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Macro Research

Weekly update 16/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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The elements on the the page "In this report" are linked
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Last week – the main takes

- **The numbers of daily corona cases & deaths** have peaked most places, even in New York, confirming that 2 to 3 weeks of lockdowns and other measures will reduce no of new cases, hospitalisations & deaths as social distancing++ reduces the reproduction rate of the virus to below 1. Most emerging markets are still in the early phase of the outbreak

- At the same time, the **unprecedented depth of the economic setback** is becoming more and more visible in both Europe and in the US. Production is down 15 – 30% (our first mid March call was -25% in Norway, SSB now says 15%, so far). Weekly unemployment data, and some few other real economy trackers confirms the damage done. Registered unemployment in the US is up 10pp, in Norway 12 pp

- **When and how to ease?** The 'only' questions policy makers everywhere is when and how to ease restrictions. Several European countries, Norway included, have announced some easing recent days, in order to mitigate some of negative economic/social impacts of the tight regulations, implicitly accepting more (or a slower decline) in . However, nobody knows how much social distancing can be reduced before the virus kicks back too hard – especially in countries that have been 'successful' in combatting the first wave of the virus attack with just a few causalities and where herd immunity remains at a low level (like Norway). Other countries do still have so many hospitalisations/deaths that substantial reduction in restrictions are unlikely

- The authorities did not take a long Easter break, and new – partly breath-taking – **policy measures were announced last week**
  - » **The Federal Reserve** will increase its balance sheet by up to USD 2.300 bn in order to fund small businesses, larger businesses, by buying corporate bonds, including high yields bonds, for the first time ever (though just those newly downgraded from BBB, investment grade, and to help funding municipalities and states. The Treasury takes the risk, at least on the paper. The total amount equals 11% of GDP (or 60% of Fed's pre corona balance (!). Earlier a similar program to buy government bonds (and mortgage backed) has been announced. Fed's balance could easily double! In addition, the federal Government is probably contemplation new fiscal stimulus
  - » After a 16 hours debate, **Euro zone finance minsters** agreed upon proposing that the European Stabilisation Mechanism should fund lending to cover corona costs, increase lending from the European Investment bank and to establish a new unemployment benefit scheme at a EMU level equalling 1% of EMU GDP. The total package (mostly lending) equals 4.5% of EMU GDP. No deal on mutual 'coronabonds', but some sorts of support mechanisms are on the table
  - » The UK Treasury told the Bank of England that the **government will borrow money directly from the BoE,** and not finance corona related spending by issuing government bonds. The amount could reach £200 bn (9% of GDP, or 30% of the Bank's current balance sheet). This overt monetary financing ('helicopter money) is not unprecedented – some £20 bn was drawn from the Bank during the GFC - but the amount may be huge this time around, which of course will be temporary and short term (says the Treasury). The BoE had earlier announced large programs for buying of government and some corporate investment grade bonds

- In **China credit growth** accelerated in March, both ordinary bank lending and through shadow banks. **Exports**, which fell 40% in February, grew by 60% in February, and was just 4% below the Jan level (and 6.6% below March last year). Import rose too, and were higher than March last year, both better than expected.

- Saudi Arabia, Russia, other Opec members negotiated over 4 days to reach **an agreement to cut oil production by 9.7 mill b/d**. Other countries (Brazil, Canada, Indonesia, Norway and the United States) are supposed to contribute with some 5 mb/d (but how is still uncertain, at least partly through depletion), and some importing countries will build up their strategic inventories. The cuts will be gradually phased out over the coming year. Right now, demand is probably down 30 mb/d (30%) but hopefully, that's the trough. Oil prices are unch. from before Easter

- **Stock markets** had the best weeks in decades, S&P 500 up more than 12%, best since 1974! Bond yields rose just marginally

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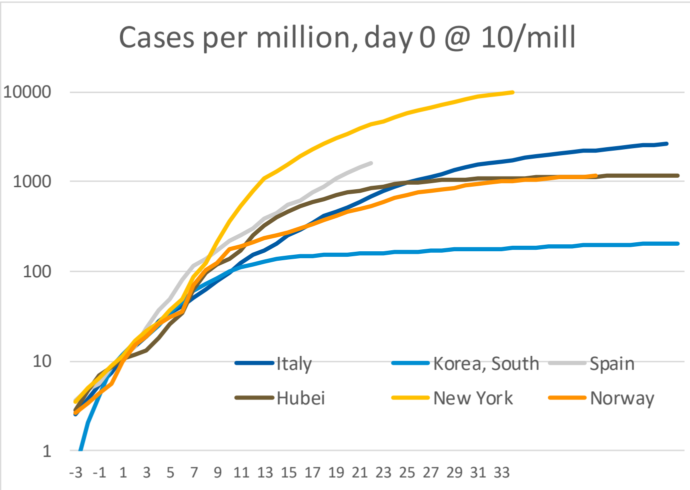
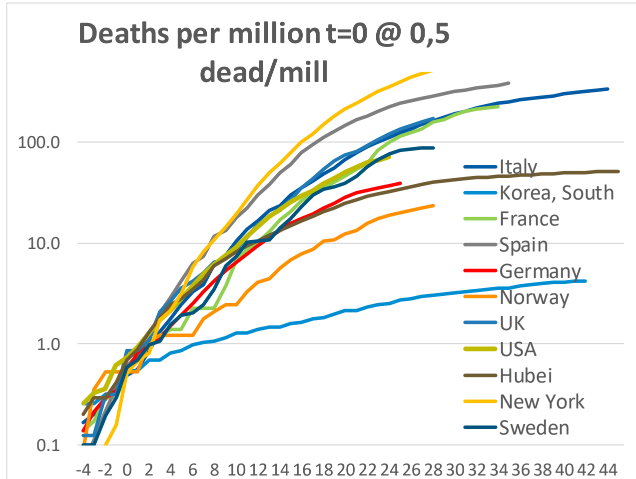
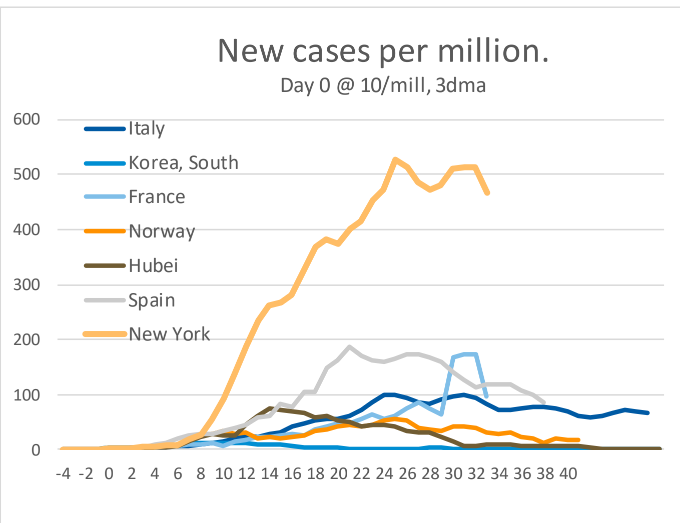
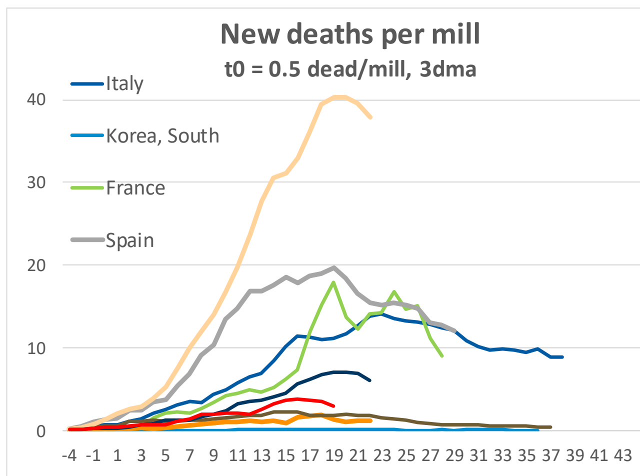
Cases, death levels are flattening, flows are slowing

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









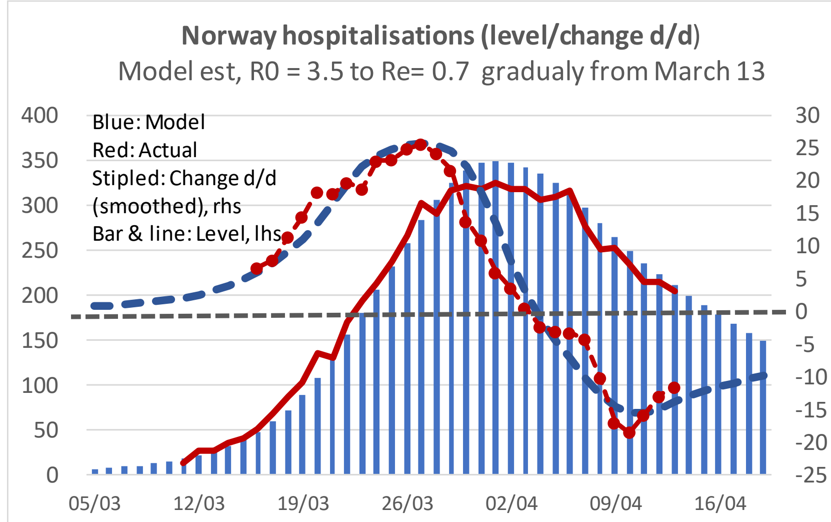
- The virus outbreak ran out of control in many countries, overwhelming the health system
  - » Spain, Italy and New York are still struggling hard but the number of deaths per day is now declining all three places, as almost everywhere. New cases peaked ahead of the decline in deaths, as has the number of hospitalised patients
  - » Norway has brought the virus under control, at least for now – and well before it created a serious problems in the health system. On the other hand, herd immunity is not building in Norway (see also next page)

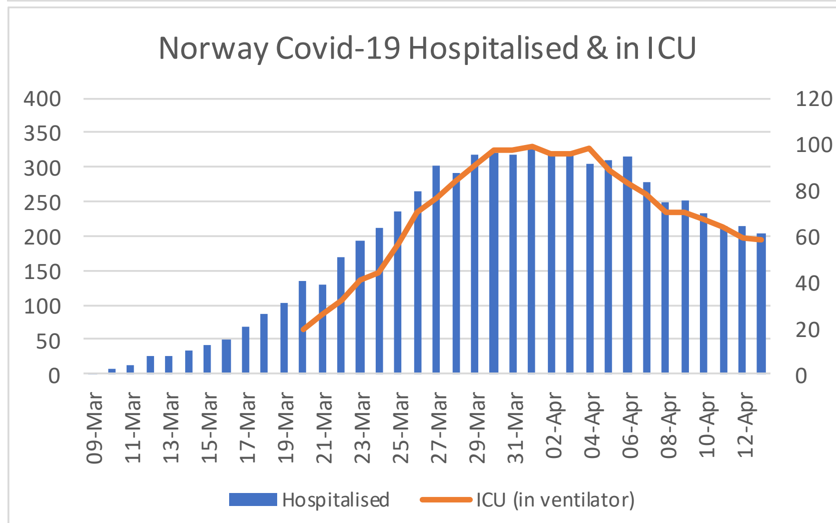
Sources: Johns Hopkins, SB1 Markets

Norway: The numbers of hospitalised patients & in intensive care are falling

Just 204 Covid-19 patients are hospitalised, down from 325 at the peak

- Before Easter, the FHI has estimated that effective reproduction ratio had fallen 'Re' to 0.71 (or rather 0.5- 1), from approx 2.5 on the onset of the outbreak.
  - » It's coincident with our optimistic scenario one week ago – and with the decline in no of hospitalised patients, which have fallen by almost 40% to 204 from the peak in early April. The number of patients being treated in ventilators has fallen to 59, also down 40%. The max ICU (intensive care units) capacity may be close to 1,000. Thus the capacity utilisation has been low, and it is now declining rapidly
  - » Most of the fatalities take place outside hospitals and IUCs, among the oldest and sickest, living in nursing homes: So far, just 20% of deaths have taken place after being in ventilators
- Due to the success in curbing the spread of the virus, the Government decided to open kindergartens from April 20, and schools for the youngest kids (grade 1-4), and some few others from April 27
- Some other restrictions will be lifted too, from April 27 but economic activity will still be significantly hampered by remaining public restrictions – and by social distancing in general. The latter is also heavily dependant on individual behaviour, if we dare to go shopping etc.
- The path forward is uncertain: The Government is verbally arguing for a 'supress and keep down' strategy, even if some restrictions are soon lifted. Some health authorities (FHI) have (at least implicitly) argued for a mitigation strategy, based on an assumption that it will be challenging to keep the coronavirus completely down until treatments or vaccines are available – and in the between time just a limited herd immunity will be achieved, increasing the risk for a second wave





Sources: SB1M, Helsedirektoratet, SB1M calculations

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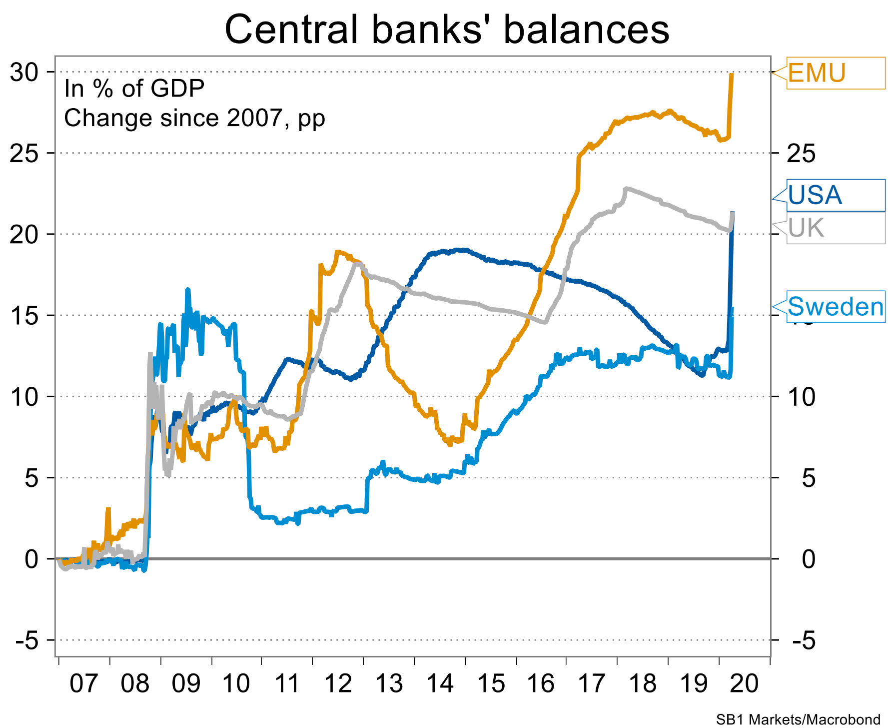
QE is ramped up aggressively, 9% of GDP in 3 weeks in the US!

ECB has pledged 7% of GDP QE, 4% delivered. Huge fiscal packages, everywhere

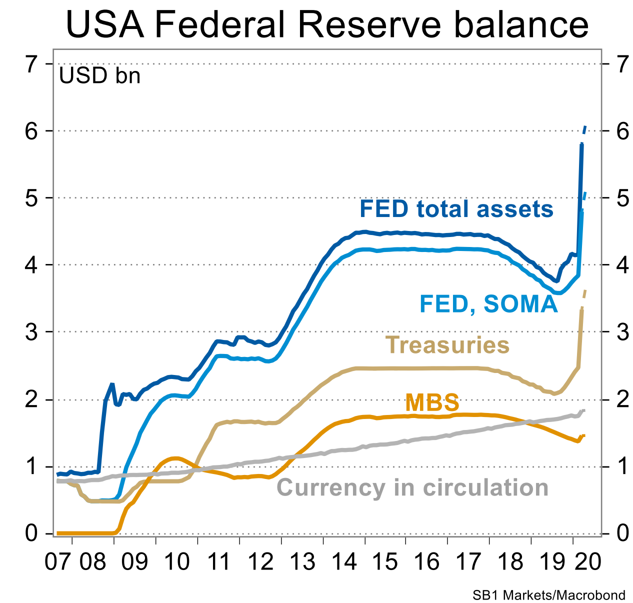


- It's hard to keep track of all the measures now decided (some important actions commented on the next 3 pages). Most places, it is a mix
  - » **Outright public spending**, first like income transfers to households, then a second wave with transfers to the business sector. Further measures will be 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

Fed primes all pumps: Even more lending programs, another 11 % of GDP

… To Main Street, large companies & municipalities, guaranteed by the Government

- At Thursday, the Federal Reserve announced extensions of existing programs and a new one in order to offer liquidity to small og big businesses, and municipalities
  - » The total amount at USD 2,300 bn equals 11% of GDP (before the corona setback…)
  - » The Government will take the credit risk, by supporting the programs with 7 – 12% equity/guarantees, trough the USD 2000+ bn CARES Act, recently decided
- The programs:
  - » Support the Small Business Administration's Paycheck Protection Program (PPP, a program to finance companies for not cutting their workforce) by buying PPP loans at face value through the Paycheck Protection Program Liquidity Facility (PPPLF)
  - » Main Street Lending Program (USD 600, 75 in Gov equity). Fed can buy 95% of loans from banks which have lent money to SMEs
  - » Extend the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF) as well as the Term Asset-Backed Securities Loan Facility (TALF). These programs will buy corporate bonds, not just investment grade but for the first time also high yield bonds (BB) recently downgraded to high yield (BBB) (USD 850/85 in Gov equity)
  - » A new Municipal Liquidity Facility which can lend to local governments and states. (USD 500 bn/35 in Gov. equity)
- Are Government money being distributed?
  - » There have been a lot of reports in media about capacity constraints in several government offices not trained or equipped to disperse cash to millions of SMEs all over the country. More lending through the Federal Reserve might mitigate some of these problems, at least for the economy in total
- The Fed has decided other QE measures as well, foremost by buying government bonds. The balance sheet is already expanded by almost USD 2,000 or 9% of GDP over the past 3 weeks! No doubt, this extremely aggressive actions have had measurable impact on financial markets



- A USD 2,300 increase in Fed's balance sheet is substantial vs. the present USD 6' bn (or 4' bn before the corona crisis)
- It utilised, it will equal more than 11% of GDP

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EMU scrambles to fund corona lending measures, without 'coronabonds'

Finally, Min of Finance agreed upon utilising the Stablity Mechanism++ , €500 bn, 4.5% of GDP

- After discussing for weeks, the ministers after a 16 hours video meeting (+ breaks!) proposed to reactivate the European Stability Mechanism to help corona ridden countries by
  - Prepare for using the European Stability Mechanism precautionary credit lines for health and prevention related costs (2% of member states GDP)
  - A boost to the lending capacity of the European Investment Bank (€ 25 bn in guarantees for a €200 bn lending scheme)
  - A new unemployment insurance scheme (€100 bn), which is a real transfer mechanism (equalling 1% of EMU GDP), not just new credit
- The Ministers of Finance promised to propose a recovery fund, but no funding decided (and here is the real conflict between North and South)
- As expected, the ministers did not agree upon to issue 'coronabonds', mutual European bonds backed by all EMU members. The Northern countries to not want to share (that much) risk with Southern countries: However, some sort of burden sharing will be discussed
- Most of the package is funding for lending, not transfers. It remains to be seen whether Italy or Spain will seek assistance for borrowing from the ESM this time around
- Thus, most of fiscal stimulus to counter the impact of the corona lockdowns will still be each country government's responsibility. The max 3% cycle adjusted deficit rule (Maastricht) will now be breached in most countries

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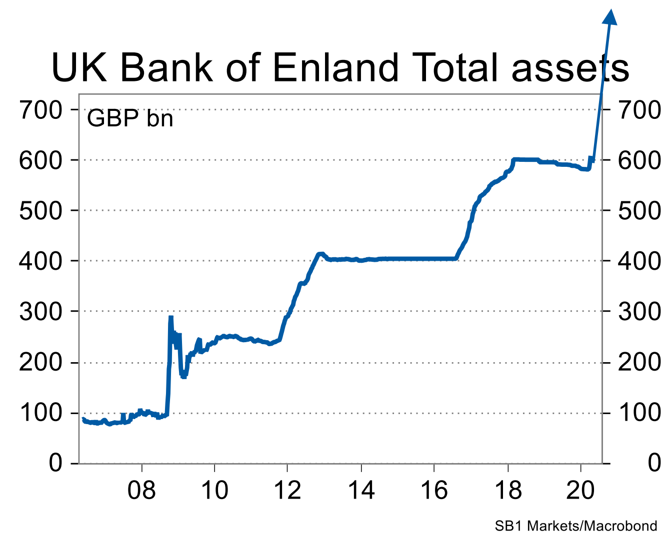
Bank of England will print the money the Government needs (once again)

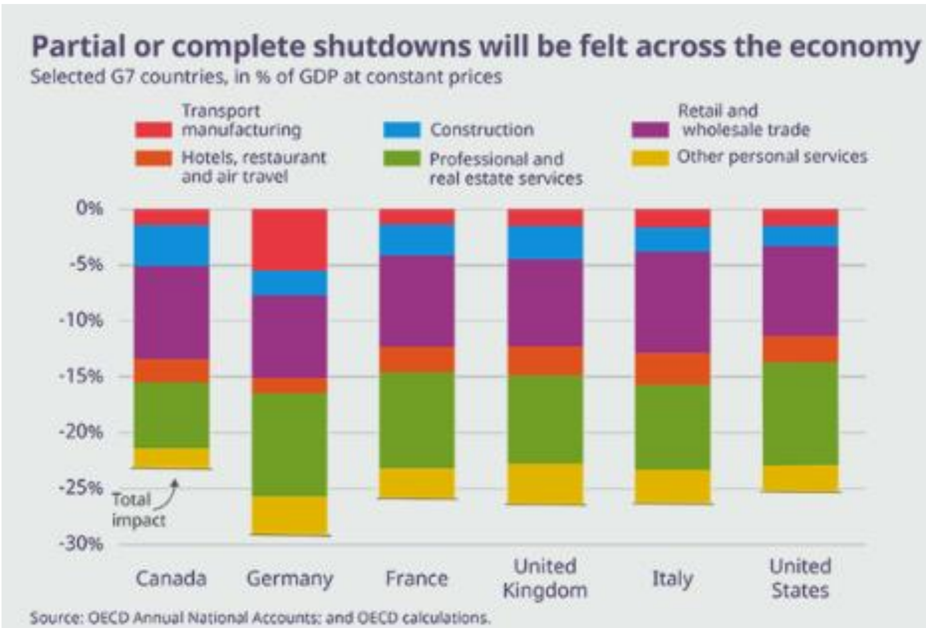
The Government's bank account in Bank of England will fund corona expenditures; no gilts needed

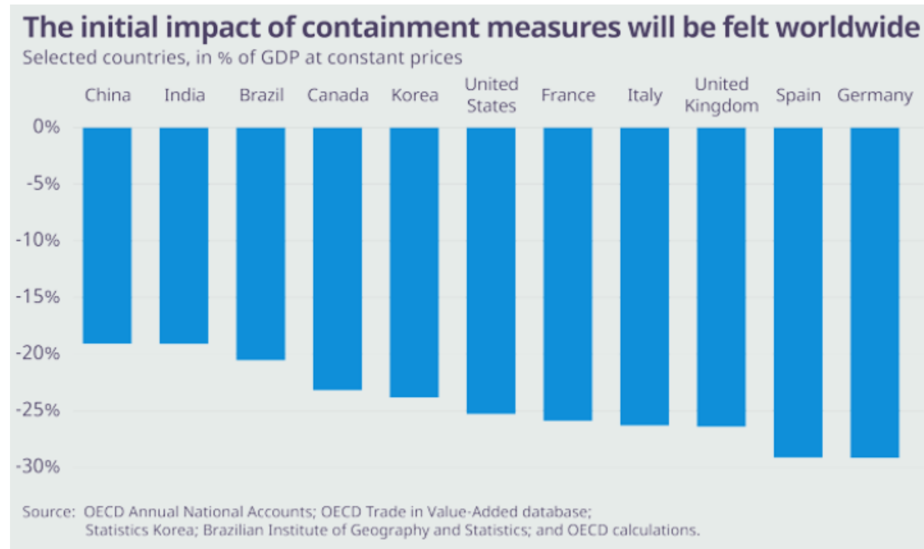
- The Treasury last week decided to fund the government drawing on its account (Ways and Means Facility) in the Bank of England, perhaps by as much as £200 bn (9 % of GDP, 30% of the present total BoE balance) instead of issuing government bonds (gilts) to fund the corona related expenditures
  - This is the first country to conduct overt monetary financing of the government during this crisis. The BoE did the same during the Financial Crisis but at that time no more than £20 bn, and just briefly. The normal level is now some £37 mill.
  - This untraditional 'helicopter money' way of funding the government should be "temporary and short-term". Says the Treasury
  - The Treasury decision was taken two days after BoE's governor Andrew Bailey stated that the central bank opposed monetary financing of the government (at least permanently …)
- The Bank of England had already announced a £200 bn government bond buying program in addition to a Covid-19 investment grade corporate bond program for essential UK companies
- Most likely, the BoE may reduced its gilt buying program as the government has decided that the bank just should hand them over the cash without issuing bonds, which the bank then could buy
- Thus, economically there is no difference between the two ways of funding government deficits by letting the central bank 'print the money' the government needs. However, the obligation to honour a gilt, even if it is owned by the central bank (another public entity, in reality owned by the government) is probably more trustworthy than just a promise to clear the overdraft on the government's current account in the bank
- The history of 'free printing of money' is of course not encouraging. It only in these occasions when private demand is far below any reasonable trend level extra government spending funded by newly printed cash (paper money or digital, like now) will not create inflation.



OECD: Shutdown lower GDP by some 25%, mostly due to services

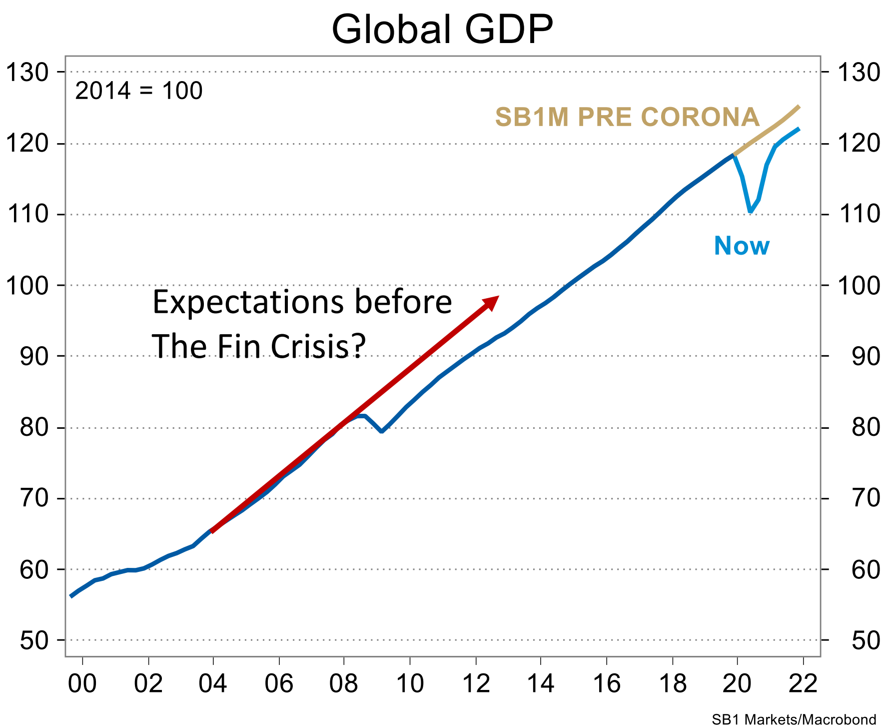
Very preliminary estimates, of course. Not that big differences between countries

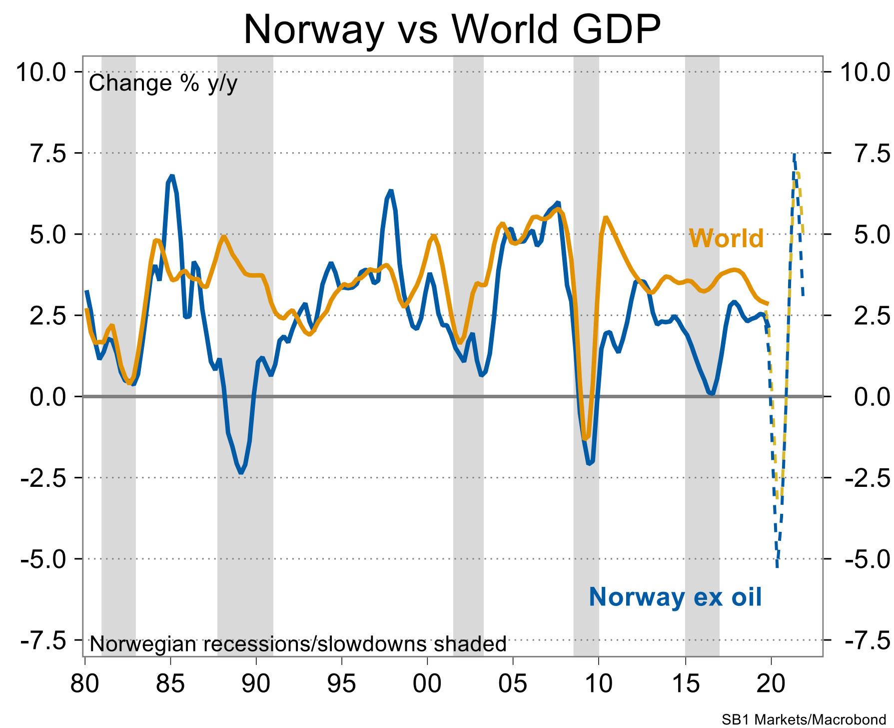




Global GDP sharply down, and much more than during the Financial Crisis

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

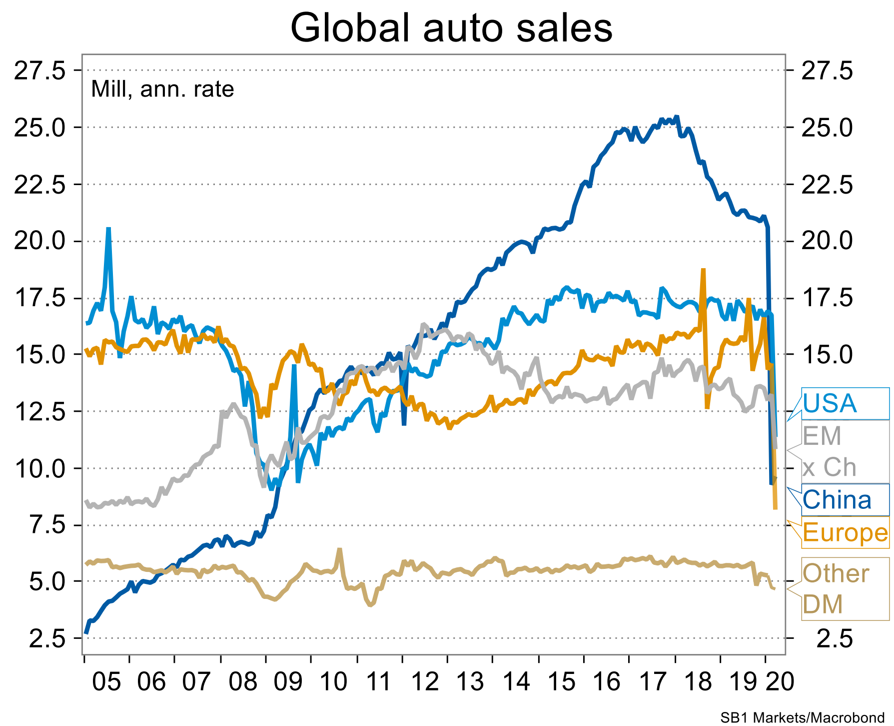


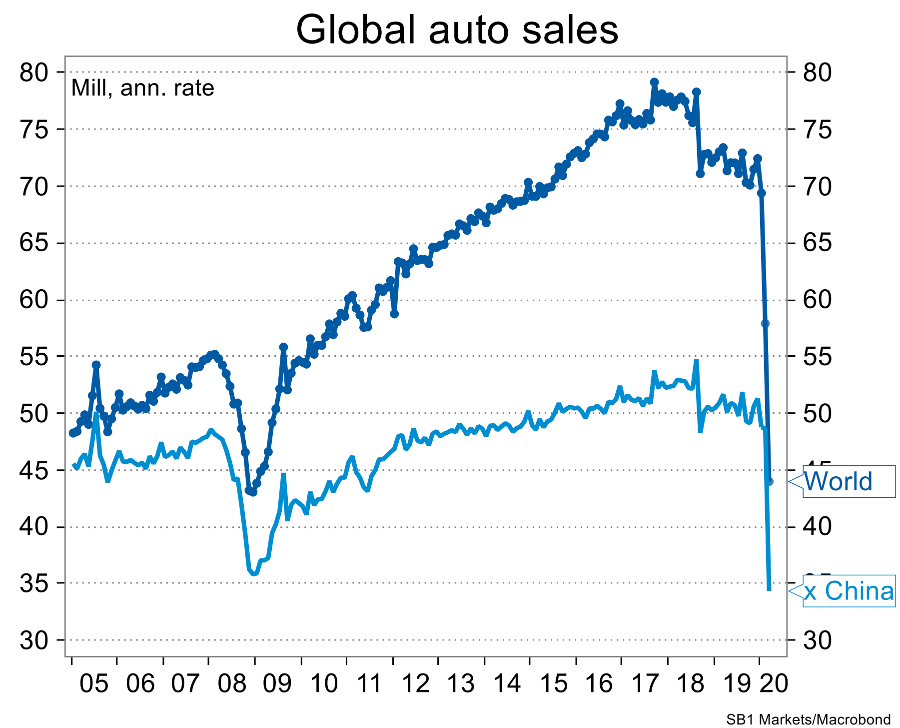


- The decline in the global GDP level will no doubt be much larger than during the Financial crisis. The economic cost, is decided also by the length of the downturn
- We expect a decline in GDP at some 25% per month of closedown lasting 2 months, distributed over Q1, Q2 and Q3 for different countries/regions, 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

Auto sales down 24% m/m in March, more to come in April

Sales rose just marginally in China following the Feb crash, sharply down in DM. EM down, more to go

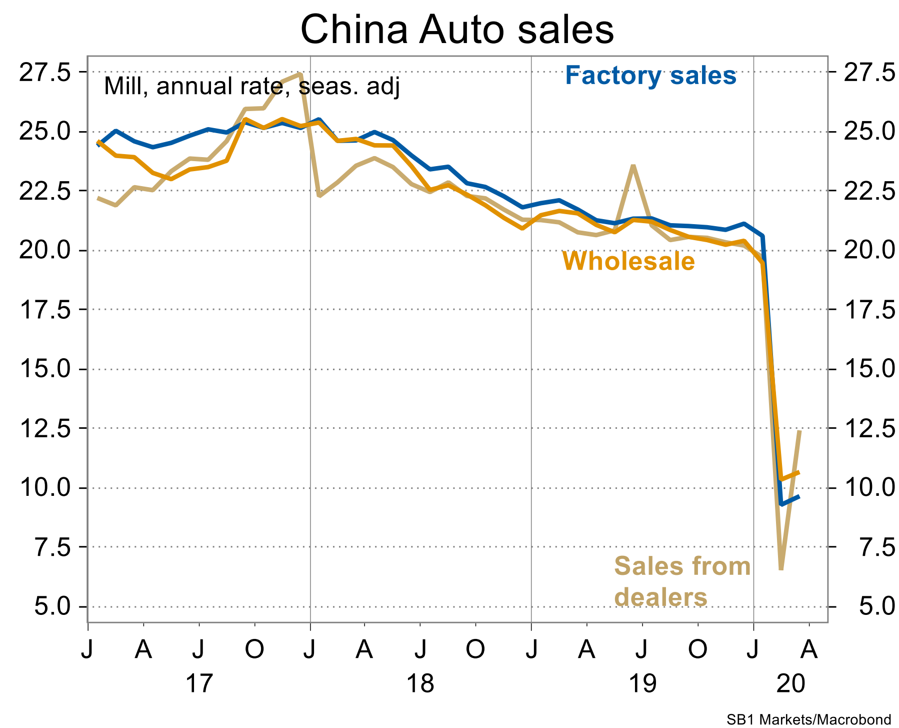




- March sales fell a tad more than our initial estimate. As the lockdowns started earlier in Europe than in the US, sales fell most in the former, by almost 50% (still an estimate, as sales in Italy and Spain fell to close to zero). Sales in the US fell 'just' 30%. Canada by 55% while sales in the Nordics kept better up (albeit measured by first time registrations, which are lagging actual sales). Sales kept well up in Japan
- Sales in Emerging Markets ex China fell sharply too, even if sales in South Korea rose to the best level in more than 2 years. Sales in India fell more than 50% (even if the lockdown was decided late in March, at the 24th). Brazilian sales fell sharply too, without any national lockdown decided (yet)

Chinese sales remained very low in March

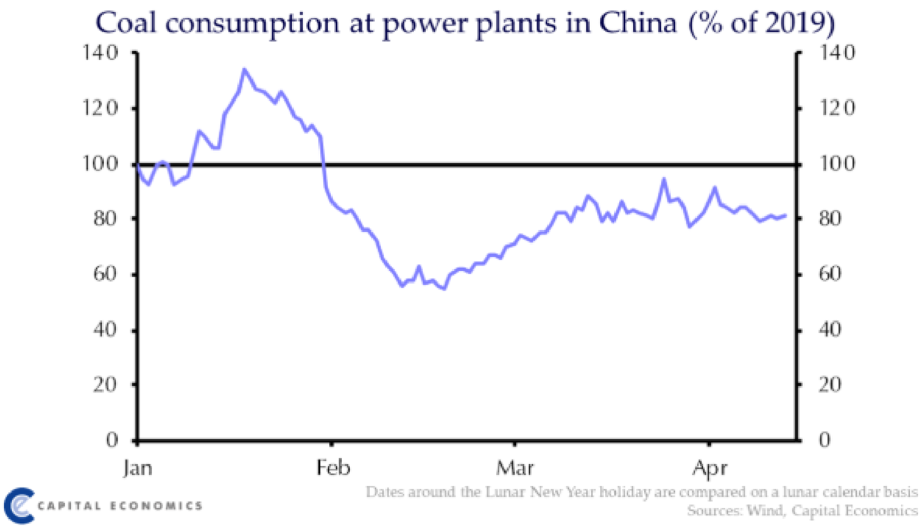
Sales (and production) rose some 3-4% in March, following the 55 – 60% drop in February

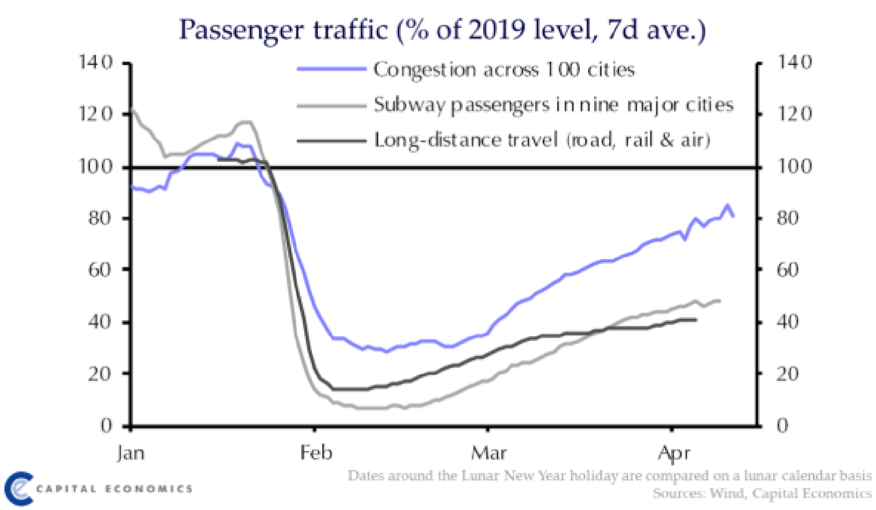


- Auto sales most likely bottomed during the lockdowns in February but the 'recovery' in March was not impressive.
  - » Sales peaked in early 2018, and fell 20% until January. Then something more happened…
  - » The number of sales from auto dealers rose sharply (it almost doubled), from an even lower level than factory sales (which is the 'official' auto sales figure in China
- Other Chinese demand and production activities have regained more of the February losses (check here)

The Chinese economy is still far below a normal activity level

Daily activity data signal a just a slow recovery in most sectors



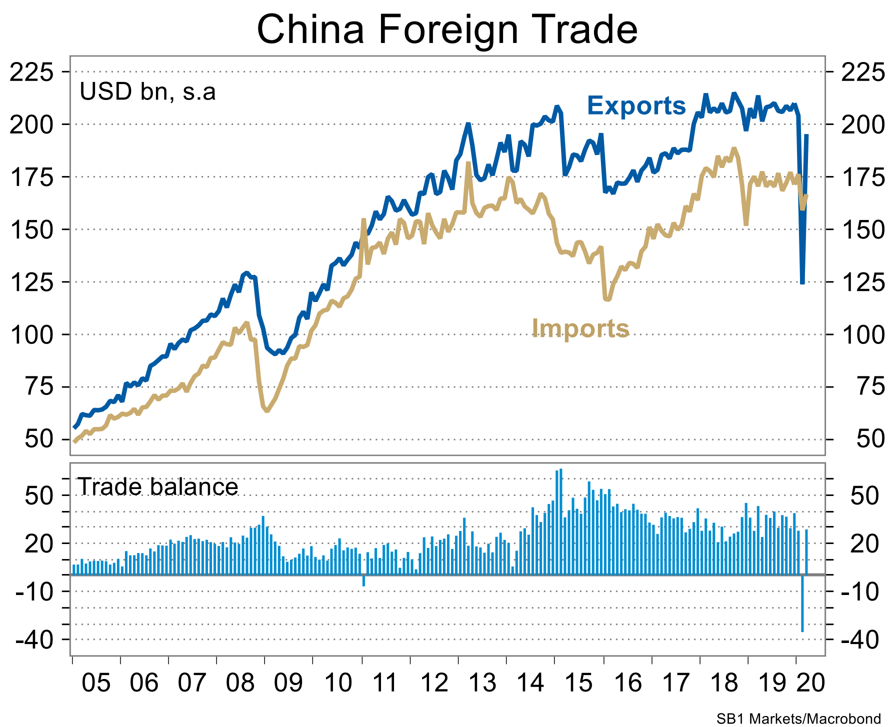


- Coal consumption for electricity production has not increased vs. the 2020 level since early March – and it is 20% below. It ‘should’ have been at least 5% above
- Road congestion is still on the way up to a normal level but public transport is still far below, people do not want to be too close to others?
- Retailers report then customers are reluctant to go shopping, even if they now are allowed to, and most shops have reopened
- March trade data were better than expected, check next page

Source: Financial times

Exports sharply up in March; imports also far better than expected

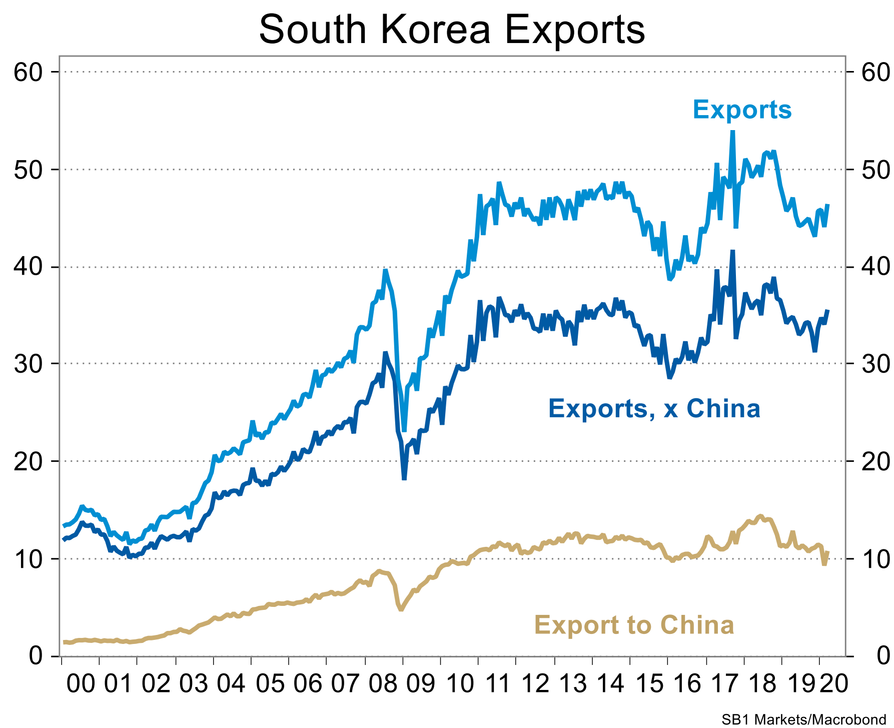
Trade volumes (almost) back to normal levels in March. Q1 exports volume fell 15%, imports just 1%

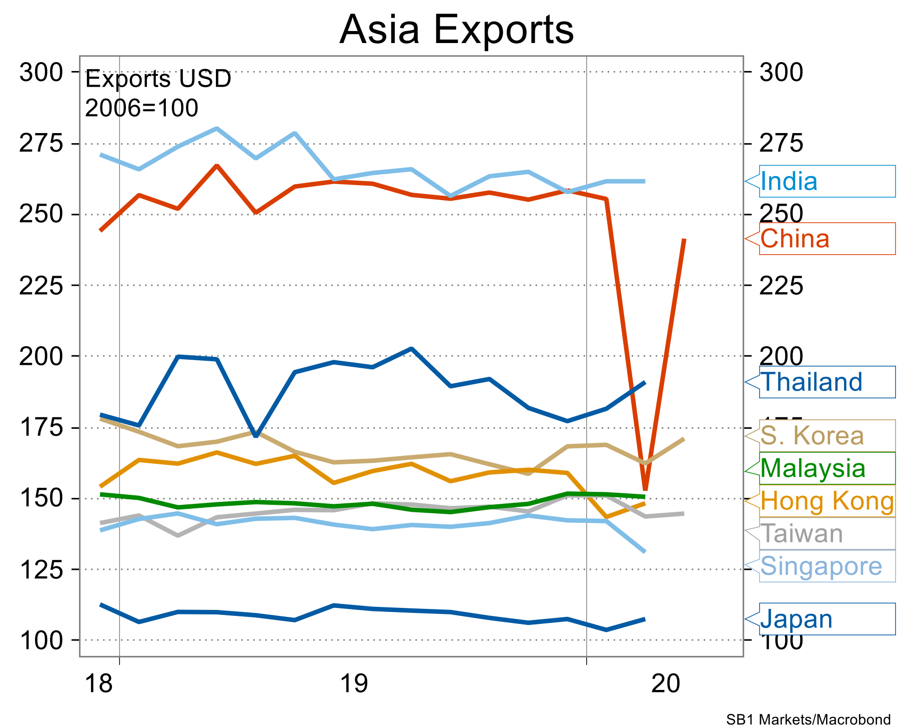


- Following a 40% decline in exports during the lockdown in February, exports rose by almost 60% in March, and was just 4% the Jan level (or down 6.6% from last March. exp -14%, all in USD terms). In volume terms, we assume a parallel development (our price assumptions through Q1)
- Imports also recovered in March, but far less – though from a far better starting point. Imports fell by just 10% in February, and grew by 5% in March. The level in March is 5.5% below the Jan level but 0.6% higher than in March last year, exp -8%)! In volume terms, it is even better; import prices must have fallen sharply through Q1 – and import volumes in March were probably on par with January imports
  - » We expected weaker import data is domestic demand must have been week, at least in February. Now these data suggest that imports just fell marginally in Q1
- The trade outlook is not the best, especially for exports as demand is collapsing, at least in most Developed Markets, due to the corona crisis

Asian March exports: South Korea on the way up, Taiwan flattish

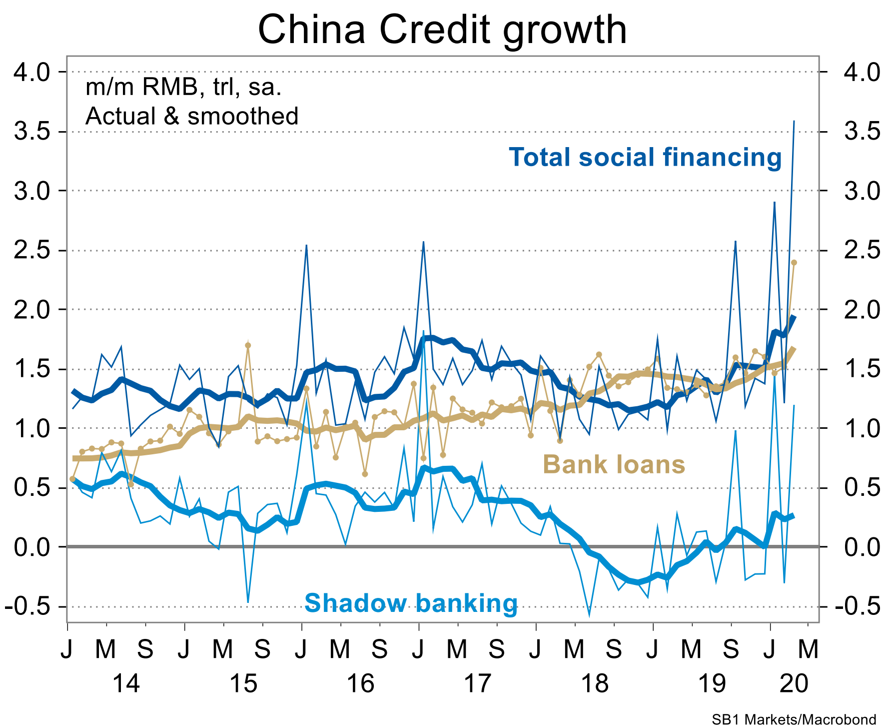
Better than we assume

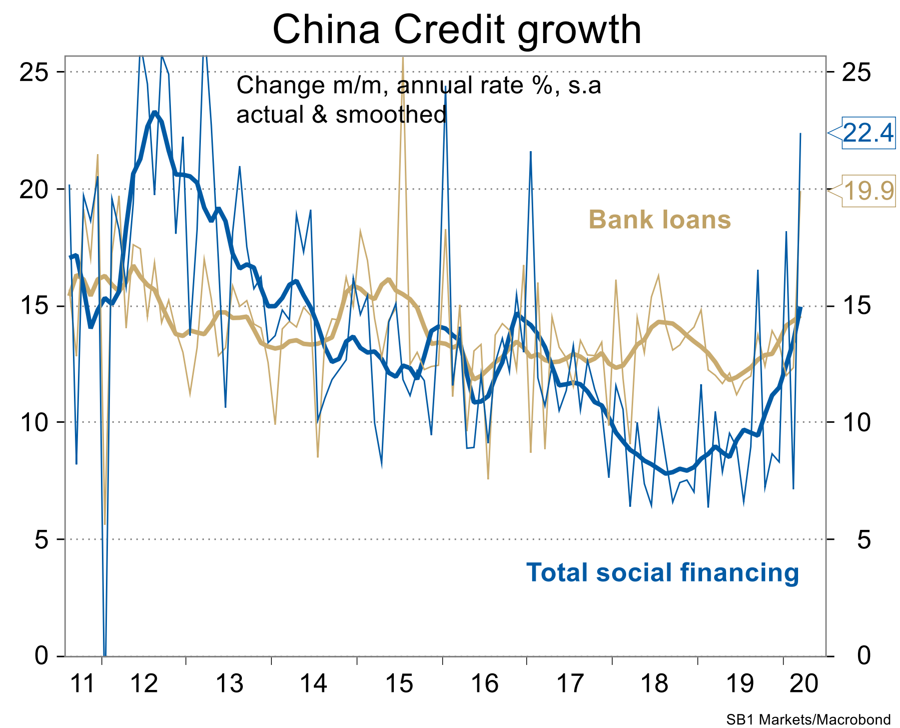




All pumps are primed; rapid credit growth in March

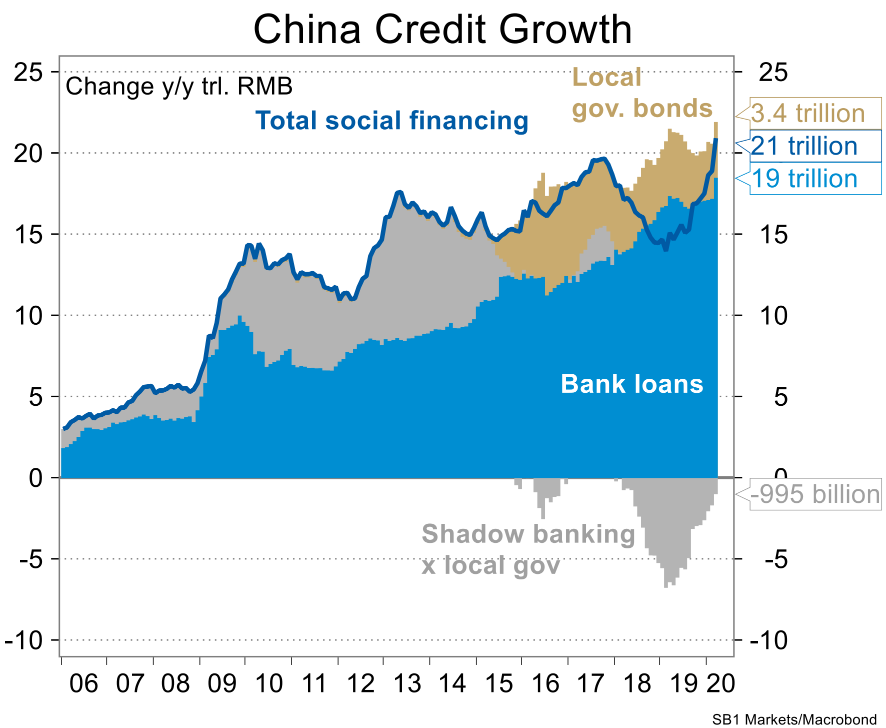
Lending activity sharply up in March, both through banks and outside

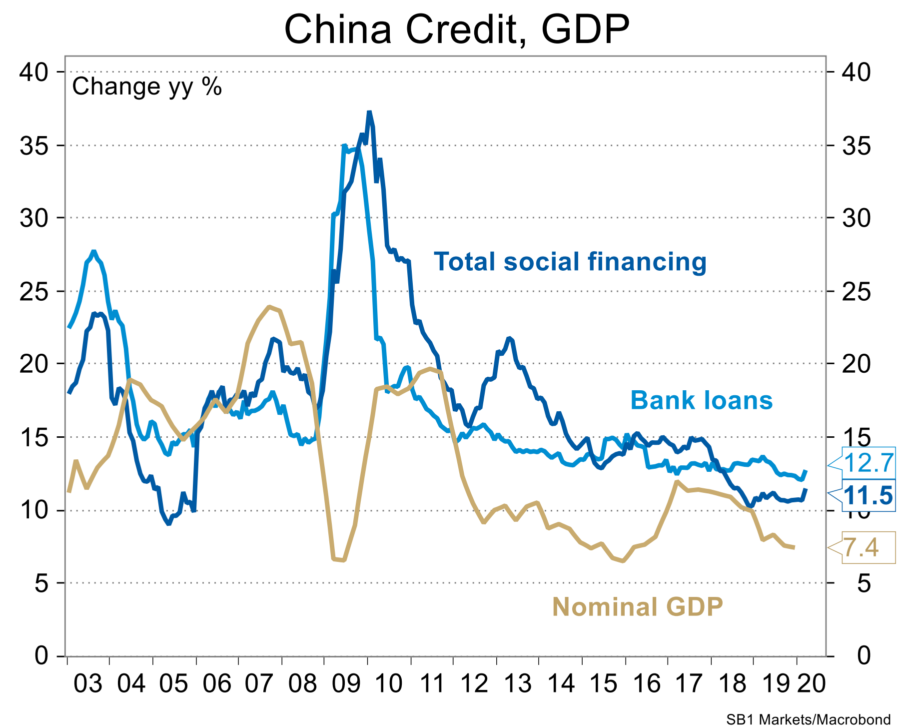




- Total credit growth accelerated to a 22% pace in March, up from below par at 7% in February. Both bank lending and credit outside banks rose sharply, no doubt due to aggressive measures and dictates from central authorities in order to help the economy recover following the corona lockdown in February.
  - » Total credit rose 4.4 bn RMB, well above expectations (3 bn). Banks supplied most of the stuff but the shadow banking system contributed well to (1/3 of total).
- The underlying total credit growth has been accelerating since early ‘19, underlying growth up to 15%, from 7.5%, the highest since 2013.
  - » Growth measured y/y credit growth accelerated to 11.5% (banks to 12.5). The credit impulse (y/y) is now clearly positive

Credit growth has accelerated over the past year

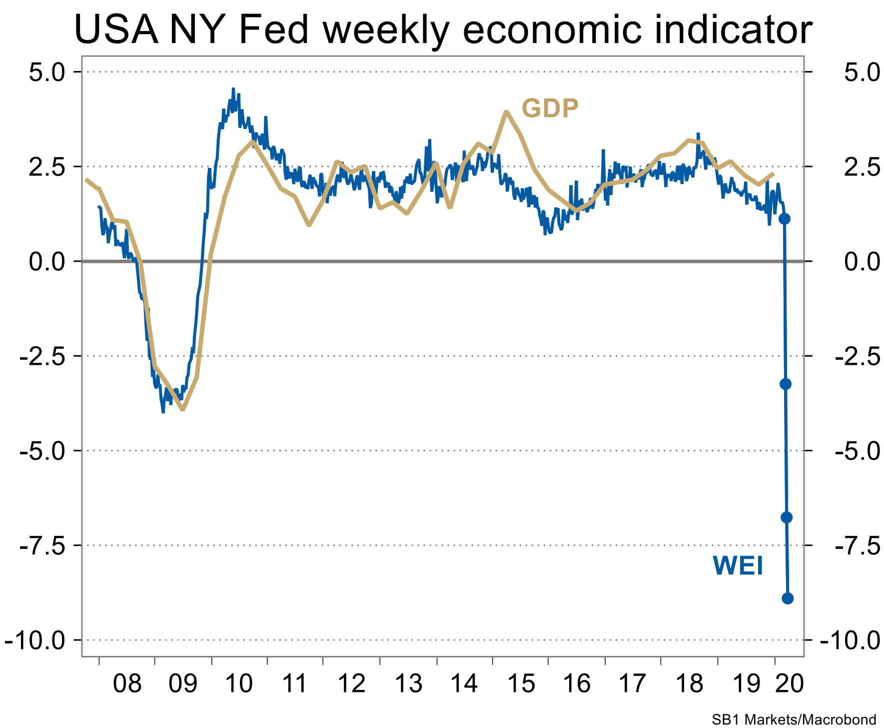




- Over the past year, total credit has grown by CNY 21 trl, equalling 21% of GDP
- Banks supplied CNY 19 trl of the y/y increase, equalling almost all of the volume through last year
- Local governments has not yet accelerated their borrowing, at least not in the bond market
- Other credit – via the shadow credit market x local gov bonds is down 11 trl y/y
- Total credit growth at 11.5% is higher than growth in nominal GDP (7.4%), and debt/income is still on the way up

The NY Fed's Weekly Economic Indicator reports a steep decline

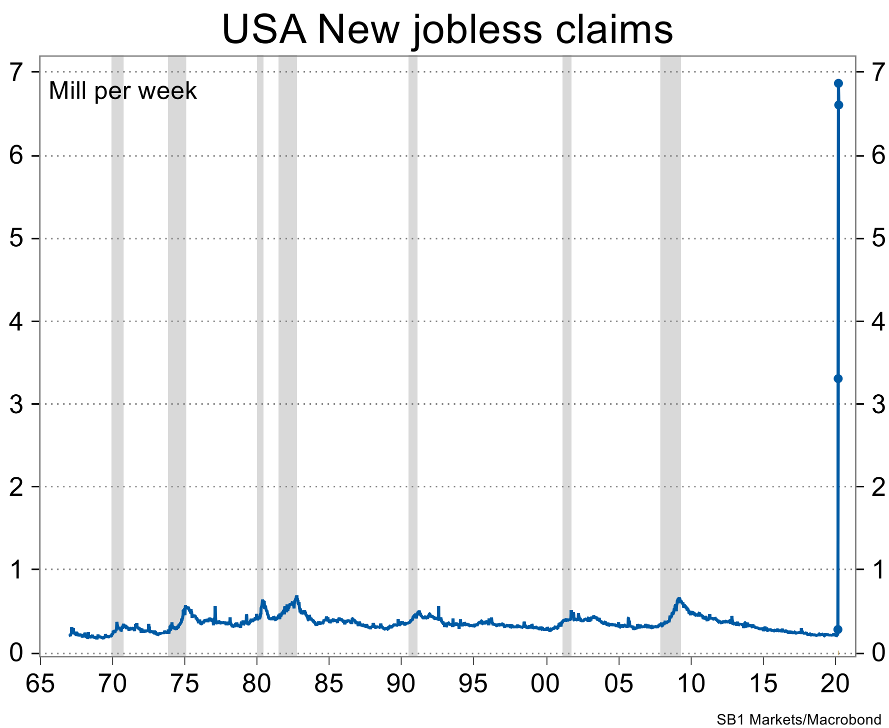
WEI suggest that the economy is already down 4% y/y – the first week of lockdown

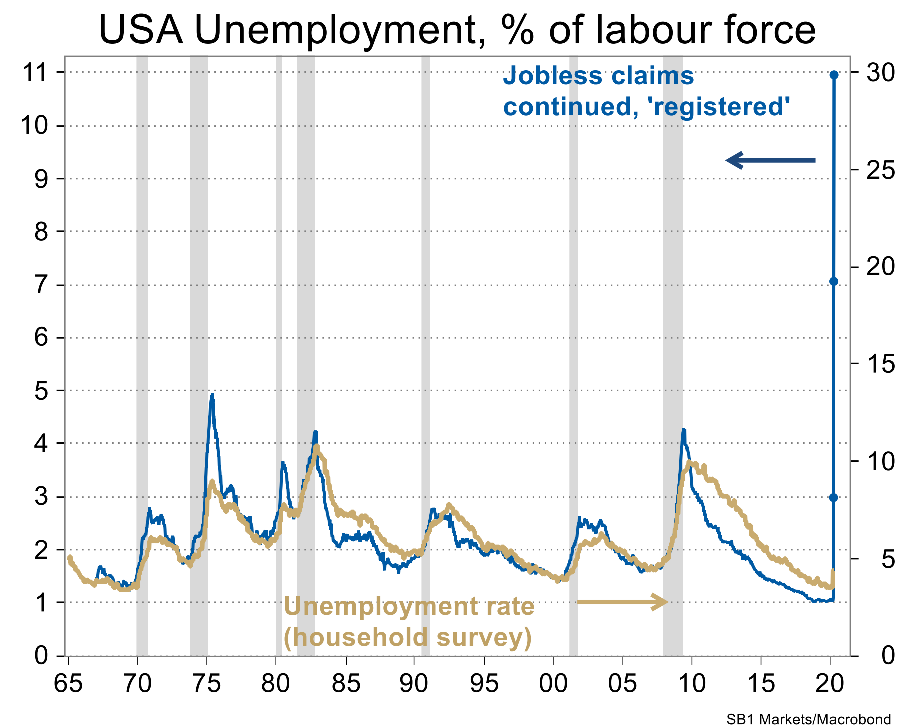


- GDP may already be down 4% y/y, according to NY Fed's new weekly indicator, vs the pre corona growth path at 2%. This implies that activity has fallen by up to 6%, and it happened over just one week 12 (March 21), due to the steep increase in new jobless claims
  - » Jobless claims rose twice as fast 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.

Another unprecedented spike in jobless claims, unemployment towards…20%?

Another week, another 6.6 mill new jobless claims, total past 3w almost 17 mill, 10% of the lab. force

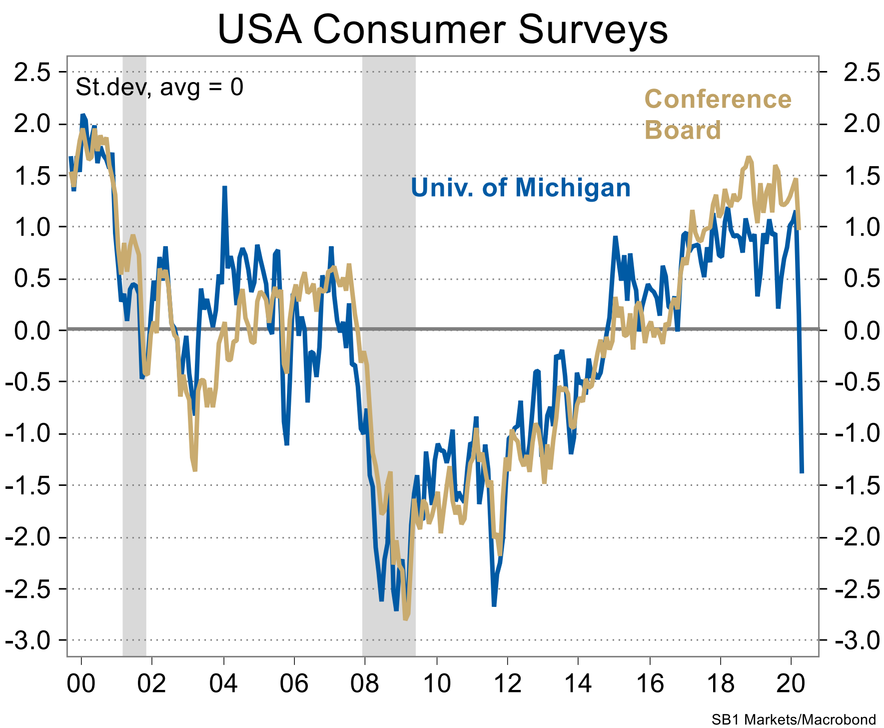


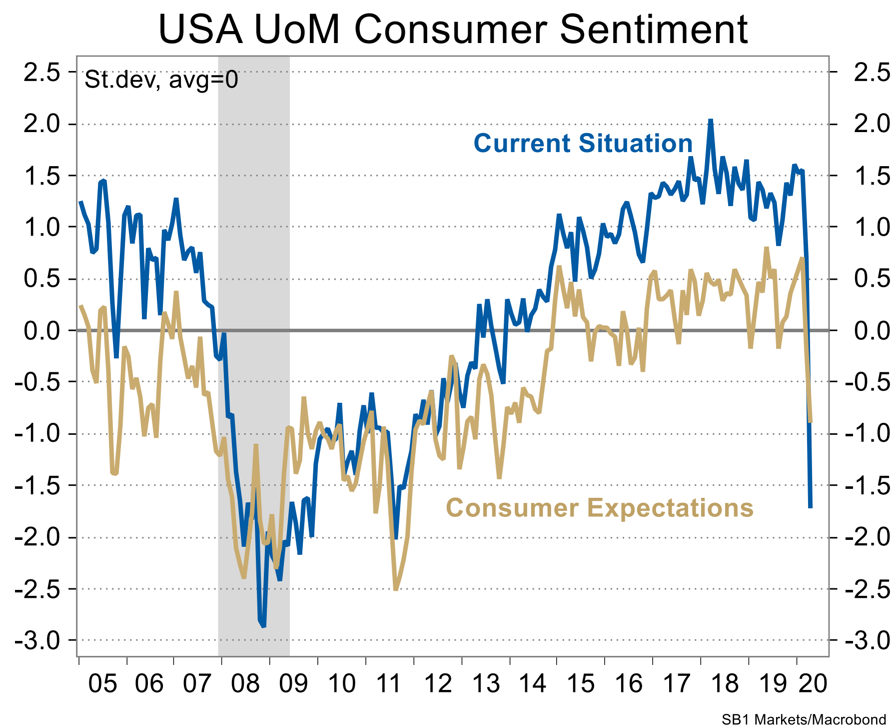


- The shock is unprecedented, and it is not yet subsiding – and more people will lose their job and some of them will turn up at the unemployment offices
  - » Claims surged across the US and almost all states cited huge problems in service sectors due to Covid-19
  - » During the financial crisis, jobless 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 almost 17 million last week, from 1.8 mill 3 weeks ago (the figure will be published coming weeks as the claims are processed), equalling 11% of the labour force, up from 1% 3 weeks ago!
  - » 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 level in May)

UoM consumer sentiment fell more than ever in early April, of course

The level is far below average but still not as low as during the Financial Crisis

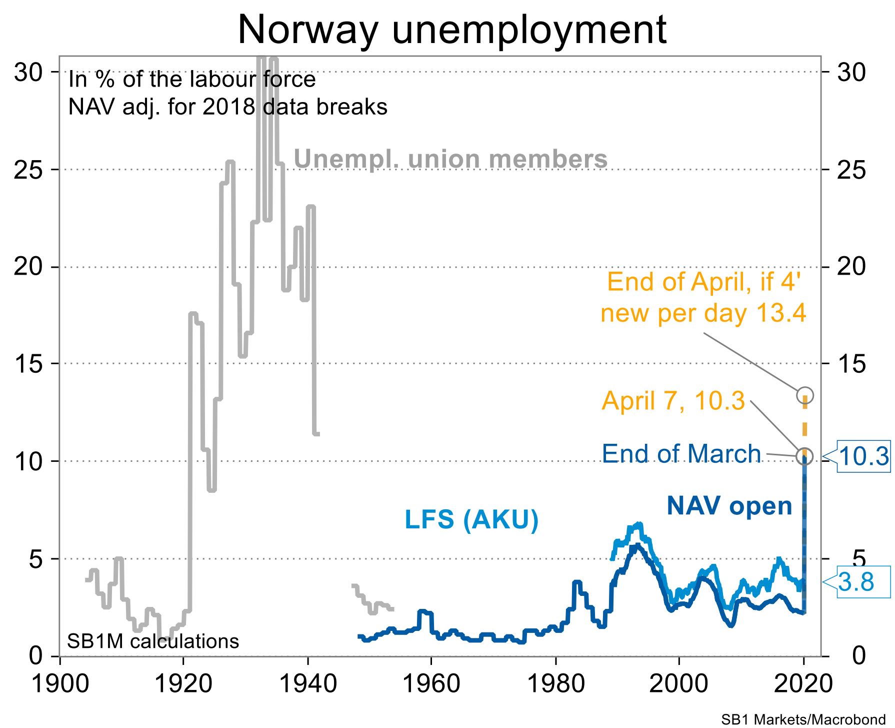


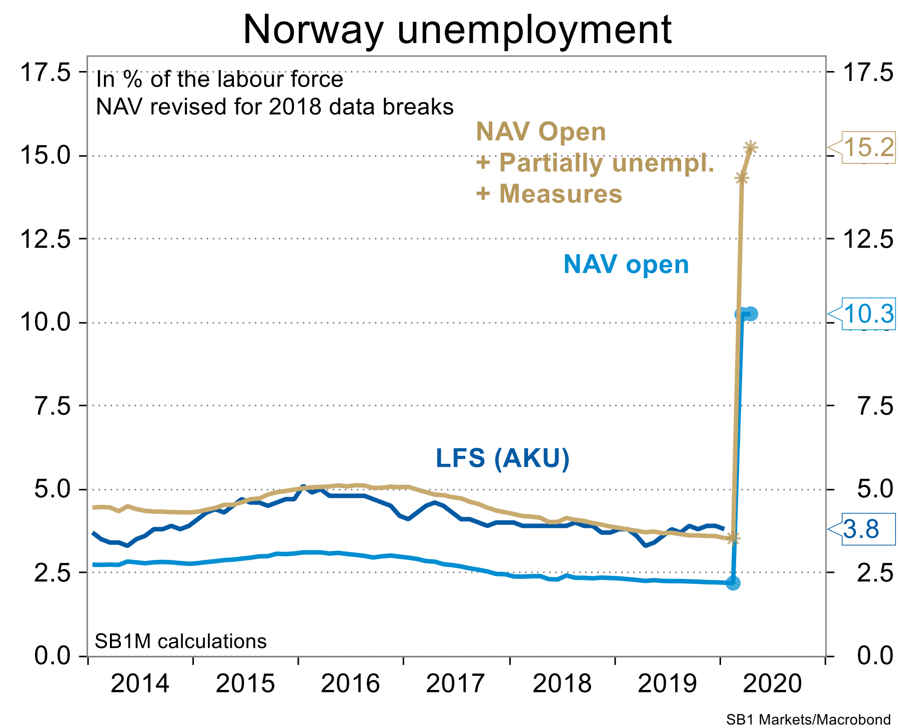


- University of Michigan's consumer sentiment fell 18 p to 71 p in early April (expected at 80), a level equalling 1.5 st.dev below average
  - » Assessment of the current situation fell more than expectations

Total NAV unemployment up to 15%, highest since 1940

291’ persons are listed as fully unemployed, 433’ including partly unempl. & labour market measures



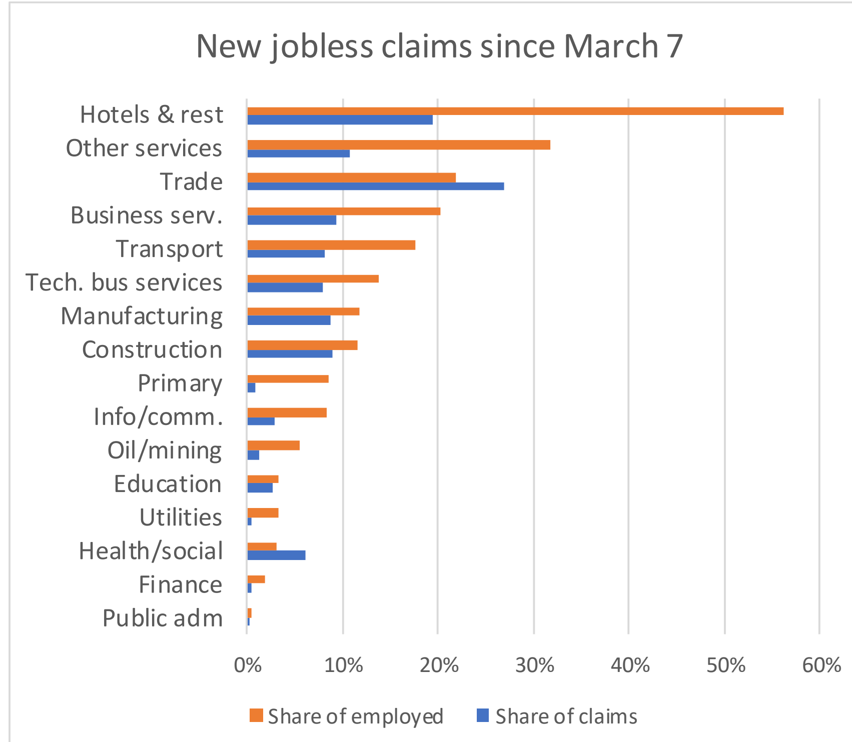


- NAV open unemployment rate soared to 10.2% in March, total unemployment (incl. partly unemployed + labour market measures) up to 14%. By April 7, another 40.000 applications for unemployment benefits were submitted. The number of people who are listed as fully unemployed is now 291’ (as of April 7). The total number has fallen marginally, due to changes of registration, as some of those who have been temporary laid off have changed status from fully unemployed to partly unemployed (now 129’ persons)
- Including government measures and partially unempl., the number of unempl. is 433’, equalling 15% of the labour force
- Unemployment will continue to climb the coming weeks, although the daily number of slowed to 6’ per day last week, from 8’ in late March, and 15’ at ‘peak’. We expect the open unemployment rate to climb to 13% in April

Employees in hotel & restaurants, trade, other services take the hardest hit

Almost 60% of the employees in hotel & restaurants are furloughed, more than 20% in trade!

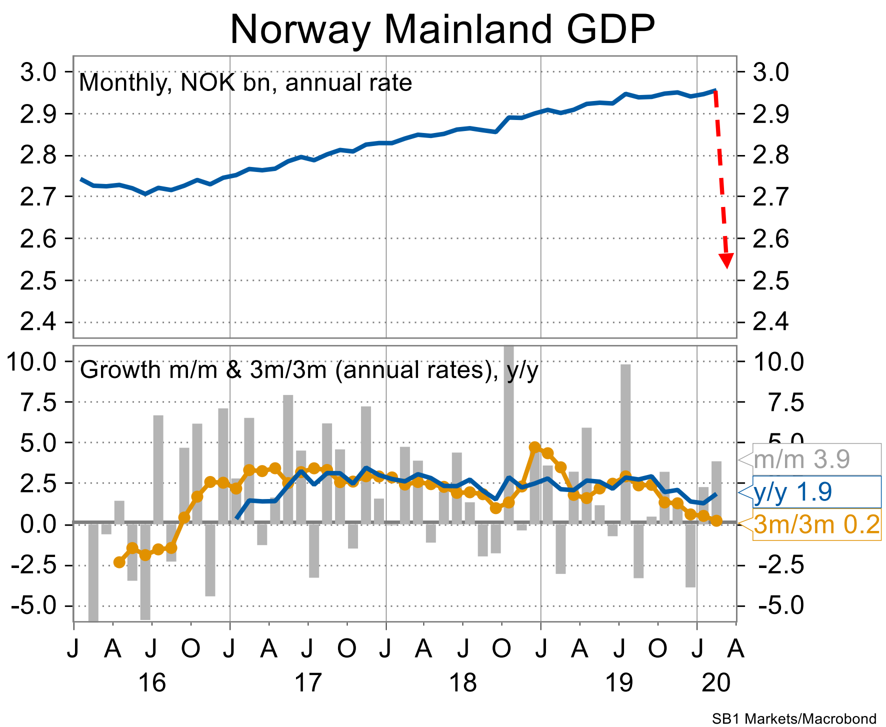
- Almost 60% of the new jobless claims since early March has occurred in hotel & restaurants, trade and personal services, and 10% in business services (like cleaning)
  - » Most of the (temporary, hopefully) layoffs are hitting lower paid employees
- In manufacturing industries and construction, 11 – 12% of the employees has registered at NAV
- Finance has the lowest share of new unemployed, both vs
- Most likely, much more to come, given the low activity in hotels & restaurants, and some other services

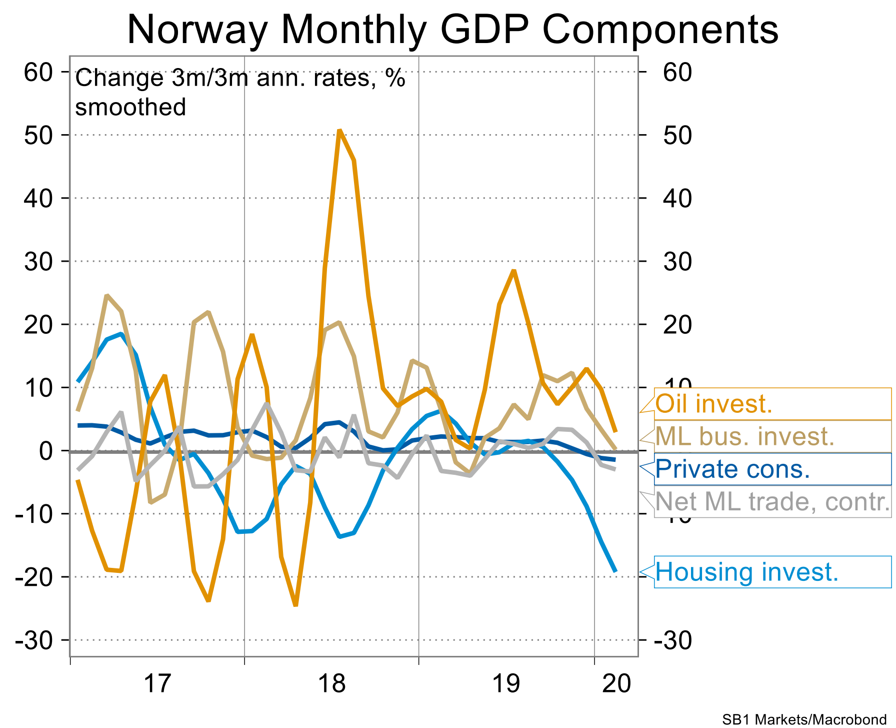


SpareBank 1 MARKETS

GDP growth was waning already before corona hit

GDP rose 0.3% in Feb, of course irrelevant now. SSB estimates a 14% drop in output through March

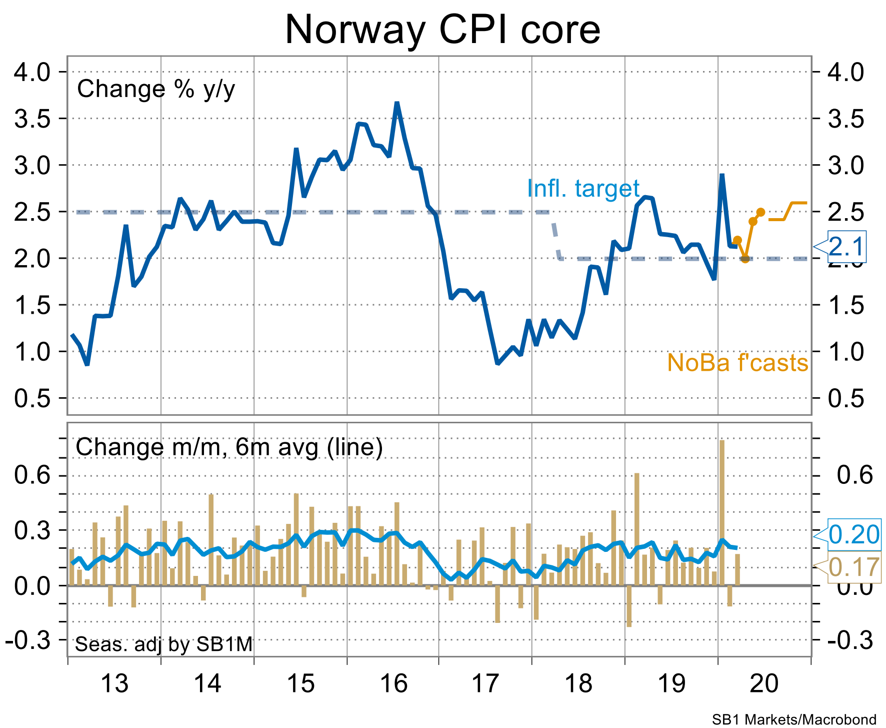




- Mainland GDP increased by 0.3% m/m in February (equalling a 3.9% annualized rate), a decent pace, but underlying growth recent months has slowed to close to zero
  - » A broad slowdown the past few months, demand wise; Private consumption has been declining marginally. Housing investments steeply down, as housing starts drop. Mainl. business investments down from peaked, more or less stagnating. Oil investments slowing, Mainland net trade marginally negative
- The Covid-19 crisis will of course slash Q1 output (and Q2 MUCH more). We expect some 2.5% drop q/q in Q1 (-10% annualized) – and a 10 – 15% drop in GDP in Q2, and at least 5% for 2020 in average, but the uncertainty is of course huge.
  - » Last week, SSB published an estimate on the changes in activity through March based on National Accounts data collected so far. These data yields a 14% decline in output from early to late March. The average March decline will be more moderate, as activity was rather 'normal' during the first half of the month, before the lockdown on March 12. But then, another decline in April…

Core inflation flat at 2.1% in March – but does not mirror corona impacts

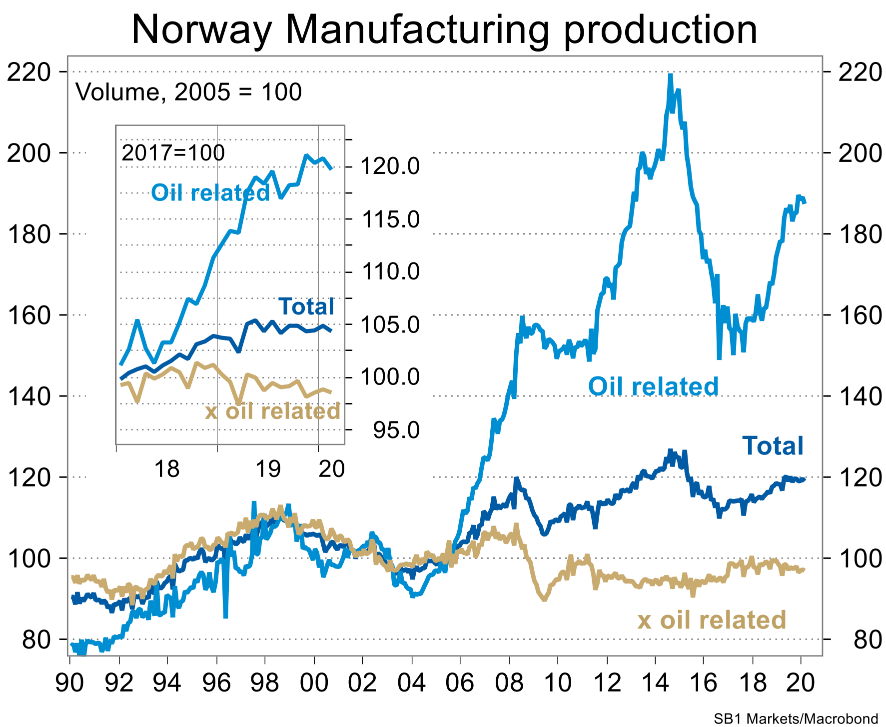
March CPI data chiefly reflect prices before the lockdown

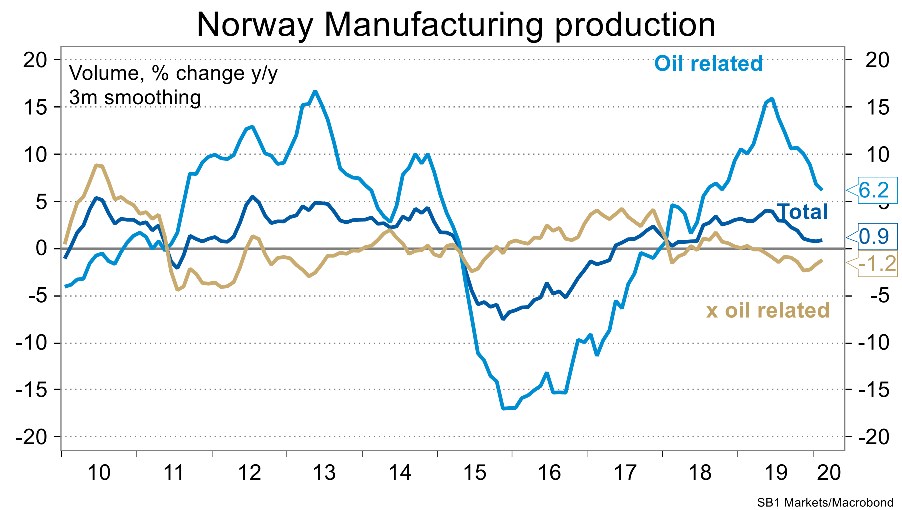


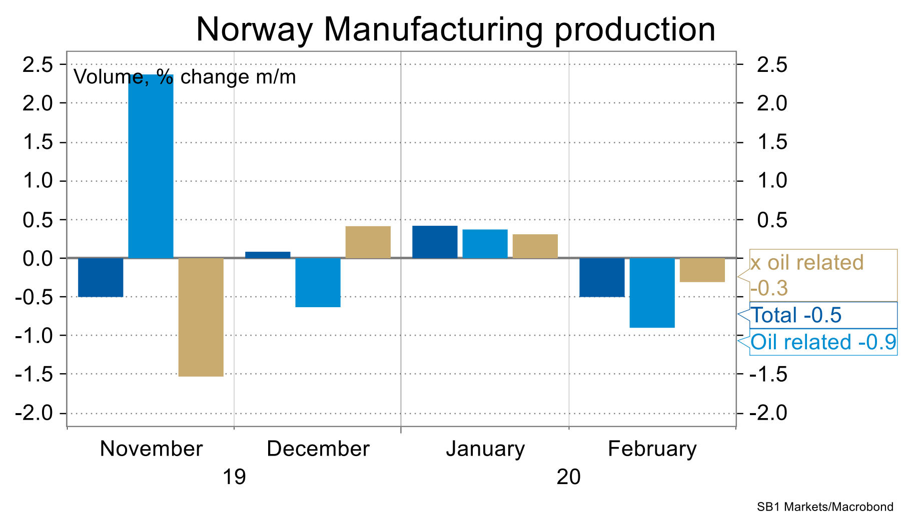
- CPI-ATE (ex. energy and taxes) rose 2.1% y/y in March, unchanged from February and in line with expectations
  - » CPI-ATE rose 0.2% m/m seasonally adjusted
- These data do not reflect any impacts of the virus outbreak and the partial lockdown from March 12
  - » A large share of the data have been collected in the first half of March, prior to the 'shutdown' on March 12. In businesses/sectors in which there have been no consumption, chiefly services, there is (naturally) no price data to collect. For many of these, data from the first two weeks of March have been applied. Moreover, airline ticket prices are collected prior to the date of travelling and not the actual flights after March 12
- Total CPI inflation fell to 0.7%, from 0.9%. Total inflation is dampened by electricity prices, which are down 30% y/y! Good news for households these days
- **The price outlook**
  - » Impacts of the coronavirus are of course uncertain. The weak NOK will bring imported inflation up and will probably offset some of the effects of waning demand on prices. Energy prices are falling. Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI – and the CPI data will anyway be more uncertain than usual due to missing price data for some services
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming quarters. Wage growth will no doubt slow, almost whatever CPI data that may be reported

Manufacturing production stagnated before the corona crunch

Total production down 0.5% m/m in Feb and underlying growth has vanished







- Total manuf. production has been flat since last spring – even though oil related production has been increasing (until recently)
  - » Production fell 0.5% m/m in February, underlying growth has slowed substantially in oil related sectors and other sectors have been stagnating
- Already before corona hit, we expected a further slowdown in oil related sectors, and soon a decline. Production probably fell somewhat in March, and we expect more to come, both due to corona challenges and due to a significant decline in oil investments the coming year

The Calendar

In focus: China March data, US unemployment, manufacturing and retail sales, Norwegian unempl.

Time	Country	Indicator	Period	Forecast	Prior
Tuesday Apr 14					
14:00	NO	Registered Unemployment, Weekly	Apr-14		12%
Wednesday Apr 15					
06:00	SW	Unemployment Rate, Registered	Mar	--	4.0%
08:00	NO	Trade Balance	Mar	--	18.3b
09:30	SW	CPIF Excl. Energy YoY	Mar	--	1.60%
14:30	US	Retail Sales MoM	Mar	-8.0%	-0.5%
14:30	US	Retail Sales Core	Mar	--	0.0%
14:30	US	NY Empire Manufacturing Survey	Apr	-30	-21.5
15:15	US	Manufacturing Production	Mar	-4%	0.1%
16:00	US	NAHB Housing Market Index	Apr	60	72
20:00	US	Fed's Beige Book			
Thursday Apr 16					
03:30	CH	New Home Prices MoM	Mar	--	0.0%
11:00	EC	Industrial Production MoM	Feb	-0.10%	2.3%
14:30	US	Building Permits	Mar	1250k	1464k
14:30	US	Housing Starts	Mar	1340k	1599k
14:30	US	Philadelphia Fed Business Outlook	Apr	-30	-12.7
14:30	US	Initial Jobless Claims	Apr-11	5.0	6.6
14:30	US	Continuing Claims	Apr-04	--	7.4
Friday Apr 17					
04:00	CH	GDP QoQ	1Q	-9.2%	1.5%
04:00	CH	Industrial Production YoY	Mar	-6.4%	-13.5%
04:00	CH	Retail Sales YoY	Mar	-6.50%	8%
04:00	CH	Investments YTD YoY	Mar	-14.5%	-24.5%
06:00	SW	House Prices, Valuegard	Mar		0.9%
11:00	EC	CPI Core YoY	Mar F	--	1.0%
16:00	US	Leading Index	Mar	-7.0%	0.1%
Monday Apr 20					
03:30	CH	1-Year Loan Prime Rate	Apr	3.85%	4.05%
03:30	CH	5-Year Loan Prime Rate	Apr	4.65%	4.75%

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

- **China**
  - » **Many key data points are released this week; both Q1 GDP** and **March retail sales, industrial production and investments.** We for some weeks expected GDP to have fallen by some 10% q/q (not annualized), which now has become close to consensus but the risk is definitely on the downside. Daily activity data indicate a slow recovery in most sectors in March vs the February standstill. Still, the March PMIs were mixed and in sum not upbeat at all – manufacturing recovered just marginally while service PMIs in sum reported further decline
- **US**
  - » **Jobless claims** are soaring, last week by another 6.6 million, the sum is up almost 17 mill over the past 3 weeks. The real number for continued claims is probably 18 mill (and not 7.4 as reported)
  - » **Manufacturing production** was no doubt hit by Covid-19 in March but the surveys did not signal a collapse. However, **first April regional surveys** may do so as the full impacts of the lockdowns are included
  - » As with manufacturing production, **retail sales data** will partly reflect the conditions prior to corona, and some two weeks with lockdown. Sales are expected down 5% we suppose with the risk at the downside
  - » **Housing starts and permits** probably edged down in March and will no doubt fall steeply in April
- **Norway**
  - » We expect **registered unemployment** to climb further, probably to above 11% of the labour force on the open unemployment rate (and 16% in total), although the daily number of new registrations is gradually slowing

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**	Rapid credit expansion in March. Exports/imports recovered in March and both were far better than expected
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, 17 mill (7% of labour force) past 3 weeks! The NY Fed weekly growth indicator fell further last week. Consumer sentiment fell more than ever, understandingly
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, no surprise
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 faster than expected before the oil price setback. 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% - 5% drop in Mainl. GDP in 2020**	Unemployment is soaring to levels we have not since the Great Depression, now at 15%. More to come. Headline CPI inflation sharply down due to lower energy prices. Core stable at 2.1%

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
- Norway has won the first corona battle, but will it win the war?
- OECD: Shutdown lower GDP by some 25%, mostly due to services
- Are we heading for a U, V, or W? Or an L?
- Global retail sales and industrial production collapsed in February
- Auto sales down 24% m/m in March, more to come in Apri, Chines sales remained low
- All sector PMIs fell in March

China

- Economic activity is slowly gaining speed
- Exports sharply up in March; imports also far better than expected
- Strong credit growth in March

US

- Fed primes all pumps: Even more lending programs, another 11 % of GDP
- Another extreme hike in new jobless claim, sum 17 mill over past 3 weeks
- UoM consumer sentiment fell more than ever in early April, of course
- Inflation sharply down in March, mostly due to lower energy prices

UK

- Bank of England will print the money the Government needs (once again)

EMU

- EMU scrambles to fund corona lending measures, without 'coronabonds'

Norway

- NAV unemployment on the way up (cont)
- GDP growth close to zero, before corona, SSB estimates a 15% decline by end of March
- The financial news index not that weak
- Headline inflation down in March, core stable
- Manufacturing production was flattening before the corona crisis

Highlights

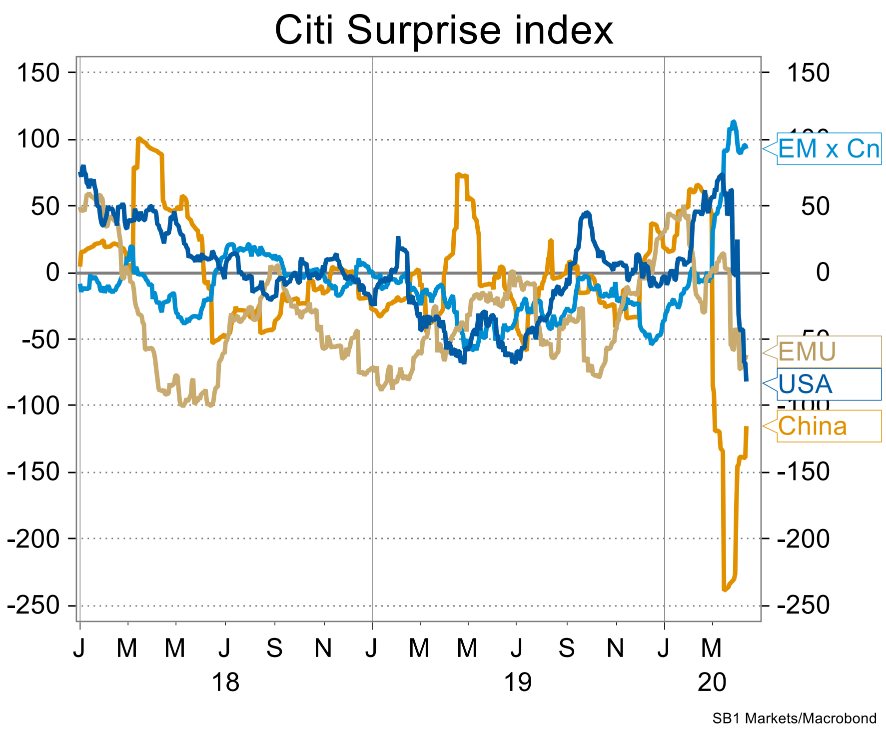
The world around us

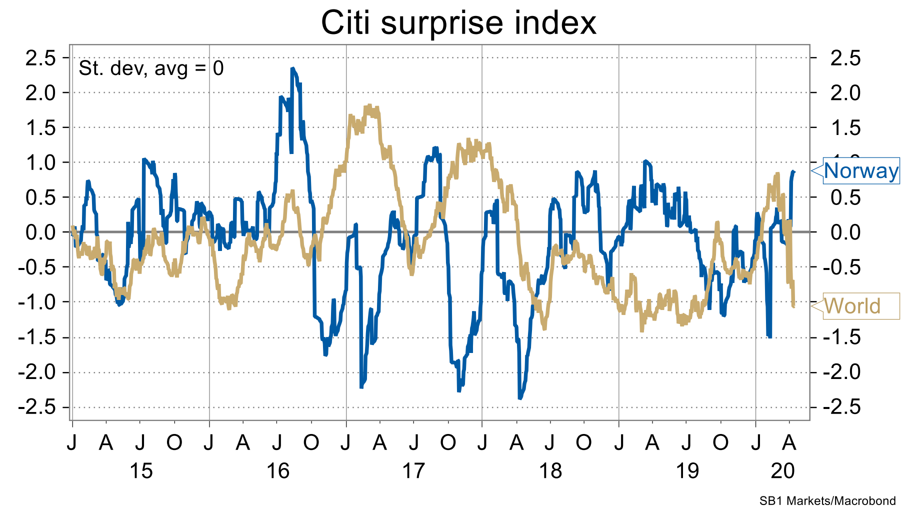
The Norwegian economy

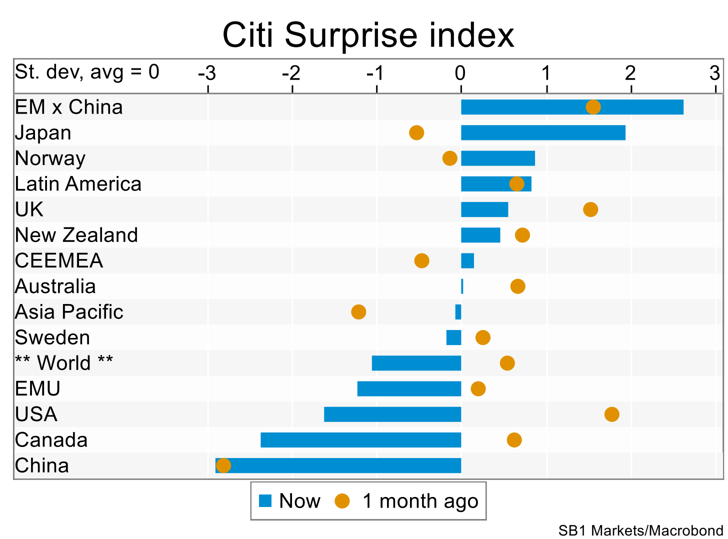
Market charts & comments

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







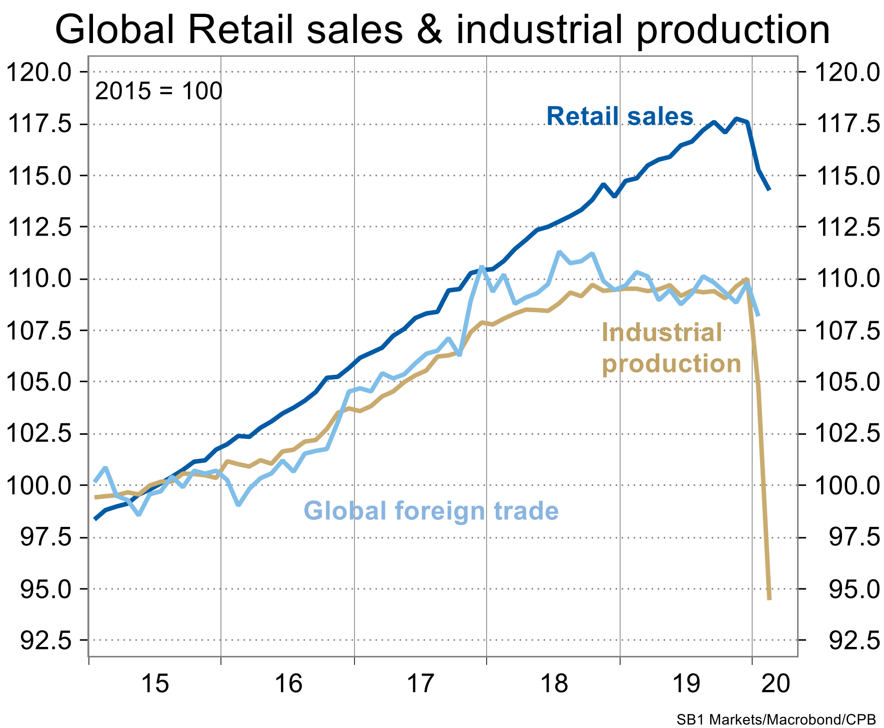
- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- The PMIs sent the Eurozone and US surprise indices down, as has jobless claims data in the US
- The Chinese index rose to wees ago an upturn in the Chinese PMIs in 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

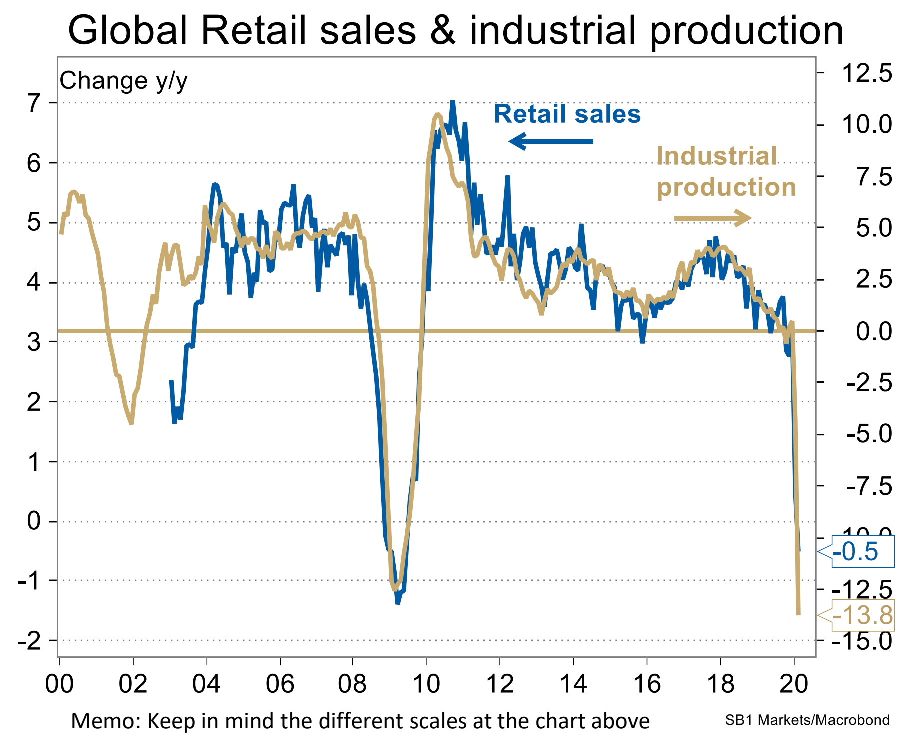
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

SpareBank 1 MARKETS

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

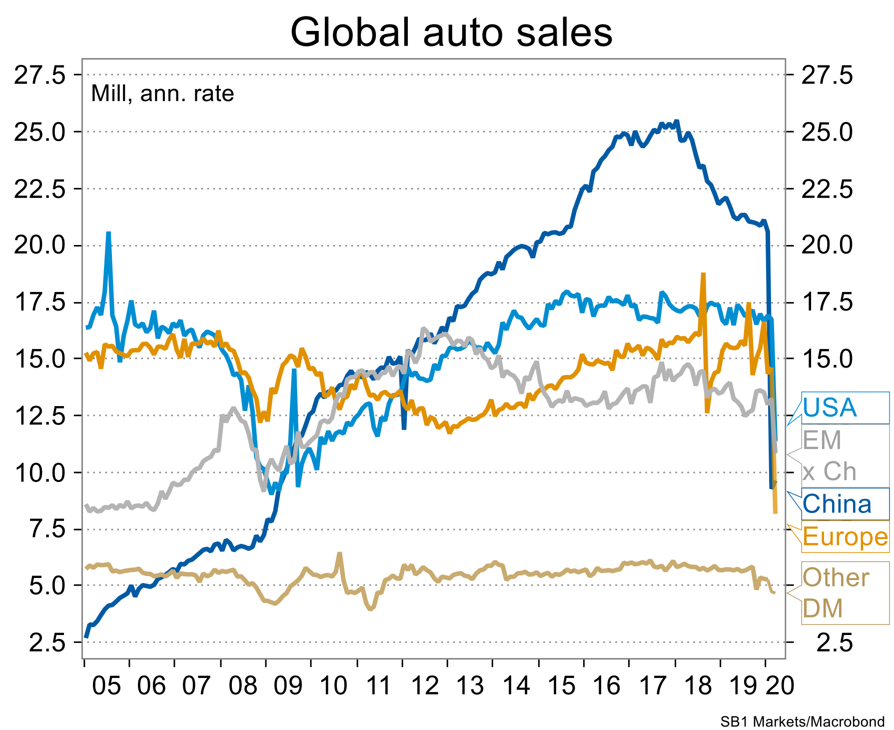


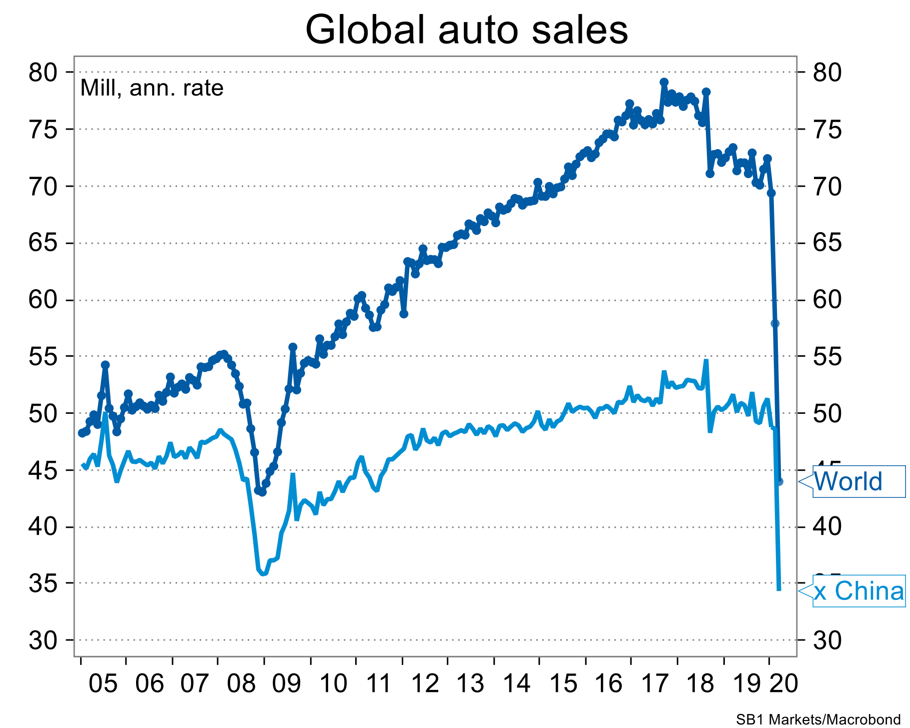


- **Global industrial production** fell by more than 10% in February, due the huge decline in China. In most other countries, production was not that heavily distorted by the coronavirus crisis in February – but it will in March. And in April, and in…
- **Retail sales** dropped 2% m/m in January and 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

Auto sales down 24% m/m in March, more to come in April

Sales rose just marginally in China following the Feb crash, sharply down in DM. EM down, more to go

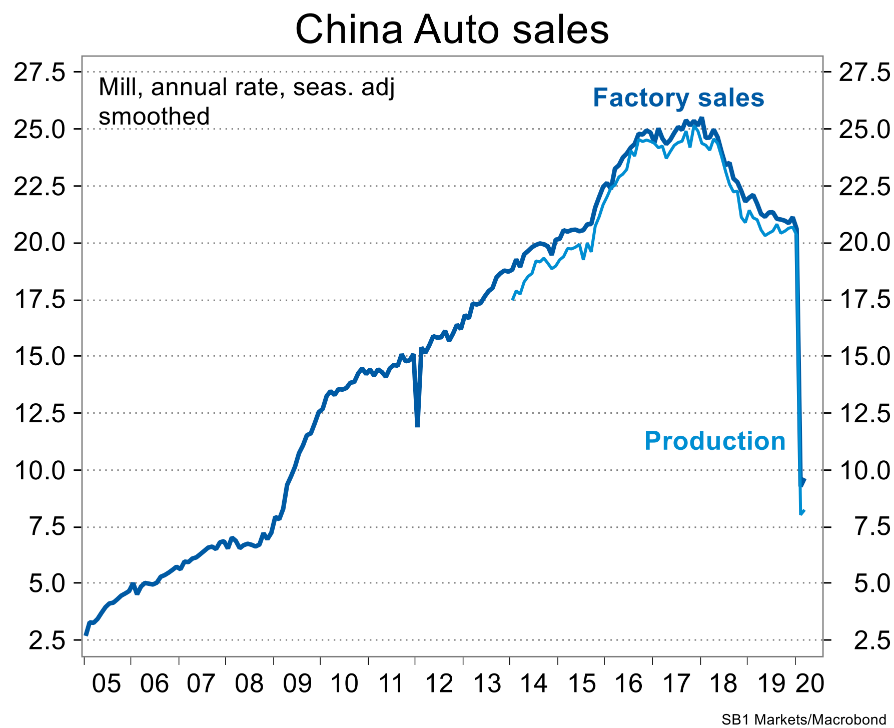


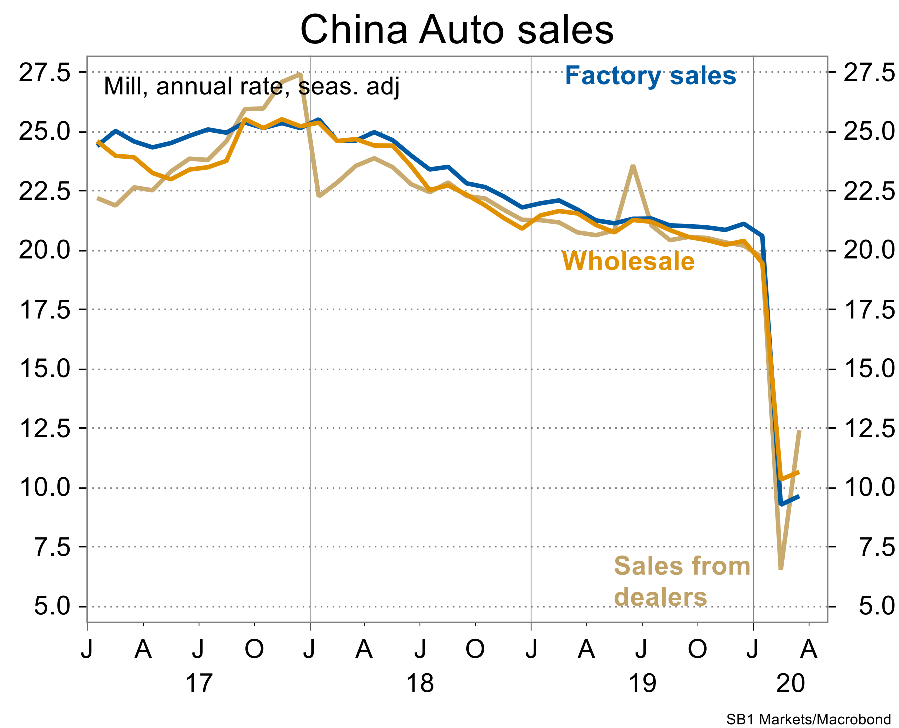


- March sales fell a tad more than our initial estimate. As the lockdowns started earlier in Europe than in the US, sales fell most in the former, by almost 50% (still an estimate, as sales in Italy and Spain fell to close to zero). Sales in the US fell 'just' 30%. Canada by 55% while sales in the Nordics kept better up (albeit measured by first time registrations, which are lagging actual sales). Sales kept well up in Japan
- Sales in Emerging Markets ex China fell sharply too, even if sales in South Korea rose to the best level in more than 2 years. Sales in India fell more than 50% (even if the lockdown was decided late in March, at the 24th). Brazilian sales fell sharply too, without any national lockdown decided (yet)

Chinese sales remained very low in March

Sales (and production) rose some 3-4% in March, following the 55 – 60% drop in February

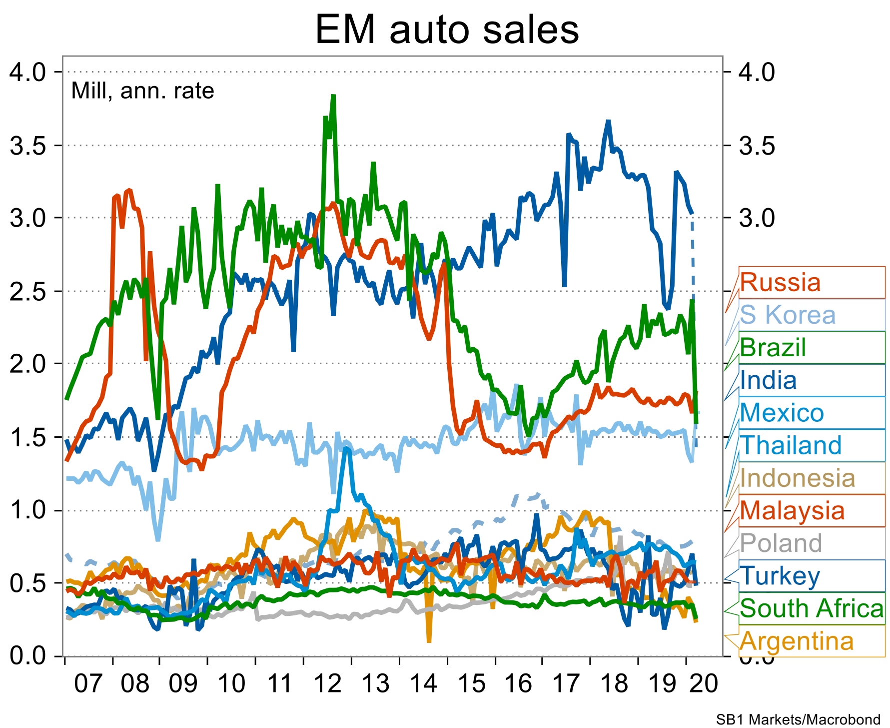


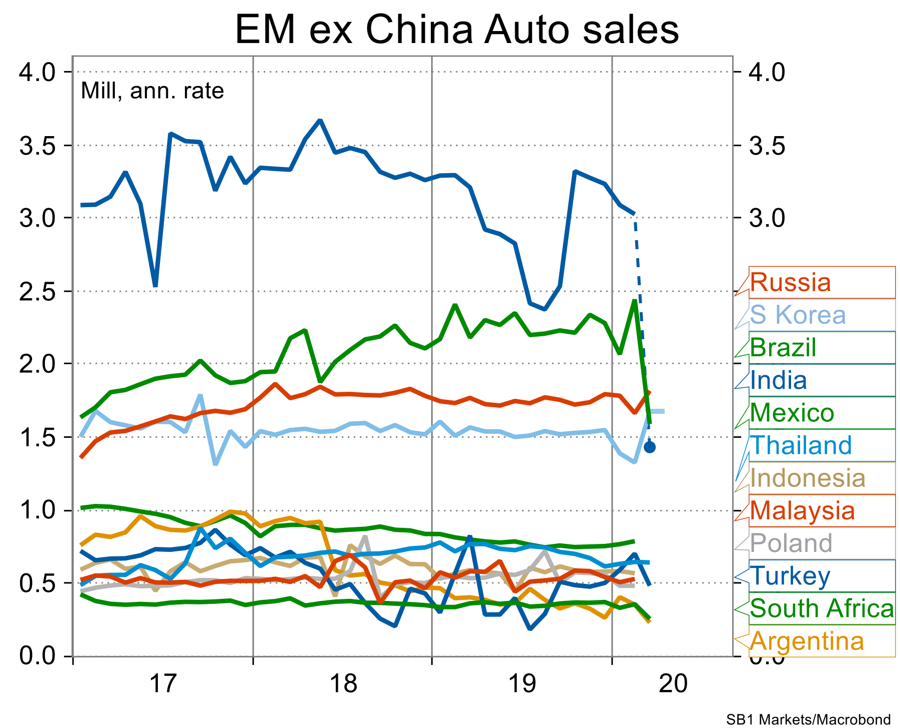


- Auto sales most likely bottomed during the lockdowns in February but the ‘recovery’ in March was not impressive.
  - » Sales peaked in early 2018, and fell 20% until January. Then something more happened…
  - » The number of sales from auto dealers rose sharply (it almost doubled), from an even lower level than factory sales (which is the ‘official’ auto sales figure in China
- Other Chinese demand and production activities have regained more of the February losses (check here)

Sales in India sharply down, even 'before' corona. Brazilian sales tumbled too

We do not expect good news in April either

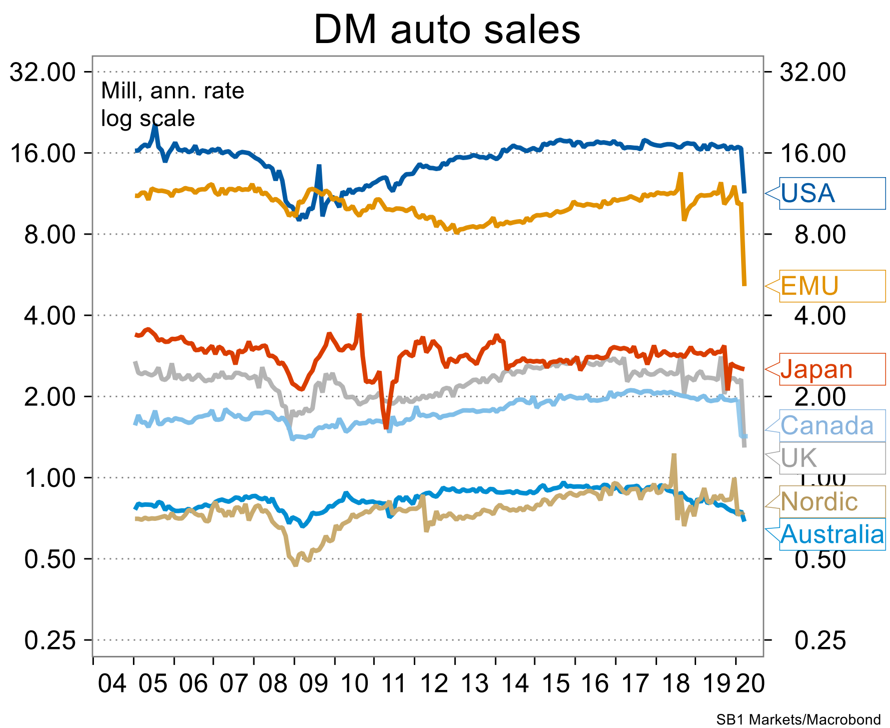


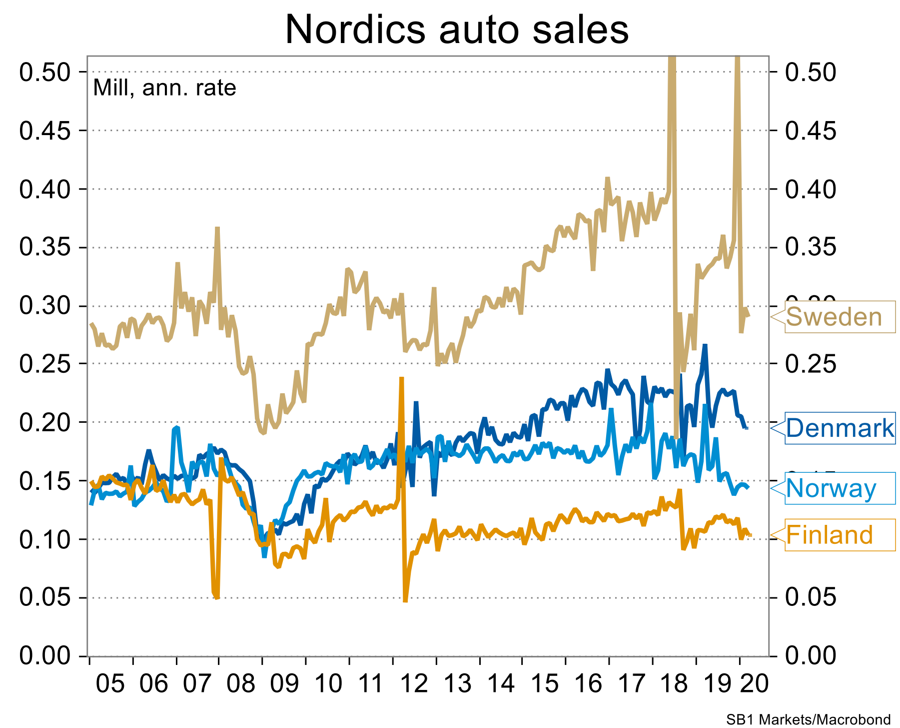


- Indian sales down 55%, Brazil down 35%
- Most others down too, except South Korea and Russia

SpareBank 1 MARKETS

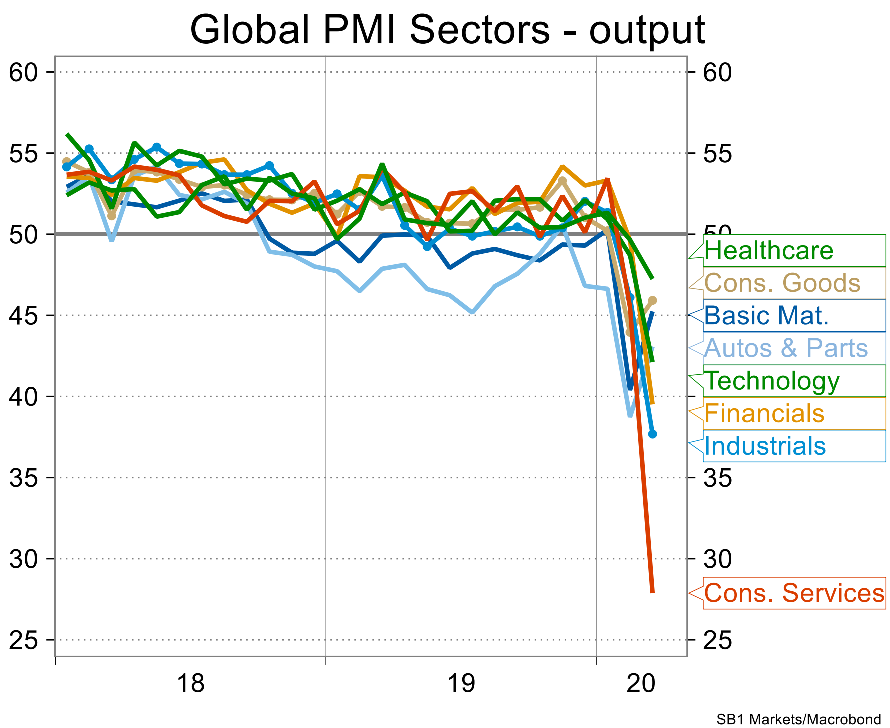
Auto sales steeply down in most Developed Markets

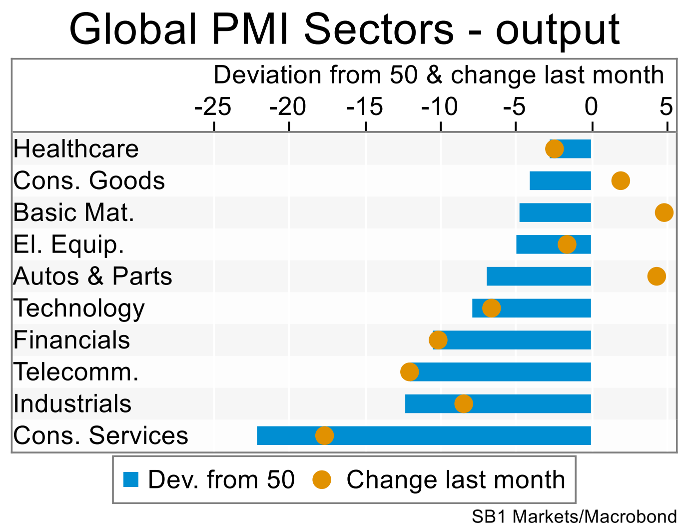


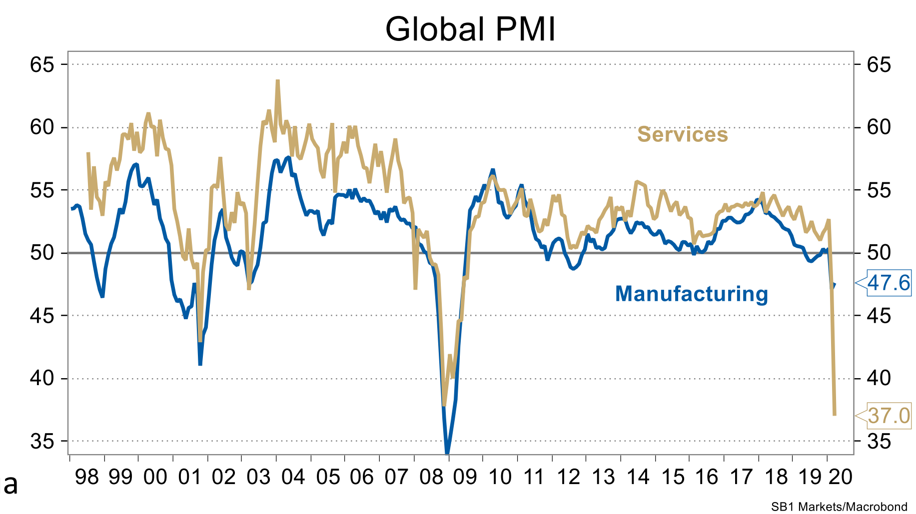


All major sectors contracted in March

Consumer services, telecom and financials reported the steepest declines



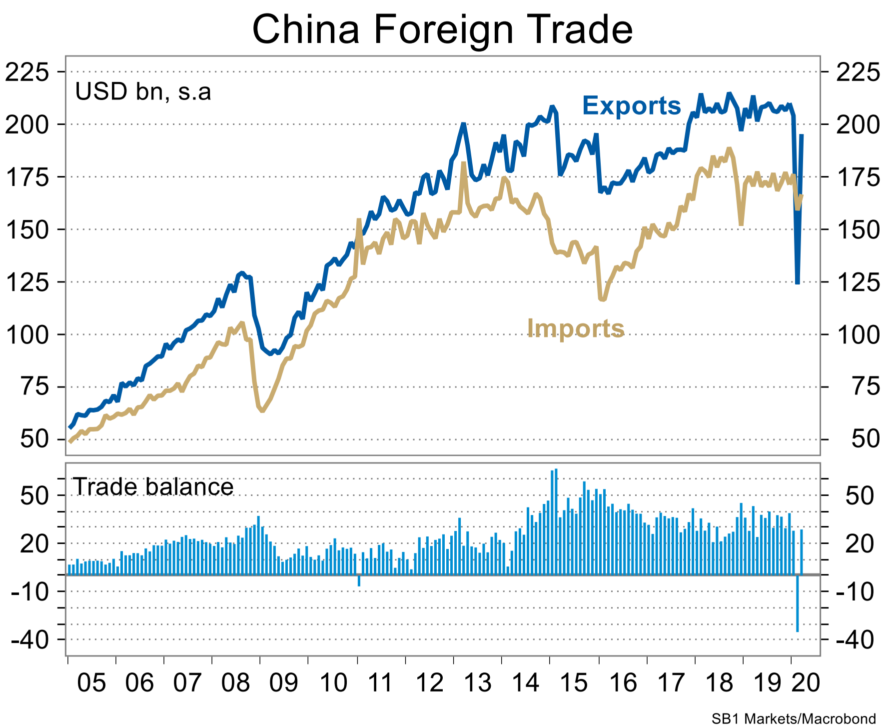




- The global services PMI fell to the weakest level on record in March. Unsurprisingly, consumer services collapsed
- Most sectors reported a deterioration vs February, whereas consumer goods, basic materials and autos and parts noted a slowing decline. We assume the Chinese upturn from the Februa bottoms lifted these indices. Downside risk in April!

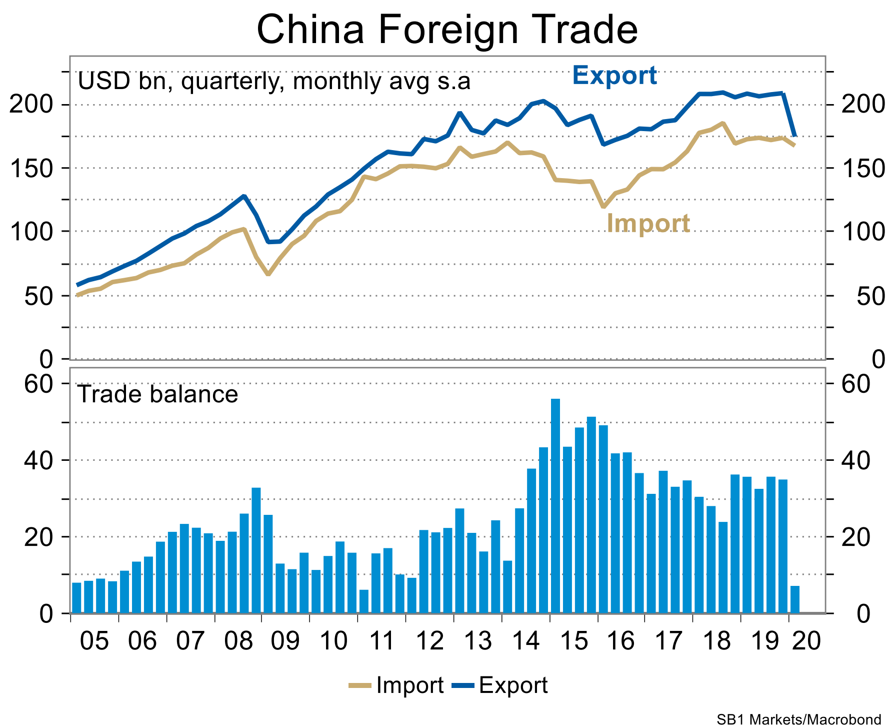
Exports sharply up in March; imports also far better than expected

Trade volumes (almost) back to normal levels in March. Q1 exports volume fell 15%, imports just 1%



- Following a 40% decline in exports during the lockdown in February, exports rose by almost 60% in March, and was just 4% the Jan level (or down 6.6% from last March. exp -14%, all in USD terms). In volume terms, we assume a parallel development (our price assumptions through Q1)
- Imports also recovered in March, but far less – though from a far better starting point. Imports fell by just 10% in February, and grew by 5% in March. The level in March is 5.5% below the Jan level but 0.6% higher than in March last year, exp -8%)! In volume terms, it is even better; import prices must have fallen sharply through Q1 – and import volumes in March were probably on par with January imports
  - » We expected weaker import data is domestic demand must have been week, at least in February. Now these data suggest that imports just fell marginally in Q1
- The trade outlook is not the best, especially for exports as demand is collapsing, at least in most Developed Markets, due to the corona crisis

Q1 export volumes down, imports not. Underlying trend for both flat?

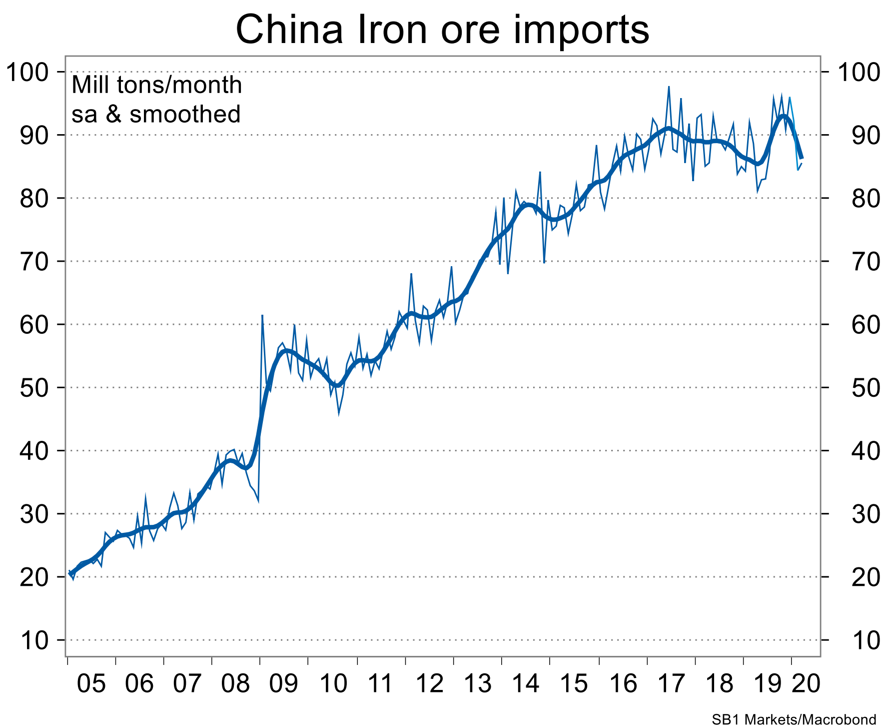


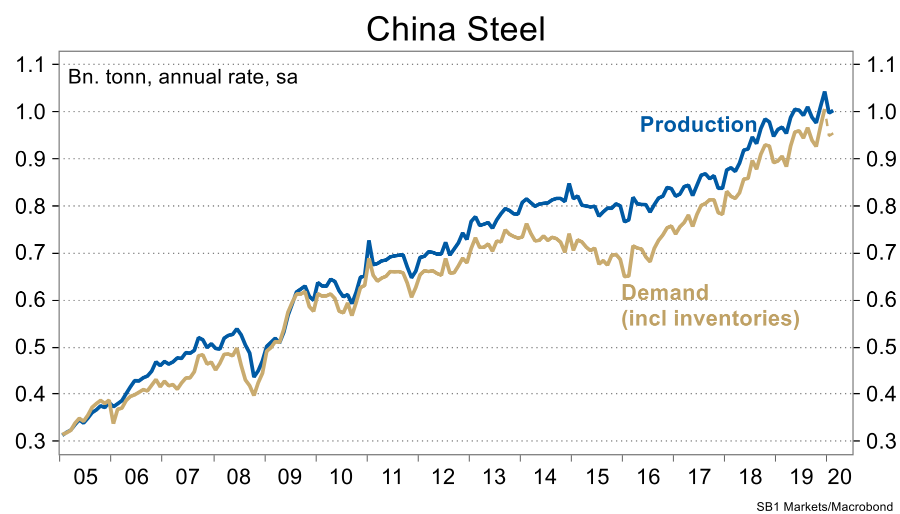
Export surveys up in March, still weak

Suggests downside risk for Chinese exports, due to reduced demand among many trading partners

Iron ore imports marginally up in March – but not that low

Net steel exports down in March but the level is quite high. No weakness in steel production/demand

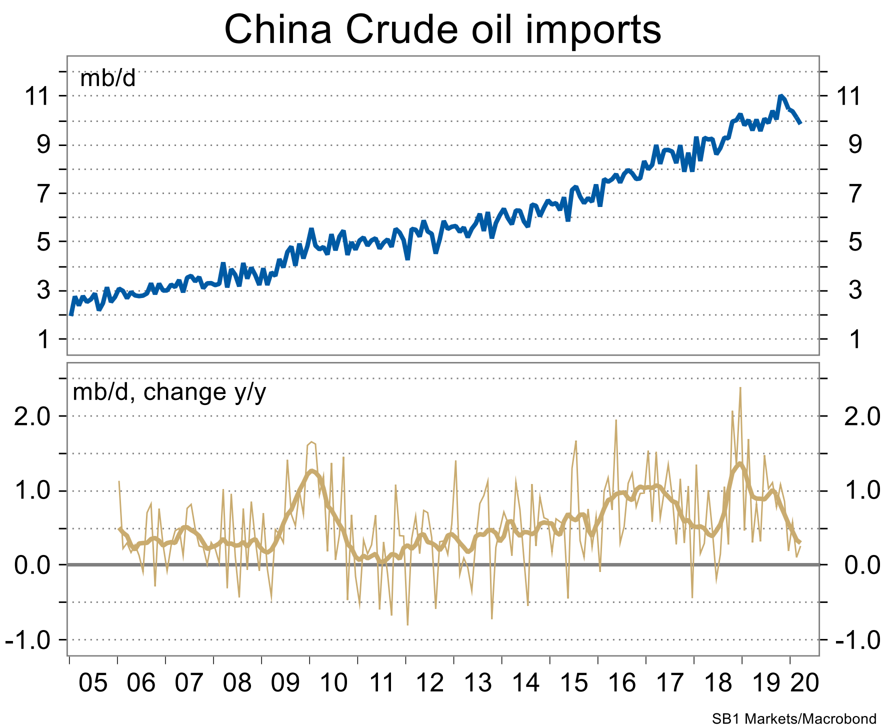


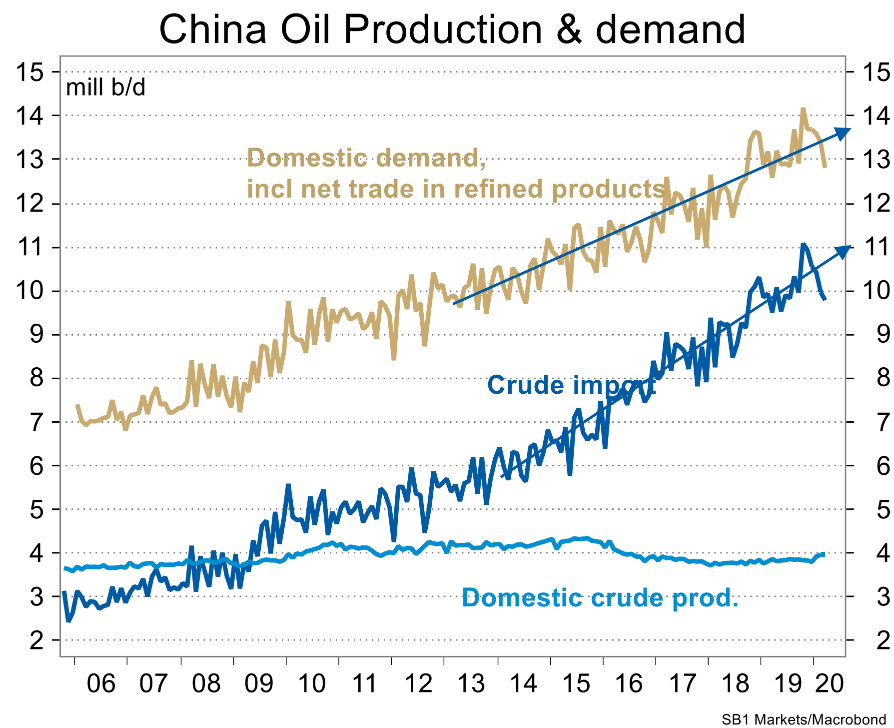


- Iron ore imports fell rose 1% m/m in March

Oil imports further down in March but still up y/y

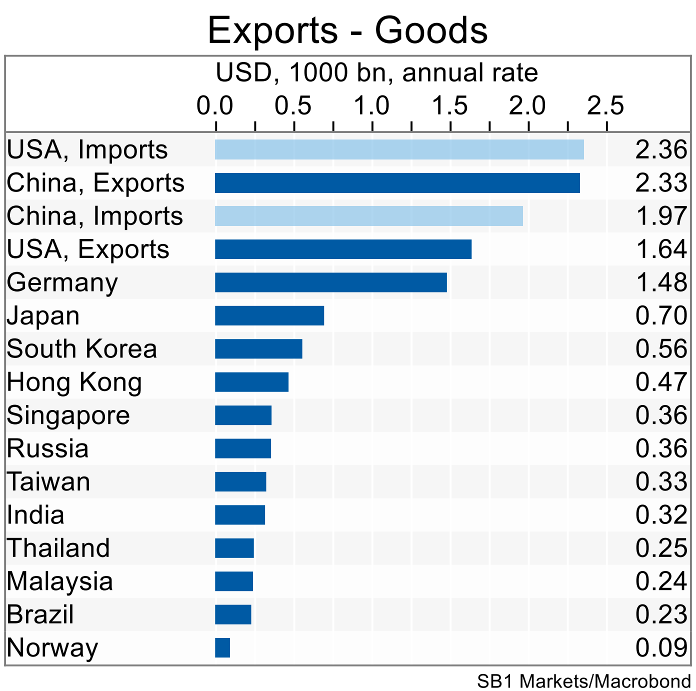
Inventories are probably built, as domestic demand most likely has fallen

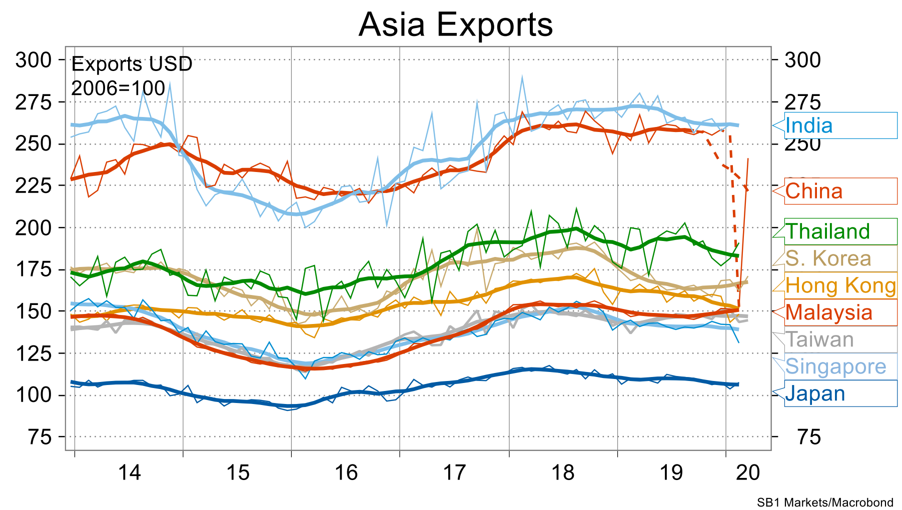


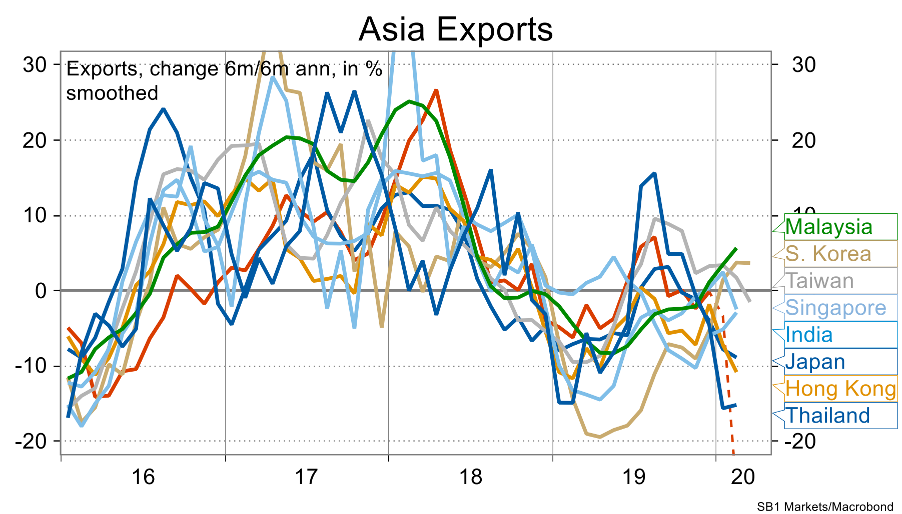


Other Asian trade data still not that weak, South Korea up in March!

However, most countries have reported a decline recent months



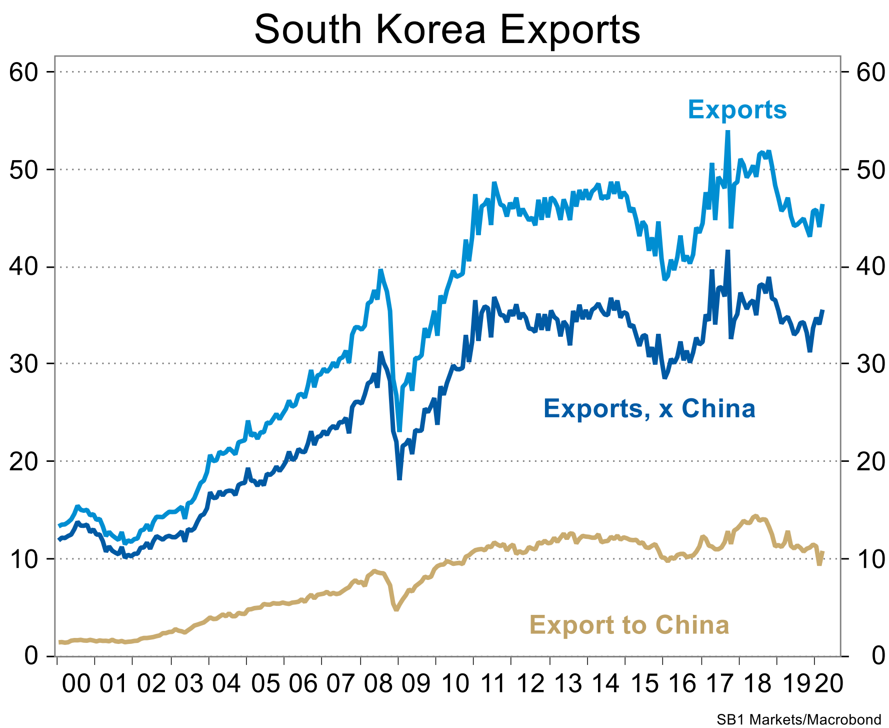


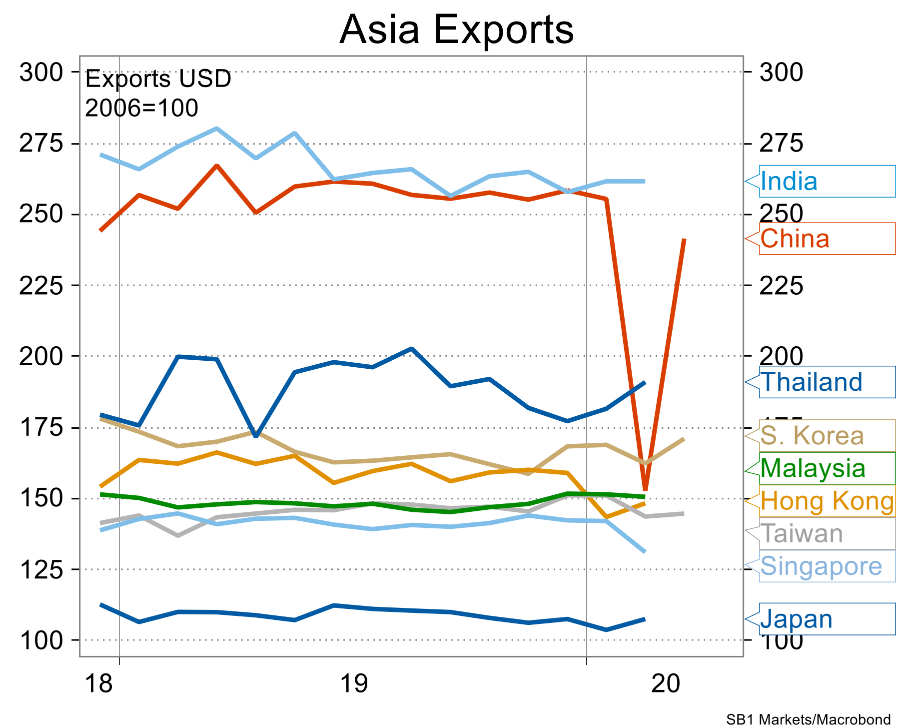


- Taken together: Exports have slowed in most countries but some signs of stabilisation recent months
- China is of course the world's biggest export country (55% larger than the US!) – and the 2nd biggest importer!
  - China will probably take the pole position in imports too, in some few years time

Asian March exports: South Korea on the way up, Taiwan flattish

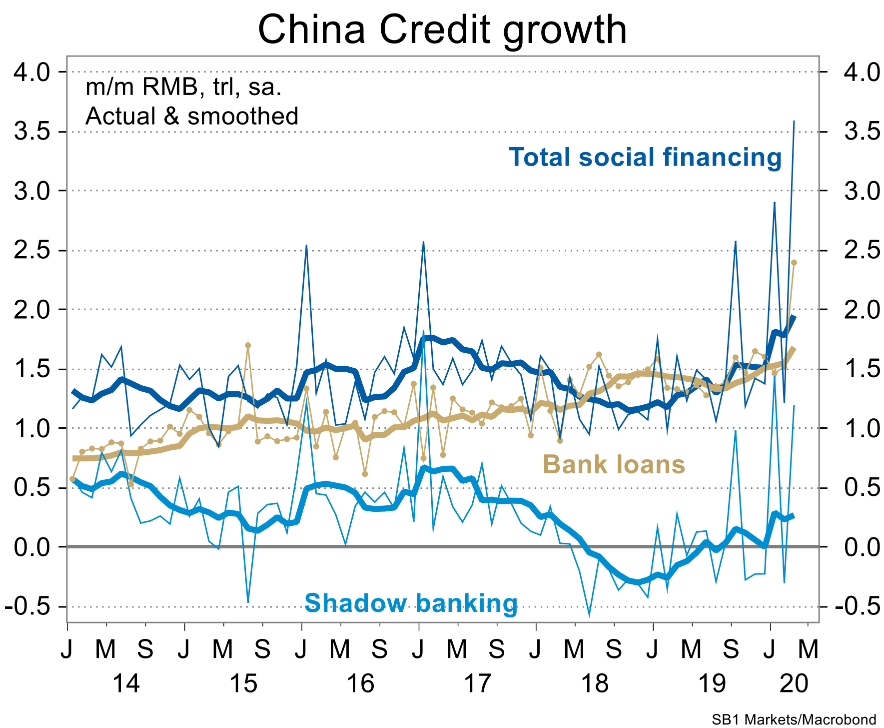
Better than we assume

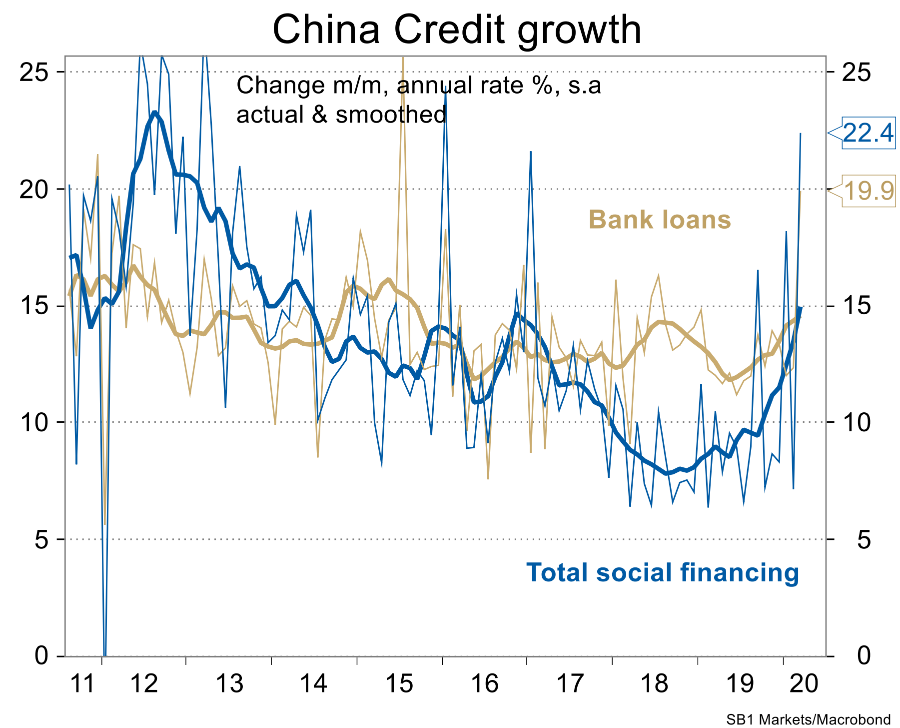




All pumps are primed; rapid credit growth in March

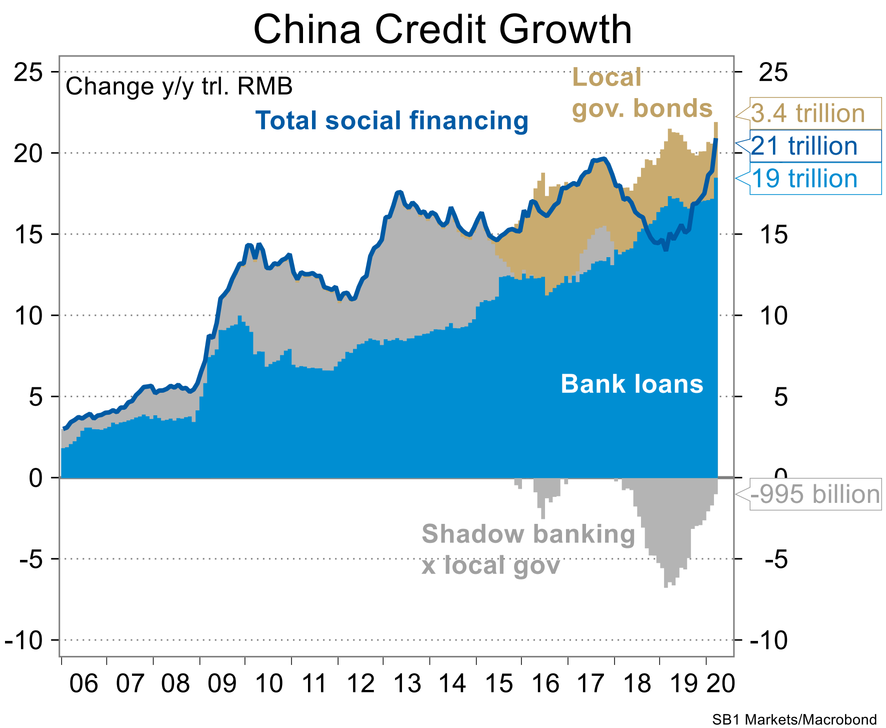
Lending activity sharply up in March, both through banks and outside

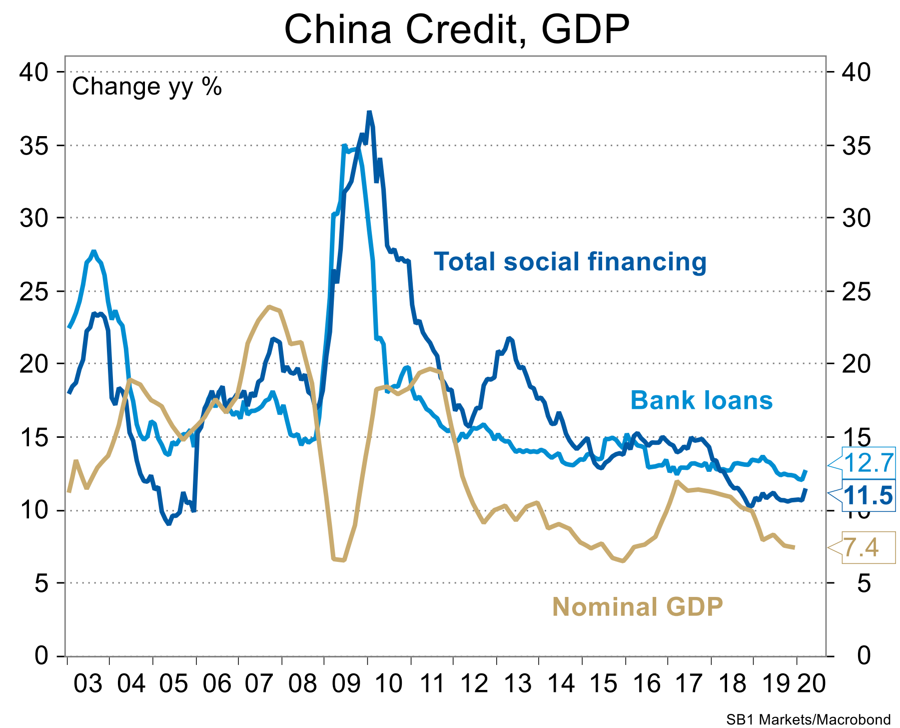




- Total credit growth accelerated to a 22% pace in March, up from below par at 7% in February. Both bank lending and credit outside banks rose sharply, no doubt due to aggressive measures and dictates from central authorities in order to help the economy recover following the corona lockdown in February.
  - Total credit rose 4.4 bn RMB, well above expectations (3 bn). Banks supplied most of the stuff but the shadow banking system contributed well to (1/3 of total).
- The underlying total credit growth has been accelerating since early '19, underlying growth up to 15%, from 7.5%, the highest since 2013.
  - Growth measured y/y credit growth accelerated to 11.5% (banks to 12.5). The credit impulse (y/y) is now clearly positive

Credit growth has accelerated over the past year



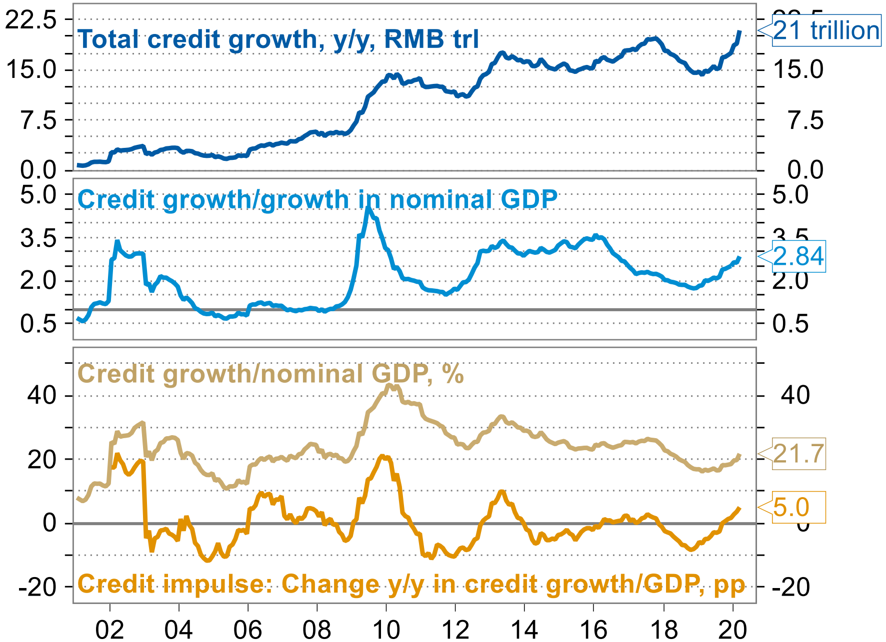


- Over the past year, total credit has grown by CNY 21 trl, equalling 21% of GDP
- Banks supplied CNY 19 trl of the y/y increase, equalling almost all of the volume through last year
- Local governments has not yet accelerated their borrowing, at least not in the bond market
- Other credit – via the shadow credit market x local gov bonds is down 11 trl y/y
- Total credit growth at 11.5% is higher than growth in nominal GDP (7.4%), and debt/income is still on the way up

The credit impulse has turned positive

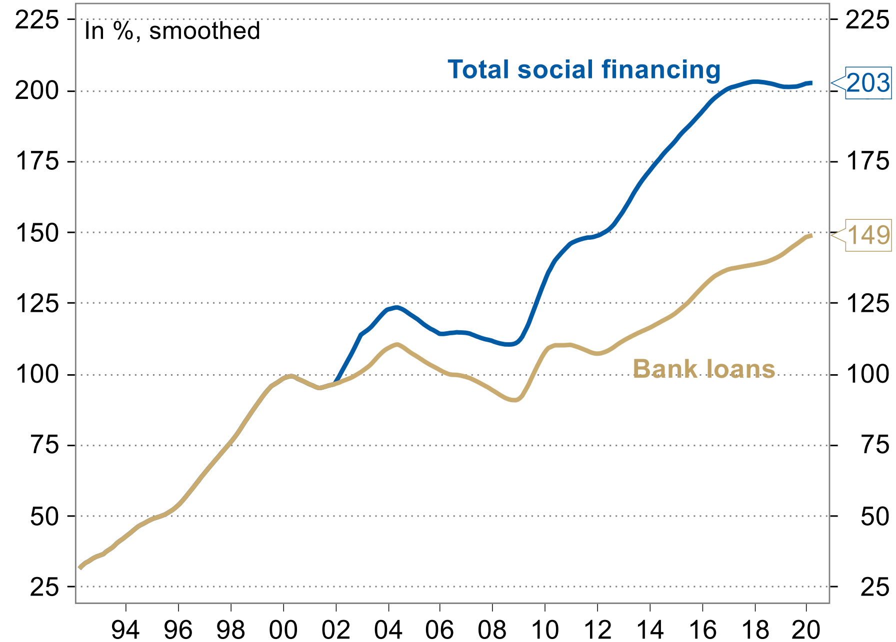
Credit growth is accelerating, whatever way we measure it

China Credit growth



SB1 Markets/Macrobond

China Credit/GDP



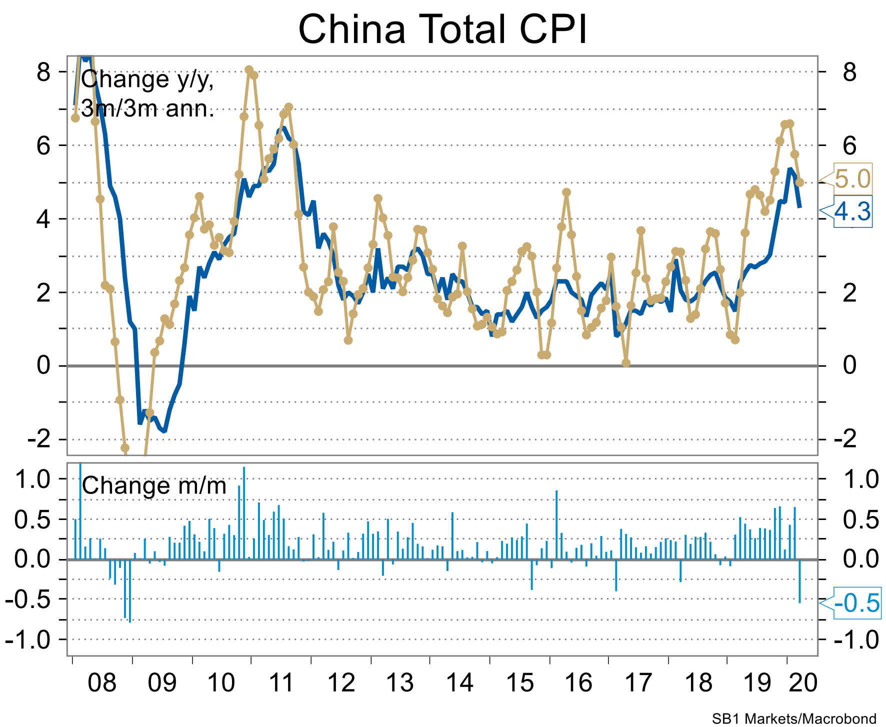
SB1 Markets/Macrobond

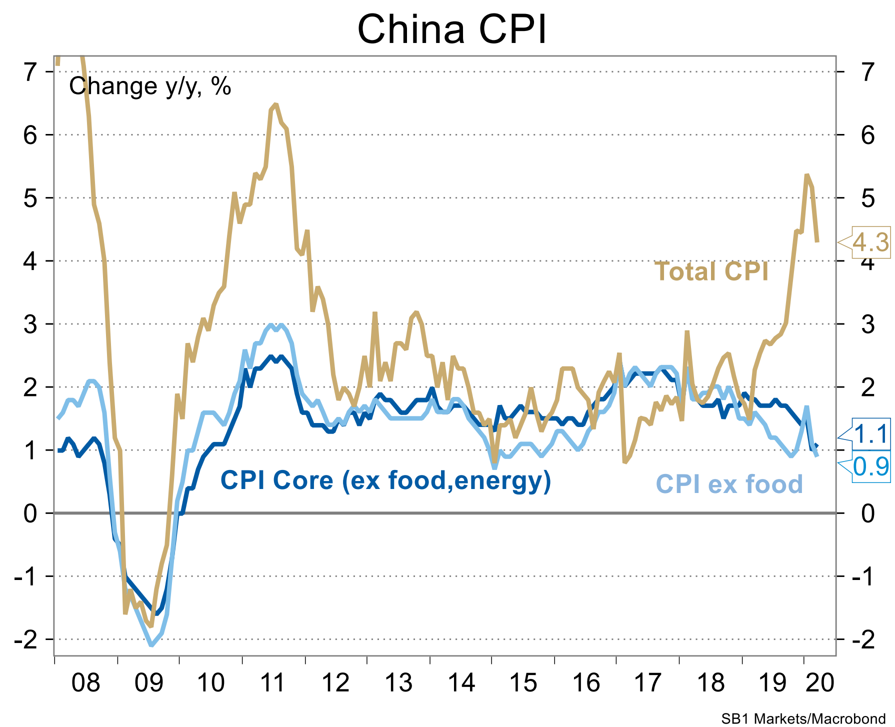
- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » Now, the credit impulse has risen to marginal positive
- We are uncertain how far the authorities are willing or able to bring growth back up, even as stimulus is needed now to support the economy. The credit/income level has flattened but the level is disturbingly high. In addition, for every RMB GDP grows, credit increases 2.8 by RMBs (given trend growth in GDP in Q1, which was not the case…), and each year's growth in credit equals 21% of GDP. That's not sustainable, long run, neither for lenders nor borrowers, as nominal GDP growth is well below 10%. The Government may succeed in increasing credit supply short term (if they dare to, vs long term risks) but the problem may turn out to be demand for credit

SpareBank 1 MARKETS

Total inflation slows, food (pork) prices have peaked, core at 1%

Price inflation fell further in May, and will slow the coming months

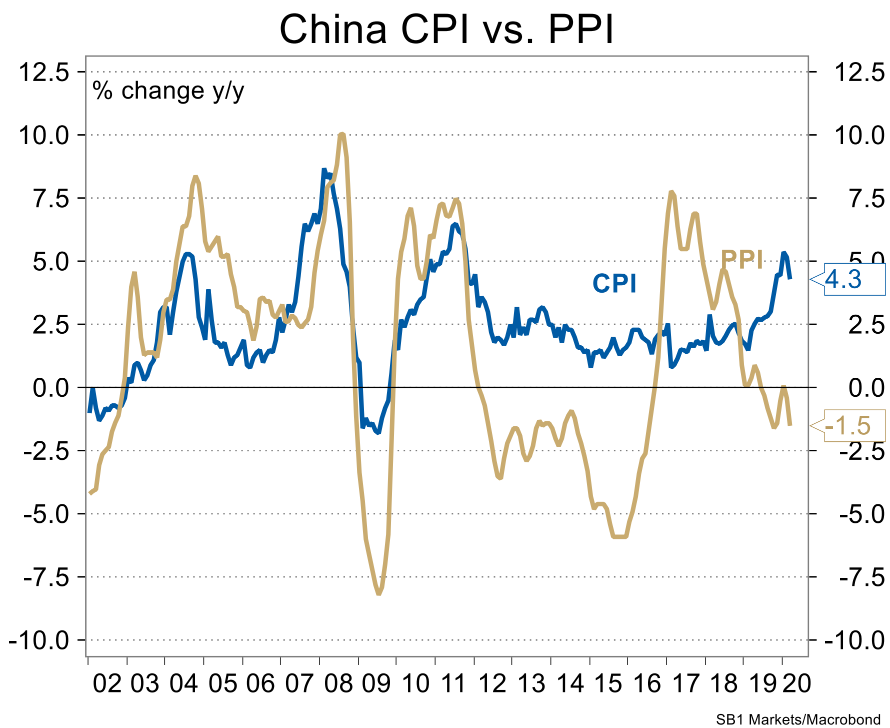


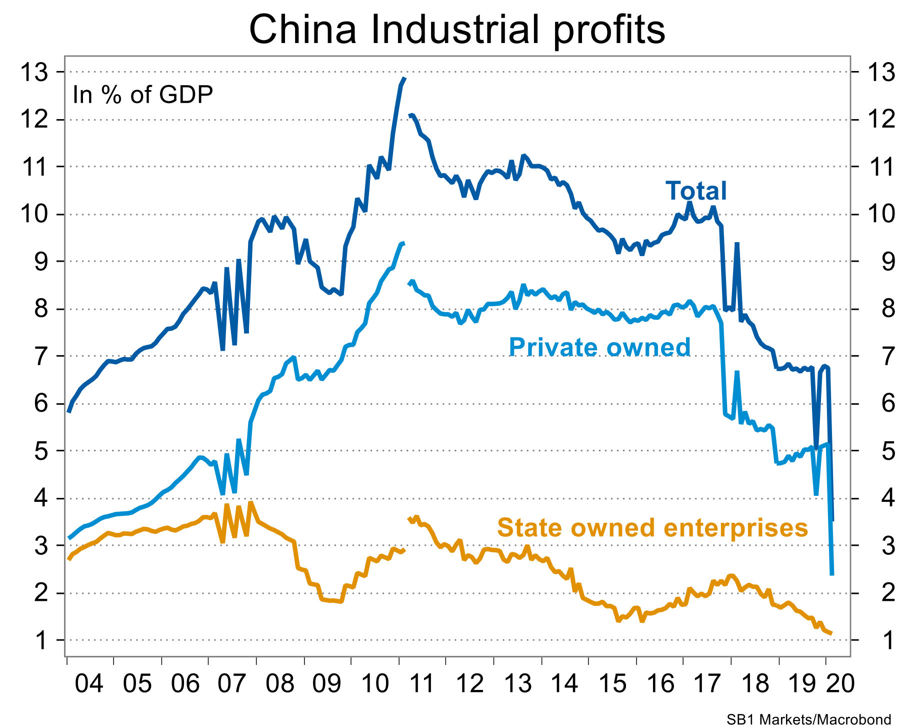


- Headline inflation slowed 0.9 pp to 4.3% in March, expected down to 4.9%. Food prices are still up 18% y/y, lifted by pork meat shortages; pork prices are still more than doublet y/y
- Core inflation (x food & energy) increased marginally to 1.1%, from the lowest level since 2010
- Higher total inflation has been dampening (real) consumption growth but the drag will probably subside the coming months. At least households need it…

China producer prices are falling but not by much

PPI down 1.5% in March – just a marginal

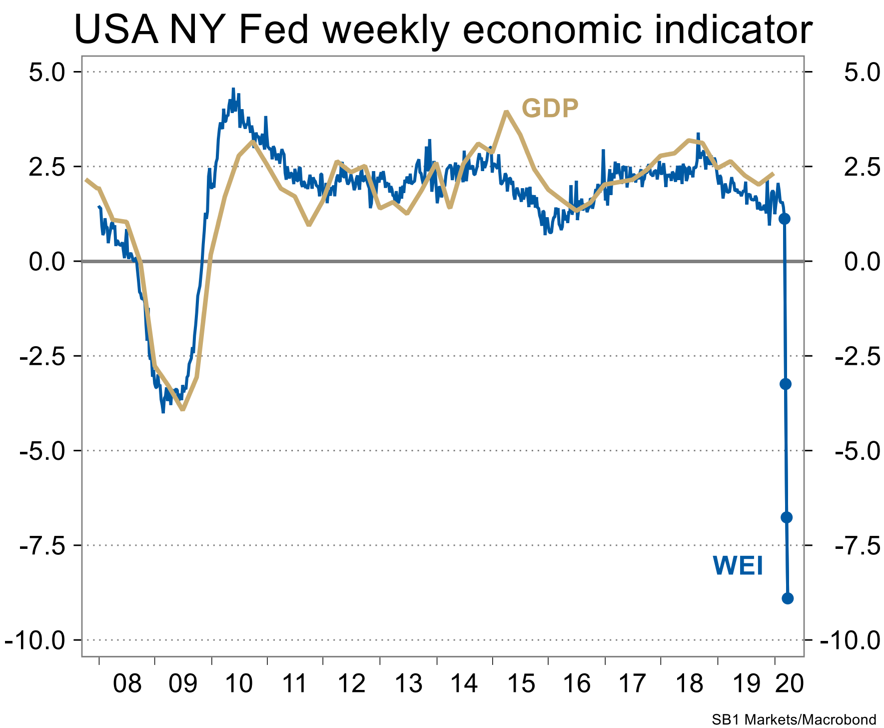




- The PPI has been under water the previous 6 months but the decline in prices have been moderate, in aggregate some 1%.
  - » From 2012 to 2016 prices fell by 3% per year in average, lowering the price level by more than 13%. Even that did not kill the Chinese economy. Now prices have fallen just around 1%! So there must be something else…
  - » Pork meat prices are doubled due to the swine flue, driving total consumer price inflation up (meat constitute a very minor part of the PPI and does not influence PPI by much)
- Industrial profits in privately owed enterprises fell by 50% in February but profits were still positive, according to official data. In state owned enterprises, profits have been sliding down the past two years but not further in February. Strange, to put it mildly

The NY Fed's Weekly Economic Indicator reports a steep decline

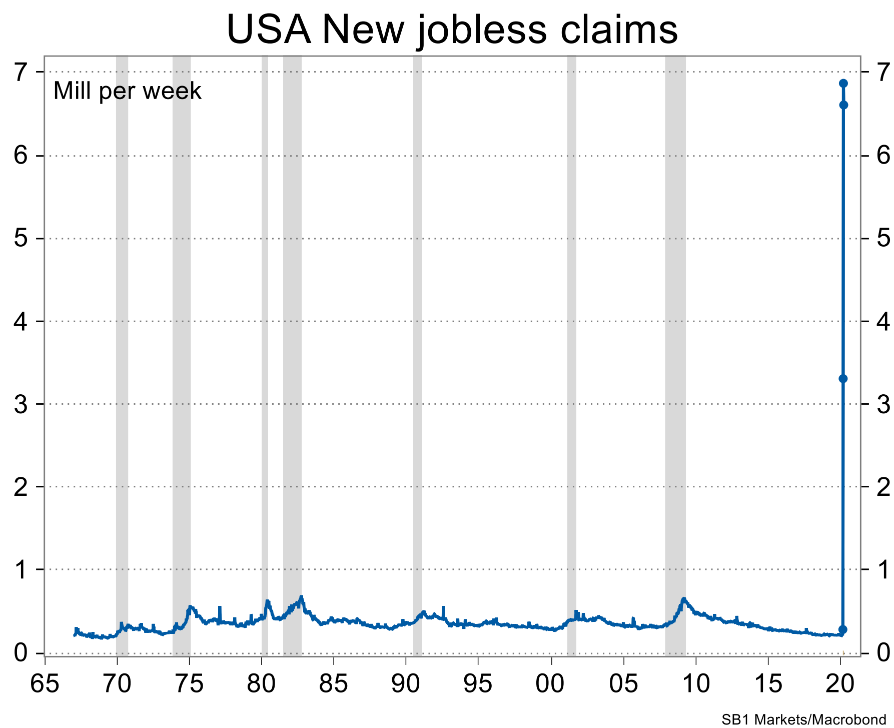
WEI suggest that the economy is already down 4% y/y – the first week of lockdown

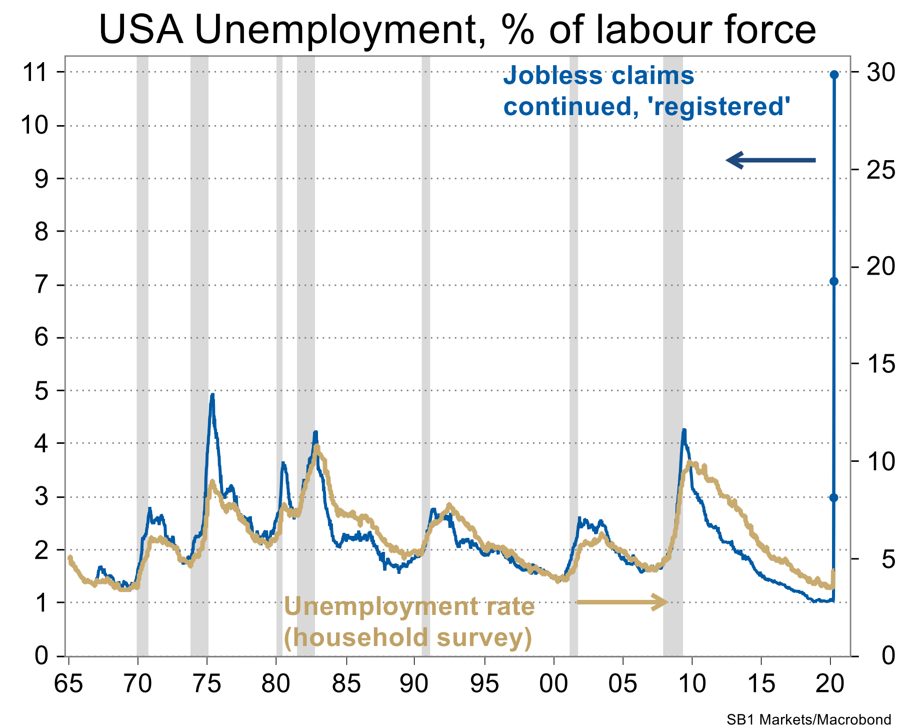


- GDP may already be down 4% y/y, according to NY Fed's new weekly indicator, vs the pre corona growth path at 2%. This implies that activity has fallen by up to 6%, and it happened over just one week 12 (March 21), due to the steep increase in new jobless claims
  - » Jobless claims rose twice as fast 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.

Another unprecedented spike in jobless claims, unemployment towards…20%?

Another week, another 6.6 mill new jobless claims, total past 3 weeks almost 17 mill, 10% of the lab. f

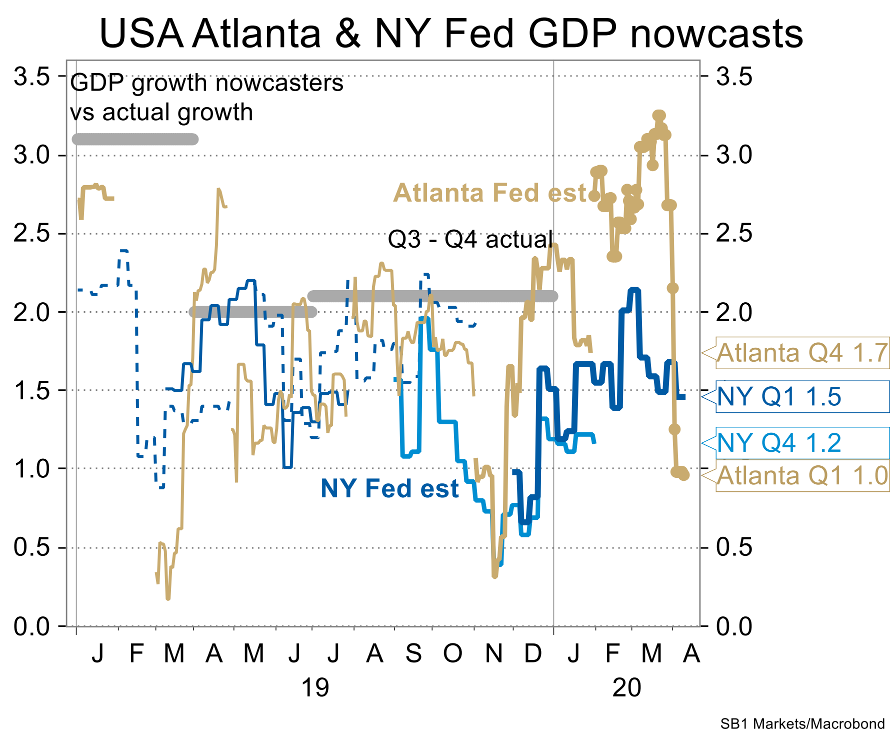


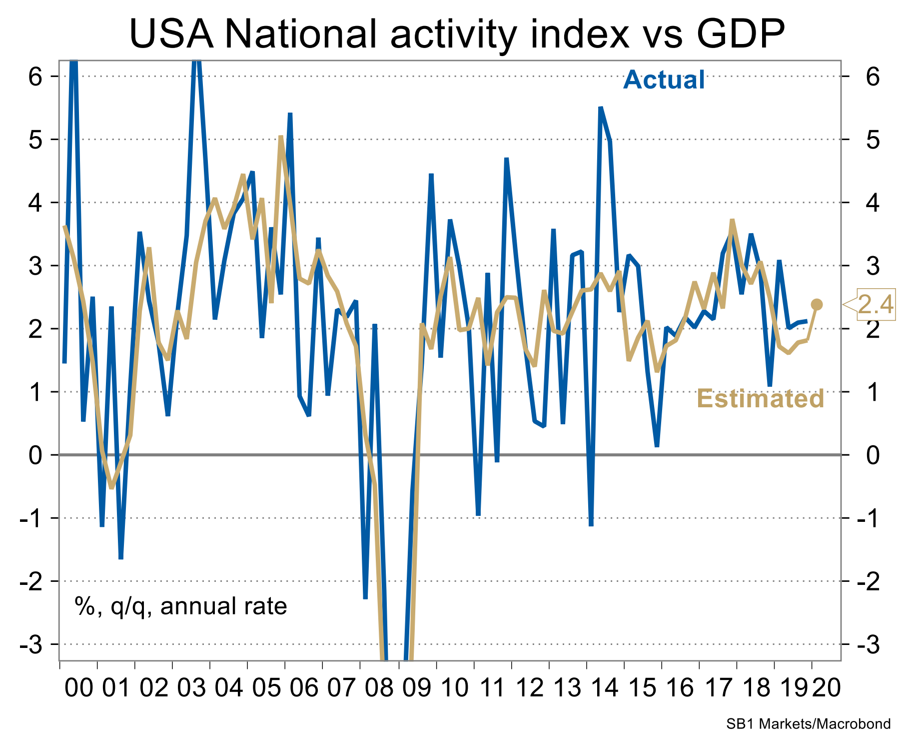


- The shock is unprecedented, and it is not yet subsiding – and more people will lose their job and some of them will turn up at the unemployment offices
  - » Claims surged across the US and almost all states cited huge problems in service sectors due to Covid-19
  - » During the financial crisis, jobless claimed peaked at 655' at one single week. *This shock is of course something totally different*
- We estimate continued claims have climbed to above almost 17 million last week, from 1.8 mill 3 weeks ago (the figure will be published coming weeks as the claims are processed), equalling 11% of the labour force, up from 1% 3 weeks ago!
  - » 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 level in May)

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

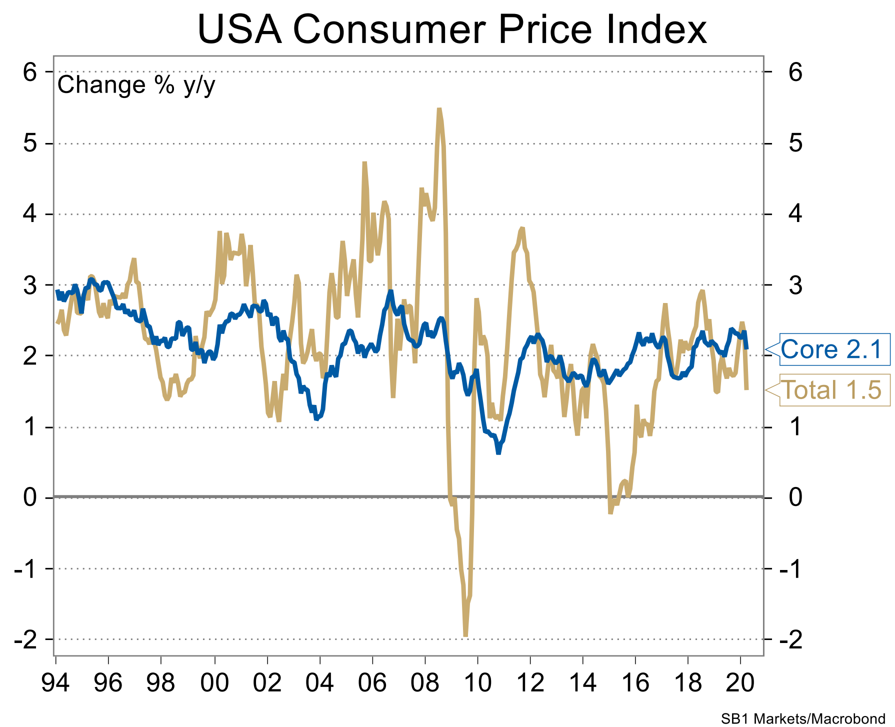


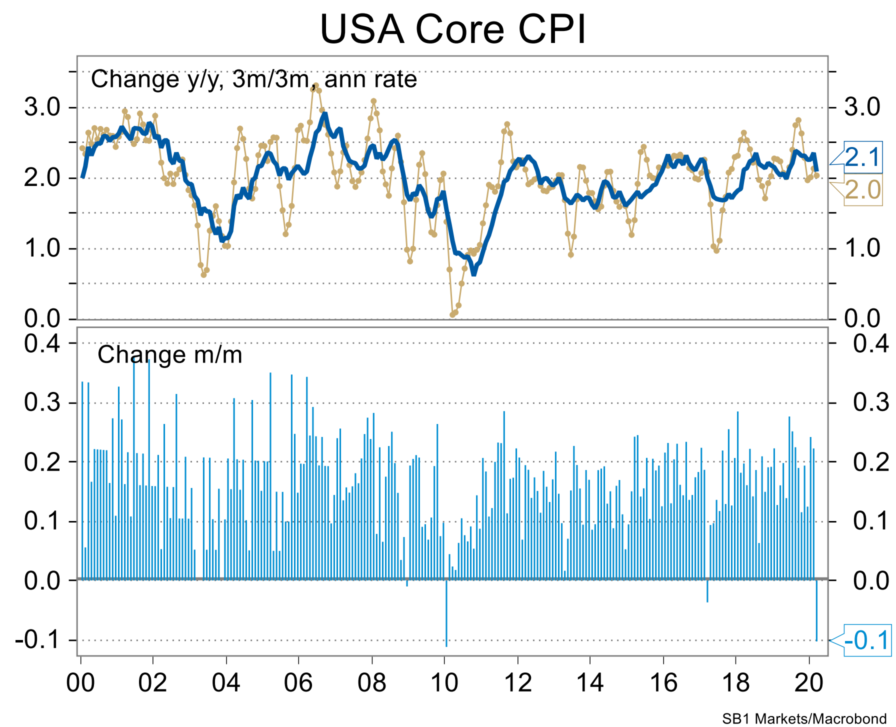


- *<u>These nowcasters have not incorporated much data impacted by the Covid-19 outbreak yet</u>*

Inflation sharply down in March, mostly due to lower energy prices

Headline CPI down 0.8 pp tp 1.5%, core down 0.2 pp to 2.1%, due to a 0.1% decline m/m

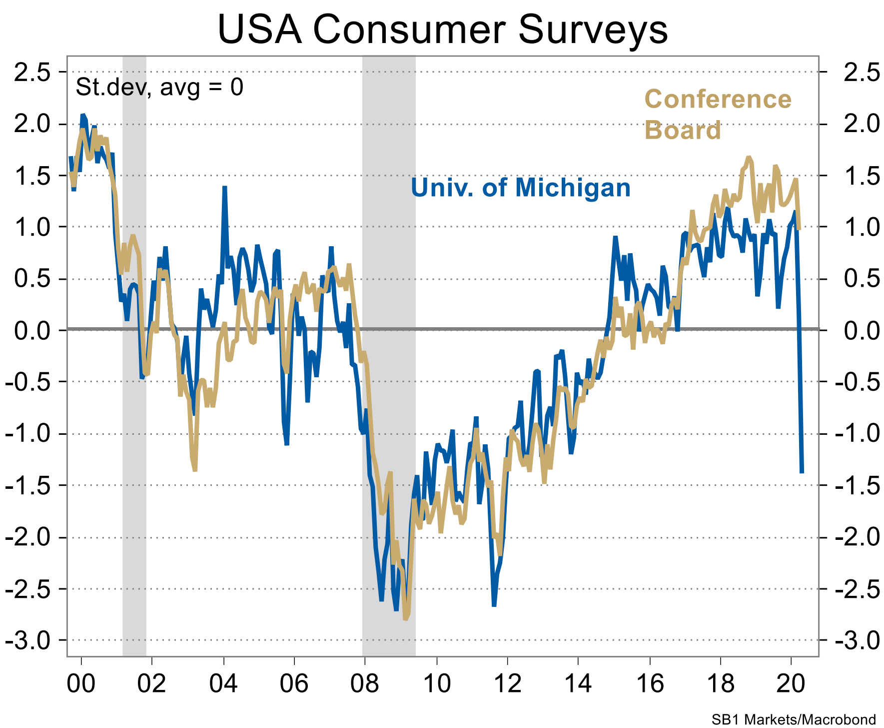


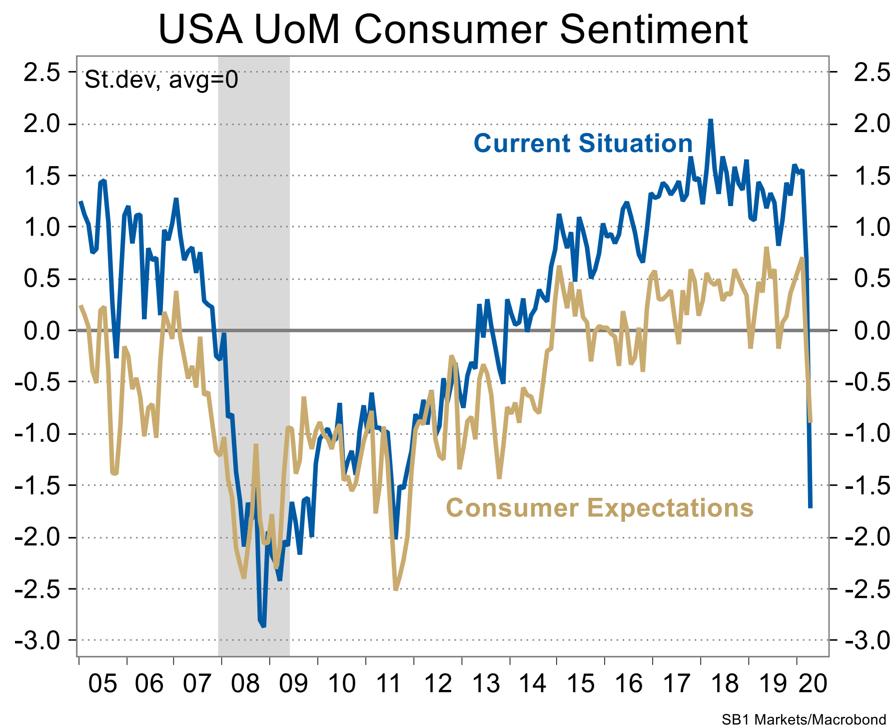


- The decline in inflation was slightly larger than expected
- The coming months, price inflation will very likely decelerate further

UoM consumer sentiment fell more than ever in early April, of course

The level is far below average but still not as low as during the Financial Crisis

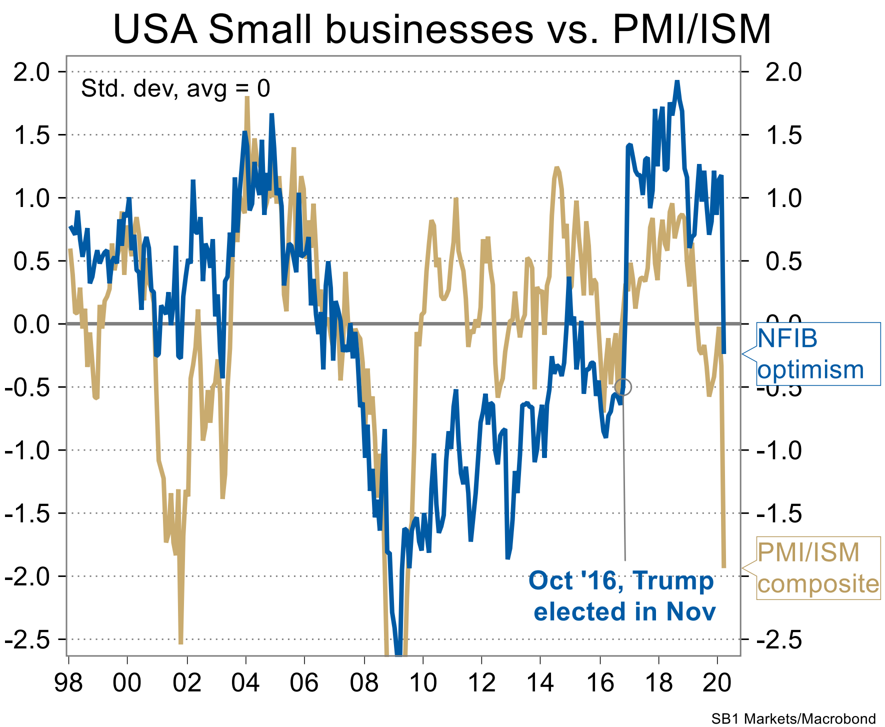


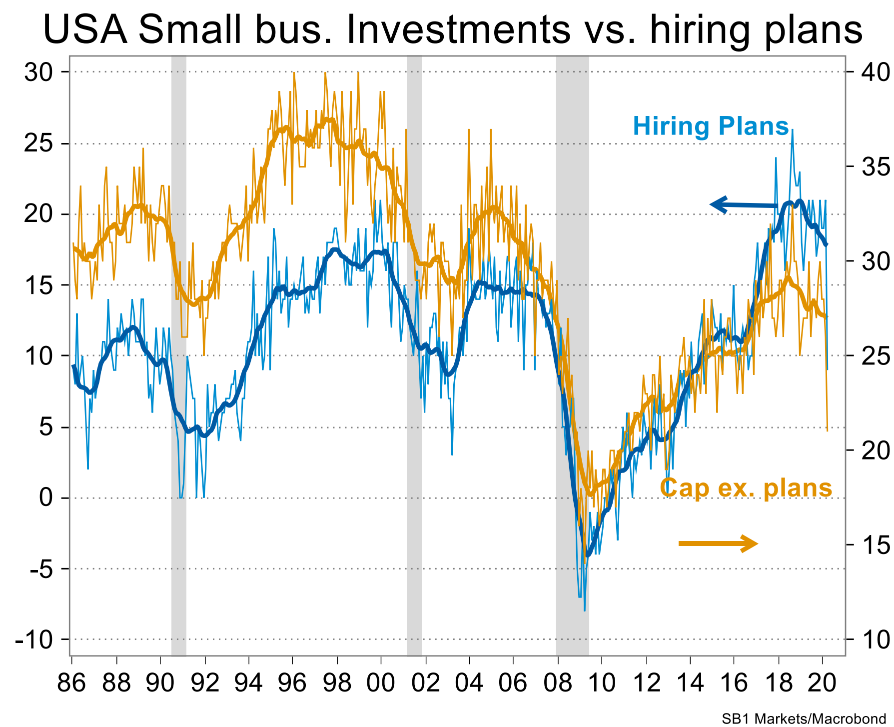


- University of Michigan's consumer sentiment fell 18 p to 71 p in early April (expected at 80), a level equalling 1.5 st.dev below average
  - » Assessment of the current situation fell more than expectations

Small businesses' optimism down in March, does not mirror most Covid impacts

Most of the survey data were collected in the first half of March, not relevant now





- The NFIB optimism index, measuring small businesses' expectations on business conditions, fell to 96,4 in March, back to the 2016 level. Most of the surveys were collected in the first half of March, before corona really hit the US and strict measures were imposed
  - » Both hiring plans and investments plans were reduced substantially and will no doubt be slashed in April, to far below financial crisis levels

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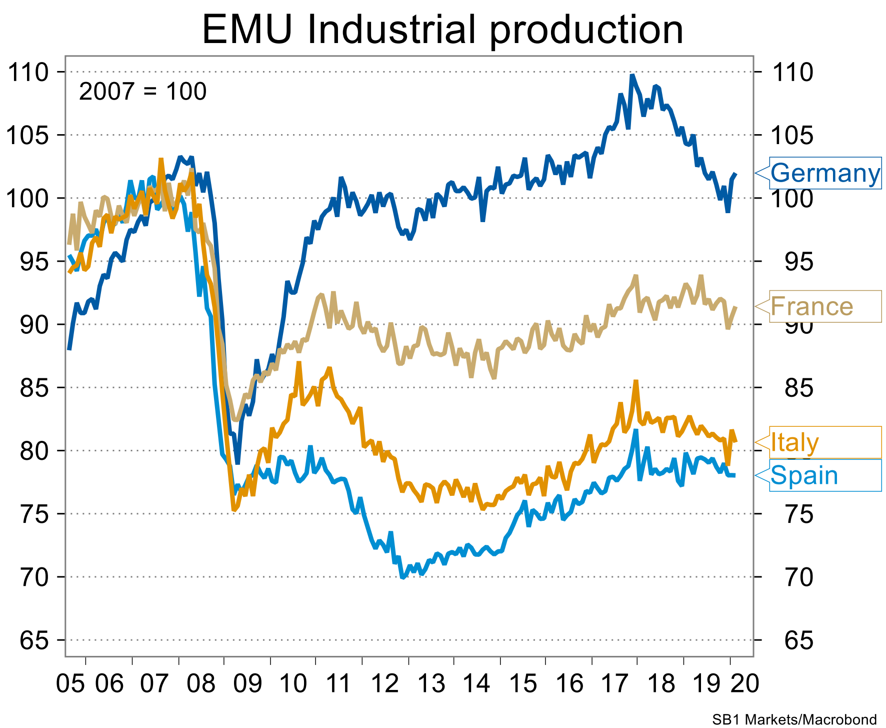
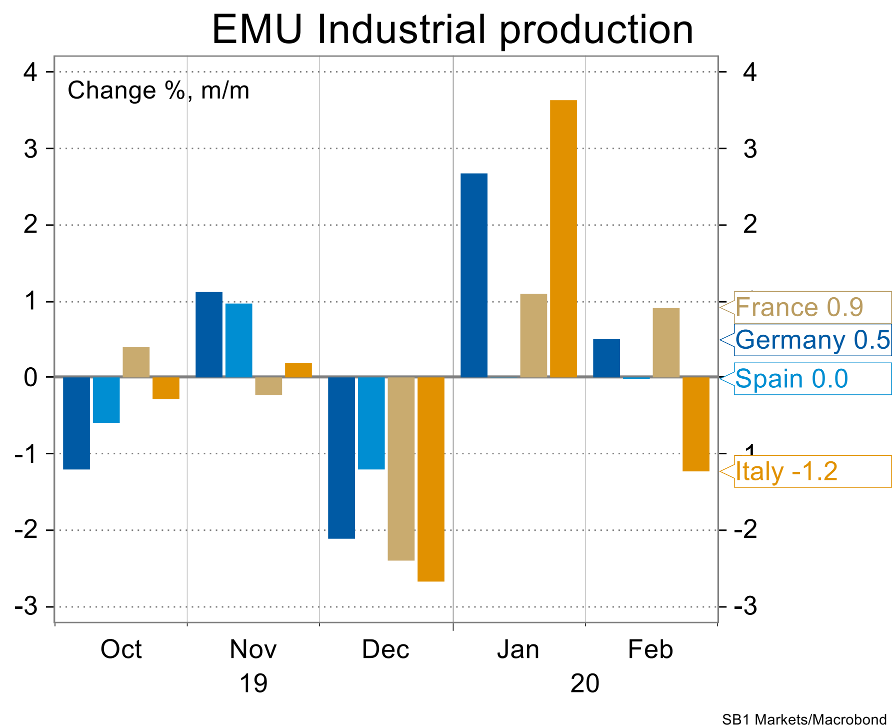
Pre corona: February industrial production probably up in February

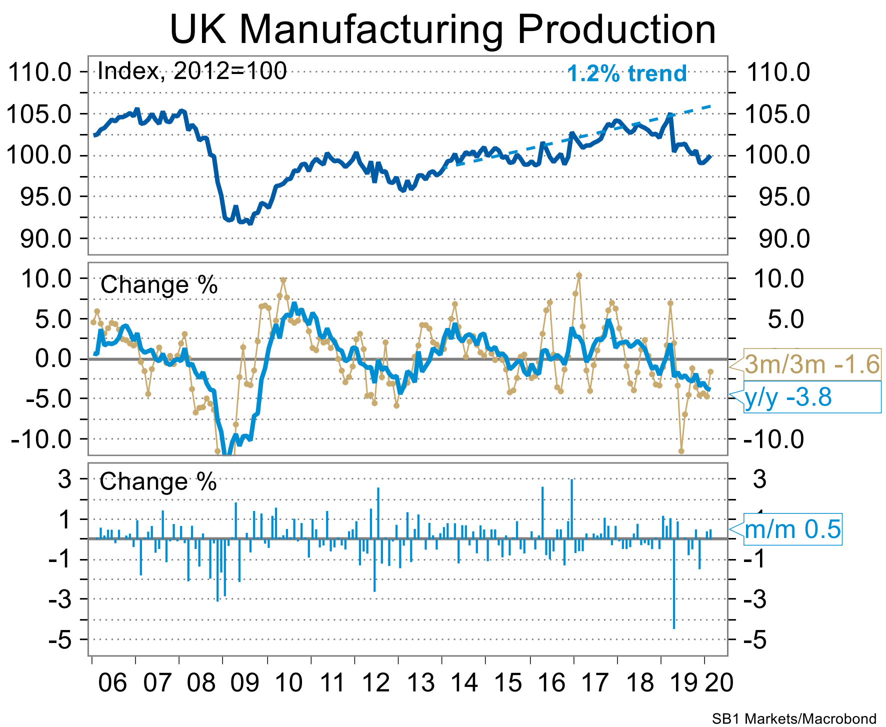
Just wait for the coming months

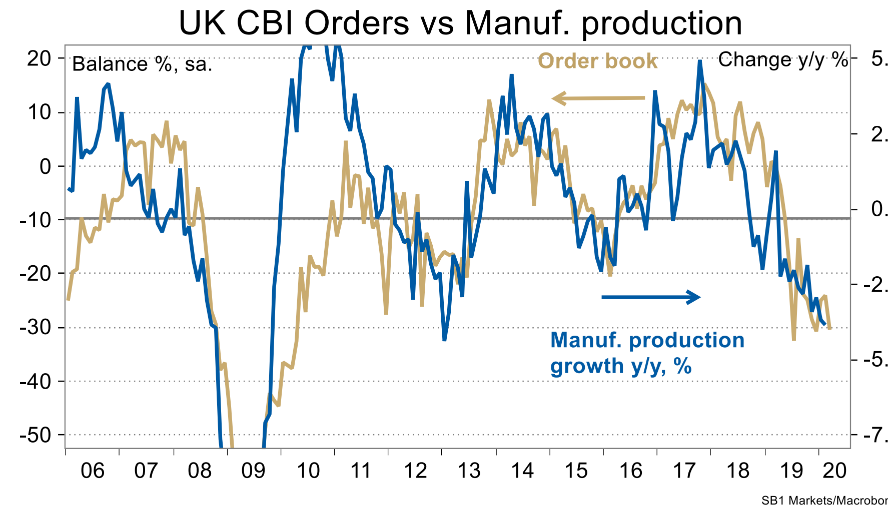


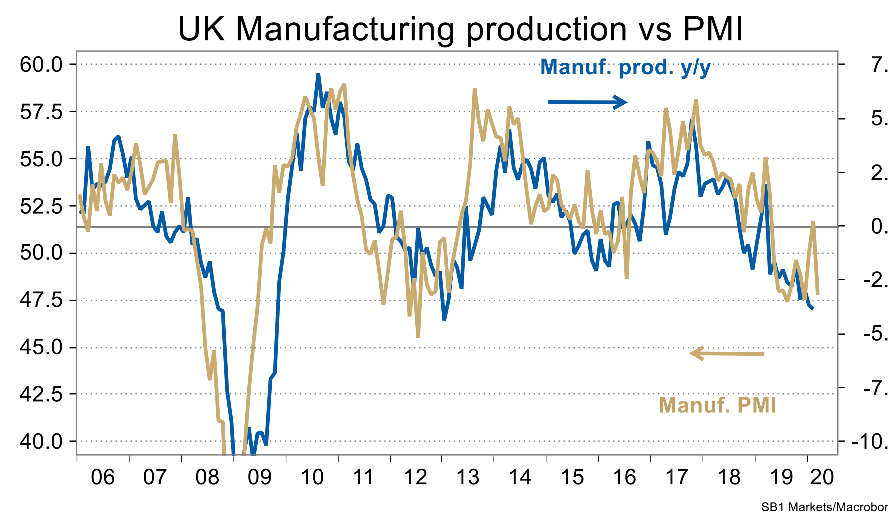


Manufacturing production on the way down, before corona

Production up 0.5% in February but has been trending down since early 2018



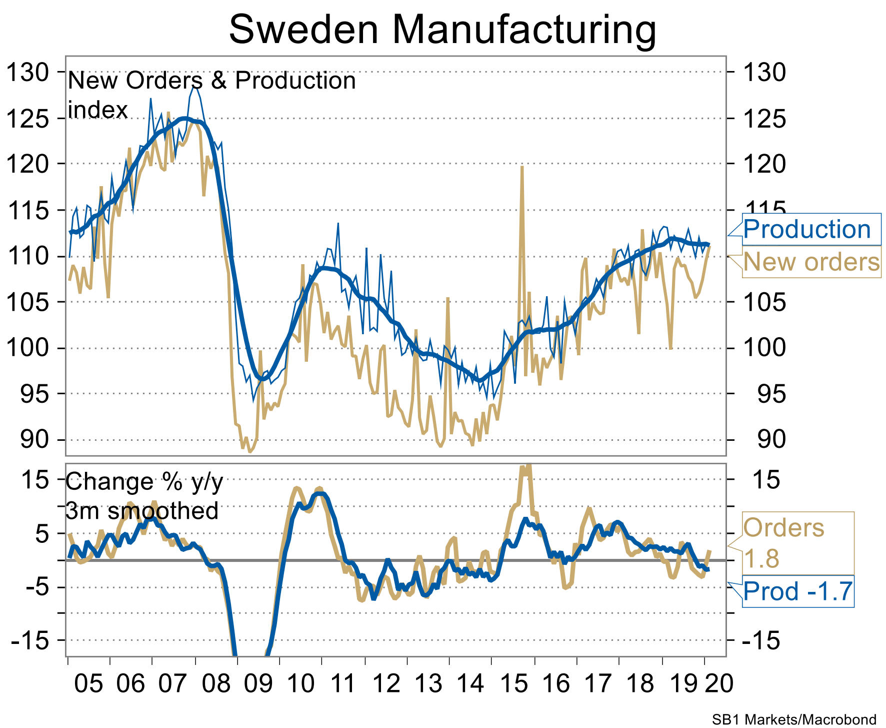


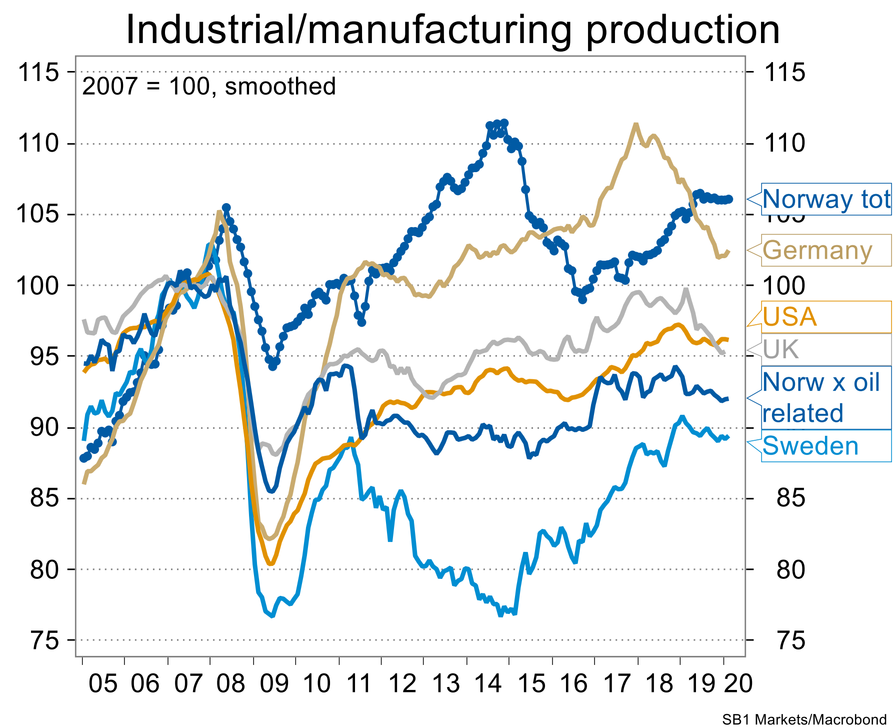


- Manufacturing production is contracting, down 3.8% y/y

Manufacturing production and orders steady (ahead of corona)

Production sliding marginally down, orders had improved in February





- Swedish manufacturing production has fallen by 1.7% y/y (smoothed) but flattening out recent months
- Manuf. orders had recovered somewhat and were up 1.8% y/y
- The manufacturing PMI fell to 43.2, indicating a substantial decline in production after corona hit – but less so than in other European countries

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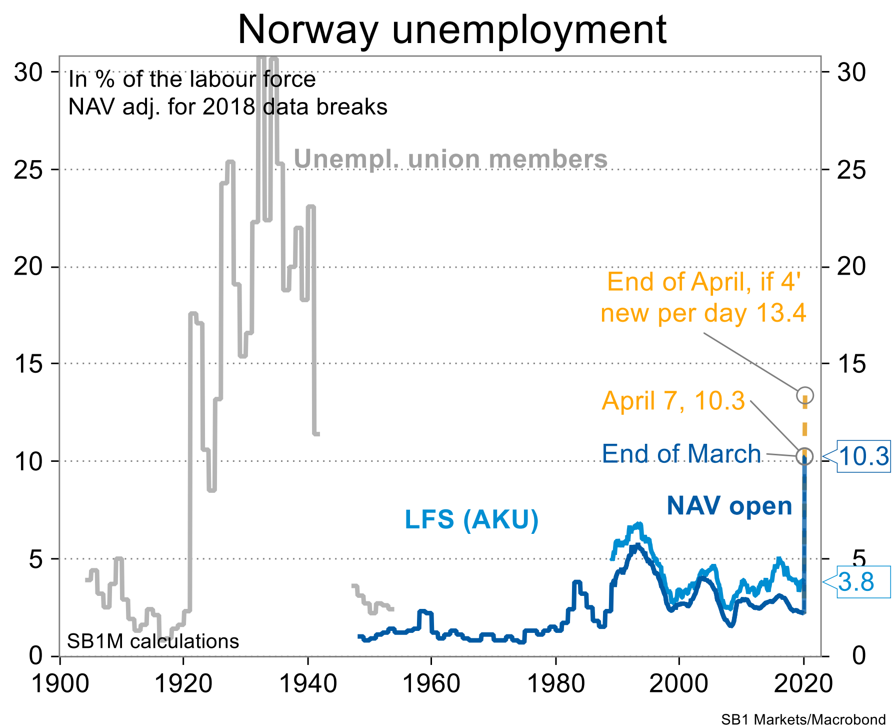
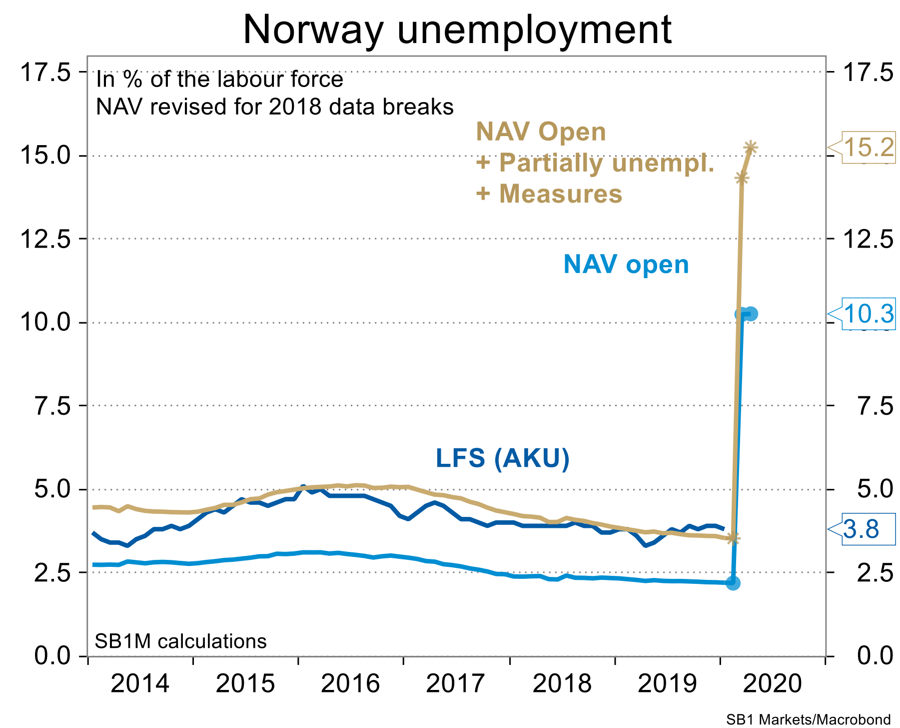
Total NAV unemployment up to 15%, highest since 1940

291’ persons are listed as fully unemployed, 433’ including partly unempl. & labour market measures



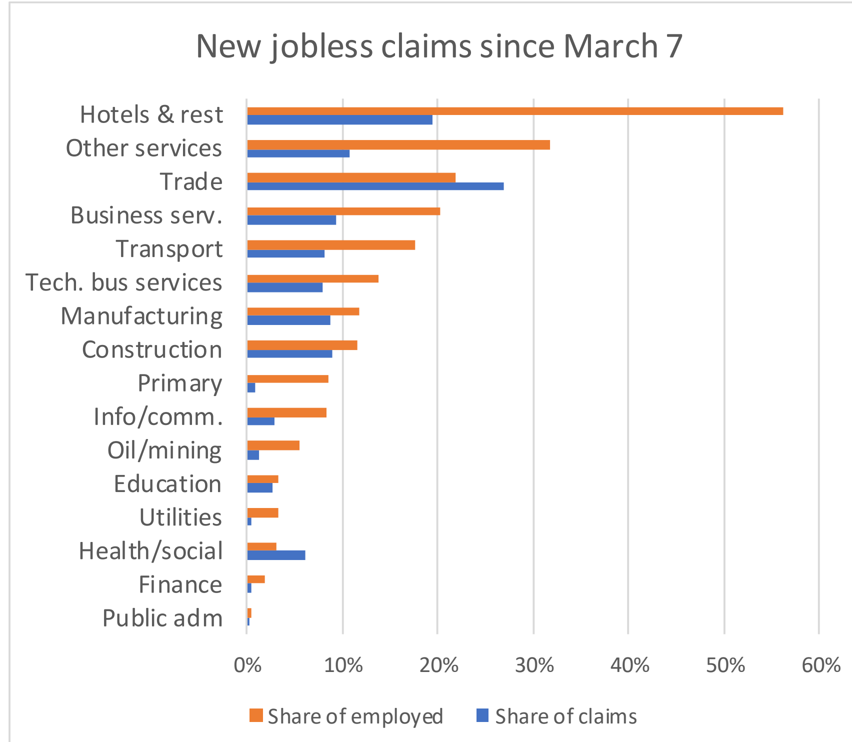


- NAV open unemployment rate soared to 10.2% in March, total unemployment (incl. partly unemployed + labour market measures) up to 14%. By April 7, another 40.000 applications for unemployment benefits were submitted. The number of people who are listed as fully unemployed is now 291’ (as of April 7). The total number has fallen marginally, due to changes of registration, as some of those who have been temporary laid off have changed status from fully unemployed to partly unemployed (now 129’ persons)
- Including government measures and partially unempl., the number of unempl. is 433’, equalling 15% of the labour force
- Unemployment will continue to climb the coming weeks, although the daily number of slowed to 6’ per day last week, from 8’ in late March, and 15’ at ‘peak’. We expect the open unemployment rate to climb to 13% in April

Employees in hotel & restaurants, trade, other services take the hardest hit

Almost 60% of the employees in hotel & restaurants are furloughed, more than 20% in trade!

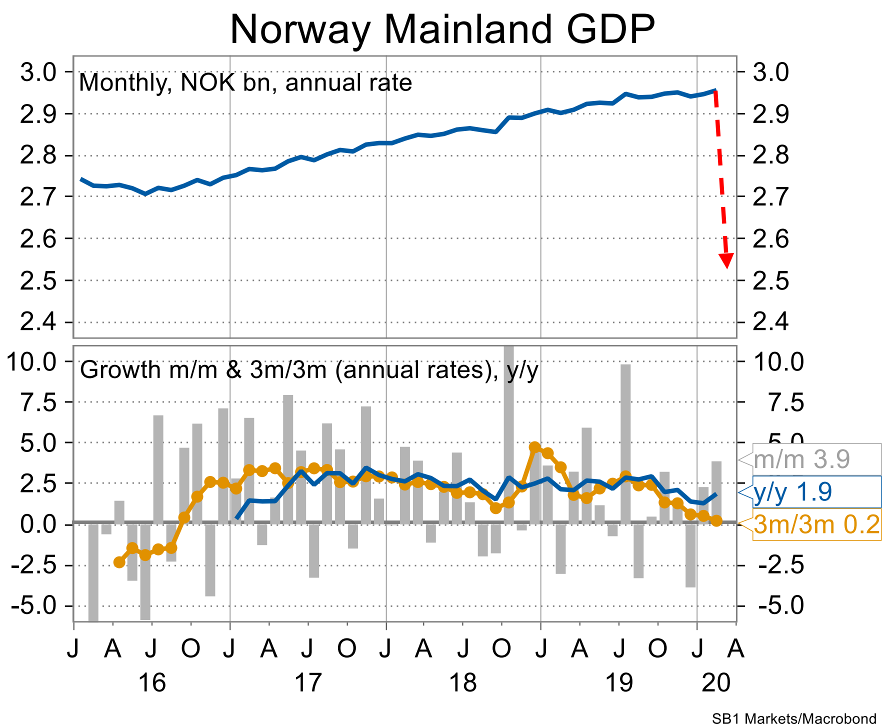
- Almost 60% of the new jobless claims since early March has occurred in hotel & restaurants, trade and personal services, and 10% in business services (like cleaning)
  - » Most of the (temporary, hopefully) layoffs are hitting lower paid employees
- In manufacturing industries and construction, 11 – 12% of the employees has registered at NAV
- Finance has the lowest share of new unemployed, both vs
- Most likely, much more to come, given the low activity in hotels & restaurants, and some other services

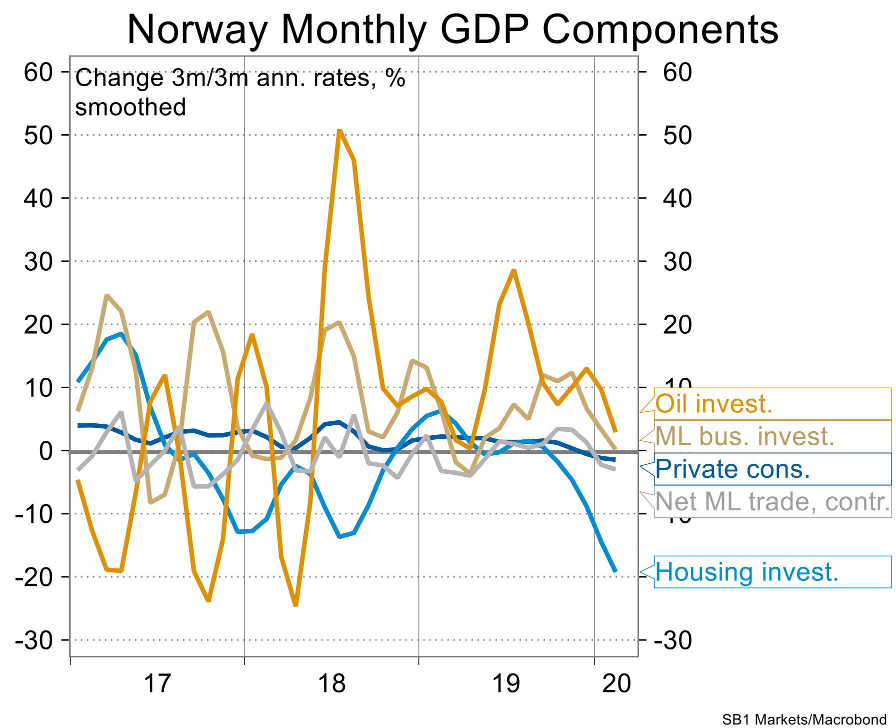


SpareBank 1 MARKETS

GDP growth was waning already before corona hit

GDP rose 0.3% in Feb, of course irrelevant now. SSB estimates a 14% drop in output <u>through</u> March

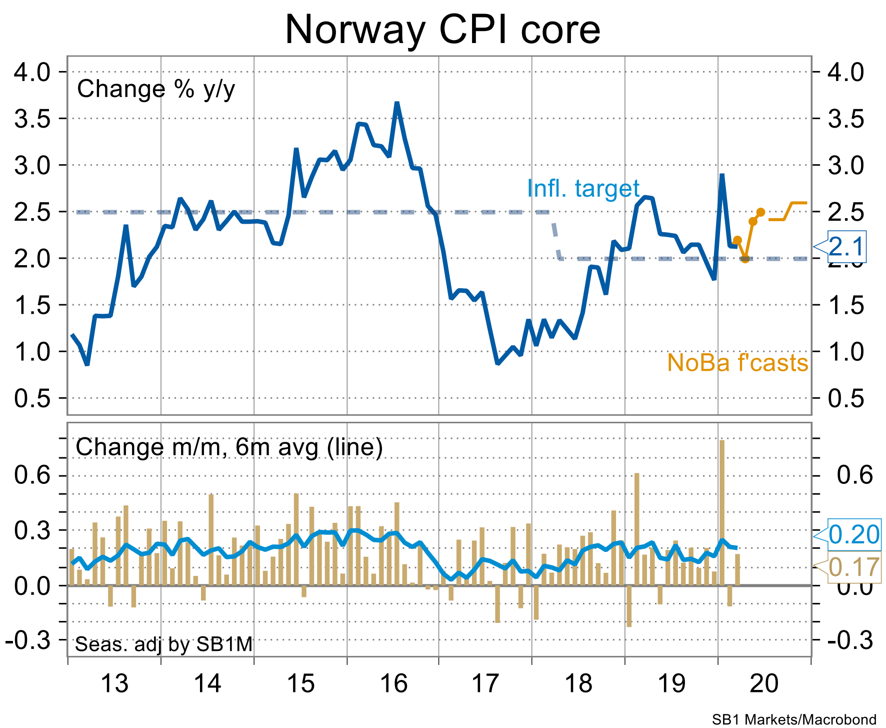




- Mainland GDP increased by 0.3% m/m in February (equalling a 3.9% annualized rate), a decent pace, but underlying growth recent months has slowed to close to zero
  - » <u>A broad slowdown the past few months, demand wise;</u> Private consumption has been declining marginally. Housing investments steeply down, as housing starts drop. Mainl. business investments down from peaked, more or less stagnating. Oil investments slowing, Mainland net trade marginally negative
- The Covid-19 crisis will of course slash Q1 output (and Q2 MUCH more). We expect some 2.5% drop q/q in Q1 (-10% annualized) – and a 10 – 15% drop in GDP in Q2, and at least 5% for 2020 in average, but the uncertainty is of course huge.
  - » Last week, SSB published an estimate on the changes in activity through March based on National Accounts data collected so far. These data yields a 14% decline in output from early to late March. The average March decline will be more moderate, as activity was rather 'normal' during the first half of the month, before the lockdown on March 12. But then, another decline in April…

Core inflation flat at 2.1% in March – but does not mirror corona impacts

March CPI data chiefly reflect prices before the lockdown



- CPI-ATE (ex. energy and taxes) rose 2.1% y/y in March, unchanged from February and in line with expectations
  - » CPI-ATE rose 0.2% m/m seasonally adjusted
- These data do not reflect any impacts of the virus outbreak and the partial lockdown from March 12
  - » A large share of the data have been collected in the first half of March, prior to the 'shutdown' on March 12. In businesses/sectors in which there have been no consumption, chiefly services, there is (naturally) no price data to collect. For many of these, data from the first two weeks of March have been applied. Moreover, airline ticket prices are collected prior to the date of travelling and not the actual flights after March 12
- Total CPI inflation fell to 0.7%, from 0.9%. Total inflation is dampened by electricity prices, which are down 30% y/y! Good news for households these days
- **The price outlook**
  - » Impacts of the coronavirus are of course uncertain. The weak NOK will bring imported inflation up and will probably offset some of the effects of waning demand on prices. Energy prices are falling. Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI – and the CPI data will anyway be more uncertain than usual due to missing price data for some services
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming quarters. Wage growth will no doubt slow, almost whatever CPI data that may be reported

No major outliers vs our f'cast in March

Food prices higher than expected, as was furnitures

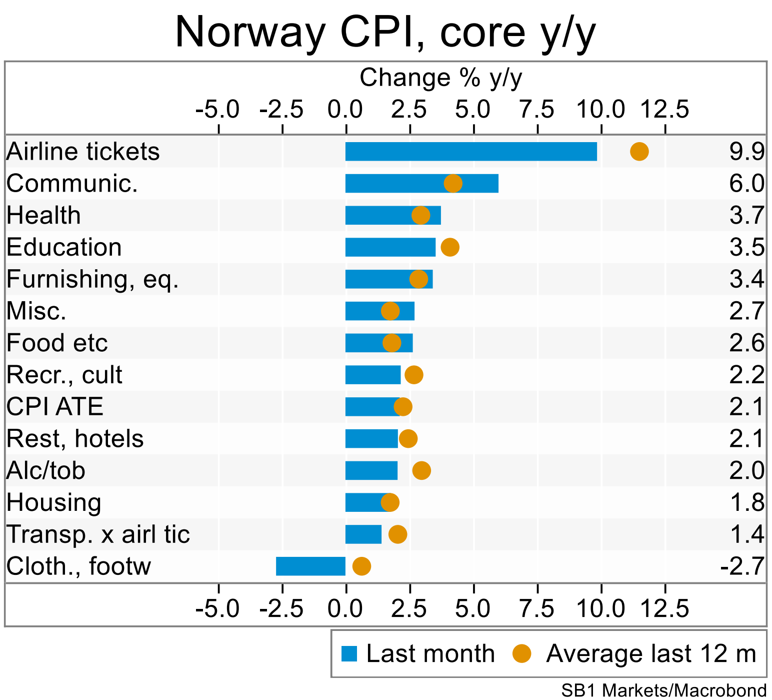
		Change m/m, seas. adj			Change y/y			Contribution, pp		
Mar-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	0.5	0.3	0.2	1.9	2.6	2.4	0.06	0.33	0.02
Alcohol, tobacco	3.9	-0.0	0.2	-0.2	2.4	2.0	2.3	-0.00	0.08	-0.01
Clothing, footwear	4.9	-0.3	1.0	-1.3	-2.1	-2.7	-1.4	-0.01	-0.13	-0.06
Housing x. energy	20.1	0.1	0.2	-0.1	1.9	1.8	1.9	0.01	0.36	-0.02
Furnishing	6.6	0.5	0.1	0.4	3.2	3.4	3.0	0.03	0.22	0.03
Health	3.2	0.1	0.3	-0.2	3.8	3.7	4.0	0.00	0.12	-0.01
Transp. ex. gas, airl. tick	12.0	0.2	0.1	0.1	1.1	1.4	1.3	0.02	0.17	0.01
Airline tickets	1.2	2.5	0.2	2.3	10.3	9.9	4.0	0.03	0.11	0.03
Communication	2.2	-0.2	0.3	-0.5	6.7	6.0	6.8	-0.01	0.13	-0.01
Recreation, culture	11.9	-0.3	0.1	-0.4	2.6	2.2	2.5	-0.04	0.26	-0.05
Education	0.5	-	-	-	3.5	3.5	3.5		0.02	0.00
Restaurants, hotels	6.2	0.3	-0.2	0.5	2.0	2.1	1.5	0.02	0.13	0.03
Other	8.8	0.0	0.2	-0.2	2.8	2.7	2.9	0.00	0.24	-0.01
CPI-ATE	94	**0.2**	**0.2**	-0.0	**2.1**	**2.1**	**2.1**			
Norges Bank est.			*0.2*	*-0.1*	*2.1*	*2.2*				
Imported	33	-0.1	0.3	-0.4	0.6	0.7	1.0	-0.04	0.22	-0.13
Domestic	61	0.2	0.2	0.0	2.2	2.2	2.2	0.11	1.33	0.00
Energy, housing	4	-6.8	-7.0	0.2	-27.8	-30.3	-30.1	-0.26	-1.17	0.01
Energy, transport	4	-2.6	-2.0	-0.6	1.8	-2.5	-1.8	-0.09	-0.09	-0.02
CPI Total	101	**-0.1**	**0.1**	-0.2	**0.9**	**0.7**	**0.9**	-0.09	0.73	-0.24

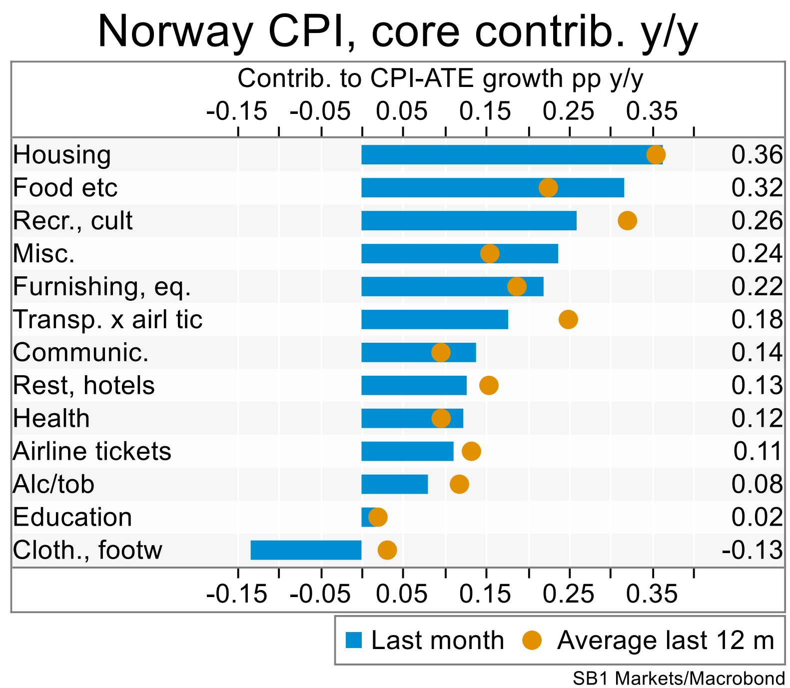
Change m/m based on seasonally adjusted data
Sum of parts does not necessarily add up to totals
Norges Bank m/m s.a. estimate is implied, calc by SB1M

- Clothing prices fell further in March, are down 2.7% y/y, even if the NOK has fallen sharply
- More 'reasonable' price increases on furnitures, up 3.4% y/y
- Prices on recreation & culture fell due to the large Mammut book sale
- **CPI-ATE up unch 2.1% y/y**
- Imported prices fell by 0.1% m/m, domestic prices rose 0.2%
- Electricity prices fell again in March and are down 30% y/y, contributing to a 1.1 pp decline in headline CPI
- Total inflation slowed by 0,2 pp bps to 0.7%, the lowest since XXXX

Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

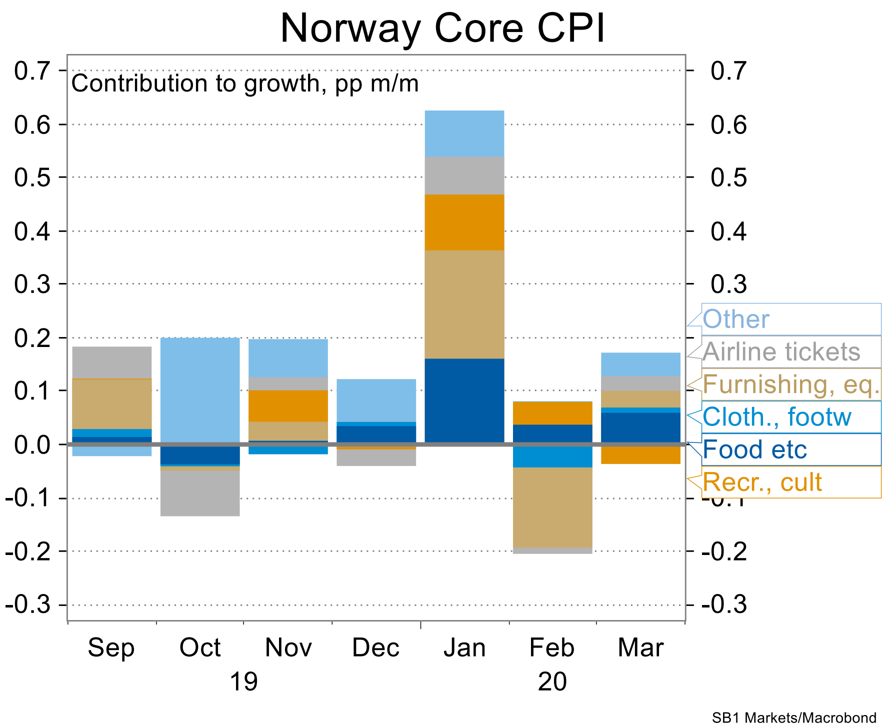
Housing, food and recreation/culture have been lifting core annual inflation

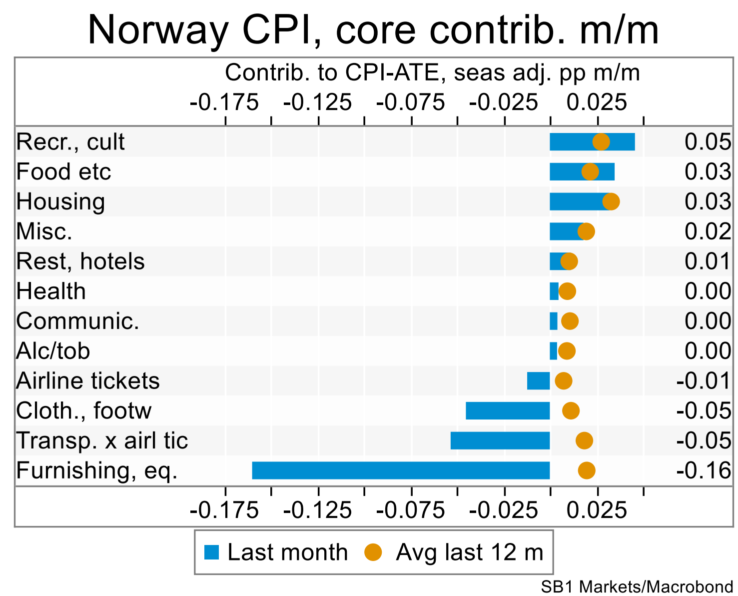




- Housing (mostly rent) are contributing by 0.4 pp to core annual inflation, followed by recreation & culture at 0.3 pp

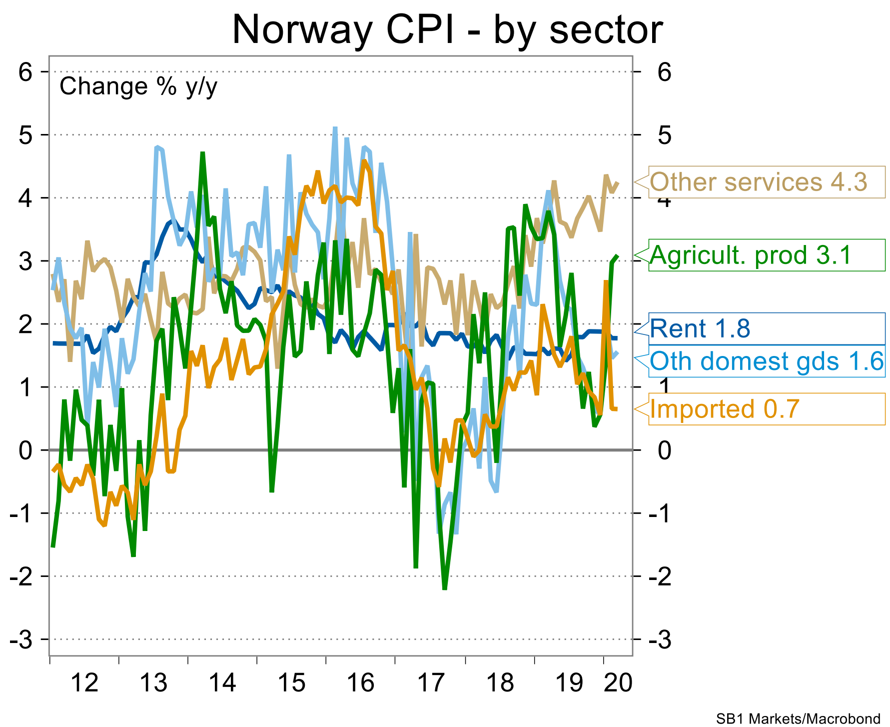
Prices rose modestly in most sectors in early March

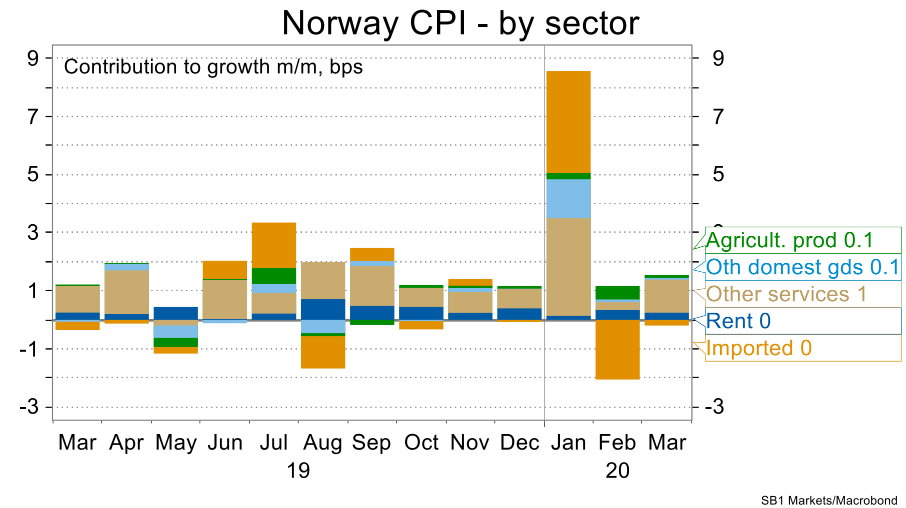


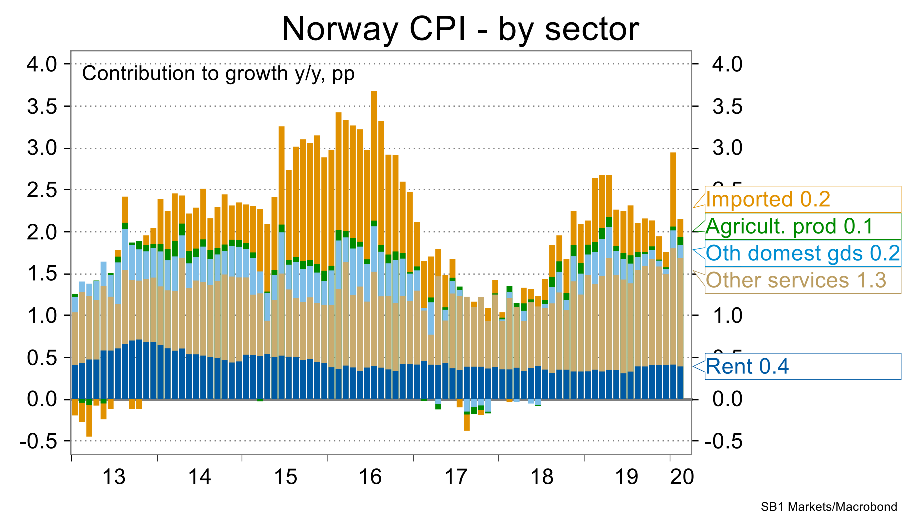


Imported goods inflation fell back down below 1%, services are soaring

Price growth on services is climbing, as is domestic goods inflation. Imported inflation heading down





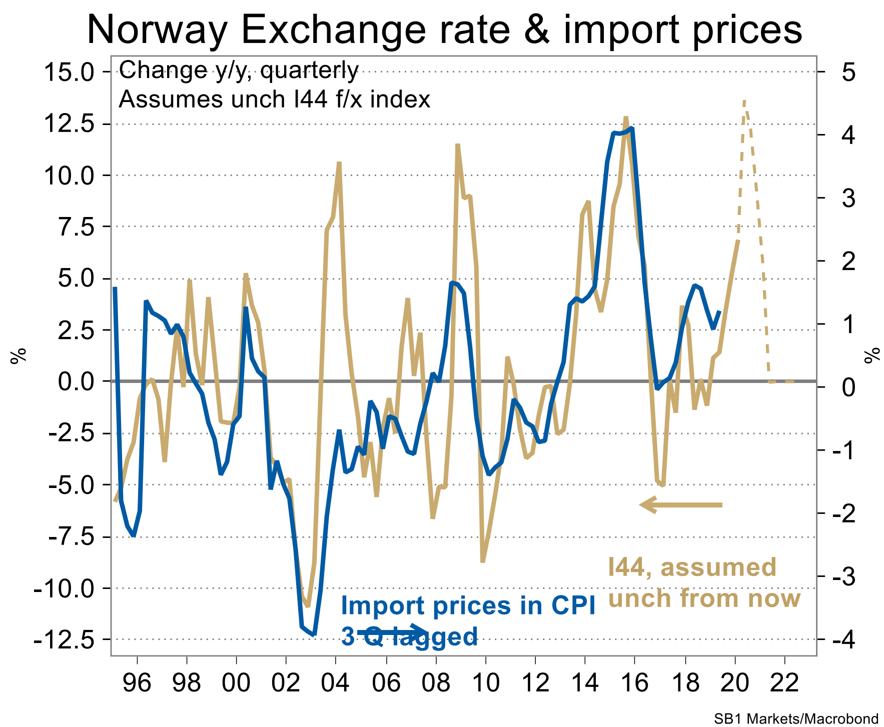


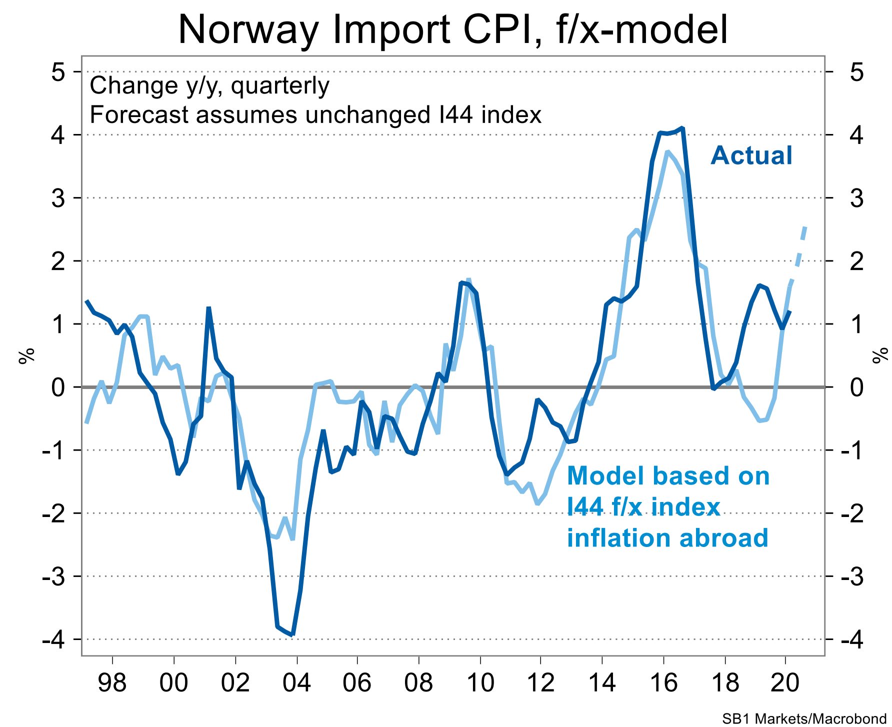
- Imported inflation remained low in March. Price growth is modest and trending down, however, the weak NOK is likely to lift imported goods prices the coming months
- Prices on domestically produced goods rose further in Feb and the annual rate remained higher than in the autumn/winter, at 1.5%. Domestic services x rent (restaurants, insurance etc) are up 4.1% and trending up, for now. Agriculture products steeply up

SpareBank 1 MARKETS

Imported prices: Upside risk on total inflation

The model suggests a lift in imported inflation for some months but who can lift prices now??

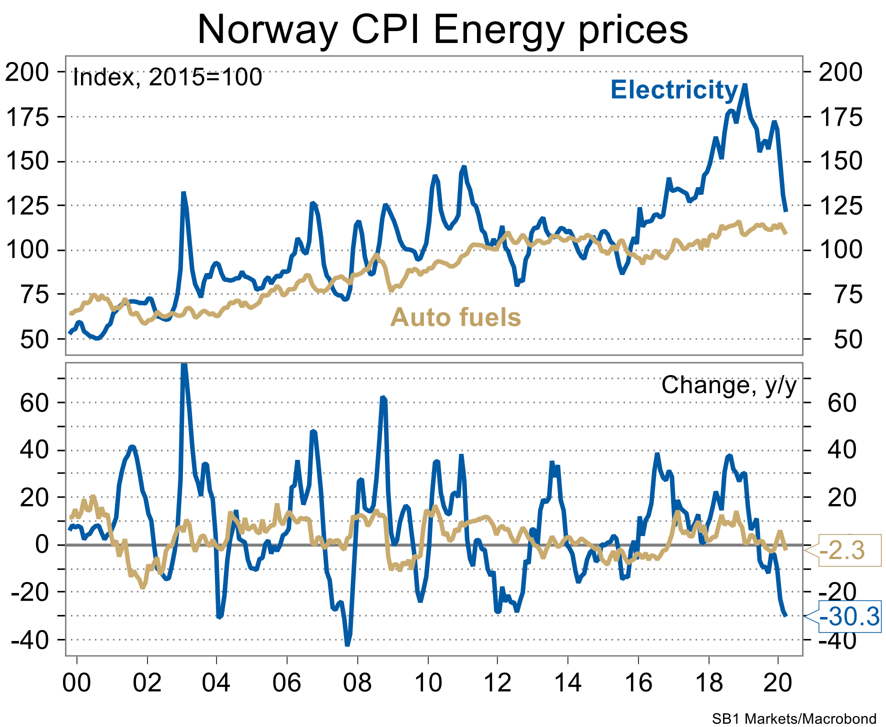




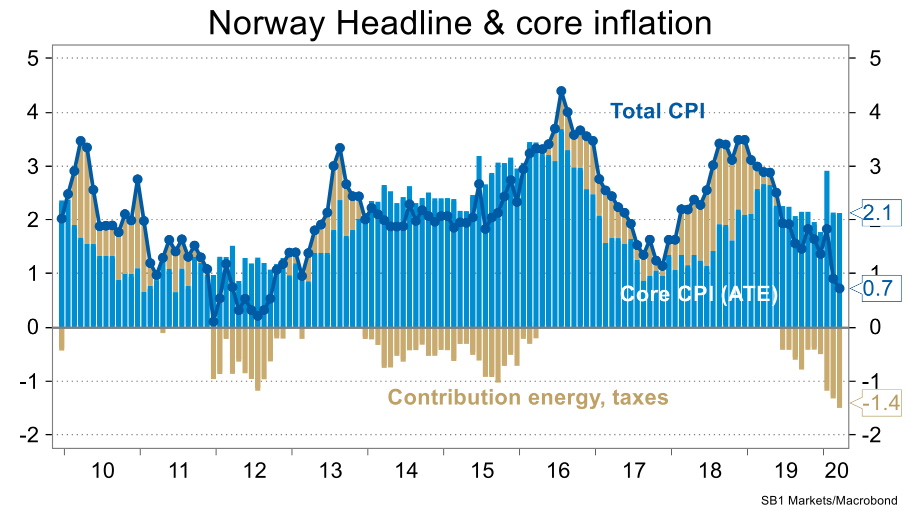
- The weak NOK will most likely imported inflation up. However, we are unsure how much importers are able to pass cost increases on to the consumer level these days
- Imported goods inflation has been a tad <u>higher</u> than signalled by our model through 2019, now in line well below the model f'cast. The model indicates an acceleration in imported goods inflation, given that the NOK remains at the current level

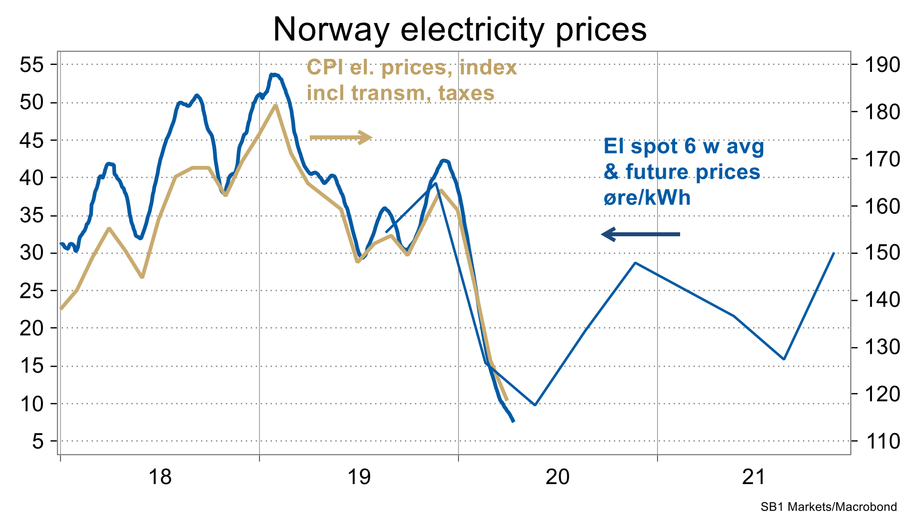
Electricity prices are tumbling, bringing total inflation down

Electricity prices are deducting 1.4 pp of total inflation



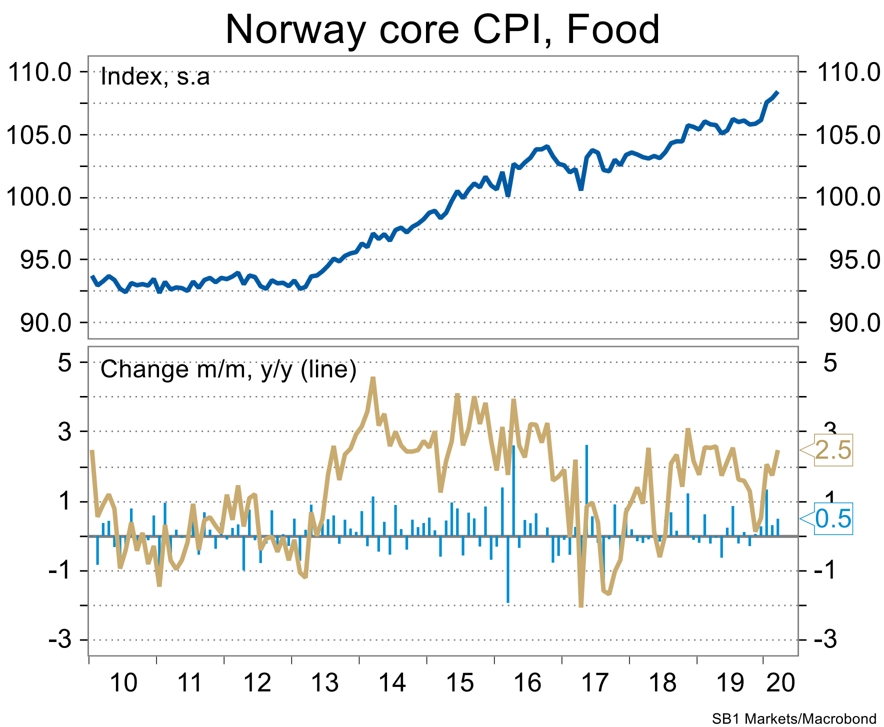
- In 2017/18 the surge in electricity prices lifted the headline CPI, reducing real disposable income significantly. This effect was put in reverse in 2019 and more so in 2030, as electricity prices have fallen sharply.
- The forward prices are signalling an upturn towards the end of the year but not much within the next few months
  - » Auto fuel prices are reducing total inflation modestly

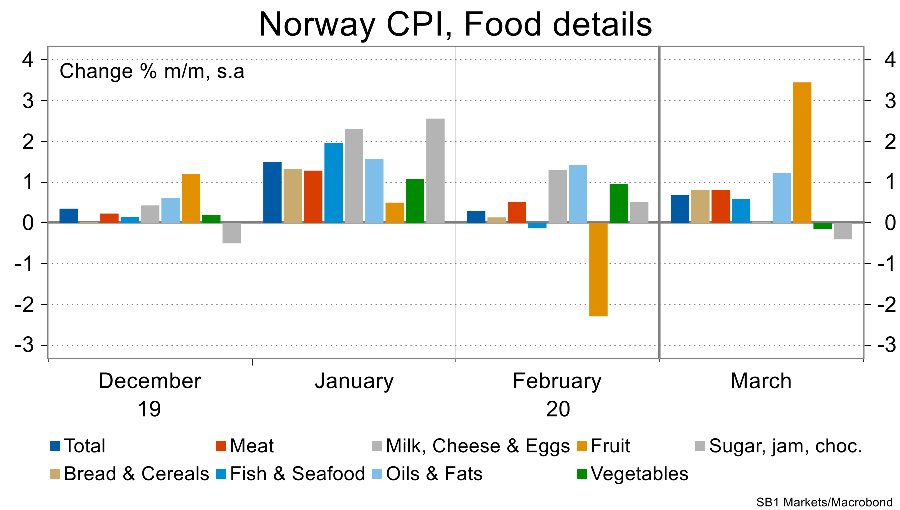


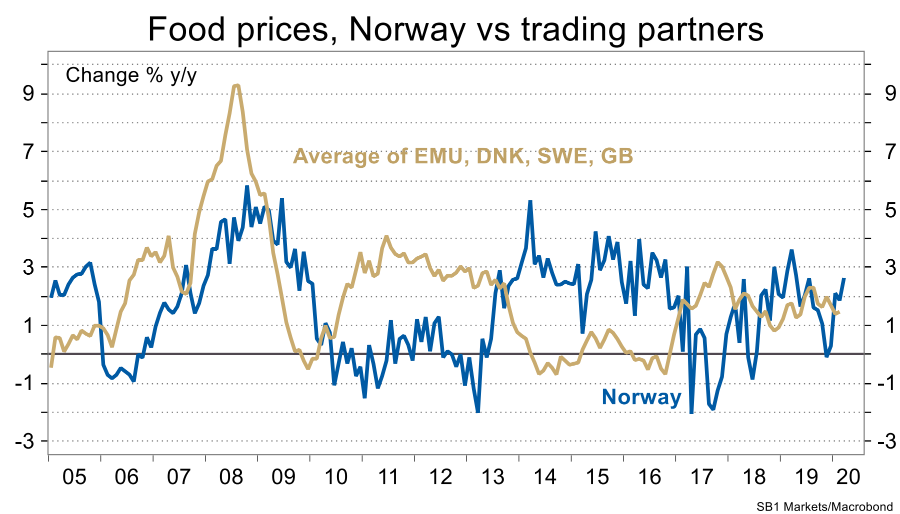


Food prices are picking up speed

Prices are up 2.5% y/y, weak NOK probably part of the story



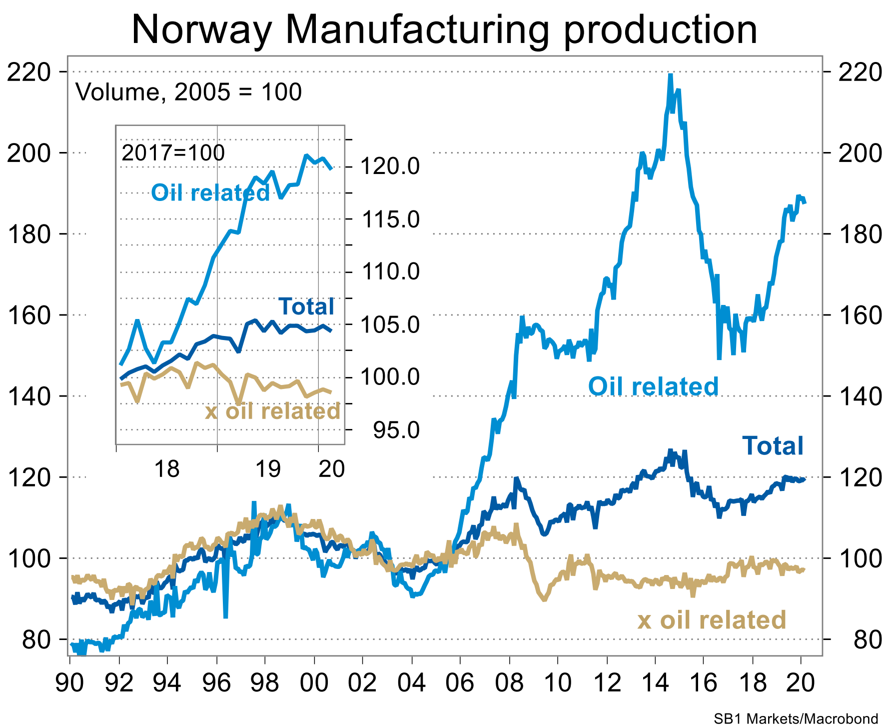


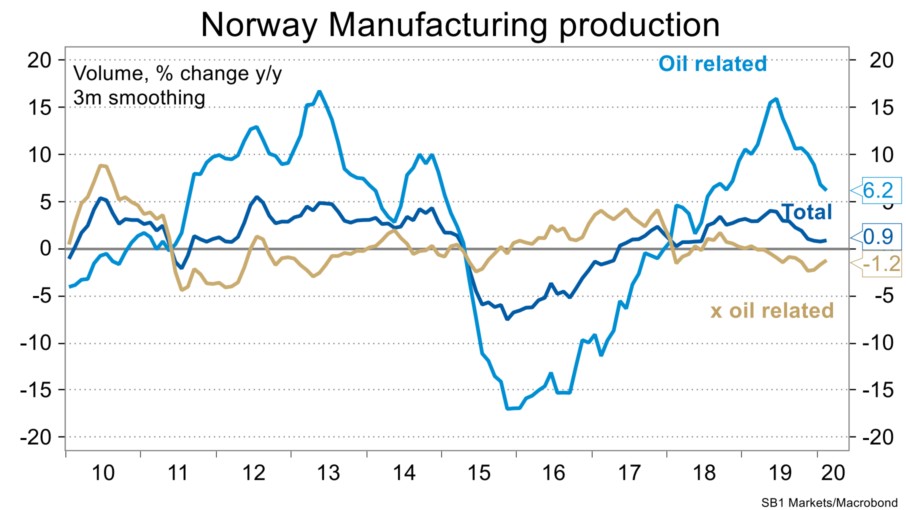


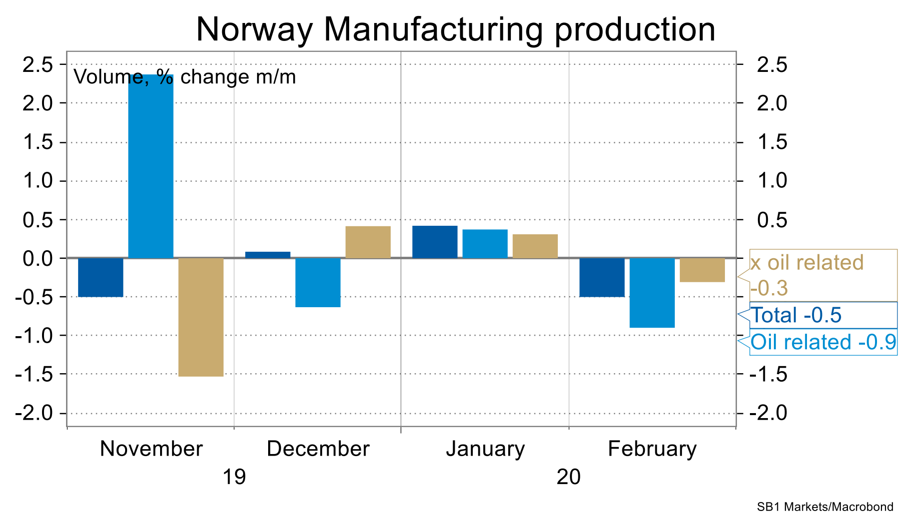
- Prices rose further in March, and the annual rate remained accelerated to 2.5%
- Food prices are now increasing at a somewhat higher pace than abroad

Manufacturing production stagnated before the corona crunch

Total production down 0.5% m/m in Feb and underlying growth has vanished



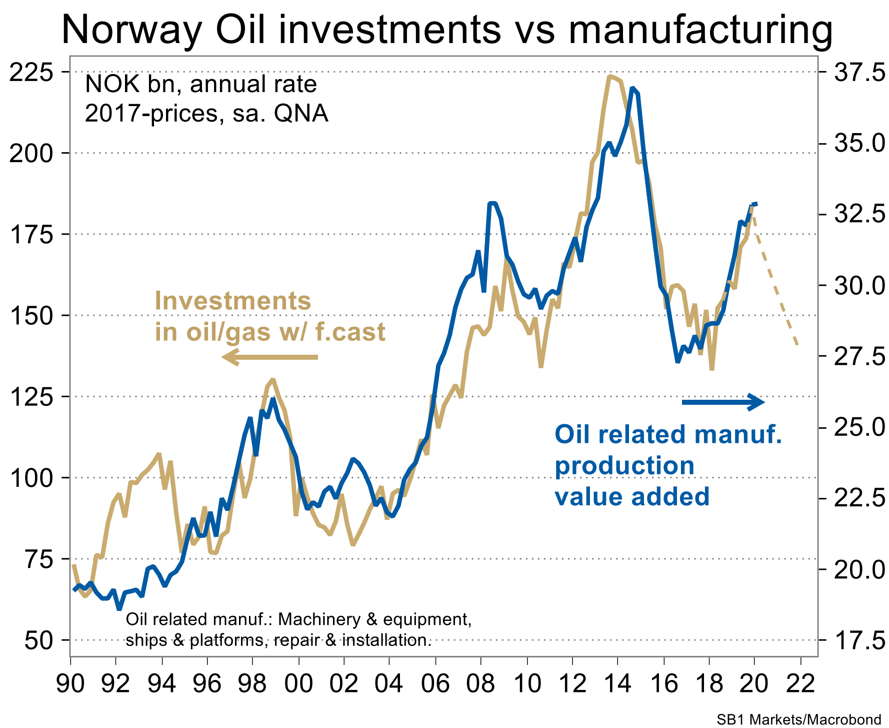




- Total manuf. production has been flat since last spring – even though oil related production has been increasing (until recently)
  - » Production fell 0.5% m/m in February, underlying growth has slowed substantially in oil related sectors and other sectors have been stagnating
- Already before corona hit, we expected a further slowdown in oil related sectors, and soon a decline. Production probably fell somewhat in March, and we expect more to come, both due to corona challenges and due to a significant decline in oil investments the coming year

Oil related production was already at peak – will fall steeply

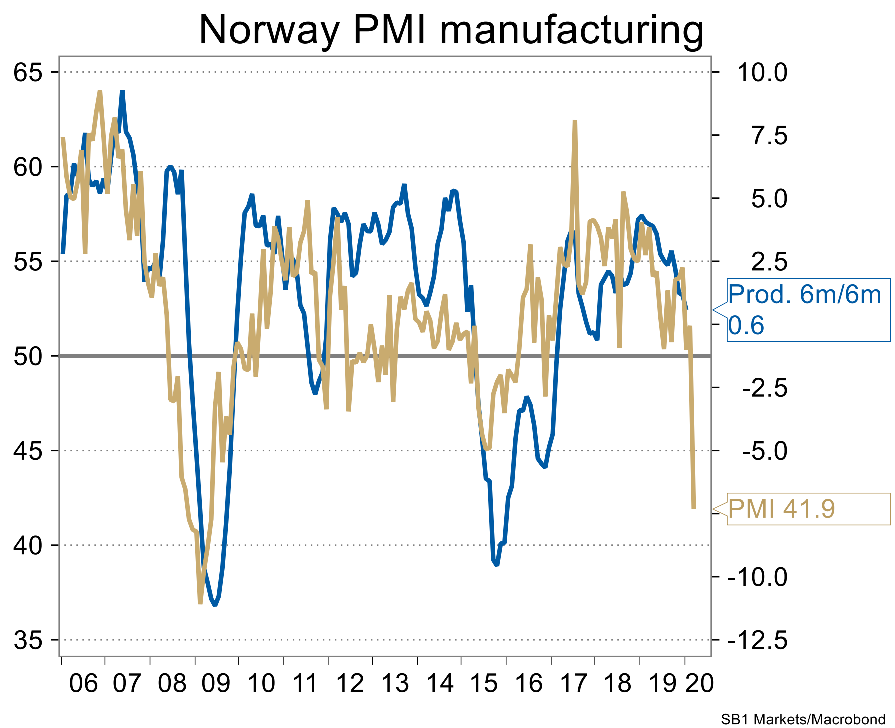
Luckily, the downside is smaller now than in 2014

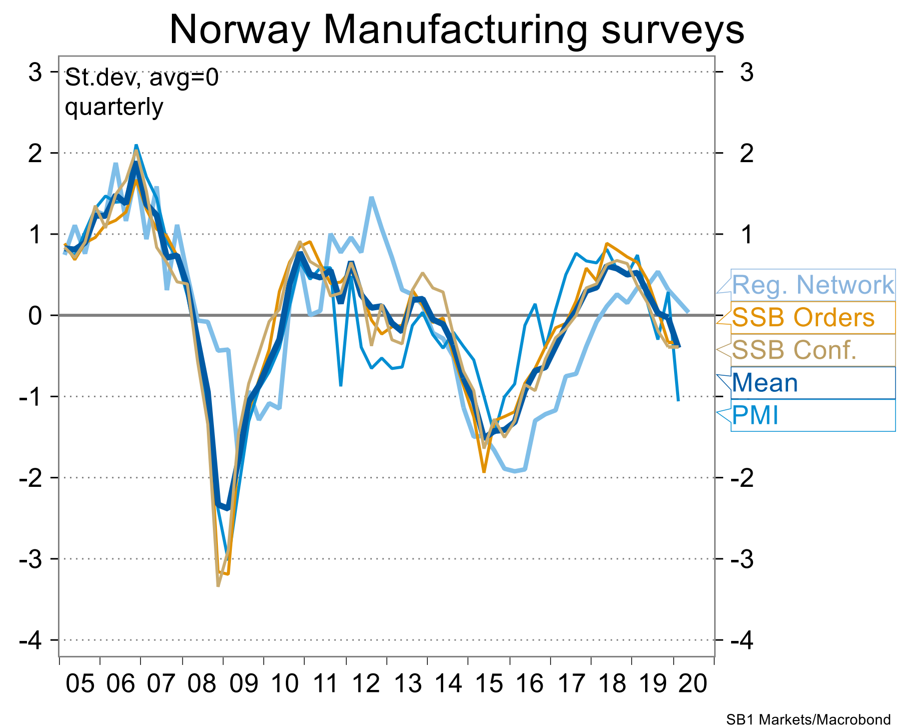


- Production in oil related industries have soared since late 2017, closely correlated to the increase in oil investments
- Oil investments probably peaked in late 2019
- Before corona hit, we expected a steep decline in oil investments through 2020 and 2021, by some 15%. Now, a 30% decline may be more likely?
- Moreover, oil production is dramatically high vs demand, and production may be cut, which will drag oil related manufacturing down
  - » An important modification, in the longer term: Are oil related industries able to take market shares at other markets – or establish new markets – to compensate for lack of growth in deliveries to the oil sector? Most companies are trying to turn to renewables and shipbuilders are turning to non-oil related shipbuilding. A very weak NOK will help them get along
  - » However, some extra negative news for manufacturing production: Manufacturing investments are expected sharply down this year, and some of the deliveries are from Norwegian manufacturers

Manufacturing PMI down the drain in March, more to come

Other surveys will soon reflect the corona impacts, a steeper drop than the PMI is likely

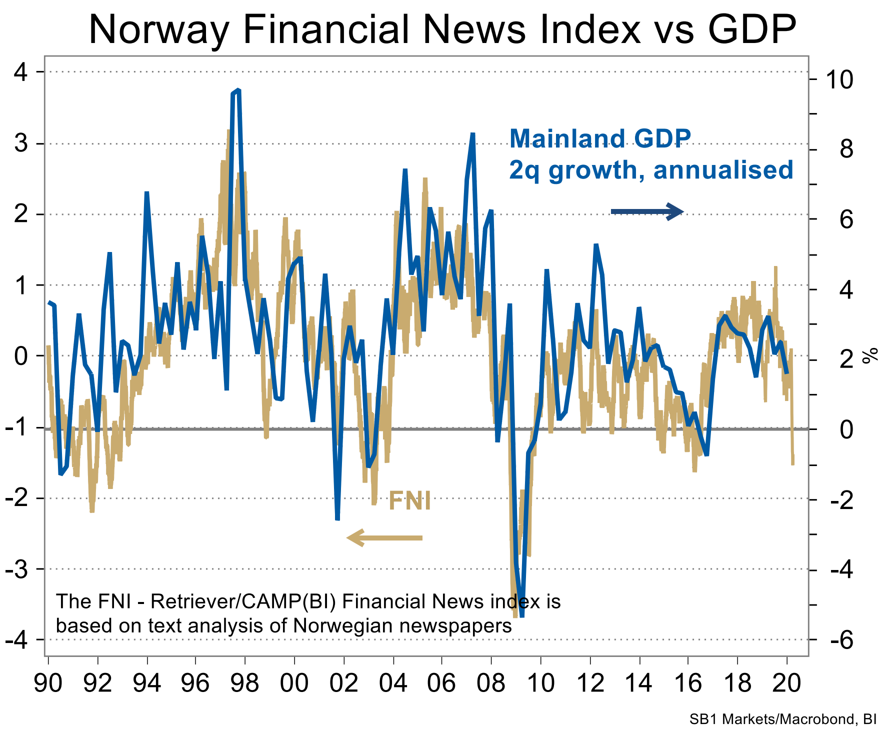


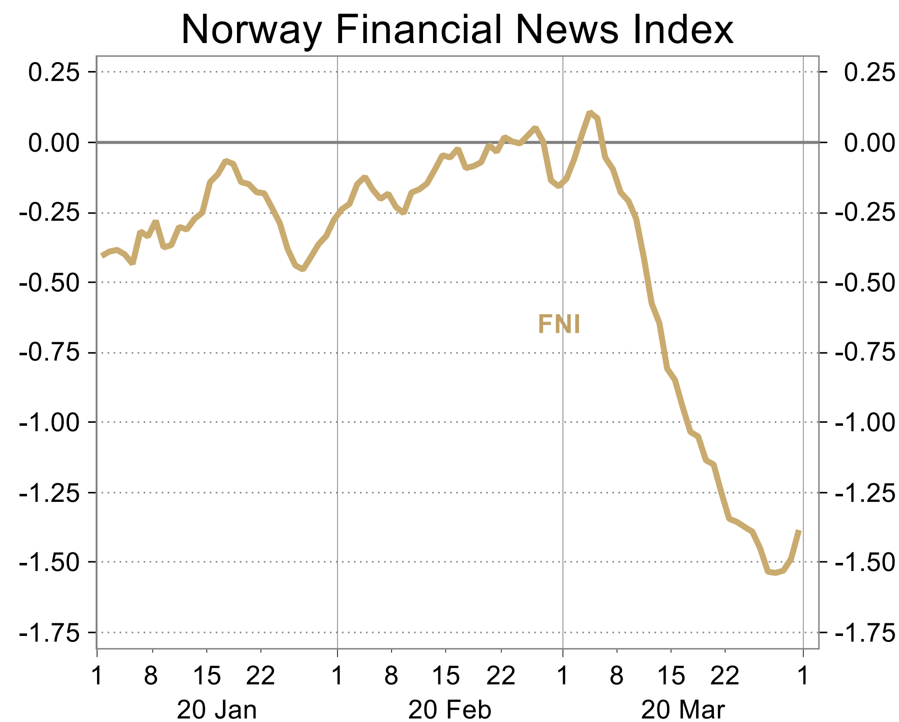


- No other surveys have yet been released after Covid-19 hit and Norway was put in partial lockdown

The Financial News Index has stabilised, an not at a very low level. 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)

Highlights

The world around us

The Norwegian economy

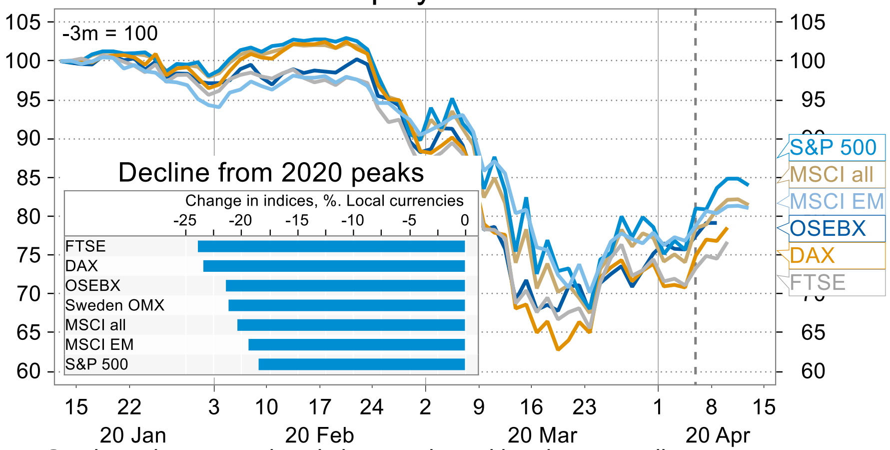
Market charts & comments

SpareBank 1 MARKETS

The best week for equities in 46y, bond yields slightly up, credit spreads narrowed

S&P up 12.1%, best since ‘74. Fed, EU, UK announced more stimulus packages. Oil flattish after cut deal

Equity Indices

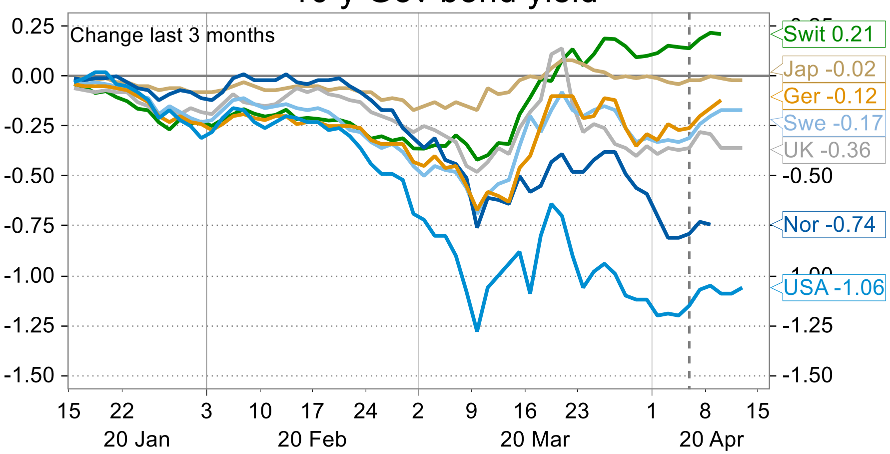


Stock markets rose sharply last week, and has been trending up since March 20

Oil vs. metals

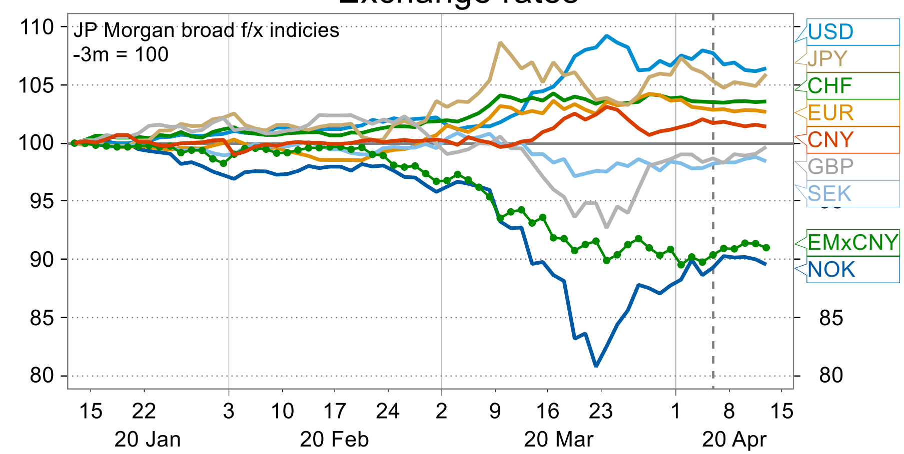
Opec+ finally reach a deal to cut production big time, markets were unimpressed

10 y Gov bond yield



Bond yields recovered marginally last week

Exchange rates

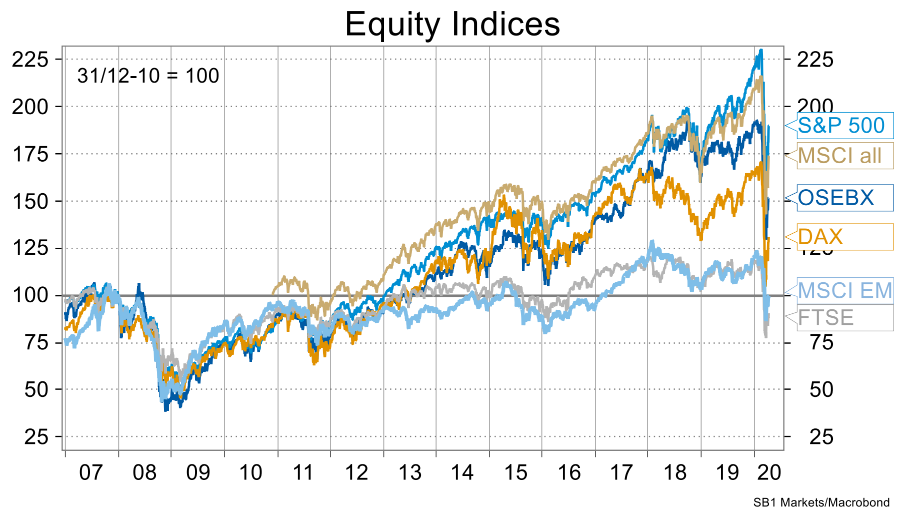


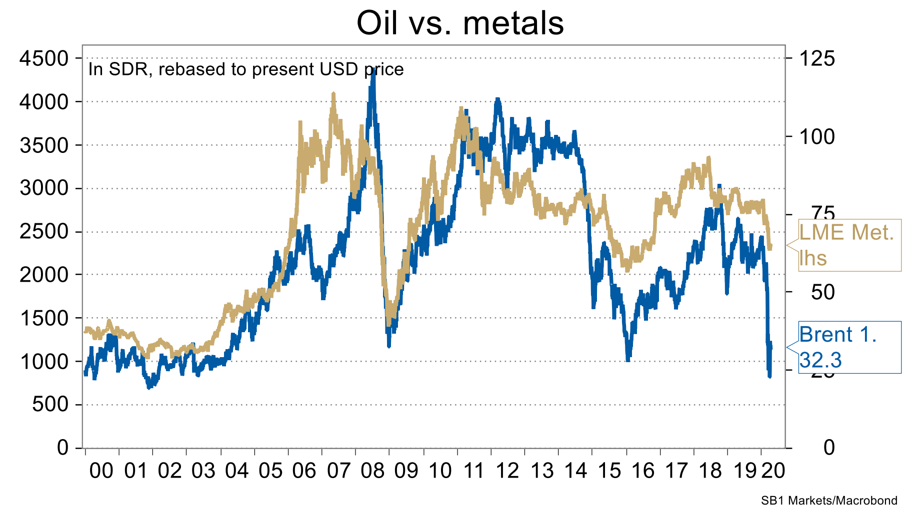
Most currencies steady during the Easter, NOK slowly recovering as the risk off sentiment has calmed recent days

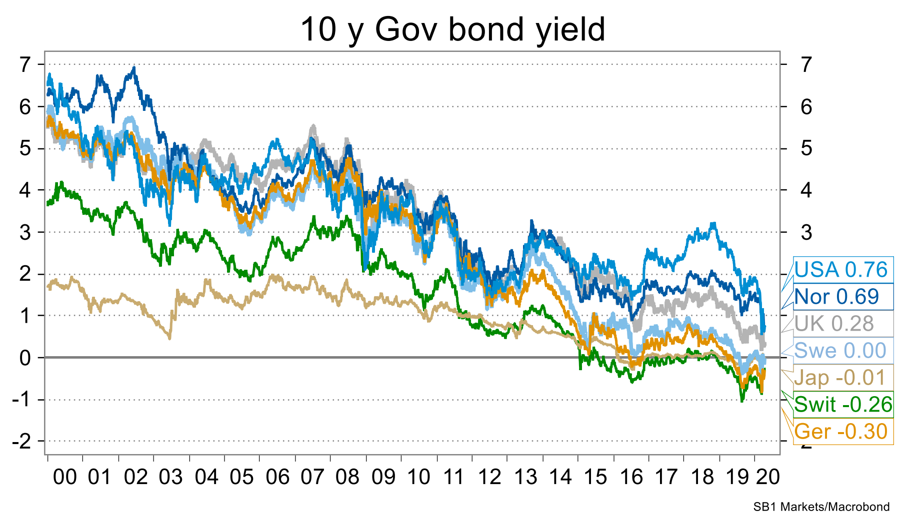
SpareBank 1 MARKETS

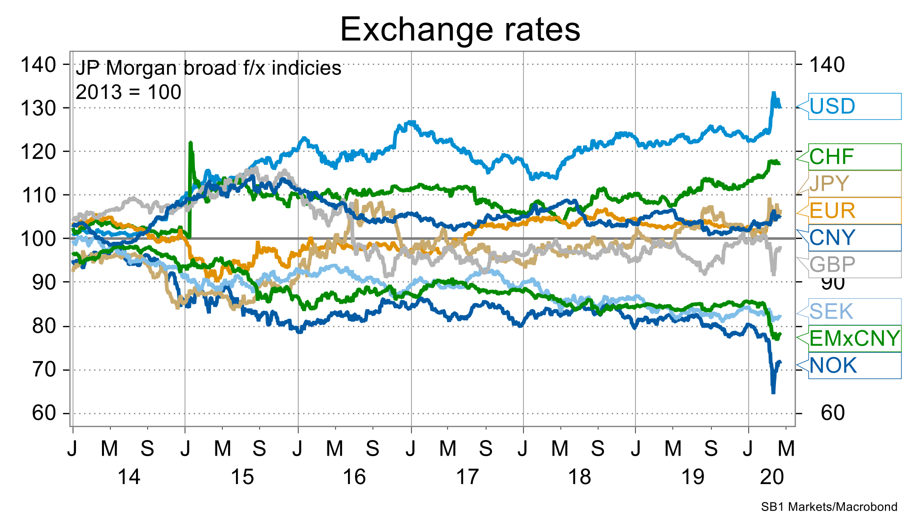
In the long run: Stock markets are looking like a 'V'

… because investors are looking for a 'V'-shaped corona recovery?



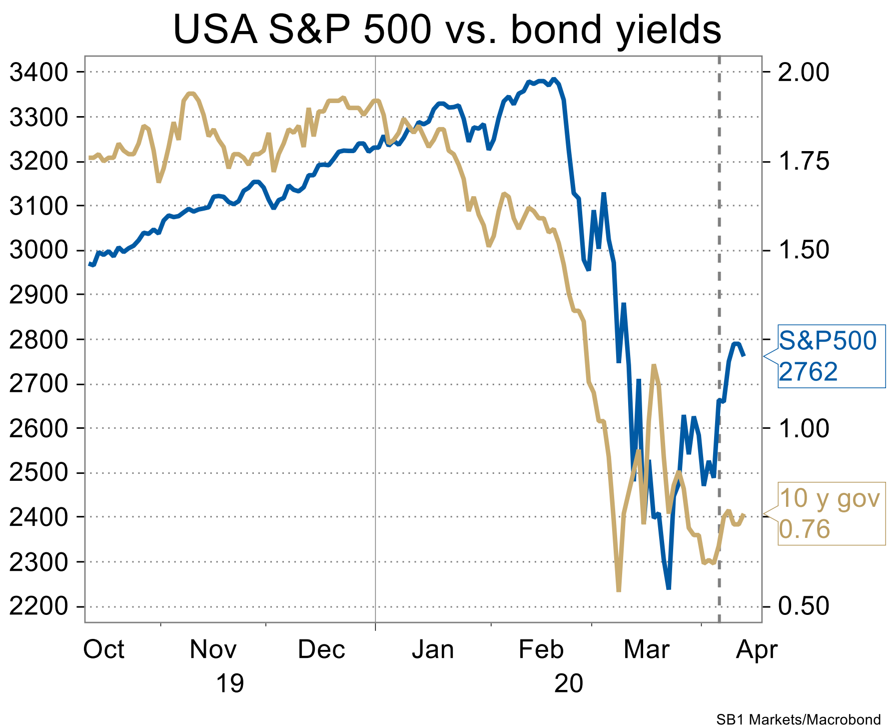


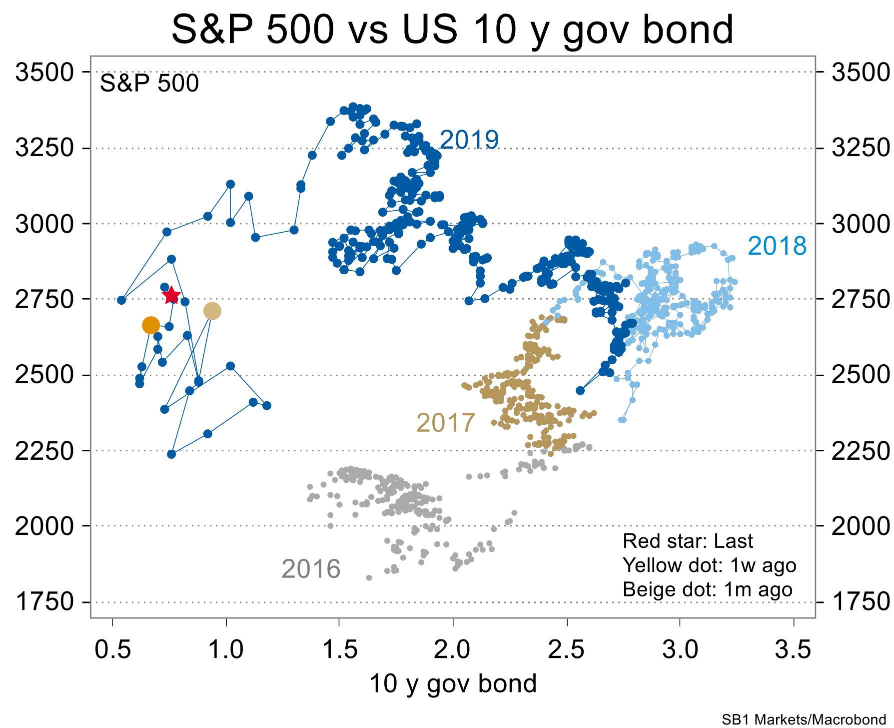




Volatile US stocks and bonds retreated last week

S&P up 12% last week (25% from the bottom, ½ of the corona decline), 10 y gov bond yields +10 bps

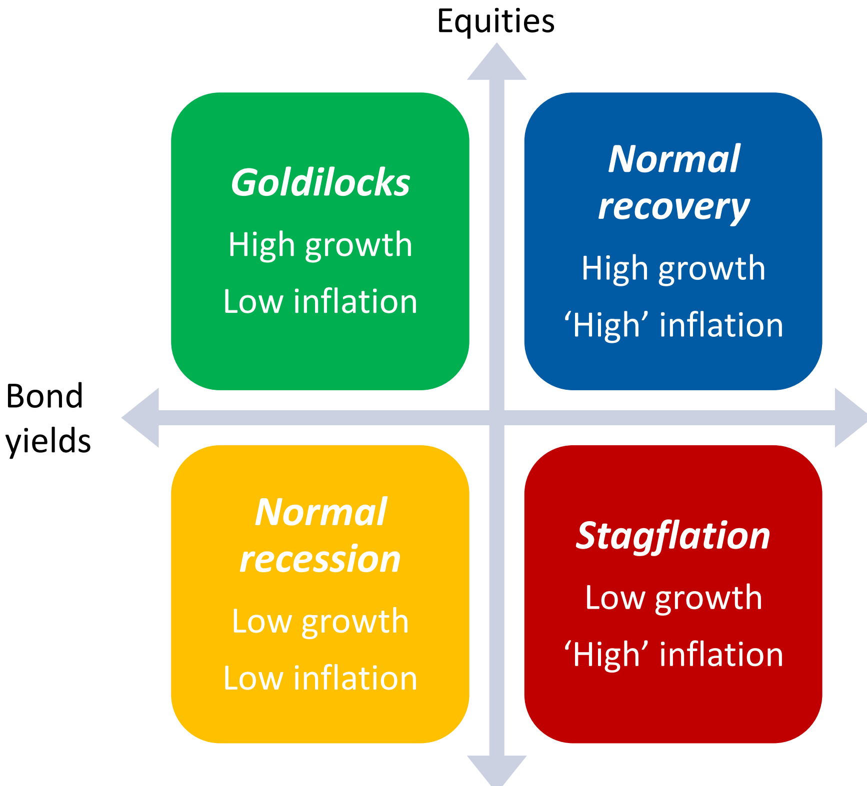




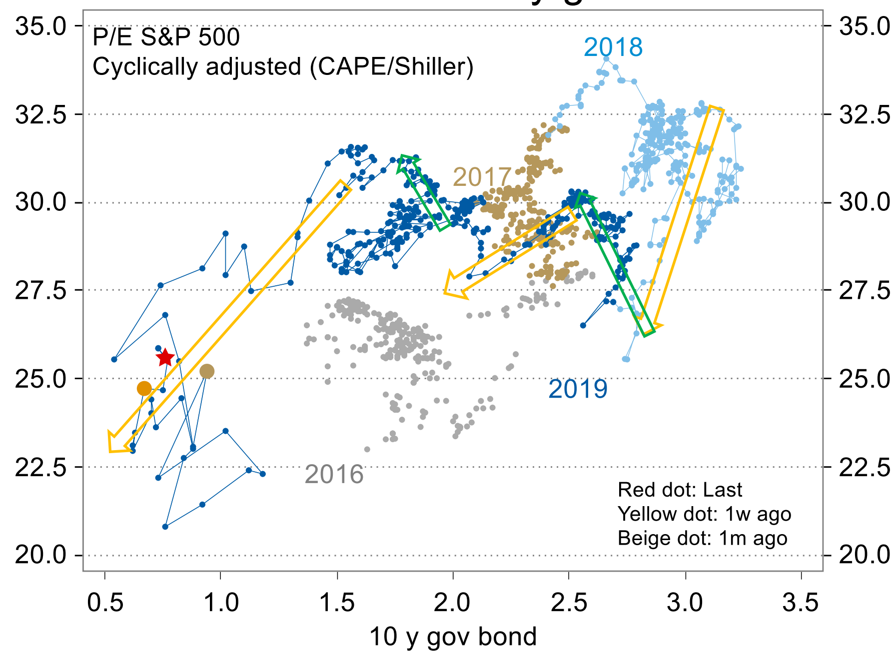
- The best week for S&P since 1974 (but stock prices fell slightly yesterday)

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

Now, stock markets have recovered ½ of the losses, yields are slightly above the bottom levels



S&P 500 vs US 10 y gov bond

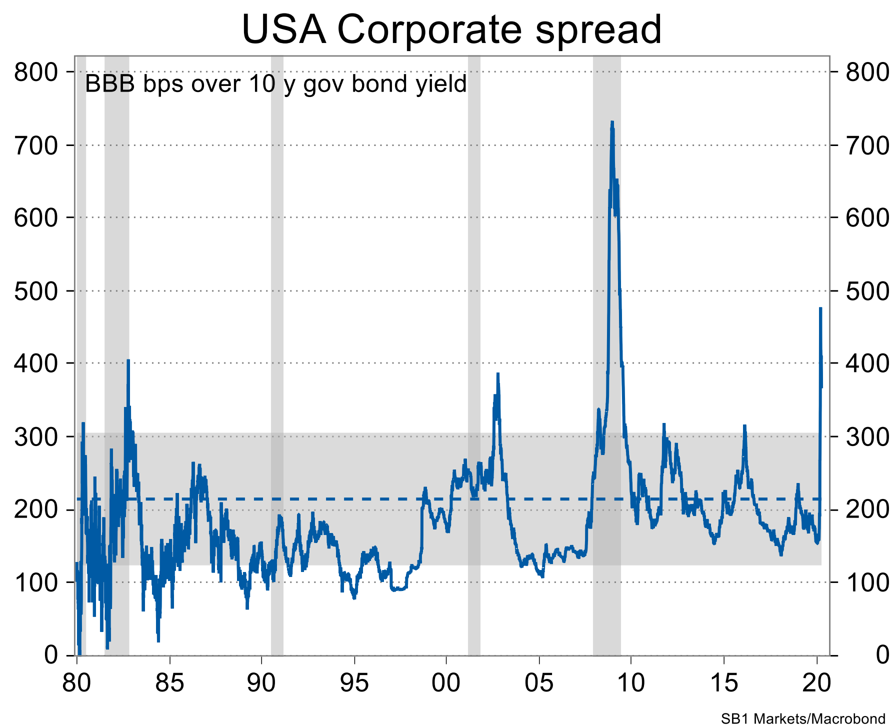


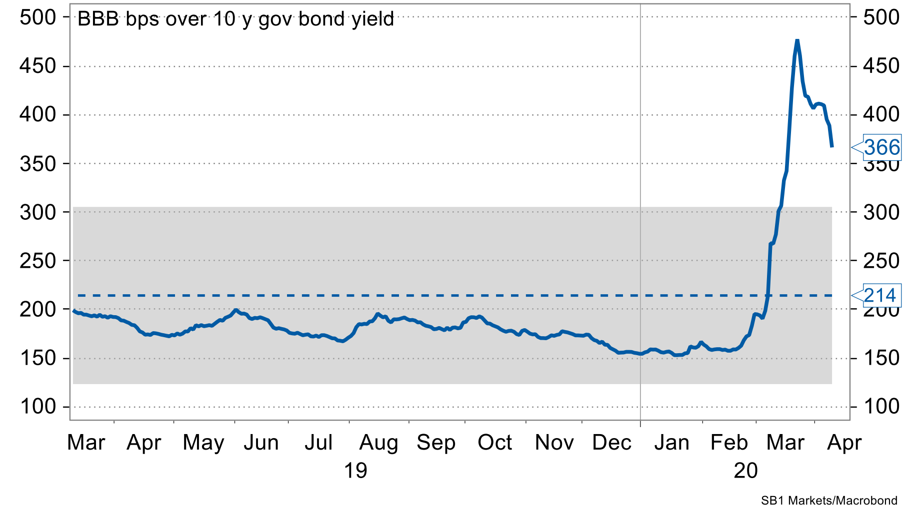
SB1 Markets/Macrobond

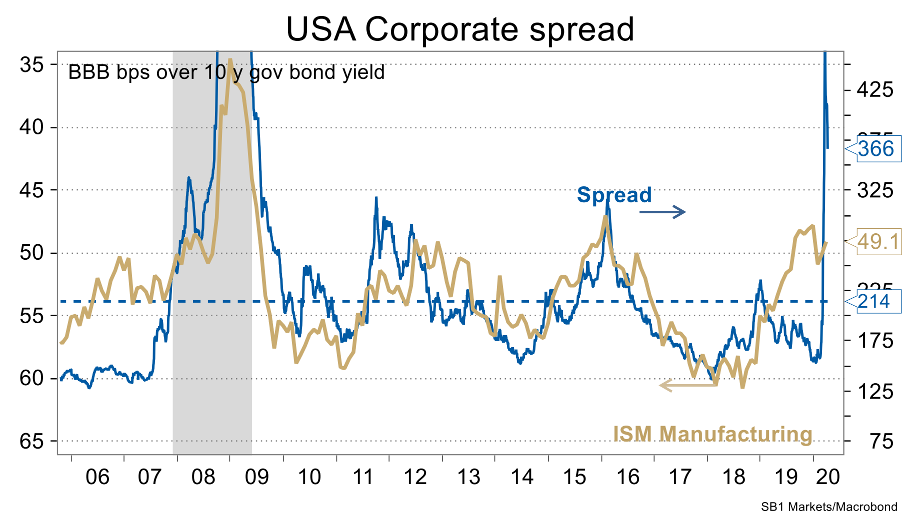
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic is spreading and countries have been initiating lockdowns
- Draconic policy measures and peaking/declining death rates has contributed to the change in mood

Credit spreads sharply down, Fed QE programs can no doubt take some credit

The US BBB spread has fallen by more than 100 bps, and is 42% on its way back to an average level



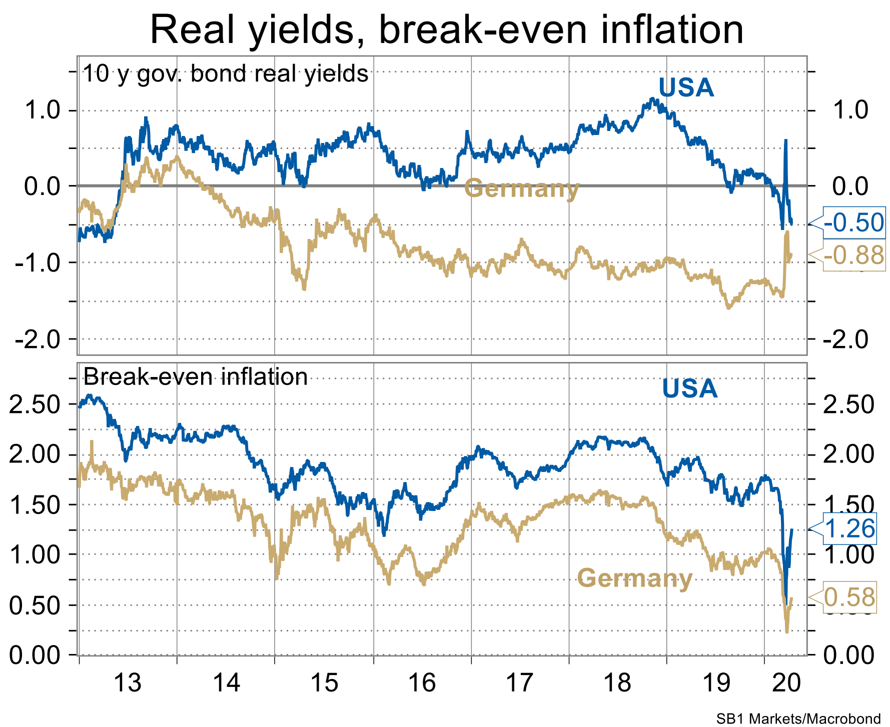


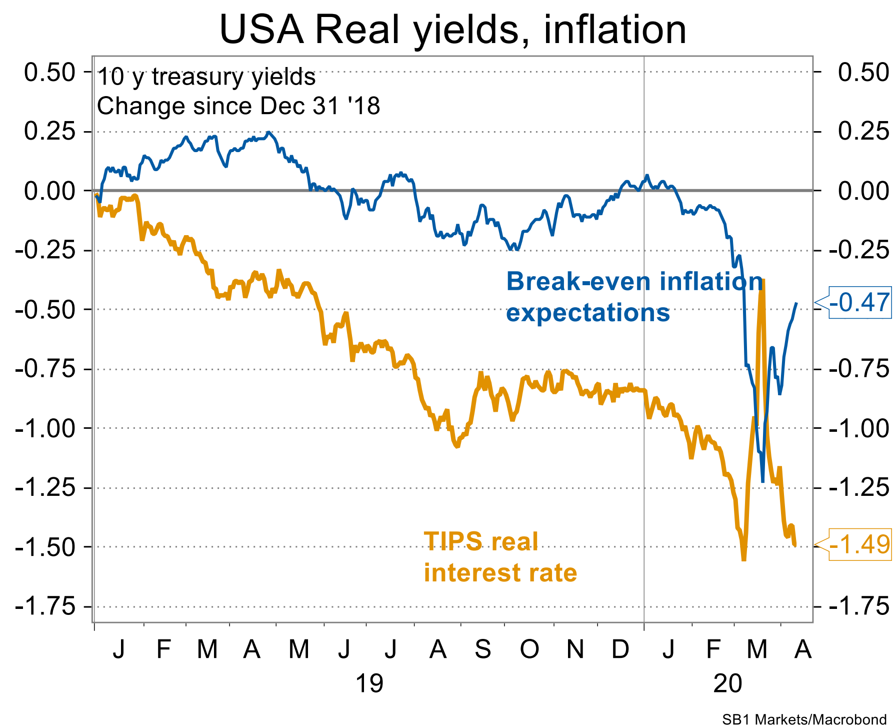


- Fed announced a set of new measures at Thursday, including more capacity to buy corporate bonds, including high yield bonds (for the first time ever) – and credit spreads fell sharply for all sorts of credits
- The BBB spread fell by 45 bps last week to 366 bps, equalling ½ st.dev! It is now down 111 bps from the peak, which implies that spread has travelled more than 40% back to an average level (at 214 bps)

US real rates down, to low levels; inflation expectations up but still low

US real rates down to -0.50%, Germany still higher than pre corona, and not on growth expectations!





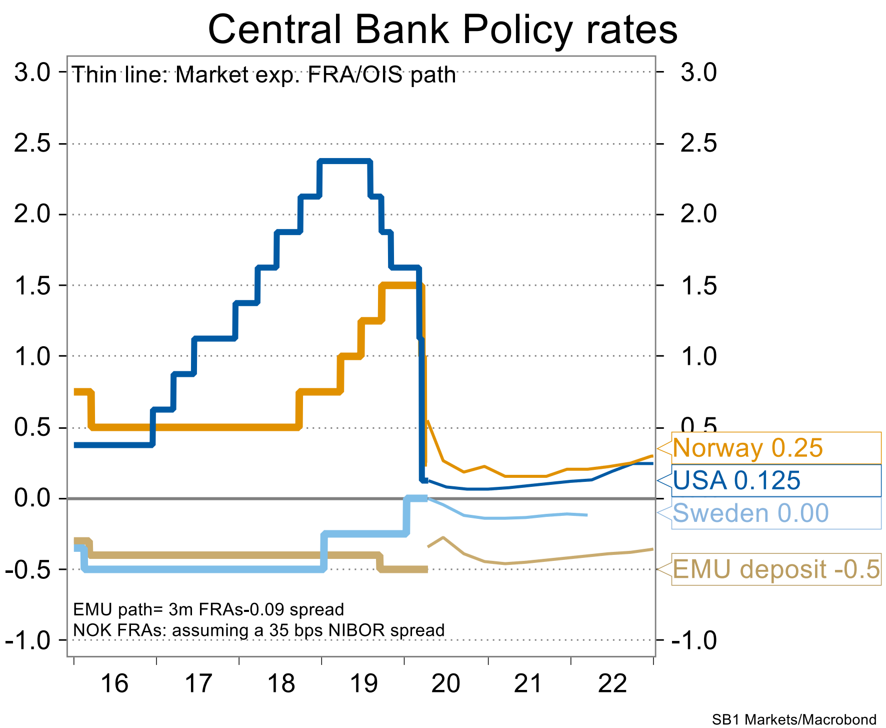
- US real rates have retreated the past weeks, and are almost back at the early March throughs, from before financial distress and liquidity issues lifted the real rate. Fed's massive stimulus of asset purchases, swap lines etc. must have helped. The German real rate at -0.88% is still 50 bps higher than before corona hit Europe. We highly doubt this reflects any improvement in growth expectations

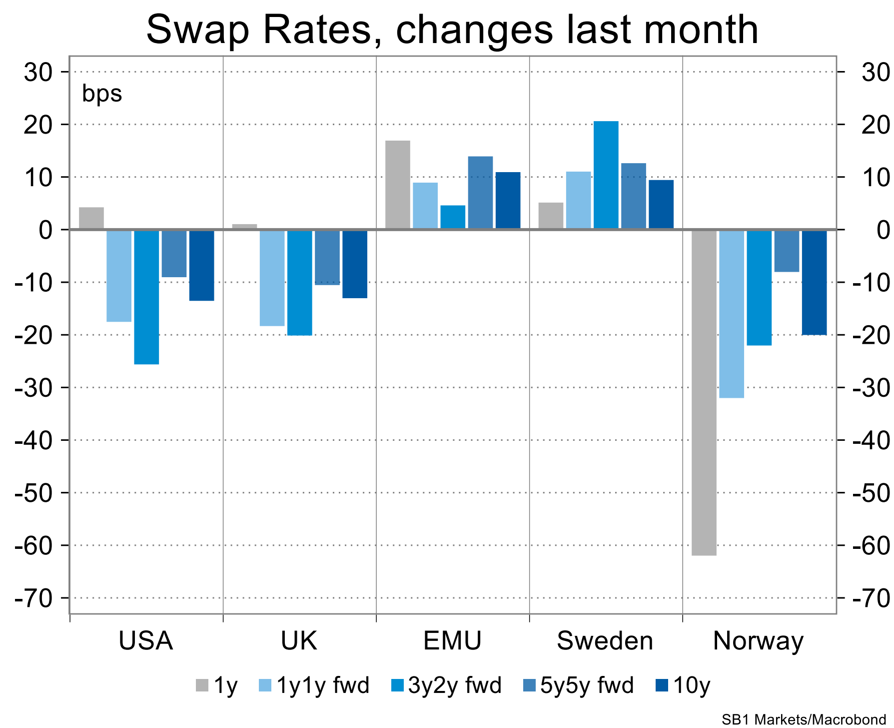
- Inflation expectations are recovering after the 'collapse' but are still very low, particularly in Germany. Inflation exp. are usually moving in once again in tandem with the the oil price

SpareBank 1 MARKETS

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

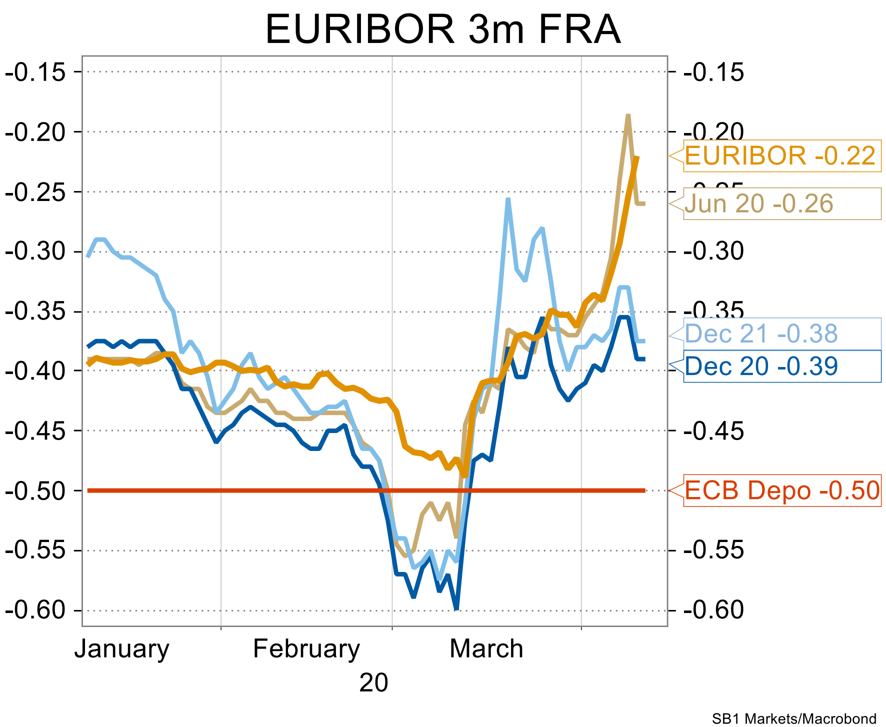
Markets may discount additional cuts in Norway & Sweden but not elsewhere

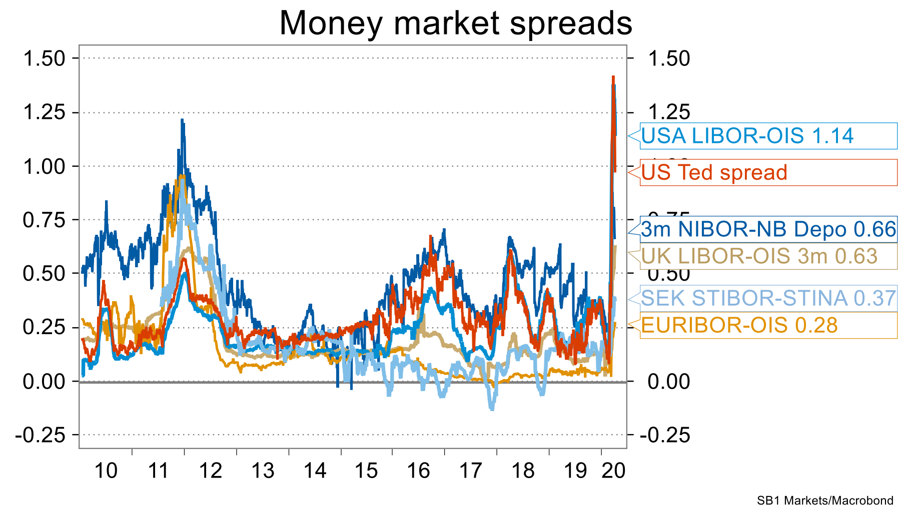


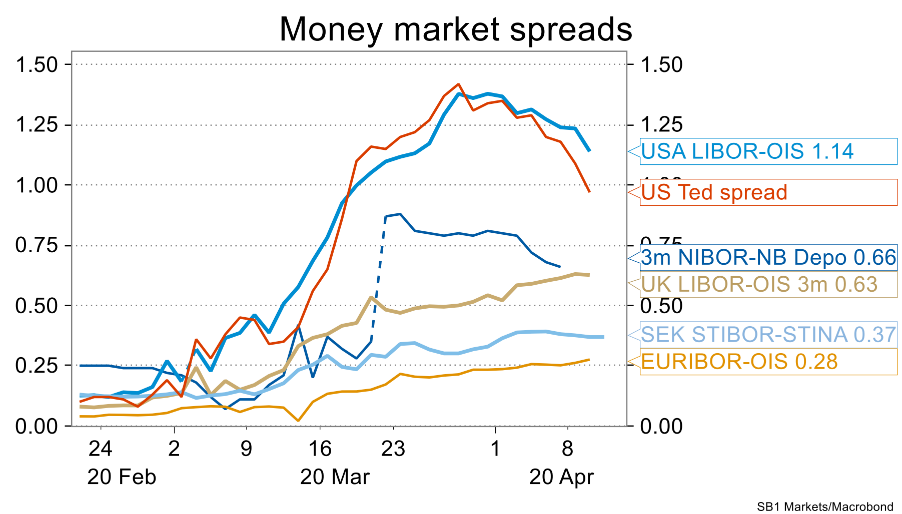


Money market spreads are widening in EMU, but are narrowing in US/Norway

Heavy lifting from the Fed have contributed to the decline in spreads in the US



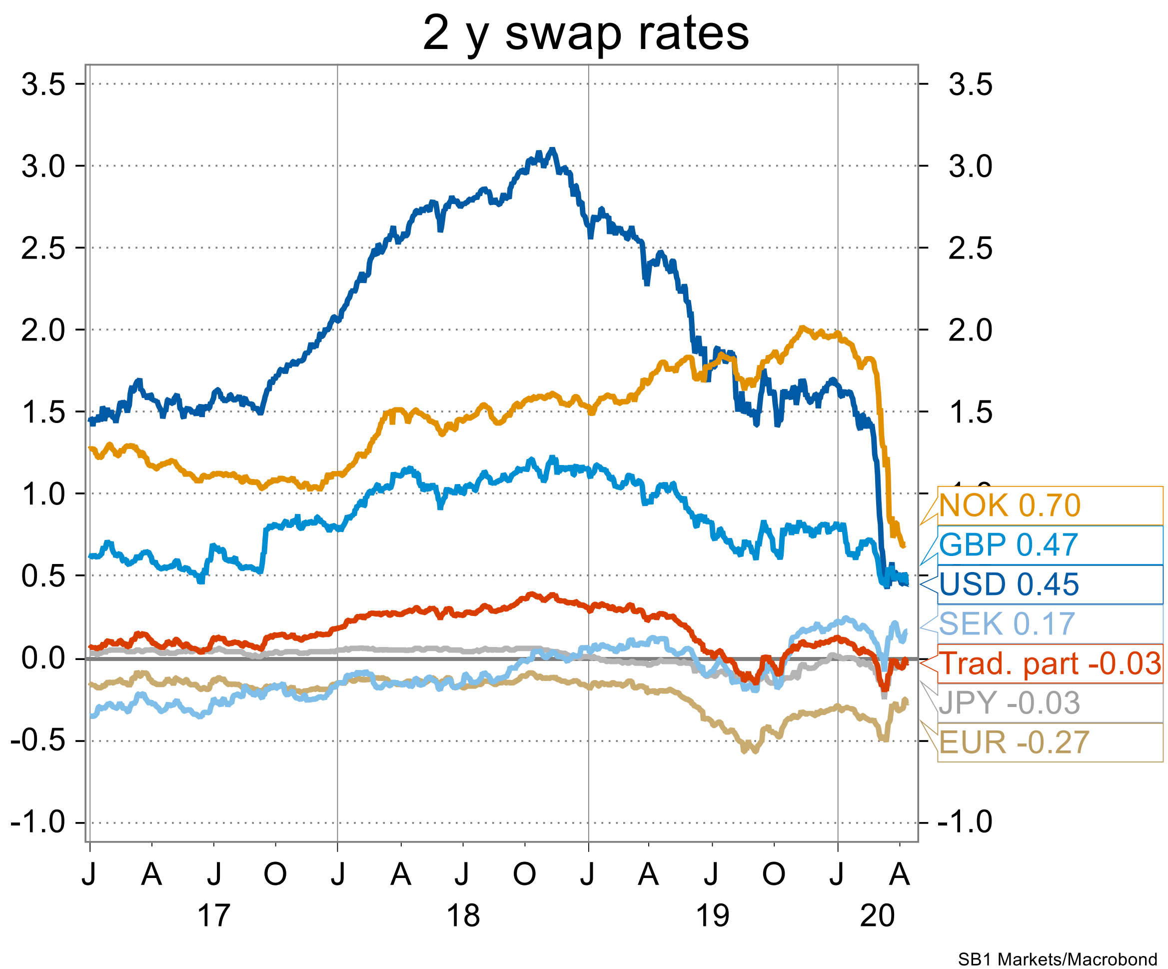


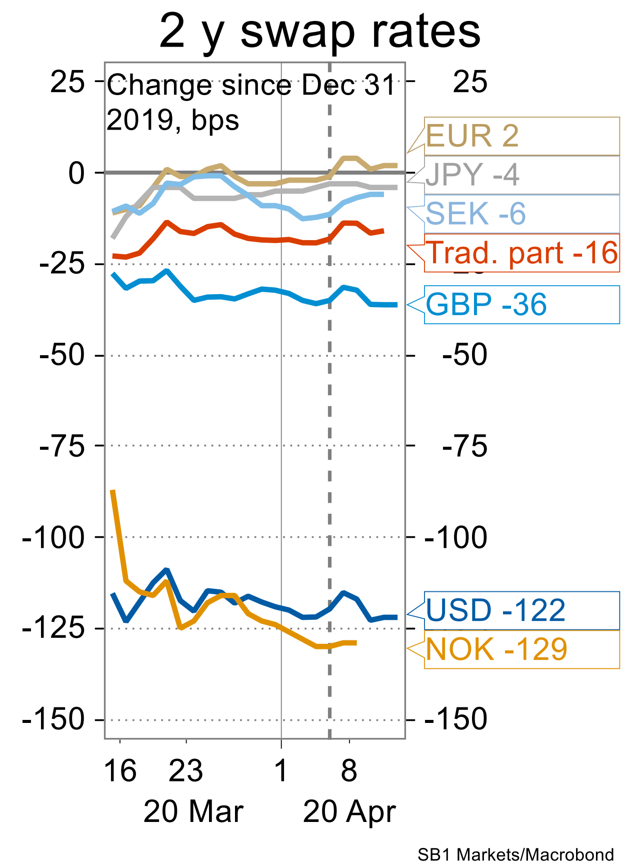


- However, spreads still low in Europe, compared to the US

Short term swap rates stabilized everywhere

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

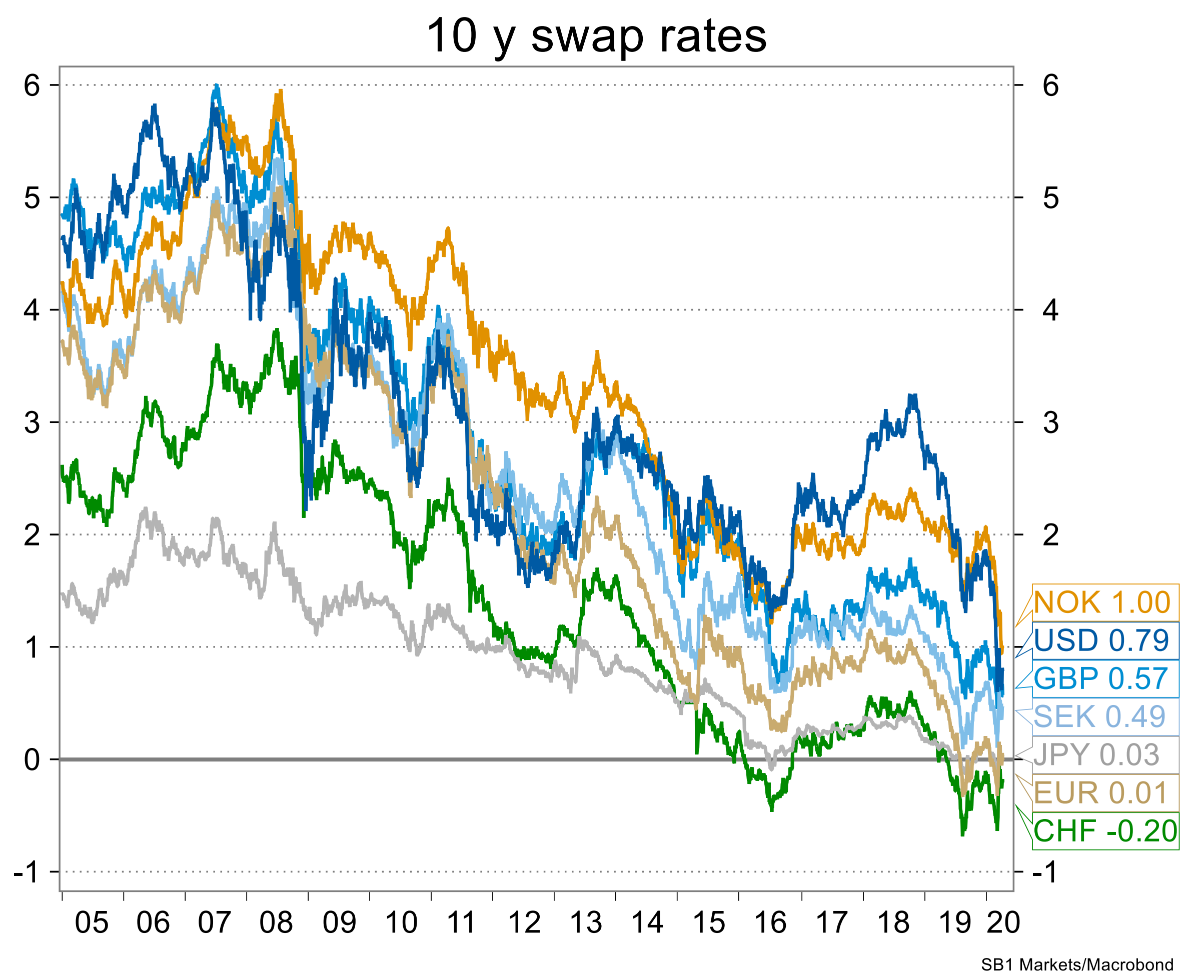


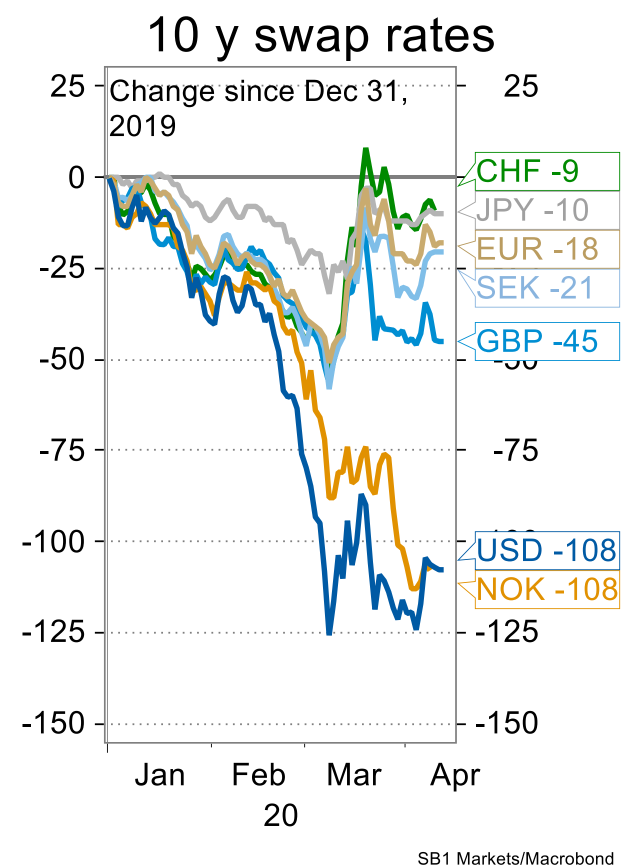


SpareBank 1 MARKETS

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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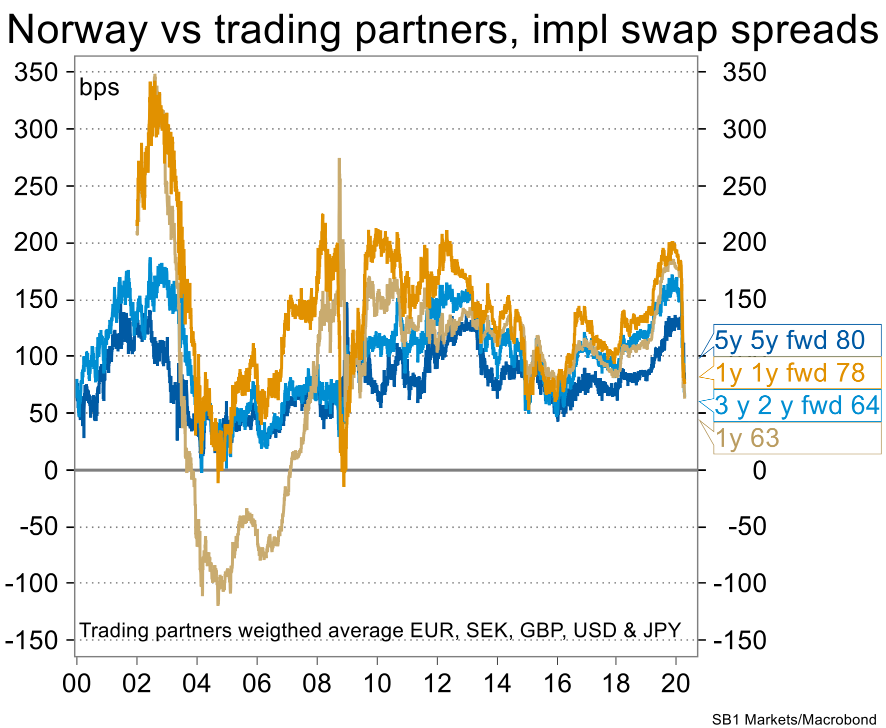
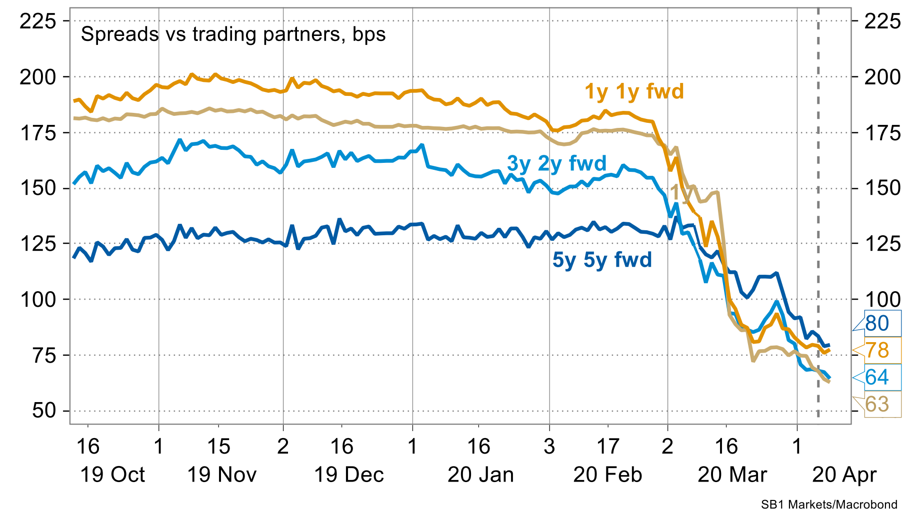
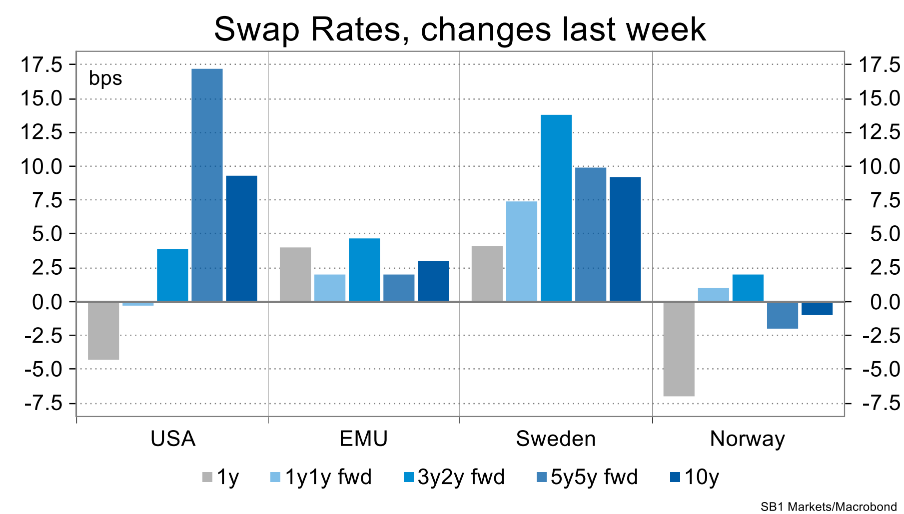
NOK swap spreads vs trading partners have been smashed

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



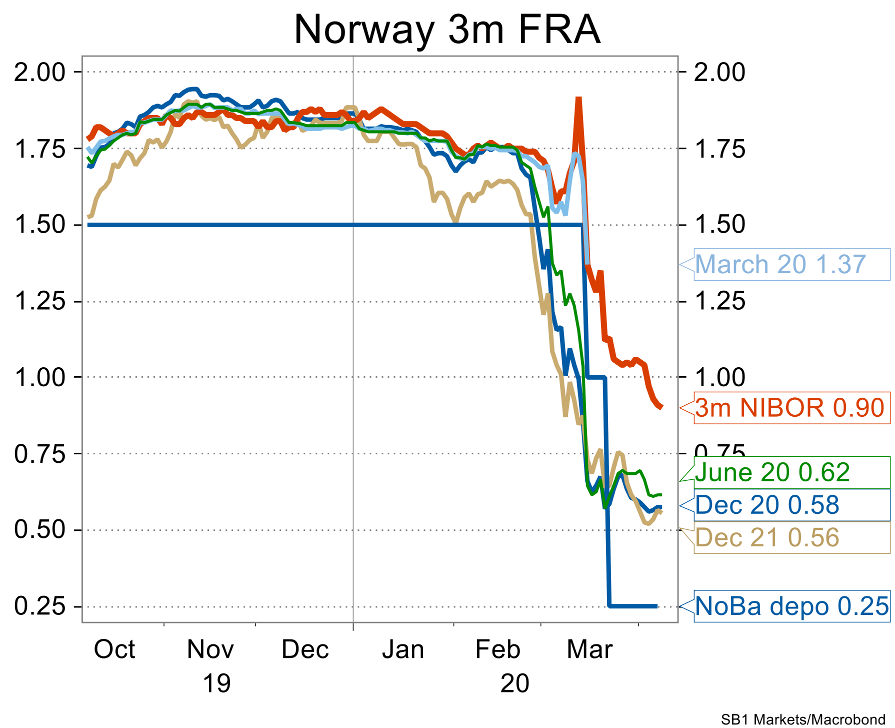


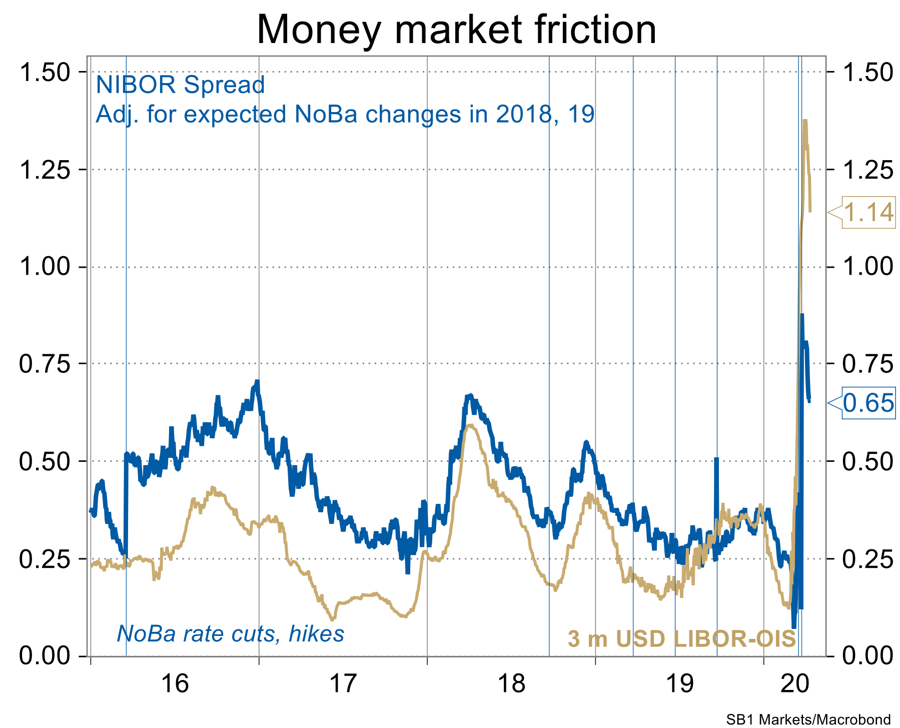


- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since late February, spreads have been falling sharply, as NOK rates have declined more rapidly than others
- Spreads are still not that low and there is more downside risk, in our view

The NIBOR spreads are narrowing – more to go

FRAs rates are probably at least partly discounting another Norges Bank cut, to zero





- The 3 NIBOR fell below 1% before Easter, and is now down to 0.9%. The NIBOR –NoBa spread has narrowed to 65 bps, still rather elevated
- The LIBOR-OIS spread in the US is finally narrowing too, and we expect it to decline further – which the market also expects
- NOK 3m FRAs at 0.56 – 0.62 reflects a limited probability for a NoBa cut (given a normal 'low' spread, no room for a NoBa cut

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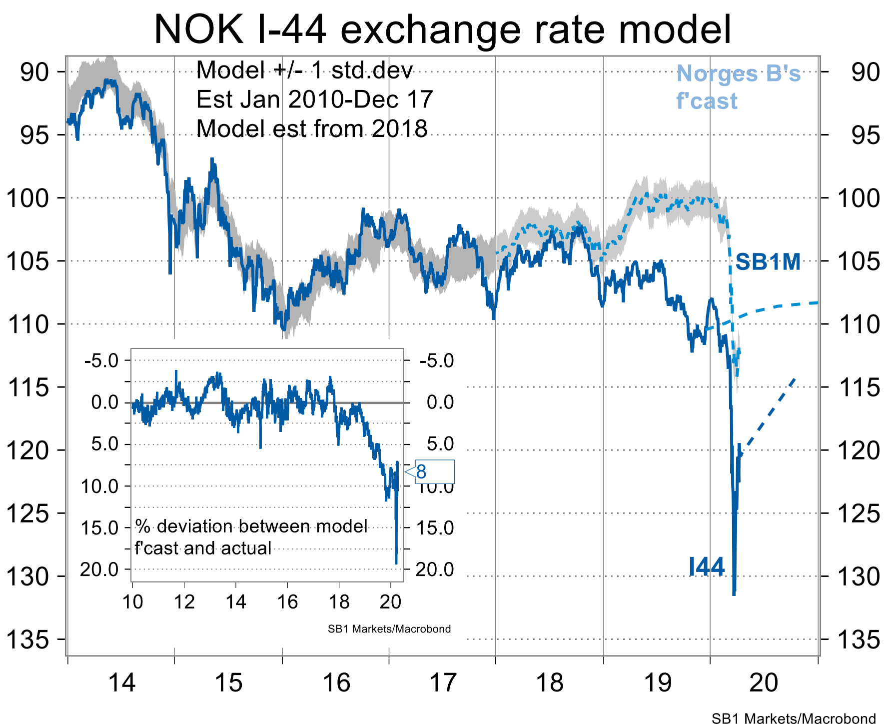
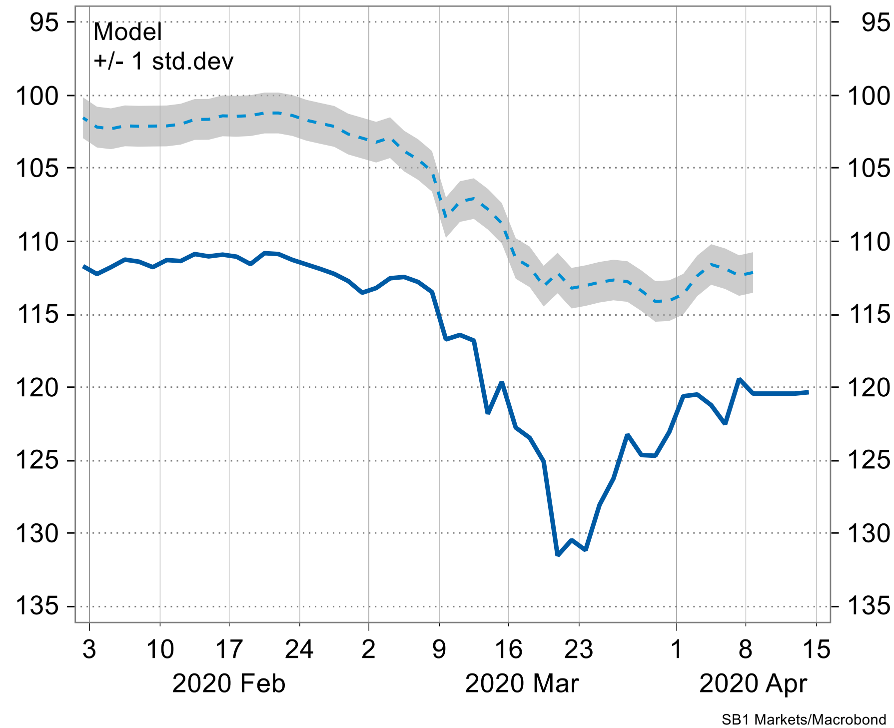
NOK has gained ground but is still rather weak

Still, the gap vs. our traditional model 'just' 8%, less than during the previous months

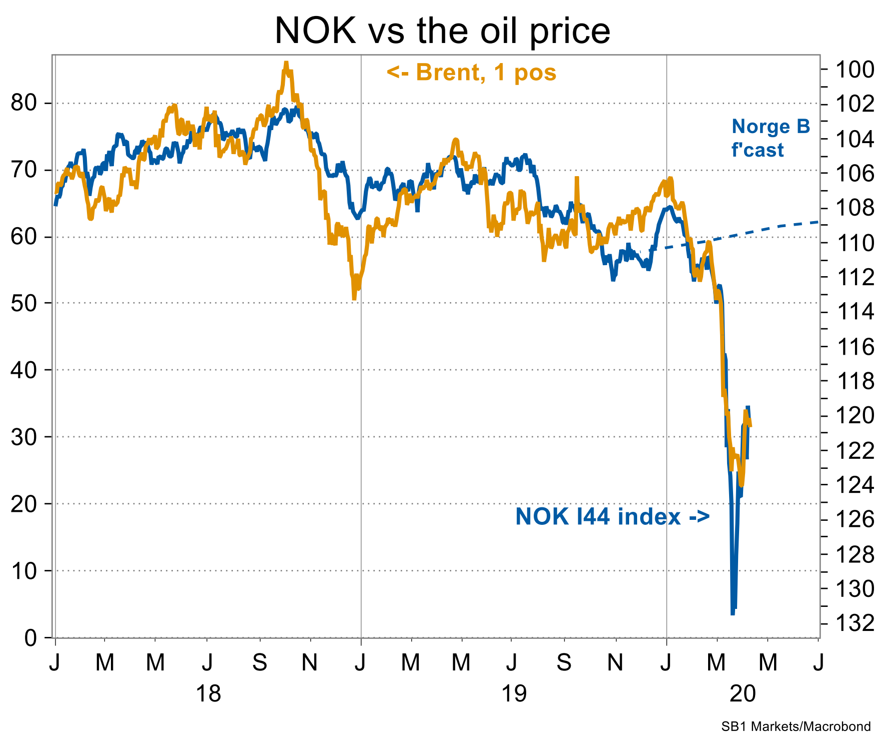


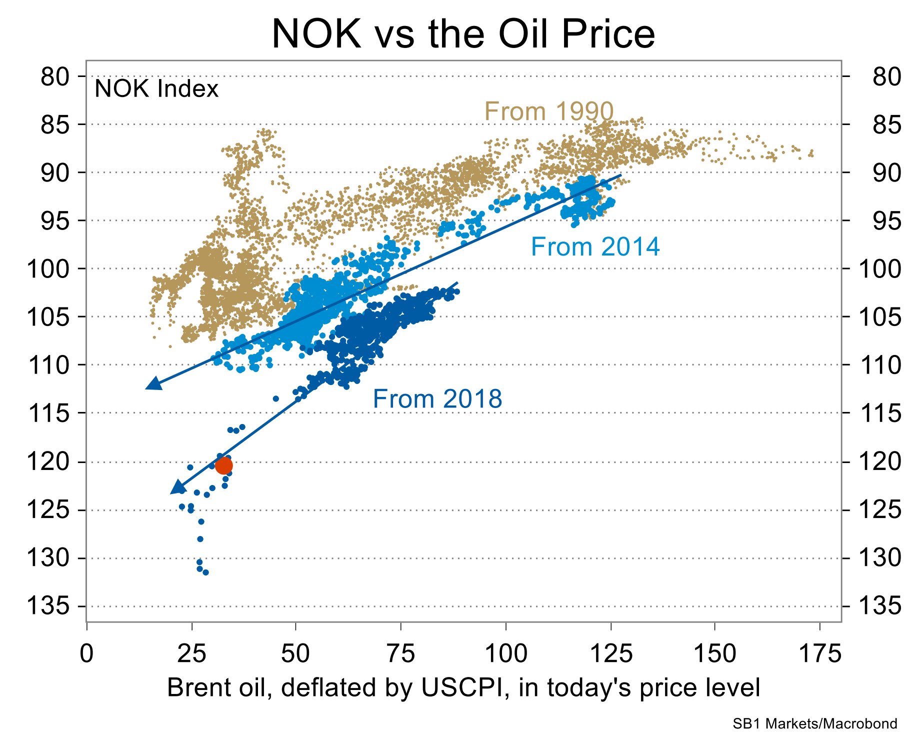


- The NOK collapsed three weeks ago, without any assistance from the usual suspects: not the oil price, energy equity prices, the interest rate spread or supercycle friends' currencies, even not the AUD.
  - » In addition: Norway is not harder hit by the corona crisis than others (and we have more financial 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 more than 8% from the bottom. An higher oil price has supported the NOK last week – but the Opec++ deal does not seem to offer any extra support for the oil price

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 <u>it is still correlated to the changes in the oil price like it used to be</u>

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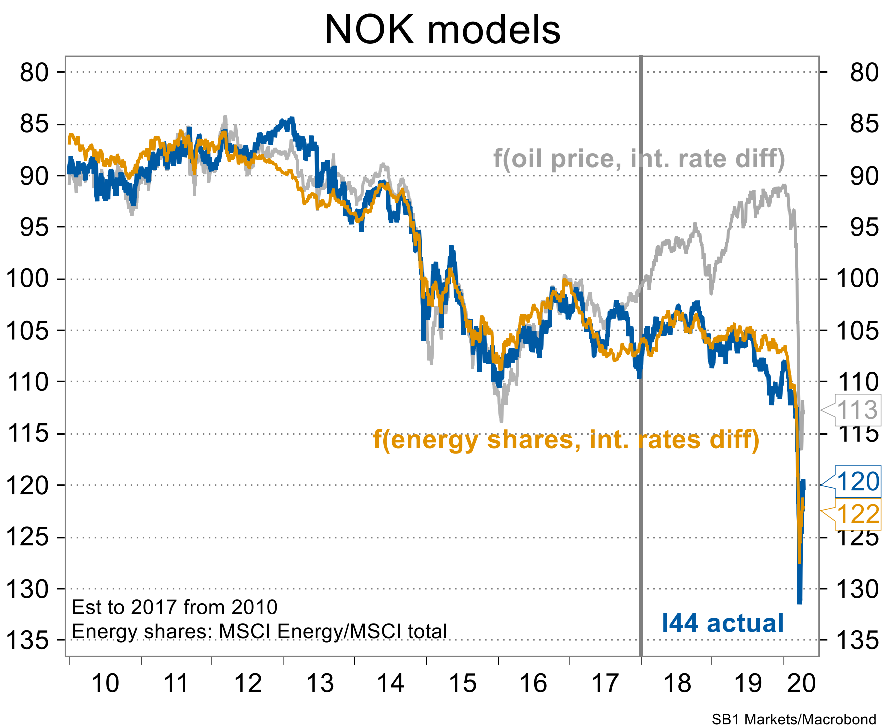
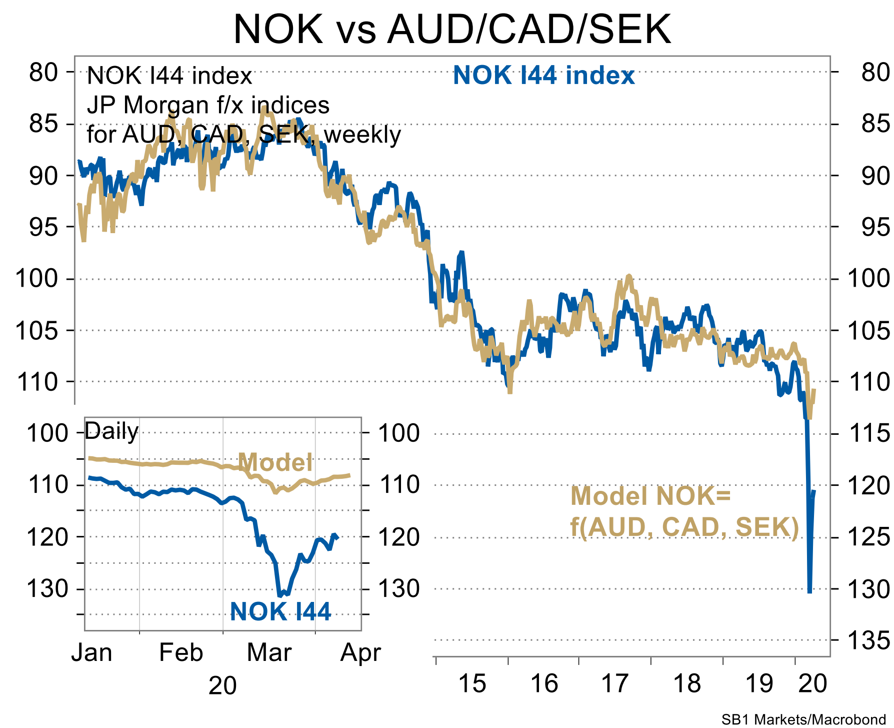
NOK still far too weak vs the supercycle model but not vs oil stocks

NOK is 10% too weak vs the 'supercycle' model but in line with the 'oil equity' model

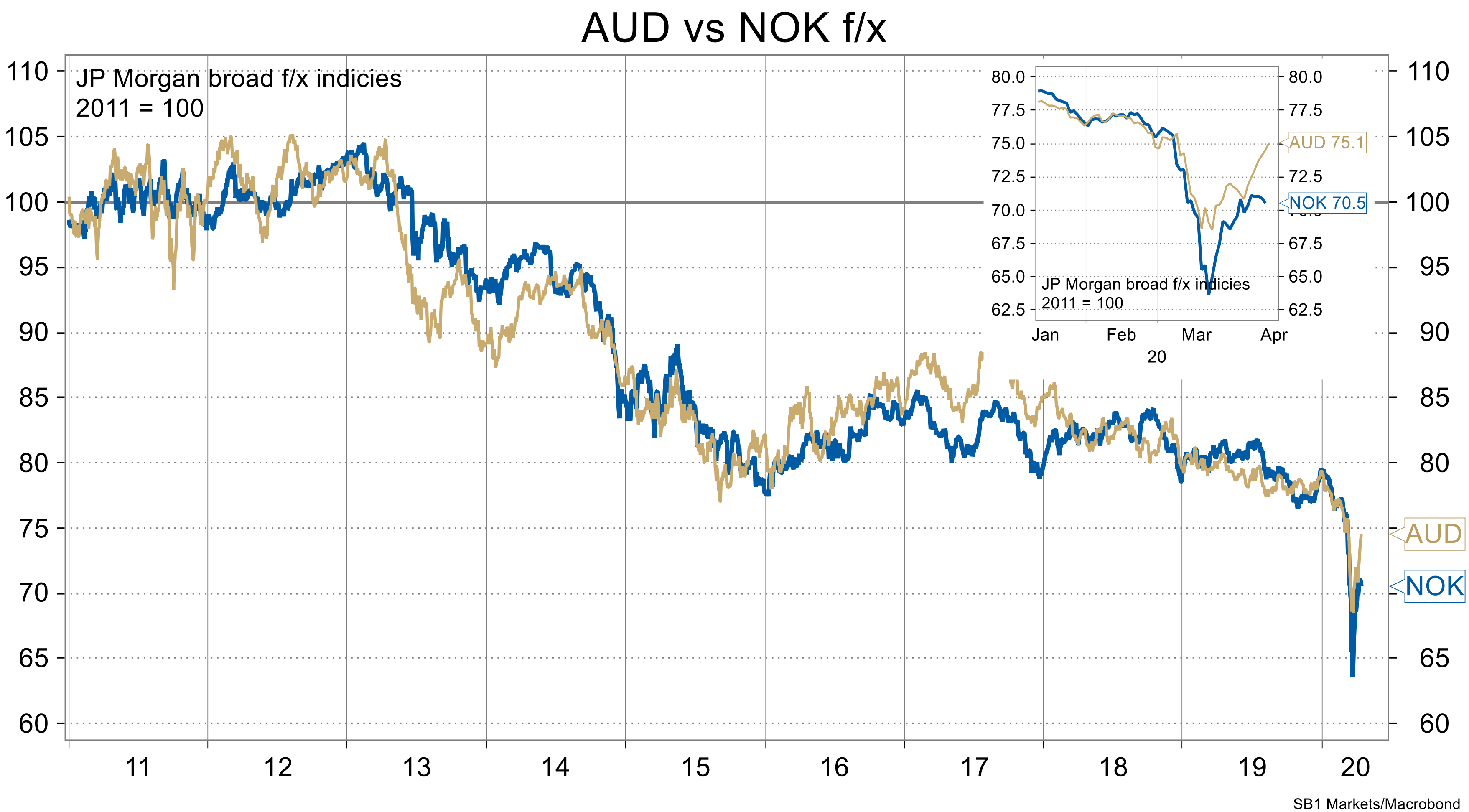




- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to 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

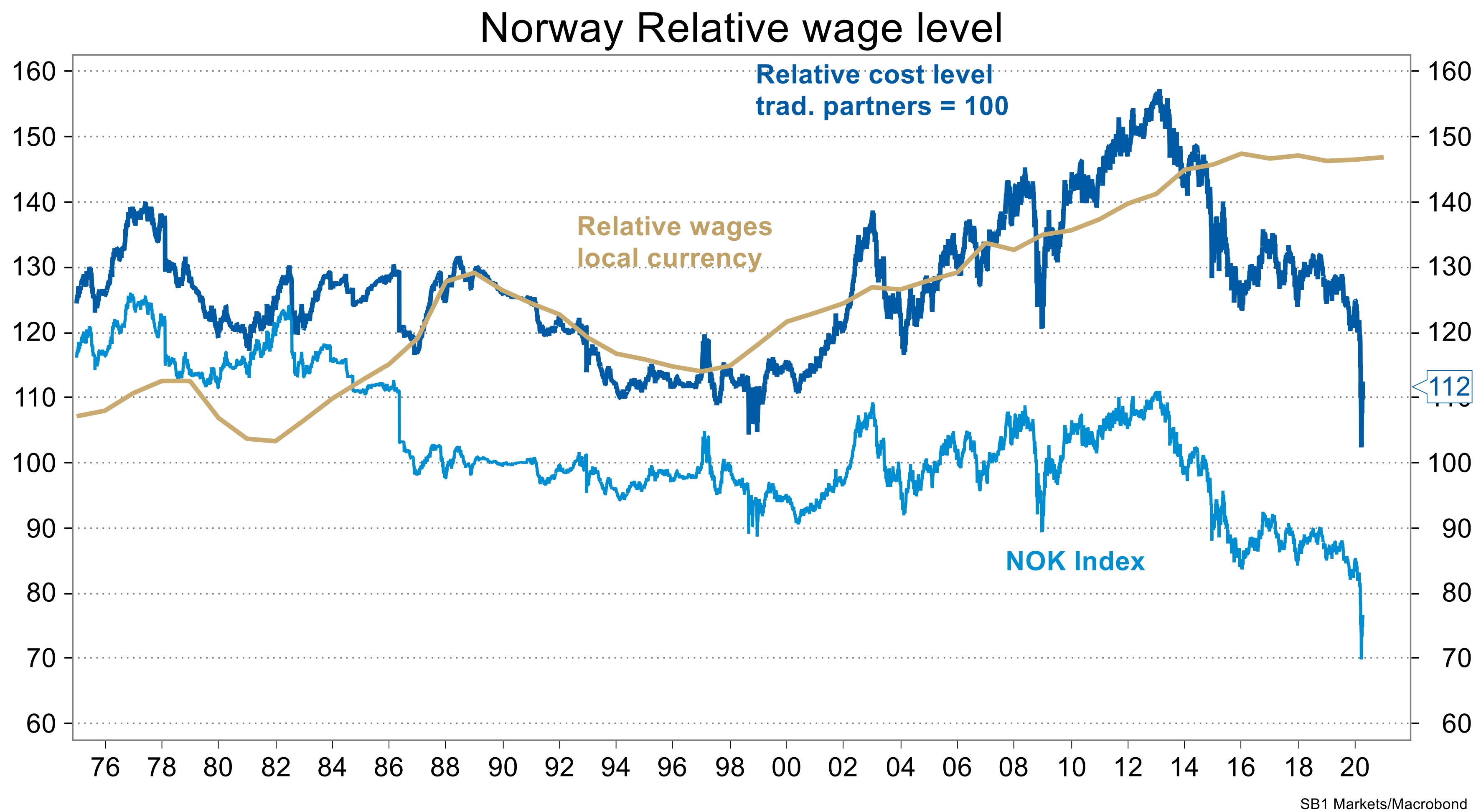
NOK is lagging the AUD, again

Both are up from the bottom 3 weeks ago, but then NOK was far too weak



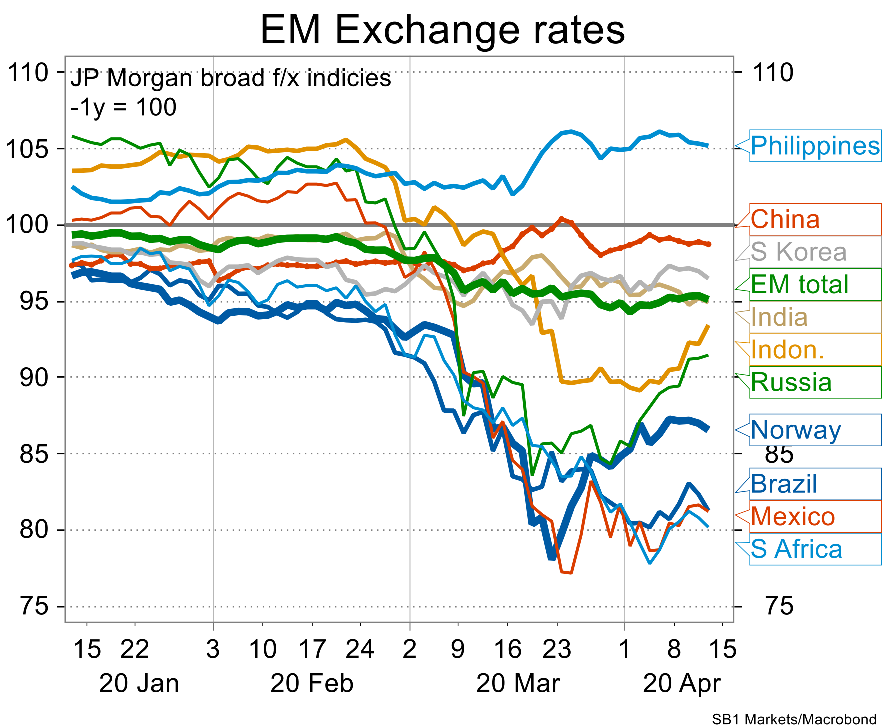
Get the fundamentals right: The Norwegian cost level is very low

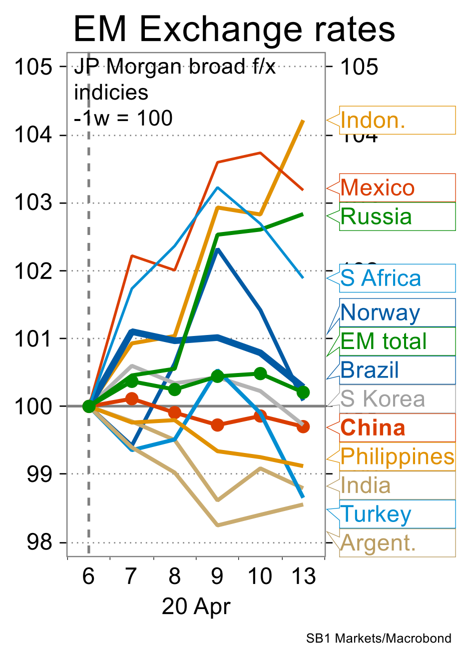
Even if the Oil fund can fund 1/4th of Mainland imports (if the real return remains at 3%, long term)

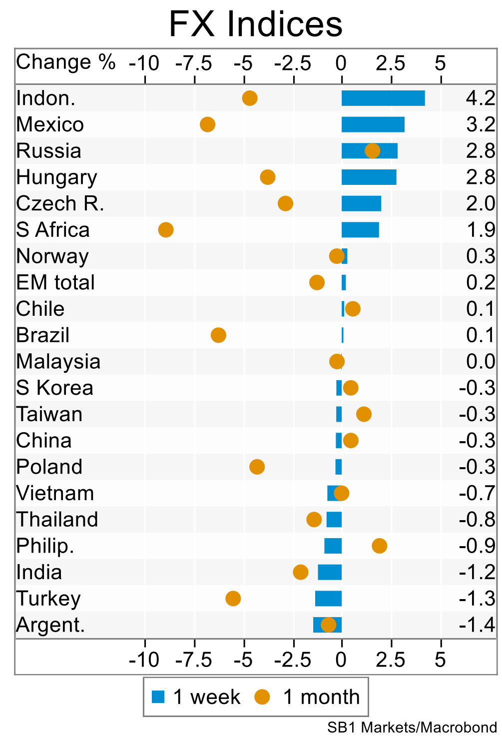


Emerging market currencies are strengthening again, almost flat last month

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







- Most EM (Emerging Markets) currencies depreciated substantially through March but most have recovered so far in April

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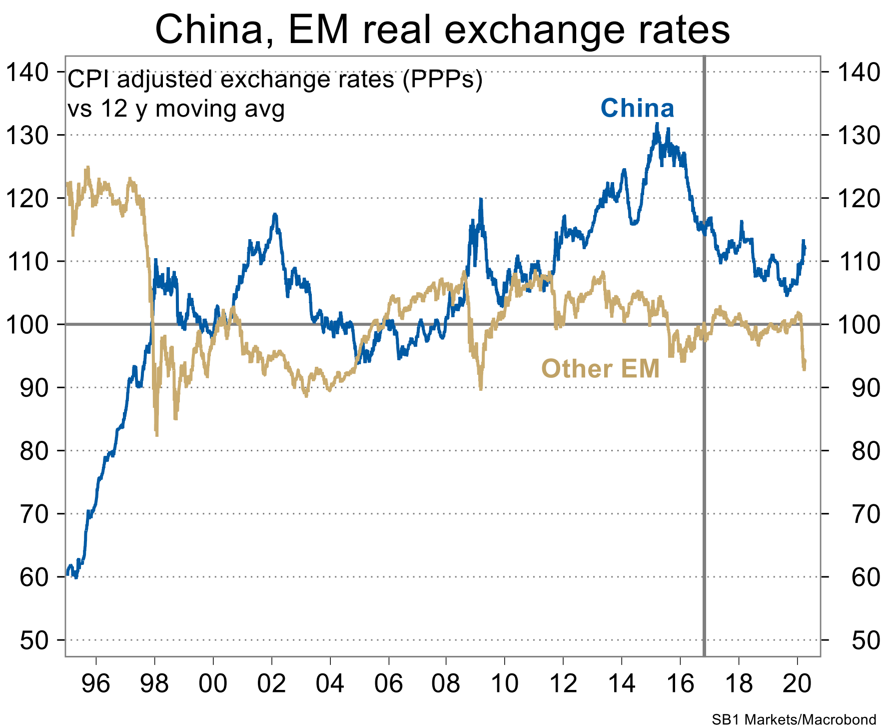
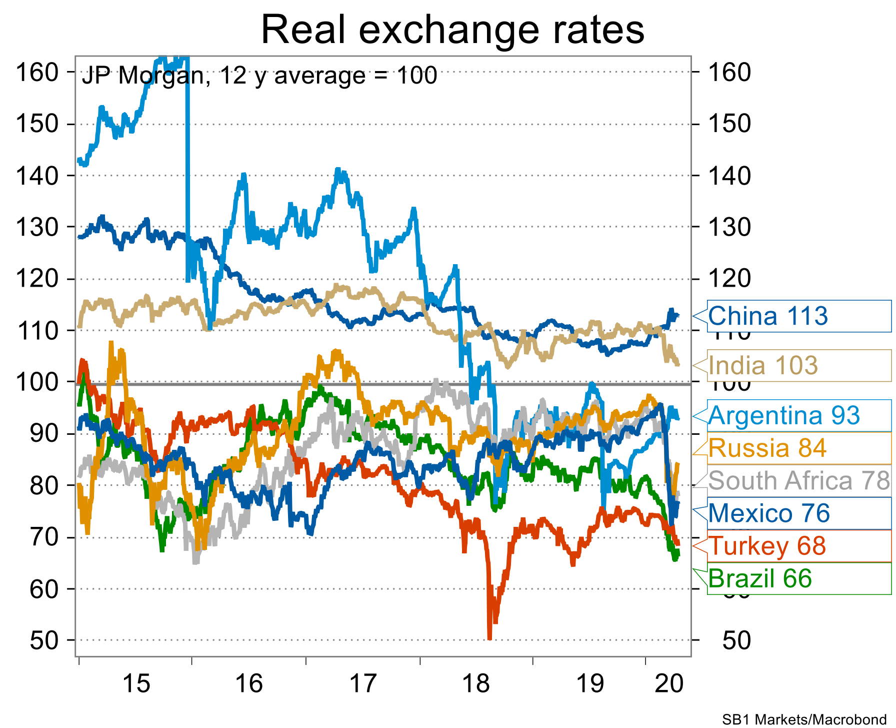
EM currencies ex China down 7%, almost all down, barring Argentina ☺

A 7% drop is not that dramatic, at least not given all stories about reversal of capital inflows





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