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Macro Research

Weekly update 21/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

The headlines are linked to the relevant section in the report
The elements on the the page "In this report" <u>are linked</u>
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Last week – the main takes

- **Corona restrictions** are being eased almost everywhere, so far without any virus outbreaks – and the arrows are still pointing down. However, some US states are easing even if cases/deaths are still on the way up. President Trump is steadily escalating the **trade war rhetoric vs China**
- **Global auto sales** fell further in April, even if Chinese auto sales rose sharply and are back to pre corona level. Sales fell sharply almost all other countries
- **Chinese** April data were mixed but at least a gradual recovery is confirmed. Manufacturing production has fully recovered but while retail sales, investments and service sector production all continued upwards in April, the level is still well below pre corona trends.
- **US retail sales and** manufacturing production fell more than expected in April, and the first May survey does not formally signal a recover. However, many **short term** indicators are pointing upwards, and May will be better than April. **Unemployment** is heading upwards, new jobless claims are heading down but still equals 2% of the labour force, per week! **Fed's Powell** does not signal optimism about the short to medium term outlook
- **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**, the Government proposed a very expansionary revised budget. The government support to the economy, mainly as transfers to the private sector equals 7.5% of mainland GDP, of which more than two pp are due to automatic stabilisers, not budget measures. The budget numbers are far more uncertain than normal. **Mainland GDP** fell by 2.1% in Q1, and by 6.9% in March alone, marginally more than SSB estimated three weeks ago. Households' service demand fell sharply but all demand components contributed to the decalin (but net exports rose). **NAV total unemployment** declined for the 4rd week in row, by 19' equalling 0.7% of the labour force, and it is now down 60' –or 2% - from the peak. The number of fully unemployed is falling even faster but the number of partially unemployed is still on the way up. **CPI core inflation** at 2.8% was much higher than expected in April, partly due to higher food prices, up 4.1% y/y. Electricity & gasoline prices fell, deduction 2 pp from the total CPI

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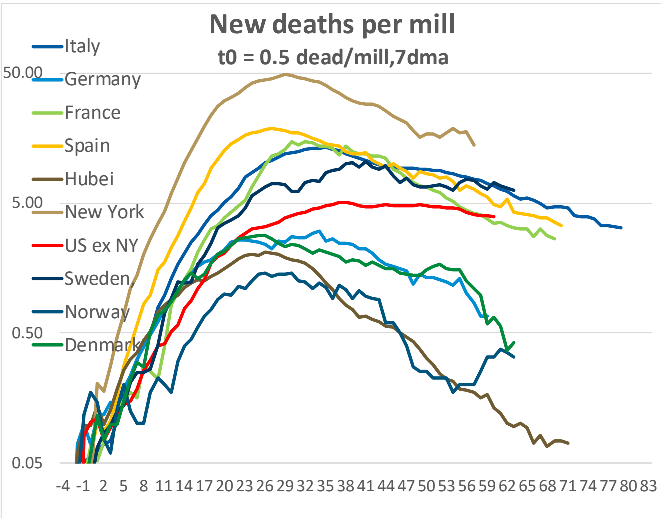
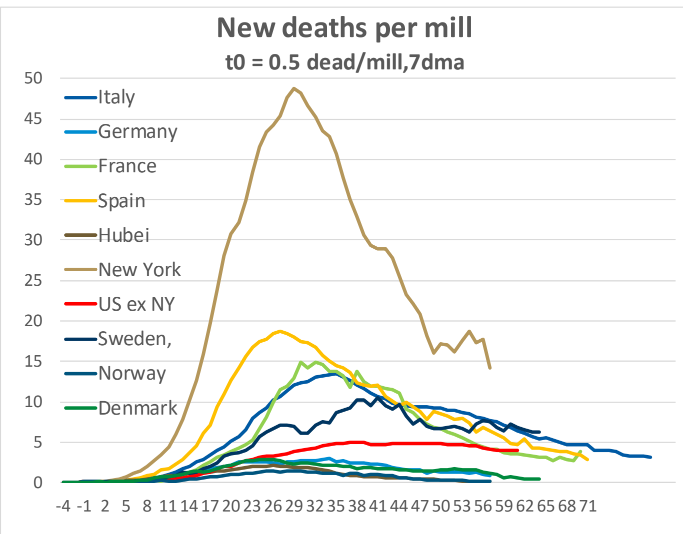
So far, so good – cases/deaths on the way down almost everywhere in DM

No any signs of a 2nd wave anywhere but figures are not ensuring in some US states





- Lockdowns have brought the corona virus reproduction number ‘R’ down to below 1 everywhere (at least where they were reasonable strict). Even in Sweden and in US ex NY (at least in average) the R<1
- Restrictions are eased or will shortly be eased everywhere. So far, we have seen no instances of a second wave – at least at a country level. Some states in the US are now lifting restrictions even if the number of infections/deaths are increasing
  - » Demark eased restrictions a month ago, and Norway shortly thereafter. Still, the number of infections/deaths are on the way down
- 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
- The next few weeks will bring tons of new information about the impact of easing restrictions

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

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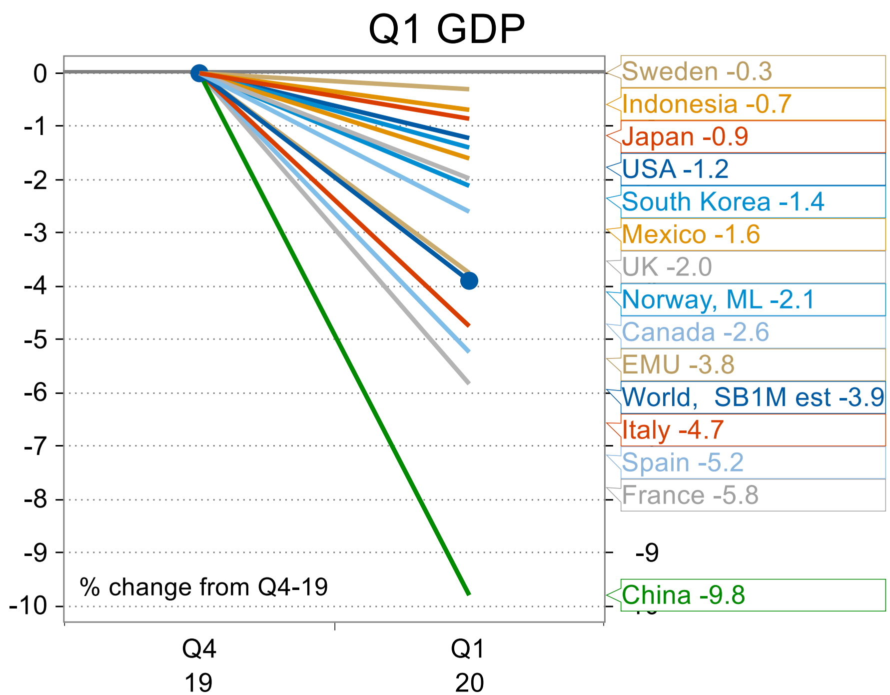
We are getting some numbers – Global GDP down 4% in Q1?

Substantial differences, mostly depending on <u>when</u> the corona virus hit



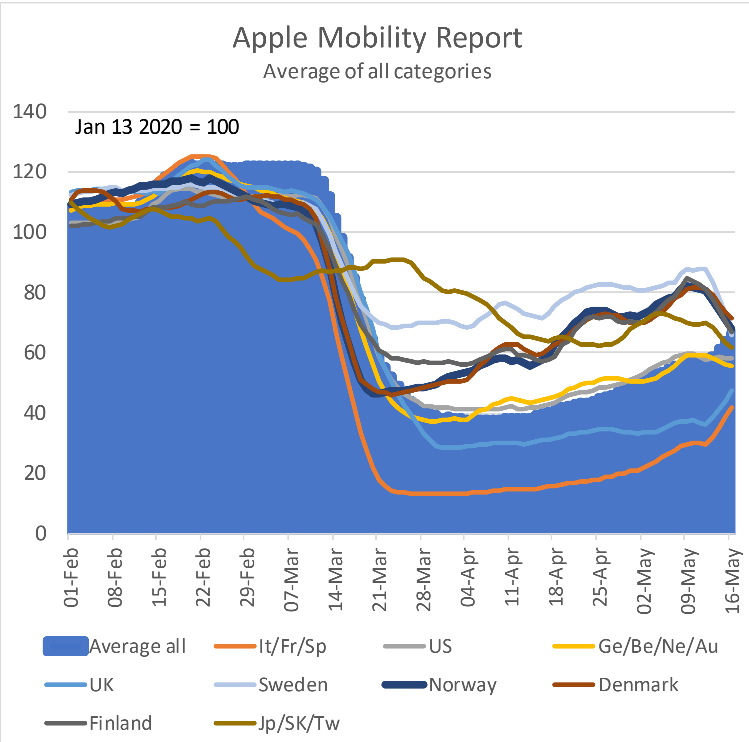
SB1 Markets/Macrobond

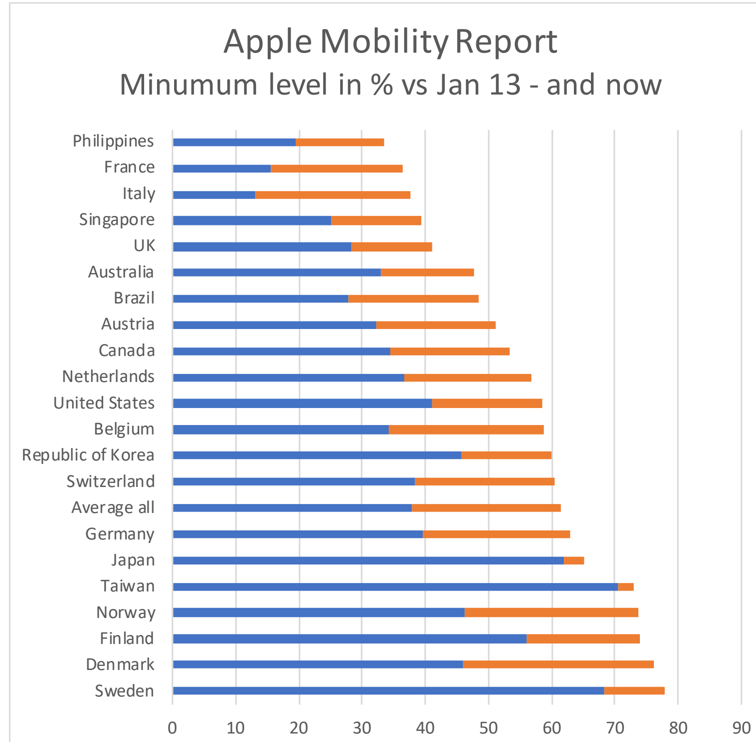
… and when the consequences were taken

- 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
- In the EMU, GDP fell 3.8%, and probably by as much as 20% through March – and more than that in France, Italy, and Spain were GDP fell by 4.7 – 5.8% (preliminary figure, more uncertain than normal, of course)
- GDP in Japan fell just 0.9%, though following the 1.8% Q4 VAT increase induced setback
- UK reported a 2% decline
- Norwegian Mainland GDP fell 2.1% in Q1, Sweden reported a 0,3% drop
- South Korea and Mexico have reported less than 2% decline in their Q1 GDPs
- The Chinese GDP fell by almost 10% in Q1, we expect a 4% recovery in Q2, at least
- We still estimate a close to 4% decline in global GDP, of which almost 2 pp due to China alone.
- China report a positive growth rate in Q2. However, not many other will and global GDP will contract even more in Q2, we now assume 6%

We are moving more around, everywhere

Still, mobility is far from normal levels, everywhere

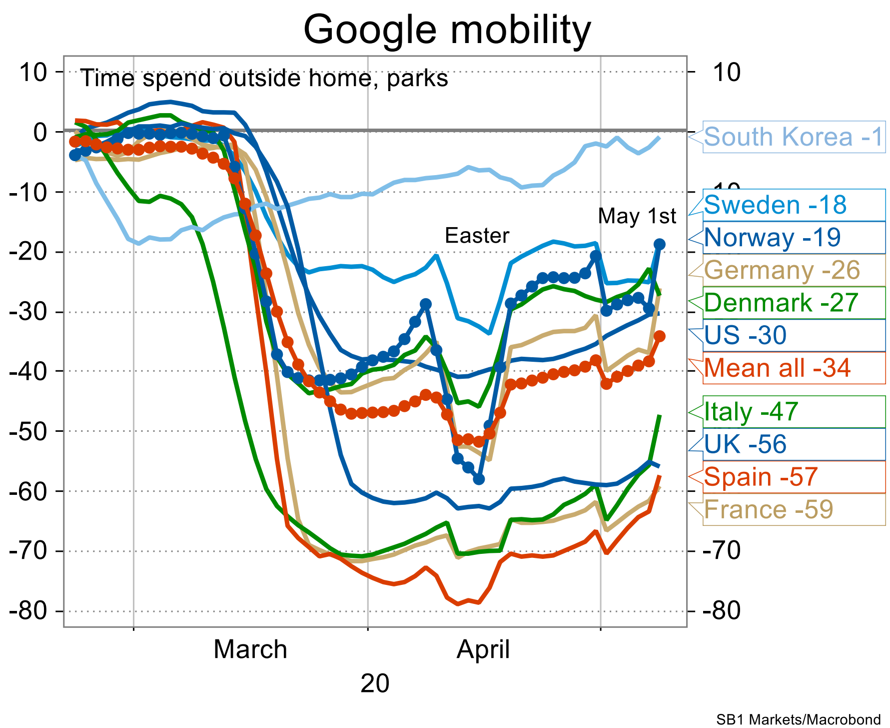


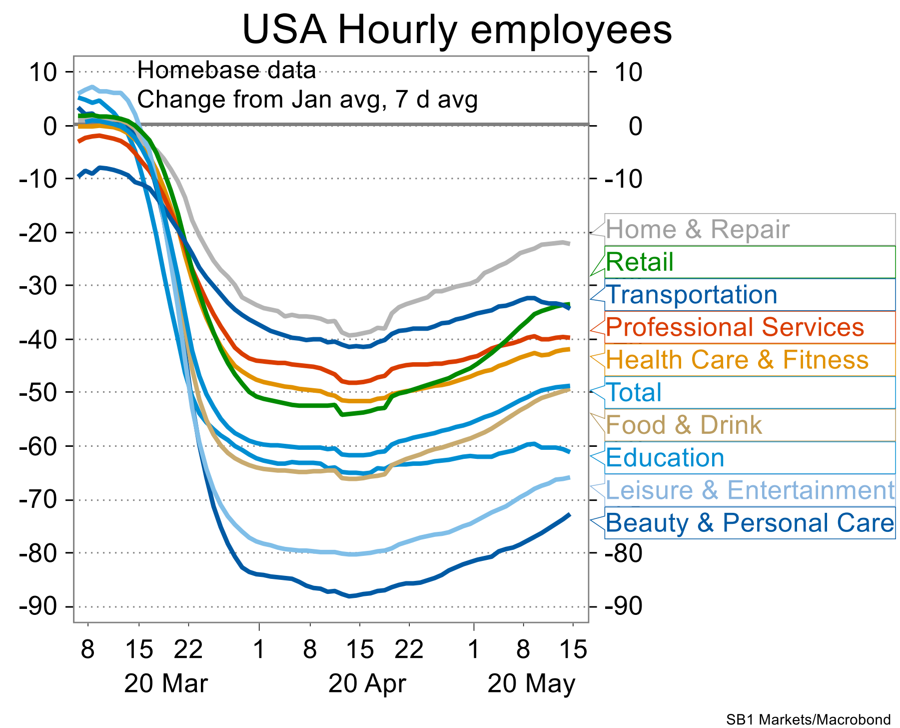


- Map searched in Apple Maps, average of road, walk and public transport searches

Source: Apple Mobility Report. 7 days averages. Data are not seasonally adjusted, we assume mobility normally increases during the spring in the Northern Hemisphere.

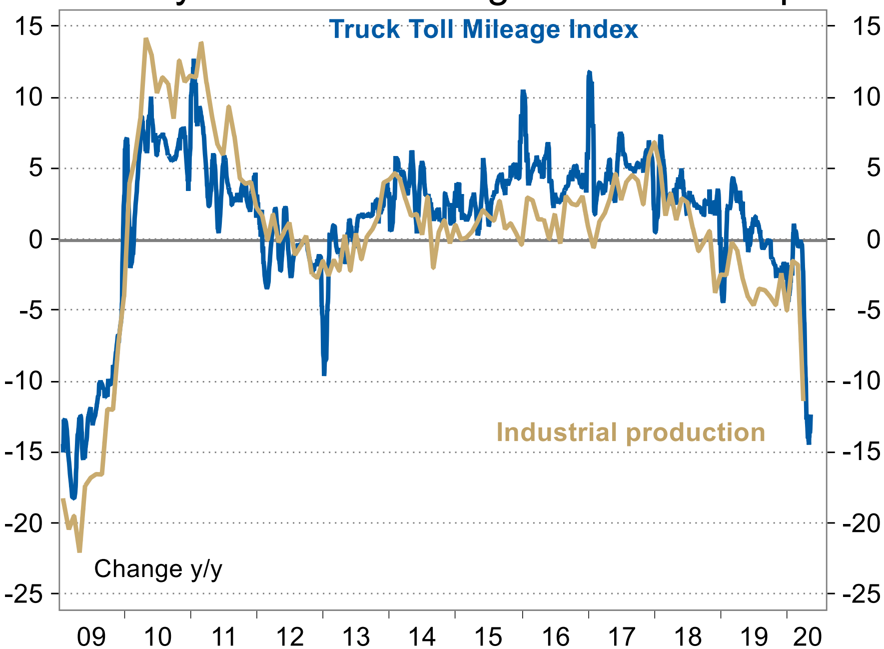
More short term indicators – pointing upwards





Germany is slowly, but steady on the way up – from a 10 - 15% slump

Germany Truck toll mileage vs industrial prod



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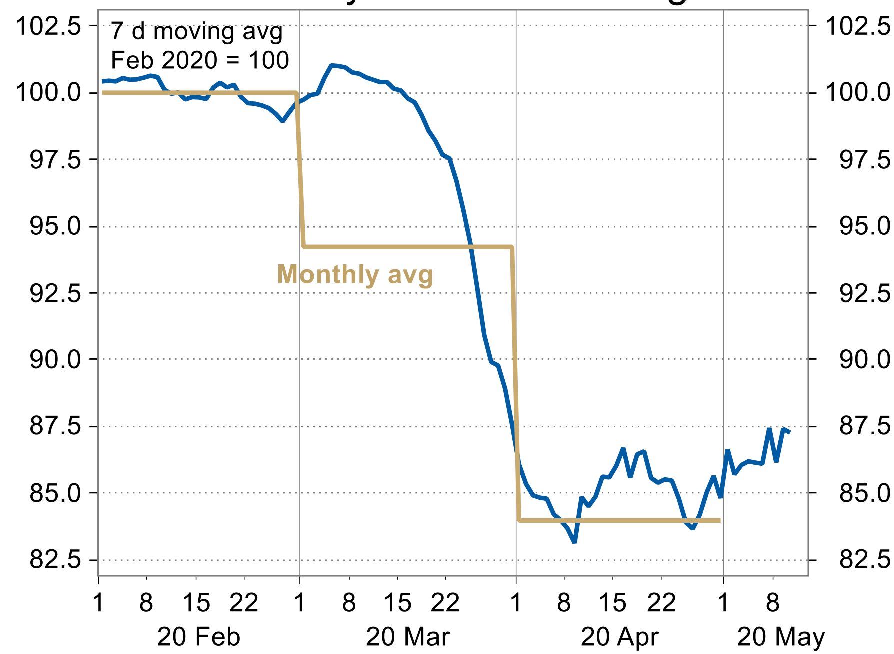
Germany Truck Toll Mileage



SB1 Markets/Macrobond

A new IMF global trade tracker report slowing activity, even out of China

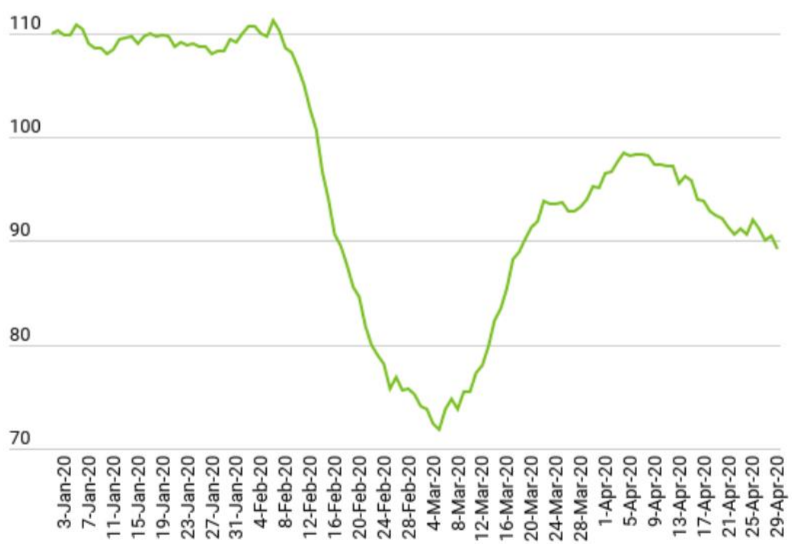
Vehicles transport most down (45%), dry bulk, oil/chemicals still strong

Real-time trade effects

Daily estimates of trade volumes can help reveal country-level patterns that may not always show up as crisply in monthly data…

China's Export Volume

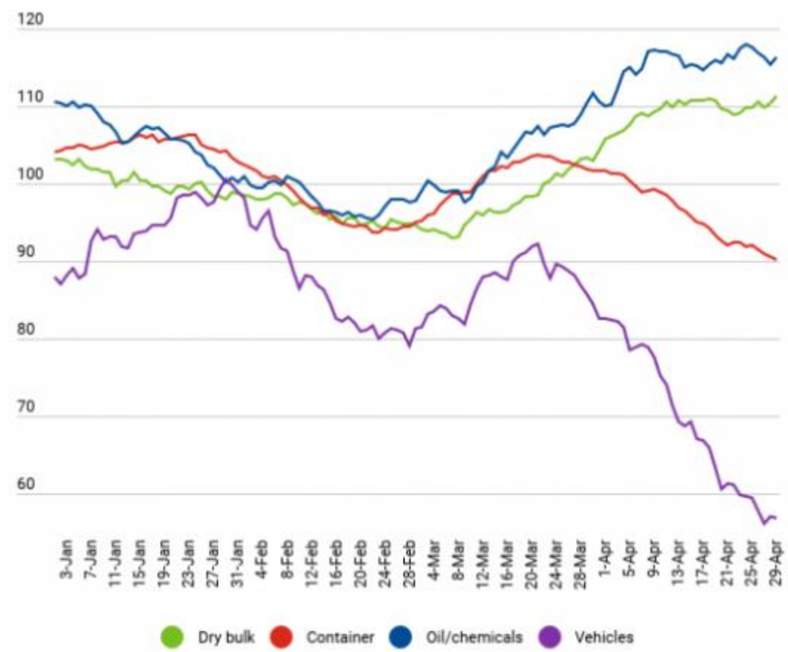
(estimated exports relative to 2017-19 average)



…while at the global level, real-time estimates of world trade for exports and imports reveal the relative weaknesses.

Exports

(Real time estimates of world trade relative to 2017-19 average)

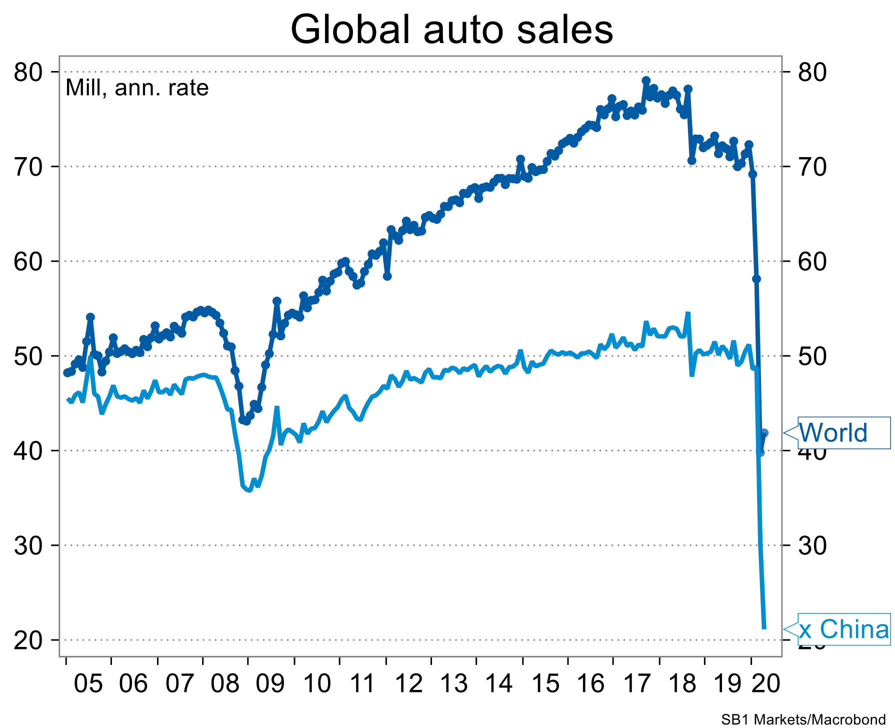


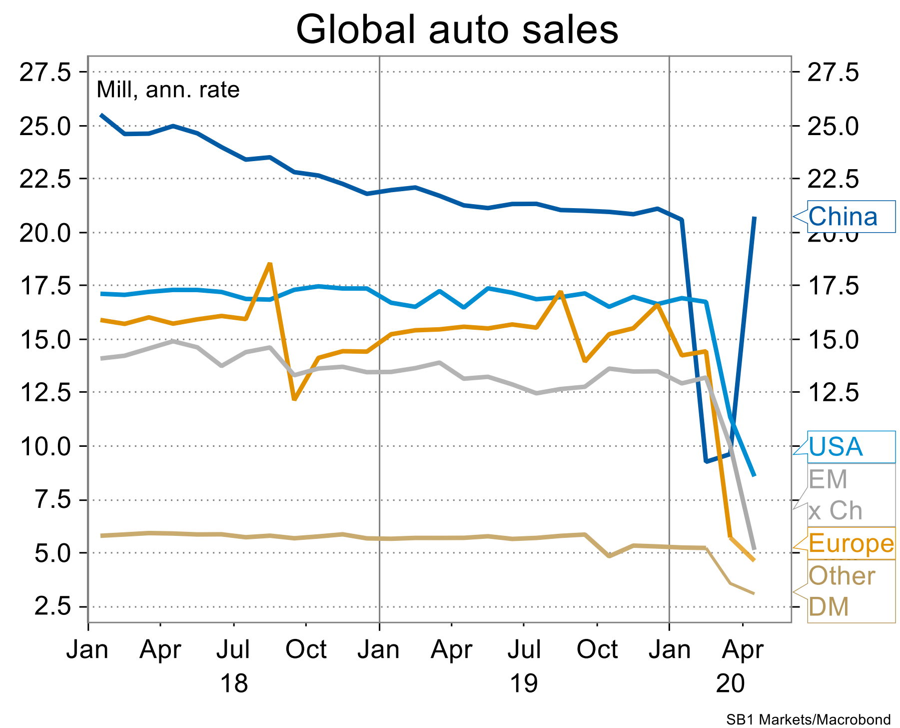
- The daily tracker is based in ship movements (AIS measured)

https://blogs.imf.org/2020/05/14/tracking-trade-during-the-covid-19-pandemic/#post/0

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

Chine sales rose to a normal level, are now equalling 50% of global sales! Other EMs ¼ of China





- Chinese April auto sales were confirmed up as we reported last week as sales rose to 21 mill from 9 mil. In the rest of the world, sales fell sharply, and they are not down almost 60% from the pre corona level, at 21 mill

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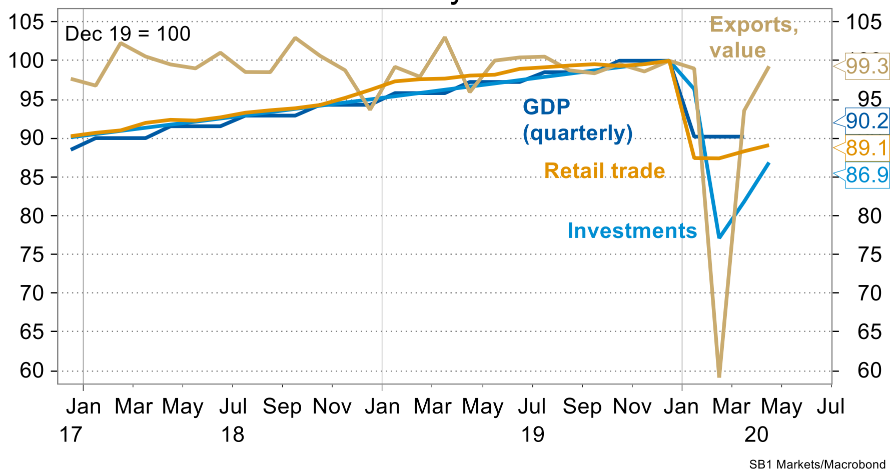
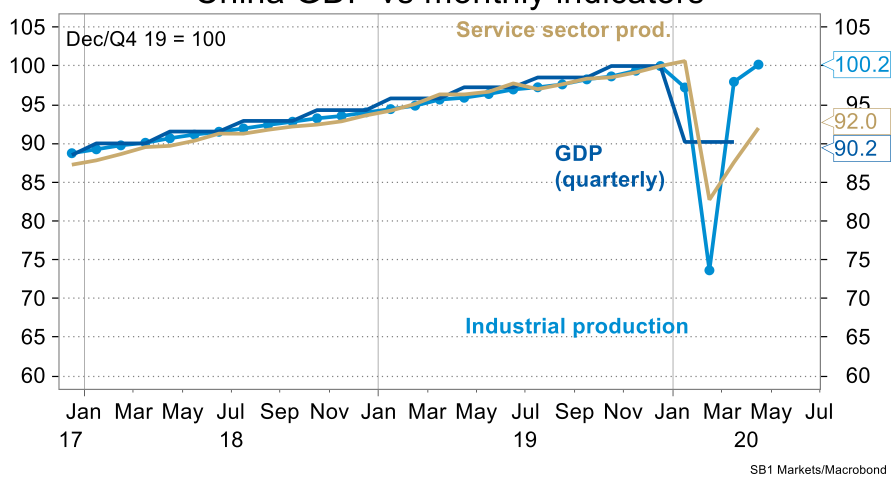
April retail sales, investments up but still lagging. Not production & exports

Sales, investments marginally below expectations, production well above, exports too

China GDP vs monthly indicators - demand



China GDP vs monthly indicators



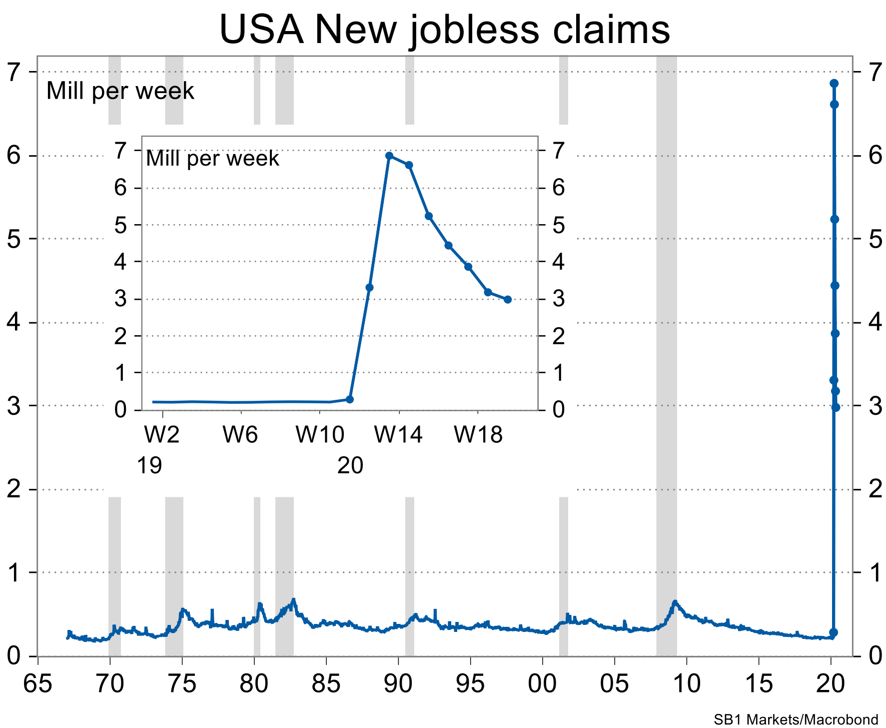
- **Industrial production** rose 2.3% m/m, and was up 3.9% y/y, expected 1%. Production is just 2% below the pre corona trend
- **Retail sales** rose just 0.8% m/m in April, and are still 7.5% down y/y, expected -7%. Sales are some 12% below the pre corona trend path. However, auto sales are confirmed back on track
- **Investments** rose another 6% in April but remains 14% below the pre corona trend path. Housing starts & sales are almost back to the December level
- **Service sector** production rose 5% in April, as in March but still remains 8% below the December level (and -4.5% y/y)
- **Exports** were much stronger than expected in April, and not far below the pre corona trend (and even above in volume terms). However, April exports surveys turned south – something is now going on in other parts of the world…
- **Credit growth** slowed in April from a very high level in March, still well above the average pace over the past year, credit is clearly accelerating

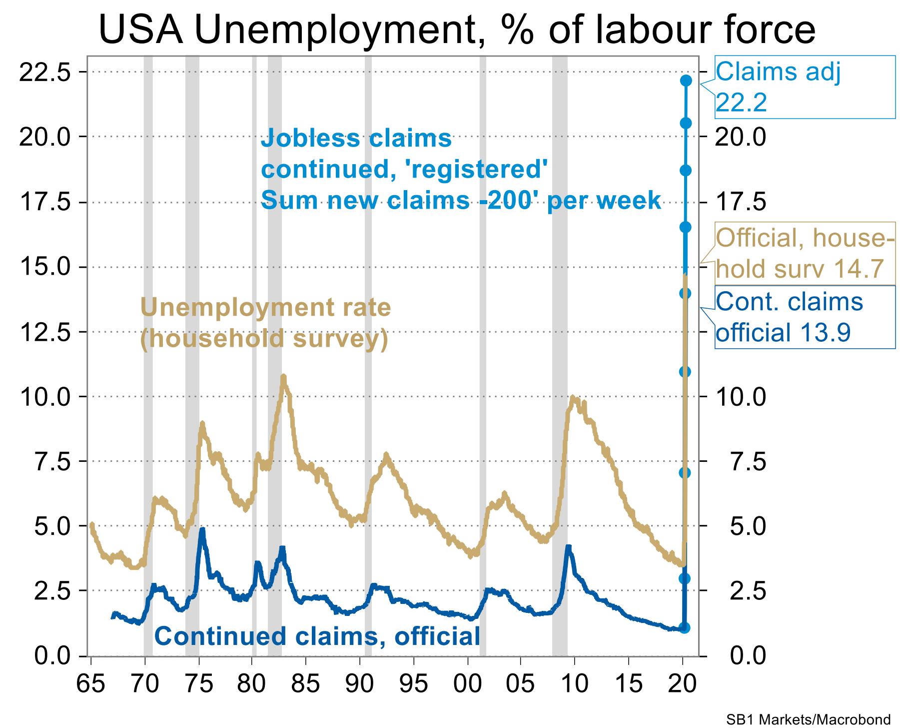
In sum: Final demand must be far below the pre corona trend (and imports have not fallen that much), and industrial sales have fallen vs. production (until March), implying an inventory build up. *Is production boosted too much?*

- **GDP** fell 9.8% q/q, as we assumed almost two months ago GDP fell 6.8% y/y, from +6%. We expect GDP to increase by at least 4% q/q in Q2 (5% is not unlikely, but exports may turn out to become a drag in May/June

'Just' 3 mill new unemployed last week, the sum up 36 mill past 8 weeks

Official claimant count up to 23 mill, probably still many unprocessed applications



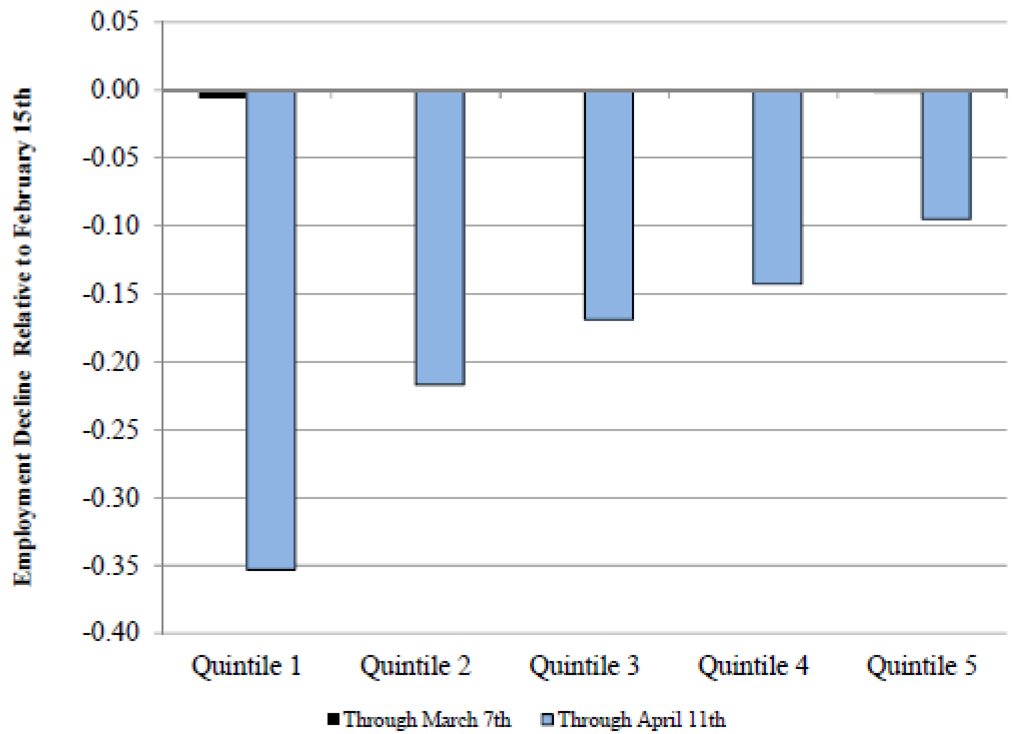


- The inflow is abating, but still 2% of the labour force is entering the labour market offices each week!
- Continued claims have climbed to 23 mill (13.9%). If the weekly inflow is accumulated, the number far higher, equalling 22.2% of the labour force. The 'truth' may be somewhat in between, as many applications are not yet processed – and some applicants may have found a new job, which they normally do – or have given up

Check this chart: Who have lost their job in the US, by income quintiles

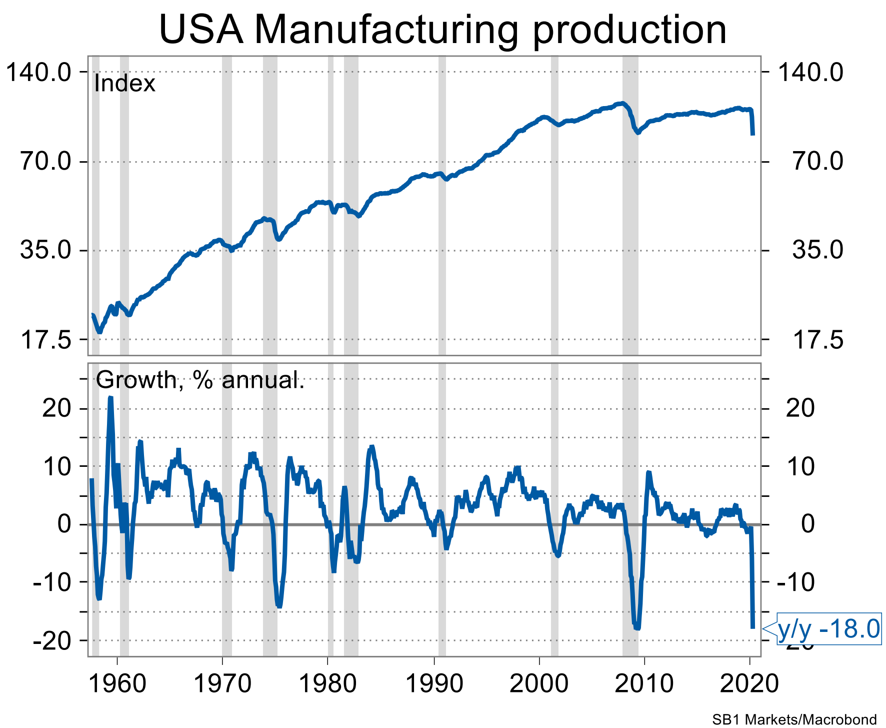
35% of those at the bottom are out of their job, 10% of those at the upper end.
The unemployment rate is some 40% among those at the bottom

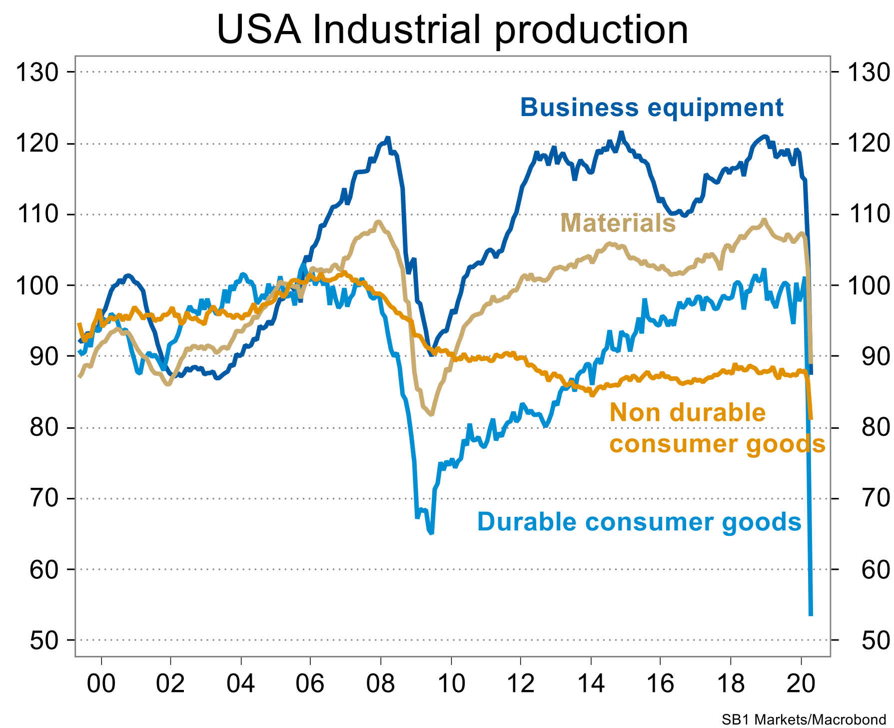
Figure 12: Employment Changes By Initial Wage Quintile



There we are, manufacturing production -13.7% in April, -18.5% from Feb

Just for the record, these two months are weakest since Aug/Sept 1945

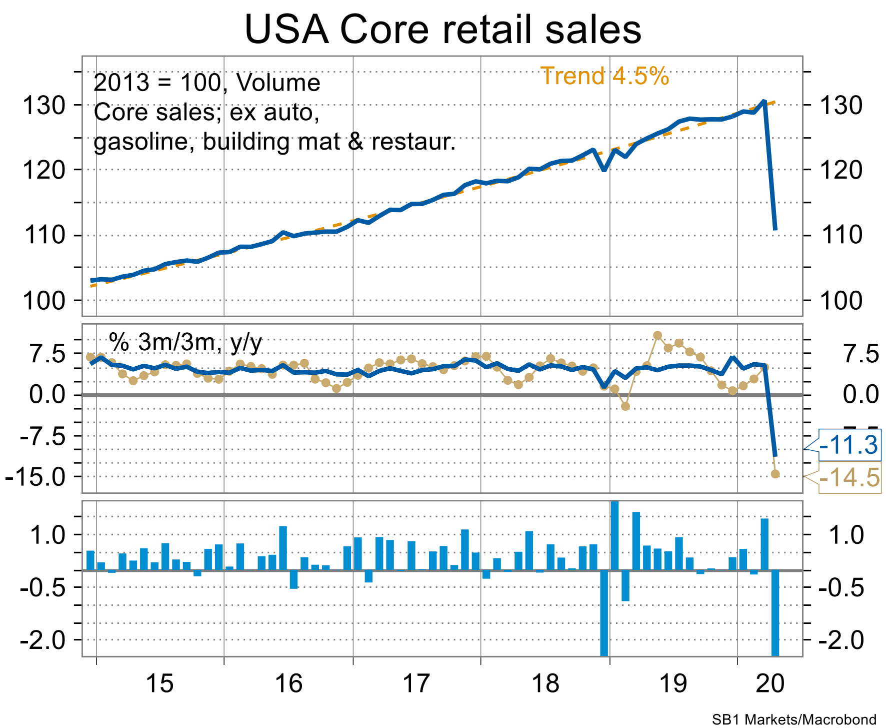


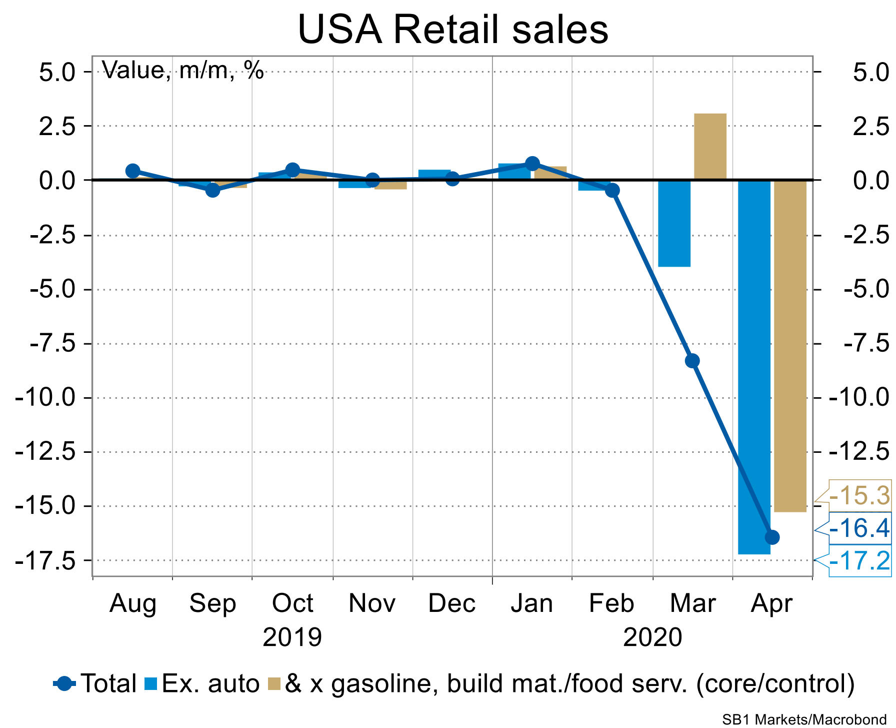


- Production fell slightly more than expected, but the 'catastrophe' was of course well known on beforehand. Most analysts assume that April was the bottom, and that production will recover somewhat in May as production probably did not decline much through April. The first May manufacturing survey, from NY Fed, rose but remains at a miserable low level
- Auto production fell more than 70% in April alone as most factories were closed down, which took durable consumer goods down almost 50% the past two months
- Non durable consumer goods (food, clothing etc) is down 'just' 8% these two months, as food production has more or less been kept up (though with some problems in meat processing)

Retail sales down 16.4% in April. But that was the bottom!

Sales down 23% in March & April, April down 26% y/y. May will be <u>far better</u>

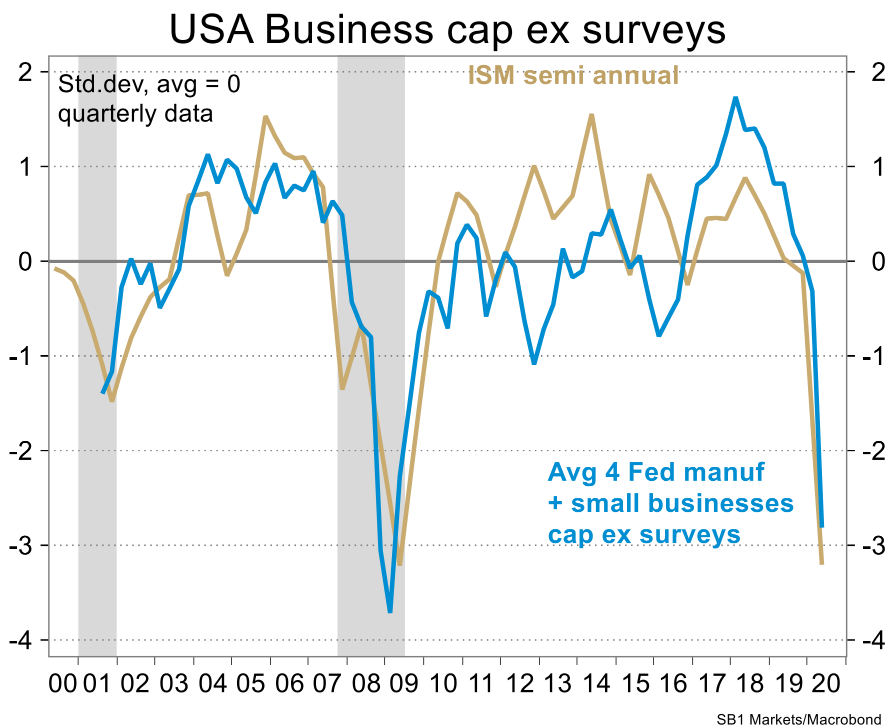


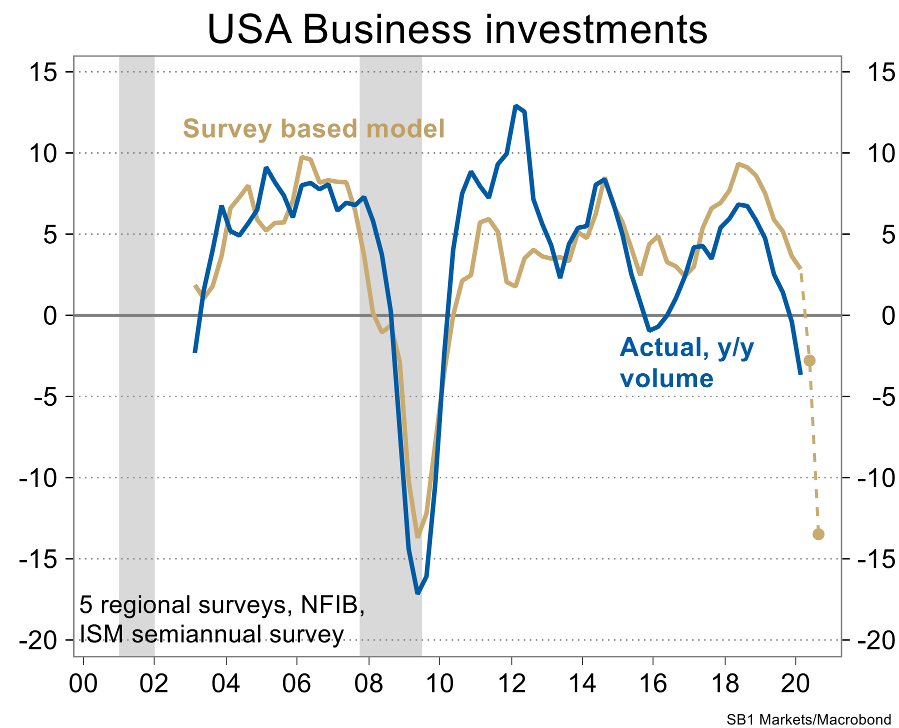


- Sales fell 4 pp more than expected. Still not so shocking. The lockdown closed many retail business, clothing down 90
- Consumption will most likely be heavily impacted by Covid-19, at least in April and most likely in May as well. Never before has so may Americans lost their jobs (13%), and consumer sentiment has never fallen more.

Businesses plan huge cuts in investments

Both ISM's semi-annual survey and regional Fed surveys report cap ex cuts, as during the Fin. Crisis

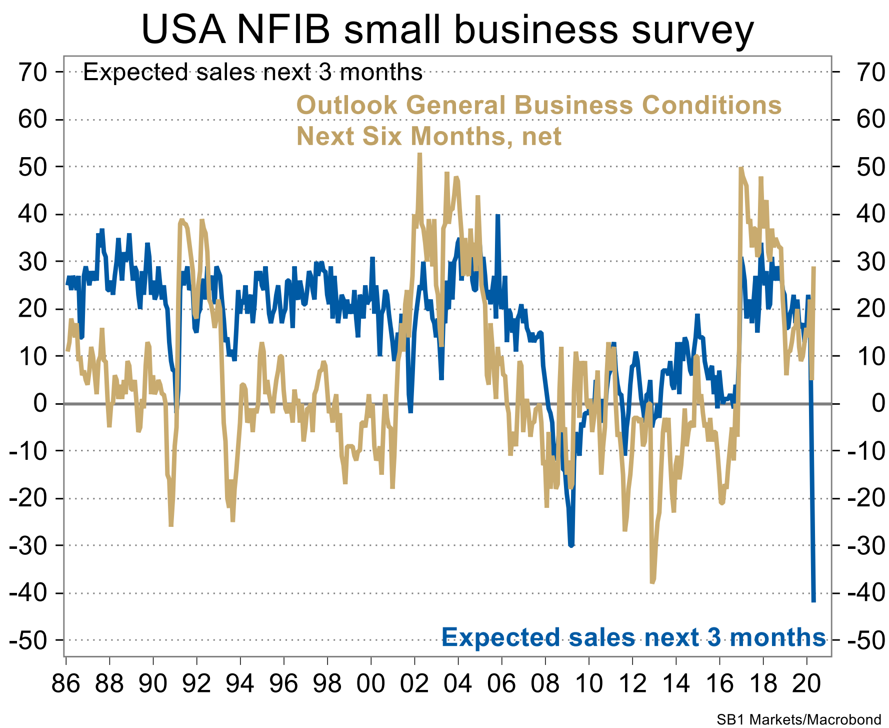


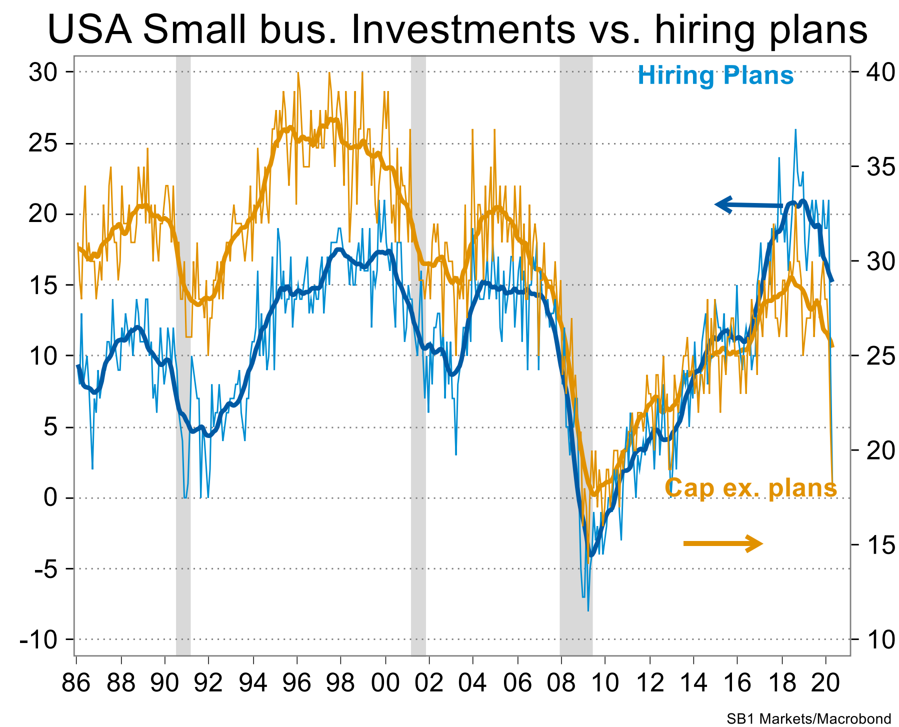


- The decline in the H1 ISM semi-annual survey was quite similar in both manufacturing and non-manufacturing sectors
- A 15% cut in business investments seems reasonable – equalling 2% of GDP, as the direct impact. Some will take place in Q2 but the impact is very likely to be more long lasting

The futures so bright. But first an unprecedented decline in sales next 3 months

Sales expected more down than ever, no hiring, cap ex, price or wage increases. But the outlook…

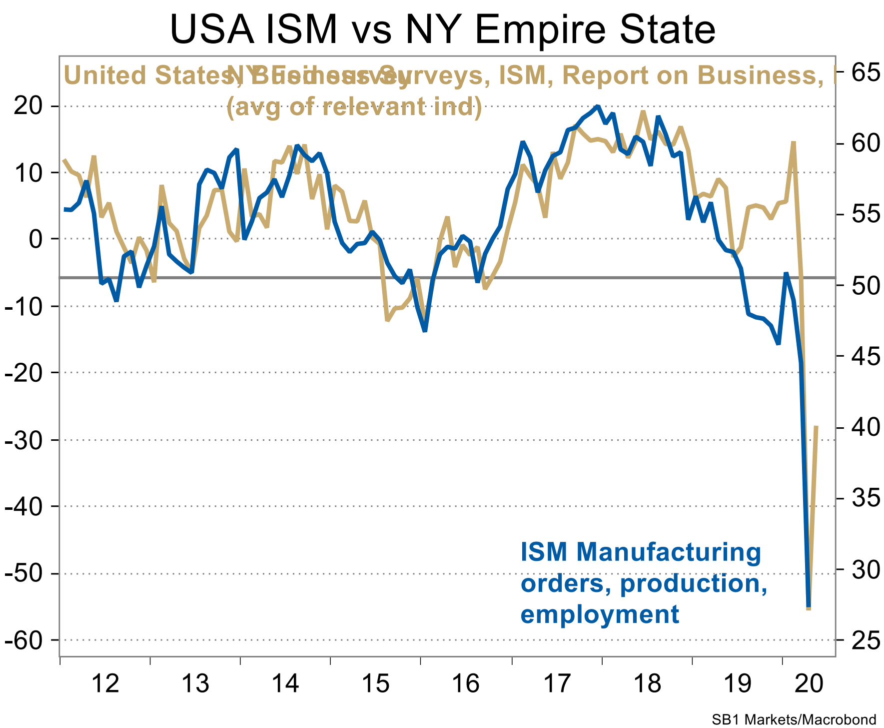




- … The 6 month outlook strengthened!

NY Fed survey up in May, more than expected, less than we assumed

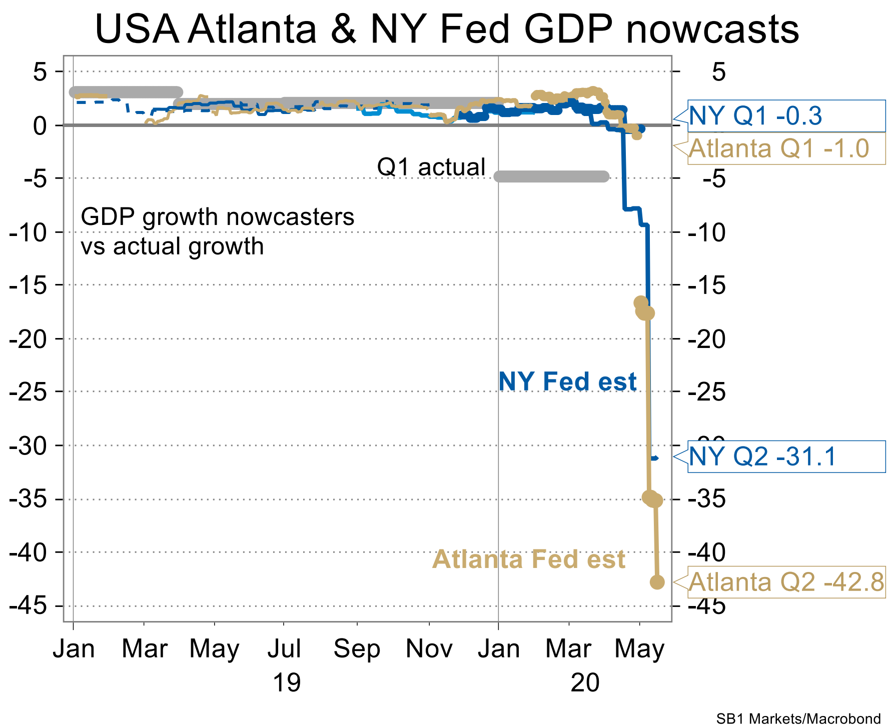
Signals a recovery in the 'real' ISM to 40 from 27. The official ISM might still struggle…

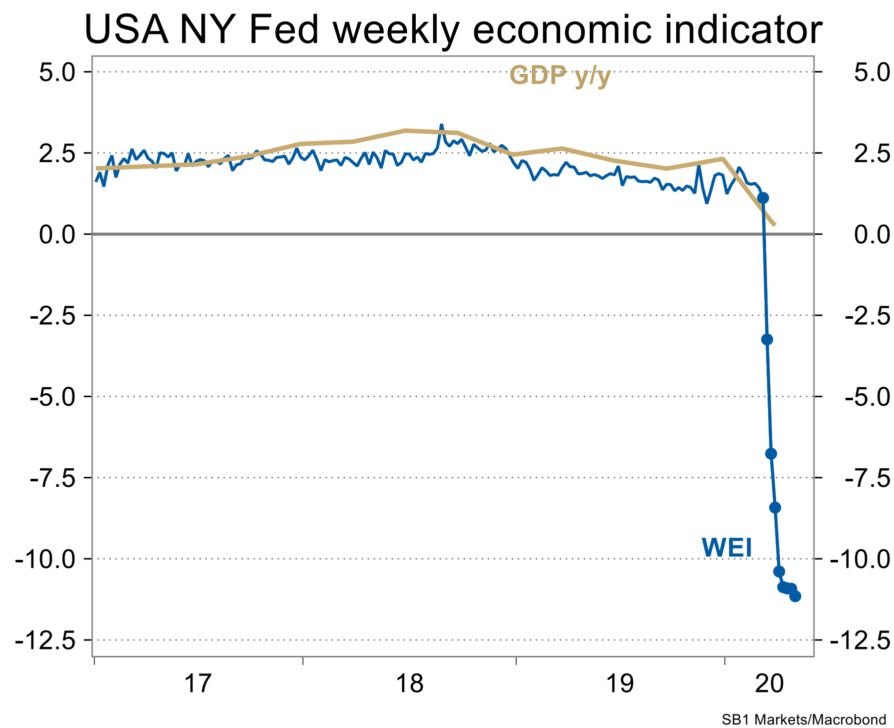


- NY Fed's manufacturing survey rose to -48 from -78, expected up to -68. At -48, the companies are still reporting a fast decline in activity, in principle in May vs April. However, respondents are – at least vs. the actual outcome for US manufacturers in reality reports something like a 3m/3m growth rate in May – which of course is sharply down due to the decline the previous months. The survey usually does not report growth in the first month of a recovery
- The ISM index fell less than it 'should' in March and April, due to a large increase in delivery times (one of the components in the total index), obviously not due to booming demand. The average of activity components in the ISM fell to 27 in April, while the 'official' ISM was at 42. In May, delivery problems probably eased (at least they did in the NY Fed' survey). If so, the ISM index could surprise on the downside as the activity component in the NY Fed survey just rose to 40, ISM calibrated

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

GDP is probably down some 12% from the pre corona level

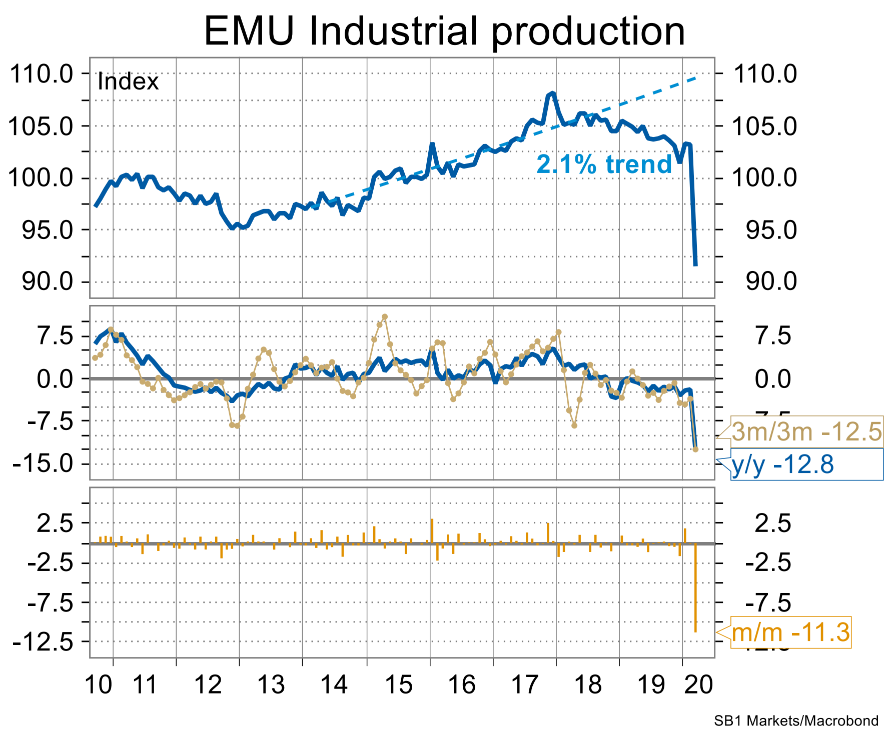


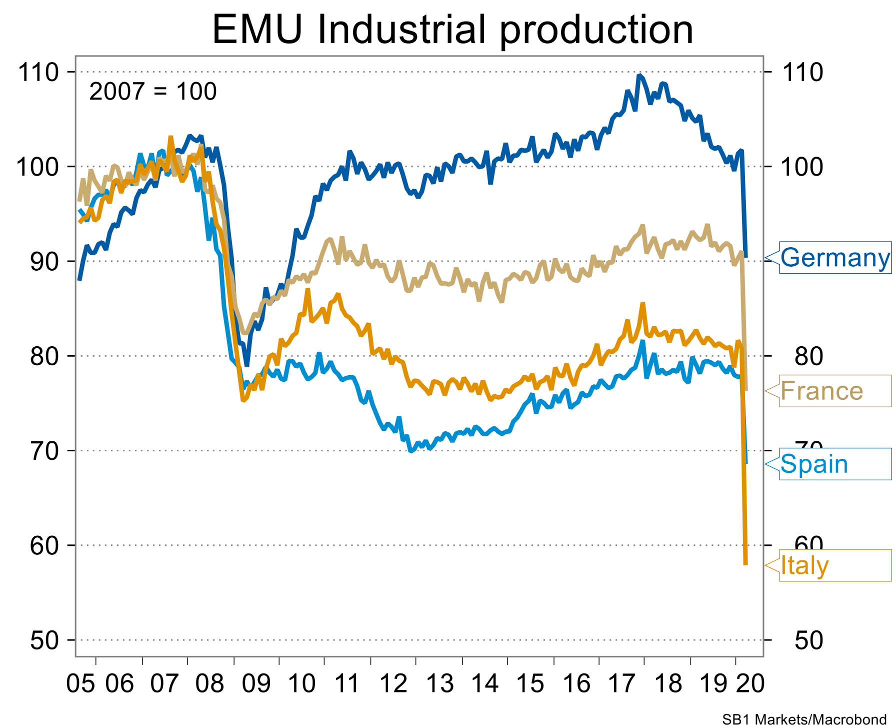


- The NY Fed's weekly economic indicator reports 11% y/y decline. The deceleration has clearly slowed past two weeks (and some 14% vs the pre corona level, as GDP grew through 2019)
- The 'old' nowcasters from NY & Atlanta Fed report a 31 – 43% decline q/q, in annualised terms – equalling a 10 – 13% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 11 – 14% vs the Q4 level

Industrial production down 11% in March. And will decline further in April

Germany, Spain down 11 -12%, France -16%. Italy -28%

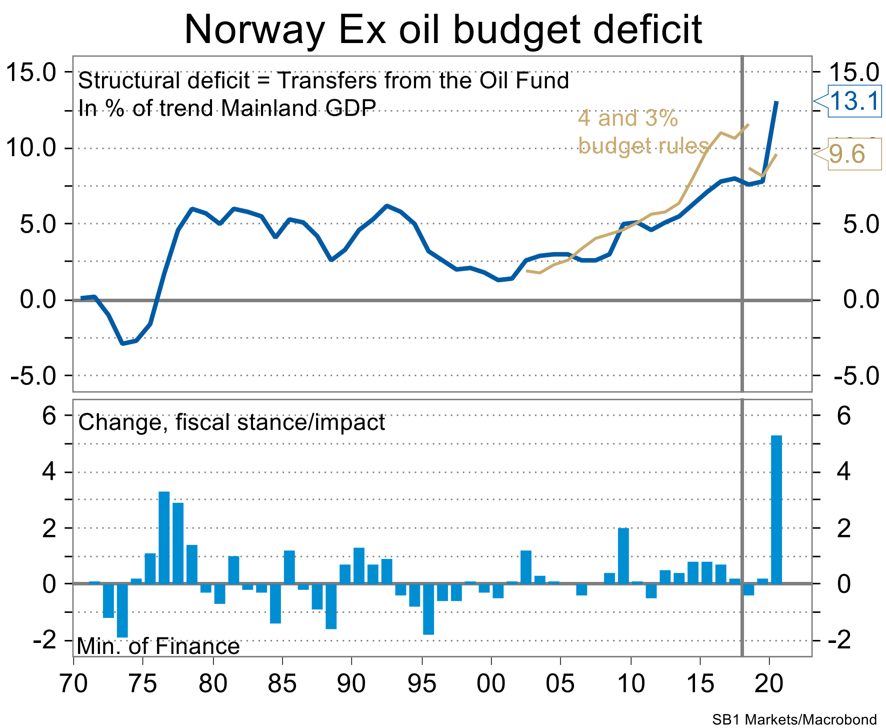




- Production was down 13% y/y in March in EMU in aggregate. April will be much worse, at least 20%. In Italy, where the lockdown started in early March, production is down 28% (but should not decline that much m/m in April

An incredible budget for incredible times

A fiscal boost at 7.5% (gross) of GDP, the government picks up (too much of?) the bill

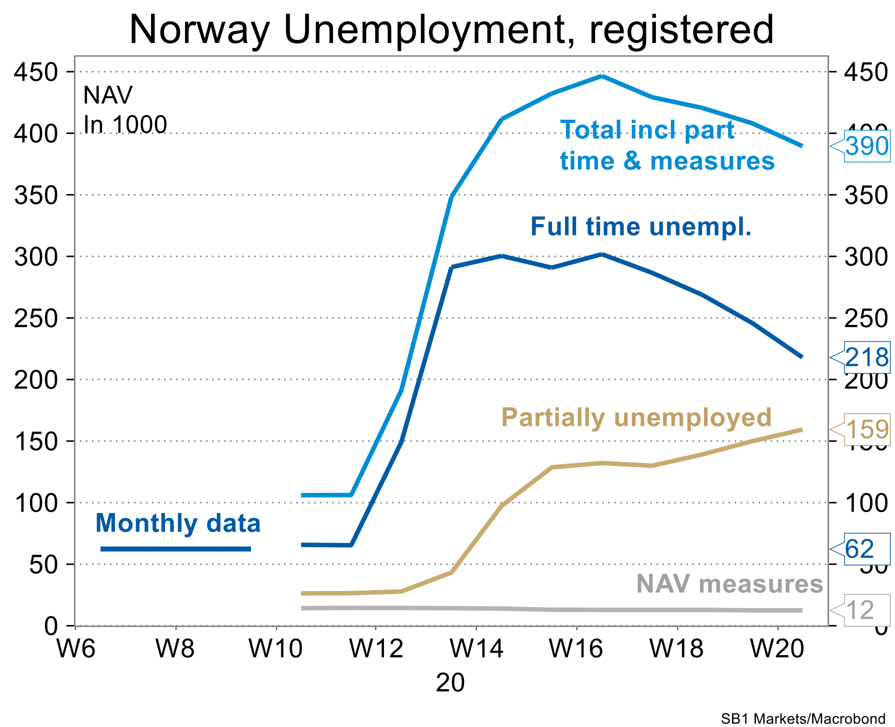


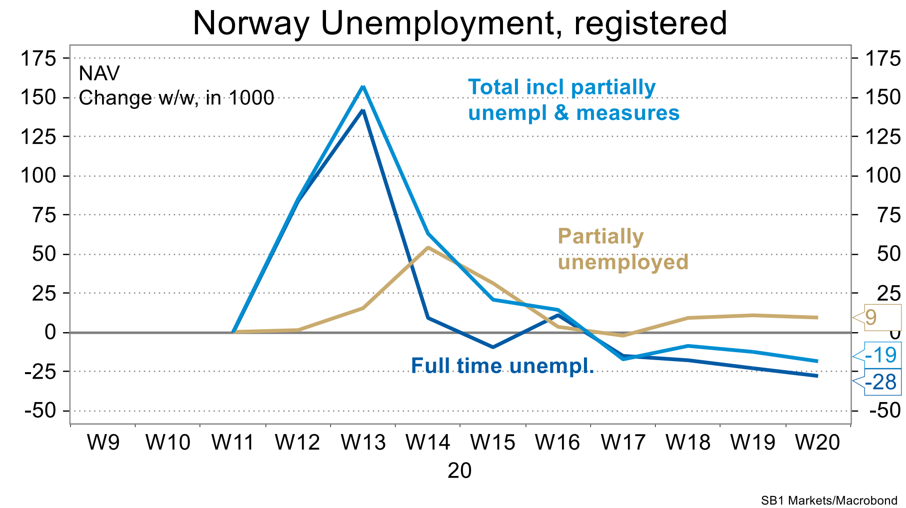
- The budget figures are extreme, as all figures these days:
  - » Measures equalling NOK 157, bn (4.7%) of GDP decided, so far – with huge uncertainties around the estimate
  - » The automatic stabilisers weakens the budget by another 83 bn (2,5% of GDP) mostly due to reduced tax revenues
  - » Almost half of the extra spending is due to support to businesses, 20% support for households.
  - » 12% growth in government expenditures
  - » The non-oil deficit up from 8 to 13.1% of GDP cyclically adjusted ('structural') – a fiscal stimulus at 5.1% of GDP
    - ▪ The actual non-oil deficit is estimated to 15.5%
  - » Oil revenues are sharply cut, due to the low oil price
  - » For the first time since 1993 (!), Norway runs a central government deficit, at almost 4% of GDP!
- The non-oil structural deficit equals 4.1% of the Oil fund, above the long term spending rule 3% target
  - » However, the past 10 years the deficit has been well below the long term spending guideline, and one year of 'overspending' does not signal that the rule is broken

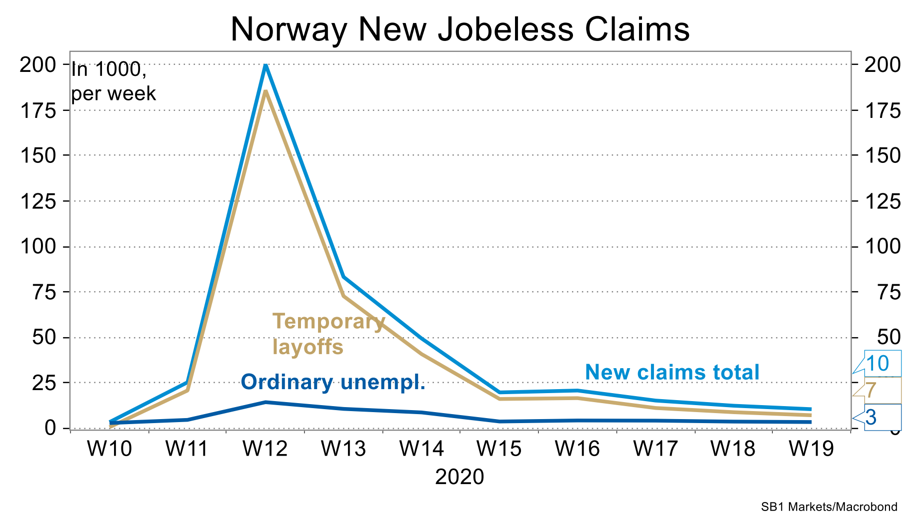
- Mainland 2020 GDP is projected down 4%, optimistic vs most other forecasters – but anyway in the ballpark
- The budget is weakened by 7.5% of GDP. Almost the whole amount is due to increased transfers to the private sector, which in sum must be more than compensated for the expected loss of market income
- As households are not able or willing to spend, their savings rate is expected to increase by 8 points to a record high of 15.6%
- Businesses are expected to get compensated by more than NOK 100 bn. That's a substantial amount compared to a full year gross operating surplus (=value of sales – cost of goods sold – other op.ex – wages) at NOK 500 bn (Mainland businesses). Sure, other cost will inci

Unemployment is inching steady down as furloughed are reengaged

Down for the 4th week in row, total -60', equalling 2.1% of the labour force, level still high at 13.7%







- Full time unemployment fell by 28' last week, while 9' more were counted as partially unemployed, as some fully unemployed were reclassified as partially unemployed – net down '19
- The inflow of new jobless claims is on the way down, to some 10', implying that 26' persons, or almost 1% of the labour force, was reengaged last week, marginally more than during the previous
  - » Over the past 4 weeks, total unemployment is reduced by 60' persons

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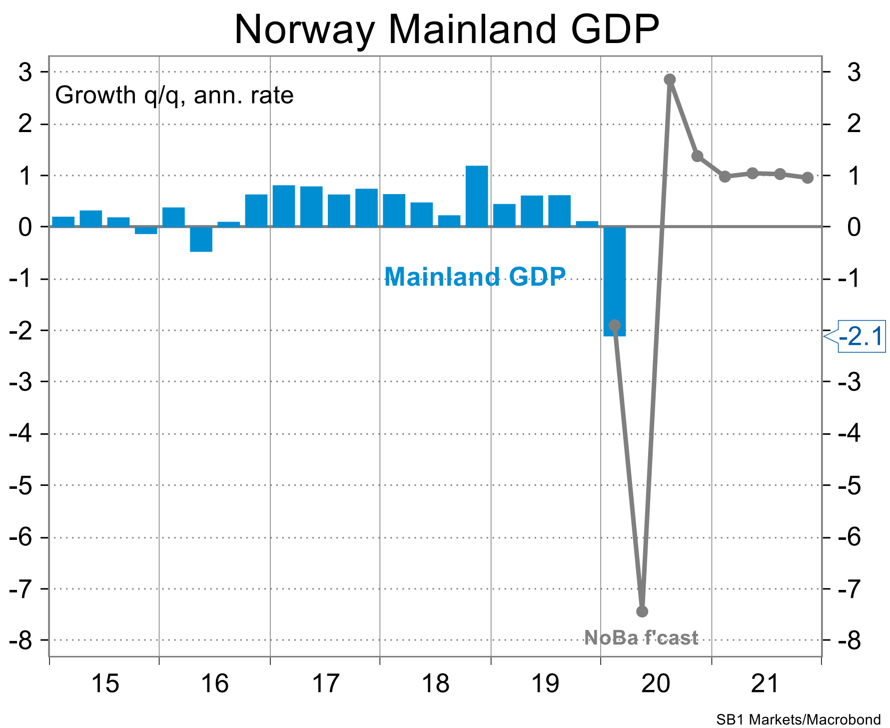
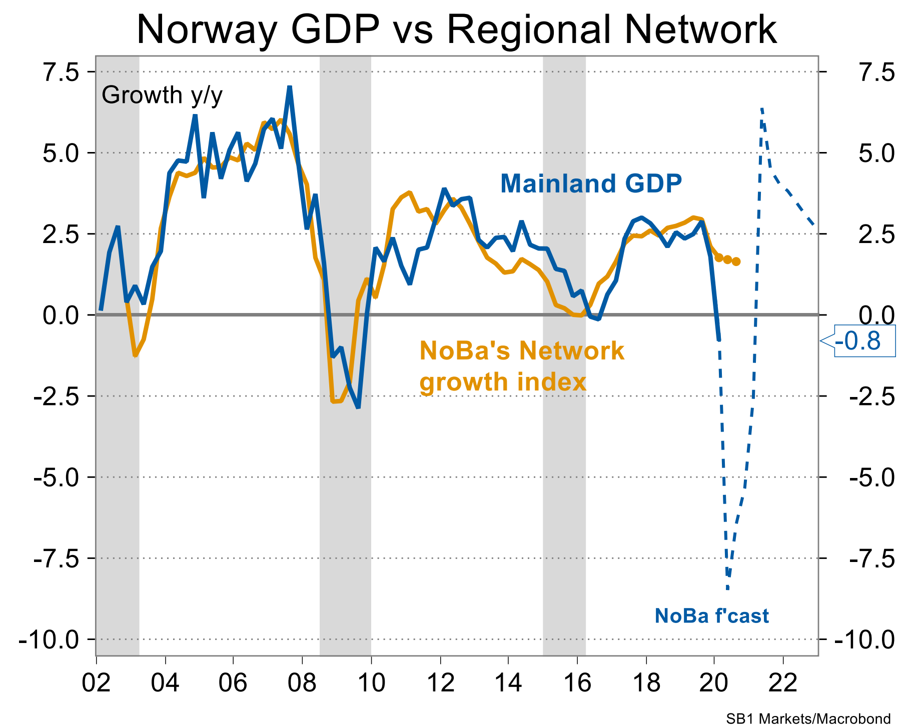
Mainland GDP down 2.2% in Q1, March & private consumption mostly to blame

The decline was the sharpest ever. GDP down 0.4% y/y

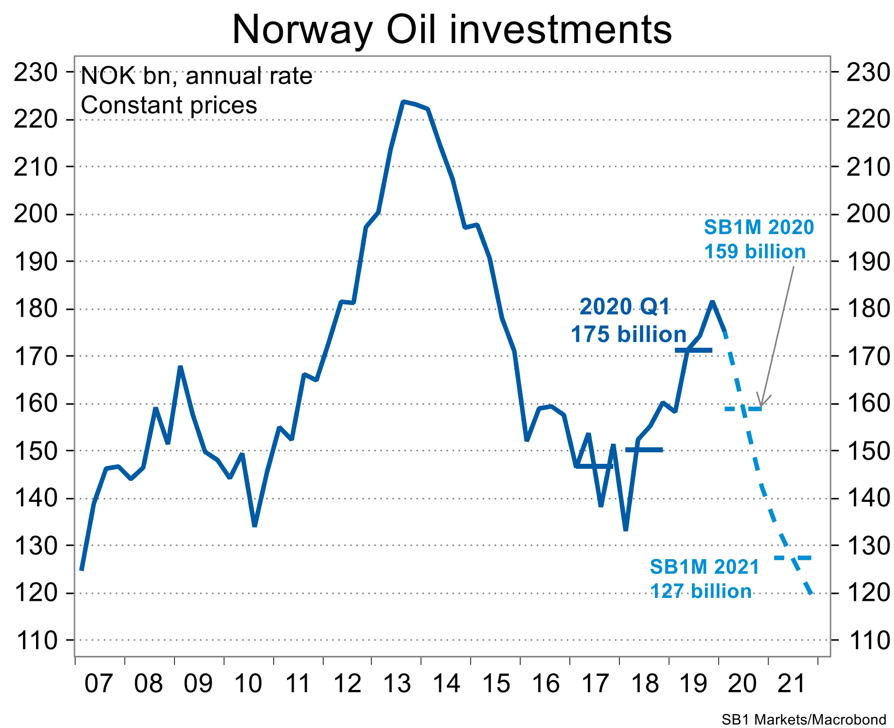


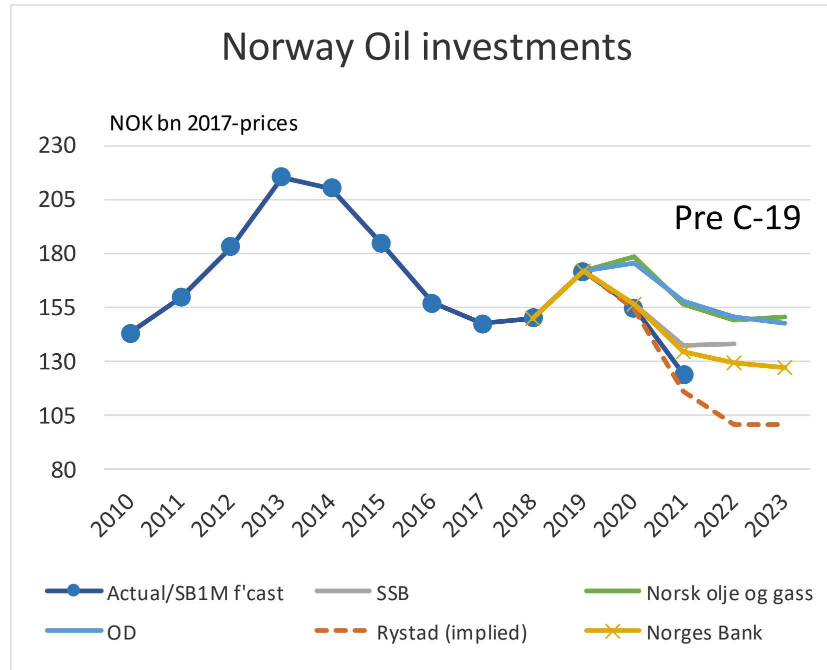


- GDP fell slightly more than expected, SSB assumed 1.9% two weeks ago. The decline is unprecedented – but will be a walk in the park vs a much larger decline in Q2. Forecasts are for a 7 – 10% q/q decline (not annulised, regrettably…)
  - » Private consumption was the main drag, but all other demand components barring net trade fell sharply
  - » Employment was unch as those furloughed are counted as employed (the first 3 months), but hours worked fell sharply, and productivity did not decline! The average hourly wage rose sharply, as most receive a monthly wage. However, wage inflation has been trending up, productivity growth has been slow, and the gross profit share has been on the way down for many quarters – and is not at he lowest level since the '90-ies

Oil investments: Down in Q1, further down the coming quarters

We – like all others – have revised the forecast down –but the path was down even before C-19

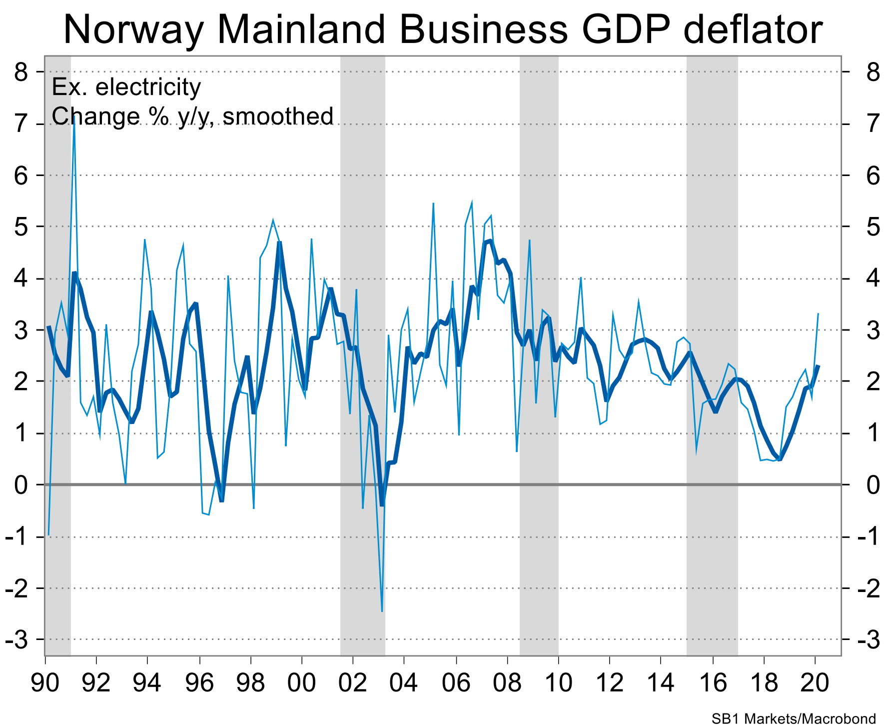


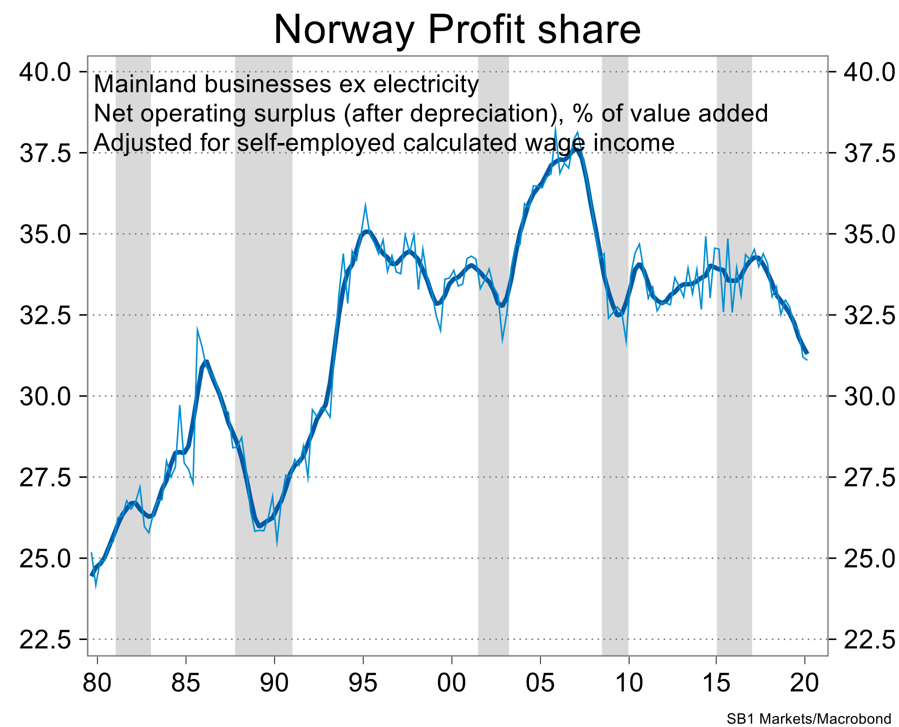


- Investments in the oil and gas sector peaked in Q4, and fell in Q1. We have revised our 2020 and '21 forecasts down by 10%, and 20% respectively.
- Before Covid-19 and the decline in oil prices, we expected investments to decline by 17% to Q4-21 from Q4-19 (even if the 2020 average was up 5% from 2019). Now we say 20% down through 2020 alone, and 34% by Q4-21. Rystad expects another decline in 2022 before investments stabilises in 2023
- If oil investments should decline by NOK 60 bn, it would no doubt be badly felt in parts of the Norwegian economy, as some 2/3 of these investments are delivered from the Mainland. The direct GDP impact is 1.3 pp through both years

The profit share is under pressure, profit rate at 27 y low (also before corona)

Mainland GDP price deflator sharply up in Q1, probably not lasting

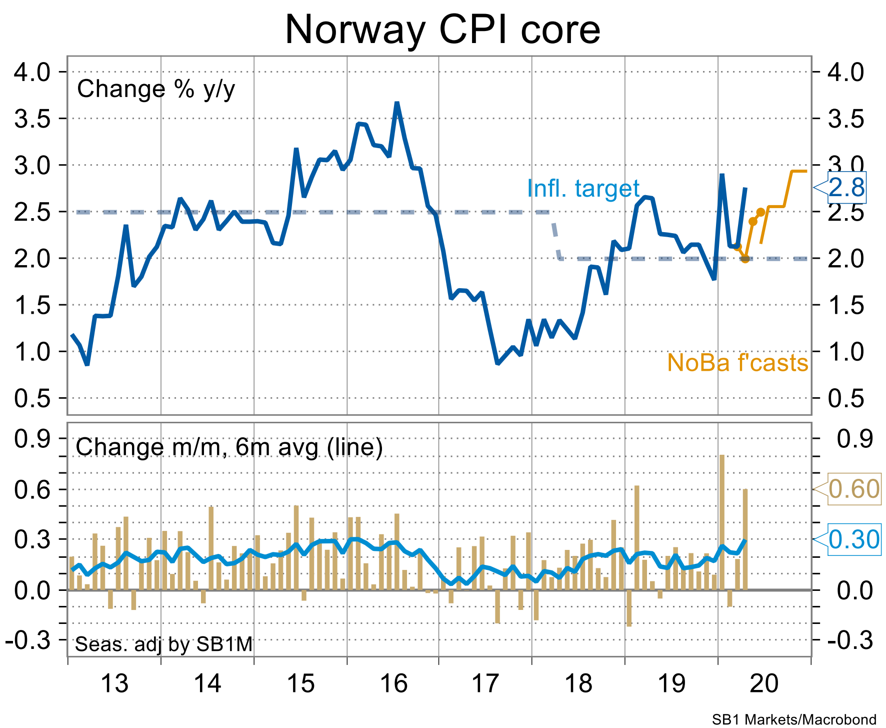




- The Mainland business GDP price deflator (ex the volatile electricity sector) was up 3.2% y/y in Q1 (not smoothed). Higher export prices (due to a weak NOK) explained some of the lift from 1.8% in Q4. End user prices did not increase much
- Productivity stalled in Q1, and wage inflation was high – and higher than price inflation. Thus, the profit rate inched down, once more. The trend has been straight down since 2017, a sign of a maturing cycle, like in many other countries

Core inflation up to 2.8% but nobody cares (and should not)

Food prices were not cut as usual ahead of Eeaster – and import prices are climbing



- CPI-ATE (ex. energy and taxes) rose 2.8% y/y in April, up from 2.1%. We expected 2.3%
  - » Prices rose by 0.6% m/m (seasonally adjusted)
- SSB had to make some assumptions due to lack of reported data as many shops/activities were more or less closed
- Total inflation rose 0.1 pp to 0.8%. Electricity prices – but also gasoline prices – explains the divergence to the core CPI
- **The price outlook**
  - » Impacts of the corona crises are mixed
    - A weaker economy strongly suggests low inflation. Wage inflation is no doubt on the way down.
    - The weak NOK will bring imported inflation up and will probably offset some of the effects of waning demand on prices.
    - Energy prices have been falling but the downside from here must be limited
  - » Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming quarters. Wage growth will no doubt slow, almost whatever CPI data that may be reported

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The Calendar

In focus: Except for the preliminary May PMIs – and a rather quiet week

Time	Country	Indicator	Period	Forecast	Prior
Monday May 18					
16:00	US	NAHB Housing Market Index	May	34	30
Tuesday May 19					
06:00	SW	HOX Home-Price Index	Apr		0.70%
09:00	SW	NIER Extra Business Survey			
08:00	UK	Average Weekly Earnings 3M/YoY	Mar	2.70%	2.80%
10:30	UK	ILO Unemployment Rate 3Mths	Mar	4.30%	4.00%
10:30	UK	Claimant Count Rate	Apr	--	3.50%
11:00	GE	ZEW Survey Expectations	May	30	28.2
14:00	NO	NAV claimant counts, change	w20		-19k
14:30	US	Building Permits	Apr	1000k	1353k
14:30	US	Housing Starts	Apr	923k	1216k
Wednesday May 20					
10:00	NO	Norges Bank Expectations Survey			
10:30	UK	CPI Core YoY	Apr	1.40%	1.60%
16:00	EC	Consumer Confidence	May A	-23.4	-22.7
Thursday May 21					
02:30	JN	Manufacturing PMI	May P	--	41.9
02:30	JN	Composite PMI	May P	--	25.8
10:30	UK	Manufacturing PMI	May P	35.7	32.6
10:30	UK	Composite PMI	May P	25	13.8
14:30	US	Initial Jobless Claims	May-09	24.25	2981
14:30	US	Philadelphia Fed Survey	May	-47.9	-56.6
15:45	US	Manufacturing PMI	May P	38	36.1
15:45	US	Servces PMI	May P	32.3	26.7
16:00	US	Leading Index	Apr	-5.70%	-6.70%
16:00	US	Existing Home Sales	Apr	4.30m	5.27m
Friday May 22					
08:00	UK	Retail Sales Inc Auto Fuel MoM	Apr	-16%	-5.10%
09:15	FR	Composite PMI	May P	34.7	11.1
09:30	GE	Composite PMI	May P	32.3	17.4
10:00	EC	Manufacturing PMI	May P	38	33.4
10:00	EC	Services PMI	May P	25	12
10:00	EC	Composite PMI	May P	25.5	13.6

- **PMI & other surveys**
  - » EMU, Japan, UK & US will report preliminary May PMIs at the end of the week. April was a disaster, of course. We assume actual production most places will increase in May, as all measures of activity picks up. If more companies reports growth than decline, the PMIs, which are diffusion indices based on change m/m should be above 50
    - However, in practice they do not when production turns up, or at least not consistently. It might be because the production changes are not evenly distributed (some few contribute to much of the growth in activity) but more likely because companies are smoothing their assessment somewhat, so they are communicating the short term trend, and not the actual change from the previous month (which they are asked to do). So, even if the PMIs will remain below 50 in May, all hopes for a gradual recovery, starting in May, is not out
- **US**
  - » April housing starts data are rather useless, due to the lockdown. If the Homebuilders see the light already in May, we are surprised, as their index is much more leaned towards the activity level, not change
- **UK**
  - » April claimant count will confirm an unprecedented increase in unemployment (but not the March ILO/LFS/'AKU' survey, as furloughed workers are registered as employed
- **Norway**
  - » Unemployment is heading down at an encouraging speed but the level is still very high
  - » Norges Bank's expectation survey (not the Regional Network) will probably confirm a muted outlook

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

Our main views

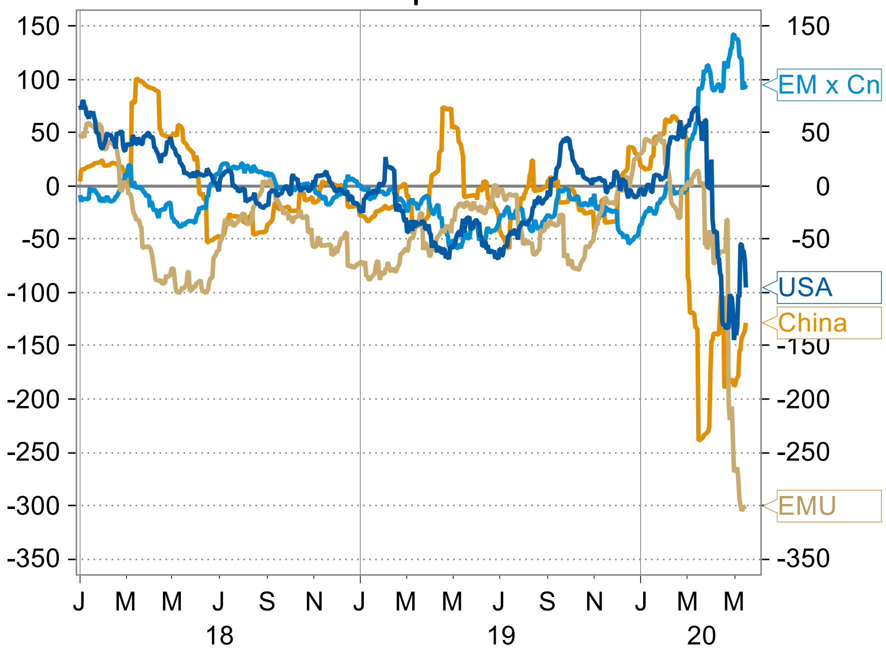
	Main scenario	Recent key data points
Global growth cycle	The cycle was maturing, and growth has been slowing for almost 2 years. The trade conflict no doubt contributed. Unemployment is low, wage inflation is not low vs. productivity. Investment are not low anymore. Most emerging countries (EM) x China are in recovery mode, but have been slowing somewhat too. Some hotspots EMs will get burned, as usual – but there are fewer EM imbalances than normal. The global PMI had turned up until the coronavirus shock, which knocked the Chinese PMIs down. The virus will now hurt the world economy badly. A temporary setback in Q1 (primarily China) and partly in Q2 (other countries) which was our main case is now far too optimistic. **Global growth will fall into a recession (GDP growth below 2%). Growth has slowed to 3% from 4%, our baseline is now -3% y/y in 2020 (from 2.8% before corona), the uncertainties are extreme**	**Global composite PMI** tumbled fell more than we assumed, down to 26 p. Services far harder hit by corona than manufacturing. India and Southern Europe hardest hit. Sweden less than most. Global auto sales up in April but just due to China
China	Growth had slowed just marginally, and inched up through 2019. Then, the Covid-19 'killed' the economy in Q1. As the outbreak has come under control, and expect a partial recovery in Q2 and Q3, but not fully up to the Q4 2019 level. The annual growth will be closer to -2%, from +6%, even if the activity level increases sharply. Before corona, we expected a 'controlled' slowdown, as over the previous years. There may be other downside risks now, if more companies should decide to reduce the supply chain risk vs China, which is not unlikely. **We expect more policy measures to ensure a recovery in during 2020**	Industrial production back at pre corona level but even in both retail sales, investments and service sector production rose in April, all are well below the pre corona path. Credit is flowing
USA	Before Covid-19 hit, we thought growth would must likely not accelerate in '20, from the 2% speed in '19. Unemployment is low but will now rise rapidly, as in other countries. Profits are under pressure, corporate debt is high. Business investments are above trend, now yielding. Households' debt burden is sharply reduced, and the savings rate is 'high', but consumption is now slowing. The housing market is booming, and may get some support from the collapse in interest rates but corona may hamper activity Price inflation close to target. The Fed has cut to zero, the stock marked has fallen sharply – and the economy can easily enter a recession. **Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt**	Larger than expected declines in April retail sales & manufacturing production. Still many new jobless claims (2% of the labour force, per week)
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	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
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. **Risks, other than corona: Debt, housing. A harsh global setback. We have revised our 2020 growth forecast to -6%**	An extreme expansionary budget, even more than we assumed. Unemployment has peaked, and is now falling by 0.7 pp per week. Mainland GDP down 2.1%. Core inflation up to 2.8%

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

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

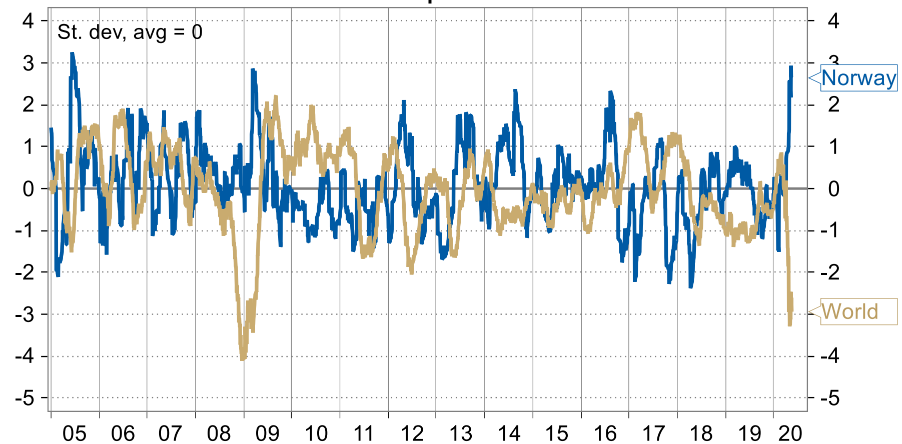
And we have no clue why Norwegian data are that much better than expected

Citi Surprise index



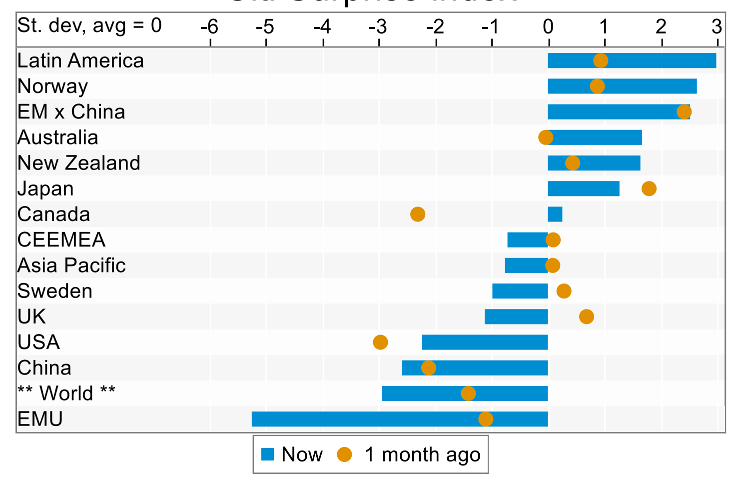
SB1 Markets/Macrobond

Citi surprise index



SB1 Markets/Macrobond

Citi Surprise index



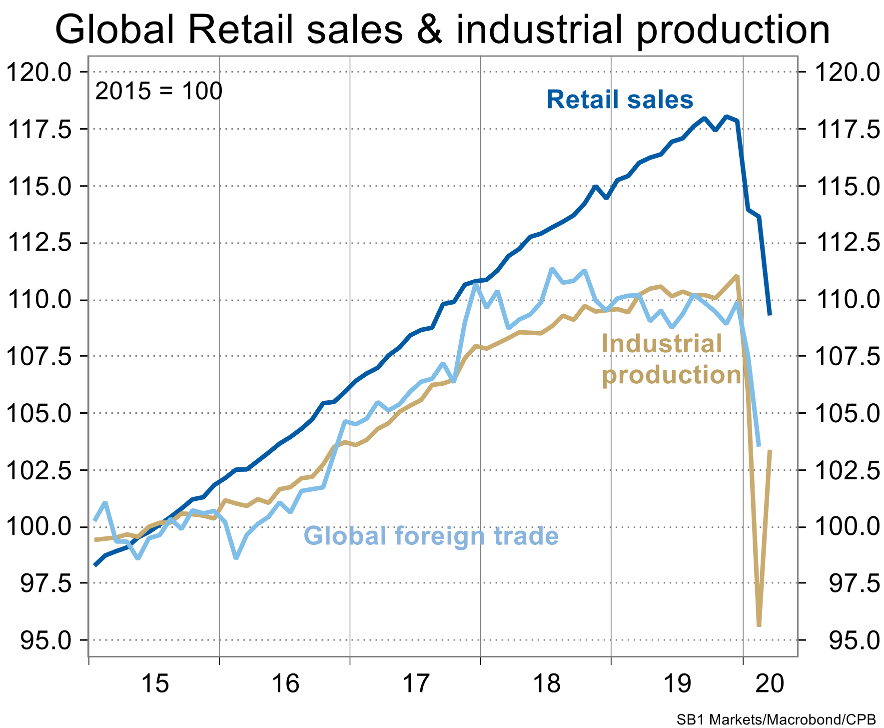
SB1 Markets/Macrobond

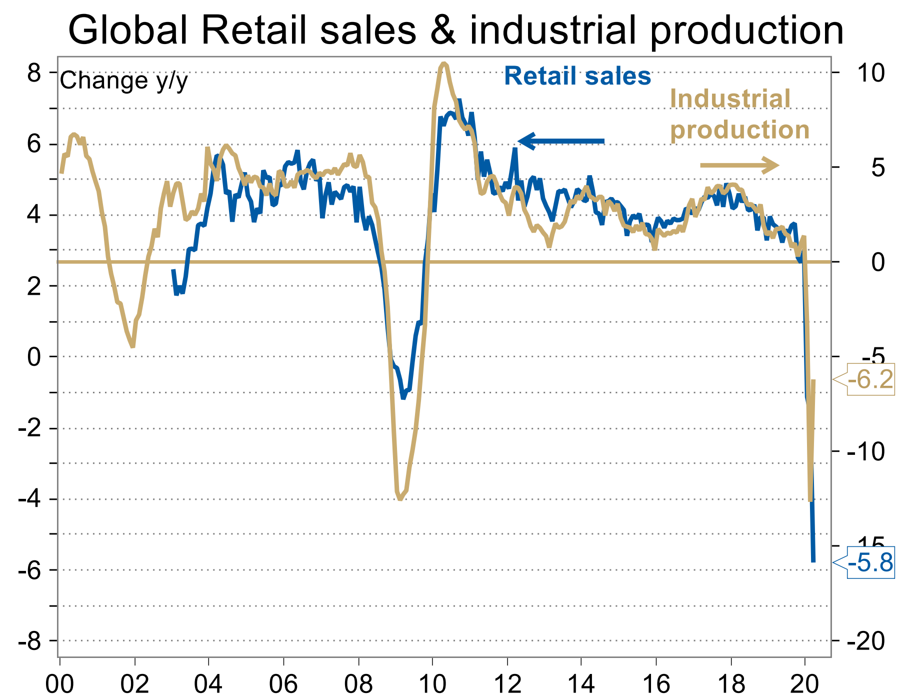
- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- EMU is surprising most on the dowside
- Norwegian data are more upbeat vs expectations, <u>for no good reason</u>
- We are not sure why EM x China data have been so much stronger than anticipated

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

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

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





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

- **Global industrial production** fell by 10% in February, due the huge decline in China. 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 4% m/m in 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. A small uptick in China will not help by much
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

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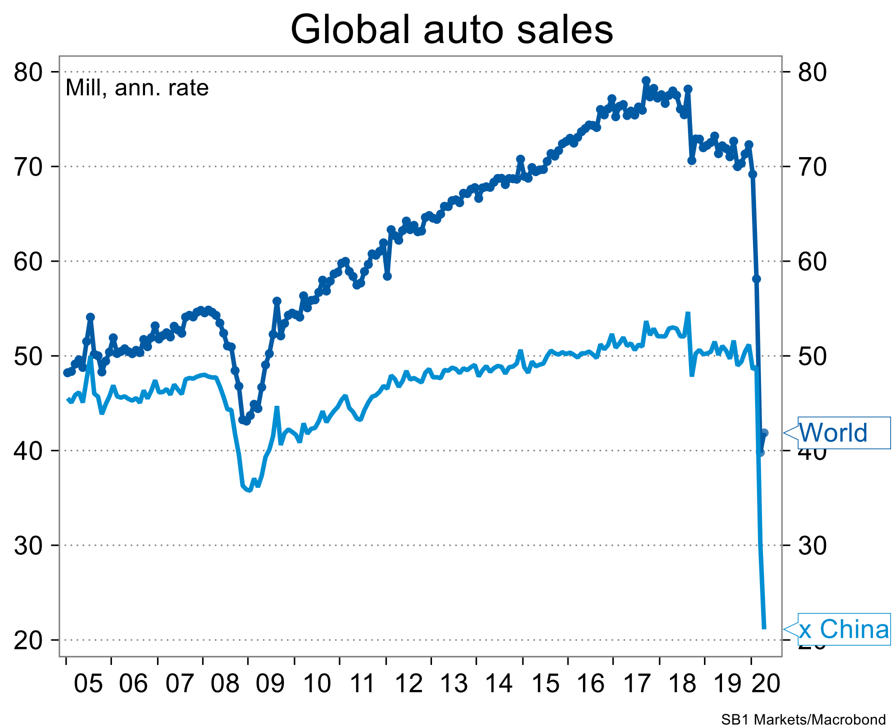
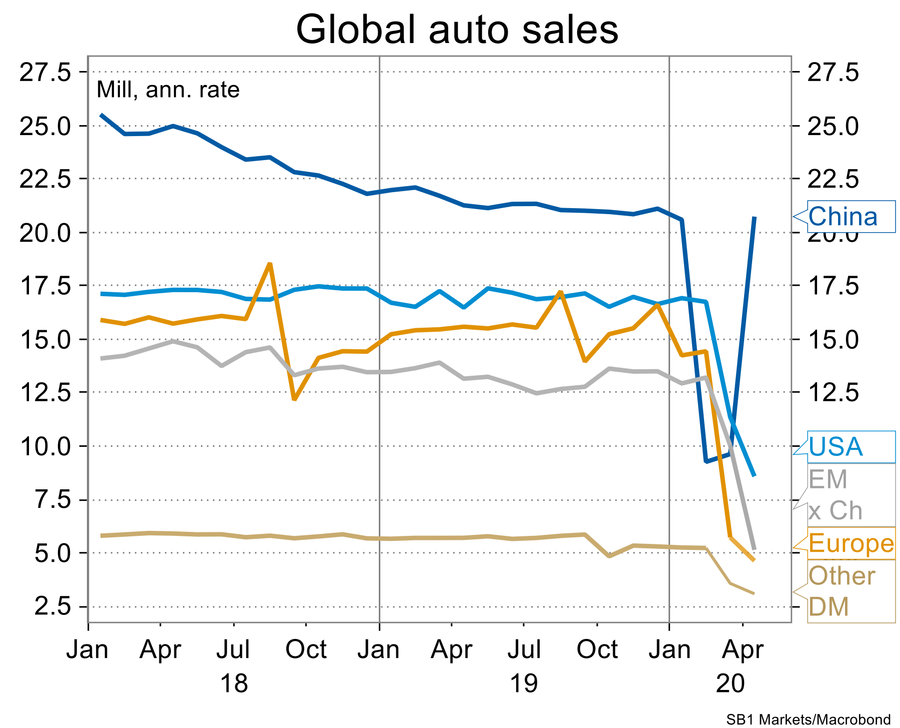
Global auto slightly up in April, due to an unbelievable Chinese recovery

Chine sales rose to a normal level, are now equalling 50% of global sales! Other EMs ¼ of China

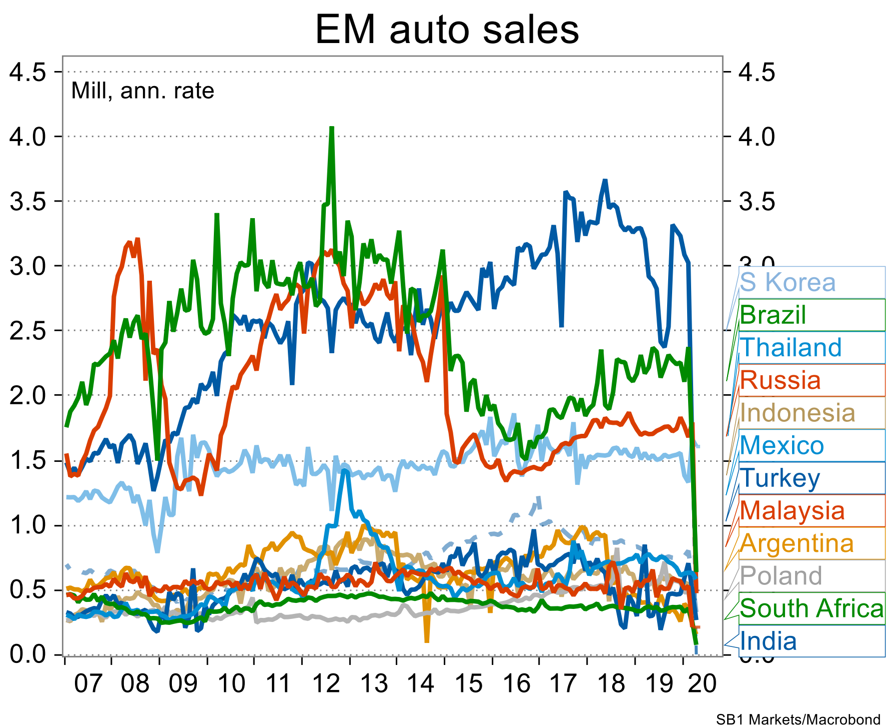


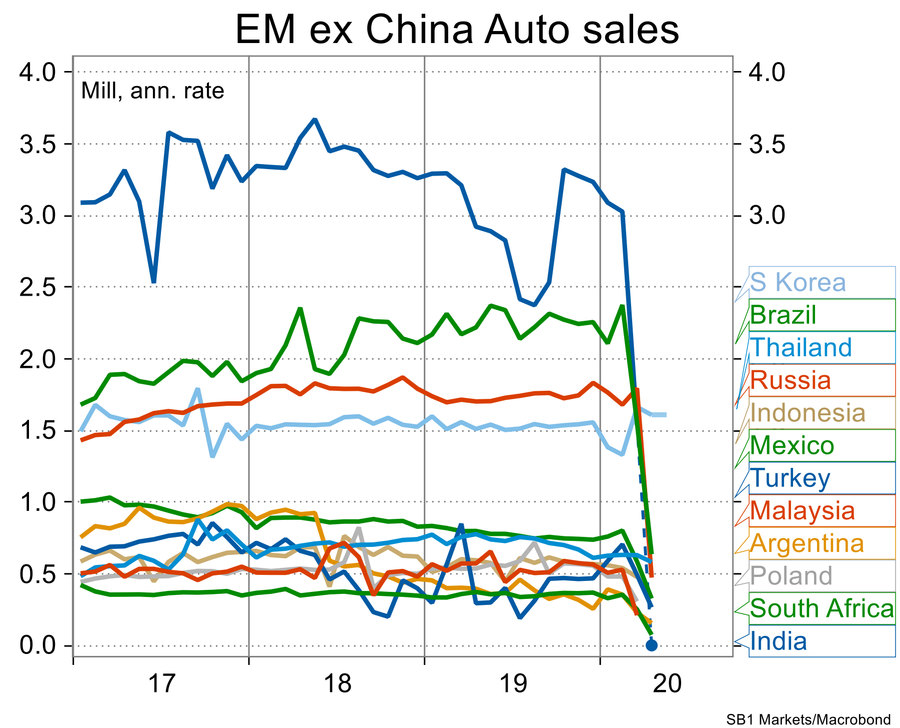


- Chinese April auto sales were confirmed up as we reported last week as sales rose to 21 mill from 9 mil. In the rest of the world, sales fell sharply, and they are not down almost 60% from the pre corona level, at 21 mill

Korea, Thailand kept sales up, others not. Full stop in India (not officially reported)

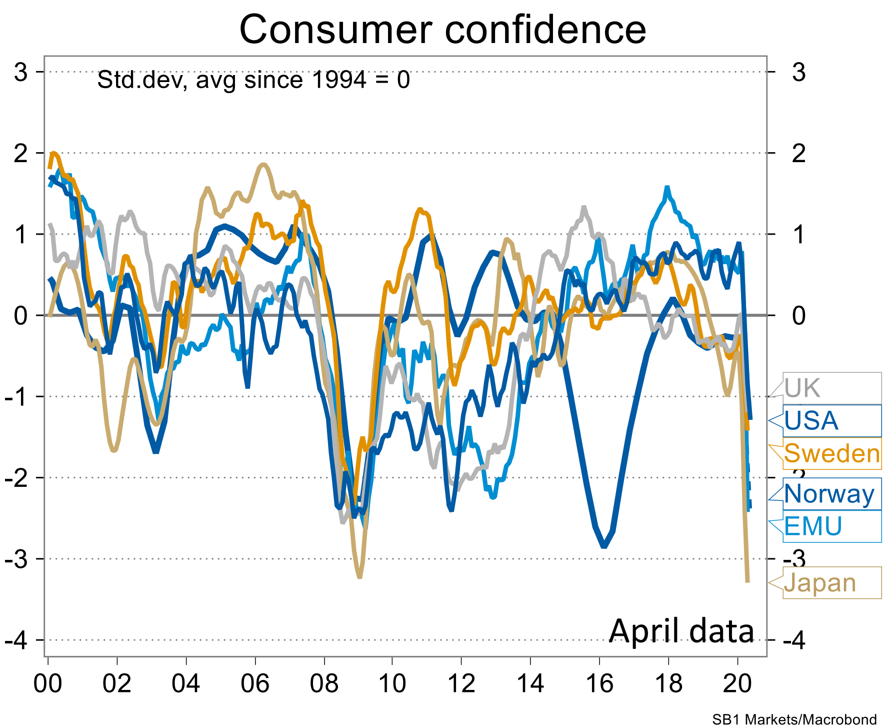
South Korean sales have been higher than normal the past 3 months, after a Jan/Feb dip

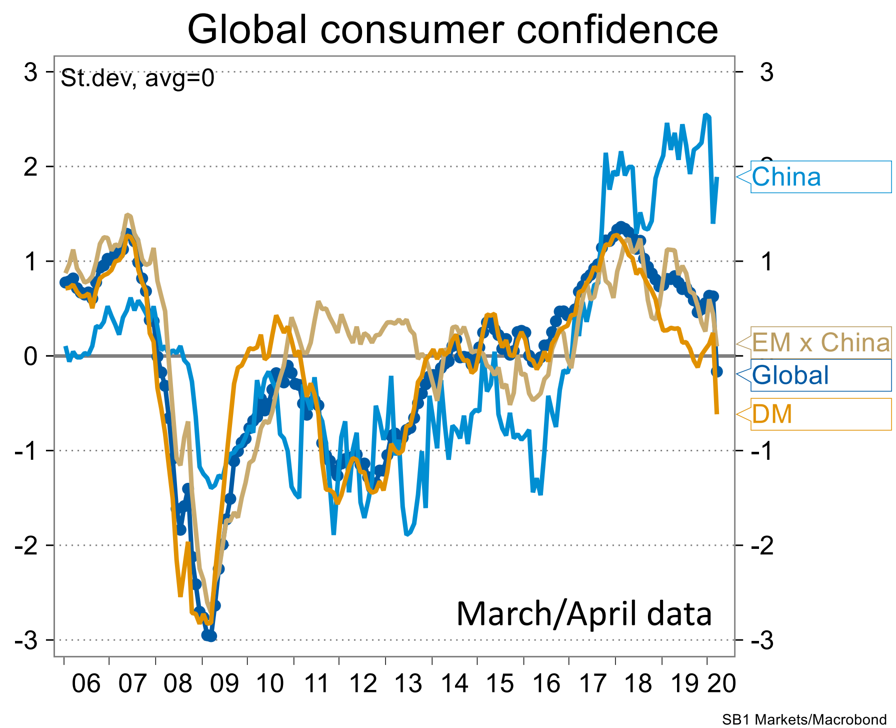




Consumer confidence sharply down everywhere

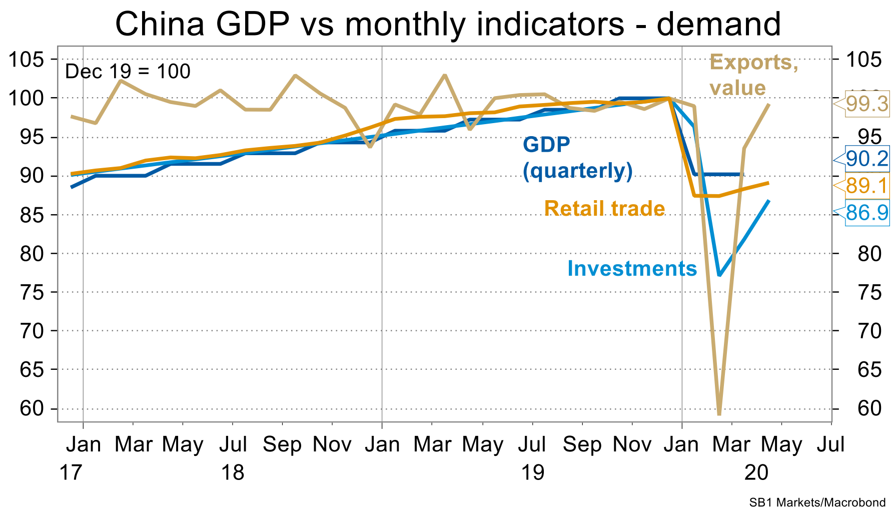
Still data are not disastrous and in average above the 2008 troughs, albeit not in EMU, Norway

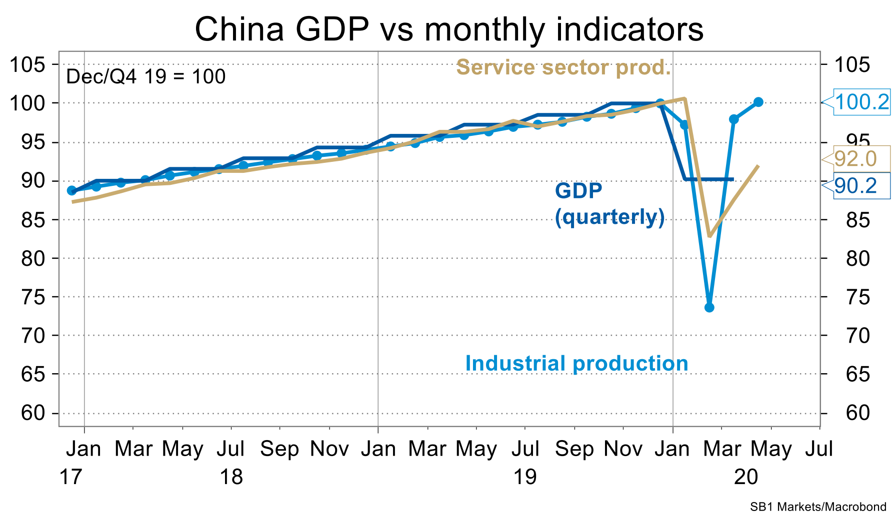




April retail sales, investments up but still lagging. Not production & exports

Sales, investments marginally below expectations, production well above, exports too





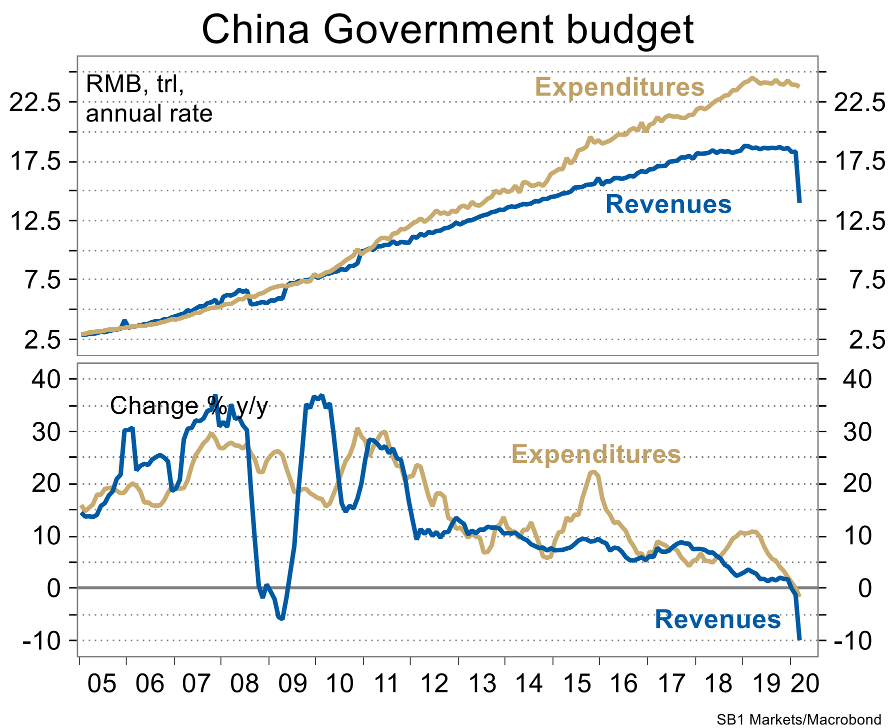
- **Industrial production** rose 2.3% m/m, and was up 3.9% y/y, expected 1%. Production is just 2% below the pre corona trend
- **Retail sales** rose just 0.8% m/m in April, and are still 7.5% down y/y, expected -7%. Sales are some 12% below the pre corona trend path. However, auto sales are confirmed back on track
- **Investments** rose another 6% in April but remains 14% below the pre corona trend path. Housing starts & sales are almost back to the December level
- **Service sector** production rose 5% in April, as in March but still remains 8% below the December level (and -4.5% y/y)
- **Exports** were much stronger than expected in April, and not far below the pre corona trend (and even above in volume terms). However, April exports surveys turned south – something is now going on in other parts of the world…
- **Credit growth** slowed in April from a very high level in March, still well above the average pace over the past year, credit is clearly accelerating

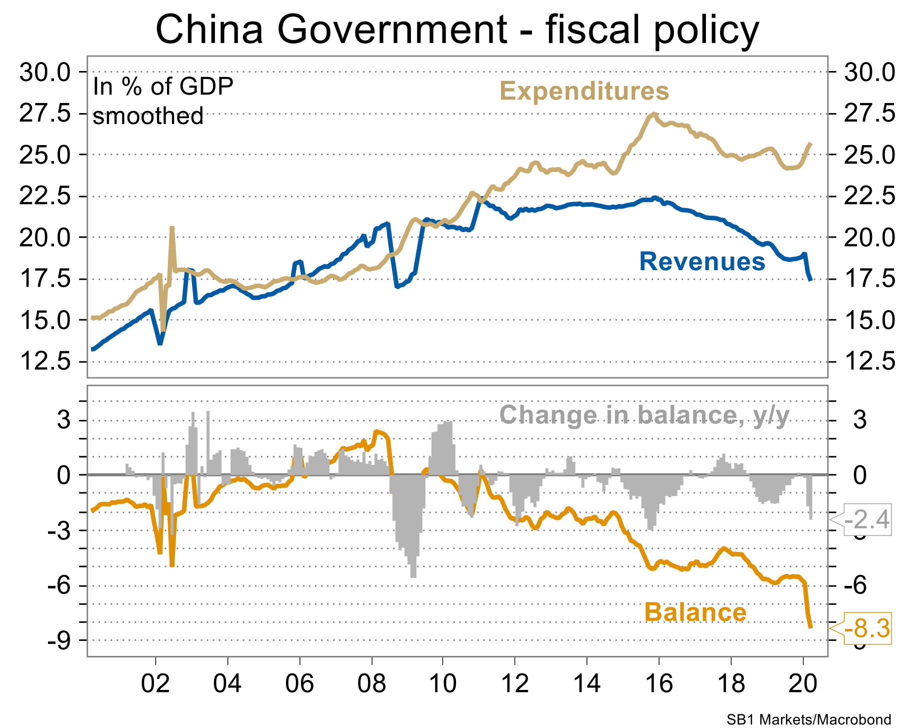
In sum: Final demand must be far below the pre corona trend (and imports have not fallen that much), and industrial sales have fallen vs. production (until March), implying an inventory build up. *Is production boosted too much?*

- **GDP** fell 9.8% q/q, as we assumed almost two months ago GDP fell 6.8% y/y, from +6%. We expect GDP to increase by at least 4% q/q in Q2 (5% is not unlikely, but exports may turn out to become a drag in May/June

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

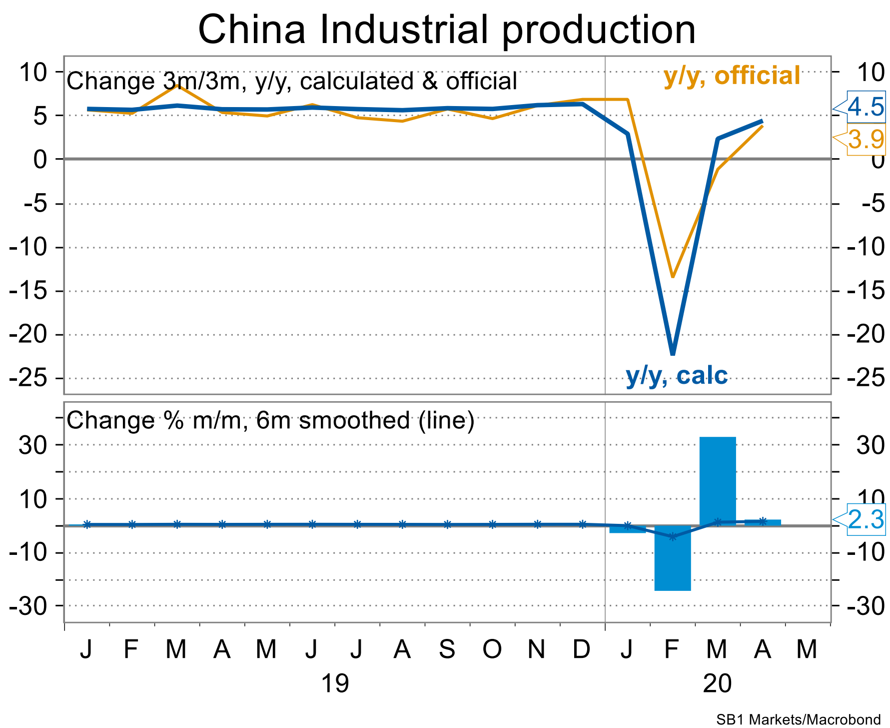


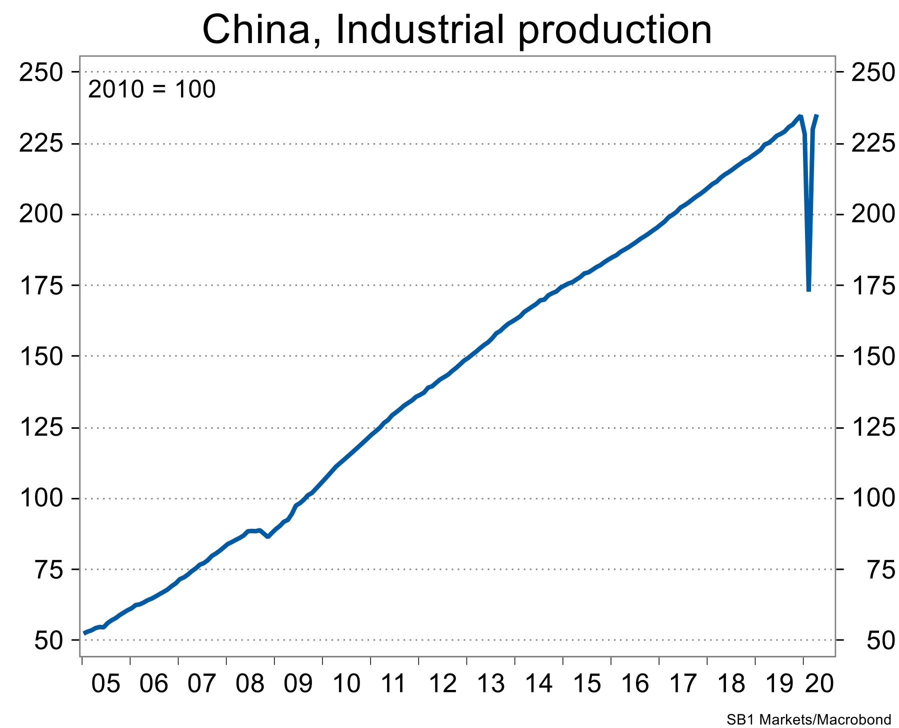


- There are no expansion to be seen at the expenditure side, nominal outlays are barely flat, and expenditures must be falling in real terms

Give me a V! Industrial production almost back to the pre corona trend

An incredible recovery in industrial production in March (32%), then 2% more in April





- Production was up 3.9 % in April (4.5% our data, monthly aggregates), expected up 1.1%. The gap to the pre corona trend is just 2%
- Other short term Chinese indictors do not fully support these rose figures XXXXXX

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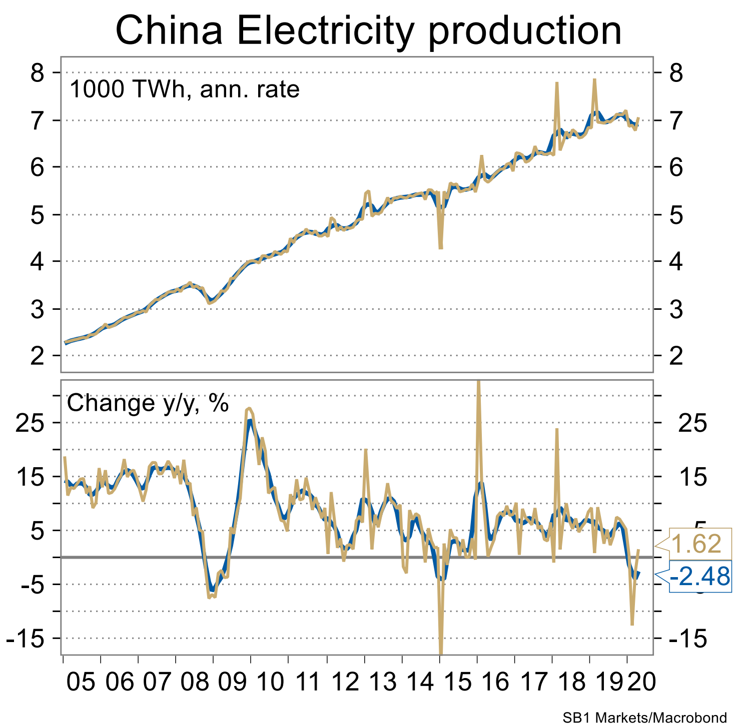
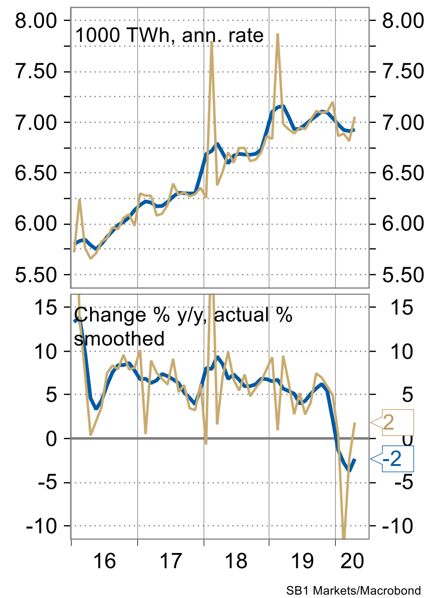
Official electricity production is back on track

April production 2% up y/y, not fully confirmed by April coal consumption. By <u>now</u> coal cons is up y/y!

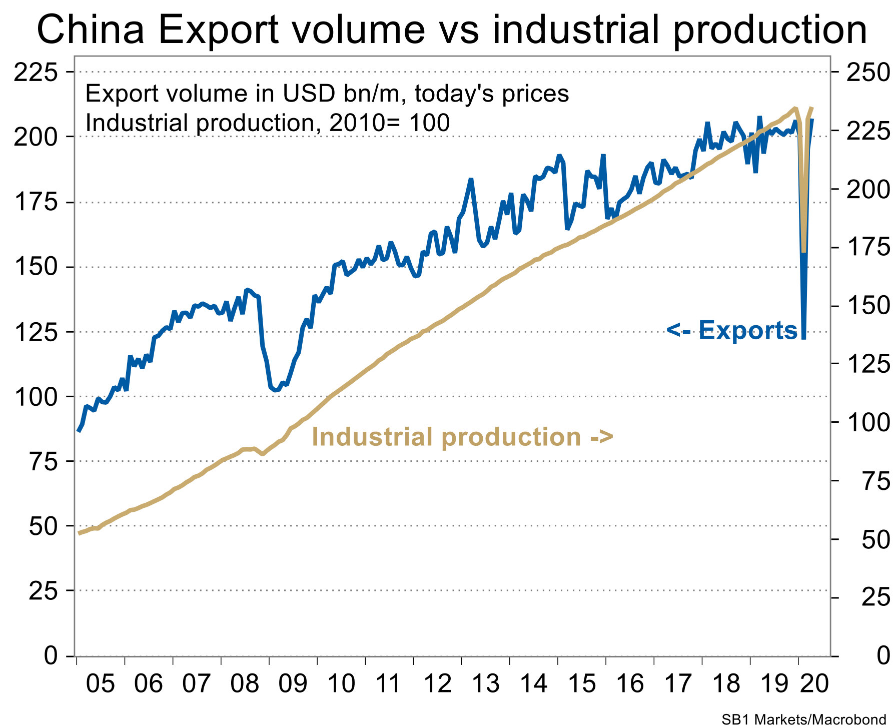


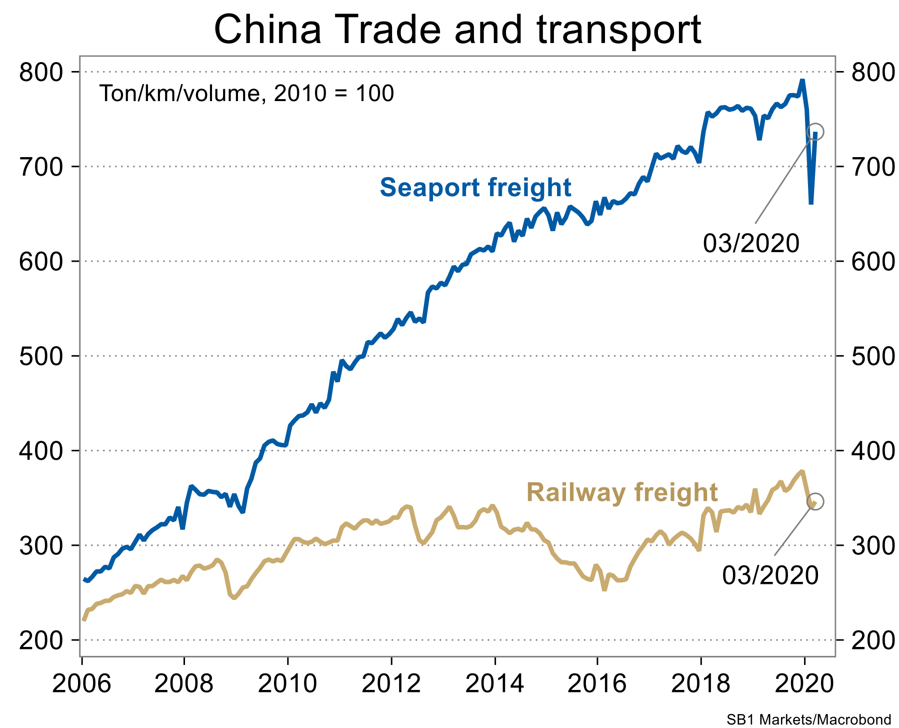


- Coal consumption at large power plants has now fully recovered (chart Yahoo/Bloomberg)

Seaport activity up in March, still low, as was railway transport

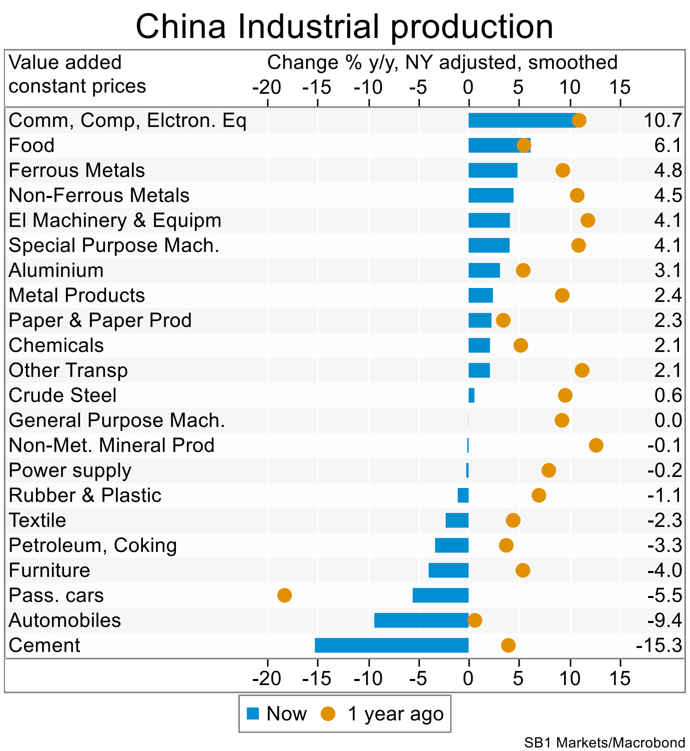
These are February data, exports fell 40% and imports 10%. Both recovered sharply in March

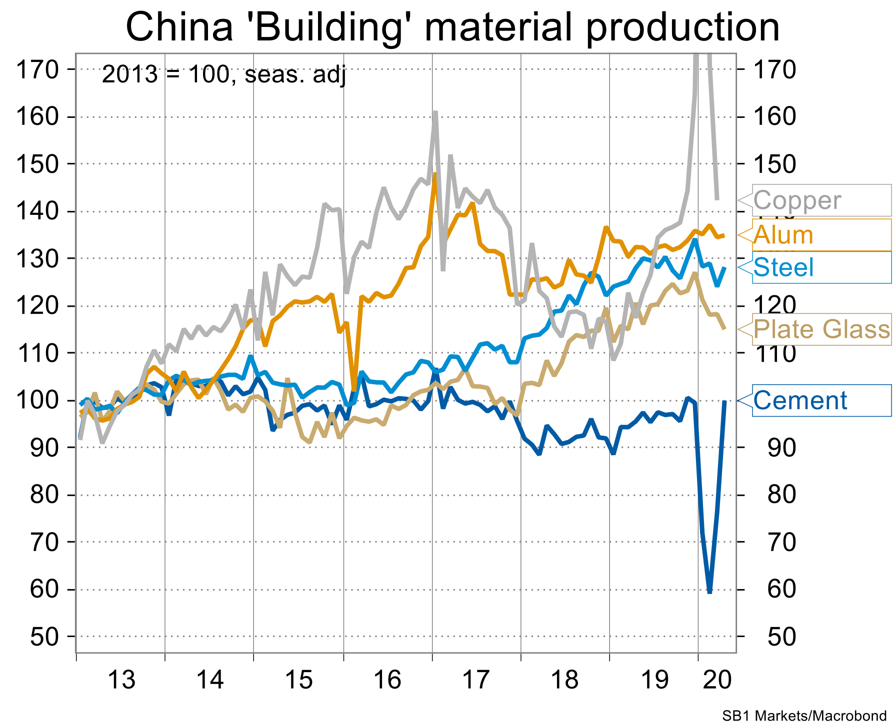




Manufacturing sector data all over the place, most are up y/y

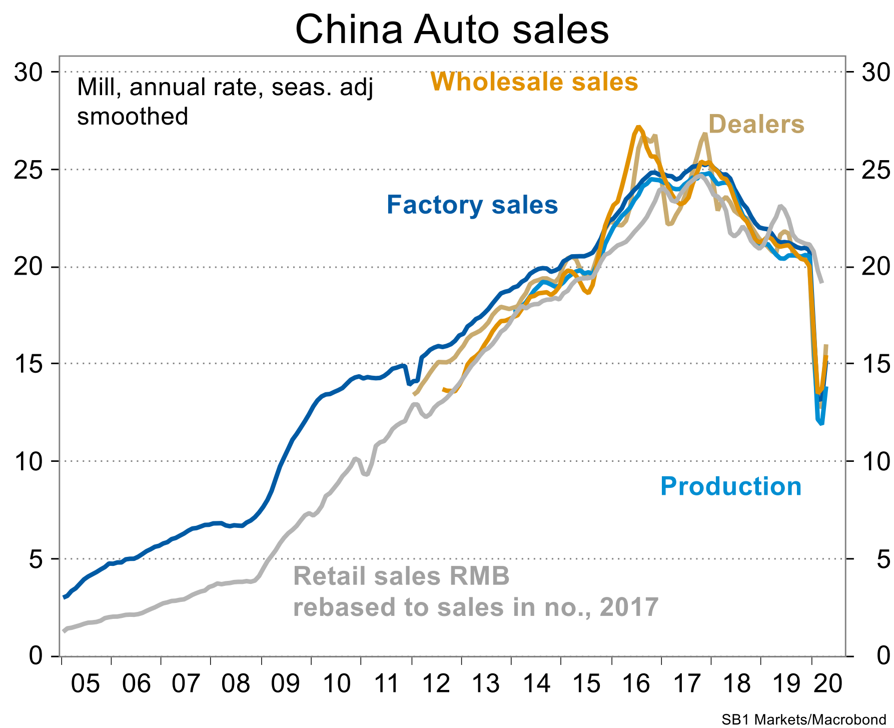
Cement back to trend, steel marginally below. High tech production strong

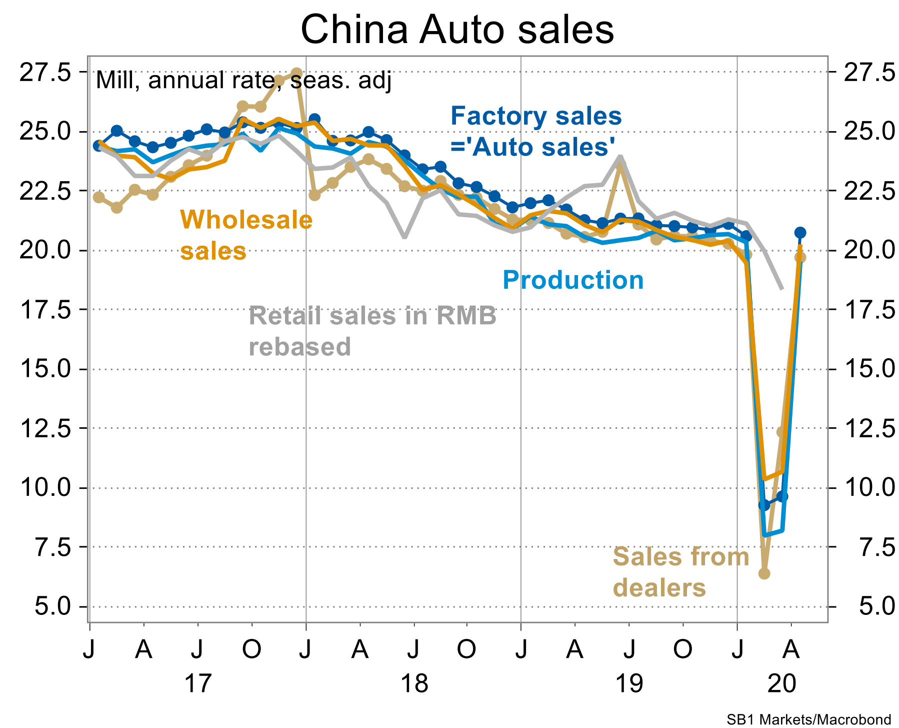




Auto sales & production recovered in April

The full turnaround in the auto market is confirmed. Activity is back up to the pre corona (low) level

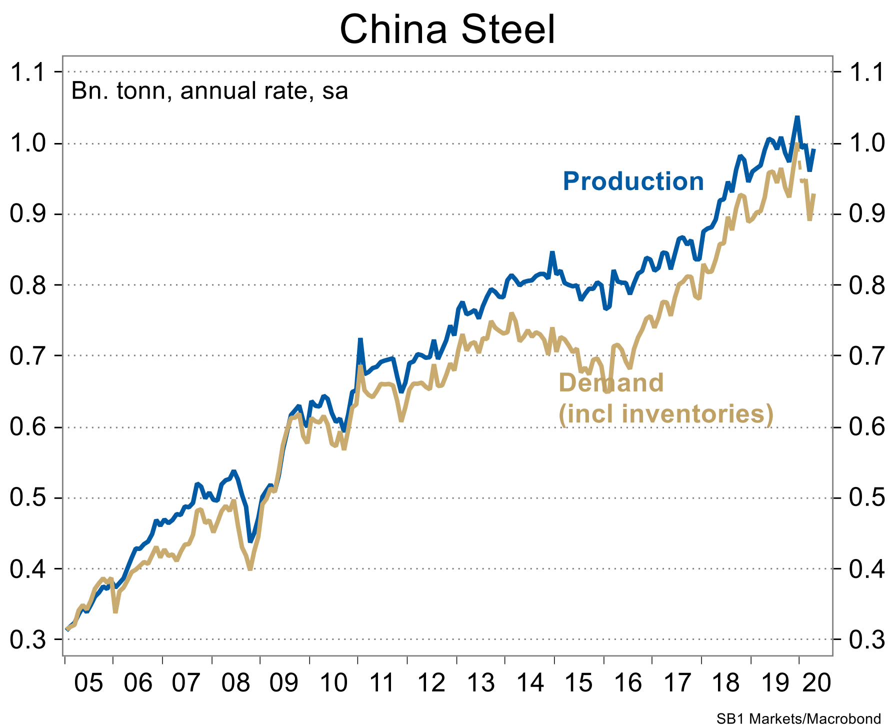




- At 20-21 mill units (annual rate) auto sales are still well below the 2017 peaks at 25 mill
- About the data
  - Production: Production in factories in China, in number of units, down 60% vs the December level
  - Factory sales: Deliveries from factories in China or imported cars, in units, the most common used data series for Chinese auto sales
  - Wholesale sales: Sales from wholesalers, in units, not published
  - Retail sales: Sales from retailers, in units, not published. This measure is the closest to definitions of auto sales in other countries (sales from retailers in the US, first time registrations in most other countries.)
  - Retail sales RMB: Value of sales from retailers, in renminbi (last month not yet reported)

Steel demand & production up in April, still down (some few %) from peak levels

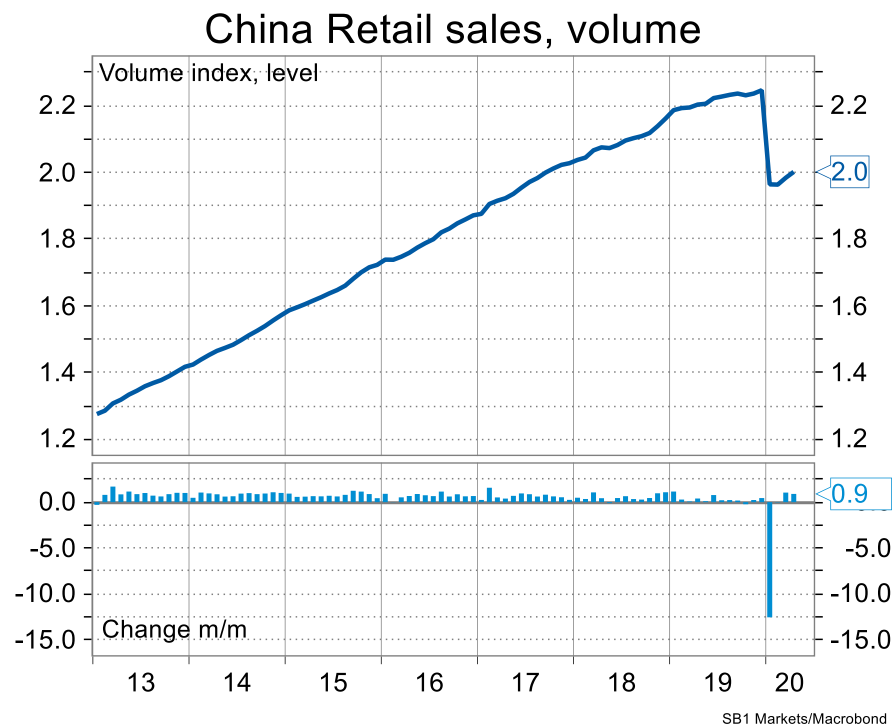
Construction starts almost back at normal level too



- Demand includes changes in inventories

Retail sales up just 0.9% in April, 12% below the pre corona trend path

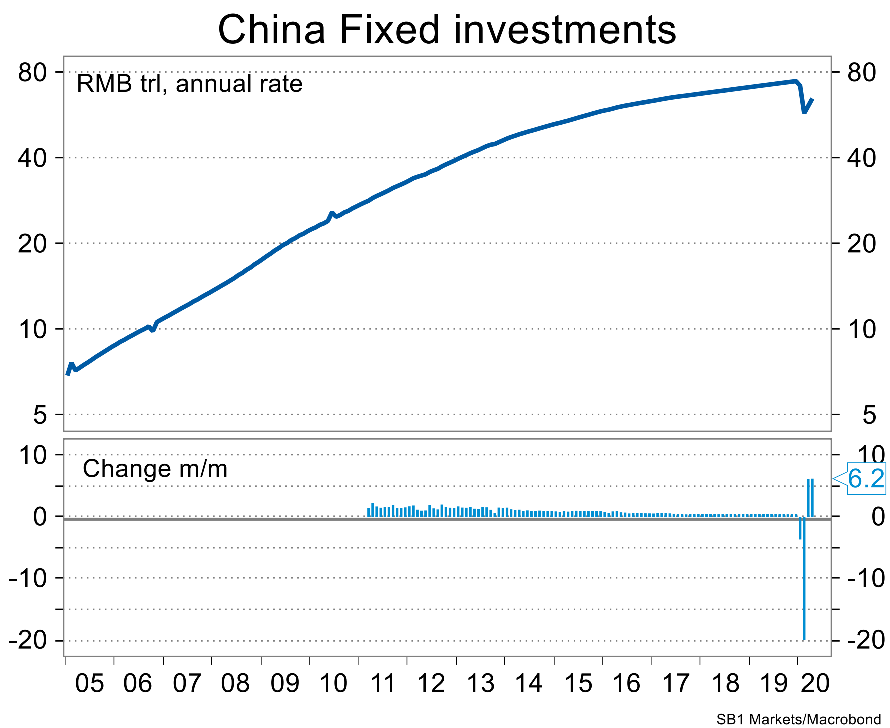
Sales volume plunged 12.5% in Jan/Feb, according to our estimate



- The official value growth rate at -7.5% was lower than expected (-5.2%), still up from -15.4% in March.
- Sales rose 0.9% m/m in April according to our volume estimate, down from 1% in March
  - The monthly seasonally adjusted data were revised up – and they are still strange. The decline is still reported to have been in January, while the lockdowns were more widespread in February. We assume the decline should have been shifted towards Feb
- Retail sales are now 11% down from the Dec level, and some 12% below the pre corona trend - which of course is a depression like decline. So, no narrow V here

Nominal investments up 6% in April too, still 14% below the pre corona trend

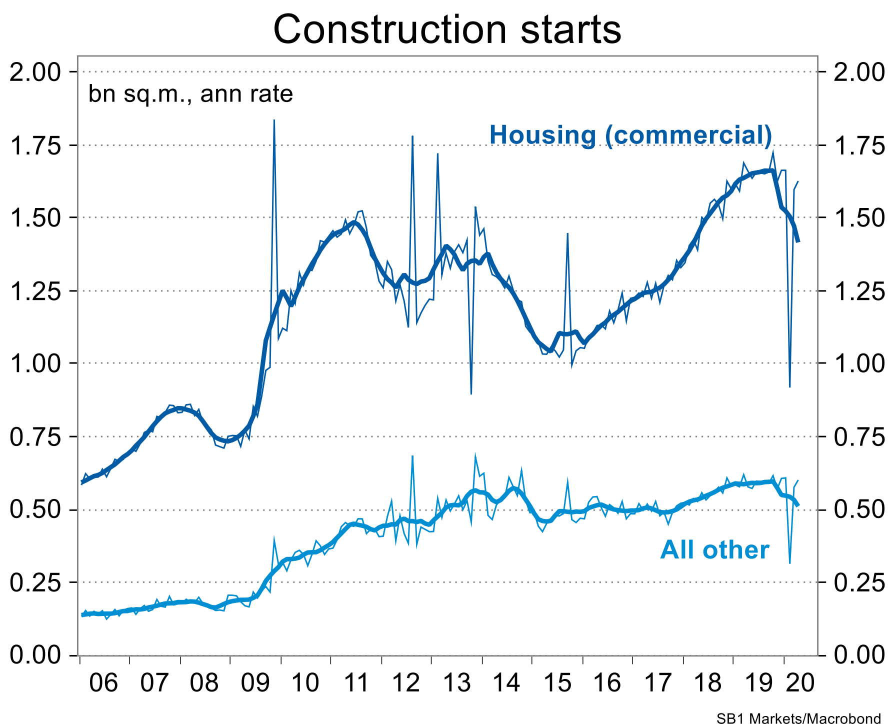
No narrow V here either – and the level remains low

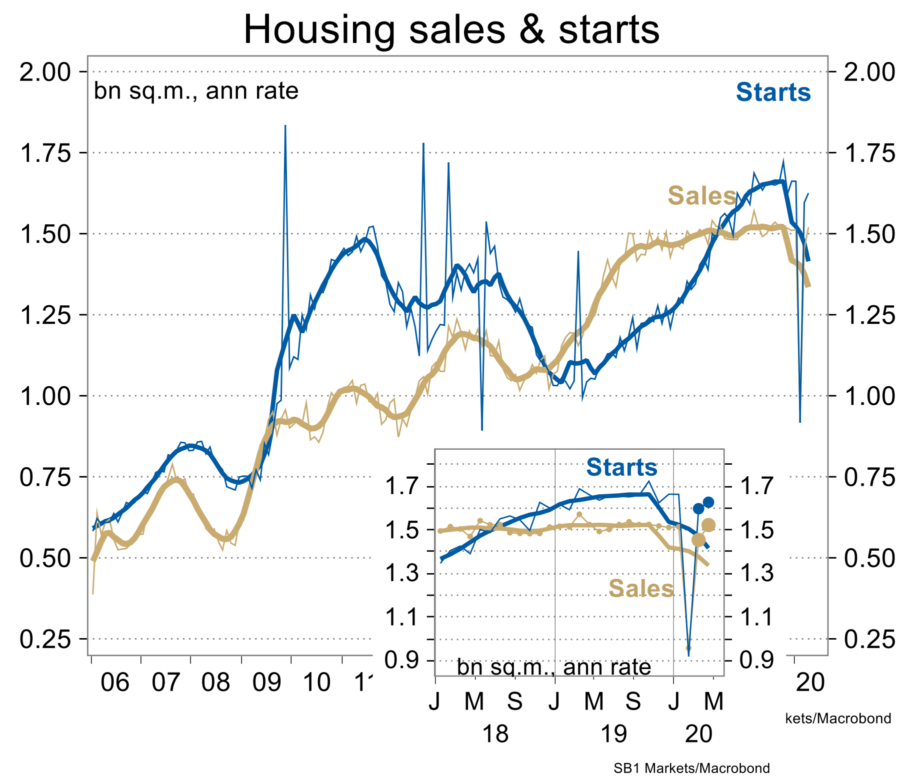


- Urban investments dropped by 10.3% y/y ytd in April, from -16.5% in March, according to the official data, expected -9.5%
  - » Investments rose by 6% m/m in both March and April, following a 202% drop in February, revised up from originally reported -27%
- In real terms, investments are down 16% y/y
- (Sector data are revised, we will look upon them before the nest release)

Both construction activity, new home sales back to normal levels in March/April

… following the 40 – 50% collapse in February

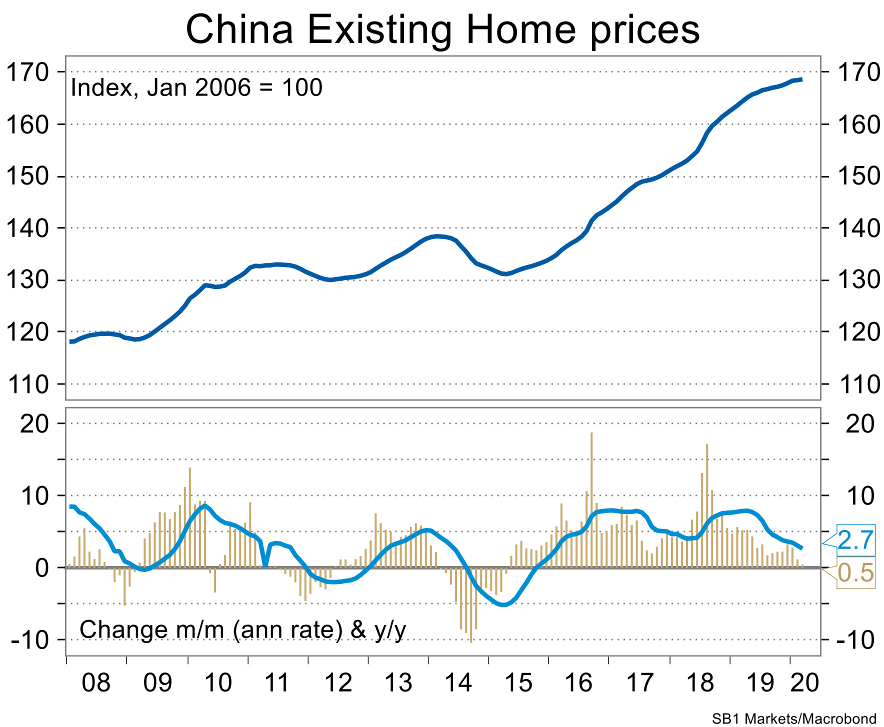


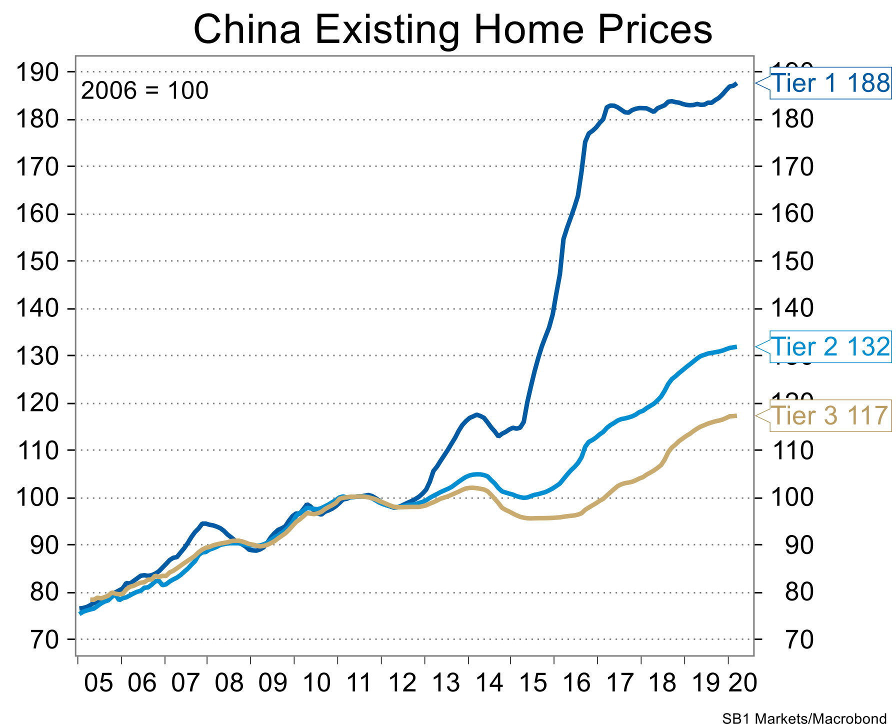


- In fact, just February was a disaster

House price inflation has slowed but prices rose in both February and March

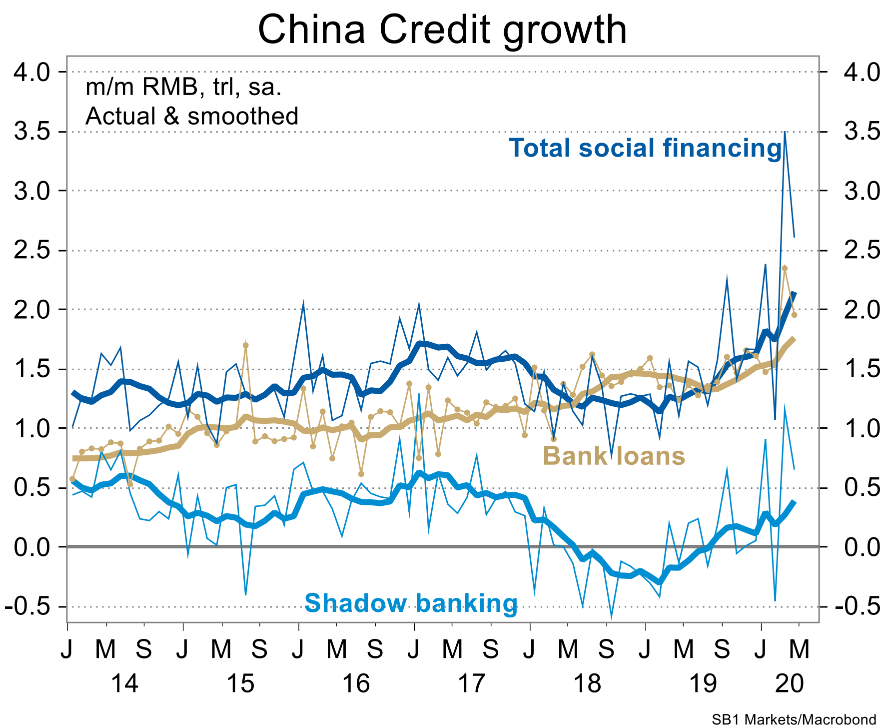
No corona shock to be seen, prices marginally up in March too – and prices are up 2.7% y/y

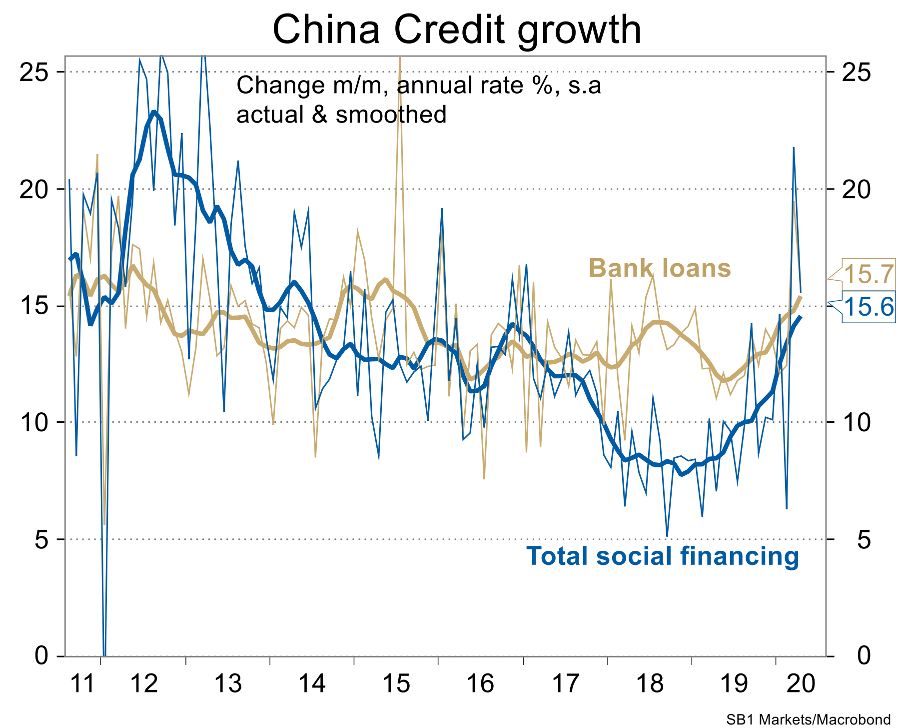




Credit growth slowed in April but is still high

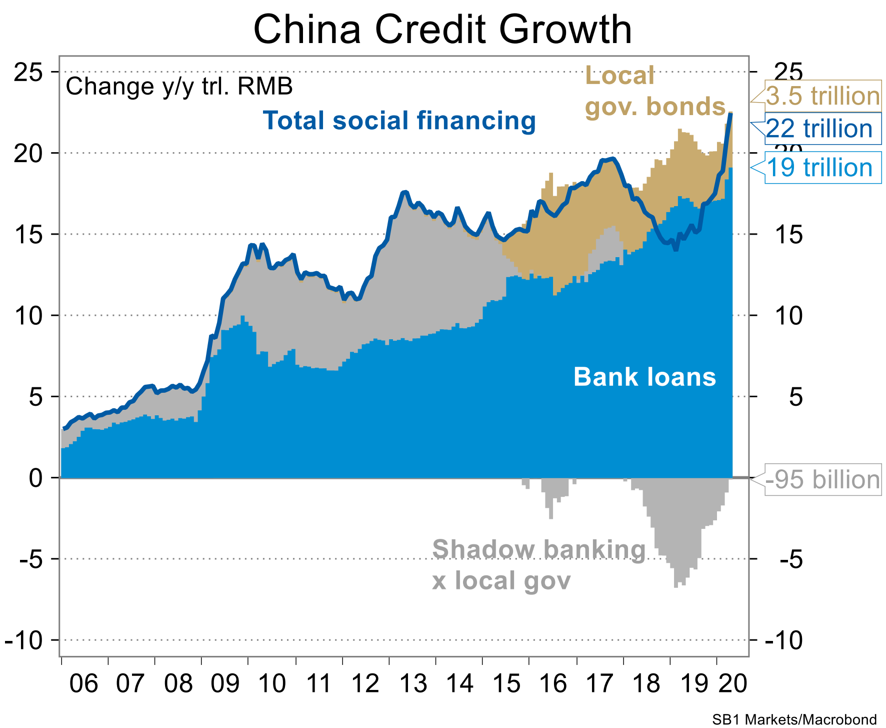
Underlying growth up to 16%, was well below 10%. Even credit from the shadows are back in vouge

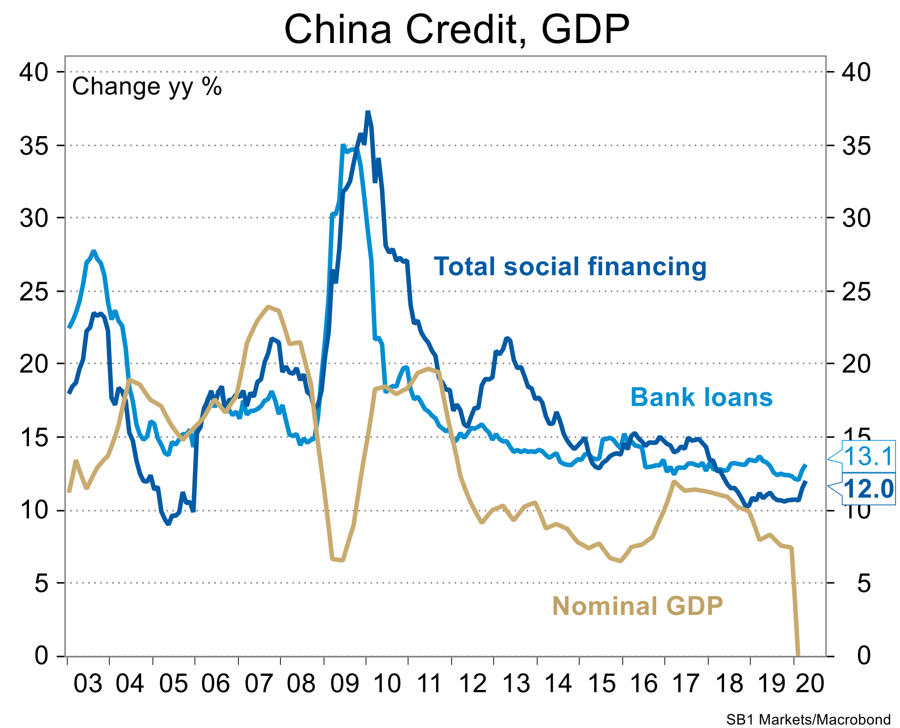




- Total credit growth slowed to a 16% pace in April, down from 22% in March (and a low level in February, during the lockdown).
  - » Total credit rose 2.6 bn RMB, less than expected (2.9 bn). Banks supplied most of the stuff but the shadow banking system contributed well too (1/3 of total)
- The underlying total credit growth has been accelerating since early ‘19, underlying growth up to 16%, from 7.5%, the highest since 2013
  - » Growth measured y/y credit growth accelerated to 12% (banks to 13.1). The credit impulse (acceleration in credit growth) is now clearly positive

Credit growth has accelerated over the past year





- Over the past year, total credit has grown by CNY 22 trl, equalling 23% of GDP
- Banks supplied CNY 19 trl of the y/y increase
- Local governments has not yet accelerated their borrowing, at least not in the bond market, still up 3.5 bn y/y
- Other credit – via the shadow credit market x local gov bonds is now flat y/y
- Total credit growth at 12% is higher than growth in nominal GDP even before the corona chock (7.4%, in Q1 it was down y/y)

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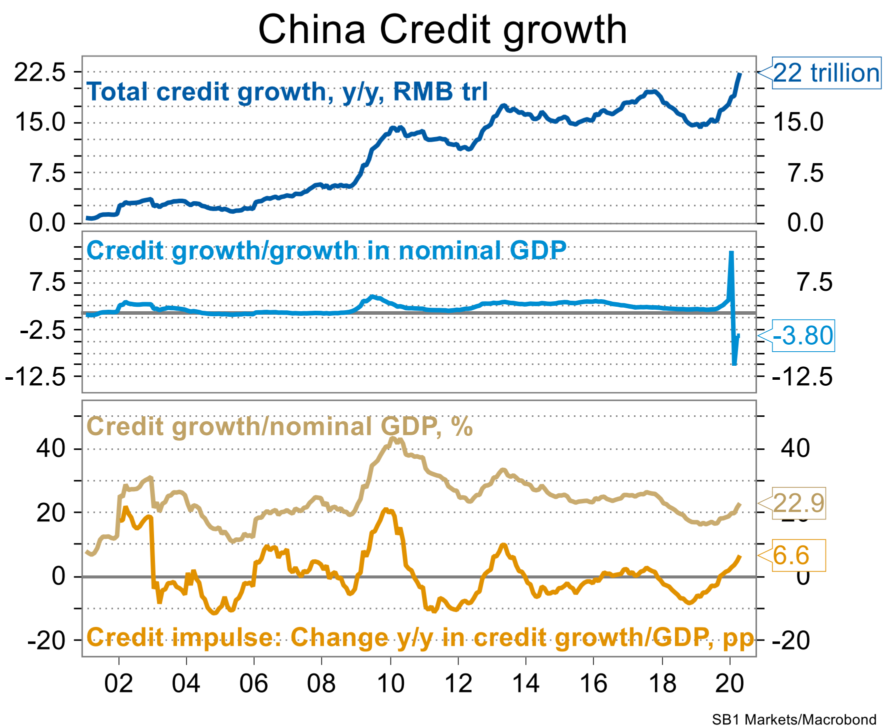
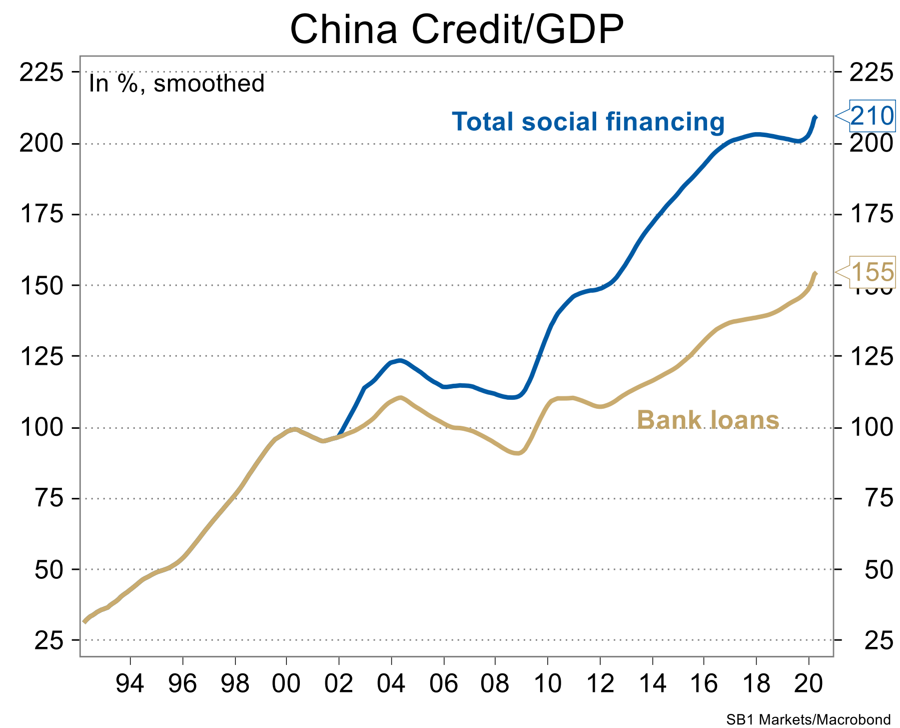
The credit impulse has turned positive, and the credit/GDP ratio sharply up

Credit growth is accelerating, whatever way we measure it

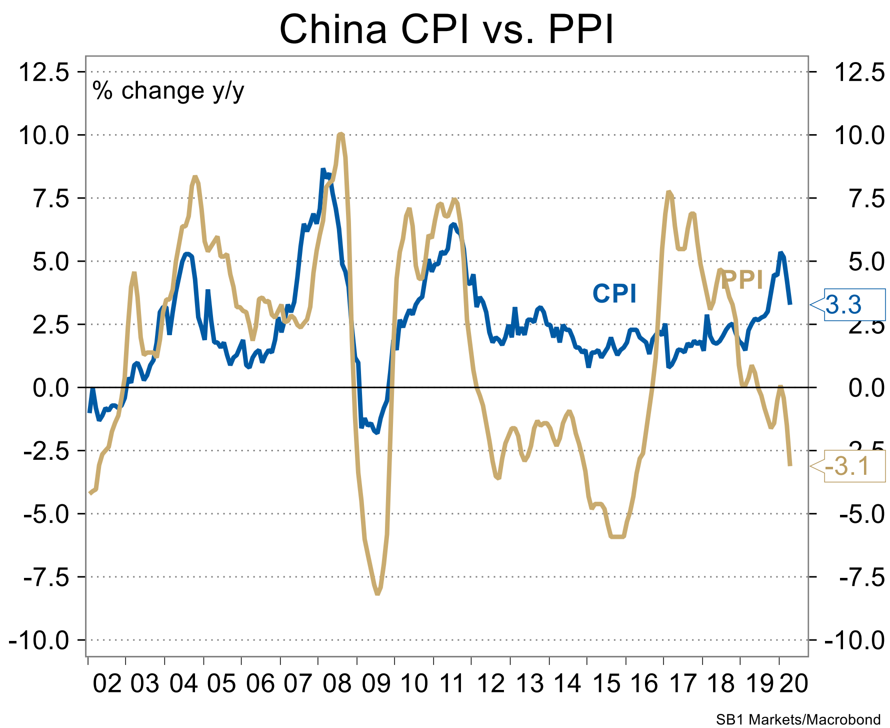


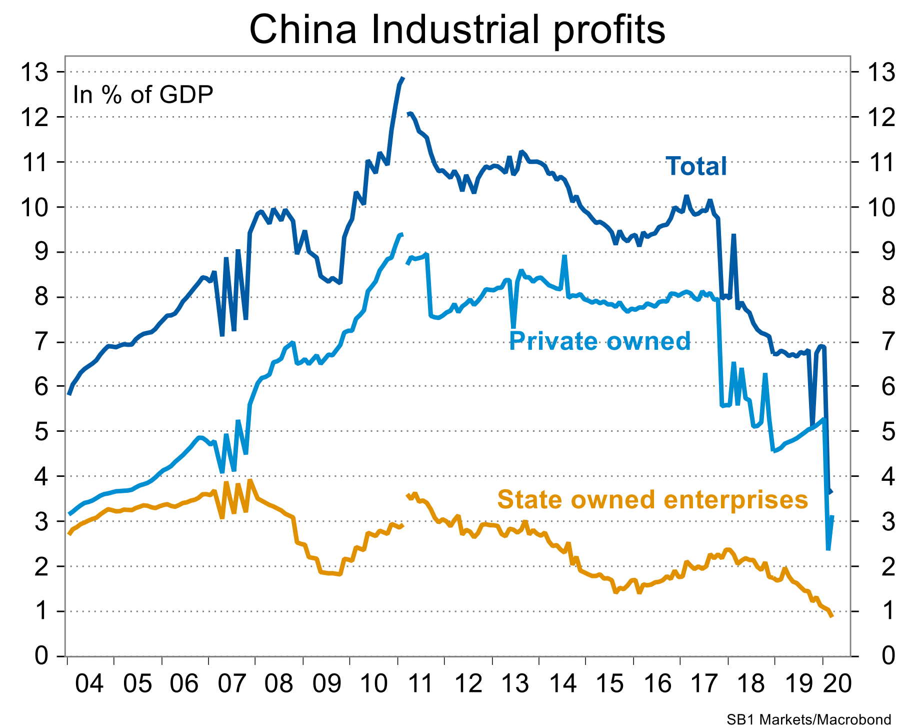


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » Now, the credit impulse has risen well into positive territory
- We are uncertain how far the authorities are willing or able to bring growth back up, even as stimulus is needed now to support the economy. The credit/income level has flattened but the level is disturbingly high. In addition, for every RMB GDP grows, credit increases 2.8 by RMBs (given trend growth in GDP in Q1, which was not the case…), and each year's growth in credit equals 23% of GDP. <u>That's not sustainable, long run, neither for lenders nor borrowers, as nominal GDP growth is well below 10%</u>. The Government may succeed in increasing credit supply short term (if they dare to, vs long term risks) to stimulate the 'post' corona economy but there are risks attached

China producer prices are falling but not by much – but profits are…

PPI down 3.1% in April – but the accumulated price decline not that high

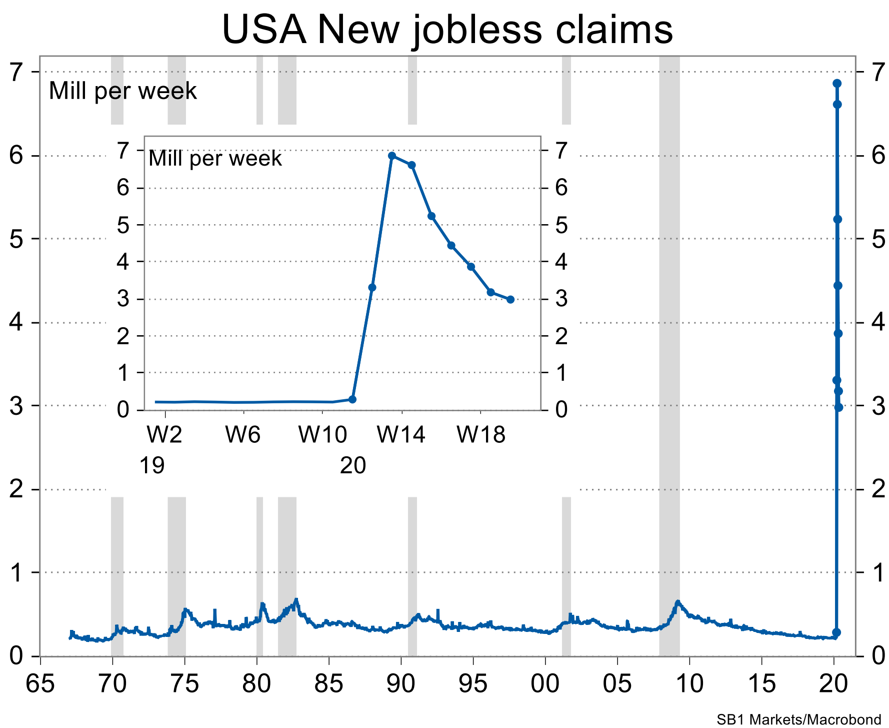


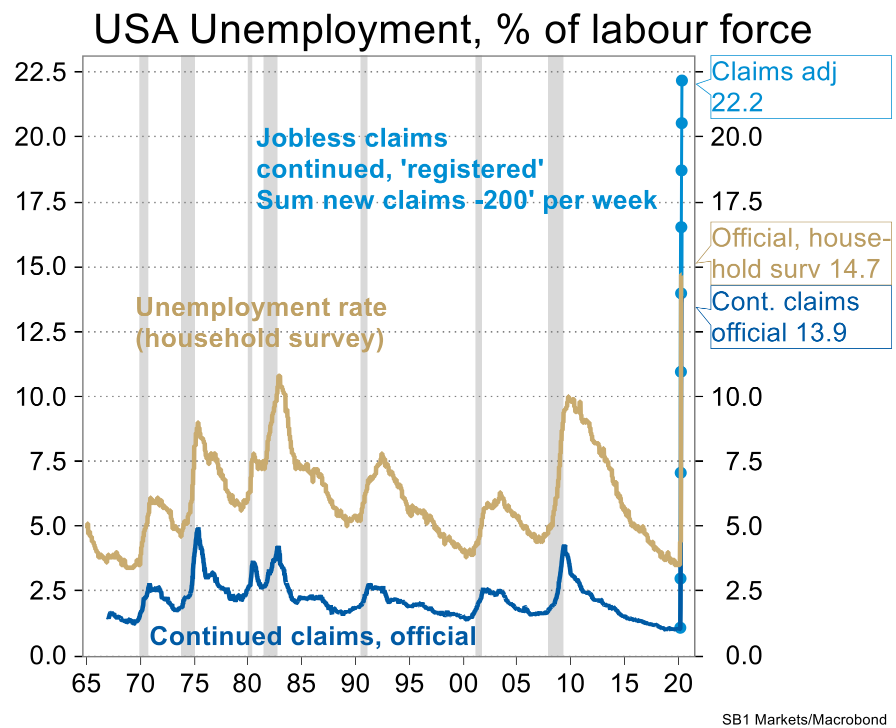


- The PPI has been under water the previous 7 months but the decline in prices have been moderate, in aggregate
  - From 2012 to 2016 prices fell by 3% per year in average, lowering the price level by more than 13%. Even that did not kill the Chinese economy
  - Pork meat prices are doubled due to the swine flue, driving total consumer price inflation up (meat constitute a very minor part of the PPI and does not influence PPI by much)
- Industrial profits in privately owed enterprises fell by 50% in February but profits were still positive, according to official data. Profits rose just marginally in March. In state owned enterprises, profits have been sliding down the past two years but not faster in February & March. Strange, to put it mildly

'Just' 3 mill new unemployed last week, the sum up 36 mill past 8 weeks

Official claimant count up to 23 mill, probably still many unprocessed applications

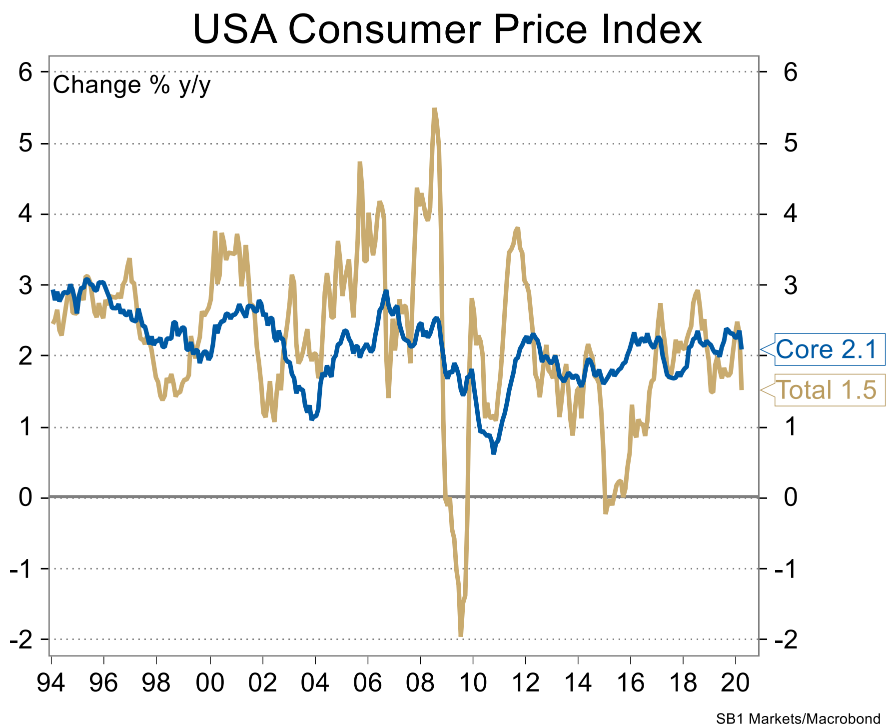


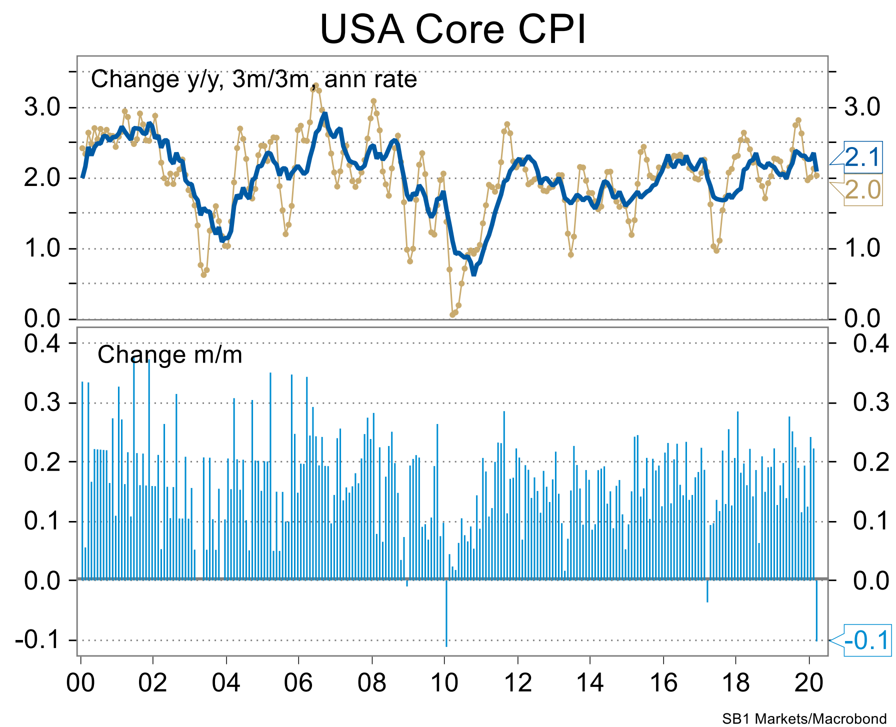


- The inflow is abating, but still 2% of the labour force is entering the labour market offices each week!
- Continued claims have climbed to 23 mill (13.9%). If the weekly inflow is accumulated, the number far higher, equalling 22.2% of the labour force. The 'truth' may be somewhat in between, as many applications are not yet processed – and some applicants may have found a new job, which they normally do – or have given up

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

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

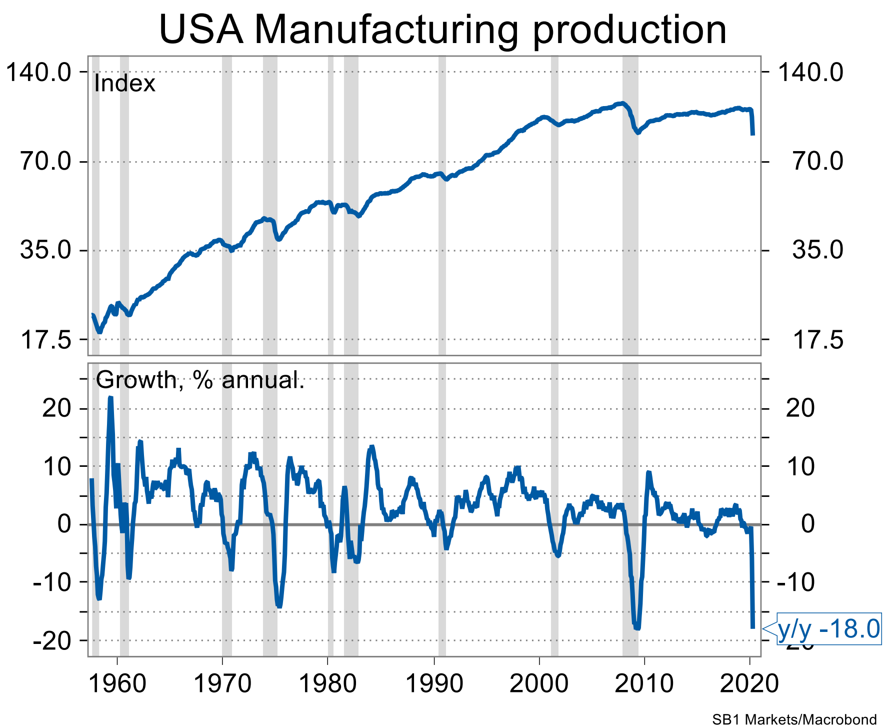


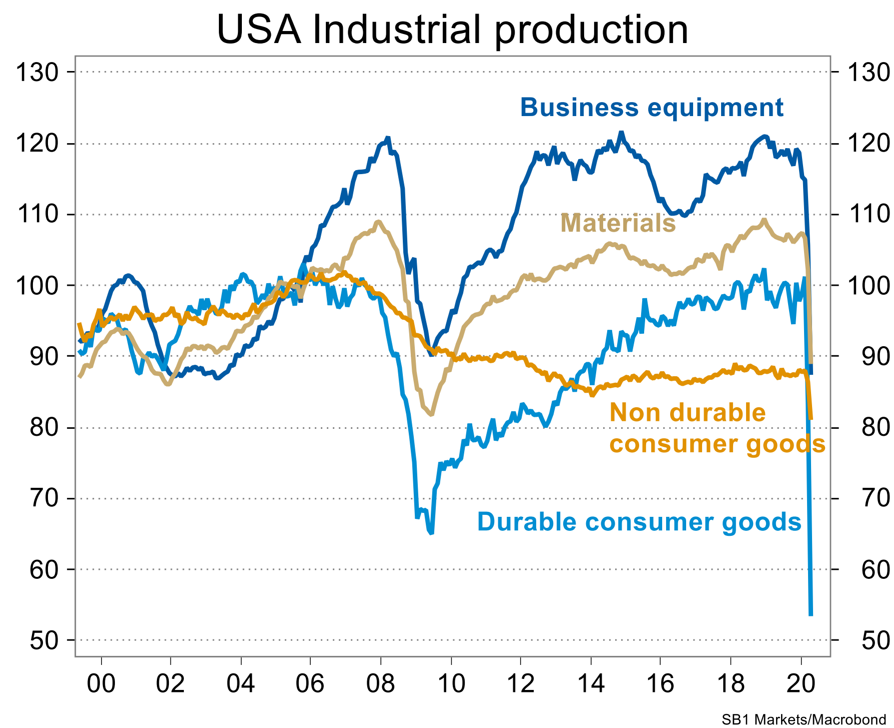


- The decline in inflation was slightly larger than expected
- The coming months, price inflation will very likely decelerate further

There we are, manufacturing production -13.7% in April, -18.5% from Feb

Just for the record, these two months are weakest since Aug/Sept 1945

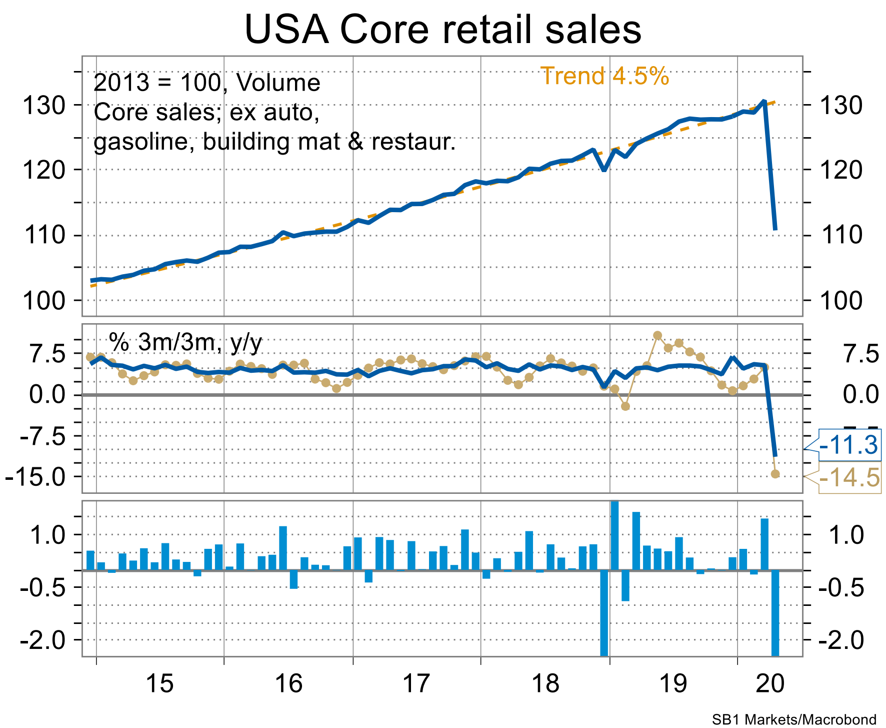


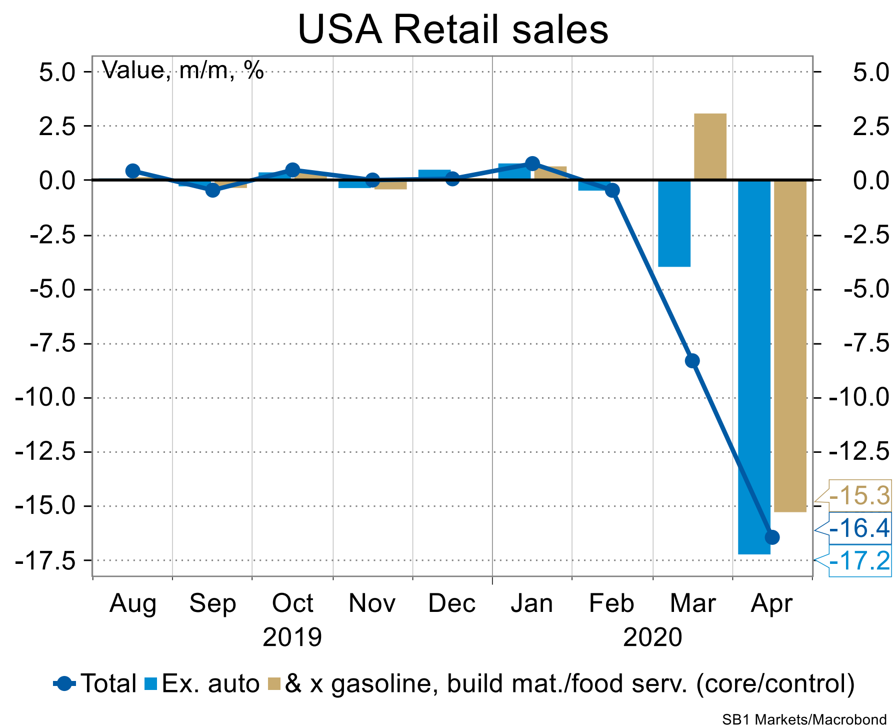


- Production fell slightly more than expected, but the 'catastrophe' was of course well known on beforehand. Most analysts assume that April was the bottom, and that production will recover somewhat in May as production probably did not decline much through April. The first May manufacturing survey, from NY Fed, rose but remains at a miserable low level
- Auto production fell more than 70% in April alone as most factories were closed down, which took durable consumer goods down almost 50% the past two months
- Non durable consumer goods (food, clothing etc) is down 'just' 8% these two months, as food production has more or less been kept up (though with some problems in meat processing)

Retail sales down 16.4% in April. But that was the bottom!

Sales down 23% in March & April, April down 26% y/y. May will be far better





- Sales fell 4 pp more than expected. Still not so shocking. The lockdown closed many retail business, clothing down 90
- Consumption will most likely be heavily impacted by Covid-19, at least in April and most likely in May as well. Never before has so may Americans lost their jobs (13%), and consumer sentiment has never fallen more.

A check list

You will never see anything like this again

- Food sales sharply up from April last year, + 12% (still down 13 from the March hoarding boost!) as most restaurants were closed
- Clothing down 90% y/y
- Electronics down 65& y/y

NAICS code	Kind of Business	Apr. 2020 Advance from -- Mar. 2020 (p)	Apr. 2020 Advance from -- Apr. 2019 (r)
	Retail & food services, total	**-16.4**	**-21.6**
	Total (excl. motor vehicle & parts)	-17.2	-18.8
	Total (excl. gasoline stations)	-15.5	-19.7
	Total (excl. motor vehicle & parts & gasoline stations)	-16.2	-16.0
	Retail	-15.1	-17.8
441	**Motor vehicle & parts dealers**	**-12.4**	**-32.9**
4411, 4412	Auto & other motor veh. dealers	-13.0	-34.3
442	**Furniture & home furn. stores**	**-58.7**	**-66.5**
443	**Electronics & appliance stores**	**-60.6**	**-64.8**
444	**Building material & garden eq. & supplies dealers**	**-3.5**	**0.4**
445	**Food & beverage stores**	**-13.1**	**12.0**
4451	Grocery stores	-13.2	13.2
446	**Health & personal care stores**	**-15.2**	**-10.4**
447	**Gasoline stations**	**-28.8**	**-42.8**
448	**Clothing & clothing accessories stores**	**-78.8**	**-89.3**
451	**Sporting goods, hobby, musical instrument, & book stores**	**-38.0**	**-48.9**
452	**General merchandise stores**	**-20.8**	**-14.9**
4521	Department stores	-28.9	-47.0
453	**Miscellaneous store retailers**	**-24.7**	**-30.6**
454	**Nonstore retailers**	**8.4**	**21.6**
722	**Food services & drinking places**	**-29.5**	**-48.7**

(p) Preliminary estimate (r) Revised estimate

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Far better May spending data, so far

Airlines, lodging, entertainment still close to 90% down, but restaurants retail sales are recovering sharply, according to card use data

The big picture

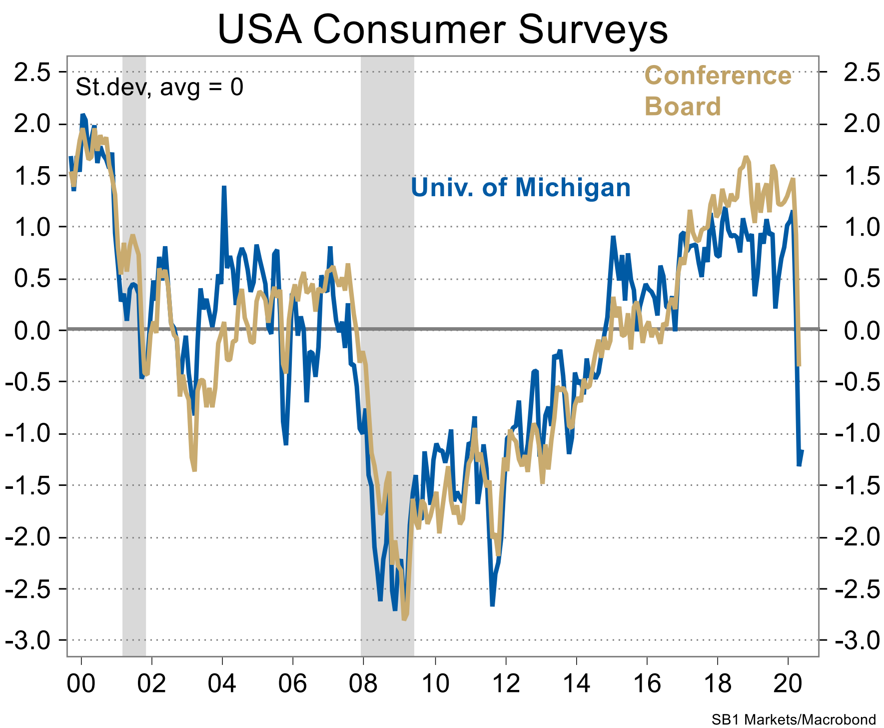
Table 2: Aggregated daily spending by major category (% year-over-year growth)

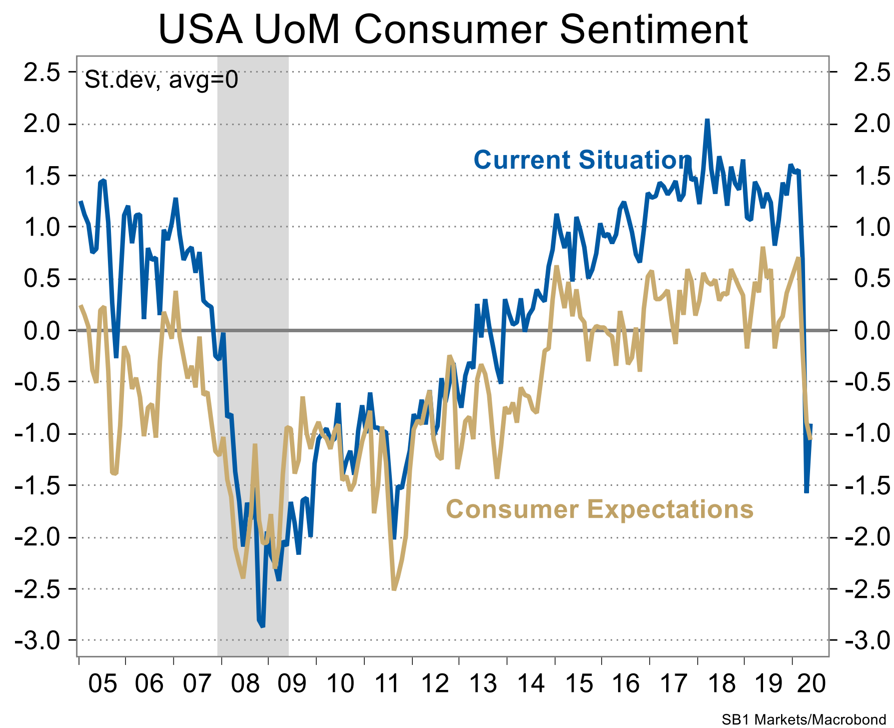
	5/7	5/6	5/5	5/4	5/3	5/2	5/1 (Pay day effects)	4/30	4/29	4/28	4/27	4/26	4/25	4/24
Airlines	-95%	-93%	-96%	-100%	-87%	-104%	-100%	-100%	-97%	-100%	-106%	-90%	-112%	-105%
Lodging	-83%	-82%	-85%	-88%	-81%	-83%	-80%	-88%	-88%	-89%	-92%	-85%	-90%	-90%
Entertainment	-92%	-93%	-89%	-86%	-93%	-71%	-84%	-93%	-94%	-98%	-93%	-96%	-96%	-97%
Restaurants	-36%	-35%	-31%	-39%	-52%	-48%	-41%	-41%	-42%	-40%	-43%	-55%	-51%	-46%
Transit	-55%	-56%	-55%	-60%	-63%	-51%	-61%	-64%	-59%	-65%	-63%	-74%	-61%	-63%
Gas	-41%	-43%	-42%	-44%	-45%	-41%	-44%	-46%	-48%	-47%	-47%	-51%	-46%	-48%
Clothing	-39%	-34%	-33%	-32%	-61%	-65%	-45%	-43%	-43%	-40%	-41%	-64%	-70%	-53%
Furniture	7%	4%	7%	9%	-28%	-27%	-1%	-5%	-19%	-10%	-7%	-40%	-44%	-16%
Department store	-42%	-35%	-28%	-26%	-65%	-72%	-57%	-49%	-46%	-40%	-31%	-67%	-76%	-61%
Online electronics	111%	122%	126%	130%	136%	126%	155%	131%	52%	87%	123%	149%	151%	119%
Grocery	29%	28%	40%	20%	1%	17%	23%	30%	17%	28%	18%	-1%	19%	29%
General Merchandise	18%	16%	19%	17%	-11%	-7%	3%	11%	8%	17%	17%	-16%	-12%	4%
Health, personal & beauty store	-2%	-5%	-3%	-8%	-26%	-20%	-5%	-8%	-25%	-11%	-11%	-32%	-25%	-9%
Home improvement	31%	27%	24%	28%	41%	34%	39%	25%	18%	16%	16%	18%	19%	17%
Retail ex auto	4%	4%	10%	2%	-16%	-12%	-1%	0%	-7%	0%	-2%	-21%	-17%	-7%
Total online retail	84%	78%	76%	68%	86%	108%	96%	77%	50%	60%	66%	86%	101%	84%
Total card spending	-9%	-9%	-4%	-9%	-19%	-14%	0%	-14%	-33%	-21%	-17%	-27%	-24%	-20%

Source: BAC internal data; Note: > 100% decline reflects refunds. We advise taking a moving average to decipher the underlying trend. Note: 5/1 pay day effects means consumers spend more as a result of getting their paychecks on April 30th. Total card spending includes total BAC card activity which captures retail sales + services which are paid with cards. Does not include ACH payments.

UoM consumer sentiment a tad up in May – and not *that* weak

Sentiment sharply down from February, but still well above the Financial Crisis bottoms

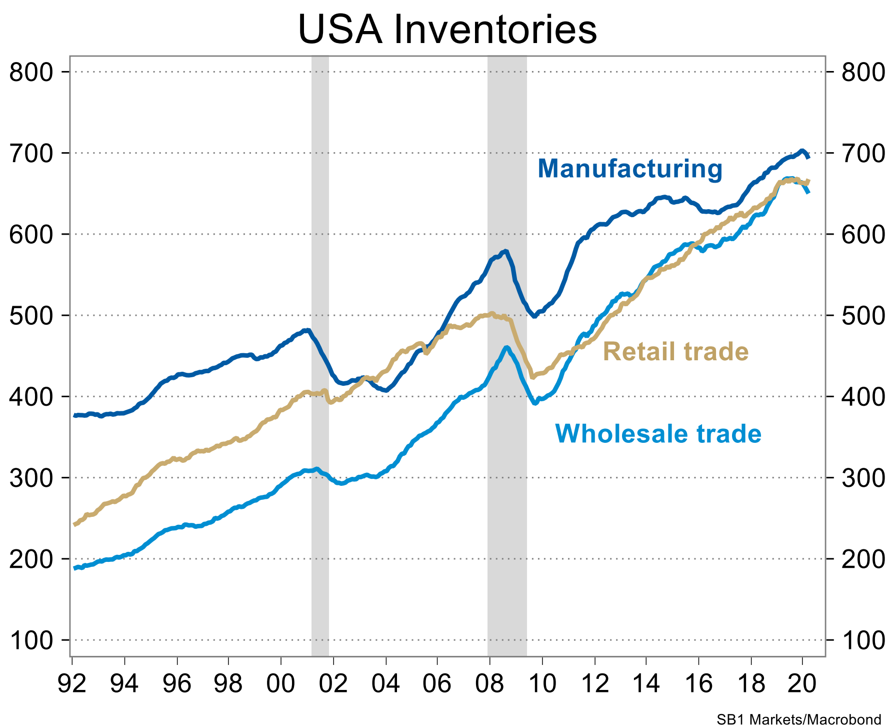


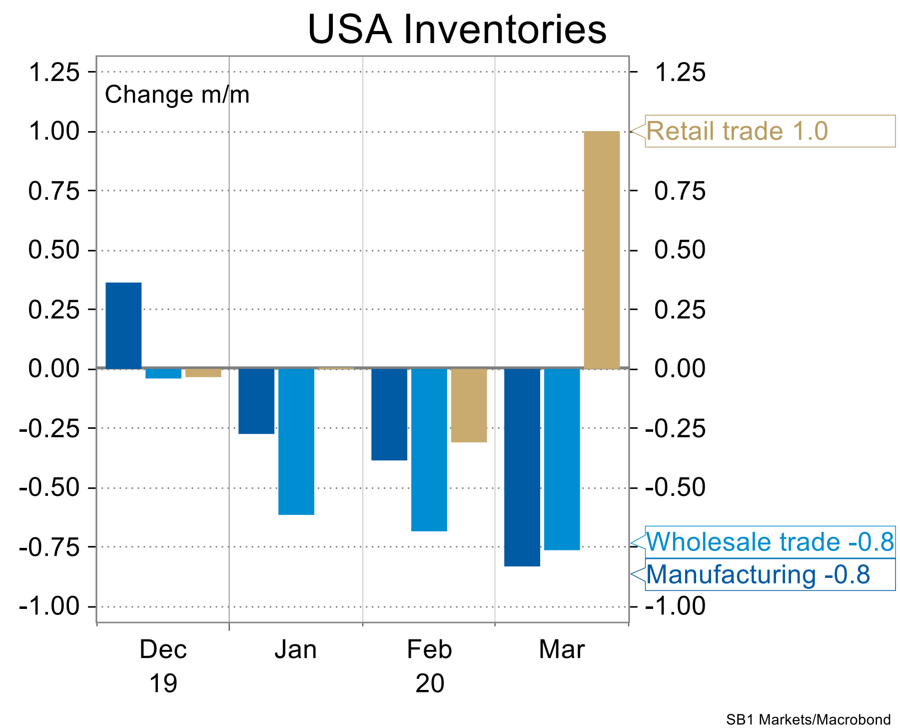


- University of Michigan’s consumer sentiment fell 18 p to 71.8 p April (via 71 in early April), and rose to 73.7 in the first part of May – expected down to 68
  - » The current situation was deemed to be somewhat better than in April
  - » Strange: Expectations fell further, does not the respondents see any light in the end of the tunnel?

No inventory buildup in March, both production and demand down

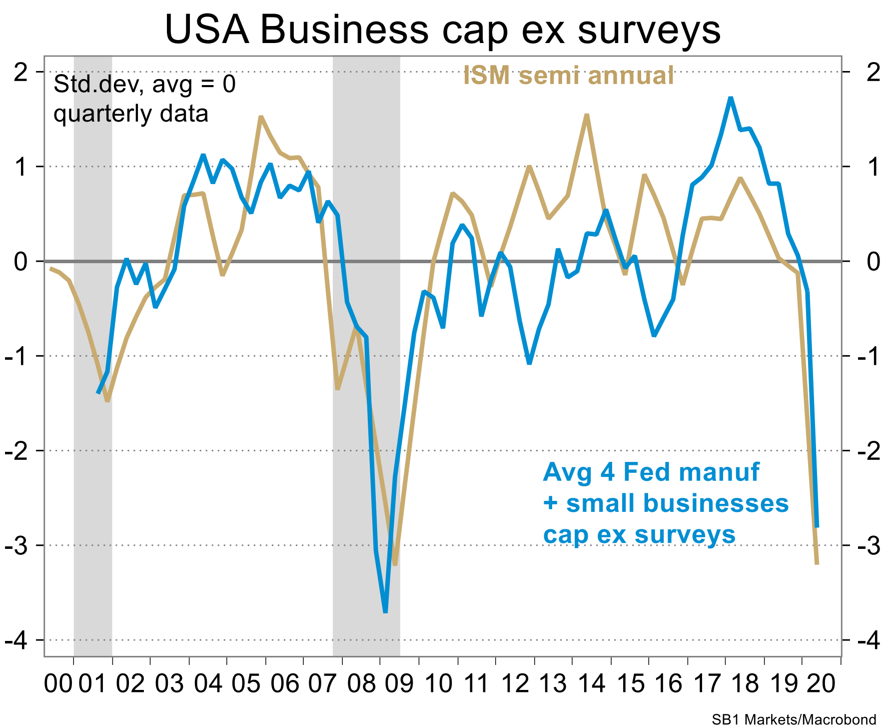
... which is good news – when demand recovers, production must up too

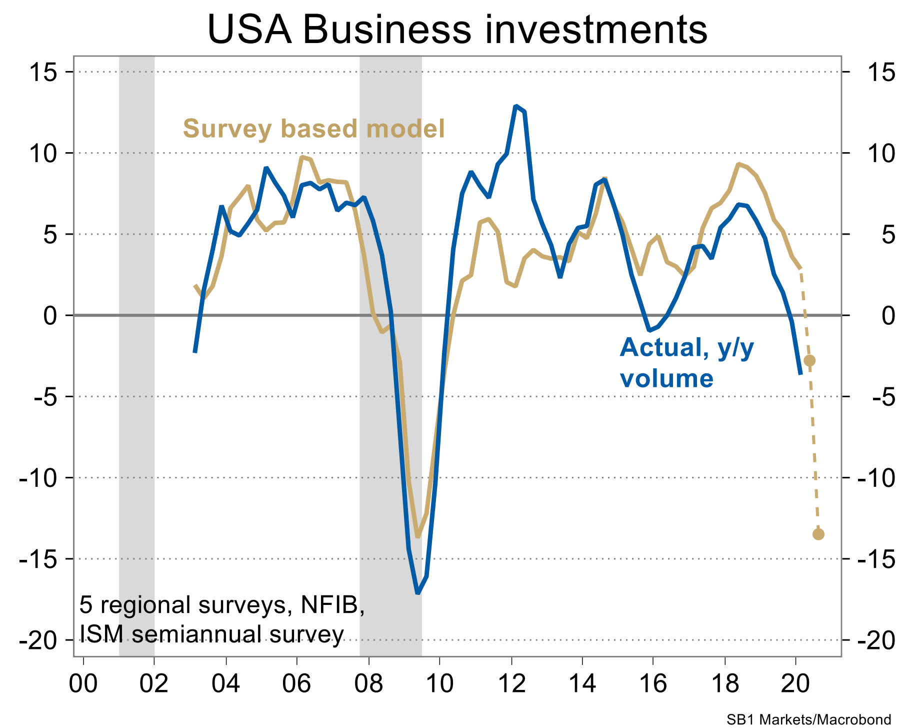




Businesses plan huge cuts in investments

Both ISM's semi-annual survey and regional Fed surveys report cap ex cuts, as during the Fin. Crisis

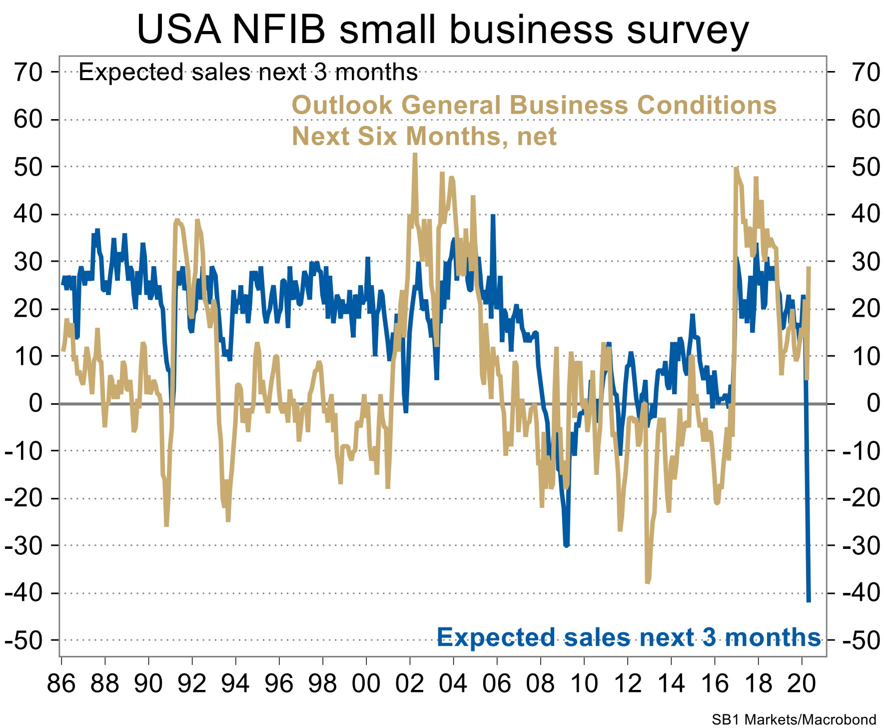


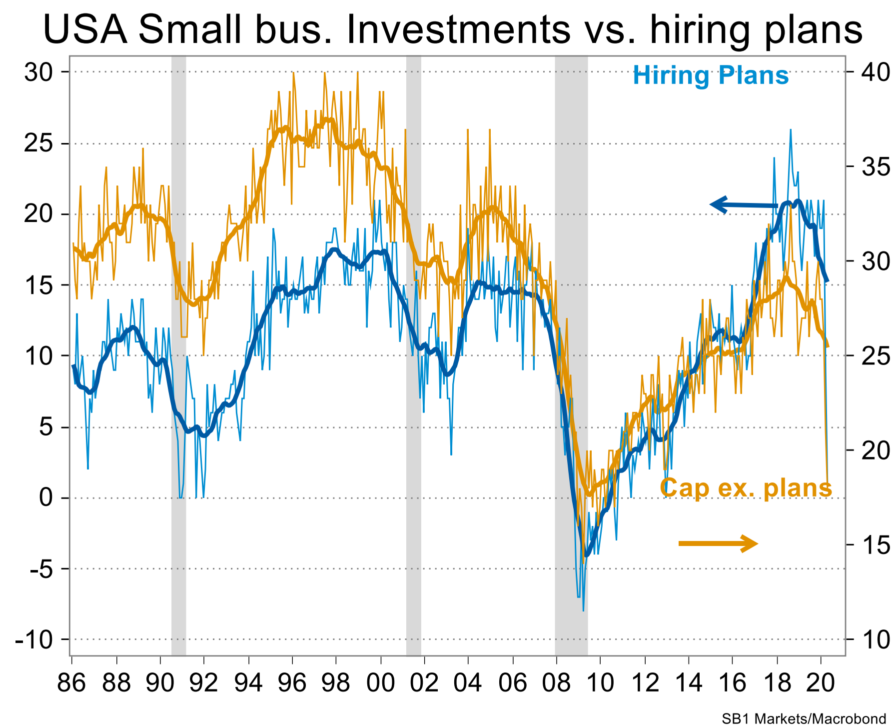


- The decline in the H1 ISM semi-annual survey was quite similar in both manufacturing and non-manufacturing sectors
- A 15% cut in business investments seems reasonable – equalling 2% of GDP, as the direct impact. Some will take place in Q2 but the impact is very likely to be more long lasting

The futures so bright. But first an unprecedented decline in sales next 3 months

Sales expected more down than ever, no hiring, cap ex, price or wage increases. But the outlook…

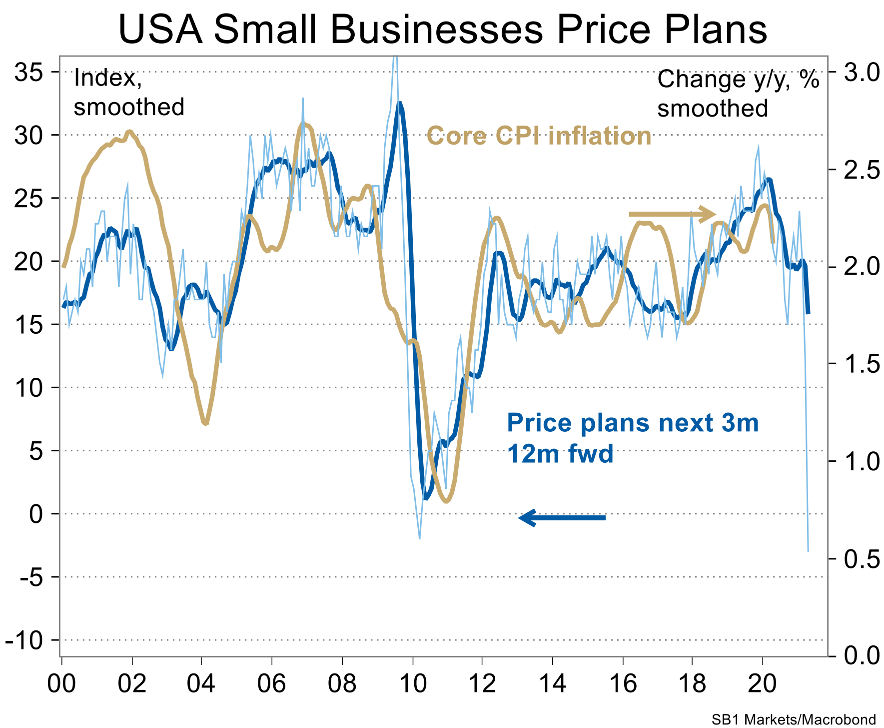


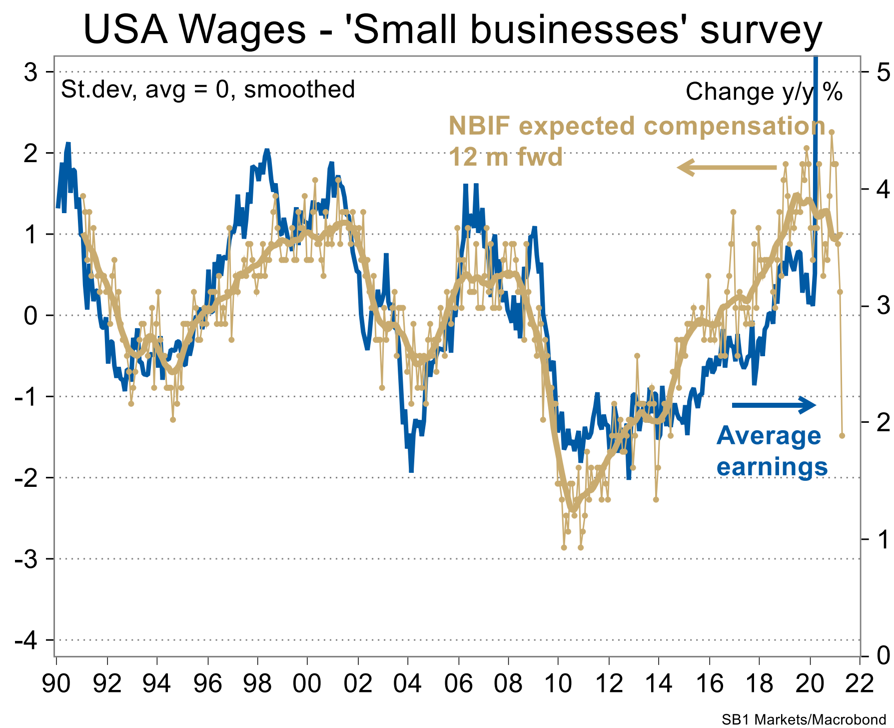


- … The 6 month outlook strengthened!

No inflation in sight: No planned price increases, no planned wage increases

Price hike plans (or rather cut plans) below Fin. crisis bottom, a safe low inflation signal

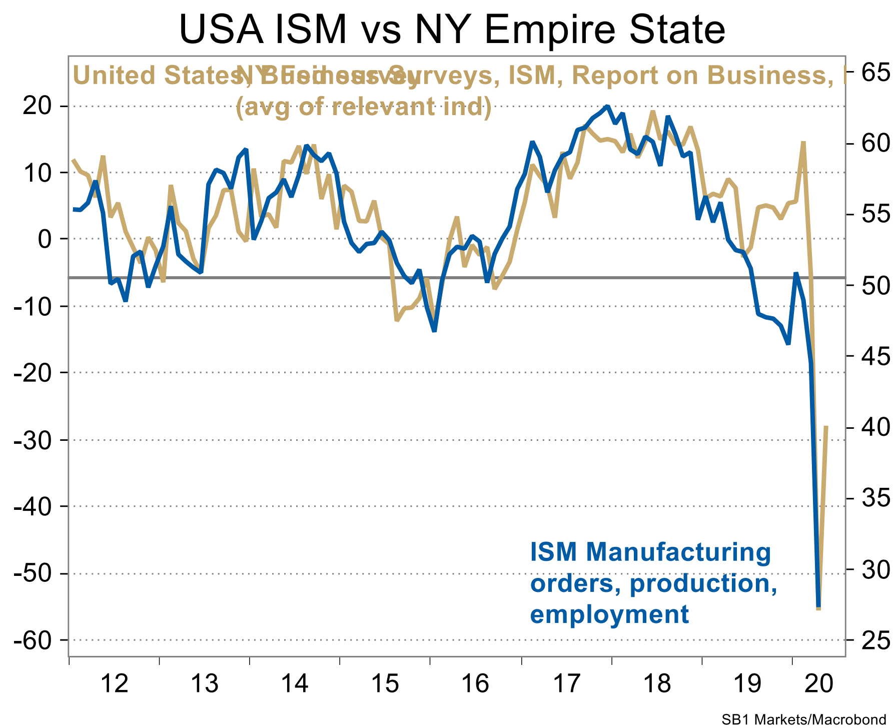




- Expected compensation plans were revised sharply down, but did not reach all time low. That may be the case in May

NY Fed survey up in May, more than expected, less than we assumed

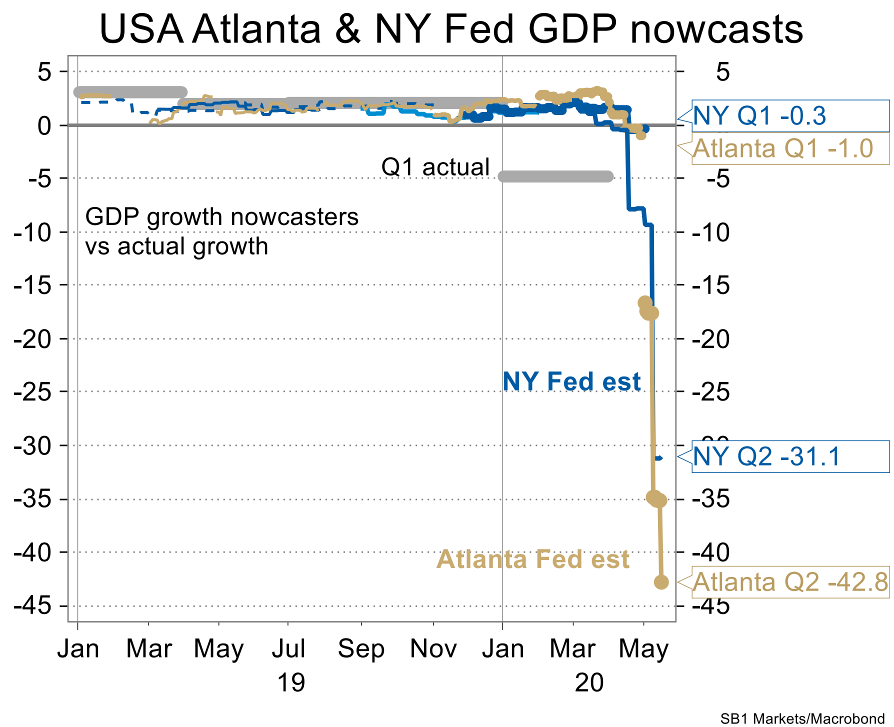
Signals a recovery in the ‘real’ ISM to 40 from 27. The official ISM might still struggle…

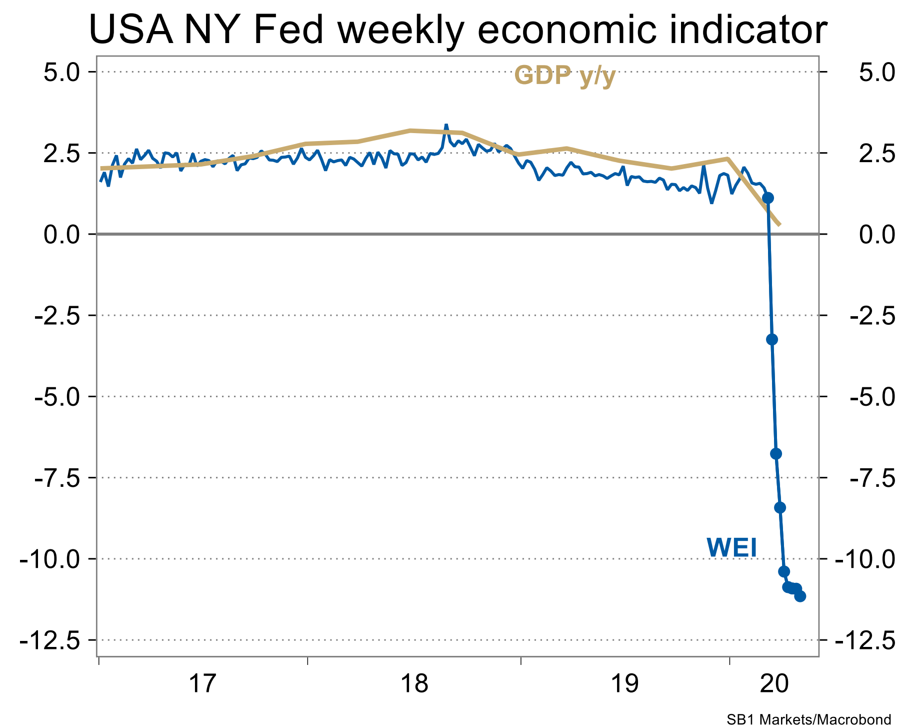


- NY Fed’s manufacturing survey rose to -48 from -78, expected up to -68. At -48, the companies are still reporting a fast decline in activity, in principle in May vs April. However, respondents are – at least vs. the actual outcome for US manufacturers in reality reports something like a 3m/3m growth rate in May – which of course is sharply down due to the decline the previous months. The survey usually does not report growth in the first month of a recovery
- The ISM index fell less than it ‘should’ in March and April, due to a large increase in delivery times (one of the components in the total index), obviously not due to booming demand. The average of activity components in the ISM fell to 27 in April, while the ‘official’ ISM was at 42. In May, delivery problems probably eased (at least they did in the NY Fed’ survey). If so, the ISM index could surprise on the downside as the activity component in the NY Fed survey just rose to 40, ISM calibrated

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

GDP is probably down some 12% from the pre corona level





- The NY Fed's weekly economic indicator reports 11% y/y decline. 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 – 43% decline q/q, in annualised terms – equalling a 10 – 13% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 11 – 14% vs the Q4 level

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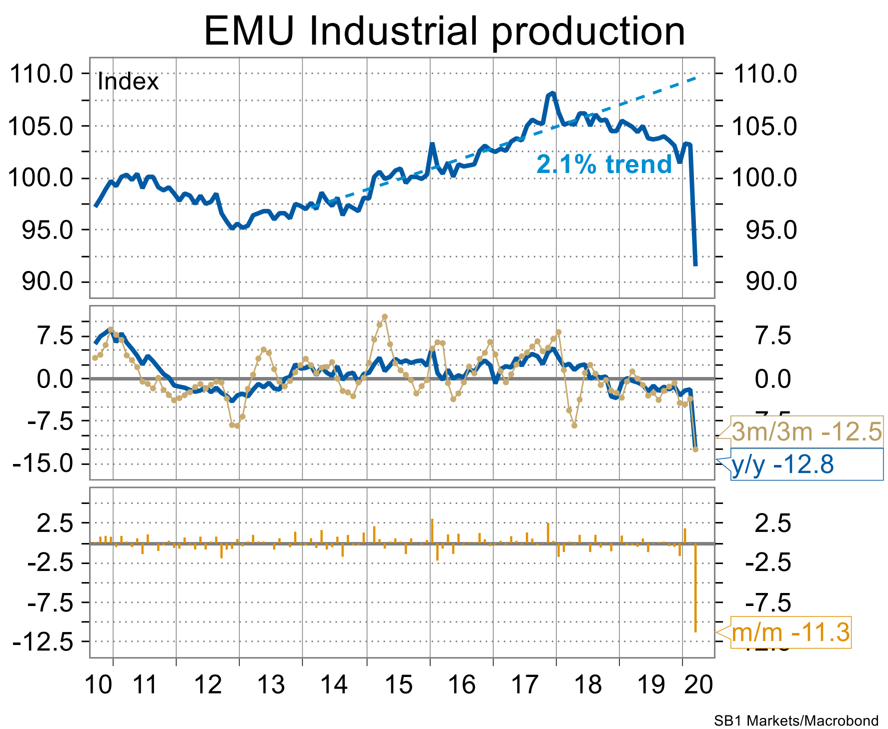
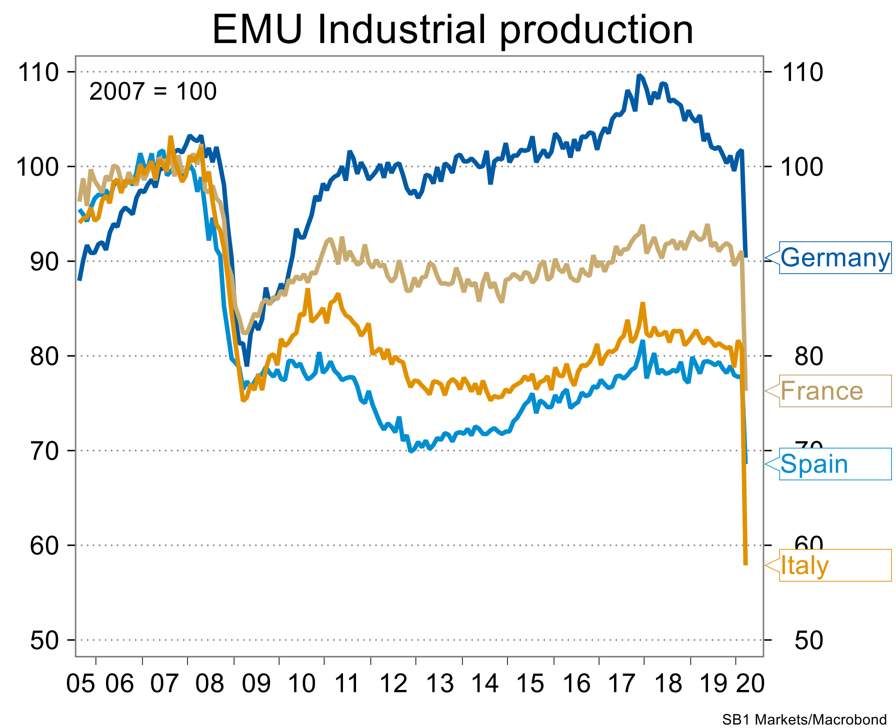
Industrial production down 11% in March. And will decline further in April

Germany, Spain down 11 -12%, France -16%. Italy -28%

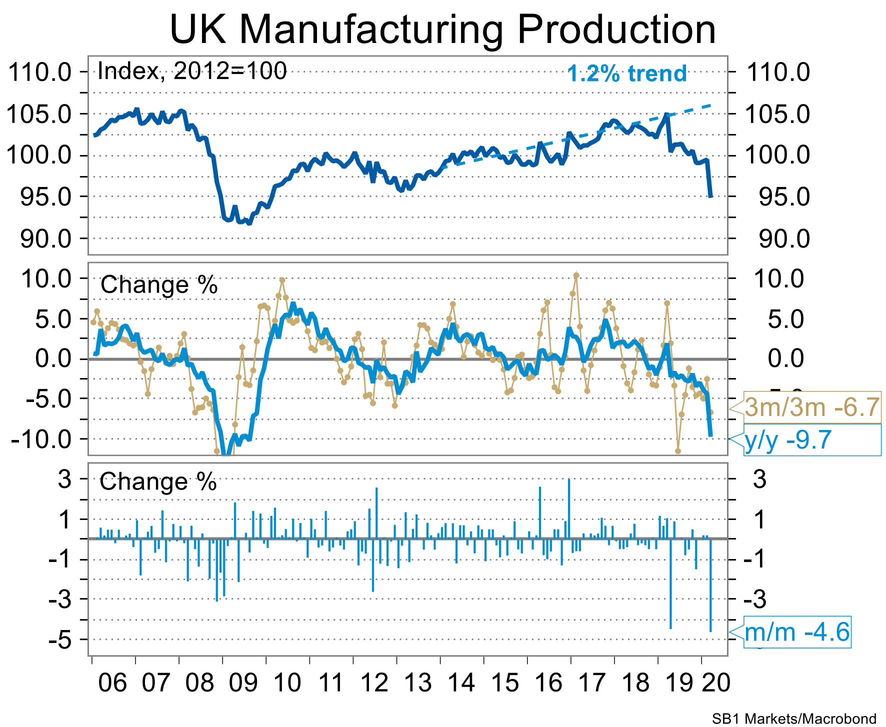


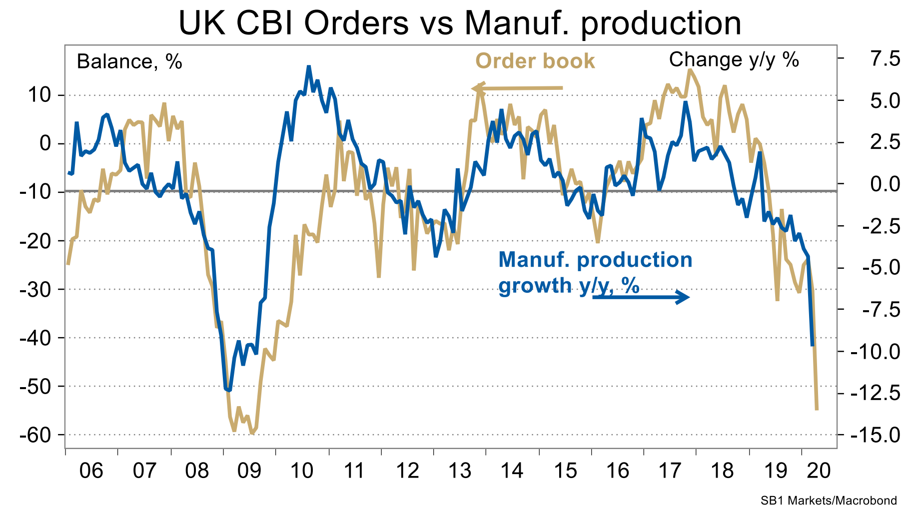


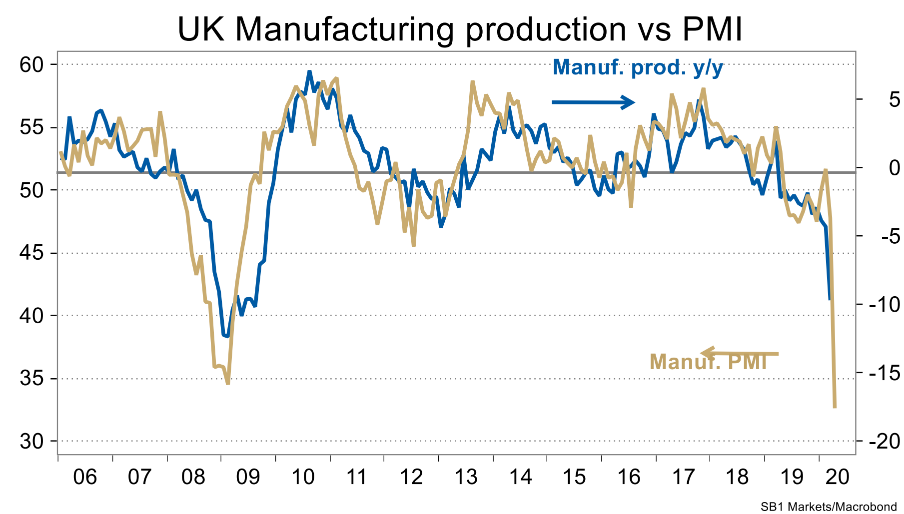
- Production was down 13% y/y in March in EMU in aggregate. April will be much worse, at least 20%. In Italy, where the lockdown started in early March, production is down 28% (but should not decline that much m/m in April

Manufacturing production just down 4.6% in March, as UK closed doors late

Just wait for the April figures…



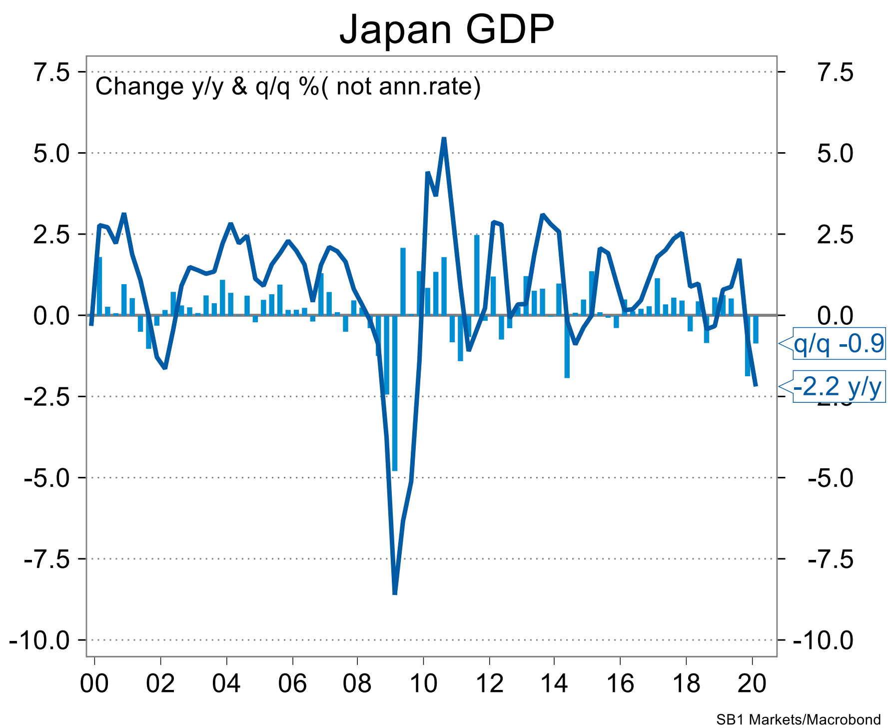


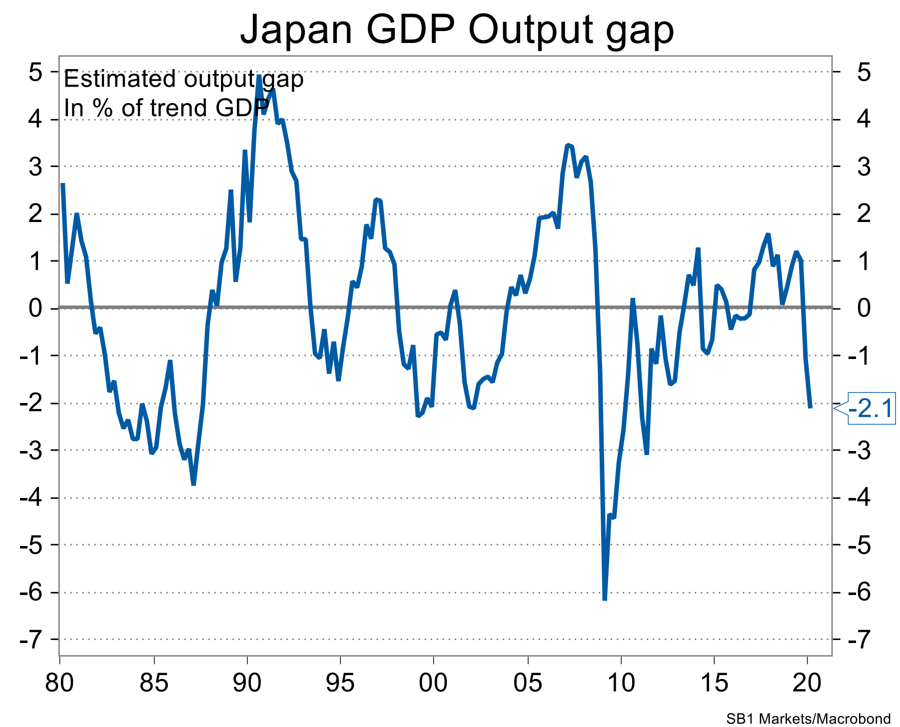


- Manufacturing production is contracting, down 3.8% y/y

Finally, a surprise on the upside: GDP down 'just' 0.9% in Q1, still down 2.1% y/y

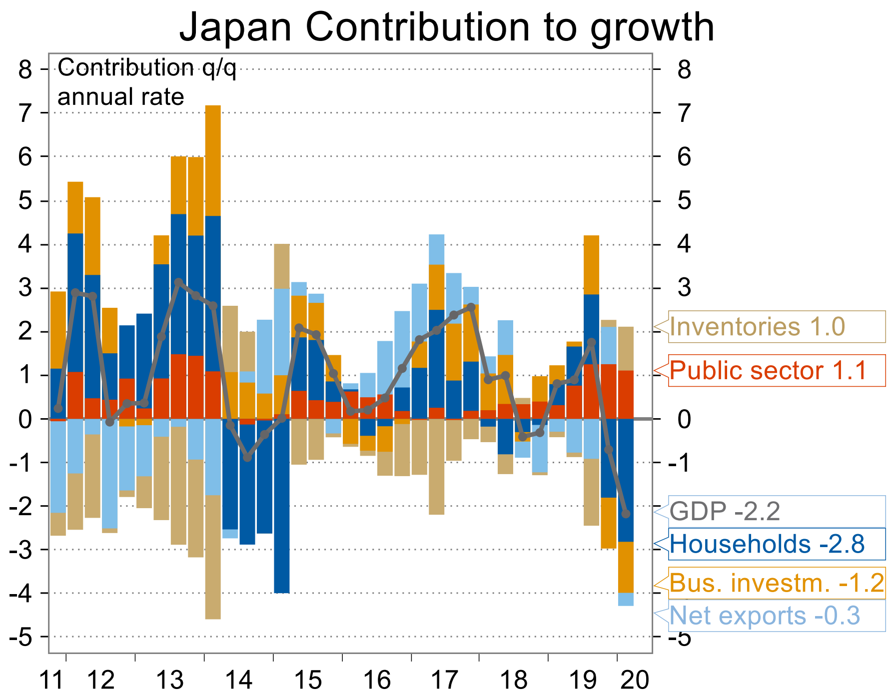
GDP fell almost 0.9% (-3.4% annualised), expected -1.1%



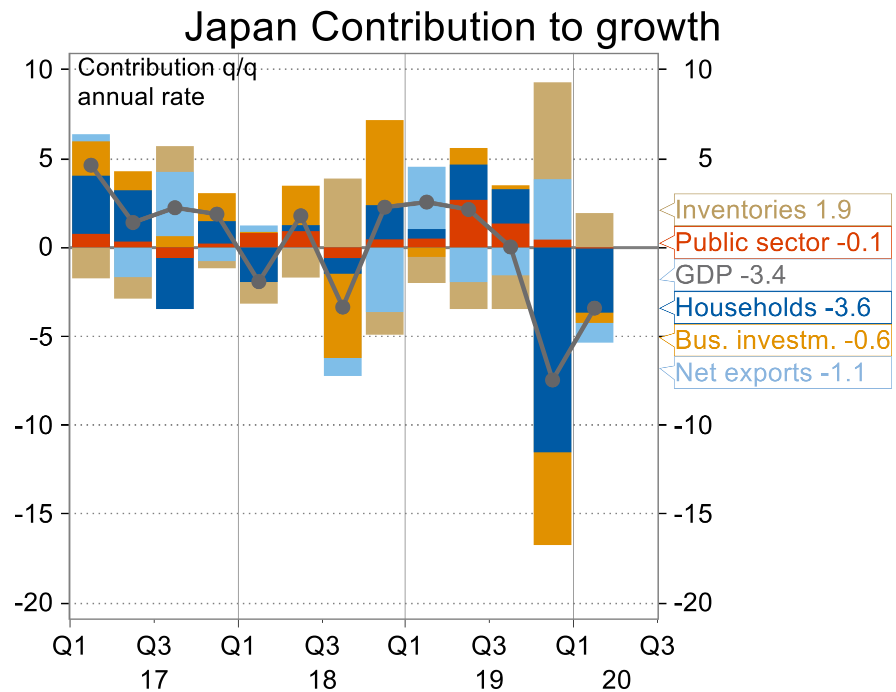


- GDP in Japan fell 1.9 % in Q4, at least partly due to the VAT hike last October, and 'should' have expanded almost 2% in Q1 if growth should have reverted to trend. Thus, GDP 'in reality' fell some 3% in Q1 – and it is now down 2.2% over the past year and 2% below trend
- Households are mostly to blame, in both Q4 and Q1. However, business investments fell too, alongside net trade (check next page)

Nothing at the right side in Q1. Households the main drag



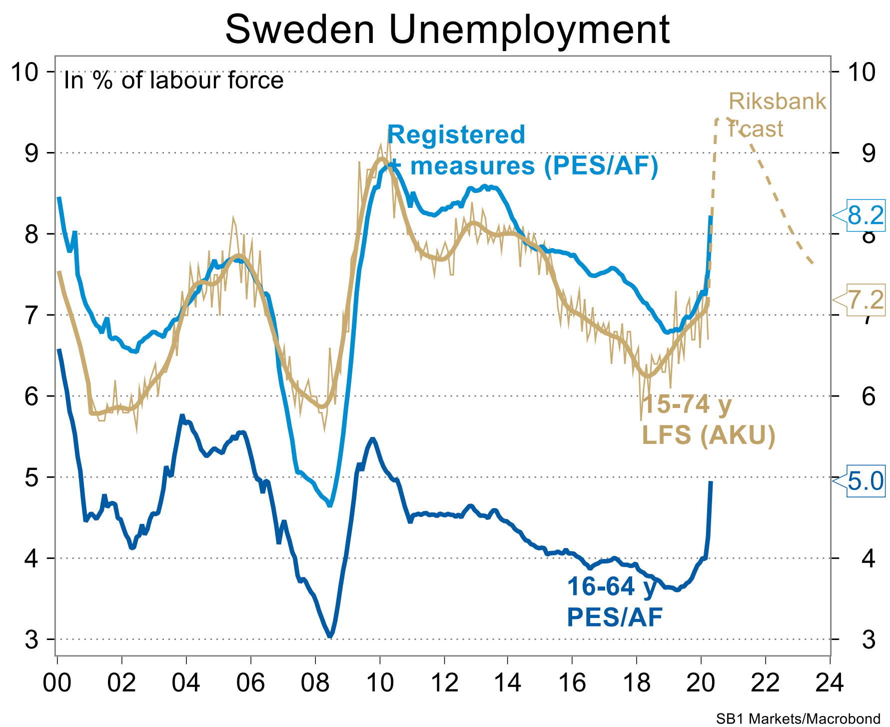
SB1 Markets/Macrobond

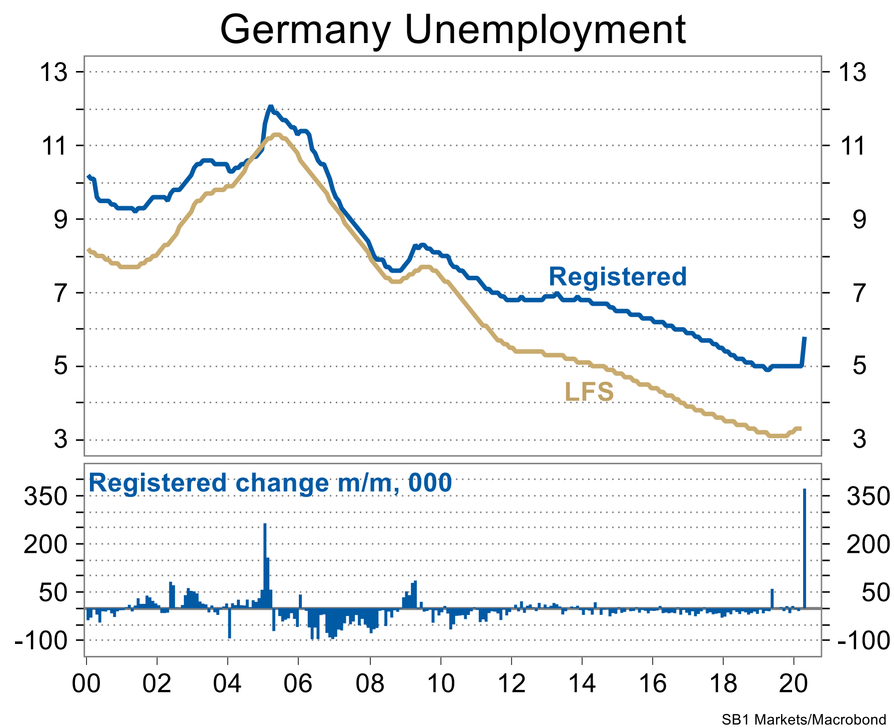


SB1 Markets/Macrobond

Just a small uptick in open unemployment in Sweden and Germany in April

Registered unemployment up 1 pp to 5% in Sweden, 0.8 pp to 5.8% in Germany





- The increase in the Swedish open unemployment rate to 5% and 8.2% including measures is far less than reported in Norway. Companies have not been motivated to furlough employees (that has not been the case in most other European countries either)
  - » Fewer but still many new & unfilled vacancies
- Germany has reported the same open unemployment rate increase as Sweden, by 0.8 pp to 5.8% rate. The German LFS ('AKU') has not reported any corona impacts, so far. No April data yet, and furloughed workers will not be counted as unemployed before after 3 months

Highlights

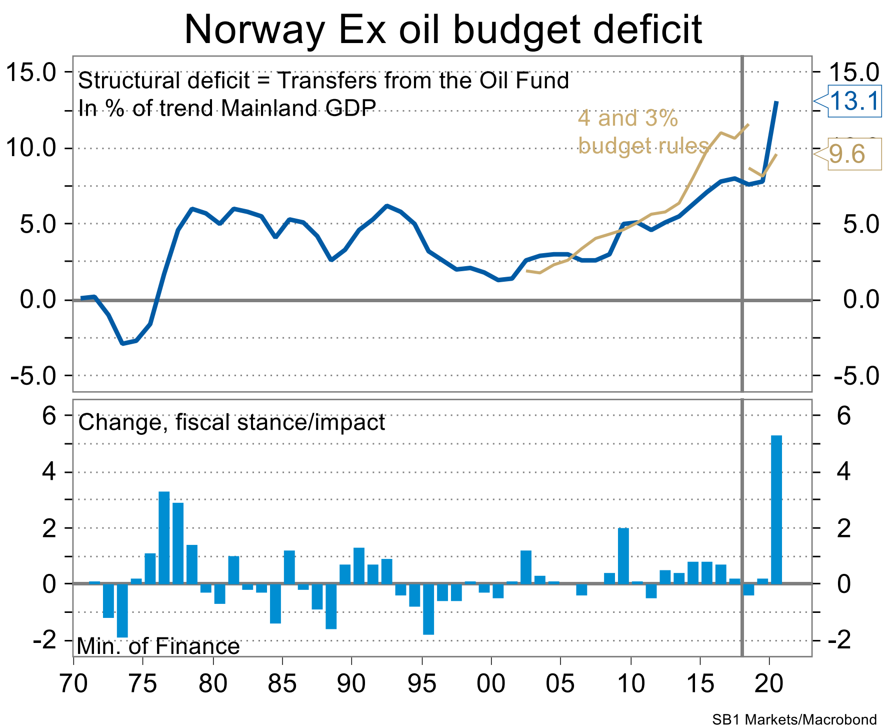
The world around us

The Norwegian economy

Market charts & comments

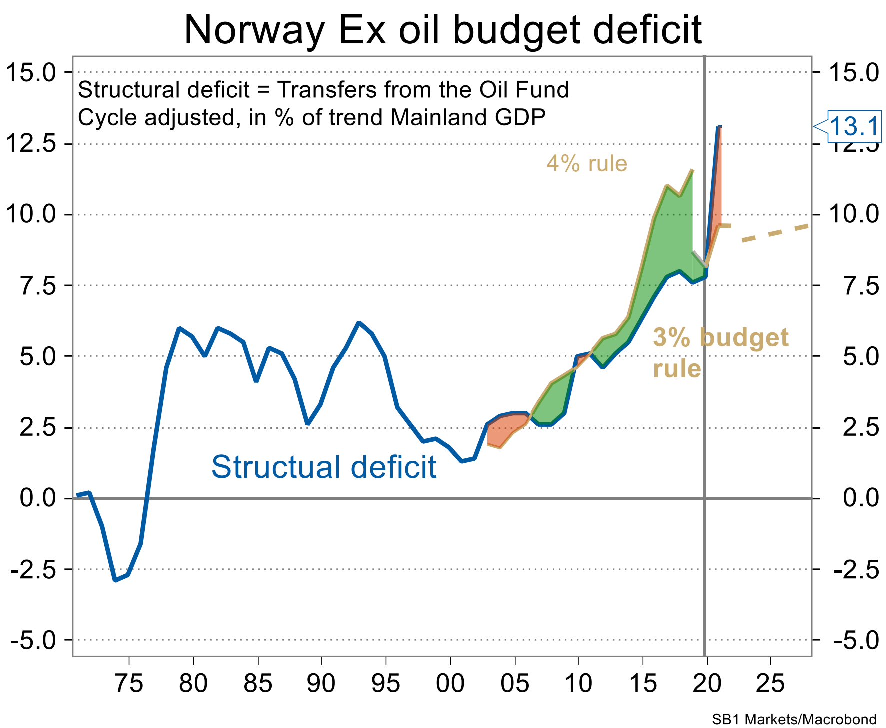
An incredible budget for incredible times

A fiscal boost at 7.5% (gross) of GDP, the government picks up (too much of?) the bill



- The budget figures are extreme, as all figures these days:
  - » Measures equalling NOK 157, bn (4.7%) of GDP decided, so far – with huge uncertainties around the estimate
  - » The automatic stabilisers weakens the budget by another 83 bn (2,5% of GDP) mostly due to reduced tax revenues
  - » Almost half of the extra spending is due to support to businesses, 20% support for households.
  - » 12% growth in government expenditures
  - » The non-oil deficit up from 8 to 13.1% of GDP cyclically adjusted ('structural') – a fiscal stimulus at 5.1% of GDP
    - The actual non-oil deficit is estimated to 15.5%
  - » Oil revenues are sharply cut, due to the low oil price
  - » For the first time since 1993 (!), Norway runs a central government deficit, at almost 4% of GDP!
- The non-oil structural deficit equals 4.1% of the Oil fund, above the long term spending rule 3% target
  - » However, the past 10 years the deficit has been well below the long term spending guideline, and one year of 'overspending' does not signal that the rule is broken

- Mainland 2020 GDP is projected down 4%, optimistic vs most other forecasters – but anyway in the ballpark
- The budget is weakened by 7.5% of GDP. Almost the whole amount is due to increased transfers to the private sector, which in sum must be more than compensated for the expected loss of market income
- As households are not able or willing to spend, their savings rate is expected to increase by 8 points to a record high of 15.6%
- Businesses are expected to get compensated by more than NOK 100 bn. That's a substantial amount compared to a full year gross operating surplus (=value of sales – cost of goods sold – other op.ex – wages) at NOK 500 bn (Mainland businesses). Sure, other cost will inci



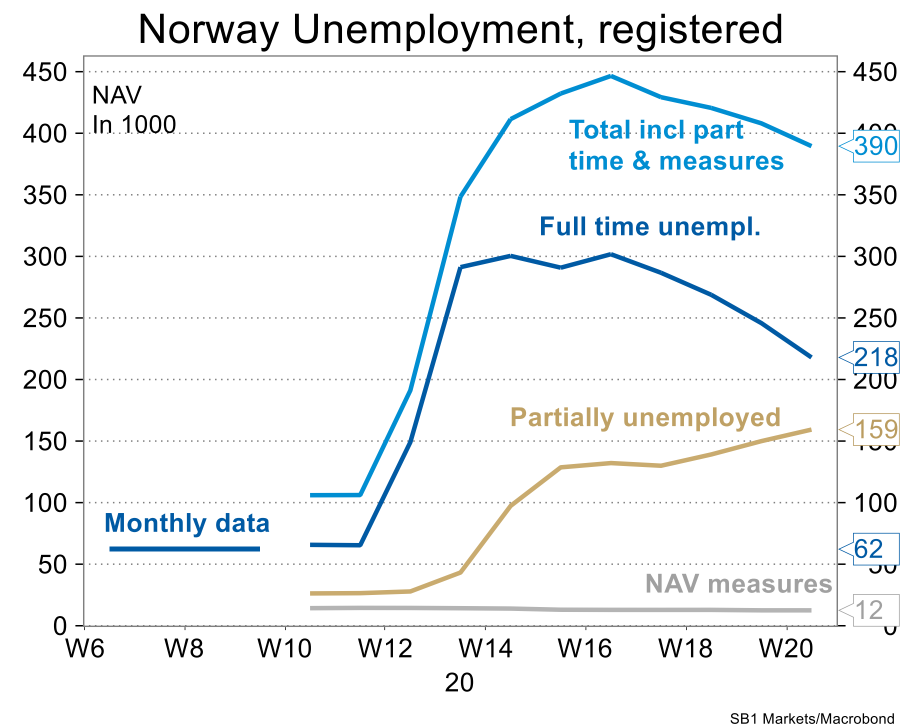
Fiscal indicators NOK bn, per cent	*2019*	NB *2020*	Rev NB *2020*
Actual surplus, incl. oil	*277*	*246*	*-123*
Surplus ex. oil	*-228*	*-241*	*-479*
Structural surplus ex oil	***-245***	*-244*	***-420***
.... change in bn	*-31*	*-5*	*-175*
.. in % of GDP	*-7.9*	*-7.6*	*-13.1*
... Change (fiscal indicator)	***-0.7***	*0.2*	***-5.2***
.. in % of Oil Fund value	*2.8*	*2.6*	*4.4*
Spending rule, bn.	*261*	*285*	*247*
Deviation from rule, bn.	*-506*	*-529*	*-667*
Real growth in underlying spending	*1.8*	*1*	*12.1*
Petroleum Fund, bn, ult.	*8243*	*9985*	*10086*

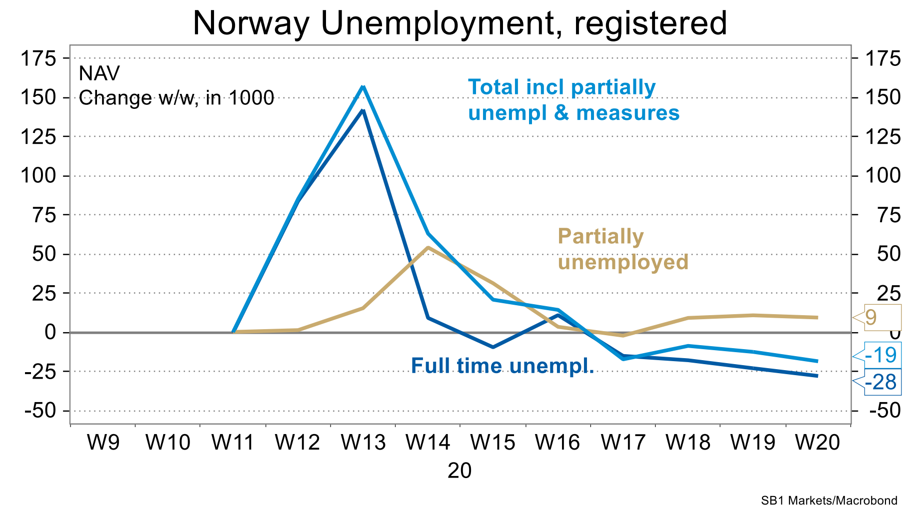
Min of Finance, Sparebank 1 Markets

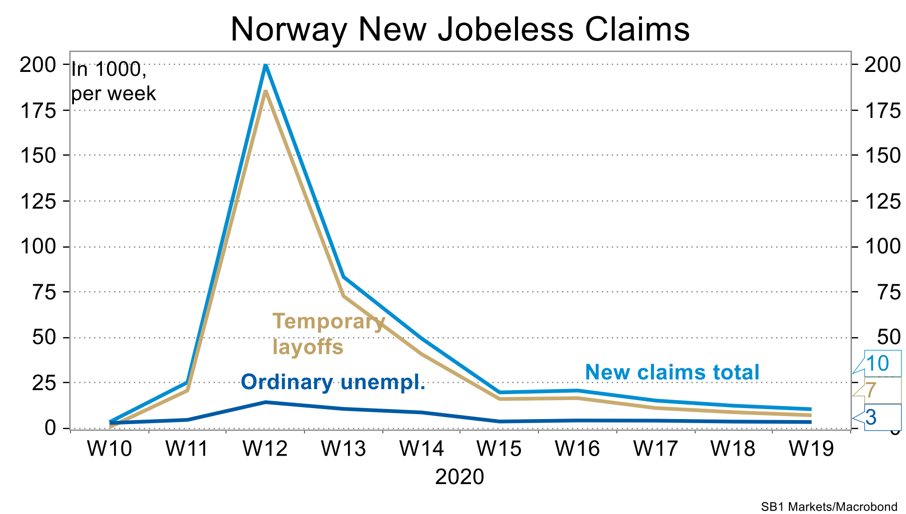
SpareBank 1 MARKETS

Unemployment is inching steady down as furloughed are reengaged

Down for the 4th week in row, total -60', equalling 2.1% of the labour force, level still high at 13.7%



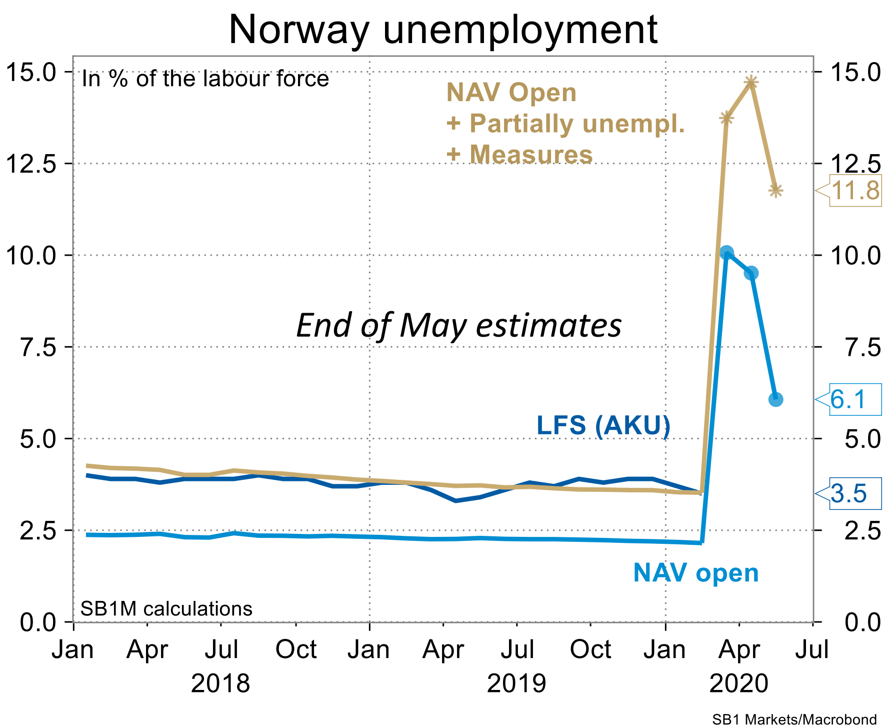


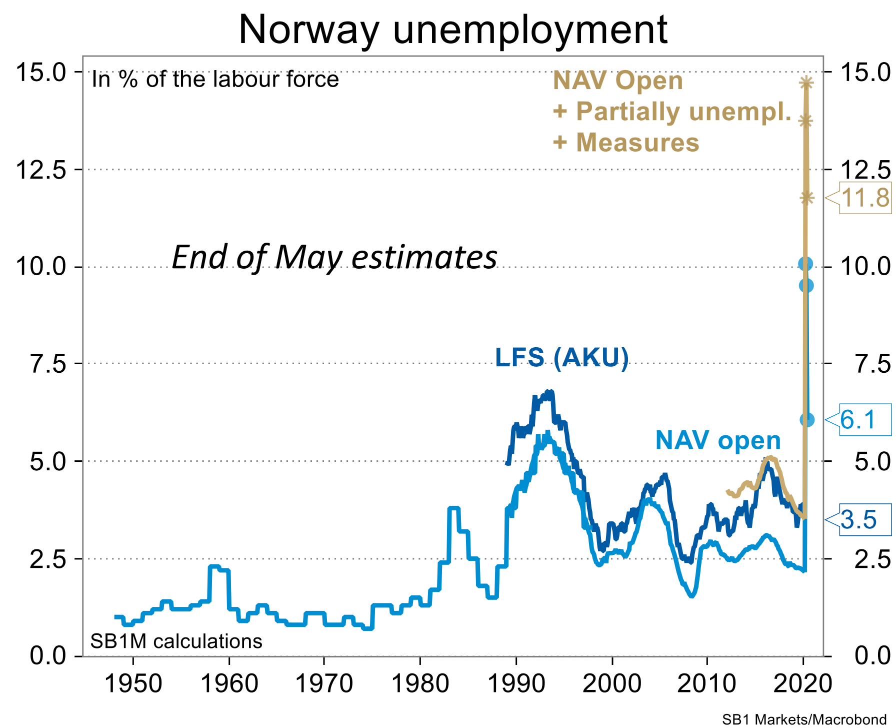


- Full time unemployment fell by 28' last week, while 9' more were counted as partially unemployed, as some fully unemployed were reclassified as partially unemployed – net down '19
- The inflow of new jobless claims is on the way down, to some 10', implying that 26' persons, or almost 1% of the labour force, was reengaged last week, marginally more than during the previous
  - » Over the past 4 weeks, total unemployment is reduced by 60' persons

Unemployment has peaked but is still high

Total unemployment below 12% by the end of May? A reasonable estimate





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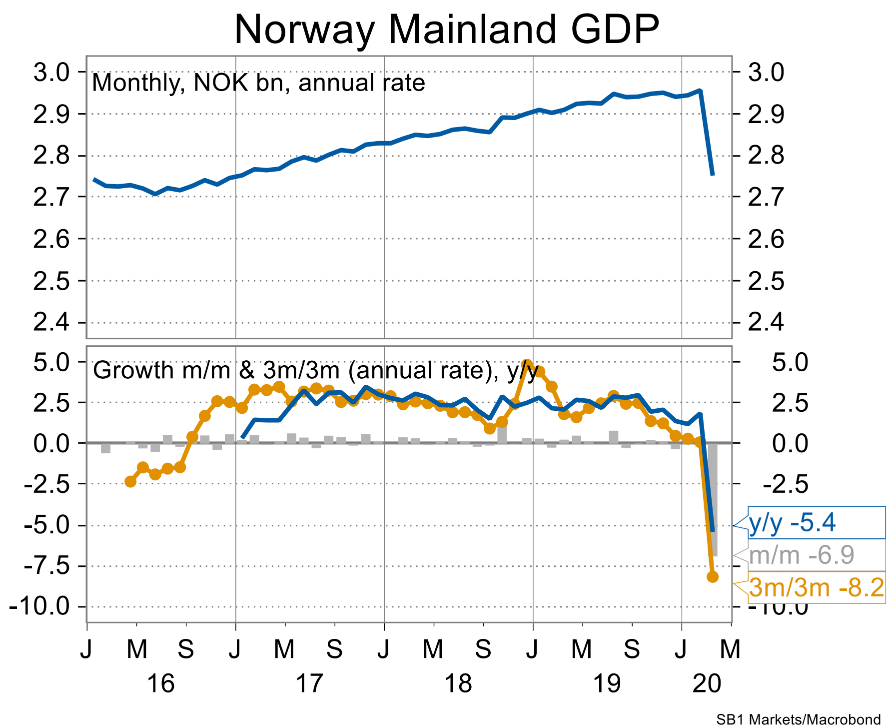
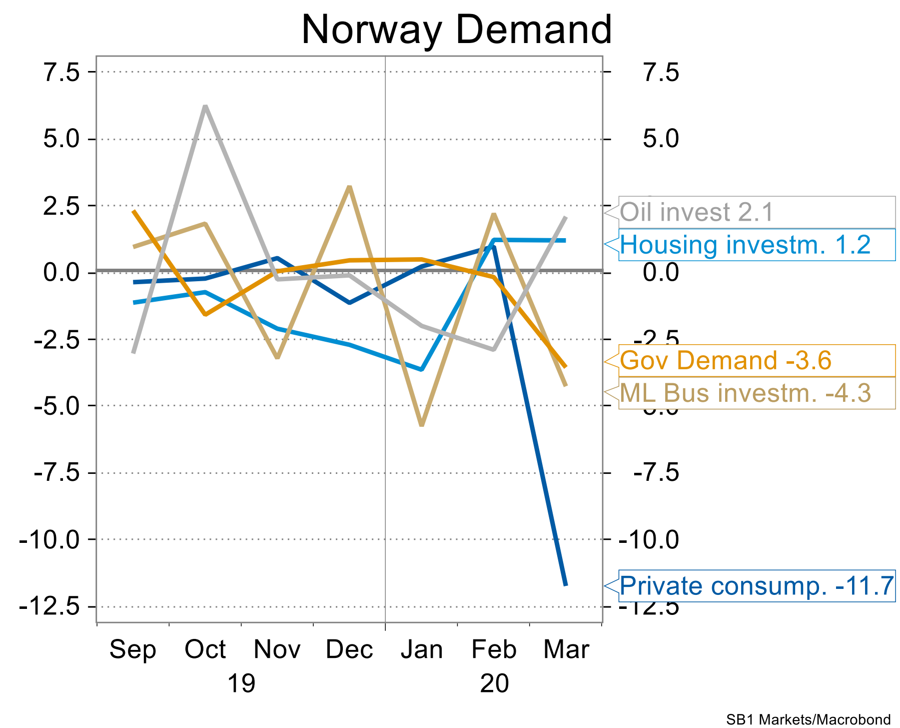
GDP down 6.9% in March, more to go in April. But then, a plus?

Growth had slowed to zero even before the corona virus hit



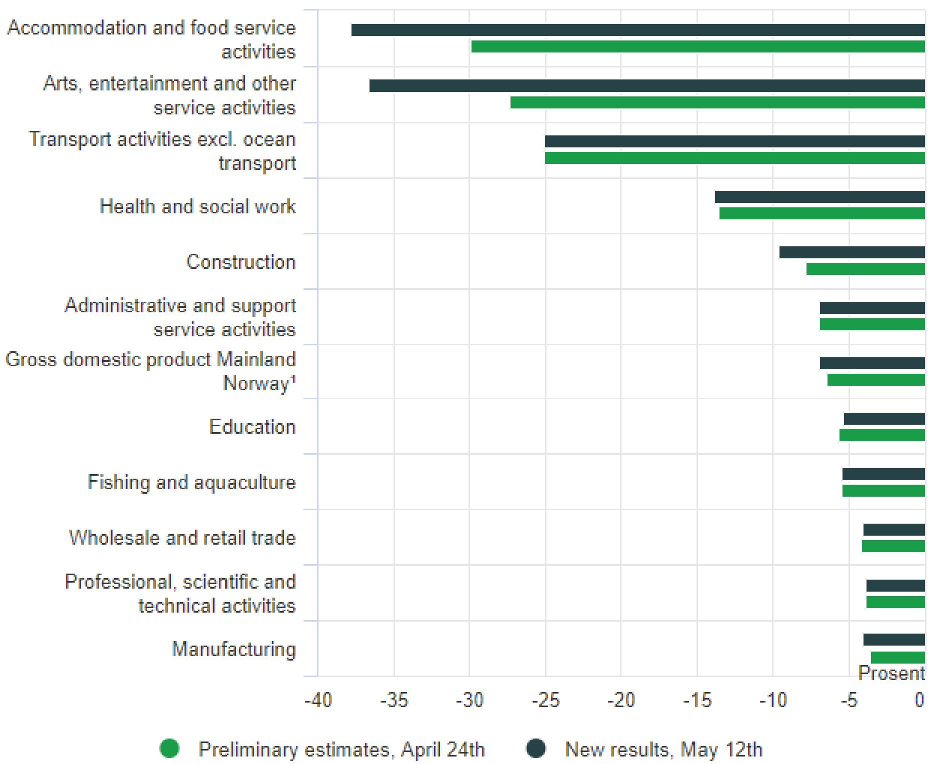


- Mainland GDP fell slightly more than SSB assumed in late April (6.5%). We assumed a slightly smaller setback, as goods consumption was better than we initially assumed
  - » The decline is of course the largest on record. GDP fell some 14% through March – and the starting point for April was significantly lower than the March (and Q1) average. The economy stabilised through April – or may have grown somewhat but the April level will be well below the March average
- <u>On the demand side</u>: Private consumption fell almost 12% due to a steep decline in service consumption (hotels, transport etc). Government demand fell too, mostly due to school closures. Mainland business investments fell 4%, while both housing investments and oil investments rose. Imports fell more than export. P

Services took the beating in March – hotels & restaurants down 38%

Art/entertainment down 37%, transport -25%. Manufacturing down just 4%, the best sector

Figure 4. Gross domestic product Mainland Norway. Selected industries. Constant 2017-prices. March 2020. Change in volume from the previous period (per cent)

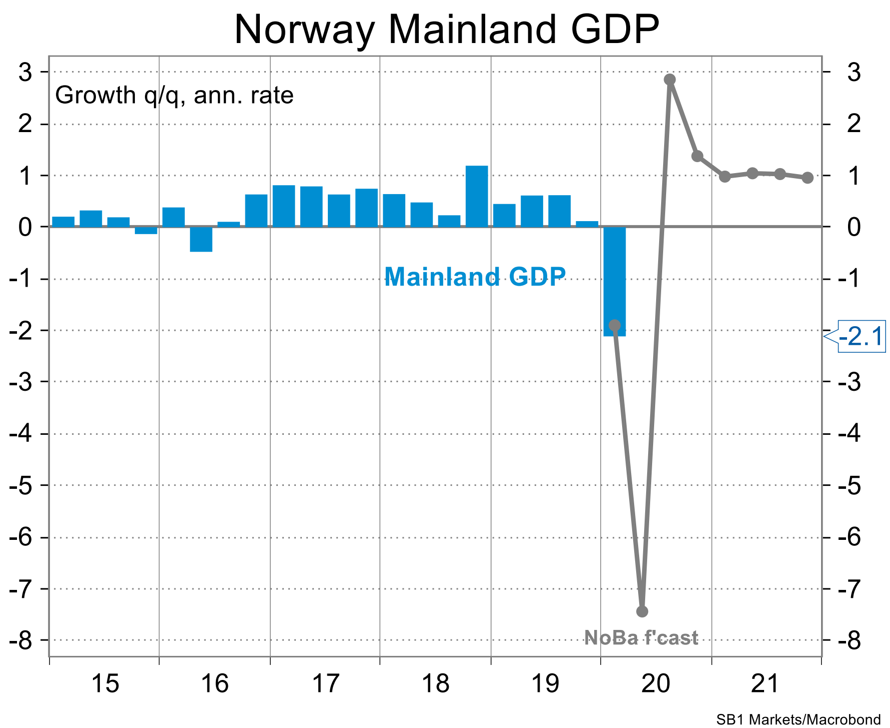


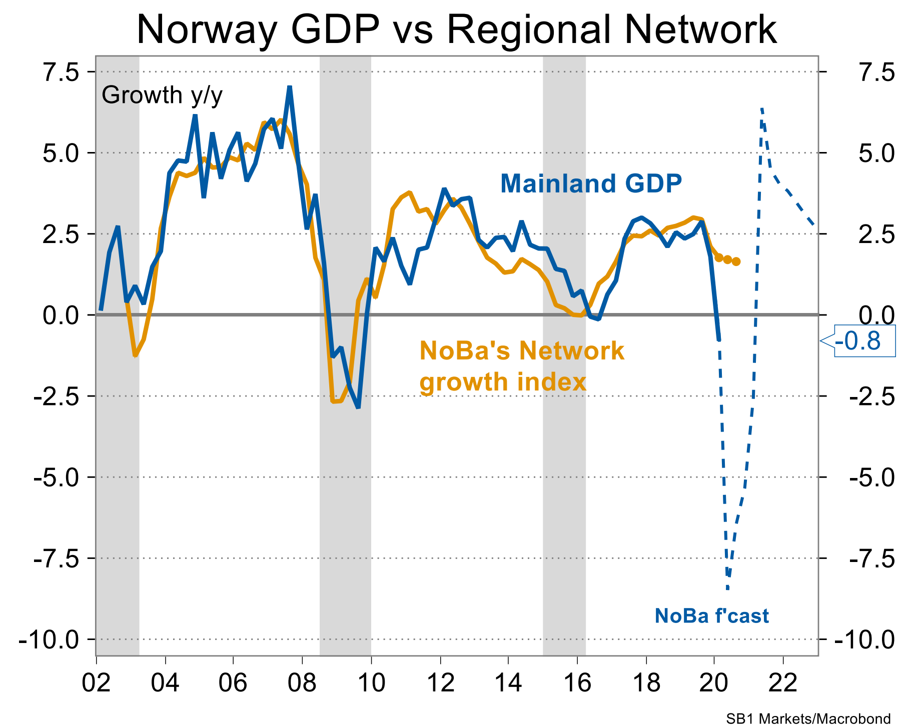
Source: National accounts, Statistics Norway.

SpareBank 1 MARKETS

Mainland GDP down 2.2% in Q1, March & private consumption mostly to blame

The decline was the sharpest ever. GDP down 0.4% y/y

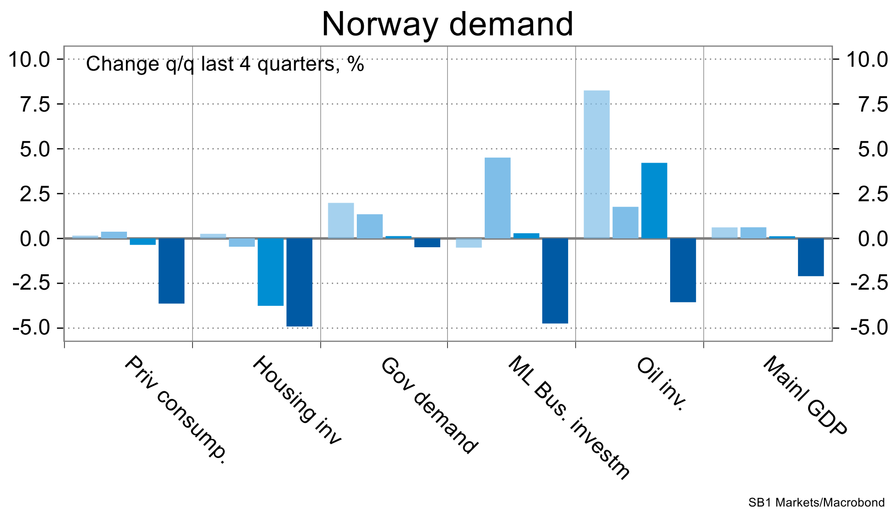


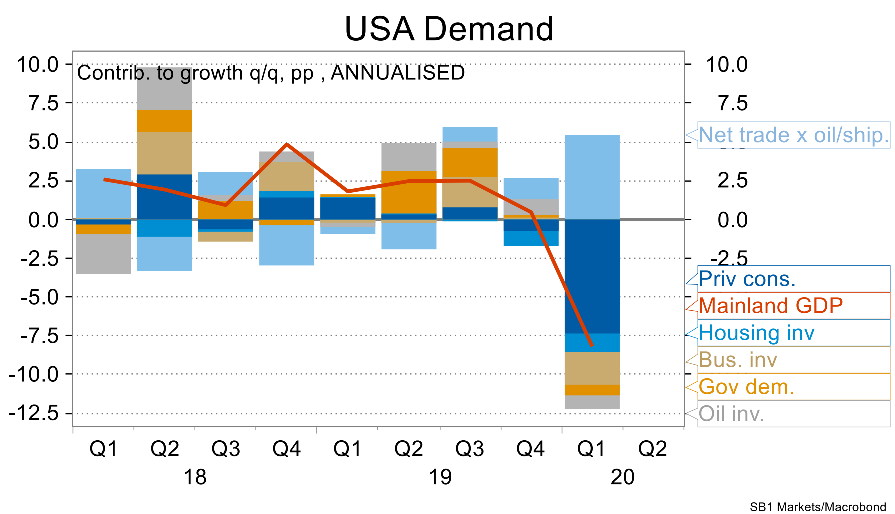


- GDP fell slightly more than expected, SSB assumed 1.9% two weeks ago. The decline is unprecedented – but will be a walk in the park vs a much larger decline in Q2. Forecasts are for a 7 – 10% q/q decline (not annulised, regrettably…)
  - » Private consumption was the main drag, but all other demand components barring net trade fell sharply
  - » Employment was unch as those furloughed are counted as employed (the first 3 months), but hours worked fell sharply, and productivity did not decline! The average hourly wage rose sharply, as most receive a monthly wage. However, wage inflation has been trending up, productivity growth has been slow, and the gross profit share has been on the way down for many quarters – and is not at he lowest level since the '90-ies

A broad decline in demand in Q1

Less net Mainland imports ‘saved’ the quarter. Private consumption (services) the main drag

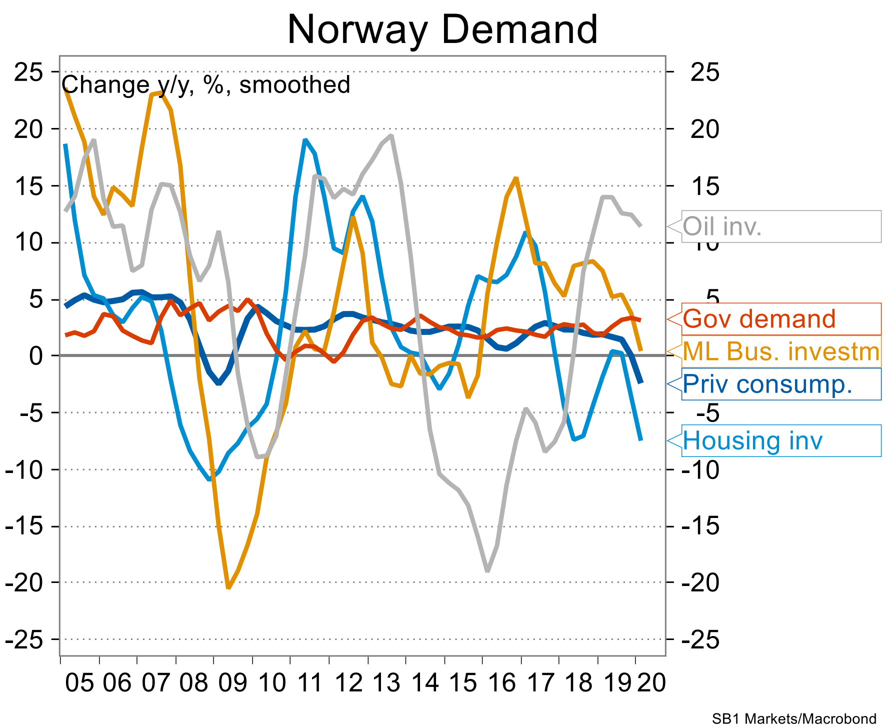


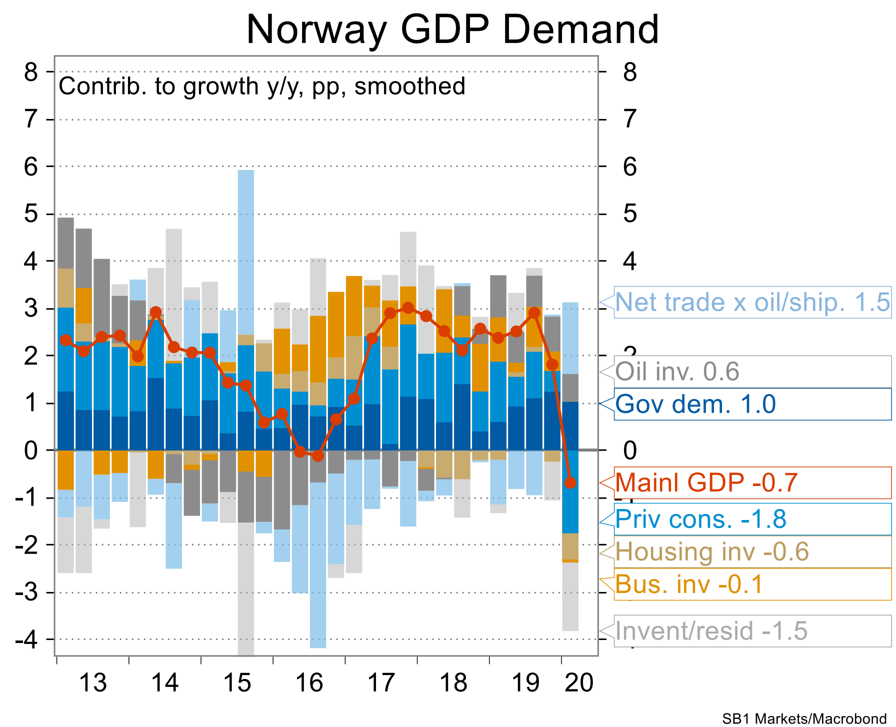


- **Private consumption** has been slowing for several quarters, and fell deep into negative in Q1
- **Housing investments** fell for the 3rd quarter in row
- **Mainland business investments** fell by almost 5%, we guess not only due to Covid-19.
- **Oil investments** retreated by 3% as Q4 was the peak in this cycle, as we assumed before the corona crisis
- **Government demand** fell too due to a decline in investments
- **Mainland net exports** rose sharply, as total imports fell more than exports
- **Inventories** fell somewhat (not show at these charts)

The big picture: Oil investments are peaking, and this time not offset by housing

Consumption is slowly softening, as are business investments, and housing is probably stalling

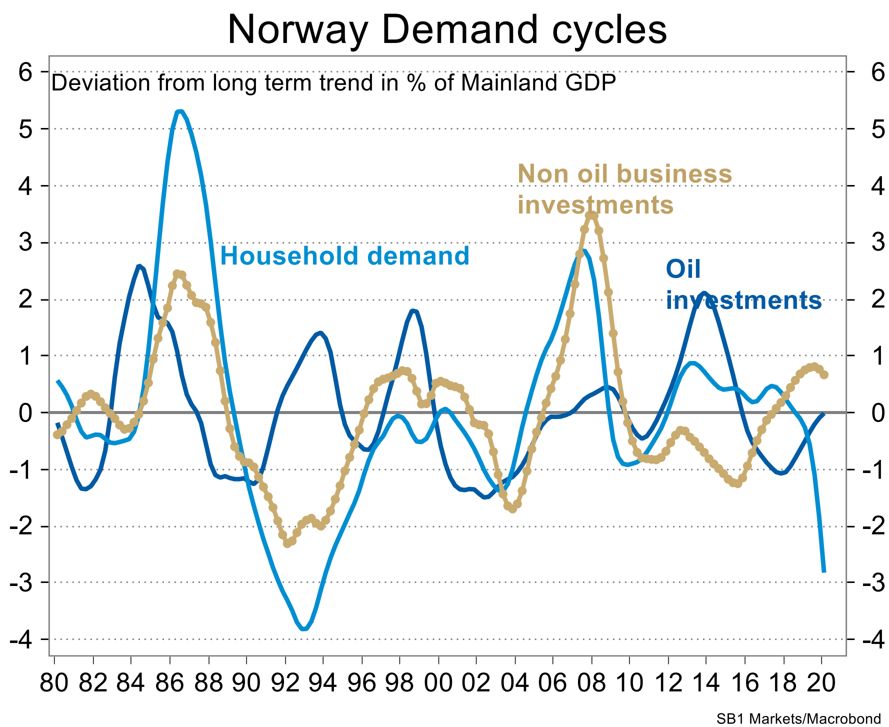


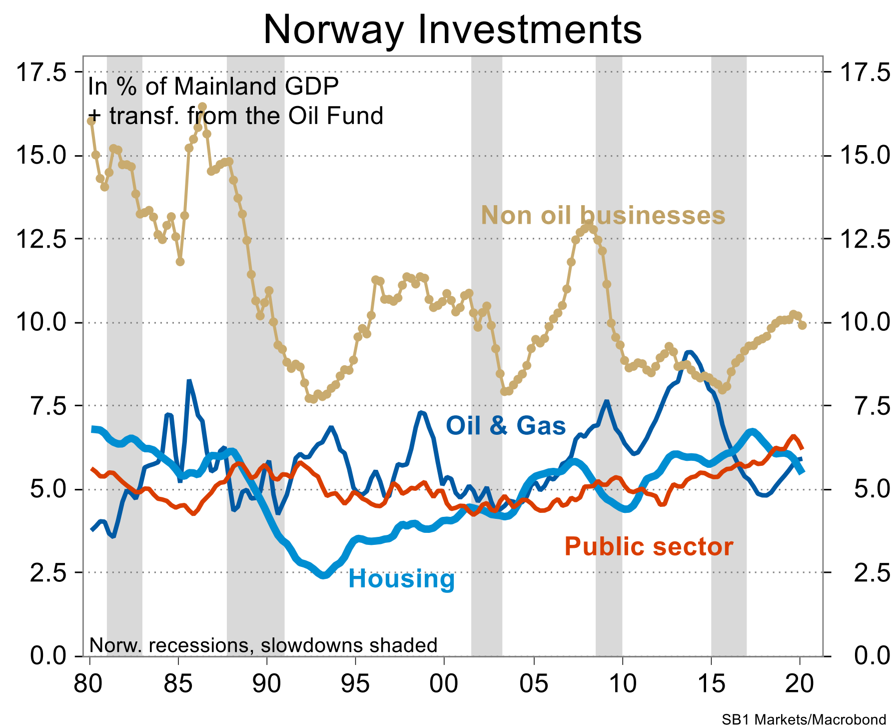


- Mainland business investments are growing strongly, up 5% y/y smoothed. However, growth is slowing and we expect a further slowdown the coming quarters, probably into negative territory
- Oil investments have been soaring but are probably peaking now. Annual growth at 14% y/y. <u>More on the outlook here</u>
- Housing investments have stabilized after the 2017/2018 setback. However, any positive growth contribution the coming quarters is unlikely, as housing starts are slowing. In Norges Bank's Q4 Regional Network, businesses reported a pronounced slowdown in construction activity
- Government demand is slowly accelerating, limited upside

The cycles: Soon all arrows will point down? Consumption sharply down in Q1

Mainland business investments have peaked too – and will contract sharply coming quarters





- And should housing investments continue down, the Norwegian growth outlook would not be that good…
- The downside risk for Mainland business investments is not that large, but a decline equalling 2 – 2½% of GDP is equivalent to the expected decline in oil and gas investments, see next page
- We expect household consumption to recover sharply from the Q1 (and we assume Q2) setback but that would not be sufficient to lift the Norwegian economy

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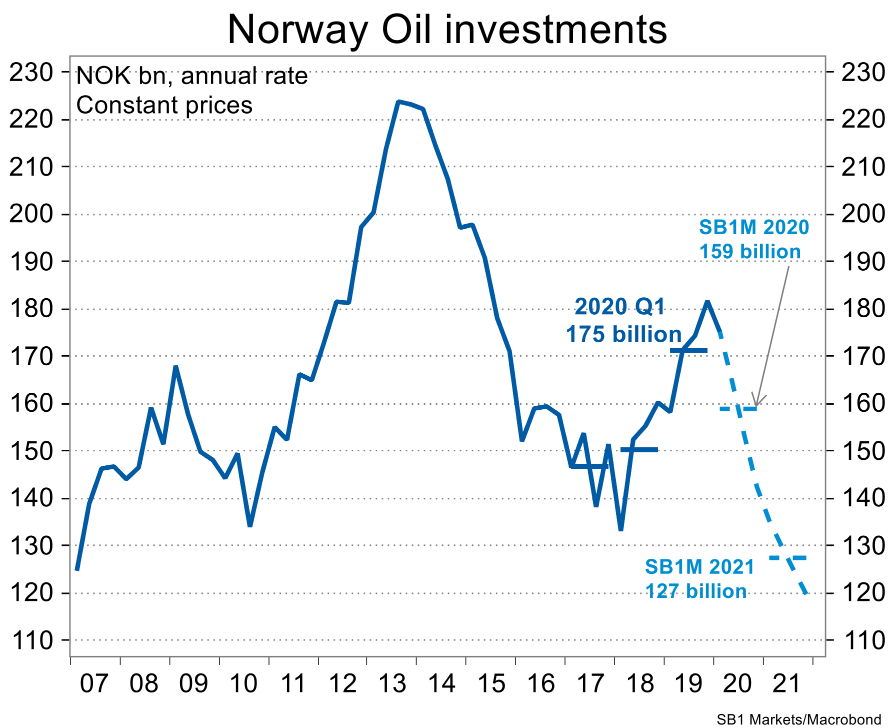
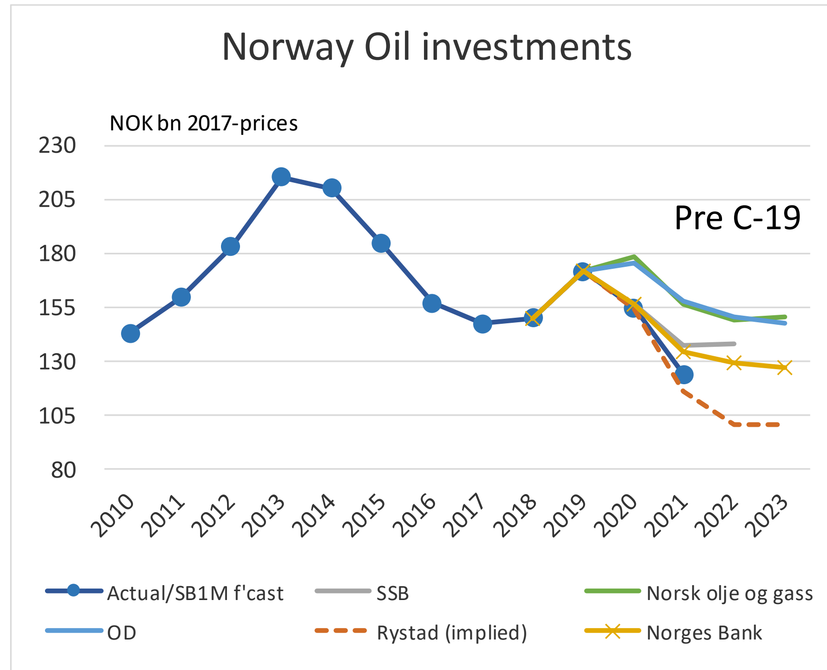
Oil investments: Down in Q1, further down the coming quarters

We – like all others – have revised the forecast down –but the path was down even before C-19

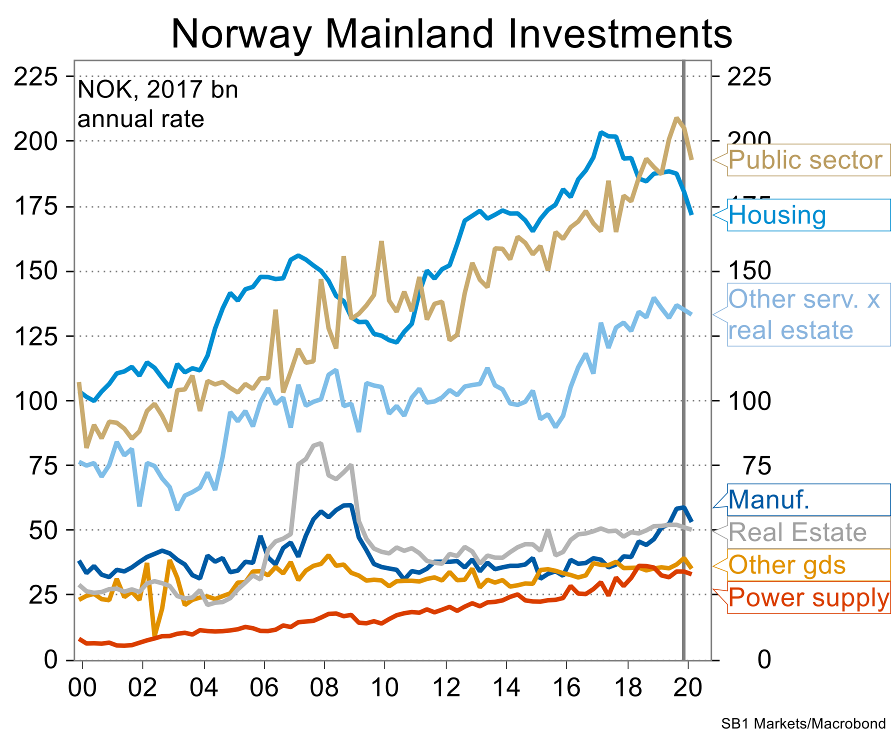




- Investments in the oil and gas sector peaked in Q4, and fell in Q1. We have revised our 2020 and '21 forecasts down by 10%, and 20% respectively.
- Before Covid-19 and the decline in oil prices, we expected investments to decline by 17% to Q4-21 from Q4-19 (even if the 2020 average was up 5% from 2019). Now we say 20% down through 2020 alone, and 34% by Q4-21. Rystad expects another decline in 2022 before investments stabilises in 2023
- If oil investments should decline by NOK 60 bn, it would no doubt be badly felt in parts of the Norwegian economy, as some 2/3 of these investments are delivered from the Mainland. The direct GDP impact is 1.3 pp through both years

Investments down in Q1. Housing trended down, services flattened before C-19

Manufacturing investments have been accelerating past 2y and will most likely decline substantially



- Public sector investments have been soaring but fell in Q1, probably limited downside
- Housing investments are trending down – a substantial downside the coming months
- Private services investments soared in 2016-2017 and have flattened out since then. The level is probably well above a reasonable long term level
- Manufacturing investments are still on the way up, but SSBs investment survey and other surveys indicate a steep decline this year
- No boom in real estate but the level is probably high – and flattened trough last year – and we expect a decline in 2020
- Investments in power supply peaked in early 2019, and will at least not increase in 2020

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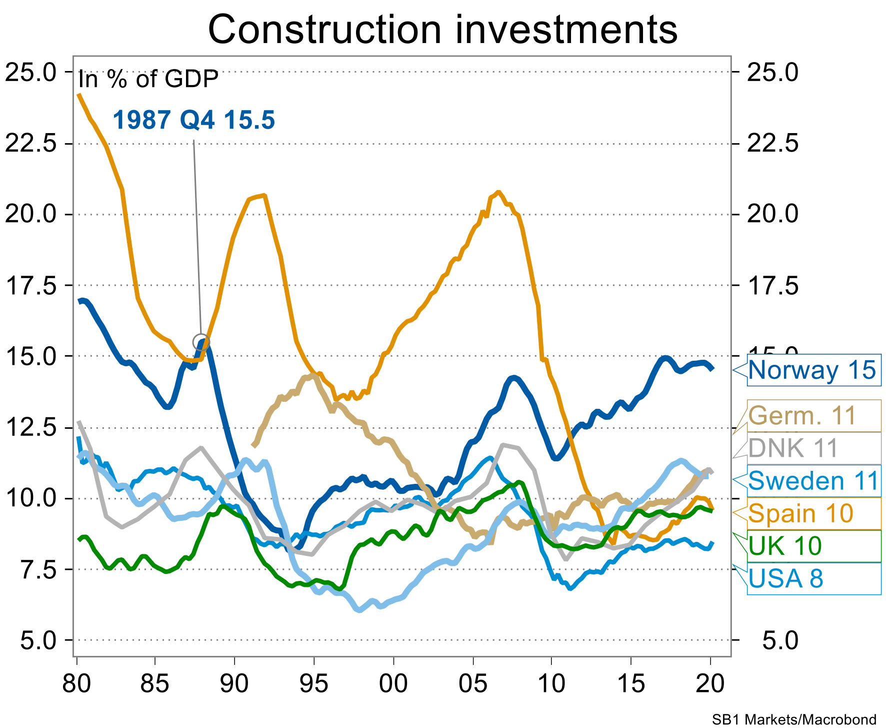
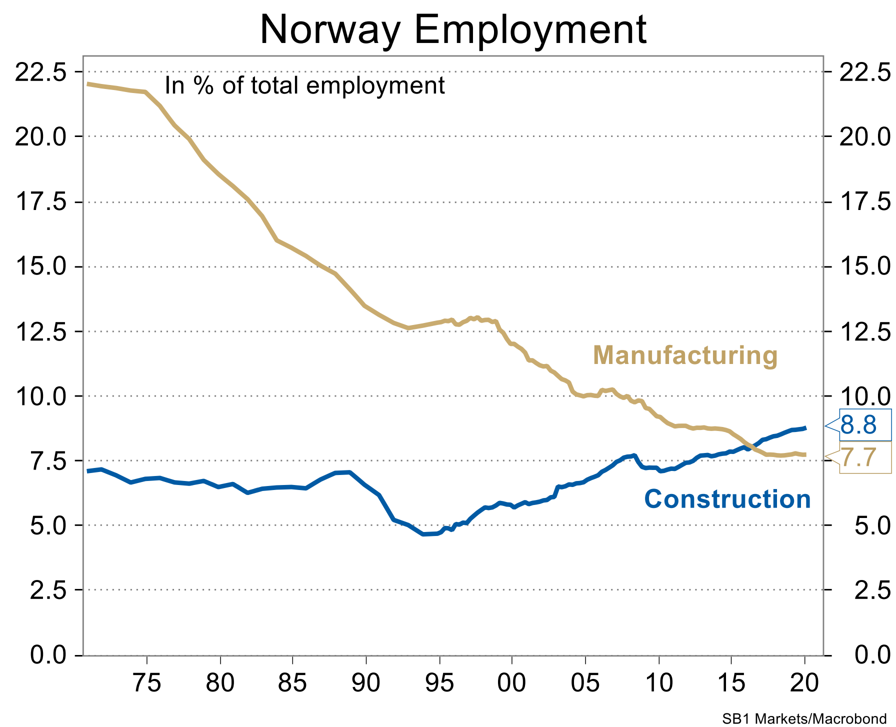
Construction investments have flattened, is exposed?

We are quite confident: Construction activity is higher than needed, long term





- Construction investments/GDP has flattened but remain at a high level
- Construction employment now equals 8.8% of total employment, much higher than anytime before
  - » Construction is larger than manufacturing industries, employment wise, probably for the first time in a civilised country (except Spain and Ireland before the financial crisis)

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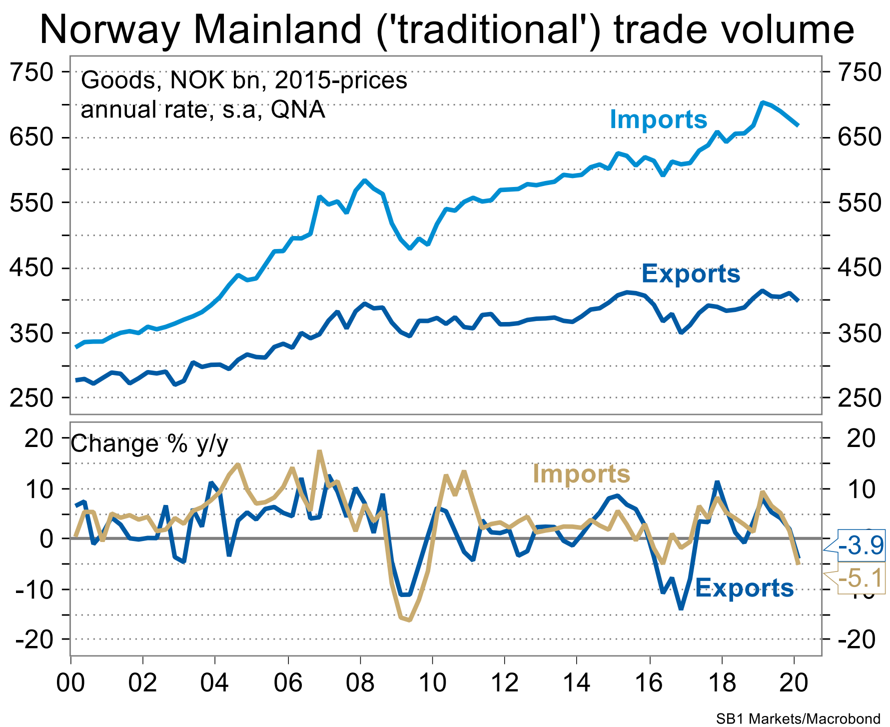
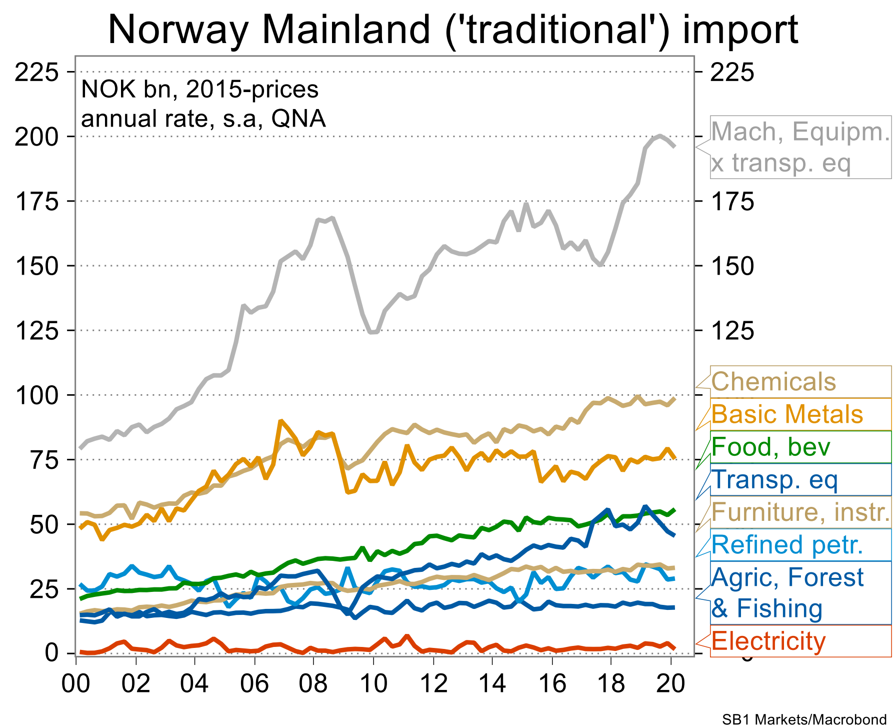
Import of goods more down than exports but no drama in Q1

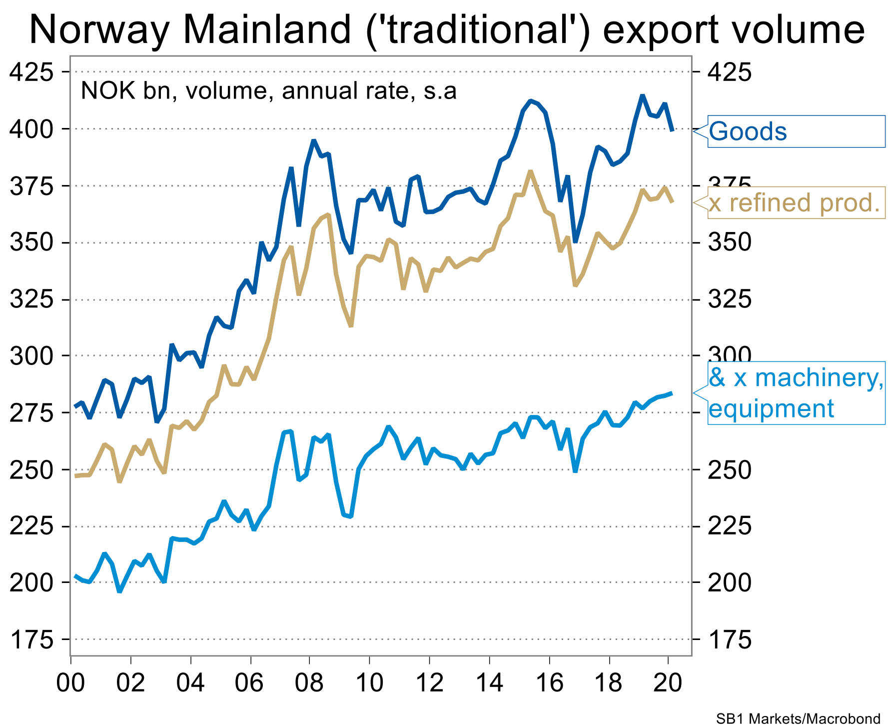


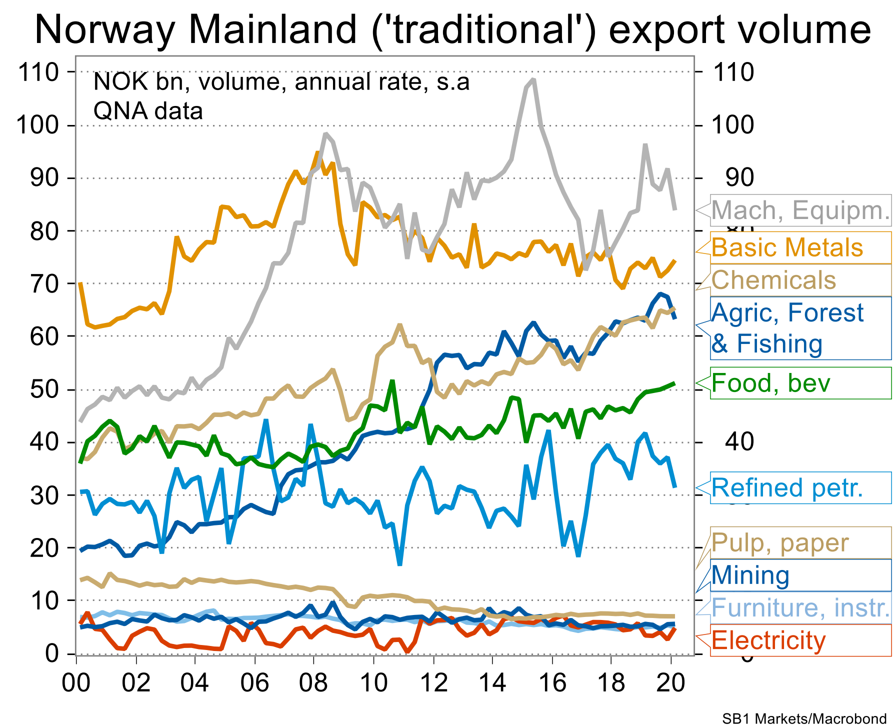


- Higher imports of machinery reflect higher oil investment demand, but also high investments in the manufacturing sector. Still, the level is rather high, and given the expected slowdown in investments, a decline is likely

Mainland good exports flattened ahead of the corona crisis

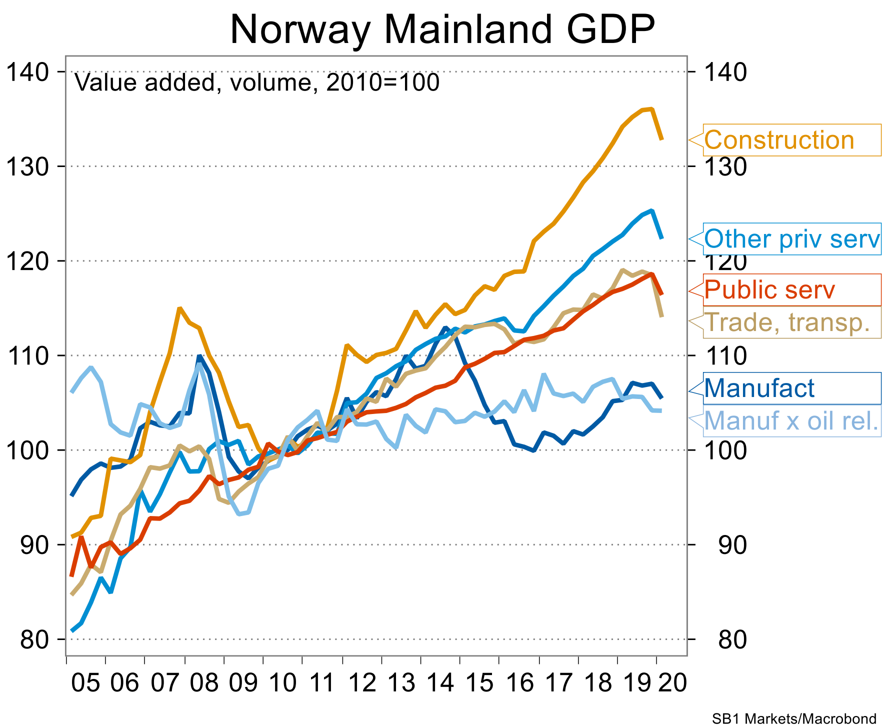
The decline in Q1 not broad – but the crisis came ‘too late’ to have big impact in Q1

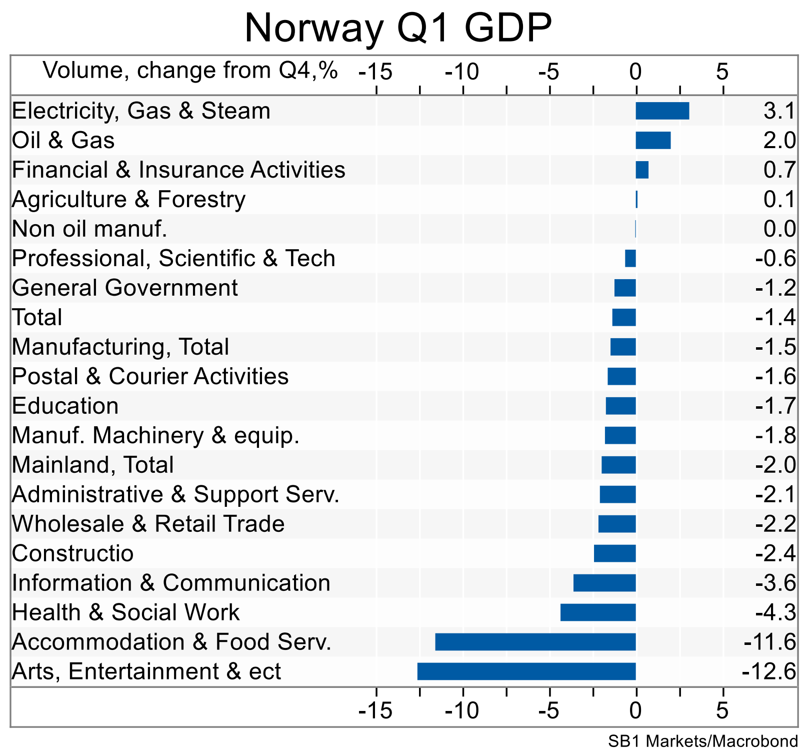




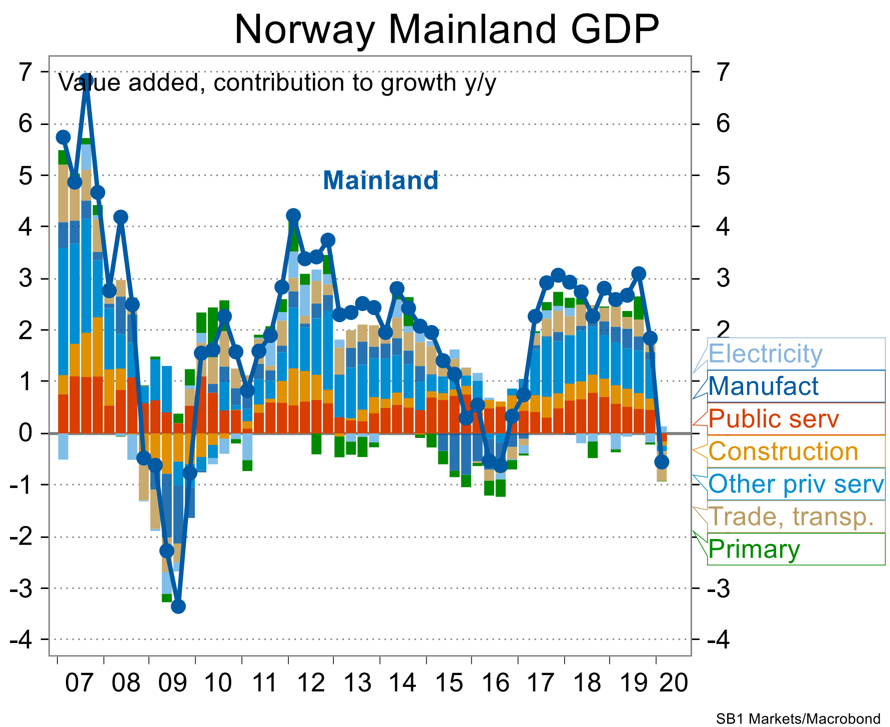
Production: Down almost everywhere, most in services

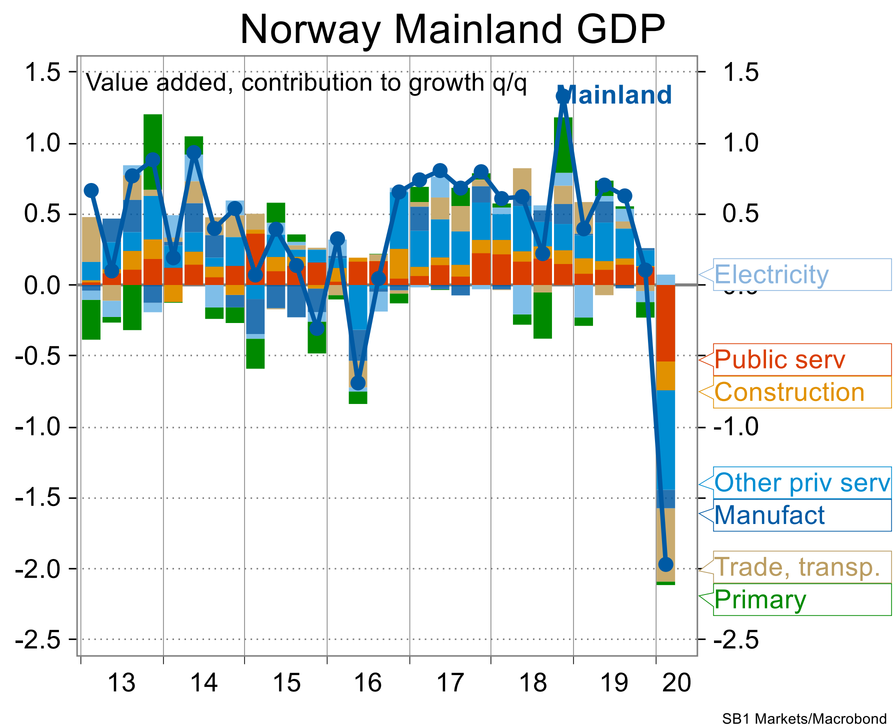
Arts, entertainment, hotels & restaurants at the bottom





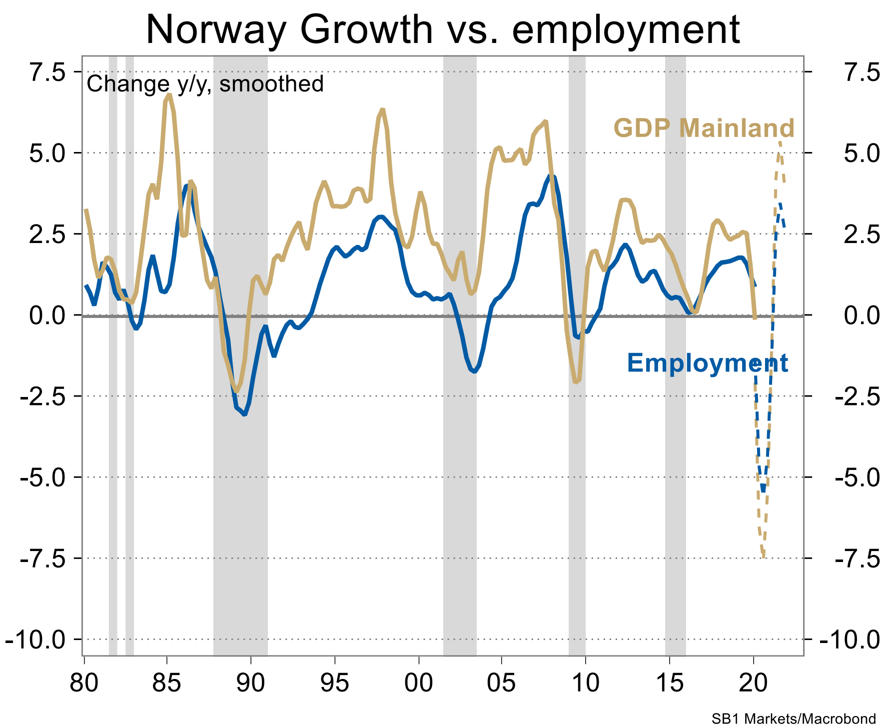
Production: Contribution wise, services took all of the beating

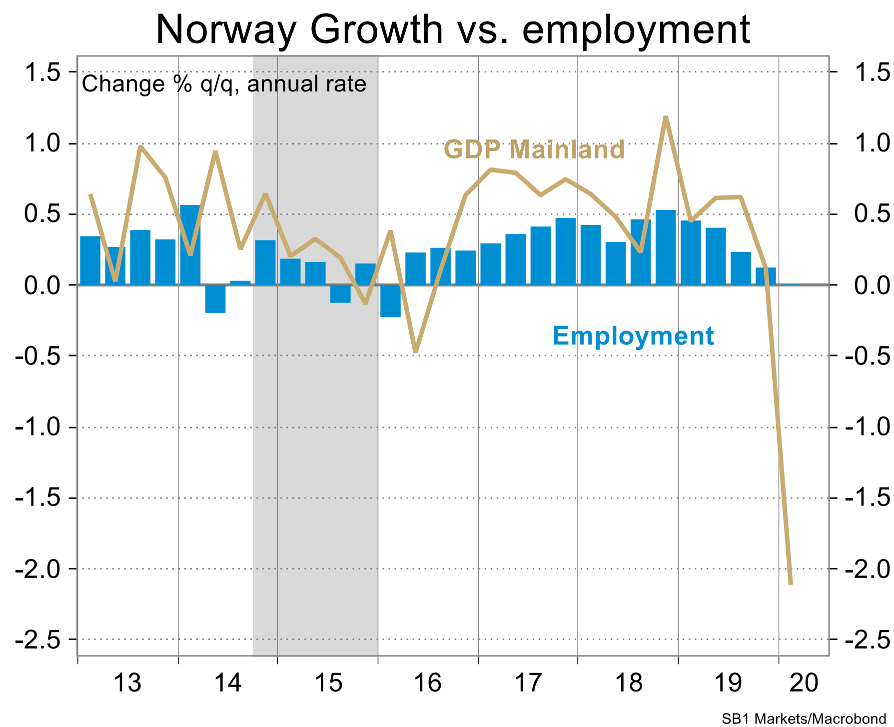




In Q1 employment was flat, at least in average

Hours worked fell (see next page) – and will be cut much more in Q2

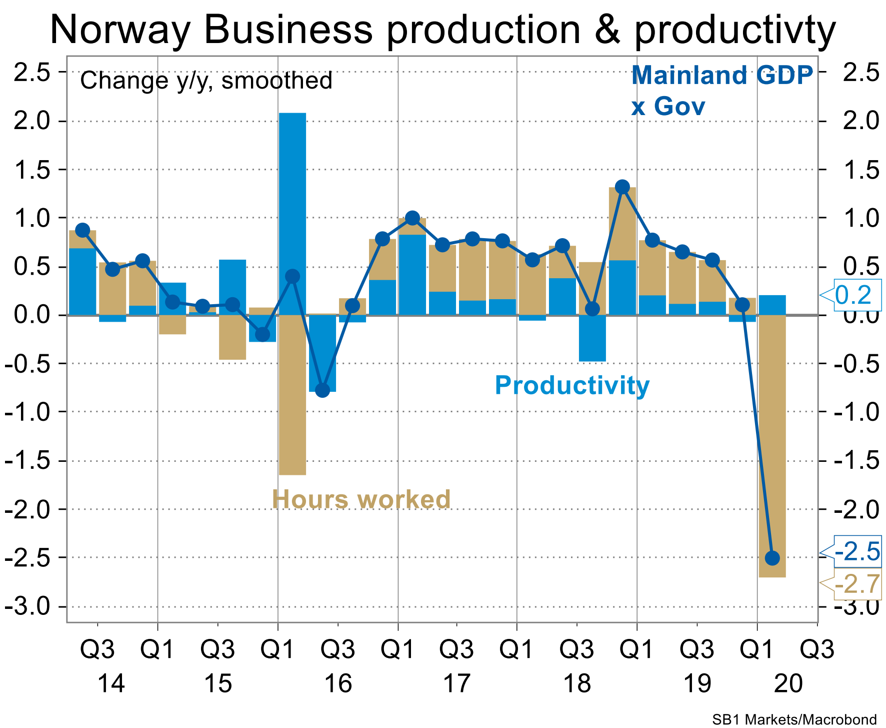


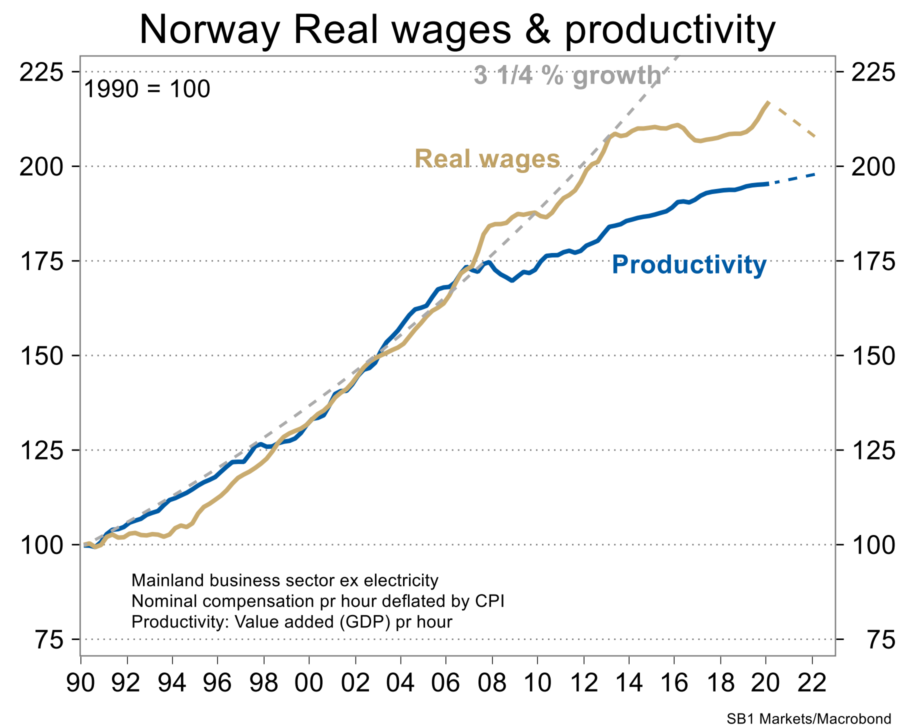


- Employment growth has slowed over the previous quarters (and more so in Q1, but that's another story). Still, employment has been rising faster than the working age population, which is expanding by just a 0.5% speed y/y

Businesses were able to cut hours in Q1, productivity

Mainland productivity rose marginally, hours worked fell by 2.7%

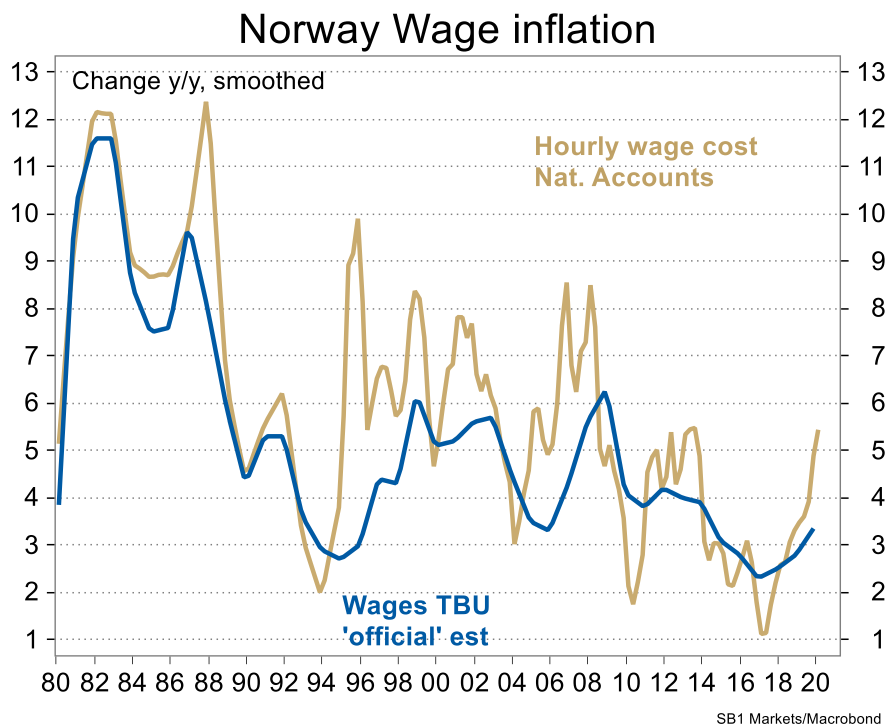


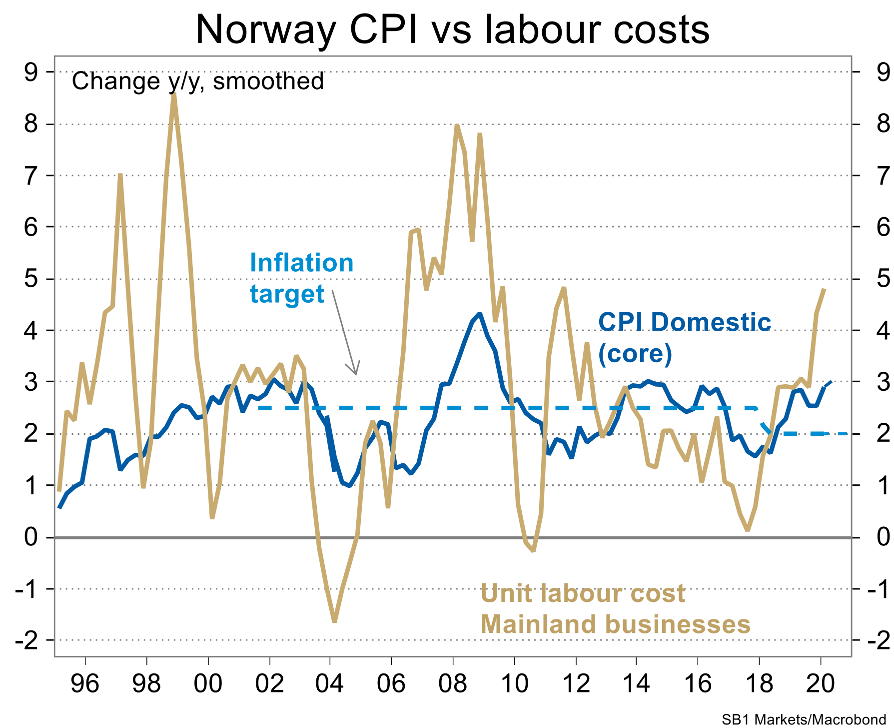


- Underlying productivity growth was muted in Q4 (down 0.5% q/q) and the smoothed, annual rate slowed to just a marginal 0.2% increase. Two years ago, productivity growth was just above 1%, and it was above 2% in 2011-2012
- Hours worked explains 2.4 pp of the 2.5% growth in Mainland x government GDP (1 y smoothed)
- Real wages are slowly increasing, up 1.2% y/y (when applying a heavy smoothing) following the decline in 2016. Still, real wages are not any higher than 5 years ago
- We expect just modest growth in real wages – as long as the underlying productivity growth is this slow

Labour cost inflation on the way up, but will come down

Hours worked cut, and hourly wage cost up 5.5% y/y, Unit Labour Cost inflation close to 5%





- Hours were cut, not employment, and hourly earnings rose as most are receiving monthly paychecks
- Still, labour cost inflation was on the way up before the corona crisis

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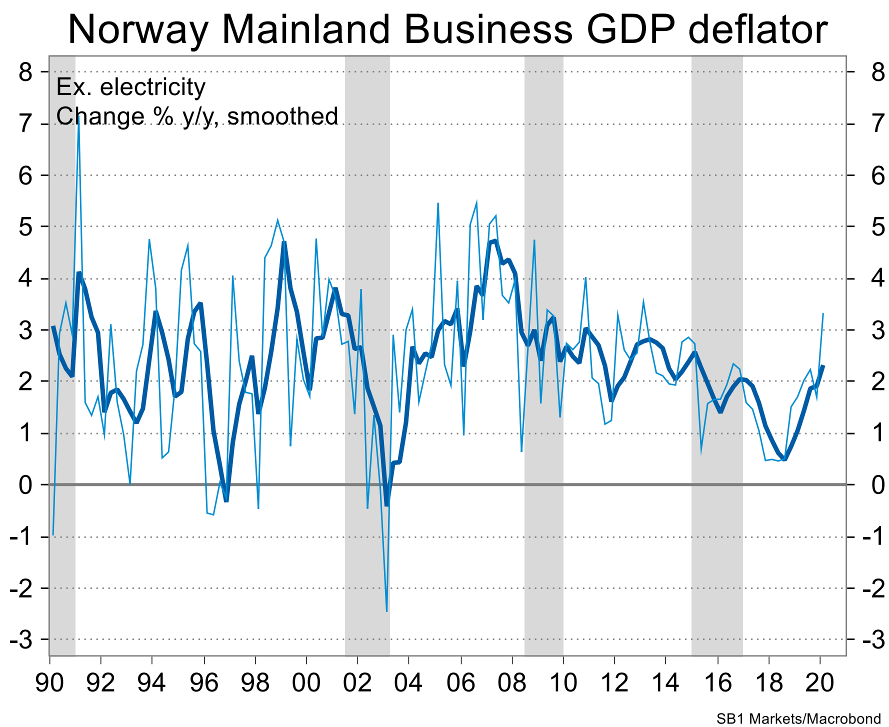
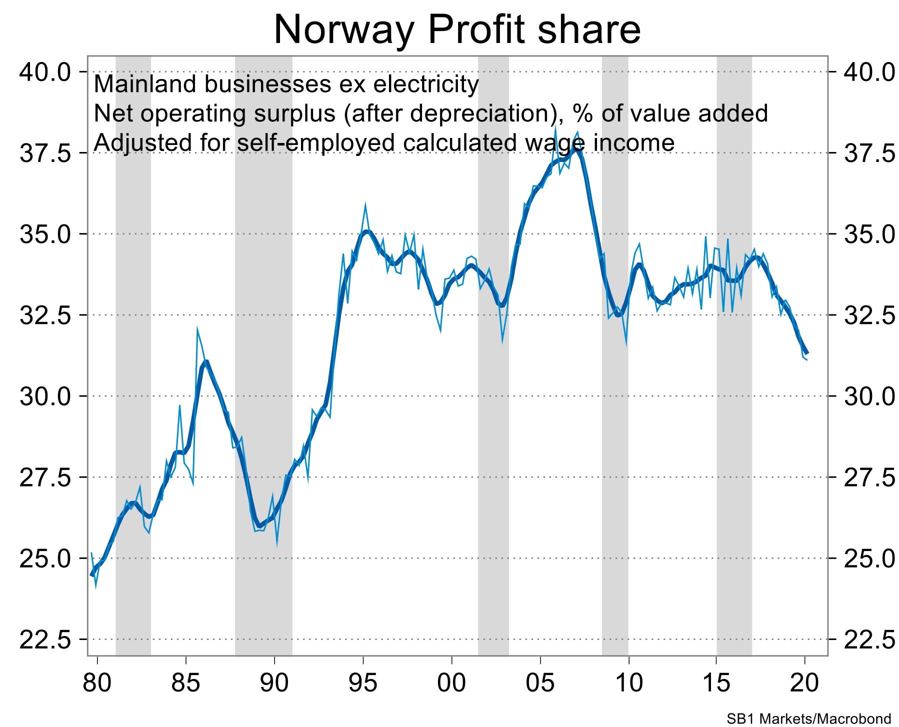
The profit share is under pressure, profit rate at 27 y low (also before corona)

Mainland GDP price deflator sharply up in Q1, probably not lasting

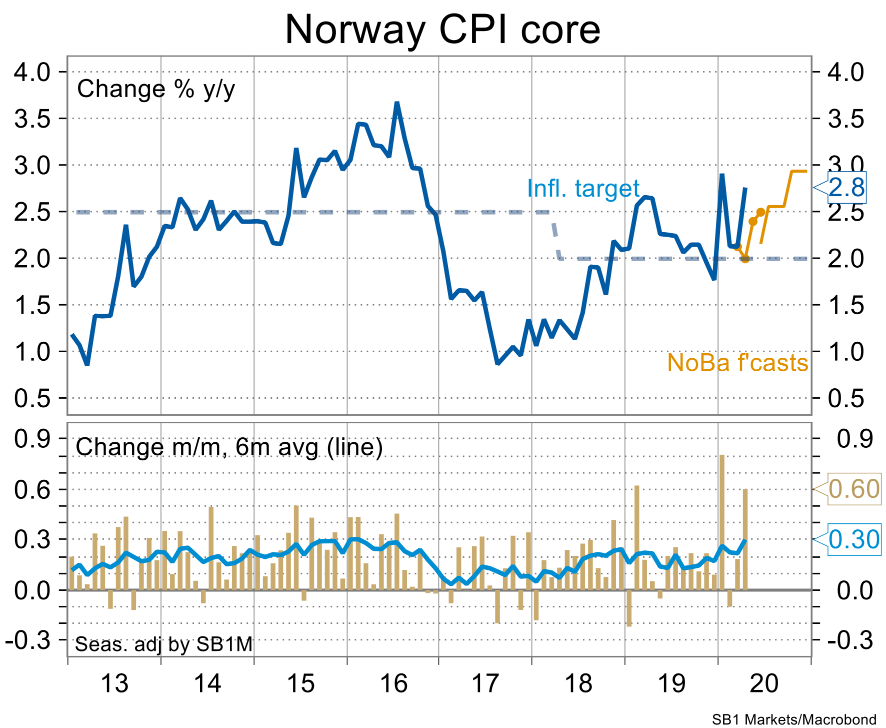




- The Mainland business GDP price deflator (ex the volatile electricity sector) was up 3.2% y/y in Q1 (not smoothed). Higher export prices (due to a weak NOK) explained some of the lift from 1.8% in Q4. End user prices did not increase much
- Productivity stalled in Q1, and wage inflation was high – and higher than price inflation. Thus, the profit rate inched down, once more. The trend has been straight down since 2017, a sign of a maturing cycle, like in many other countries

Core inflation up to 2.8% but nobody cares (and should not)

Food prices were not cut as usual ahead of Eeaster – and import prices are climbing



- CPI-ATE (ex. energy and taxes) rose 2.8% y/y in April, up from 2.1%. We expected 2.3%
  - » Prices rose by 0.6% m/m (seasonally adjusted)
- SSB had to make some assumptions due to lack of reported data as many shops/activities were more or less closed
- Total inflation rose 0.1 pp to 0.8%. Electricity prices – but also gasoline prices – explains the divergence to the core CPI
- **The price outlook**
  - » Impacts of the corona crises are mixed
    - A weaker economy strongly suggests low inflation. Wage inflation is no doubt on the way down.
    - The weak NOK will bring imported inflation up and will probably offset some of the effects of waning demand on prices.
    - Energy prices have been falling but the downside from here must be limited
  - » Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming quarters. Wage growth will no doubt slow, almost whatever CPI data that may be reported

SpareBank 1 MARKETS

No major outliers vs our f’cast in March

Our main misses: Food, furnishing, transport (x gas, airl. Tickets), and recreation/culture

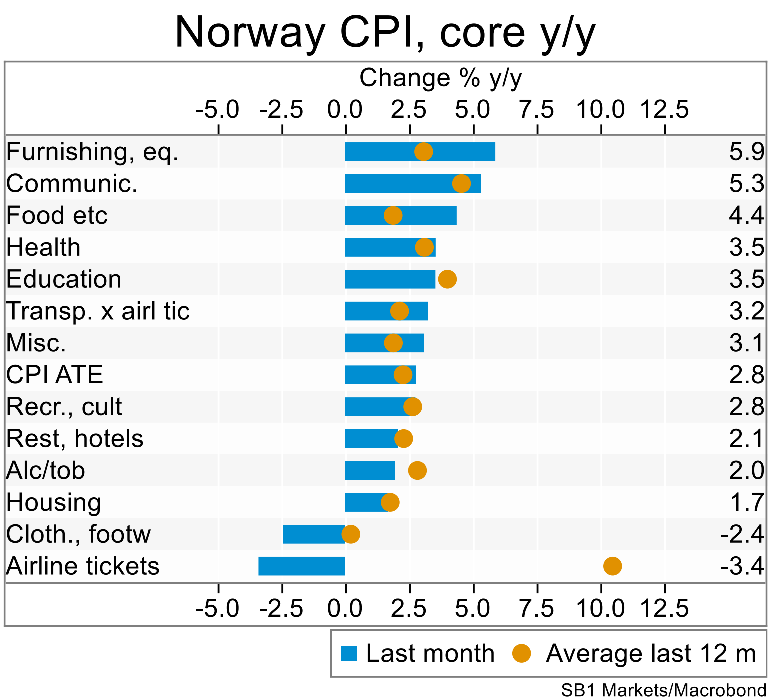
		Change m/m, seas. adj			Change y/y			Contribution, pp		
Apr-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	1.0	0.4	0.6	2.6	4.4	3.6	0.13	0.54	0.08
Alcohol, tobacco	3.9	0.1	0.2	-0.1	2.0	2.0	2.0	0.01	0.08	-0.00
Clothing, footwear	4.9	-0.9	0.2	-1.1	-2.7	-2.4	-1.3	-0.04	-0.12	-0.05
Housing x. energy	20.1	0.1	0.2	-0.1	1.8	1.7	1.8	0.02	0.34	-0.01
Furnishing	6.6	2.0	0.3	1.7	3.4	5.9	4.0	0.13	0.39	0.11
Health	3.2	0.1	0.3	-0.1	3.7	3.5	3.6	0.00	0.11	-0.00
Transp. ex. gas, airl. tick	12.0	1.1	0.1	1.0	1.4	3.4	1.9	0.13	0.41	0.11
Airline tickets	1.2	-1.2	0.2	-1.4	9.9	-3.4	0.8	-0.01	-0.04	-0.02
Communication	2.2	0.7	0.4	0.3	6.0	5.3	5.3	0.02	0.12	0.01
Recreation, culture	11.9	0.7	-0.5	1.2	2.2	2.8	1.5	0.09	0.33	0.14
Education	0.5	-	-	-	3.5	3.5	3.5		0.02	0.00
Restaurants, hotels	6.2	-0.1	0.0	-0.1	2.1	2.1	2.2	-0.00	0.13	-0.00
Other	8.8	0.4	0.2	0.2	2.7	3.1	2.8	0.04	0.27	0.02
CPI-ATE	94	**0.6**	**0.1**	0.5	**2.1**	**2.8**	**2.2**			
Norges Bank est.			*-0.1*	*0.8*	*2.1*	*2.0*				
Imported	33	1.2	0.0	1.2	0.7	2.2	1.0	0.39	0.73	0.38
Domestic	61	0.6	0.1	0.5	2.2	2.8	2.2	0.35	1.70	0.29
Energy, housing	4	-5.3	-9.0	3.7	-30.3	-34.9	-35.4	-0.20	-1.35	0.14
Energy, transport	4	-6.7	-2.0	-4.7	-2.5	-9.6	-5.0	-0.24	-0.34	-0.17
CPI Total	101	**0.3**	**0.1**	0.2	**0.7**	**0.8**	**0.6**	0.27	0.82	0.21
Change m/m based on seasonally adjusted data										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

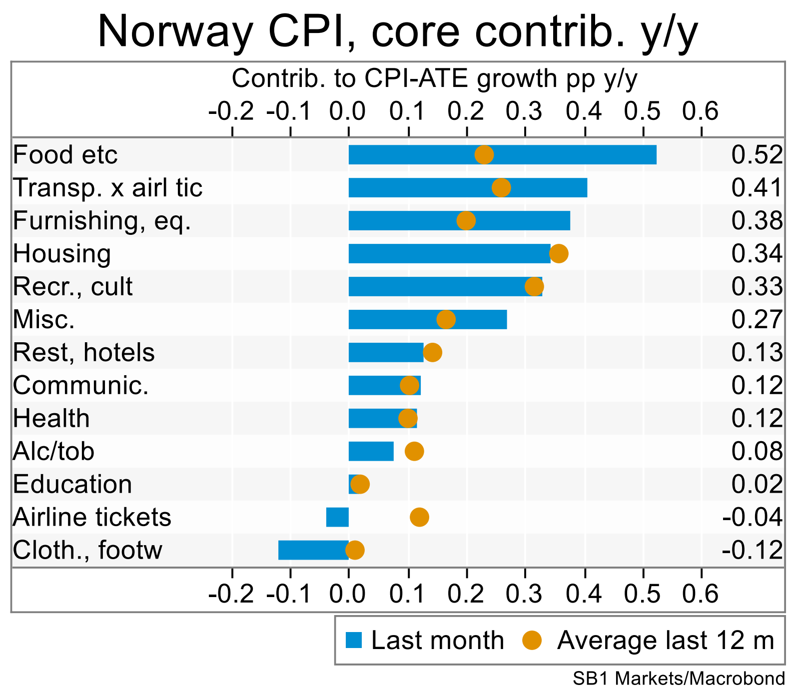
- Food prices rose more than we expected, and they are up 4.4% y/y
- Clothing prices fell further in April, are down 2.4% y/y, even if the NOK has fallen sharply
- Furniture prices are up 5.9% y/y following a substantial upside surprise in April
- Car prices rose sharply
- Books, games, garden equip/plant prices rose more than normal too
- **CPI-ATE up unch 2.8% y/y**
- Imported prices fell by 1.2% m/m, domestic prices rose 0.6%
- Electricity prices fell further in April, ad did gasoline price
- Total inflation accelerated by just 0.1 pp to 0.8% as energy prices deducts 1.7 pp from the annual growth rate

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

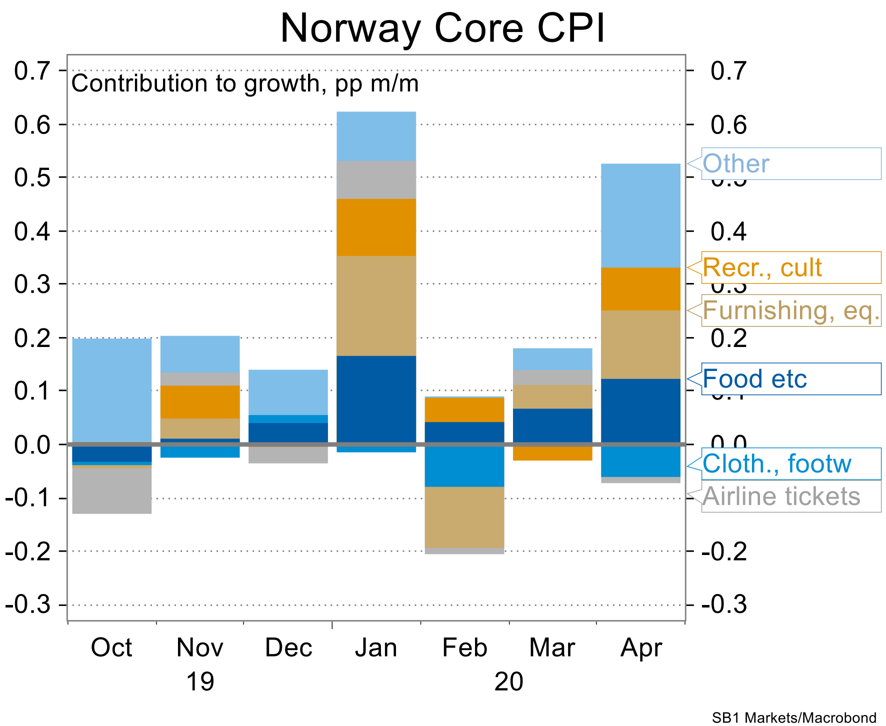
Food, autos, furnishing have lifted core annual inflation

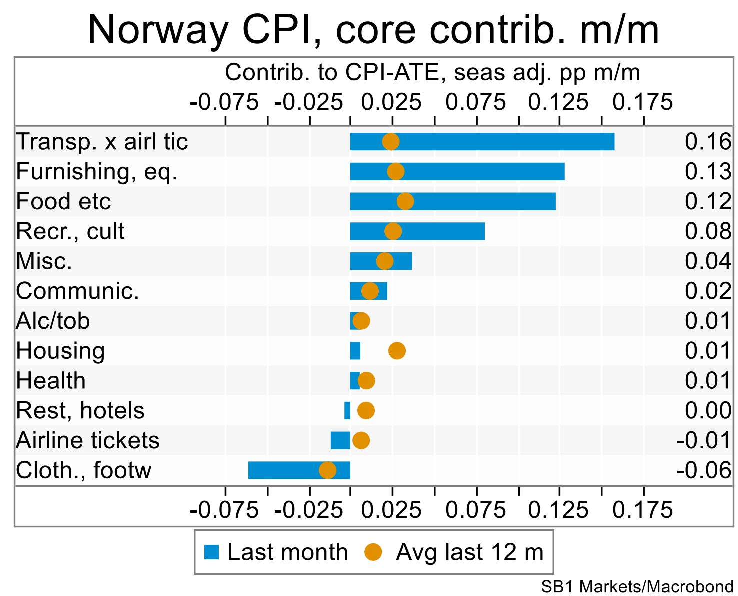
Just clothing on the below zero y/y (and airline tickets, probably not well measured in Apri…)



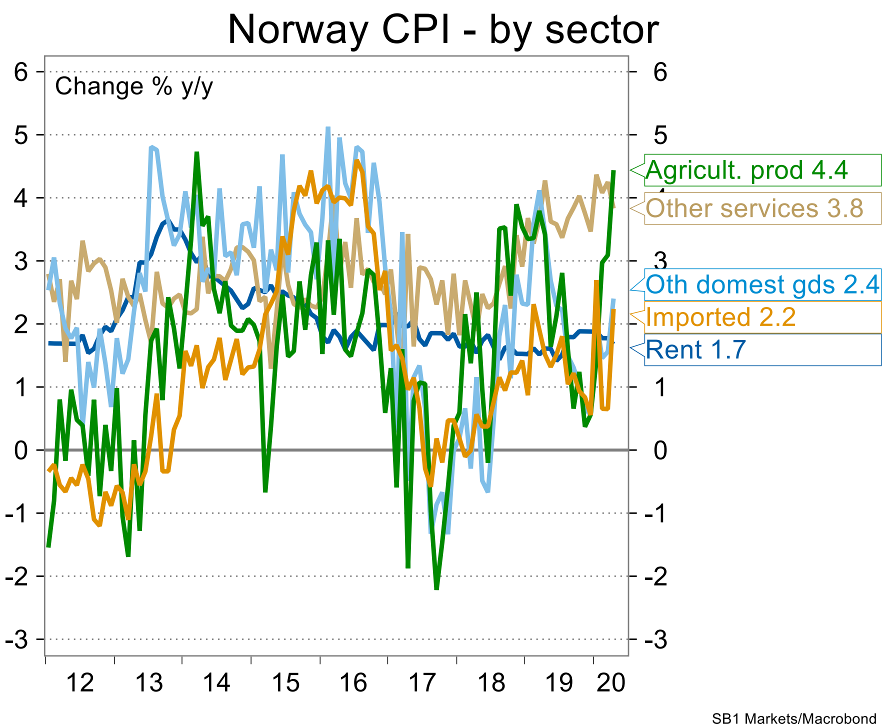


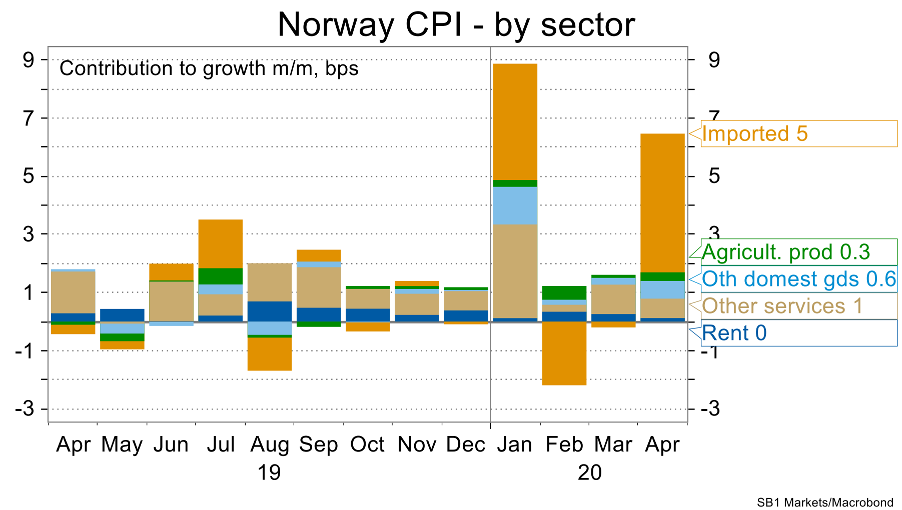
Most prices rose in April

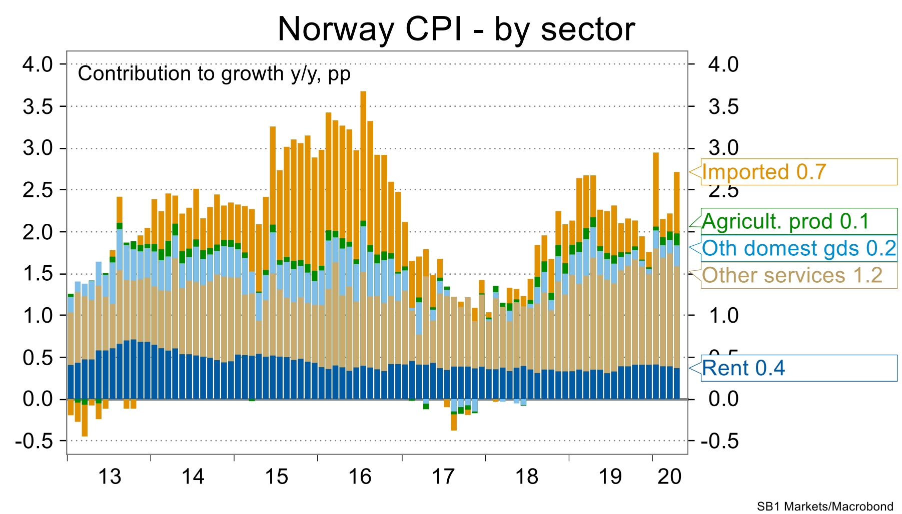




Imported goods inflation up to 2.2% but domestic inflation even higher

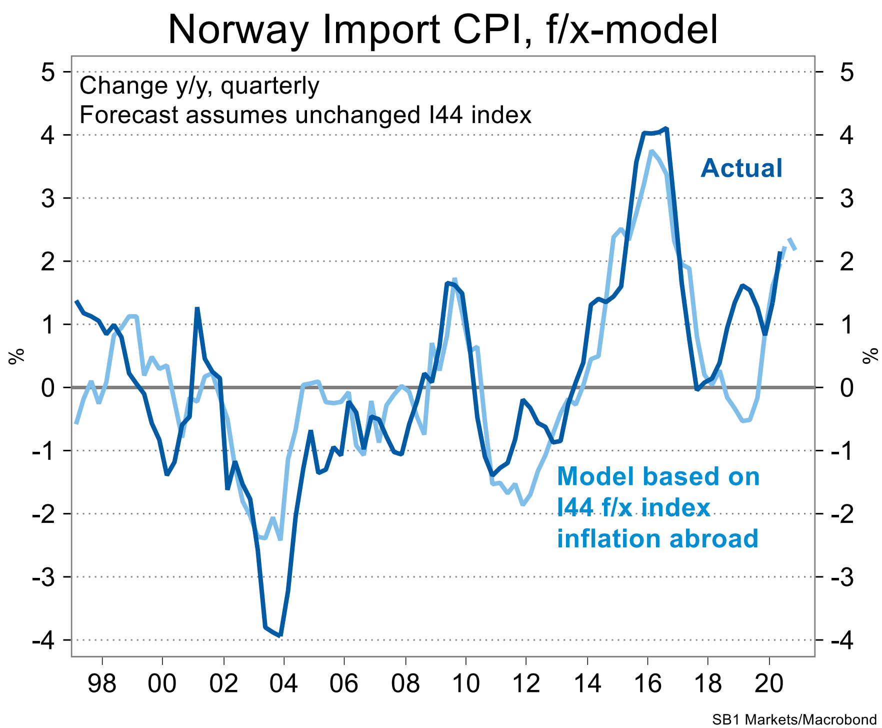


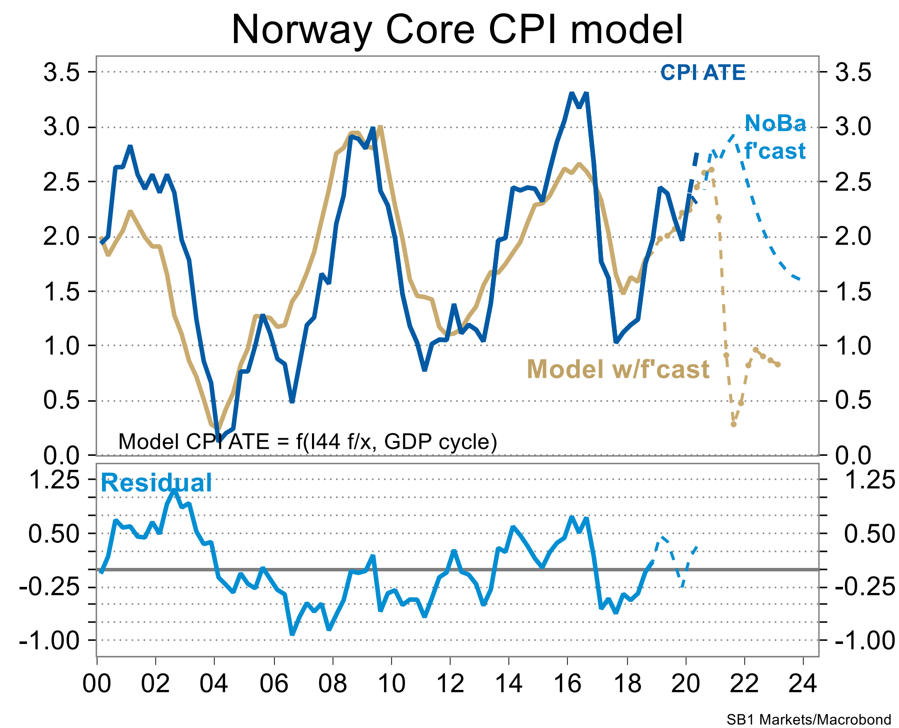




Imported prices: Upside risk short term. Then the cycle will take inflation down

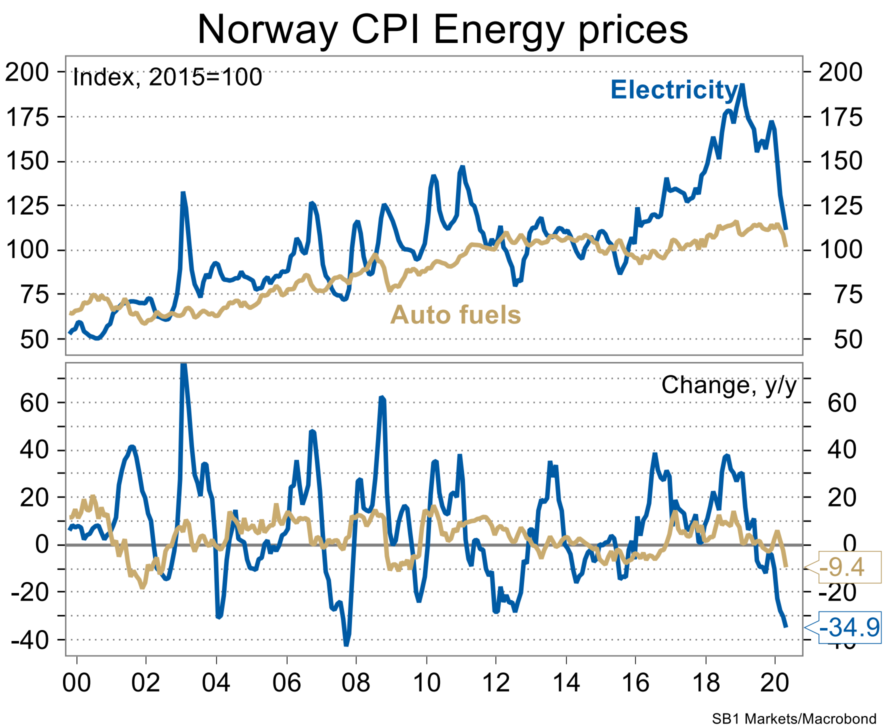
Out model is not calibrated for the coming decline in GDP, but the sign is no doubt correct

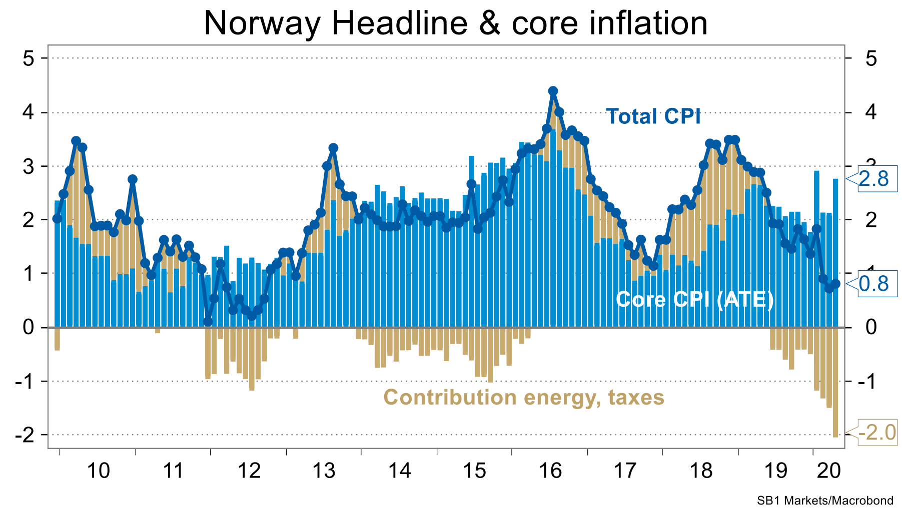


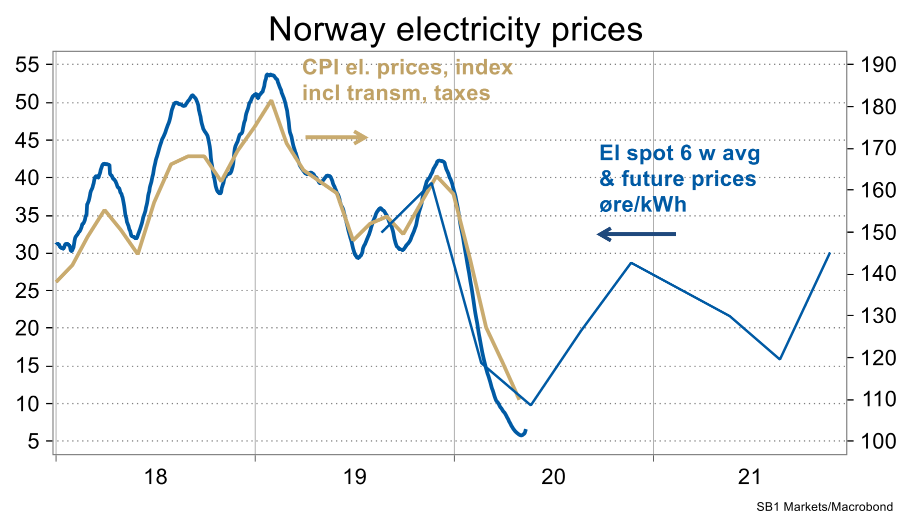


Electricity prices are tumbling, taking total inflation down

Electricity prices are deducting 1.4 pp of total inflation



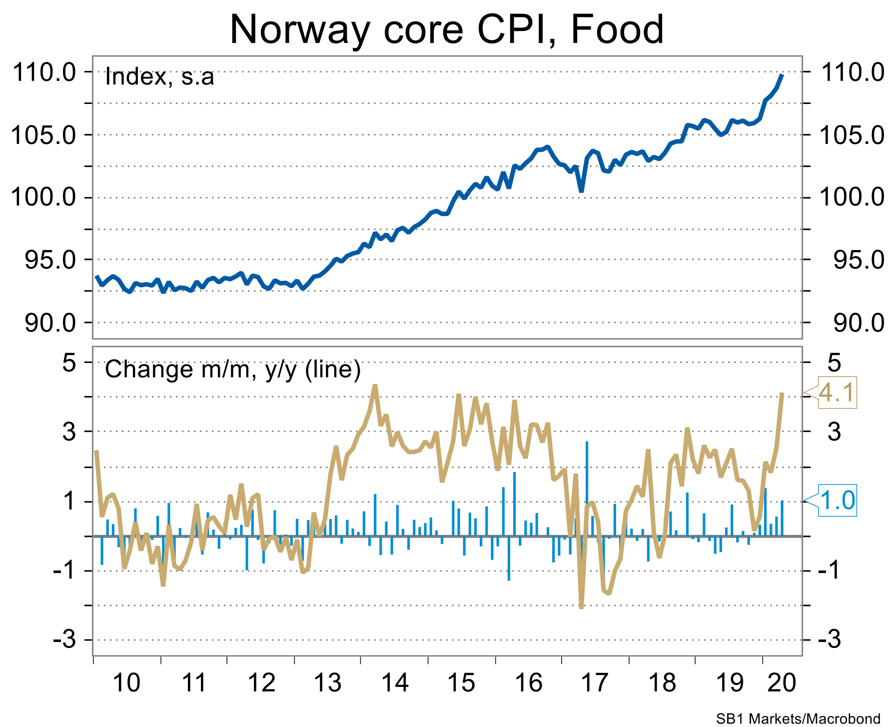


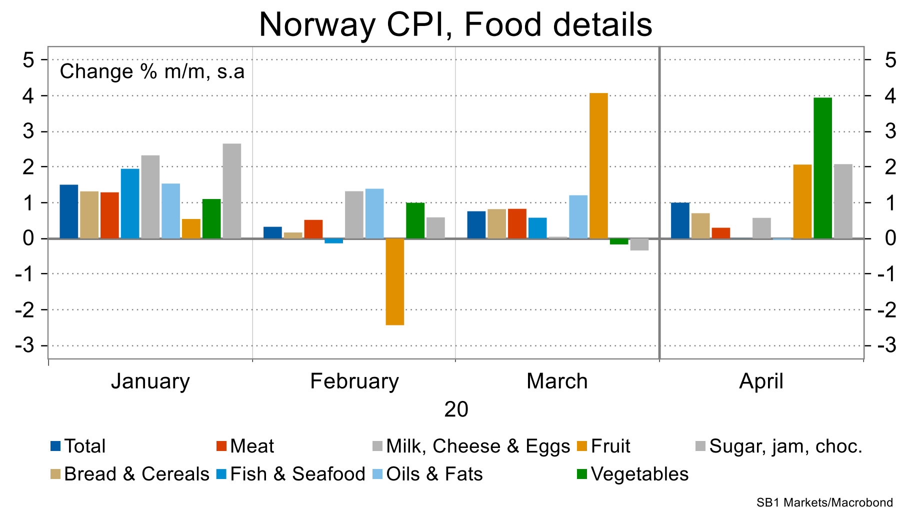


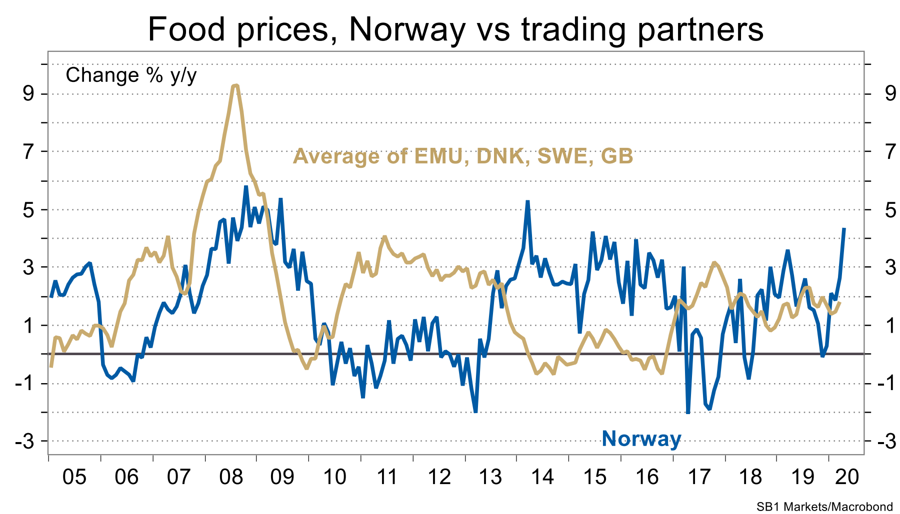
- In 2017/18 the surge in electricity prices lifted the headline CPI, reducing real disposable income significantly. This effect was put in reverse in 2019 and more so in 2030, as electricity prices have fallen sharply.
- Electricity forward prices are signalling an upturn in prices next year
  - » Auto fuel prices are reducing total inflation modestly

Food prices up 4.1% y/y!

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







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

Highlights

The world around us

The Norwegian economy

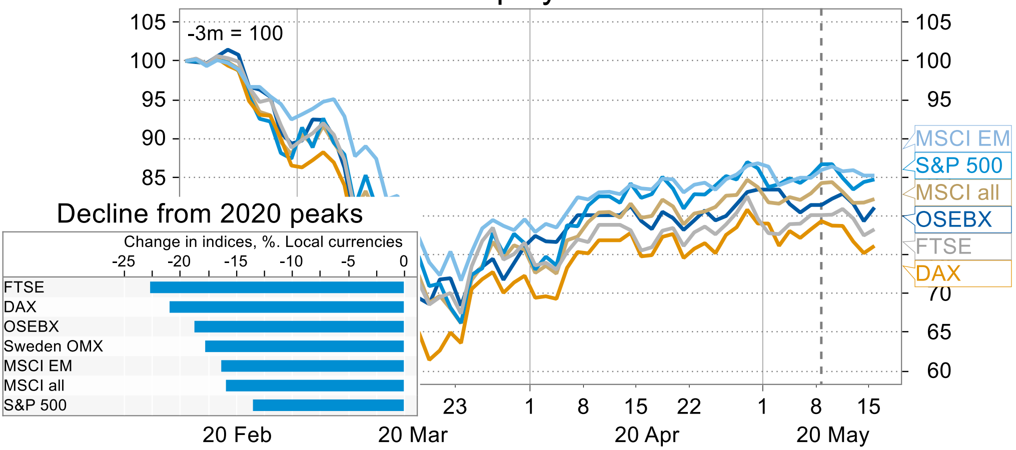
Market charts & comments

SpareBank 1 MARKETS

Most stock marginally down, bond yields flattish, oil is recovering slowly

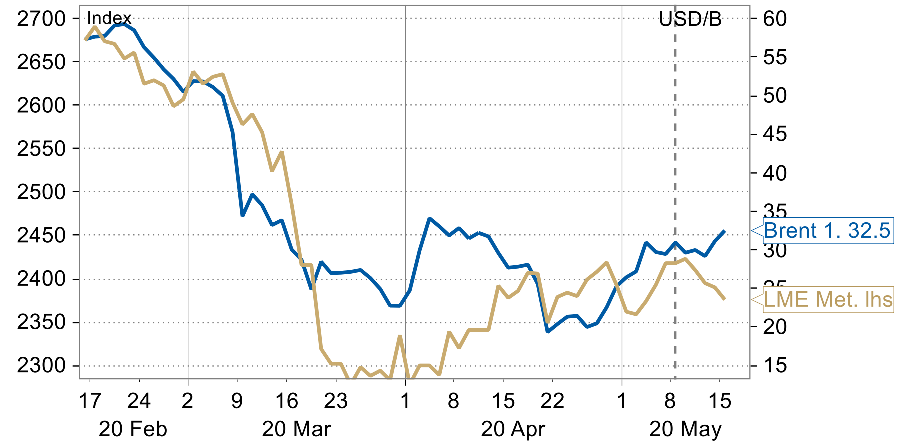
Metal prices have been bottomed late March – China may take credit?

Equity Indices



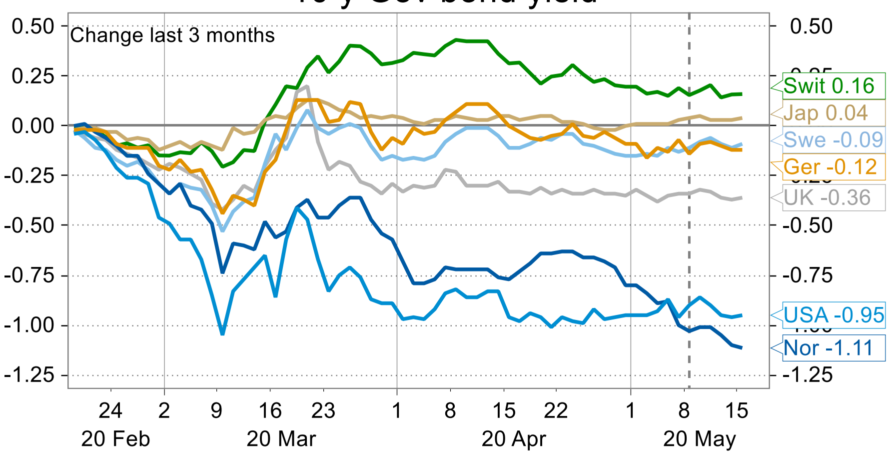
SB1 Markets/Macrobond

Oil vs. metals



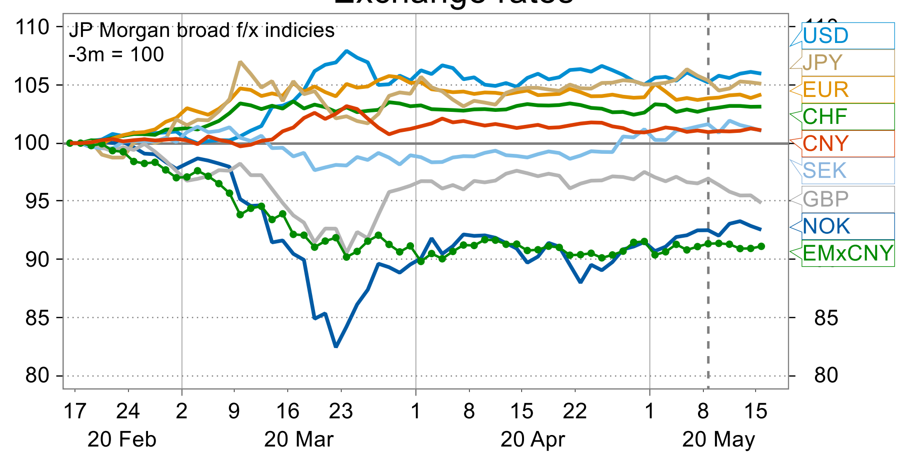
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

Exchange rates



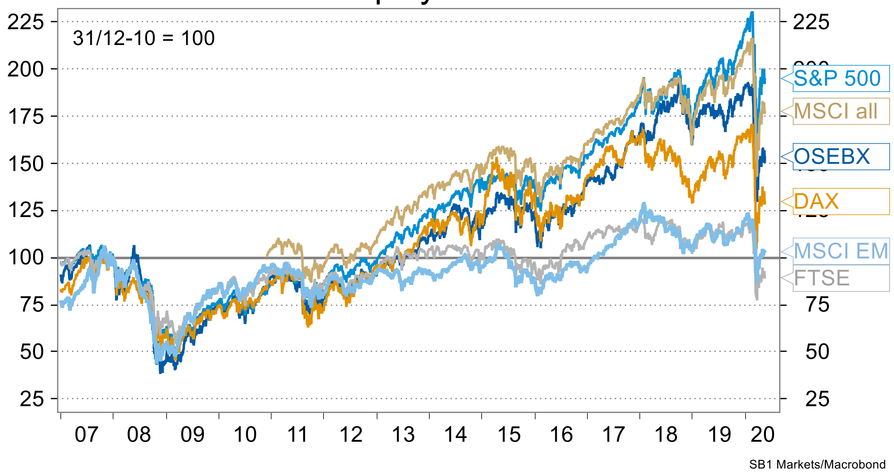
SB1 Markets/Macrobond

Stable main f/x markets- NOK is finally trending up, the GBP down

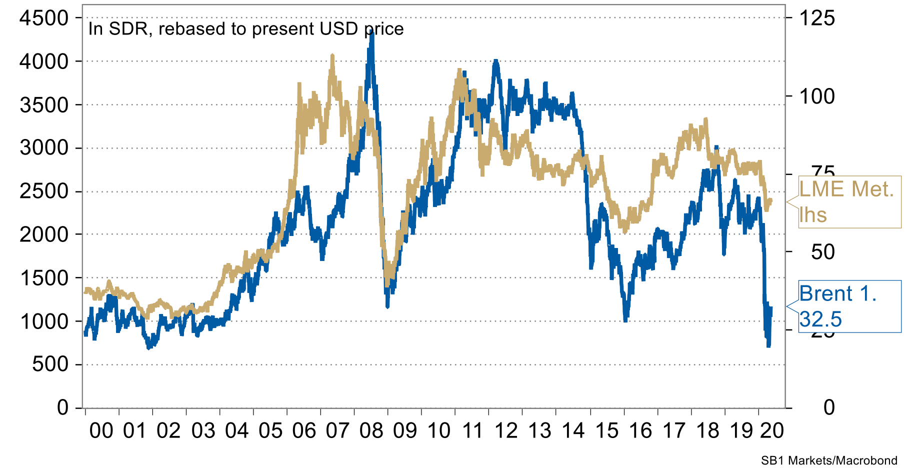
In the long run: Stock markets are looking like a ‘V’

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

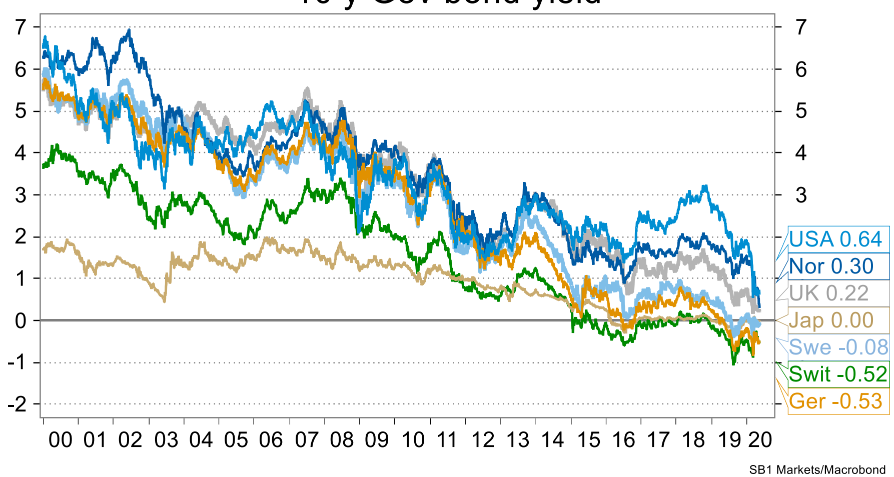
Equity Indices



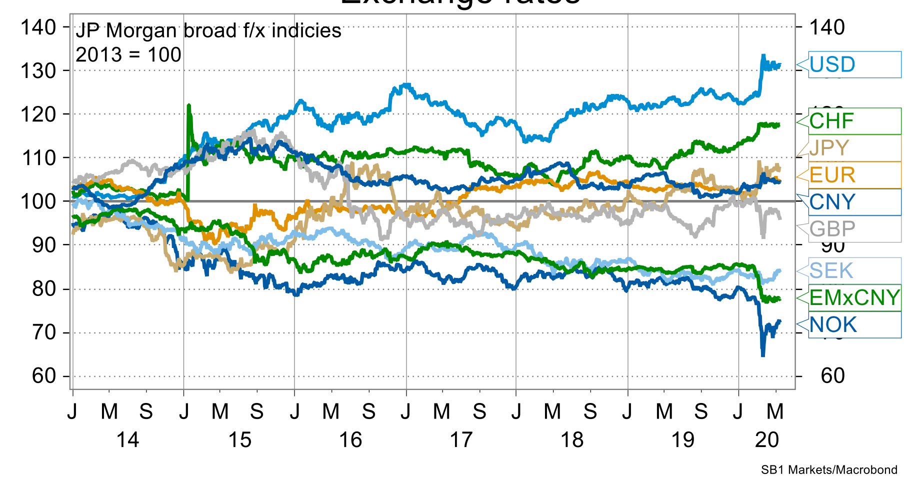
Oil vs. metals



10 y Gov bond yield



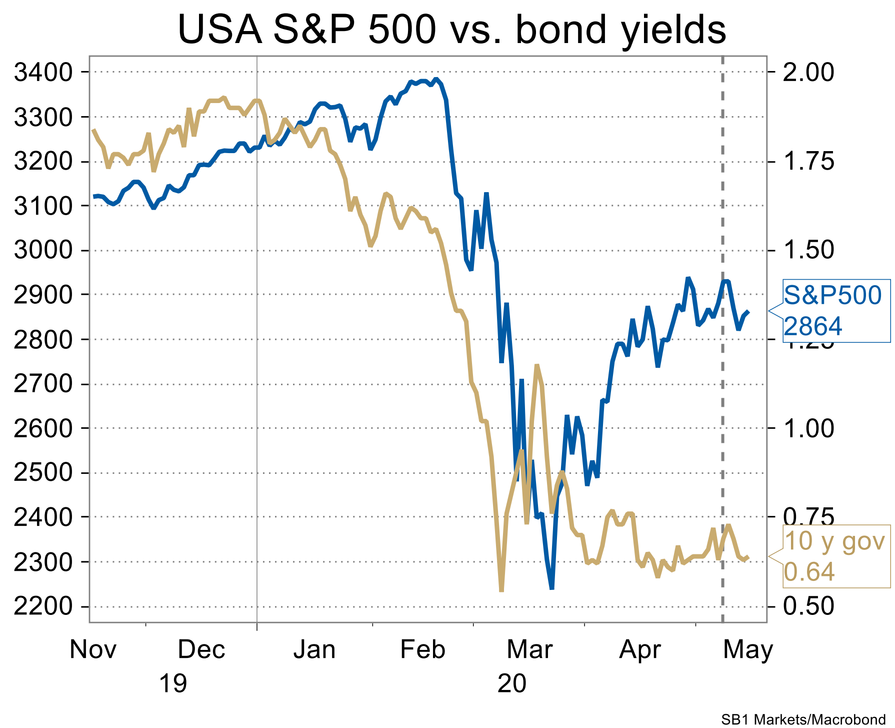
Exchange rates

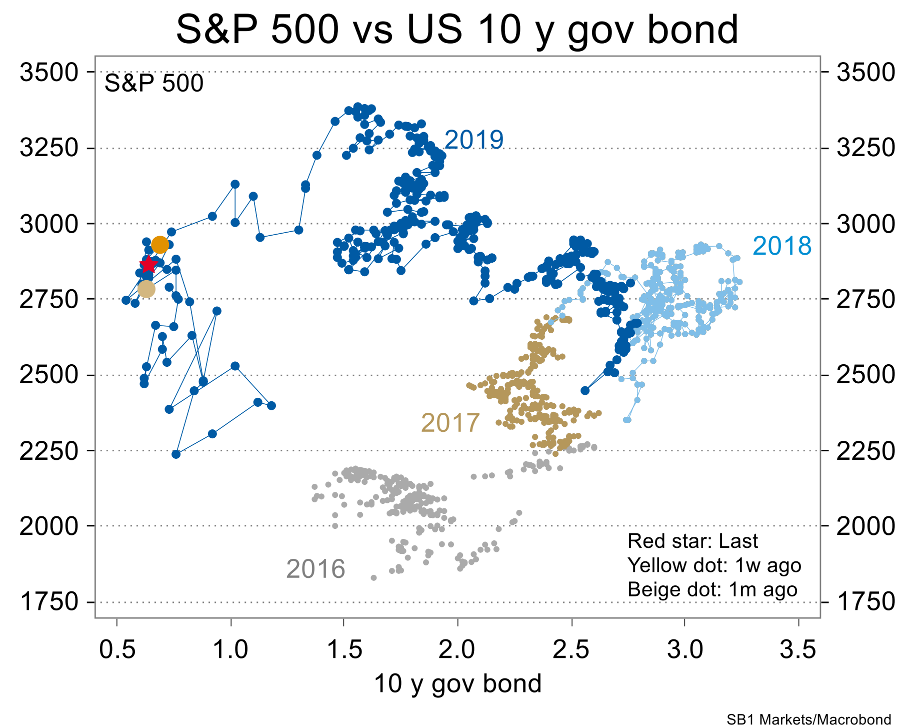


SpareBank 1 MARKETS

Equities, bonds have stabilised past 3 weeks

Stocks up the previous week, down last week. Bonds close to flat over the week

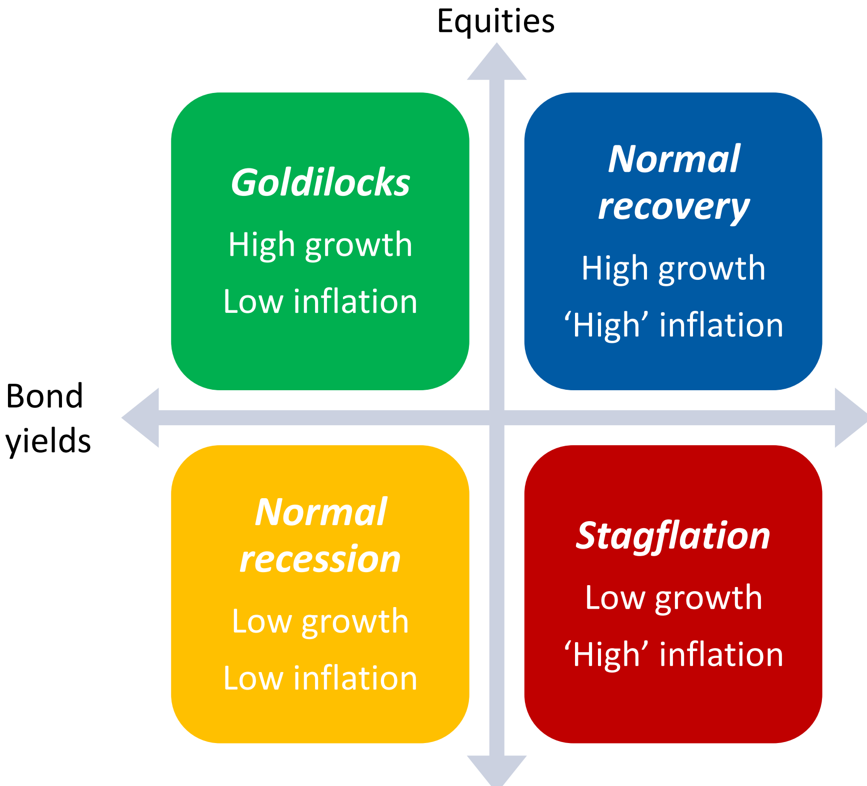


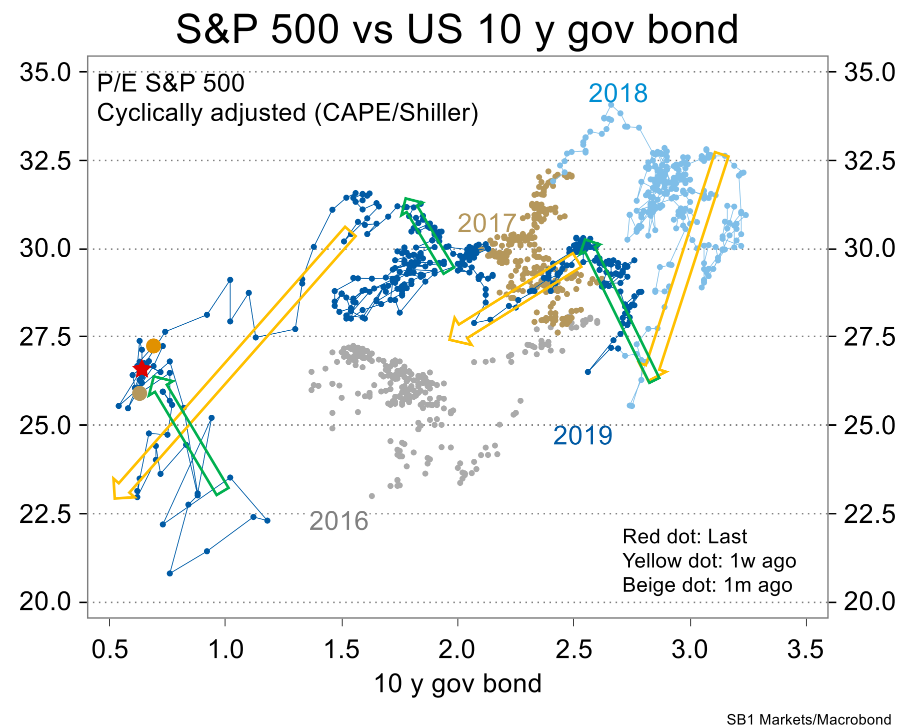


SpareBank 1 MARKETS

No direction past month; stocks, bonds quite stable

Economies are opening up, the central banks are pumping hard but risk had priced the good news?



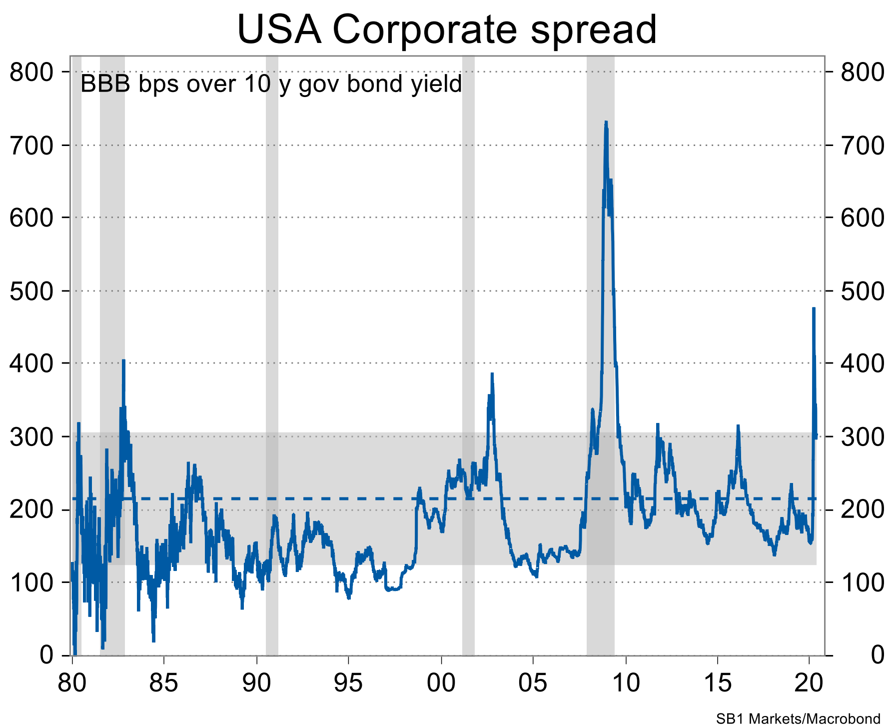


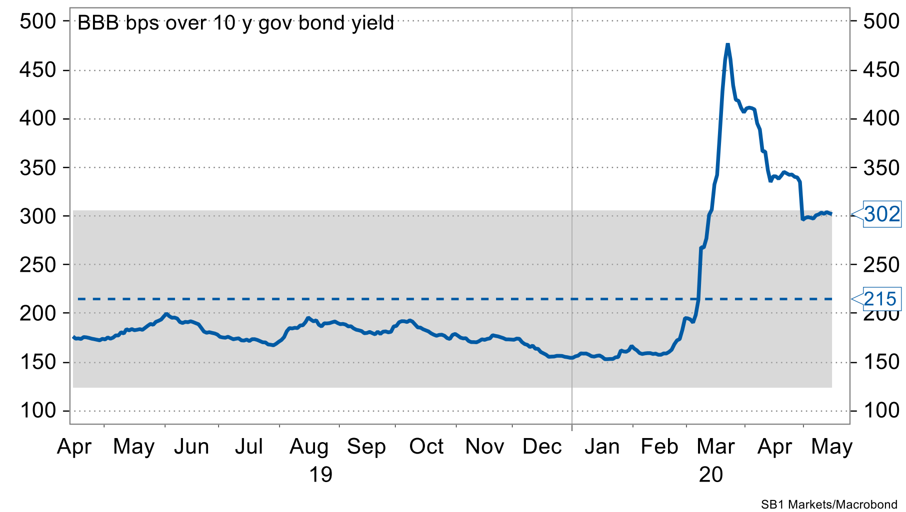
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic 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 strengthened – while yields have been kept low due to enormous QE programs in US but also among other central banks.

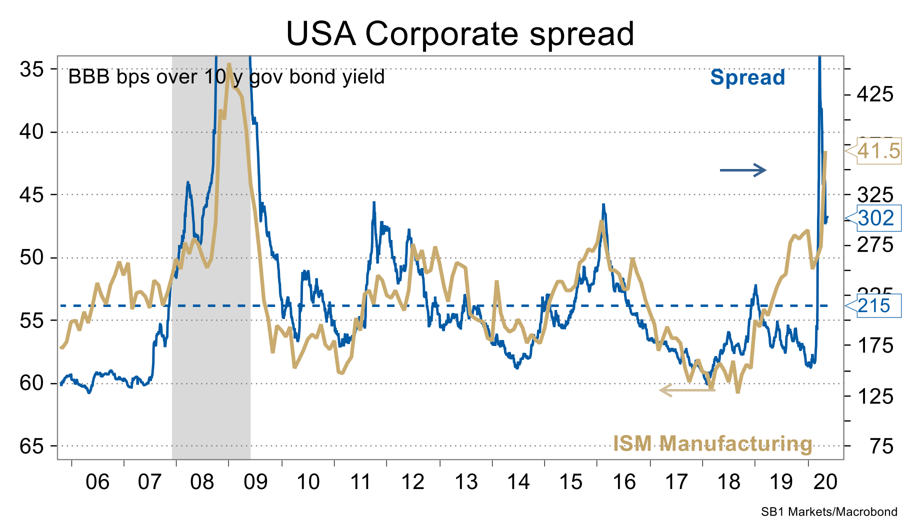
SpareBank 1 MARKETS

Corporate spreads has stabilised at levels not consistant with a harsh setback

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

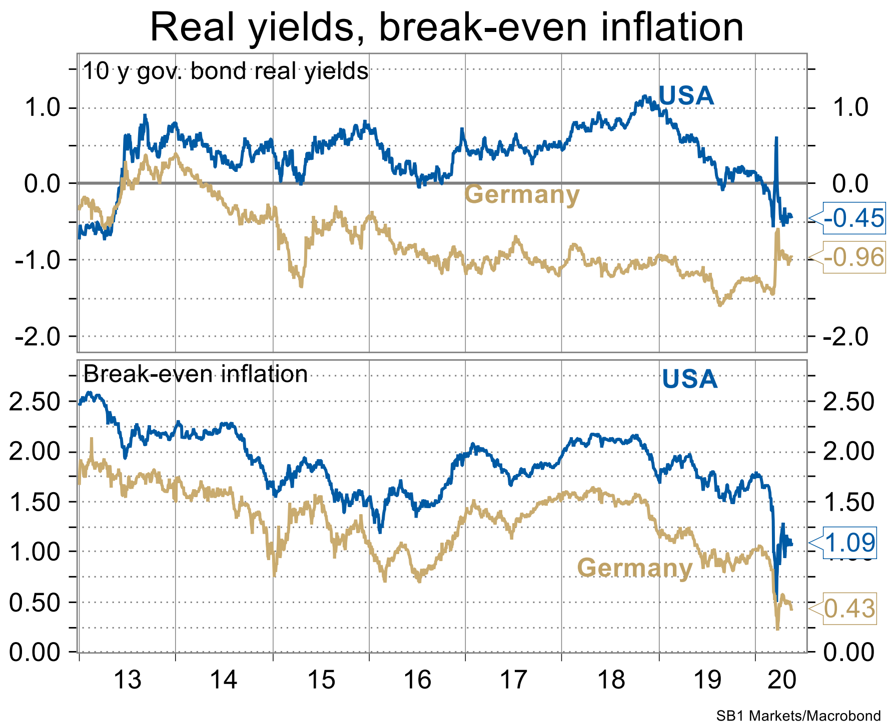


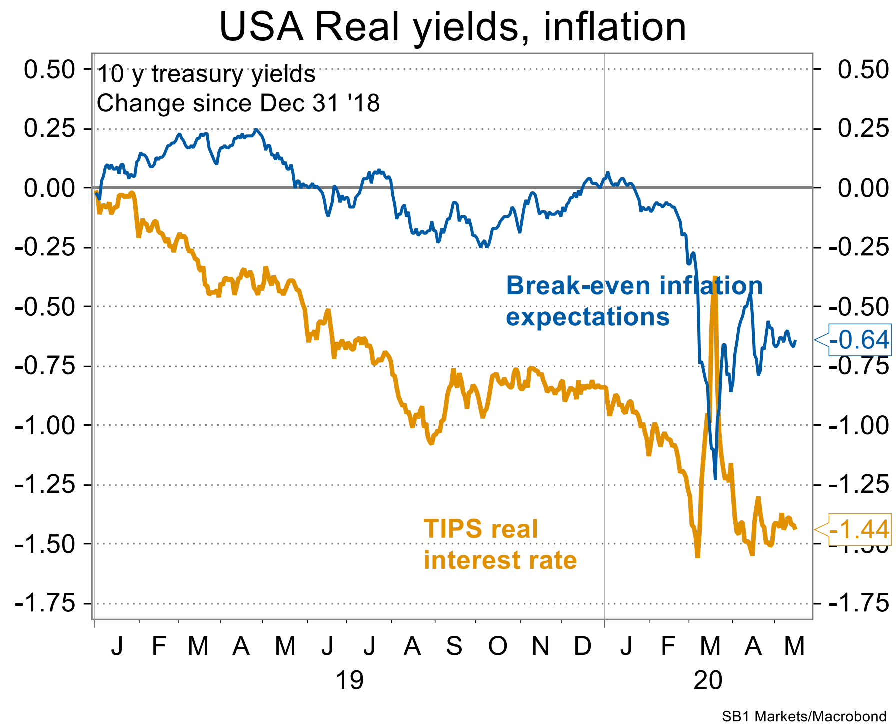




No inflation on the horizon, even if money are printed

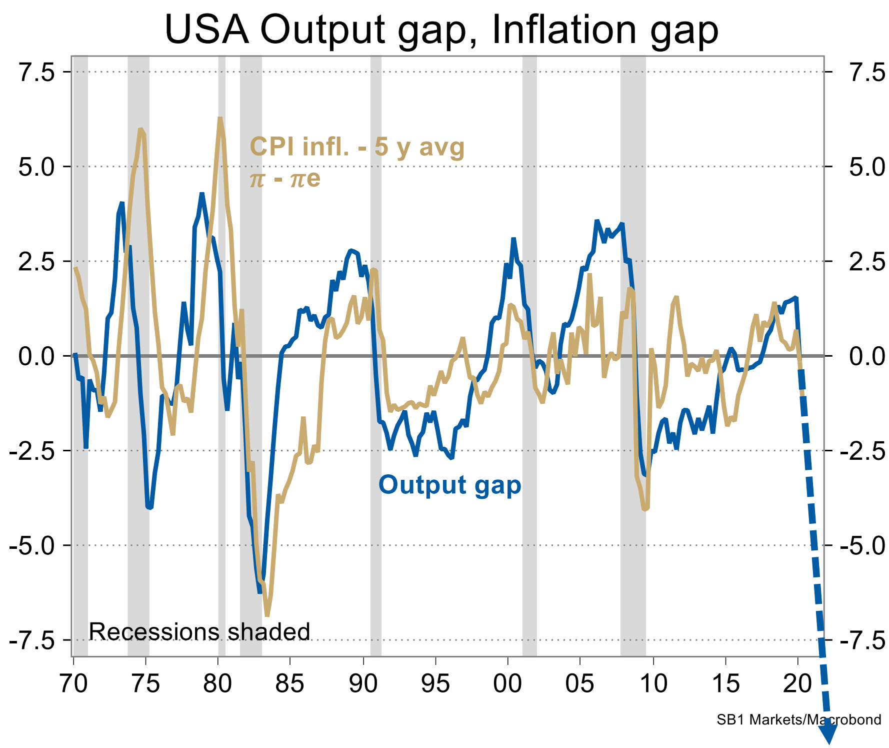
Because the output gap is much more important, at least short to medium term

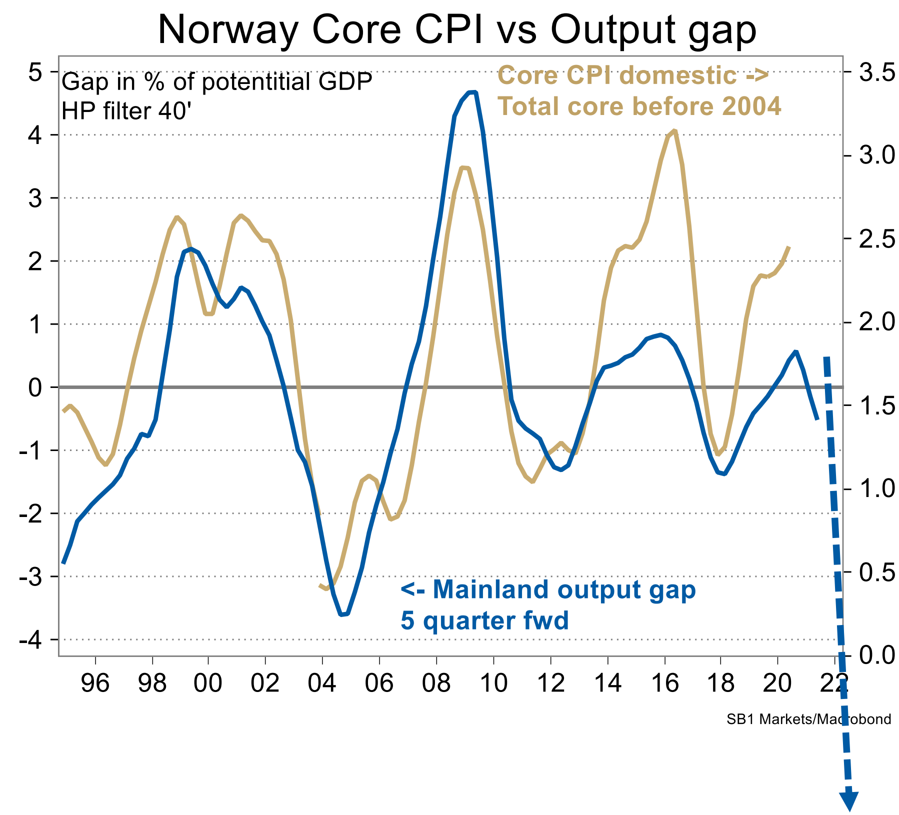




What decides inflation? Not money or debt – but the cycle. Phillips is not dead

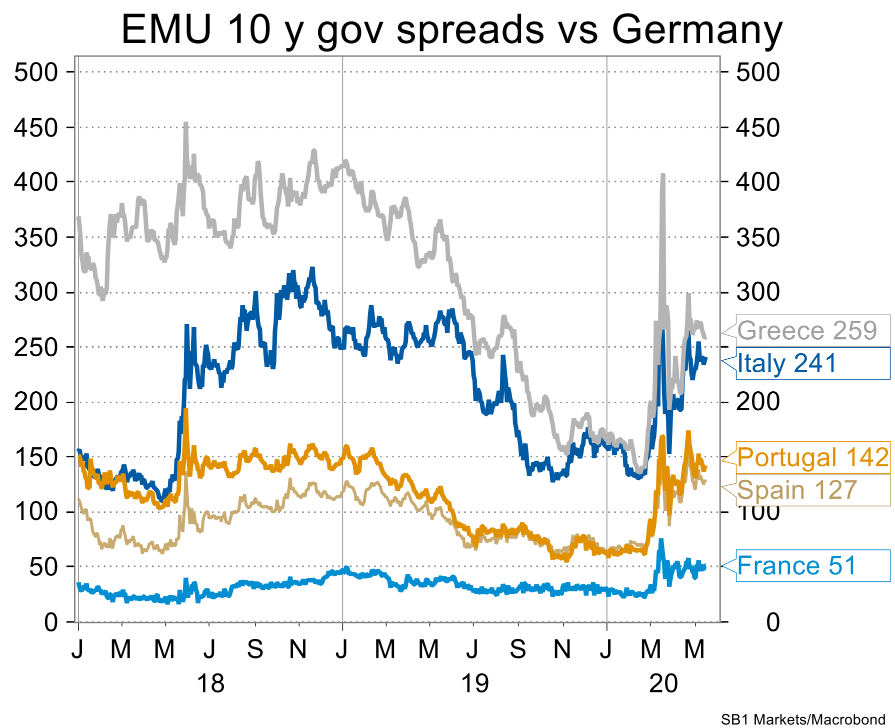
Inflation will not take of when the economy is weak

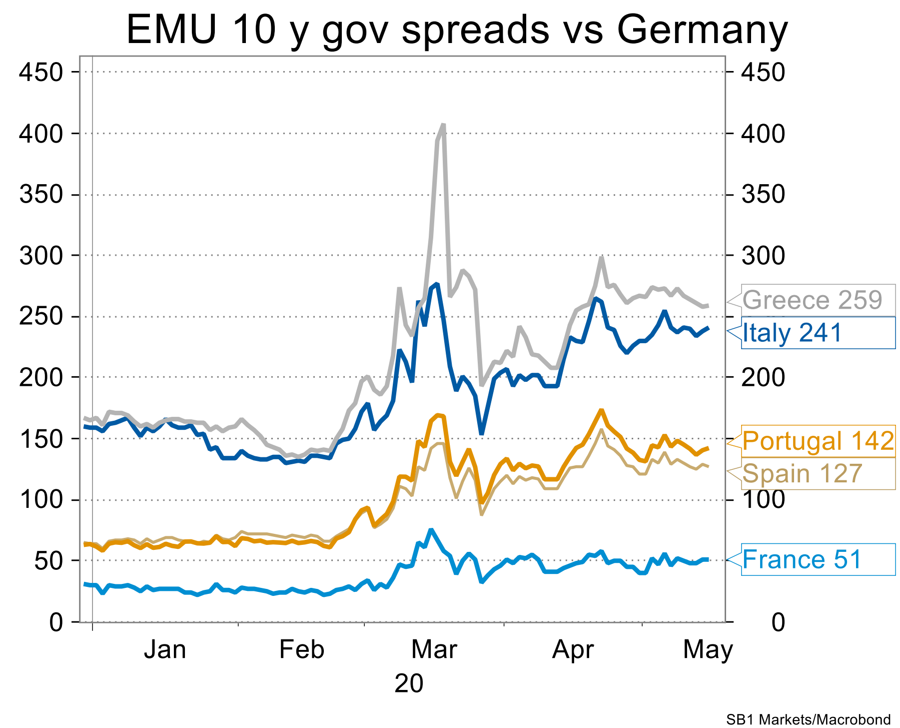




No panic in the European periphery

Spreads are elevated but did not climb further on the German Constitutional court QE verdict



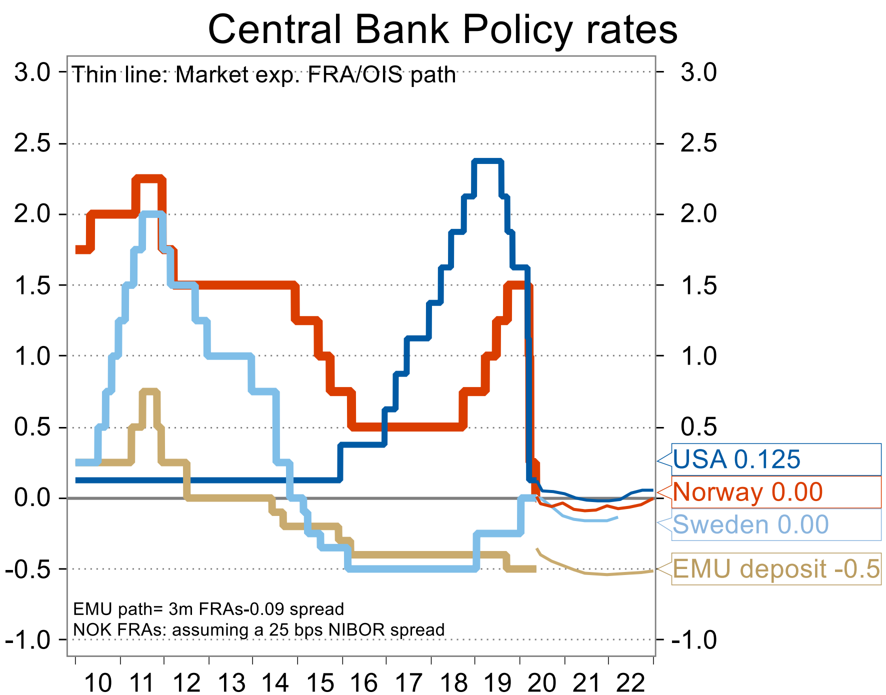


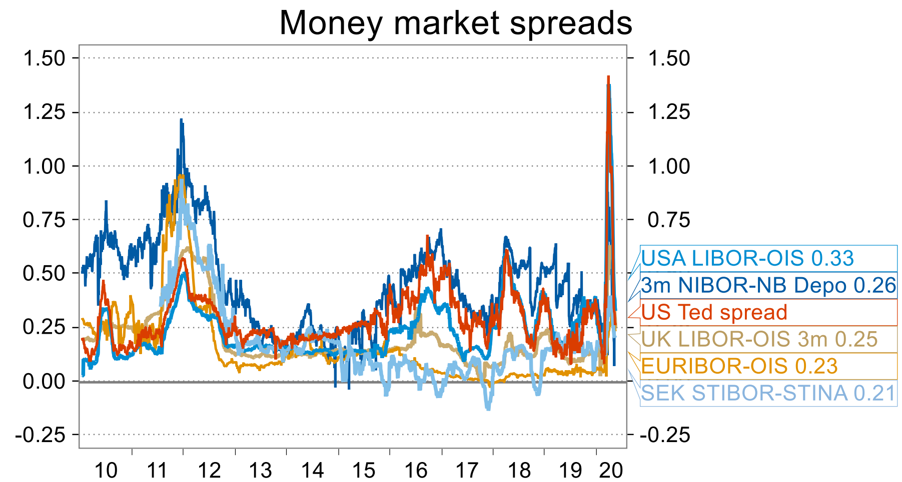
- The German court wants better explanations for the legality of the QE programs, while the ECJ says the German court does not have any legal position in the case
- We assume the clever eurocrats will be able to find a compromise, as always. Even the German Min. of Finance said so

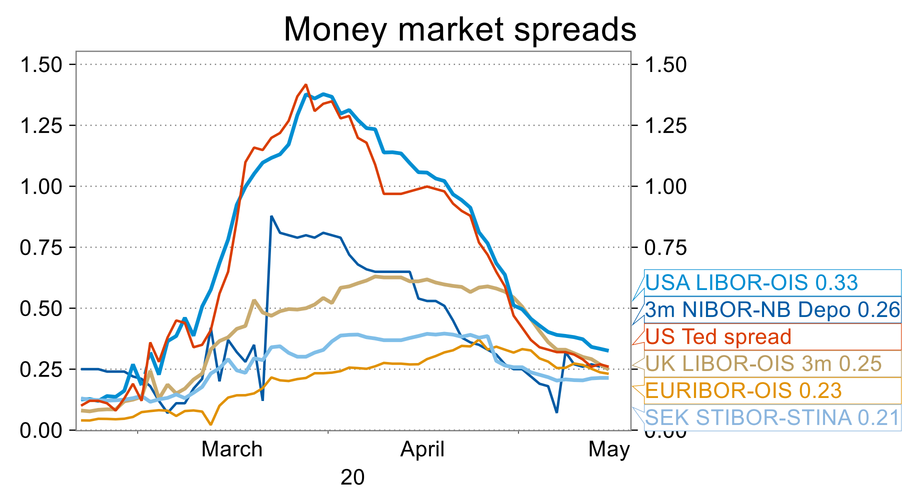
SpareBank 1 MARKETS

Central bank rates on hold, money market spreads are narrowing

... most in the US and Norway. The NIBOR spread down to 26 bps

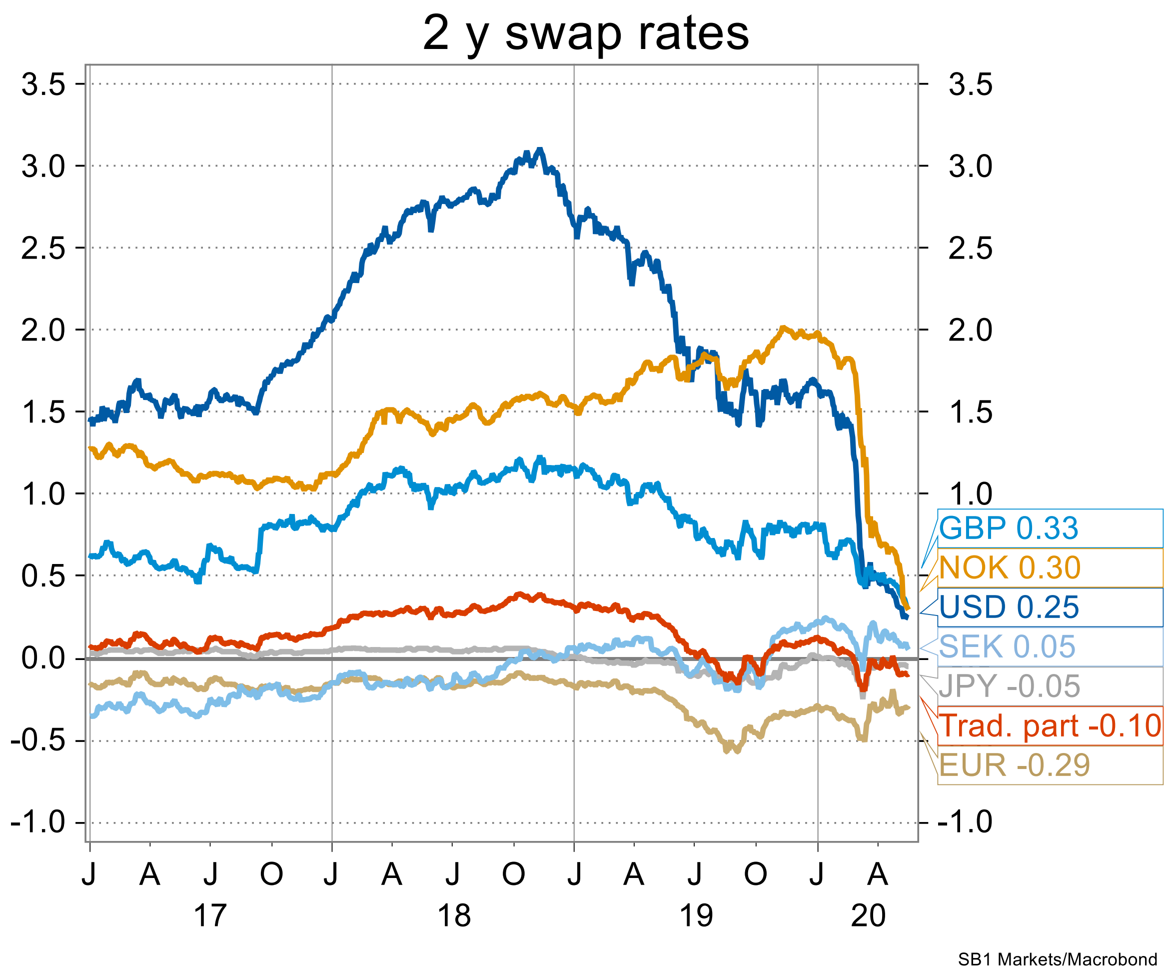


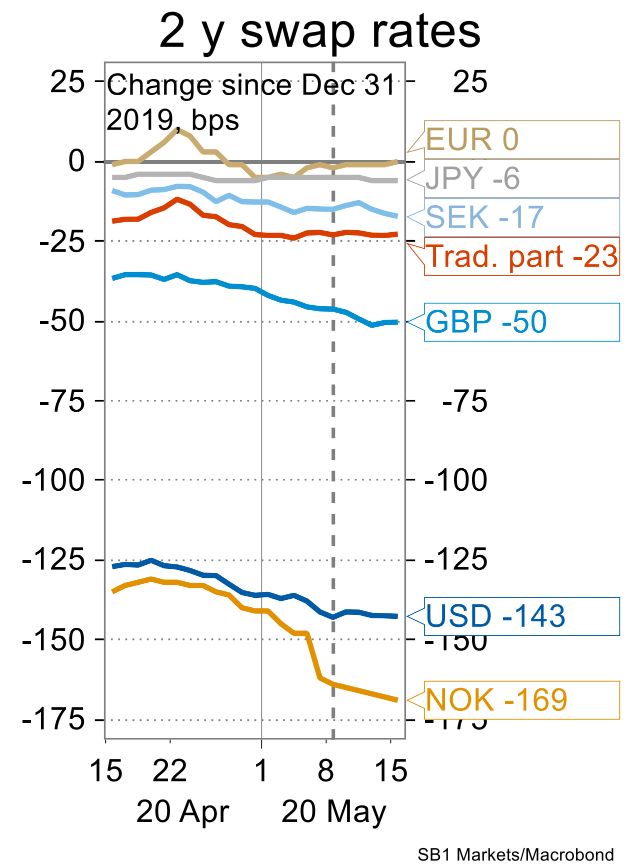




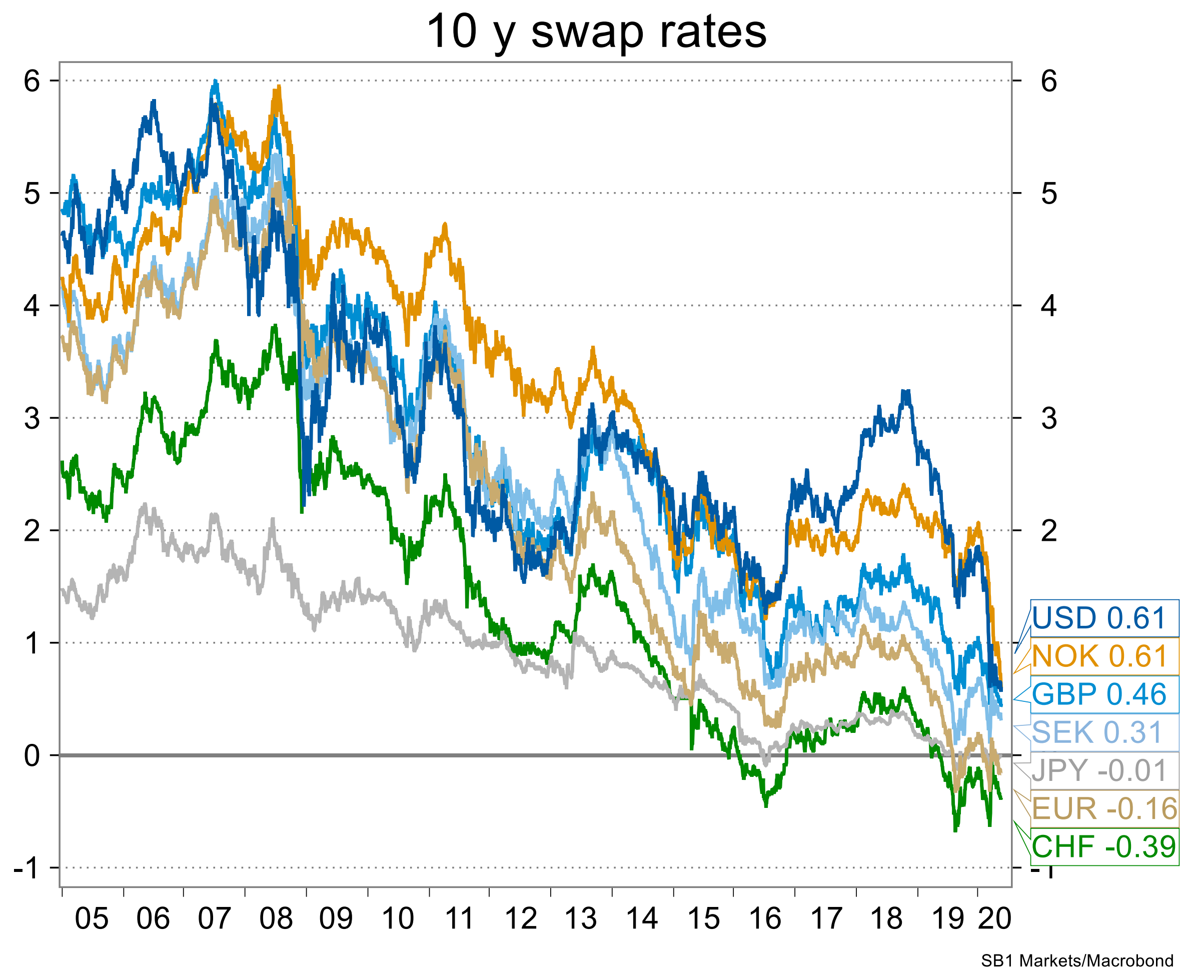
SpareBank 1 MARKETS

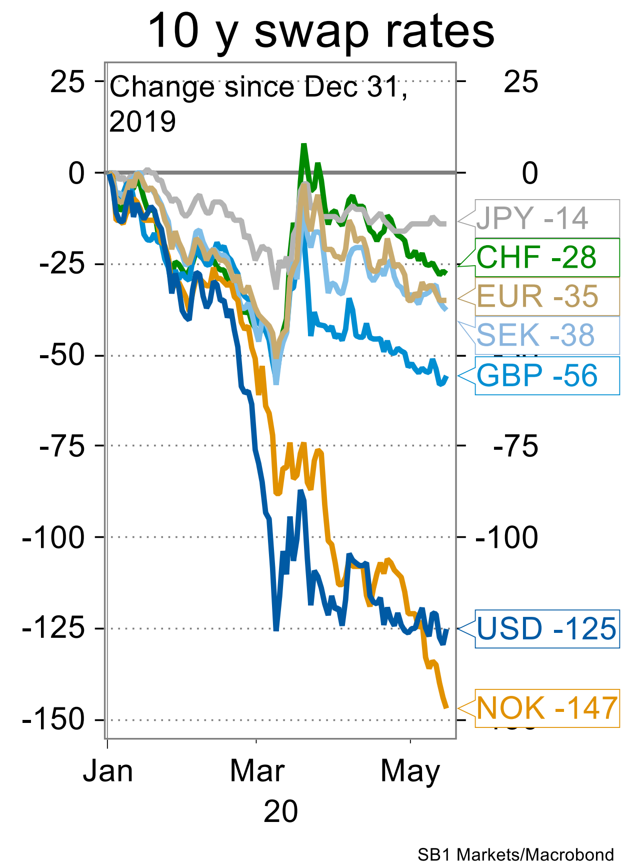
NOK short term trending further down, others close to stable





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

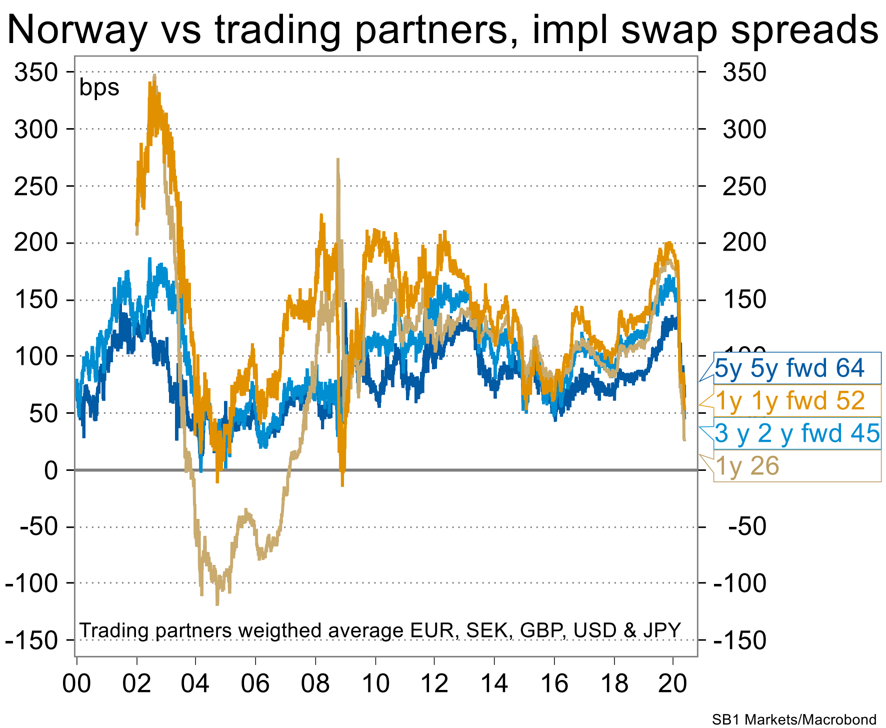


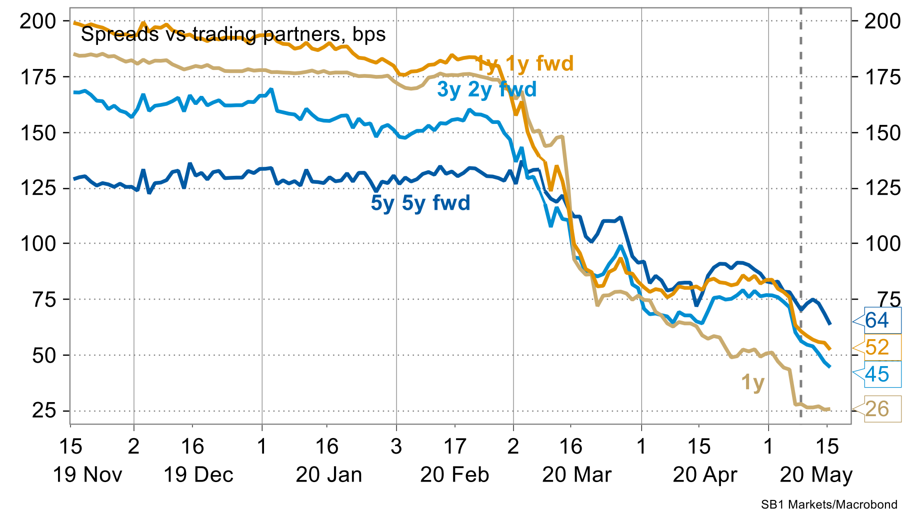


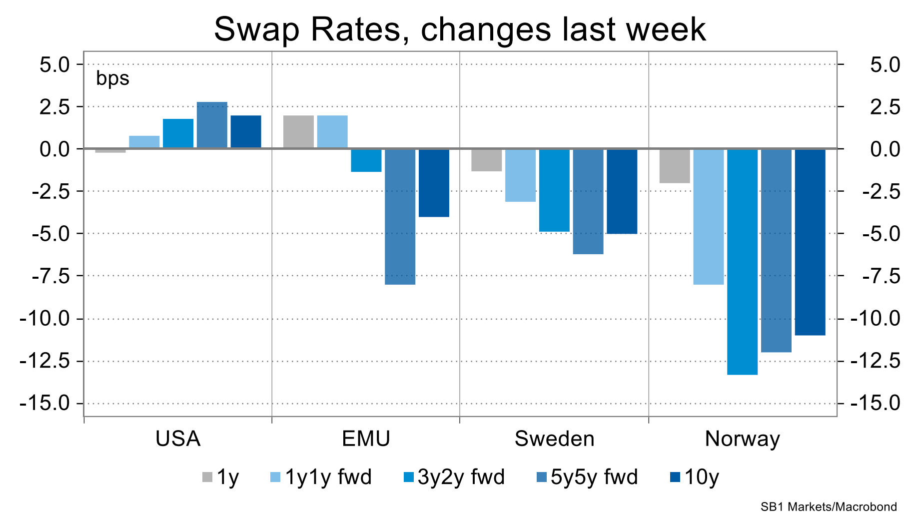
SpareBank 1 MARKETS

NOK swap rates & spreads vs trading partners further down last week

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





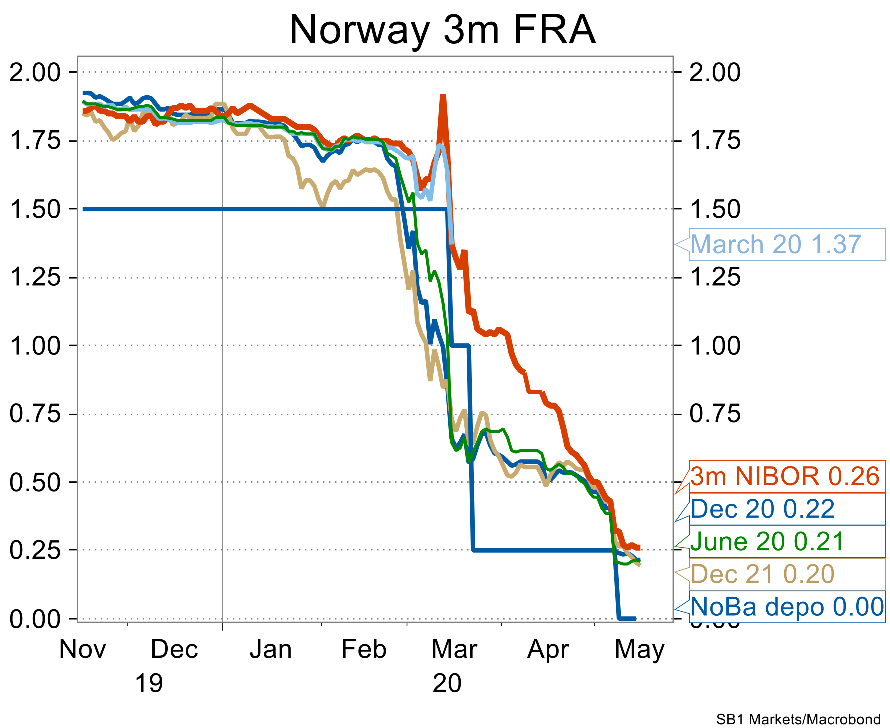


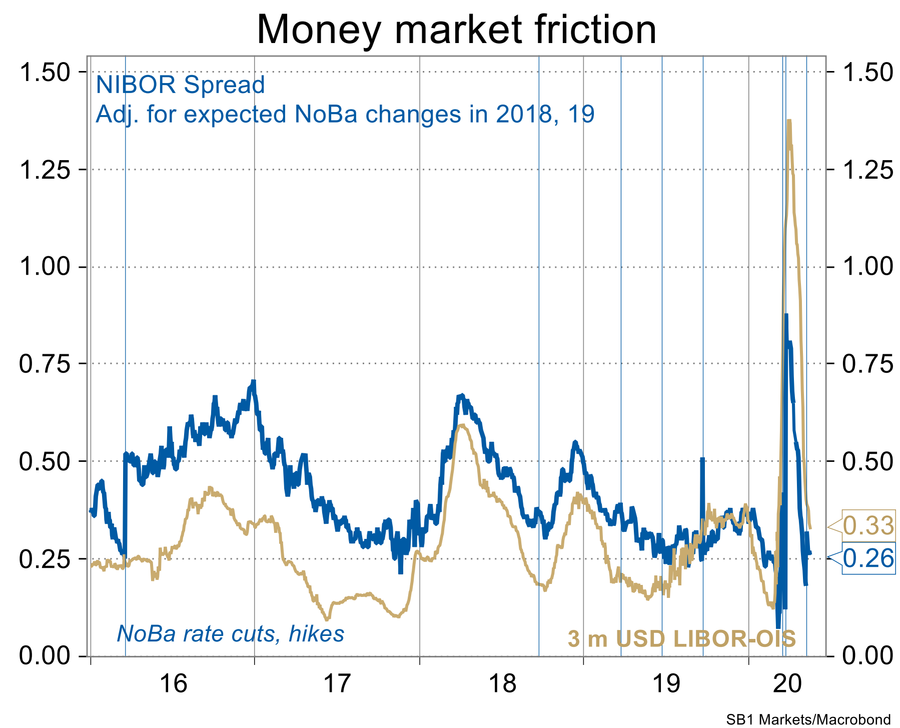
- A steep journey back home. Spreads vs. trading partners have fallen by some 125 bsp since early 2020
- We think the current level is far more correct than where we came from. Still, spreads are not too narrow yet – but the downside is not that large anymore

SpareBank 1 MARKETS

The 3 m NIBOR & FRAs stabilised last week - and will remain stable? Most likely

We don't think market participants are expecting NoBa to cut below zero but rather a narrow spread





- The 3m NIBOR has stabilised at 26 – 27 bps, while the FRA are 5 bps lower. The NIBOR spread is lower than normal. We think the generous F-loans offers have calmed the market
- The spread in the US money market fell further last week, the 3m LIBOR-OIS spread is now at 33 bps, way down from the peak at almost 140 bps

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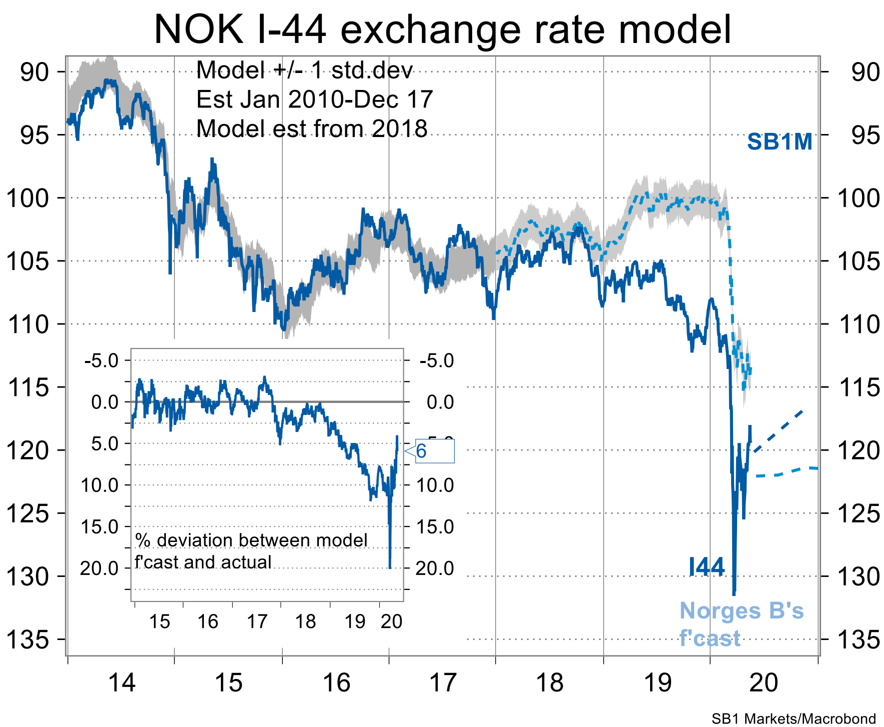
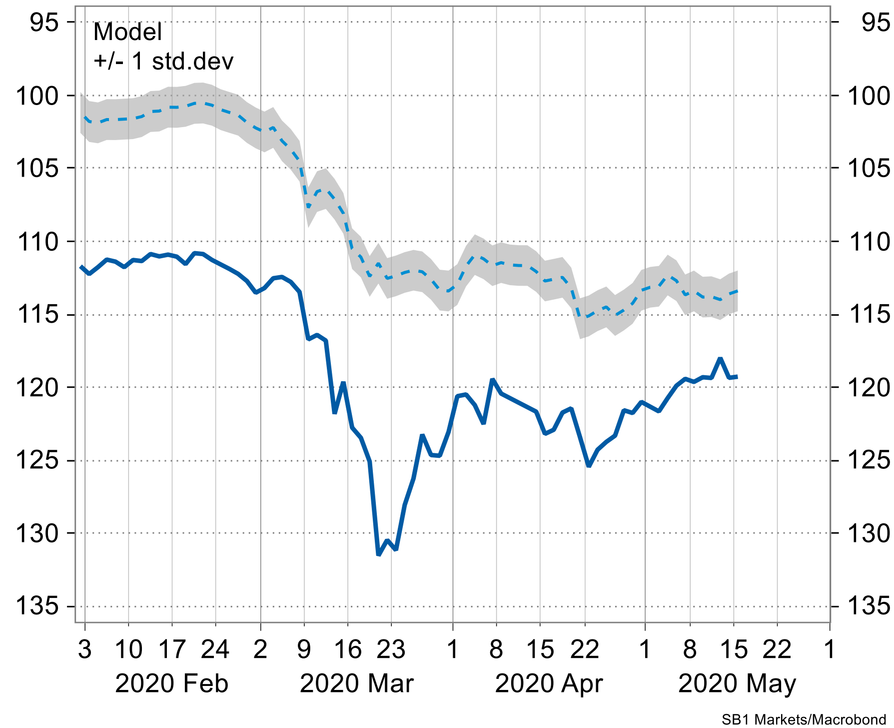
NOK close to flat last week, as been drifting upwards and closer to our model est.

The gap vs our old model at 6% is the lowest since last spring





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

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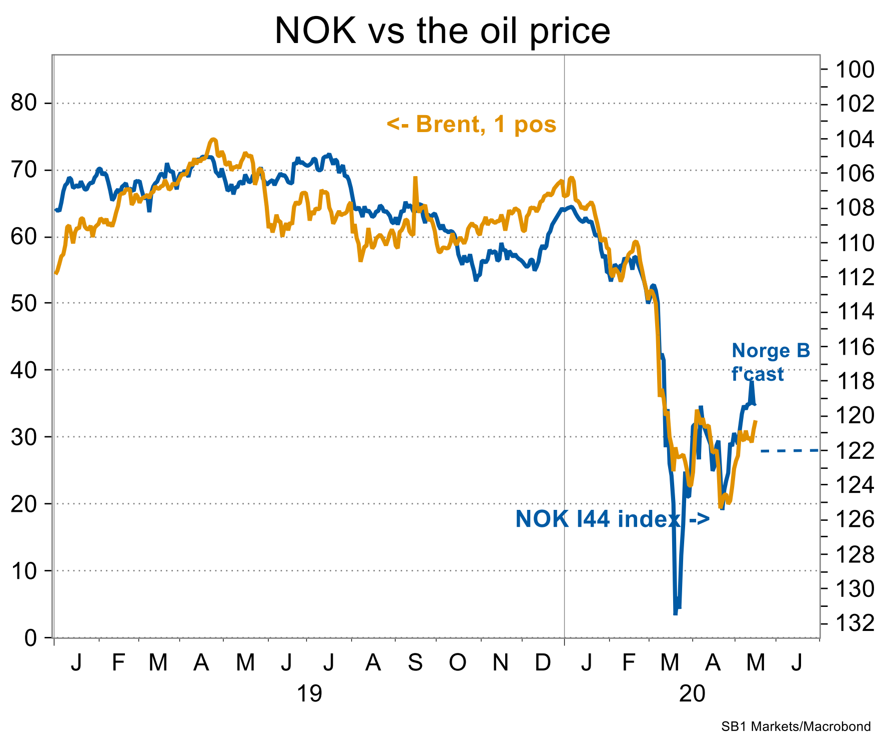
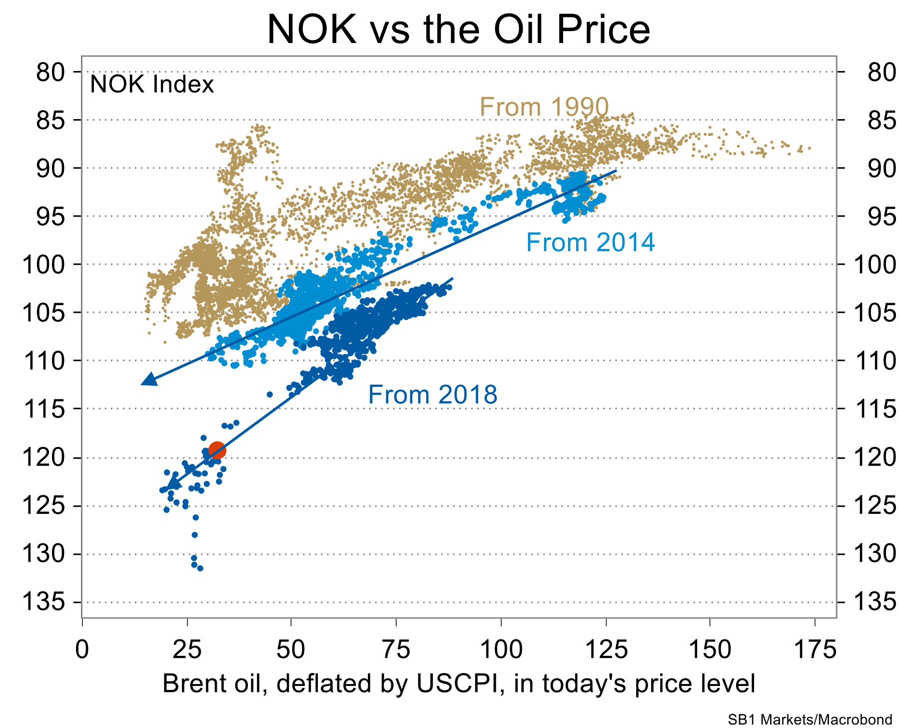
The NOK is where the oil price is

… vs the short term relationship since 2018





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

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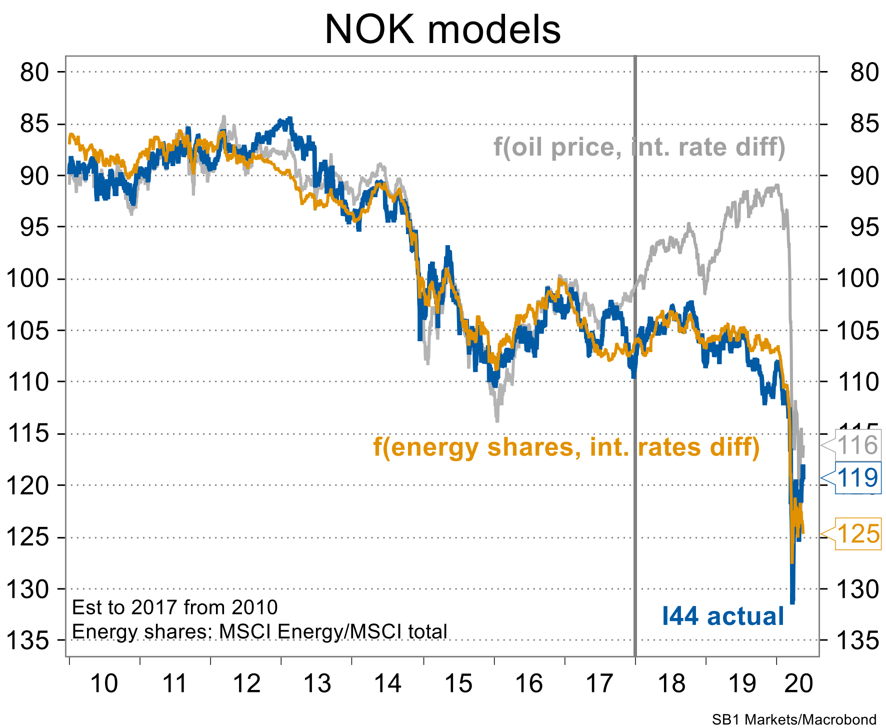
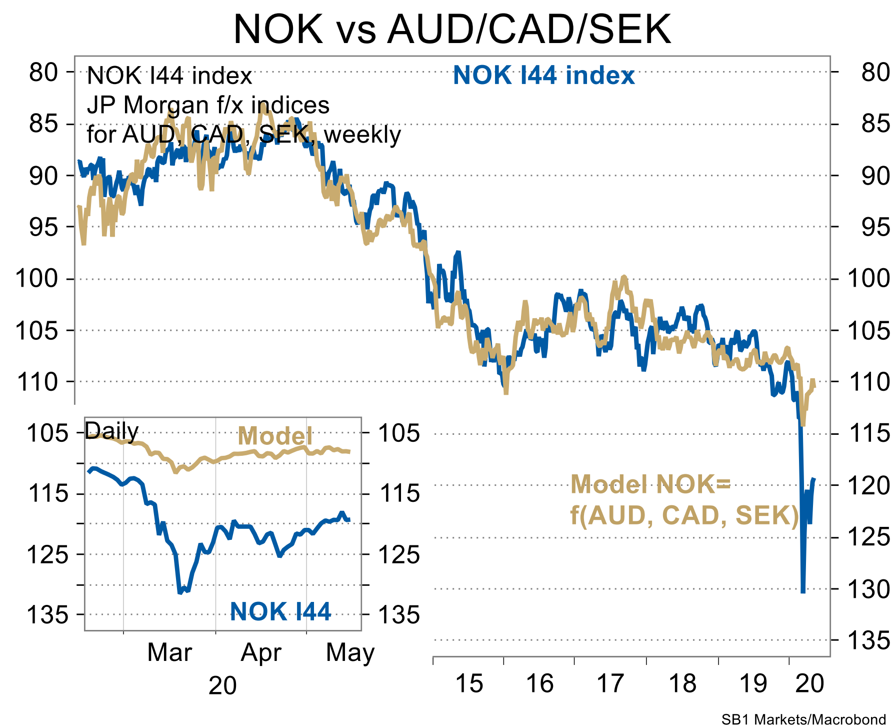
NOK 'stronger' than oil companies, narrowed the spread to 'supercycle' countries

NOK is more than 10% too weak vs the 'supercycle' model but 5% 'stronger than oil companies'

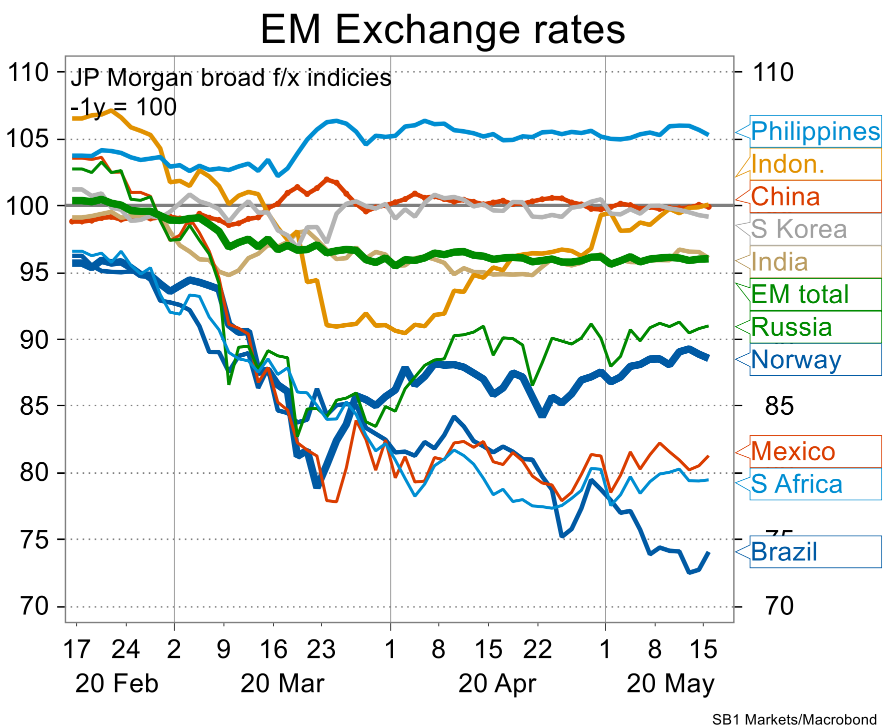


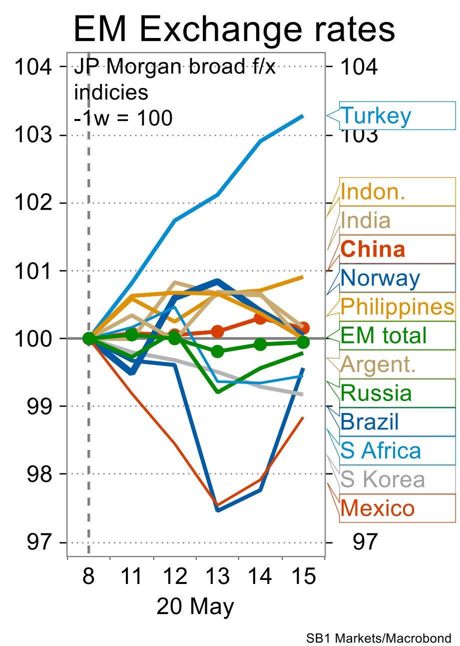


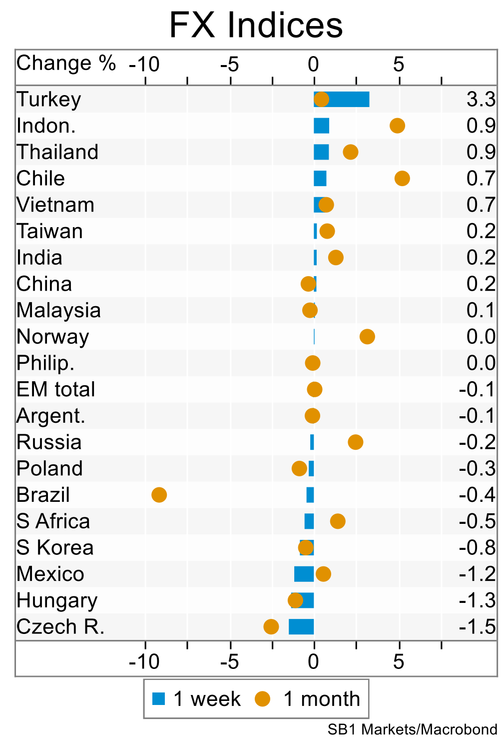
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
- The NOK is now 5% '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 EM f/x universe stable last week, the Brazilian real still really weak

The Chinese CNY has been flat past weeks even if Trump has escalated trade war rhetoric agian

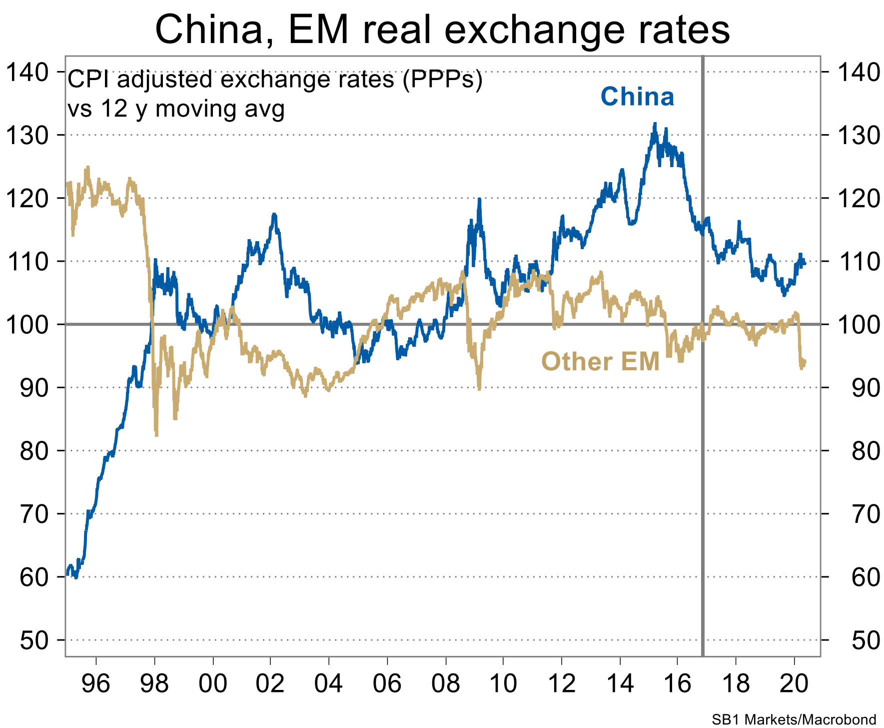


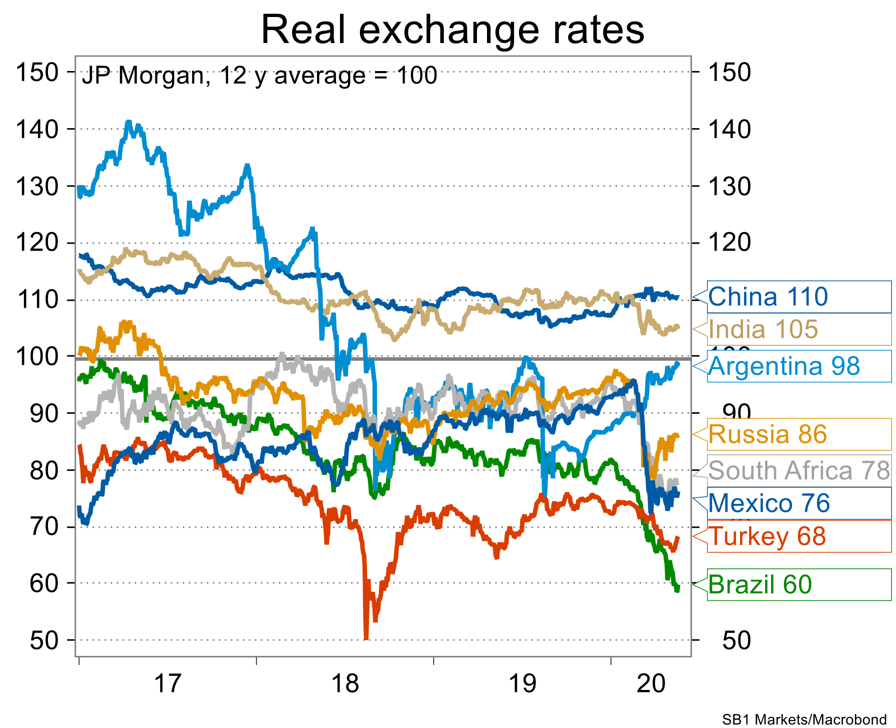




EM currencies ex China down 7%, almost all down, barring Argentina ☺

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





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