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Macro Research

Weekly update 24/2020

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

- **No serious second corona virus wave** to be seen but data from 1/3rd – ½ of US states as well as Sweden are not reassuring. Short term activity indicators confirms a gradual economic recovery through May and into June, none are turning south again
- **Unusual social unrest & political turmoil** in the US do not scare markets
- **Global auto sales** very likely rose in May. Chinese Auto sales remained at a normal level in May following the April recovery, while sales recovered somewhat in both EMU and the US as well in many other (but not all) countries
- **The global PMI** rose 10 p – twice as fast as anytime before - to 36 in May. Almost all countries contributed. Norway is no 3 in the World PMI Championship. Still, the PMIs are formally signalling a steep decline in activity in May – which we are quite sure will not materialise in the actual data. Companies are – wrongfully – reporting growth over the 2 – 3 recent months, not just the last month
- **Chinese exports** kept up well in May, while import volumes remain some 6% below the pre corona level
- **US employment** increased by 2.5 mill in May, while economists were expecting -8 mill, the biggest miss ever! Still, employment is extremely low, the real unemployment rate is closer to 30% than 20% (vs. the official 13.3% rate which was expected to rise to 19%)
- **The ECB** increased the Pandemic QE program (PEPP) to € 1350 bn (11% of GDP) from 750 bn, and signalling willingness to go even further. And just as important, the capital key (how much ECB can buy of bonds from each country) was relaxed. We did not see any new opposition against the proposed common **EU pandemic recovery fund**, financed by EU debt issuance, for the first time ever. EMU **retail sales** fell 'just' 11% in April
- **Norwegian Mainland GDP** fell by 4.7% in April, at tad more than we expected but SSB reports (the obvious fact) that activity recovered somewhat in the 2nd half of April, and we are confident that GDP grew in May - and will continue upwards in June. **Private consumption** fell further in April, due to another decline in service consumption. Even in retail sales are up from February, total consumption of goods is down, and service consumption is down 25%. All other demand components are down too. **Oil companies** revised their investments plans downwards, and oil investments are likely to fall 17% through 2020 – and a similar decline through 2021. Possible tax changes may reduce the decline somewhat but probably not by much. **Manufacturing industries and power supply** plan to cut their investments sharply too. **Manufacturing production** fell further in April, but not dramatic. The big positive surprise last week: **House prices** rose 1.4% in May, above our 1% forecast. House prices are almost back to the February level! **SSB shaved it's 2020 GDP** forecast from -5.4% to -3.9%

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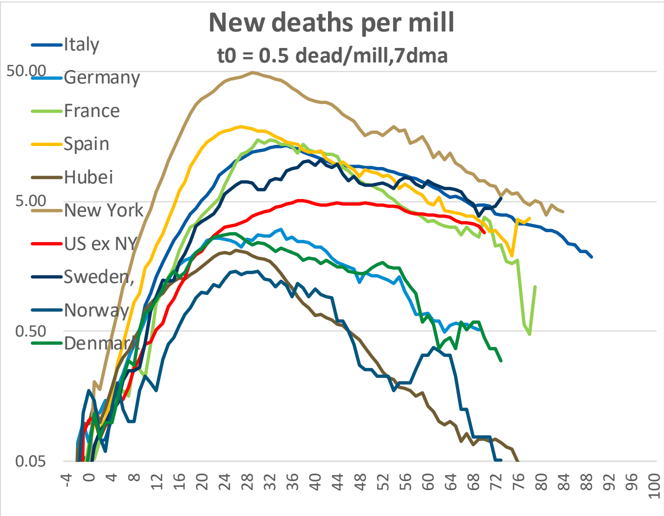
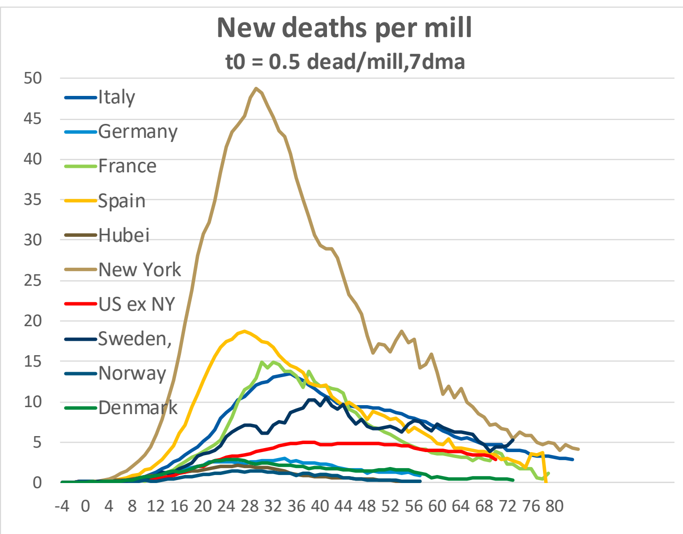
So far, so good – cases/deaths on the way down almost everywhere in DM

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





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

- Restrictions are eased almost everywhere. So far, we have seen no instances of serious second waves – at least not at a country level.
  - » However, some states in the US are now lifting restrictions even if the number of infected/deaths are increasing (new cases are up in ½ of the states, deaths in 1/3rd of the states)
  - » The number of cases and deaths have not come down any further in Sweden, and the debate on the proper measures are increasing – as its Nordic neighbours seems to have beaten down the corona virus
- There are daily reports on phase 2 testing of vaccines and on medication but any timing is just as uncertain as before

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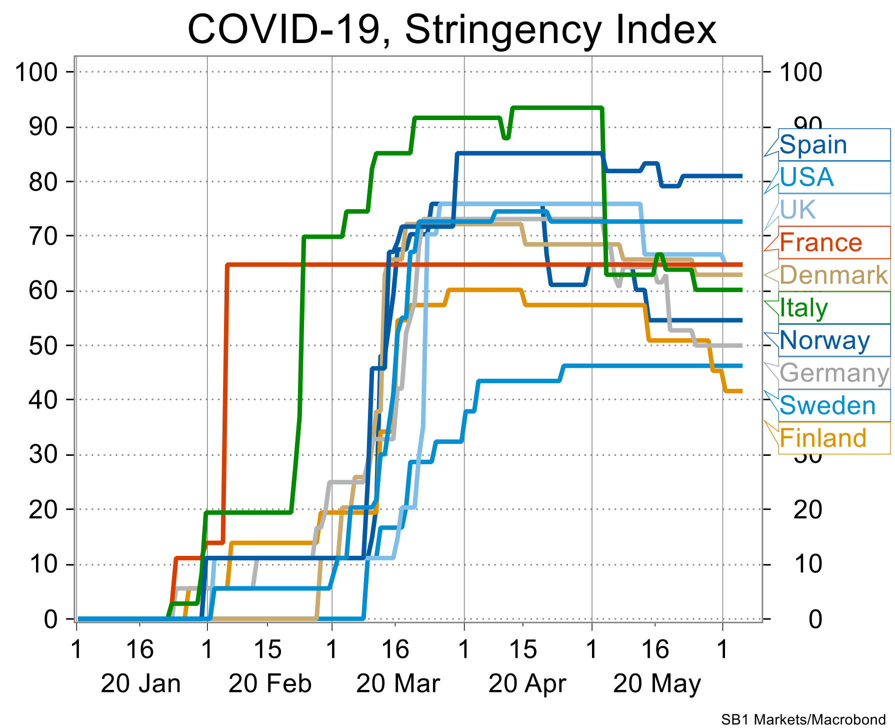
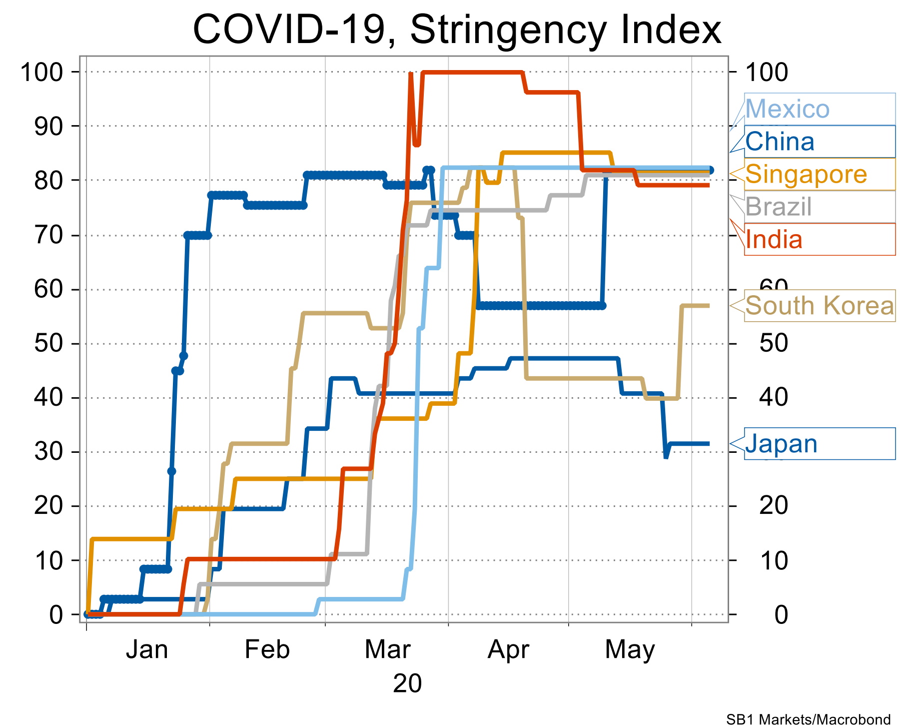
Covid-19 restrictions are eased most places – but not everywhere

The comparison between countries may be uncertain but changes are probably more exact





Source: University of Oxford

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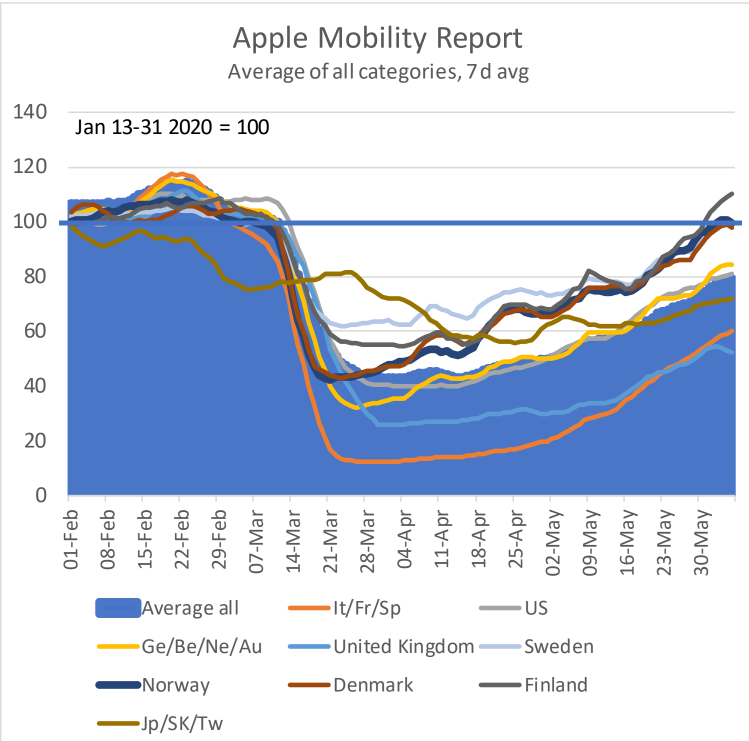
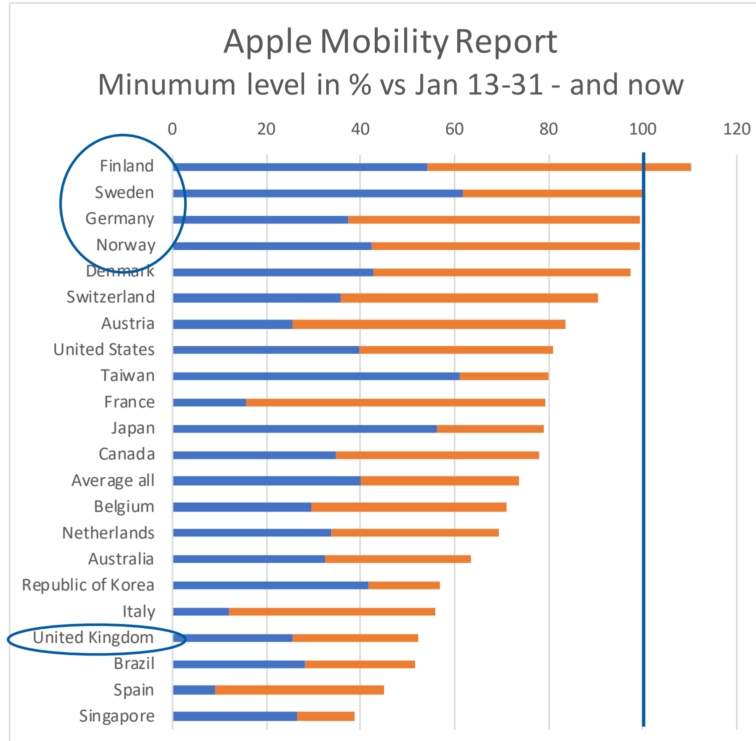
People are moving more around, everywhere; 'we' are almost back to normal?

Still, mobility is below normal levels, most places.





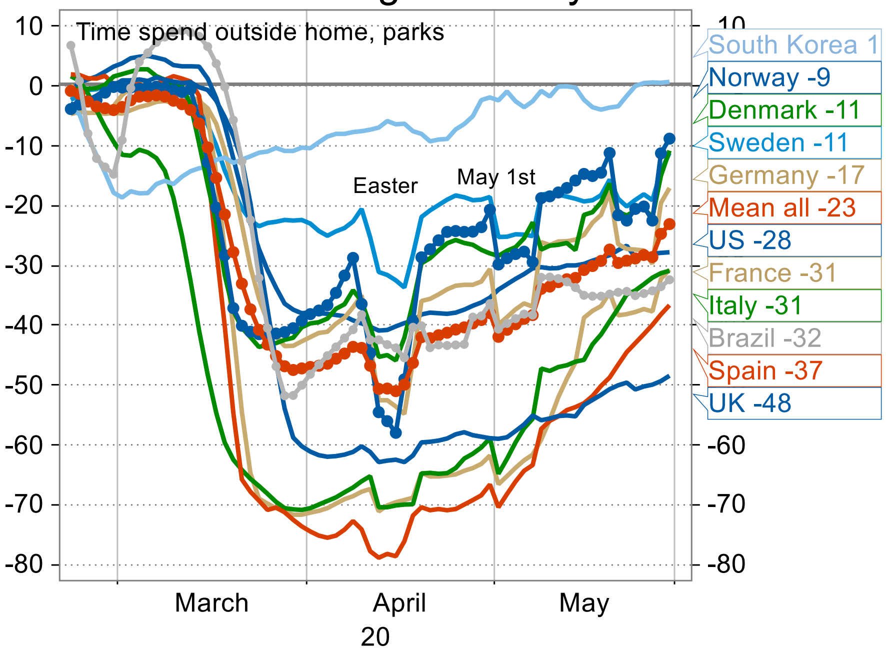
- Map searched in Apple Maps, average of road, walk and public transport searches
- We do not know the seasonality of these data, like if we at the north at the northern hemisphere move more around at this time of the year. It may influence the validity of these data. However, looking at UK vs other Northern counties (Nordic & Germany) does not support this hypnotises as mobility is still low in the UK

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

We are spending more time at work

But are still spending much more at home than usual, some of us still working somewhat, hopefully

Google mobility



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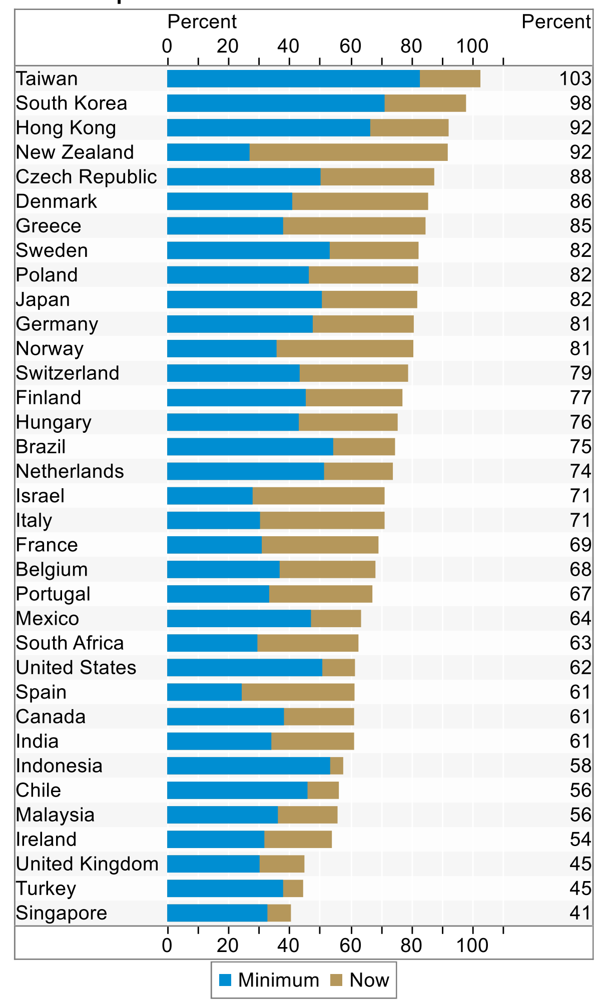
Google mobility
Workplace hours vs Jan 2020 level



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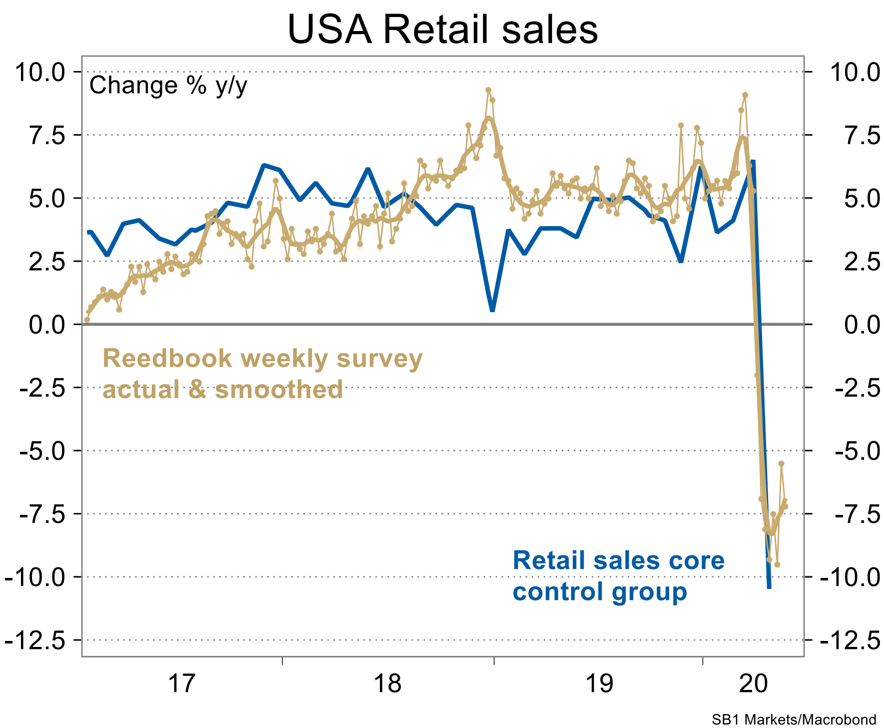
The y/y decline in retail sales has slowed – actual sales are very likely growing



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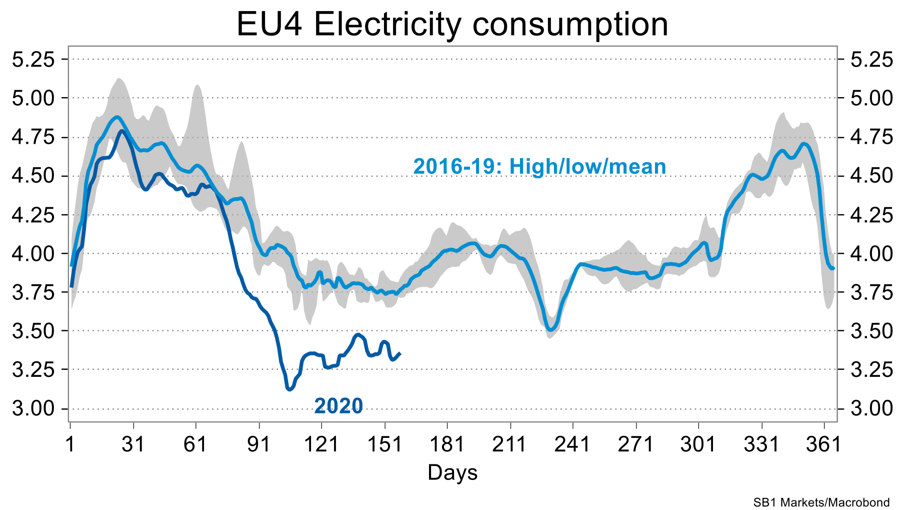
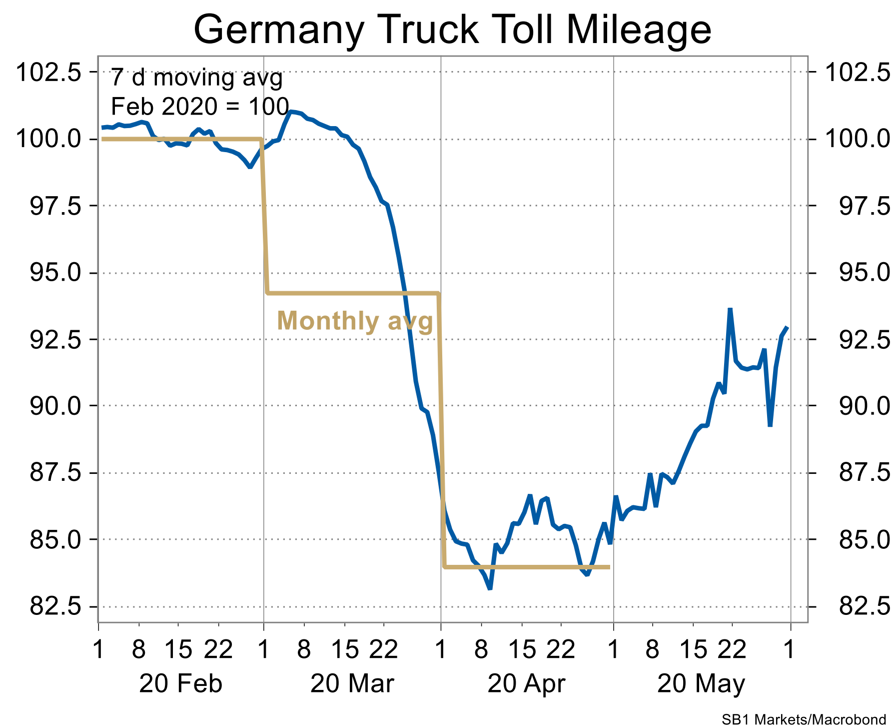
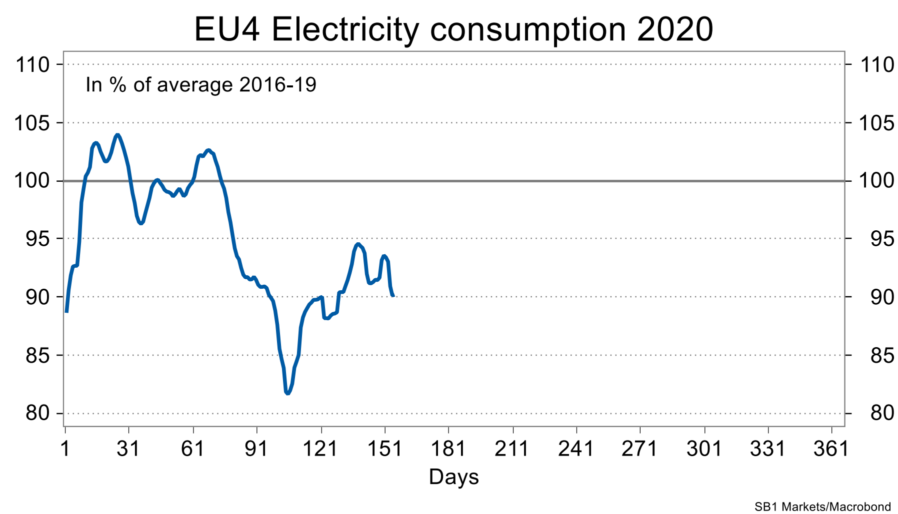
Activity is picking up steam in Europe but still a way to go

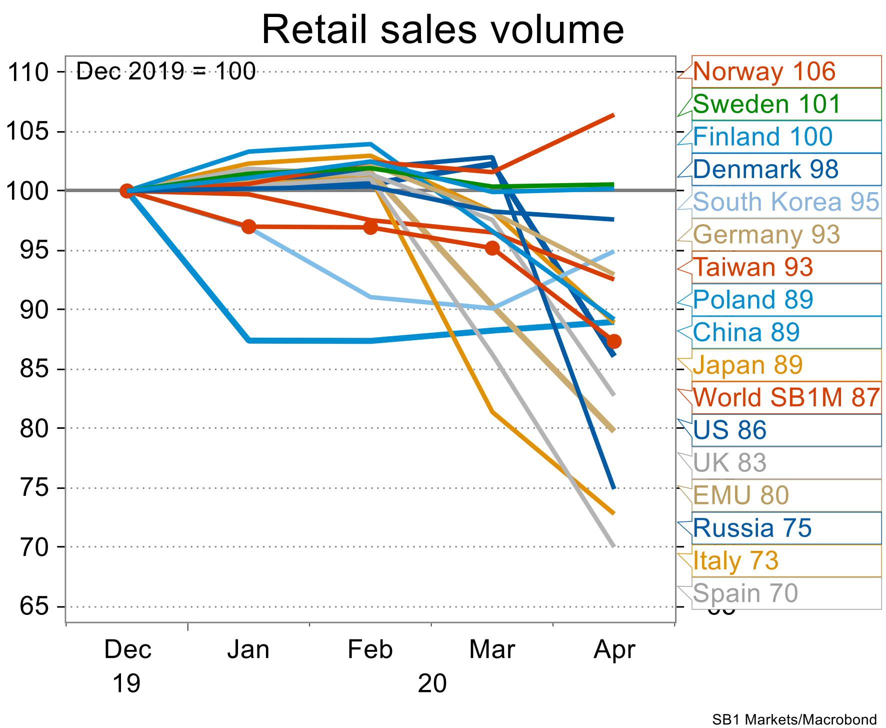


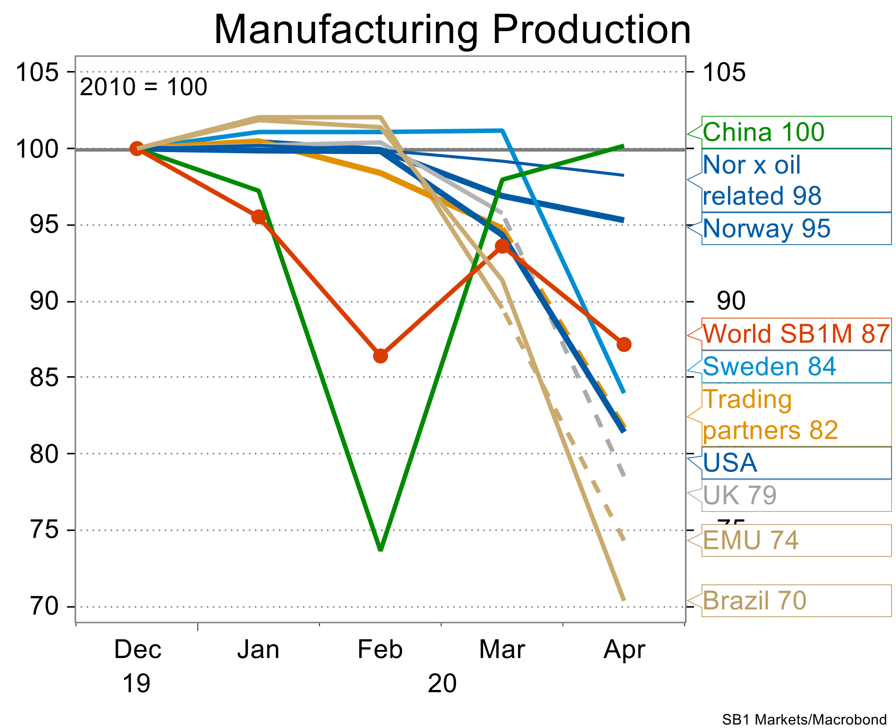




Retail sales & manufacturing production: Not one story, at all

Huge differences between countries, both on the demand and production side

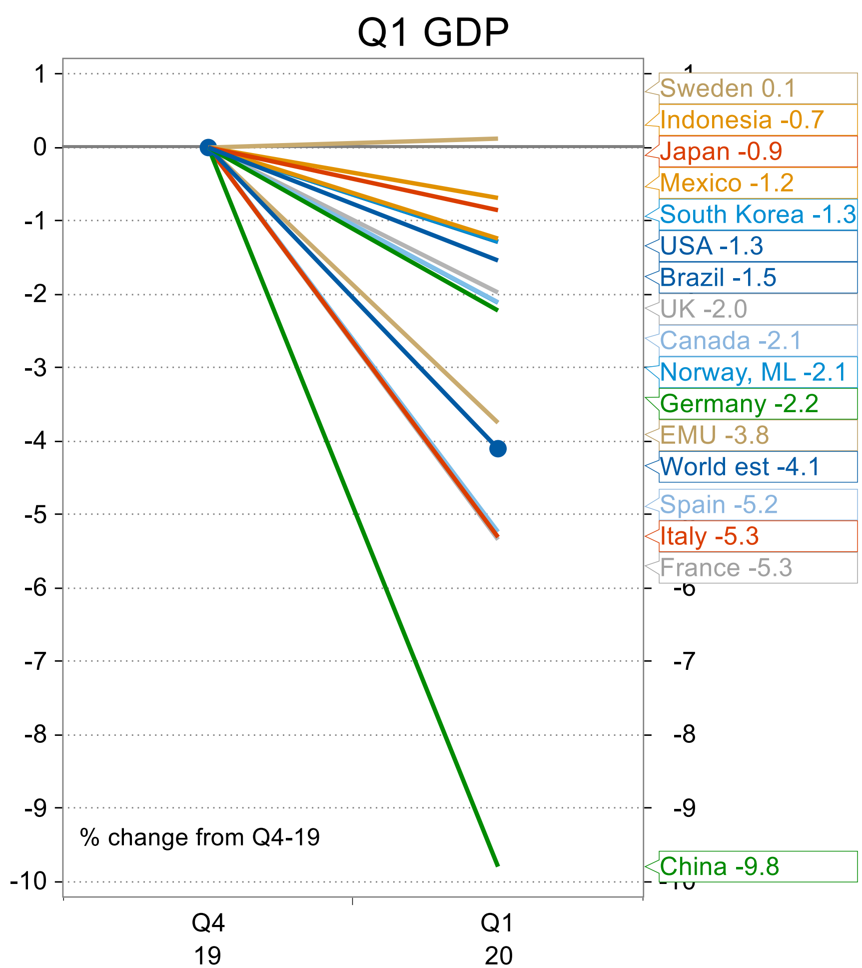




- Retail sales have kept well up in the Nordics (all at the top). Russia, Italy and Spain at the bottom
- Manufacturing production in Norway is just marginally down, at least compared to Sweden, US, UK, and the Eurozone (just those who have reported April data, except our UK & EMU forecast in the chart). And Brazil is now reporting really bad production data

We are getting more numbers – Global GDP declined by 4% in Q1. Q2 even worse

Substantial differences, mostly depending on when the corona virus hit



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… and when the consequences were taken

- In the US, GDP fell 1.3% in Q1 (*not annualised, like all other figures at this page*)
- 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%
- GDP in Japan fell just 0.9%, though following the 1.8% Q4 VAT increase induced setback
- UK reported a 2% decline
- Sweden revised its Q1 to 0.1% from -0.3% (but the y/y growth rate was weaker than first reported
- Norwegian Mainland GDP fell 2.1% in Q1
- 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
- Global GDP declined by 4% in Q1, of which almost 2 pp due to China alone
- China should report a positive growth rate in Q2. However, not many other will, and global GDP will contract even more in Q2, we now assume a 5 – 6% contraction

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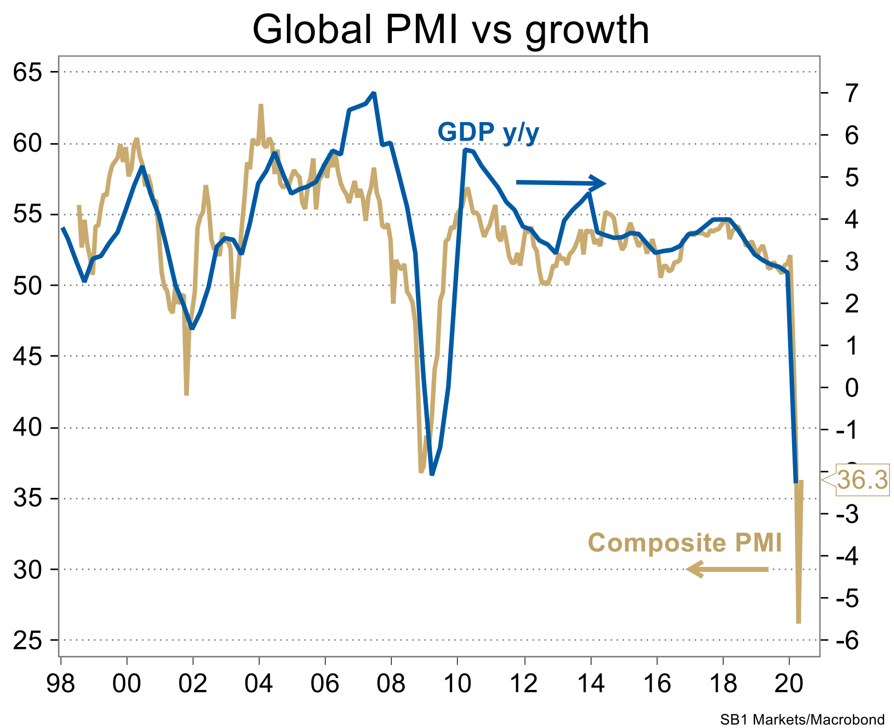
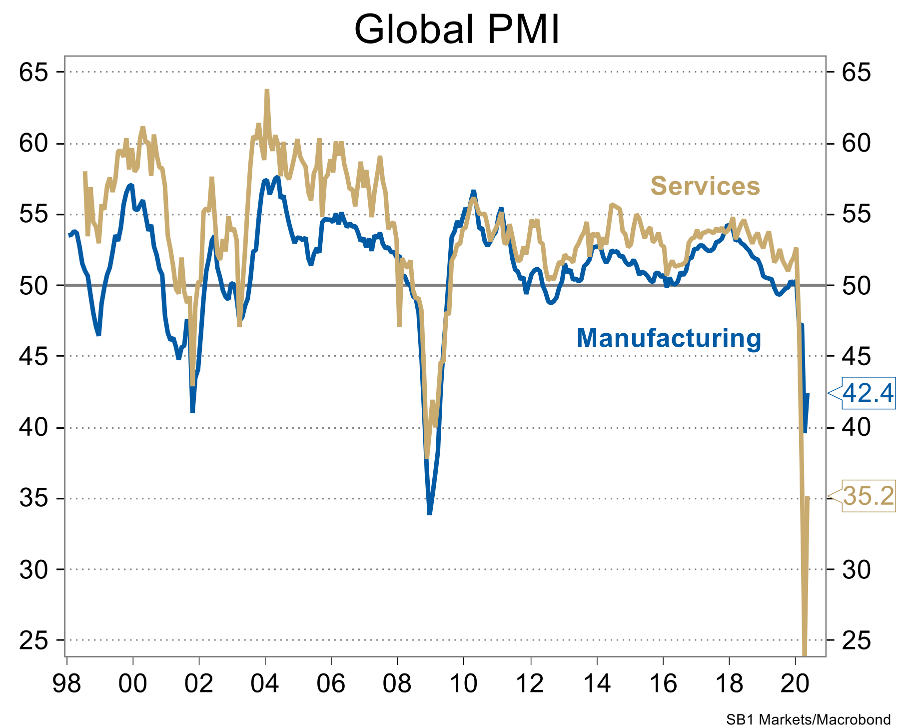
Global PMI sharply up in May (but should have recovered even more?)

Global PMI rose by 10 bp but still signal a harsh setback in May too. That was not the case?

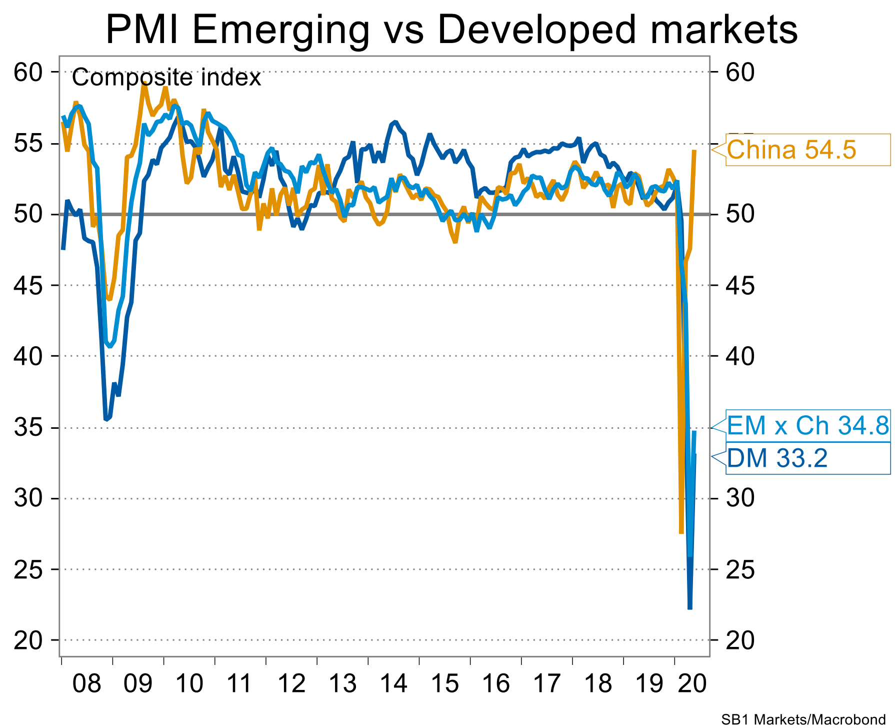


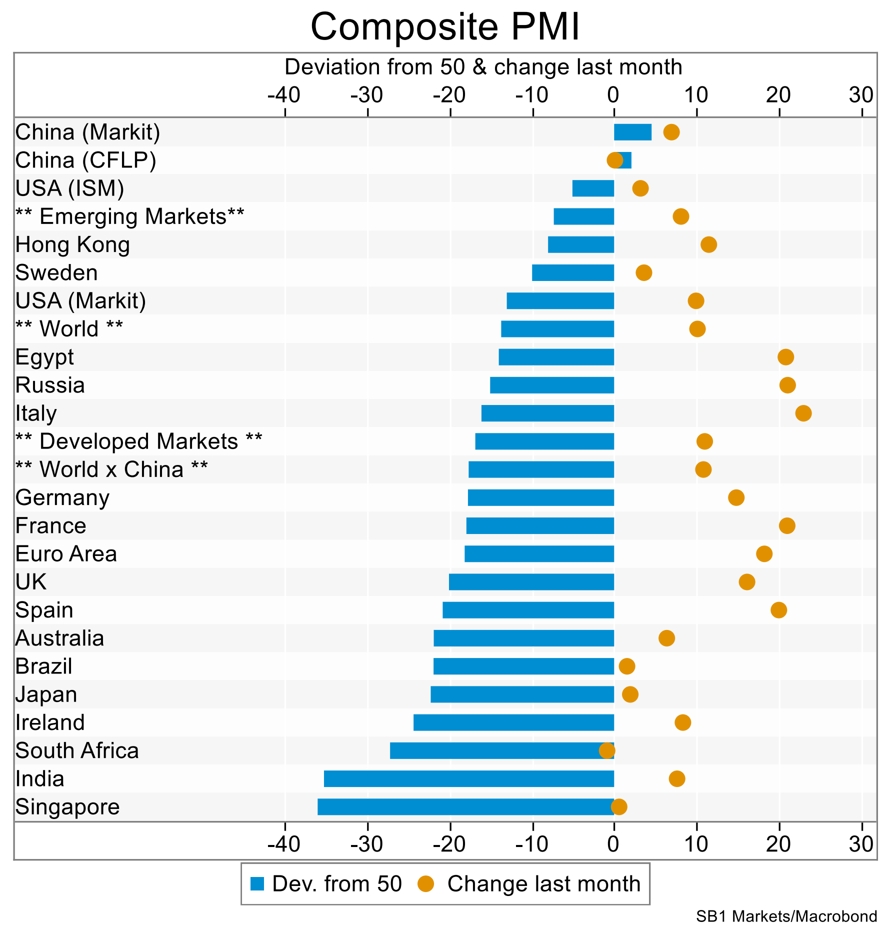


- The global PMI rose by 10 p to 36.3, two times the largest m/m increase until now, reversing most of the April crash (which BTW was almost twice as large as any earlier setback
- However the level is still extremely low, and – given that the respondents have answered correct to what they are asked about – signals a sharp reduction in activity in May too, following the unprecedented setbacks in March and April which are now confirmed by actual data.
  - However, based on earlier recoveries, the companies do not answer 'correct' on whether activity has increased or decreased from the previous month in the first moth of the recovery. They seem to report on the change in activity over the previous 2-3 months, not just the last one. All high frequency data (as well as the US labour market report) suggest that economic activity recovered somewhat in May
- Composite PMIs were flat some few places but rose sharply in most countries

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

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

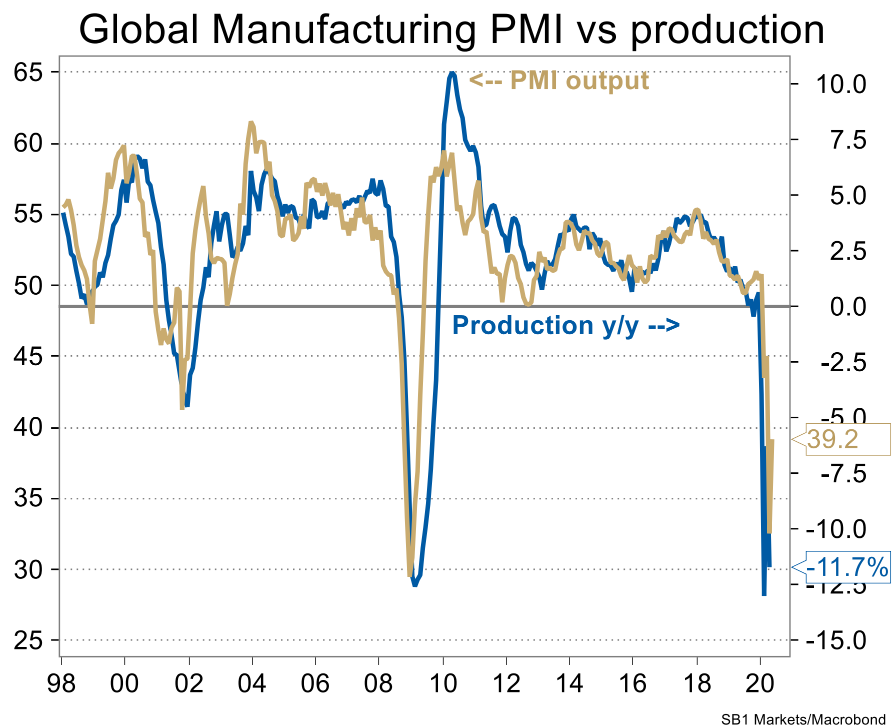


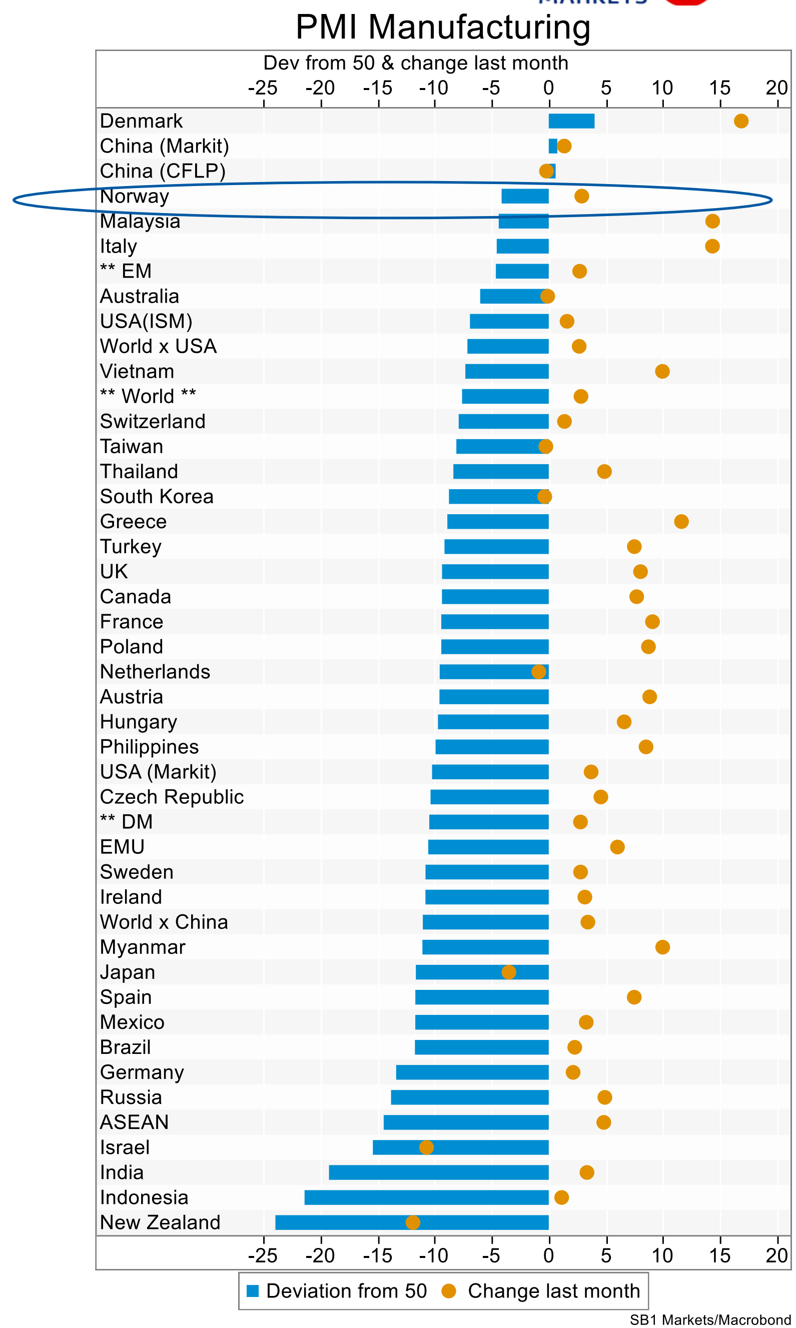


- India reported the sharpest decline, and the lowest level, down to 7 points, ATL for a PMI? Not that strange, during a tight lockdown, nobody is reporting growth
- Southern Europe at the bottom of the DM league
- No bright spots to be seen, except for normal growth in China

Manufacturing PMI up almost everywhere

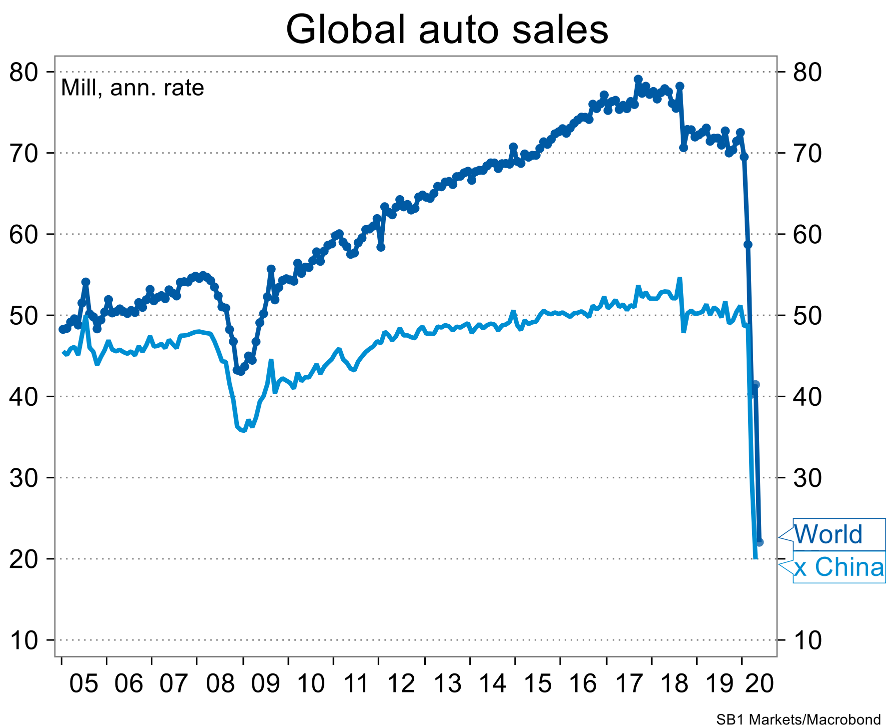
Denmark, China & Norway at the top!

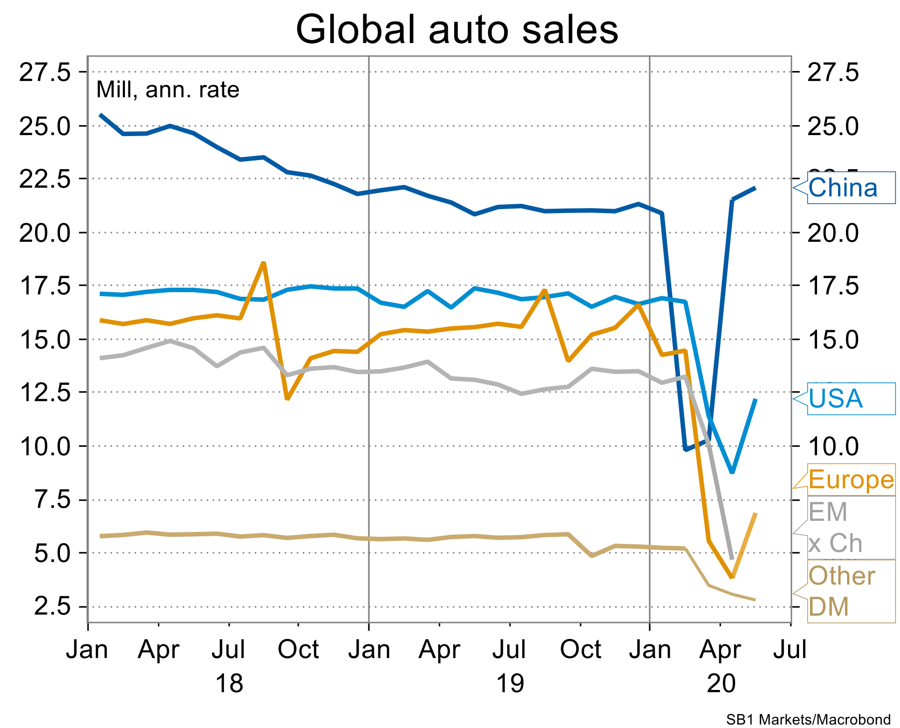




Global auto no doubt up in May (but no estimate yet)

Chinese sales rose further, best since Feb ‘19!. Sales recovered substantially in the US, partly in EMU

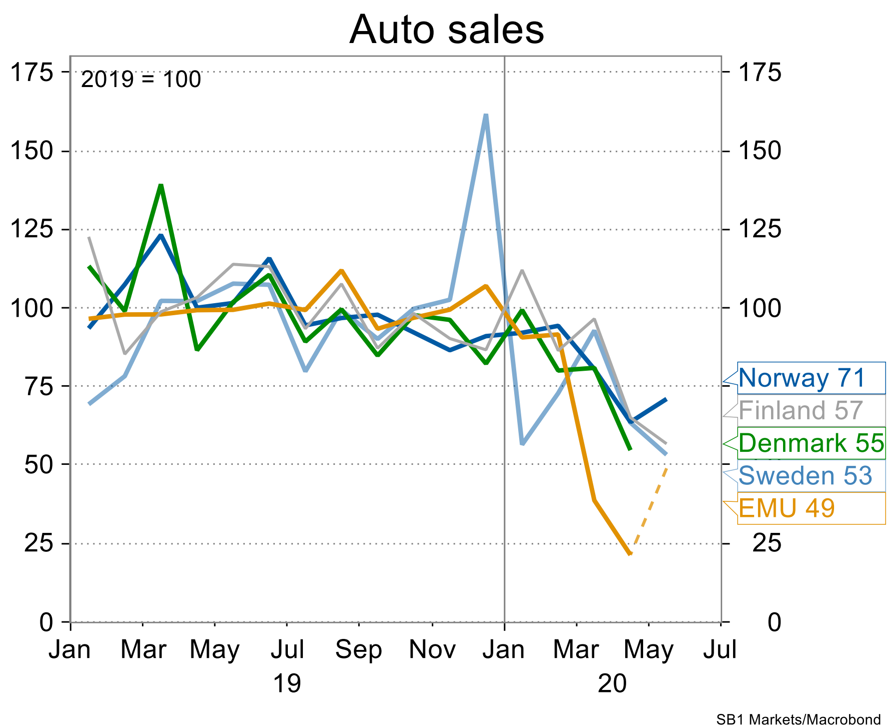




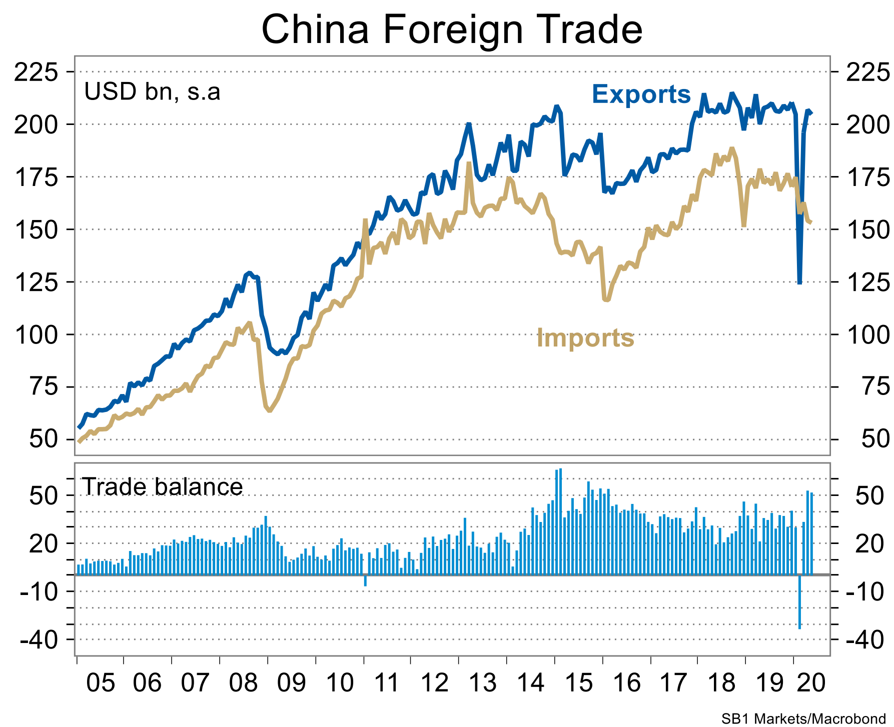
- Sales in China recovered big time in April and sales were kept up in May
- Sales in the US recovered 40% of the March/April decline, a the speed was 70% of the normal level in May (in average, must have been significantly higher in the latter part of May)
- Sales in EMU recovered 1/3rd of the March/April decline in May but remains less than 50% of the pre corona level
- Sales in other Emerging Markets were mixed in May (but many have not yet reported, like India, which fell to zero in April). Brazil stabilised at very low level

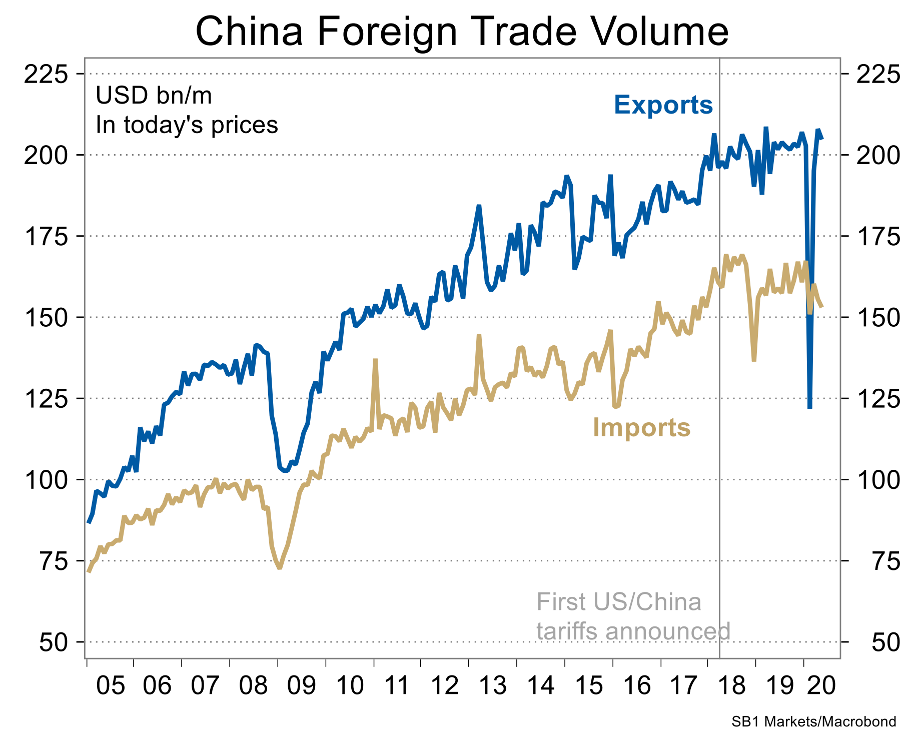
Sales in Finland and Sweden further down in May

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



Exports stable in May, close to record high levels. Imports still on the weak side

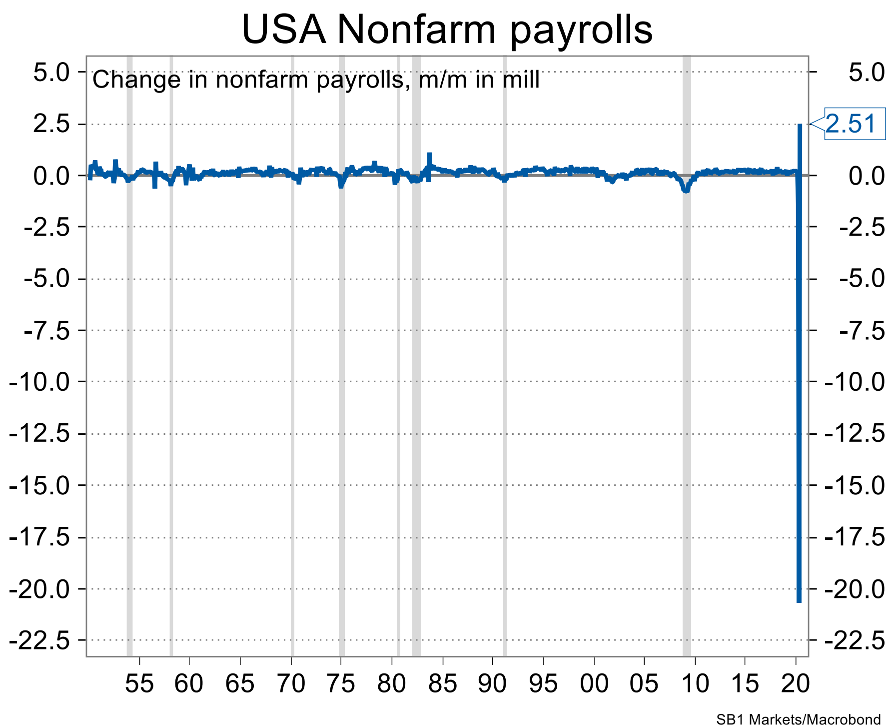


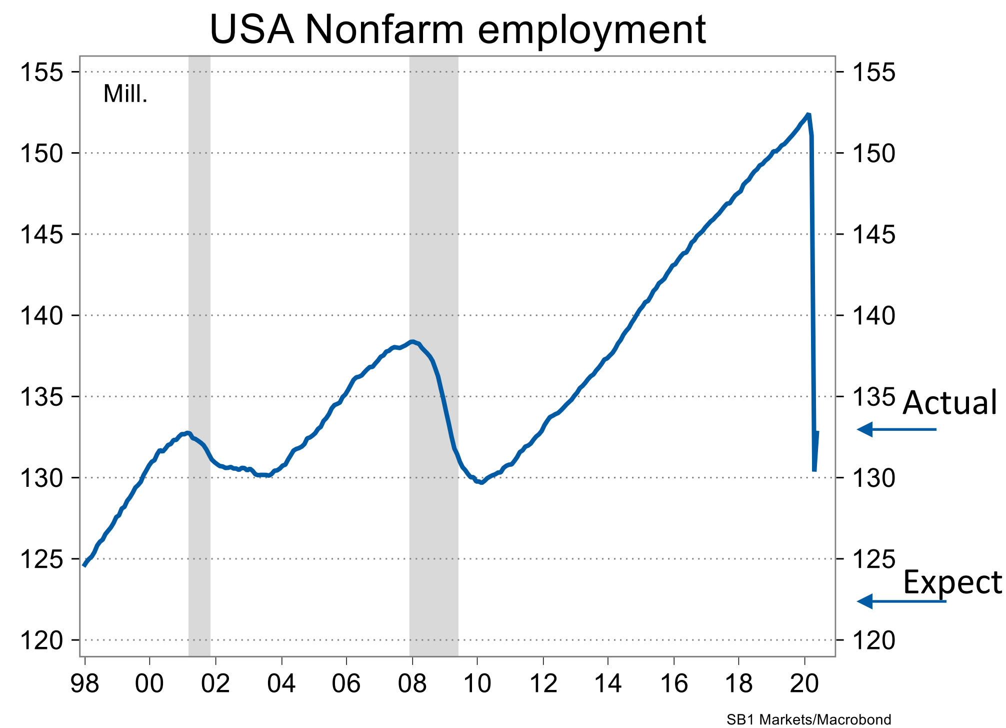


- Exports collapsed during the lockdown in February (-40% m/m) but recovered in March and rose further in April <u>and fell just marginally in May</u>. Exports were 3.3% down y/y, expected -6.5%. In volume terms, exports were close to record high in April/May.
- Imports fell 17% y/y, and were much weaker than expected (-5%), even if the decline m/m was just 1%. Imports are down some 10% since early 2020, of which half is due to lower import prices, and half due to lower volumes. The latter signals weaker Chinese domestic demand
- The trade surplus was USD 50 bn in both April and May, the highest in 5 year! Still, the outlook is uncertain. Export surveys nosedived to very low level in April and were still very low in May

The USA labour market: Employment up 2.5 mill, not down 8! WTF…

We thought the -8 mill f'cast was far too pessimistic, but didn't expect +2.5 mill. Unempl. -1.4 to 13.3

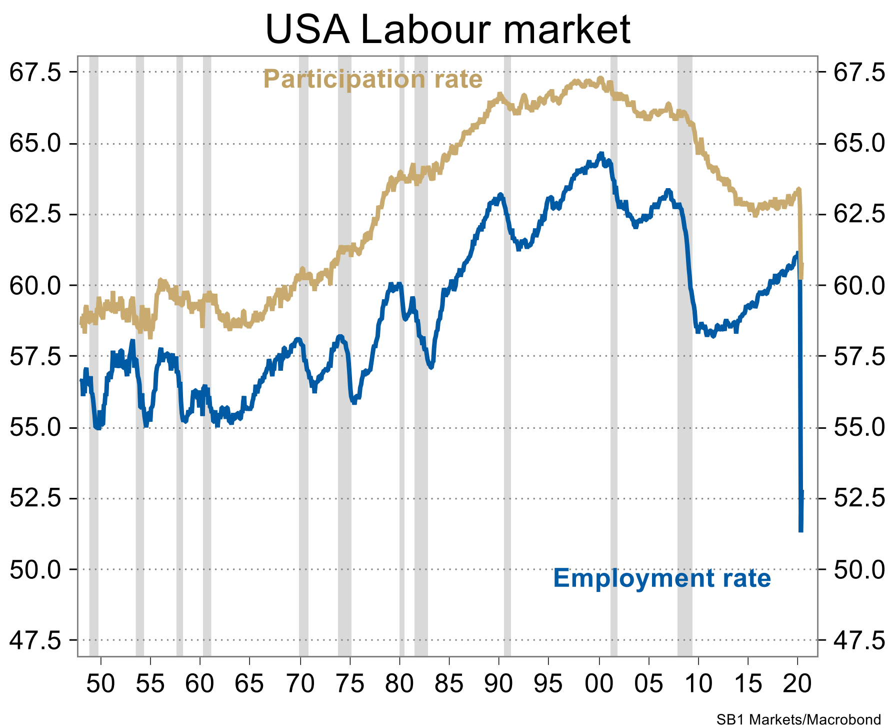


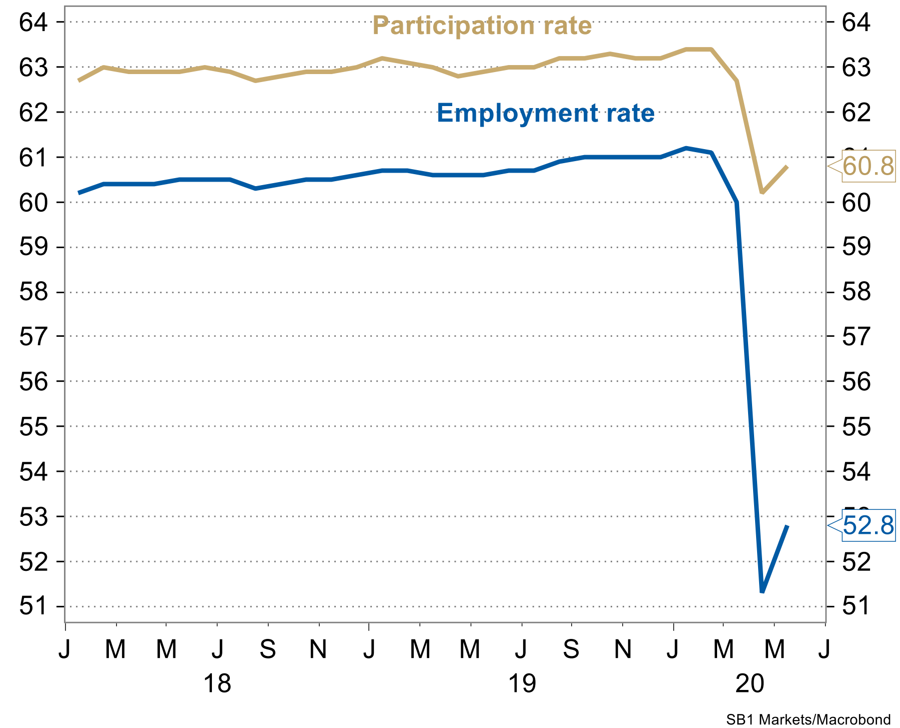


- **Employment** rose by 2.5 mill (1.9%) in May, expected down 8 mill, following the 20.7 mill catastrophe in March, according to the non farm payroll report. The turnaround was confirmed by the household survey. Hours worked
- **Unemployment** fell by 1.4 pp to 13.3, expected up to almost 20%!
- **But, but:** Even if the participation rate rose by 0.6 pp in April, it is down 4% from February. The 'real' unemployment rate is 4 pp higher vs. the pre corona participation rate. In addition 3% of the employed is classified as employed, even if they should have been grouped as unemployed. Add on underemployed, we are at a real unemployment rate at 28%
- **The average wage** has exploded in March/April but that is just to a change in the mix of the employment and other technicalities. So don't worry

Employment is even lower than reported, unemployment much higher

The real unemployment twice as high as the official rate?

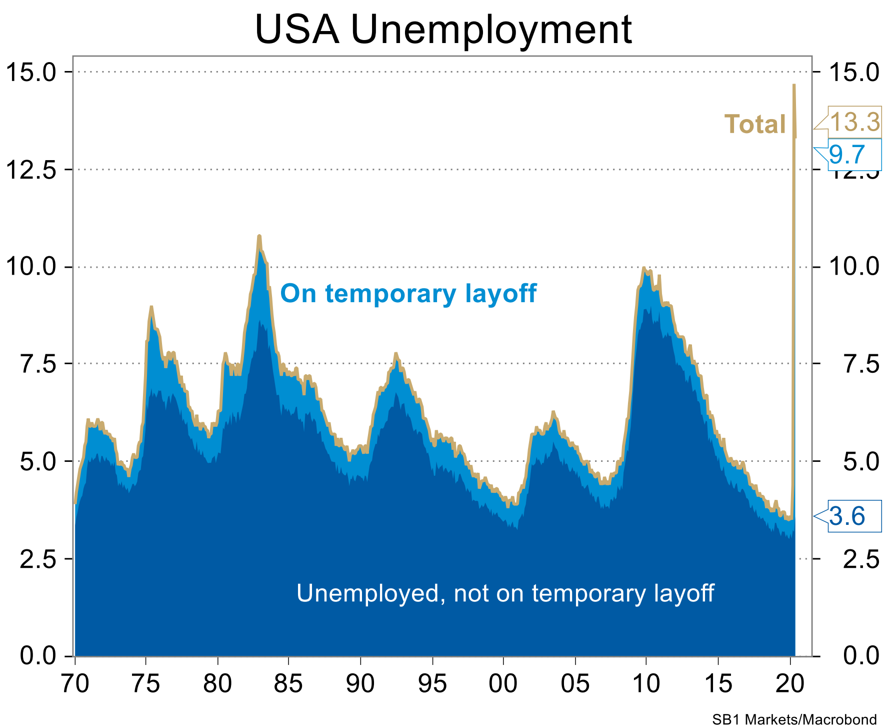




- **The labour force participation rate**, the supply side at the labour market, rose 0.6 pp to 60.8%, still way down from 63.4 in February. This withdrawal is just because there were no jobs available and the unemployed did not search actively (they were discouraged). The contribution to the unemployment rate equals 4 pp (down from 5 pp in April)!
- There are still many who wrongfully report that they are employed even if they are absent for work. Due to established practice, they are still counted as employed. If these 5 mill. were counted as unemployed, the unemployment rate would have been 3 pp higher, than the official rate (down from 5 pp extra in May)
- If ‘ordinary’ discouraged workers, and those on unwanted part-time work, are added, an additional 8% of the labour force is under- or unemployed (from normally 3-4%) Thus the ‘real’ unemployment rate is 13.3+4+3+8=28.3%

Some temporary laid off are returning to work

Unemployment ex temporary laid off has just increased to 3.6% from 3% in Feb, though +0.4 pp in Apr



- In March, 11.5 pp of the 14.7% unemployment rate was due to temporary layoffs. In April, the temporary laid off rate had fallen to 9.7%, as 15% of the temporary laid off returned to work (calculated as at net rate, no doubt many persons were furloughed in May too)

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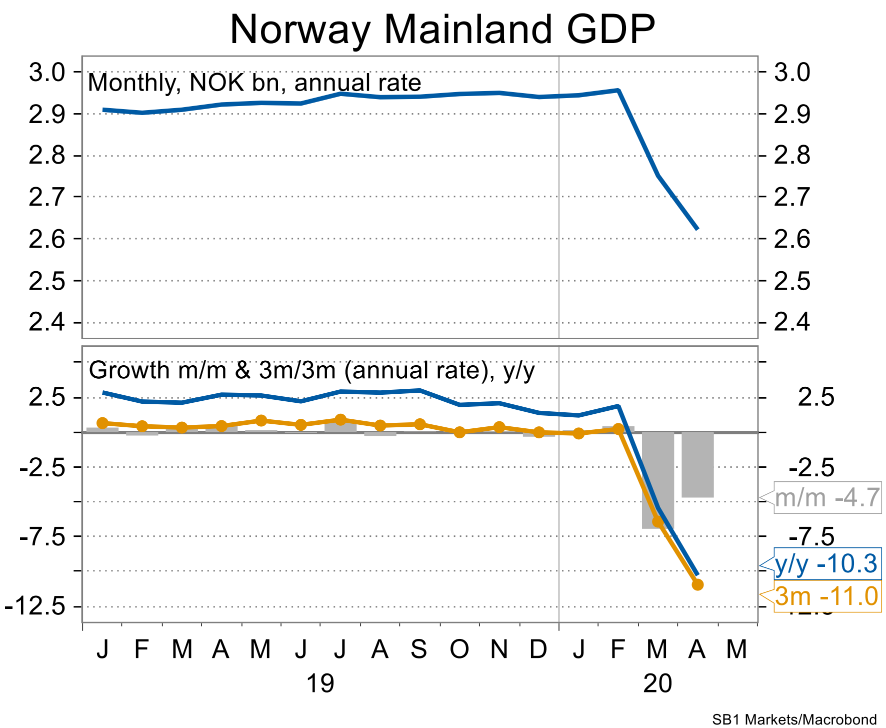
GDP fell 4.7% in April, following the 6.9% decline in March. Q2 heading for -8%

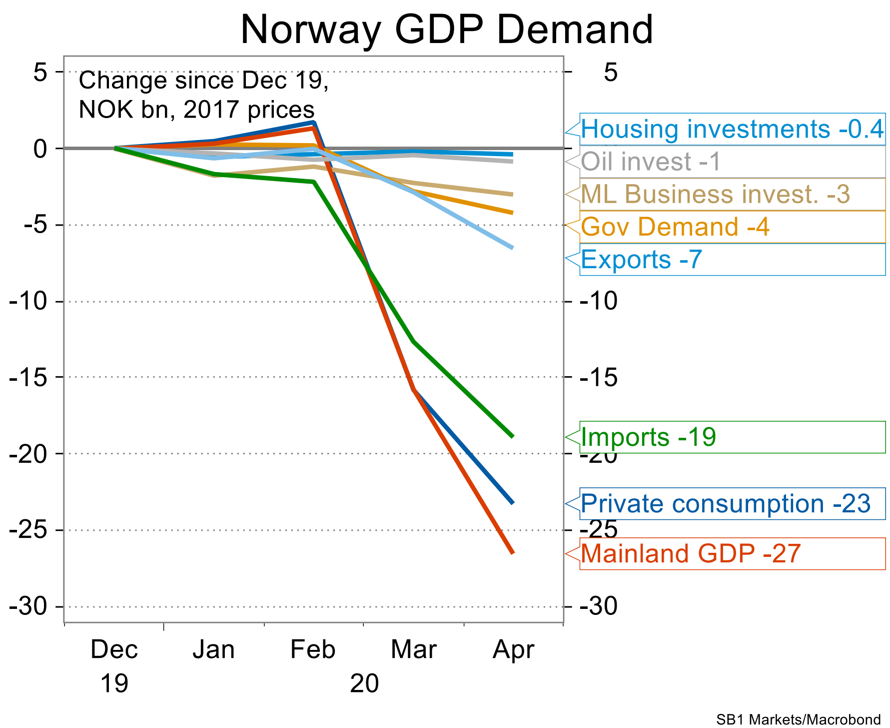
Private consumption (services only) the main drag in both March and April. But everything is down

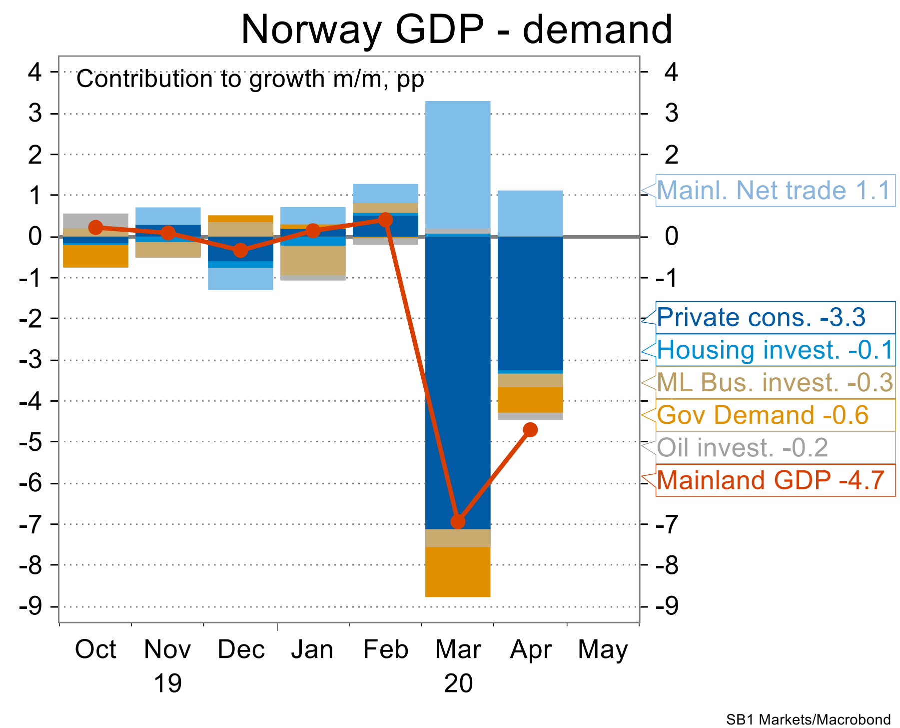


- Mainland GDP is down 11% from February, and is down 10.3% y/y. We expect GDP to recover substantially in both May and June but an 8% decline from Q1 is still our best forecast
- <u>On the demand side:</u> Private consumption has collapsed, by 19% from February. Consumption of goods have kept up quite well but service consumption and consumption abroad has fallen sharply, details on the following pages. Both Mainland and business investments as well as housing investments fell from February to April. Government demand is sharply down, partly due school closures. Mainland net trade is positive, as imports have fallen faster than exports

- SSB revised its 2020 GDP growth forecast to -3.9% from the -5.5% late April estimate

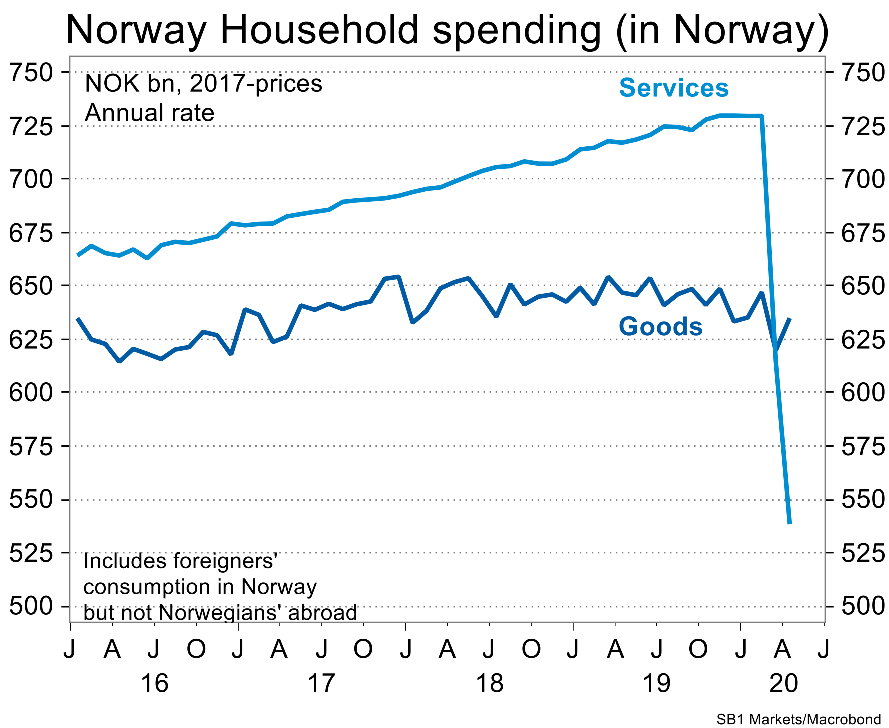
Not much on the upside – barring net trade (imports more down than exports)

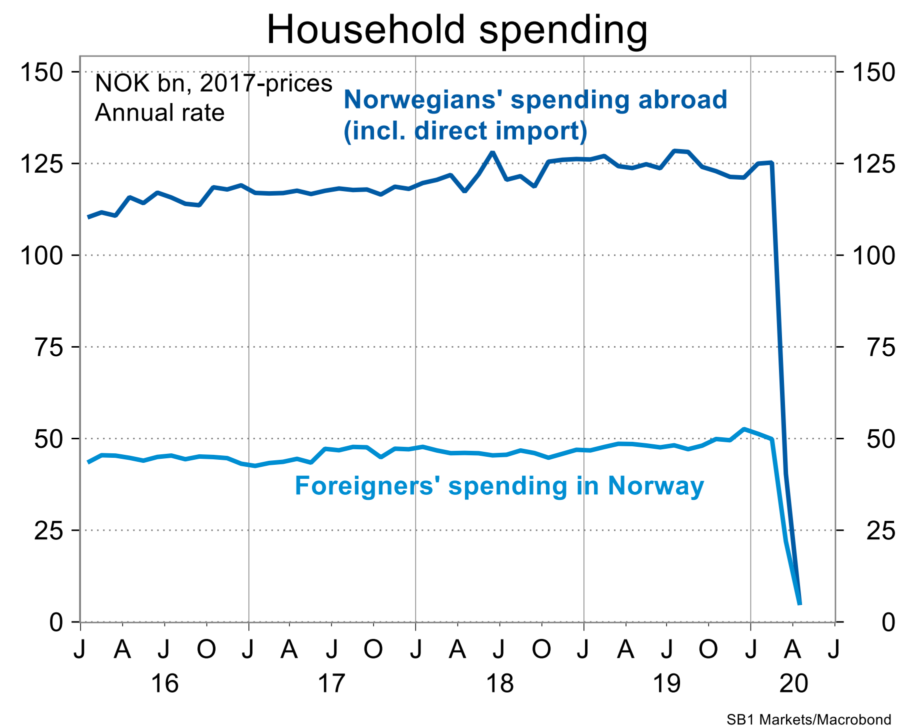




Consumption of goods just marginally down, service consumption down 25%

Household consumption down by 19%; a huge decline in services at home, and spending abroad

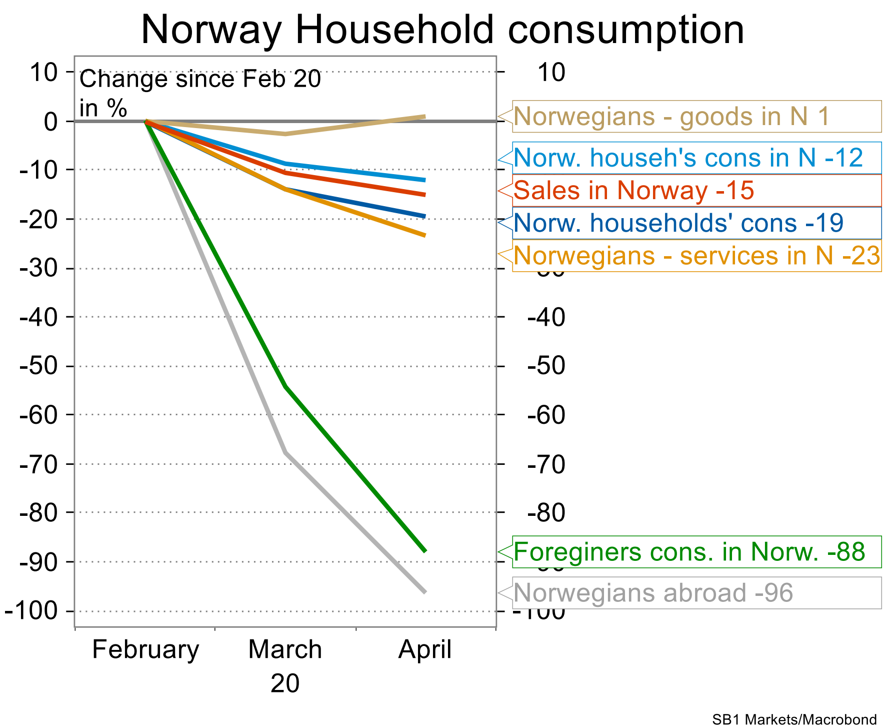


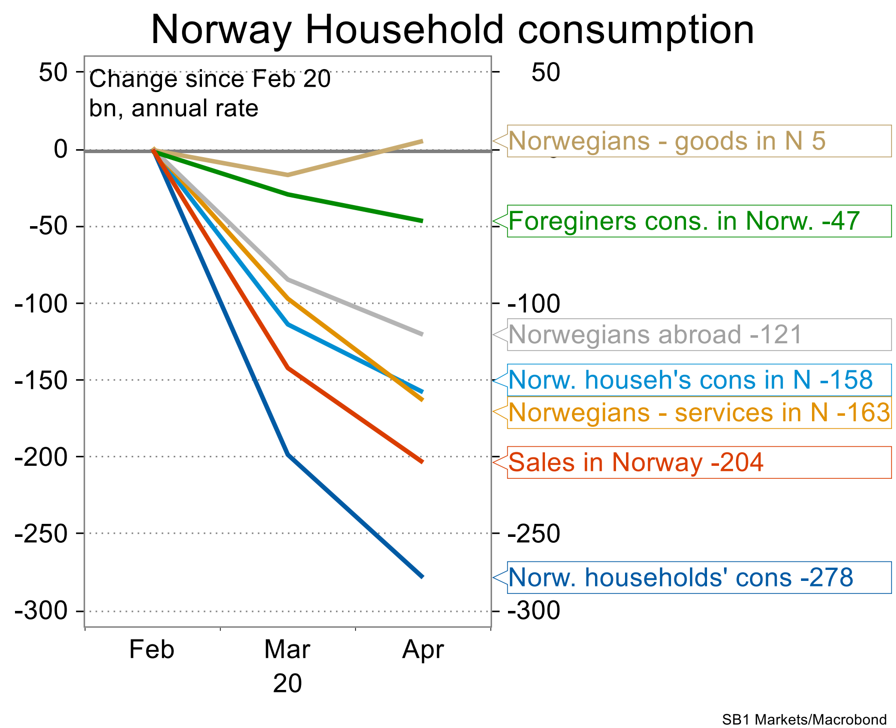


- Sure, consumption of goods is kept up pretty well but the total is down sharply due to services
- Check more on the details next page

Consumption: Who has changed their spending most – in % and in value?

Changes from February to April

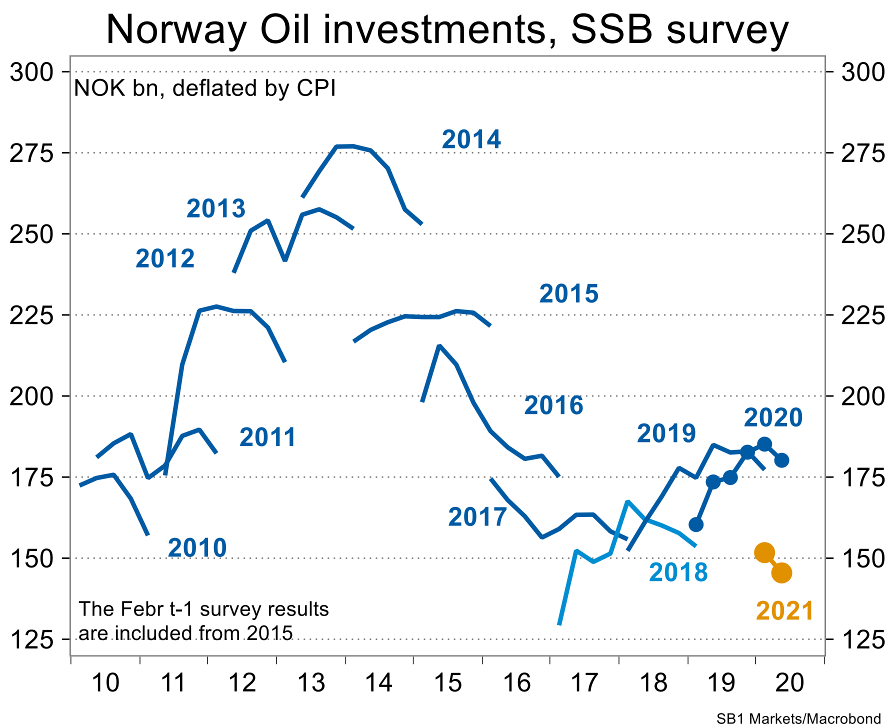




- Norwegian households have reduced their consumption by 19% (!) or 278 bn (annual rate) – of which 121 bn abroad (-96%) and 158 bn in Norway (-12%). Their consumption of goods is up 1% (5 bn), while their spending on services in Norway is down 163 bn or 23%!!
- Sales of goods and services in Norway to Norwegians and foreigners are down by 15% or 204 bn – of which 47 bn due to lower demand from foreigners in Norway (down 88%) and 158 bn due to lower domestic demand form Norwegians (-12%)

Oil investment survey confirms a substantial decline through 2020 & '21

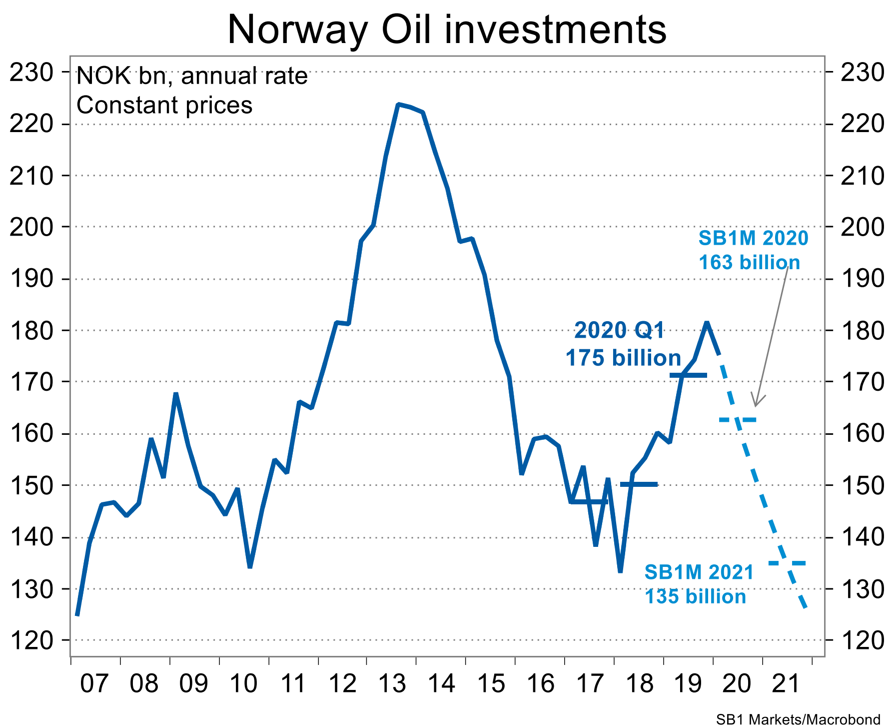
Oil investments peaked in Q4 '19 and will decline by 6% through '20, and by 12% next year

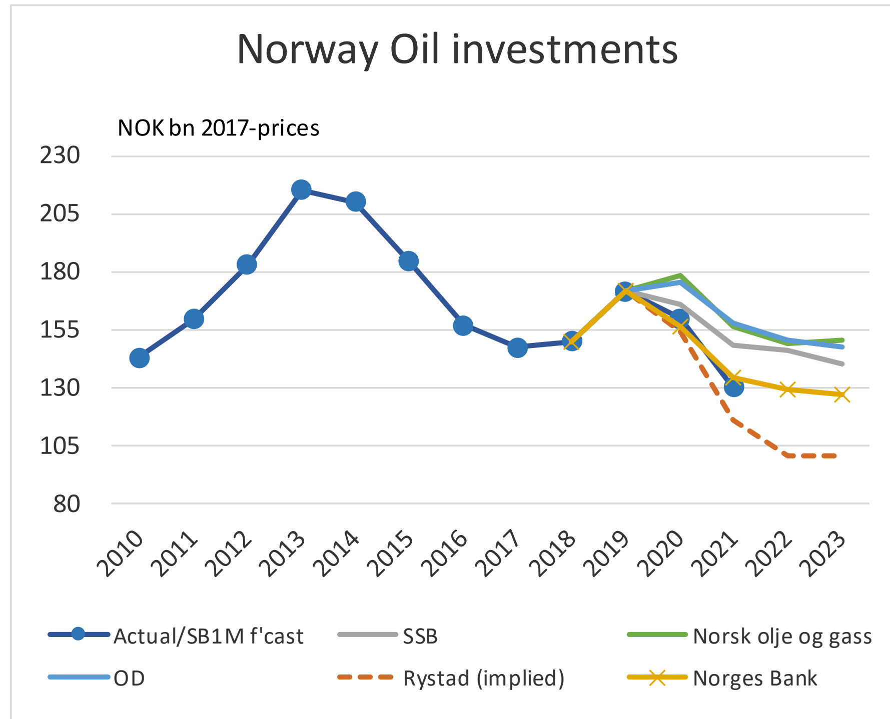


- In SSB's Q2 oil & gas investment survey, companies adjusted their **2020 investment f'cast** down by NOK 5 bn to 180 bn, we expected -15 bn. This estimate is 2% below the equivalent 2019 f'cast (down from +6% in Q1). We expect a 5% decline in volume terms (+2 pp from before the survey). SSB assumes a 3.5% decline in their recent forecast
  - » As investments grew fast through 2019, a 5% (or even a 3.5%) decline implies a sharp reduction through 2020 (see next page)
- **The 2021 estimate was revised down by** NOK 6 bn to 146 bn, as we expected. The estimate is 16% below the equivalent 2020 estimate one year ago, vs -4% in the Q1 survey. In average companies revised their 2020 and '21 estimates by of 10% vs normal revisions of Q2 estimates.
  - » We estimate a 17% decline in volume terms in 2021. SSB forecasts a 10% decline based on an assumption that the Parliament will decide a more favourable oil and gas tax regime, and that more projects will be added
  - » We are uncertain how many project will be added even if the tax regime is changed. However, the recent doubling of the oil price could turn out to be more important
- Anyway, oil investments are now again heading sharply down, and neither a higher oil price or tax incentives can turn them up

A crucial growth engine has changed sign

Our annual forecasts imply a 16% decline through both 2020 and '21. Still not at bad as during '14-'17

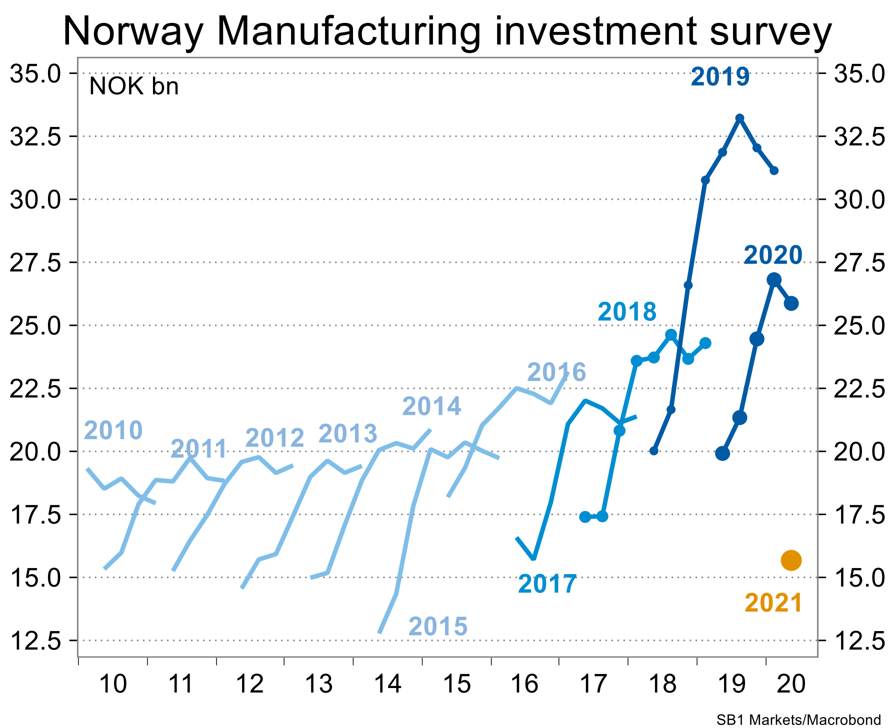


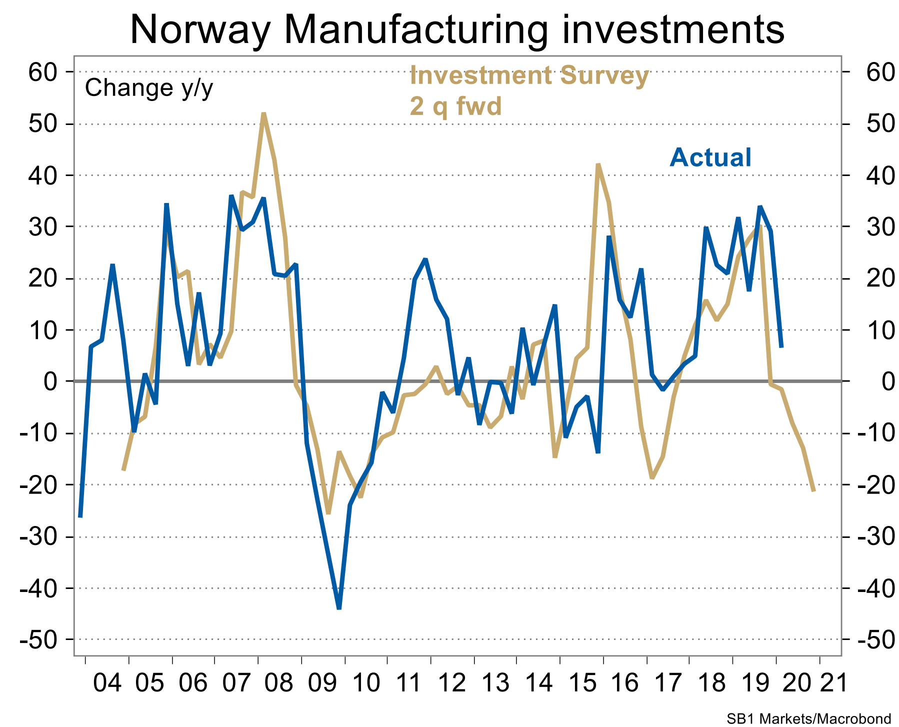


- We expect a substantial decline in oil and gas investments during the next quarters. Our estimate is below SSB's but above Rystad's (implied) forecast (based on North Sea, USD forecast)

Manufacturing investments down 20% in 2020, another -20% in 2021

2019 investments were far above a normal level, 2021 will probably be far below





- Manufacturing companies adjusted their 2020 investment marginally down in Q2, and the estimate is now 19% below the equivalent 2019 estimate from Q2 last year. The forecast is revised down by 6 pp – the downturn was in the cards before corona
- The first 2021 estimate implies another 21% decline, but the uncertainty is of course much larger than for the 2020 estimate
  - » Investments in refined petro., chemicals and metals are the major drags in 2020, after soaring in 2019

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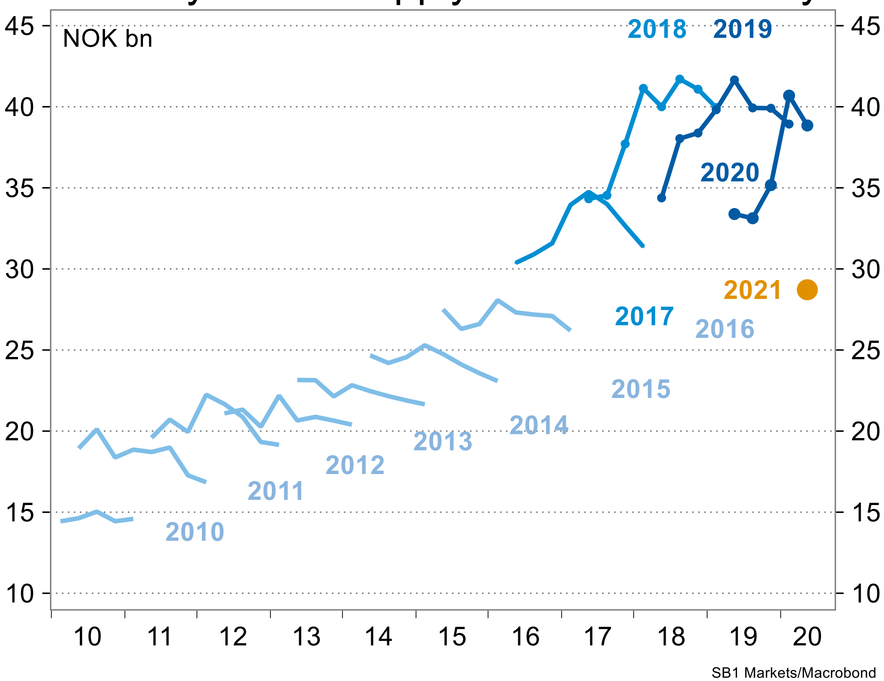
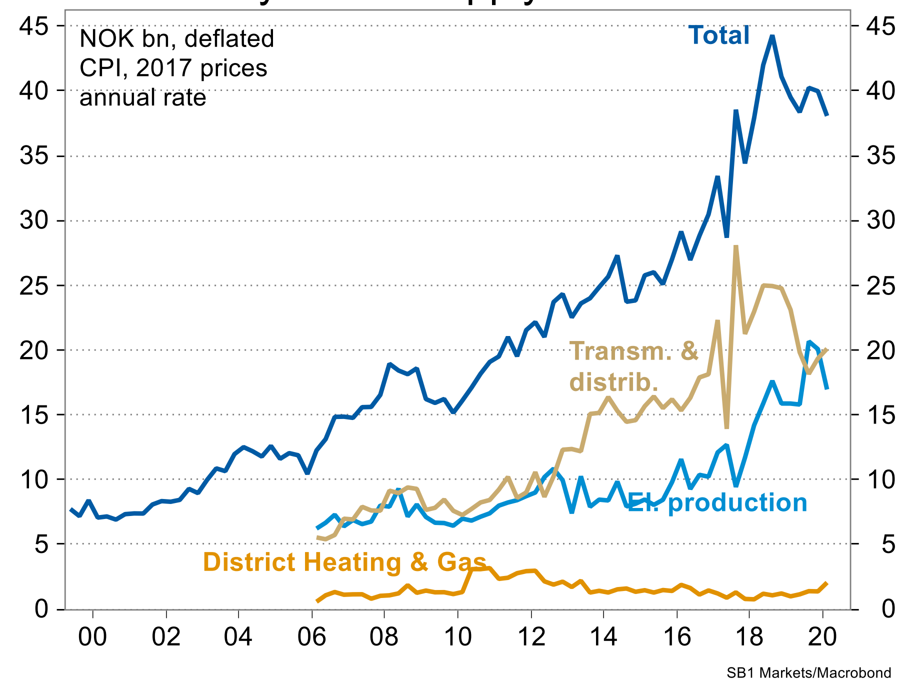
Power supply: Investments peaked in 2018, -7% in '20, -10% in '21?

The 2020 estimate fell 5%, as usual in the May survey but confirms a decline in 2020

Norway Power supply investment survey



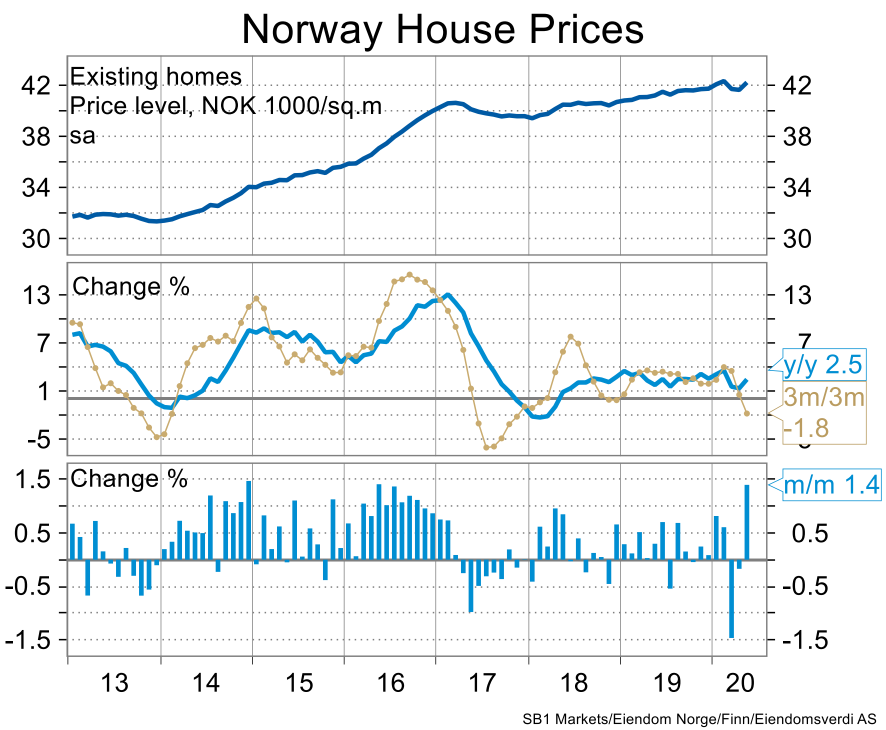
Norway Power supply investments

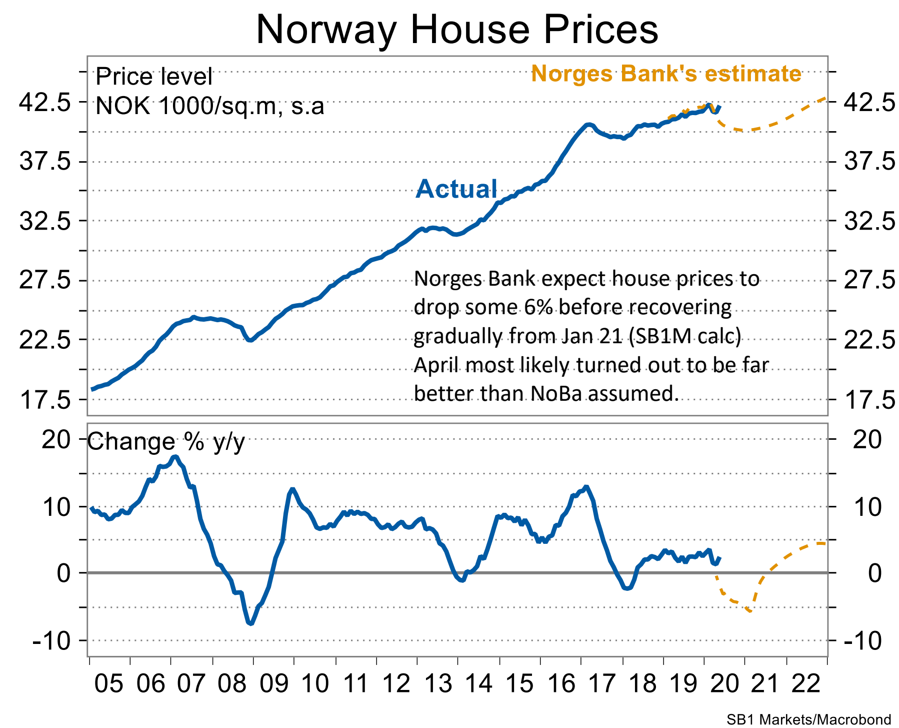


- Power supply (production & distribution) companies revised their 2020 investment f'cast down by 5% to NOK 36.5, a normal correction. The 2020 estimate is 7% below the equivalent 2019 estimate, and 2020 is probably down 5 – 10% in value terms, and more in volume terms
- The first 2021 estimate signal a 10 – 20% decline from 2020
- Investments have more than quadrupled in 25 years, more than 10% p.a in average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades. Investments in transmission and distribution has fallen the most

Crisis, what crisis? House prices rose rapidly in May too, are back to the Feb level

Not that surprising, given the sharp price inflation through April

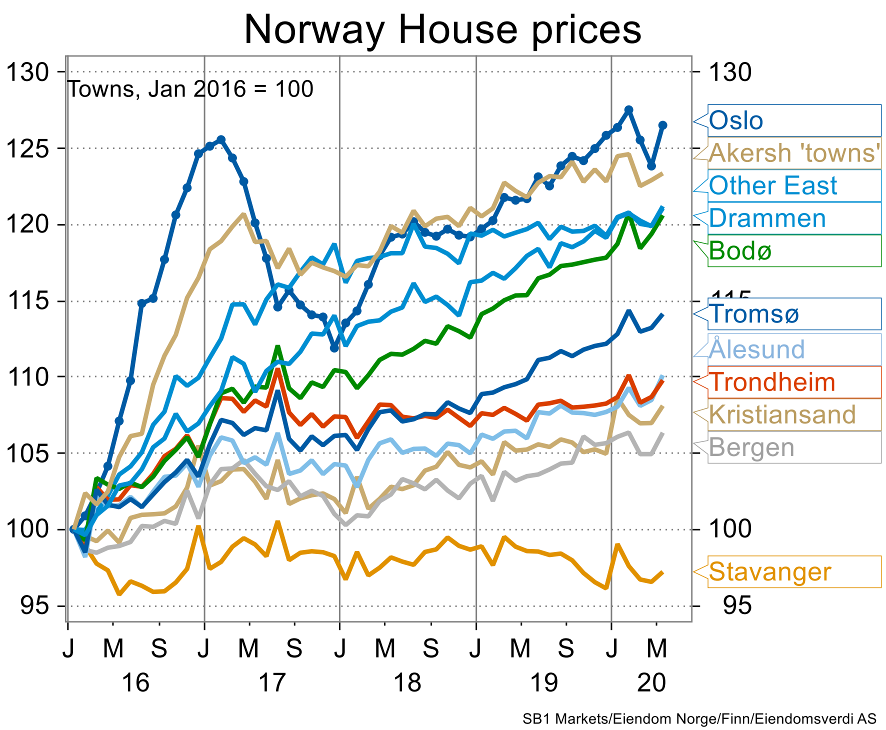


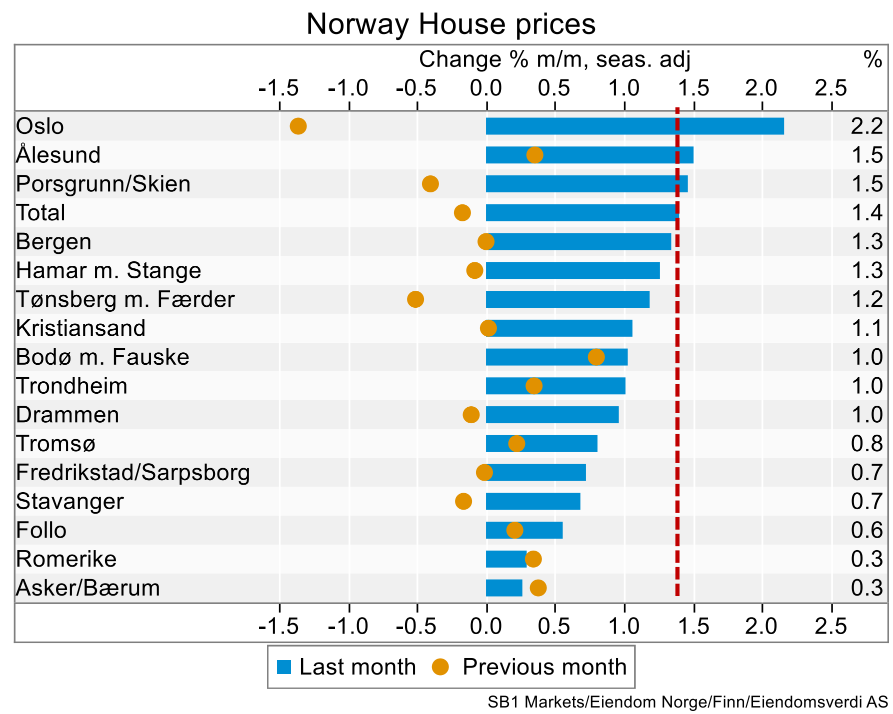


- House prices rose 1.4% m/m in May, the highest monthly increase since mid 2016. Prices are now almost back to the level in February, before the corona crisis. Oslo prices rose 2.2% but are still below the level in February
  - » Still, we are not sure prices rose much through May, as prices must have recovered sharply through April and the level ultimo April must have been at least 1% above the April average
- The number of transactions is back to a normal level+. At the same time, the supply of new existing home for sale has fallen almost 10%. Thus, the inventory fell sharply in May – but it is still well above an average level
- Are interest rate cuts more important than the hike in unemployment? Seems so, for the time being. Norges Bank did not believe that, (and neither did we ☺)

Prices up everywhere in May, most in Oslo, 2.2%. The slowest pace around Oslo

Prices fell most in Oslo in March and April – and the Oslo price level is below February prices





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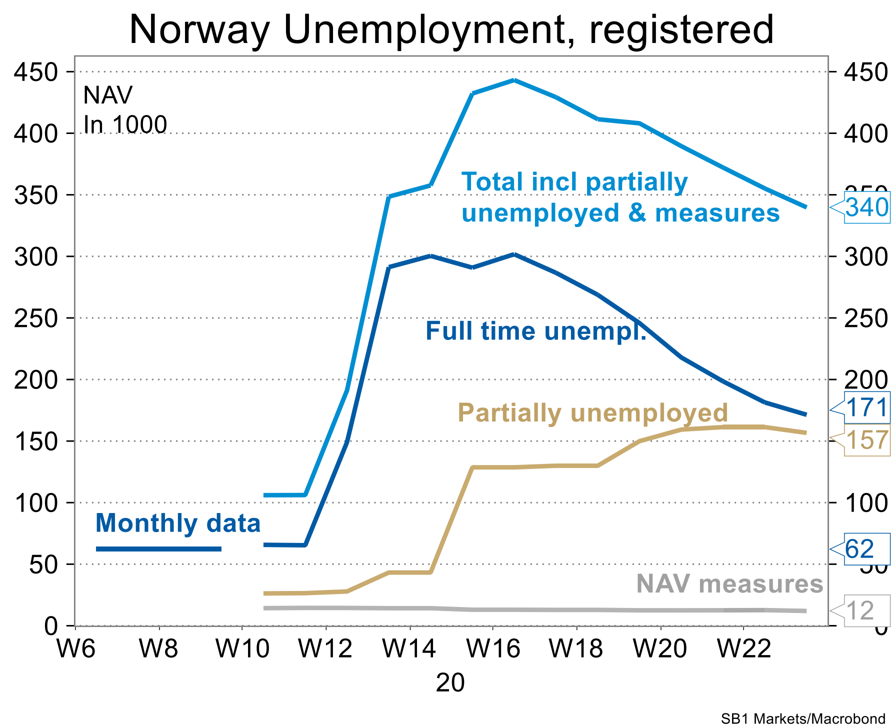
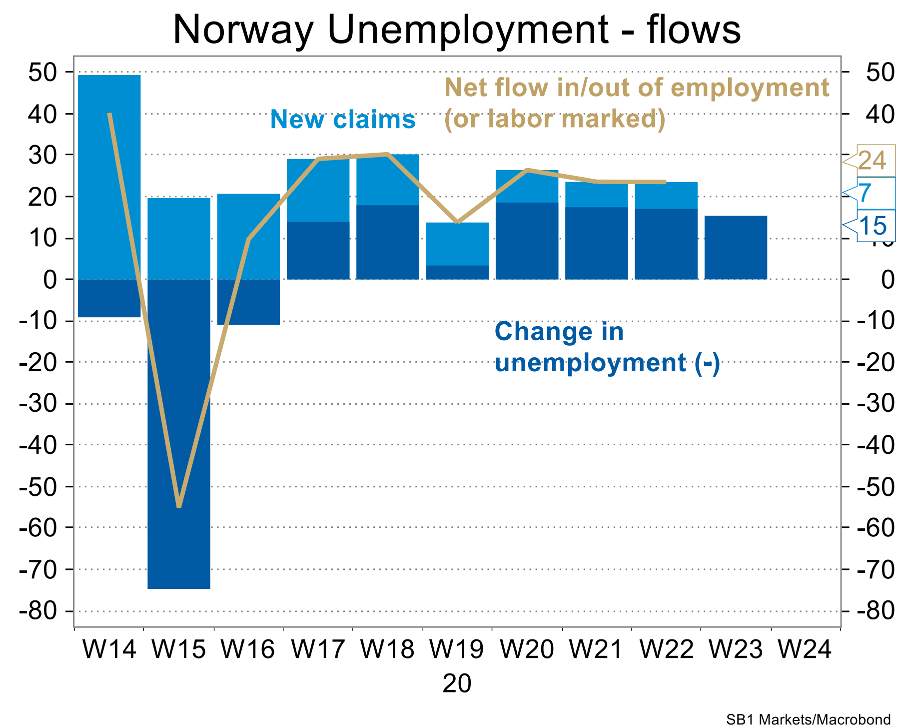
Total unemployment down by >100' from the peak in mid April

Total unemployment fell by 15' last week (the 7th in row), down to 11.9 % of the labour force





- Unemployment fell by 0.5 pp per week, at tad slower than over the previous weeks
- The inflow of new jobless claims has slowed, down to 7' per week. That's still far higher than normal but all the extras are temporary laid off persons
- Temporary laid offs equal 60% of total unemployment, and all of the decline in unemployment is due to fewer temps.

The Calendar

In focus: Chinese monthly data, Fed meeting, Norges Bank's network

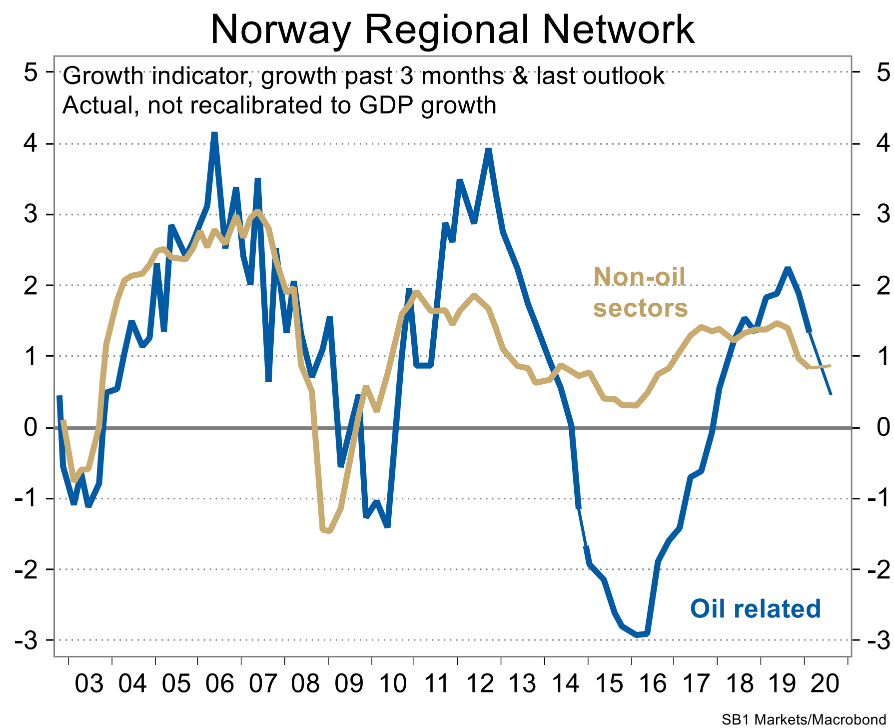
Time	Country	Indicator	Period	Forecast	Prior
During the week					
	CH	Aggregate Financing CNY	May		3090b
Monday June 8					
08:00	GE	Industrial Production SA MoM	Apr		-9.2%
Tuesday June 9					
10:00	NO	Region Survey: Output Past 3M	May	-2.20	0.89
10:00	NO	Region Survey: Output Next 6M	May	0.8	0.83
10:00	NO	Unemployment, total, NAV	week	(325k)	340k
12:00	US	NFIB Small Business Optimism	May		90.9
16:00	US	JOLTS Job Openings	Apr		6191
Wednesday June 10					
03:30	CH	CPI YoY	May		3.3%
08:00	NO	CPI YoY	May	1.1%	0.8%
08:00	NO	CPI Underlying YoY	May	3.0%	2.8%
08:45	FR	Manufacturing Production MoM	Apr		-18.2%
11:00	EC	OECD Publishes Economic Outlook			
14:30	US	CPI MoM	May	-0.1%	-0.8%
14:30	US	CPI Ex Food and Energy MoM	May	0.0%	-0.4%
20:00	US	FOMC Rate Decision (Upper	Jun-10	0.25%	0.25%
20:00	US	Monthly Budget Statement	May		-$739b
Thursday June 11					
06:00	SW	PES Unemployment Rate	May		4.8%
09:30	SW	CPIF Excl. Energy YoY	May		1.0%
14:30	US	PPI Ex Food and Energy MoM	May	-0.2%	-0.3%
14:30	US	Initial Jobless Claims	week		--
Friday June 12					
08:00	UK	Monthly GDP (MoM)	Apr		-5.8%
08:00	UK	Manufacturing Production MoM	Apr		-4.6%
11:00	EC	Industrial Production SA MoM	Apr		-11.3%
16:00	US	U. of Mich. Sentiment	Jun P		72.3
Monday June 15					
03:30	CH	New Home Prices MoM	May		0.4%
04:00	CH	Industrial Production YoY	May		3.9%
04:00	CH	Service sector production YoY	May		-4.5%
04:00	CH	Retail Sales YoY	May		-7.5%

- **China**
  - The remaining May data set will be published early next Monday. **Industrial production** was almost fully recovered in April, while **retail sales, investments and service sector** production remained approx 10% below the pre Covid-19 trend, in fact a depression low level – and growth has not been that impressive from the March bottom. The strong service sector PMI signal accelerating growth, which is needed to close the large negative output gap
- **US**
  - **The FOMC** will not do much this time. The QE programs are not exhausted, few argue for negative rates and the economy is very likely started the recovery anyway
  - Inflation is not important this stage of the cycle
- **EMU**
  - **Industrial production** fell sharply in March and continued down in April. However, short term indicators signal growth in May, at least through May
- **Norway**
  - **Norges Bank's Regional network** will confirm the sharp downturn in the Norwegian economy – but that growth will pick up in H2. Check our detailed assessment next page
  - **CPI inflation** is out of focus, here as everywhere else – even if actual core inflation is and will remain far above the inflation target due higher import prices following the NOK depreciation. As long as wage inflation does not follow suit, no worry for Norges Bank

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

What will the Network say?

- **Norges Bank's Regional network** will confirm the sharp downturn in the Norwegian economy over the past 3 months.
  - » A 6% decline in GDP corresponds to a growth index at -3, we expect a -2 print. A past 3 months' index > -1.5 would be surprising. A -1.3 print was the bottom for the index during the financial crisis, when actual growth in Q4 08 was -2.3% q/q. GDP fell at approx the same speed in Q1 '20 but Q2 will be much weaker, like -8%, and respondents will include at least April in the 'past 3 months' (where GDP fe
  - » A 'past growth' index below -5, even if the calibration is 'unknown' at these unprecedented growth levels, would be surprising
- **The outlook index** is even more tricky to forecast (or to interpret afterwards?) What is the 'starting point' for the outlook? If the past 3 months have been really bad, the outlook for the next 6 months should quite good!
  - » We assume that will be case for consumer services, with growth even in tourism (from a very low level though)
  - » Retail sales should report 'no decline, and therefor no brisk recovery'
  - » Commercial services are probably in between the two above
  - » Construction has not been hit that hard but the outlook is probably muted, both due to housing and business demand
  - » Oil related industries will weaker growth past months and even lower growth the coming months
  - » Export related manufacturing has been somewhat hit past months, a zero growth outlook?
  - » Domestically oriented industries have seen a rather strong demand so far, and should expect normal growth, or something less
  - » In sum? A growth indicator at 0.5 - 1? Implying 4% growth the coming 2 quarters – if respondents do not put too much of the Q2 into the next 6 months
- Just as an illustration, we have some guestimates in the table to the right



	Weights	Q1 expect	Q2 past 3m	Q2 outlook
Household services	10.4	1.58	-8.00	3.00
Commercial services	35.4	1.35	-3.00	2.00
Retail sales	15.8	0.05	1.00	0.70
Construction	12.5	0.34	-1.00	-1.00
Manufacturing oil industries, domestic	7.1	0.34	-2.50	-3.00
Manufacturing oil industries, export	2.6	0.80	-2.00	-2.50
Manufacturing export related	4.7	0.66	-2.00	0.00
Manufacturing domestically	11.5	0.55	0.00	0.50
Weigthed average		0.83	-2.18	0.79

Our main views

	Main scenario	Recent key data points
Global growth cycle	Before Covid-19 hit, the growth had slowed as the cycle had matured in many ways. The setback in Q1/Q2 due to lockdowns and other measures against the virus attack in Q1/Q2 is unprecedented modern history. The recovery has clearly started in China but the activity level in still well below par. April was most likely the bottom in the rich part of the world, and may EM countries too. We expect a modest recovery in H2 but the uncertainty is still huge, both regarding the virus, further policy responses, and how households and businesses will utilise the room for manoeuvre the virus/authorities may give. Anyway, it will take time to come back to normal (or high) capacity utilisation rates. **Our somewhat optimistic case is a 3% decline in global GDP y/y in 2020 (from +2.8% before corona)**	The global manufacturing PMI recovered most of the April loss in May but the level remains low. Global auto sales rose in May. Covid-19 cases & deaths still on the way down even as more countries eases restrictions
China	The Covid-19 'killed' the economy in Q1, and activity is just gradually returning to a normal level. Domestic demand is still low, with services as the weak link – and Chinese exports will be hit by the collapse in demand in ROW in April/May. The 2020 annual growth will be closer to -2%, from +6%, even if the activity level increases sharply in H2. Policy risks, both created in the US (trade, technology, 'health' war) and within China itself (like Hong Kong suppression) poses additional treats to growth	The PMIs surprised on the upside, and signal growth at trend, at least. Auto sales remained at 'high' level in May
USA	The US cycle was mature, before Covid-19 hit. During the lockdowns, activity has collapsed, and GDP will decline by at least 12% to Q2 from Q4. Unemployment has risen sharply, even if companies are encouraged to keep employees at their payrolls. Profits are falling sharply, and now a record high debt level is not an asset for the corporate sector. Most households has strengthened their balance sheet during the crisis, savings have increased sharply **Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt. And an unstable political leadership?**	Employment surprised on the upside, big time – but remains extremely low, and the real unemployment is far above the official 13.3%
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 but the new EU fiscal support program is significant and unprecedented – if agreed upon (which we believe). We expect a recovery in H2 but a a substantial negative output gap to remain in 2021, there as elsewhere	ECB is willing to do more. Retail sales fell sharply in April but less than expected
Norway	Growth had been above trend, and it was slowing before the virus hit. Unemployment has skyrocketed, due to temp layoffs but is now falling sharply. However, oil investments will decline through 2020/21, and faster than expected before the oil price setback. Mainland business inv. are not low, and will very likely decline substantially. Exports will decline substantially, at least the coming months. Housing investments are exposed even if the interest rate cuts are igniting the animal spirit again, as usual in Norway, and fiscal policy is very exansionary. Even so, low employment and falling real wages might pose a housing market risk, even in Norway. **Risks, other than corona: Debt, housing. A harsh global setback. We forecast a 6% GDP decline in 2020, and a similar recovery next year, implying a substantial neg. output gap**	GDP fell 4.7% in April, is now down 11% from Feb! Private consumption the main culprit. Unemployment is declining by 0.5 pp per week. Oil, manufacturing power supply will cut investments sharply (and more than signaled before corona)House prices rose 1.4% in May, more than we expected.

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

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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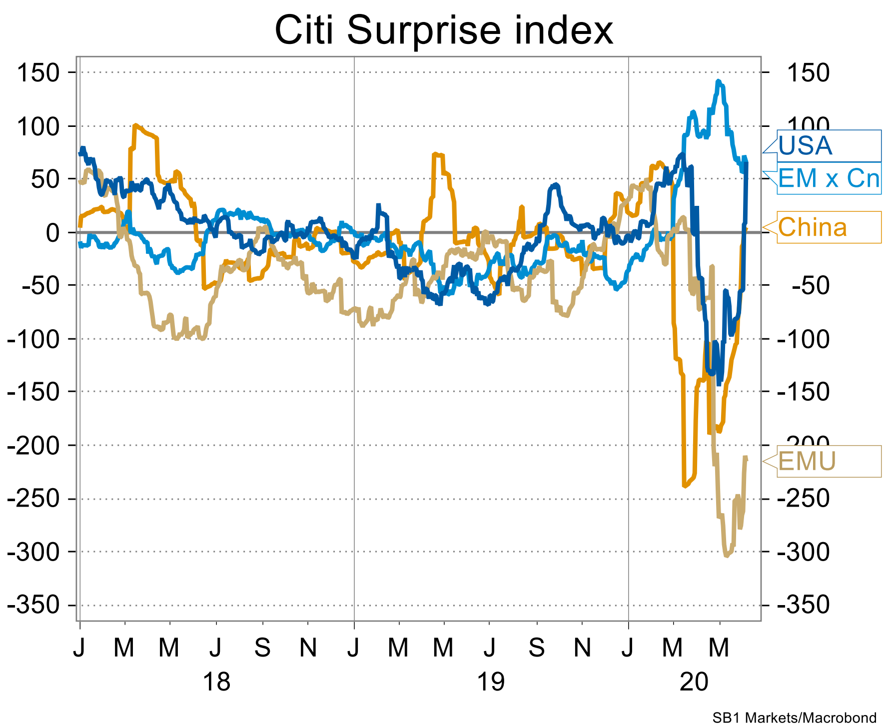
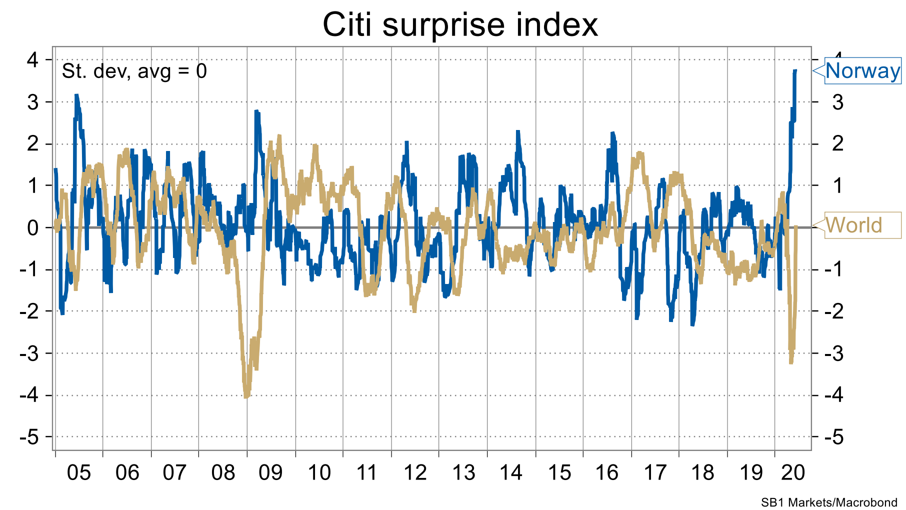
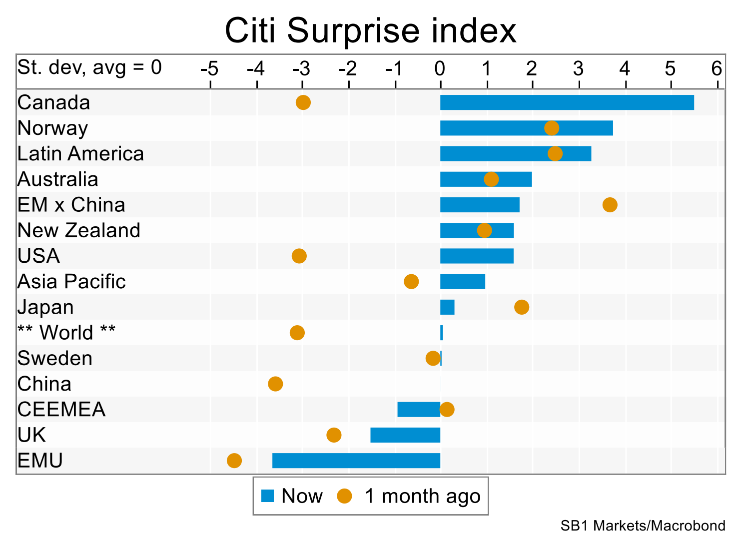
Now, the surprises are the upside! At least outside Europe







- 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 downside
- Norwegian data are extremely upbeat vs expectations. We are still not so sure on that

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

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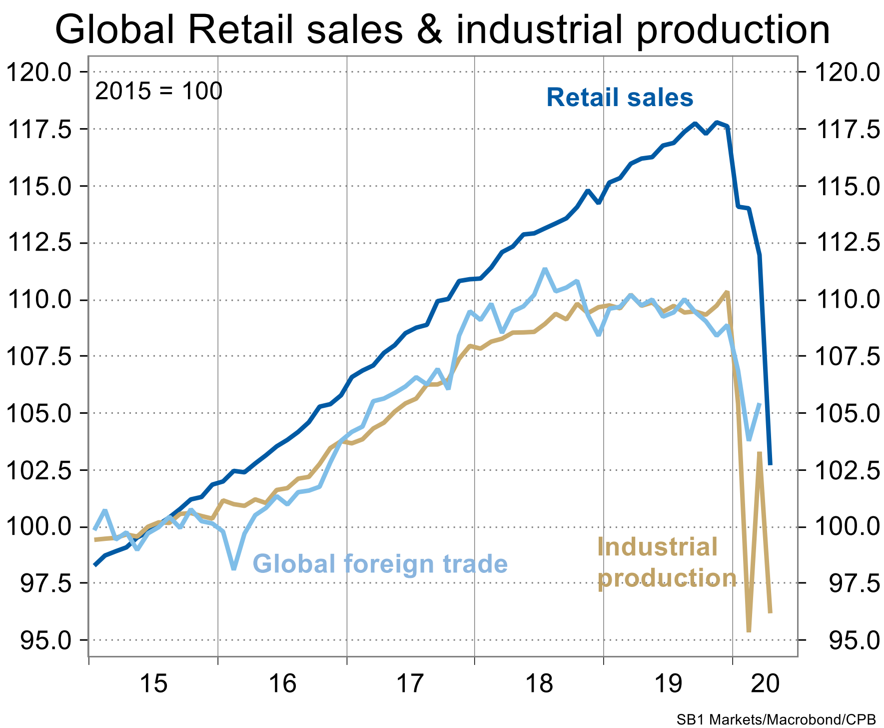
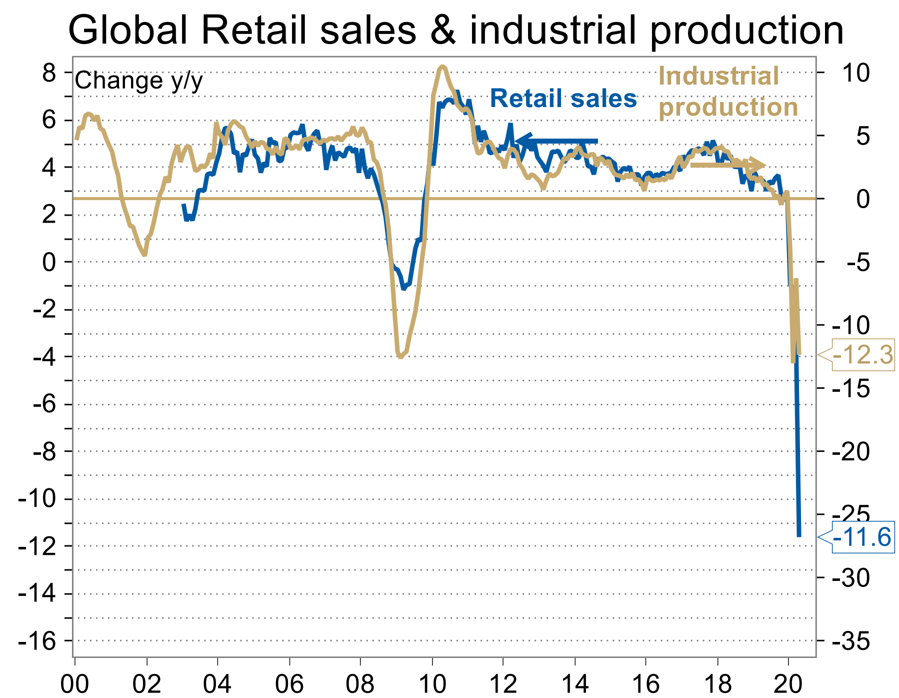
Retail sales collapsed in April. Industrial production down too but less

Both are down some 12% y/y – a good proxy of the decline in economic activity



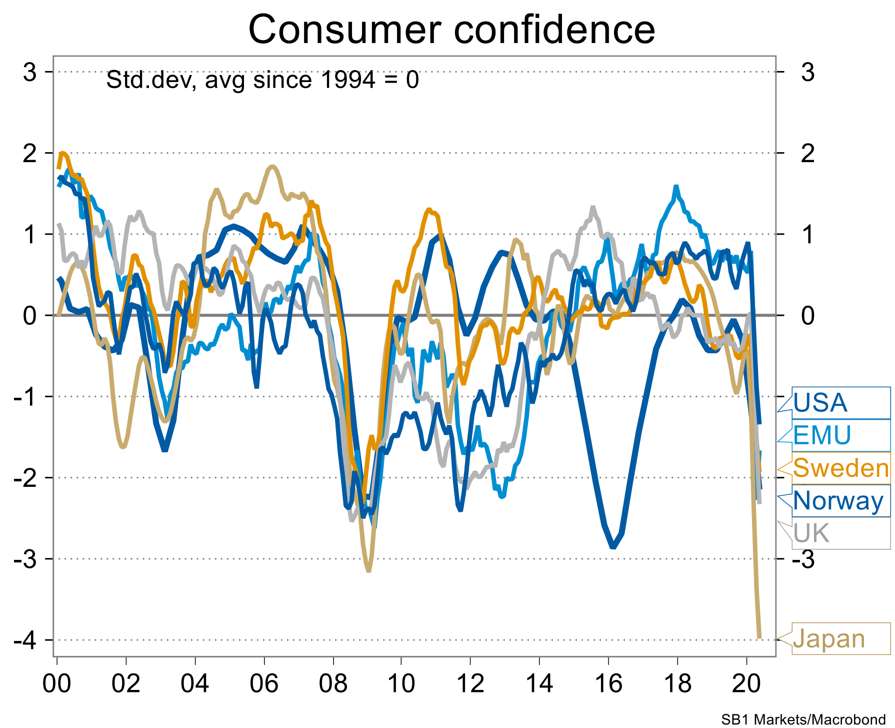


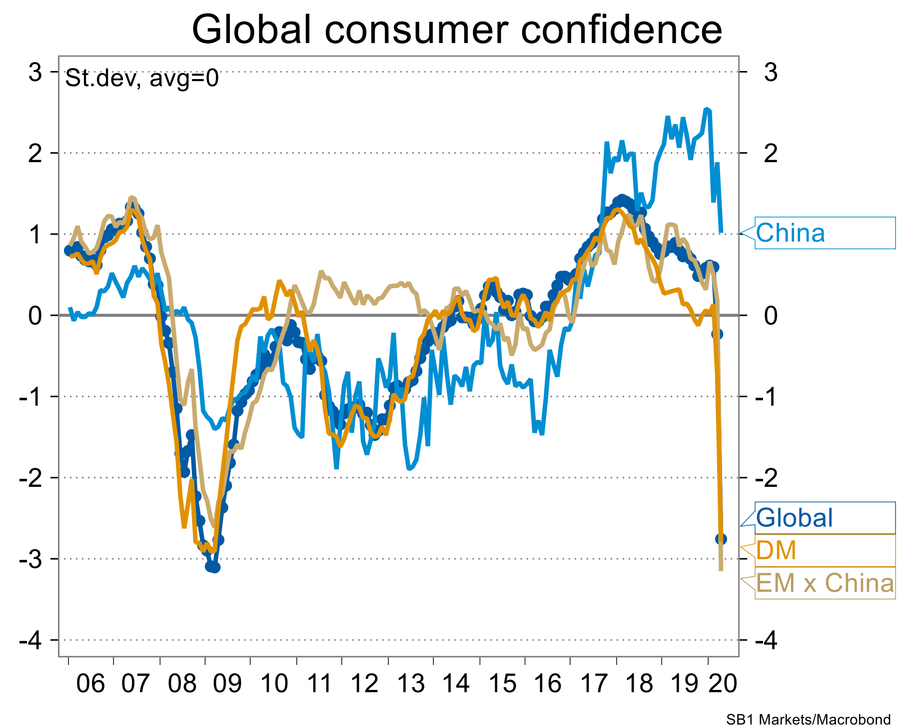
Memo: Keep in mind the different scales at the chart above

- **Global industrial production** probably fell some 6% in April, while retail sales fell even more, we assume at least 8%. China is contributing at the upside, but that's all on that side
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

Consumer confidence sharply down everywhere

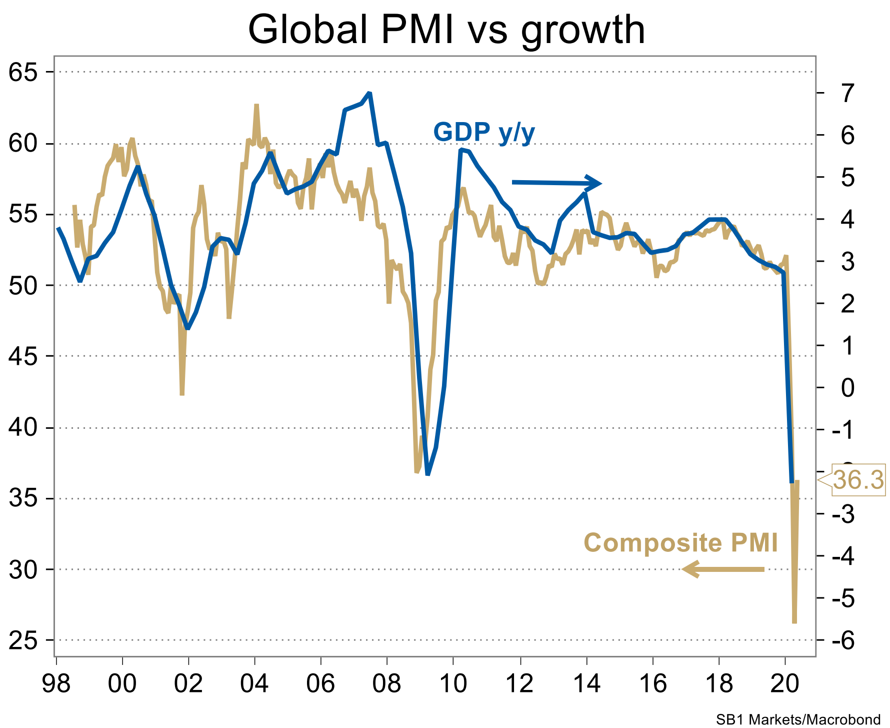
Still data are not disastrous and in average not worse than during the financial crisis

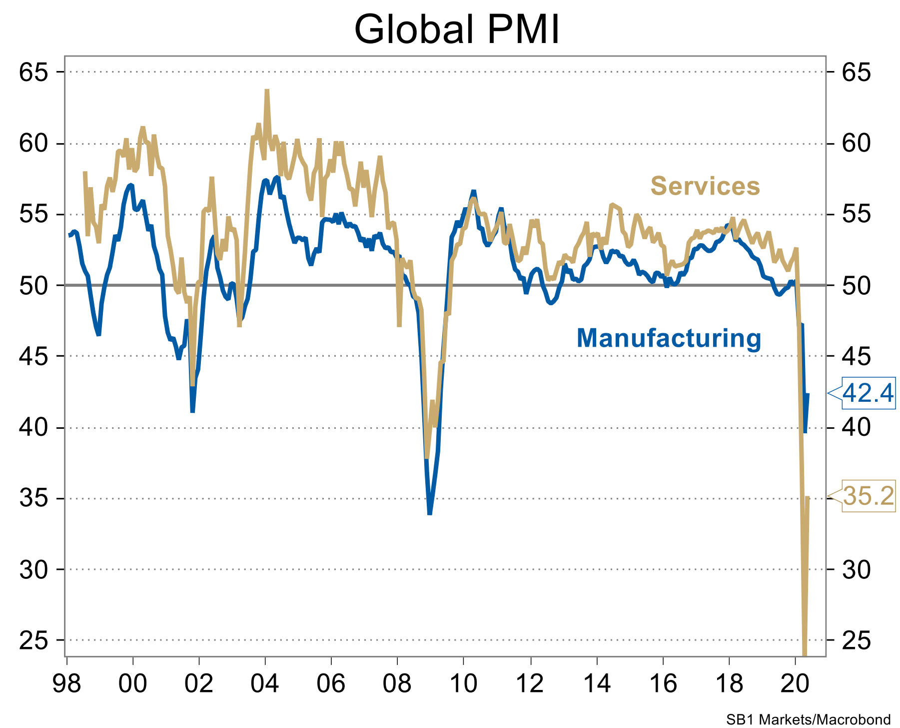




Global PMI sharply up in May (but should have recovered even more?)

Global PMI rose by 10 bp but still signal a harsh setback in May too. That was not the case?

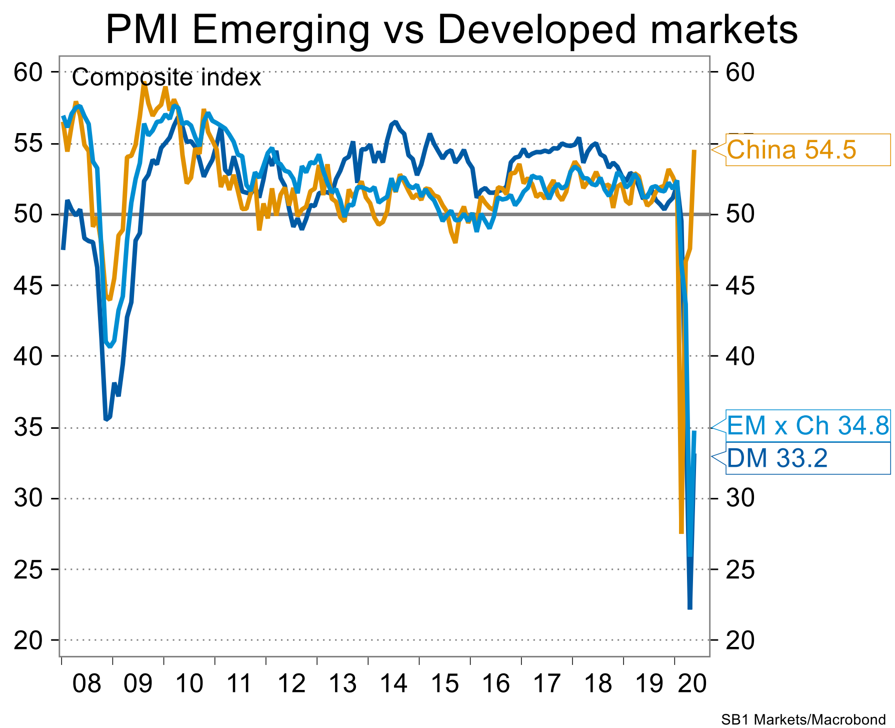


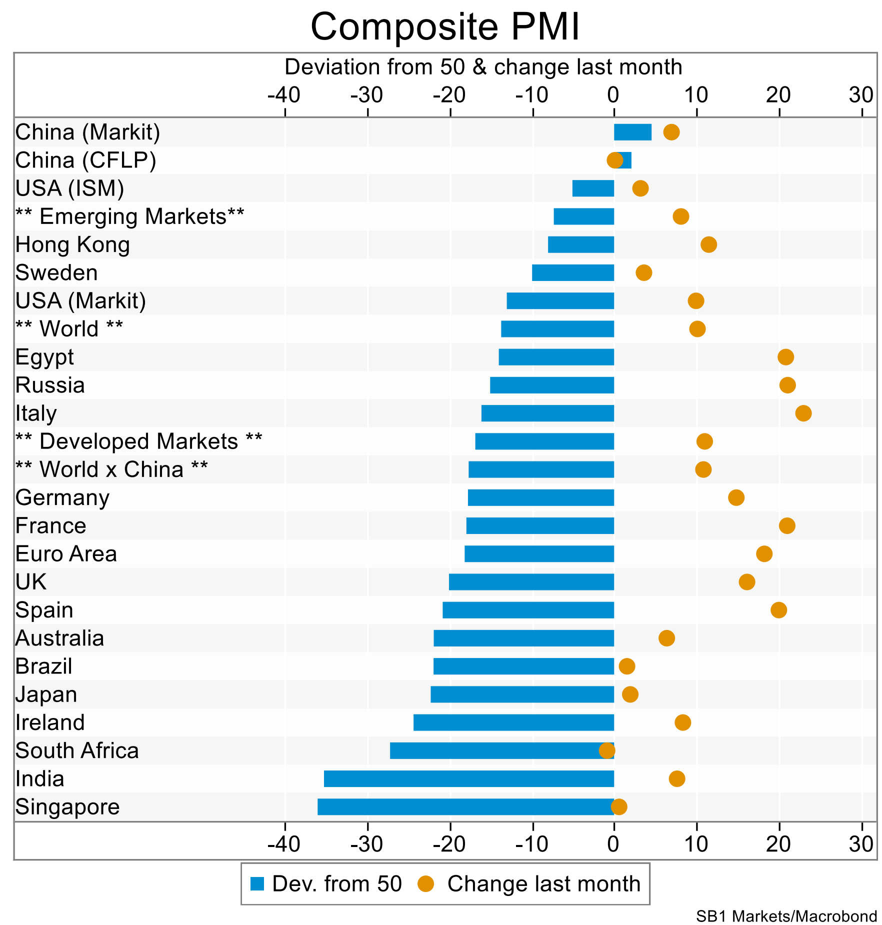


- The global PMI rose by 10 p to 36.3, two times the largest m/m increase until now, reversing most of the April crash (which BTW was almost twice as large as any earlier setback
- However the level is still extremely low, and – given that the respondents have answered correct to what they are asked about – signals a sharp reduction in activity in May too, following the unprecedented setbacks in March and April which are now confirmed by actual data.
  - » However, based on earlier recoveries, the companies do not answer 'correct' on whether activity has increased or decreased from the previous month in the first moth of the recovery. They seem to report on the change in activity over the previous 2-3 months, not just the last one. All high frequency data (as well as the US labour market report) suggest that economic activity recovered somewhat in May
- Composite PMIs were flat some few places but rose sharply in most countries

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

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

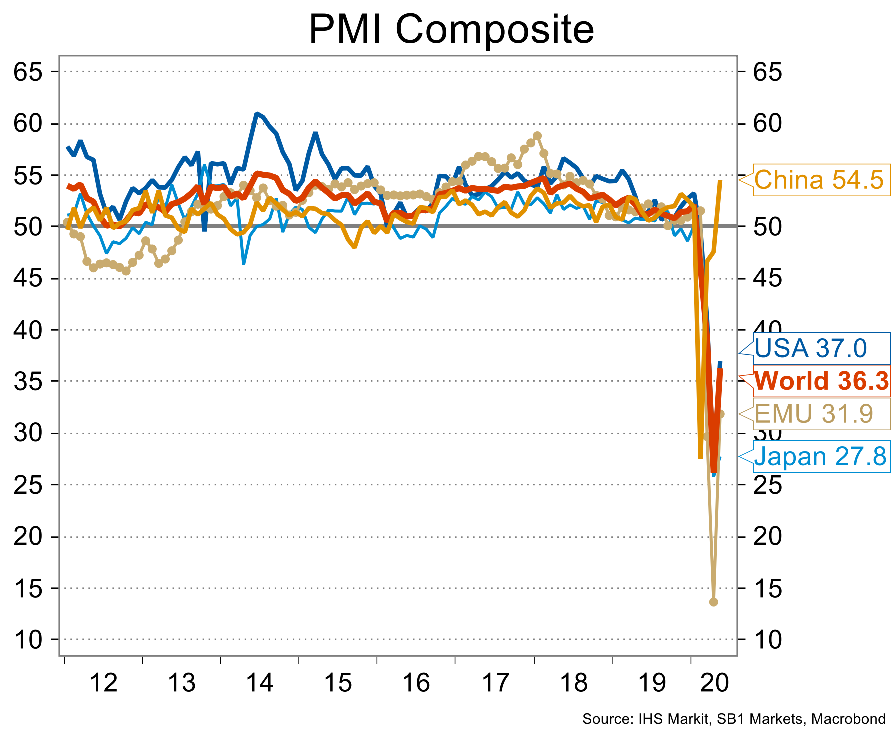


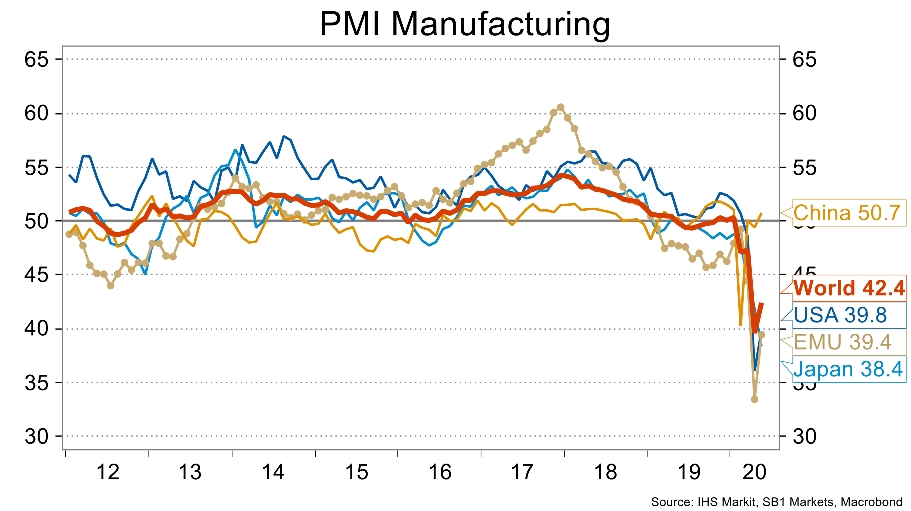


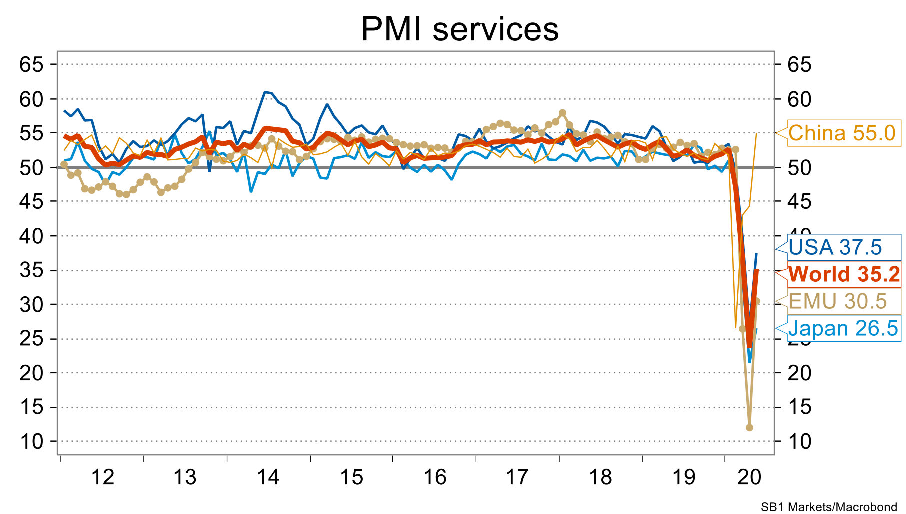
- India reported the sharpest decline, and the lowest level, down to 7 points, ATL for a PMI? Not that strange, during a tight lockdown, nobody is reporting growth
- Southern Europe at the bottom of the DM league
- No bright spots to be seen, except for normal growth in China

Service sector PMI rose more than the manufacturing PMI but remains below

The changes – and levels – are quite similar in the main countries – except for China

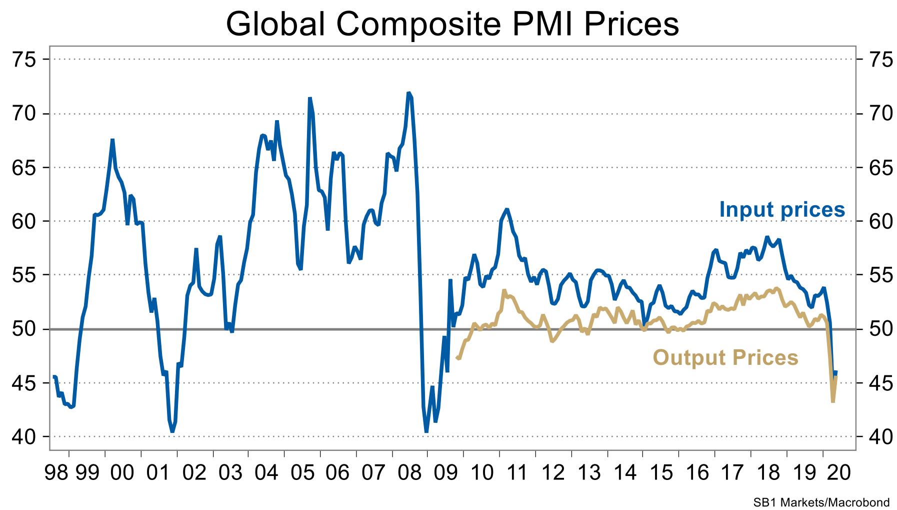


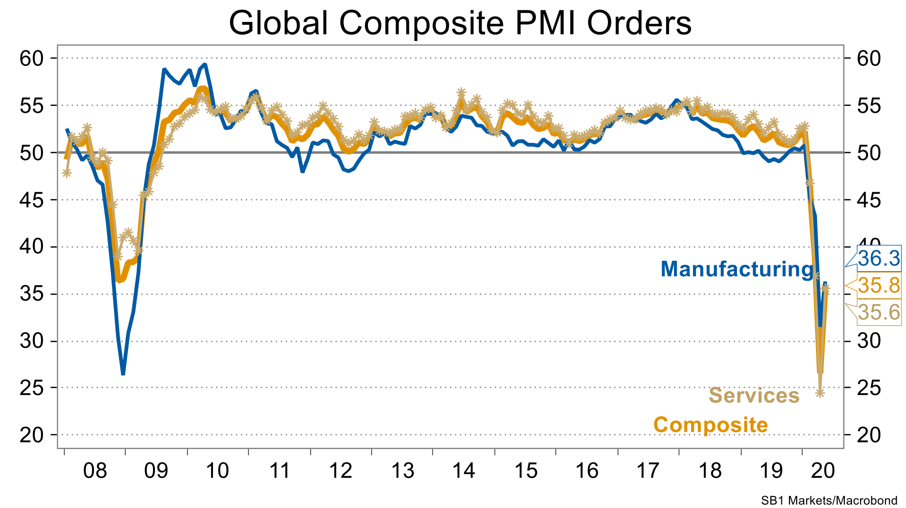


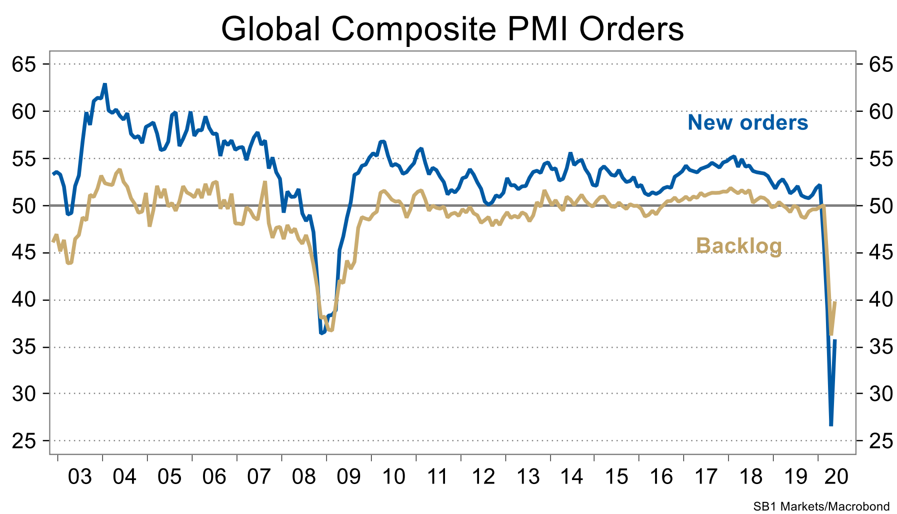


- The service sector in China reports decent growth in May – which is needed to get activity back to a normal level again

Order inflow is still declining, companies say – they are cutting prices

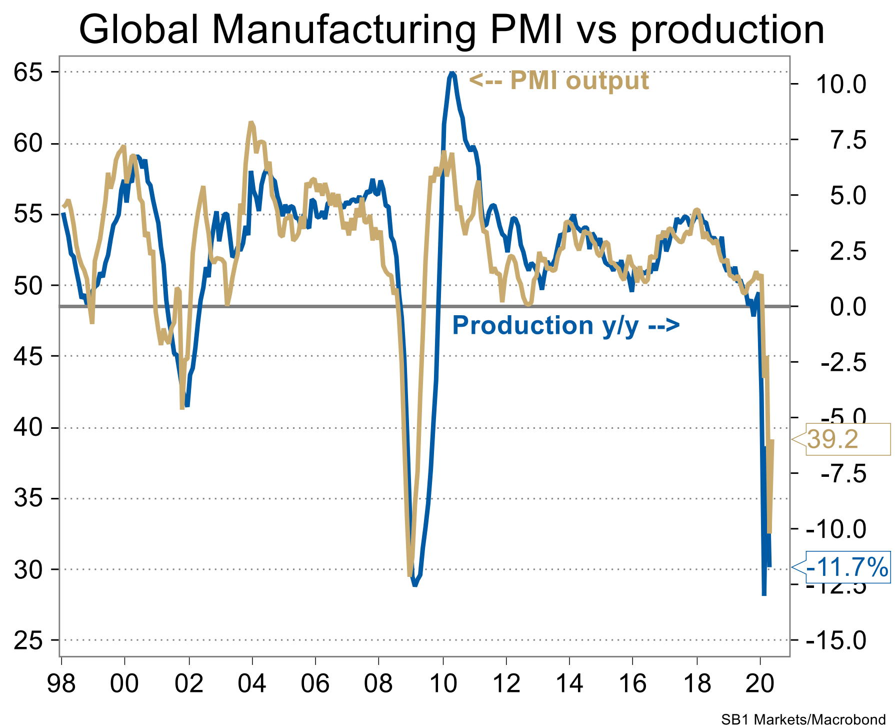


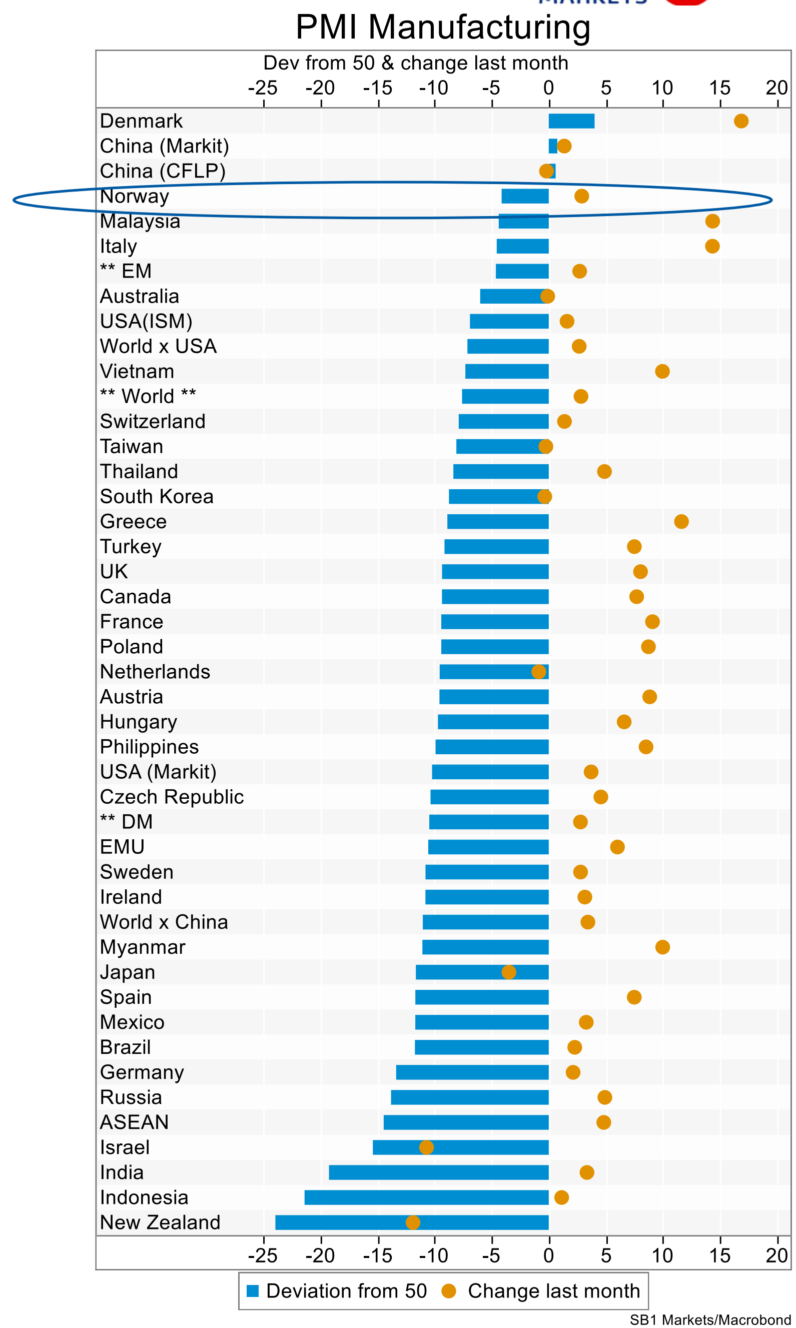




Manufacturing PMI up almost everywhere

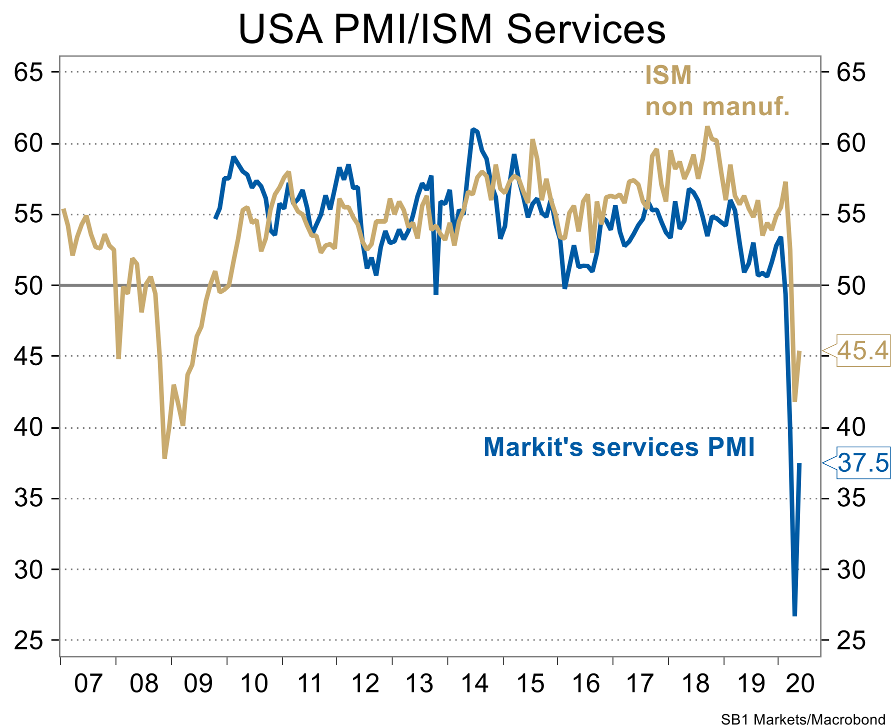
Denmark, China & Norway at the top!

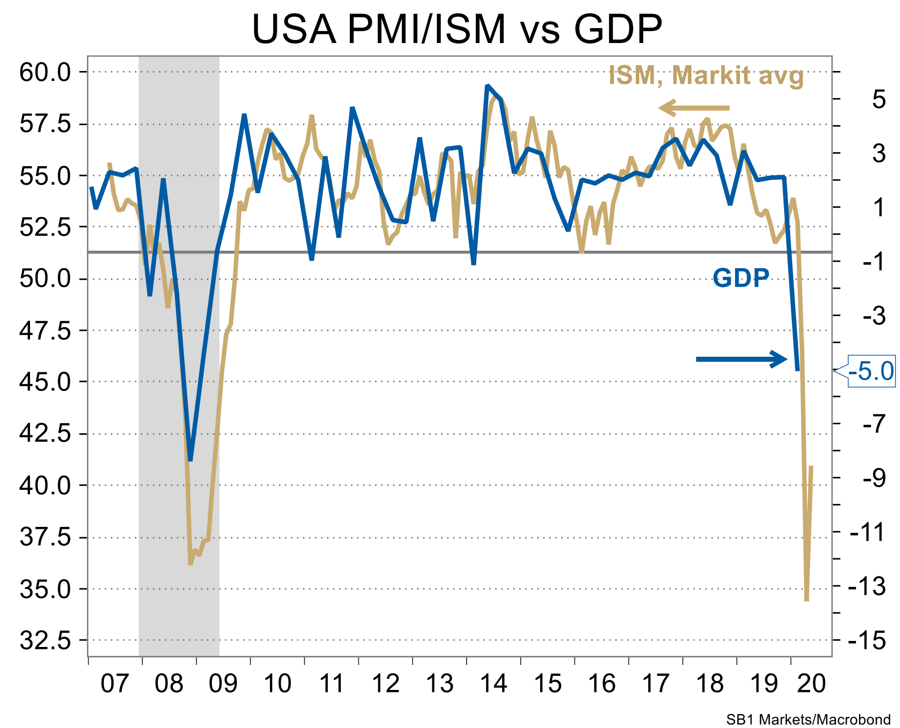




Non manufacturing PMI up in May but still weak (as the manufacturing ISM)

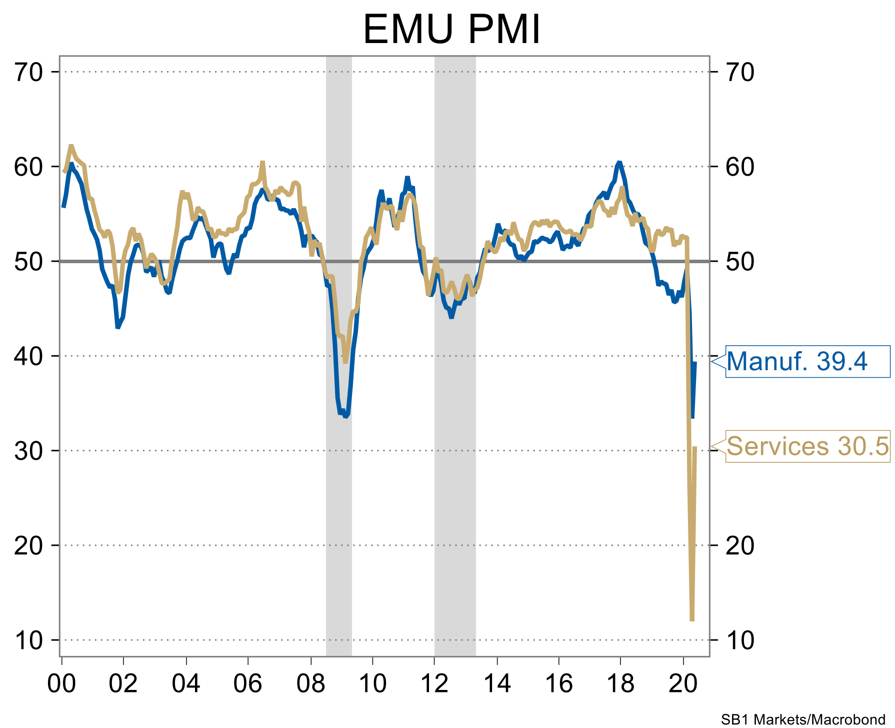
We are quite sure economic activity rose in May, even if the PMI/ISMs report a 9% pace of decline

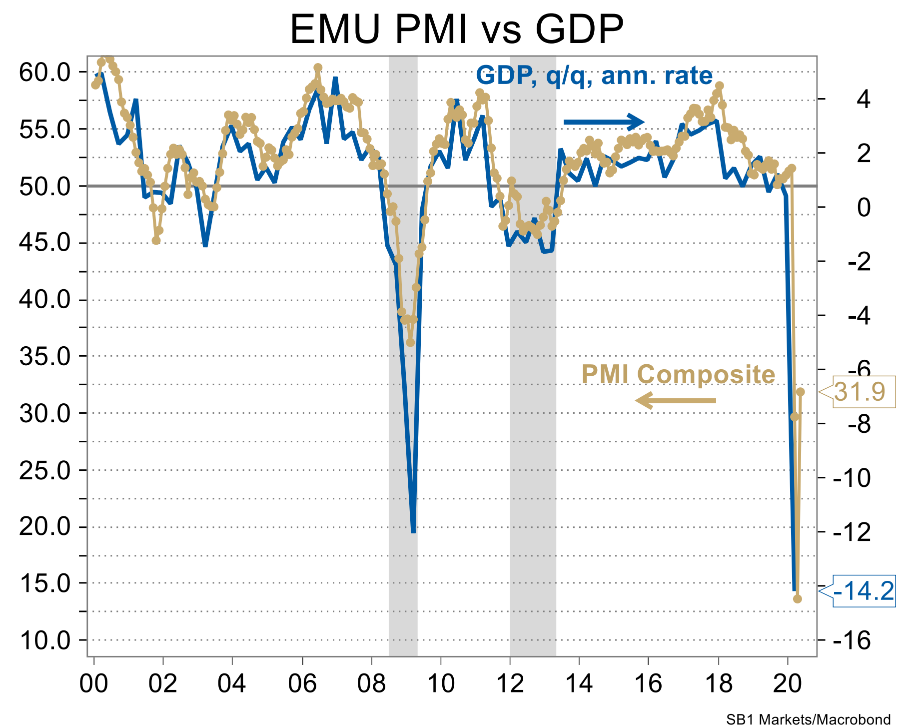




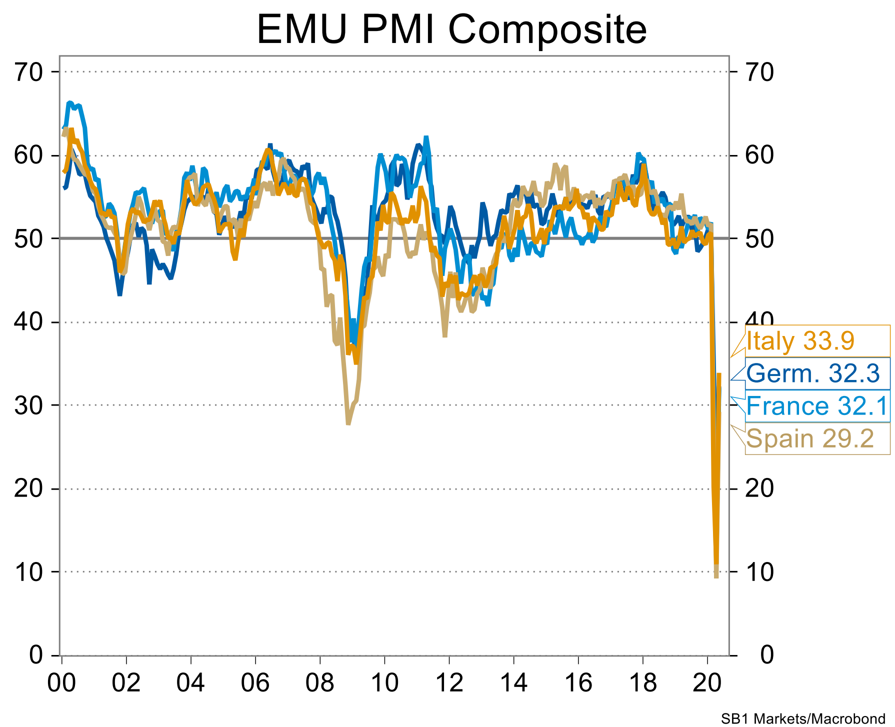
Like for the US, companies just report a milder contraction, not growth

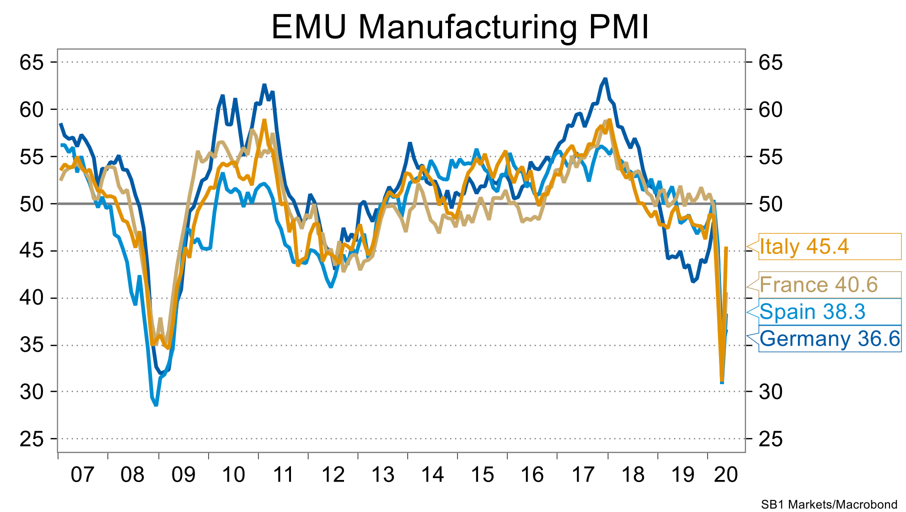
Composite PMI recovered to 32 from 13

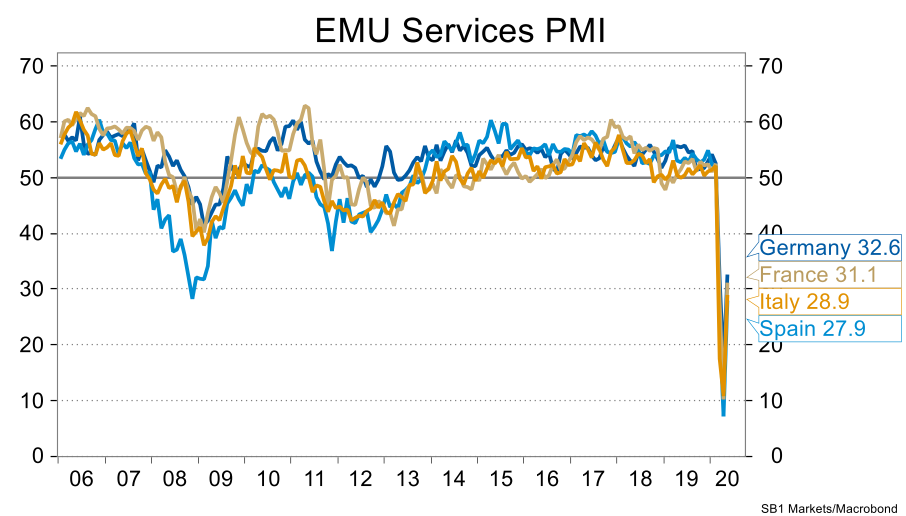




You will never ever see something like this again?

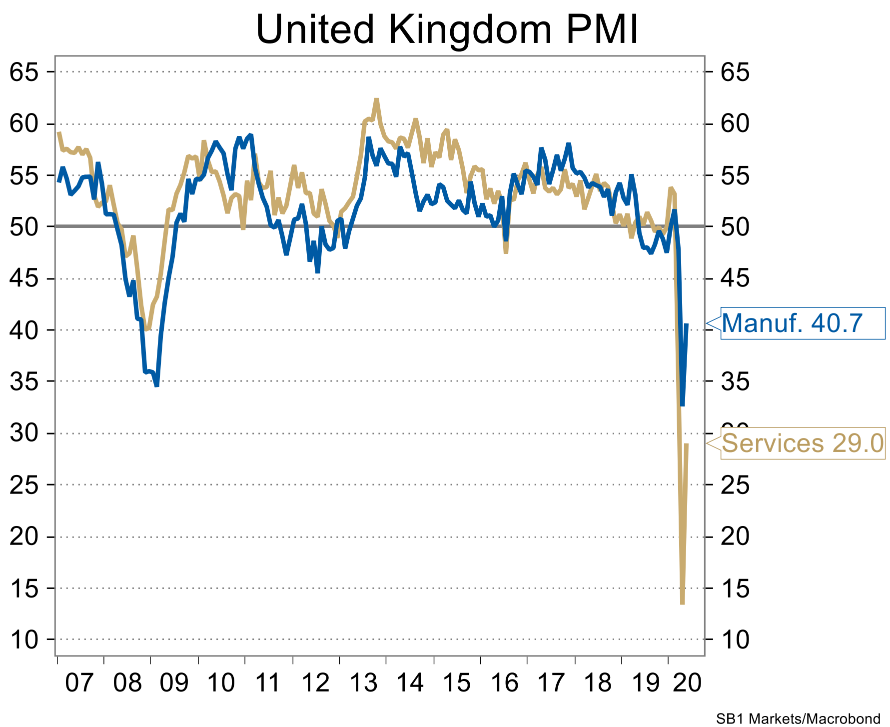


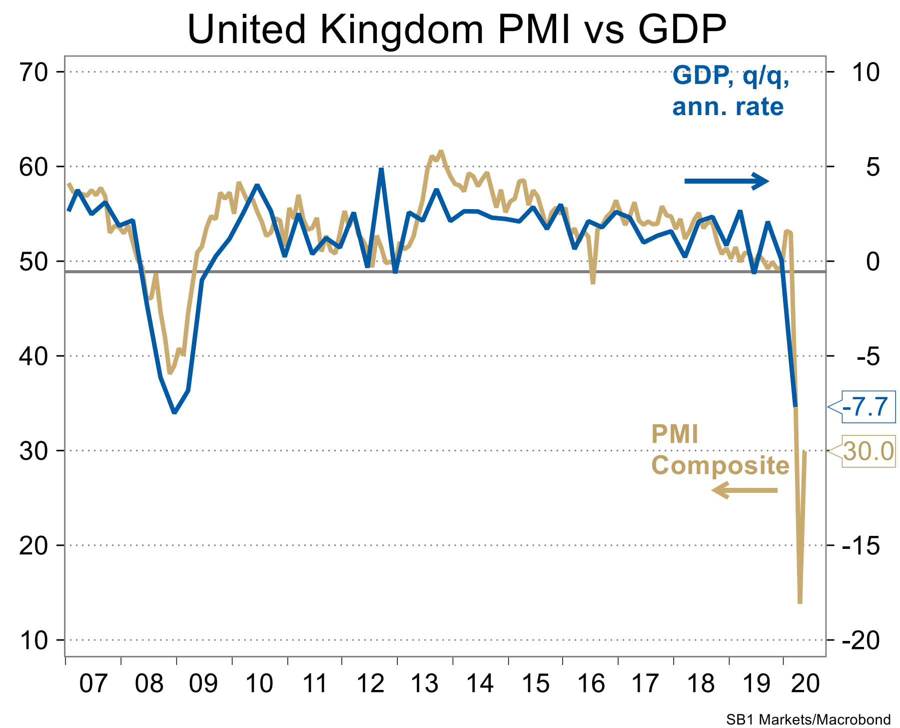




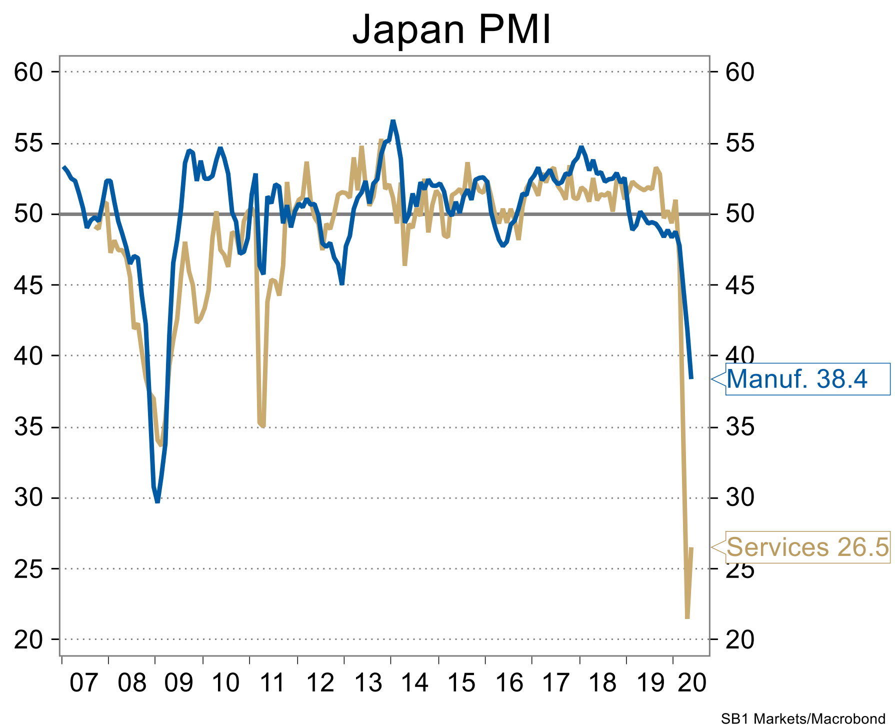
UK PMI

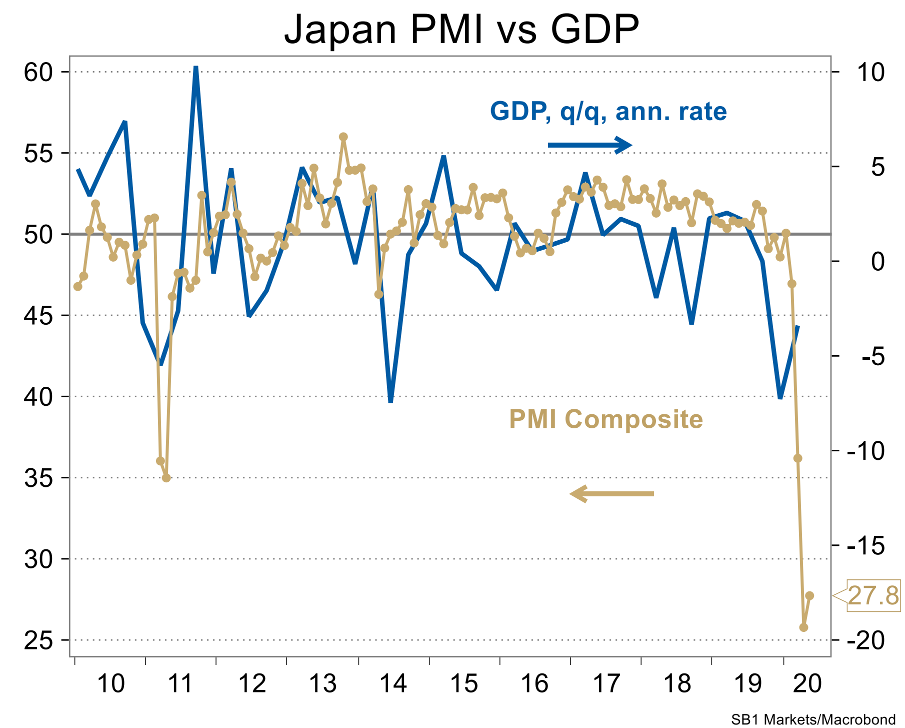
Up but still signalling 10% GDP contraction pace in May – it can't be that bad





The Japanese manufacturing PM further down, and services at 26!

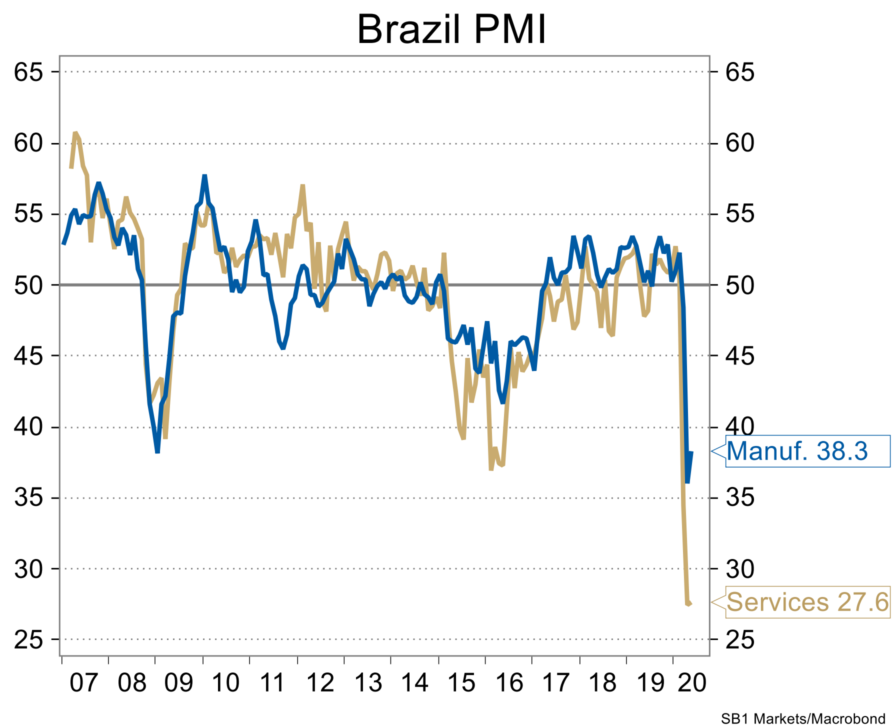


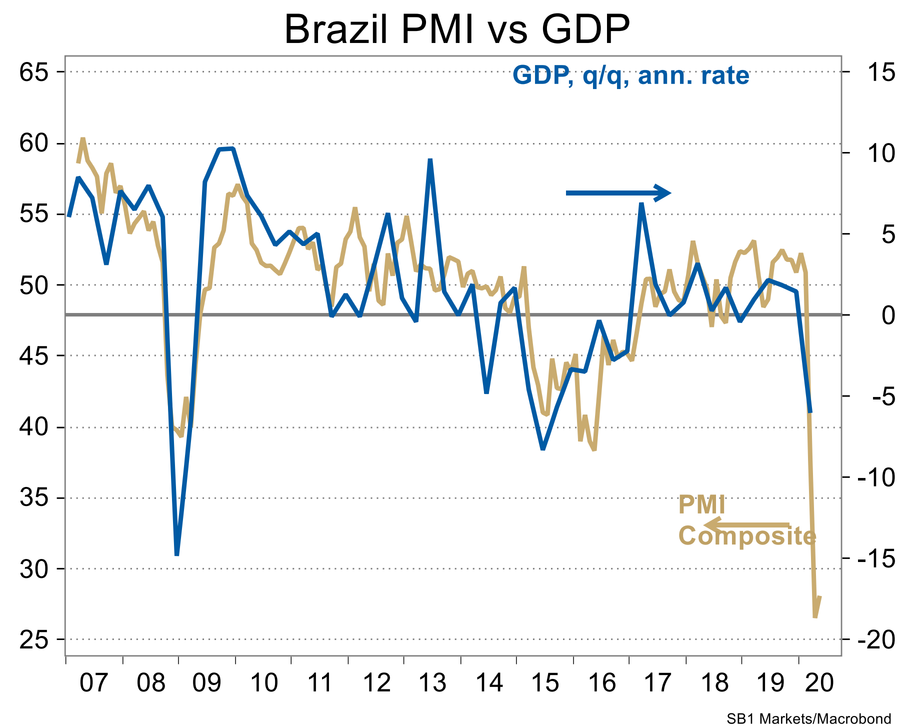


- Face value, these figure are disastrous – and signal that the Japanese economy is struggling more than most others

Brazilian economy hit hard by Covid-19

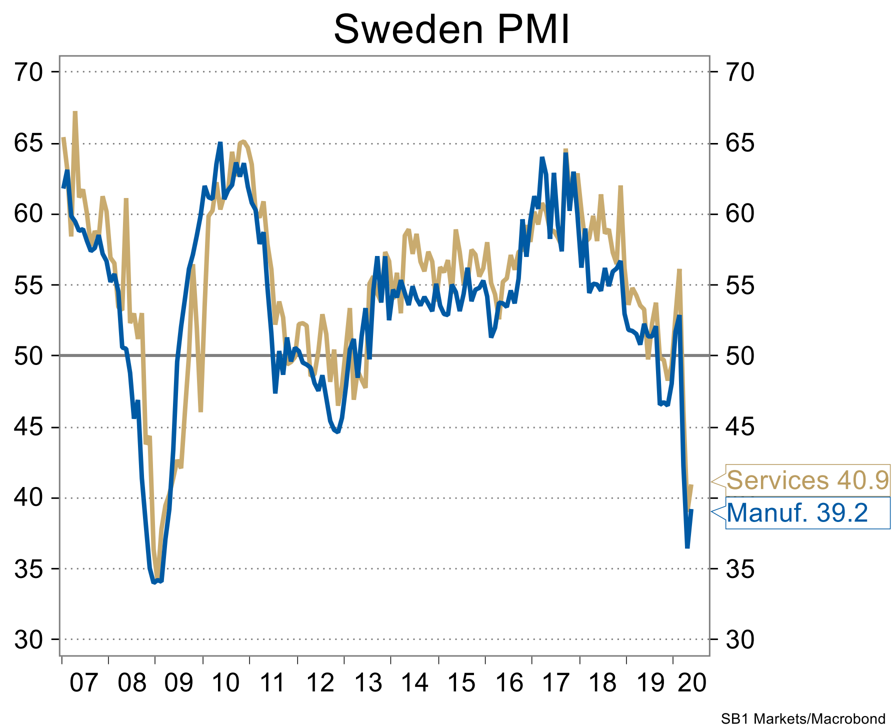
Both PMIs are still at record low levels. Manufacturing production March/April down 30%

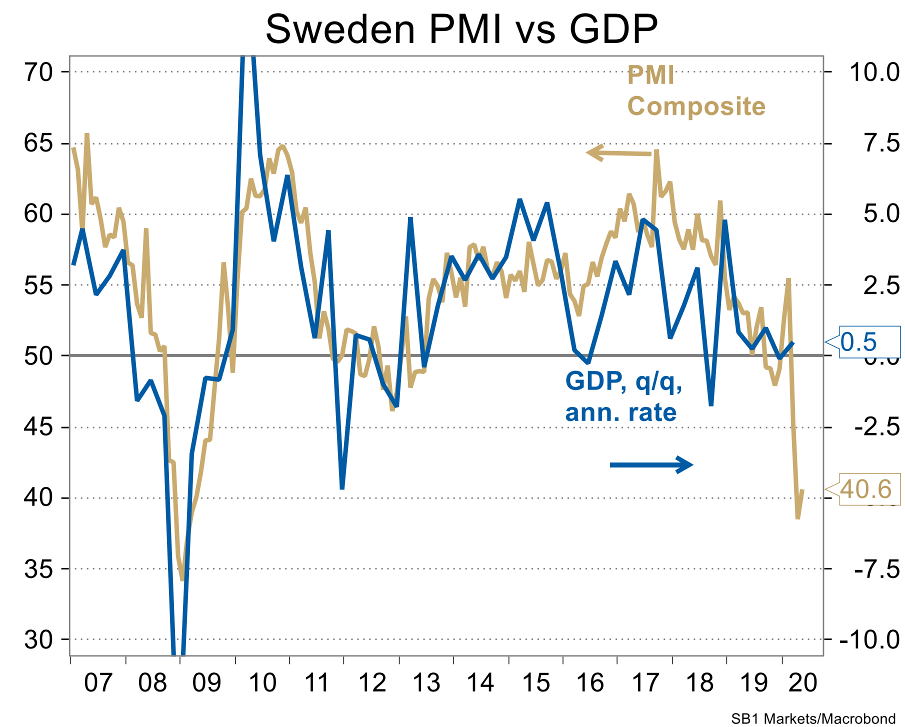




Services better in rest of Europe

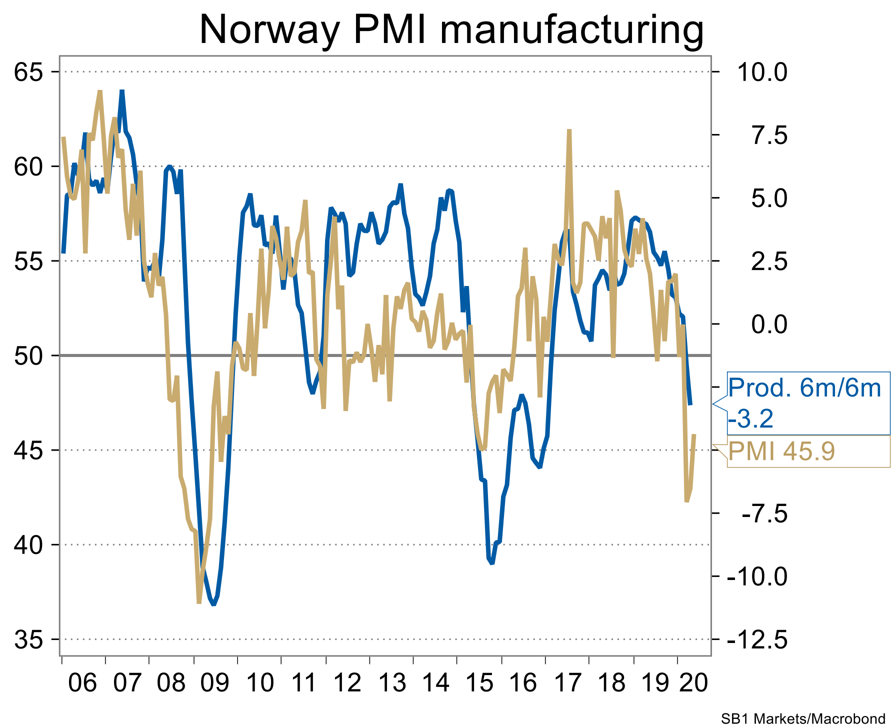
The manufacturing sector is hit like others, services not

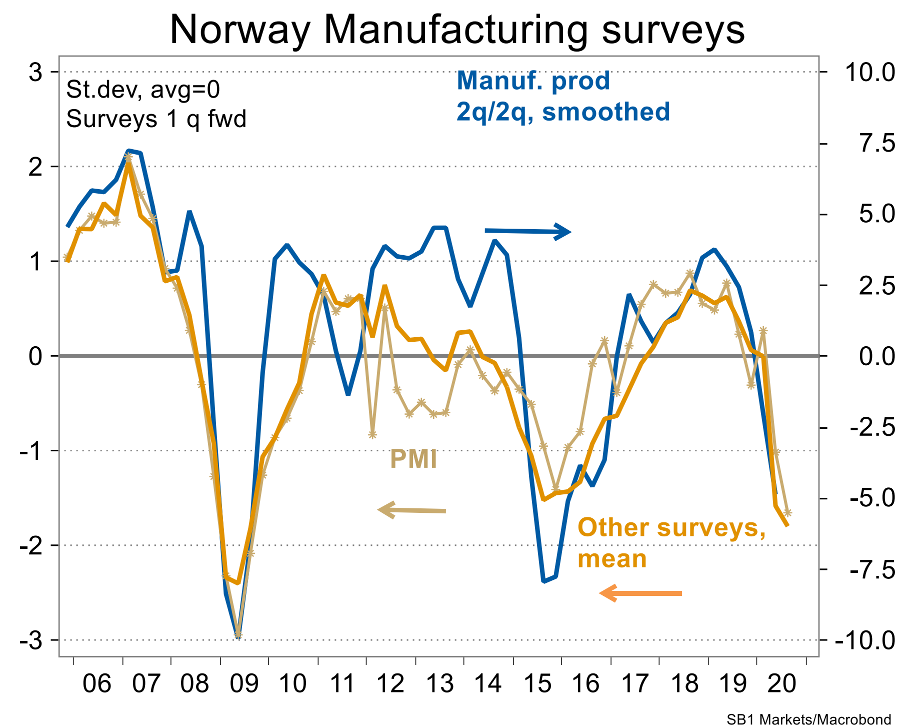




The manufacturing PMI up in April, among the best

PMI rose by 3 p to 45.9, we expected unch. The level signals a further decline i production

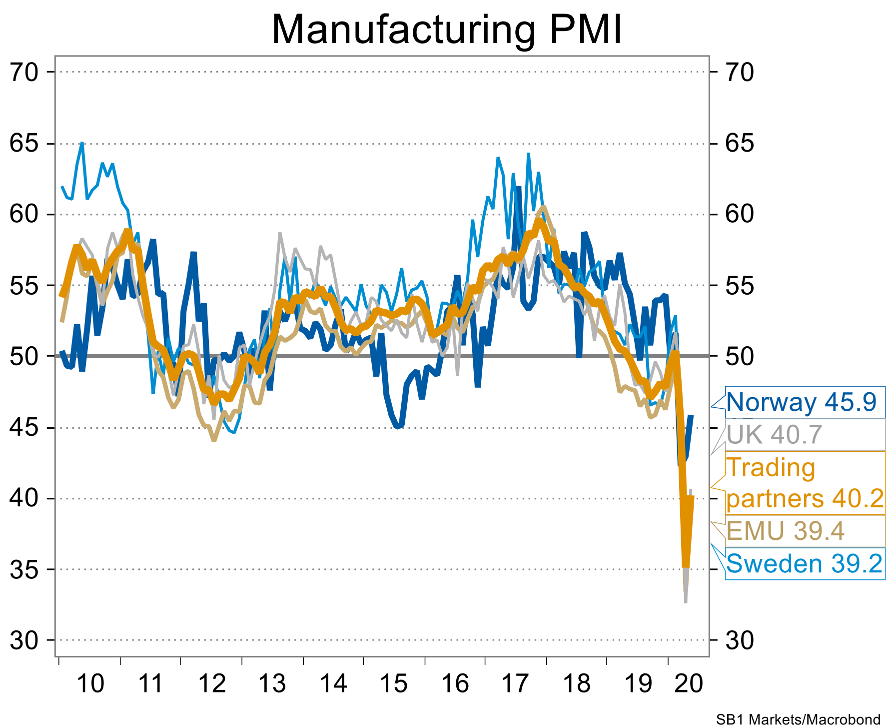


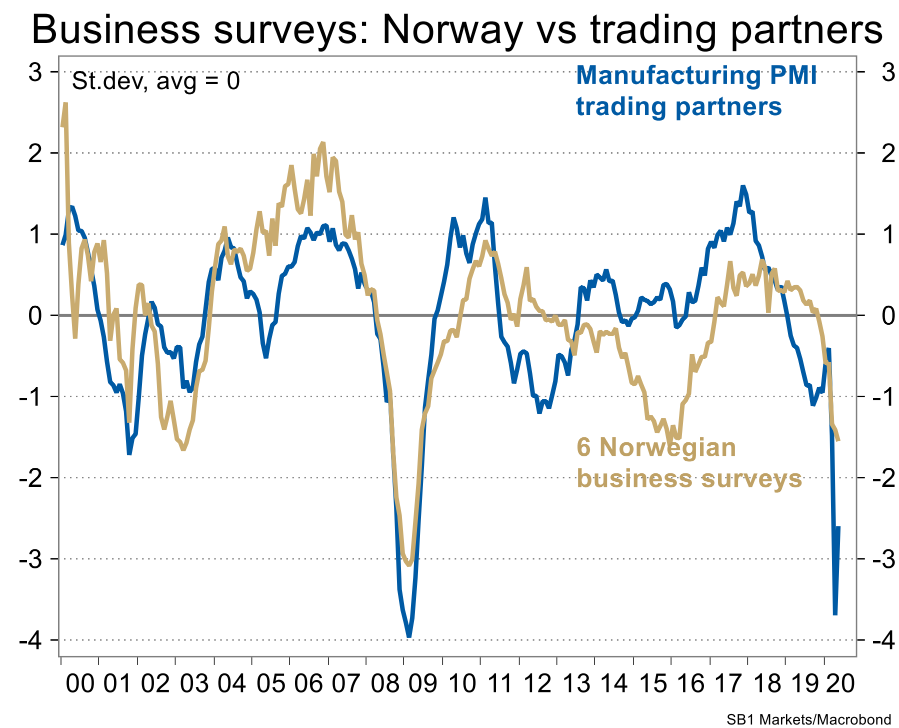


- Other surveys are heading down but not all have been reported with full corona crisis impact

Norwegian manufacturers less hit than others? Seems so, so far

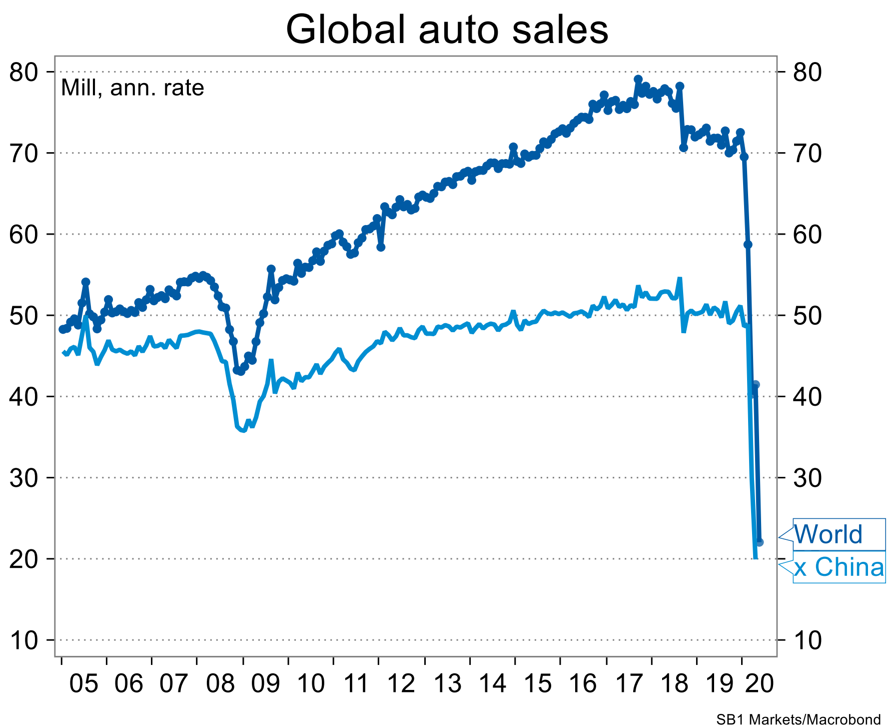
Our trading partners are reporting weaker PMIs than Norway

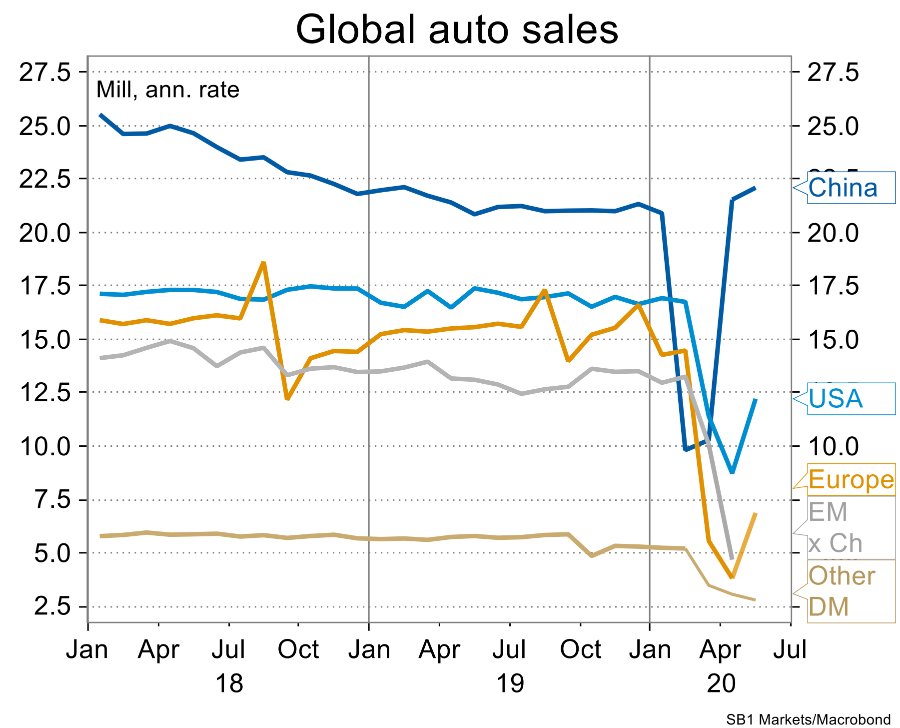




Global auto no doubt up in May (but no estimate yet)

Chinese sales rose further, best since Feb ‘19!. Sales recovered substantially in the US, partly in EMU

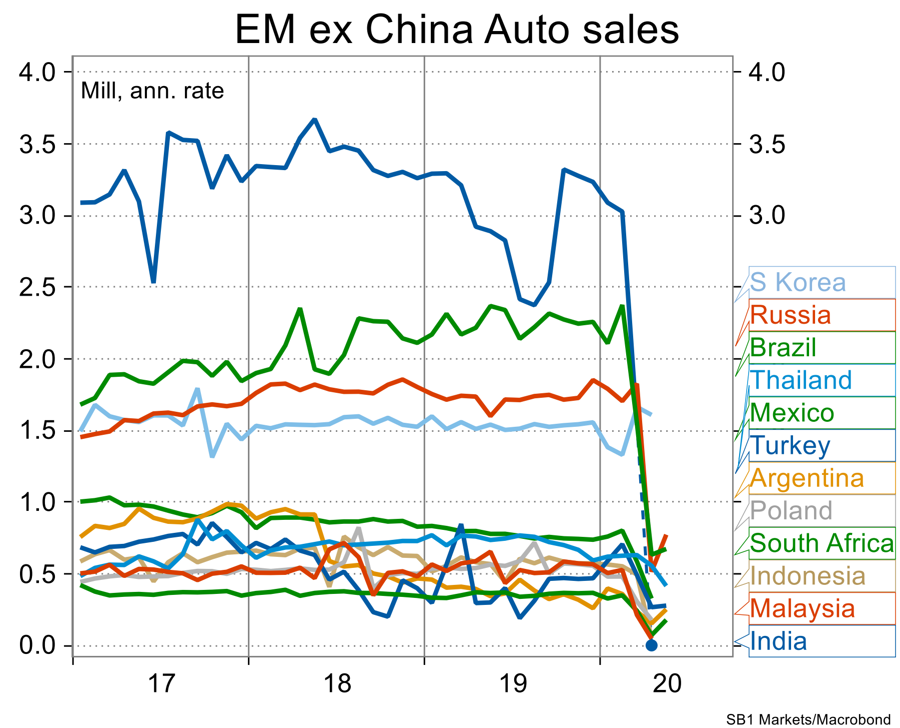




- Sales in China recovered big time in April and sales were kept up in May
- Sales in the US recovered 40% of the March/April decline, a the speed was 70% of the normal level in May (in average, must have been significantly higher in the latter part of May)
- Sales in EMU recovered 1/3rd of the March/April decline in May but remains less than 50% of the pre corona level
- Sales in other Emerging Markets were mixed in May (but many have not yet reported, like India, which fell to zero in April, and we await our global estimate). Brazil stabilised at very low level

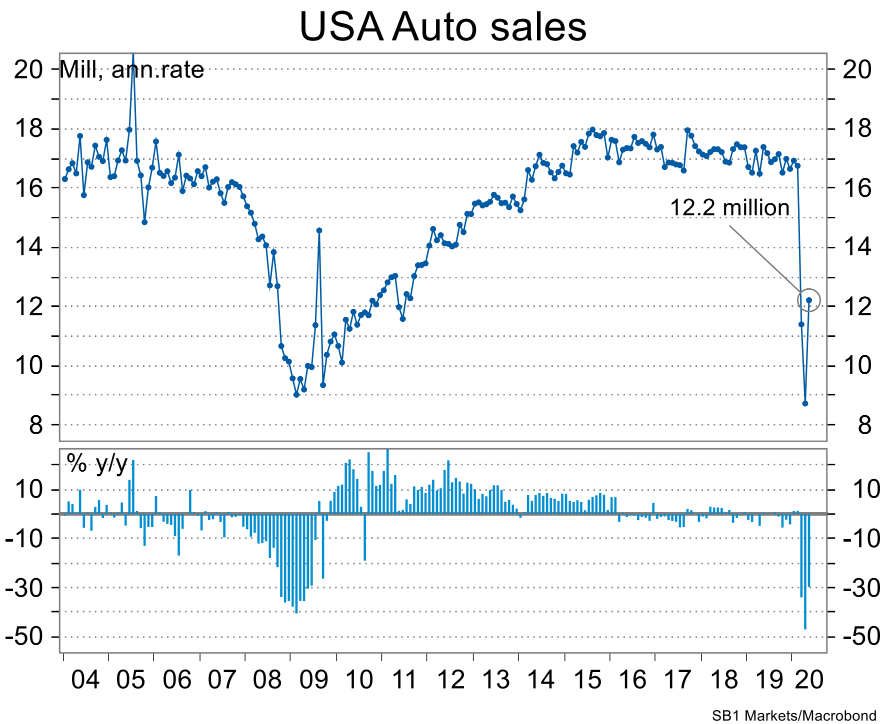
Full stop in many Emerging Markets in April

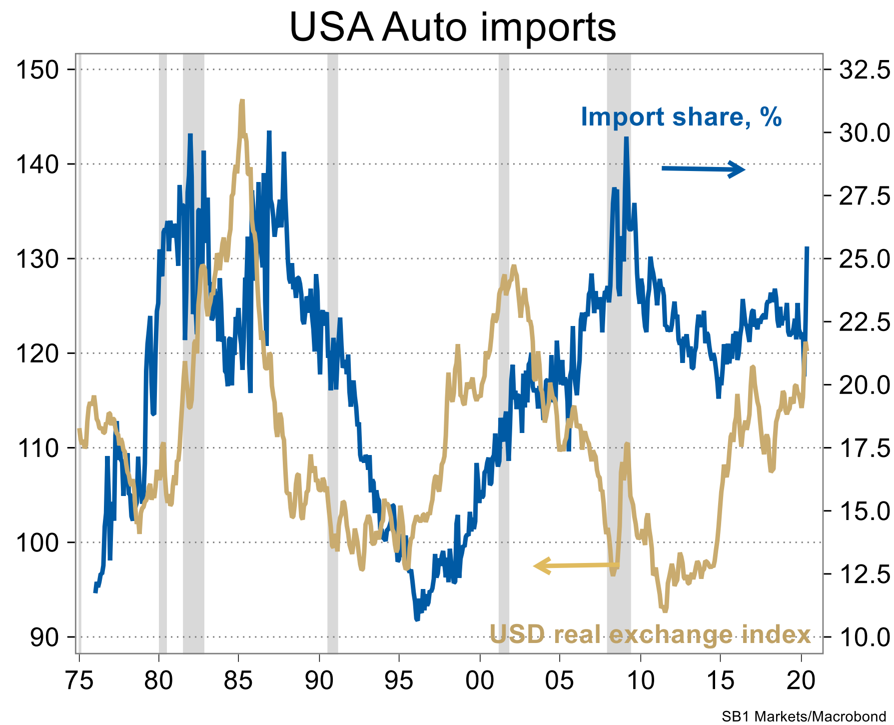
However, Brazil stabilised in May, Russia marginally up – and the sum very likely up



Auto sales recovered 40% of the March/April loss, better than expected

Sales rose to 12.2 mill in May from 8.7 m in March, expected up to 10.8 m. 70% of a normal level

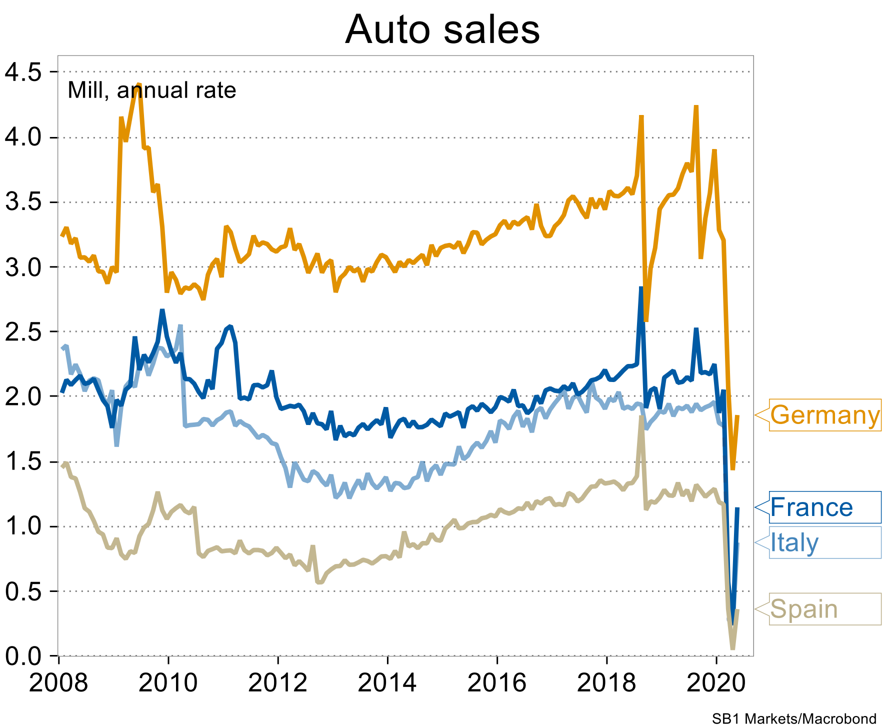


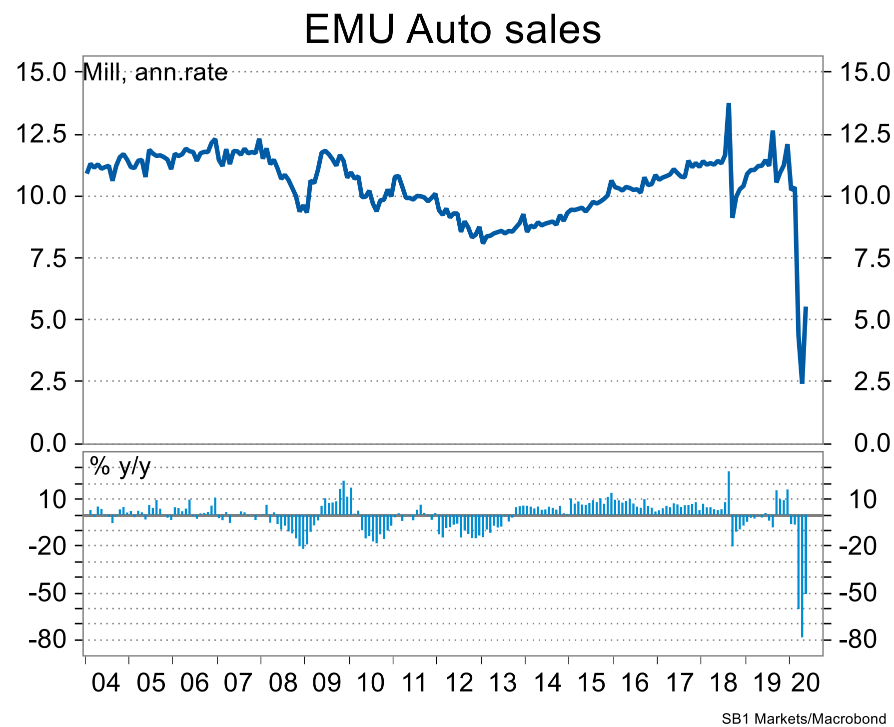


- Sales recovered substantially even if the lockdowns were partially eased

Auto sales up in May but still less than 50% a normal level, even in Germany

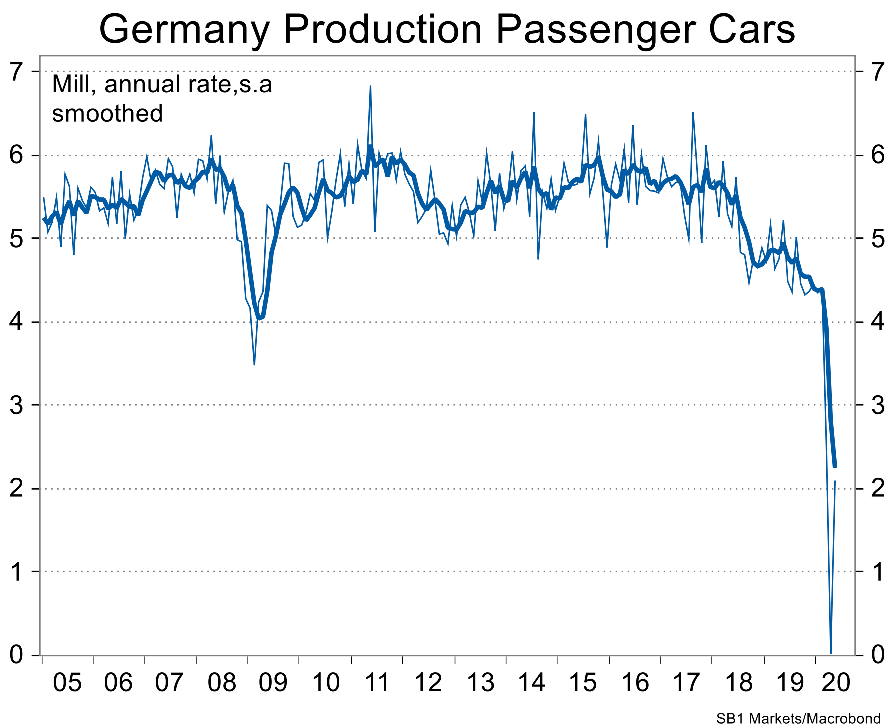
... where the increase in sales was the smallest, in per cent

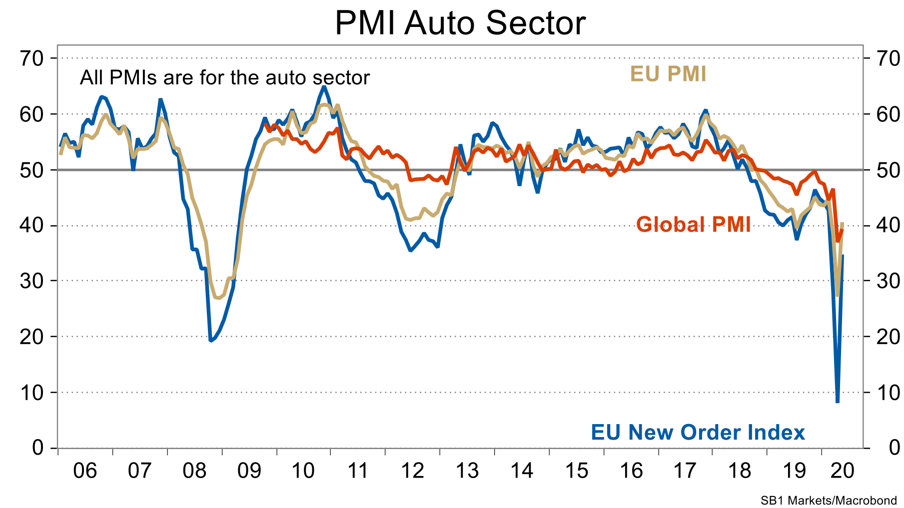




Auto production up from zero in April to >1/3 of normal capacity in May

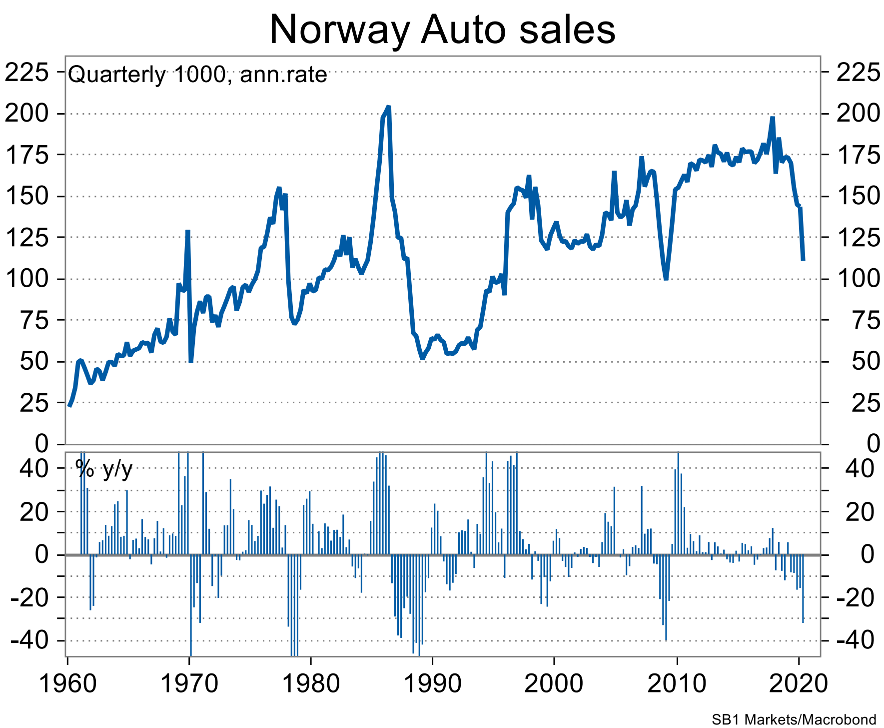
It's a start, at least. The auto sector PMIs recovered in May

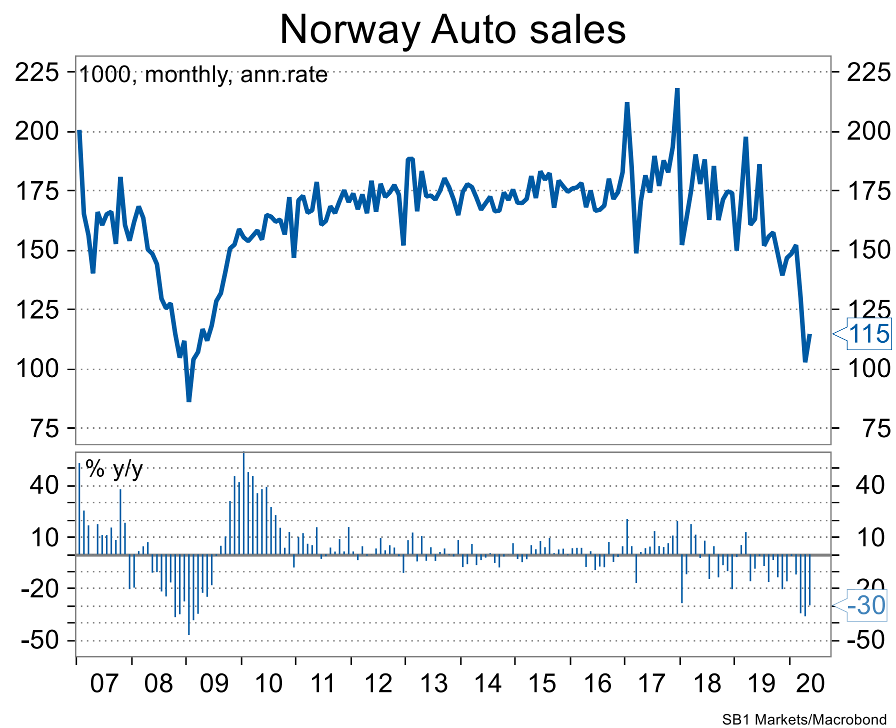




Registrations marginally up in May

Sales up to 115' in May from 103' in April, still down 1/3rd vs normal sales

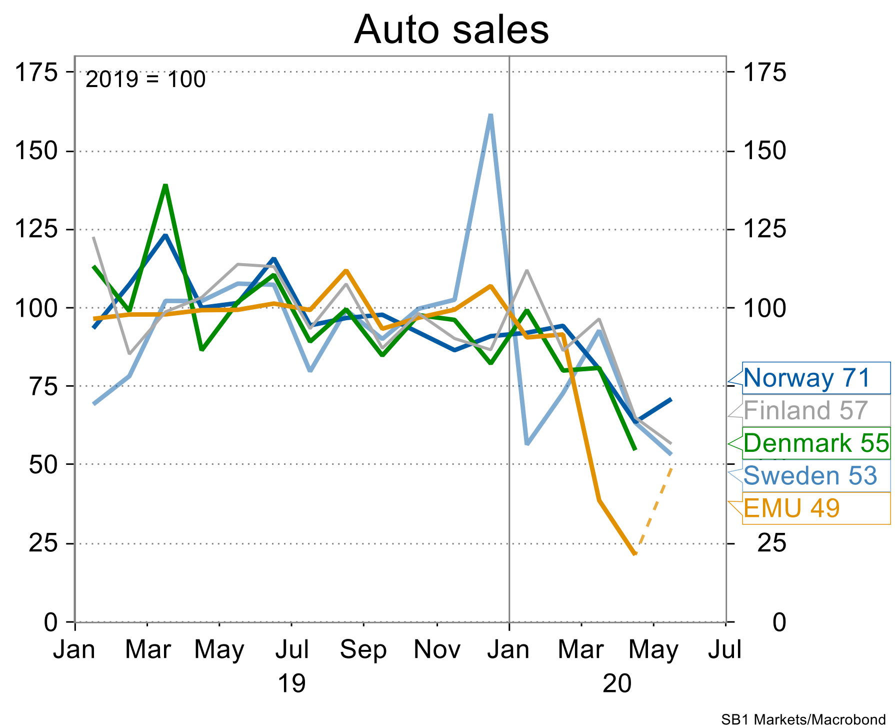




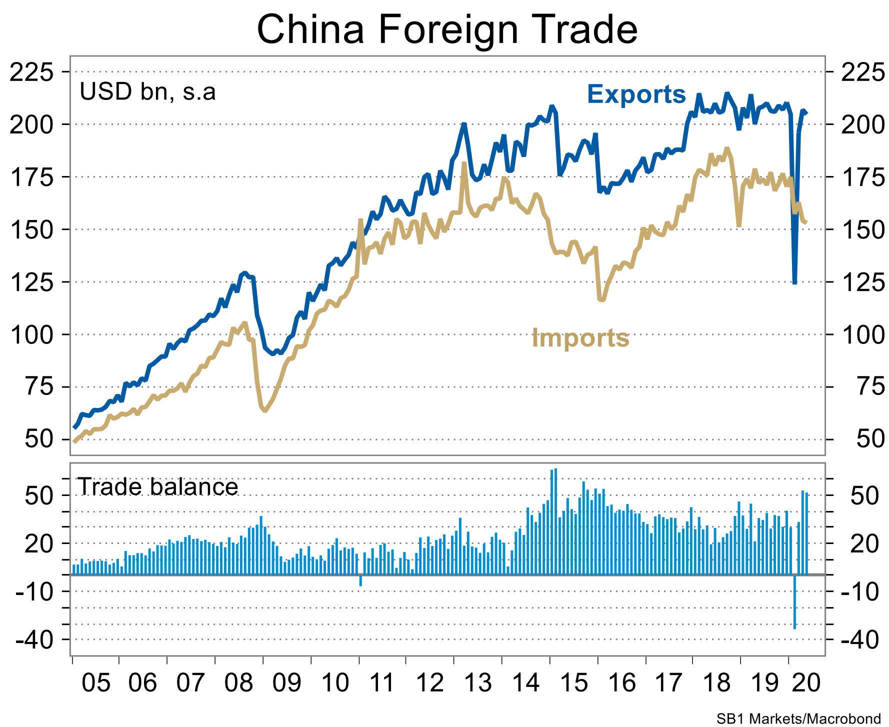
- Sales were on the weak side for several months before the corona crisis hit.

Sales in Finland and Sweden further down in May

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



Exports stable in May, close to record high levels. Imports still on the weak side



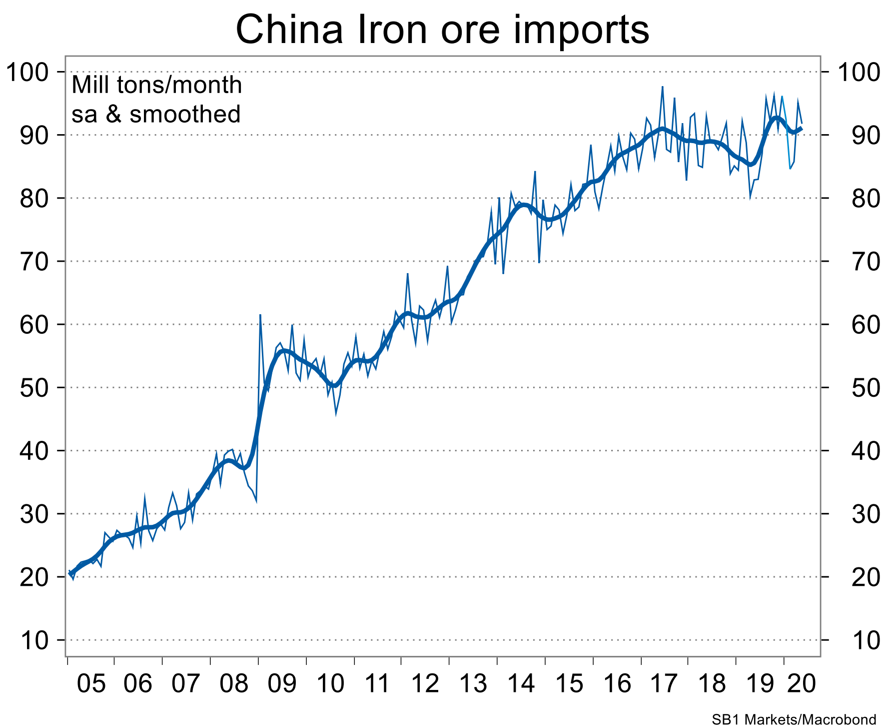
- Exports collapsed during the lockdown in February (-40% m/m) but recovered in March and rose further in April and fell just marginally in May. Exports were 3.3% down y/y, expected -6.5%. In volume terms, exports were close to record high in April/May.
- Imports fell 17% y/y, and were much weaker than expected (-5%), even if the decline m/m was just 1%. Imports are down some 10% since early 2020, of which half is due to lower import prices, and half due to lower volumes. The latter signals weaker Chinese domestic demand
- The trade surplus was USD 50 bn in both April and May, the highest in 5 year! Still, the outlook is uncertain. Export surveys nosedived to very low level in April and were still very low in May

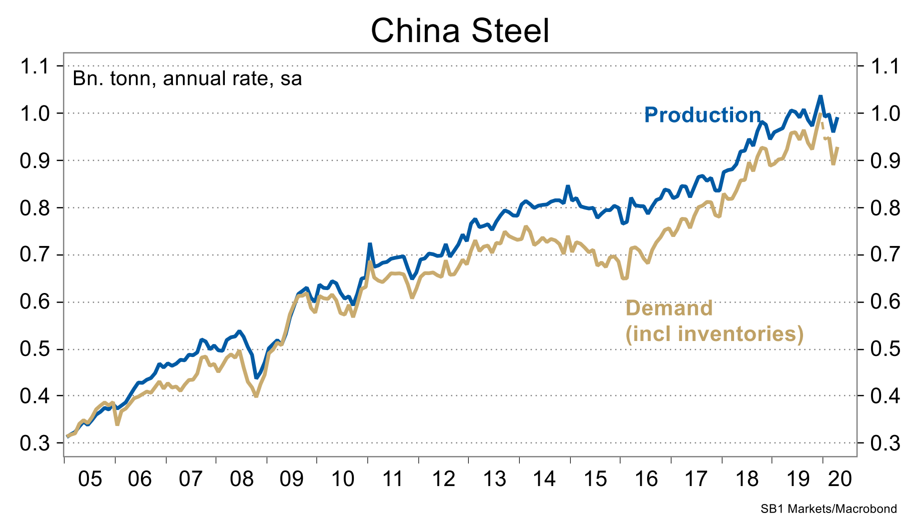
Export surveys signal weaker exports

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

Iron ore imports still going strong, corona impact just in May

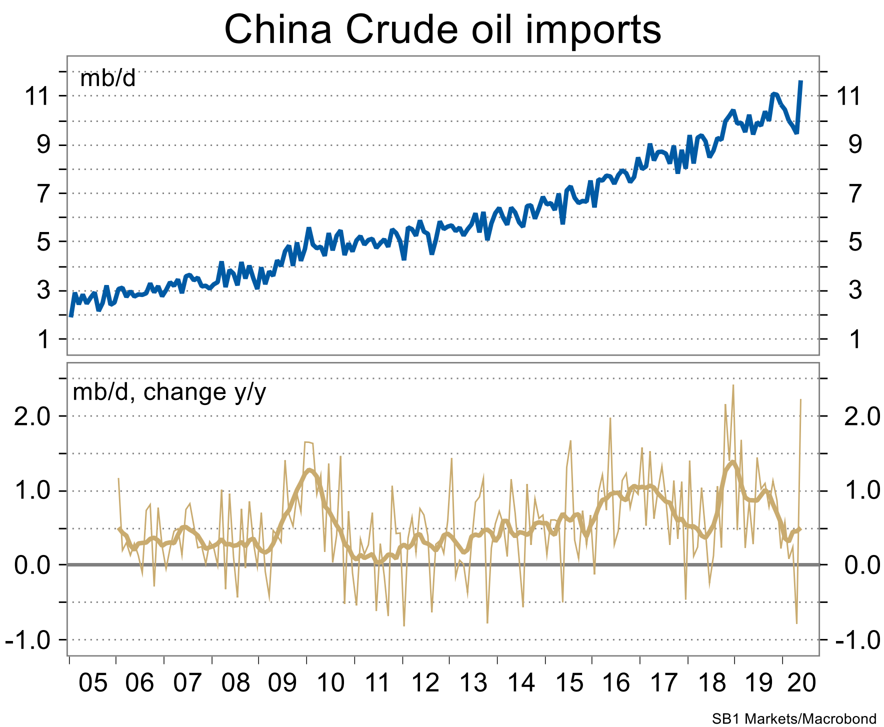
However, steel production and domestic demand has flattened

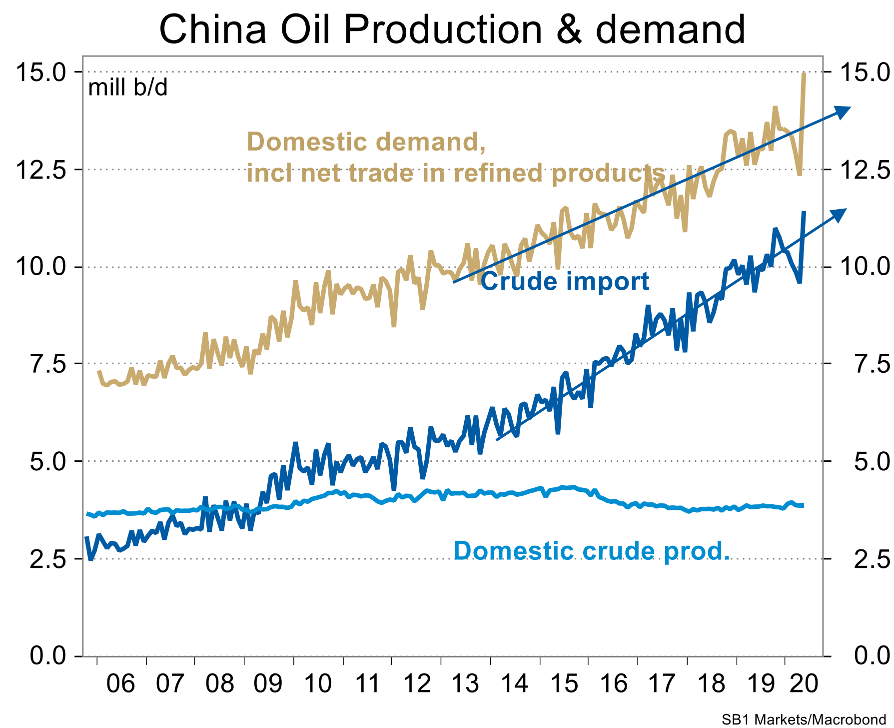




SpareBank 1 MARKETS

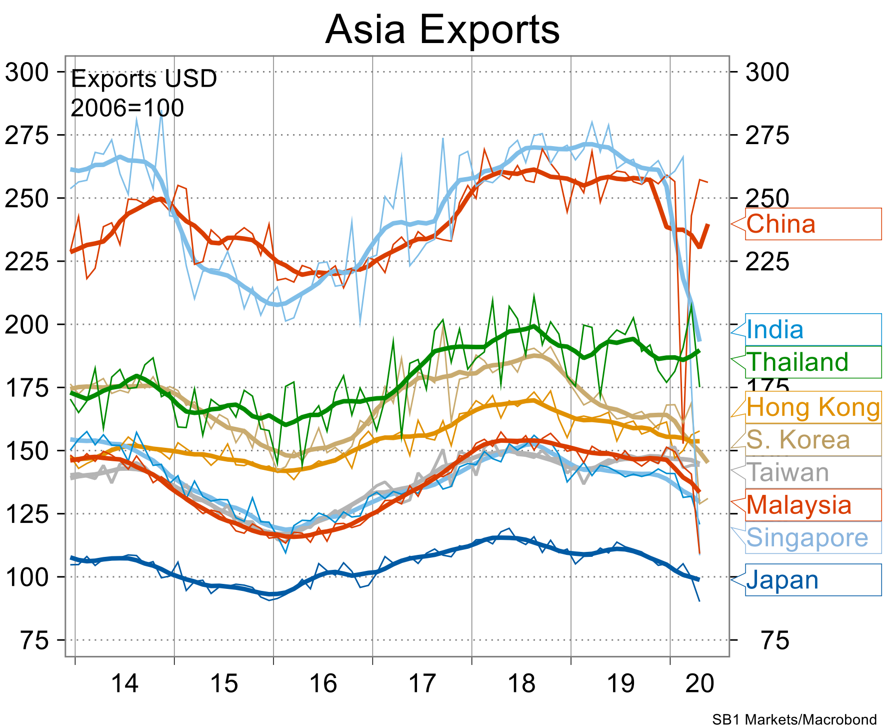
Oil imports straight up in May, strategic stocks filled up with cheap oil?

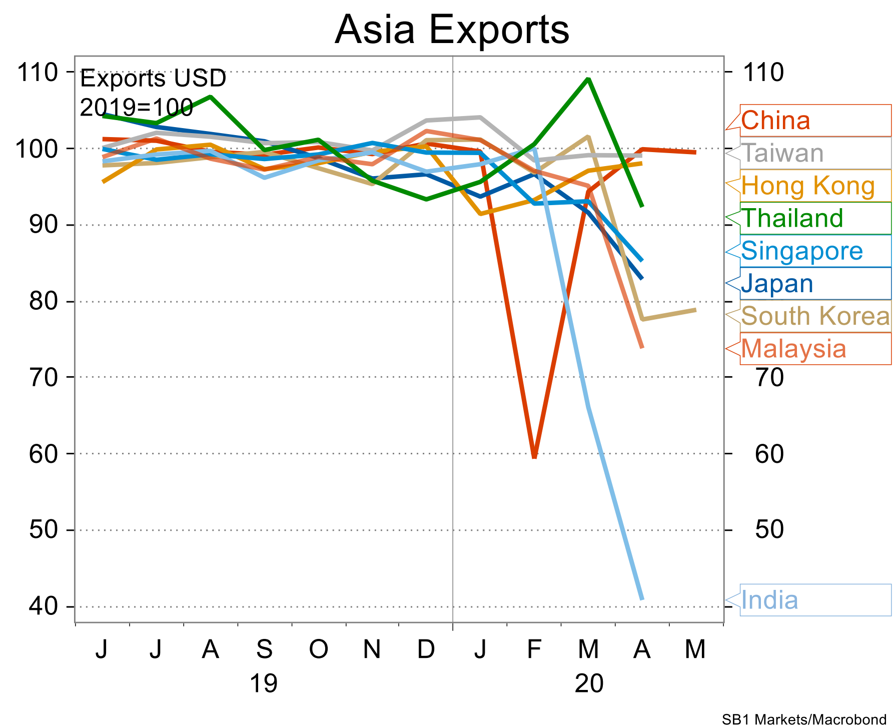




SpareBank 1 MARKETS

Not many bright trade spots in rest of Asia, South Korea down 20%, India 60%



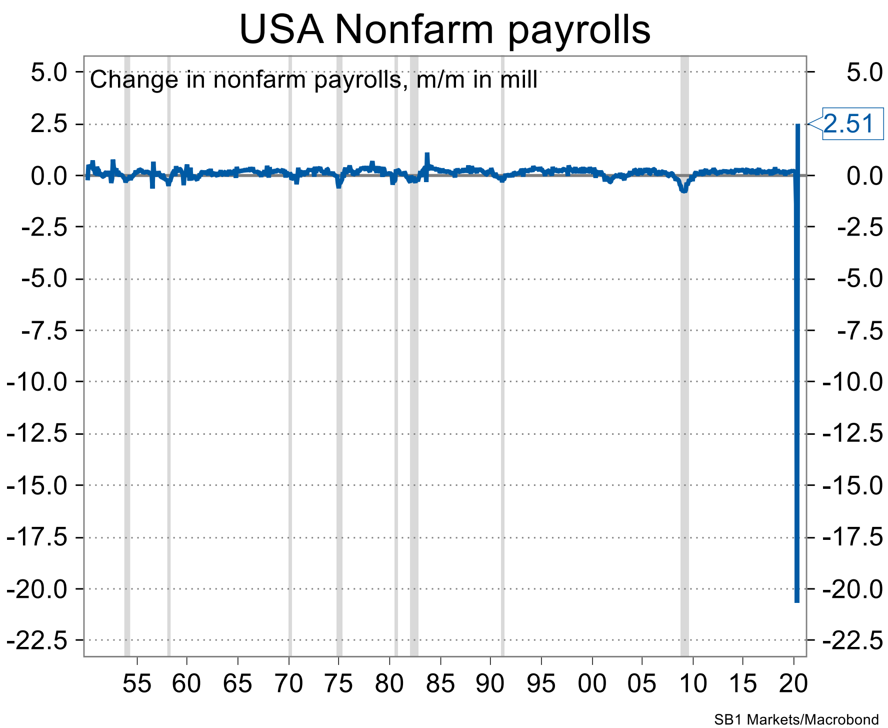


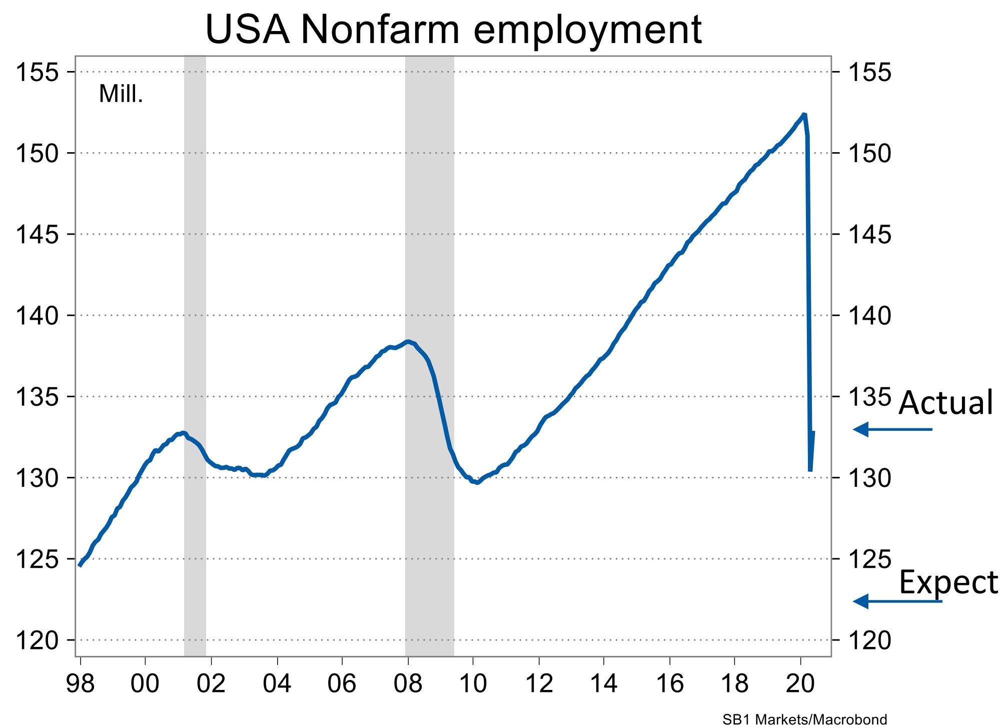
South Korea took a beating in April, and did not recover in May

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

The USA labour market: Employment up 2.5 mill, not down 8! WTF…

We thought the -8 mill f'cast was far too pessimistic, but didn't expect +2.5 mill. Unempl. -1.4 to 13.3

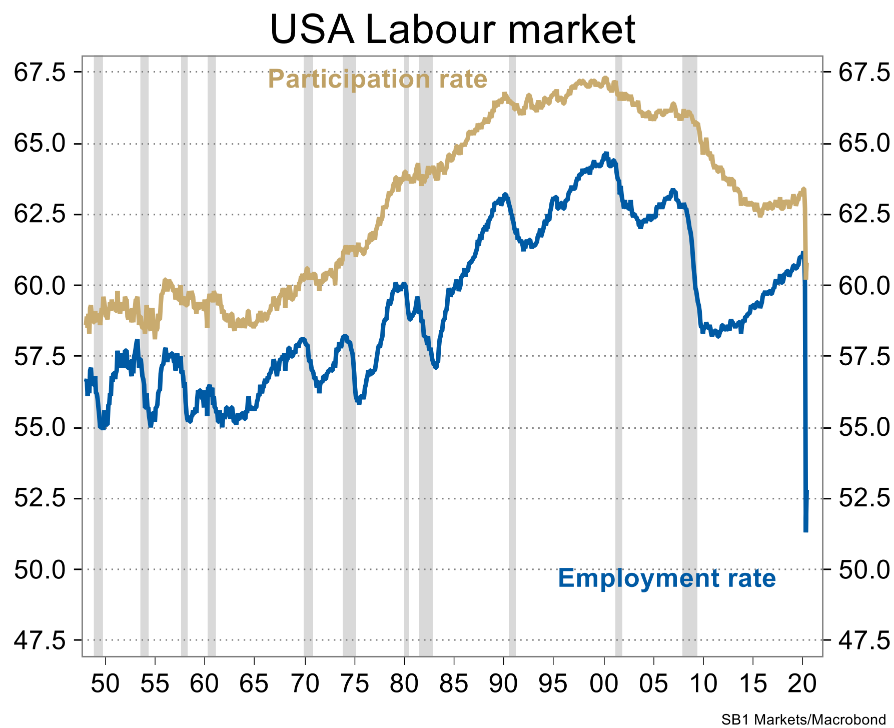


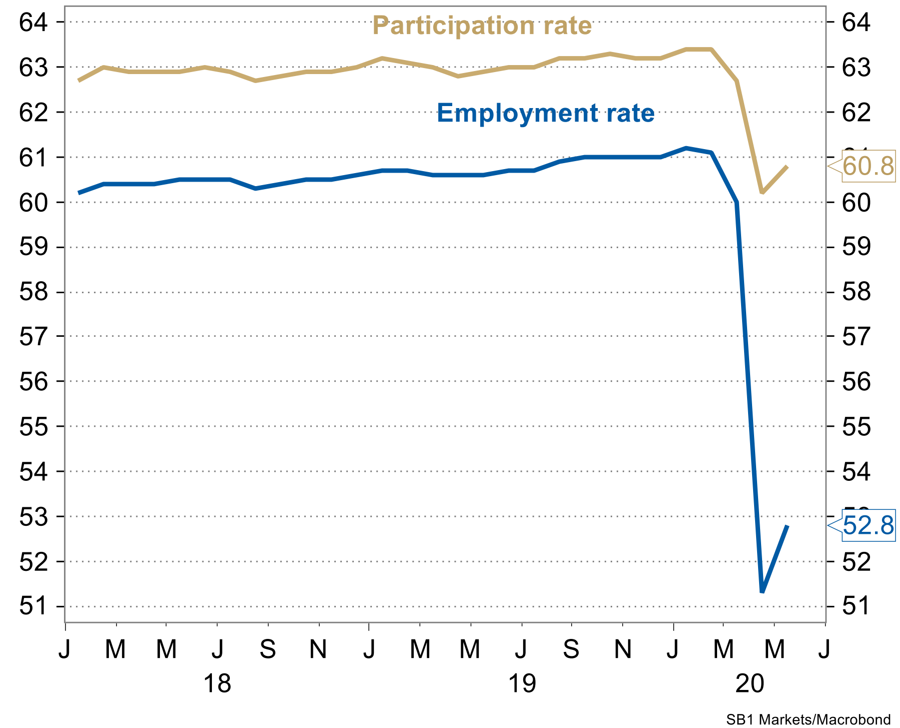


- **Employment** rose by 2.5 mill (1.9%) in May, expected down 8 mill, following the 20.7 mill catastrophe in March, according to the non farm payroll report. The turnaround was confirmed by the household survey. Hours worked
- **Unemployment** fell by 1.4 pp to 13.3, expected up to almost 20%!
- **But, but:** Even if the participation rate rose by 0.6 pp in April, it is down 4% from February. The 'real' unemployment rate is 4 pp higher vs. the pre corona participation rate. In addition 3% of the employed is classified as employed, even if they should have been grouped as unemployed. Add on underemployed, we are at a real unemployment rate at 28%
- **The average wage** has exploded in March/April but that is just to a change in the mix of the employment and other technicalities. So don't worry

Employment is even lower than reported, unemployment much higher

The real unemployment twice as high as the official rate?

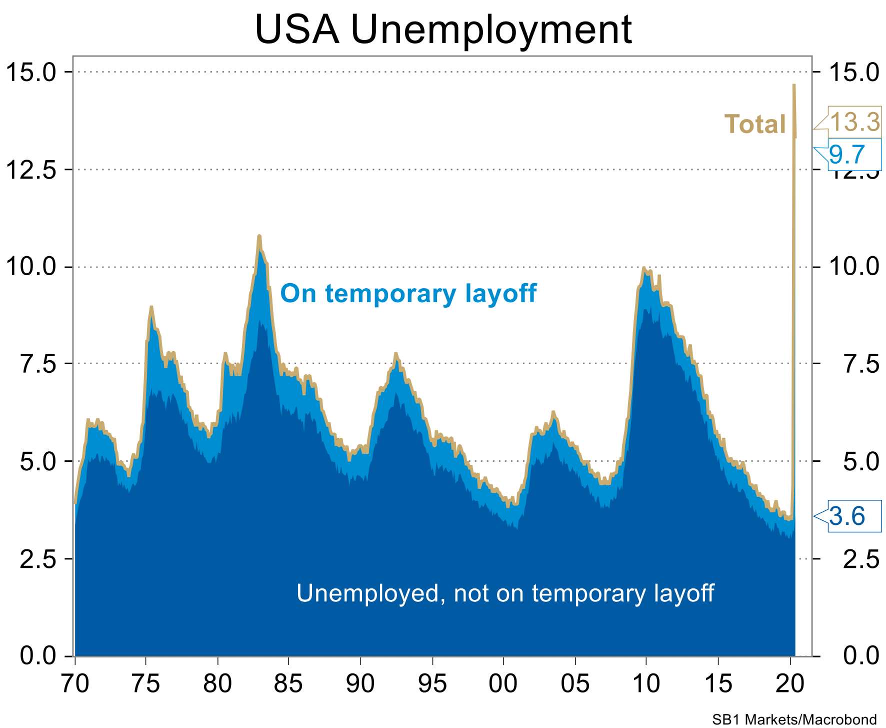




- **The labour force participation rate**, the supply side at the labour market, rose 0.6 pp to 60.8%, still way down from 63.4 in February. This withdrawal is just because there were no jobs available and the unemployed did not search actively (they were discouraged). The contribution to the unemployment rate equals 4 pp (down from 5 pp in April)!
- There are still many who wrongfully report that they are employed even if they are absent for work. Due to established practice, they are still counted as employed. If these 5 mill. were counted as unemployed, the unemployment rate would have been 3 pp higher, than the official rate (down from 5 pp extra in May)
- If 'ordinary' discouraged workers, and those on unwanted part-time work, are added, an additional 8% of the labour force is under- or unemployed (from normally 3-4%) Thus the 'real' unemployment rate is 13.3+4+3+8=28.3%

Some temporary laid off are returning to work

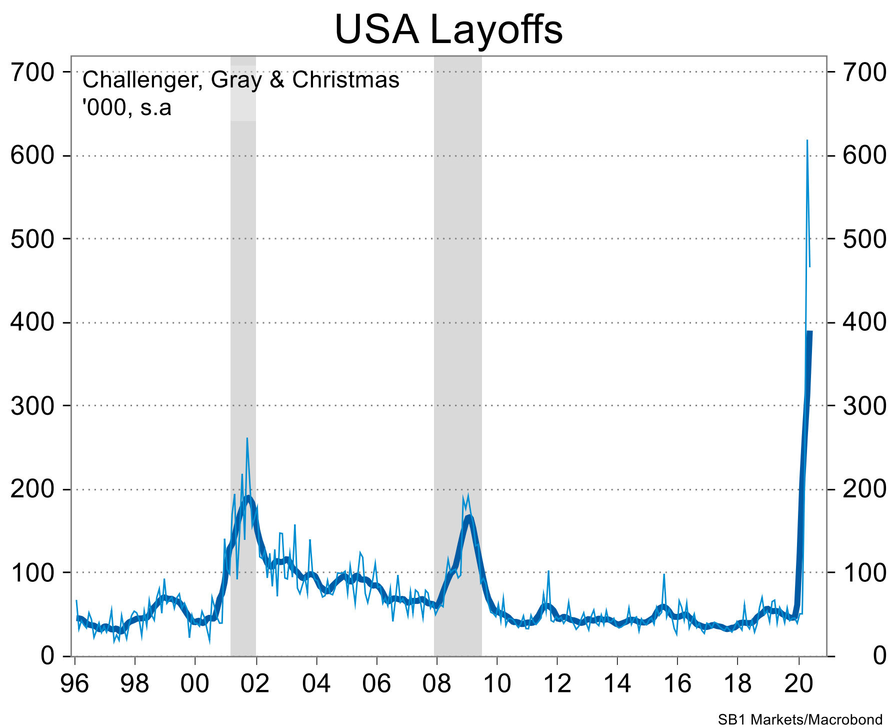
Unemployment ex temporary laid off has just increased to 3.6% from 3% in Feb, though +0.4 pp in Apr

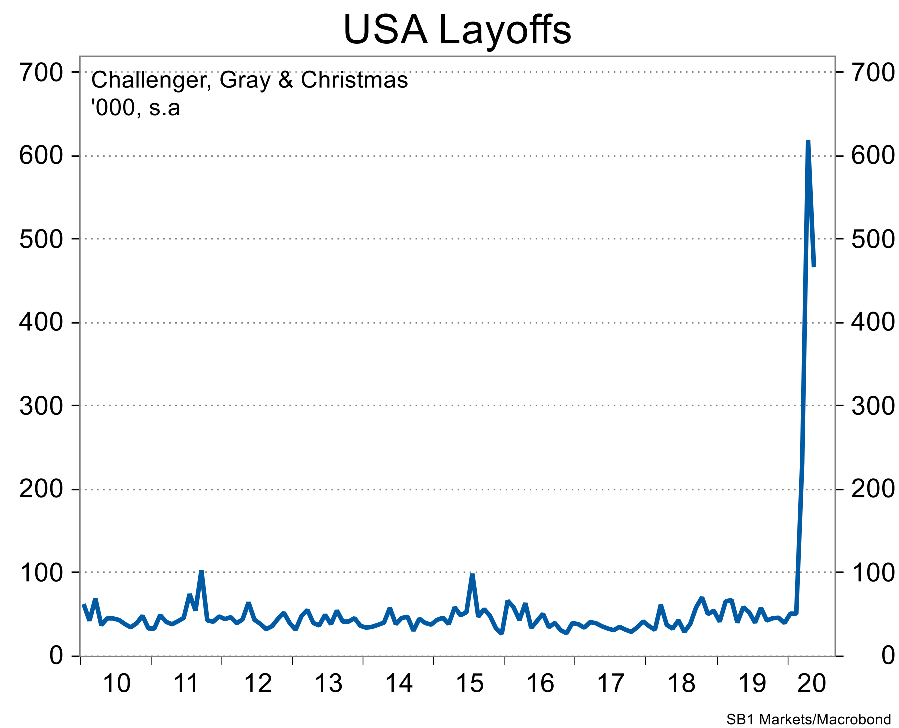


- In March, 11.5 pp of the 14.7% unemployment rate was due to temporary layoffs. In April, the temporary laid off rate had fallen to 9.7%, as 15% of the temporary laid off returned to work (calculated as at net rate, no doubt many persons were furloughed in May too)

Steep rise in number of layoffs, of course

Permanent layoffs have soared to levels never seed, and was still very high in May

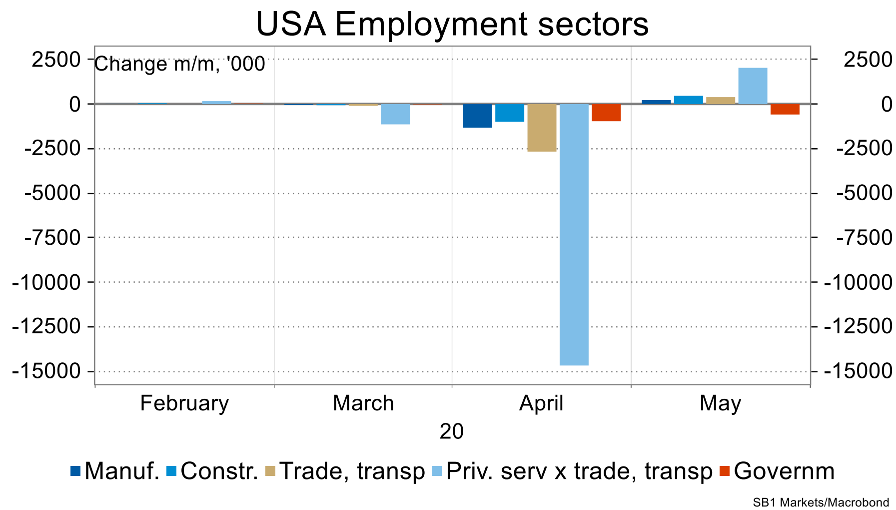


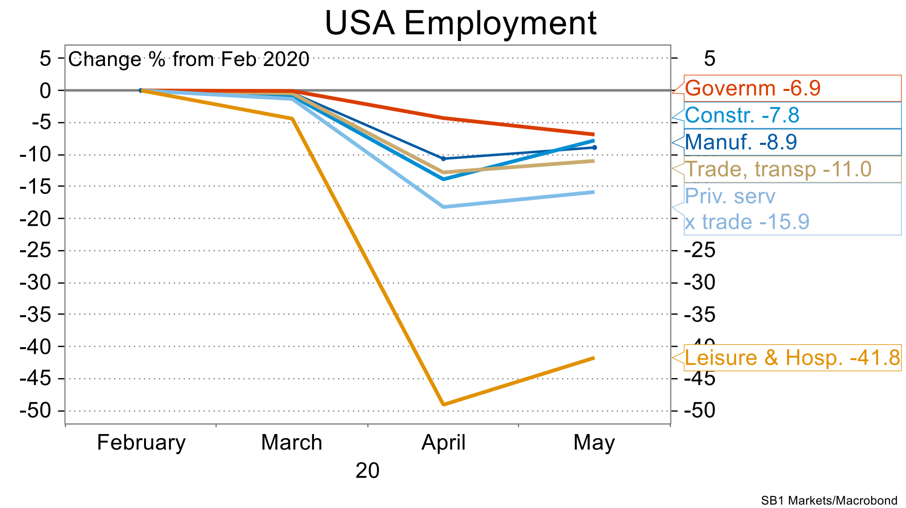


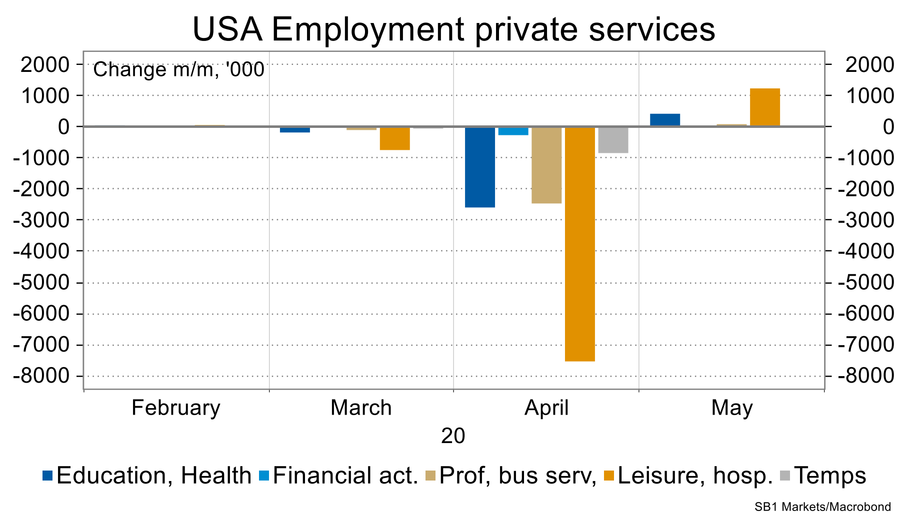
- The number of announced permanent layoffs jumped to above 600’ in April, and fell just to 460’ in May, still way above anything we have seen before - which has been 200’ at the worst of times

All private sectors flat or up but government further down in April

Hotels & restaurant +1.1 mill after the 8.1 mill setback in March/April

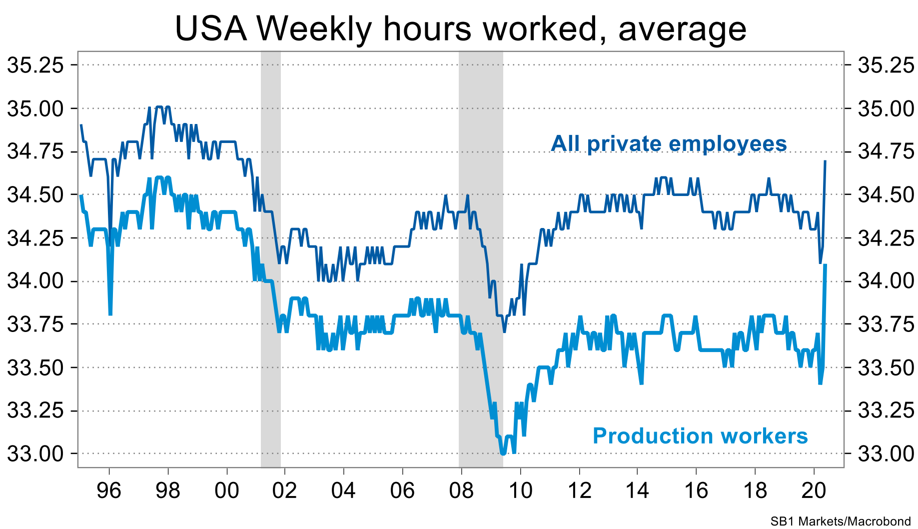


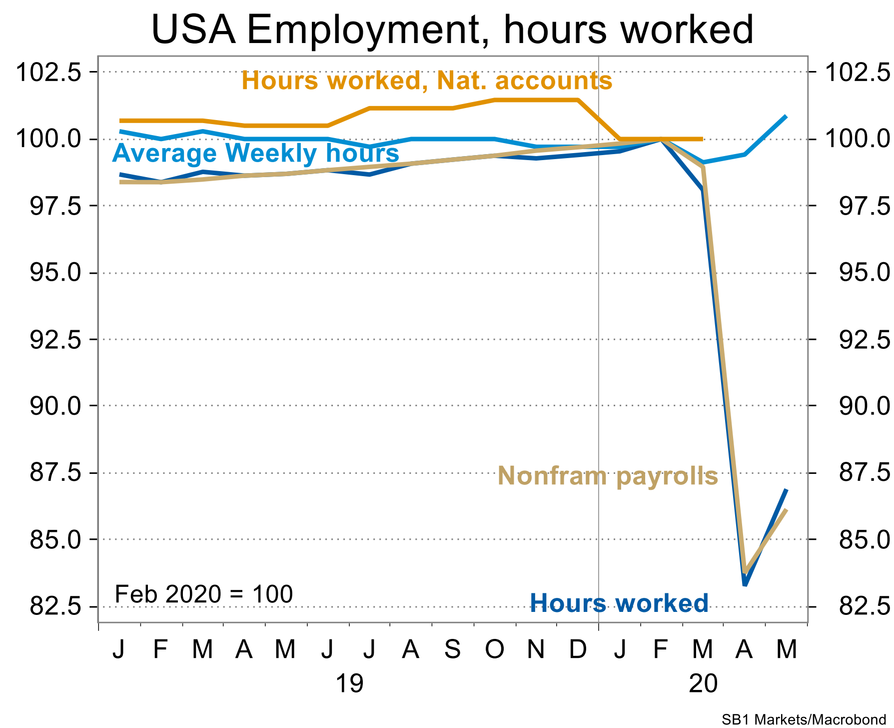




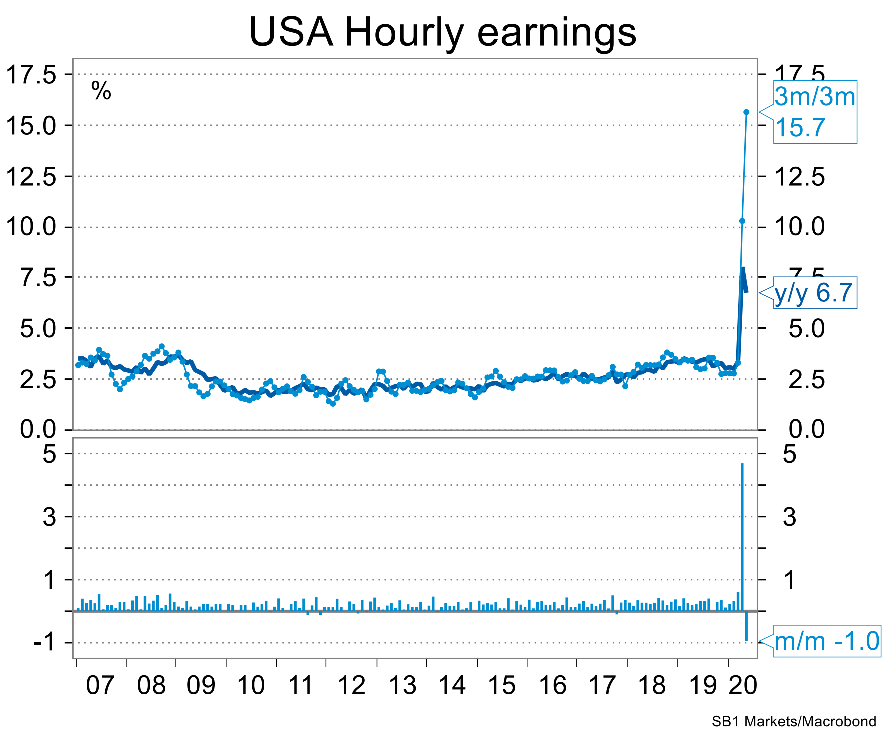
- Employment grew in all main private sectors, most in leisure/hospitality and construction, as well as trade an manufacturing
- The employment level is of course miles below normal

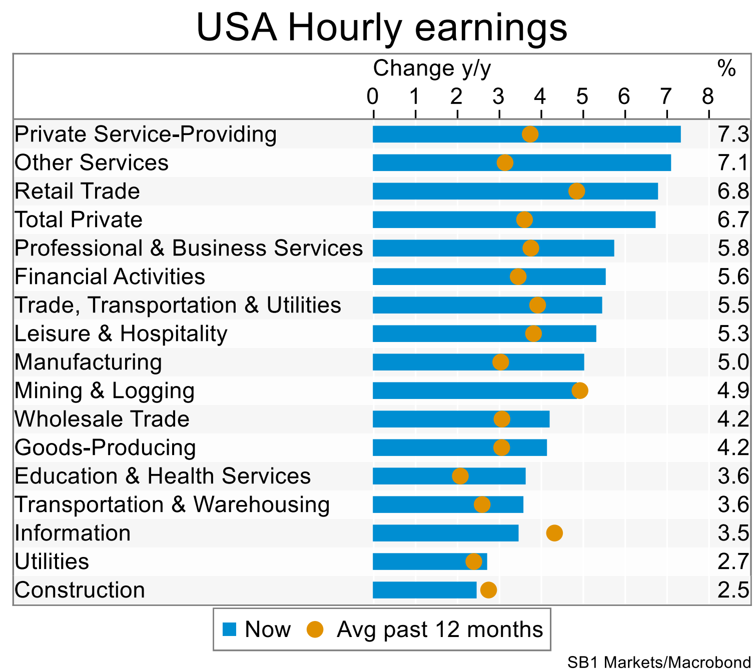
More hours worked in May but still a long way back





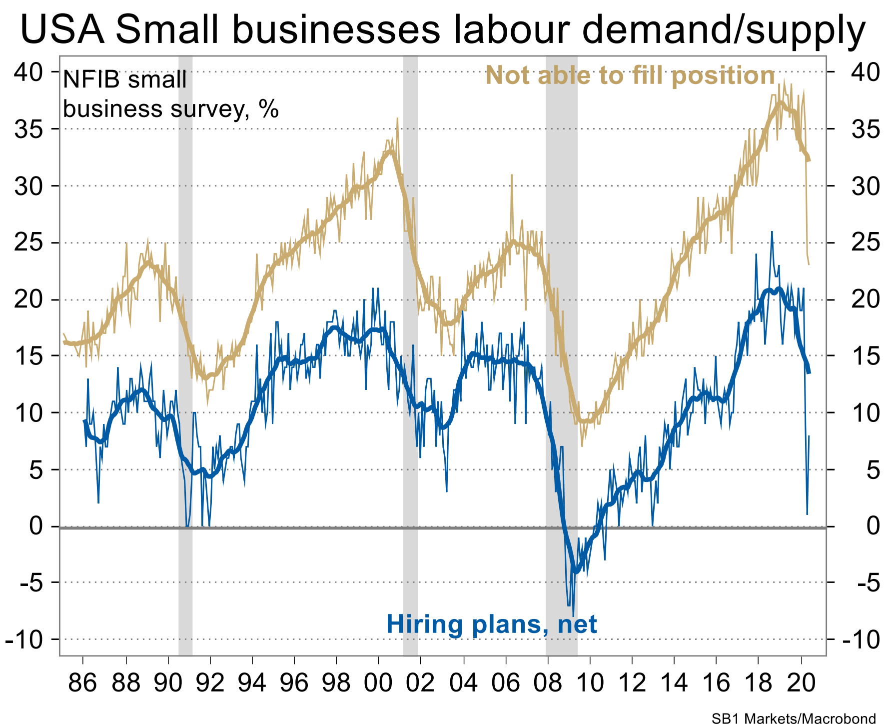
Average wages have skyrocketed, but just because the lowest paid are laid off

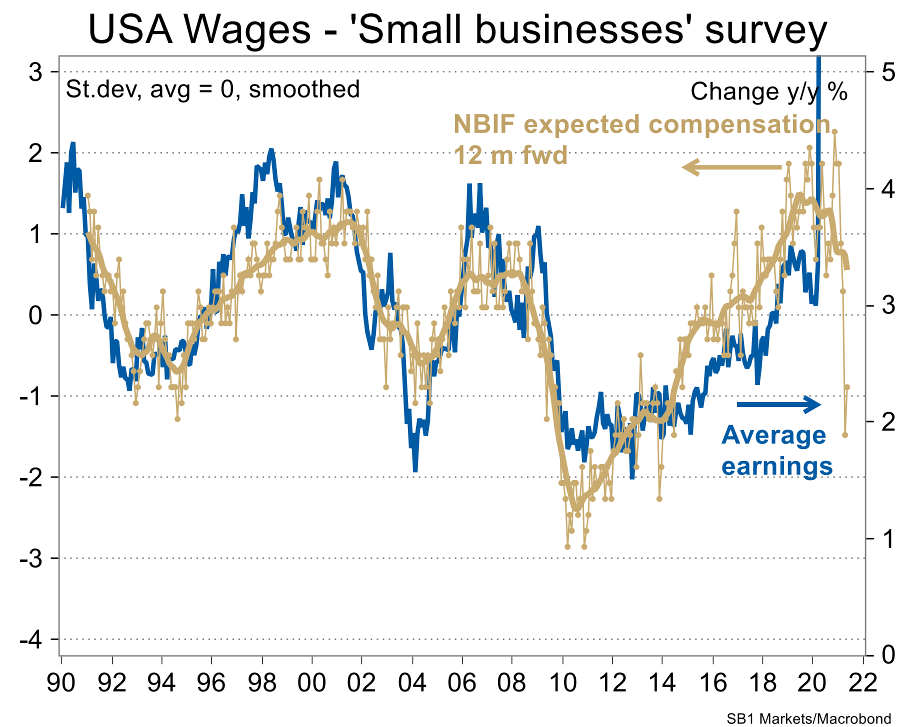




Small companies adjusted their hiring plans UP in May, but do not plan to pay

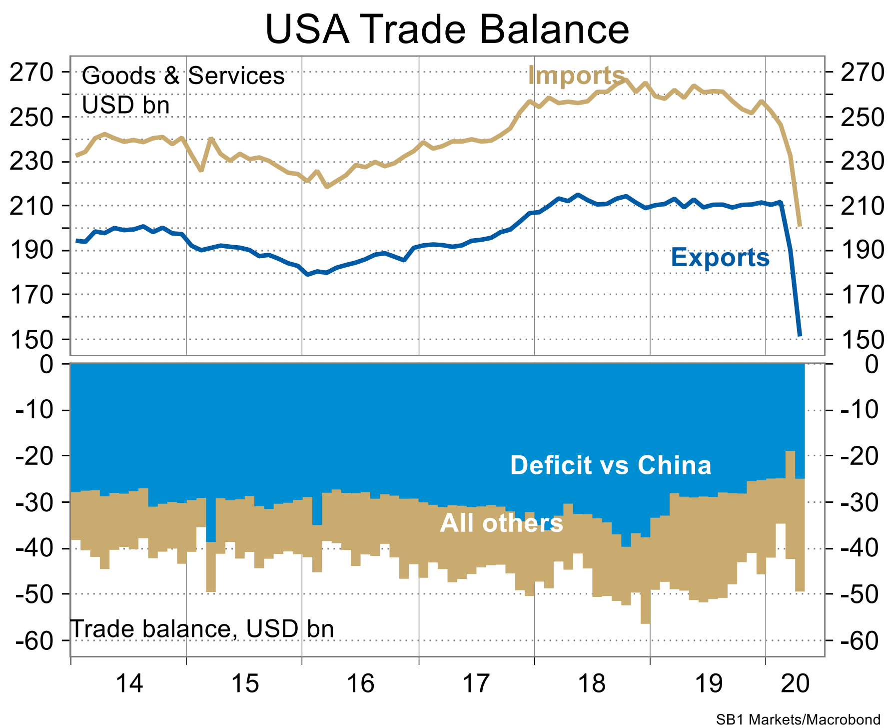
.. And the net hiring index never fell below zero, quite impressive. Pay expectations still low

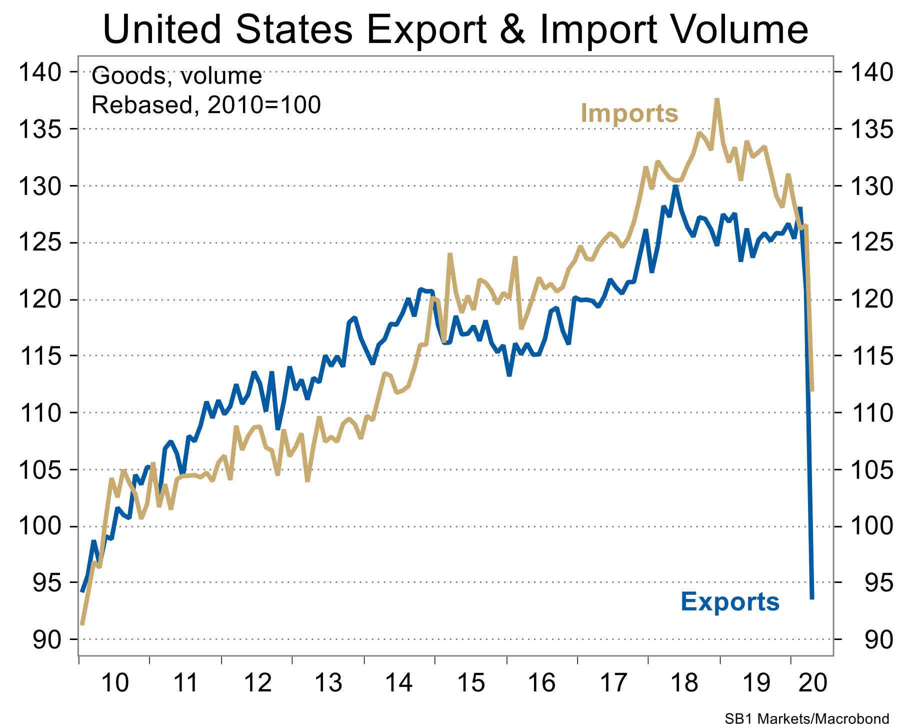




The trade deficit widens during the Covid crisis – exports disappeared in April

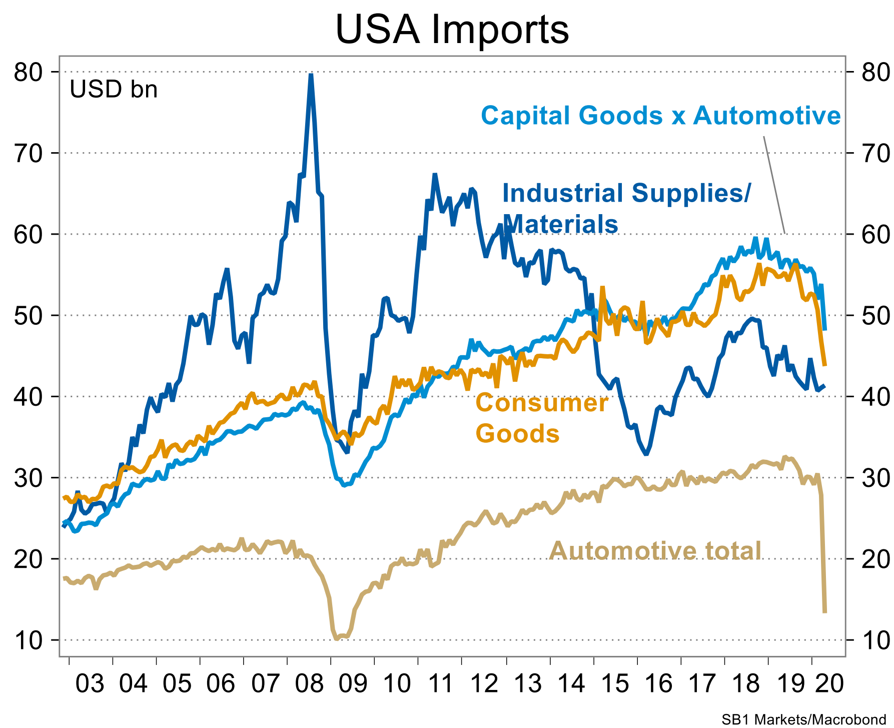
Export volumes are down 27% to April from Feb, imports just 12%, the trade deficit up to USD 50 bn

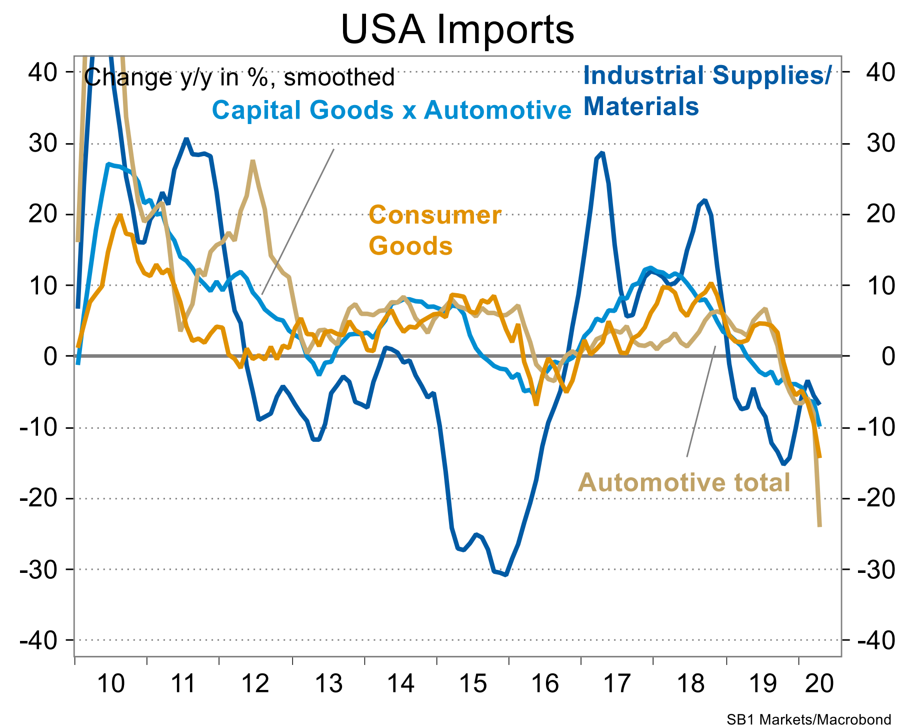




- The overall trade deficit of goods & services rose to 49 bn in April, up from 42 in March and 37 in February
  - In April, exports of goods and services fell 21% in April – export volumes of goods by 27%. Import fell 14%, and import volumes (goods) by 13%
  - If trade data are not dramatically changes in May and June the trade will subtract substantially from Q2 growth – like so many other elements…
  - We expect both exports and imports to start recovering in May

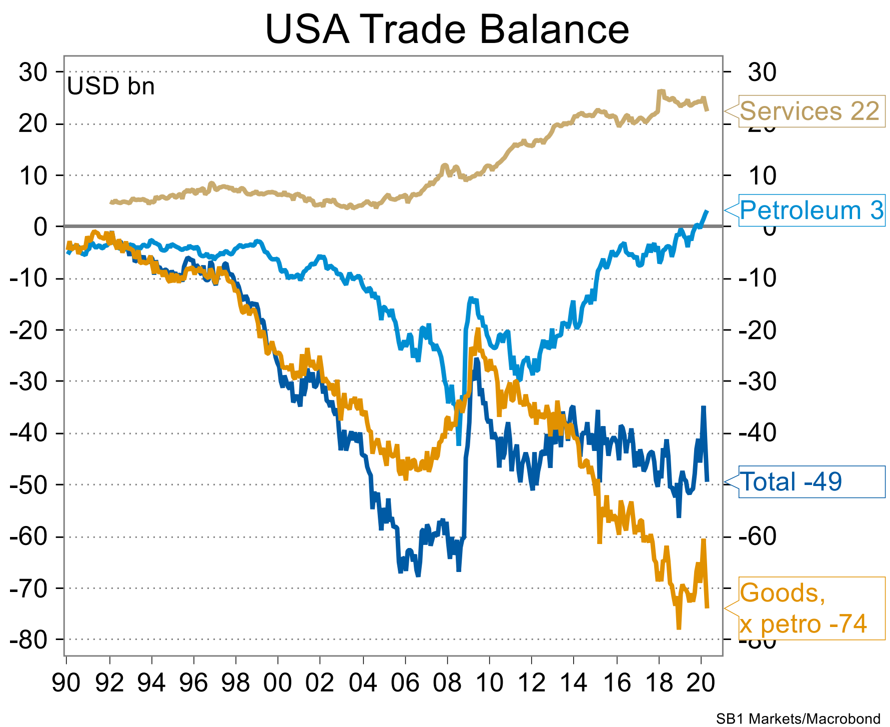
Imports of industrial supplies kept up well. But that's all

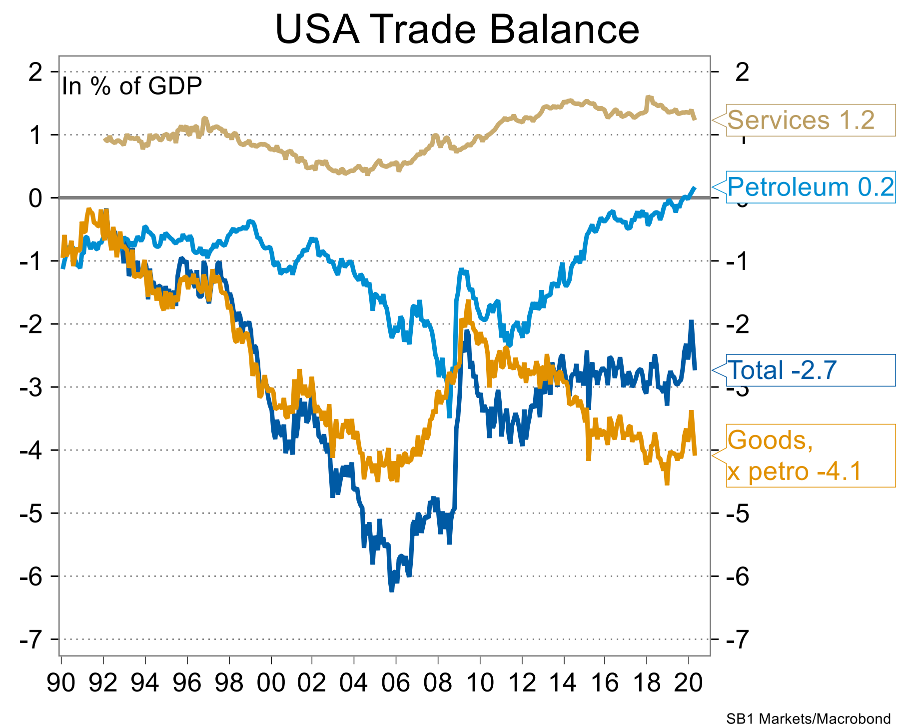




US is no longer running a deficit in petroleum; massively in other goods sectors

The goods deficit ex petroleum is shrinking but remains high, even in % of GDP, at 4%

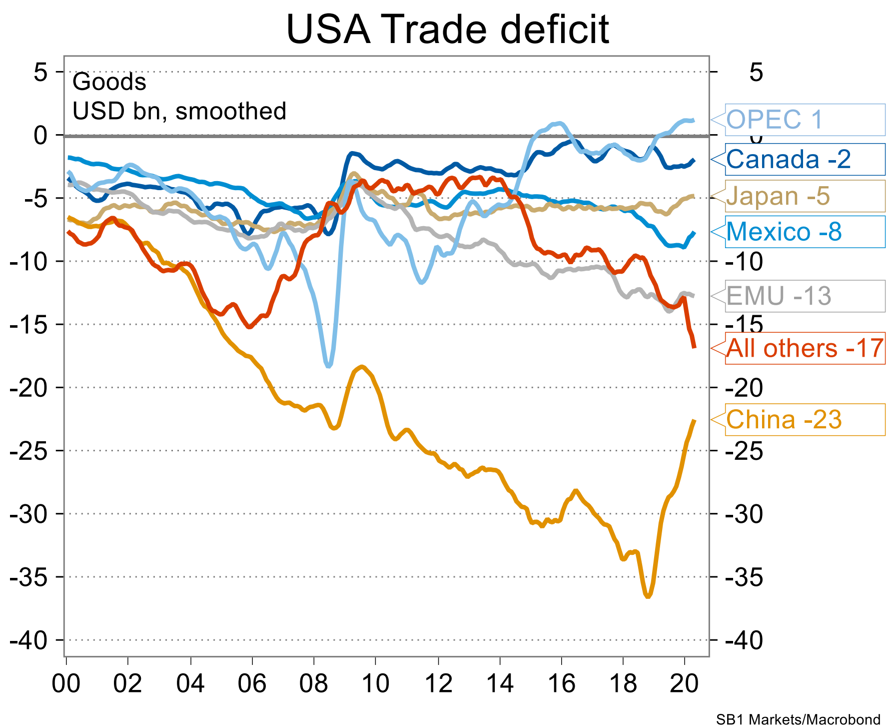


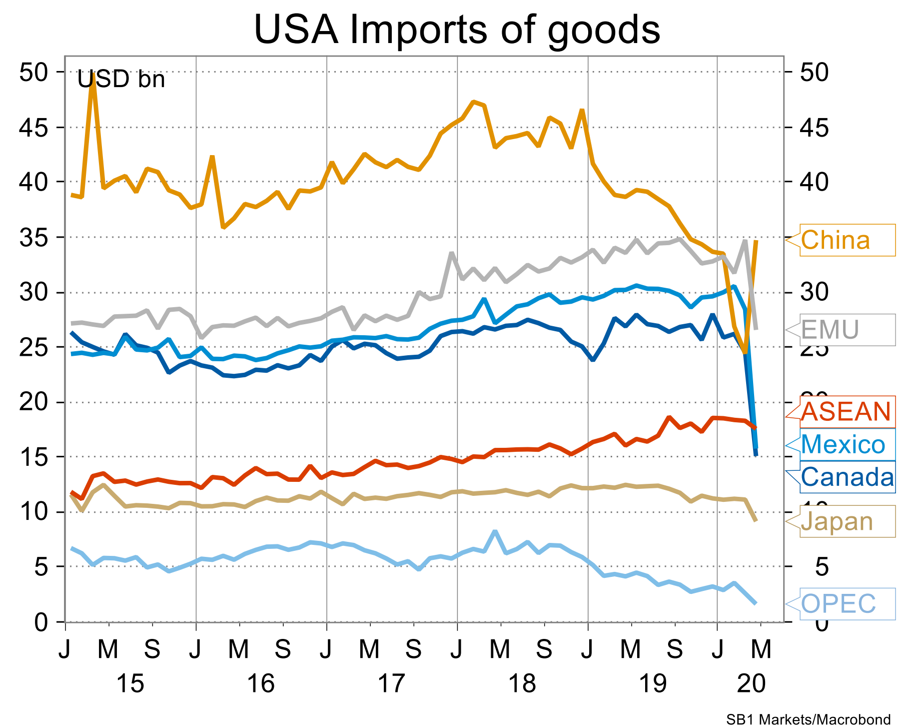


- In April, the goods x petro products deficit fell to USD -74 bn, or 4.1% of GDP. This part of the trade deficit is close to record high
- The petroleum trade deficit has turned into a surplus, to +3 bn from -30 bn/m in 2012
- The US is having a surplus in services at USD 22 bn, equalling 1.2 of GDP, trending marginally down

Huge disruptions, both on the supply and demand side

When the fog lifts, we are probably more or less back to where we came from…

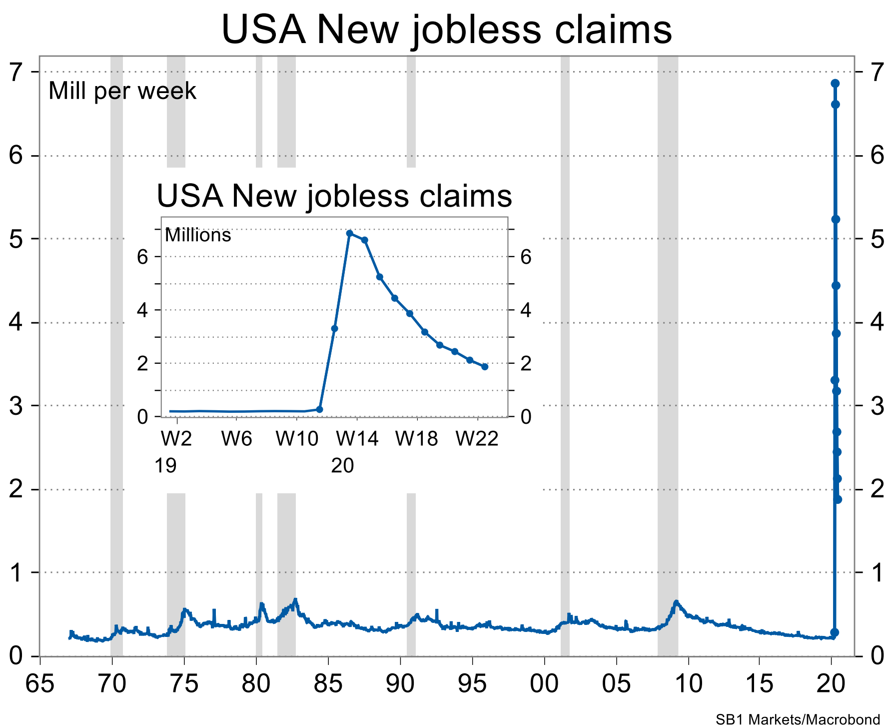


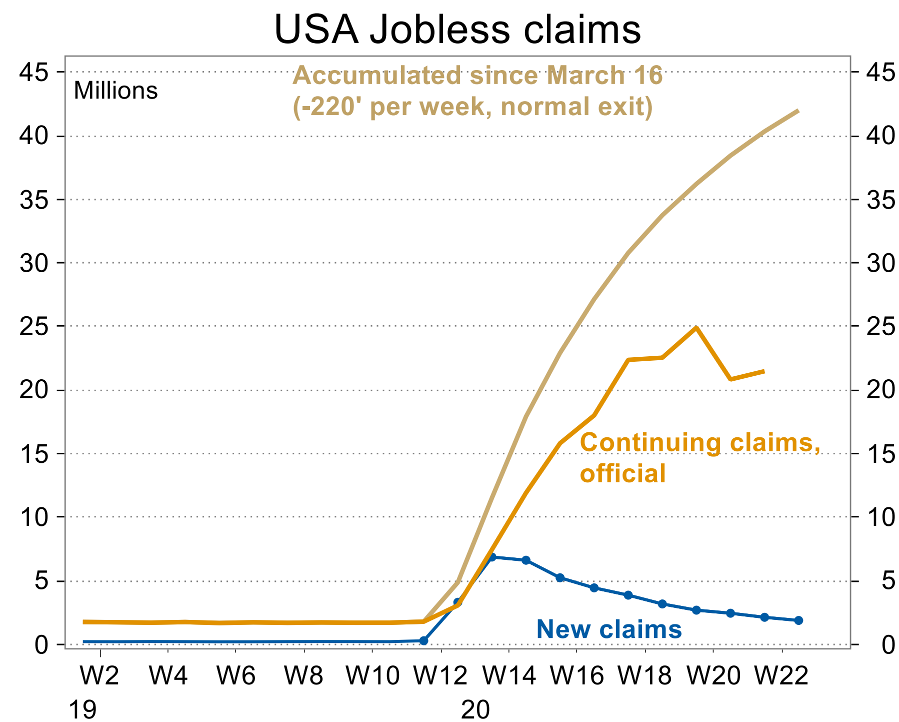


- But imports from China will probably be under pressure given the escalation of all sorts of wars between the US and China

'Just' 1.9 mill new unemployed last week, the sum up 43 mill past 10 weeks

But many of the temporary laid off has returned to their jobs

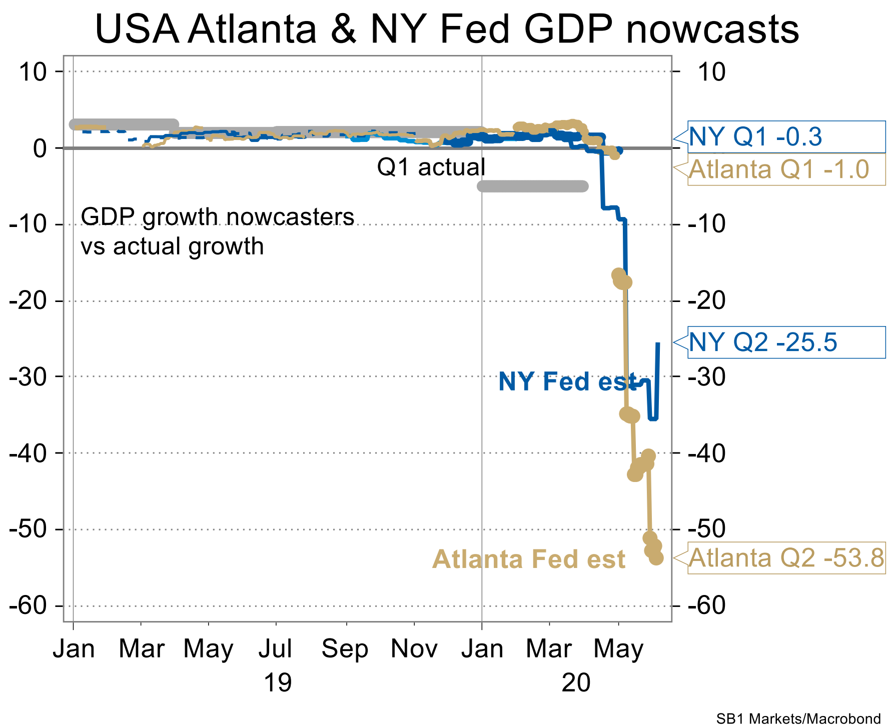


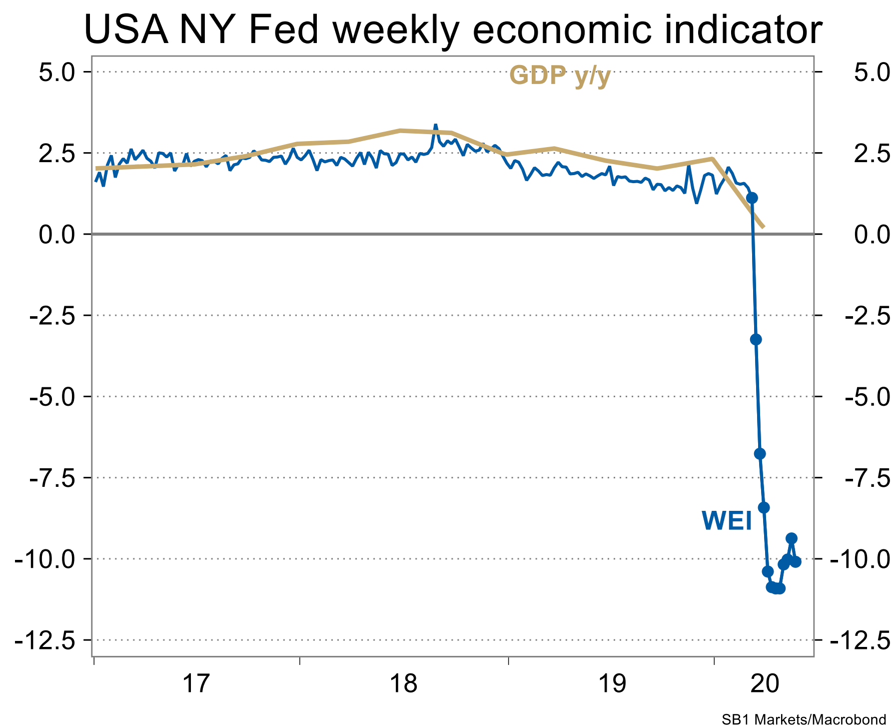


- The inflow is abating, but still 1.1 % of the labour force is entering the labour market offices each week!
- Continued claims rose 1 mill to 22 mill (13.3%) the previous week – and the number has been heading down recent weeks – just as the official unemployment number in the May report headed down

Nowcasters do not agree: -25% or -50% (annualised) in Q2?

A more relevant figure: A 10% decline in the GDP level seems likely

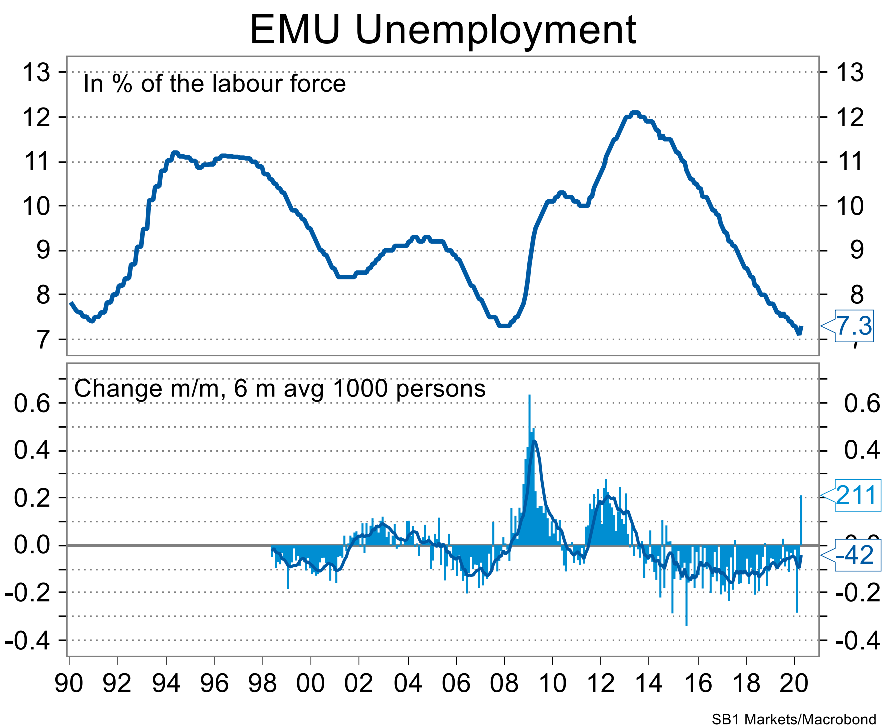


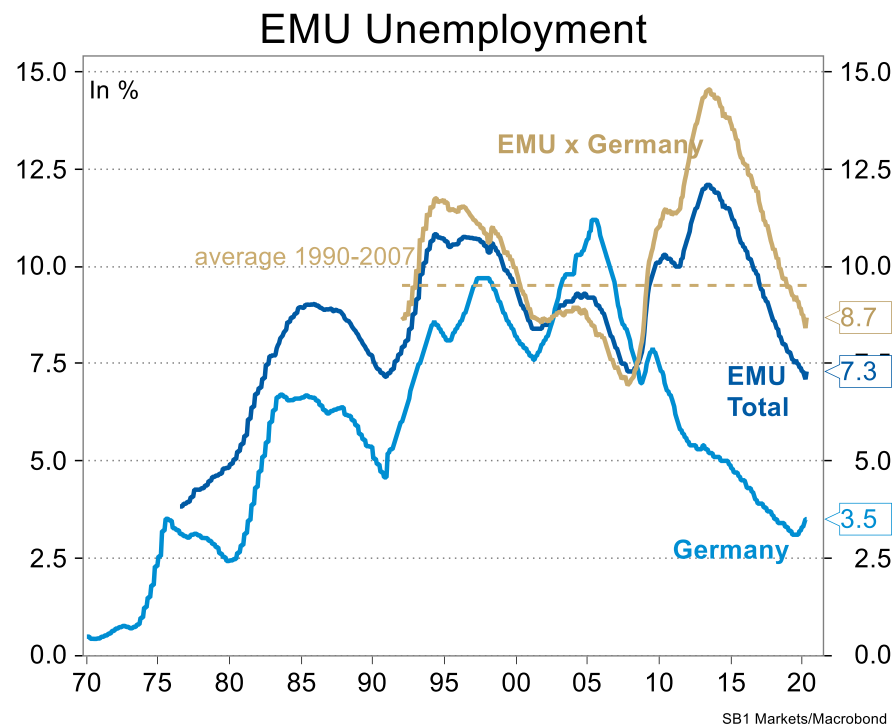


- The ‘old’ nowcasters from NY & Atlanta Fed report a 26 – 54 % decline q/q, in (absurd) annualised terms – equalling a 7 – 16% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 8 – 17% vs the Q4 level. 17% seems to be too aggressive (but not impossible)
- The NY Fed’s weekly economic indicator reports 10% y/y decline, implying a 11 – 12% decline for the level in early 2020. The deceleration has clearly slowed past two weeks

Unemployment stats troublesome for some months, regrettably

Unemployment just marginally up in April but the reality is worse

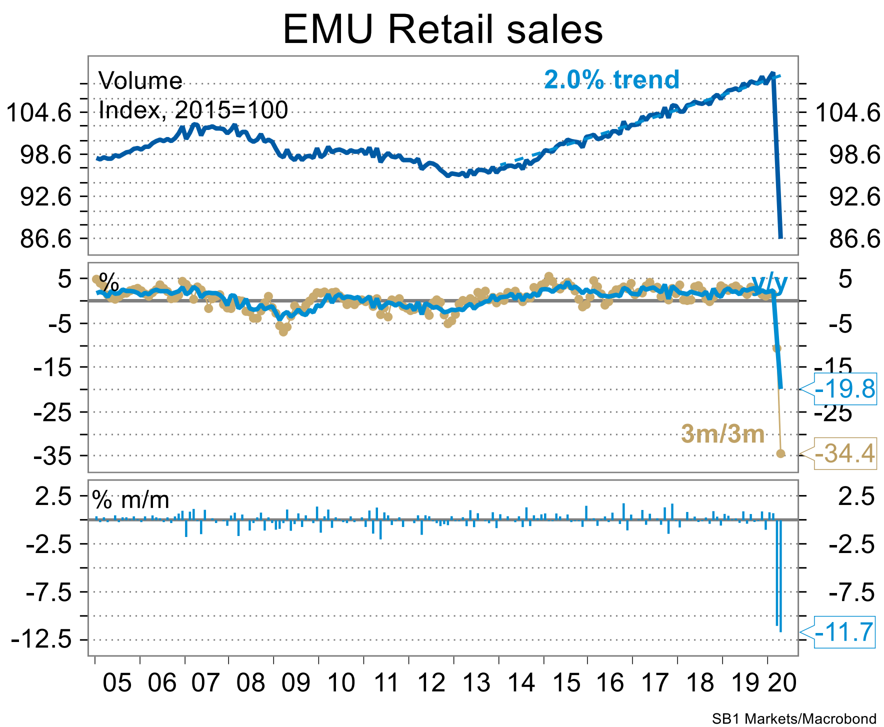


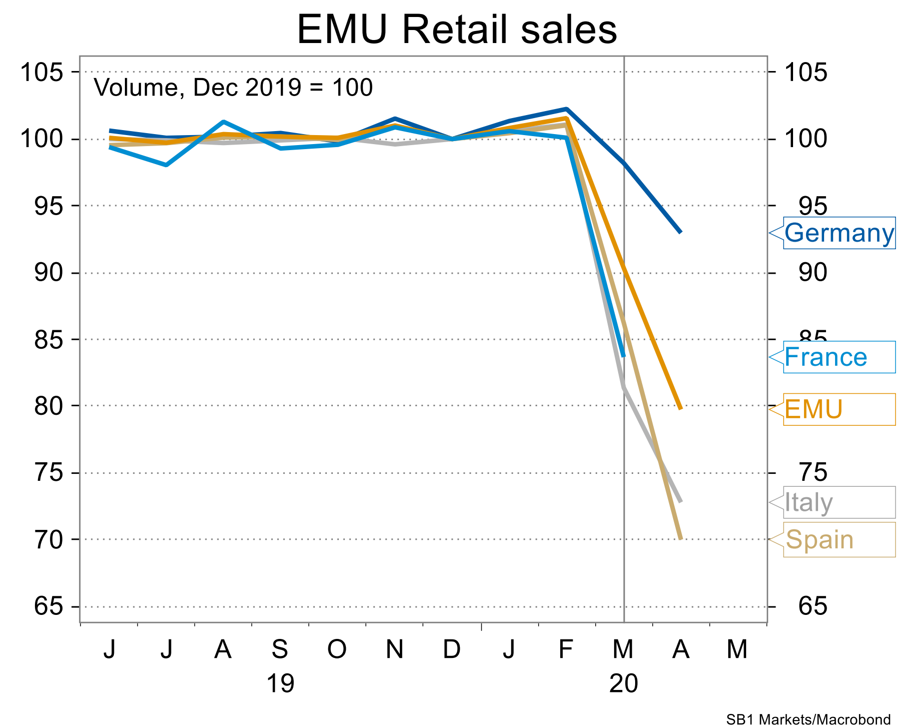


- Unemployment rose by 211' persons or 0.1 pp to 7.3% in April but the March 191' persons hike was revised away, and the rate revised to 7.1% vs initially reported 7.4%!
  - » These are the Labour Force Survey data, the international standard. Temporary laid off workers are not counted as unemployed before after been furloughed 3 months. If workers are kept employed by government subsidies or if work is shared (like 'kurtzarbeit' in Germany) nobody are counted as unemployed
- In Germany, unemployment has inched up 0.4 pp recent months, but not further in April

April another lockdown month with 'no' retail trade. Wait for May

Sales down 20% from February, -30% in Italy and Spain, -7% in Germany

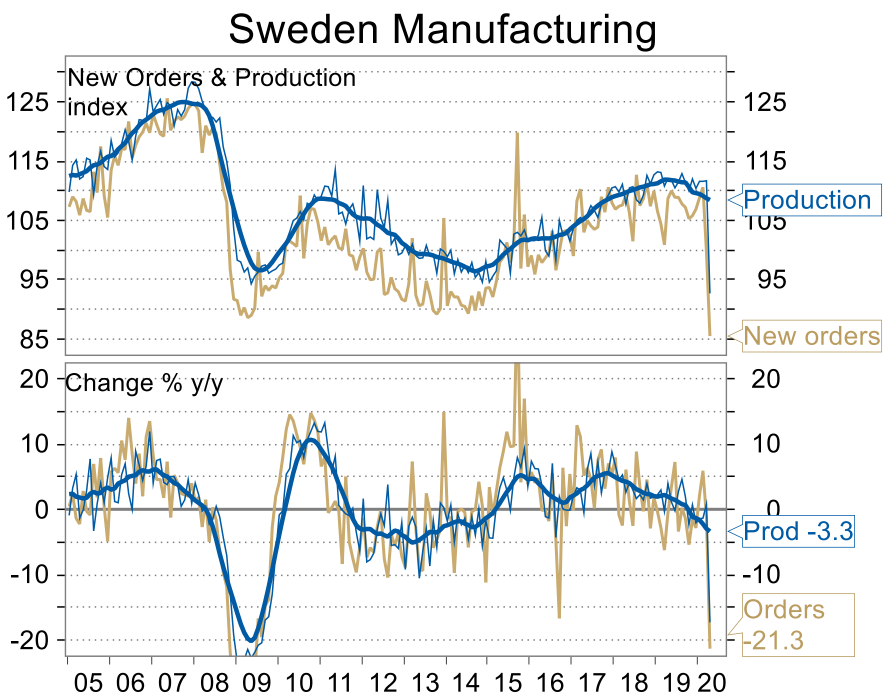


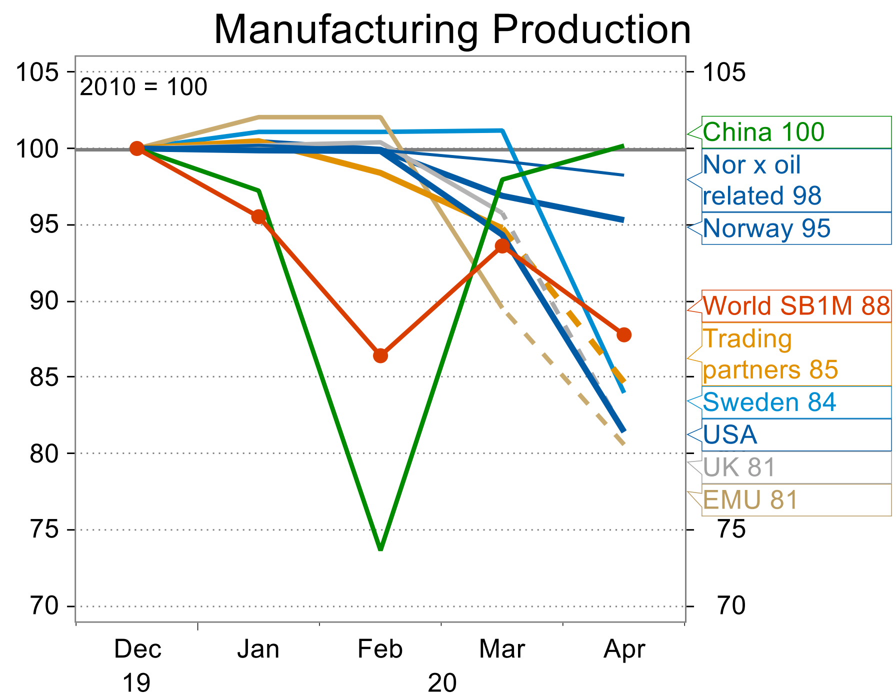


- France has not yet reported

Manufacturing production and orders down sharply down in April

Production down 17% m/m, orders down 'just' 14% (but -22% from Feb)





- Production was far weaker than expected, orders too
- The manufacturing PMI rose in May, but remains far below 50. Still, we expect to see better production numbers in May!

Highlights

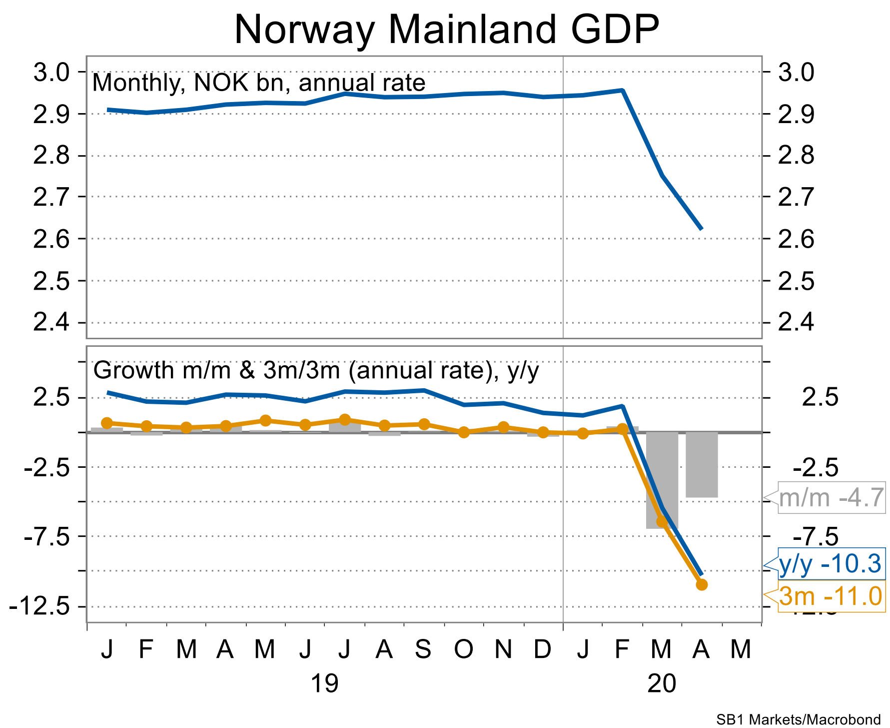
The world around us

The Norwegian economy

Market charts & comments

GDP fell 4.7% in April, following the 6.9% decline in March. Q2 heading for -8%

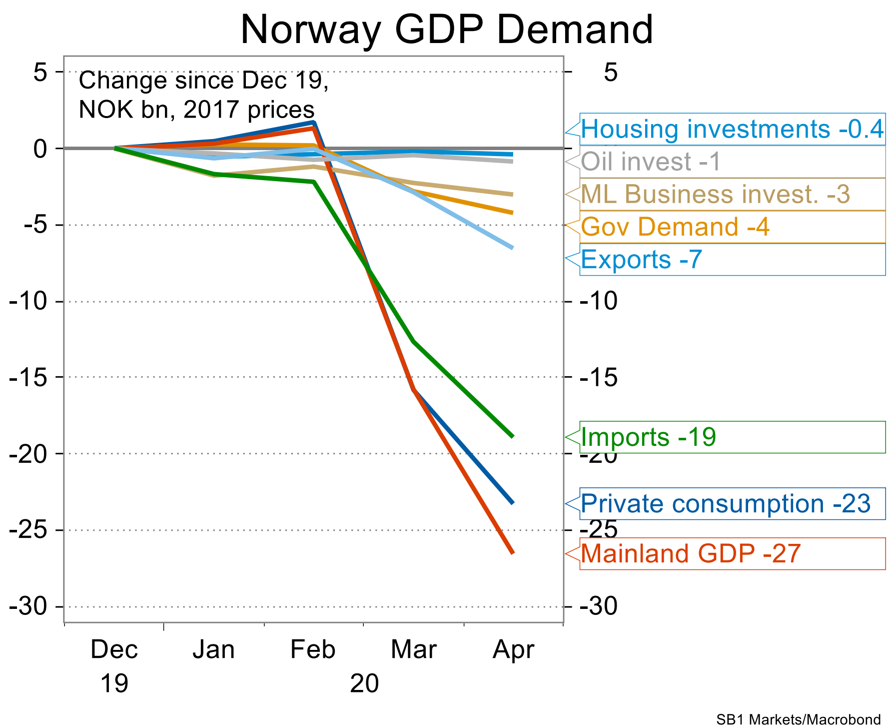
Private consumption (services only) the main drag in both March and April. But everything is down

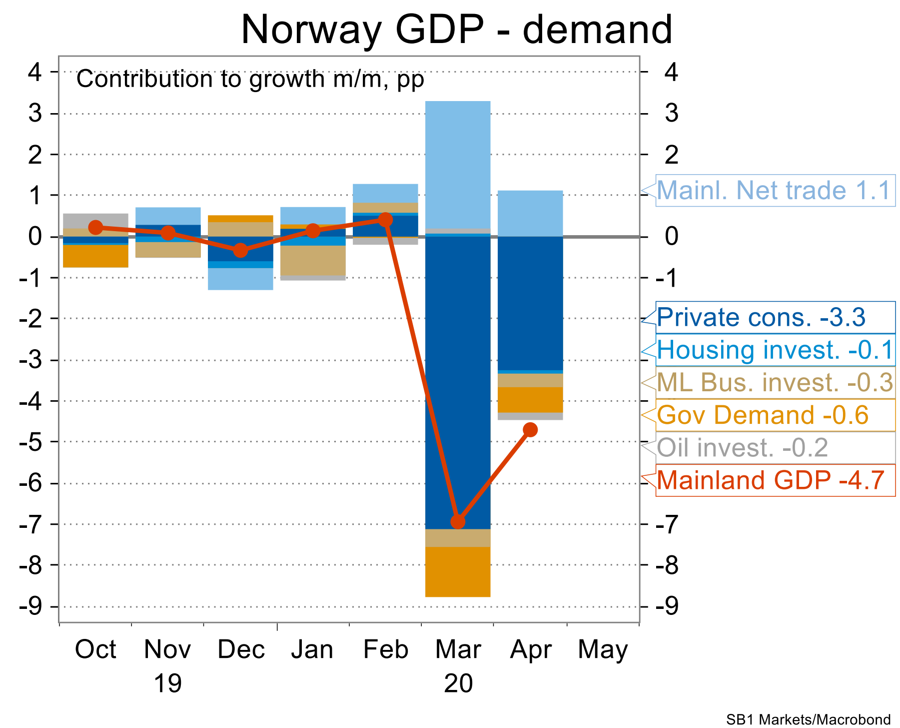


- Mainland GDP is down 11% from February, and is down 10.3% y/y. We expect GDP to recover substantially in both May and June but an 8% decline from Q1 is still our best forecast
- On the demand side: Private consumption has collapsed, by 19% from February. Consumption of goods have kept up quite well but service consumption and consumption abroad has fallen sharply, details on the following pages. Both Mainland and business investments as well as housing investments fell from February to April. Government demand is sharply down, partly due school closures. Mainland net trade is positive, as imports have fallen faster than exports

- SSB revised its 2020 GDP growth forecast to -3.9% from the -5.5% late April estimate

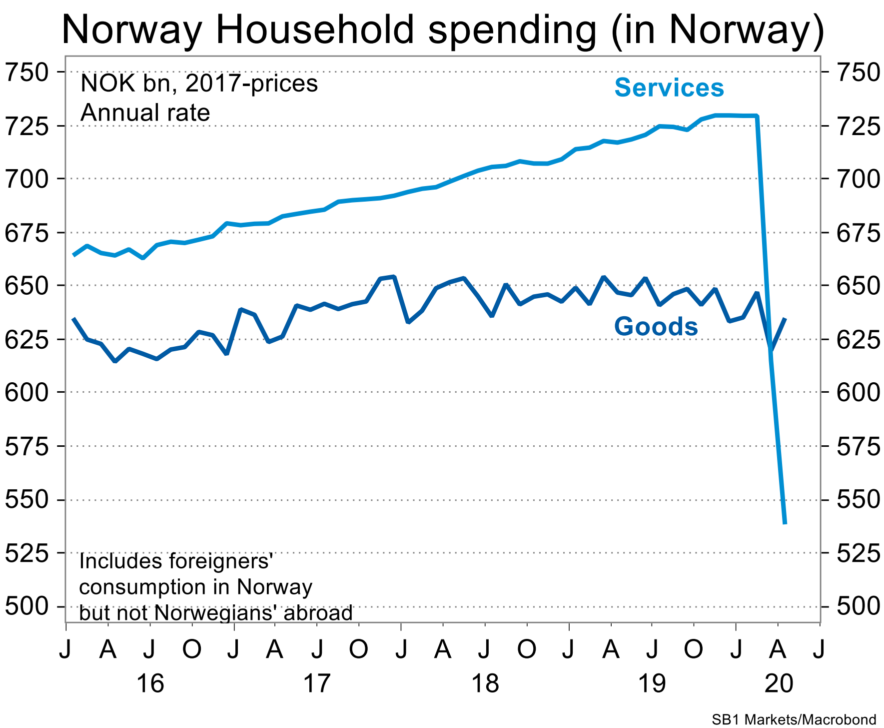
Not much on the upside – barring net trade (imports more down than exports)

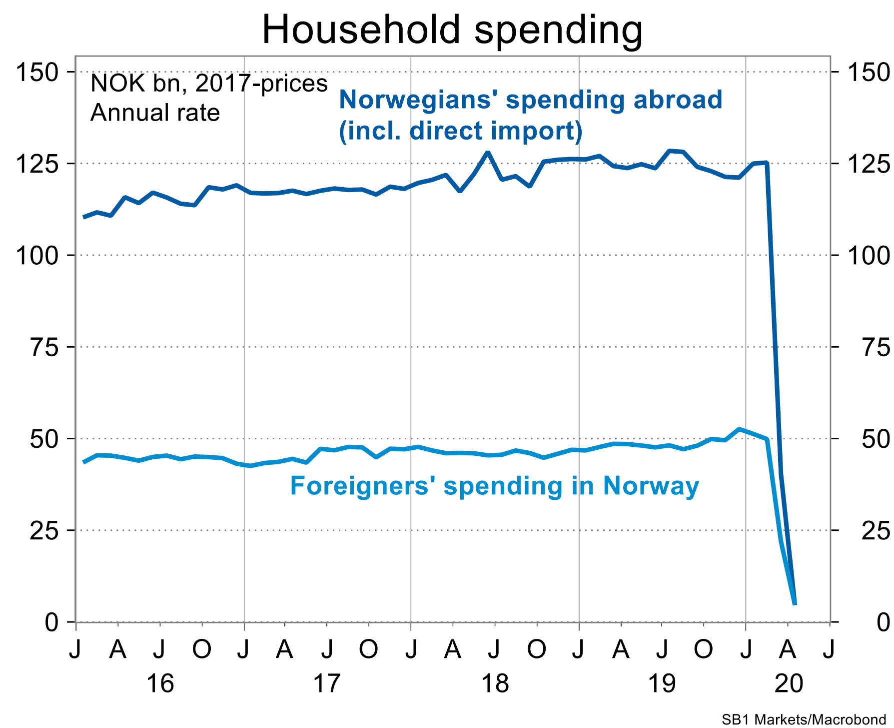




Consumption of goods just marginally down, service consumption down 25%

Household consumption down by 19%; a huge decline in services at home, and spending abroad

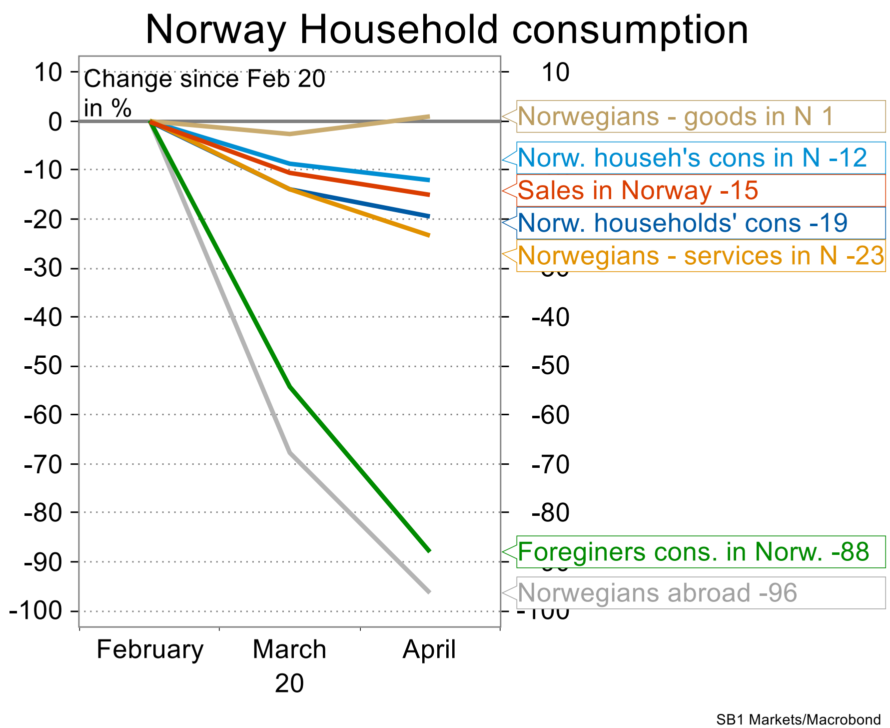


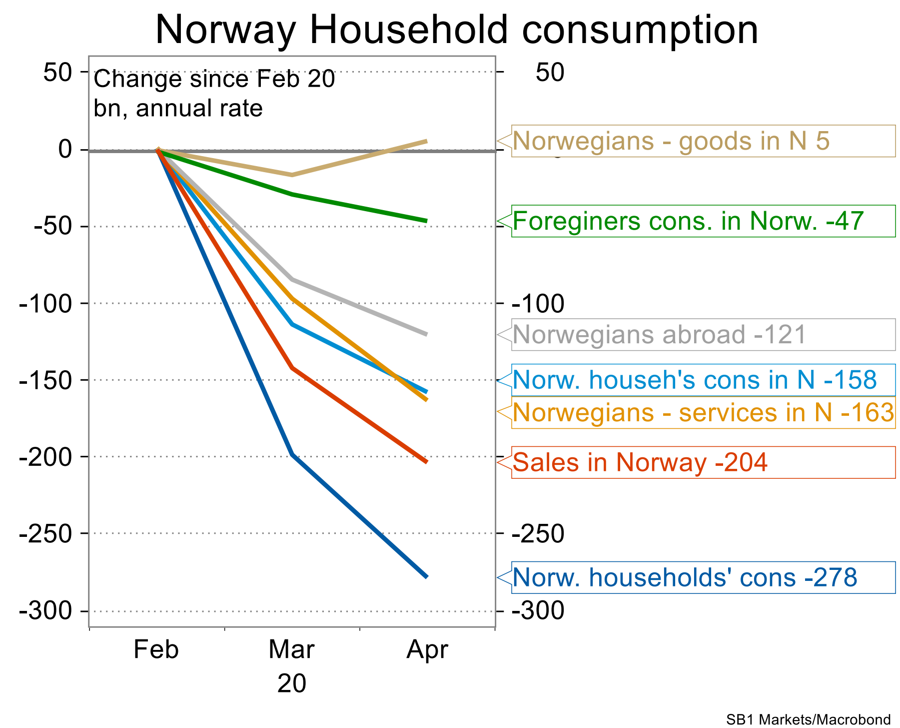


- Sure, consumption of goods is kept up pretty well but the total is down sharply due to services
- Check more on the details next page

Consumption: Who has changed their spending most – in % and in value?

Changes from February to April





- Norwegian households have reduced their consumption by 19% (!) or 278 bn (annual rate) – of which 121 bn abroad (-96%) and 158 bn in Norway (-12%). Their consumption of goods is up 1% (5 bn), while their spending on services in Norway is down 163 bn or 23%!!
- Sales of goods and services in Norway to Norwegians and foreigners are down by 15% or 204 bn – of which 47 bn due to lower demand from foreigners in Norway (down 88%) and 158 bn due to lower domestic demand form Norwegians (-12%)

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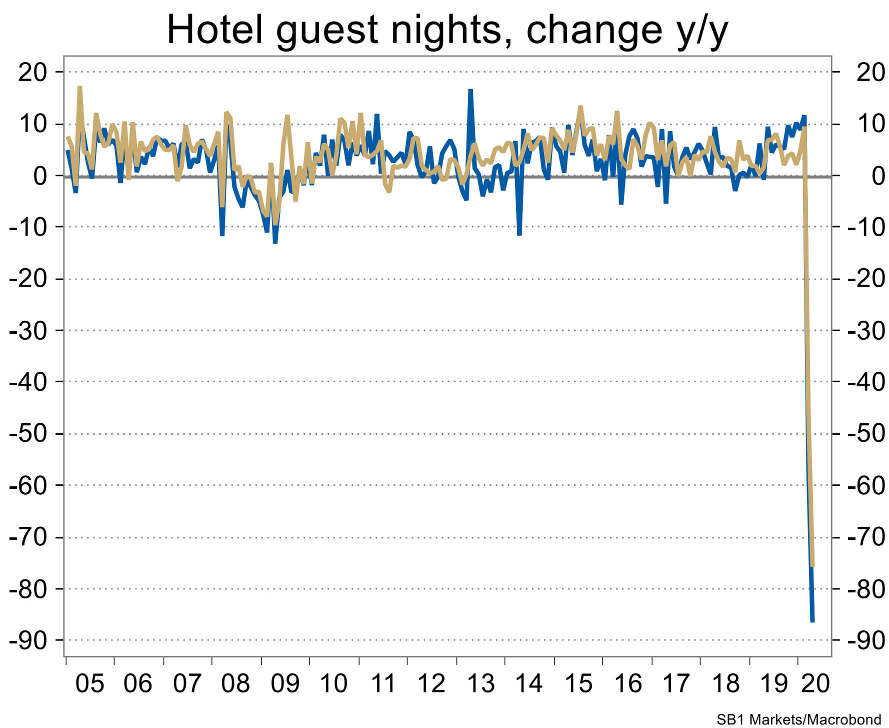
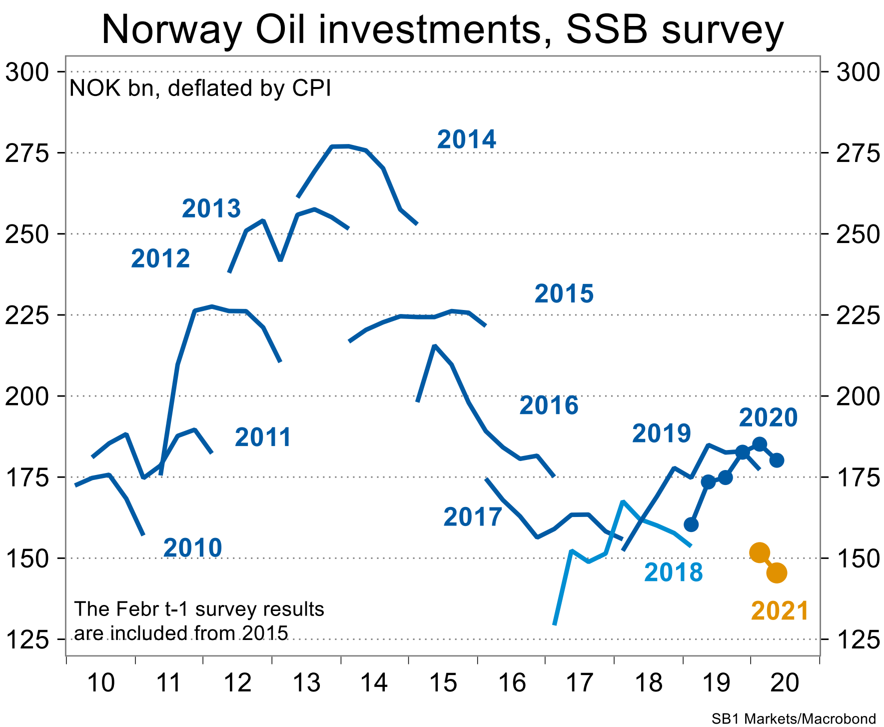
Hotels lost some guest in March and April, both in Norway and in Sweden



Oil investment survey confirms a substantial decline through 2020 & '21

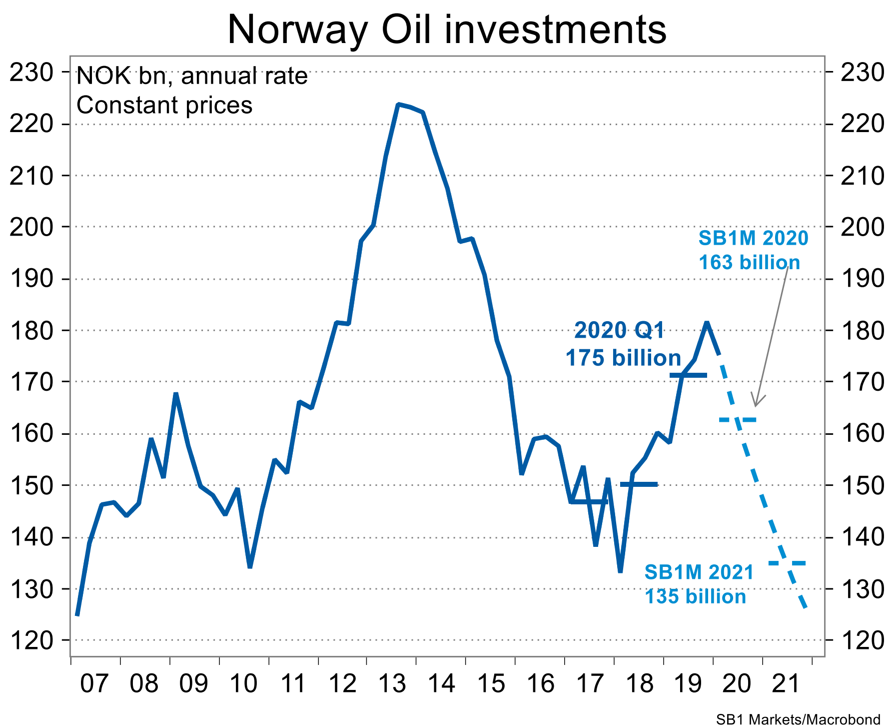
Oil investments peaked in Q4 '19 and will decline by 6% through '20, and by 12% next year

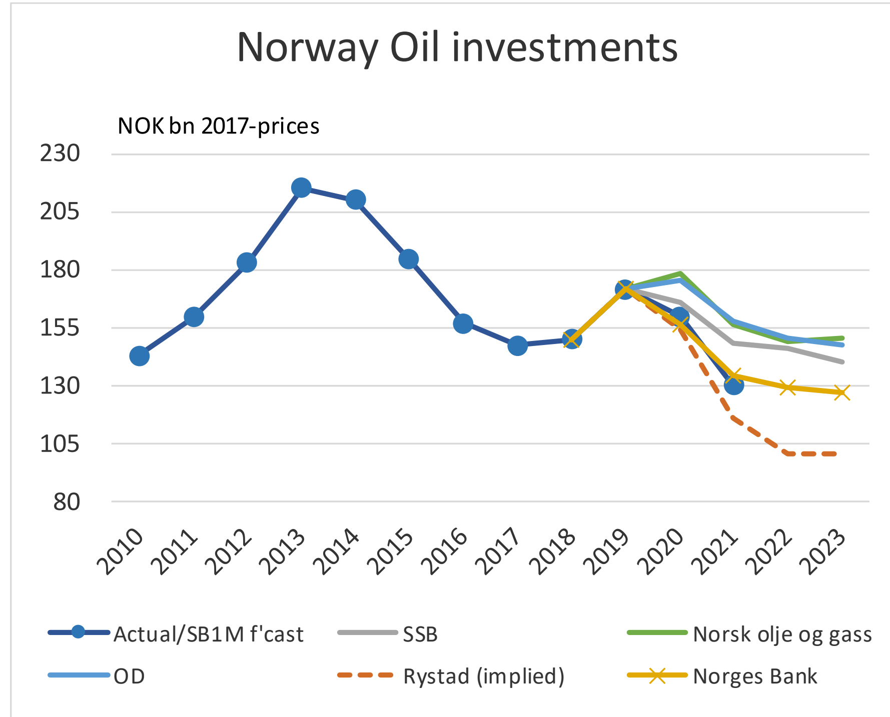


- In SSB's Q2 oil & gas investment survey, companies adjusted their **2020 investment f'cast** down by NOK 5 bn to 180 bn, we expected -15 bn. This estimate is 2% below the equivalent 2019 f'cast (down from +6% in Q1). We expect a 5% decline in volume terms (+2 pp from before the survey). SSB assumes a 3.5% decline in their recent forecast
  - » As investments grew fast through 2019, a 5% (or even a 3.5%) decline implies a sharp reduction through 2020 (see next page)
- **The 2021 estimate was revised down by** NOK 6 bn to 146 bn, as we expected. The estimate is 16% below the equivalent 2020 estimate one year ago, vs -4% in the Q1 survey. In average companies revised their 2020 and '21 estimates by of 10% vs normal revisions of Q2 estimates.
  - » We estimate a 17% decline in volume terms in 2021. SSB forecasts a 10% decline based on an assumption that the Parliament will decide a more favourable oil and gas tax regime, and that more projects will be added
  - » We are uncertain how many project will be added even if the tax regime is changed. However, the recent doubling of the oil price could turn out to be more important
- Anyway, oil investments are now again heading sharply down, and neither a higher oil price or tax incentives can turn them up

A crucial growth engine has changed sign

Our annual forecasts imply a 16% decline through both 2020 and '21. Still not at bad as during '14-'17





- We expect a substantial decline in oil and gas investments during the next quarters. Our estimate is below SSB's but above Rystad's (implied) forecast (based on North Sea, USD forecast)

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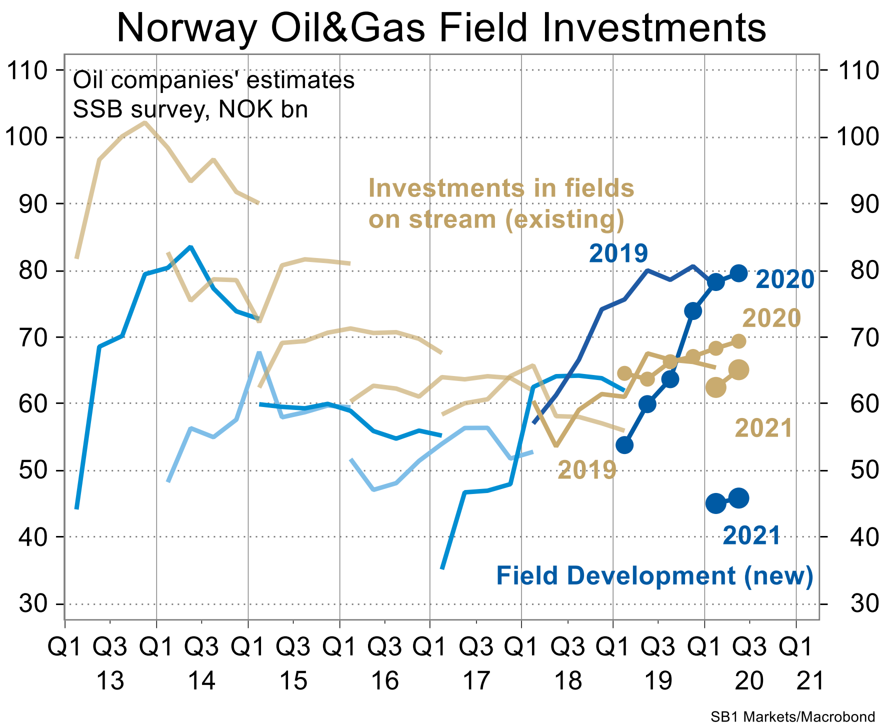
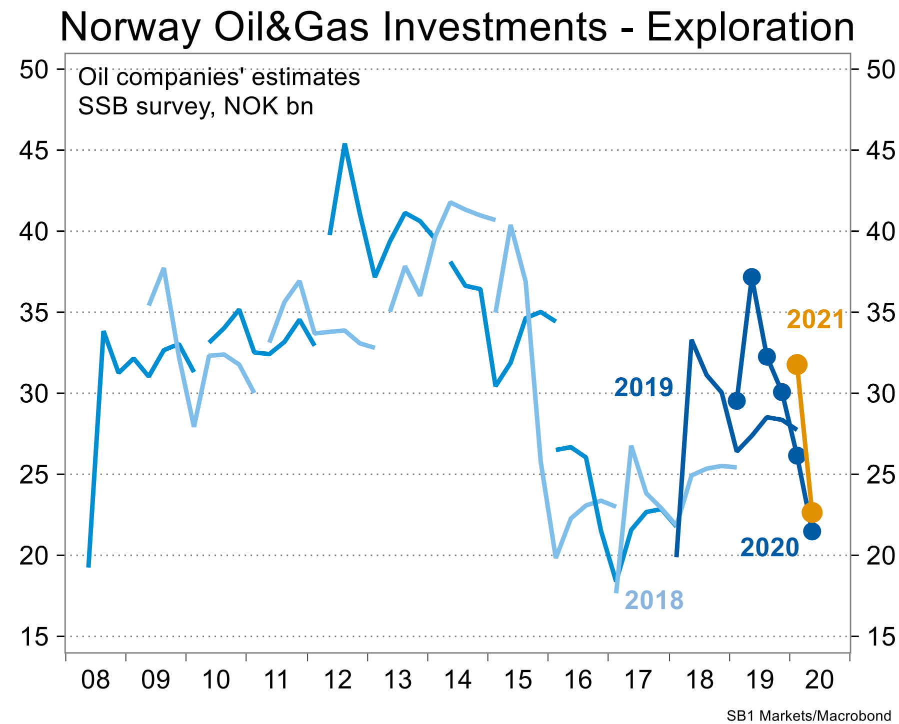
Investments in new fields down almost 50% in 2021, exploration cut in 2020

2021 f'cast on investments in new fields down 17% vs the '20 estimate, existing fields down 5%

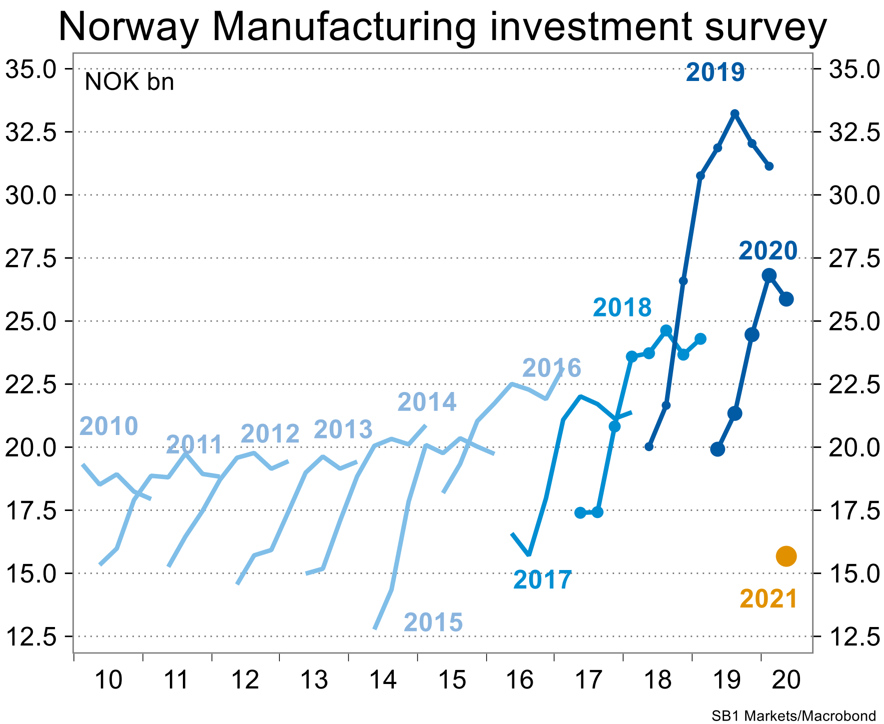


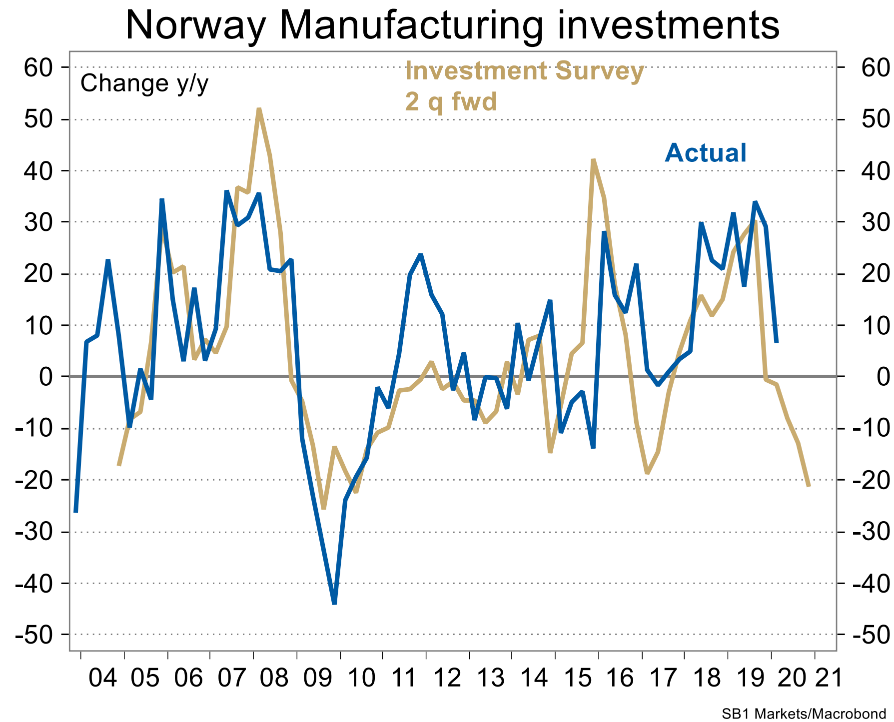


- One new PDO (plan for development and operation) is included in the Q1 survey. SSB expects several more PDOs this year, and most are expected for 2020, thus, few are left for 2021. Moreover, fewer projects will be included through the year than in 2019
- 2020 **exploration investments** were nudged down by NOK 4 bn (and NOK 12 bn from the May 19 est), and is now signalling a decline in 2020. The first 2021 f'cast came in at NOK 32 bn, suggesting 7% growth (vs the first 2020 f'cast), hence, offsetting some of the expected decline in field developments
- F'casts for 2020 investments in **existing fields** are 12% above the equivalent 2019 f'cast, while the 2021 f'cast suggest at least 5% decline vs 2020 (and probably more, as f'casts through the year are likely to be revised down). 2020 **investments in field developments (new fields)** are 3% higher than the 2019 f'cast, however, <u>the first 2021 f'cast is 17% below the first 2020 f'cast</u> as Johan Sverdrup investments are completed

Manufacturing investments down 20% in 2020, another -20% in 2021

2019 investments were far above a normal level, 2021 will probably be far below





- Manufacturing companies adjusted their 2020 investment marginally down in Q2, and the estimate is now 19% below the equivalent 2019 estimate from Q2 last year. The forecast is revised down by 6 pp – the downturn was in the cards before corona
- The first 2021 estimate implies another 21% decline, but the uncertainty is of course much larger than for the 2020 estimate
  - » Investments in refined petro., chemicals and metals are the major drags in 2020, after soaring in 2019

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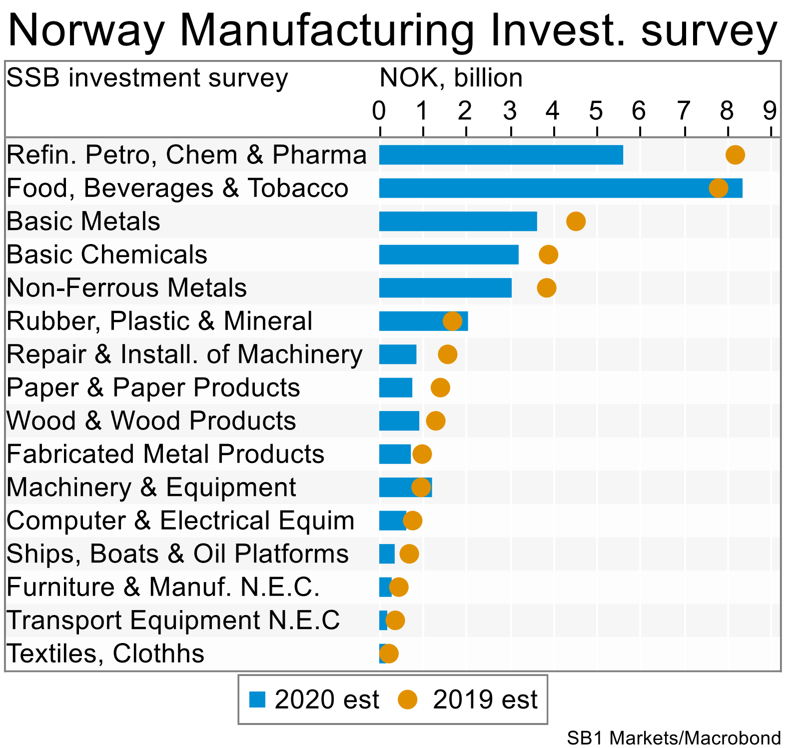
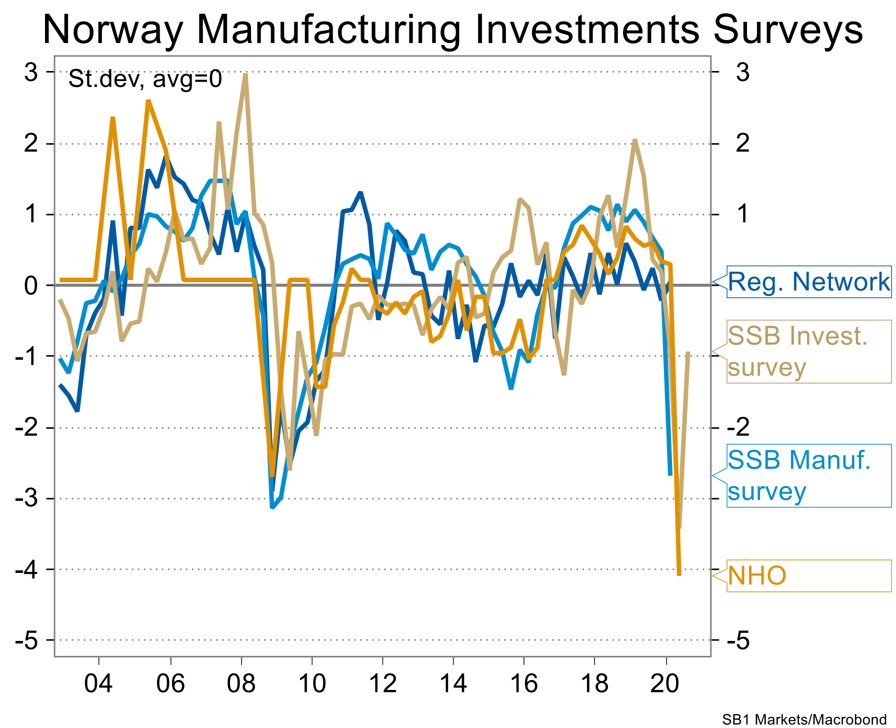
The boost from refined petro, metals & chemicals will reverse

2020 f'casts have been nudged down vs the '19 f'casts in most sectors





- In late 2018 and early 2019, the SSB manuf. investment survey was much more upbeat than other surveys (and it was right, as usual). Now, however, the level is far weaker.
- SSB's manufacturing survey (not investment survey) point to sharp slowdown Norges Bank's Network (until Q1) quite stable, at an average level, while NHO's survey signals an unprecedented decline in Mainland business investments

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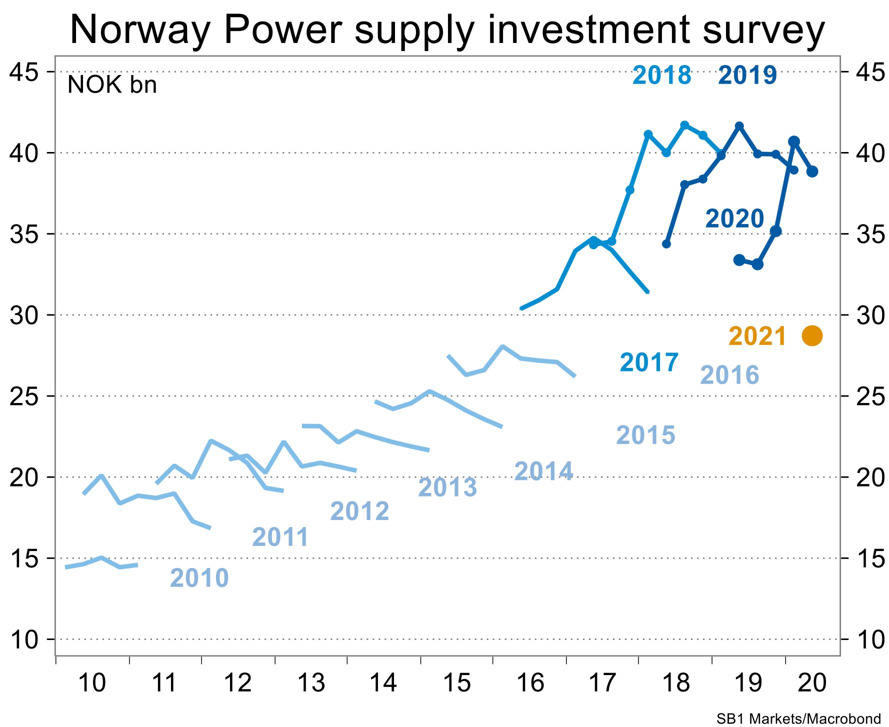
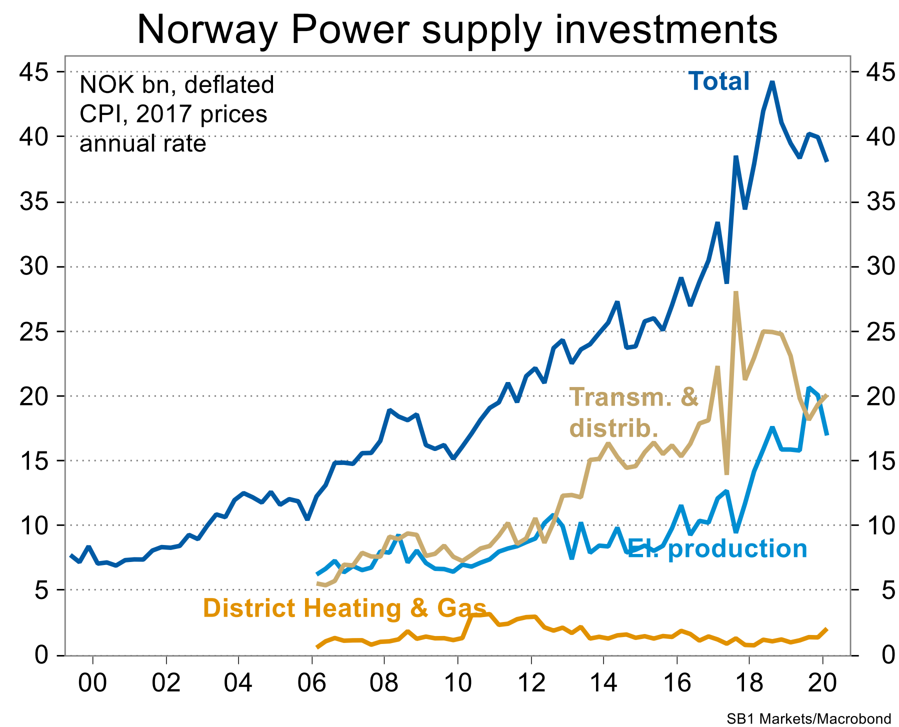
Power supply: Investments peaked in 2018, -7% in '20, -10% in '21?

The 2020 estimate fell 5%, as usual in the May survey but confirms a decline in 2020





- Power supply (production & distribution) companies revised their 2020 investment f'cast down by 5% to NOK 36.5, a normal correction. The 2020 estimate is 7% below the equivalent 2019 estimate, and 2020 is probably down 5 – 10% in value terms, and more in volume terms
- The first 2021 estimate signal a 10 – 20% decline from 2020
- Investments have more than quadrupled in 25 years, more than 10% p.a in average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades. Investments in transmission and distribution has fallen the most

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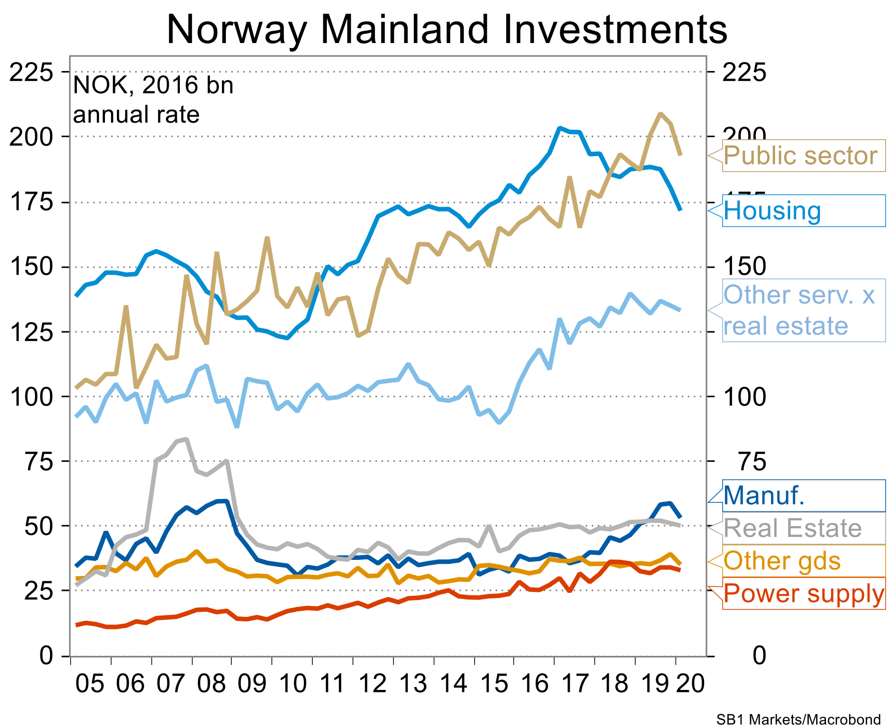
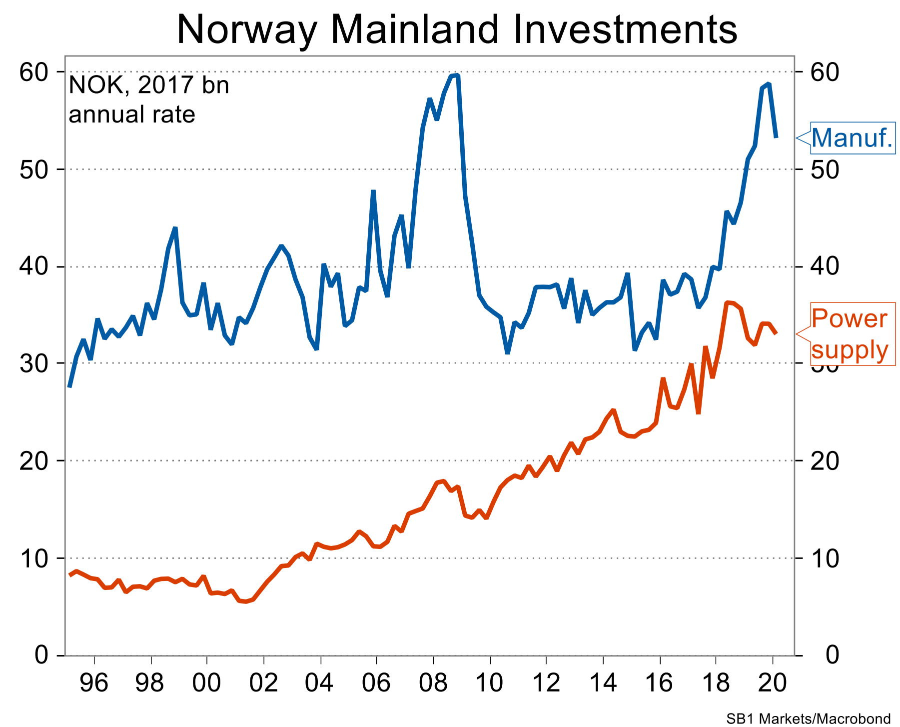
Manufacturing, power supply investments have peaked allready

Both equal 1 - 2% of Mainland GDP and 5-8% of Mainland investments

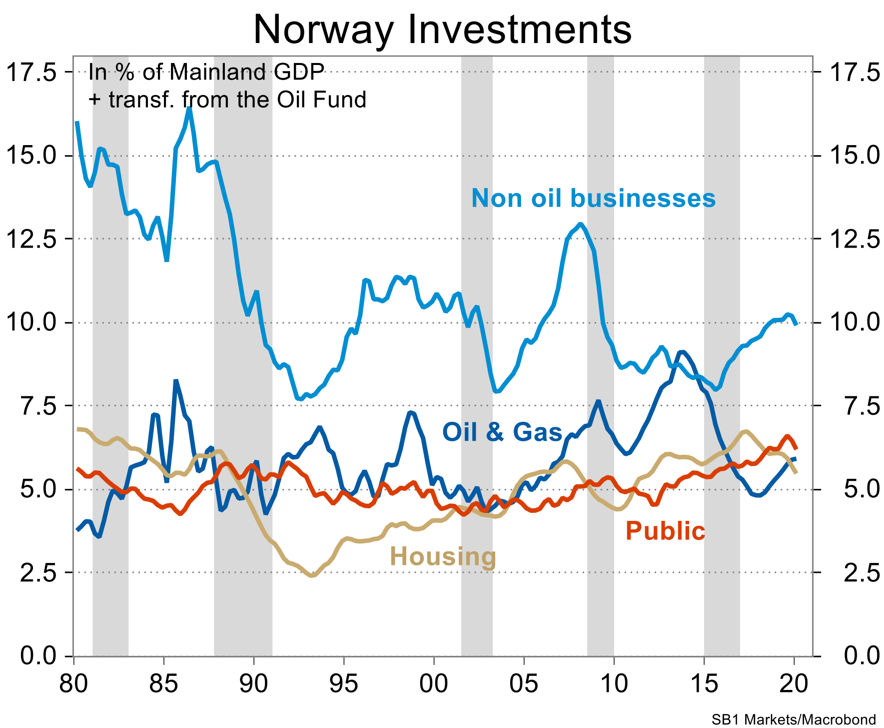




- In volume terms, investments in the manufacturing have accelerated sharply the past two years, but companies are signalling a sharp decline in 2020 – and the downturn probably started in Q1. Power supply investments peaked in Q2 18
  - Real estate investments and investments in other private services are the other main components in Mainland business investments – and they are both trending down
- The outlook for Mainland investments is not upbeat, given the expected drop in investments in manufacturing and power supply. We assume some services sectors will cut investments too. The public sector cannot continue to climb for a long time either? Check the next slide for more

The investment cycles: A broad slowdown the coming years? Quite likely

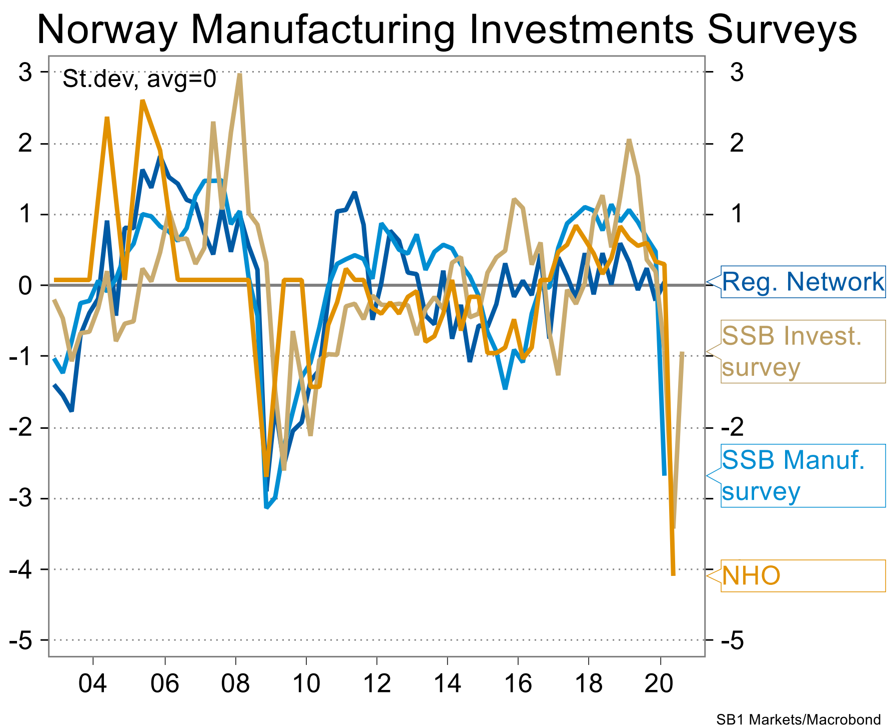
Mainland business investments are not low anymore, is now heading down

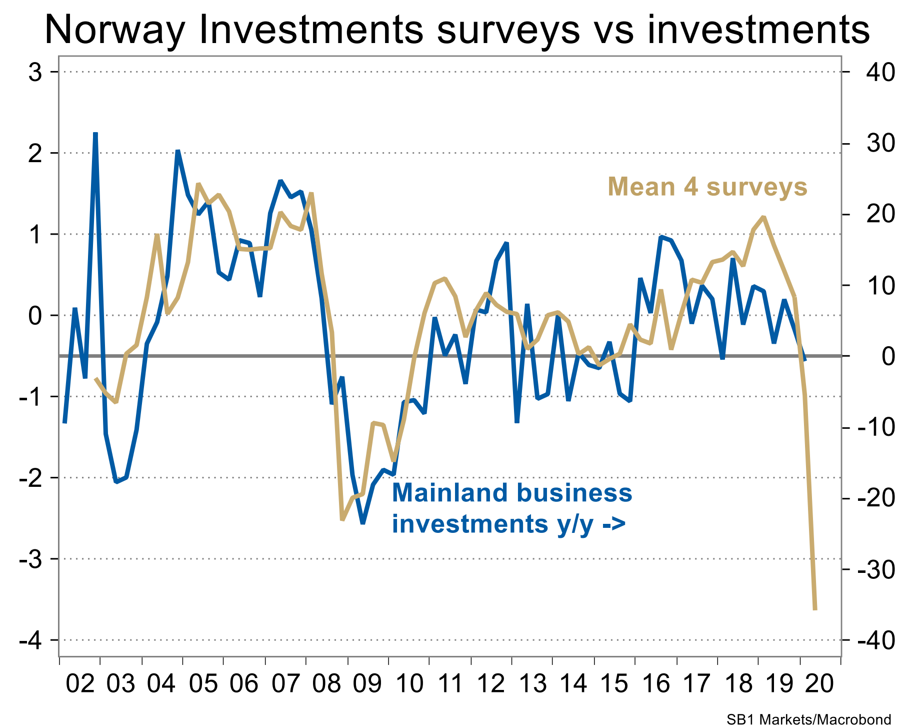


- **Oil investments** have accelerated since late 2017, peaked in Q4 2019 and is now turning down
- **Mainland businesses** have increased their investments sharply since ’16, and the level is not low anymore. They have turned down – and the investment surveys signal a significant decline
- **Government investments** are the highest in decades, vs GDP. Will come down long term, but may increase short term (but not many measures so far introduced)
- **Housing investments** peaked in 2017 (together with real house prices), and has fallen more than 1% of GDP since that. The level is still well above the average the past decades

Will Mainland businesses cut their investments? Well, they say so

And more than ever…



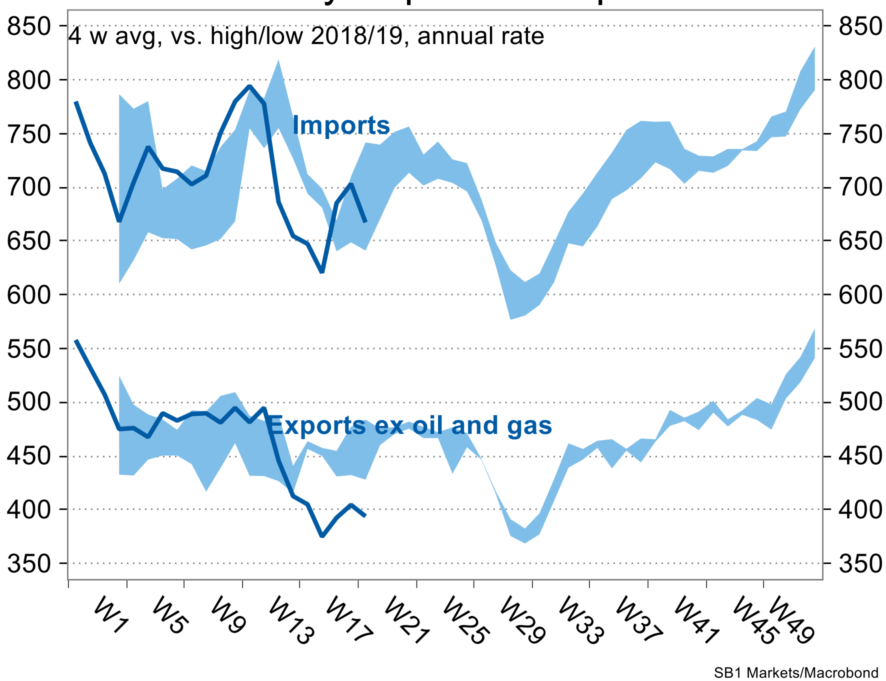


- Even if the neutral early February Norges Bank regional network is included in the average

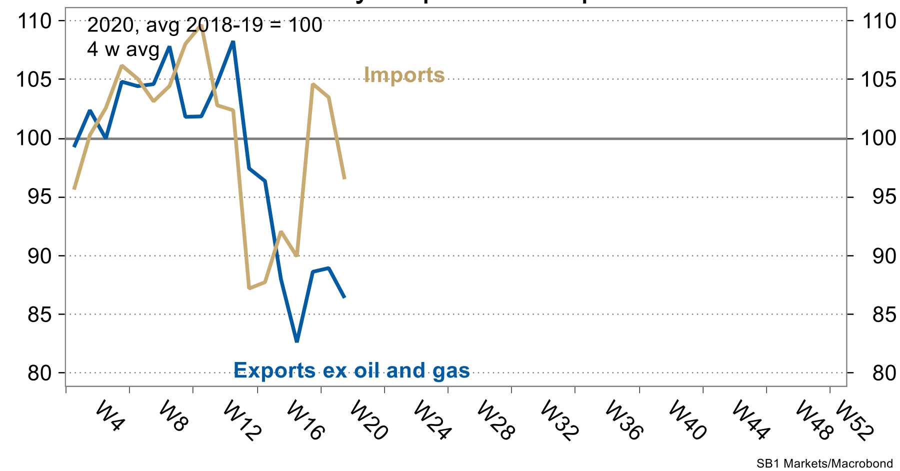
Mainland exports are struggling, down 15% - 20%. Imports more or less unch.

The production/employment impact from this decline is not yet visible. But it will be, soon

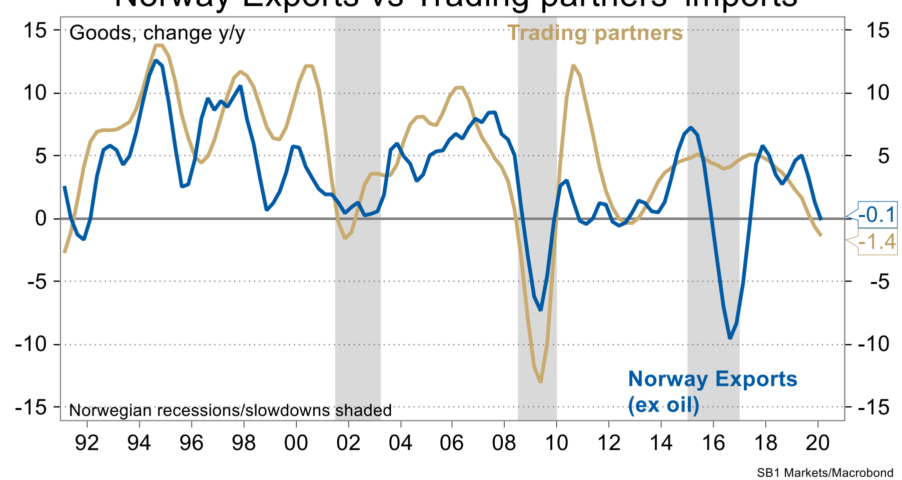
Norway Exports & Imports



Norway Exports & Imports



Norway Exports vs Trading partners' imports



- A 15% decline in exports has just happened once, during the financial crisis. Exports are down
- A 15% decline in exports subtracts 1¼ pp from Mainland GDP growth, even after adjusting for the import content and without adding any income multiplier impacts
- On the positive note: Exports may have stabilised past few weeks

SSB is producing a new weekly foreign trade statistics, data from 2018

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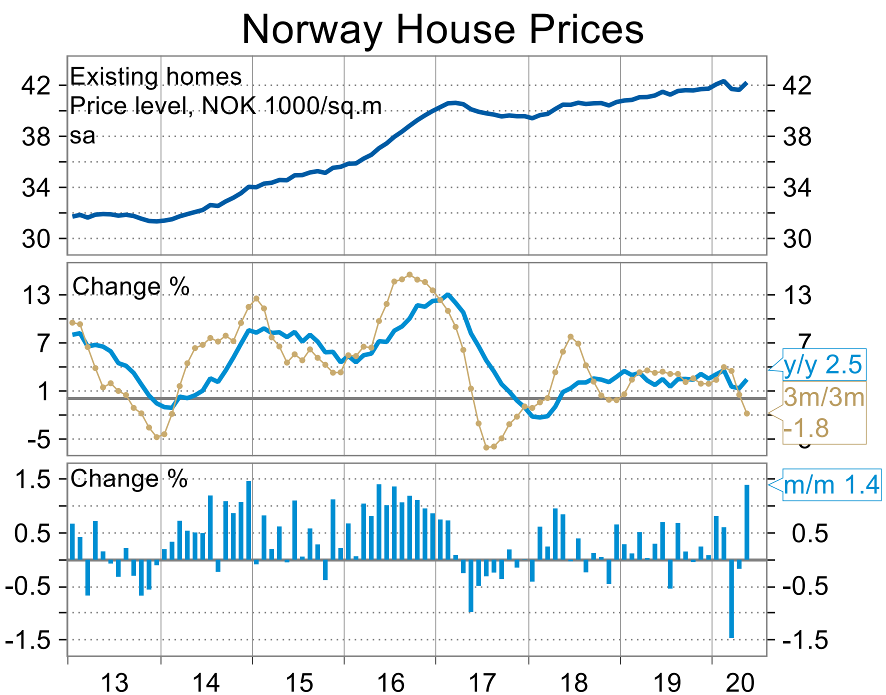
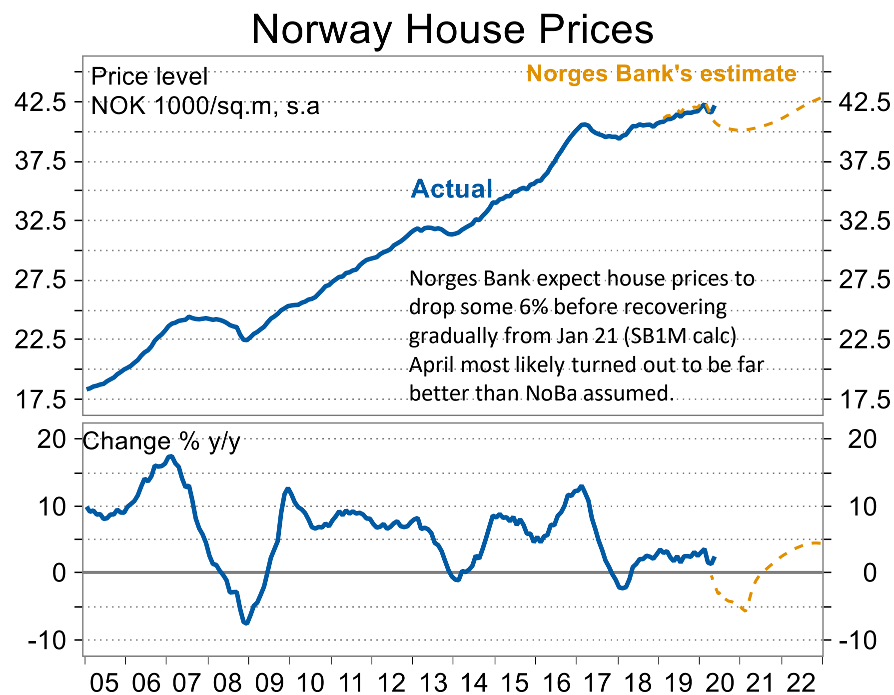
Crisis, what crisis? House prices rose rapidly in May too, are back to the Feb level

Not that surprising, given the sharp price inflation through April



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

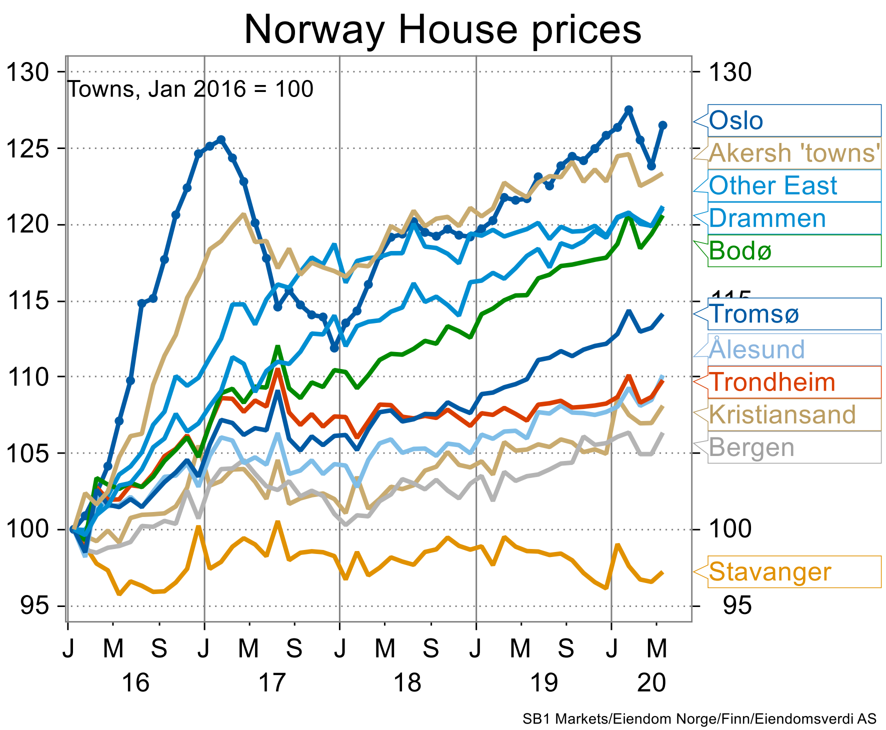


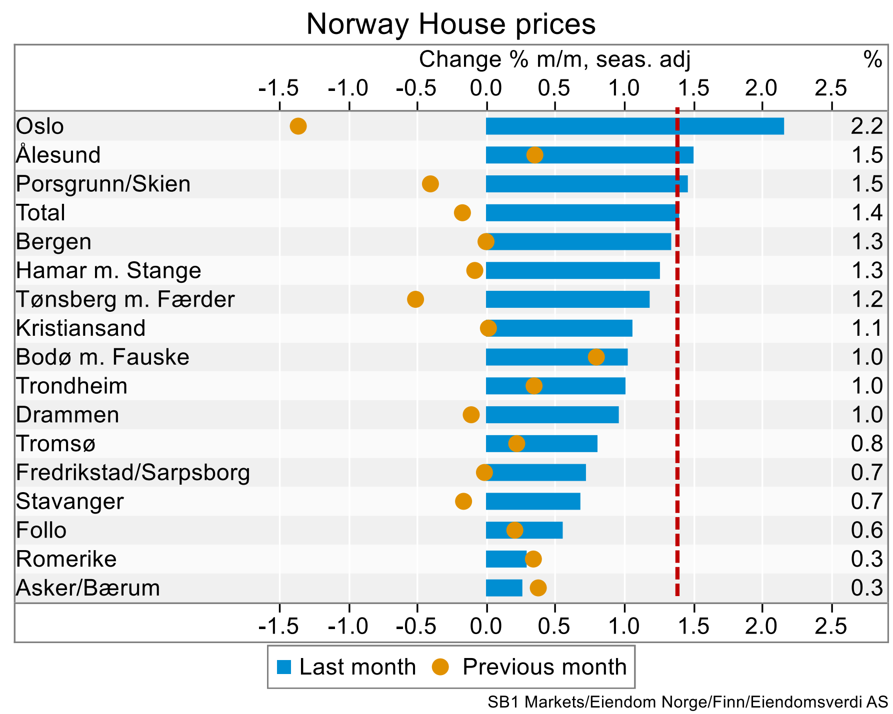
SB1 Markets/Macrobond

- House prices rose 1.4% m/m in May, the highest monthly increase since mid 2016. Prices are now almost back to the level in February, before the corona crisis. Oslo prices rose 2.2% but are still below the level in February
  - » Still, we are not sure prices rose much through May, as prices must have recovered sharply through April and the level ultimo April must have been at least 1% above the April average
- The number of transactions is back to a normal level+. At the same time, the supply of new existing home for sale has fallen almost 10%. Thus, the inventory fell sharply in May – but it is still well above an average level
- Are interest rate cuts more important than the hike in unemployment? Seems so, for the time being. Norges Bank did not believe that, (and neither did we ☺)

Prices up everywhere in May, most in Oslo, 2.2%. The slowest pace around Oslo

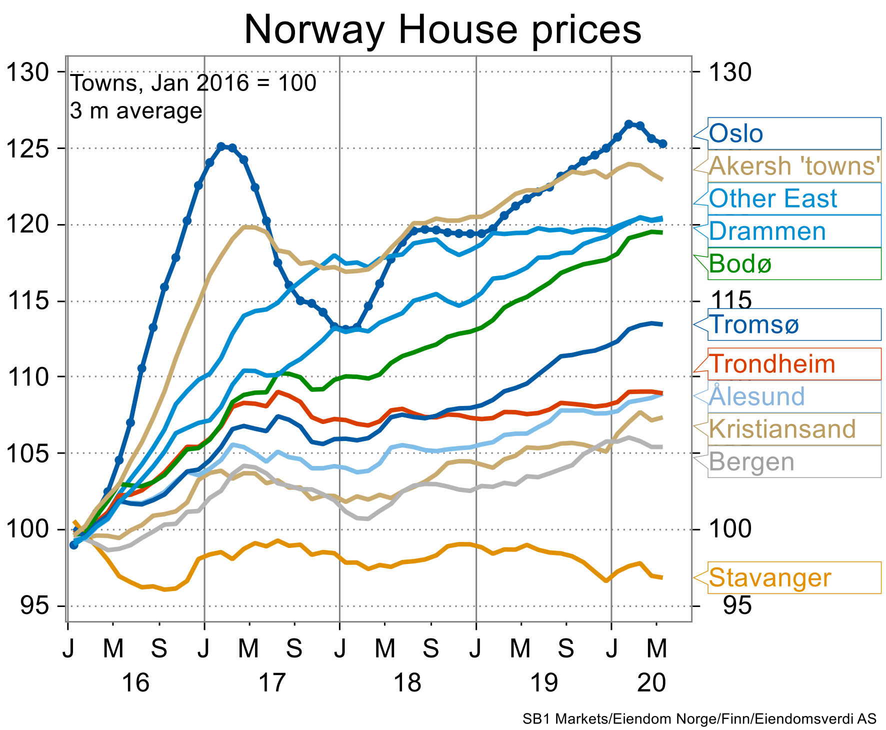
Prices fell most in Oslo in March and April – and the Oslo price level is below February prices

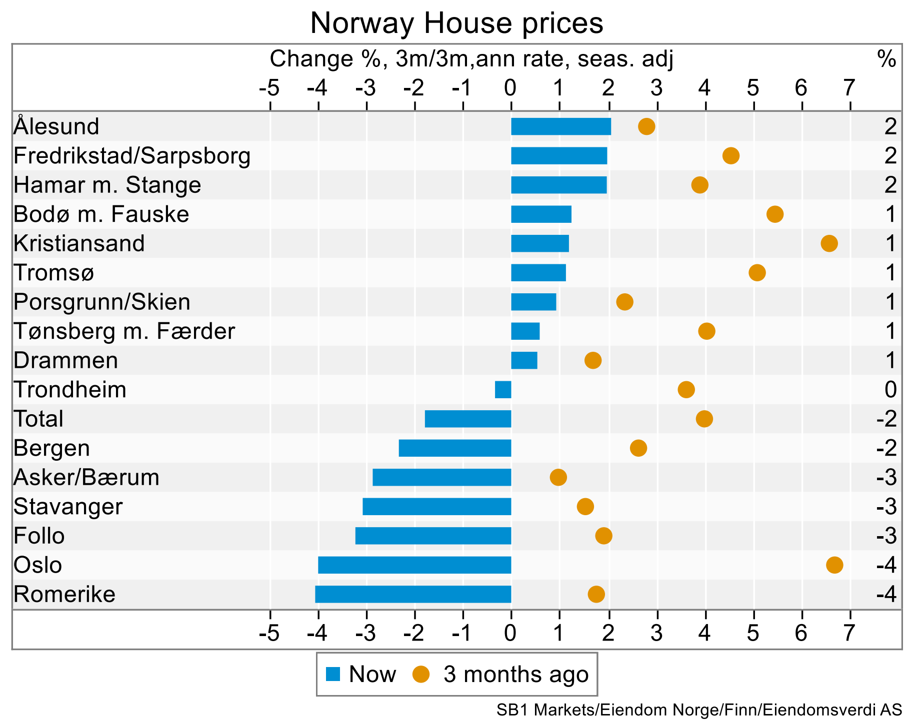




Recent months; Oslo at the bottom – and the total is down (measured 3m/3m)

And Stavanger is still trending down – and that may last for a while, given the oil sector outlook

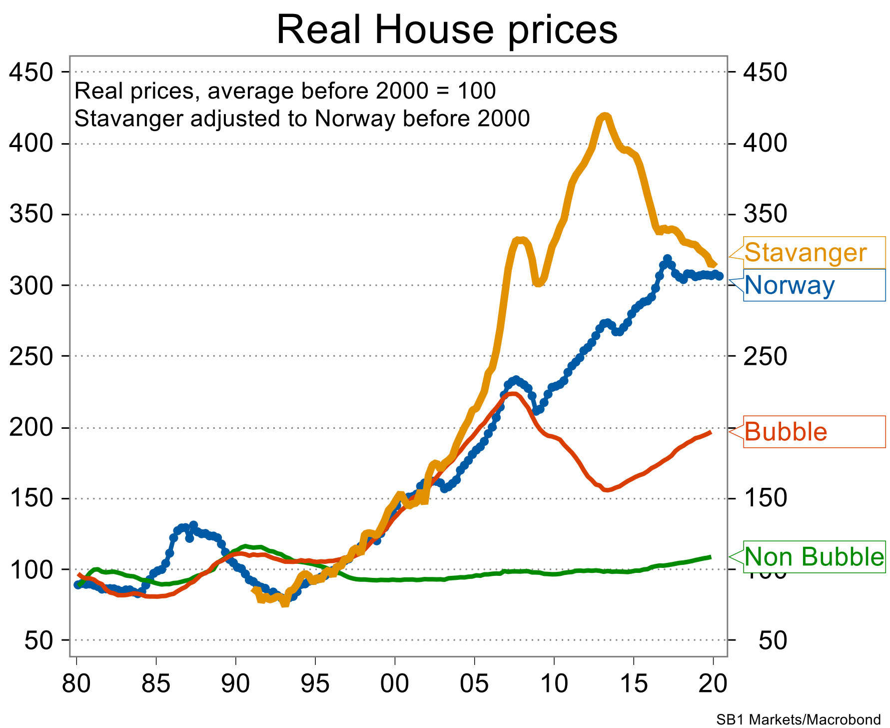


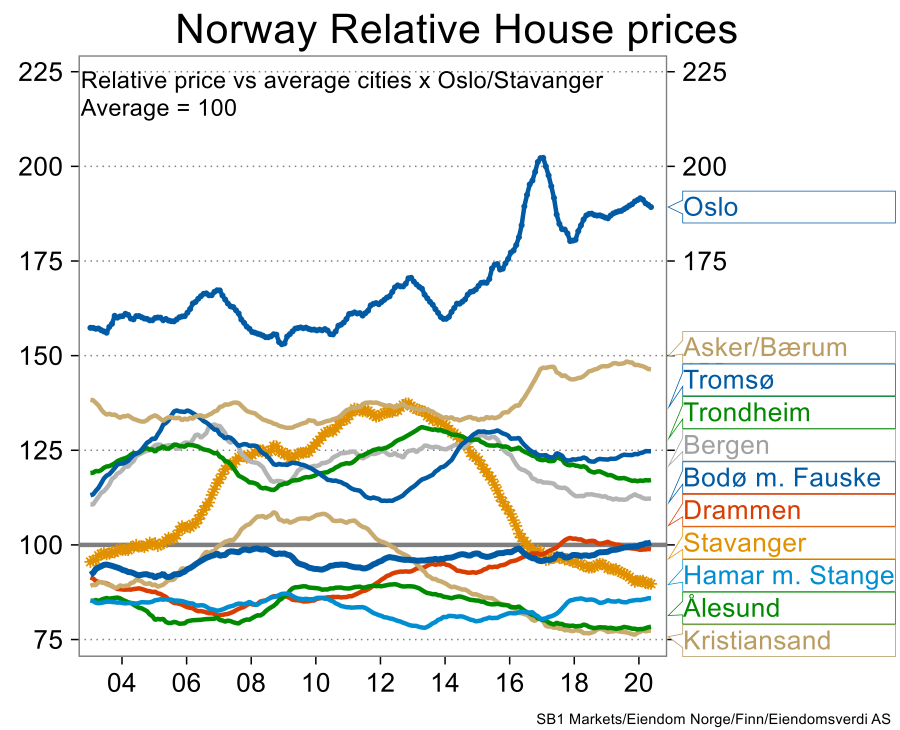


- Measured 3m/3m, prices are now rising in 9, falling in 7. Price growth has slowed everywhere due to the price dip in March
- Oslo prices are equal to the early 2017 peak (in nominal terms, prices are down some 7% in real terms). Stavanger is down, while all other towns are up vs the early 2017 level

The Stavanger case: Could it happen elsewhere?

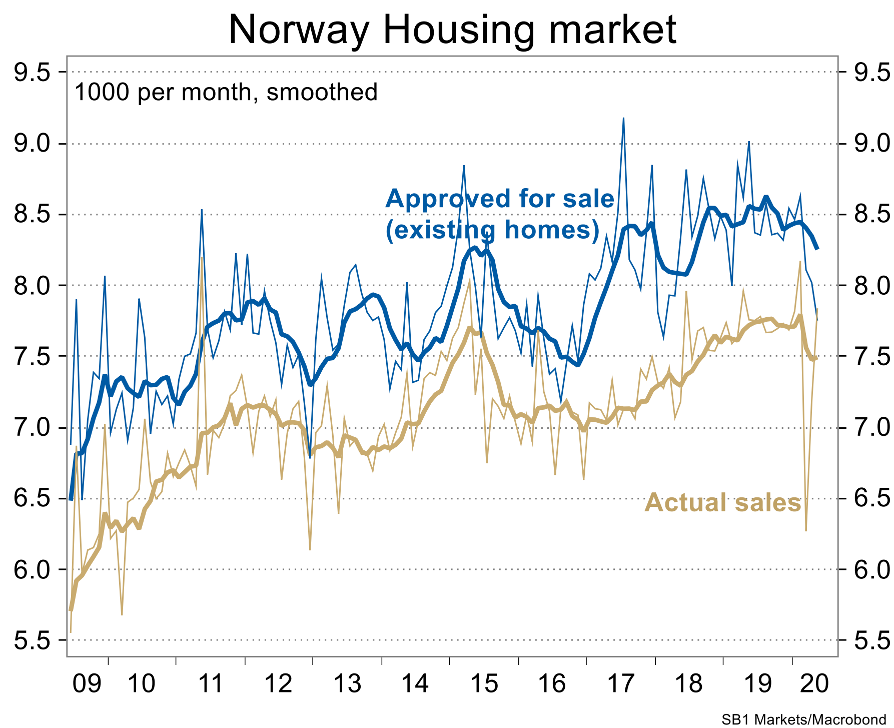
From no 2 in Norway in early 2012 to the bottom league now – and still sliding down

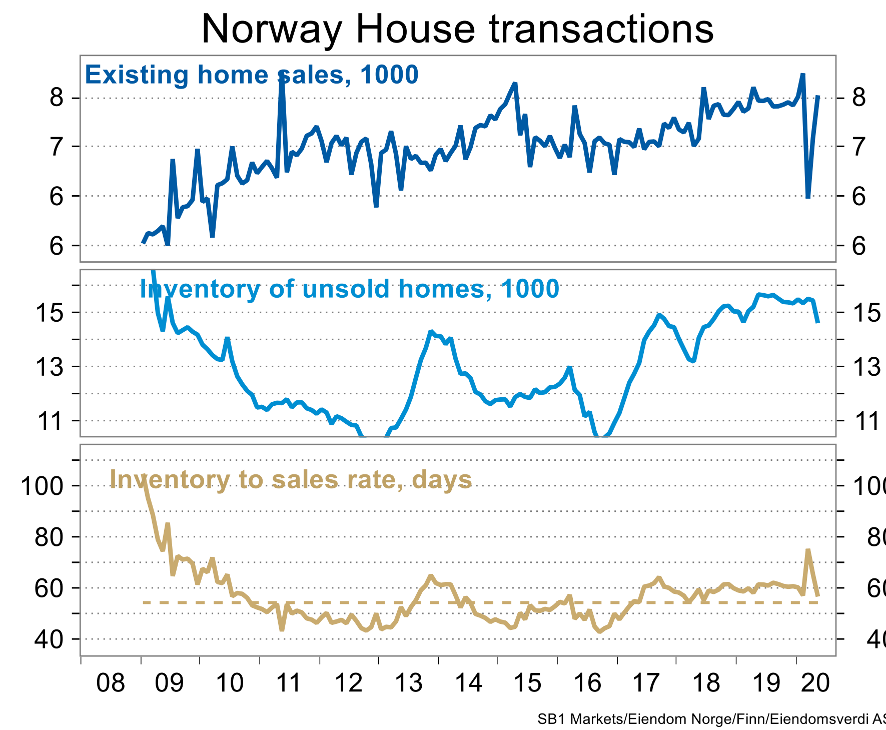




- Housing starts in Stavanger is still not lower than normal. It is still profitable to build!

Fewer sellers, more buyers – and the inventory fell sharply in May!

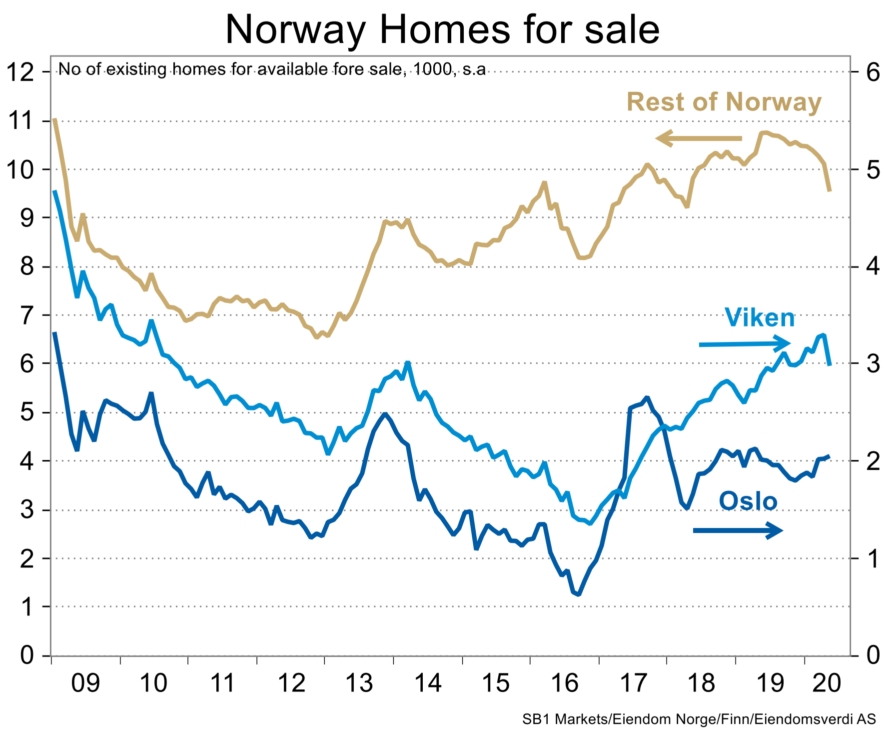


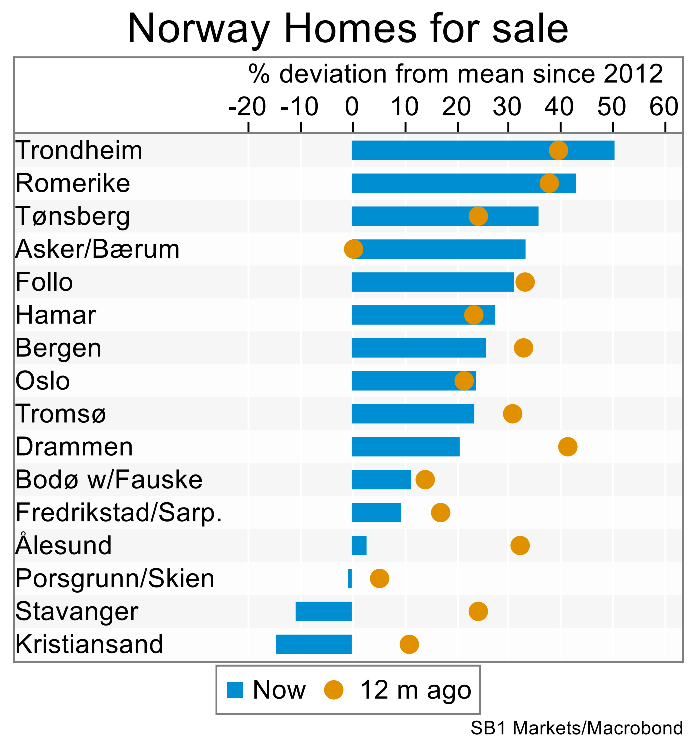


- **The number of transactions** rose sharply in May (and April was revised sharply up). In May, sales were not far below record high!
- The **supply of new existing homes** for sales has fallen since March, by almost 10%. So no rush of worried sellers!
- The **inventory of unsold homes** fell sharply in May, and April was revised to a decline from a small increase
- The **inventory/sales ratio** fell back to a normal level in April and May, from a high level in March (because sales were low)

Fewer homes for sale most places (but not Oslo)

Inventories are still on the high side but just Viken is reporting a 'disturbing' trend

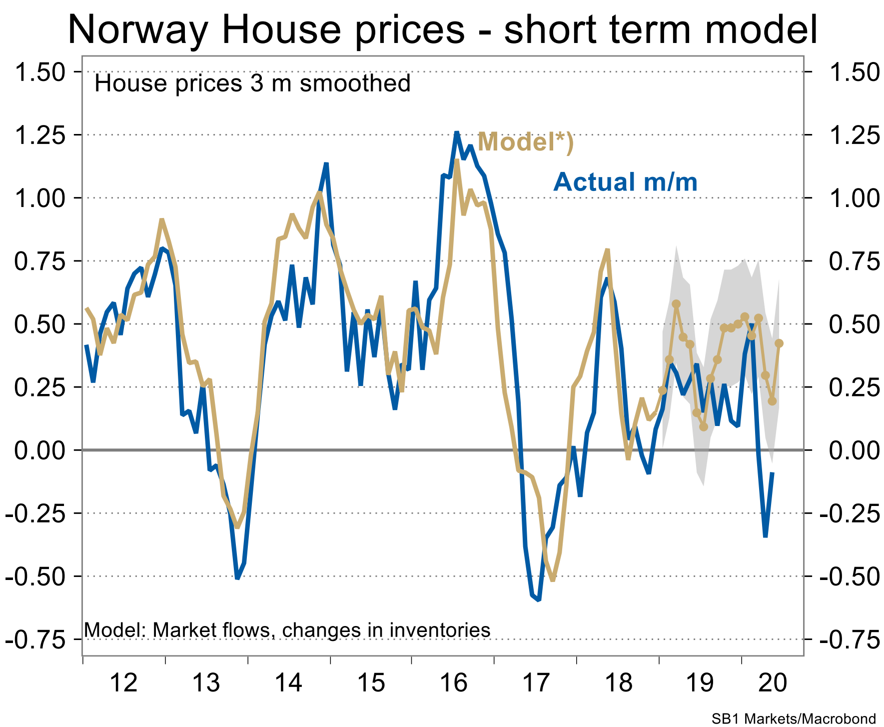




- Last month, inventories were up y/y in 13 cities, and down in just 4. In May, inventory is up in just 6 cities, and down in 10!
- Still, in some towns, the inventory is much higher than normal, like Trondheim and some cities around Oslo (and in Oslo as well)

Short term market flows suggest further price hikes

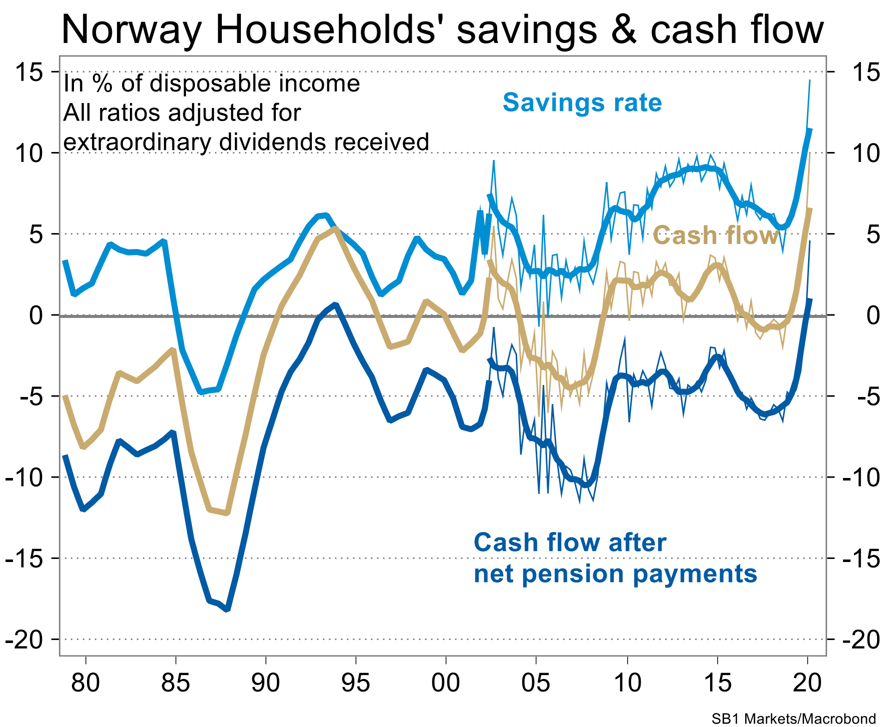
However, high unemployment and an uncertain economic outlook could take prices down

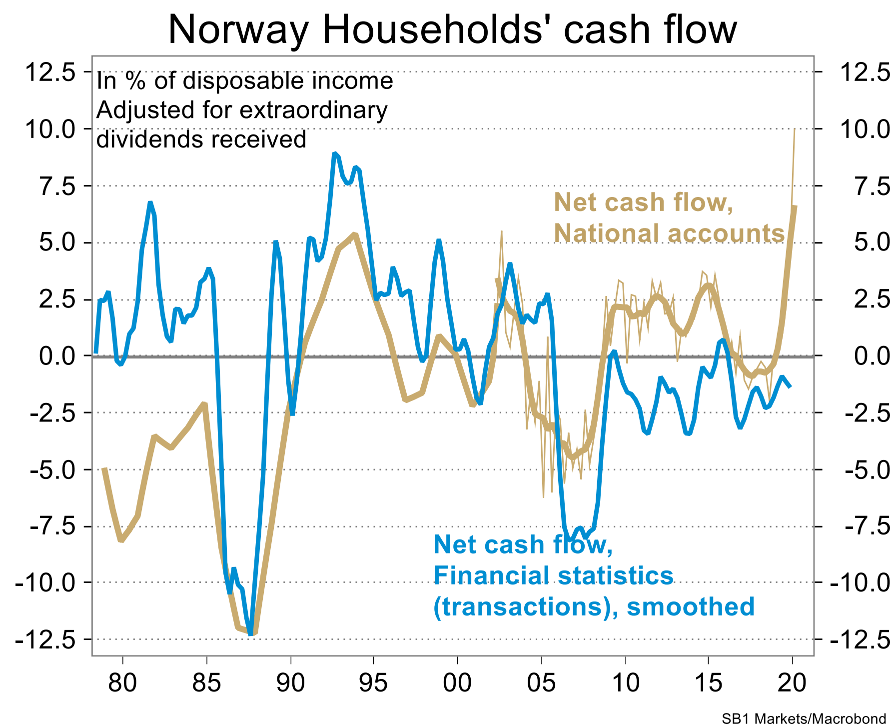


- The supply of new homes for sales and the inventory suggest just marginal price decline the coming months
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

A savings ‘shock’ in Q1, more to come in Q2

Consumption is cut sharply, income are almost kept up – and savings +3 pp to 12.7% in Q1

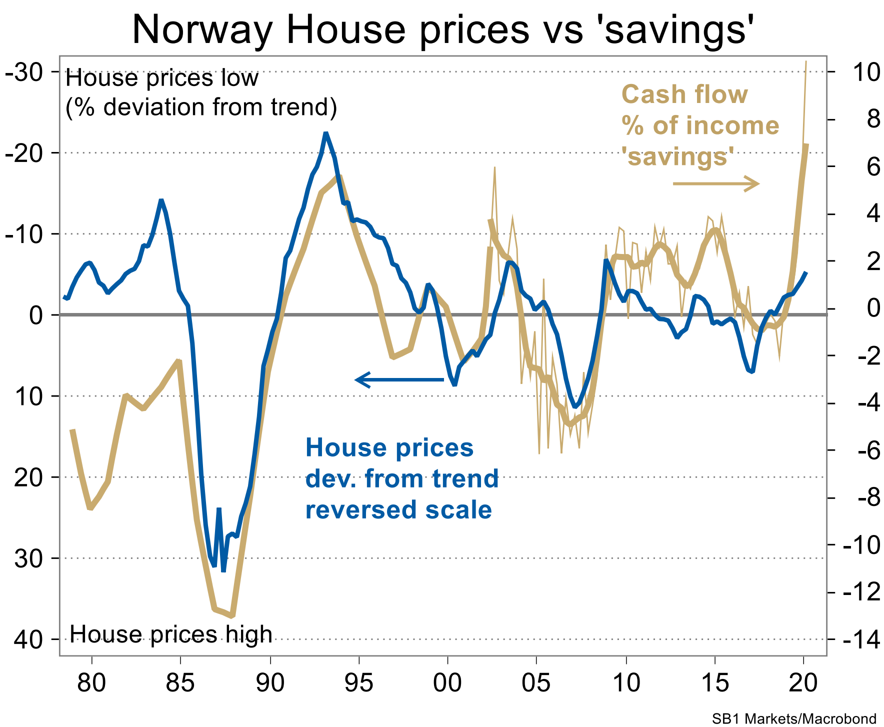




- Savings rose to 12.7% in Q1 from 10% in Q4 (rev from 9%) – to the highest level ever. Adjusted for changes in dividends, the saving rate rose to 15% from 10%.
  - » Consumption fell 3.5%, while disposable income fell 0.2%. The decline in disponible income was mostly due to lower dividends received (income ex dividends rose by 1.9%)
  - » After deducting for still high housing investments, net financial investments equals 10% of total disposable income, it was negative 5 quarters ago
  - » When deducting net pension savings (which are not visible or at least not available for households), the cash flow is still into red, at -2.9%
- Financial accounts reported a negative cash flow (incl. pensions) at 1% of disp. income in Q4. The gap between the Financial Accounts and National accounts is wide as SSB has not been able to ‘find’ the households’ money in banks, funds etc which the National accounts report they have saved. We do not have transaction data for Q1
- High savings during the Covid-19 crisis is good news as it increases the potential for demand to pick up rapidly as soon as restrictions are lifted and consumers feel confident to move around

House prices and savings are usually correlated

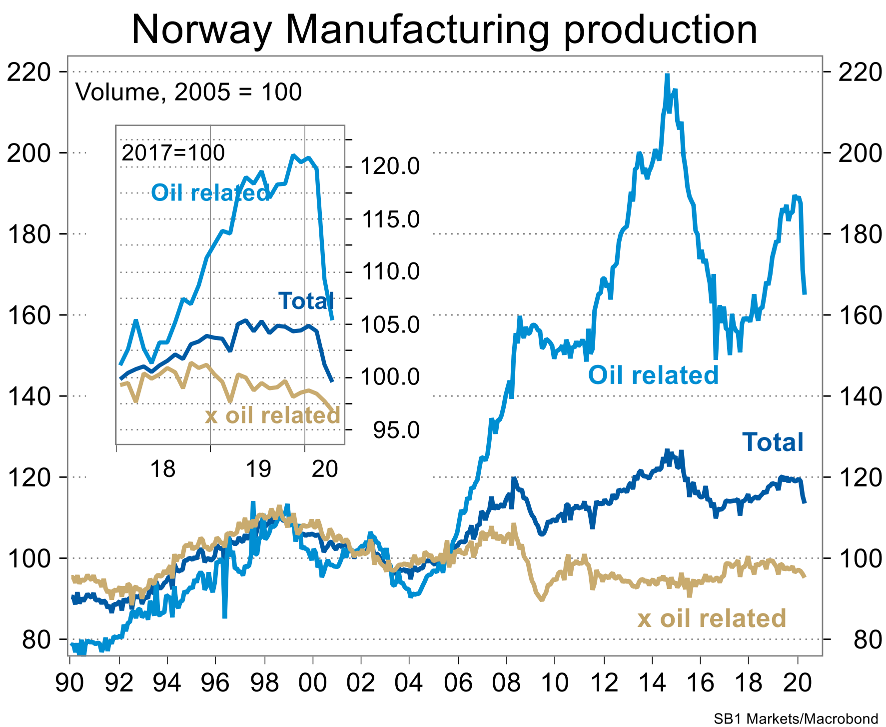
Now, house price inflation is below 'normal', and savings are increasing

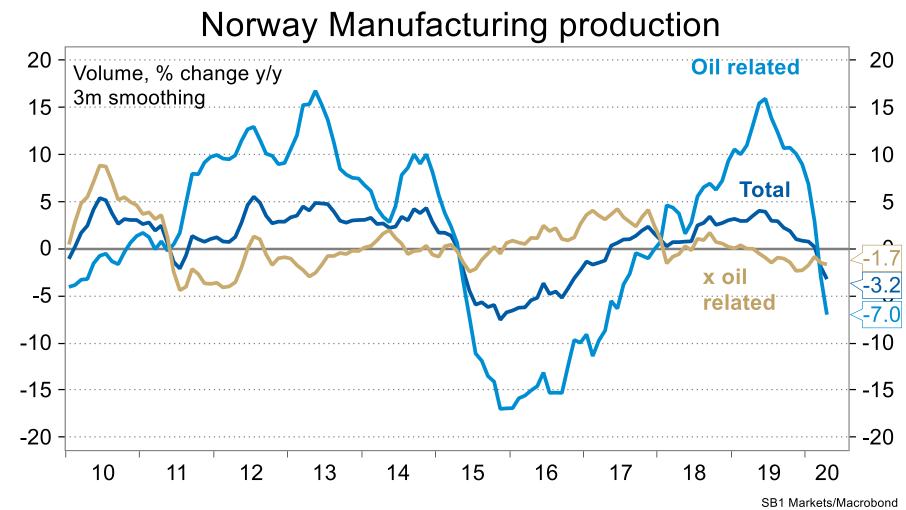


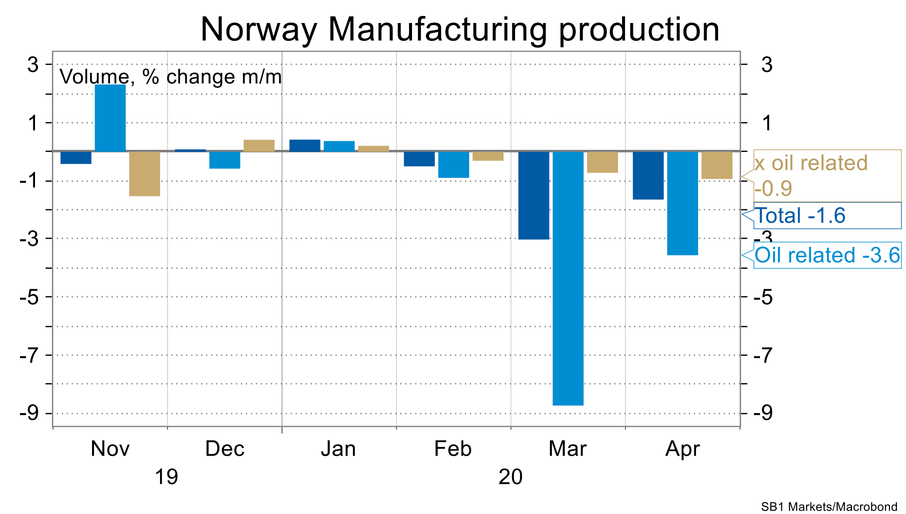
- House prices usually impacts
  - » The savings rate
    - You normally spend less and saves more when your net wealth falls – but that did not happen when house prices fell through 2017 (and the savings rate fell further)
  - » Housing investments
    - It is less profitable to build/buy a new home when house prices are low. Housing starts fall when house prices declines
- Now, house prices are slightly below the trend over the past decades, which may explain the lift in savings
- Consumption growth is low, but the upturn in the savings rate (without consumption waning) offers some comfort

Manufacturing production further down, oil related in the ‘lead’

Total manufacturing production down 1.6%, far better than we feared (-5%), x oil not that weak!







- Total manuf. production is down 4.6% from February to April
- Oil related is down 12%, x oil just 2% - extremely better than in other rich countries. No lockdown Sweden is down 17%!

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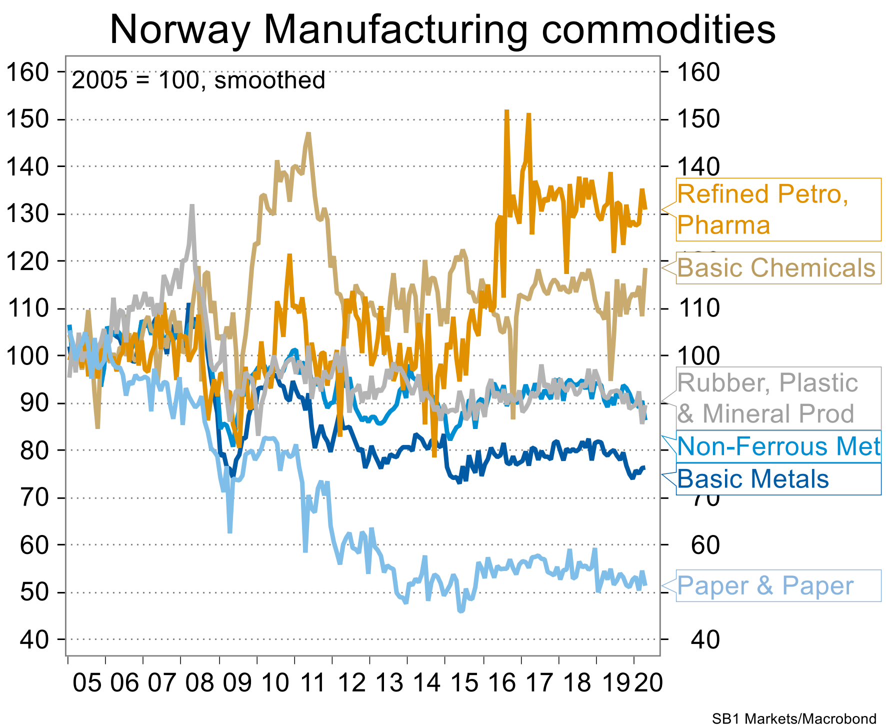
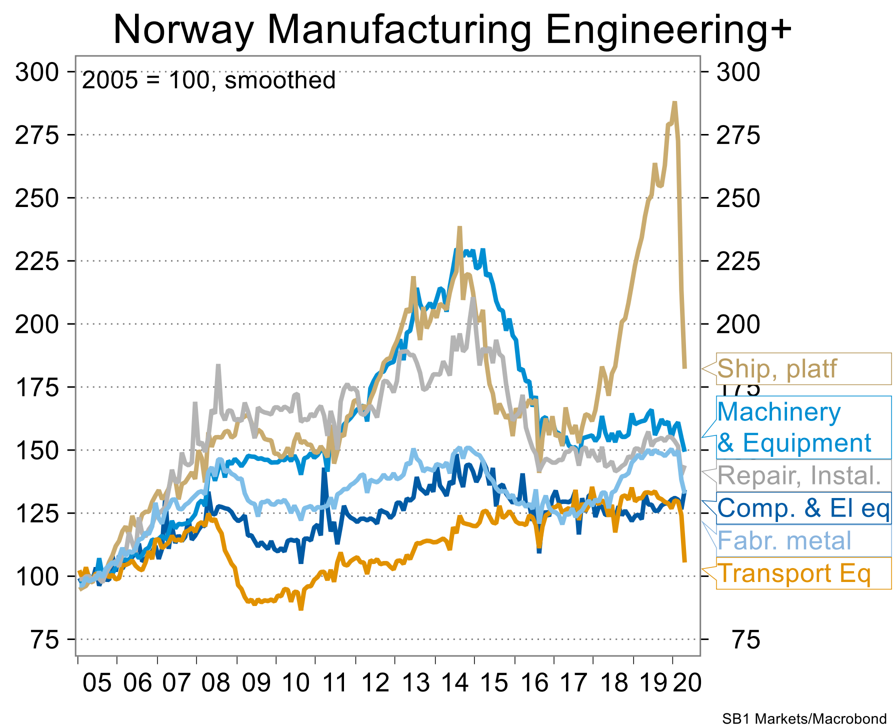
Ships/platforms down more than 1/3rd since Jan from a incredible high level

Transport equipment down almost 20%, weakness in fabricated metals and machinery too

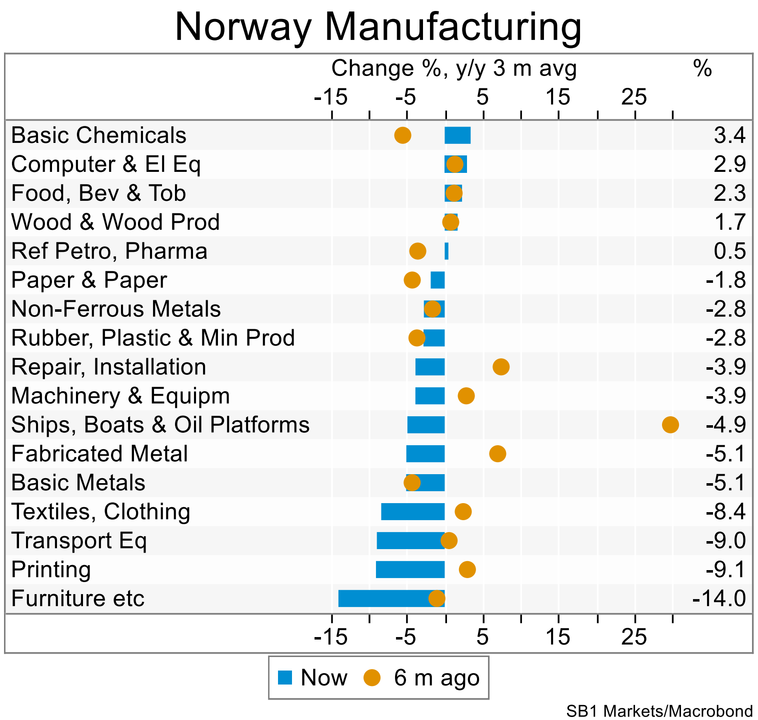


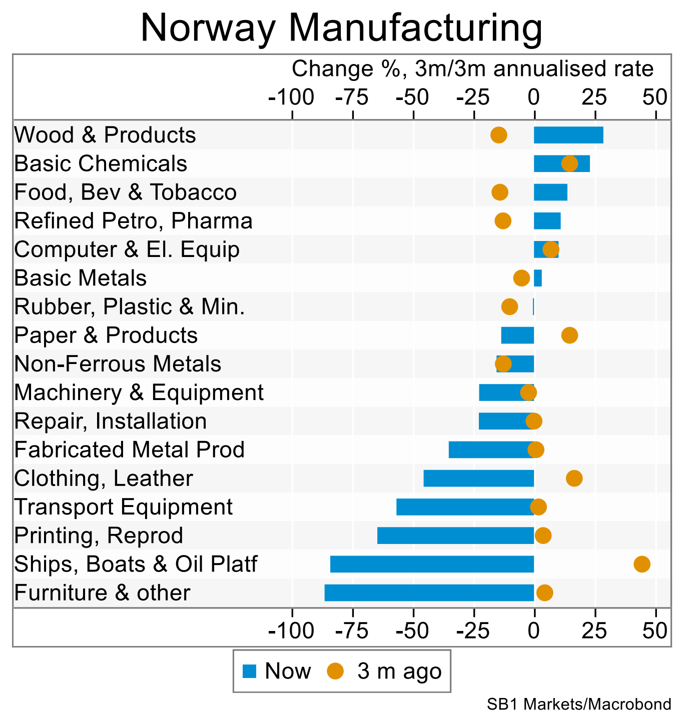


- We do not think the oil related industries have adjusted their workforce according to the present production level (which probably is below the short term trend in ships/platforms)
- Commodities are still strong. Impressive, given decline in activity in other parts of the world
- Engineering sectors: Most partly oil-related sectors have lost some steam, particularly machinery & equipment production. Repair & installation has more or less flattened out
- Commodities: None are impressive, just basic chemicals and non-ferrous metals close to flat, others are trending down

6 of 17 sectors are growing (all 6 faster), 10 are declining

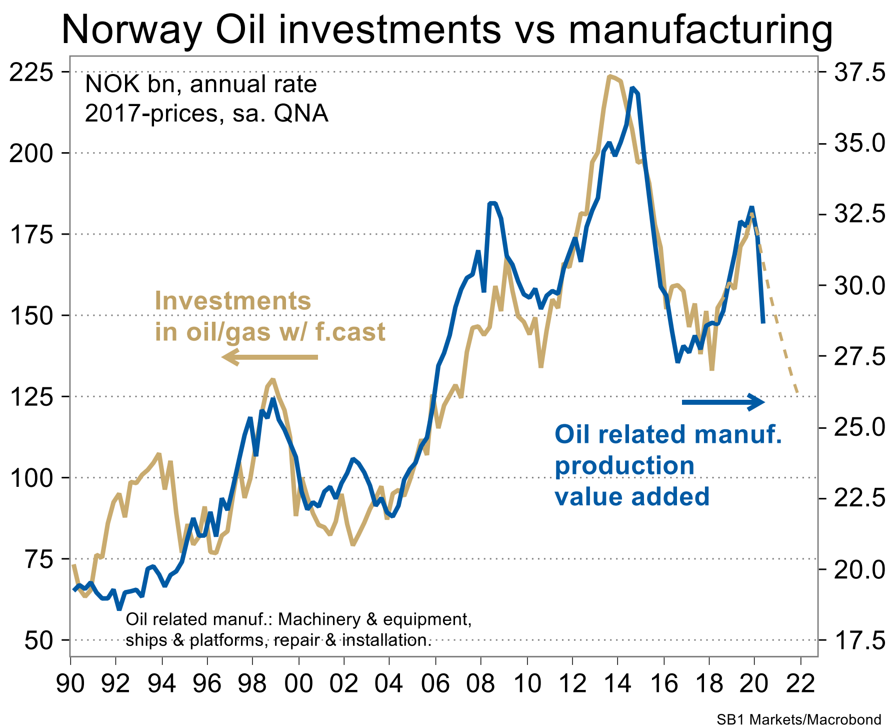
Ships & platforms, furniture production are both heading rapidly down. Wood, food, & chems up





Oil related production has peaked – will decline substantially coming quarters

Luckily, the downside is (somewhat) smaller now than in 2014



- Production in oil related industries have soared since late 2017, closely correlated to the increase in oil investments
- Oil investments peaked in late 2019
- The investment survey, and all other information available suggest that oil investments will decline substantially the coming two years

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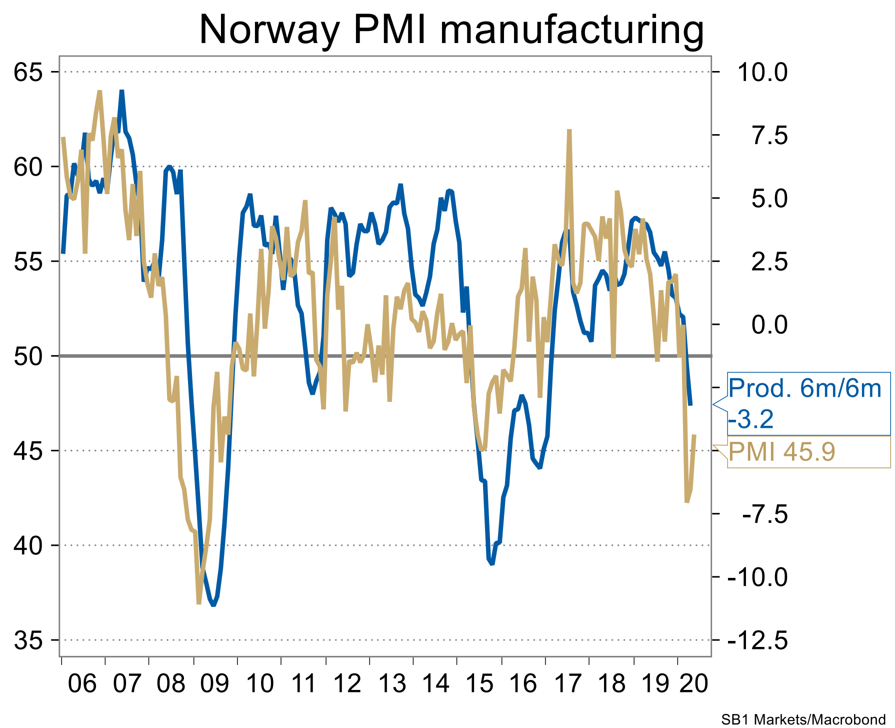
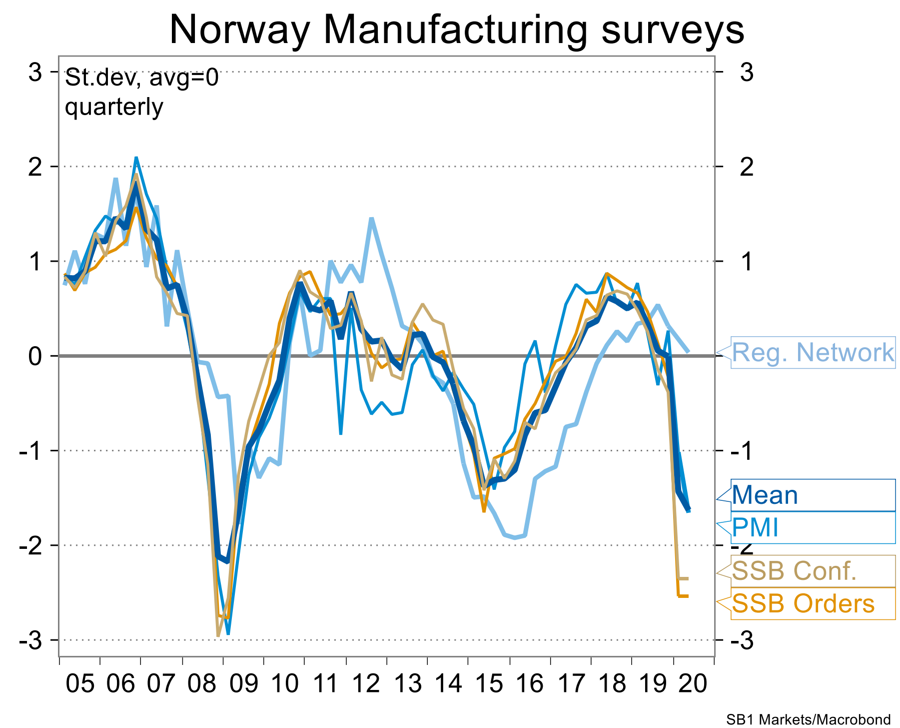
Manufacturing PMI down the drain in March, more to come

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





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

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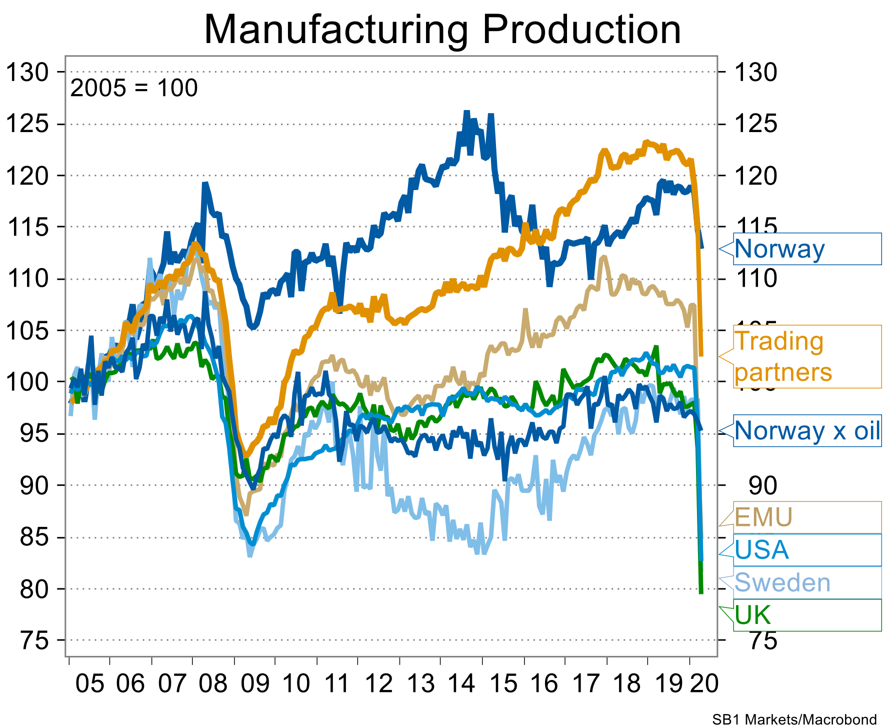
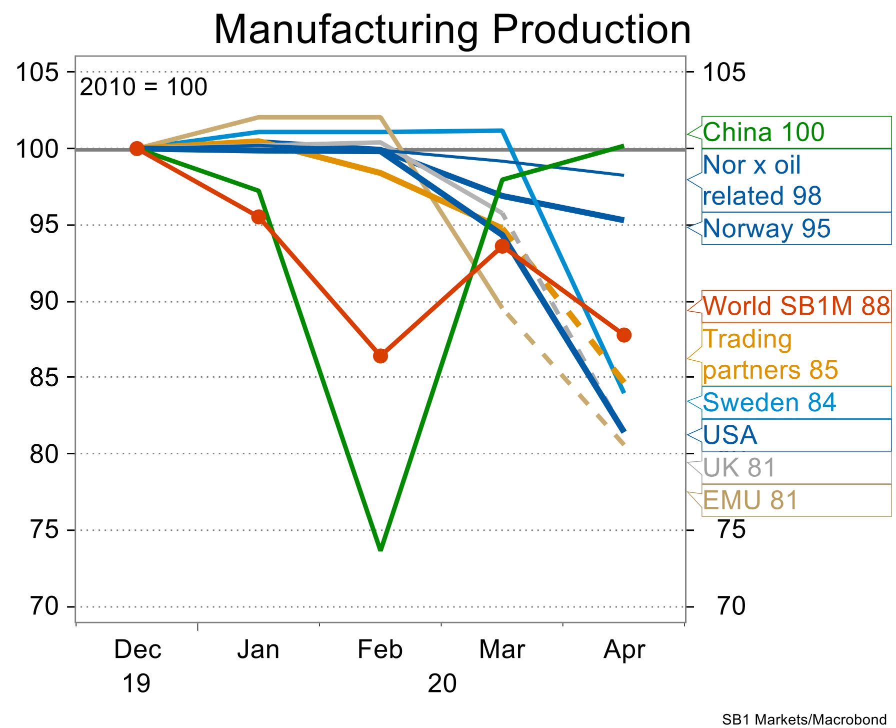
So far, not that bad in Norway!

Other DMs down some 15%. Norway 5%. Ex oil related -2%. China is back on track (until further…





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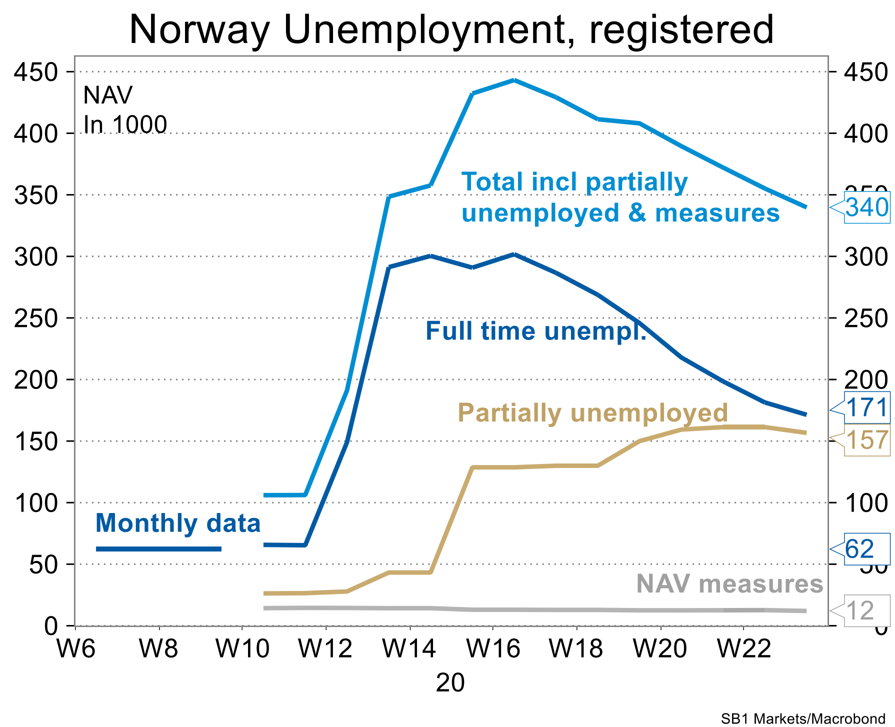
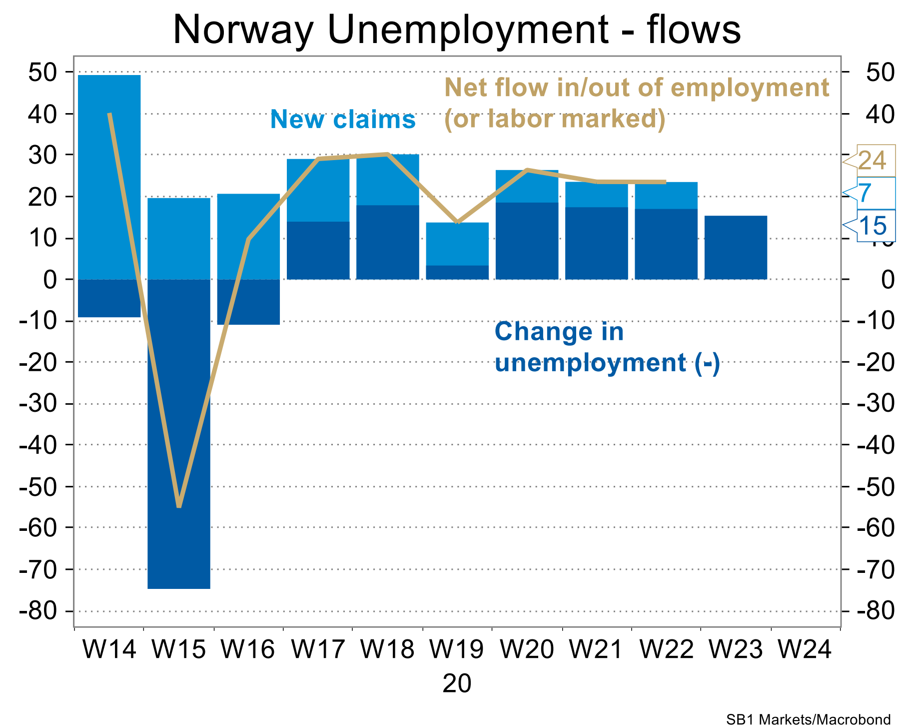
Total unemployment down by >100' from the peak in mid April

Total unemployment fell by 15' last week (the 7th in row), down to 11.9 % of the labour force





- Unemployment fell by 0.5 pp per week, at tad slower than over the previous weeks
- The inflow of new jobless claims has slowed, down to 7' per week. That's still far higher than normal but all the extras are temporary laid off persons
- Temporary laid offs equal 60% of total unemployment, and all of the decline in unemployment is due to fewer temps.

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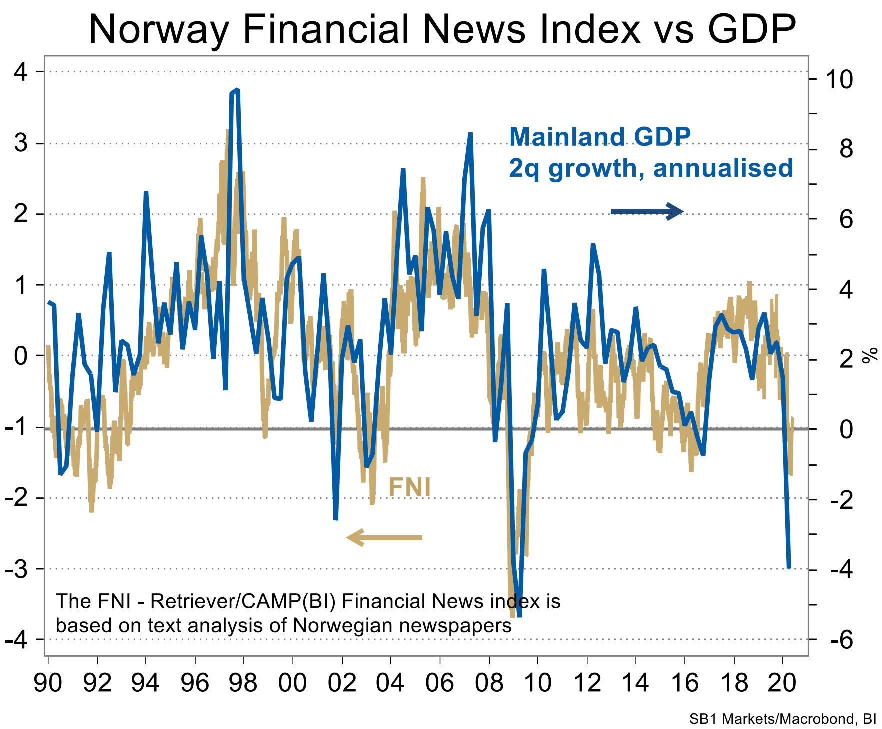
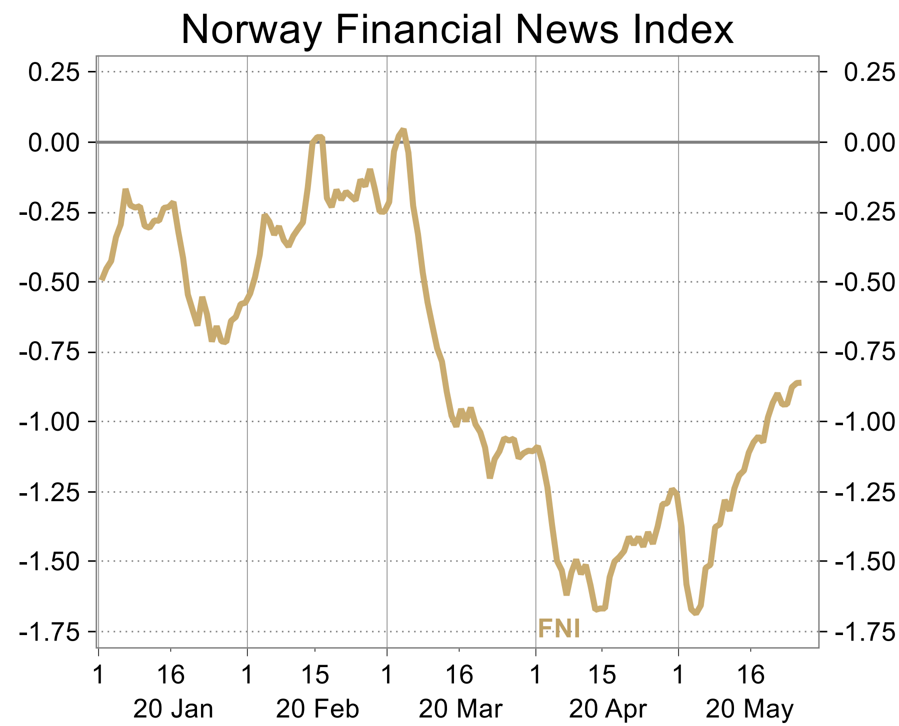
The Financial News Index has turn positive – at least signalling some growth

The FNI fell on Covid-19 but just to marg. below the 2016 'crisis'9, far above the GFC. Now is well up





- The FNI tracks media reports on the economy. The index fell sharply in March and until mid April but has recover sharply since – and ½ of the decline is reversed
- The index has been quite closely correlated to actual GDP growth but the FNI has underestimated the decline in GDP in H1. The FNI barely fell below the 2016 trough in April/early May, and the level was well above the bottom level during the Financial crisis

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

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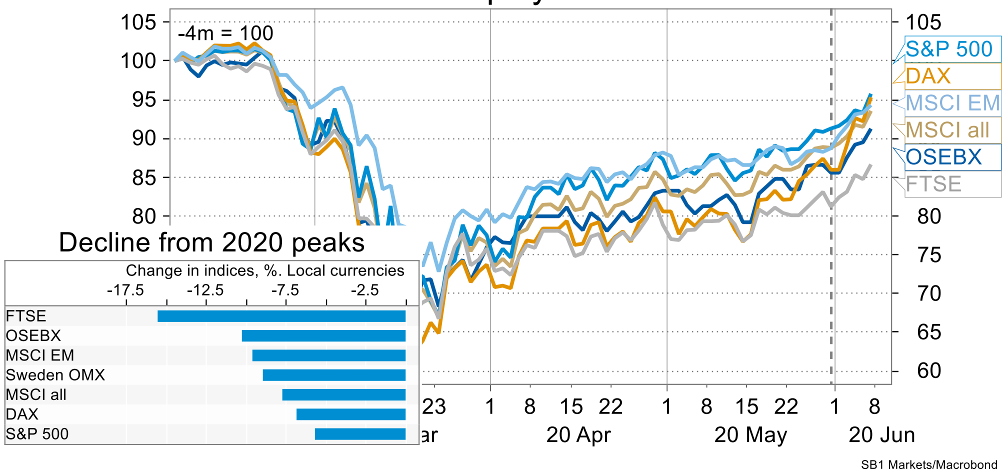
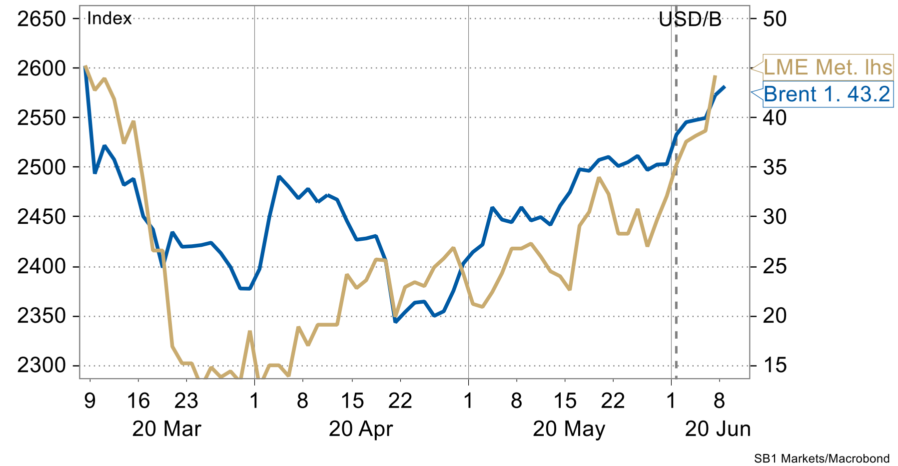
What a week. Only the USD down?? (well some few other f/x too)

Stock markets sharply up, bond yields, oil & metals. And EUR & NOK (f/x returning to pre corona)

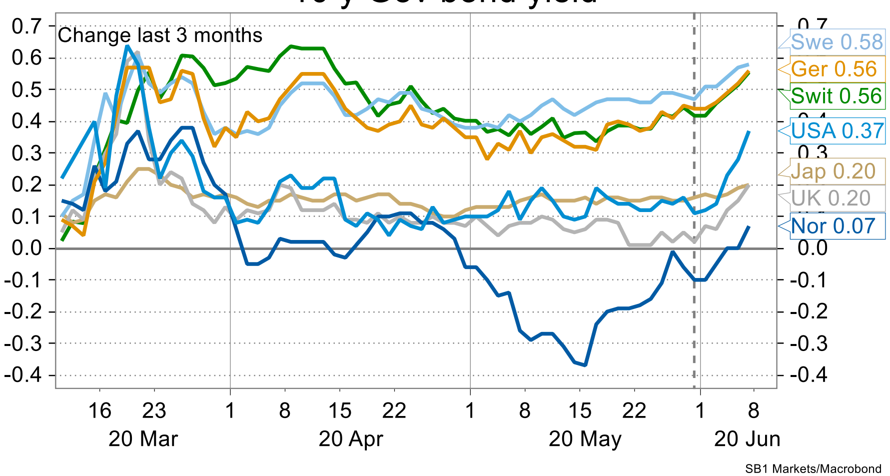
Equity Indices



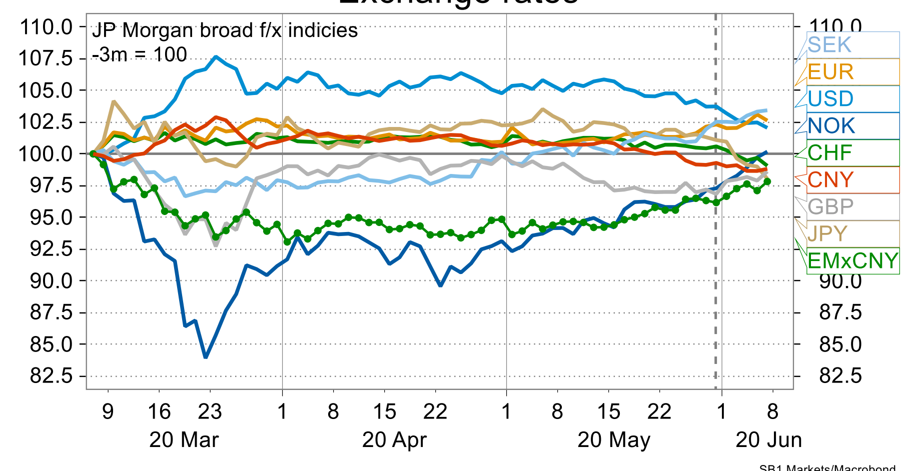
Oil vs. metals



10 y Gov bond yield



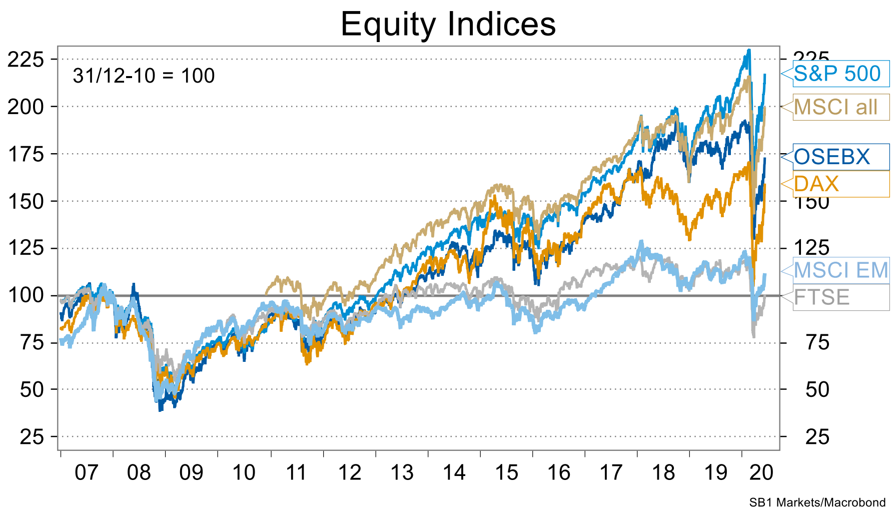
Exchange rates

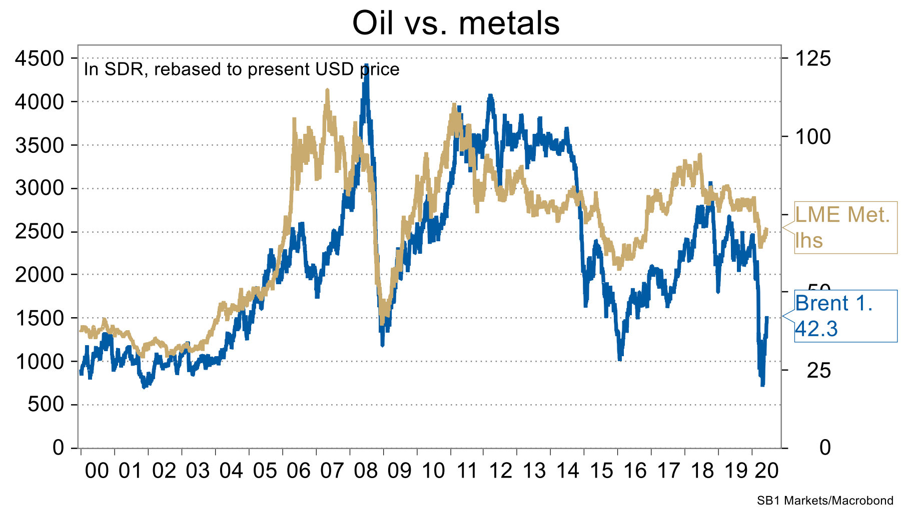


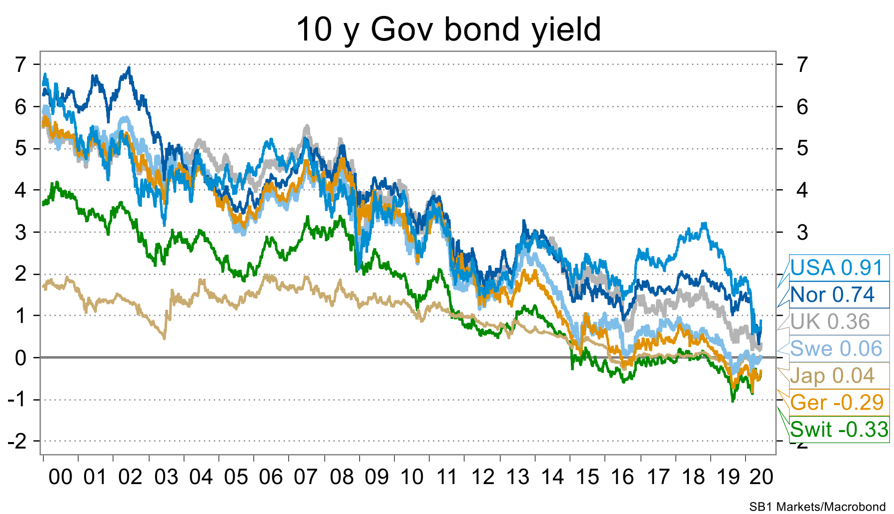
EUR, NOK & EM x China f/x on the way up. USD & CNY on the way down

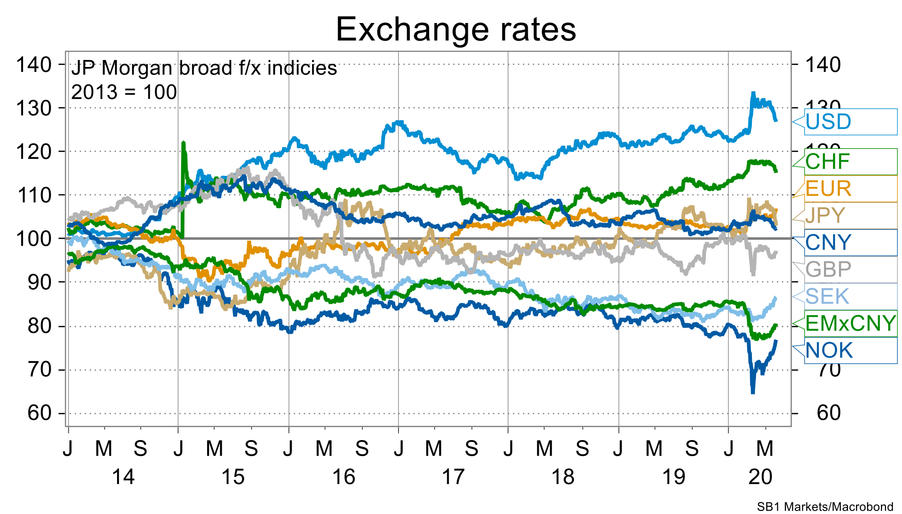
In the long run: Stock markets are looking like a ‘V’

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

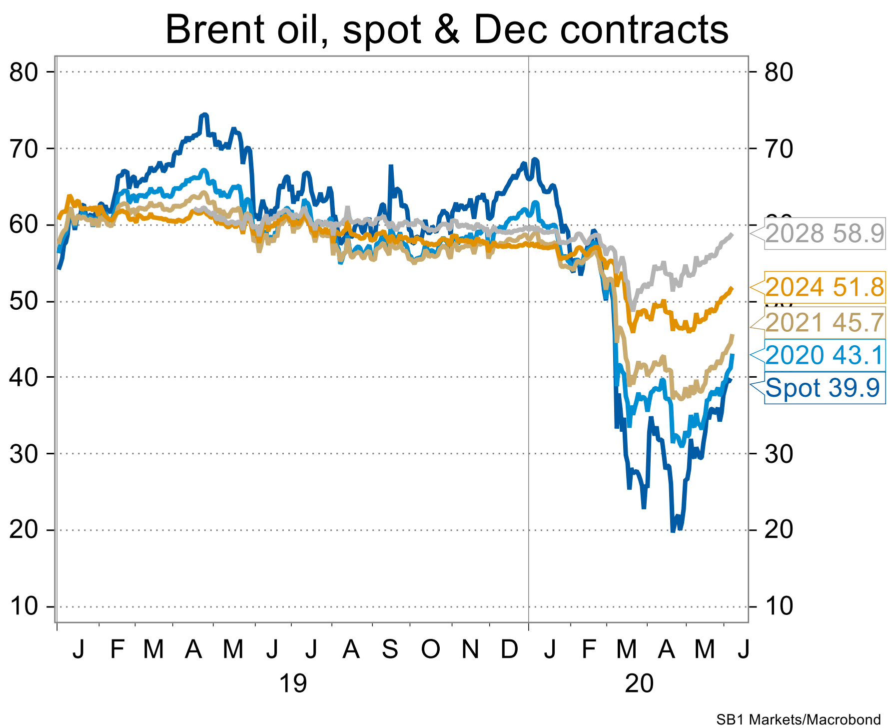


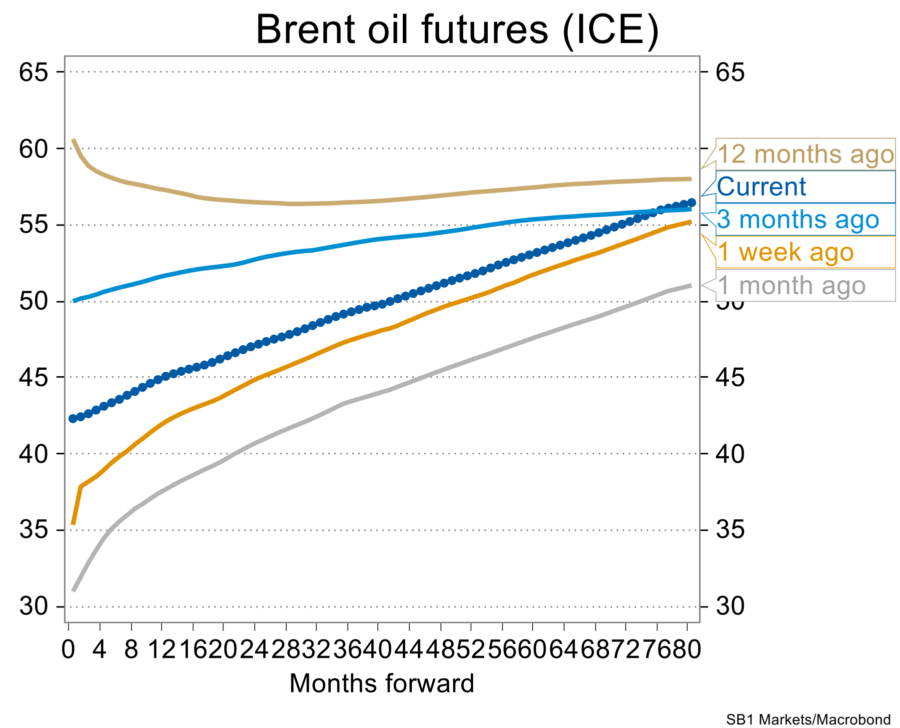






Oil prices: Recovering, all over the curve



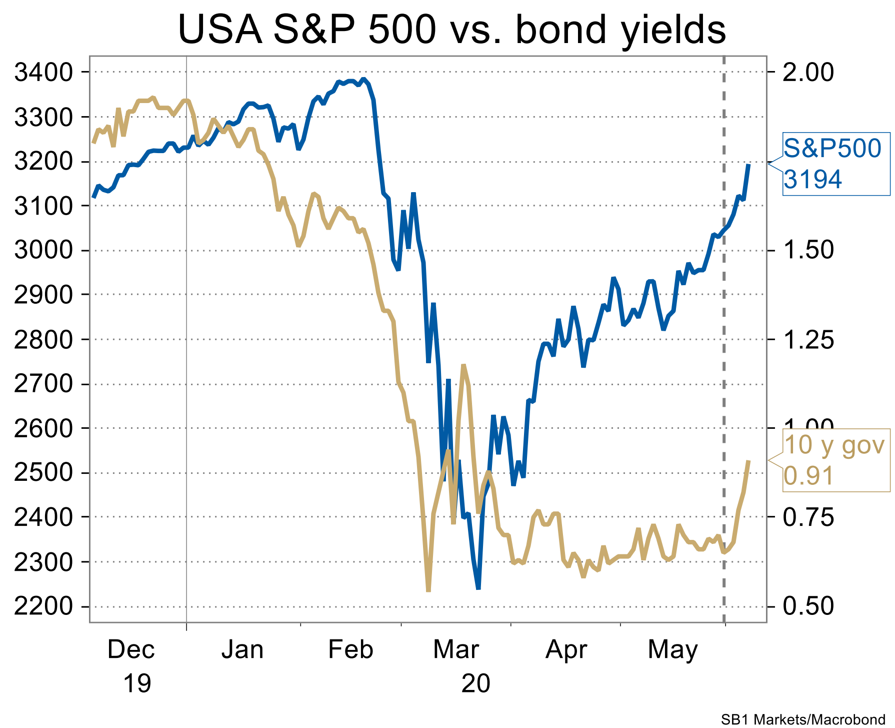


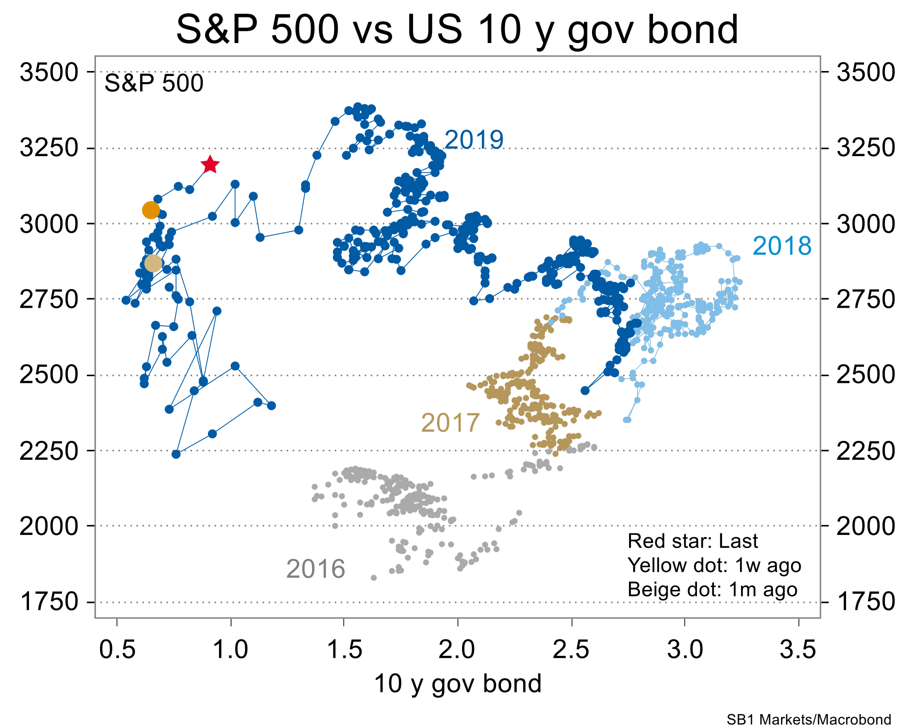
Markets take some bets

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

S&P up 5%, bond yields up 25 bps!

Markets are looking for a V-shaped recovery – and some data are better!

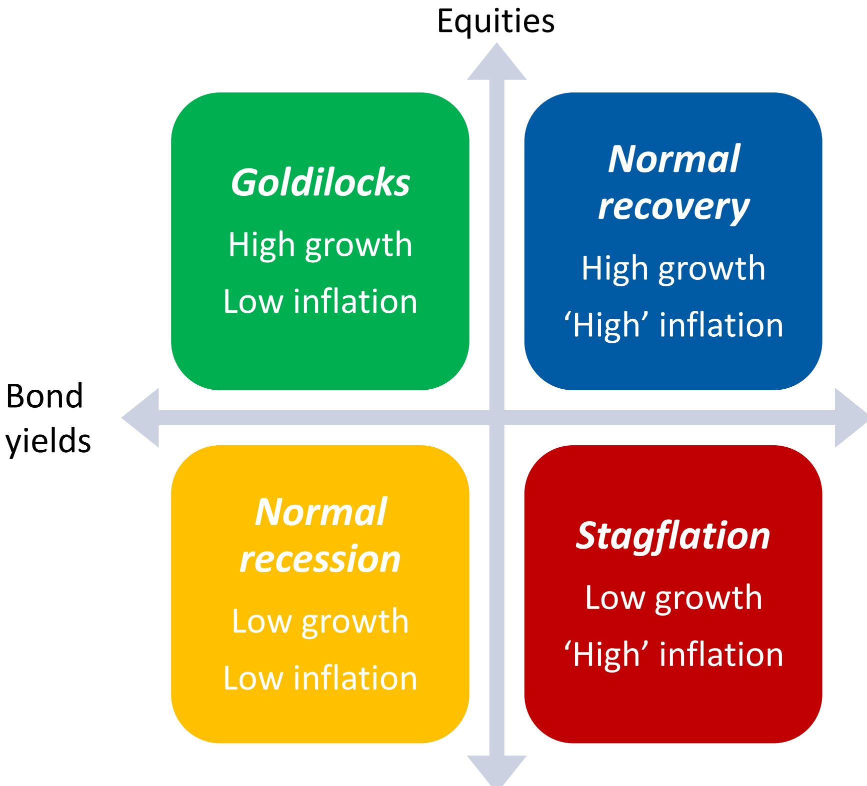


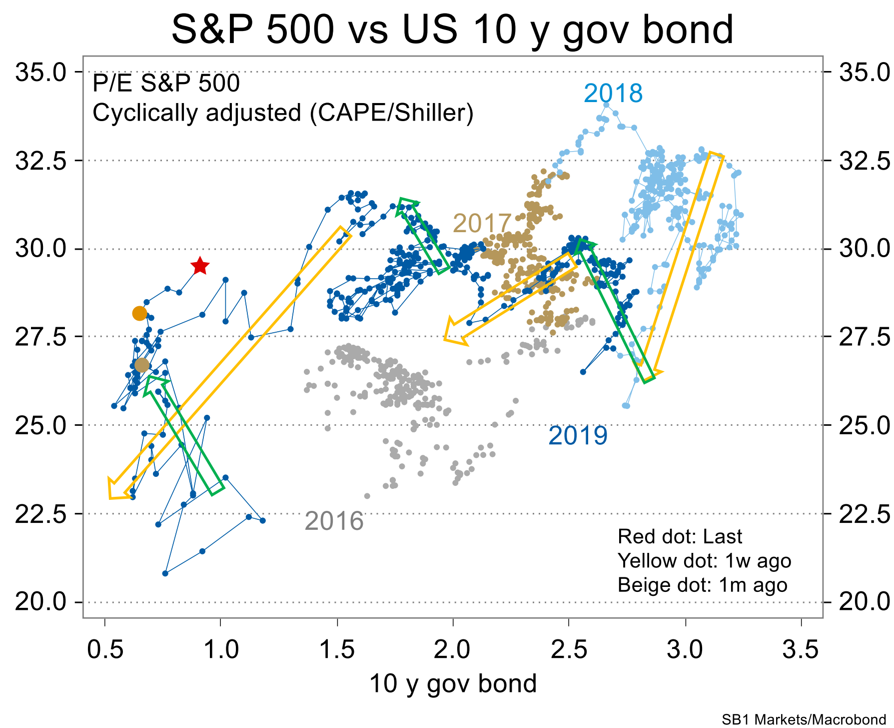


SpareBank 1 MARKETS

Last week: Finally, a decisive move towards the recovery corner!

US labour market data were strong (at least vs. expectations), other data supportive too

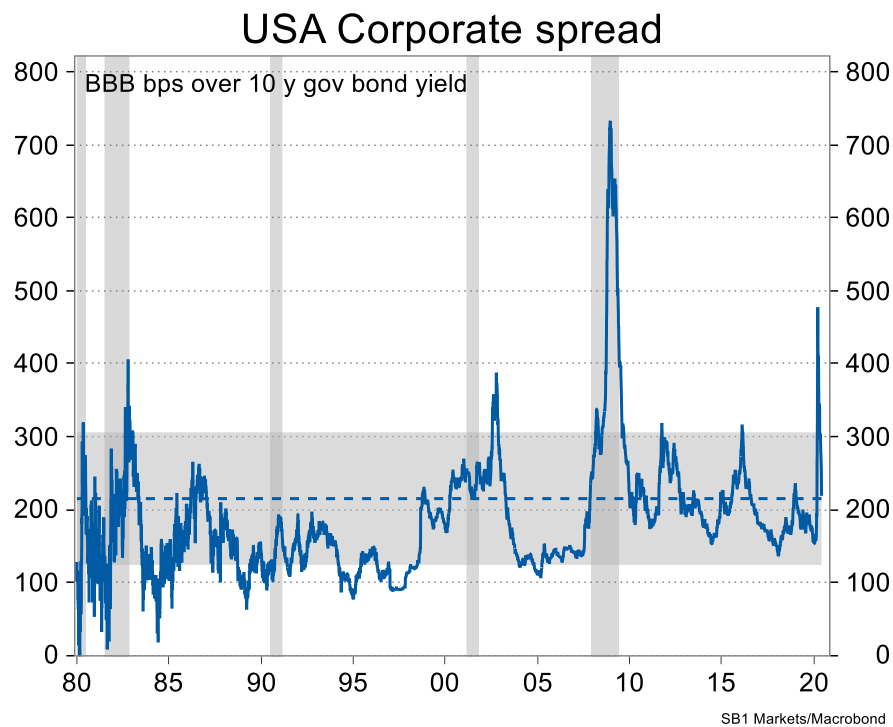


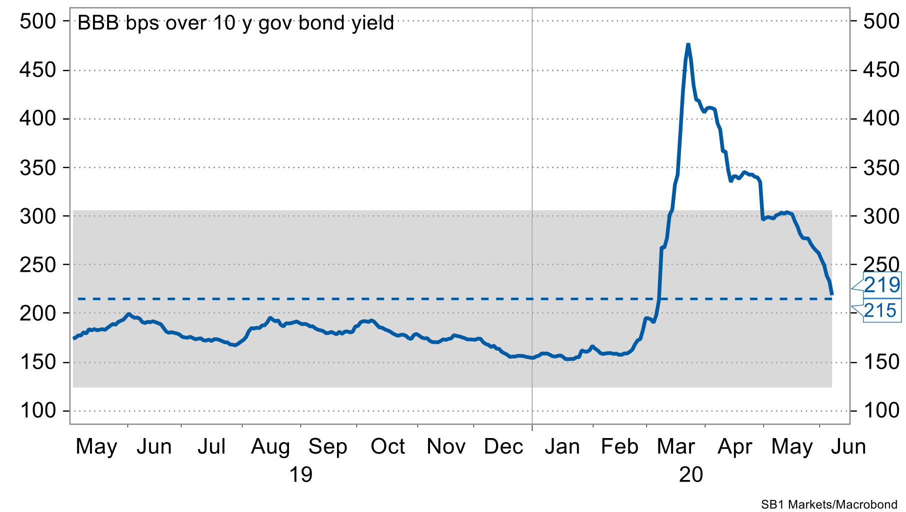


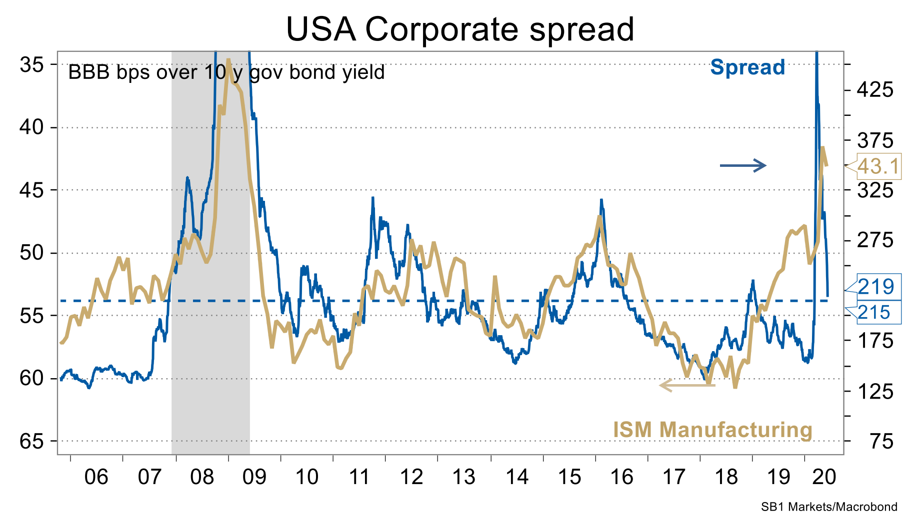
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic 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.

Corporate spreads are back to average levels!

A huge narrowing since mid May. The US BBB spread is at an avg level, still 70 bps above pre corona



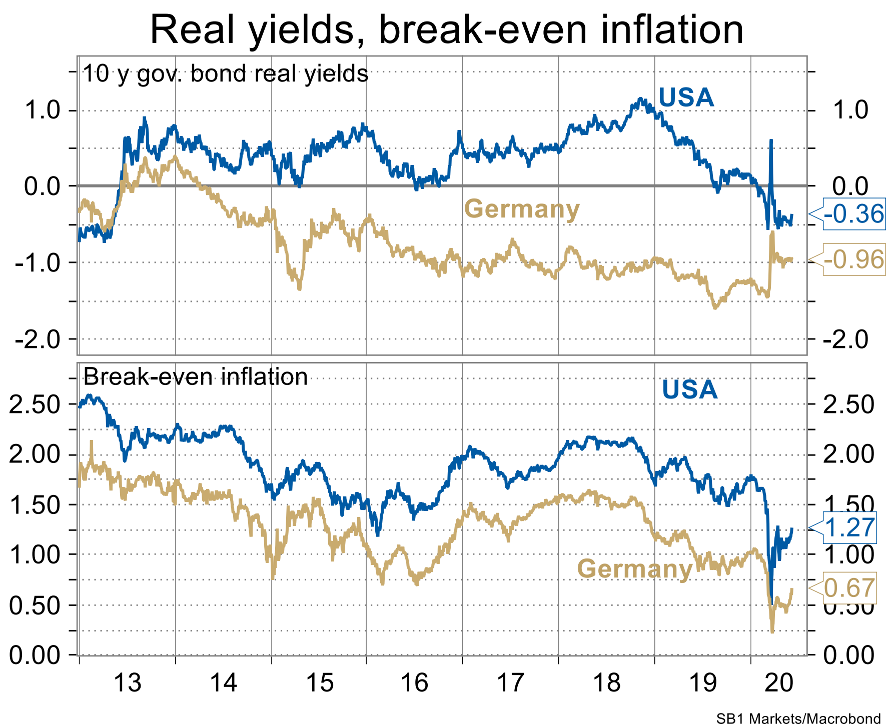


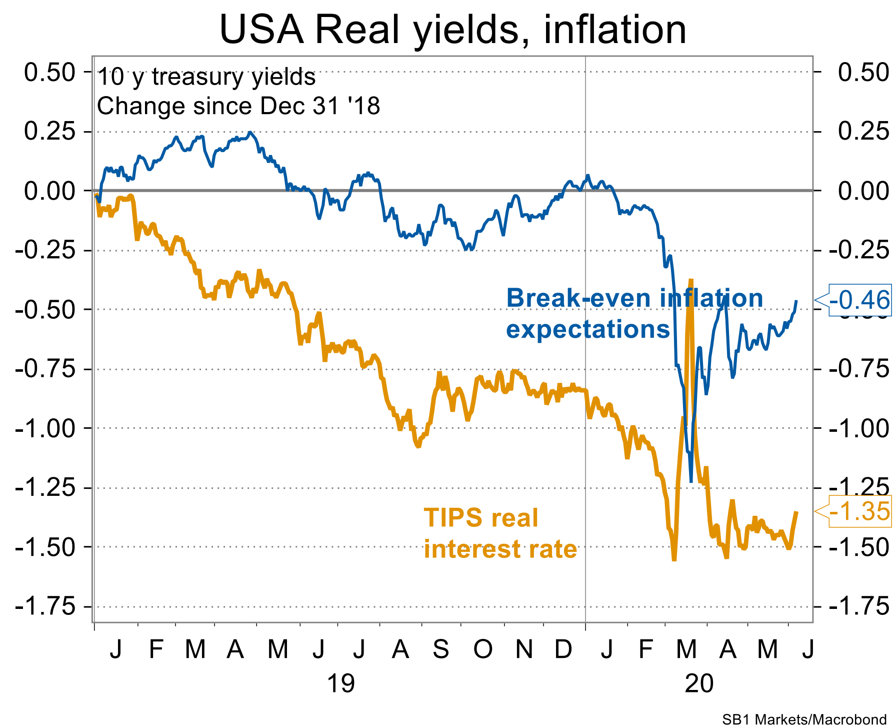


- Is the credit risk at an average level now??

Inflation expectations drifting up, real rates up too – but both still low

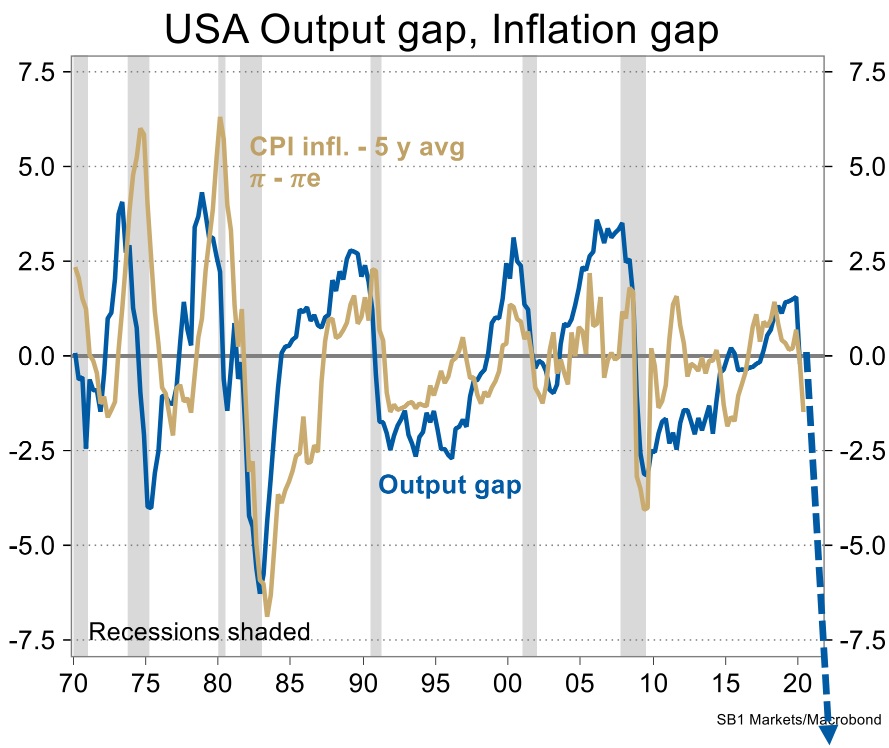
No inflation angst, 10 y expectation 0.7% in Germany, 1.3% in the US

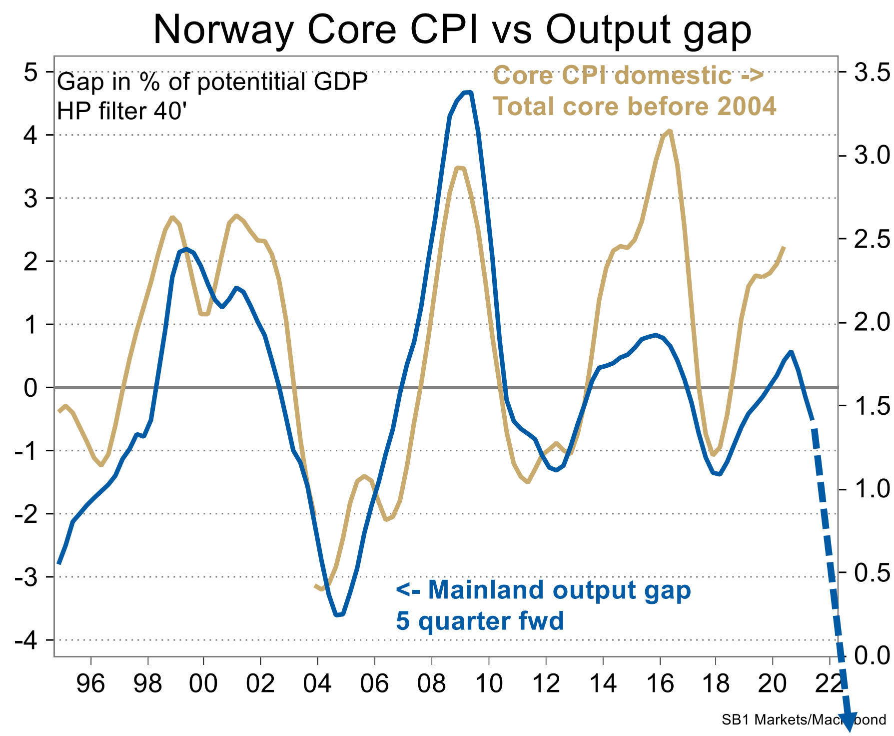




What decides inflation? Not money or debt – but the cycle. Phillips is not dead

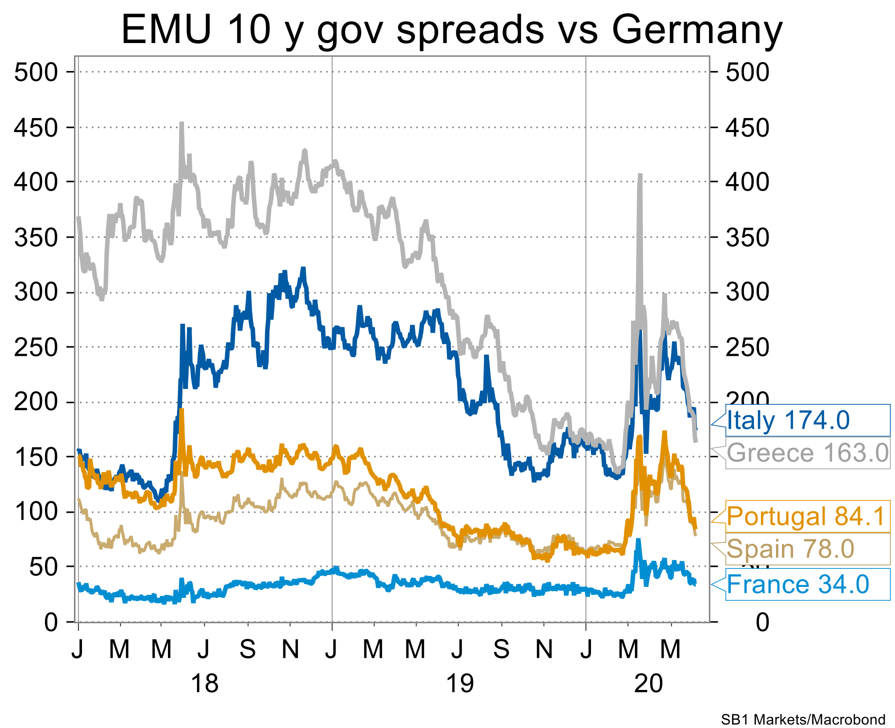
Inflation will not take of when the economy is weak. However, if printed money creates growth…

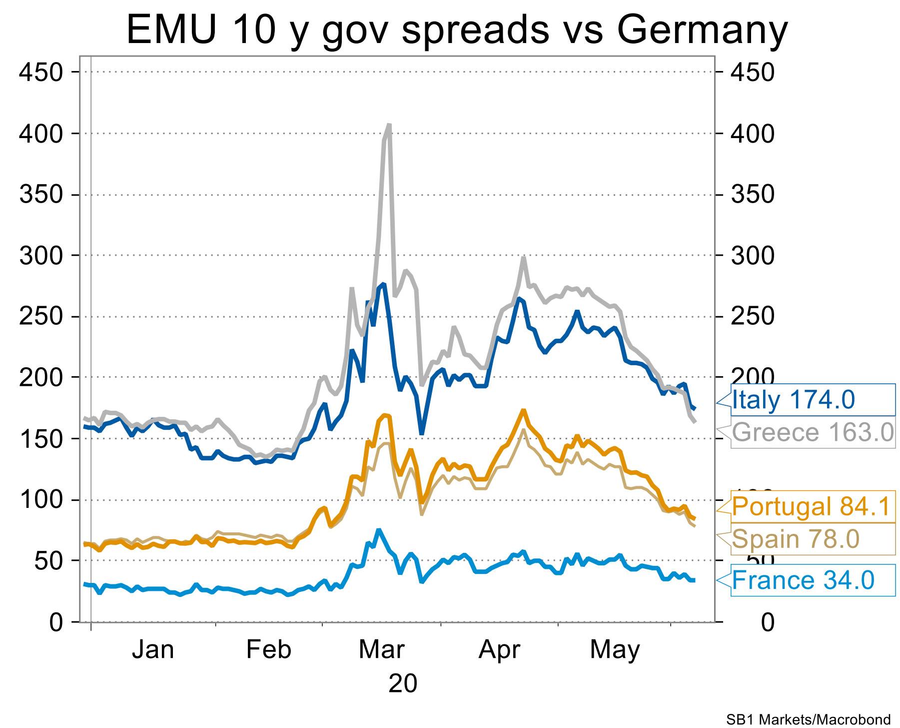




The EU Commision supported the French/German €500 recovery fund

... And added €250 bn in a lending scheme. Most likely, the Northern frugal 4, and E. Europe will yield

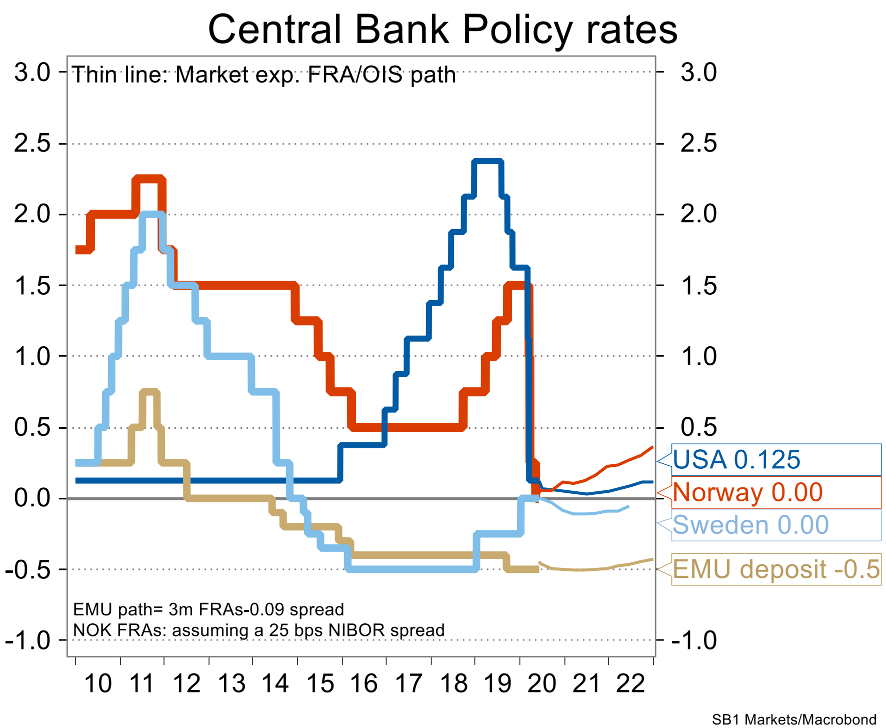


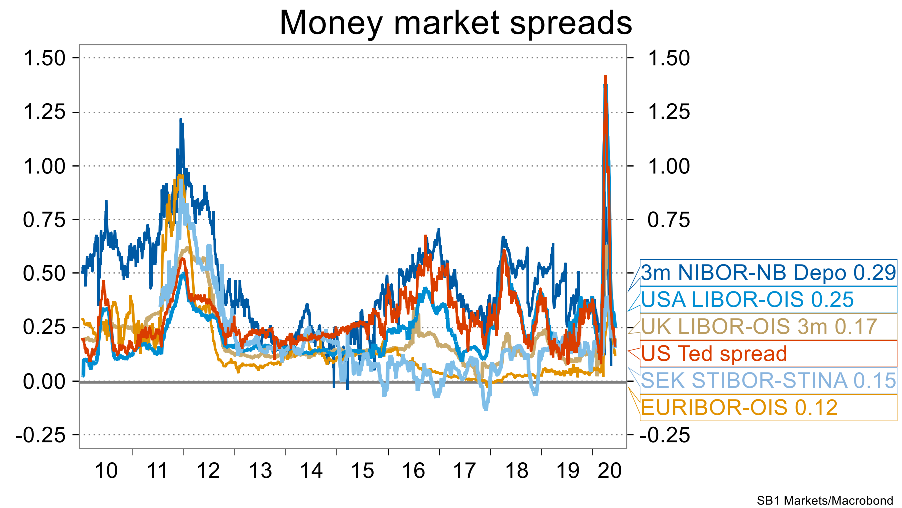


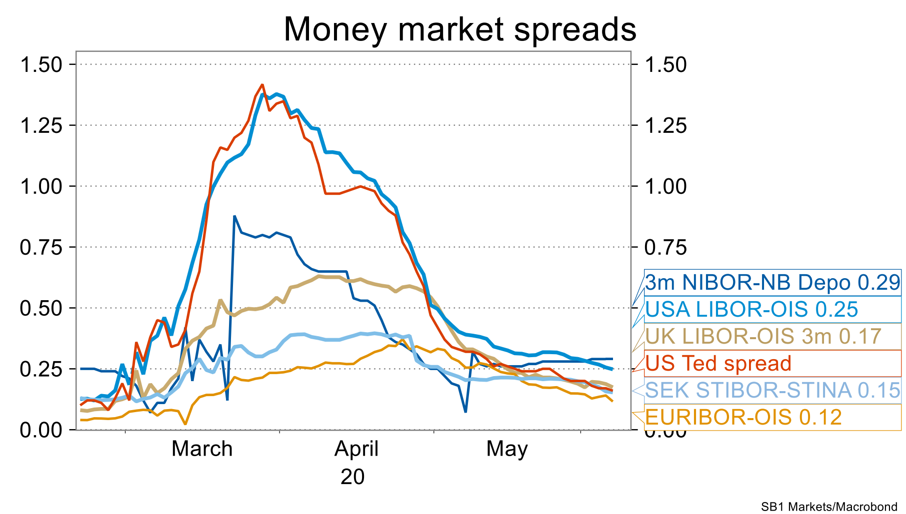
- If decided, the corona recovery fund will be a brand new EU construction. The fund will be backed by borrowing by the entire EU block – and the debt will be served and repaid by the European Union. This mutual borrowing is an invention. The south will receive the most of the money as grants. The commission suggested several EU level green taxes to pay for the extra borrowing – and added several green projects as well as a guarantee scheme for €250 bn in corona crisis lending. This might be the first serious step towards some sort of fiscal integration.
- Some Northern European (frugal) countries are sceptical: Are their money going to spent in the South? The answer is probably yes. Most likely, in the end they will accept the German/French proposal. The alternative, another deep European crisis is not more attractive. And for the sceptical East European countries, if they do not accept the support for the South now, they will lose their EU support tomorrow…
- Government bond spread within the Euro area narrowed further last week, no doubt due to the new EU political initiatives

Central bank rates on hold, but markets are starting to look upwards

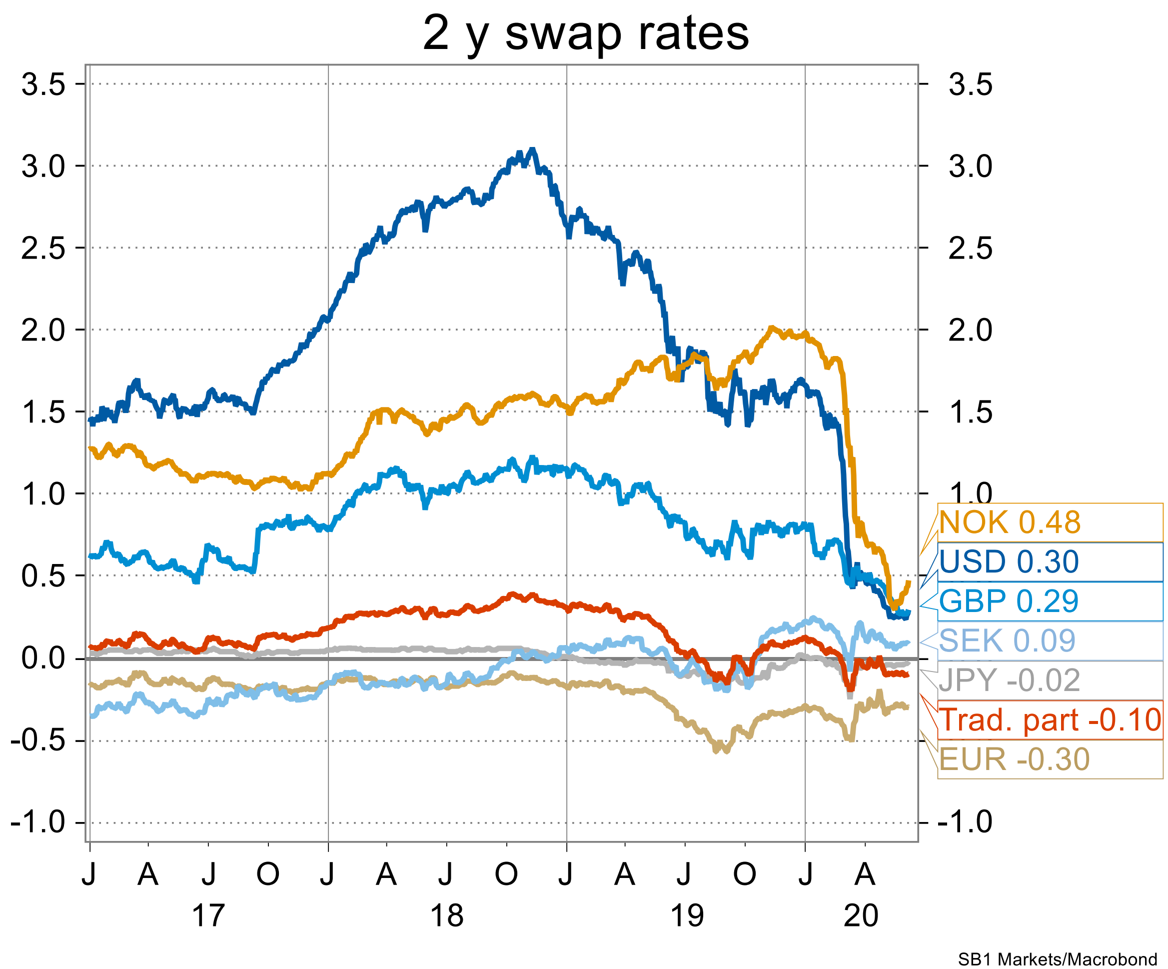
… especially in Norway

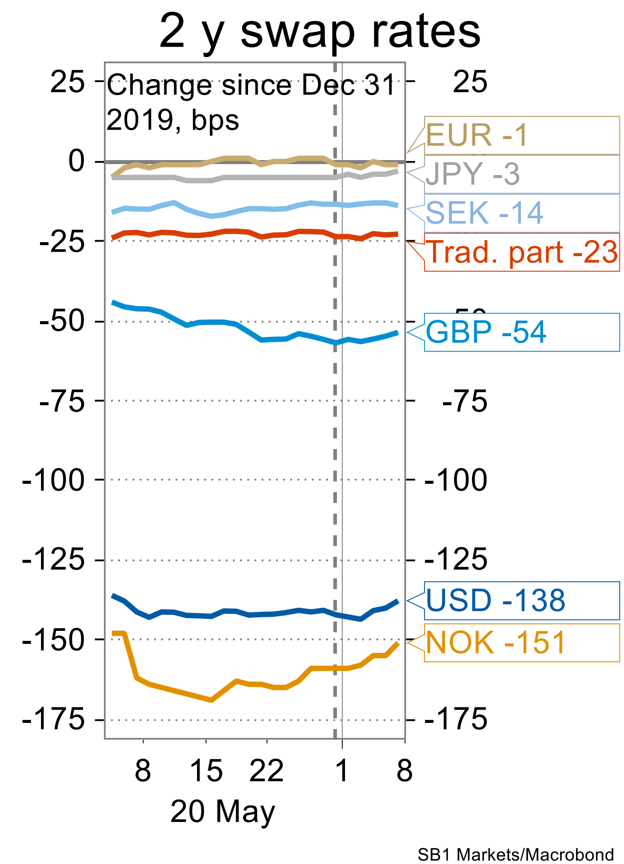




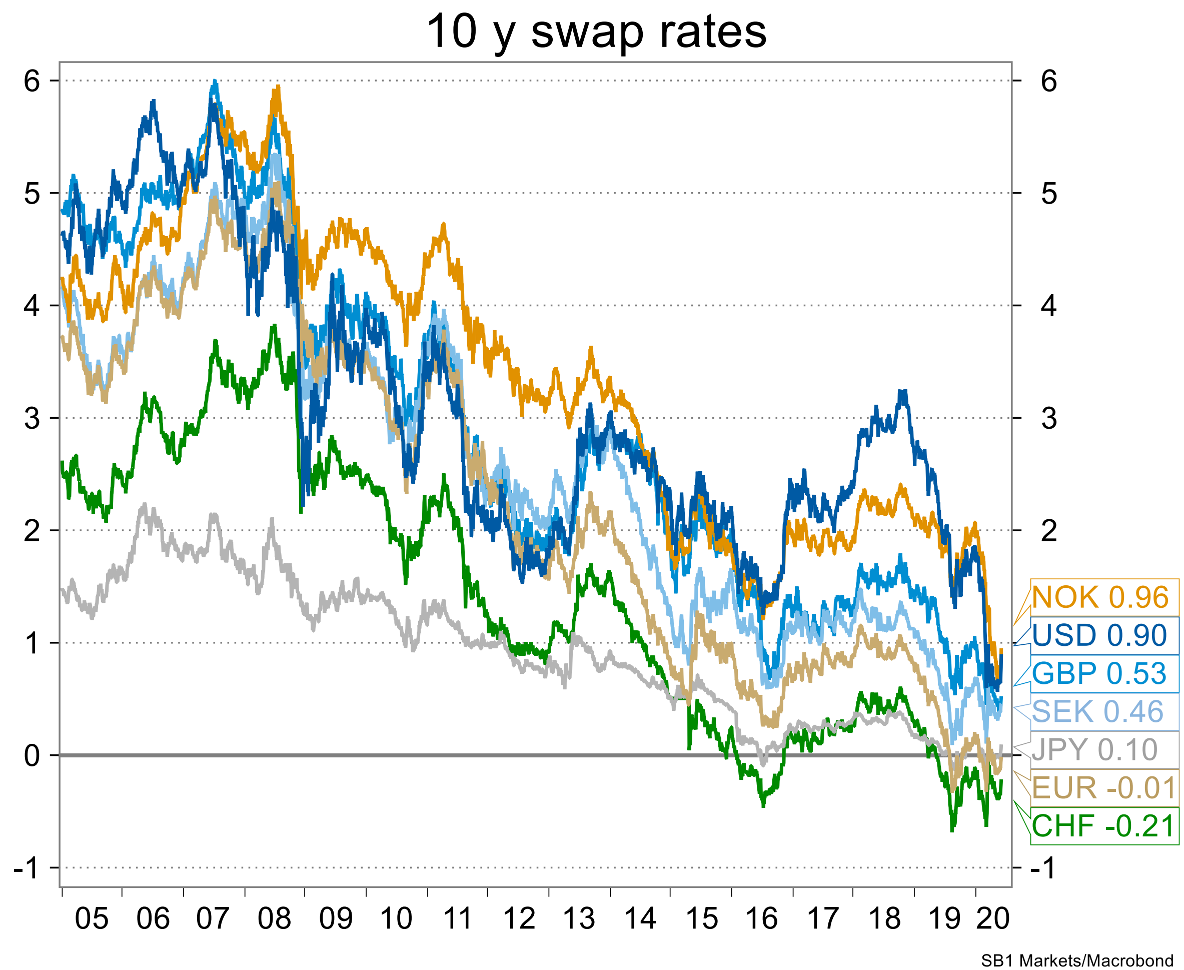


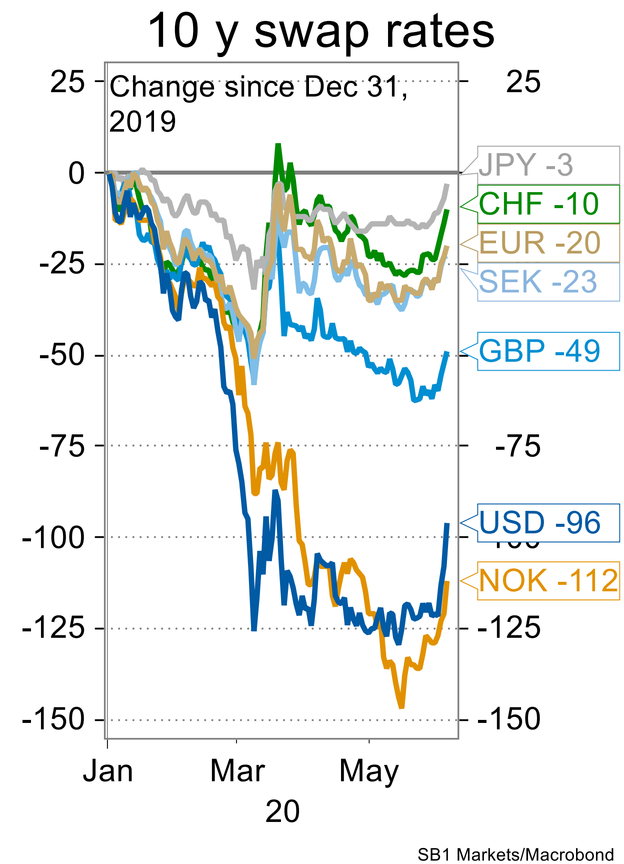
NOK short term rates up, the others not





Up, everywhere

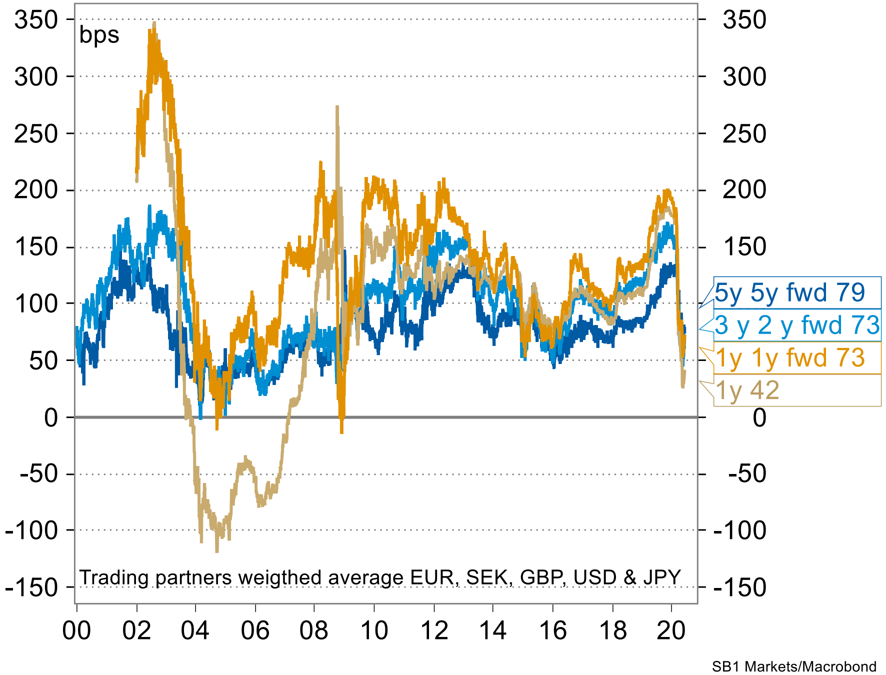


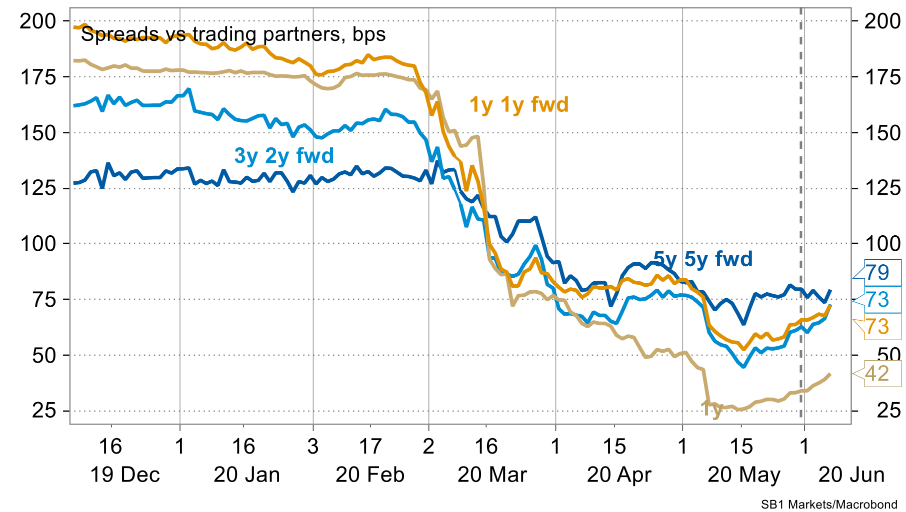


The curve up everywhere, the a wider NOK-trad. partners in the short end

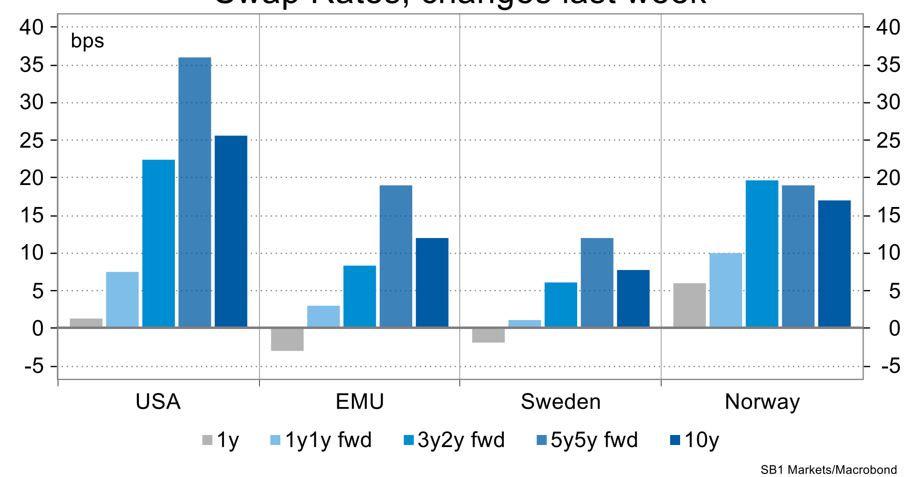
The spread risk is neutral after the 100+ bps decline since February

Norway vs trading partners, impl swap spreads



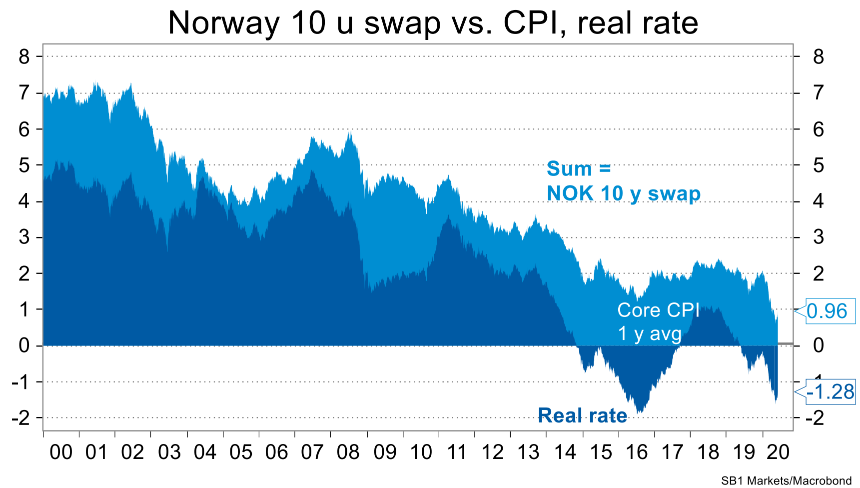


Swap Rates, changes last week

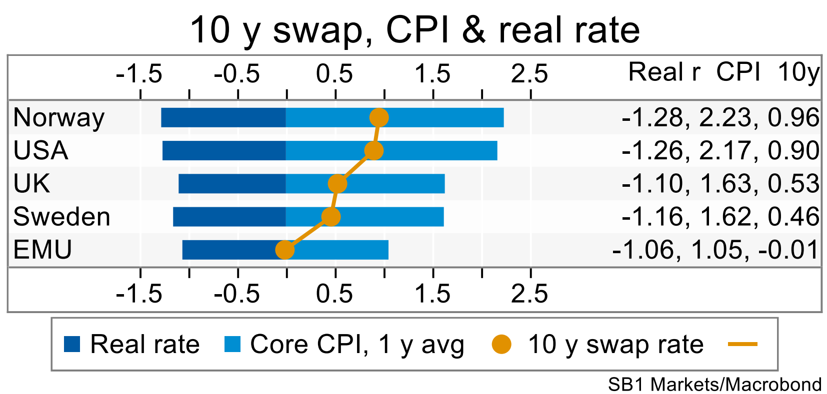


- Spreads vs. trading partners have fallen by some 125 bsp since early 2020
- We think the current level is far more correct than where we came from. Still, spreads are not too low but no reason to make a bet for a further contraction

Negative (actual) real interest rates everywhere – NOK & USD at the bottom



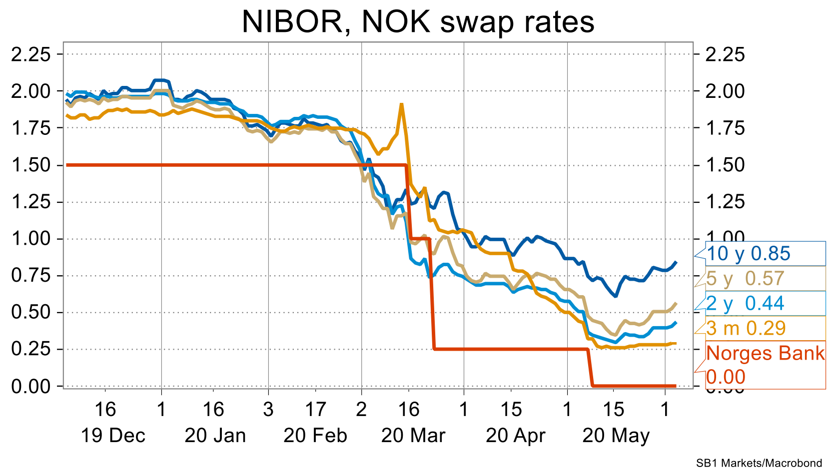
- NOK 10 y nominal rates down more than 1 pp since January
- Real rates are well below -1%, based on actual core annual inflation (smoothed 12 m)

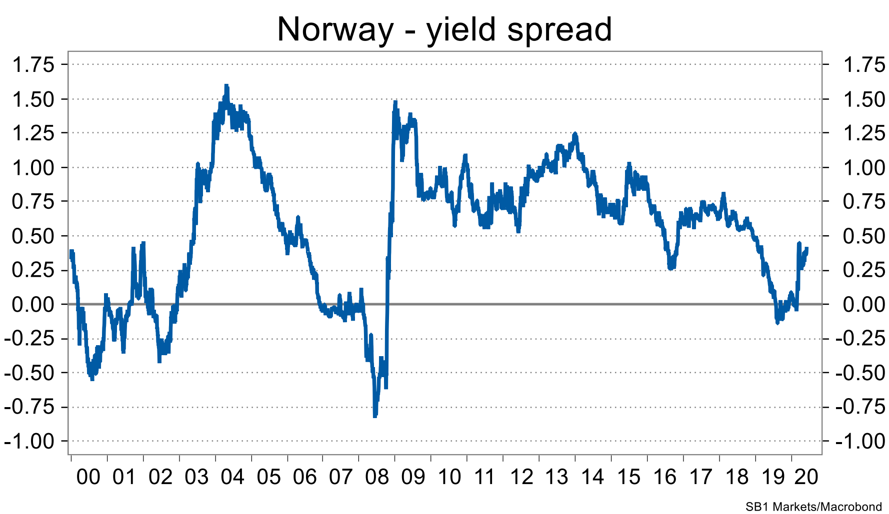


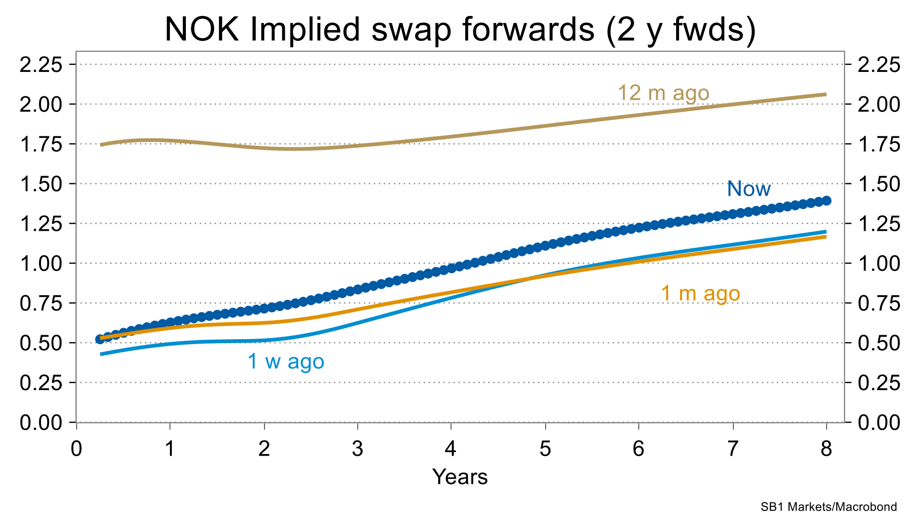
NOK real rates probably among the lowest

- Inflation among Norway and our main trading partners varies between 1.1 to 2.3% (measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US and Norway at the top
- Real rates are quite similar among out trading partners, in the range -1.1% (EMU) to -1.3 (Norway & US), measured vs the 10 y swap rates
- *Thus: Differences in inflation explains most of the differences in long term swap rates*

A substantial parallel curve lift – like in rest of the world

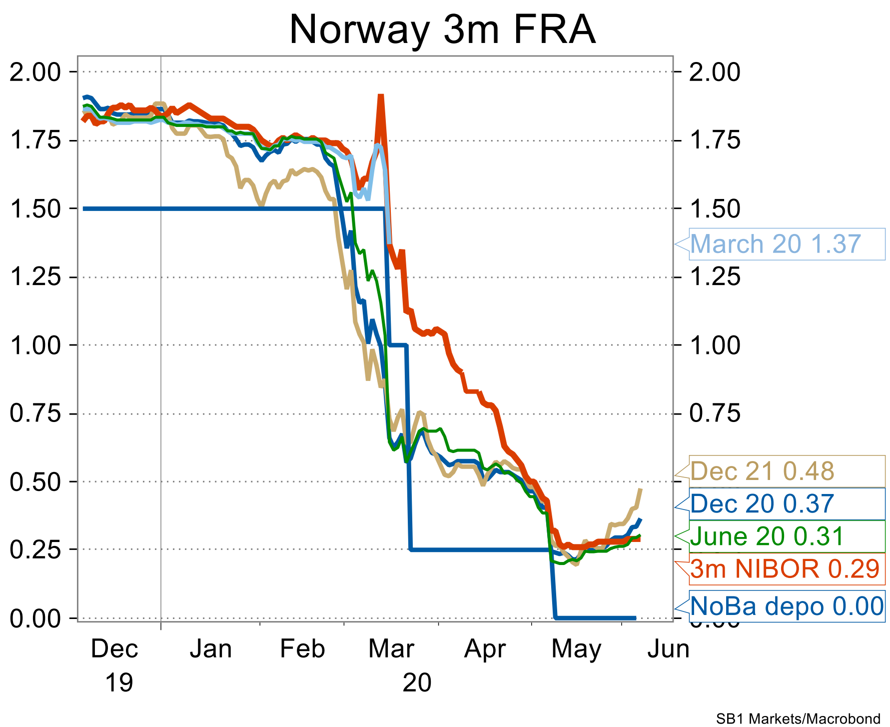


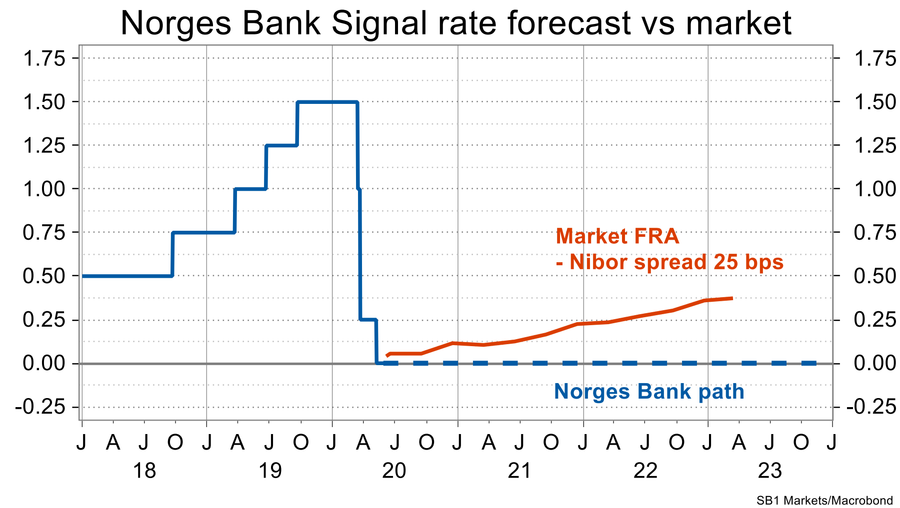


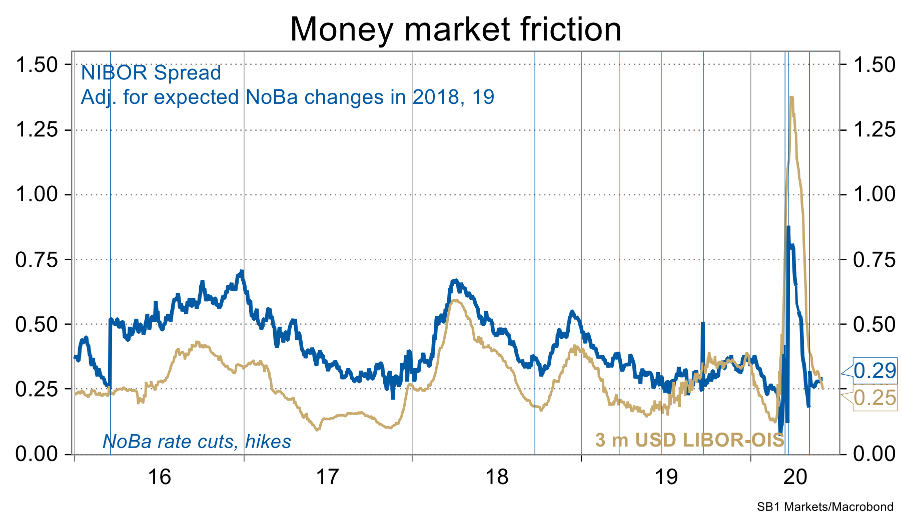


Interest rates are…. moving upwards!

Just marginally of course. But the FRAs are 25 bps up from the bottom in mid May



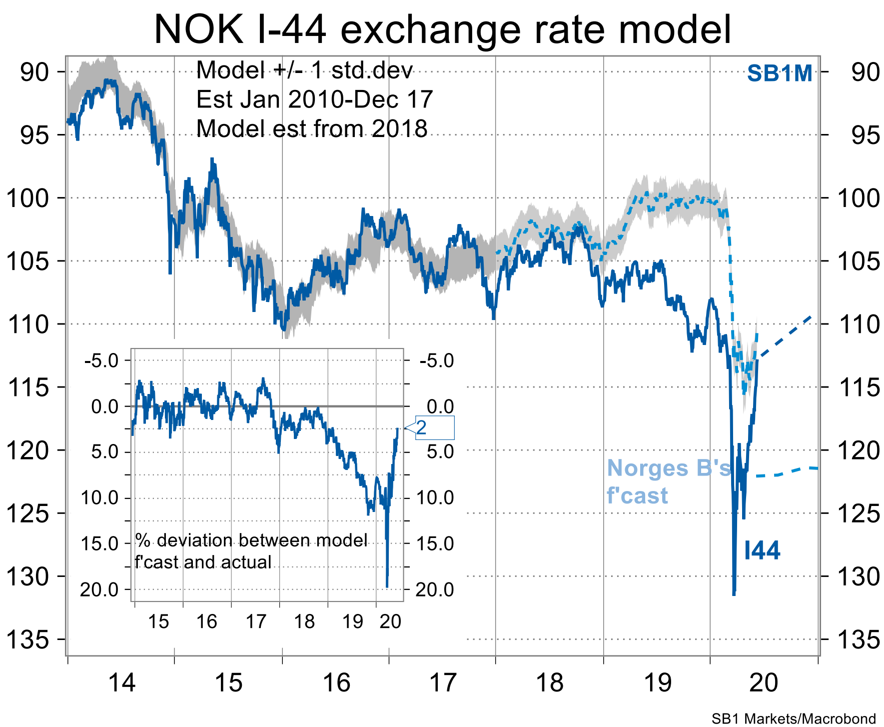


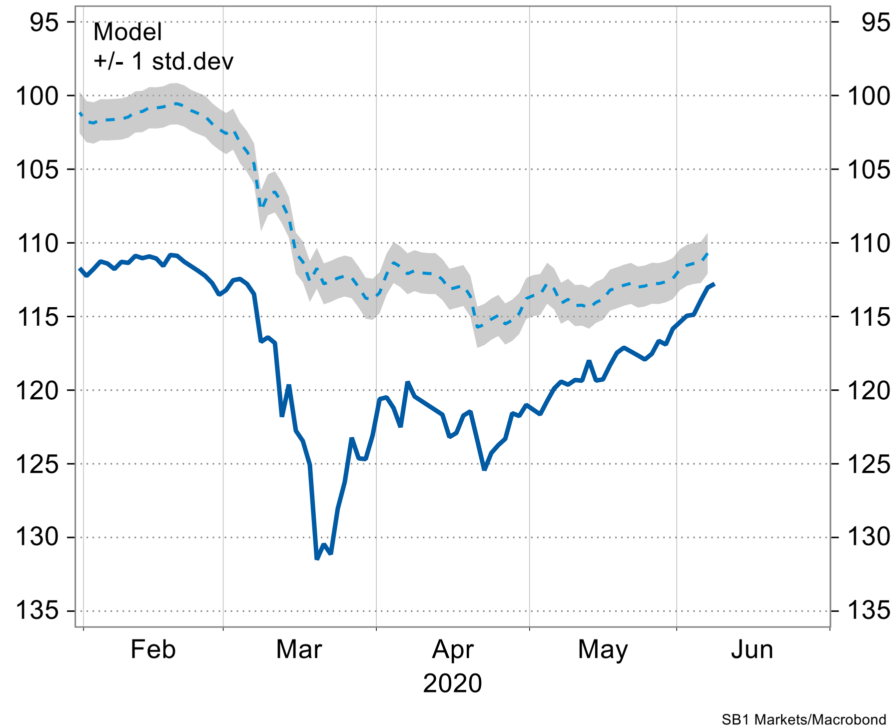


- The market is pricing in any change in the NoBa signal rate – it's the NIBOR spread that has stabilised at lower level than normal
- The LIBOR-OIS spread in the US has narrowed too, and could easily narrow further

NOK up 2.5%, oil & the model explained 1.5%. The gap to the model is closing

The gap vs our old model at 'just' 2% is the lowest since early 2019





- Norges Bank is now buying more NOK against f/x from the Oil Fund in order to supply the Government with cash. There might be a positive NOK impact but that has not been the case historically – it correlation is the opposite. NOK demand increases when the oil price is low (and oil companies demand less NOK to pay taxes), and when non oil budget deficit is high because the Mainland economy is weak. *Check the charts three pages out in this report!*

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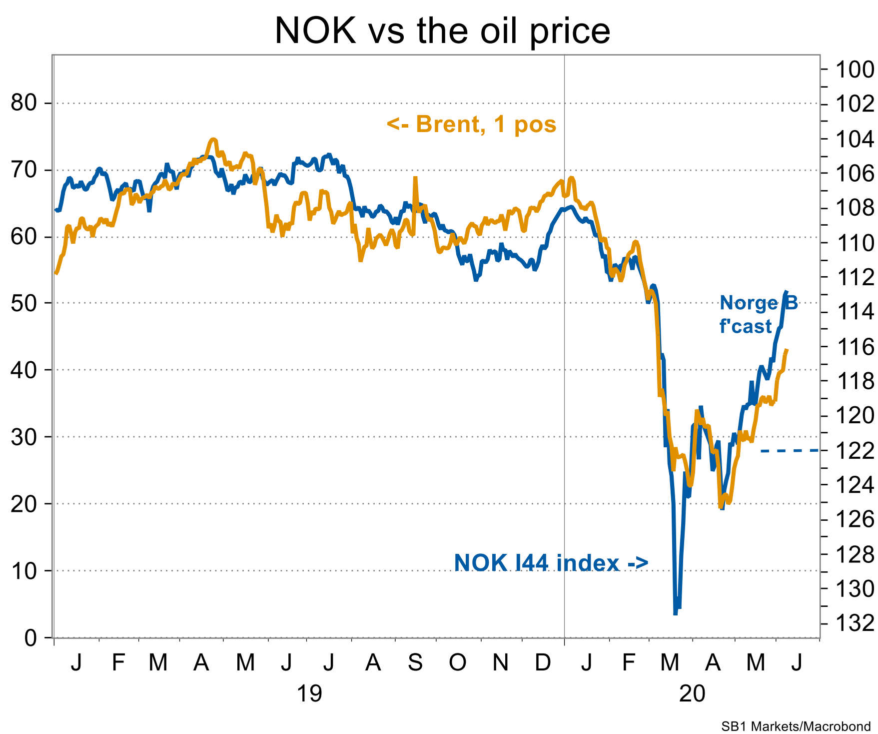
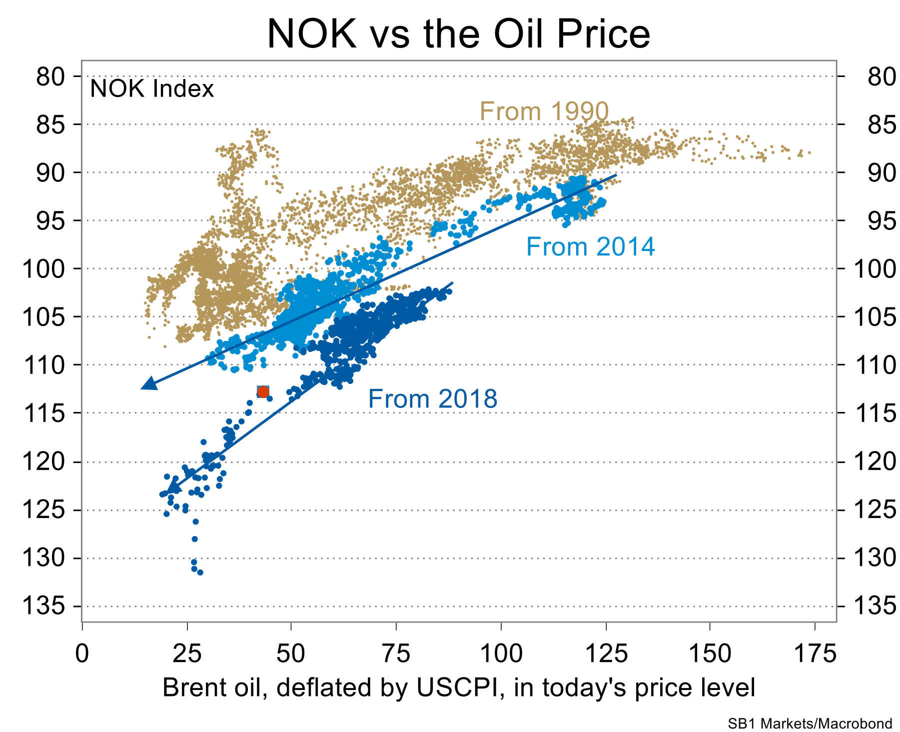
The NOK somewhat stronger than the oil price?





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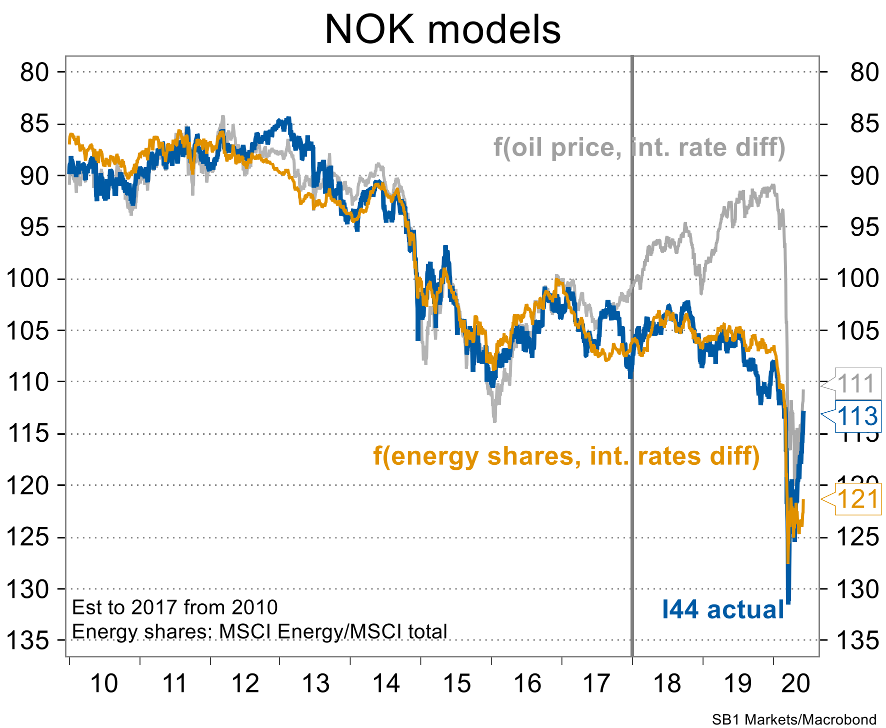
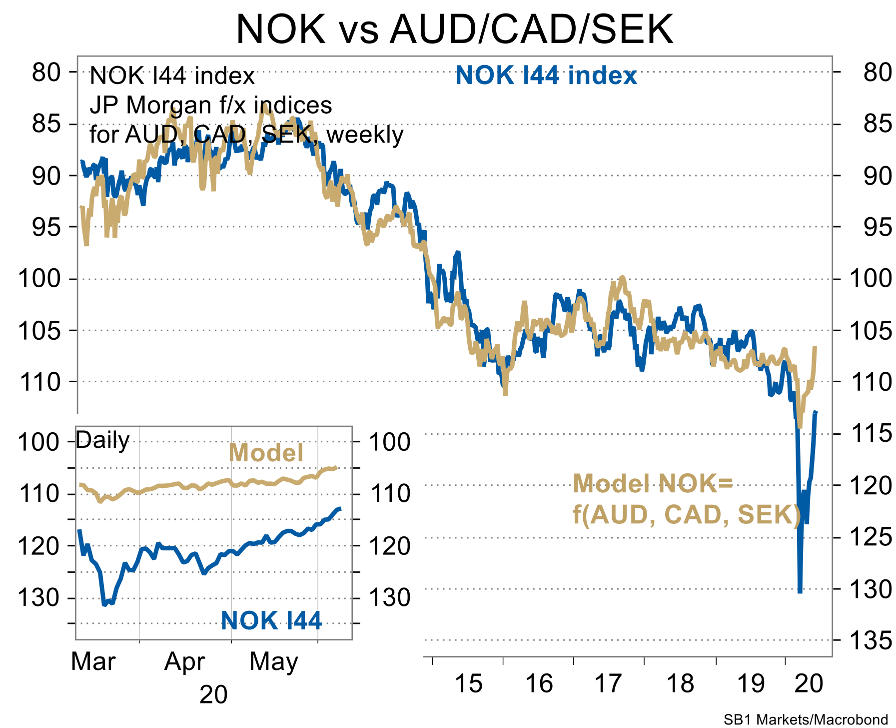
NOK 'stronger' than oil companies, narrowed the spread to 'supercycle' countries

NOK is 8% too weak vs the 'supercycle' model but 7% 'stronger than oil companies'

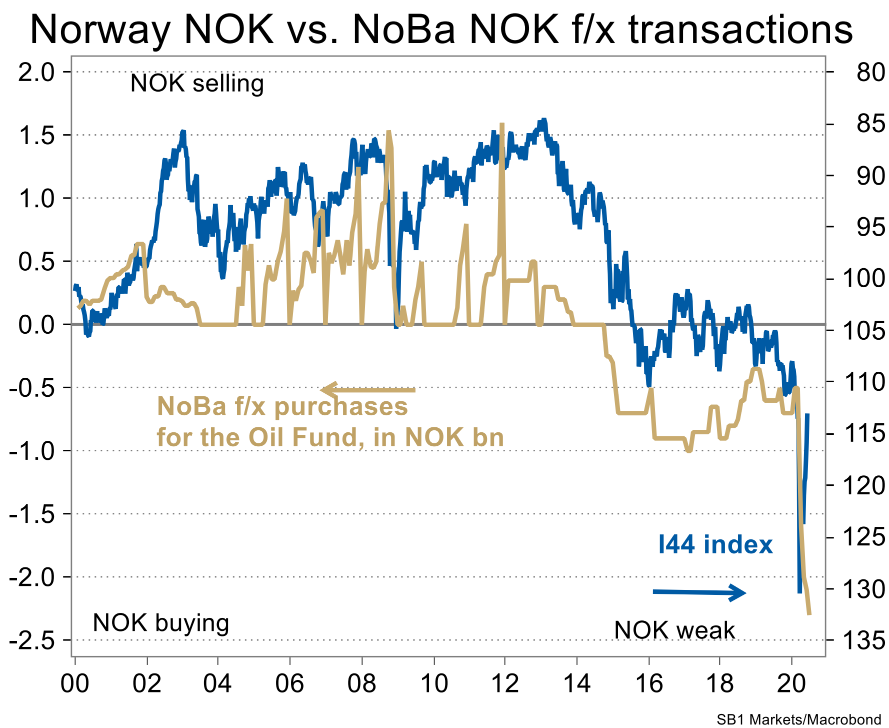


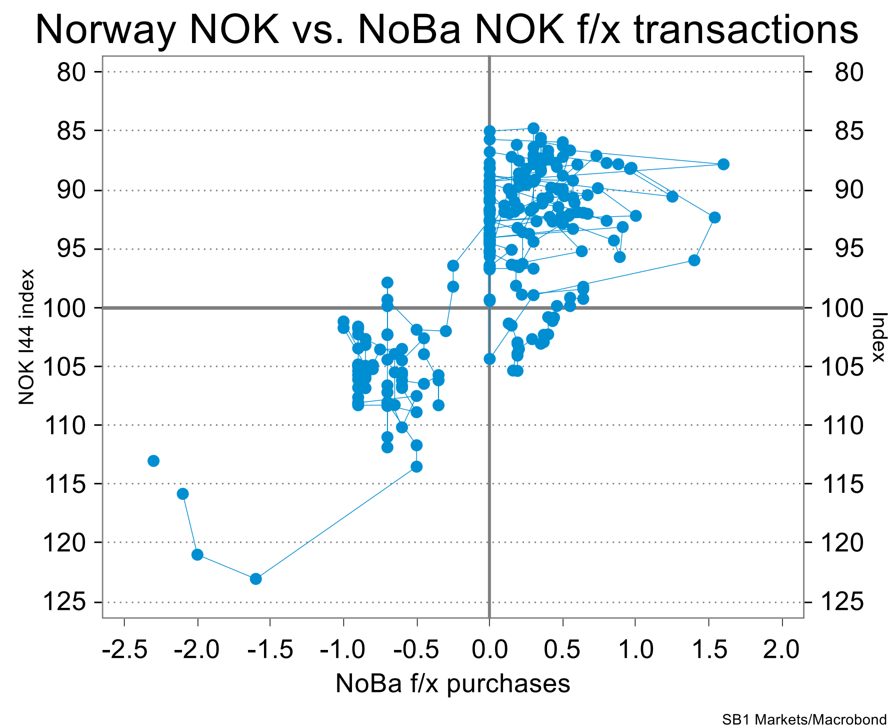


- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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

Norges Bank is selling f/x from the Oil Fund, buying NOK for the Government

… and then the NOK appreciates? Well, that has not used to be the case. It is rather the opposite

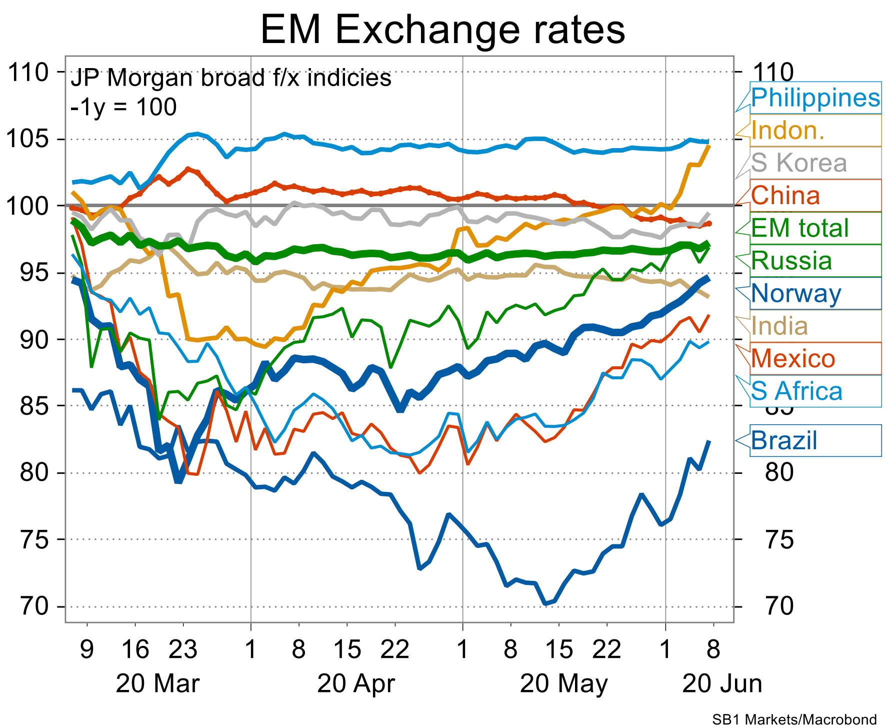


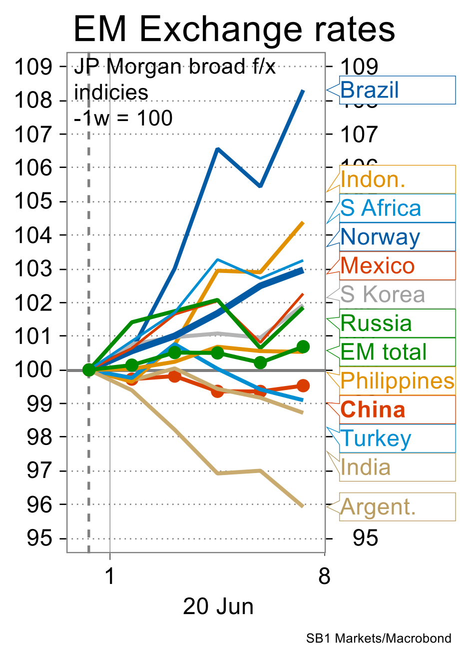


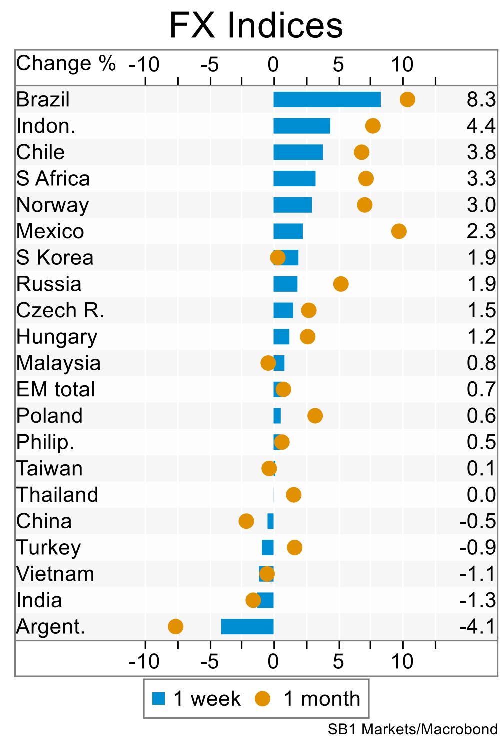
- The correlation do doubt has the wrong sign vs. the popular opinion on the matter. Why? Simply because not everything is equal when NoBa has to buy NOK in the market to fund the government vs. when NoBa has to buy f/x for the Government
- The need for NOK (or f/x) equals the ex oil government budget deficit minus the government's oil revenues (net of revenues to the State's Direct Financial Interest (SDFI ('SDØE'/Petoro) which are in f/x, and transferred directly to the fund). The demand for NOK increases (like now) when
  - The oil price and government oil revenues are low (like now). The oil companies pay less taxes (which must be paid in NOK) and has a lower demand for NOK while the government has a higher demand (for a given non oil budget deficit). But a low oil price in anyway NOK negative, for many reasons
  - When the business cycle is weak, and the fiscal policy is expansionary (like now)
  - which typically is not when the NOK will appreciate (at least if not expansionary fiscal policy will be counterweighted by tighter monetary policy)
- Thus, we do not think a low oil price and a large non oil budget deficit will support the NOK, just as it has NOT been the case before either

The EM f/x universe up last week, last month. The corona chock is reversed

The Chinese CNY is sliding down; trade war, tech war, a health war – and a new Hong Kong 'war'?

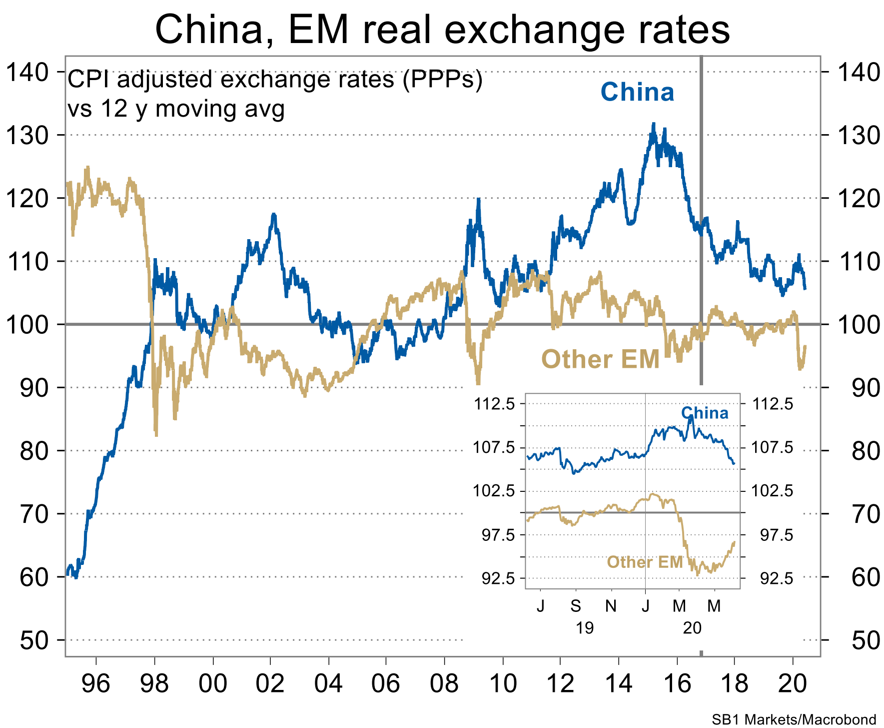


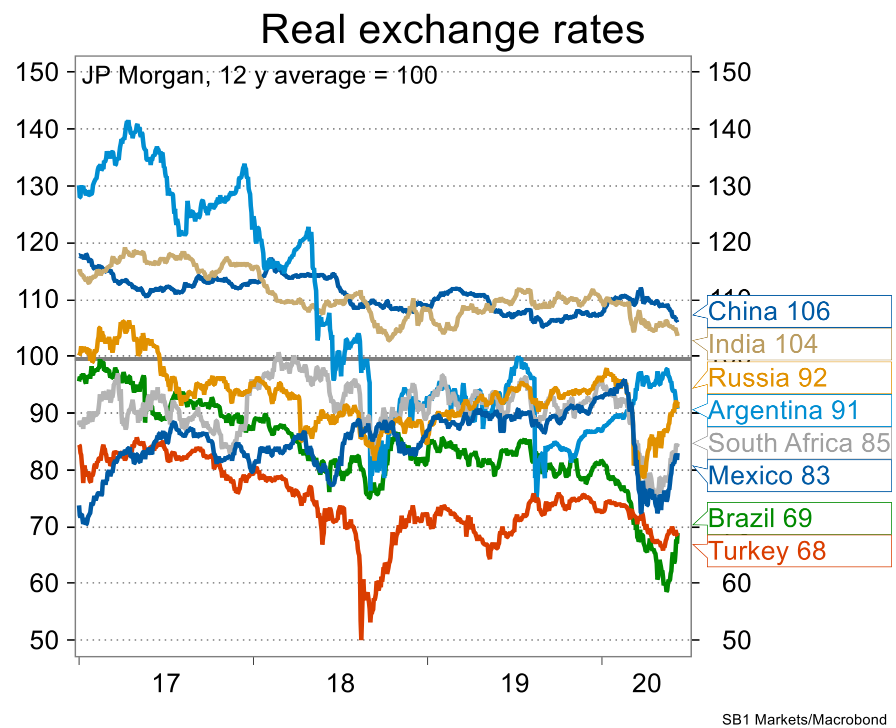




EM currencies are recovering from a not too dramatic depreciation

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





- Now, more EM currencies are strengthening. The CNY is slowly depreciating

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