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Macro Research

Weekly update 18/2020

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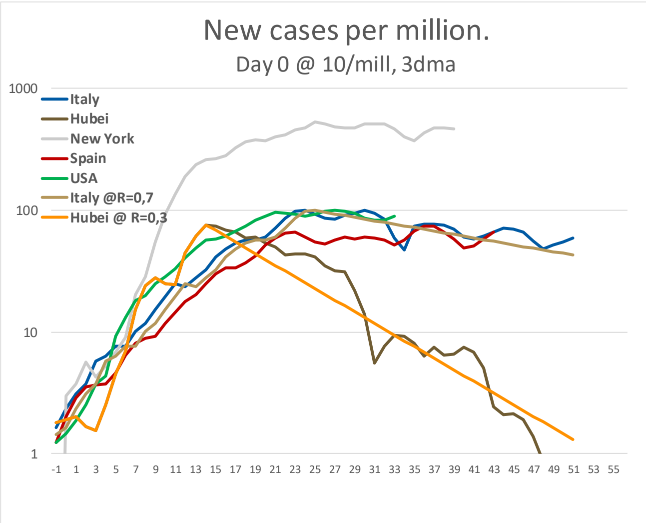
The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

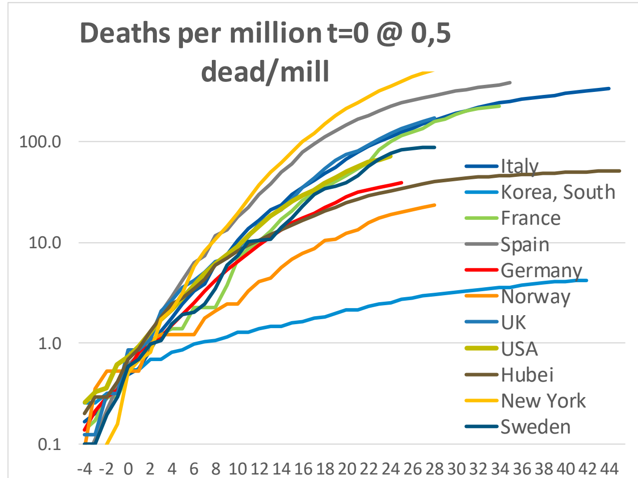
Last week – the main takes

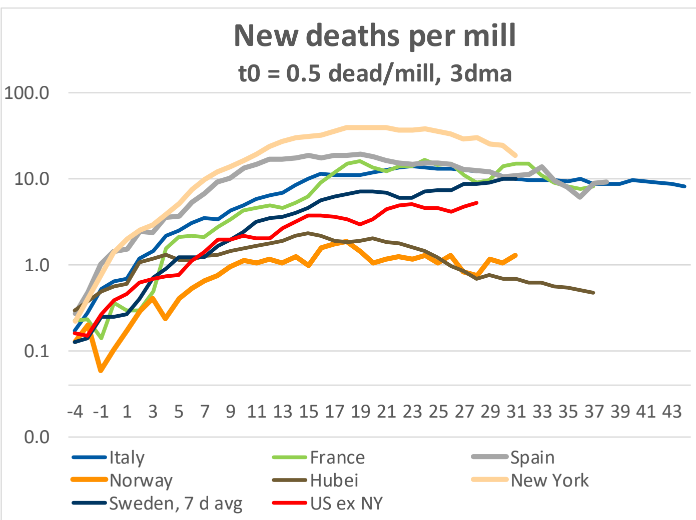
- Some few countries have started **lifting Covid-19 'lockdown restrictions'** but it is still too soon to tell whether these easings will create a 'second wave' that will be met by tighter restrictions or not. However, in just some few weeks we will have learned a lot as many countries/regions have decided to ease restrictions! We still fear that the room for manoeuvre is limited, given that just a few countries can afford a reproduction rate 'R' above somewhat above 1. During the 'lockdowns', 'R' fell to some 0.7 from approx 2.5 (or some say even higher) before they were implemented and the way back to 1 is not that long. Last week did not bring any good new on treatment of Covid-19 but some are still reporting upbeat vaccine news (which few really believe in)
- **The news flow** is now confirming the harsh economic cost of corona virus attack, whether changes in behaviour has been decided by the authorities or by people themselves. It is still too early to gauge the impact of different measures as the data points are too scattered. In addition we do really do not know how to interpret PMIs at 10 (like in southern Europe in April) to a precise GDP decline. Still, all available data confirms an unprecedented decline in economic activity <u>during</u> March and a continued low level of activity in April in both Europe and USA
  - » **The PMIs** fell sharply in April, and most places to far below expectations, the global PMI fell some 9-10 p to 30 (our preliminary estimate), both the rate of change from March and the April level were new records. Everywhere, the services are taking the hardest hit but manufacturing activity fell sharply too
  - » **The PMIs are <u>growth indicators</u>**, calculated as diffusion indices. If 10% of the companies report growth, 15% unchanged and 75% report declining activity the index is at 17.5. (10+15/2). Thus, extremely low PMIs are 'natural' when extreme restrictions are implemented like in Southern Europe. If these economies stabilises at very low level in May, the PMI would be at 50 again, at least if companies are reporting change in activity from the previous month, as they should and probably mostly do.
  - » **Other surveys** than the PMIs are confirming the setback, both business and consumer surveys. On exception is the German ZEW survey among investors and analysts. The expectation component of this survey rose sharply (and unexpectedly for other analysts…) in April, amid the sharp recovery at risk markets from mid March .
- **In China**, activity data confirm a gradual recovery. Coal consumption at power plant is now back to normal level. Still, all reports from the retail sectors indicate continued slow traffic and weak demand
- **In the US,** the NY Fed's weekly economic indicator reports a 12% decline in GDP (measured y/y). Unemployment at the labour market office rose another 2.5% last week (4.4 mill new jobless claims) and it is now up by 26 mill over the past 5 weeks, equalling 16% of the labour force. No major political/Fed news last week
- **The ECB** last week decided to include recently fallen investment grade angles to be included in universe of what the bank can buy in its QE programs. The political leaders agreed upon doing something, but not what to do in order to sharing the uneven burden of fighting the corona virus. Government bond spreads are widening
- **In Norway**, SSB confirmed a 15% (or now 14%) drop in Mainland GDP <u>through</u> March (while the average GDP in March fell by 6.4%, and Q1 by 1.9%, according to very preliminary estimates. SSB expects a 5.5% decline in GDP in 2020, followed by a modest recovery in 2021 at 4.7%, implying a large negative output gap next year too. NAV's weekly unemployment figures have stabilised, earlier than we expected. SSB's manufacturing survey signals a sharp decline in activity with oil related sectors in the front seat. (Btw, a leading Swedish manufacturing survey reported the same decline in activity as its Norwegian counterpart – and the Swedish service survey data were really bad)

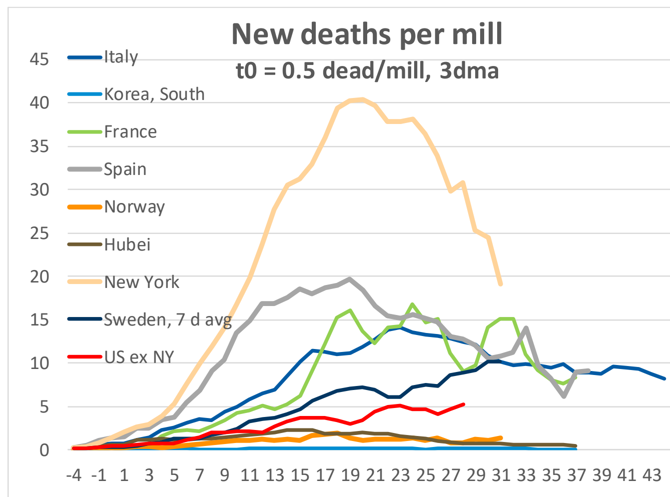
Cases, death levels are flattening, flows are slowing, sharply

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







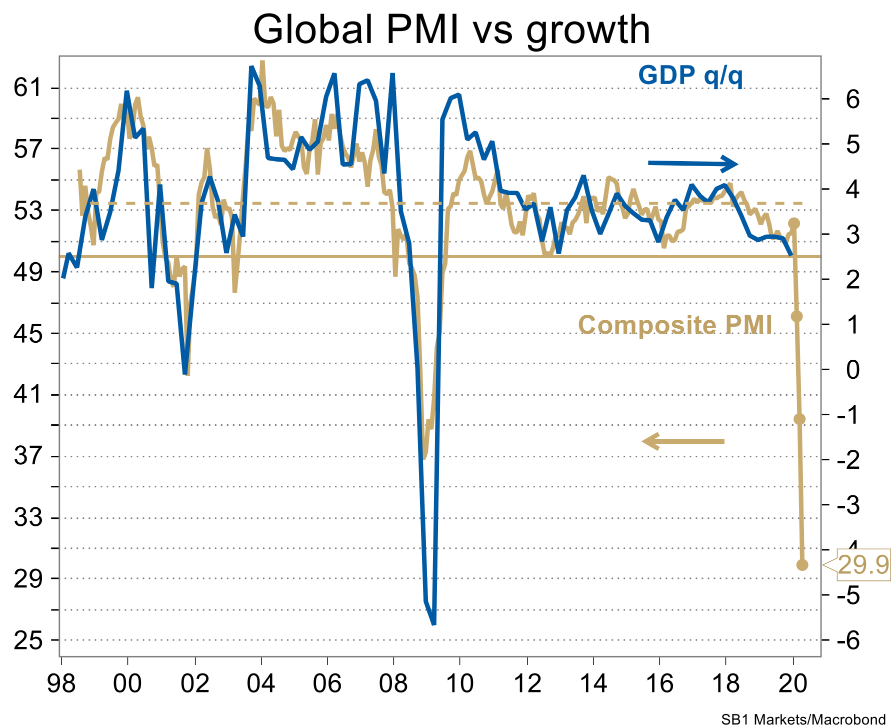


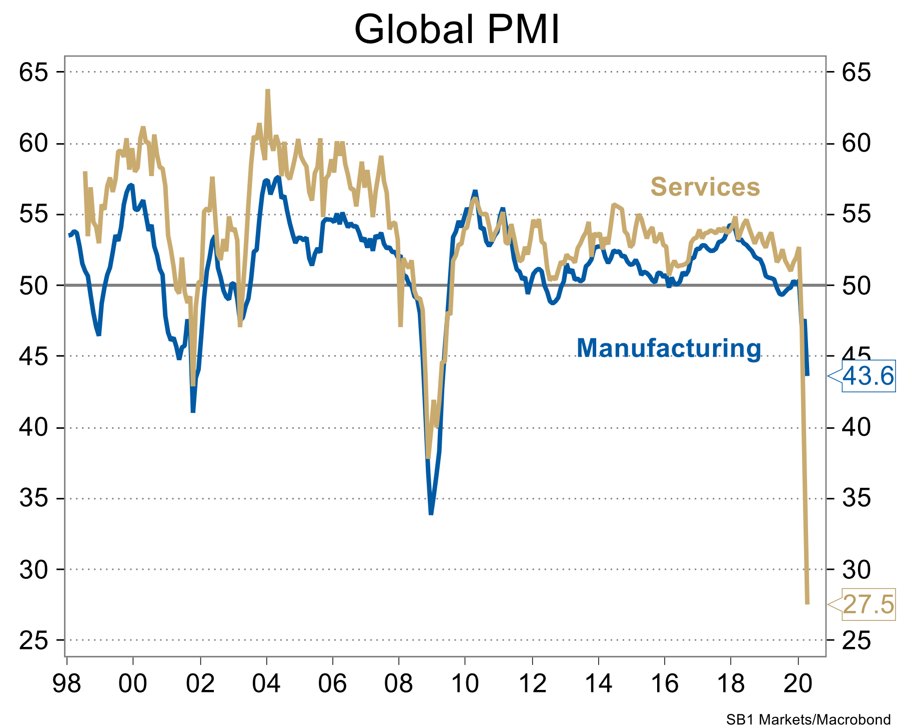
- The virus outbreak ran out of control in many countries, overwhelming the health system
  - » Spain, Italy and New York are now reporting substantial reduction in hospitalisations & deaths, confirmed reproduction rates well below 1
- Norway has brought the virus under control, at least for now – and well before it created a serious problems in the health system. On the other hand, herd immunity is not building in Norway

Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

Lockdowns lock the service sector down, not good in manufacturing either

Global PMI tumbled some 9-10 p in April, as service industries collapsed amid the corona crisis



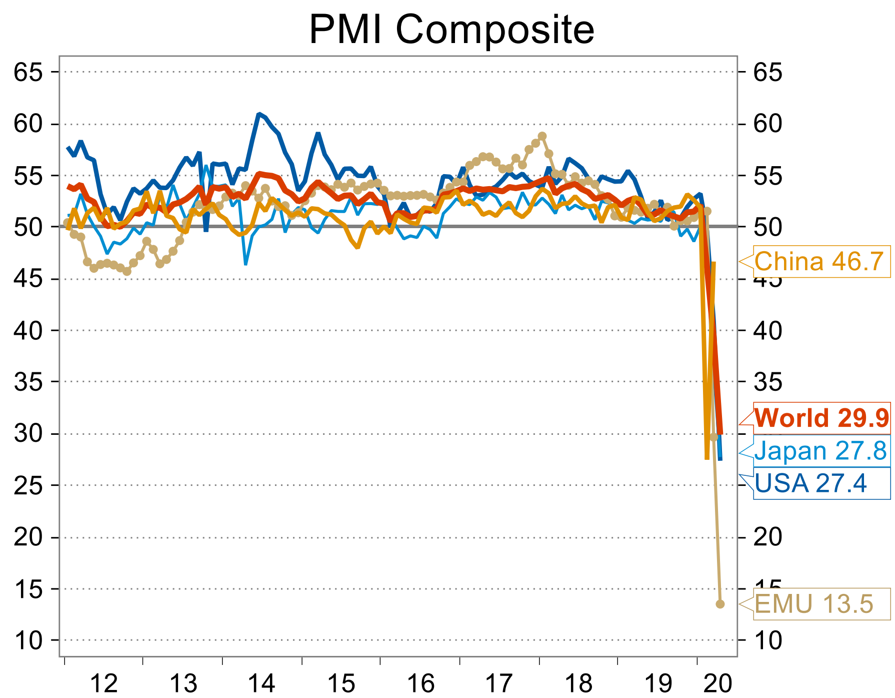


- Global composite PMI crashed 9 – 10 p to 30 in April, according to our estimate based on the preliminary PMIs from the US, Eurozone, UK and Japan (and by assuming a small, further lift in China). The level is the lowest by far (data from 1998), and confirms the sudden decline in economic activity in March and April. Calibration vs. GDP growth is not easy with the PMI far below a normal range but at 8 – 10% decline (annualised in March and April does not seem unreasonable (vs. the decline in GDP during the financial crises, where the service sector PMIs (and the composite) were less downbeat than now
- Covid-19 sent services into the sharpest contraction on record, down to 27.5. Manufacturers are no doubt struggling too but the decline in the PMI has been more modest, we assume a total index down 4 to 44 (but output and order indices are much weaker than the total index, down below 40)

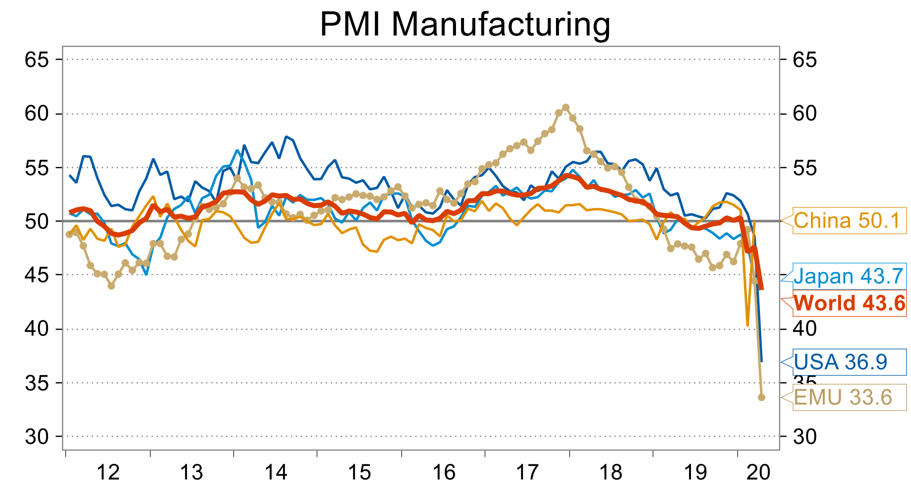
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

The EMU service sector index fell to 11.7, the lowest PMI on record, ever

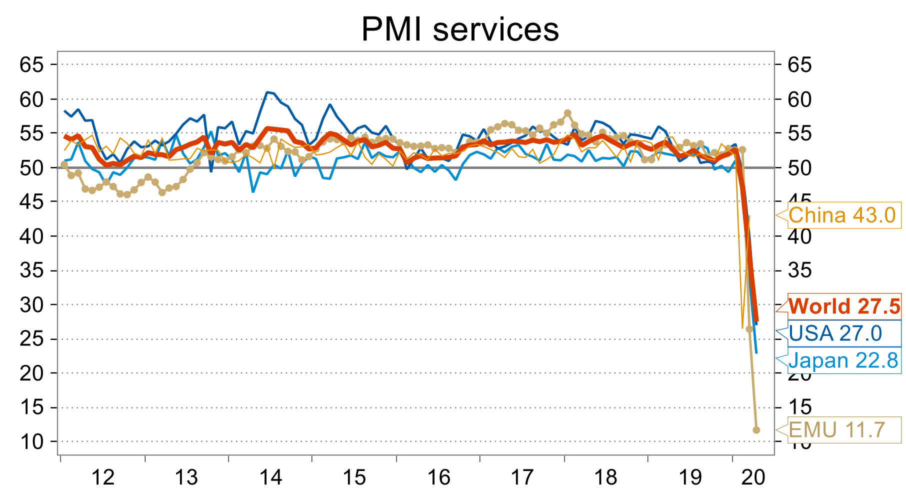
Not that strange, beside health services and some delivery services, who should report growth now?



Source: IHS Markit, SB1 Markets, Macrobond



Source: IHS Markit, SB1 Markets, Macrobond

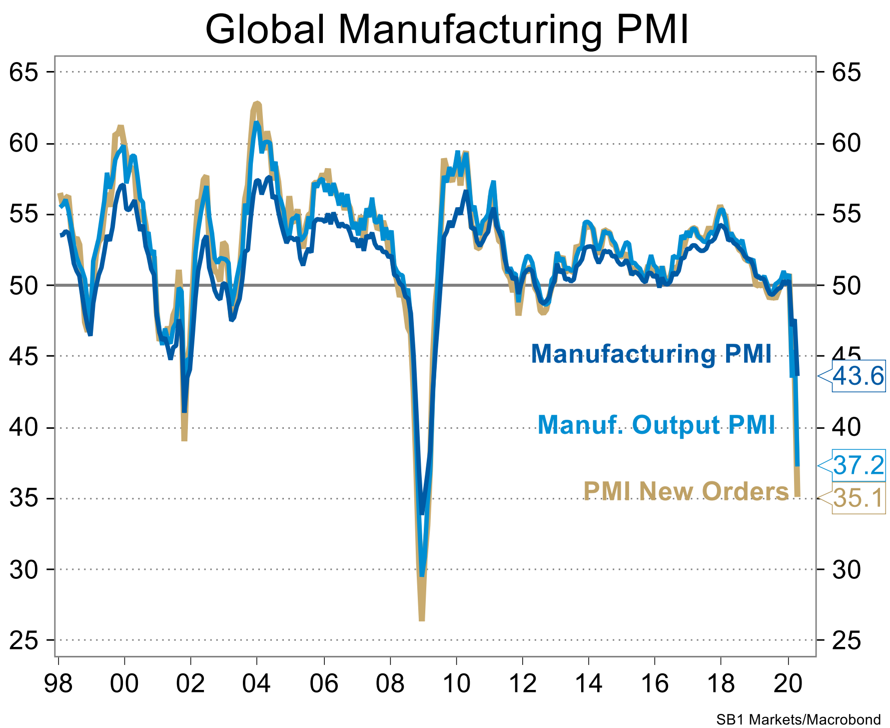


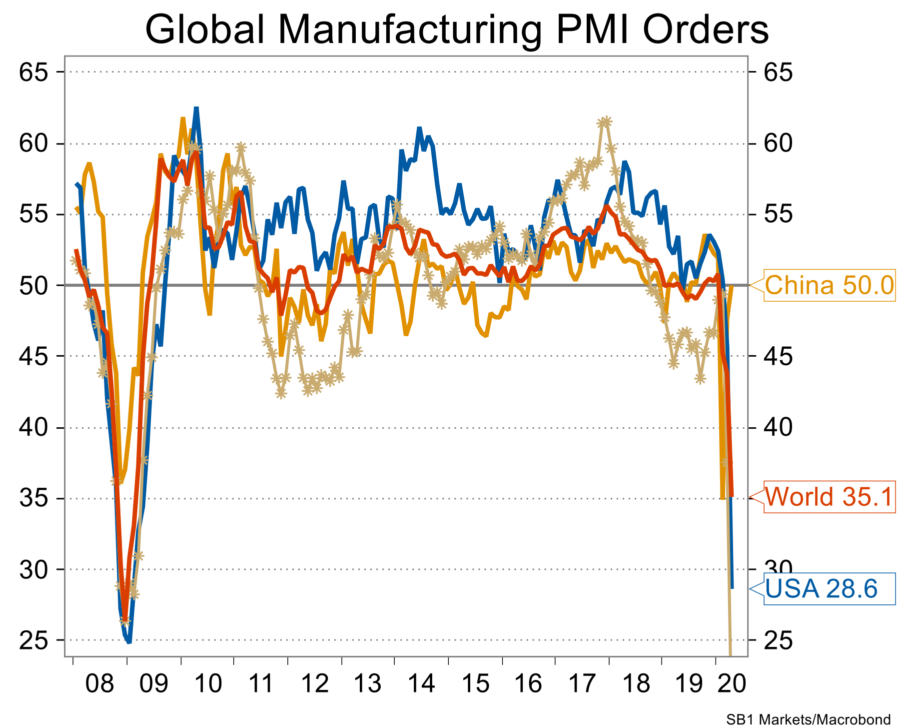
SB1 Markets/Macrobond

- The April PMI data were even worse than expected. The PMIs are diffusion indices, and if all companies report a decline from the previous month, the index would be at zero. If just as many are up as down, the index is at 50. In April, not many companies in the service sector in the Eurozone reported growth. Thus the PMI fell down to 11.7, still well below expectations (25)! The average in Italy & Spain fell to 9, as large parts of their economises closed down
- We expect May PMIs to recover substantially as some restrictions will be lifted and few companies should report even lower activity than in April (in principle, the PMIs should climb to above 50, even if the activity level still would be extremely low)

Manufacturing details are weak as orders & output indices are tumbling

We estimate a drop in the global manufacturing orders PMI to 35 in March, from above 50 in Jan

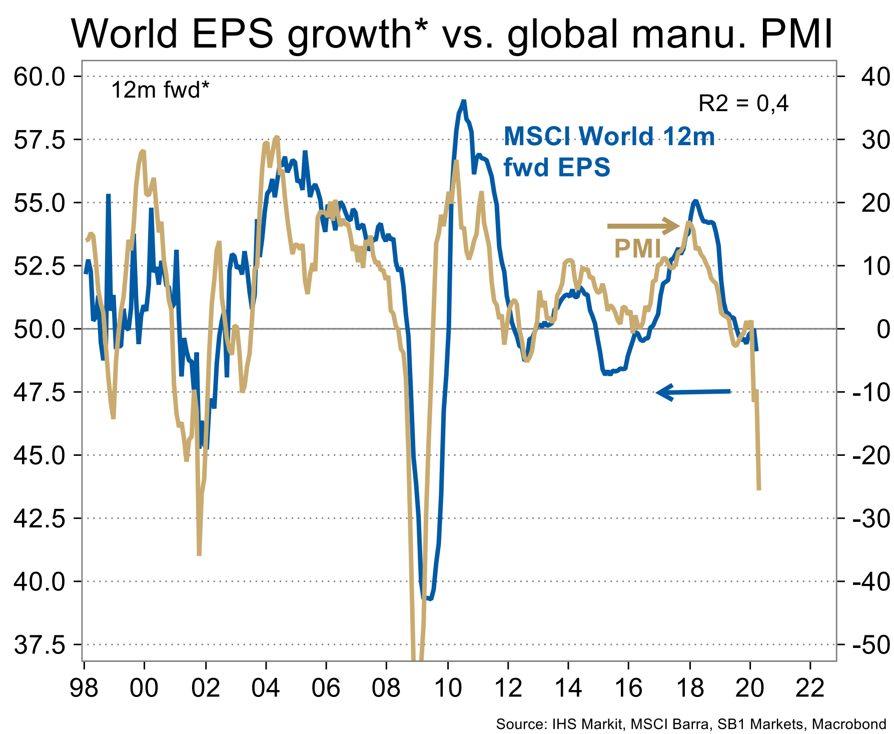


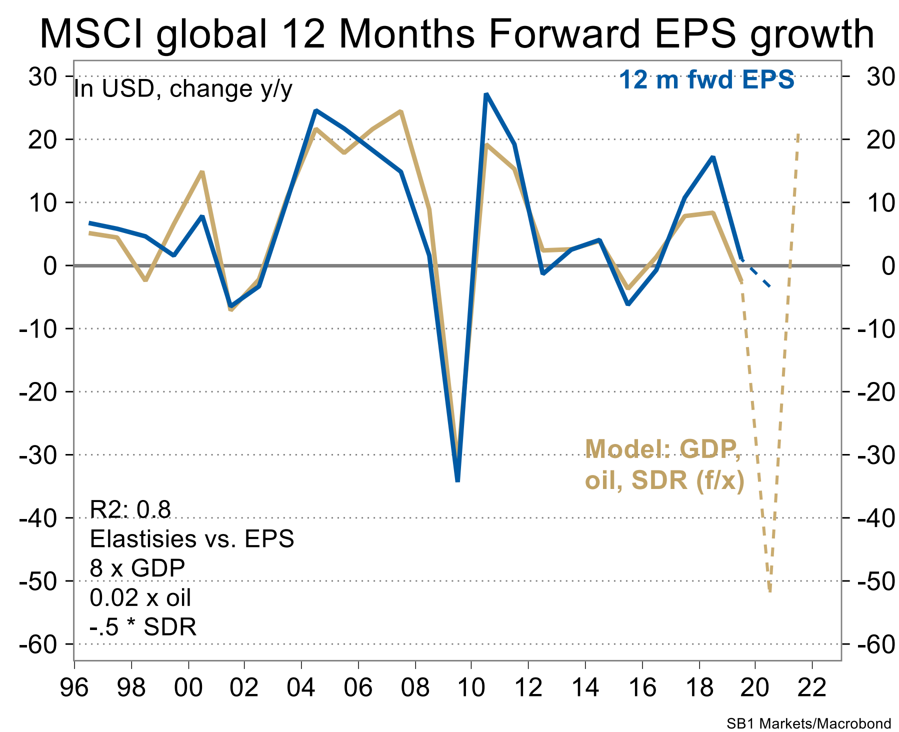


- The manufacturing PMI output index probably fell to 37 in March from 45 in February and 50 in January
- The total index was lifted by smaller declines in the employment index as well as an increase in delivery times (which not was due to strong demand but supply chain problems)

Global profits down 25 to… 50%

The manufacturing sector is not that hard hit, alt least not yet, signals a modest earnings contraction

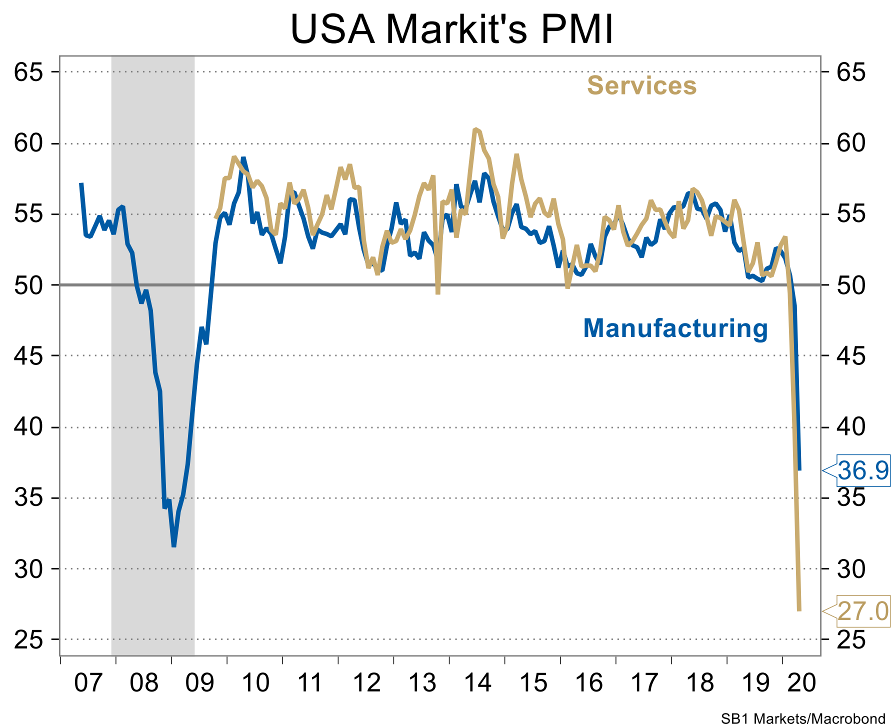


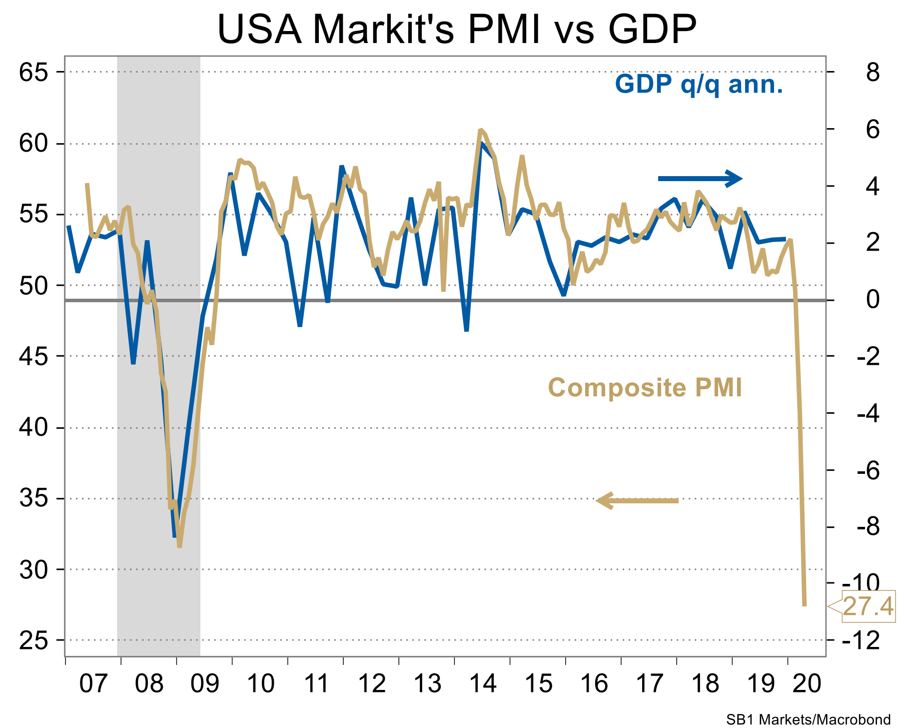


- The total PMI signals a 50% decline, but the correlation is somewhat weaker
- Our global GDP -3% forecast also signals a 50% contraction in global EPS in 2020 (and 70% at the worst, in Q2, measured y/y)
  » Given a 6% recovery in 2021 (leaving the global GDP 3% below it's pre corona growth path), earnings should recover some 20%

Composite PMI at lowest level ever (but data just back to 2007)

Services PMI crashed to 27. Manufacturing is not shining either but remains above the '09 trough

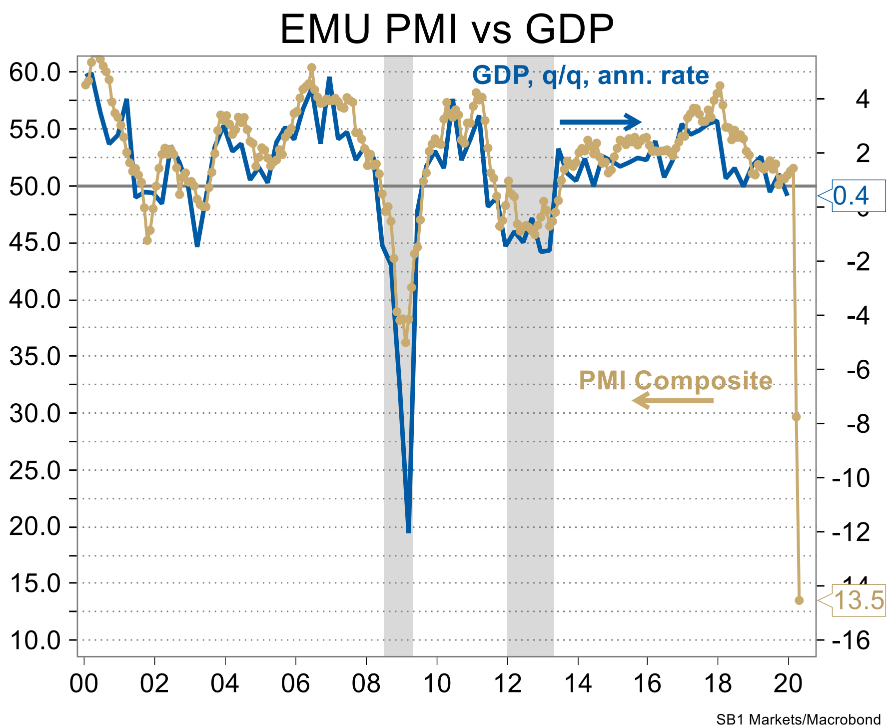


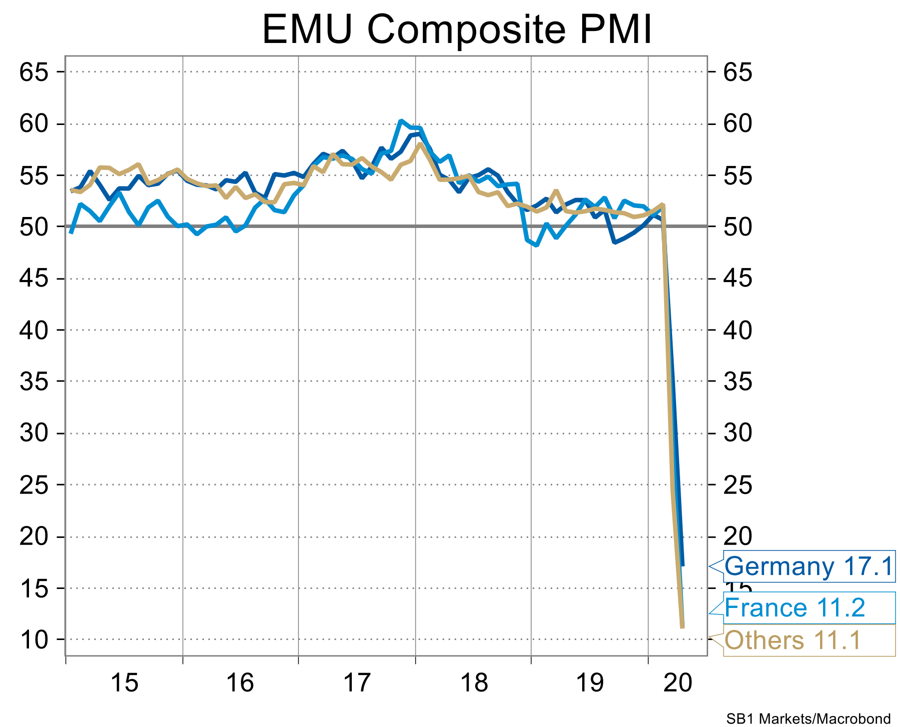


- The service sector PMI fell 12 p to 27.0 in the first part of April, reflecting an abrupt halt in activity as the corona outbreak hit the US. The index was expected 8 p down to 31
- Manufacturers also reported a similar decline, but 'just' to 36.0 (still below expectations). However, a further rise in manufacturers delivery times due to supply side disruptions (closed factories etc) buoyed the total index. The new orders index nosedived 18 p to 29 and the output index by 16 p to 29
- The preliminary composite PMI collapsed, to 27.4, the weakest level on record. The PMI points to some 10% decline in GDP in Q2, measured by the quarterly, annualized rate. The final result will no doubt be far weaker

The lockdowns sent the PMIs almost down to single digit level

The composite PMI fell by 16 p to 13.5. Germany least bad at 17, France/It/Spain at 11

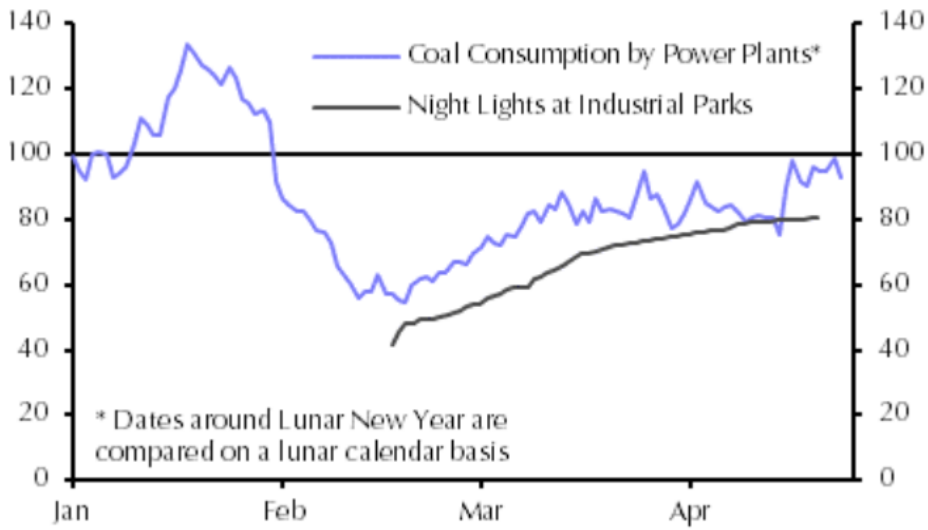




- The preliminary EMU composite PMI tumbled 20 p in March and by another 16 in April (expected just 4 p), totally unprecedented. (In comparison, the PMI fell 4.7 p in November 2008, when the financial crisis hit).
- The composite PMIs in both France, and the average of Spain and Italy fell to close to 10 (with services in It/Sp down below 10)
- *PMIs are growth diffusion indices. An index at 10 will be reported if 5% of the companies reports growth, 10% unchanged activity from the previous month, and 85% reported a decline in activity (PMI =5 + 10/2). If just as many companies report growth as contraction vs the previous months, the index will return to 50. Perhaps in May, even if the activity level will remain disastrously low?*

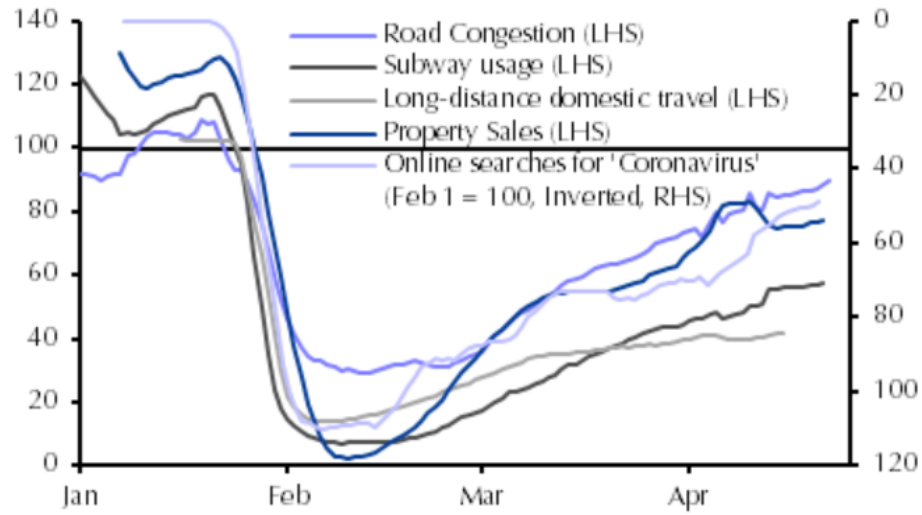
China is gradually gaining speed but still operates well below par

Chart 2: Proxies for Industrial Activity
(% of 2019 level)



Sources: Wind, Capital Economics

Chart 3: Economic Activity (% of 2019, 7d ave.)



Sources: Wind, Baidu, Capital Economics

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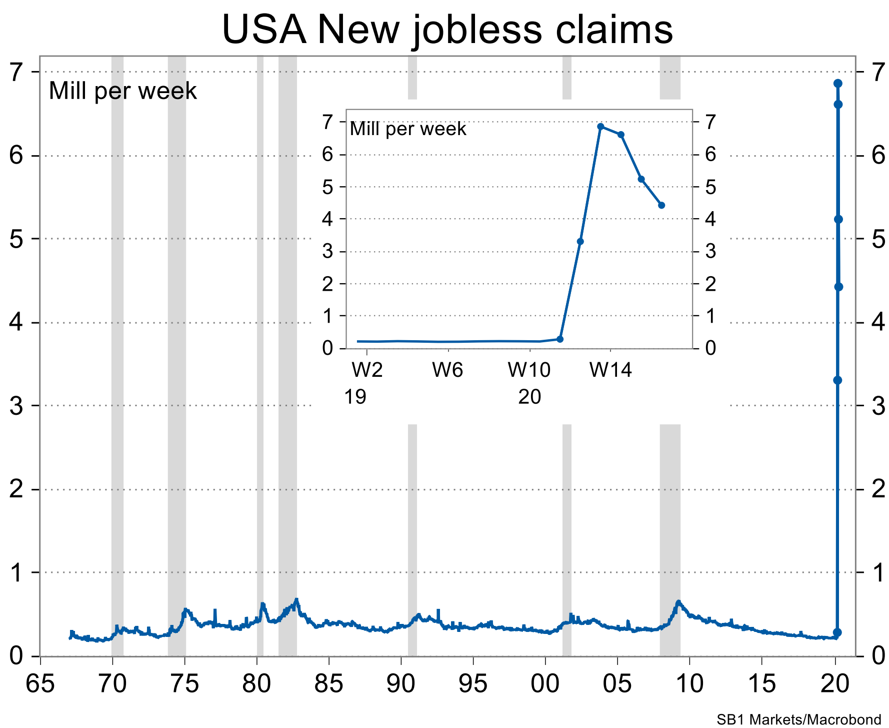
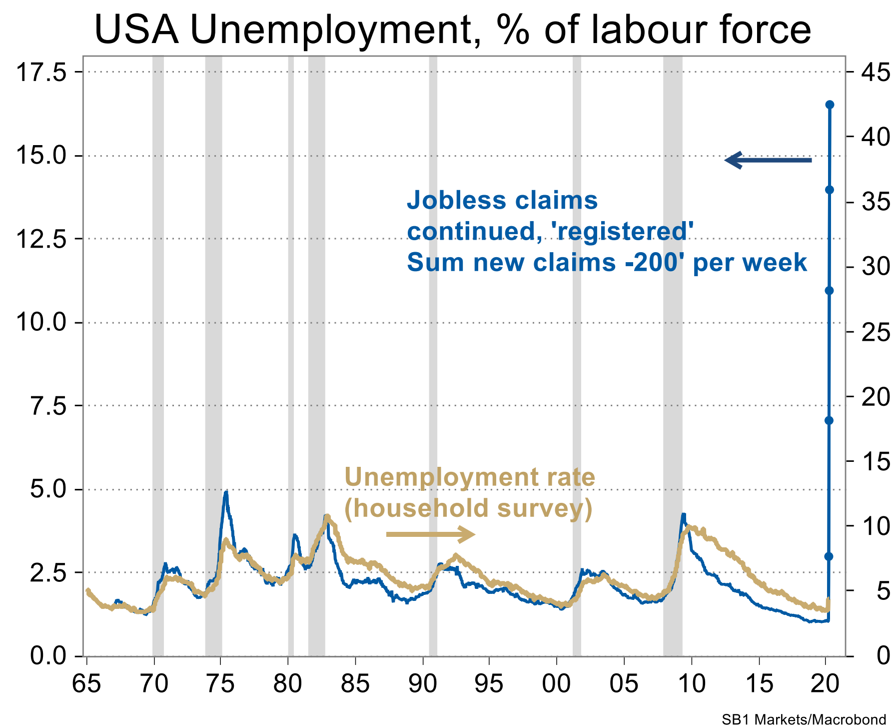
'Just' 4.4 mill new unemployed last week, the sum up 26 mill past 4 weeks

27 mill persons are probably unemployed, 16% of the work force. The "real" unempl. even higher??

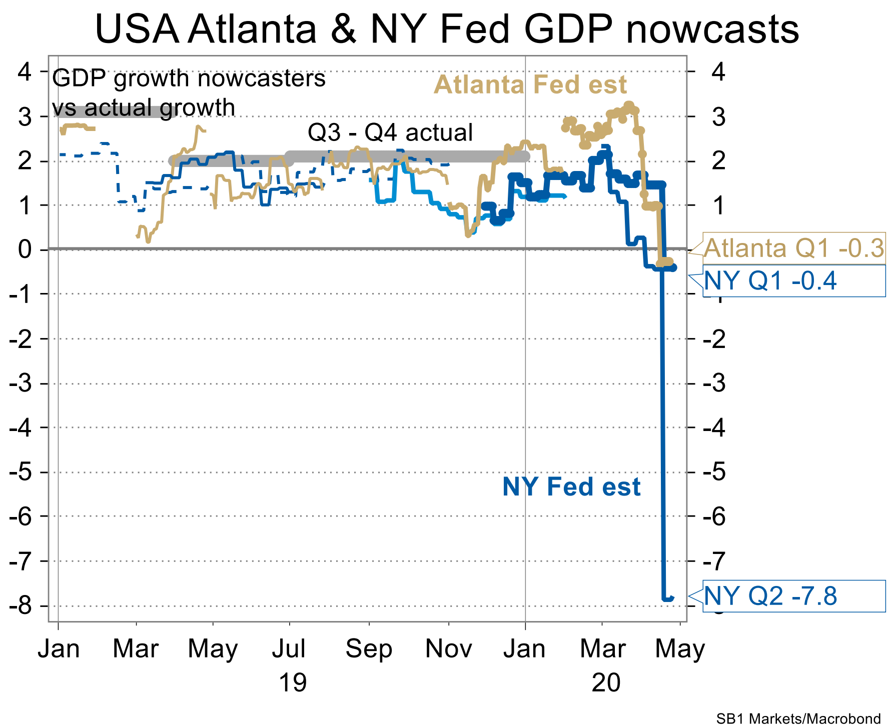


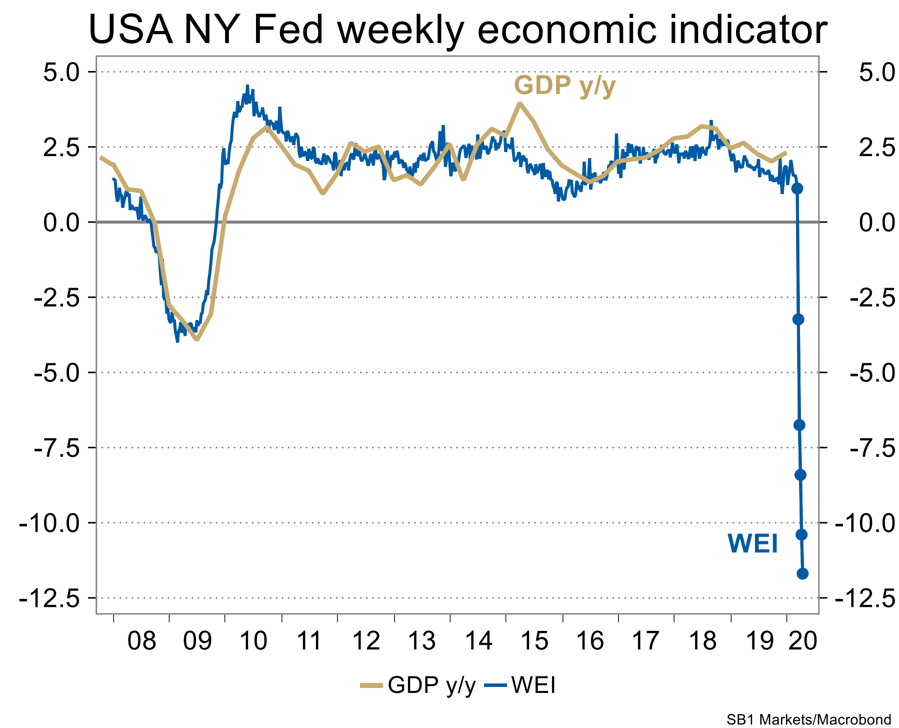


- The shock is totally unprecedented, and even if the inflow has slowed last three last weeks, it is still enormous, equalling 2.5% of the labour force, per week!! Last week's new claims were marginally lower than expected (4.4 mill)
- We estimate continued claims have climbed to 27 million last week, from 1.8 mill 5 weeks ago (the figure will be published coming weeks as the new claims are processed), equalling 16% of the labour force, up from 1% 4 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 an extreme high level in April

Nowcasters starting to show the first corona impacts

Both Atlanta & NY Fed are reporting a modest GDP decline in Q1, and NY a substantial Q2 drop

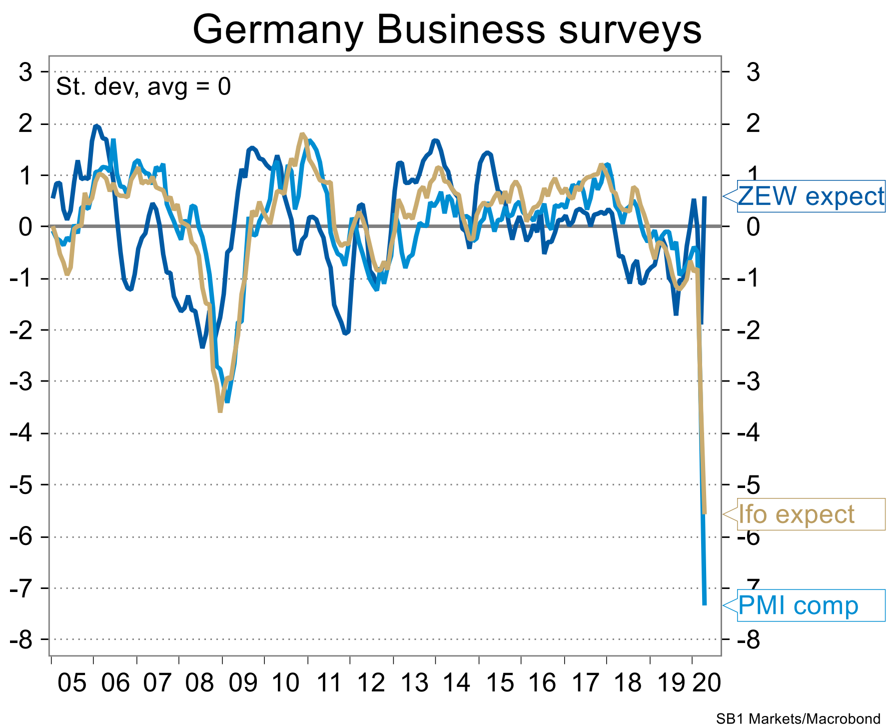




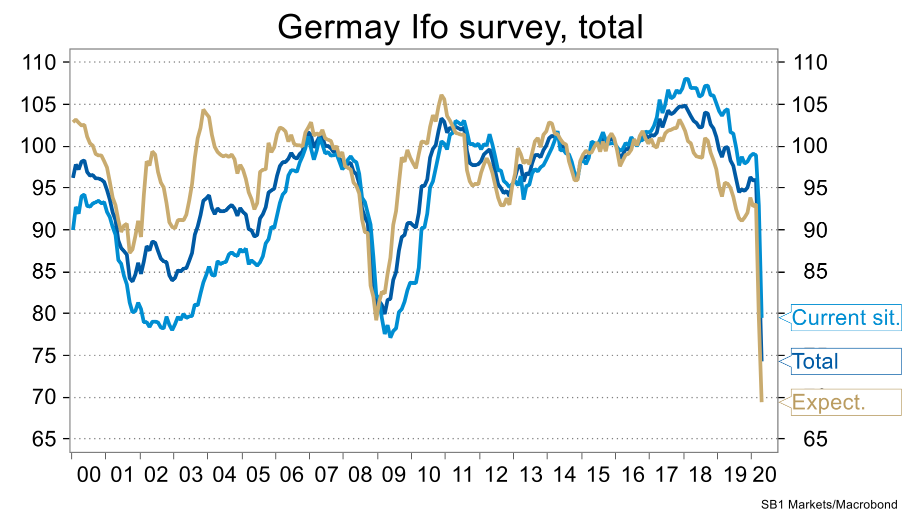
- Most likely, the decline in GDP in Q1 will be larger than the nowcasters report, as will the setback in Q2. Q1 GDP may have declined some 4%, annualised - while Q2 consensus is some 30% down.
- Quoted in not annualised terms, the quarterly consensus estimates are -1% in Q1 and -9 % in Q2, which gives a much more relevant image of the downturn. The GDP level is not expected down 35% to Q1 from Q4, just 10% - which is also what the NY Fed's weekly economic indicator reports, at least so far

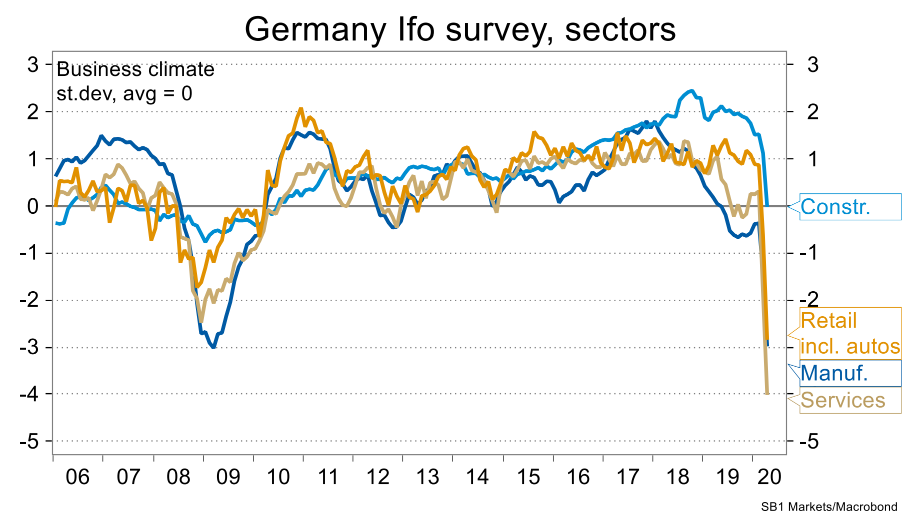
Ifo survey confirms PMI crash but investors & analysts are looking straight up!

A record low Ifo (businesses' assessments) but a pretty strong ZWE expectations component



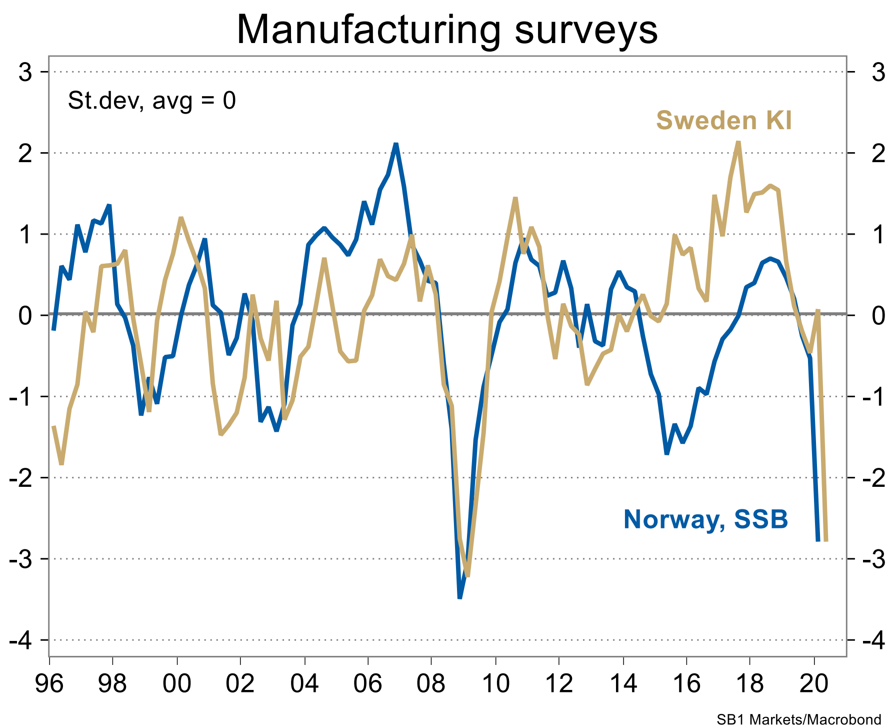
- Ifo business expectations slipped 2 st.dev. in April, following the 2.5 drop in Marv, the level down to -5.5 std.dev, totally uncharted territory
  - » All sectors down the drain, services the weakest but manufacturing just as bad as the lowest level during the financial crisis
- However, expectations among investors and analysts measured by the ZEW index rose sharply to above an average level, from -2 st.dev below – in tandem with the recovery in risk markets. Corona is bad but will not last for too long, is no doubt the consensus assessment (the macro analysts were wrong, they expected just a minor recovery in the expectation index)





Manufacturing in Norway vs. Sweden: Spot the difference!

KI's and SSB's manufacturing surveys are telling the same story



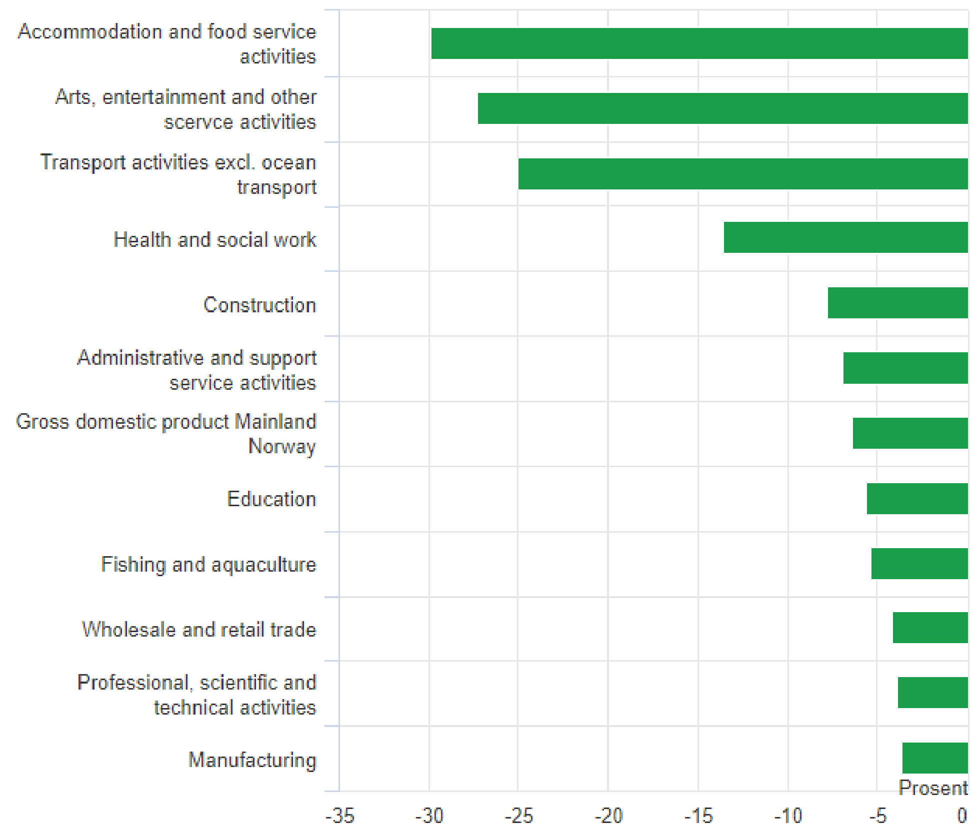
- The authorities' approach to the corona virus threat has been quite different in the two countries, even if Norway did not implement a total lockdown. Still, the manufacturers are reporting the same setback in Sweden as in Norway
- We do not yet have goods service sector surveys in Norway but we doubt they are much worse than the -5 st.dev below average in the Swedish survey

March Mainland GDP down 6.4%, down 14% <u>through</u> the month, Q1 -1.9%

SSB expects a -5.5% in 2020 & just up 4.7% in '21: *If so, GDP 4-5% below trend in 2021?*

- SSB confirmed its initial estimate of a 15 (now 14%) decline in Mainland GDP <u>through</u> March
  - » The growth rate to March from February is now estimated to 6.4%.
  - » Hotels & restaurants down 30%, the level by the end of March probably down much more than twice as much
  - » Manufacturing production down just 4%
- SSB expects at 5.5% decline in Mainland GDP in 2020, in the ballpark of a consensus estimate (some 6%, we assume)
- A modest recovery in 2020 at 4.7% implies that GDP will be 5% below a 2% growth path (starting in 2019)
- Private consumption, housing and mainland & oil business investment are all expected sharply down in 2020
  - » SSB expects a 9% decline in oil investments in 2020 and further 12% in 2020, in sum 30%
  - » We expect -10% and -19% resp, almost 30% in total. If so, the level in Q4 2021 is 40% lower than in Q4 2019
- Unemployment is expected to increase to 6.3% (the peak in 2020 average but higher in Q3, we assume), from 3,5% now. That may turn out to be an optimistic estimate

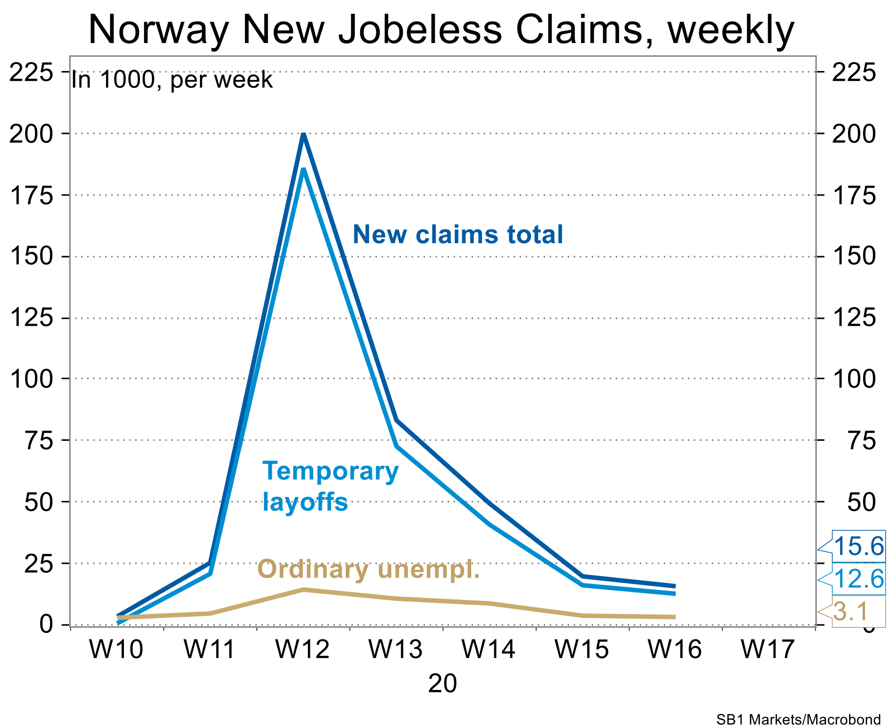
Figure 2. Selected industries. Constant 2017-prices. March 2020. Change in volume from the previous period (per cent)

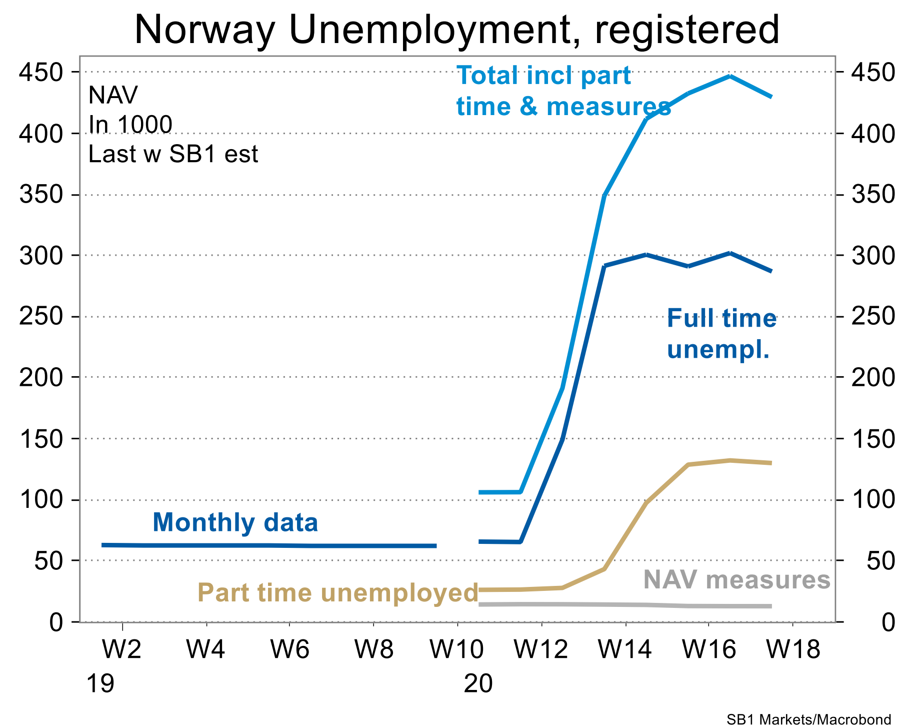


Source: National accounts, Statistics Norway.

Unemployment slightly down last week, open unemployment has flattened

NAV is reporting stable unemployment, the sum at 430' (we expected 450')



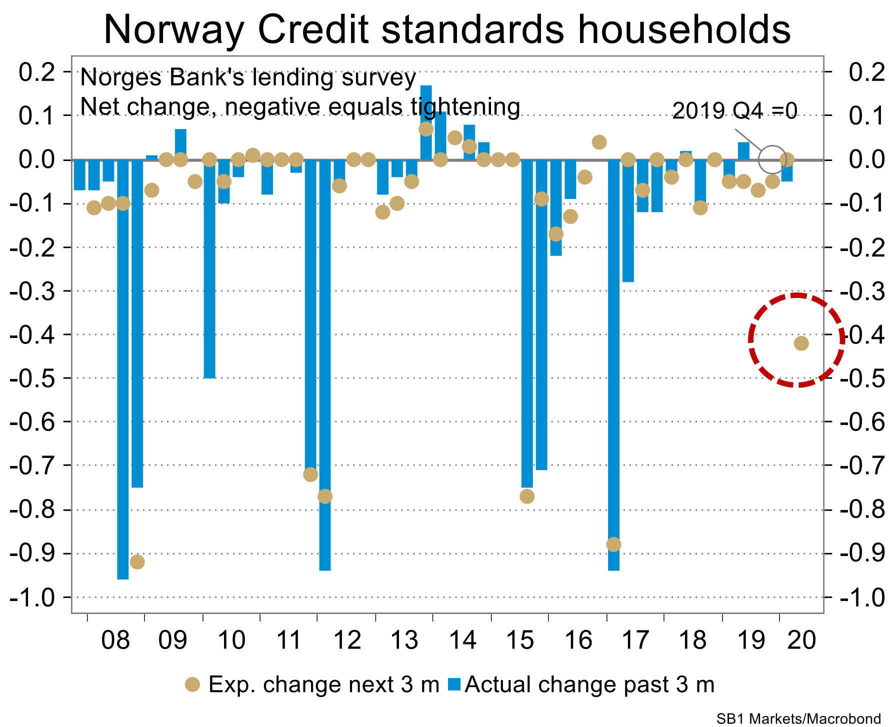


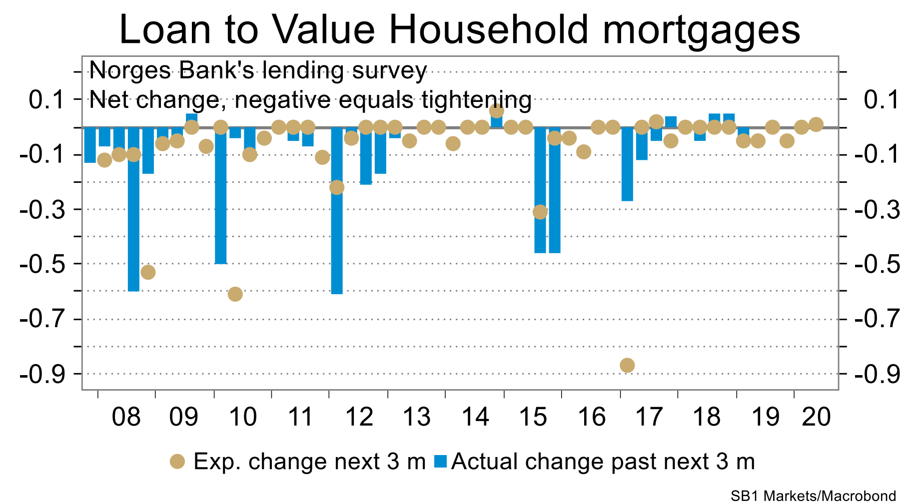
- Weekly new jobless claims fell further last week, to 16', compared to the 200' pace at the peak in the first week after the partial lockdown was decided. The normal inflow is 3 – 5' persons per week. Most of the new claims (80 – 90%) are employees that are furloughed
- Total unemployment (full & part time) rose to 430' persons last week, down from 450' the previous week. The decline might be fore real, as some on temporary leave was engaged again (like in kindergartens) but may also be due to cleaning up i statistics at NAV following the huge inflow the previous six weeks

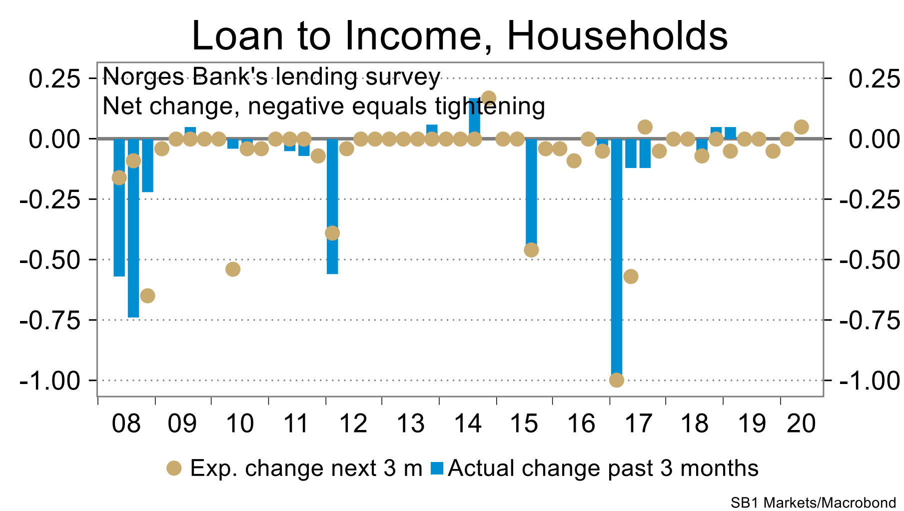
SpareBank 1 MARKETS

Banks plan to tighten credit standards vs households but not LTV or LTI…?

Overall standards are expected to be significantly tightened, mainly due to the economic outlook

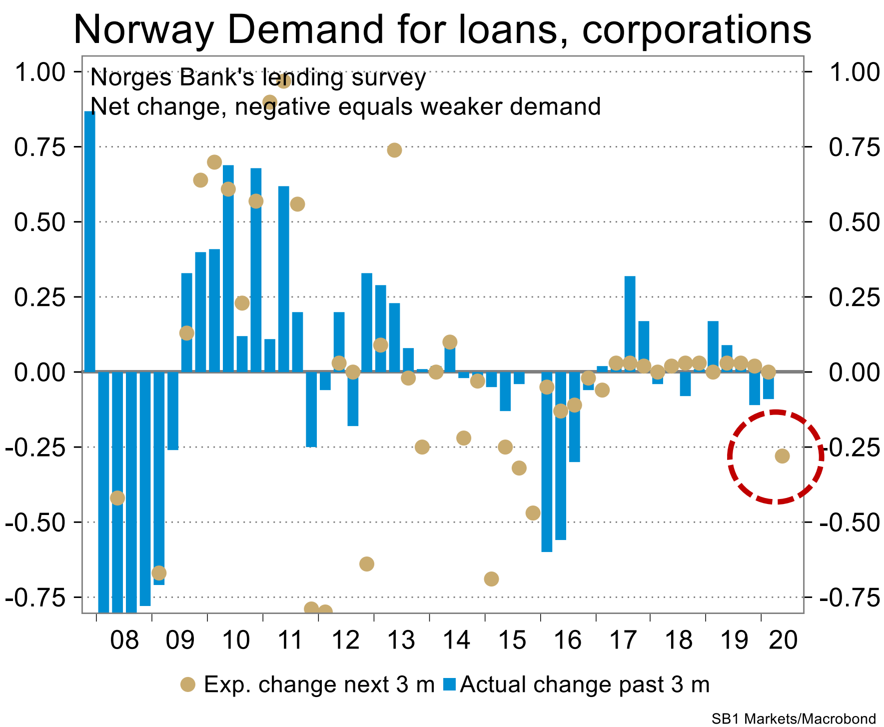


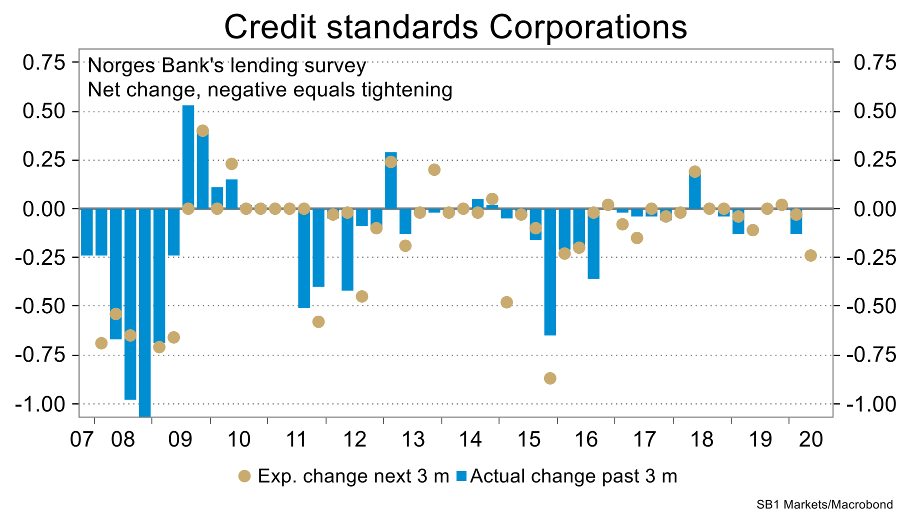


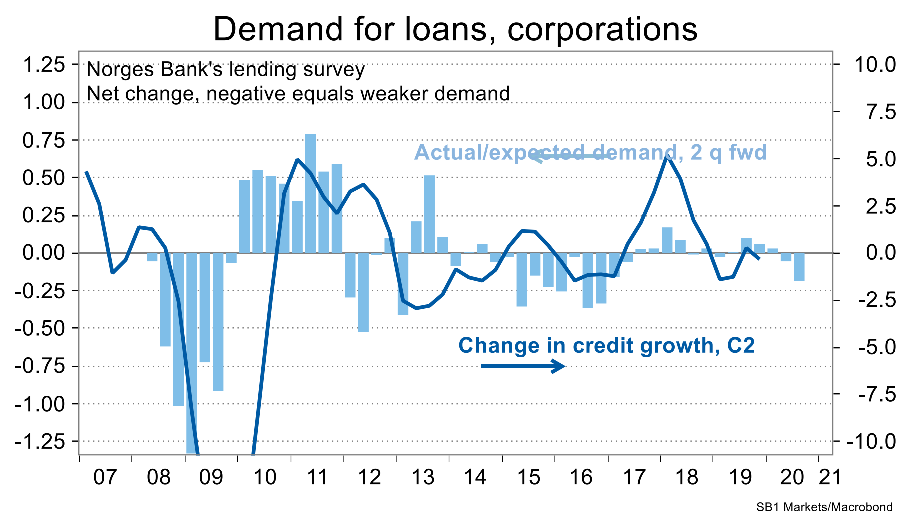


Marginally lower demand from the corporate sector, standards tightened

Demand slowed in Q4 and Q1, more is expected in Q2. A moderate standard tightening expected

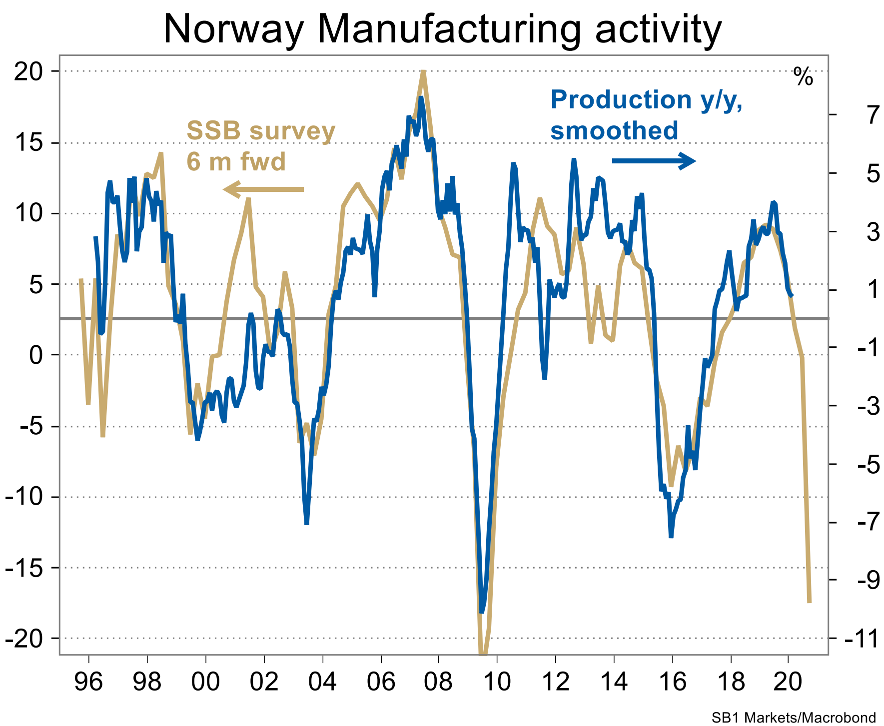


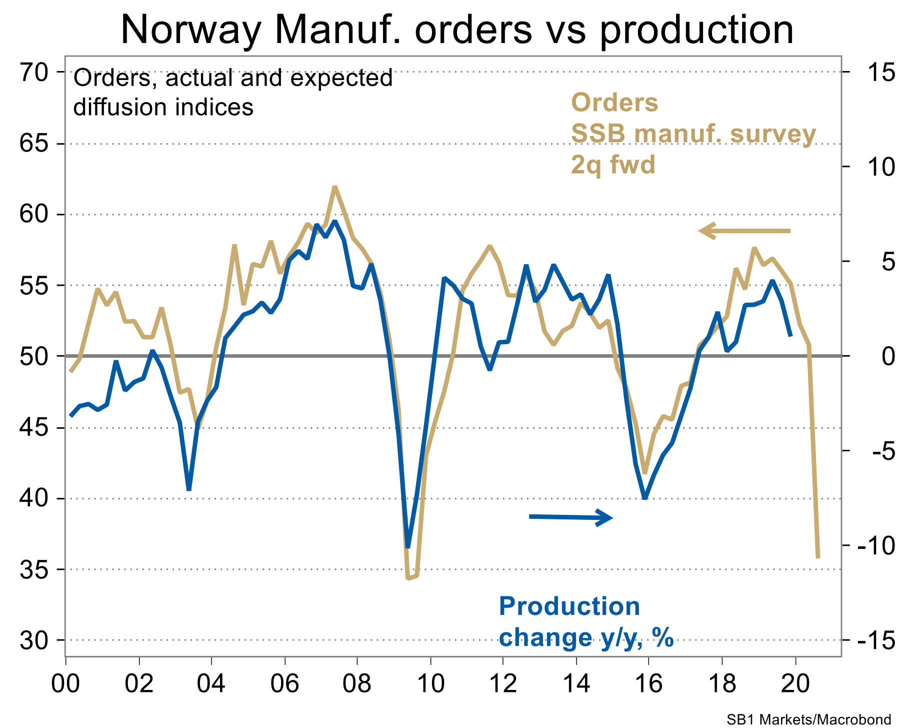




SSB's manufacturing expectations collapses, orders are falling to the ground

Not surprisingly, the manufacturers think they are heading for a harsh downturn

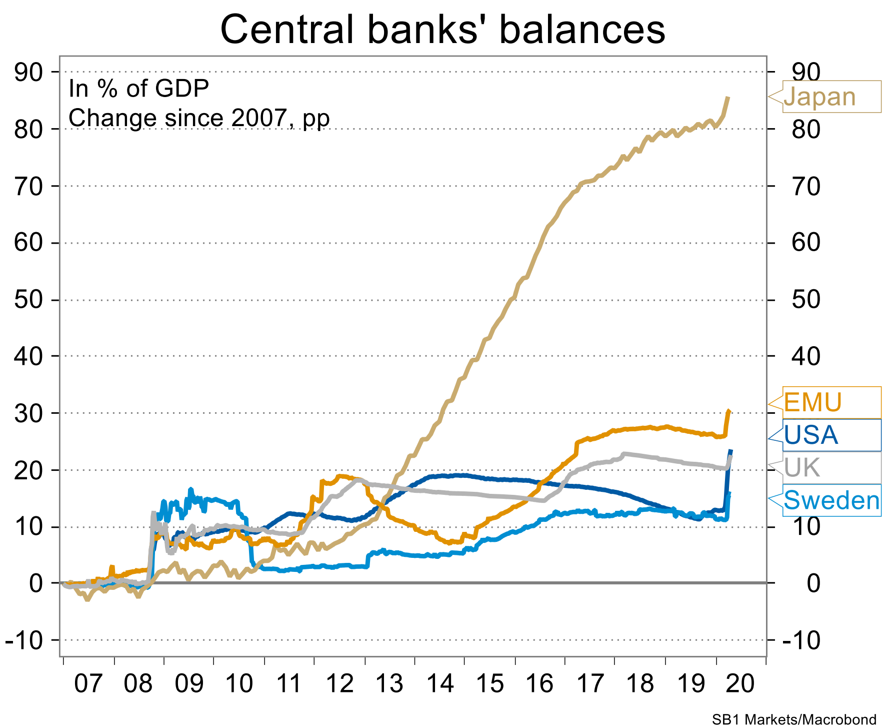




- The composite index in SSB's industrial survey (manuf. index) fell to -17.5 in Q1, from –0.2 in Q4 (revised from +0,7) in Q4,. The q/q decline was the largest ever but the level was even lower in 2009. The index signals a 10% decline in production
- Oil related industries reported a downturn 3 months ago, it has now become much worse – and all other sectors are below the zero line

QE is ramped up aggressively, 10% of GDP in 5 weeks in the US!

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



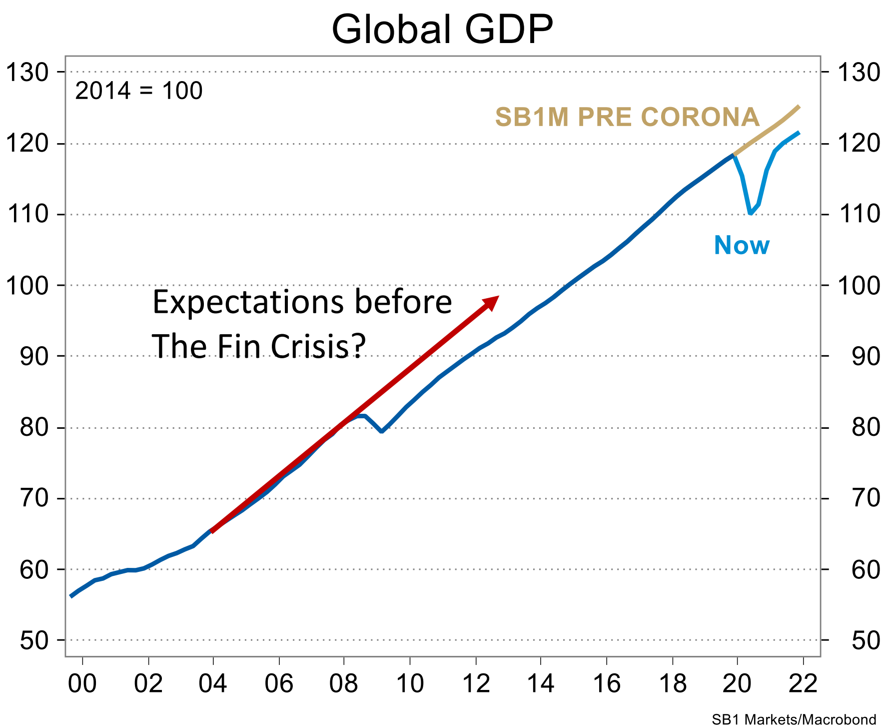
The Economist

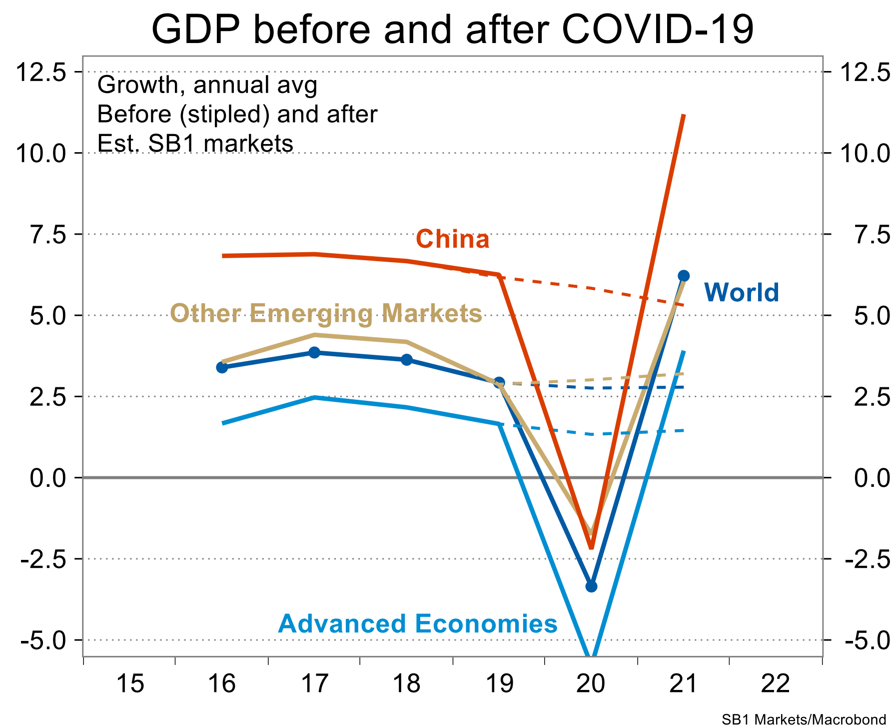
- It's hard to keep track of all the measures now decided (some important actions commented on the next 3 pages). Most places, it is a mix
  - » **Outright public spending**, first like income transfers to households, then a second wave with transfers to the business sector. Further measures will be 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**. 23 out of 27 of the most important central banks have cut their interest rates (they who have not are at zero or below), 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

SpareBank 1 MARKETS

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

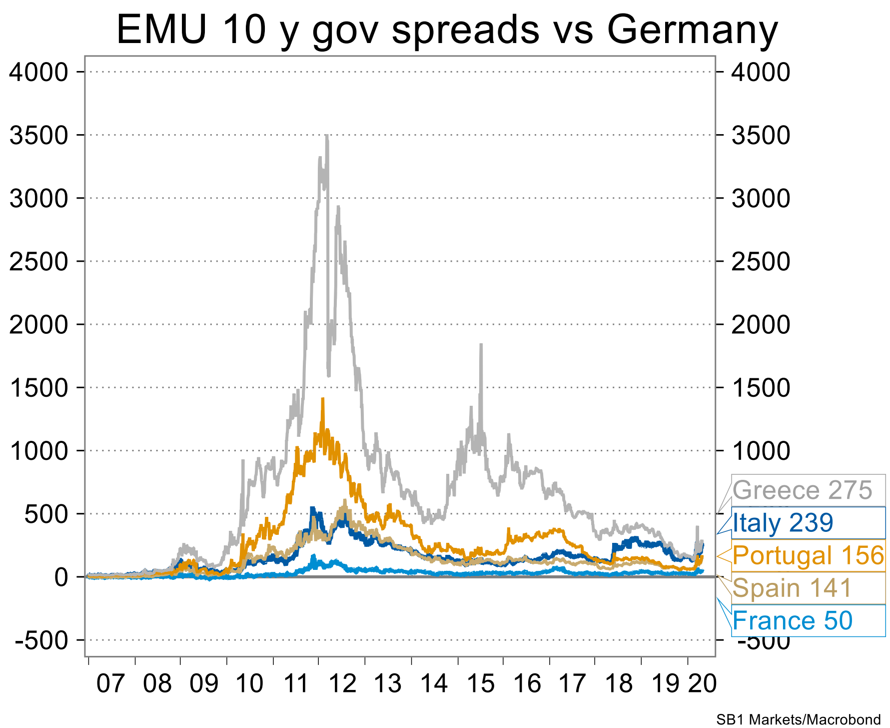


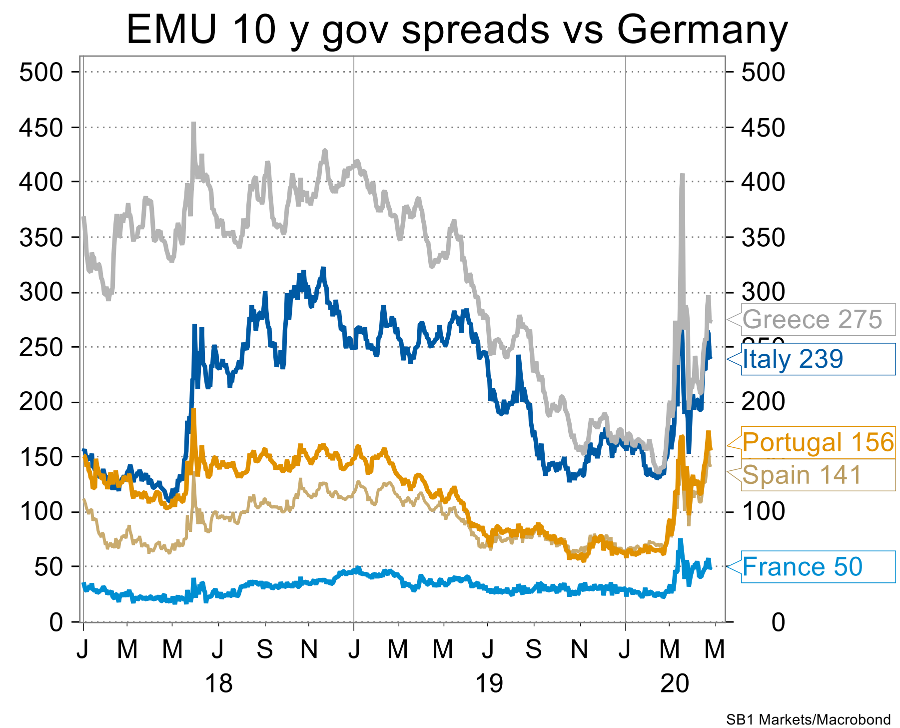


- The decline in the global GDP level will no doubt be much larger than during the Financial crisis. The economic cost, is decided also by the length of the downturn
- We expect a decline in GDP at some 25% per month of closedown lasting 2 months, distributed over Q1, Q2 and Q3 for different countries/regions,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

Markets are waiting for more EMU actions on burden sharing

In between time, government bond spreads are widening





SpareBank 1 MARKETS

The Calendar

In focus: Manufacturing PMIs (& China composite), US GDP, Fed/ECB/Rix, No/Sw retail sales

Time	Country	Indicator	Period	Forecast	Prior
Monday Apr 27					
Tuesday Apr 28					
01:30	JN	Jobless Rate	Mar	2.50%	2.4%
08:00	NO	Retail Sales MoM	Mar	(-11%)	2.0%
09:30	SW	Riksbank Interest Rate	Apr-28	0.0%	0.0%
09:30	SW	Retail Sales MoM	Mar		0.2%
14:00	NO	Registered Unemployment, Weekly	Apr-28		12.0%
14:30	US	Advance Goods Trade Balance	Mar	-55b	-$59.9b
15:00	US	S&P 20-City House Prices MoM	Feb	0.35%	0.3%
16:00	US	Conf. Board Consumer Confidence	Apr	87.9	120
	JN	BOJ Policy Rate	Apr-28	--	-0.1%
Wednesday Apr 29					
00:00	NO	Norges Bank regional network, phone	Apr		
11:00	EC	Economic Confidence	Apr	75	94.5
14:30	US	GDP QoQ Annualized	1Q A	-3	2.1%
14:30	US	Core PCE QoQ	1Q A	-3.90%	1.3%
16:00	US	Pending Home Sales MoM	Mar	-13%	2.4%
20:00	US	FOMC Rate Decision	Apr-29	0-0.25%	0-0.25%
Thursday Apr 30					
01:50	JN	Retail Sales MoM	Mar	-4.3%	0.6%
01:50	JN	Industrial Production MoM	Mar P	-5.0%	0.30%
03:00	CH	Manufacturing PMI, NBS/CFLP	Apr	51	52
07:30	FR	GDP QoQ	Q1	-4.0%	-0.1%
08:00	NO	Credit Growth YoY	Mar	(4.7)	4.8%
10:00	NO	NAV open unemployment rate	Apr	(11.0%)	10.7%
11:00	EC	Unemployment Rate	Mar	7.7%	7.3%
11:00	EC	GDP QoQ, not annualised	1Q A	3.50%	0.1%
11:00	EC	CPI Core YoY	Apr P	0.7%	1.0%
13:45	EC	ECB Deposit Facility Rate	Apr-30	-0.50%	-0.5%
14:30	US	Personal Income	Mar	-1.60%	0.6%
14:30	US	PCE Core Deflator YoY	Mar	1.60%	1.8%
14:30	US	Initial Jobless Claims	Apr-25	3.500	4.427
14:30	US	Employment Cost Index	1Q	0.60%	0.7%
Friday May 1					
02:30	JN	PMI Manufacturing	Apr F	--	--
10:30	UK	PMI Manufacturing SA	Apr F	32.7	32.9
15:45	US	Markit Manufacturing PMI	Apr F	36.7	36.9
16:00	US	ISM Manufacturing	Apr	36.1	49.1
	US	Total Vehicle Sales	Apr	6.25	11.37m
Monday May 4					
03:45	CH	PMI Manufacturing, Markit/Caixin	Apr	50.5	50.1

- **Manufacturing PMIs & ISM**
  - » The preliminary April manufacturing PMIs fell all over the place, and more than expected - and details were much weaker than the headline as orders and output fell much more than the total index. The manufacturing indices in USA and Europe stumbled to mid to low 30'ies , respectively. Final indices from here and rest of the world + the manufacturing PMI will be published this week
- **Central banks**
  - » **The Federal Reserve** has been extremely aggressive the past weeks, and 7 support programs are already established. We do not expect the bank to do more at this stage but to announce that the bank is willing to do whatever it takes
  - » **The ECB** last week decided to include recently fallen investment grade angles to be included in the broaden universe of what the bank can buy in its QE programs. More can come this week, like an extension of some QE programs to better act as a backstop for struggling countries as the EMU leader are not moving fast to establish some sort of fiscal burden sharing programs
  - » **The Riksbank** may announce further QE measures but will probably let the policy rate stay unch at zero – even if the rate was at -0.5% for more than 3 years
- **US**
  - » **Q1 GDP** was no doubt influenced by the corona virus. A 10% decline in production in 2nd half of March would have deducted some 1.5 pp (not annualised) from the quarter's growth rate. With a 0.5 pre corona growth pace, GDP would decline by 1% in the whole quarter, or by 4% in a (more or less meaningless) annualised term
  - » **Jobless claims** are soaring but at a gradually slower pace. Last week saw another 4.4 million new claims seekers, the sum is up 26 mill over the past 4 weeks, and open unemployment could now equal 16% of the labour force
- **EMU**
  - » The Q1 GDP flash estimate will confirm a harsh downturn in in March. Q1 is expected down 3.5%, not annualised (or -13% annualised)
  - » The unemployment rate probably rose somewhat in March but the big hit will come in April
- **Norway**
  - » We expect a small increase in the NAV unemployment rate in April, as harsh decline in retail sales in March (-11%) but not yet declining credit growth (in March)

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

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 -3% y/y in 2020 (from 2.8% before corona), the uncertainties are extreme**	**Global composite PMI** tumbled another 10 bp to 29 in April (our prelim, est), a new all time low. The service industry noted the sharpest contraction. Consumer confidence fell sharply in April
China	Growth had slowed just marginally, and inched up through 2019. Then, the Covid-19 'killed' the economy in Q1. As the outbreak has come under control, and expect a partial recovery in Q2 and Q3, but not fully up to the Q4 2019 level. The annual growth will be closer to -2%, from +6%, even if the activity level increases sharply. 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, which is not unlikely. **We expect more policy measures to ensure a recovery in during 2020**	GDP fell as expected by 10% q/q, and is more than 11% below trend. Industrial production surprised sharply on the upside, rose 32%, just 5% below trend. Retail sales and investments not that brisk, both 17 – 20% below pre corona trend
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 still increasing at an unprecedented speed, 26 mill (16% of labour force) past 3 weeks! Markit's PMI fell sharply in April, services the weakest link. A mixed March durable orders report
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 was tight, and labour cost infl. is back to a normal level. Investment ratios were above trend. Credit growth was flattening out, as corporate demand slows. Household savings were high, still consumption had kept up well. Policy: ECB does not have much ammunition left, particularly after a huge ramp up of QE. Fiscal policy debate has turned, and huge stimulus are decided. **Recession everywhere**	The Eurozone PMIs fell sharply in April to, as the lockdown included the whole month. Services were brought to an halt
Norway	Growth has been above trend, 2020 will be slashed by the corona shutdown. Unemployment has skyrocketed, due temp layoffs. 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 below income growth. **Risks, other than corona: Debt, housing. A harsh global setback. We have revised our 2020 growth forecast to -6%**	Unemployment has stabilized, according to weekly NAV data. GDP fell 6.4% in March, and by 1.9% in Q1. Manufacturing outlook has deteriorated sharply, cons. confidence fell to ATL. Banks expect declining demand for loans, especially from households

Colour c

Highlights

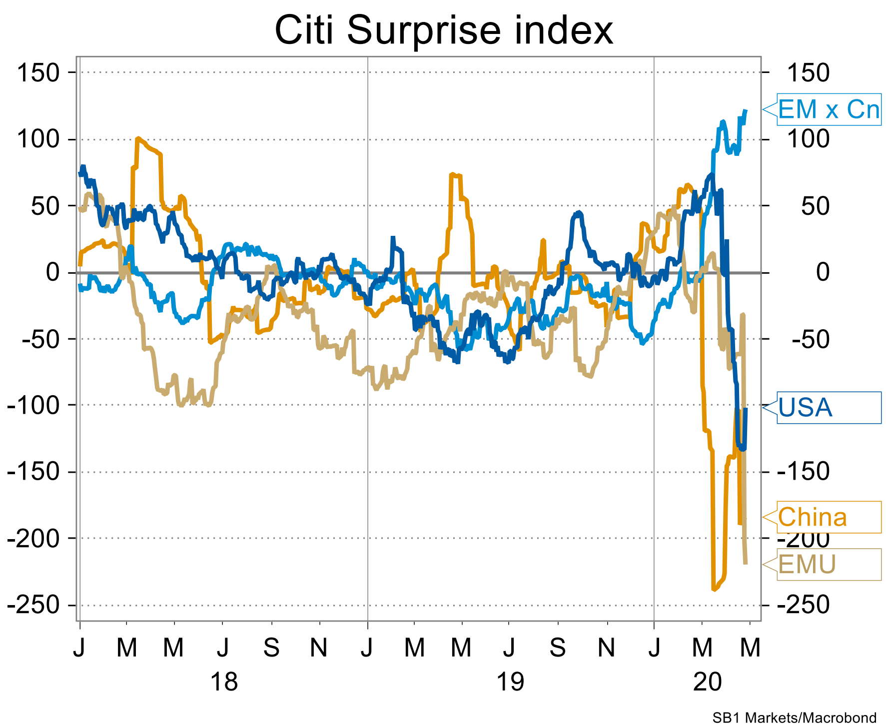
The world around us

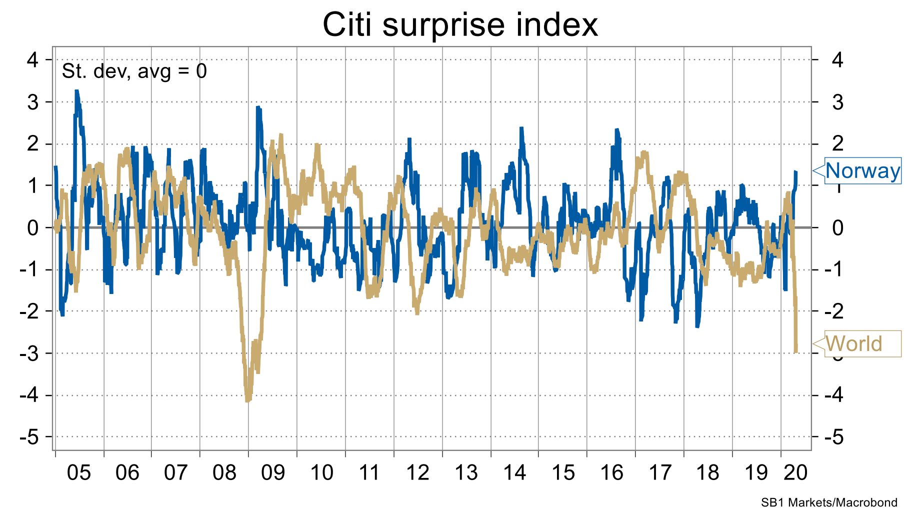
The Norwegian economy

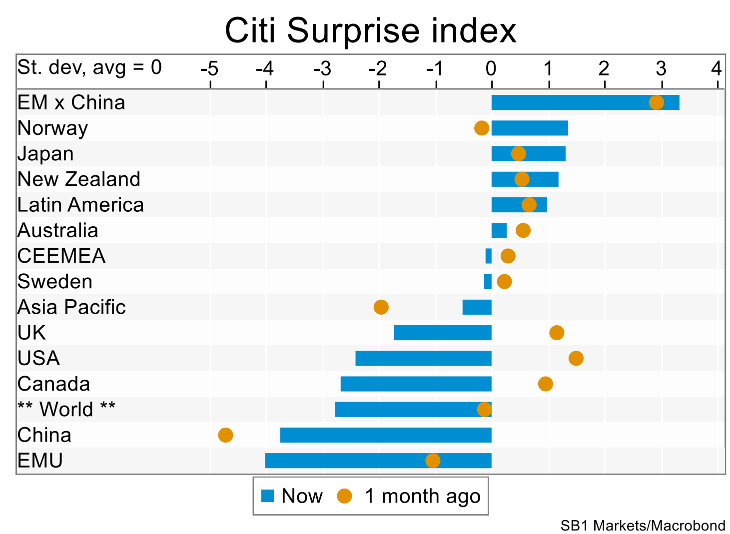
Market charts & comments

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

Emerging markets x China is still reporting better data than expected







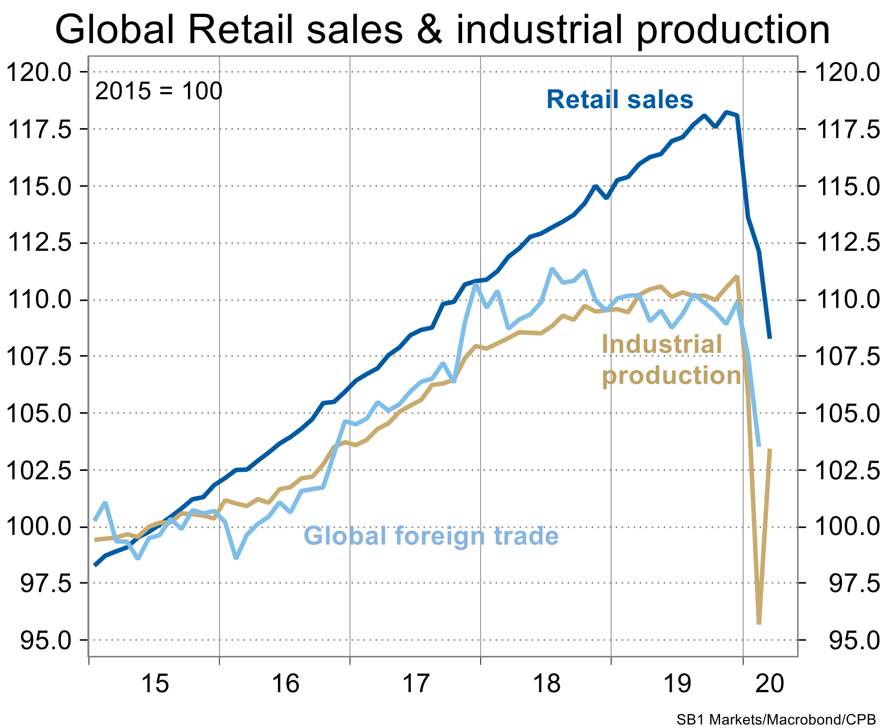
- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- Until the previous week Chinese and US data has surprised most at the downside but the Euro zone took the lead last week
- Norwegian data are more upbeat vs expectations, <u>for no good reason</u>

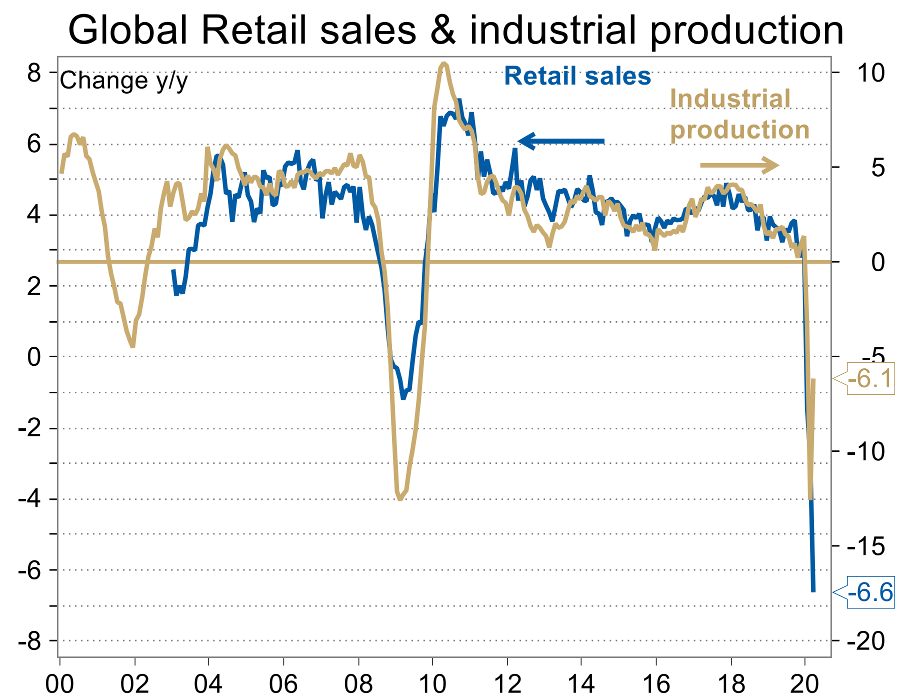
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

SpareBank 1 MARKETS

China tanked global manufacturing in February, lifted it sharply in March

It's an early call but we estimate a 8% lift in global production in March, China up 32%, others -6%?



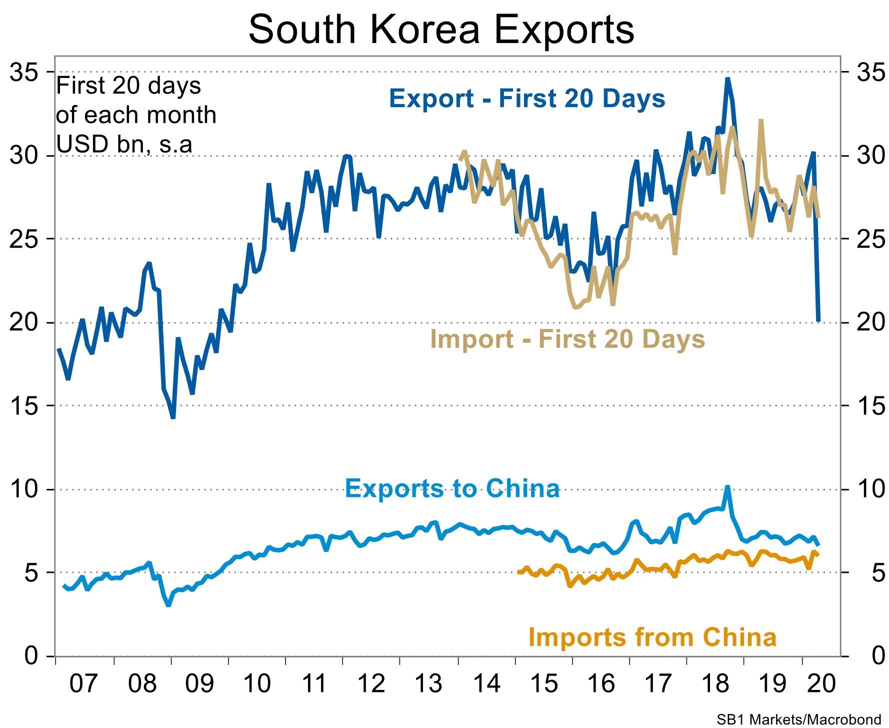


Memo: Keep in mind the different scales at the chart above

- **Global industrial production** fell by 10% in February, due the huge decline in China. Just some few have reported March data but as China reported a 32% recovery, well above expectations, global production must have recovered to, as the first half of March was more or less normal in the rest of the world. Our very preliminary estimate is +8% in March. However, we expect global production to fall sharply again in April as the whole month was 'lost' in both Europe and in US, as in some Emerging economies. Then, we a looking for a modest recovery in May
- **Retail sales** dropped 3% m/m in January (a strange pre corona decline in China) and another 0.8% in February. Chinese retail sales recovered marginally in March. In much of the rest of the world sales have fallen substantially, and **we assume a 4% decline in global sales**
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

South Korea feels the heat

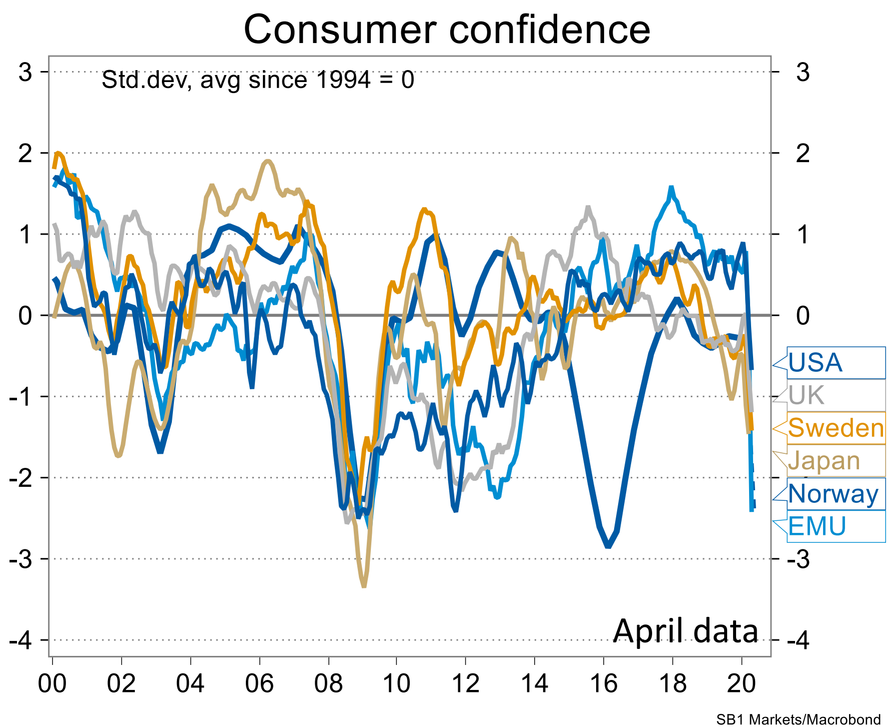
Exports fell more than 30 % during first 20 days of April, and China is not to blame

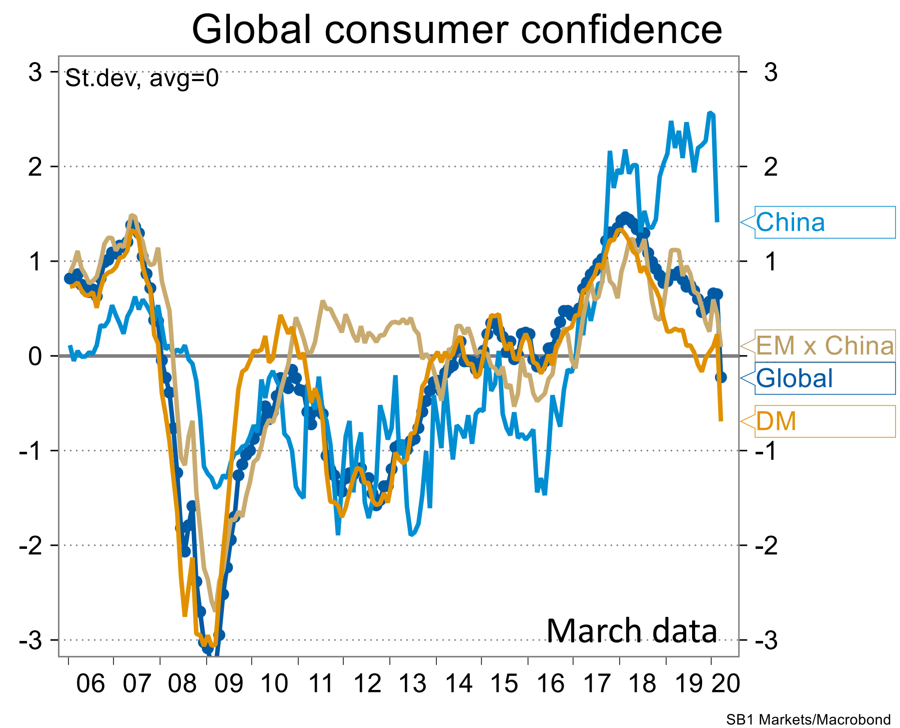


- We do not have the complete breakdown but exports fell in most directions, also to the EU & US – and both semiconductors, autos and petroleum products

Consumer confidence sharply down everywhere

Still data are not disasterous and in average above the 2008 troughs, albeit not in EMU, Norway

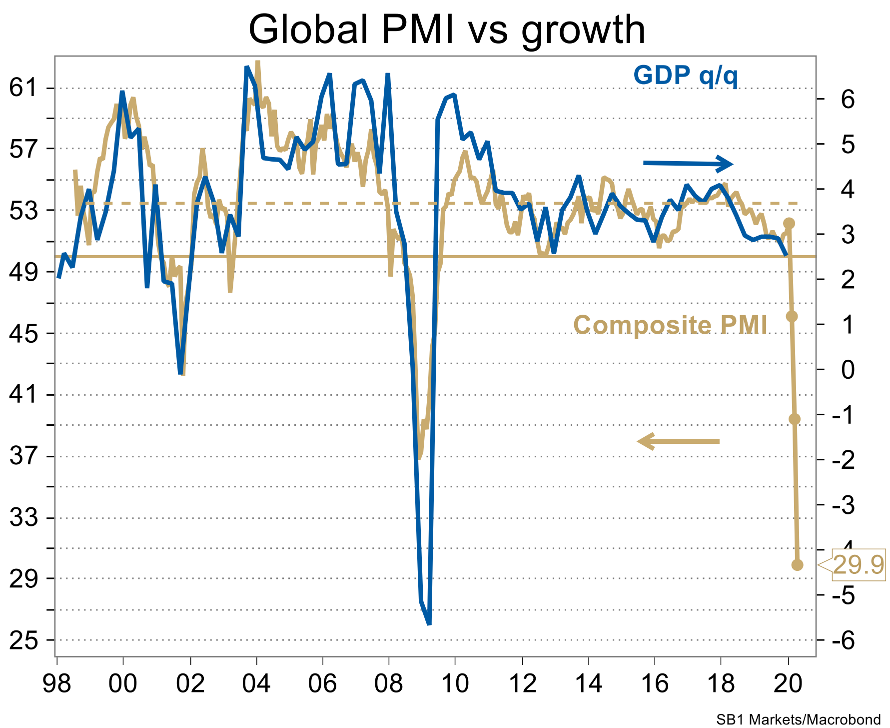


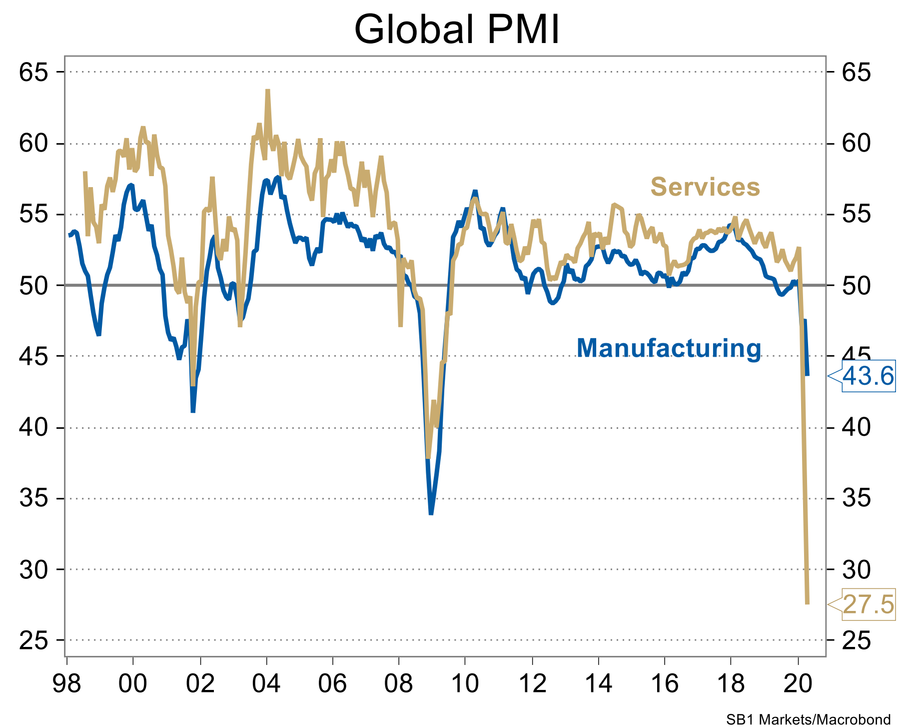


SpareBank 1 MARKETS

Lockdowns lock the service sector down, not good in manufacturing either

Global PMI tumbled some 9-10 p in April, as service industries collapsed amid the corona crisis



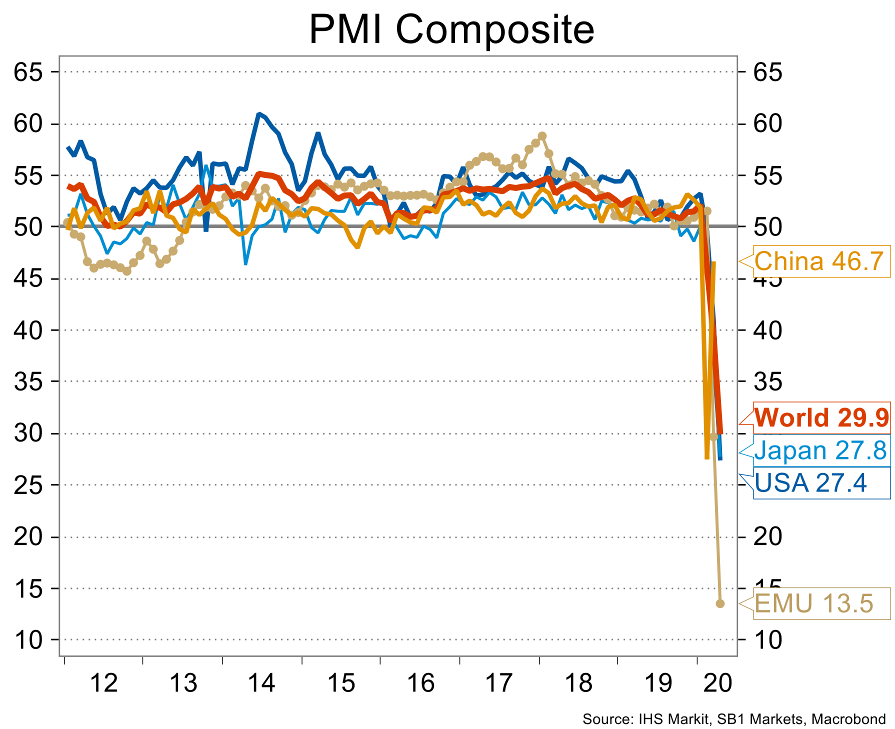


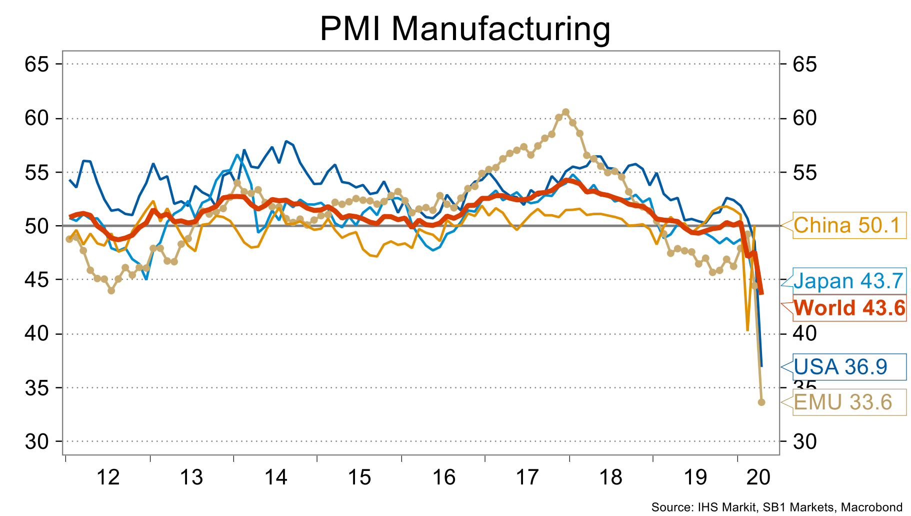
- Global composite PMI crashed 9 – 10 p to 30 in April, according to our estimate based on the preliminary PMIs from the US, Eurozone, UK and Japan (and by assuming a small, further lift in China). The level is the lowest by far (data from 1998), and confirms the sudden decline in economic activity in March and April. Calibration vs. GDP growth is not easy with the PMI far below a normal range but at 8 – 10% decline (annualised in March and April does not seem unreasonable (vs. the decline in GDP during the financial crises, where the service sector PMIs (and the composite) were less downbeat than now
- Covid-19 sent services into the sharpest contraction on record, down to 27.5. Manufacturers are no doubt struggling too but the decline in the PMI has been more modest, we assume a total index down 4 to 44 (but output and order indices are much weaker than the total index, down below 40)

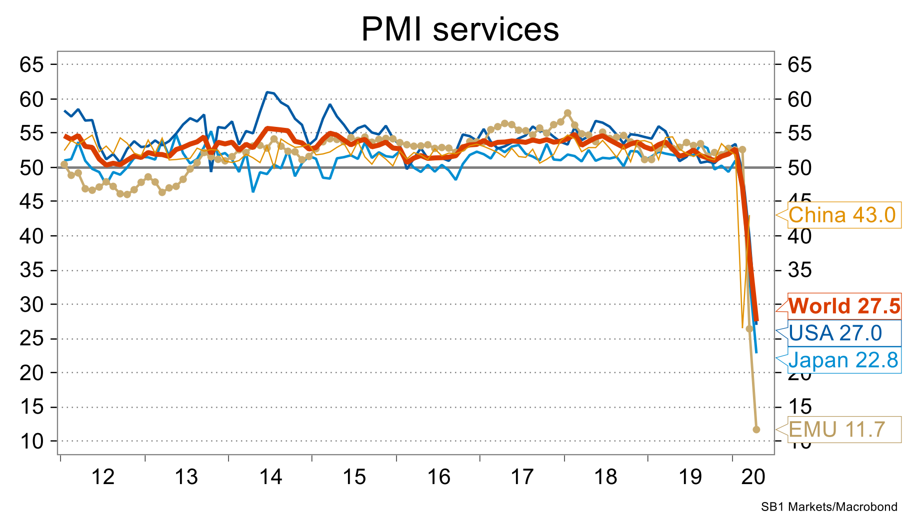
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

The EMU service sector index fell to 11.7, the lowest PMI on record, ever

Not that strange, beside health services and some delivery services, who should report growth now?



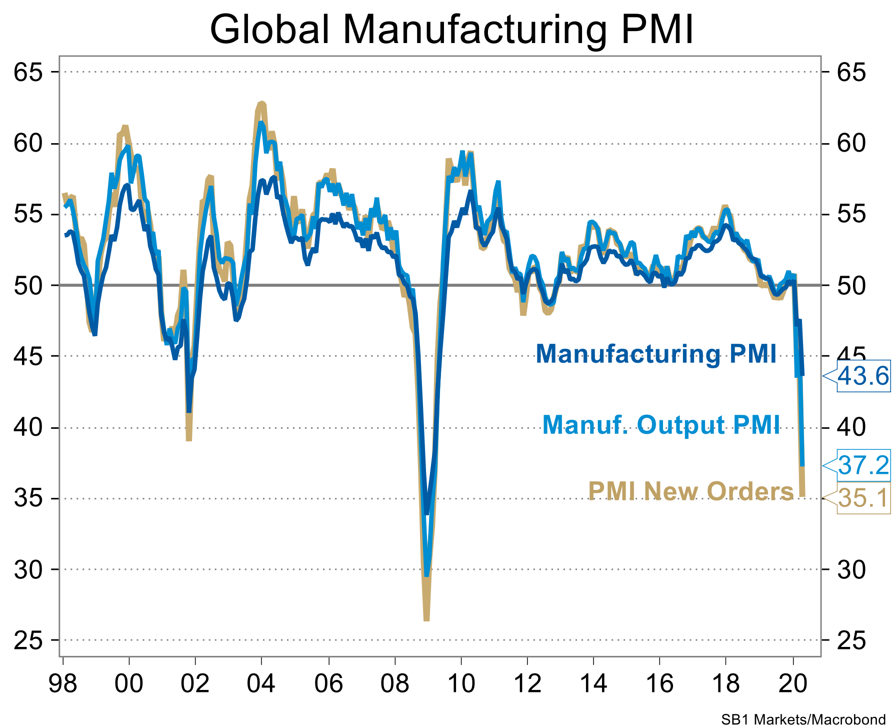


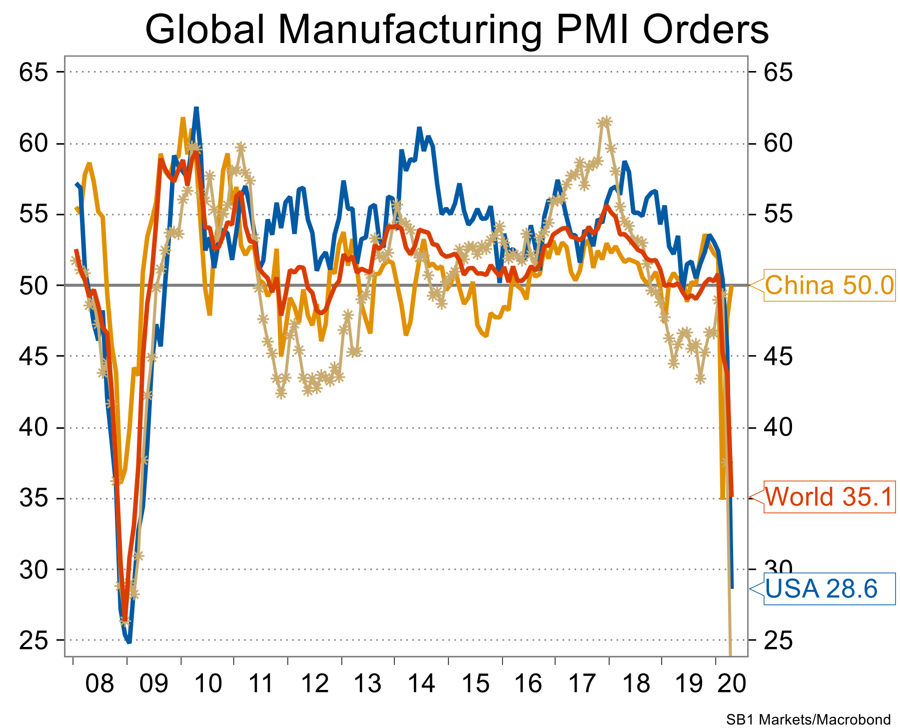


- The April PMI data were even worse than expected. The PMIs are diffusion indices, and if all companies report a decline from the previous month, the index would be at zero. If just as many are up as down, the index is at 50. In April, not many companies in the service sector in the Eurozone reported growth. Thus the PMI fell down to 11.7, still well below expectations (25)! The average in Italy & Spain fell to 9, as large parts of their economises closed down
- We expect May PMIs to recover substantially as some restrictions will be lifted and few companies should report even lower activity than in April (in principle, the PMIs should climb to above 50, even if the activity level still would be extremely low)

Manufacturing details are weak as orders & output indices are tumbling

We estimate a drop in the global manufacturing orders PMI to 35 in March, from above 50 in Jan

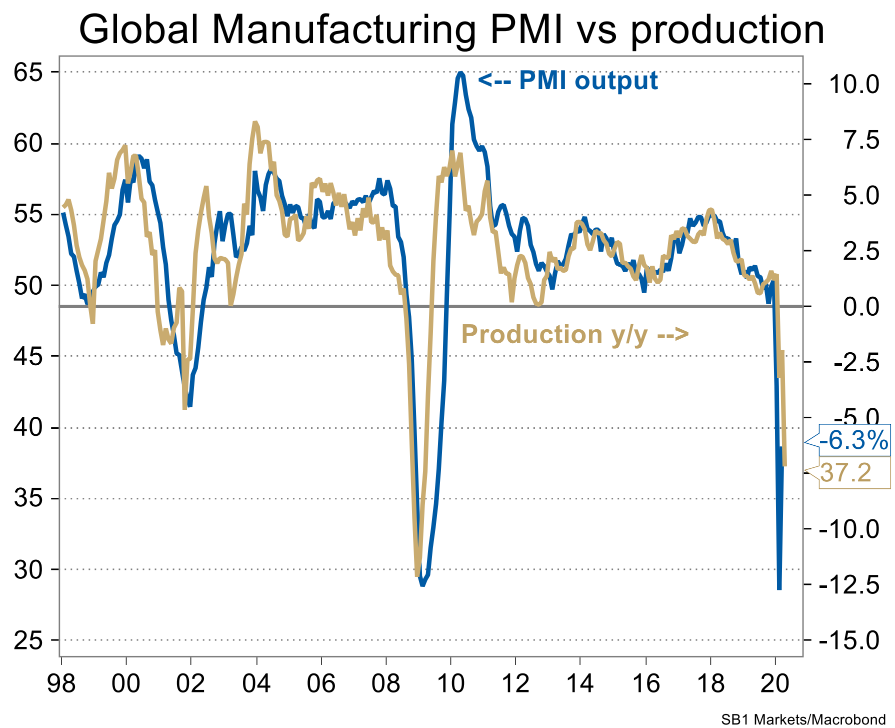


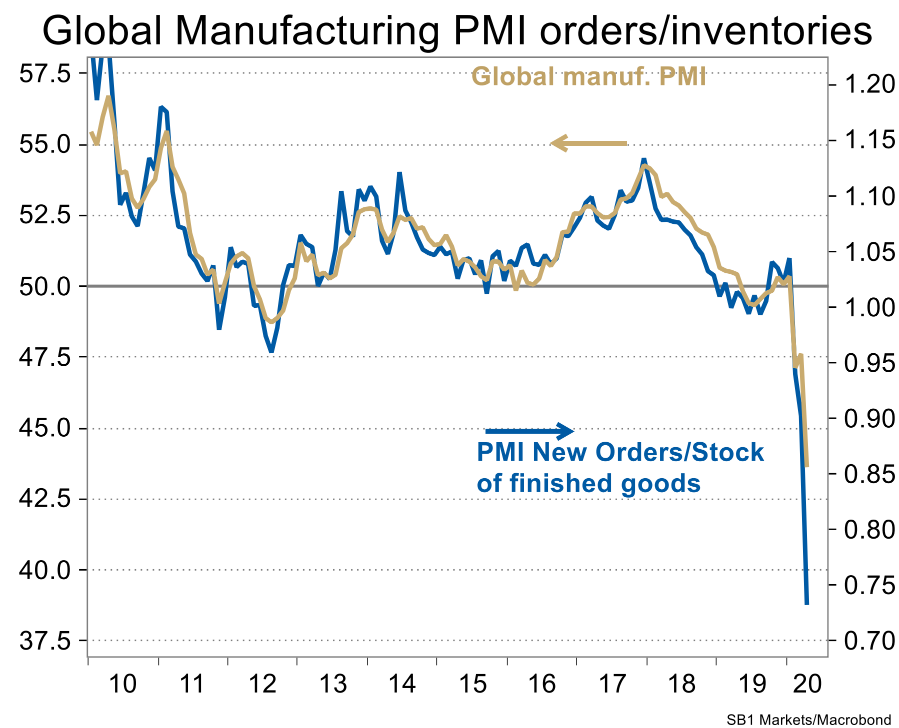


- The manufacturing PMI output index probably fell to 37 in March from 45 in February and 50 in January
- The total index was lifted by smaller declines in the employment index as well as an increase in delivery times (which not was due to strong demand but supply chain problems)

Global manufacturing is contracting sharply, quicker but not deeper than in '08

The PMI output index fell further in April, to 37, signalling a 6% drop in production



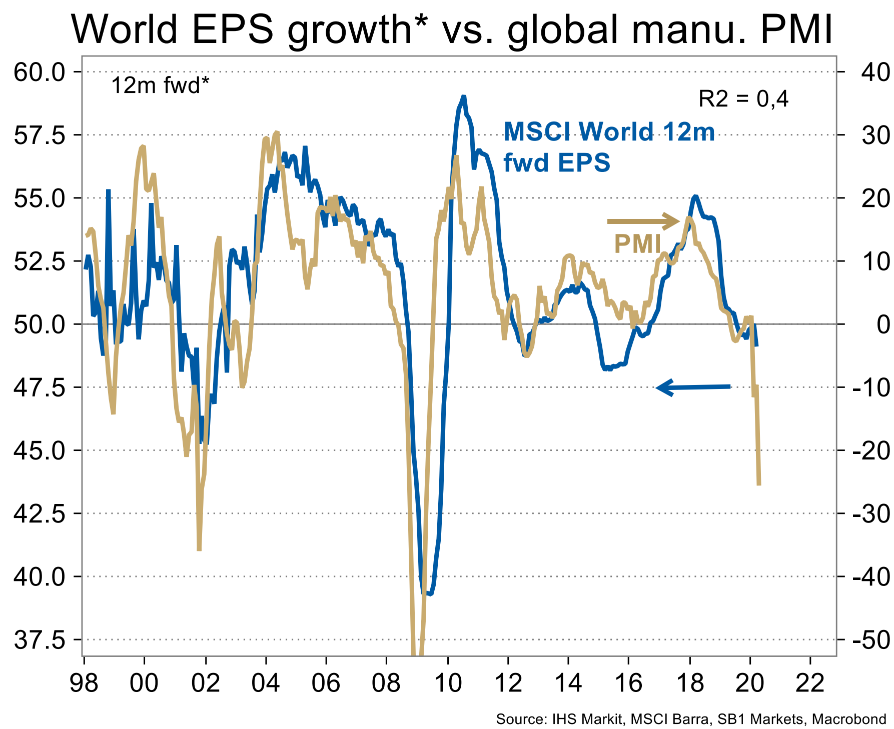


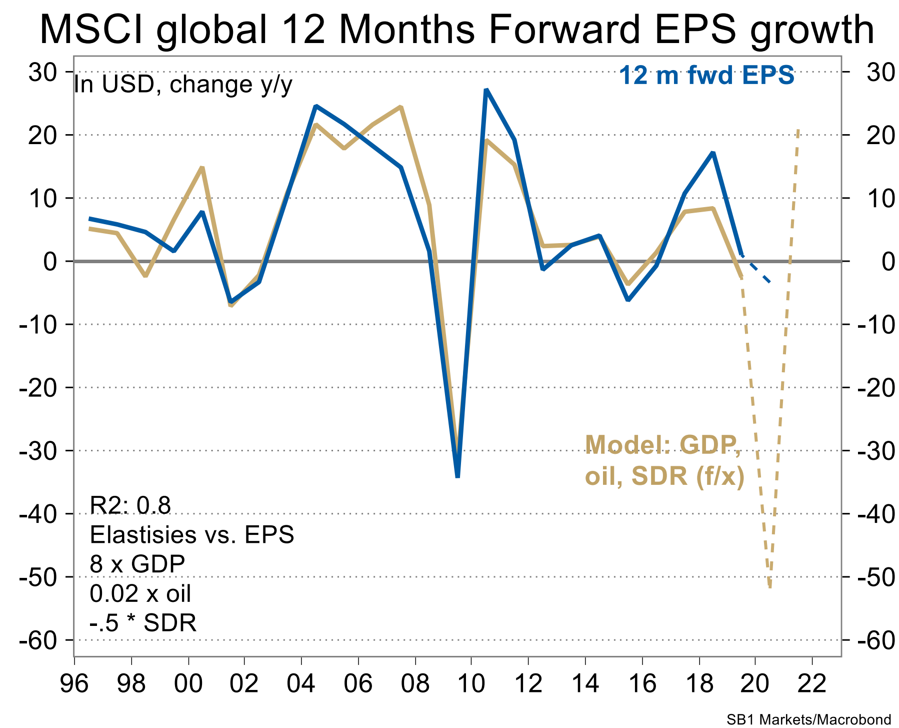
- Actual production was down some 6% y/y in March but April was even weaker
- During the financial crisis, the PMI output index fell to 30, and production was down by 12% y/y. This time, it's the service sector that takes much more of the beating
- Barring 'some' possible longer term challenges in the tourism industries, we suspect many other service industries will recover as soon as it is possible to start producing again (we are going to the hair-cutter today, and to the gym tomorrow)

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

Global profits down 25 to… 50%

The manufacturing sector is not that hard hit, alt least not yet, signals a modest earnings contraction

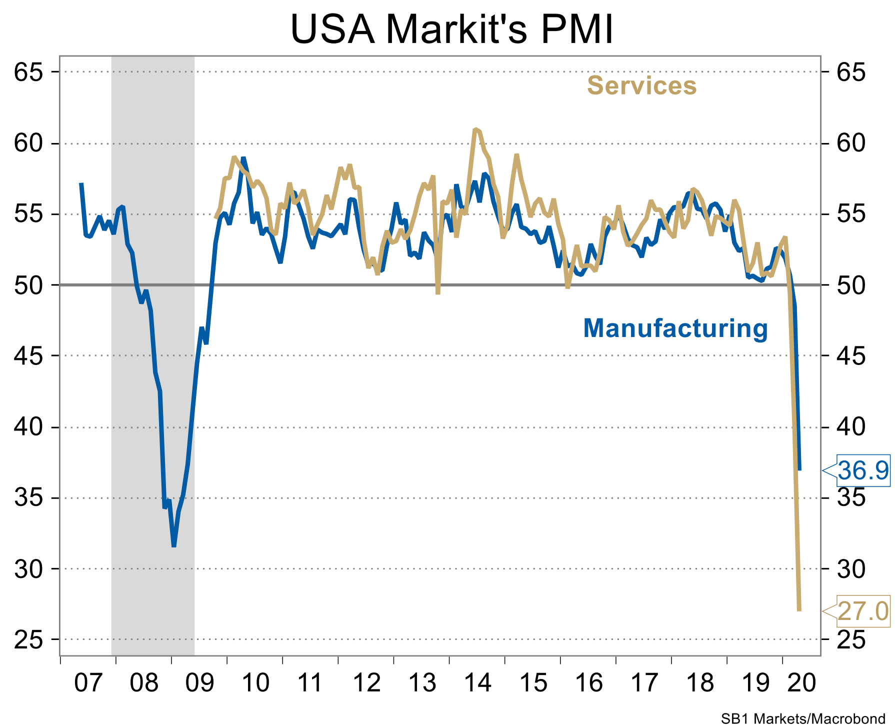


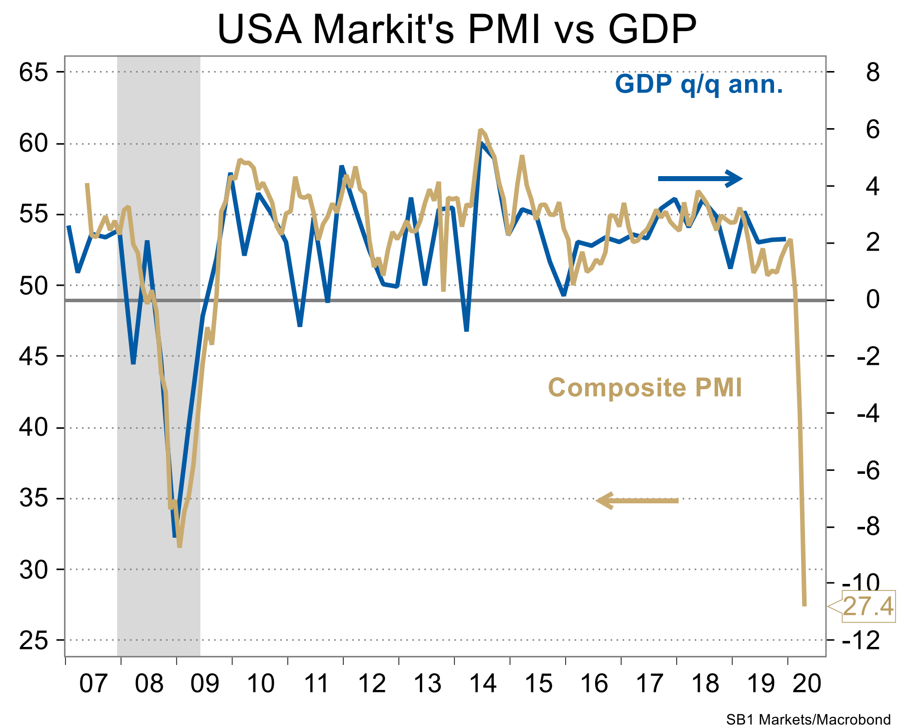


- The total PMI signals a 50% decline, but the correlation is somewhat weaker
- Our global GDP -3% forecast also signals a 50% contraction in global EPS in 2020 (and 70% at the worst, in Q2, measured y/y)
  - » Given a 6% recovery in 2021 (leaving the global GDP 3% below it's pre corona growth path), earnings should recover some 20%

Composite PMI at lowest levels ever (but data just back to 2007)

Services PMI crashed to 27. Manufacturing is not shining either but remains above the '09 trough

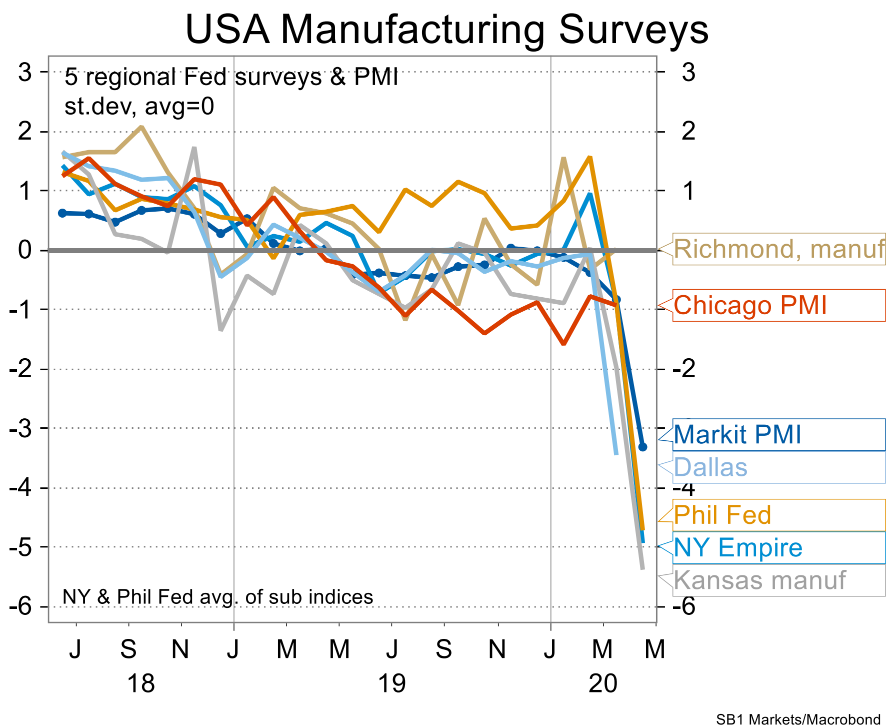


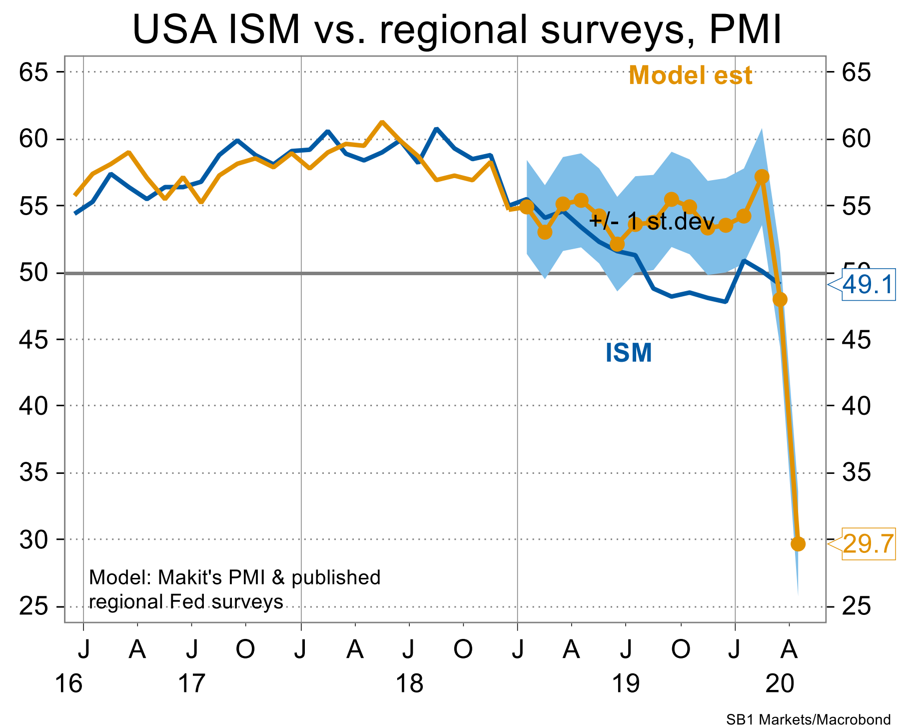


- The service sector PMI fell 12 p to 27.0 in the first part of April, reflecting an abrupt halt in activity as the corona outbreak hit the US. The index was expected 8 p down to 31
- Manufacturers also reported a similar decline, but 'just' to 36.0 (still below expectations). However, a further rise in manufacturers delivery times due to supply side disruptions (closed factories etc) buoyed the total index. The new orders index nosedived 18 p to 29 and the output index by 16 p to 29
- <u>The preliminary composite PMI collapsed, to 27.4, the weakest level on record. The PMI points to some 10% decline in GDP in Q2, measured by the quarterly, annualized rate. The final result will no doubt be far weaker</u>

Manufacturing ISM down to 30? At least that what's our regression says

In total, Markit's PMI and the regional surveys signal close to a 20 p drop in the ISM

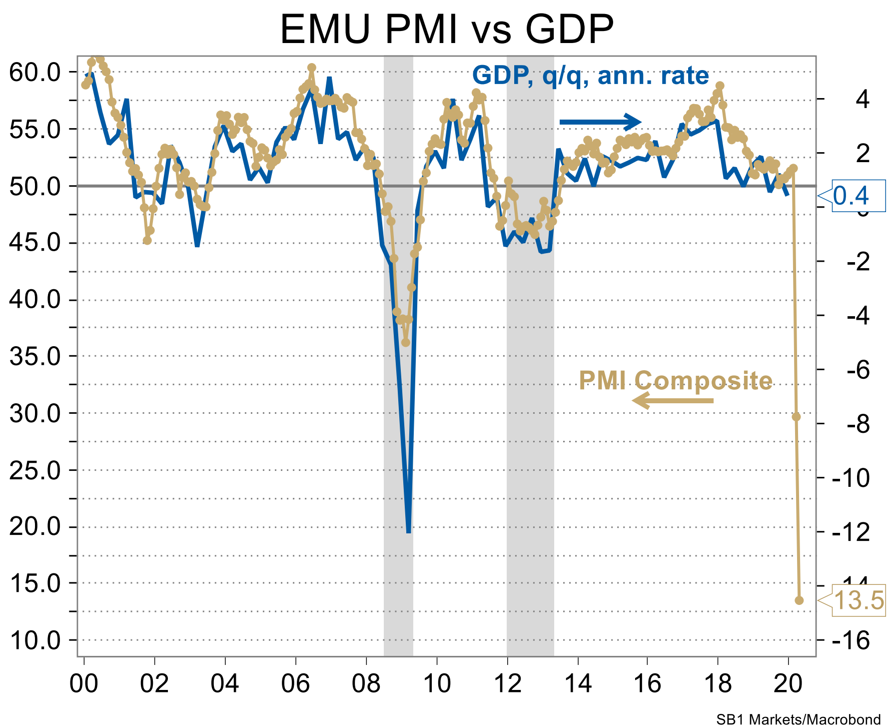


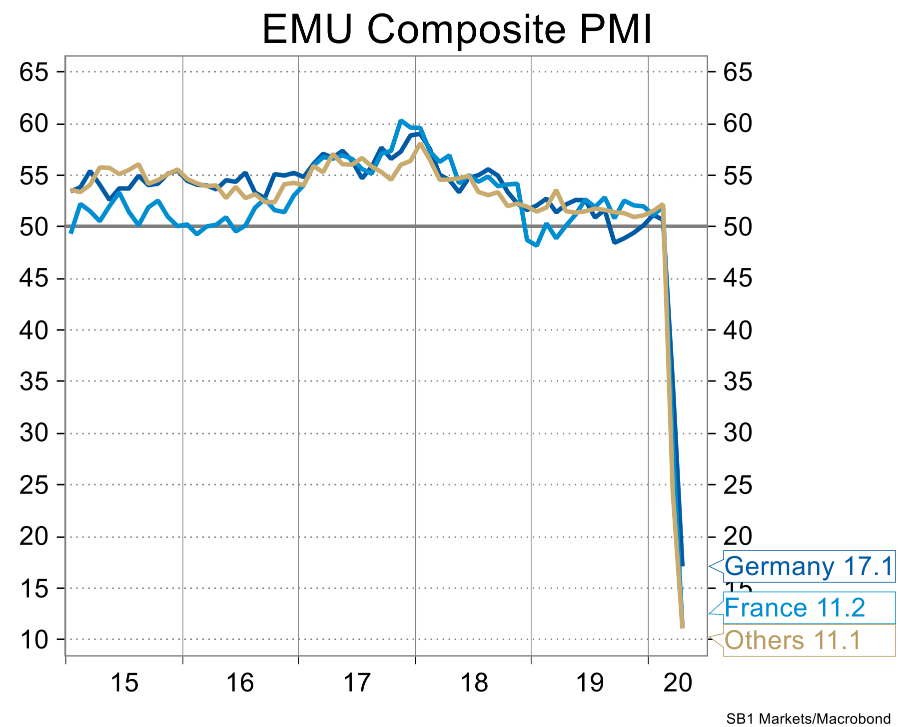


- If so, the largest decline ever, of course. Even a decline to the expected 36 level will be the larges monthly drop ever

The lockdowns sent the PMIs almost down to single digit level

The composite PMI fell by 16 p to 13.5. Germany least bad at 17, France/It/Spain at 11

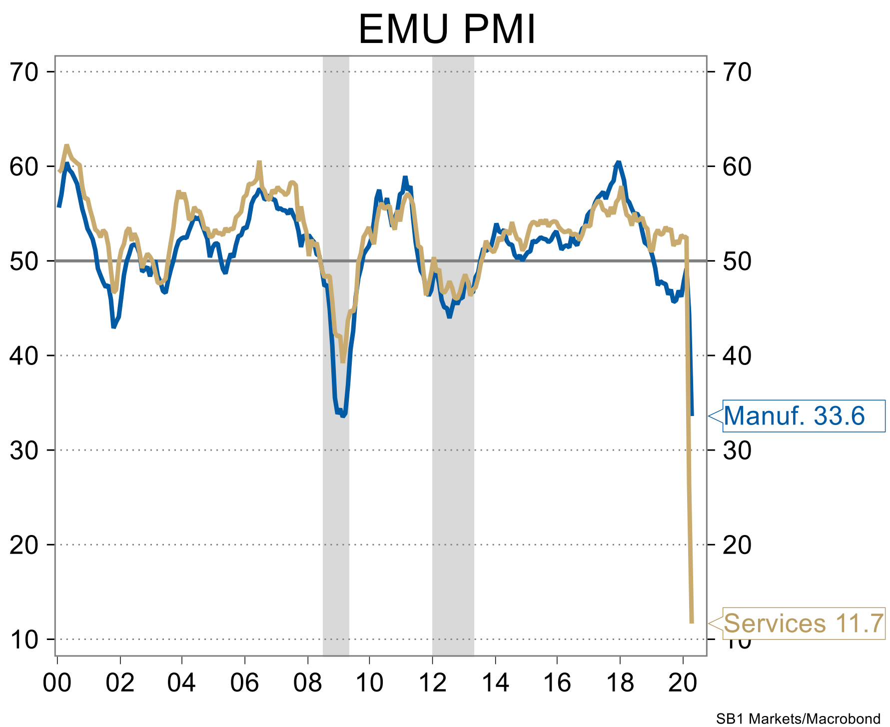


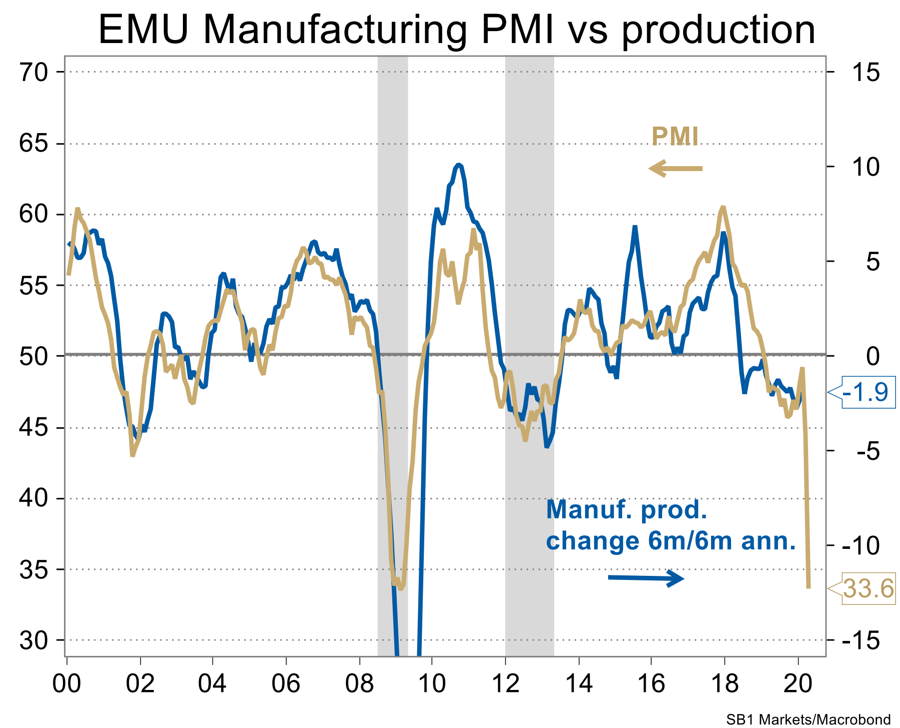


- The preliminary EMU composite PMI tumbled 20 p in March and by another 16 in April (expected just 4 p), totally unprecedented. (In comparison, the PMI fell 4.7 p in November 2008, when the financial crisis hit).
- The composite PMIs in both France, and the average of Spain and Italy fell to close to 10 (with services in It/Sp down below 10)
- *PMIs are growth diffusion indices. An index at 10 will be reported if 5% of the companies reports growth, 10% unchanged activity from the previous month, and 85% reported a decline in activity (PMI =5 + 10/2). If just as many companies report growth as contraction vs the previous months, the index will return to 50. Perhaps in May, even if the activity level will remain disastrously low?*

An unprecedent collapse in services as businesses are put in lockdown

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

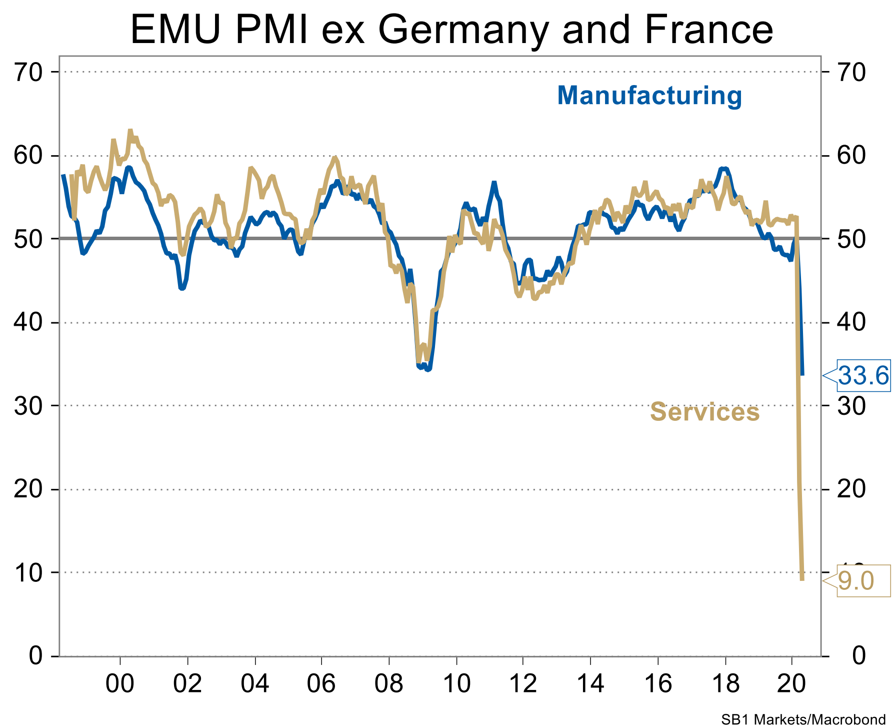


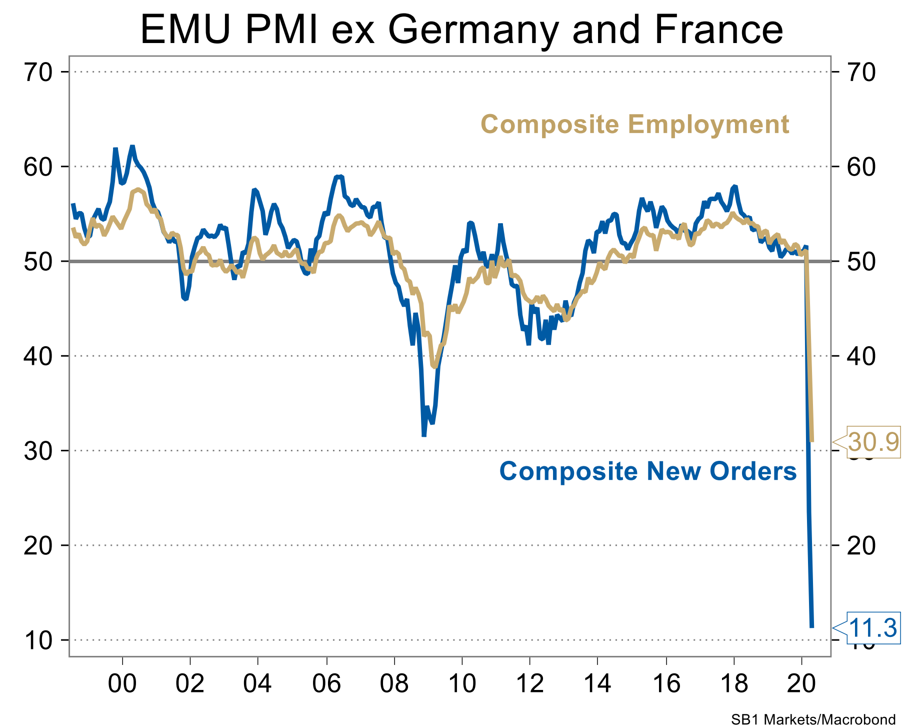


- Services received the largest blow, as tourism, restaurants, events and much more were shut down. In Spain and Italy, the average fell to 9
  - » However, manufacturing activity fell sharply too, the output index fell by 20 p to 17, the lowest level ever (the output index never fell below 30 during the Financial crisis
- The activity level in Europe was extremely low in April. We expect a modest recovery in May as there are more easing of restrictions than tightening (are there any?) and some businesses should report higher activity. If more companies report growth than a further contraction in May, the PMIs should rise to above 50 – at least if companies are answering correct, what's the change in activity from last month – and not vs normal or last year

Barring Germany and France; an extreme collapse

No surprise, the Italian and Spanish economies are contracting sharply amid corona lockdowns

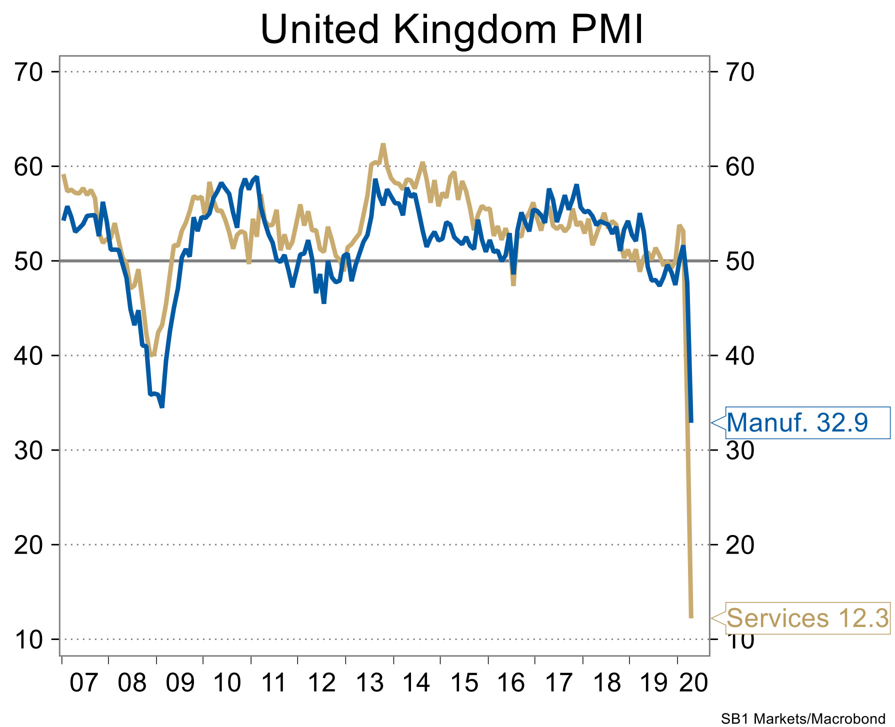


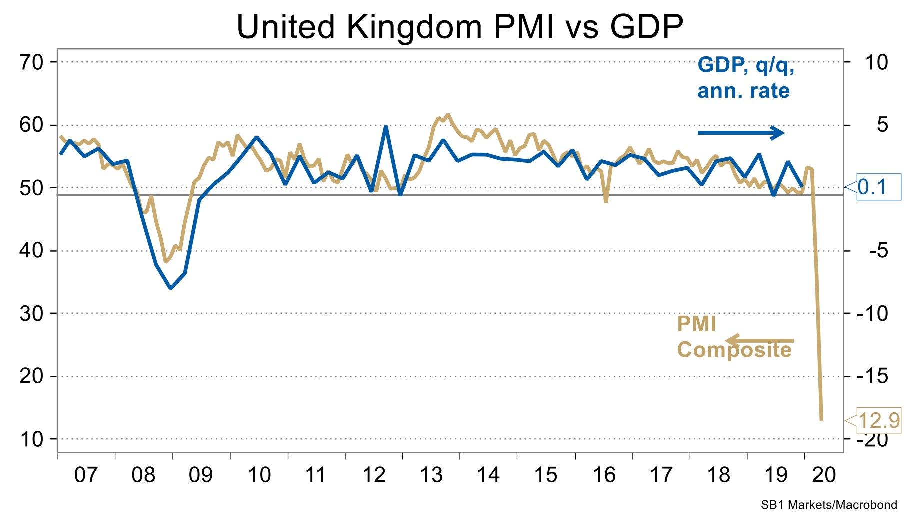


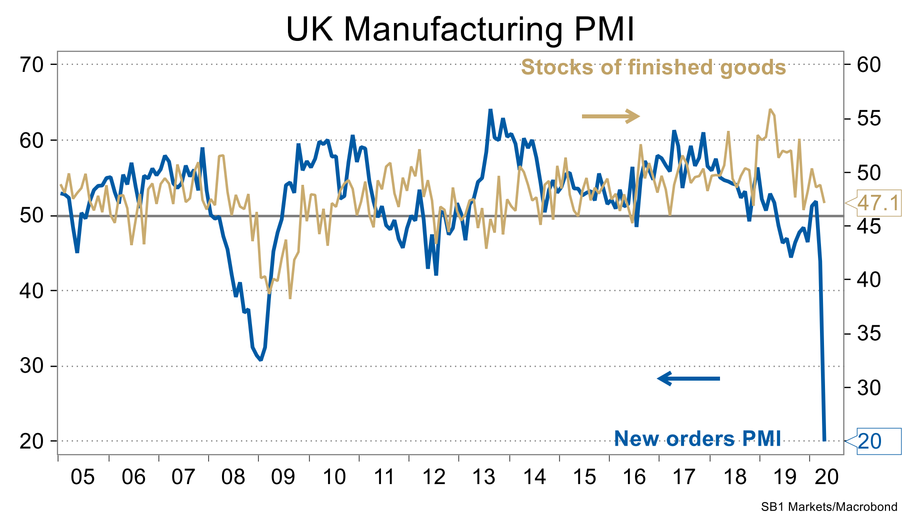
- Preliminary PMIs are only published for total Eurozone, Germany and Spain, and an implicit average of the others

Composite PMI tumbles, suggesting a 5% decline in GDP

Service industries were hit hard in the UK as well, but manufacturing is not in good shape either



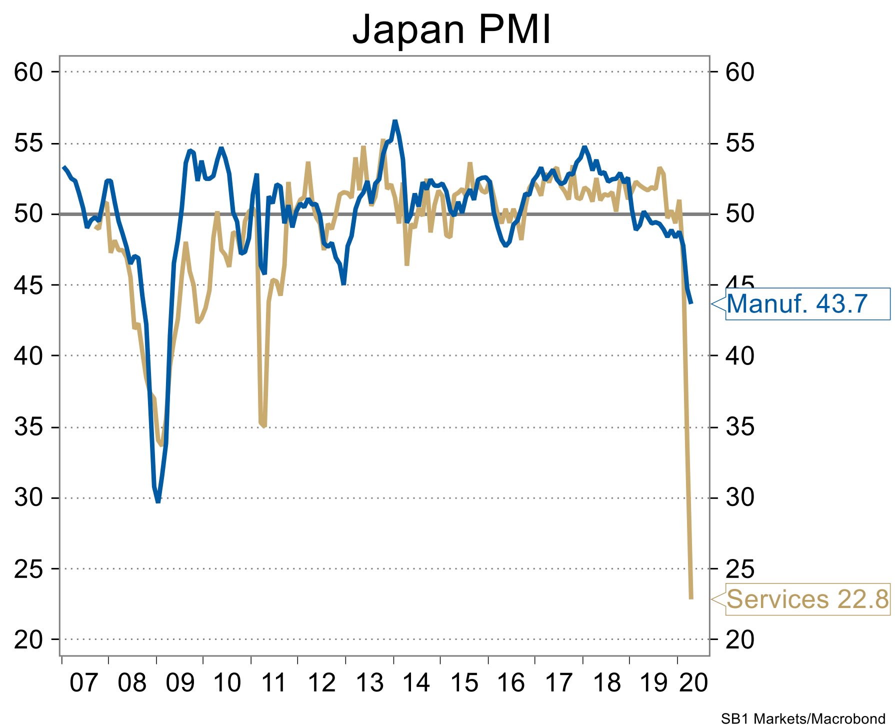


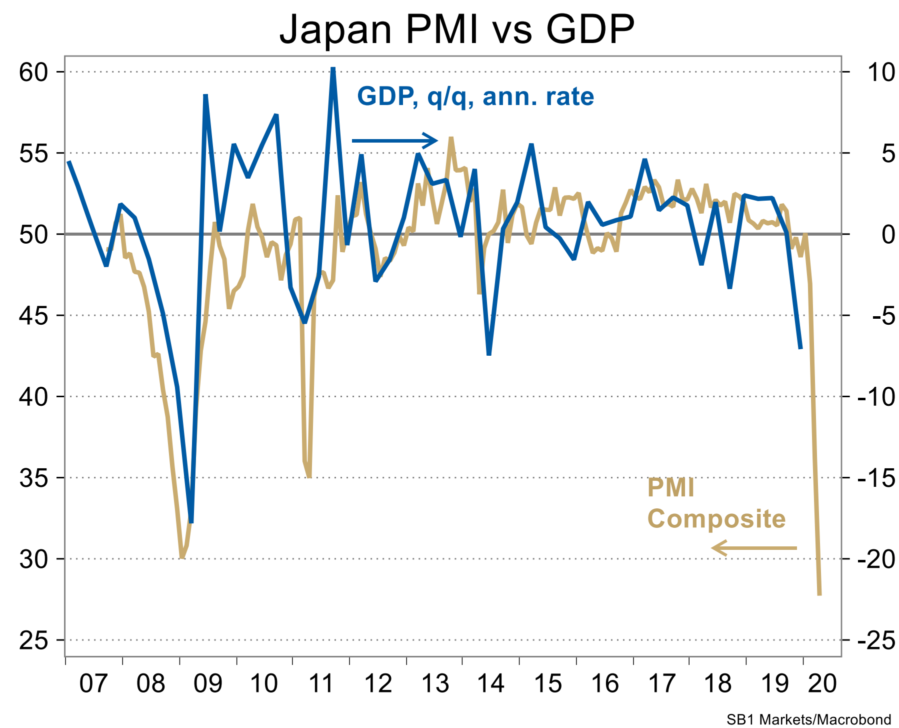


- Services PMI fell in line with service PMIs in rest of Europe. The same goes for the manufacturing PMI
- The manufacturing total index fell to 33 but the order component fell to 20
- The composite PMI fell 23 p to 13 (expected down 4, to 32!!) suggests a 5% decline in GDP so far in Q2 (not annualised) but the calibration is impossible at these levels

Japan has not being totally locked down but it is quite quiet here too

The composite PMI down to 28, signals a 5% GDP contraction (with low precision)

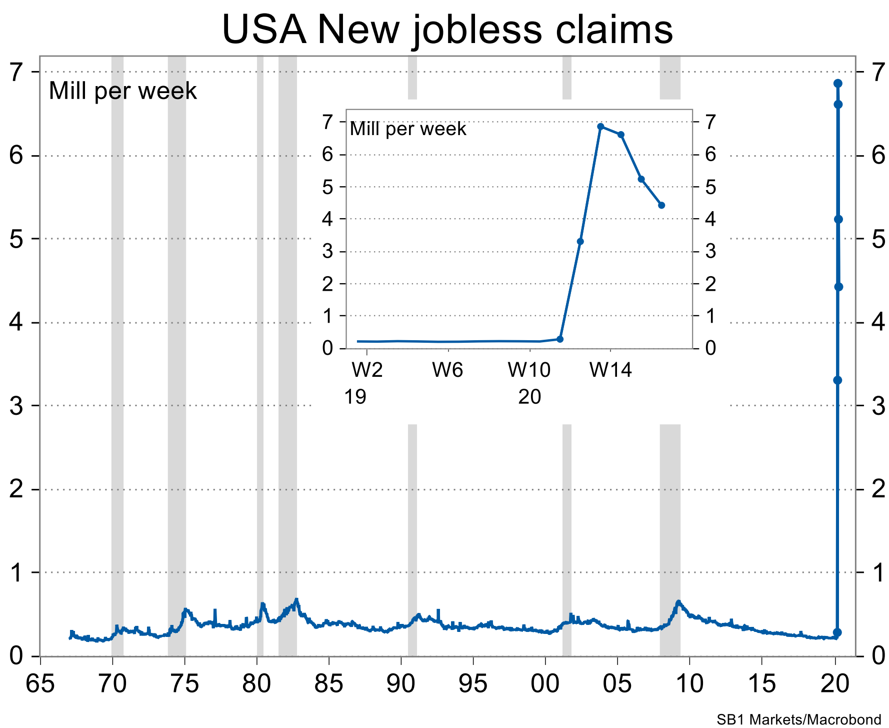


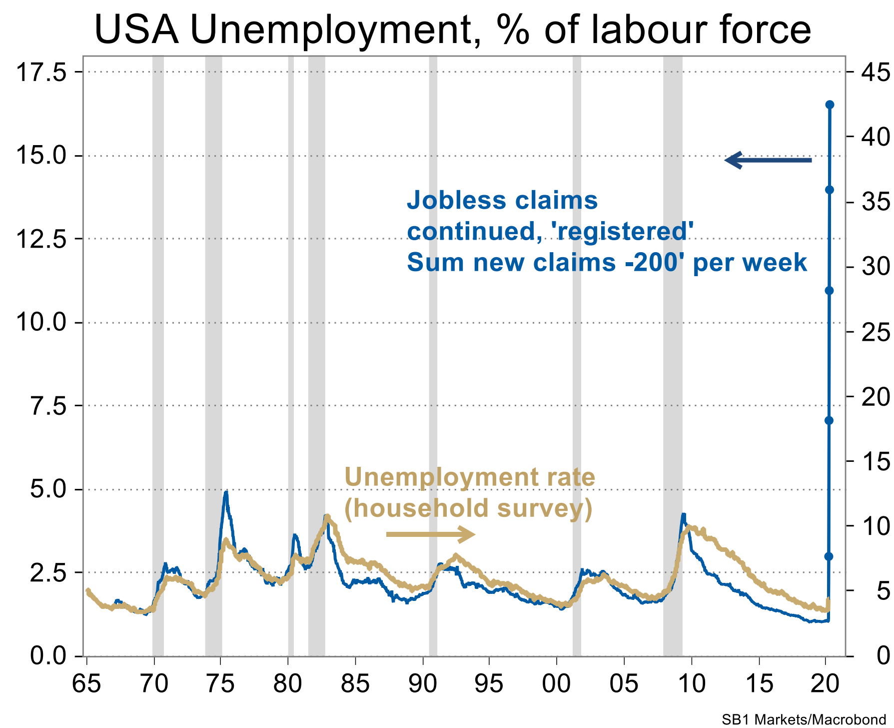


- Services the weakest link, like elsewhere

'Just' 4.4 mill new unemployed last week, the sum up 26 mill past 4 weeks

27 mill persons are probably unemployed, 16% of the work force. The "real" unempl. even higher??

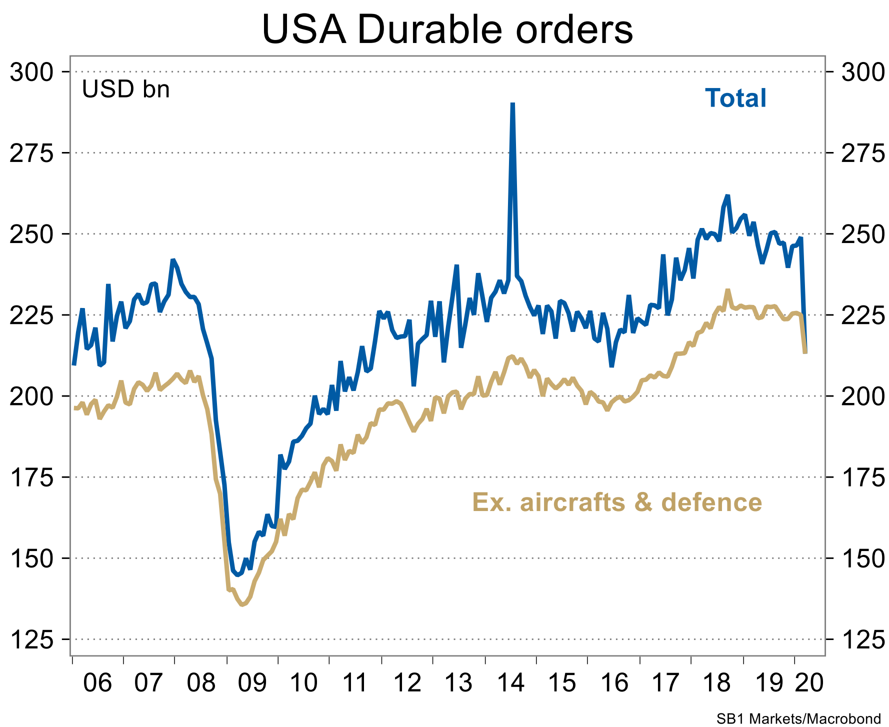


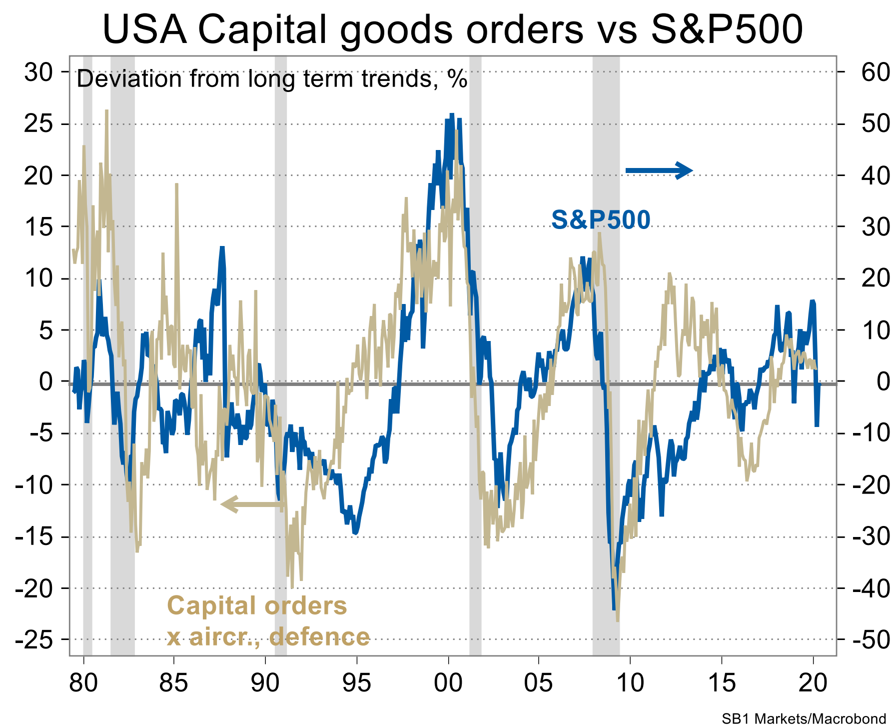


- The shock is totally unprecedented, and even if the inflow has slowed last three last weeks, it is still enormous, equalling 2.5% of the labour force, per week!! Last week's new claims were marginally lower than expected (4.4 mill)
- We estimate continued claims have climbed to 27 million last week, from 1.8 mill 5 weeks ago (the figure will be published coming weeks as the new claims are processed), equalling 16% of the labour force, up from 1% 4 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 an extreme high level in April

Durable orders down in March – and more to come in April

Total orders down 14%, huge cancellations of aircraft orders. However, core down 5% as well

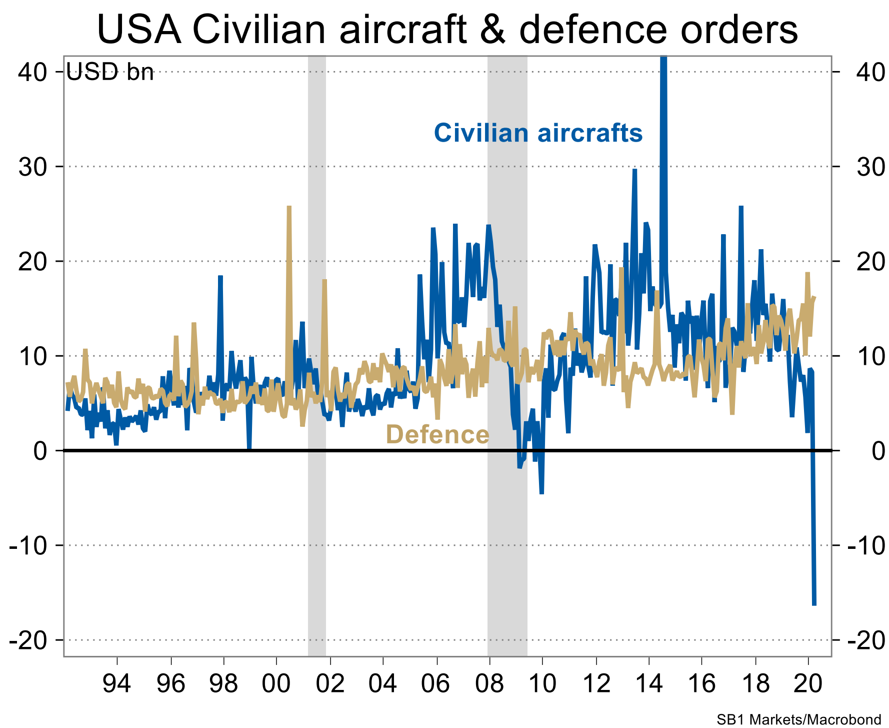


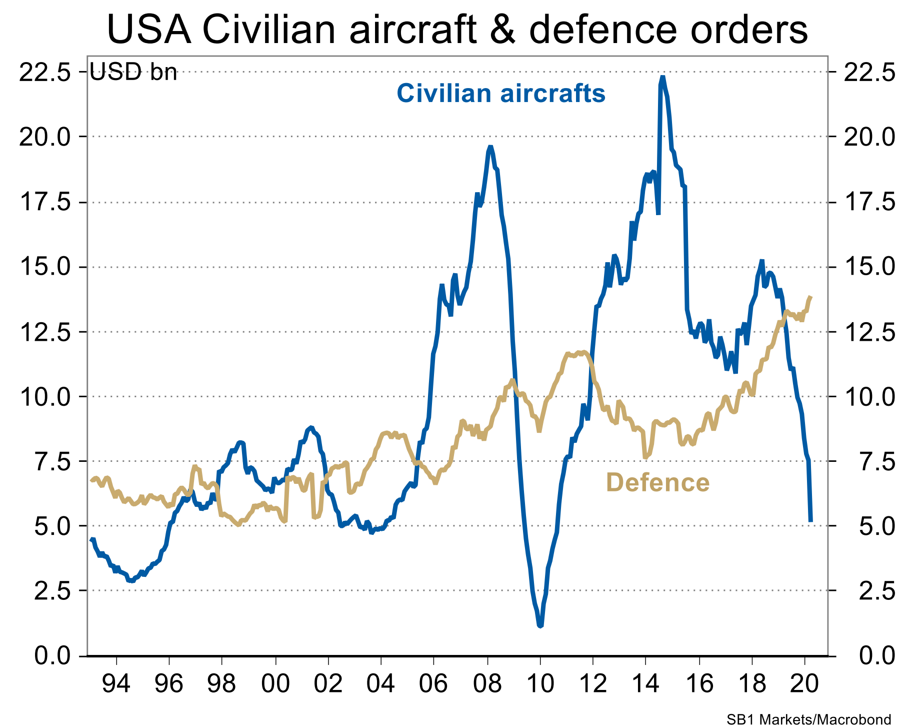


- The decline in orders in March was as expected, both for the total and the core
- However, core capital (investment goods) orders were flat in March, much better than expected (-7%)
- These better than expected figures do not offer much comfort, as both PMI and other manufacturing surveys point to a steep drop in April

Boeing received more than one month's of normal orders of cancellations

An unprecedented event – following weak orders for several months (and well before corona)

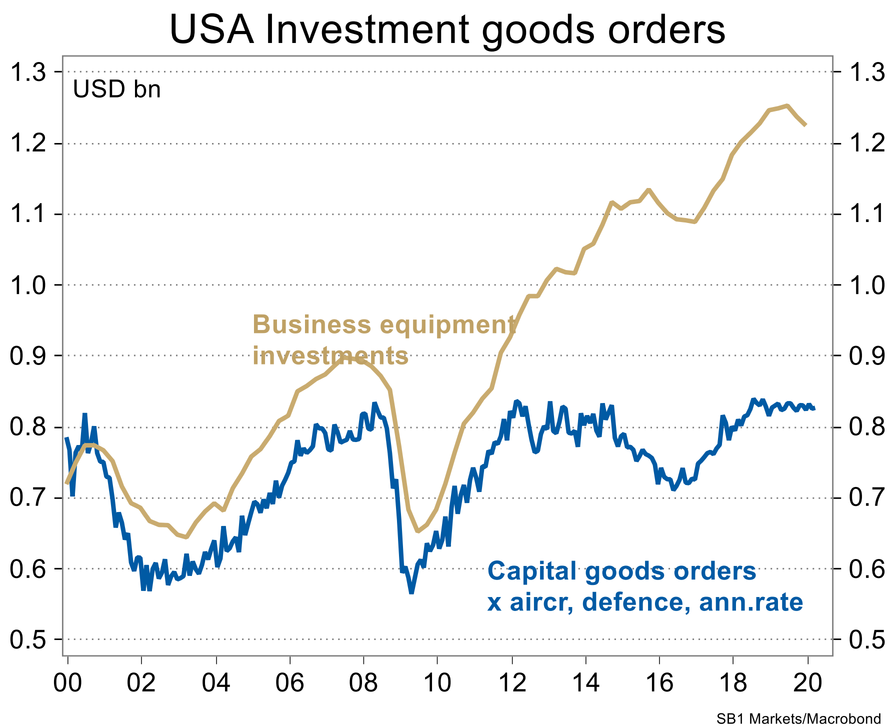




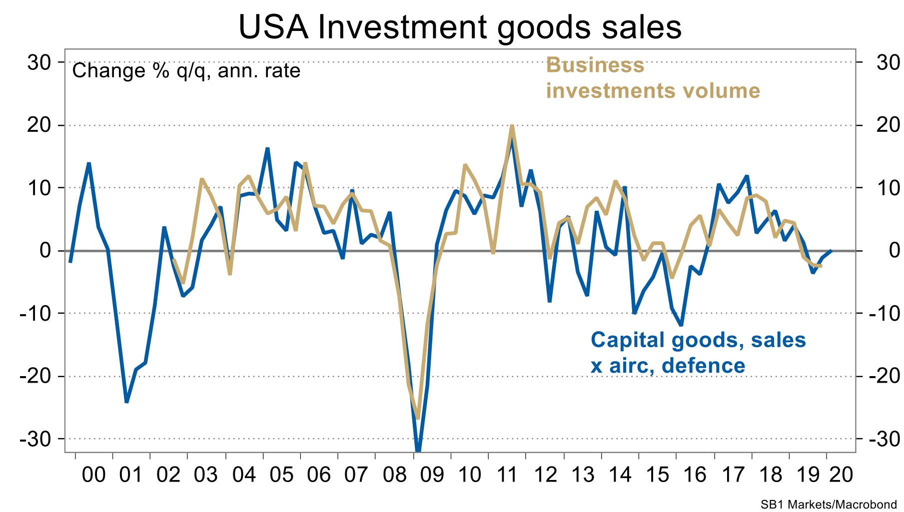
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 16 bn cancellations in one month was an unprecedented blow

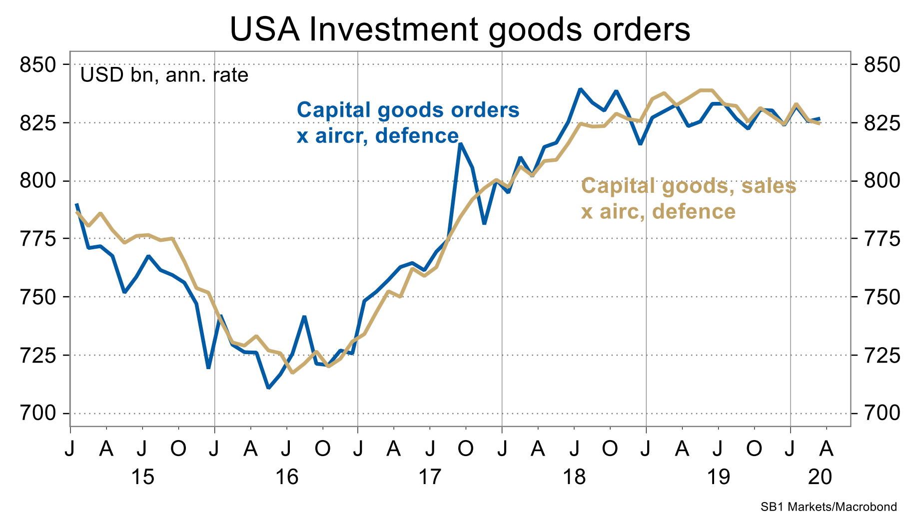
The BIG surprise: Core capital orders close to flat in March (as in Q1)

Sales flat to, much better than expected



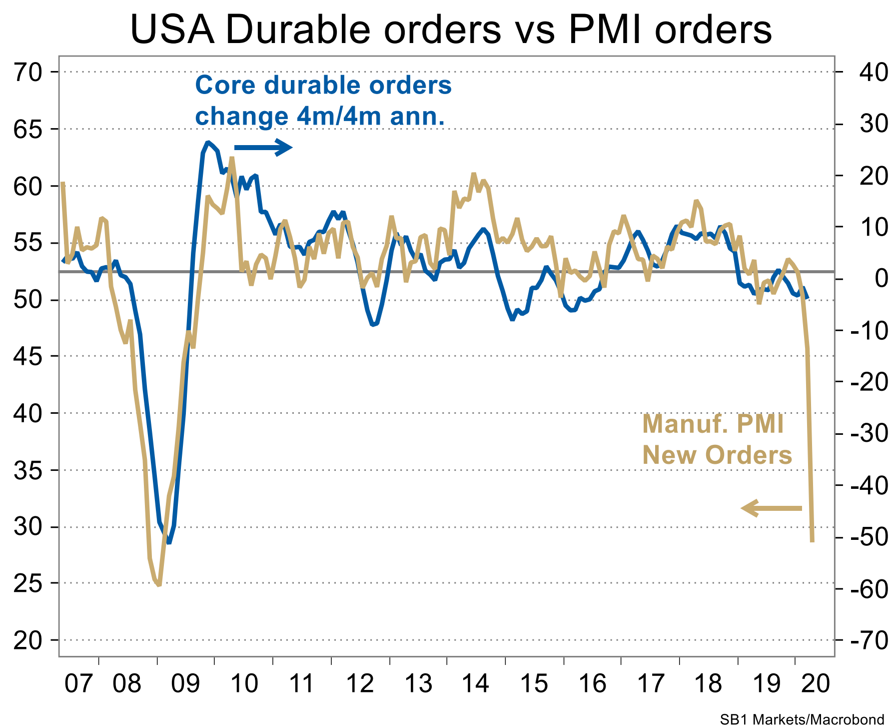
- Surveys indicate a sharp contraction in investment good orders in April

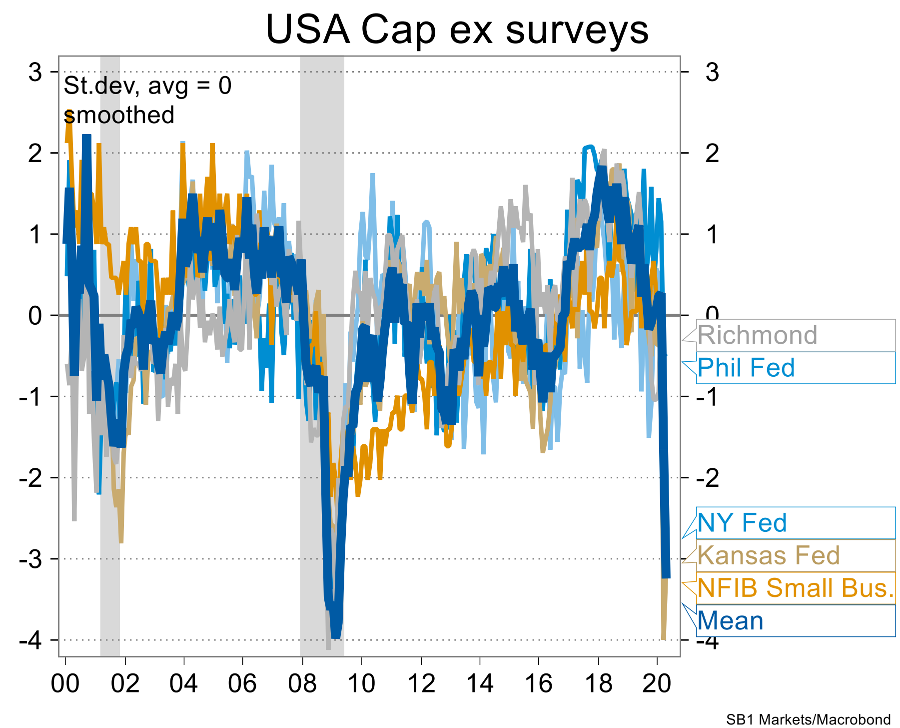




PMI/regional surveys point to a plunge in manufacturing orders/investments

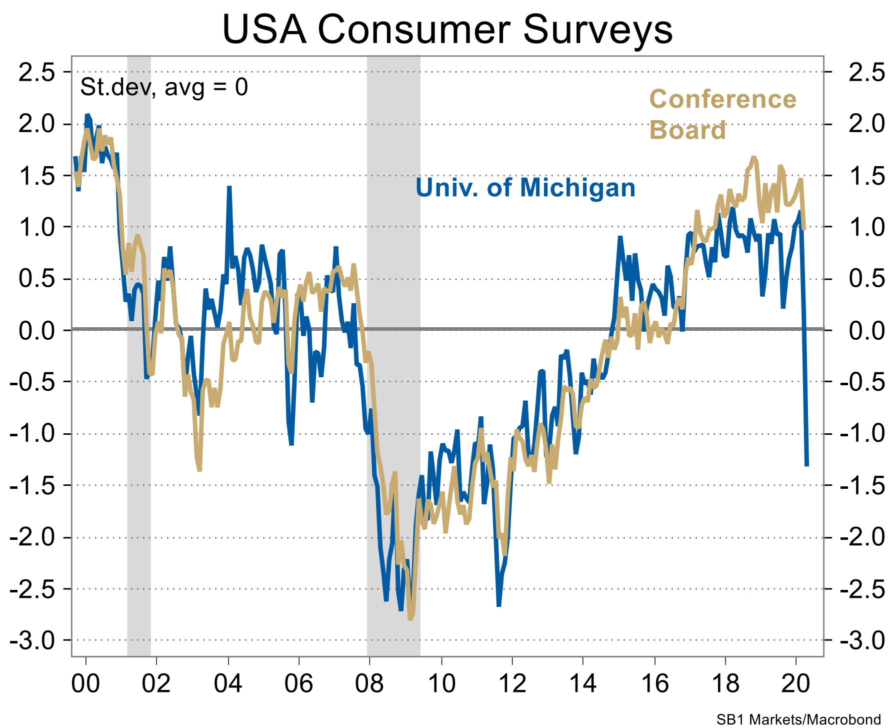
Orders are set to decline rapidly in April

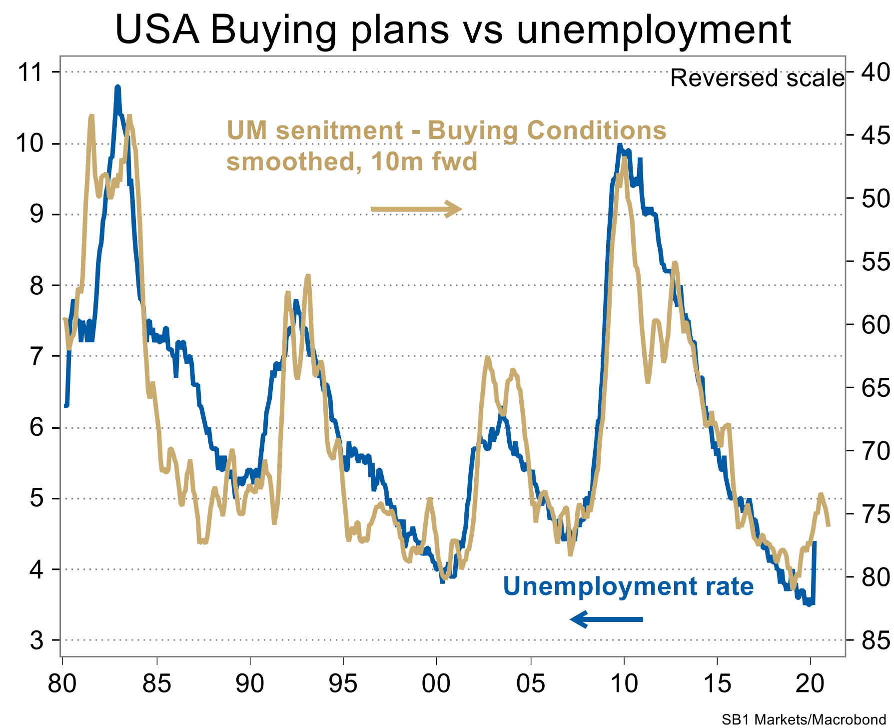




UoM consumer sentiment sharply down

Sentiment fell to the lowest level since 2012, but still well above the '08/09 & '11 levels

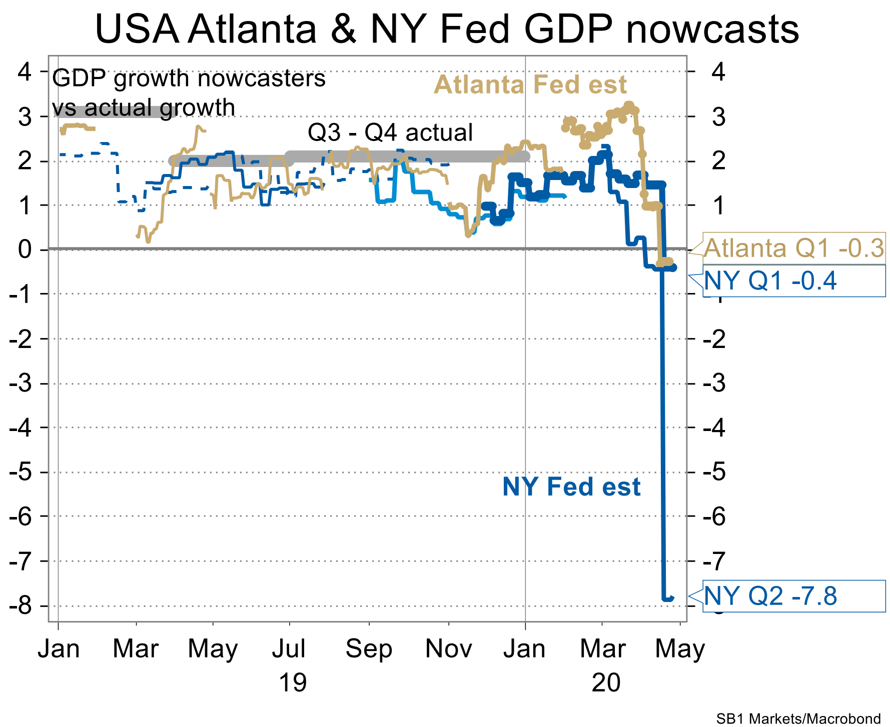


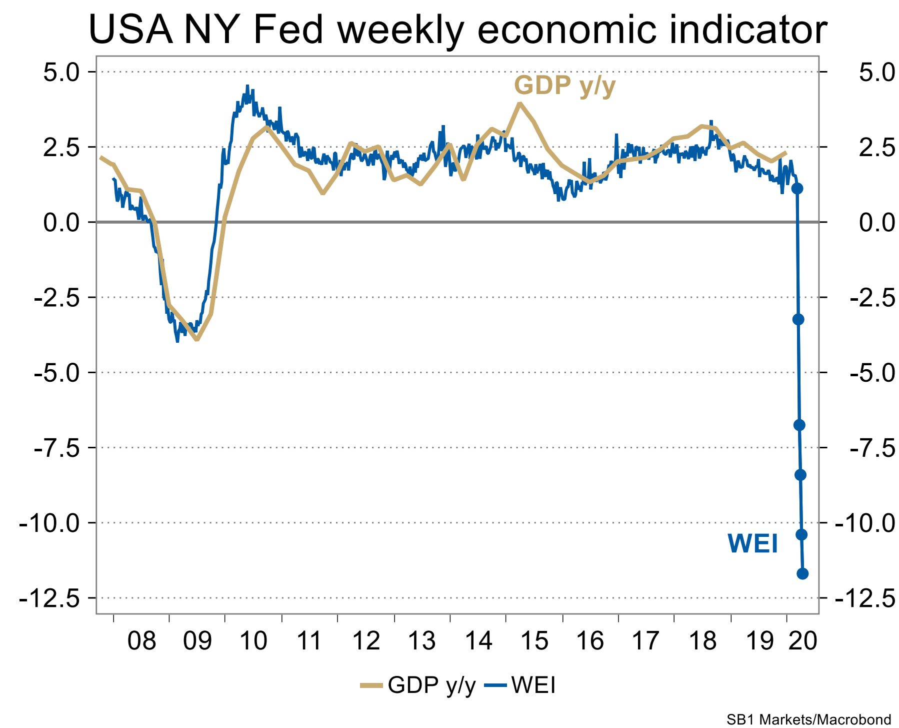


- University of Michigan's consumer sentiment fell 17 p to 72 in April (1 p above the initial estimate). The contraction the past two months is the larges ever (data from 1955)
  - » The current situation index has fallen almost twice as much as the expectation component
- Still, the sentiment index is not more than 1.3 st.dev below average. During the Financial Crisis the index was more than 2.5 st.dev below

Nowcasters starting to show the first corona impacts

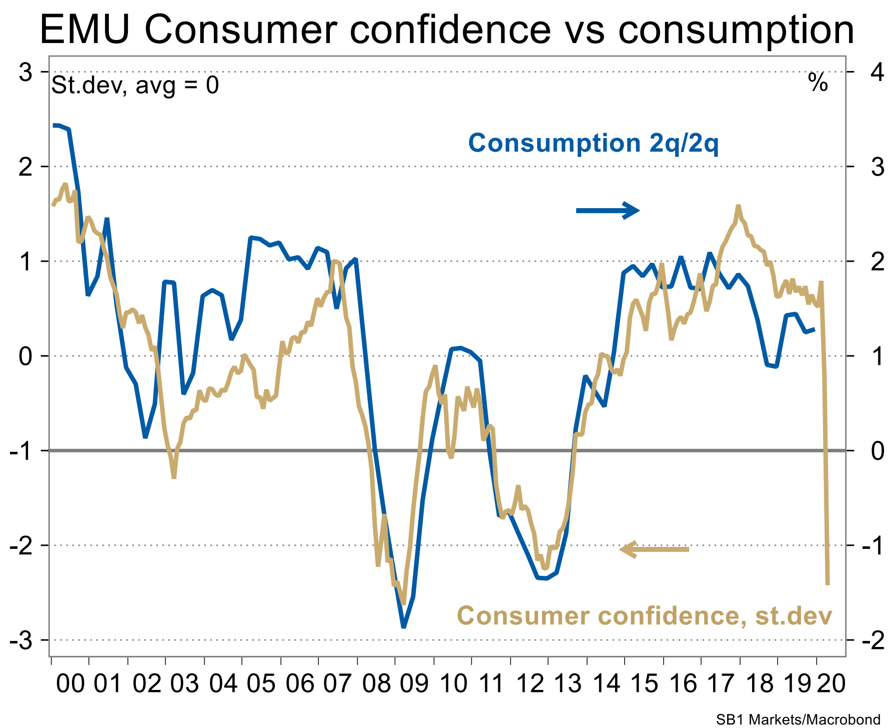
Both Atlanta & NY Fed are reporting a modest GDP decline in Q1, and NY a substantial Q2 drop

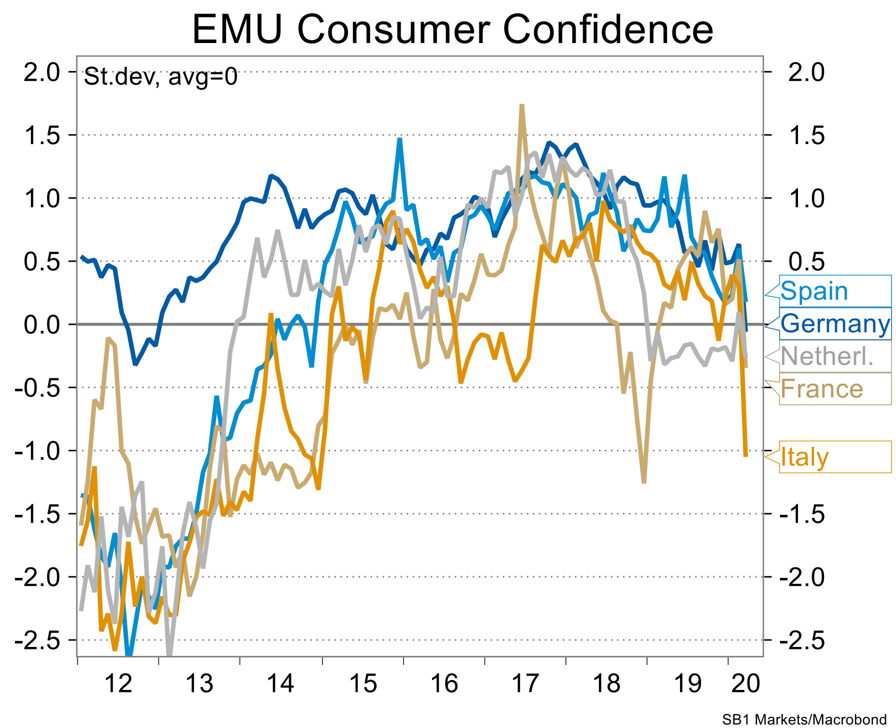




- Most likely, the decline in GDP in Q1 will be larger than the nowcasters report, as will the setback in Q2. Q1 GDP may have declined some 4%, annualised - while Q2 consensus is some 30% down.
- Quoted in not annualised terms, the quarterly consensus estimates are -1% in Q1 and -9 % in Q2, which gives a much more relevant image of the downturn. The GDP level is not expected down 35% to Q1 from Q4, just 10% - which is also what the NY Fed's weekly economic indicator reports, at least so far

Consumer sentiment down towards record low levels in April

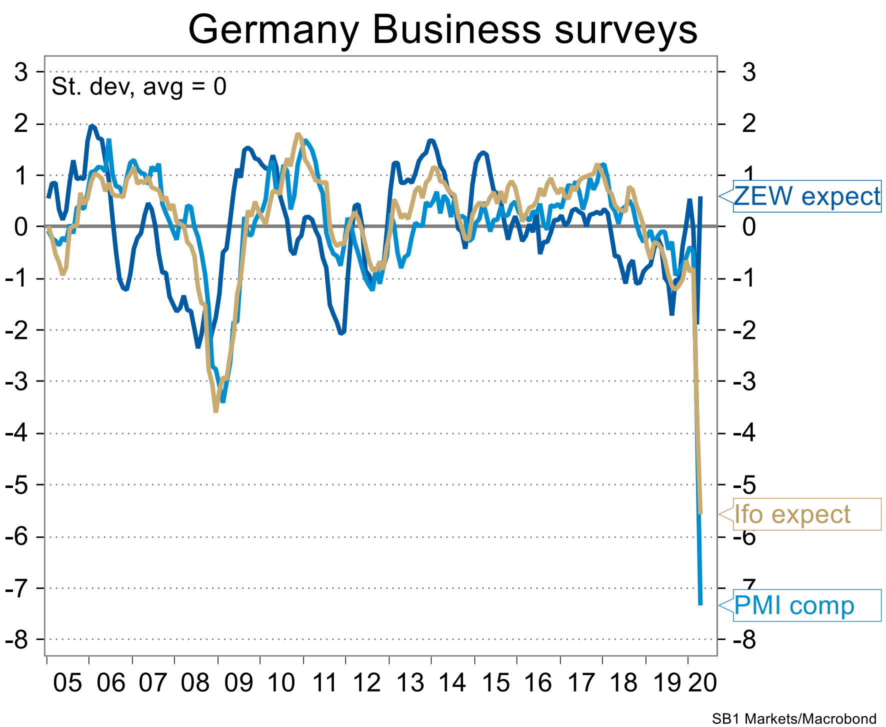


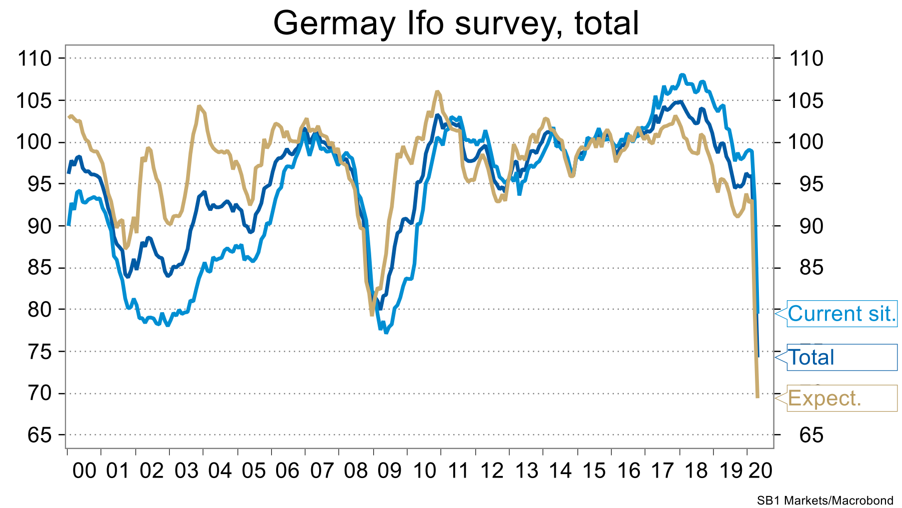


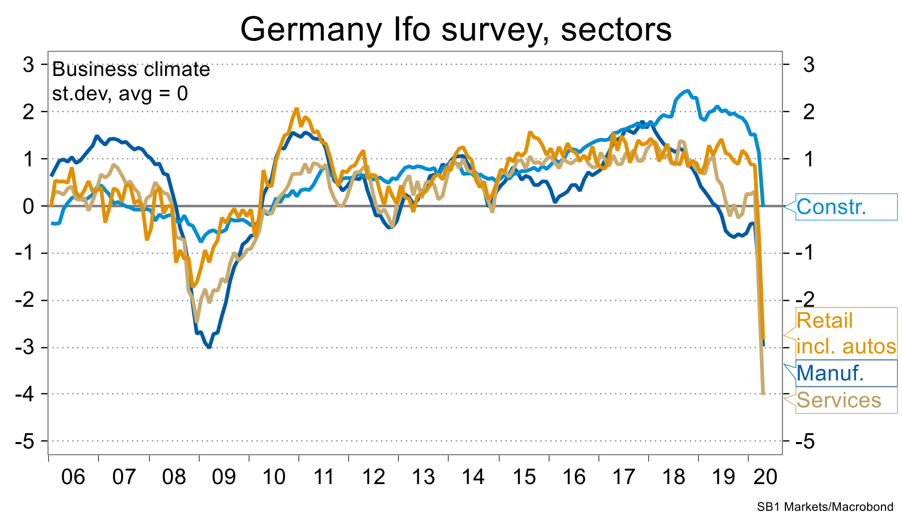
- Consumer confidence dropped 2 st.dev m/m in April, following the 1 p drop in March. At a level equalling 2.4 st.dev below average, it is approaching the record low level during the Financial Crisis, and it is below the Euro Crisis (2012) level

Ifo survey confirms PMI crash but investors & analysts are looking straight up!

A record low Ifo (businesses' assessments) but a pretty strong ZWE expectations component



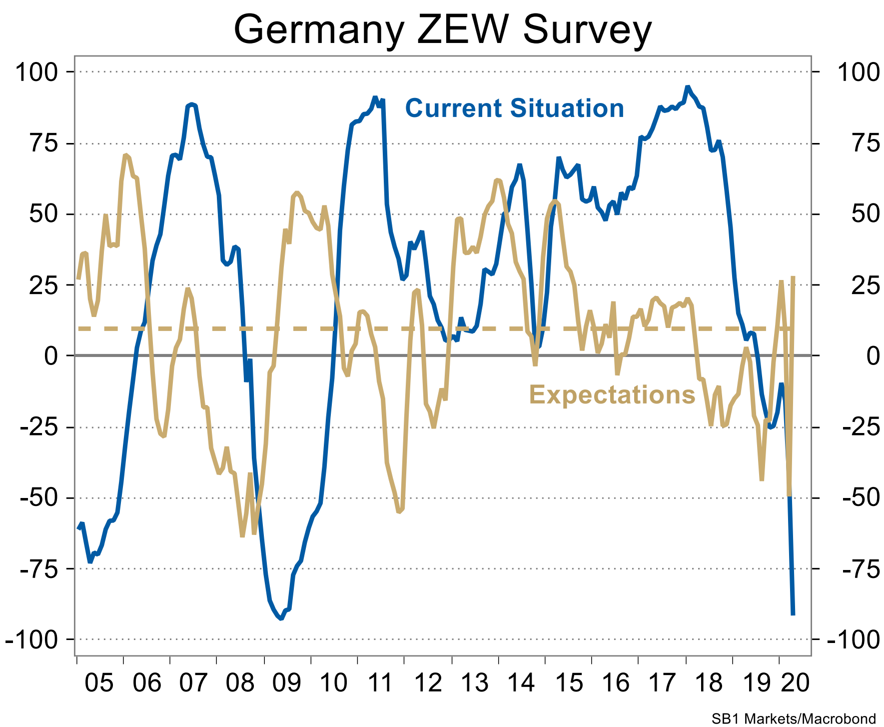


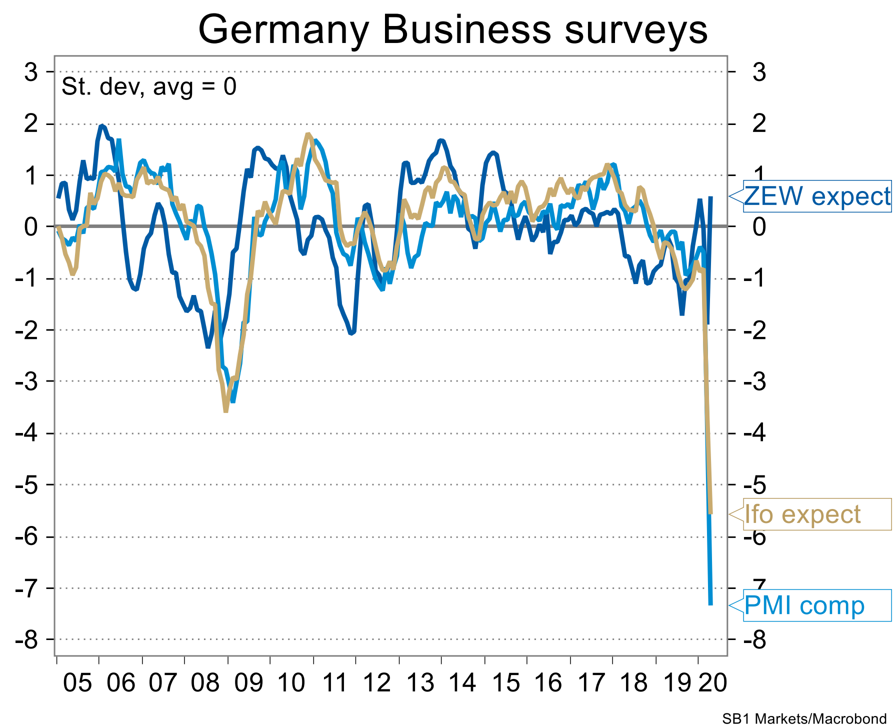


- Ifo business expectations slipped 2 st.dev. in April, following the 2.5 drop in Marv, the level down to -5.5 std.dev, totally uncharted territory
  - » All sectors down the drain, services the weakest but manufacturing just as bad as the lowest level during the financial crisis
- However, expectations among investors and analysts measured by the ZEW index rose sharply to above an average level, from -2 st.dev below – in tandem with the recovery in risk markets. Corona is bad but will not last for too long, is no doubt the consensus assessment (the macro analysts were wrong, they expected just a minor recovery in the expectation index)

ZEW acknowledges a weak current situation but it won't last

In March, investors and analysts were unusually worried. No more, in April

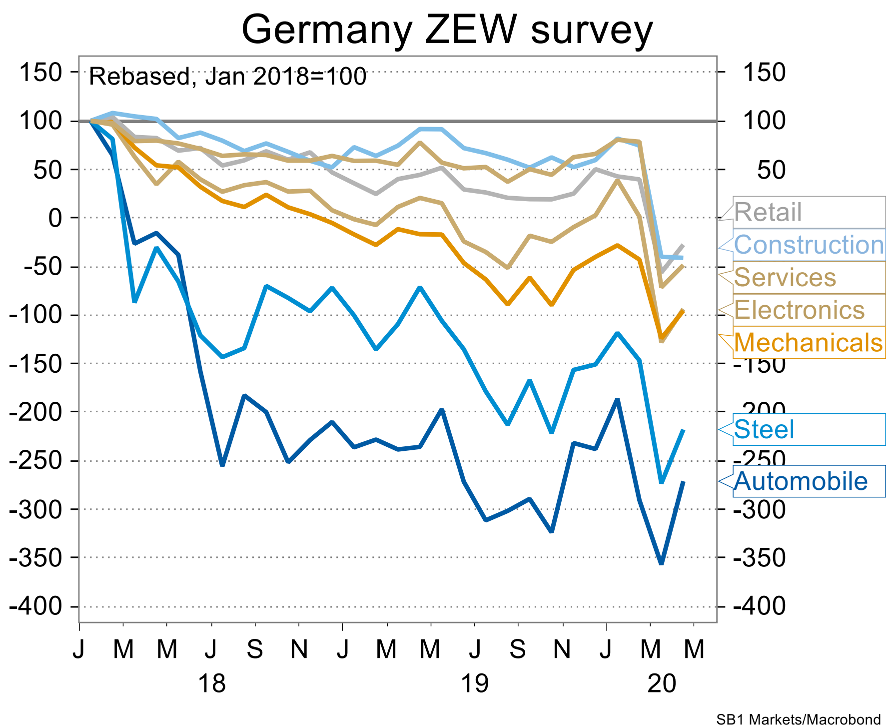


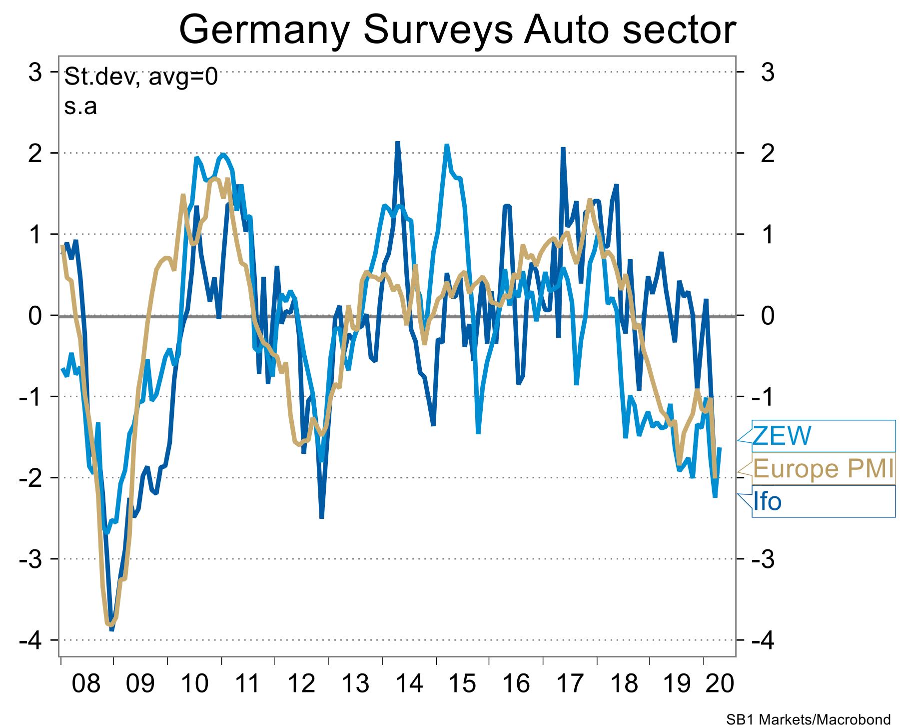


- In March, fears of the impacts of the coronavirus and the turmoil in financial markets sent both expectations and the view of the current situation steeply down. <u>In April, expectations recovered sharply, to well above an average level!</u>
- ZEW is a sentiment survey among economists and investors, and not a business survey, as the PMI and Ifo. Hence, the steep downturn of the index was no surprise. ZEW has been too upbeat vs PMI/Ifo the past couple of months and the correlation to actual economic growth is weaker than vs the two other surveys. <u>We usuall prefer the business surveys, and the April optimism is most likely premature but still, corona is not the end of the world barring really bad news on immunity, medication or vaccines</u>

ZEW: A broad downturn among sectors

All surveys report a steep decline in auto sectors



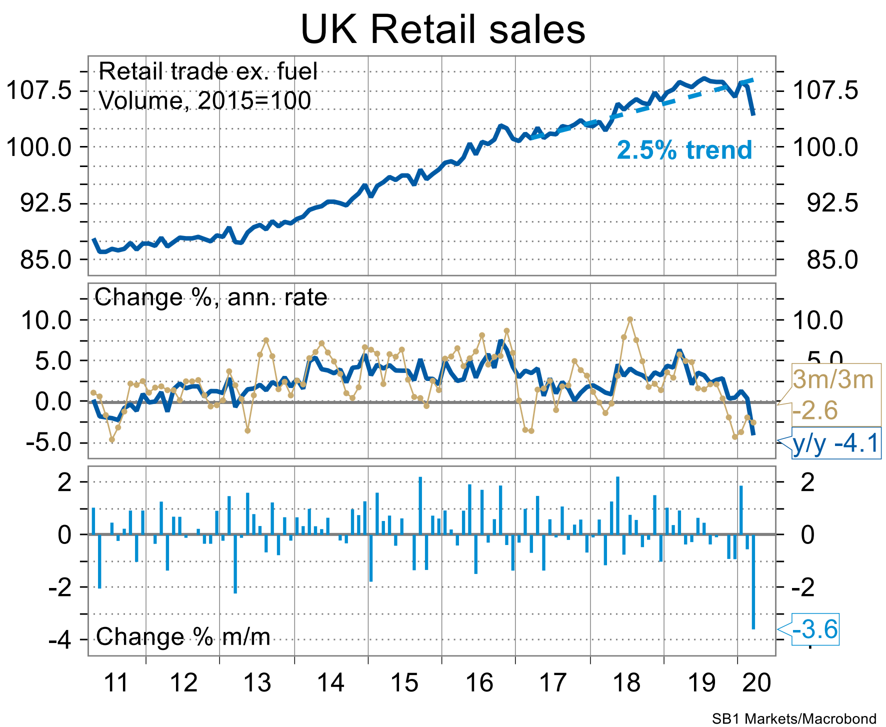


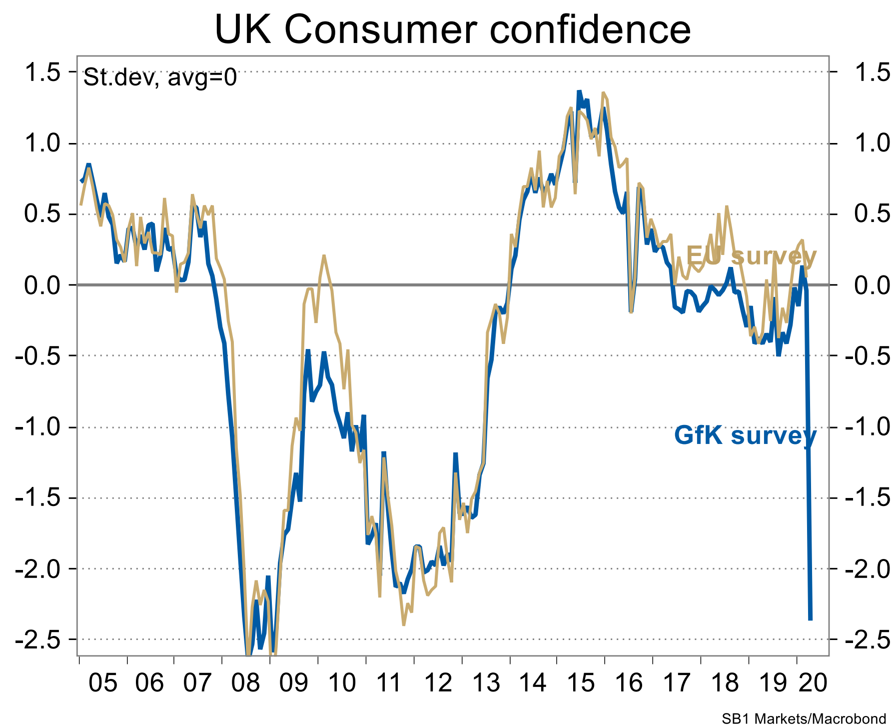
- Expectations on the auto sector were probably hit hard by concerns of weaker demand for exports, due to corona

SpareBank 1 MARKETS

Retail sales down 3.6% in March. And that's just the start

Confidence has fallen sharply, just as in rest of Europe





- The second part of March was of course to blame, and another blow must be expected in April

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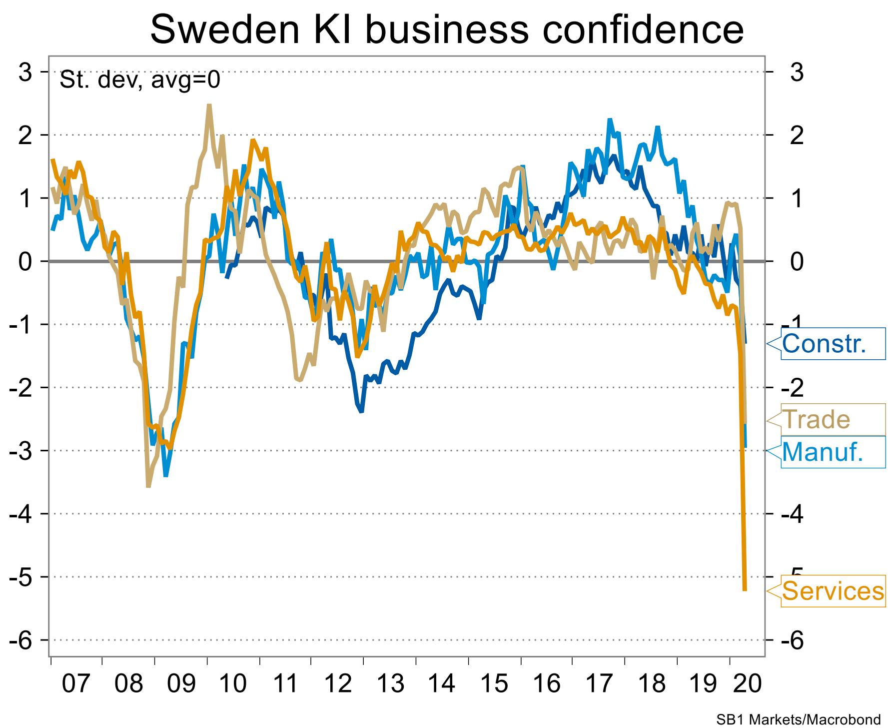
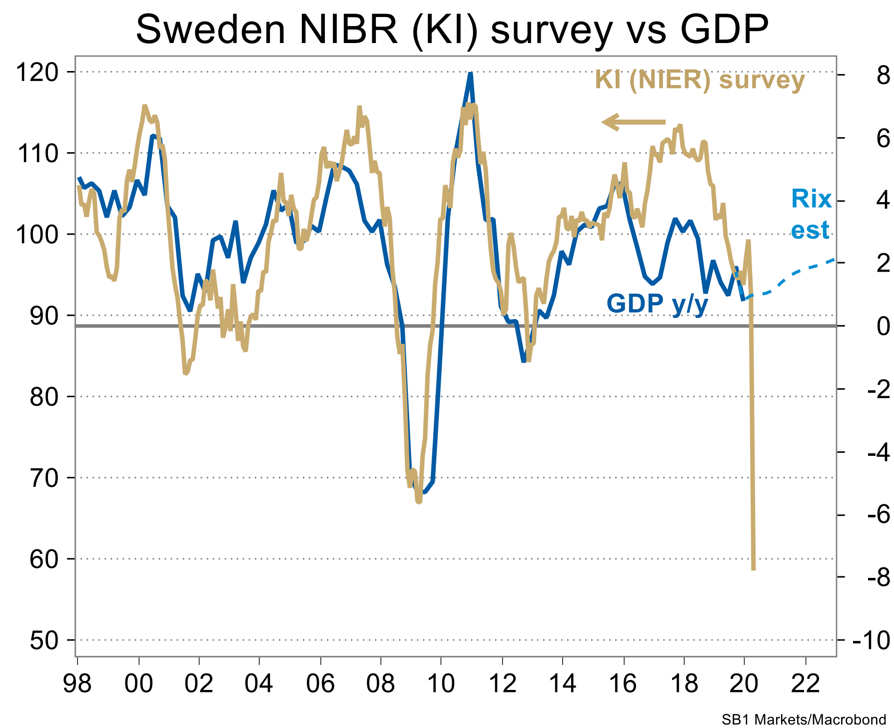
No lockdown but the economy closed down anyway, especially in services

Economic activity fell sharply in April, according to the NIBR (KI) survey. GDP down 8%?

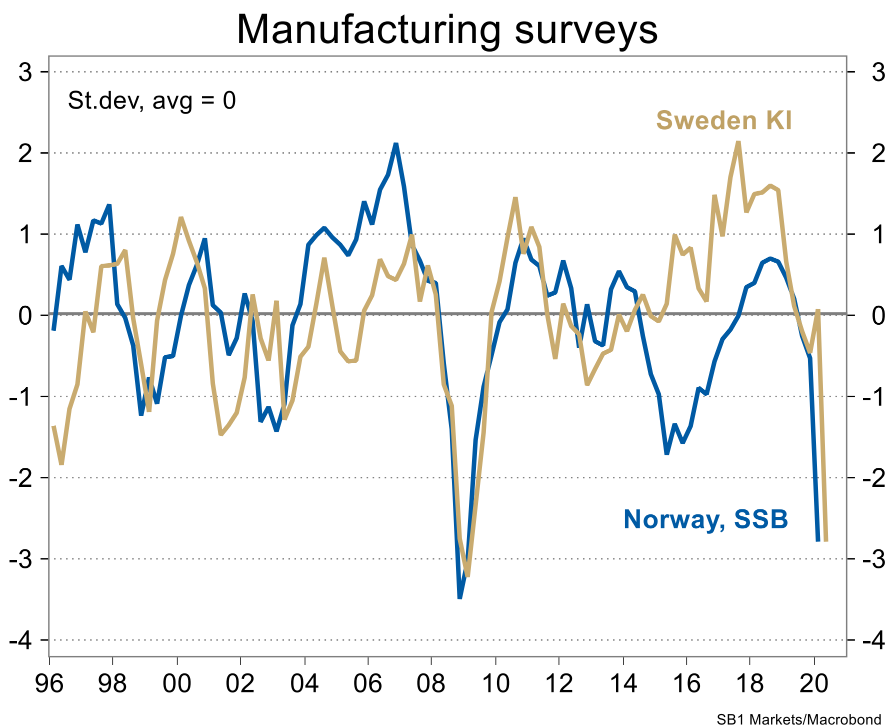




- Sweden has been the odd man out vs. official lockdown decisions but the economy has anyway slowed sharply, and mostly due to a sharp decline in services – a 4 st.dev drop down -5 st.dev, a new all time low, by far. The composite index signals a 8% decline in GDP, more or less in line with most other European countries, lockdown or not

Manufacturing in Norway vs. Sweden: Spot the difference!

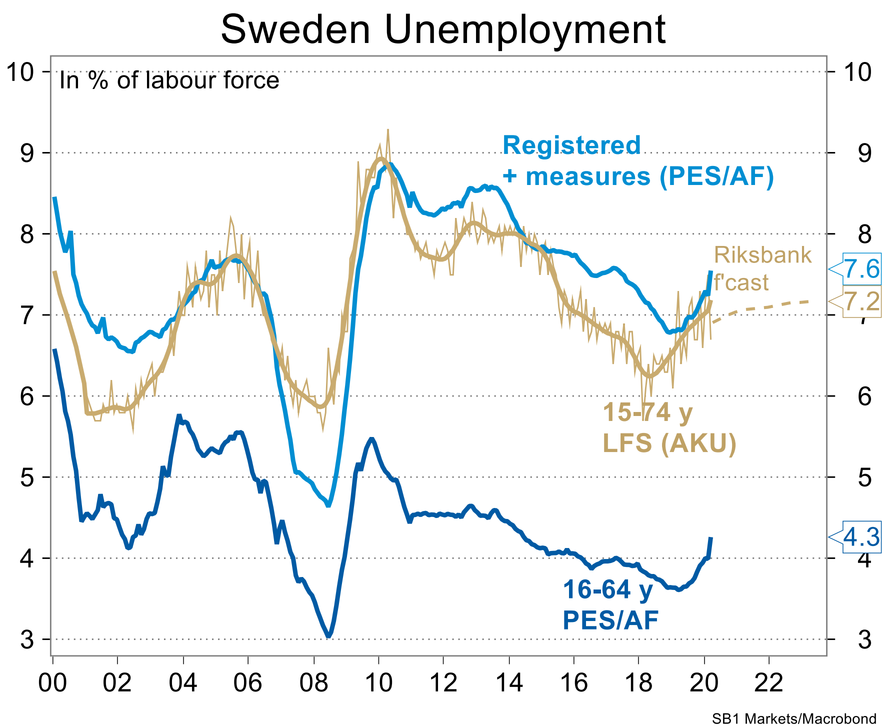
KI's and SSB's manufacturing surveys are telling the same story

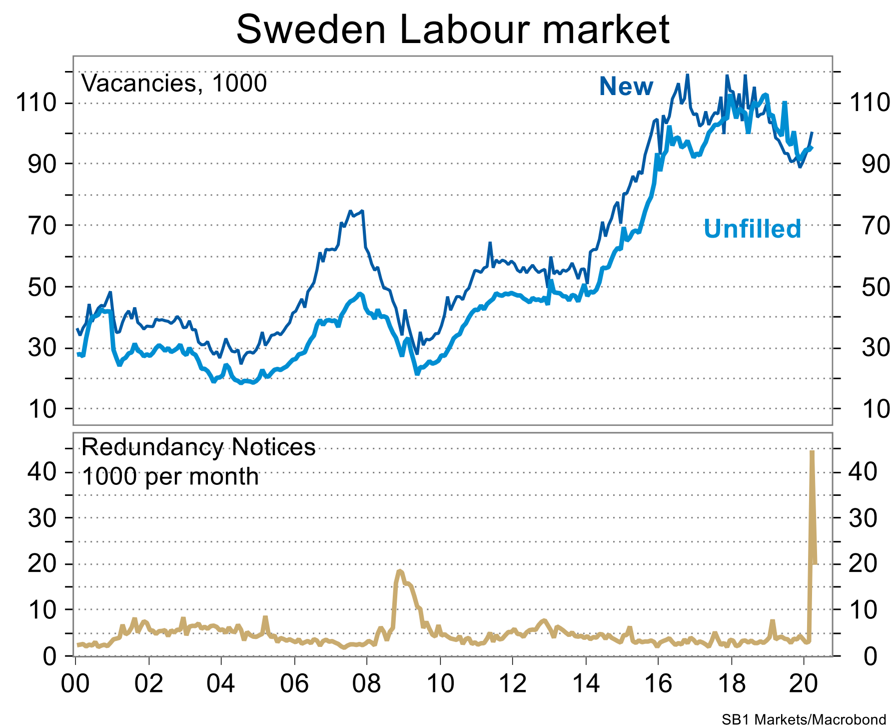


- The authorities' approach to the corona virus threat has been quite different in the two countries, even if Norway did not implement a total lockdown. Still, the manufacturers are reporting the same setback in Sweden as in Norway
- We do not yet have goods service sector surveys in Norway but we doubt they are much worse than the -5 st.dev below average in the Swedish survey

Employment fell sharply in March but LFS unemployment still down

LFS unemployment (smoothed) still trending up and open PES/AF unemployment is heading up too

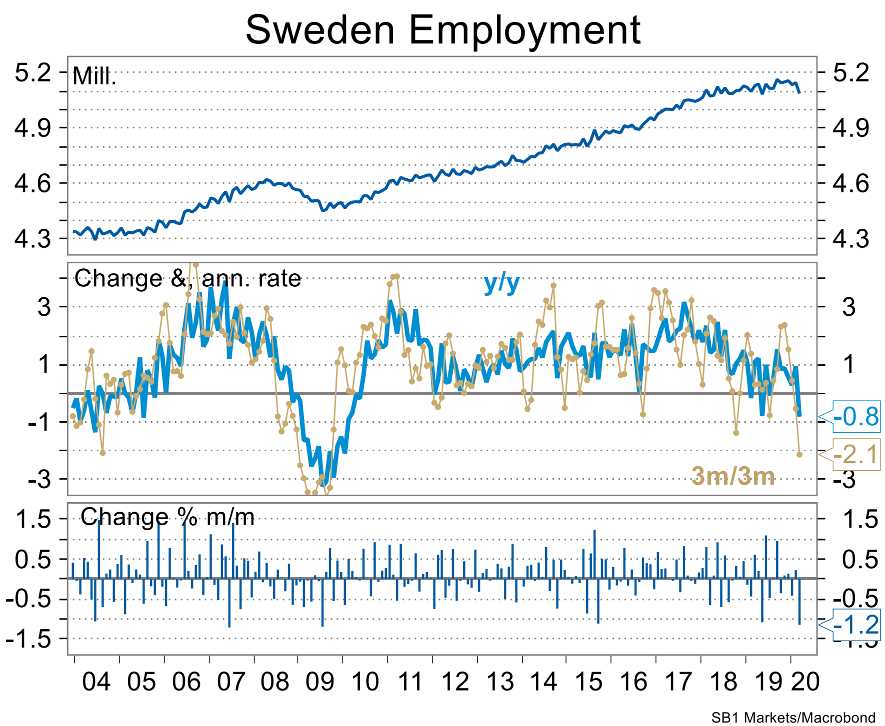


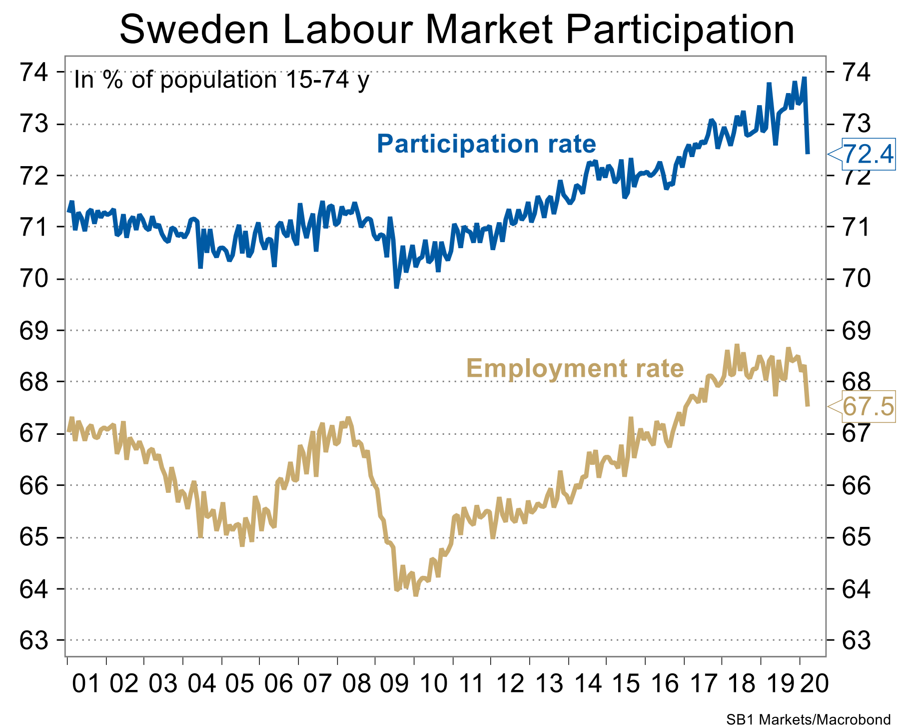


- LFS unemployment fell 0.8 p to 6.7% in March, even though employment fell by 1.2% m/m% as the participation rate fell suspiciously (by 1.5 pp). The PES/AF registered unemployment rose 0.3% to 4.3% in March (and to 7.6% including labour market measures)
- The number of new and unfilled vacancies has been increasing recent months, even if there were a record high number of redundancy notes in March (and even higher by the end of April, we suppose)

Employment sharply down in March, but participation even more

The employment rate had flattened while participation rose the previous months





- Employment fell by 1.2% m/m in March and by 2.1% in Q1. The employment rate fell 0,8 pp, an unusual drop
- The labour market participation rate fell 1.5 pp, the second largest decline ever. So something happened at the Swedish labour market in March

Highlights

The world around us

The Norwegian economy

Market charts & comments

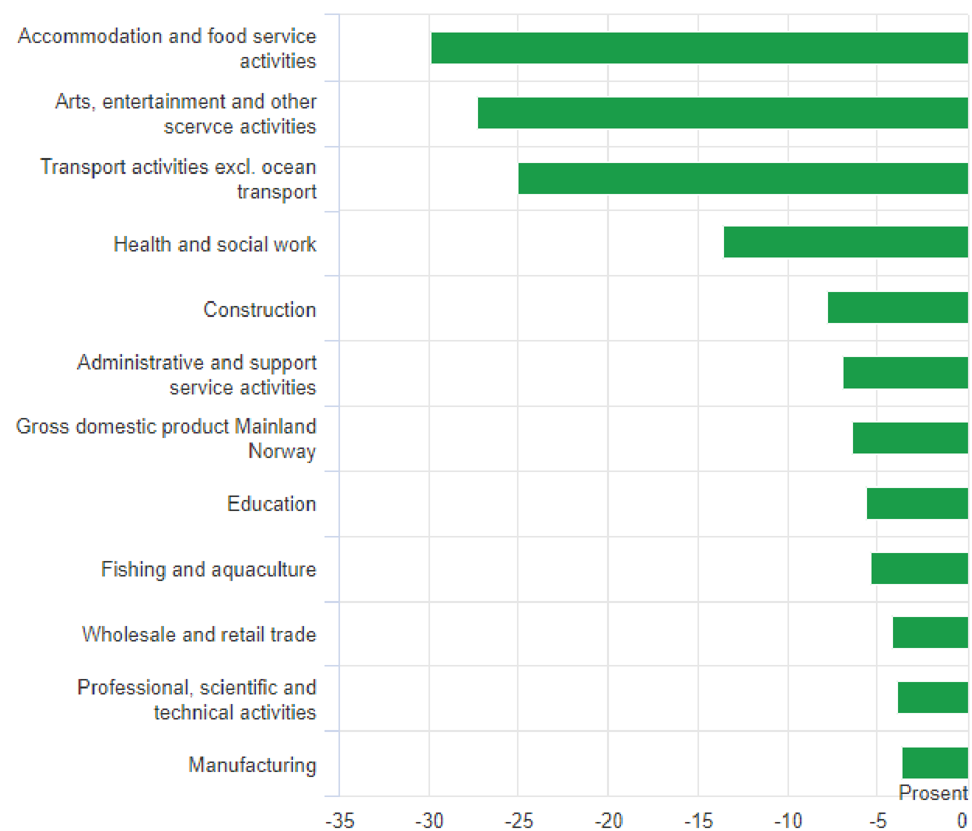
SpareBank 1 MARKETS

March Mainland GDP down 6.4%, down 14% through the month, Q1 -1.9%

SSB expects a -5.5% in 2020 & just up 4.7% in '21: *If so, GDP 4-5% below trend in 2021?*

- SSB confirmed its initial estimate of a 15 (now 14%) decline in Mainland GDP through March
  - The growth rate to March from February is now estimated to 6.4%.
  - Hotels & restaurants down 30%, the level by the end of March probably down much more than twice as much
  - Manufacturing production down just 4%
- SSB expects at 5.5% decline in Mainland GDP in 2020, in the ballpark of a consensus estimate (some 6%, we assume)
- A modest recovery in 2020 at 4.7% implies that GDP will be 5% below a 2% growth path (starting in 2019)
- Private consumption, housing and mainland & oil business investment are all expected sharply down in 2020
  - SSB expects a 9% decline in oil investments in 2020 and further 12% in 2020, in sum 30%
  - We expect -10% and -19% resp, almost 30% in total. If so, the level in Q4 2021 is 40% lower than in Q4 2019
- Unemployment is expected to increase to 6.3% (the peak in 2020 average but higher in Q3, we assume), from 3,5% now. That may turn out to be an optimistic estimate

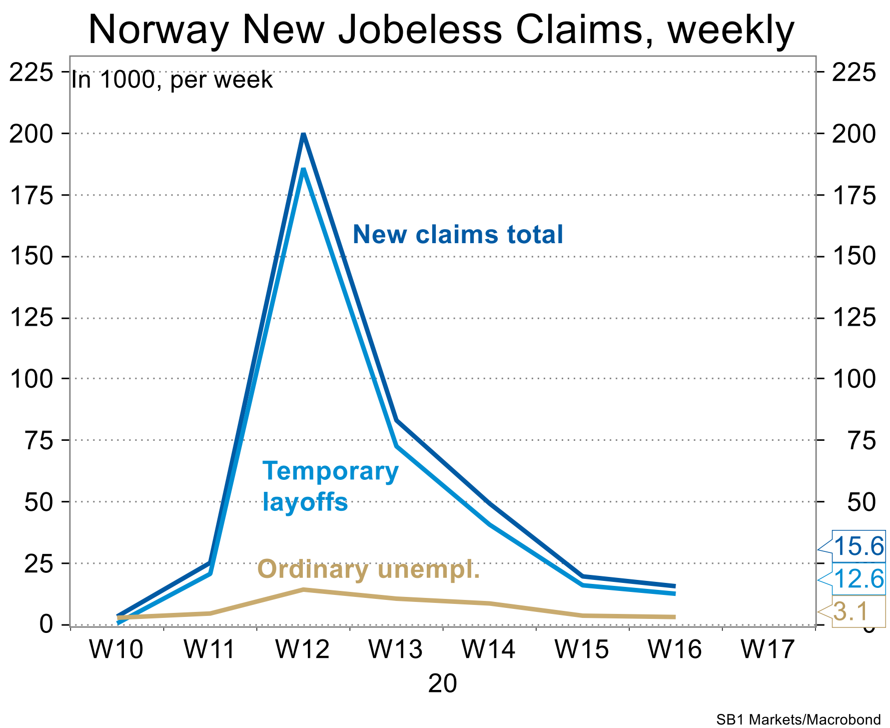
Figure 2. Selected industries. Constant 2017-prices. March 2020. Change in volume from the previous period (per cent)

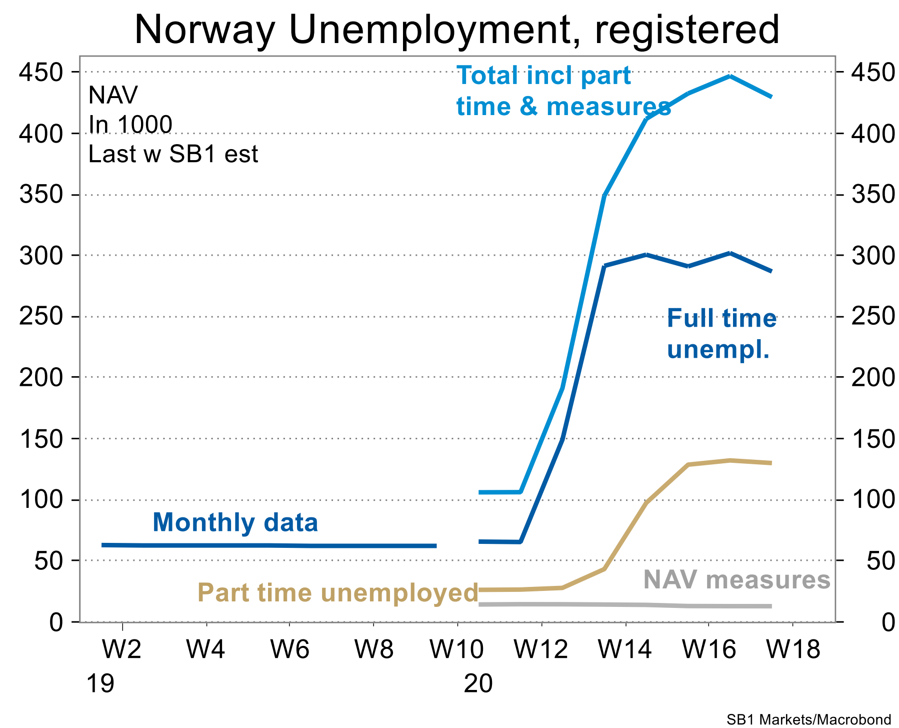


Source: National accounts, Statistics Norway.

Unemployment slightly down last week, open unemployment has flattened

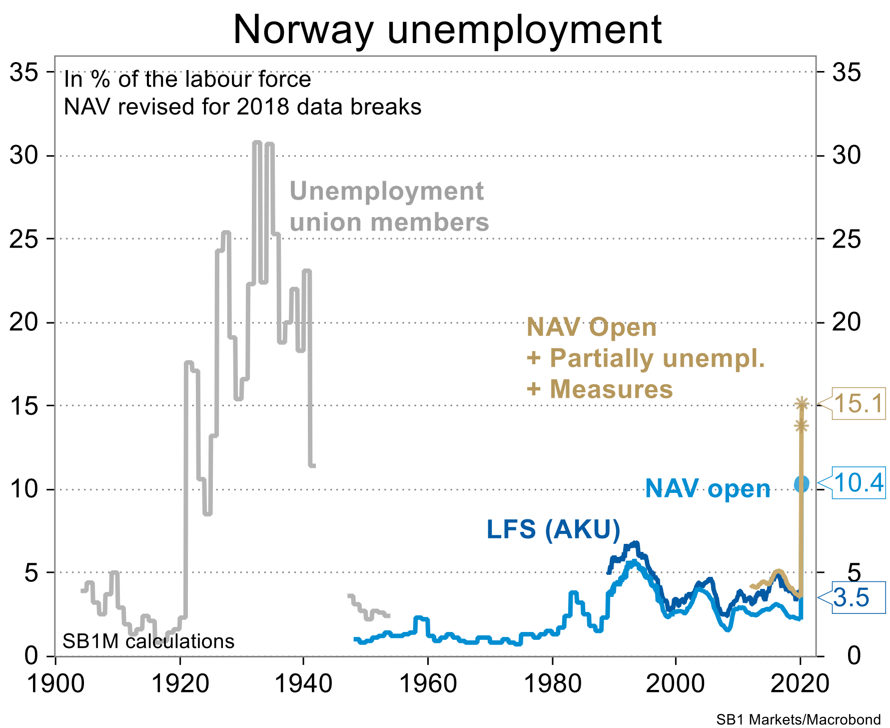
NAV is reporting stable unemployment, the sum at 430’ (we expected 450’)

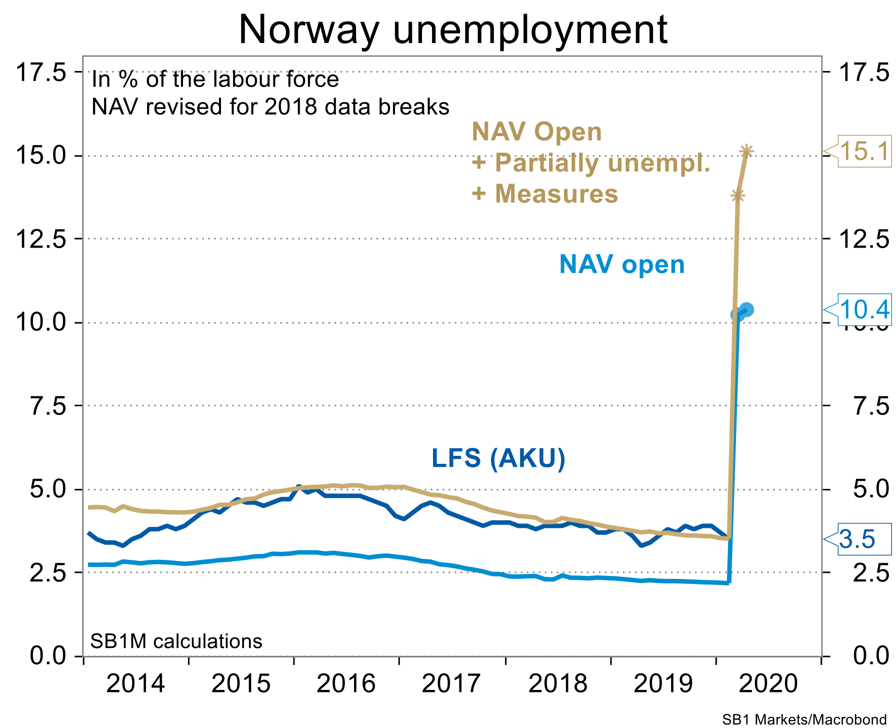




- Weekly new jobless claims fell further last week, to 16’, compared to the 200’ pace at the peak in the first week after the partial lockdown was decided. The normal inflow is 3 – 5’ persons per week. Most of the new claims (80 – 90%) are employees that are furloughed
- Total unemployment (full & part time) rose to 430’ persons last week, down from 450’ the previous week. The decline might be fore real, as some on temporary leave was engaged again (like in kindergartens) but may also be due to cleaning up i statistics at NAV following the huge inflow the previous six weeks

Total NAV unemployment at 16%, open at 10%





- NAV open (full time) unemployment has soared to 290’ from 60’. The number for partially unemployment has climbed to 130’ from 20’. If we add labour market measures, 430’ are partially or fully unemployed, equalling 15.1% of the labour force
- Even if some sectors are gradually opening, we unemployment to continue to climb the coming weeks as other sectors are hit by too low demand domestically and from abroad

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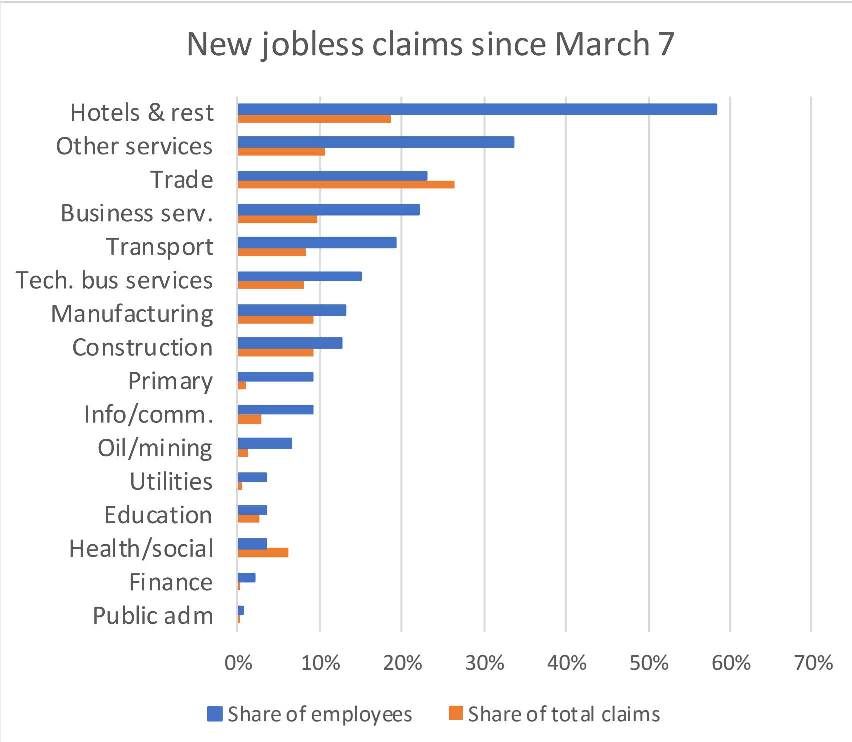
Services have taken a hard hit, hotels & restaurants the hardest

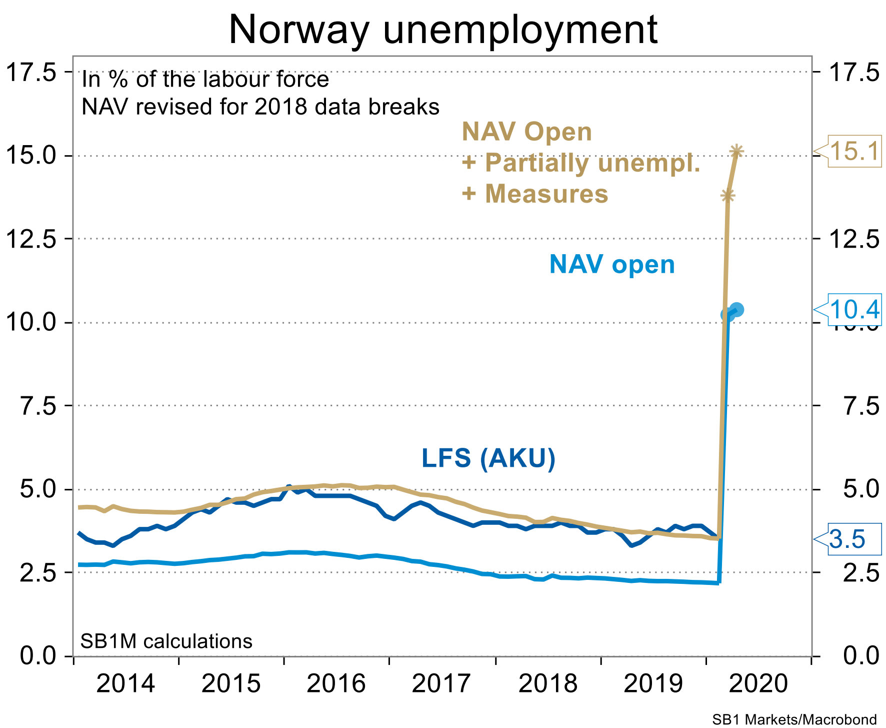
In h&r, close to 60% of the employees have been temporary laid off and have turned up at NAV



- In manufacturing and construction some 12 – 13% of the employees are furloughed

LFS (AKU) unemployment down to 3.5% - an irrelevant data point

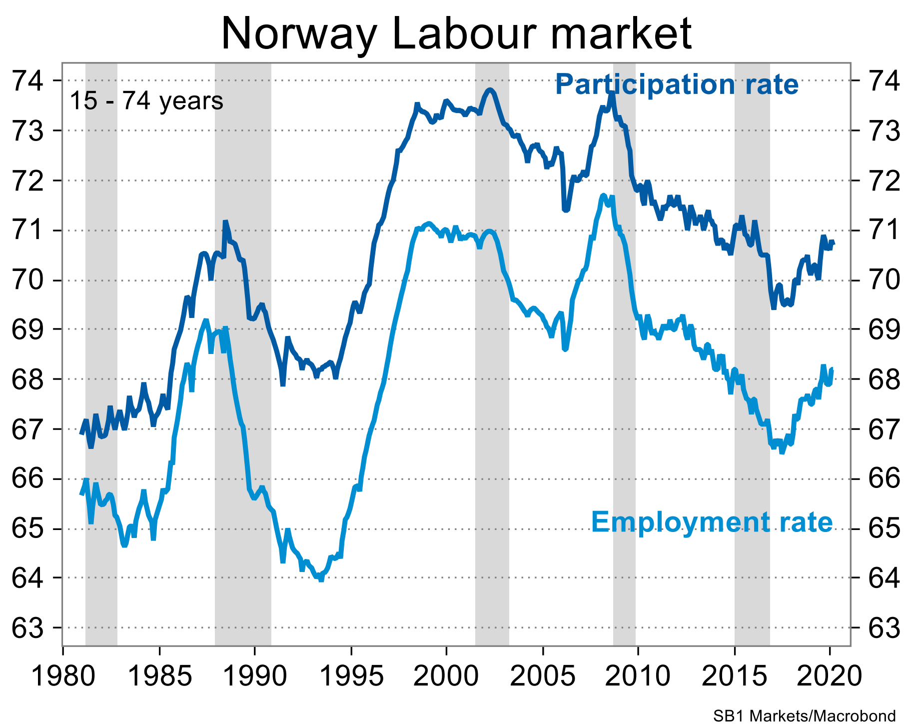
3 m average (& Q1) unemployment rate fell to 3.5% from 3.9% in Q4

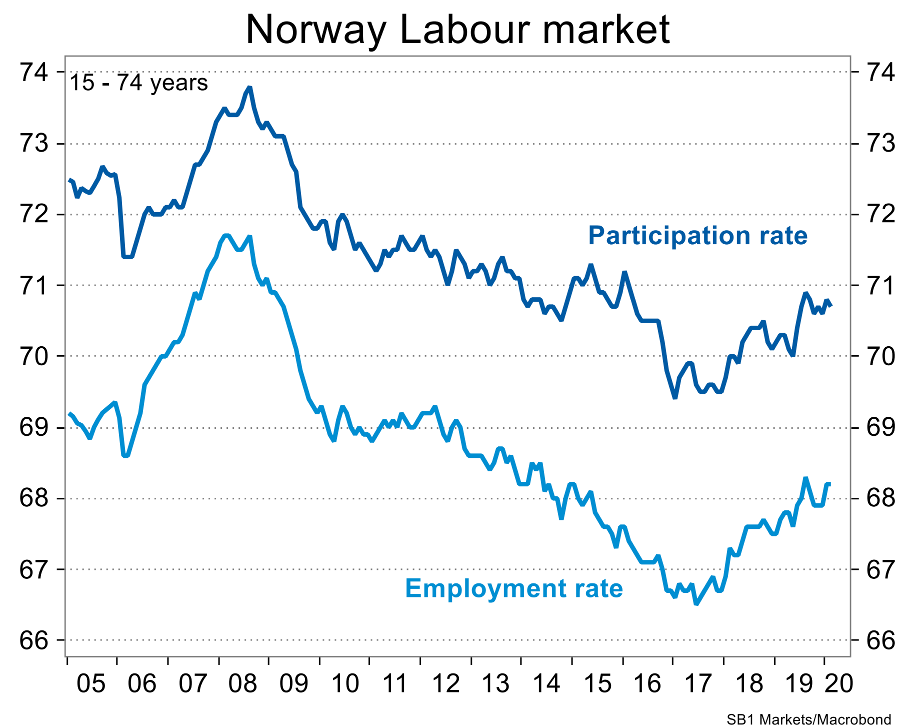


- While temporary layoffs (furloughed workers) are registered at the labour market offices (NAV), they are not counted as unemployed in the Labour Force Survey before they have been out of work for three months
- Data are smoothed 3m, implying that second half of March just constitutes 1/6th of the Jan – March average

Labour market participation & employment has been trending up

However, rates have been stabilising since last summer

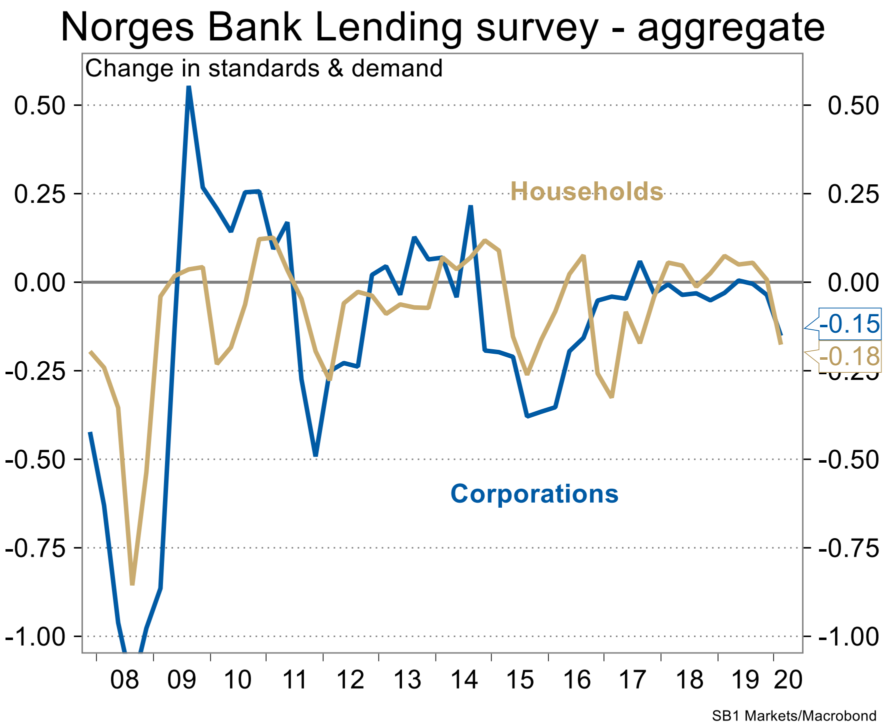


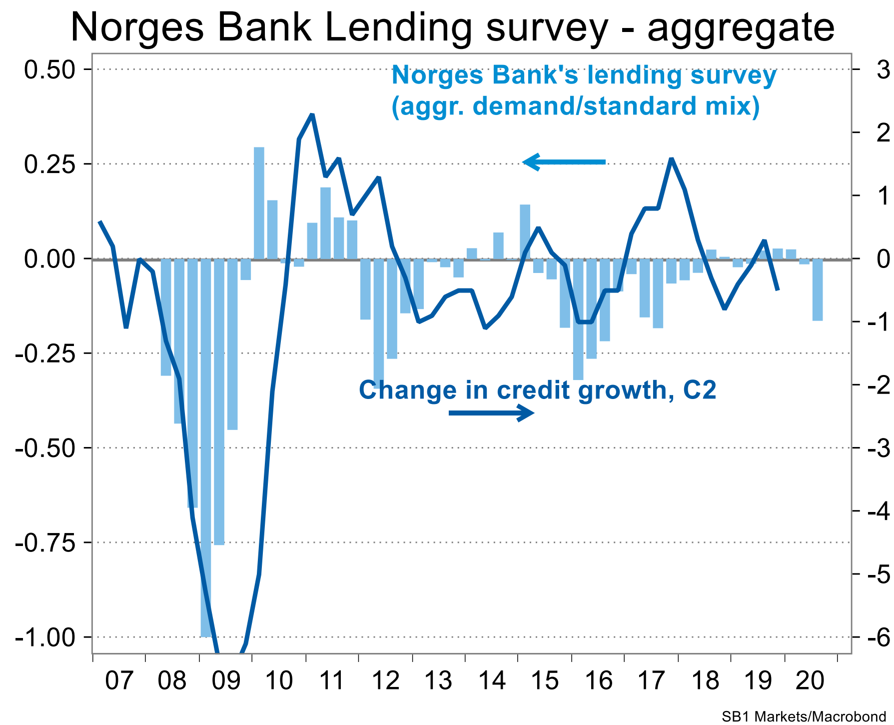


- The long term downturn in the participation and employment rates bottomed in 2017 and have turned up since. Through most of 2019, the participation rate climbed speedily, suggesting labour supply was responding to strong demand. However, late summer 2019, participation has retreated, not an indication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

Banks expect lower loan demand from households, not corporates

Standards are expected to be tightened vs both sectors. In sum, we exp lower credit growth





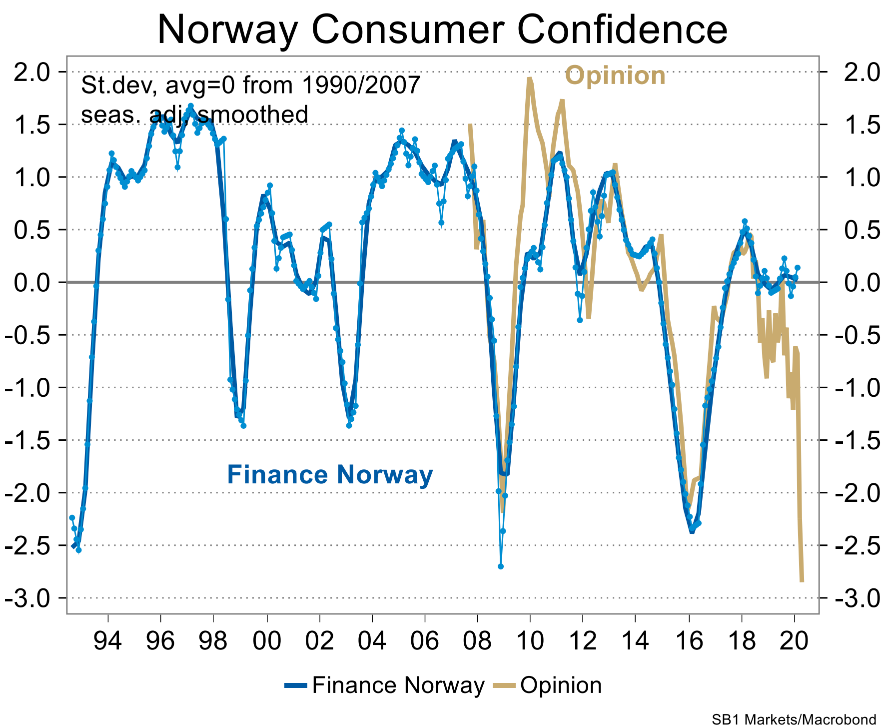
- Banks in Norges Bank's Q1 Lending Survey report a small decline in demand from households in Q1 (barely impacted by the corona crisis) but as substantial decline in Q2, the second largest ever and the largest change in assessment q/q ever. In addition, banks are signalling a significant tightening in credit standards, this time without any pressure from the authorities
- Banks are not expecting lower demand for loans from the business sector, even if demand for loan for investments purposes is expected to fall sharply. Businesses need more credit to fund their operations during the corona setback. Banks are signalling that they expect a moderate tightening of credit conditions
- **In sum: We expect credit growth to slow further, now especially household credit growth**

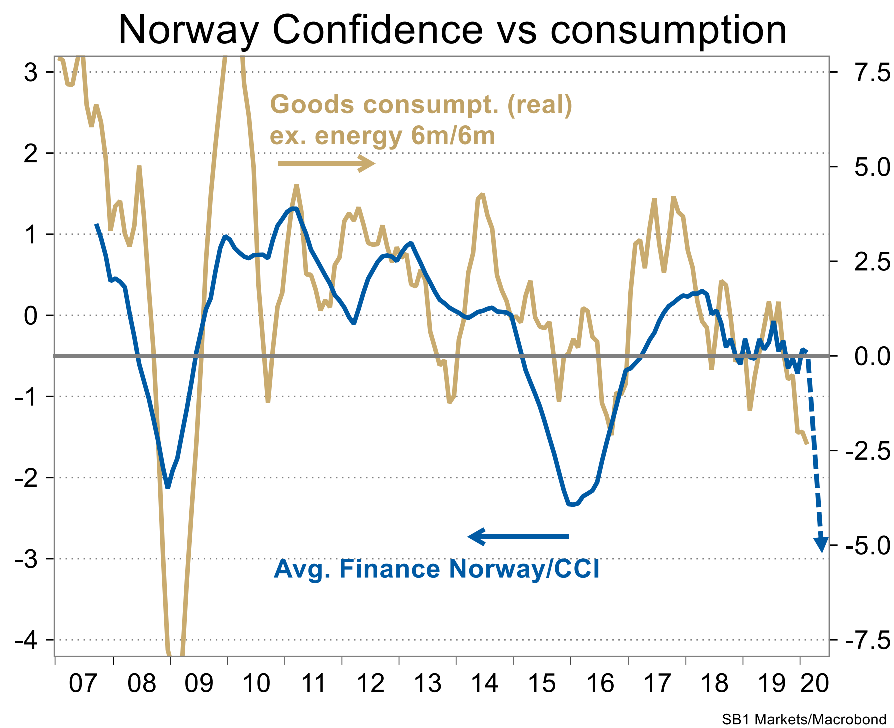
Data in this section are seasonally adjusted

SpareBank 1 MARKETS

Consumer confidence further down in April. Probably the worst since April 1940

The CCI fell to -2.8 st.dev below average, the lowest print ever (data from 2007)



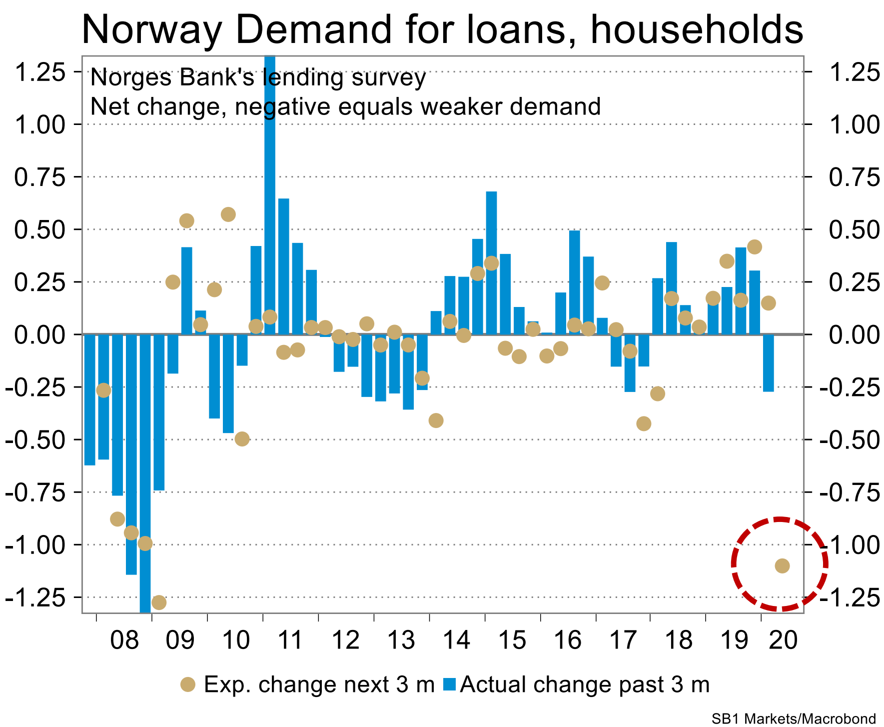


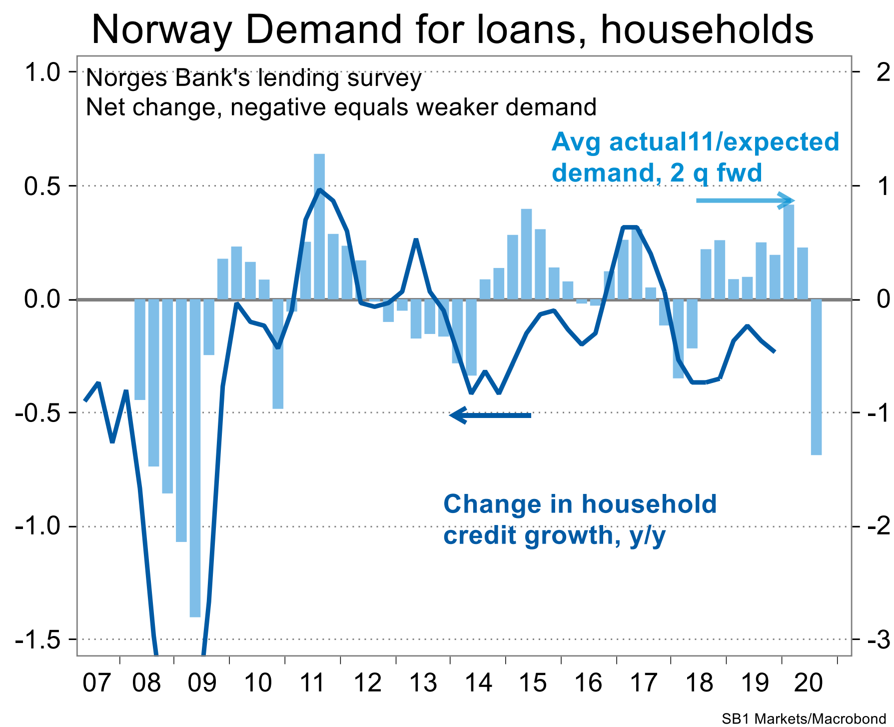
- … but in reality the lowest confidence ever measured in Norway, data from august 1992 which probably was the low point of the banking/housing crisis 30 years ago. If so, we think we will have to go back to the onset of WWII, in April 1940
- We know that consumption is down some 15% in March (in average) and April will deliver another blow. So there is some connection between confidence and real life

SpareBank 1 MARKETS

The expected decline in credit demand from households the 2nd largest ever

... and the change from the pervious quarter the largest ever

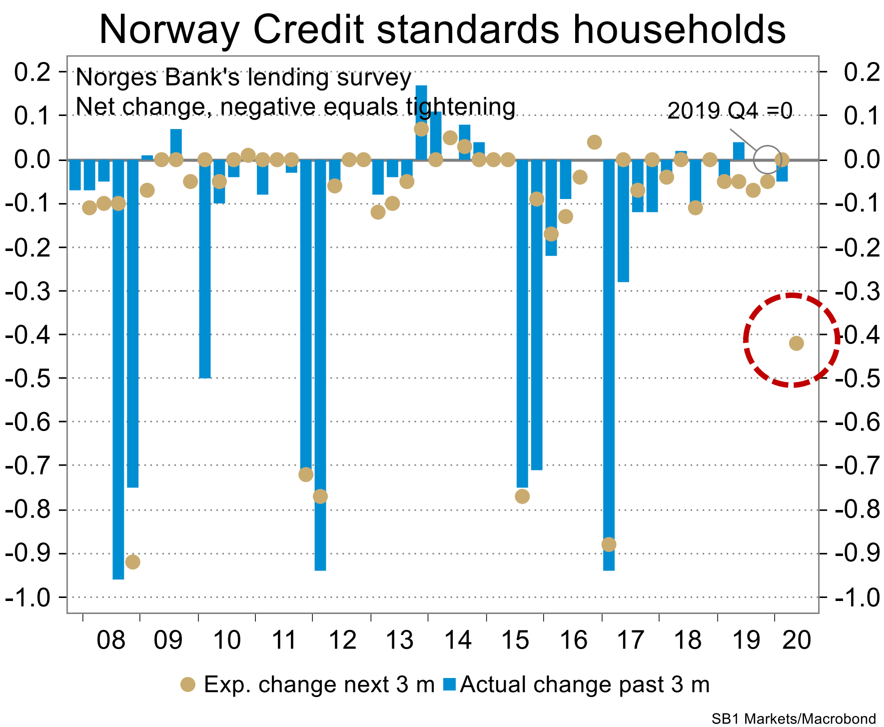


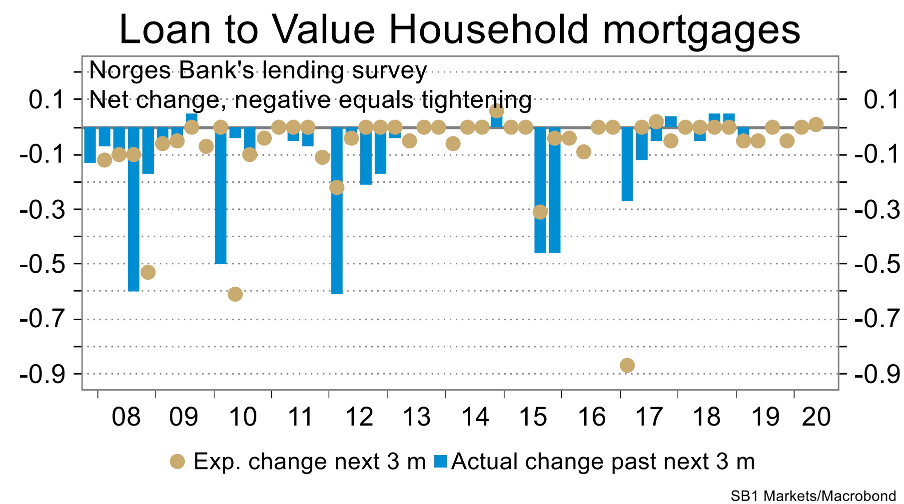


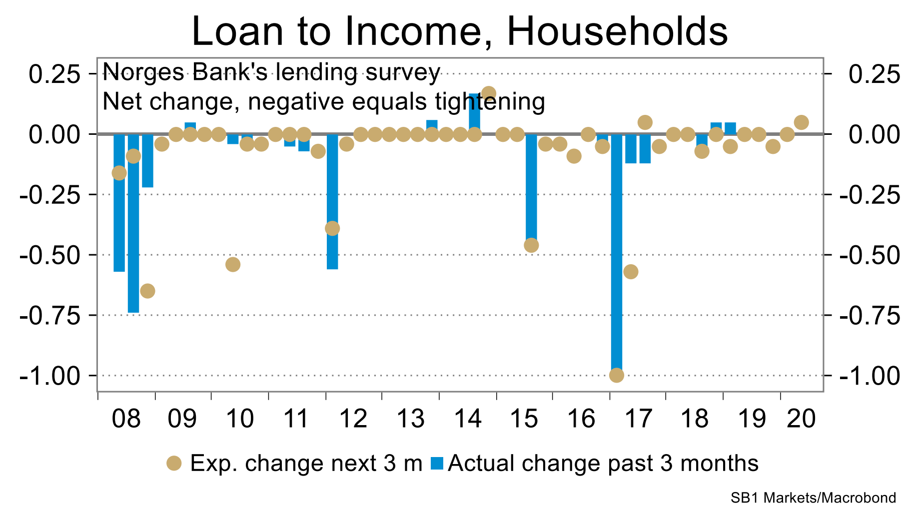
- The correlation to change in actual credit growth is not that impressive. However, the last time banks expected a decline in household demand for credit in the same way they do now, credit growth slowed sharply, by 5 pp to 7% from 12%, during the financial crisis
  - During the Norwegian banking and housing crisis in 1988-1993 credit growth fell by more than 25 pp, to below zero
  - High unemployment and income uncertainty are good arguments for expecting households become more cautious the coming months
  - The real risk is a broader downturn in the Norwegian economy, due to falling investments both in oil and non-oil businesses, as well as in housing

Banks plan to tighten credit standards vs households but not LTV or LTI…?

Overall standards are expected to be significantly tightened, mainly due to the economic outlook

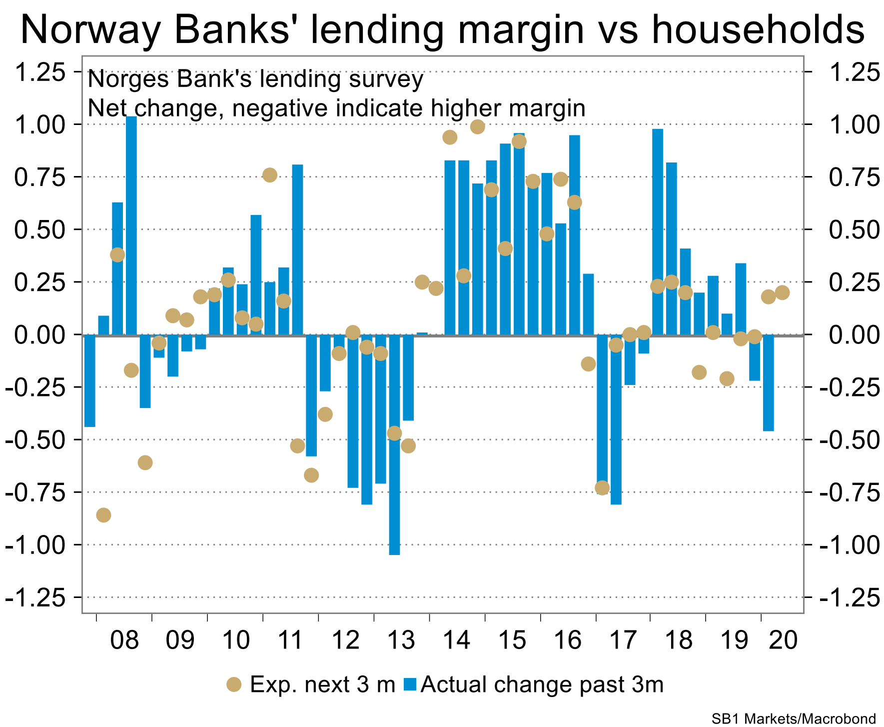


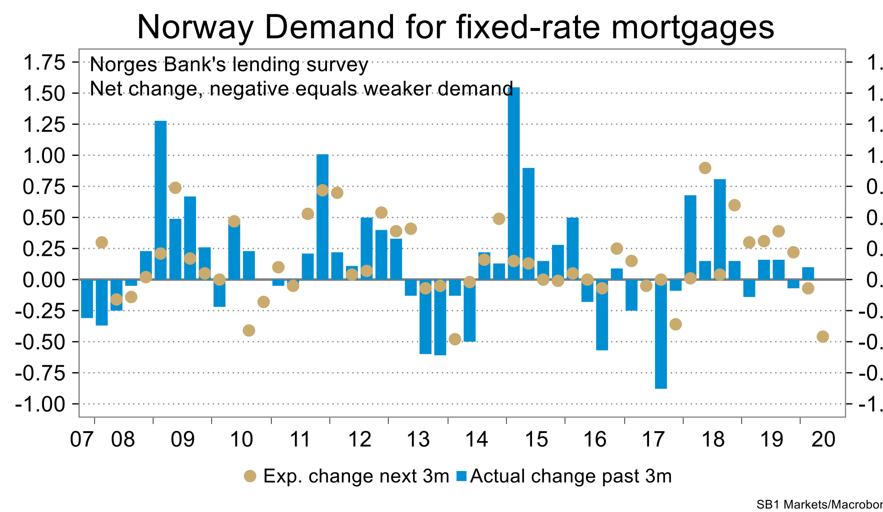


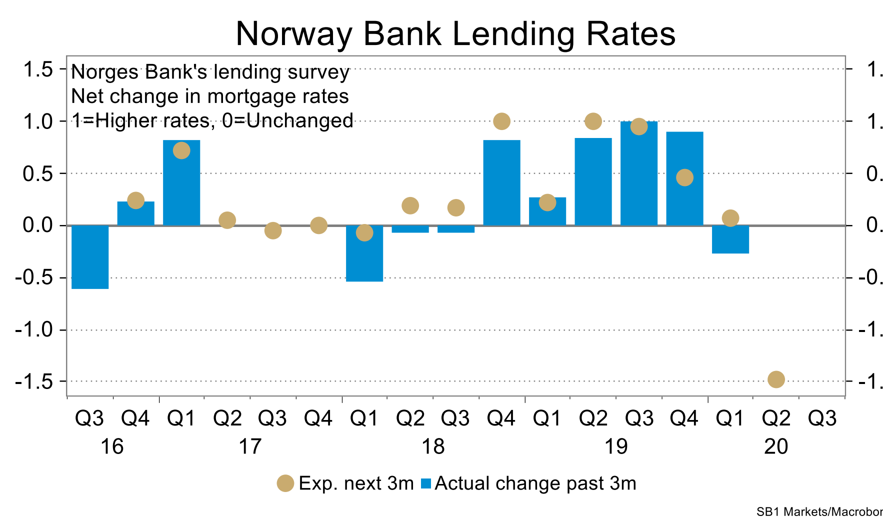


Rising funding costs pushed margins slightly down in Q1, expected up in Q2

Most banks cut lending rates marginally in Q1, more to come in Q2, of course

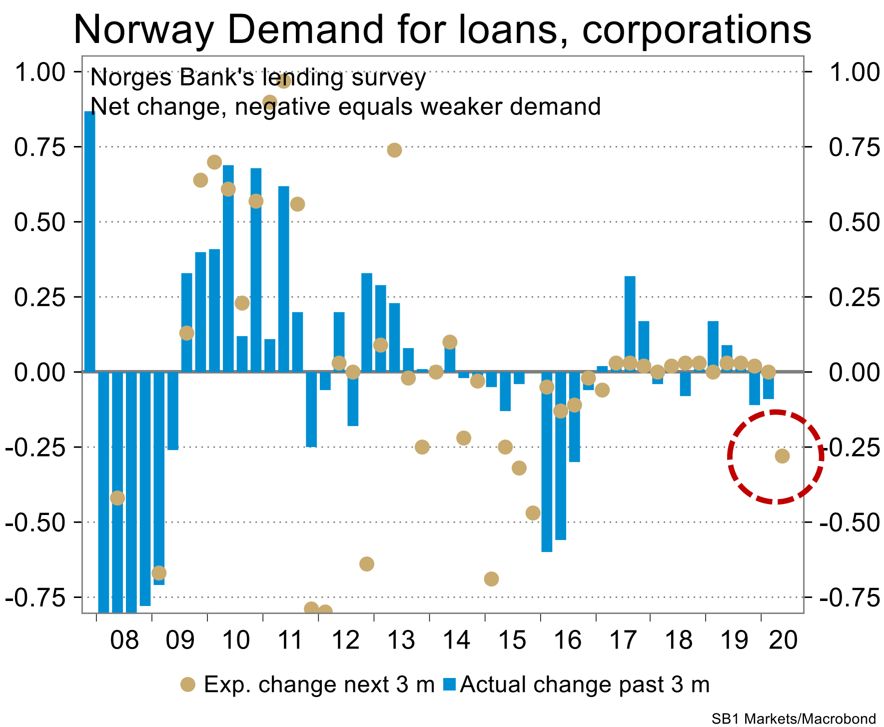


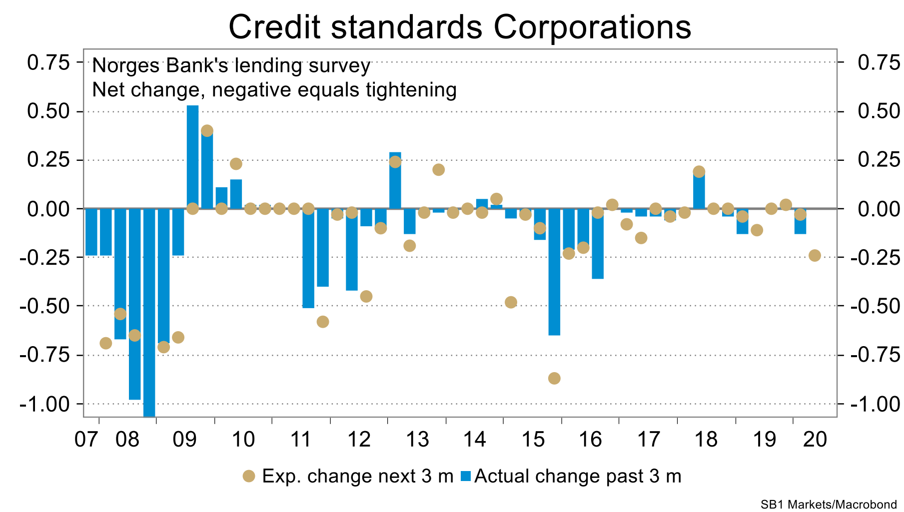


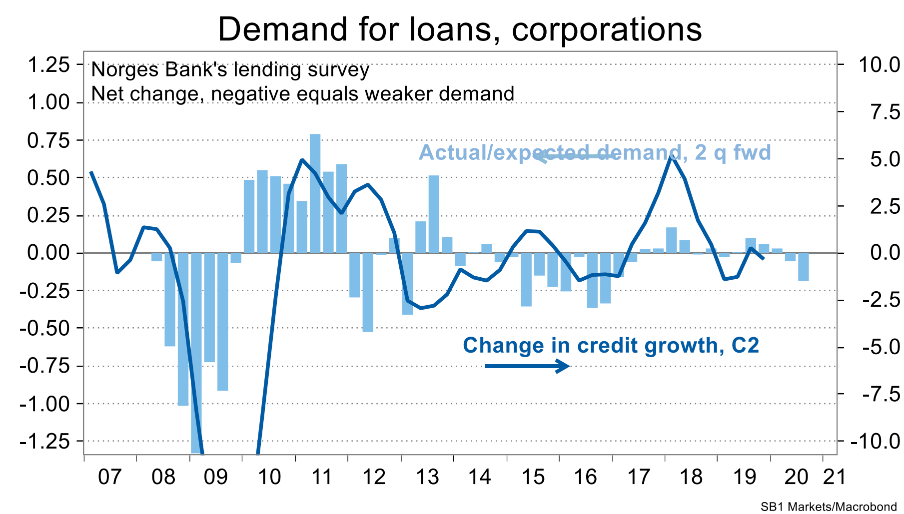


Marginally lower demand from the corporate sector, standards tightened

Demand slowed in Q4 and Q1, more is expected in Q2. A moderate standard tightening expected

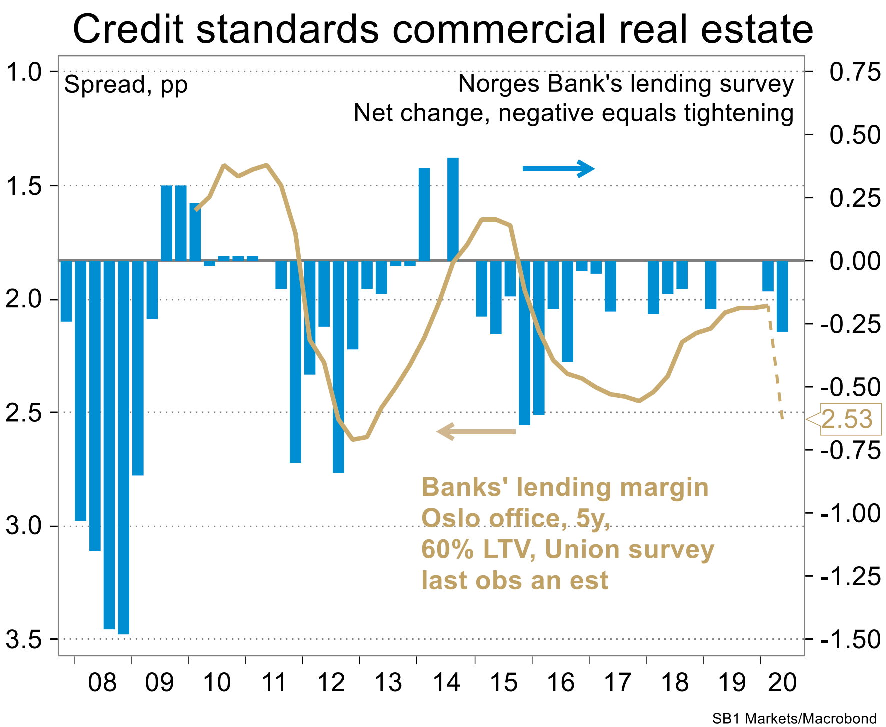


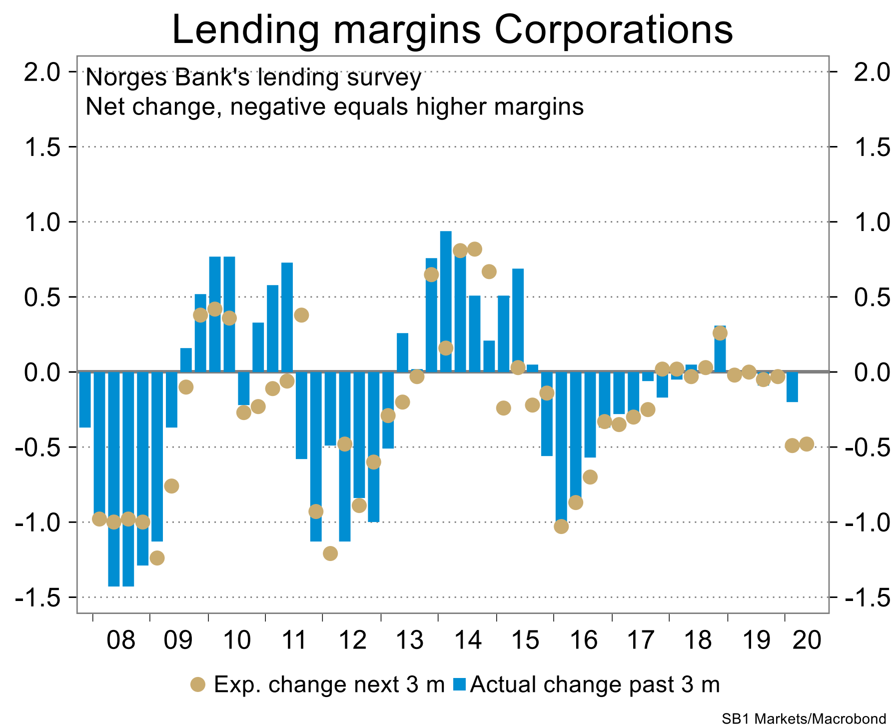




Real estate loan standards are tightened somewhat

Banks signal higher margins – and have lifted them already

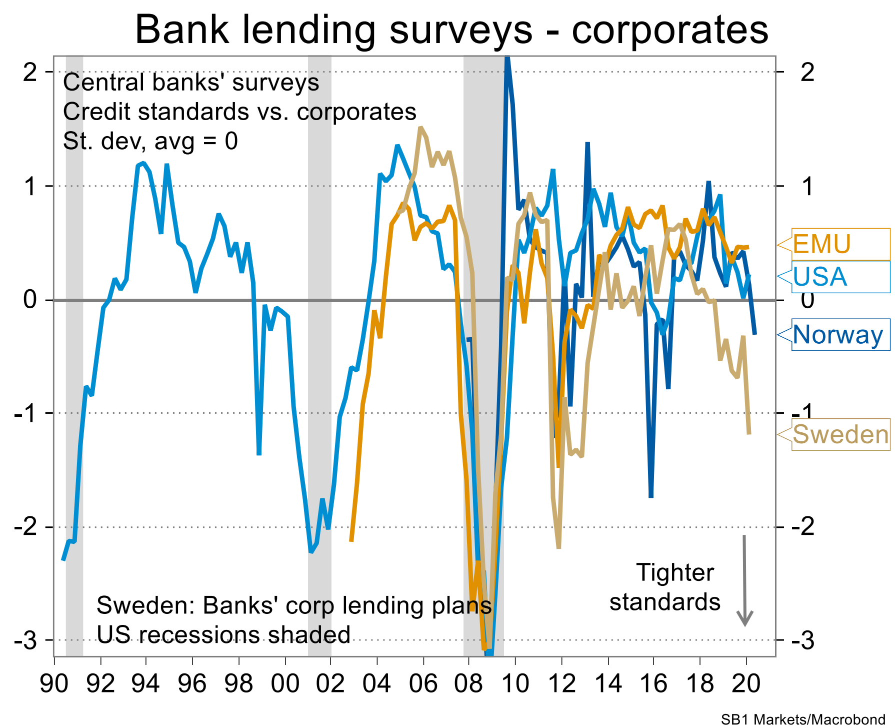


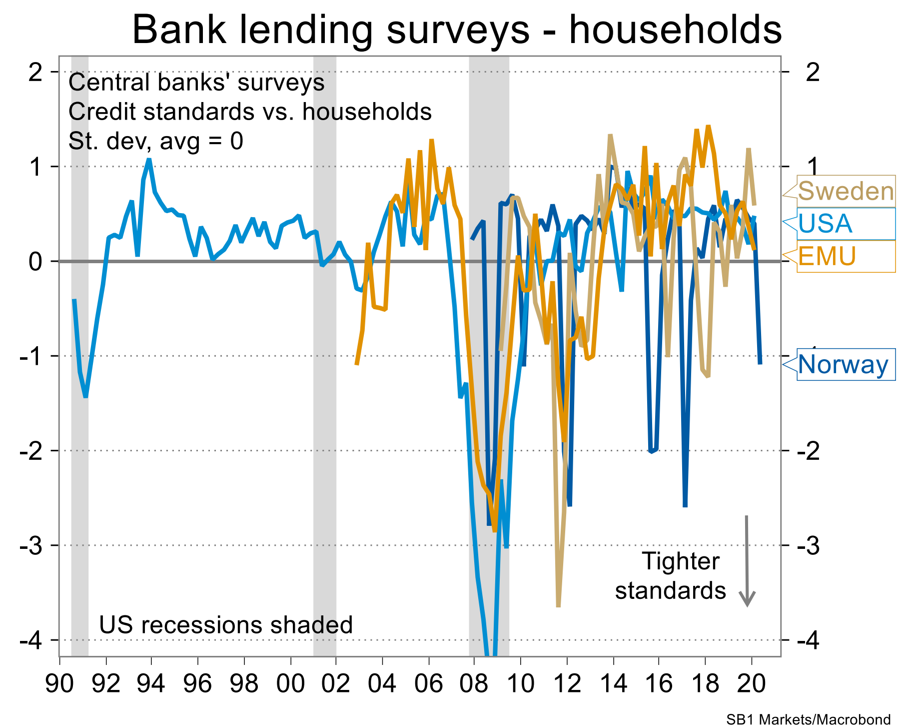


- Lending standards to commercial real estate were unch Q4 and then tightened marginally in Q1 and more is expected Q2
- Banks are planning to increase margins vs. other parts of the corporate sector too but not sharply

Global view: What will banks do now?

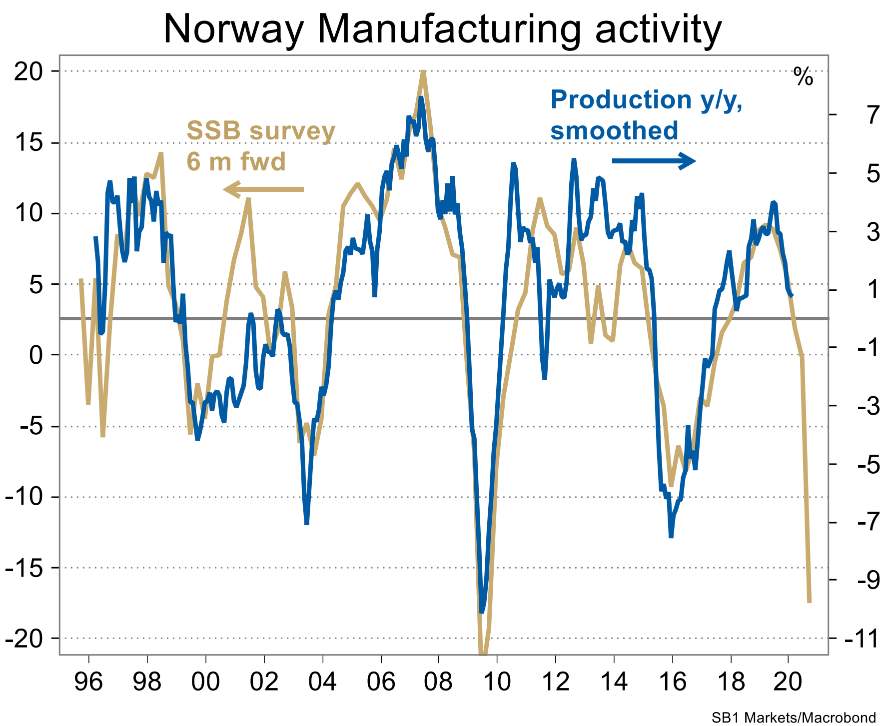
Swedish banks have tightened vs corporates, Norwegian banks vs. households? No news elsewhere

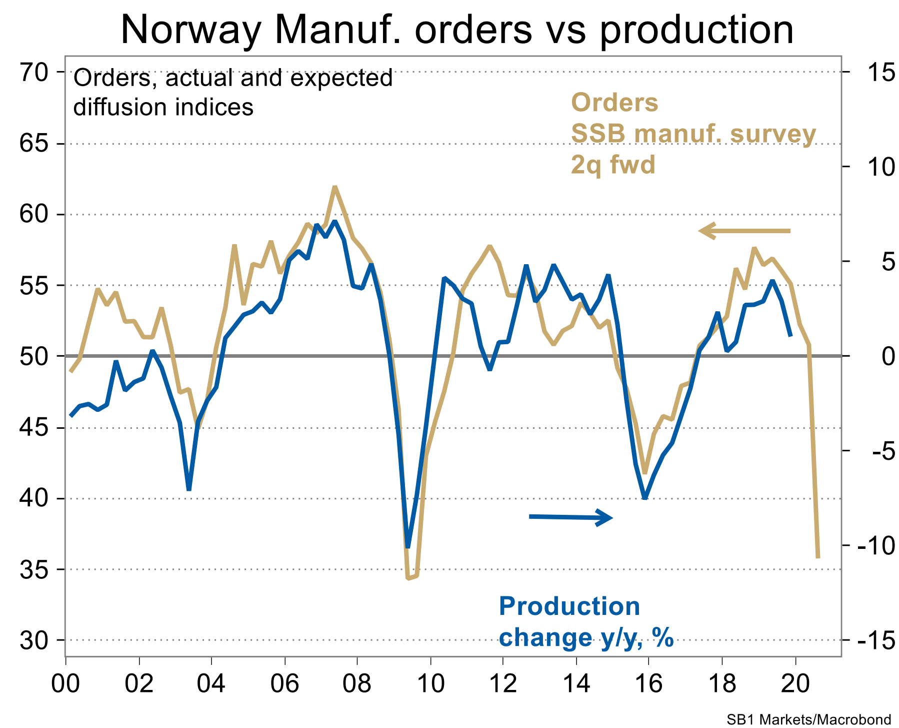




SSB's manufacturing expectations collapses, orders are falling to the ground

Not surprisingly, the manufacturers think they are heading for a harsh downturn

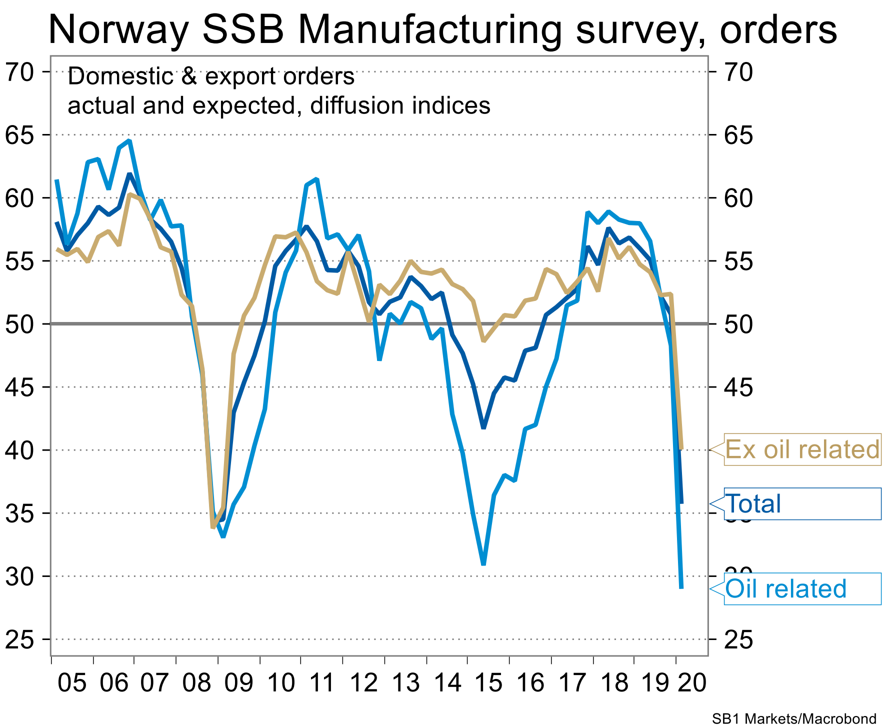


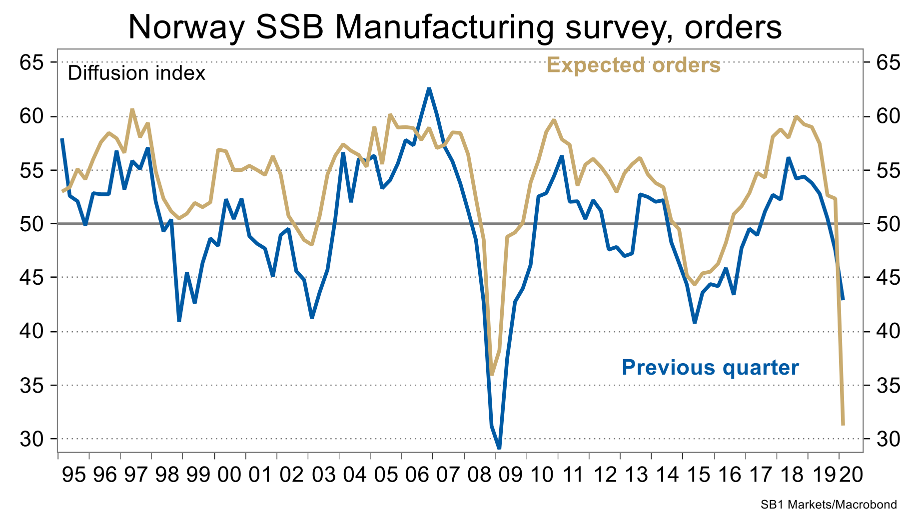


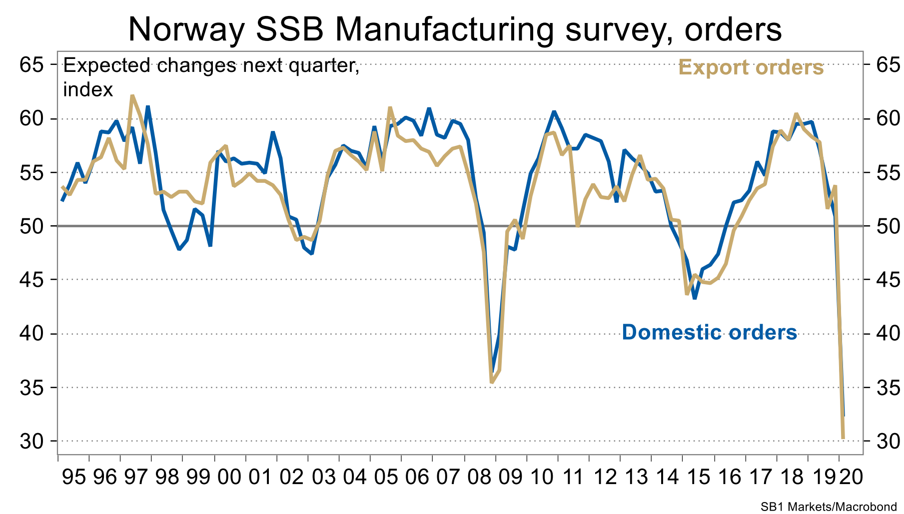
- The composite index in SSB's industrial survey (manuf. index) fell to -17.5 in Q1, from –0.2 in Q4 (revised from +0,7) in Q4,. The q/q decline was the largest ever but the level was even lower in 2009. The index signals a 10% decline in production
- Oil related industries reported a downturn 3 months ago, it has now become much worse – and all other sectors are below the zero line

Q4: Manufacturing order inflows were softening sharply and broadly

In Q1, a disaster, like 2008. Oil related at the bottom. Domestic just as bad as exports



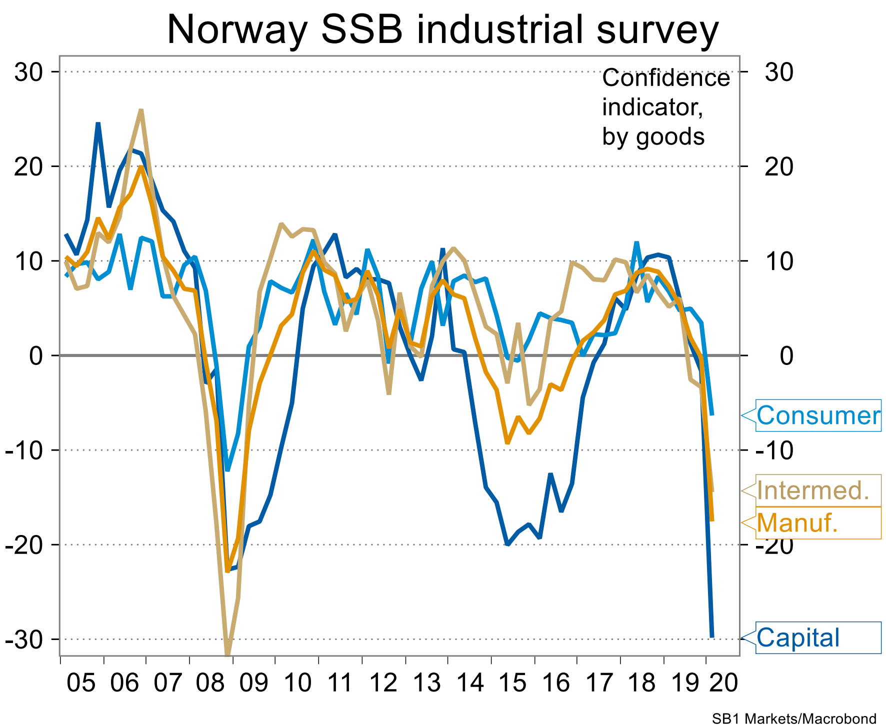




- Just to remind you, the headline 3 months ago was the one stated above – **<u>the downturn was underway!</u>**
- Then, something really bad happened

Capital goods a disaster already. All sectors down in Q1

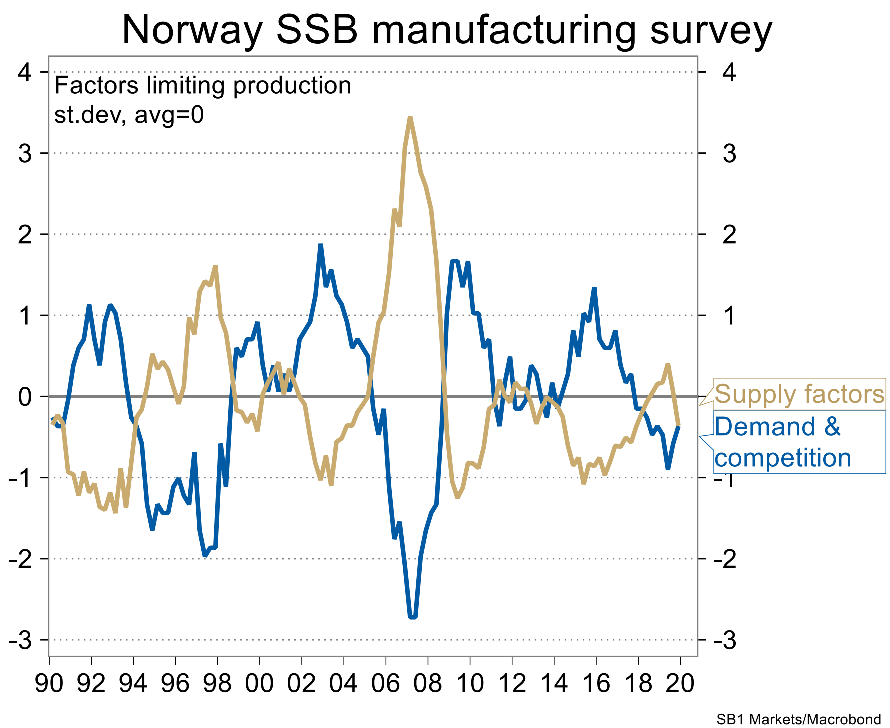
Oil related sectors reported a downturn in the Q4 survey, now all others followed suit

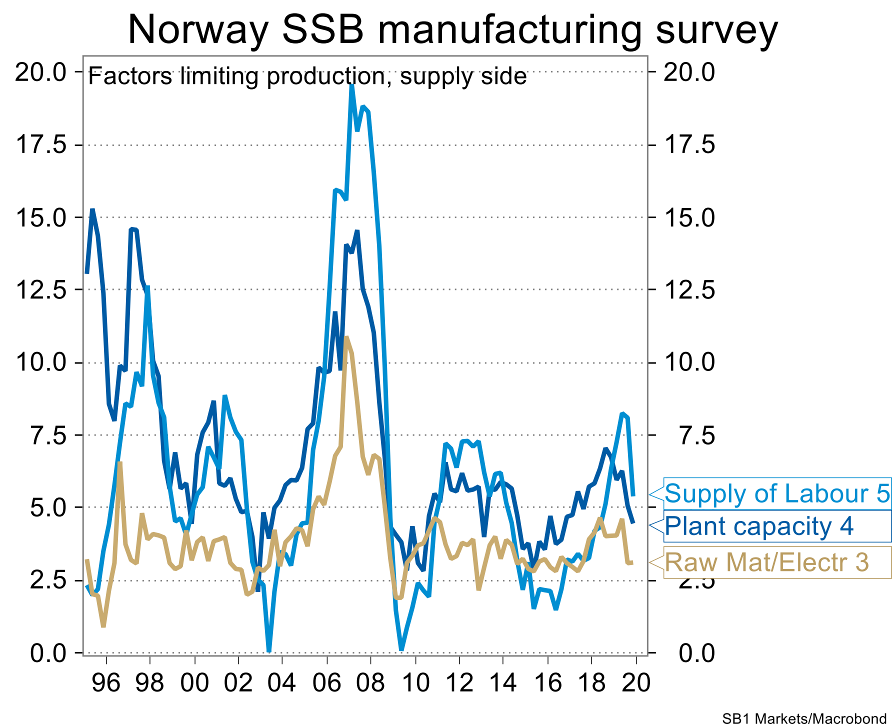


- Consumer goods (mostly food processing) producers are less downbeat than others, for good reasons

Manufacturers report less tight labour market – and softer demand

The share of businesses reporting labour shortages dropped in Q4

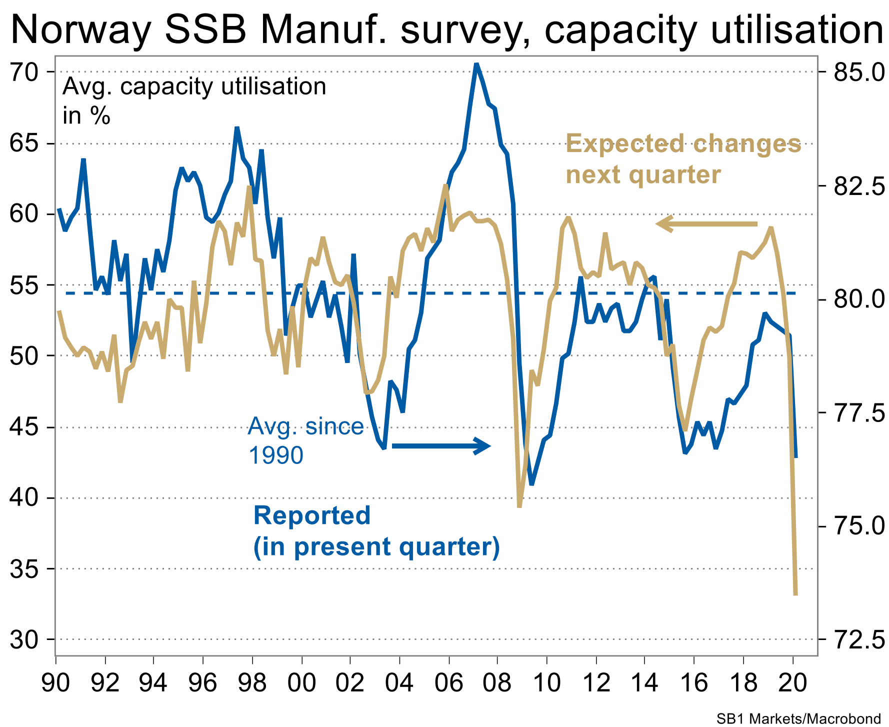


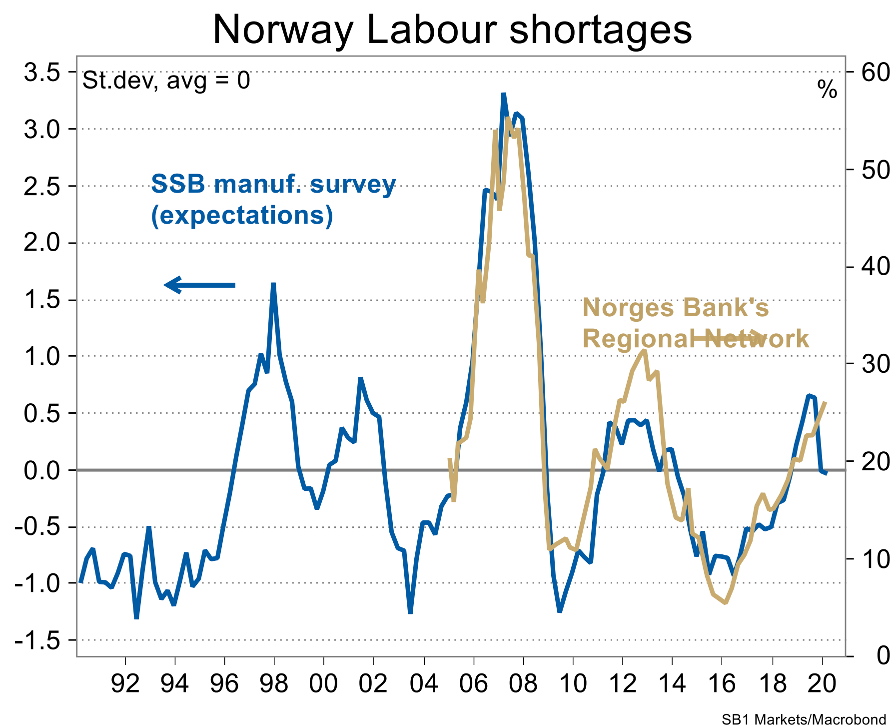


- The share of companies reporting lack of labour slipped from 8% in Q3 to 5% in Q4. The level is just below avg (at 6%), suggesting that labour markets in manufacturing are not particularly tight (nor have they been, in this cycle)
- Plant capacity constraints are falling too, to well below an average level
- Raw materials are not any problem
- More (but still fewer than normal) companies reported lack of demand/too much competition as a constraint in Q4

Reported capacity utilisation sharply down, expectations even more

Actual capacity util. in Q1 among the lowest on record – and the expected decline unprecedented

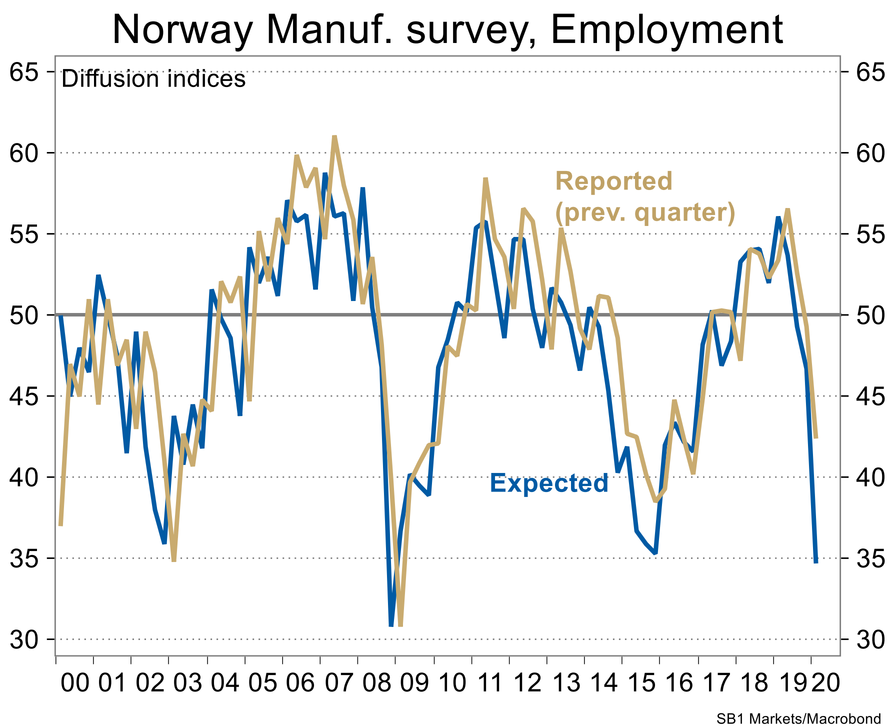


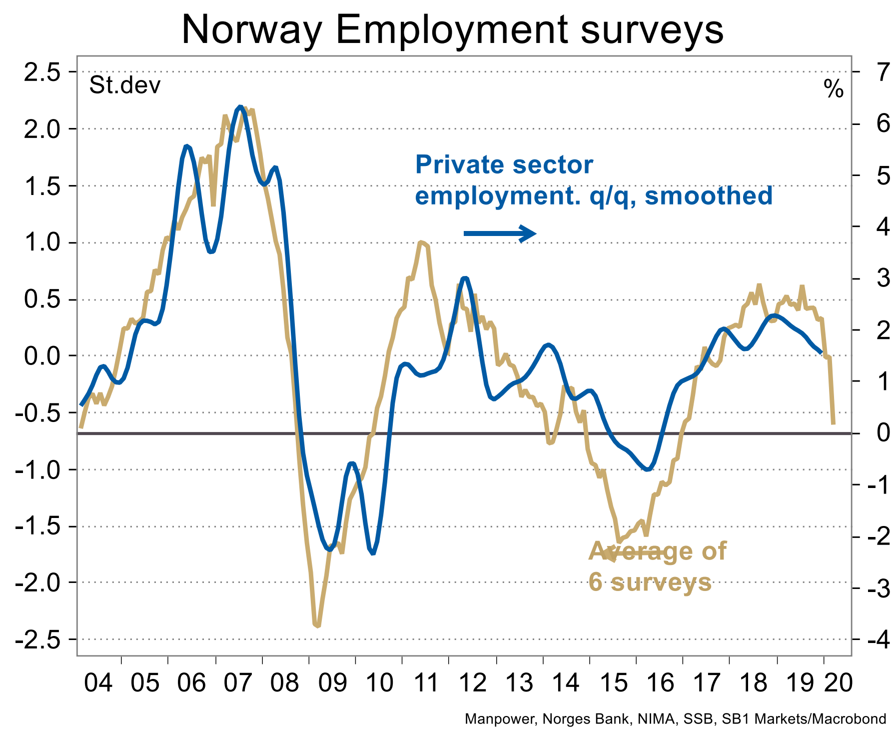


- In Q2, actual capacity utilisation no doubt will be the lowest ever
- Still, labour shortages were at a normal level in Q2. They will not in Q2

SpareBank 1 MARKETS

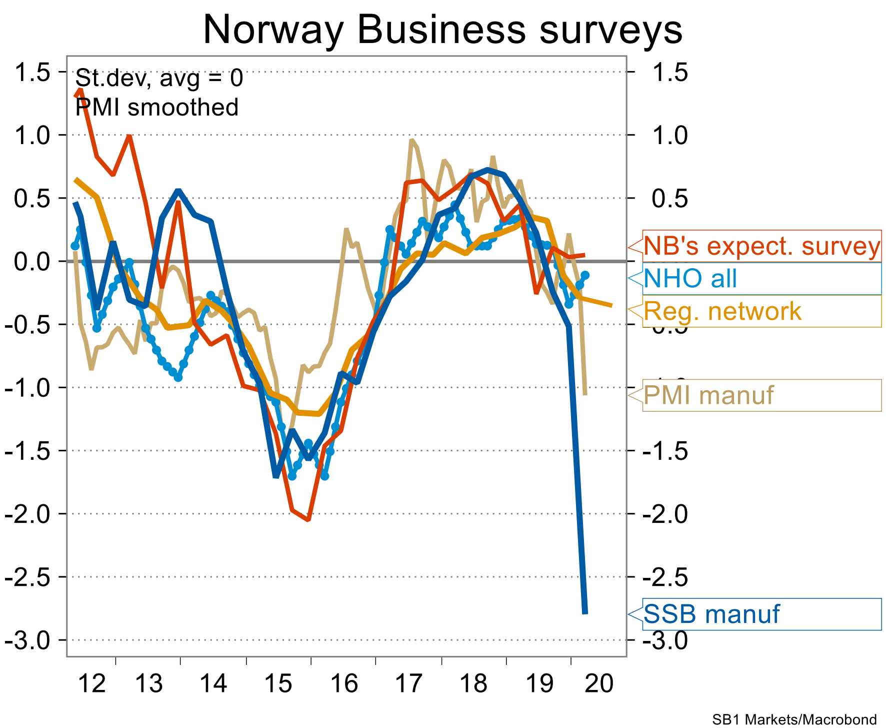
Manufacturers are reporting sharp employment cuts

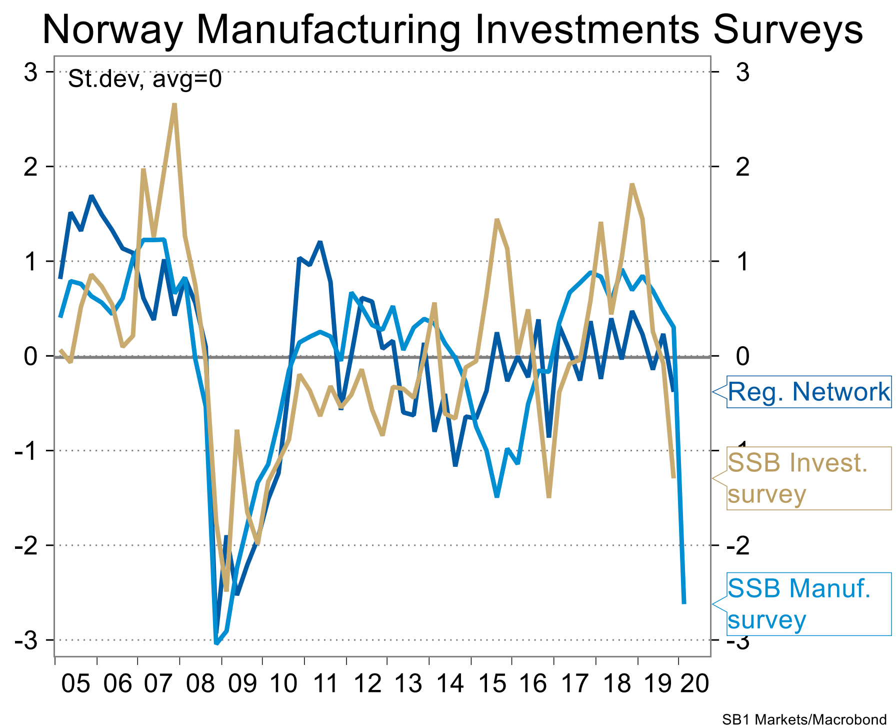




Just wait for the other shoes to drop!

Investments in the manufacturing sector were on the way to be cut sharply, even before corona

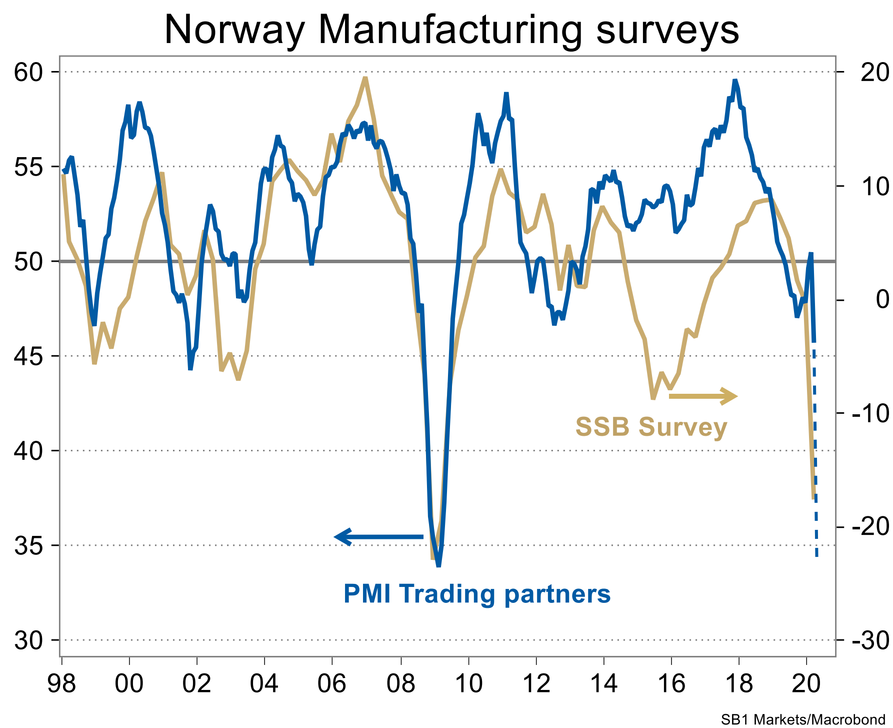


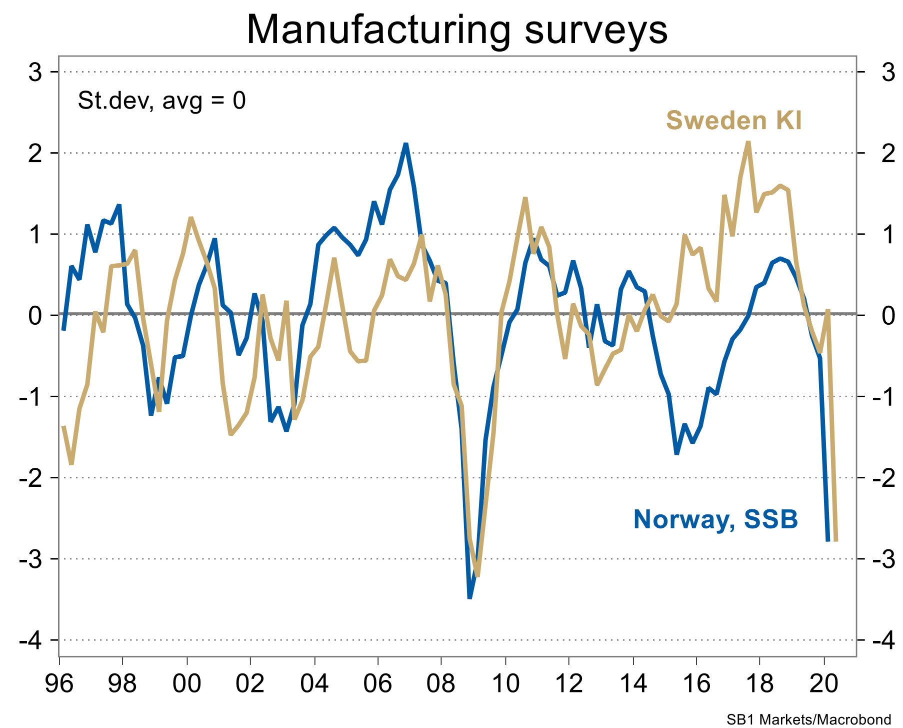


- The SSB investment survey was conducted in February, the manufacturing survey from March 9 to April 21, that is mostly after the corona crisis started in full

SpareBank 1 MARKETS

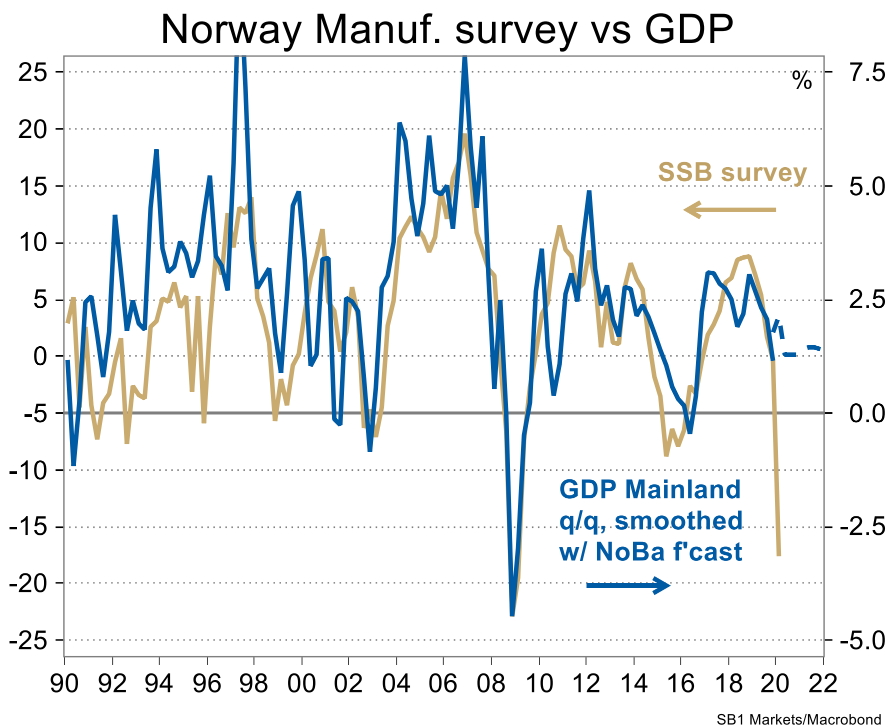
Norway is following its trading partners down, as usual

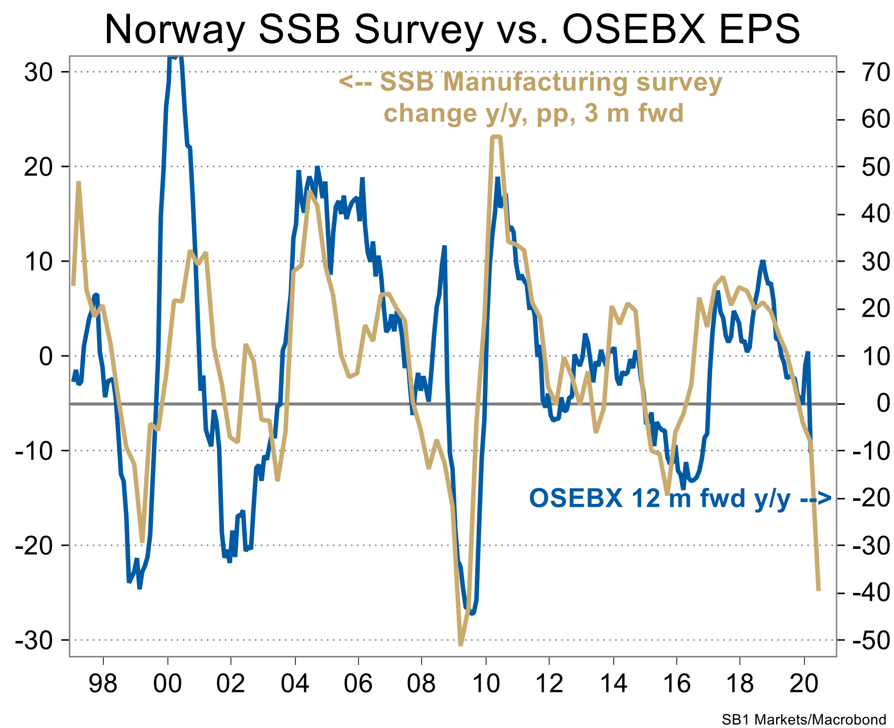




Well, SSB's manufacturing survey signals GDP & earnings contraction. Surprised?

SSB manufacturing survey signals a harsh setback in the Norwegian economy, of course





Highlights

The world around us

The Norwegian economy

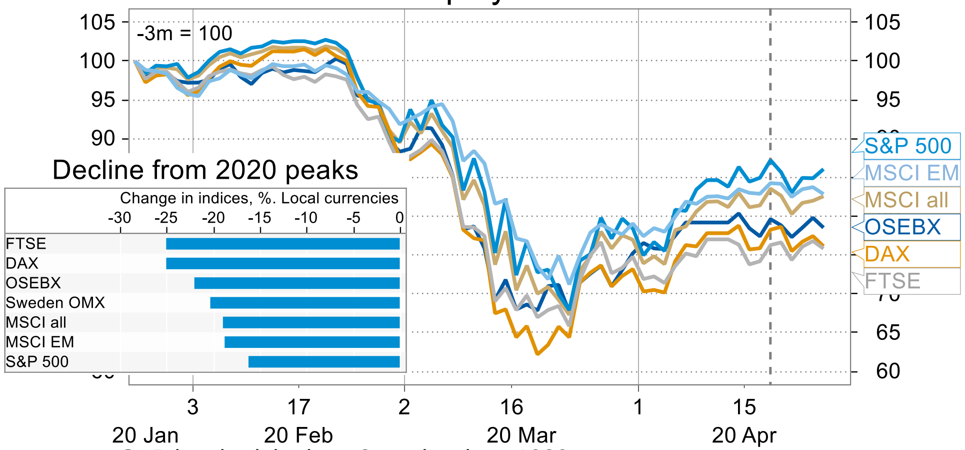
Market charts & comments

SpareBank 1 MARKETS

A quite week at most markets but oil, NOK down again

Metal prices down last week but have stabilised since March 20

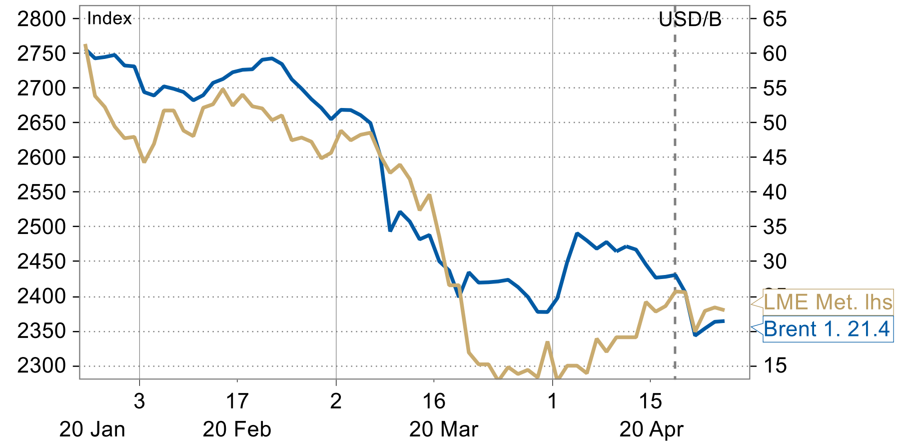
Equity Indices



S&P has had the best 2 weeks since 1939

SB1 Markets/Macrobond

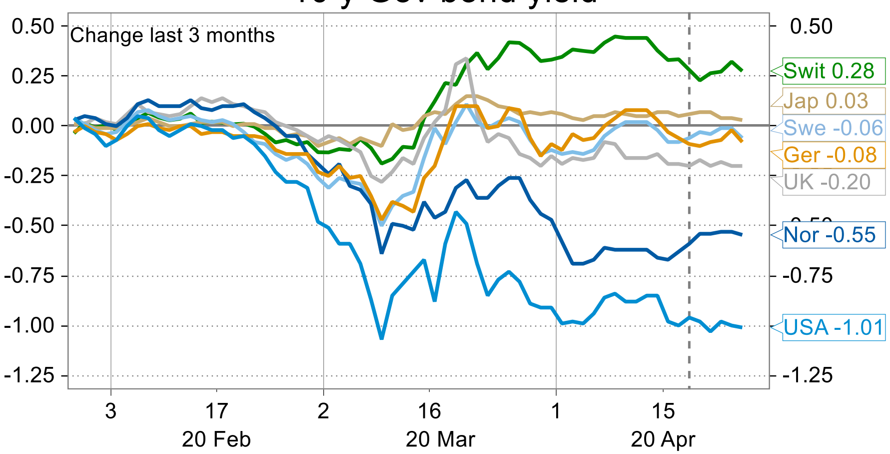
Oil vs. metals



Well, the Opex+++ deal was not sufficient to keep the price above USD 30

SB1 Markets/Macrobond

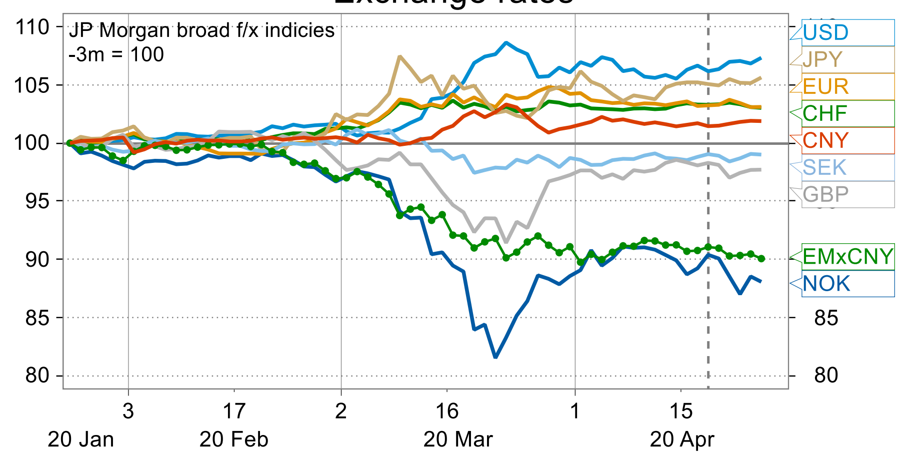
10 y Gov bond yield



Bond yields down, has been trending flat in April

SB1 Markets/Macrobond

Exchange rates



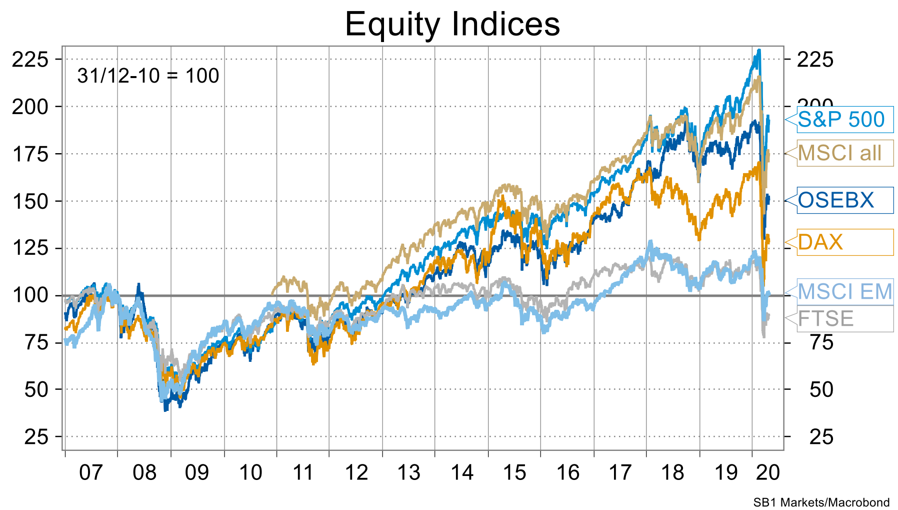
NOK marginally down

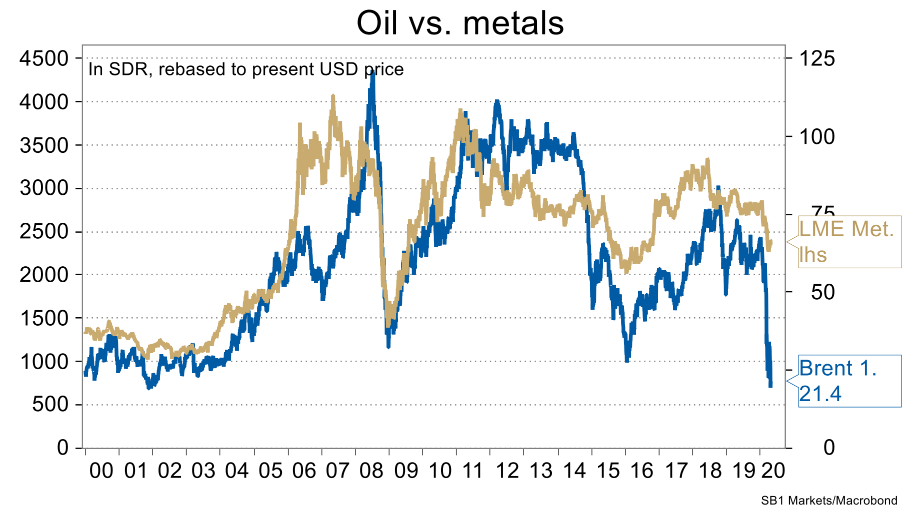
SB1 Markets/Macrobond

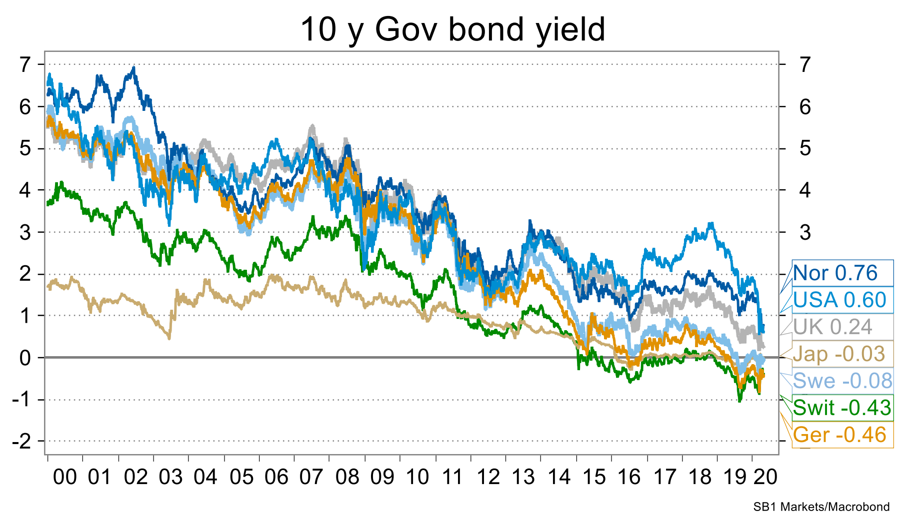
SpareBank 1 MARKETS

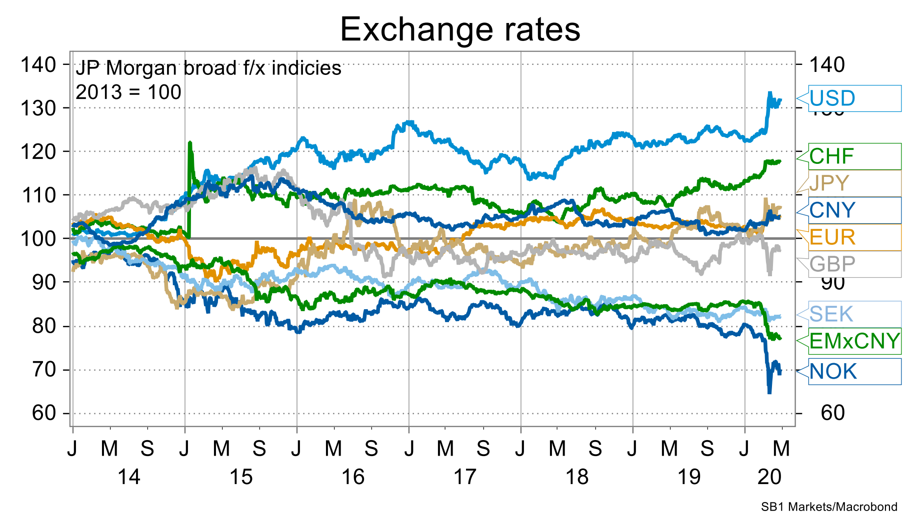
In the long run: Stock markets are looking like a ‘V’

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



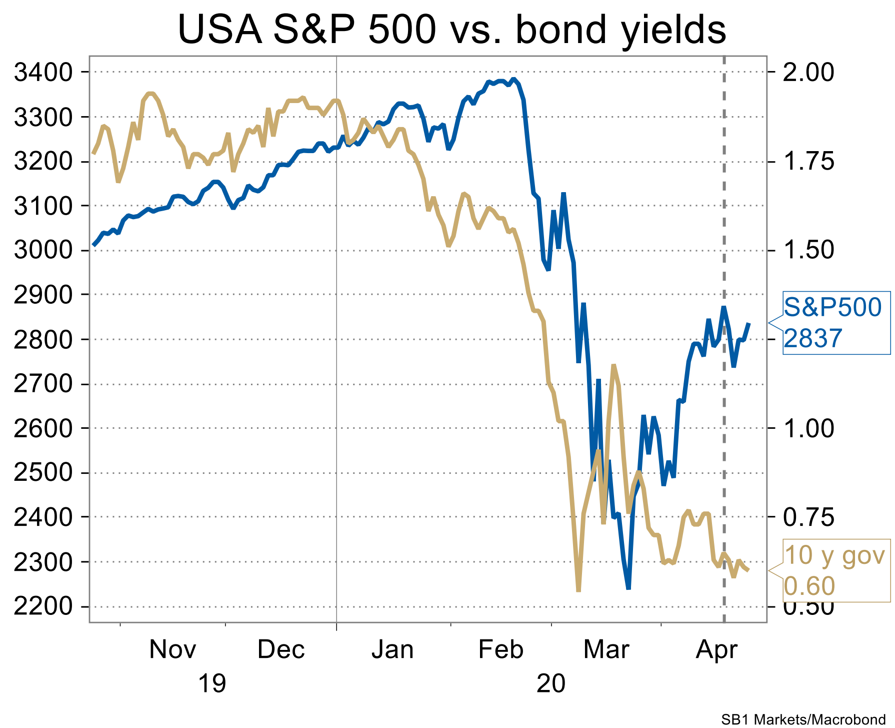


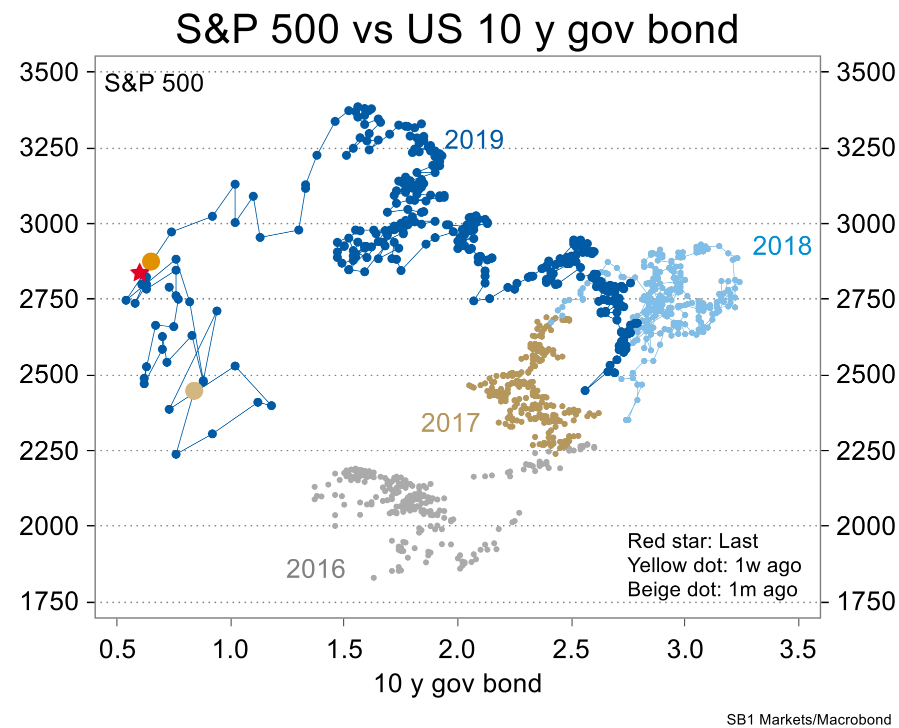




A pause for S&P500, 10 y US gov bond yields close to record low levels, at 0.6%

S&P up 3% last week (28% from the bottom, >½ of the corona decline!). Bond yields down 8 bps

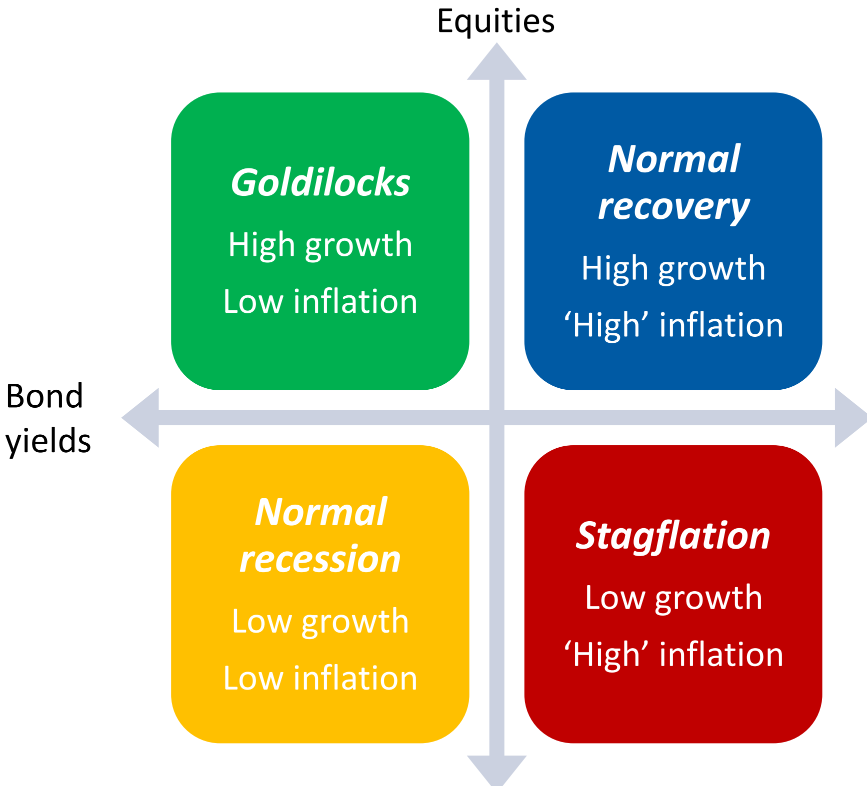


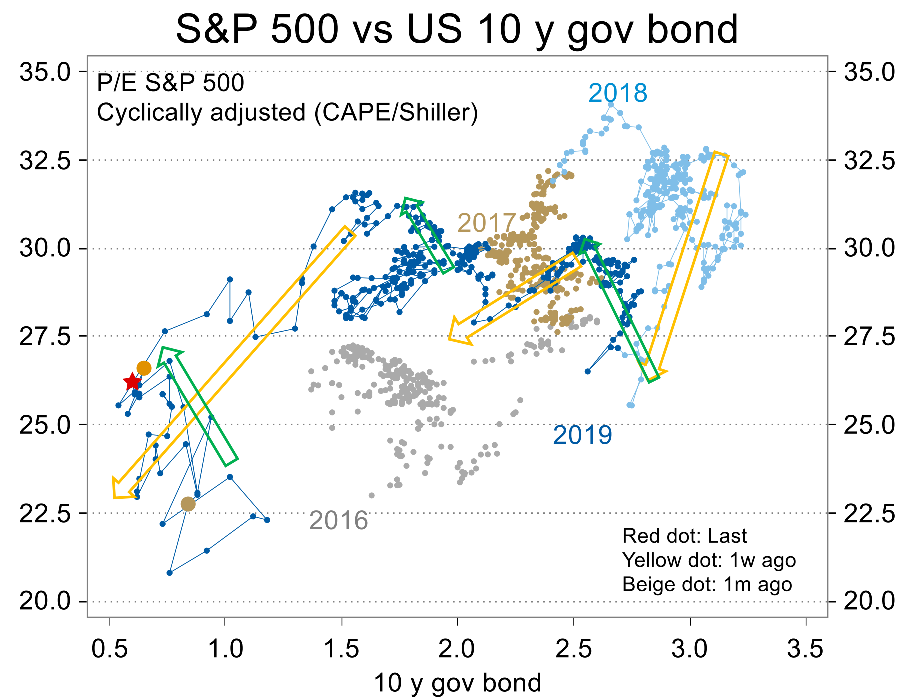


- Following two weeks with a record breaking appreciation, a pause last week

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

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



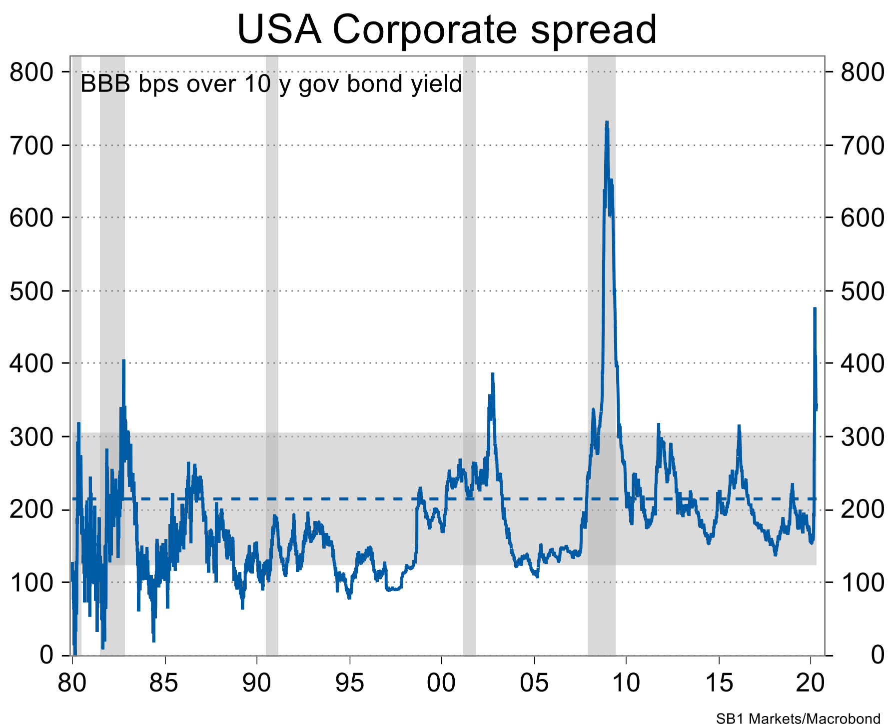


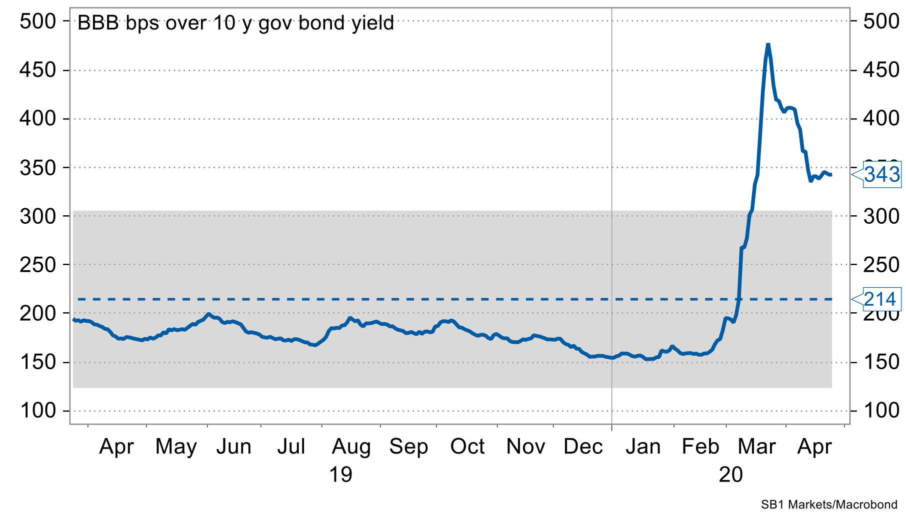
SB1 Markets/Macrobond

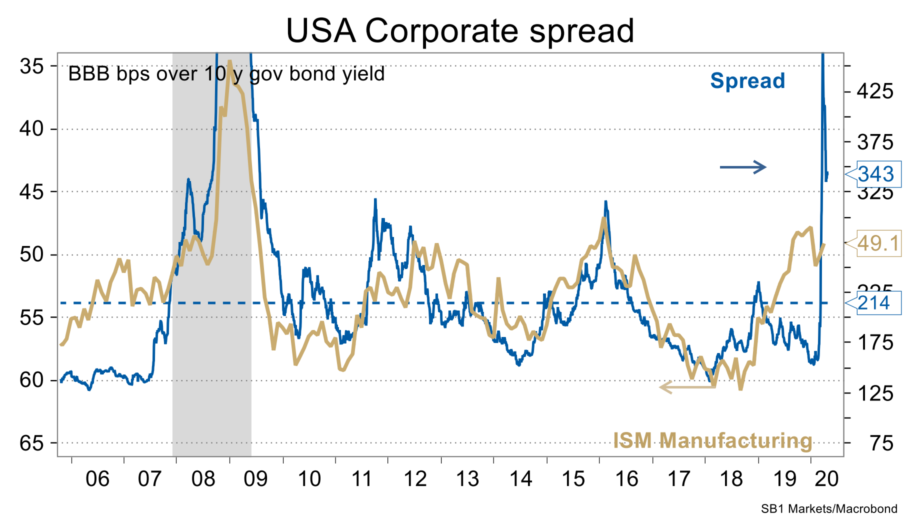
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic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

Spreads have flattened following the huge (Fed inspired) narrowing

The US BBB spread has fallen by 130 bps bps, and is ½ way back to an average level

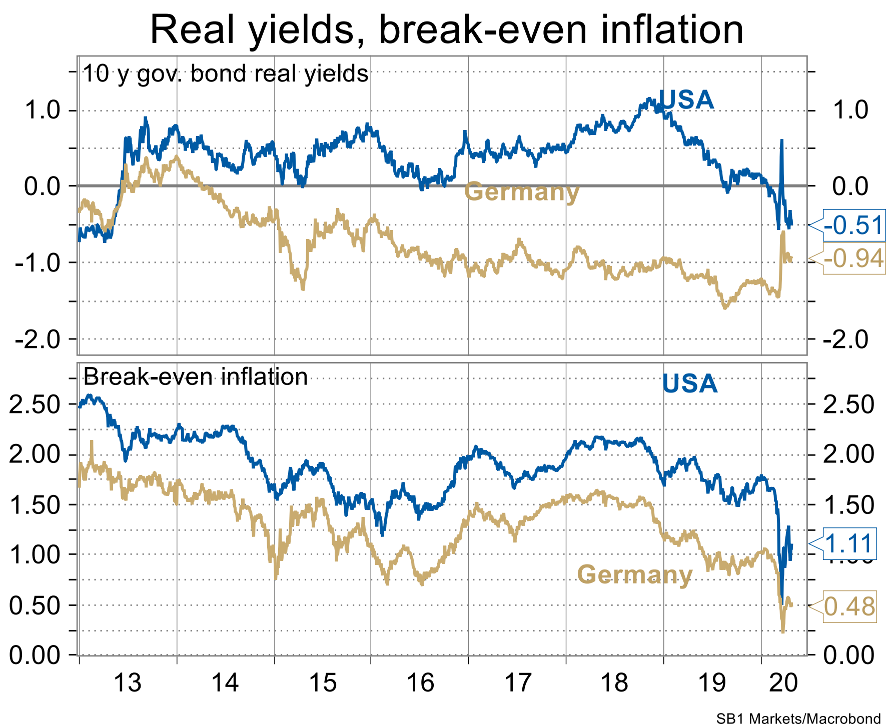


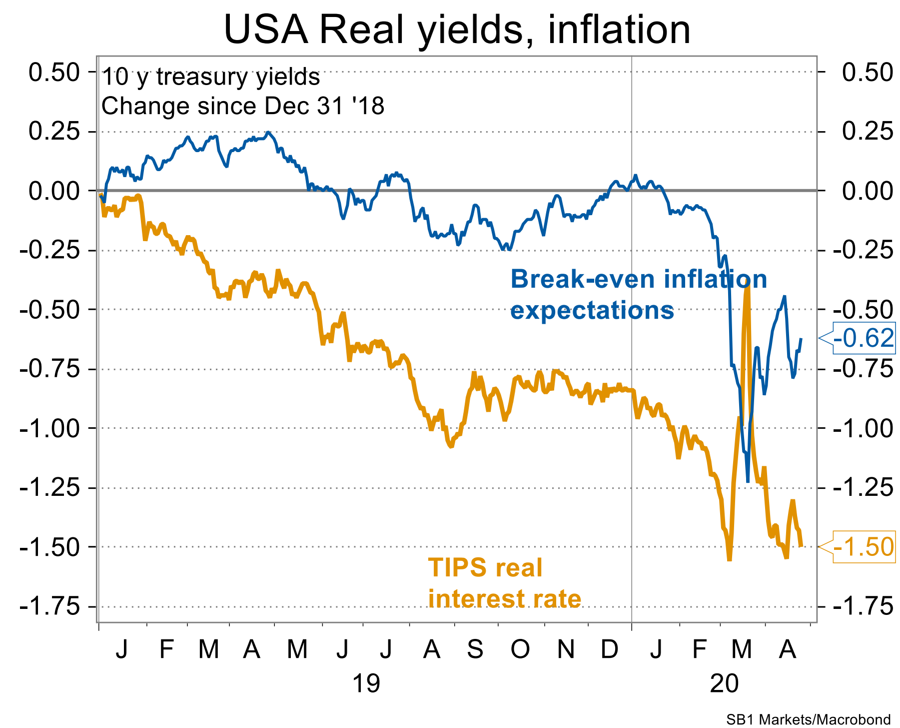




- Fed announced a set of new measures at before Easter, including more capacity to buy corporate bonds, including high yield bonds (for the first time ever) – and credit spreads fell sharply for all sorts of credits

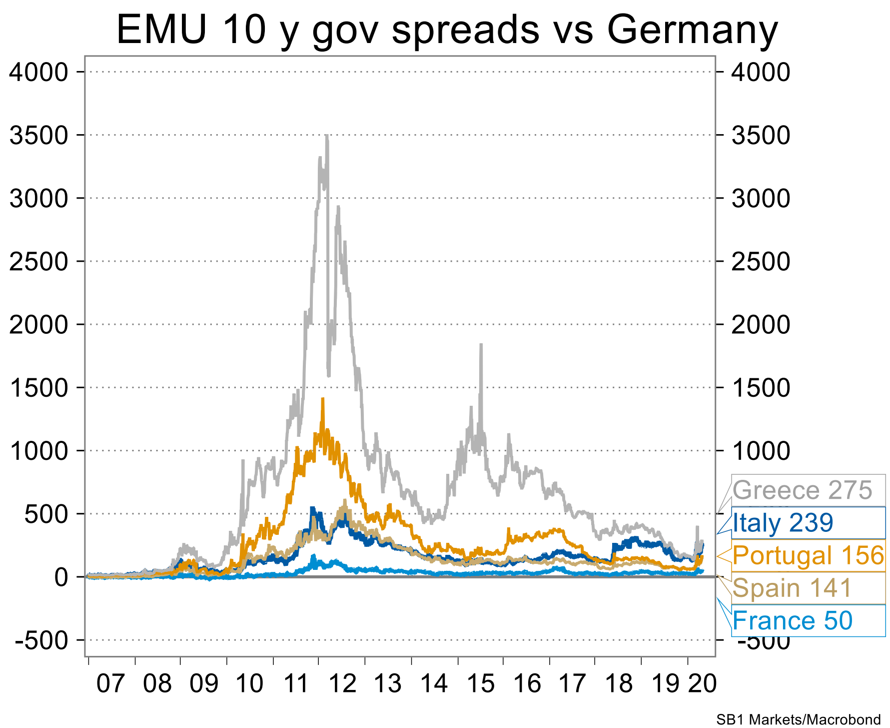
Small changes in real rates, inflation expectations last week

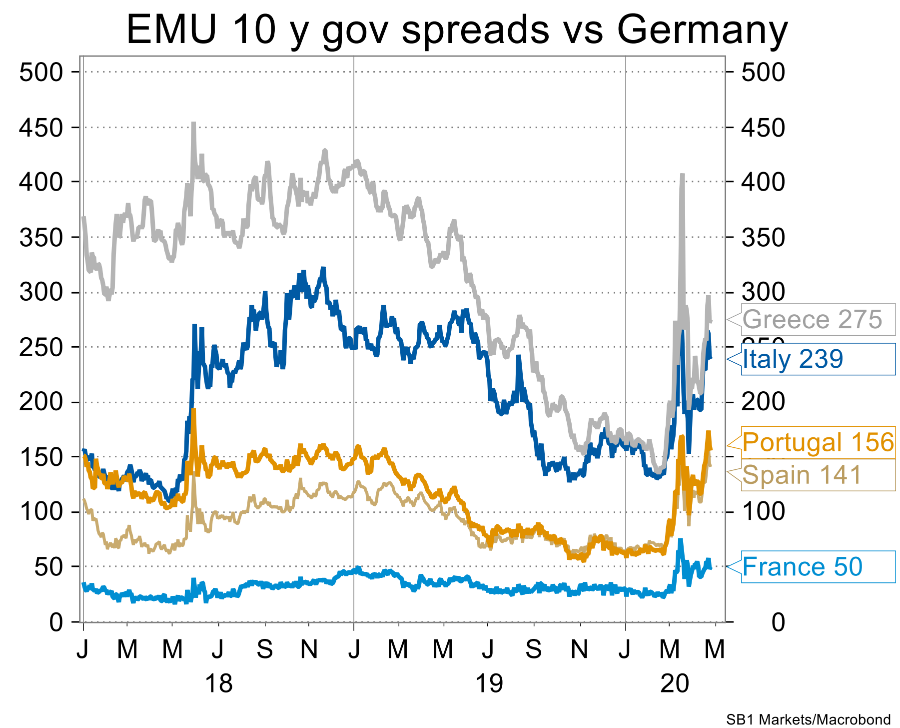




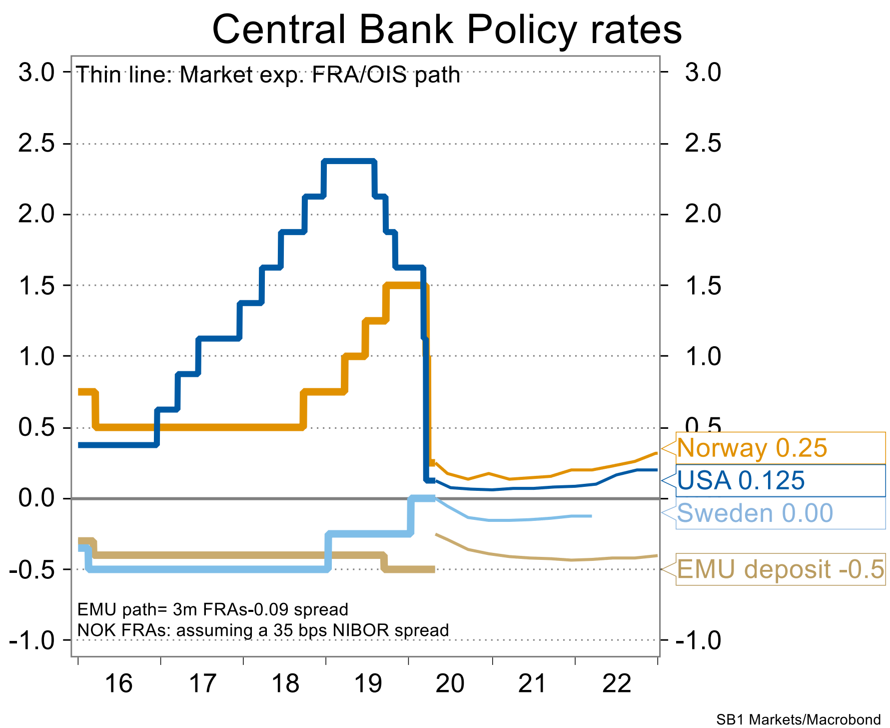
Markets are waiting for more EMU actions on burden sharing

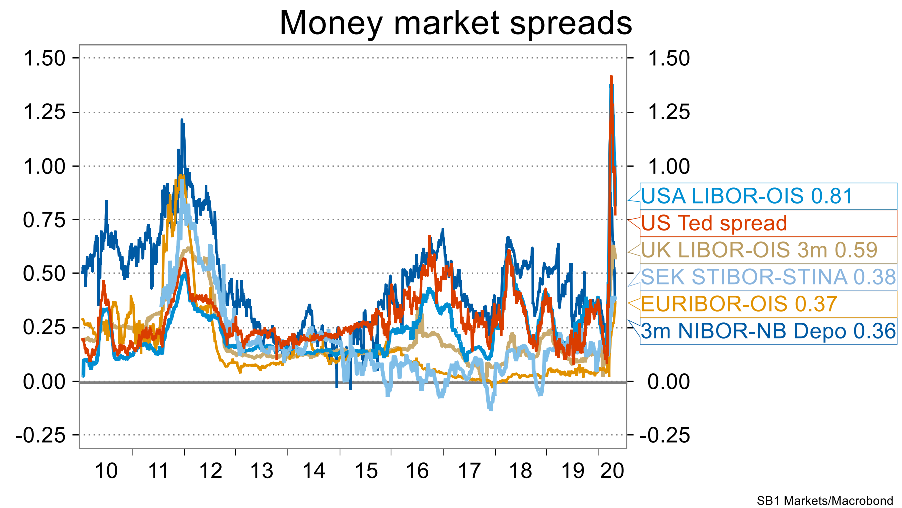
In between time, government bond spreads are widening

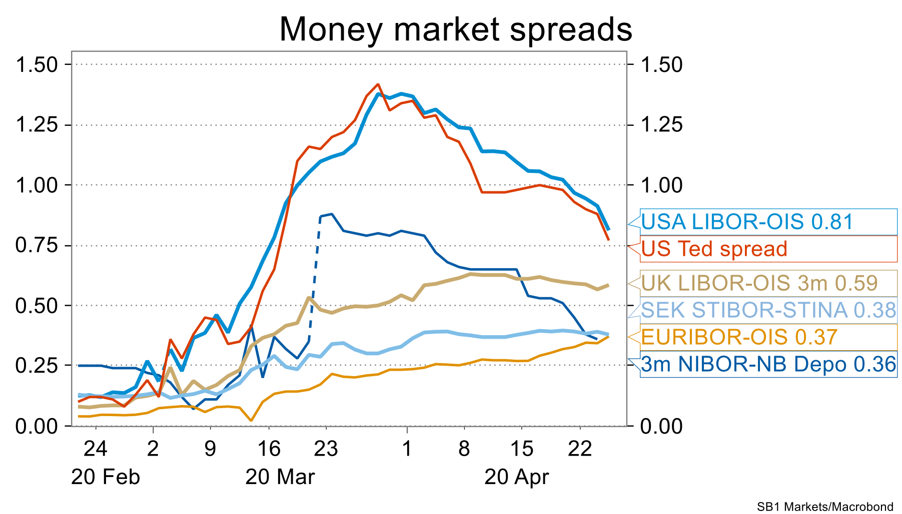




Central bank rates on hold, USD & NOK money market spreads are narrowing



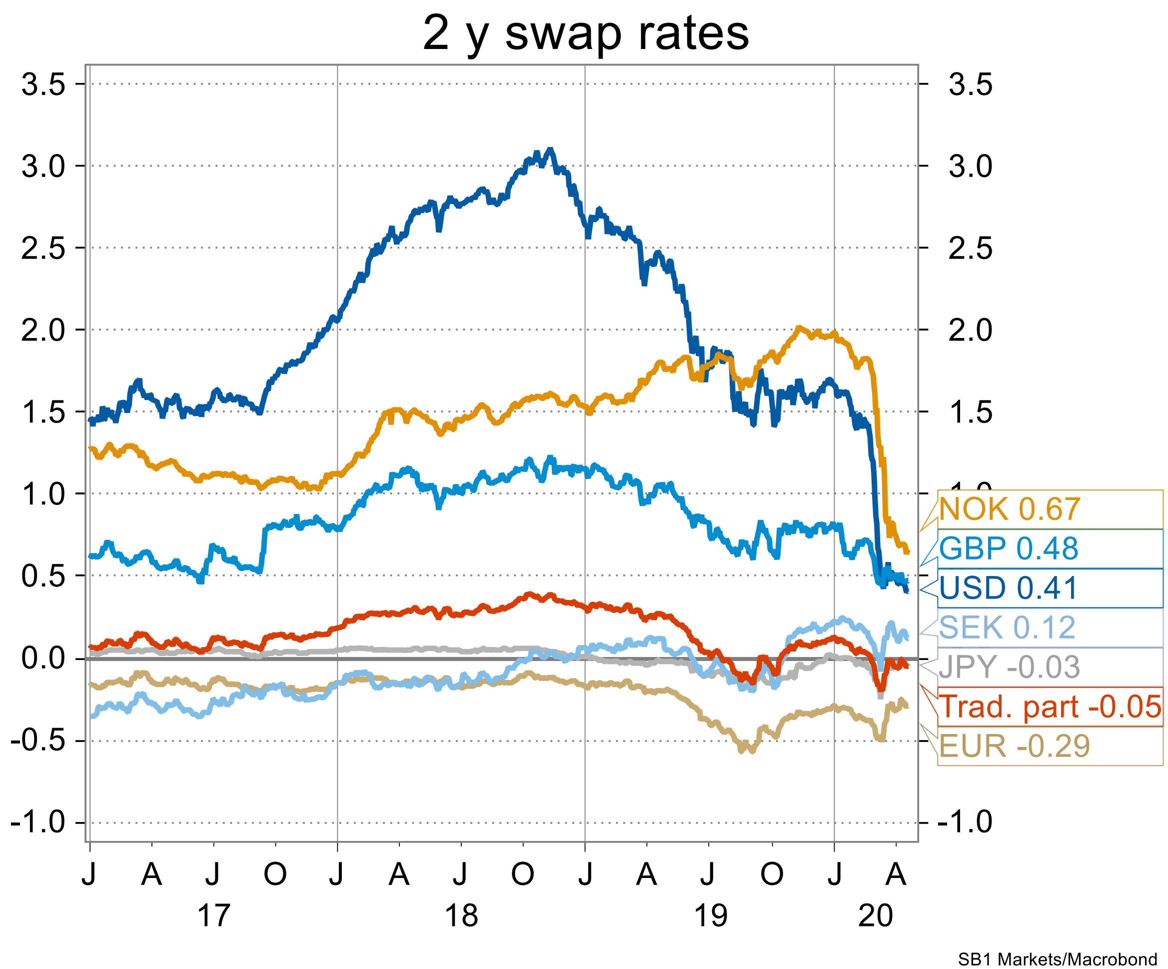


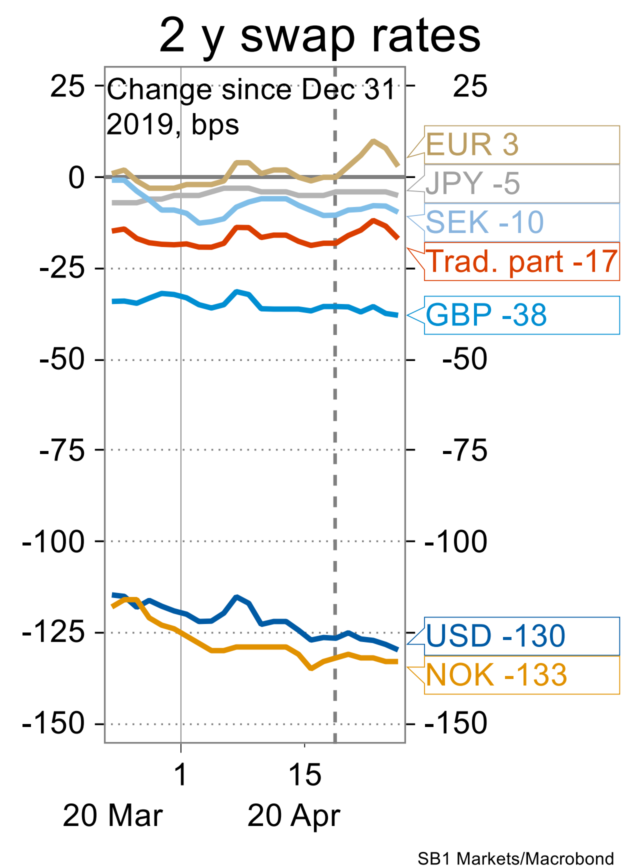


- However, spreads still low in Europe, compared to the US

Short term swap flattish last week

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





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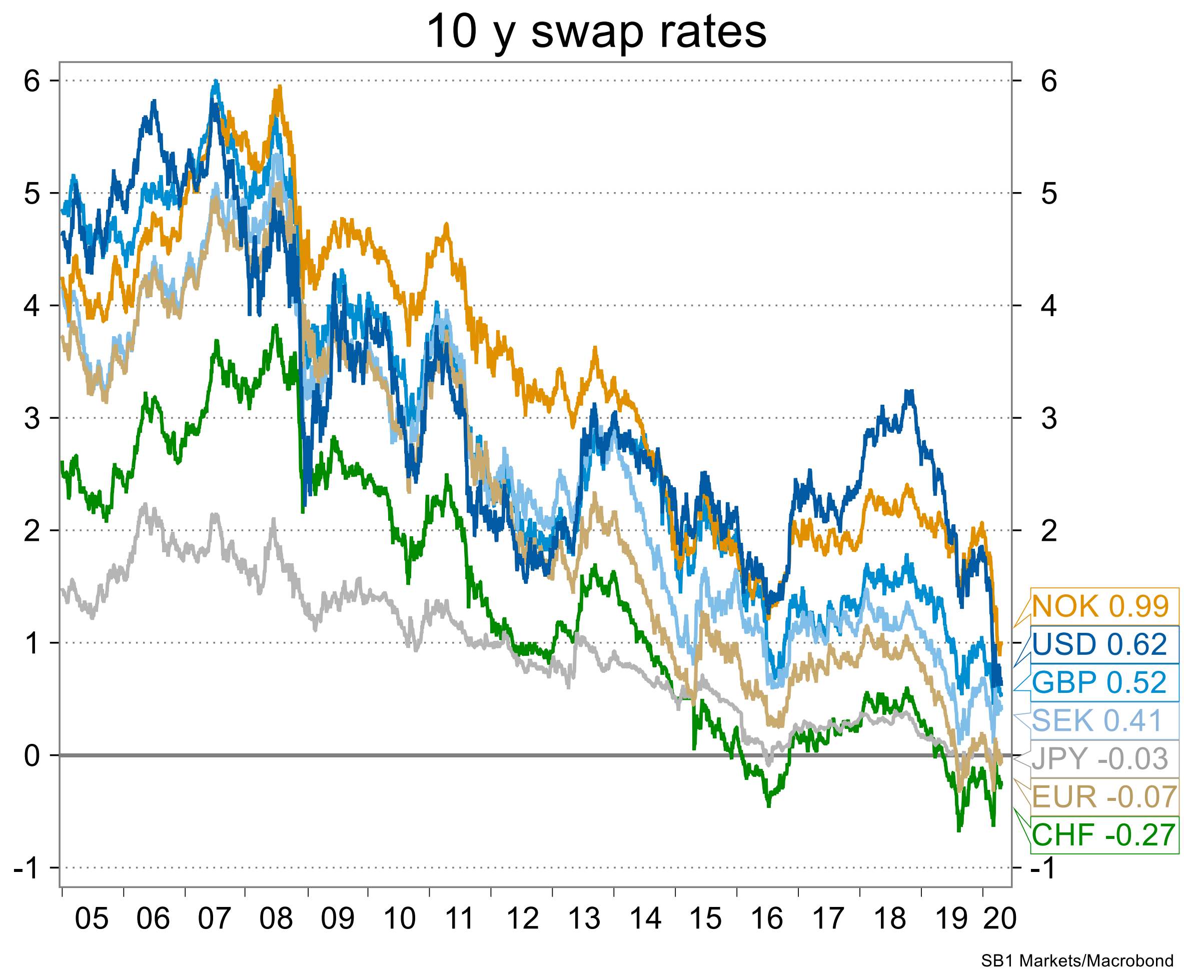
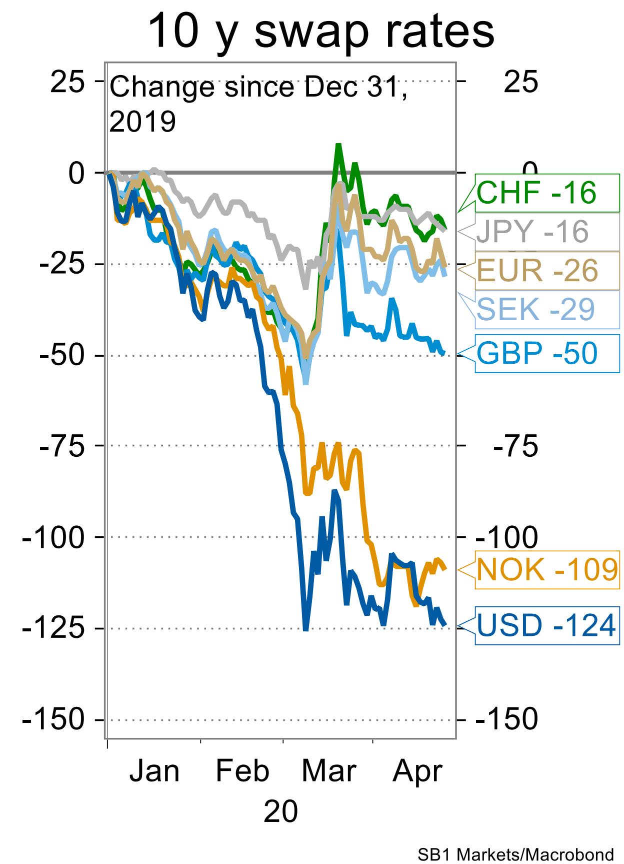
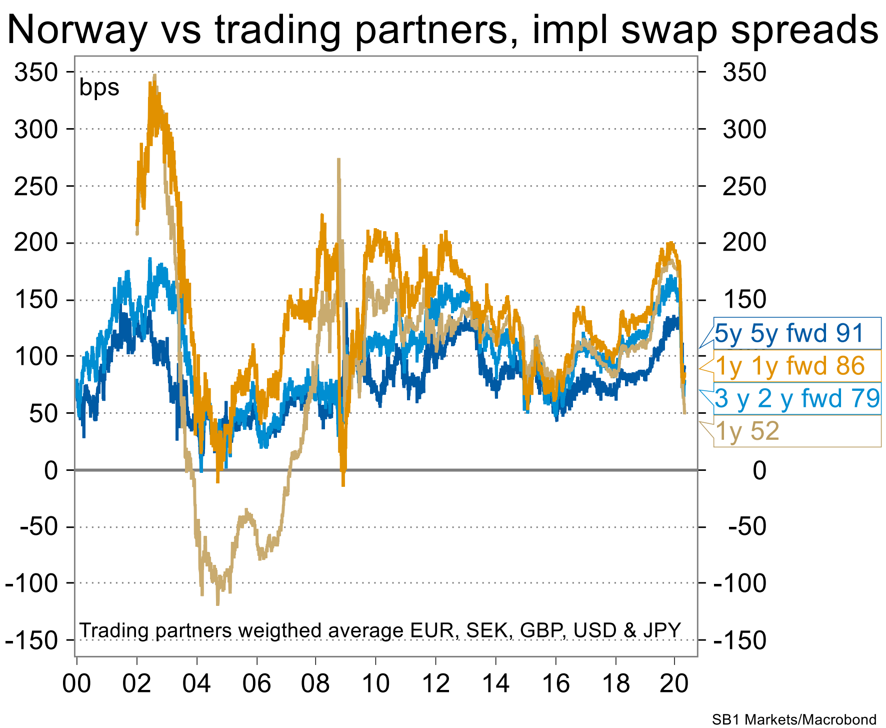
Long term swap rates mixed, USD/GBP down, other European rates up

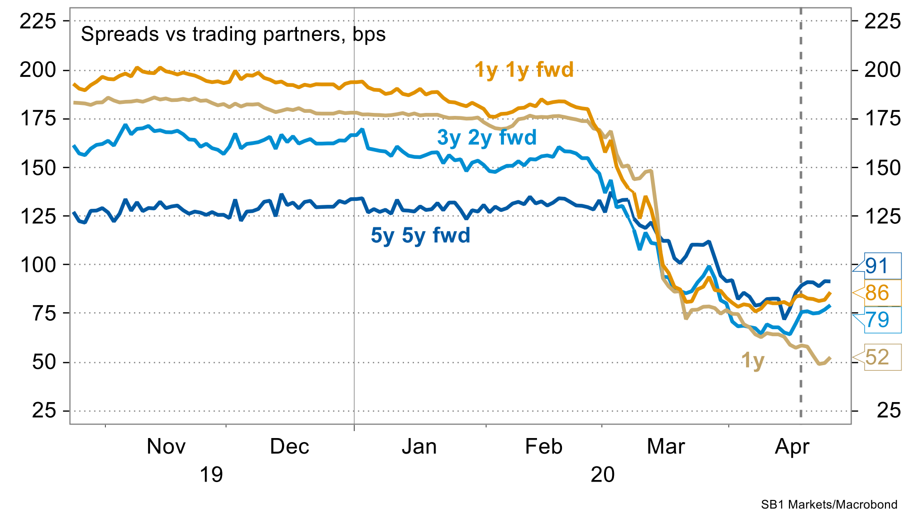


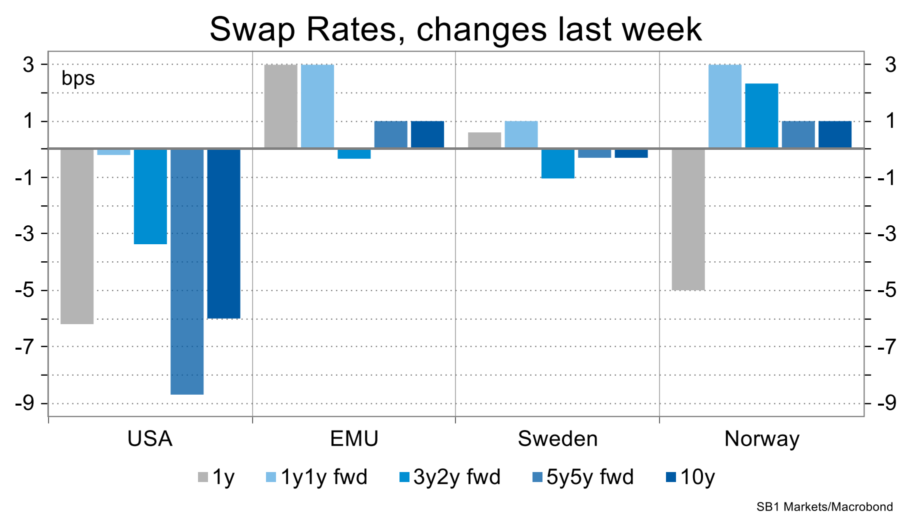


NOK swap spreads vs trading partners marginally up last week

We think the upside risk for spreads is smaller than the potential for a decline







- NOK swap rates marginally up last week, except for the very short end of the curve. USD rates down, European marg. up
- 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

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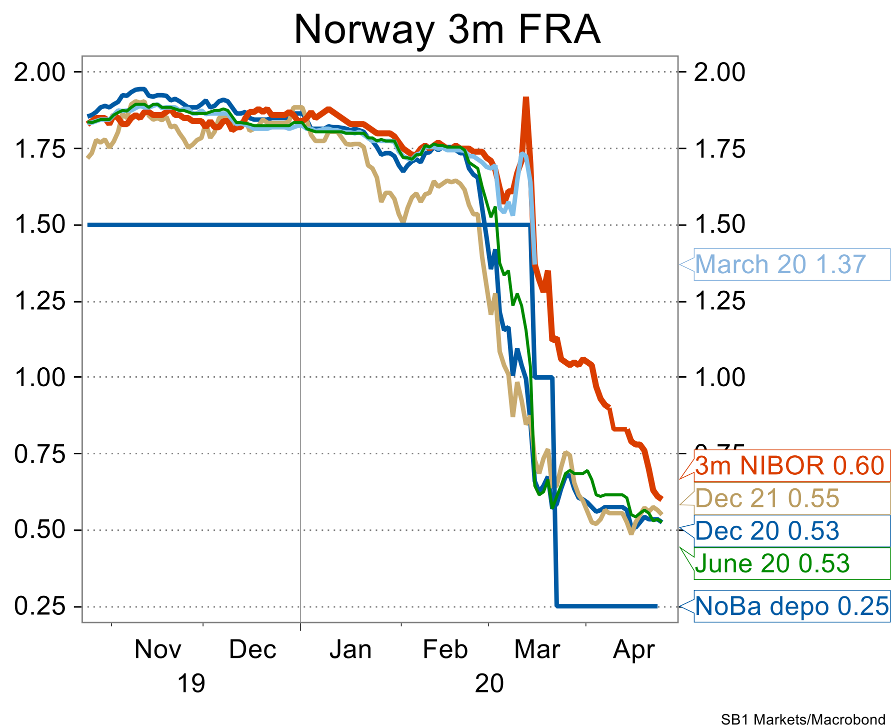
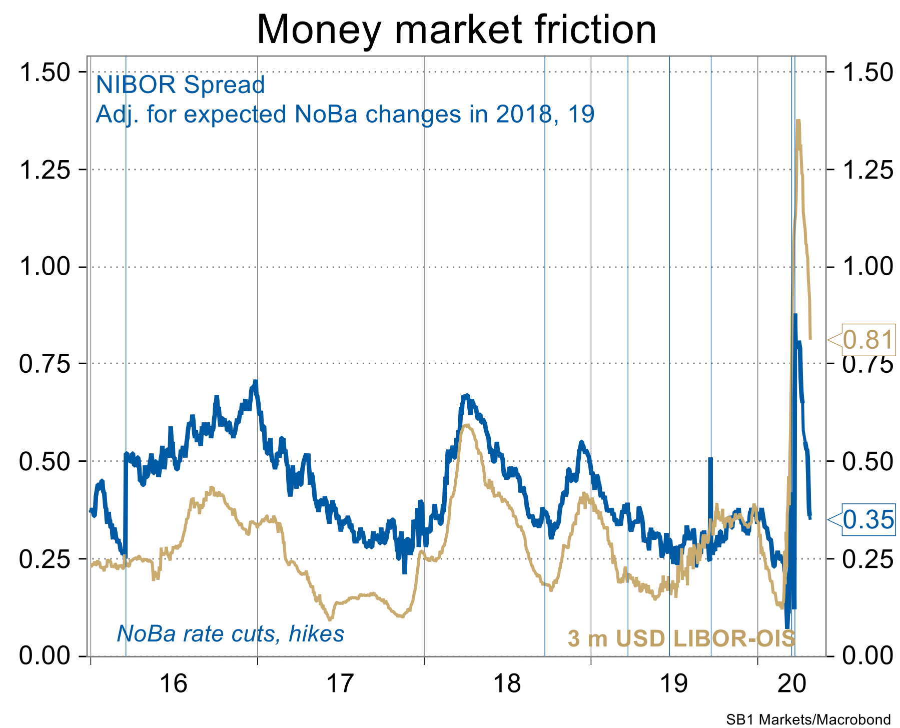
The NOK has come home, down another 18 bps last week – to 0.60%

The FRA-curve is completely flat, at 0.53 – 0.55%. There may be some cut expectations but not much

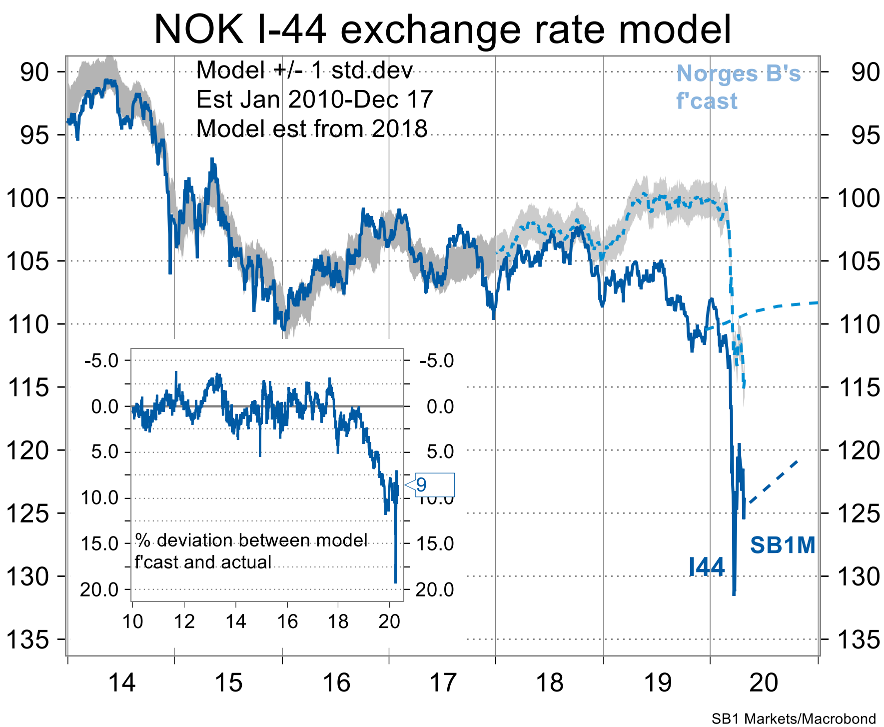


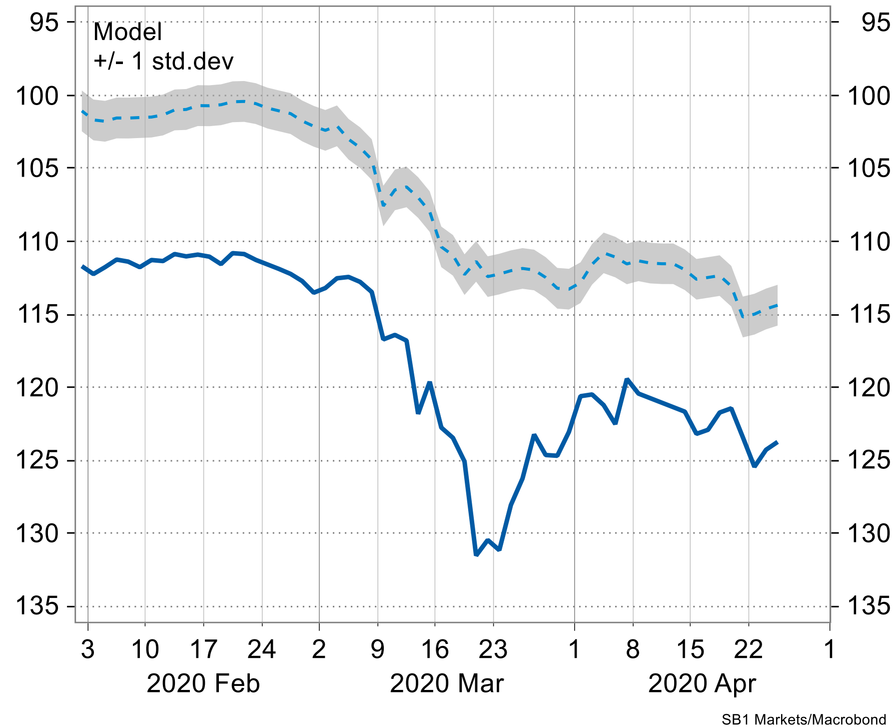


- The 3 NIBOR has fallen sharply recent weeks and at 0.6%, the spread to NoBa deposit rate has come back to a normal level, 35 bps.
- The LIBOR-OIS spread in the US is narrowing rapidly too, and we expect it to decline further – which the market also expects
- NOK 3m FRAs at 0.53 – 0.55% reflects a limited probability for a NoBa, if any. The benefit of a cut to zero or below is probably limited. We assume banks will trim their lending rate the coming days/weeks

NOK down with the oil price

Still, the gap vs. our traditional model 'just' 9%, less than during the previous months

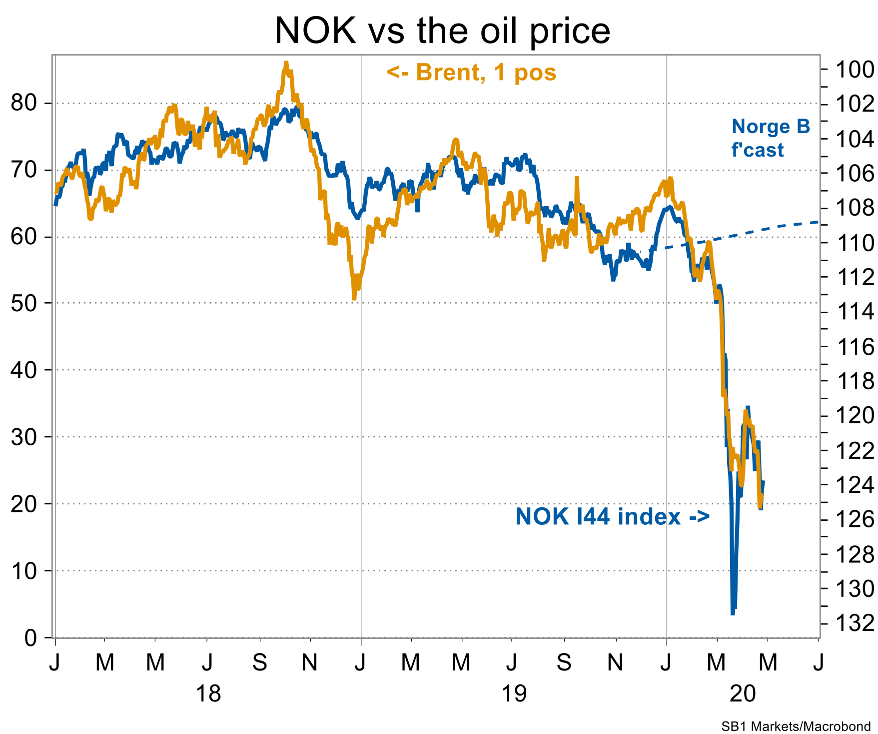


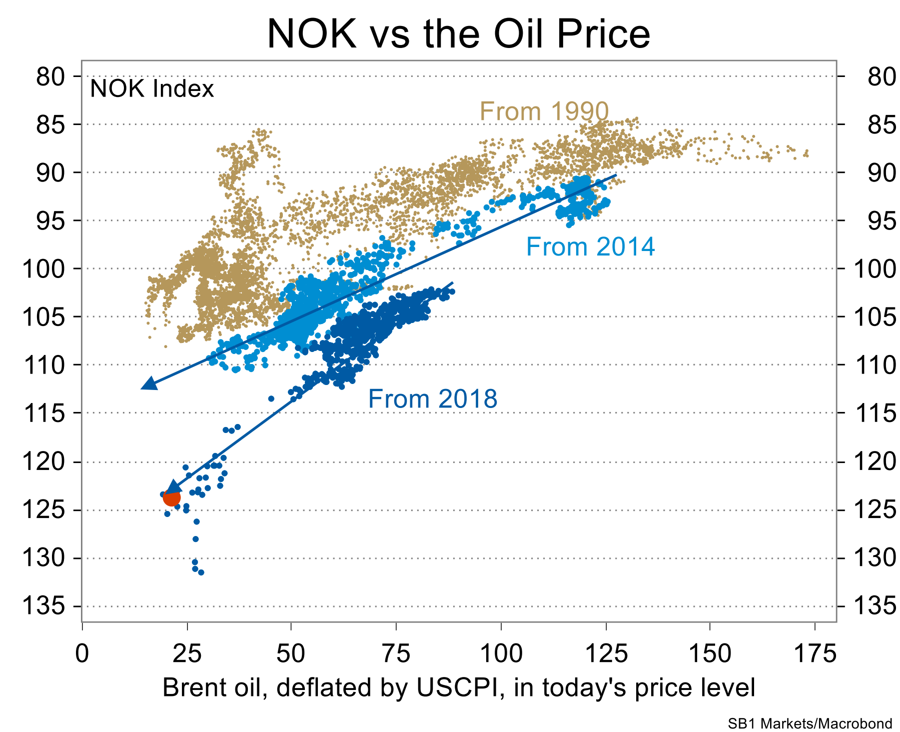


- The NOK is still closely correlated to the oil price, tough at a lower level than before
- Last week, the oil price fell again – and the NOK followed suit

The NOK is where the oil price is

… vs the short term relationship since 2018

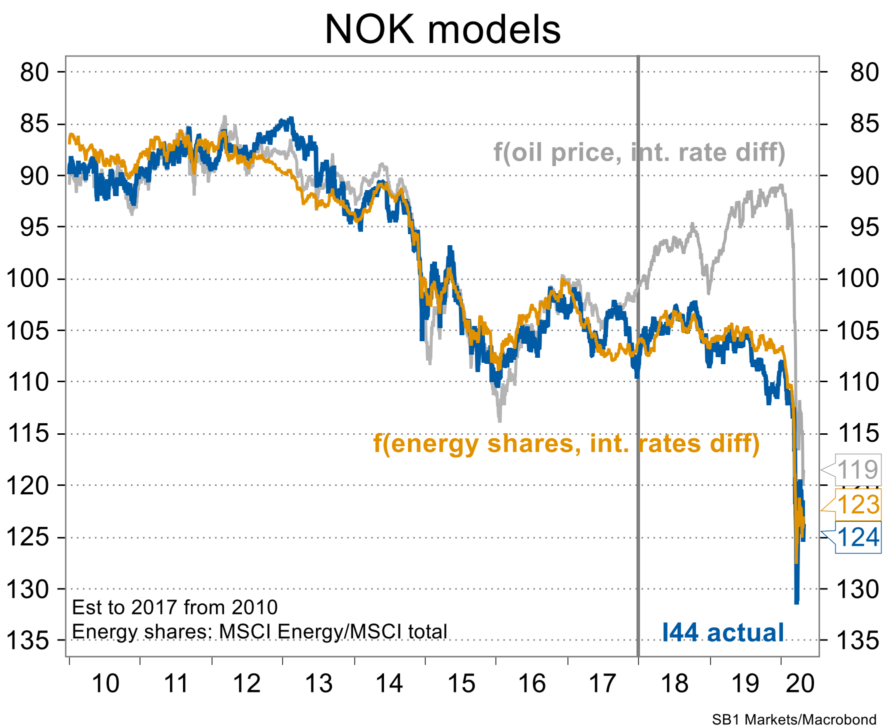


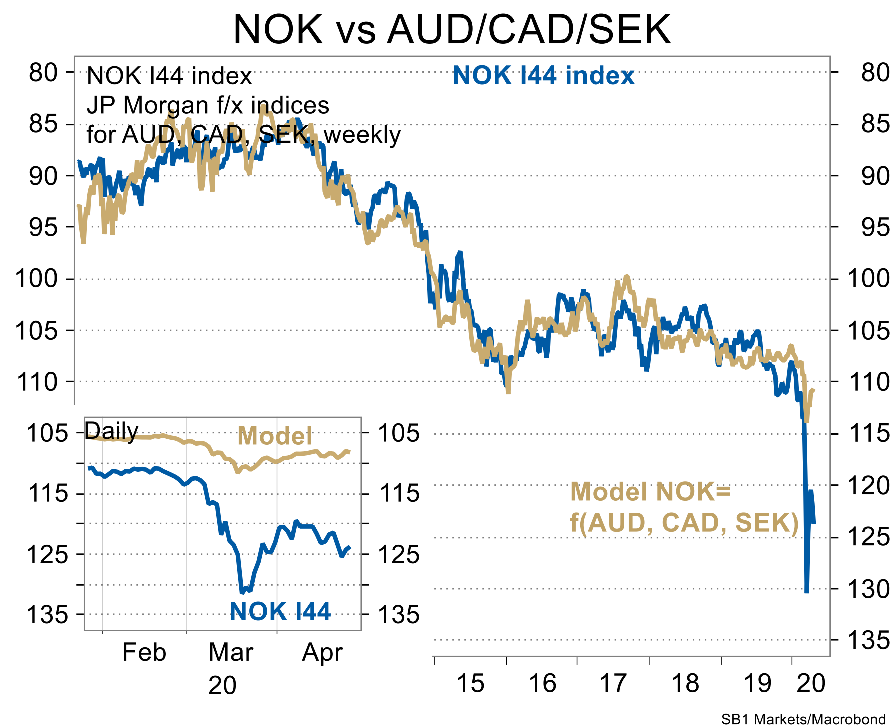


- The NOK has been much weaker vs the oil price than normal the past few years but it is still correlated to the changes in the oil price like it used to be

NOK has lost touch with its super cycle friends!

NOK is more than 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

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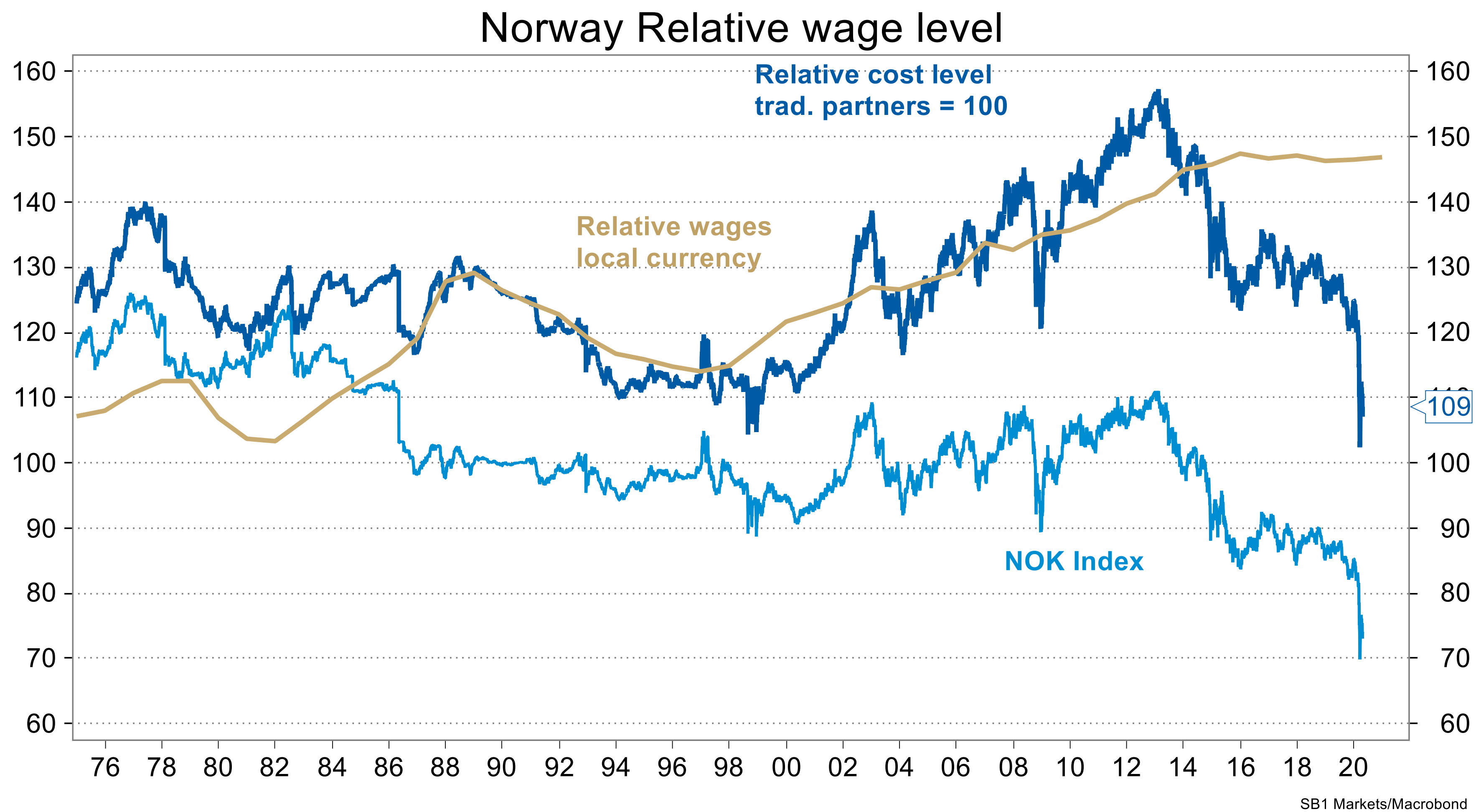
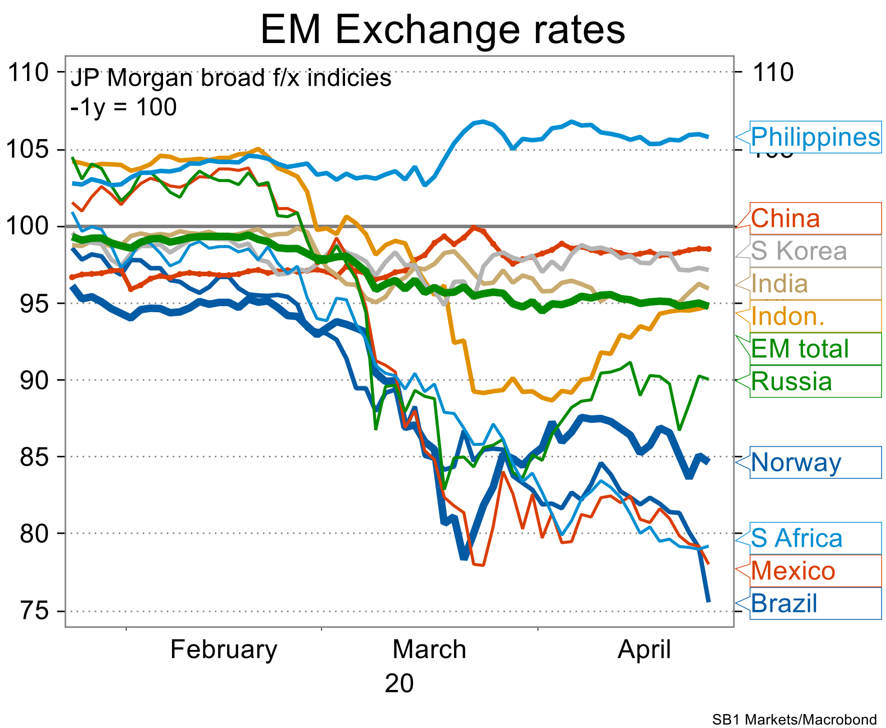
Get the fundamentals right: The Norwegian cost level is very low

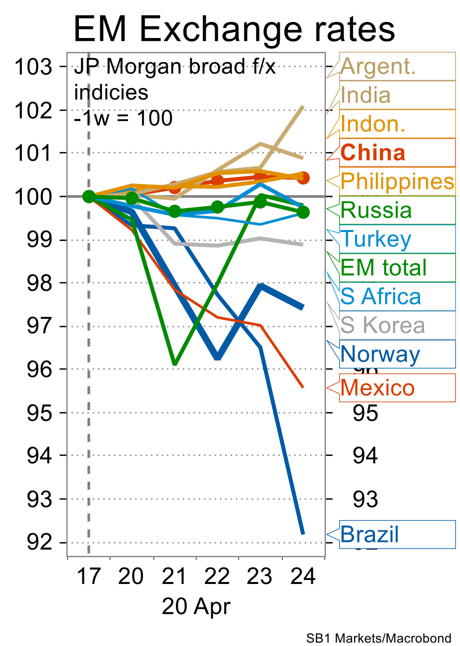
Even if the Oil fund can fund 1/4th of Mainland imports (if the real return remains at 3%, long term)

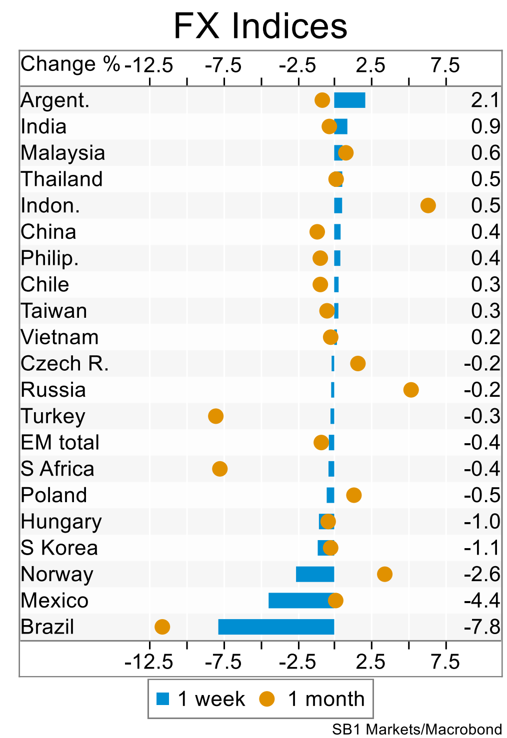


The Brazilan real is down 8% last week! MXP and NOK down too

The justice minister, one of Bolsenaros's two super ministers resigned + corona fears







- Most EM (Emerging Markets) currencies depreciated substantially through March but has – in average – been flat in April
-

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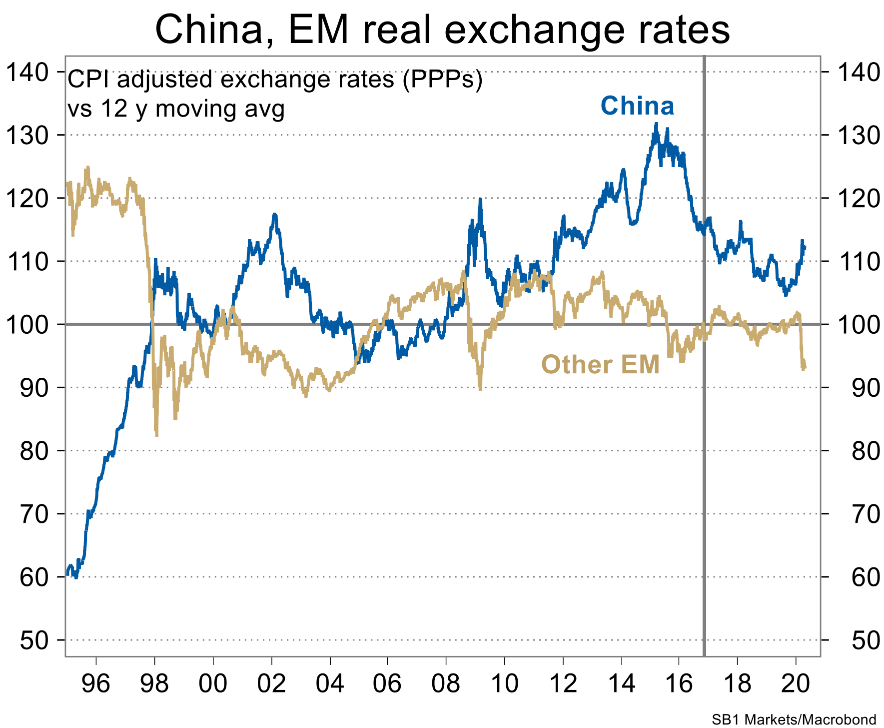
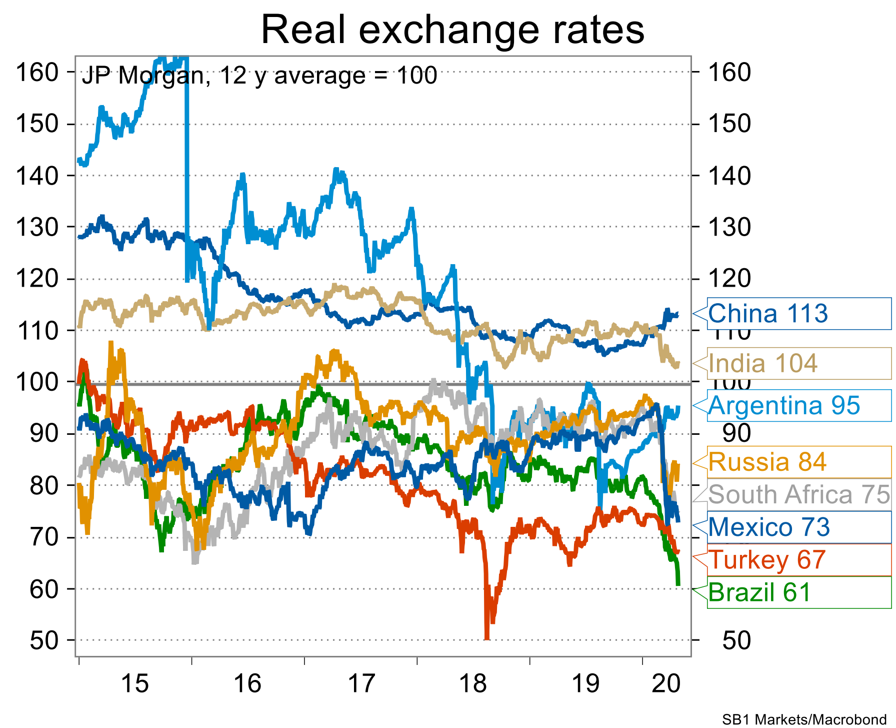
EM currencies ex China down 7%, almost all down, barring Argentina ☺

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





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