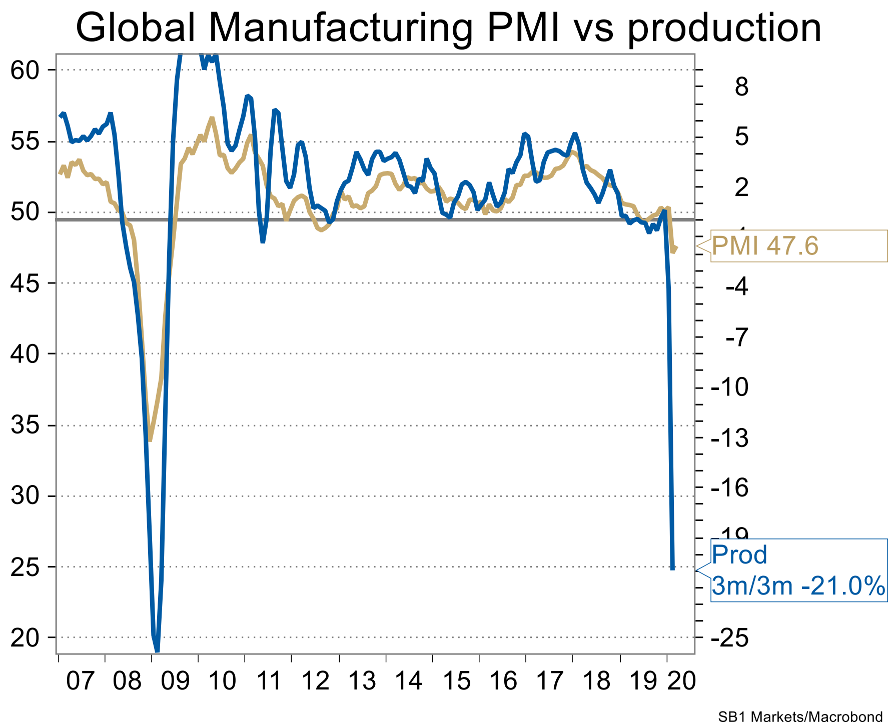


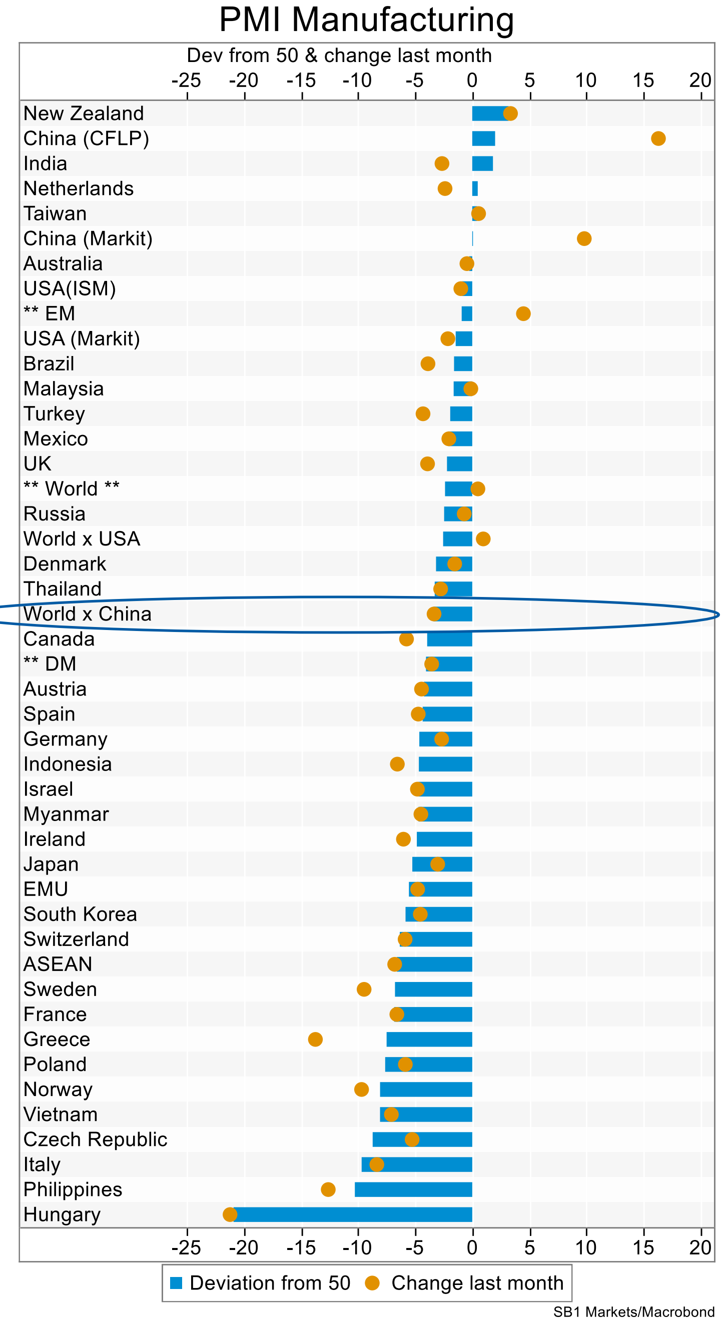




- European countries noted the most rapid declines in economic activity in March as Covid-19 rattled Italy, Spain, France and others. The US is hit hard as well, at least according to Markit's PMI. In average, Developed Markets' PMIs plunged to 36.4
- Emerging Markets edged up due to a lift in the Chinese PMIs, which was 'inevitable' as country was in full lockdown in March. India marginally up too, most other EM down

# Global manufacturing PMI saved by China in March

The manuf. PMI inched up but PMIs rose in just 5 countries, fell in 38!



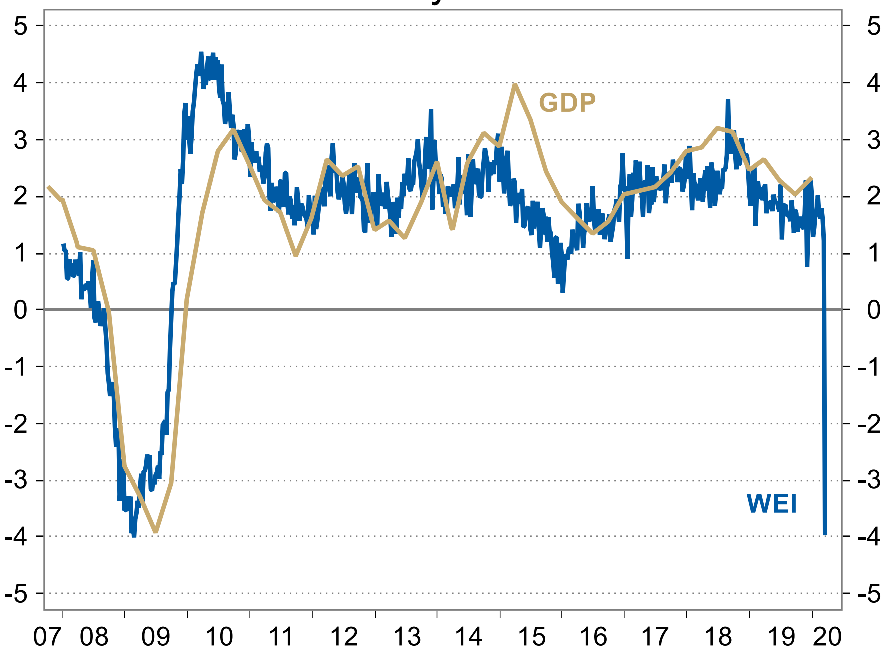




- PMI edged up 0.5 p to 47.6 in March, following the Feb plunge. Still, the world ex China fell by 3.4 p to 46.6 in March, to the lowest level since the financial crisis, and the ‘real’ decline was even steeper, as longer delivery times lifted the index. The Chinese manuf. PMI jumped 9.8 p, following the record low February. More on the Chinese PMIs later in the report
  - 38 (from 21) countries/region PMIs fell in March, just 5 increased (from 22)
  - 39 countries/regions are below the 50 line, just 4 above
  - Developed Markets fell 3.6 p, Emerging Markets up 4.5 p, just due to China

# The NY Fed's Weekly economic indicator reports a steep decline

## WEI suggest that the economy is already down 4% y/y – the first week of lockdown

USA NY Fed weekly economic indicator




SB1 Markets/Macrobond

- GDP may already be down 4% y/y, according to NY Fed's new weekly indicator, vs the pre corona growth path at 2%. This implies that activity has fallen by up to 6%, and it happened over just one week 12 (March 21), due to the steep increase in new jobless claims
  - » Jobless claims rose twice as fast last week, and the week 13 WEI will 'collapse', albeit probably slowed somewhat by less decline in other components
- This new index is computed by the New York Fed and picks up changes in activity much faster than the monthly indices. The NY Fed WEI includes jobless claims, Redbook's retail sales data, consumer confidence, raw steel production, electricity production etc.

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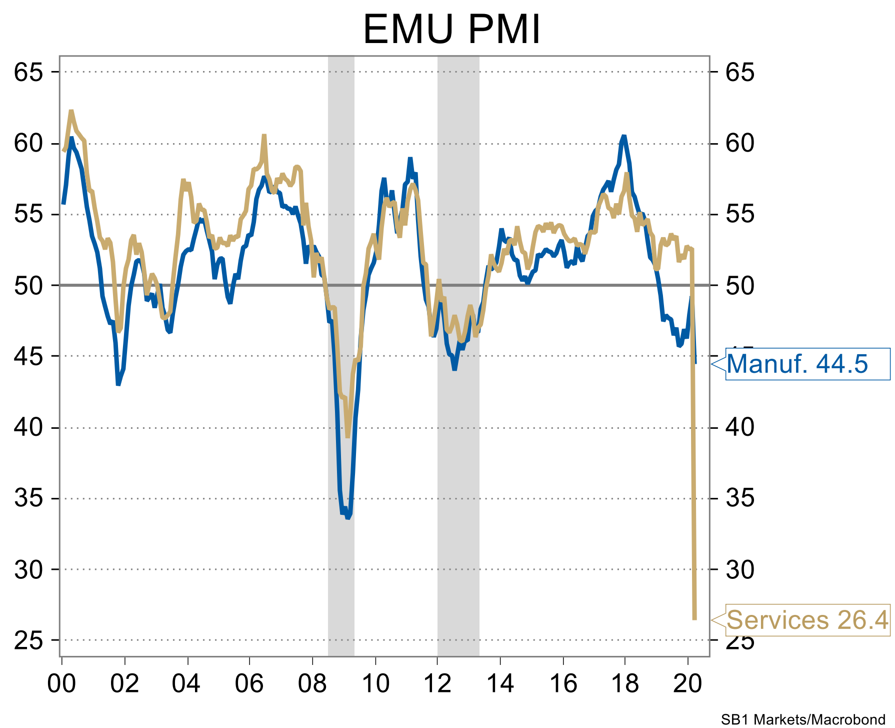
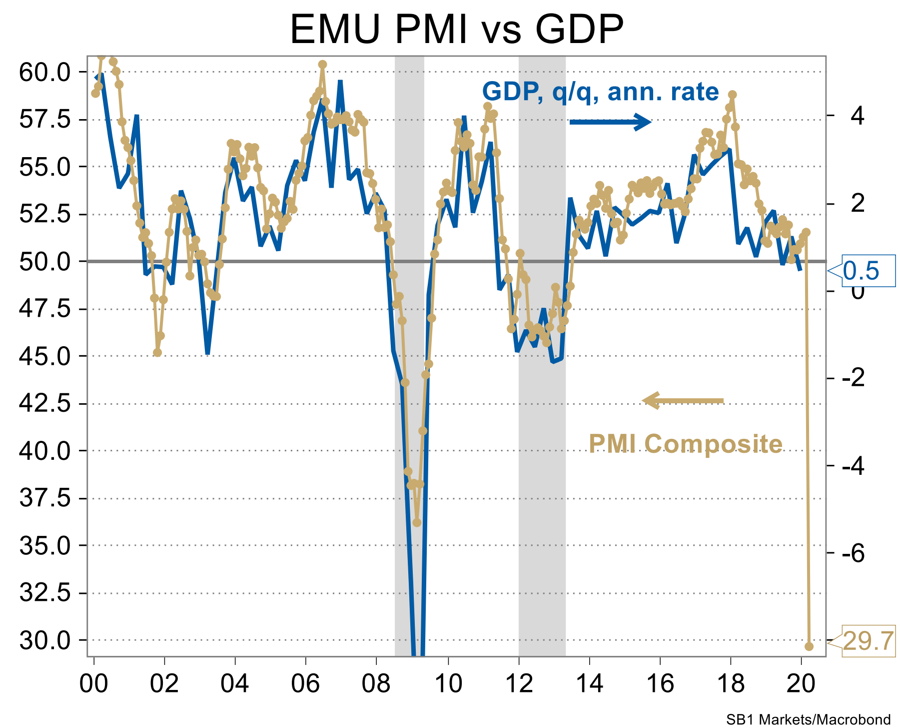
# Eurozone PMIs mirror an unprecedented drop in activity

## Composite PMI plunged to 29.7, 1.7 p weaker than the preliminary survey

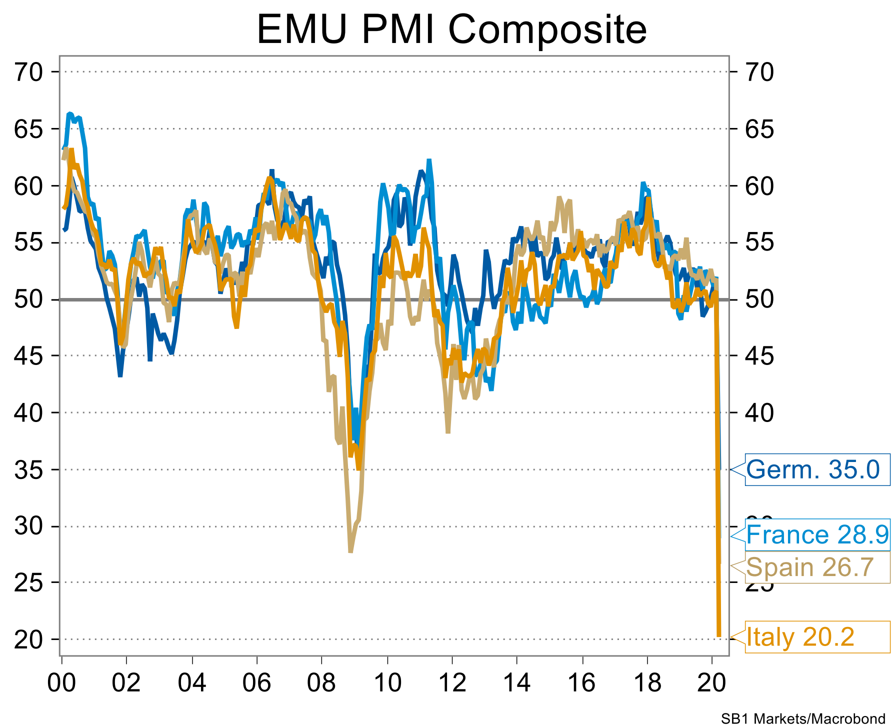


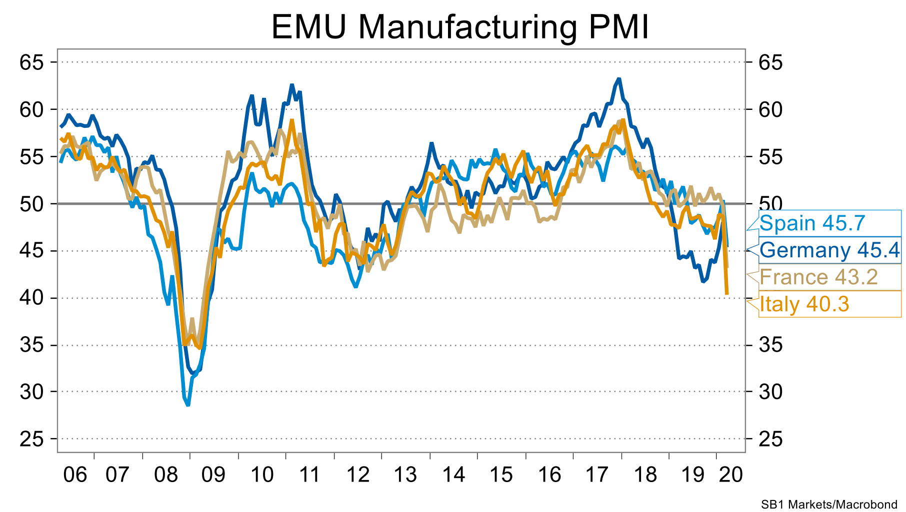



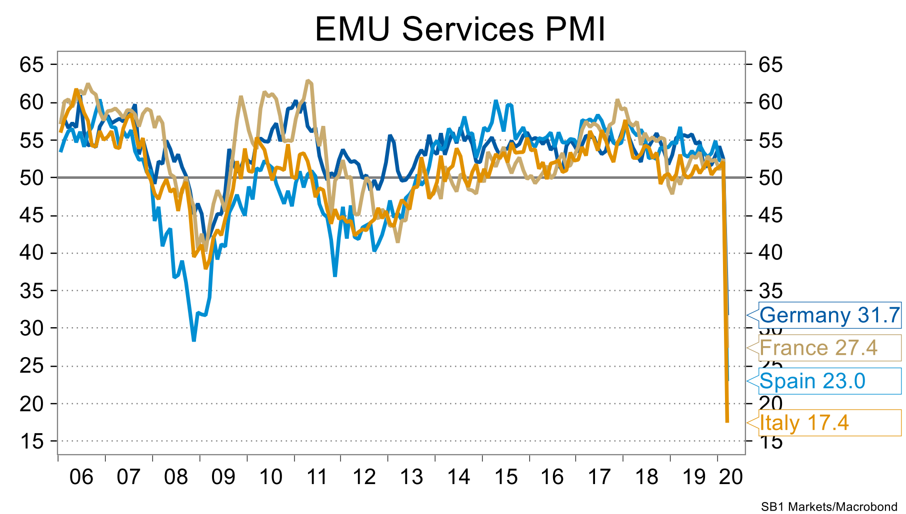

- Services received the largest blow ever seen (well, since the PMIs were first published 20 years ago). The PMI tumbled 26.2 p to a level of 26.4, reflecting an economic ‘collapse’ as Covid-19 rattled Europe
  - » All major countries were hit hard, and, unsurprisingly, Italy and Spain even more than others. For now
- Manufacturing activity contracted by the fastest pace since the euro crisis, although the decline was modest compared to services, a 4.8 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)

# All 4 major economies are reporting a collapse in services

## The Italian meltdown is extreme, PMIs below China February levels



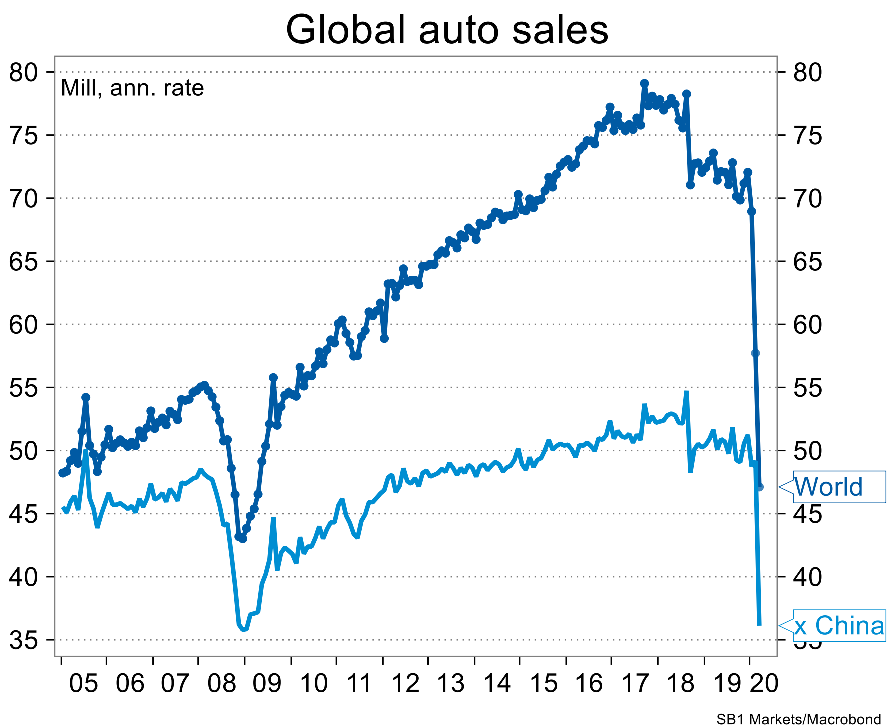



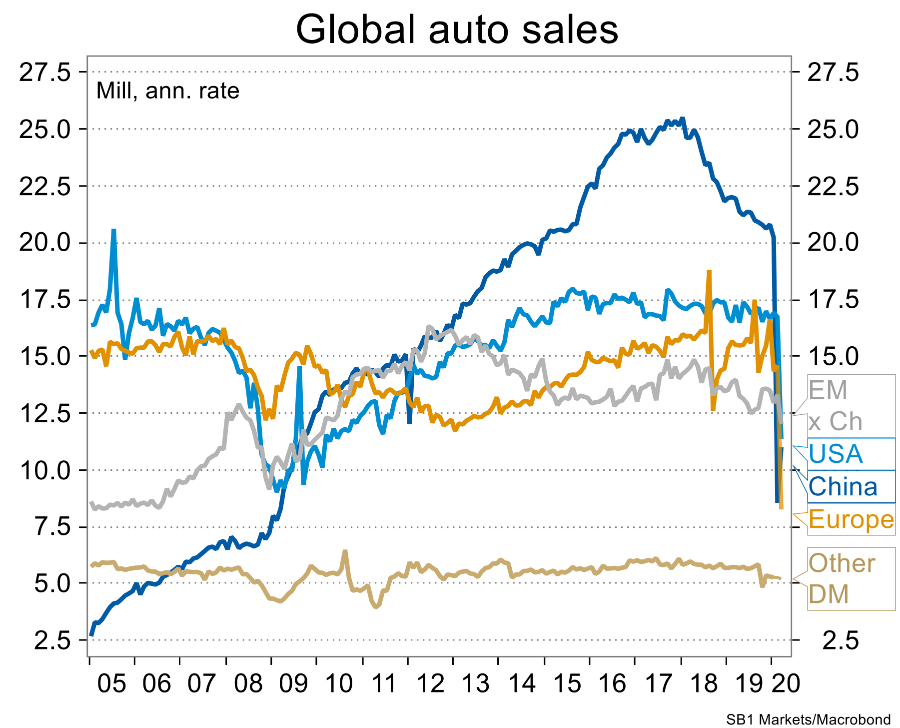




- The decline of the service industry is totally unprecedented, in all four main countries. The Italian PMI at 17.4 is ‘extreme’, reflecting a total standstill
- Manufacturing were mixed, Italy reported the sharpest drop since the FC, Germany down but still above 2019 levels. We suspect that we not yet seen the bottom

# Global auto sales down some 20% in March (-35% y/y), more to come in April

Sales fell sharply in US and even more in Europe in March. Global sales close to the Fin Crisis bottom

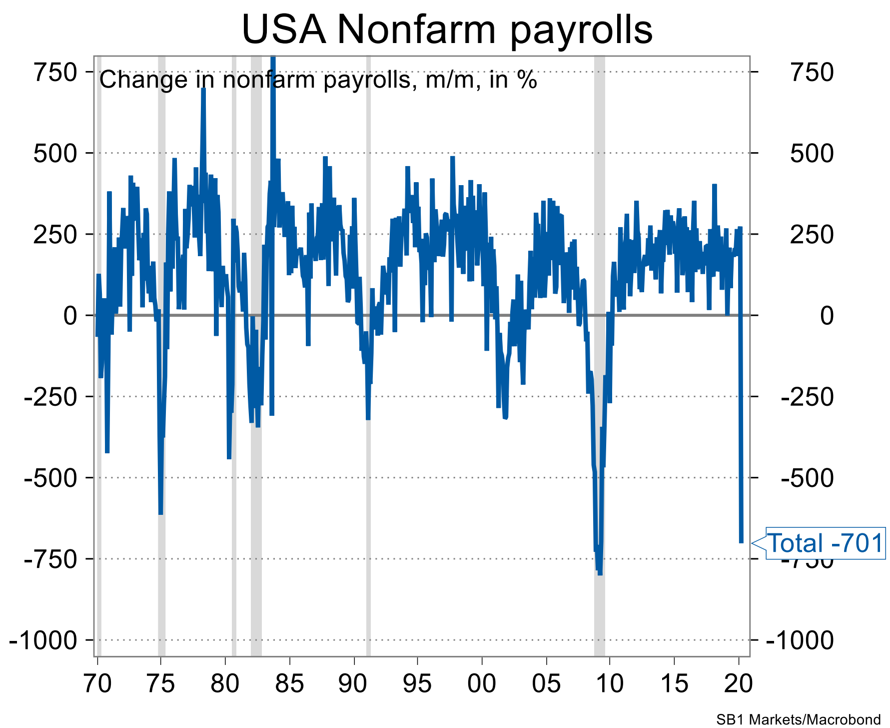


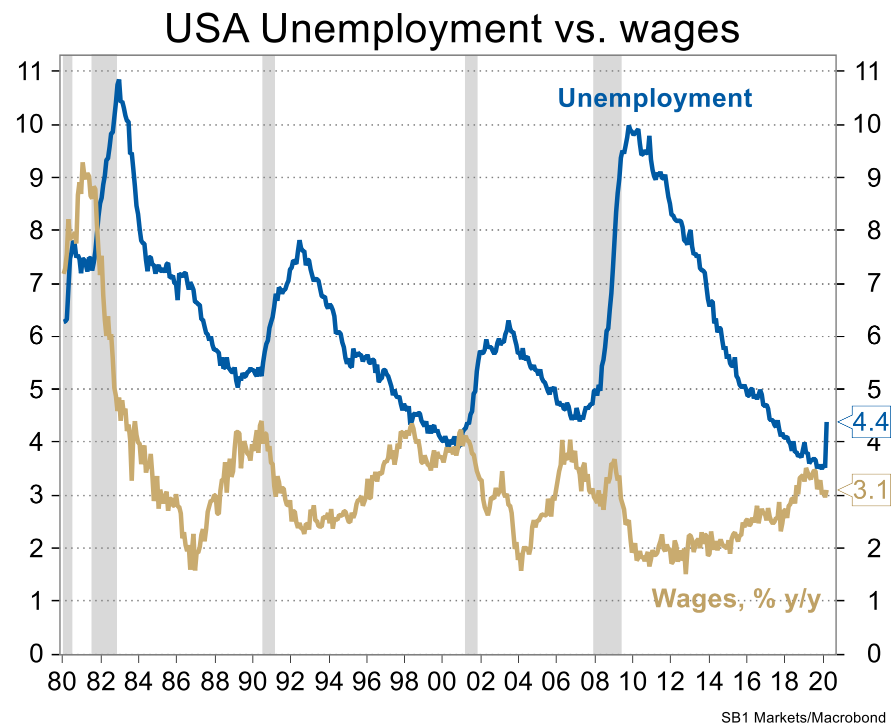




- We do not yet have many auto sales data from Emerging markets but global sales are probably fell some 20% m/m in March, following the sharp decline in February. In March developed markets contributed on the downside, especially Europe (down 50%) but sales fell sharply in the US too, even if the lockdown started in earnest in the latter half of the month. More bad news to come in April

# Steepest drop in employment since 2009 (and it was actually MUCH steeper)

## March data do not show the full corona impact but employment fell by 701' and unempl. up to 4.4%

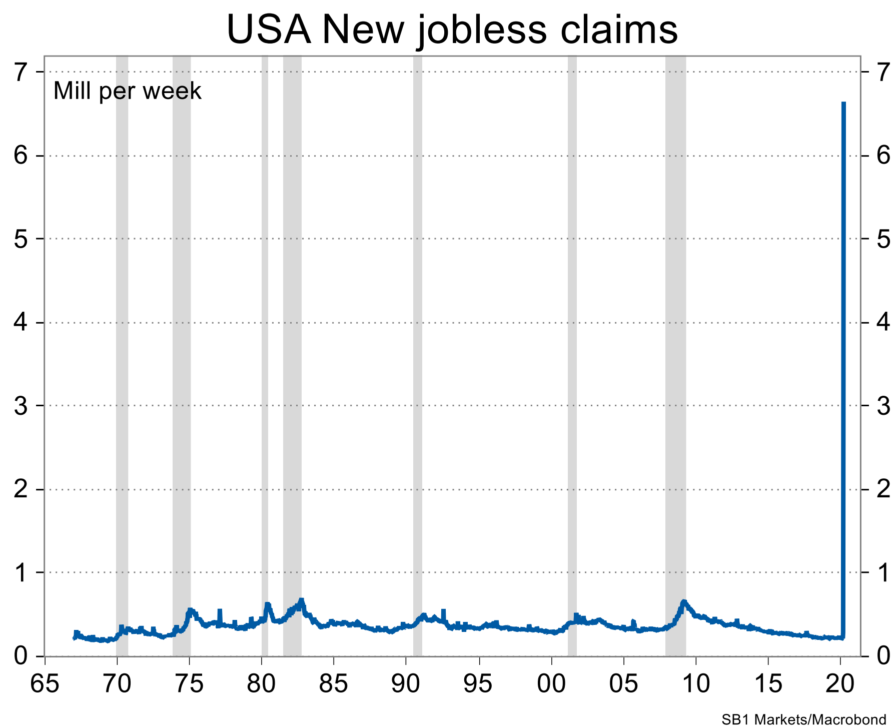


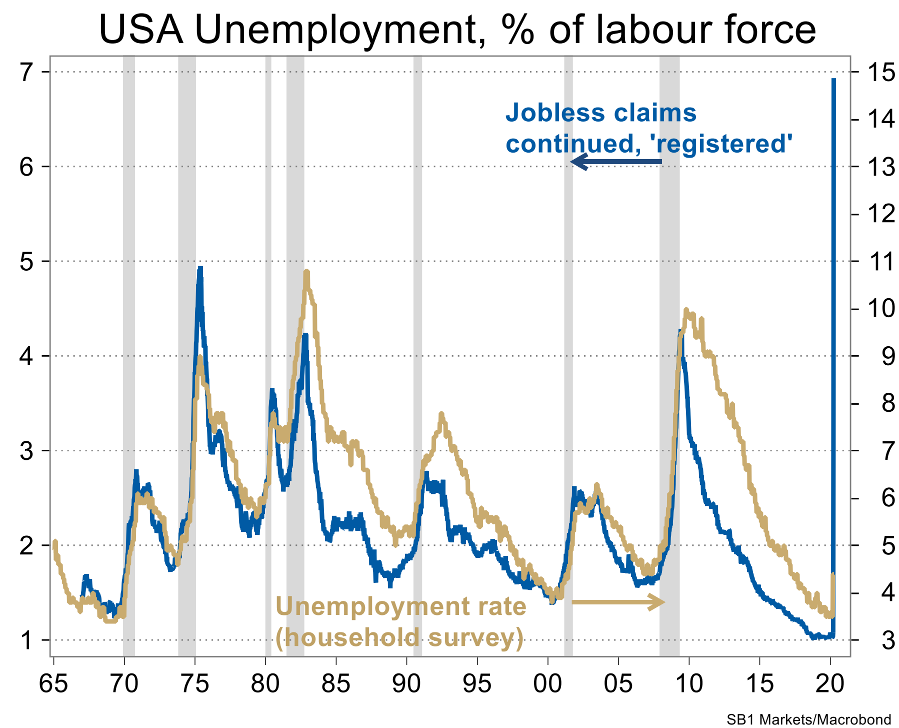




- **Employment** fell by 701' in March, the steepest monthly decline since the financial crisis and the 2$^{nd}$ since 1950. However, the survey measured those at the payroll at March 12, not those at work March 31. That figure was some MILLIONS lower, perhaps 8 – 9 MILLIONS lower (based on the surge in new jobless claims). Wait for the April payroll survey!
- **Unemployment** rose to 4.4%, from 3.5%. MUCH more to come, it will probably rise quickly to well above the 10% financial crisis peak
- **The average wages rate** rose 0.4% m/m and the annual rate inched up to 3.1% in March, we assume because those at the lowest income level lost their jobs more than those on the upper part of the ladder. After a while, wage inflation will come down

# Another unprecedented spike in jobless claims, unemployment up to 15%?

## New claims skyrocket to 6.6 million last week, from 3.3'; the US economy has plunged into recession

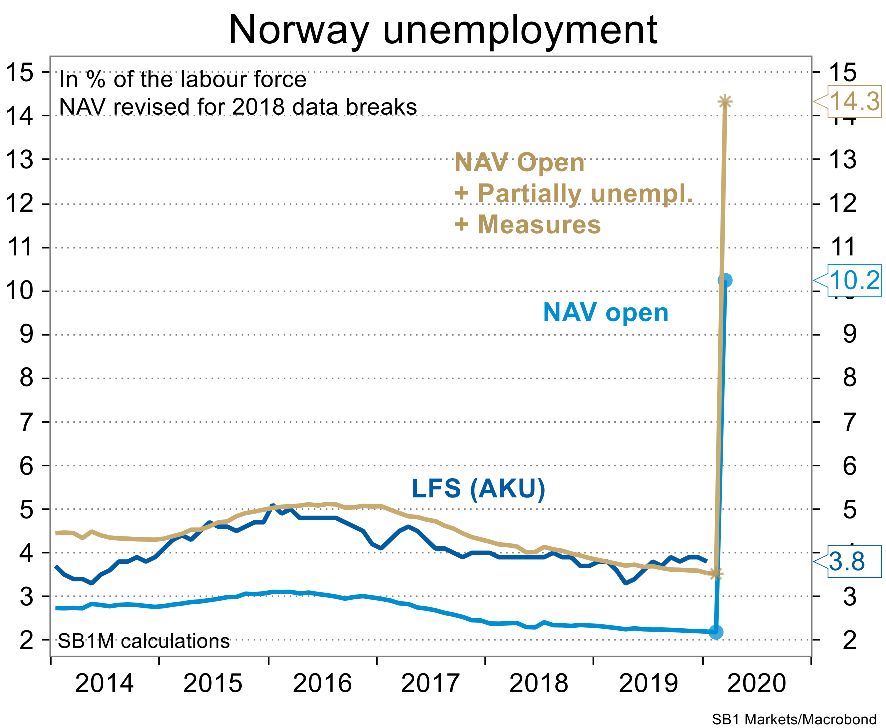


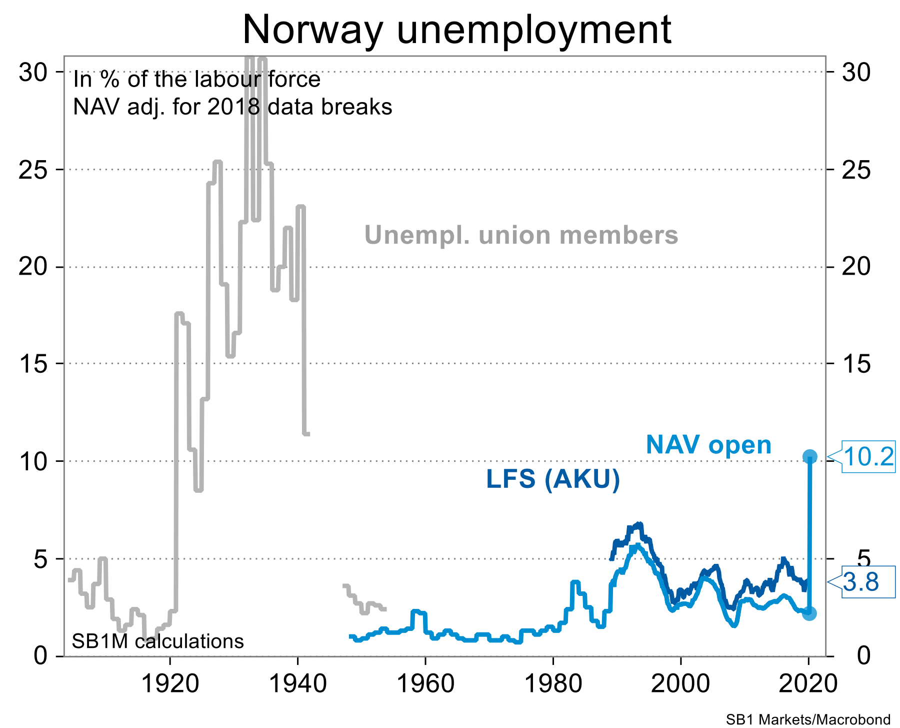




- The unprecedented hike in the new jobless claims the previous week at 3.3 mill were as expected by state data but the 6.6 mill extra last week was much higher than expected, in sum 10 mill, or 6% of the US labour force, in two weeks!!
  - Claims surged across the US and almost all states cited huge problems in service sectors due to Covid-19
  - During the financial crisis, jobless claimed peaked at 655' at one single week. *This shock is of course something totally different*
- We estimate <u>continued</u> claims have climbed to above 11 million last week, from 1.8 mill two weeks ago (the figure will be published coming weeks as the claims are processed), equalling almost 7% of the labour force, up from 1% two weeks ago! Norway has experienced an even steeper increase, from 2 to 12%
  - 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 probably rise to well above 10% in April, from 4.4% in March –and to even higher levels in April (and probably May)

# NAV unemployment sparked to 14%, the highest levels since the 30'ies

## Open unempl. soared to 300' persons in March - and 412' incl. partially unempl. and measures

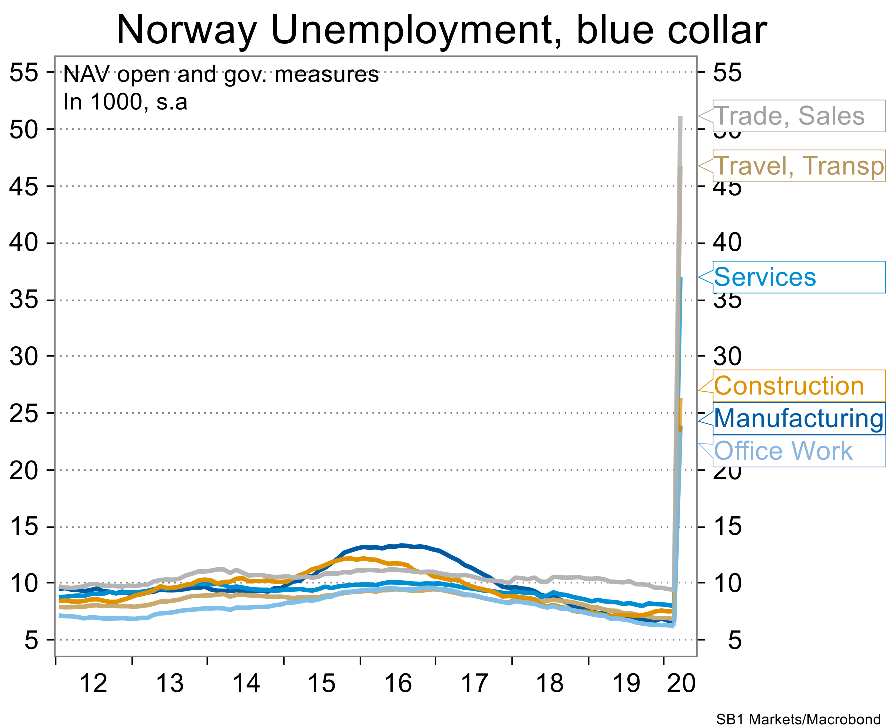


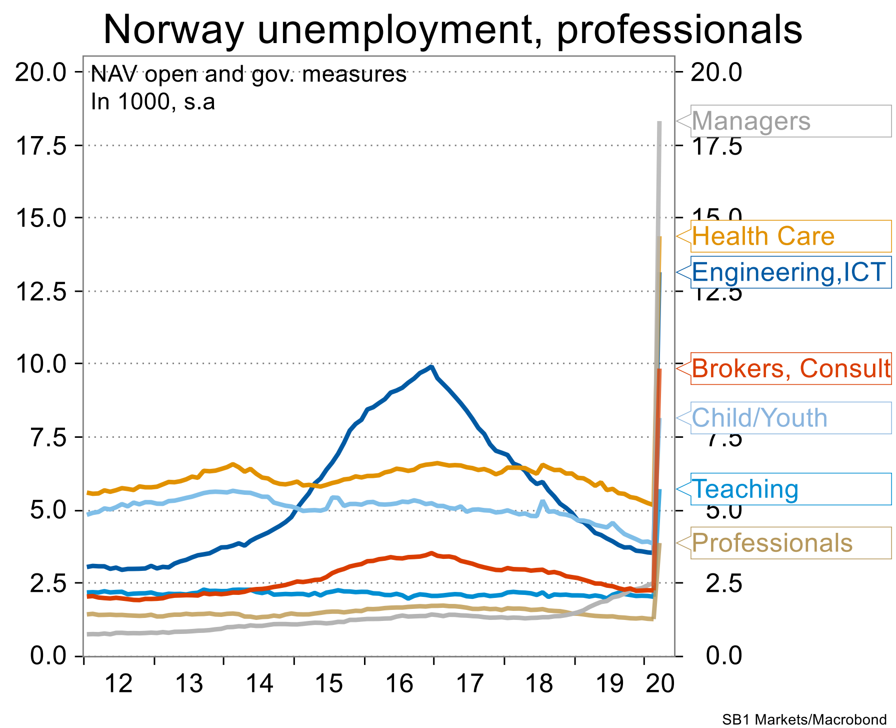




- NAV open unemployment soared by 240' persons in March from February, to 300'. The open unemployment rate rose to 10.2%, something we have not seen since the 30'ies (if we adjust the union members' unemployment rate to a total unemployment rate)
  - » The March outcome was actually somewhat lower than we estimated, as approx. 30' changed status to partially unemployed from total unemployed
  - » Since March 30, when these data were collected, NAV has received almost 30 000 new unemployment registrations, thus, the unempl. rate is already approx. 1 pp higher, at above 11%
- Including government measures and partially unempl., the number of unempl. is 412', equalling 14.3% of the labour force
- Unemployment will continue to climb the coming weeks, although the daily number of slowed to 8' per day last week, from 15' the prior week. We expect the open unemployment rate to climb to 14% in April and possibly towards 20%, the the 'lockdown' cont.

# ‘Nowhere to hide’, all sectors have been hit. Even those who shouldn’t??

## Retail trade, travel & transport and managers have been hit the hardest, even health is rising!??



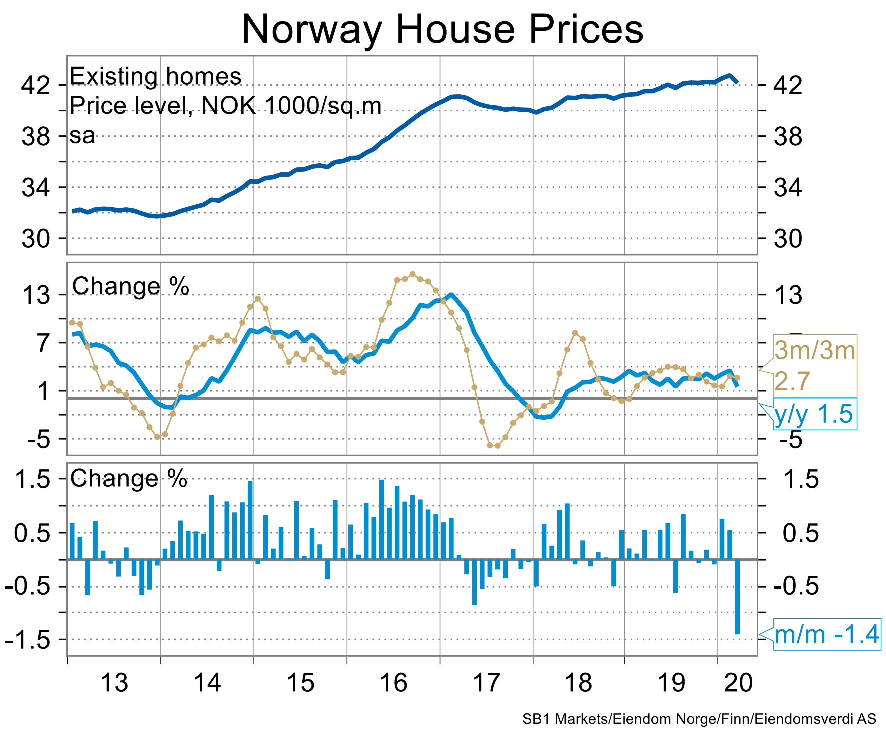



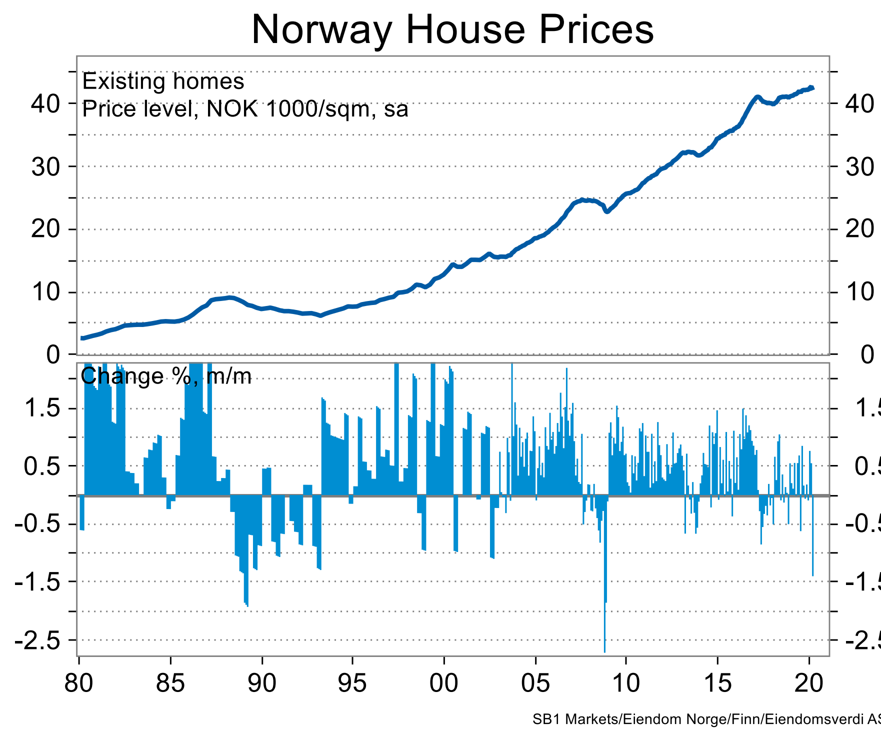

- Unemployment is increasing rapidly in all major sectors, to absurdly high levels (these time series only goes back to 2004)
- Blue collar: Unemployment among retail trade and sales workers have increased the most, the ‘stay home’ notion has hit shops hard. Unemployment is climbing in travel & transport and other services as well
- Professionals: Managers are suffering, and health care workers, probably not those who work in hospital and care homes but other health services which have been closed down, such as dentists, physiotherapy etc. We are surprised by the upturn among teachers but these are probably a lot of part time workers/temporary employed

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

# House prices dropped 1.4% in March, we assume at least 3% after ‘lockdown’

## Prices fell 1.4% m/m, the steepest monthly decline since the financial crisis




- **House prices** dropped 1.4% in March (nominally & seasonally adjusted). Given the implementations of the partial shutdown of the Norwegian society on March 12, we estimate at least a 3% decline after the corona measures were introduced (perhaps as much as 4% by the end of March). Annual rate at 1.5%, down from 3.5%, for the whole month
  - » Prices fell in all main cities/regions in March. Bodø, Asker&Bærum and Romerrike noted the steepest declines, Tønsberg, Fredrikstad the most modest
- The number of sales plunged to the lowest level since 2010. The number of new listings fell less, bringing the inventory of unsold homes up
- The Covid-19 impacts on the housing market are of course uncertain. We expect prices to drop the coming few months, at least by 2-3% per month. Soaring unemployment and rising uncertainties are curtailing demand, and the lower supply will not be sufficient to offset these impacts. Our base case is a short term hit – but the housing market is exposed if turns out to take longer than expected to a resume ‘normal’ activity

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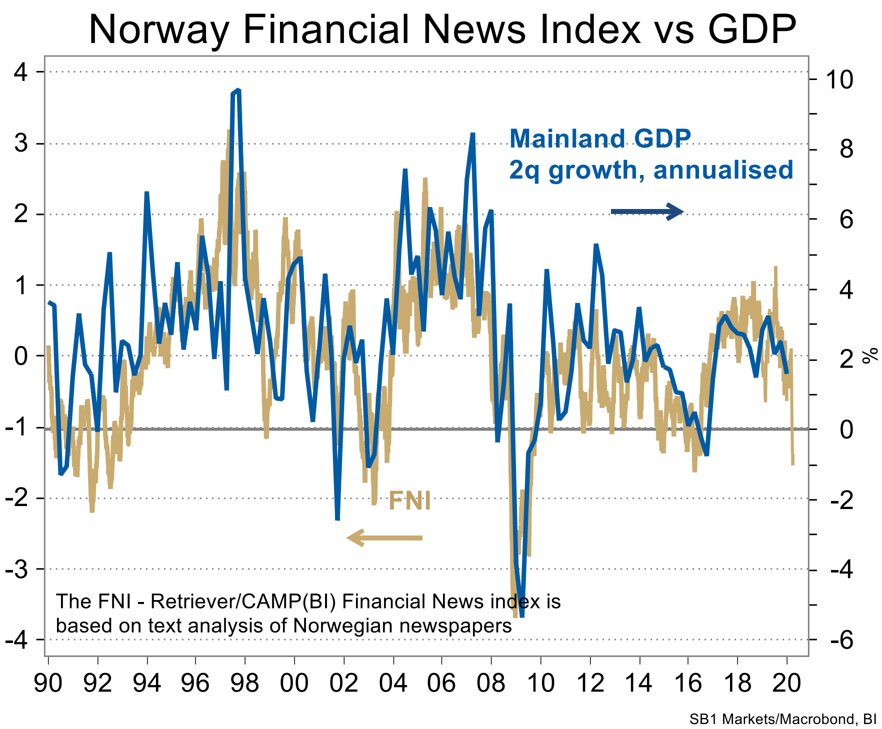
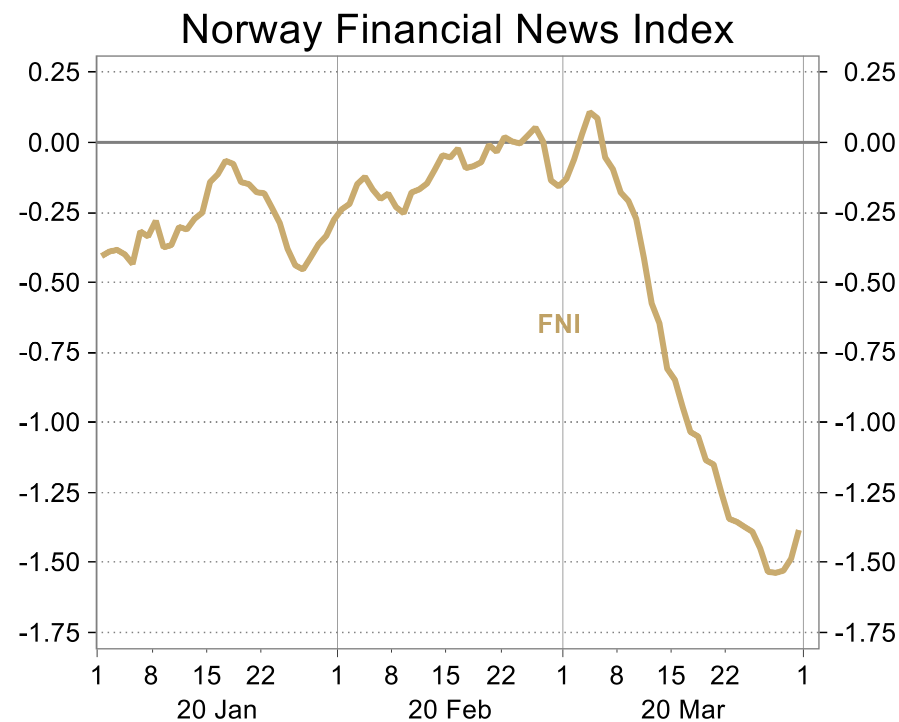
# The Financial News Index has stabilised, at not that low levels. Strange

The FNI has fallen on Covid-19, we are surprised the decline has not been much steeper




- 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 in Norway and globally, we are surprised the index did not fall by even more
- The level signals a moderate decline in GDP, we expect a much steeper decline

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)

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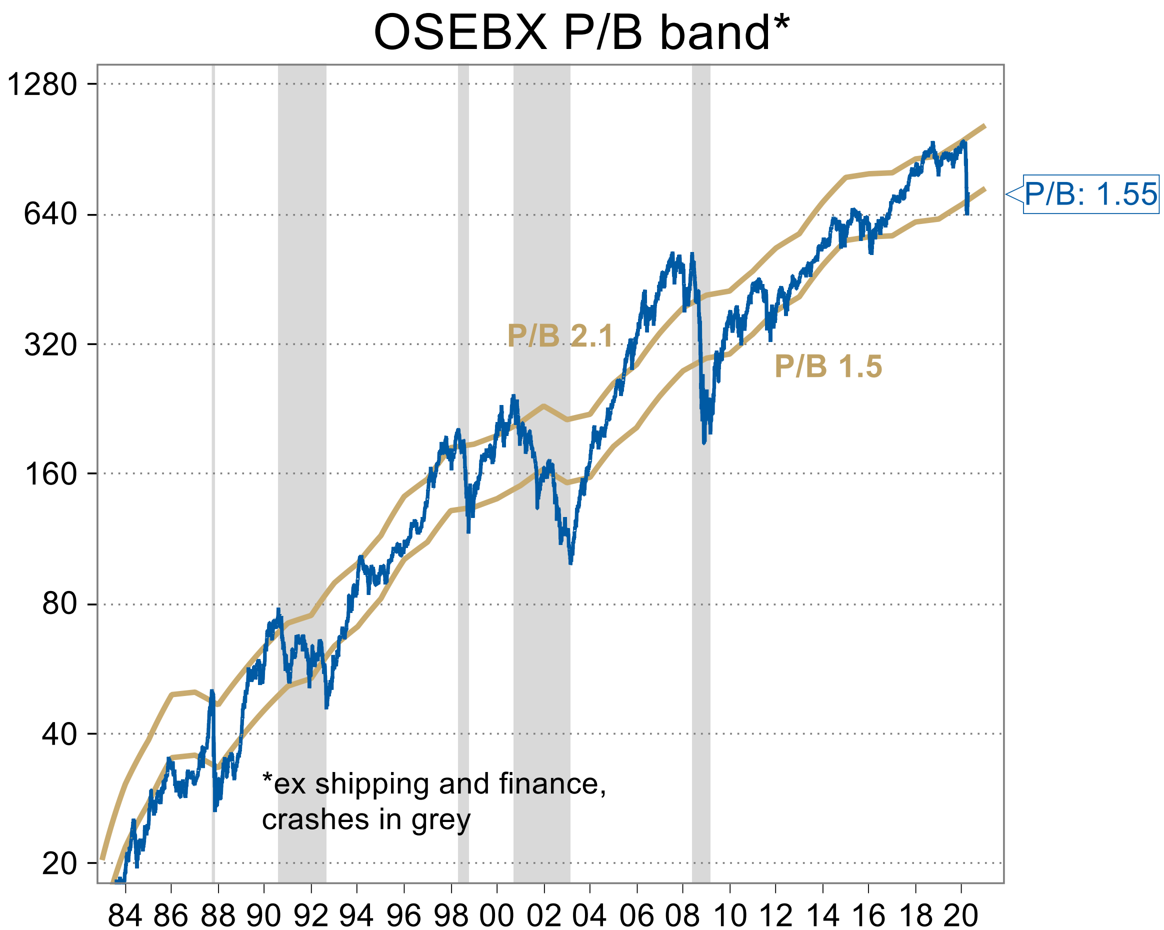
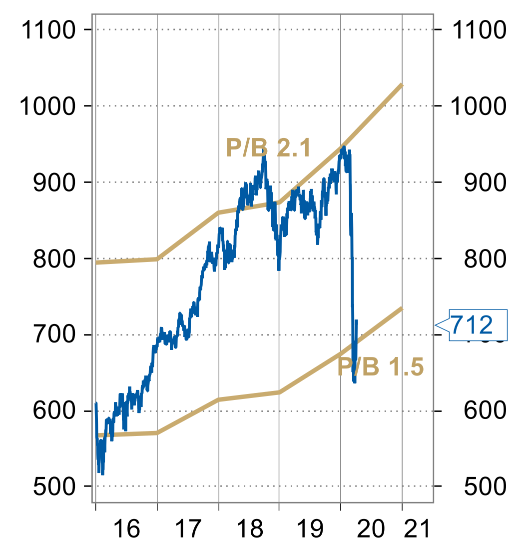
# Oslo Stock Exchange: Was expensive. Ain't that cheap now

*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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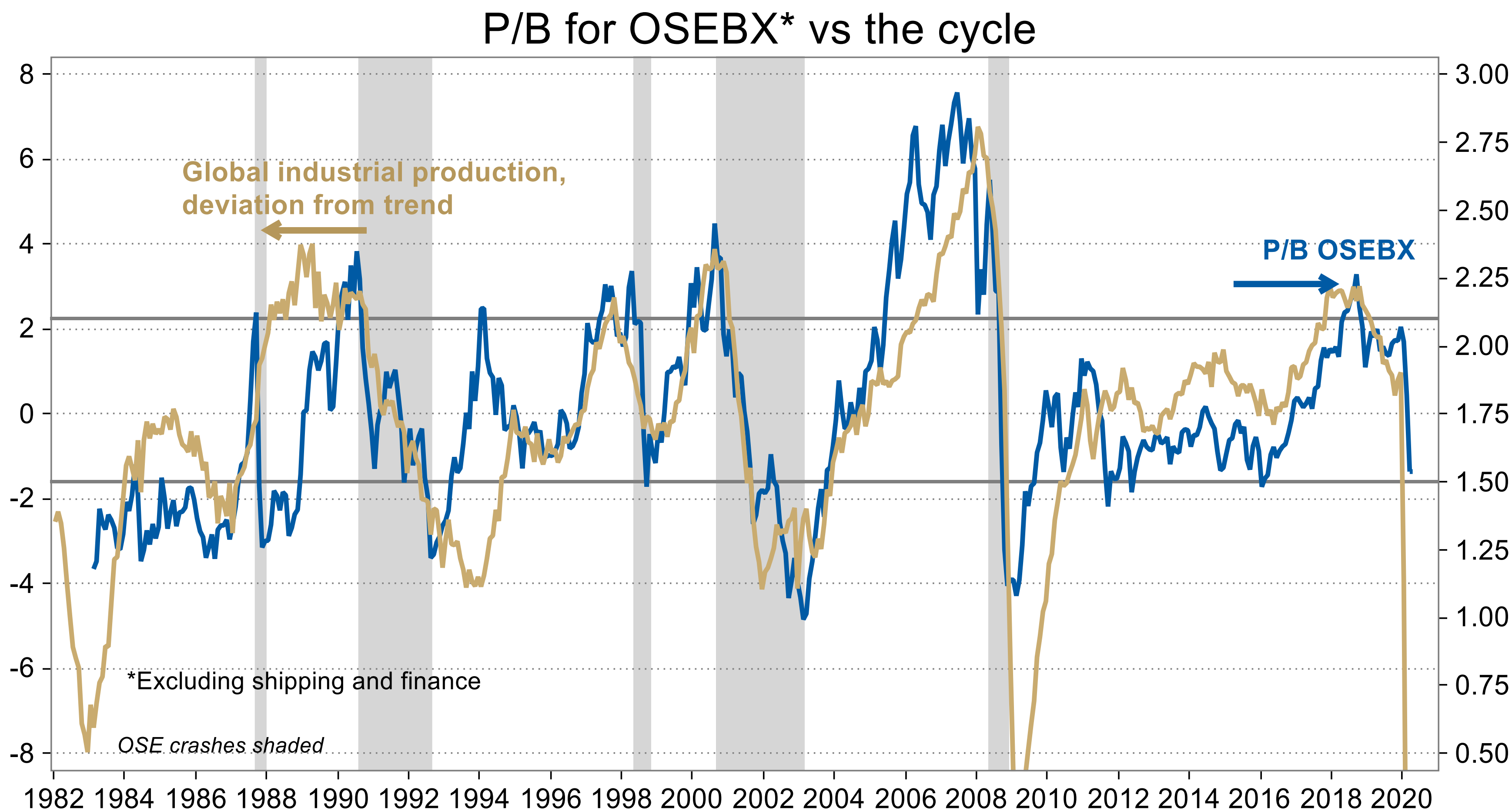
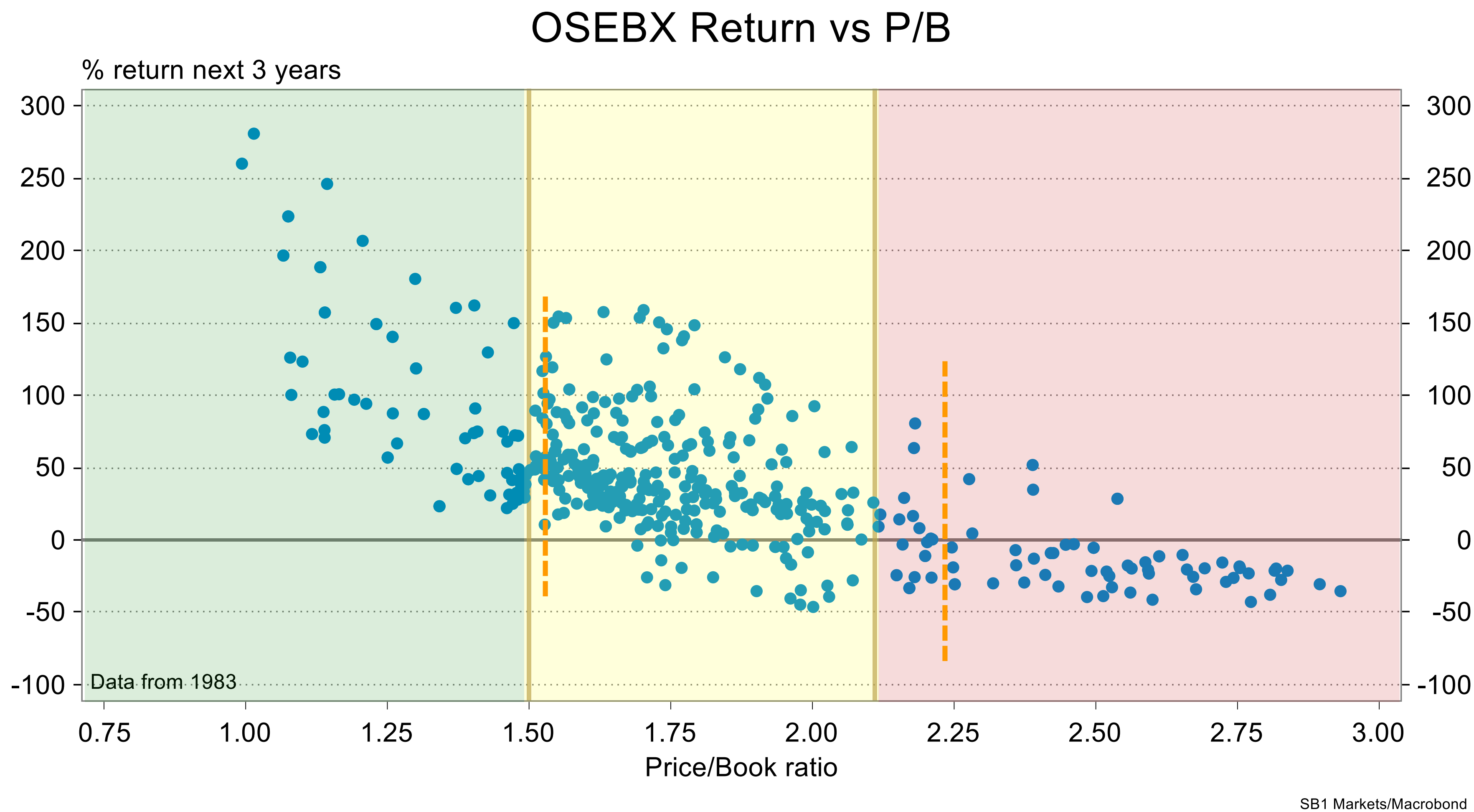
# The economy & the stock market: Some very common cycles




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

# The basic trick when investing: Buy cheap!




Source: SB1 Markets, Macrobond.

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# The Calendar

## In focus: China credit, US jobless claims, CPI inflation and CCI, Norwegian unemployment, CPI

| Time | Country | Indicator | Period | Forecast | Prior |
|---|---|---|---|---|---|
| TBA | CH | Aggregate Credit, CNY | Mar | 2800.0b | 855.4b |
| **Monday Apr 6** | | | | | |
| 08:00 | GE | Factory Orders MoM | Feb | -3.0% | 5.5% |
| **Tuesday Apr 7** | | | | | |
| 08:00 | GE | Industrial Production MoM | Feb | -0.8% | 3.0% |
| 08:00 | NO | GDP Mainland MoM | Feb | -- | 0.2% |
| 08:00 | NO | Manufacturing Production MoM | Feb | -- | 0.4% |
| 09:30 | SW | Industrial Orders MoM | Feb | -- | 3.5% |
| 10:00 | NO | Registered Unemployment, Weekly | Mar-06 | 13.0% | 10.7% |
| 16:00 | US | JOLTS Job Openings | Feb | -- | 6963 |
| 16:00 | WO | Global sector PMIs | Mar | | |
| **Wednesday Apr 8** | | | | | |
| 01:50 | JN | Core Machine Orders MoM | Feb | -2.9% | 2.9% |
| 08:00 | NO | CPI YoY | Mar | 0.8% | 0.9% |
| 08:00 | NO | CPI Underlying YoY | Mar | 2.1% | 2.1% |
| 20:00 | US | FOMC Meeting Minutes | Mar-18 | -- | -- |
| **Thursday Apr 9** | | | | | |
| 08:00 | GE | Trade Balance | Feb | 16.0b | 13.9b |
| 10:30 | UK | Manufacturing Production MoM | Feb | 0.1% | 0.2% |
| 14:30 | US | PPI Final Demand YoY | Mar | 0.5% | 1.3% |
| 14:30 | US | PPI Ex Food and Energy YoY | Mar | 1.2% | 1.4% |
| 14:30 | US | Initial Jobless Claims | Apr-04 | 5000k | 6648k |
| 14:30 | US | Continuing Claims | Mar-28 | -- | 3029k |
| 16:00 | US | UoM Consumer Sentiment | Apr P | 80.0 | 89.1 |
| **Friday Apr 10** | | | | | |
| 03:30 | CH | PPI YoY | Mar | -1.1% | -0.4% |
| 03:30 | CH | CPI YoY | Mar | 4.9% | 5.2% |
| 08:45 | FR | Manufacturing Production MoM | Feb | 0.7% | 1.2% |
| 14:30 | US | CPI YoY | Mar | 1.6% | 2.3% |
| 14:30 | US | CPI Ex Food and Energy YoY | Mar | 2.3% | 2.4% |

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

- **China**
  - **China** reported steady credit growth in the midst of the economic standstill in February, the impacts the coming months are uncertain
  - **Core CPI inflation** cooled in February whereas total inflation remained elevated, due to soaring food prices. Another tick down for core inflation in March should be expected
- **US**
  - **Initial jobless claims** are soaring to levels we have never seen before and there are no reasons to not expect another jump this week
  - Covid-19 will have sweeping effects on **consumer confidence** and the first April survey from UoM could easily drop 20 p or more
  - We doubt **core CPI inflation** was heavily affected by the pandemic in March, however, the coming months, a downward drag is inevitable. Total inflation will decline on energy prices. Long term inflation exp. have fallen to below 1%
- **Eurozone**
  - **Data on German** industrial production, orders and exports in February are rather useless now, as the Covid-19 impacts were muted at this time
- **Norway**
  - **Registered unemployment** is increasing at an absurd pace, we expect an uptick to some 13-14% this week and a peak at close to 20%
  - An extremely weak NOK will offset some of the negative impacts on **core inflation** the coming months. Still, we doubt core price growth will accelerate, as businesses are having huge difficulties passing on higher import prices to the consumer level
  - **Manufacturing production** was not his by the virus crisis in February but production growth was already on a downward path

# 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 -2 to -3% y/y in 2020 (from 2.8% before corona), the uncertainties are extreme** | **Global composite PMI** tumbled to 39.4 in March, the lowest level since the financial crisis. The world ex China index fell even more, to 37.6, as the Chinese PMIs rose following the economic standstill in February. The service industry noted the sharpest contraction since the PMIs were first released in '98 |
| 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** | The Chinese PMIs rose rapidly but the levels were not impressive. The NBS survey at just above 50 indicates a modest rebound in activity from February to March. Markit's PMI, which includes more smaller companies, noted another decline in March |
| 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** | Jobless claims are increasing at an unprecedented speed, 10 mill (6% of labour force) past two weeks! Nonfarm employment fell 701' in March but the real figure is -8 to 9 mill? Markit's PMI steeply down, ISM more modestly but details weak |
| 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 fell even more than first reported, as we expected, and Italy was a complete disaster, with a services PMI at 17. Manufacturing PMI weaker than |
| 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 and now much faster than expected. 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. Our base case is some 4% drop in Mainl. GDP in 2020** | Unemployment is soaring to levels we have not since the Great Depression, now at 14%. More to come. House prices decreased by 1.4% m/m in March, we assume at least -3% 'after corona' |

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

# In this report

## Global data, corona, PMIs

- Corona curves are flattening but at disastrously high levels some places
- Are we heading for a U, V, or W? Or an L? Depends on the length of lockdowns
- The Chinese economy is slowly gaining speed, still far from fully back
- Global retail sales and industrial production collapsed in February
- Global PMI dives on corona shock
- 18 PMIs down, 5 up in March, Developed markets down to 2009 levels
- Covid-19 and mitigation measures hammer global service sectors
- Chinese PMIs indicate a limited recovery in March
- US Manufacturing ISM fell just modestly in March – survey details weaker
- The non-manufacturing ISM fell just to 52.5, not capturing the full corona impact
- The NY Fed's Weekly economic indicator shows a much steeper decline
- Eurozone PMIs mirror an unprecedented drop in activity
- Norwegian manufacturing PMI down the drain, other surveys to follow
- Global auto sales probably down 20% in March, more to come
- European auto sales down 50%

## US

- Steepest drop in employment since 2009 (and it was actually much steeper)
- Another unprecedented spike in jobless claims, unemployment up to 15%?
- Conference Board's consumer sentiment fell less than expected in mid March
- Pending existing home sales rising rapidly
- House price inflation has been gaining pace
- The trade deficit is shrinking as imports wane
- Nowcasters starting to show the first corona impacts, MUCH more to come

## EMU

- EU economic sentiment weakens but much less than the PMI
- Consumer sentiment tumbles in March
- Retail sales picking up ahead of corona crunch
- Core CPI inflation down to 1.0% again
- Unemployment more or less flattened out – before the corona surge

## Japan

- Manufacturing struggles, retail fully recovered from VAT hike, before corona

## Norway

- NAV unemployment sparked to the highest levels since 1940
- House prices dropped 1.4% in March, we assume some 3% after 'lockdown'
- OBOS Oslo apartment prices down 2.3%
- Credit growth is waning, corporates the main drag, even before corona hit
- The Financial News Index drops but not more than to 2016 levels

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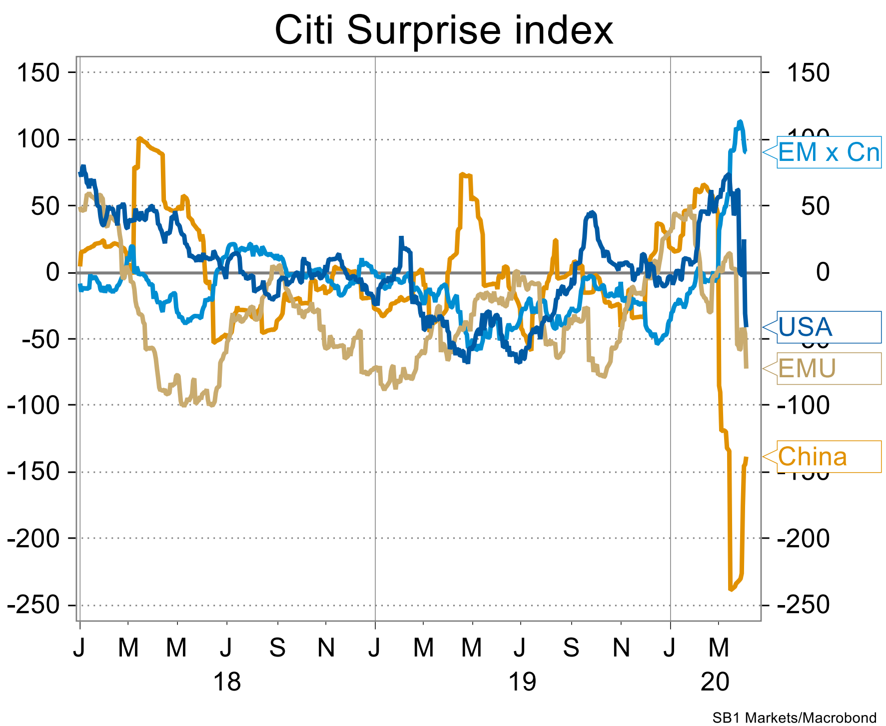
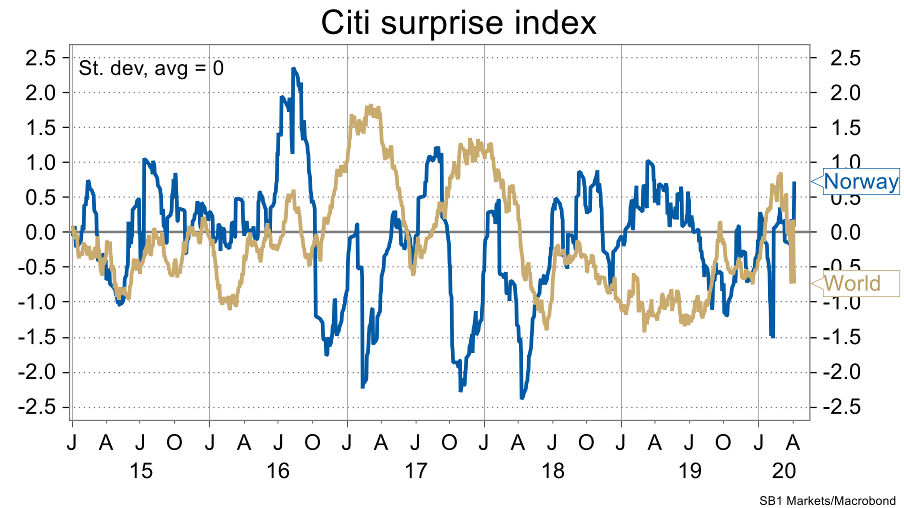
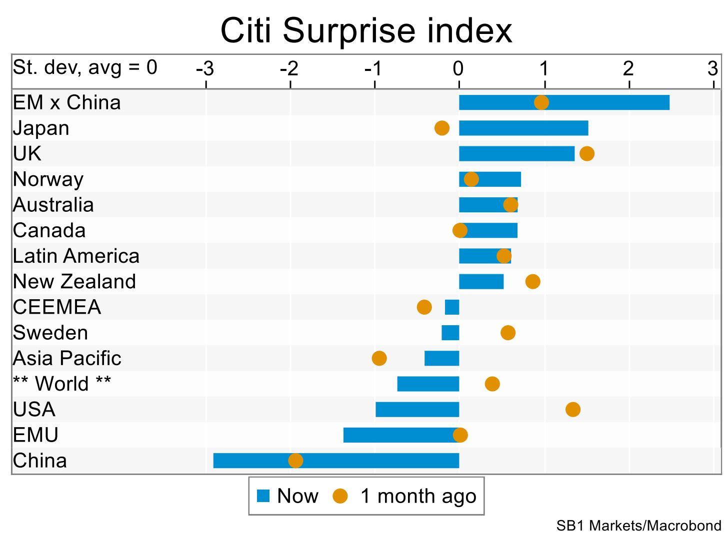
# Global macro data flows are diving, as expectations are not slashed fast enough

## The Chinese PMIs sent the surprise index up – expectations were far too low, in our view



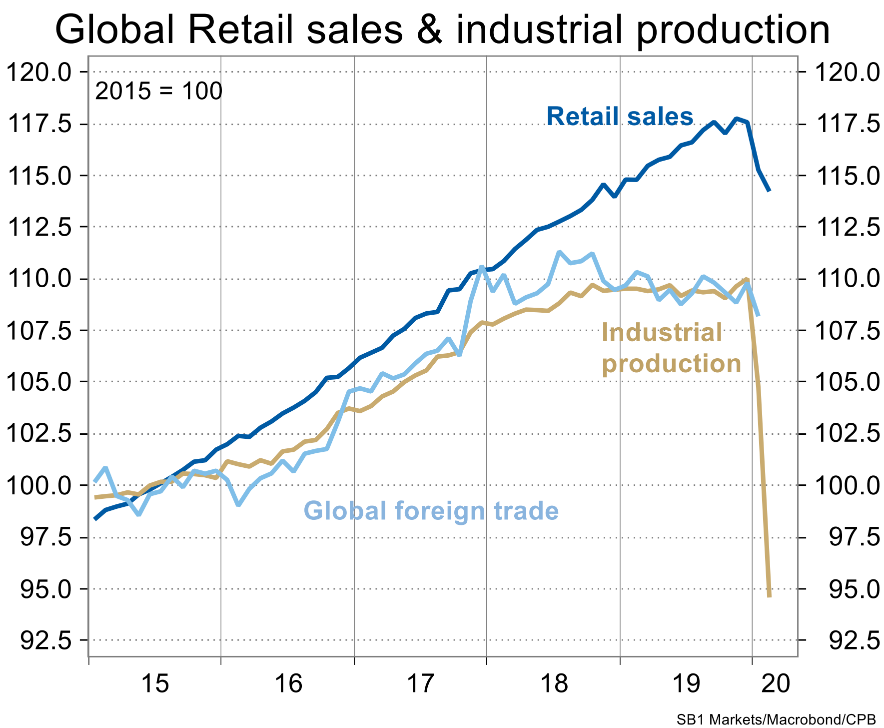



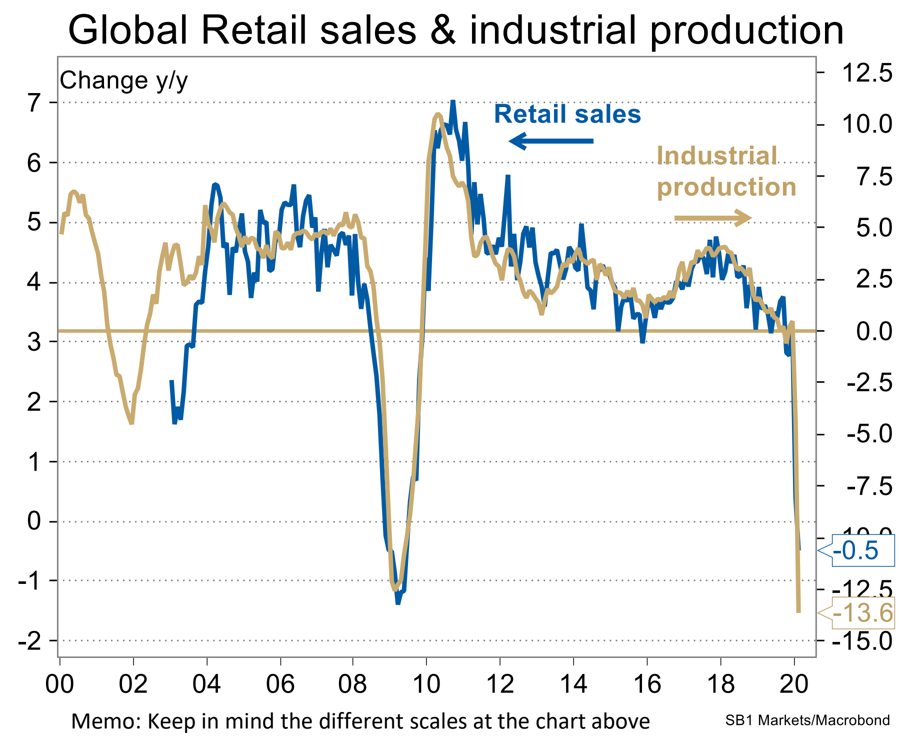

- Global macro data were in sum been better than excepted in early 2020. Since February, the index has been plummeting as data are starting to reflect the economic impacts of the corona crisis
- The PMIs sent the Eurozone and US surprise indices down
- The Chinese index rose last week due to an upturn in the Chinese PMIs in March. The index is still well into read. 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 more upbeat vs expectations, for no good reason, given PMI & recent unemployment data

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

# Global retail sales/industrial prod. sharply down in Feb, more to come in March

The Feb drop just due to China, which prob. stabilised in March. But then, other shoes fell

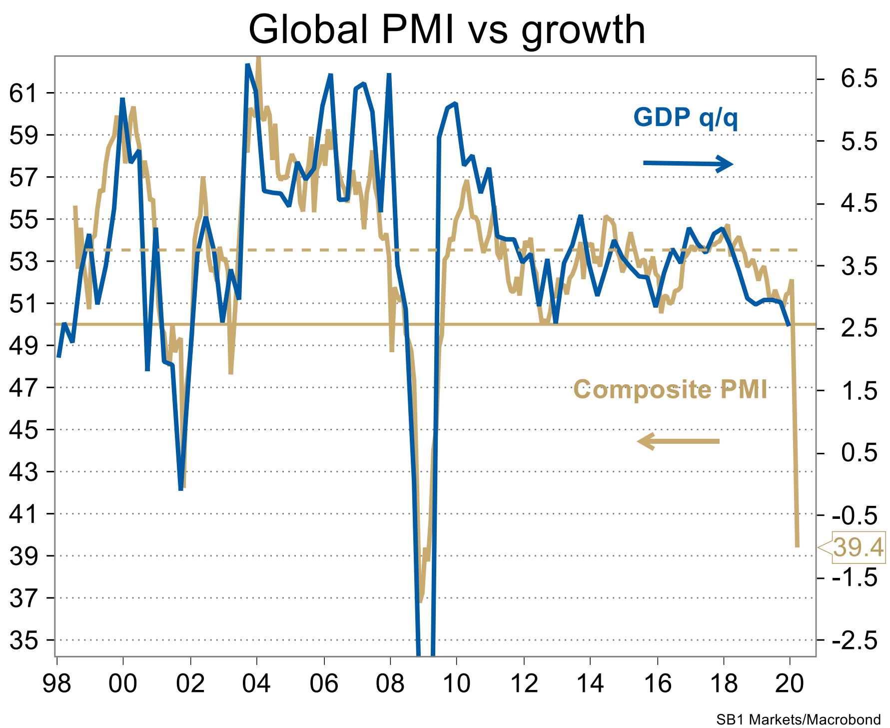


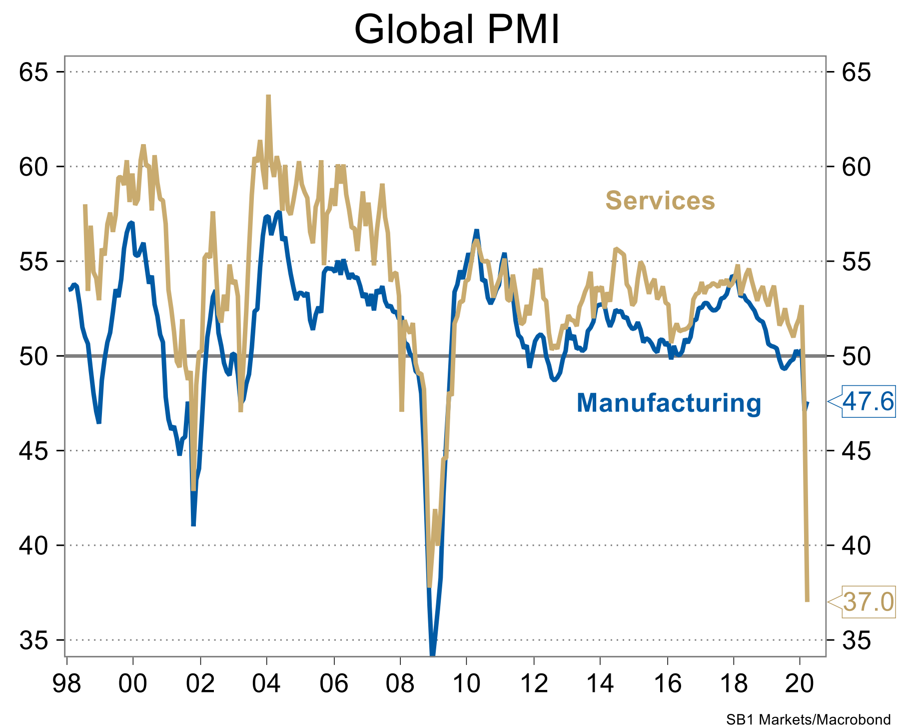




- **Global industrial production** fell by 4.8% m/m in January (our estimate). Production will no doubt plunge in February, we expect by some 10%, due to a collapse in Chinese production. In most other countries, production was not that heavily distorted by the coronavirus crisis in February – but it will in March. And in April, and most likely in May too
- **Retail sales** dropped 2% m/m in January and another 0.9% in February, according to our preliminary estimate. We suspect monthly Chinese retail data are not correctly reported, at least they are not confirmed by aggregated Jan-Feb YTD y/y data, which are much weaker
- **Global foreign trade** fell by 1.5% in January, Covid-19 will no doubt hit global trade hard, as the export orders PMIs confirm

# Global PMI dives on corona shock

## Global PMI down 6.7 p in March as service industries in the world ex China collapsed

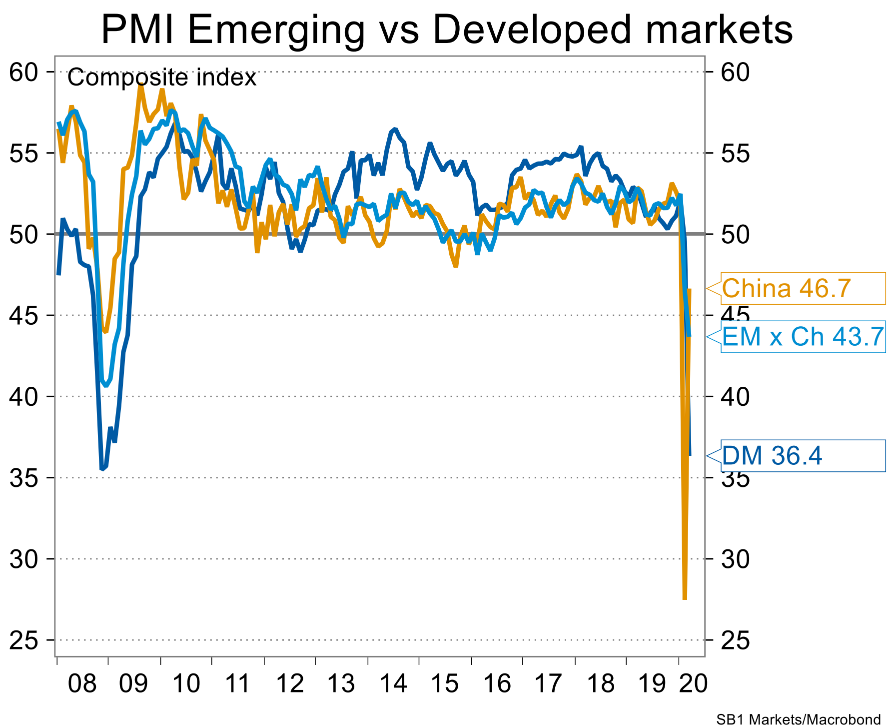


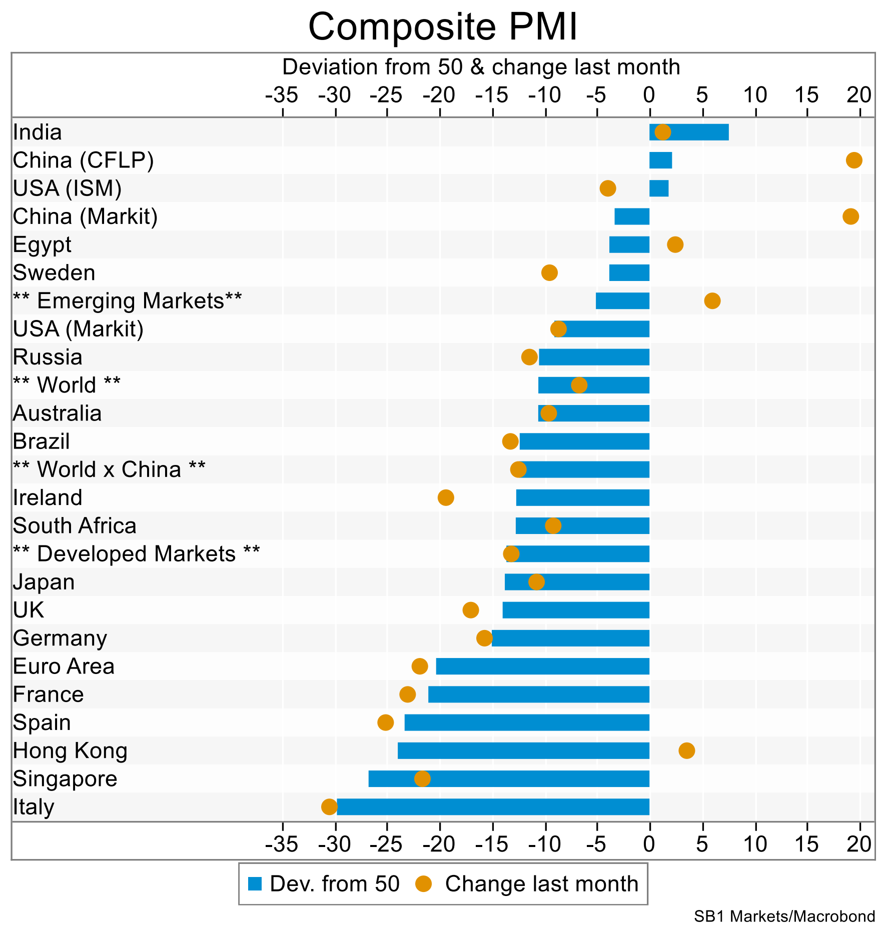




- Global composite PMI fell to 39.4, the lowest level since the financial crisis. The global economy is no doubt in a recession and the PMI is now probably not a good indication of the depth of the downturn, we expect a much steeper drop in GDP
- The March setback was broad, in fact, all countries (that report PMIs) barring China and India noted a contraction. The Eurozone, UK and Japan were hit the hardest, whereas a soft rebound in the Chinese PMIs lifted the global index. The world ex China PMI fell to 37.6
- Service industries are tumbling, the global services PMI fell below the 2009 levels, even with a 'boost' from the Chinese index, which rose to 43, from 26.5. Manufacturing PMI inched up but just due to China, most others reported falling activity. Delivery times have soared, and this time not due to a booming cycle. Excl. the delivery times sub index, the global manuf. PMI is at 45.5, not 47.6

# 18 PMIs down, 5 up in March, Developed markets down to 2009 levels

Just China and India above the 50-line, indicating growth, all others (barring irrelevant ISM) below




- European countries noted the most rapid declines in economic activity in March as Covid-19 rattled Italy, Spain, France and others. The US is hit hard as well, at least according to Markit's PMI. In average, Developed Markets' PMIs plunged to 36.4
- Emerging Markets edged up due to a lift in the Chinese PMIs, which was 'inevitable' as country was in full lockdown in March. India marginally up too, most other EM down

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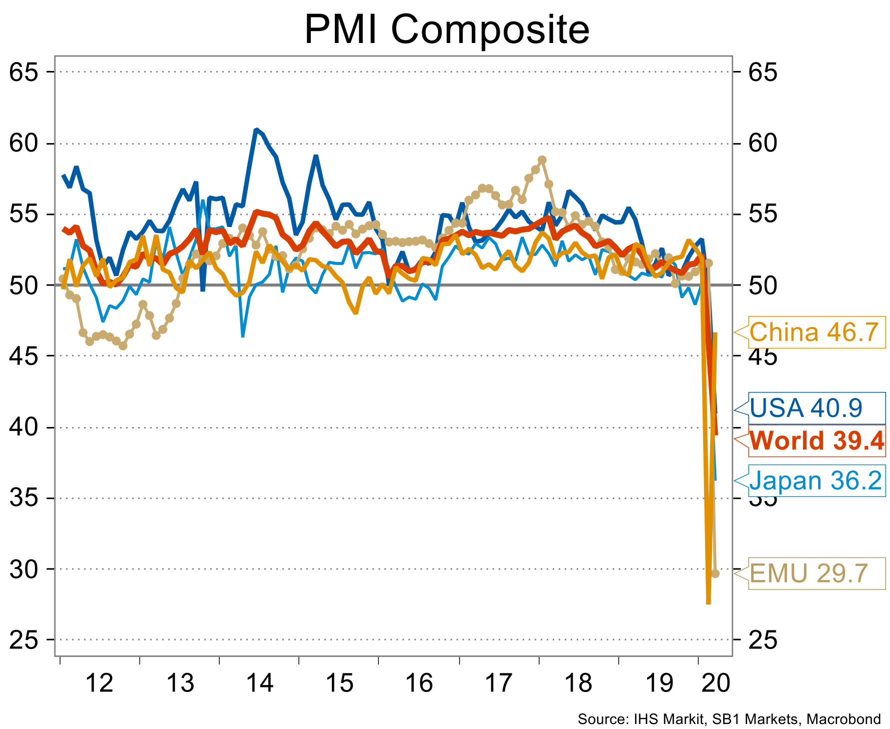
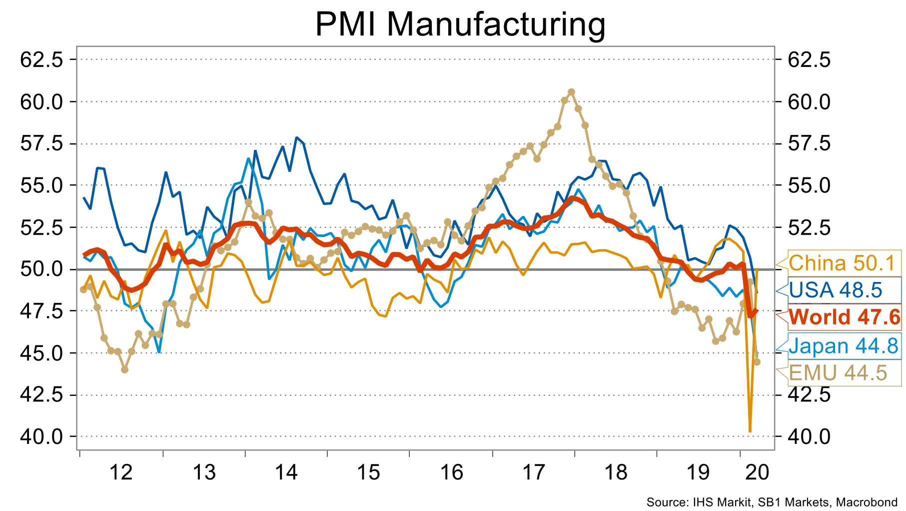
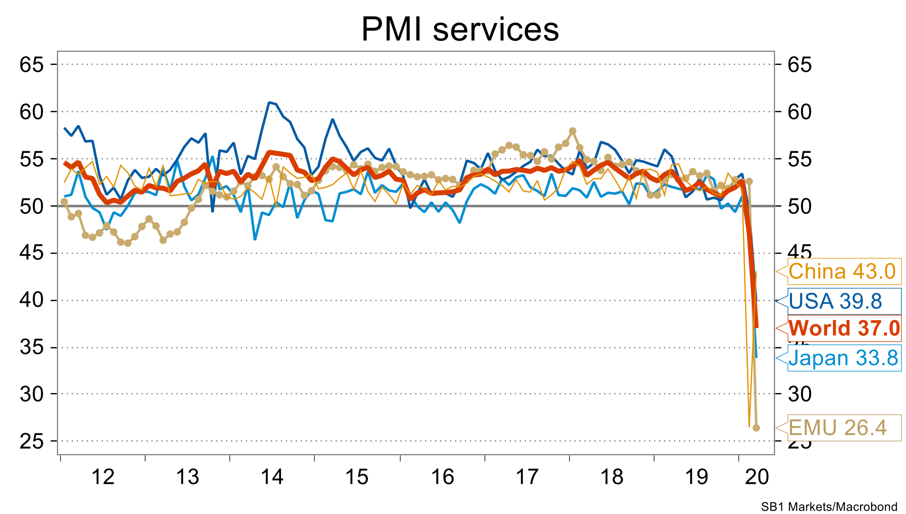
# Covid-19 and mitigation measures hammer global service sectors

PMIs plunged in the Eurozone, US, Japan – and China is not yet recovering, according to this survey



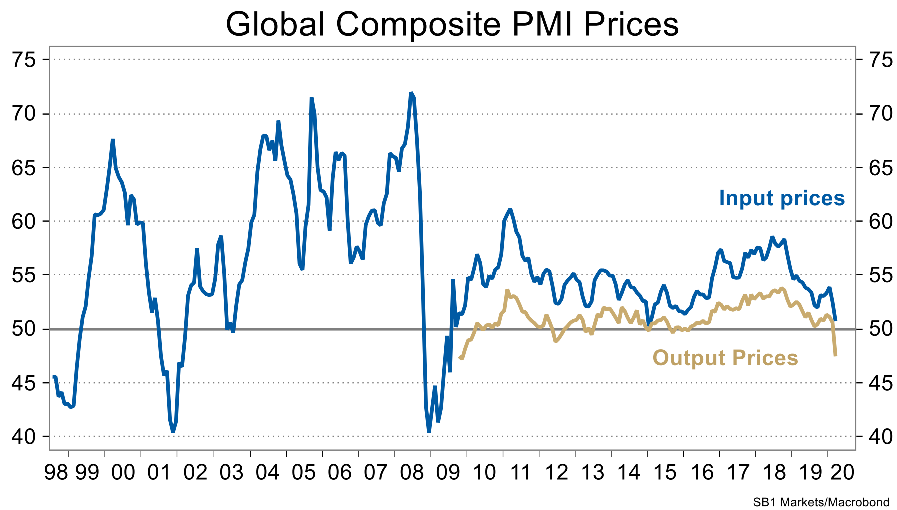



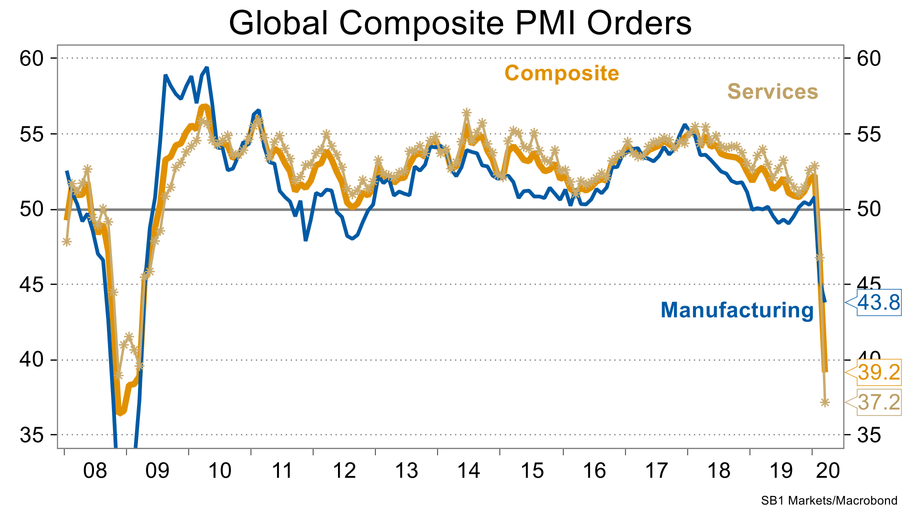



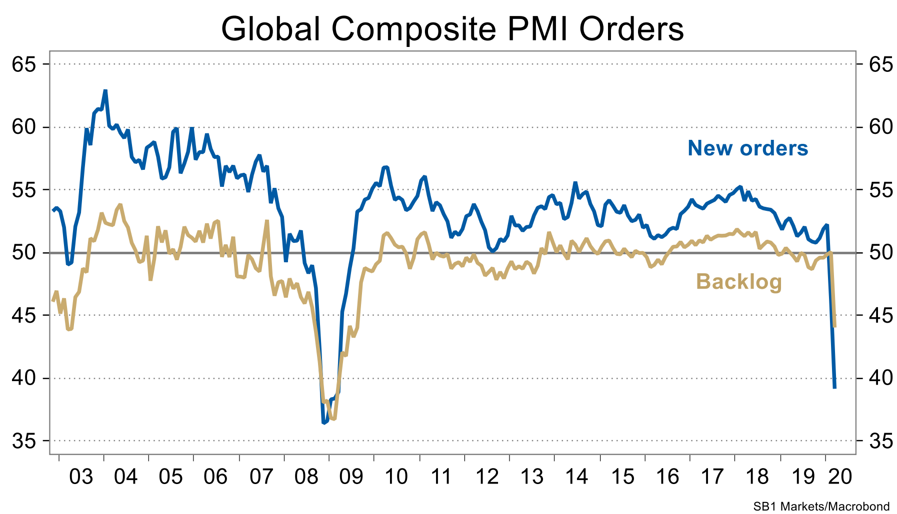

- Preliminary composite PMI dropped steeply in the Eurozone, UK, Japan and the US (Markit's PMI, not the ISM). The Chinese PMI jumped to 46.7, from 27.5 in February, however, we had expected PMIs at above 50, due to indications of a slow recovery. The current level mirrors another decline in activity from February to March (still, another Chinese PMI was more upbeat, check it out later in the report
- Services crashed, PMI at lowest level on record. Manufacturing is taking a hit as well, although less so than services. The manufacturing PMI masks a steeper decline, as longer delivery times artificially boosted the index

# New orders down the drain, prices stalling/declining – demand is crumbling

New orders fell rapidly in both sectors, services by the fastest speed we have seen



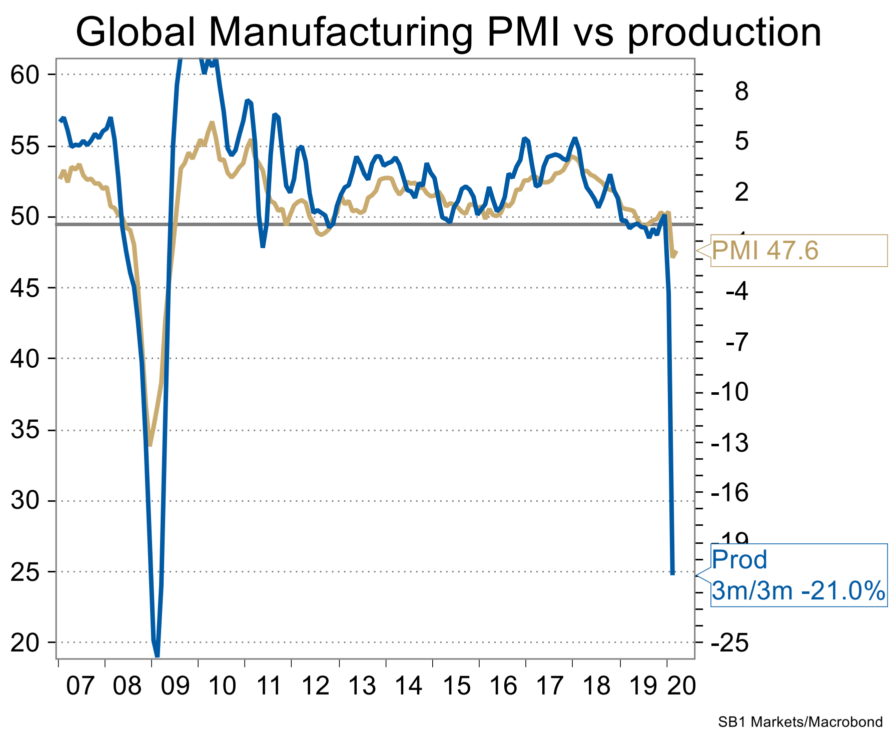



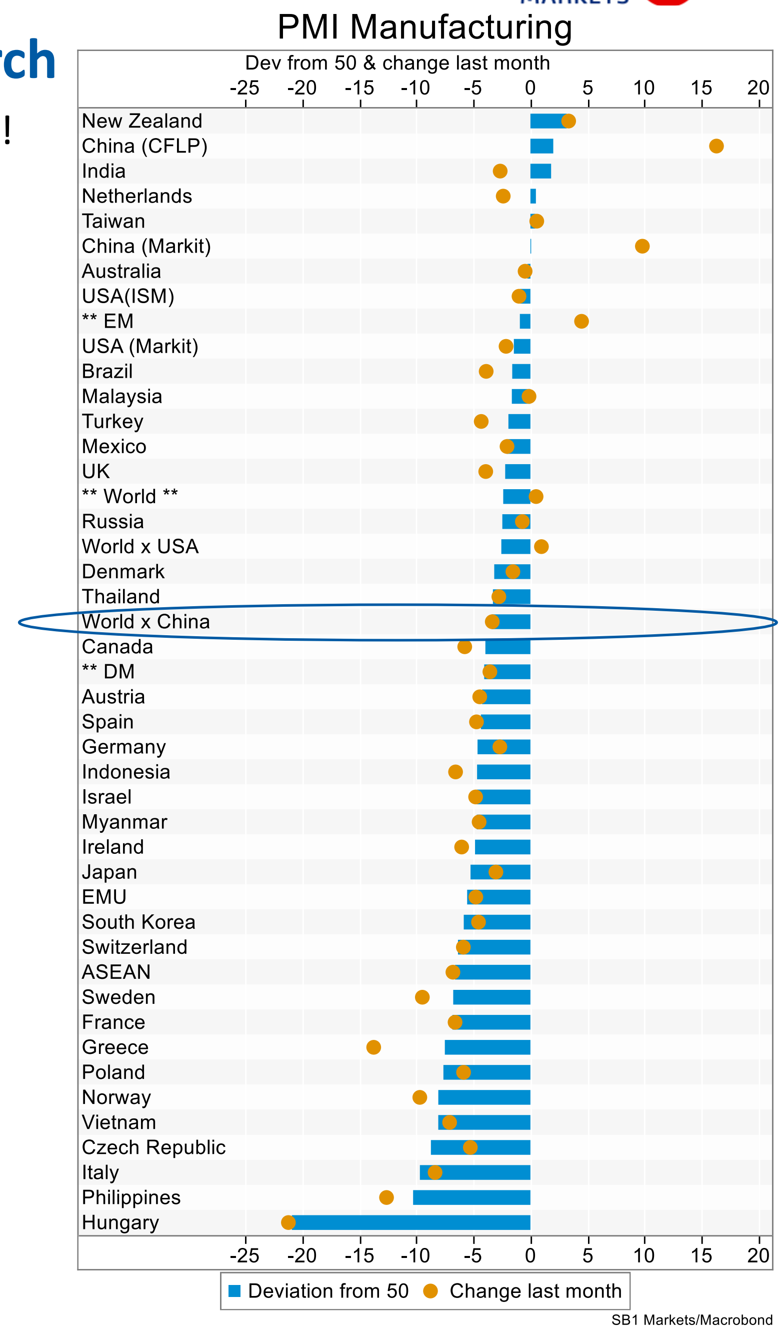




- The PMI manufacturing orders index dropped to 45.3, services to 46.8
- Input prices are more or less stagnating, whereas output prices are falling, surely a sign of absent demand

# Global manufacturing PMI saved by China in March

The manuf. PMI inched up but PMIs rose in just 5 countries, fell in 38!

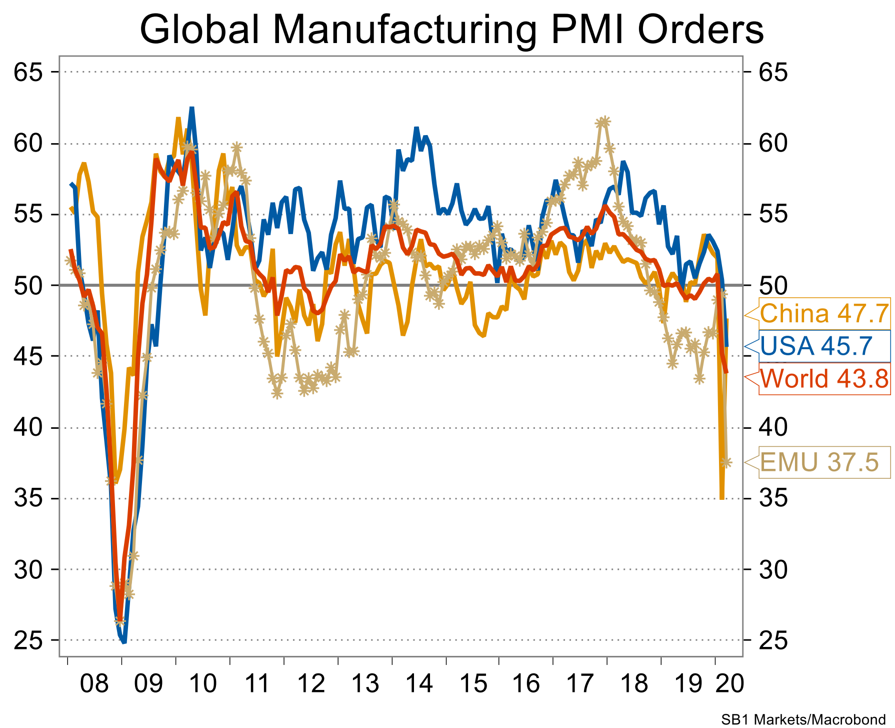


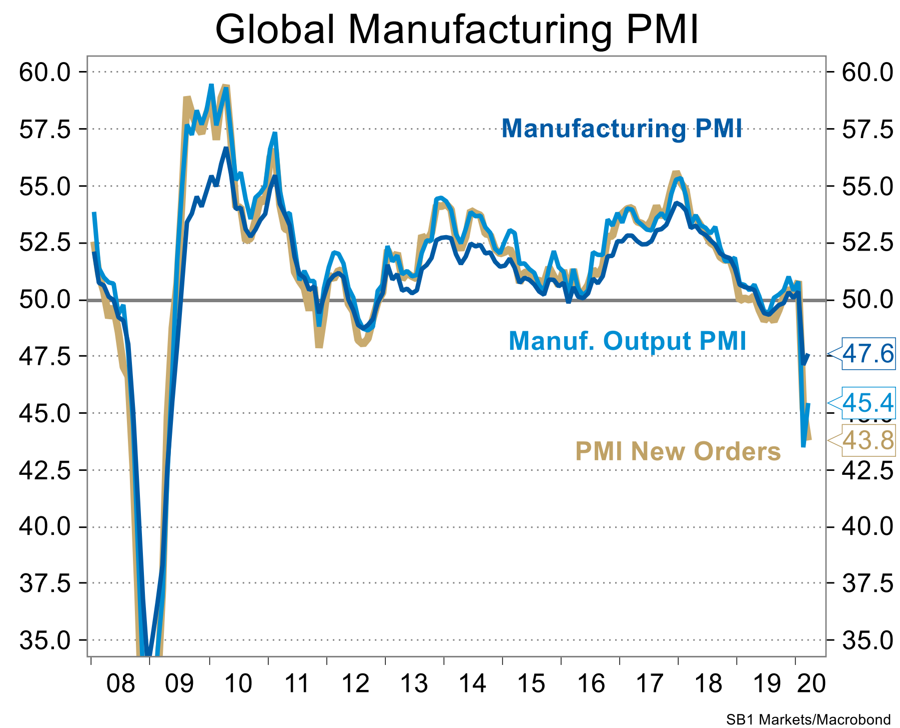




- PMI edged up 0.5 p to 47.6 in March, following the Feb plunge. Still, the world ex China fell by 3.4 p to 46.6 in March, to the lowest level since the financial crisis, and the ‘real’ decline was even steeper, as longer delivery times lifted the index. The Chinese manuf. PMI jumped 9.8 p, following the record low February. More on the Chinese PMIs later in the report
  - 38 (from 21) countries/region PMIs fell in March, just 5 increased (from 22)
  - 39 countries/regions are below the 50 line, just 4 above
  - Developed Markets fell 3.6 p, Emerging Markets up 4.5 p, just due to China

# Manufacturing details are weak, orders are tumbling

Global manufacturing orders PMI dropped to 43.8 even when including China

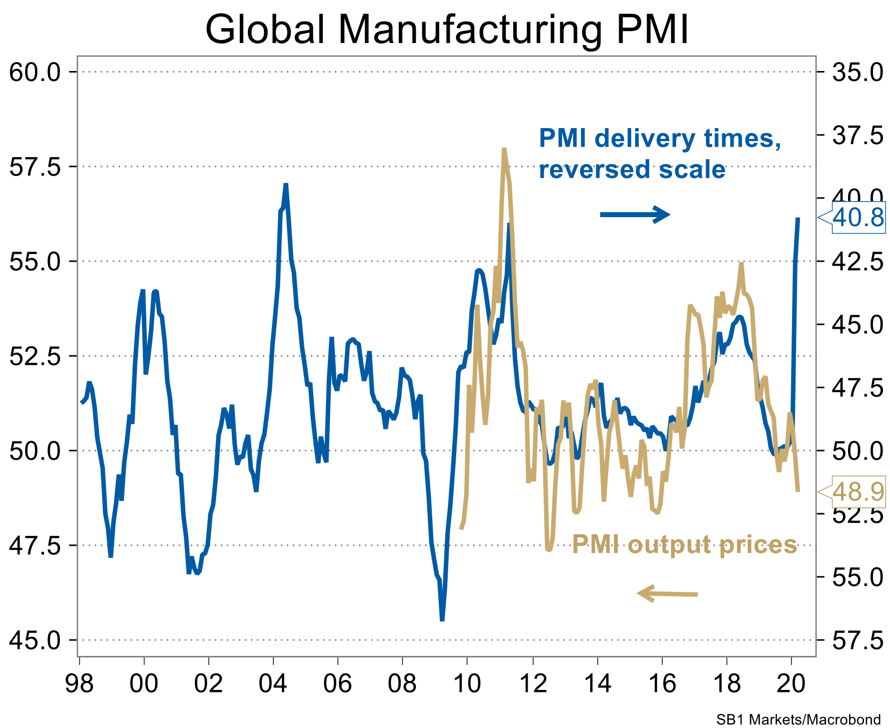


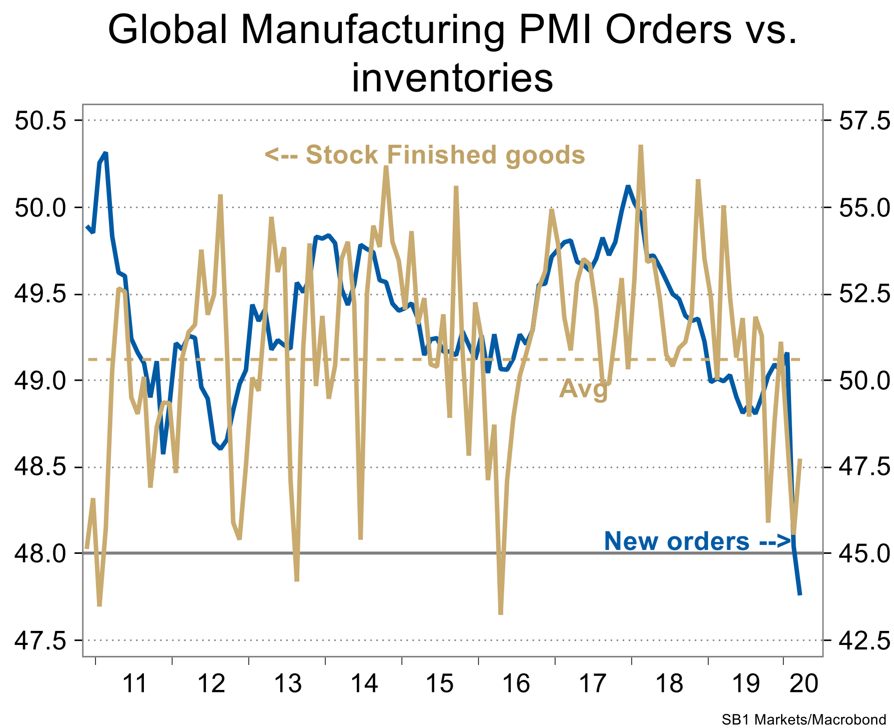




- The manufacturing output PMI is weaker than the headline index, as longer delivery times (due to corona distortions) are lifting the total manufacturing PMI

# Global delivery times are soaring, for obvious reasons

Covid-19 has caused huge supply chain delays and global inventories have been reduced




- A decline in stocks of finished goods are good news these day.
- Output prices are declining moderately

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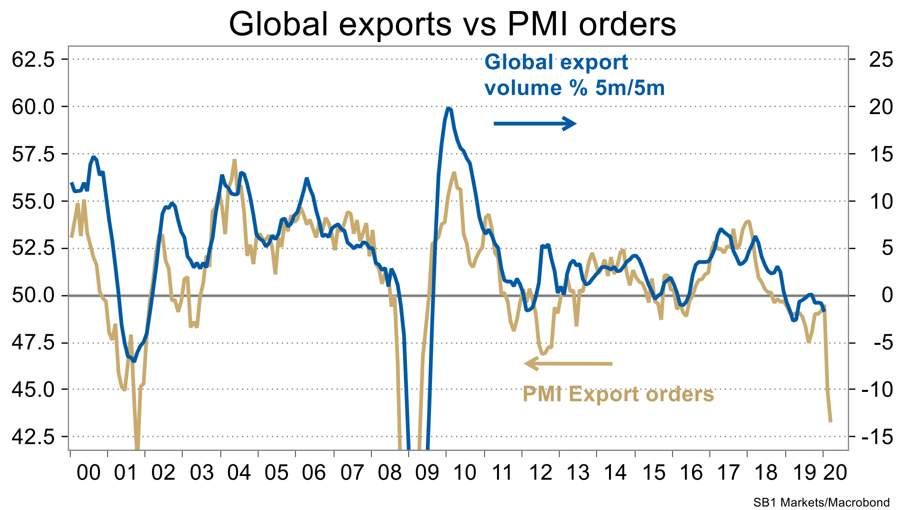
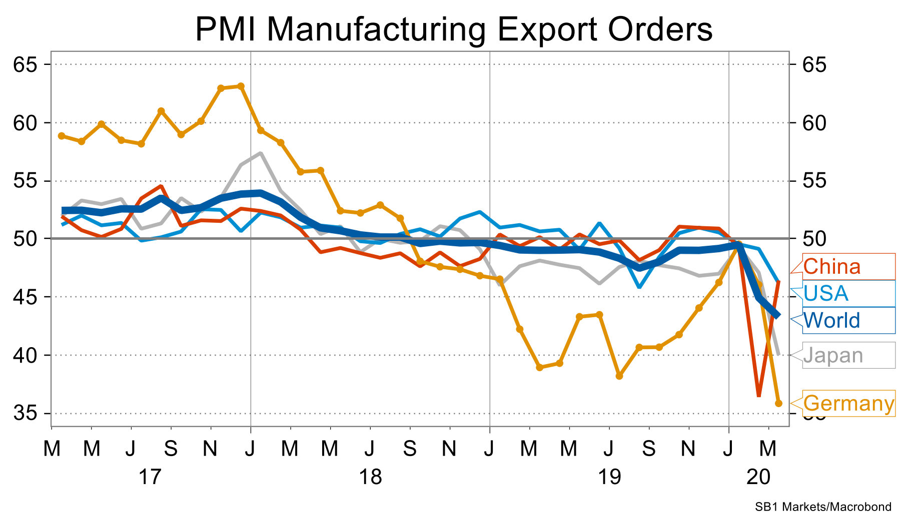
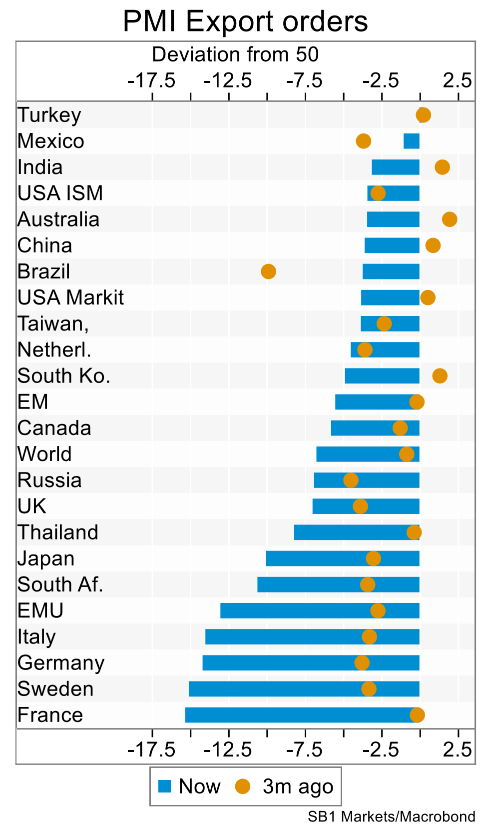
# Global trade hit hard by corona, export orders are declining everywhere

## Export orders PMI dropped to 43.3 in March, suggesting almost a 15% decline in global exports



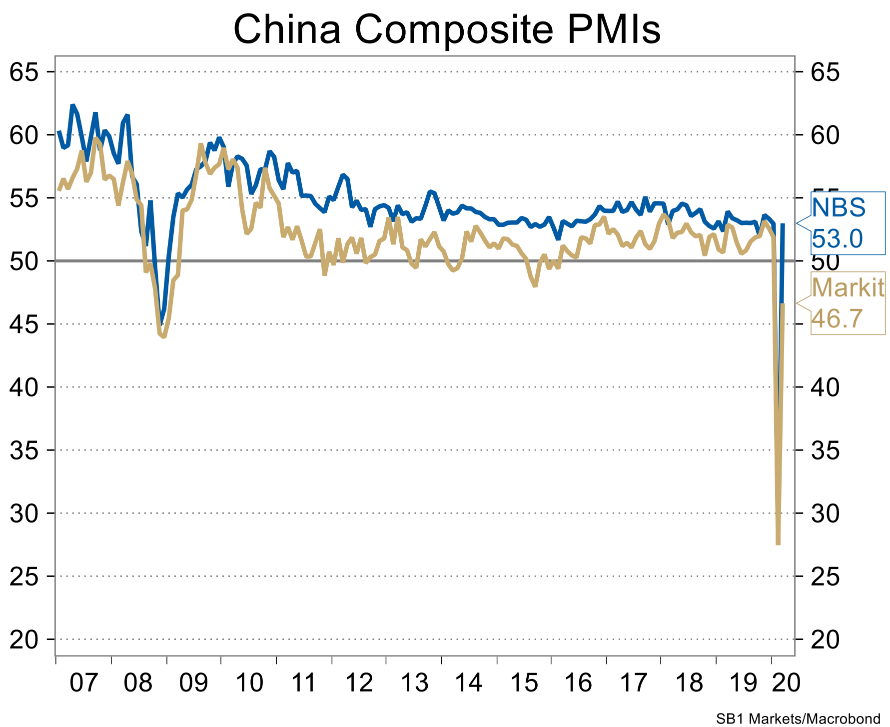



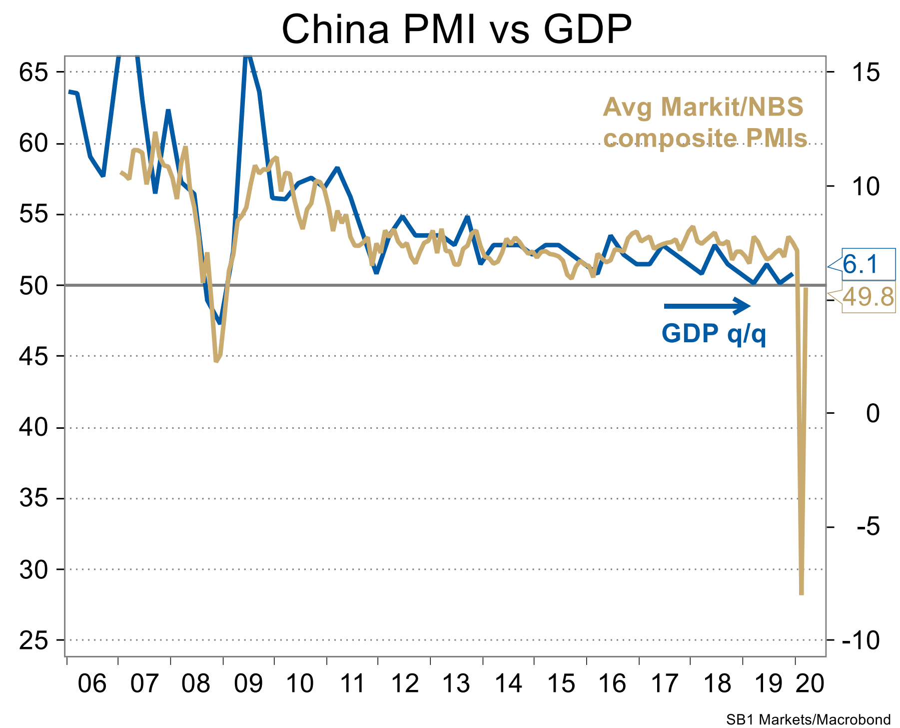

- We do not have much data on actual global export volumes from after corona really hit, the latest data are from January
- In March, the global export orders PMI fell to 43.3, implying the steepest drop in trade flows since the financial crisis
- All major countries reported declining export orders in March, barring Turkey
- European countries reported the steepest drops in foreign orders, which is not surprising given the Covid-19 acceleration in March
- The Chinese export orders PMI rose in March but indicated another decline in export orders, following the February plunge



# Chinese PMIs indicate a just a limited recovery in March

## The NBS survey noted a modest rebound in activity, Markit's PMI reported another slip, on services




- The NBS' 'official' composite PMI (CFLP) bounced up to 53 in March, from 28.9. Both services and manufacturing reported a modest increase in activity following the steep drop in February. Even as the composite PMI is back at the 'pre corona' level, it does not imply that activity is anywhere close to these levels, just that businesses are slowly resuming operations (slightly more than half reported an increase vs February).
- Markit's composite PMI climbed to 46.7, well above expectations. However, we find this index to be on the surprisingly weak side, as it reflects that activity shrank further, even as cities began lifting the lockdowns in March and businesses reopened
- In sum, the PMIs suggest that the economy is slowly restarting as workers return to factories, however, the service sector remains sluggish. Moreover, the larger, state owned enterprises (which the NBS survey is concentrated towards) are slowly resuming operations, while smaller, more export oriented businesses (Markit's PMI) are struggling heavily

# CFLP reports a modest rebound in domestic demand, Markit another drag

## The global spread of Covid-19 in the rest of the world is now slowing the Chinese recovery



- The manufacturing order indices were mixed in March, Markit's PMI surprisingly weak, CFLP/NBS at a decent level
  - » The total order index in Markit's PMI rose to 47.7, from 34.9 in Feb, implying another decline in new orders from February to March Export orders fell somewhat more than domestic orders
  - » The NBS/CFLP order index slipped rose to 52, indicating a modest increase in orders, from a record steep drop in February. Export orders PMI up to 46.4, implying another month of declining exports
- Export orders are now the major drag implying that plummeting global demand is now holding back the pace of recovery in China. However, domestic demand still struggles heavily

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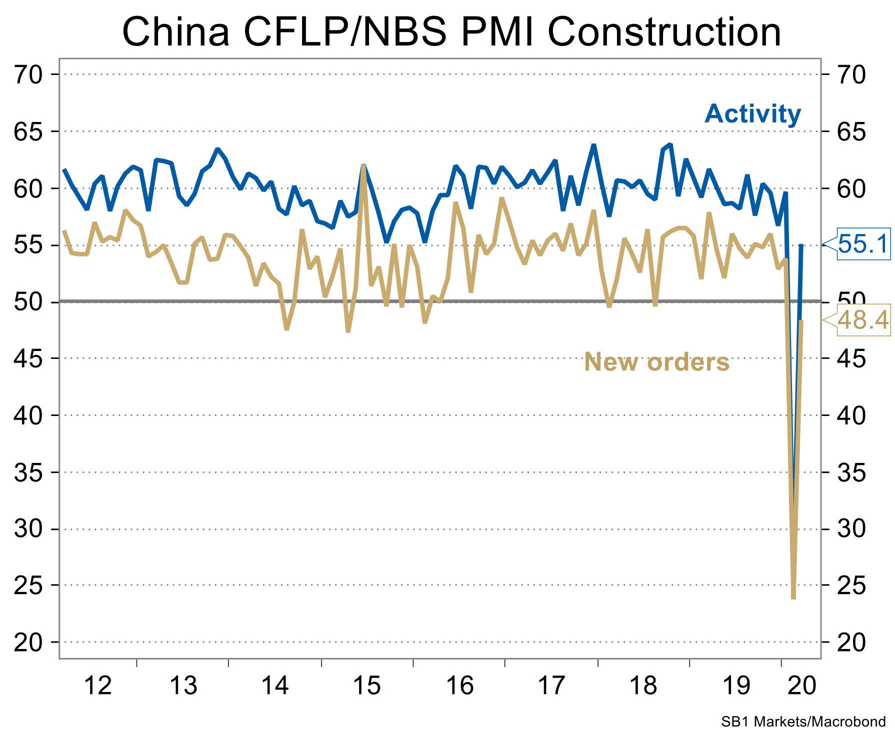
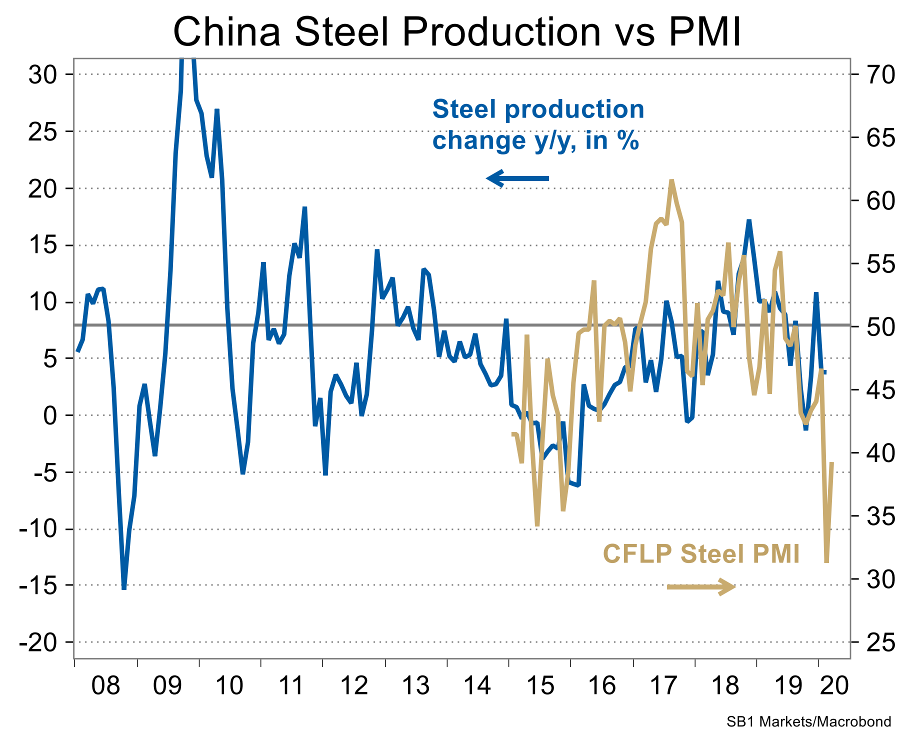
# Construction activity slowly returning but steel production falling sharply

Steel PMI implies another drop in March – and far weaker than the official production data in Feb

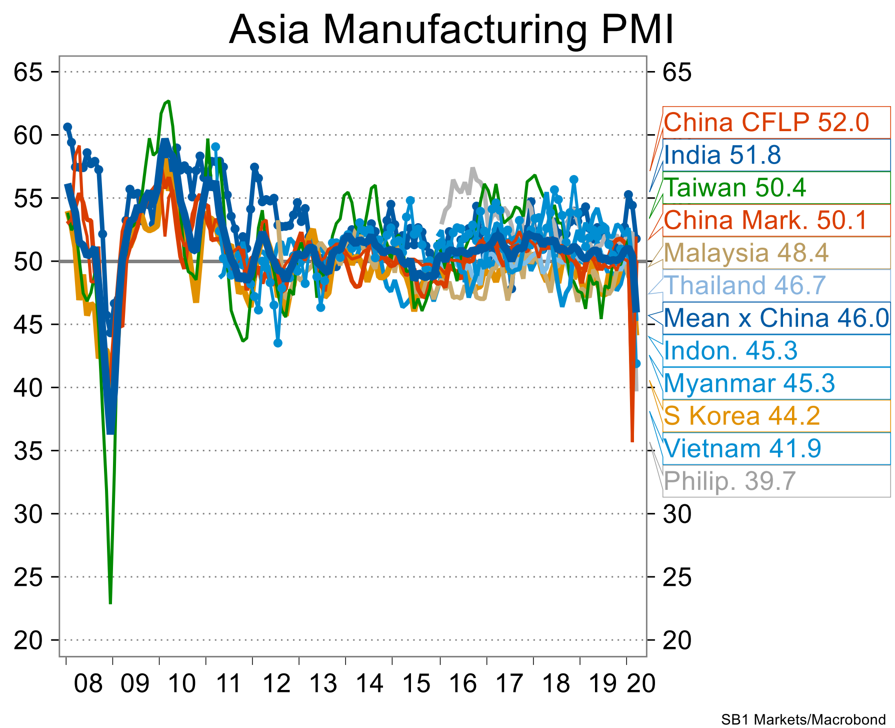


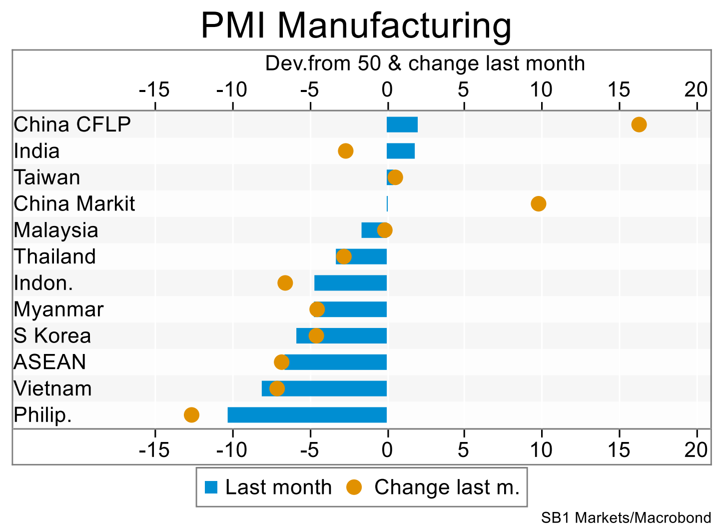



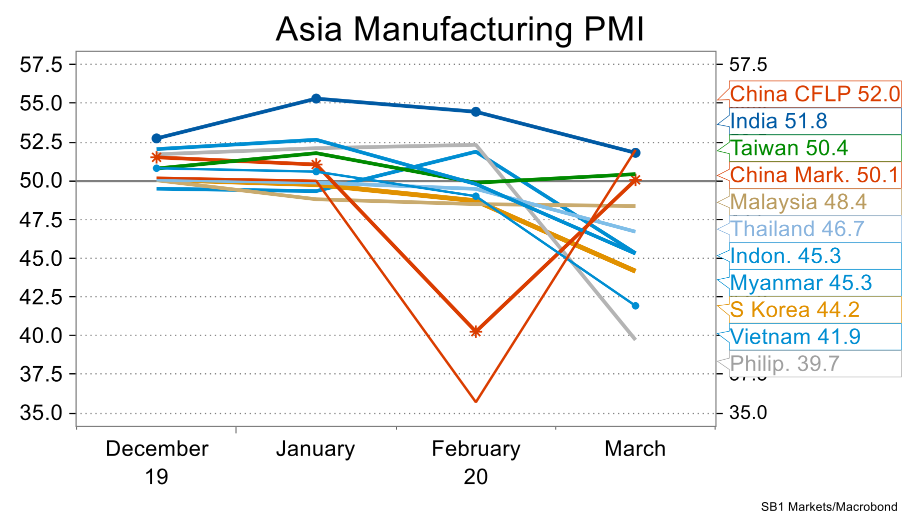

- Construction activity rose modestly after the rapid setback in February. New orders continued to decline in February, not a signal of any swift recovery

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

## 7 countries reported lower PMIs and just China (and Taiwan, marginally) turned up in March



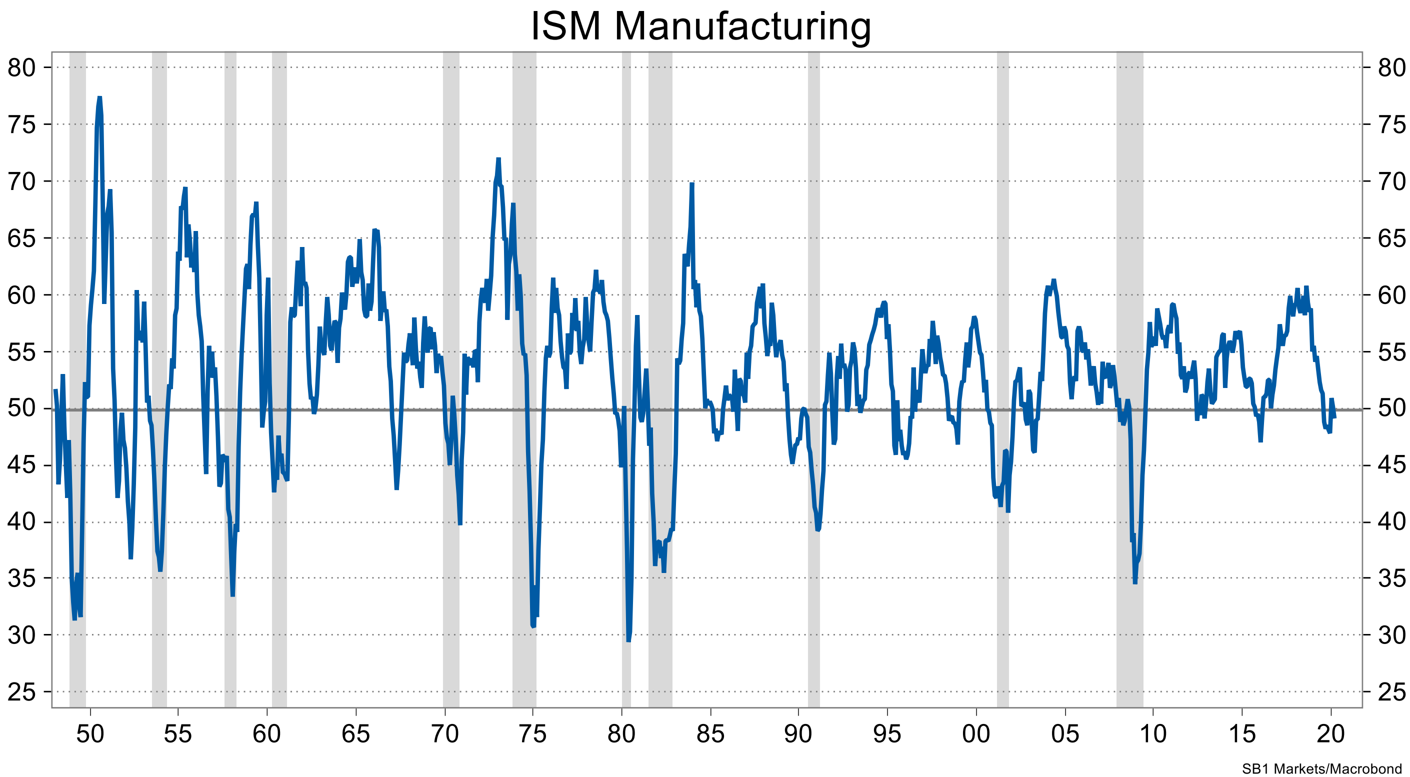




- Philippines and Vietnam noted the steepest drops, India reported softer but still positive growth rates
- South Korea fell to 44.2, surely a weak figure but not a 'complete disaster'
- Just India and Taiwan besides one of the two Chinese PMI are now above the 50-line and the mean ex China fell to 46 in March
- Asian economies are no doubt hit by Covid-19 and the global economic downturn. So far, the downturn is less severe than during the Financial Crisis

# Manufacturing ISM fell just modestly in March – details weaker though

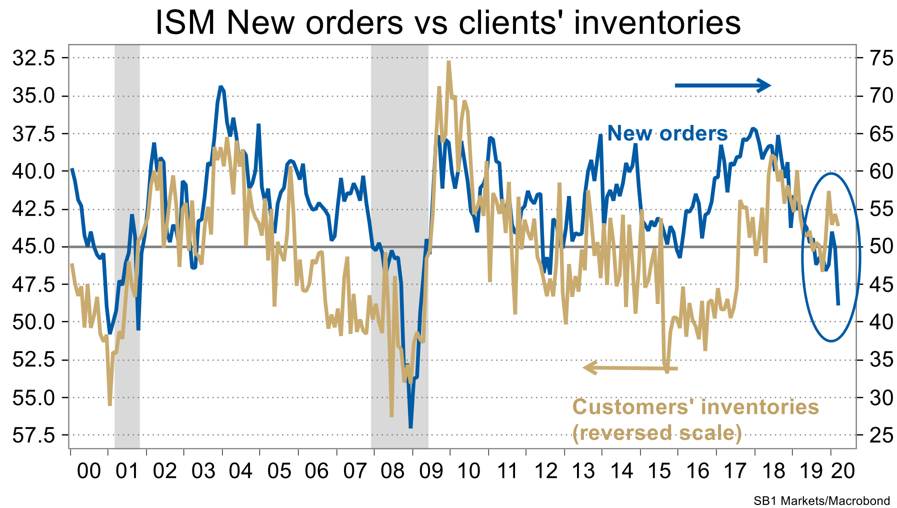
The ISM edged down to 49.1, above expectations, but the headline figure masks a steeper decline



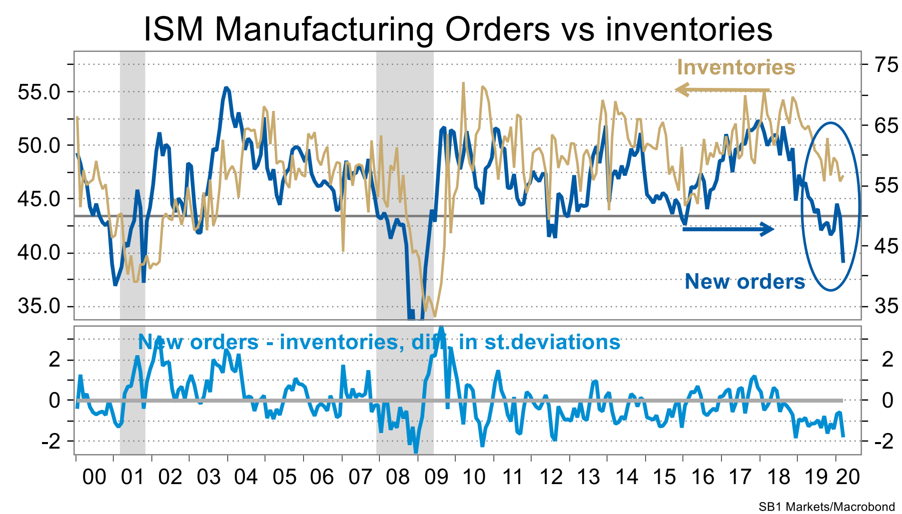

- Manufacturing ISM fell 1 p in March, to 49.1, 4.6 p higher than expected. However, the headline ISM was artificially boosted by a lift in delivery times, which of course was due to Covid-19 related supply distortions. The production index fell more, to 47.7, and new orders nosedived to 42.2, the lowest level since the FC, and employment fell rapidly
  - » In the ISM survey, 10 out of 18 sectors reported growth (from 14 in Feb) and 6 (from 3) sectors reported a contraction, a much better mix than we anticipated
  - » However, both export and domestic orders plunged, and domestic orders more than export
- We expect a substantially weaker ISM in April as Covid-19 ripples through the US and more mitigating measures are taken. The US economy is no doubt in a state of 'meltdown' and any swift recovery is unlikely, at least not in April or perhaps May

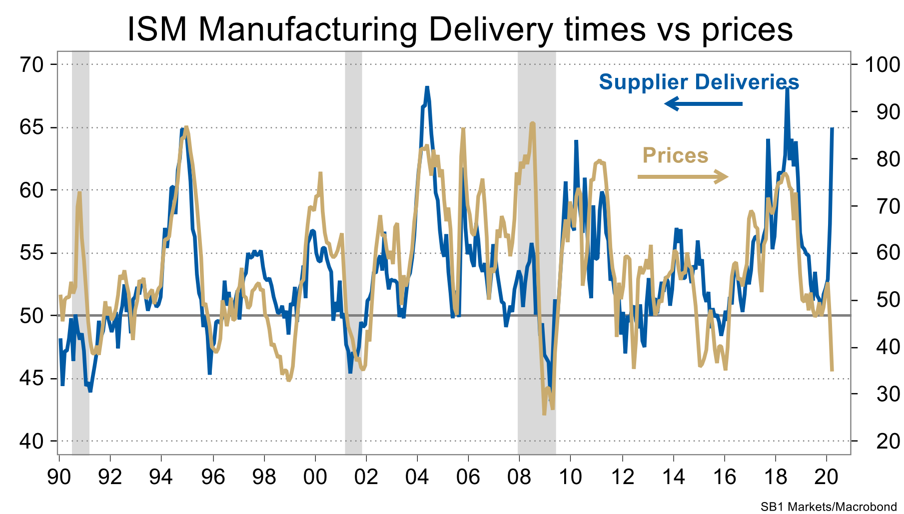
# Steepest drop in new orders since the financial crisis

Delivery times are soaring on supply chain issues due to the Covid-19 pandemic. Prices are declining







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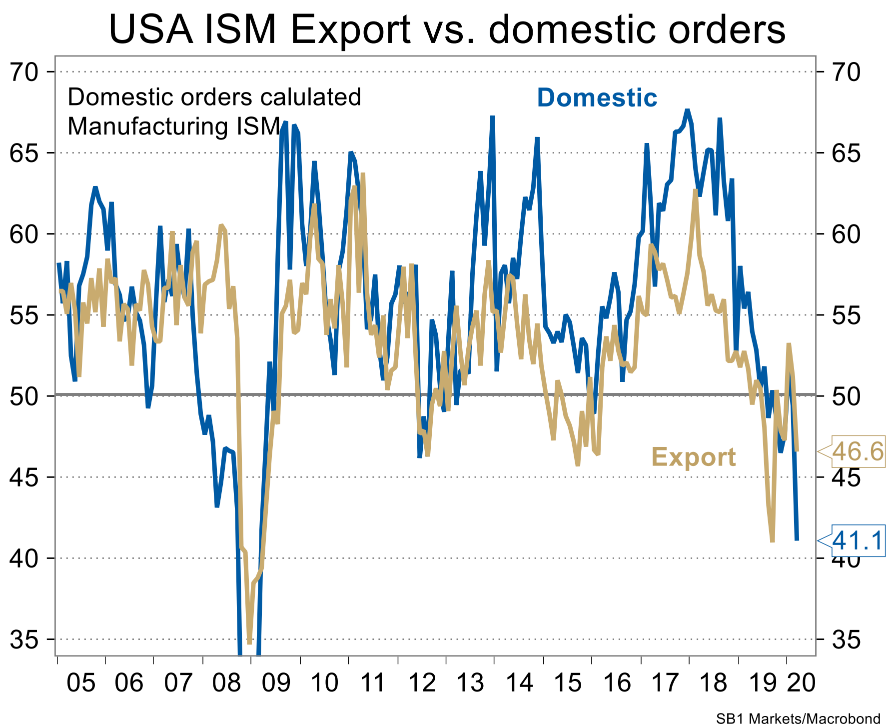
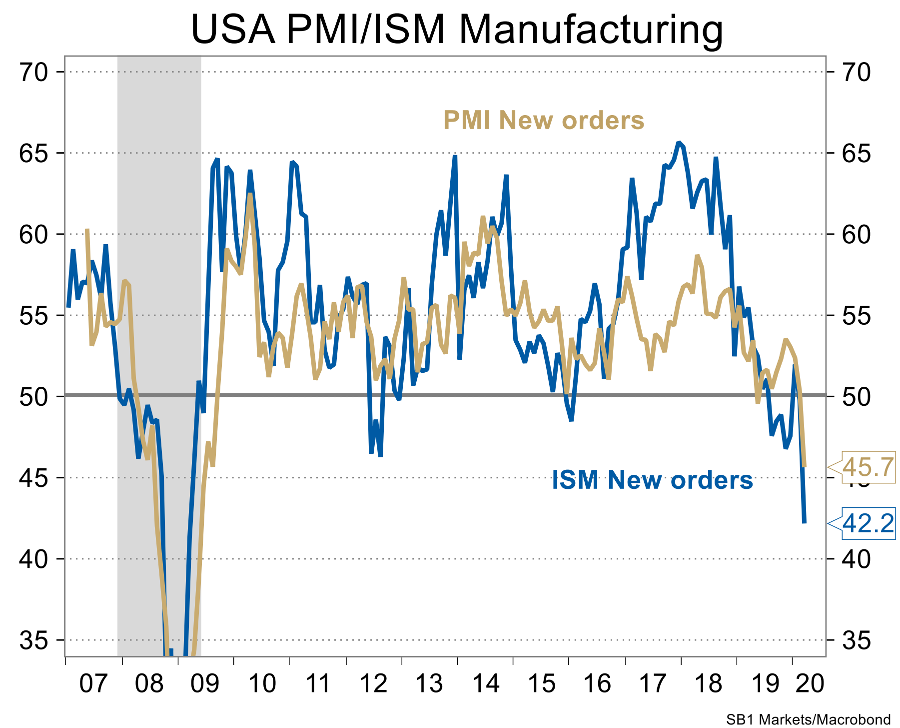
# Domestic demand is even weaker than foreign

## Domestic orders are tumbling, export orders down but not weaker than in 2019

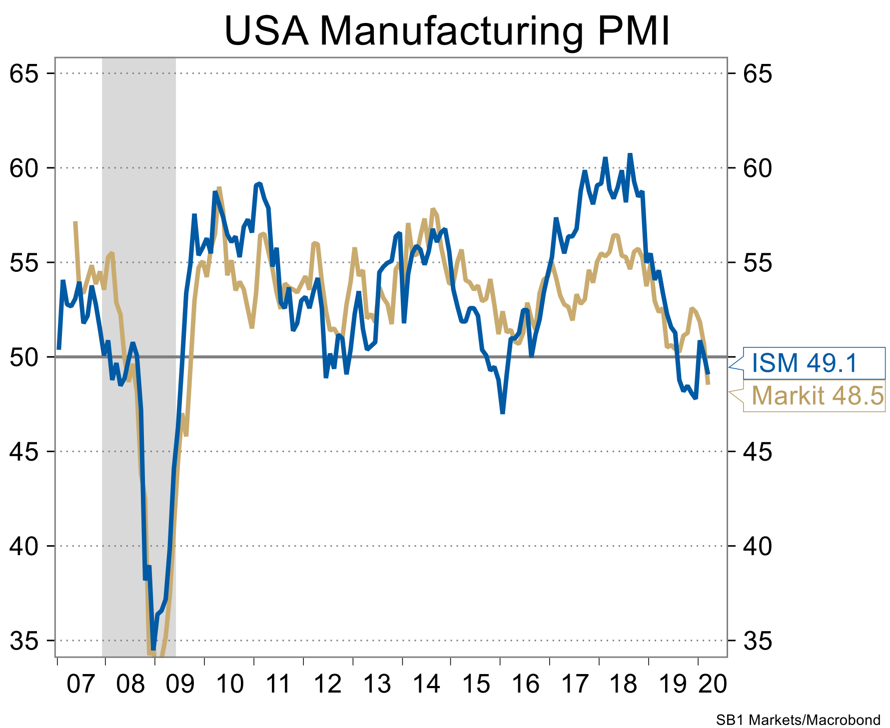


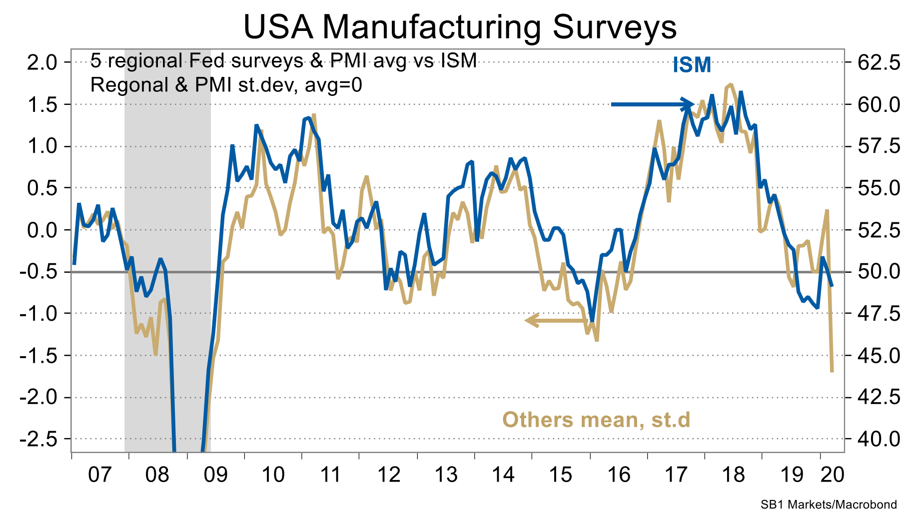



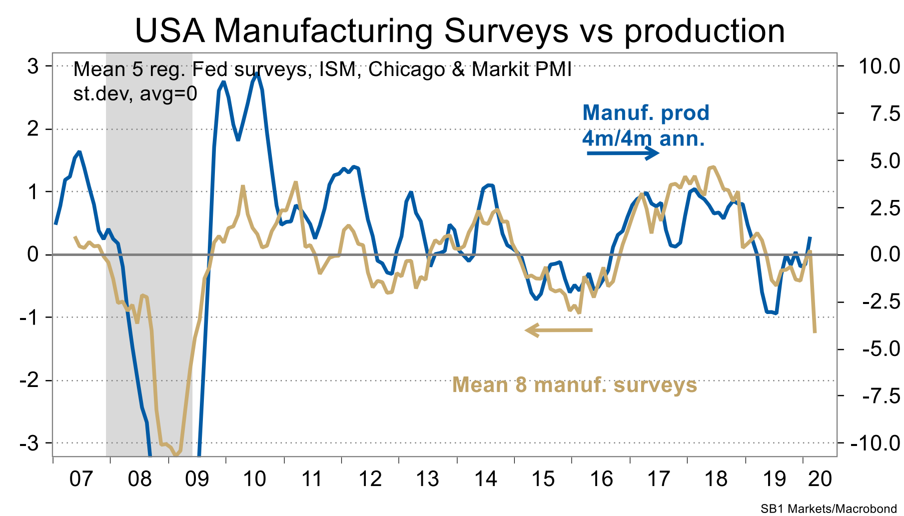

- Both ISM and Markit's PMI reported a drop in order inflows in March – yet still far from the 2008-2009 levels

# The regional manufacturing surveys weaker than ISM/PMI

## Manufacturing production is set to contract steeply and we are probably far from the bottom



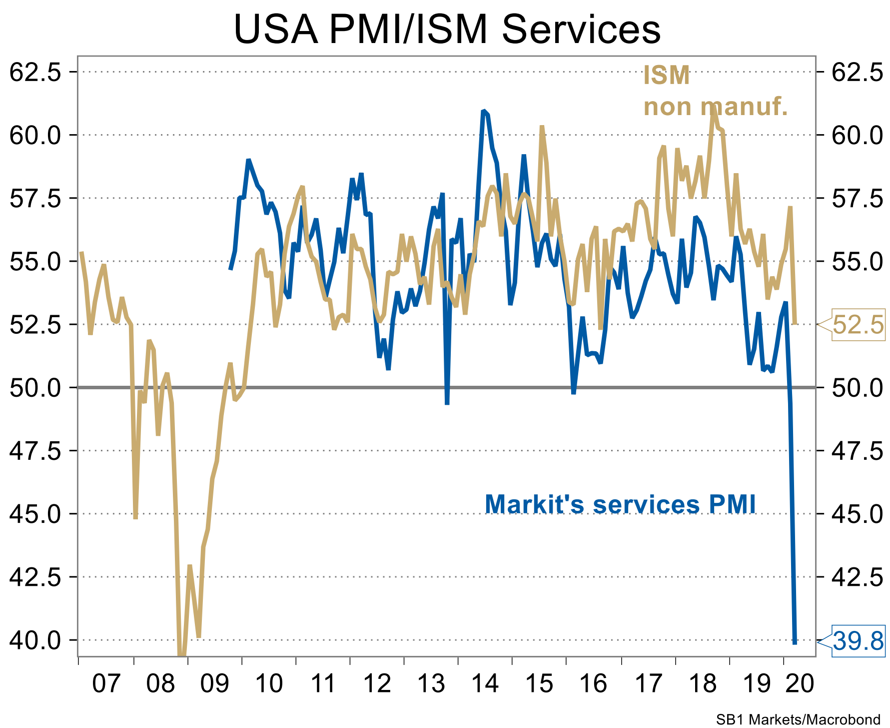



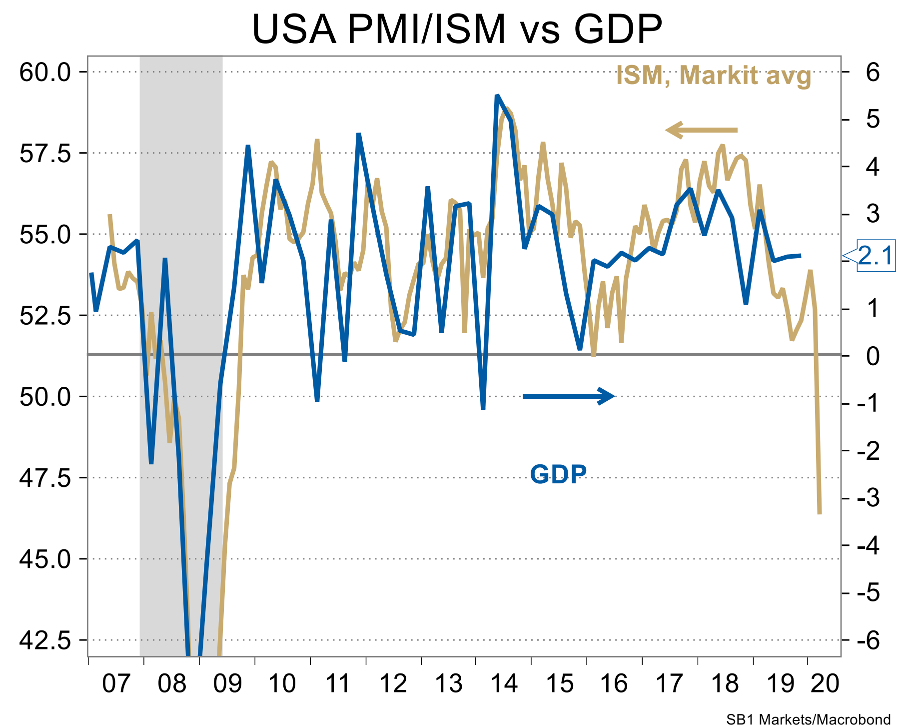




- Markit's manuf. PMI to 48.5 in March, 0.7 pp weaker than the preliminary report
- Both Phil Fed, NY Empire, Kansas and Richmond regional manufacturing surveys fell steeply, one survey improved marginally. These surveys noted a steeper drop than ISM/PMI

# The non-manufacturing ISM fell just to 52.5, not capturing the full corona impact

'Services' ISM at 52.5 signals modest growth, which is obviously not the case. PMI more accurate

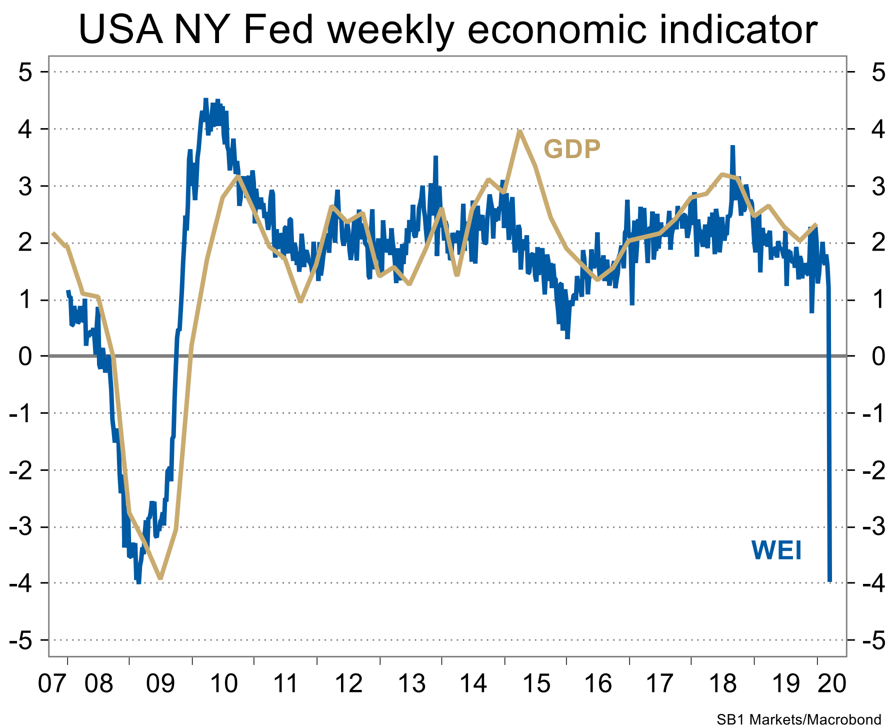



- Non-manuf. ISM fell 4.7 p in March, a substantial slowdown, however, the level at 52.5 reflect a modest expansion in activity. Similar to the manufacturing ISM, the headline index was lifted by an increase in the delivery times index, which is usually linked to an increase in demand. Now, higher delivery times is due to supply chain distortions related to the corona crisis
  - 9 of 18 non-manuf. sectors reported growth (from 16), and 7 reported a decrease in activity (from 2)
- Markit's services PMI slipped to 39.8 and seems to be a much better reflection of the current standstill in most of the US economy
- **Face value, the avg of the composite PMI/ISM suggest some 3% decline but the real downturn will probably be much steeper**

# The NY Fed's Weekly economic indicator reports a steep decline

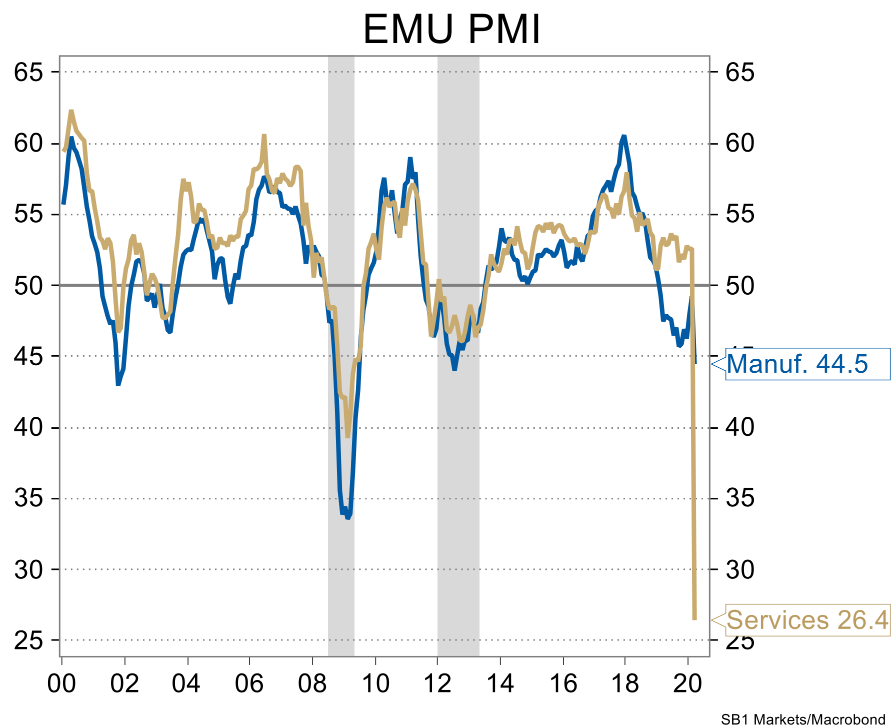
WEI suggest that the economy is already down 4% y/y – the first week of lockdown

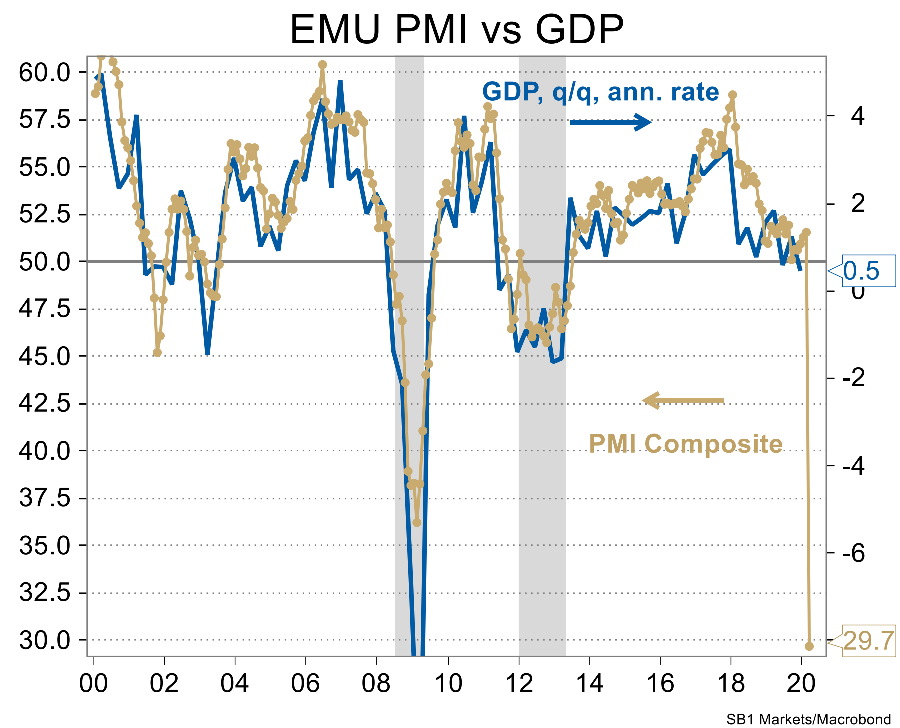



- GDP may already be down 4% y/y, according to NY Fed's new weekly indicator, vs the pre corona growth path at 2%. This implies that activity has fallen by up to 6%, and it happened over just one week 12 (March 21), due to the steep increase in new jobless claims
  - » Jobless claims rose twice as fast last week, and the week 13 WEI will 'collapse', albeit probably slowed somewhat by less decline in other components
- This new index is computed by the New York Fed and picks up changes in activity much faster than the monthly indices. The NY Fed WEI includes jobless claims, Redbook's retail sales data, consumer confidence, raw steel production, electricity production etc.

# Eurozone PMIs mirror an unprecedented drop in activity

## Composite PMI plunged to 29.7, 1.7 p weaker than the preliminary survey

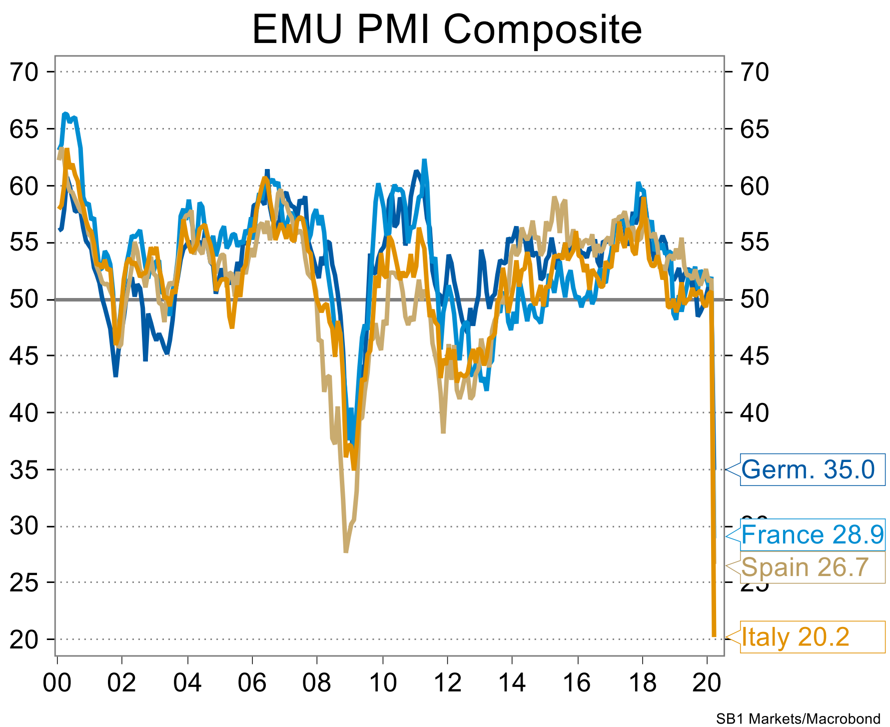


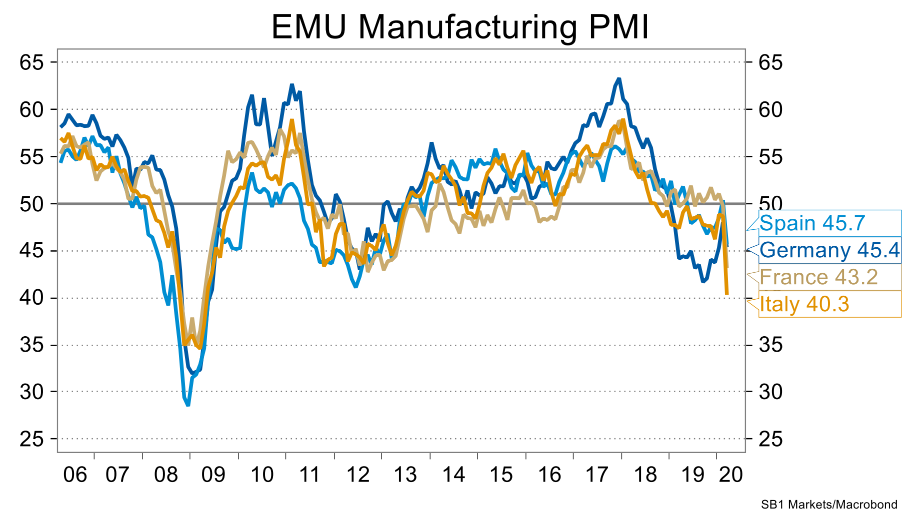



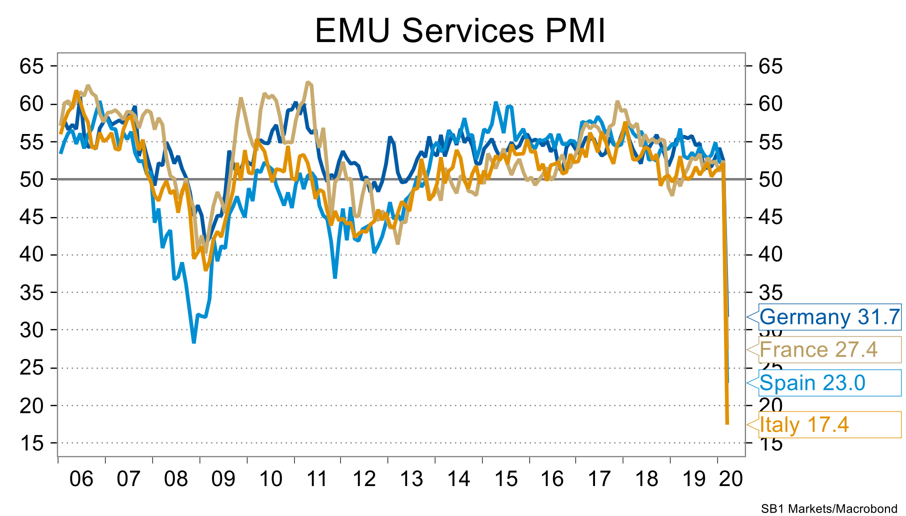

- Services received the largest blow ever seen (well, since the PMIs were first published 20 years ago). The PMI tumbled 26.2 p to a level of 26.4, reflecting an economic 'collapse' as Covid-19 rattled Europe
  - » All major countries were hit hard, and, unsurprisingly, Italy and Spain even more than others. For now
- Manufacturing activity contracted by the fastest pace since the euro crisis, although the decline was modest compared to services, a 4.8 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)

# All 4 major economies are reporting a collapse in services

## The Italian meltdown is extreme, PMIs below China February levels



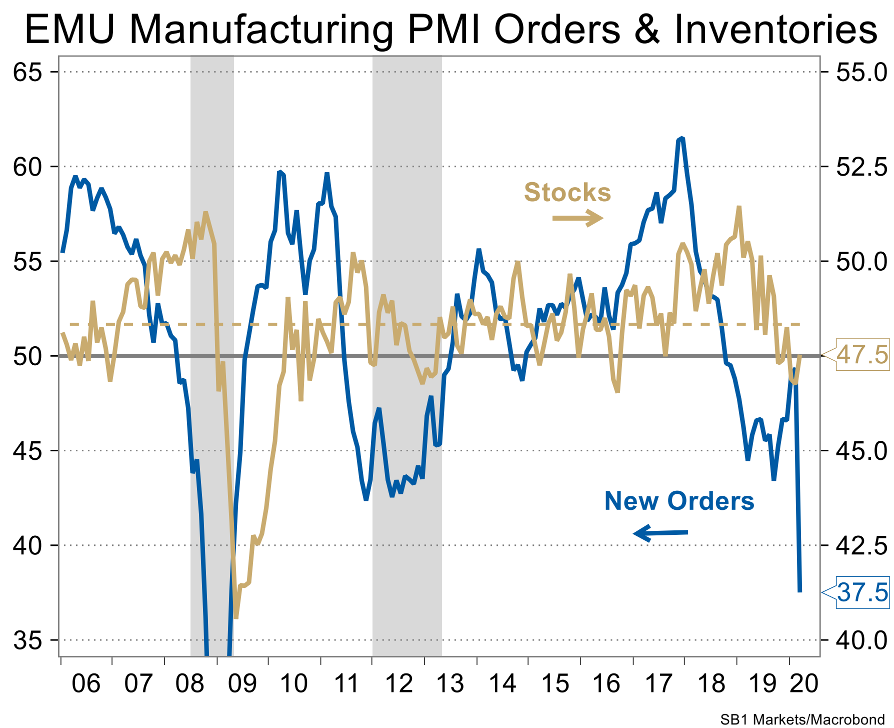



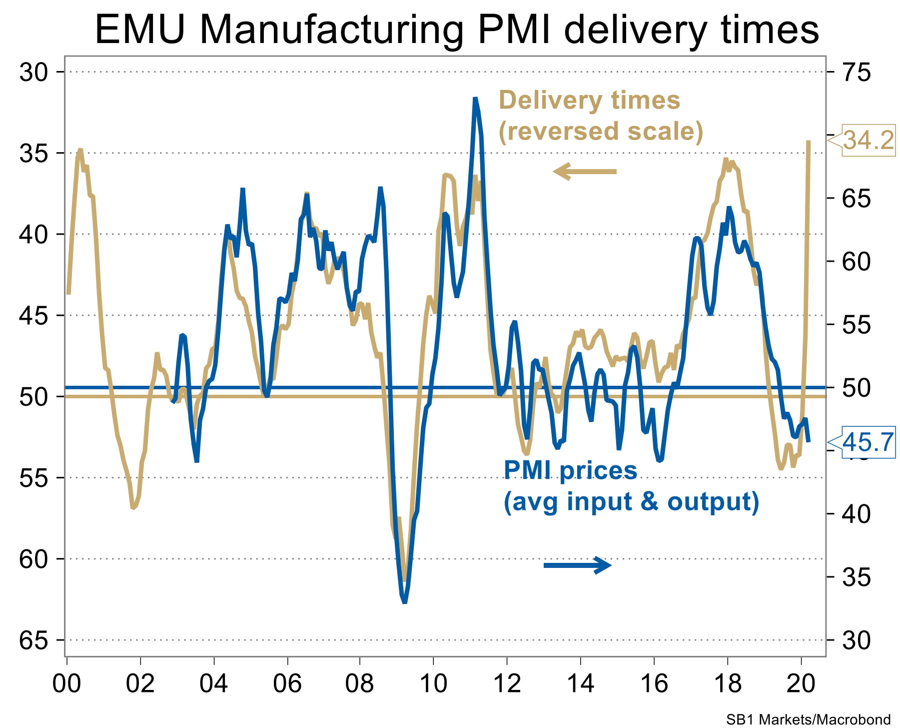




- The decline of the service industry is totally unprecedented, in all four main countries. The Italian PMI at 17.4 is 'extreme', reflecting a total standstill
- Manufacturing were mixed, Italy reported the sharpest drop since the FC, Germany down but still above 2019 levels. We suspect that we not yet seen the bottom

# 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

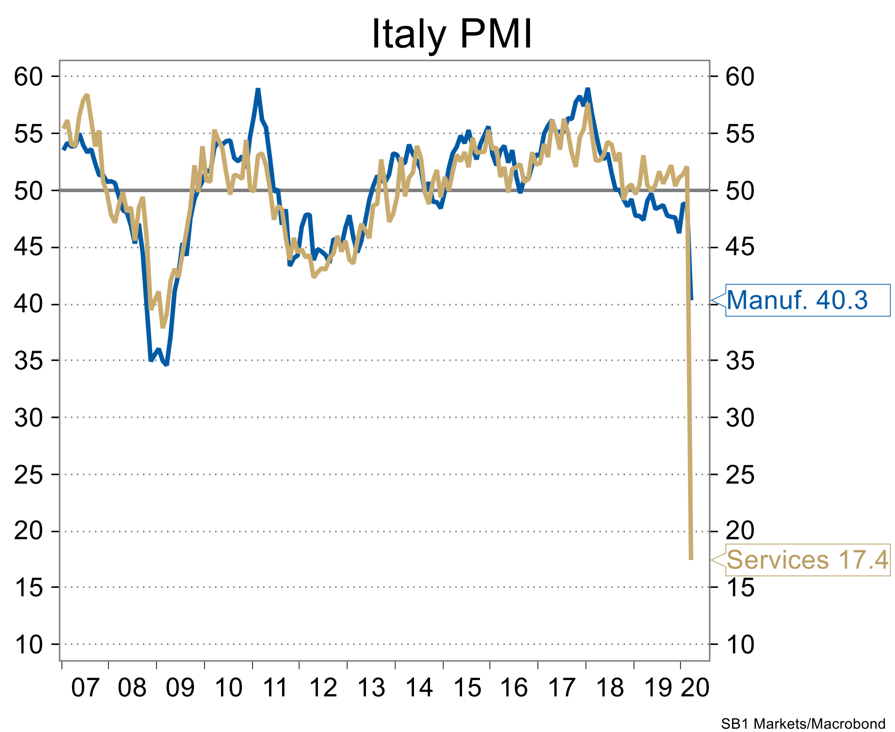


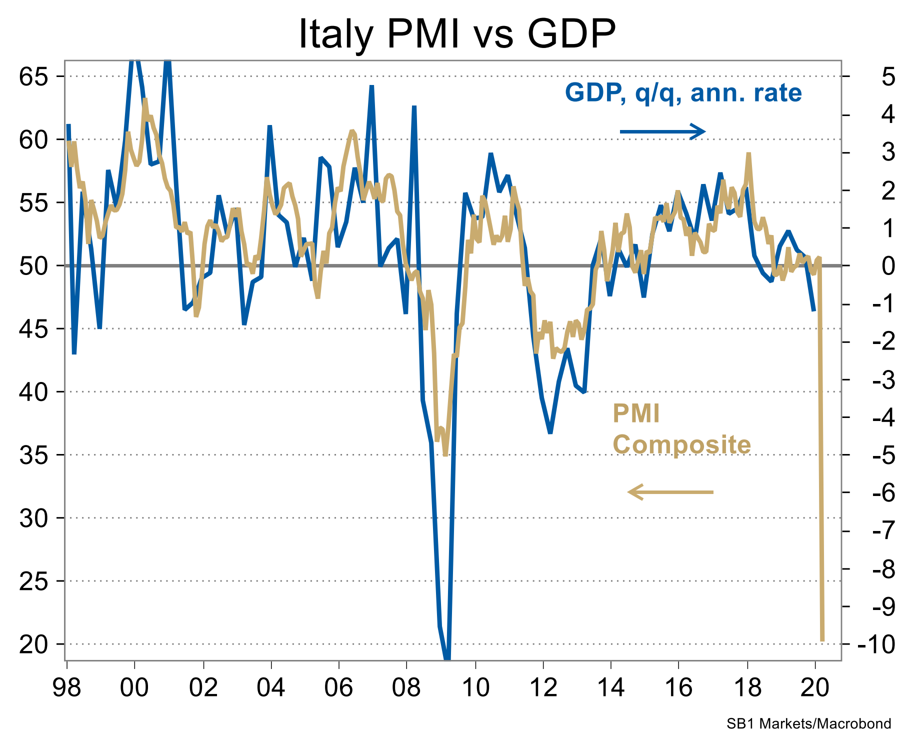




- The new orders PMI plunged in March, the highest monthly decline on paper
- Businesses reported a rapid increase in manufacturing delivery times, to the highest level 'ever'. Longer delivery times are usually an indicator of rising demand and thus, lifting the headline manufacturing PMI. In March, 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

# Italy: A complete catastrophe, socially and economically. At least in services

The PMIs may not be transferable to growth rates now, but still..

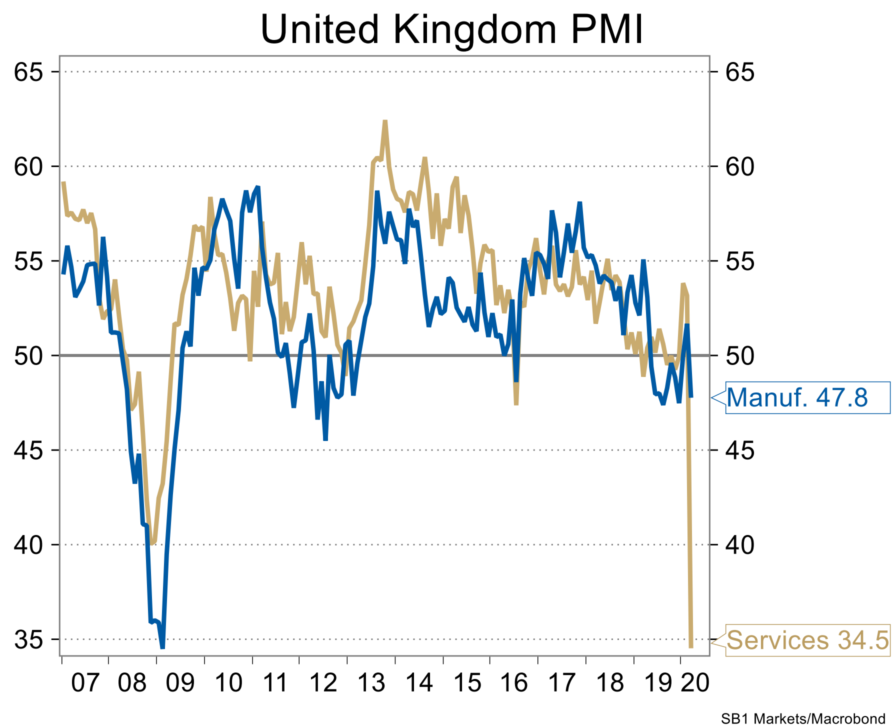


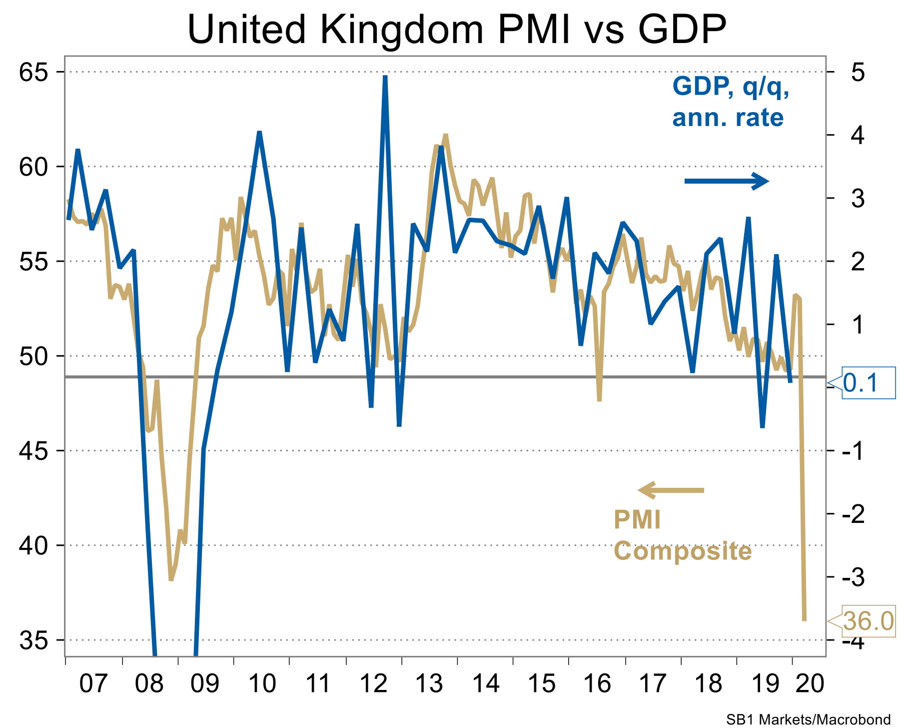




- The most crucial question now is of course not the depth of the contraction in March but when and how fast activity can resume
- The good news – relatively – is the 'modest' decline in the manufacturing PMI. A 40.3 level signals a harsh downturn, but during the lockdown – some place curfews – we expected the manufacturing PMI to fall further

# PMIs are tumbling here, too

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

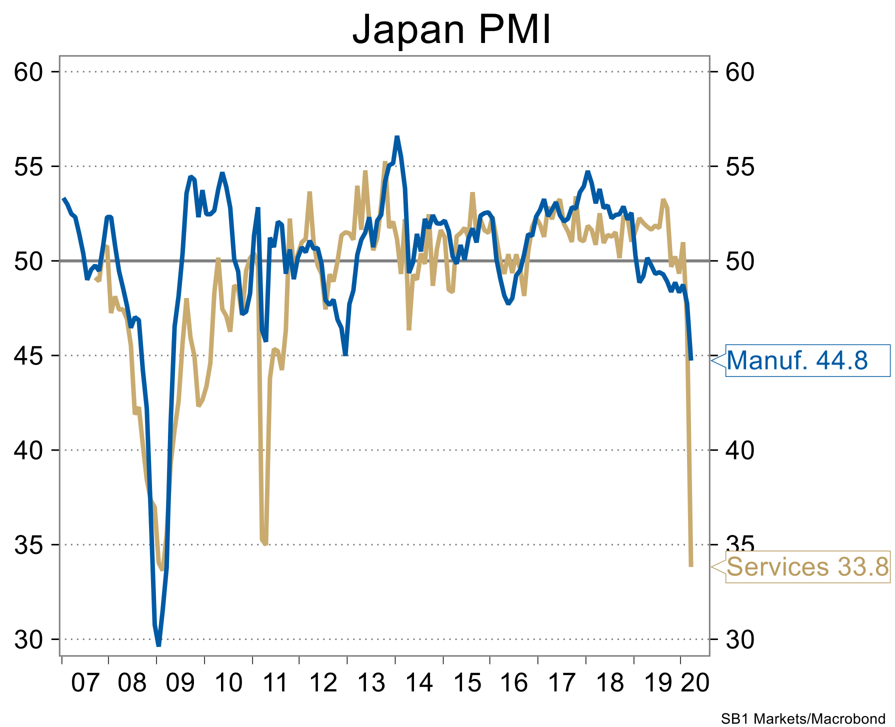


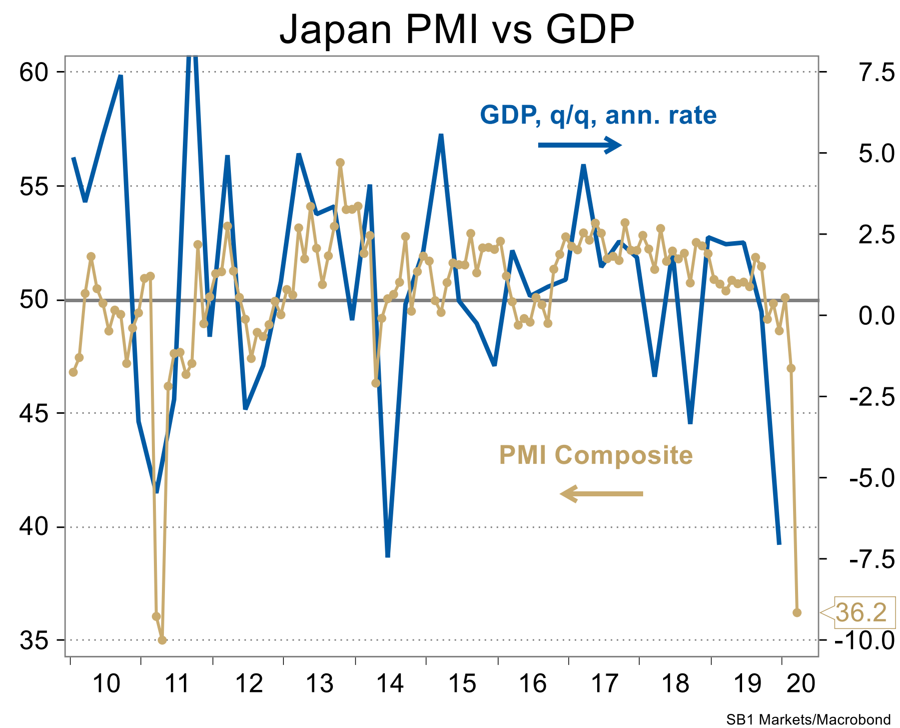




- The composite PMI dropped to 36 p in March, 1.1 p weaker than first reported. The PMI has probably not hit bottom, as new restrictions have been announced after the PMI was collected
- Manuf. PMI fell 'just' to 47.8, partly boosted by soaring delivery times (which are linked to closed factories and input delays, not rising demand). New orders fell, but not more than in August '19
- The composite PMI at 36 suggests marked decline in GDP

# Japan PMIs plummet, services the most, as everywhere else

Services PMI dropped 13 p in March, as several sectors were hit hard by the corona crisis

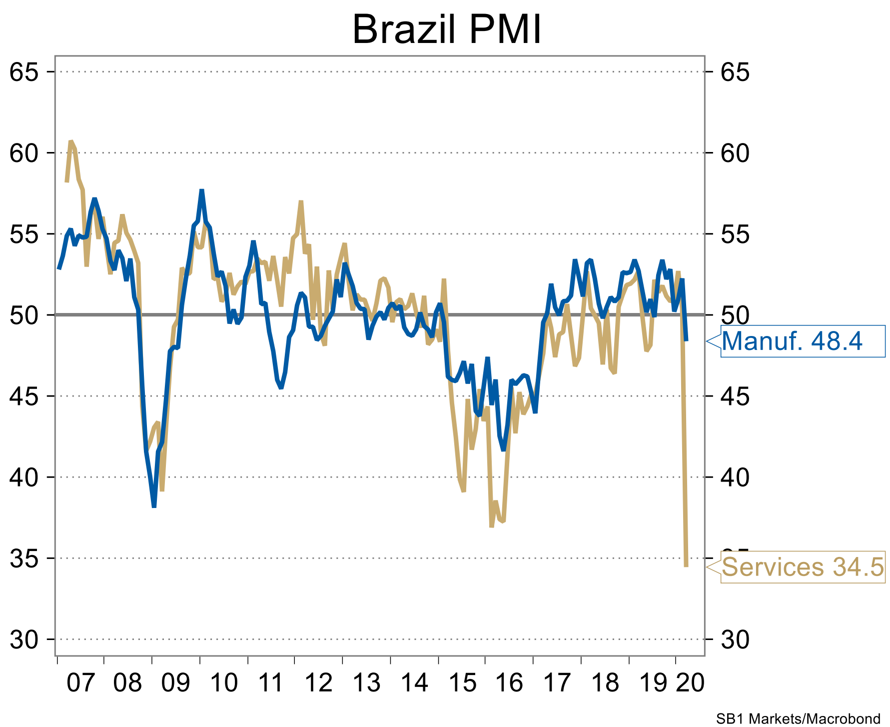


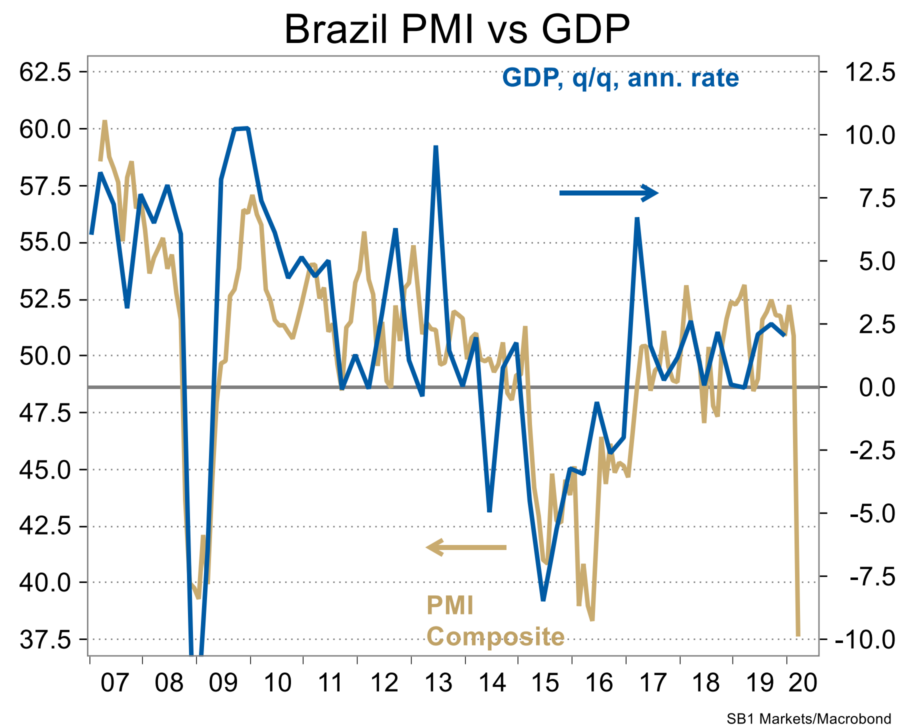




- Composite PMI slipped to 36.2 (marginally above the preliminary PMIs, surprisingly). This is the lowest level since 2011 (following the tsunami). The PMI suggests that the economic downturn will deepen from the 7.1% GDP drop in Q4. The timing of the corona crisis is horrible for the Japanese economy, 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'

# Brazilian economy hit hard by Covid-19

Services PMI fell to the lowest level on record as service industries have been closed down

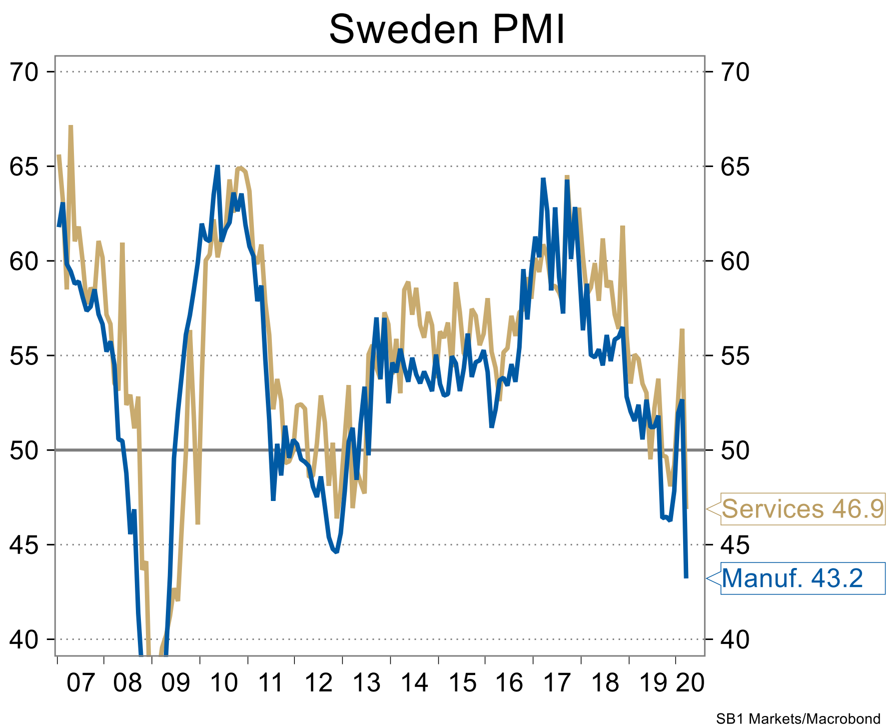


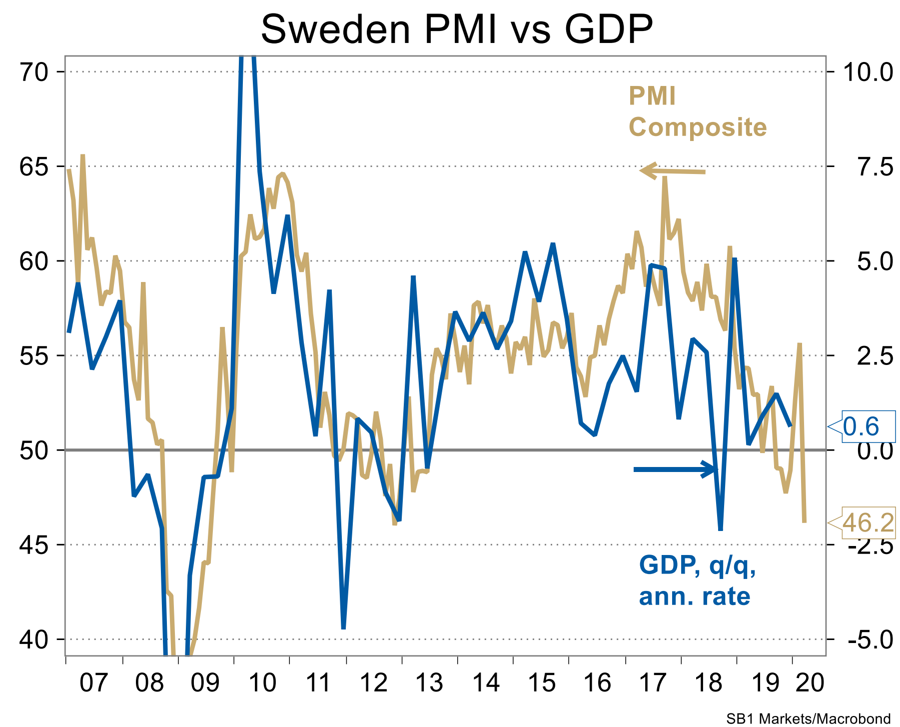




- Even if the president says this is just fake news

# PMIs down less than others – and we know why

The Swedes have implemented much less strict measures than others, but it may be turning now

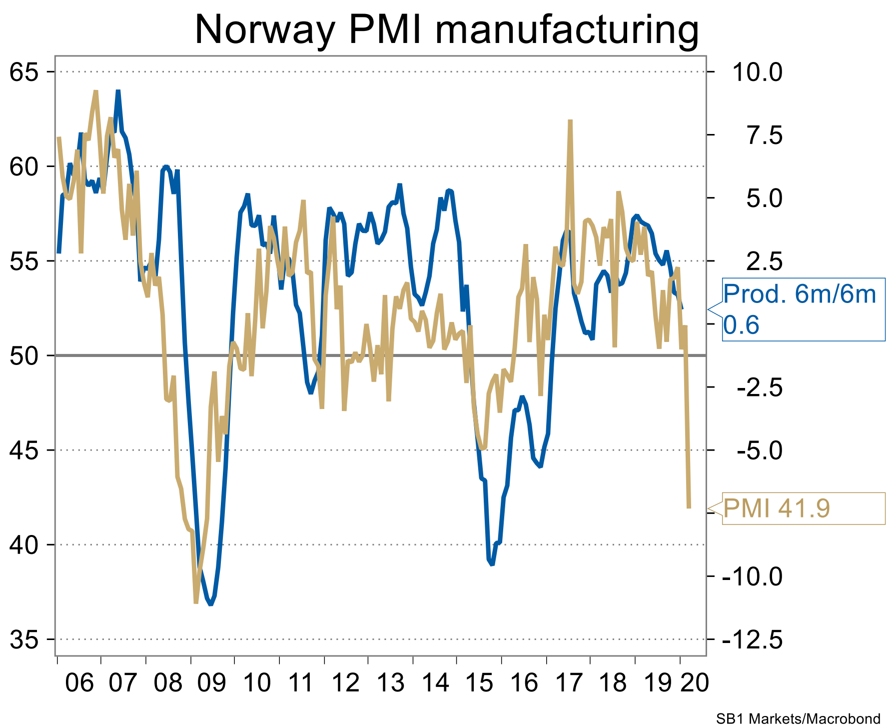


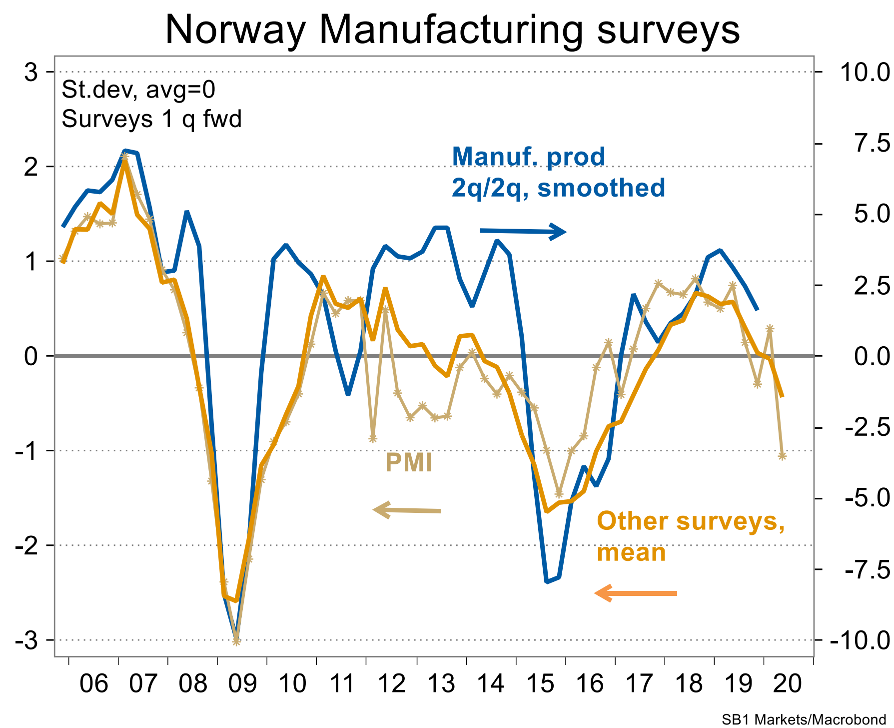




- Manufacturing PMI fell to the lowest level since the financial crisis as both domestic and foreign demand dropped. Services fell to 46.9, indicating a decline in activity, but much less so than other European countries. We assume this is related to the Swedish approach in combating Covid-19, with closer to 'normal' activity. The past few days, more measures have been implemented in Sweden, we suspect the economic impact may be more sever in April

# Manufacturing PMI down the drain, other surveys to follow

## PMI tumbled to 41.9 in March and the new order PMI is back at the financial crisis level

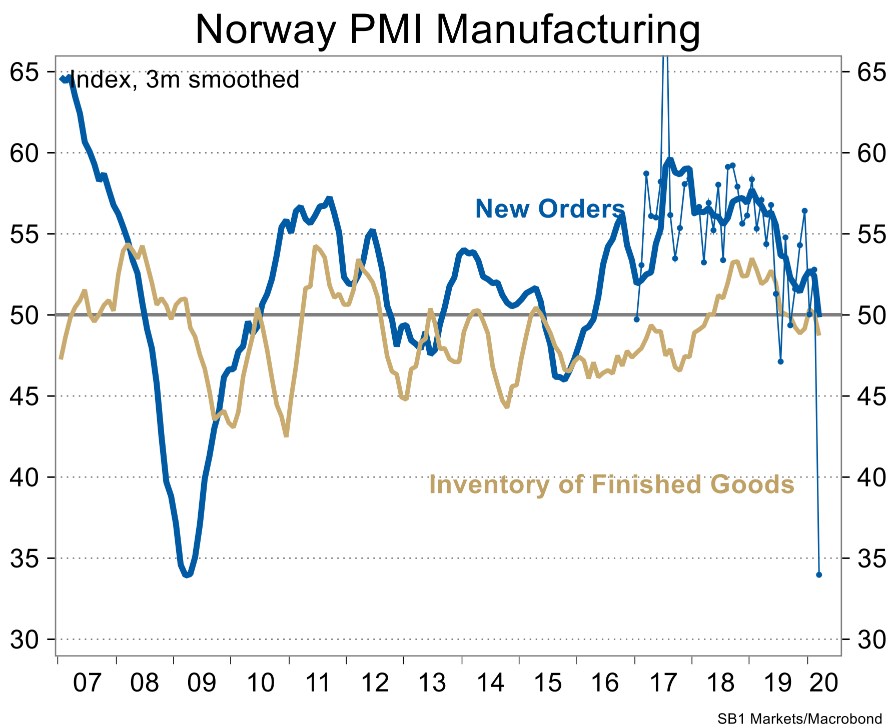


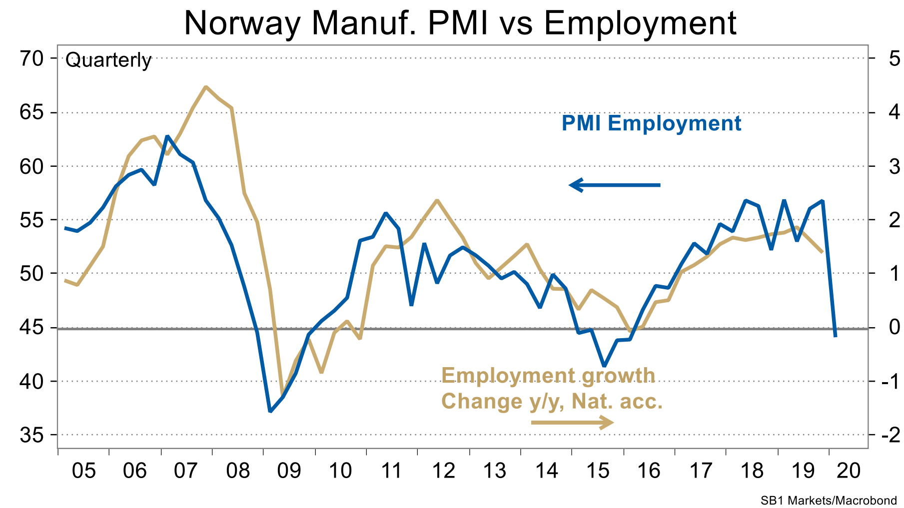



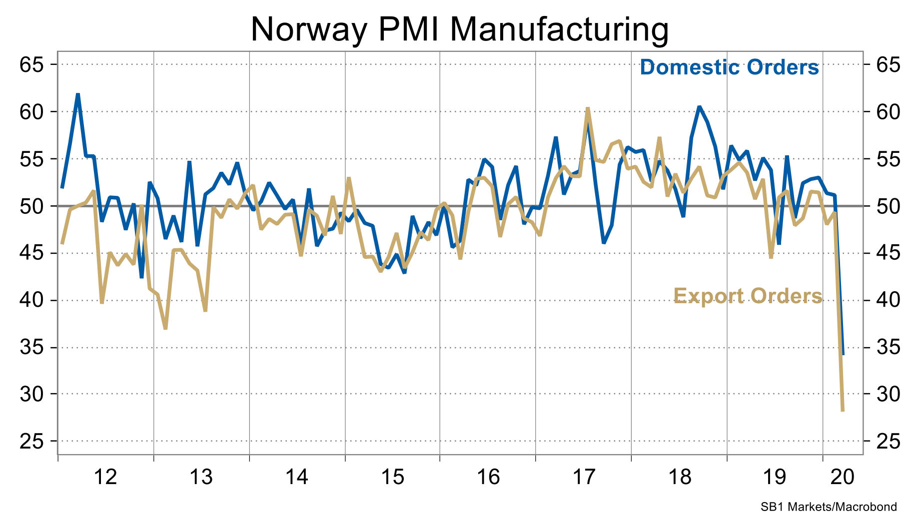

- The Norwegian manufacturing PMI plunged 9.7 p in March, the steepest decline since the PMI was first released in 2004. The PMI suggests a steep decline in manufacturing production, which was already slowing before corona hit
- The PMI is the first Norwegian business survey to be released after corona hit and Norway was put on a partial lockdown on March 12. Other surveys will no doubt follow the PMI down, we are surprised if the do not fall below financial crisis levels

# Orders are plummeting, employment waning

Orders are falling at a rapid speed, the outlook is of course very weak. Employment will decline



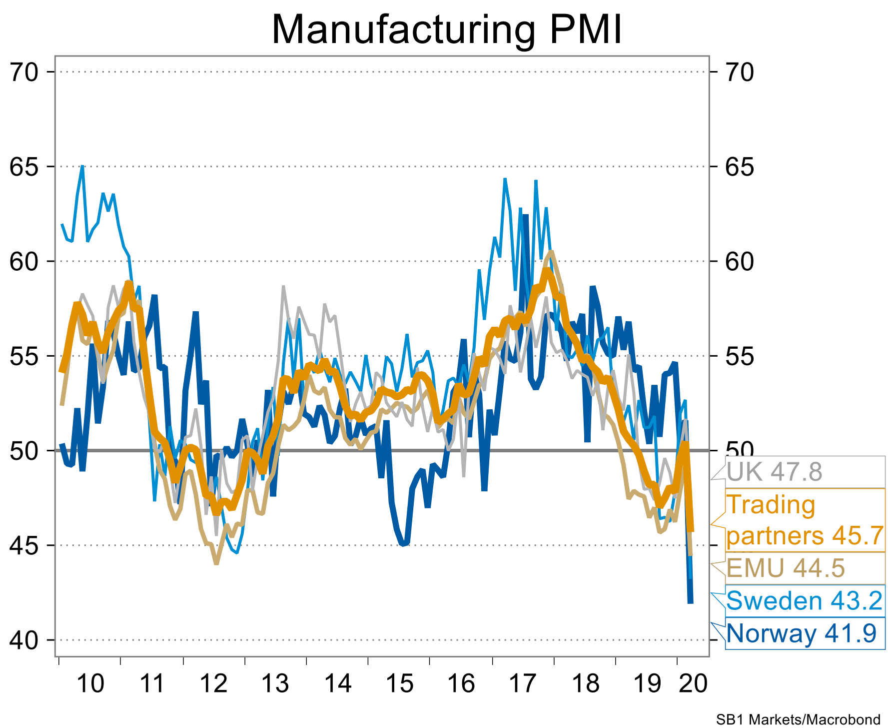



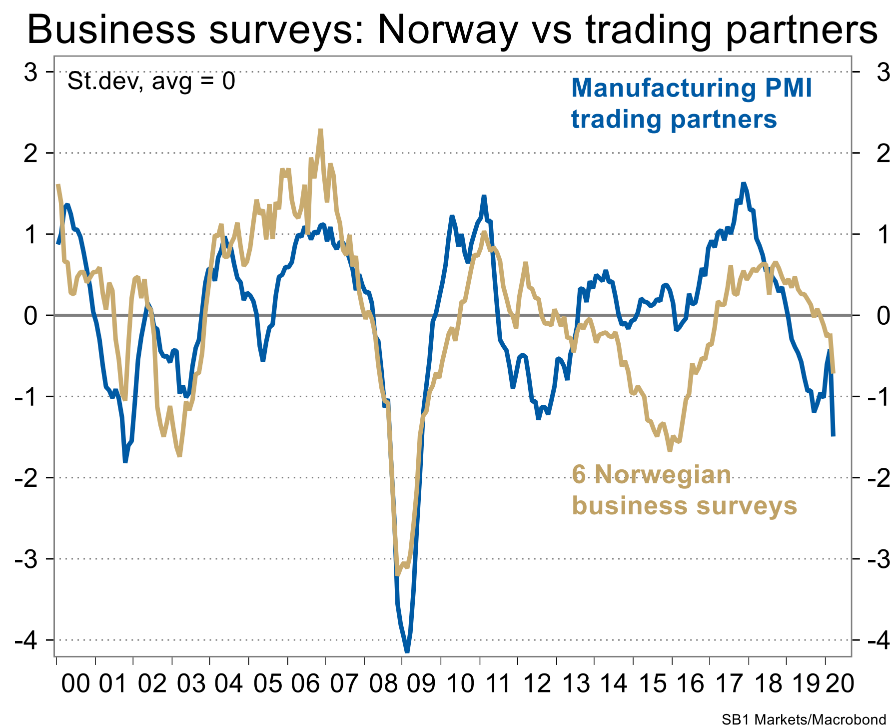




- The new orders slipped to 34, an ‘absurd’ 18.8 p decline from February. Orders are falling at a similar pace as during the financial crisis
  - » Both export and domestic orders tumbled, exports the most
- The PMI manufacturing employment index slipped to 33.3 in March, suggesting a decline in employment. At the chart above, we apply the Q1 average, in unchanged in April

# Norwegian manuf. hit even harder than others – or just a more volatile PMI?

We highly doubt that the oil price drop has had much impact on oil related manufacturing yet

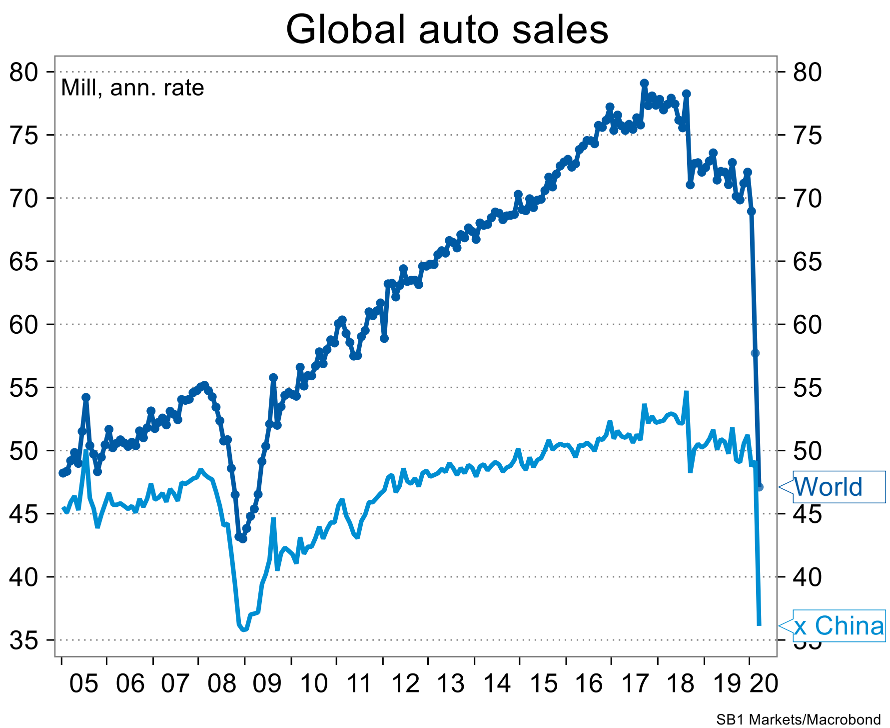


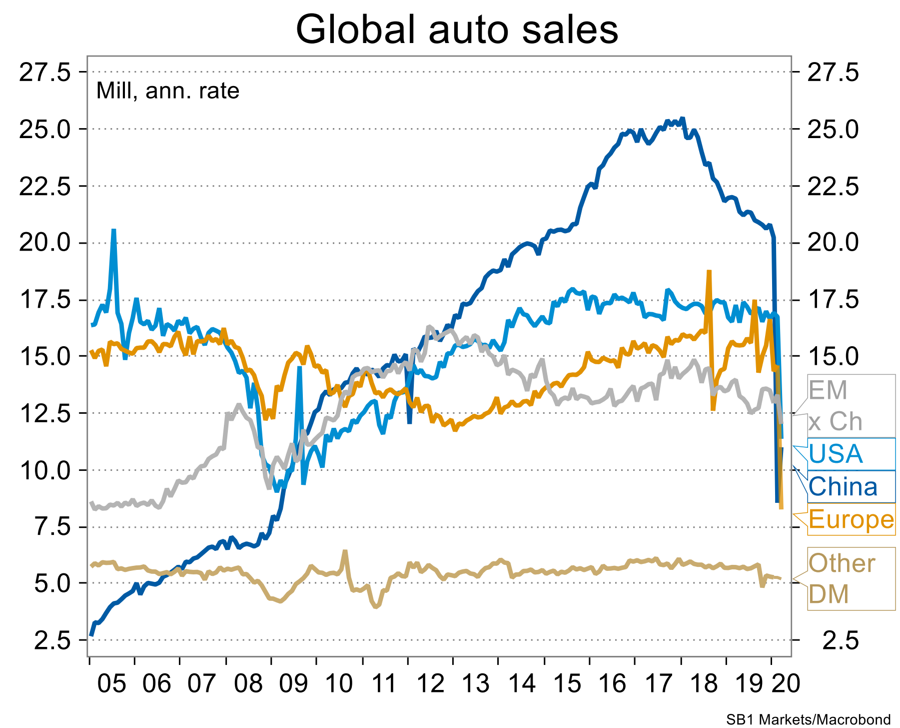




- In the short term, there are few reasons to expect a steeper contraction in Norwegian manufacturing that among our trading partners during the Covid-19 crisis. However, Norwegian manufacturing was already on the way down before corona hit, and in the longer term, oil & gas investments may decline even more rapidly than predicted, dragging manufacturing production down

# Global auto sales down some 20% in March (-35% y/y), more to come in April

Sales fell sharply in US and even more in Europe in March. Global sales close to the Fin Crisis bottom

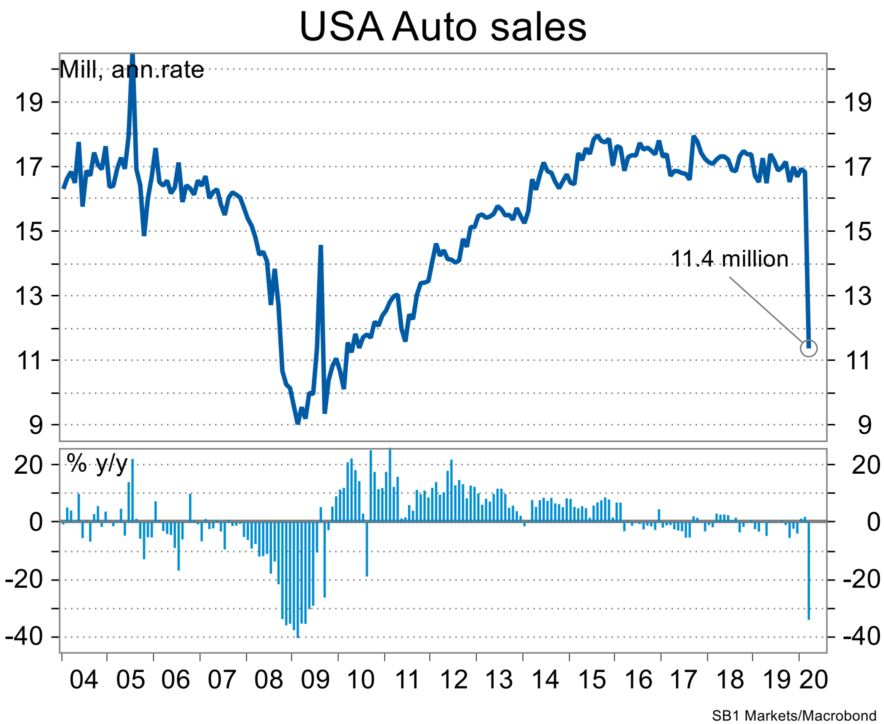


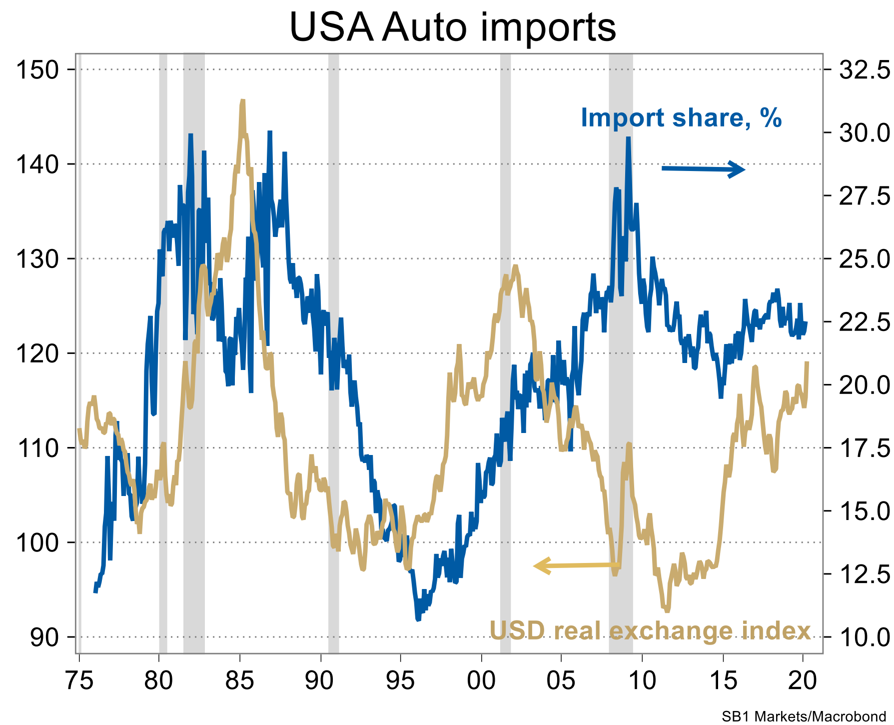




- We do not yet have many auto sales data from Emerging markets but global sales are probably fell some 20% m/m in March, following the sharp decline in February. In March developed markets contributed on the downside, especially Europe (down 50%) but sales fell sharply in the US too, even if the lockdown started in earnest in the latter half of the month. More bad news to come in April

# Auto sales collapsed in March as Covid-19 hit the US economy (in the 2nd half)

## Sales dropped by 30% in March from Feb, the steepest since '09 and the 2nd ever (since 1960)

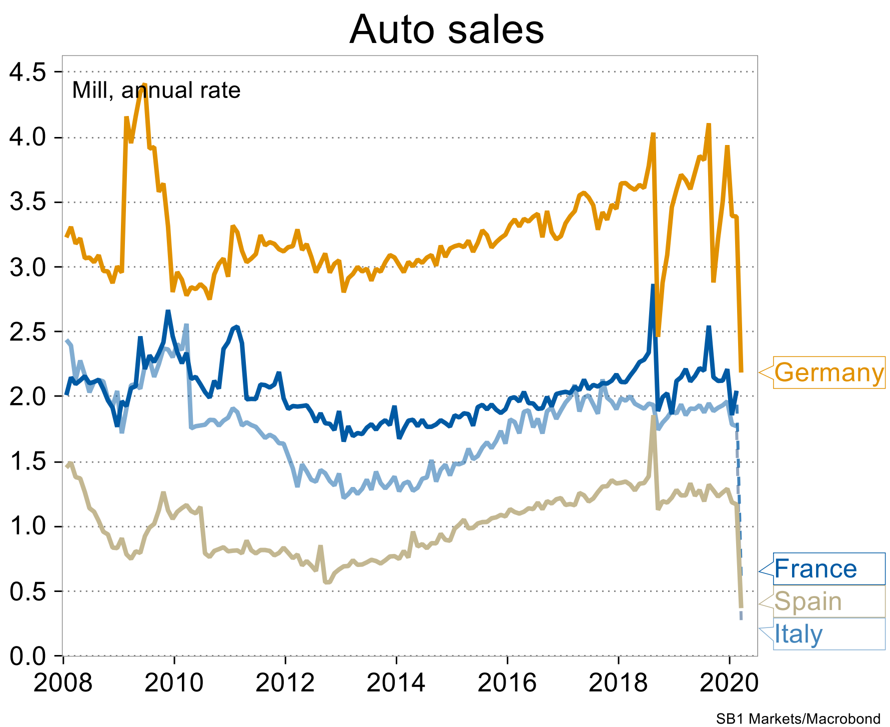


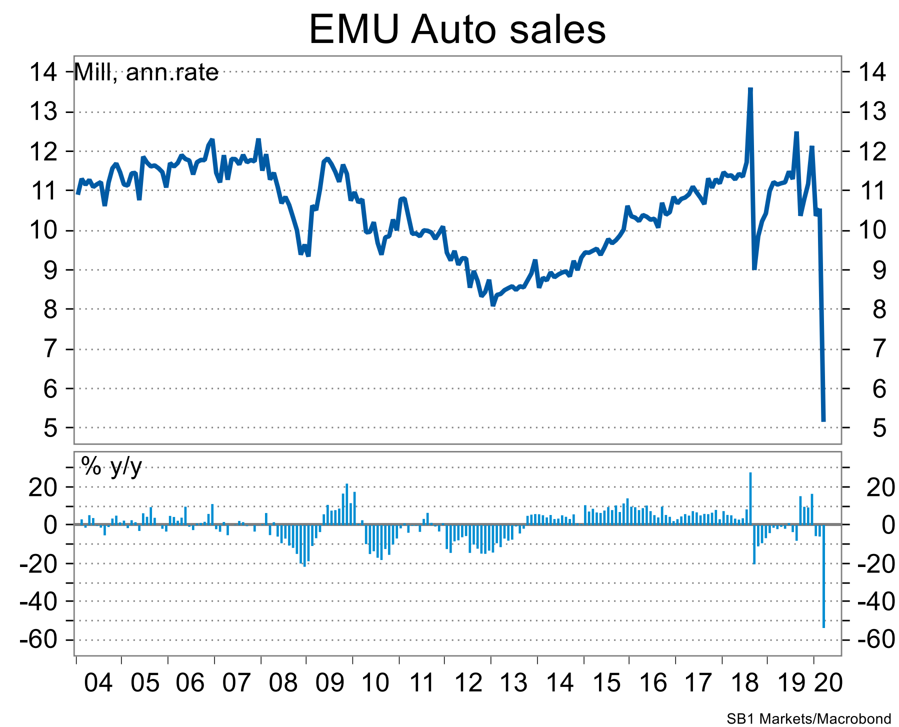




- Sales tumbled from an annual rate of 16.7 mill to 11.4 mill in March, the sharpest setback since September 2009. Sales were probably hit by both a supply side shock as dealerships and automakers were shut down to prevent the coronavirus spreading – and by a waning demand.
- The setback is no doubt far harsher than the March average: Sales were probably not that weak in the first half of March, before 'lockdowns' in many parts of the US – and most likely fell deep into single digit figures in the 2. half of March, that is down more than 50%

# Auto sales down 50% March, and April won't be any better

Even before all EMU countries ran in to full scale corona troubles, sales hit the wall, lowest ever

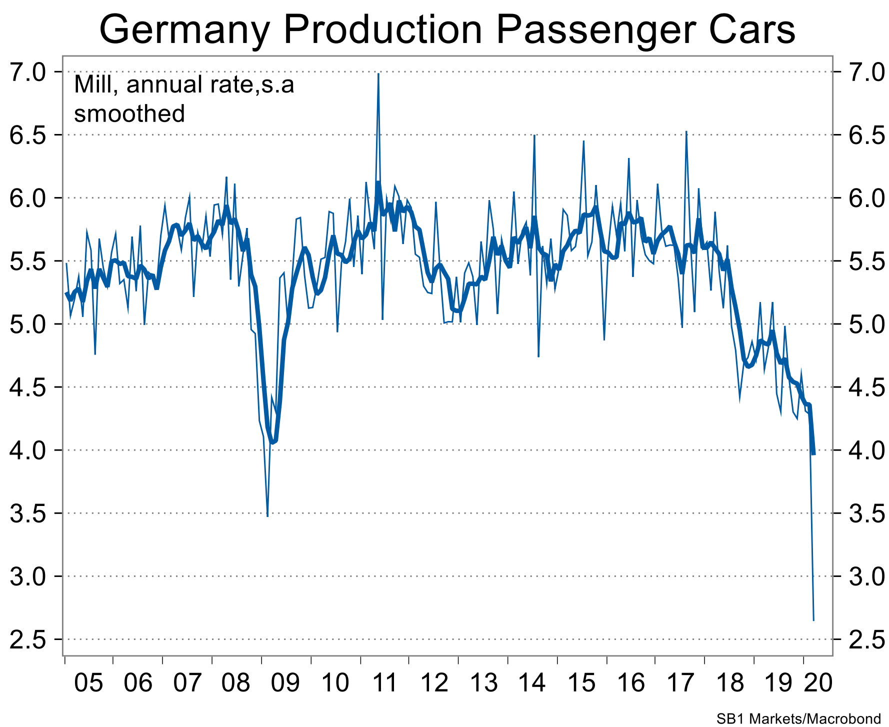


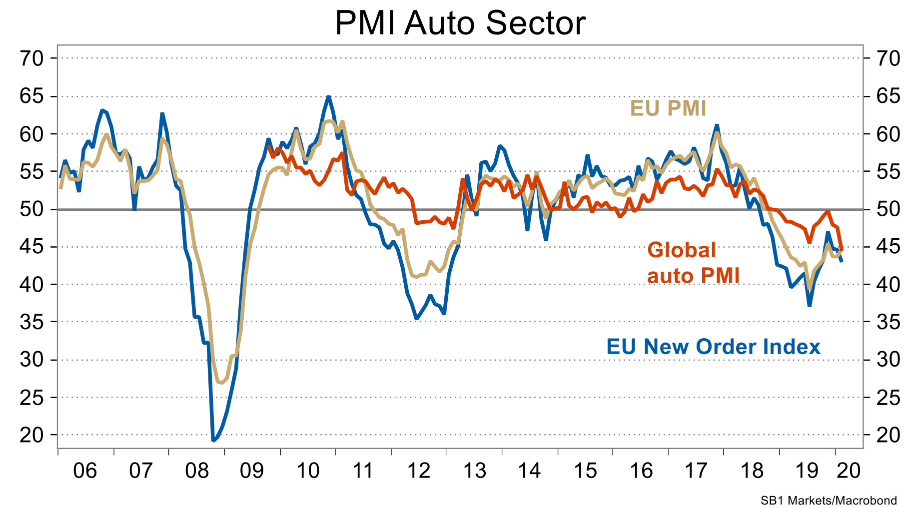



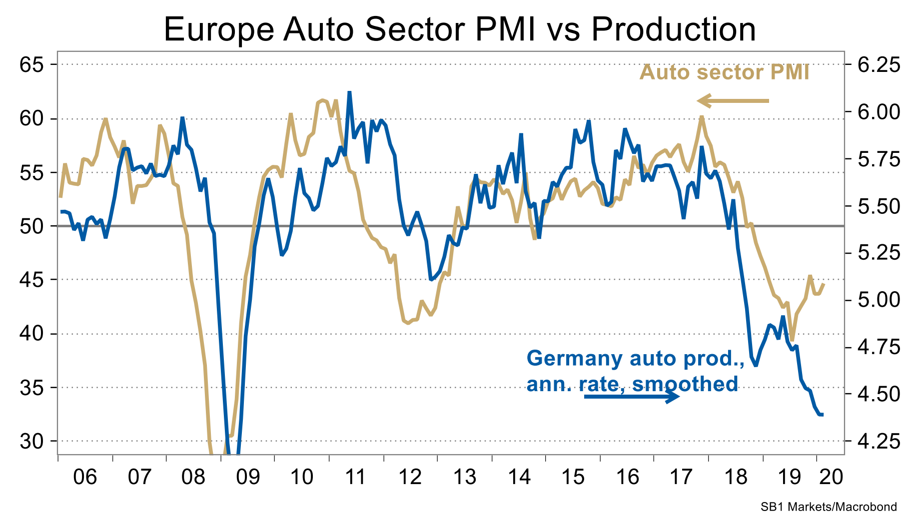

- Another corona victim, European auto sales: Sales collapsed in March. 'Luckily', production fell as well – and production will be kept back in April too, probably more or less in line with demand, so that inventories do not increase too much
- The auto industry is an important sector, and many other sectors, including Norwegian, will take a serious beating
- What's history now: Sales rose by 2% in 2019, up from 1% in 2018, the 6th annual increase. Sales were up some 35% from the bottom in 2013

# German auto production steeply down in March

The March auto sector PMIs have not yet been published, we think we know how they will go



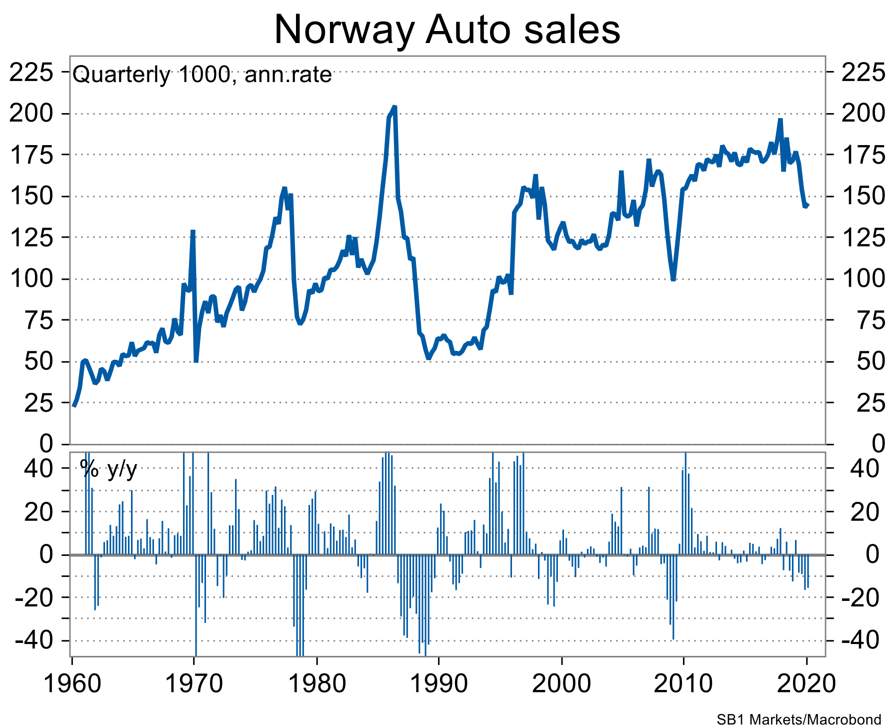



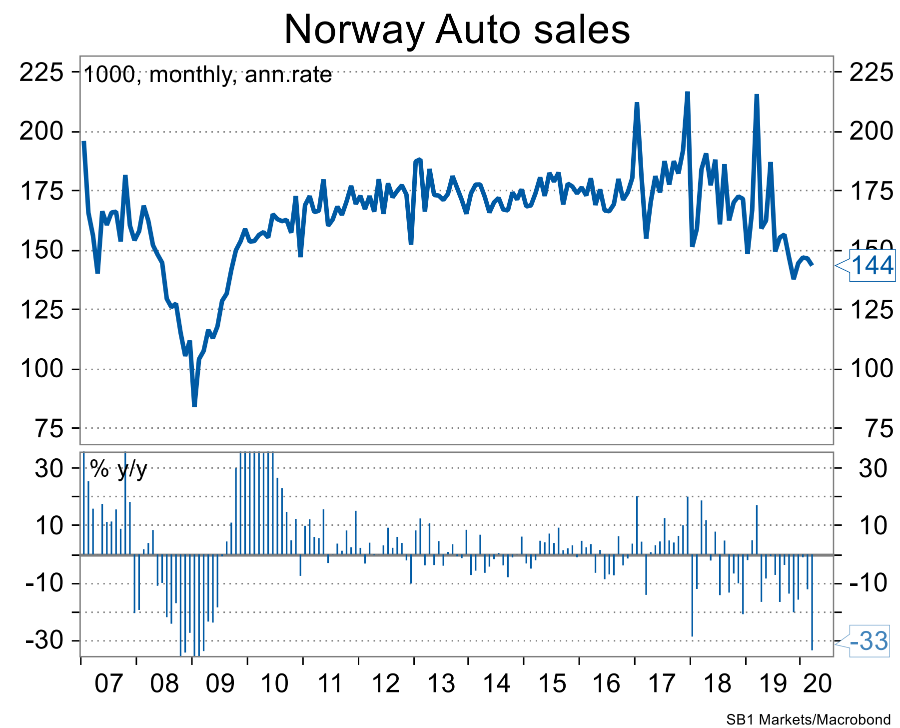




- Auto production unsurprisingly slipped in March, as factories were shut down. Before the March crunch, production had more or less stabilized at a very low level, down almost 25% from peak.
- The European auto sector PMIs recovered somewhat until March but the levels were not impressive (no March data!)

# Registrations flattish in March, sales probably not. Wait for the April reg. data

First time registrations fell just marginally to 144’ in March. We suspect sales were much lower

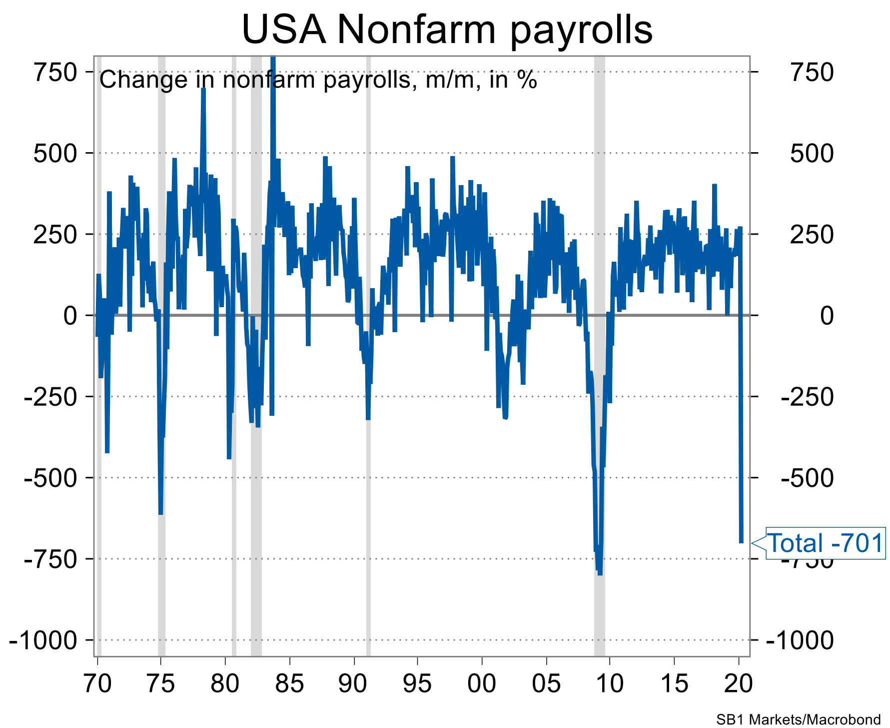


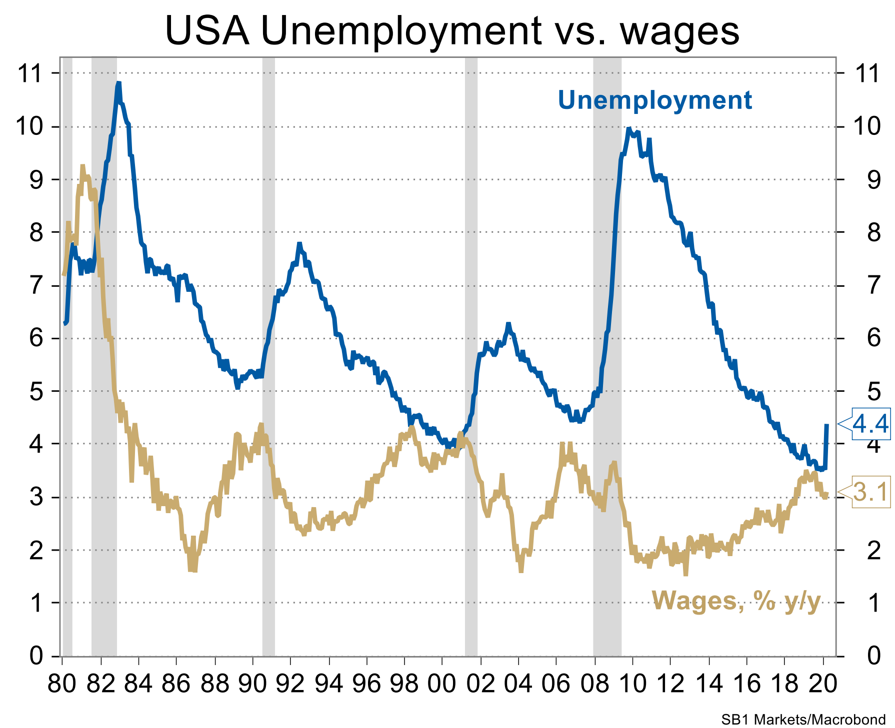




- Sales have been on the weak side for several months before the corona crisis hit.
- We are sure registration data to be much worse in April and May, at least 50% down

# Steepest drop in employment since 2009 (and it was actually MUCH steeper)

March data do not show the full corona impact but employment fell by 701' and unempl. up to 4.4%

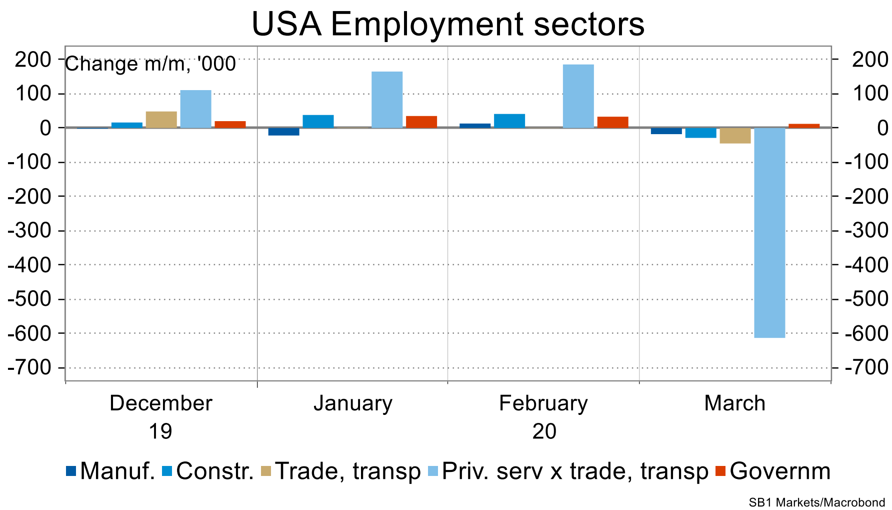


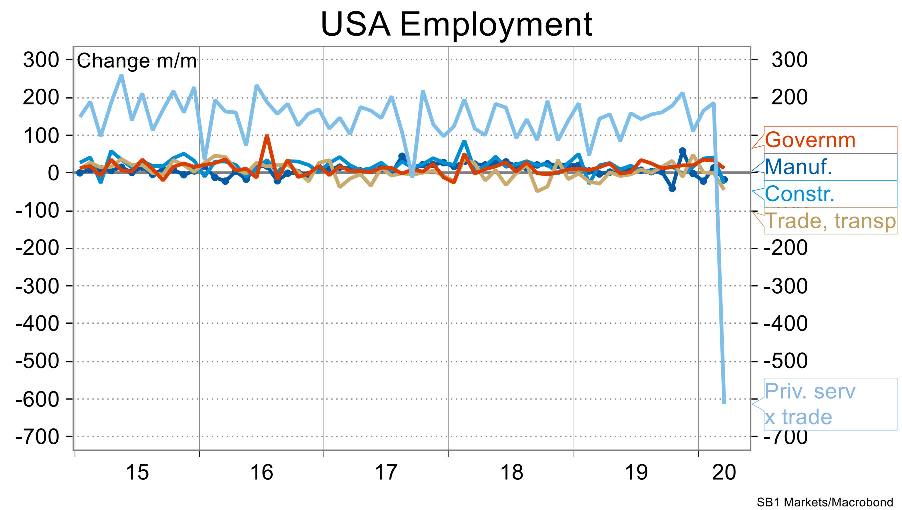



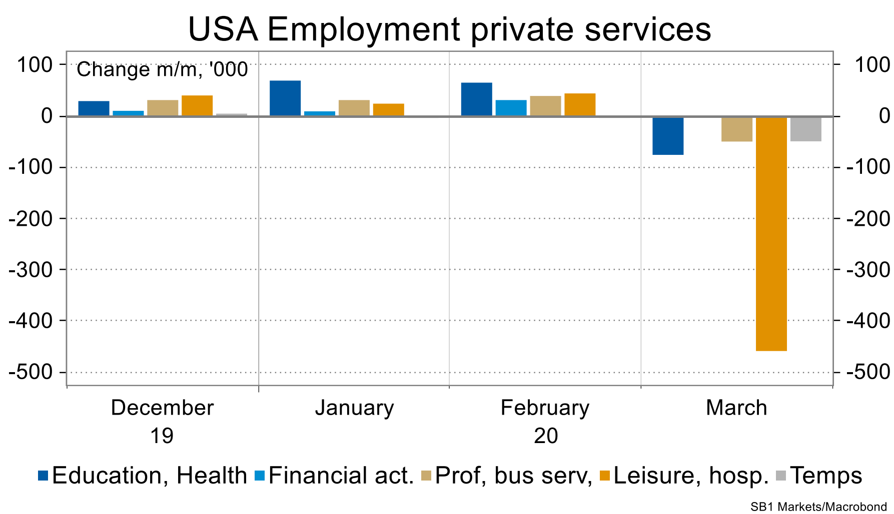

- **Employment** fell by 701' in March, the steepest monthly decline since the financial crisis and the 2nd since 1950. However, the survey measured those at the payroll at March 12, not those at work March 31. That figure was some MILLIONS lower, perhaps 8 – 9 MILLIONS lower (based on the surge in new jobless claims). Wait for the April payroll survey!
- **Unemployment** rose to 4.4%, from 3.5%. MUCH more to come, it will probably rise quickly to well above the 10% financial crisis peak
- **The average wages rate** rose 0.4% m/m and the annual rate inched up to 3.1% in March, we assume because those at the lowest income level lost their jobs more than those on the upper part of the ladder. After a while, wage inflation will come down

# Private services hit hard, unsurprisingly; leisure & hospitality the most

## Employment fell in all major sectors ex government in March, and most rapidly in hotels/restaurants



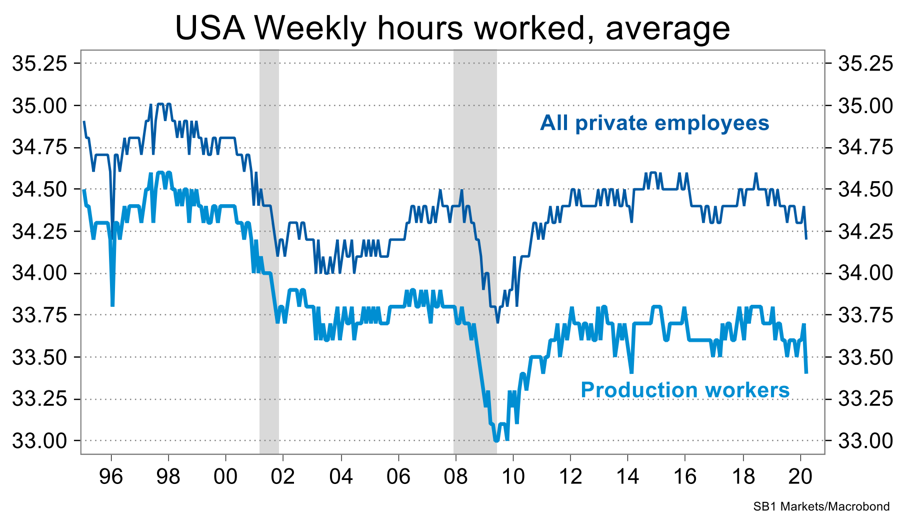



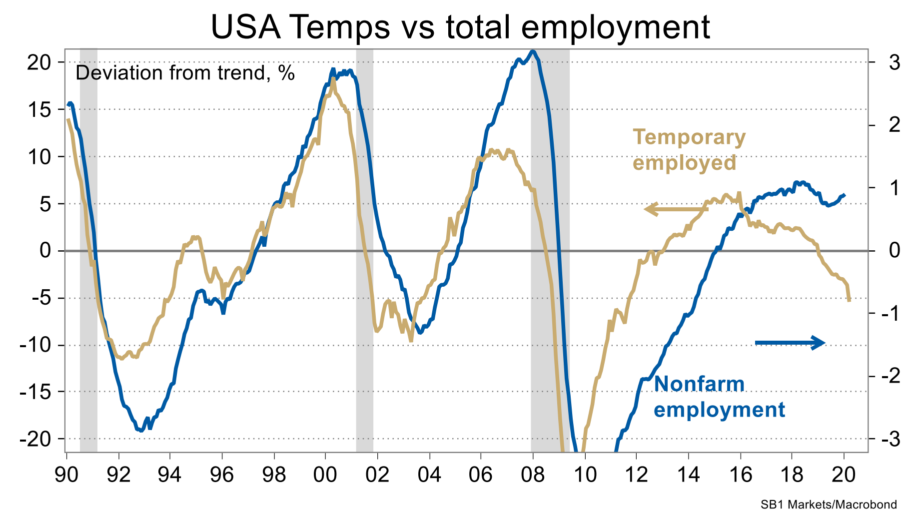



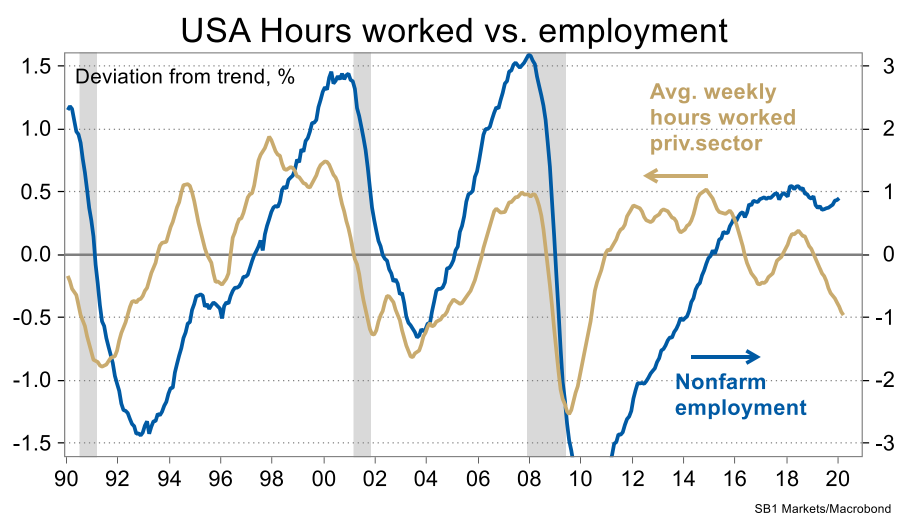

- **Employment** plunged in private services in March. Hotels & restaurants were hit the hardest, no doubt due to corona related restrictions and shutdowns
- Both retail trade, transport, construction and manufacturing reported falling employment. Just government inched up

# Weekly avg hours down and temporary employed dropped

Again, these data are only partially reflecting impacts of the corona crisis



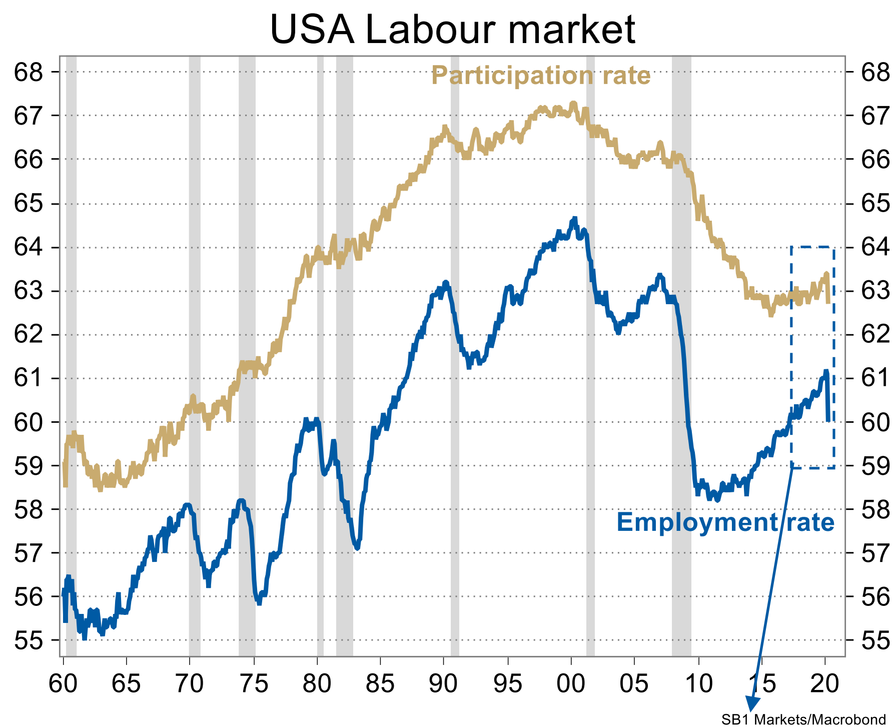



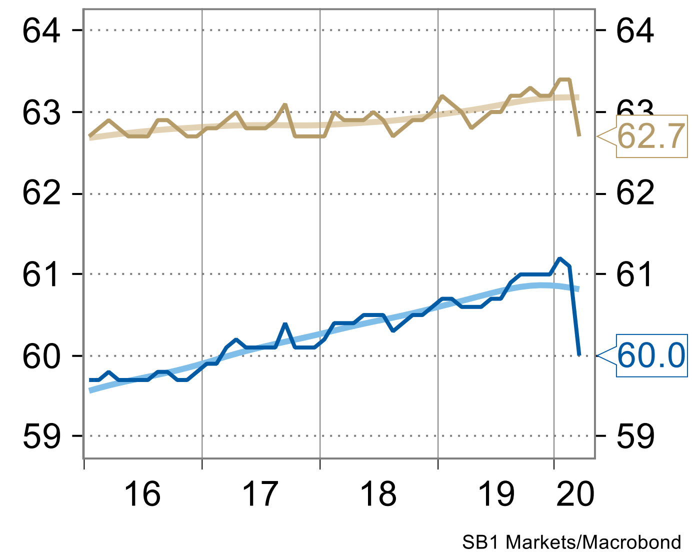




- Average weekly hours worked (in the private sector) was already trending down, an early sign of weakness

# Labour market participation came down in March, too

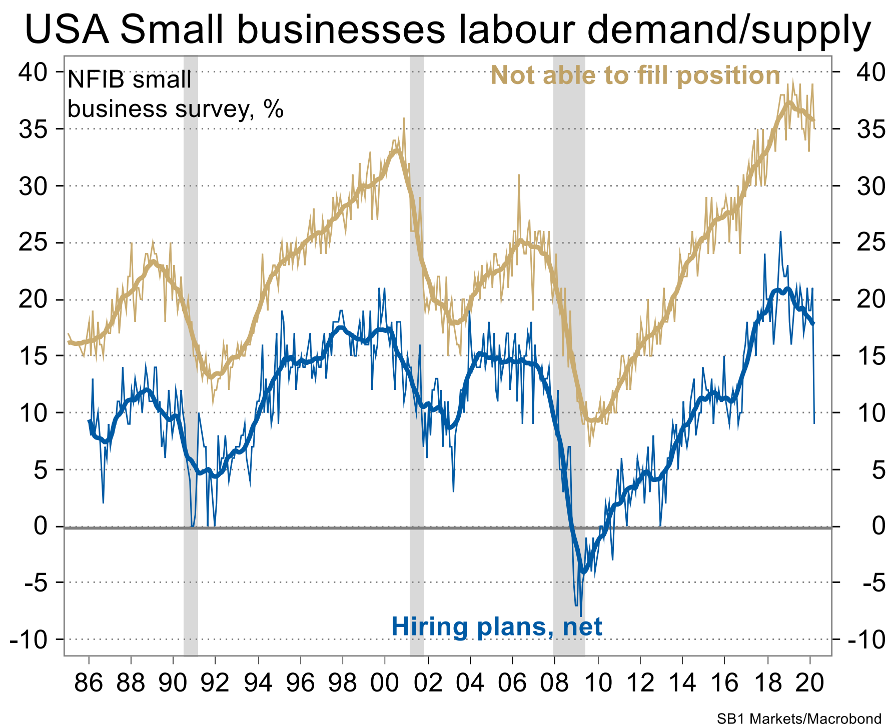
The employment rate fell 1.1 pp, participation down 0.7 pp. Much more to come

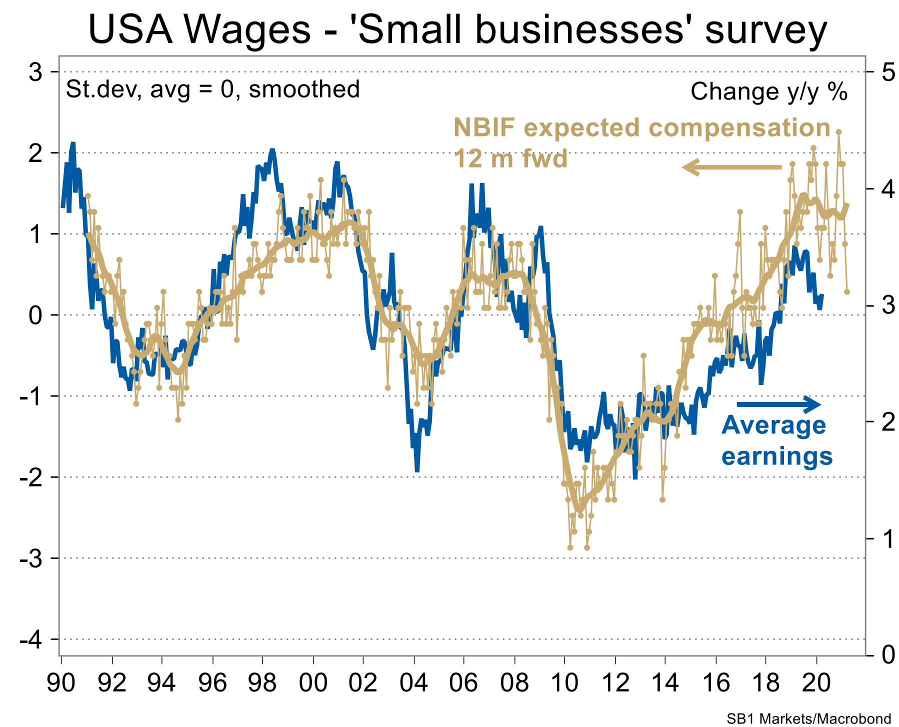


# Small companies adjusted their hiring plans sharply down

Strange: Companies reported trouble filling positions in March too. Did they not have time to think?

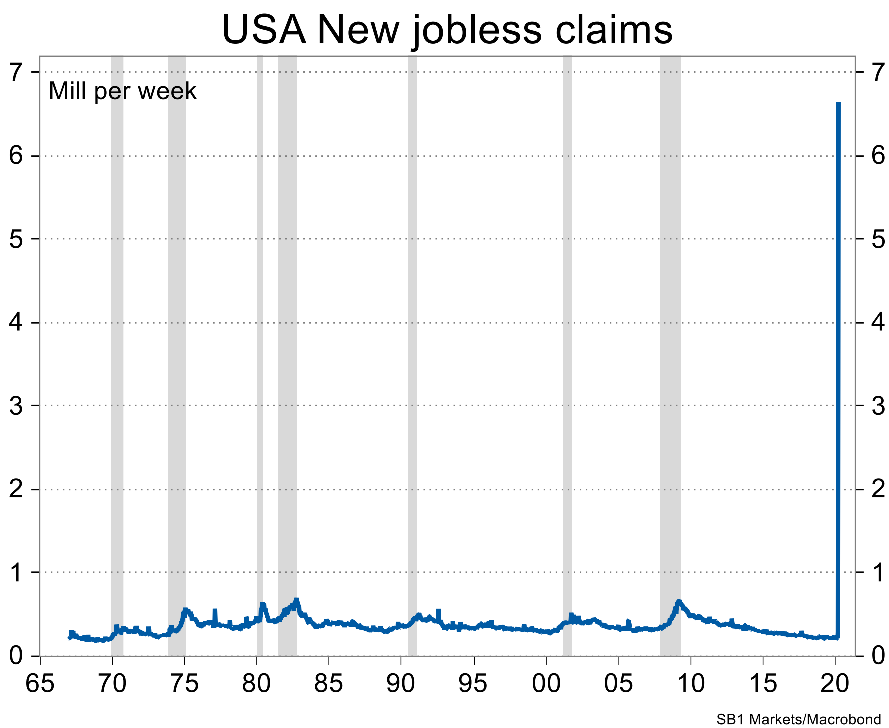


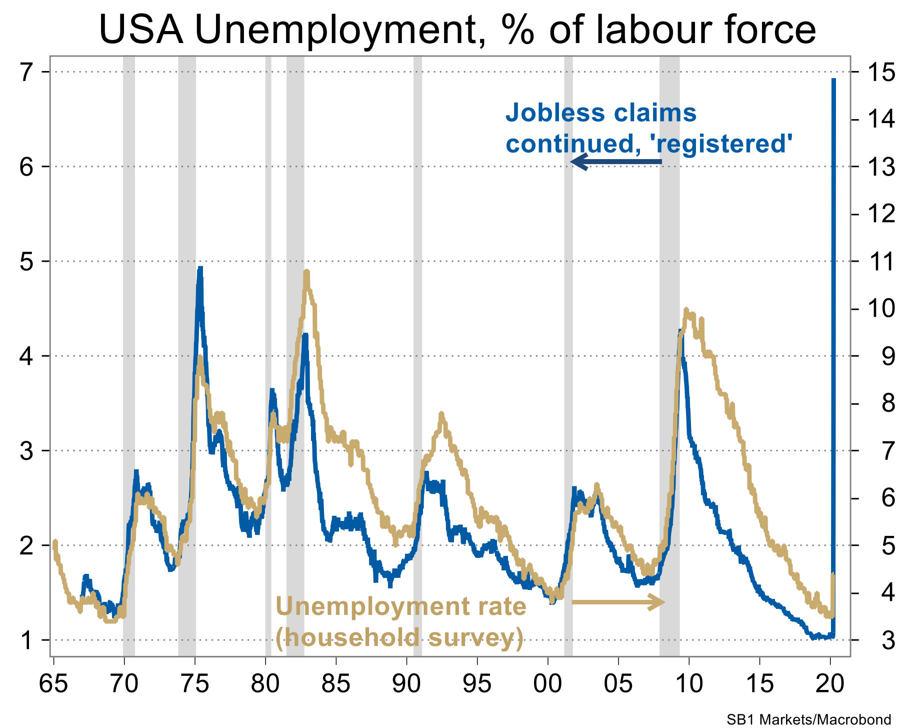




- Unsurprisingly, the share of companies that reported net hiring plans fell sharply in March. However the real decline by the end of the month was much larger – it certainly fell into negative territory. (We have not been able to obtain when the survey was conducted, it was obviously not at the end of the month)
- There is no reason to assume that companies that wanted to hire in March were not able to fill positions, at least not by the end of the month
- Compensation expectations are on the way down, more to come

# Another unprecedented spike in jobless claims, unemployment up to 15%?

## New claims skyrocket to 6.6 million last week, from 3.3'; the US economy has plunged into recession

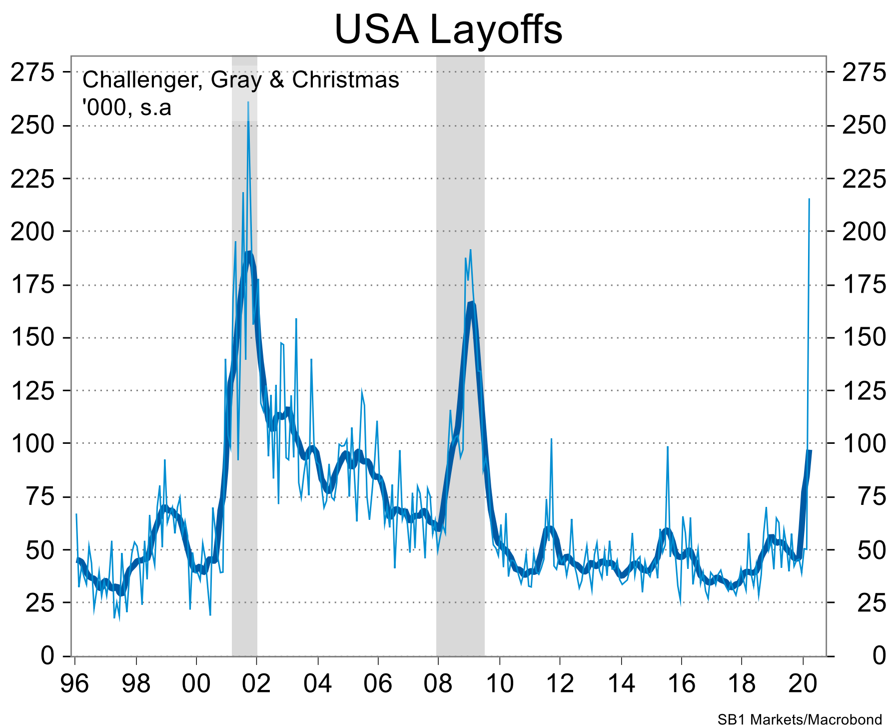


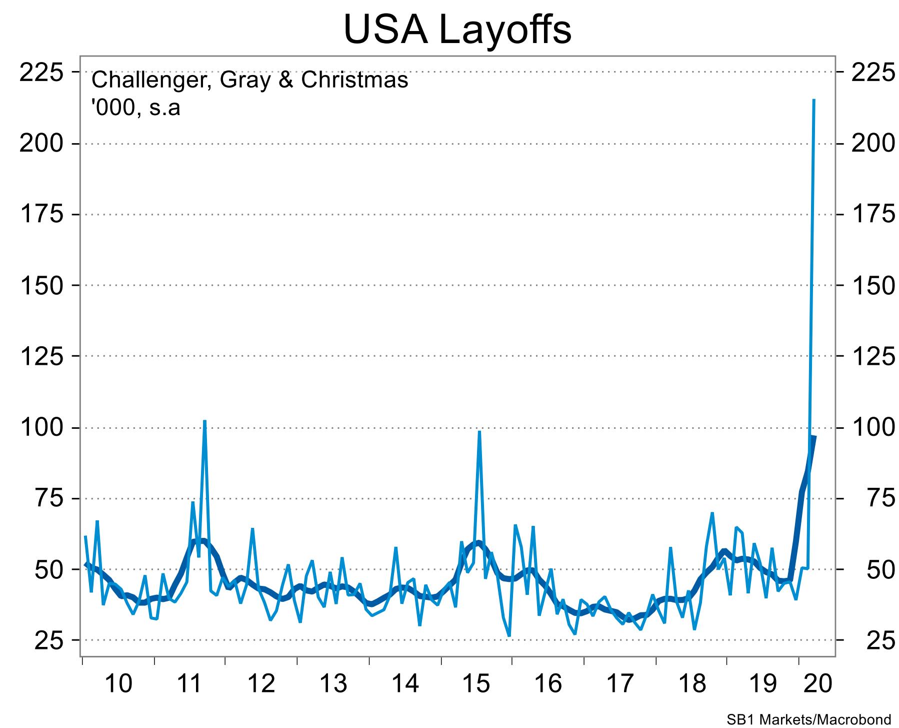




- The unprecedented hike in the new jobless claims the previous week at 3.3 mill were as expected by state data but the 6.6 mill extra last week was much higher than expected, in sum 10 mill, or 6% of the US labour force, in two weeks!!
  - » Claims surged across the US and almost all states cited huge problems in service sectors due to Covid-19
  - » 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 have climbed to above 11 million last week, from 1.8 mill two weeks ago (the figure will be published coming weeks as the claims are processed), equalling almost 7% of the labour force, up from 1% two weeks ago! Norway has experienced an even steeper increase, from 2 to 12%
  - » 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 probably rise to well above 10% in April, from 4.4% in March –and to even higher levels in April (and probably May)

# Steep rise in number of layoffs, of course

## Layoffs soared in March, to levels not seen since 2000

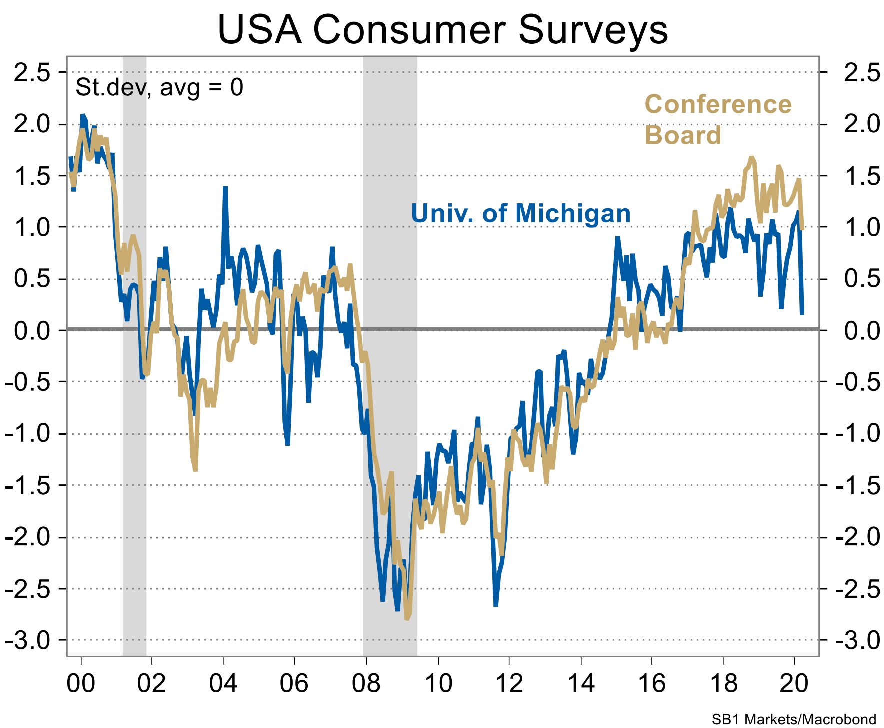


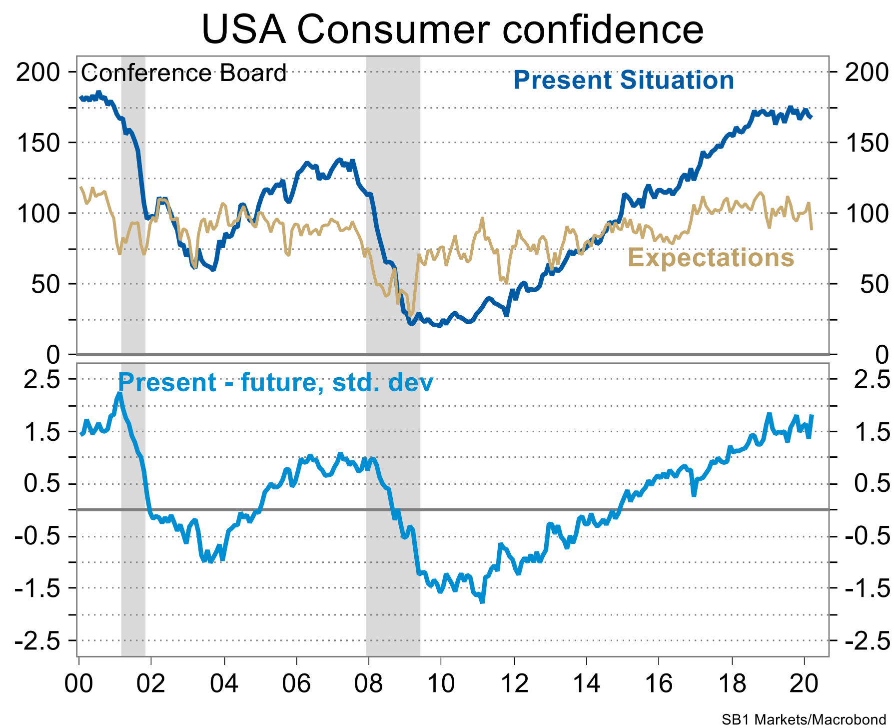




- The number of announced layoffs jumped to 216' in March, a more than 300% increase. Thus, layoffs rose to a higher level than during the 2009 financial crisis, and the highest since 2001. Given the spike to 6.6 mill. jobless claims last week, we are surprised the number was not even higher, just a few per cent of the new claims were due to ordinary lay offs, not just temporary lay offs/furloughs, which are not included in these figures

# Conference Board's consumer sentiment fell less than expected in mid March

CB's consumer confidence survey was conducted prior to March 19. *Thereafter something happened*

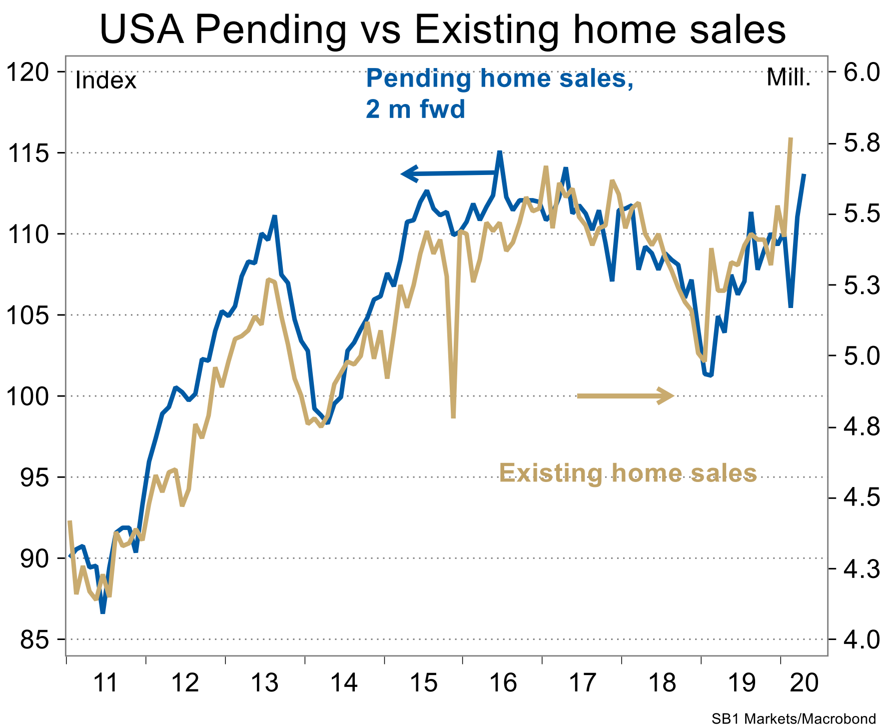


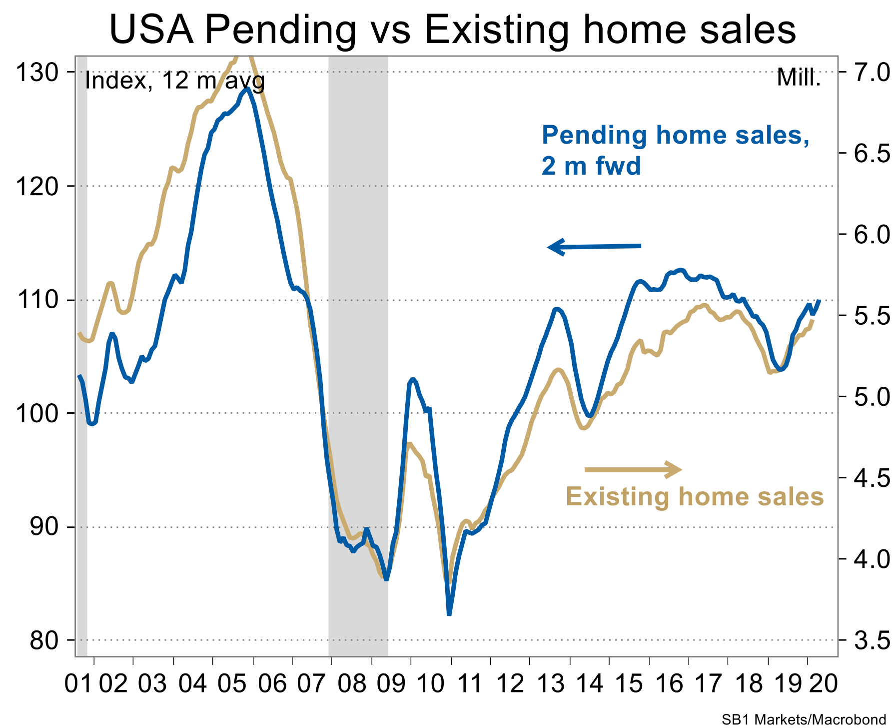




- Conference Board's consumer sentiment index fell to 120 in March, from 133. The decline was much smaller than expected (although it was the largest one since 2011), back to the 2017 level. As the cut off date for the survey was as early as March 19 and thus, too early to mirror the full impacts of the coronavirus crisis and the mitigating measures
  - » UoM's sentiment index fell to 89.1 in March, still not a low level, but the largest monthly drop since the financial crisis
- Steeper declines in confidence are sure to follow the next month(s), as unemployment is soaring and the economy is stumbling directly into a deep recession

# Pending existing home sales have been increasing rapidly

## Pending home sales soared in February – ahead of corona impacts

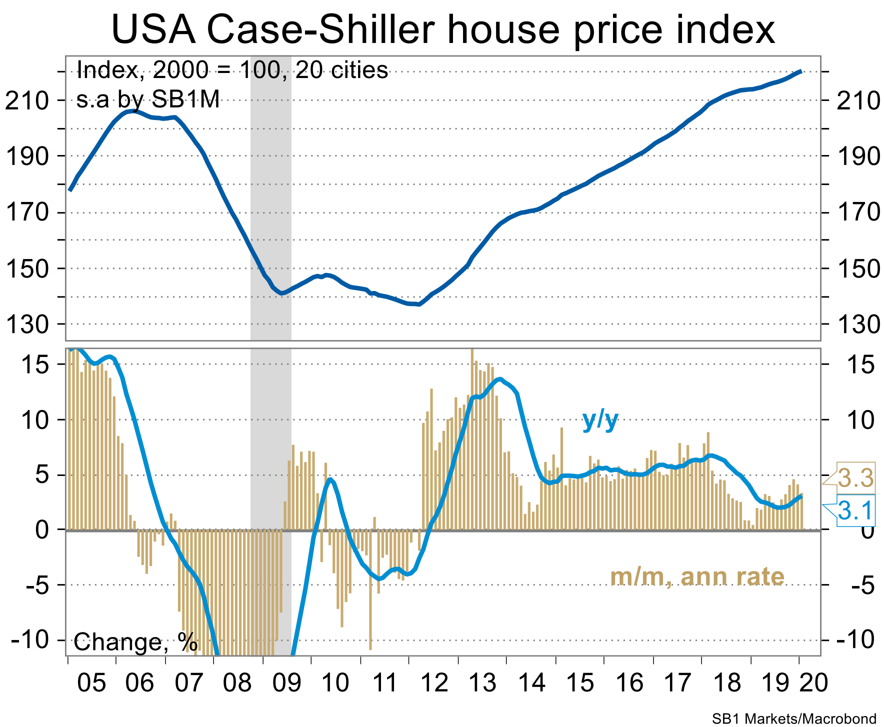


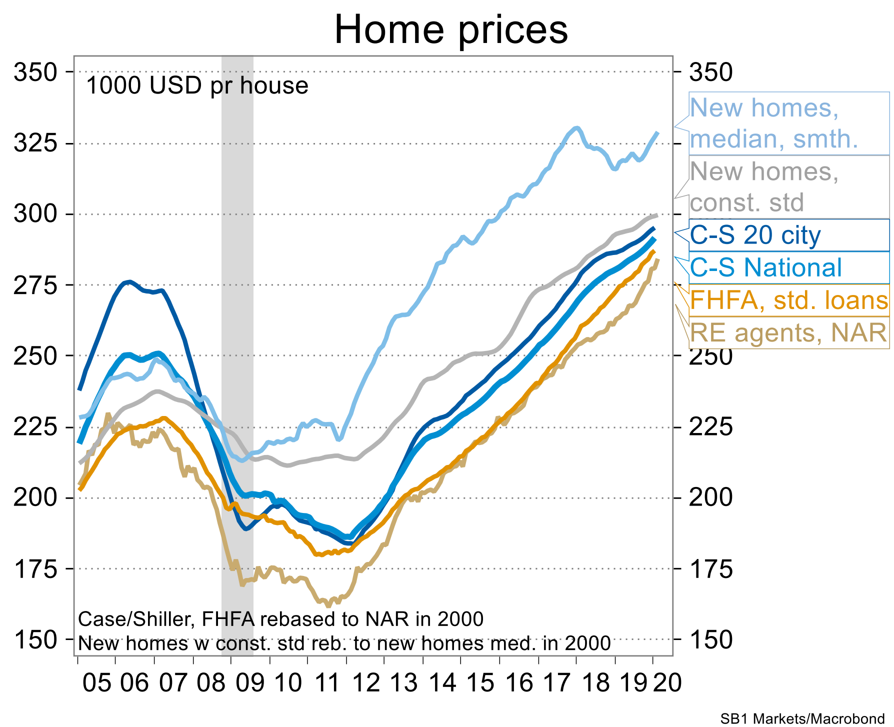




- Pending (existing) home sales jumped 6.5% m/m in February, much higher than expected, following a steep rise in January too. Sales have been heading up since early 2019 and are up 9% y/y
- Pending sales, which are leading actual existing home sales, do not signal another rise in existing home sales, which soared in February. Covid-19 will no doubt derail the housing market in March and onwards

# Case Shiller house price inflation has been gaining pace

In January & December, price growth slowed, while other housing data were booming (before corona)

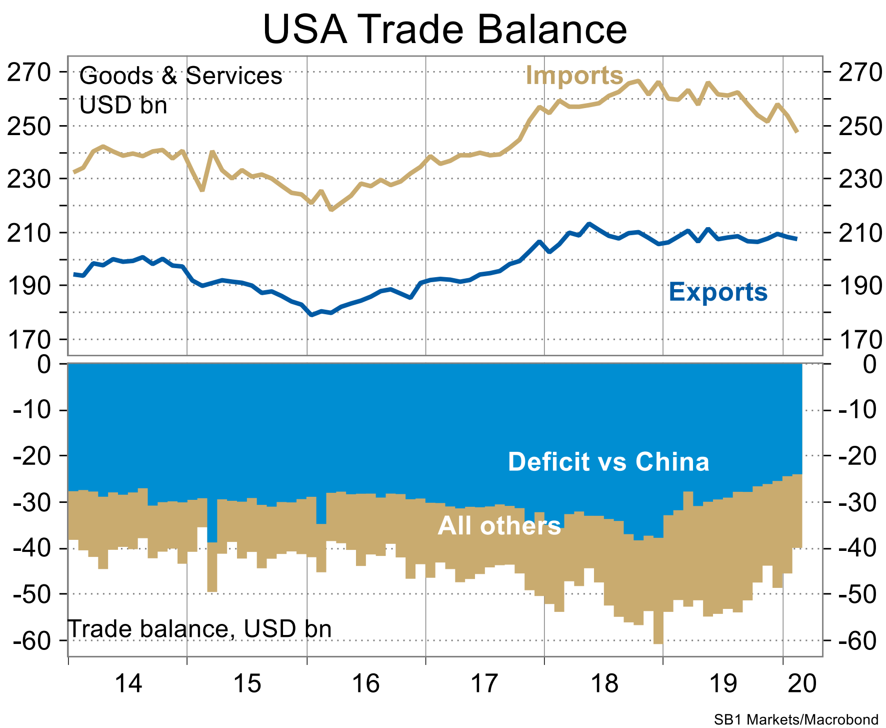


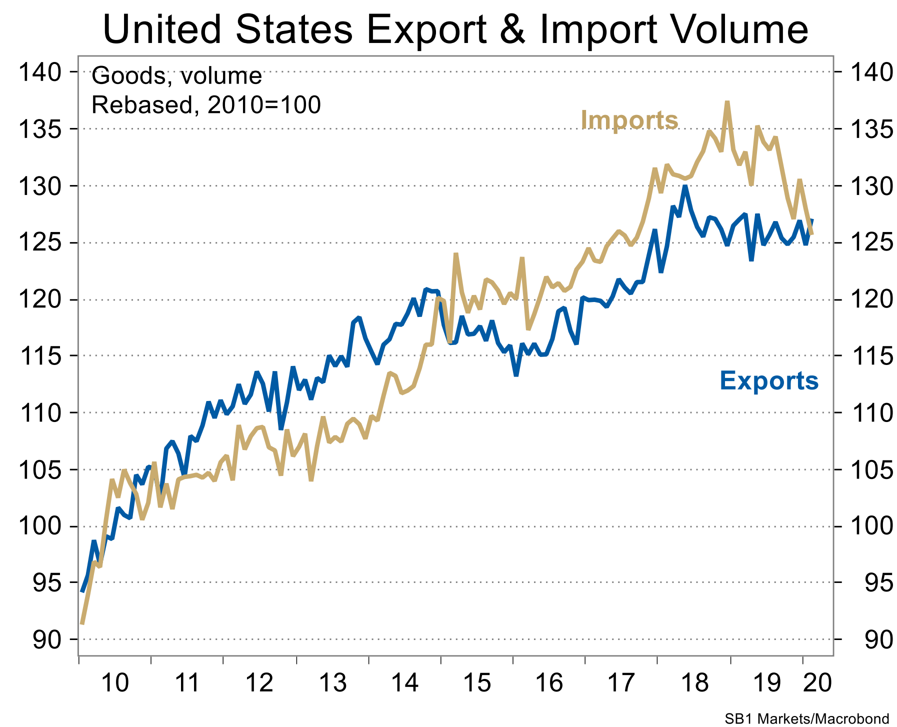




- Case-Shiller house prices rose by 0.3% m/m January, a 3.3% annualised speed, a small deceleration from a downwardly revised December. House price growth has slowly accelerated since early '19, yet, it has slowed the past 2 months. Annual rate at 3.1%, still well below 2012-2018. The downside risk is much lower than before the 2008-2009 financial crisis!
  - » Other existing home price indices prices do not confirm any slowdown. New home prices are accelerating
  - » The CS 20 city (nominal) avg is 7% above the 2006-peak level
- The economic shock of Covid-19 is likely to put a brake on housing demand and, thus, dampen price inflation

# The trade deficit is shrinking as imports wane, exports flat

## The Chinese corona lockdown sent imports down in February

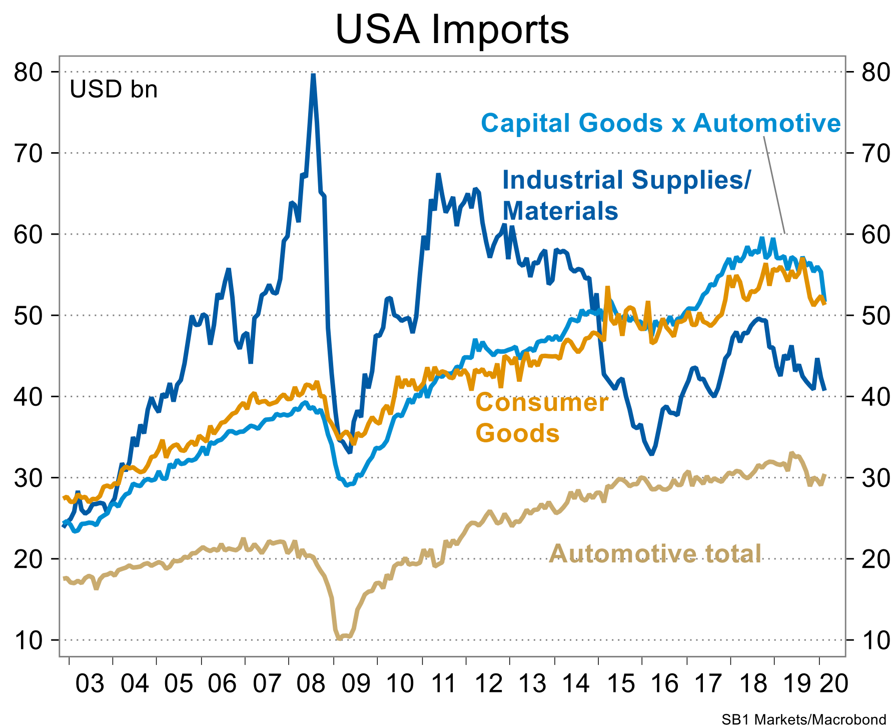


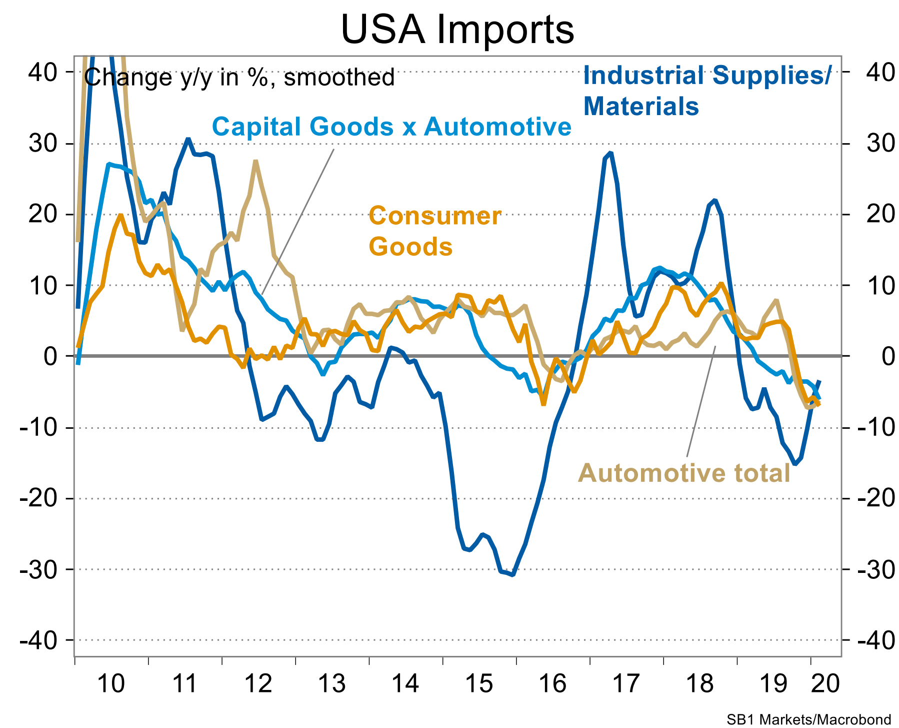




- The overall trade deficit of goods & services shrank to USD 39.9 bn in February, the lowest since 2016. The deficit has declined rapidly since mid-2019, as imports have fallen, exports flattened out
  - » Imports dropped 1.8% m/m in volume terms, chiefly due to a steep drop in imports from China as the country was 'closed down' to combat the coronavirus. Still, imports have fallen for almost a year and are down 3.4% y/y. We find 3 reasons behind the imports downturn; weaker domestic demand, a shrinking deficit to China due to the trade war/tariffs, and a disappearing petroleum deficit, driven by shale oil production
  - » Export volumes rose by 1.9% m/m and have flattened out since mid-2018

# A broad imports slowdown

Capital goods and industrial supplies down in March, we assume from China

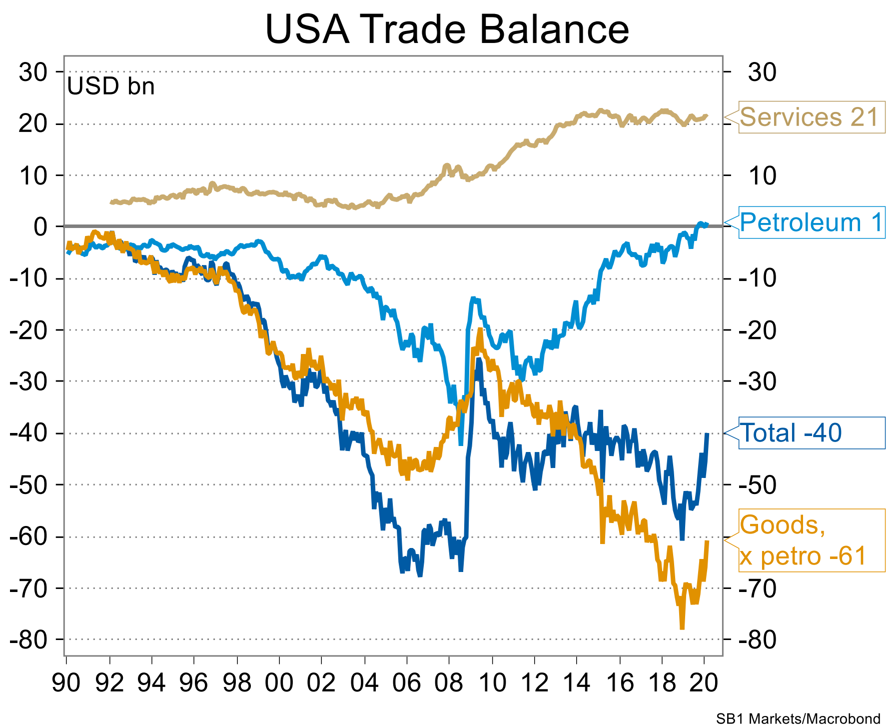


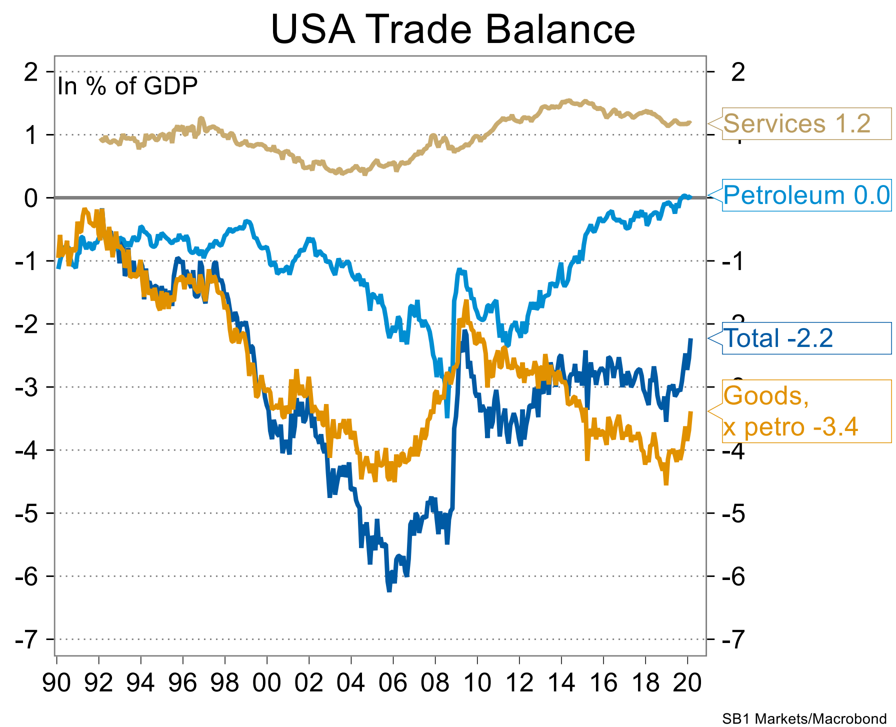




- Imports of industrial supplies and materials are more volatile than the other groups

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

## The goods deficit ex petroleum is shrinking but remains high, even in % of GDP, at 3.4%

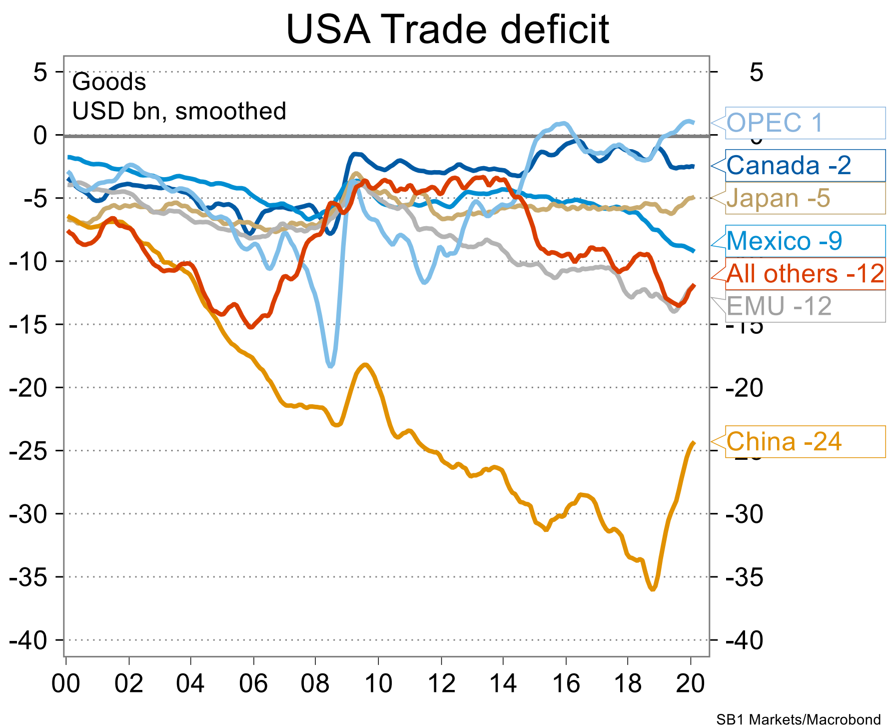


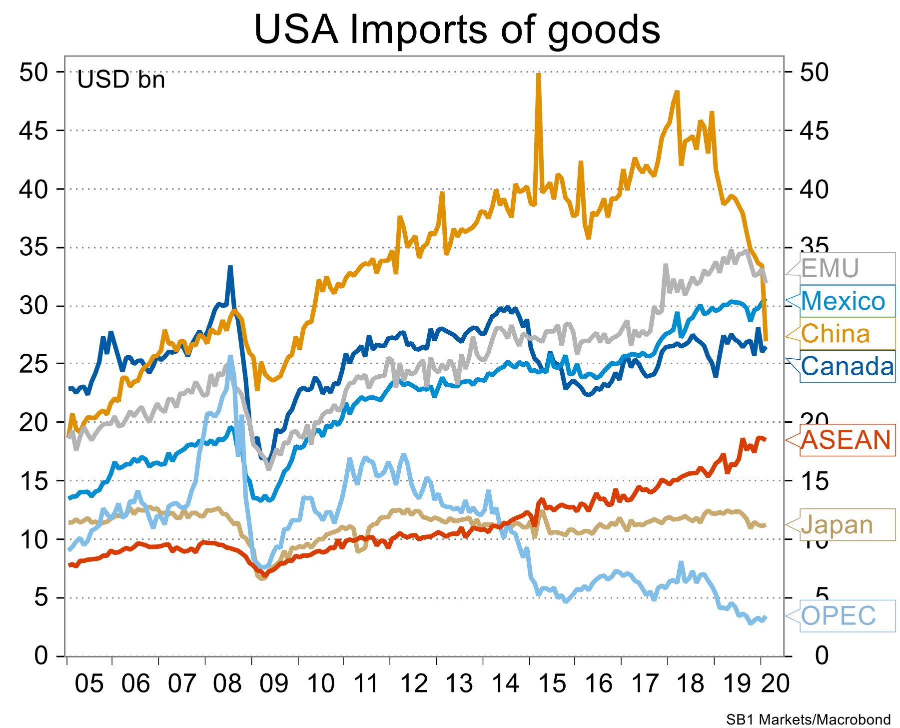




- In February, the goods x petro products deficit fell to USD -61 bn, or 3.4% of GDP. The deficit reached ATH in Dec '18 and has been slowly shrinking since then. The total trade deficit, including petroleum (and services), is at 2.2% of GDP, from 3% last summer
- The petroleum trade deficit has turned into a marginal surplus, from USD 30 bn/m in 2012
- The US is having a surplus in services at USD 21 bn, equalling 1.2 of GDP, trending marginally down

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

The deficit vs OPEC is turned to a small surplus, and deficits vs Eurozone, Japan are now shrinking

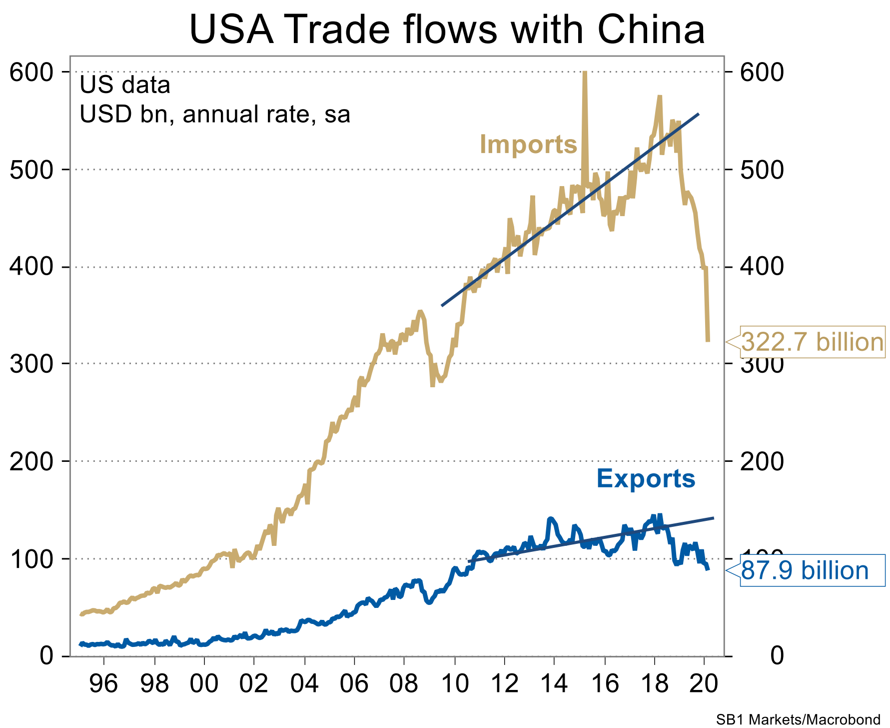


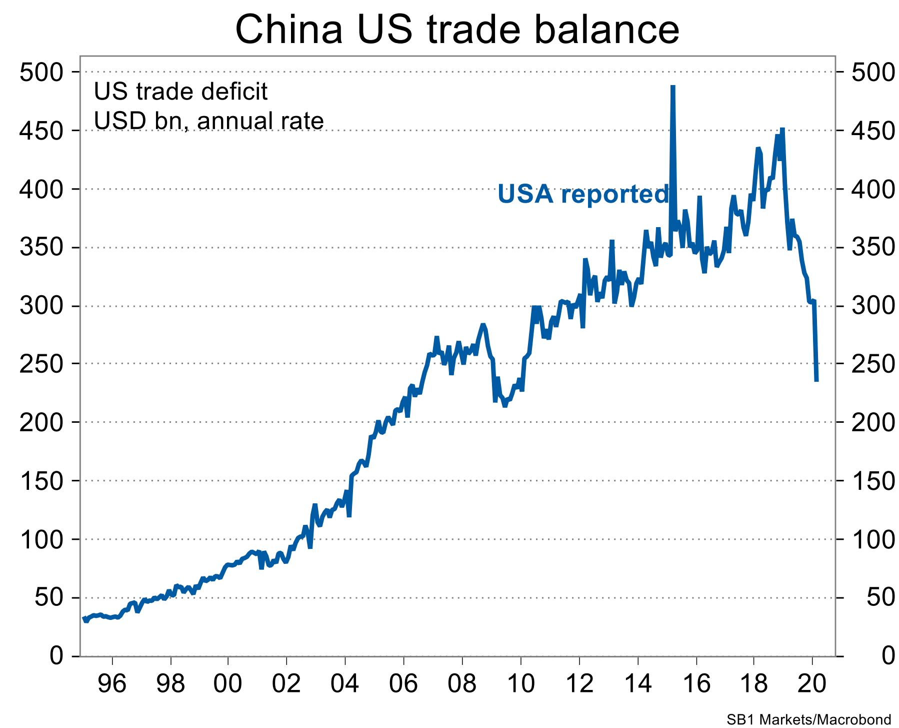




- The US deficit in goods (no services in these country stats) vs China equals 40% of the total deficit in goods
  - » In March, imports from China plunged, no doubt due to Covid-19 and the shutdown of Chinese factories and businesses
- The deficit vs Mexico has widened markedly the past 1 ½ year, Canada flattening out now, close to balance. The deficit vs EMU it trending out but it has declined since mid-2019, and the deficit to Japan has been shrinking somewhat
- The US now runs a surplus vs OPEC countries, +USD 1 bn, due to higher domestic oil production (shale)

# US imports from China have fallen more than exports to China

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

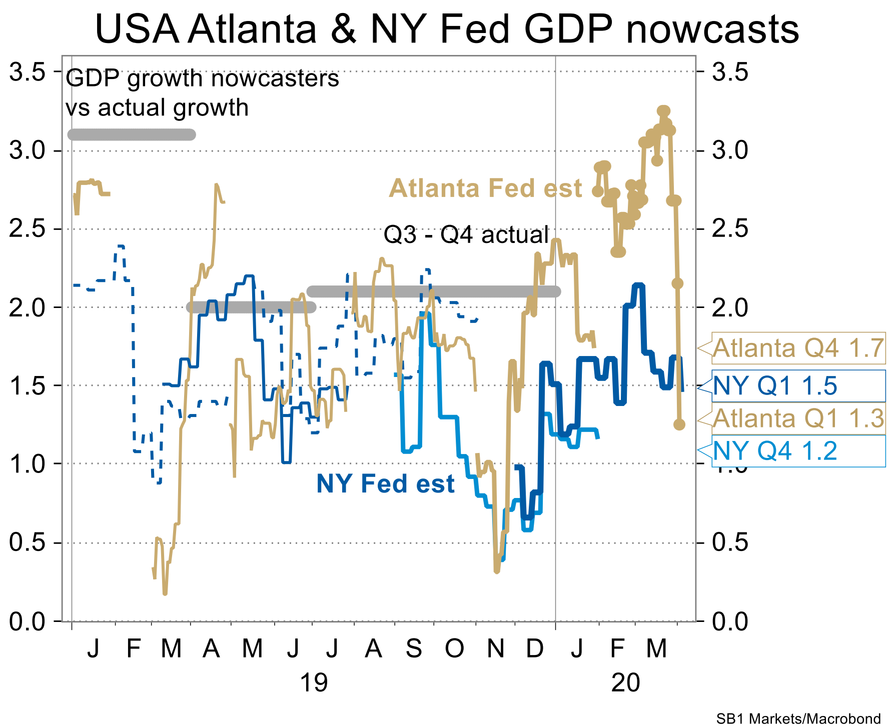


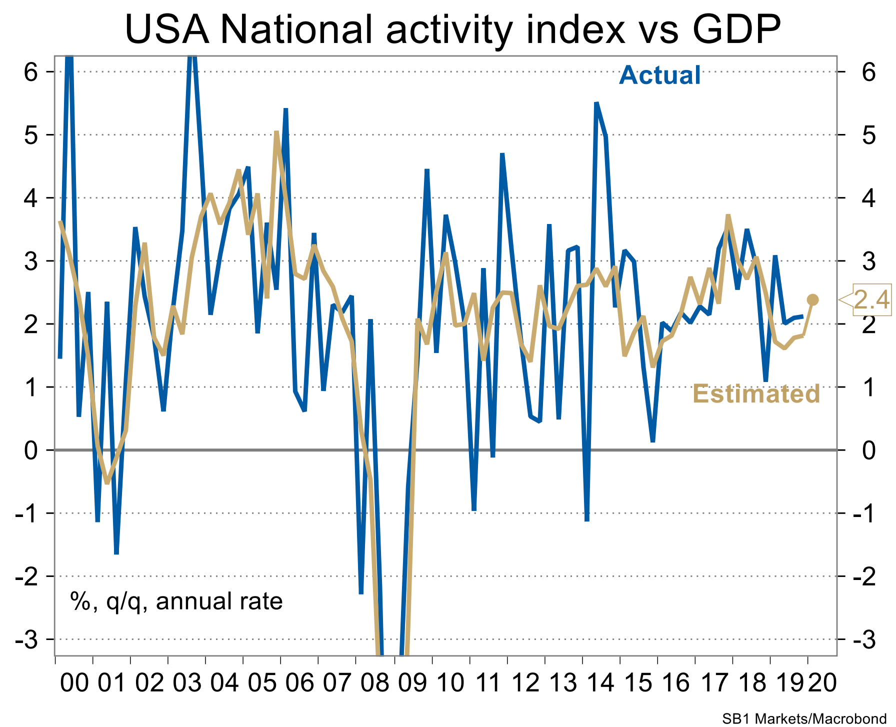




- According to US data, imports from China have fallen by 27%, and exports to China have fallen by 28% since January 2018, before the first tariffs were implemented. Measured in USD, the decline in imports from China is far larger the decline in exports – and the US deficit vs China has fallen by some USD 150 bn from the 2018 peak, to 300 bn now
- China reports a some USD 100 bn decline in the surplus, from the top. China has always reported a smaller surplus vs. US, than the US figure for deficit vs. China. The discrepancy has been stable over time and is very likely due to exports reported FOB and imports CIF included. (Their respective bilateral export/import data are also very similar, no fake news here)

# Nowcasters starting to show the first corona impacts, MUCH more to come

Atlanta Fed down to 1.3%, NY Fed 1.5%, with just a very few data points impacted by Covid-19

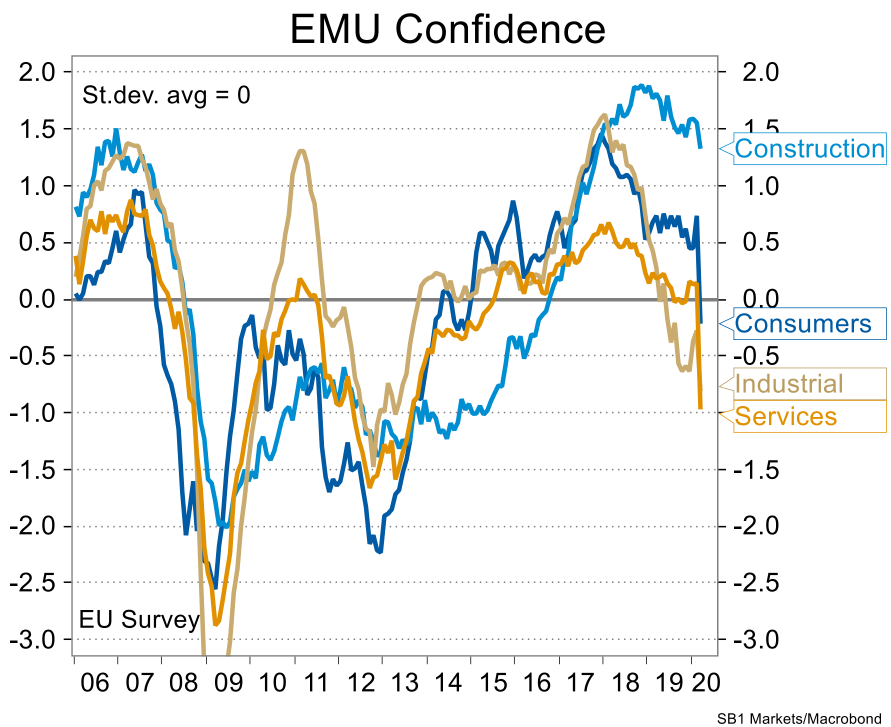


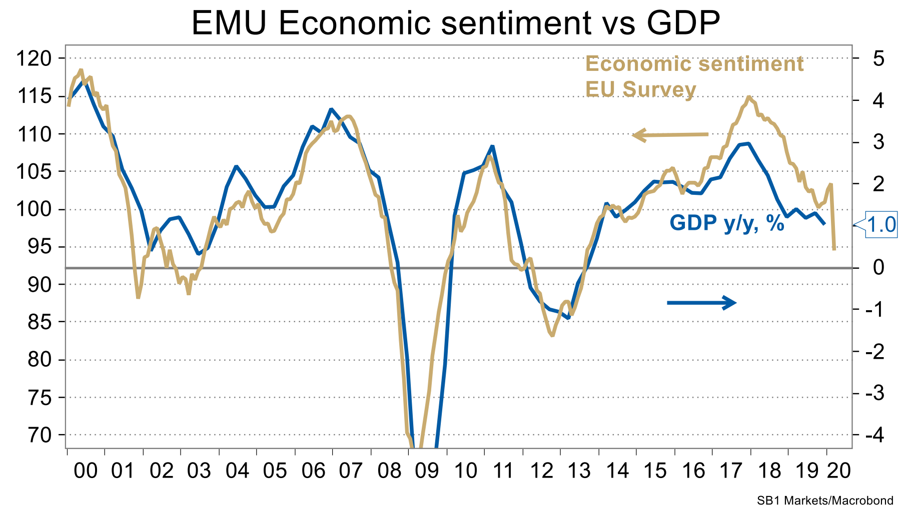



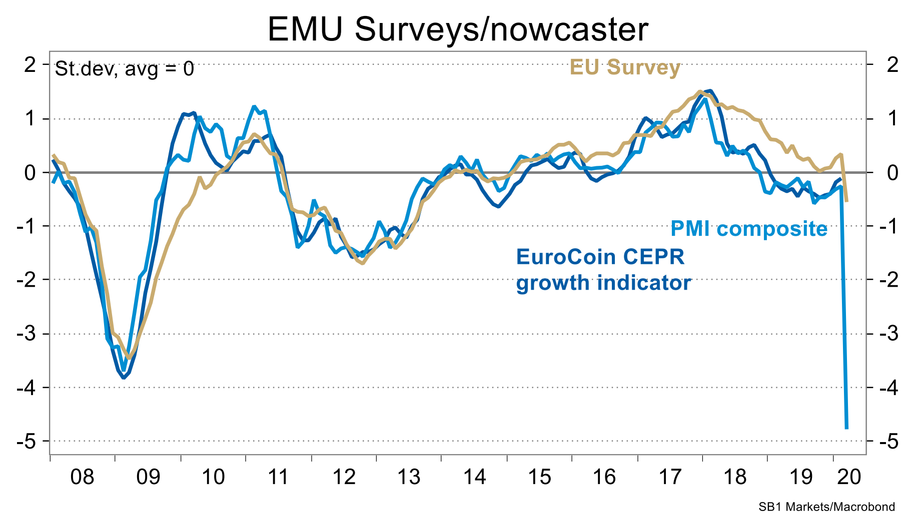

- ***<u>These nowcasters have not incorporated much data impacted by the Covid-19 outbreak yet</u>***

# EU economic sentiment weakens but much less than the PMI

## Unfortunately, PMI is usually leading and the ECI is rather useless due to an early data collection




- Total sentiment dropped to 94.5 in March, from 103.4. The level is still well above the 2011-2013 level, however, the monthly decline was the steepest ever (data back to ‘86). Due to Covid-19, the data collection was stopped earlier than usual and prior to the implantation of restrictions in many countries. Moreover, this survey has been too optimistic vs growth the past years
  - » We prefer the PMI and CERP surveys, as the ECI is The survey is lagging these surveys by a couple of months. CERP has not yet reported March data
- The ECI confirms the sector outlook which the PMI reported; services were hit the hardest, and consumer sentiment dropped

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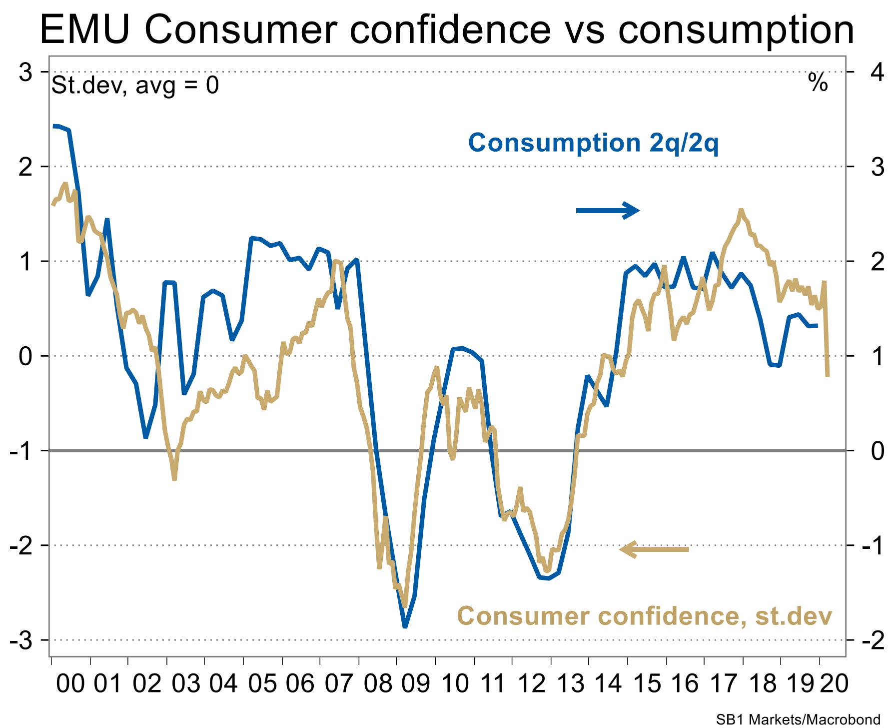
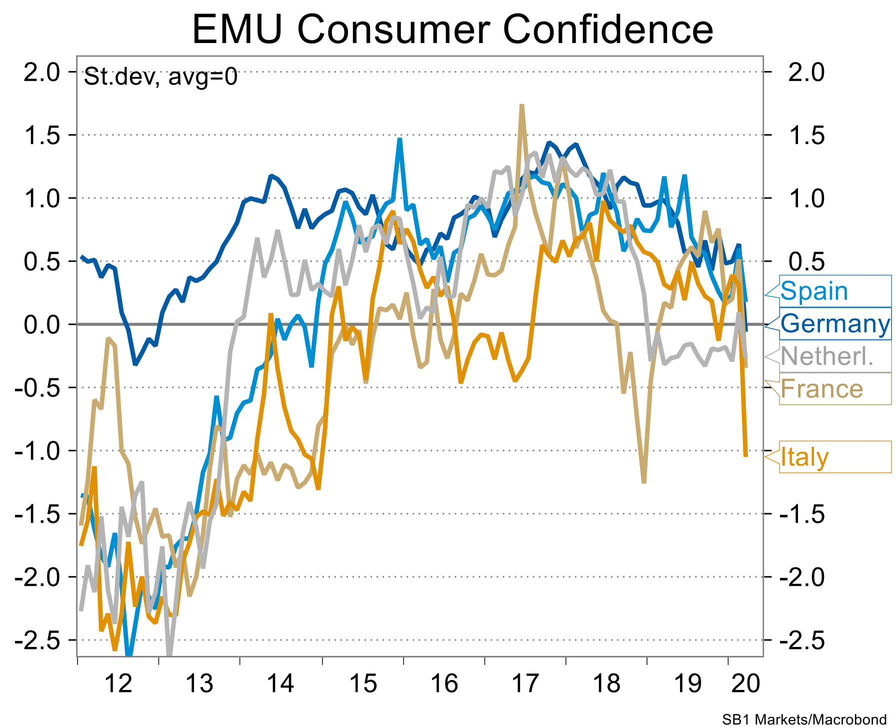
# Consumer sentiment tumbles in March, steepest decline on record

Unsurprisingly, CCI slipped in Italy – and other countries will follow

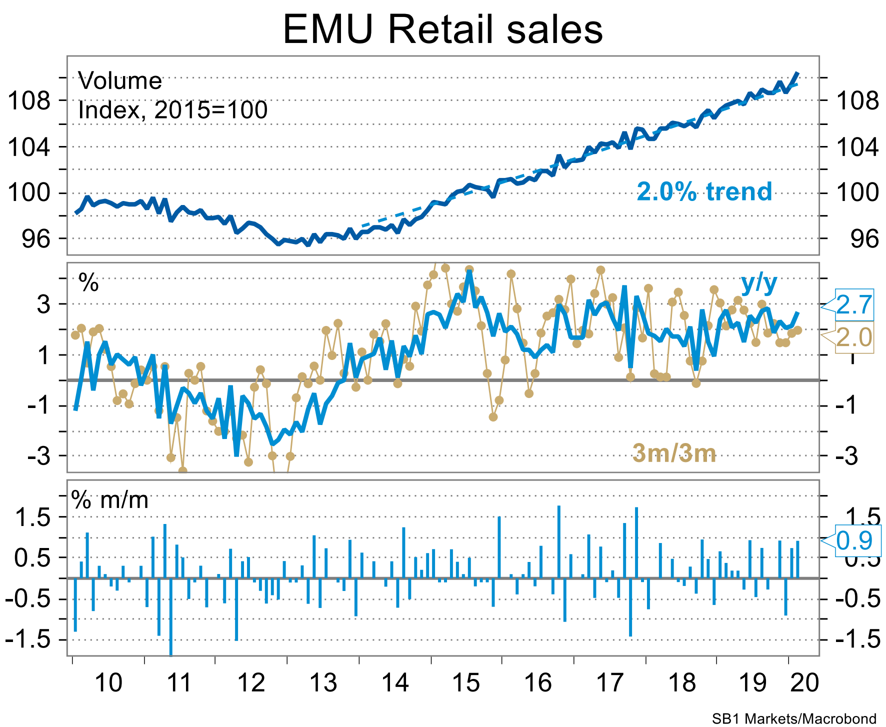


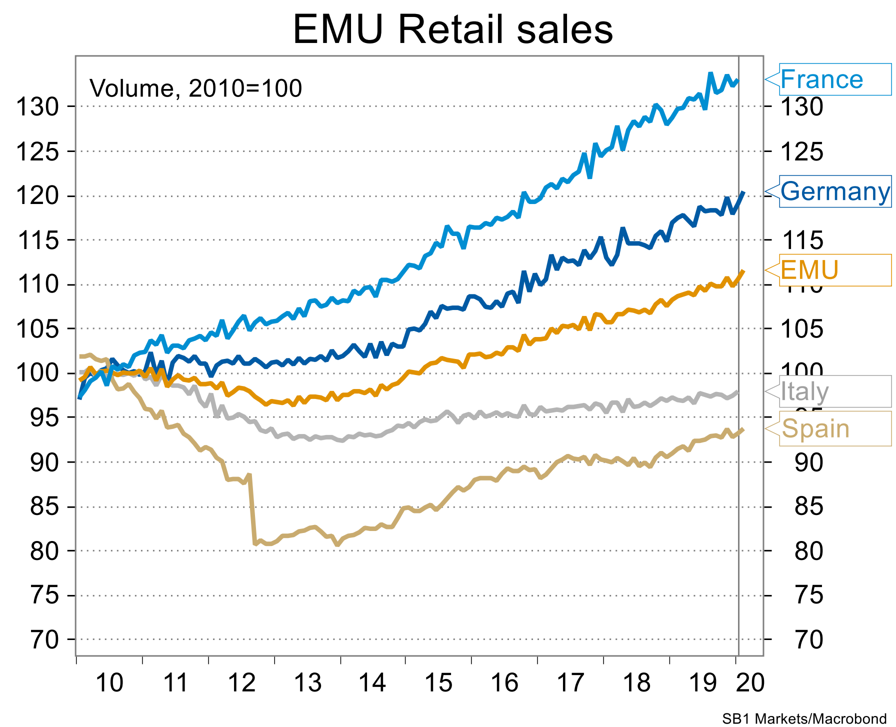




- Consumer confidence dropped 1 st.dev in March, as the corona crisis spread through Europe. The decline is by far the steepest monthly drop on record (since 1995) and the index is back to the 2014 level. Moreover, the March figure probably masks an even steeper drop, as the data collection was stopped somewhat earlier than the usual dates, due to corona disruptions. For the same reason, only some 15% of responses were collected

# Retail sales picking up ahead of corona crunch

## Solid growth in January/February, underlying growth at 2%




- Retail sales volume rose 0.9% m/m in February and underlying growth has picked up to 2%
- Sales have been heading up everywhere ex Italy, which has been more or less flat
- Sales will of course fall steeply in March/April

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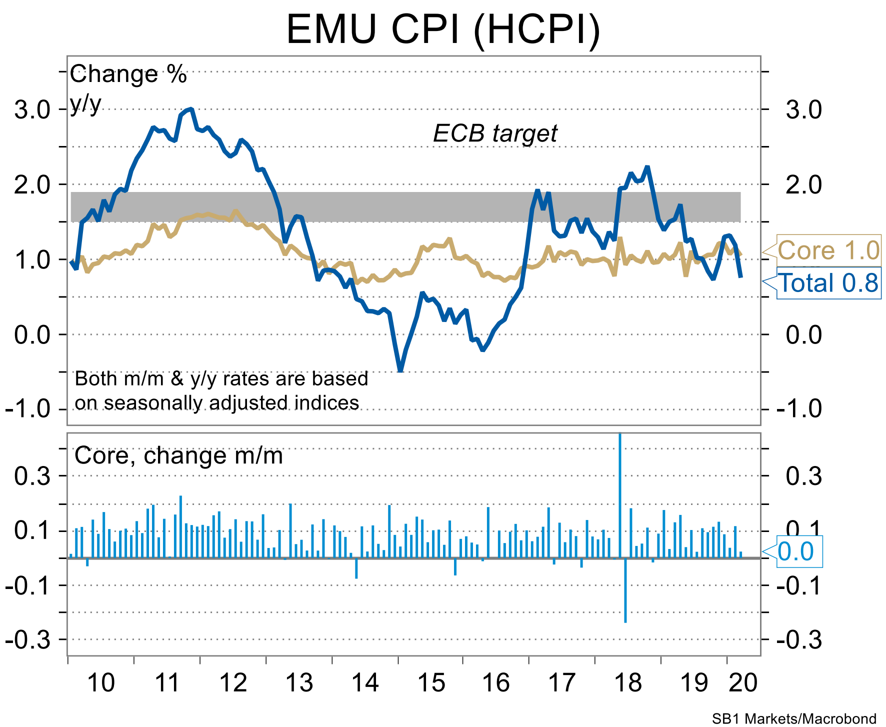
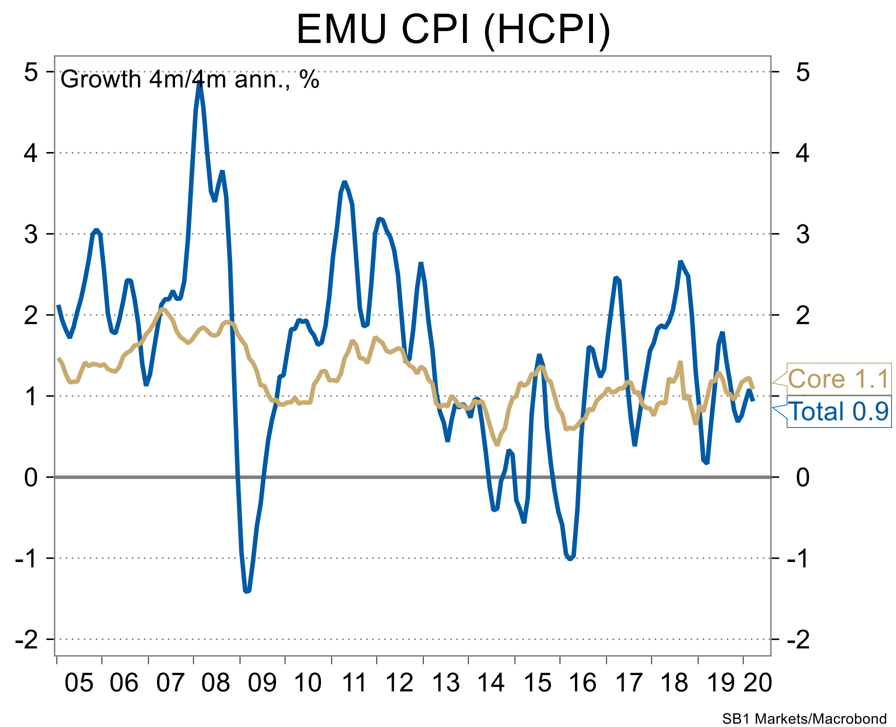
# Core CPI inflation down to 1.0% again, total inflation subsides

Core CPI was flat m/m and the annual rate ticked down 0.2 pp, total inflation down 0.4 pp

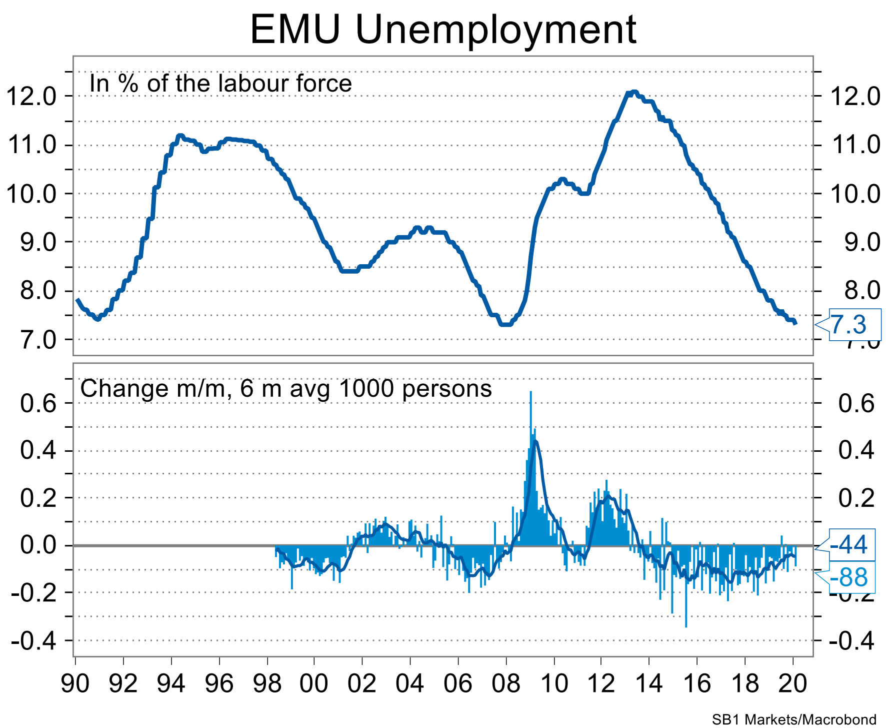


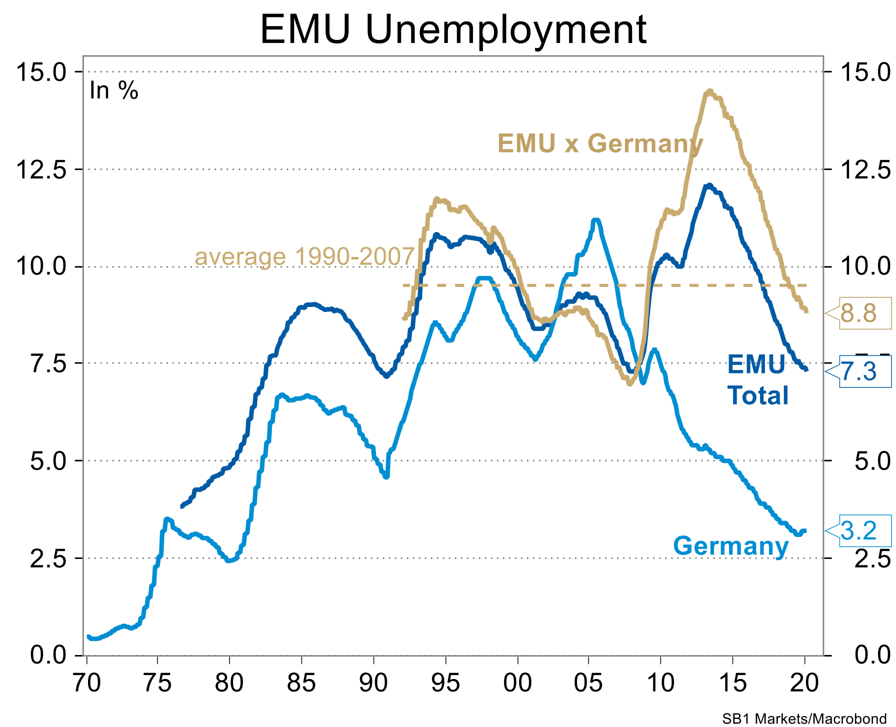




- Core CPI stalled m/m in March and the annual rate fell to 1.0%, from 1.2%. Core inflation has been completely flat for 3 years and there are no signs of any shift now
- Total CPI growth down 0.4 pp to 0.8%. Energy prices sent total inflation up in the autumn/early winter, is now changing as the oil price is tumbling

# Unemployment more or less flattened out – before the corona surge

The unemployment rate inched down to 7.3% in Feb, back to the 2008 bottom level

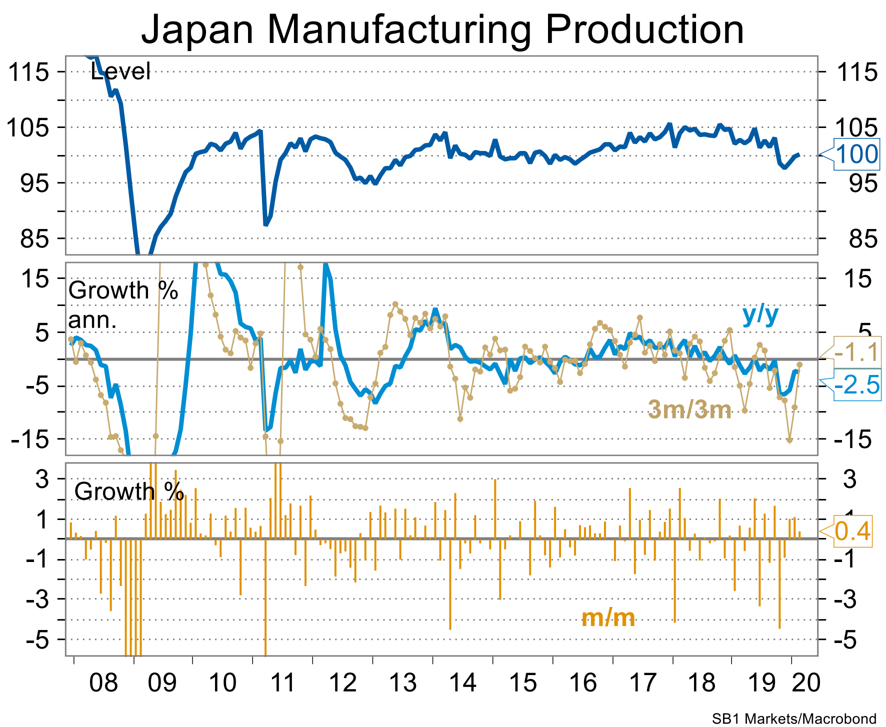


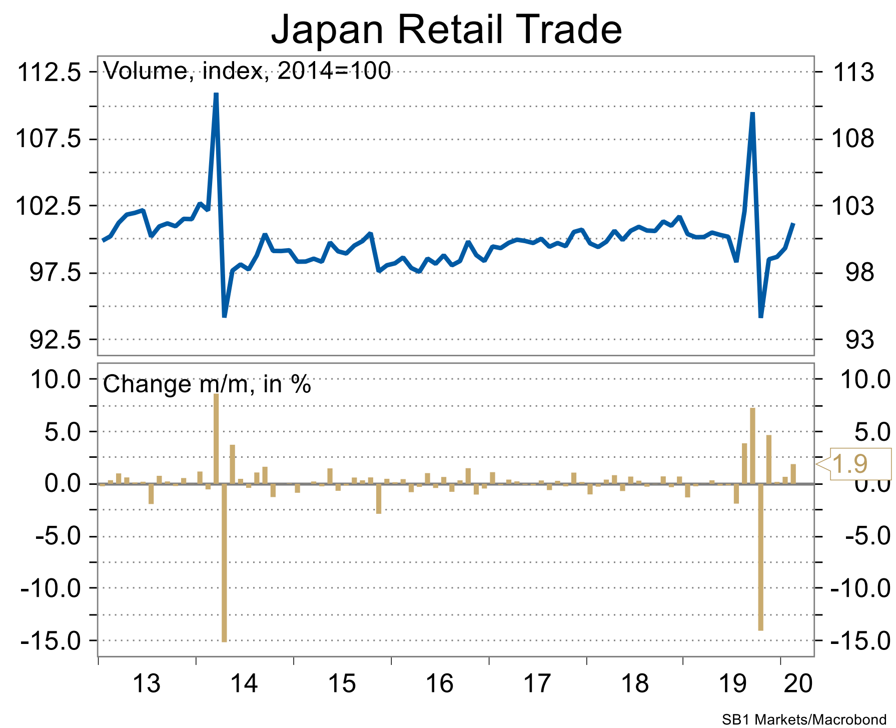




- The unemployment rate has stabilized the past months, although inching down to 7.3% in March. The number of unemployed has almost vanished, smoothed rate at just 44'
- Unemployment in total EMU is well below the 1990-2007 avg, and it has fallen below the average in EMU ex Germany
  - » In Germany, the unemployment rate bottomed at 3.1% in the summer, the lowest rate 40 years, and has been flat at 3.2% since
- Was this the bottom? The Covid-19 epidemic and the strict mitigating measures will no doubt bring unemployment steeply up. Usually, when unemployment starts climbing from low levels, it does not fall back down any time soon

# Manufacturing struggles, retail fully recovered from VAT hike, before corona

## The February figures are surprisingly upbeat, as PMIs slipped. Huge downside risk in March

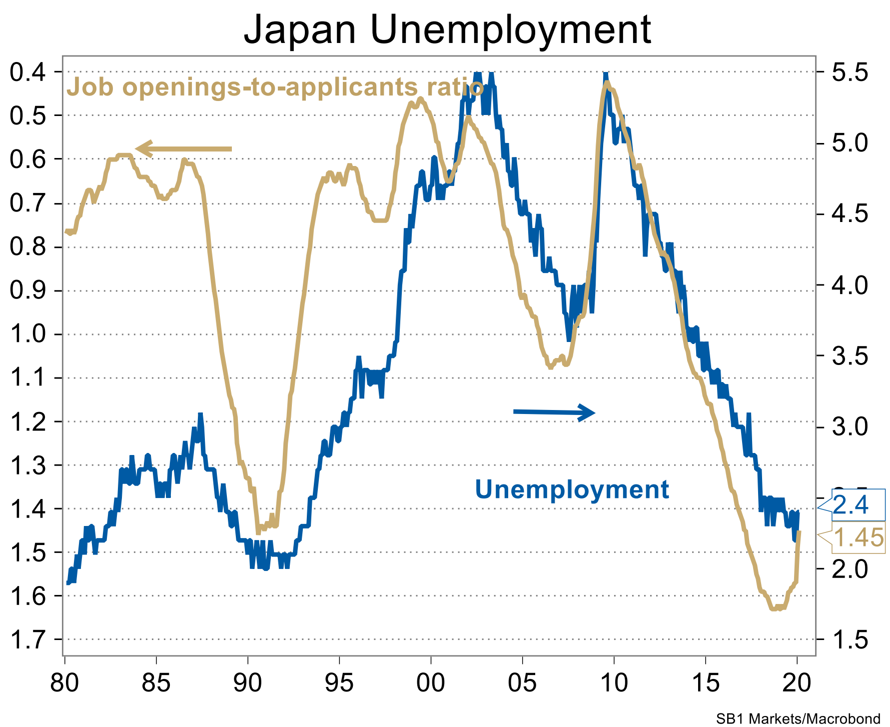


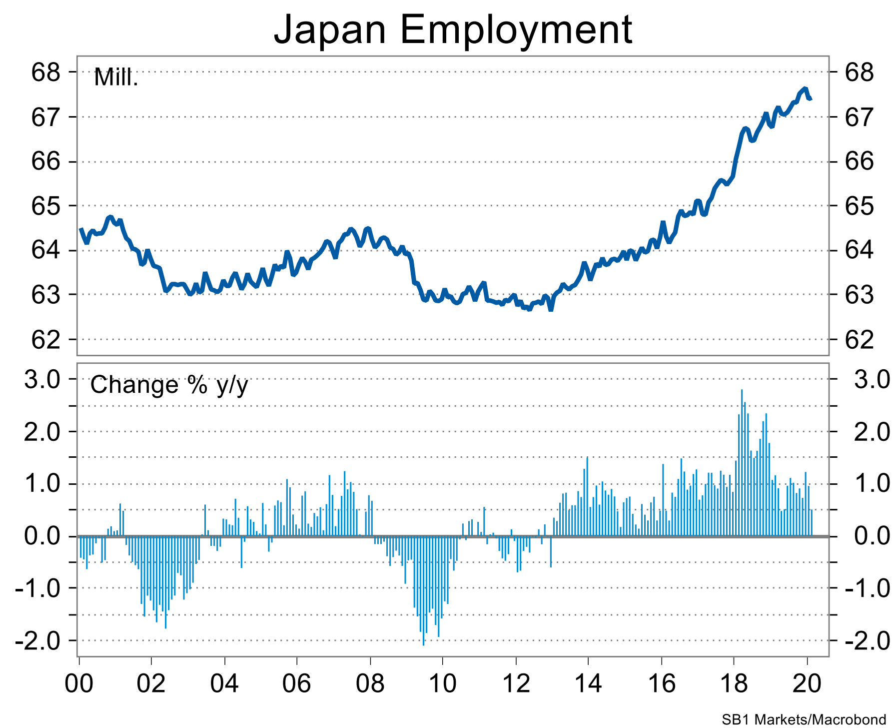




- Retail sales dropped steeply in October 2019, as consumer taxes were hiked. Since then, sales have been gradually recovering, and in February, sales were back at the pre-VAT hike level
- Manufacturing production is slowly increasing but is still some 2% below the pre-VAT hike level. Something else may have hit Japanese manufacturing, even before corona
- We are puzzled by the decent February figures, as both Japanese PMIs slipped in February (and further in March). Retail sales may have been less affected because Covid-19 so far has spread less in Japan than many other countries, however, manufacturing must have been hit by the Chinese blow? The global one will, eventually

# Unemployment steady at a very low level, employment still growing moderately

## Unemployment flat at 2.4%, employment growth is slowing somewhat




- Unemployment has been more or less the past 2 years, at the lowest level in 27 years
  - The job openings-to-application ratio has turned down, signalling some weakness? On the other hand, the level is the highest since the 1970'ies
- Employment is still climbing, although the upward speed has slowed somewhat, to 0.5% in Feb (annual rate). Employment rates have been soaring and are record high for all ages/genders
- Still: Wage inflation has been declining the past year, now rising modestly
- Barring the high corporate savings rate (partly offset by the public sector deficit – Japan is running a huge current account surplus) - what's really the Japanese problem – when employment is 'more than full'

Highlights

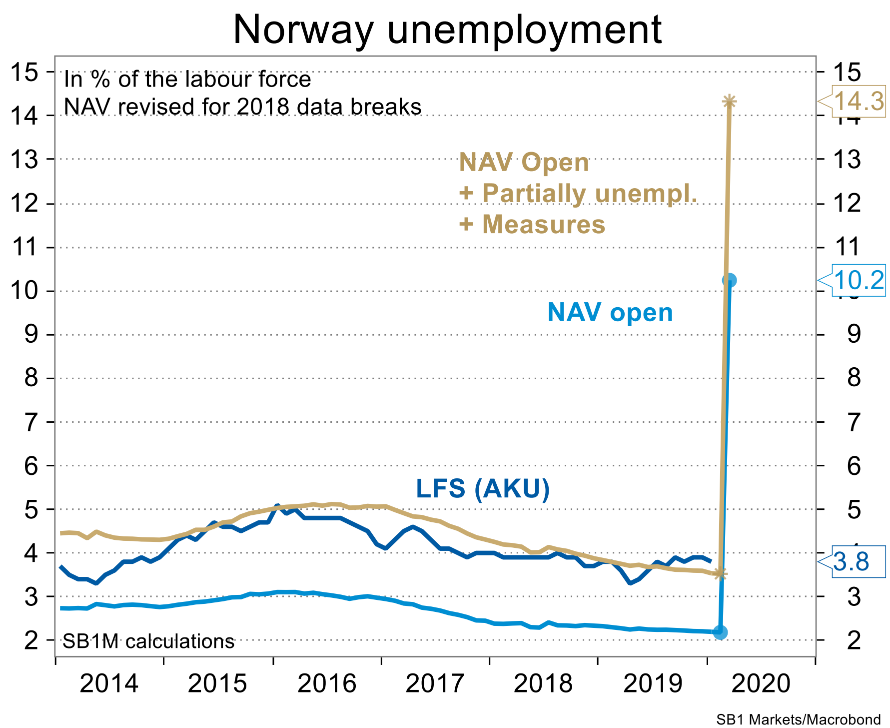
The world around us

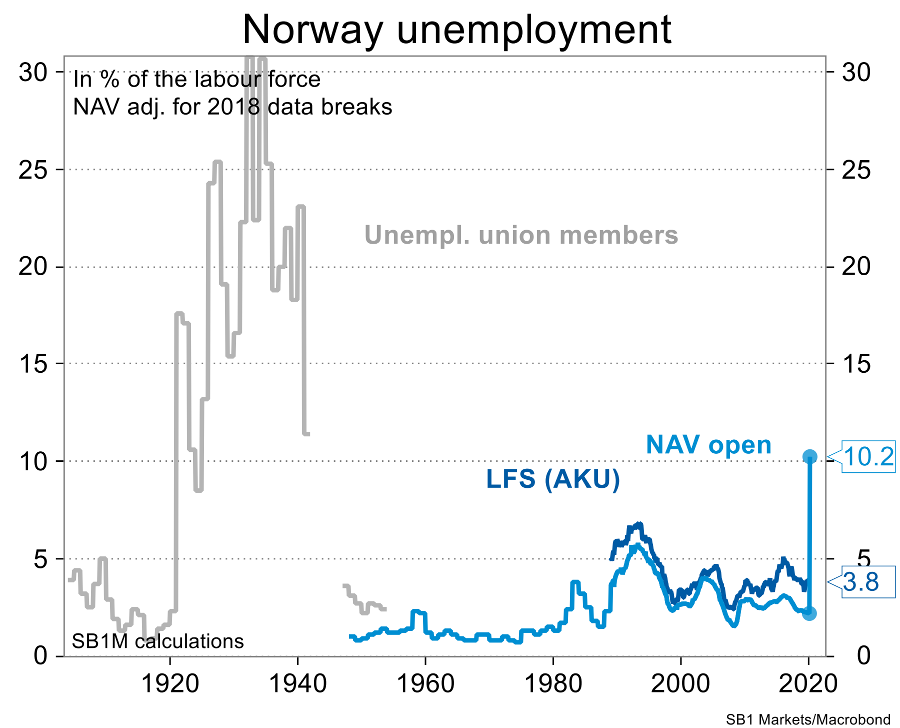
The Norwegian economy

Market charts & comments

# NAV unemployment sparked to 14%, the highest levels since the 30'ies

## Open unempl. soared to 300' persons in March - and 412' incl. partially unempl. and measures




- NAV open unemployment soared by 240' persons in March from February, to 300'. The open unemployment rate rose to 10.2%, something we have not seen since the 30'ies (if we adjust the union members' unemployment rate to a total unemployment rate)
  - » The March outcome was actually somewhat lower than we estimated, as approx. 30' changed status to partially unemployed from total unemployed
  - » Since March 30, when these data were collected, NAV has received almost 30 000 new unemployment registrations, thus, the unempl. rate is already approx. 1 pp higher, at above 11%
- Including government measures and partially unempl., the number of unempl. is 412', equalling 14.3% of the labour force
- Unemployment will continue to climb the coming weeks, although the daily number of slowed to 8' per day last week, from 15' the prior week. We expect the open unemployment rate to climb to 14% in April and possibly towards 20%, the the 'lockdown' cont.

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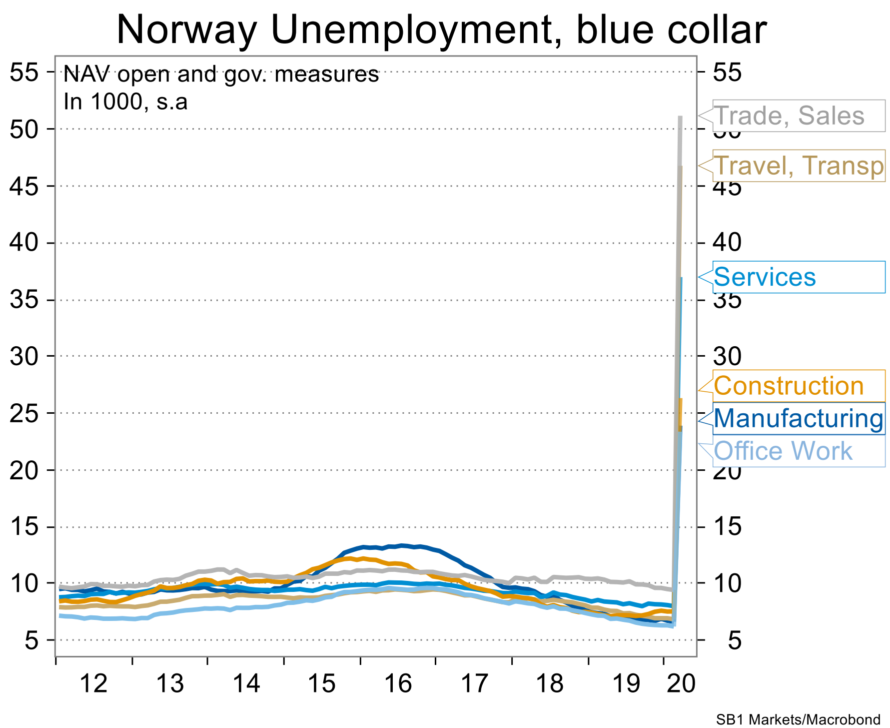
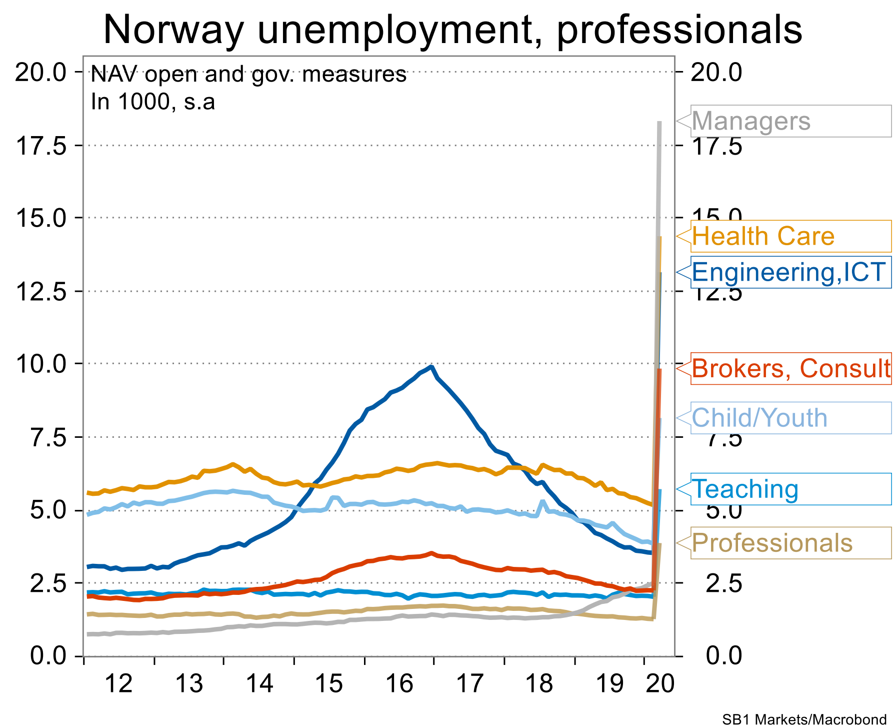
# ‘Nowhere to hide’, all sectors have been hit. Even those who shouldn’t??

Retail trade, travel & transport and managers have been hit the hardest, even health is rising!??



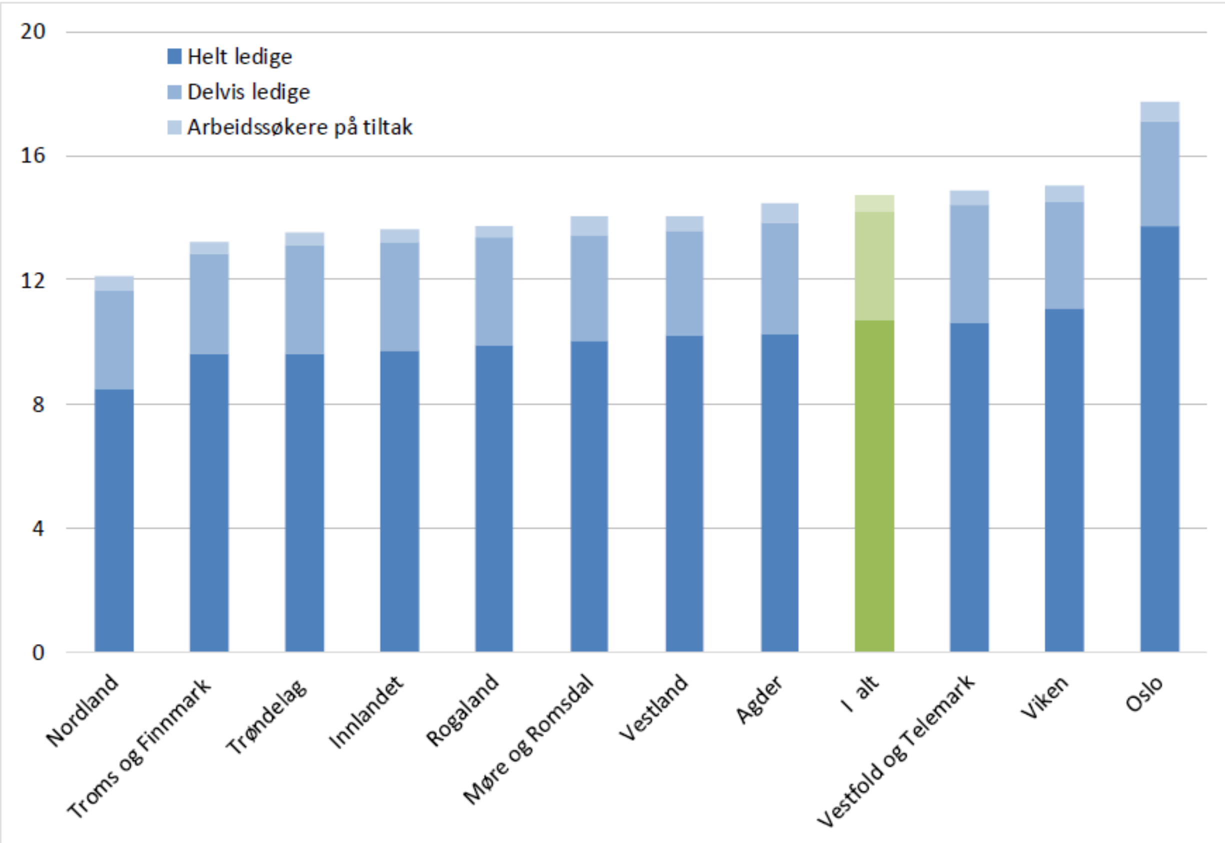

- Unemployment is increasing rapidly in all major sectors, to absurdly high levels (these time series only goes back to 2004)
- Blue collar: Unemployment among retail trade and sales workers have increased the most, the ‘stay home’ notion has hit shops hard. Unemployment is climbing in travel & transport and other services as well
- Professionals: Managers are suffering, and health care workers, probably not those who work in hospital and care homes but other health services which have been closed down, such as dentists, physiotherapy etc. We are surprised by the upturn among teachers but these are probably a lot of part time workers/temporary employed

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

# Unemployment is higher than normal everywhere, Oslo in the lead

Oslo unemployment up to 13%, from 3%, the North at the bottom, but up from 2% to 8%

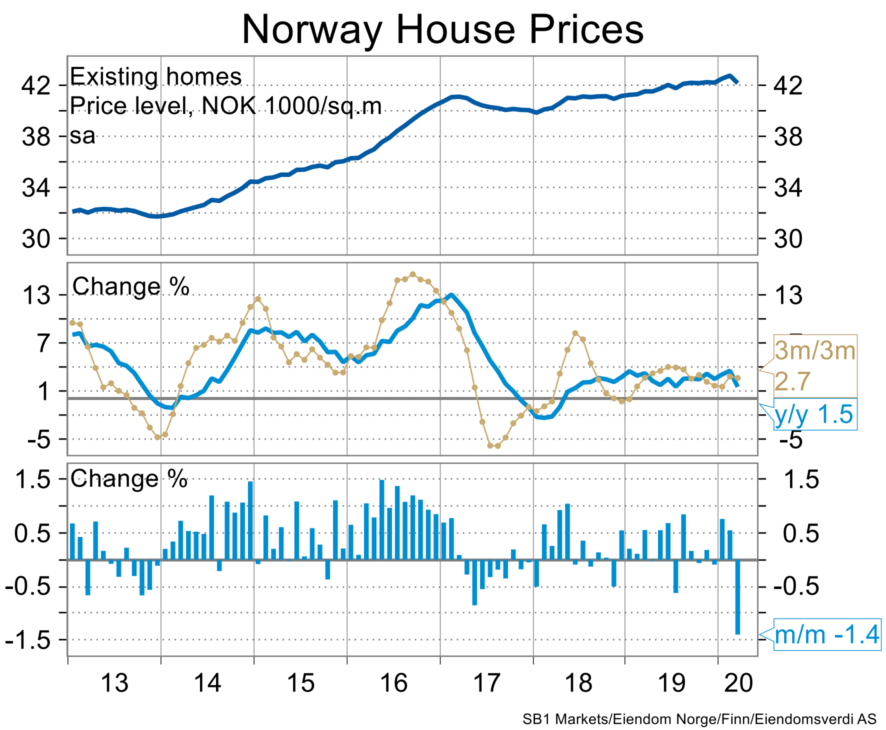
**Number of unemployed, in % of the labour force, March 2020**

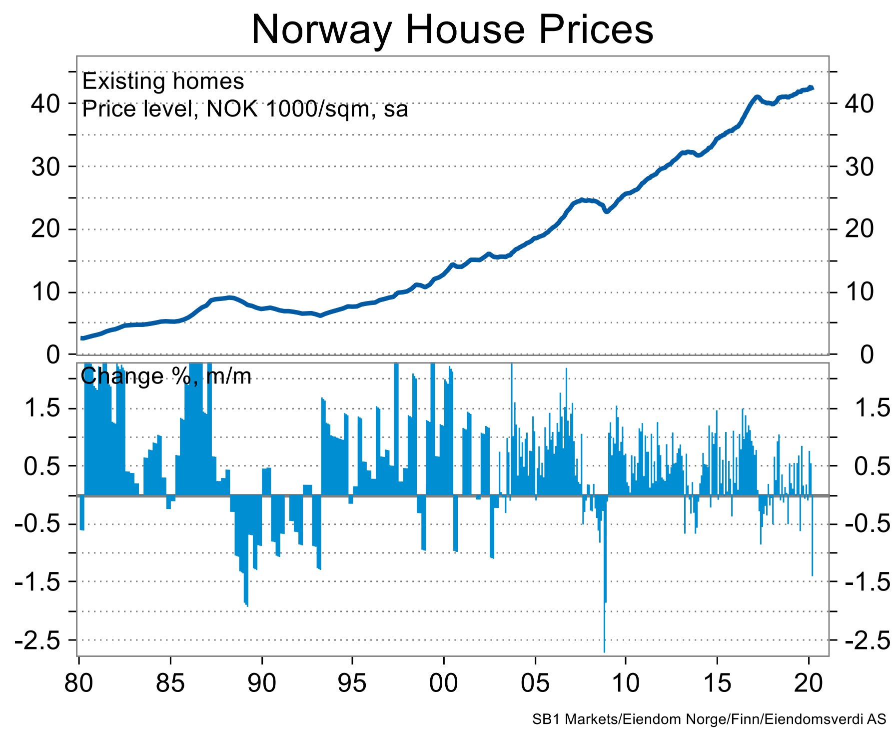



*Kilde:* NAV

# House prices dropped 1.4% in March, we assume at least 3% after 'lockdown'

## Prices fell 1.4% m/m, the steepest monthly decline since the financial crisis

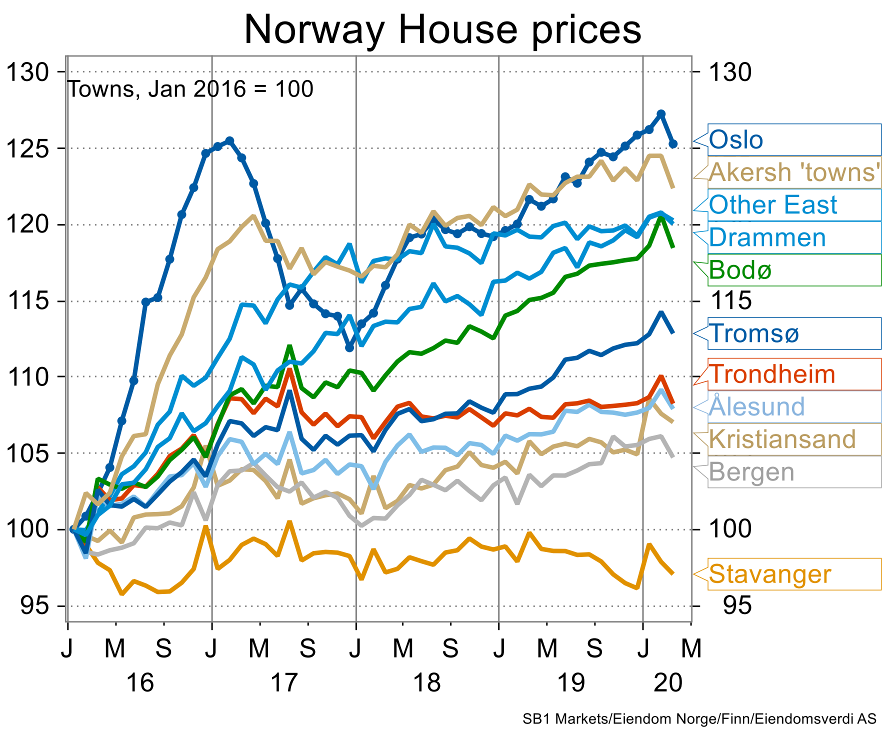


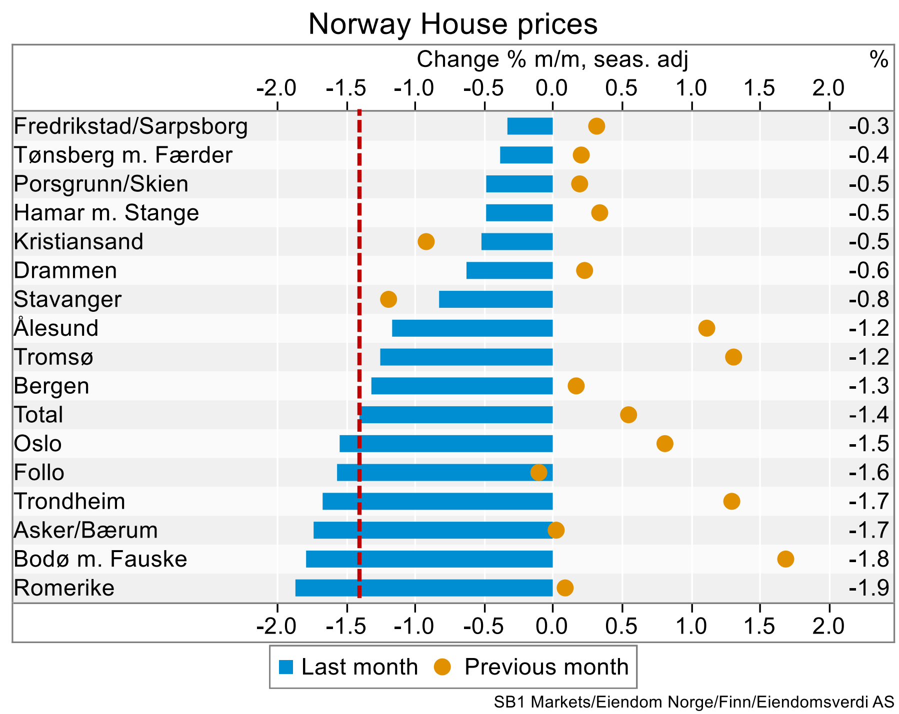




- **House prices** dropped 1.4% in March (nominally & seasonally adjusted). Given the implementations of the partial shutdown of the Norwegian society on March 12, we estimate at least a 3% decline after the corona measures were introduced (perhaps as much as 4% by the end of March). Annual rate at 1.5%, down from 3.5%, for the whole month
  - » Prices fell in all main cities/regions in March. Bodø, Asker&Bærum and Romerrike noted the steepest declines, Tønsberg, Fredrikstad the most modest
- The number of sales plunged to the lowest level since 2010. The number of new listings fell less, bringing the inventory of unsold homes up
- The Covid-19 impacts on the housing market are of course uncertain. We expect prices to drop the coming few months, at least by 2-3% per month. Soaring unemployment and rising uncertainties are curtailing demand, and the lower supply will not be sufficient to offset these impacts. Our base case is a short term hit – but the housing market is exposed if turns out to take longer than expected to a resume 'normal' activity

# A broad downturn; prices fell everywhere in March

## The Eastern regions of Fredrikstad/Tønsberg were hit less than others, Oslo down 1.5%

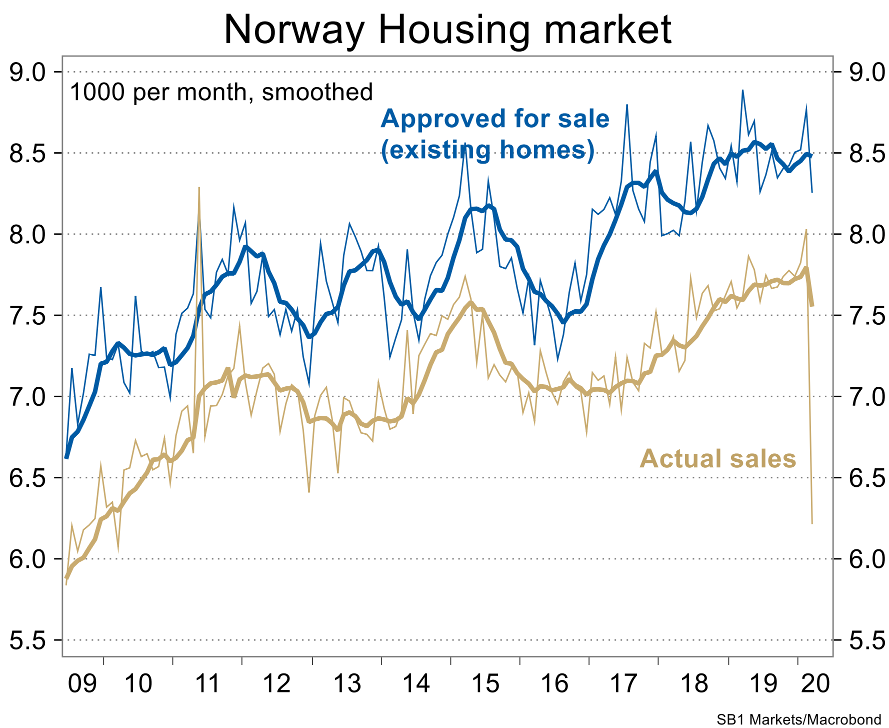


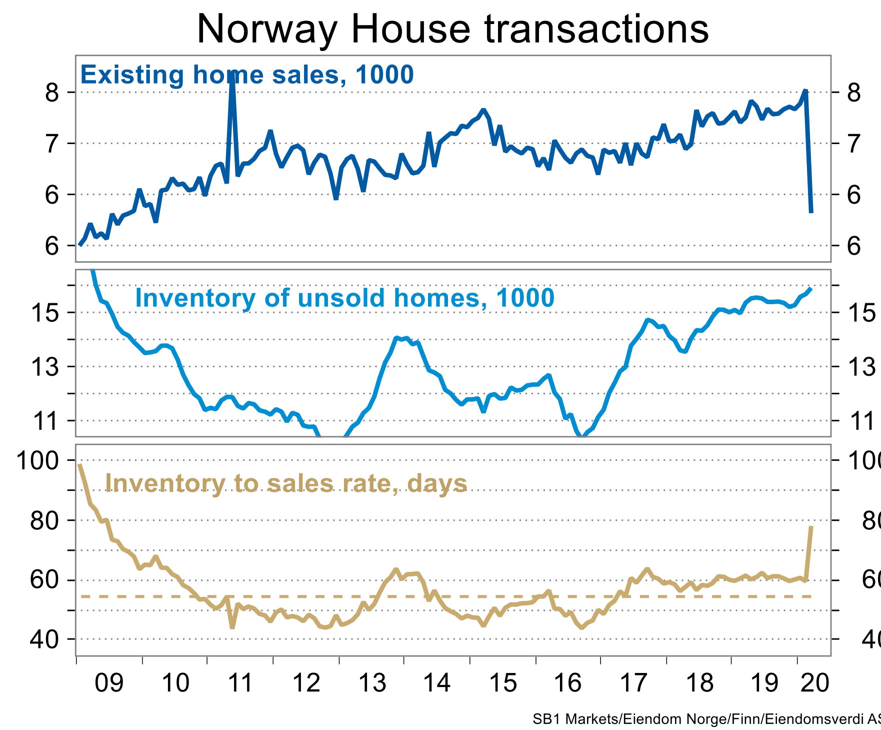




- There are no reason to expect substantial regional differences the coming months, as most regions are hit hard by the corona crisis and mitigating measures

# The demand side hit much harder than supply so far

## The number of unsold homes rose as sales dropped 22% in March, new listings down 'just' 6%




- **The number of sales** tumbled in March, unsurprisingly, as the Covid-19 crisis put a dent on the possibility to conduct broking and transactions – and probably actual demand too. Sales fell to the lowest level since early 2010, following the financial crisis. The drop in sales was just partly offset by a decline in new listings of existing homes, and the number of unsold homes climbed ( it was already rather high!). We expect a similar flow the coming month or two, curbing house prices
- The inventory to sales ratio (turnaround) rose rapidly to 78 days, from 60 in Feb. The average is 55 days

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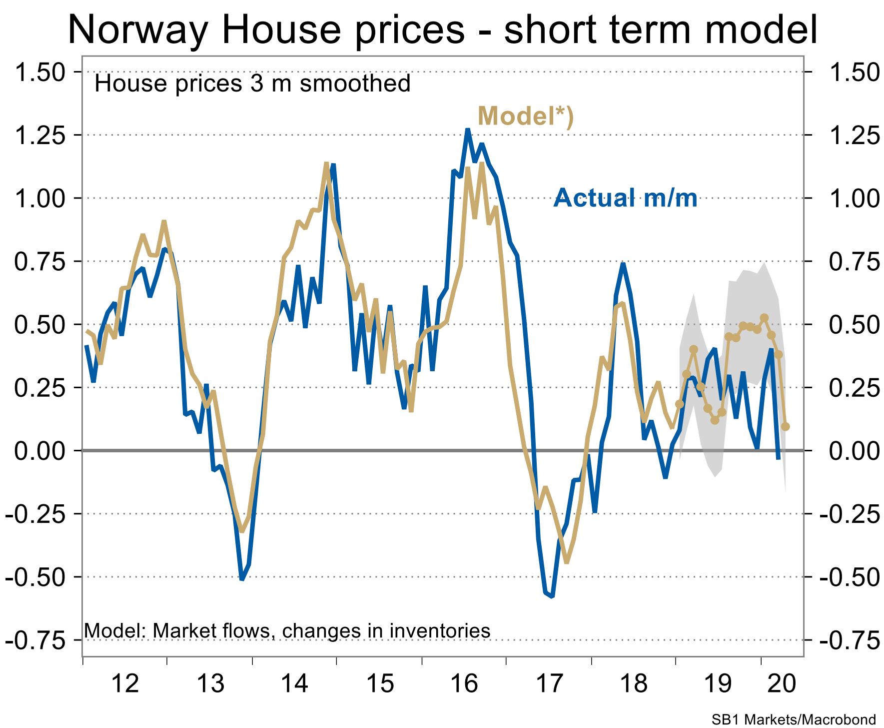
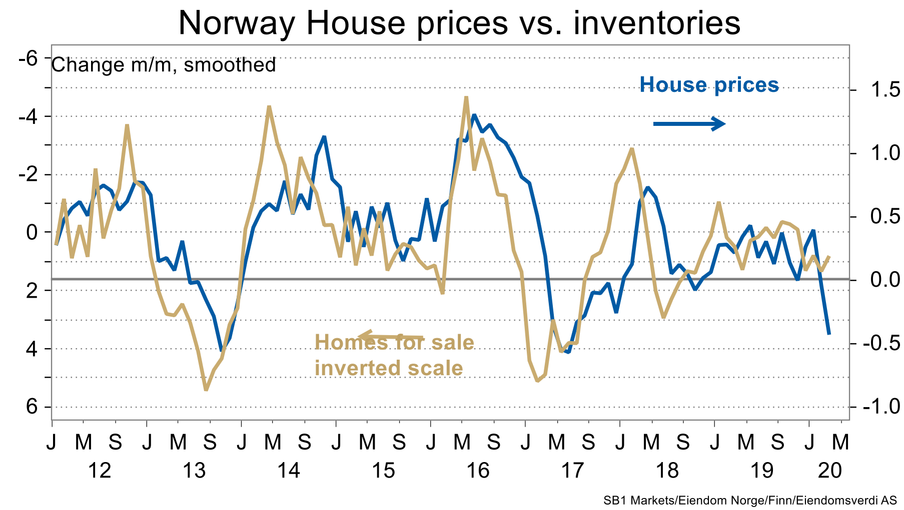
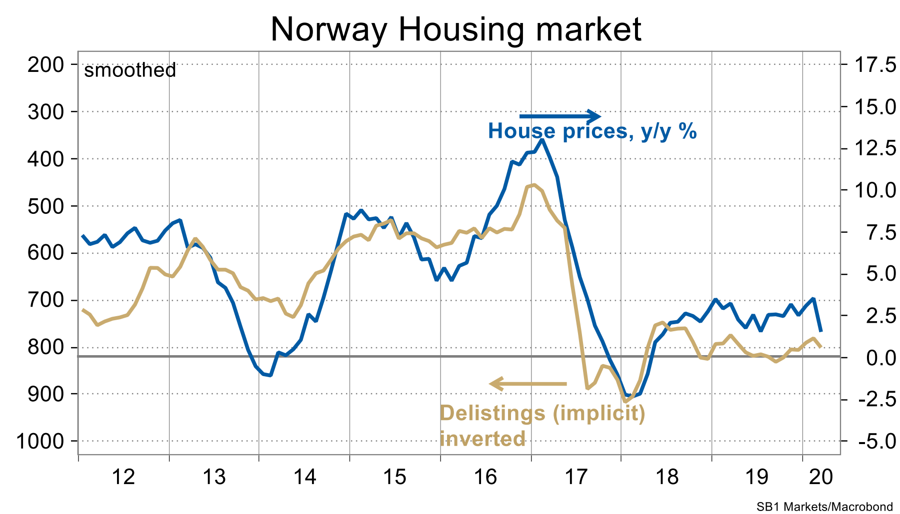
# Short term market flows suggest 'just' a stagnation in prices

## However, soaring unemployment and an uncertain outlook are likely to drag prices down



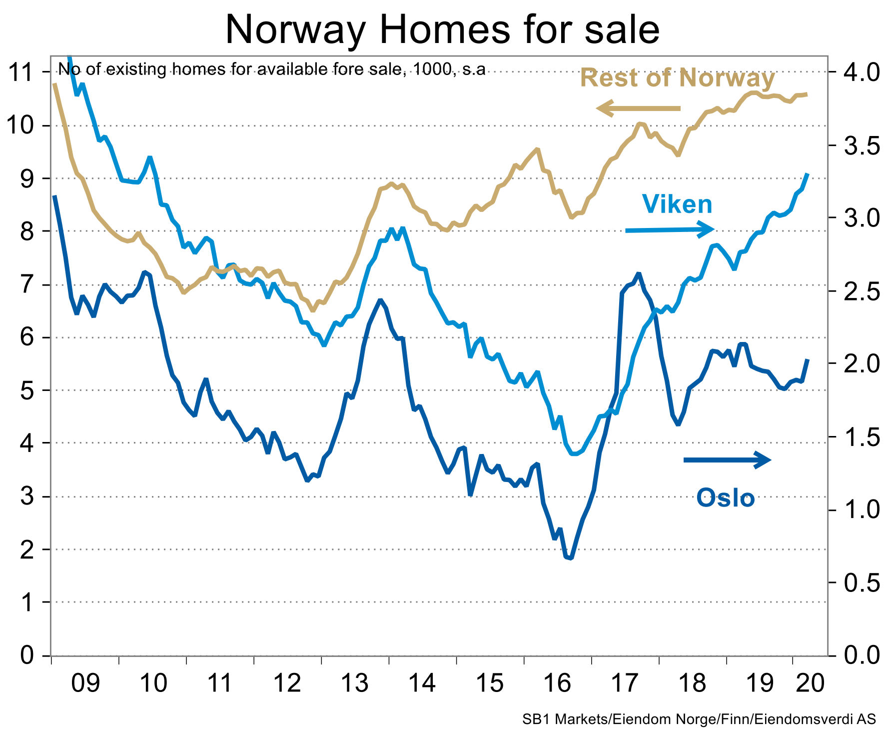



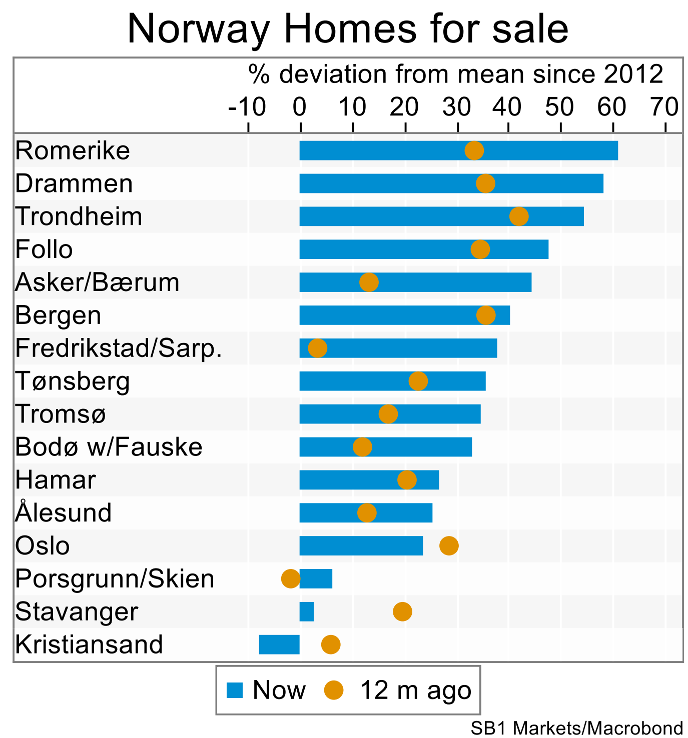




- The supply of new homes for sales and the inventory suggest just marginal price growth the coming months. A decline is surely more likely – and sales will be sluggish the coming months
- We have smoothed house prices at the chart above
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

# The number of homes for sale is increasing most places, soaring in Viken

## The inventory is higher than 1 year ago everywhere x Oslo, Stavanger and Kristiansand

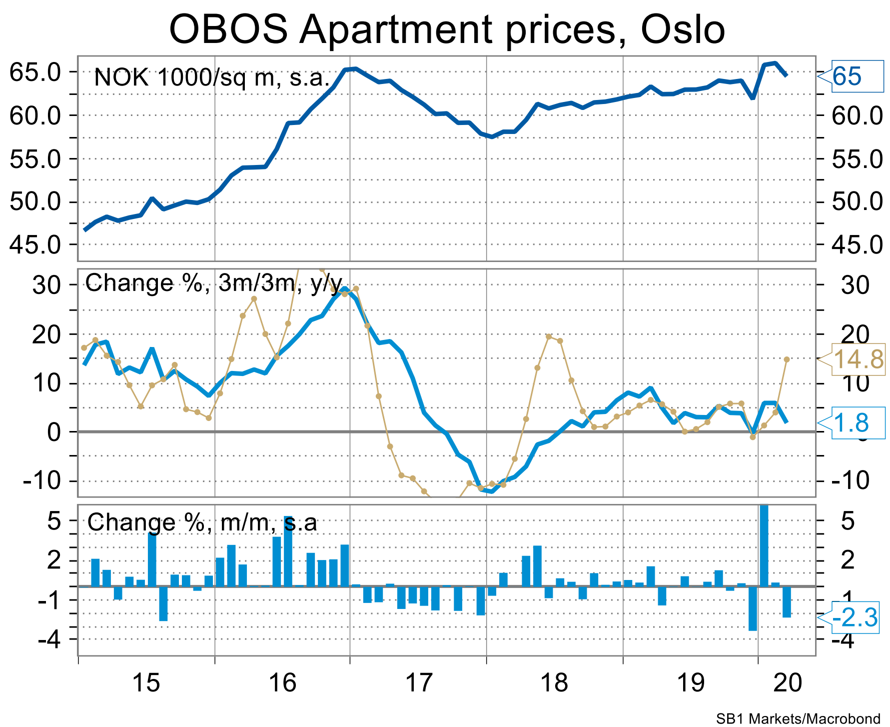


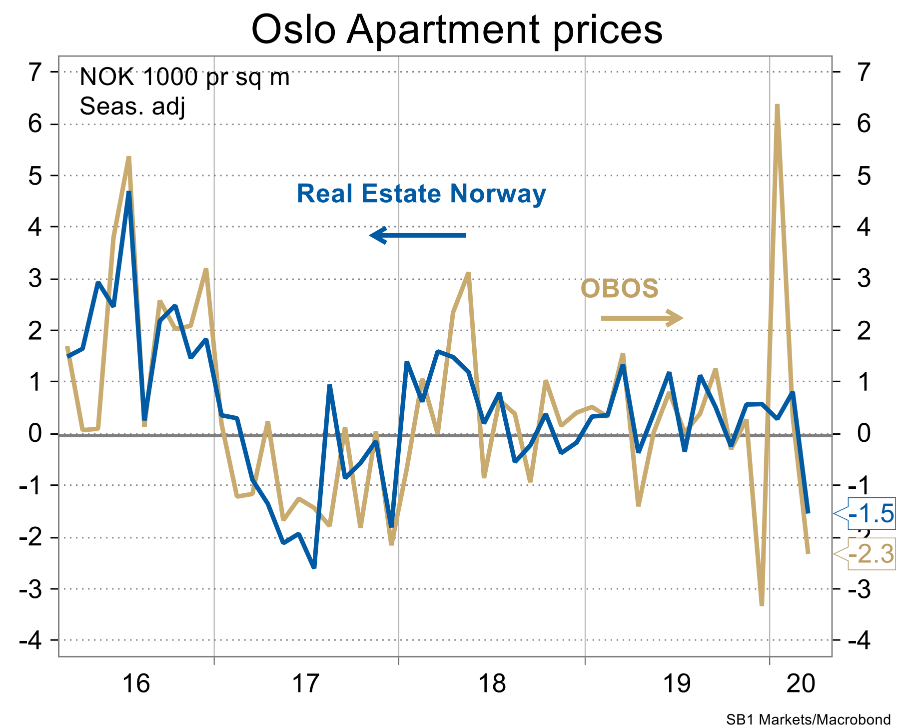




- The number of homes for sale have been increasing rapidly in most regions the past year, except for Oslo
  - » The inventory has increased sharply in Viken (Akershus, Buskerud, Østfold; or East x Oslo)
  - » Norway outside Oslo & Viken is still reporting a larger inventory of existing homes for sale,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

# OBOS Oslo apartment prices down 2.3% vs Real Estate Norway at -1.5%

OBOS prices are more volatile and have increased more rapidly than RE Norway the past months

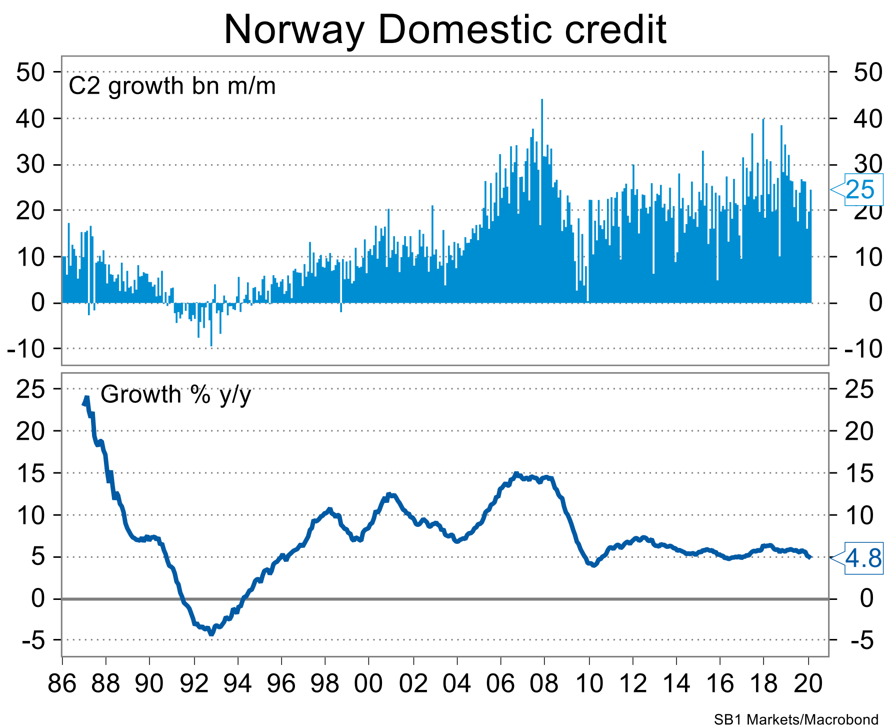


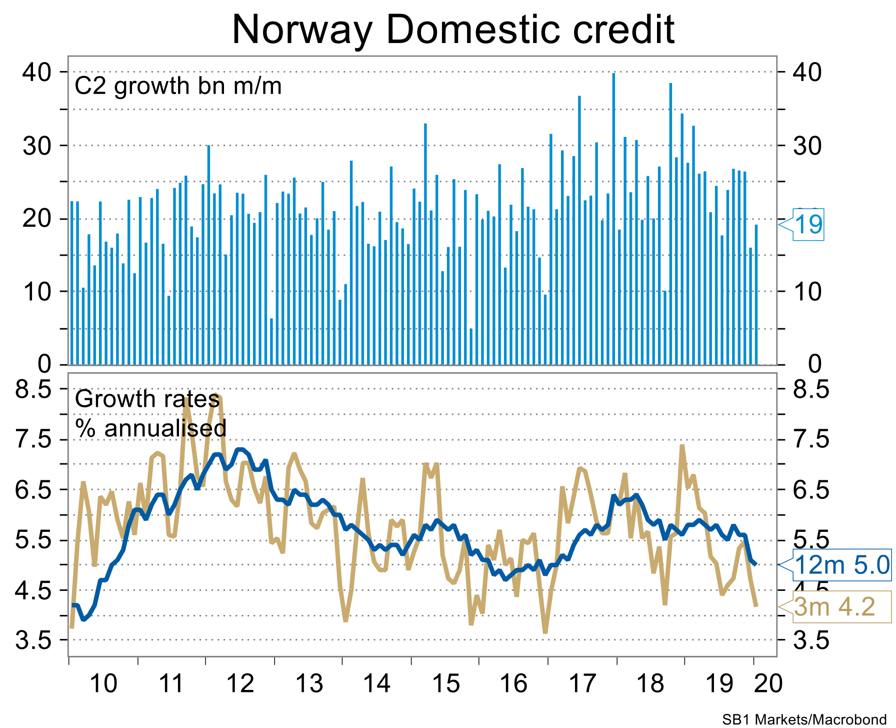




- OBOS Oslo co-op apartment prices fell by 2.3% m/m seasonally adjusted in March. The decline is steeper than the 1.5% decline which Real Estate Norway reported. We prefer the latter, as OBOS prices are more volatile from month to month and prices anyway increased much faster than RE reported in early 2020

# Credit growth is waning, corporates the main drag, even before corona hit

Total C2 credit growth fell to 4.8% in February, as corporate debt growth is slowing, households gain ground

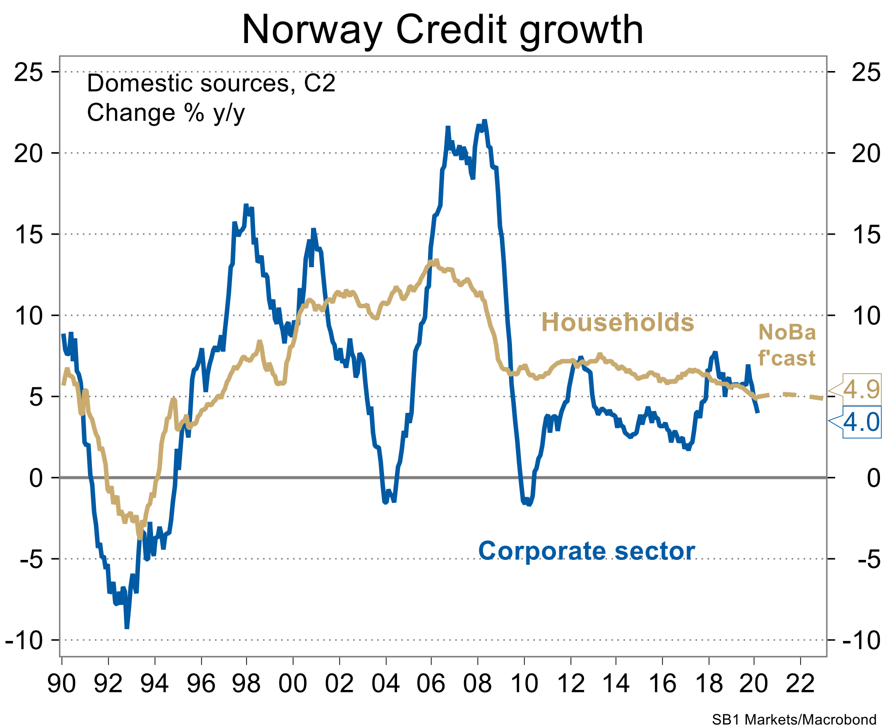


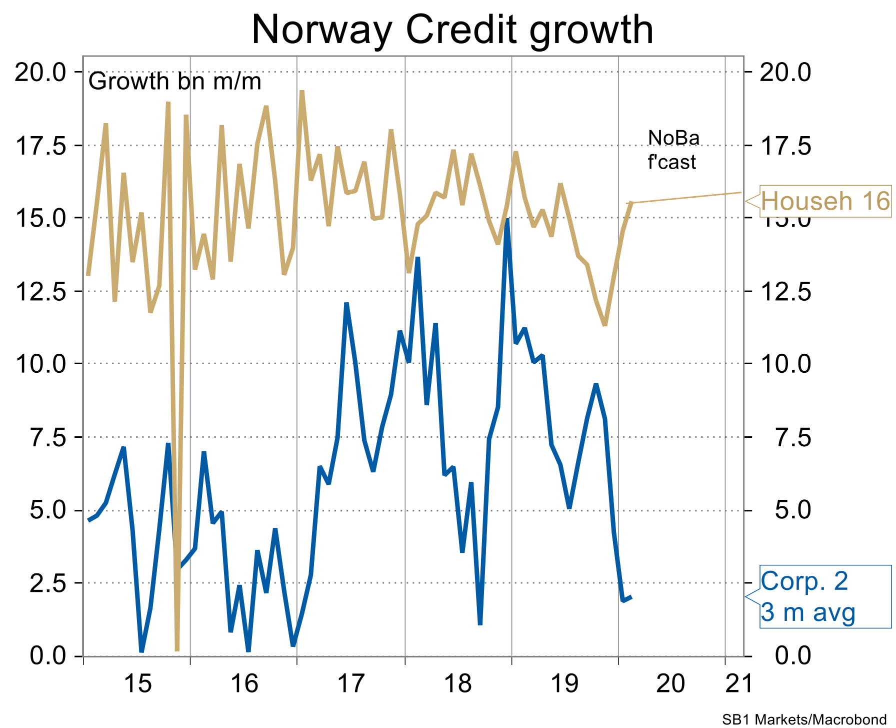




- ***Pre corona:*** Total domestic debt (C2) rose by NOK 25 bn m/m in February, up from 19 bn in January. The annual rate still edged down to 4.8%, from above 5.5% in the autumn and lowest growth in 3 years
  - » Household credit growth has been slowing rapidly, the annual rate down to 4.9%, and household credit is now expanding at a slower speed than disposable income. However, growth has turned up the past 2 months, and the underlying pace has stabilized at 4.7%
  - » Corporate credit growth has fallen the past 3-4 months, annual rate down to 4.5%, the lowest in 2 ½ years
- The focus now is of course the impacts of the Covid-19 crisis. Credit growth is likely to subside sharply the coming months/quarters, as it mirrors the impacts on the economy. The interest rate cuts, announced liquidity stimulus measures and robust banks may perhaps prevent a decline in credit, which have not witnessed since the banking crisis of the 90's

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

## The 'Covid-19 recession' will slow credit substantially, in both sectors, corporates most exposed

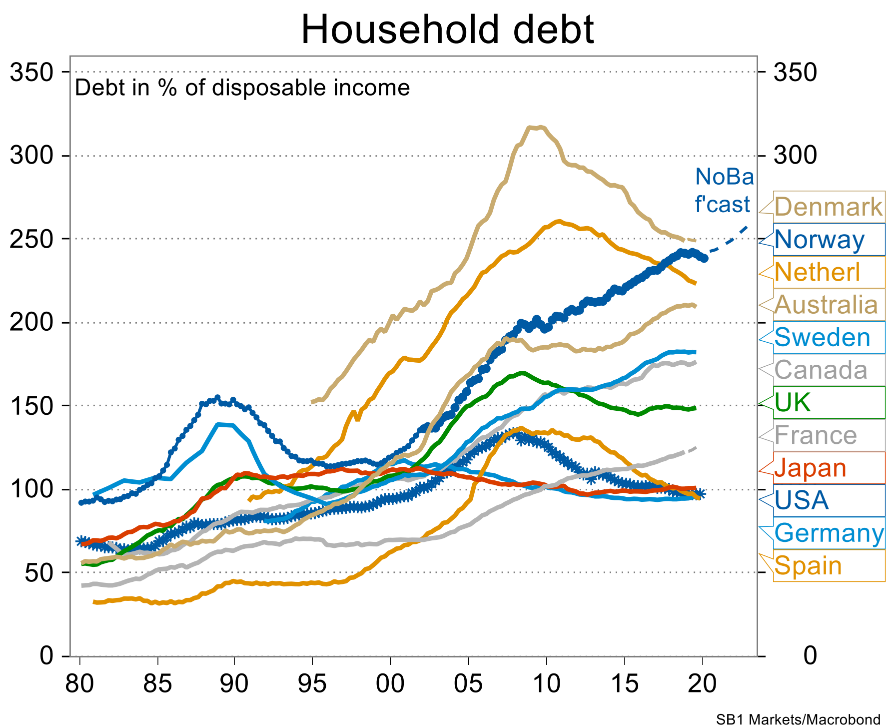


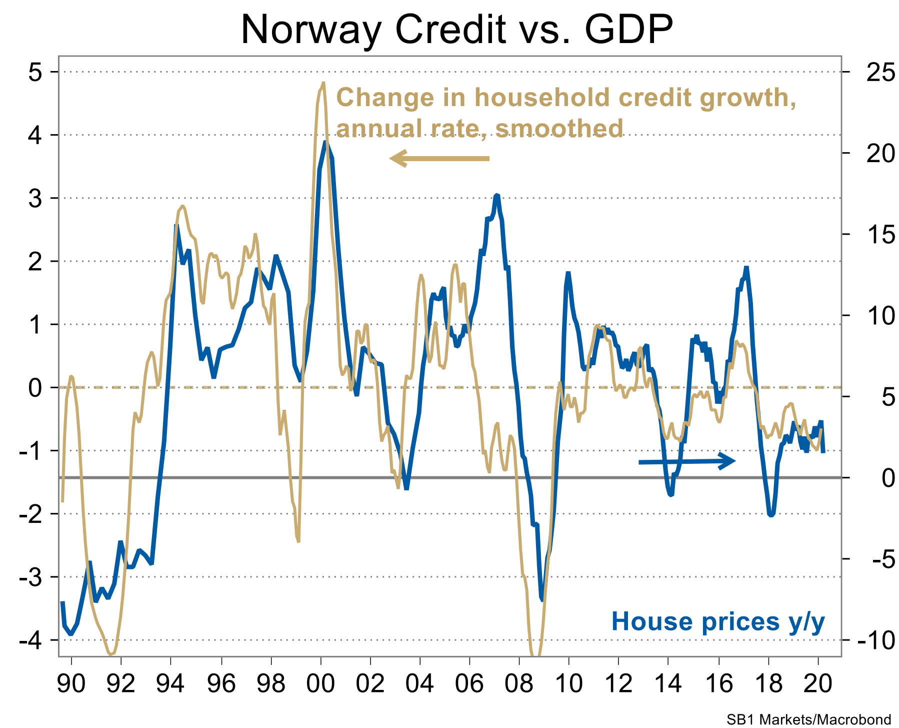




- Households' credit increased by NOK 16 bn m/m February, a 1.5 bn lift from the January speed. Credit growth has picked up the past 3 months after a rather rapid slowdown during the autumn. The y/y rate was steady at 4.9% in Feb, the lowest speed in 23 years.
  - The interest rate cuts from 1.5 to 0.25% may boost credit appetite, however, the negative impacts from soaring unemployment and an uncertain outlook will probably outweigh the effects from lower rates, as long as the real economy is struggling. We expect credit growth to slow substantially, however, a decline in credit to the household sector is unlikely (it occurred in the early 90's, during the bank crisis). Unless the housing market crashes
- Corporate credit (in C2, domestic lending) rose by NOK 5 bn in February and growth has been lower than usual the past 3-4 months. At the chart above, we have added a 3m smoothing, these data are volatile. Annual rate down to 4%, well below the long term avg
  - Corporate credit could easily decline the coming months/quarters, in spite the government's efforts to boost liquidity

# The debt/income ratio has turned down, so far at a measured pace

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

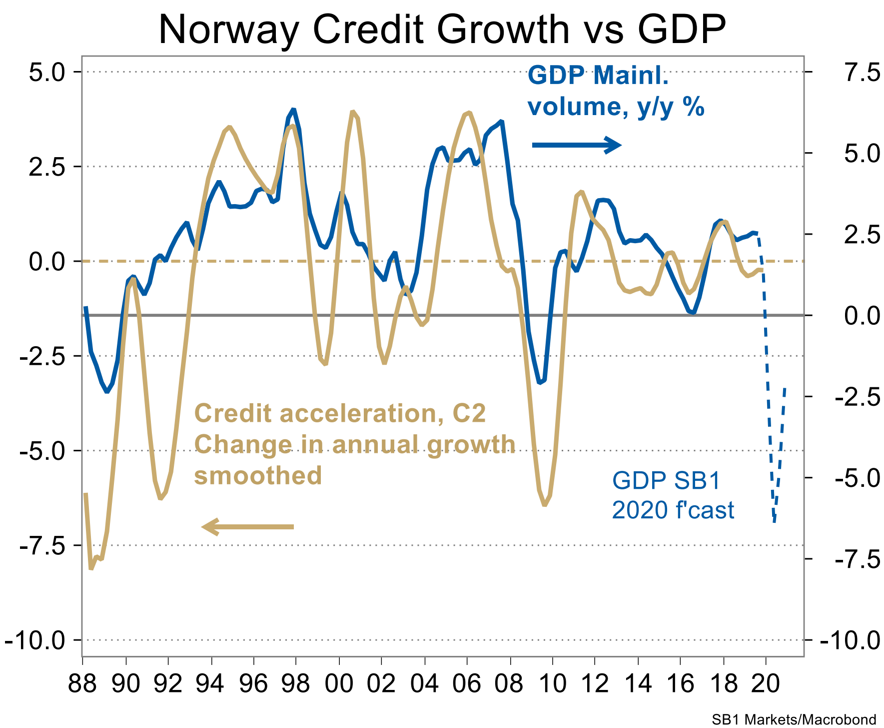



- Household debt is growing slower than household disposable income, for the first time in 30 years (barring some small turbulence in 2008/09)
- A slow retreat will be healthy in the long run, and if it is gradual, not too harmful, even not for the housing market
  - » *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market

# Credit and GDP growth are probably rather closely correlated this time too

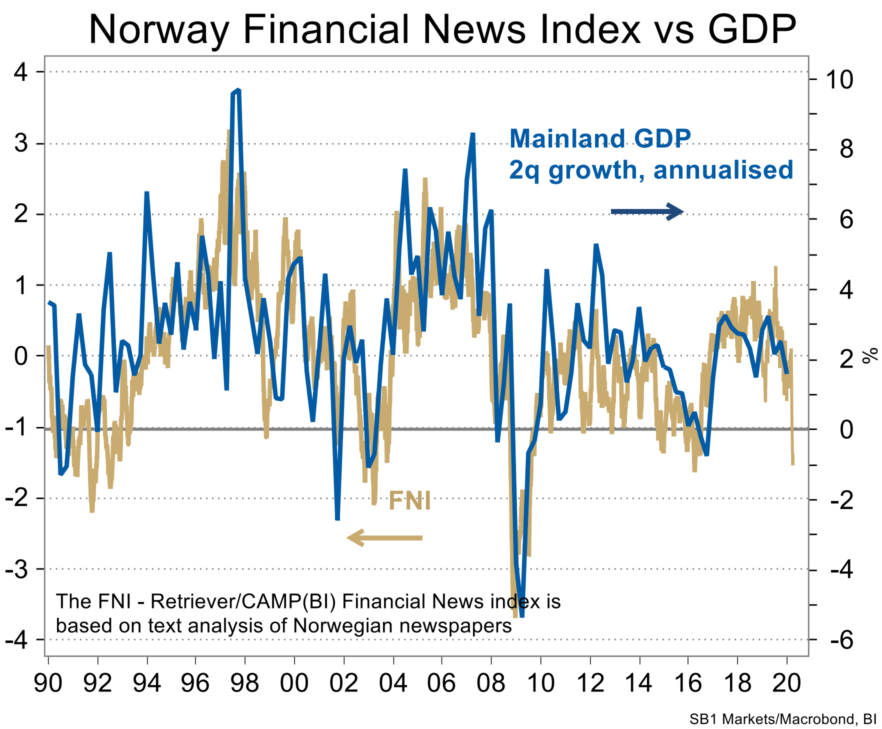
## Based on our very uncertain GDP f'casts, credit will slow substantially

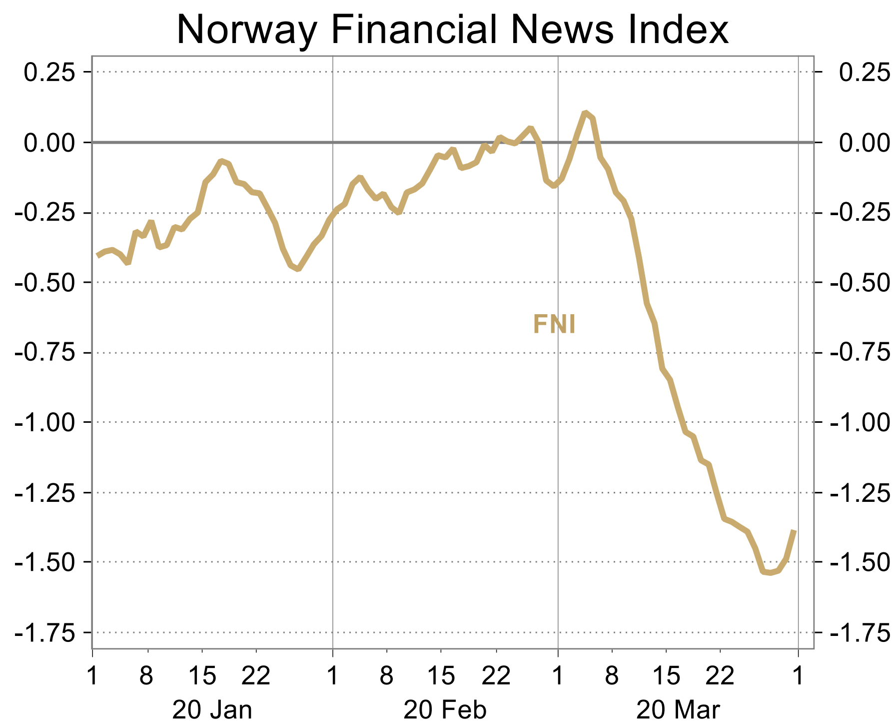



- GDP growth is quite coincident with *changes in credit growth (the 2nd derivative)*
- Face value, the expected rapid decline in GDP in both in Q1 and more in Q2 (but hopefully not further Q3) indicates approx. 8 pp slowdown in annual credit growth, indicating a decrease in credit, mostly due to lack of demand. However, in previous crises, the supply has been constrained too, as banks have been struggling. Interest rates cuts and government measures, including a NOK 50 bn lending program and the reintroduction of the Government Bond Fund may help (another NOK 50 bn – in sum 100 bn  or 5% of corporate credit, substantial amounts, of course)
  - During the 2015/16 oil induced slowdown, domestic credit growth did not slow by much – at least partly because interest rates were cut

# The Financial News Index has stabilised, at not that low levels. Strange

The FNI has fallen on Covid-19, we are surprised the decline has not been much steeper




- 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 in Norway and globally, we are surprised the index did not fall by even more
- The level signals a moderate decline in GDP, we expect a much steeper decline

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)

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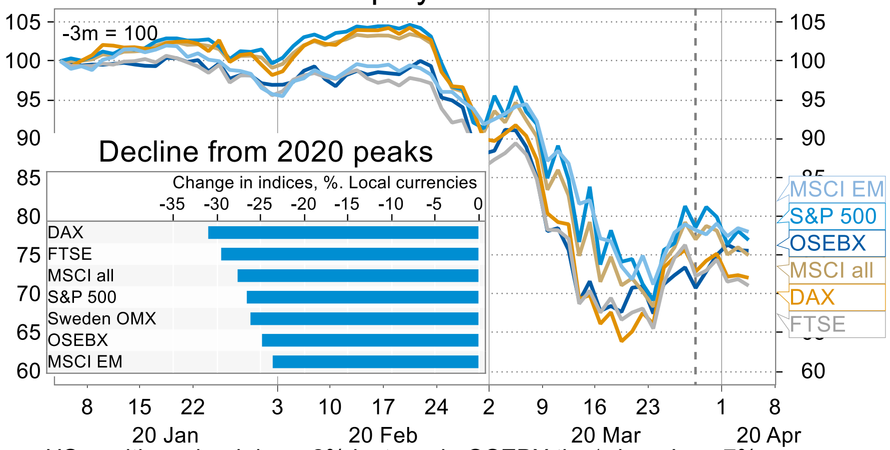
# A soft stock markets downturn last week, oil price up on hopes of a cut deal

## Bond yields are edging down again, as financial stress has abated somewhat

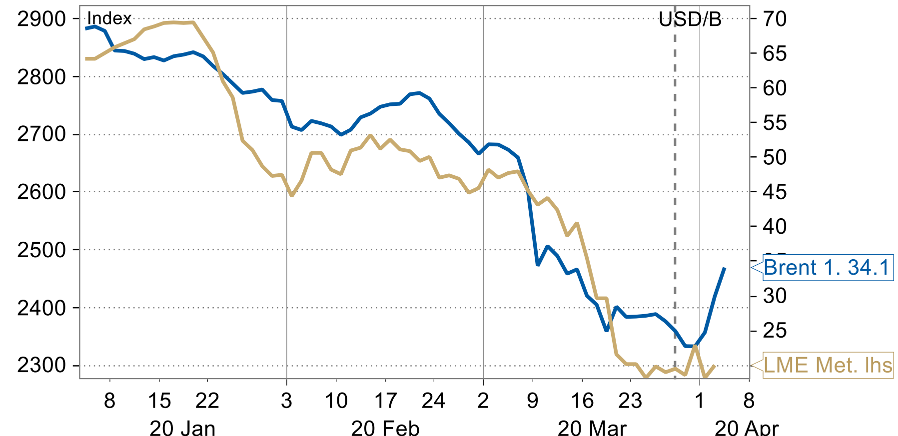
### Equity Indices




US equities edged down 2% last week, OSEBX the 'winner', up 7%

SB1 Markets/Macrobond

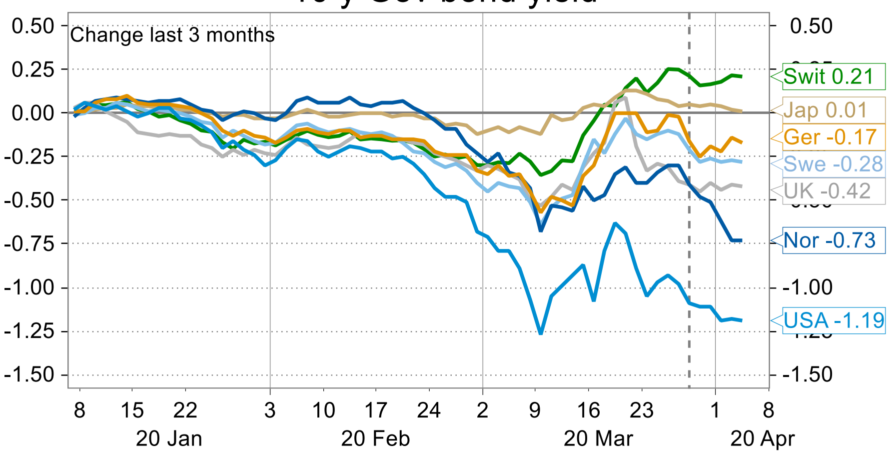
### Oil vs. metals




Oil price rose by USD 9/b after Trump tweeted that he expects Saudi and Russia to cut oil production by at least 10 mill barrels

SB1 Markets/Macrobond

### 10 y Gov bond yield

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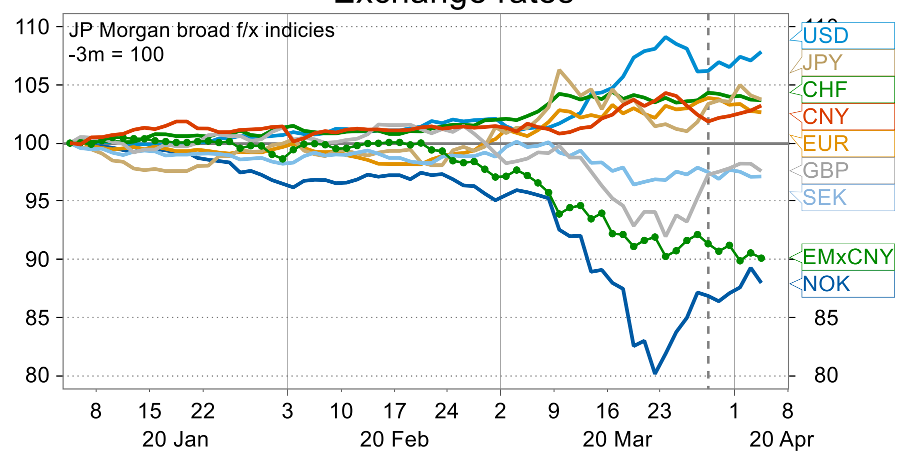
Bond yields are slowly sliding down, as market distress is abating somewhat. NOK rates and US are falling more than others

### Exchange rates

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Most currencies steady last week, NOK slowly recovering as the risk off sentiment has calmed recent days

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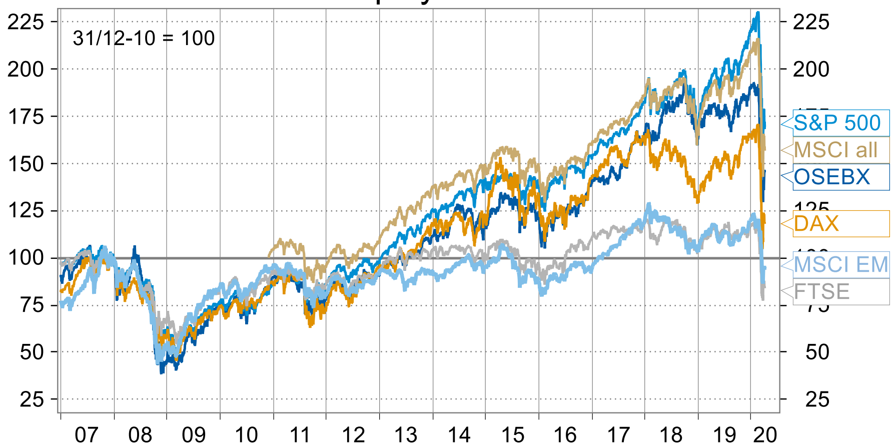
# In the long run: Stock markets are pricing a global growth recession

Stock markets down 20-30% and bond yields are at/close to ATLs. Oil price low, metals far better

Equity Indices

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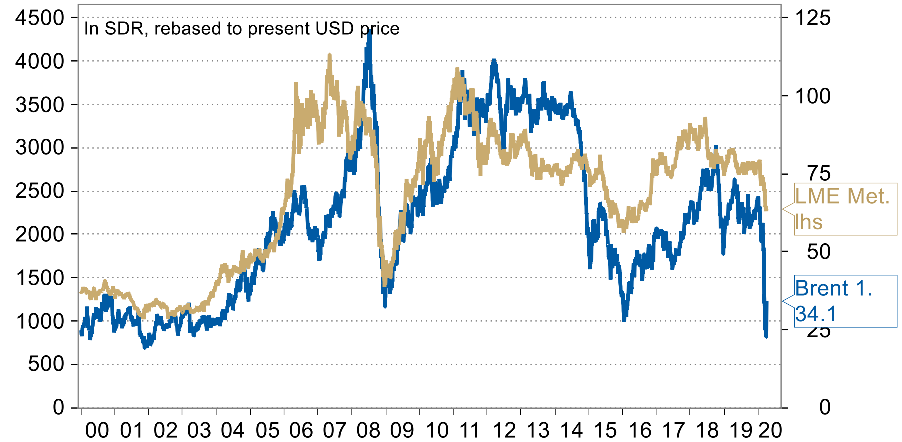
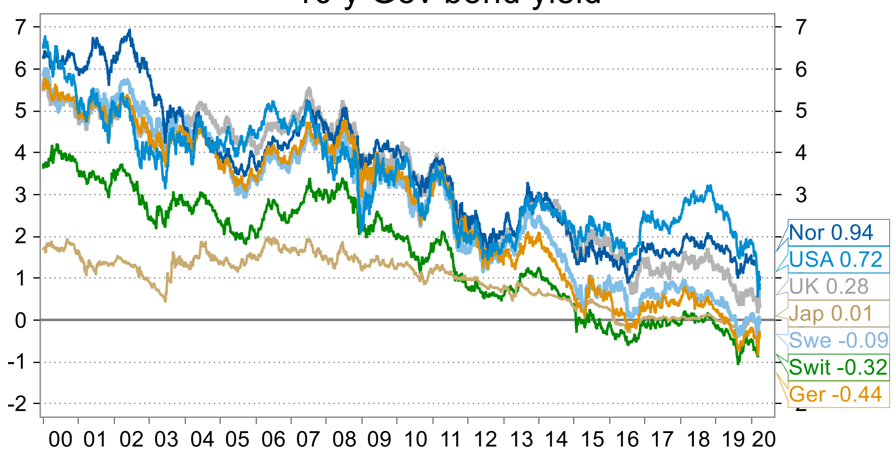
Oil vs. metals




SB1 Markets/Macrobond

10 y Gov bond yield

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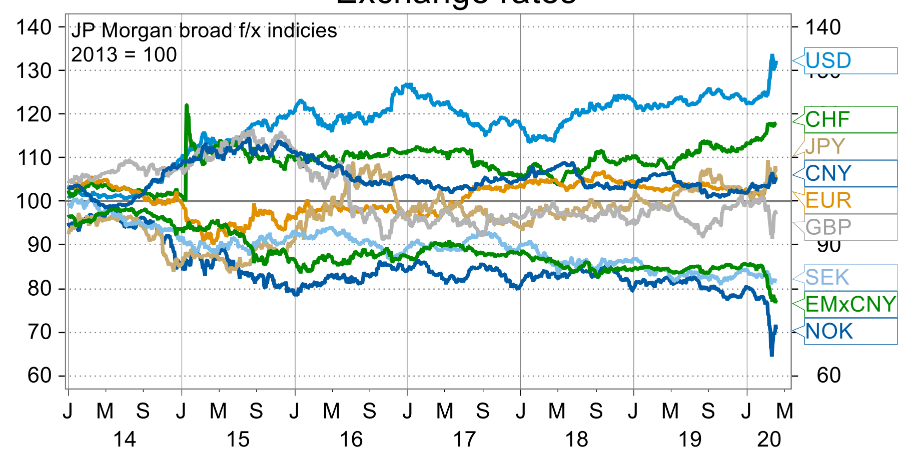
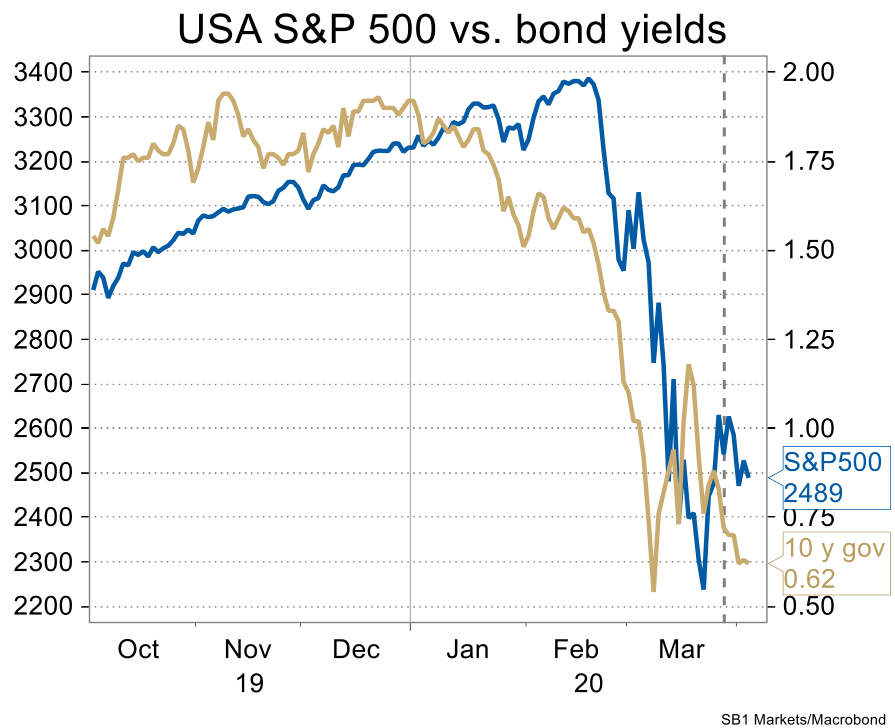
Exchange rates

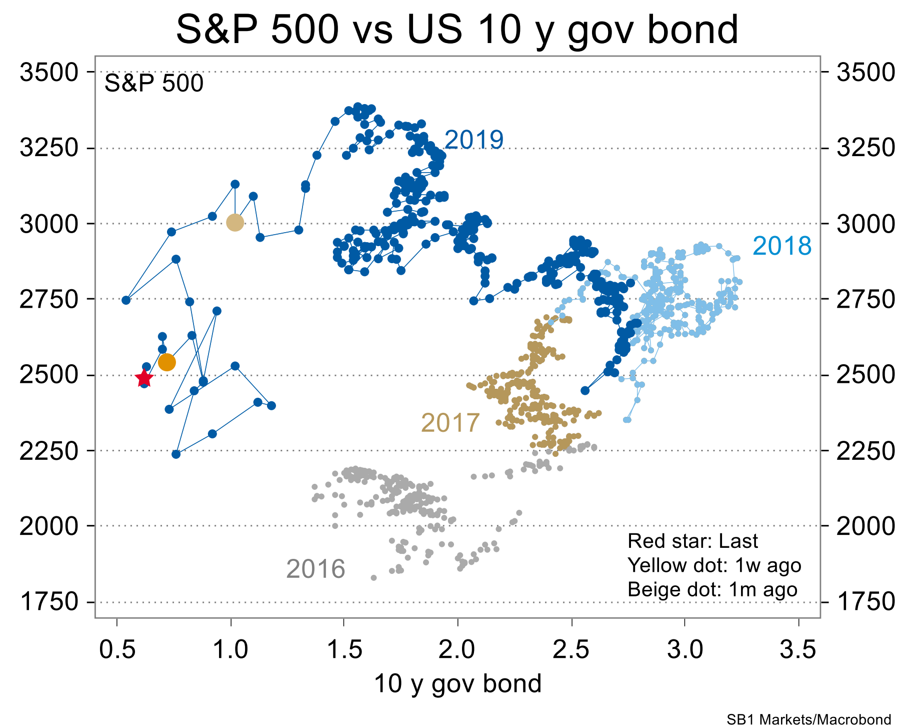



SB1 Markets/Macrobond

# Volatile US stocks and bonds retreated last week

## S&P down 2% following a 10% spike the prior week,  10 y gov bond yields down another 10 bps

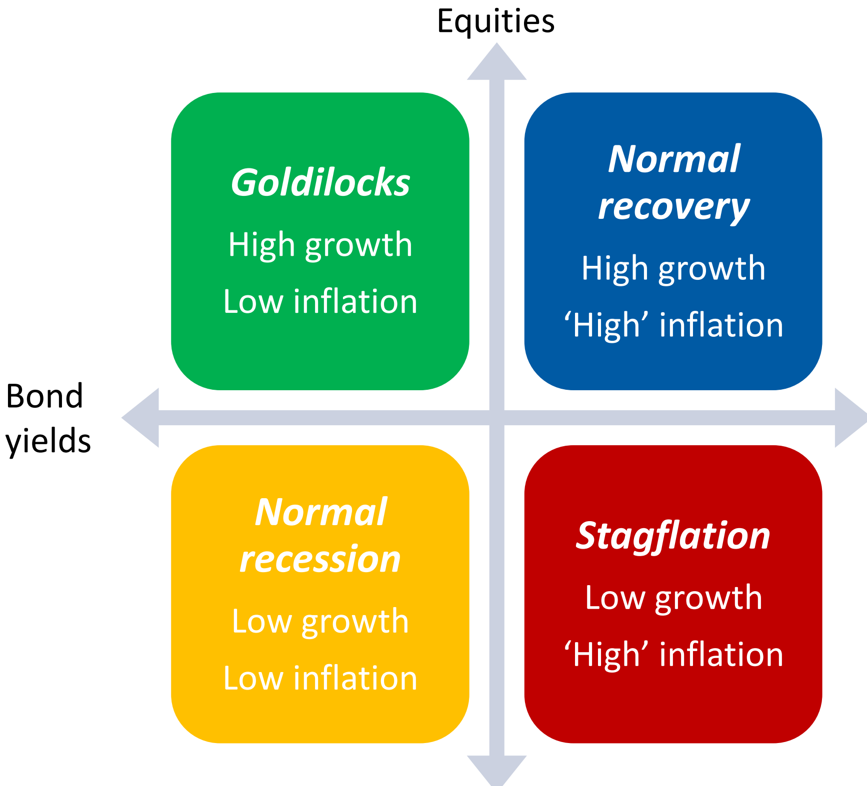


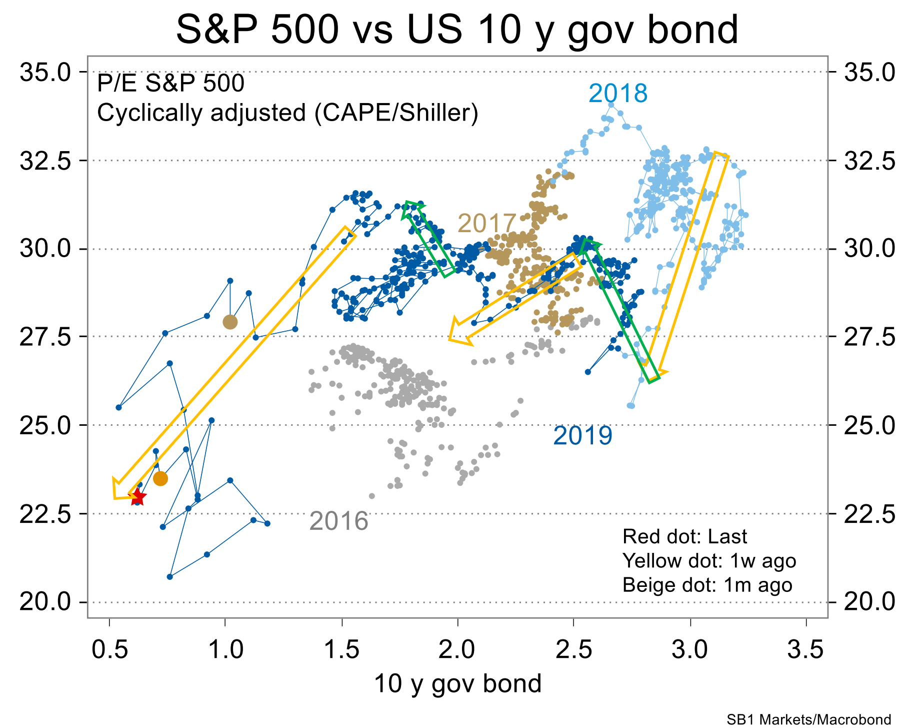




- The major question now is if stocks have hit bottom or if the upturn since March 23 is a *suckers' rally.* We do not have the answer but there is a substantial risk of a deep global recession, which markets have not yet discounted
- The 10 y gov bond yields have been very volatile. The upturn three weeks ago is most likely chiefly due to financial distress an need of liquidity among investors, which has now calmed – supported by massive monetary policy action. The 10 y treasury yield is close to ATL

# Markets are on the way to the recession corner, for good reasons…

## Stocks down, bond yields down in the age of corona

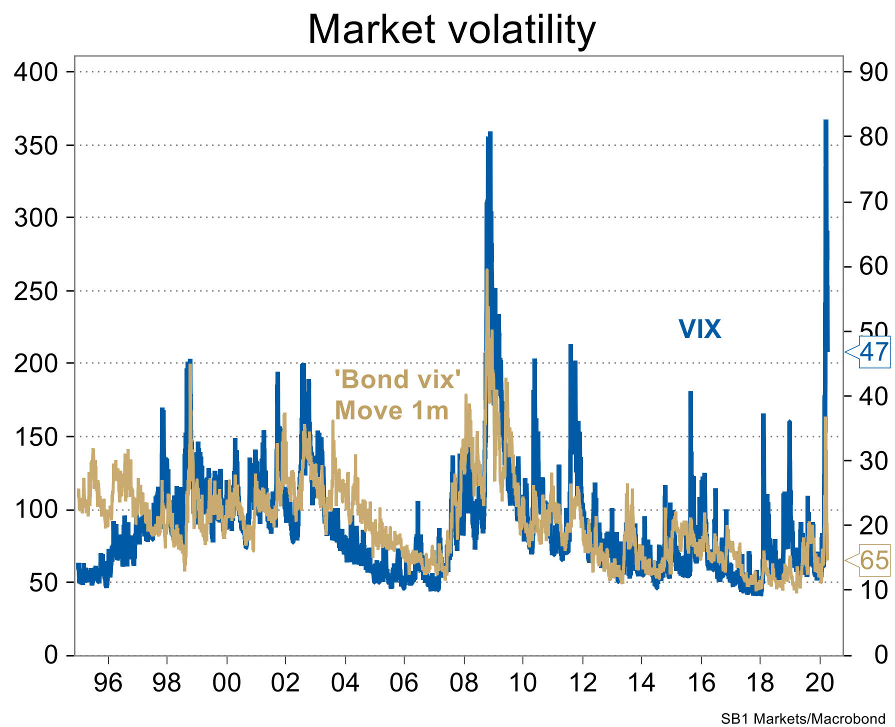


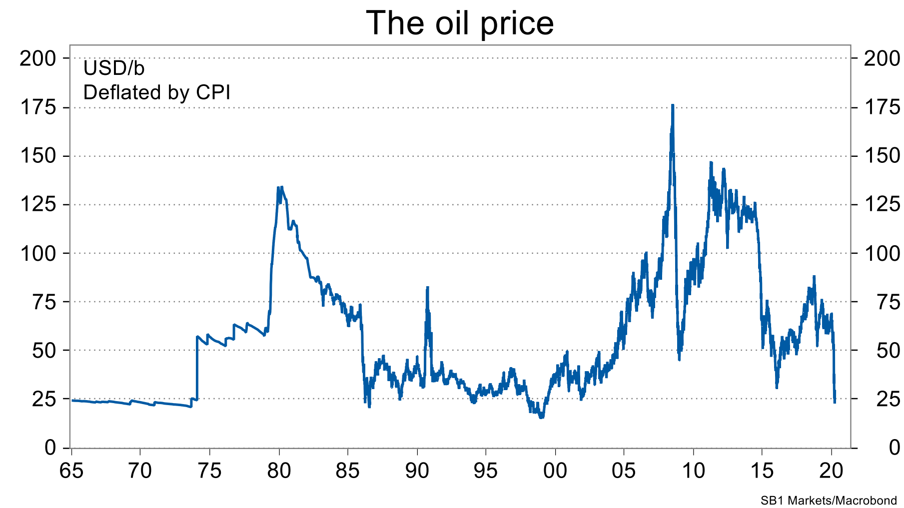



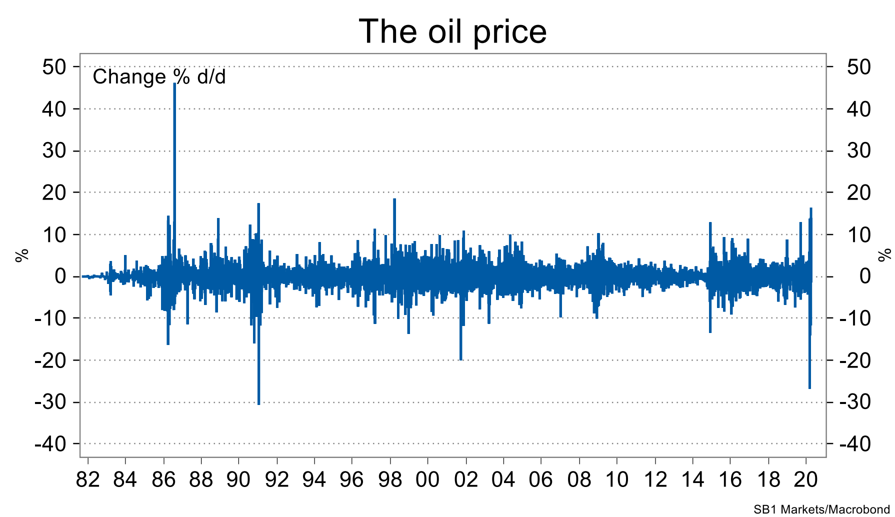

- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn has accelerated in March as the Covid-19 pandemic 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)

# Volatility has come down, still very high, in equity & bond markets

## The VIX has retreated from the a very high level but will probably remain high for some time



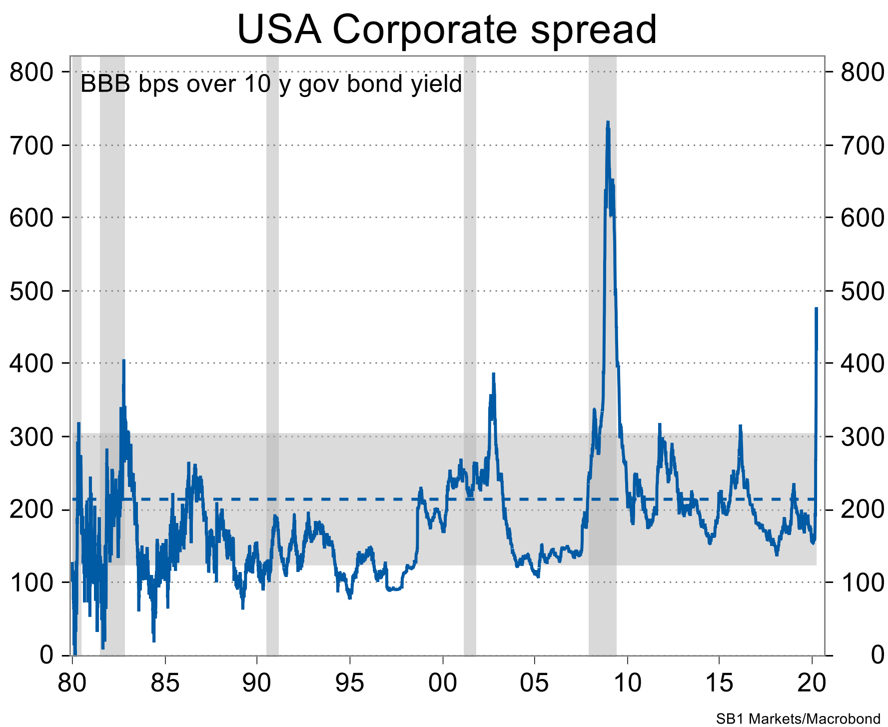



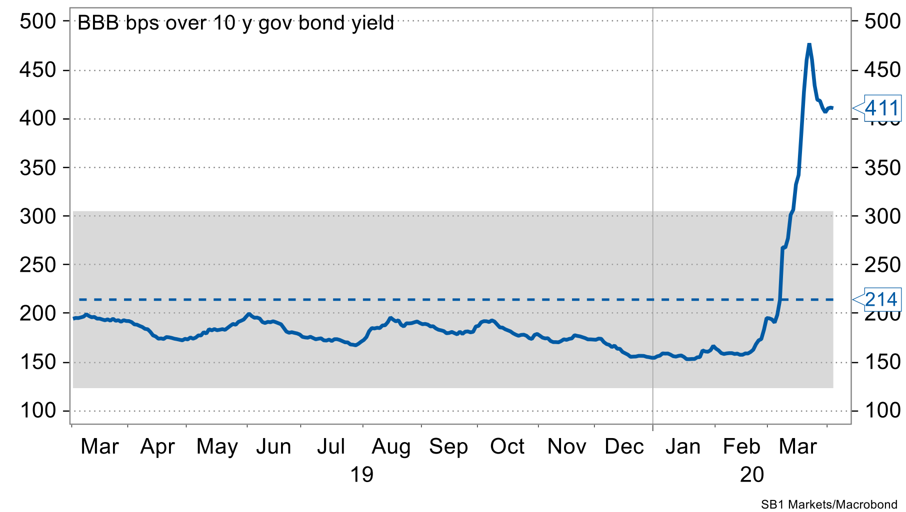



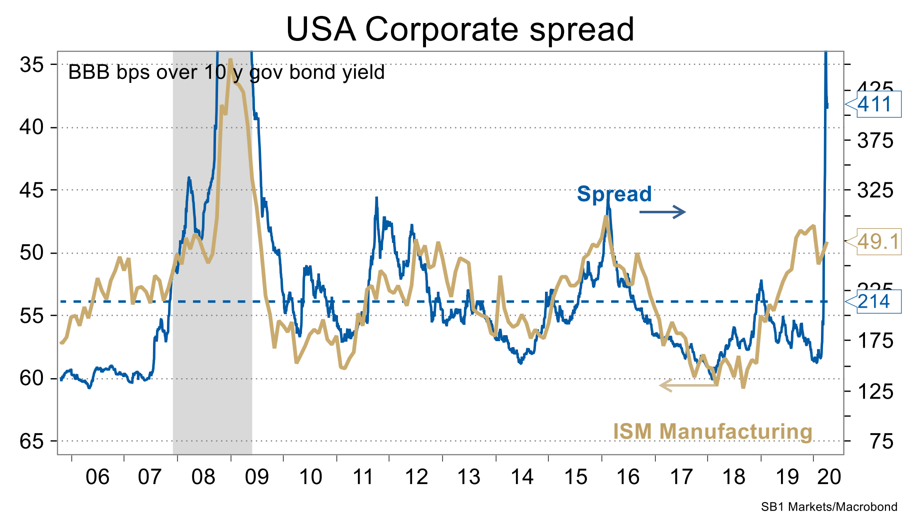

- The oil price has done some unusual twist and turns lately – and on the upside last week

# Credit spreads stabilised after a minor decline

A deep recession is now priced in



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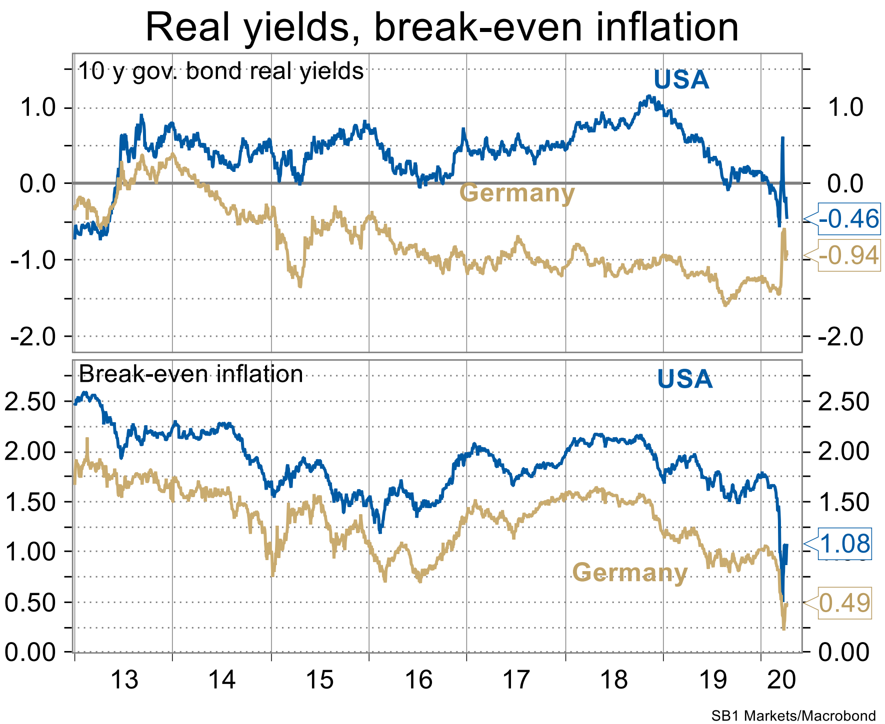
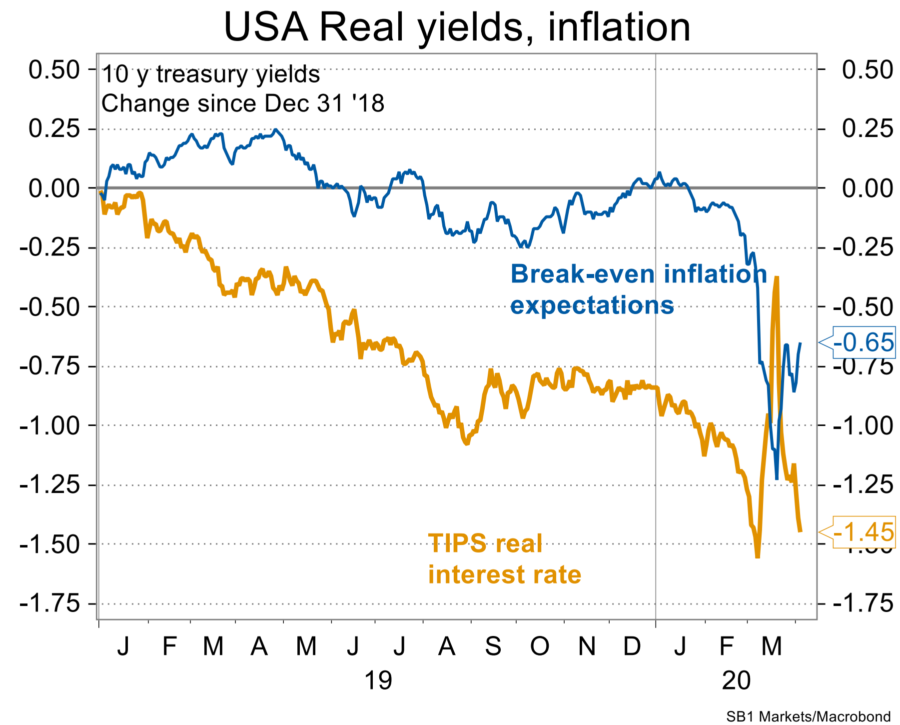
# Real rates back down, liquidity squeezes calmed, inflation exp. recovering

US real rates down to -0.46%, Germany still higher than pre corona, and not on growth expectations!




- US real rates have retreated the past 2 weeks and are almost back at the early March throughs, from before financial distress and liquidity issues lifted the real rate. Fed's massive stimulus of asset purchases, swap lines etc. must have helped. The German real rate at -0.94% is still almost 50 bps higher than before corona hit Europe. We highly doubt this reflects any improvement in growth expectations, but rather, a market dislocation?
- Inflation expectations are recovering after the 'collapse'. Inflation exp. are usually moving in once again in tandem with the on the oil price, which rose last week. Inflation expectations are still very low, particularly the German

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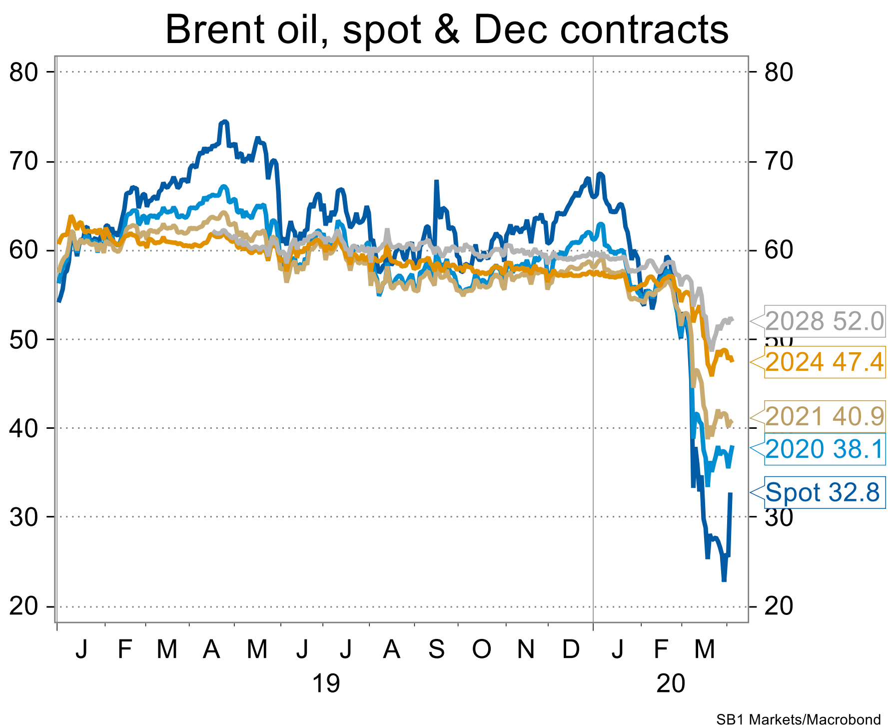
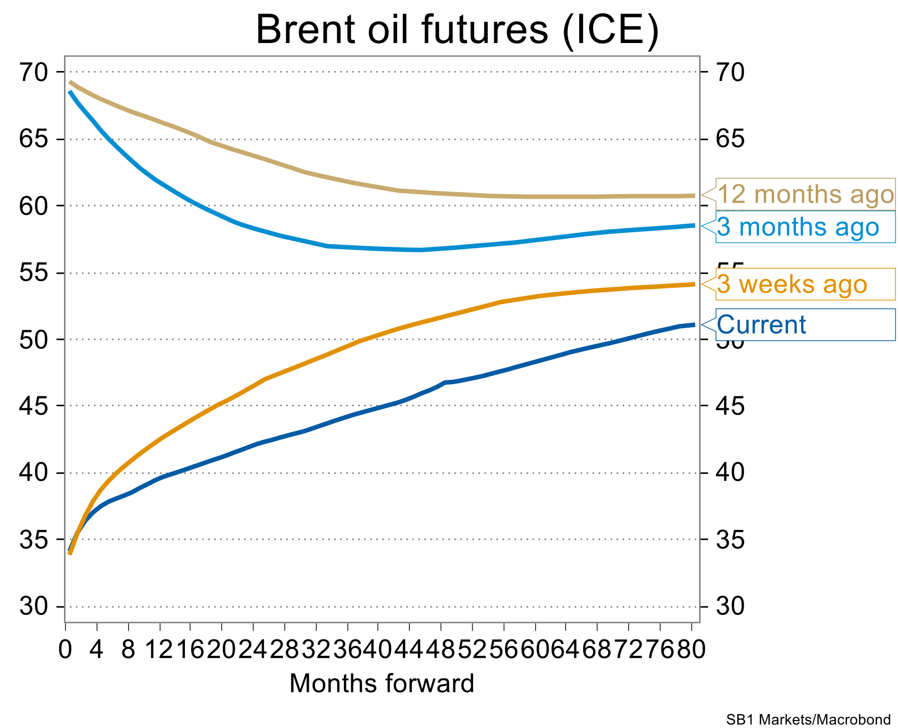
# Oil prices: Longer dated contracts have been sliding down as well

The past two weeks, oil prices edged up all over the curve. Could somebody cut production, please??




- Trump has made a deal? Have the other parties the same understanding? Will Russia cut, Saudi Arabia. Probably. Opec may join at Thursday. Will US join? And will Norway, like it has done some few times before (and has the legal capacity to do so)
- Anyway, global oil production is now some 20% too high, perhaps even more, as mobility has collapsed in a large part of the world

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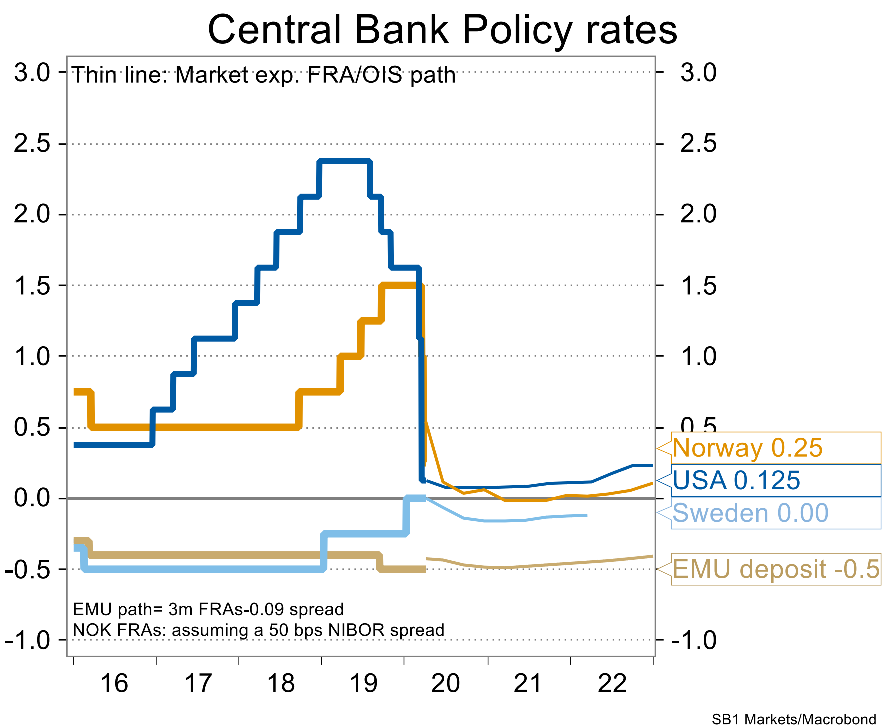
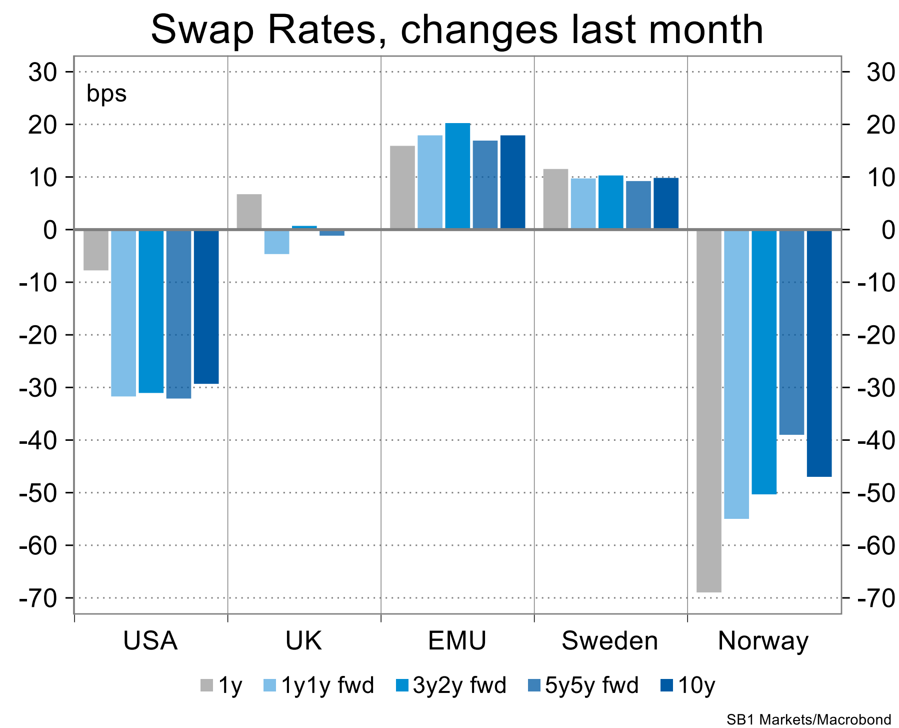
# Interest rates have been slashed in the US & Norway, not much ammunition left

## Markets may discount additional cuts in Norway & Sweden but not elsewhere



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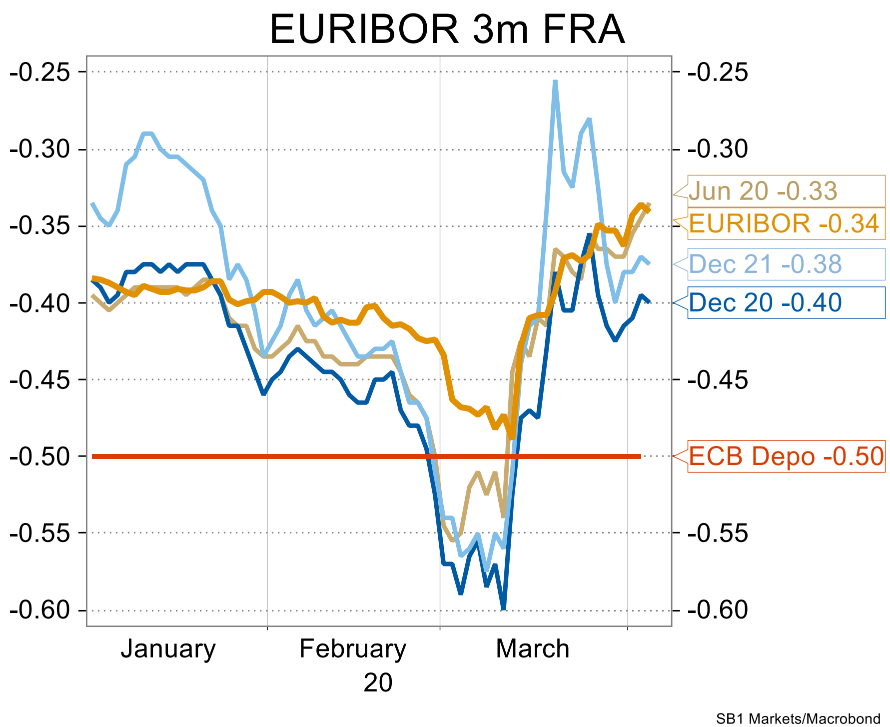
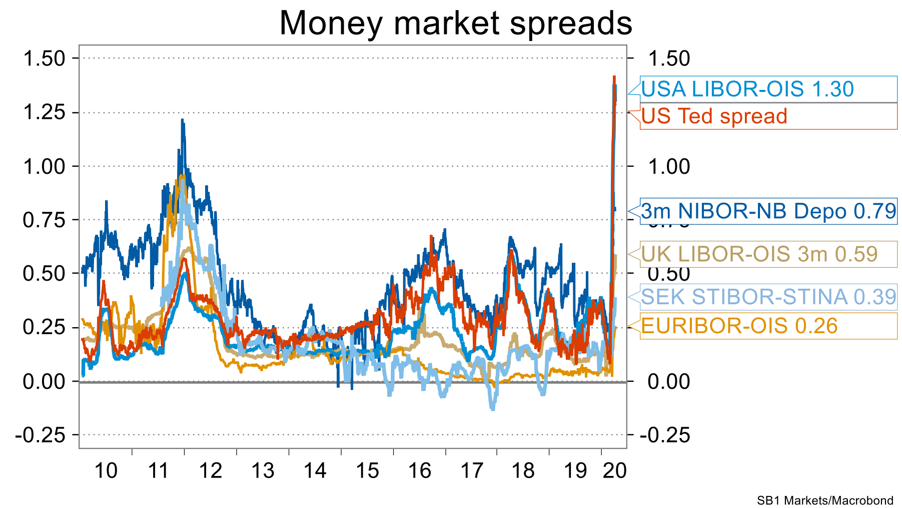
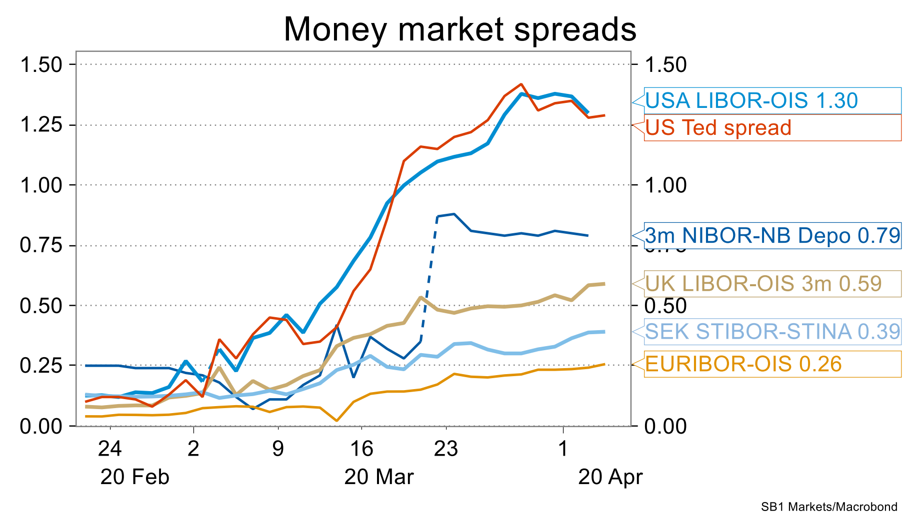
# EURIBOR FRAs also somewhat dislocated, money market spreads have widened

However, spreads still low in Europe, compared to the US – but spreads are flattening now?



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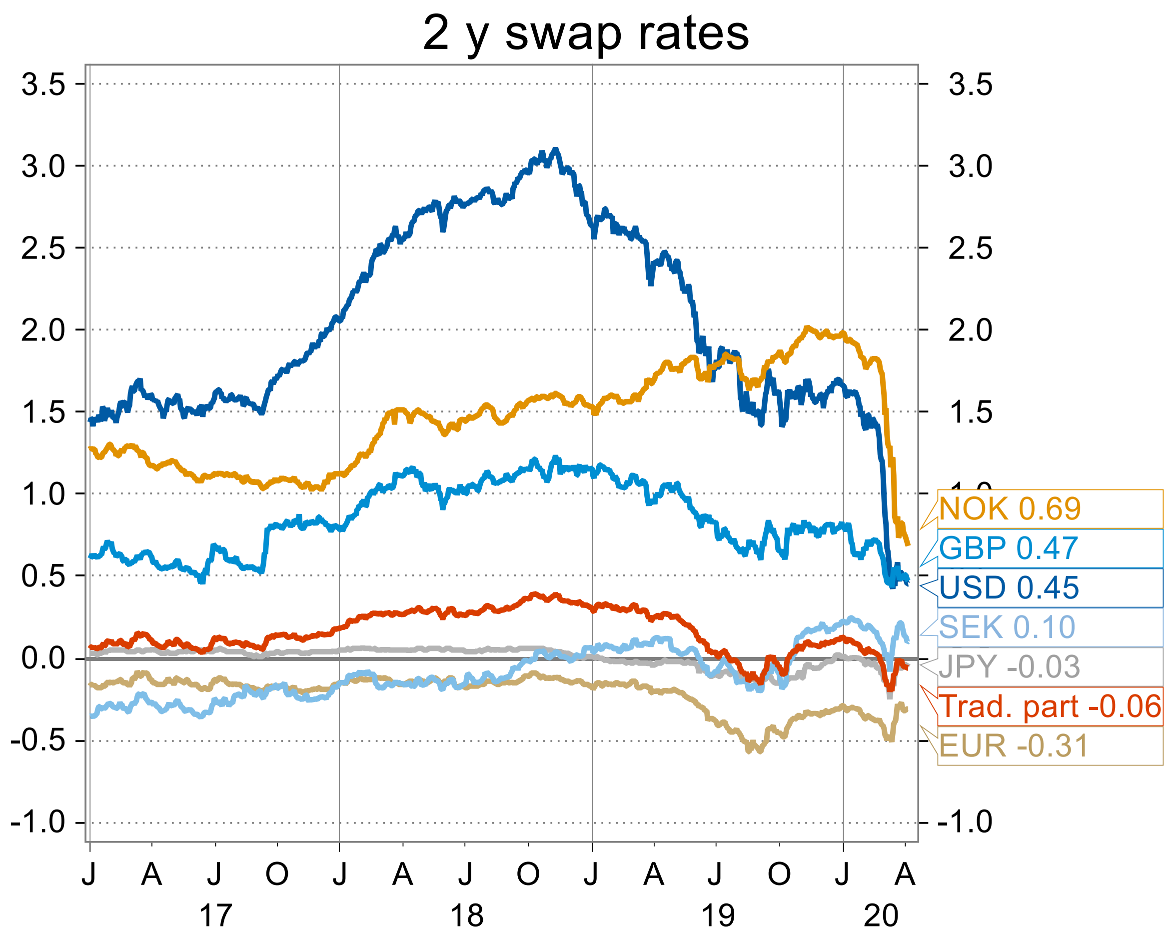
# Short term swap rates stabilized in EUR, US, NOK rates still sliding down

NOK and US rates have fallen much more than others through the corona crisis

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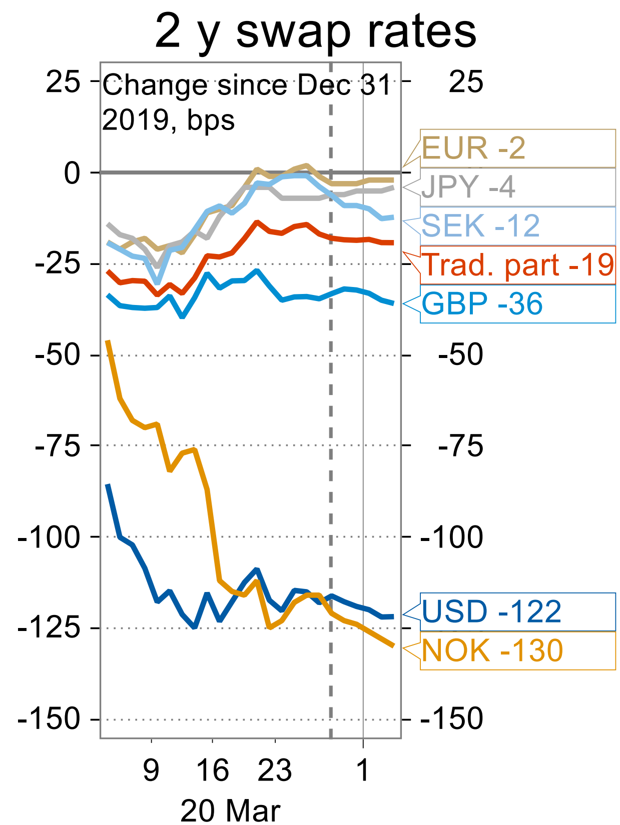


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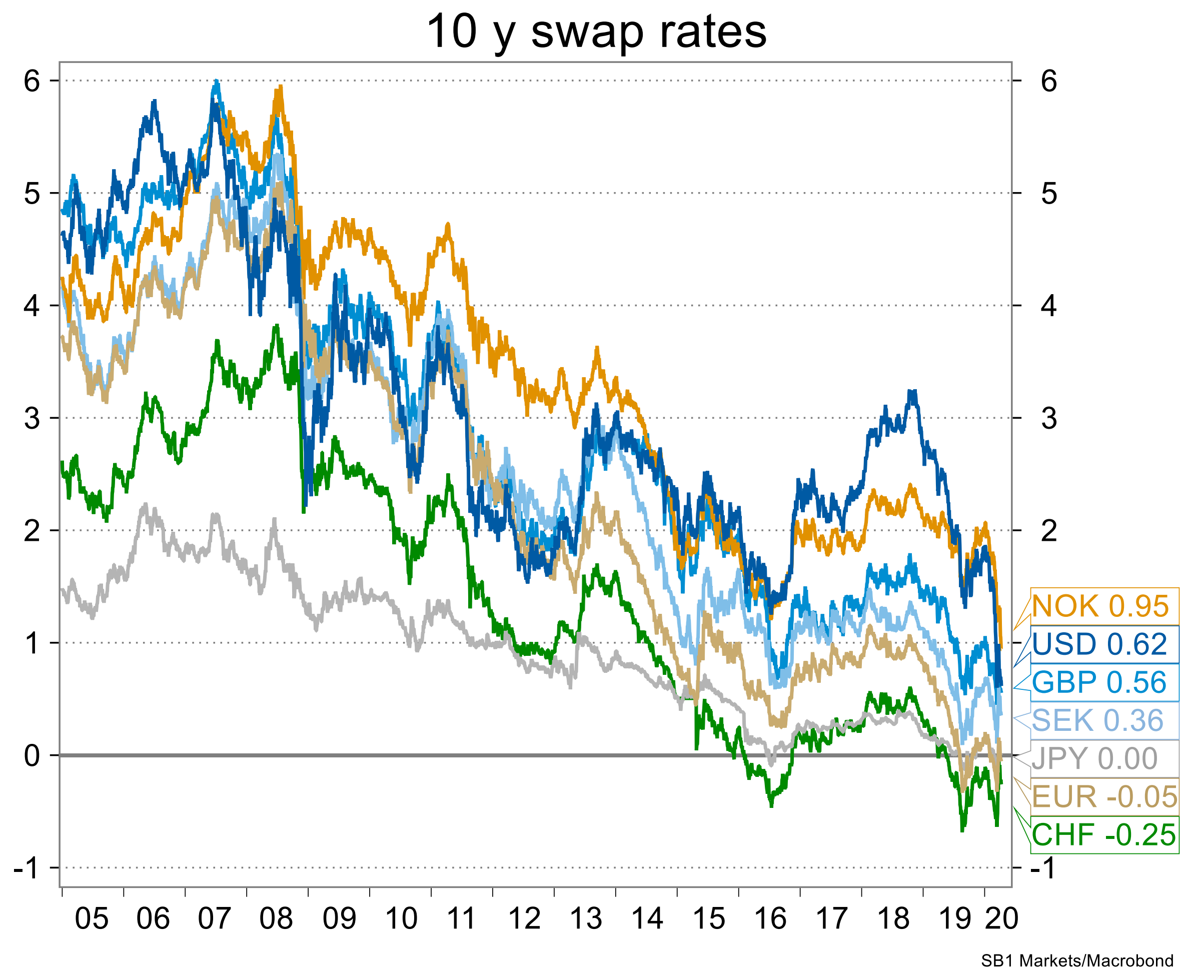
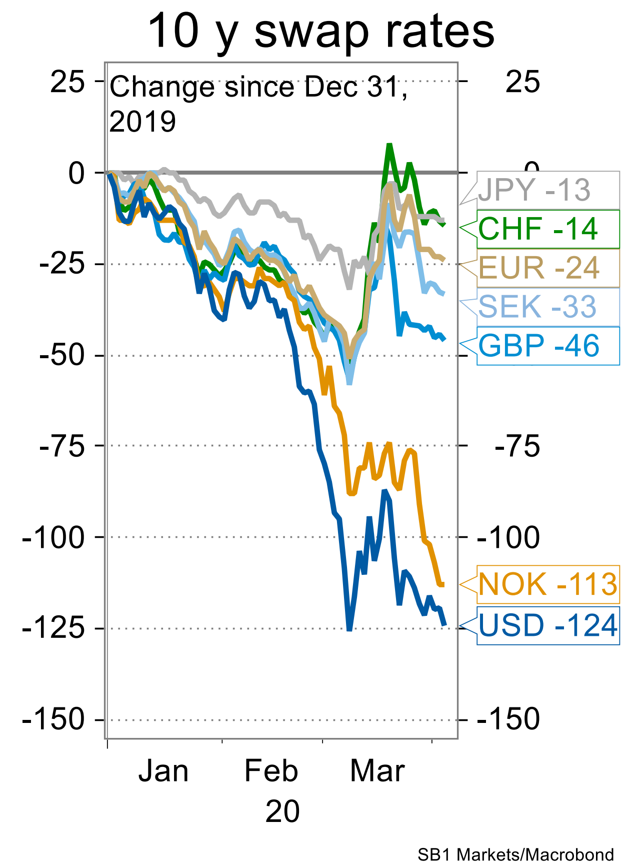
# Long term swap rates down again

Dislocation of markets as investors have been in need for cash probably explains most of the upturn



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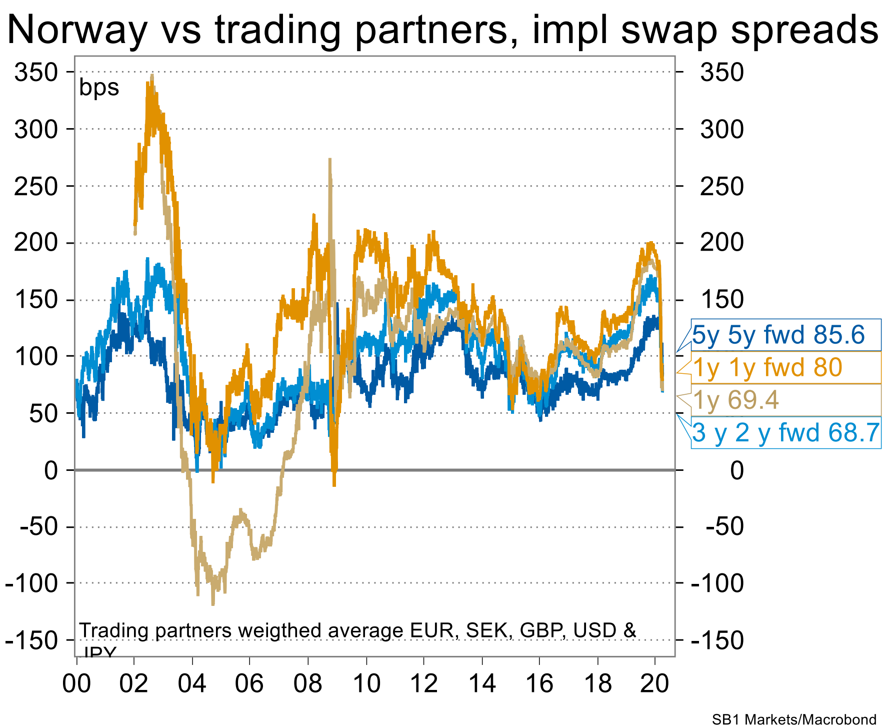
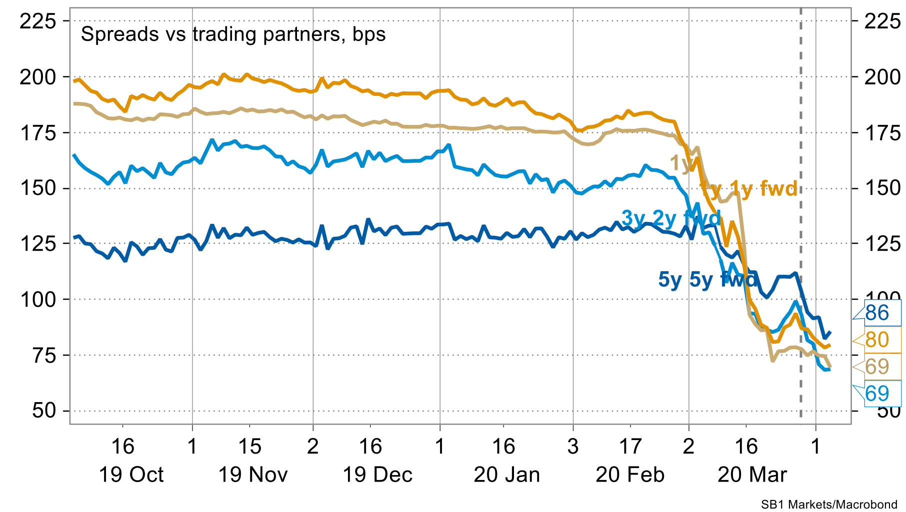
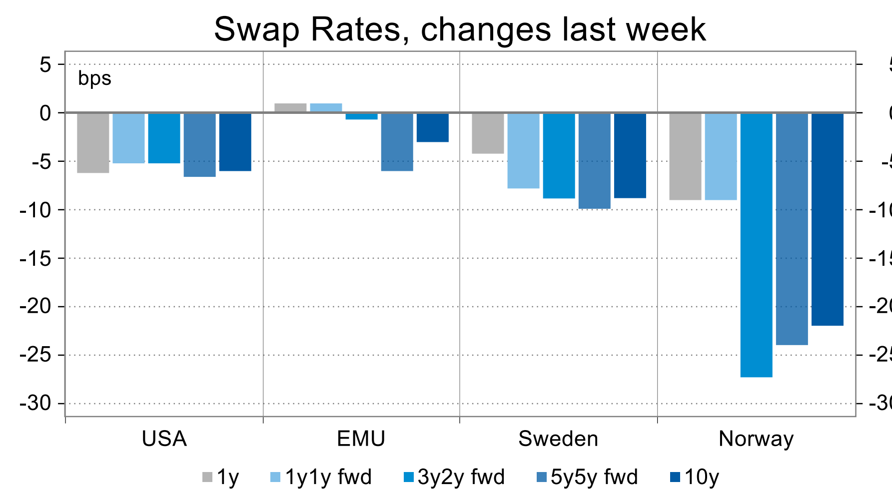
# NOK swap spreads vs trading partners have been smashed

## NOK short term rates have fallen much more than others – and the spreads are still not low



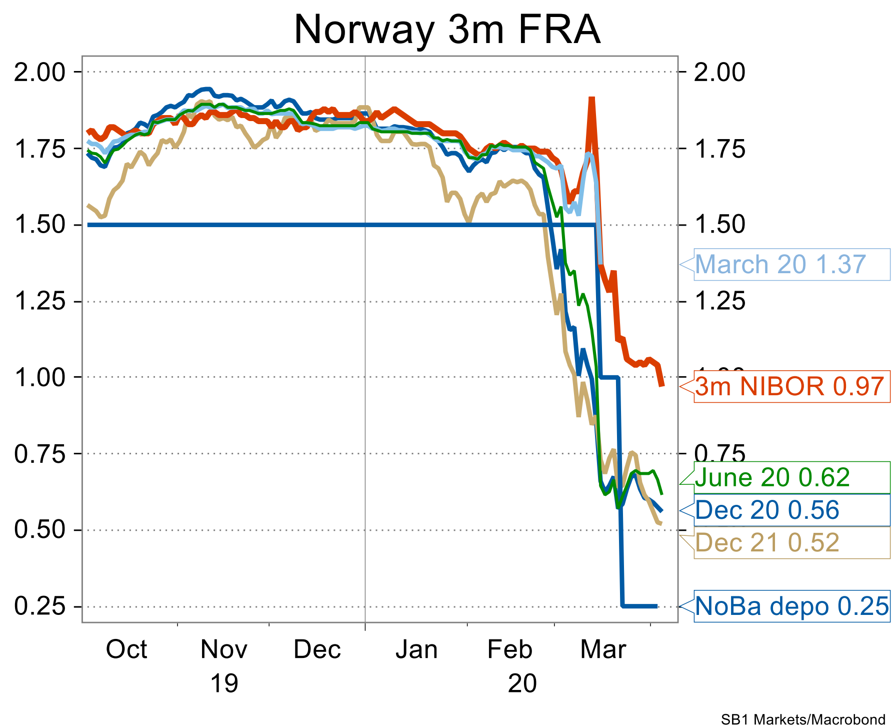



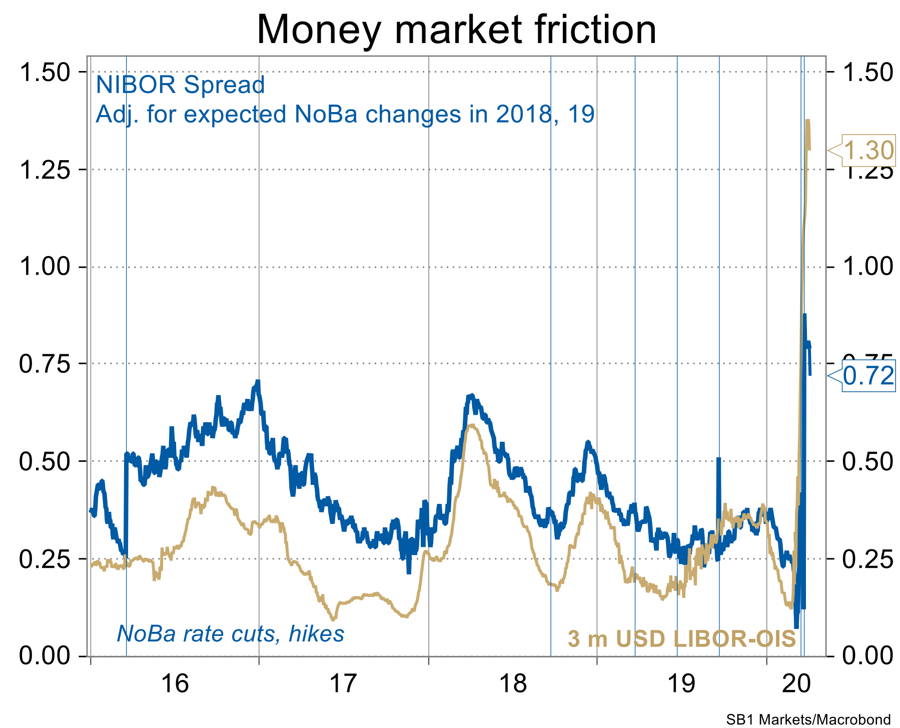




- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since late February, spreads have been falling sharply, as NOK rates have declined more rapidly than others
- Spreads are still not that low and there is more downside risk, in our view

# The NIBOR finally below 1% but the spread is still far too wide

## FRAs rates are probably at least partly discounting another NoBa cut

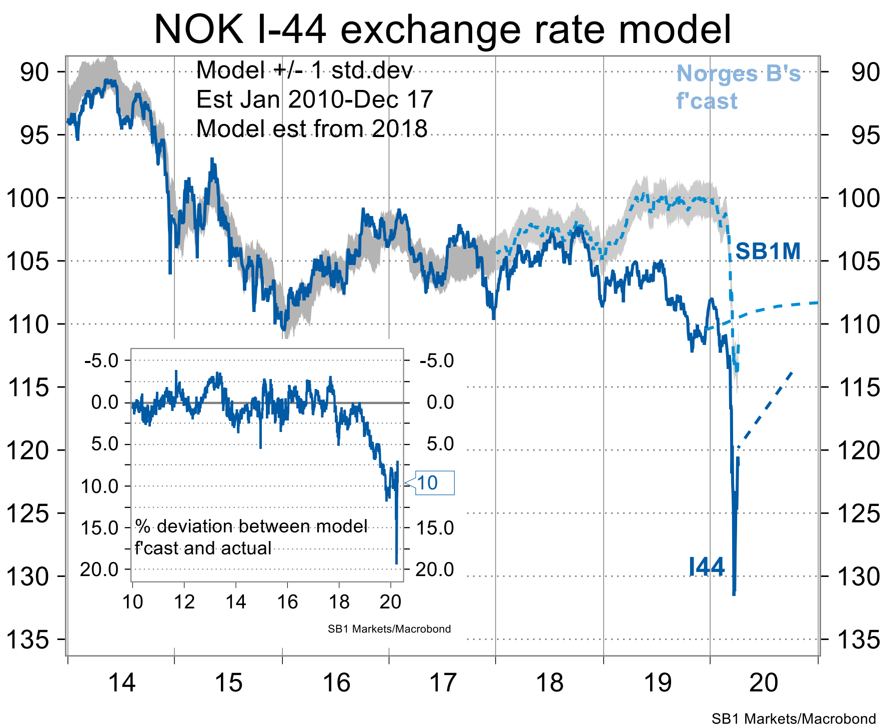


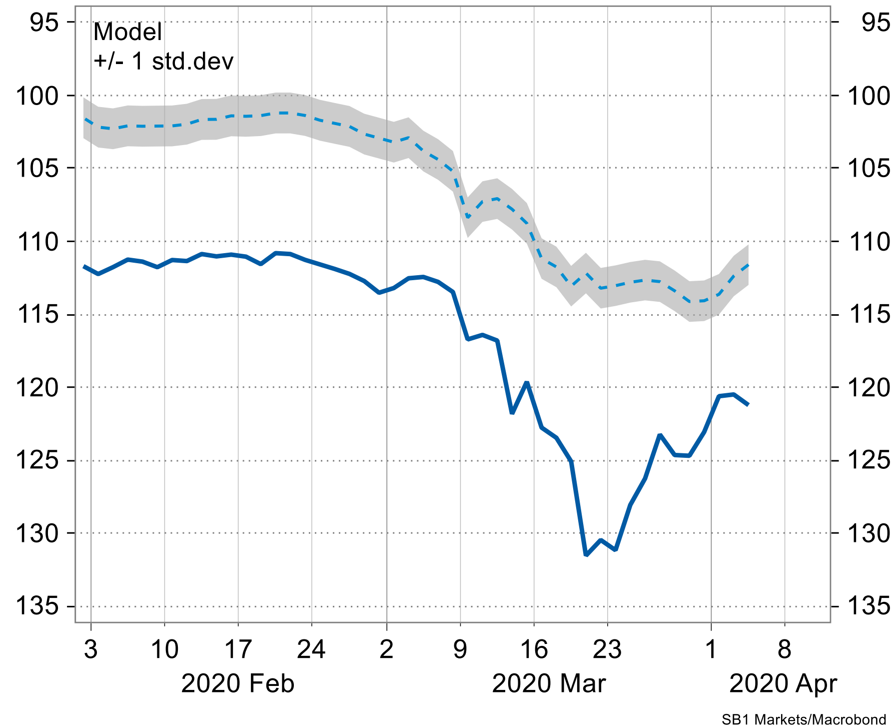




- The 3 NIBOR fell below 1% last week but the spread is still wide at 72 bps– but is far smaller than in the US now.
  - » The market is expecting a spread narrowing the coming months, as in the US
- The FRAs have more or less stabilized, we are unsure of the spread expectations, yet we assume that markets are at least partially pricing another Norges Bank cut, to zero

# NOK has gained ground, up another 3% last week, more than the standard model

## The NOK is still weak - but the gap to the standard, oil price model is back to level from last autumn




- The NOK collapsed three weeks ago, without any assistance from the usual suspects: not the oil price, energy equity prices, the interest rate spread or 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 has recovered some 8% from the bottom, we assume it was simply 'too' cheap. Last week, a higher oil price supported the NOK, after Trump said he had brokered a deal of oil production cuts between Russia and Saudi

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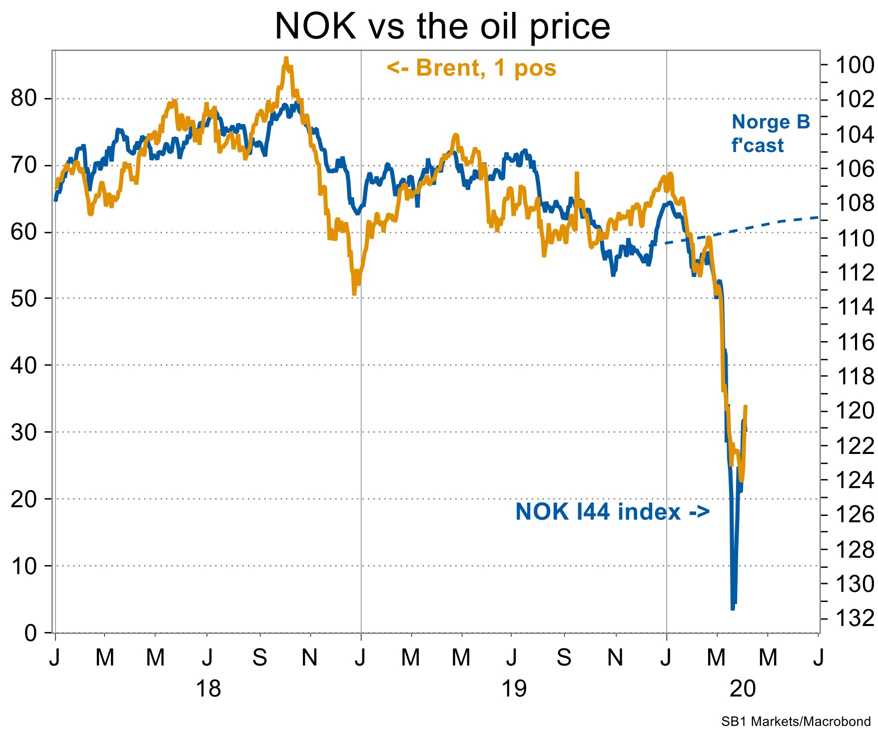
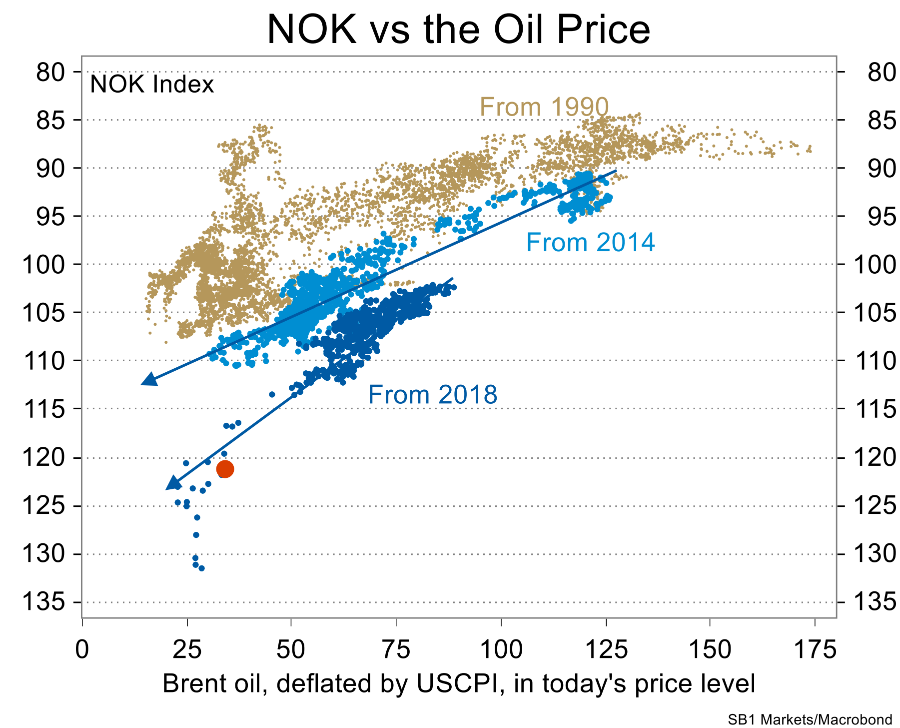
# The 'gap' between the oil price and the NOK is almost 'closed'

... vs the short term relationship since 2018

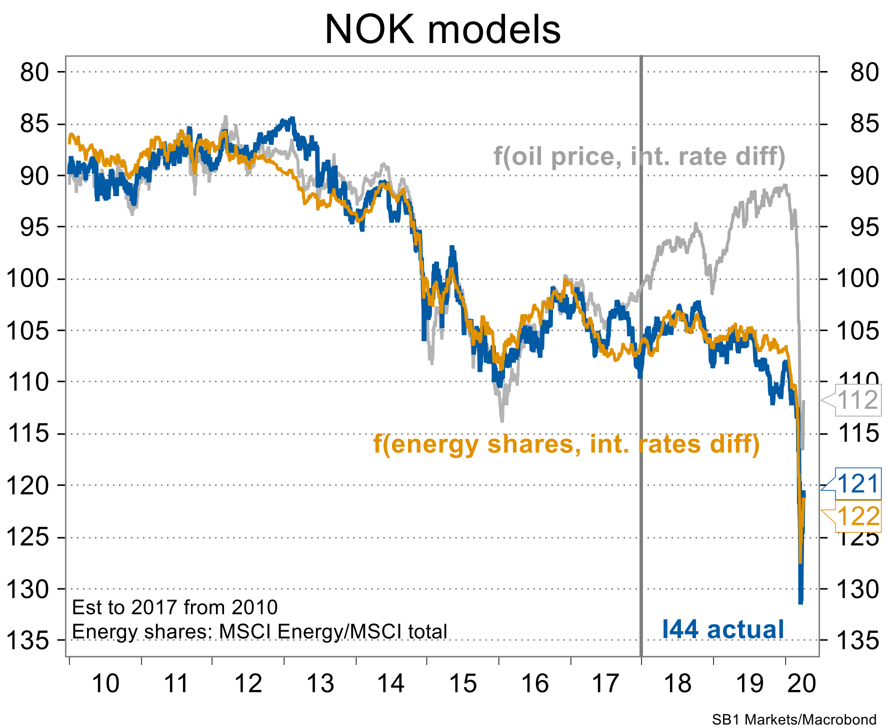


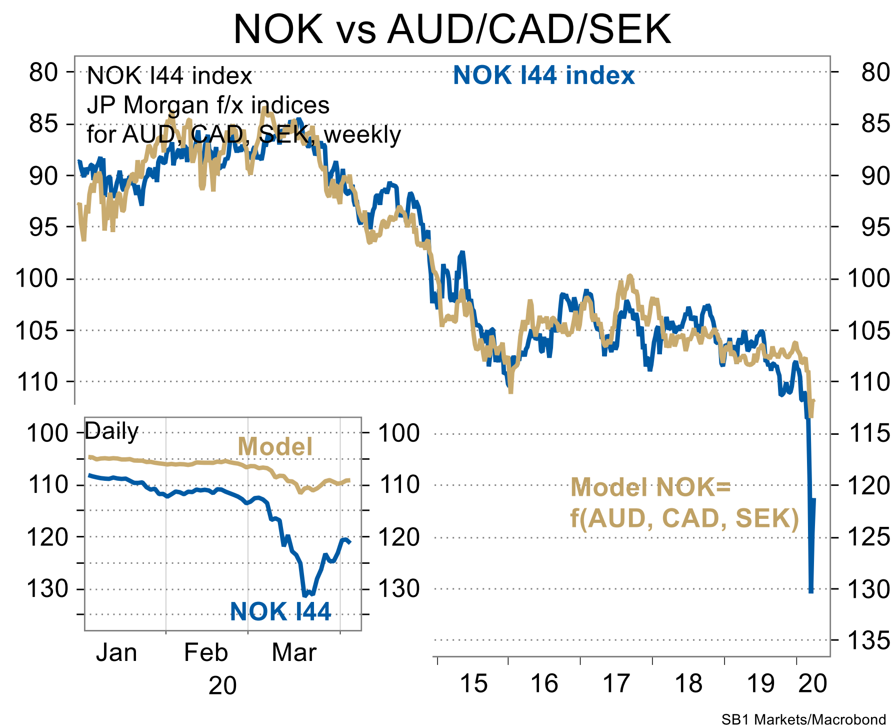




- The NOK has been much weaker vs the oil price than normal the past few years but it is still correlated to the changes in the oil price like it used to be

# NOK still far too weak vs the supercycle model but not vs oil stocks

## NOK is 8% too weak vs the 'supercycle' model and 0.3% above the oil stock price model

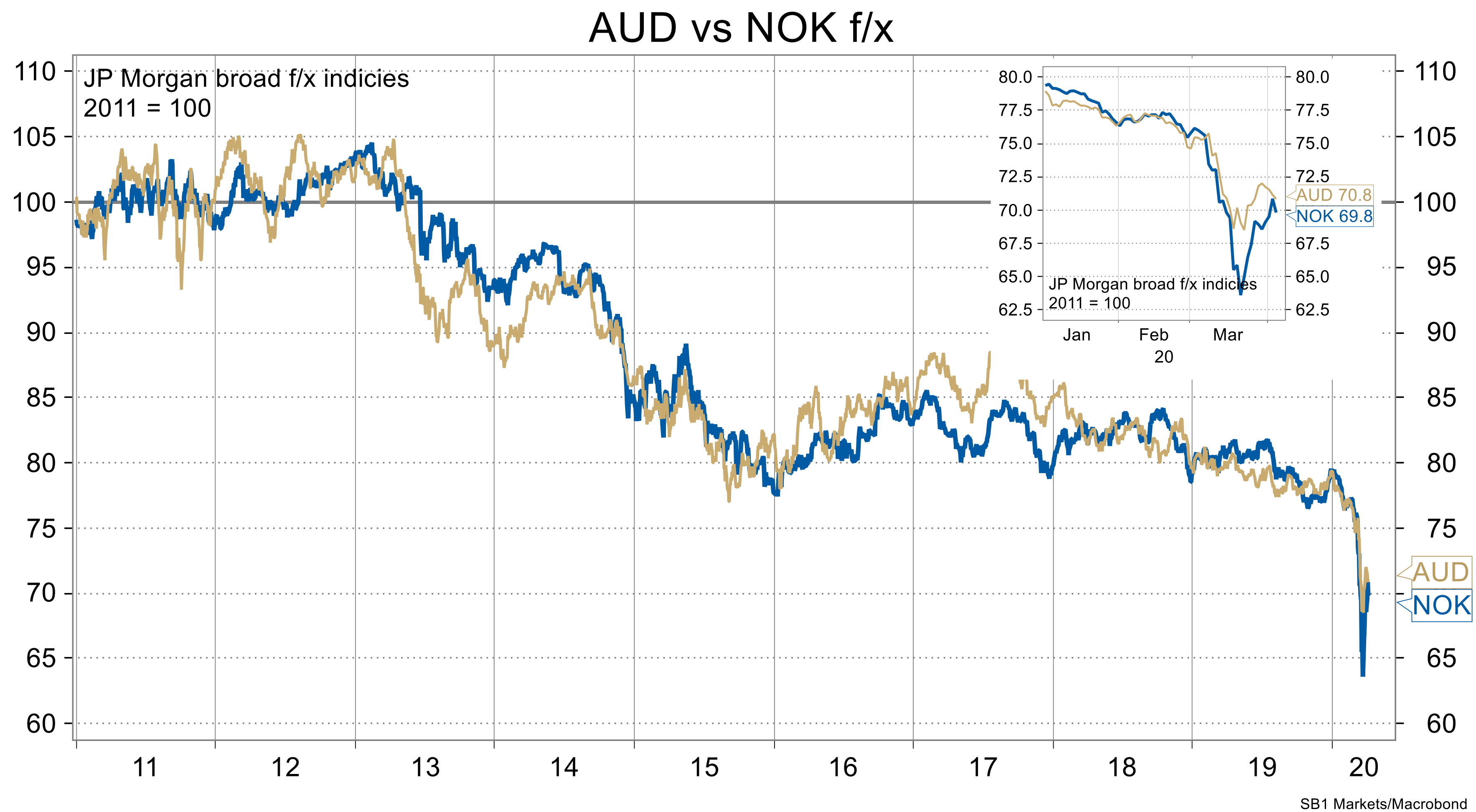



- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to NOK
  - » The oil company share has model fallen along with the NOK since early January and both have been rebounding the past two weeks. The NOK is now marginally 'too strong' vs the oil price model. Thus, one argument in favour of a stronger NOK is wiped out, if energy stocks prices are not priced too cheap now
  - » Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook. During the Covid-19 crisis, the NOK has been much weaker than the SEK and CAD but close to the AUD

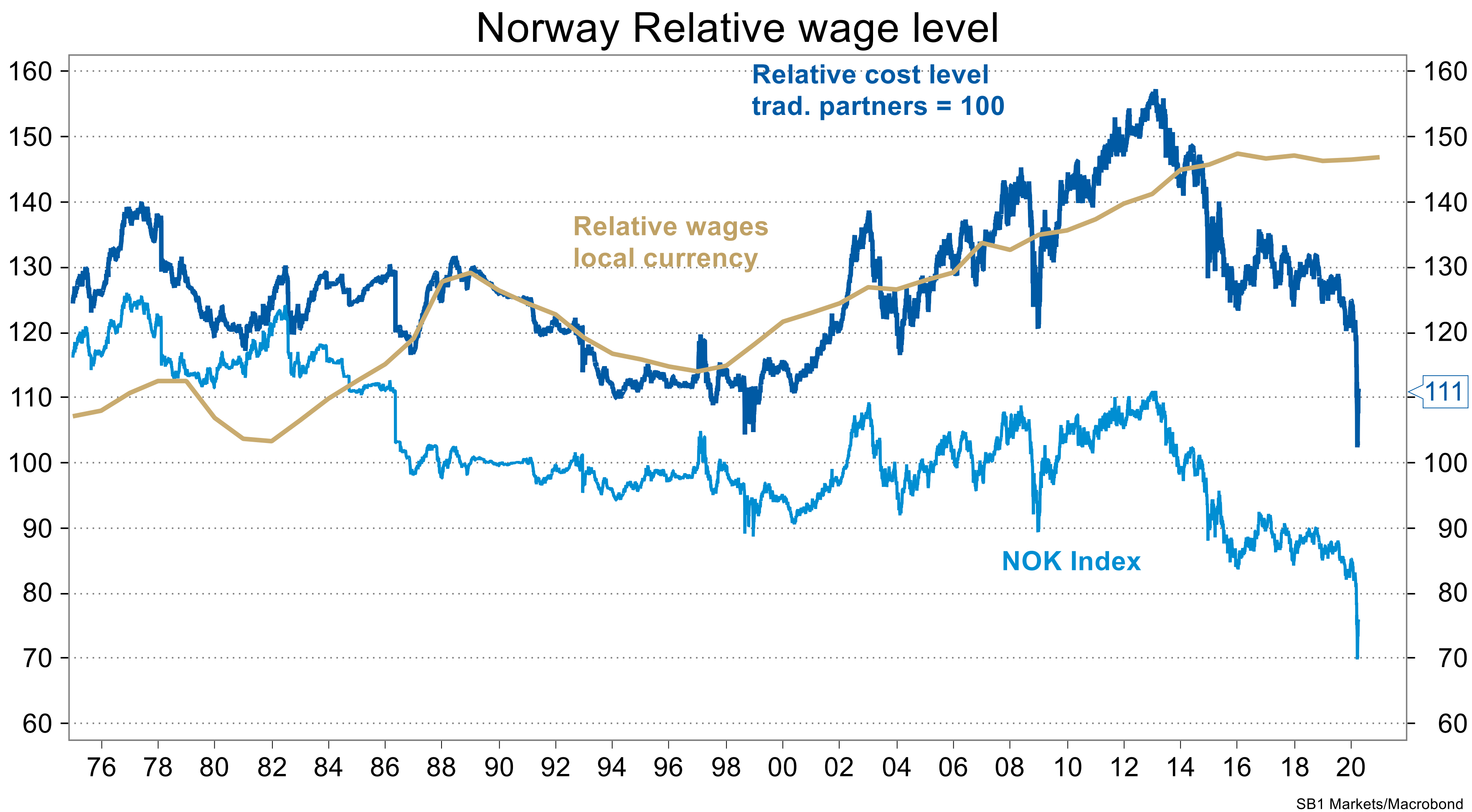
# NOK back with the AUD, both recovering now

The NOK weakened much more than AUD two weeks ago - the gap is now closing



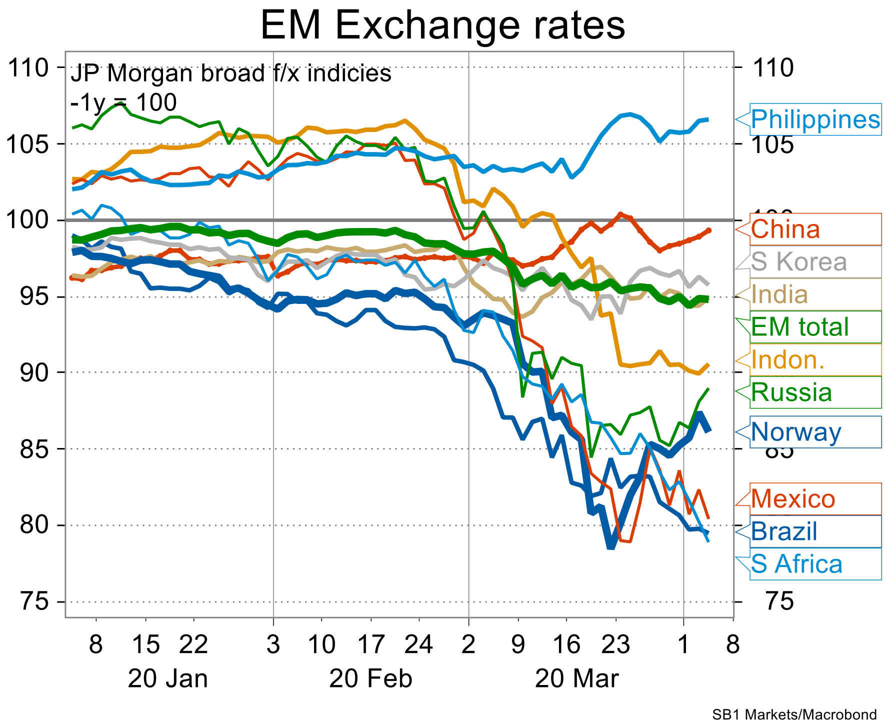
# Get the fundamentals right: The Norwegian cost level has never been lower

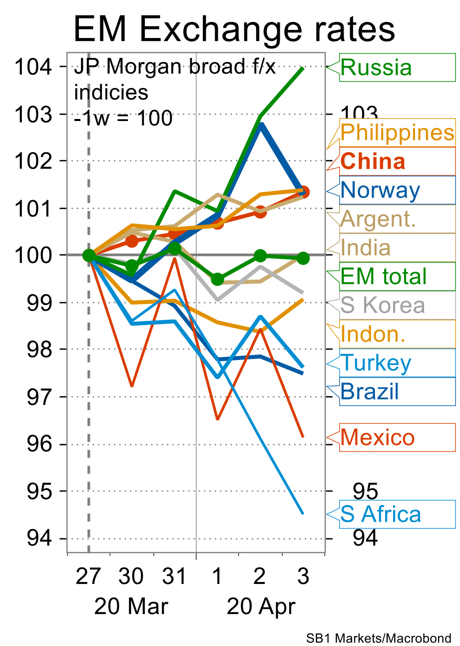
Even if the Oil fund can fund 1/4th of Mainland imports (if the real return remains at 3%, long term)

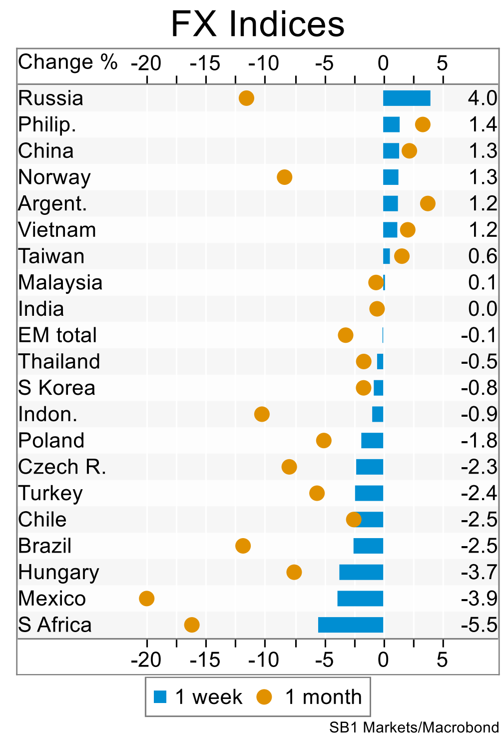


# Emerging market f/x steady the past week, trending down

## The CNY is strengthening after a setback and is above the pre-corona levels




- Most EM (Emerging Markets) currencies have depreciated substantially on the coronavirus outbreak; Russia, Indonesia, Mexico and South Africa the most. Last week, EM currencies were steady, in avg
- The South African Rand is tumbling, the economy was already struggling before corona hit, and Moody's has now downgraded it's credit ranking to 'junk status'

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