

# SpareBank MARKETS



## Macro Research

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Weekly update 20/2020

### Harald Magnus Andreassen

Phone : (+47) 24 13 36 21

Mobile : (+47) 91 14 88 31

E-mail : hma@sb1markets.no

### SpareBank 1 Markets

Phone : (+47) 24 14 74 18

Visit address : Olav Vs gate 5, 0161 Oslo

Post address : PostBox 1398 Vika, 0114 Oslo

**SpareBank**  
MARKETS

## Highlights

The world around us

The Norwegian economy

Market charts & comments

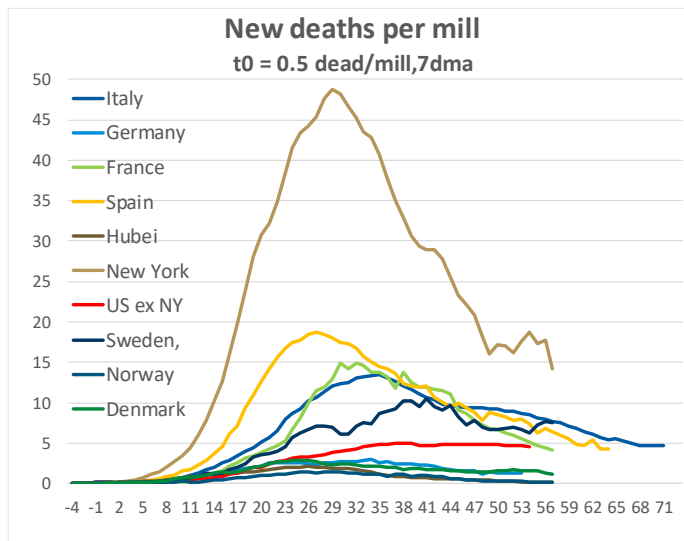
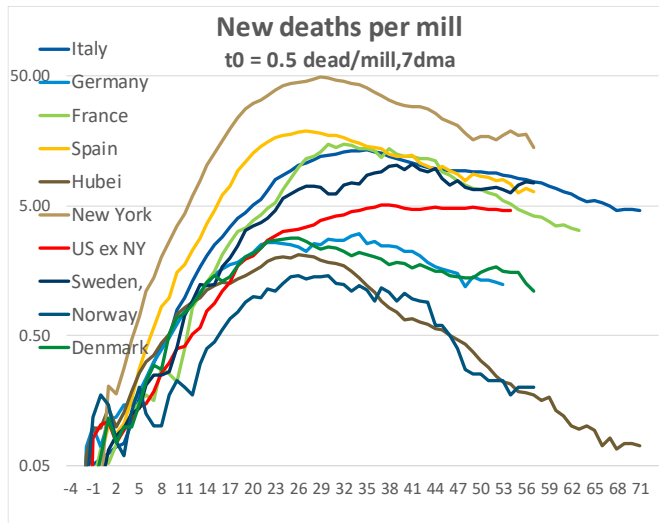
*The headlines are linked to the relevant section in the report  
The elements on the the page "In this report" are linked  
A top right  button will bring you back to the content page*

## Last week – the main takes

- The 'R' reproduction number remains below zero most places. It is still too early to judge the full impact of easing in restrictions and more activity in countries that started the ballgame. However, we should have observed more cases in Denmark by now if the R increased to above 1 following the opening of schools mid April. We have not (but the R is somewhat higher). **Norway** decided to lift more restrictions and published a plan to lift almost all of them in the coming months. The strategy is now to control the virus, not to 'beat it down, hold it down'. However, the room for manoeuvre is most likely not that large, given low herd immunity. **In US x New York** the number of cases/deaths has just flattened (R close to 1) but even so restrictions are eased in most states. Exiting times...
- **The PMIs** as well as the **US employment report** confirmed that April was an economic disaster in most countries x China. **Short term indicators** suggest that activity is on the way up most places even before restrictions were formally eased. Still, the activity level in Q2 is much lower than normal, by some 10 – 25% (the latter is Bank of England's UK estimate). The service sector is particularly hard hit most places but **not in Sweden**, so far.
- **In China**, auto sales rose sharply in April, to the highest level since last summer – while sales fell in all other parts of the world. Exports rose further, almost to all time high!
- **In the US**, the NY Fed's weekly economic indicator reports a 12% decline in GDP (measured y/y, implying 14% from Q4). Unemployment rose to 14.7% but the real rate is probably some 25 – 30%. Businesses may have been (too?) clever furloughing their employees
- **The EMU**, retail sales and manufacturing production fell by 11 – 12% in March and the decline will continue in April. The recovery will start in May
- **In Norway**, **NAV total unemployment** declined for the 3<sup>rd</sup> week in row, signalling that the peak in unemployment is behind, even if the daily inflow of new job seekers is far higher than normal. Many furloughed workers are now returning to their jobs. **House prices** rose by some 3% through April (but April prices were still 0.2% below the March level). Still, nobody expects the economy to turn on a dime and return to the pre corona level anytime soon. **Norges Bank** justified the cut in the signal rate to zero by a 'slow' recovery in the coming years – and we think the Bank is right. Even so, the 'corona crisis' (which is much more than a virus downturn) most likely will be far less serious measured by the accumulated economic and employment loss than our housing and banking crisis 30 years ago (some charts a few pages out in this report)

# Most places have some leeway up to $R > 1$ , US x NY not – and not Sweden either

Easing of corona restrictions underway most places – no 2<sup>nd</sup> round to be seen, yet



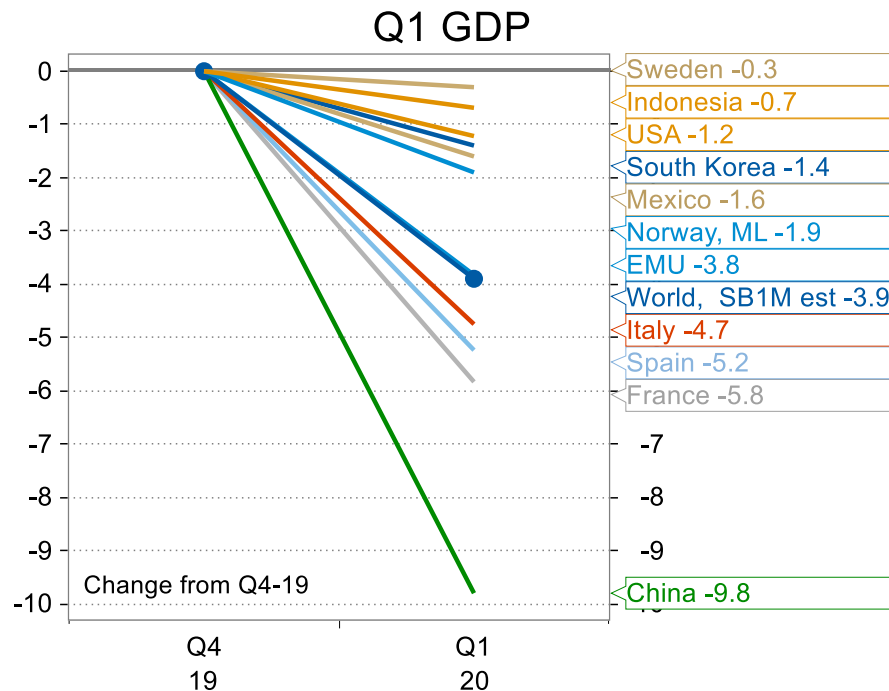
Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

- 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 where cases/deaths just have flattened, signalling an 'R' replication number at 1.
  - Deaths in Sweden may not be falling either – and not in Denmark. However cases in Denmark is declining
- 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
  - Norway last week announced further steps, and a plan for the coming months. Barring large gatherings of people (>500), recommendations for social distancing and a quarantine after travels abroad most will soon be allowed
  - The Norwegian strategy has changed, to controlled mitigation from the beat down, hold down strategy
- In some few weeks time we will find out whether the 'R' number remains close to (or at least too much) above 1, after these easings
  - US ex. NY does not seem to have much room for manoeuvre, others have some limited room, but the distance up to an 'R' at 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, hygiene etc. So plenty of unknowns



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

Substantial differences, mostly depending on when the corona virus hit



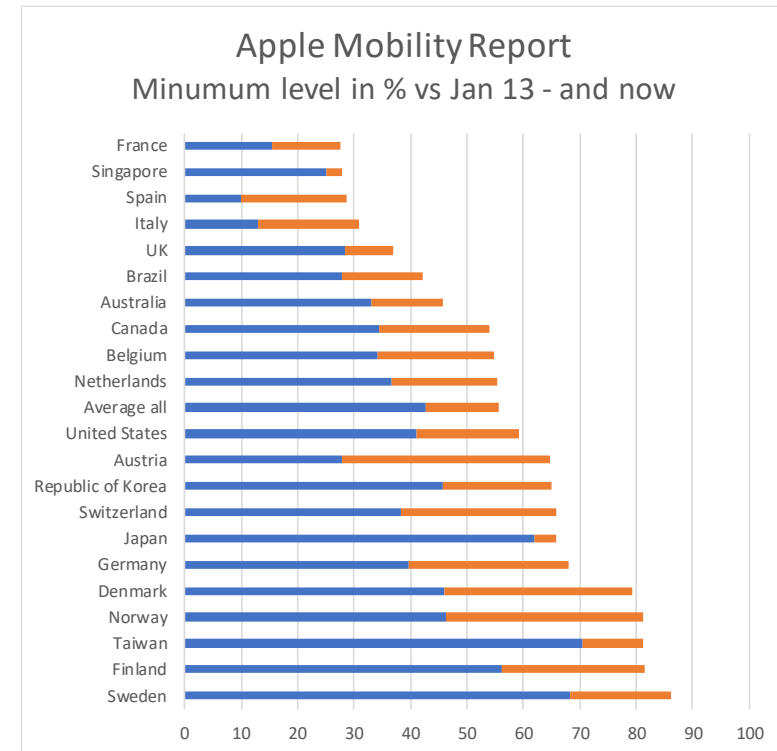
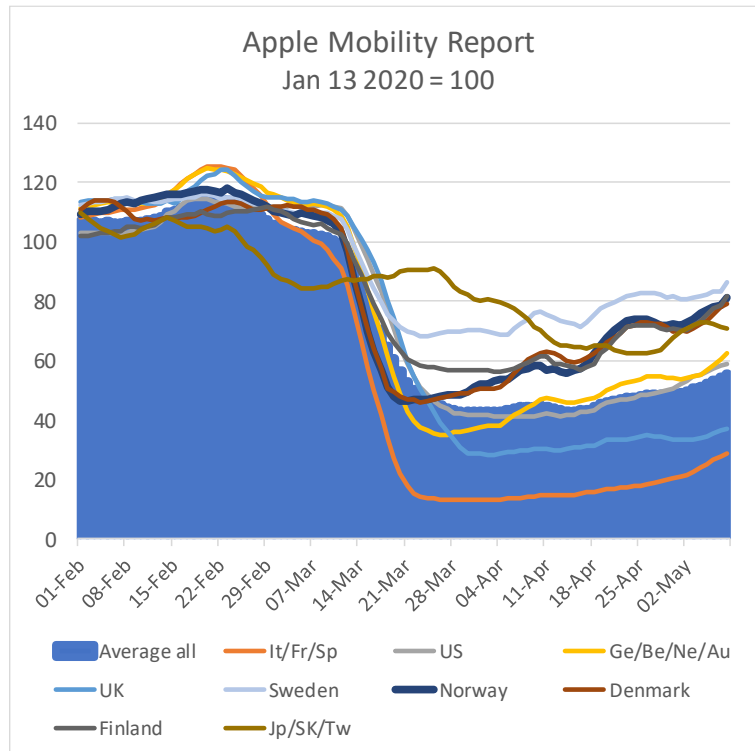
SB1 Markets/Macrobond

... 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 where 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. China will probably report a positive growth rate in Q2. Not many other will...
- So, in Q2 we expect a further 6% decline in global GDP

## We are moving more around, everywhere

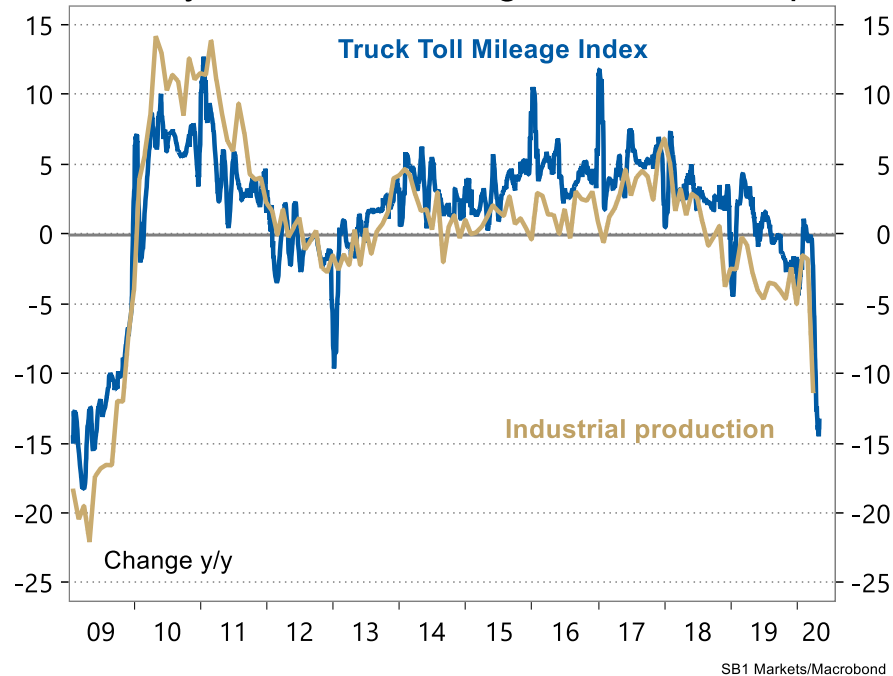
Still, mobility is far from normal levels, everywhere



- Map searched in Apple Maps, average of road, walk and public transport searches

## Germany is slowly, slowly on the way up – from a 10 – 15% slump

Germany Truck toll mileage vs industrial prod



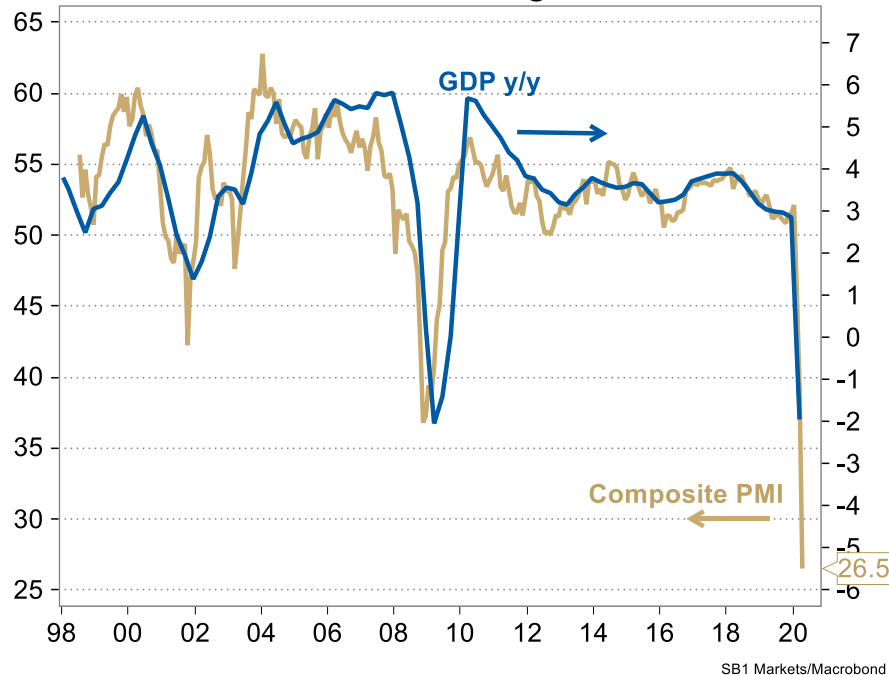
Germany, Truck Toll Mileage Index



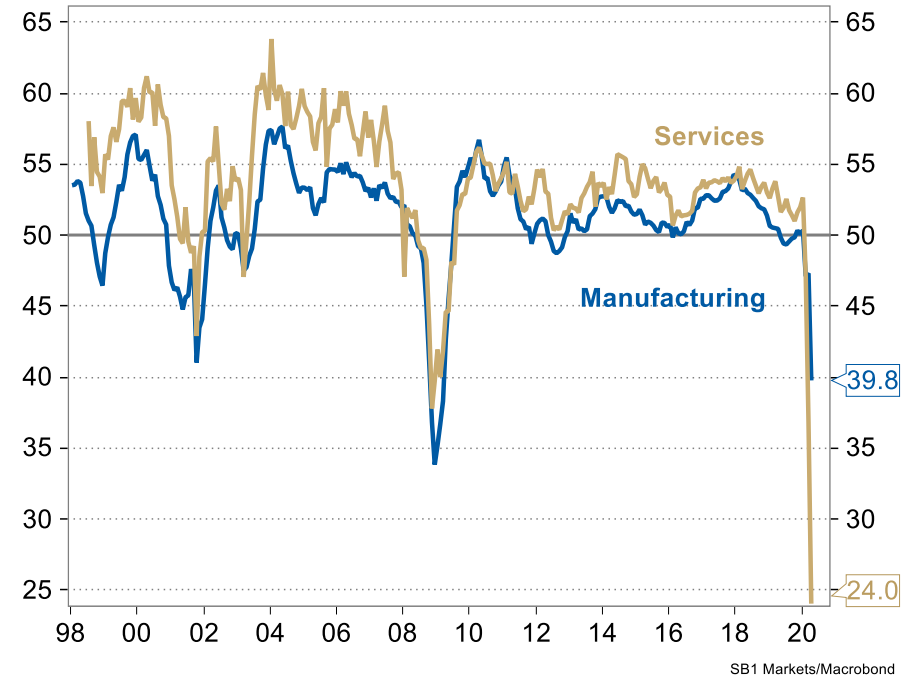
# Global PMI confirms harsh setback in April, as both services & manuf. stumbled

Global PMI fell much more than we assumed, down to 26.5

Global PMI vs growth



Global PMI

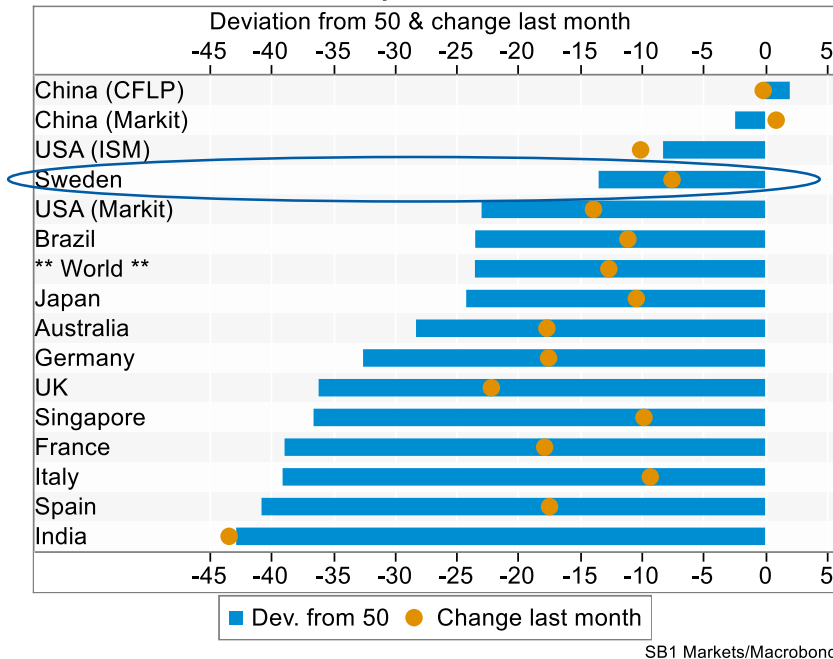


- The global PMI fell by 12.7 p to 26.5 p, signalling a 5 – 6% decline in global GDP
  - » However, it is challenging to calibrate the PMIs in uncharted territories
- The decline was most dramatic in the service sector, the index fell to 24 - and in Europe, of course due to the lockdowns in several countries. The headline manufacturing index fell to 39.8, but the production & order indices were far weaker. Longer delivery times pushed the headline index up, not a signal of strength these days. So the PMIs are even weaker than reported
- What about May? If activity picks somewhat up, the PMIs should report growth – and climb to above the 50 line

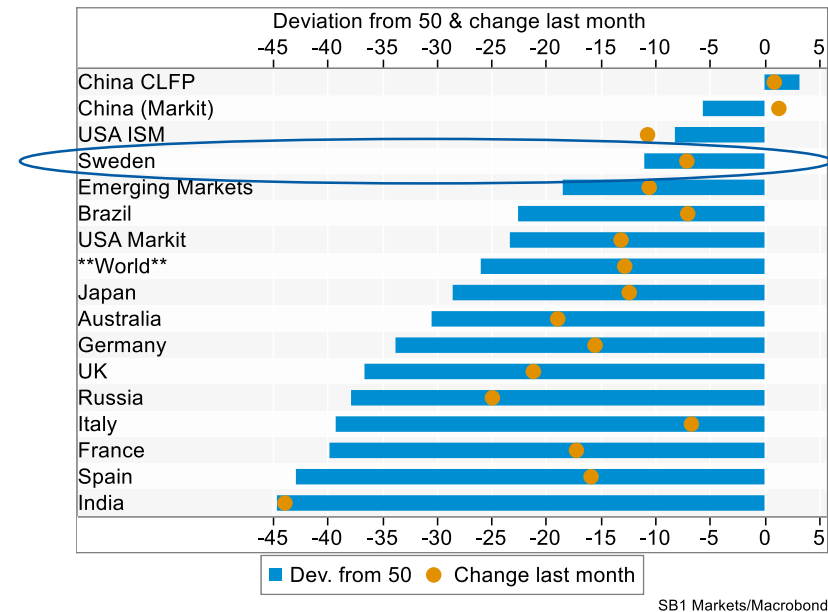
# Sweden is so far better off than most others - due to a limited decline in services

The April PMIs in the full lockdown countries are not far above the zero line

## Composite PMI



## Services PMI

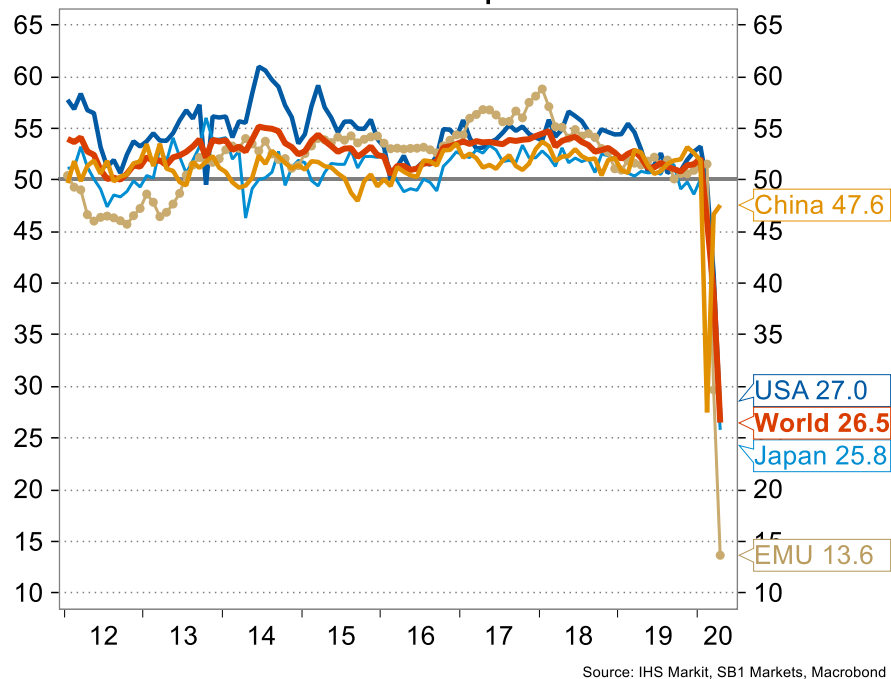


- Norway does not have a service sector PMI. The decline in the manufacturing sector is less than in Sweden, according to the PMI, on par according to other manufacturing surveys

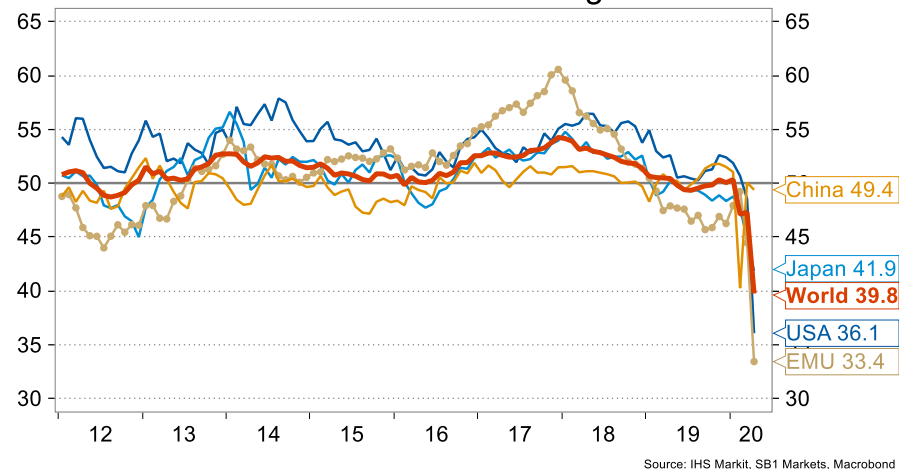
# Covid-19 and mitigation measures hammer services everywhere outside China

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

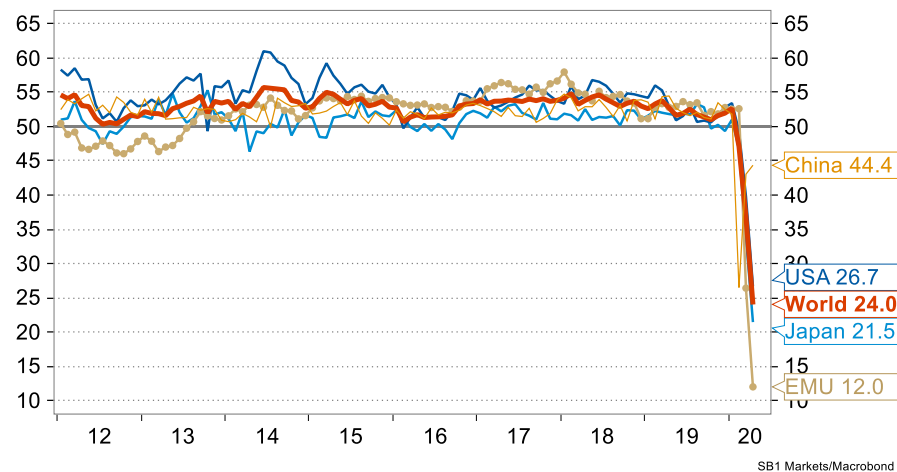
## PMI Composite



## PMI Manufacturing



## PMI services

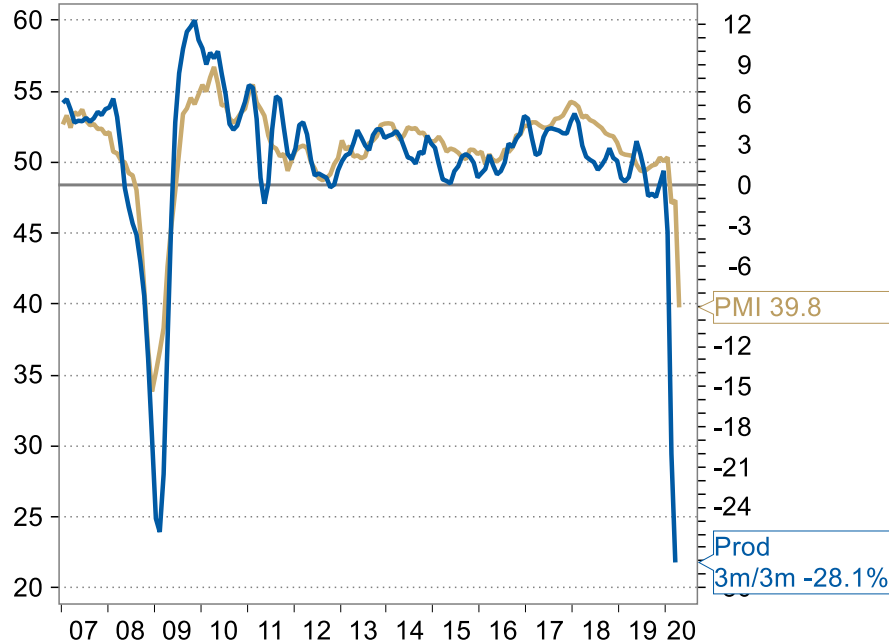




# Manufacturing PMI down and almost out

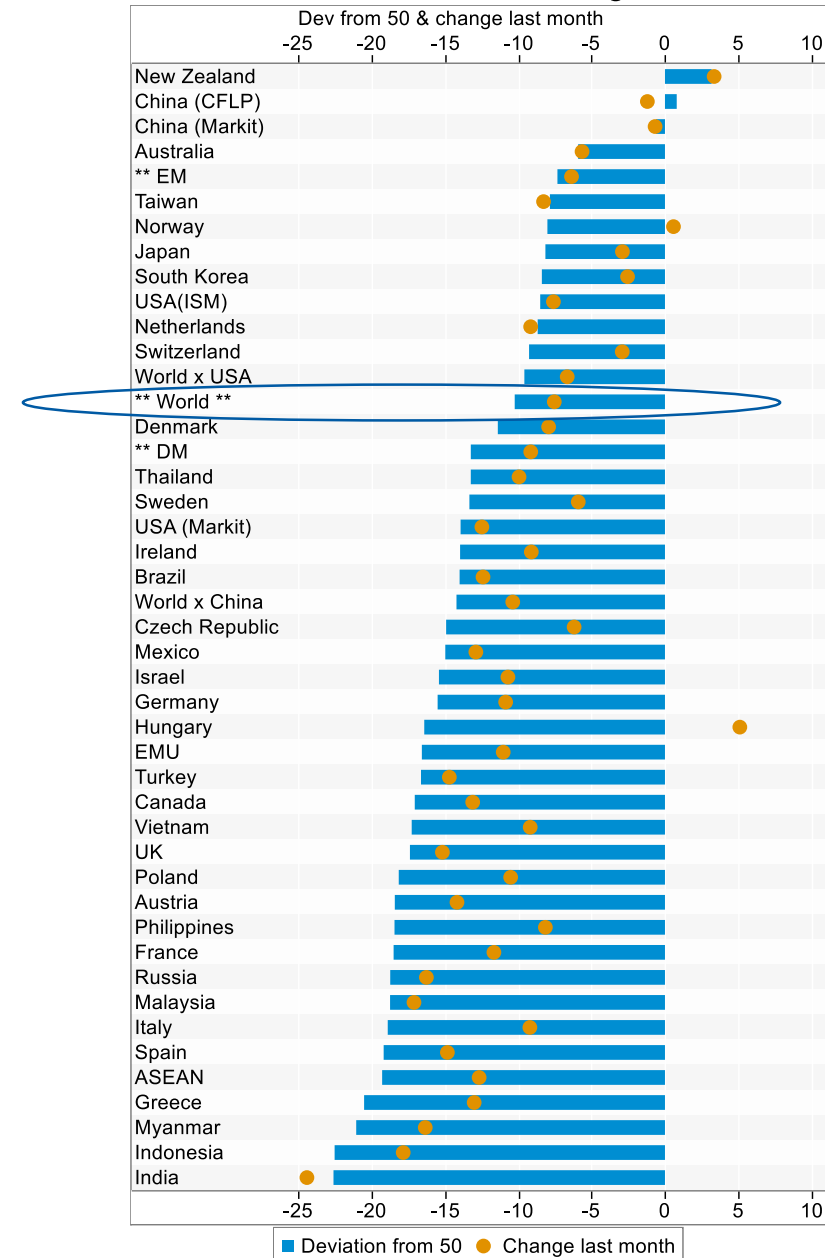
New Zealand and one China survey above the 50 line

Global Manufacturing PMI vs production



SB1 Markets/Macrobond

PMI Manufacturing

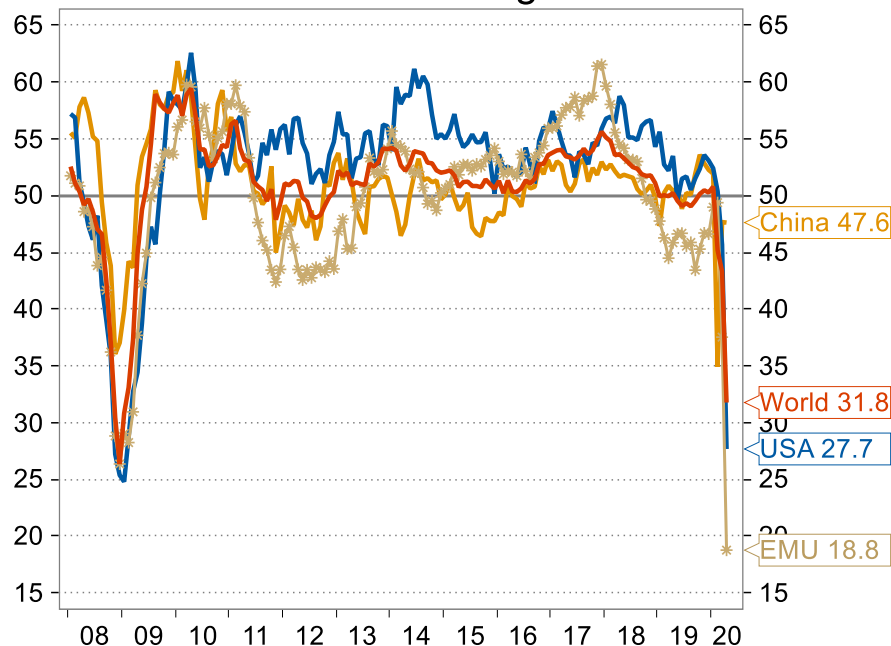


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## Manufacturing details are weak, orders are tumbling

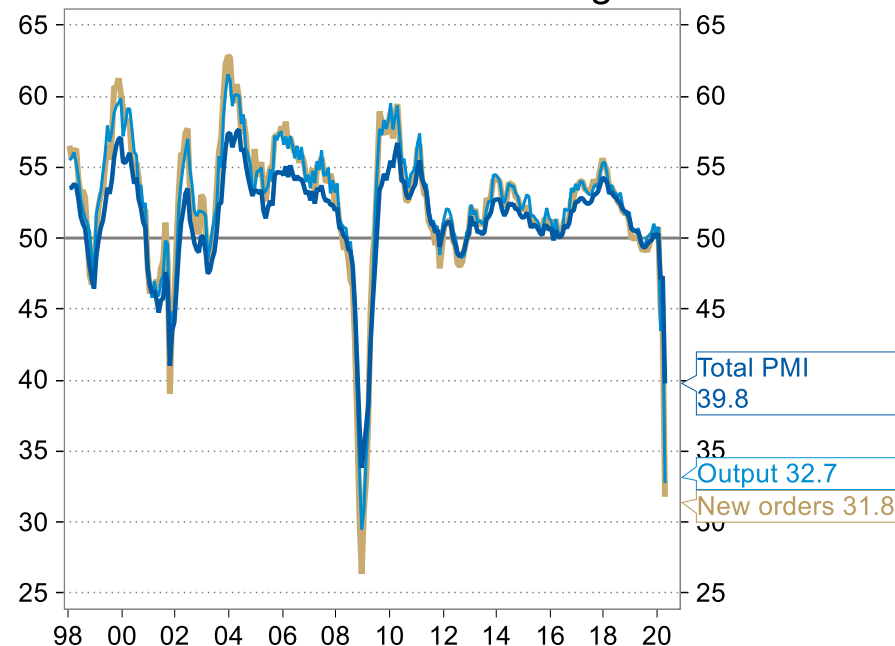
Global manufacturing orders PMI dropped to 34.6, even when including China

Global Manufacturing PMI Orders



SB1 Markets/Macrobond

Global Manufacturing PMI

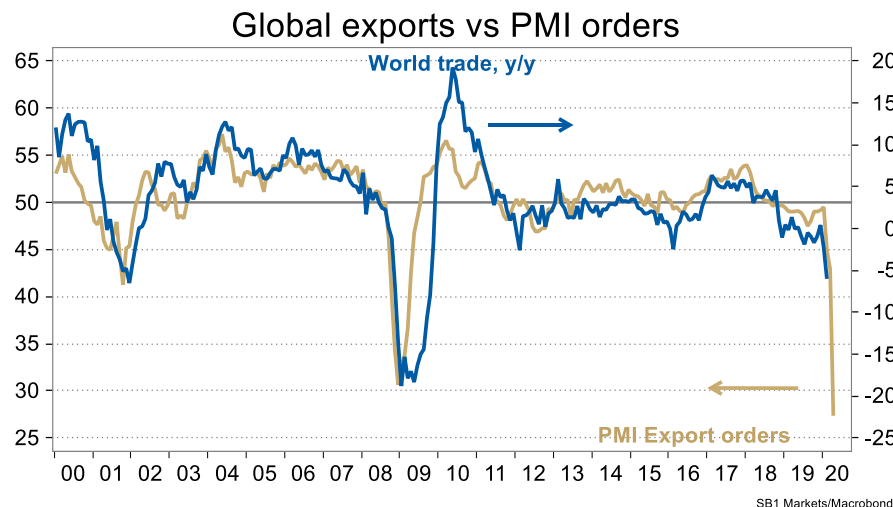


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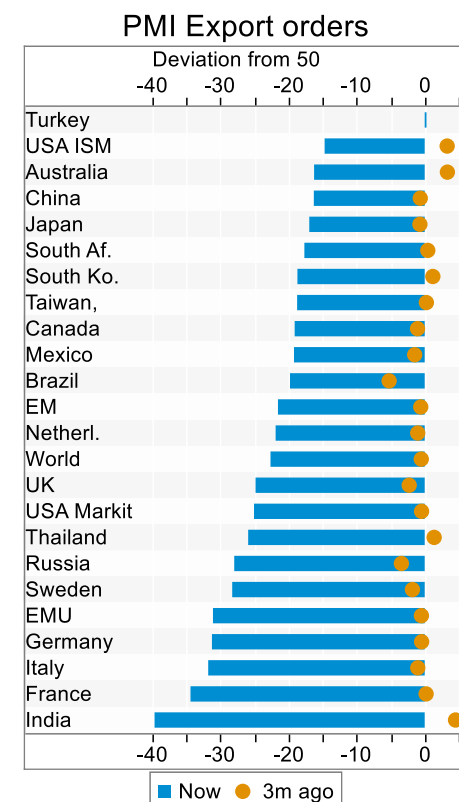
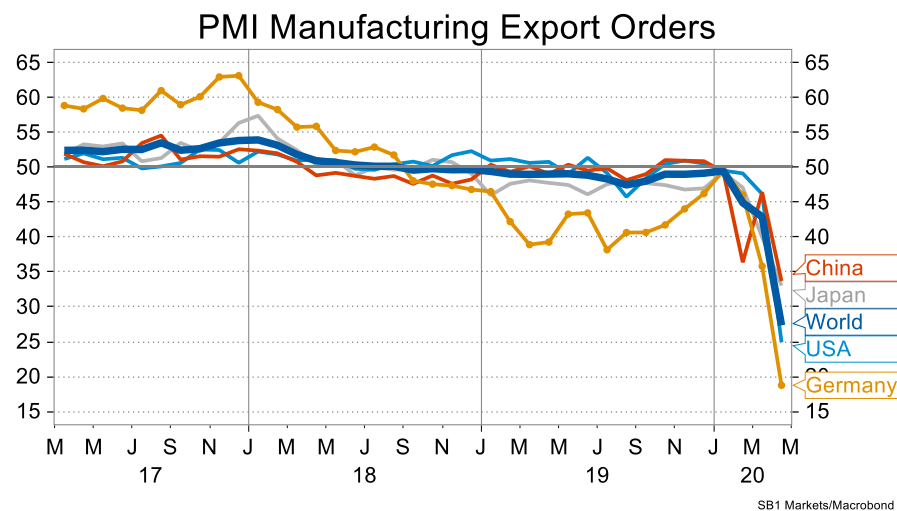
- The manufacturing output PMI is much weaker than the headline index, as longer delivery times (due to corona distortions) are lifting the total manufacturing PMI

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

Export orders PMI dropped to 27 in April, suggesting >20% decline in global exports

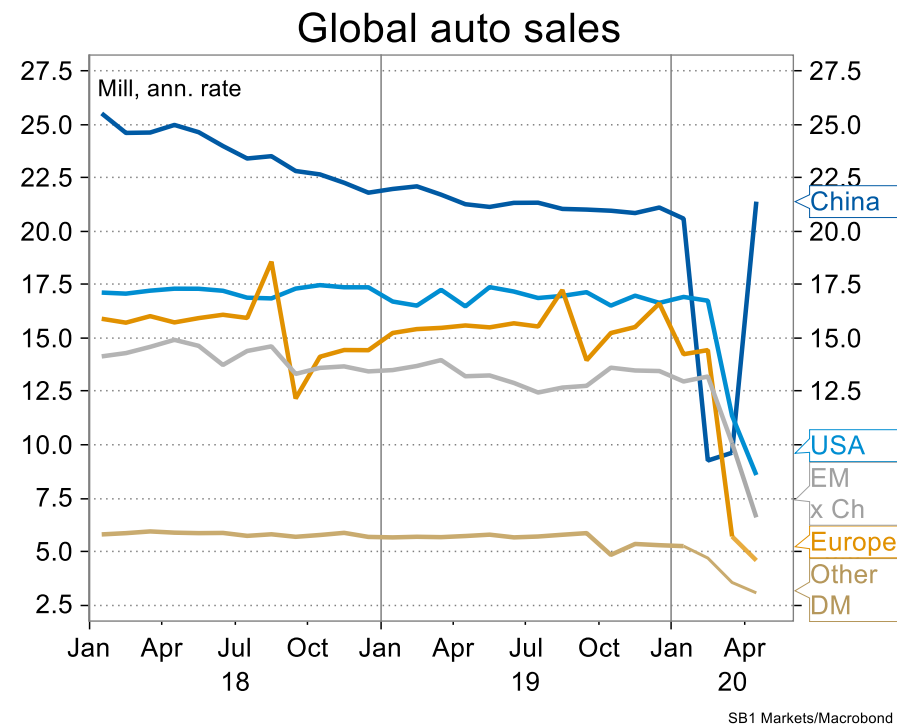
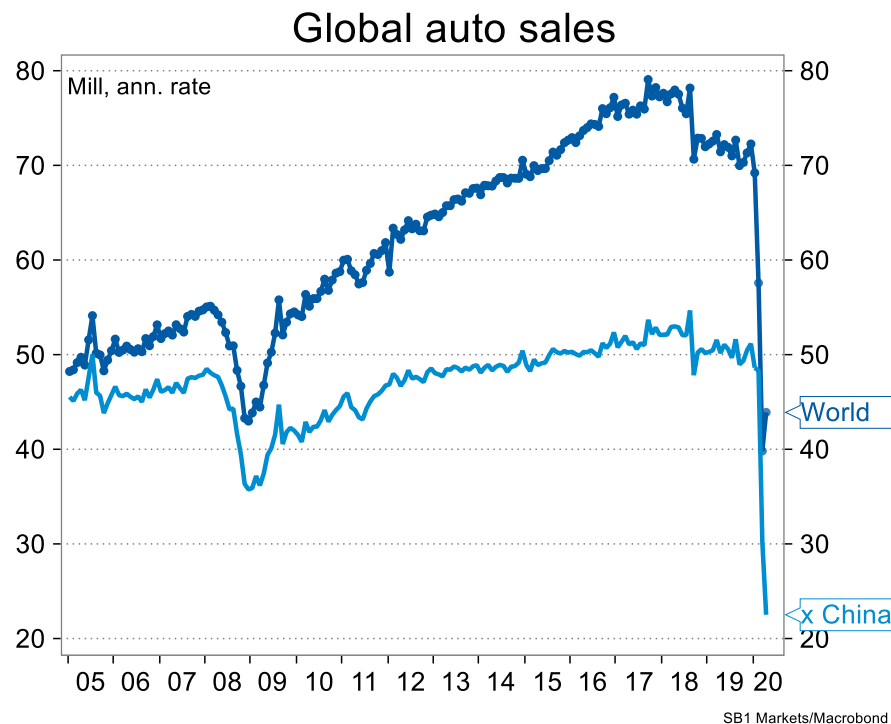


- We do not have much data on actual global export volumes from after corona really hit, the latest data are from February
- All countries reported falling exports in the PMI surveys
- India at the bottom, together with European countries, including Sweden



# Global auto probably slightly up in April, due to an unbelievable Chinese recovery

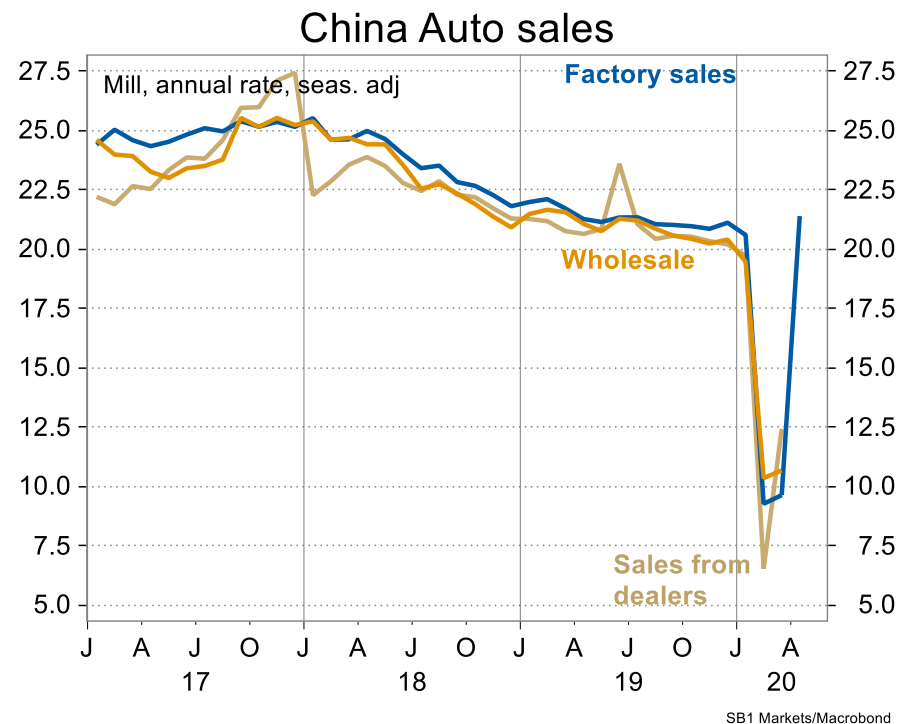
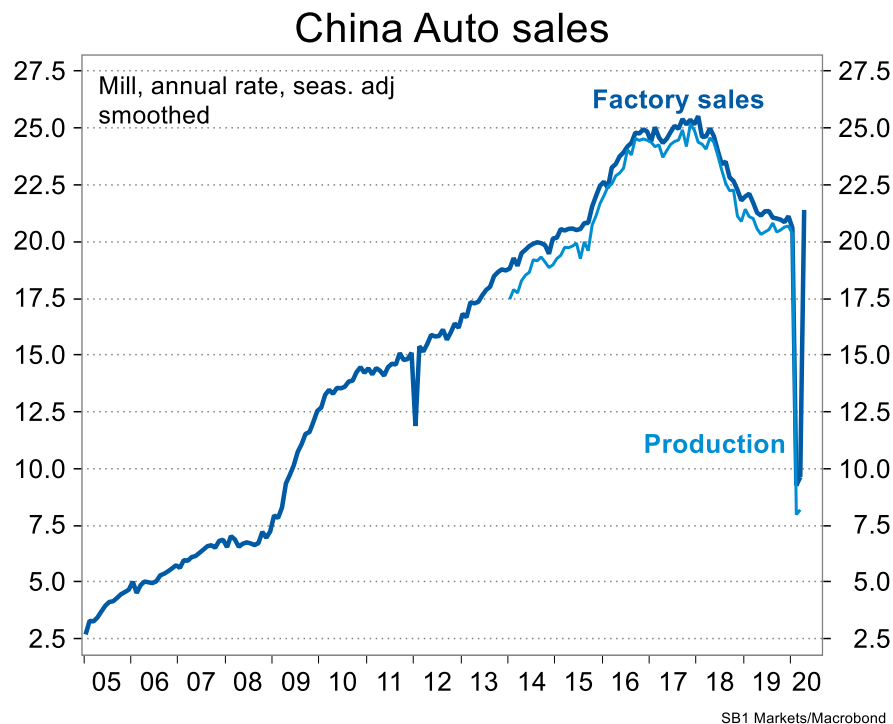
China sales rose to a normal level, equalling almost 50% of global sales! Close to zero sales in India



- Chinese factories shipped 0.9% more cars in April 2020 than April last year, according to media reports. If so were the best since last summer, following a 122% (silly figure, of course) increase to April from March, at 21 mill (annual rate). We have not yet seen reports on wholesale or retail sales data. Chinese sales equalled almost 50% of global auto sales!
- In the rest of the world, April sales fell sharply, both in DM & EM. We have just made a preliminary estimate, yielding a decline to less than 50% of the pre corona level, to 23 mill in an annual rate, from 30 in March (and 50 before corona). Sales in EM x China may have been cut in half. In India, sales may have fallen to zero (media reports, like for many other countries we have made temporary estimates for, plus some heroic but very uncertain estimates for other countries, more country details next week, we are still missing to many data points)

## Chinese factory sales up the best level since last summer!!

... at least according to media reports, no 'official' figure published

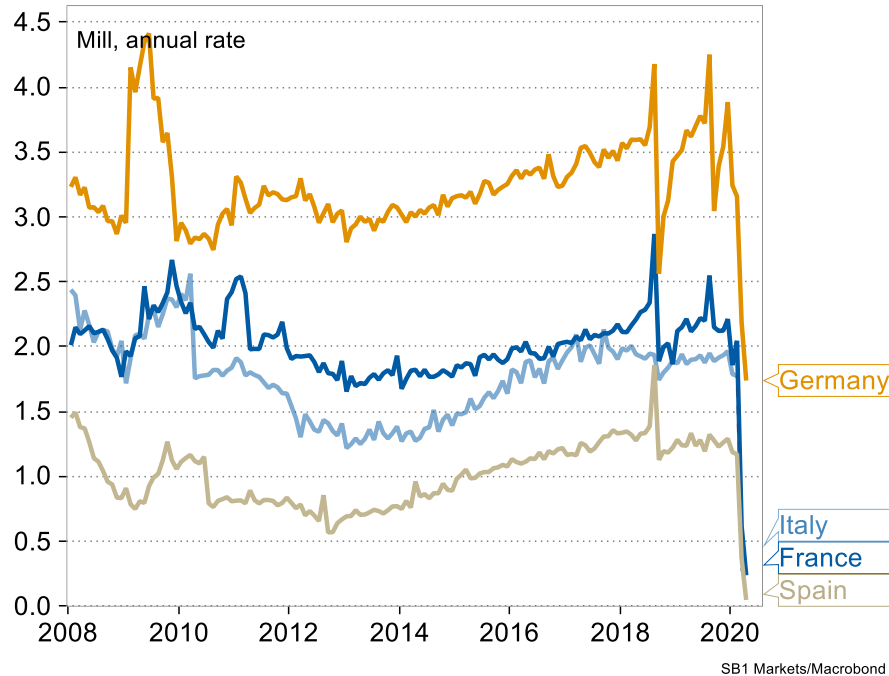


- Sales fell by almost 60% from January to March – but climbed back – in one go – to a normal level in April, quite impressive
- In 'principle', pent up demand from the two 'missing months' Feb& March could induce higher sales than normal the coming months
- We have not other April Chinese data to confirm the recovery but during this week we will have several cross-checks
- We will report sales data for other Emerging Markets economies when more data are published during this week

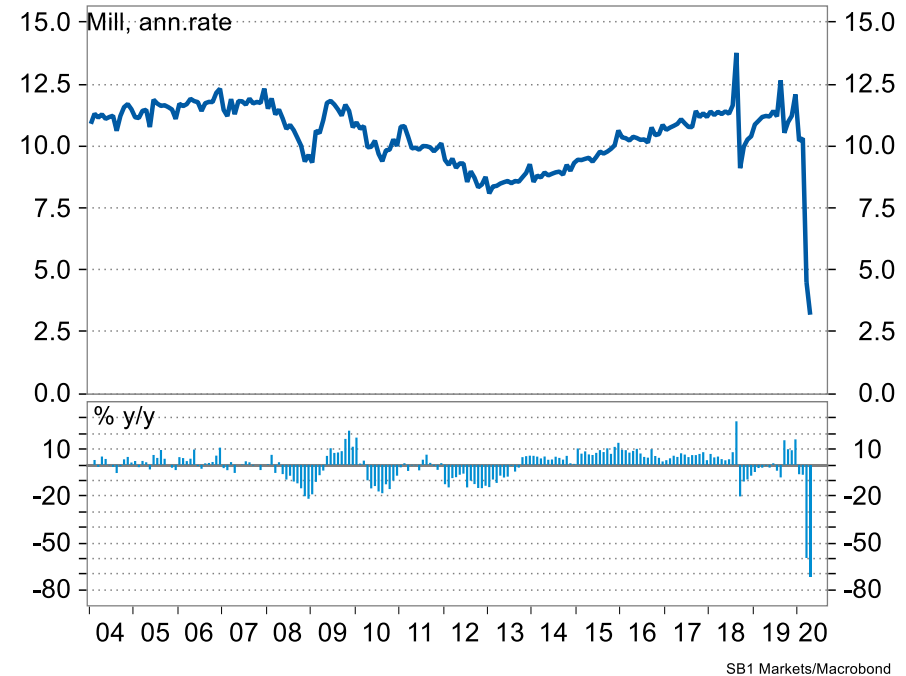
## Auto sales further down in April, -70% y/y. Close to zero sales in Fr/It/Sp

... for obvious reasons. Sales just down 50% in Germany

### Auto sales



### EMU Auto sales

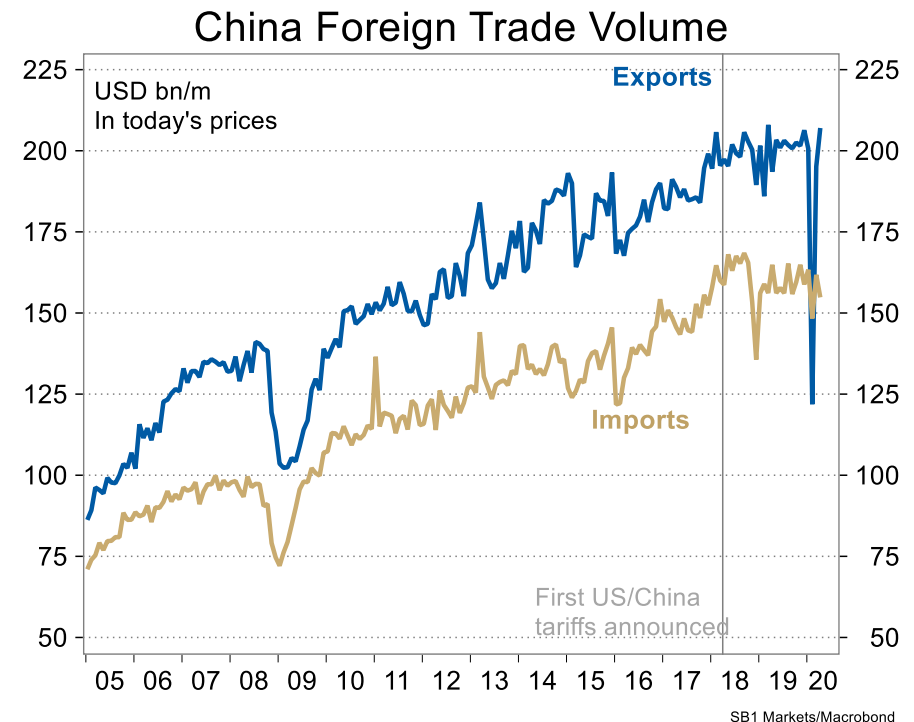
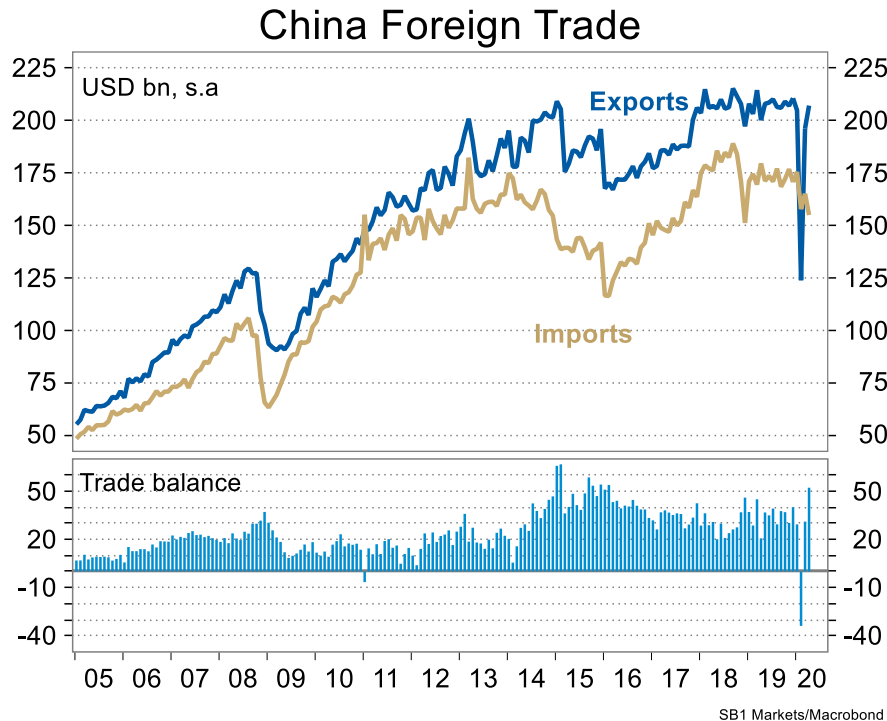


- Most likely, April will turn out to have been bottom, as sales most likely will start recovering in May – and climb further the coming months



## Exports further up in March – and close to record high in volume terms

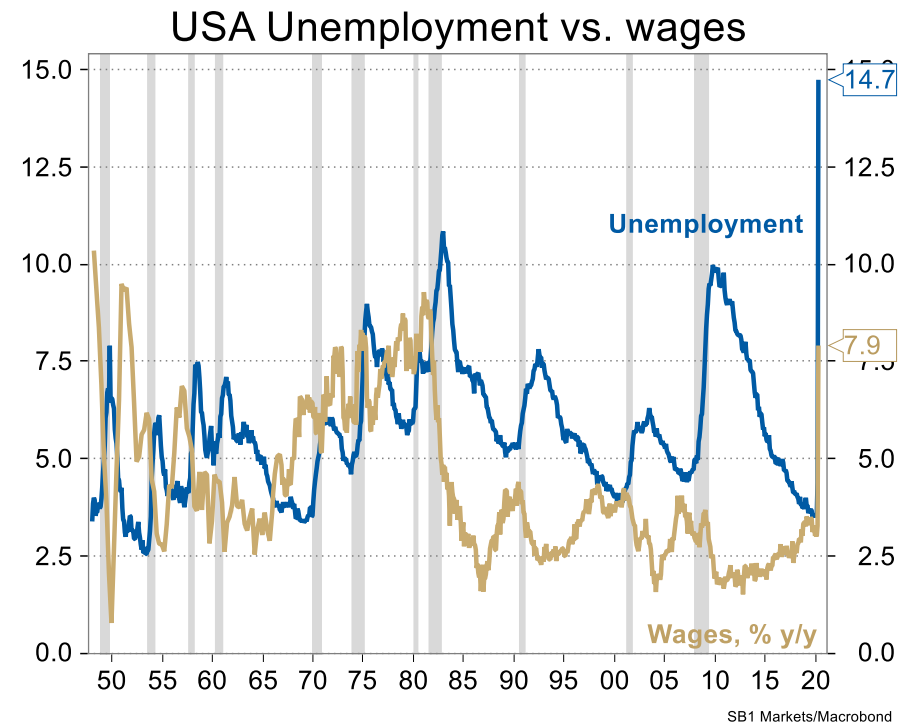
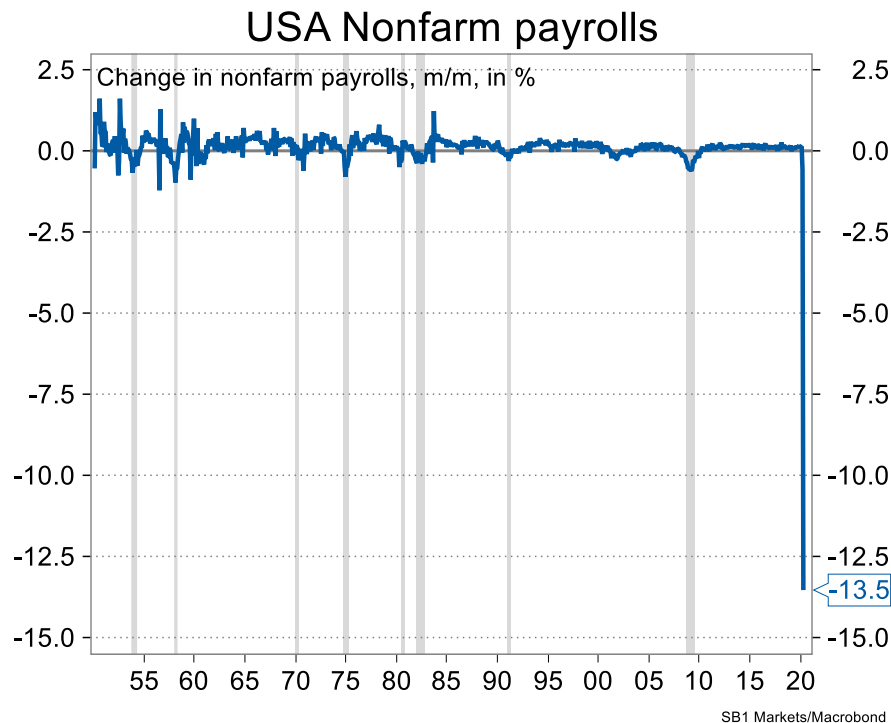
Imports fell but mostly due to declining prices (like oil), no signs of a domestic demand implosion



- Exports collapsed during the lockdown in February (-40% m/m) but recovered in March and rose further in April – and were up 3.5% y/y, expected down 10%! Measured in volume terms, March exports were almost ATH, during a trade war, corona crisis or whatever!
- Imports fell 6% m/m in March, and were down 13% y/y, expected -10%. In volume terms, imports are kept better up (import prices are down some 8% y/y, SB1M est). The trend is marginally down but do not signal any sharp setback in domestic demand – even if both production and demand was sharply down in Q1. We assumed that imports were 'too high' in Feb/March, and that inventories had become too large. April imports data does not support this hypothesis
- The trade surplus was USD 50 bn in April, the best in 5 years! Still, the outlook is uncertain. April export surveys nosedived to very low levels. Now, 'we' have the corona...

# The USA labour market: April was an outlier, we hope

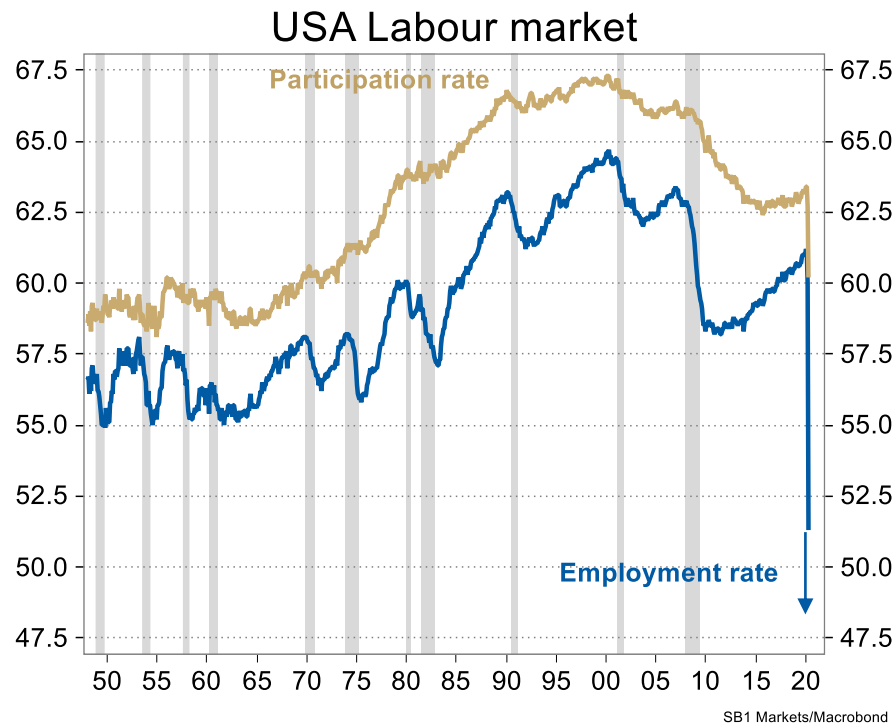
Employment down 20.5 mill (13.5%), unemployment up 10.3 pp to 14.7%, or to above 30%?



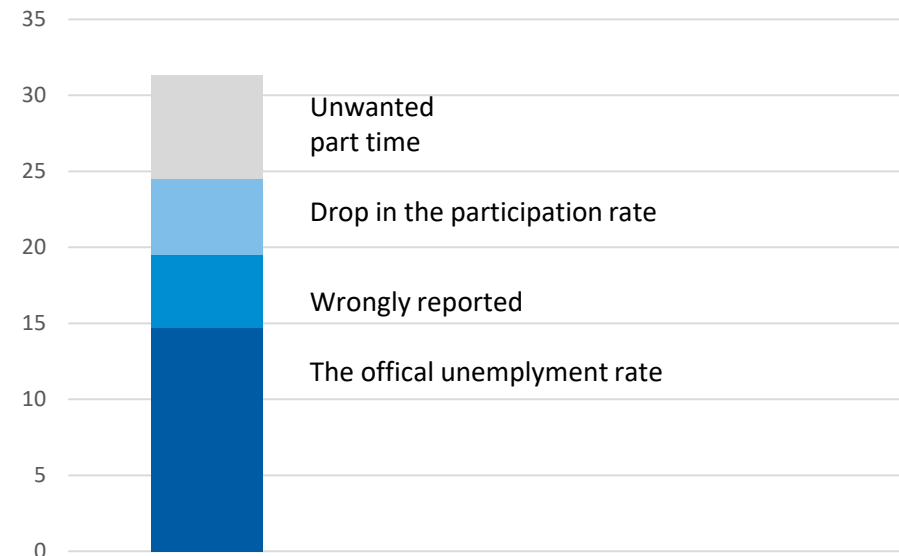
- **Everything is totally unprecedented, and no historical comparison is relevant. No detailed analysis of the April employment will reveal much relevant for assessing the outlook the coming months (or quarters or years)**
- **Employment** fell by 20.5 mill, according to the nonfarm business survey slightly less than expected, or by 13.5%. In the household survey (LFS), employment fell by 22.4 mill. Leisure and hospitality took the hardest hit, no surprise
- **Unemployment** rose by more than 10 pp to 14.7%, expected 16%. However, if wrongly reported absentees were added (5 pp impact on the unemployment rate), a drop in the labour force (5 pp), and unwanted part time work (level 6.8%, increase 3.4 pp) – total unemployment would have surged to above 30%
  - » On the other hand, temporary layoffs contributed to an increase unemployment by 18.5 mill, and 'ordinary' unemployment by 'just' 0.5 mill (which of course is a high number)
- **The average wage** rose by 4.7% m/m and 7.9% y/y because low paid wage earners lost their jobs far more often than the better paid

# Employment is even lower than reported, unemployment much higher

It really does not matter but still.. The real unemployment is well above 30%, not 14.7%



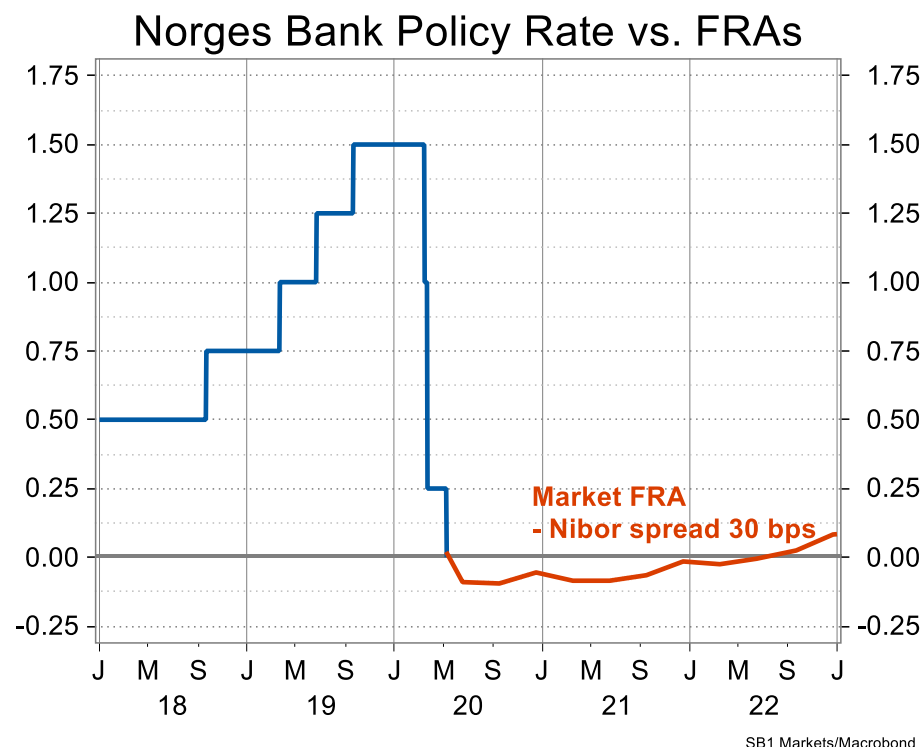
USA April unemployment  
in % of the labour force



- Household survey measured employment is some 8 mill lower than reported in April if all those how are absent from work were included (which they should have been but are not), equalling close to 5% of the labour force
  - The employment rate would have fallen by another 3 p to 48.3% of the working age population, from 61.1% in February, and the unemployment rate would increase to close to 20%, from the official rate at 14.7%
- In addition, the labour force participation rate, the supply side at the labour market, fell to 60.2, from 63.4 in February. This withdrawal is just because there were no jobs available and the unemployed did not search actively (they were discouraged). The contribution to the unemployment rate equals 5 pp!
- If we add before we add the 'normal' discouraged workers, and those on unwanted part-time work. These extras equalled more than 7% of the labour force in February (up 3.5 pp from March)

## Norges Bank cut to zero – and expects to stay there the coming years

The cut did not come out of the blue. It surprised markets more than we assumed it would



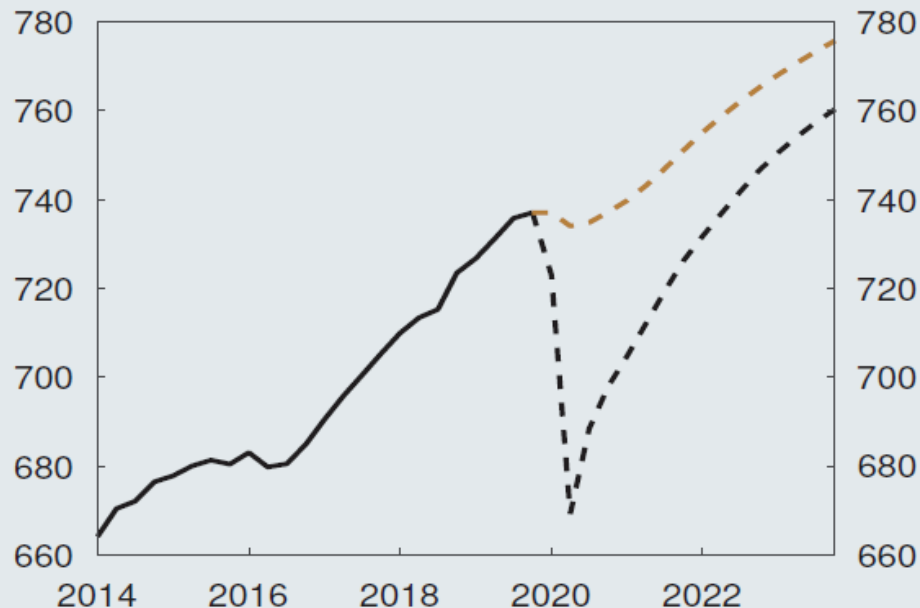
- Norge Bank recognised the deep downturn in the Norwegian economy, and cut the deposit rate by 25 bps to 0% last Thursday.
  - » The Bank signals that the policy rate will be kept unchanged until 2024 – and do not intend to go negative
- The 3m NIBOR rate fell 11 bps to 0.32% (and to 0.28% at Friday), the lowest ever, of course, signalling the approx 50/50 probability for a cut that we assumed was priced in the curve for a May cut
- However, and more surprisingly, the FRAs fell even more, by 10 – 15 bps, down to 0.21 bps at the bottom (June & Sept 20). We assumed the lower FRA-rates ahead of the cut reflected a higher probability for a June cut than a May cut (which we found reasonable)
- We do not think these FRAs reflect expectations of a negative signal rate but rather a expectations of a further decline in the NIBOR spread (vs the 30 bps spread indicated at the chart to the right)
  - » The generous he F-loan (fixed interest rate loans) was extended (and interest rate for loans up to 3m at equal to the signal rate, and a small premium, 15-30 bps for 6 and 12m maturities. This measure could explain the drop in the FRAs
- Banks have already announced cut in mortgage rates by 25 – 40 bps, the best offers are below 1.5%!

## Norges Bank expects hard times ahead

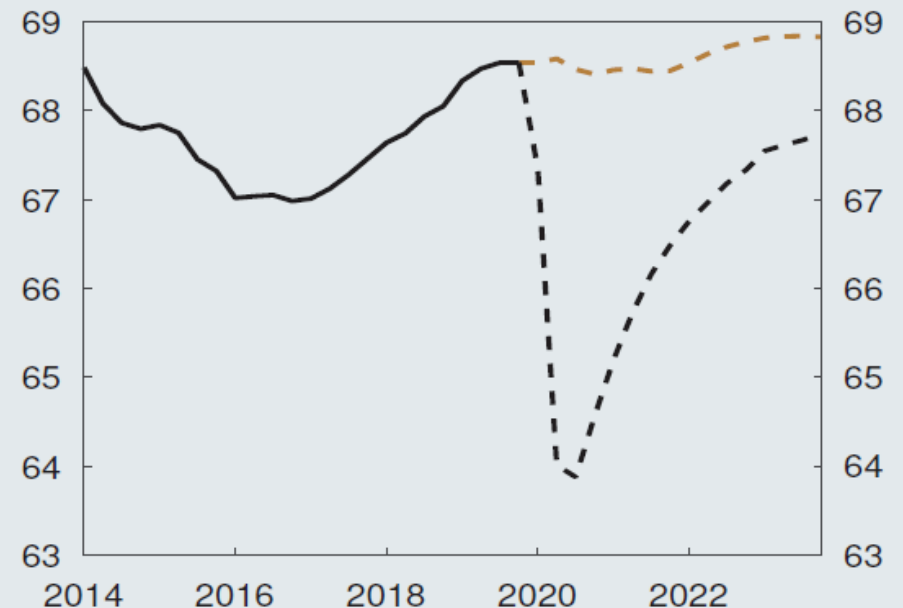
The bank acknowledges that the uncertainty is substantial, both on the upside and the downside

**Chart F Weak outlook for the Norwegian economy**

Quarterly GDP mainland Norway.  
In billions of NOK



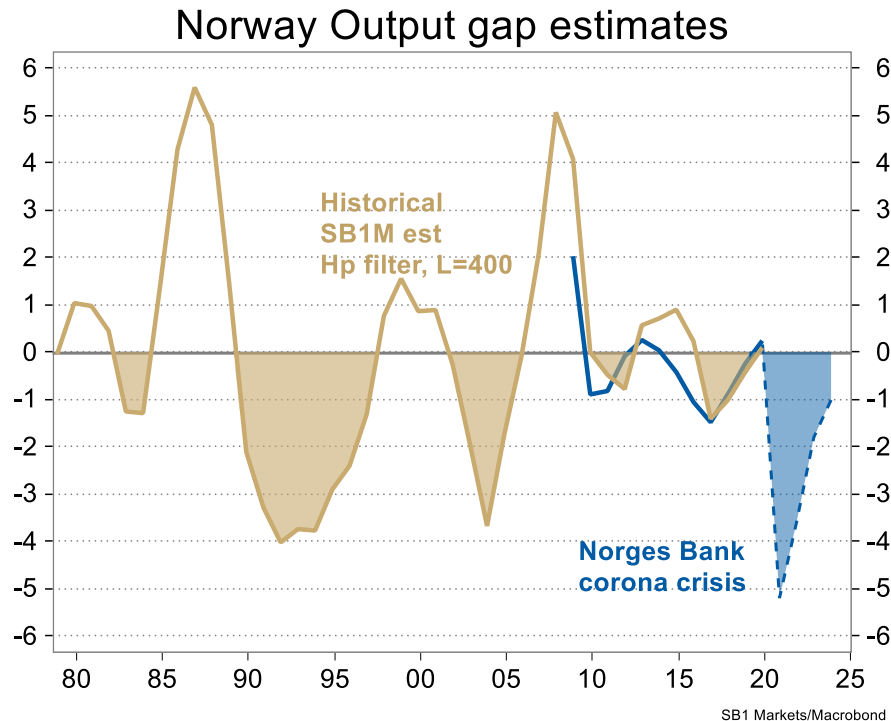
Employed as a share of population aged 15–74.  
Percent



- Norges Bank assumes large declines in private consumption, Mainland business and oil investments, as well as in Mainland exports

## Which is the worst crisis ever (in modern times)?

Our financial crisis 30 year ago was twice as hard as the corona crisis will turn out to be?



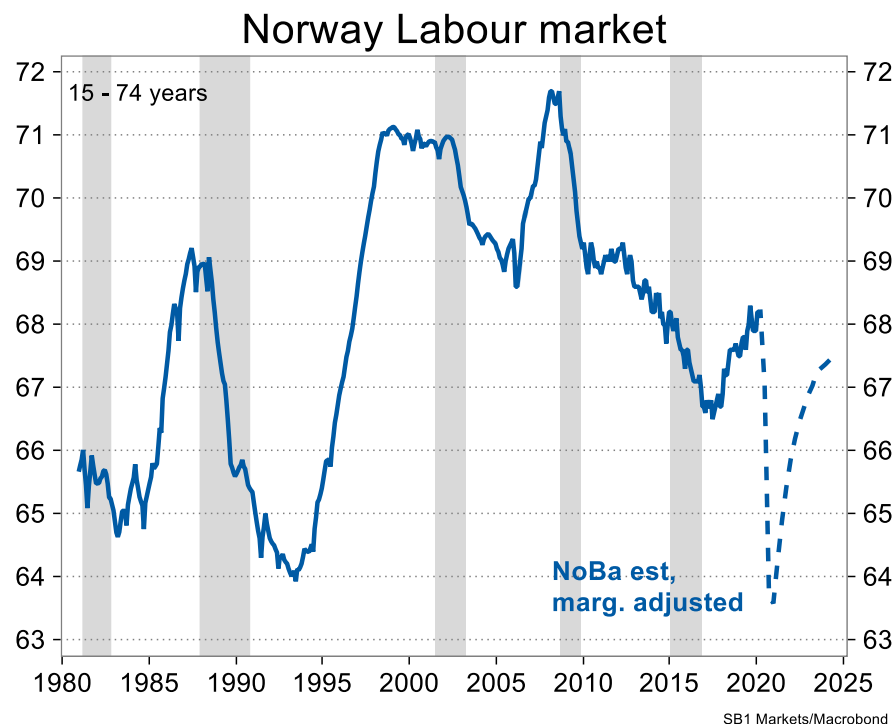
- *Disclaimer: We do not know how the corona crisis will unfold, of course*

- No doubt, the corona economic crisis is brutal, most places. The immediate decline in GDP during to months is unprecedented. However, the economic loss is not decided by the depth of the downturn alone but also in the length – or more precise, the accumulated output and income losses during the downturn – the aggregated negative output gaps
- No doubt, Norway will accumulate a huge negative output gap during 2020, 21 and most likely the following years too – if both oil, Mainland businesses and housing take a hit – which we fear (and Norges Bank mostly share our views)
- Norges Bank assumes a 11.5% accumulated loss 2020-23 and we can add another 0.5% loss in 2024, in sum 12% of annual trend GDP in these years, a substantial downturn (an average loss of 2.4% over 5 years)
- However, the Norwegian housing and banking crisis in 1989 – 1992 was far worse. The accumulated economic loss was some 24% of trend GDP, based on our output gap calculation (shown in the chart), which is similar to estimates from the Ministry of Finance and OECD. The average loss was close to 3% but it took 8 years to close the gap! That's what a real U looks like. Financial crises after huge debt build up is the real thing' The corona crisis might in fact be more similar in aggregated losses to the 2001 – 2004 downturn (8% loss)?
- In fact, from distance NoBa's corona downturn looks like a V – but other central banks have even sharper V's on the offer, check 3 pages forward!



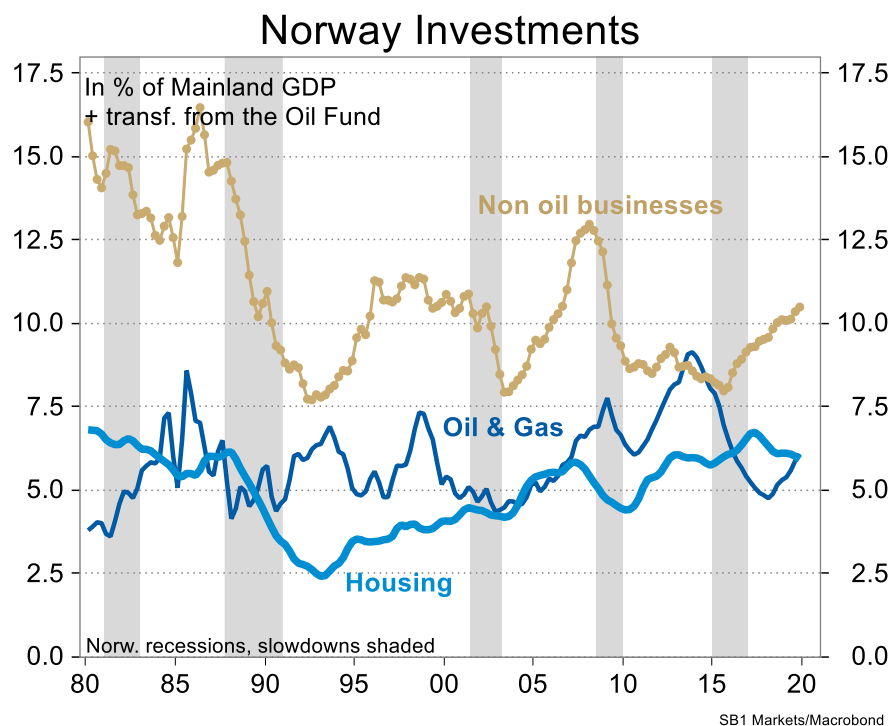
## Another check on dept vs. length: The employment rate

Norges Banks's corona crisis outlook is grim, but the 88 – 1993 downturn was much worse!



- Even the 2001 – 2005 slowdown was quite equal measured by the accumulated loss of employment to what the corona crisis is assumed to deliver
- This is of course relevant for most analysis of the economic fallout of the current crisis, specially for bank losses etc.
  - » Sectoral consequences may differ, and may be more unevenly distributed this time, than earlier and have other macroeconomic impacts

## Corona or corona + a normal cycle?

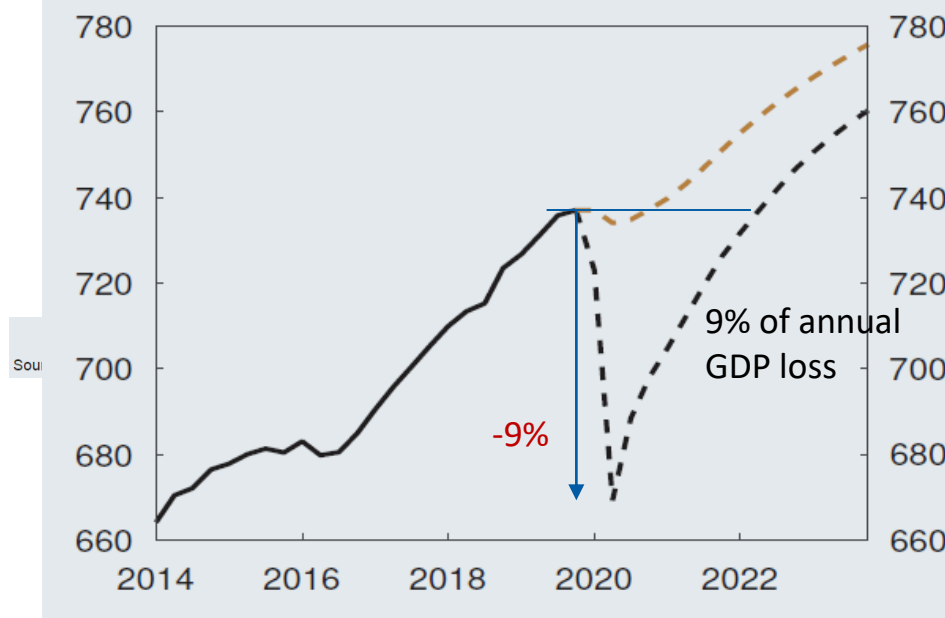


- Is it just a corona crisis, or is it a more normal economic downturn too?
- We think the latter will turn out to be the most precise description
  - » Investments in oil were anyway on the way down.
  - » Mainland businesses were higher than normal, and we expected a decline
  - » Housing investments are down from the peak but still high, as are debt ratios and real house prices. Should housing at one stage join the downturn party, corona cannot take the blame, it was just the trigger, not the cause!
  - » A decline in exports may be attributed to the corona crisis but even here we assumed some weakness ahead before the virus hit. The global cycle was mature according to most of our measures

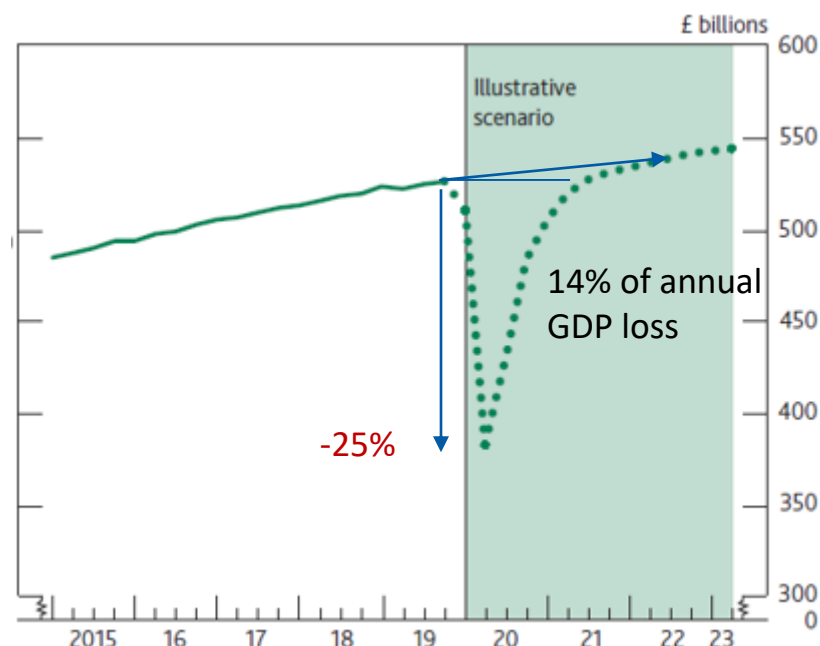
## Two banks' forecasts: Norges Bank GDP -5%, +3%. Bank of Eng. GDP -12%, +11%

BoE presented a harsh 'illustrative scenario', GDP down 25% Q4 to Q2. NoBa is more 'optimistic' -9%

Quarterly GDP mainland Norway.  
In billions of NOK



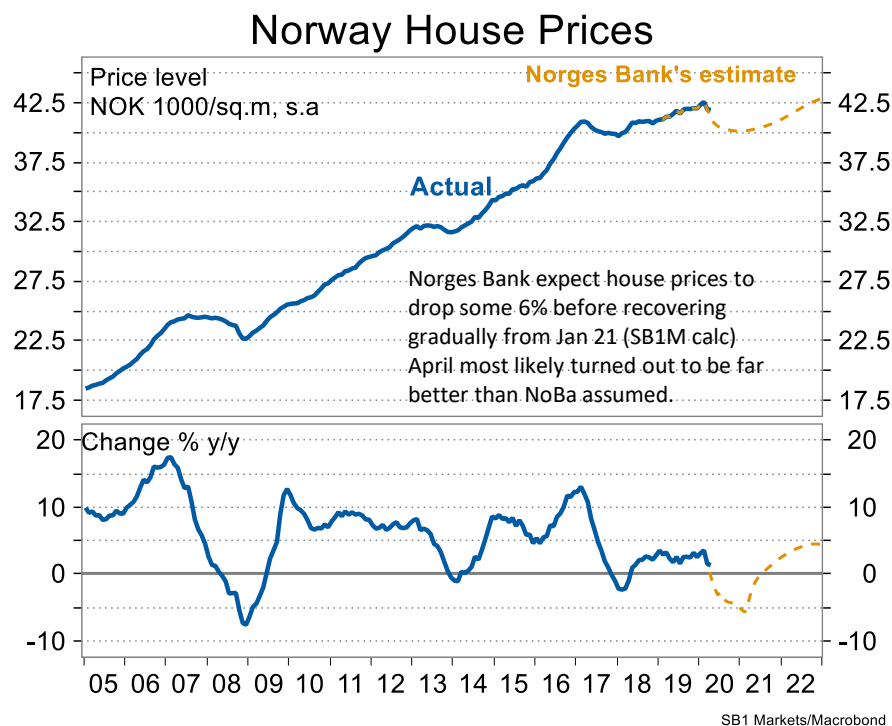
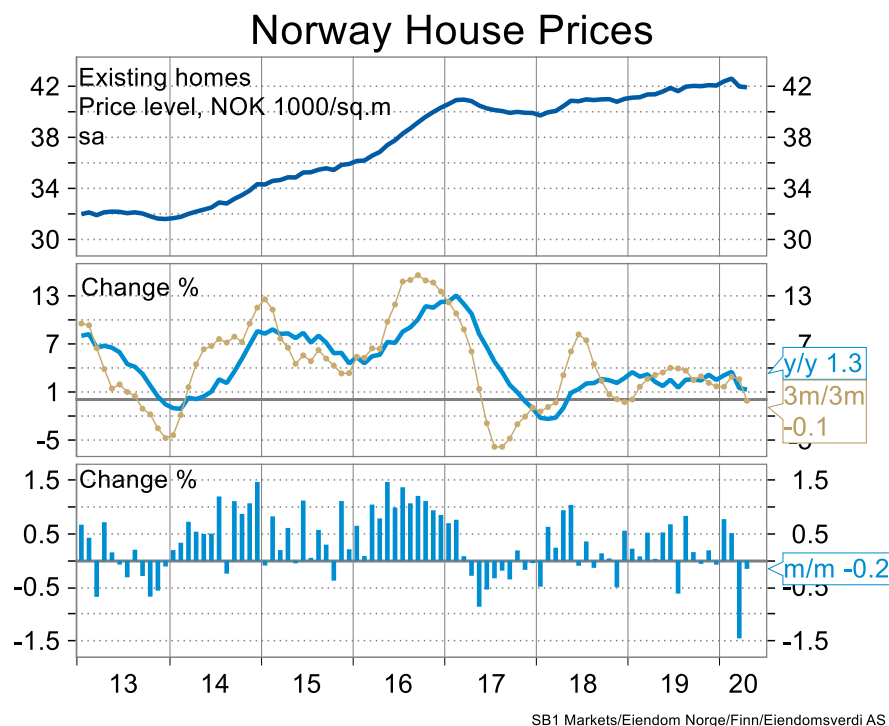
Bank of England UK GDP 'illustrative scenario'



- **Norges Bank: 'Just' 9% down** to Q2 from Q4-19, but production not back to the Q4-19 level before Q2-22: Accumulated loss (vs. flat trend!) 9% of annual GDP and 3% extra loss vs. the pre corona growth path (until Q2-22, more if next years are included). GDP in 2020 down 5%, up 3% in 2021
- **Bank of England: An extreme 'V'.** An 25% decline to Q2 from Q4-19, and 2020 avg down 12% vs 2019. However, the bank assumes a rapid recovery in H2-20 and back to starting level in mid 2021. Still, the accumulated loss 14% of annual GDP and + >1 pp extra vs. the pre corona growth forecast, illustrated in the chart. Both banks may be right, but we doubt

## Crisis, what crisis? House prices rose rapidly through April! (Still down 0.2% m/m)

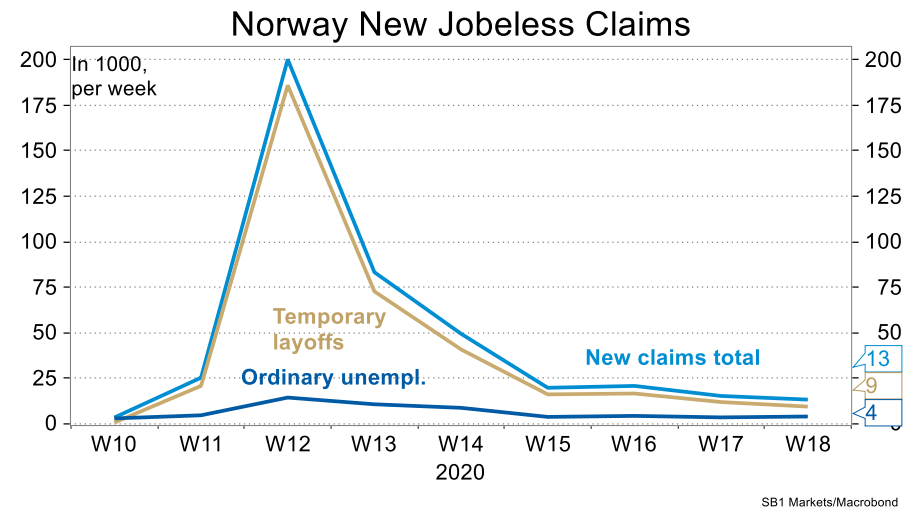
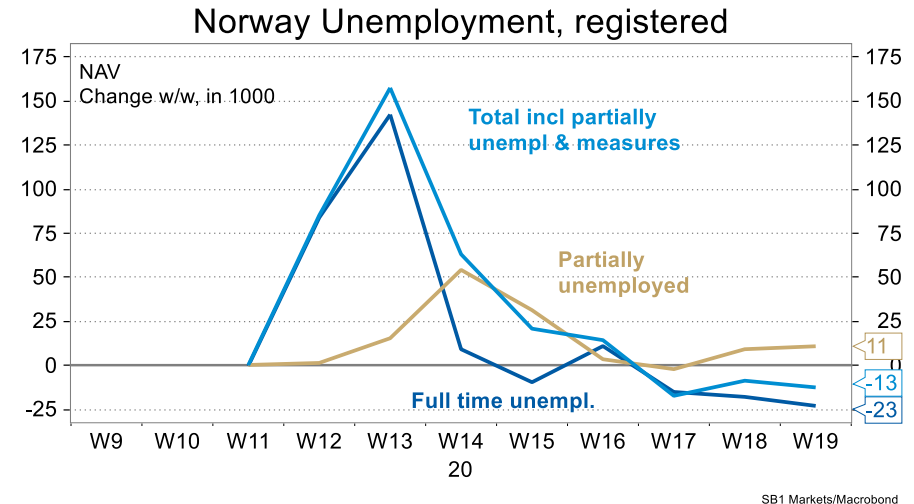
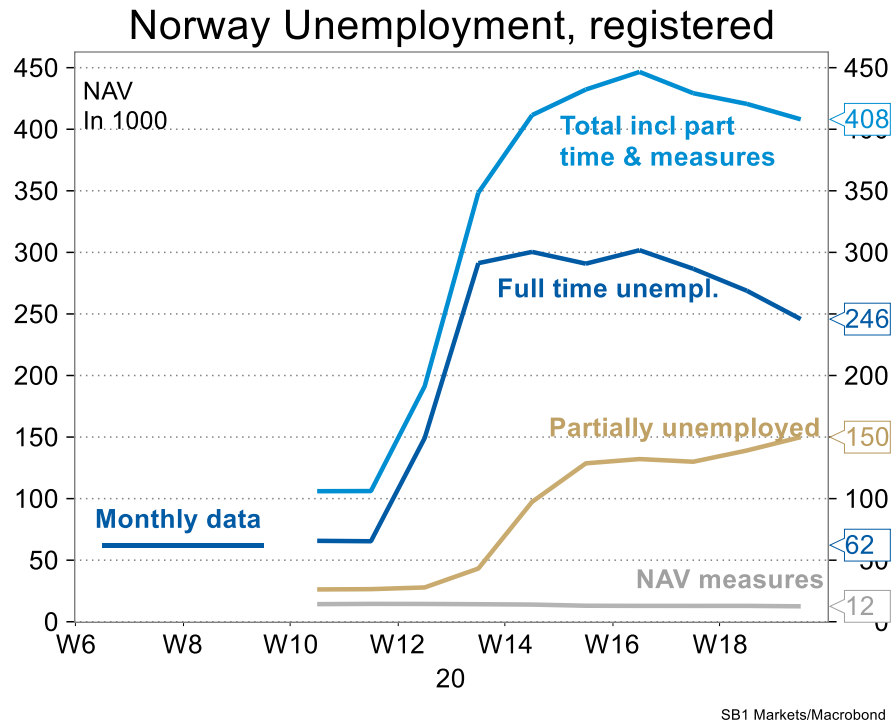
Prices fell some 3% through March (the avg -1.5%), and probably rose some 3% through April!!



- House prices surprised at the upside in April, down just by 0.2%, we assumed -2.5%!
  - Prices fell sharply through March (approx 3%), and the average price level fell by 1.5% (prev. reported to -1.4%). Thus, April started well below the March average, and we did not assume that prices should increase by 0.75% per week through April! Seems like it the same risk appetite as at other risk markets, even if the economy is not that strong these days
  - Prices fell in seven towns, Oslo at the bottom by -1%, following the 1.7% setback in March. Prices rose in 7 towns, Bodø at the top (almost no corona cases there)
- The number of sales rose marginally and transactions are down just 13% vs the pre corona level. The inventory has increased just marginally!
- Are interest rate cuts more important than the hike in unemployment? We still don't think so, but April did not confirm the case! The second hand market is probably boosted as buyers turn away from the new home market. No doubt, it feels less risky to buy in the second hand market for delivery now, rather than 'being long' until a new home is delivered in a couple of years time. However, if the economy does not recover rapidly...

# Unemployment has peaked, 1% of the labour force reengaged last week

Total unemployment down by 13' as some temporary unemployed are reengaged



- Full time unemployment fell by 23' last week, 11' more were counted as partially unemployed, as some fully unemployed were reclassified as partially unemployed
- The inflow of new jobless claims is on the way down, to some 13', implying that 26' persons, or almost 1% of the labour force, was reengaged last week
  - » Over the past 3 weeks, total unemployment is reduced by XXX
- Total unemployment is still at 14.6%

# The Calendar

In focus: Chinese monthly data, US retail sales, ind. production. Norwegian Budget, GDP, CPI

Time	Country	Indicator	Period	Forecast	Prior
<b>During the week</b>					
	CH	Aggregate Financing CNY	Apr	2900.0b	5150.0b
<b>Monday May 11</b>					
06:00	SW	PES Unemployment Rate	Apr	--	4.20%
08:00	NO	CPI YoY	Apr	0.4 '(0.6)	0.70%
08:00	NO	CPI Underlying YoY	Apr	2.1 '(2.0)	2.10%
<b>Tuesday May 12</b>					
03:30	CH	CPI YoY	Apr	3.70%	4.30%
08:00	NO	GDP Mainland QoQ	1Q	-1.9 '(-1.5)	0.20%
08:00	NO	GDP Mainland (MoM)	Mar	-5%	0.30%
10:45	NO	Revised Budget, structural deficit	2020	(400)	243
12:00	US	NFIB Small Business Optimism	Apr	85	96.4
14:30	US	CPI Ex Food and Energy YoY	Apr	1.70%	2.10%
20:00	US	Monthly Budget Statement	Apr	-737	-\$119.1b
<b>Wednesday May 13</b>					
09:30	SW	CPI Excl. Energy YoY	Apr	1.40%	1.50%
10:30	UK	GDP QoQ	1Q P	--	0.00%
10:30	UK	Manufacturing Production MoM	Mar	-6%	0.50%
11:00	EC	Industrial Production SA MoM	Mar	-12%	-0.10%
14:30	US	PPI Ex Food, Energy, Trade MoM	Apr	-0.10%	-0.20%
<b>Thursday May 14</b>					
10:00	EC	ECB Publishes Economic Bulletin			
14:30	US	Initial Jobless Claims	May-09		
<b>Friday May 15</b>					
04:00	CH	Industrial Production YoY	Apr	1.50%	-1.10%
04:00	CH	Retail Sales YoY	Apr	-5.20%	-15.80%
04:00	CH	Fixed Assets Ex Rural YTD YoY	Apr	-8.50%	-16.10%
04:00	CH	Surveyed Jobless Rate	Apr	--	5.90%
08:00	NO	Trade Balance NOK	Apr	--	2.5b
08:00	GE	GDP SA QoQ	1Q P	-3.20%	0.00%
14:30	US	Retail Sales Advance MoM	Apr	-10.00%	-8.70%
14:30	US	Empire Manufacturing	May	-64	-78.2
15:15	US	Industrial Production MoM	Apr	-12.00%	-5.40%
16:00	US	JOLTS Job Openings	Mar	--	6882
16:00	US	U. of Mich. Sentiment	May P	68	71.8
<b>Monday May 18</b>					
01:50	JN	GDP SA QoQ	1Q P	-1.10%	-1.80%
03:30	CH	New Home Prices MoM	Apr	--	0.13%

## • China

- » March data were mixed, **industrial production** rose much more than expected, and almost up to a 'normal' level – and activity is expected to keep up in April. April exports was far better than expected. On the other hand, **retail sales and investments** were subpar, both 17-20% below the pre corona trend level, but are both expected sharply up m/m in April

## • US

- » **Retail sales & manufacturing** production are both expected down double digits m/m in April. The budget statement will reveal a huge hole in the bucket. We expect the first May business survey to show signs of stabilisation, May must have been much better than April?

## • EMU

- » **Industrial production** fell sharply in March but the really bad figure – and hopefully the bottom – is reserved for April. German GDP probably fell less than in Southern Europe

## • Norway

- » **The Budget will be revised** like never before. The structural ex oil deficit will be revised to close to 400 from 243. The fiscal policy indicator will increase by close to 5% of GDP. The ex oil deficit will increase by some 2 pp more, and the total balance even more, due to lower oil tax revenues
- » **Mainland GDP** no doubt fell in Q1 but we assume the decline will be somewhat smaller than the 1.9% SSB assumed two weeks ago as goods consumption may have kept better up than feared, and the setback in March will probably was less than 6.5%. Q2 will be another story, though – as the activity level by the end of March was very low, as it must have been in April too, and we do not expect a sharp recovery in May or June. Norges Bank expects a 7.4% decline – in sum not far below 10% from Q4 last year
- » **CPI** is not important now. The weak NOK will push the CPI up later in 2020 and in 2021. Energy prices are dampening prices



# 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. <u>The virus will now hurt the world economy badly.</u> A temporary setback in Q1 (primarily China) and partly in Q2 (other countries) which was our main case is now far too optimistic. <b>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</b>	<b>Global composite PMI</b> tumbled fell more than we assumed, down to 26 p. Service far harder hit by corona than manufacturing. <u>India and Southern Europe hardest hit. Sweden less than most</u>
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. <b>We expect more policy measures to ensure a recovery in during 2020</b>	Exports far better than expected in April – and import volumes not that weak. Auto sales sharply up, best since last summer!!
USA	Before Covid-19 hit, we thought growth would most 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 market has fallen sharply – and the economy can easily enter a recession. <b>Risks, except for corona impacts: Policy uncertainty/trade/business investments &amp; debt, not household demand or debt</b>	<u>The (un)employment report was bad but not worse than expected. The real unemployment rate is far higher than 14.5% though.</u>
EMU	Corona has sent the Eurozone into a recession, GDP fell everywhere in Q1 and Q2 will be far worse, in average, especially in the south. Services are hardest hit, especially transport and travel. The policy response is mixed, some countries are doing a lot, others not. No deal on fiscal transfers, and ECBs QE is threatened by the German court – and some solutions must be found. If not... We expect a slow recovery in H2, and a substantial negative output gap to remain in 2021	<u>Retail sales, manufacturing production straight down in March, and April will be even weaker. May must be somewhat better, activity is slowly in the way up</u>
Norway	Growth has been above trend, 2020 will be slashed by the corona shutdown. Unemployment has skyrocketed, due to temp layoffs. Oil investments will decline through 2020 and faster than expected before the oil price setback. Mainland business inv. are not low, will decline substantially. Housing starts are falling, more may come. Growth in households’ debt has slowed to below income growth. <b>Risks, other than corona: Debt, housing. A harsh global setback. We have revised our 2020 growth forecast to -6%</b>	<u>Unemployment have probably peaked. House prices rose 3% through April, and fell just 0.2% m/m Transactions down just 15% from Feb, impressive! Manufacturing production down 3% in March, oil related sharply down. More to come.</u>

Highlights

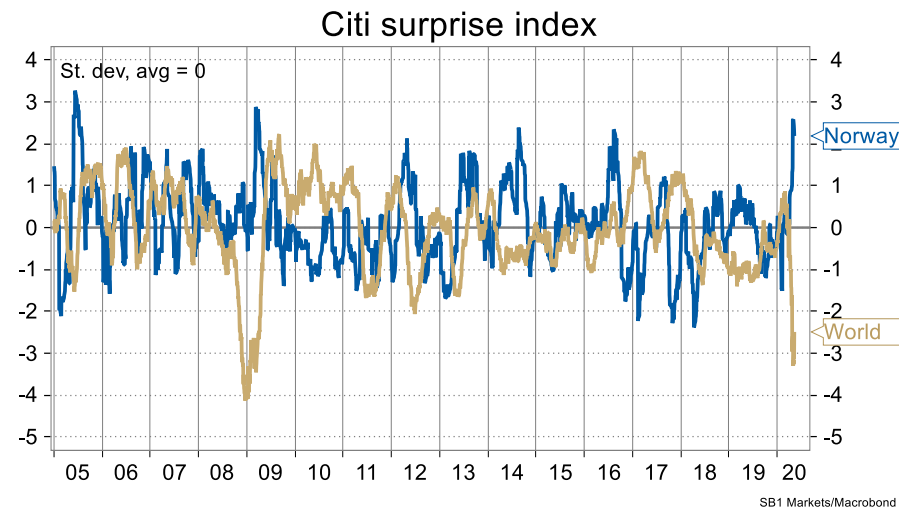
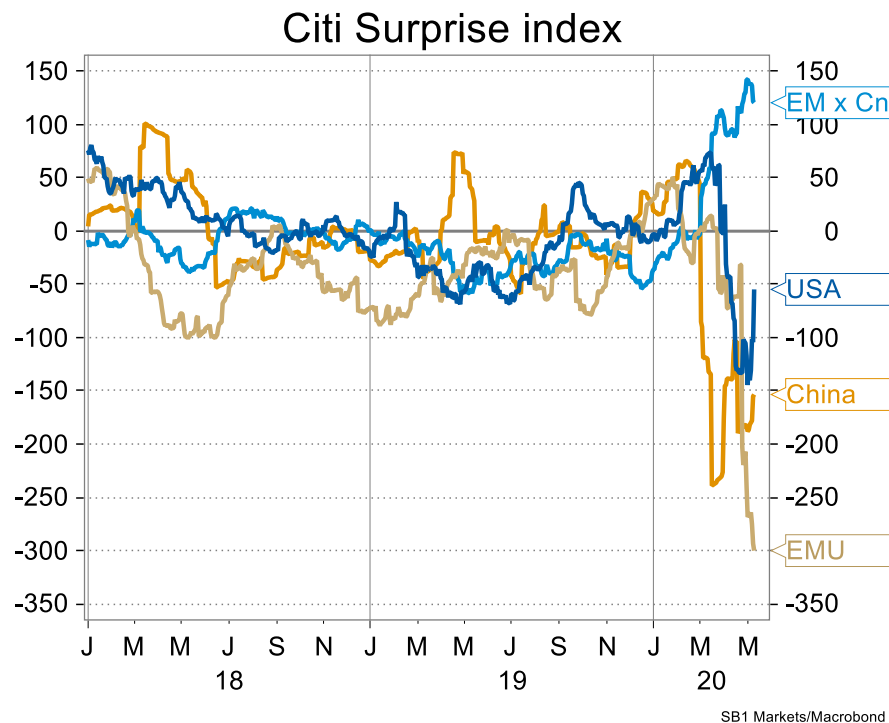
The world around us

The Norwegian economy

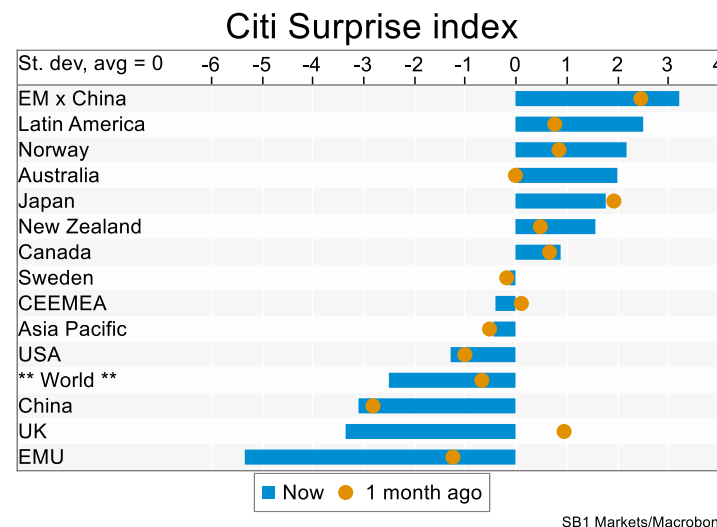
Market charts & comments

## US data were bad but not as bad as expected. European data just bad

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

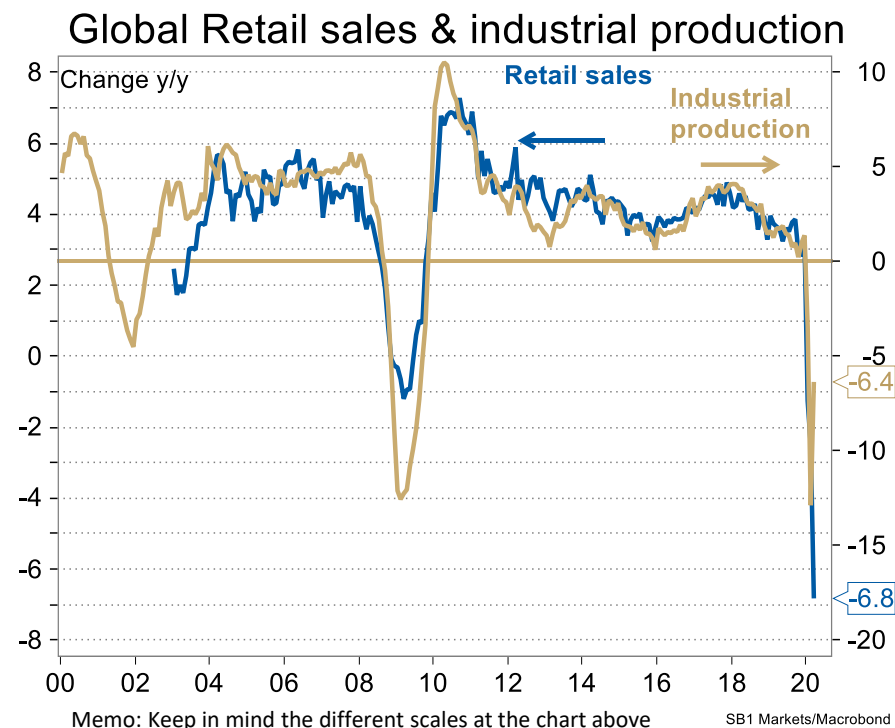
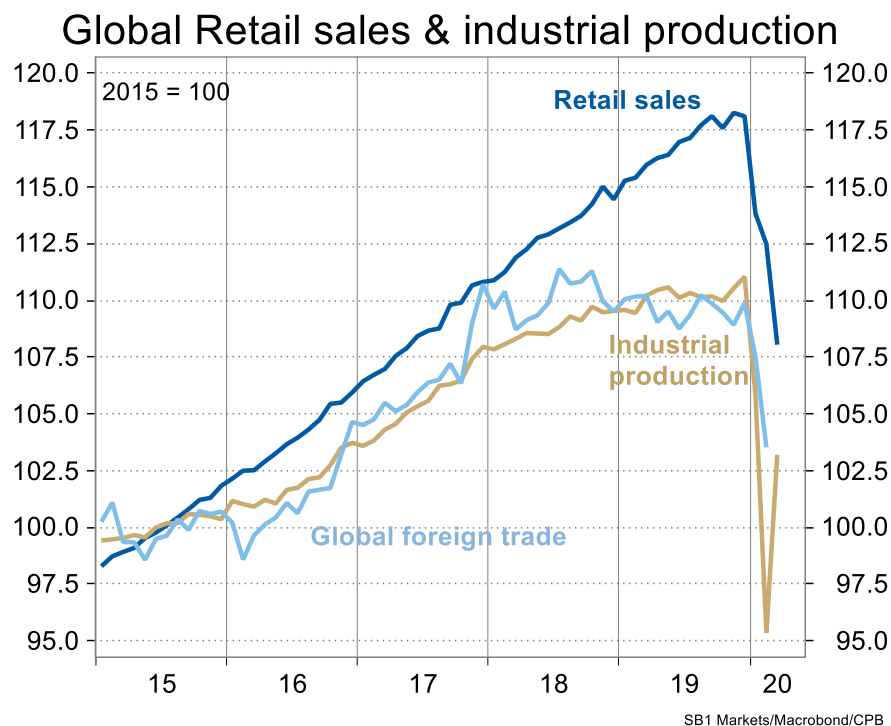


- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- The impact from last week's US data no doubt positive. European data extremely weak vs. expectations
- Norwegian data are more upbeat vs expectations, for no good reason
- We are not sure why EM x China data are so strong either



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

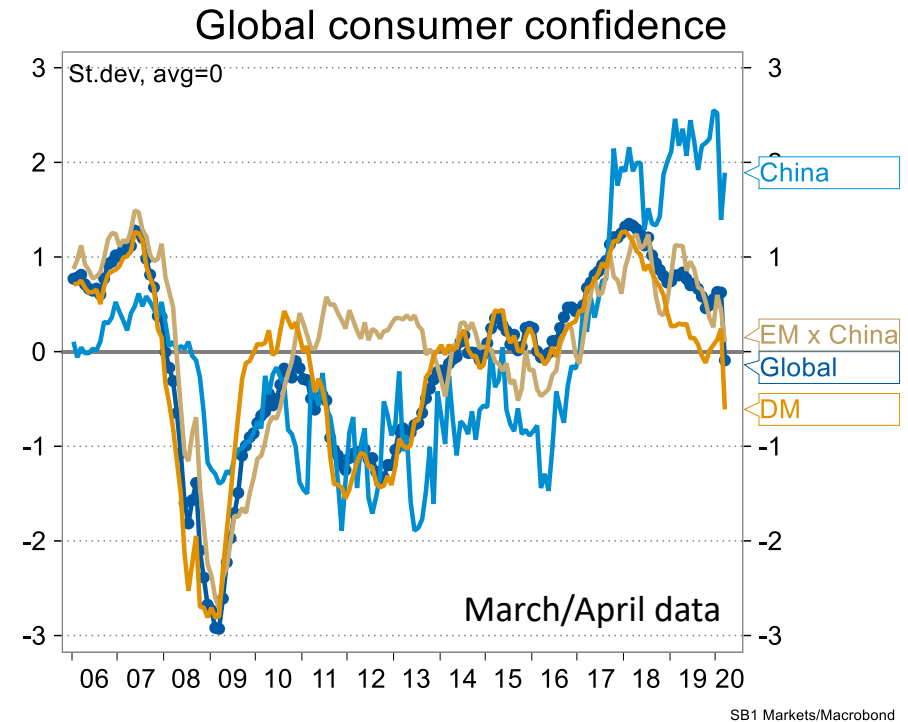
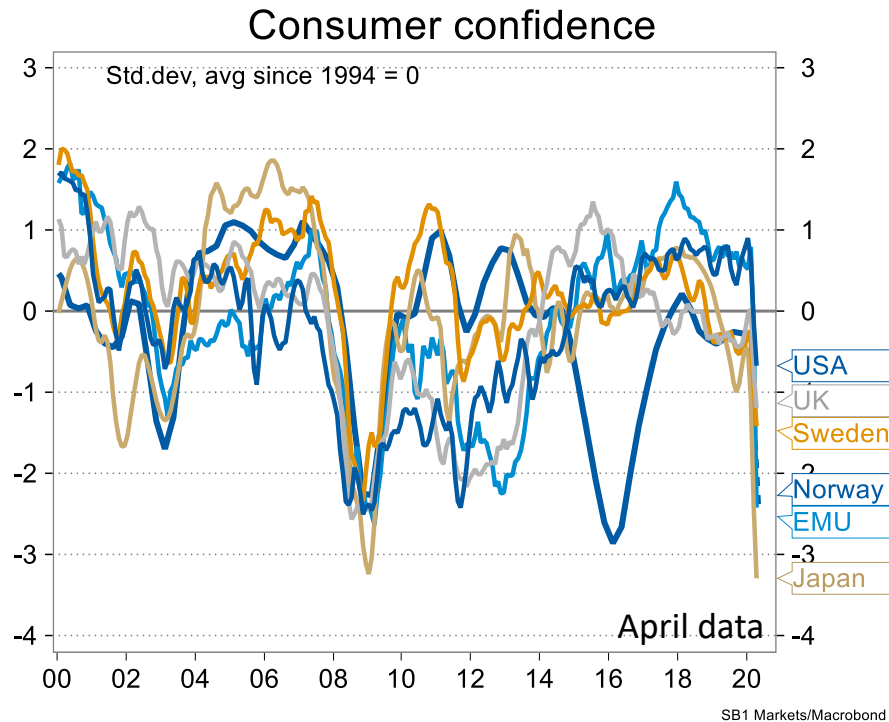
China took global industrial production sharply down in February, and lifted it in March



- **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 sharply in the rest of the world, total production rose by some 6%. Production no doubt fell sharply in April, with limited (if any) help from China and a further decline in China
- **Global retail** sales may have fallen some 3 – 4% m/min March. Europe was a catastrophe but in US consumption of goods ex auto rose marginally. April will be far worse in most of the world but China might help somewhat
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come...

## Consumer confidence sharply down everywhere

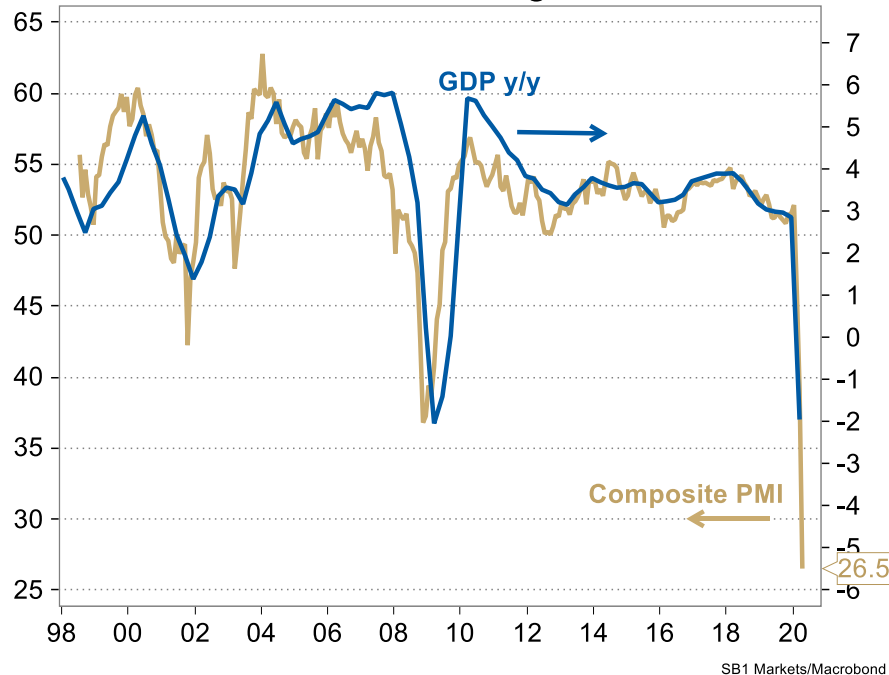
Still data are not disastrous and in average above the 2008 troughs, albeit not in EMU, Norway



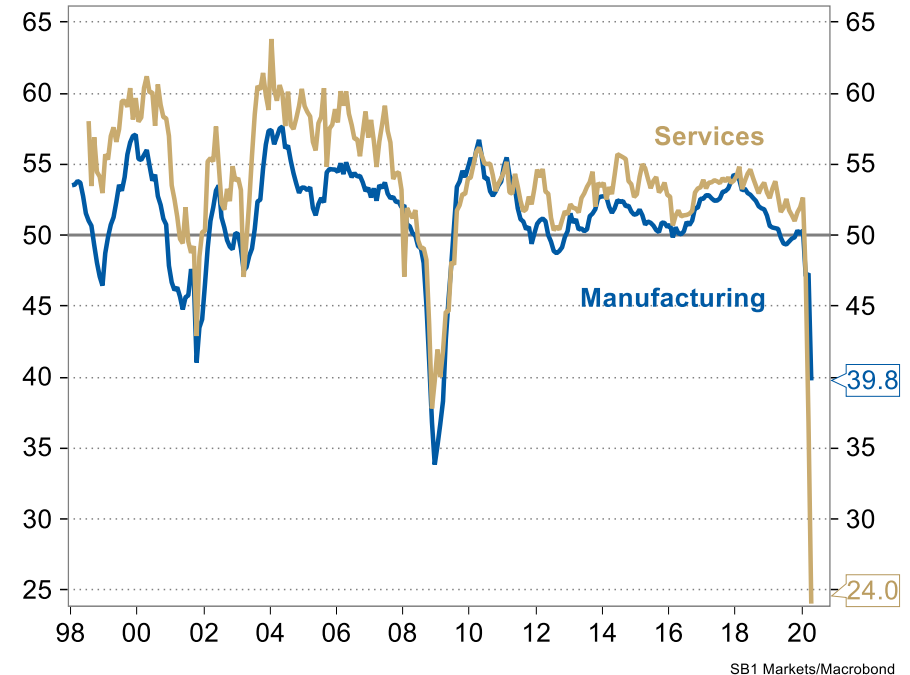
# Global PMI confirms harsh setback in April, as both services & manuf. stumbled

Global PMI fell much more than we assumed, down to 26.5

Global PMI vs growth



Global PMI

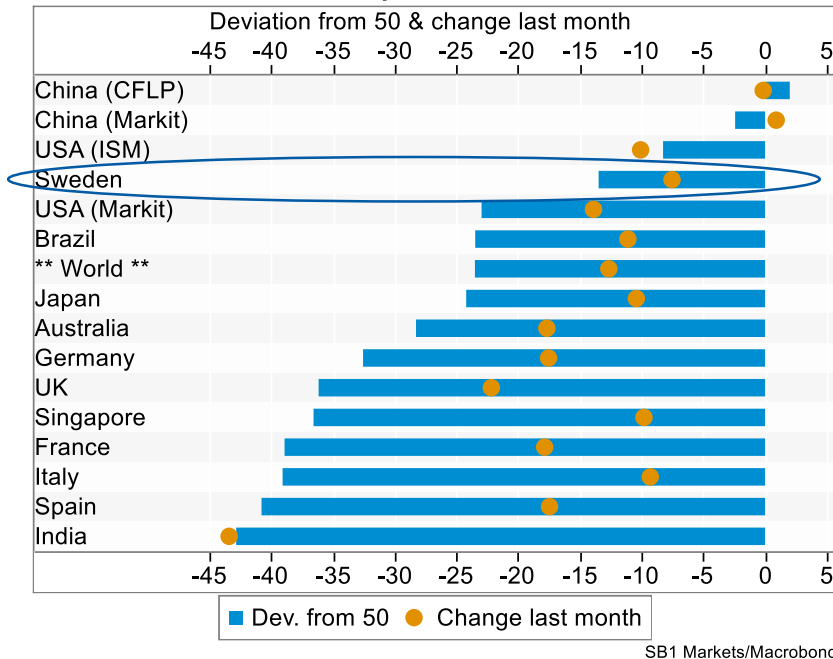


- The global PMI fell by 12.7 p to 26.5 p, signalling a 5 – 6% decline in global GDP
  - » However, it is challenging to calibrate the PMIs in uncharted territories
- The decline was most dramatic in the service sector, the index fell to 24 - and in Europe, of course due to the lockdowns in several countries. The headline manufacturing index fell to 39.8, but the production & order indices were far weaker. Longer delivery times pushed the headline index up, not a signal of strength these days. So the PMIs are even weaker than reported
- What about May? If activity picks somewhat up, the PMIs should report growth – and climb to above the 50 line

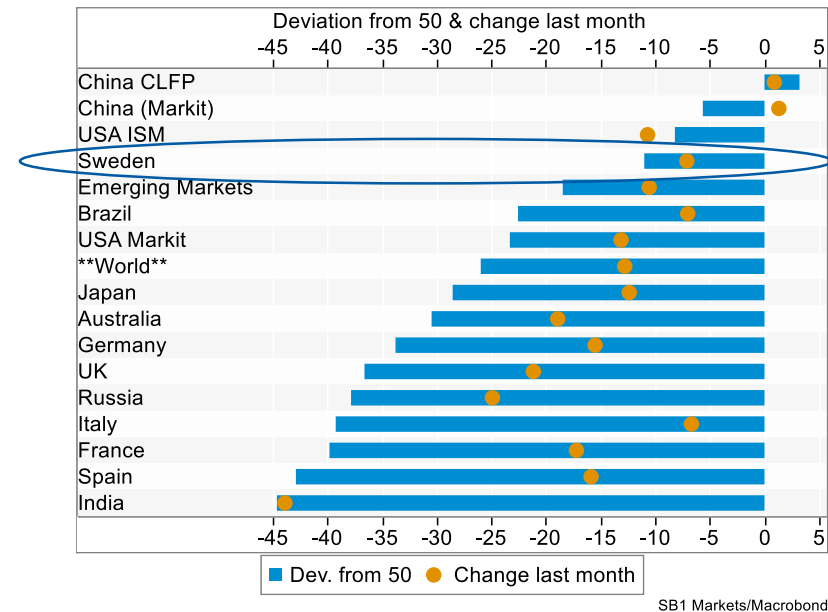
# Sweden is so far better off than most others - due to a limited decline in services

The April PMIs in the full lockdown countries are not far above the zero line

## Composite PMI



## Services PMI

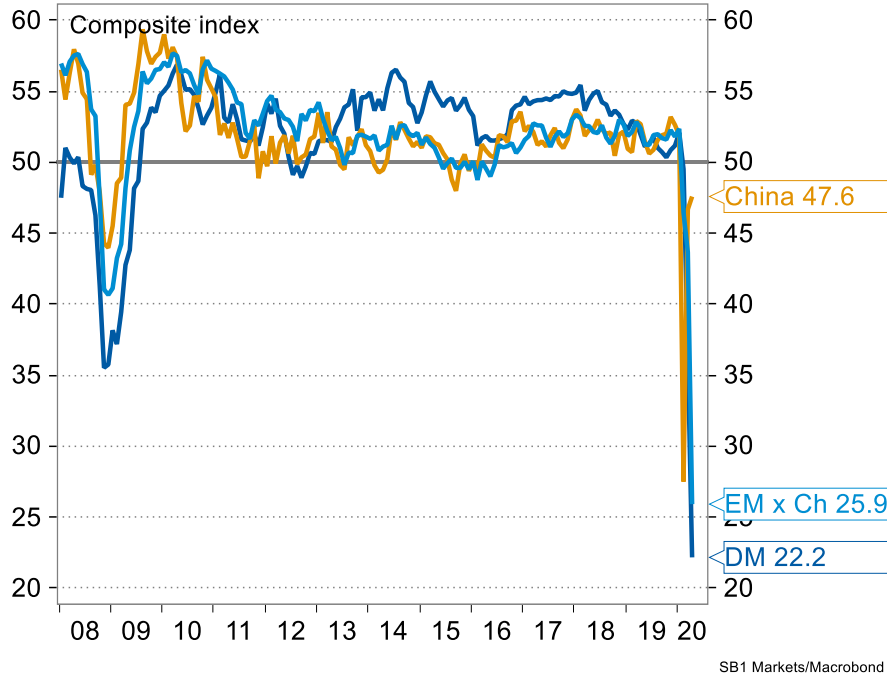


- Norway does not have a service sector PMI. The decline in the manufacturing sector is less than in Sweden, according to the PMI, on par according to other manufacturing surveys

## 23 PMIs down, 2 up in April, record low levels most places

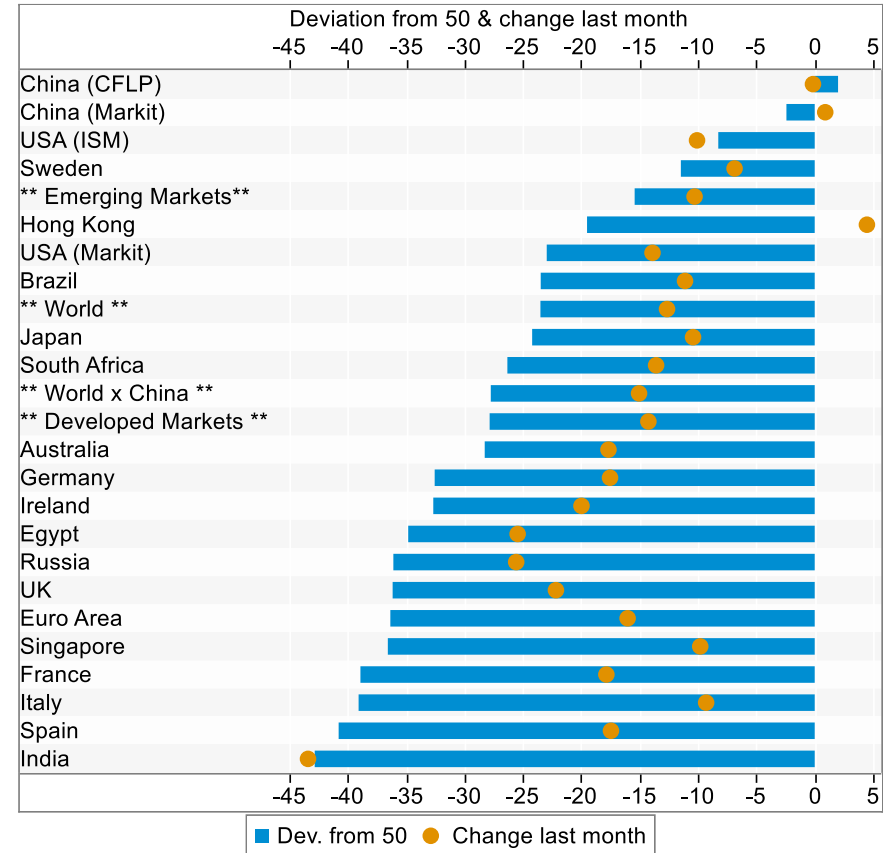
Just one China PMI above the 50-line, indicating growth, all others far below

### PMI Emerging vs Developed markets



- India reported the sharpest decline, and the lowest level, down to 7 points, ATL for a PMI? Not that strange, during a tight lockdown, nobody is reporting growth
- Southern Europe at the bottom of the DM league
- No bright spots to be seen, except for normal growth in China

### Composite PMI

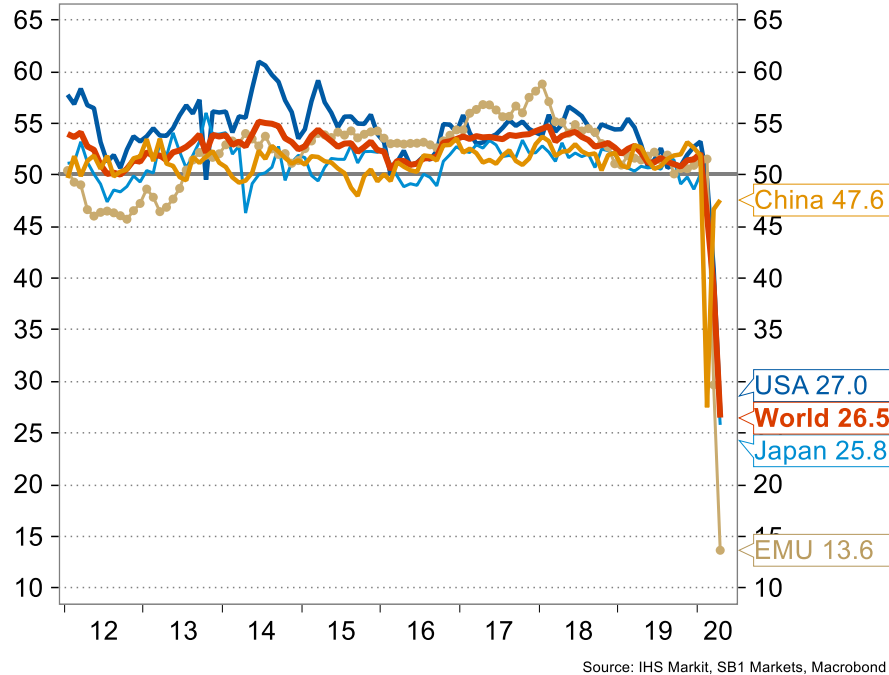




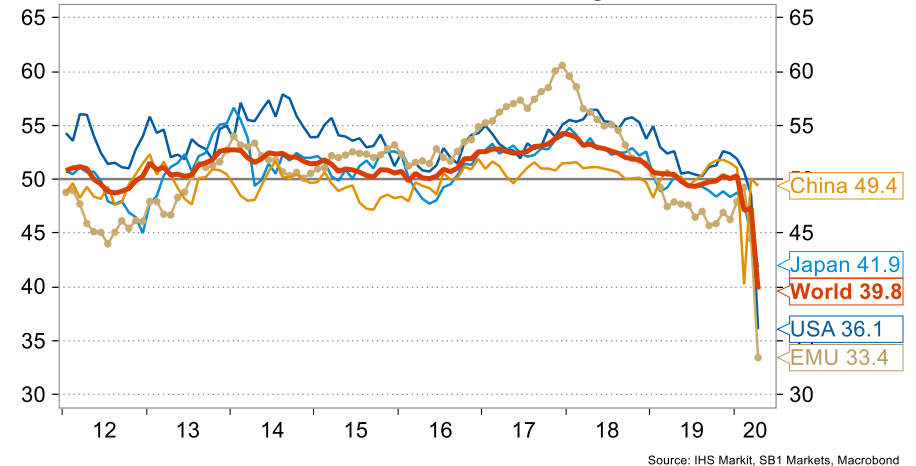
# Covid-19 and mitigation measures hammer services everywhere outside China

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

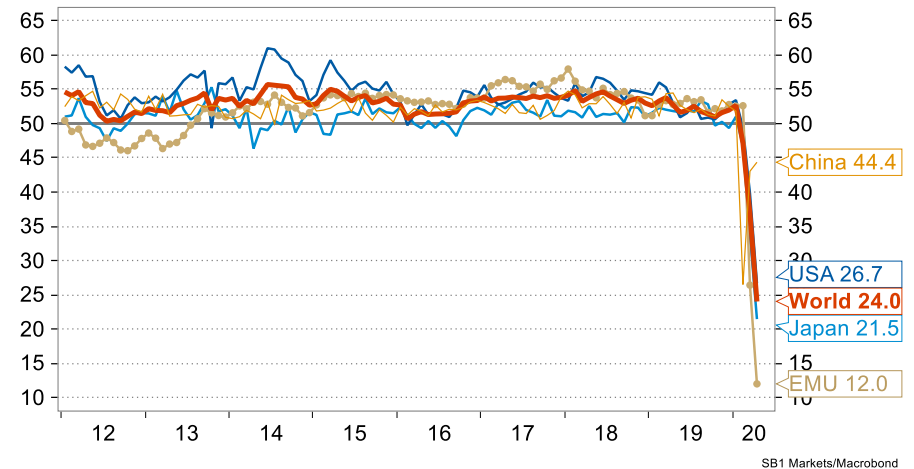
## PMI Composite



## PMI Manufacturing

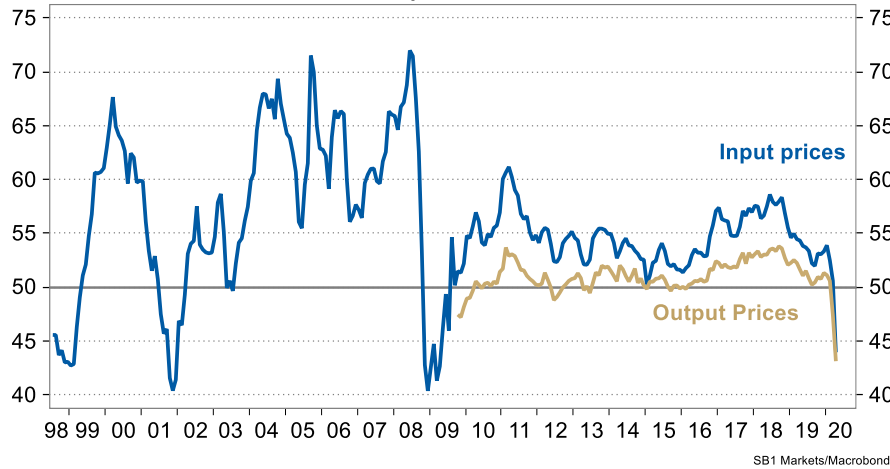


## PMI services

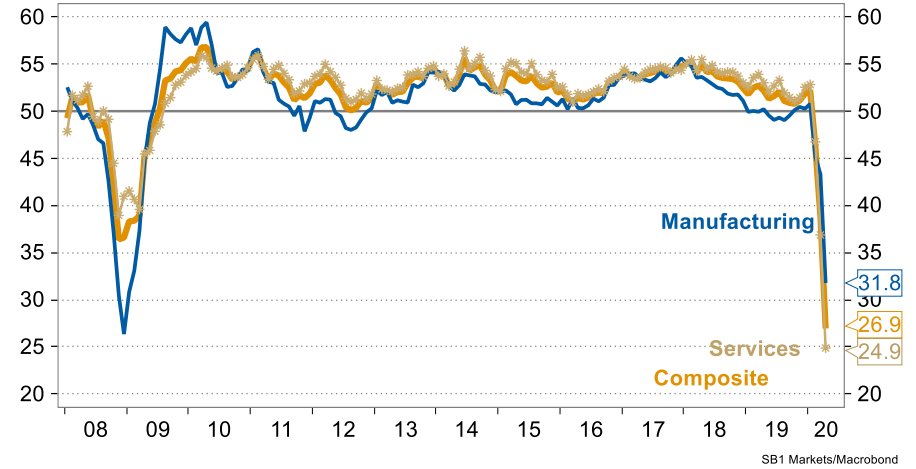


# No new orders, just price cuts

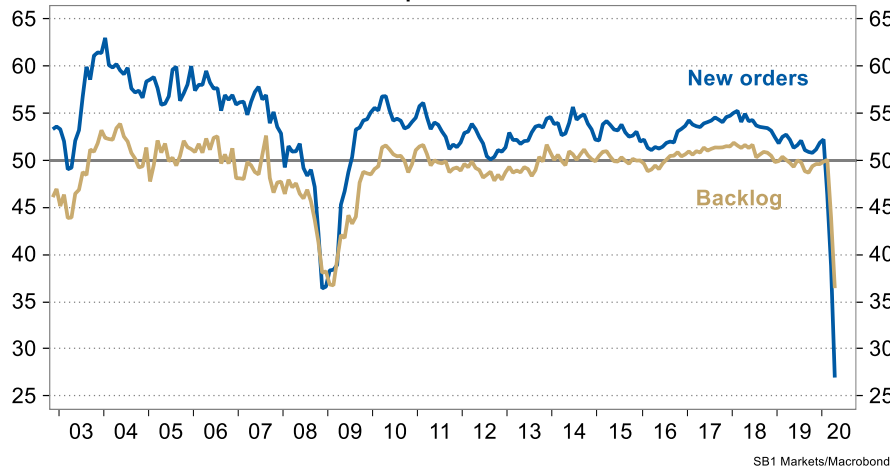
## Global Composite PMI Prices



## Global Composite PMI Orders



## Global Composite PMI Orders



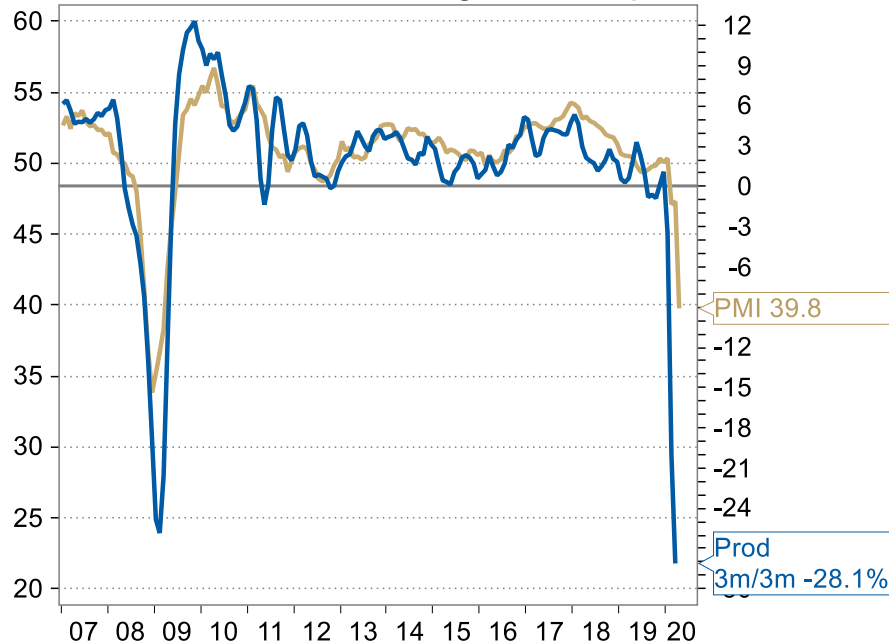
## PMI Manufacturing

## Global PMI

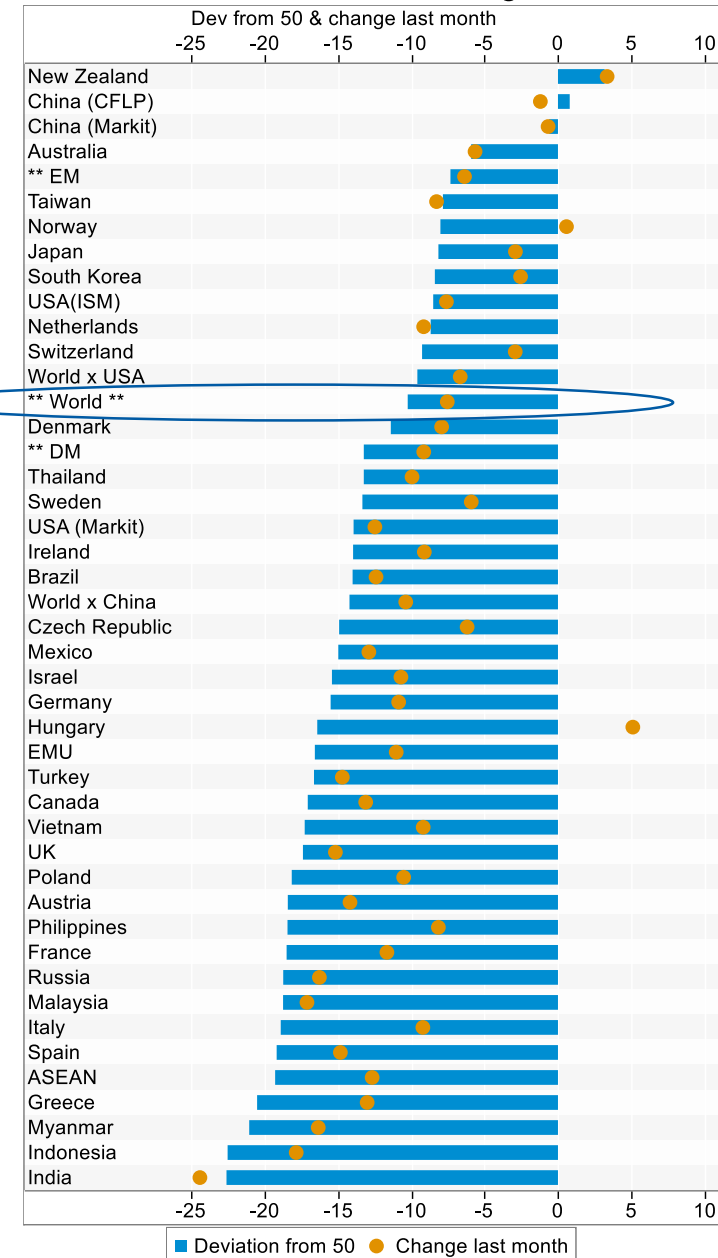
# Manufacturing PMI down and almost out

New Zealand and one China survey above the 50 line

### Global Manufacturing PMI vs production



SB1 Markets/Macrobond

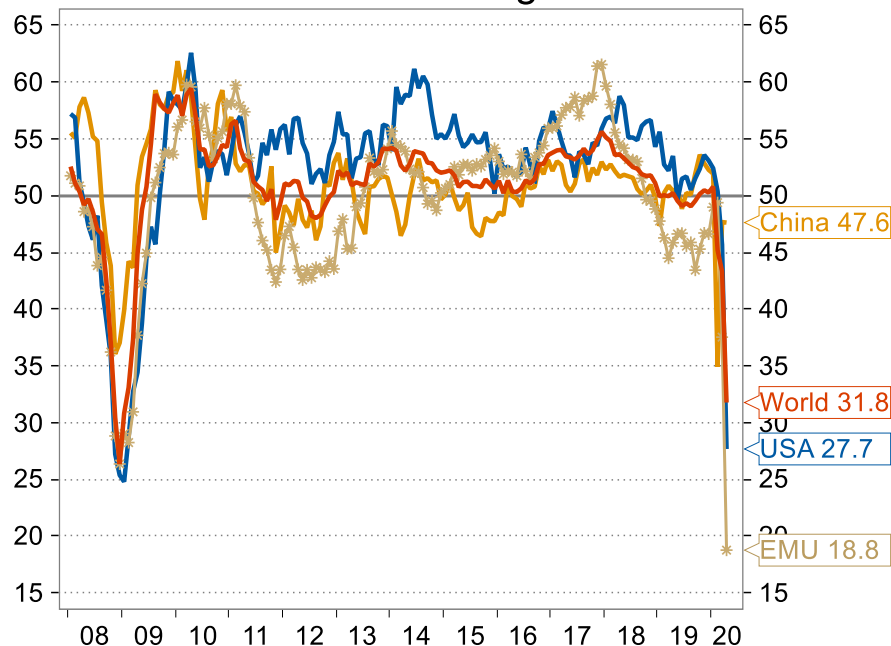


SB1 Markets/Macrobond

## Manufacturing details are weak, orders are tumbling

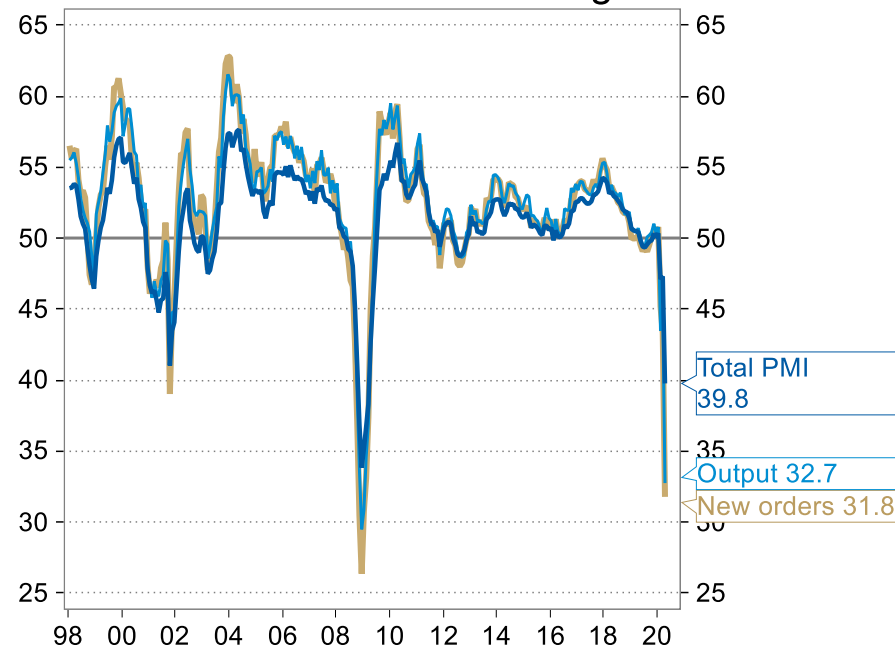
Global manufacturing orders PMI dropped to 34.6, even when including China

Global Manufacturing PMI Orders



SB1 Markets/Macrobond

Global Manufacturing PMI

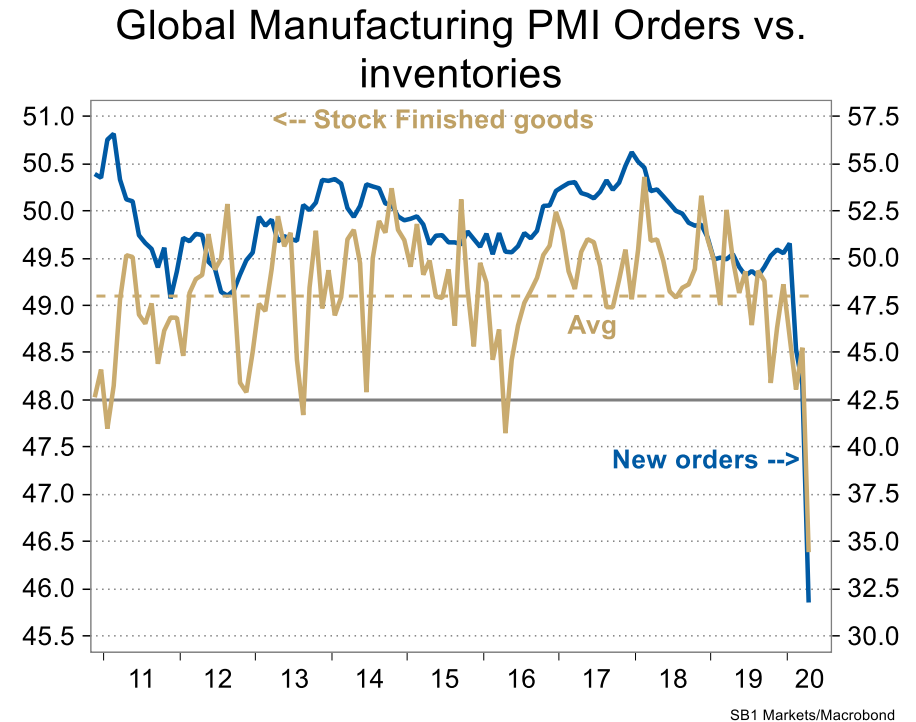
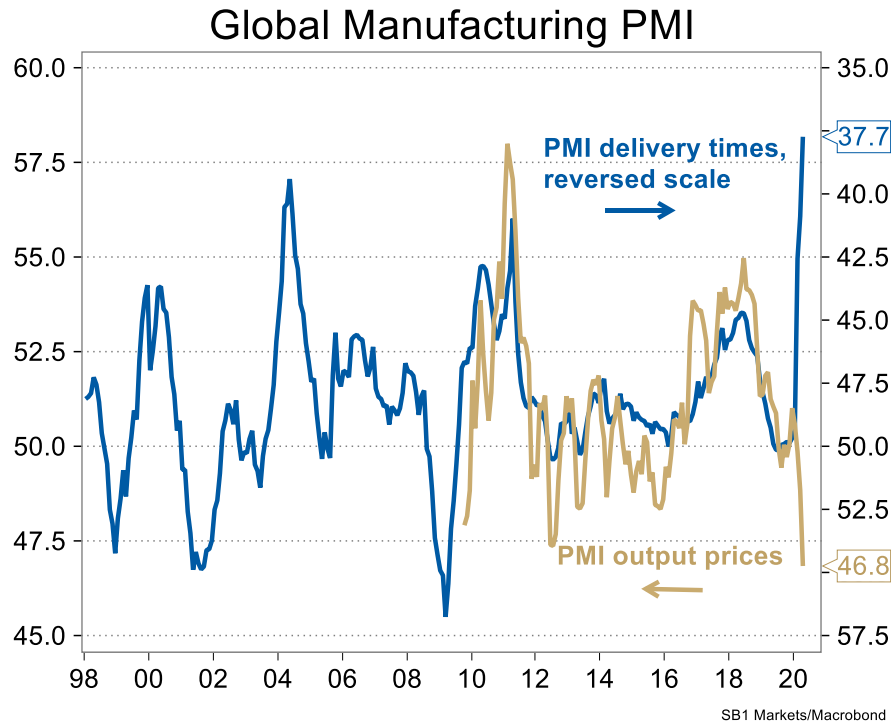


SB1 Markets/Macrobond

- 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

## Global delivery times are soaring, for obvious reasons

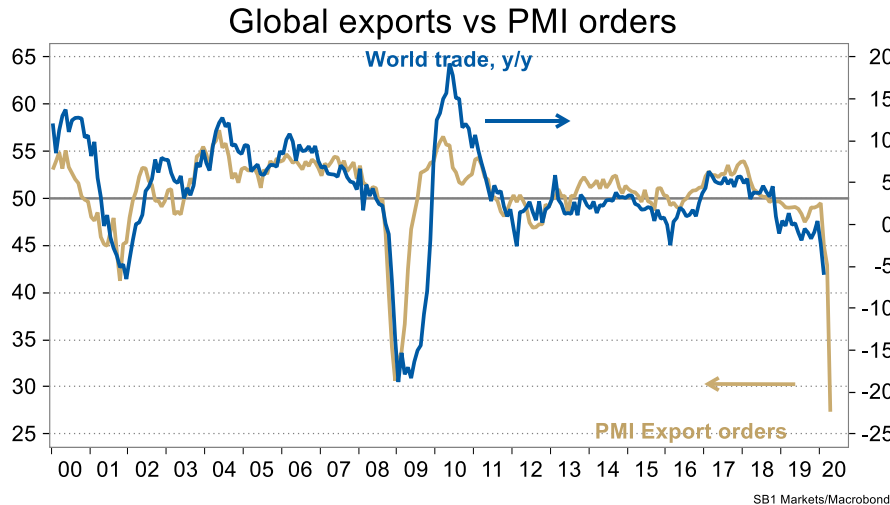
Covid-19 has caused huge supply chain delays and global inventories have been reduced



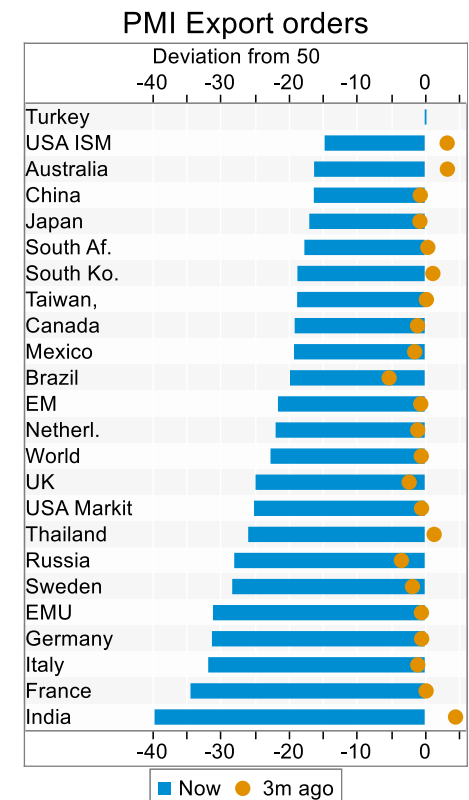
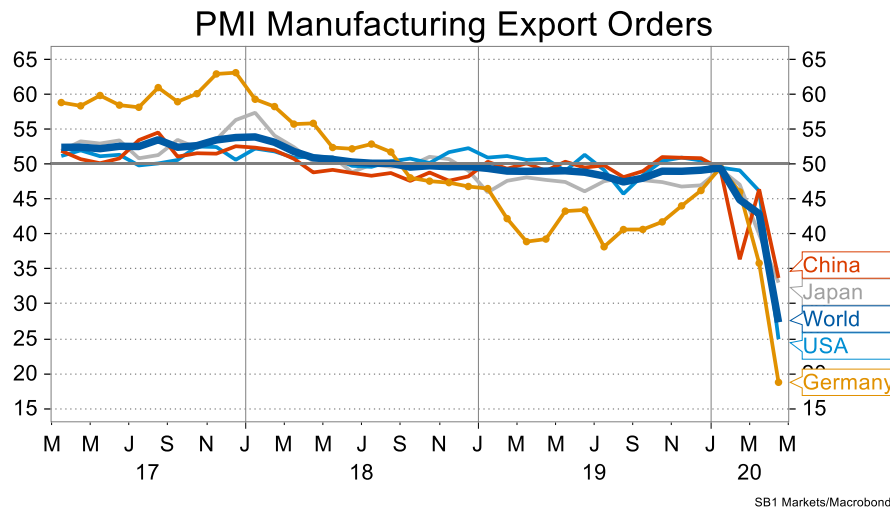
- Price are falling rapidly, no inflation pressure
- A decline in stocks of finished goods are good news these day.

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

Export orders PMI dropped to 27 in April, suggesting >20% decline in global exports



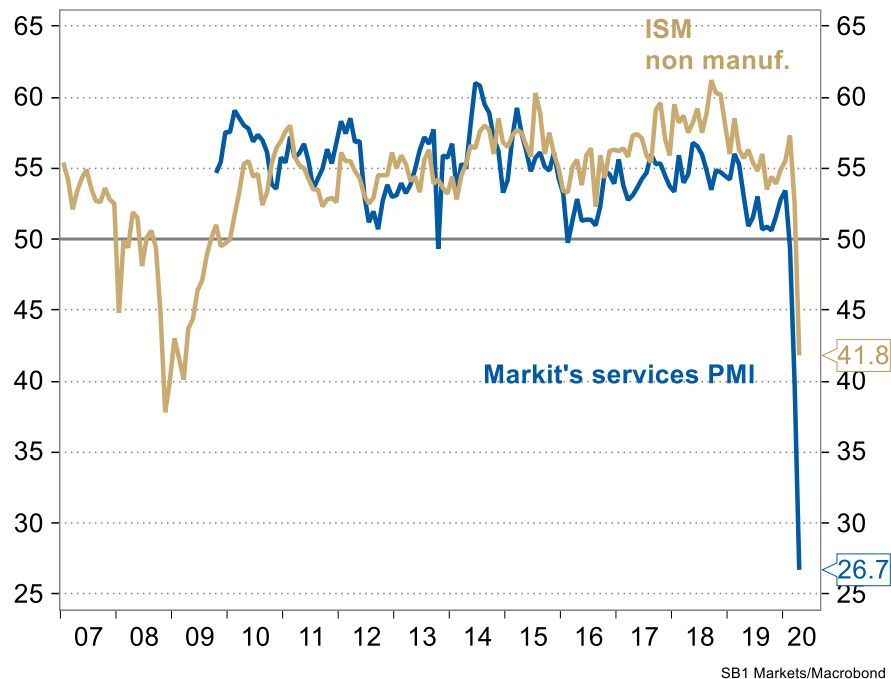
- We do not have much data on actual global export volumes from after corona really hit, the latest data are from February
- All countries reported falling exports in the PMI surveys
- India at the bottom, together with European countries, including Sweden



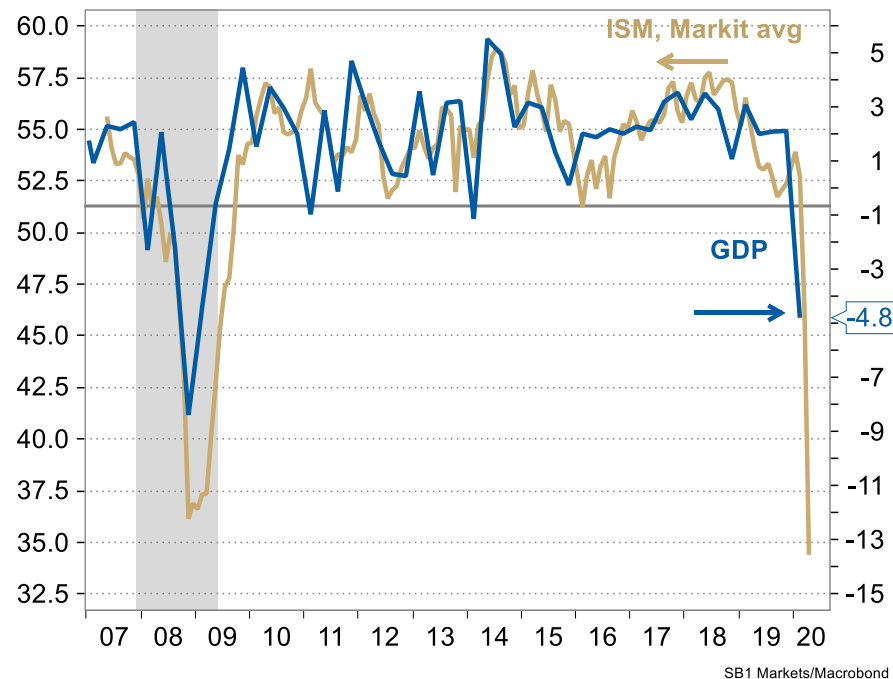
## The ISM & PMIs confirm a sudden drop in activity in April

The May indices will be far more important – any signs of life after death??

### USA PMI/ISM Services

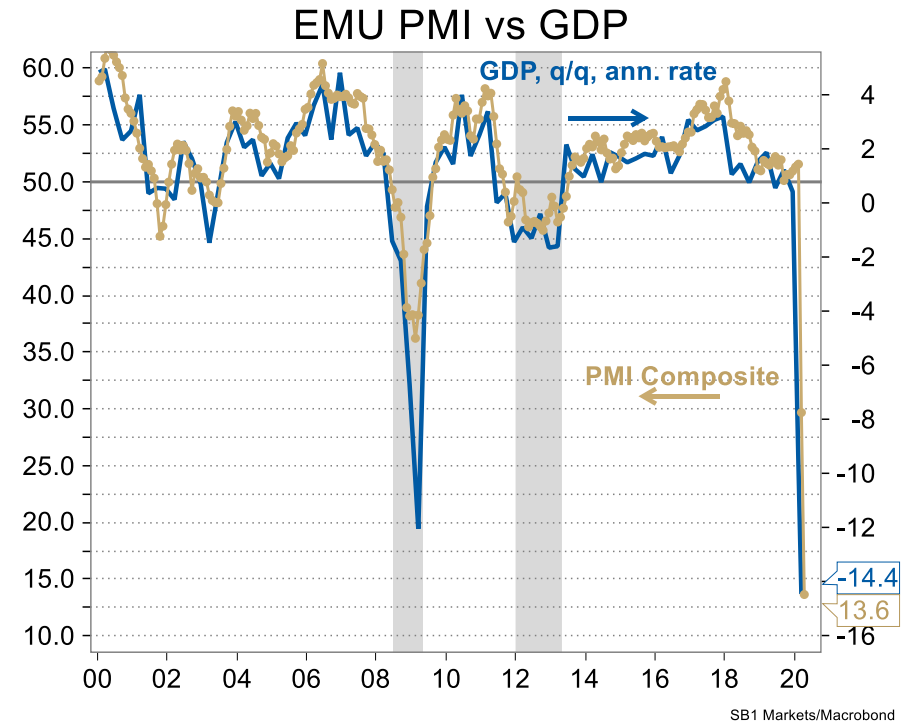
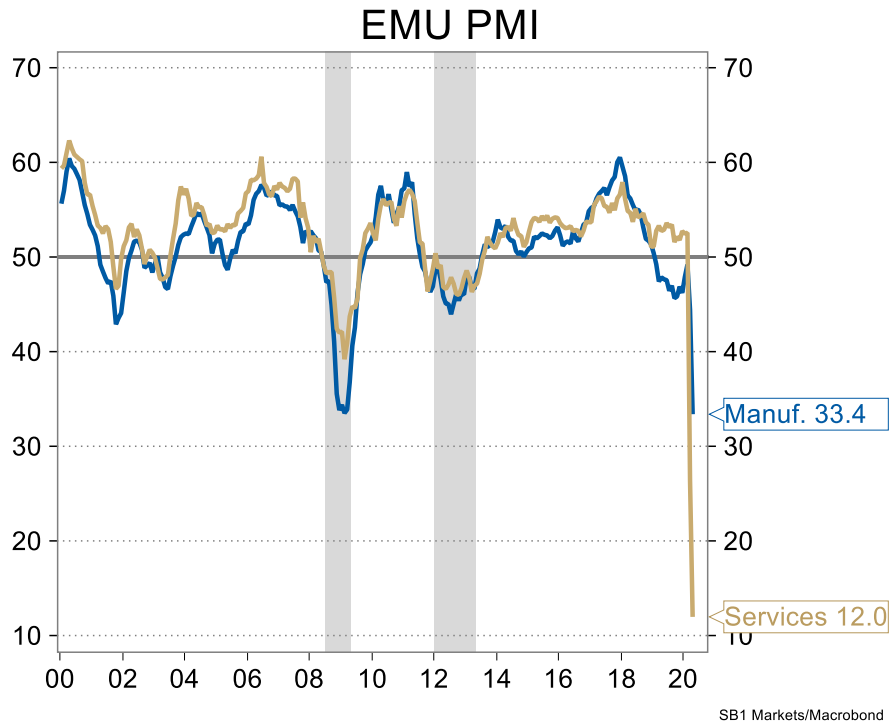


### USA PMI/ISM vs GDP



## Full stop in Europe in April, of course

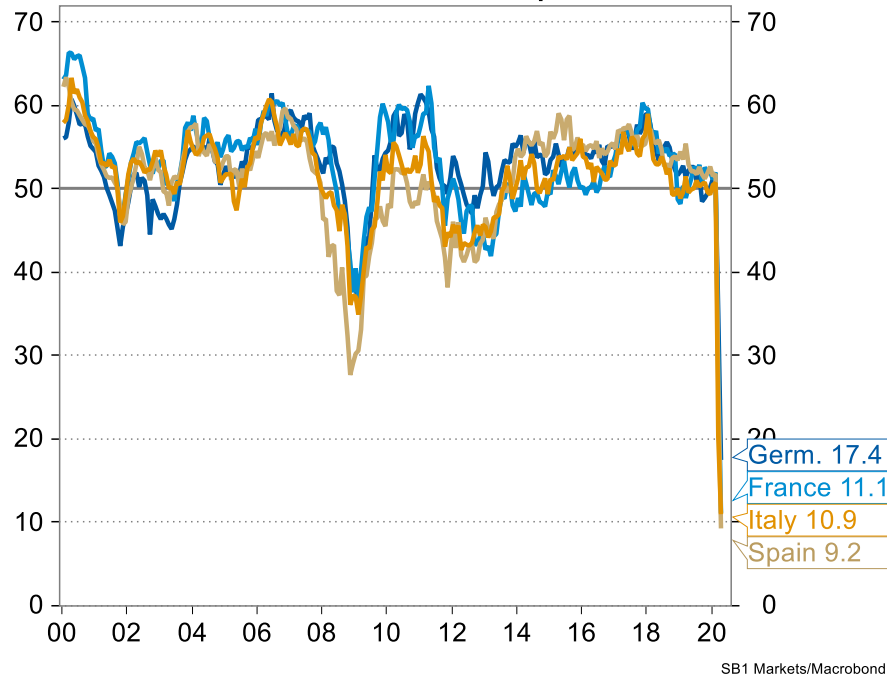
Composite PMI plunged to 13.6



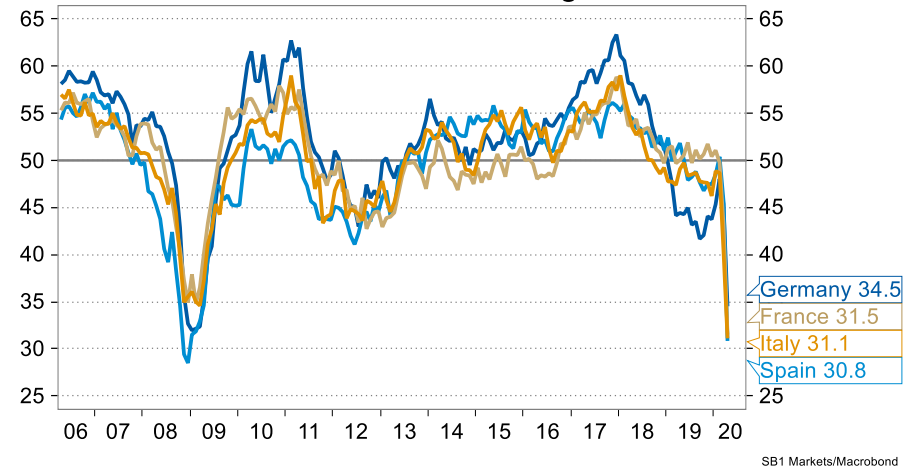


# You will never ever see something like this again?

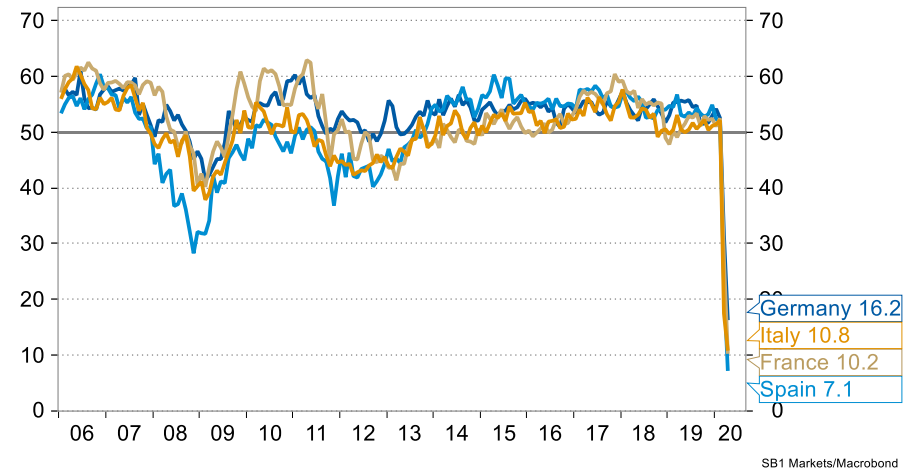
## EMU PMI Composite



## EMU Manufacturing PMI

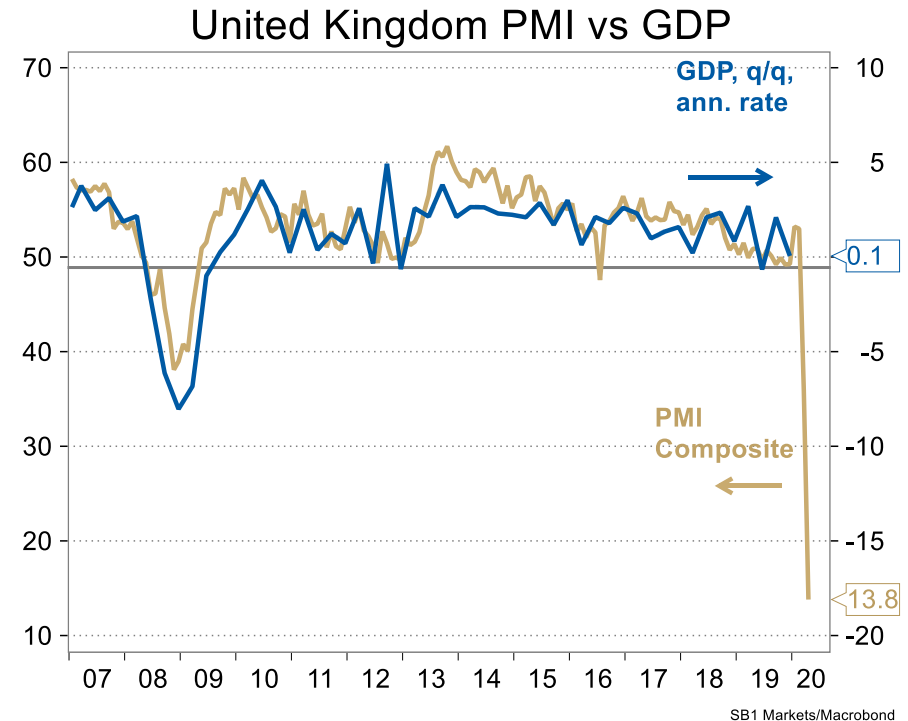
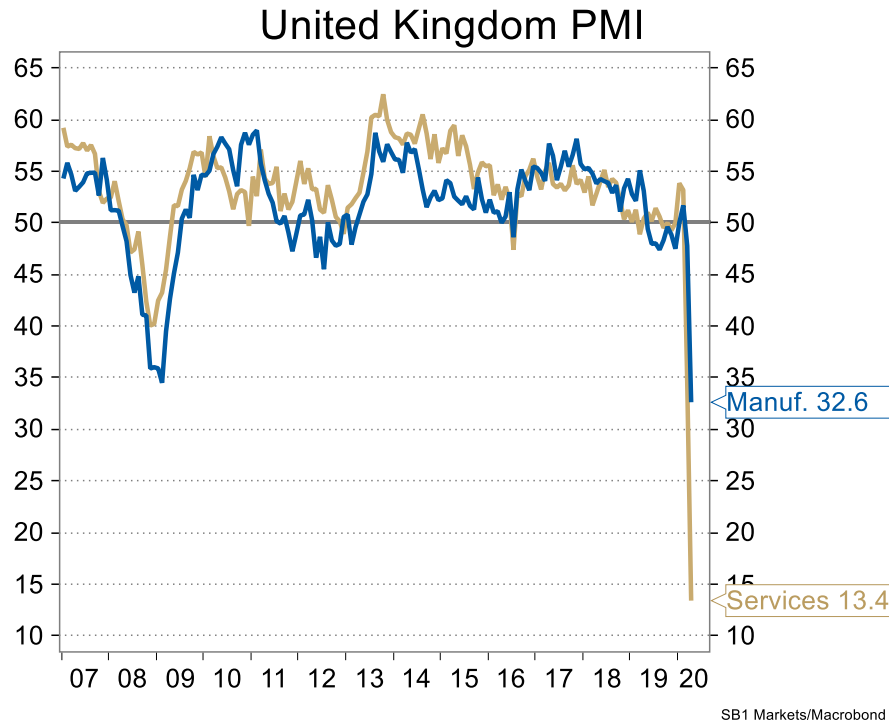


## EMU Services PMI



## PMIs are tumbling here, too

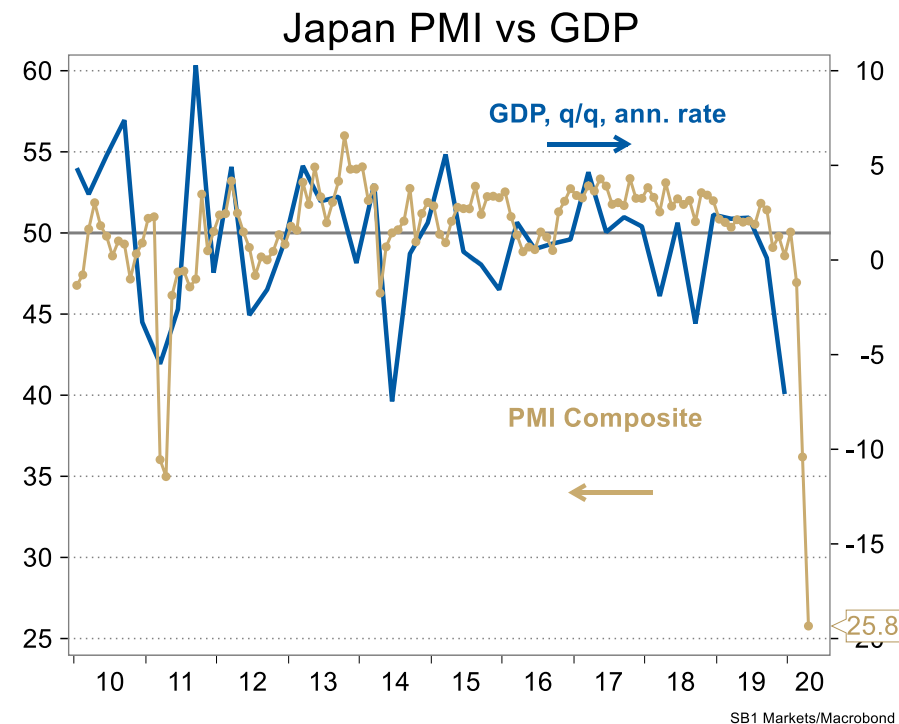
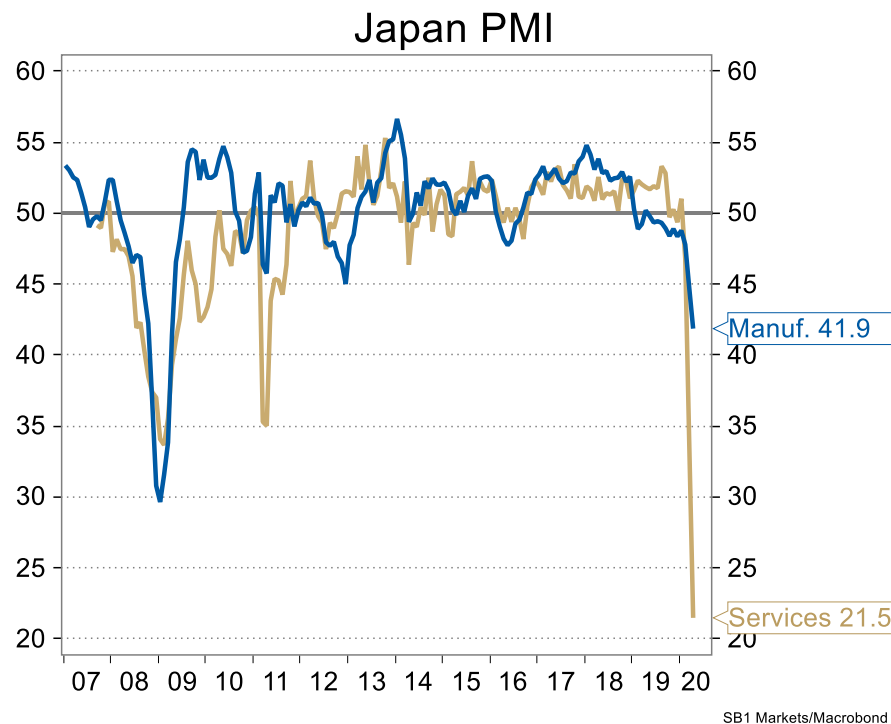
Service industries were hit hard in the UK as well, manufacturing more moderately



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

## Japan PMIs down, here too services take the hardest hit

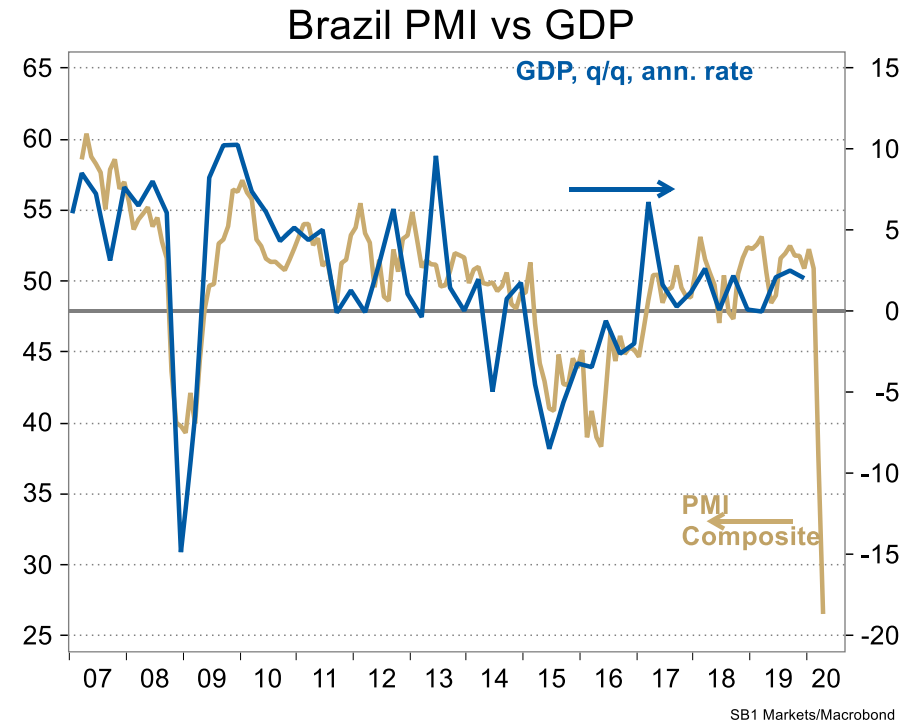
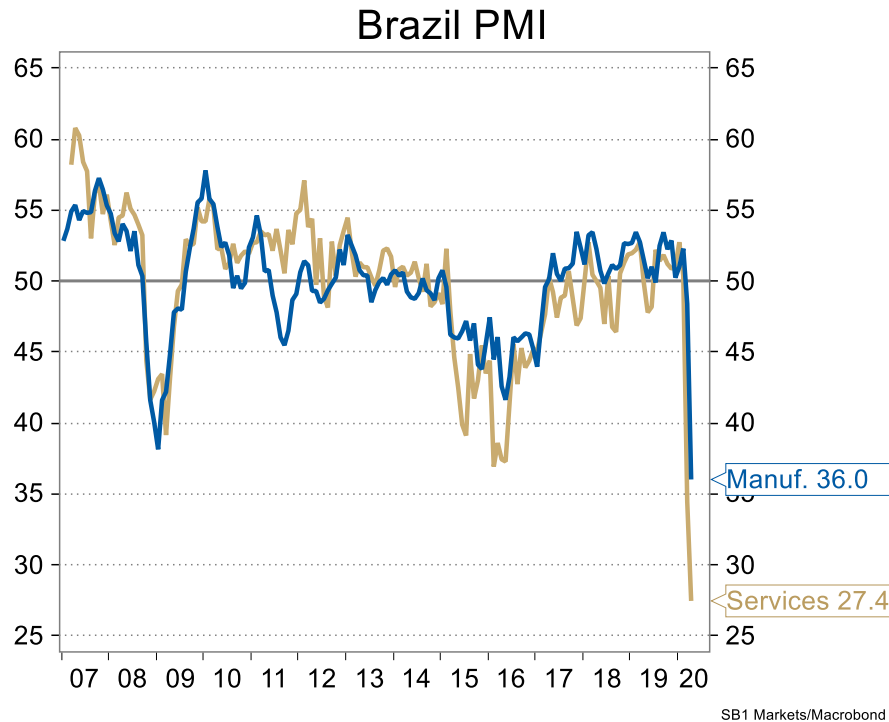
Services PMI dropped 13 p in March, as several sectors were hit hard by the corona crisis



- Composite PMI slipped to 36.2 (marginally above the preliminary PMIs, surprisingly). This is the lowest level since 2011 (following the tsunami). The PMI suggests that the economic downturn will deepen from the 7.1% GDP drop in Q4. The timing of the corona crisis is horrible for the Japanese economy, which has been struggling with recovering from the consumer tax hike in October 2019
- The Covid-19 outbreak halted output in the services sector, noting the steepest decline on record (even without a 'public shutdown', such as in Europe). Manufacturing is very weak but not a 'catastrophe'

## Brazilian economy hit hard by Covid-19

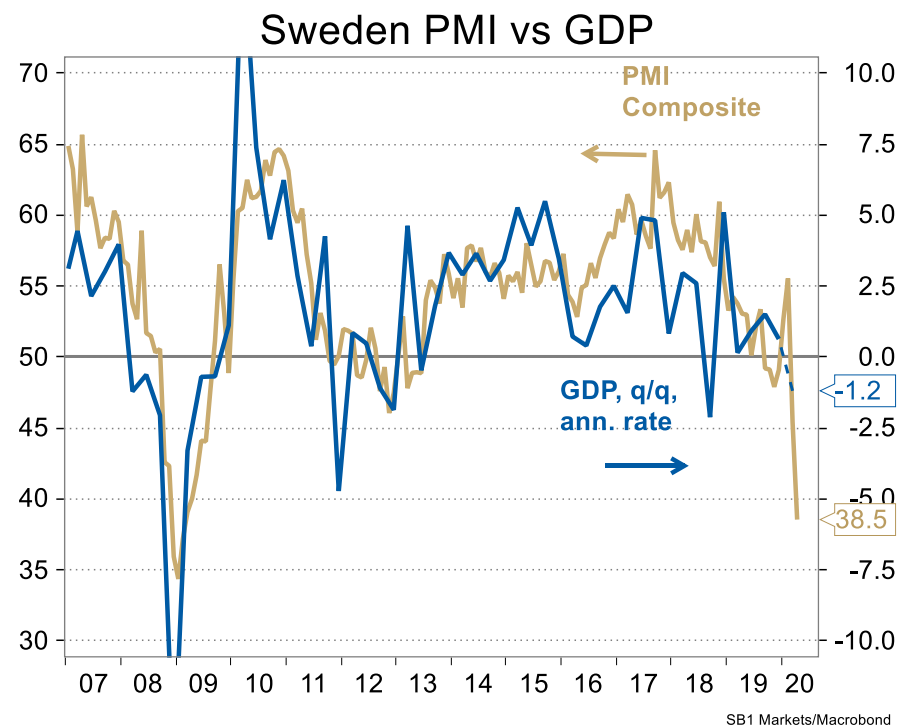
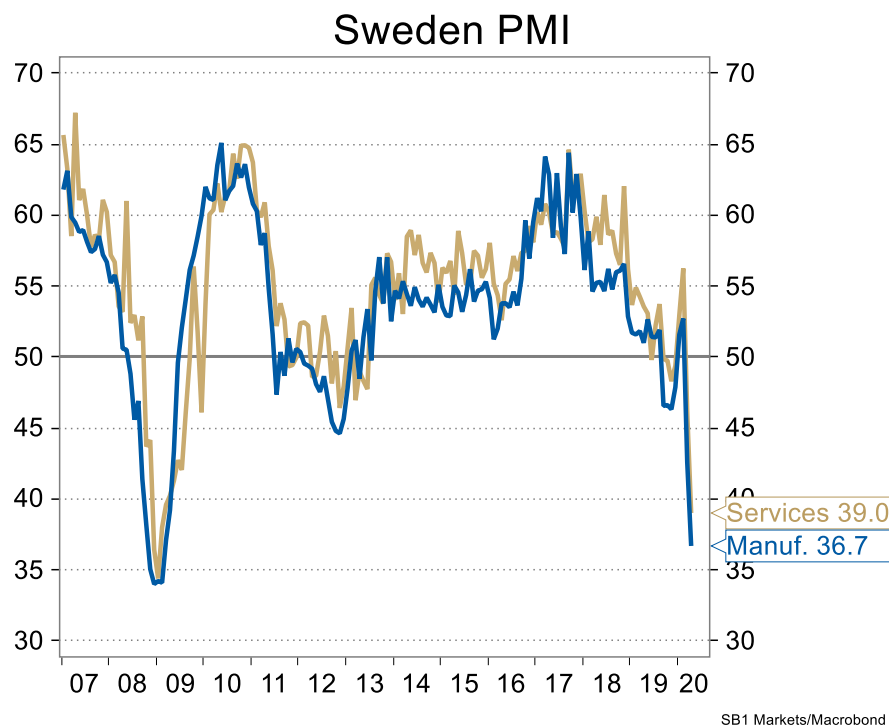
Services PMI fell to the lowest level on record as service industries have been closed down



- Even if the president says this is just fake news

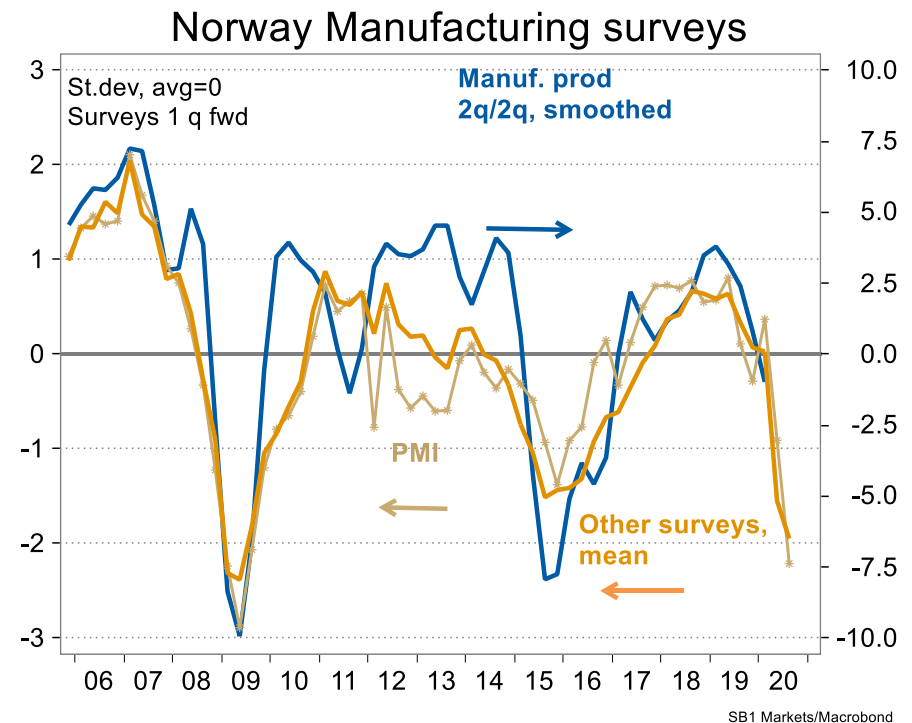
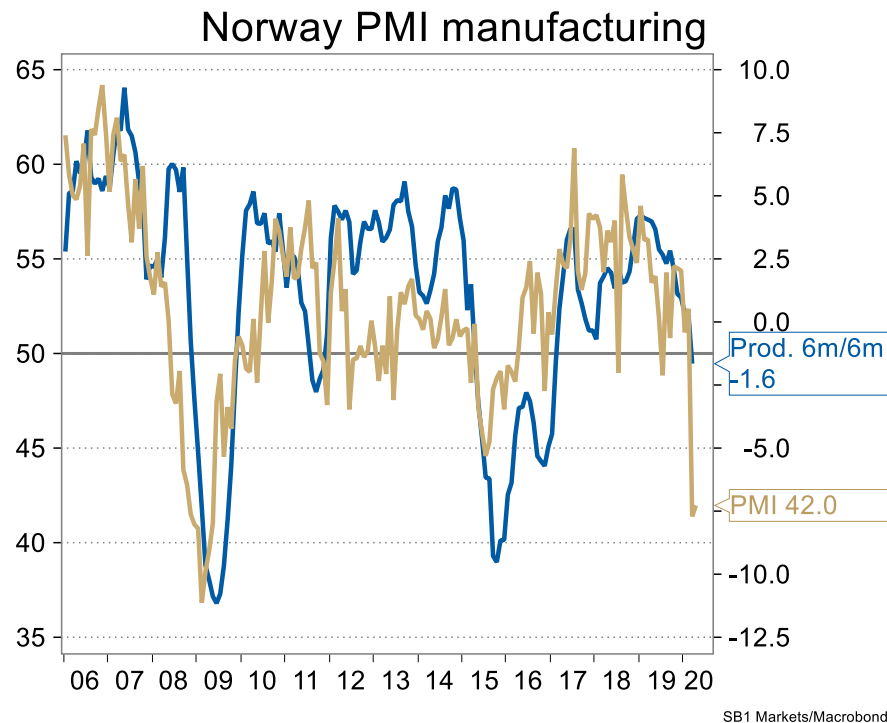
## PMIs down less than among other European countries, especially services

The manufacturing sector is hit like others, services not. For a reason?



## The manufacturing PMI stabilised in April, not bad

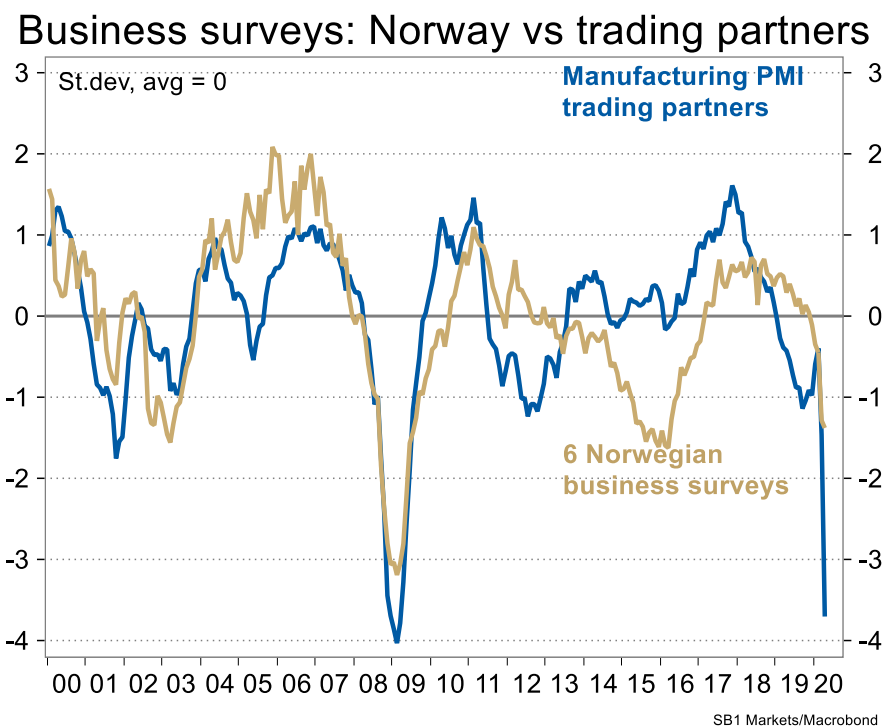
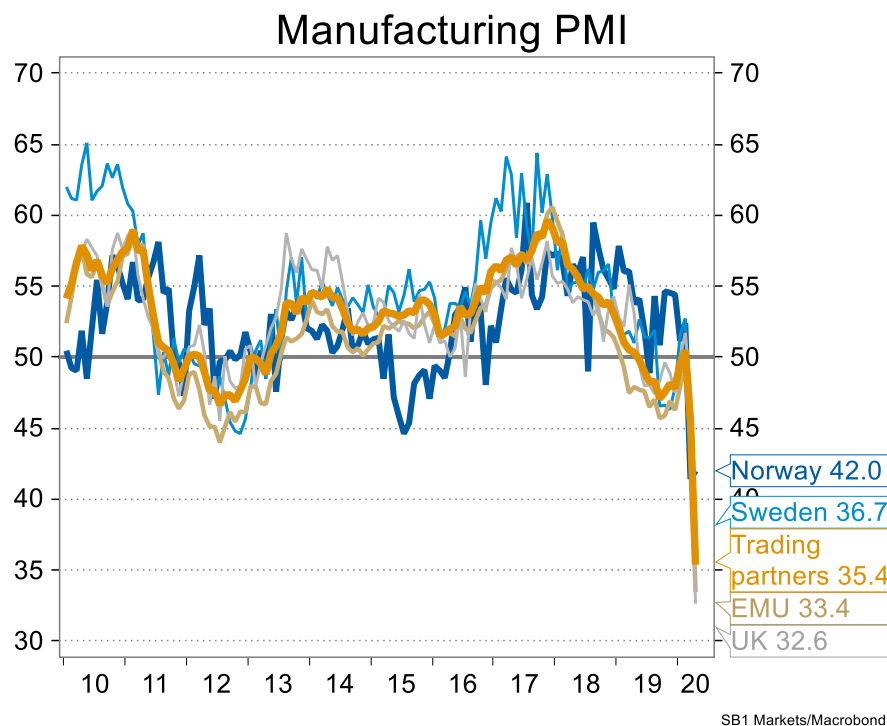
And the level is higher than among most others. Will it last? We doubt



- The Norwegian manufacturing PMI rose marginally to 42 in April, we expected to see the 3-figure first
- Other surveys are heading down but not all have been reported

## Norwegian manufacturers less hit than others? Perhaps, but not that much

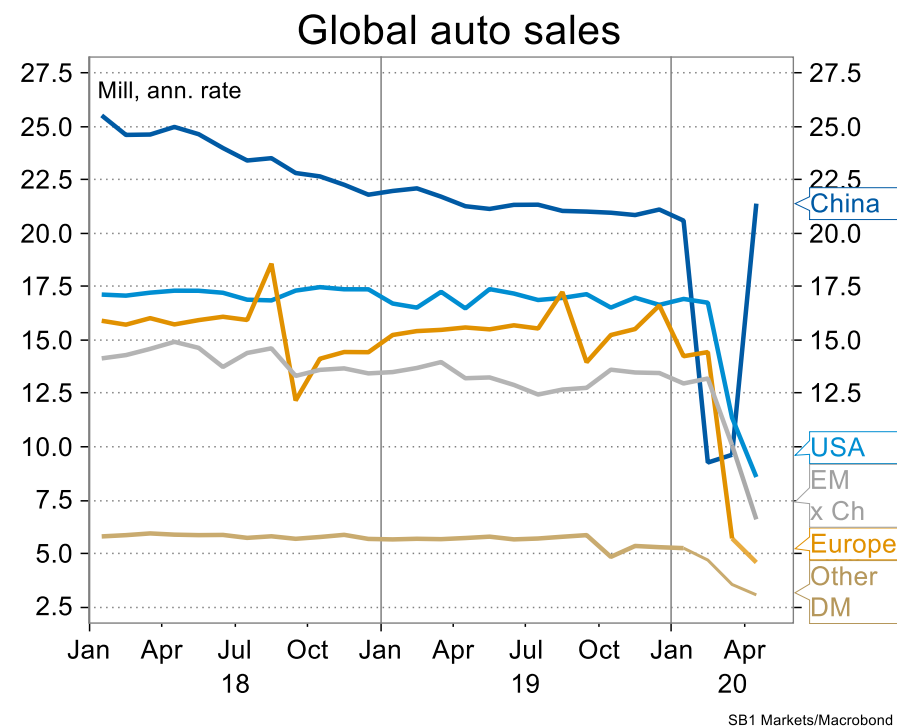
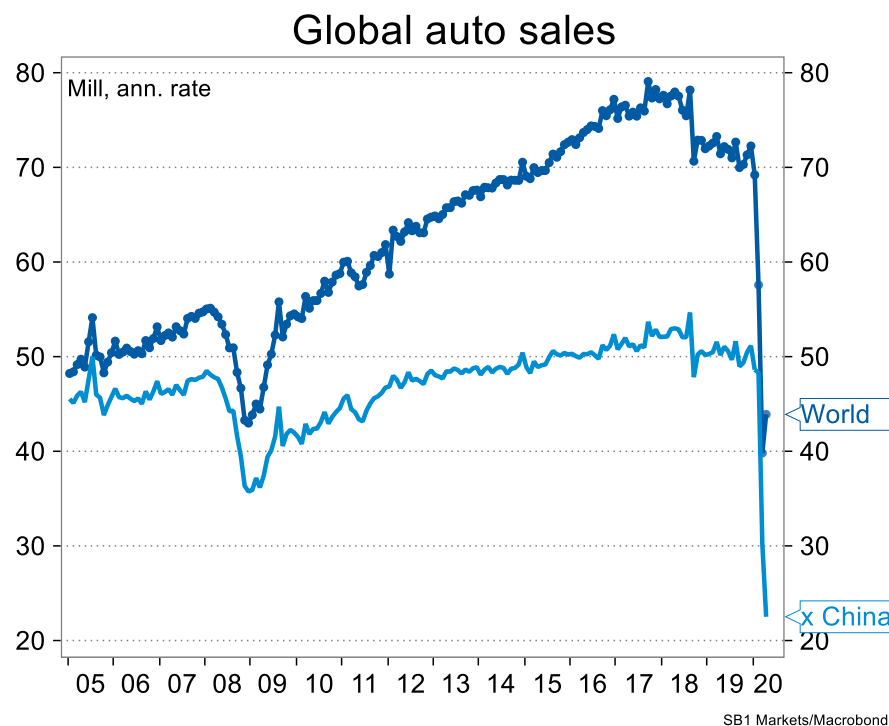
Our trading partners are reporting a sharp contraction.



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

# Global auto probably slightly up in April, due to an unbelievable Chinese recovery

China sales rose to a normal level, equalling almost 50% of global sales! Close to zero sales in India

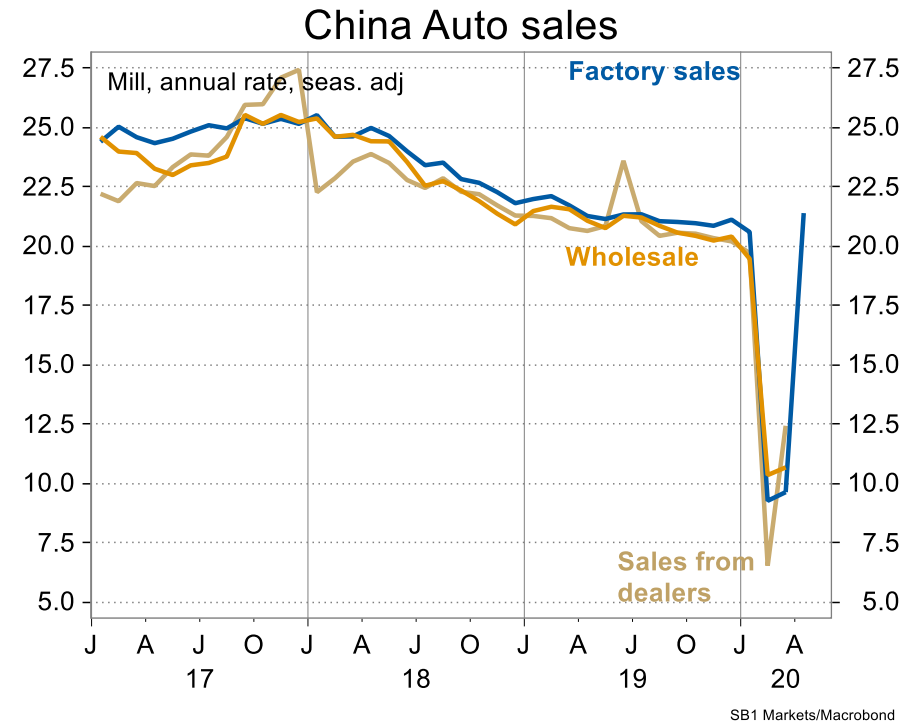
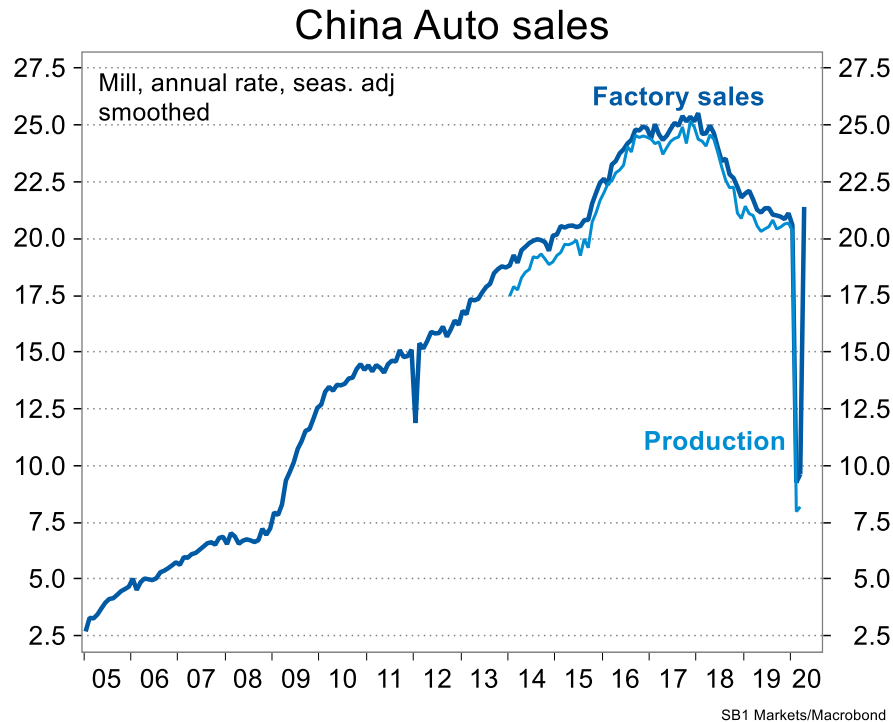


- Chinese factories shipped 0.9% more cars in April 2020 than April last year, according to media reports. If so were the best since last summer, following a 122% (silly figure, of course) increase to April from March, at 21 mill (annual rate). We have not yet seen reports on wholesale or retail sales data. Chinese sales equalled almost 50% of global auto sales!
- In the rest of the world, April sales fell sharply, both in DM & EM. We have just made a preliminary estimate, yielding a decline to less than 50% of the pre corona level, to 23 mill in an annual rate, from 30 in March (and 50 before corona). Sales in EM x China may have been cut in half. In India, sales may have fallen to zero (media reports, like for many other countries we have made temporary estimates for, plus some heroic but very uncertain estimates for other countries, more country details next week, we are still missing to many data points)



## Chinese factory sales up the best level since last summer!!

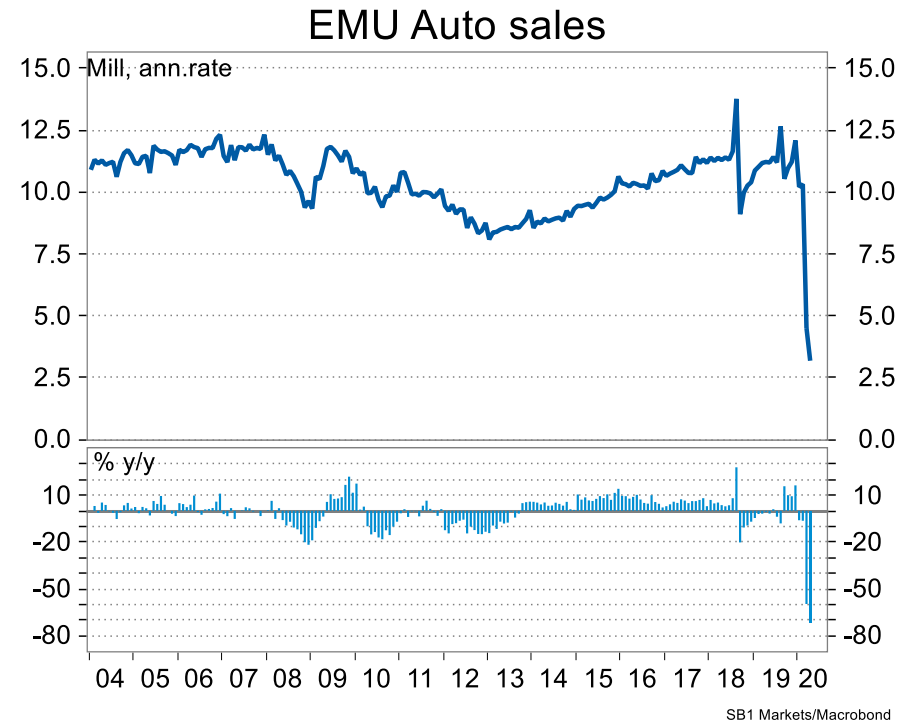
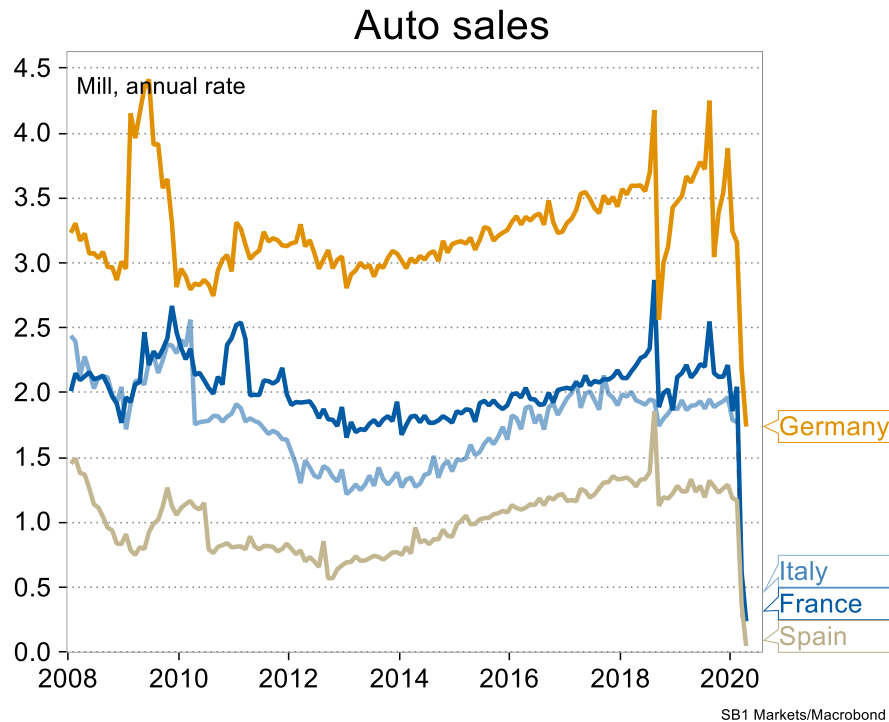
... at least according to media reports, no 'official' figure published



- Sales fell by almost 60% from January to March – but climbed back – in one go – to a normal level in April, quite impressive
- In 'principle', pent up demand from the two 'missing months' Feb& March could induce higher sales than normal the coming months
- We have not other April Chinese data to confirm the recovery but during this week we will have several cross-checks
- We will report sales data for other Emerging Markets economies when more data are published during this week

## Auto sales further down in April, -70% y/y. Close to zero sales in Fr/It/Sp

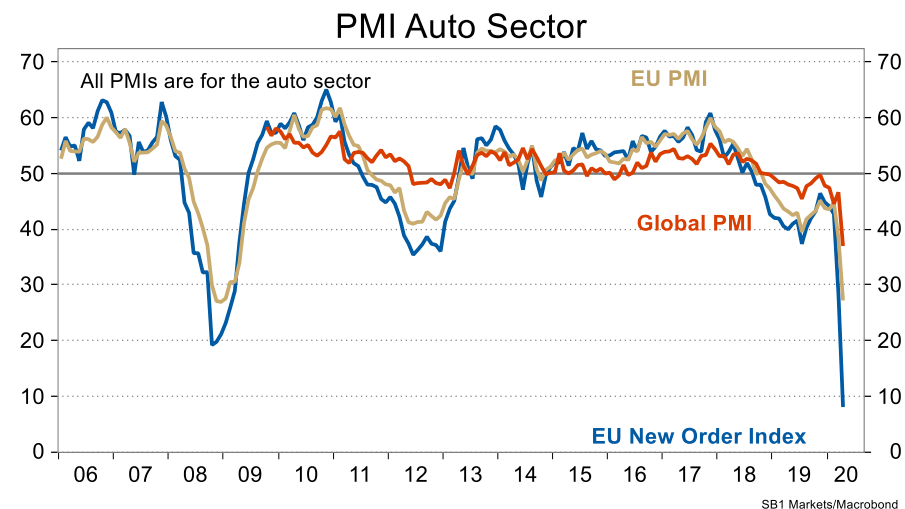
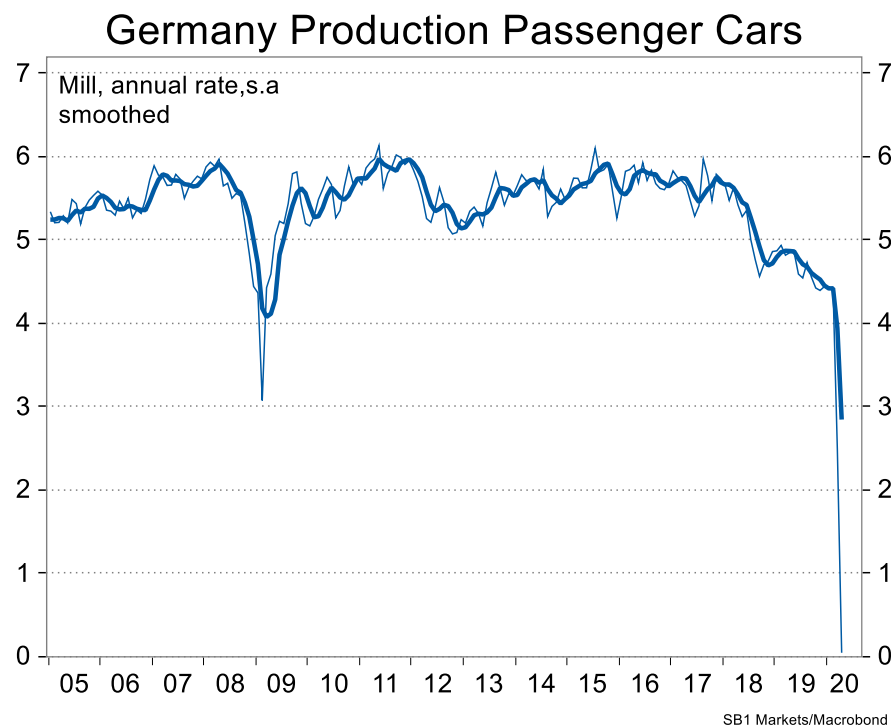
... for obvious reasons. Sales just down 50% in Germany



- Most likely, April will turn out to have been bottom, as sales most likely will start recovering in May – and climb further the coming months

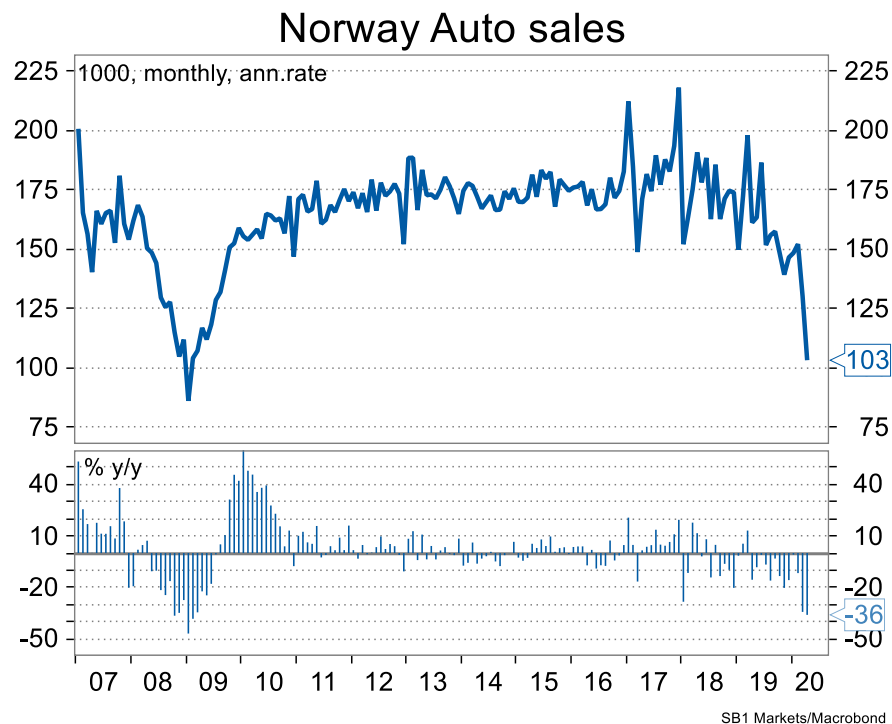
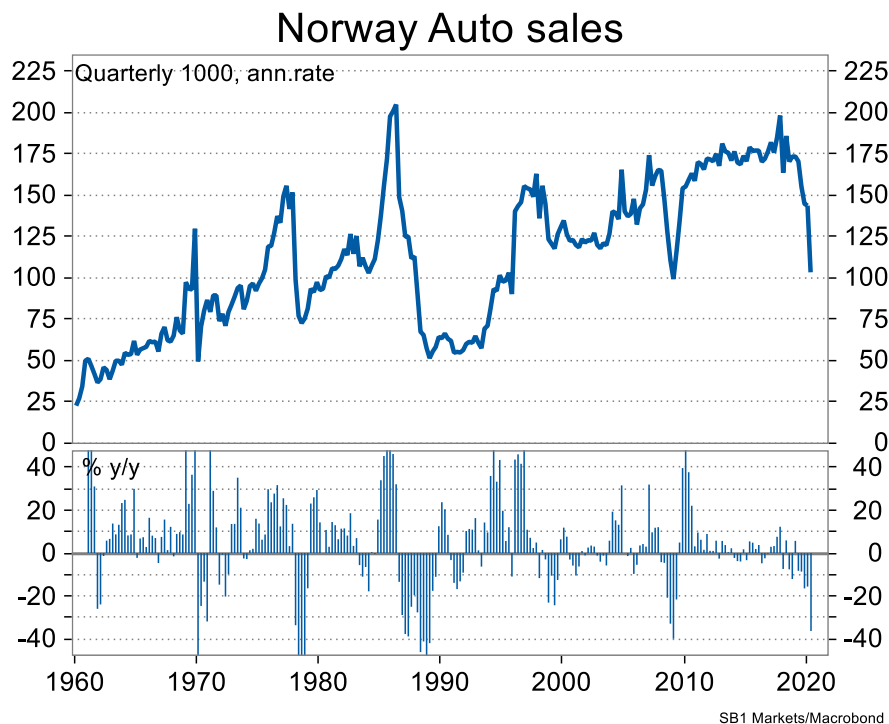
## German auto plants all closed down in April

The April auto PMIs were not strong, especially vs. new orders. We expect better May data



## Registrations down in April, of course

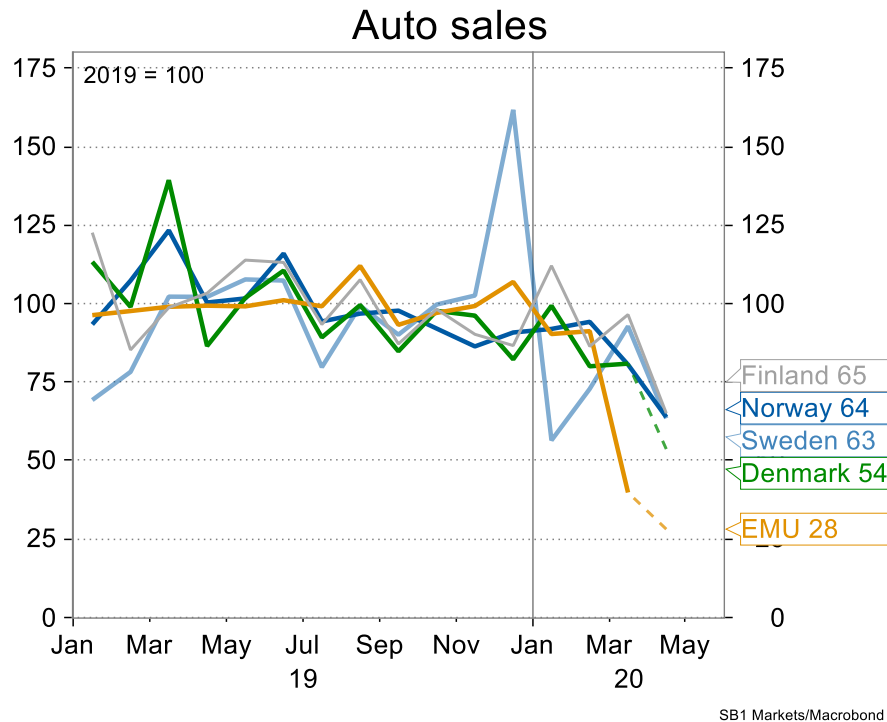
Down some 40% vs a normal level. However, sales fell 15% pre corona



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

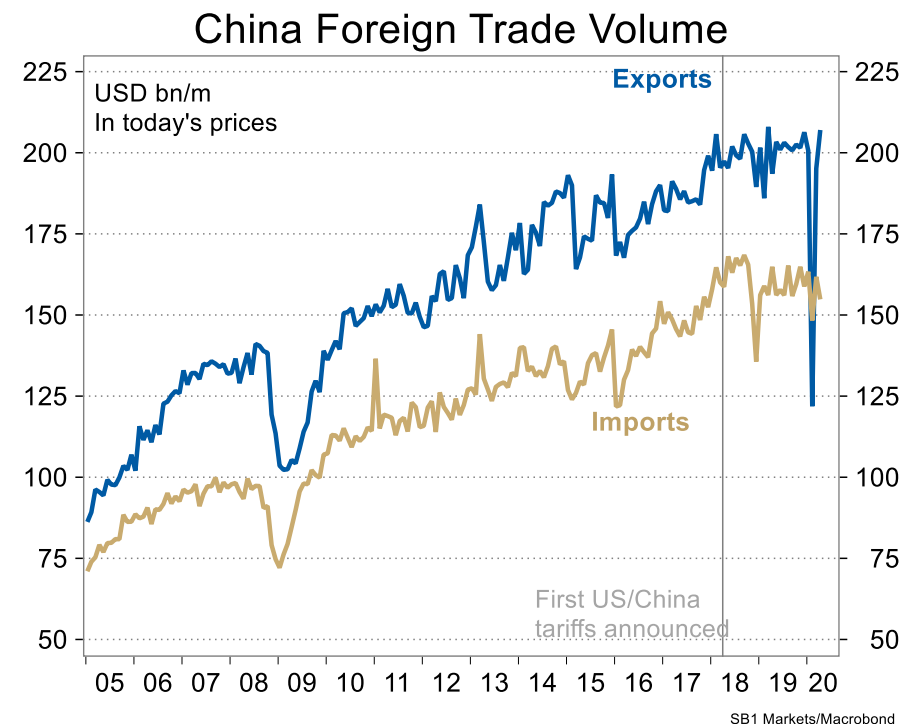
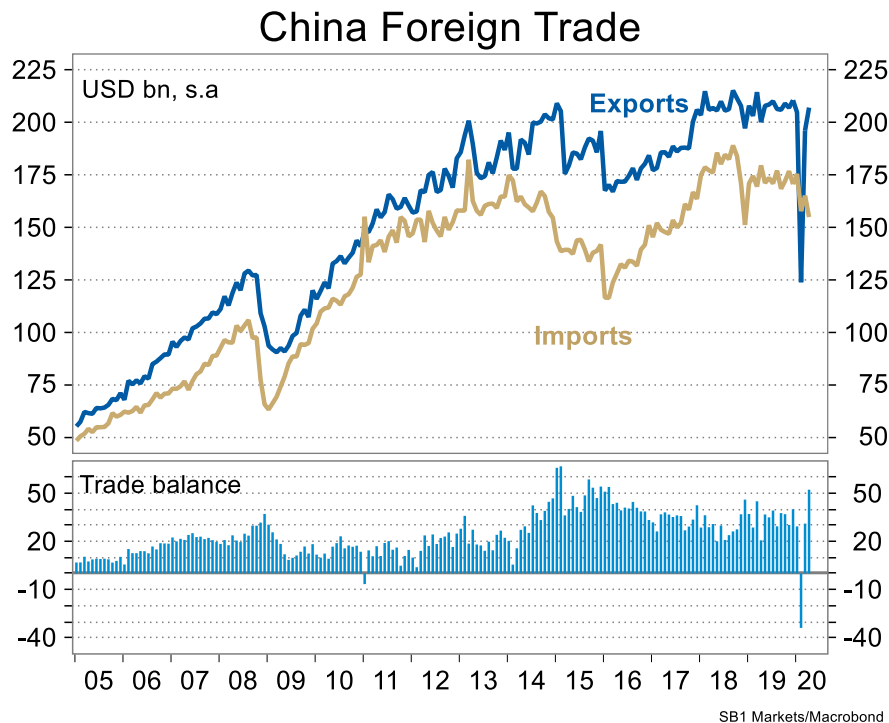
## Sales down in the other Nordics too

But registrations not more down than -35% in Finland, Norway, and Sweden. -46% in Denmark



## Exports further up in March – and close to record high in volume terms

Imports fell but mostly due to declining prices (like oil), no signs of a domestic demand implosion



- Exports collapsed during the lockdown in February (-40% m/m) but recovered in March and rose further in April – and were up 3.5% y/y, expected down 10%! Measured in volume terms, March exports were almost ATH, during a trade war, corona crisis or whatever!
- Imports fell 6% m/m in March, and were down 13% y/y, expected -10%. In volume terms, imports are kept better up (import prices are down some 8% y/y, SB1M est). The trend is marginally down but do not signal any sharp setback in domestic demand – even if both production and demand was sharply down in Q1. We assumed that imports were 'too high' in Feb/March, and that inventories had become too large. April imports data does not support this hypothesis
- The trade surplus was USD 50 bn in April, the best in 5 years! Still, the outlook is uncertain. April export surveys nosedived to very low levels. Now, 'we' have the corona...

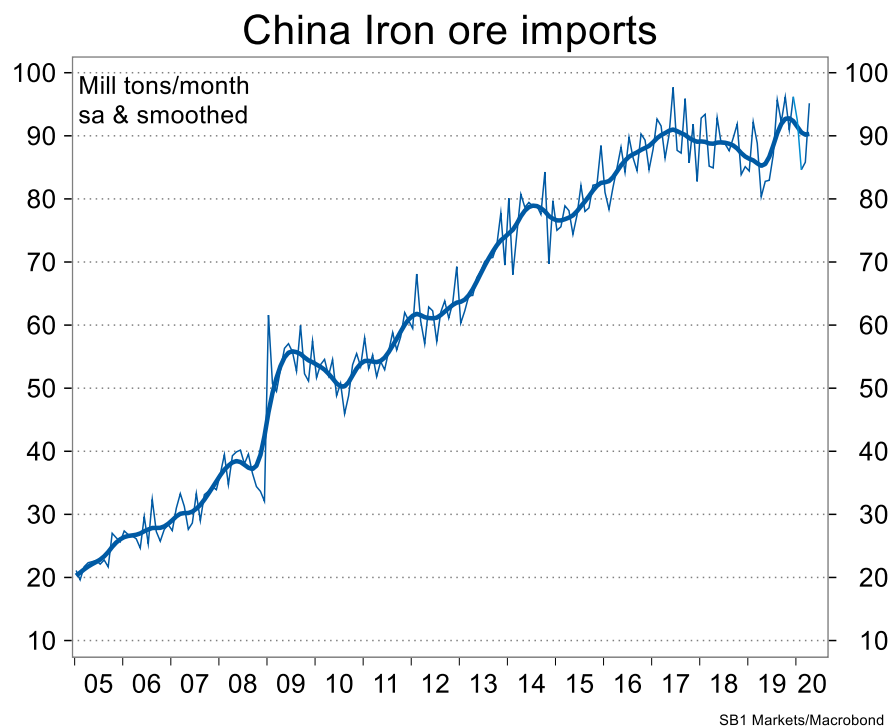
## Export surveys sharply down in April, close to record low levels

Suggests declining Chinese exports the coming months, due to reduced demand among trading part.

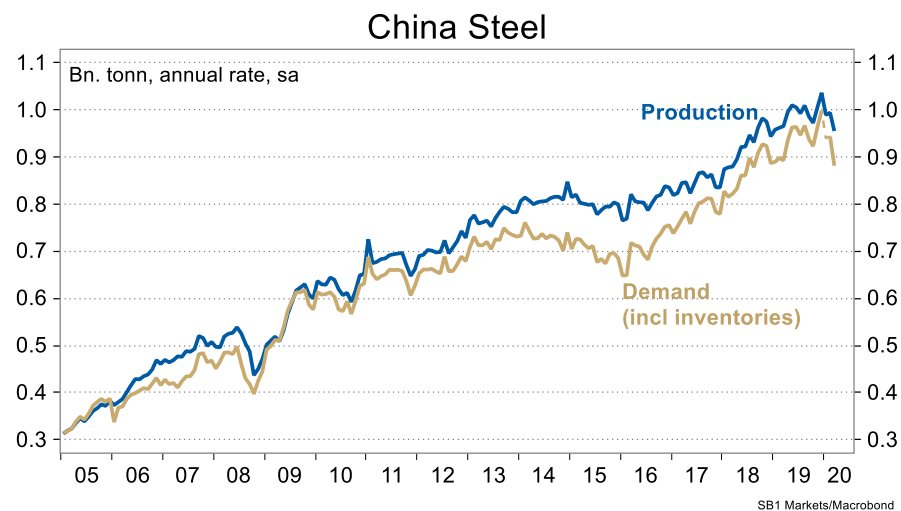


## Iron ore imports up to a high level in April

However, there are some weakness in domestic steel demand (incl. changes in inventories)



- Iron ore imports rose 10% m/m in April

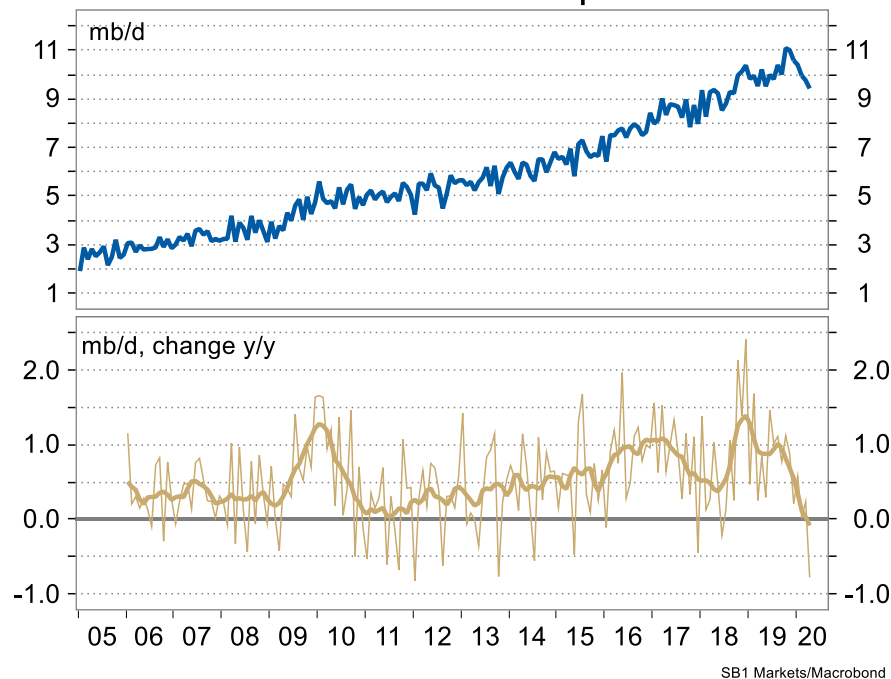




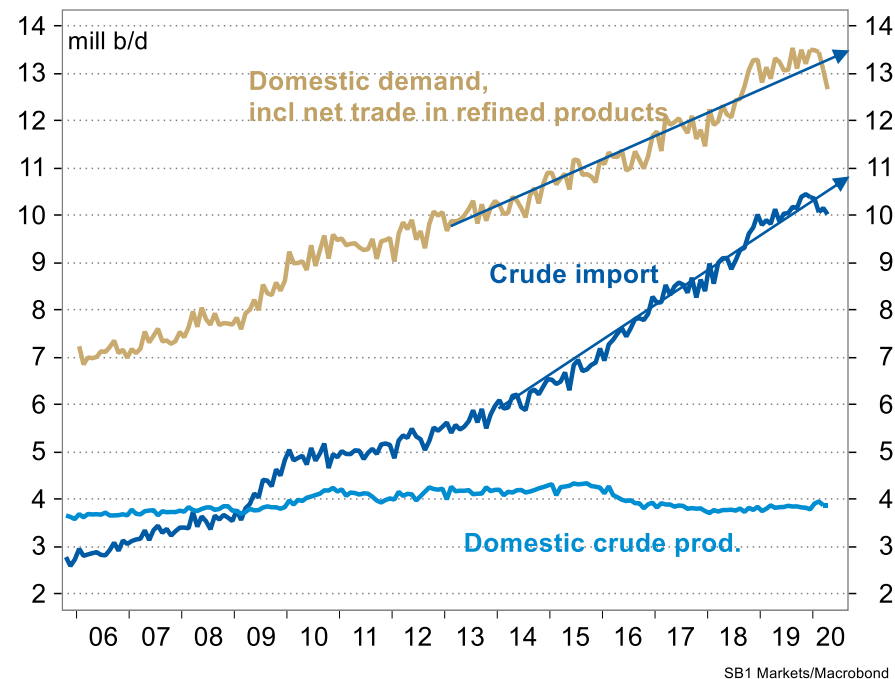
# Oil imports further down in April – no refilling of strategic inventories?

Or is domestic demand sharply down?

## China Crude oil imports



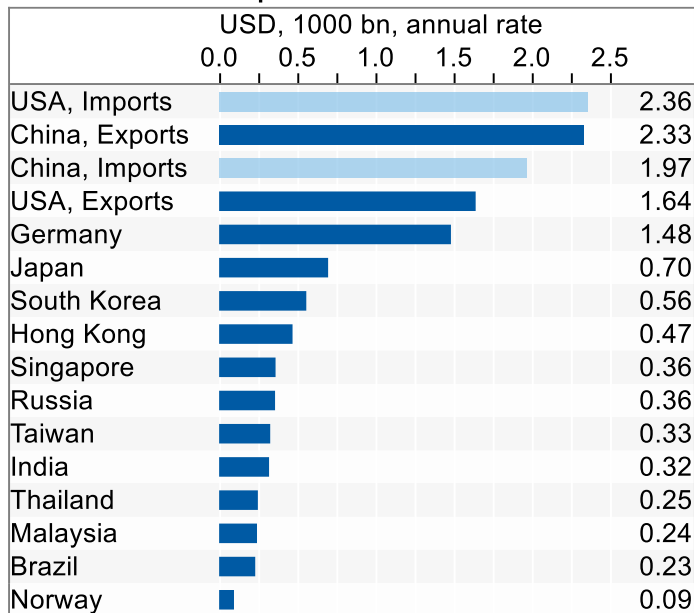
## China Oil Production & demand



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

However, most countries have reported a decline recent months

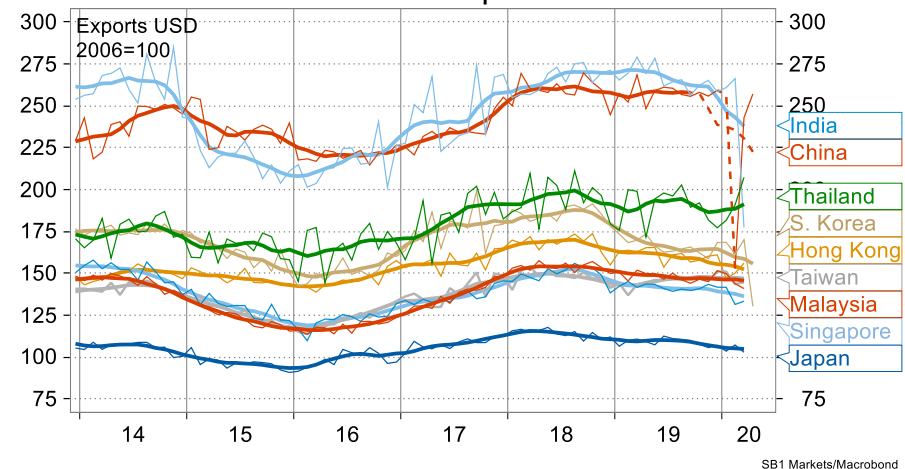
### Exports - Goods



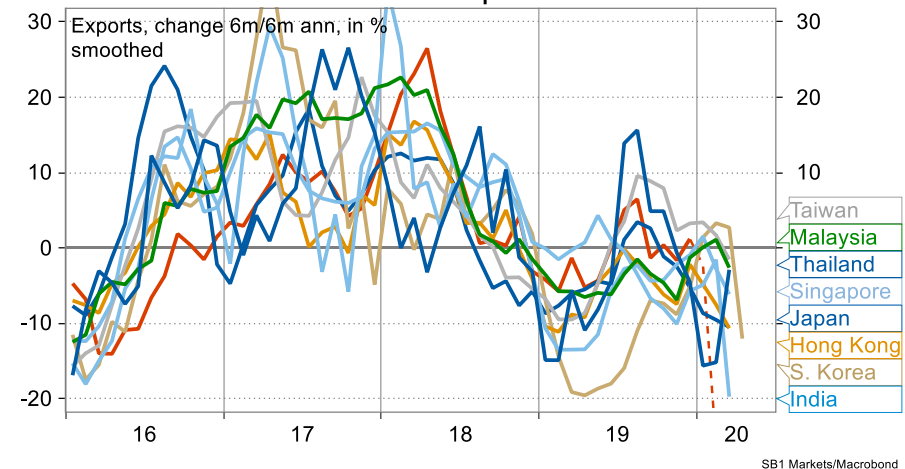
SB1 Markets/Macrobond

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

### Asia Exports

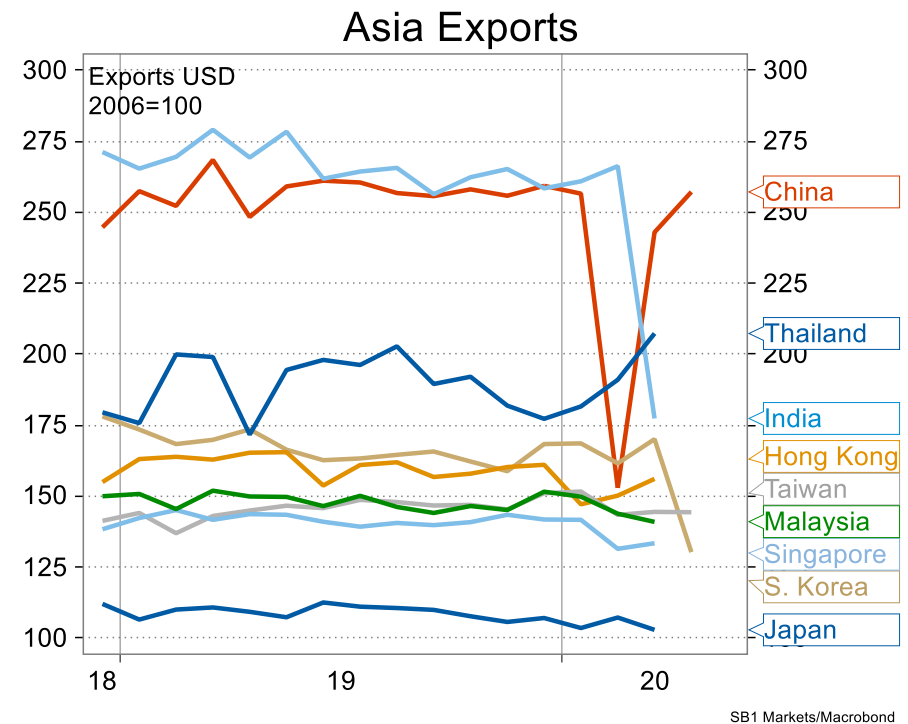
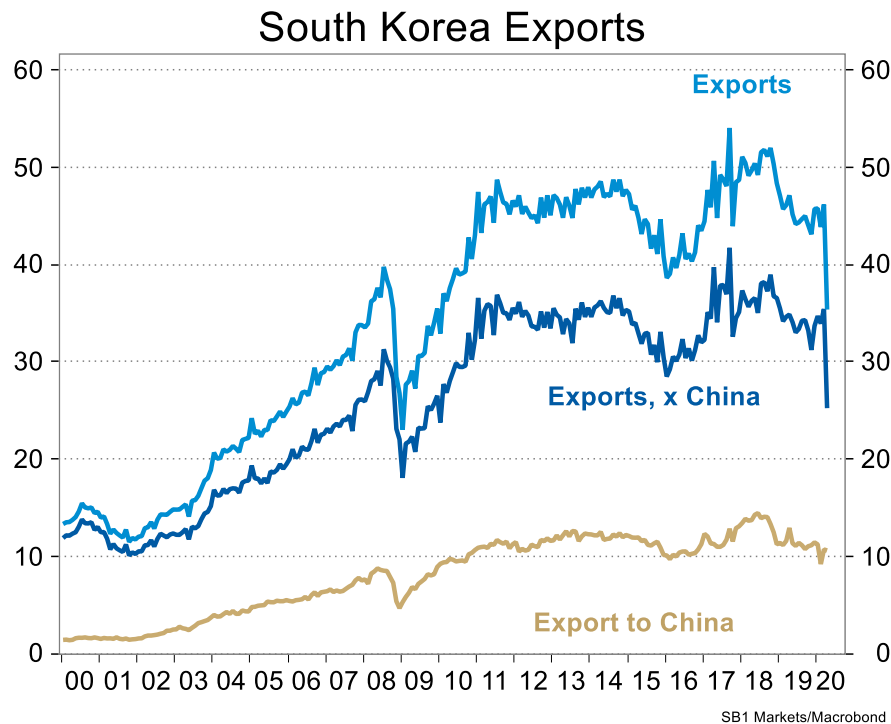


### Asia Exports



## Asian March exports: South Korea took a beating in April

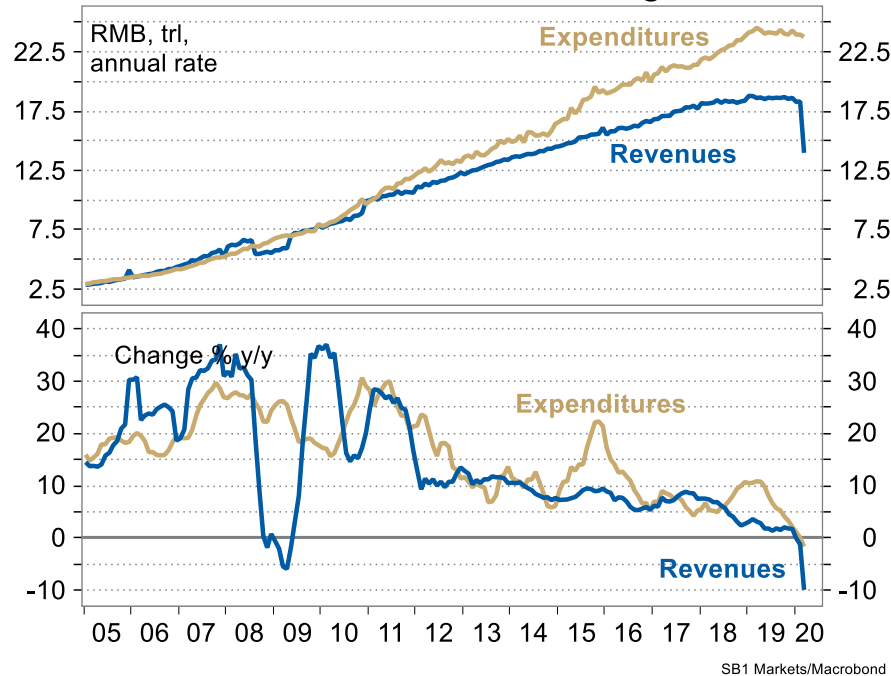
And it was not due to China – exports to the ROW fell



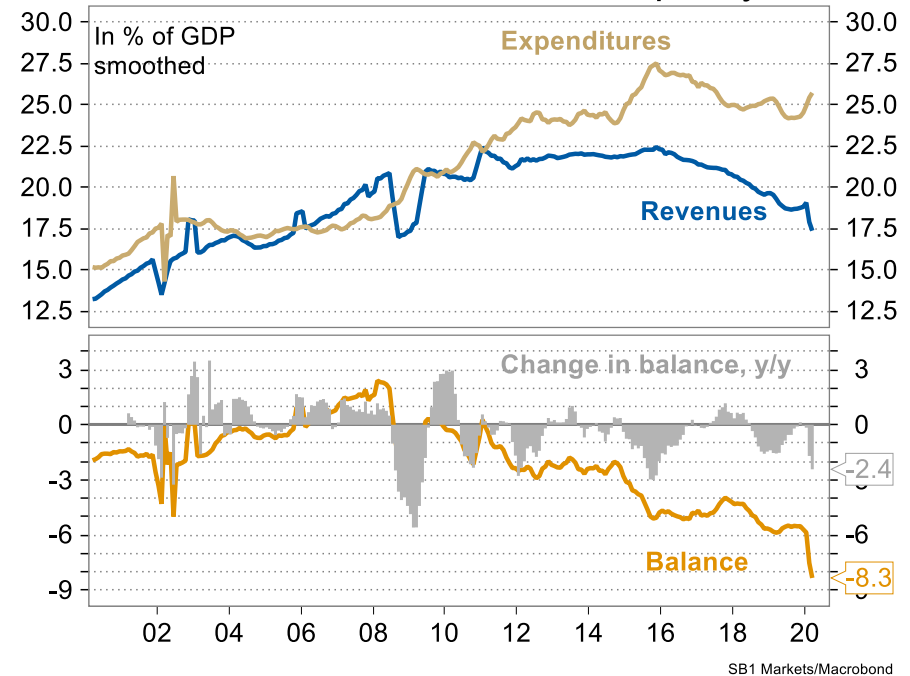
## The budget deficit rose sharply in March, due to shrinking revenues

Taxes are cut – and GDP was weak as well. The deficit record high at 8% of GDP; 2.4 pp y/y stimulus

China Government budget



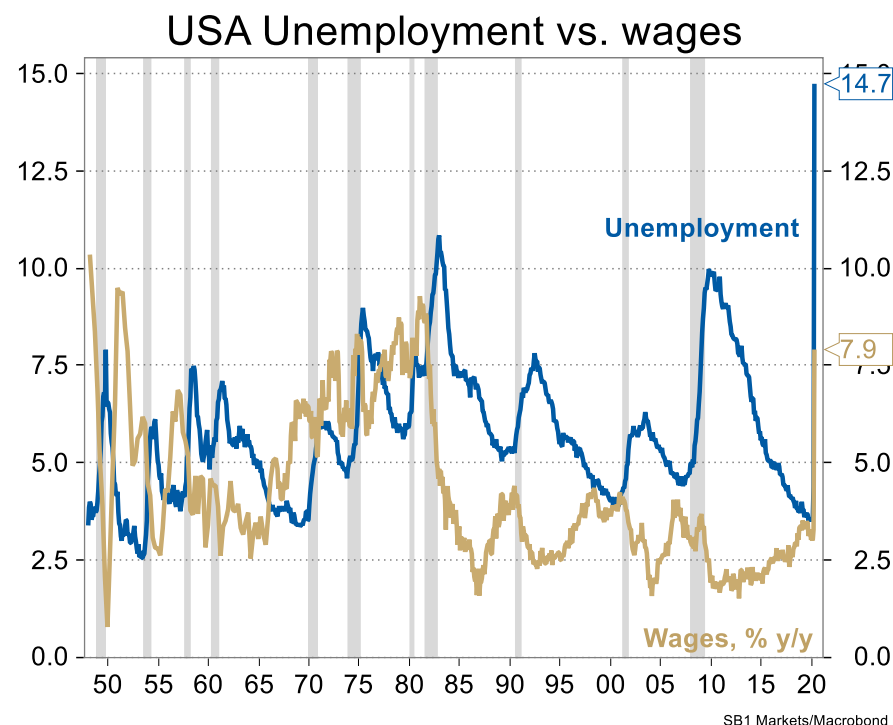
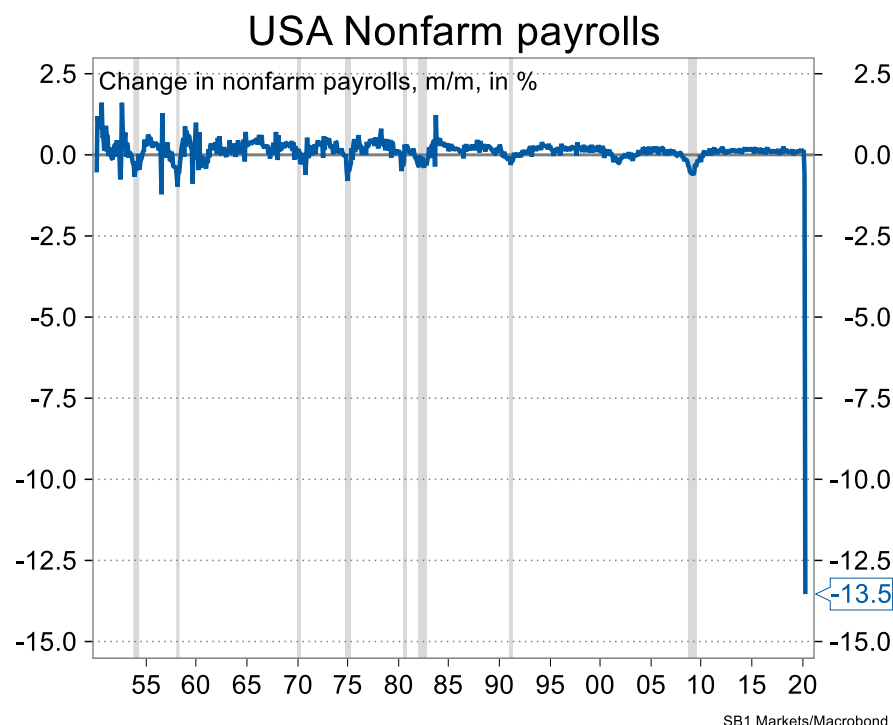
China Government - fiscal policy



- There are no expansion to be seen at the expenditure side, nominal outlays are barely flat

## The USA labour market: April was an outlier, we hope

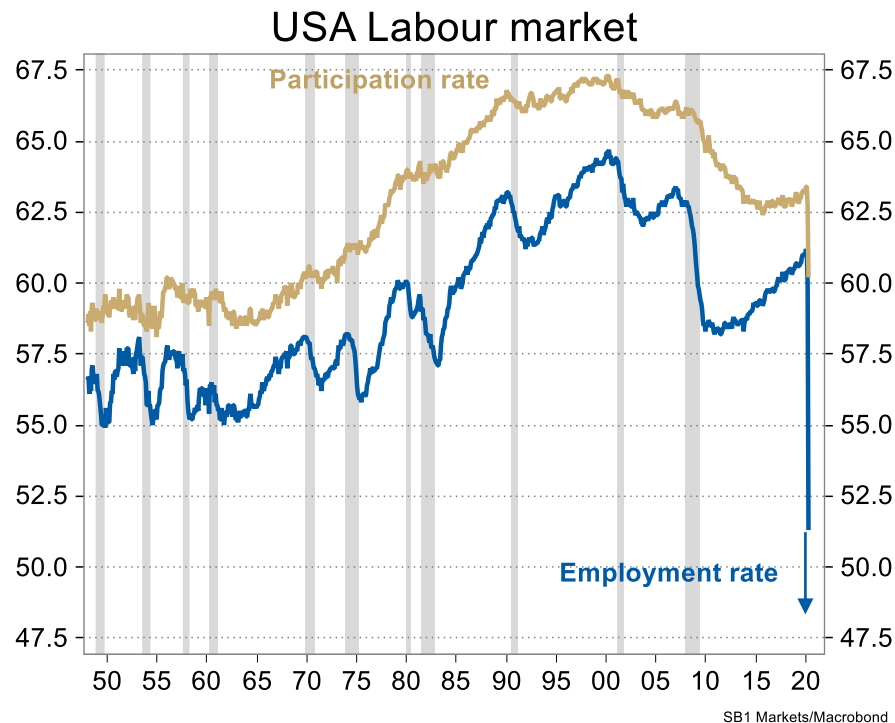
Employment down 20.5 mill (13.5%), unemployment up 10.3 pp to 14.7%, or to above 30%?



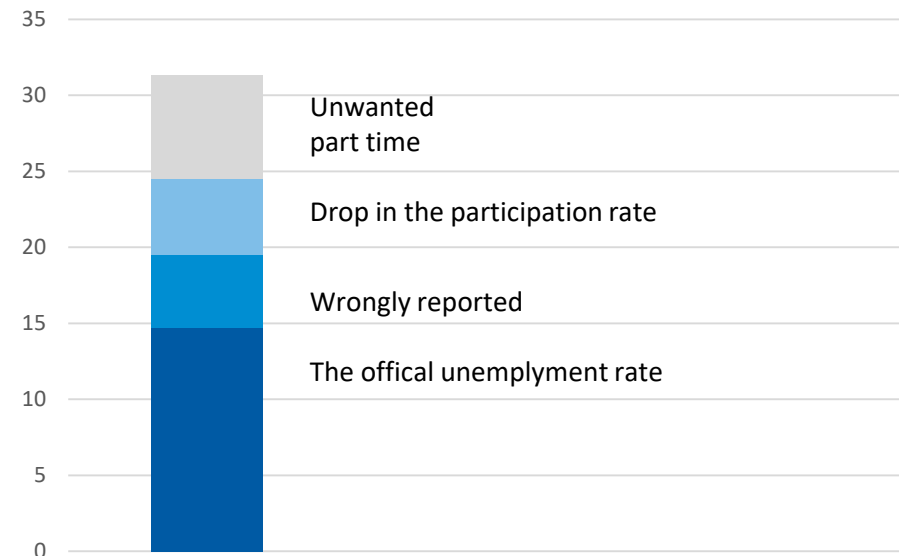
- **Everything is totally unprecedented, and no historical comparison is relevant. No detailed analysis of the April employment will reveal much relevant for assessing the outlook the coming months (or quarters or years)**
- **Employment** fell by 20.5 mill, according to the nonfarm business survey slightly less than expected, or by 13.5%. In the household survey (LFS), employment fell by 22.4 mill. Leisure and hospitality took the hardest hit, no surprise
- **Unemployment** rose by more than 10 pp to 14.7%, expected 16%. However, if wrongly reported absentees were added (5 pp impact on the unemployment rate), a drop in the labour force (5 pp), and unwanted part time work (level 6.8%, increase 3.4 pp) – total unemployment would have surged to above 30%
  - » On the other hand, temporary layoffs contributed to an increase unemployment by 18.5 mill, and 'ordinary' unemployment by 'just' 0.5 mill (which of course is a high number)
- **The average wage** rose by 4.7% m/m and 7.9% y/y because low paid wage earners lost their jobs far more often than the better paid

# Employment is even lower than reported, unemployment much higher

It really does not matter but still.. The real unemployment is well above 30%, not 14.7%



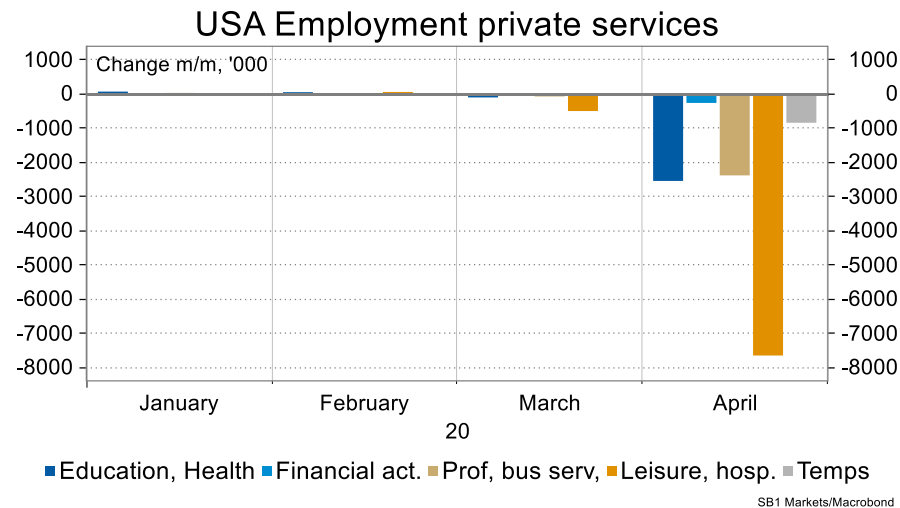
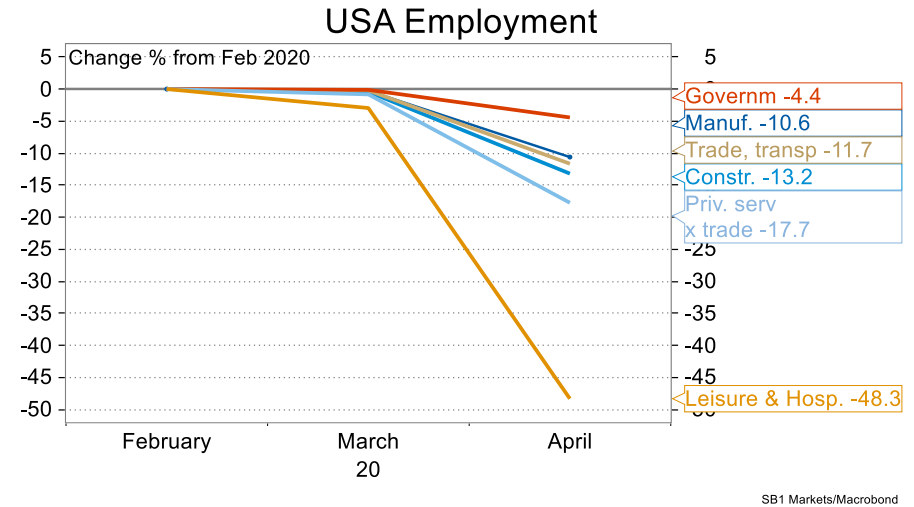
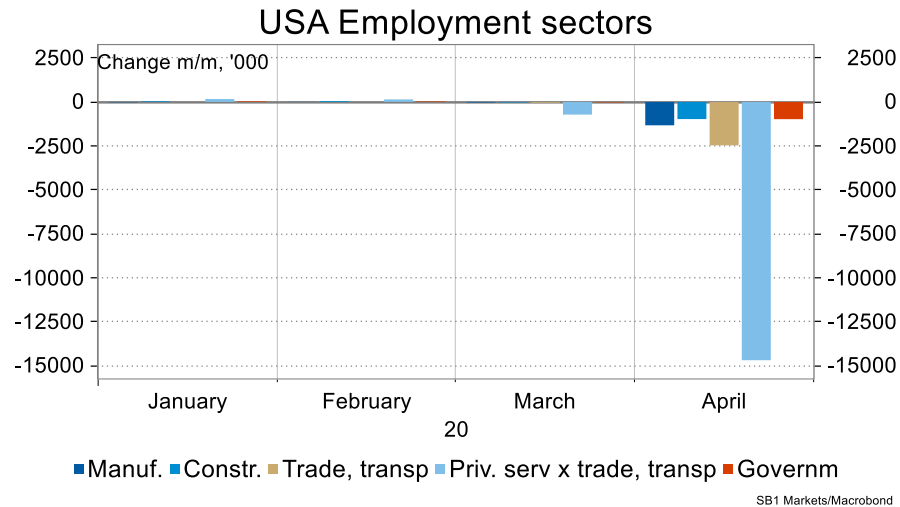
USA April unemployment  
in % of the labour force



- Household survey measured employment is some 8 mill lower than reported in April if all those how are absent from work were included (which they should have been but are not), equalling close to 5% of the labour force
  - The employment rate would have fallen by another 3 p to 48.3% of the working age population, from 61.1% in February, and the unemployment rate would increase to close to 20%, from the official rate at 14.7%
- In addition, the labour force participation rate, the supply side at the labour market, fell to 60.2, from 63.4 in February. This withdrawal is just because there were no jobs available and the unemployed did not search actively (they were discouraged). The contribution to the unemployment rate equals 5 pp!
- If we add before we add the 'normal' discouraged workers, and those on unwanted part-time work. These extras equalled more than 7% of the labour force in February (up 3.5 pp from March)

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

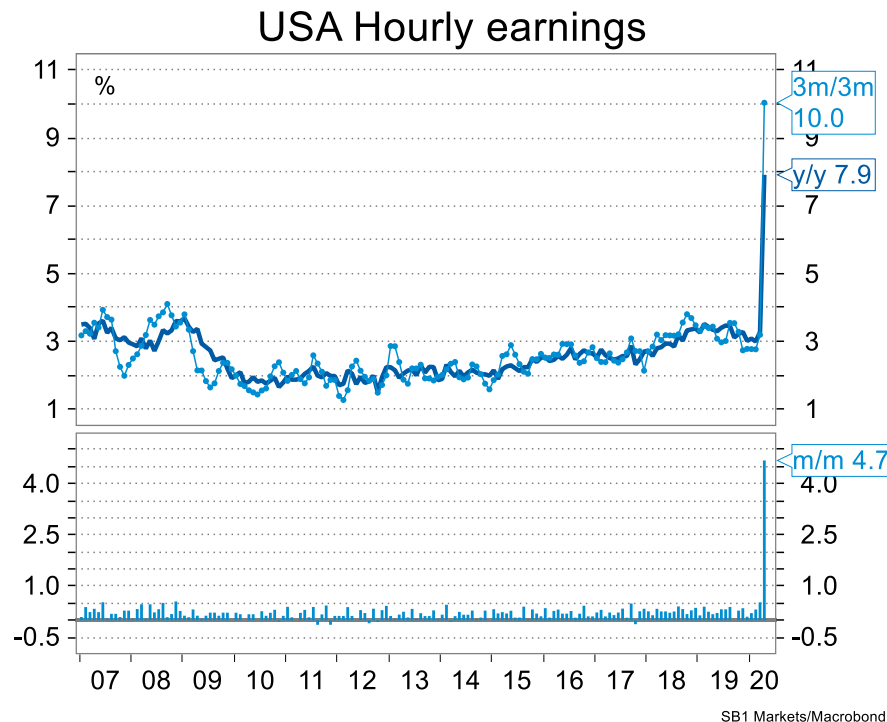
Employment fell in all major sectors, leisure & hospitality 48% down since February



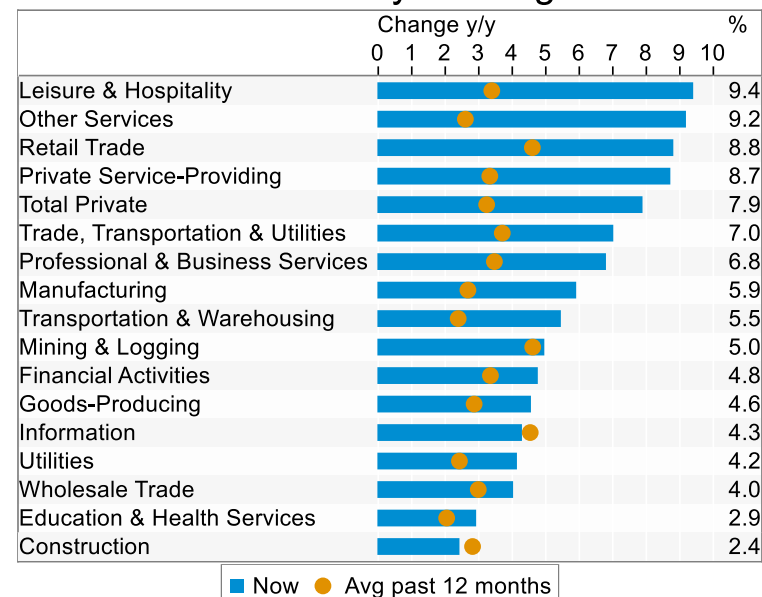
- **Employment** by 10 – 17% in the private sector, and even by 4% in the public sector

## Average wages up 4.7% m/m, as low paid workers were furloughed

Thus, the lift April average level does not signal any wage explosion



## USA Hourly earnings

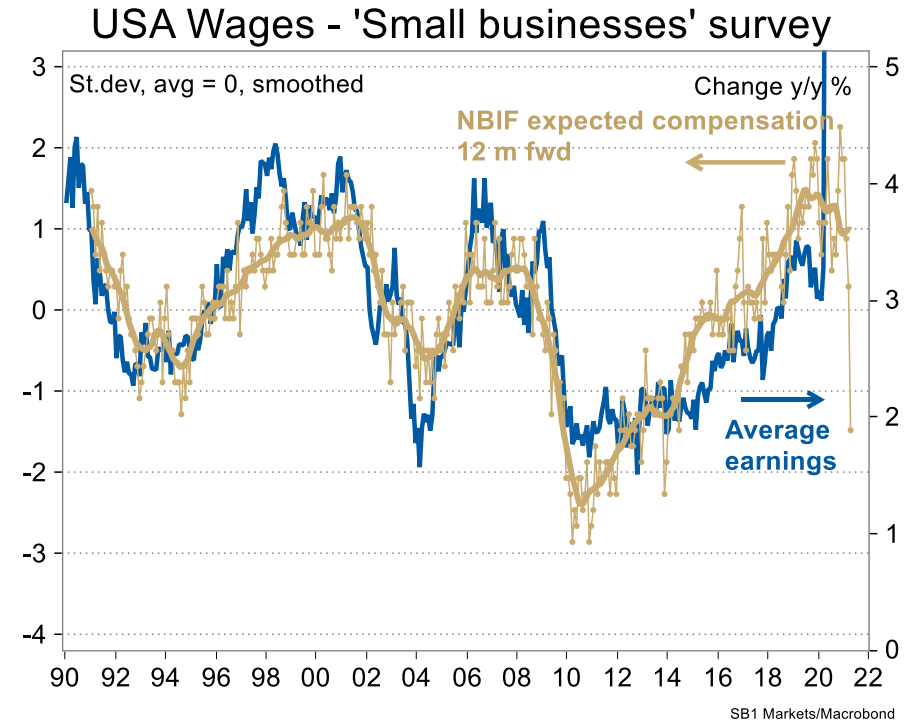
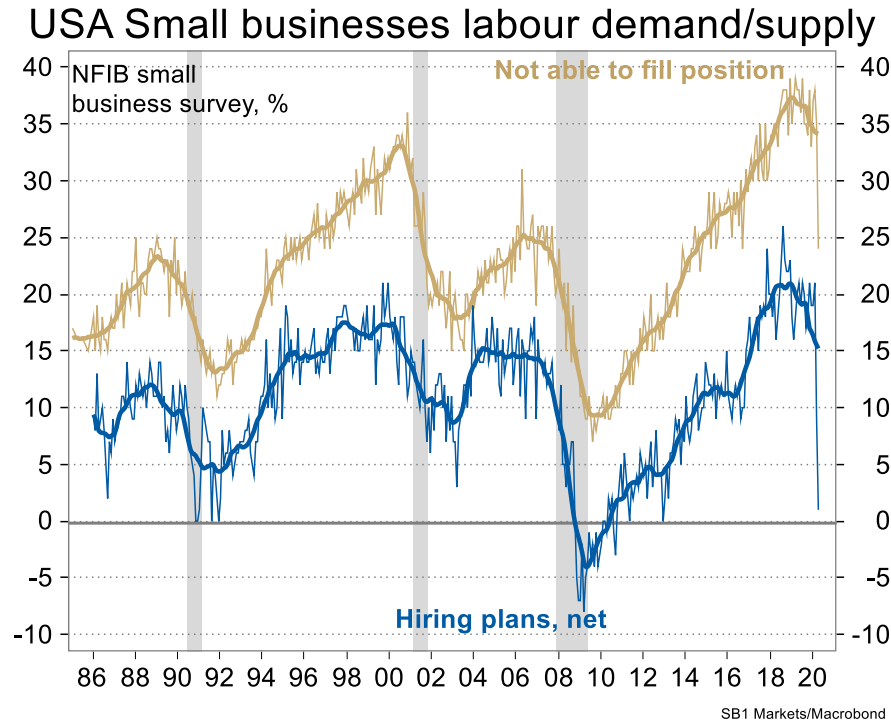


- Most likely, a drop in nominal GDP per capita in Q2 will reflect this change of composition of the economy/employment – and profits will not be hurt as much as the hike in the average wage by itself indicates



## Small companies adjusted their hiring plans, compensation plans sharply down

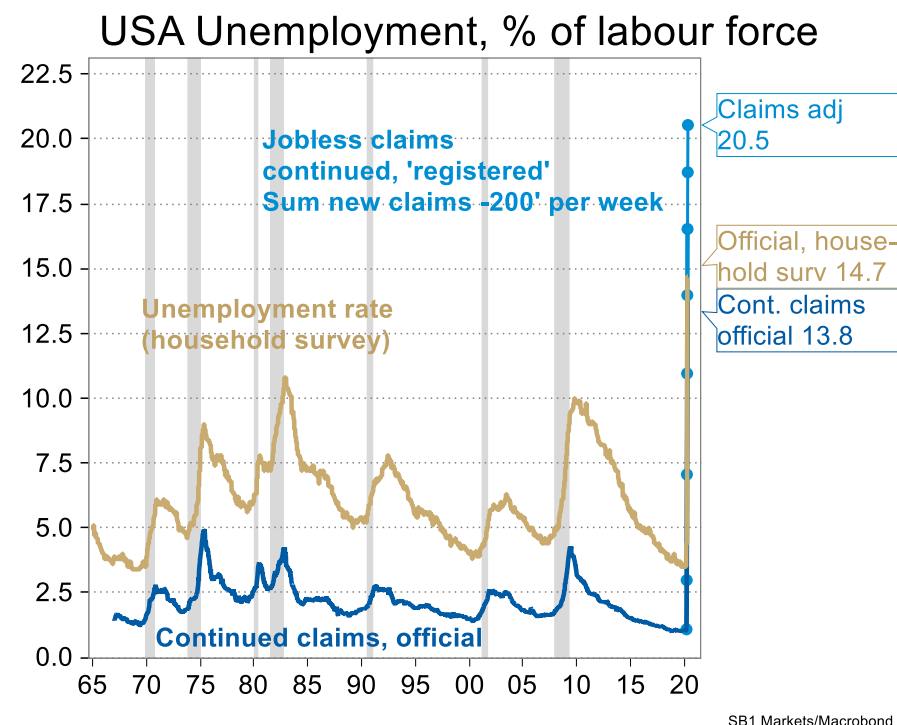
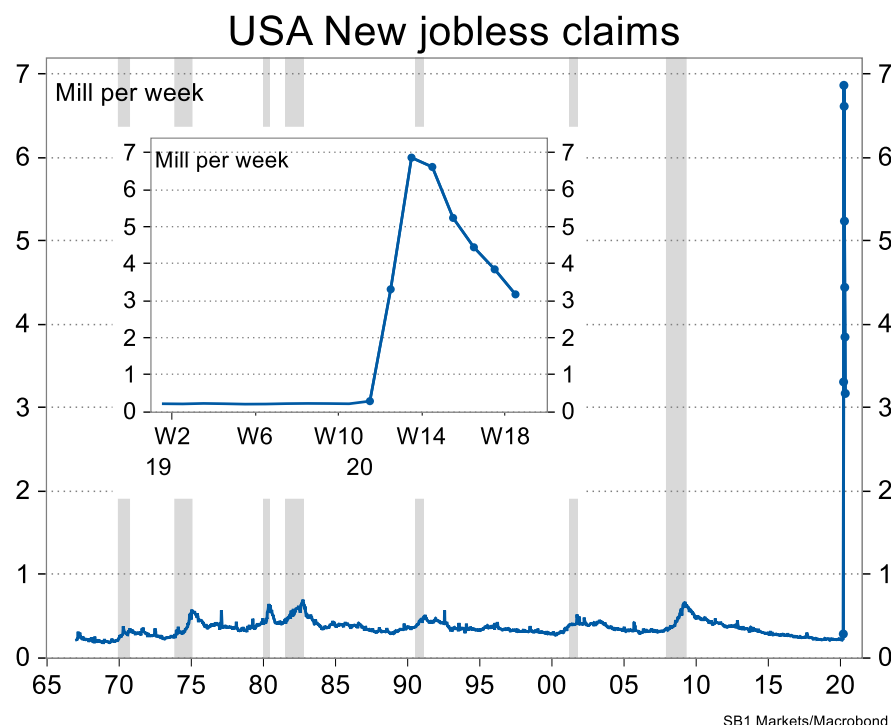
Strange: Why was hiring plans still net positive – and why were employers still unable to fill positions?



- The drop in expected compensation indicates a significant decline in wage inflation the coming quarters

## 'Just' 3.2 mill new unemployed last week, the sum up 33.5 mill past 7 weeks

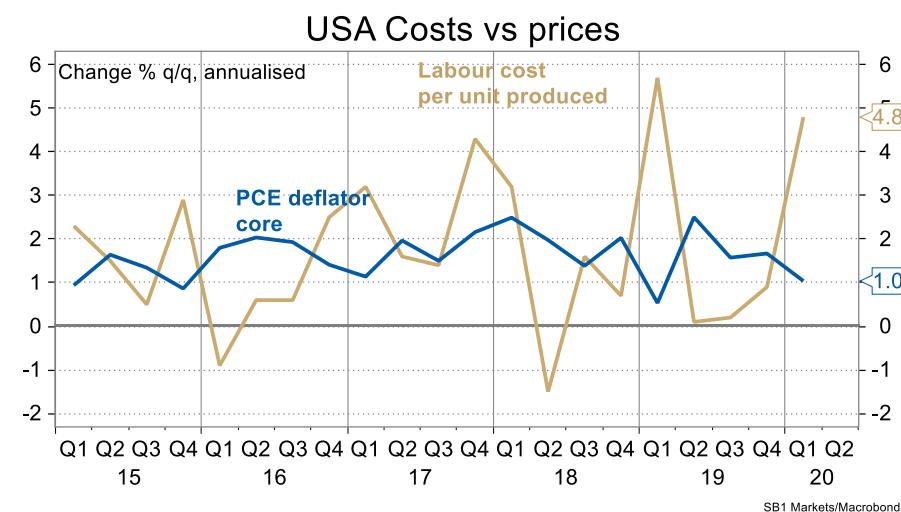
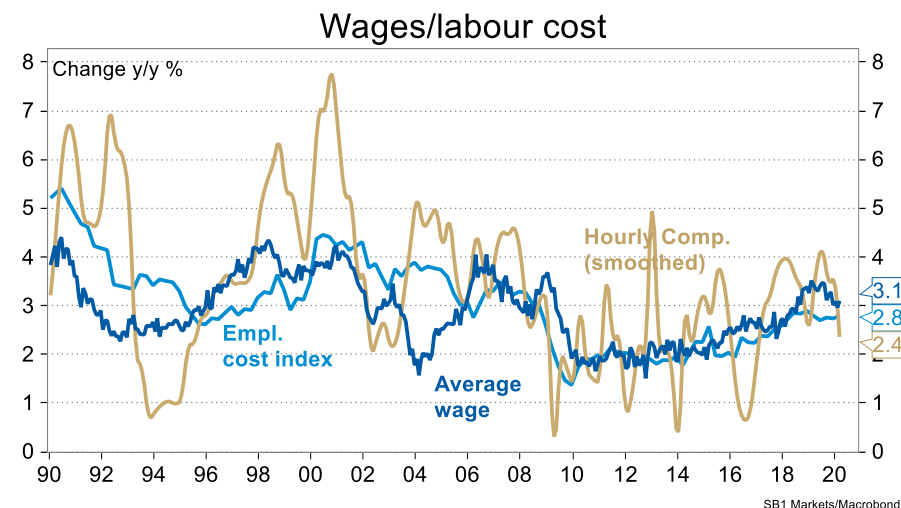
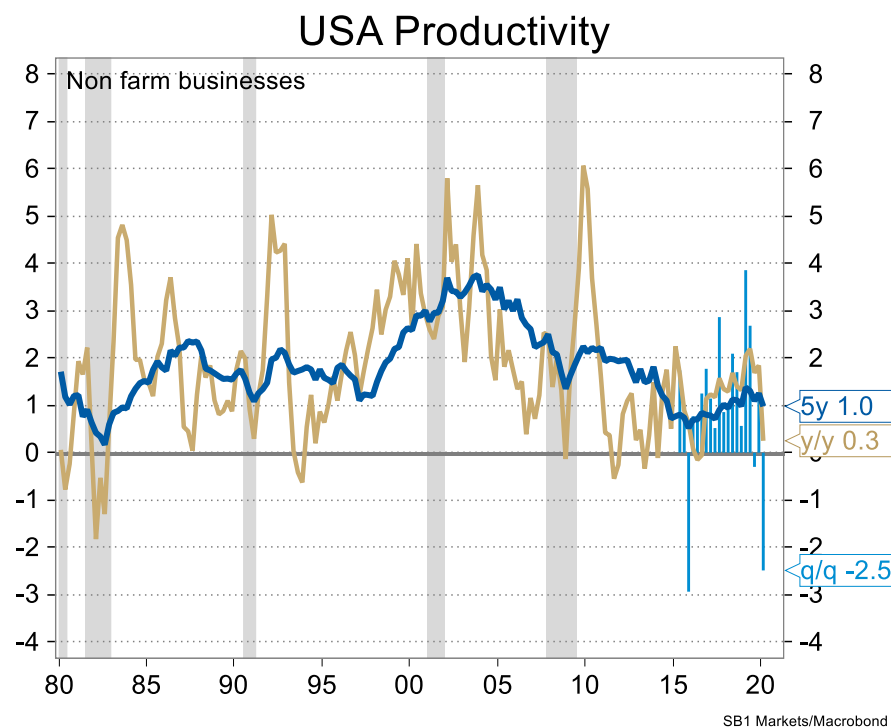
Official claimant count up to 21 mill, probably still many unprocessed applications



- The inflow is abating, but still 2% of the labour force is entering the labour market offices each week!
- Continued claims have climbed to 21 mill (13.8%). If the weekly inflow is accumulated, the number far higher, equalling 20.5% of the labour force. The 'truth' may be somewhat in between, as many applications are not yet processed – and some applicants may have found a new job, which they normally do

## Q1 productivity down 2.5%, less than expected – Unit Labour Cost +4.8%

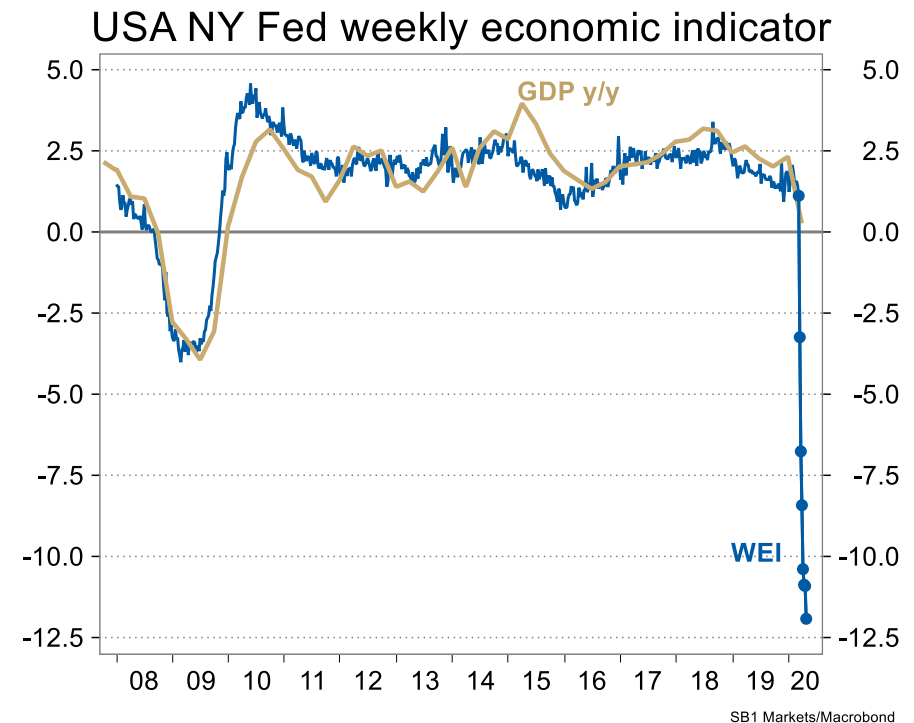
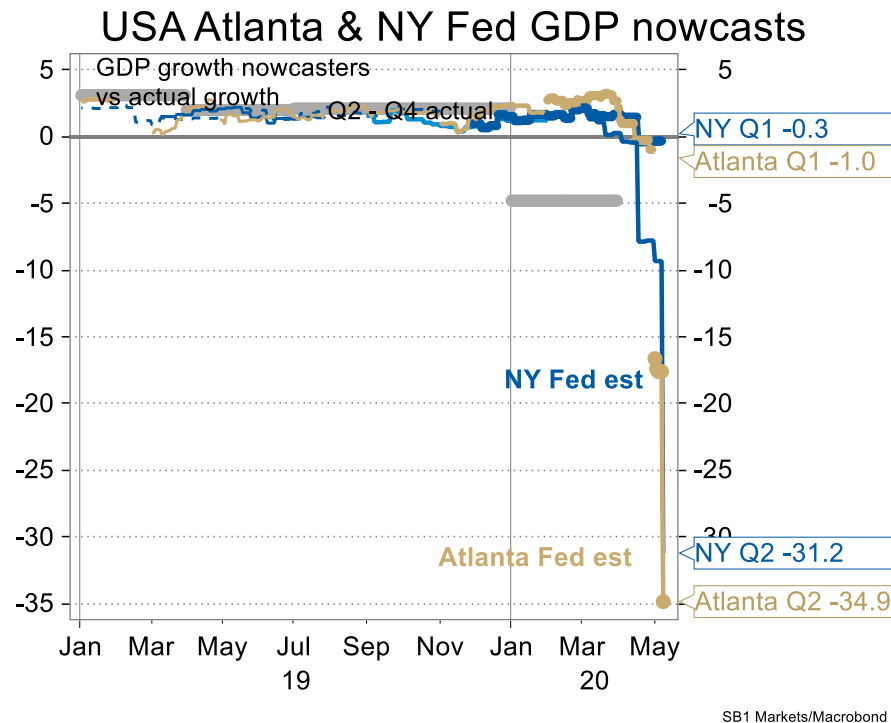
Hours worked fell much more than signalled by the monthly labour market report



- The decline in productivity at 2.5% was far smaller than expected because hours worked fell much more than assumed (based on the monthly labour market reports)
- **The total labour cost per hour rose 2.2%, probably close to expectations**
- The unit labour cost rose by 4.8% - a high number but well below what we expected. As prices rose far less than 48%, profits fell sharply in Q1, and will most likely continue down in Q2 as companies were not able to reduce costs fast enough

## The nowcasters are gradually coming up to speed (or rather down)

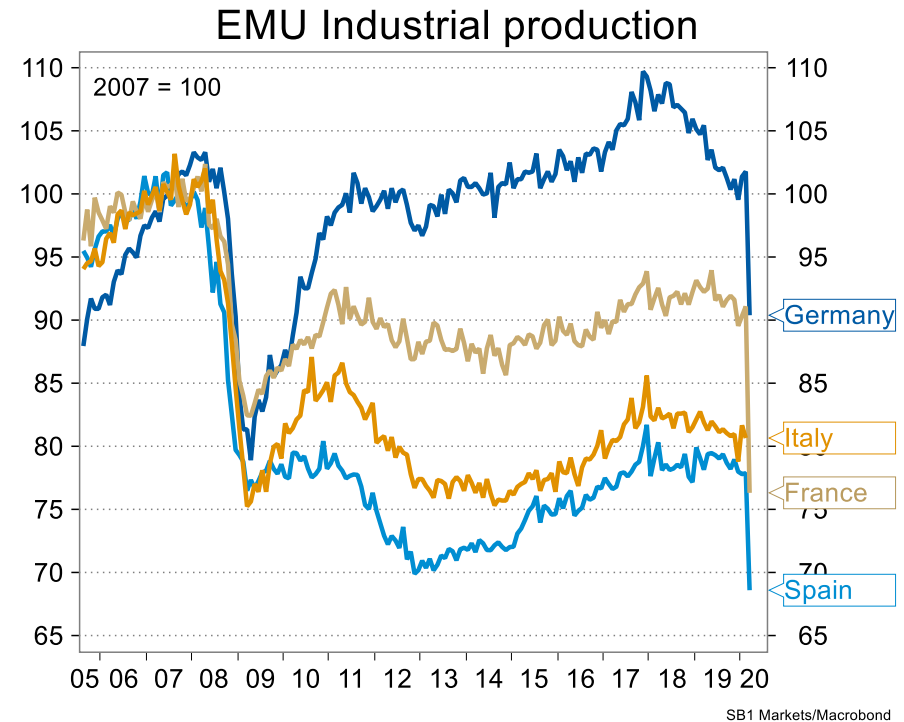
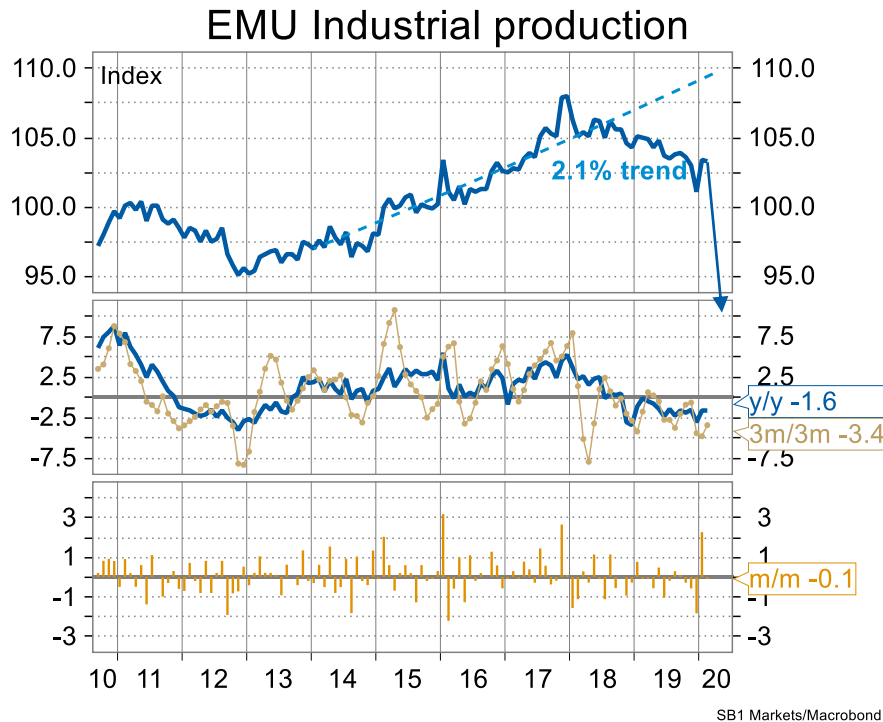
GDP is probably down some 14% from the pre corona level



- 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 (and some 14% vs the pre corona level, as GDP grew through 2019)
- The 'old' nowcasters from NY & Atlanta Fed report a 31 – 35% decline q/q, in annualised terms – equalling a 10 – 12% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 11 – 13% vs the Q4 level.
- The Q2 is far from a done deal, one ½ of the quarter is still ahead of us

# Industrial production down some 10% in March. And will decline further in April

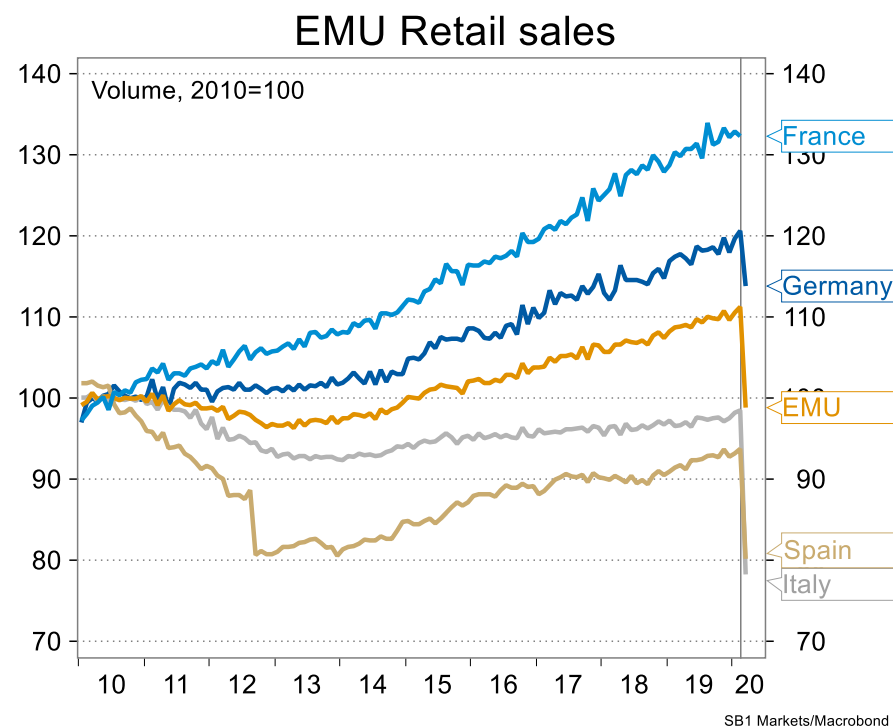
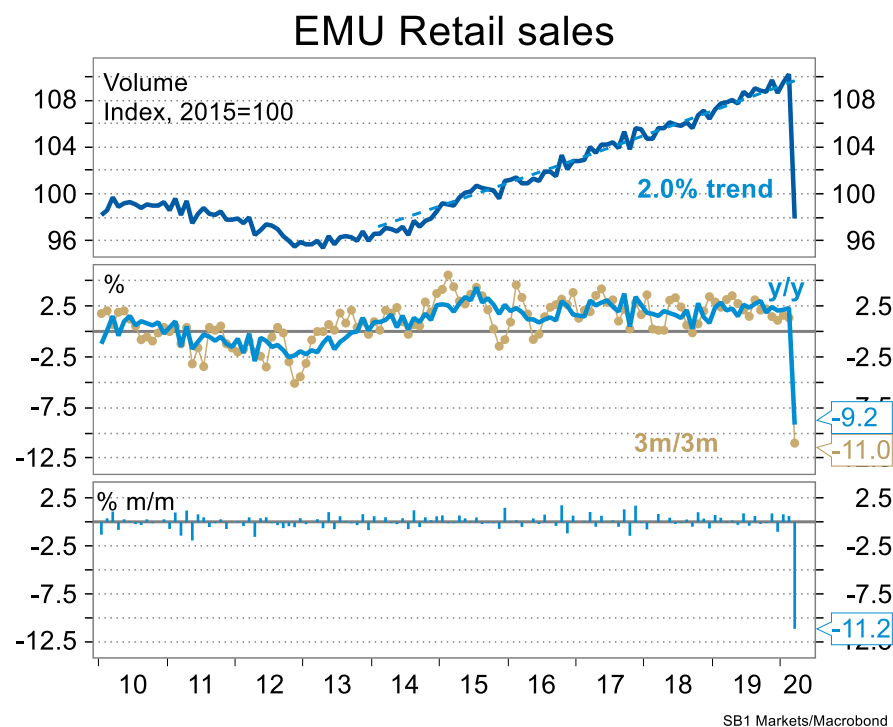
Germany, Spain down 11 -12%, France -16%. Italy probably even more. Some few more stable



- EMU reports date this week

# A special month in the shops, food up, clothing down 40%, average down 11%

... in a halfway locked down Europe, in March. In April, the lockdown was complete...



- There are some obvious differences: Germany down 5.5%, Italy 20%
- We are still missing data from some countries. In France, consumption of goods is reported down 17%

Highlights

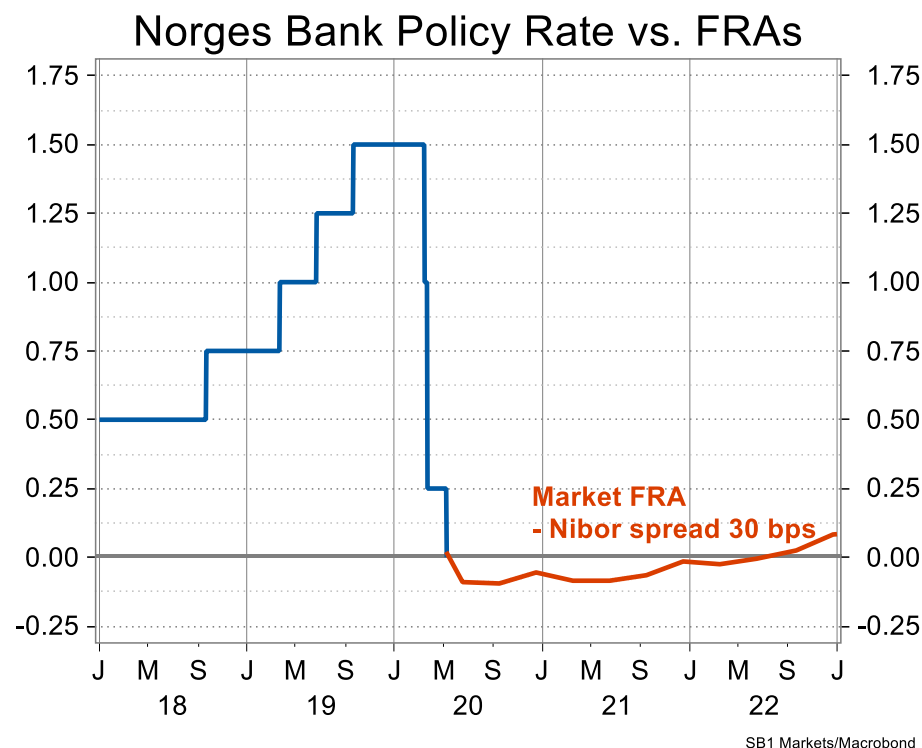
The world around us

The Norwegian economy

Market charts & comments

## Norges Bank cut to zero – and expects to stay there the coming years

The cut did not come out of the blue. It surprised markets more than we assumed it would



- Norge Bank recognised the deep downturn in the Norwegian economy, and cut the deposit rate by 25 bps to 0% last Thursday.
  - » The Bank signals that the policy rate will be kept unch until 2024 – and do not intend to go negative
- The 3m NIBOR rate fell 11 bps to 0.32% (and to 0.28% at Friday), the lowest ever, of course, signalling the approx 50/50 probability for a cut that we assumed was priced in the curve for a May cut
- However, and more surprisingly, the FRAs fell even more, by 10 – 15 bps, down to 0.21 bps at the bottom (June & Sept 20). We assumed the lower FRA-rates ahead of the cut reflected a higher probability for a June cut than a May cut (which we found reasonable)
- We do not think these FRAs reflect expectations of a negative signal rate but rather a expectations of a further decline in the NIBOR spread (vs the 30 bps spread indicated at the chart to the right)
  - » The generous he F-loan (fixed interest rate loans) was extended (and interest rate for loans up to 3m at equal to the signal rate, and a small premium, 15-30 bps for 6 and 12m maturities. This measure could explain the drop in the FRAs
- Banks have already announced cut in mortgage rates by 25 – 40 bps, the best offers are below 1.5%!

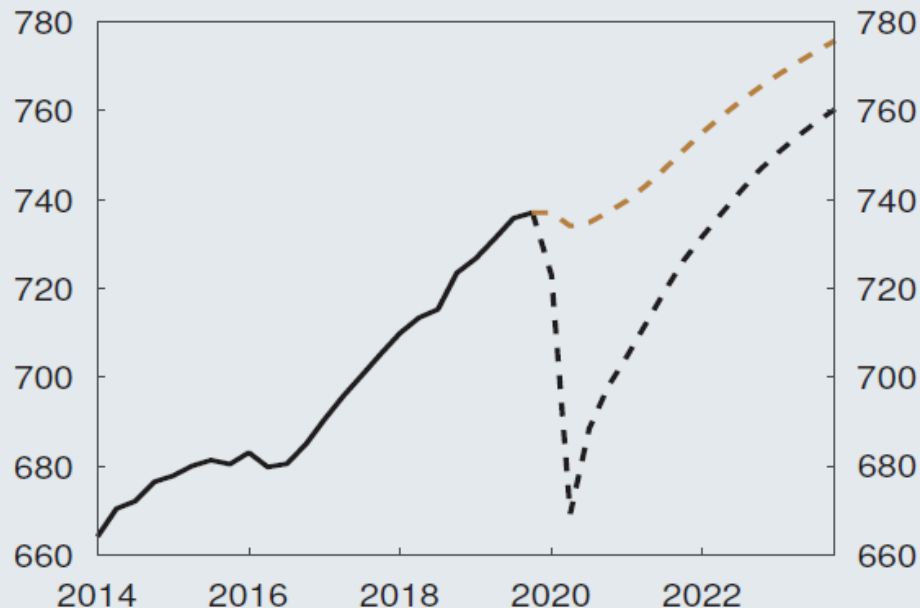


## Norges Bank expects hard times ahead

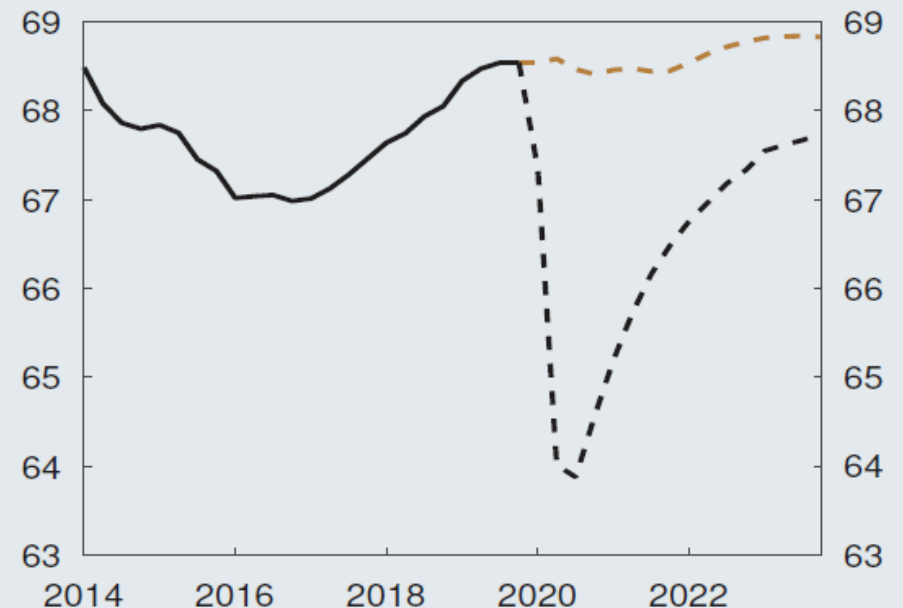
The bank acknowledges that the uncertainty is substantial, both on the upside and the downside

**Chart F Weak outlook for the Norwegian economy**

Quarterly GDP mainland Norway.  
In billions of NOK



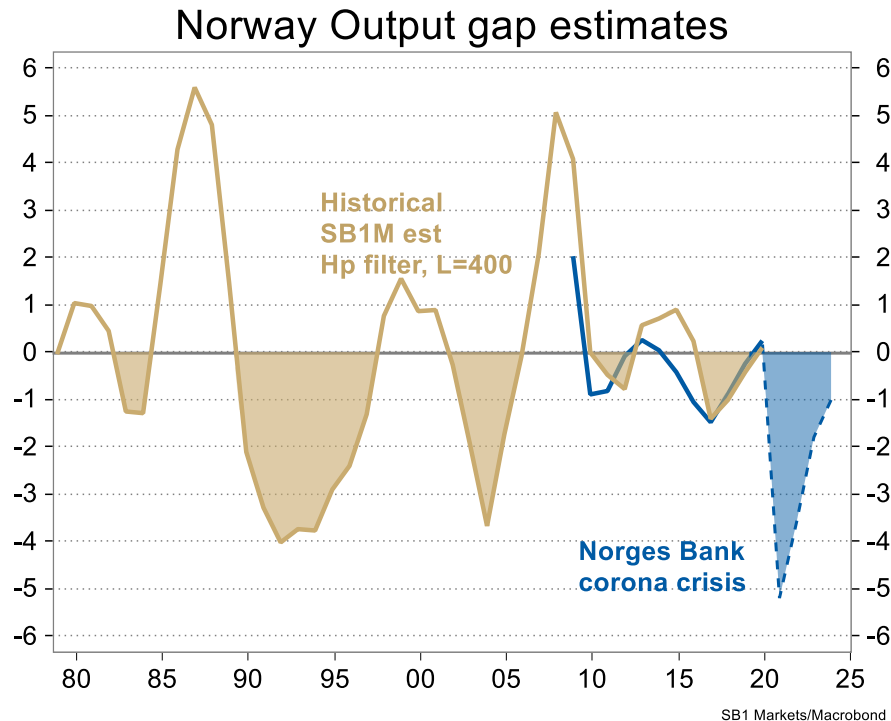
Employed as a share of population aged 15–74.  
Percent



- Norges Bank assumes large declines in private consumption, Mainland business and oil investments, as well as in Mainland exports

## Which is the worst crisis ever (in modern times)?

Our financial crisis 30 year ago was twice as hard as the corona crisis will turn out to be?

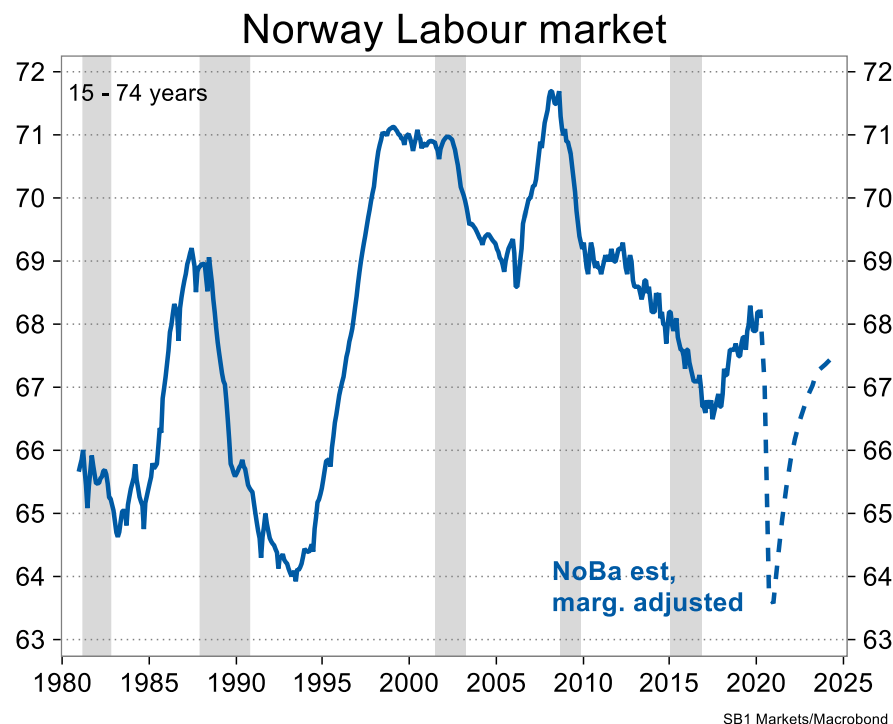


- *Disclaimer: We do not know how the corona crisis will unfold, of course*

- No doubt, the corona economic crisis is brutal, most places. The immediate decline in GDP during to months is unprecedented. However, the economic loss is not decided by the depth of the downturn alone but also in the length – or more precise, the accumulated output and income losses during the downturn – the aggregated negative output gaps
- No doubt, Norway will accumulate a huge negative output gap during 2020, 21 and most likely the following years too – if both oil, Mainland businesses and housing take a hit – which we fear (and Norges Bank mostly share our views)
- Norges Bank assumes a 11.5% accumulated loss 2020-23 and we can add another 0.5% loss in 2024, in sum 12% of annual trend GDP in these years, a substantial downturn (an average loss of 2.4% over 5 years)
- However, the Norwegian housing and banking crisis in 1989 – 1992 was far worse. The accumulated economic loss was some 24% of trend GDP, based on our output gap calculation (shown in the chart), which is similar to estimates from the Ministry of Finance and OECD. The average loss was close to 3% but it took 8 years to close the gap! That's what a real U looks like. Financial crises after huge debt build up is the real thing' The corona crisis might in fact be more similar in aggregated losses to the 2001 – 2004 downturn (8% loss)?
- In fact, from distance NoBa's corona downturn looks like a V – but other central banks have even sharper V's on the offer, check 3 pages forward!

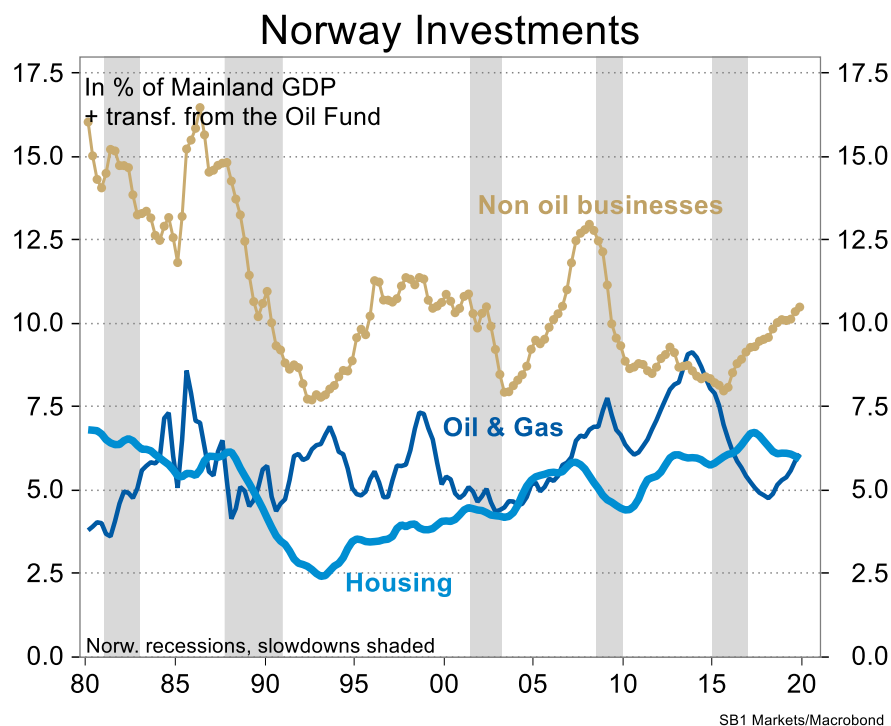
## Another check on dept vs. length: The employment rate

Norges Banks's corona crisis outlook is grim, but the 88 – 1993 downturn was much worse!



- Even the 2001 – 2005 slowdown was quite equal measured by the accumulated loss of employment to what the corona crisis is assumed to deliver
- This is of course relevant for most analysis of the economic fallout of the current crisis, specially for bank losses etc.
  - » Sectoral consequences may differ, and may be more unevenly distributed this time, than earlier and have other macroeconomic impacts

## Corona or corona + a normal cycle?

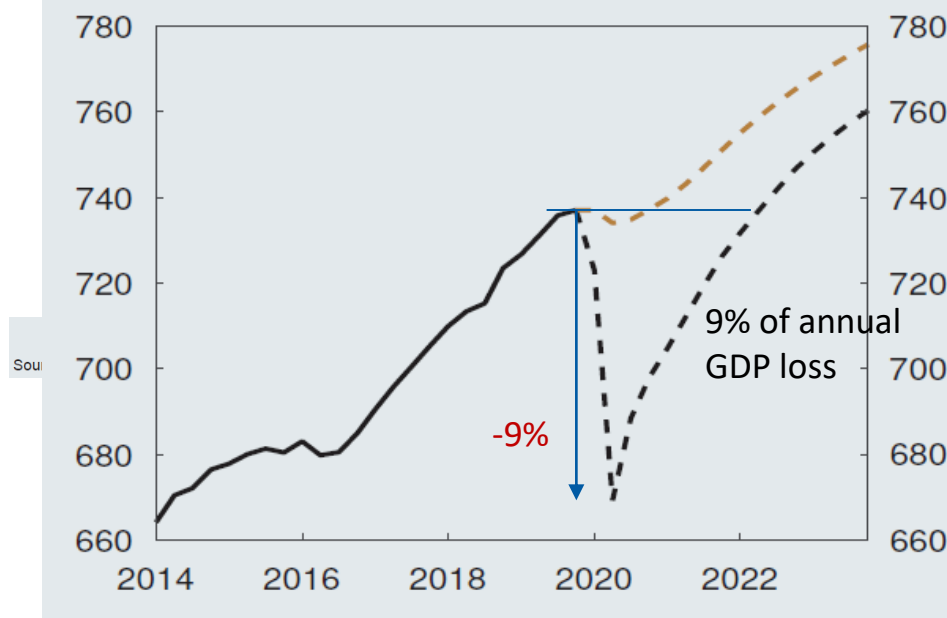


- Is it just a corona crisis, or is it a more normal economic downturn too?
- We think the latter will turn out to be the most precise description
  - » Investments in oil were anyway on the way down.
  - » Mainland businesses were higher than normal, and we expected a decline
  - » Housing investments are down from the peak but still high, as are debt ratios and real house prices. Should housing at one stage join the downturn party, corona cannot take the blame, it was just the trigger, not the cause!
  - » A decline in exports may be attributed to the corona crisis but even here we assumed some weakness ahead before the virus hit. The global cycle was mature according to most of our measures

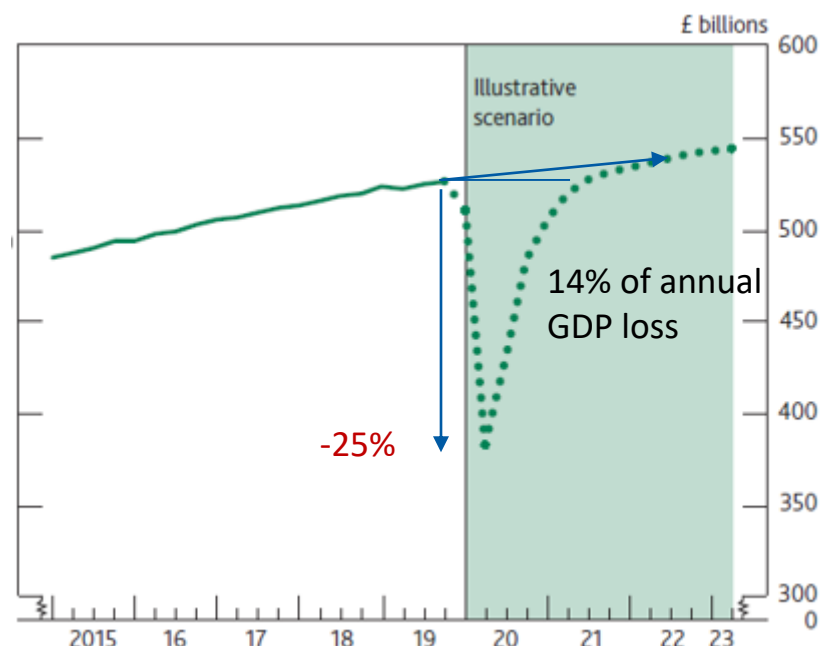
## Two banks' forecasts: Norges Bank GDP -5%, +3%. Bank of Eng. GDP -12%, +11%

BoE presented a harsh 'illustrative scenario', GDP down 25% Q4 to Q2. NoBa is more 'optimistic' -9%

Quarterly GDP mainland Norway.  
In billions of NOK



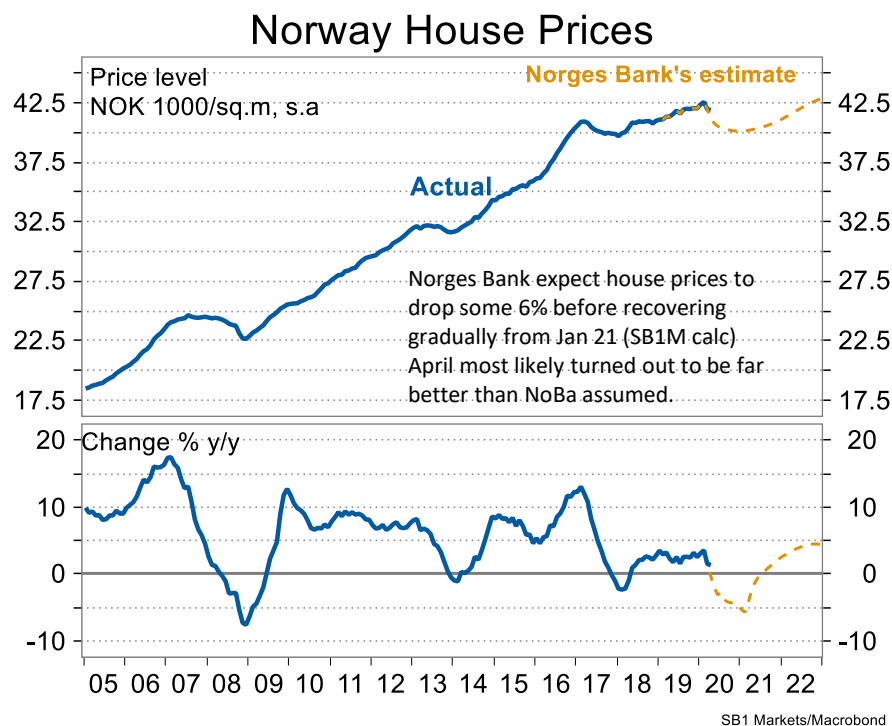
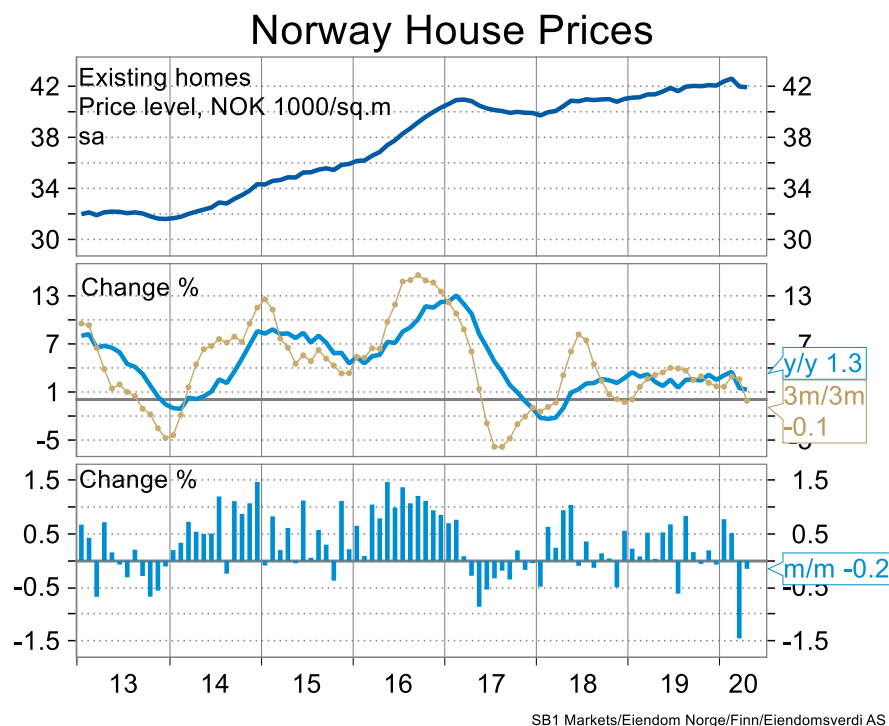
Bank of England UK GDP 'illustrative scenario'



- **Norges Bank: 'Just' 9% down** to Q2 from Q4-19, but production not back to the Q4-19 level before Q2-22: Accumulated loss (vs. flat trend!) 9% of annual GDP and 3% extra loss vs. the pre corona growth path (until Q2-22, more if next years are included). GDP in 2020 down 5%, up 3% in 2021
- **Bank of England: An extreme 'V'.** An 25% decline to Q2 from Q4-19, and 2020 avg down 12% vs 2019. However, the bank assumes a rapid recovery in H2-20 and back to starting level in mid 2021. Still, the accumulated loss 14% of annual GDP and + >1 pp extra vs. the pre corona growth forecast, illustrated in the chart. Both banks may be right, but we doubt

## Crisis, what crisis? House prices rose rapidly through April! (Still down 0.2% m/m)

Prices fell some 3% through March (the avg -1.5%), and probably rose some 3% through April!!



- House prices surprised at the upside in April, down just by 0.2%, we assumed -2.5%!
  - Prices fell sharply through March (approx 3%), and the average price level fell by 1.5% (prev. reported to -1.4%). Thus, April started well below the March average, and we did not assume that prices should increase by 0.75% per week through April! Seems like it the same risk appetite as at other risk markets, even if the economy is not that strong these days
  - Prices fell in seven towns, Oslo at the bottom by -1%, following the 1.7% setback in March. Prices rose in 7 towns, Bodø at the top (almost no corona cases there)
- The number of sales rose marginally and transactions are down just 13% vs the pre corona level. The inventory has increased just marginally!
- Are interest rate cuts more important than the hike in unemployment? We still don't think so, but April did not confirm the case! The second hand market is probably boosted as buyers turn away from the new home market. No doubt, it feels less risky to buy in the second hand market for delivery now, rather than 'being long' until a new home is delivered in a couple of years time. However, if the economy does not recover rapidly...

[illegible]

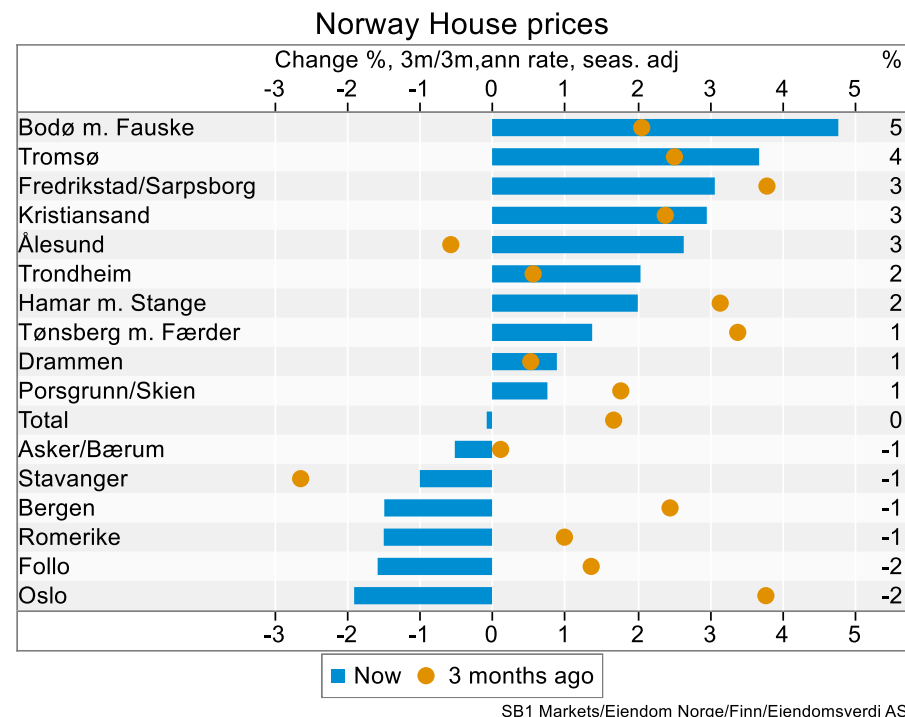
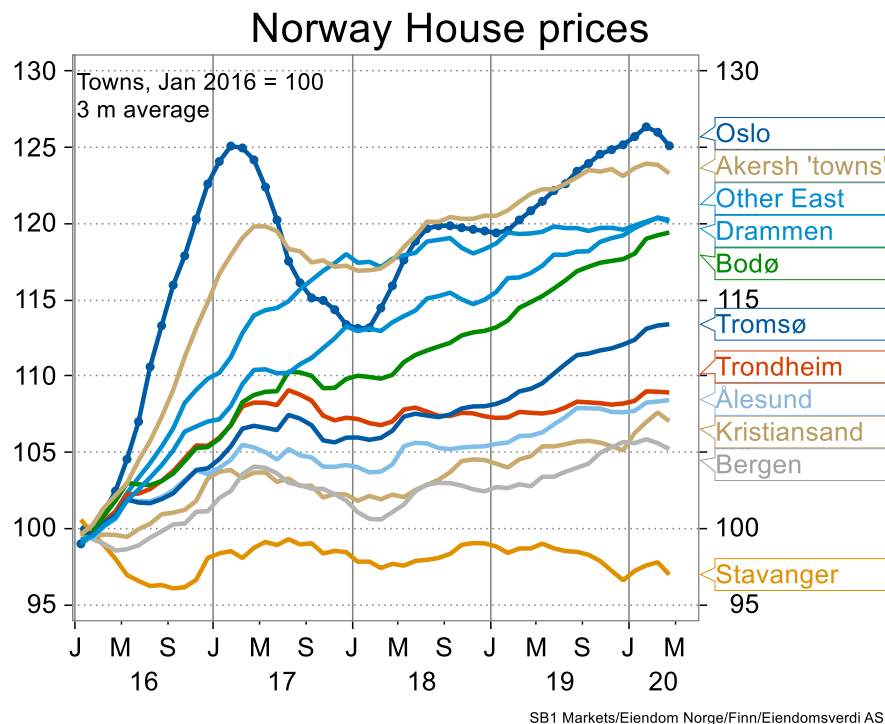
### Norway House prices

Municipality	Last month (%)	Previous month (%)
Bodø m. Fauske	0.6	-1.8
Ålesund	0.3	-1.2
Trondheim	0.3	-1.7
Asker/Bærum	0.3	-1.7
Romerike	0.2	-1.8
Tromsø	0.2	-1.3
Follo	0.1	-1.6
Kristiansand	0.0	-0.6
Fredrikstad/Sarpsborg	0.0	-0.4
Hamar m. Stange	0.0	-0.6
Bergen	-0.1	-1.4
Drammen	-0.1	-0.7
Stavanger	-0.1	-0.9
Total	-0.2	-1.5
Porsgrunn/Skien	-0.2	-0.6
Tønsberg m. Færder	-0.4	-0.4
Oslo	-1.0	-1.8

83

## Recent months; Bodø & Tromsø at the top. Oslo at the bottom

And Stavanger is the weakest link in the chain, as it has been for a while

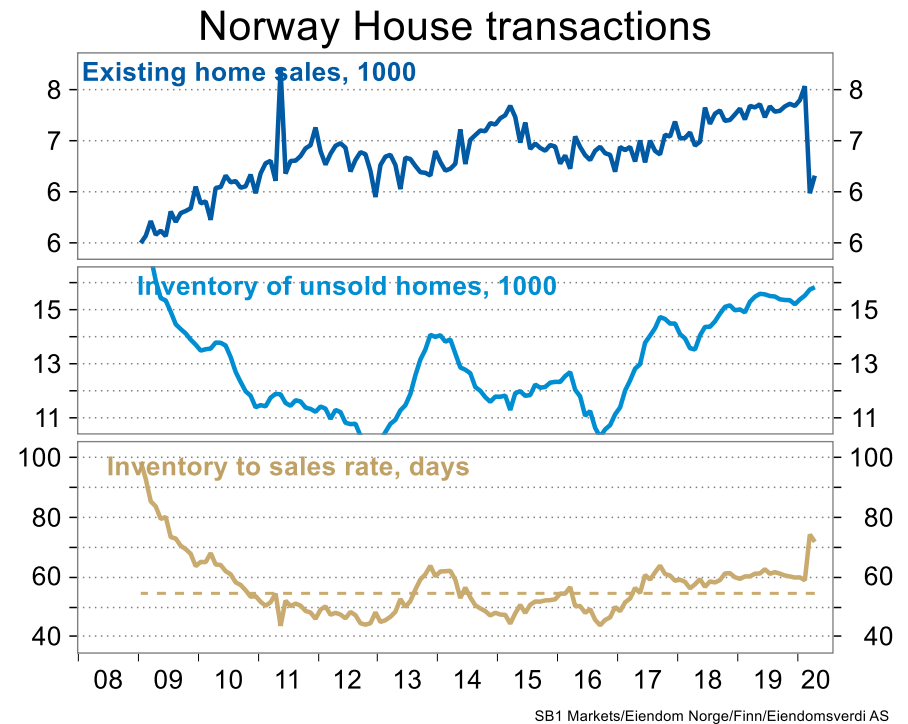
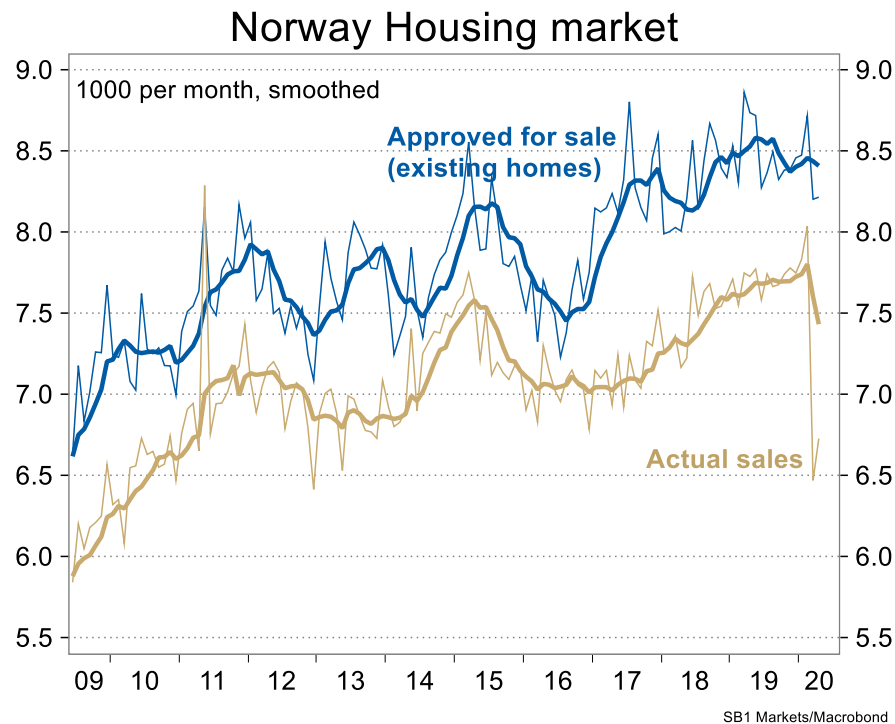


- Measured 3m/3m, prices are now rising in 10, falling in 7. Price growth is accelerating in 6 towns, even if two corona months are included in the last 3 m period!
- Oslo prices are equal to the early 2017 peak (in nominal terms, prices are down some 6% in real terms). Stavanger is now, while all other towns are up vs the early 2017 level



## Transactions down some 15%, not bad during a partial lockdown!

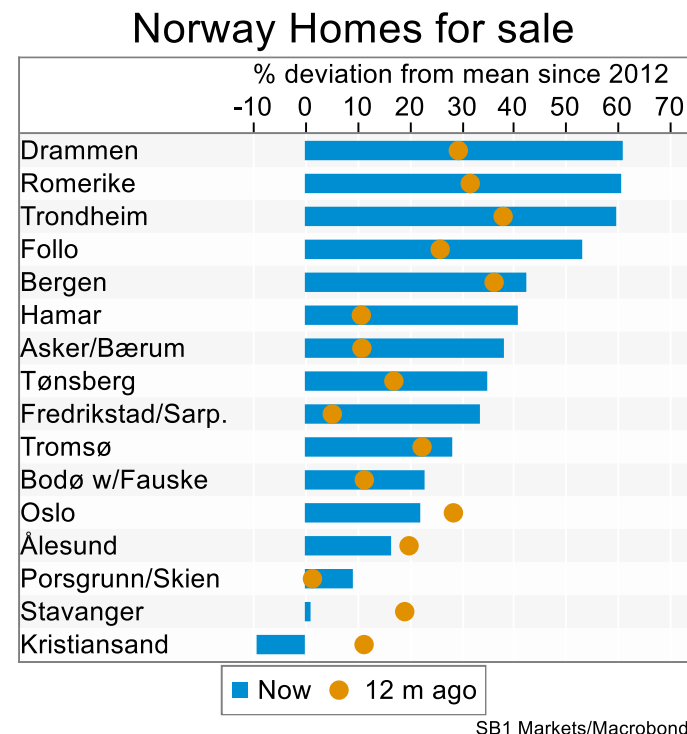
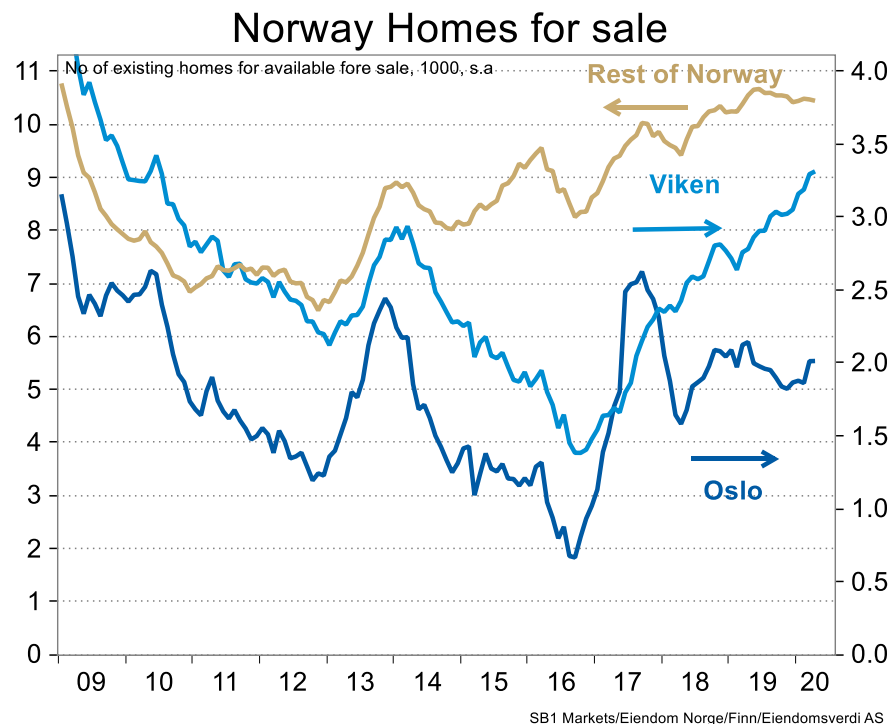
The number of unsold homes rose marginally in April, to the highest level in more than 10 years



- **The number** of sales has fallen but not that much given restrictions on marketing ect.
- The inventory of unsold homes has increased recent months, and a tad faster in March but slower again in April. The inventory is at the highest level in more than 10 years
- The inventory/sales ratio rose sharply in March (but mostly just because sales fell). The inventory to sales ratio (turnaround) rose rapidly to fell slightly to 73 days, up from 60 in Feb. The average is 55 days

## The number of homes flattens at a high level x East, soaring in Viken

The inventory is up in Oslo past 3 months, but down y/y. Sharply up 'around' Oslo!

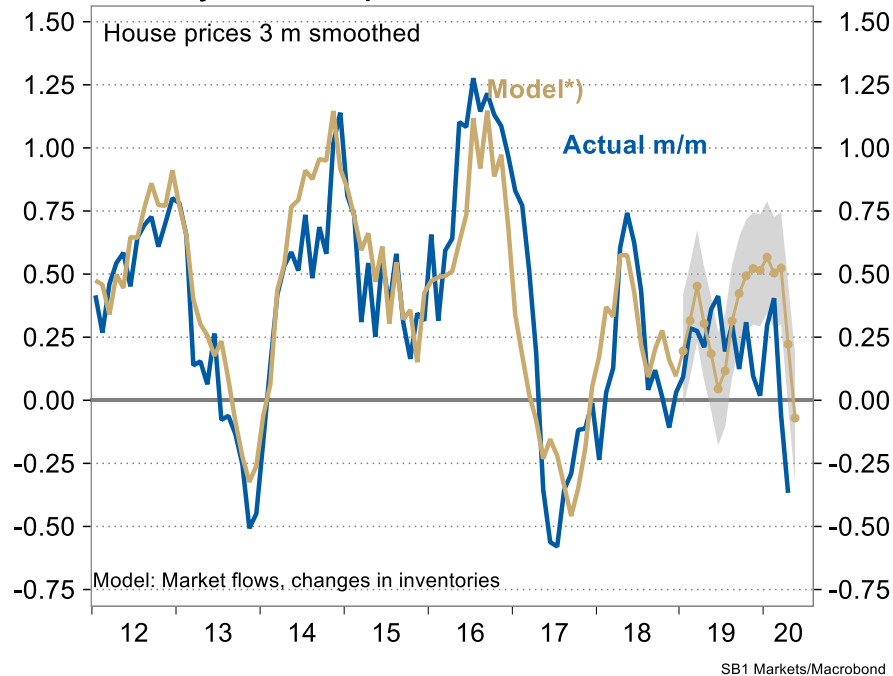


- Inventories are up y/y in 13 towns, down in just 4 – and inventories are higher than usual in all but 2 towns (Kristiansand and Stavanger, where markets have been slow recent years).
- In some towns, the inventory is much higher than normal, like in Drammen, Trondheim and Bergen – and in other 'towns' around Oslo

# Short term market flows suggest stagnating prices (and not falling prices)

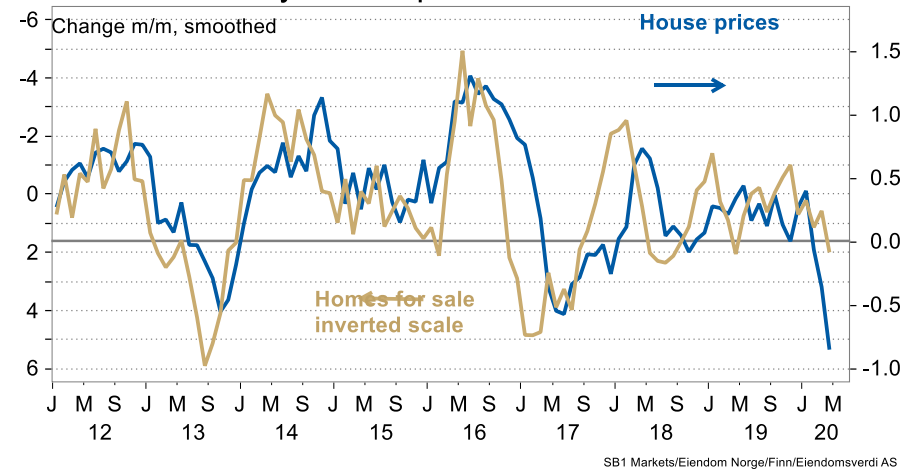
However, soaring unemployment and an uncertain outlook could take prices down

## Norway House prices - short term model

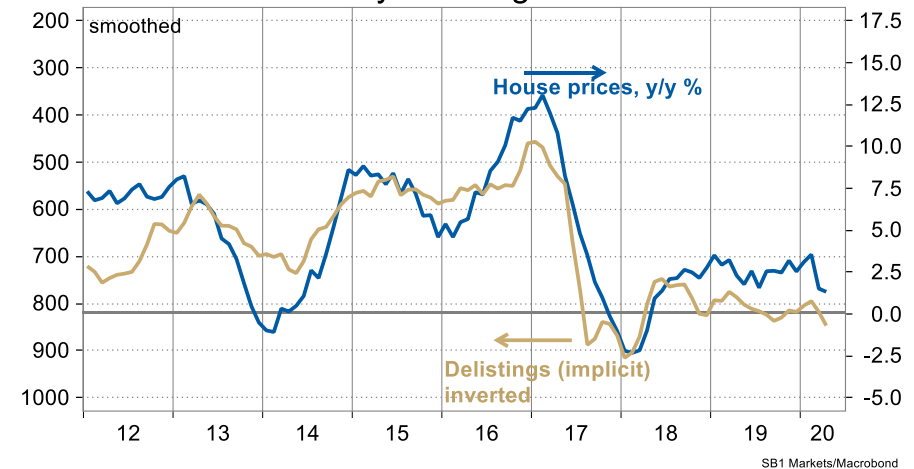


- The supply of new homes for sales and the inventory suggest just marginal price decline the coming months
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

## Norway House prices vs. inventories



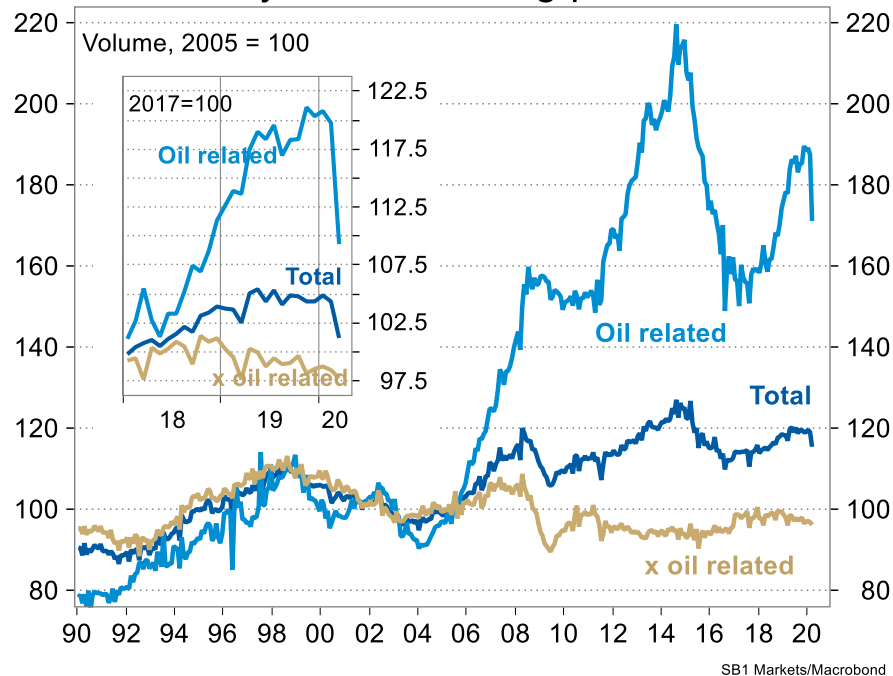
## Norway Housing market



## Shipbuilding down 22% in March, 11 other sectors down, 6 up

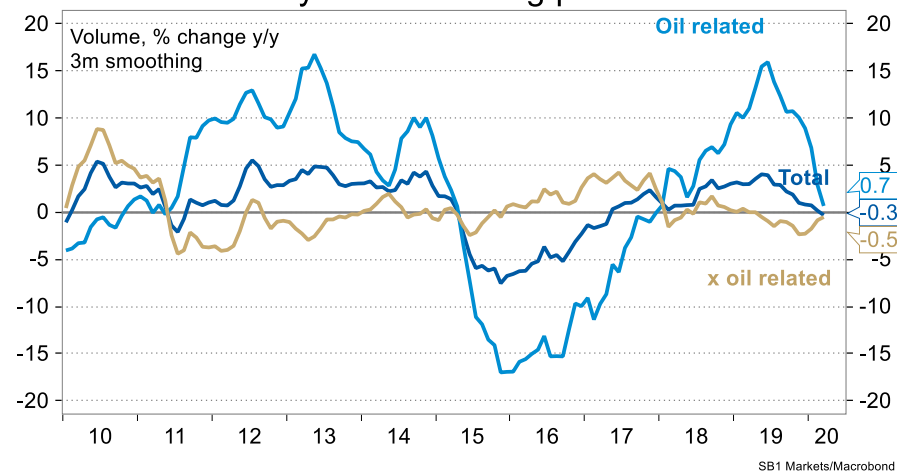
Total manufacturing production down 3,0% as we expected. Oil related on the way down, others too

### Norway Manufacturing production

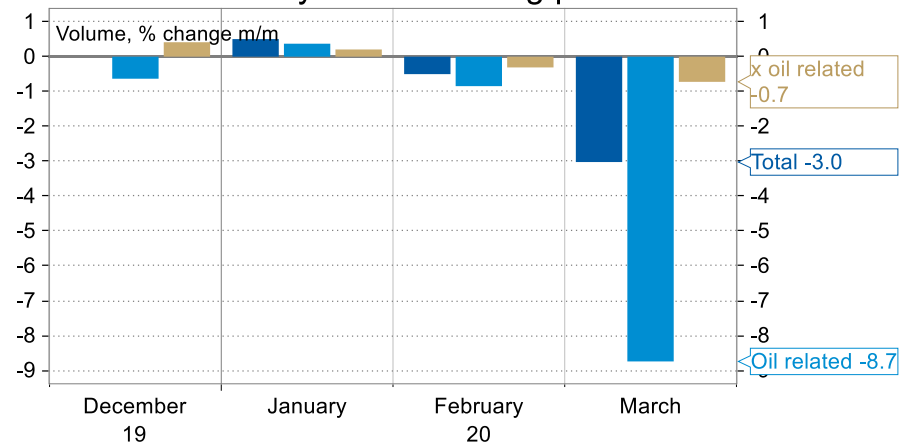


- Total manuf. production has been flat since last spring but fell sharply in March
- Already before corona hit, we expected a further slowdown in oil related sectors, and soon a decline

### Norway Manufacturing production



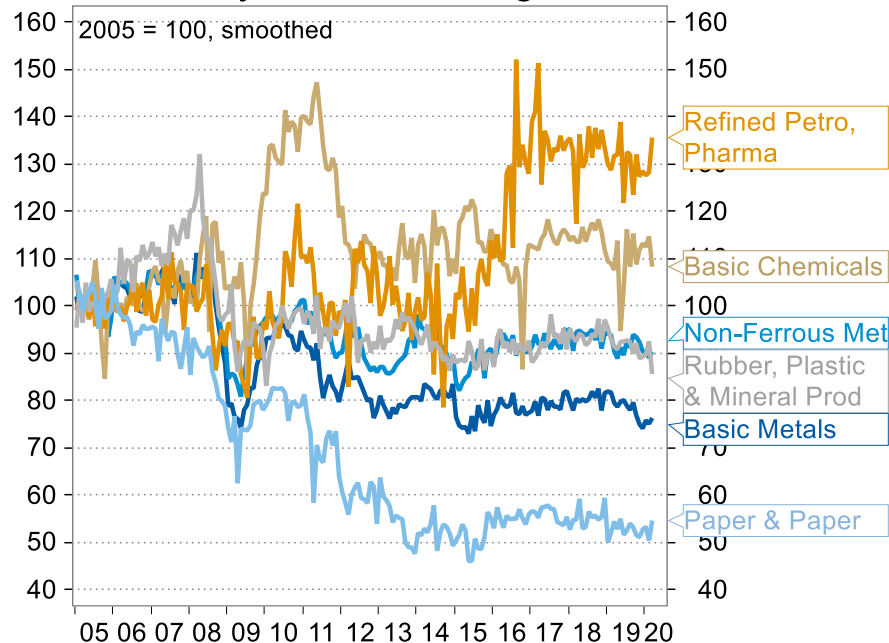
### Norway Manufacturing production



## Not many bright spots anymore

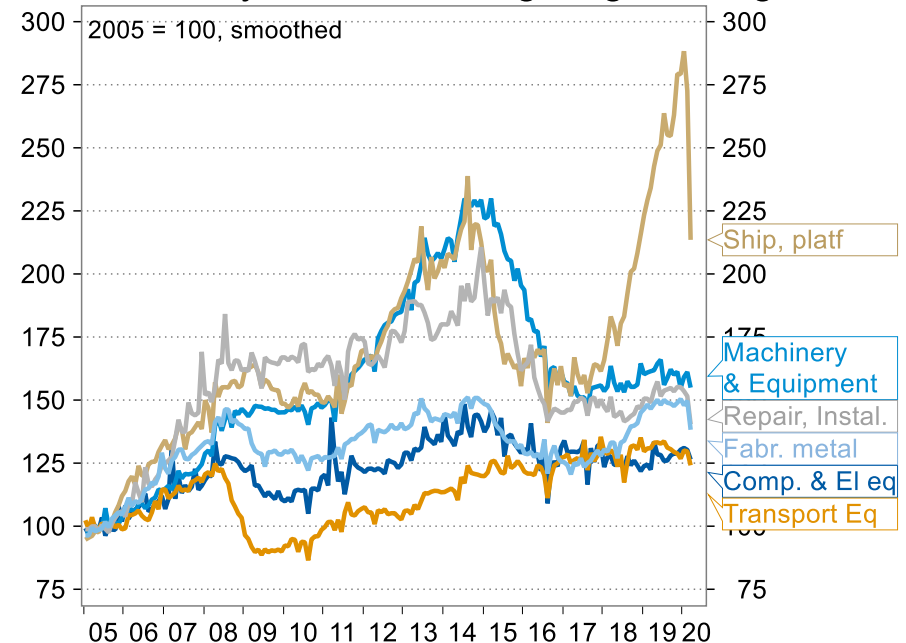
Engineering have softened

### Norway Manufacturing commodities



SB1 Markets/Macrobond

### Norway Manufacturing Engineering+



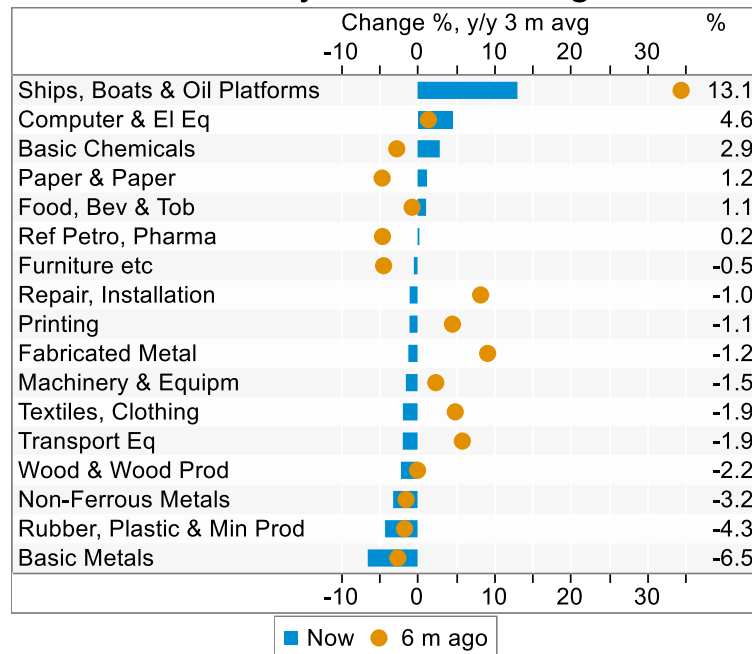
SB1 Markets/Macrobond

- Not
- Engineering sectors: Most partly oil-related sectors have lost some steam, particularly machinery & equipment production. Repair & installation has more or less flattened out
- Commodities: None are impressive, just basic chemicals and non-ferrous metals close to flat, others are trending down

## 8 of 17 sectors are increasing (4 faster), 7 are declining (5 accelerating)

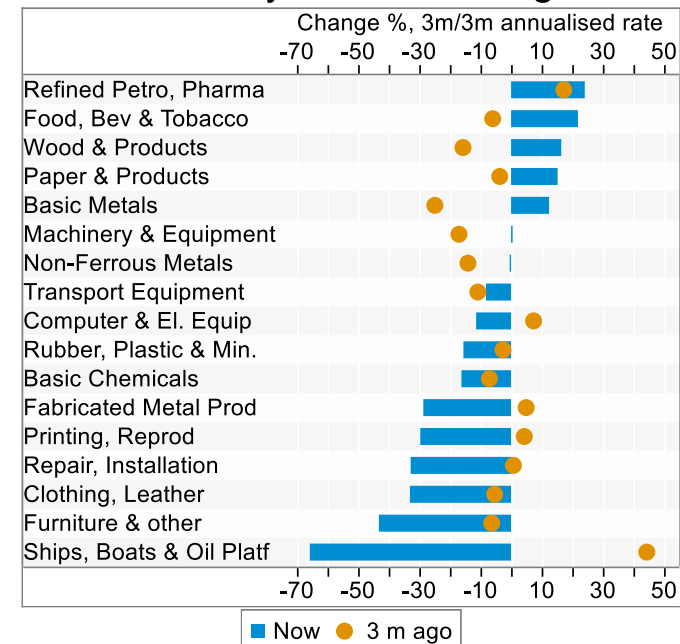
Ships & platforms are up 31% y/y, other oil related up moderately. 9 of 17 sectors are declining y/y

### Norway Manufacturing



SB1 Markets/Macrobond

### Norway Manufacturing

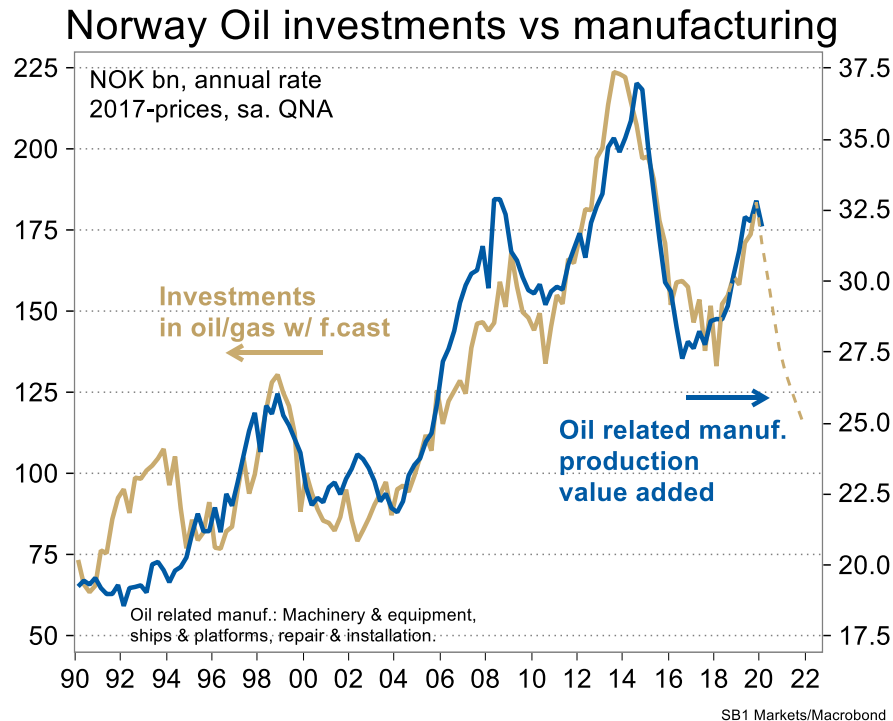


SB1 Markets/Macrobond

- Ships/platforms production is up 31% y/y (smoothed)!
  - » Not that impressive in other oil related sectors; machinery is down 1.2% y/y, repair & installation up 4%
- Fabricated metals have been growing strongly, up 3.5% but slowing now, as is transport equipment
- Production of basic metals, wood products and plastic are falling sharply

# Oil related production was already at peak – will fall steeply

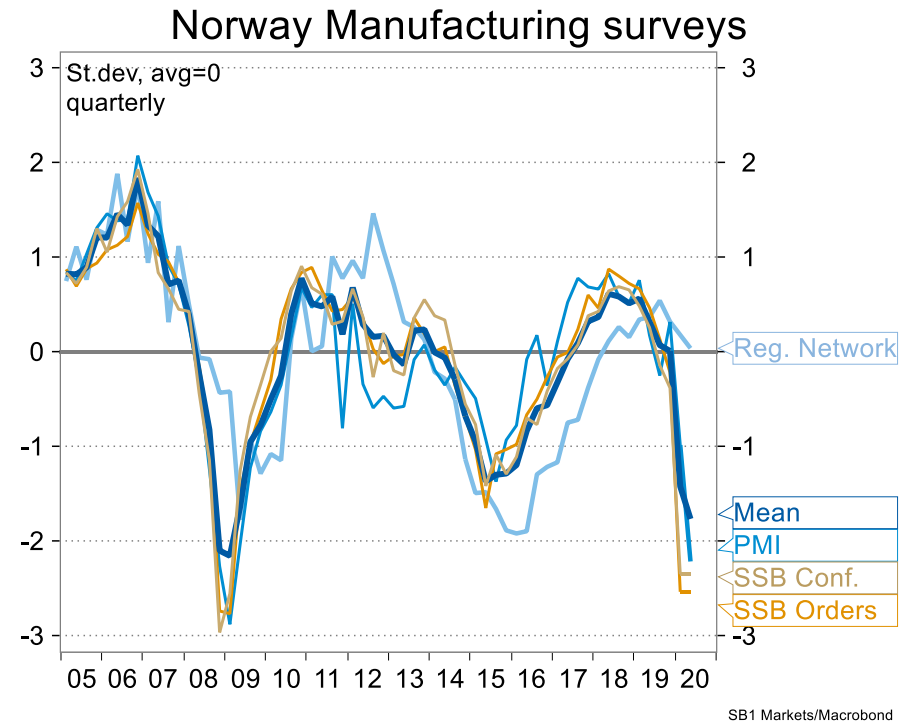
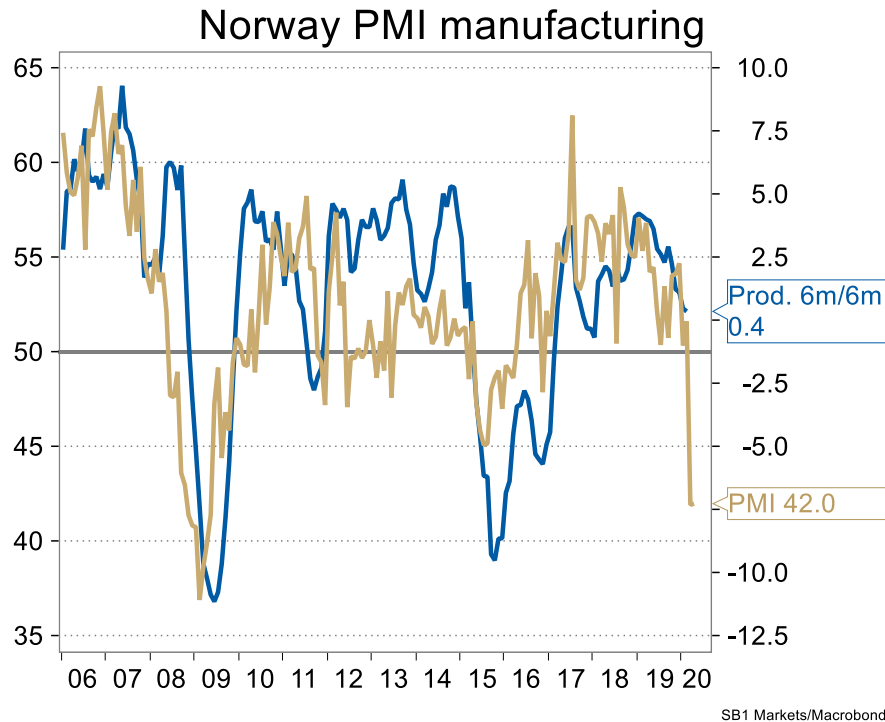
Luckily, the downside is smaller now than in 2014



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

## Manufacturing PMI down the drain in March, more to come

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

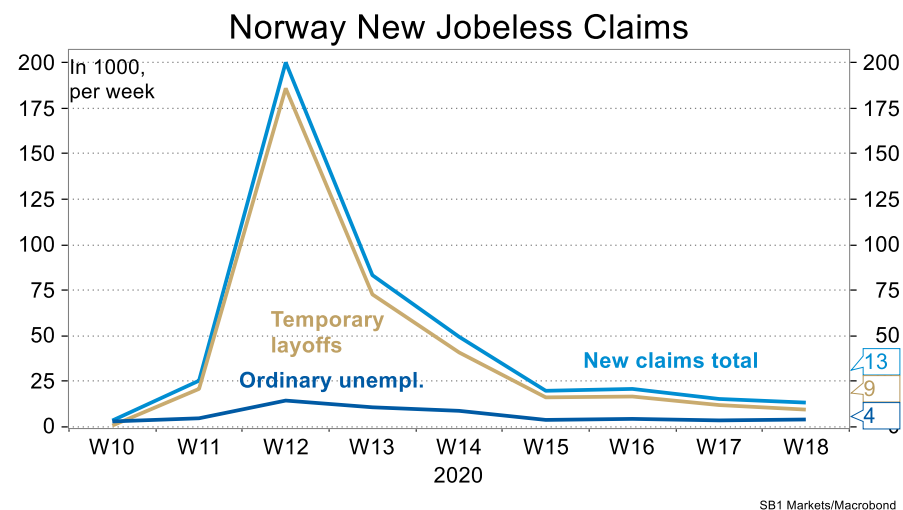
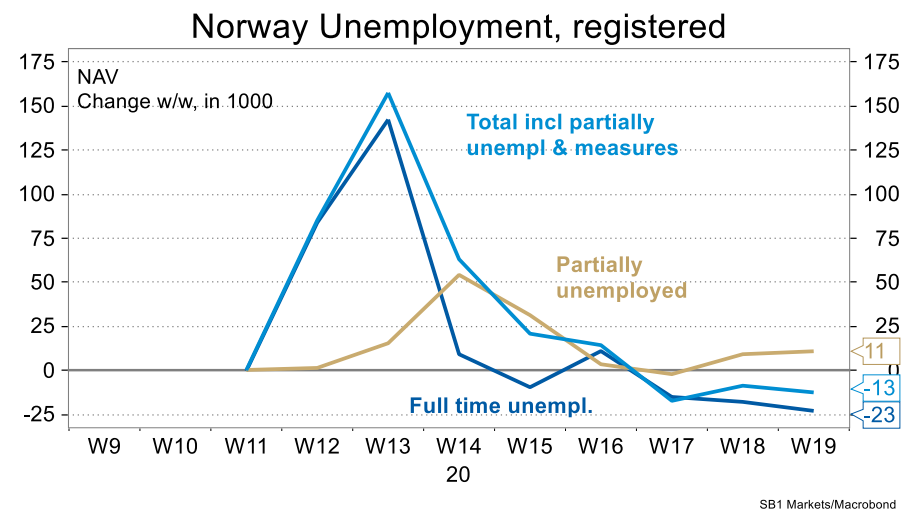
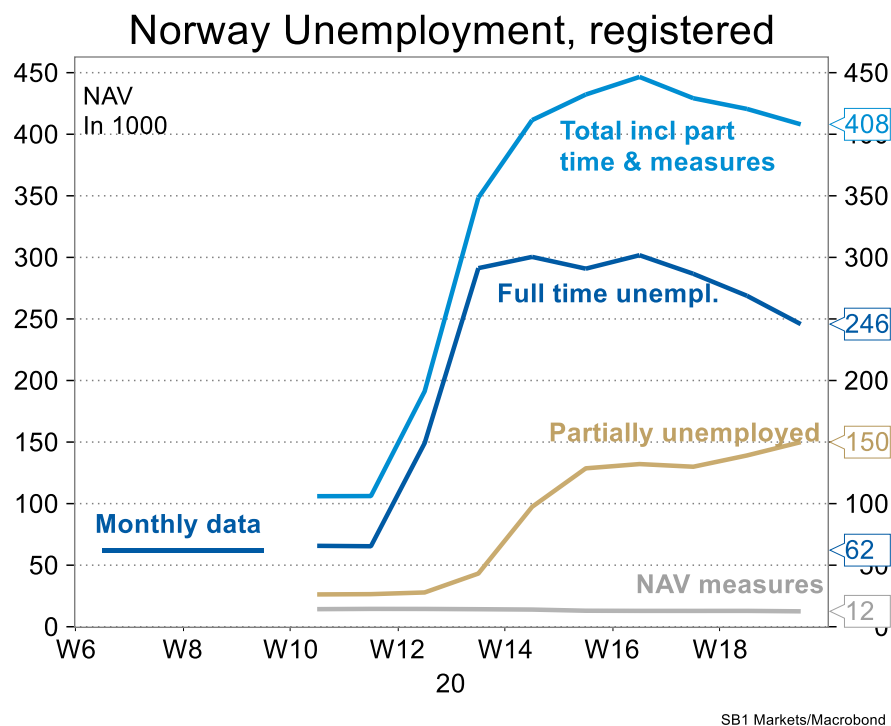


- No other surveys have yet been released after Covid-19 hit and Norway was put in partial lockdown



# Unemployment has peaked, 1% of the labour force reengaged last week

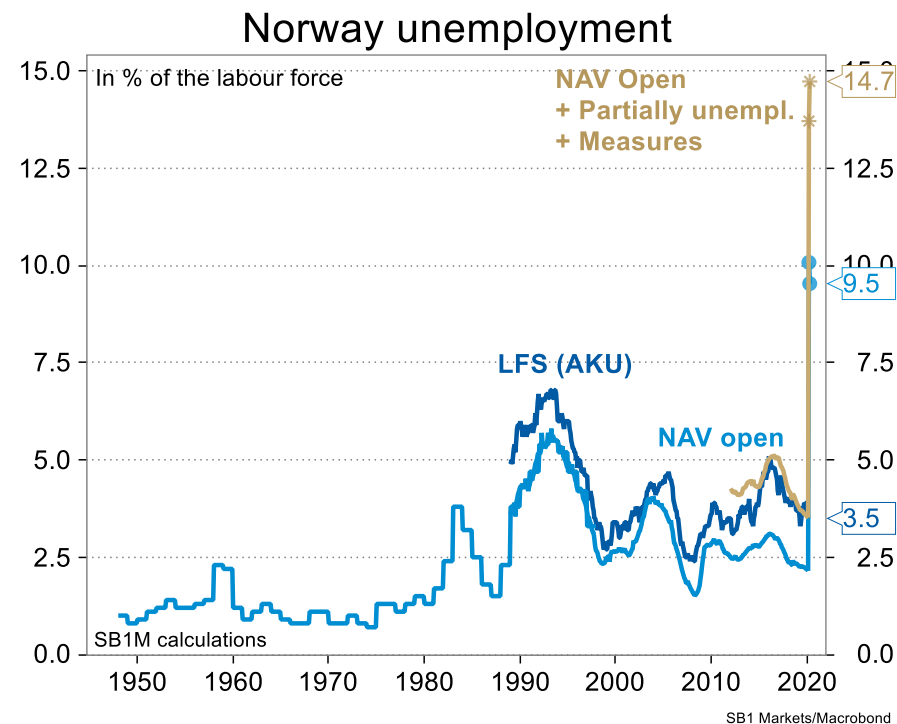
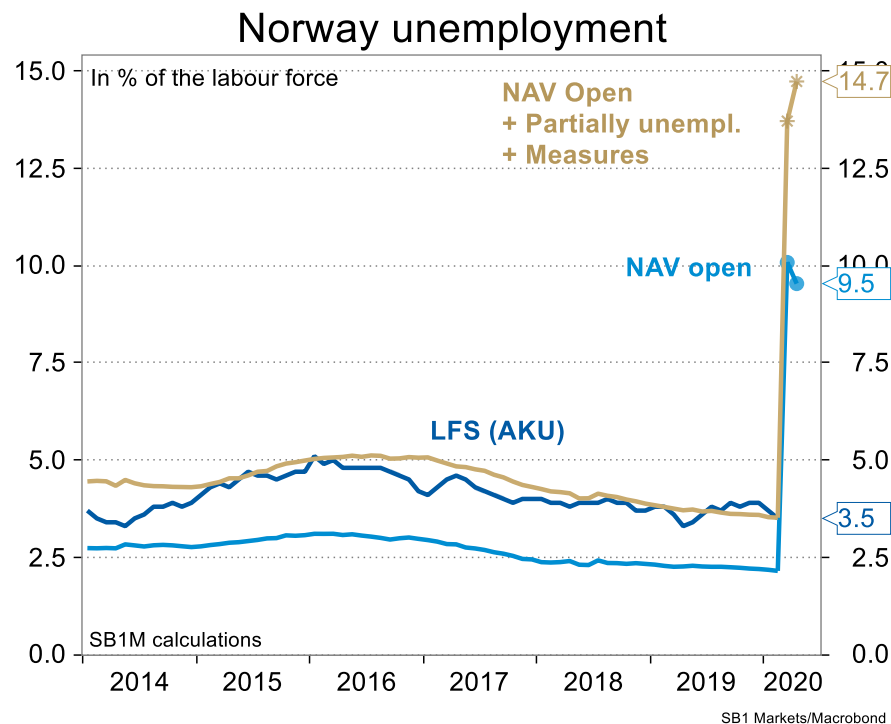
Total unemployment down by 13' as some temporary unemployed are reengaged



- Full time unemployment fell by 23' last week, 11' more were counted as partially unemployed, as some fully unemployed were reclassified as partially unemployed
- The inflow of new jobless claims is on the way down, to some 13', implying that 26' persons, or almost 1% of the labour force, was reengaged last week
  - » Over the past 3 weeks, total unemployment is reduced by XXX
- Total unemployment is still at 14.6%

## 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

Highlights

The world around us

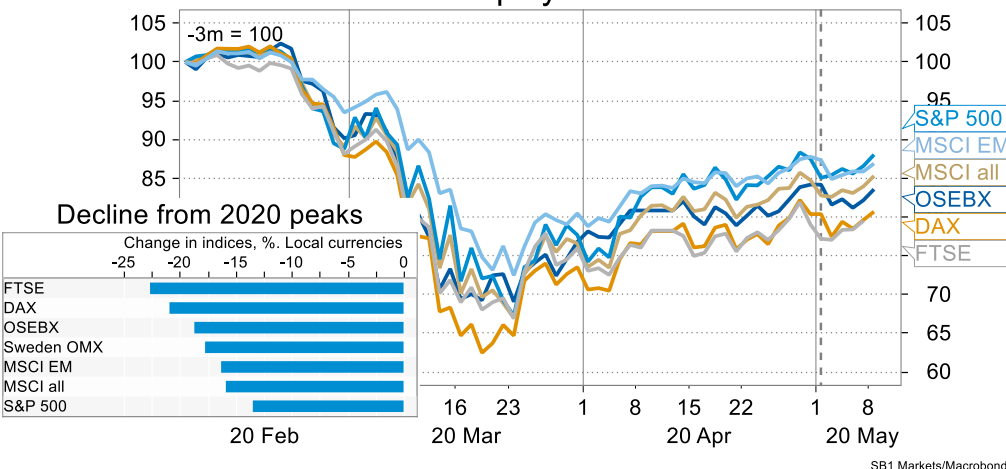
The Norwegian economy

Market charts & comments

# Most stock markets up, bond yields down (but not in the US). Oil and NOK up

Metal prices have been bottomed late March – China may take credit?

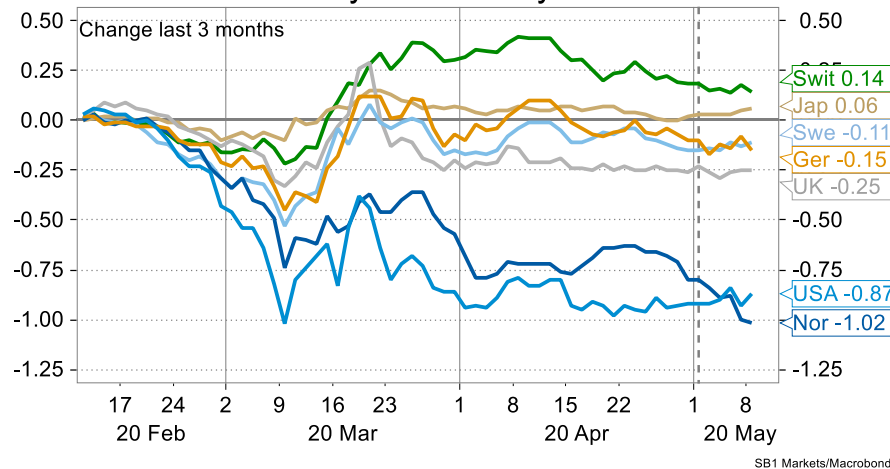
## Equity Indices



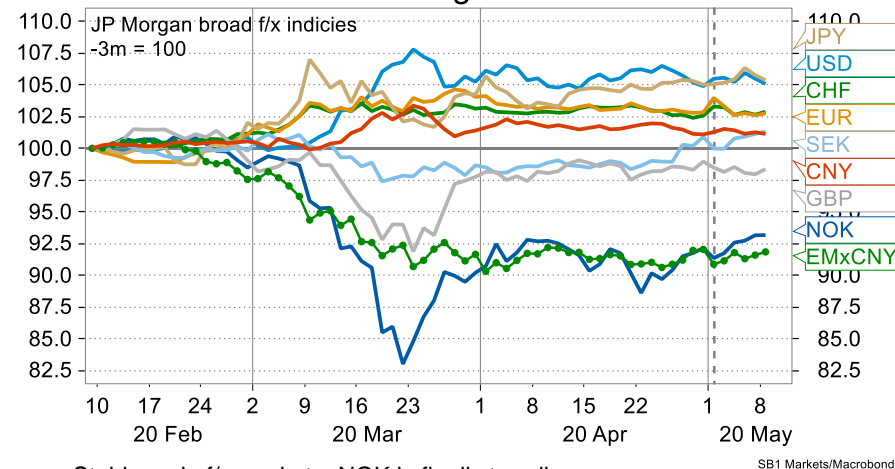
## Oil vs. metals



## 10 y Gov bond yield



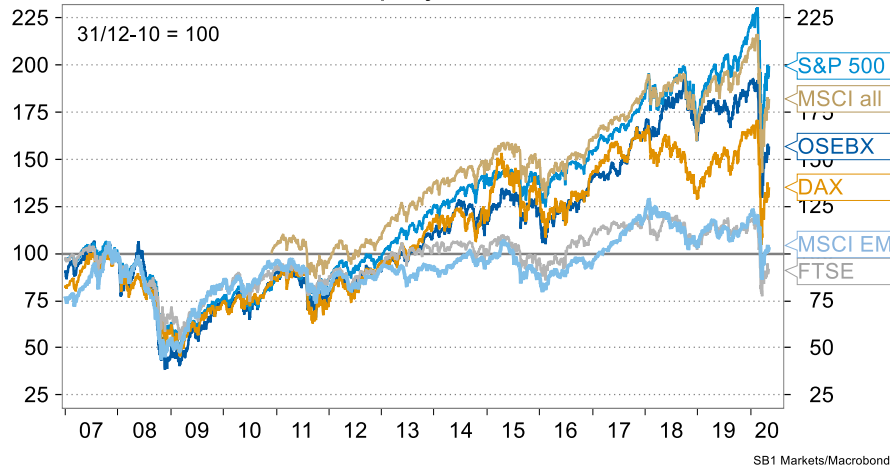
## Exchange rates



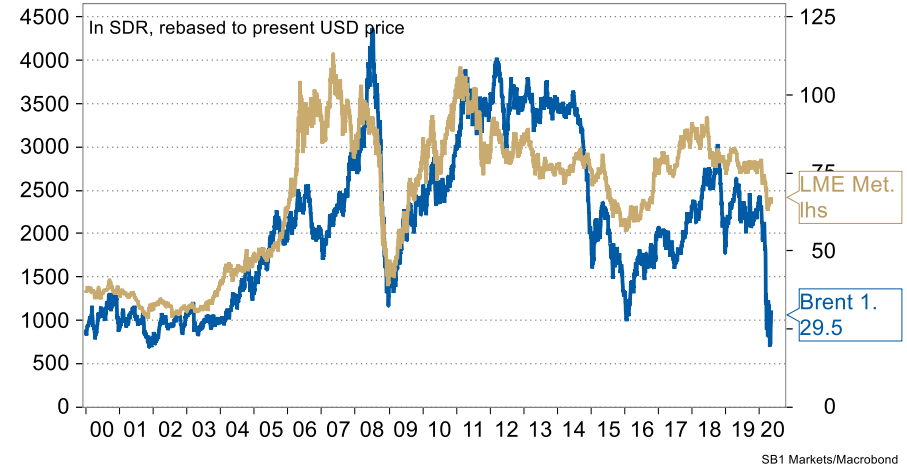
# In the long run: Stock markets are looking like a 'V'

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

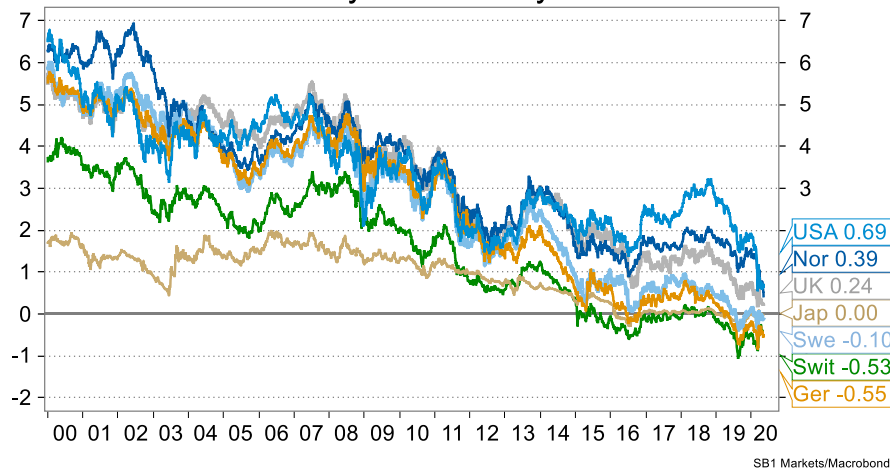
## Equity Indices



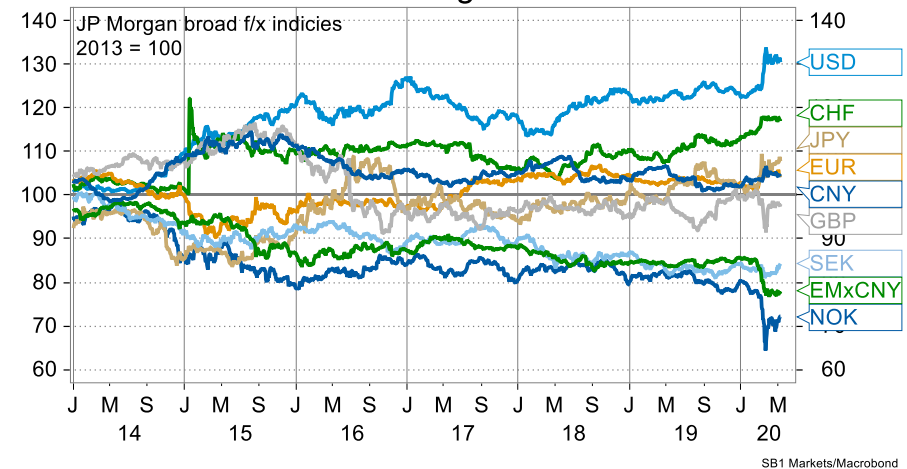
## Oil vs. metals



## 10 y Gov bond yield



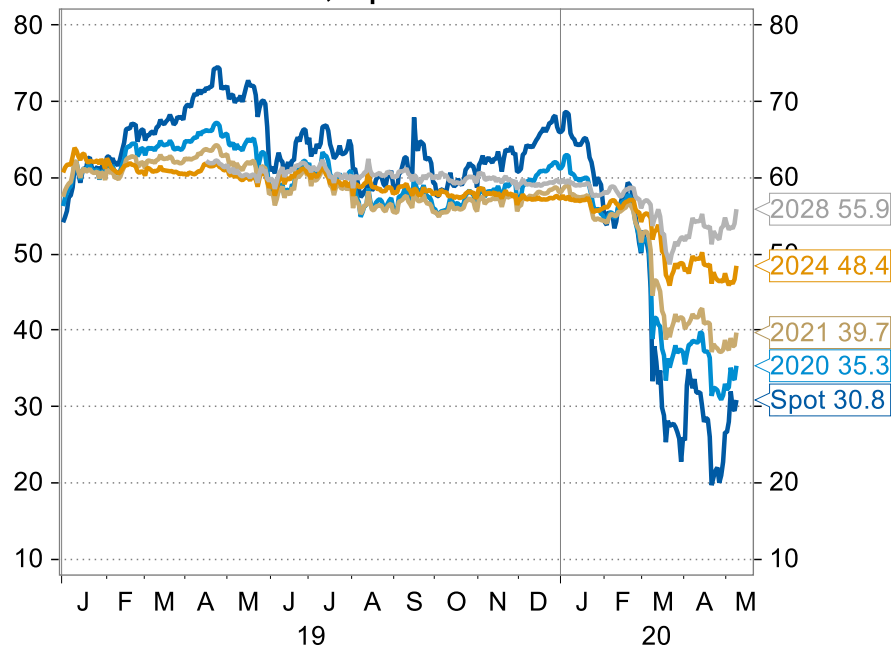
## Exchange rates



## Oil prices: On the way up

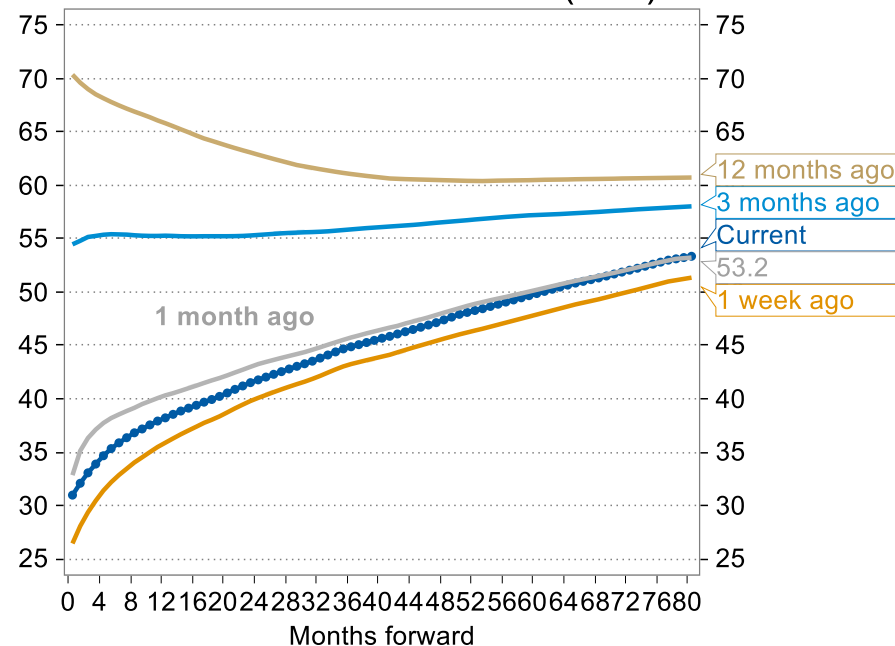
Last week, oil prices edged up all over the curve, like over the previous week

Brent oil, spot & Dec contracts



SB1 Markets/Macrobond

Brent oil futures (ICE)



SB1 Markets/Macrobond

Markets take some bets

- Is demand picking up again?
- Will Saudi, Russia be willing to really cut to get prices somewhat up?
- Will shale oil production decline sharply at the current prices?

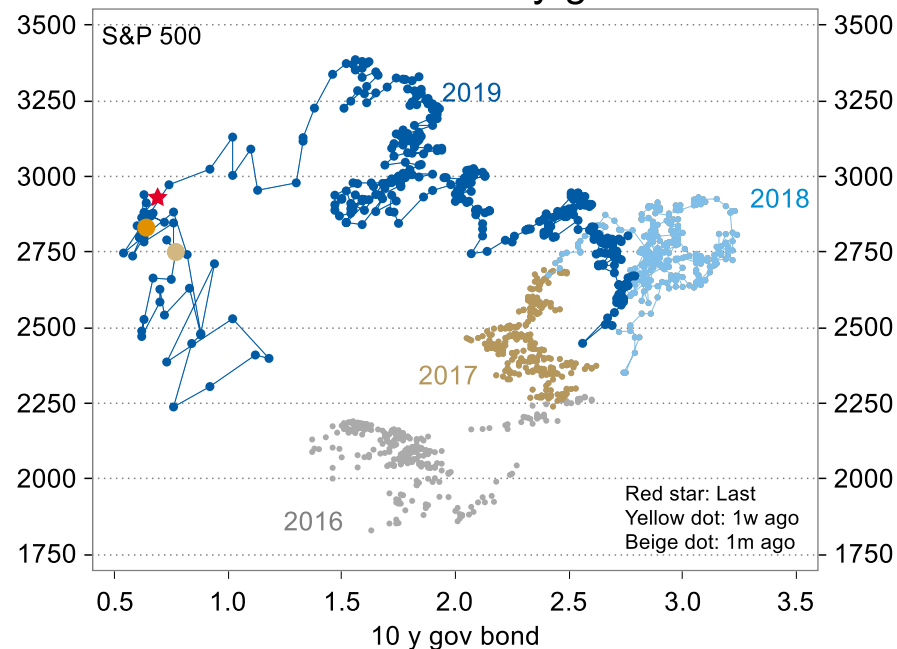
## After a pause, stock markets up last week. Even bonds rose marginally

### USA S&P 500 vs. bond yields



SB1 Markets/Macrobond

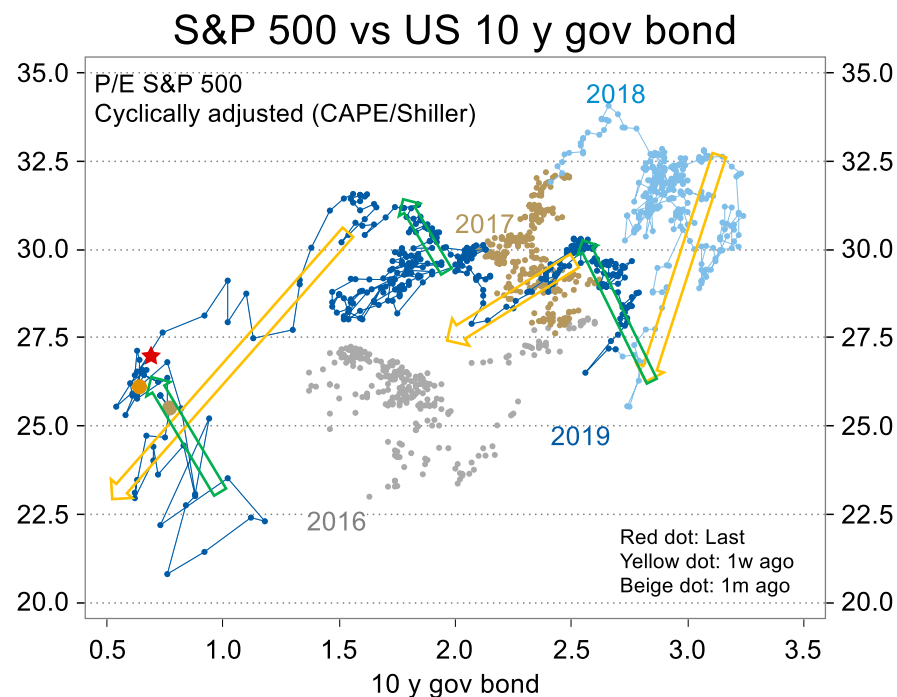
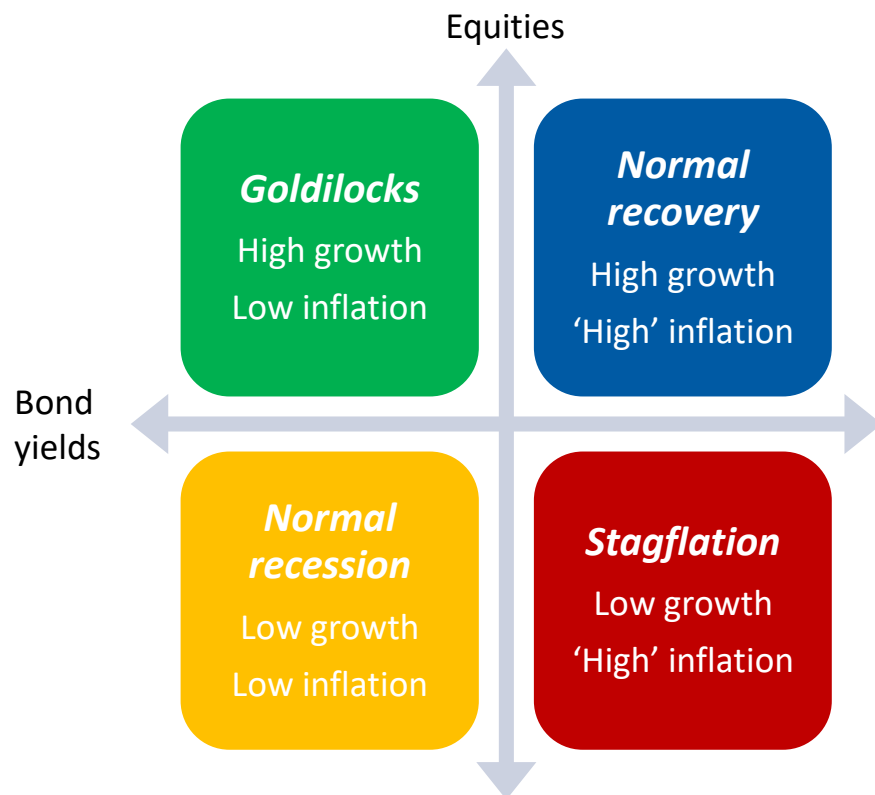
### S&P 500 vs US 10 y gov bond



SB1 Markets/Macrobond

## Towards the recovery corner last week, marginally

Economies are opening up, the central banks are pumping hard...



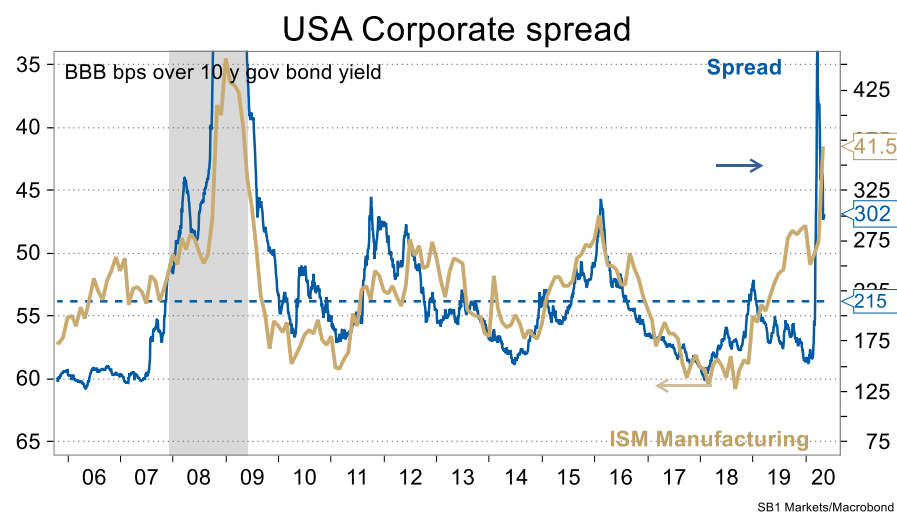
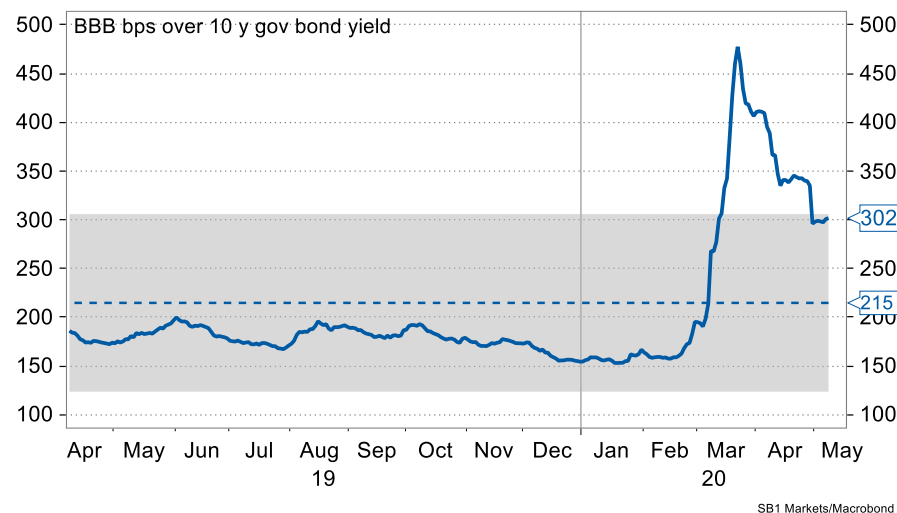
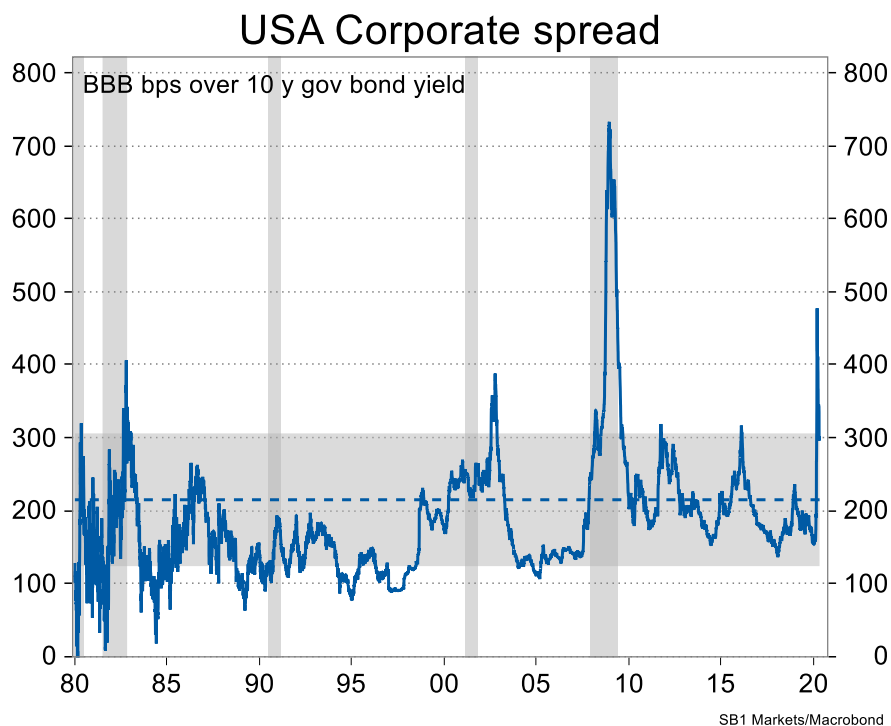
SB1 Markets/Macrobond

- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic spreading and countries have been initiating lockdowns
- The draconic policy measures from Mid March and the decline in corona case/death rates/the opening up hopes have contributed to the change in mood; risk markets have strengthened – while yields have been kept low due to enormous QE programs in US but also among other central banks



## Corporate spreads stabilised following the decline the previous week

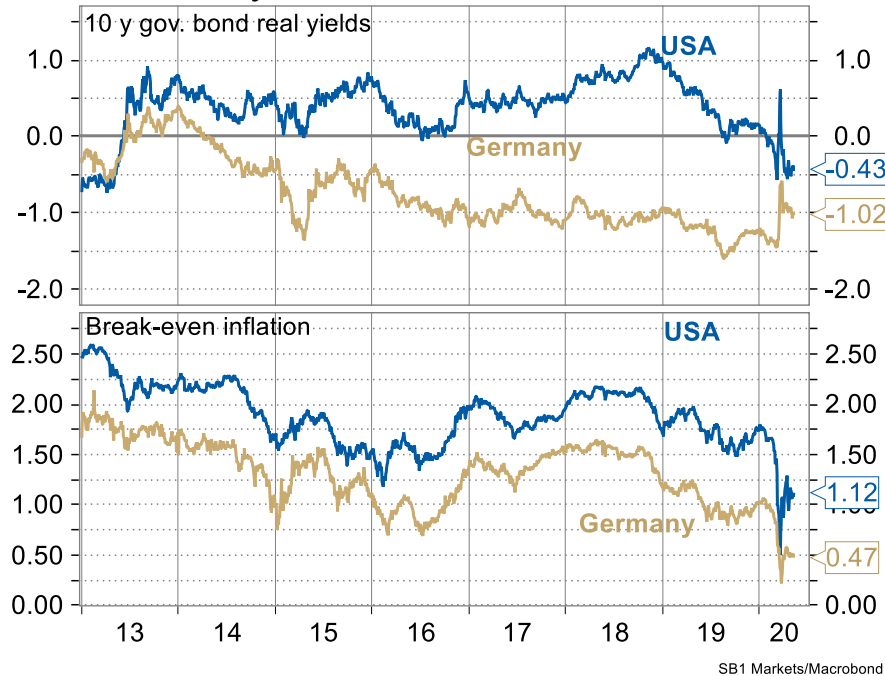
The US BBB spread has fallen by 170 bps, and is 2/3<sup>rd</sup> way back to an average level



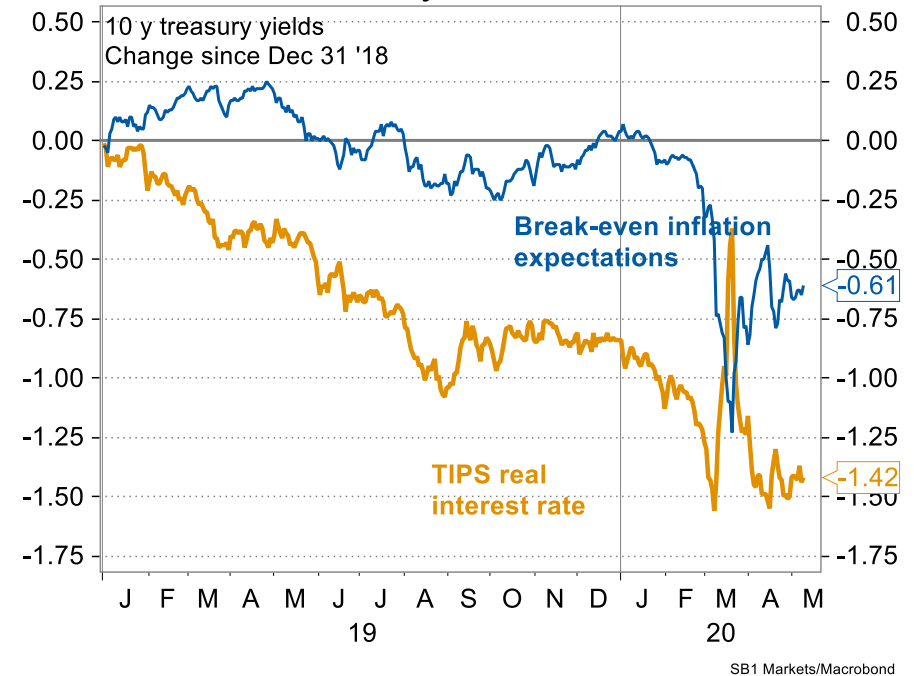
## No inflation on the horizon, even if money are printed

Because the output gap is much more important, at least short to medium term

### Real yields, break-even inflation

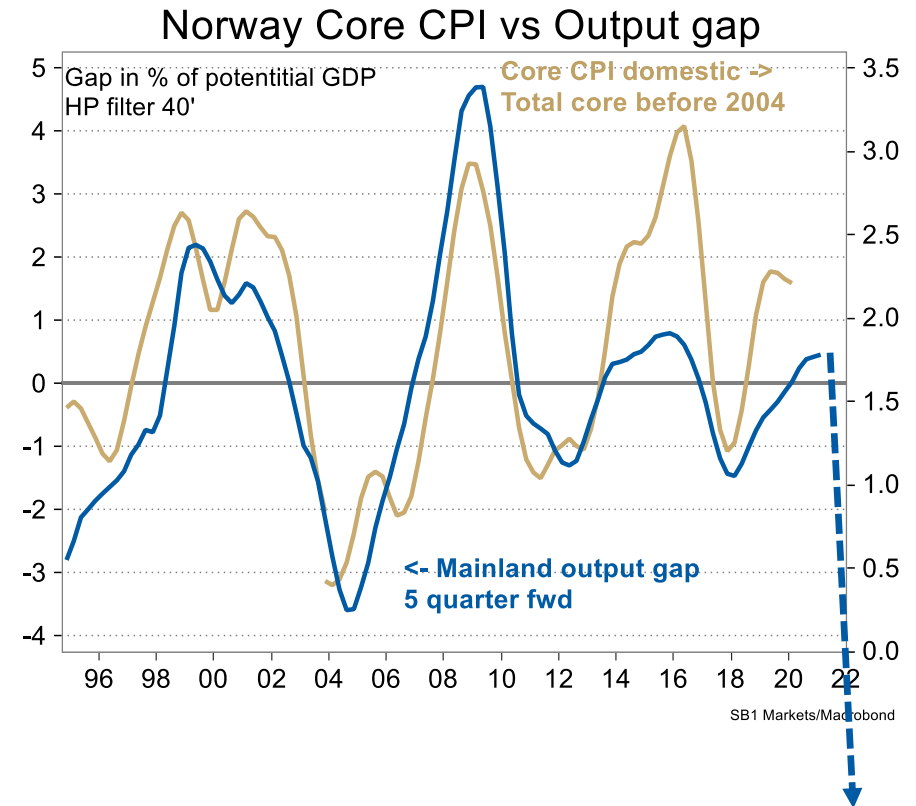
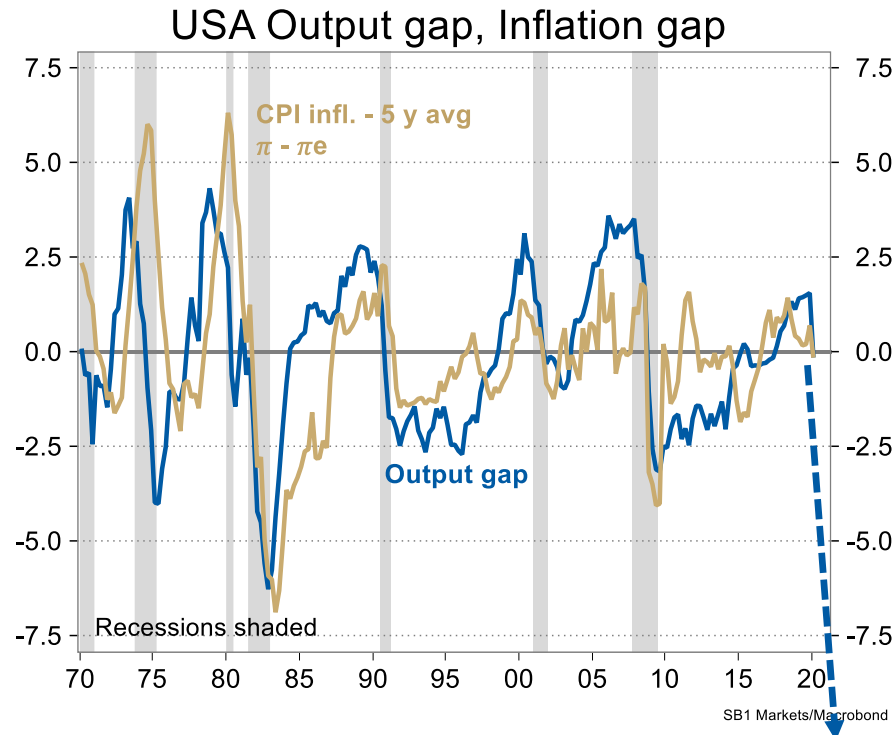


### USA Real yields, inflation



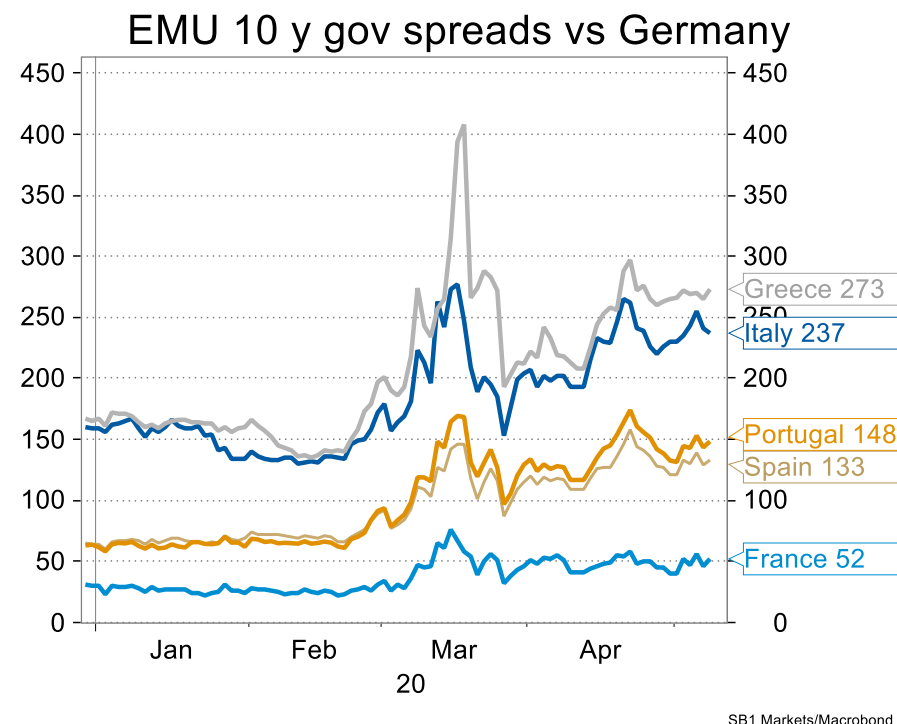
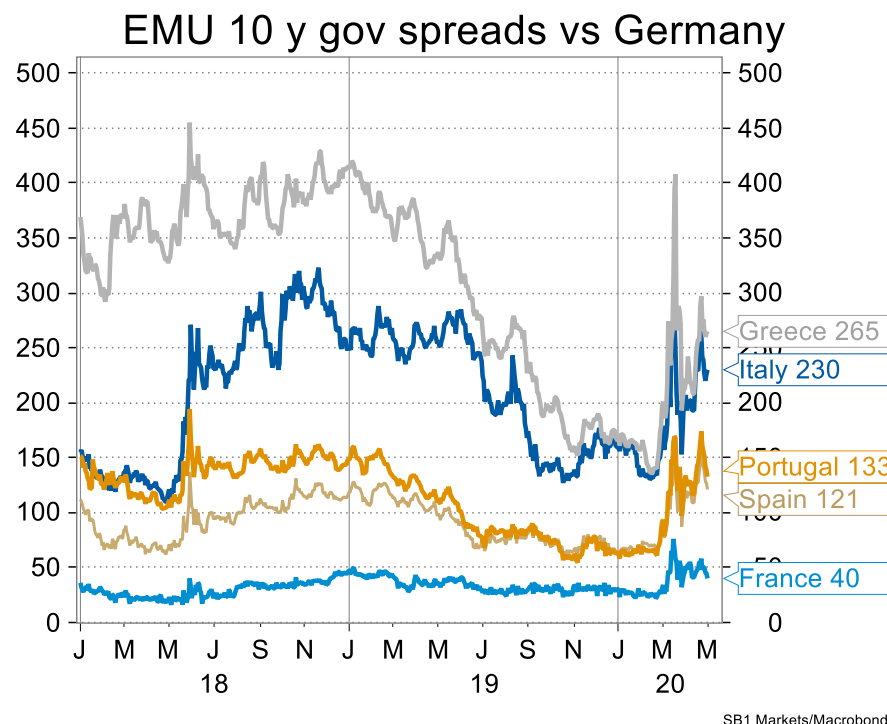
# What decides inflation? Not money or debt – but the cycle. Phillips is not dead

Inflation will not take off when the economy is weak



# The German constitutional court challenges the ECB, European Court of Just.

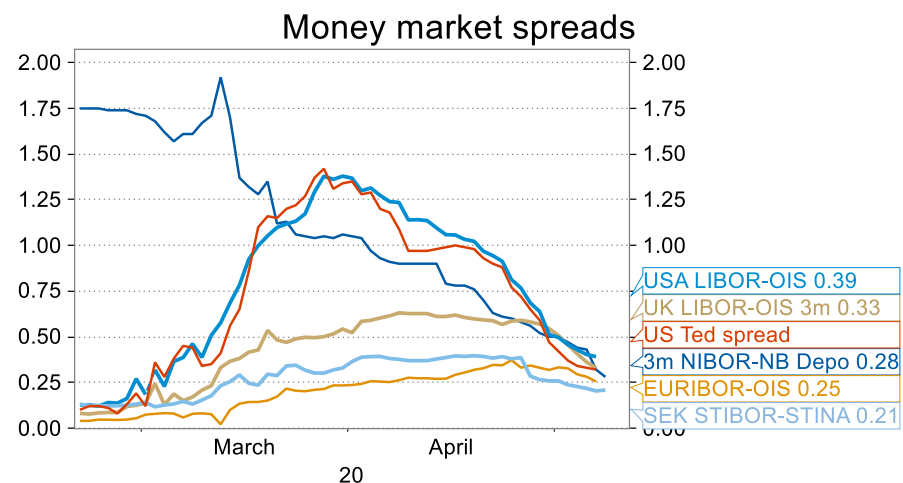
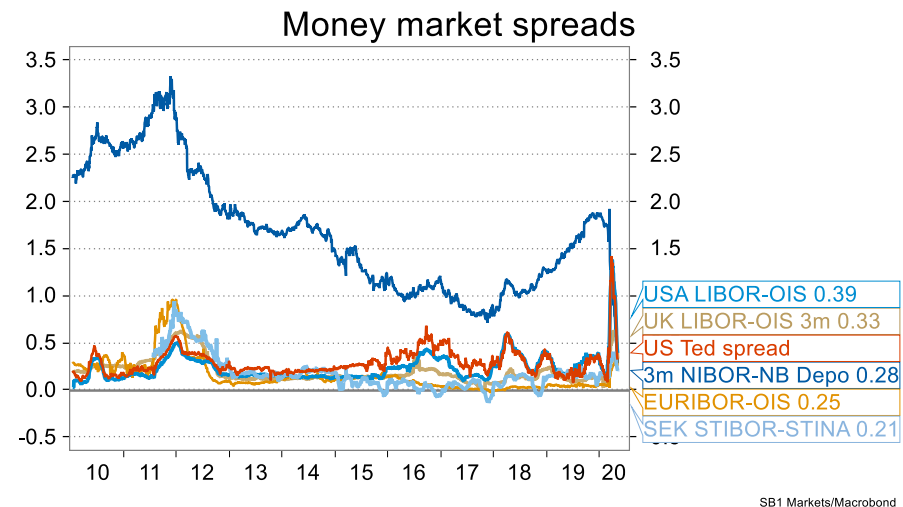
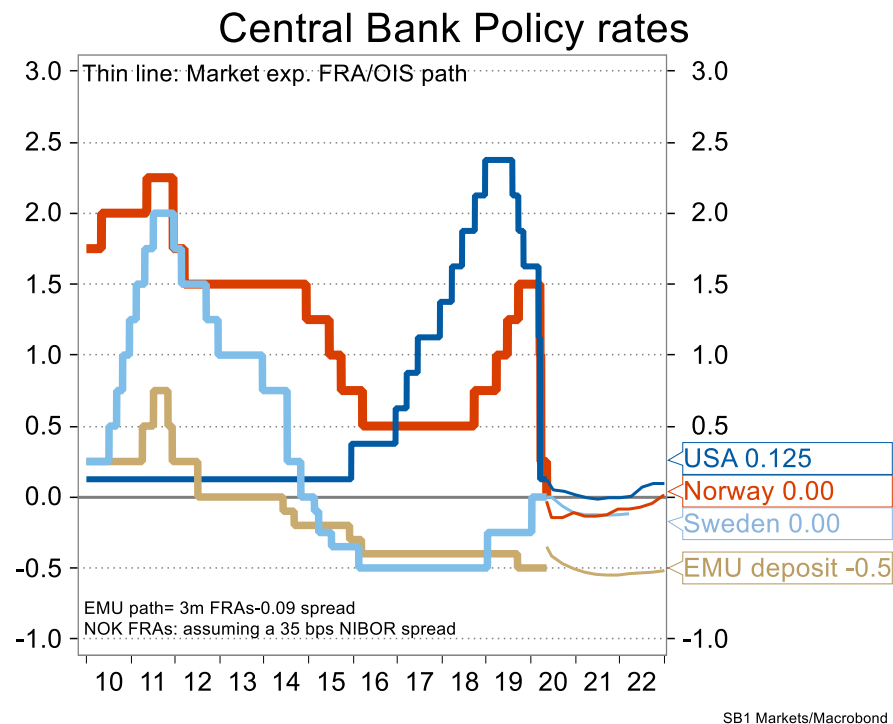
..over the legality of ECB's QE programs. A solution will probably be found. The periphery not scared



- The German court want's better explanations, while the ECJ says the German court does not have any legal position in the case
- We assume the clever eurocrats will be able to find a compromise, as always. Even the German Min. of Finance said so

# Central bank rates on hold, money market spreads are narrowing

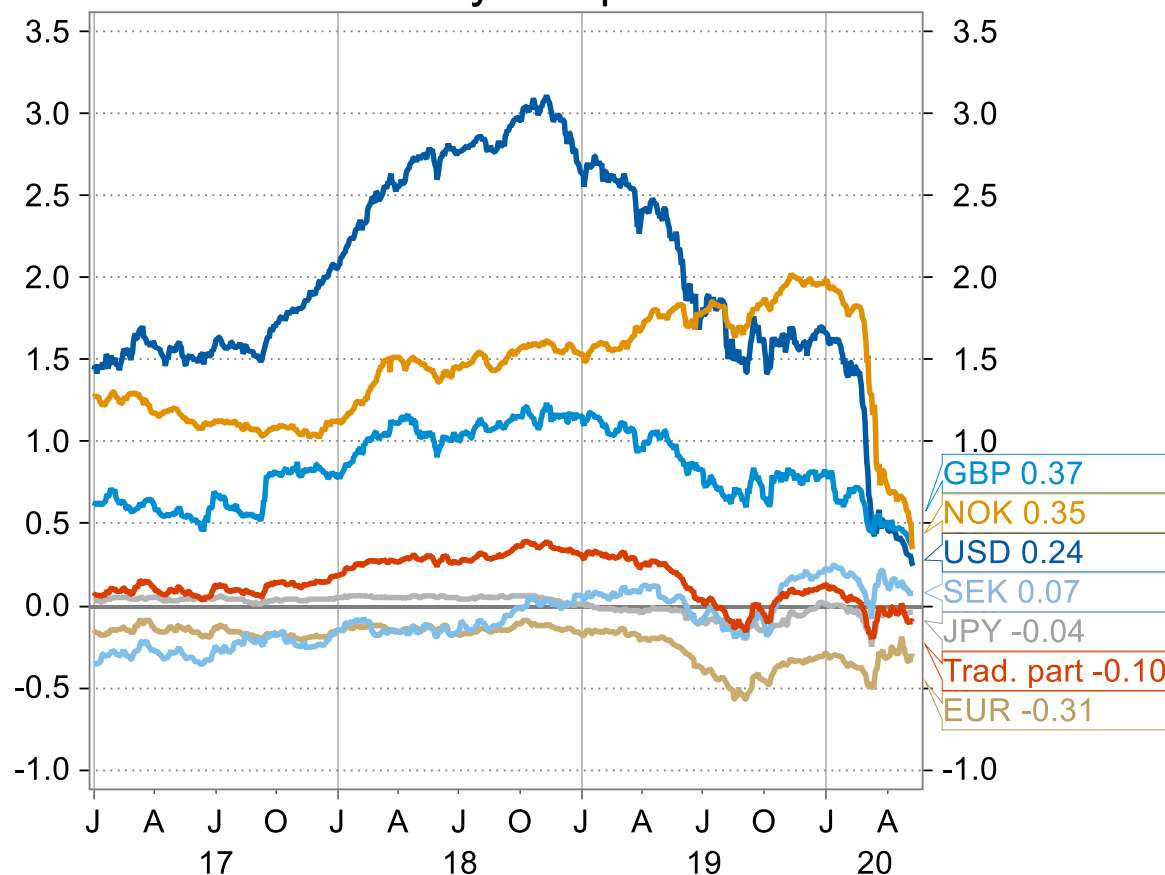
... most in the US and Norway. The NIBOR spread down to 28 bps



## NOK short term interest rates fell more than abroad, thanks to Norges Bank

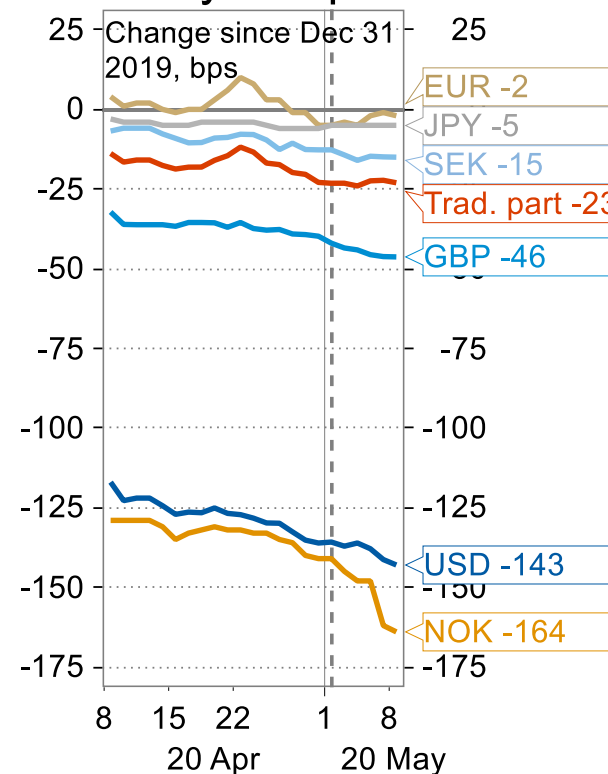
The 2 y NOK swap rate fell 23 bps last week, 'the others' +3 to – 7 bps

### 2 y swap rates



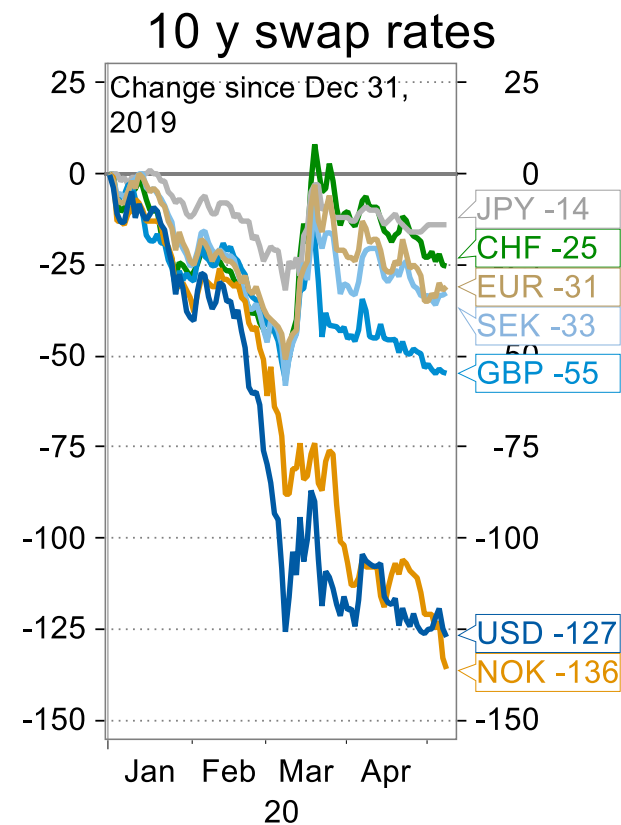
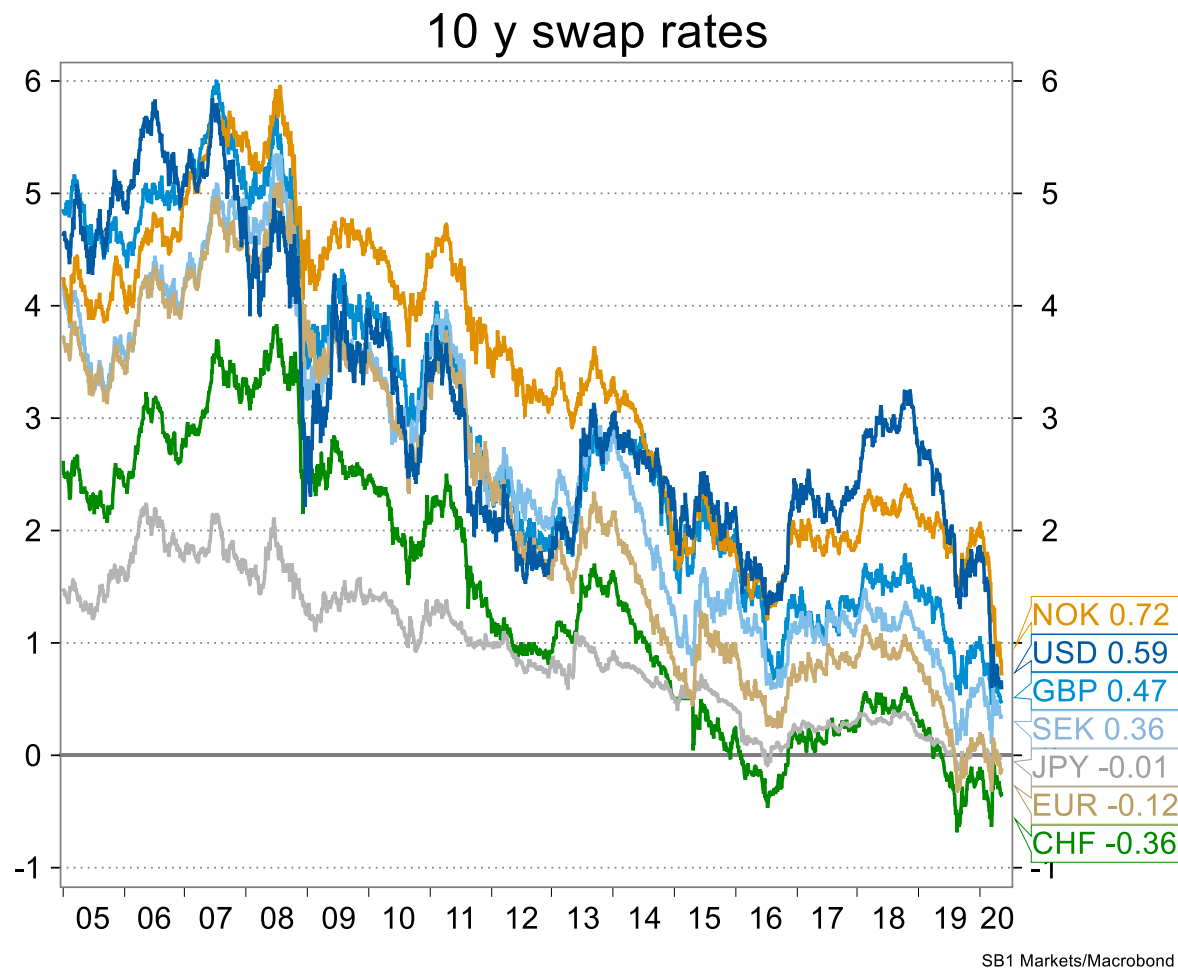
SB1 Markets/Macrobond

### 2 y swap rates



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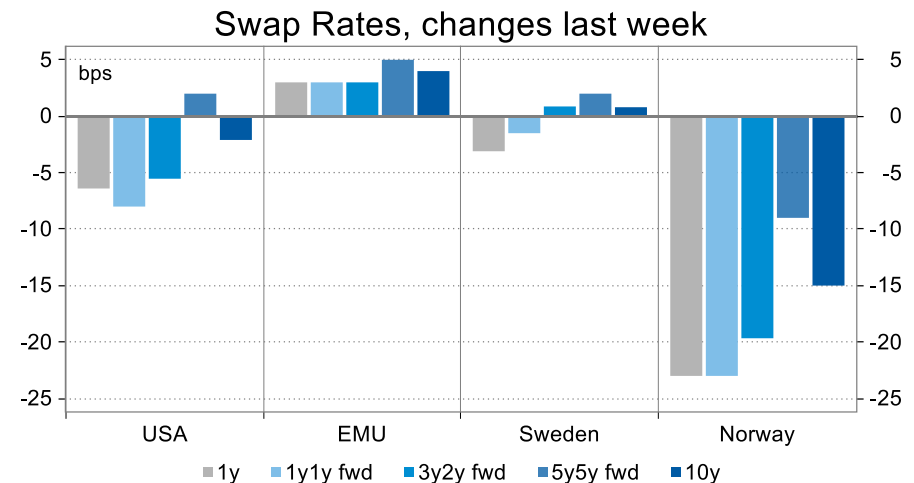
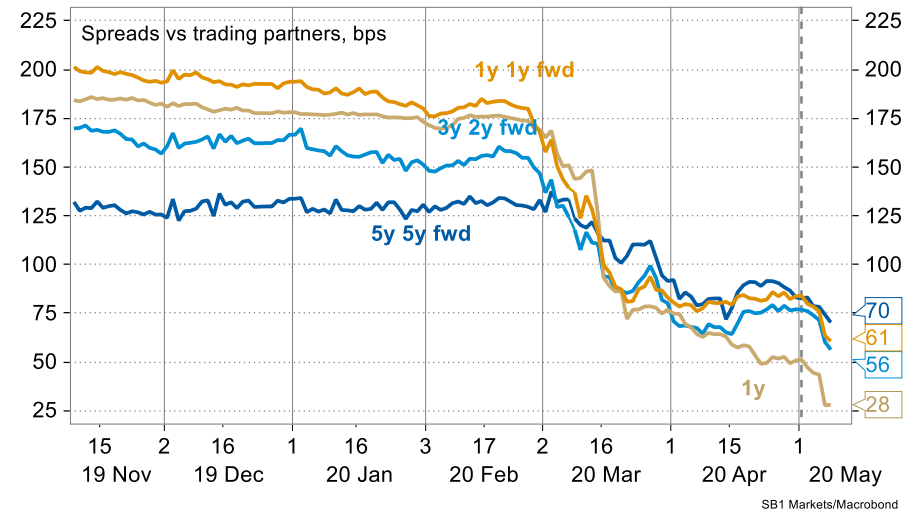
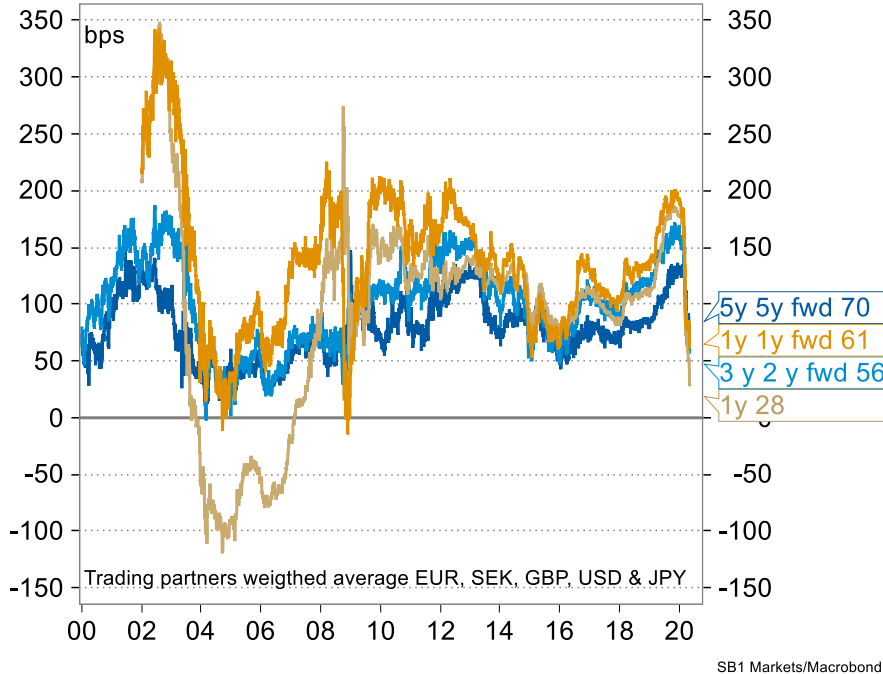
And the winner is: Norway. At least last week (as the past two months)



# NOK swap rates & spreads vs trading partners sharply down following NoBa's cut

Spreads are still somewhat too wide in the long end but it is not a one way bet anymore

Norway vs trading partners, impl swap spreads

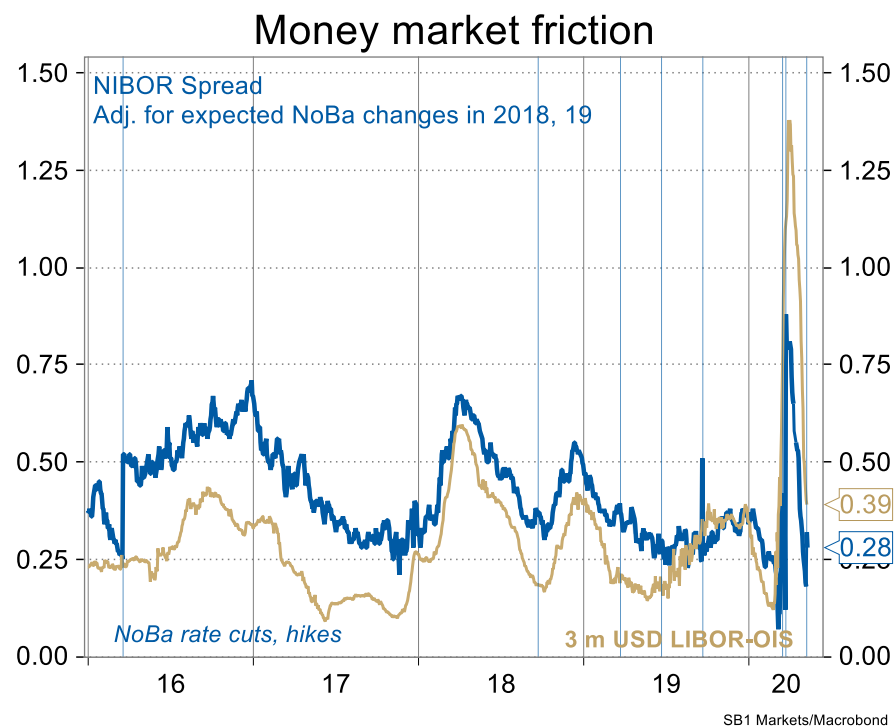
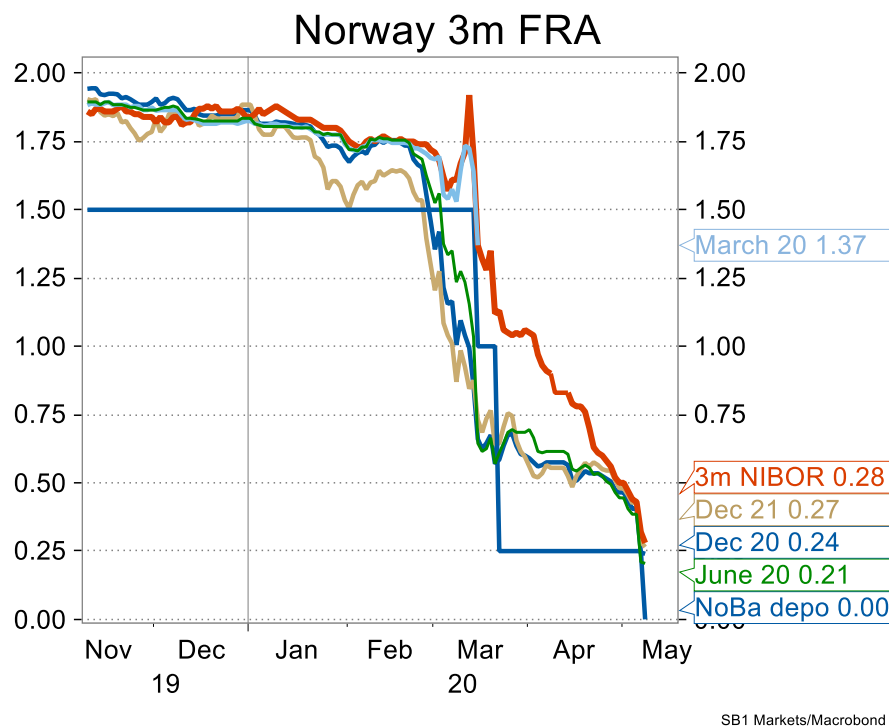


- A steep journey back home. Spreads vs. trading partners have fallen by some 125 bps since early 2020
- We think the current level is far more correct than where we came from. Still, spreads are not too narrow yet – but the downside is not that large anymore



## Norges Bank delivered it's final cut? Probably

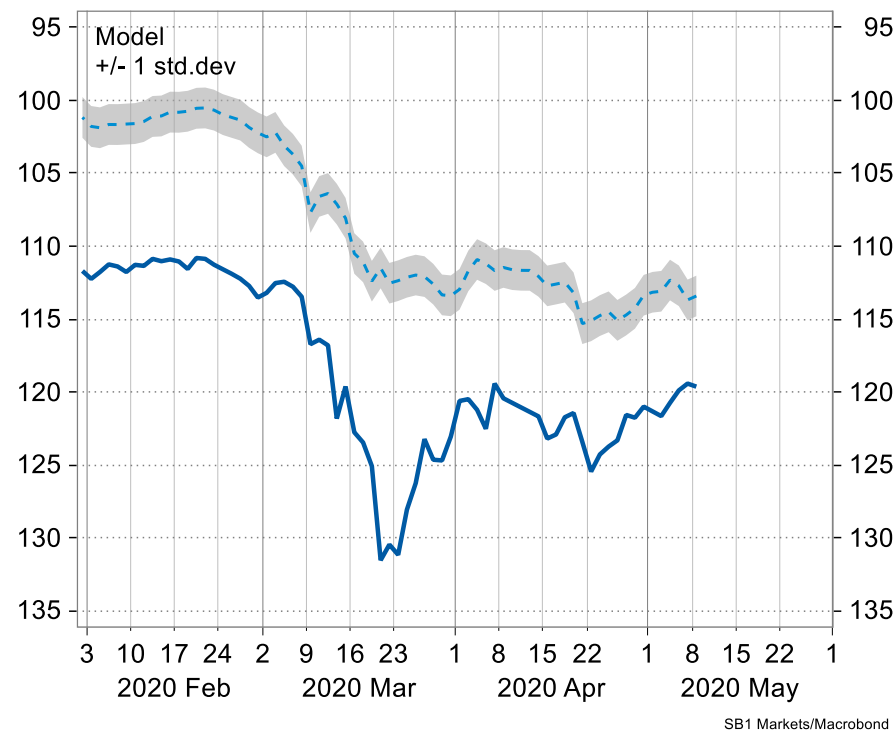
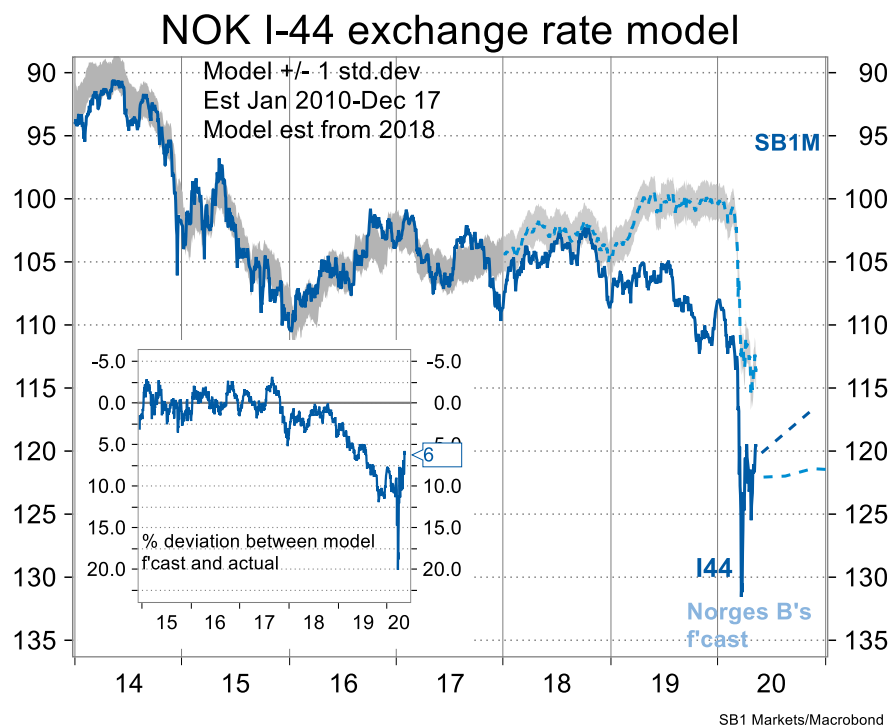
FRAs fell more than we assumed, given a cut – probably due to tighter spread expectations



- NoBo's cut to zero pushed the 3 m NIBOR down 11 bps to 32 and then to 28 at Friday – a reasonable response to the cut, which was approx 50% expected
- The decline in FRA by 10 – 15 bps down to 21 – 24 bps was far larger than we assumed. Does the market expect NoBa to cut below zero, or is the NIBOR spread narrowing?
- We think the latter – and a even more generous F-loan offer may explain the decline. Banks have now borrowed almost NOK 200 bn. The interest rate is equal to NoBa's deposit rate, now at zero, up to 3 months (and at 15 and 30 bps for maturities up to 6 and 12 months). The F-loan offer was prolonged for 3 more months
- The spread in the US money market fell further last week, the 3m LIBOR-OIS spread is now at 30 bps, way down from the peak at almost 140 bps

## NOK up 1.4% last week, the model said flat – and the gap is closing

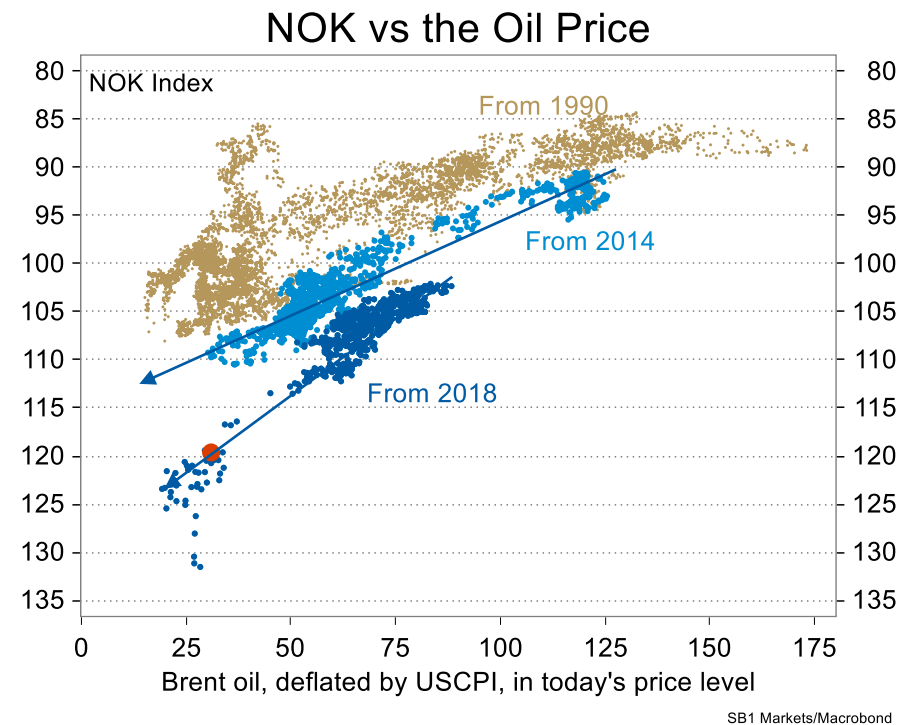
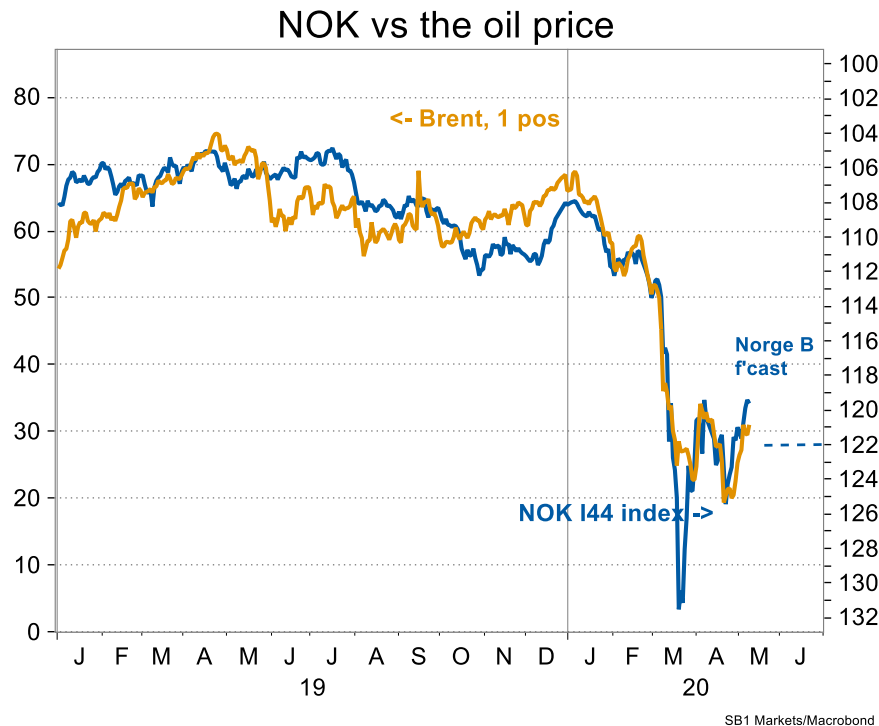
The gap vs our old model narrowed to 6%, the lowest since last summer



- The Norges Bank cut and a sharp contraction in interest rates spreads did not hurt the NOK!

# The NOK is where the oil price is

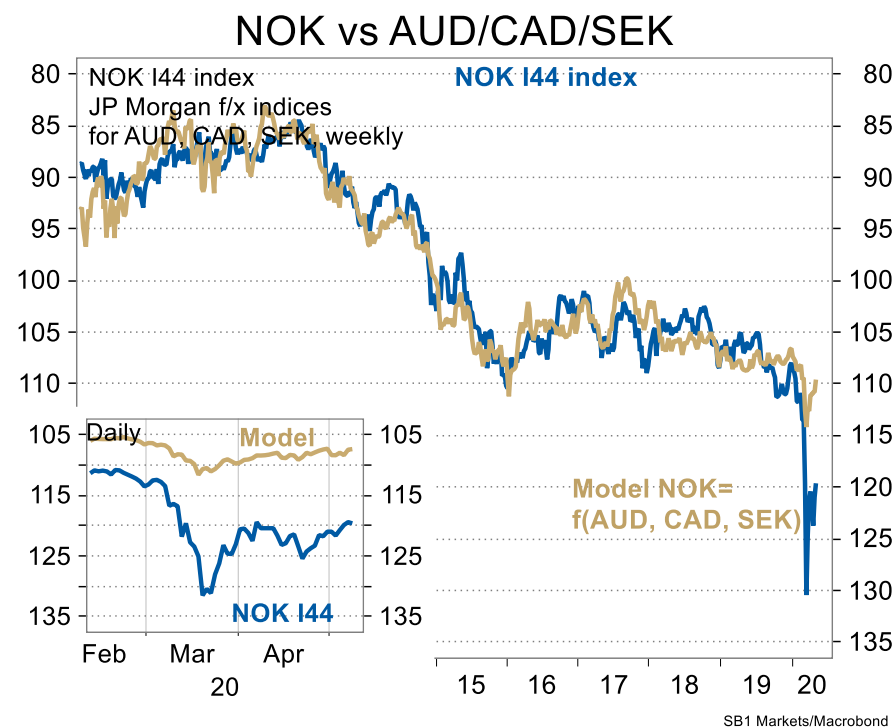
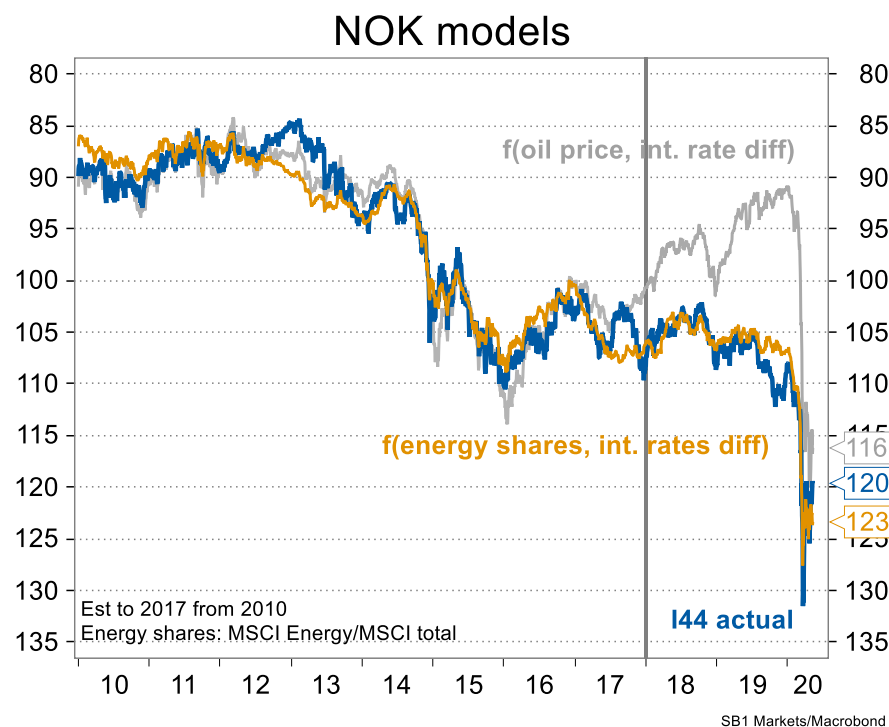
... vs the short term relationship since 2018



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

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

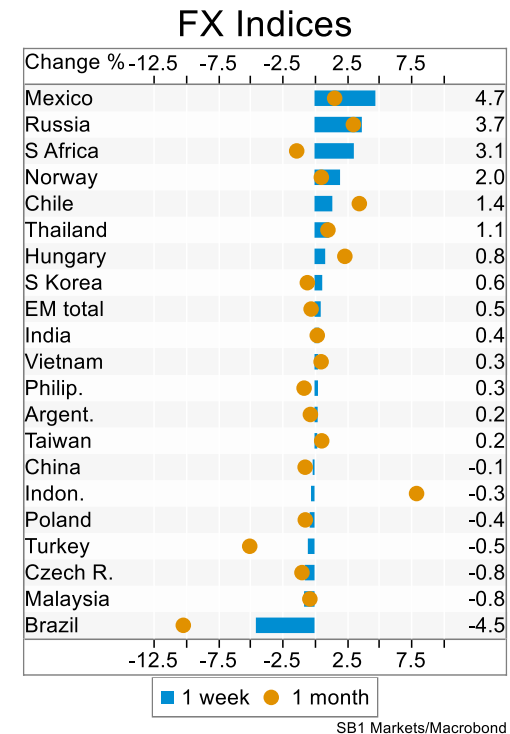
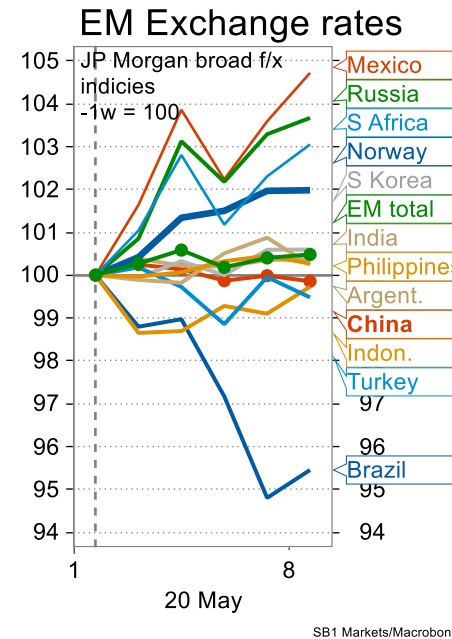
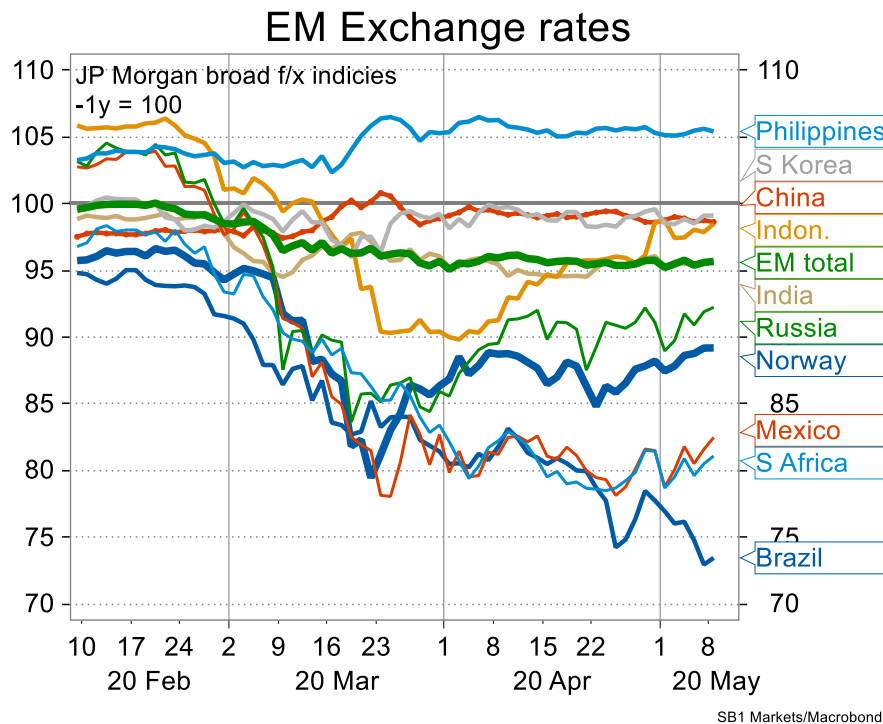
NOK is more than 10% too weak vs the 'supercycle' model but in line with the 'oil equity' model



- 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 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

# The Brazilian real is still struggling, down 5% last week, -10 last month -25% last y

Mixed among other EM currencies – most up last week and since late March

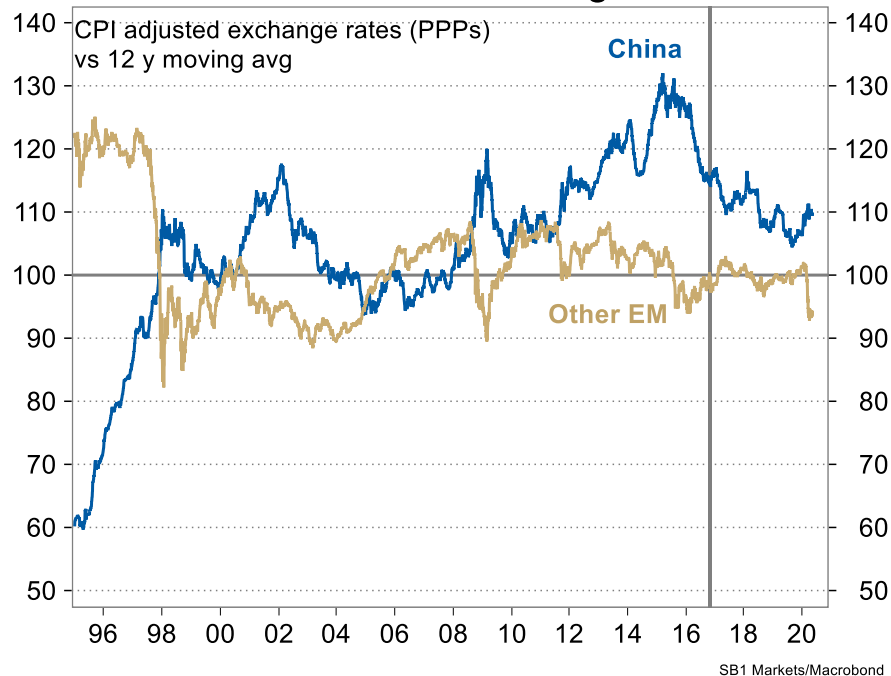


- The Chinese renminbi is still quite stable – even if trade war worries are mounting again

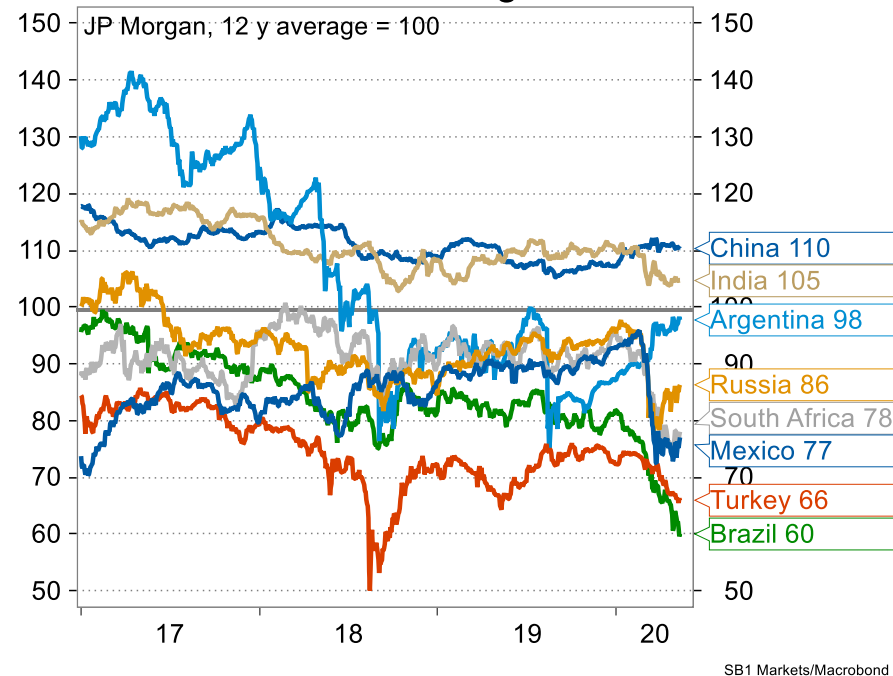
## EM currencies ex China down 7%, almost all down, barring Argentina 😊

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

### China, EM real exchange rates



### Real exchange rates



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