1 May, 2020

Macro Research

Weekly update 19/2020

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

Last week – the main takes

- The ‘R’ reproduction number has been below 1 in most rich countries recent weeks (with US ex China as an glaring exception), and some few countries have started **lifting Covid-19 ‘lockdown restrictions’, and more have announced they will.** 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 very few weeks we will have learned a lot!
- **GDP** fell ‘everywhere’ in Q1, even if the corona hit in the 2nd half in March in most rich countries
  - Global GDP probably fell some 4% (not annualised)
  - In the US, GDP fell 1.2%, implying a 13% drop during the past 2 weeks of March
  - EMU GDP fell by 3.8%, implying a 20% drop through March
  - The Norwegian Mainland GDP fell 1.9%, according to SSBs very preliminary est, implying a 14% decline through March
  - China has earlier reported a close to 10% Q1 GDP contraction
- **Manufacturing PMIs** were confirmed down in the US, Japan & UK. In the US, the ISM fell less than feared but just due to even longer delivery times. The ‘real’ ISM fell by 17 p to 27, not 8 to 41.5. Broad setback in EM Asia x China PMIs was reported this morning. In China both PMIs remained close to 50, signalling normal growth (5 – 7%), and not a sharp recovery (if you believe official March production data, that is not needed either). Export orders PMIs are collapsing in Asia, in the US domestic orders are falling even faster
- **In China**, other activity data than the PMIs also 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 2.3% last week (3.8 mill new jobless claims) and it is now up by 30 mill over the past 6 weeks, equalling 18% of the labour force. Some activity data are bottoming out, like airline passenger transport. No major political news. The Federal Reserve did not announce new measures, pointed at the Congress to do more
- **The ECB** did not announce new measures, but offers banks heavily subsidised long term loans (-1% int. rate) –and asked parliaments to do more to support the EMU economy. Unemployment rose just marginally in March but temporary laid offs are not included
- **In Norway**, NAV total unemployment rose further in April, to 14.7% of the labour force. Some activities are gradually picking up steam

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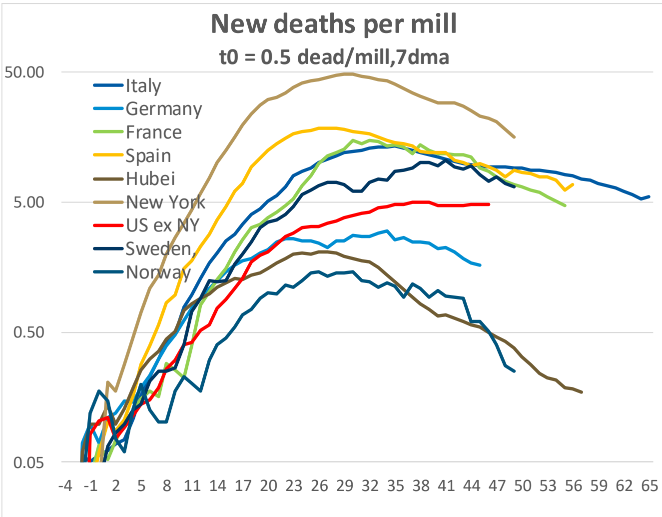
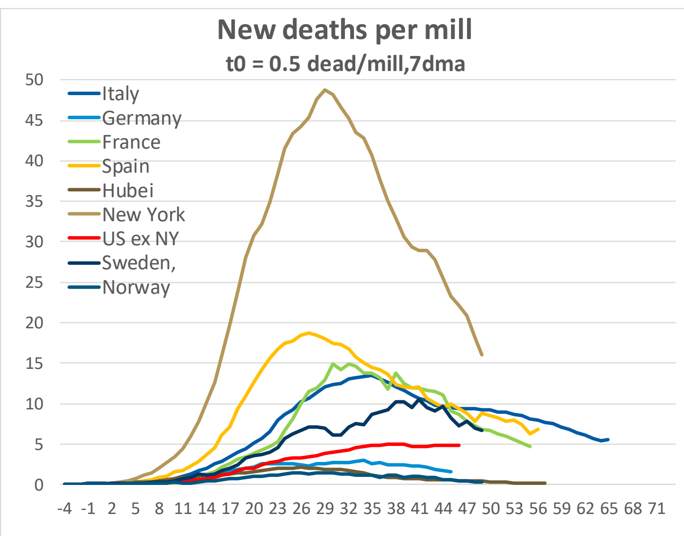
When to ease restrictions? Or rather, how much to easy, now?

Most countries are debating it, and some have started, gradually



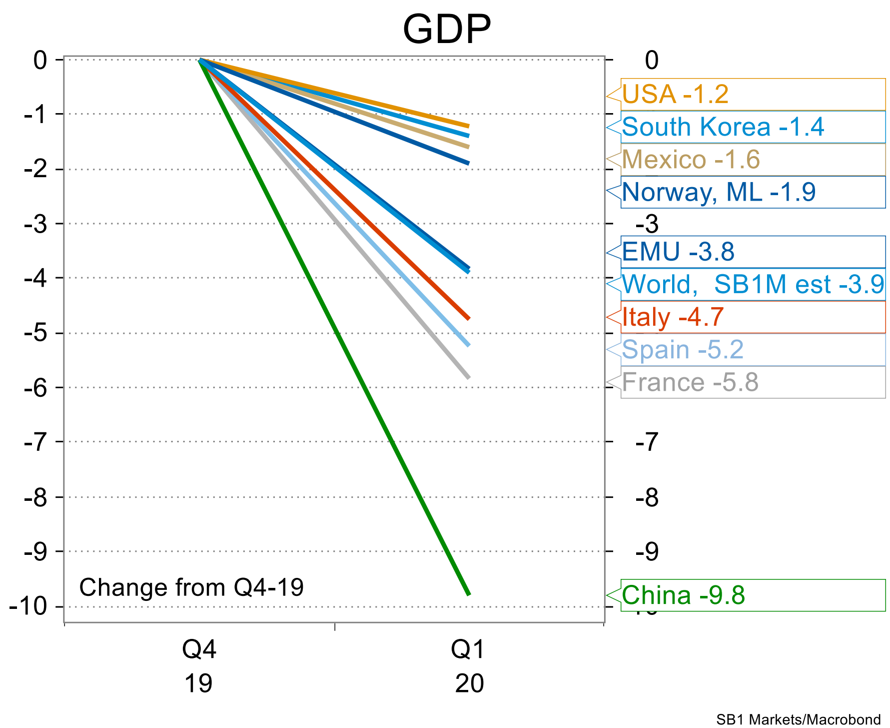


Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

- Following lockdowns, growth rates in new cases, hospitalisation and deaths have turned clearly negative most places in the rich part of the world, implying that the reproduction ‘R’ number has fallen to below 1 – confirming that lockdowns work well, vs. the spread of the virus
  - » The only important exception is US x New York were cases/deaths just have flattened, signalling an ‘R’ replication number at 1
  - » In NY, the ‘R’ has become quite low, to at least 0.7
- Some few places, like NY and other hard hit areas may have developed some sort of herd immunity. During the next few weeks substantial amount research on this topic will be published
- Authorities in most countries are searching for all possibilities to ‘open up’, and some have started. In one or two weeks time we will find out whether the ‘R’ number remains close to (or at least too much) above 1, after these easings. In 4 – 6 weeks’ time we will know a lot!
  - » US ex. NY does not seem ta have much room for manoeuvre, others have some limited room, but the distance up to an ‘R’ to 1 is not long, from the present 0.7-level (we came from 2.5 – 3.5)
  - » The effectiveness of the testing, tracing and tracking system will partly decide how far restriction can be eased, in addition to adherence to social distancing norms
- Finally, some positive news on treatment: Remdesivir may have some healing impact, but not that much. And just as important, dr. Fauci has reasonable expectations that a vaccine can be available in January!

We are getting some numbers – Global GDP down 4% in Q1?

Substantial differences, mostly depending on when the corona virus hit

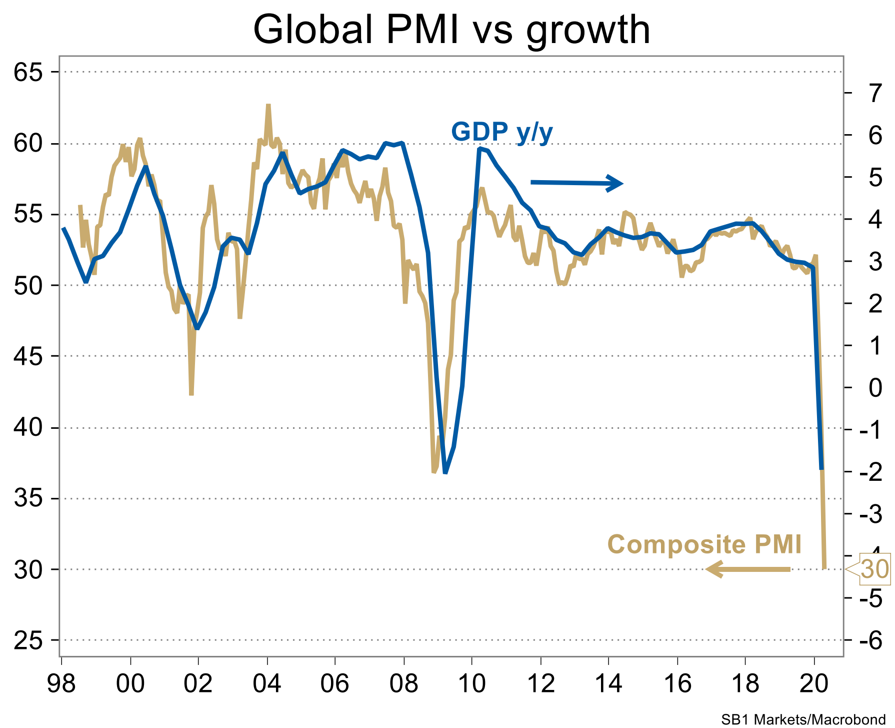


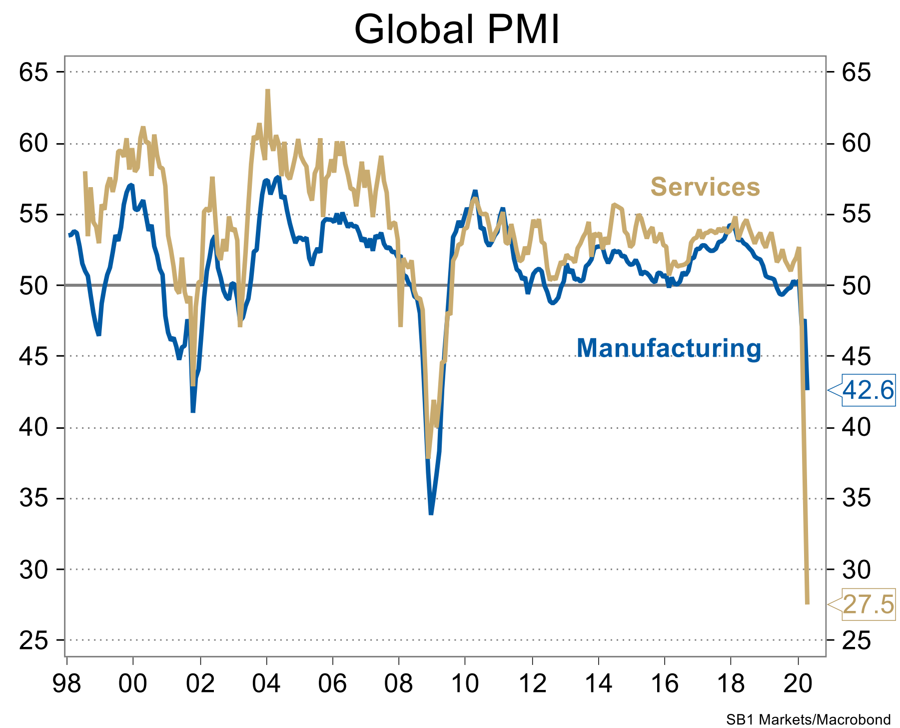
… and when the consequences were taken

- In the US, GDP fell 1.2% in Q1 (*not annualised, like all other figures at this page*), and probably by 13% during the two past weeks of March, yielding a very weak Q2 starting point
- Norwegian Mainland GDP fell 1.9% in Q1 (very preliminary SSB estimate, may be revised up), and by 14% through March
- In the EMU, GDP fell 3.8%, and probably by as much as 20% through March – and more than that in France, Italy, and Spain were GDP fell by 4.7 – 5.8% (preliminary figure, more uncertain than normal, of course)
- The Chinese GDP fell by almost 10% in Q1
- South Korea and Mexico have reported less than 2% decline in their Q1 GDPs
- We estimate a 4% decline in global GDP, of which almost 2 pp due to China alone

Global PMI confirms harsh setback

Global PMI down approx 9.5 to 30.0, the lowest level ever.

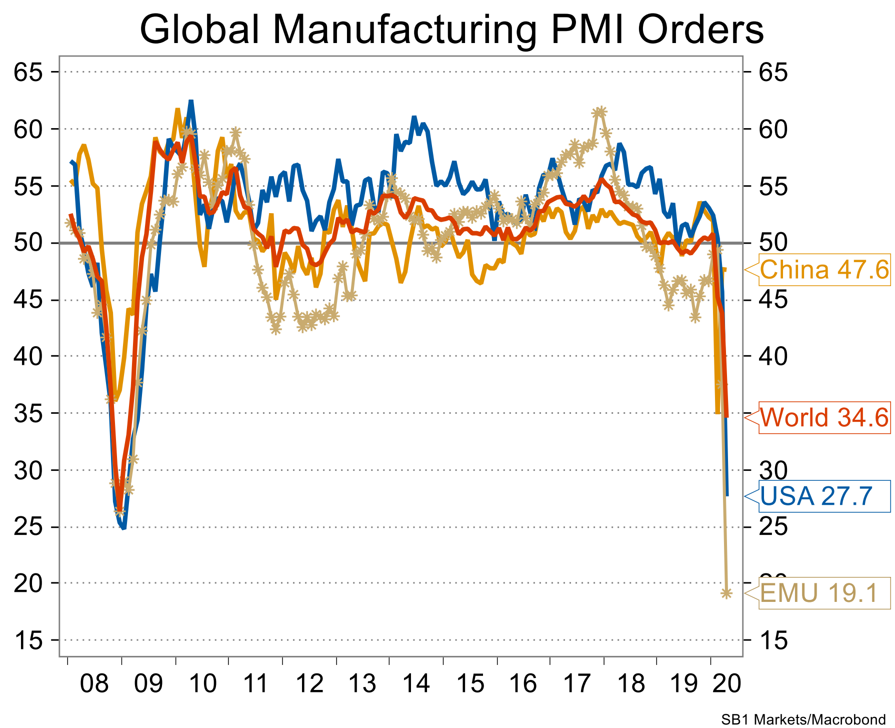


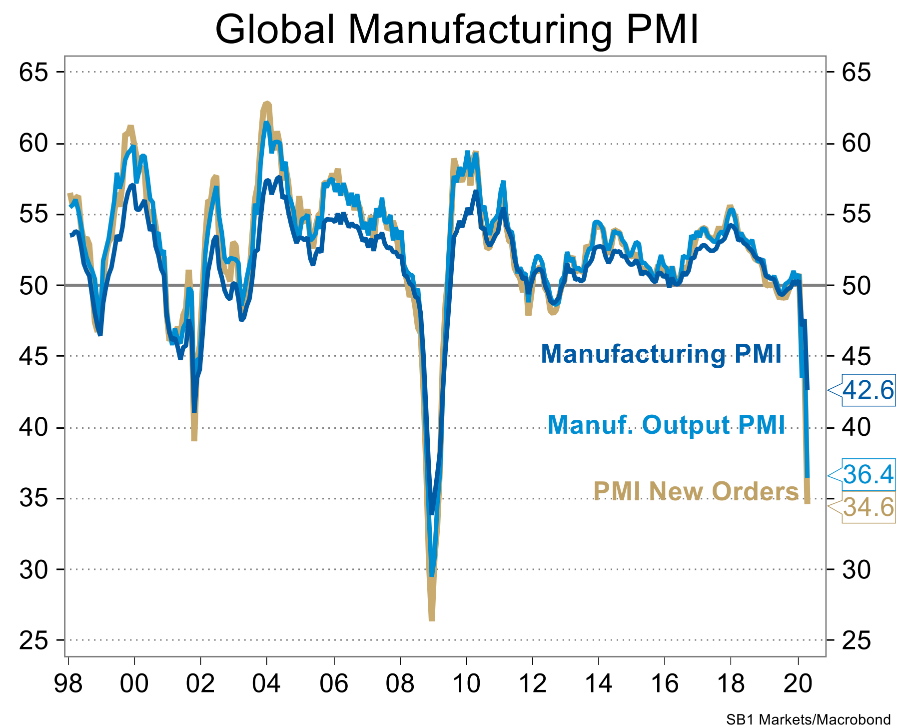


- The global PMI probably nosedived by 9 p to 30, signalling a 4% GDP decline
  - » However, it is challenging to calibrate the PMIs in unchartered territories. In 2008/9 the decline i GDP was much steeper than the PMI indicated, based on correlation to GDP growth in ‘normal’ times
- The decline was most dramatic in the service sector, the index fell to 27.5 - and in Europe, of course due to the lockdowns in several countries

Manufacturing details are weak, orders are tumbling

Global manufacturing orders PMI dropped to 34.6, even when including China

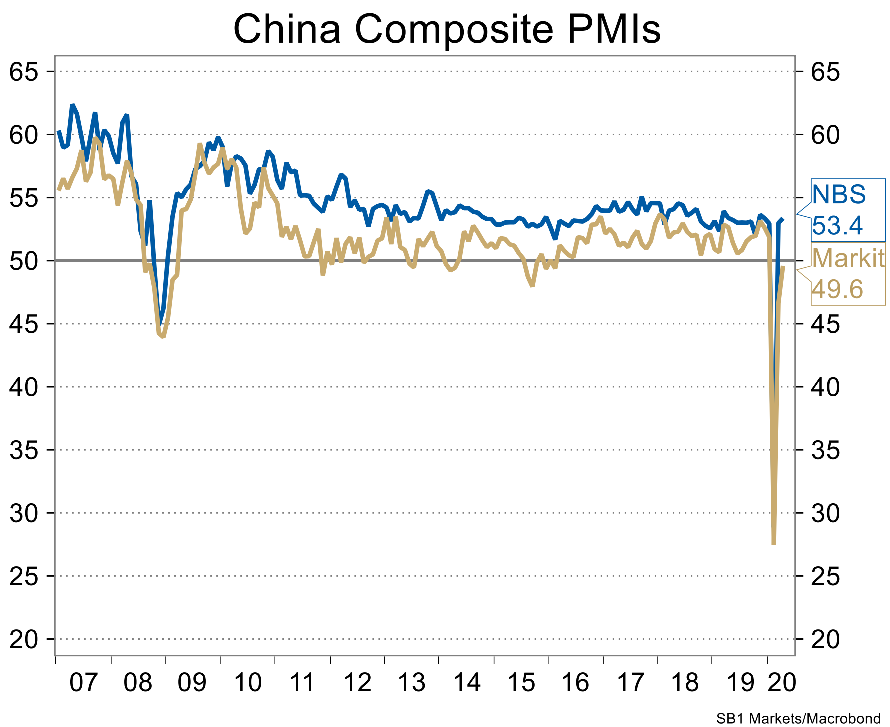


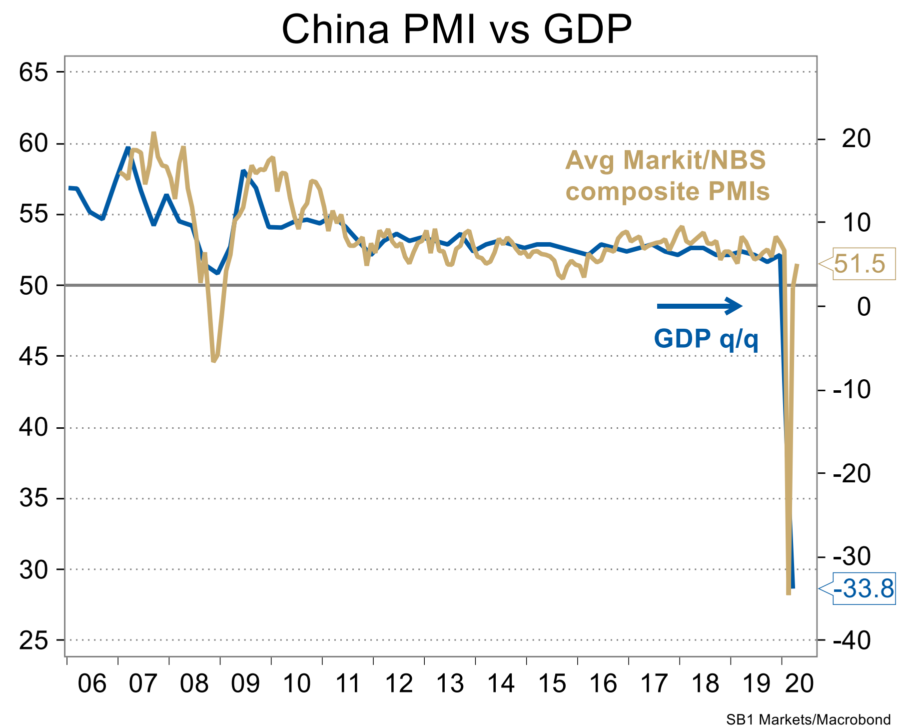


- The manufacturing output PMI is much weaker than the headline index, as longer delivery times (due to corona distortions) are lifting the total manufacturing PMI

Chinese April surveys confirm just a modest recovery

The NBS rose marginally due to services, we assume the same will be the case for Markit's index





- The NBS' 'official' composite PMI rose into growth territory in March, and rose marginally further in April, to 53.4, a "normal" level. The manufacturing index fell slightly, while the service index
- Markit's manufacturing index fall marginally, but we assume that the service sector index rose significantly, like the NBS service sector index did
- In sum, the PMIs suggest that the economy is slowly restarting as workers return to factories, and to services, gradually. Now the challenge will be lower demand from abroad, the exports orders were bleak, in both of the manufacturing surveys

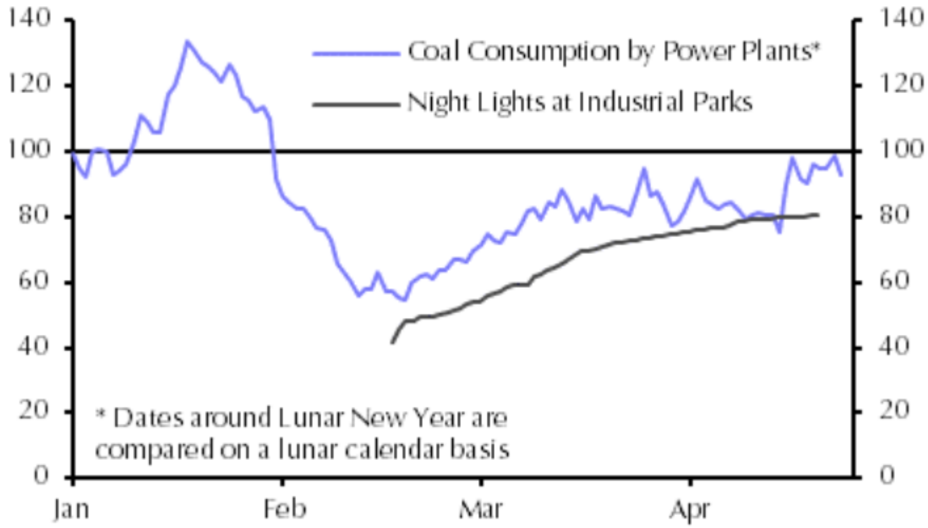
Now, export orders are collapsing

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

- Export orders fell in both the NBS and Markit's survey, down to 33.5, signaling a sharp decline in actual exports
- Total order indicis were close to 50, signaling decent growth in domestic orders in April

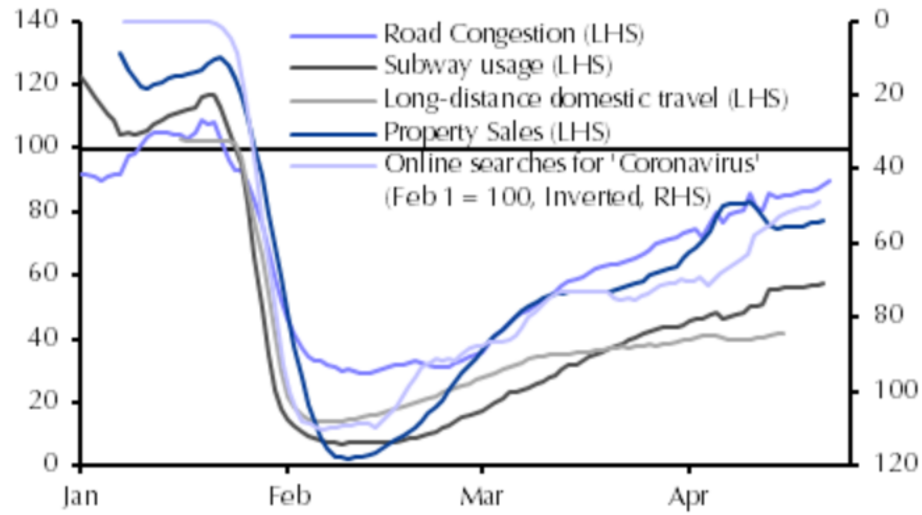
China is gradually gaining speed but still operates well below par

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



Sources: Wind, Capital Economics

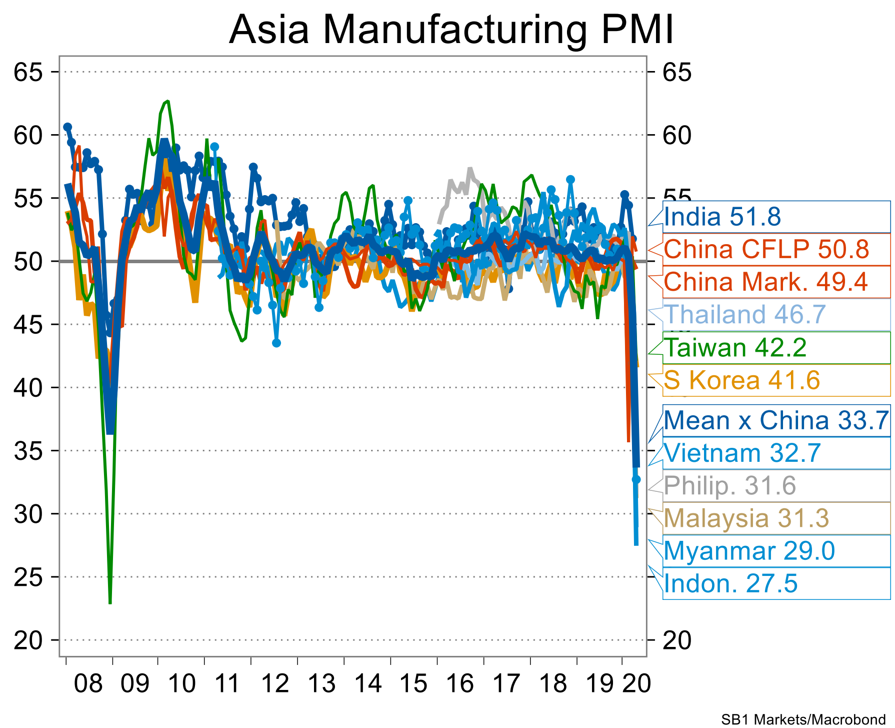
Chart 3: Economic Activity (% of 2019, 7d ave.)

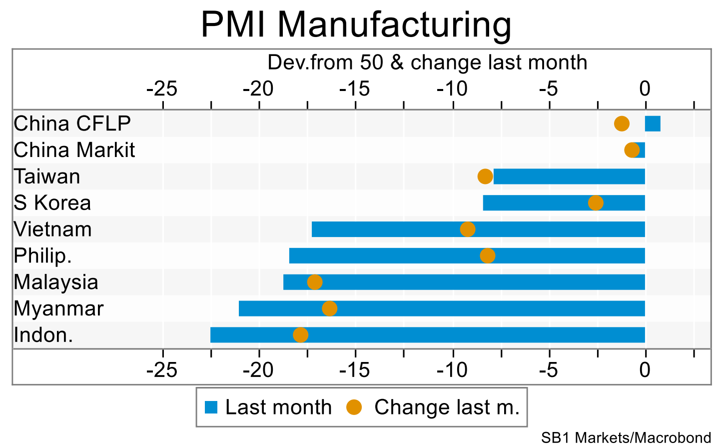


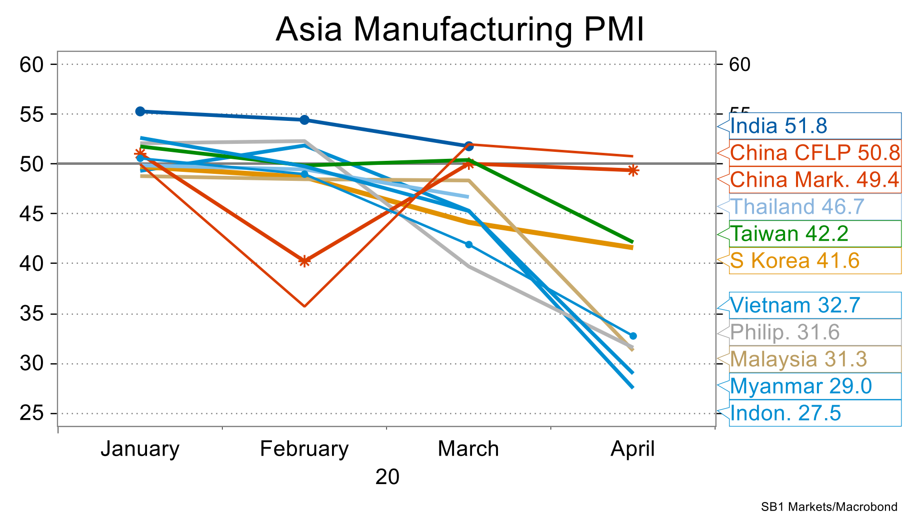
Sources: Wind, Baidu, Capital Economics

Some more shoes dropped, broad downturn in PMIs in Emerging Asia x China

So far all 7 that have reported are down, most to the lowest level ever (India, Thailand not yet rep.)







- The Asian x China PMIs fell 5 – 18 p in April, many to the lowest level ever. South Korea and Taiwan is still above 40, the others below
- Export orders are the weakest link, sharply down everywhere (down to 8 (!) to 33m the avg at some 20
- Asian economies are no doubt hit by Covid-19, all due to decline in exports, some also du to domestic virus challenges

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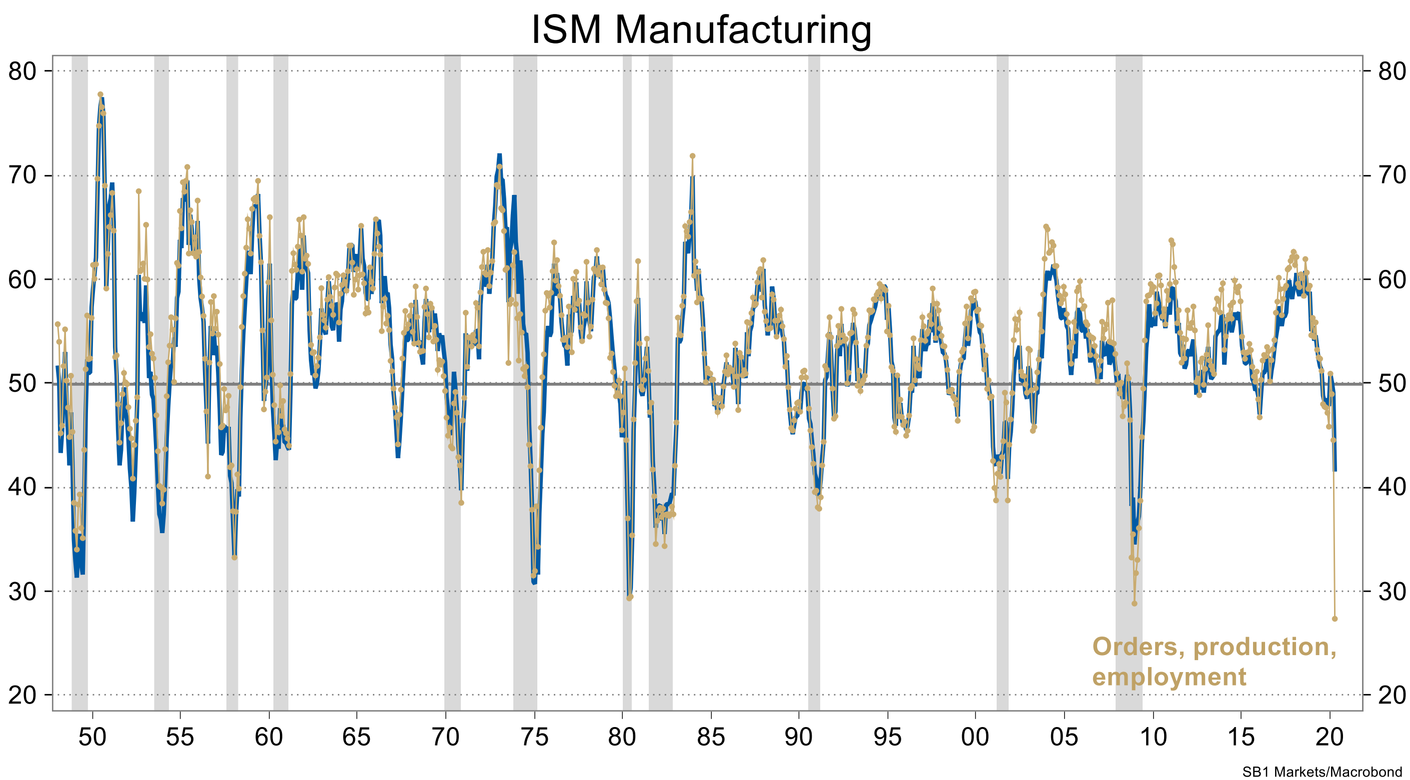
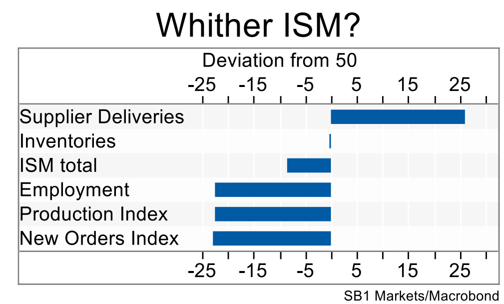
Manufacturing ISM fell to just 41,5 in April. Or to 27?

The ISM down just 8 p, expected down 13 to 36. But the ‘real’ ISM collapsed, to 27

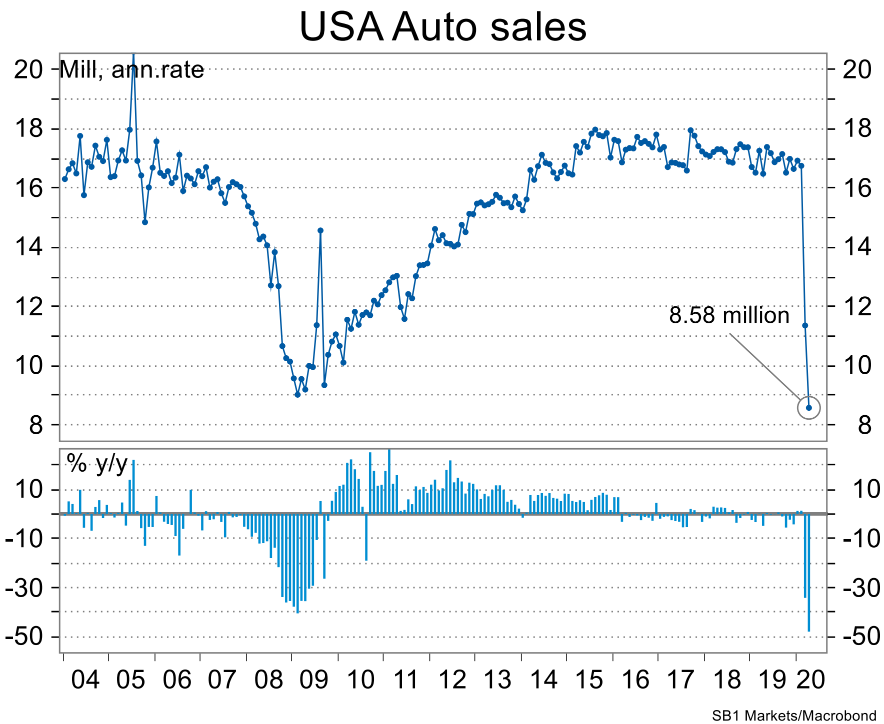


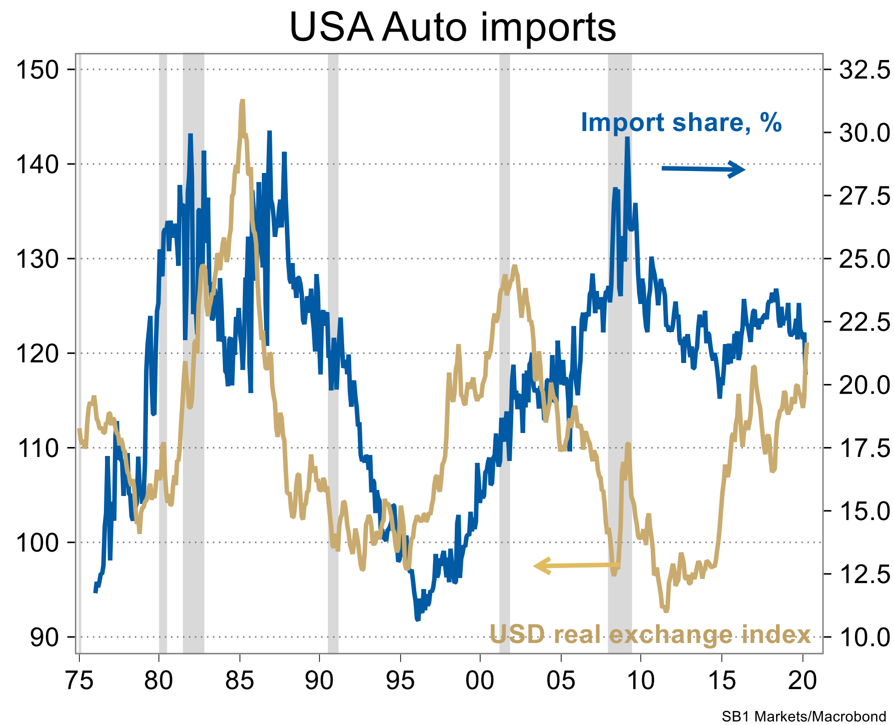


- Due to supply chain interruptions, both due to lack of deliveries from China and internal US challenges during the fight against Covid-19, companies reported un unprecedented increase in delivery times in April. Usually that’s a sign of a booming economy, but not so now. If we take out delivery times from the calculation of the headline ISM, it is down to 33, and if take out inventories as well – and ‘just’ utilise the new orders, production and employment indices, the avg is down 17 to 27, the lowest ever. Of course not any surprise!
- 15 sectors reported lower activity in April, just 2 reported growth (paper and food/beverage)
- Most likely, this April print is the bottom. We really doubt even more companies are going to report further a contraction in May, than in April

Auto sales further down in April but less than feared, just 48% down y/y

Sales dropped fell 25% to 8.6 mill, expected down to 6.3 mill – still the lowest since 1971



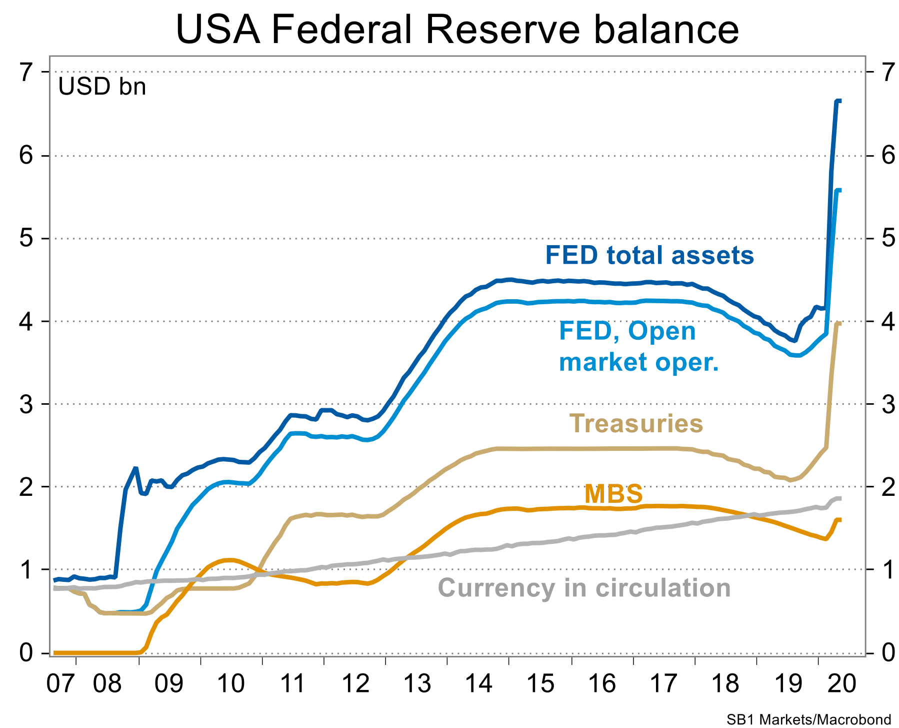


- In spite of the lockdown in most US states, sales were still at ½ a normal level in April

No new Fed initiatives, a lot has been done already

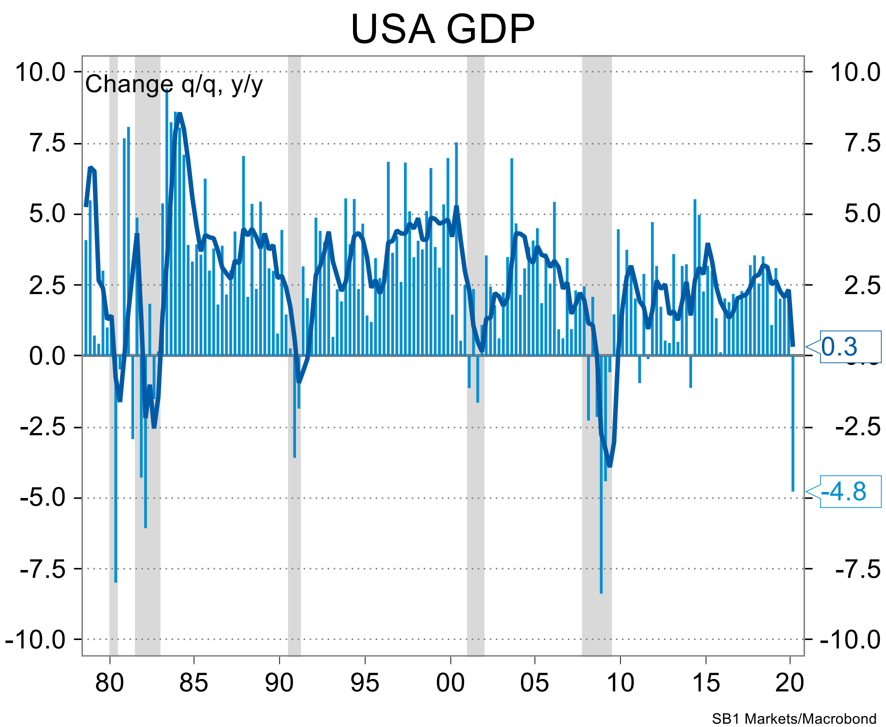
However, the bank pledged to use “its full range of tools to support the U.S. economy..”

- Fed’s Jerome Powell focused more on the need for further fiscal assistance than on what exactly the Fed could to do support the economy
- The analysis is probably that the corona crisis creates solvency problems more than liquidity challenges – and that it is limited the Fed can do, since it looks upon itself as a lender (and not a spender)
- In addition, the Bank has introduced several (seven) lending QE/lending programs, and the balance sheet is already ‘exploding’, mostly due to increased holding og government treasuries



GDP down 1.2% (or 4.8% in US terms…) in Q1. Much more to come

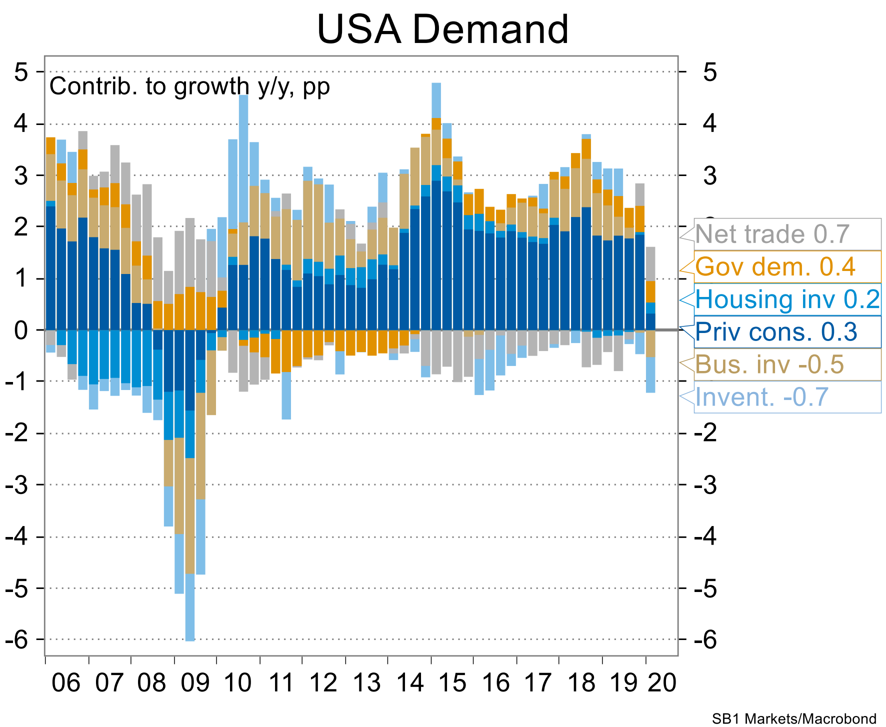
Private consumption the big drag – and it happened just in 2nd half of March, down 13% last two w.?

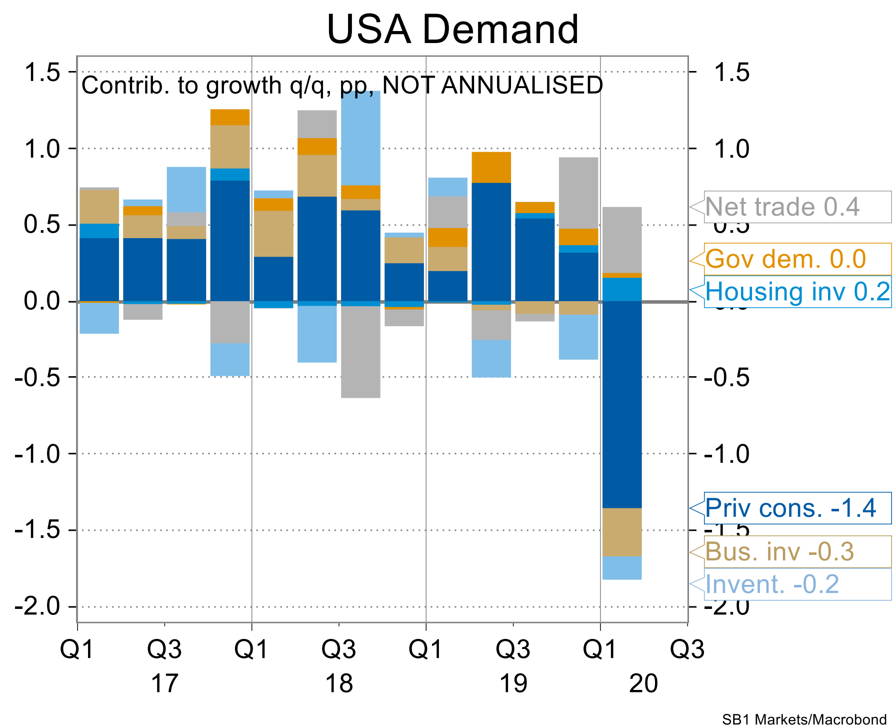


- GDP fell by 4.8% in Q1, somewhat more than expected (-4%), in annualised terms. The 'actual' decline was 1.2%.
  - » *We prefer to use the actual, non annualised figure these days, in order not get confused by the size of the downturn, which we not expect to continue at the same pace as in Q1 (and certainly not as in Q2) for four quarters in row*
  - » If we assume that GDP grew at a 1.5 - 2 (annualised) % pace in the first 11 weeks of Q1 (like the nowcasters signalled), and that the downturn started in mid March, GDP must have fallen by 7-8% each of the two last weeks. If so, GDP fell some 13% trough March. and the level by end of March was 12% below the Q1 average
  - » If GDP remains at that level through Q2, US will report a 40% annualised decline in Q2 (we would prefer to say 12% down, in actual terms ☺). However, as most US states are now easing restrictions, its fair to assume that Q2 will not be that bad. Still, the 2Q decline will most likely be brutal
- GDP was up 0.3% y/y in Q1, though the lowest since the financial crisis. What about -8% in Q2?

Private consumption took at hit in Q1 (that is, in March, or 2nd half of March)

Business investments down too (for the 4th quarter in row). Housing, net trade on the upside

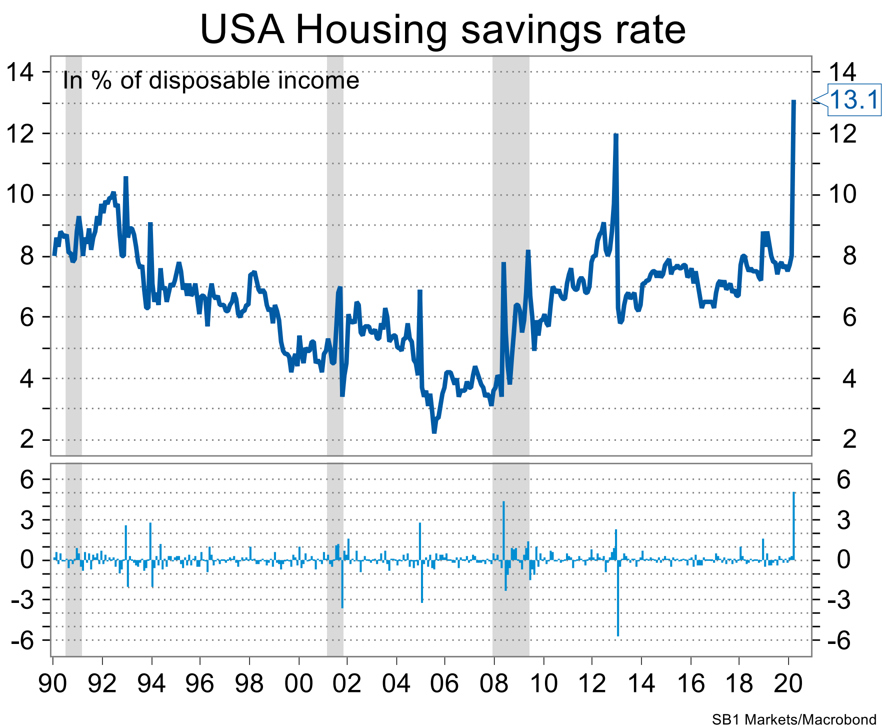


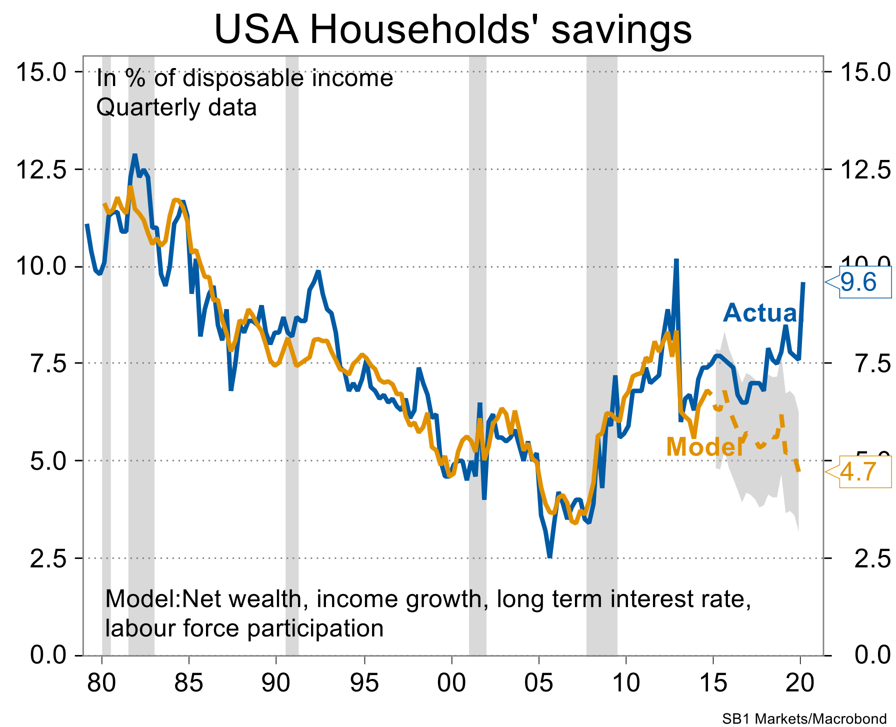


- Private consumption fell by 2%, contributing to a 1.4 pp negative drag on GDP growth in Q1 (measured in non-annualised terms)
- Housing investments continued upwards, lifting GDP by 0.15 pp.
- Business investments fell by 2.1%, more than we assumed as equipment and software investments fell by 4%, in total a 0.3 pp drag
- Government demand rose less than we expected, but more to come in Q2
- Imports fell steeply in Q1, and much more than exports fell, probably due to 'supply chain problems'; net trade made a 0.5 pp contribution, following 0.5 pp in Q2 (and 0.7 pp over the past year). We are a bit surprised that inventories not rose, as demand fell sharply in late Q1

Households savings up 5 pp to 13% (and 9.6% in Q1 avg)

Households (in all countries) don't spend and their income is declining slower

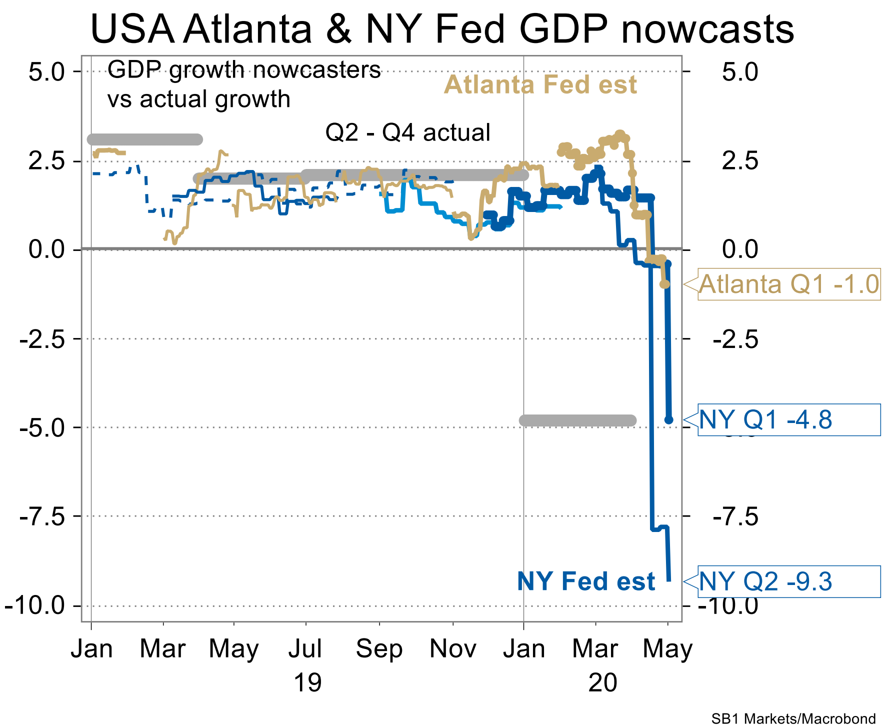


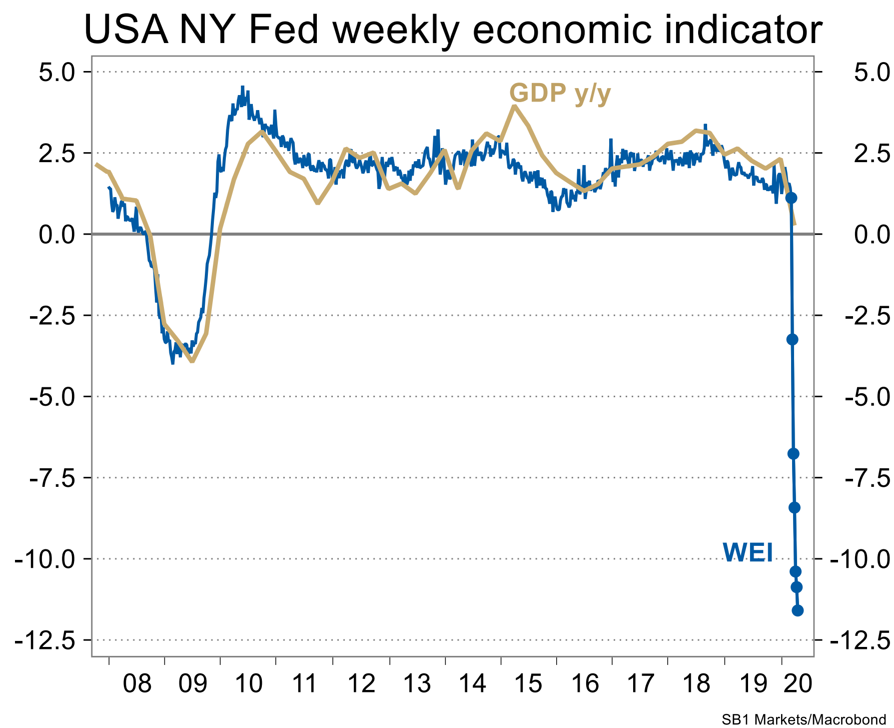


- Well, even if the savings rate is up, households' underlying economic position is not strengthened by the corona crisis. Income were hurt in March and they will be hurt much more in April, as unemployment is increasing
- On the other hand, the lift in savings illustrates the capacity to increase spending as soon as they are allowed to spend

NY Fed: GDP down 12% (y/y)

GDP fell 1.2% in Q1 (not annualized). The Q2 figure will be something else…

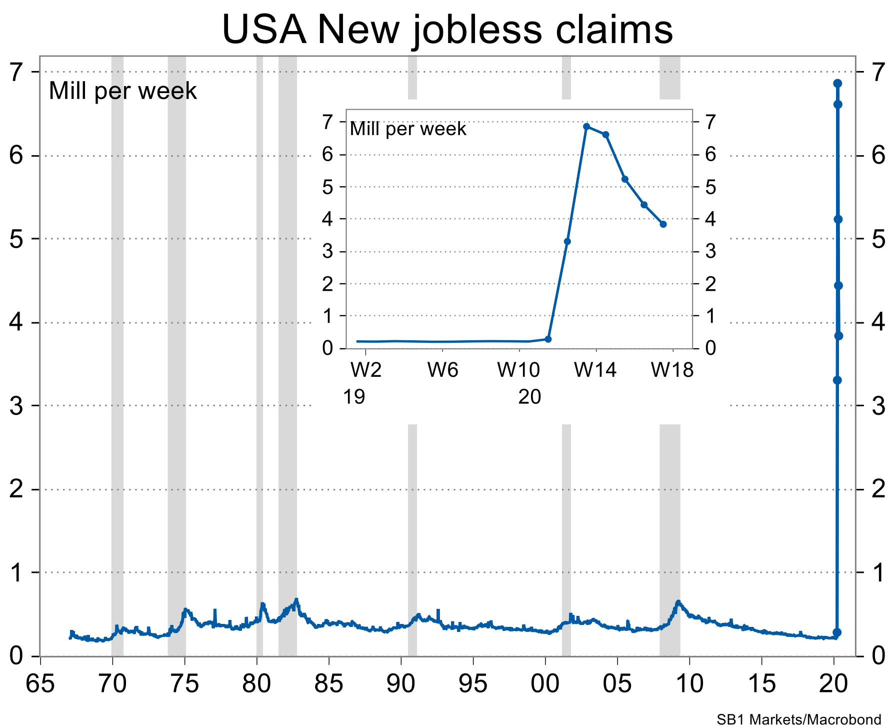


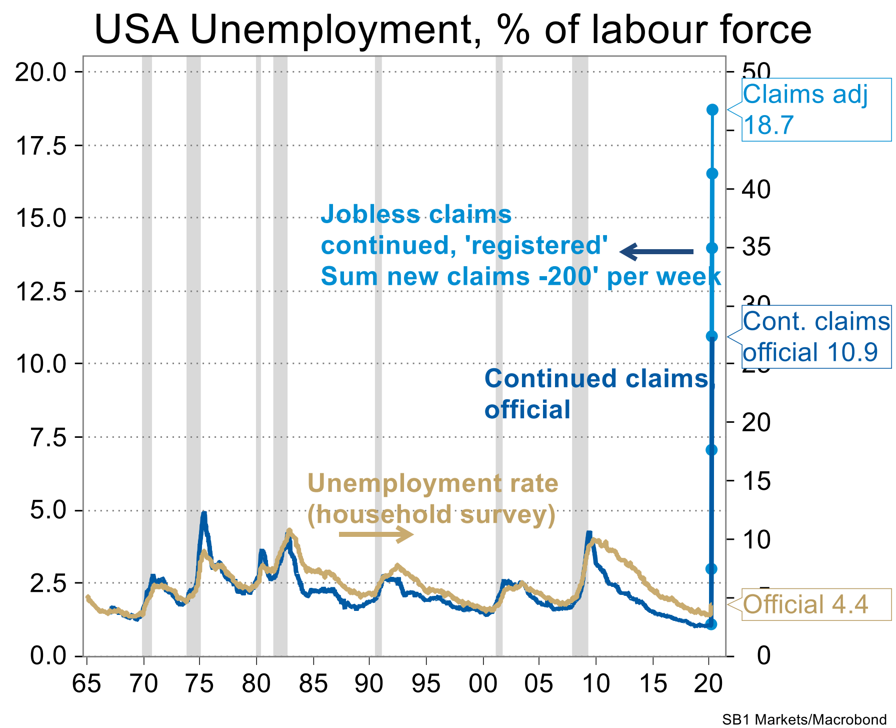


- The NY Fed's weekly economic indicator reports 12% y/y decline in activity in the latter part of April. The deceleration has clearly slowed past two weeks

'Just' 3.8 mill new unemployed last week, the sum up 30 mill past 4 weeks

31 mill persons are probably unemployed, 19% of the work force

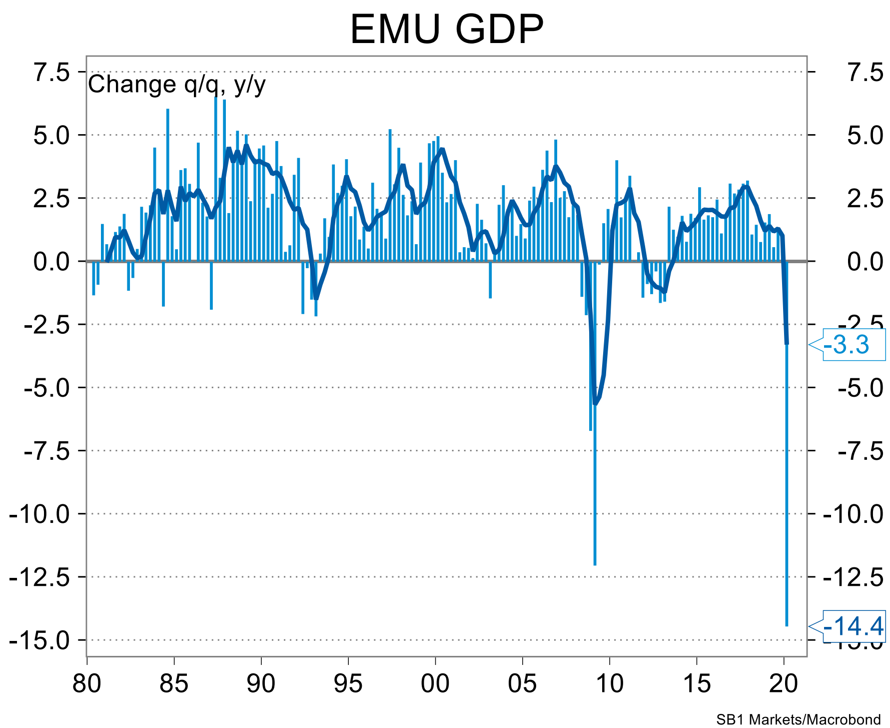


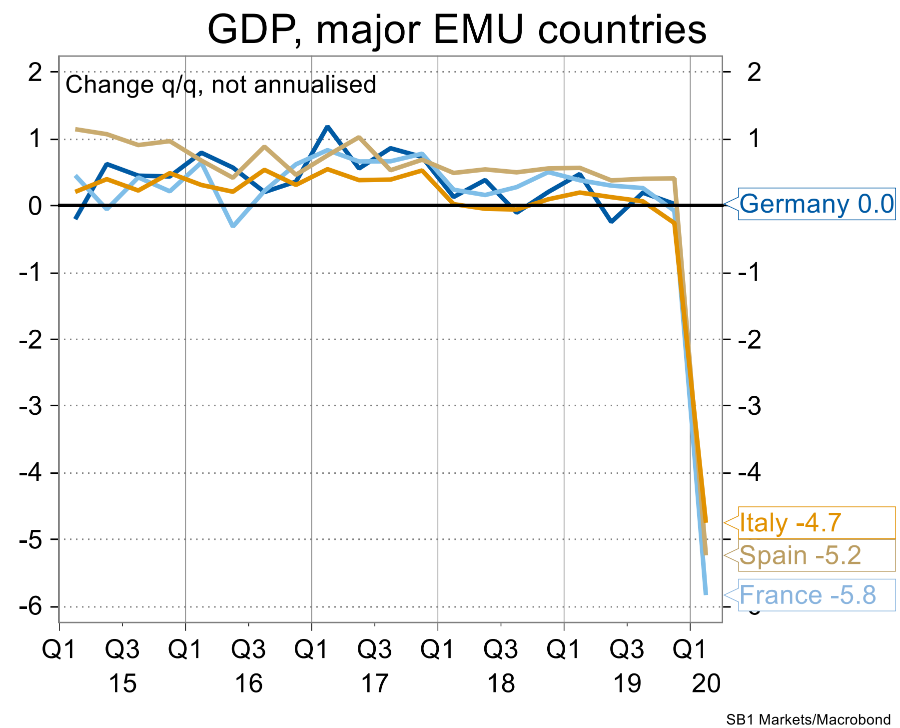


- The shock is totally unprecedented, and even if the inflow has slowed last three last weeks, it is still enormous, equalling 2.3% of the labour force, per week!! Last week's new claims were marginally higher than expected
- We estimate continued claims have climbed to 31 million last week, from 1.8 mill 6 weeks ago, equalling 19% of the labour force, up from 1% 4 weeks ago! (The official continued claims figure is lower, we assume many claims are not yet processed)
  - 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 very high level in April (data out next Friday)

GDP down 3.8 % in Q1 (-14.4% annualised)

GDP fell 20% (not annualised) through March? Not impossible

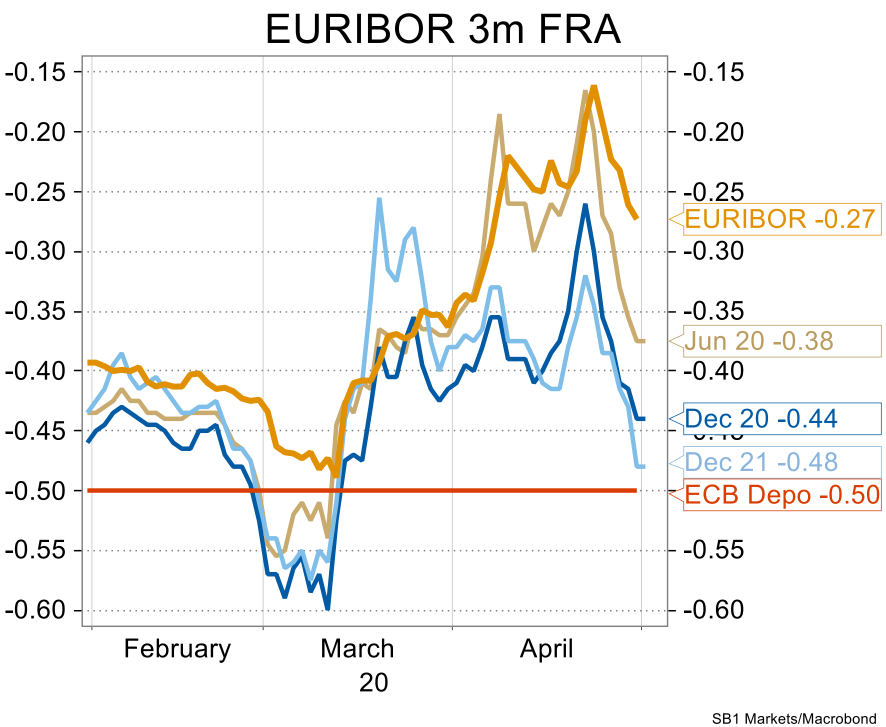


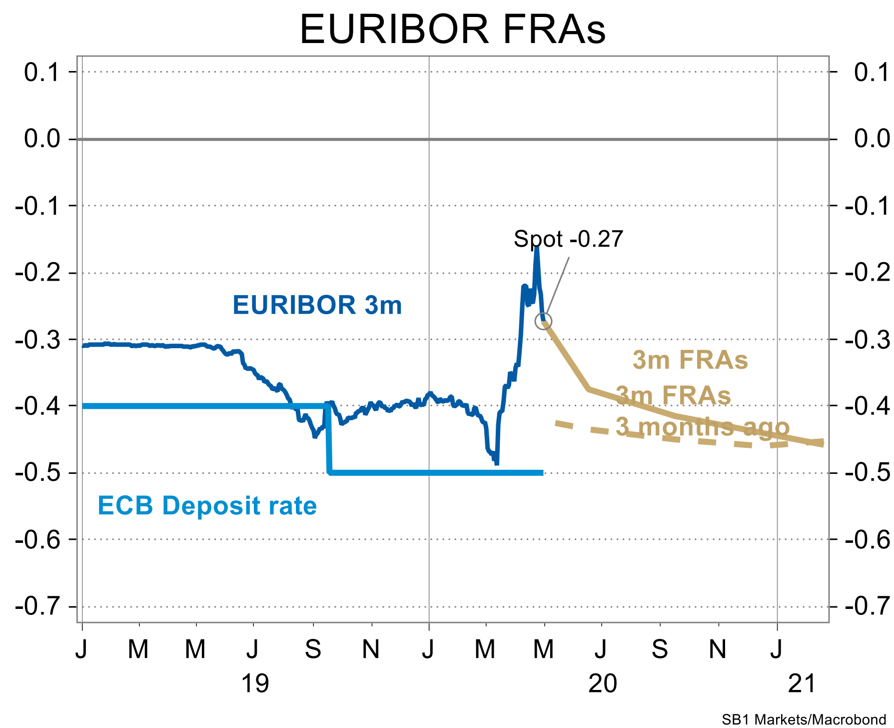


- GDP in the Eurozone fell by 3.8 % (not annualized) in Q2, dragged down by 5-6% decline in GDP in Italy, Spain and France as these countries were more or less closed down during the latter parts of March. However, these data are preliminary and much more uncertain than usual, as data collection has been influenced by the lockdown too
  - Let's assume that the European economy was hovering at approx. at 0.5% pace until end of February. Then, the GDP fell during March, by 5% per week during a gradual lockdown – or 20% in total. If so, Q2 starts 16% below the Q1 average. We hope we are wrong!
  - BTW, the OECD assumed a GDP decline at some 25% during aggressive Covid-19 campaigns
  - Germany has not reported Q1 national accounts yet we assume GDP contracted some 2.5% (10% annualized)
  - Demand details not yet available but France reported huge setbacks in both private consumption and business investments

The ECB keeps rates & QE unchanged but provide banks with even cheaper loans

The ECB staff revised the 2020 GDP forecast, down to -5 to -12%





- The signal rate was kept unchanged at -0.5%, as expected. Some were looking for an extension of the EQ programs, but they were kept unch, the Pandemic emergency purchase programme (PEPP) at EUR 750 bn, the bank was prepared to increase the size and its composition
  - » The interest rate at bank's long term loans in ECB (TLTRO, longer term refinancing operations) was lowered to 50 bps below the signal rate, that is at 1% now!! The banks plans to offer Pandemic Emergency repos (PELTRO, and the alphabet is not yet fully utilised) at -0.25% interest rate. In sum the EBS so far has announced bank funding schemes to equaling EUR 3.000 bn, or more than 25% of GDP in EMU
  - » Still it is uncertain if the ECB is able to provide a sufficient backstop for Italy and Spain government bonds. The German Constitutional Court is to present its verdict on ECB's QE programs this week
- Spreads in the money market has widened significantly since March but narrowed last week. Italian/Spanish bond spread are still elevated

The Riksbank has a couple of scenarios, both quit grim

GDP -7+5=-2 or -10+2=-8, vs previous est 1+3=3 (2020/21). Still small differences in unemployment..

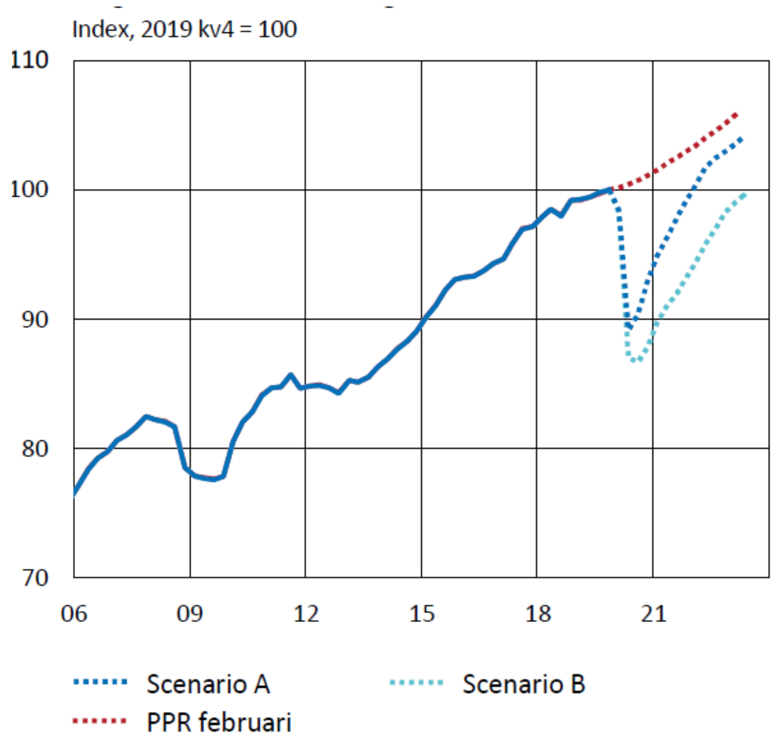


Table 1. Scenario A

	2019	2020	2021	2022
CPIF	1.7	0.6	1.5	1.6
GDP, calendar-adjusted	1.3	-6.9	4.6	5.0
Unemployment	6.8	8.8	9.0	8.2

Table 2. Scenario B

	2019	2020	2021	2022
CPIF	1.7	0.6	1.3	1.4
GDP, calendar-adjusted	1.3	-9.7	1.7	5.4
Unemployment	6.8	10.1	10.4	9.3

Note: Annual percentage change, annual average

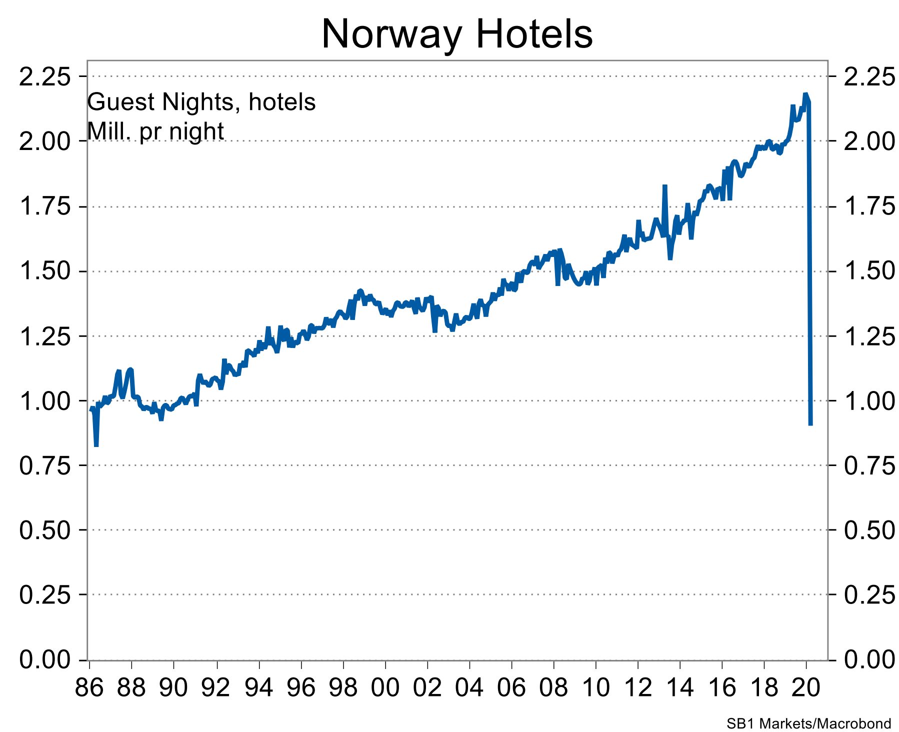
Sources: Statistics Sweden and the Riksbank

- The Riksbank expects a deep slump in GDP, at 11 – 13% below the previous path at the worst, in Q2 2020. Annual growth rates are slashed from +1% to -7 or -10, depending of the V or U-shaped downturn/recovery. Worst case, 2021 GDP will be some 11% lower than previously expected! The forecasts are at least not overly optimistic
  - » Exports is the main driver on the downside, but domestic demand is also to blame, both consumption, housing & business investments
- Still, unemployment is expected to increase by just 2 pp to 3.6 pp higher than now. That might be too optimistic

Norges Bank's phone Network survey confirms the downturn

7 of 10 companies do not think it's over before summer. An argument for cutting to zero?

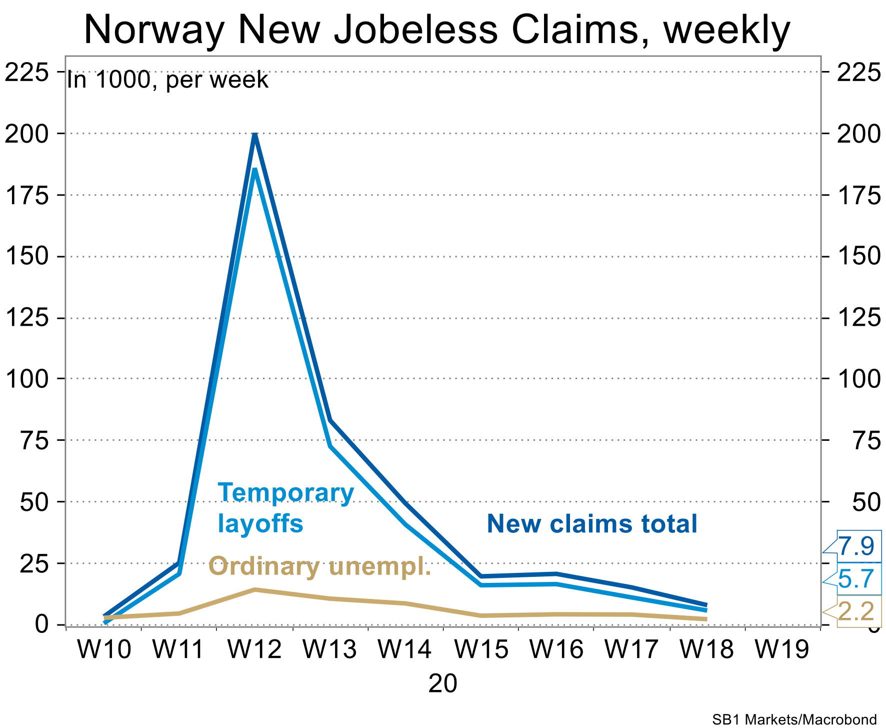
- The main points
  - » 3 of 10 enterprises are either little affected or expect return to normal before summer
  - » 3 out of 10 expect that activity levels will return to pre-virus levels in the course of autumn
  - » 4 out of 10 expect normalisation in 2021 at the earliest
  - » The export industry, oil services, construction and segments of the service industry expect the downturn to last the longest
  - » 1 of 4 the enterprises are planning for lower employment in the period to summer.
- No surprises, just confirmation. The 'normal' network survey will not be published before mid June
- We doubt Norges Bank will cut its signal rate to zero this week but will not be surprised either. The marked is now discounting a cut by some 50% probability at the upcoming meeting or at the next meeting in June, check more here

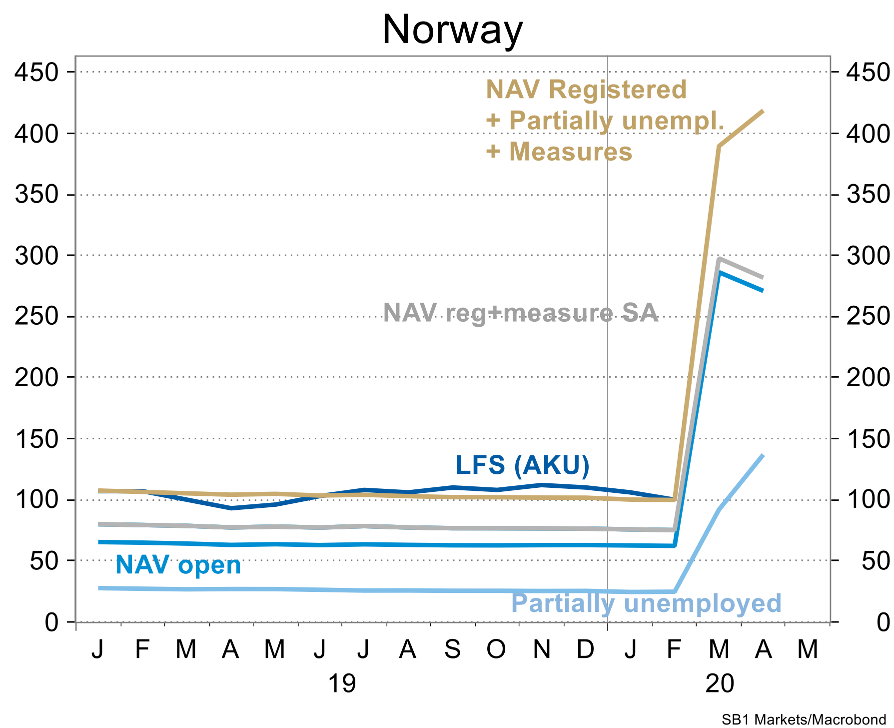


Some lost hotel guest nights, down 60% March. In April, we will come much closer to the x-axis

The inflow is slowing, the number of fully unemployed down, but the total not

Total unemployment rose by 30' to 420' in April due to +45' more partially unemployed

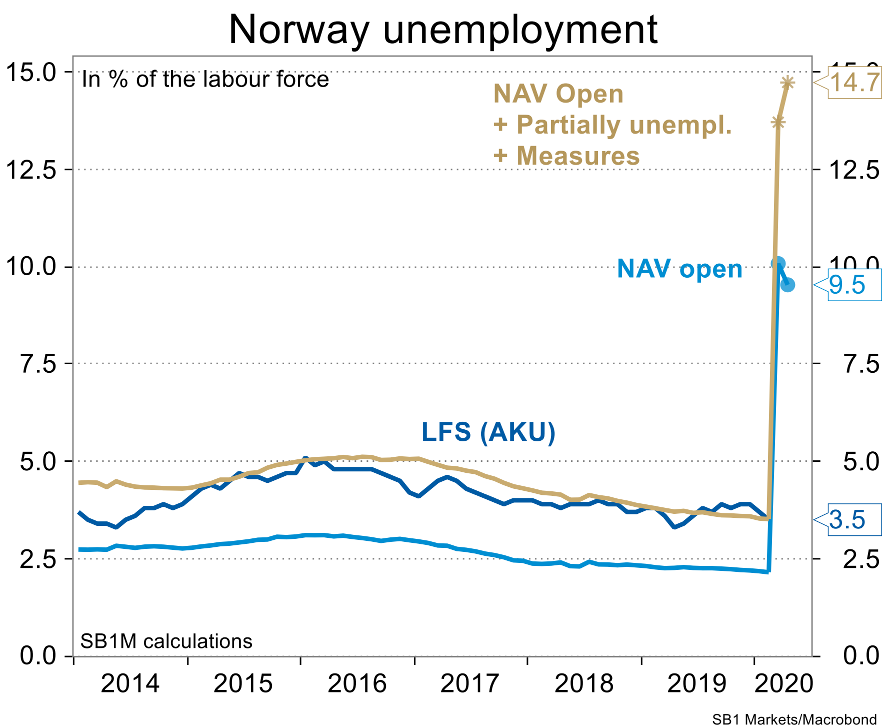


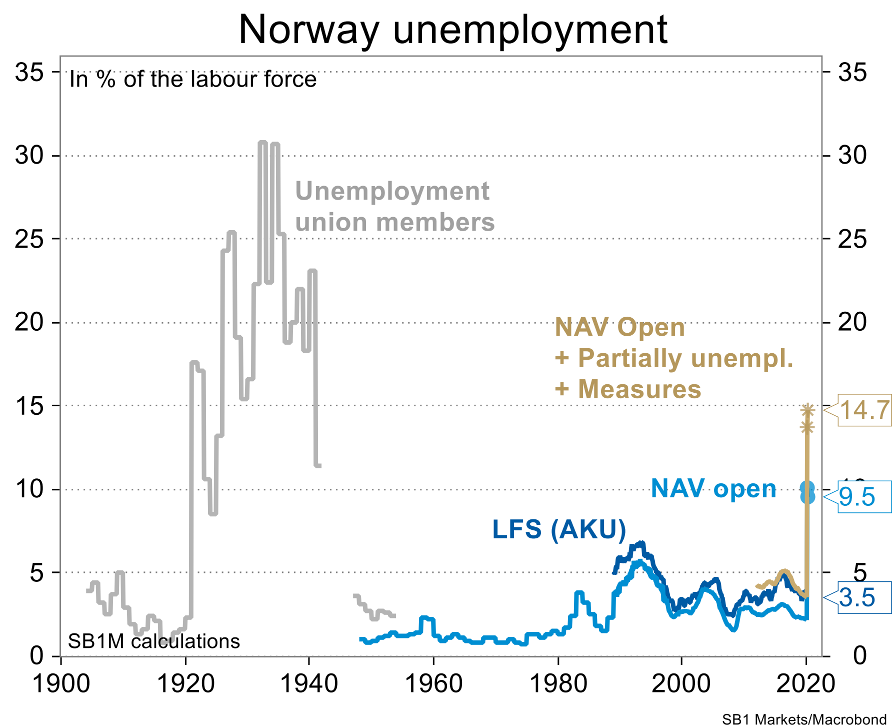


- Weekly new jobless claims fell further last week, to 8', compared to the 200' pace at the peak in the first week after the partial lockdown was decided. The normal inflow is 3 – 5' persons per week. Most of the new claims (88%) since mid March are employees that are furloughed, and not permanently laid off. Last week, the share was reduced to 75%
- The number of full time unemployed persons fell by 15' to 270' (our seas adj. data), but this decline is not 'for real'
  - » The decline in full time unemployment is caused by newly unemployed (furloughed) are reporting that they are working part time, and therefor changed their status to partially unemployed. Thus, the no of partially unemployed rose by 45' in April, and is approaching 150'
- Total unemployment rose by 30' to 419' through April. As some activities are starting up, we think that unemployment is close to peak – at 15%

We have not seen anything like this in modern times

15% are out of the job market, more or less

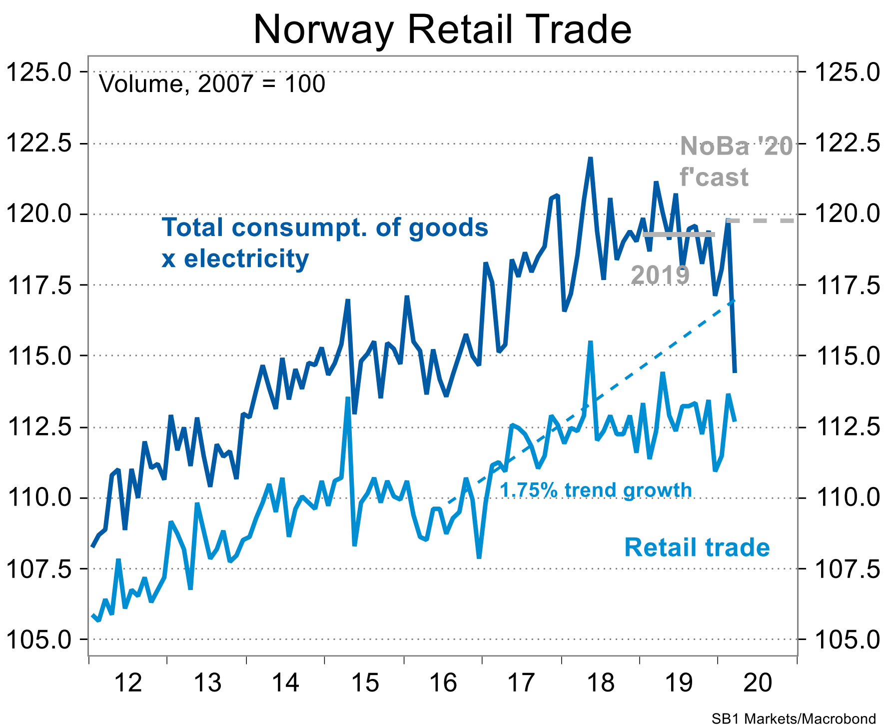


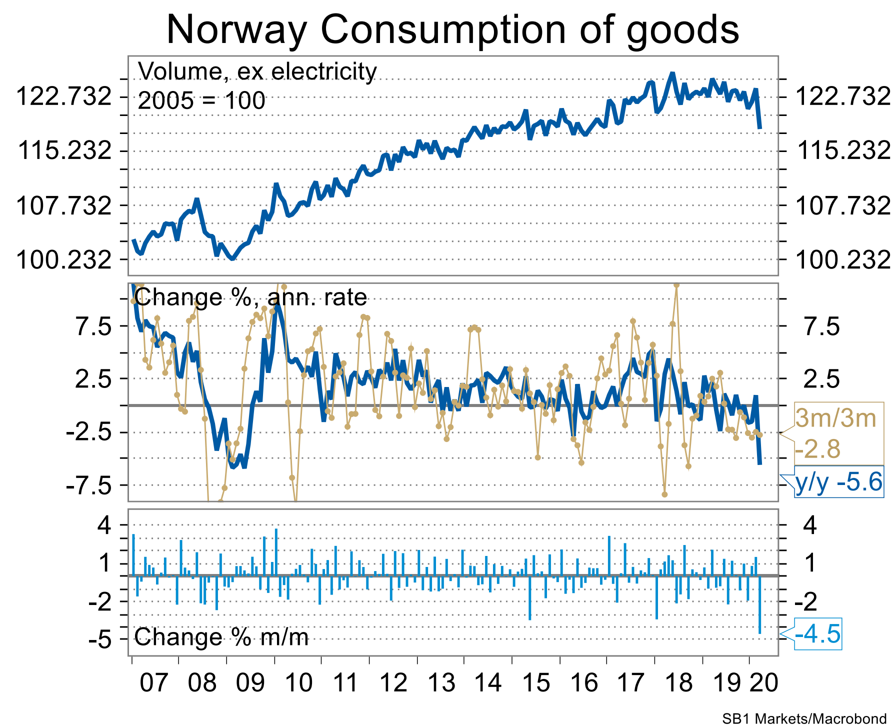


- Open, registered unemployment equals 9.5% of the labour force, down 0.5% from March. Total unemployment equals almost 15%
- Even if some sectors are gradually opening, we expect unemployment to continue to climb the coming weeks as other sectors are hit by too low demand domestically and from abroad

Retail sales fell just 1% in March – but goods consumption down 5%

Hoarding, less shopping in Sweden & fewer restaurant meals saved March sales. Clothing not, -40%

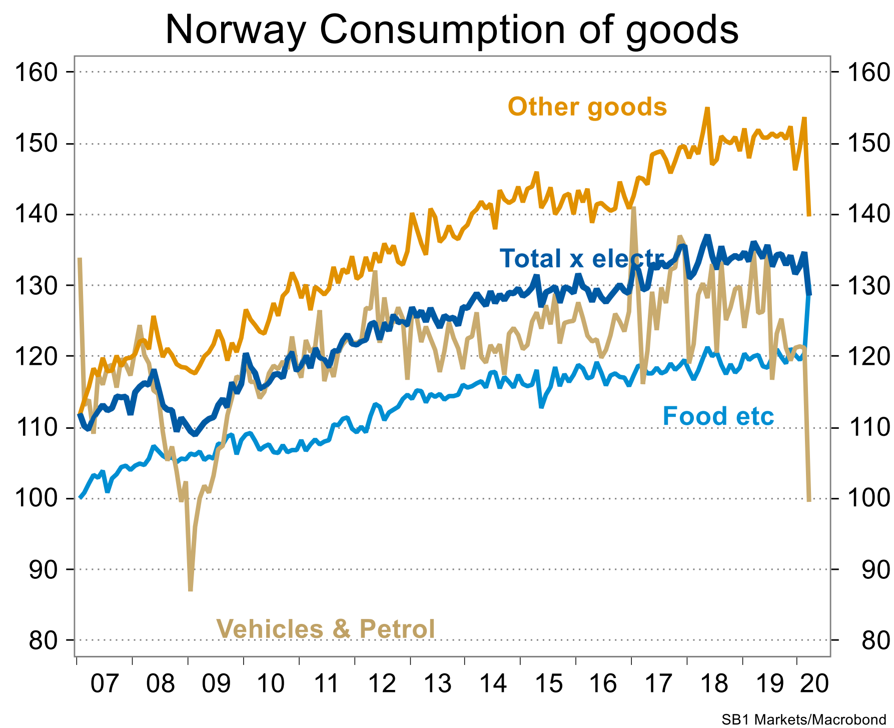


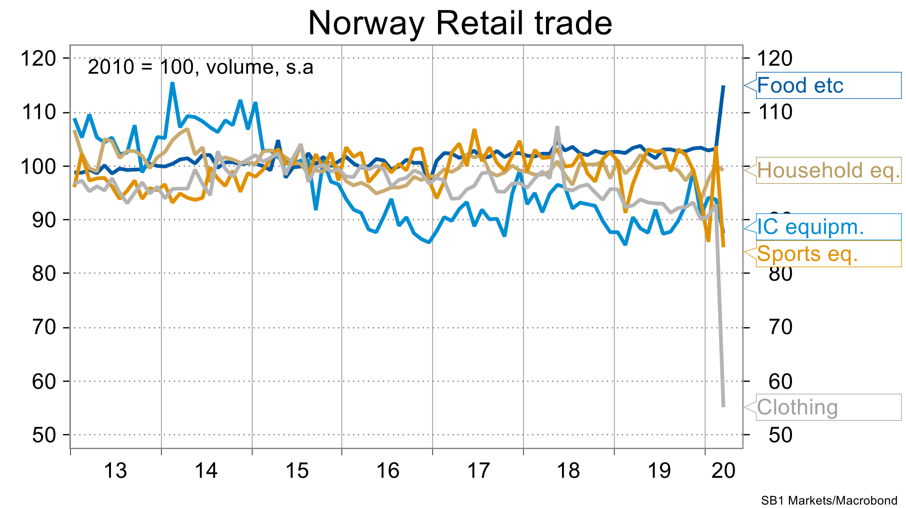


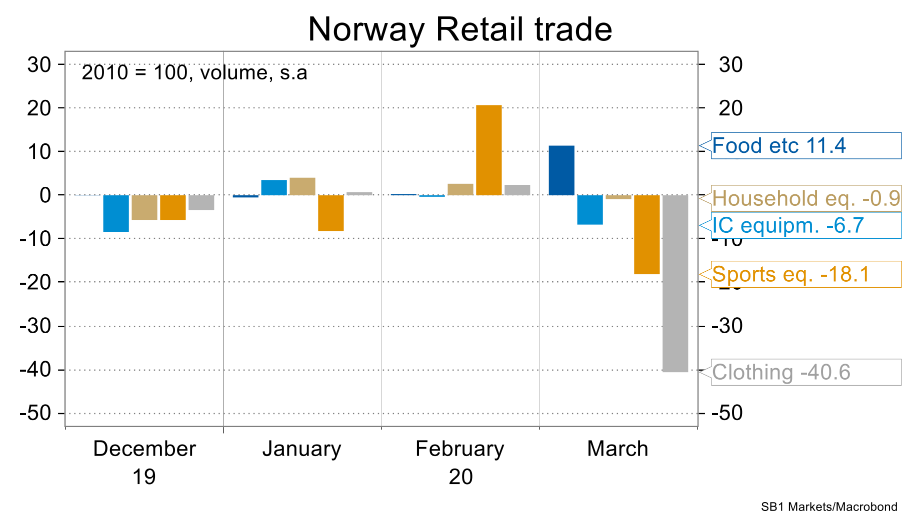
- Retail sales volume (ex auto) fell just 0.9% in March, expected down 8 – 15%. Total consumption of goods fell 4.5%, due to a decline in auto/gas sales and a 9% decline in other goods than food – while sales of food etc was up 8%
  - » SSB had indicated a 10 – 12% decline in consumption of goods in March
- We have never seen such deviations between different sectors, from -40% (clothing) to + 23% (internet sales)
- Foods sales was partly driven by hoarding, no shopping abroad after borders were closed (especially in cross border trade in Sweden), and almost no meals on restaurants in 2nd half of March

Hoarding saved the retail sector in March but not all

Food p 11%, clothing down 40%, sport equipment 18% - for March in average







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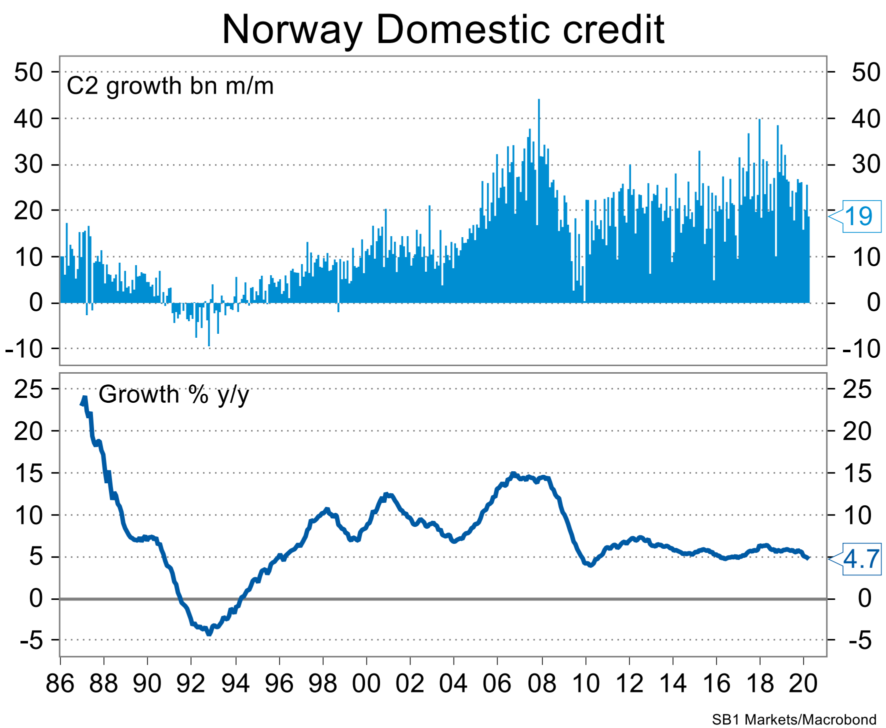
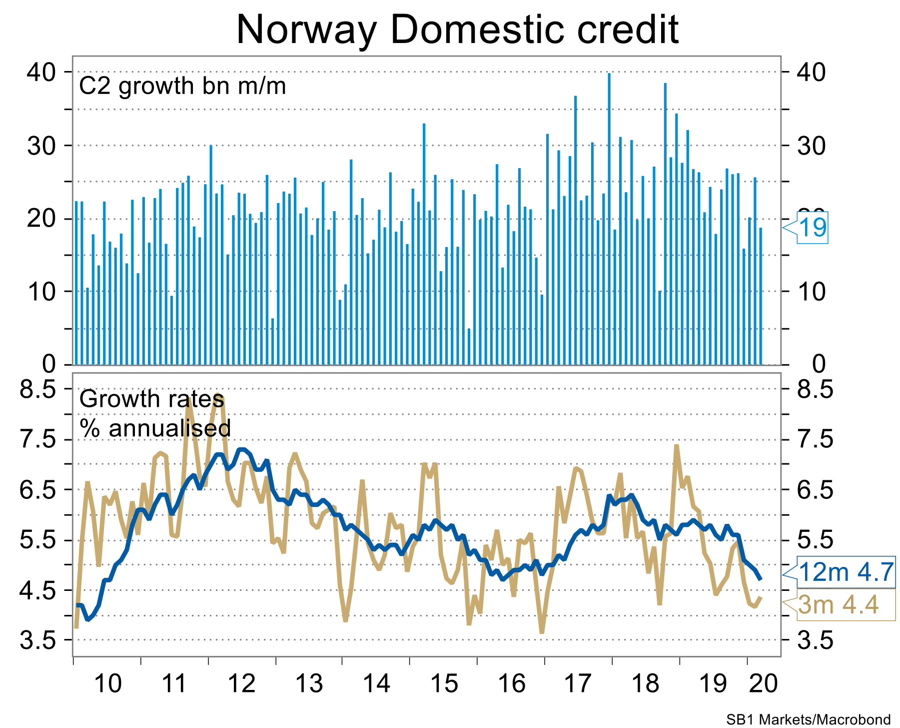
Credit growth is waning, corporates the main drag, even before corona hit

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





- ***Pre corona:*** Total domestic debt (C2) rose by NOK 19 bn m/m in March, down from 26 in February, and the annual growth rate 0.1 pp to 4.7%, as we expected. Growth is heading slowly down
- Household credit growth has been slowing has slowed further in March, down 0.2 pp to 4.7%. Credit is now finally expanding at a slower speed than disposable income. We expect demand for new loans to decline, even if lending rates are cut. However, many households have asked for – and will be given – postponement of instalments, which will contribute to higher credit grown.
- Corporate credit growth has been slowing too, and to 4.0% in March from 4.1% Feb. Banks are reporting higher demand for extending credit lines but a sharp decline in demand for loans to fund investments. We assume that the sum will be negative, at least

The Calendar

In focus: More PMIs, US productivity, EMU manufacturing, Norges Bank

Time	Country	Indicator	Period	Forecast	Prior
Monday May 4					
08:30	SW	PMI Manufacturing	Apr		43.2
09:00	NO	PMI Manufacturing	Apr		41.9
10:00	EC	Markit Eurozone Manufacturing PMI	Apr F		33.6
17:00	World	PMI Manufacturing	Apr	(43.6)	46.6
Tuesday May 5					
09:30	SW	GDP Indicator SA QoQ	1Q		
09:30	SW	Industrial Orders MoM	Mar	--	1.2%
10:30	UK	Markit/CIPS UK Composite PMI	Apr F	12.0	12.9
14:30	US	Trade Balance	Mar	-$38.0b	-$39.9b
15:45	US	Markit US Composite PMI	Apr F	--	27.4
16:00	US	ISM Non-Manufacturing Index	Apr	37.8	52.5
Wednesday May 6					
08:00	GE	Factory Orders MoM	Mar	--	-0.014
08:30	SW	Swedbank/Silf PMI Services	Apr	--	46.9
11:00	NO	House prices	Apr	(-2.5)	-1.4%
10:00	EC	Markit Eurozone Composite PMI	Apr F	13.5	13.5
11:00	EC	Retail Sales MoM	Mar	-11.3%	0.9%
14:15	US	ADP Employment Change	Apr	21000k	-27k
17:00	World	PMI Composite	Apr	(30)	46.1
Thursday May 7					
03:45	CH	Caixin China PMI Services	Apr	50.5	46.7
	CH	Exports YoY	Apr	-10%	-6.6%
	CH	Imports YoY	Apr	-10%	-0.9%
08:00	GE	Industrial Production SA MoM	Mar	-7.3%	0.3%
08:45	FR	Industrial Production MoM	Mar	-10.0%	0.9%
10:00	NO	Deposit Rates		0.25%	0.3%
13:00	UK	Bank of England Bank Rate		0.10%	0.1%
14:30	US	Nonfarm Productivity	1Q P	-5.2%	1.2%
14:30	US	Unit Labor Costs	1Q P	1.0%	0.9%
14:30	US	Initial Jobless Claims		--	3839k
Friday May 8					
08:00	NO	Ind Prod Manufacturing MoM	Mar	(-3)	-1%
14:30	US	Change in Nonfarm Payrolls	Apr	-21000k	-701k
14:30	US	Unemployment Rate	Apr	16.0%	4.4%
14:30	US	Average Hourly Earnings YoY	Apr	3.4%	3.1%

- **Composite PMIs & ISM**
  - **April** will possibly turn out to be the bottom, a deep one, for the PMIs. The April flash reports sent an unanimous message, the economy slowed fast in April too, and we expect a decline in the global index by 9-10 points to 30. Europe reported the weakest numbers, and services are weaker than manufacturing everywhere. China has returned to approx 50, signalling a moderate growth, and not a closing the output gap, We do not that the global economy contracted even faster in May vs. April. If so, April should be the through
- **US**
  - **Nonfarm payrolls** fell by 21 mill persons, or 13% of the labour force, according to the consensus estimate. Seems reasonable, given the surge in new jobless claims recent weeks, and employment will very likely decline further in May too. Unemployment is expected up almost 12 pp to 16% in April. The inflow of **new jobless claims** has slowed, but remains extremely high, at more than 2% of the labour force, per week
  - **Productivity** fell sharply as companies were not able to shed labour fast enough in the latter part of March. Unit labour cost must have surged (Bloomberg expectations are not updated)
  - **New jobless claims** are soaring but at a gradually slower pace. Last week saw another 3.8 million new claims seekers, the sum is up more than 30 mill over the past 6 weeks, and open unemployment could now equal 18% of the labour force
- **EMU**
  - Both **retail sales** and **industrial production** was a disaster in March. Some countries have reported sales data, and the PMIs gave a clear message on production activity
- **Sweden**
  - A new **GDP indicator** will be published, but we do not expect the Q1 figures to be frightening, down less than 2%
- **Norway**
  - **House prices** fell 1.4% in March, and the price level at the end of the month was substantially lower. We expect a further decline in April, at least vs the average in March, where prices fell sharply through the months. Reports from realtors are mixed. Developers are offering substantial rebates, OBOS may guarantee the price for existing home when contracting a new build
  - **Manufacturing production** most likely fell in March, but we do not expect a steep decline as the light was not turned off before mid March, and manufacturing was not that hard hit these weeks

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 9-10 bp to in April TO 30 (our prelim, est), a new all time low. The service industry noted the sharpest contraction. Consumer confidence fell sharply in April. Global GDP probably fell by 4% in Q1, half of the decline is due to China
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**	Both manufacturing PMIs fell marginally in April but remained close to 50, signalling normal growth in manuf. Production. It should have been better – but export orders are falling sharply
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**	GDP fell 1.2% (4.8% annualized) in Q1, consumption, bus. investments down. Jobless claims are still increasing at an unprecedented speed, over 30 mill (18 of labour force) past 6 weeks! The ISM fell to 41 but the 'real' index fell to 27, the lowest ever
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**	GDP fell by 3.8% (14.4% annualised) due to lockdown over much of the continent.
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%**	Total NAV unemployment is still increasing, up to 14.7%, all included. March retail sales much better than expected, partly due to hoarding, ex food sharply down. Credit growth is slowing

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

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Highlights

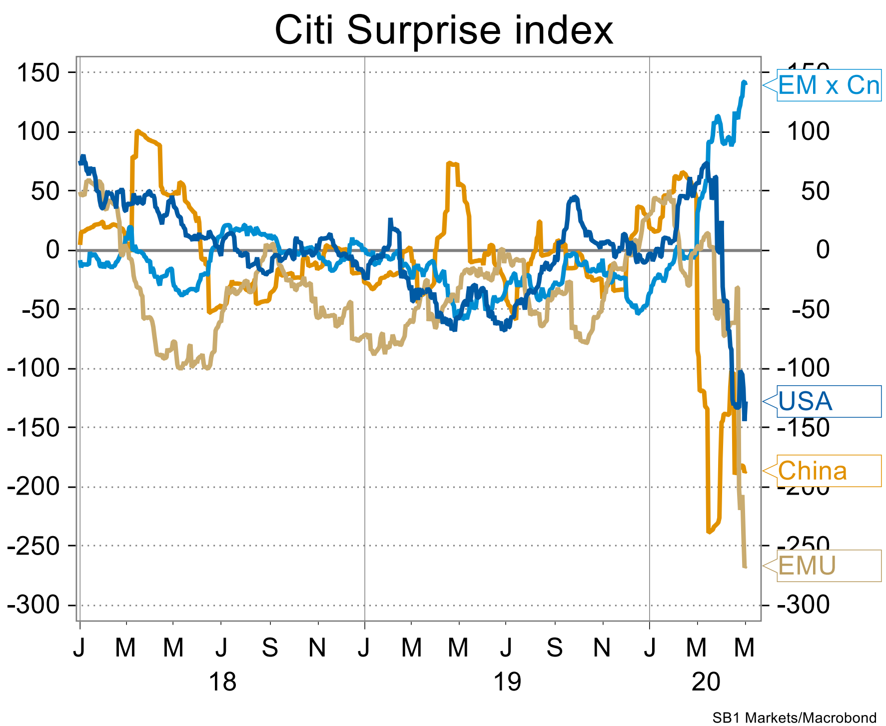
The world around us

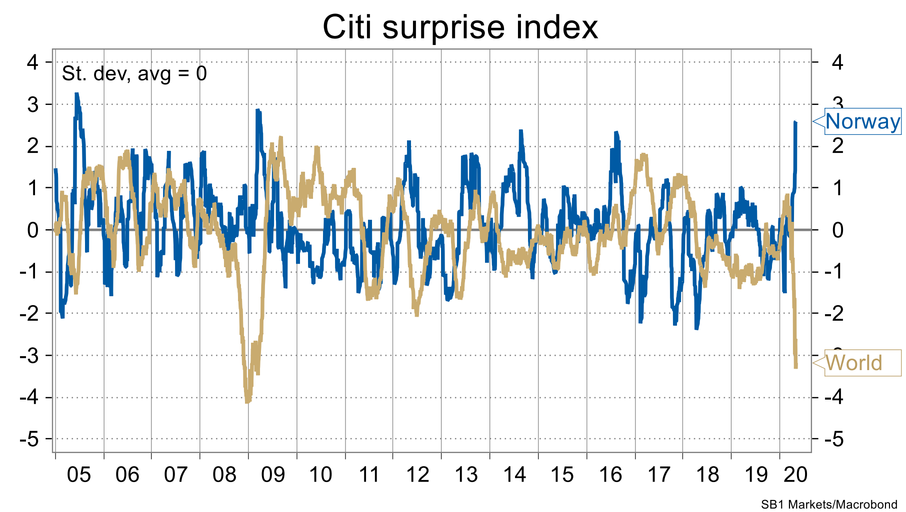
The Norwegian economy

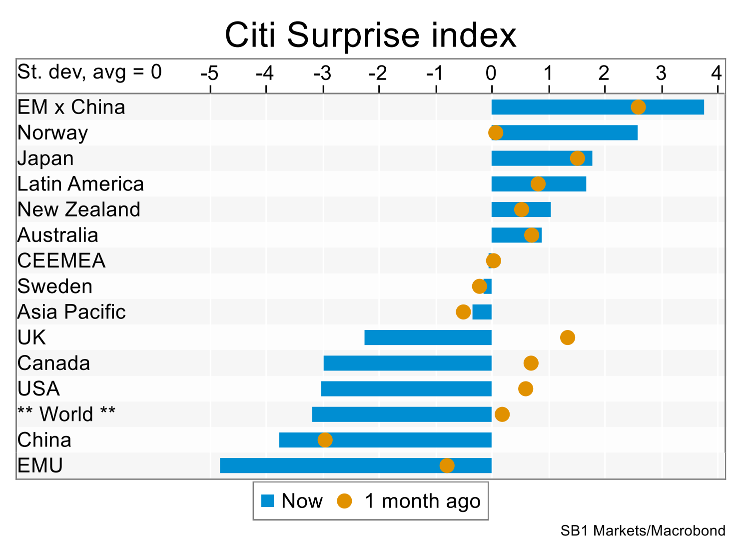
Market charts & comments

Global macro data are not that good even more. Strange strength in EM x China

And we have no clue why Norwegian data are that much better than expected





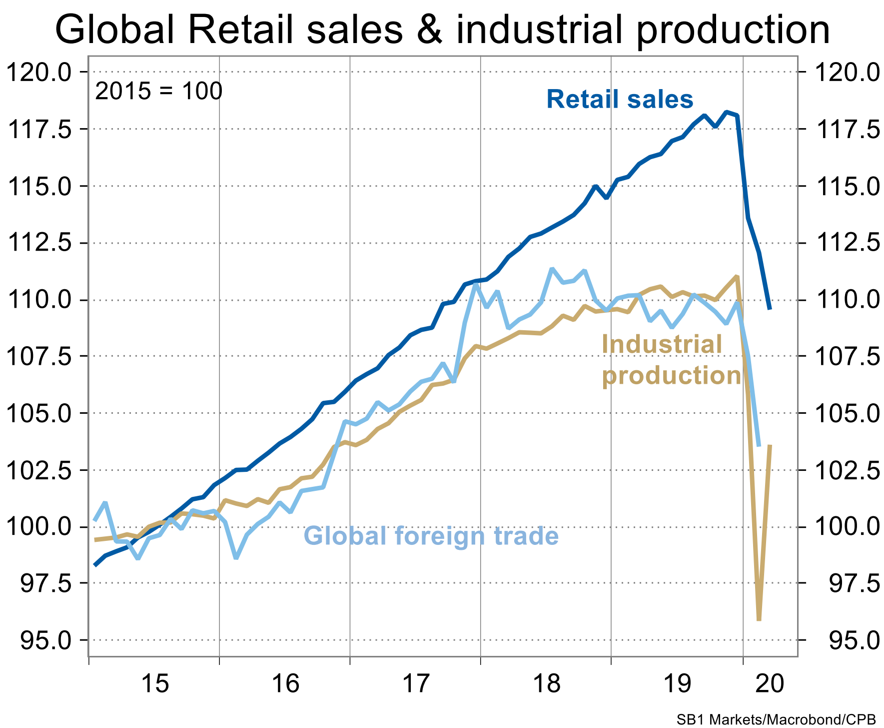


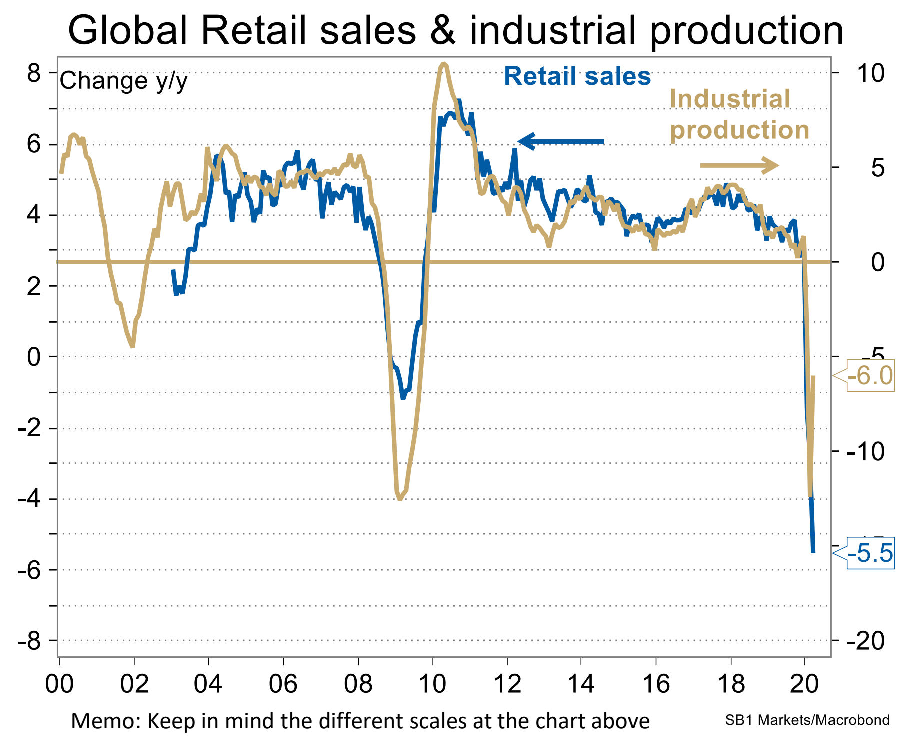
- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- Until the previous week Chinese and US data has surprised most at the downside but the Euro zone took the lead to weeks ago and surprised even more at the downside 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

Manufacturing production up in March but that's not the end of story

China took global industrial production sharply down in February, and lifted it in March

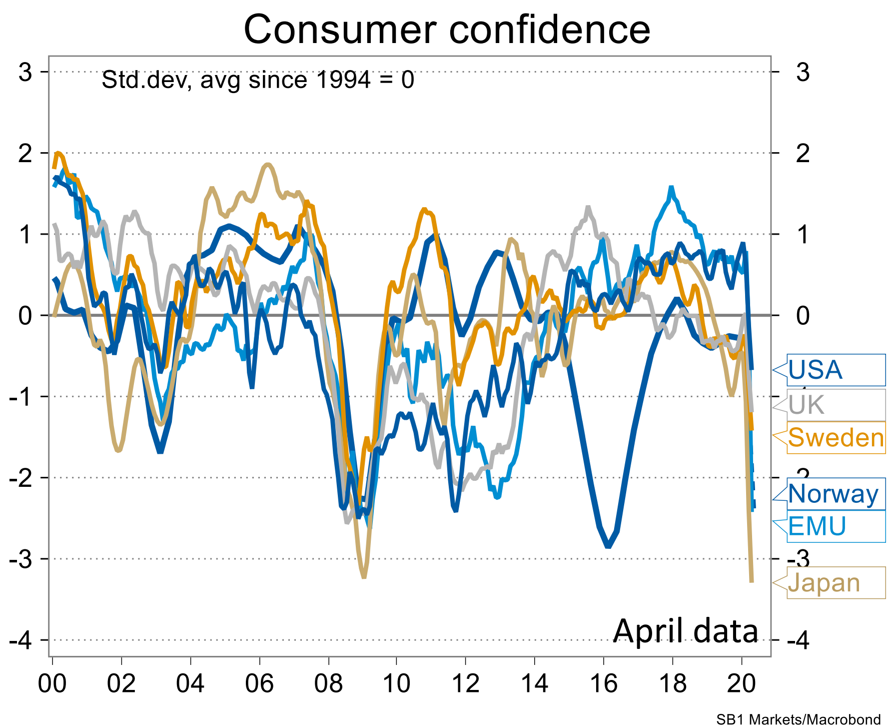


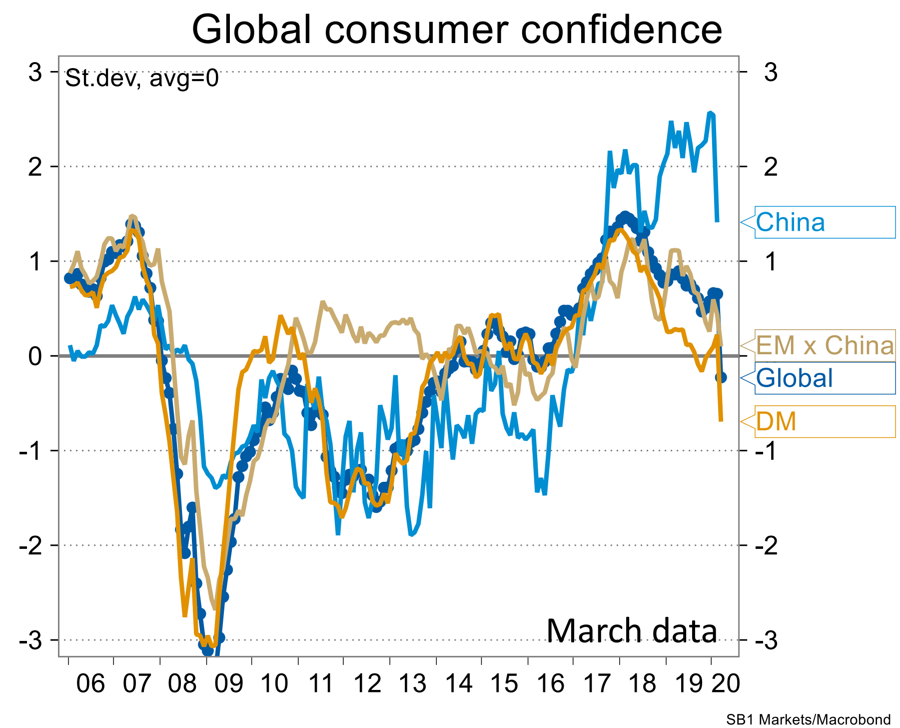


- **Global industrial production** fell by 10% in February, due the huge decline in China. In March, production in China rose 32% (almost back up to a 'normal' level) and even if production fell some 6% in the rest of the world. Production no doubt fell sharply in April
- **Global retail sales** declined some 2% m/m in March, less than we previously assumed. Europe was a catastrophe but in US consumption of goods ex auto rose marginally. Sales have fallen much more than during
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

Consumer confidence sharply down everywhere

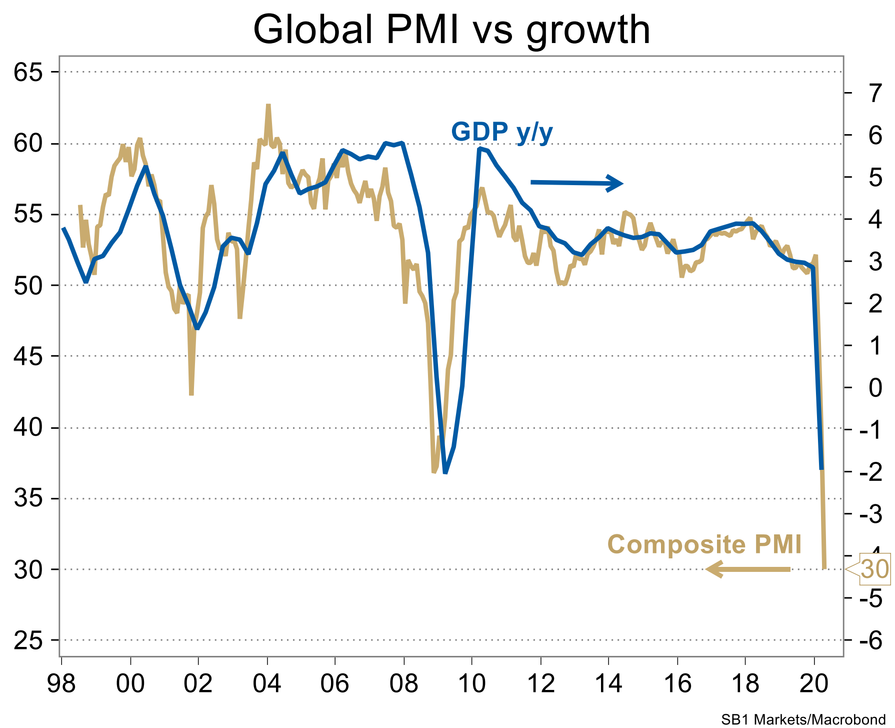
Still data are not disastrous and in average above the 2008 troughs, albeit not in EMU, Norway

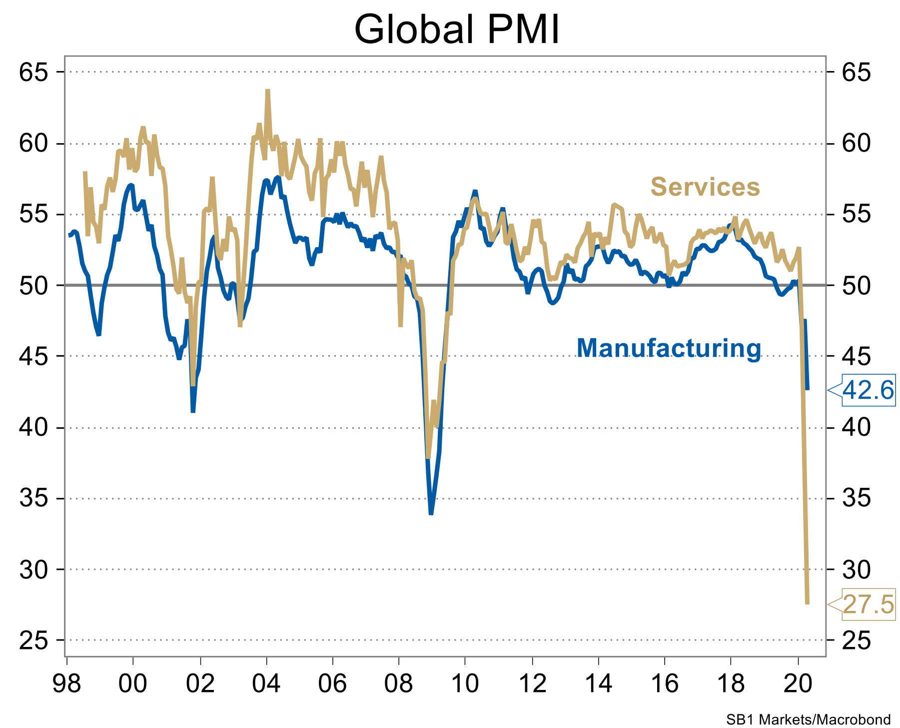




Global PMI confirms harsh setback

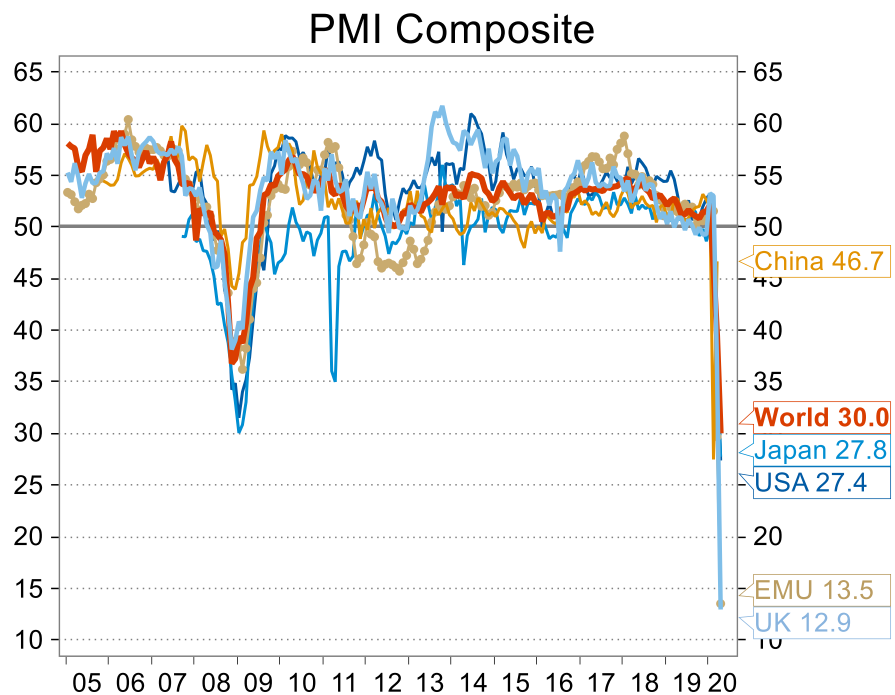
Global PMI down approx 9.5 to 30.0, the lowest level ever.





- The global PMI probably nosedived by 9 p to 30, signalling a 4% GDP decline
  - » However, it is challenging to calibrate the PMIs in unchartered territories. In 2008/9 the decline i GDP was much steeper than the PMI indicated, based on correlation to GDP growth in 'normal' times
- The decline was most dramatic in the service sector, the index fell to 27.5 - and in Europe, of course due to the lockdowns in several countries

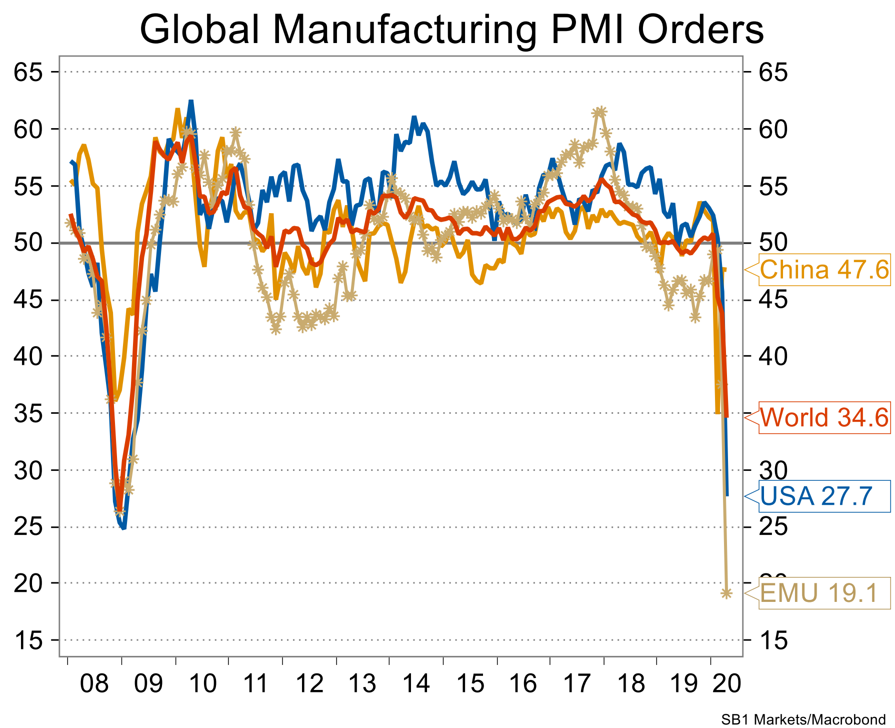
Europe at the bottom of the league in April

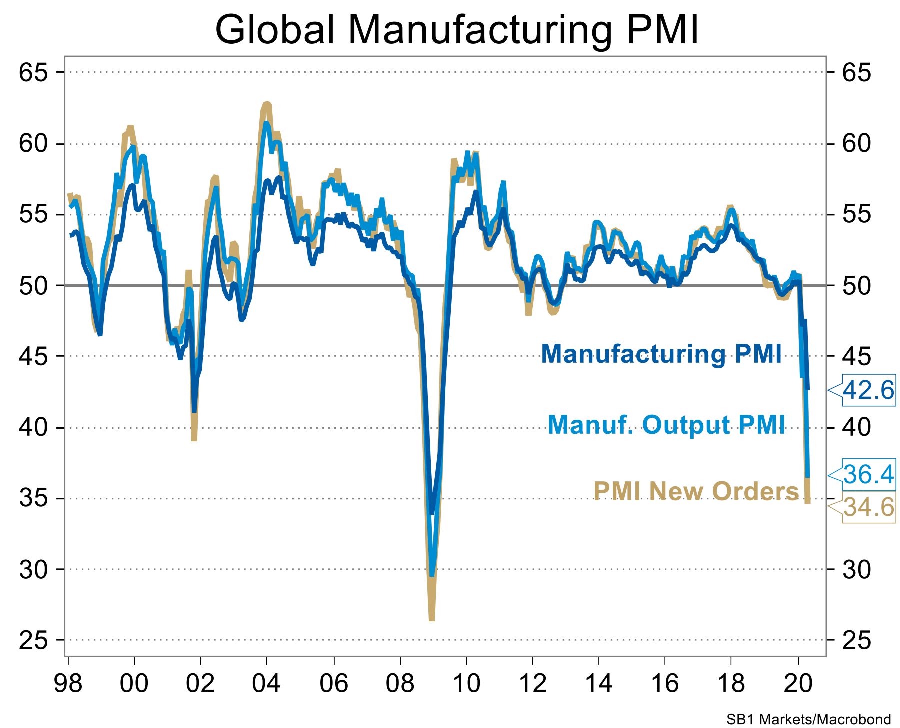


Source: IHS Markit, SB1 Markets, Macrobond

Manufacturing details are weak, orders are tumbling

Global manufacturing orders PMI dropped to 34.6, even when including China





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

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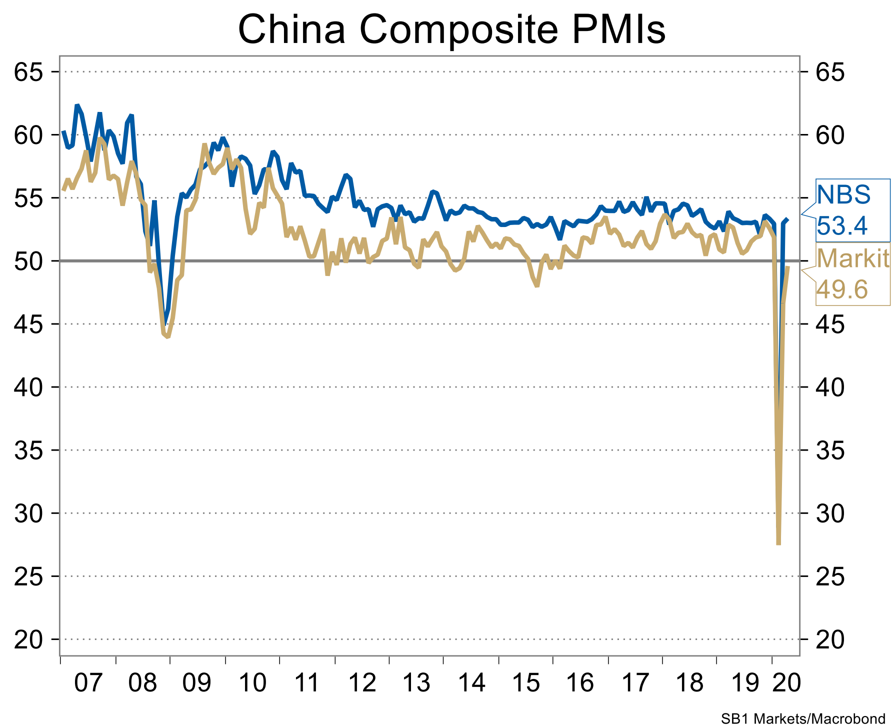
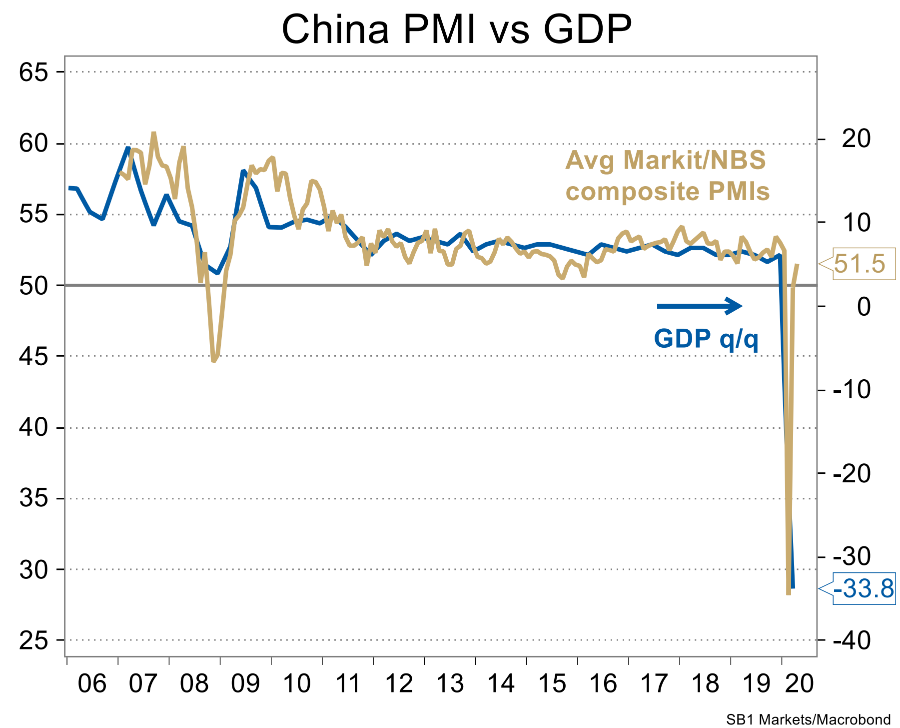
Chinese April surveys confirm just a modest recovery

The NBS rose marginally due to services, we assume the same will be the case for Markit's index

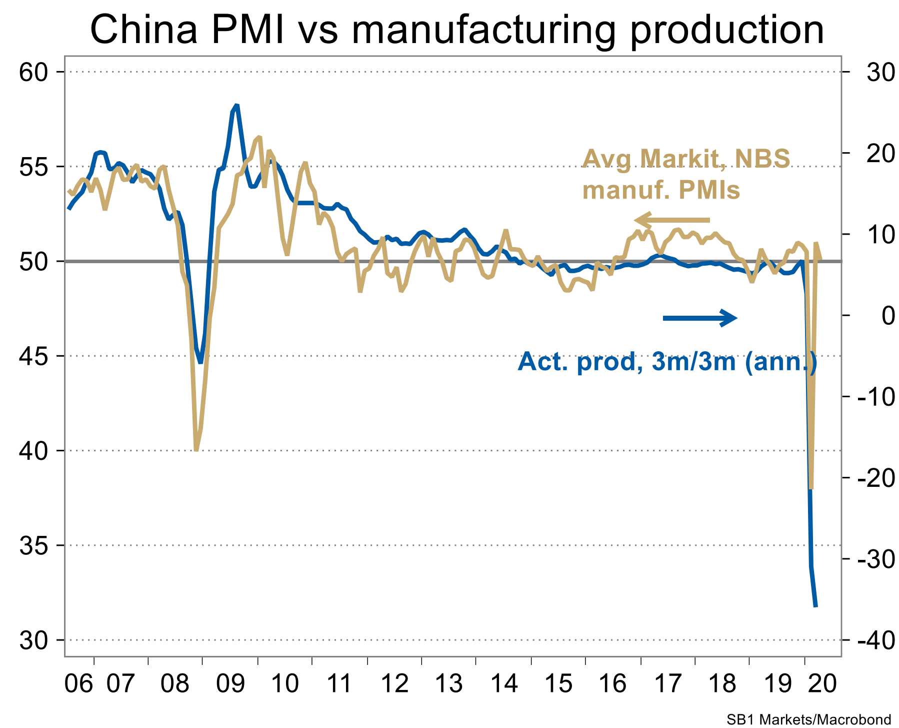




- The NBS' 'official' composite PMI rose into growth territory in March, and rose marginally further in April, to 53.4, a "normal" level. The manufacturing index fell slightly, while the service index
- Markit's manufacturing index fall marginally, but we assume that the service sector index rose significantly, like the NBS service sector index did
- In sum, the PMIs suggest that the economy is slowly restarting as workers return to factories, and to services, gradually. Now the challenge will be lower demand from abroad, the exports orders were bleak, in both of the manufacturing surveys

Both manufacturing PMIs down in April but they are still signalling growth

Both PMIs recovered in March, but not impressively, and both fell slightly in April



- Both manufacturing surveys fell approx 1 pp to 50.8 (NBS) and 49.5 (Markit). A PMI at 50 used to signal some 5-7% growth in industrial production
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

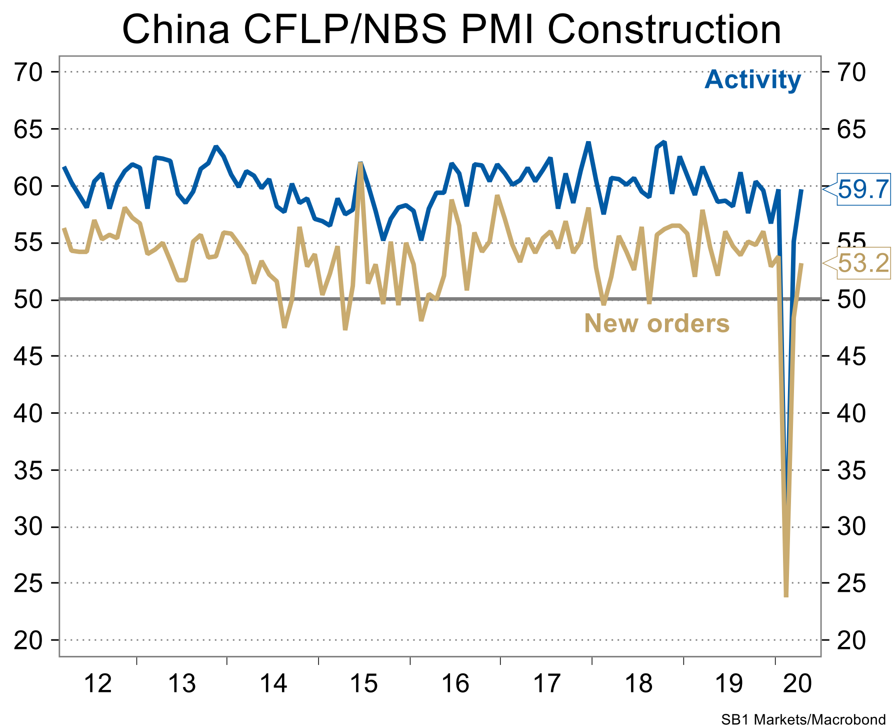
Now, export orders are collapsing

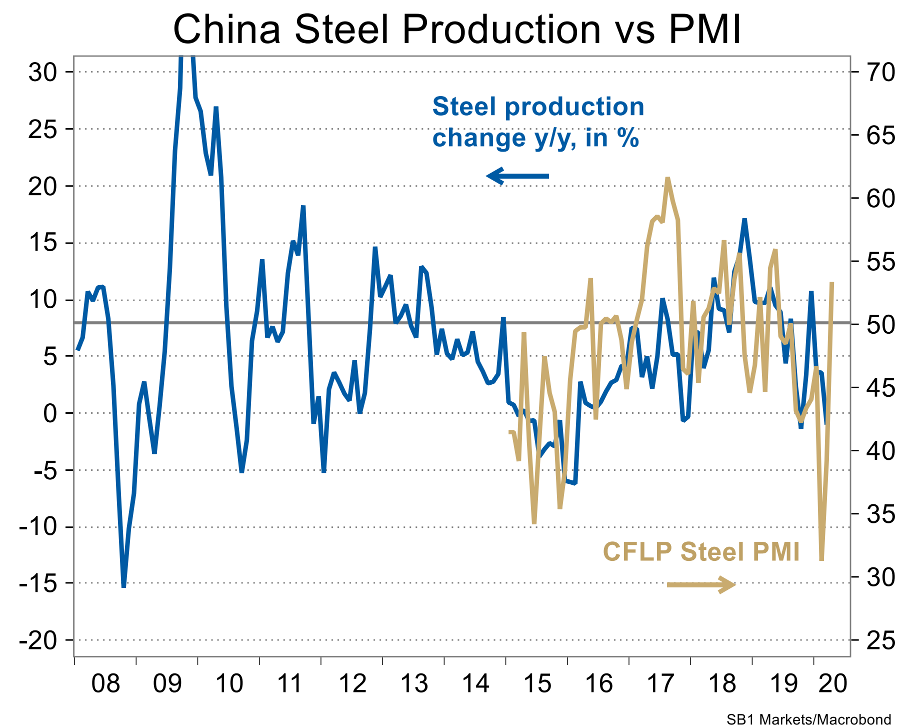
The global spread of Covid-19 in the rest of the world is now slowing the Chinese recovery

- Export orders fell in both the NBS and Markit's survey, down to 33.5, signaling a sharp decline in actual exports
- Total order indicis were close to 50, signaling decent growth in domestic orders in April

Construction & steel back on track

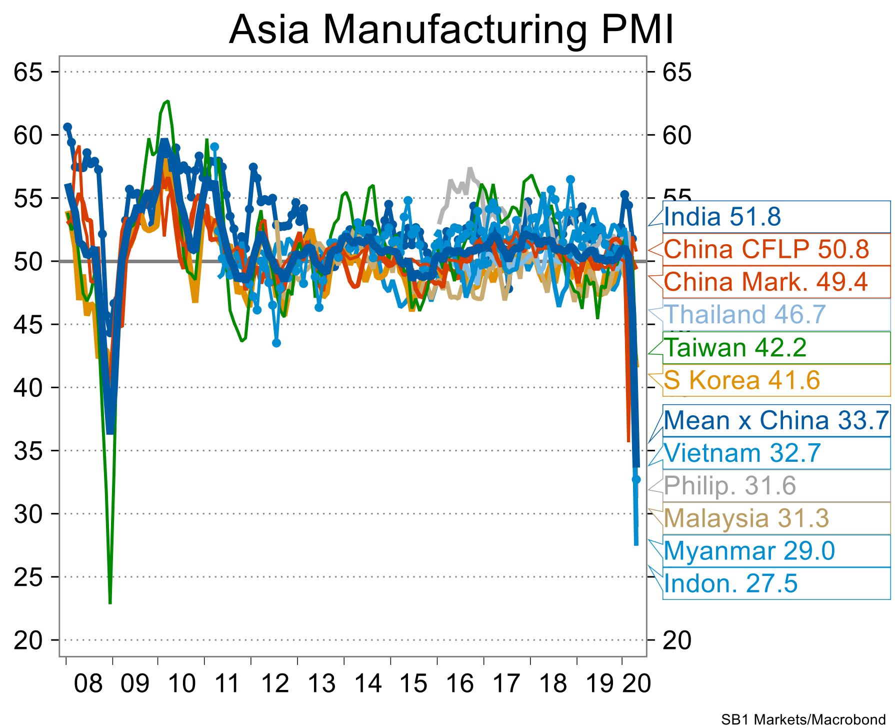
The construction sector PMU rose further in April, approaching 60 again! The steel sector PMI up too

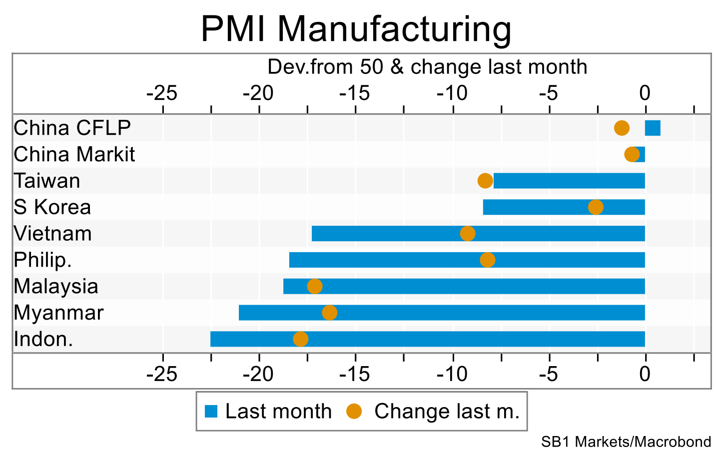


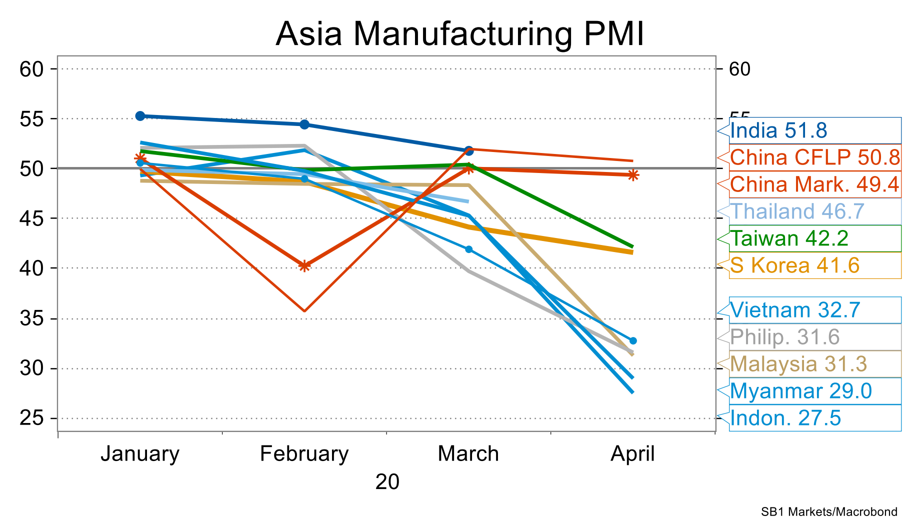


Some more shoes dropped, broad downturn in PMIs in Emerging Asia x China

So far all 7 that have reported are down, most to the lowest level ever (India, Thailand not yet rep.)



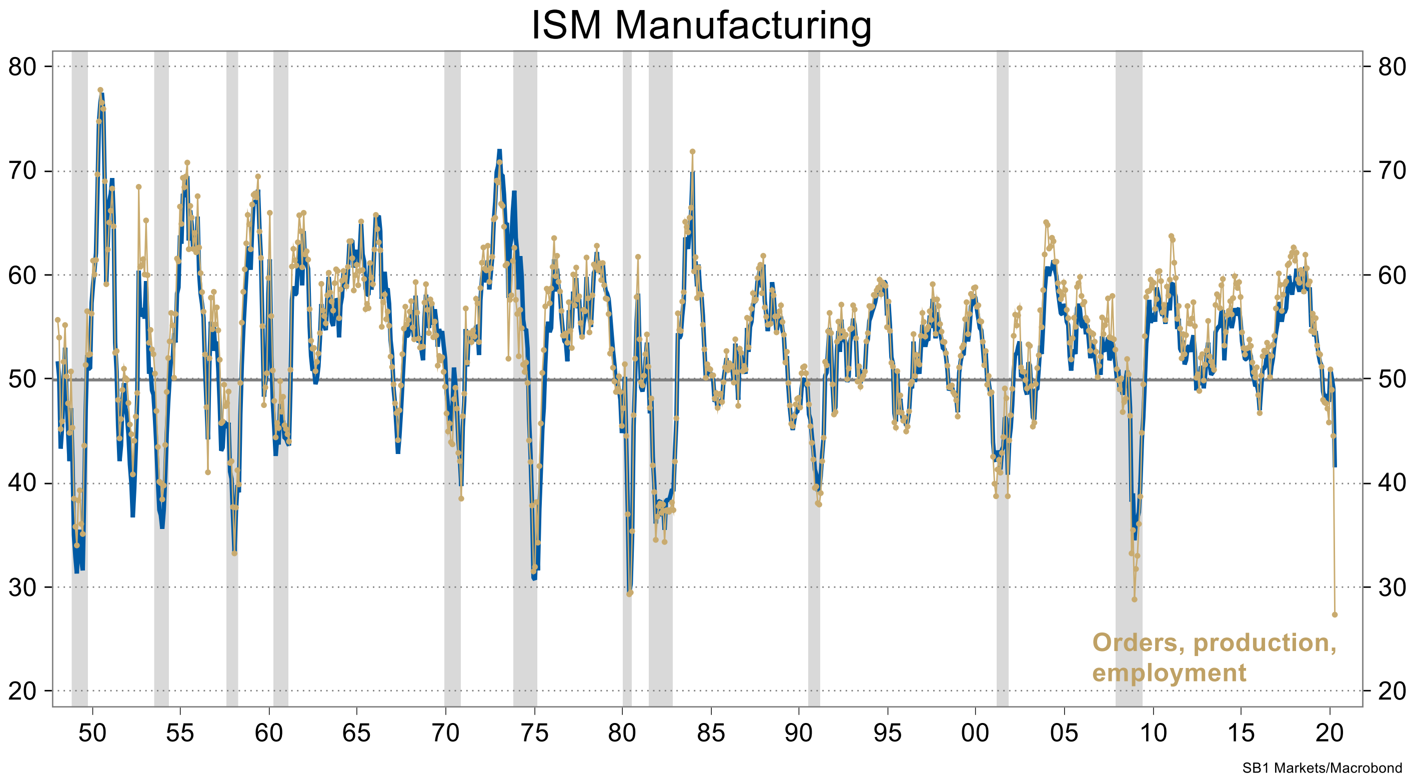


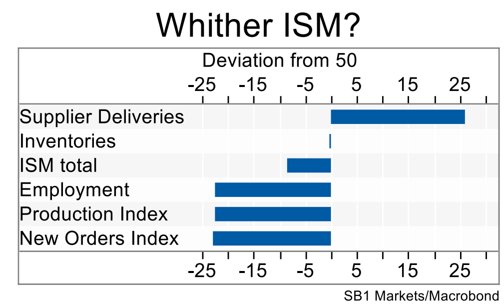


- The Asian x China PMIs fell 5 – 18 p in April, many to the lowest level ever. South Korea and Taiwan is still above 40, the others below
- Export orders are the weakest link, sharply down everywhere (down to 8 (!) to 33m the avg at some 20
- Asian economies are no doubt hit by Covid-19, all due to decline in exports, some also du to domestic virus challenges

Manufacturing ISM fell to just 41,5 in April. Or to 27?

The ISM down just 8 p, expected down 13 to 36. But the 'real' ISM collapsed, to 27





- Due to supply chain interruptions, both due to lack of deliveries from China and internal US challenges during the fight against Covid-19, companies reported un unprecedented increase in delivery times in April. Usually that's a sign of a booming economy, but not so now. If we take out delivery times from the calculation of the headline ISM, it is down to 33, and if take out inventories as well – and 'just' utilise the new orders, production and employment indices, the avg is down 17 to 27, the lowest ever. Of course not any surprise!
- 15 sectors reported lower activity in April, just 2 reported growth (paper and food/beverage)
- Most likely, this April print is the bottom. We really doubt even more companies are going to report further a contraction in May, than in April

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The US manufacturing sector in April at a glance

Commodities Up in Price

- Caustic Soda (Trump impact??); Disinfectants & Soaps; Freight; Personal Protective Equipment (PPE); PPE — Gloves (2); PPE— Masks; and Precious Metals.

Commodities Down in Price

- Aluminum (3); Copper (3); Corn; Crude Oil (3); Diesel Fuel (2); Distillates; Gasoline; Natural Gas (5); Scrap (3); Steel — Hot Rolled (3); Steel — Stainless; and Steel Products.

Commodities in Short Supply

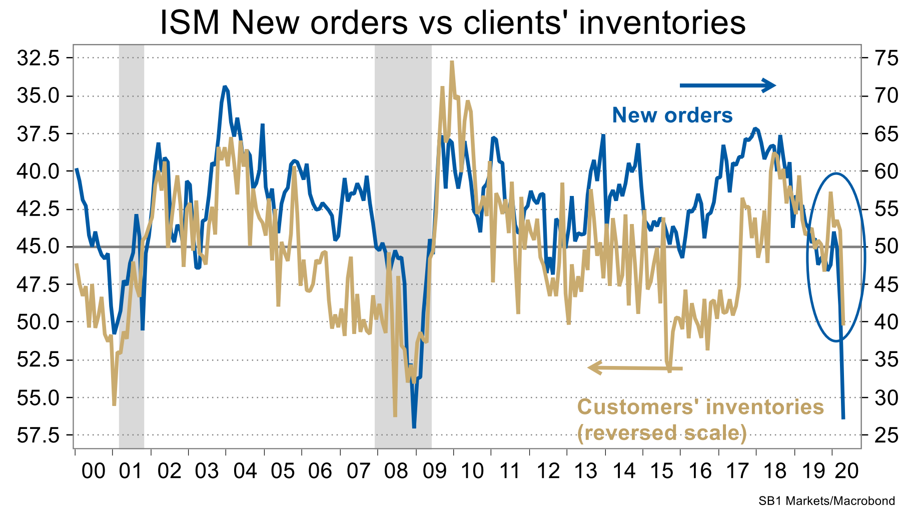
- Capacitors; Disinfectants & Soaps; Electrical Cable; Hand Sanitizer (2); Isopropyl Alcohol (2); N95 Masks; PPE — Gloves (2); PPE — Masks (2); and Resistors.

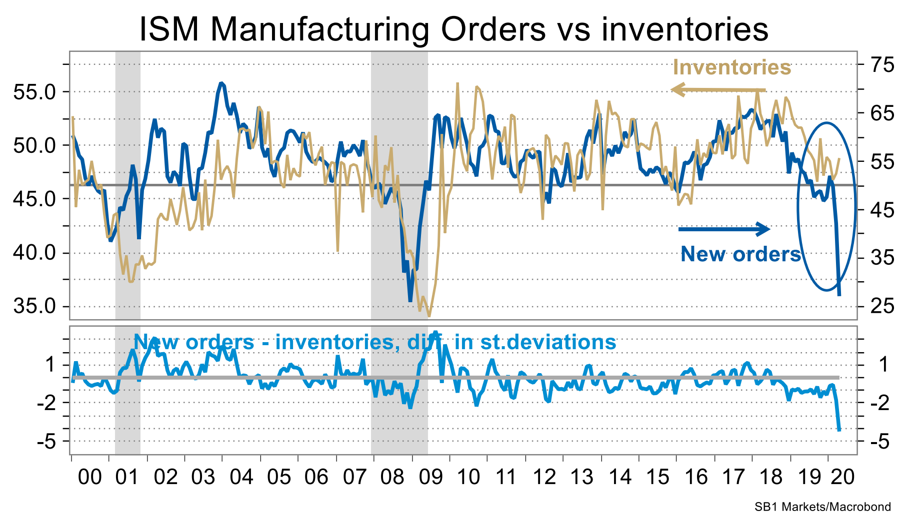
Comments from some companies

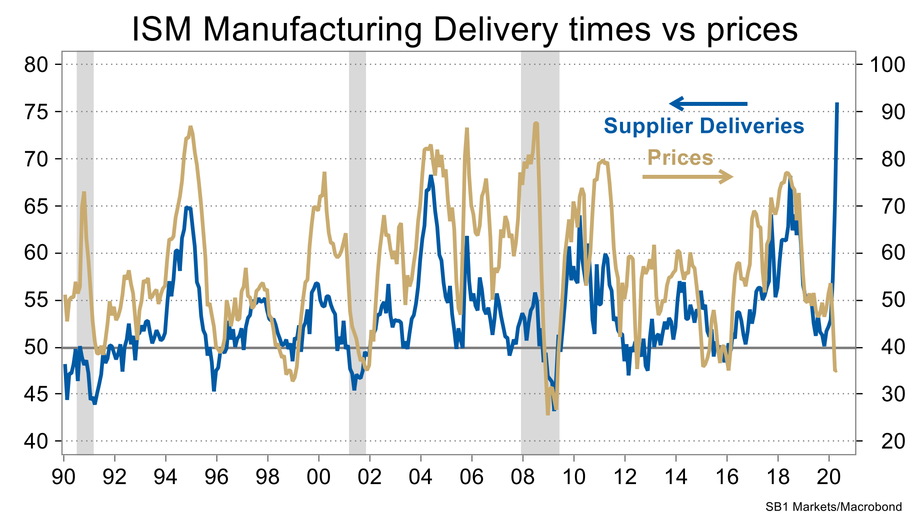
- "Thirty-percent decrease for April due to COVID-19 impact on both customers and suppliers." (Computer & Electronic Products)
- "Production stopped, other than to make hand sanitizer for those in need." (Chemical Products)
- "COVID-19 has created a wave of activities, including vendors closing, vendors focusing only on the medical industry, employees not coming to work, delayed shipments from overseas, [and] etcetera." (Transportation Equipment)
- "Our refinery is losing money making gasoline due to the falling demand." (Petroleum & Coal Products)
- "COVID-19 has destroyed our market and our company. Without a full recovery very soon, and some assistance, I fear for our ability to continue operations." (Nonmetallic Mineral Products)
- "Dealing with the effects of coronavirus and having 65 percent of our operations down." (Furniture & Related Products)

Down to 2008 levels in one go, just delivery times are soaring

Prices are declining

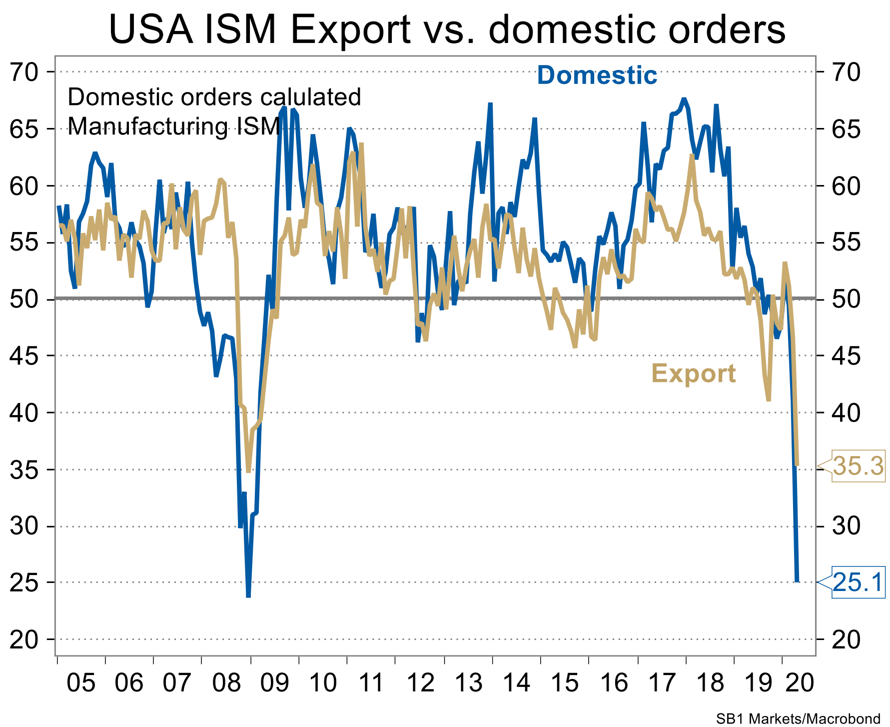


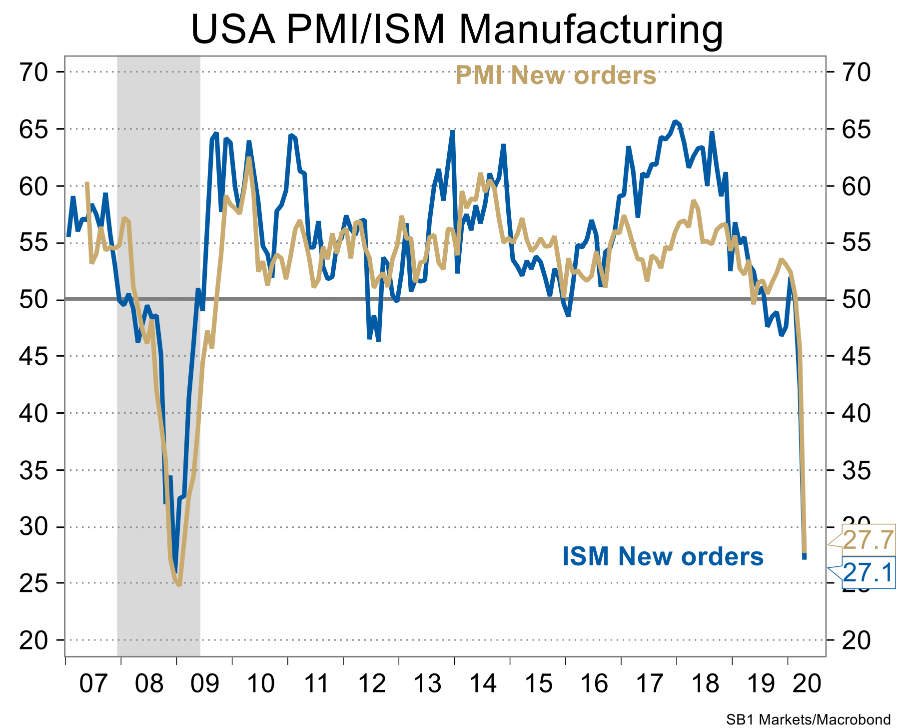




Domestic orders fell even more than foreign orders in April

Domestic orders are tumbling, export orders down but not none weaker than in 2019





- Both ISM and Markit's PMI reported a drop in order inflows in April – in line with the steepest decline during the financial crisis. It could have been worse

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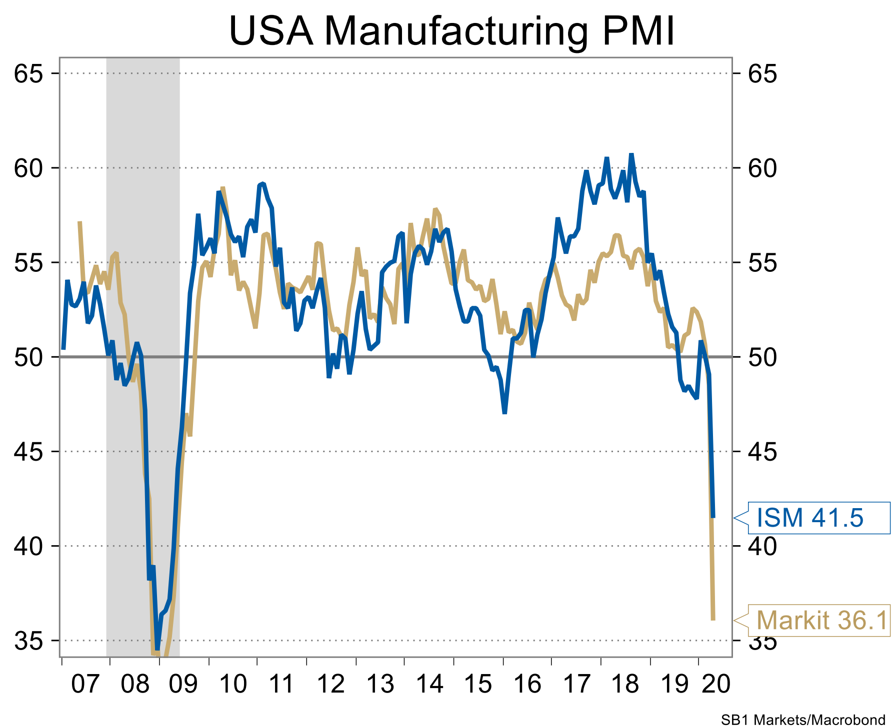
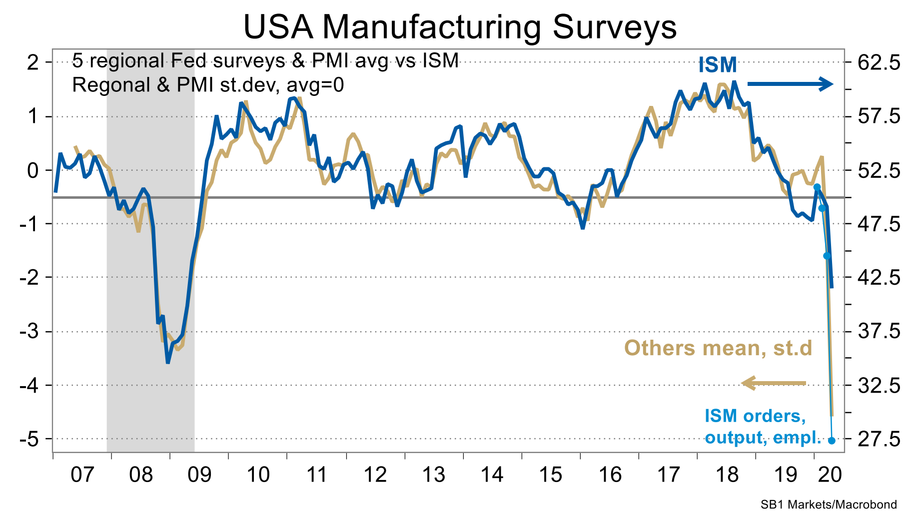
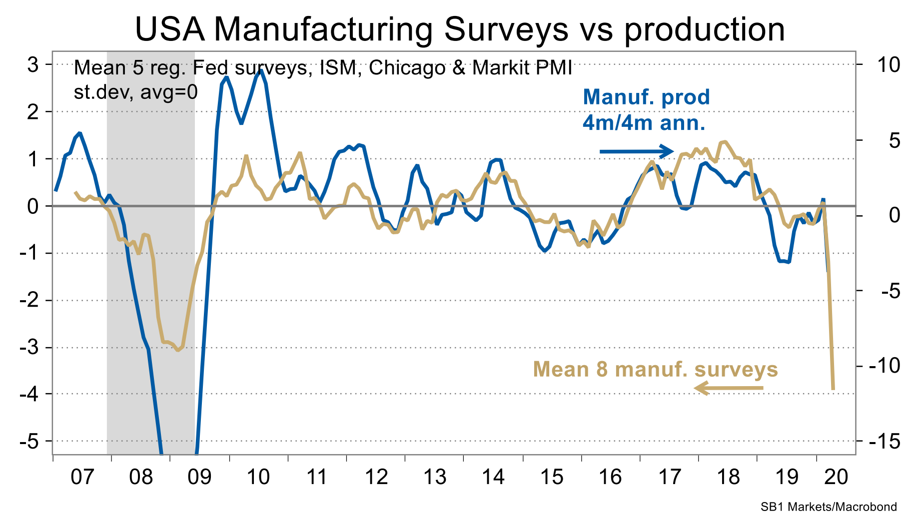
Other manufacturing surveys weaker than (the headline) ISM

Anyway, manufacturing production is set to contract steeply, some 15 – 20%?



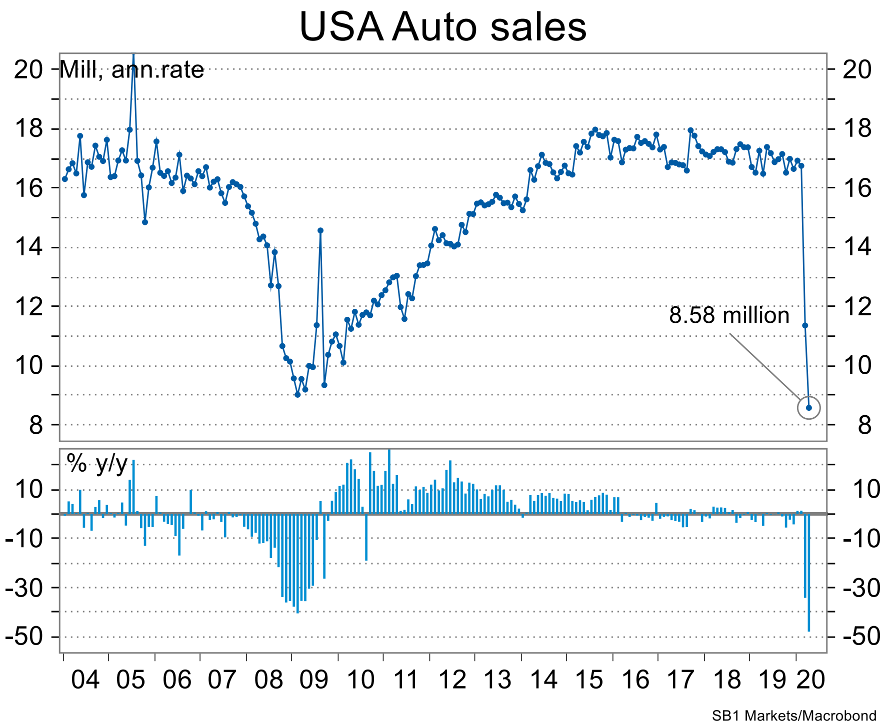


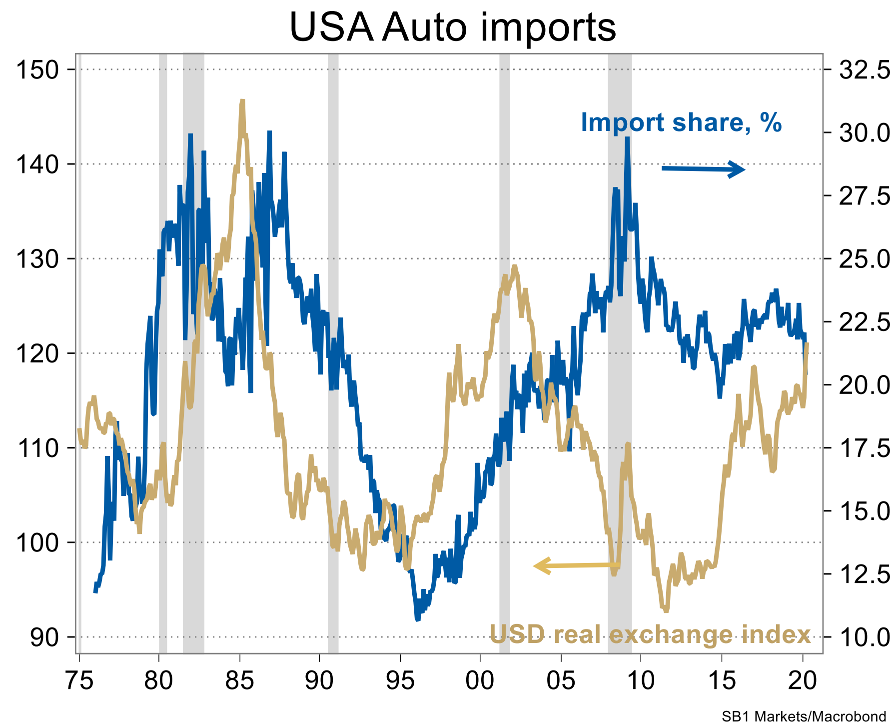


- Markit's manuf. PMI dropped to 36.1 in March, 0.5 pp weaker than the preliminary report
- All regional Fed manufacturing surveys fell sharply
- Manufacturing production no doubt contracted sharply in April, at least by 10% (and the surveys could signal a 20% drop)

Auto sales further down in April but less than feared, just 48% down y/y

Sales dropped fell 25% to 8.6 mill, expected down to 6.3 mill – still the lowest since 1971



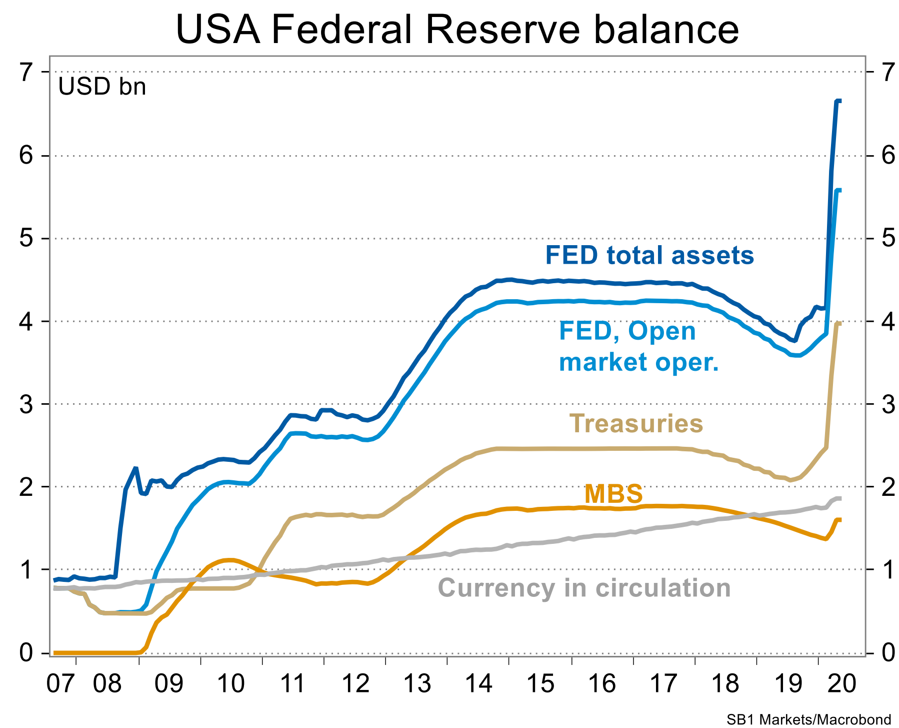


- In spite of the lockdown in most US states, sales were still at ½ a normal level in April

No new Fed initiatives, a lot has been done already

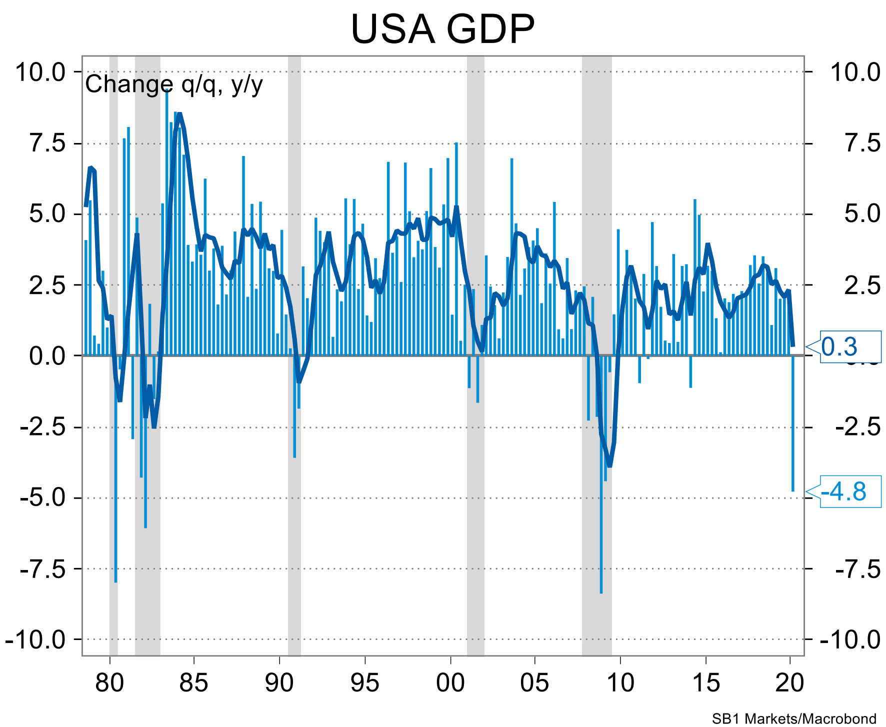
However, the bank pledged to use “its full range of tools to support the U.S. economy..”

- Fed’s Jerome Powell focused more on the need for further fiscal assistance than on what exactly the Fed could to do support the economy
- The analysis is probably that the corona crisis creates solvency problems more than liquidity challenges – and that it is limited the Fed can do, since it looks upon itself as a lender (and not a spender)
- In addition, the Bank has introduced several (seven) lending QE/lending programs, and the balance sheet is already ‘exploding’, mostly due to increased holding og government treasuries



GDP down 1.2% (or 4.8% in US terms…) in Q1. Much more to come

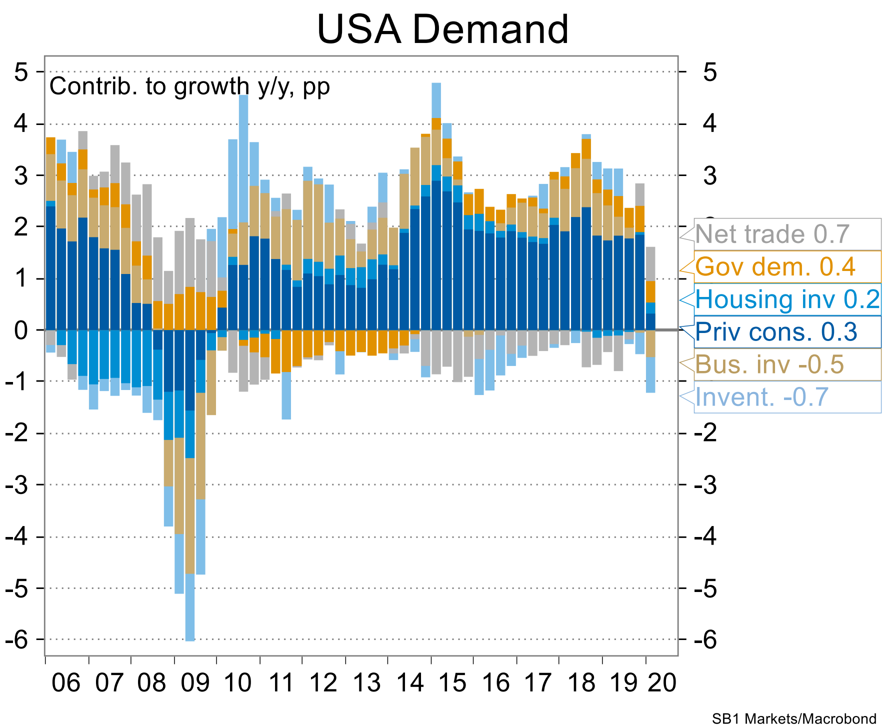
Private consumption the big drag – and it happened just in 2nd half of March, down 13% last two w.?

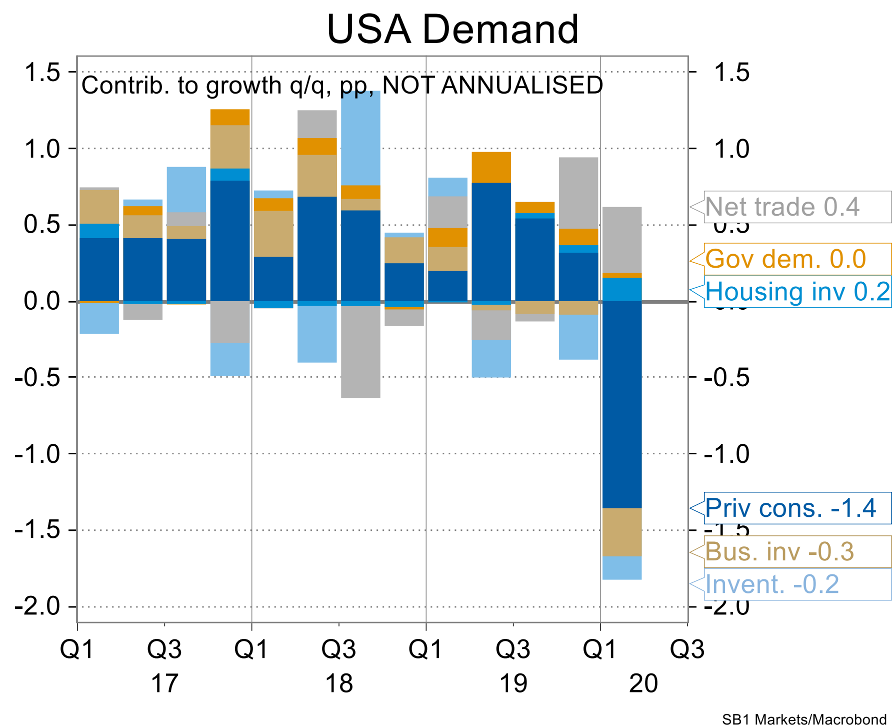


- GDP fell by 4.8% in Q1, somewhat more than expected (-4%), in annualised terms. The 'actual' decline was 1.2%.
  - » *We prefer to use the actual, non annualised figure these days, in order not get confused by the size of the downturn, which we not expect to continue at the same pace as in Q1 (and certainly not as in Q2) for four quarters in row*
  - » If we assume that GDP grew at a 1.5 - 2 (annualised) % pace in the first 11 weeks of Q1 (like the nowcasters signalled), and that the downturn started in mid March, GDP must have fallen by 7-8% each of the two last weeks. If so, GDP fell some 13% trough March. and the level by end of March was 12% below the Q1 average
  - » If GDP remains at that level through Q2, US will report a 40% annualised decline in Q2 (we would prefer to say 12% down, in actual terms ☺). However, as most US states are now easing restrictions, its fair to assume that Q2 will not be that bad. Still, the 2Q decline will most likely be brutal
- GDP was up 0.3% y/y in Q1, though the lowest since the financial crisis. What about -8% in Q2?

Private consumption took at hit in Q1 (that is, in March, or 2nd half of March)

Business investments down too (for the 4th quarter in row). Housing, net trade on the upside



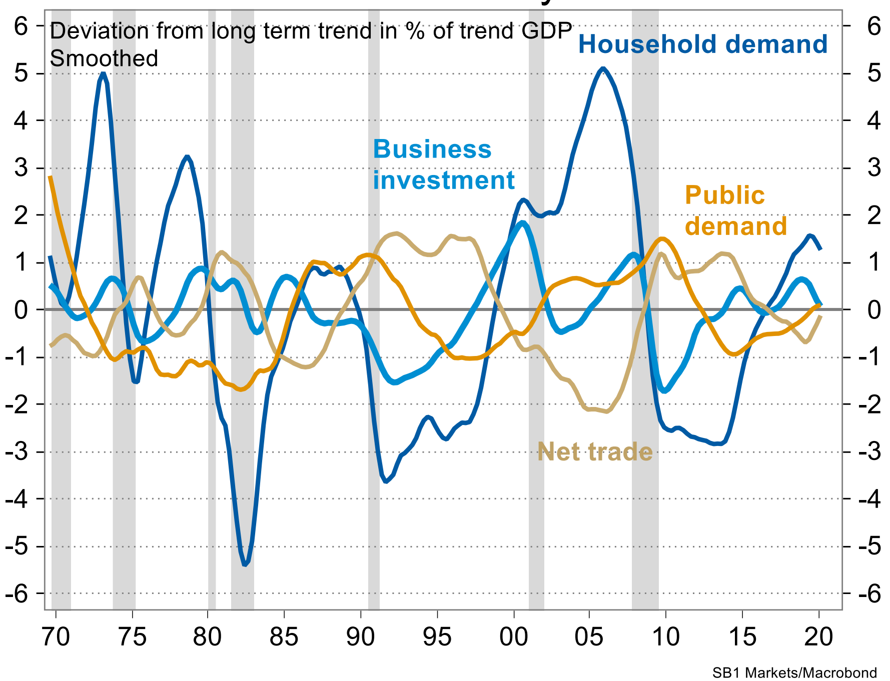


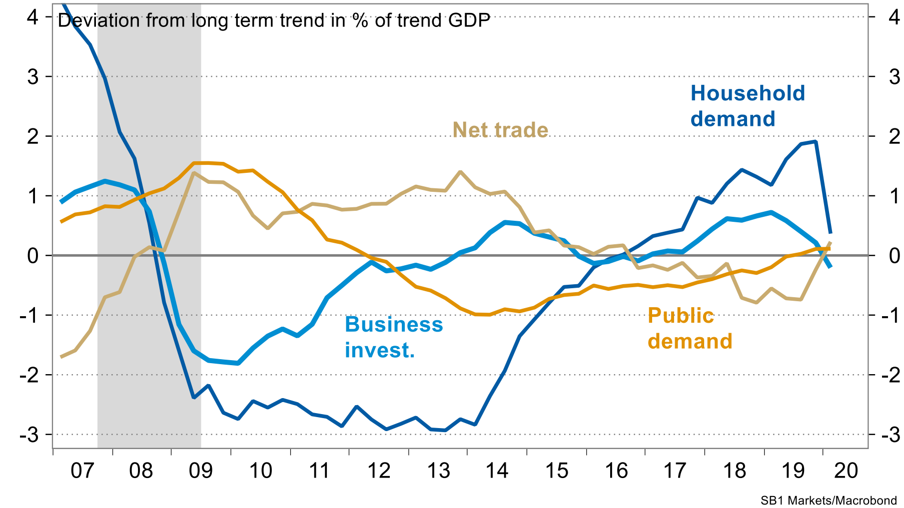
- Private consumption fell by 2%, contributing to a 1.4 pp negative drag on GDP growth in Q1 (measured in non-annualised terms)
- Housing investments continued upwards, lifting GDP by 0.15 pp.
- Business investments fell by 2.1%, more than we assumed as equipment and software investments fell by 4%, in total a 0.3 pp drag
- Government demand rose less than we expected, but more to come in Q2
- Imports fell steeply in Q1, and much more than exports fell, probably due to 'supply chain problems'; net trade made a 0.5 pp contribution, following 0.5 pp in Q2 (and 0.7 pp over the past year). We are a bit surprised that inventories not rose, as demand fell sharply in late Q1

Households have been the main demand force, no more. Businesses also down

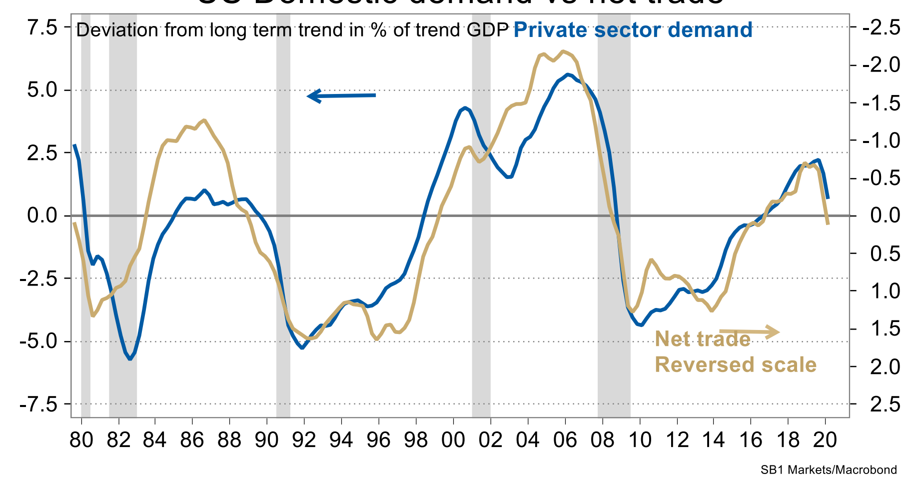
Public demand and net trade contributes on the upside in q1, as in the previous quarters

USA Demand cycles





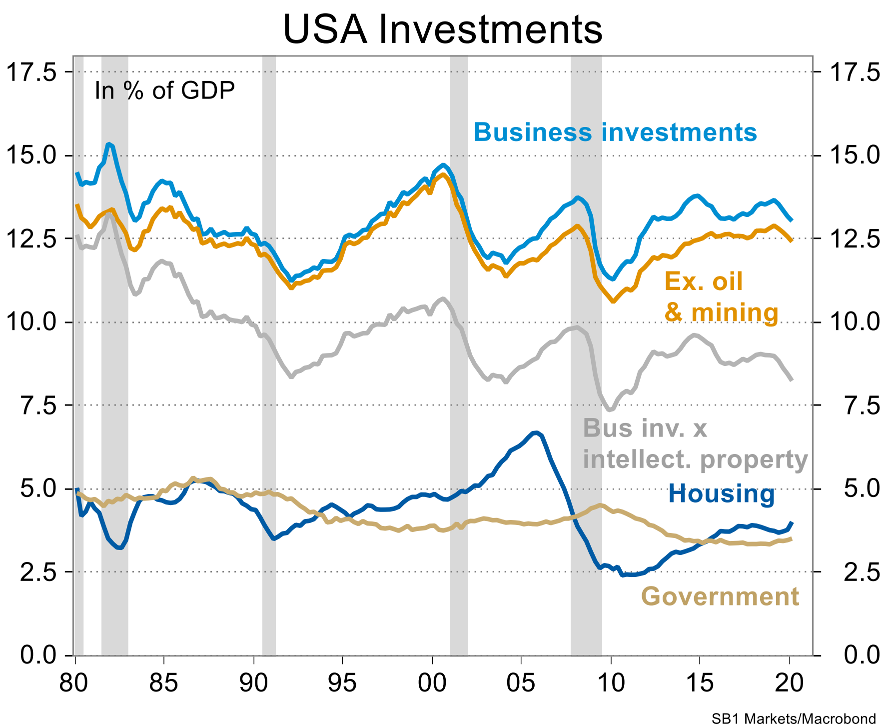
US Domestic demand vs net trade

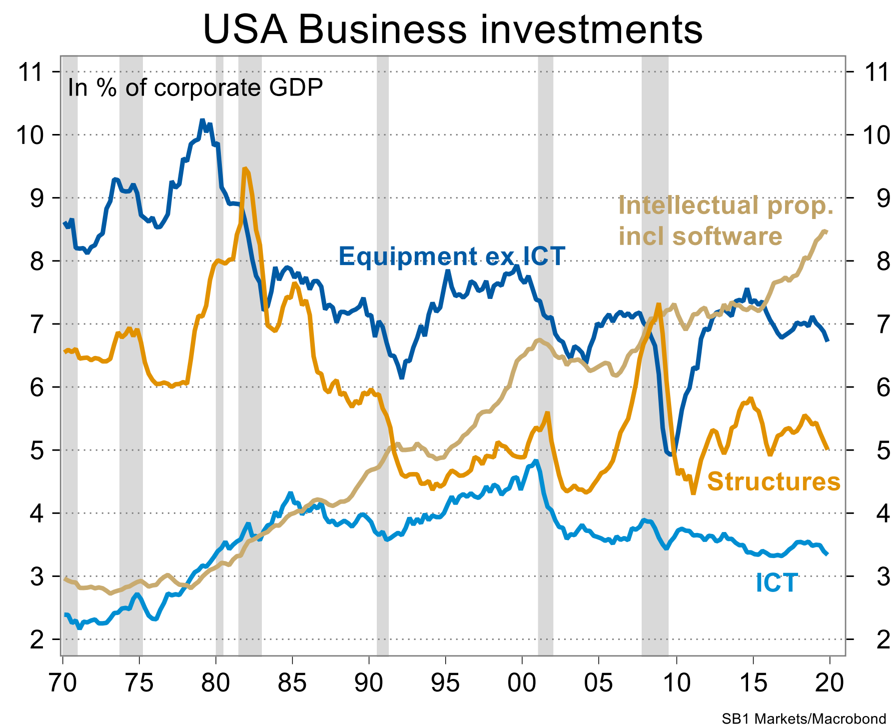


- We think supply chain logistics dampened imports in Q1 (down 4%), more than weaker private domestic demand, even if our old model [net imports = f(domestic demand)] explained the imports quite well. The setback in domestic demand came too late in the quarter to explain the steep drop in imports.

Investment cycles: The business sector peaked one year ago, housing in Q1?

Just IP investments are still on the way up. All other business investments are contracting

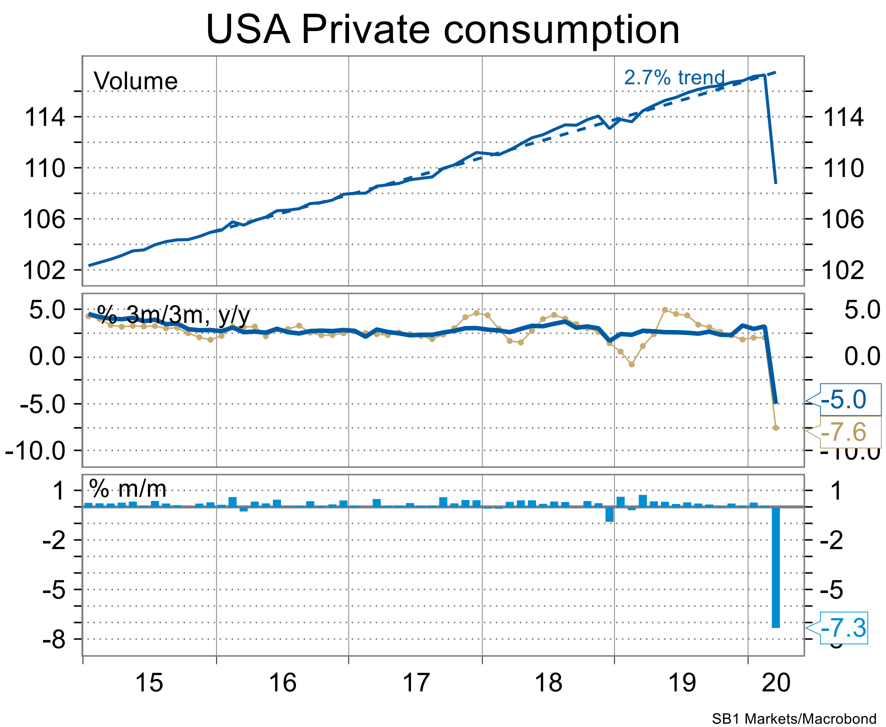


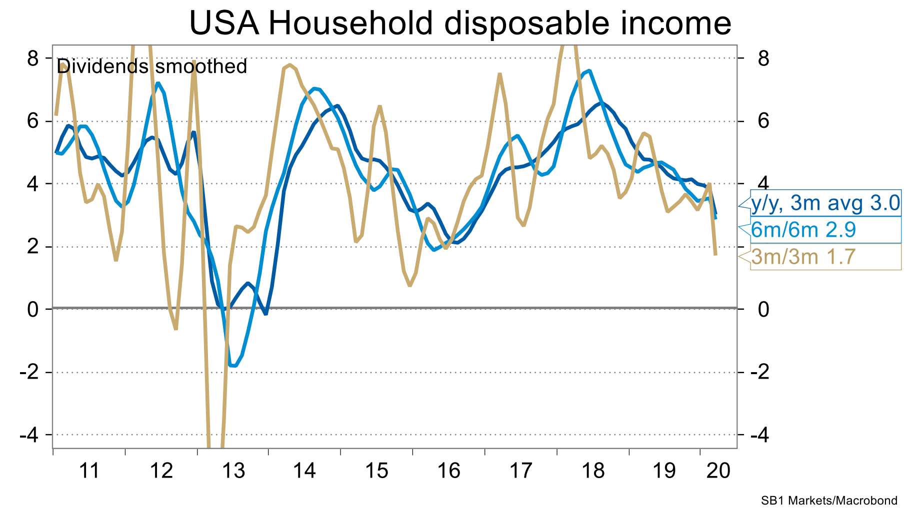


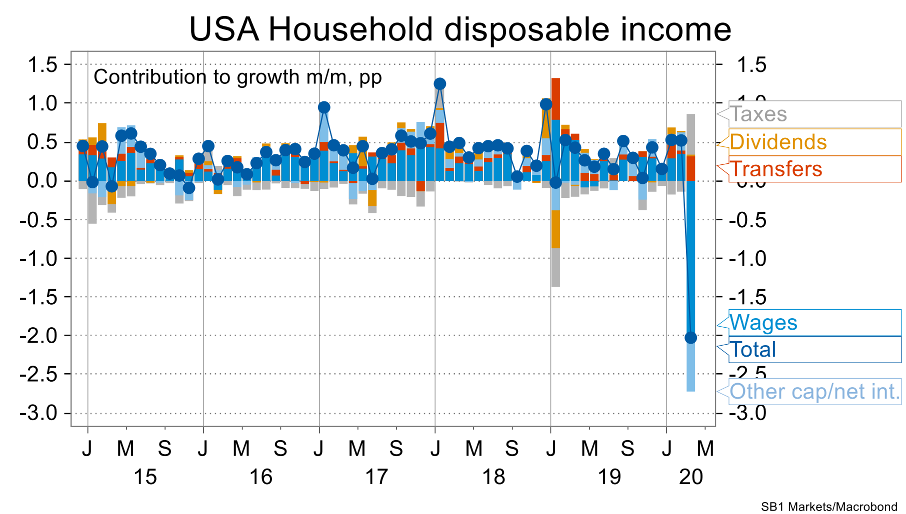
- Total business investments fell for the 4rd quarter in Q1, the first setback since 2015. Oil investments are sliding slowly down, after boosting business investments in 2017-2018. In Q2 these investments will be sharply cut
- IP/software investments are slowing but they are still up 3% y/y, but other business investments are down, equipment -6%, structures -10%. IP/software investments constitute more than 1/3rd of all business investments. These investments have always been less cyclical than investments goods, indicating that cycles in total investments will be less harsh than before. In addition, business investments in structures are not dangerously high, neither are equipment investments (but they are most likely well above trend)
- Housing investments have increased slightly in % of GDP the past 3 quarters, after declining since early 2018. The level is not very high but we assume a downturn now, as indicated by most recent housing market data

Consumption fell 7.3% in March, down 15% at the end of the month?

An unprecedented decline that also took Q1 down. Income fell 'just' 2%, and the savings rate spiked



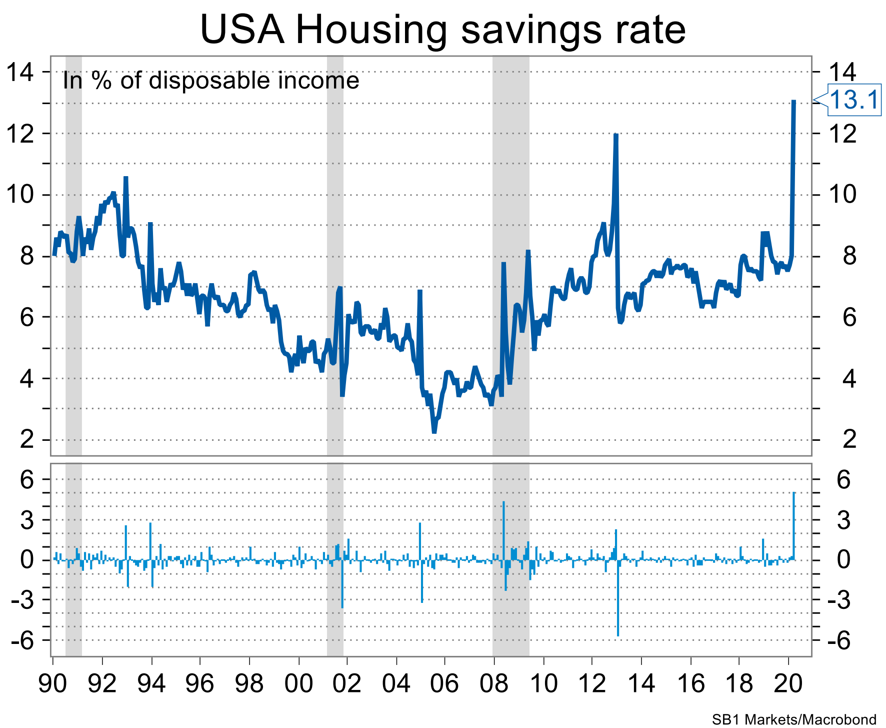


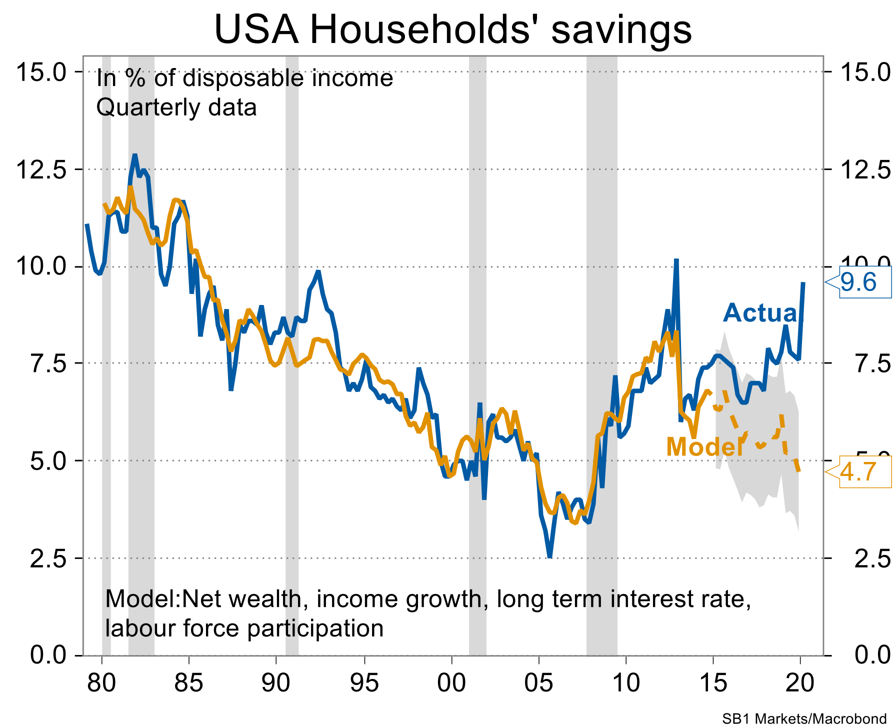


- Total private consumption fell 7.3%, goods fell just 2.2%, even if durable goods (like cars) fell by 15% while service fell by 10%!
  - » The decline is the largest monthly decline, ever
- Households' nominal disp. declined by 2% in March, dragged down by wage and capital income
- The savings rate rose sharply, from a respectable leve

Households savings up 5 pp to 13% (and 9.6% in Q1 avg)

Households (in all countries) don't spend and their income is declining slower

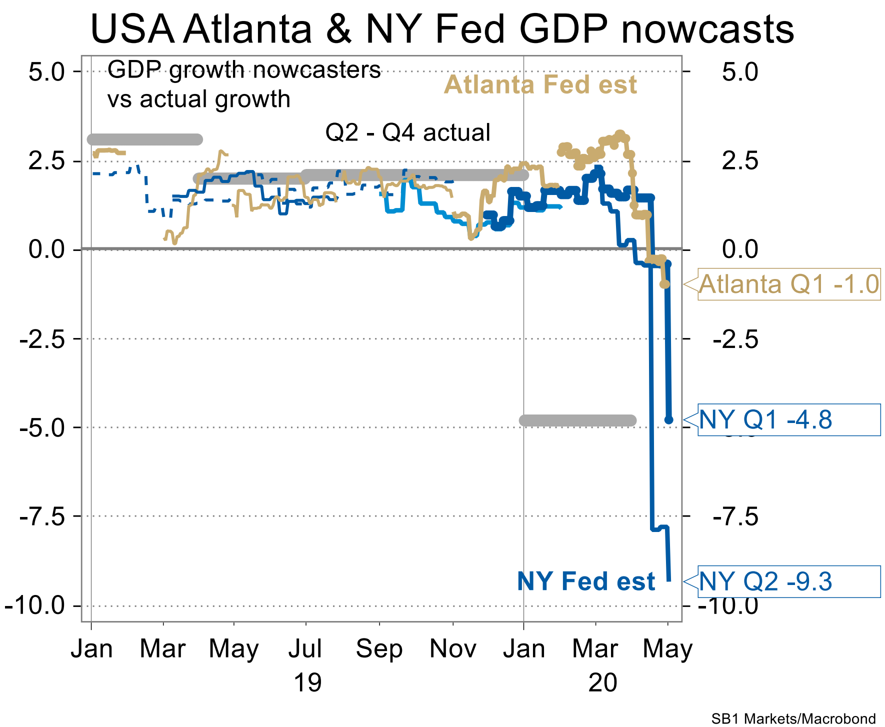


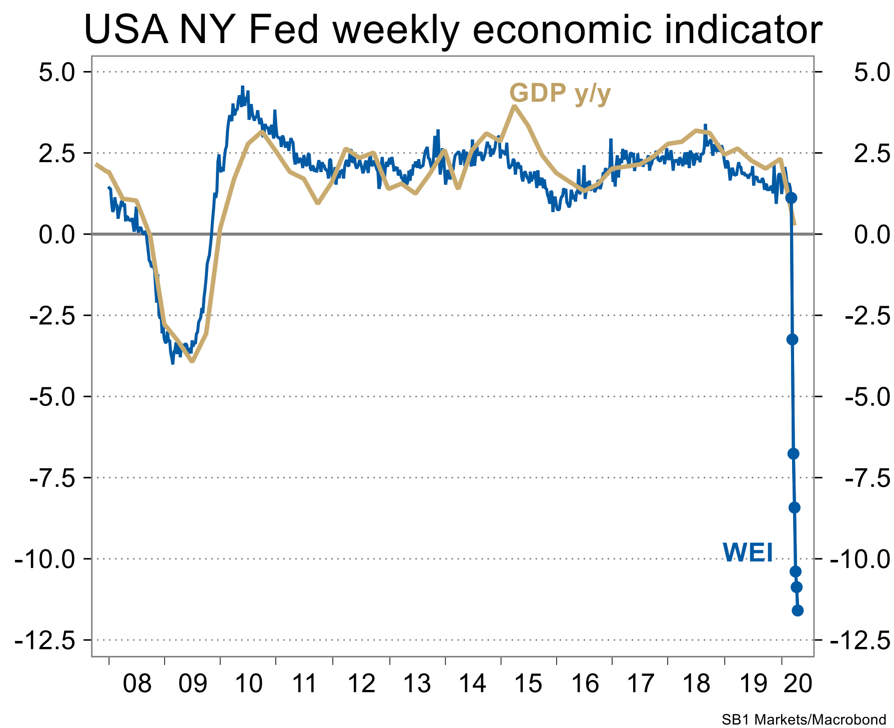


- Well, even if the savings rate is up, households' underlying economic position is not strengthened by the corona crisis. Income were hurt in March and they will be hurt much more in April, as unemployment is increasing
- On the other hand, the lift in savings illustrates the capacity to increase spending as soon as they are allowed to spend

NY Fed: GDP down 12% (y/y)

GDP fell 1.2% in Q1 (not annualized). The Q2 figure will be something else…

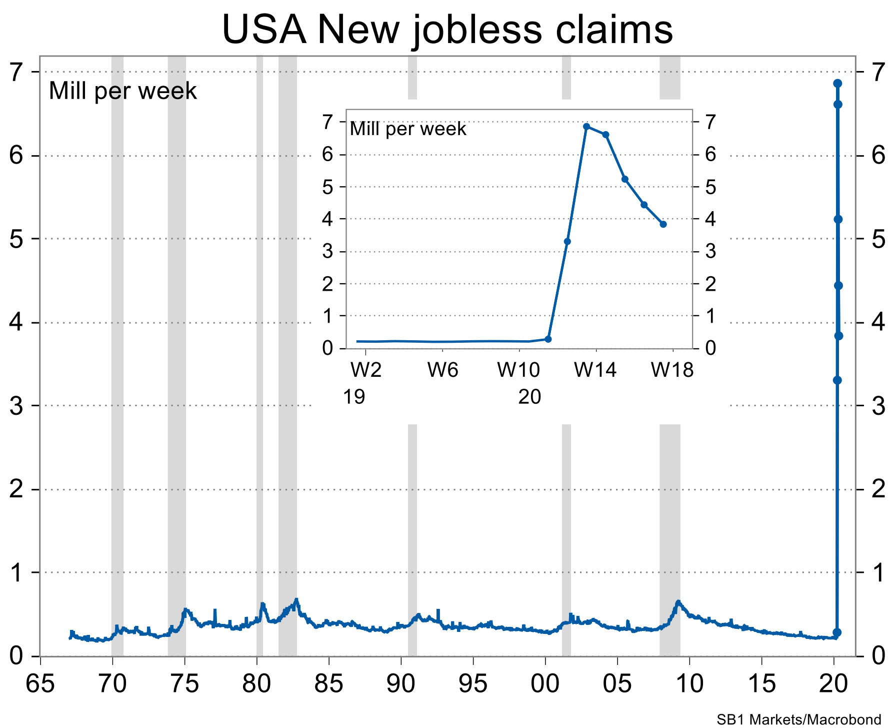


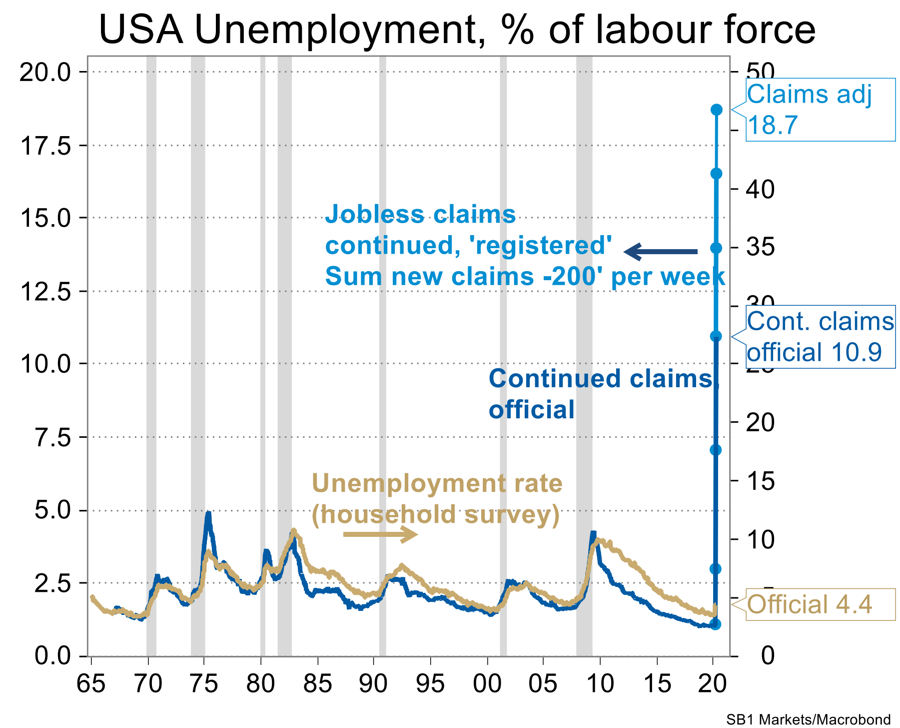


- The NY Fed's weekly economic indicator reports 12% y/y decline in activity in the latter part of April. The deceleration has clearly slowed past two weeks

'Just' 3.8 mill new unemployed last week, the sum up 30 mill past 4 weeks

31 mill persons are probably unemployed, 19% of the work force

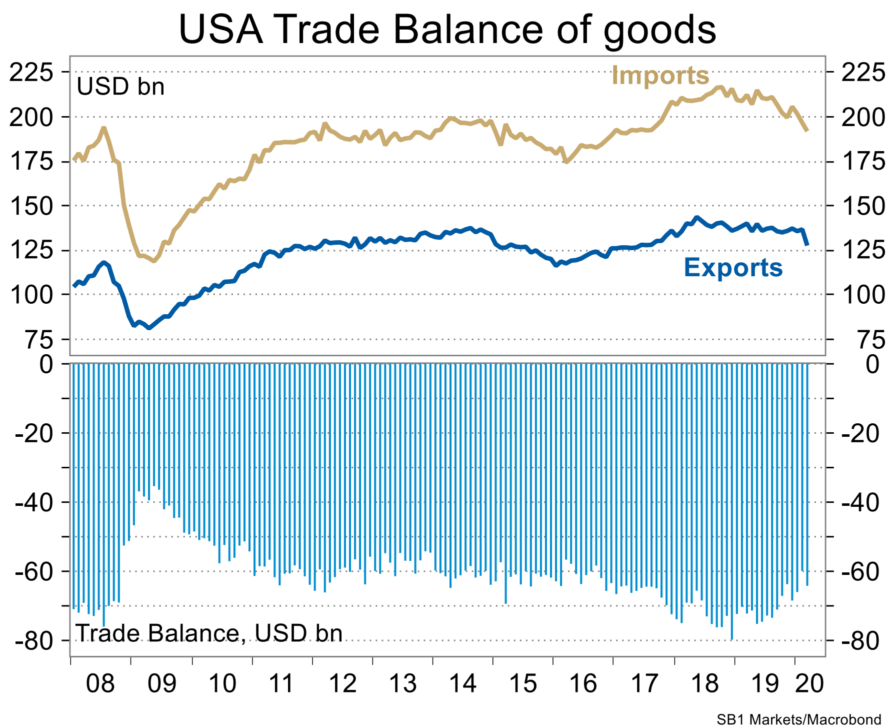


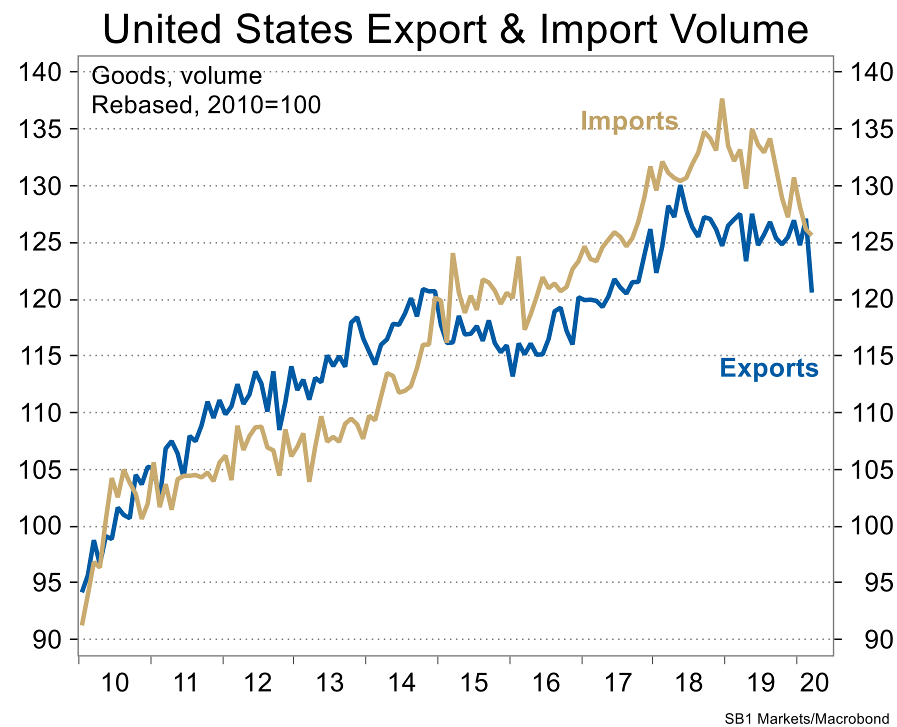


- The shock is totally unprecedented, and even if the inflow has slowed last three last weeks, it is still enormous, equalling 2.3% of the labour force, per week!! Last week's new claims were marginally higher than expected
- We estimate continued claims have climbed to 31 million last week, from 1.8 mill 6 weeks ago, equalling 19% of the labour force, up from 1% 4 weeks ago! (The official continued claims figure is lower, we assume many claims are not yet processed)
  - » 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 very high level in April (data out next Friday)

The trade deficit up in March due to a harsh export setback

Both imports and exports fell in March, by 2 and 7% resp. The trade deficit widened somewhat

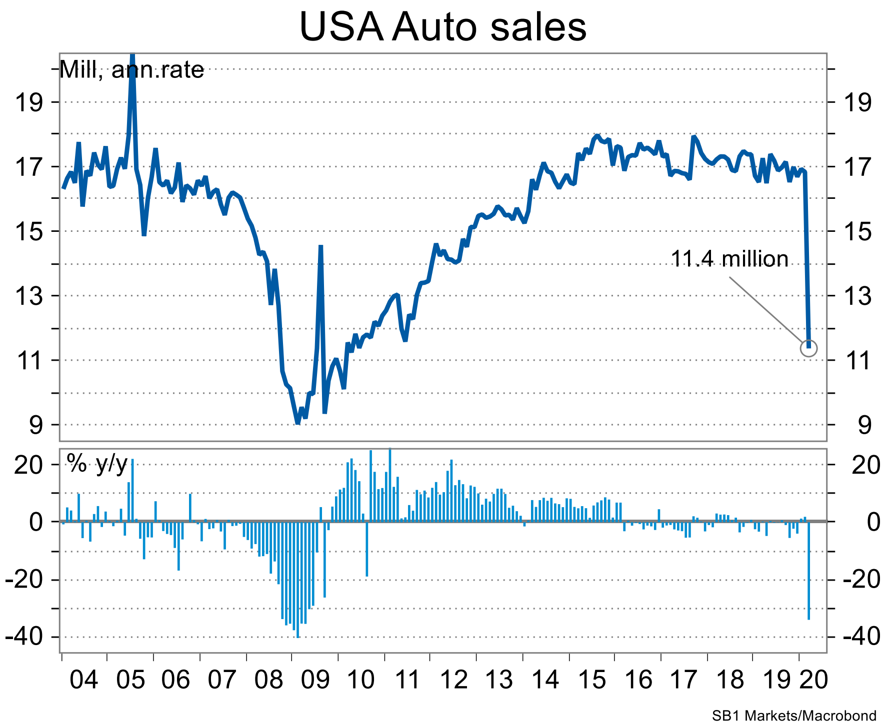


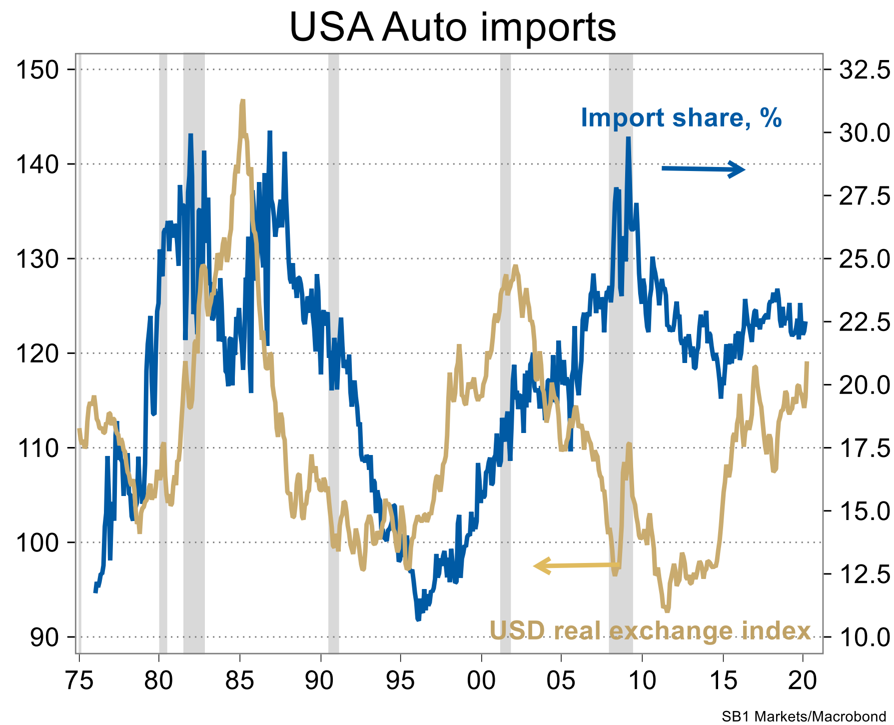


- The overall trade deficit in goods widened by USD 4 bn to 64 bn in March, according to advanced figures The deficit has been trending lower over the past year as imports have fallen more than exports, both in value and volume. In March exports fell sharply
  - » Imports dropped 1.8% m/m in volume terms, chiefly due to a steep drop in imports from China as the country was 'closed down' to combat the coronavirus. Still, imports have fallen for almost a year and are down 3.4% y/y. We find 3 reasons behind the imports downturn; weaker domestic demand, a shrinking deficit to China due to the trade war/tariffs, and a disappearing petroleum deficit, driven by shale oil production
  - » Export volumes rose by 1.9% m/m and have flattened out since mid-2018

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

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

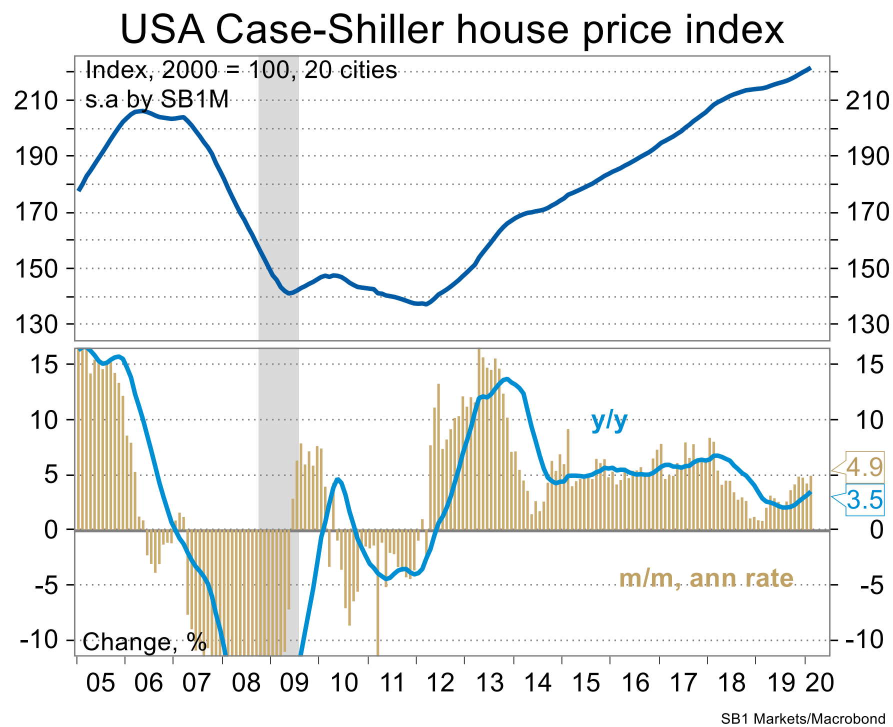


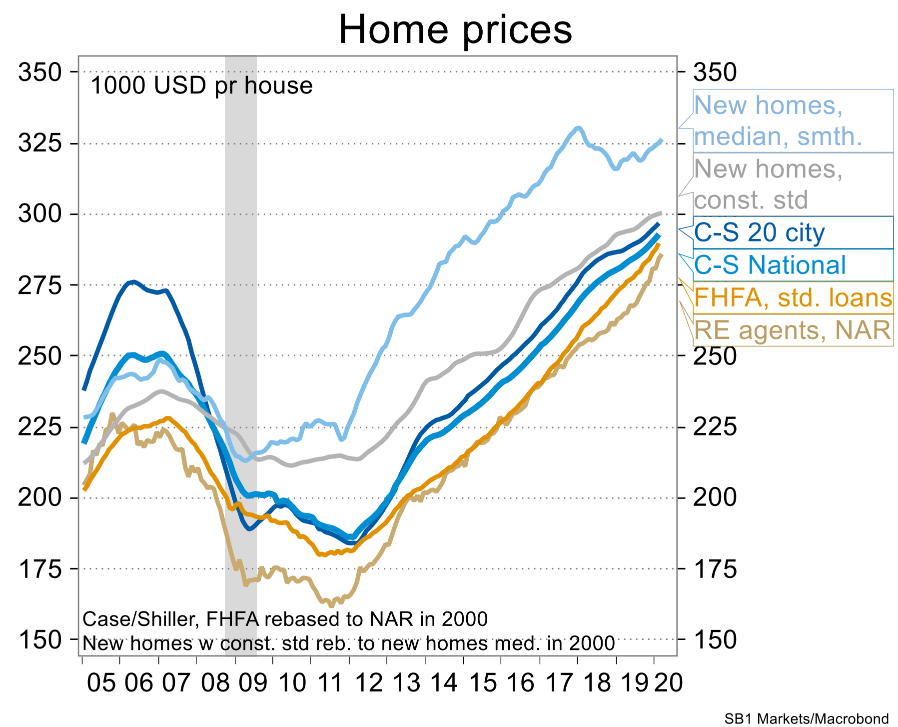


- Sales tumbled from an annual rate of 16.7 mill to 11.4 mill in March, the sharpest setback since September 2009. Sales were probably hit by both a supply side shock as dealerships and automakers were shut down to prevent the coronavirus spreading – and by a waning demand.
- The setback is no doubt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

Pre corona: House prices were strengthening

Price inflation was slowly accelerating, at least until February, according to Chase-Shiller

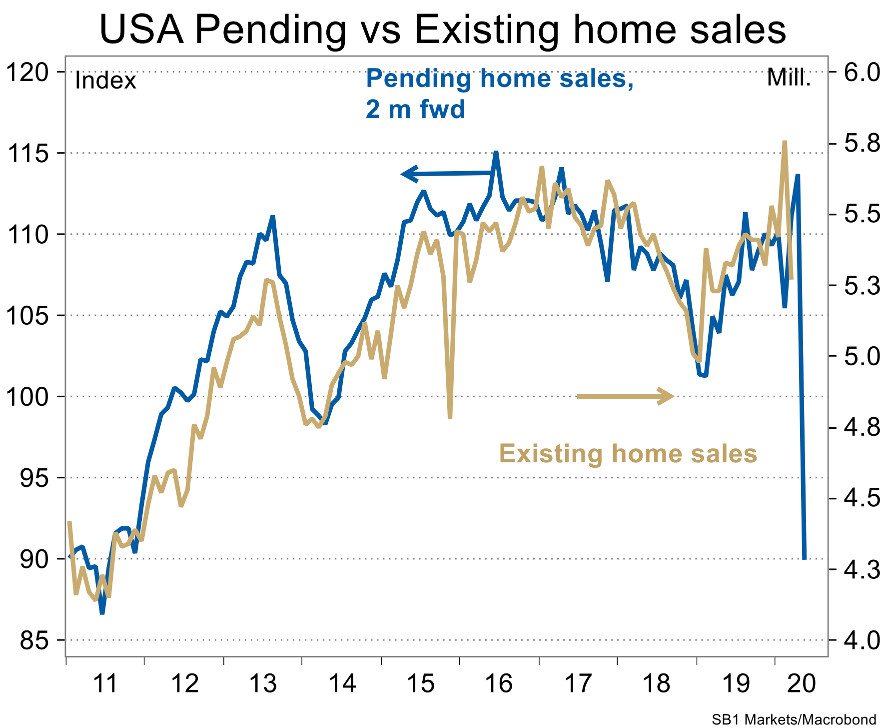


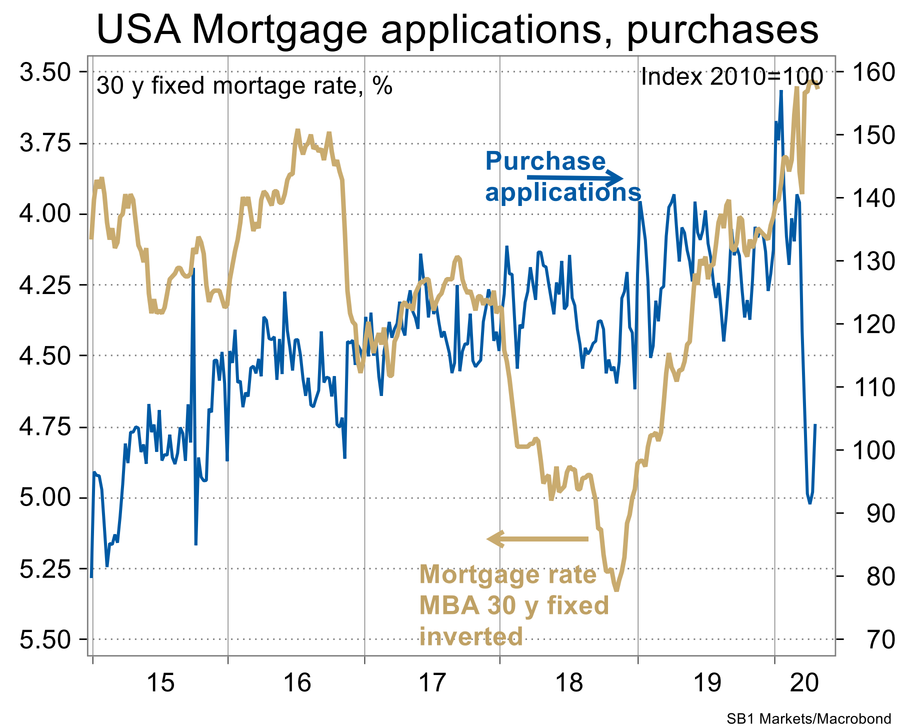


- The CS index is calculated as a 3 m average, February being the Nov-Feb average – so data are quite delayed, and now impact of the corona crisis yet
- Other price indices reported the same trend

Home sales hit by the virus, application for new mortgages as well

The lockdown or more lasting changes? Too early to tell



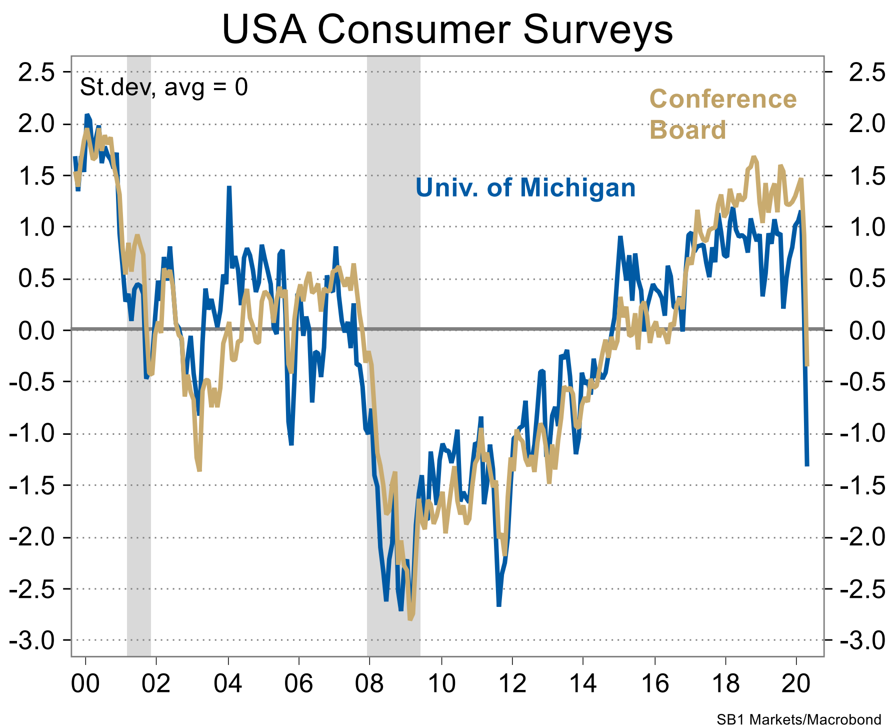


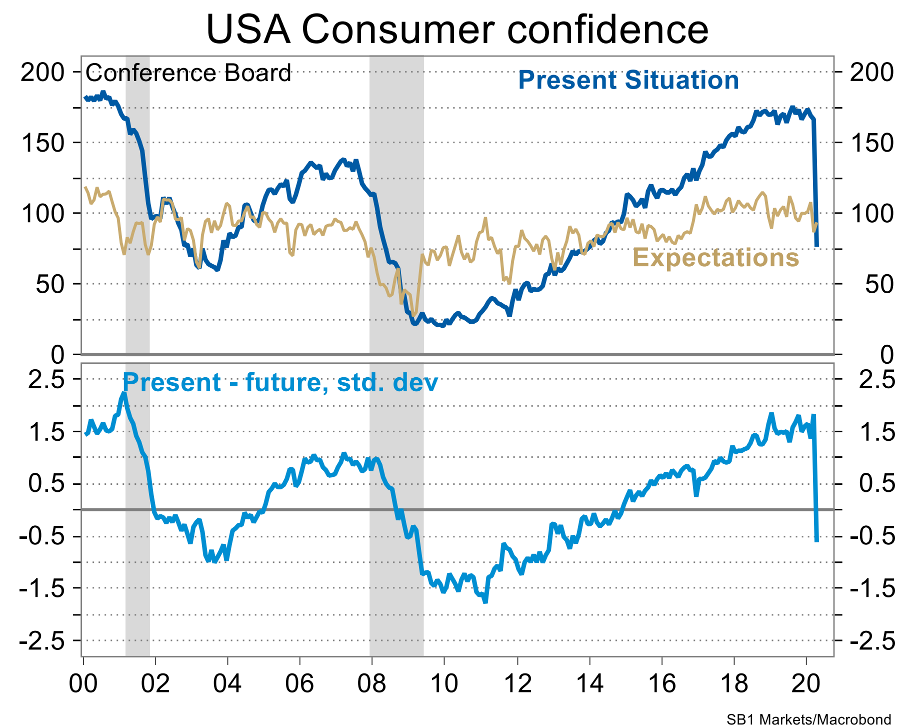
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market

SpareBank 1 MARKETS

Consumer confidence sharply down even if expectations are UP!

Conference Boards consumer conf. index fell more than ever before, as expected

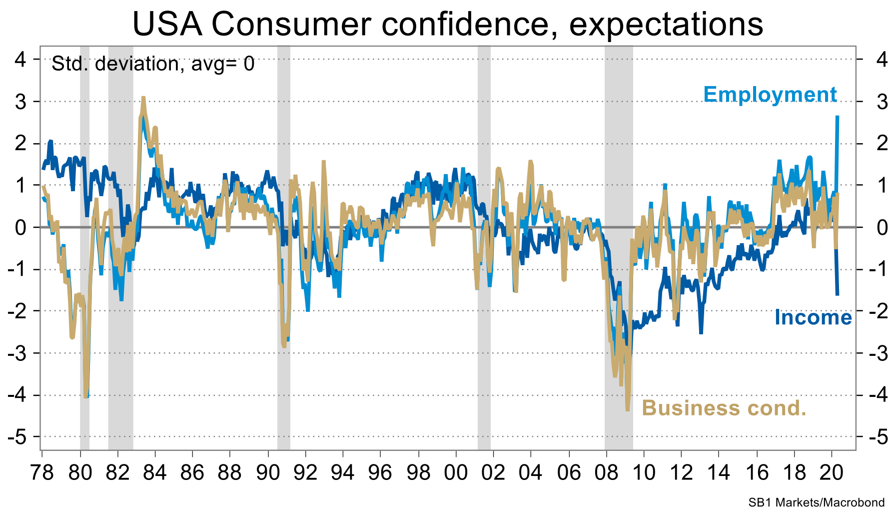


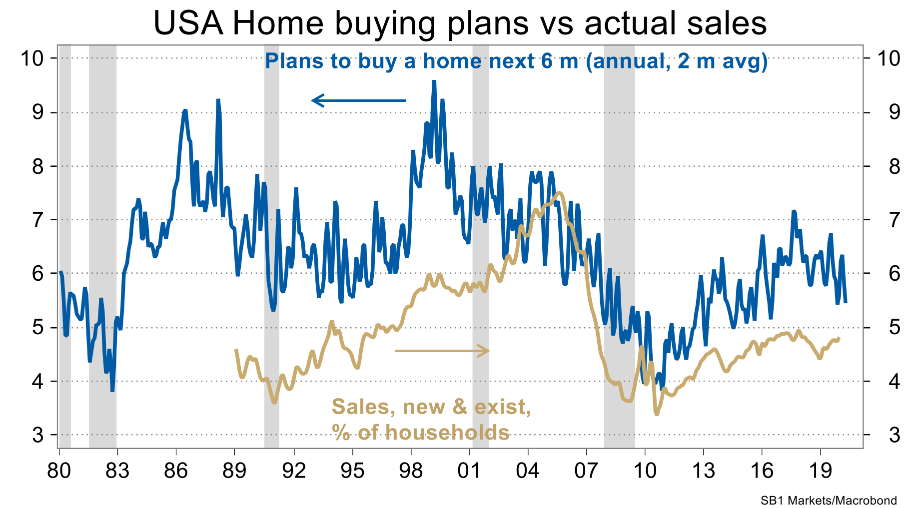


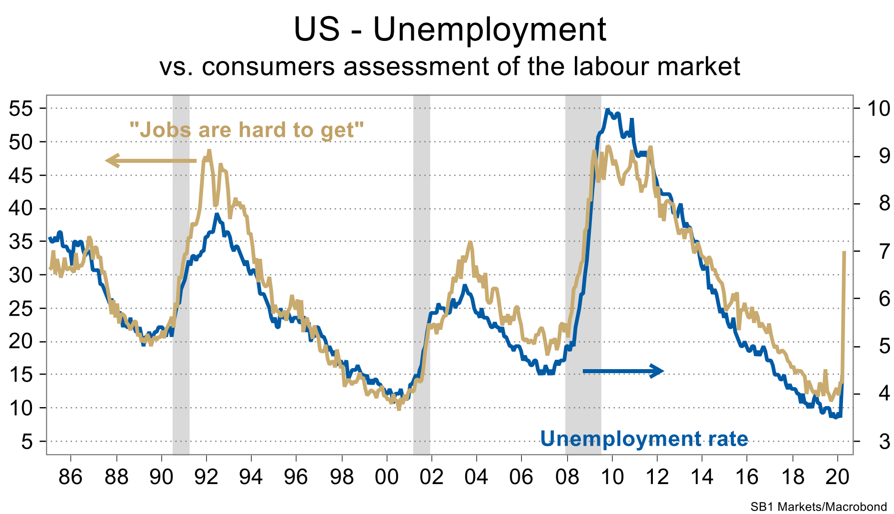
- The CC index fell 32 p to 87, close to expectations. The decline equals 2.5 standard deviations, that is more than ½ of a normal cycle in one month – even in the expectation component rose (marginally)!

The employment outlook has never been better (compared to present, we assume)

Still, income expectations fell sharply



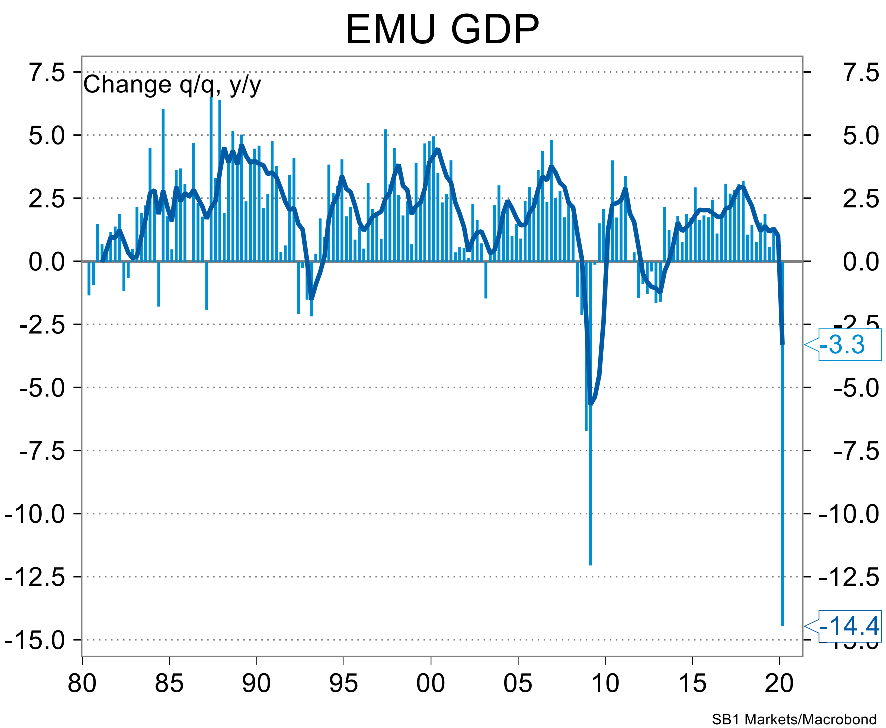


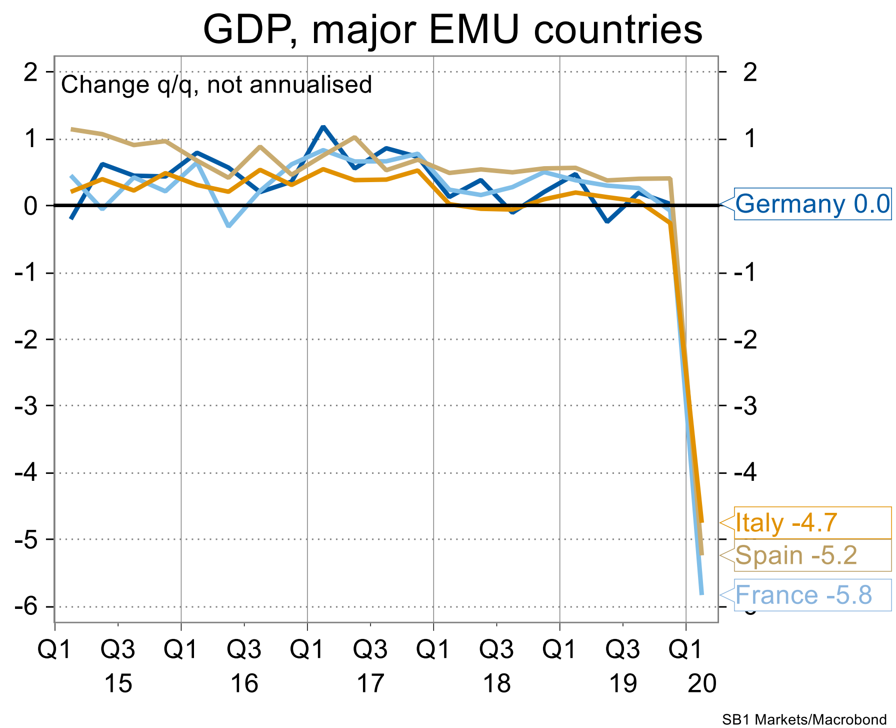


- Employment expectations straight up, logically because it is extremely bad now. But why are income expectations still slashed, alongside expectations for business conditions. Does it make sense?? We doubt
- Households are reporting a weakening labour market now – but the deterioration was surprisingly mild (even if the change m/m was the largest, by far
- Plans for buying a home fell, but remarkably little, given the surge in unemployment

GDP down 3.8 % in Q1 (-14.4% annualised)

GDP fell 20% (<u>not</u> annualised) through March? Not impossible

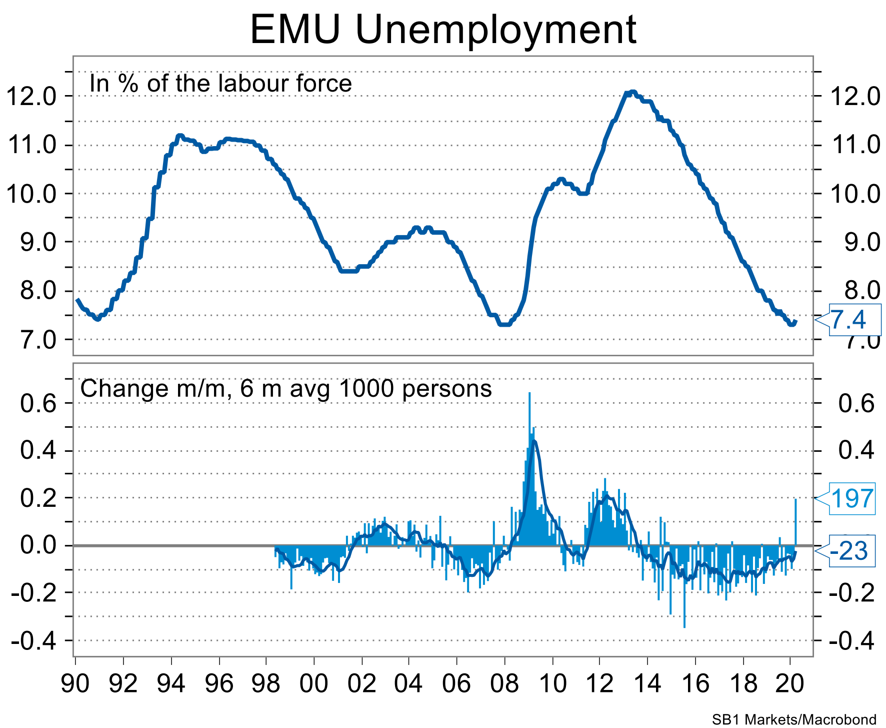


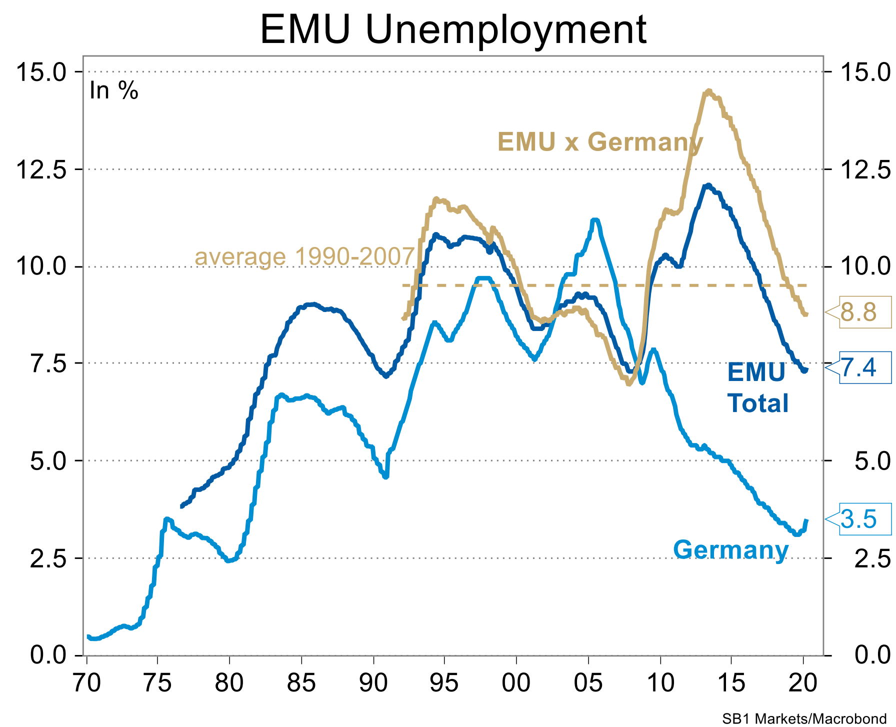


- GDP in the Eurozone fell by 3.8 % (not annualized) in Q2, dragged down by 5-6% decline in GDP in Italy, Spain and France as these countries were more or less closed down during the latter parts of March. However, these data are preliminary and much more uncertain than usual, as data collection has been influenced by the lockdown too
  - » Let's assume that the European economy was hovering at approx. at 0.5% pace until end of February. Then, the GDP fell during March, by 5% per week during a gradual lockdown – or 20% in total. If so, Q2 starts 16% below the Q1 average. We hope we are wrong!
  - » BTW, the OECD assumed a GDP decline at some 25% during aggressive Covid-19 campaigns
  - » Germany has not reported Q1 national accounts yet we assume GDP contracted some 2.5% (10% annualized)
  - » Demand details not yet available but France reported huge setbacks in both private consumption and business investments

Unemployment stats troublesome for some months, regrettably

Unemployment just marginally up in March but the reality is worse

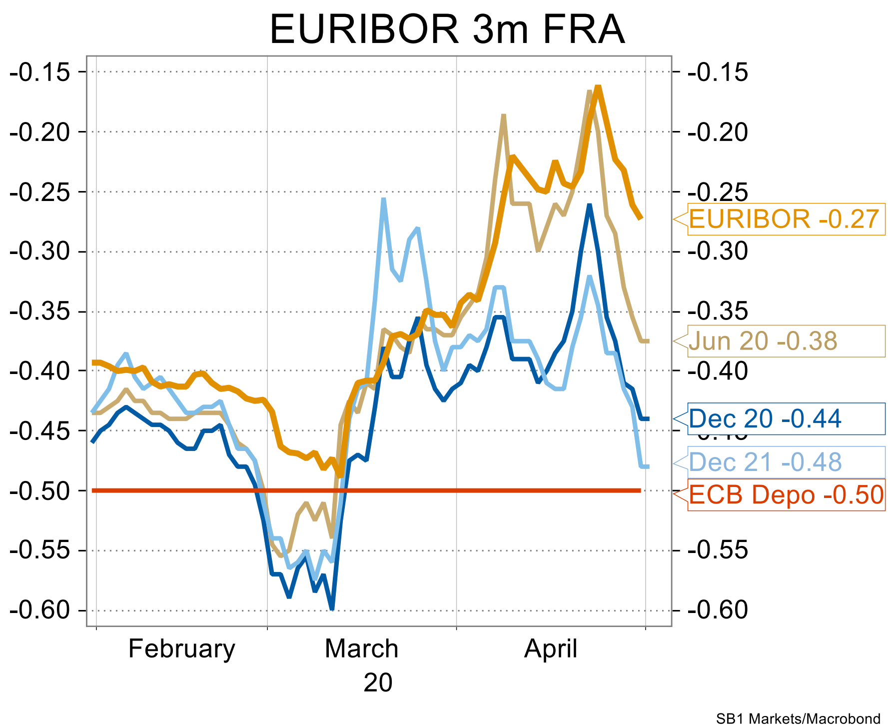


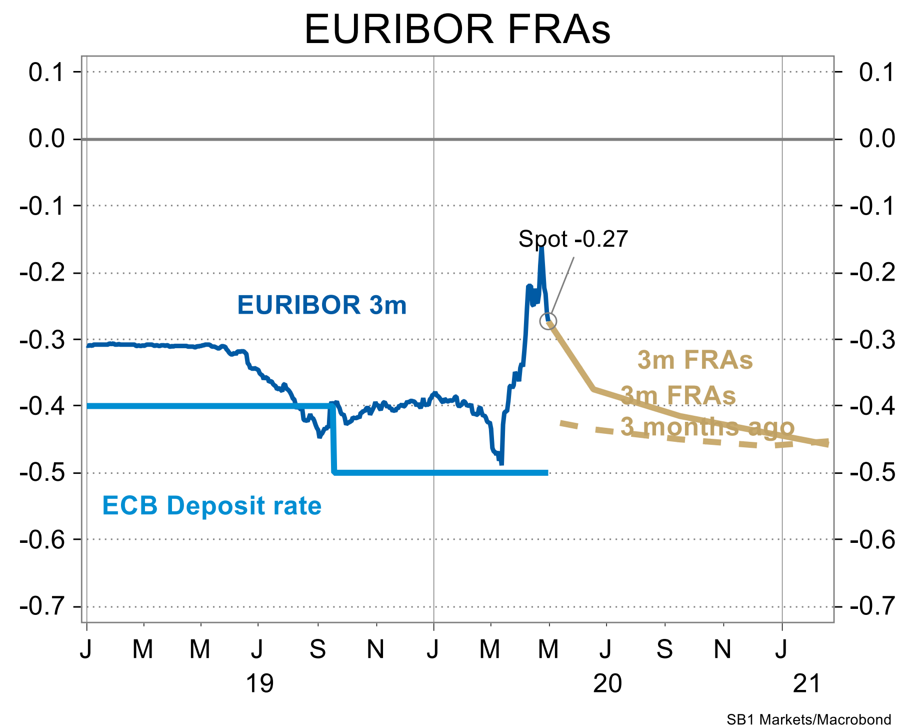


- Unemployment rose by 197’ persons or 0.1 pp to 7.4% in March.
  - » These are the Labour Force Survey data, the international standard. Temporary laid off workers are not counted as unemployed before after been furloughed 3 months. If workers are kept employed by government subsidies or if work is shared (like ‘kurtzarbeit’ in Germany) nobody are counted as unemployed
- In Germany, unemployment has inched up 0.4 pp recent months, of which 0.1 pp in March. Many other countries are still on the way down

The ECB keeps rates & QE unchanged but provide banks with even cheaper loans

The ECB staff revised the 2020 GDP forecast, down to -5 to -12%

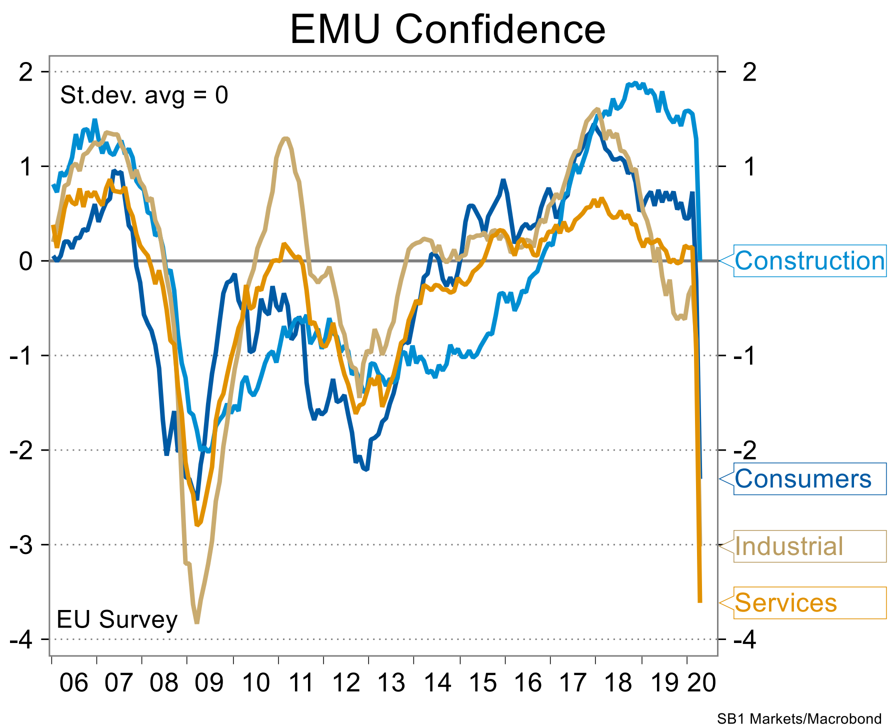


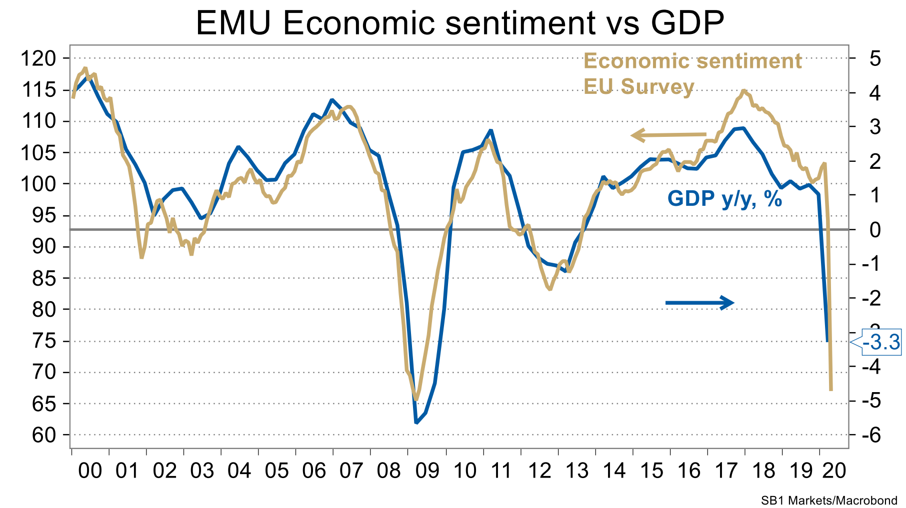


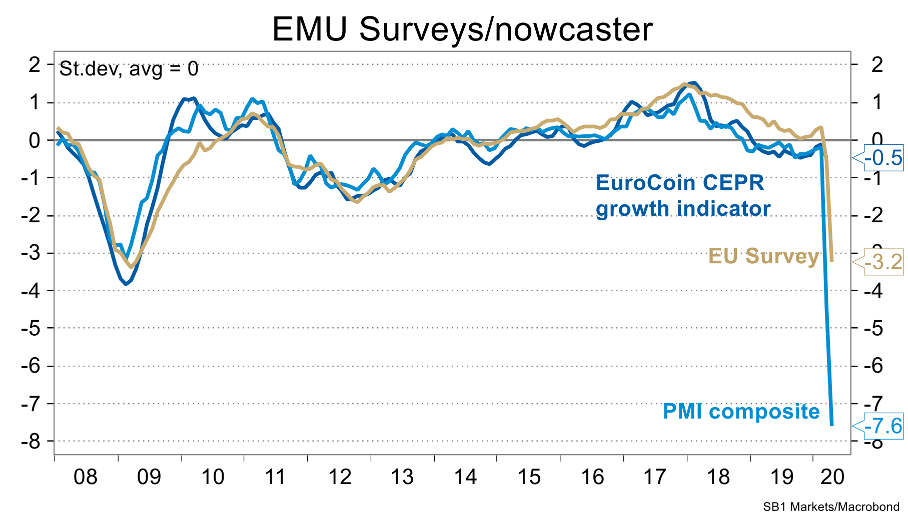
- The signal rate was kept unchanged at -0.5%, as expected. Some were looking for an extension of the EQ programs, but they were kept unch, the Pandemic emergency purchase programme (PEPP) at EUR 750 bn, the bank was prepared to increase the size and its composition
  - » The interest rate at bank's long term loans in ECB (TLTRO, longer term refinancing operations) was lowered to 50 bps below the signal rate, that is at 1% now!! The banks plans to offer Pandemic Emergency repos (PELTRO, and the alphabet is not yet fully utilised) at -0.25% interest rate. In sum the EBS so far has announced bank funding schemes to equaling EUR 3.000 bn, or more than 25% of GDP in EMU
  - » Still it is uncertain if the ECB is able to provide a sufficient backstop for Italy and Spain government bonds. The German Constitutional Court is to present its verdict on ECB's QE programs this week
- Spreads in the money market has widened significantly since March but narrowed last week. Italian/Spanish bond spread are still elevated

EU economic sentiment weakens but much less than the PMI

Services at the bottom, constructin down but just to neutral. Total signals 5% GDP decline



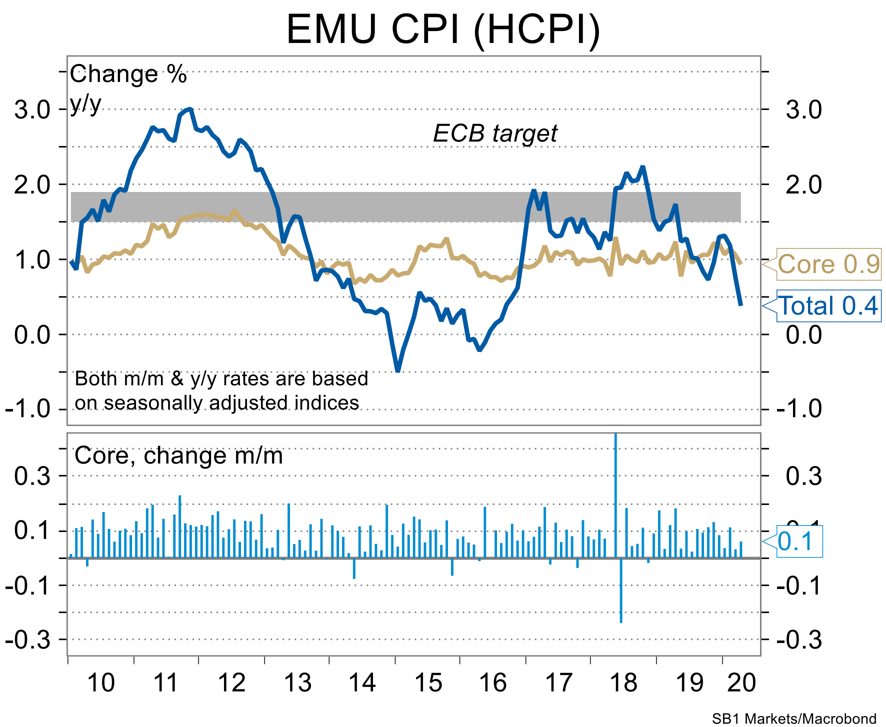


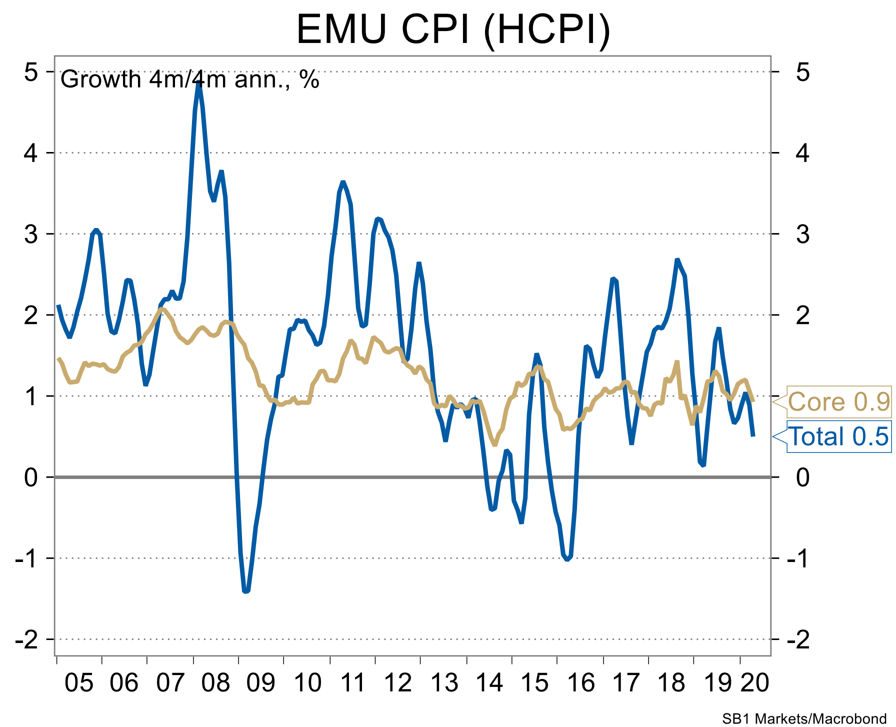


- EU's Economic Sentiment Indicator fell to -67 in March, on par with the trough during the financial crisis, a level equalling 3 std. deviations below par. The decline was far smaller than for the PMI, that dropped to -7.6 st.dev (an 'impossible' number, or a really fat tail...). EU was not able to collect data from Italy. If included, we had probably seen a new ATL
- The index signal 'just' a 5% GDP decline but most likely, that is far to optimistic, at least for the Q2 y/y GDP print

Core April CPI inflation down to 0.9%, total inflation down to 0.4%, due to energy

Core CPI rose 0.1 m/m and the annual rate ticked down 0.1 pp, total inflation down another 0.4 pp





- We hope the statisticians were able to calculate a CPI in April, but they say they had sufficient data points
- Total CPI growth down 0.4 pp to 0.4%. Energy prices sent total inflation up in the autumn/early winter, is now changing as the oil prices are tumbling

The Riksbank has a couple of scenarios, both quit grim

GDP -7+5=-2 or -10+2=-8, vs previous est 1+3=3 (2020/21). Still small differences in unemployment..

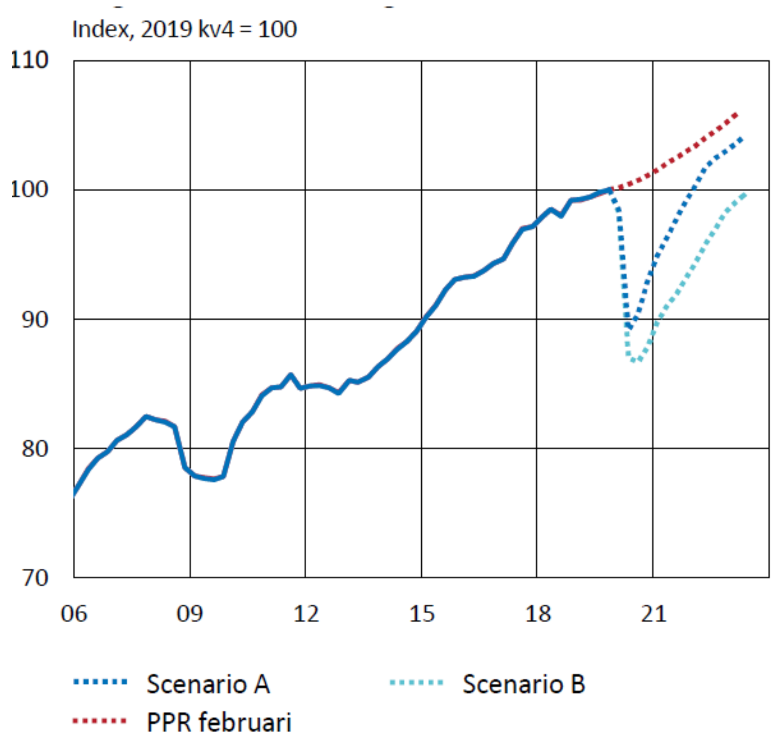


Table 1. Scenario A

	2019	2020	2021	2022
CPIF	1.7	0.6	1.5	1.6
GDP, calendar-adjusted	1.3	-6.9	4.6	5.0
Unemployment	6.8	8.8	9.0	8.2

Table 2. Scenario B

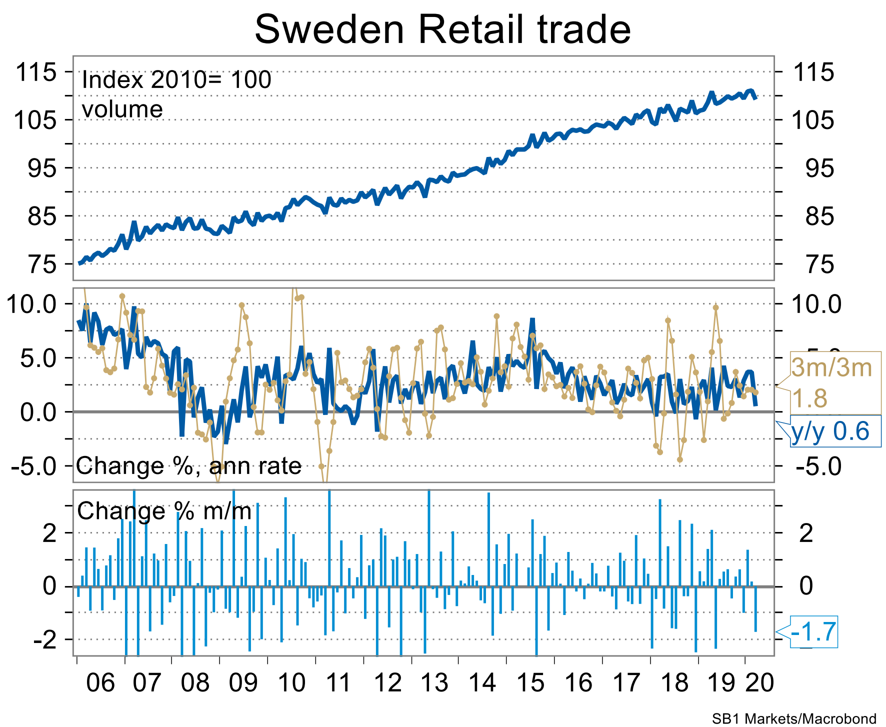
	2019	2020	2021	2022
CPIF	1.7	0.6	1.3	1.4
GDP, calendar-adjusted	1.3	-9.7	1.7	5.4
Unemployment	6.8	10.1	10.4	9.3

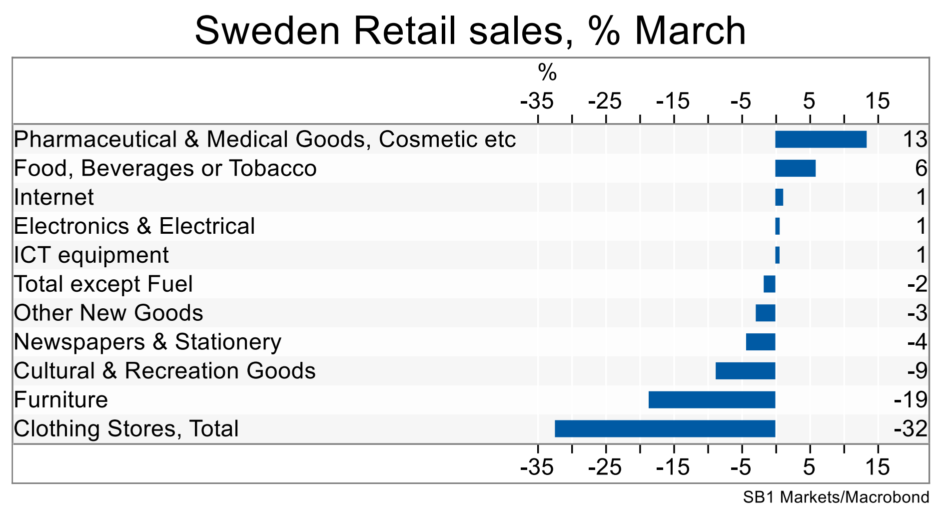
Note: Annual percentage change, annual average
Sources: Statistics Sweden and the Riksbank

- The Riksbank expects a deep slump in GDP, at 11 – 13% below the previous path at the worst, in Q2 2020. Annual growth rates are slashed from +1% to -7 or -10, depending of the V or U-shaped downturn/recovery. Worst case, 2021 GDP will be some 11% lower than previously expected! The forecasts are at least not overly optimistic
  - » Exports is the main driver on the downside, but domestic demand is also to blame, both consumption, housing & business investments
- Still, unemployment is expected to increase by just 2 pp to 3.6 pp higher than now. That might be too optimistic

Retail sales down just 1.7% in March

Much more to come in April

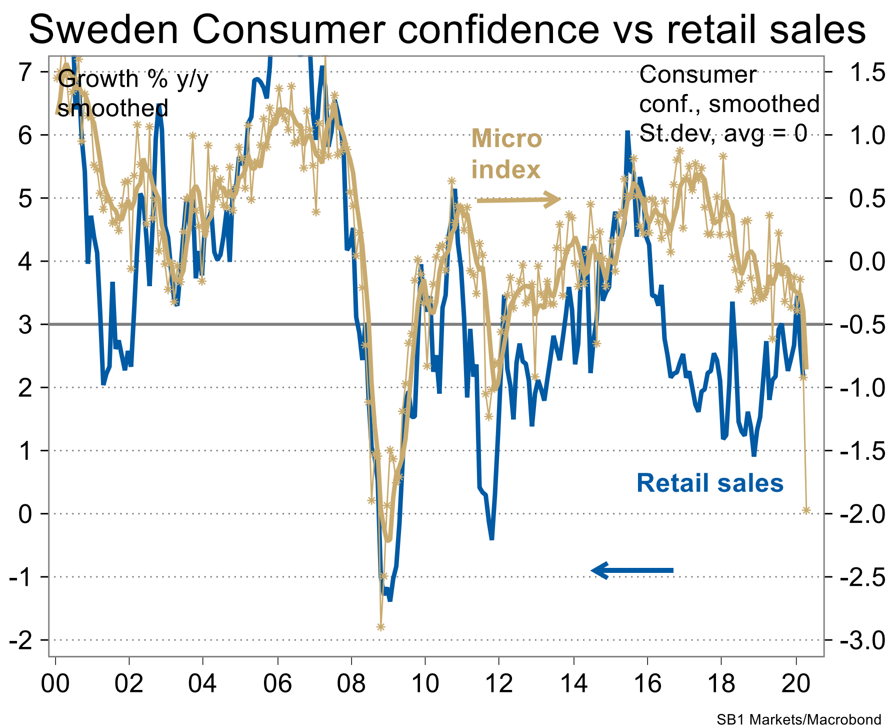


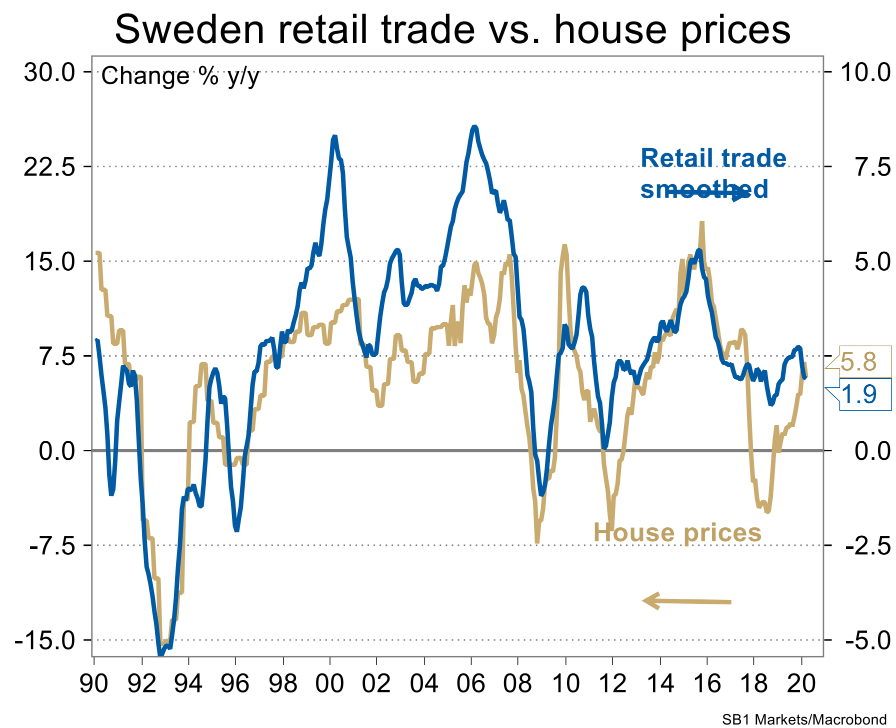


- Sales fell just 1.7% - in average, the range was from clothing down 32% to pharmacies up 13%, and food +6%

Consumer confidence dropped further in April, unsurprisingly

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





- Consumer confidence fell to the lowest level since 2009 in April, as Covid-19 spread. The CCI signals a rapid decline in consumption, although the correlation is not that strong

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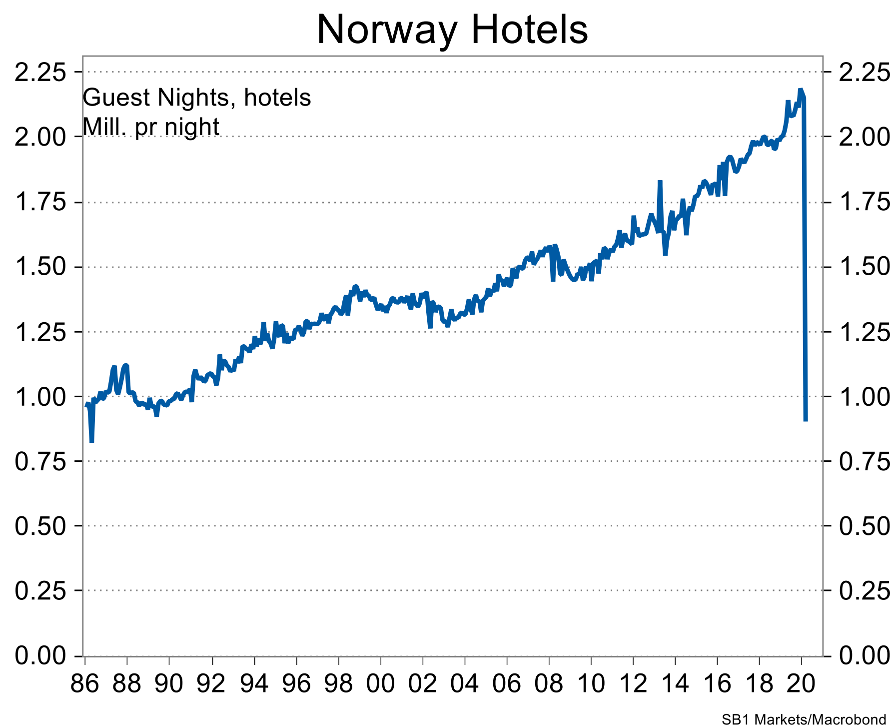
Norges Bank's phone Network survey confirms the downturn

7 of 10 companies do not think it's over before summer. An argument for cutting to zero?

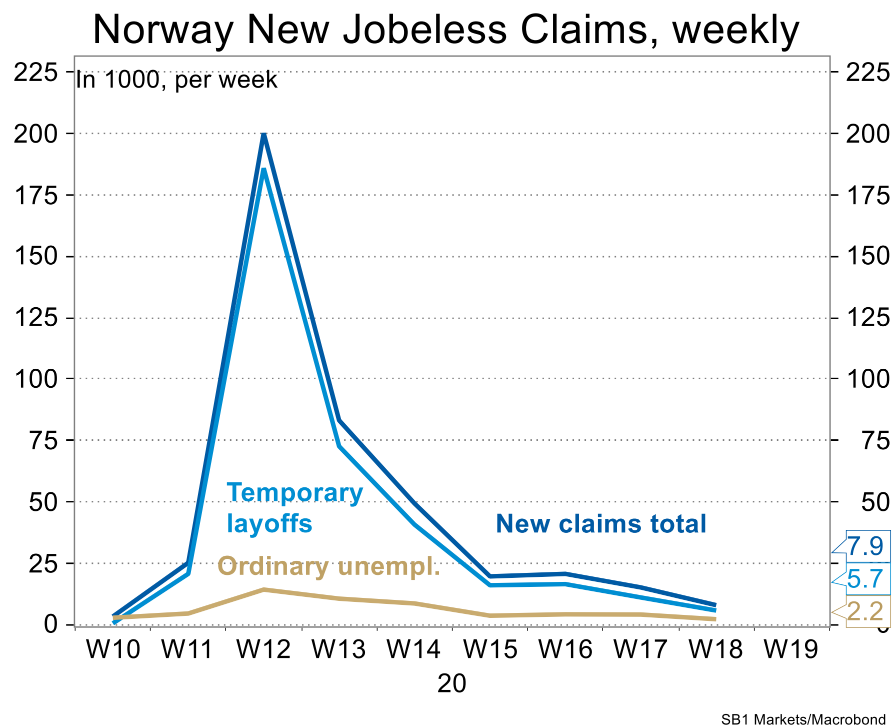
- The main points
  - » 3 of 10 enterprises are either little affected or expect return to normal before summer
  - » 3 out of 10 expect that activity levels will return to pre-virus levels in the course of autumn
  - » 4 out of 10 expect normalisation in 2021 at the earliest
  - » The export industry, oil services, construction and segments of the service industry expect the downturn to last the longest
  - » 1 of 4 the enterprises are planning for lower employment in the period to summer.
- No surprises, just confirmation. The 'normal' network survey will not be published before mid June
- We doubt Norges Bank will cut its signal rate to zero this week but will not be surprised either. The marked is now discounting a cut by some 50% probability at the upcoming meeting or at the next meeting in June, check more here

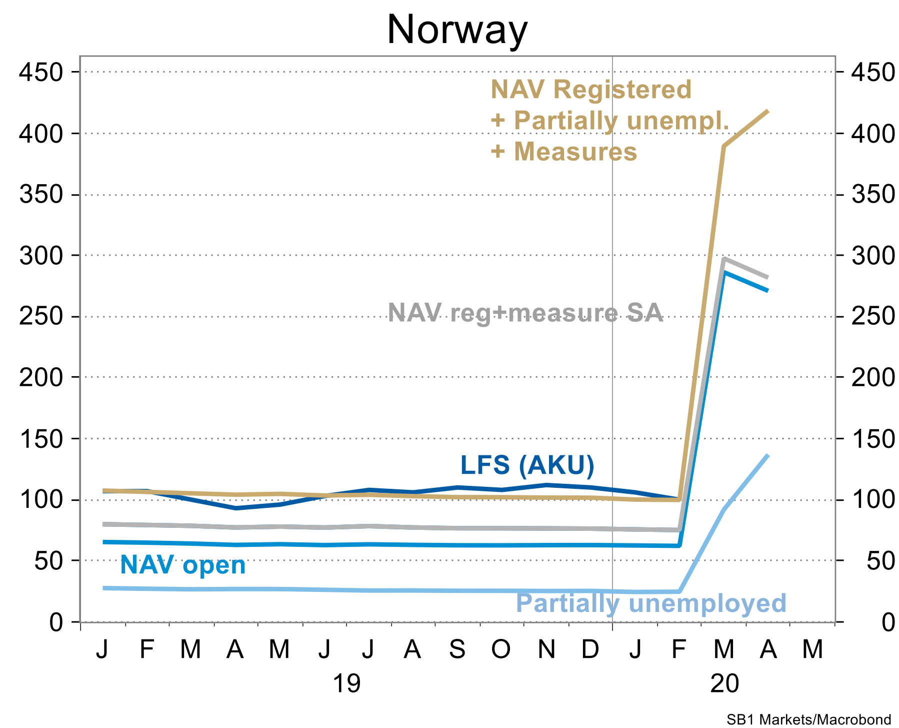


Some lost hotel guest nights, down 60% March. In April, we will come much closer to the x-axis

The inflow is slowing, the number of fully unemployed down, but the total not

Total unemployment rose by 30’ to 420’ in April due to +45’ more partially unemployed

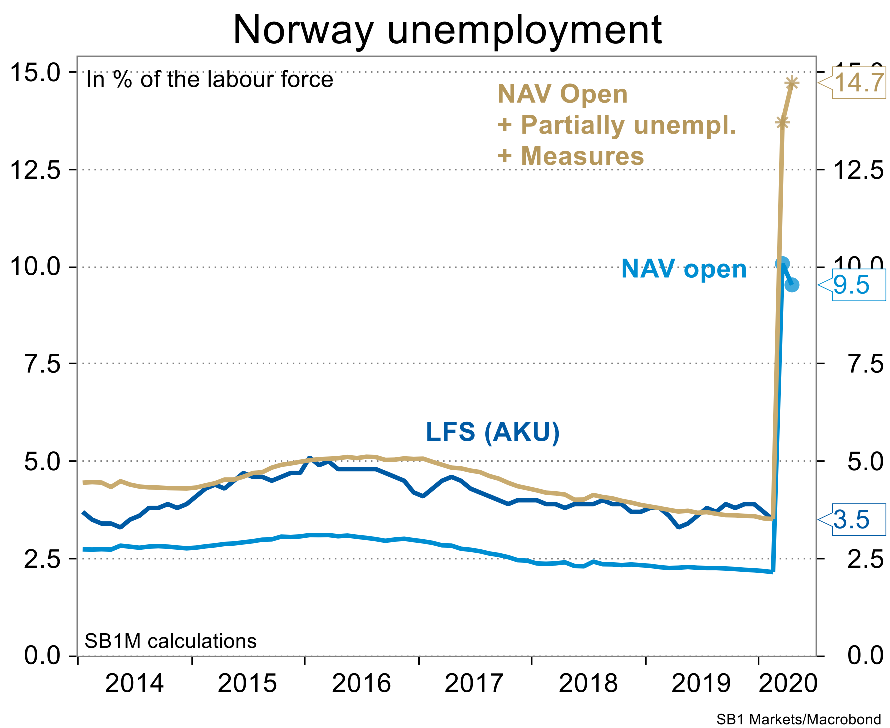


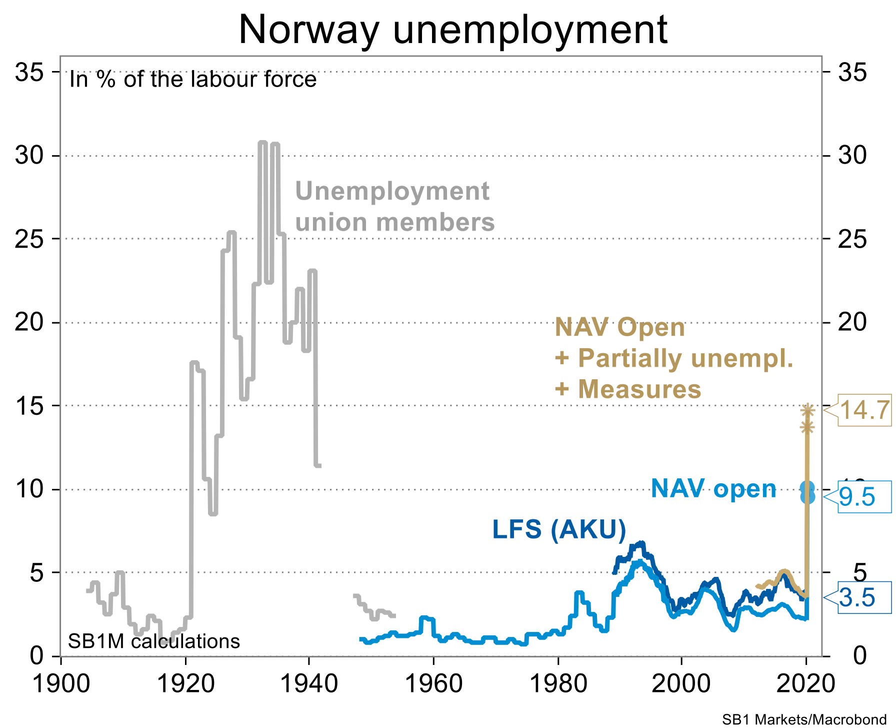


- Weekly new jobless claims fell further last week, to 8’, compared to the 200’ pace at the peak in the first week after the partial lockdown was decided. The normal inflow is 3 – 5’ persons per week. Most of the new claims (88%) since mid March are employees that are furloughed, and not permanently laid off. Last week, the share was reduced to 75%
- The number of full time unemployed persons fell by 15’ to 270’ (our seas adj. data), but this decline is not ‘for real’
  - » The decline in full time unemployment is caused by newly unemployed (furloughed) are reporting that they are working part time, and therefor changed their status to partially unemployed. Thus, the no of partially unemployed rose by 45’ in April, and is approaching 150’
- Total unemployment rose by 30’ to 419’ through April. As some activities are starting up, we think that unemployment is close to peak – at 15%

We have not seen anything like this in modern times

15% are out of the job market, more or less

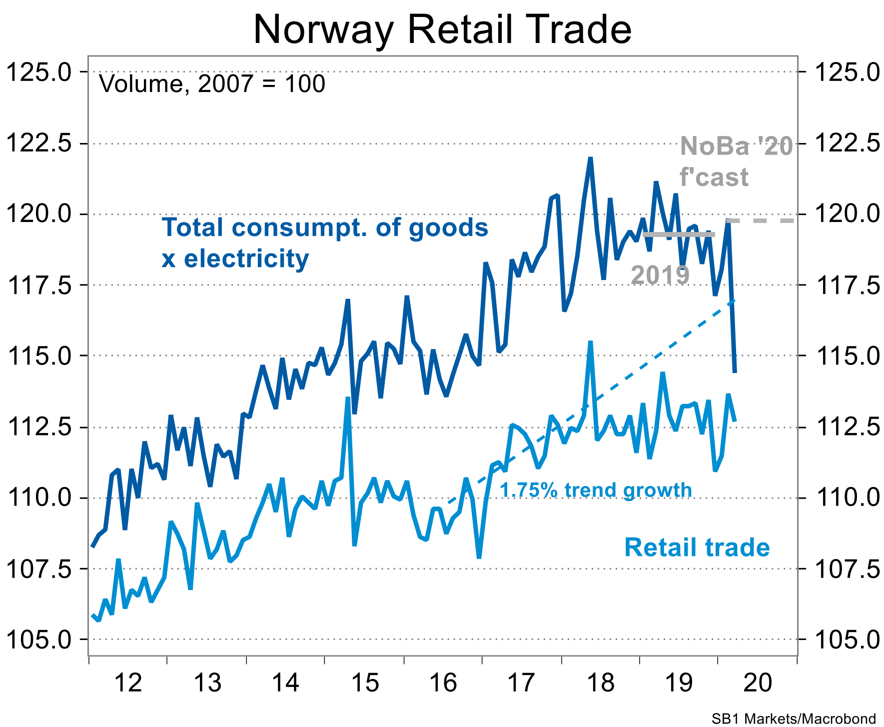


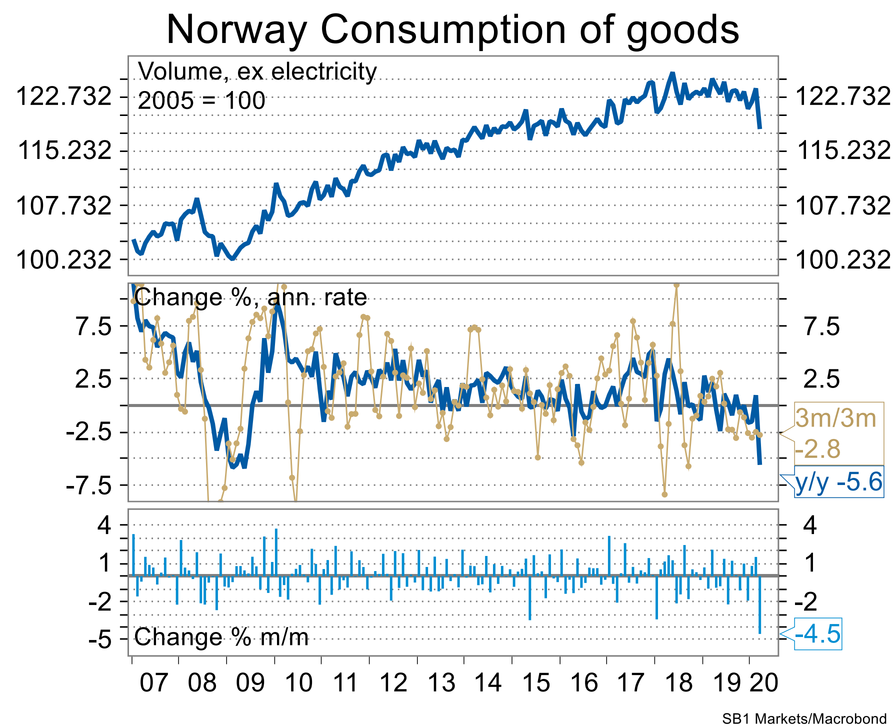


- Open, registered unemployment equals 9.5% of the labour force, down 0.5% from March. Total unemployment equals almost 15%
- Even if some sectors are gradually opening, we expect unemployment to continue to climb the coming weeks as other sectors are hit by too low demand domestically and from abroad

Retail sales fell just 1% in March – but goods consumption down 5%

Hoarding, less shopping in Sweden & fewer restaurant meals saved March sales. Clothing not, -40%

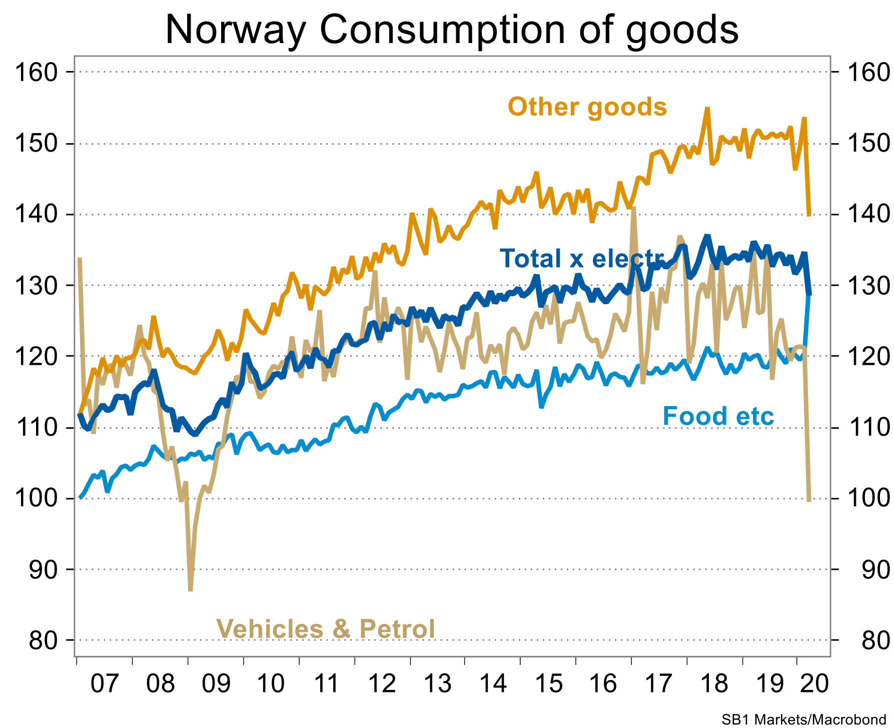


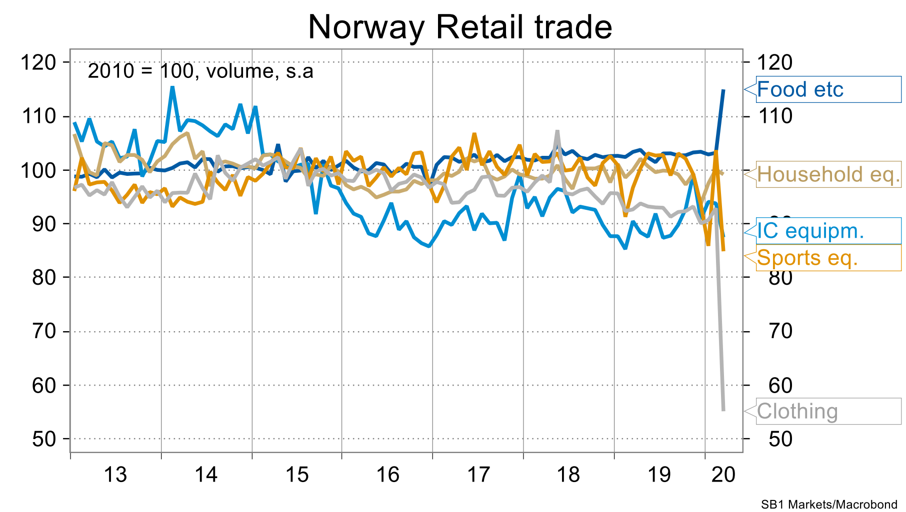


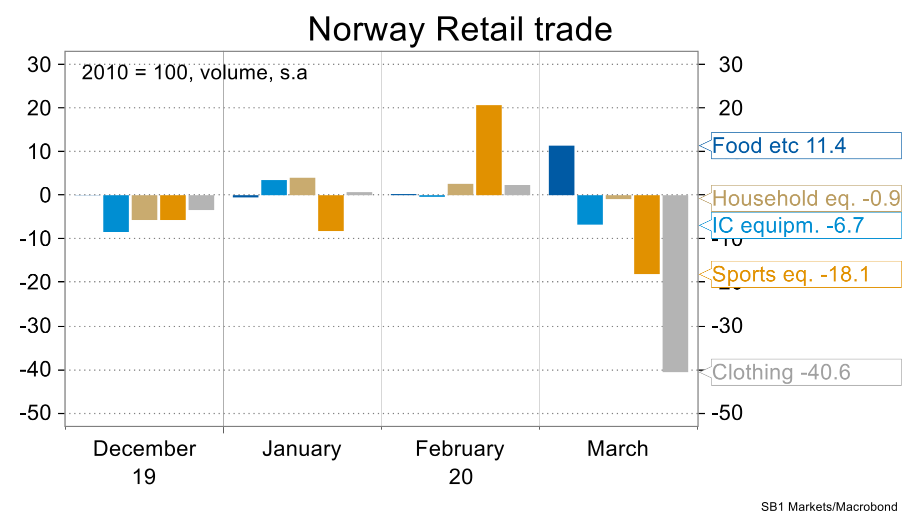
- Retail sales volume (ex auto) fell just 0.9% in March, expected down 8 – 15%. Total consumption of goods fell 4.5%, due to a decline in auto/gas sales and a 9% decline in other goods than food – while sales of food etc was up 8%
  - » SSB had indicated a 10 – 12% decline in consumption of goods in March
- We have never seen such deviations between different sectors, from -40% (clothing) to + 23% (internet sales)
- Foods sales was partly driven by hoarding, no shopping abroad after borders were closed (especially in cross border trade in Sweden), and almost no meals on restaurants in 2nd half of March

Hoarding saved the retail sector in March but not all

Food p 11%, clothing down 40%, sport equipment 18% - for March in average



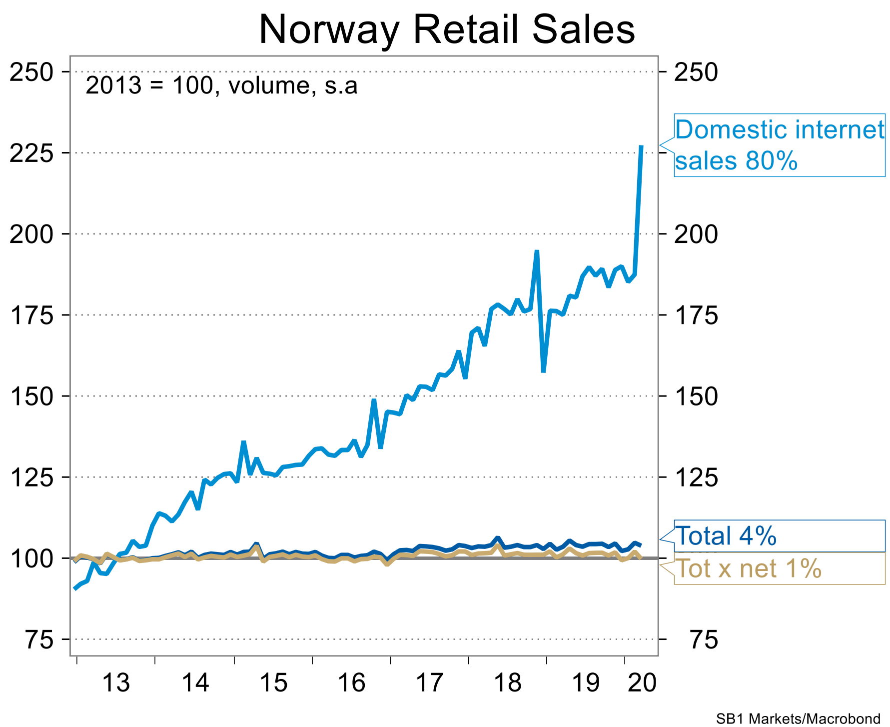


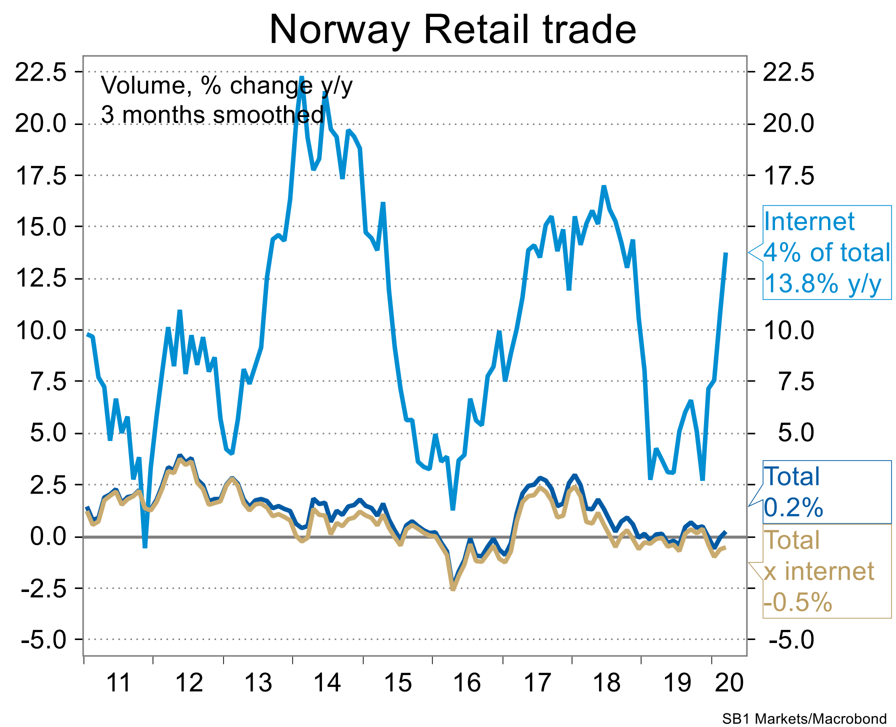


March: A wild month! Internet + 23%,Clothing/footware down 40-44%

Internet sales (domestic) came back in March

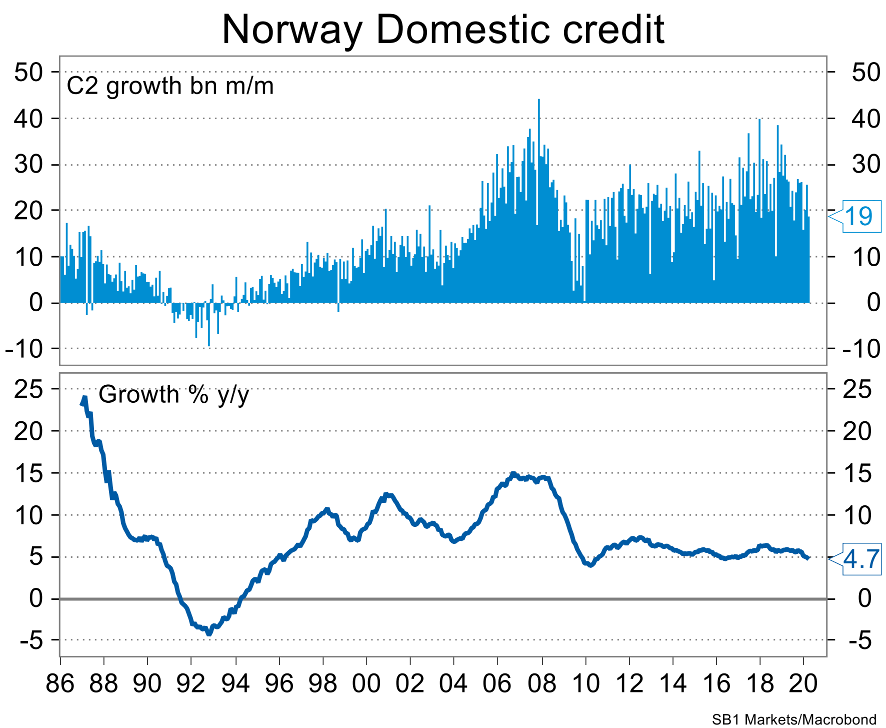
Not that much left for others, not over time either

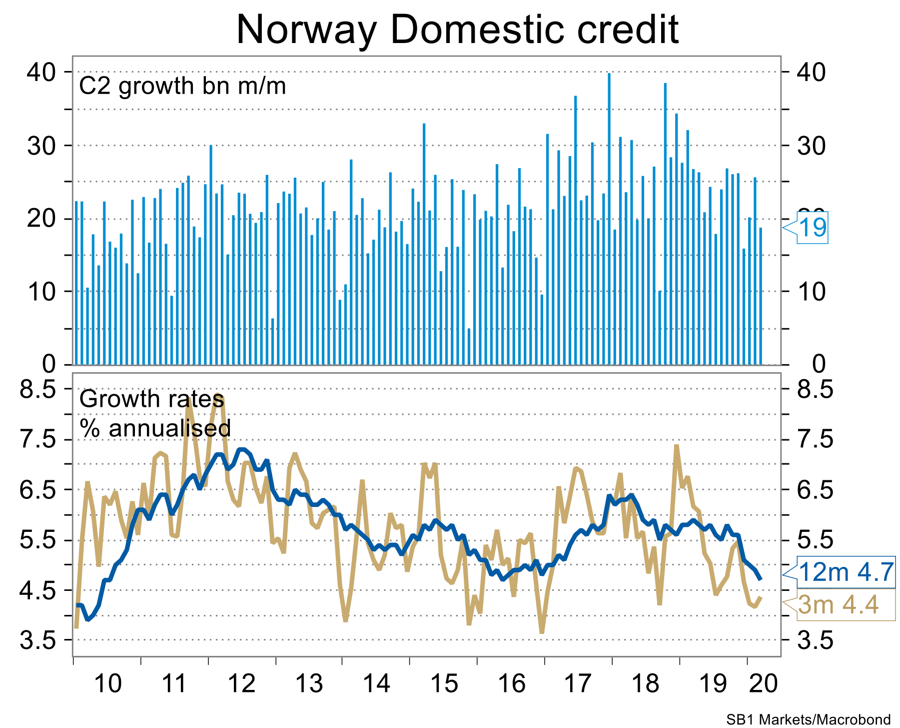




Credit growth is waning, corporates the main drag, even before corona hit

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

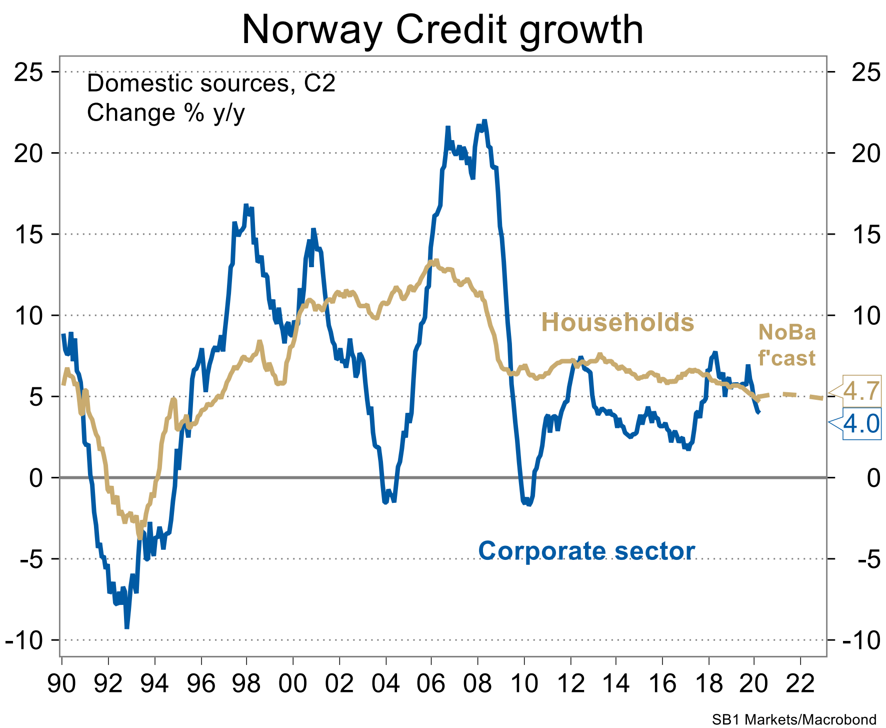


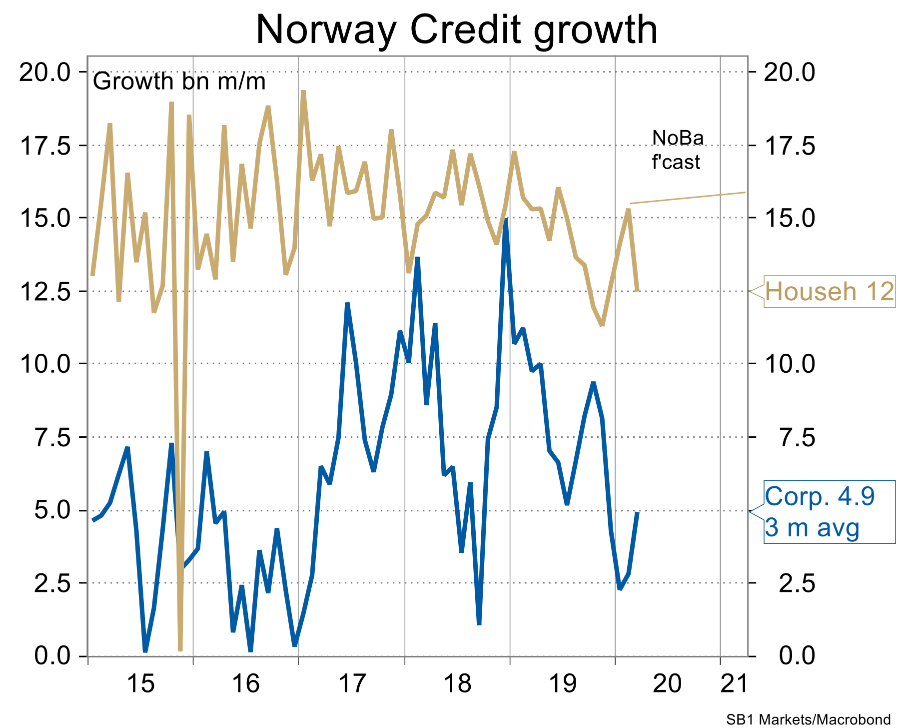


- ***Pre corona:*** Total domestic debt (C2) rose by NOK 19 bn m/m in March, down from 26 in February, and the annual growth rate 0.1 pp to 4.7%, as we expected. Growth is heading slowly down
- Household credit growth has been slowing has slowed further in March, down 0.2 pp to 4.7%. Credit is now finally expanding at a slower speed than disposable income. We expect demand for new loans to decline, even if lending rates are cut. However, many households have asked for – and will be given – postponement of instalments, which will contribute to higher credit grown.
- Corporate credit growth has been slowing too, and to 4.0% in March from 4.1% Feb. Banks are reporting higher demand for extending credit lines but a sharp decline in demand for loans to fund investments. We assume that the sum will be negative, at least

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

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

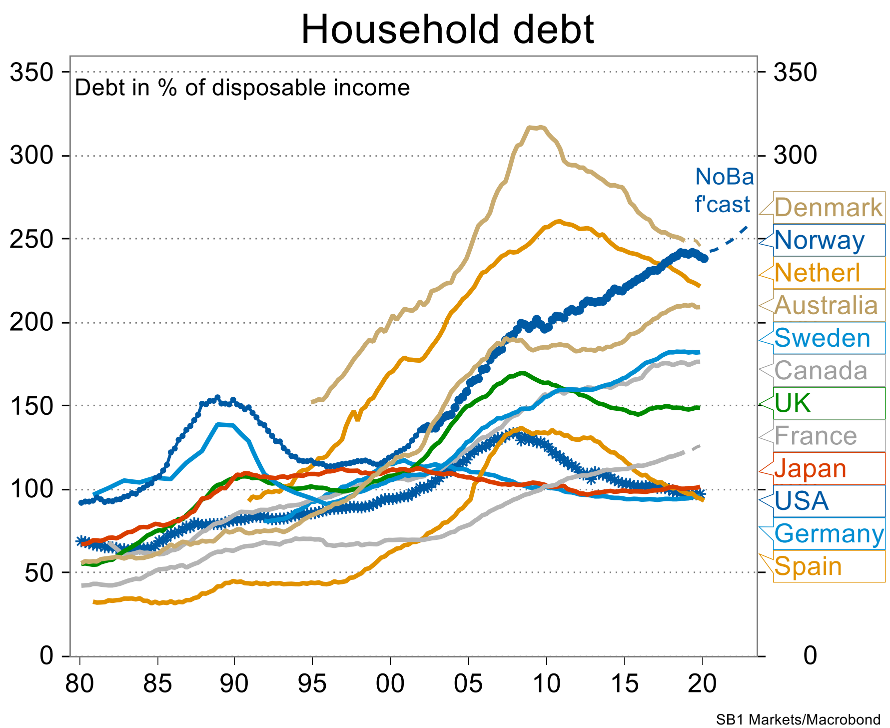


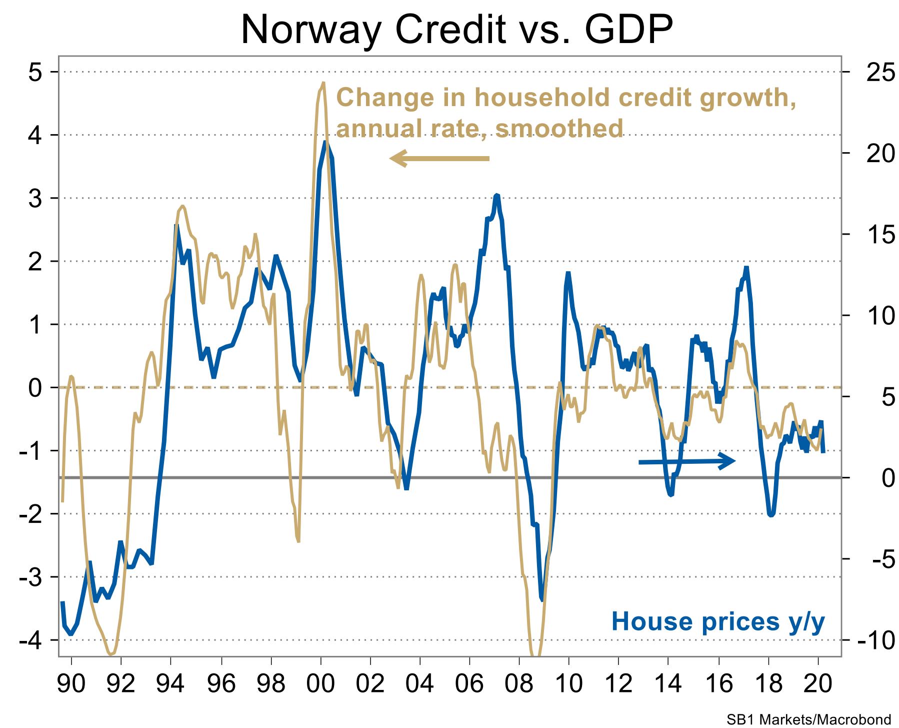


- Households' credit increased by NOK 12 bn m/m March, below the average of the recent months
  - The cut in lending rates may boost credit appetite, however, the negative impacts from soaring unemployment and an uncertain outlook will probably outweigh the effects from lower rates, as long as the real economy is struggling. We expect credit growth to slow substantially, however, a decline in credit to the household sector is unlikely (it occurred in the early 90's, during the bank crisis). Unless the housing market crashes
- Corporate credit (in C2, domestic lending) rose by NOK 5 bn in March, and growth has been lower than usual the past 3-4 months. At the chart above, we have added a 3m smoothing, these data are volatile. Annual rate down to 4%, well below the long term avg

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

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

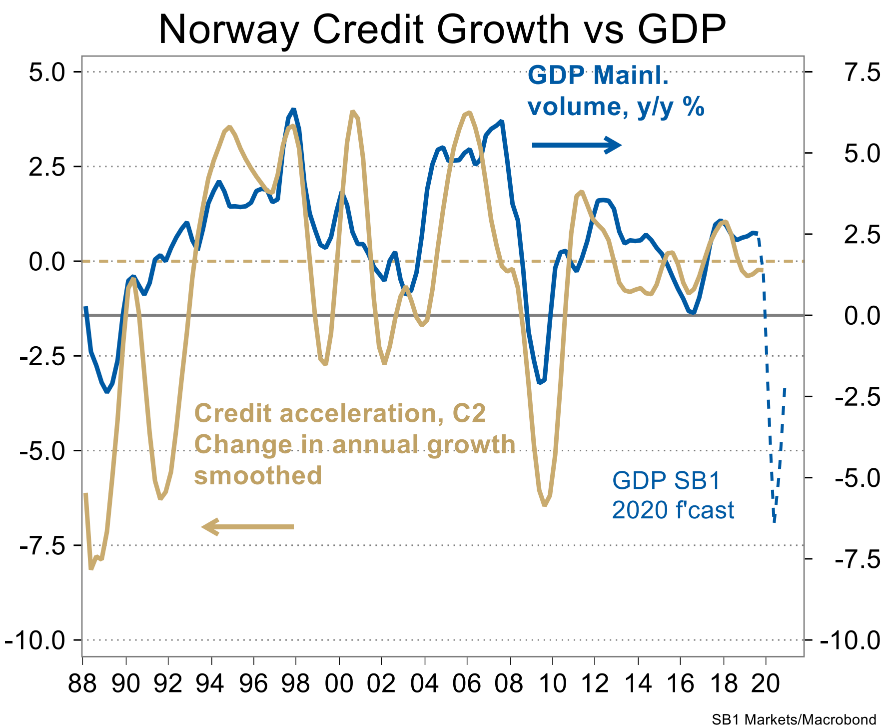




- Household debt is growing slower than household disposable income, for the first time in 30 years (barring some minor turbulence in 2008/09)
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit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

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

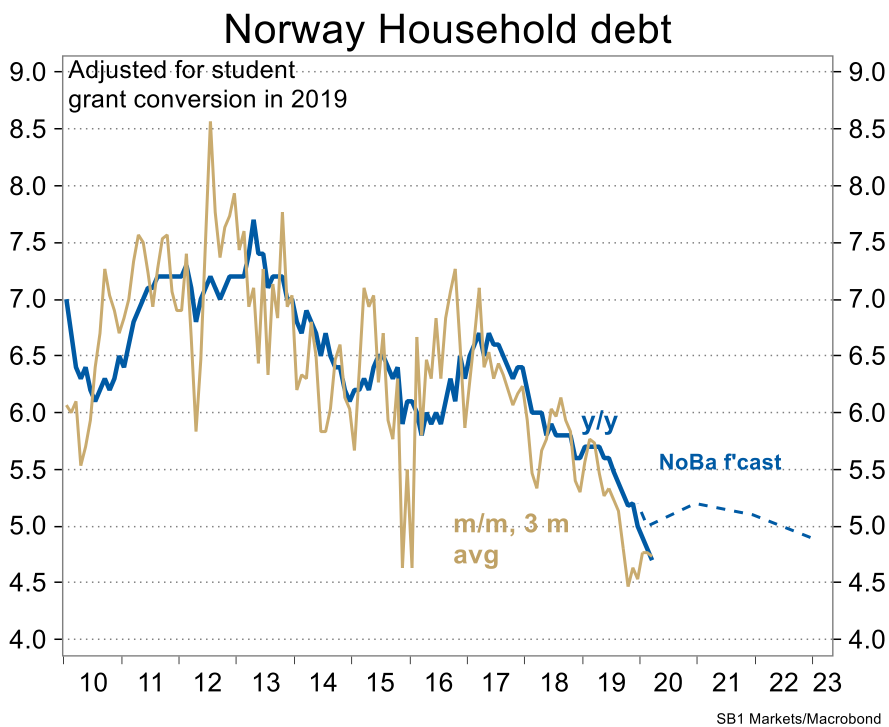
Based on our very uncertain GDP f'casts, credit will slow substantially

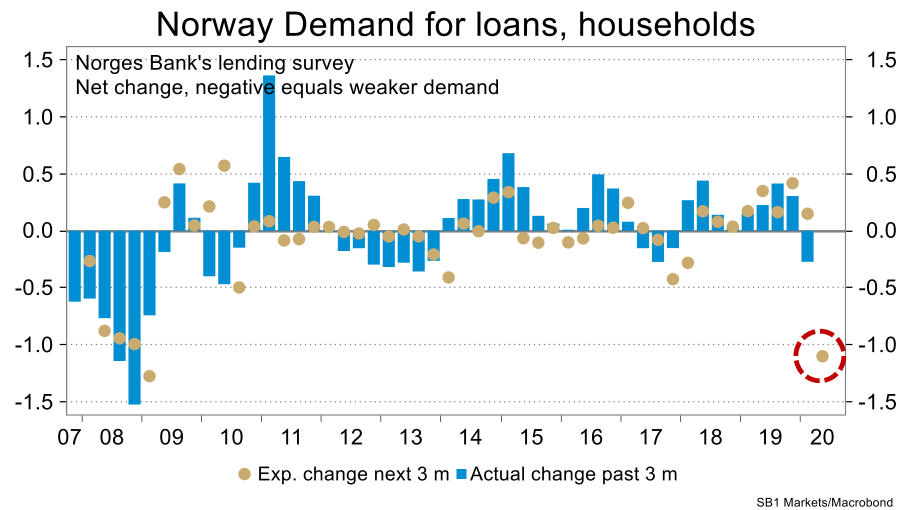


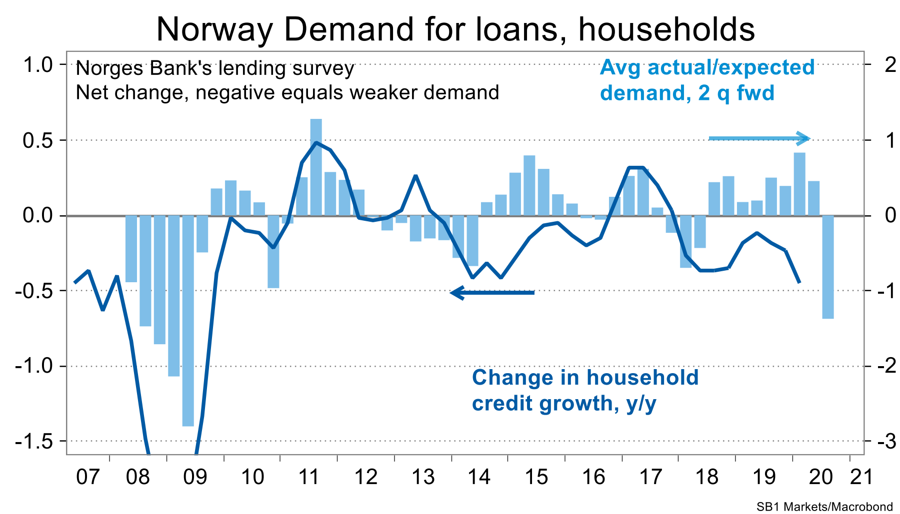
- GDP growth is quite coincident with *changes in credit growth (the 2nd derivative)*
- Face value, the expected rapid decline in GDP in both in Q1 and more in Q2 (but hopefully not further Q3) indicates approx. 8 pp slowdown in annual credit growth, indicating a decrease in credit, mostly due to lack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

Household debt growth stabilised, well below income growth

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



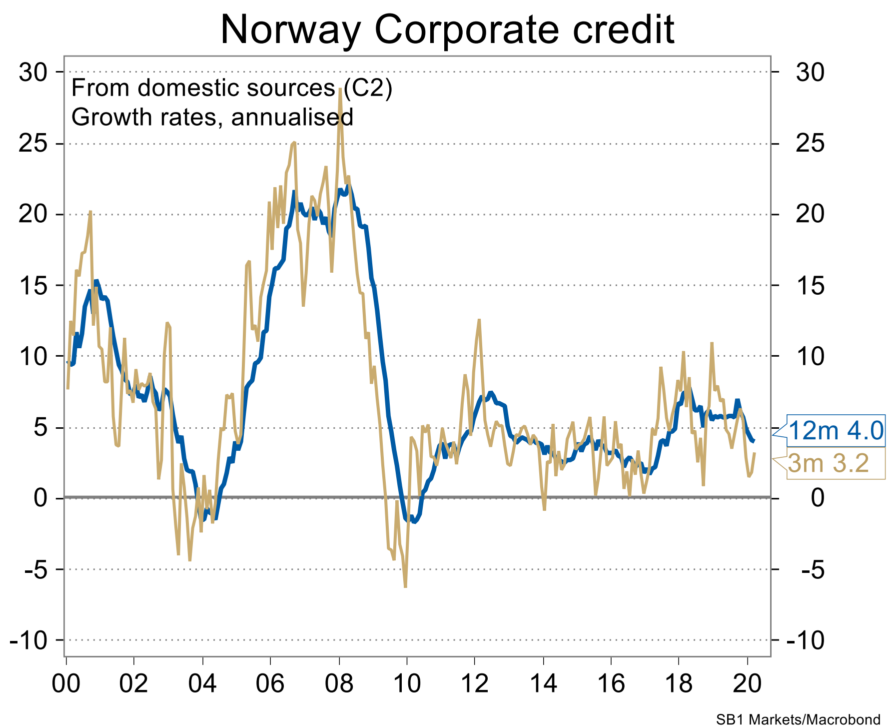


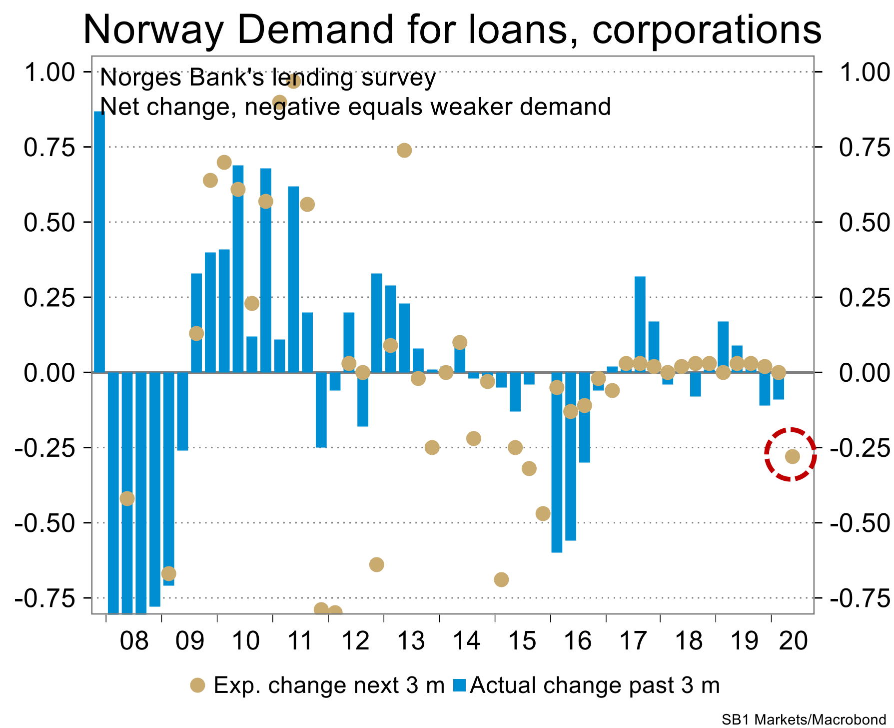


- The long view: household credit growth has slowed from above 7% in 2012-2013 to below 5% now.
- Banks expect lower loan demand from households in Q2, not an unreasonable forecast

Corporate credit growth turned down, before corona hit

Growth has fallen to 4%, underlying it is even lower

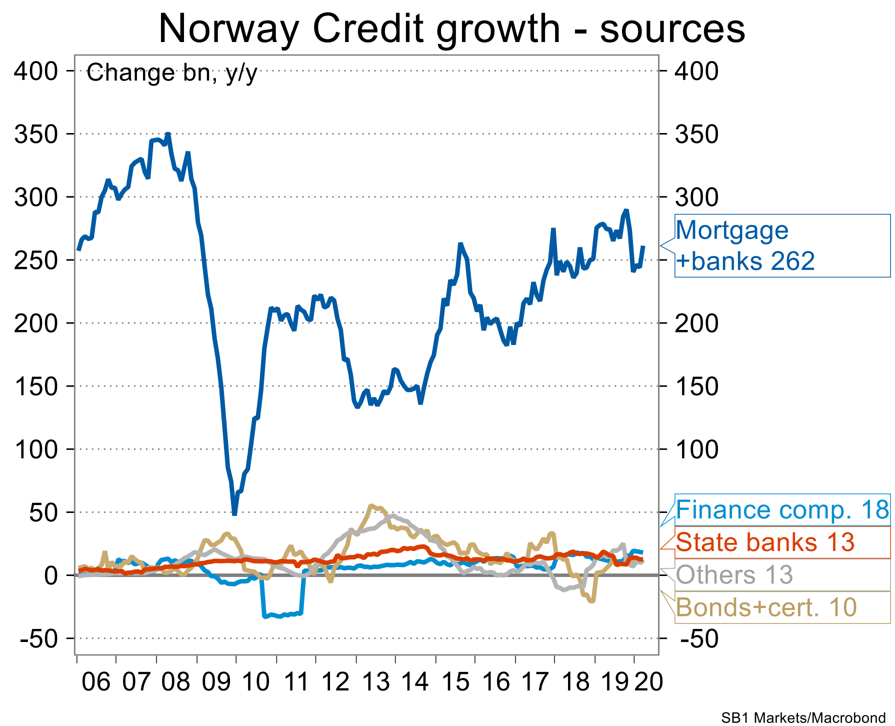


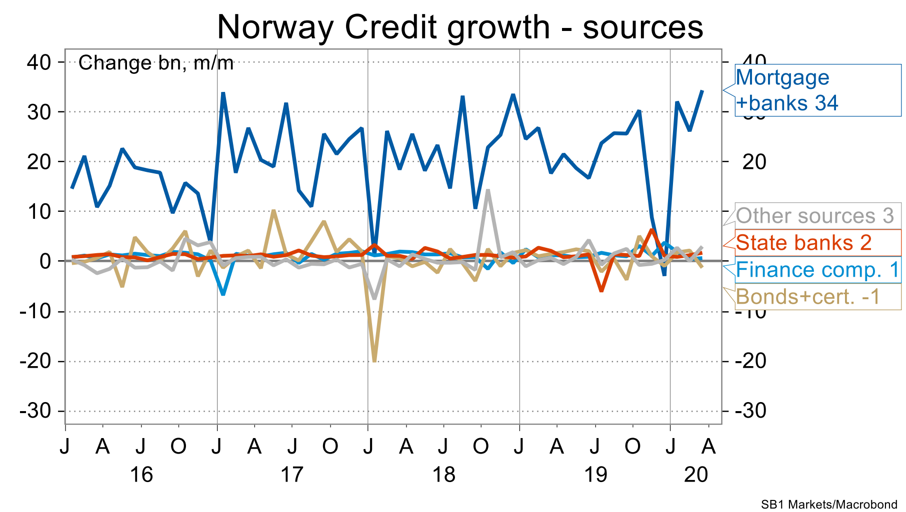


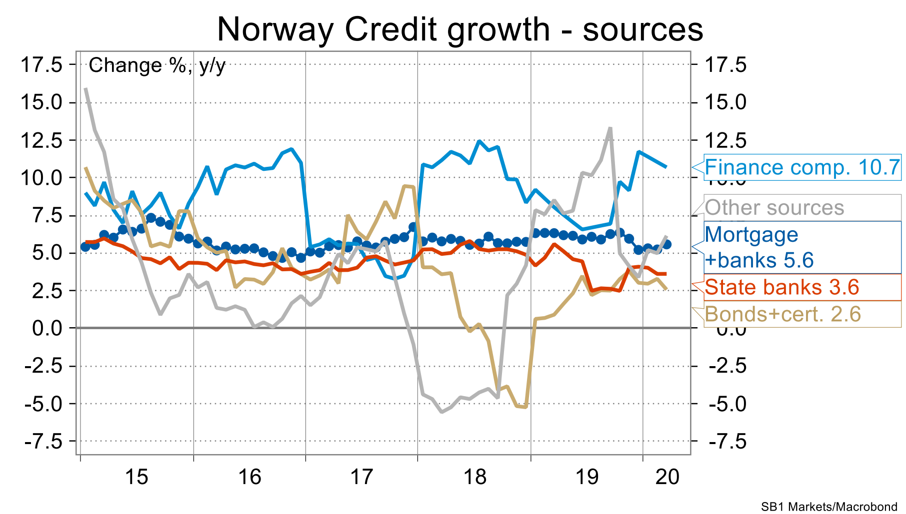
- Corporate credit growth kept steady through most of 2019, slowing rapidly since November
- In Q1, banks reported a marginal slowdown in corporate credit demand but and they are now expecting a decline in demand in Q2, but not dramatic. Demand extended credit lines will keep demand up, lower demand for loans for funding investments will take demand down. We suspect the latter impact to dwarf the former, at least over time

Total domestic credit supply (C2): No slowdown in bank lending

Banks and their mortgage institutions are totally dominating the domestic credit market



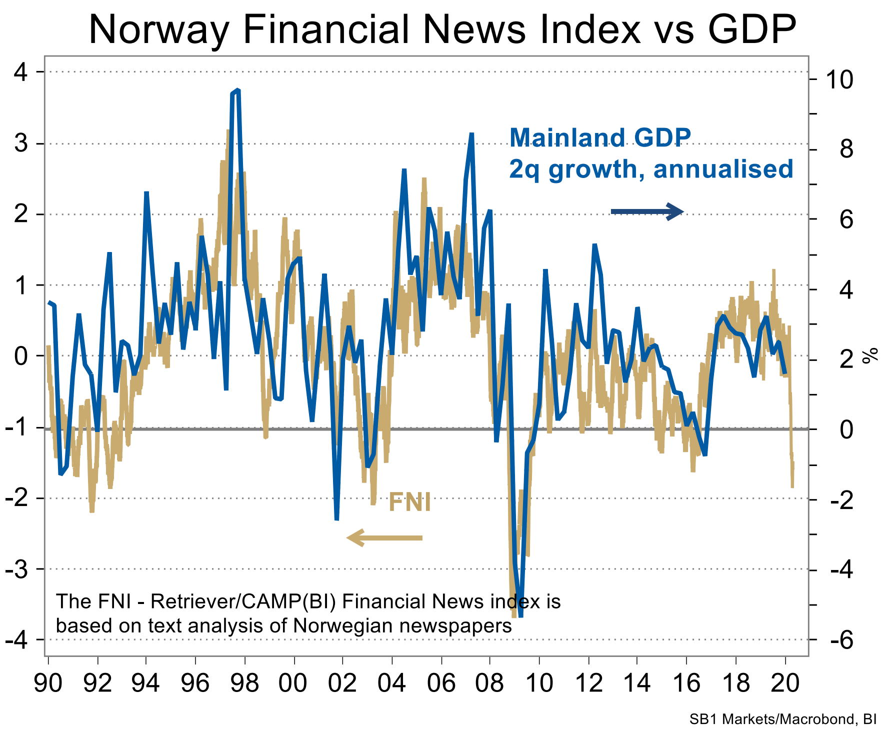


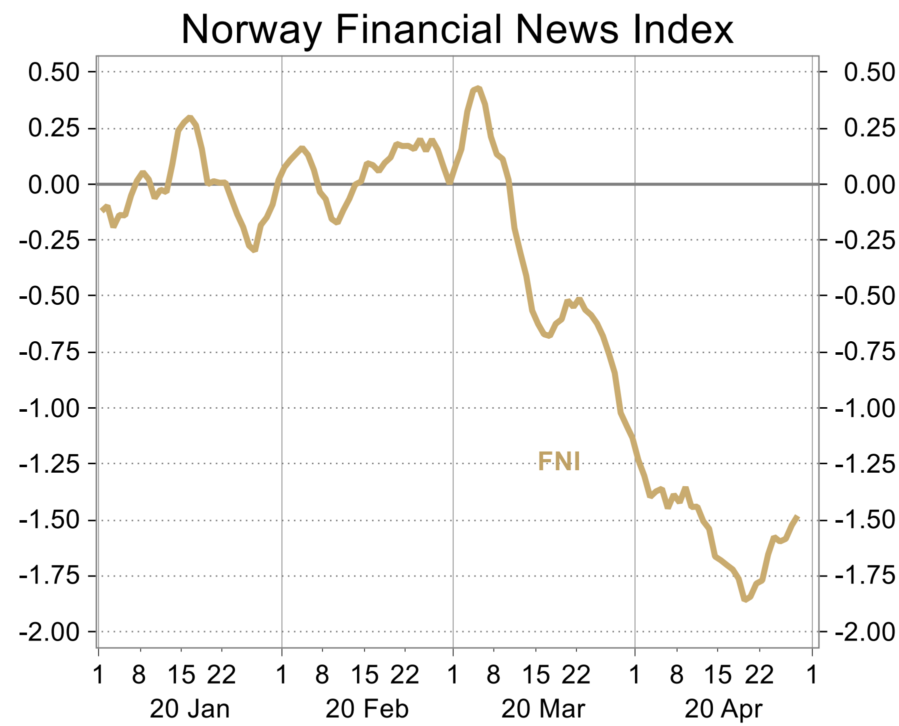


- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in ‘sum of the parts’ credit supply does not exactly equal changes in the total C2s

The Financial News Index is recovering slowly, from a surprisingly 'high' level

The FNI has fallen on Covid-19 but not that much – and now it is drifting upwards





- The FNI tracks media reports on the economy. The index fell sharply in March and until mid April but is now recovering somewhat
- The index has been quite closely correlated to actual GDP growth but now we feel quite confident that the FNI is underestimating the decline in GDP. The FNI barely fell below the 2016 trough 3 weeks ago, well above the bottom level during the Financial crisis.

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

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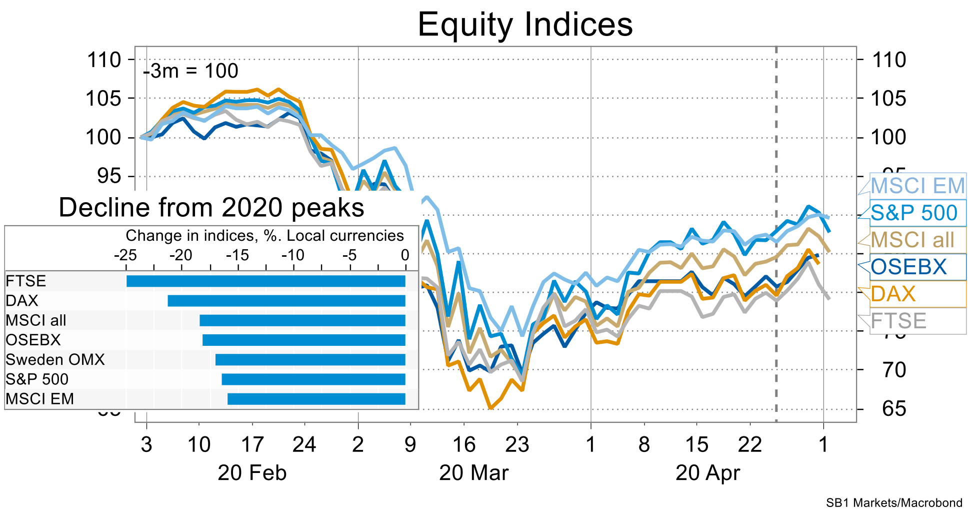
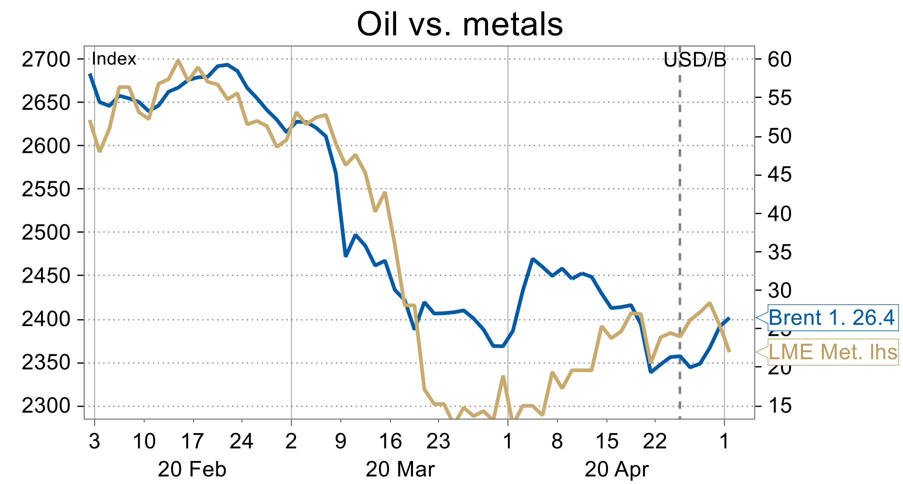
SpareBank 1 MARKETS

Most stock markets up, bond yields down. Oil and NOK up

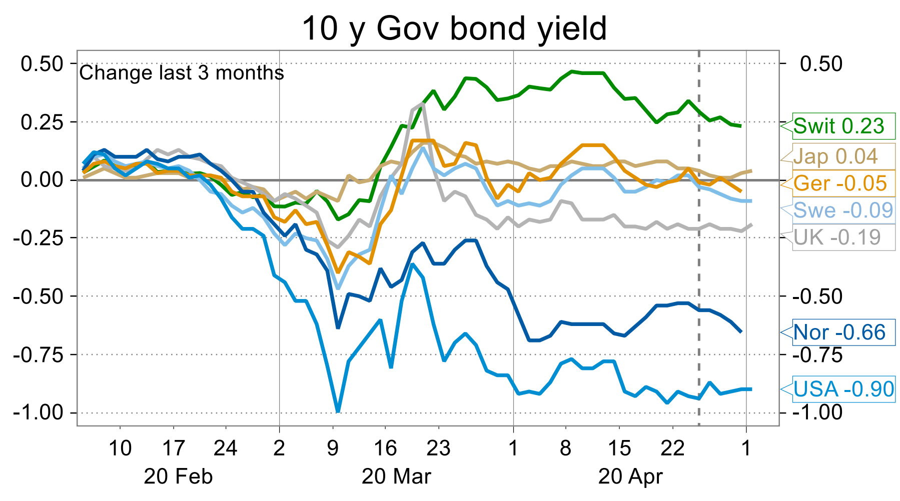
Metal prices down last week but have stabilised since March 20



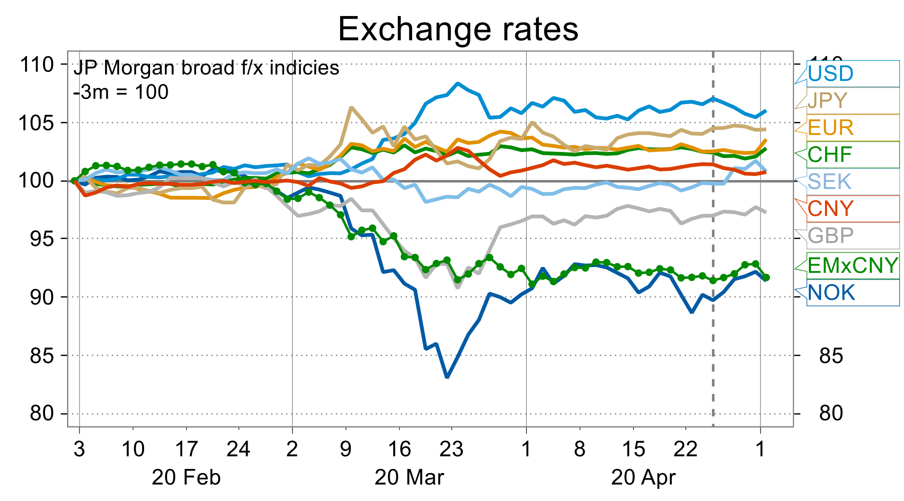


Oil up, mostly due to Trump's threats against Iran?

SB1 Markets/Macrobond



Bond yields down, has been trending flat in April

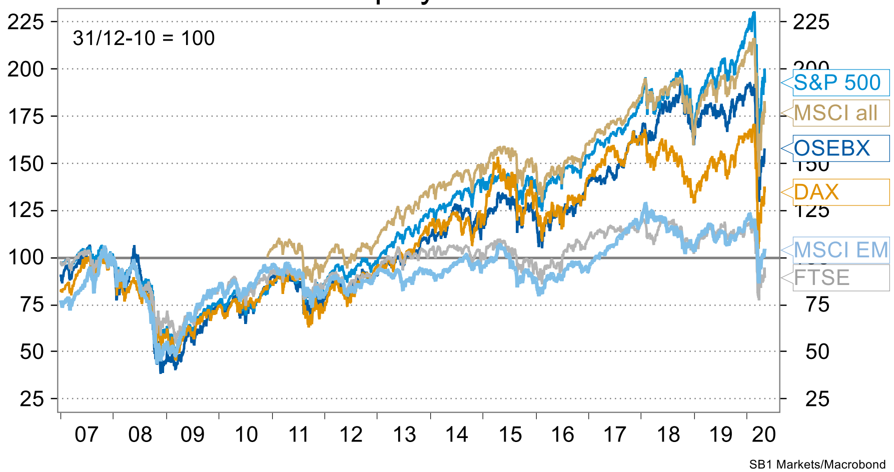


NOK marginally up

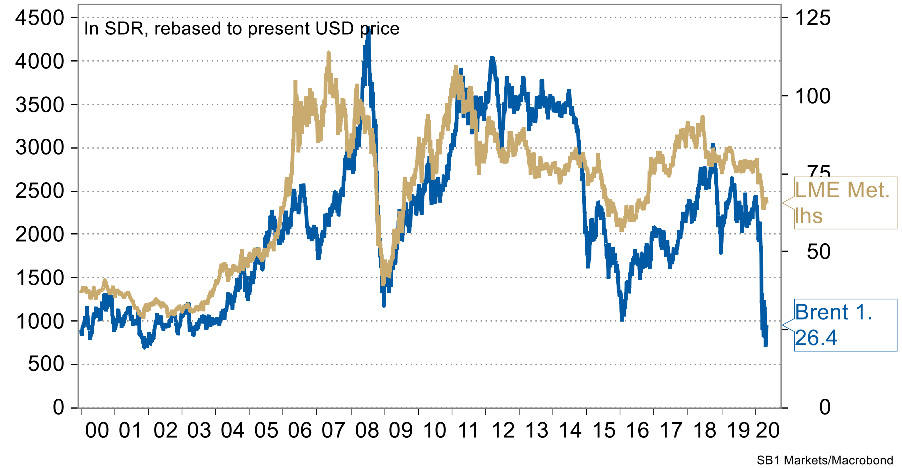
In the long run: Stock markets are looking like a ‘V’

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

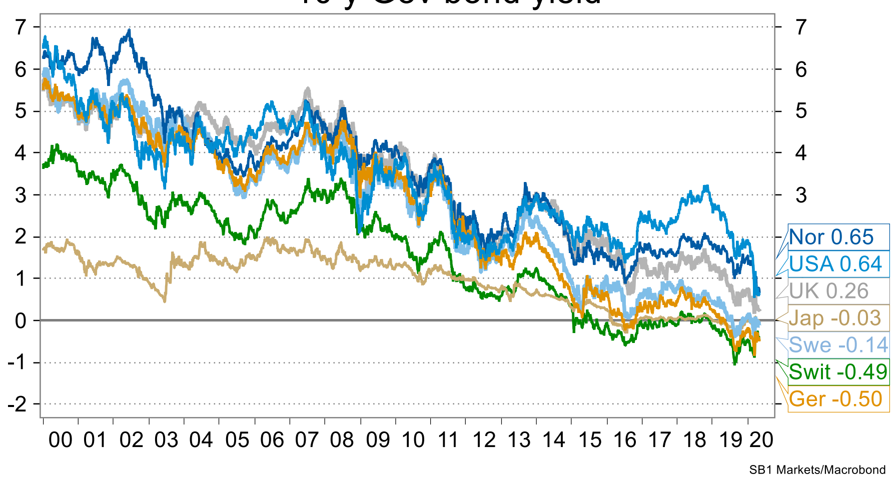
Equity Indices



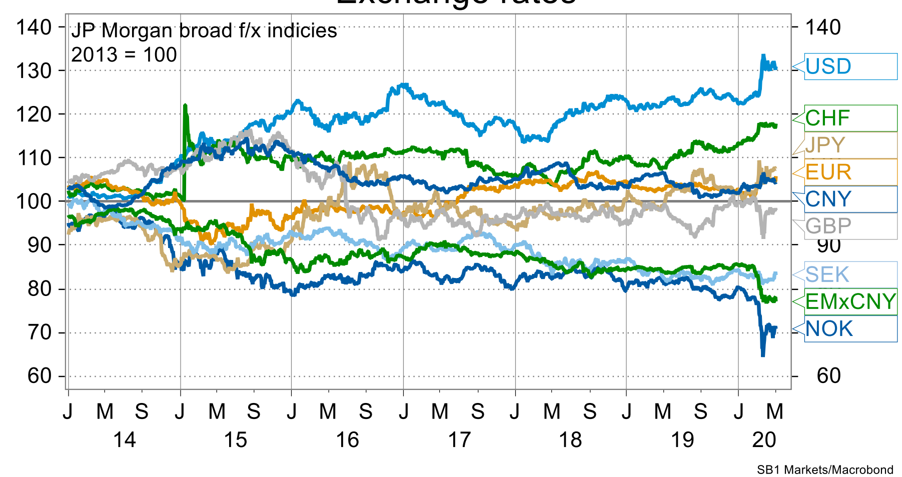
Oil vs. metals



10 y Gov bond yield



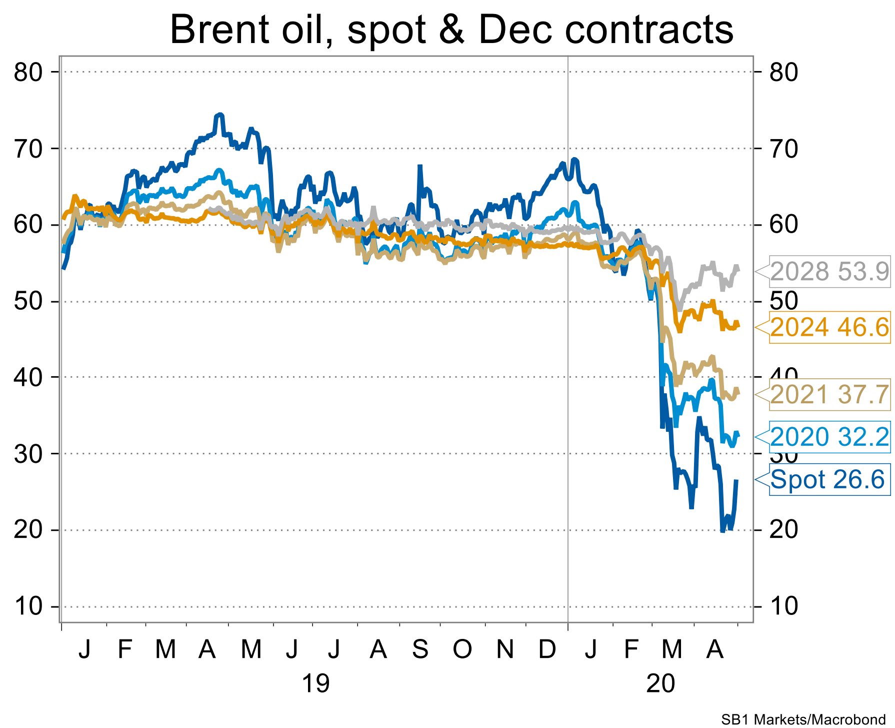
Exchange rates

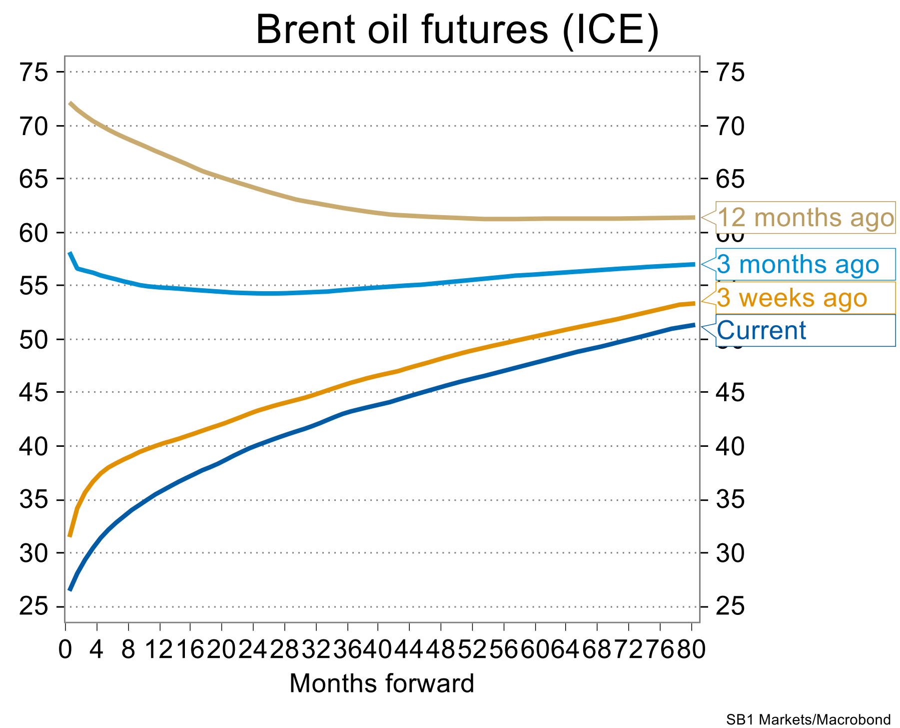


SpareBank 1 MARKETS

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

Last week, oil prices edged up all over the curve

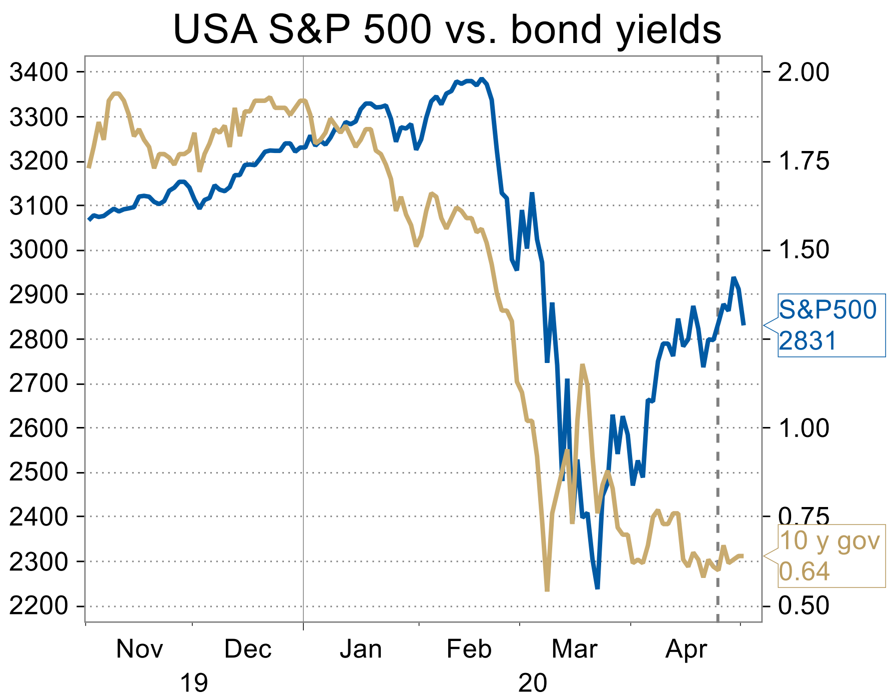




- The first part of the price decline as the coronavirus spread was understandable and due to a decline in expected demand from China and thereafter elsewhere
- The decline since SA started the price war vs. Russia (or both of them vs. US shale) three weeks ago is probably mostly due to the supply shock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

Stocks, bonds have flattened out past two weeks

Equities are still trending upwards, bonds not. The Fed may take the credit



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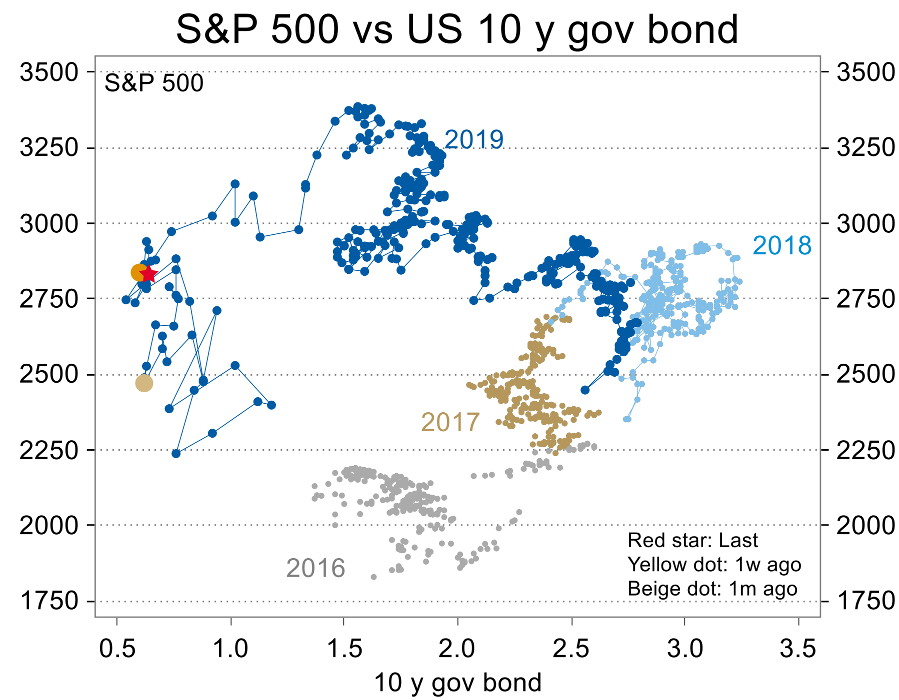

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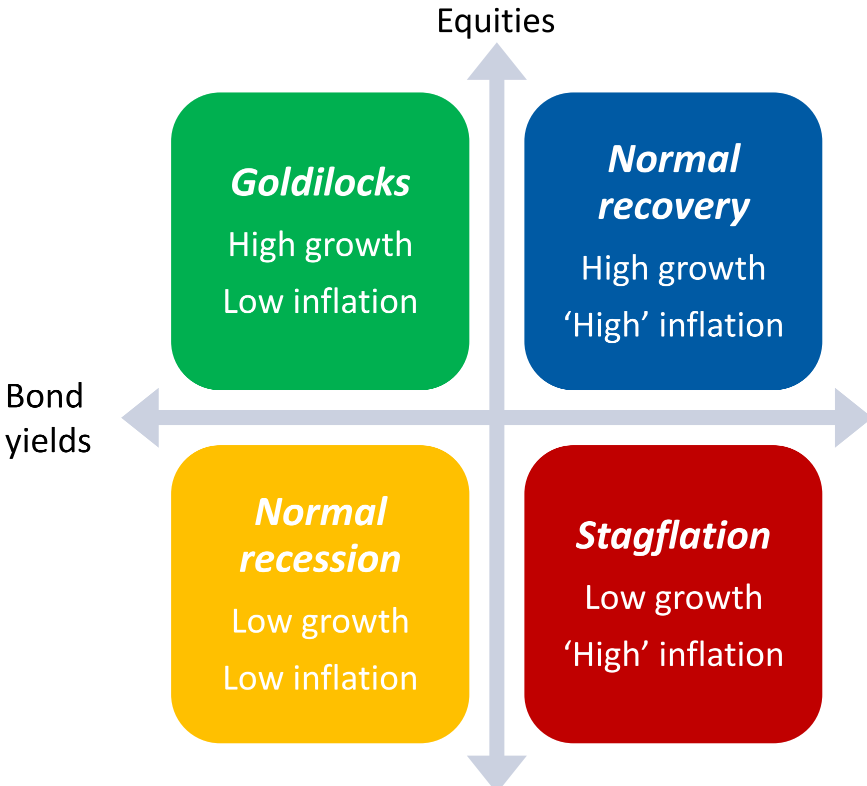
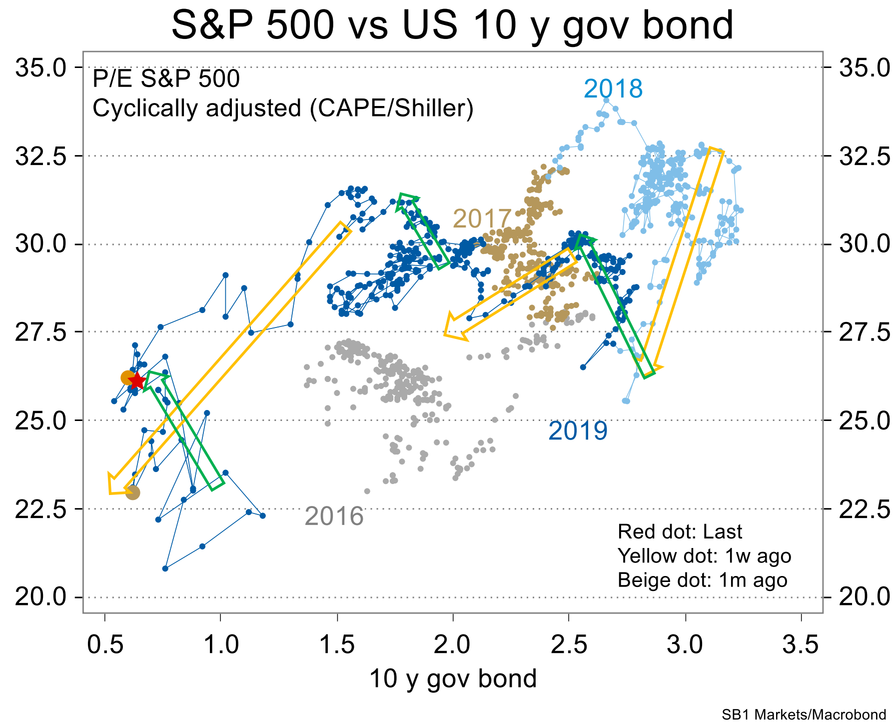
Markets were on the way to the recession corner, for good reasons…

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

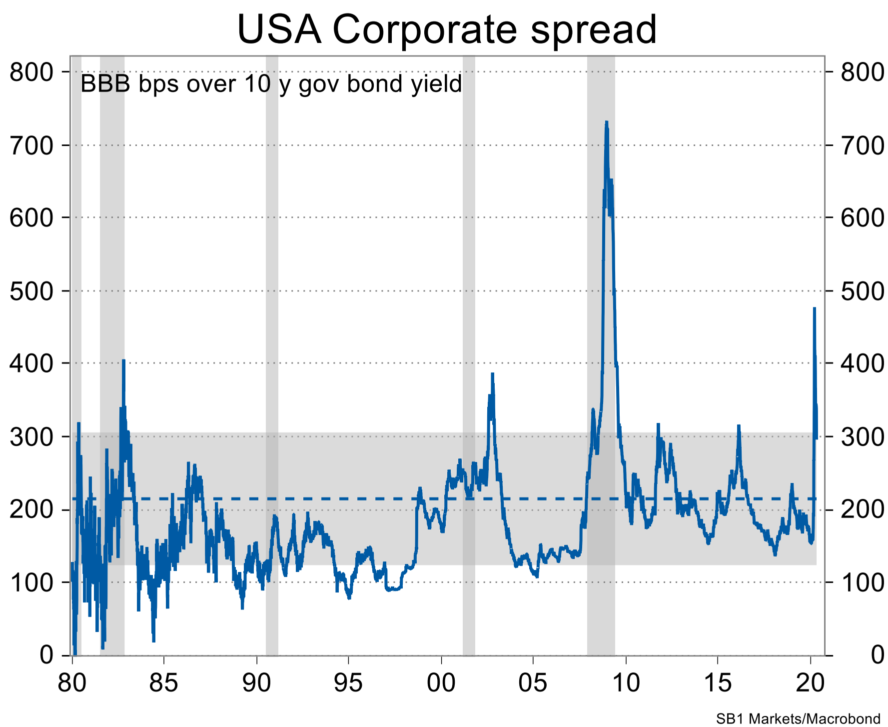


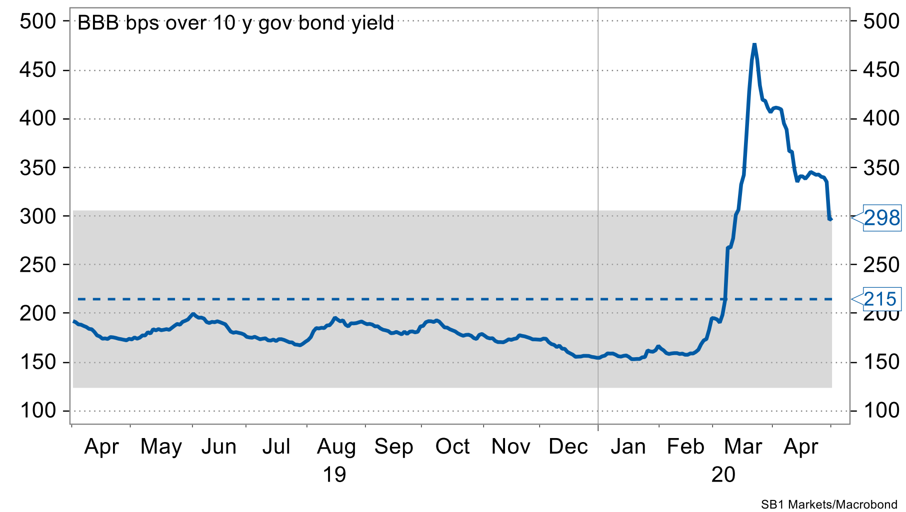


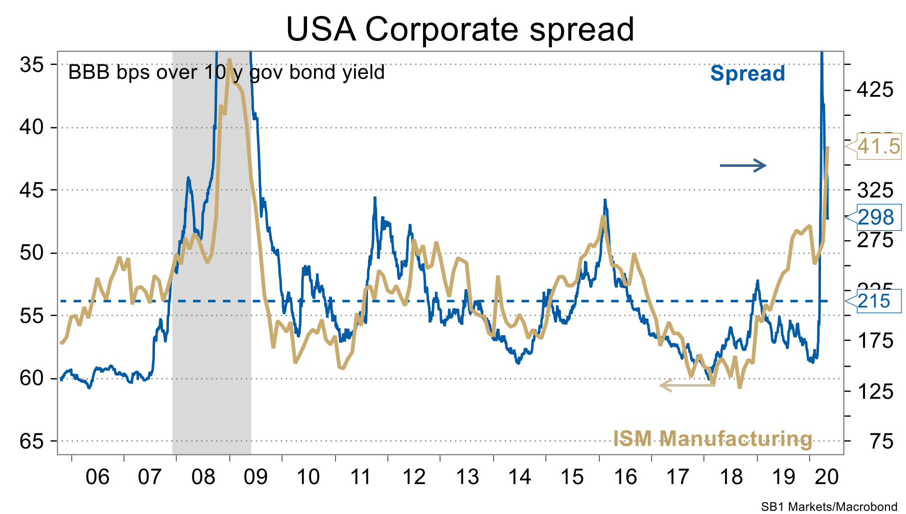
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic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

Corporate spread sharply down last week, US BBB almost by 50 bps

The US BBB spread has fallen by 170 bps, and is 2/3rd way back to an average level

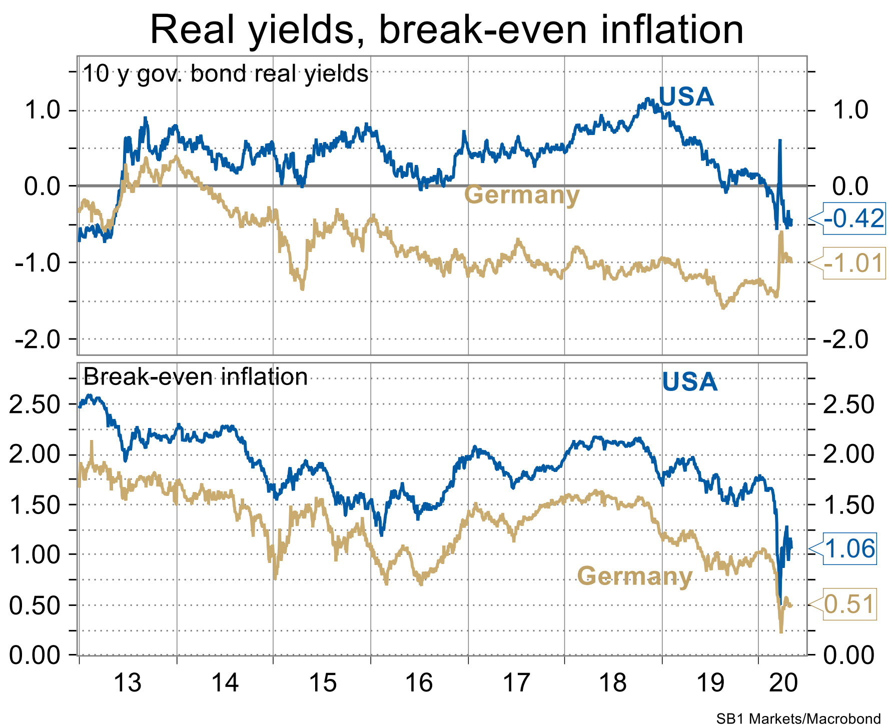


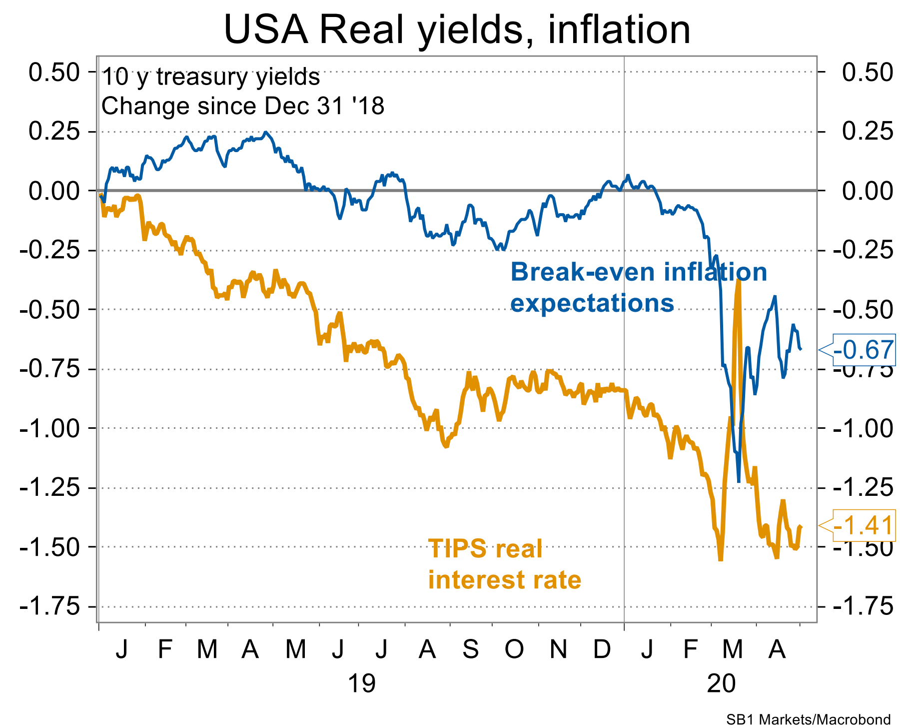




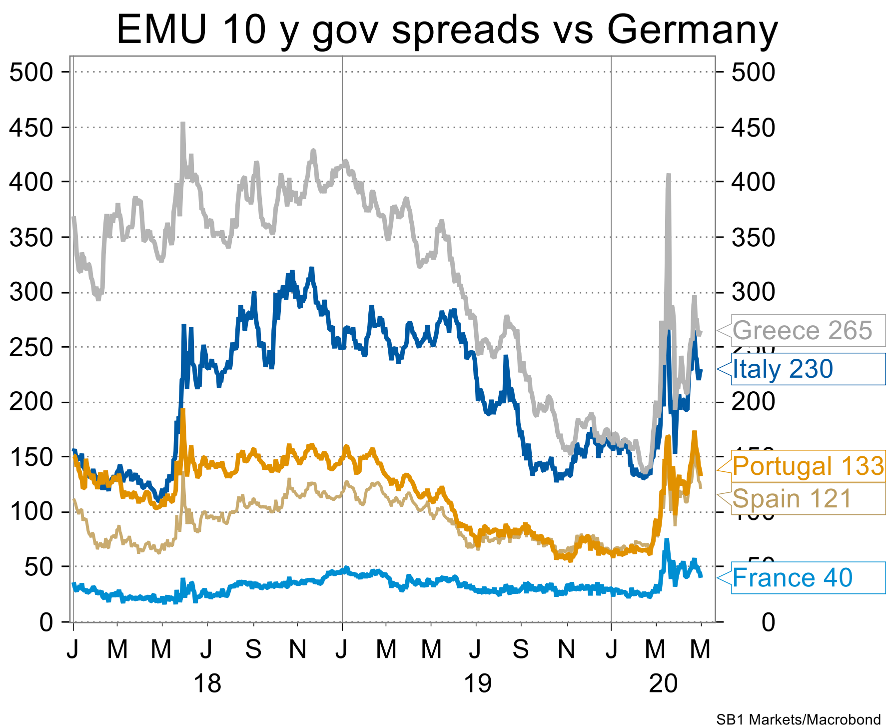
- The credit market is not responding to the economic circumstances as normal. An ISM is at 41 (or rather at 27, check here) is normally not an argument for a spread at the present level. If not the Federal Reserve had intervened heavily in markets (and promised to do more), spread will no doubt have been significantly higher

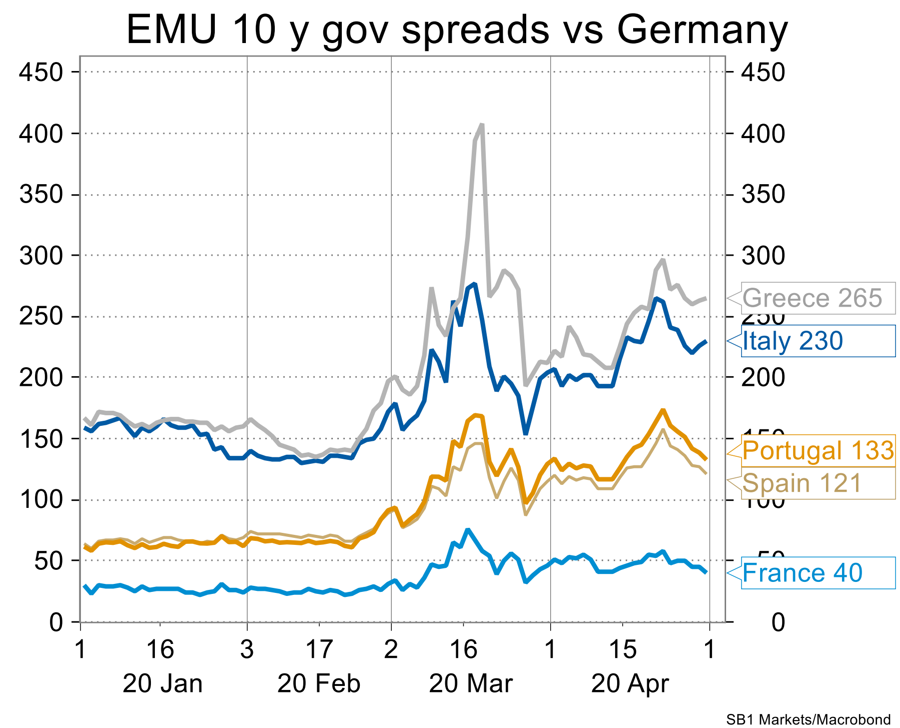
Small changes in real rates, inflation expectations last week





EMU gov spreads narrowed last week, in spite of no new political initiatives





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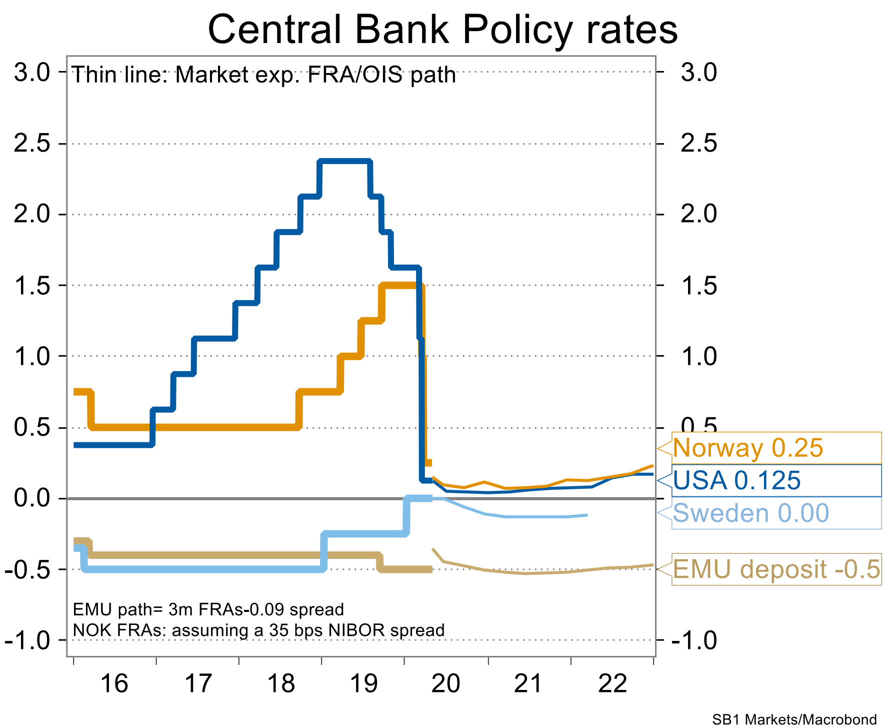
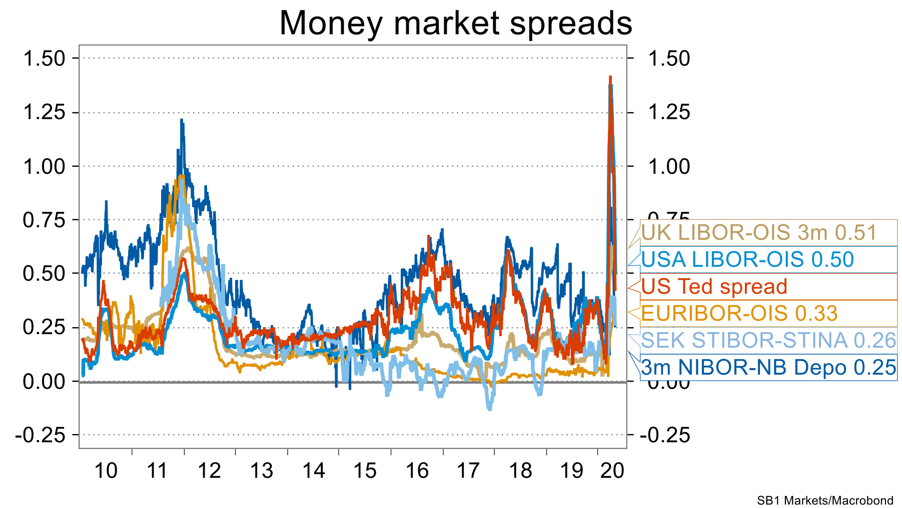
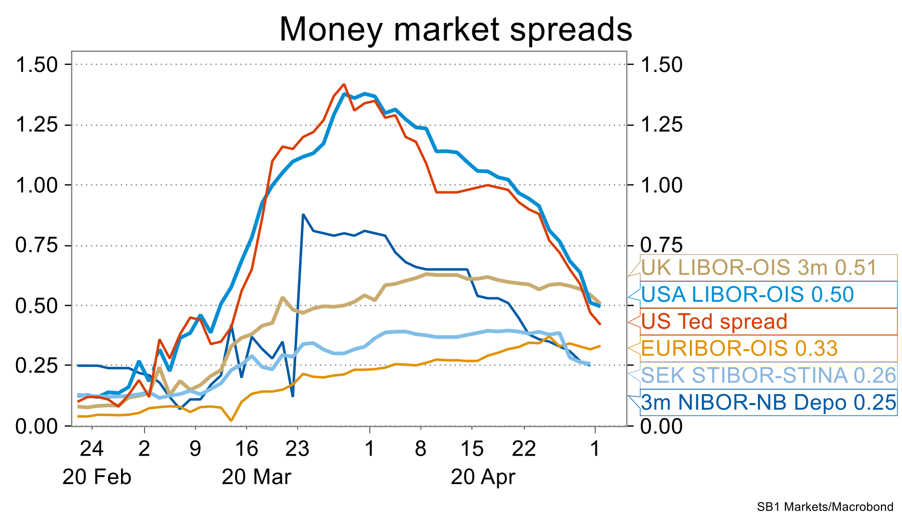
Central bank rates on hold, money market spreads are narrowing

… most in the US and Norway. The NIBOR spread down to 25 bps, a cut is partly prices in?

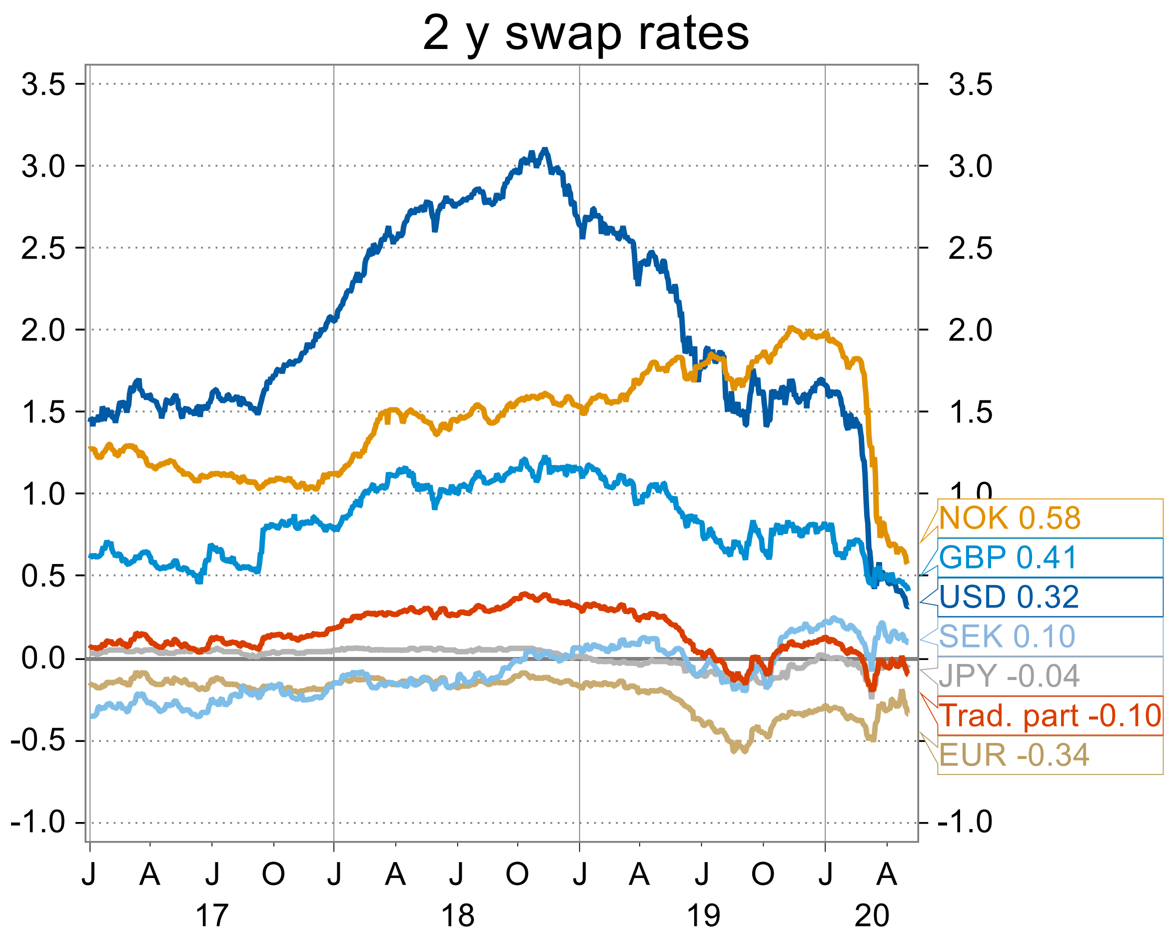






Short term rates drifting down again both abroad and at home

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



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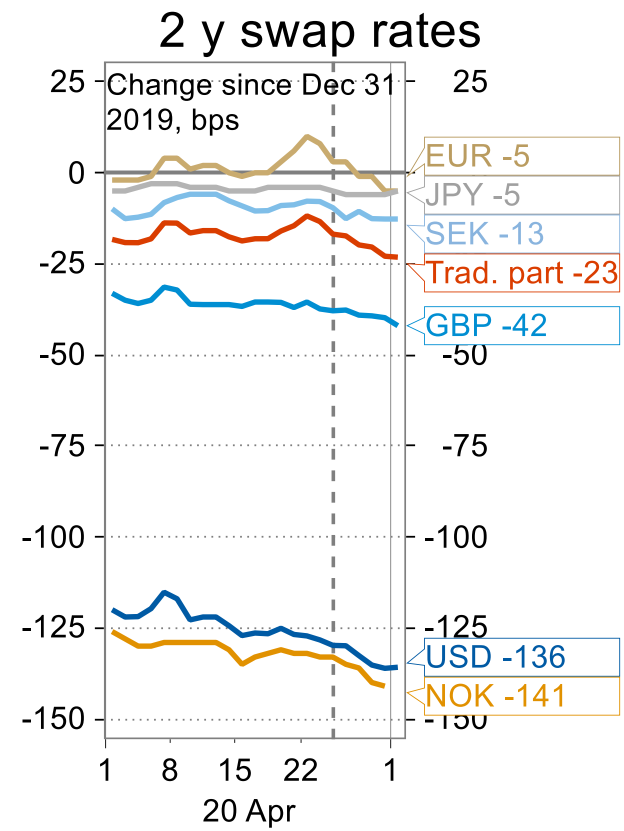
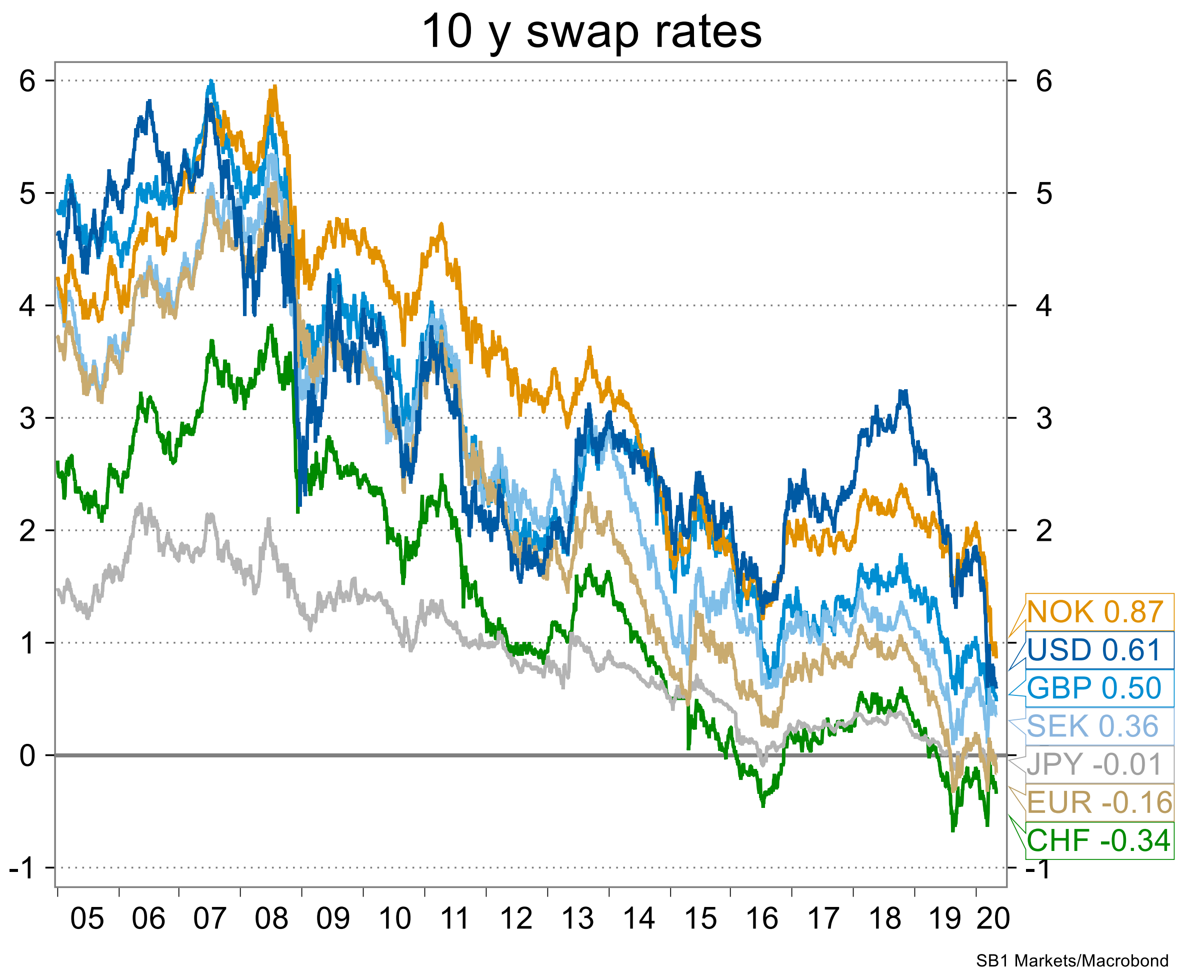
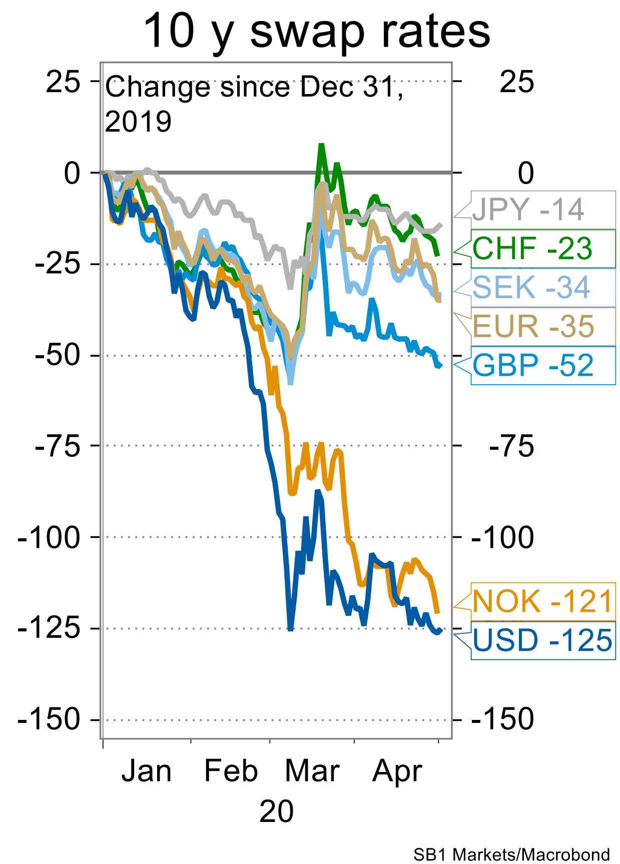


SB1 Markets/Macrobond

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

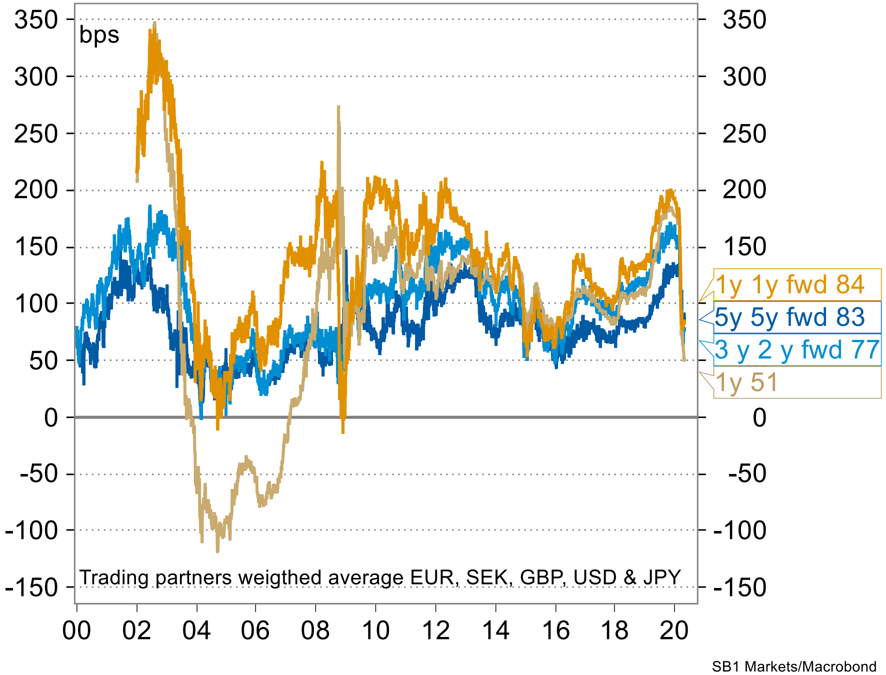


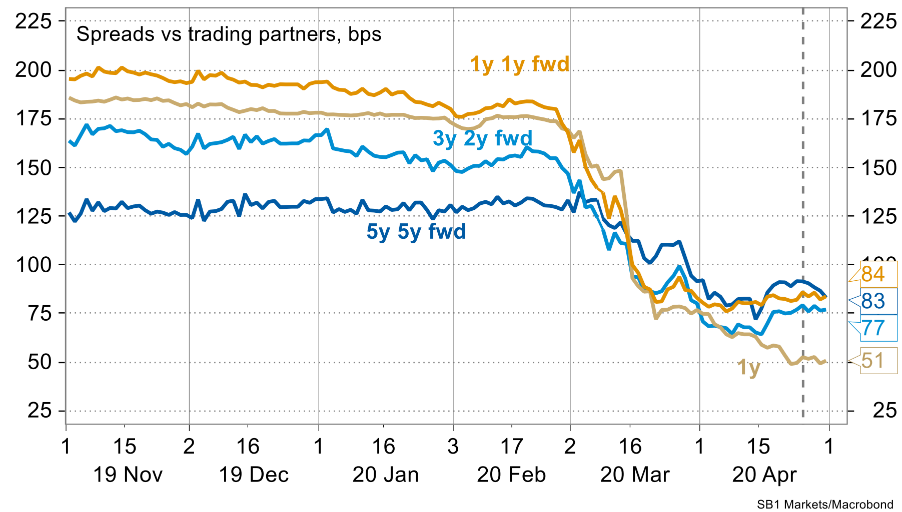


NOK swap spreads vs trading partners slightly in last week, most in the long end

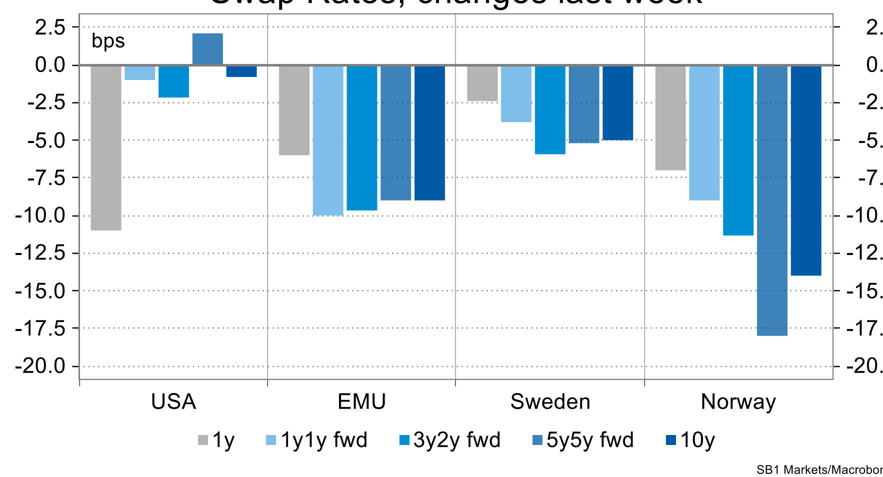
We think the upside risk for spreads is smaller than the potential for a further decline

Norway vs trading partners, impl swap spreads





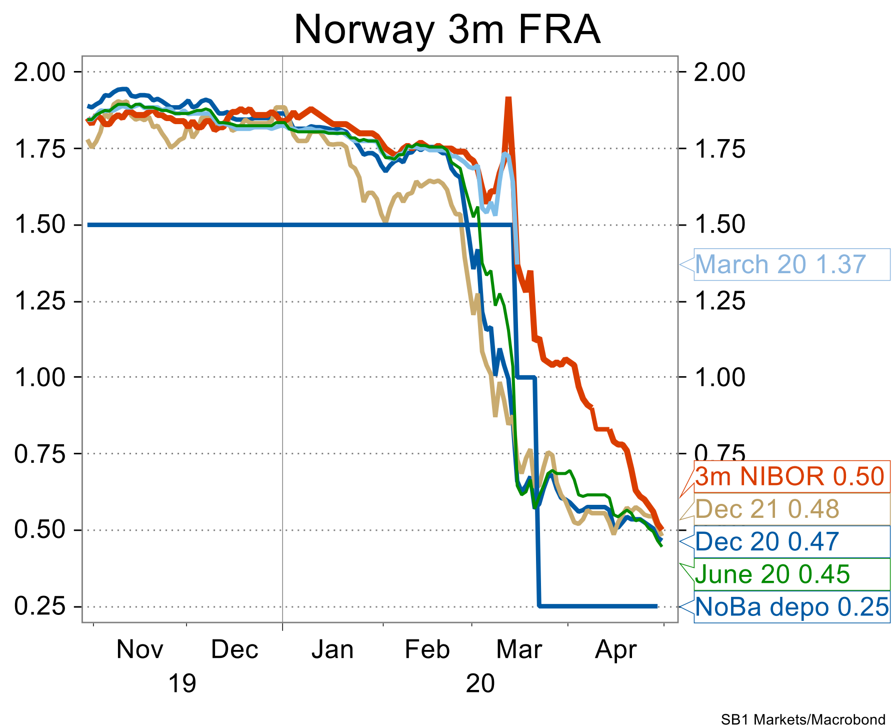
Swap Rates, changes last week

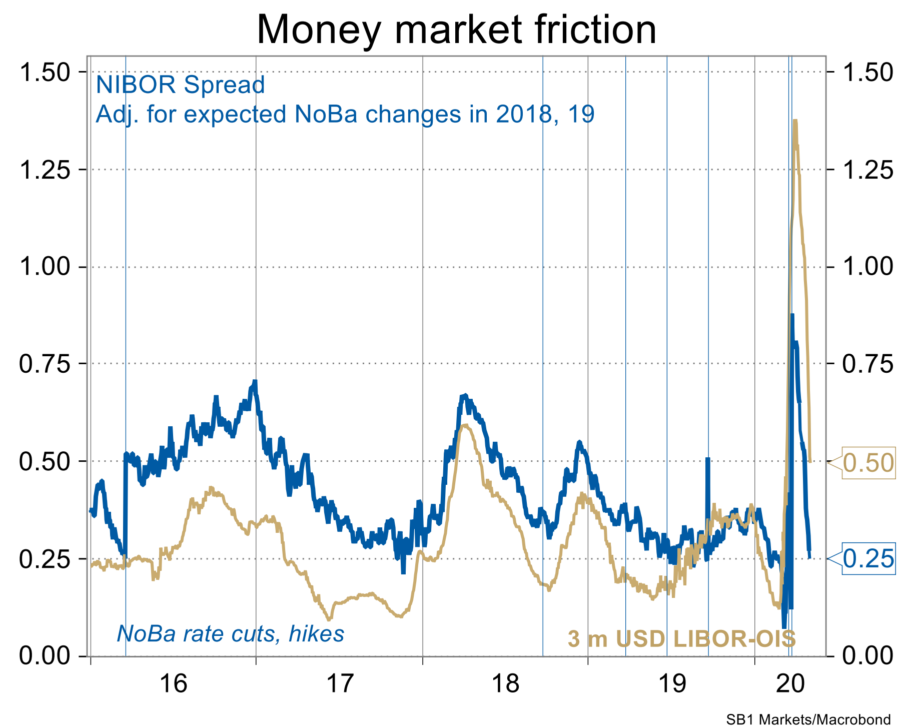


- NOK swap rates marginally up last week, except for the very short end of the curve. USD rates down, European marg. up
- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since late February, spreads have been falling sharply, as NOK rates have declined more rapidly than others
- Spreads are still not that low and there is more downside risk, in our view

The NIBOR down to 0.50%, FRAs are sliding too. Will Norges Bank go to zero?

FRAs down to 0.45 – 0.48%, we assume a close to 50% prob. for a NoBa cut is discounted. A fair bet





- The spread in the US money market collapsed last week, the 3m LIBOR-OIS spread by almost 50 bps to 50 bps. We expect more to come.
- The 3m NIBOR – NoBa deposit rate fell to 25 bps last week – which is at the lower end of the spread 'corridor' recent years and may be a fair spread, given the extreme supply of liquidity from central banks recent weeks (in Norway by 6% of GDP). However, a 30 bps spread is just as likely, given the recent history
- As the June 3m FRA has fallen to 0.45%, we assume market is discounting a close to 50 bps NoBa cut. If Norges Bank cuts to zero, the NIBOR could decline to 30 bps, no doubt contributing to further cuts in both banks' lending and deposit rates, which will not hurt, now

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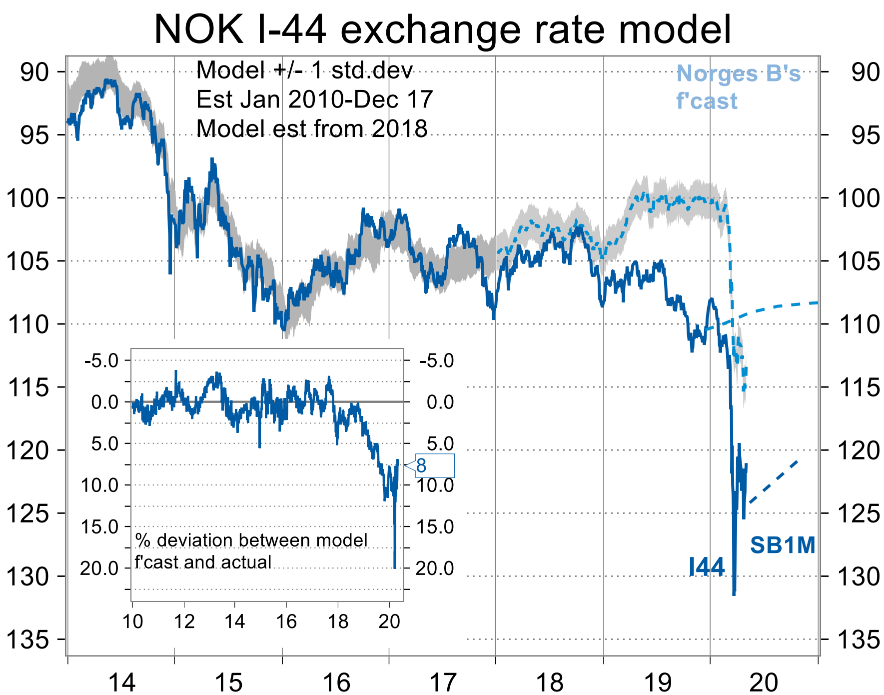
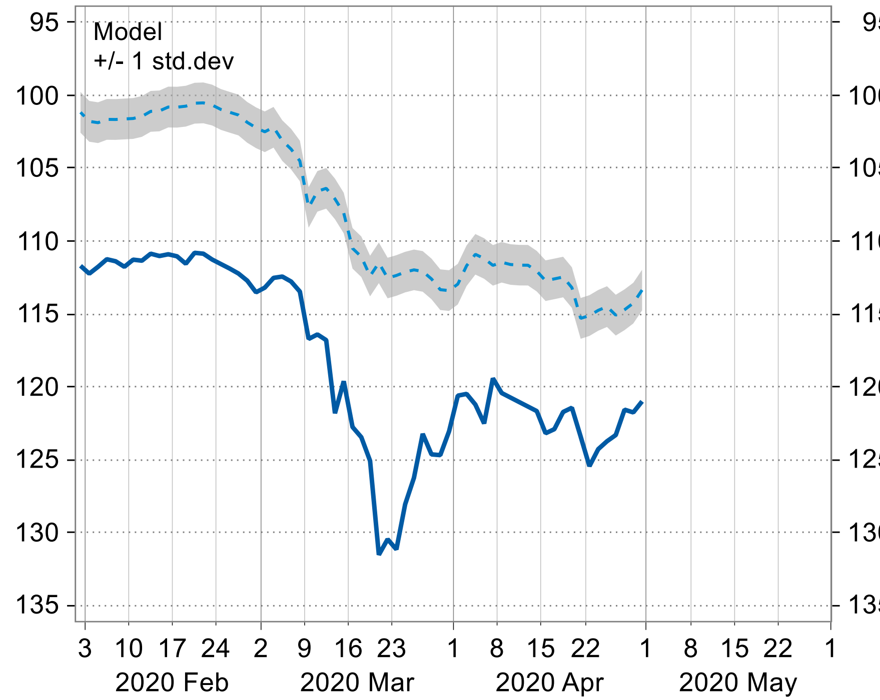
NOK up 2.5%, twice as much as oil (our model) explained

The gap vs our old model narrowed to 8%

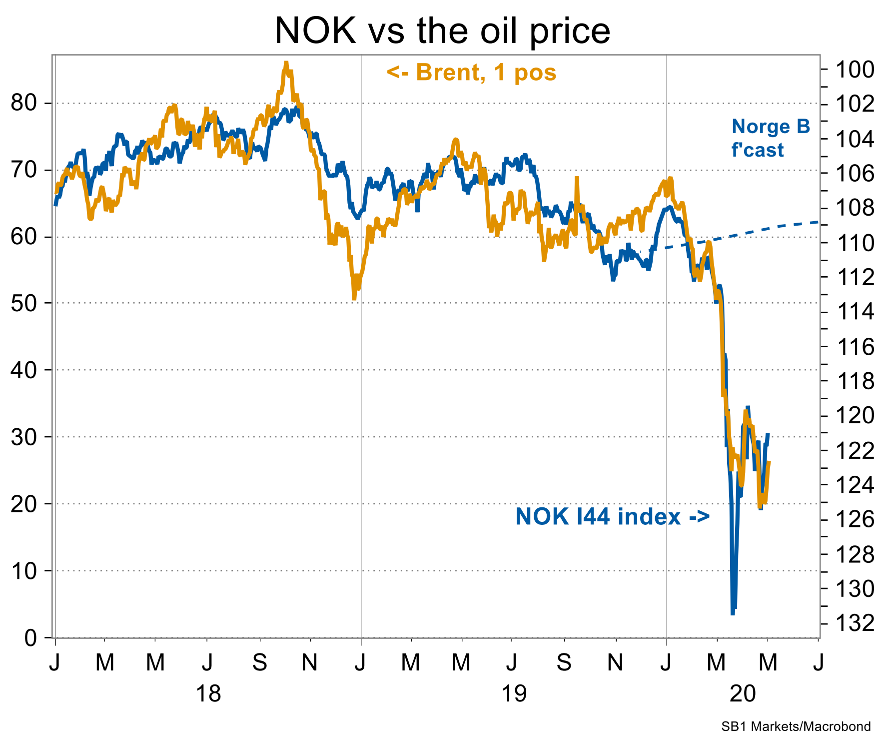


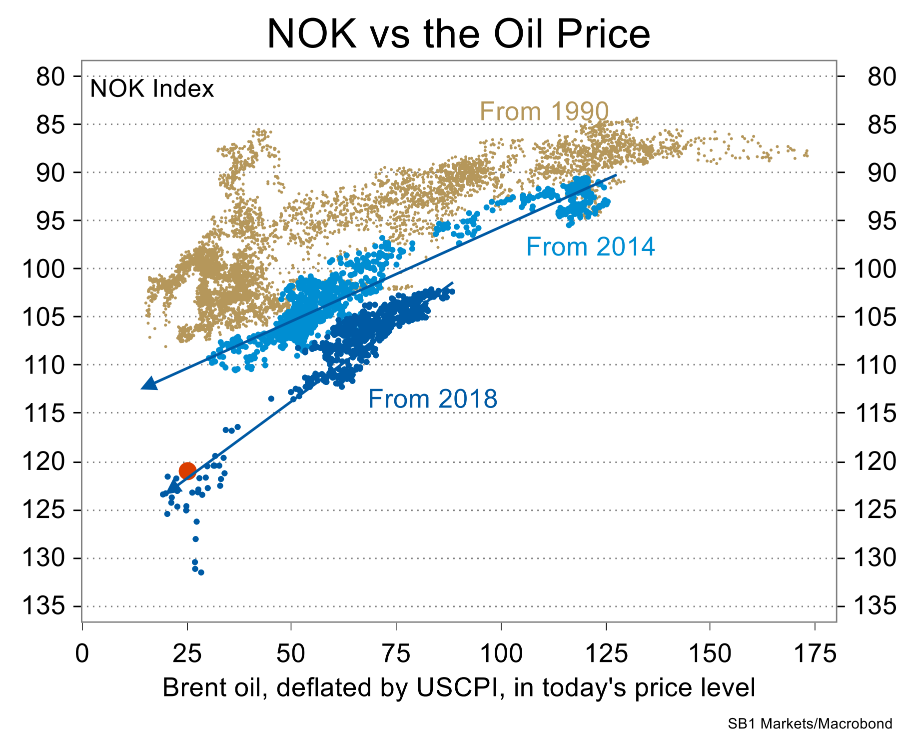


- The NOK is still closely correlated to the oil price, tough at a lower level than before
- Last week, the oil price rose – and NOK ta tad more

The NOK is where the oil price is

… vs the short term relationship since 2018

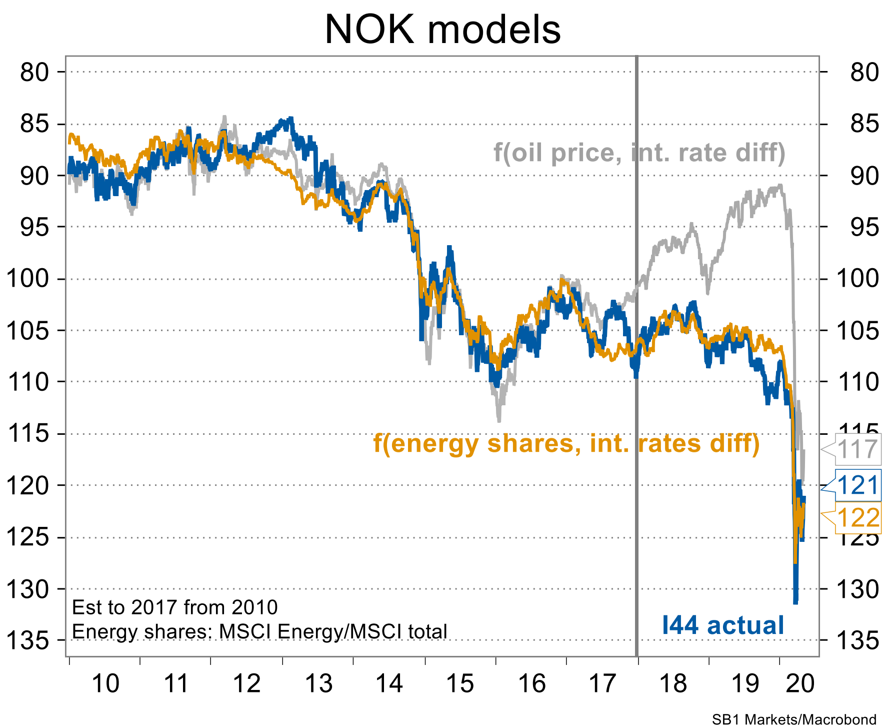


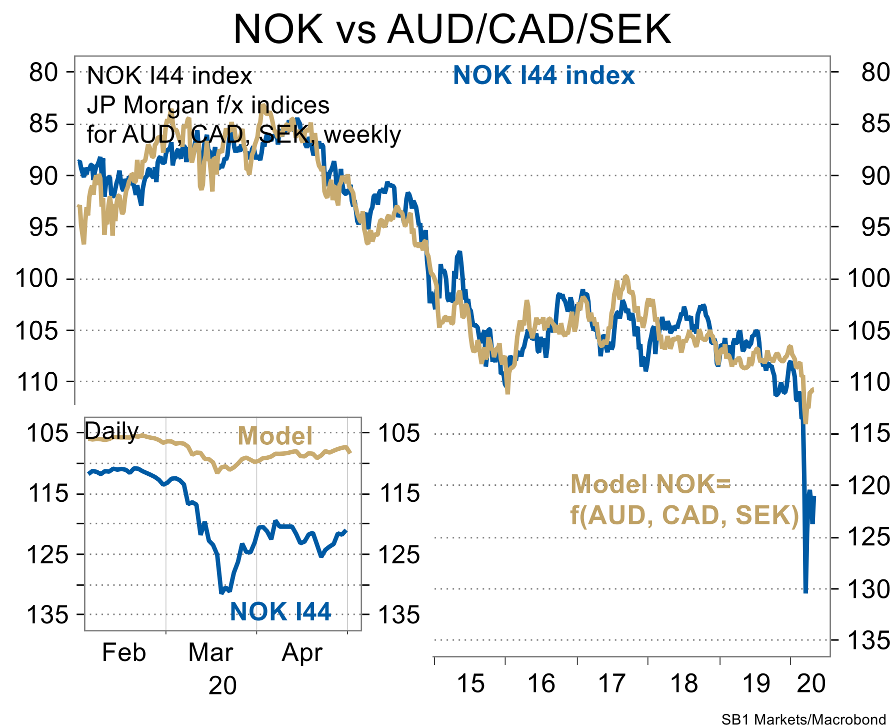


- The NOK has been much weaker vs the oil price than normal the past few years but <u>it is still correlated to the changes in the oil price like it used to be</u>

NOK 'stronger' than oil companies, narrowed the spread to 'supercycle' countries

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

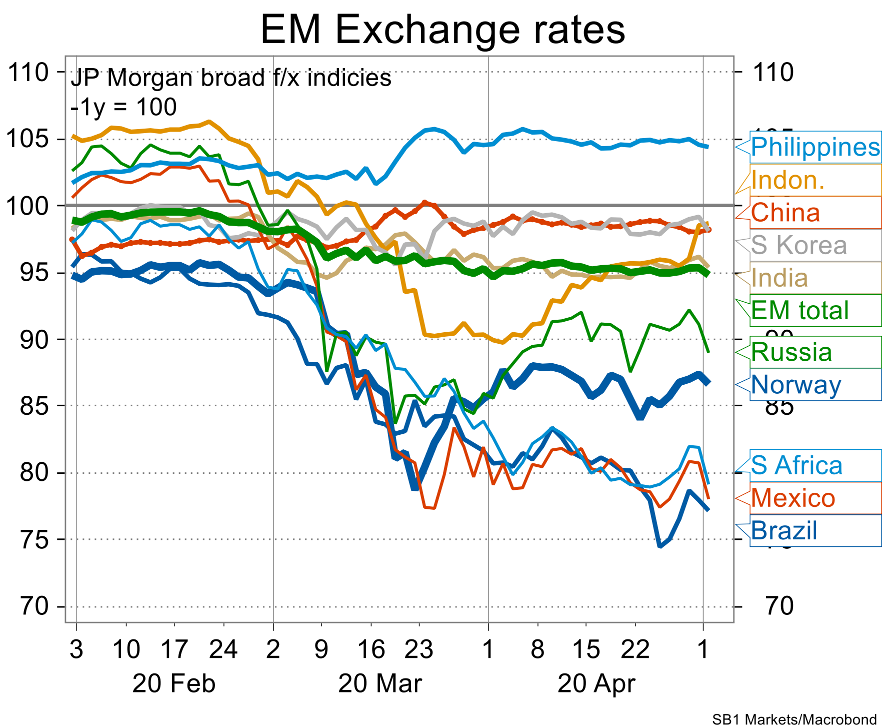


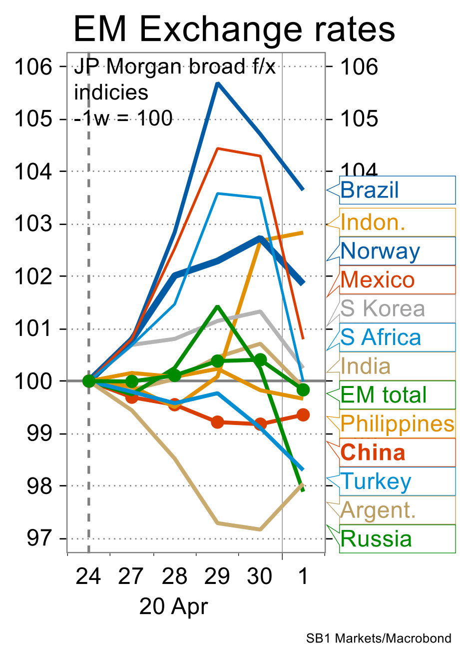


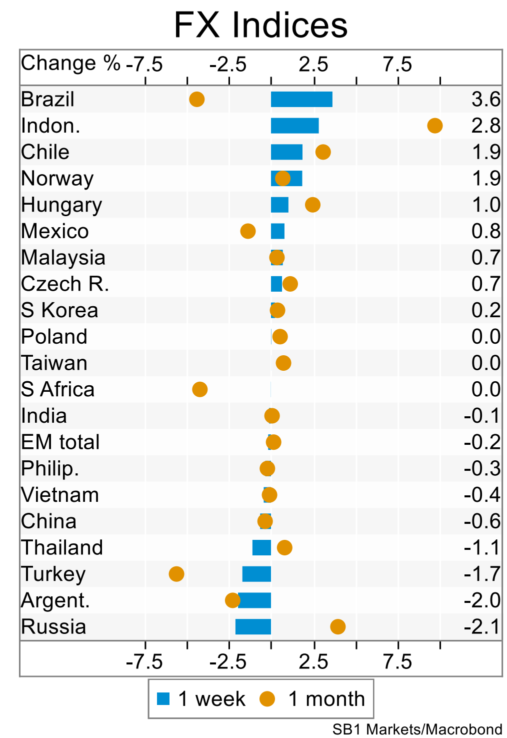
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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

The Brazilan real recovered ½ of last week's losses, still down 20% since Feb

Mixed among other EM currencies – as during April, in sum flat, following the depreciation in March

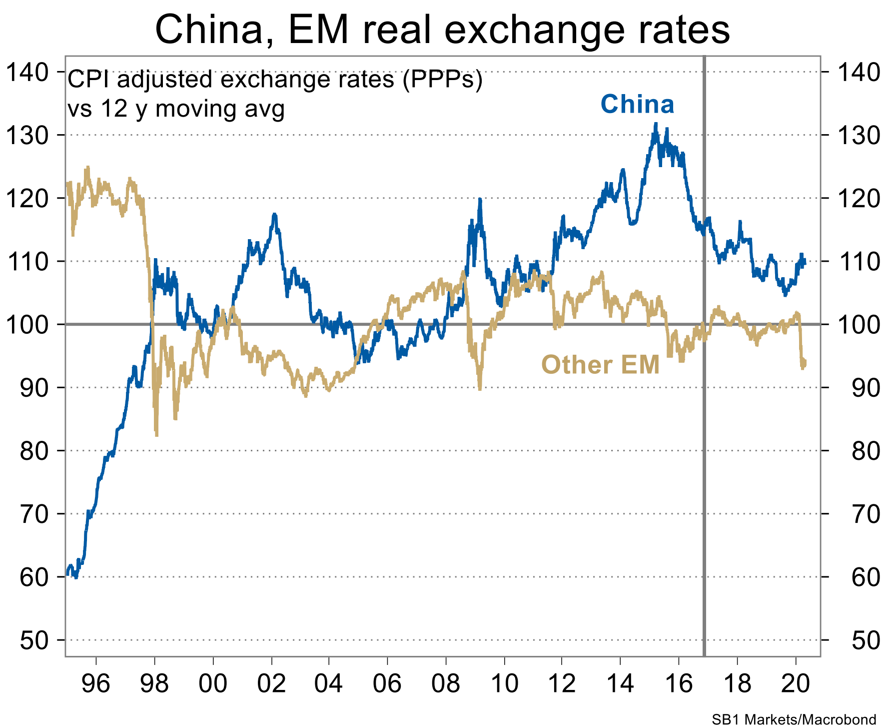


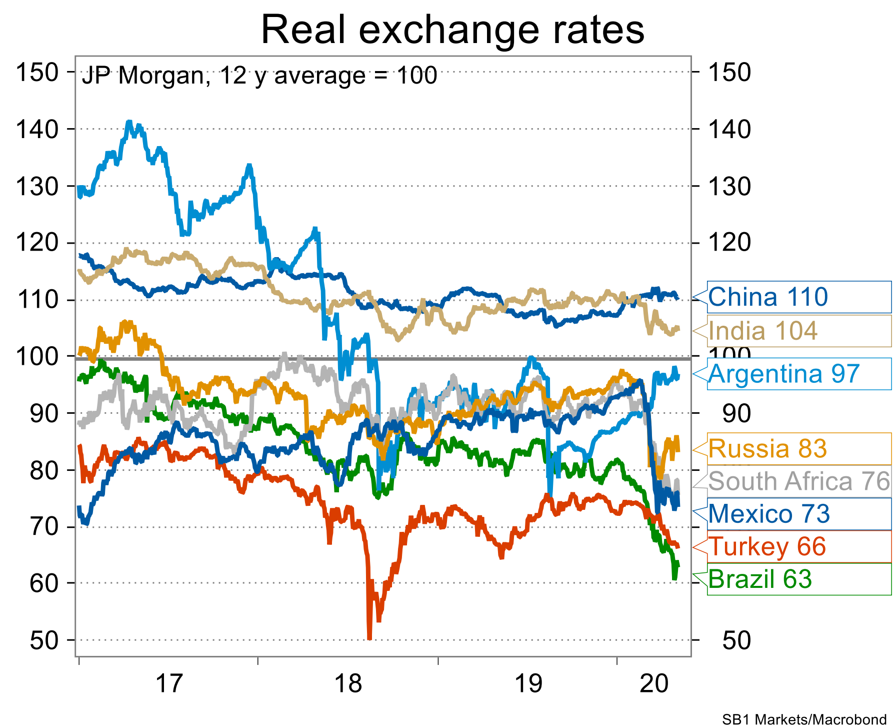




EM currencies ex China down 7%, almost all down, barring Argentina ☺

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





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