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Macro Research

Weekly update 25/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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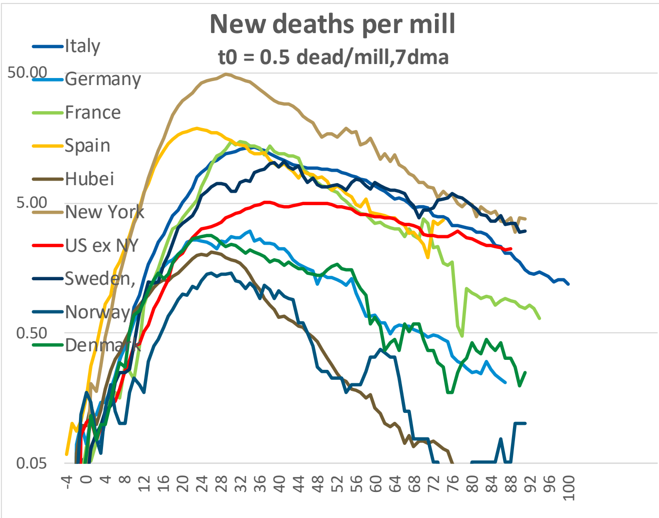
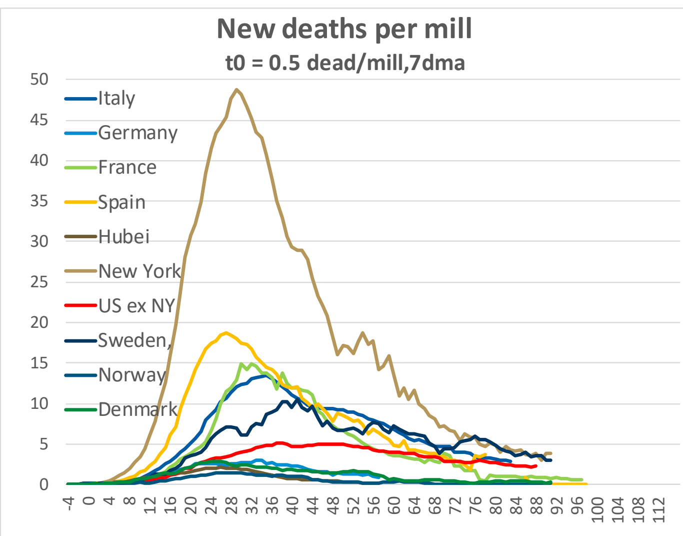
Last week – the main takes

- More **corona cases** in several US stated following re-openings. Swedish data not encouraging either. On serious problems elsewhere (in the rich part of the world)
- **Global auto sales** 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
- **Chines growth data** surprised marginally on the downside in May, but should have not – the monthly growth figures were still strong and the recovery is intact – even if final demand is still below the pre corona trend. Service sector production rose sharply again. **Credit growth** slowed in May but the longer trend is still upwards. Inflation is slowing rapidly
- **The Federal Reserve** does not expect to hike rates before after 2022 and will continue QE measures at least at the current pace. The Bank discussed Yield Curve Control (YCC, fixing longer term bond yields at low levels) but did not conclude. The bank's economic outlook is not optimistic, and markets became worried again (as more corona cases in several states were not good news either. Inflation is falling rapidly, even if food prices are up
- **In the EMU, industrial production** fell 17% in April – but that must have been the bottom! **Short term indicators** confirm that the recovery has started
- **UK GDP** fell by 20% in April, and is down 25% from February, the largest decline the past 300 years+. **Manufacturing production** fell even more in April
- **Norges Bank's regional network** confirmed the harsh downturn even if the numbers are difficult to decipherer. The outlook was weaker than we expected (but we are a uncertain what starting point the network's respondents refer to. Oil related manufacturing and service companies expect a sharp reduction in activity, but other manufacturing and construction are looking downwards too. West and North regions expect a contraction the coming 6 months, East and South expects growth. Mainland companies are planning unpresented cuts in investments (as they did in the NHO survey). **Core inflation** accelerated to 3% but we expect inflation to slow the coming quarters. **New home sales** rose to 19' (annual rate) in May from 15' in March/April but are still down 30% from the pre corona (downward tilting) level

US reopeners are reporting (many) more covid cases (Sweden too)

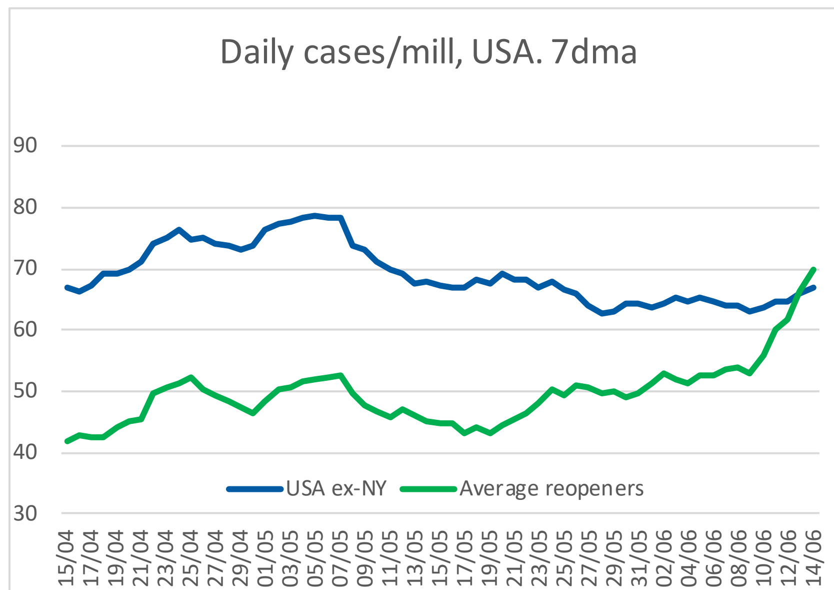
No serious signals of a 2nd wave other places





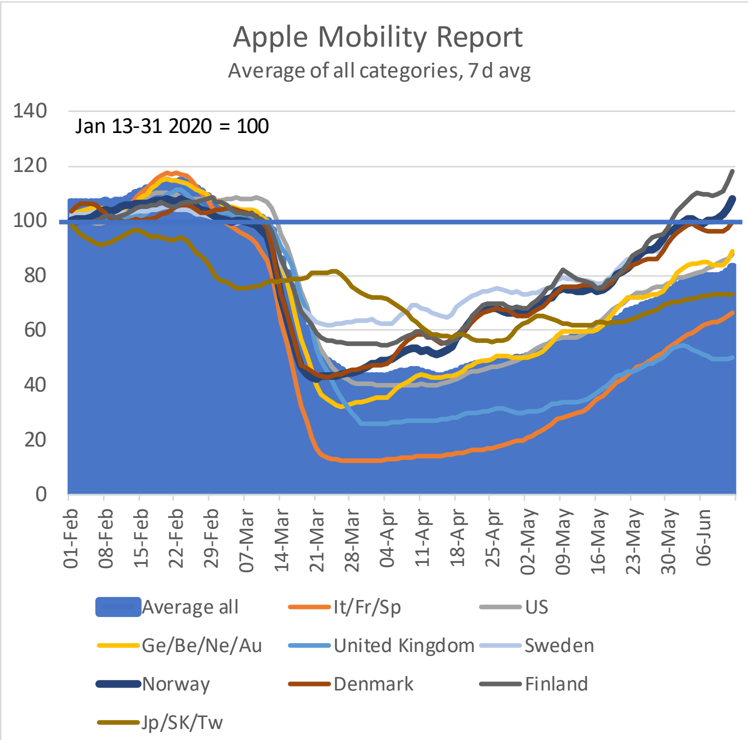
Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

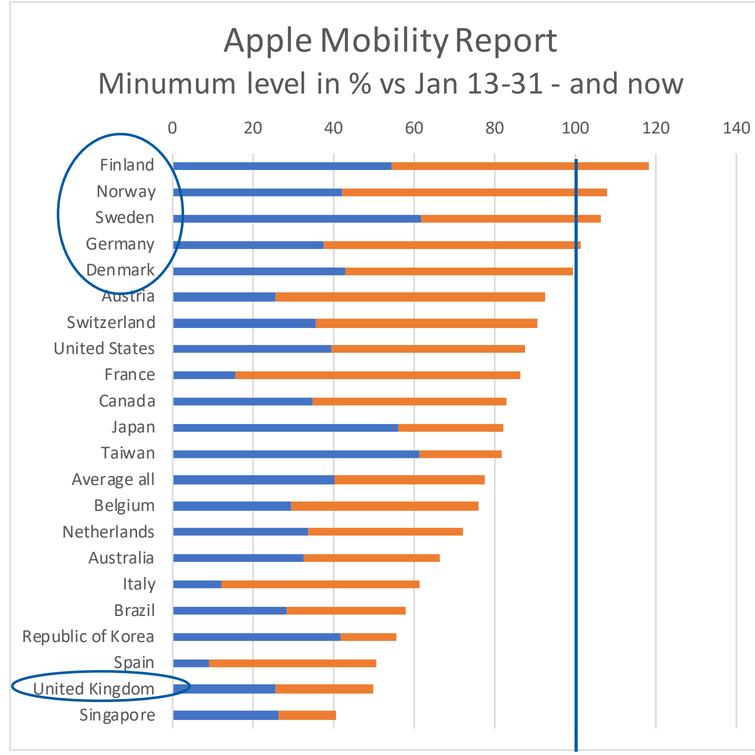
- Several US states are reporting more cases – where the restrictions are eased
- Sweden is not convincing either but the no of deaths are still on the way down
- Elsewhere in DM not too much to worry about (yet).
- In several Emerging markets the trend is still up



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

Still, mobility is below normal levels, most places.





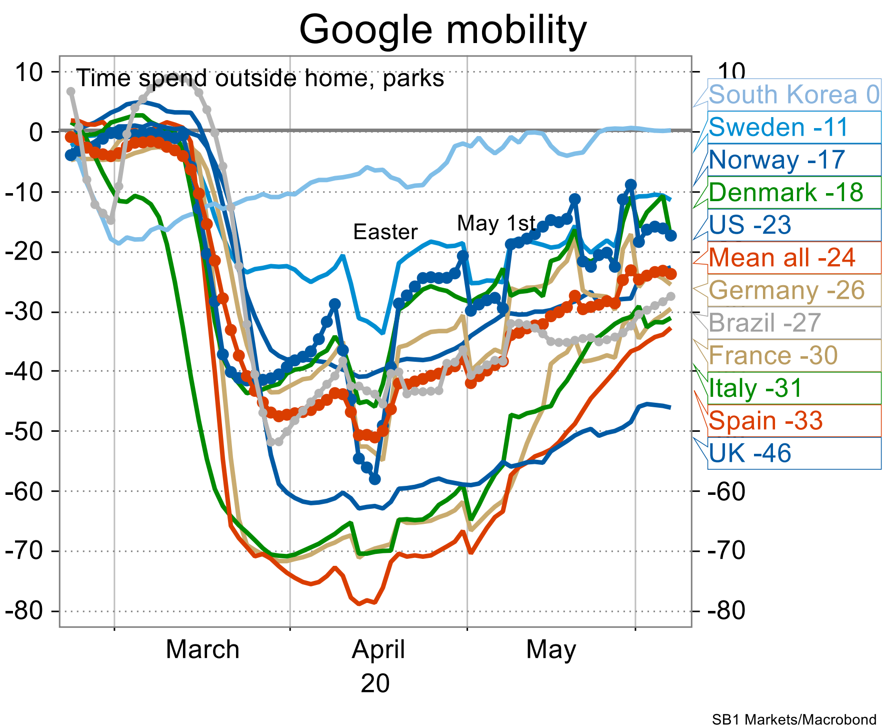
- Map searched in Apple Maps, average of road, walk and public transport searches
- We do not know the seasonality of these data, like if we at the north at the northern hemisphere move more around at this time of the year. It may influence the validity of these data. However, looking at UK vs other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

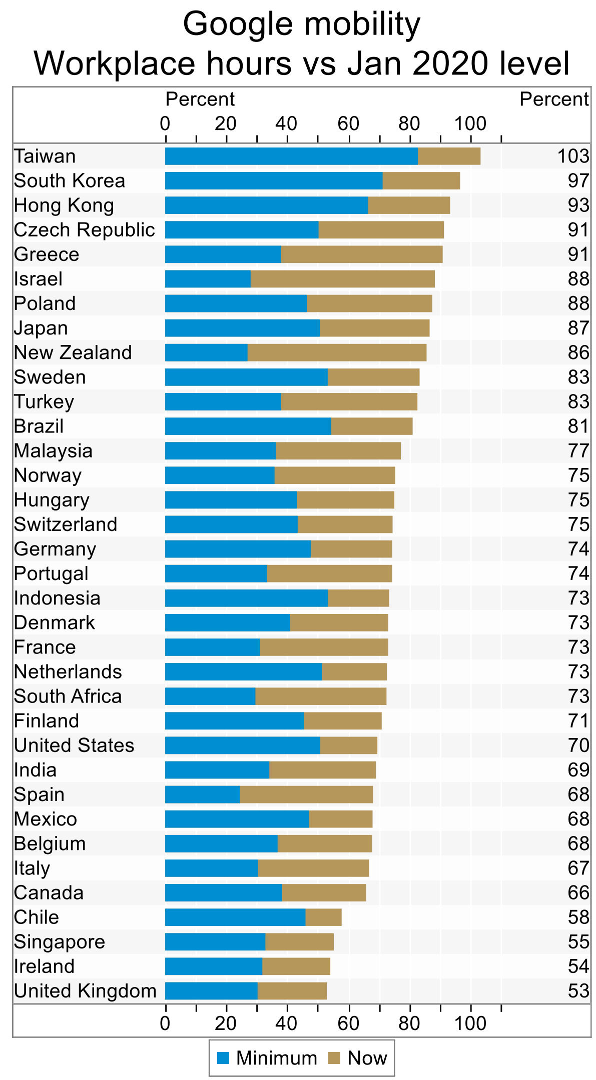
Source: Apple Mobility Report. 7 days averages. Data are not seasonally adjusted, we assume mobility normally increases during the spring in the Northern Hemisphere.

SpareBank 1 MARKETS

We are spending more time at work

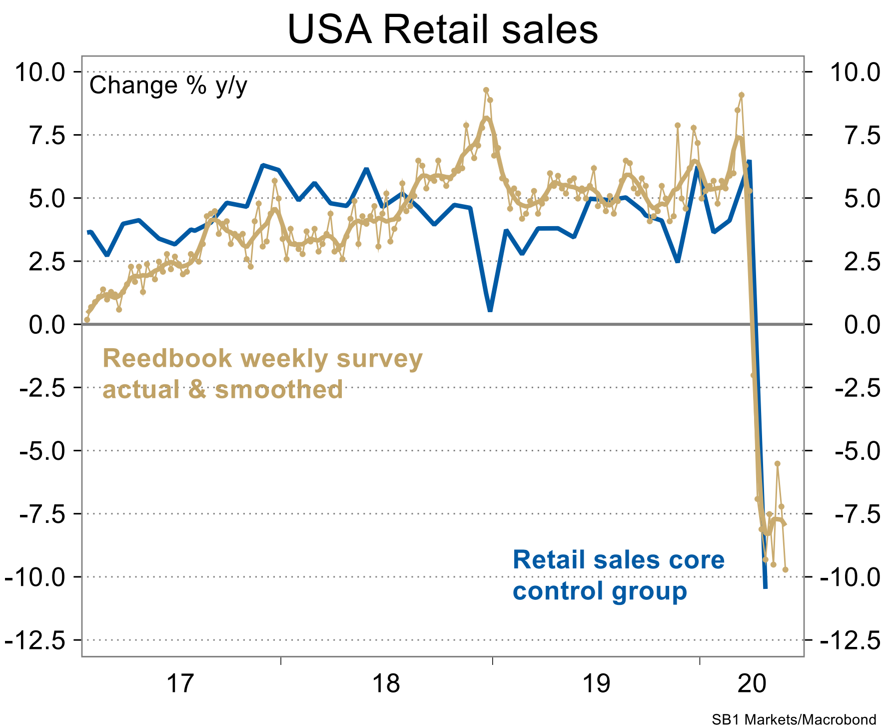
But are still spending much more at home than usual, some of us still working somewhat, hopefully

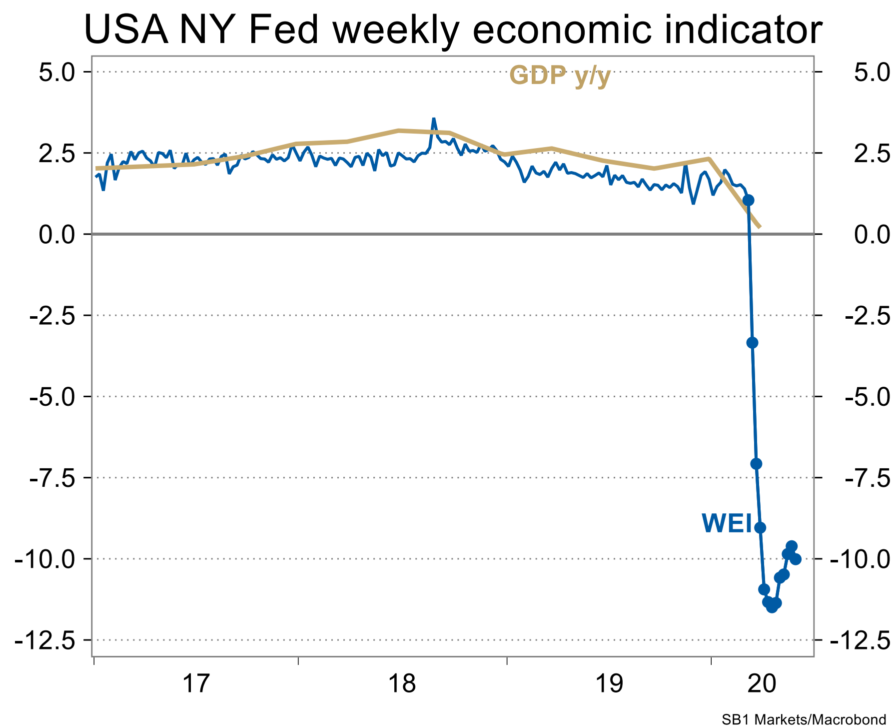




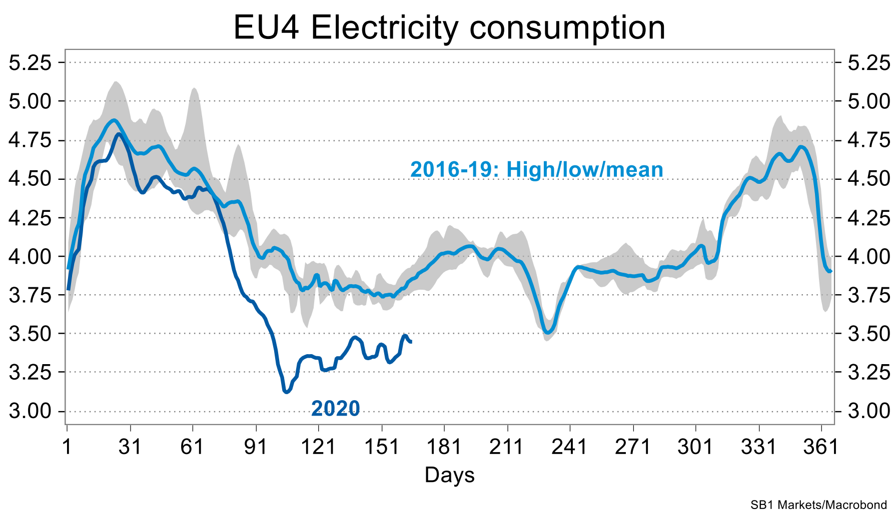
US: No clear recovery in retail sales (even if card data say so)

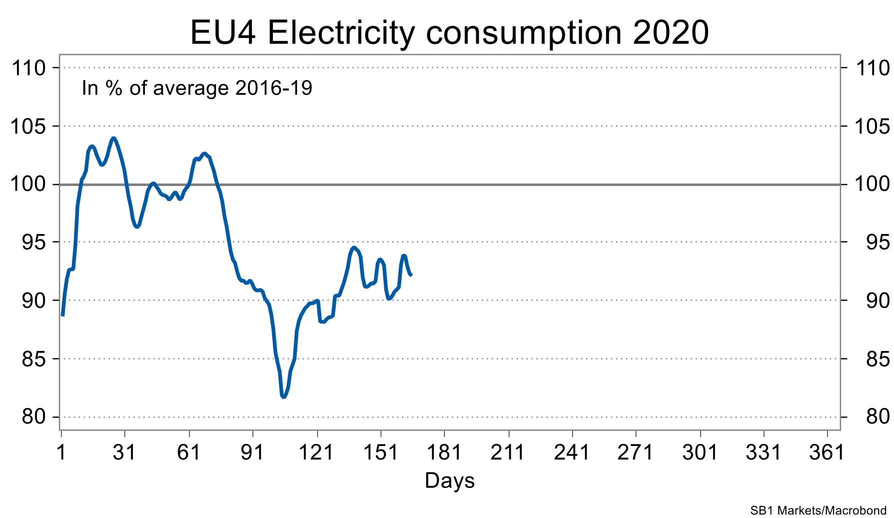
And GDP is still down 10% y/y

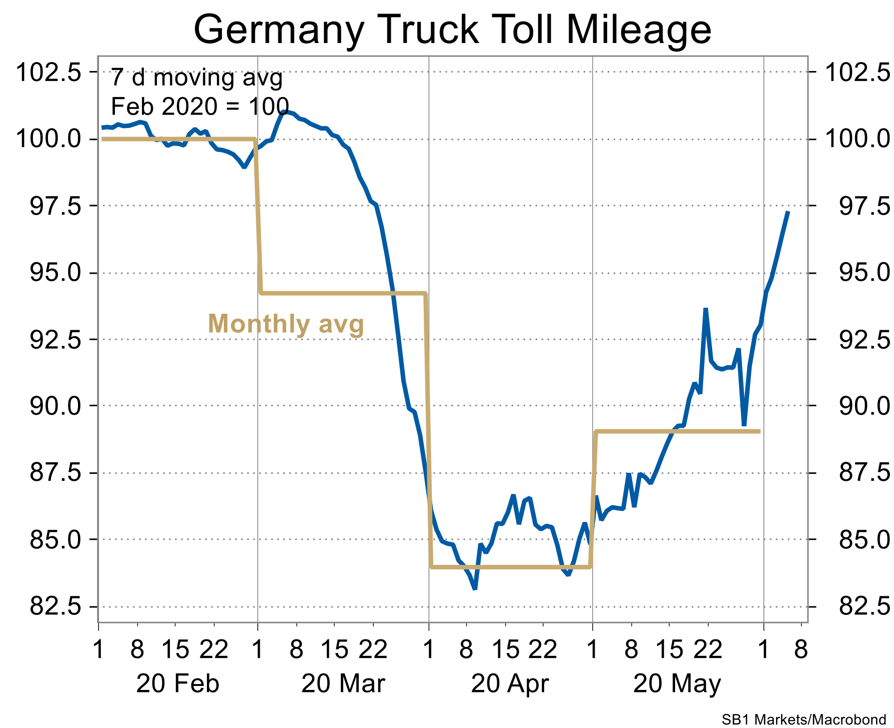




Activity is picking up steam in Europe but still a way to go

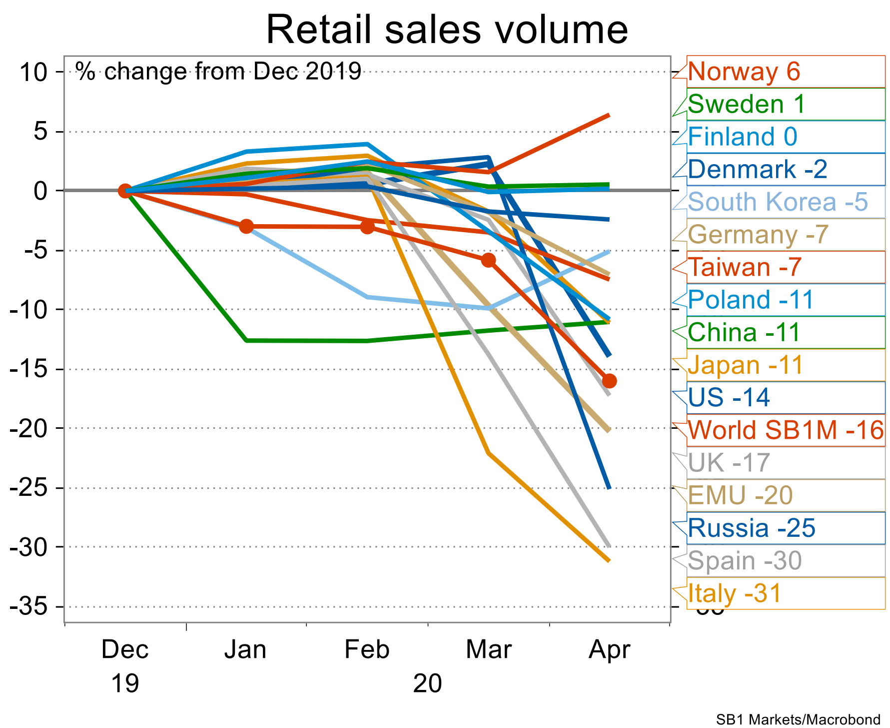


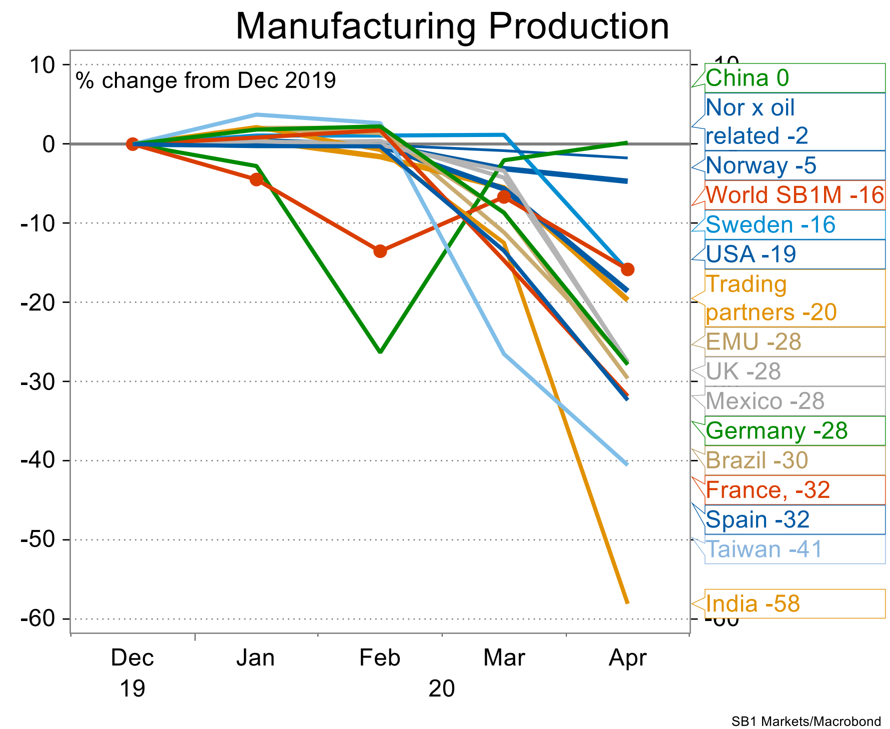




Retail sales & manufacturing production: Not one story, at all

Huge differences between countries, both on the demand and production side, at least until April

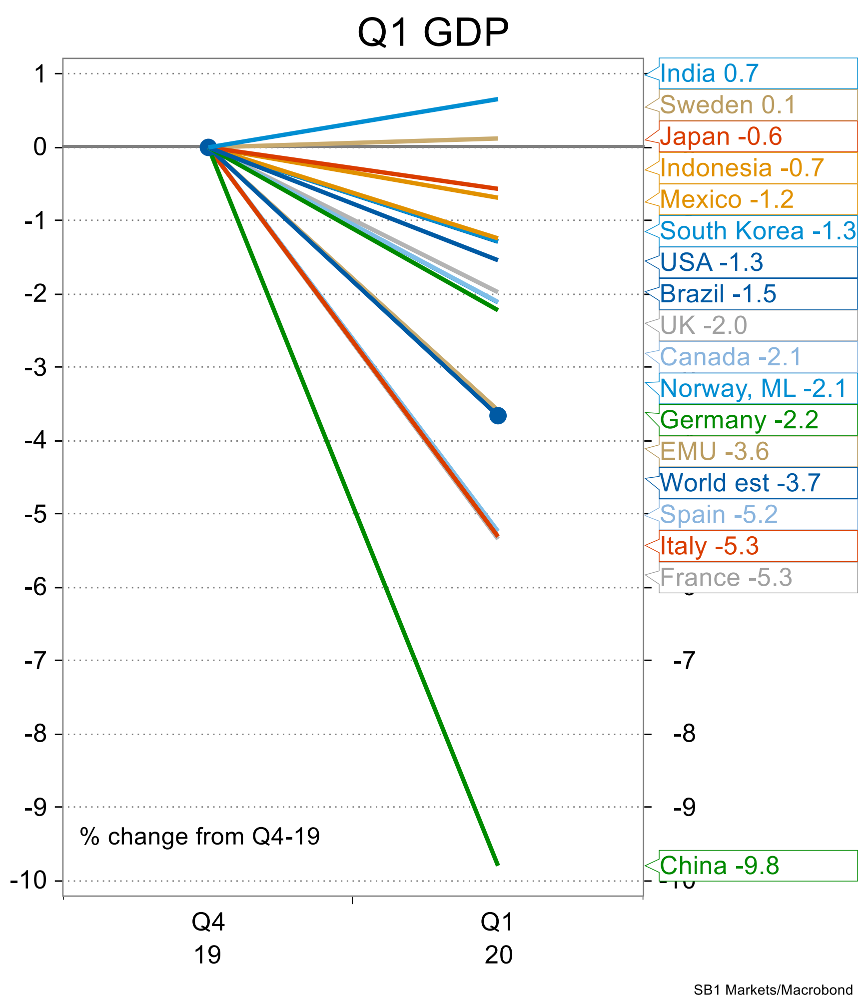




- Retail sales have kept well up in the Nordics (all at the top). Russia, Italy and Spain at the bottom
- Manufacturing production in Norway is just marginally down, at least compared to Sweden, US, UK, and the Eurozone. Taiwan and India badly hurt, India down 58% in April (From Dec-Feb)

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

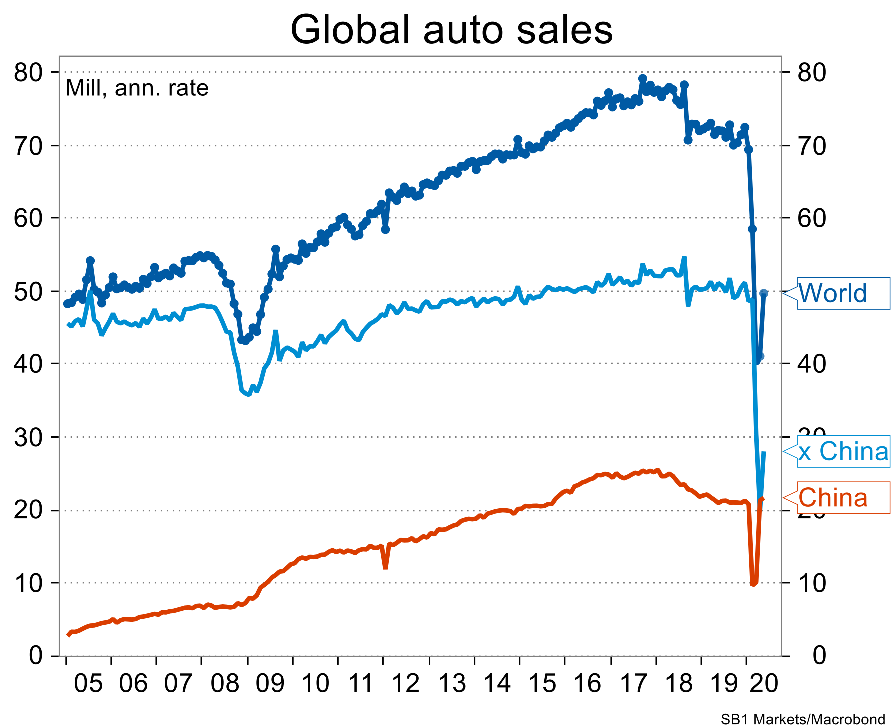


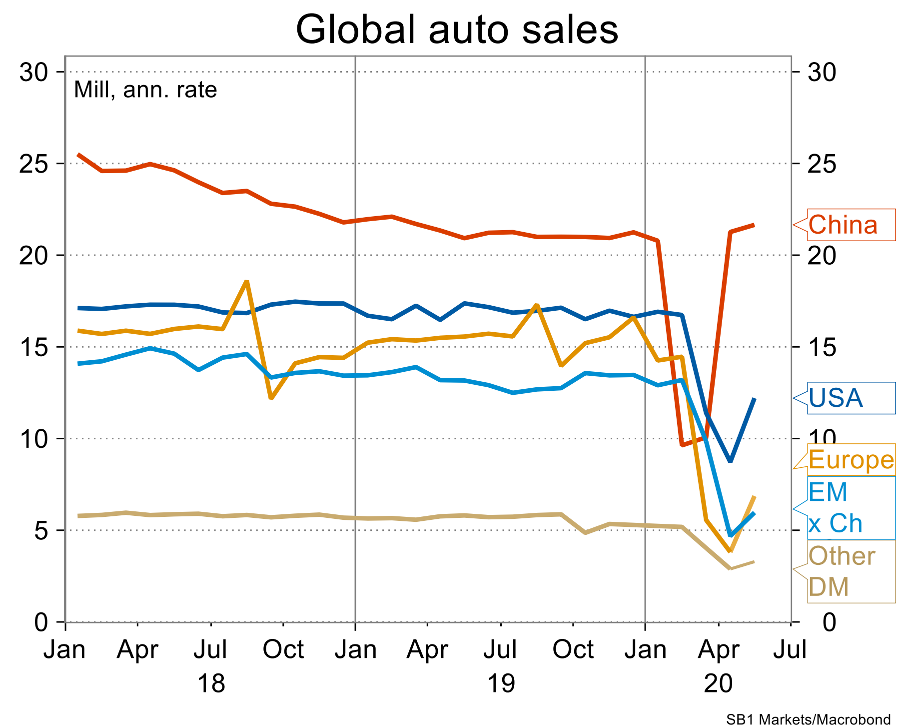
... and when the consequences were taken

- 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
- India grew 0.7% in Q1 but will report disastrous Q2 data
- The Chinese GDP fell by almost 10% in Q1, we expect a 4% recovery in Q2, at least
- Global GDP declined by 3.7% in Q1 (up from our first call at -4%), 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

Global auto up in May but still 30% below par, ex China 43% below pre corona

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

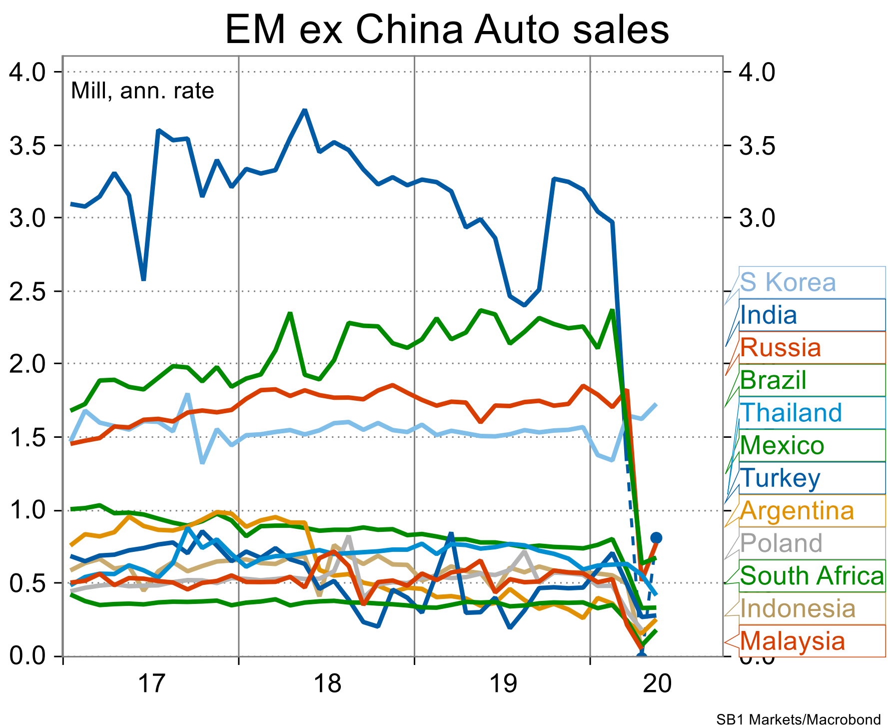




- Sales in China recovered big time in April and sales were kept up in May
- Sales in the US recovered 40% of the March/April decline, and the speed was 70% of the normal level in May (in average, must have been significantly higher in the latter part of May)
- Sales in EMU recovered 1/3rd of the March/April decline in May but remains less than 50% of the pre corona level
- Sales in other Emerging Markets rose slightly. Brazil stabilised at very low level, India recovered ¼ of the decline to zero sales (!) in April, Russia also slightly up – others were mixed. In EM x China, sales are still down more than 50% in May vs. pre corona level. Just South Korea are reporting normal auto sales!

EM x China sales marginally up in May. India from zero in April

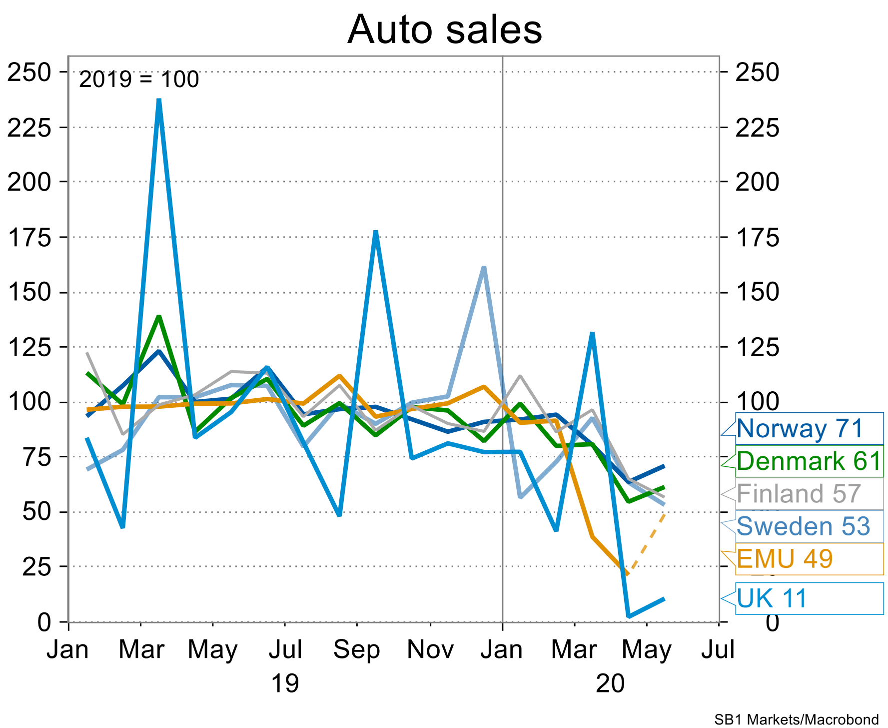
Brazil stabilised in May, Russia marginally up – and the sum very likely up



- There are more auto sales in South Korea than in India, Russia and Brazil taken together!

Sales in Finland and Sweden further down in May

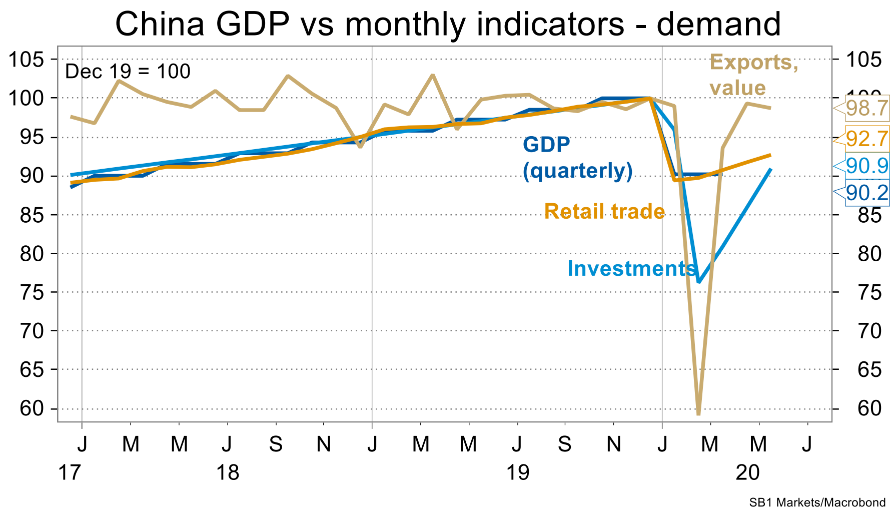
But registrations not more down than -35% in Finland, Norway, and Sweden. -46% in Denmark

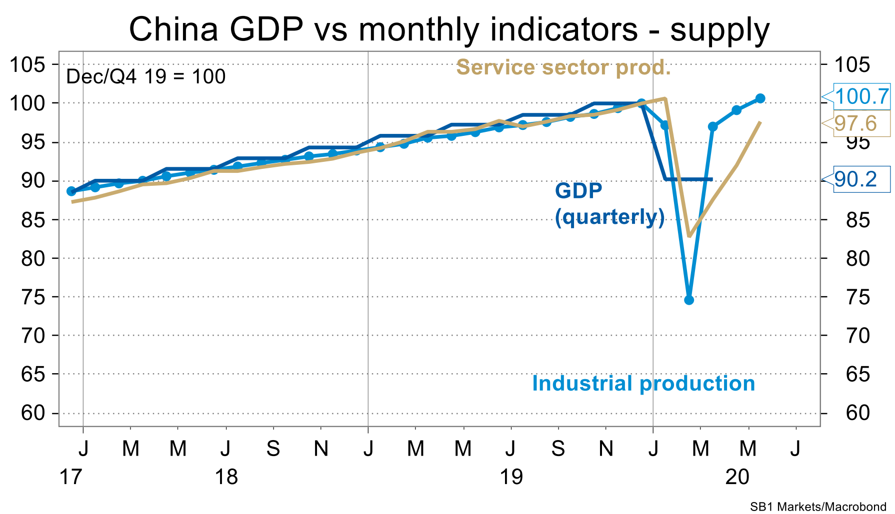


- … and sales were down 91% in UK in May, even after a small increase (from -98%) in April

May below expectations, still not bad – the recovery on track

Retail sales, investments, industrial prod. marg. below expectations. A sharp lift in service production





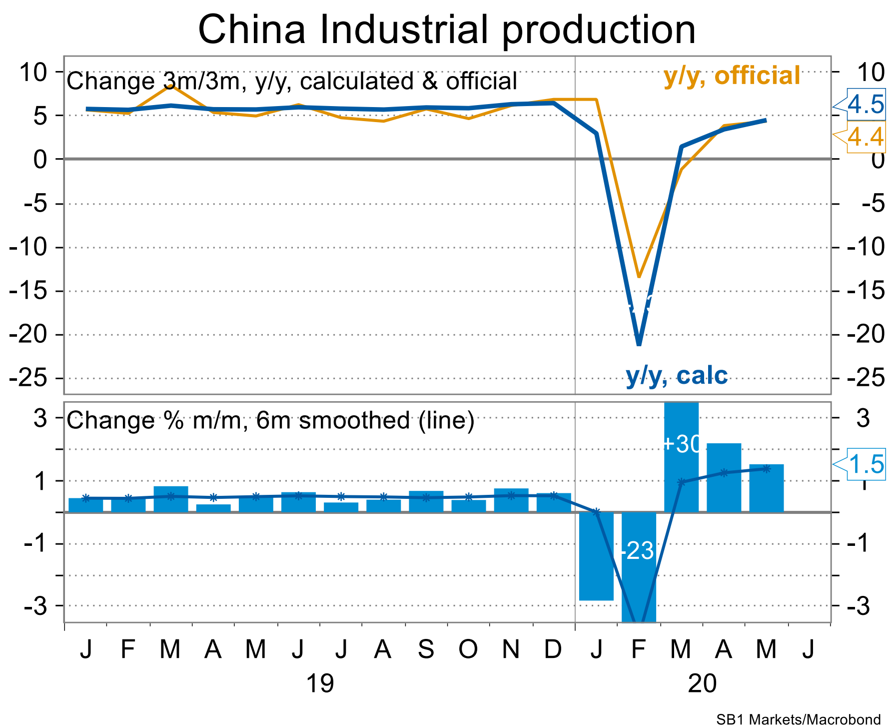
- **Industrial production** rose 1.5%% m/m, and was up 4.5% y/y, expected 5.0%. Production just some 1% below the pre corona trend
- **Retail sales** rose 1.0% in May, for the 3rd month in row. Nominal sales were down 2.8%, expected -2.3%, up from -7.5% in April. Sales are still some some 10% below the pre corona trend. Auto sales are confirmed back on track. Lower **CPI inflation** is supporting volume growth
- **Investments** rose another 5.9% in May but remains 11% below the pre corona trend path. New homes sales are above Dec levels, starts are almost back
- **Service sector** production rose 6%, even faster than in March and April, it is up 1% y/y, and is some 5 – 6% below the pre corona trend (up from -23% in February!)
- **Exports** were a tad weaker than expected in May, but is close to the pre corona trend. However, export surveys are still dismal
- **Credit growth** slowed further in May but the longer term trend is still upwards, and the growth level is far above any long term sustainable path

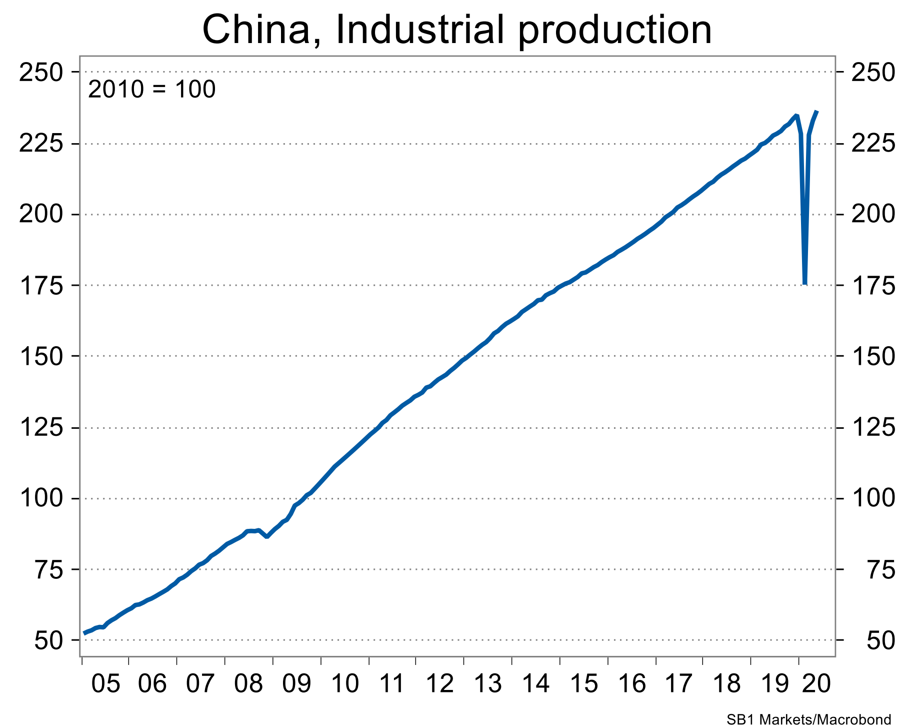
In sum: Final demand is still below the pre corona trend but the gap is narrowing. Industrial production seems to be strong vs. demand. The best news: The service sector is recovering rapidly

- **GDP** fell 9.8% q/q, as we assumed almost 3 months ago GDP fell 6.8% y/y, from +6%. We expect GDP to increase by at least 4% q/q in Q2 (5% is not unlikely, but exports may turn out to become a drag in May/June

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

Production rose 1.5% m/m, well above trend growth. Still a tad weaker than expected y/y

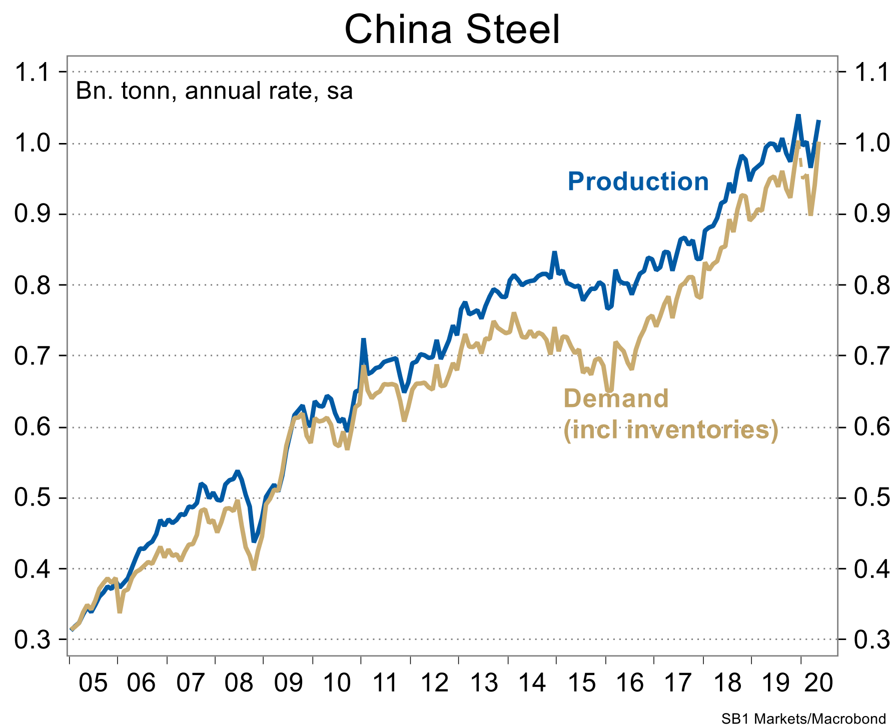




- Production was up 4.5 % in May (4.4% our data, monthly aggregates), expected up 5.0%. The gap to the pre corona trend is just above 1%%

Steel demand & production up in May, demand back to ATH

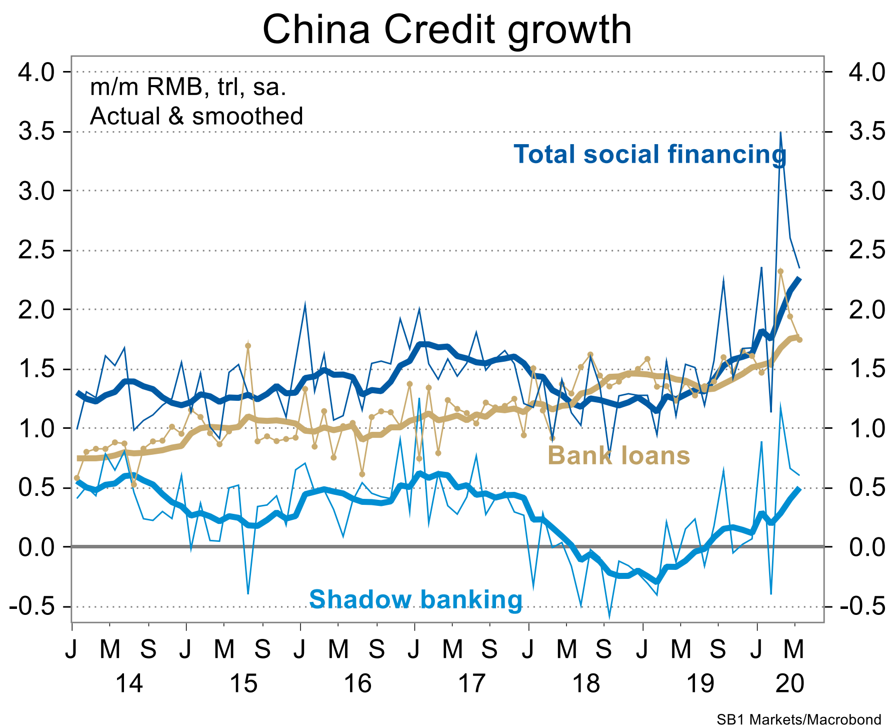
Construction starts almost back at normal level too

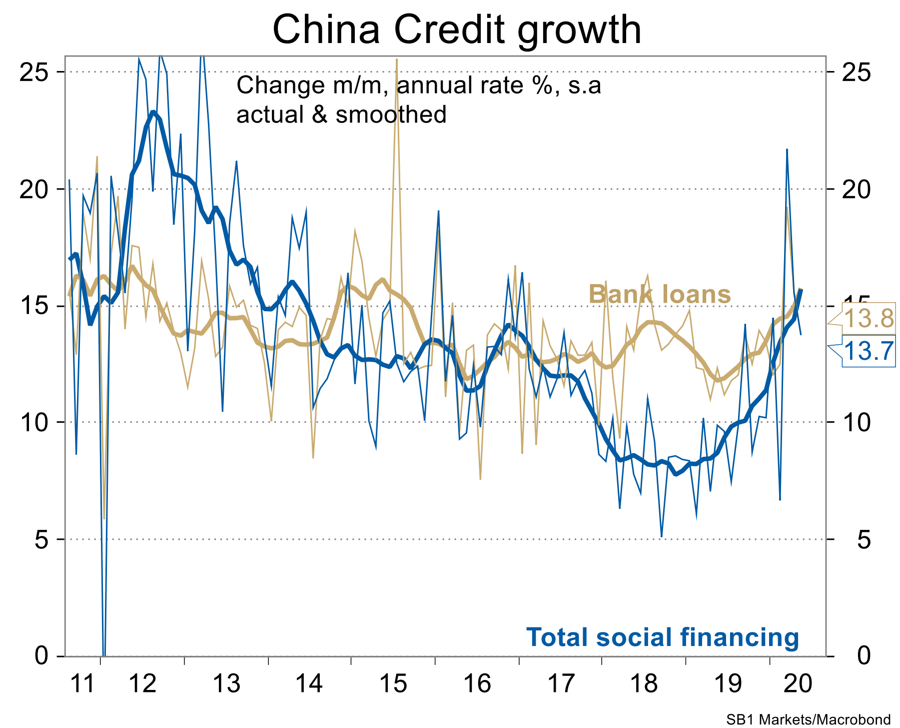


- Demand includes changes in inventories

Credit growth slowed further in May but is still high – trend is up

Underlying growth down to 14% but that not a low growth pace. Banks support the most but not all

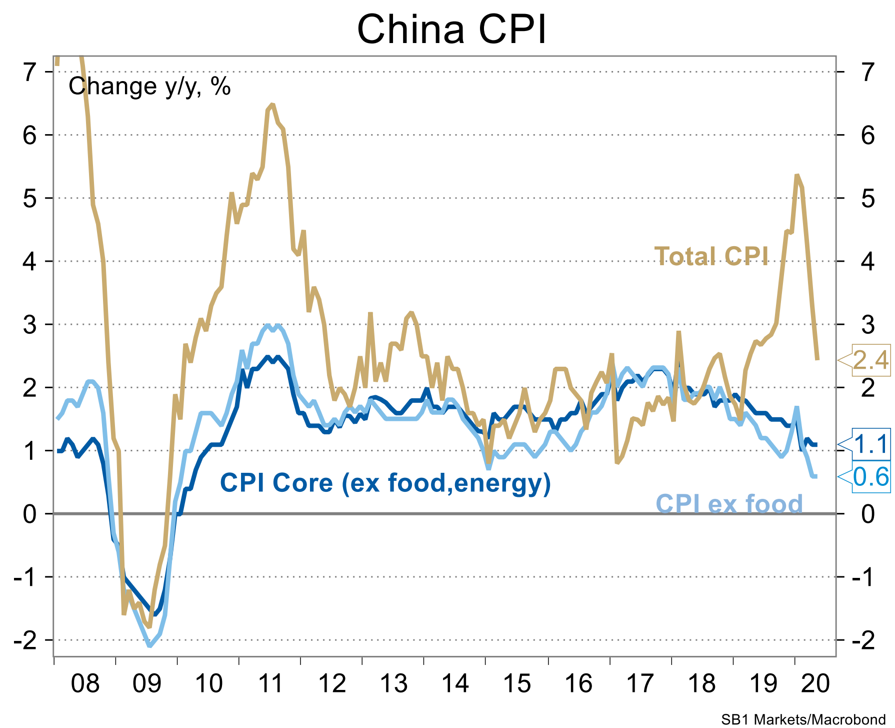


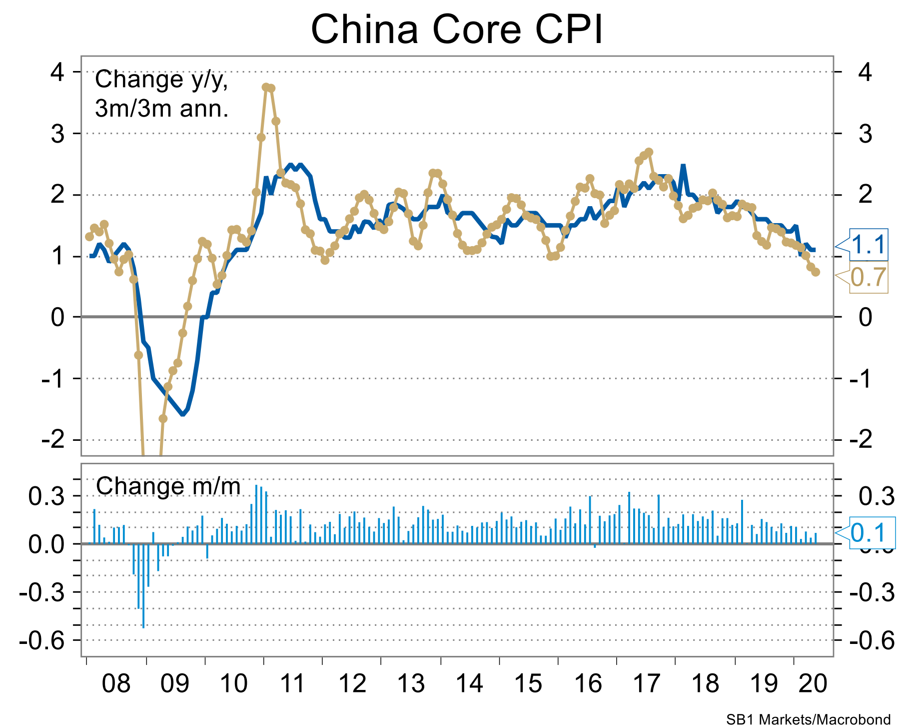


- Total credit growth slowed to a 14% pace in May, down from 22% in March (and a low level in February, during the lockdown).
  - » Total credit rose 3 bn RMB, as expected. Banks supplied most of the stuff but the shadow banking system contributed well too (1/3 of total)
- The underlying total credit growth has been accelerating since early '19, underlying growth up to 16%, from 7.5%, the highest since 2013
  - » Growth measured y/y credit growth accelerated to 12% (banks to 13.1). The credit impulse (acceleration in credit growth) is now clearly positive

Inflation is slowing rapidly, core at 1.1%, drifting lower

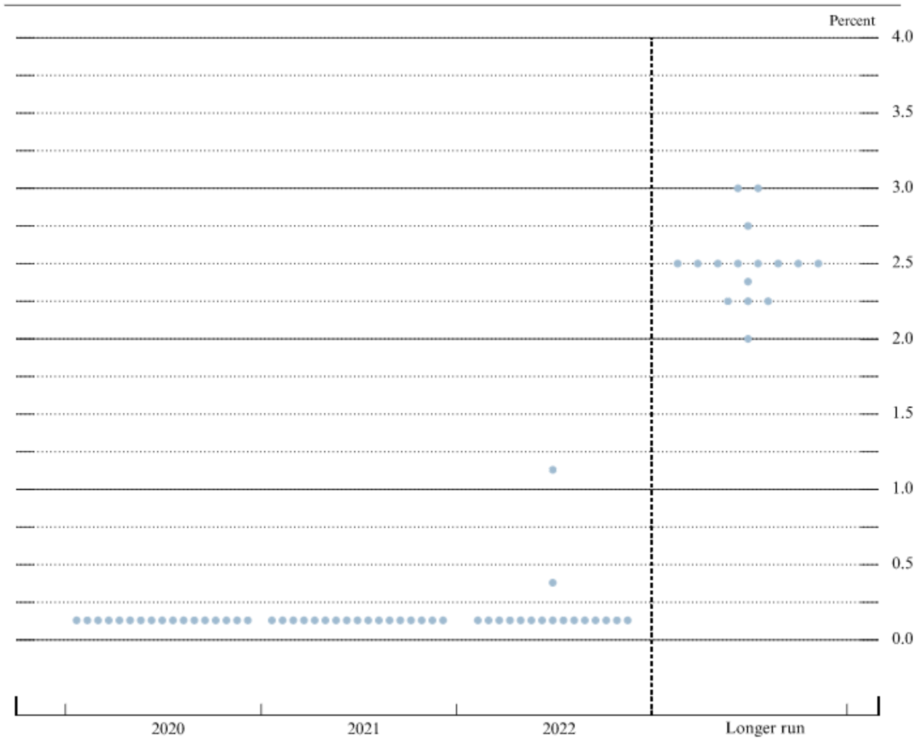
Headline CPI down to 2.4% in May from 3.3% as food price inflation has come down to 10.6%

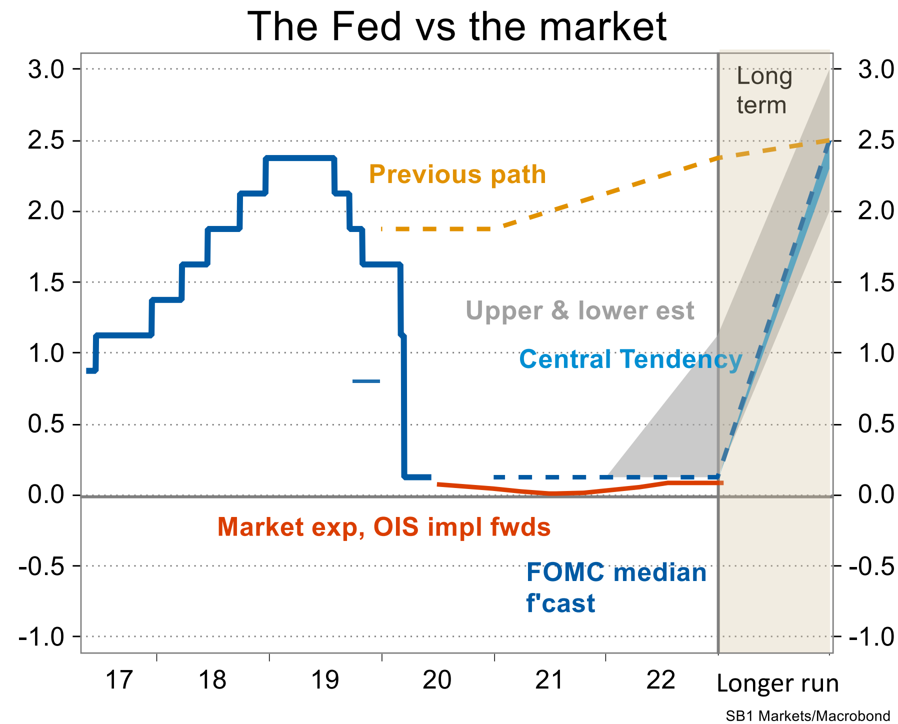




The Fed is on hold, signals unch rates through 2022

Powell is not thinking about when to think about hiking rates. Just 2 out of 18 is thinking on 2022





- The FOMC will keep the federal funds rate unchanged at close to zero until '*it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals'.* 'On track' means that the FOMC has not promised to keep the signal rate at zero until the economy reaches full employment. In addition, the second part of the mandate, price stability, is not forgotten either. Anyway, just of 18 now expect rates to be hiked before 2023. (But the times they may change again; check what the committee expected in December last year (previous path), after at substantial downwards adjustment at that time…)
- QE will be continued, *'at least at the current pace'*
- Yield curve control (YCC, fixing longer term bond yields) was discussed but nothing decided
- The FMOC did not alter its view of the long term neutral federal funds rate, at 2.5%

Fed expects unemployment above ‘neutral’ for years

Unemployment too high, inflation too low: ZIRP for long, more QE. And a beg for fiscal support?

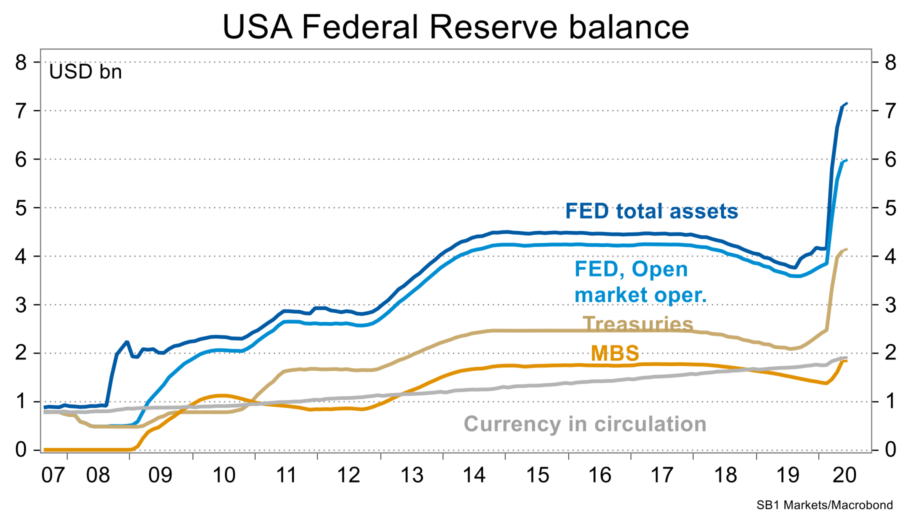
Percent

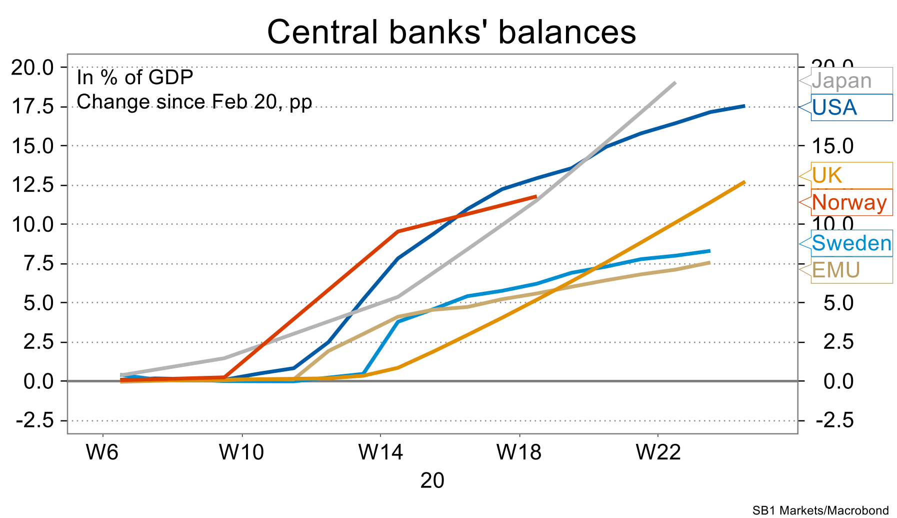
Variable	Median[1]			
	2020	2021	2022	Longer run
Change in real GDP	-6.5	5.0	3.5	1.8
December projection	2.0	1.9	1.8	1.9
Unemployment rate	9.3	6.5	5.5	4.1
December projection	3.5	3.6	3.7	4.1
PCE inflation	0.8	1.6	1.7	2.0
December projection	1.9	2.0	2.0	2.0
Core PCE inflation[4]	1.0	1.5	1.7	
December projection	1.9	2.0	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	0.1	0.1	0.1	2.5
December projection	1.6	1.9	2.1	2.5

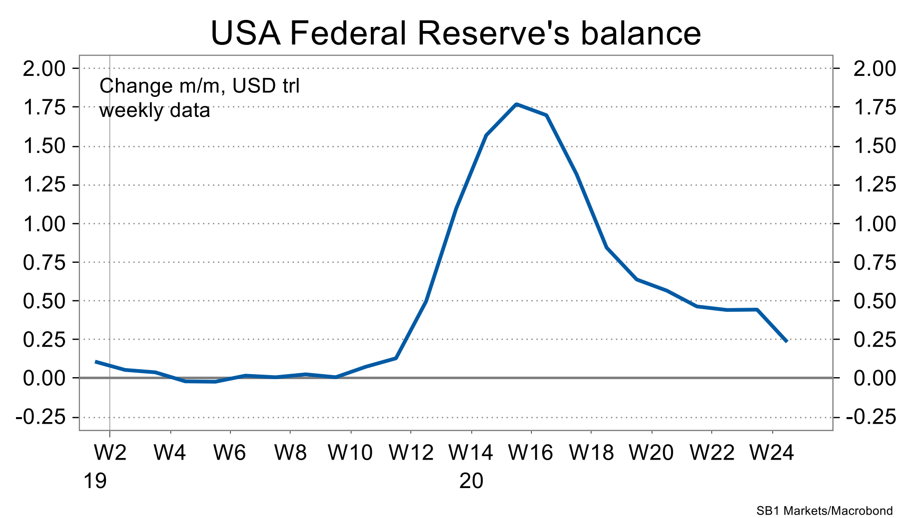
- The FOMC expects the economy to contract by 6.5% in 2020, and grow by just 5% next year
  - » As the trend growth is close to 2%, that implies an increase in the output gap by 4% of GDP from 2019 to 2021
- The unemployment is expected to average at 9.4% in 2020, up from the previous 3.5% forecast an decline to 5.5% in 2021, still above the assumed NAIRU (the neutral rate) at 4.1%
  - » The 9.4% average 2020 estimate implies a 10.3% average rate for the rest of the year. If it falls linear, a 0.75 pp decline per month down to 8% in December (but we assume the FOMC expect a faster decline the coming months).
  - » We think the annual 2020 9.5% average is too pessimistic
- The FOMC expect the PCE inflation be remain below 2% until 2022
- The longer run federal funds rate is assumed to be 2.5%, unchanged from December. It implies a 0.5% positive real interest rate

The Fed will continued QE at least the current pace (at apporx 400 USD bn/m)

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

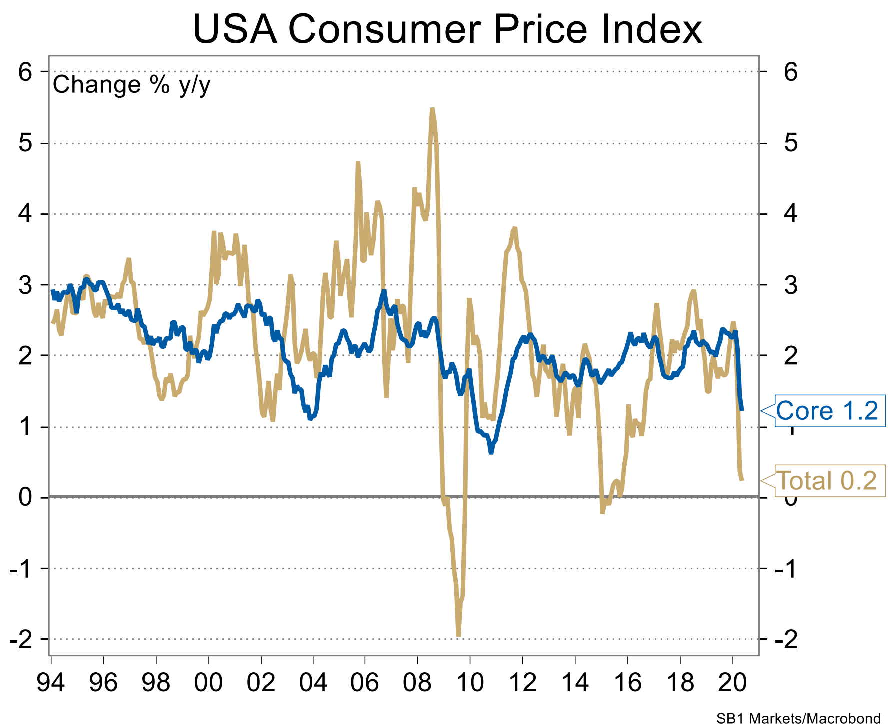


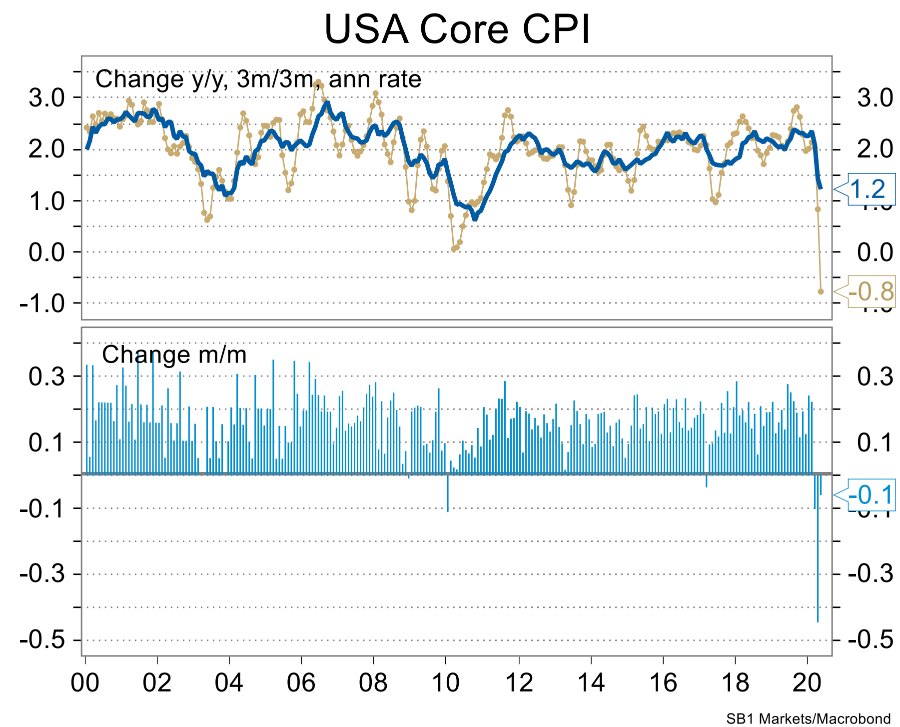




Inflation sharply down

Both headline & core CPI down 0.2 pp to 0.2 and 1.2 y/y. Core down m/m last 3 months

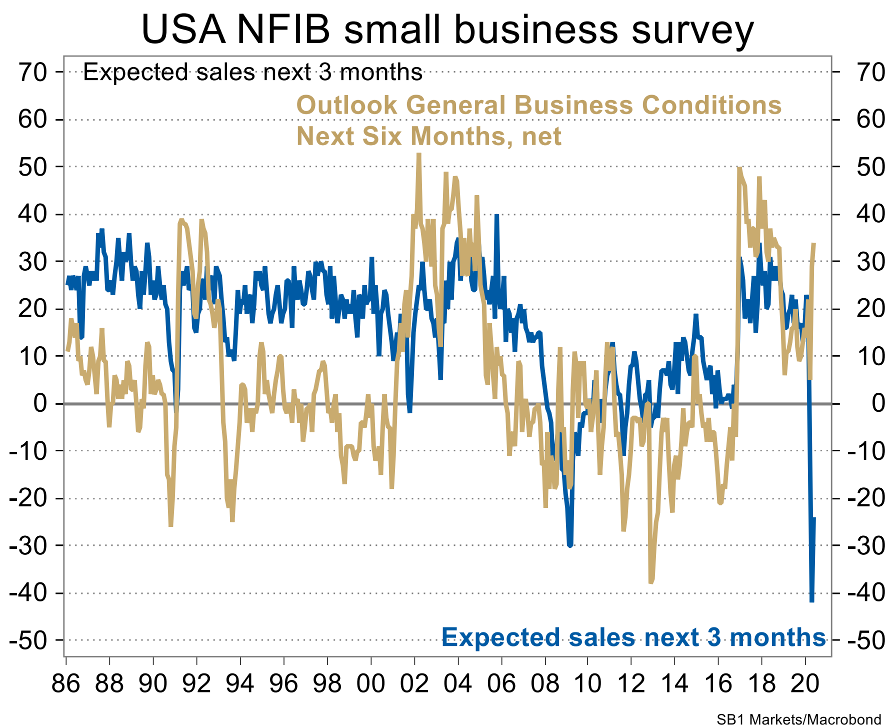




- Core fell 0.1% m/m in May, expected unch flowing the unexpected and record high decline in prices in April, -0.4%
- The coming months, price inflation will very likely decelerate further

SMBs: 'No sales' expected the coming 3 months, but the future is very bright

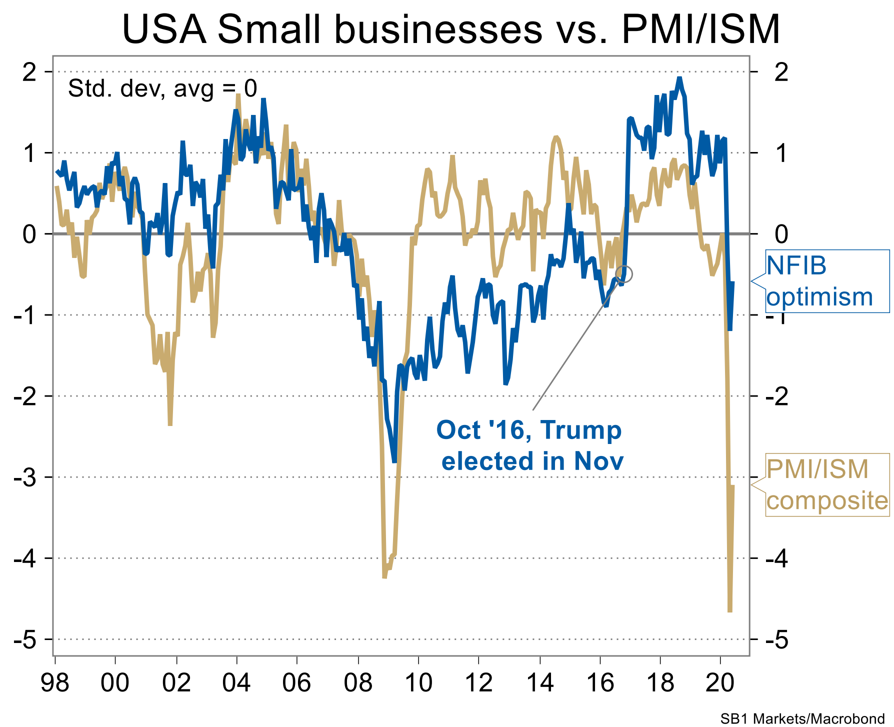
It is not impossible to explain the gap but it is anyway remarkable in NFIB's index

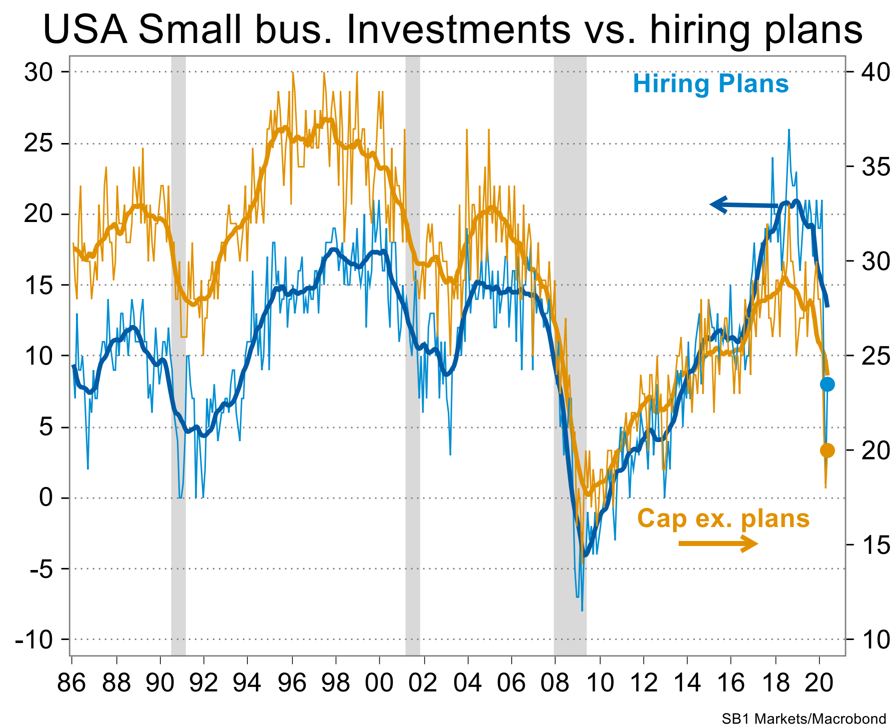


- The expected sales index next 3 months rose somewhat in May but is still in line with the worst ever seen before, at the bottom of the financial crisis
  - » We think companies are too pessimistic
- The 6 months outlook for general business expectations is most likely a hope for the post-corona situation.
  - » We think companies may be too optimistic

Small businesses’ optimism steady in Feb – wait for the corona impact

NFIB optimism index remained high in February, corona fears might hit in March

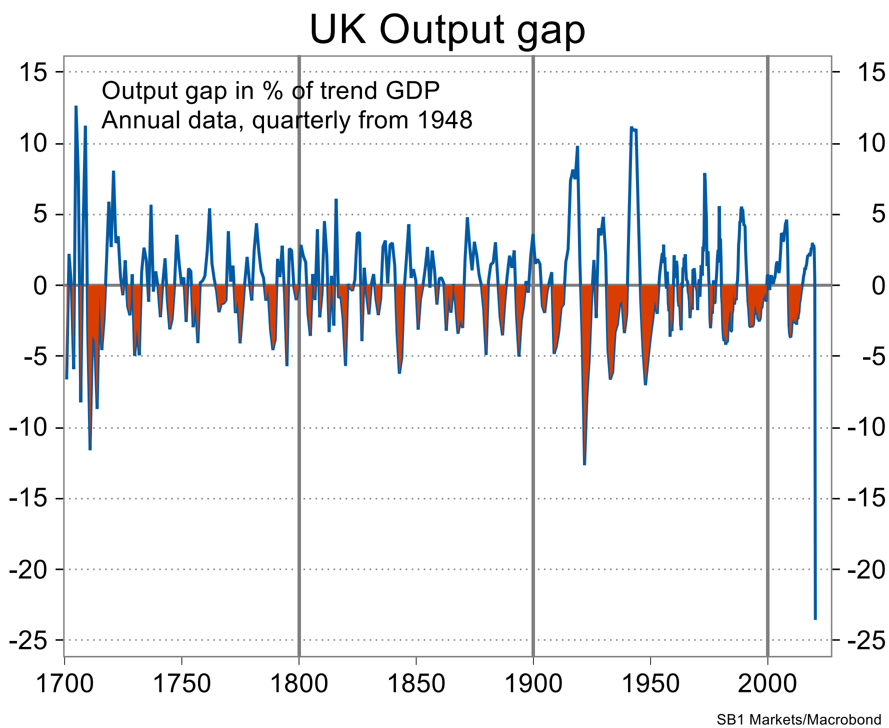


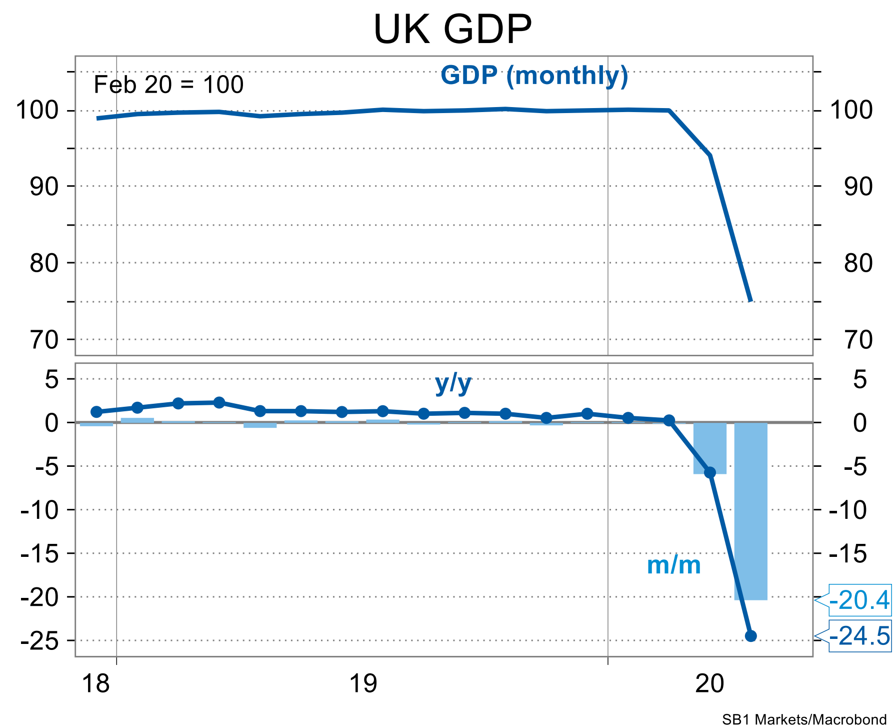


- The NFIB optimism index, measuring small businesses’ expectations on business conditions, inched up to 104.5 in February. The index has stabilised and even inched up the past year, after dropping in late 2018
  - » The NFIB optimism index is 1.2 st.dev above the average since 1998. The avg of the surveys from the ISM/Markit PMI is below avg. The difference may be due to the SME’s exposure to the domestic market, while larger companies in PMI/ISM have been more influence by trade war/global uncertainties, and most recently by the coronavirus outbreak
- Investment plans were nudged down in February, trending slowly up since early 2019. The level is not high, historically
- Hiring plans have peaked but they are still aggressive, and companies are still not able to fill vacant positions – and they plan record high wage compensation

GDP down 20% m/m in April, down 25% from February

Probably the worst contraction since…

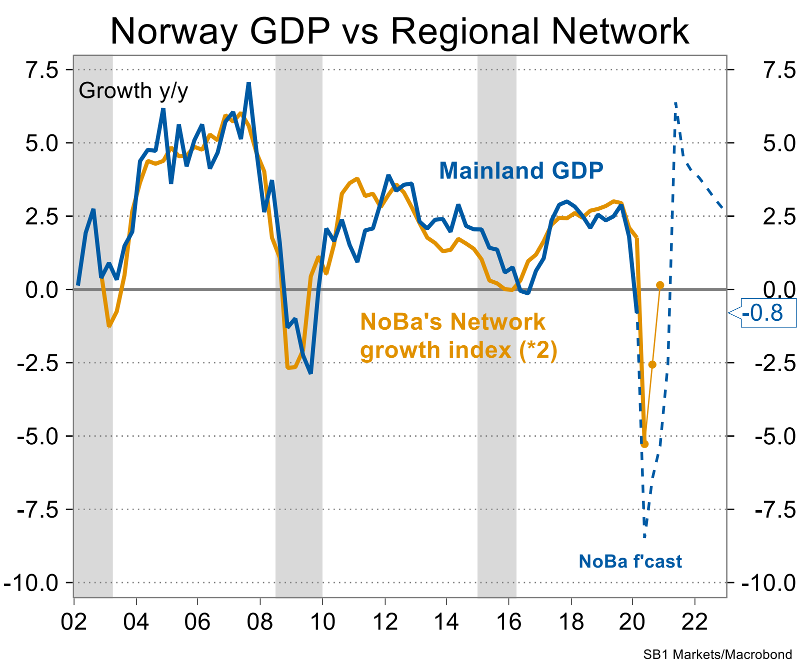




- Both production in goods and services are down 25% from February
- As an illustration: Assume GDP is unchanged from April through June (Q2= April) – most likely too pessimistic (we expect at modest recovery, at least in June). In addition, we have quarterly GDP data just back to 1948. So, we might be exaggerating somewhat. Still, check on the chart to the left, covering the past 320 years
- We do not know how large the 'red area' (accumulated loss of activity vs. 'normal activity') will turn out to be this time but given the depth of the downturn, it will be large, even if we get a 'V'-shaped recovery the coming quarters

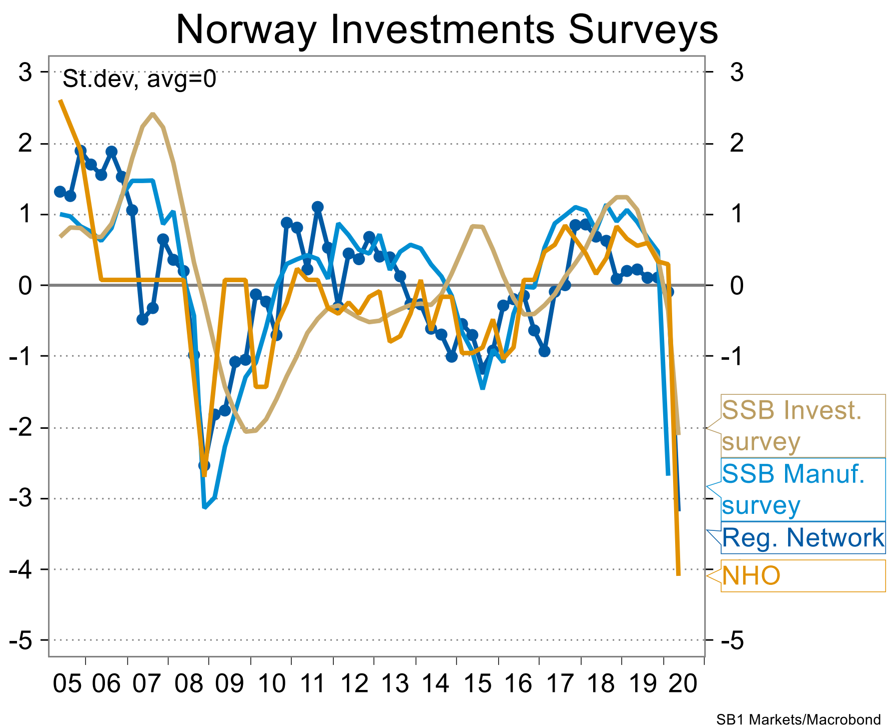
Norges Bank's Network reports just a 'mild' recession. But no recovery either

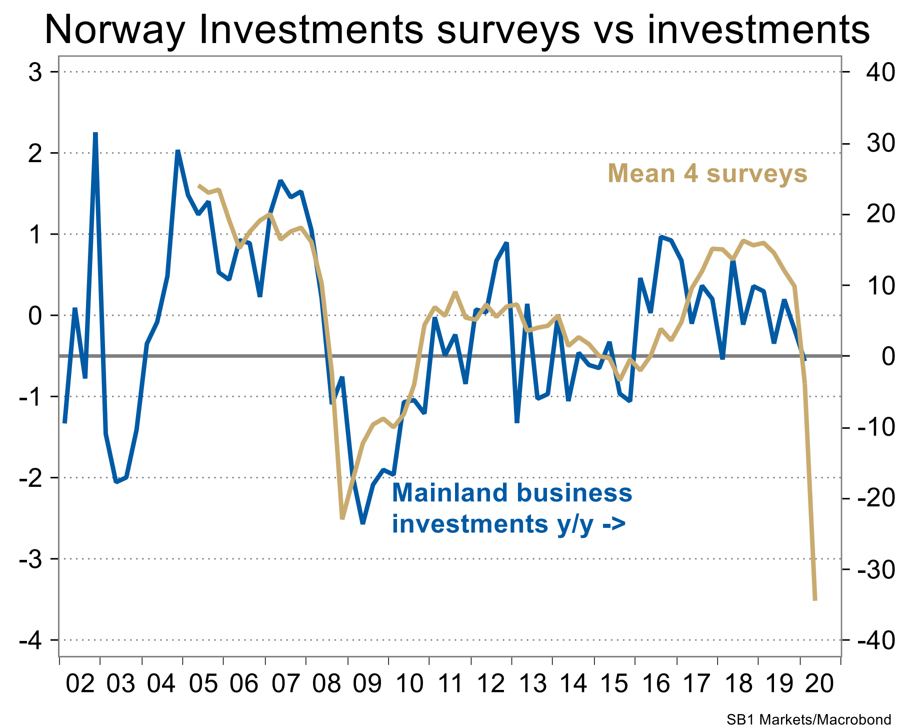
However, this time it is not possible to translate the Network indices into precise growth estimates



- **What the Network says**
  - » GDP fell by a 5.4% pace the past 3 months, the steepest decline on record. We expected -4.4%. All sectors report lower activity. Households services and oil services report the largest decline, construction the smallest.
  - » Respondents expect a marginal positive growth pace (0.2%) the coming 6 months. Oil services are the weakest chain in the link, while household services & retail trade expects strong growth
  - » Respondents report record deep cuts in investments
- **How to interpret these figures**
  - » If we take the survey results literally, GDP declined by 1.3% to late April/mid May from late Jan/mid February, that is before the corona crisis. (-1.3% = -5.3% growth pace in ¼ of the year). During the next 6 months, the companies expect a 0.1% increase (0.2% pace in ½ of the year). Thus, the net decline in GDP to November from February is expected to be 1.2%. That's an quite optimistic estimate, but not totally impossible
  - » The problem with this literal interpretation is primarily that, according to National accounts, Mainland GDP fell by 11% to April from January/February (not annualised, equals 37% at an annual rate). Even if GDP rose in the first half of May, the Network estimate of 1.3% decline does not seem reasonable vs the actual 11% decline. (The decline in share of companies that report capacity equals a 2% decline in activity)
    - Norges Bank comments that the scale in the questionnaire was to narrow, the lowest alternative was a 10% decline, measured at an annual pace, that is -2.6% over 3 months
    - Still, the network in average just utilised half of the available scale. So it is unclear to us what the respondents really described. Given the uncertainty about the activity level now, the 0.1% growth pace the coming 6 months should be interpreted with caution.
    - During the financial crisis it turned out to be more useful to interpret Network indices as changes y/y, as shown at the chart to the left. The Feb-April Mainland GDP is down 4.6% y/y, close the Network's -5.3%. Anyway, the correlation between the Network survey and annual GDP growth rates is far higher than vs. the (volatile) quarterly rates
    - If the same annual interpretation goes for the outlook, GDP should be up 0.2% y/y in Q4 – which is bullish estimate. Norges Bank said -5% in their early May forecast
- **Implications**
  - » Not possible to draw any clear conclusions: We know GDP has fallen more than 11%, we do not know which starting point the companies have for their 0.2% growth forcast

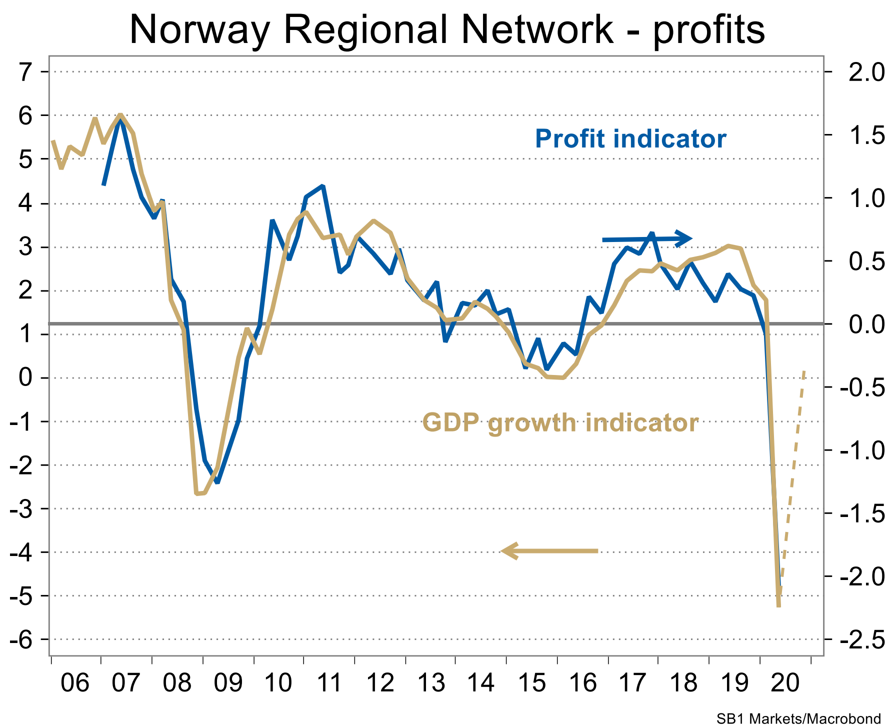
Other surveys tell the same story: Investment plans are cut





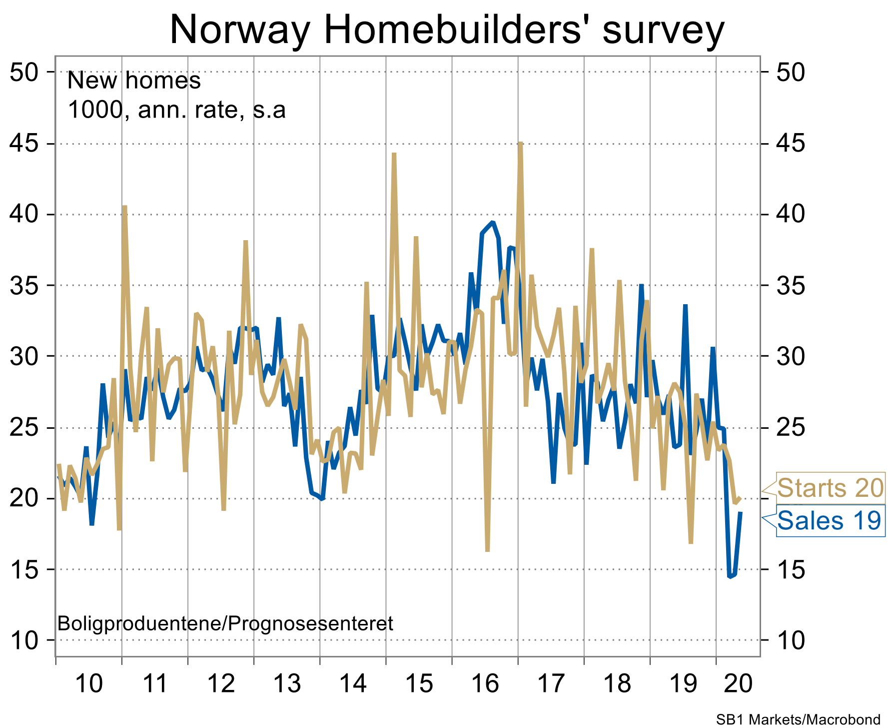
Businesses are expecting the sharpest decline in profits 'ever'

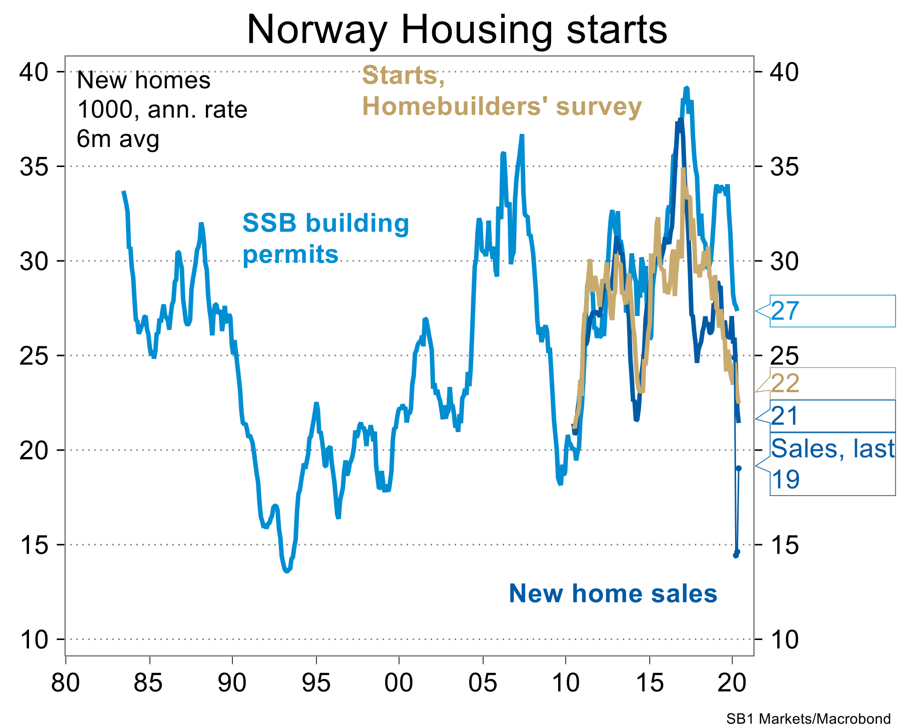
Not surprising, given their growth outlook



New home sales up in May, still very low – as are starts

The Homebuilders' report an increase in sales to 19' in May from 15' in March/April. Not impressive

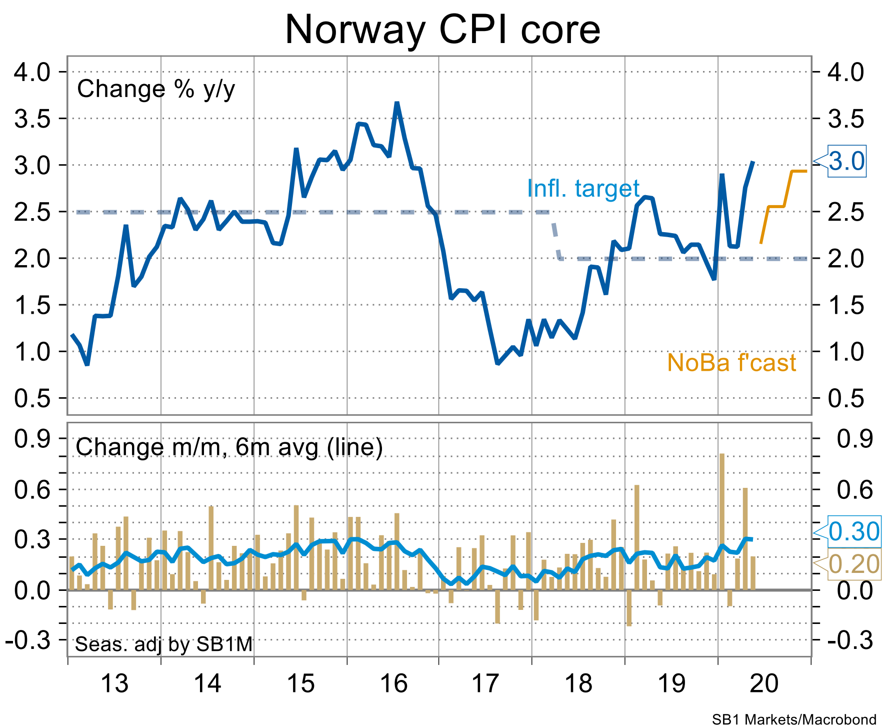




- The Homebuilders' housing starts (seasonally adjusted) fell sharply in 2nd half of March but recovered in April – so that the average was the same as in March, in average – not that bad. However, sales rose just 4', to 19' in May (seas. adjusted, annualised) – well below the pre corona level (25 -27'). Starts fell to 20' in April and remained there in May
- Both sales and starts have been trending down since late 2016, from a 35' level. Real house prices have been trending down in the same period
- SSB is reporting a decline in building permits but the level (27') is higher than what the homebuilders report. The average discrepancy is some 2.5', now its 6'
- The construction sector adjusted its expectations downwards in Norges Bank's Regional Network survey

Core inflation up to 3.0% but nobody cares (and should not)

Inflation well above the target – due to temporary factors. No reason to worry, at least not yet



- CPI-ATE (ex. energy and taxes) rose 3.0% y/y in May, up from 2.8% in April, as we expected
  - » Prices rose by 0.2% m/m (seasonally adjusted), following the unexpected 0.6% in April
- Total inflation rose 0.5 pp to 1.3% (we assumed 1.1%). Electricity prices – but also gasoline prices – explains the 1.7 pp divergence to the core CPI
- **The price outlook**
  - » Impacts of the corona crises are mixed
    - A weaker economy strongly suggests low inflation. Wage inflation is no doubt on the way down.
    - The weak NOK will bring imported inflation up and will probably offset some of the effects of waning demand on prices.
    - Energy prices have been falling but the downside from here is limited
  - » Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming quarters. Wage growth will no doubt slow, almost whatever CPI data that may be reported

The Calendar

In focus: US May (recovery) data. Bank of England, Norges Bank (won't do nothing)

Time	Country	Indicator	Period	Forecast	Prior
Monday June 15					
08:00	NO	Trade Balance NOK	May		3.2b
14:30	US	Empire Manufacturing	Jun	-30	-48.5
Tuesday June 16					
	JN	BOJ Policy Balance Rate	Jun-16	-0.10%	-0.10%
08:00	UK	Claimant Count Rate	May		5.80%
08:00	UK	Jobless Claims Change	May		856.5k
10:00	NO	Unemployment, total, NAV	week	(305k)	322k
11:00	GE	ZEW Survey Expectations	Jun	60	51
14:30	US	Retail Sales Advance MoM	May	7.40%	-16.40%
14:30	US	Retail Sales Control Group	May	6.0%	-15.3%
15:15	US	Industrial Production MoM	May	3.00%	-11.20%
15:15	US	Capacity Utilization	May	66.80%	64.90%
16:00	US	NAHB Housing Market Index	Jun	43	37
Wednesday June 17					
06:00	SW	Home prices, HOX	May		
08:00	UK	CPI Core YoY	May	1.30%	1.40%
09:30	SW	Unemployment Rate SA	May	8.50%	7.90%
14:30	US	Building Permits	May	1260k	1074k
14:30	US	Housing Starts	May	1100k	891k
Thursday June 18					
10:00	NO	Deposit Rates	Jun-18	0.00%	0.00%
13:00	UK	Bank of England Bank Rate	Jun-18	0.10%	0.10%
13:00	UK	BOE Asset Purchase Program Total	Jun-18	745b	645b
14:30	US	Philadelphia Fed Business Outlook	Jun	-25	-43.1
14:30	US	Initial Jobless Claims	week	1550k	1877k
16:00	US	Leading Index	May	2.40%	-4.40%
Friday June 19					
08:00	UK	Retail Sales Ex Auto Fuel MoM	May	5.50%	-15.20%
14:30	US	Current Account Balance	1Q	-$102.3b	-$109.8b

- **US**
  - » The first month of the recovery? **Retail sales, housing starts/permits, manufacturing production** in May & the first **manufacturing & housing June surveys** should confirm that (some sort) of a recovery is underway following what might turn out to be the shortest recession in US history. (The official recession caller, the NBER, told us last week that the last month of the previous – and longest ever – recovery ended in February, which of course was not any surprise)
- **EMU**
  - » **Expectations in the German ZEW survey** (among investors and analysts) bottomed in March, and in May expectations were the best in 5 years, far above average
- **Sweden**
  - » **House prices** have fallen during the corona crisis, especially in Stockholm (5.7% to April from Feb). It is over now? **Unemployment** is on the way up but so far by less than 1.5 pp
- **Norway**
  - » **Norges Bank** will not cut the signal rate into negative territory but will not – in the ordinary Q2 MPR – lift the interest rate path from zero either, at least not before 2023 (but then it should). However, we expect the bank to revised its economic forecasts somewhat up
  - » Weekly **unemployment** numbers are still at a steep way down – but 322' persons are still fully or partly unemployed, 11.3% of the labour force, up from 3.5% before corona

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

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)**	Global auto sales rose in May but sales x China remains far below normal
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 recovery continues, May data OK, even it they were below expectations. Inflation is slowing rapidly
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. However, April was the most likely the trough, and May data will most confirm that the recovery has started **Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt. And an unstable political leadership?**	Inflation fell further in May. SME's optimism still strong, even if sales outlook is very weak. Consumer sentiment up in June, and it is not that far below average
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 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 have ignited the animal spirit again, as usual in Norway, and fiscal policy is very expansionary. 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**	Norges Bank's regional network confirms the setback. The outlook weaker than we assumed. Core inflation accelerated further in May, to 3.0%

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

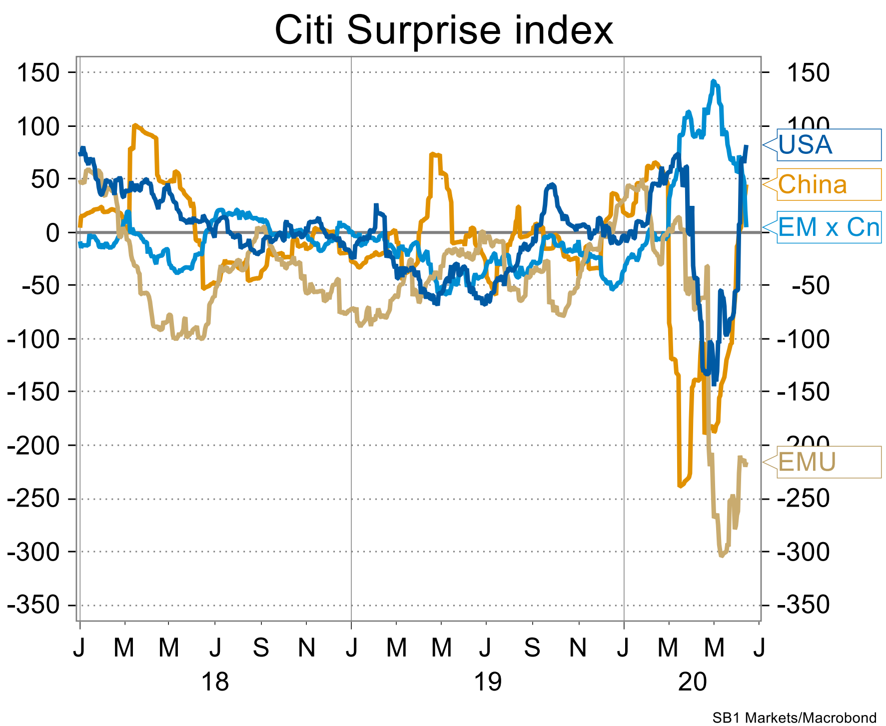
Highlights

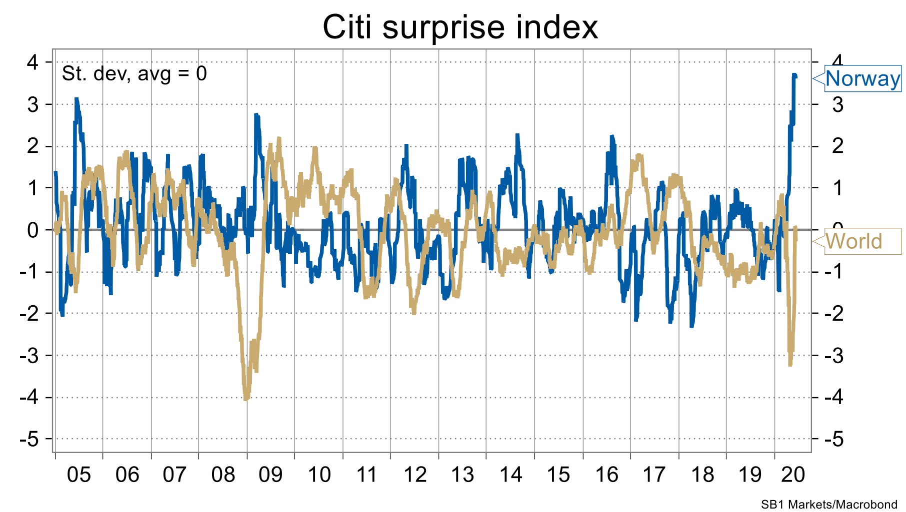
The world around us

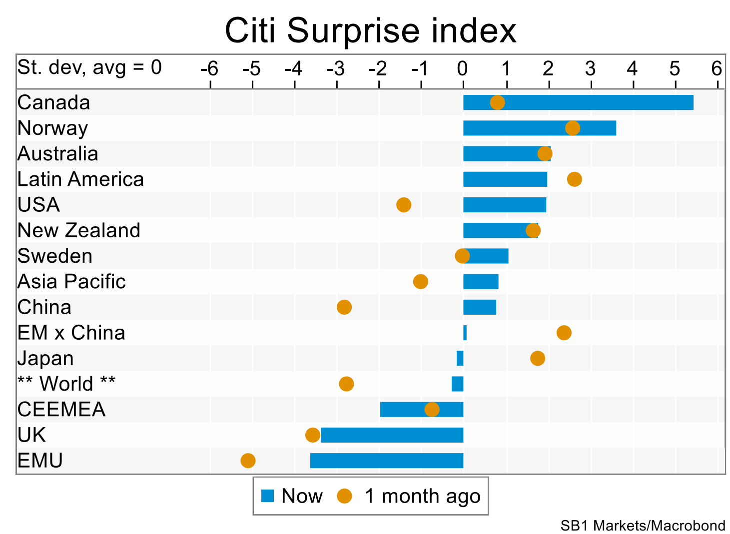
The Norwegian economy

Market charts & comments

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





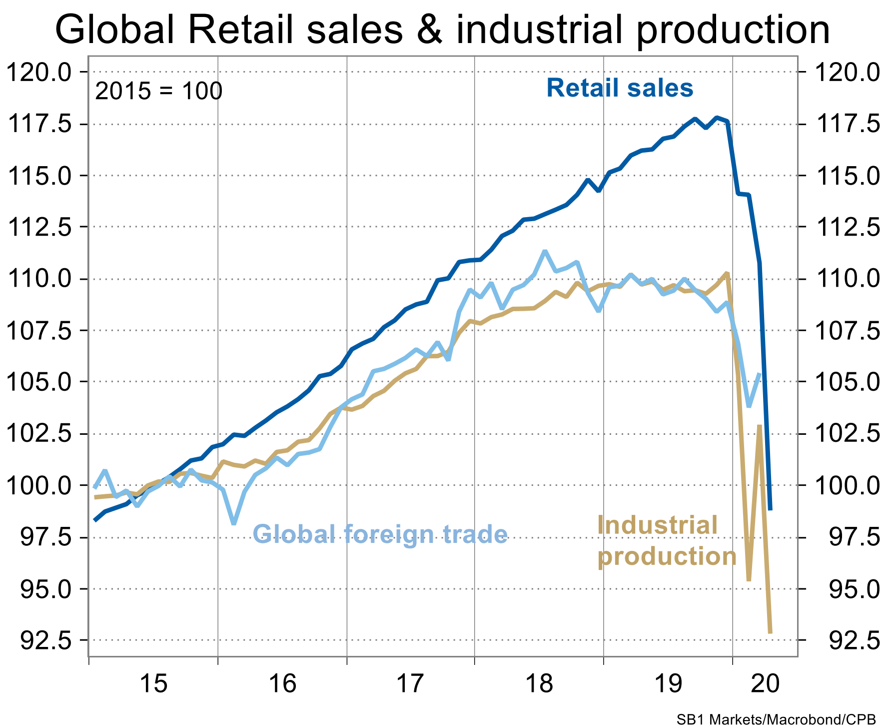


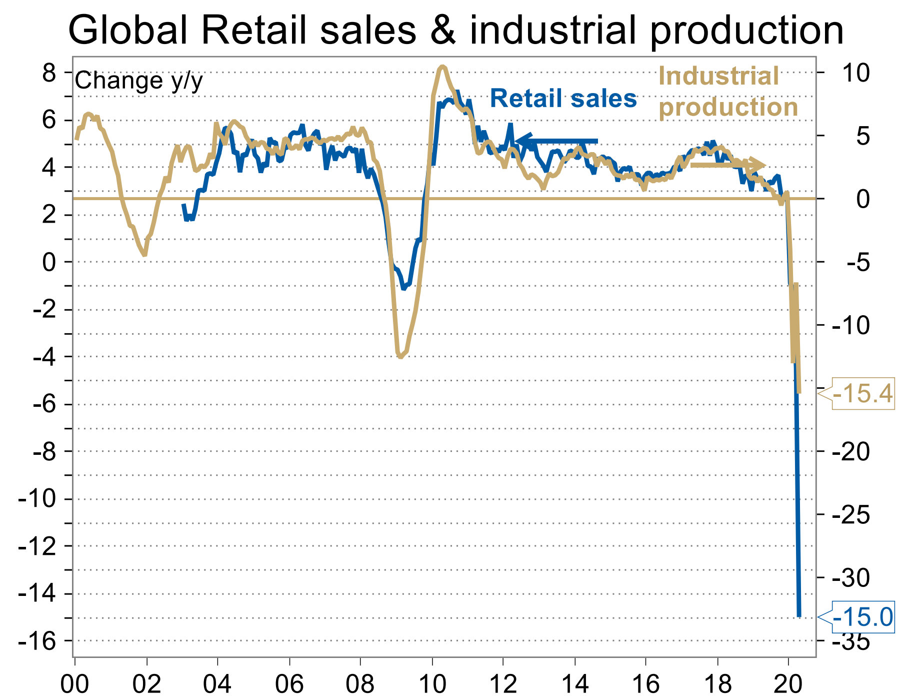
- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- EMU is surprising most on the downside
- Norwegian data are extremely upbeat vs expectations. We are still not so sure on that

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

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

Both are down some 15% y/y – a good proxy of the decline in economic activity



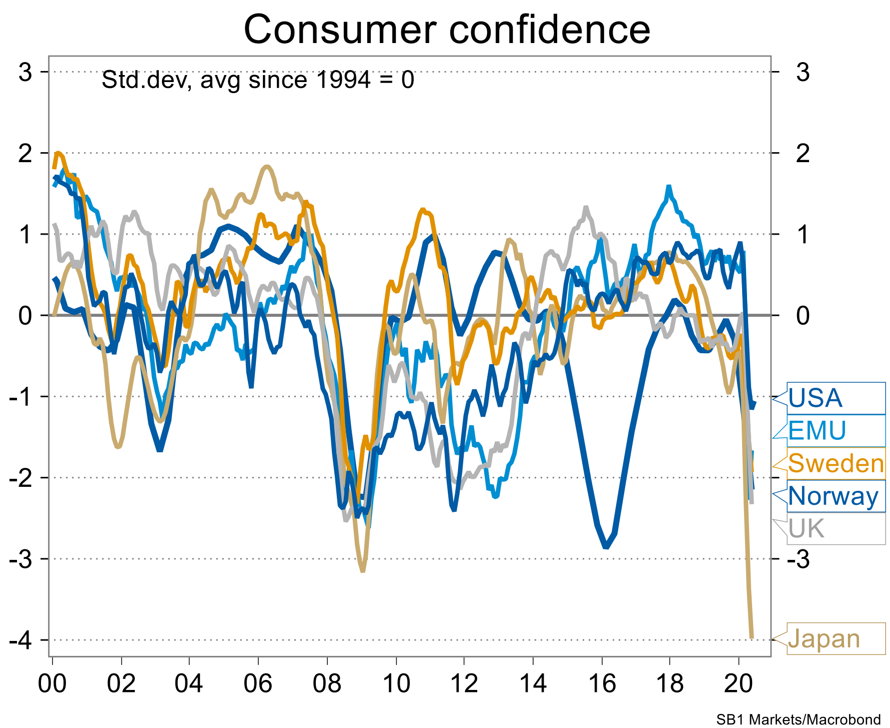


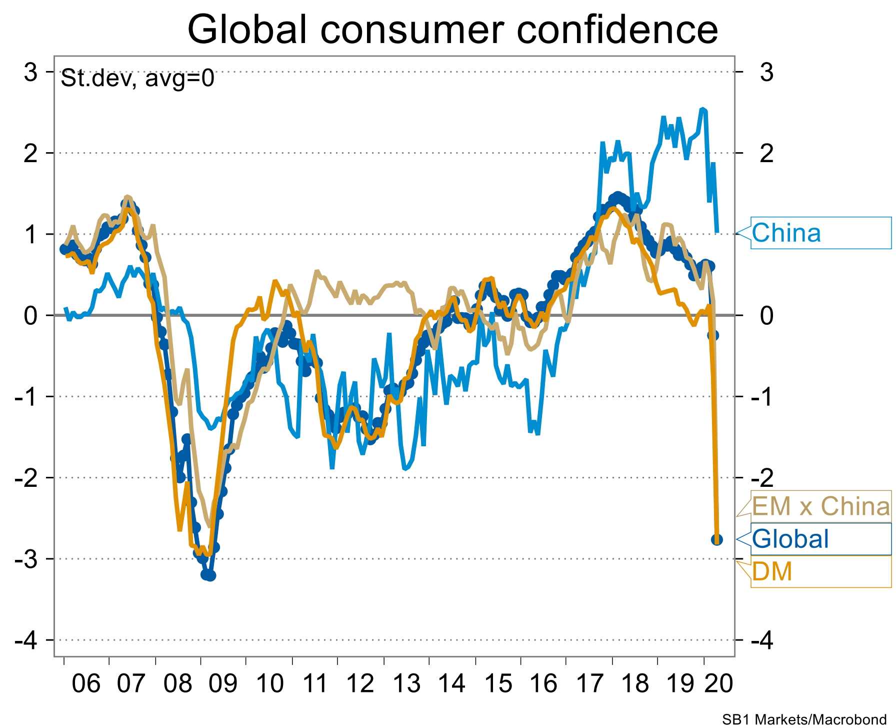
Memo: Keep in mind the different scales at the chart above

- **Global industrial production** probably fell some 8 - 9% in April, like retail sales. India reported an extreme decline in production last week, lowering our global estimate significantly. 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

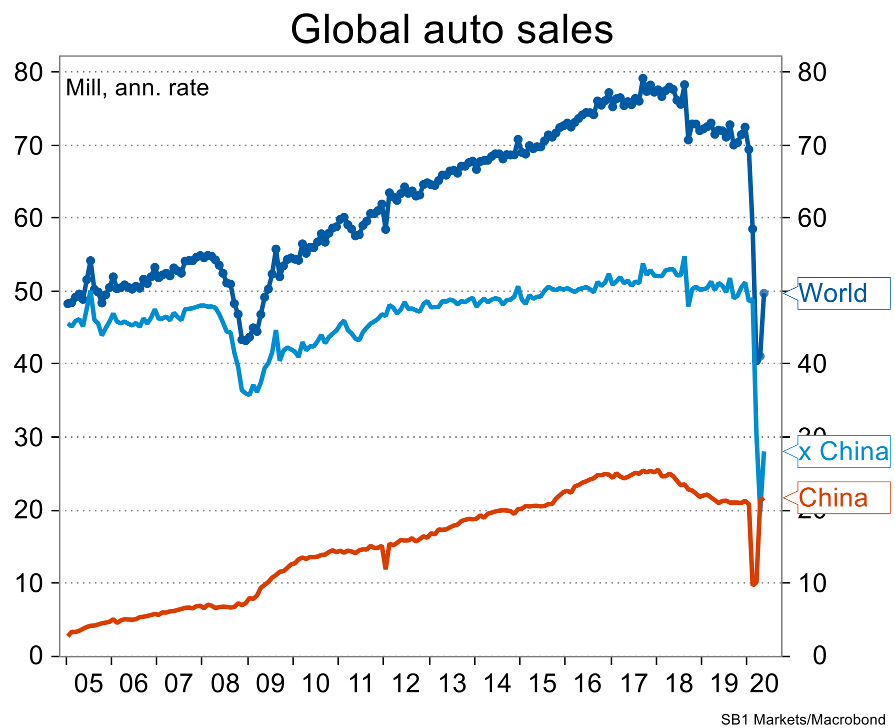


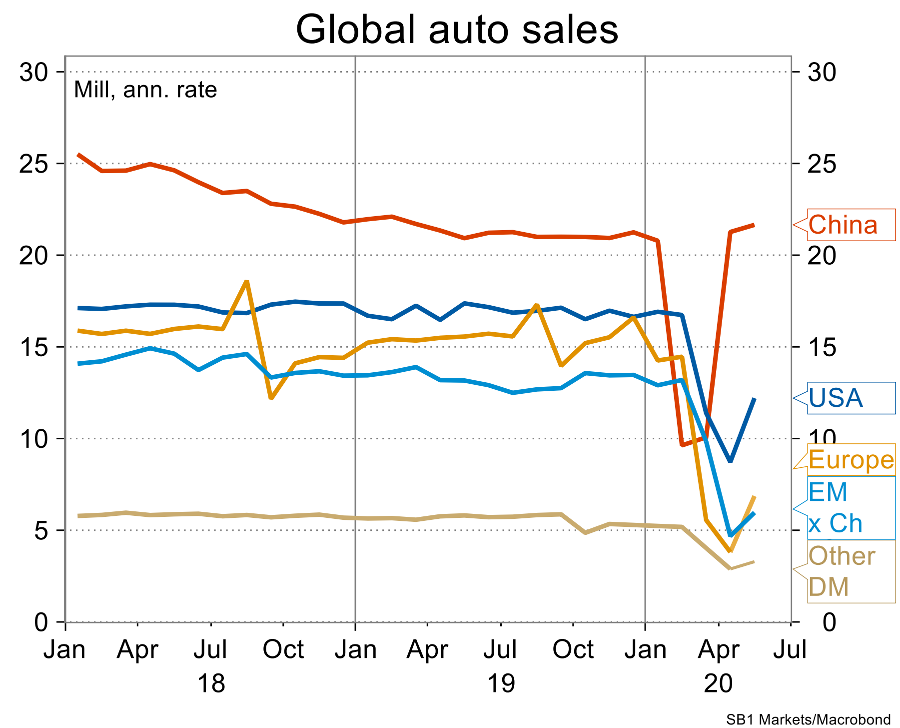


SpareBank 1 MARKETS

Global auto up in May but still 30% below par, ex China 43% below pre corona

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

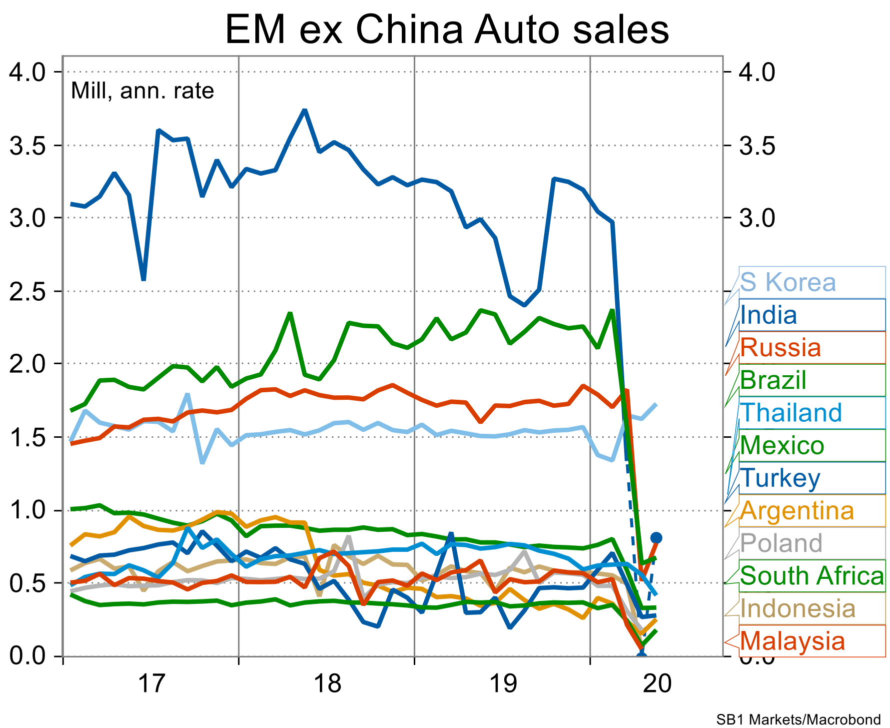




- Sales in China recovered big time in April and sales were kept up in May
- Sales in the US recovered 40% of the March/April decline, and the speed was 70% of the normal level in May (in average, must have been significantly higher in the latter part of May)
- Sales in EMU recovered 1/3rd of the March/April decline in May but remains less than 50% of the pre corona level
- Sales in other Emerging Markets rose slightly. Brazil stabilised at very low level, India recovered ¼ of the decline to zero sales (!) in April, Russia also slightly up – others were mixed. In EM x China, sales are still down more than 50% in May vs. pre corona level. Just South Korea are reporting normal auto sales!

EM x China sales marginally up in May. India from zero in April

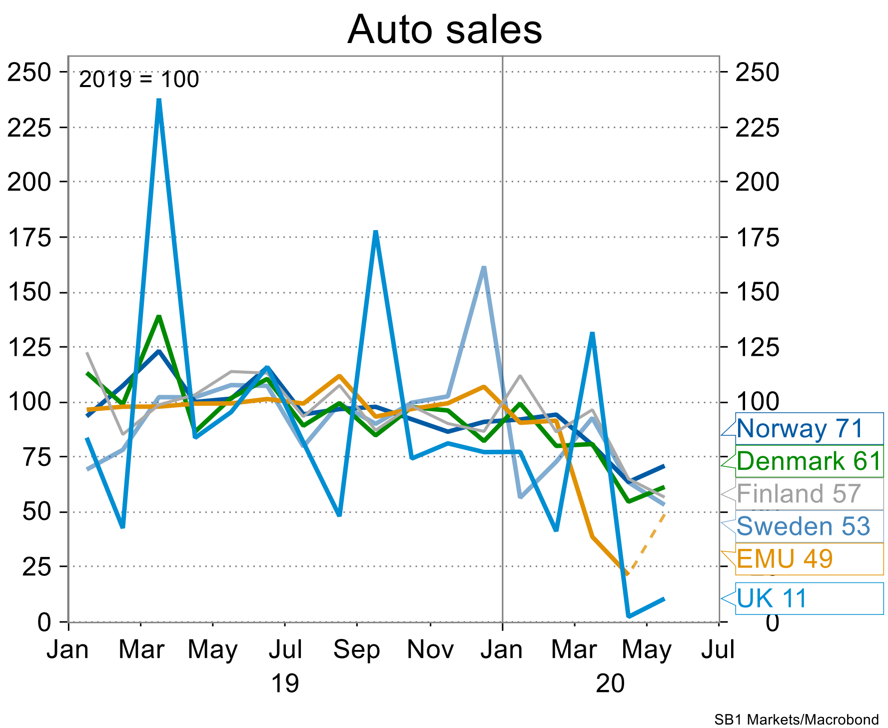
Brazil stabilised in May, Russia marginally up – and the sum very likely up



- There are more auto sales in South Korea than in India, Russia and Brazil taken together!

Sales in Finland and Sweden further down in May

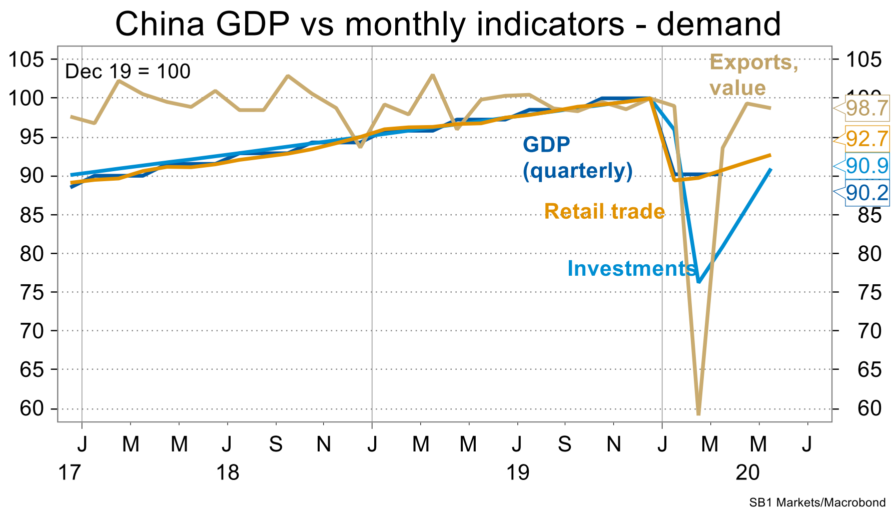
But registrations not more down than -35% in Finland, Norway, and Sweden. -46% in Denmark

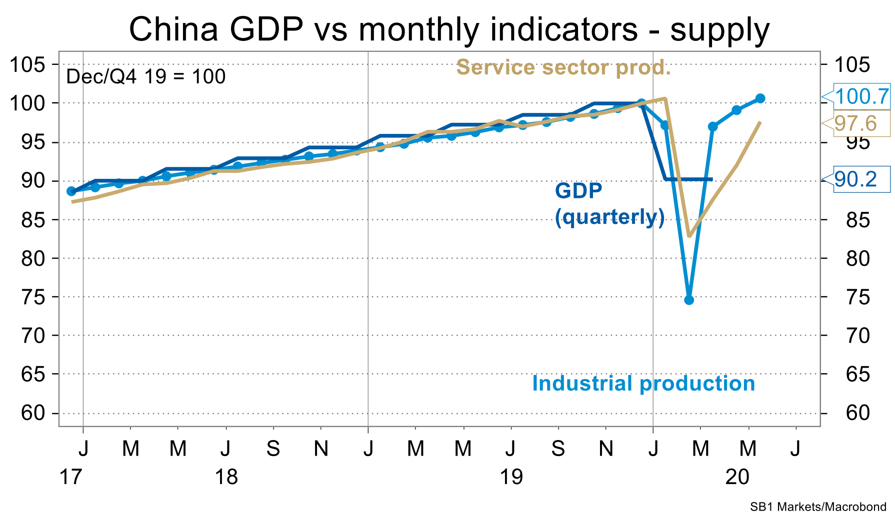


- … and sales were down 91% in UK in May, even after a small increase (from -98%) in April

May below expectations, still not bad – the recovery on track

Retail sales, investments, industrial prod. marg. below expectations. A sharp lift in service production





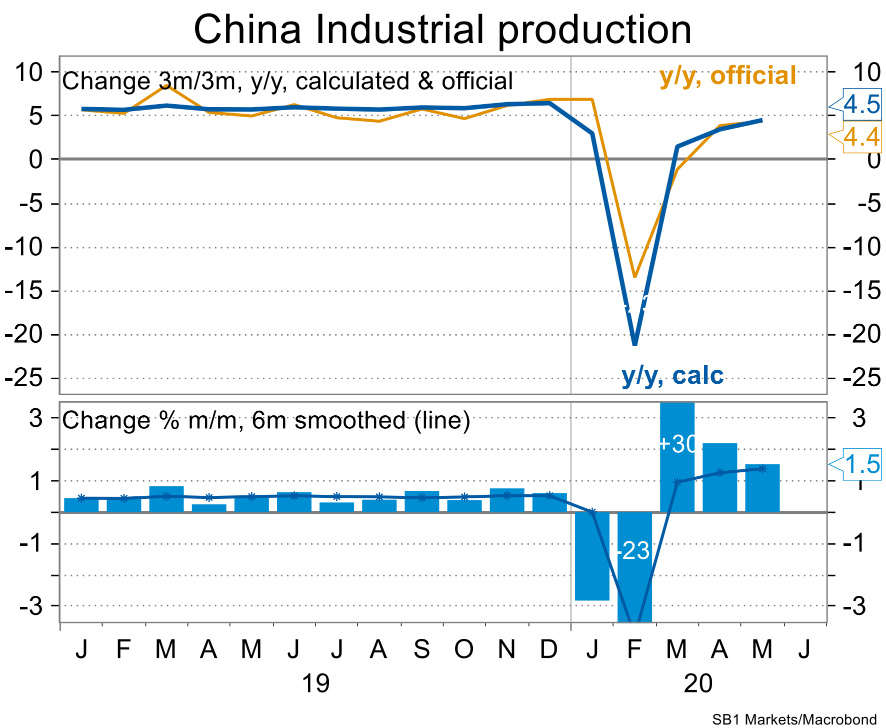
- **Industrial production** rose 1.5%% m/m, and was up 4.5% y/y, expected 5.0%. Production just some 1% below the pre corona trend
- **Retail sales** rose 1.0% in May, for the 3rd month in row. Nominal sales were down 2.8%, expected -2.3%, up from -7.5% in April. Sales are still some some 10% below the pre corona trend. Auto sales are confirmed back on track. Lower **CPI inflation** is supporting volume growth
- **Investments** rose another 5.9% in May but remains 11% below the pre corona trend path. New homes sales are above Dec levels, starts are almost back
- **Service sector** production rose 6%, even faster than in March and April, it is up 1% y/y, and is some 5 – 6% below the pre corona trend (up from -23% in February!)
- **Exports** were a tad weaker than expected in May, but is close to the pre corona trend. However, export surveys are still dismal
- **Credit growth** slowed further in May but the longer term trend is still upwards, and the growth level is far above any long term sustainable path

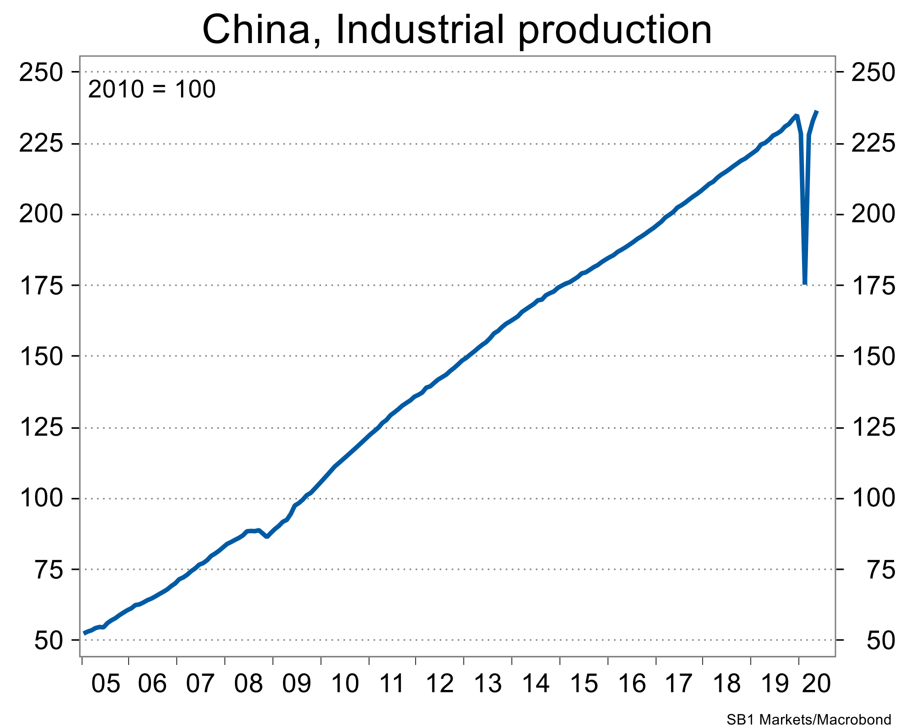
In sum: Final demand is still below the pre corona trend but the gap is narrowing. Industrial production seems to be strong vs. demand. The best news: The service sector is recovering rapidly

- **GDP** fell 9.8% q/q, as we assumed almost 3 months ago GDP fell 6.8% y/y, from +6%. We expect GDP to increase by at least 4% q/q in Q2 (5% is not unlikely, but exports may turn out to become a drag in May/June

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

Production rose 1.5% m/m, well above trend growth. Still a tad weaker than expected y/y

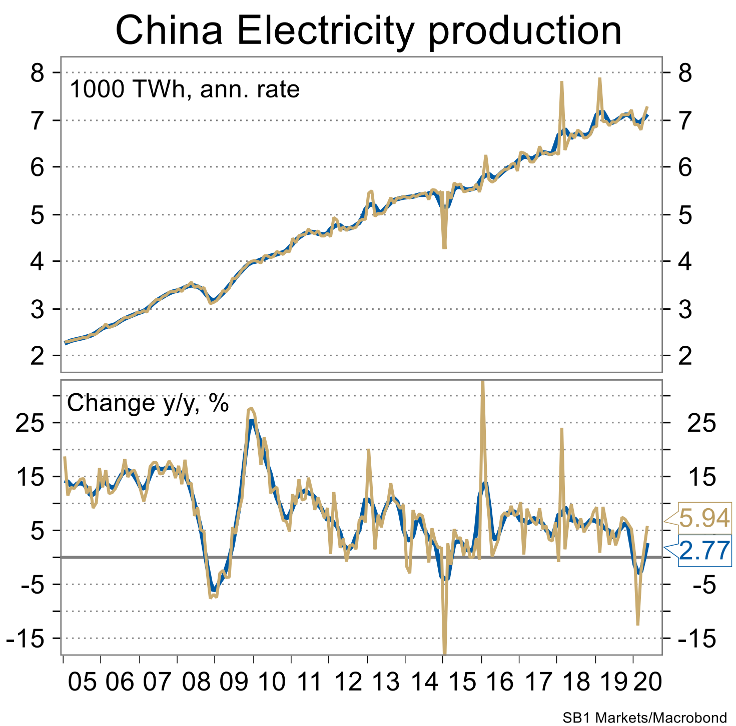


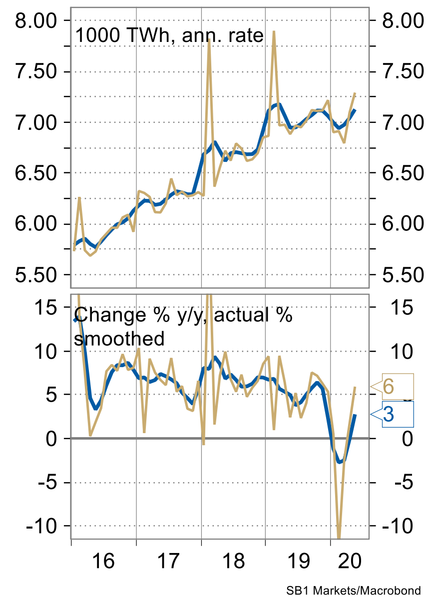


- Production was up 4.5 % in May (4.4% our data, monthly aggregates), expected up 5.0%. The gap to the pre corona trend is just above 1%%

Official electricity production is back on track

May production 6% up y/y

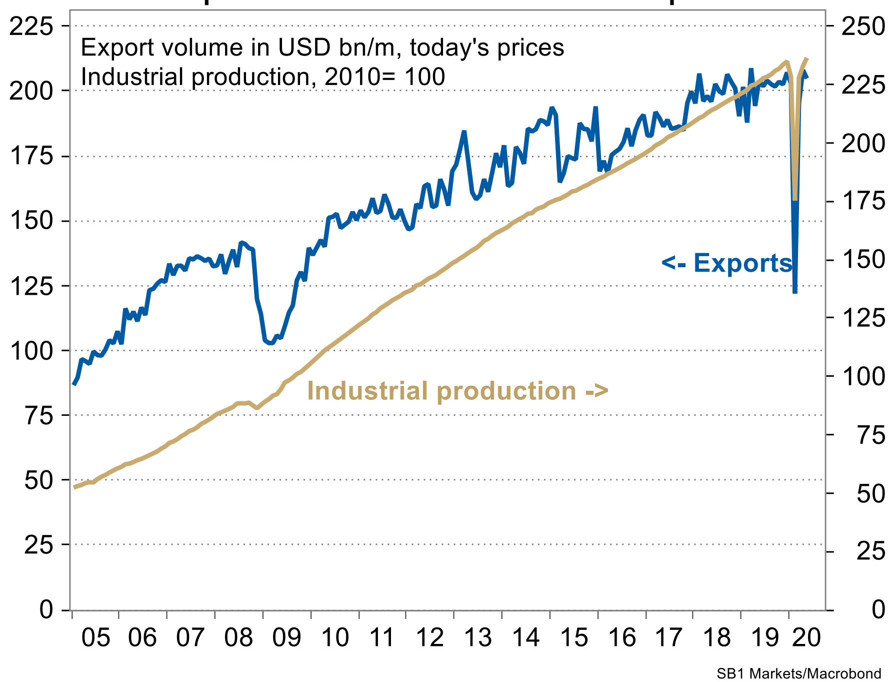




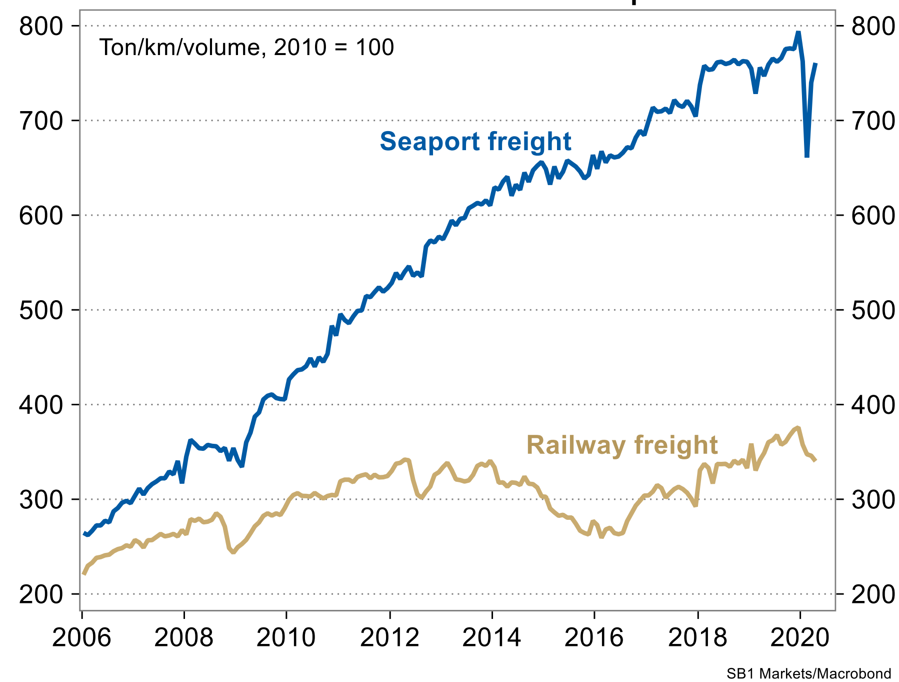
Seaport activity up in April still below , as was railway transport

Exports marginally down in May but it is clos to the pre corona trend

China Export volume vs industrial production

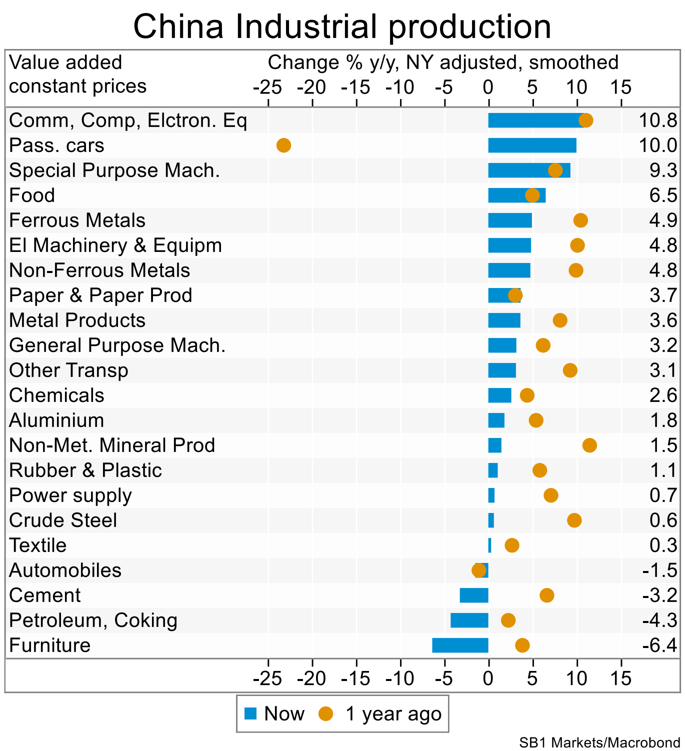


China Trade and transport



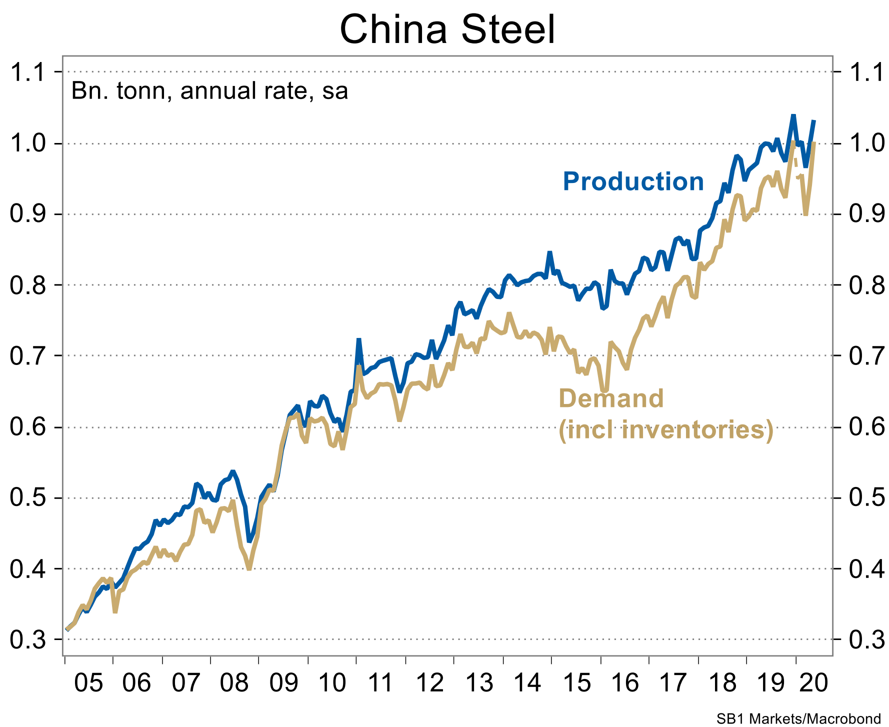
Most manufacturing sectors are up y/y. High tech in the lead

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



Steel demand & production up in May, demand back to ATH

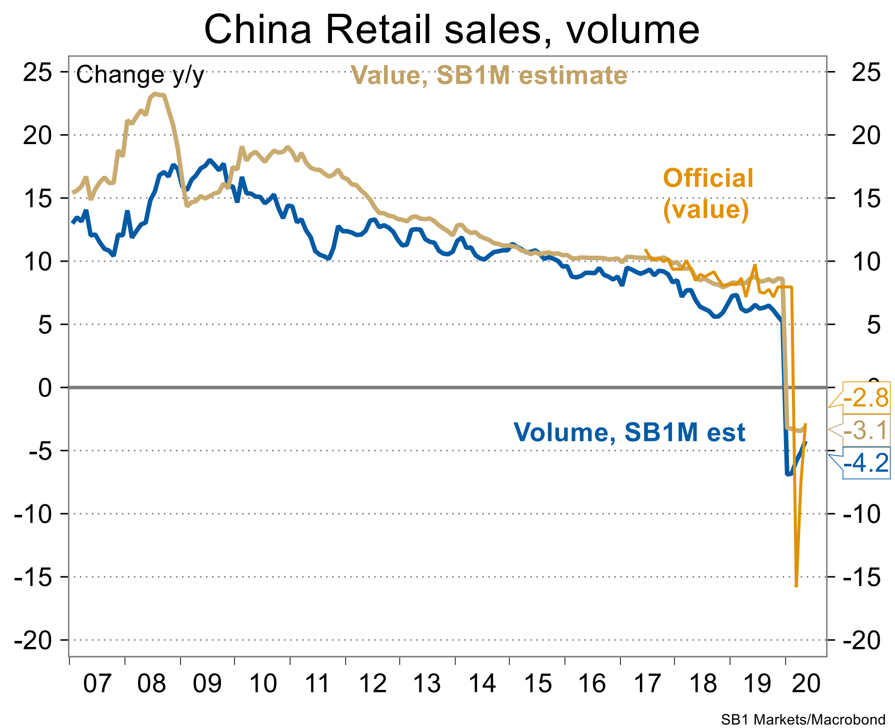
Construction starts almost back at normal level too

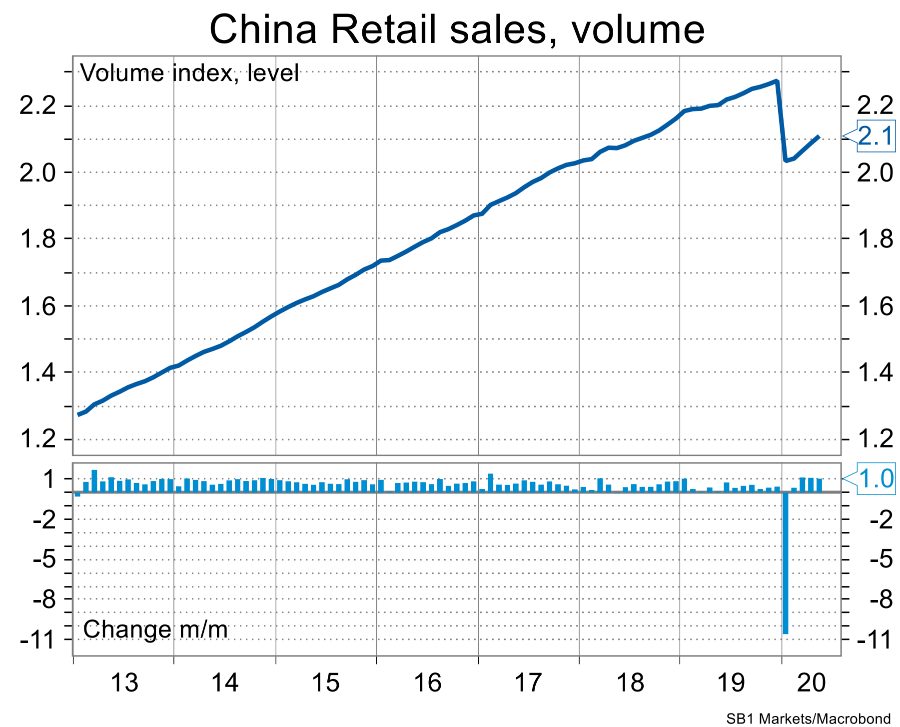


- Demand includes changes in inventories

Retail sales volume up 1% in May, still some 10 % below the pre corona trend

Sales are recovering and growing faster than normal but still a way to go

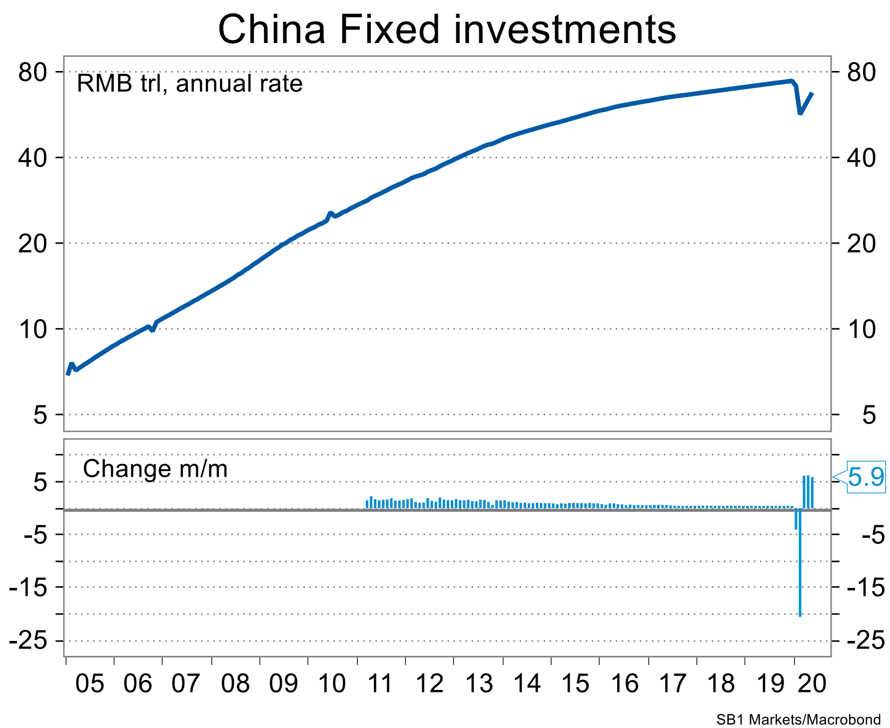




- The official value growth rate at -2.8% was marginally weaker than expected (-2.3%), still up from -7.5% in March
- Sales rose 1% m/m in May, according to our volume estimate, unchanged from the two previous months
  - » The monthly seasonally adjusted data were revised up – and they are still strange. The decline is still reported to have been in January, while the lockdowns mostly took place in February. We assume the decline should have been shifted towards Feb
- Retail sales are now 7.3% down from the Dec level, and some 10% below the pre corona trend - which of course is a depression like setback. So, no narrow V here

Nominal investments up 6% in May too, still 11% below the pre corona trend

No narrow V here either – and the level remains low

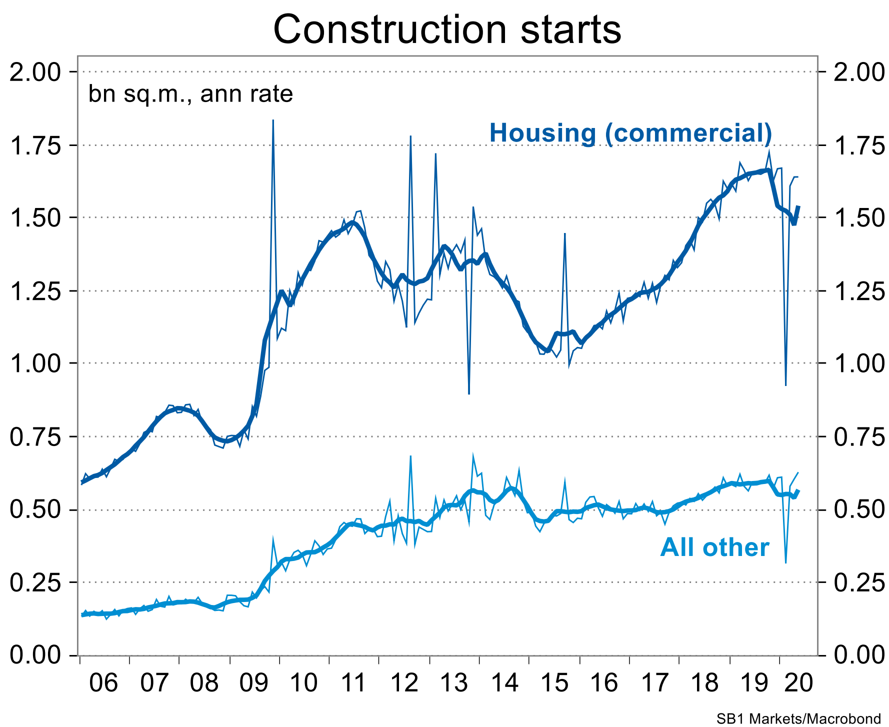


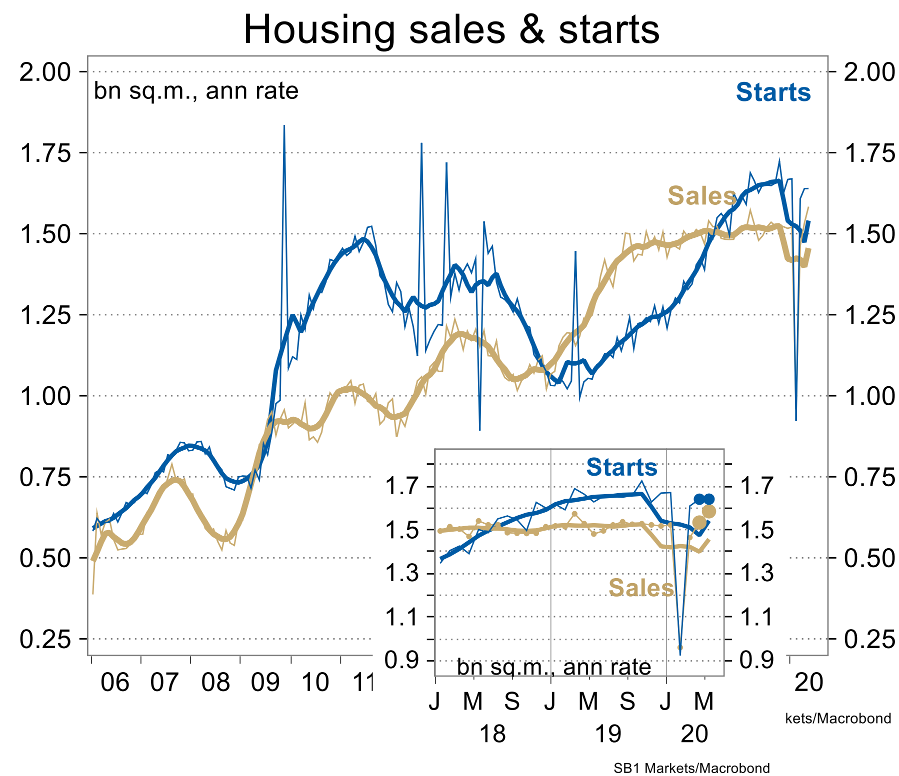
- Urban investments dropped by 6.3% y/y ytd in May, from -10.3% in April, according to the official data, expected -6.0%
  - » Investments rose by 5.9% m/m in May, down from 6.0% in both March and April, following a 20% drop in February, revised up from originally reported -27%
- In real terms, investments are down some 7% y/y (but we are lacking updated price indices)
- (Sector data are revised, we will look upon them before the nest release)

SpareBank 1 MARKETS

New home sales well above pre corona trend, starts are almost back too

… following the 40 – 50% collapse in February

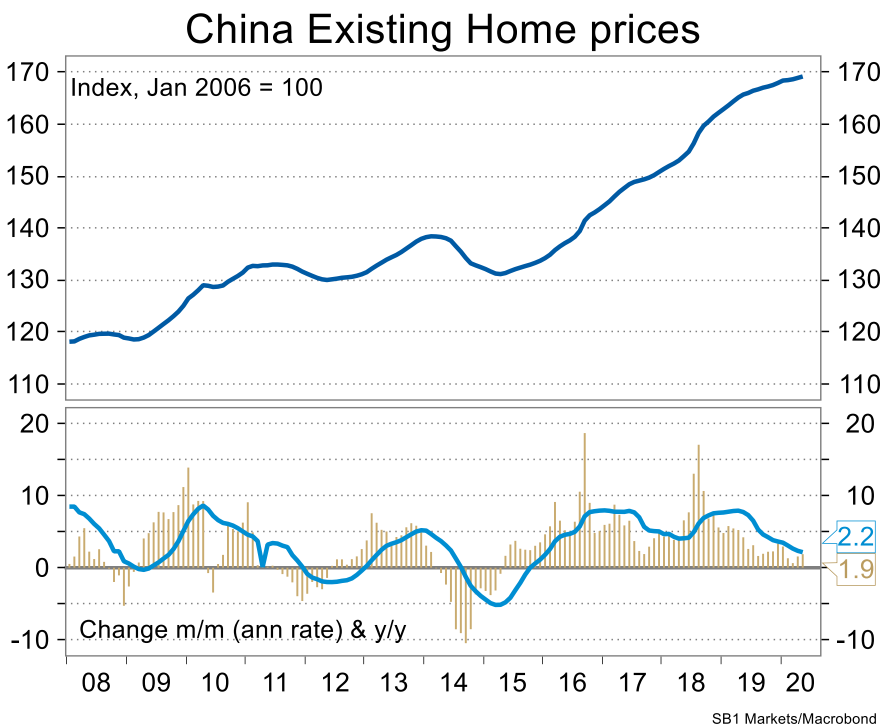


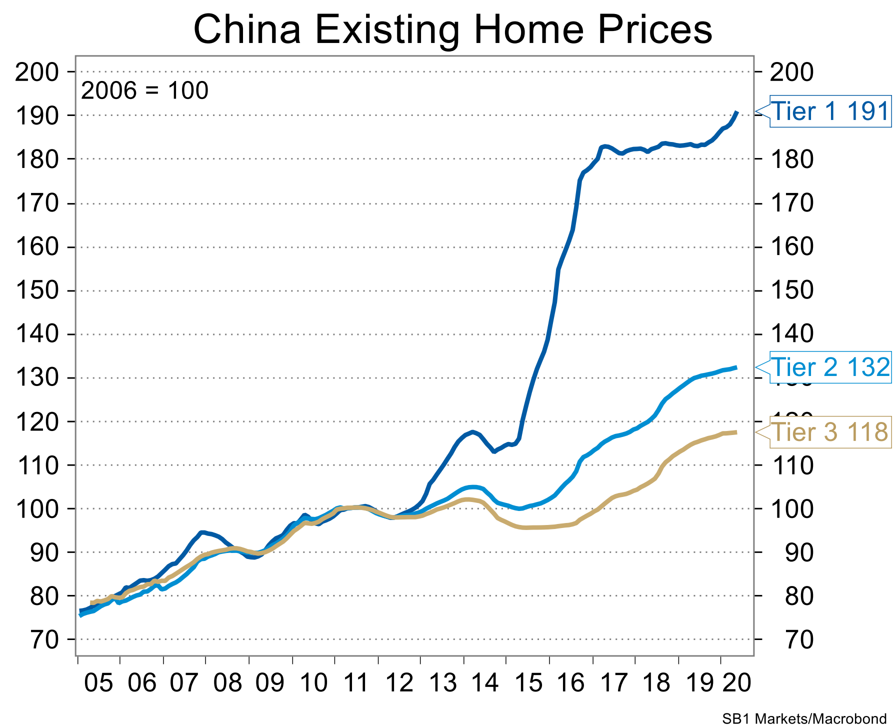


- In fact, just February was a disaster

House price inflation is accelerating somewhat, in the biggest cities

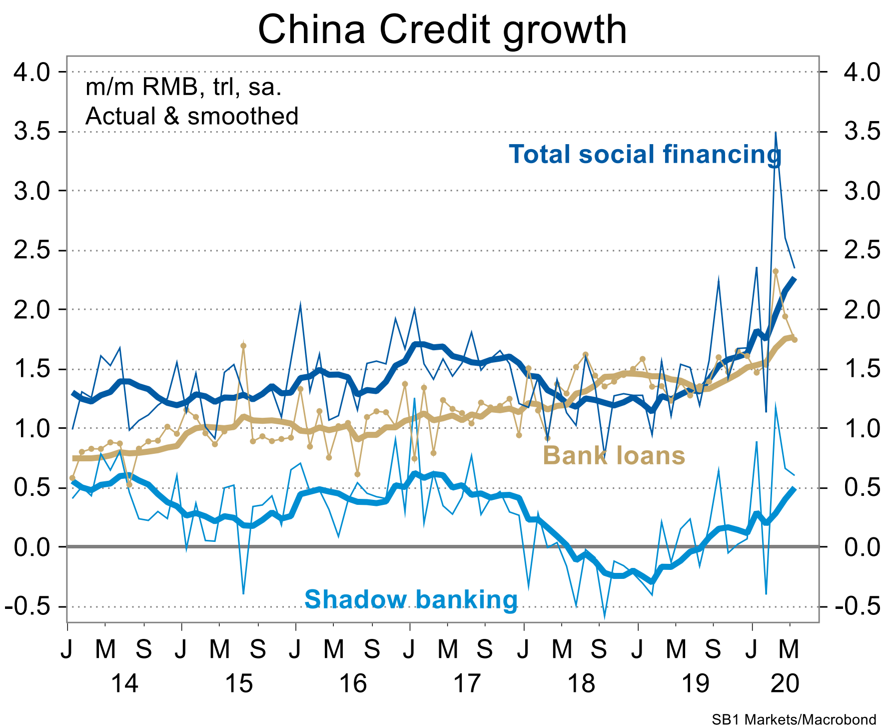
No corona shock to be seen, prices rose further m/m in May (at a 1.9% pace). Up 2.2% y/y

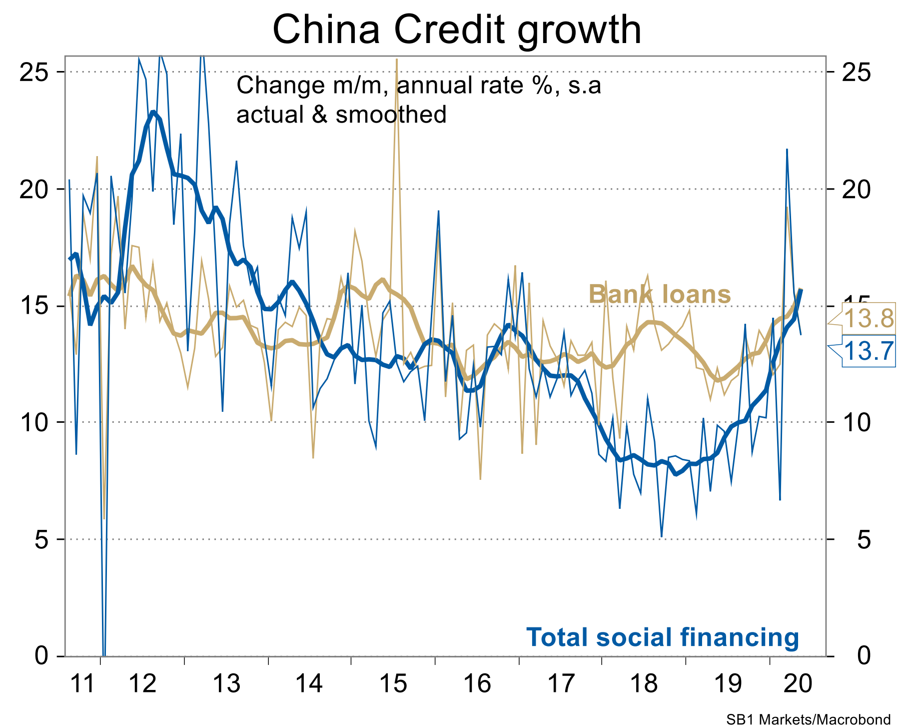




Credit growth slowed further in May but is still high – trend is up

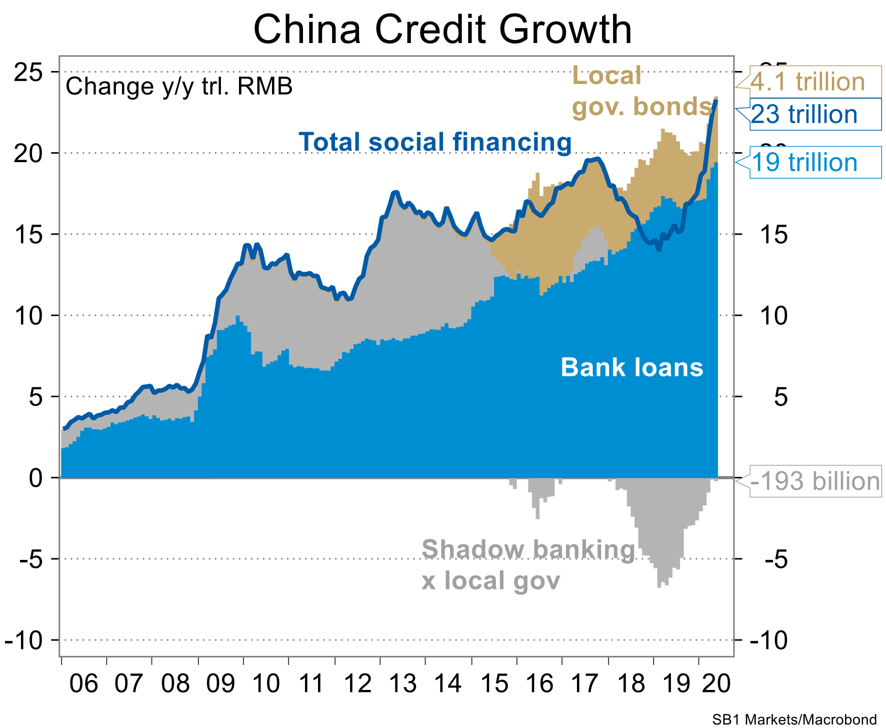
Underlying growth down to 14% but that not a low growth pace. Banks support the most but not all

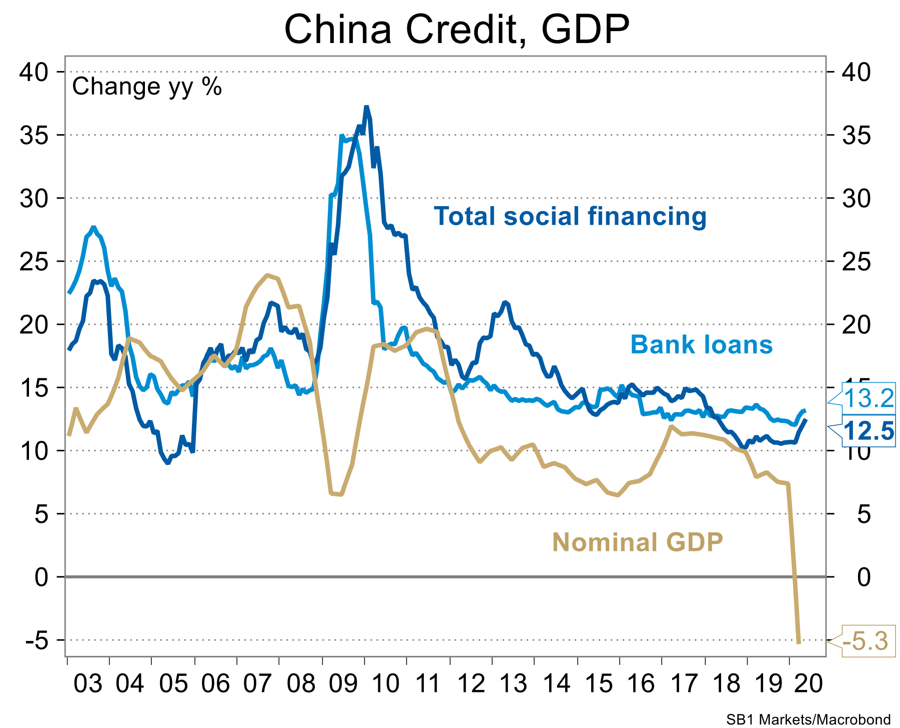




- Total credit growth slowed to a 14% pace in May, down from 22% in March (and a low level in February, during the lockdown).
  - » Total credit rose 3 bn RMB, as expected. Banks supplied most of the stuff but the shadow banking system contributed well too (1/3 of total)
- The underlying total credit growth has been accelerating since early '19, underlying growth up to 16%, from 7.5%, the highest since 2013
  - » Growth measured y/y credit growth accelerated to 12% (banks to 13.1). The credit impulse (acceleration in credit growth) is now clearly positive

Credit growth has accelerated over the past year



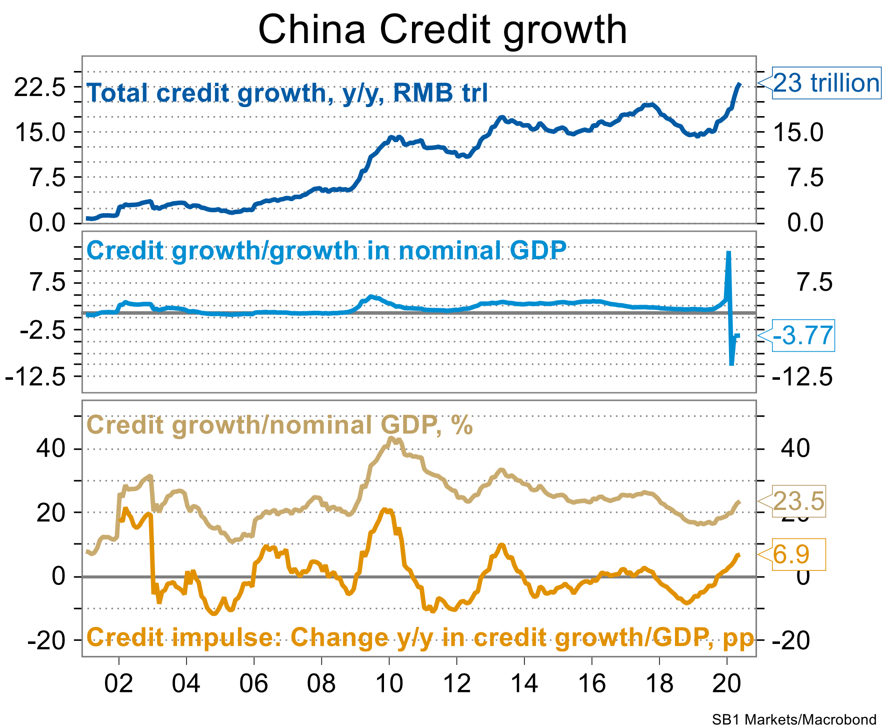


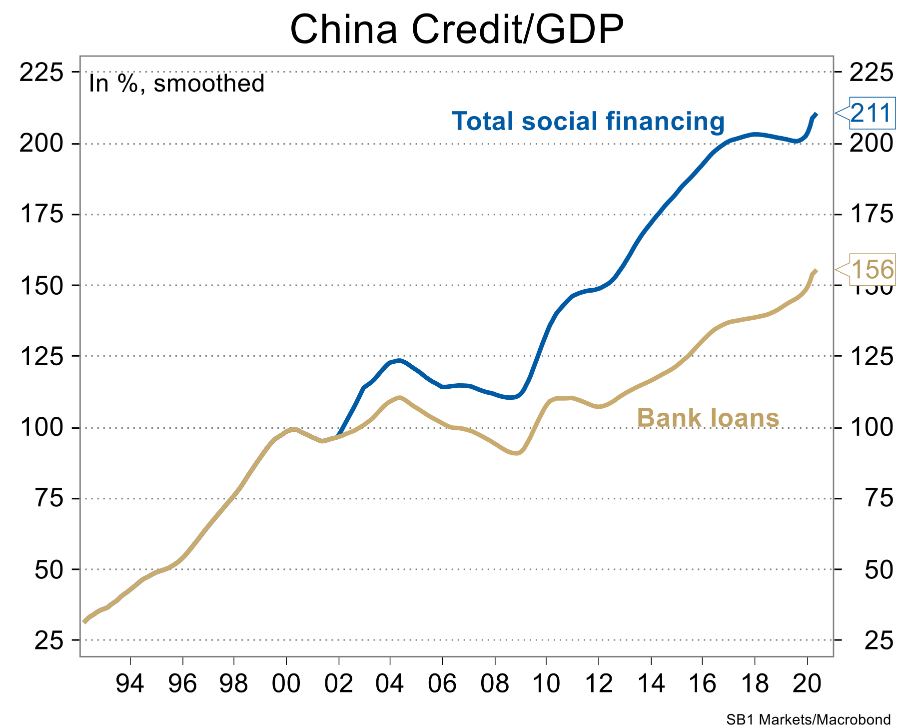
- Over the past year, total credit has grown by CNY 23 trl, equalling 24% of GDP (before the Q1 collapse)
- Banks supplied CNY 19 trl of the y/y increase
- Local governments has not yet accelerated their borrowing by much, at least not in the bond market, still up 4.1 bn y/y
- Other credit – via the shadow credit market x local gov bonds is now flat y/y
- Total credit growth at 12.5% is higher than growth in nominal GDP even before the corona chock (7.4%, in Q1 it was down 5.3 y/y)

SpareBank 1 MARKETS

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

Credit growth is accelerating, whatever way we measure it

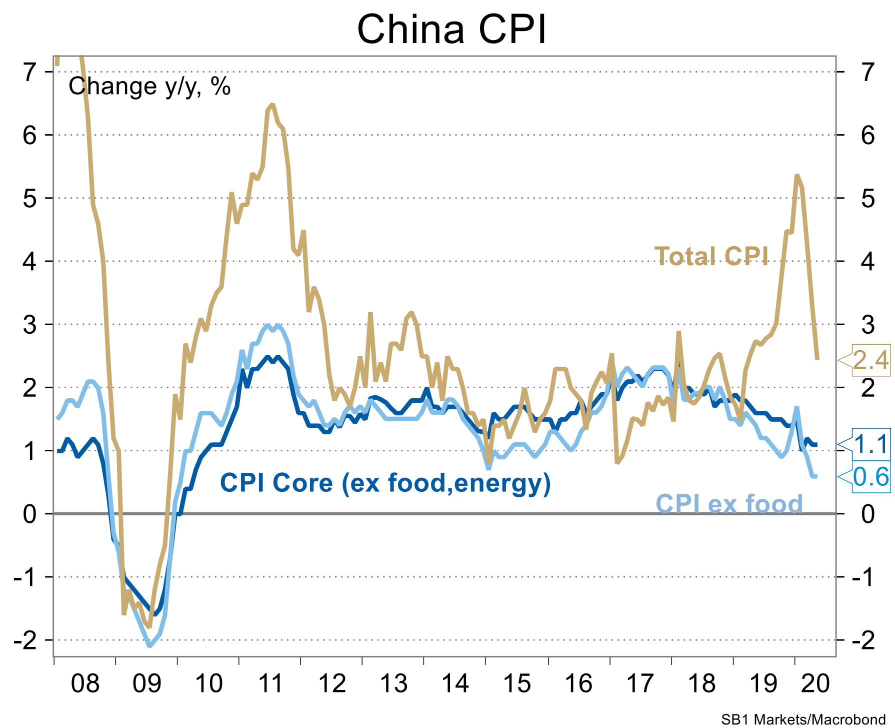


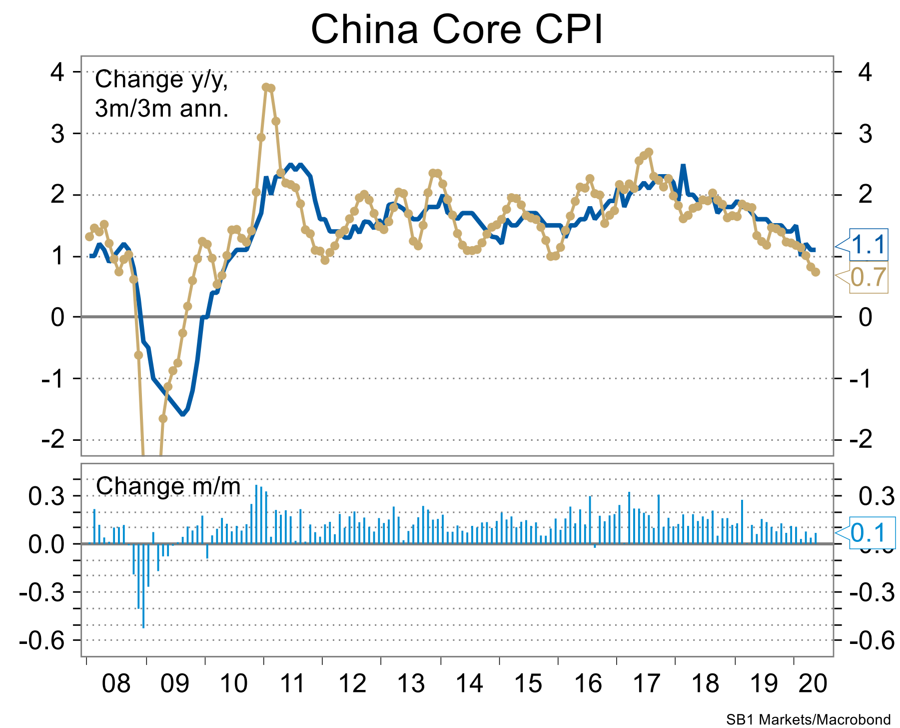


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » Now, the credit impulse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

Inflation is slowing rapidly, core at 1.1%, drifting lower

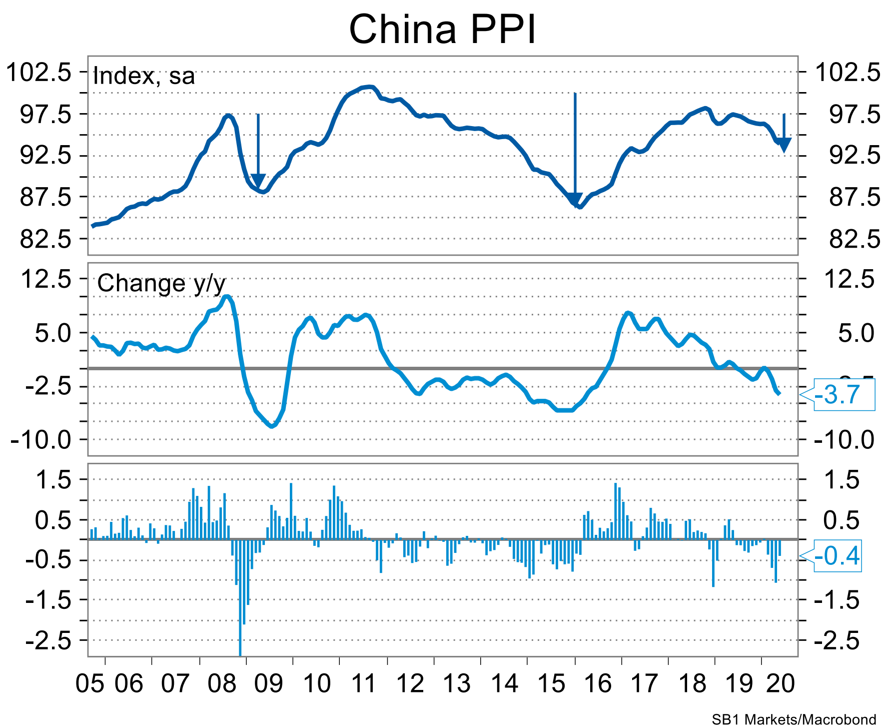
Headline CPI down to 2.4% in May from 3.3% as food price inflation has come down to 10.6%

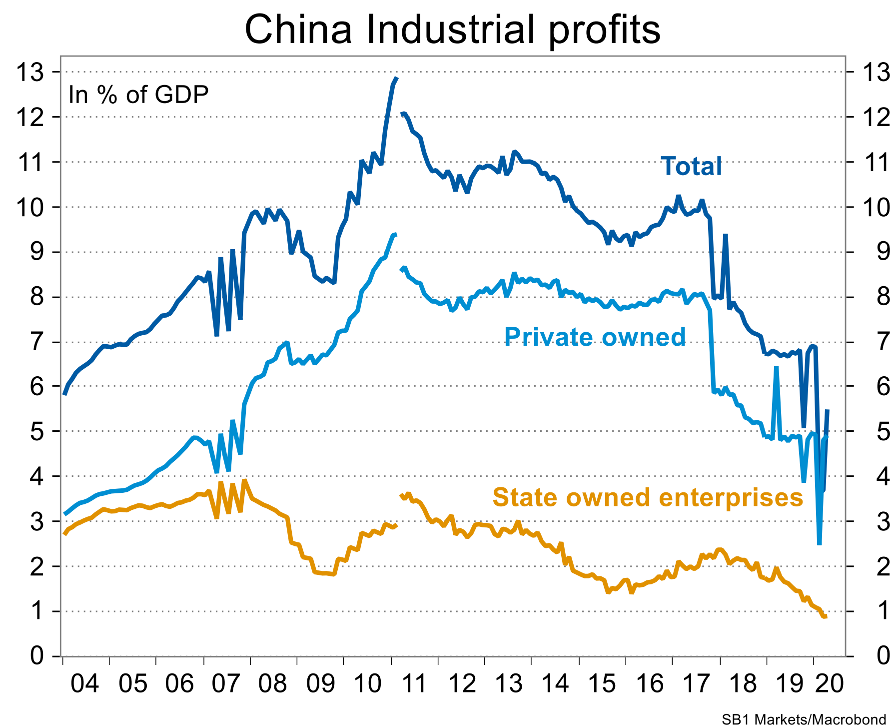




Producer prices are to the way down

PPI down 3.7% in May but prices are not that much down, at least not so far

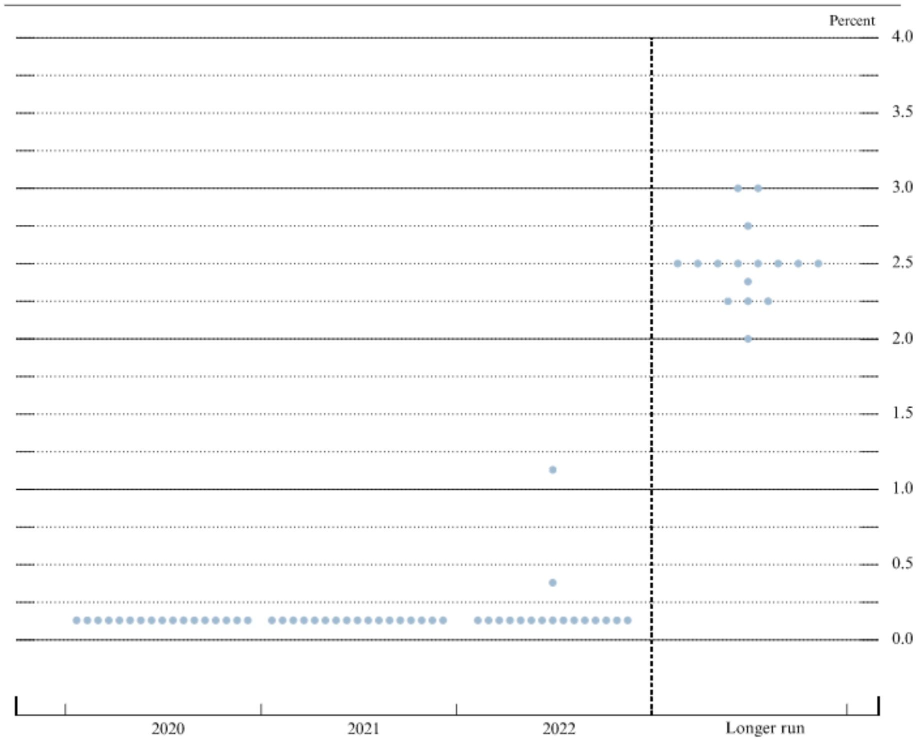


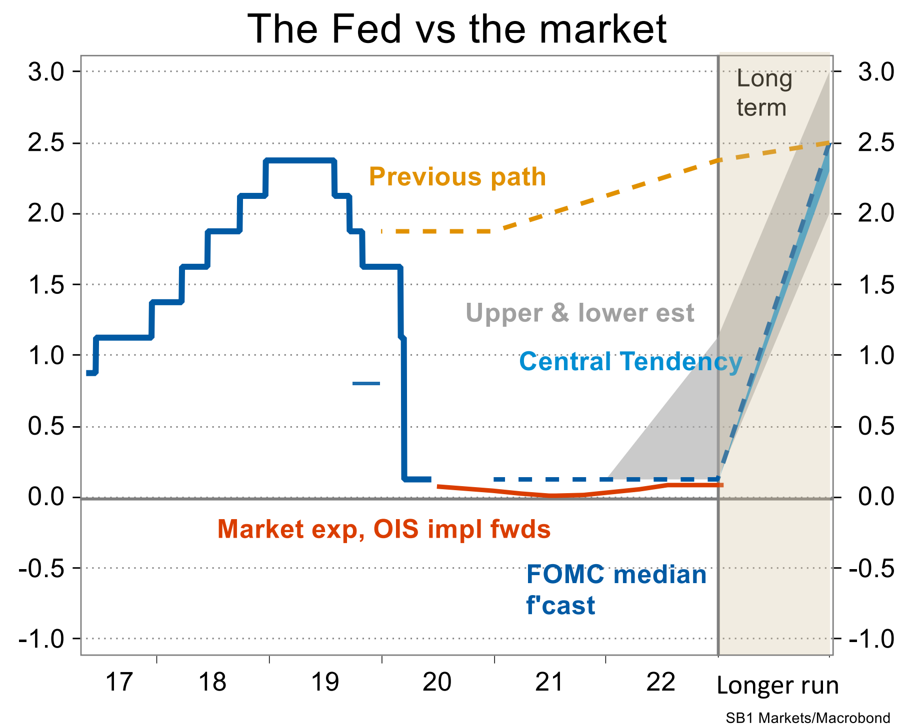


- The PPI peaked in late 2018 but is so far just some 4%. During previous setbacks, PPI s fallen up to 13% (and never less than 8%)
- Industrial profits in privately owed enterprises fell by 50% in February. In March and April, more than half of the decline was recovered, but the level is still unusually low. Normally not a good omen for business investments

The Fed is on hold, signals unch rates through 2022

Powell is not thinking about when to think about hiking rates. Just 2 out of 18 is thinking on 2022





- The FOMC will keep the federal funds rate unchanged at close to zero until '*it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals'.* 'On track' means that the FOMC has not promised to keep the signal rate at zero until the economy reaches full employment. In addition, the second part of the mandate, price stability, is not forgotten either. Anyway, just of 18 now expect rates to be hiked before 2023. (But the times they may change again; check what the committee expected in December last year (previous path), after at substantial downwards adjustment at that time…)
- QE will be continued, *'at least at the current pace'*
- Yield curve control (YCC, fixing longer term bond yields) was discussed but nothing decided
- The FMOC did not alter its view of the long term neutral federal funds rate, at 2.5%

Fed expects unemployment above 'neutral' for years

Unemployment too high, inflation too low: ZIRP for long, more QE. And a beg for fiscal support?

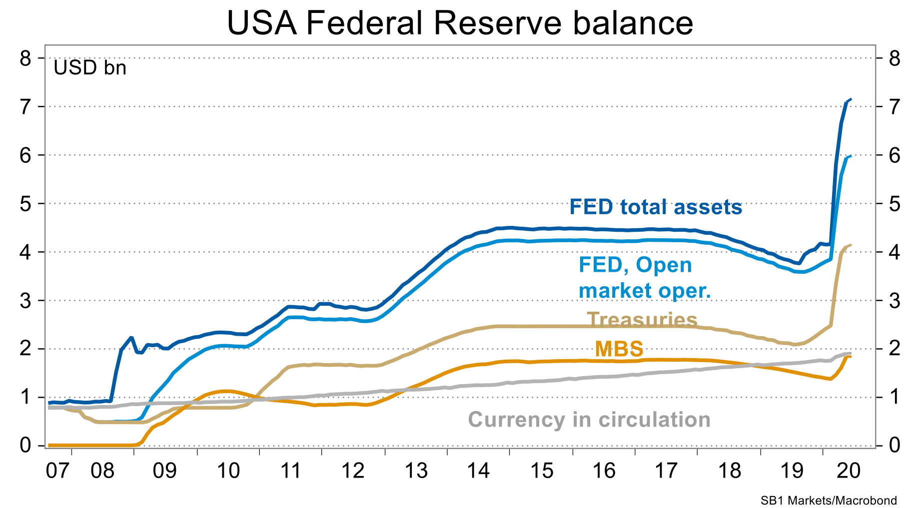
Percent

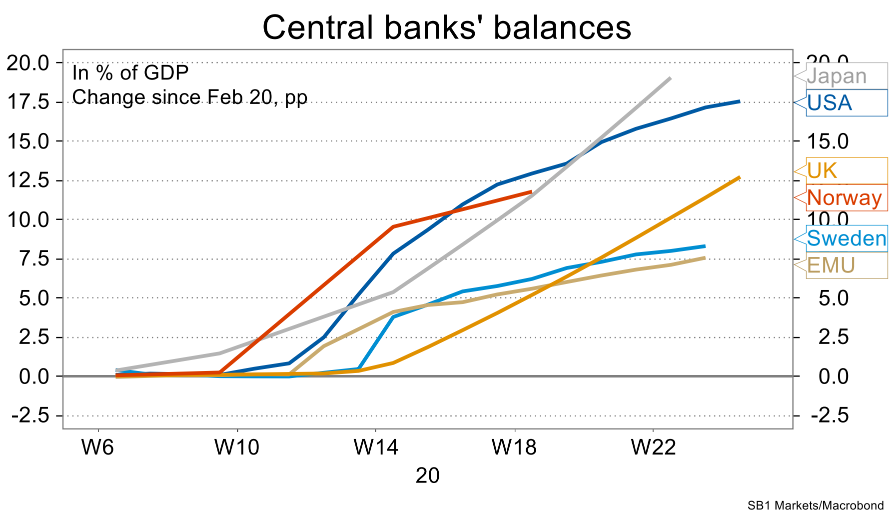
Variable	Median[1]			
	2020	2021	2022	Longer run
Change in real GDP	-6.5	5.0	3.5	1.8
December projection	2.0	1.9	1.8	1.9
Unemployment rate	9.3	6.5	5.5	4.1
December projection	3.5	3.6	3.7	4.1
PCE inflation	0.8	1.6	1.7	2.0
December projection	1.9	2.0	2.0	2.0
Core PCE inflation[4]	1.0	1.5	1.7	
December projection	1.9	2.0	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	0.1	0.1	0.1	2.5
December projection	1.6	1.9	2.1	2.5

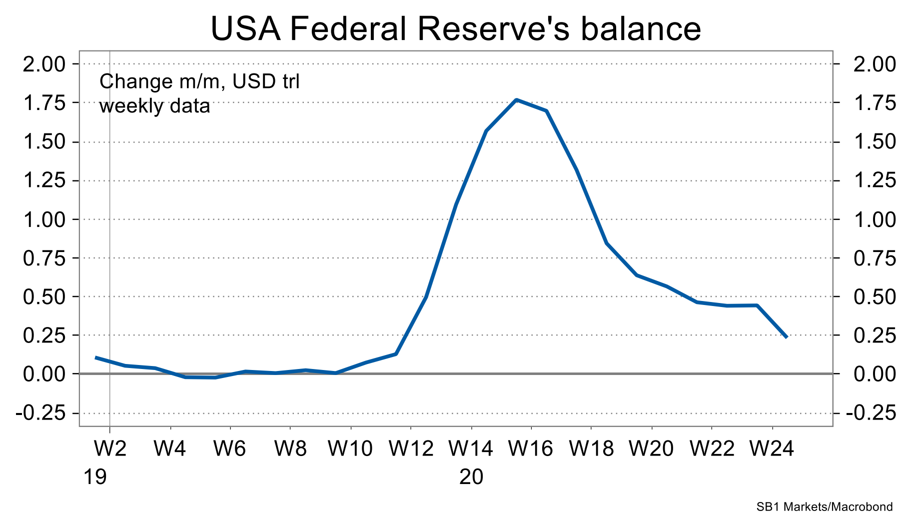
- The FOMC expects the economy to contract by 6.5% in 2020, and grow by just 5% next year
  - » As the trend growth is close to 2%, that implies an increase in the output gap by 4% of GDP from 2019 to 2021
- The unemployment is expected to average at 9.4% in 2020, up from the previous 3.5% forecast an decline to 5.5% in 2021, still above the assumed NAIRU (the neutral rate) at 4.1%
  - » The 9.4% average 2020 estimate implies a 10.3% average rate for the rest of the year. If it falls linear, a 0.75 pp decline per month down to 8% in December (but we assume the FOMC expect a faster decline the coming months).
  - » We think the annual 2020 9.5% average is too pessimistic
- The FOMC expect the PCE inflation be remain below 2% until 2022
- The longer run federal funds rate is assumed to be 2.5%, unchanged from December. It implies a 0.5% positive real interest rate

The Fed will continued QE at least the current pace (at apporx 400 USD bn/m)

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

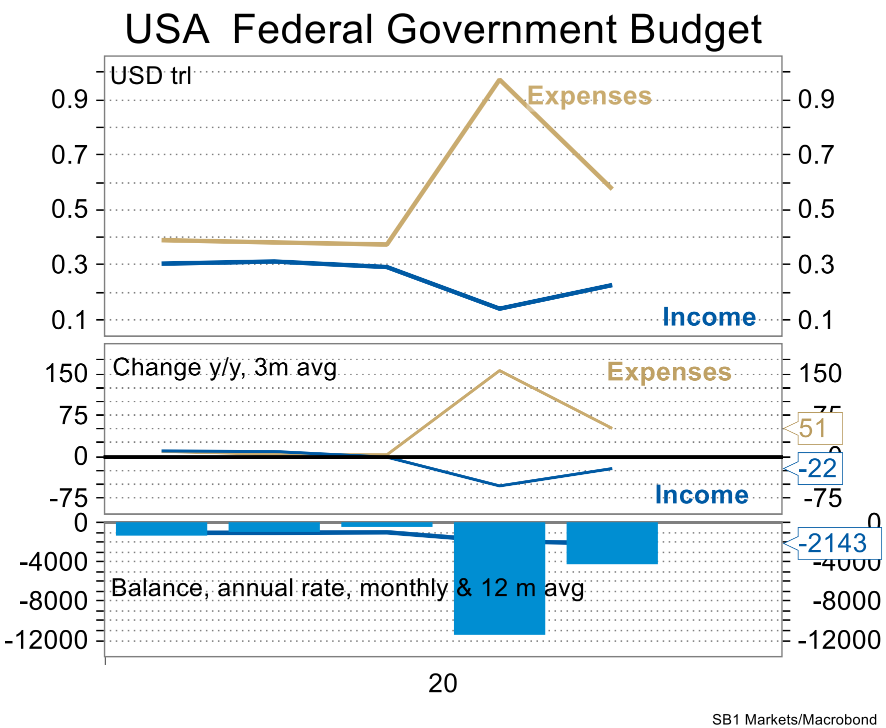


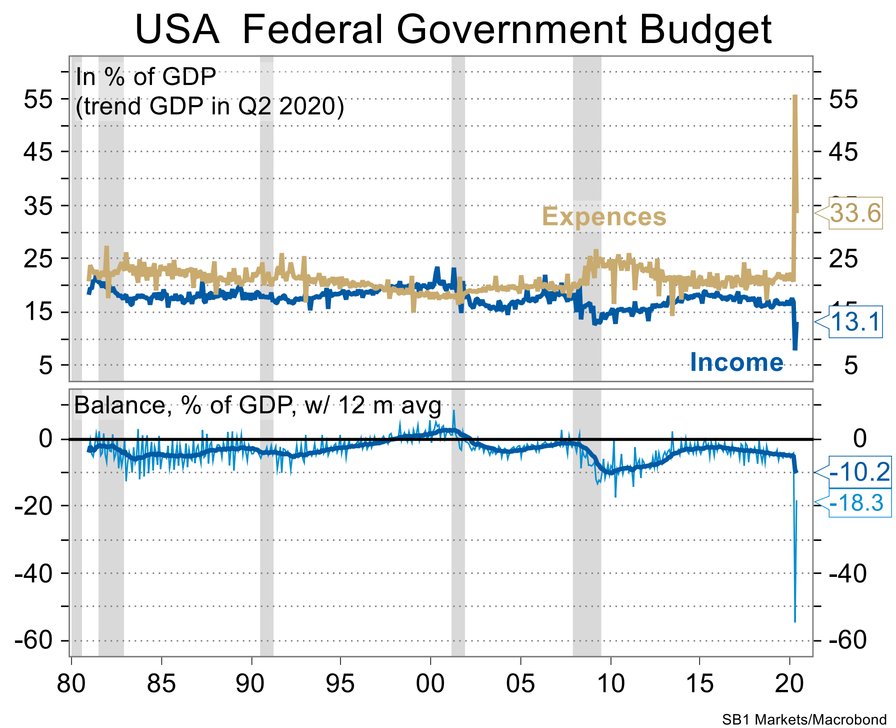




Just expenses, no income. No free lunch when the economy needs support

Tax revenues sharply down, much of the corona measures paid out – and the deficit exploded

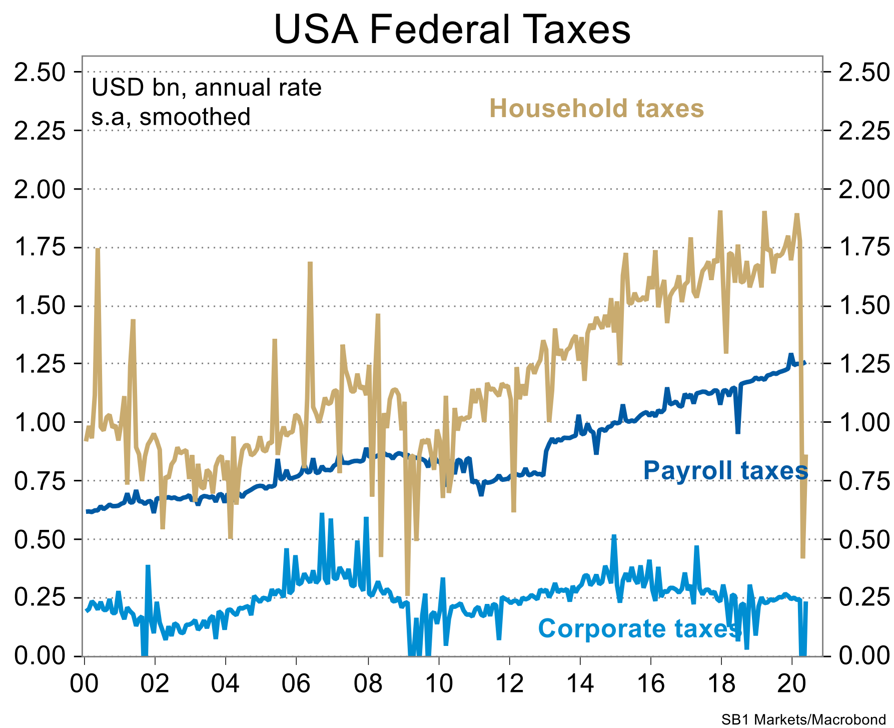


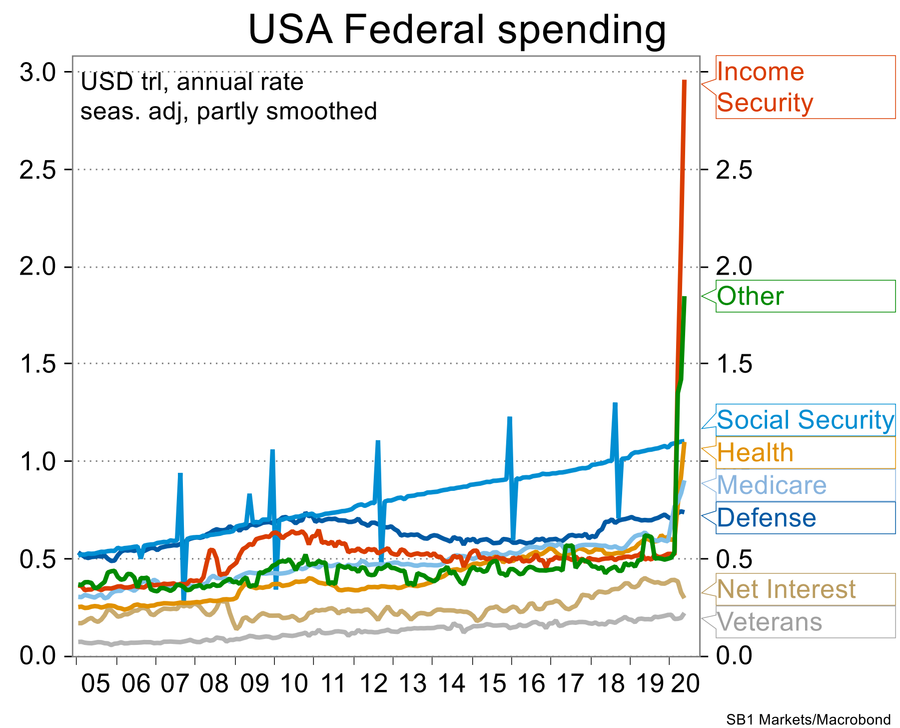


- The aggregate deficit in April and May equalled more than 6% of of GDP. Income fell sharply as private sector revenues fell and tax payments were postponed. Transfers to households rose sharply

Tax payments down, income security payments straight up

Just interest payments are falling due to lower interest rates

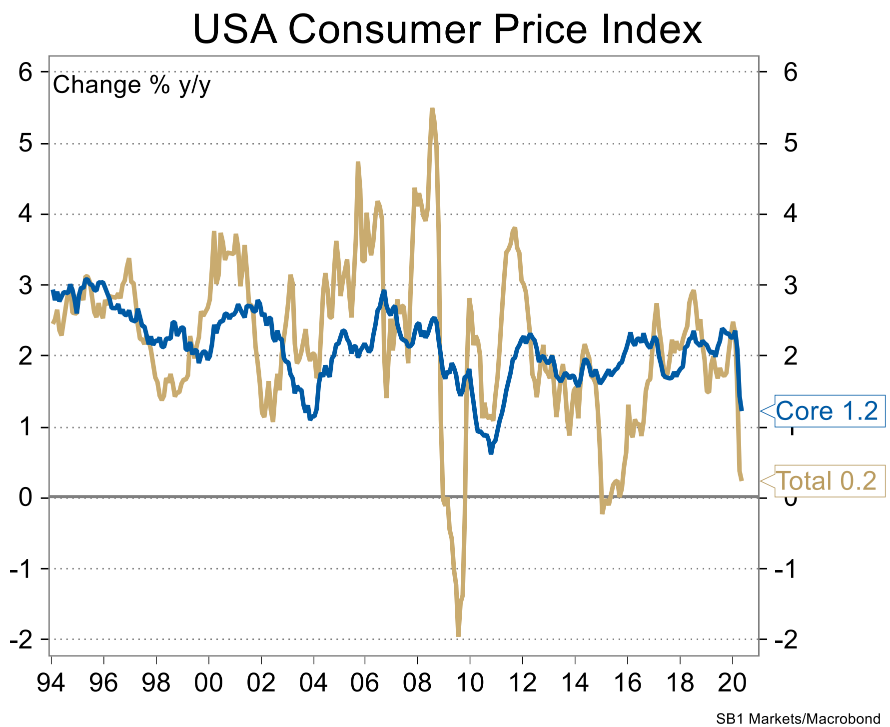


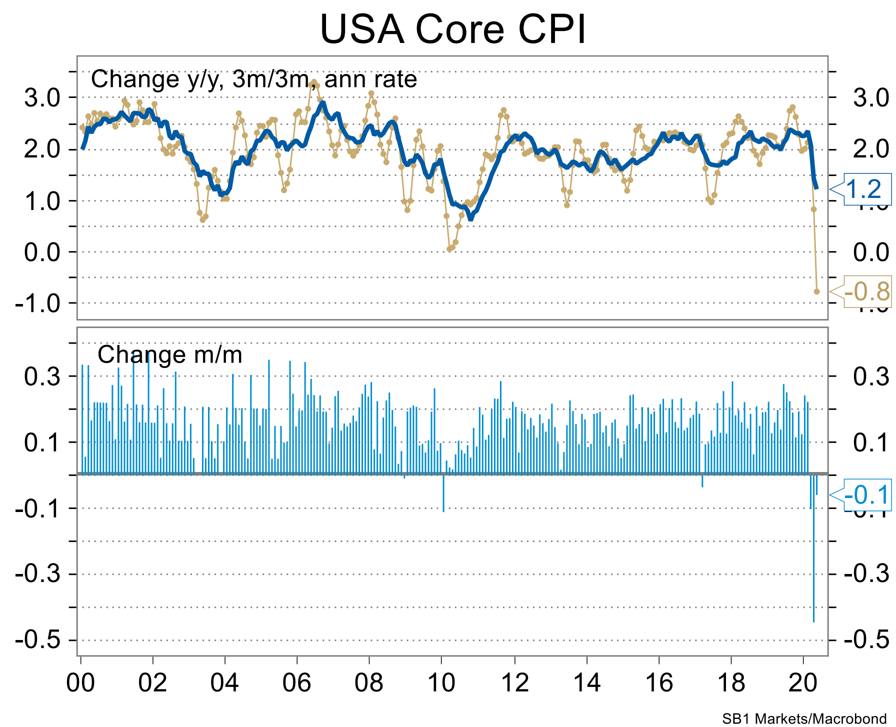


- Spending on defence, health, medicare and net interest payments (even as interest rates are rather low…) have all been accelerated the past couple of years

Inflation sharply down

Both headline & core CPI down 0.2 pp to 0.2 and 1.2 y/y. Core down m/m last 3 months

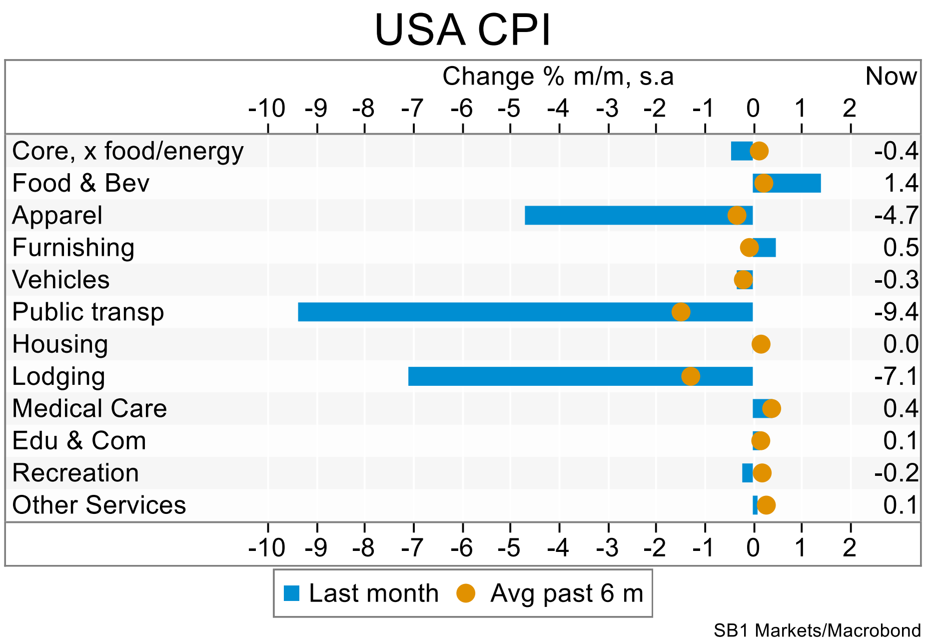


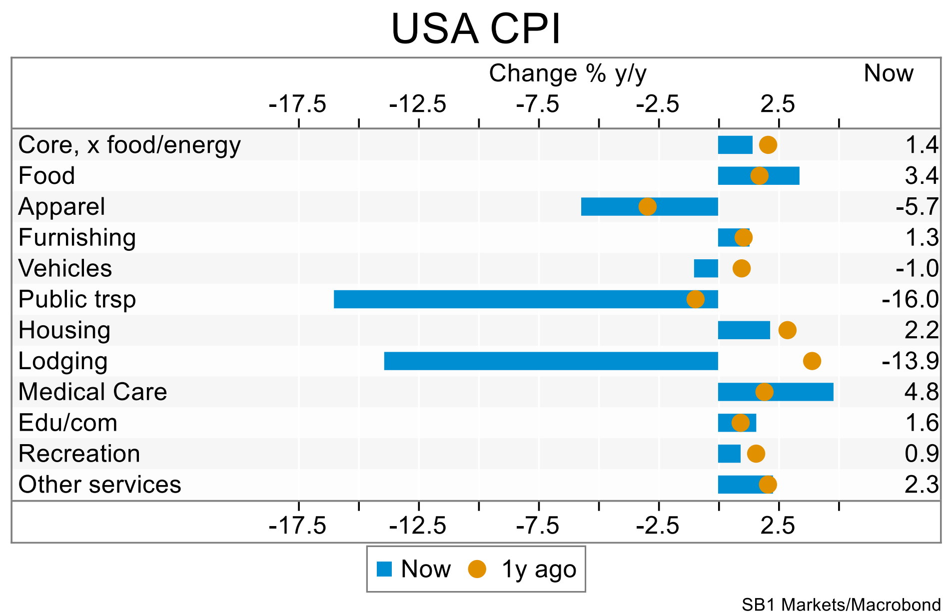


- Core fell 0.1% m/m in May, expected unch flowing the unexpected and record high decline in prices in April, -0.4%
- The coming months, price inflation will very likely decelerate further

Public transport, clothing & logding on the downside m/m (like in April) & y/y

In May (like in April), huge discounts in the hardest hit sectors. While some could lift their prices

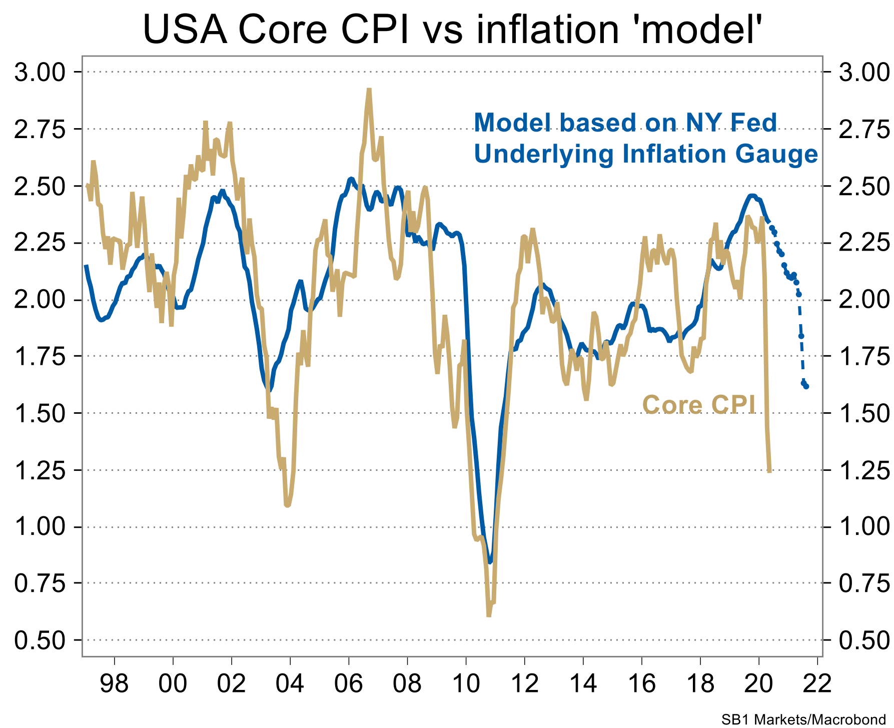


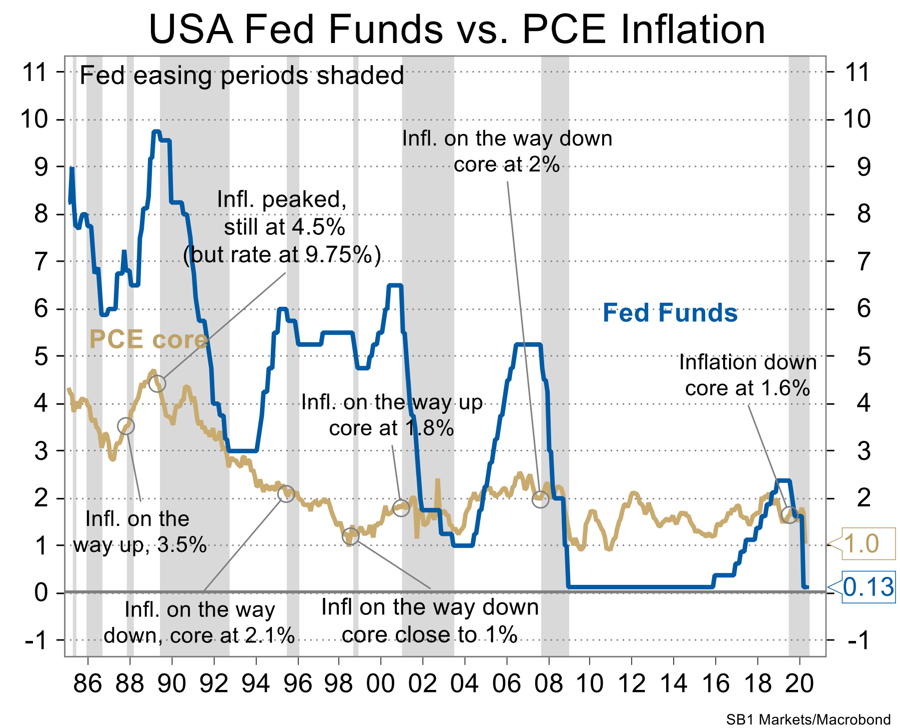


- Food and medical cae inflation has accelerated. Guess there are some reasons for that
- No reason to fear inflation as long at the economy is as weak as it is now – even if tons of money are being print. They do not create inflation before too many of them are spent ☺

NY Fed's inflation model suggests low inflation

The model signals 1.5 – 1.75% inflation

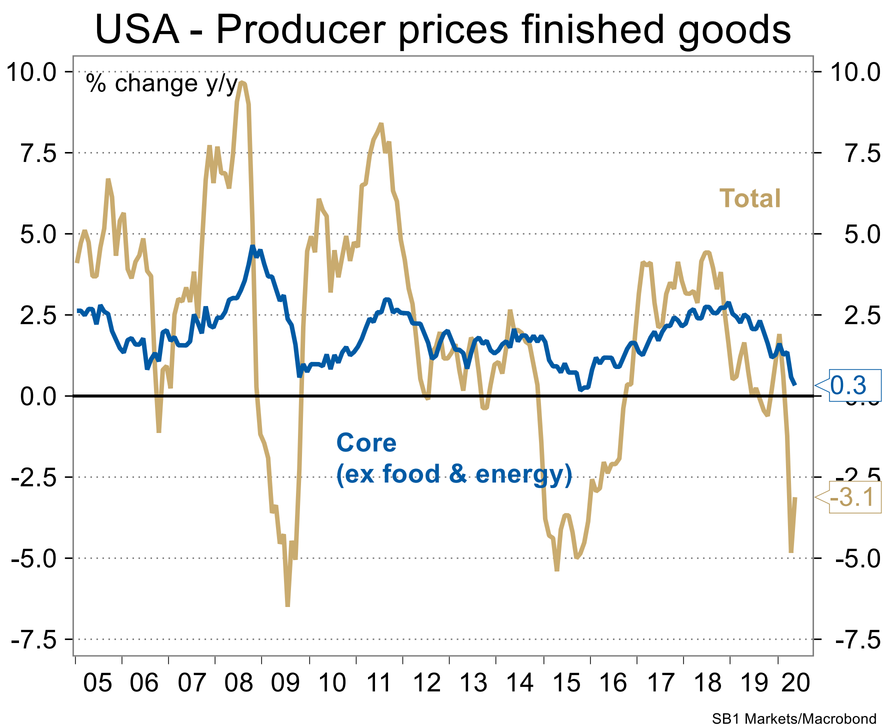


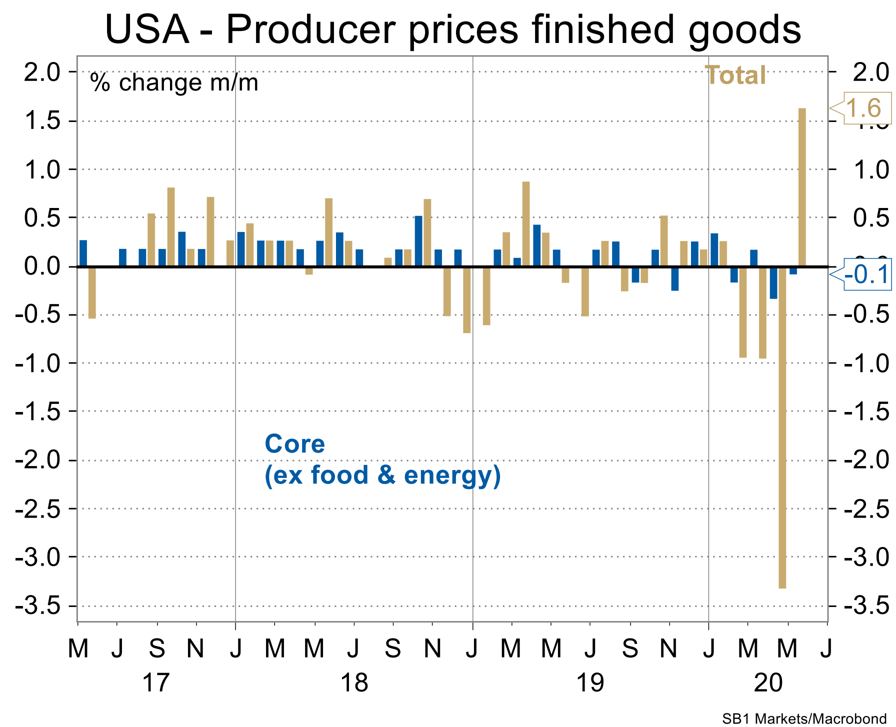


- The NY Fed's Underlying Inflation Gauge model includes a wide range of macroeconomic and financial components in addition to some CPI components. The UIG model leads the actual inflation rate by some 15 – 20 months. The model now signals an inflation rate 1.6% by the end of the year. We suspect it will lower
  - » The personal consumption expenditure price deflator (PCE deflator) is the Fed's preferred inflation measure, not the CPI. The core PCE (ex food, energy) was up 1% in April
  - » Fed's actual rate setting has <u>not</u> been well explained by just actual inflation during the past <u>two decades</u>. Wage inflation is a far better indicator – and output gap indicators should be added for even better results

Core producer price inflation on the way down too, now 0.3% y/y, total -3.1%

Total finished goods prices jumped 1.6% but just due to higher energy prices

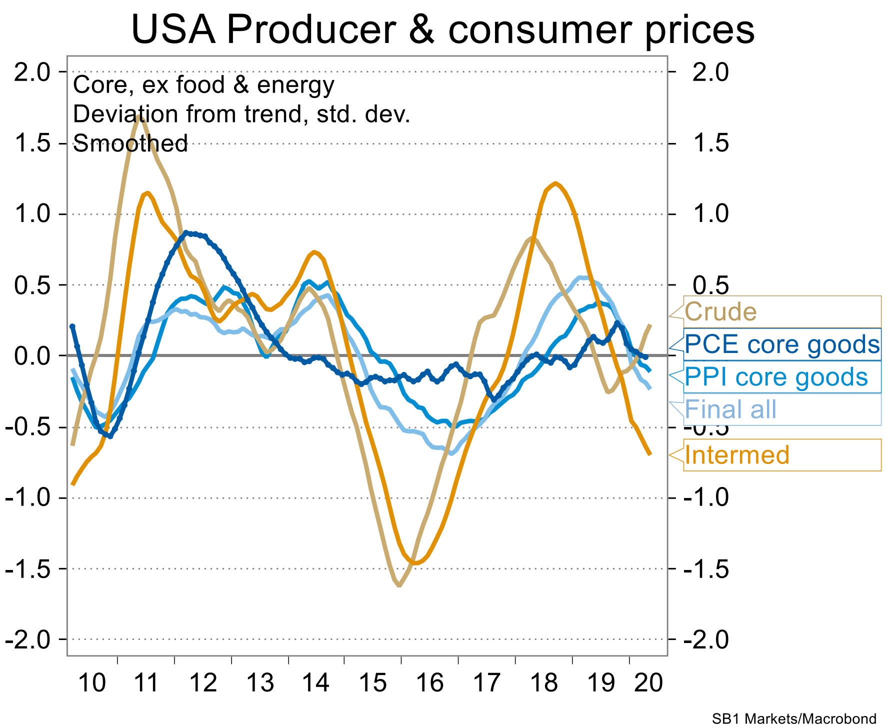


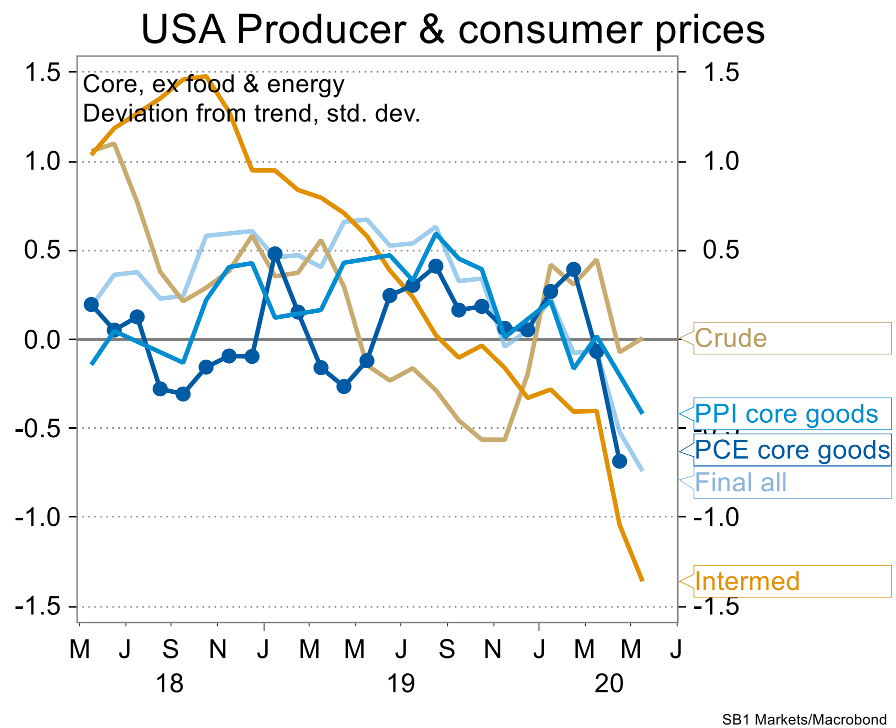


- Core finished goods x food & energy PPI fell by 0.1% m/m in May, as expected. The annual rate fell 0.3 pp to 0.3%, the lowest since 2015
- Headline PPI rose sharply due to the lift in oil prices. Thy are still down 3.1% y/y. Produces prices tends to decline when the economy struggles
- Core producer price inflation do not signal any uptick in core consumer inflation, rather the opposite

Producer prices do not signal an uplift in consumer price inflation

Still, crude PPI prices have turned up and may indicate an increase in prices at later production stages

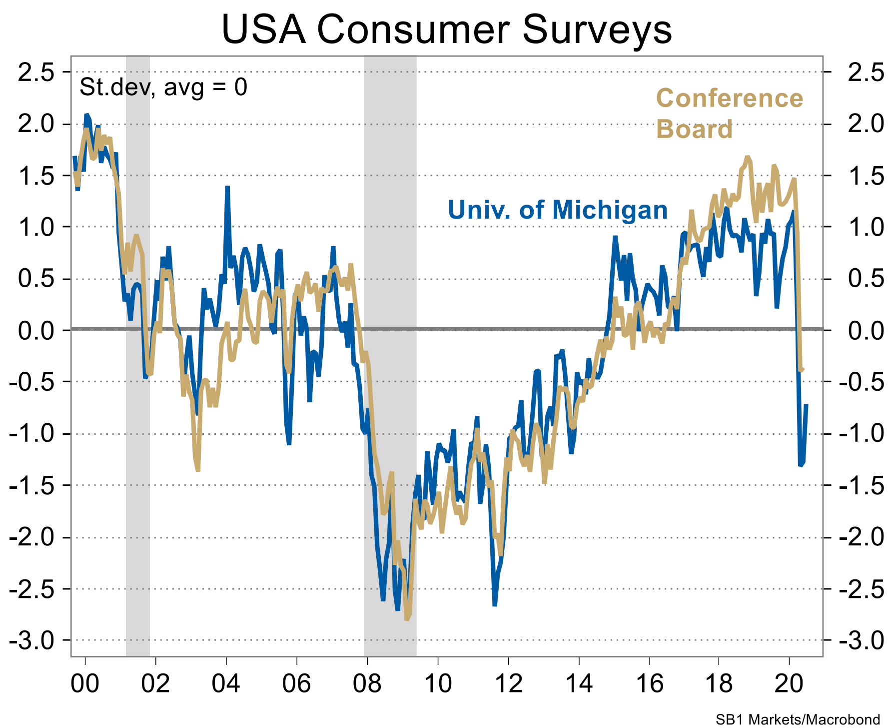


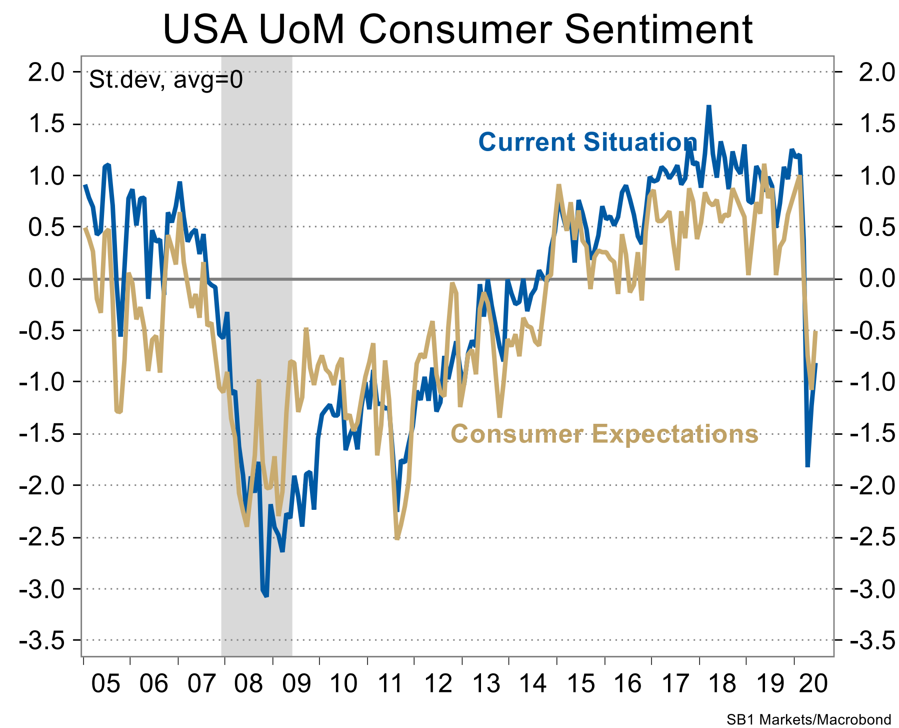


- Crude PPI prices (ex food & energy) have turned up after a slowdown through most of 2019. Higher crude material prices may signal a lift in prices at later production stages; intermediate goods prices are still sliding straight down. Core consumer goods prices at the producer level are trending down

Better sentiment in June – and it was never that bad

UoM consumer sentiment rose 5 p to 78.5, expected up just 1.3 p. Level some 0.75 st.dev below avg

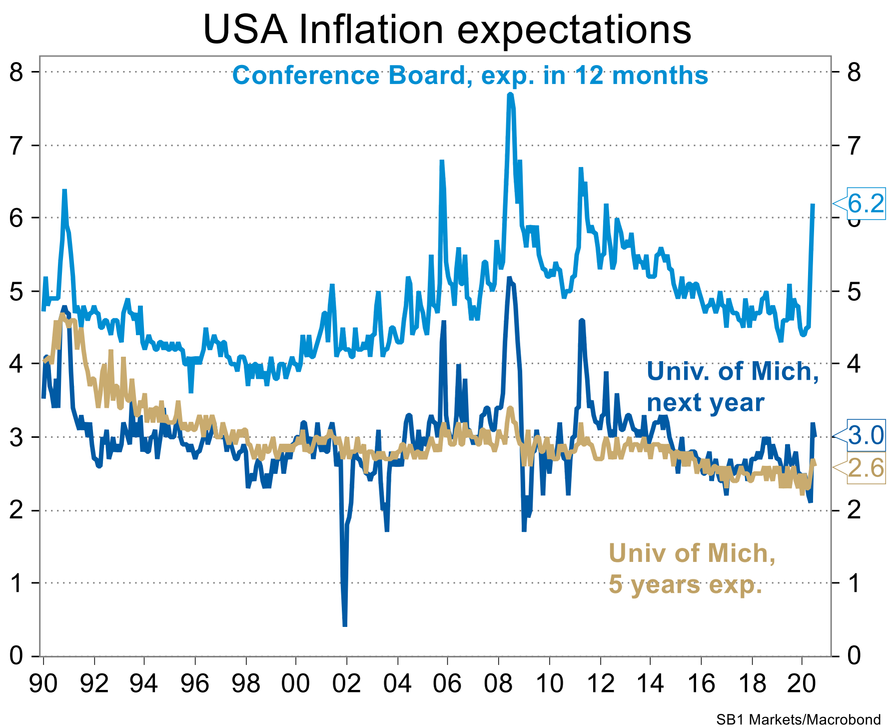




- Both households' assessment of the current situation as well as their expectations rose in June

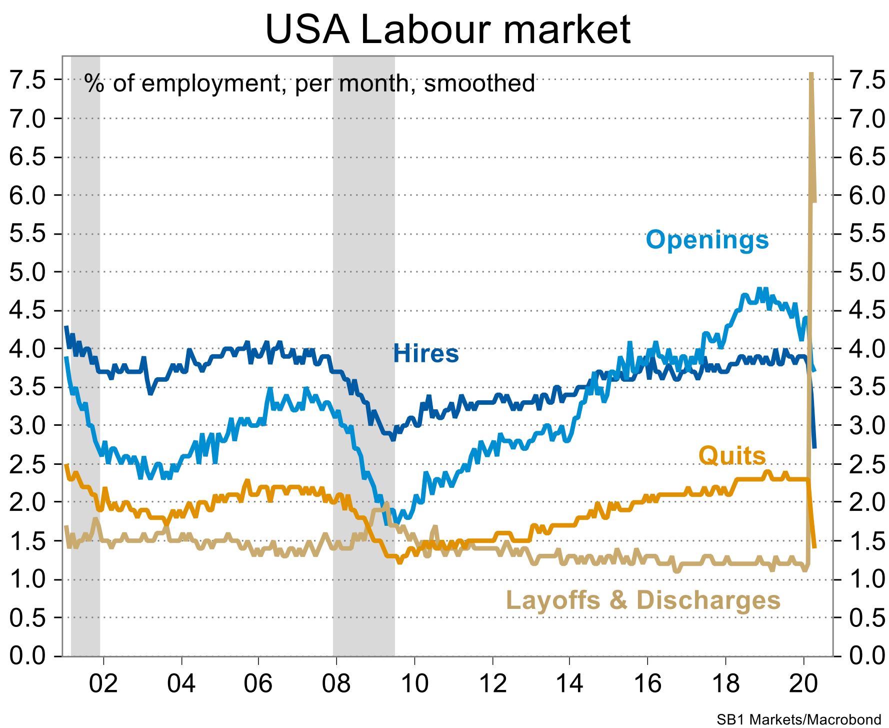
No serious inflation angst

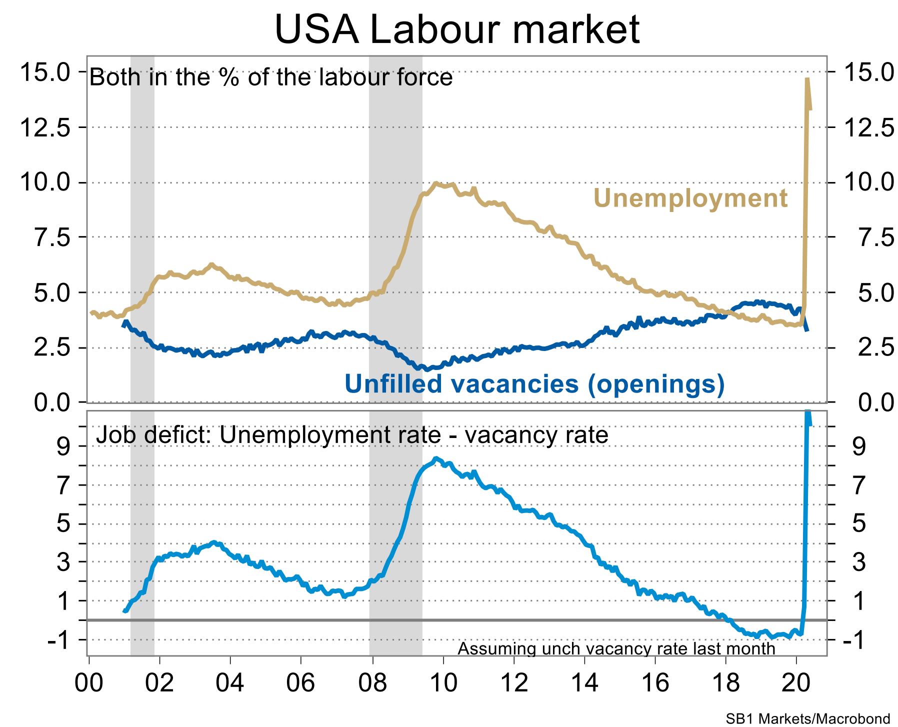
Inflation expectations up in May slightly, marginally down in June



Labour flows: 13.5% of employment dismissed, 3% left voluntary, 6% hired

This is the labour market flows in March and April – the net was not the best

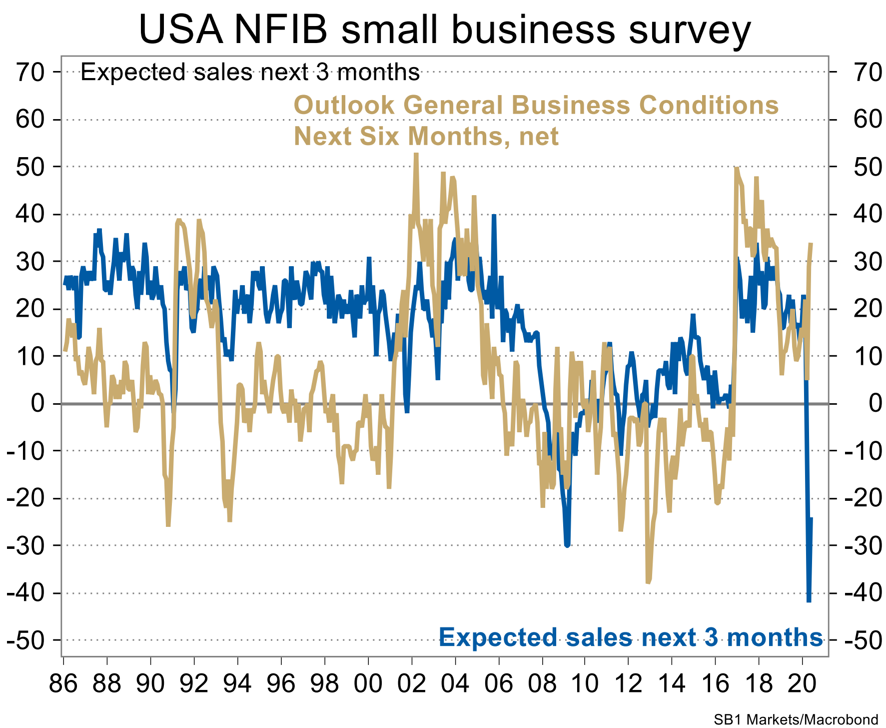




- Unprecedent flows at the labour market, of course.
- The net flow in the two dramatic months explains the change in the unemployment rate
- Hiring down to 2.7% in April, from just below 4% per month pre corona – the lowest level past 20 years. Still, some are becoming employed – and probably more in May!
- These flow data lags the payroll report data by one month

SMBs: ‘No sales’ expected the coming 3 months, but the future is very bright

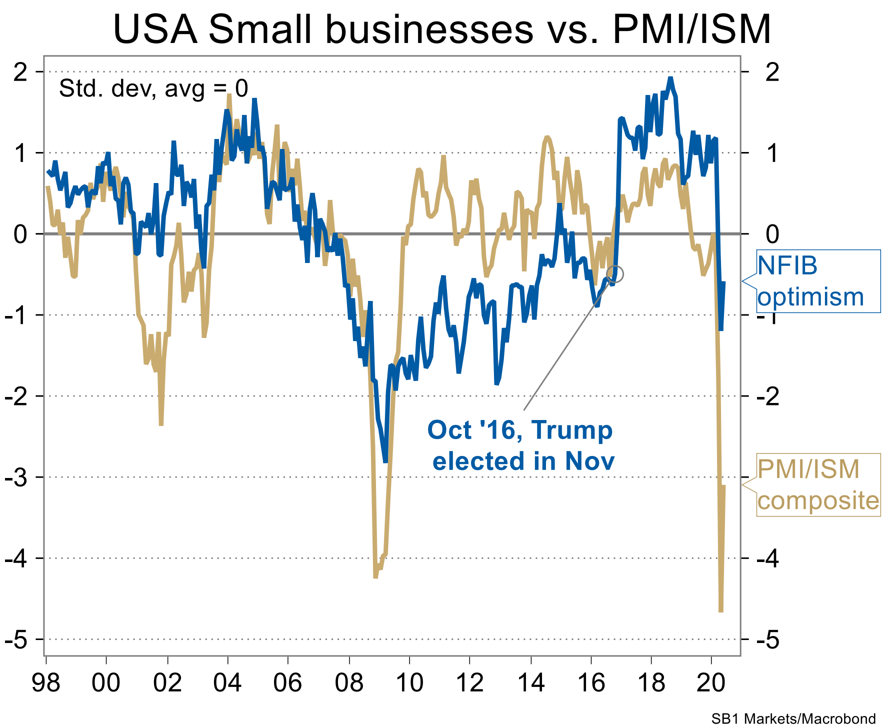
It is not impossible to explain the gap but it is anyway remarkable in NFIB’s index

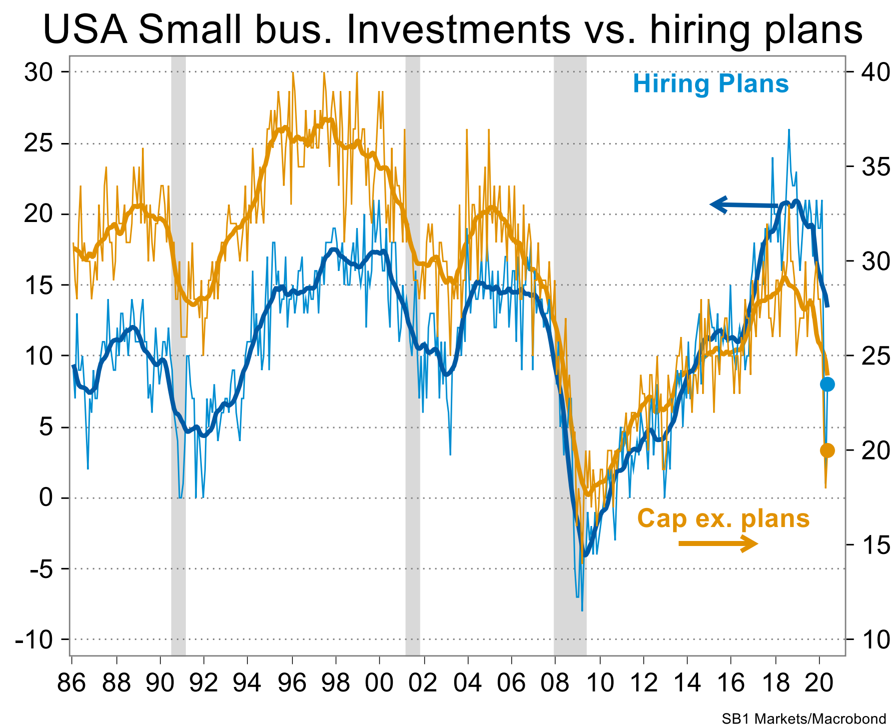


- The expected sales index next 3 months rose somewhat in May but is still in line with the worst ever seen before, at the bottom of the financial crisis
  - » We think companies are too pessimistic
- The 6 months outlook for general business expectations is most likely a hope for the post-corona situation.
  - » We think companies may be too optimistic

Small businesses' optimism steady in Feb – wait for the corona impact

NFIB optimism index remained high in February, corona fears might hit in March

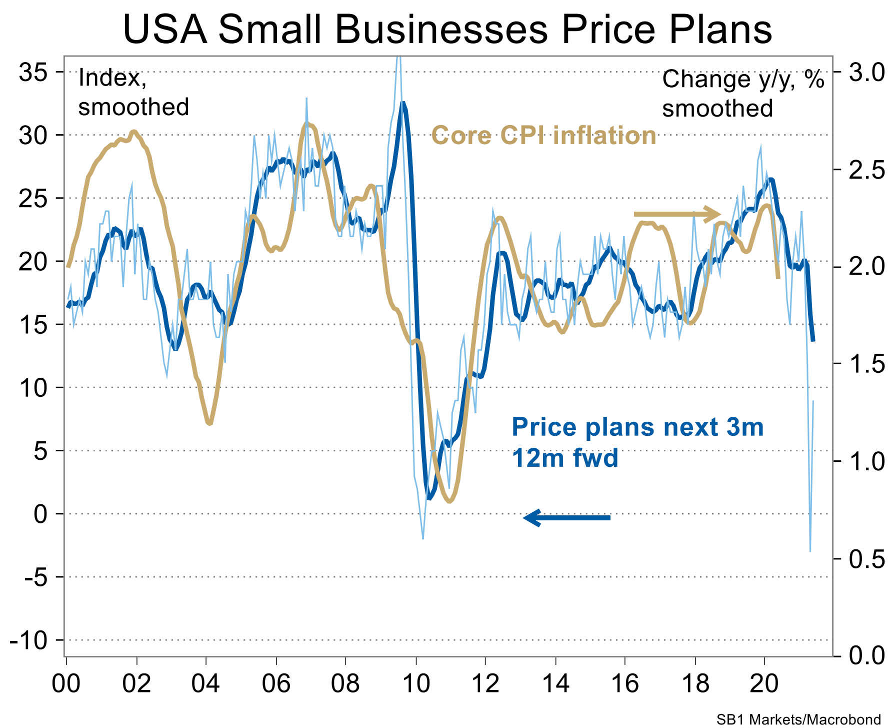


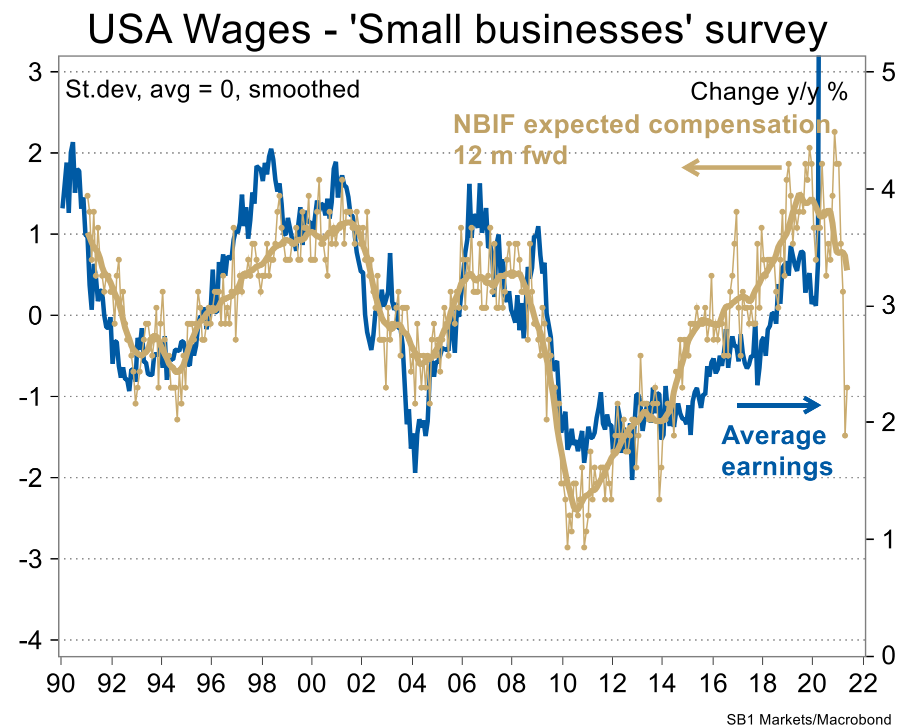


- The NFIB optimism index, measuring small businesses' expectations on business conditions, inched up to 104.5 in February. The index has stabilised and even inched up the past year, after dropping in late 2018
  - » The NFIB optimism index is 1.2 st.dev above the average since 1998. The avg of the surveys from the ISM/Markit PMI is below avg. The difference may be due to the SME's exposure to the domestic market, while larger companies in PMI/ISM have been more influence by trade war/global uncertainties, and most recently by the coronavirus outbreak
- Investment plans were nudged down in February, trending slowly up since early 2019. The level is not high, historically
- Hiring plans have peaked but they are still aggressive, and companies are still not able to fill vacant positions – and they plan record high wage compensation

SMBs: Few are planning prices increases, slow wage growth expected

NFIB survey suggest low price inflation, low wage inflation. Even if tons of money are 'printed'

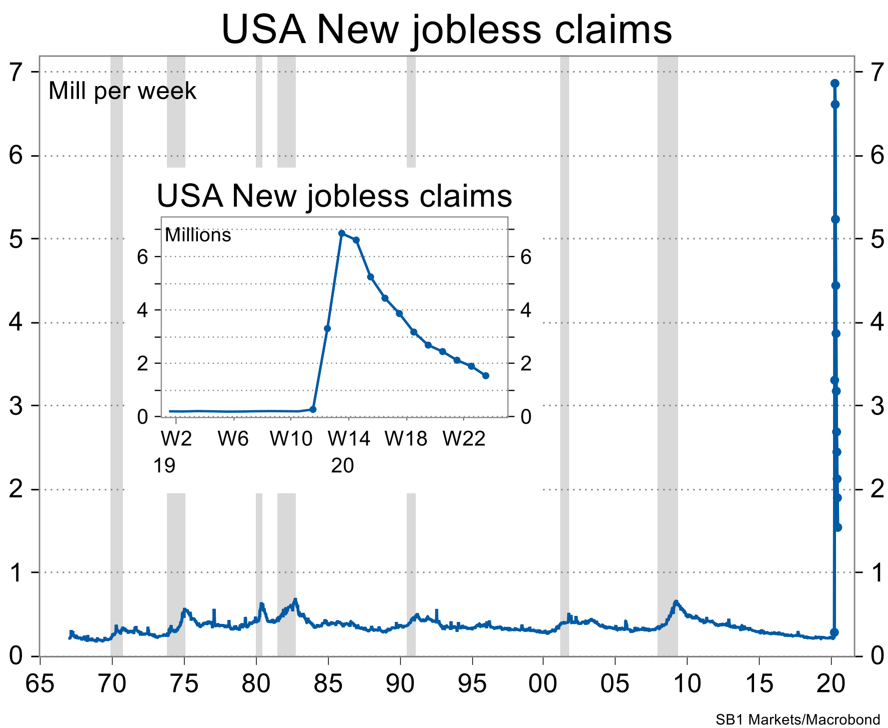


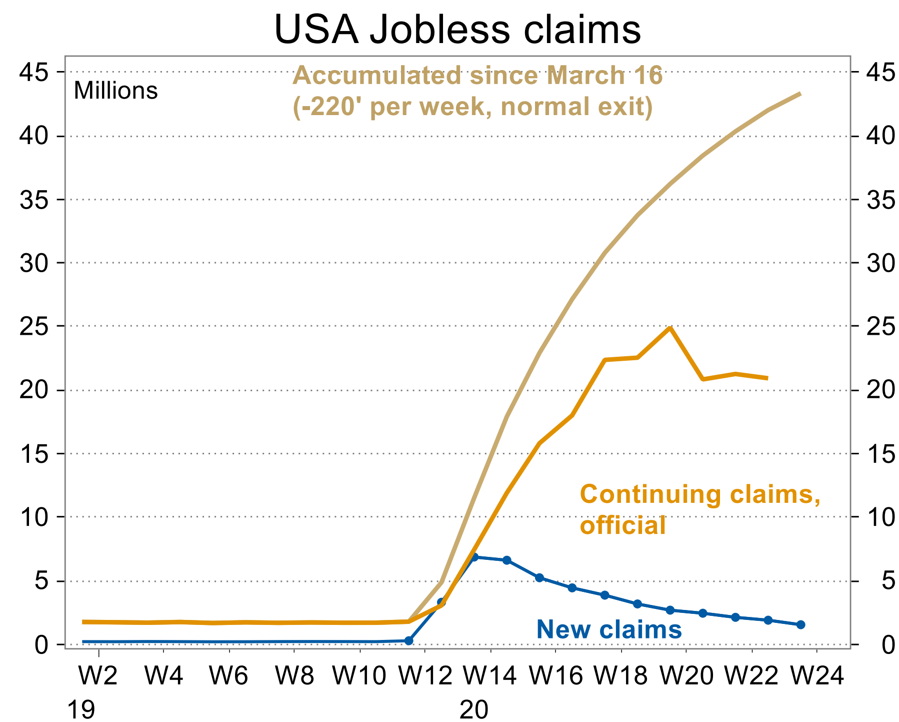


- The survey signals 1 – 1.5% inflation, 2% wage inflation
- It's the economy, stupid

‘Just’ 1.5 mill new unemployed last week, the sum up 44 mill past 10 weeks

But many of the temporary laid off has returned to their jobs, continued claims at ‘just’ 20 mill

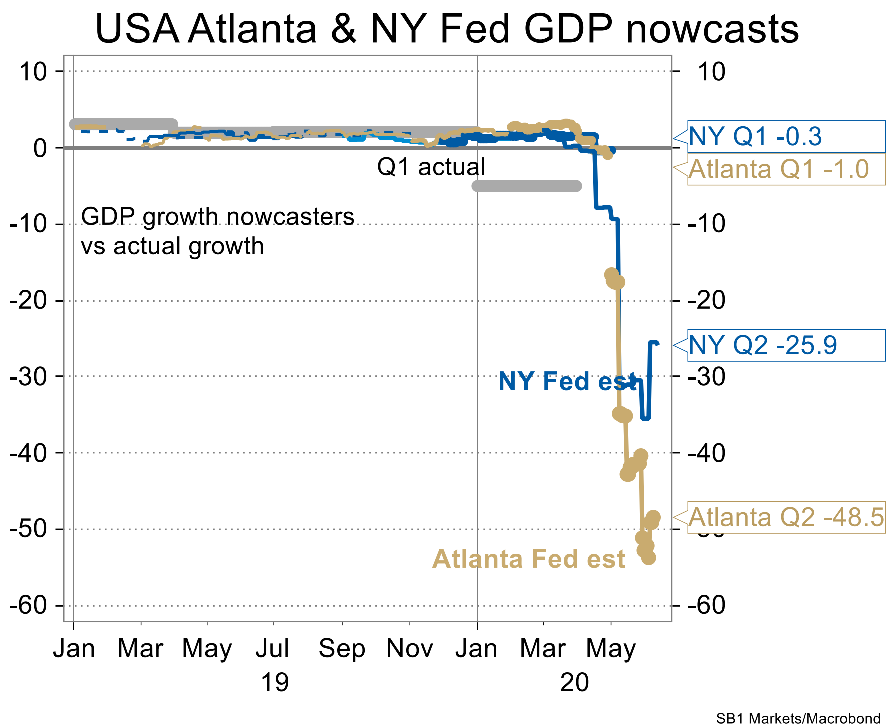


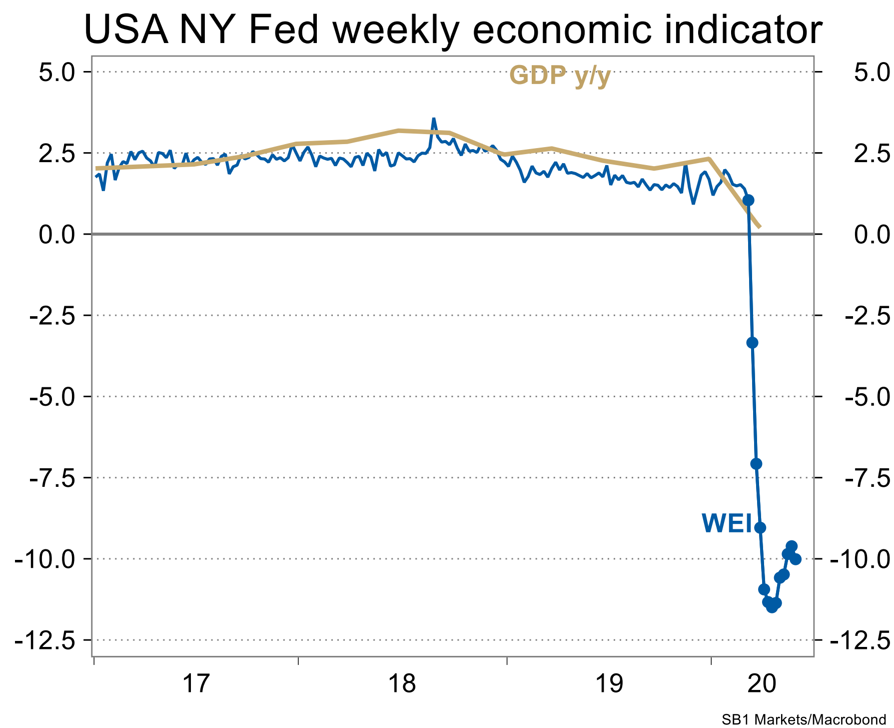


- The inflow is abating, but still almost 1 % of the labour force is entering the labour market offices each week!
- Continued claims fell marginally to 21 (12.7%) the previous week – and the number has been heading down recent weeks – just as the official unemployment number in the May report headed down

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

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

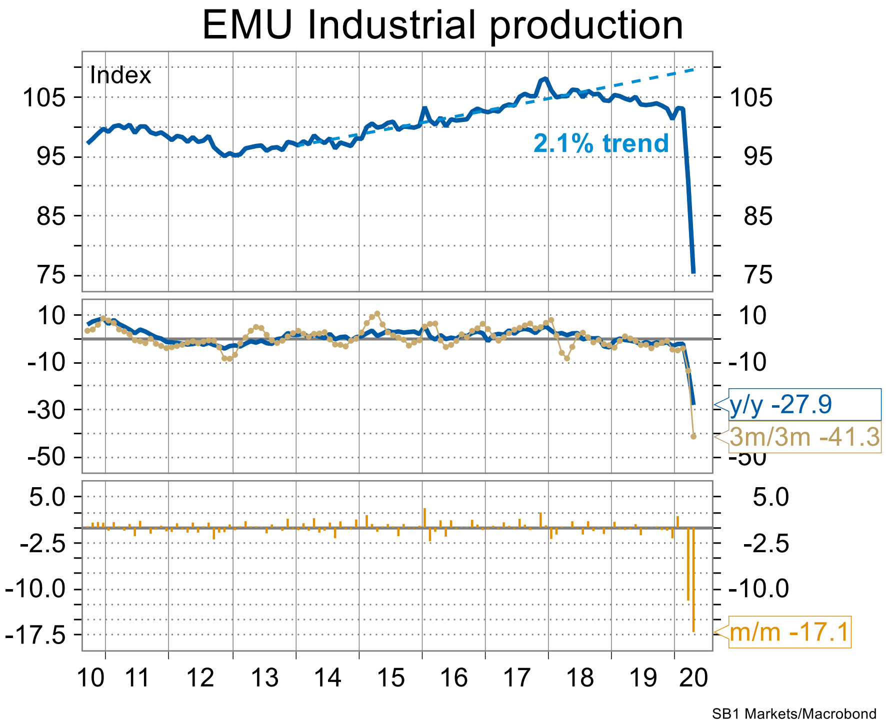


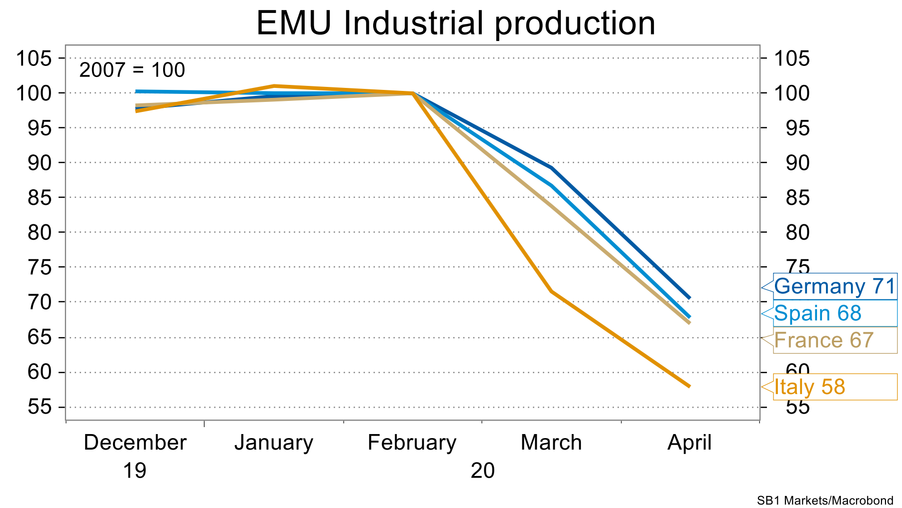


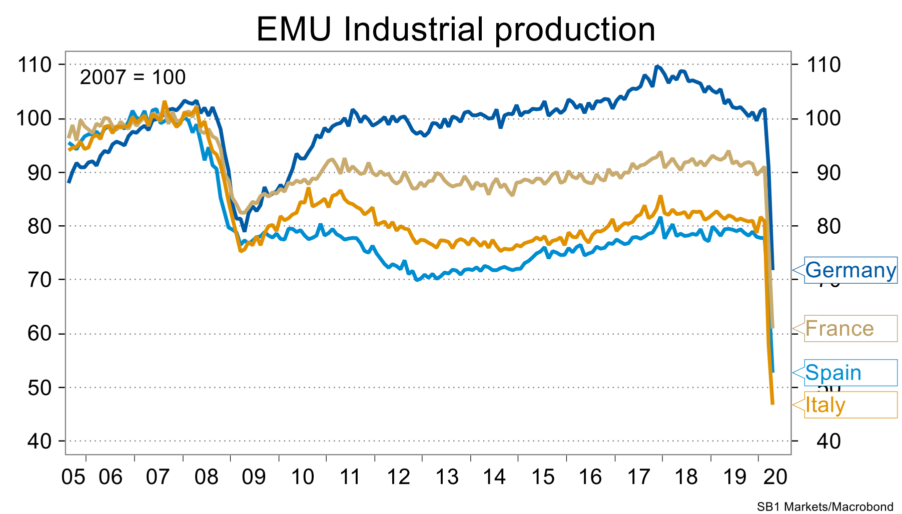
- The 'old' nowcasters from NY & Atlanta Fed report a 26 to 48 % decline q/q, in (absurd) annualised terms – equalling a 7 – 15% decline q/q, not annualised – the gap between the two is extremely wide.
  - As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 8 – 17% vs the Q4 level. 17% seems to be too aggressive
- The NY Fed's weekly economic indicator reports 10% y/y decline, implying a 11 – 12% decline from the level in early 2020. The deceleration has clearly slowed past two weeks

Industrial production down 17% in Apr, “everywhere” – and that was the bottom

From February, production is down 29% in Germany, 32% in Spain, 33% in France, 42% in Italy



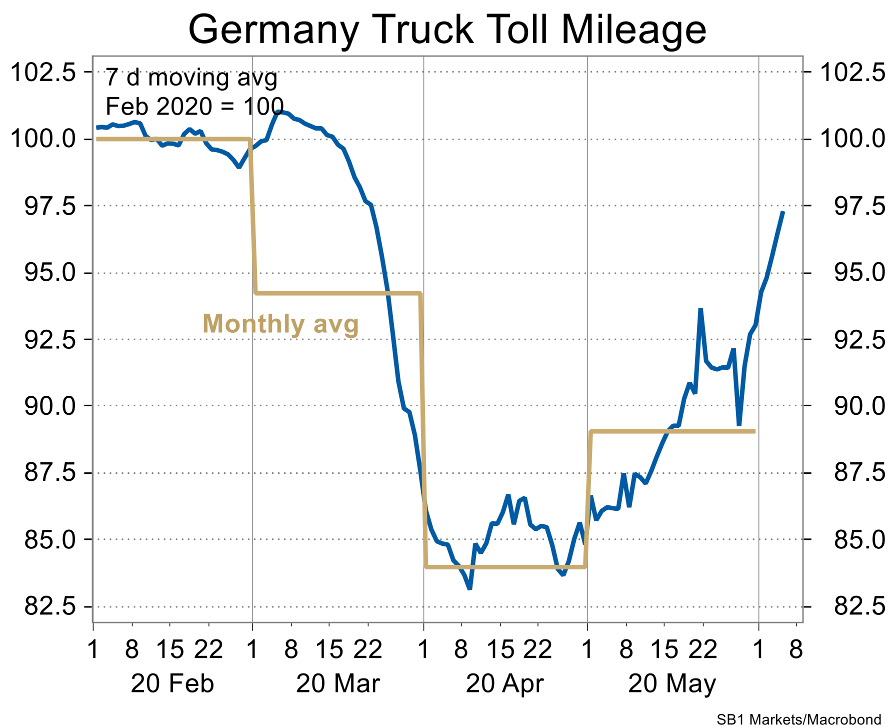


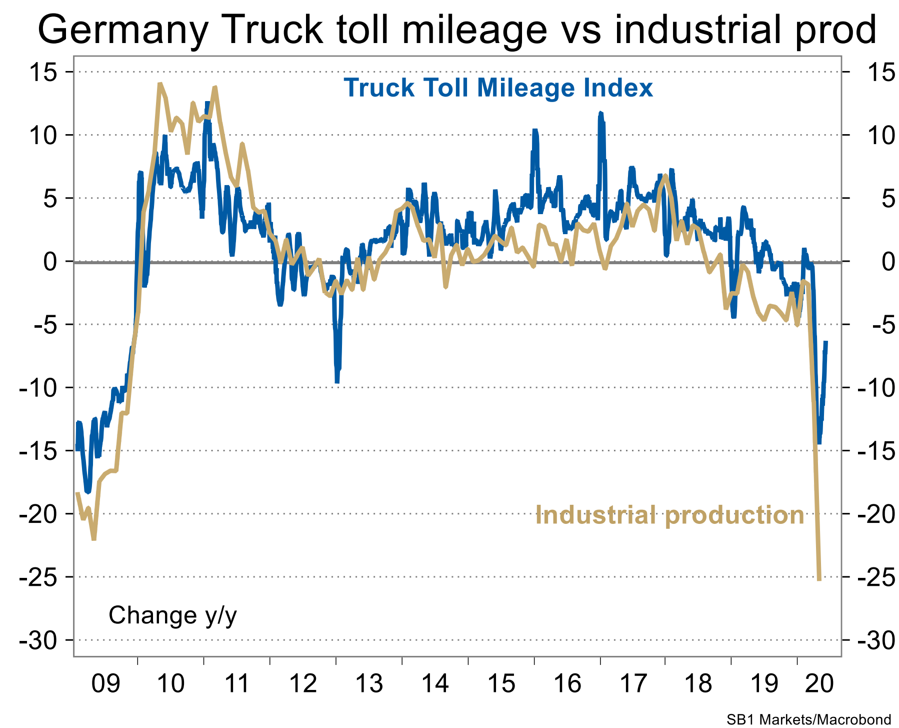


- Eine grausame salbe but April must have been the bottom

German trucking activity is recovering rapidly. Industrial production will follow

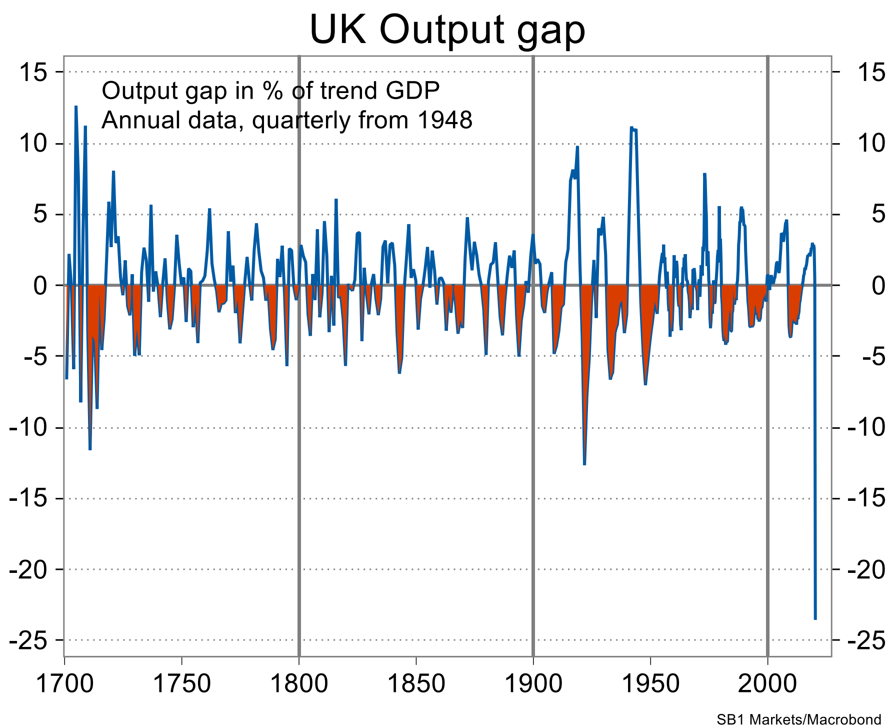
The German truck index is almost back to a normal level. Production will recover sharply in May/June

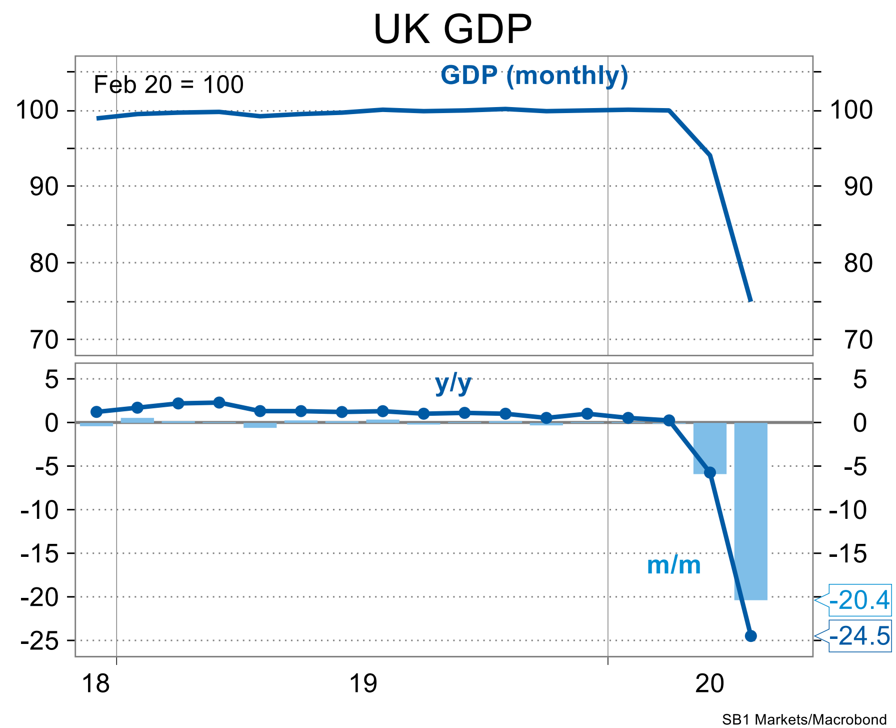




GDP down 20% m/m in April, down 25% from February

Probably the worst contraction since…

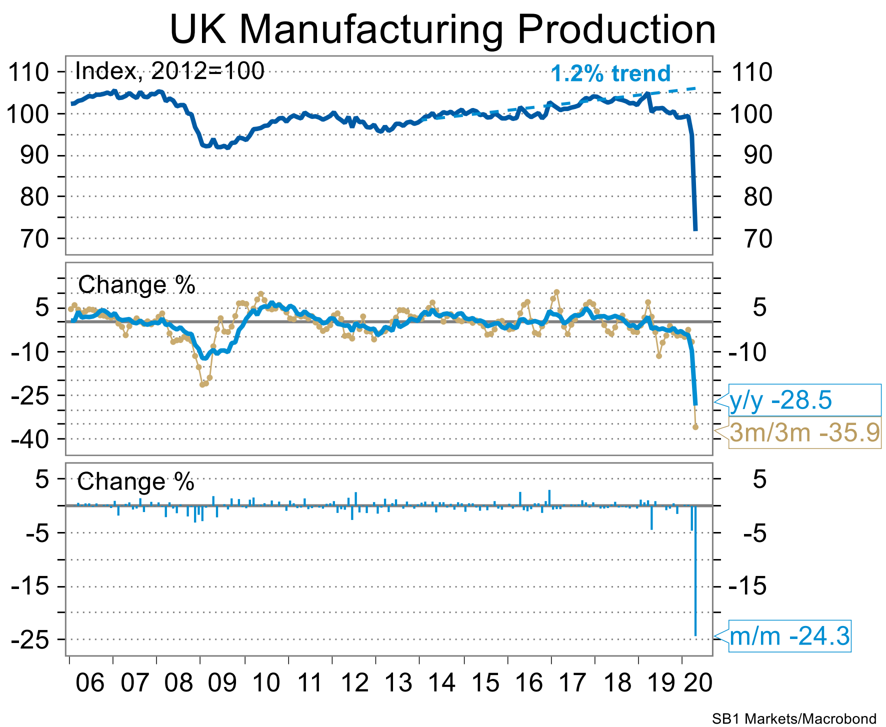


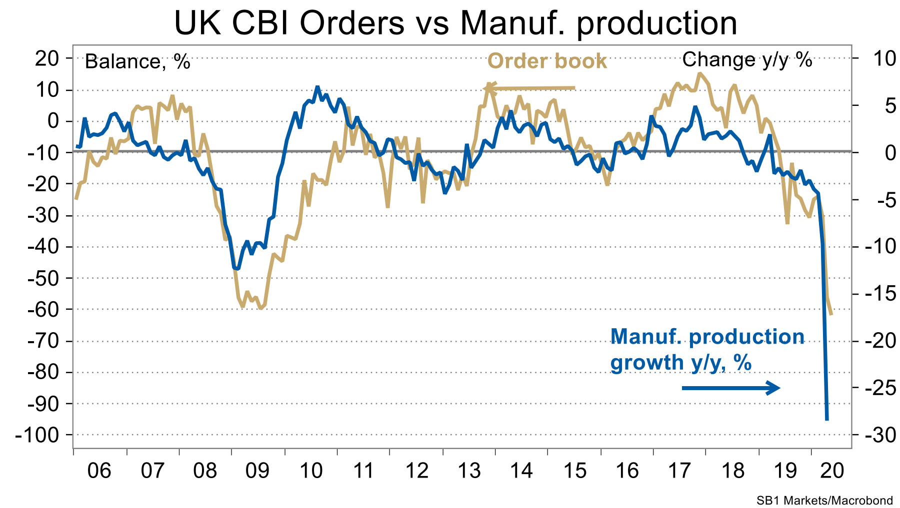


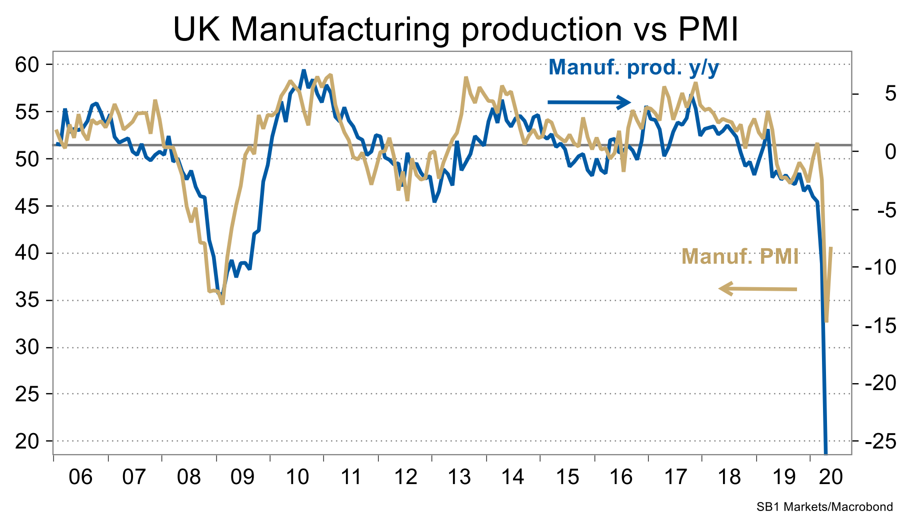
- Both production in goods and services are down 25% from February
- As an illustration: Assume GDP is unchanged from April through June (Q2= April) – most likely too pessimistic (we expect at modest recovery, at least in June). In addition, we have quarterly GDP data just back to 1948. So, we might be exaggerating somewhat. Still, check on the chart to the left, covering the past 320 years
- We do not know how large the 'red area' (accumulated loss of activity vs. 'normal activity') will turn out to be this time but given the depth of the downturn, it will be large, even if we get a 'V'-shaped recovery the coming quarters

Manufacturing production down 24% in April. That must be the bottom

Order inflow, surveys confirms a strong contraction but not a total collapse





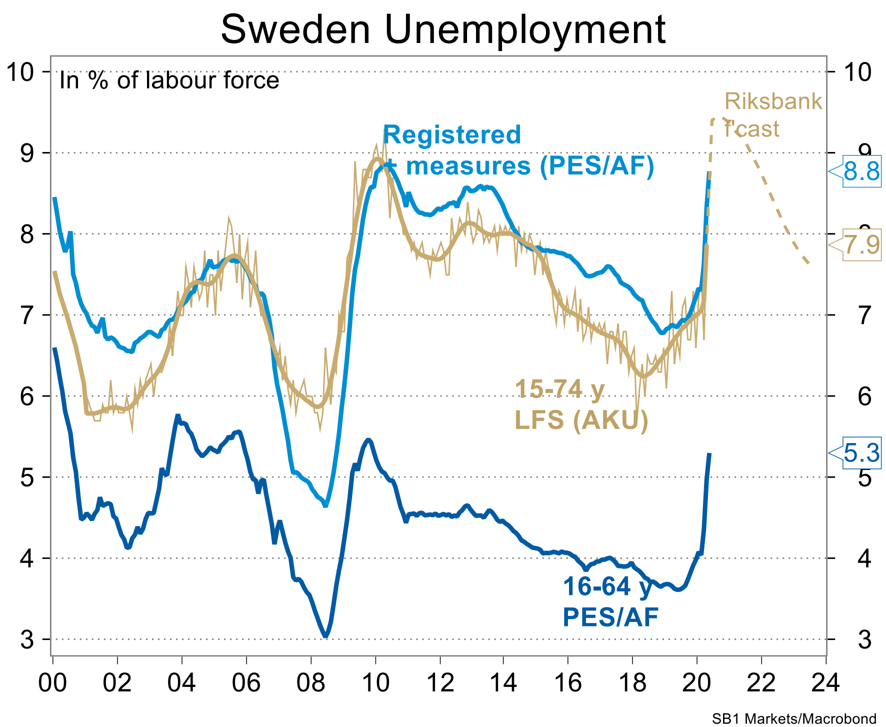


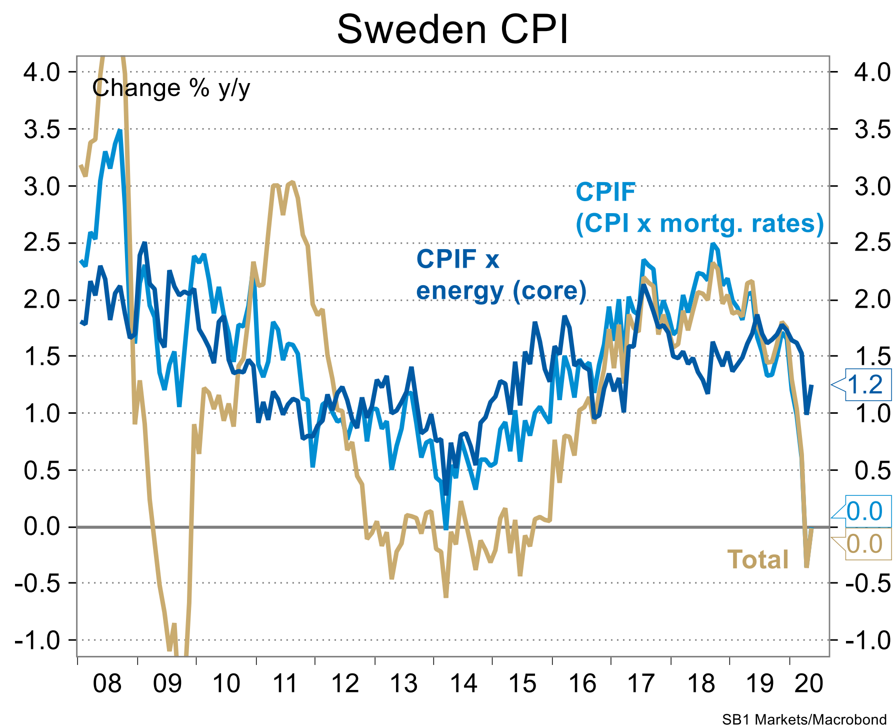
- Manufacturing production is down over 30% since the peak in early 2019. Most of the decline has happened in March and April. However, production was down 4% in early 2020, before corona hit

SpareBank 1 MARKETS

Unemployment further up, still less than 1.5 pp from Feb, inflation drifts down

Registered unemployment up 0.3 pp to 5.3%. CPI at zero, core at 1.2%





- The increase in the Swedish open unemployment rate is still measured. The labour market survey has reported an even smaller increase but the participation rate has fallen sharply (implying a higher real unemployment rate)
- CPI inflation has fallen sharply recent months, mostly due to lower energy prices. However, the core CPI (CPI x energy x mortgage rates) has come down, from 1.7% to 1.2% - after a 0.2 pp uptick in May. Core prices rose 0.4% m/m, following the 0.2% decline in April, in average 0.1% per month

Highlights

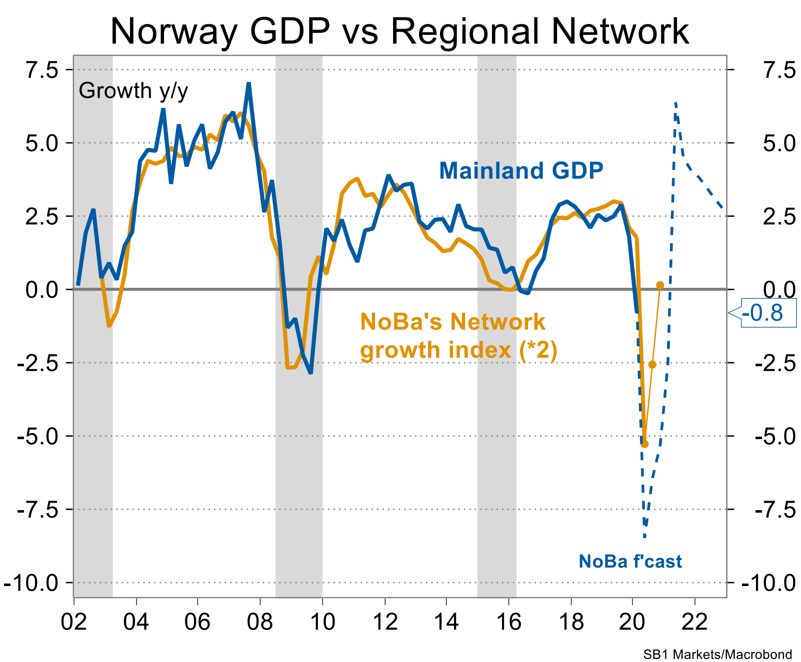
The world around us

The Norwegian economy

Market charts & comments

Norges Bank's Network reports just a 'mild' recession. But no recovery either

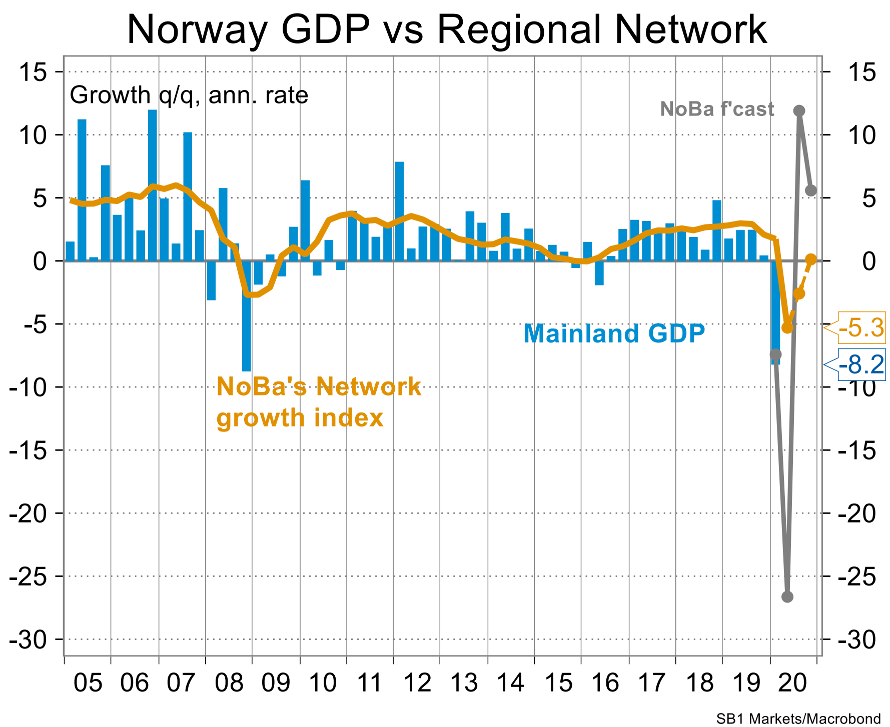
However, this time it is not possible to translate the Network indices into precise growth estimates

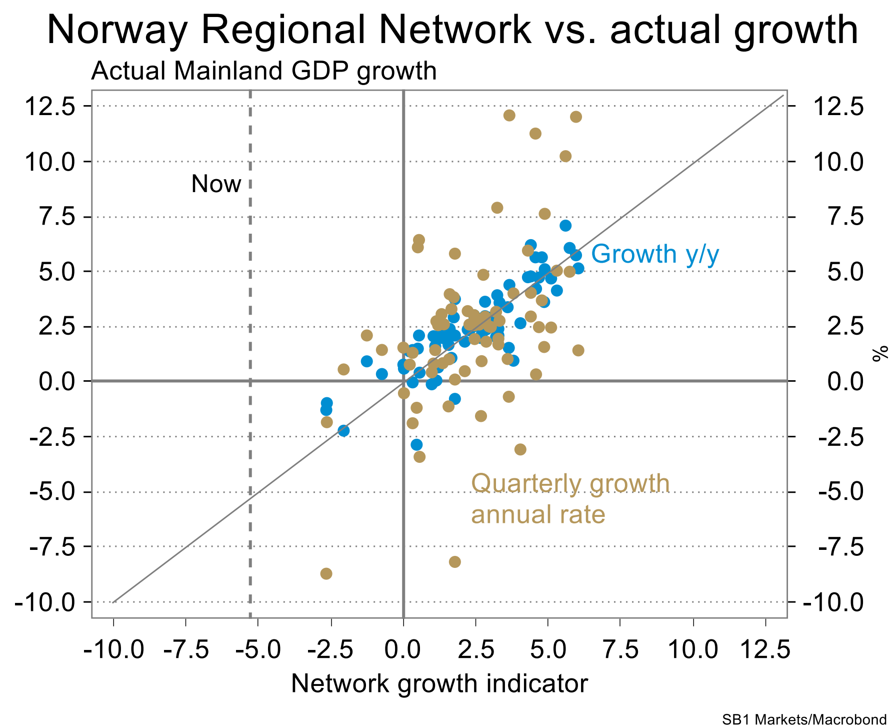


- **What the Network says**
  - » GDP fell by a 5.4% pace the past 3 months, the steepest decline on record. We expected -4.4%. All sectors report lower activity. Households services and oil services report the largest decline, construction the smallest.
  - » Respondents expect a marginal positive growth pace (0.2%) the coming 6 months. Oil services are the weakest chain in the link, while household services & retail trade expects strong growth
  - » Respondents report record deep cuts in investments
- **How to interpret these figures**
  - » If we take the survey results literally, GDP declined by 1.3% to late April/mid May from late Jan/mid February, that is before the corona crisis. (-1.3% = -5.3% growth pace in ¼ of the year). During the next 6 months, the companies expect a 0.1% increase (0.2% pace in ½ of the year). Thus, the net decline in GDP to November from February is expected to be 1.2%. <u>That's an quite optimistic estimate, but not totally impossible</u>
  - » The problem with this literal interpretation is primarily that, according to National accounts, Mainland GDP fell by 11% to April from January/February (not annualised, equals 37% at an annual rate). Even if GDP rose in the first half of May, the Network estimate of 1.3% decline does not seem reasonable vs the actual 11% decline. (The decline in share of companies that report capacity equals a 2% decline in activity)
    - Norges Bank comments that the scale in the questionnaire was to narrow, the lowest alternative was a 10% decline, measured at an annual pace, that is -2.6% over 3 months
    - Still, the network in average just utilised half of the available scale. So it is unclear to us what the respondents really described. <u>Given the uncertainty about the activity level now, the 0.1% growth pace the coming 6 months should be interpreted with caution.</u>
    - During the financial crisis it turned out to be more useful to interpret Network indices as changes y/y, as shown at the chart to the left. The Feb-April Mainland GDP is down 4.6% y/y, close the Network's -5.3%. Anyway, the correlation between the Network survey and annual GDP growth rates is far higher than vs. the (volatile) quarterly rates
    - If the same annual interpretation goes for the outlook, GDP should be up 0.2% y/y in Q4 – which is bullish estimate. Norges Bank said -5% in their early May forecast
- **Implications**
  - » Not possible to draw any clear conclusions: We know GDP has fallen more than 11%, we do not know which starting point the companies have for their 0.2% growth forcast

The network confirms an unprecedented downturn, still far too mild?

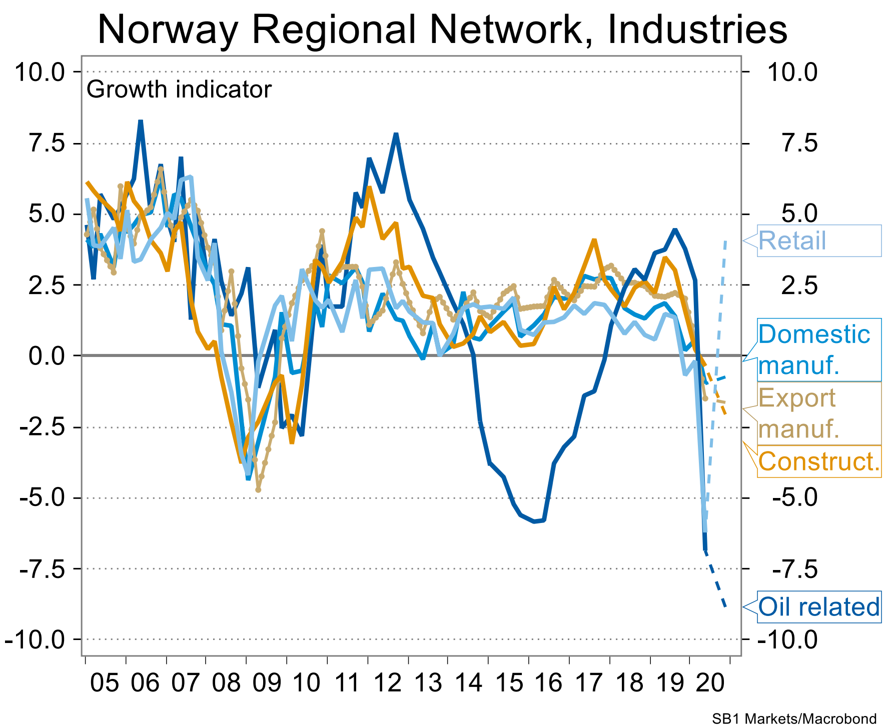
A 1.3% (5.3% annualised) contraction is reported. It was far higher during the spring

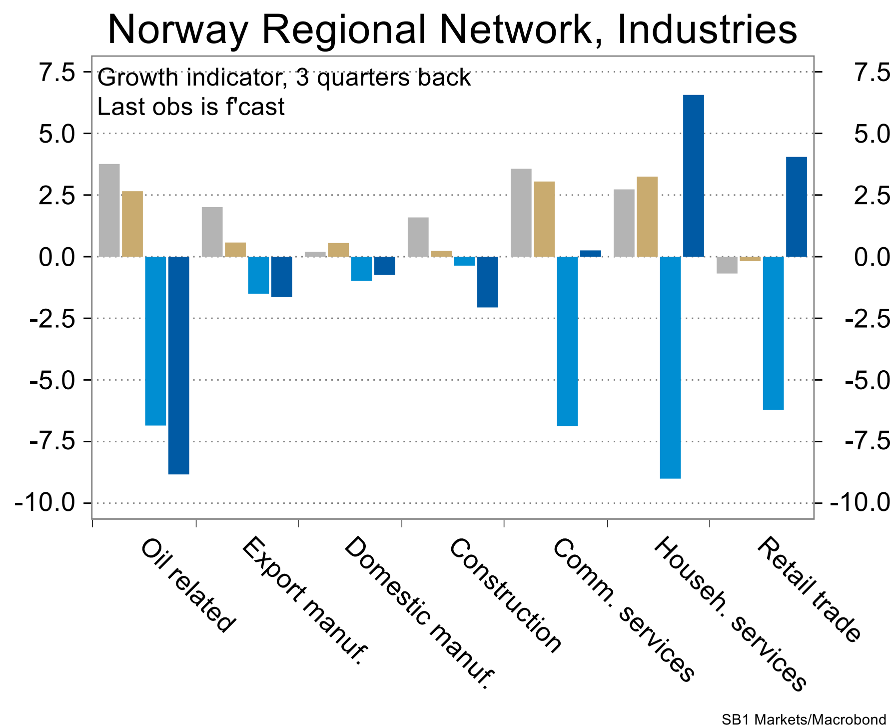




Oil services down the drain, again – and worse than last time around

Exports industries are expecting a further contraction, as are other manufacturing & construction

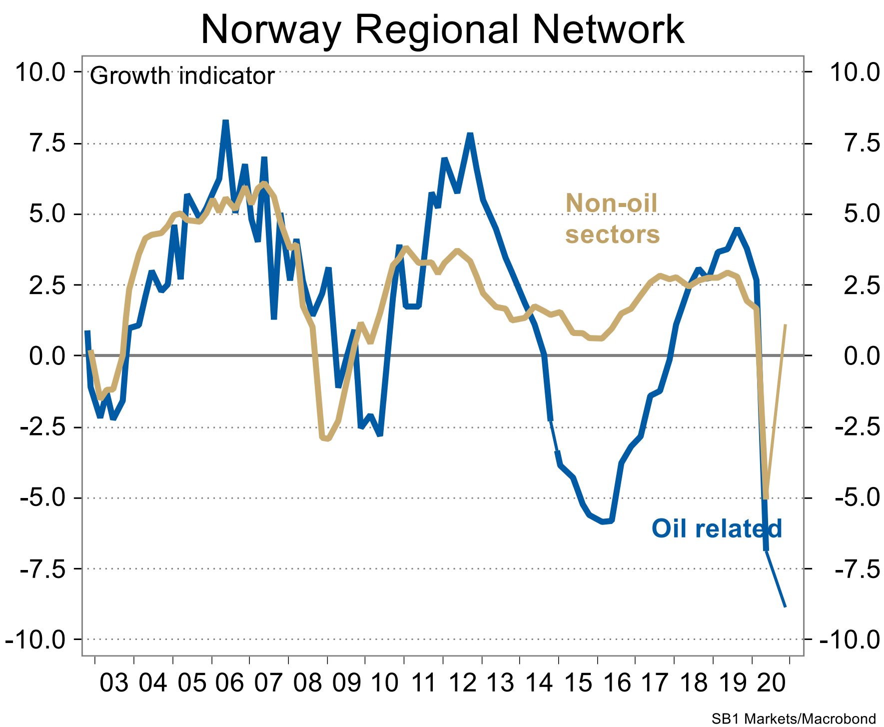


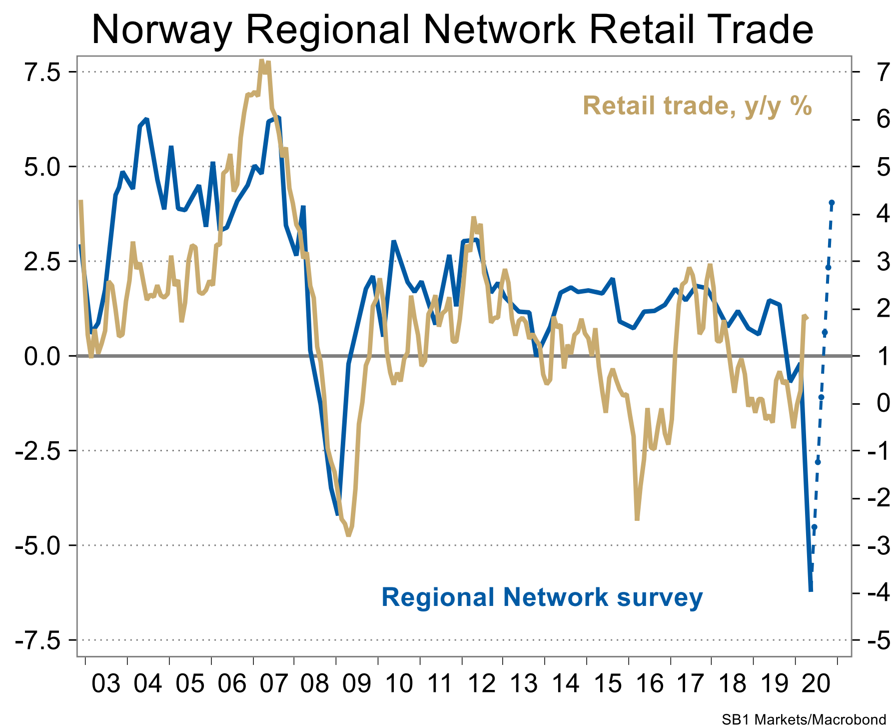


- Export manufacturers are not expecting a harsh setback, at least not compared to the financial crisis. Given the decline in activity abroad now, that must be the most positive outcome possible – at least as the companies are not reporting a huge decline in production the previous 3 months
- Commercial services are just expected to stabilse, following the larges decline ever over the previous months
- Households services are expecting a brisk recover, at least vs the reported decline the past 3 months. The same goes for retail sales (even if actual retail sales in sum have been strong, check next page)

Oil related businesses recognises the downturn

Non-oil related sectors expect measured growth in H2

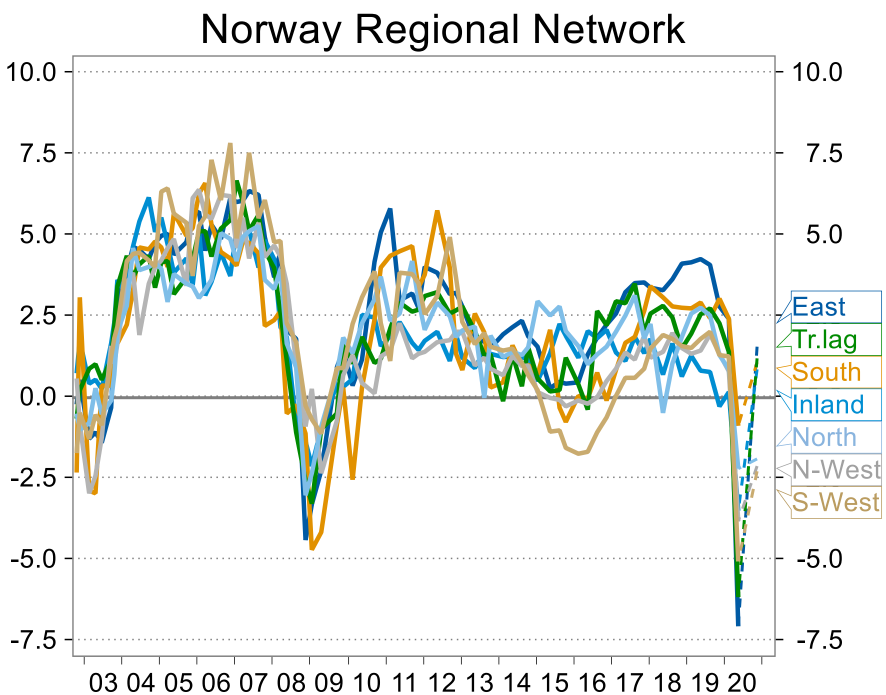


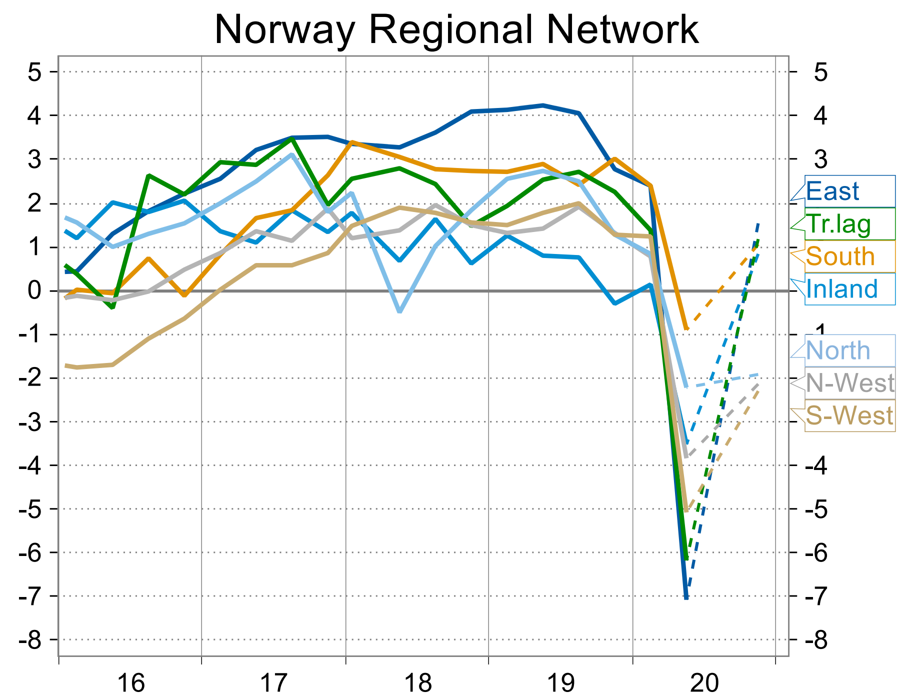


- The retail sector expects sharp growth, following a reported unprecedented downturn the past 3 months. The problem: Actual total retail sales have been strong this spring, albeit with huge differences between sectors. We dismiss both observations

Regions: East, South & Mid expect growth. West and North not

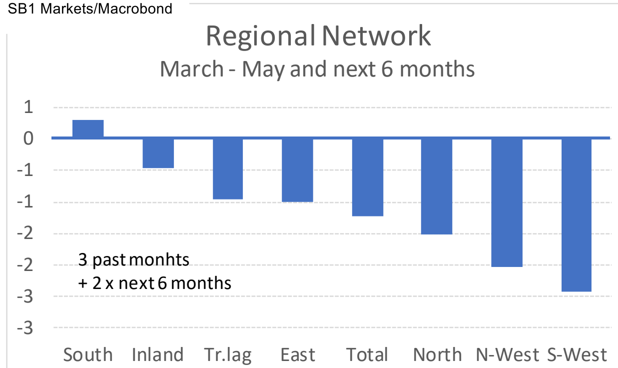
South did not fall apart past 3 months. East did – and then the recovery is not *that* impressive

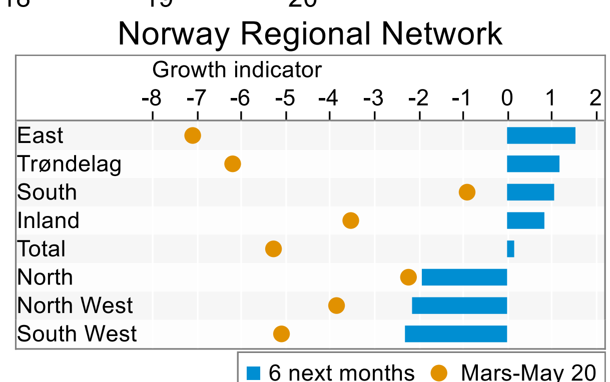




SB1 Markets/Macrobond

- The average of growth past 3 months and expected growth next six months (given a double weight) should – in principle – indicate change in activity to Q4 from Q1
  - » The country down 1.2%. East down 1% (44% of total)
  - » West (25%) and North (6%) not that good…
  - » South (10%) the only net positive

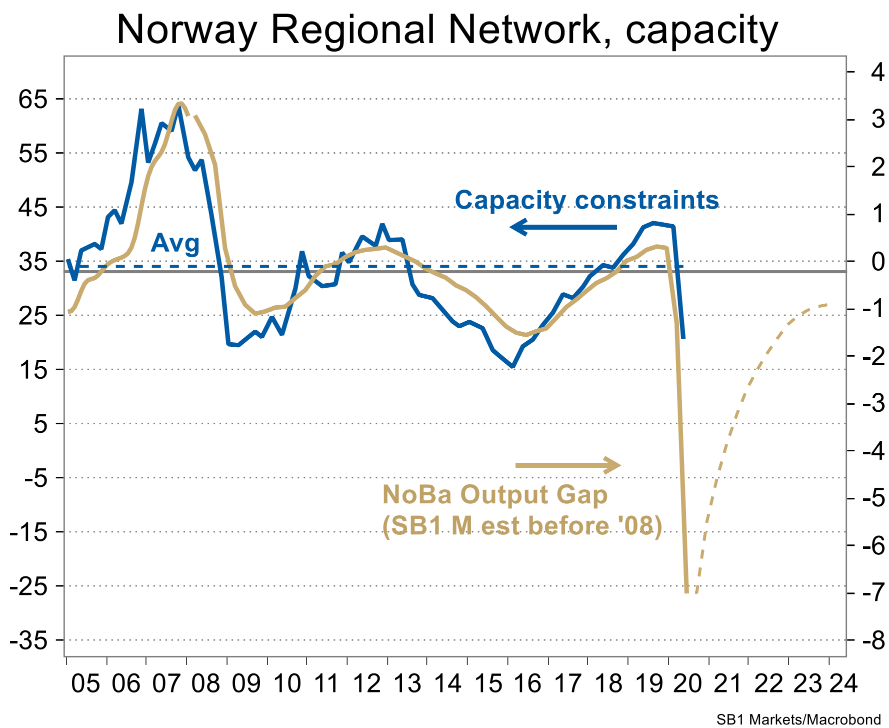


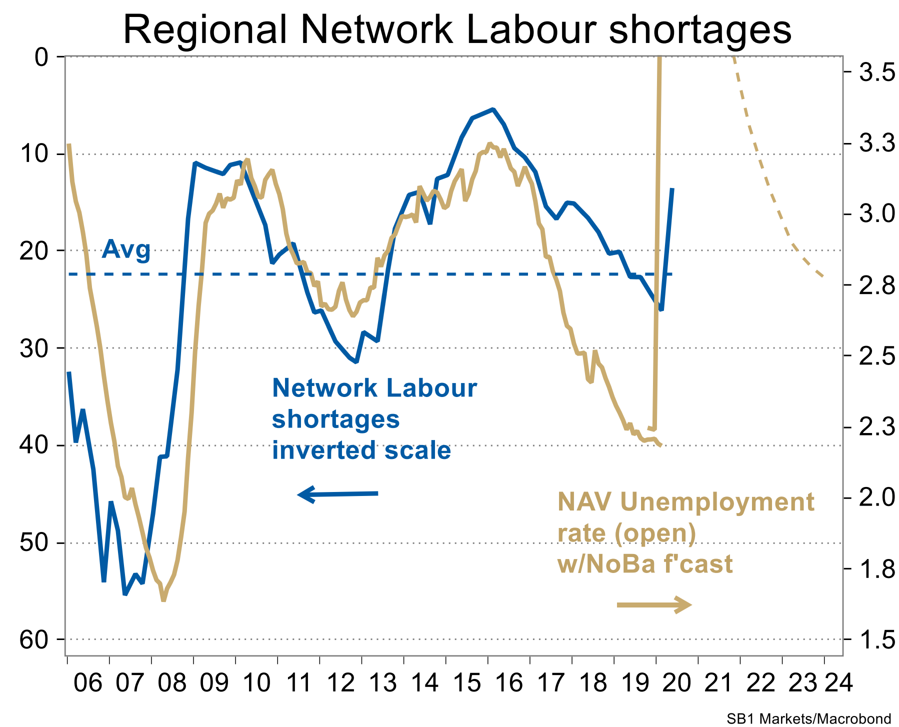


SB1 Markets/Macrobond

Capacity utilisation down past months, but not that much. Still labour shortages

Capacity utilisation fell to below average, but not even close to most GDP-based gap calculations

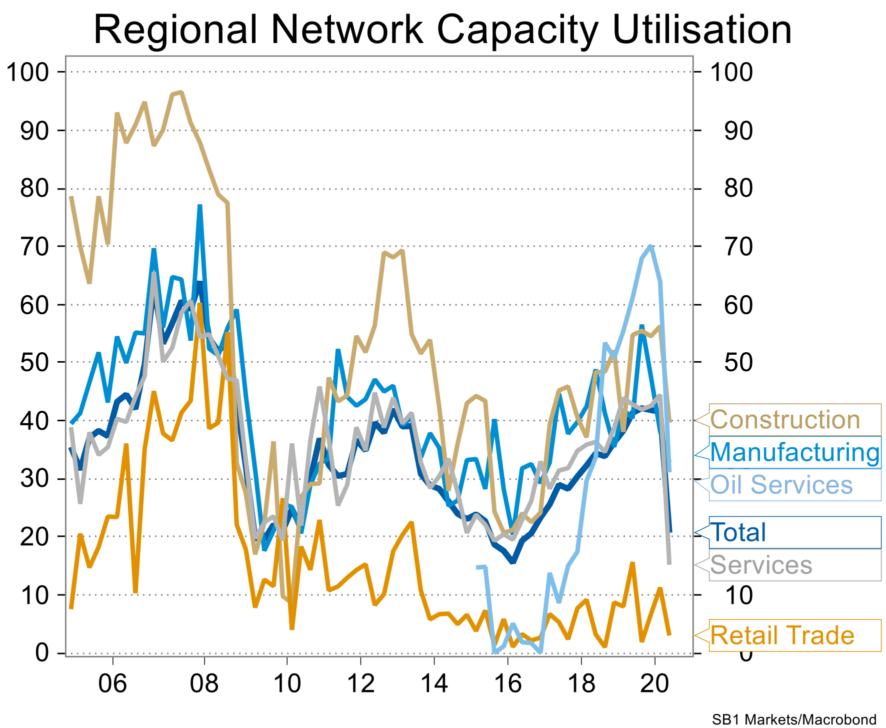


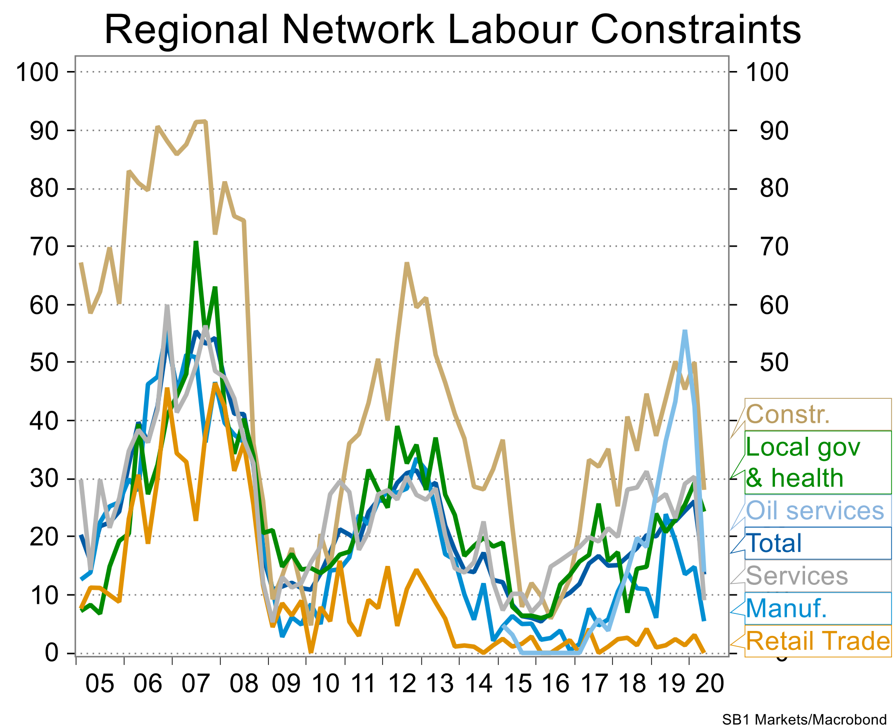


- Labour supply shortages of course eased the past months but not by that much –as if the NAV open unemployment was some 3%, and not 10%. An irrelevant data point?

Capacity utilisation has been soaring in oil service industries & construction

The peak is probably behind us and has slowed rapidly in manufacturing

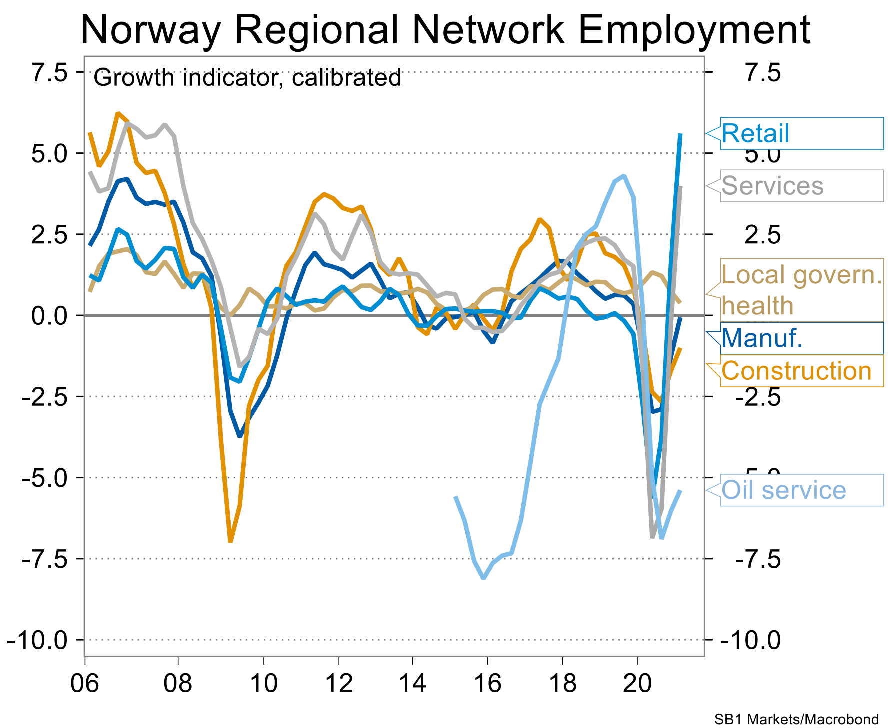


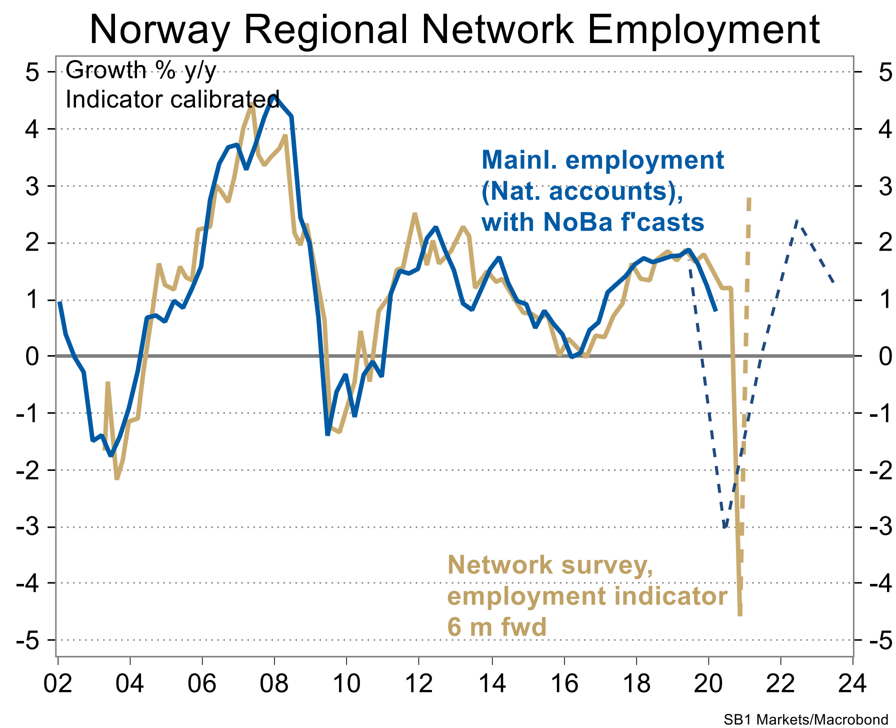


- The share of oil-related businesses (not oil companies) reporting problems accommodating edged down to 64% in Q1. Labour constraints fell to 43%, from 56%, the labour market in oil related sectors has been very tight
- In construction, capacity utilisation and labour shortages have stabilized after rising rapidly through 2017 and 2018
- Retail trade is reporting very low capacity utilisation and does not have any problems attracting labour
- The share of manufacturers reporting full capacity utilisation fell to 38%, the second quarter of decline

The Network reports deep cuts in employment – then a sharp recovery

The sum is down but less than during the financial crisis

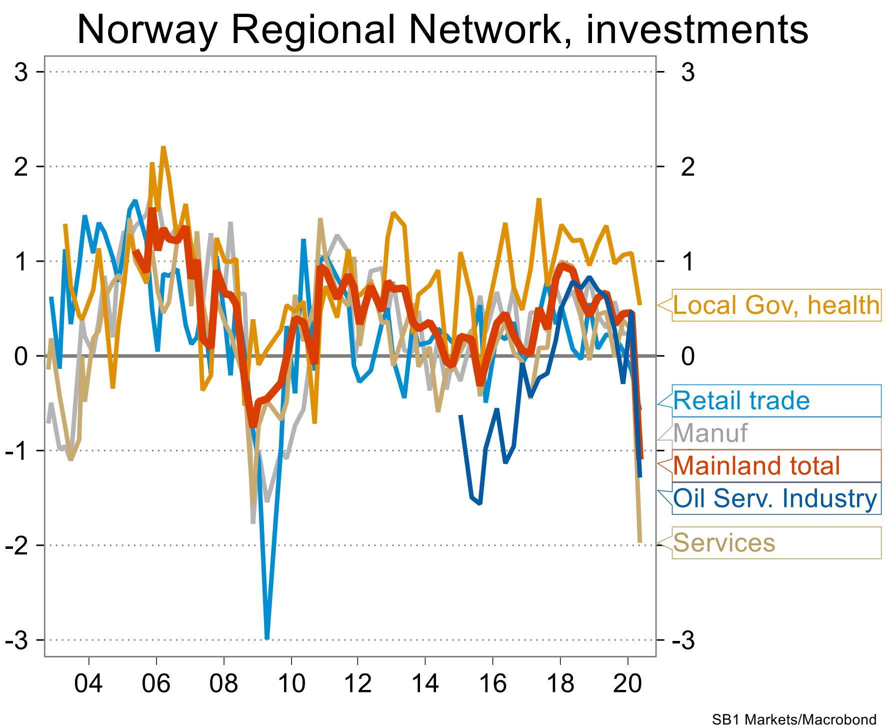


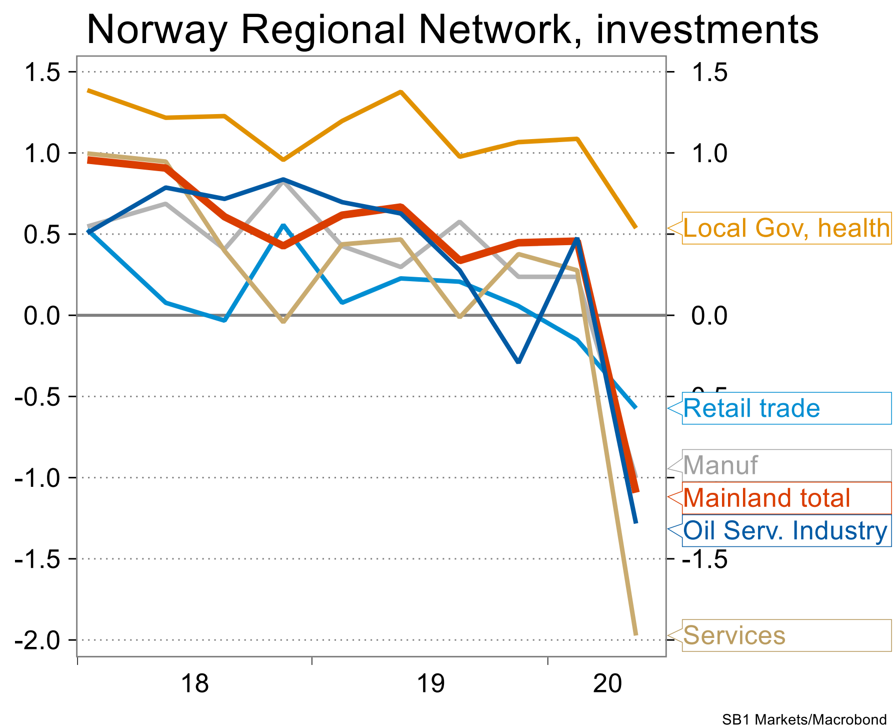


- Like for other Network indicators, it is difficult to calibrate the employment index, partly because NoBa's network was not constructed for 'sudden stops' like what we have been through since mid March.
- The 4-5% decline in employment the recent months seems reasonable. Given the zero GDP growth signal for the coming months, a 3% increase in employment does not seem reasonable
- The NoBa forecast at the chart to the right is annual averages

The Network signals deep Mainland investment cuts, more than during the GFC

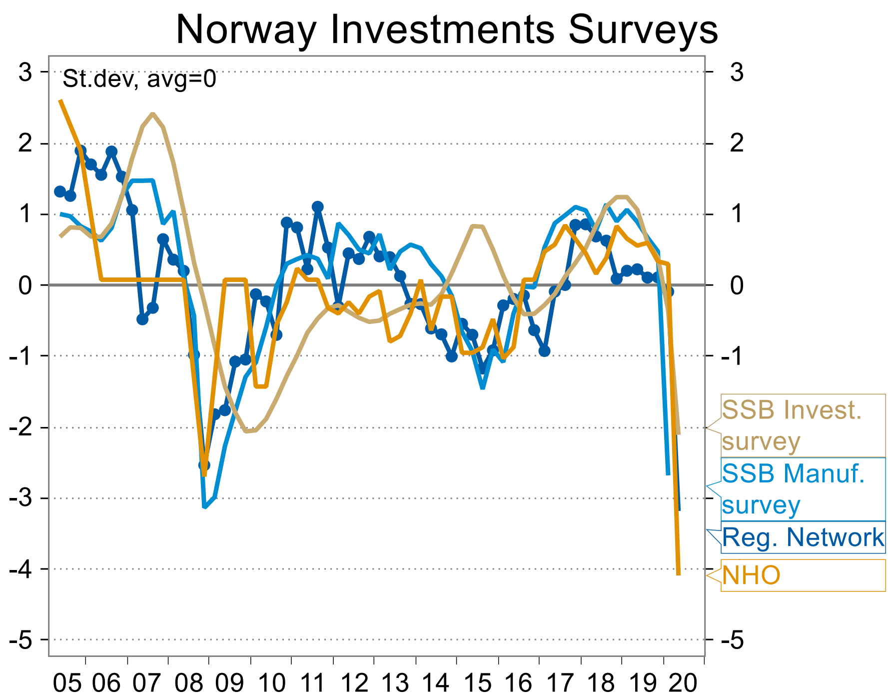
Local governments will still invest more but all private sectors plans sharp cuts in investments



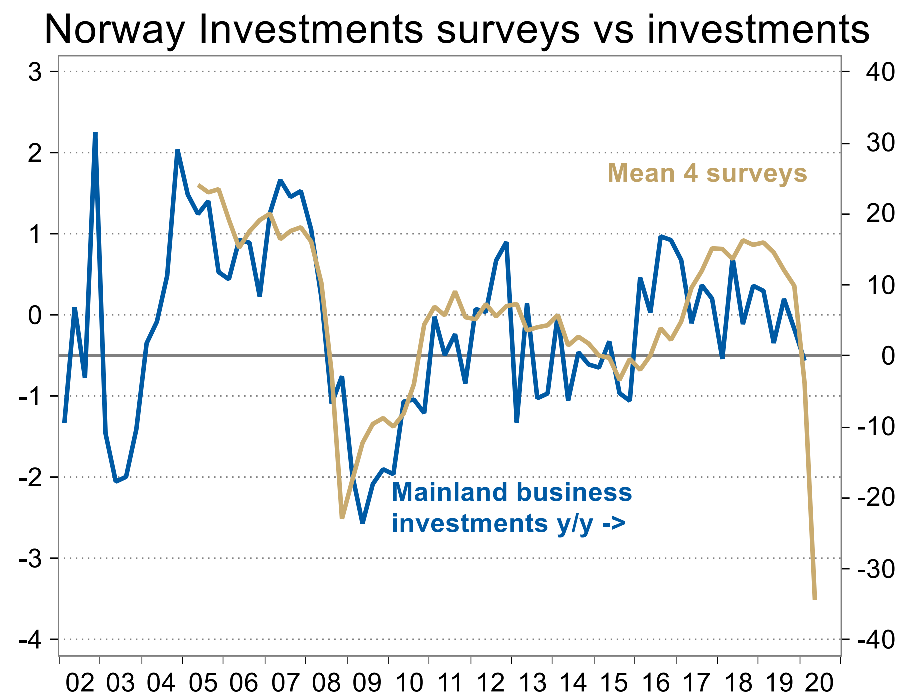


- Services, which represents almost 50% of Mainland non residential investments plan extreme cuts in their cap-ex. At least that what they say now. We are not surprised
- Oil services (not oil companies!) (9% of total) plans harsh cuts too, like manufacturers (12%). Retail trade (7%) plans cuts too, but by much
- Other surveys confirm a larger decline in investments than during the Financial Crisis

Other surveys tell the same story: Investment plans are cut



SB1 Markets/Macrobond

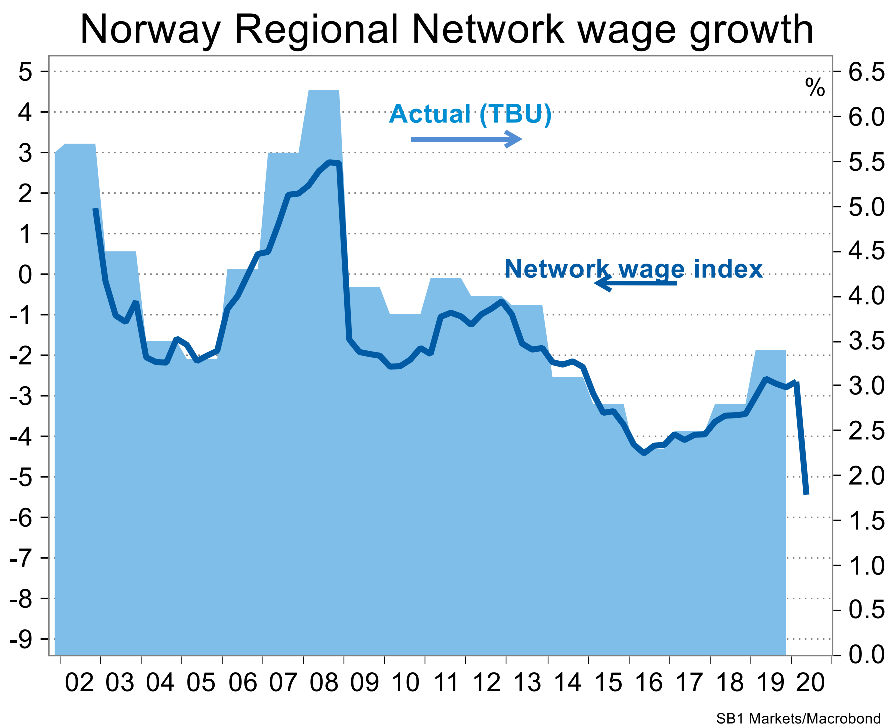


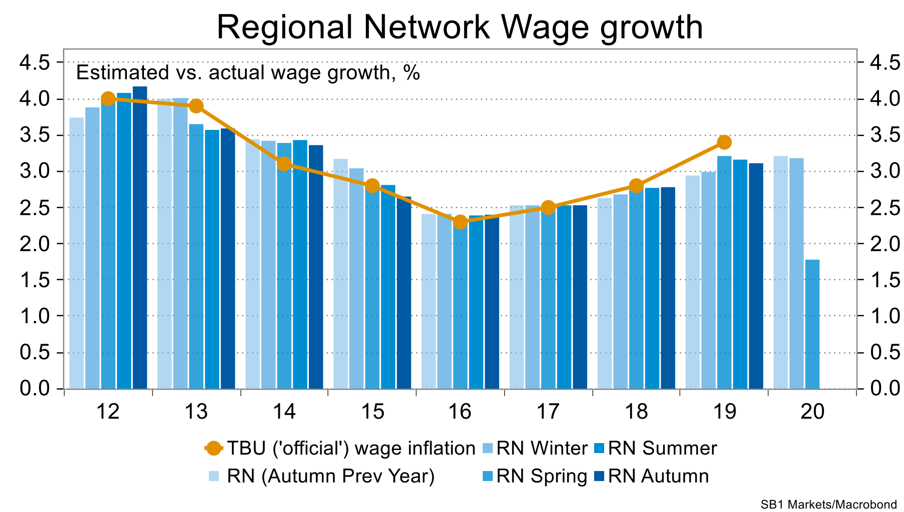
SB1 Markets/Macrobond

SpareBank 1 MARKETS

The Network expects a sharp decline in wage inflation – to below 2%, in 2020!

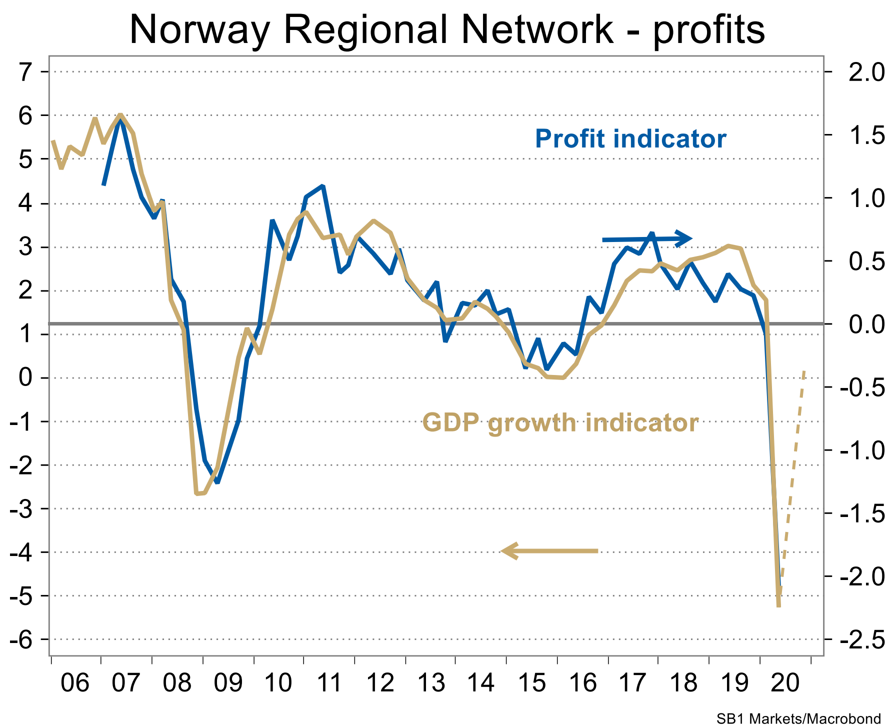
Until corona hit, wage expectations were drifting upwards. No more





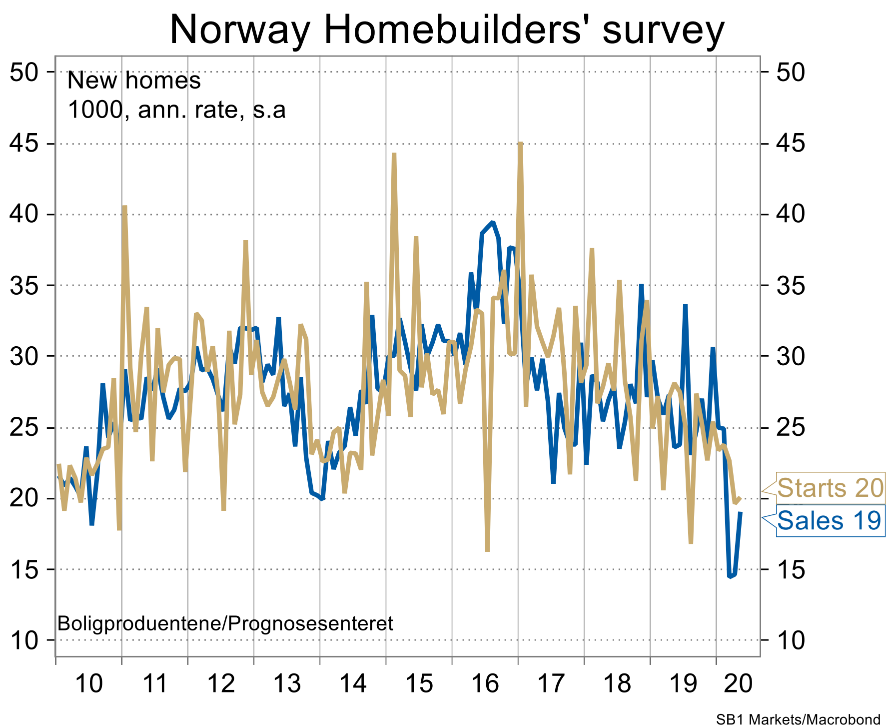
Businesses are expecting the sharpest decline in profits ‘ever’

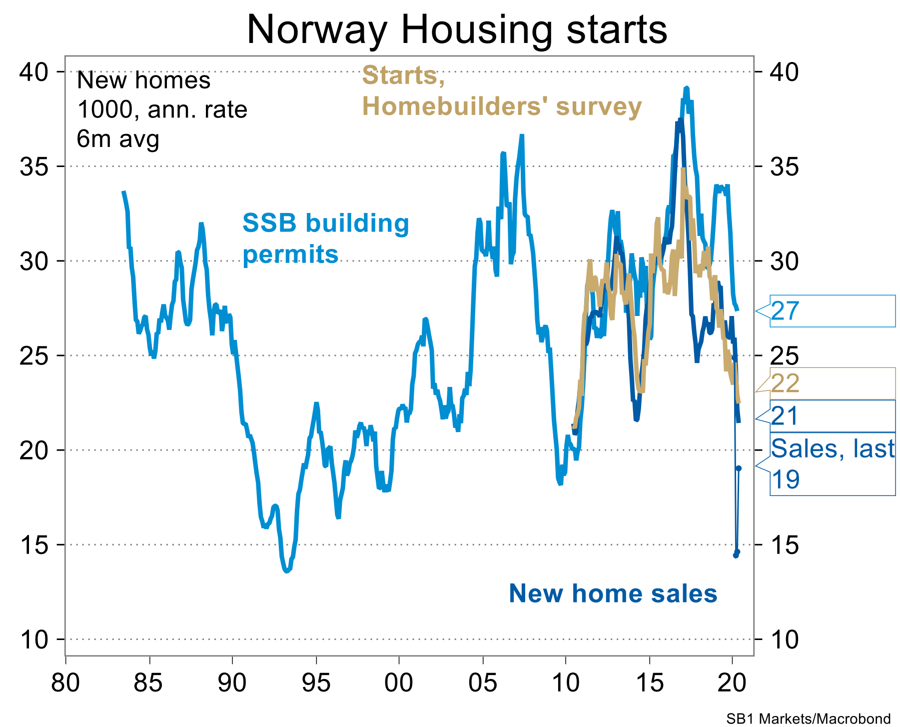
Not surprising, given their growth outlook



New home sales up in May, still very low – as are starts

The Homebuilders' report an increase in sales to 19' in May from 15' in March/April. Not impressive

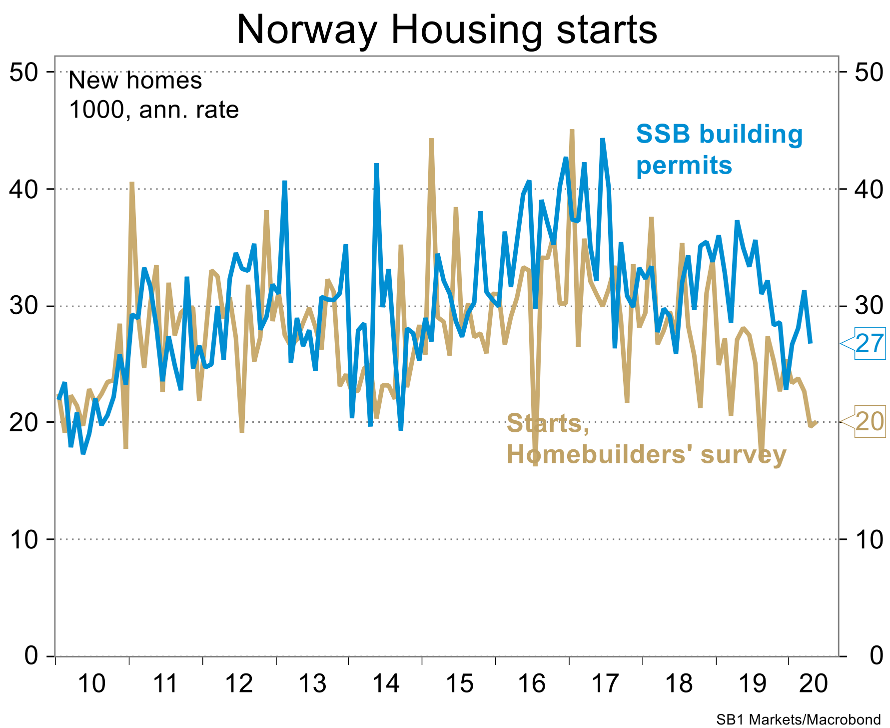


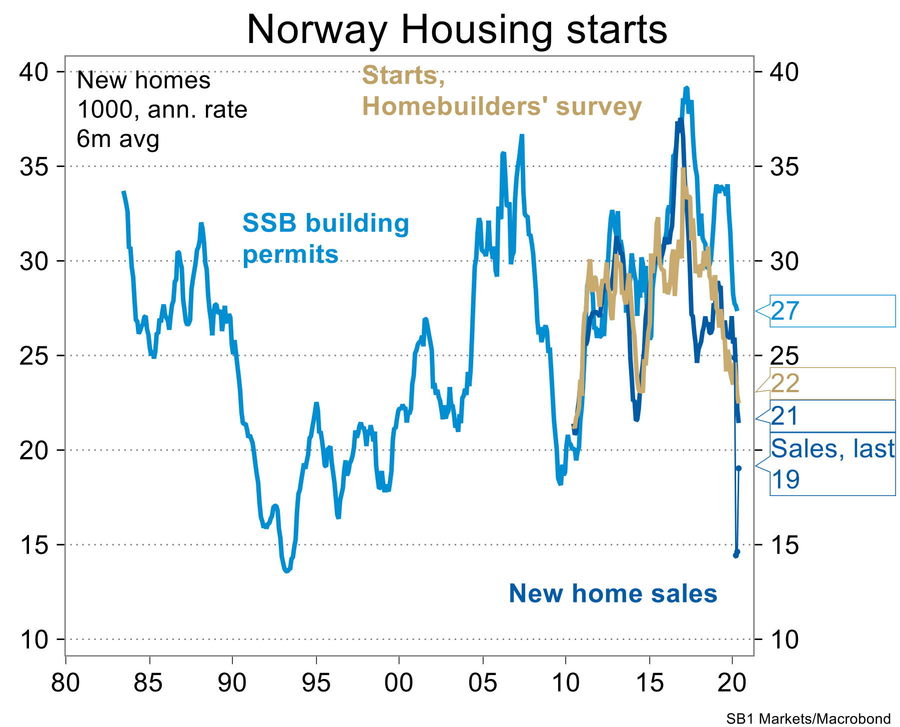


- The Homebuilders' housing starts (seasonally adjusted) fell sharply in 2nd half of March but recovered in April – so that the average was the same as in March, in average – not that bad. However, sales rose just 4', to 19' in May (seas. adjusted, annualised) – well below the pre corona level (25'). Starts fell to 20' in April and remained there in May
- Both sales and starts have been trending down since late 2016, from a 35' level. Real house prices have been trending down in the same period
- SSB is reporting a decline in building permits but the level (27') is higher than what the homebuilders report. The average discrepancy is some 2.5', now its 6'
- The construction sector adjusted its expectations downwards in Norges Bank's Regional Network survey

Housing starts up in January, trend still steeply down

SSB confirms the downturn which the homebuilders have reported, lowest level in 5 years

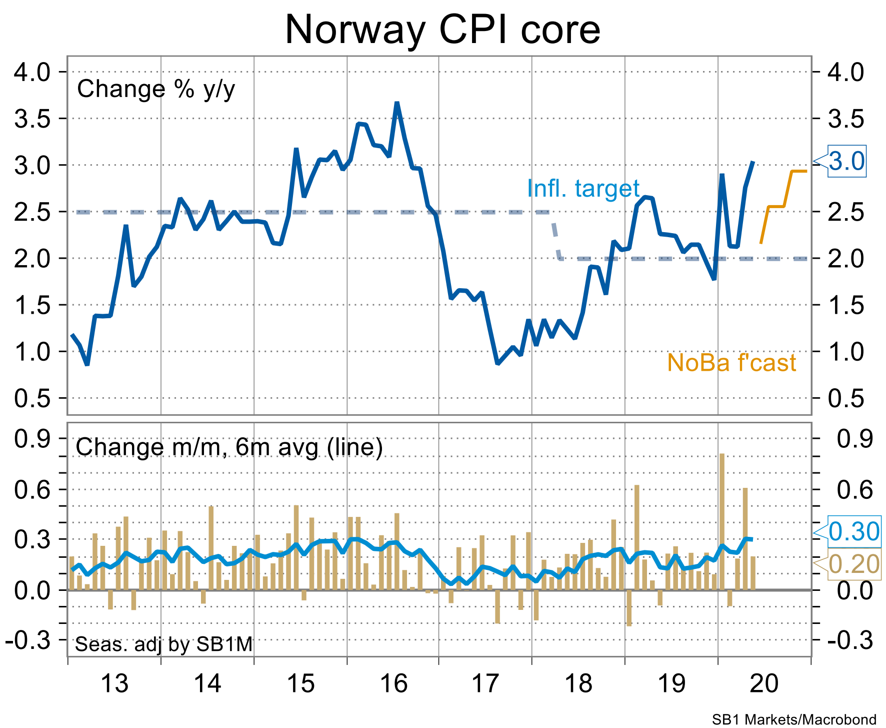




- SSB reported housing starts (building permits) rose to 27' in January, after dropping to 23' from 29' the prior month. The smoothed rate has fallen by almost 20%, to 28', from 34' last September, and is now well below the 2018 trough. Starts have not been lower since early 2015
  - » Unlike SSB, the Homebuilders have been reporting declining starts since 2017. Soaring building of student homes in early 2019, which is only included in the SSB figures, partly explains this. New home sales, reported by the Homebuilders, have flattened out the past 6 months and increased in December (no January data), do not signal additional decline of starts
- Housing starts suggest a further decline in housing investments. However, starts are not low; the level is at the avg level since 2000, and above the per capita avg – with population and real income growth much below what we have been used too

Core inflation up to 3.0% but nobody cares (and should not)

Inflation well above the target – due to temporary factors. No reason to worry, at least not yet



- CPI-ATE (ex. energy and taxes) rose 3.0% y/y in May, up from 2.8% in April, as we expected
  - » Prices rose by 0.2% m/m (seasonally adjusted), following the unexpected 0.6% in April
- Total inflation rose 0.5 pp to 1.3% (we assumed 1.1%). Electricity prices – but also gasoline prices – explains the 1.7 pp divergence to the core CPI
- **The price outlook**
  - » Impacts of the corona crises are mixed
    - A weaker economy strongly suggests low inflation. Wage inflation is no doubt on the way down.
    - The weak NOK will bring imported inflation up and will probably offset some of the effects of waning demand on prices.
    - Energy prices have been falling but the downside from here is limited
  - » Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming quarters. Wage growth will no doubt slow, almost whatever CPI data that may be reported

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No major outliers vs our f'cast in May

Prices are increasing faster in several sectors. 11 out of 13 main groups are above the 2% target

		Change m/m, seas. adj			Change y/y			Contribution, pp		
May-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	-0.0	0.4	-0.4	4.4	4.6	5.2	-0.01	0.57	-0.06
Alcohol, tobacco	3.9	0.6	0.2	0.4	2.0	2.7	2.0	0.02	0.10	0.02
Clothing, footwear	4.9	-0.1	0.2	-0.3	-2.4	-3.2	-2.8	-0.00	-0.15	-0.01
Housing x. energy	20.1	-0.1	0.1	-0.2	1.7	1.3	1.6	-0.03	0.26	-0.05
Furnishing	6.6	-0.1	0.5	-0.6	5.9	6.0	6.7	-0.01	0.39	-0.04
Health	3.2	0.0	0.2	-0.2	3.5	3.3	3.6	0.00	0.11	-0.01
Transp. ex. gas, airl. tick	12.0	1.0	0.4	0.6	3.4	4.8	3.2	0.12	0.57	0.07
Airline tickets	1.2	-1.8	0.2	-2.0	-3.4	6.7	10.4	-0.02	0.08	-0.02
Communication	2.2	-0.0	0.4	-0.4	5.3	4.9	5.4	-0.00	0.11	-0.01
Recreation, culture	11.9	0.9	0.2	0.7	2.8	3.3	2.6	0.10	0.39	0.08
Education	0.5	-	-	-	3.5	3.5	3.5		0.02	0.00
Restaurants, hotels	6.2	0.5	0.0	0.5	2.1	2.1	1.4	0.03	0.13	0.03
Other	8.8	0.5	0.3	0.3	3.1	3.6	3.3	0.05	0.32	0.03
CPI-ATE	94	**0.2**	**0.2**	-0.0	**2.8**	**3.0**	**3.0**			
No Norges Bank est.										
Imported	33	0.4	0.2	0.2	2.2	2.8	2.4	0.15	0.91	0.08
Domestic	61	0.2	0.2	-0.0	2.8	3.1	3.1	0.12	1.86	-0.02
Energy, housing	4	4.7	3.0	1.7	-34.9	-32.1	-31.7	0.18	-1.24	0.06
Energy, transport	4	0.7	0.0	0.7	-9.6	-10.4	-11.0	0.02	-0.37	0.02
CPI Total	101	**0.4**	**0.2**	0.1	**0.8**	**1.3**	**1.1**	0.36	1.28	0.12

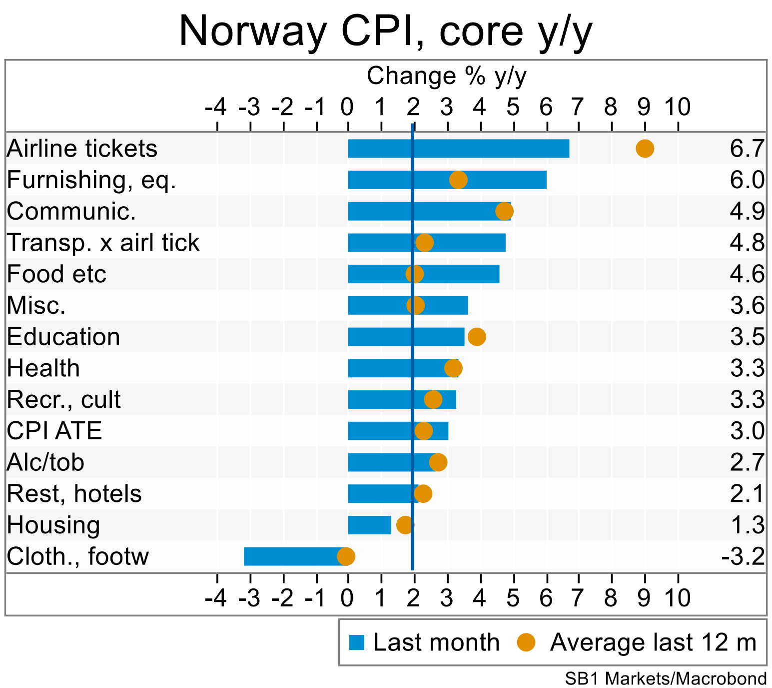
Change m/m based on seasonally adjusted data
Sum of parts does not necessarily add up to totals
Norges Bank m/m s.a. estimate is implied, calc by SB1M

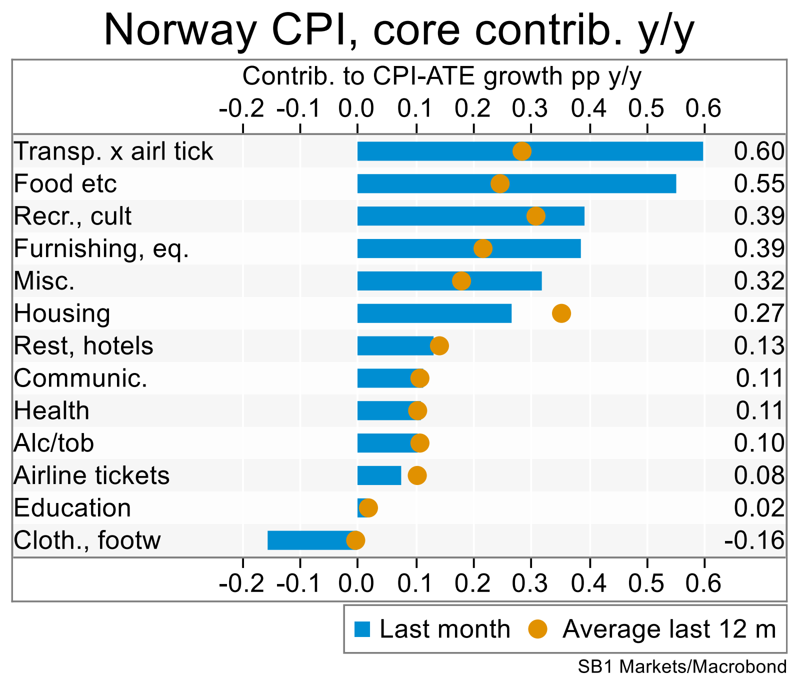
- Food prices are up 4.6% y/y, still less than we feared!
- Clothing prices fell further in May, are down 3.2% y/y, even if the NOK has fallen sharply. Very low sales volumes may explain the price cuts
- Rents are easing, due to interest rate cuts
- Furniture prices are up 6% y/y. Demand is up, the NOK is down
- Car prices are rising sharply. NOK impact
- Books, games, garden equip/plant prices rose more than normal too – demand/NOK impact
- **CPI-ATE up 3.0% y/y**
- Imported prices rose by 0.4% m/m, the annual rate accelerated 0.6 pp to 2.8%
- Electricity prices rose a tad more than we assumed in May, but prices are sharply down y/y
- Total inflation accelerated by 0.5 pp to 1.3%

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

Transport ex fuel/airline tickets, food, furnishing have lifted core annual inflation

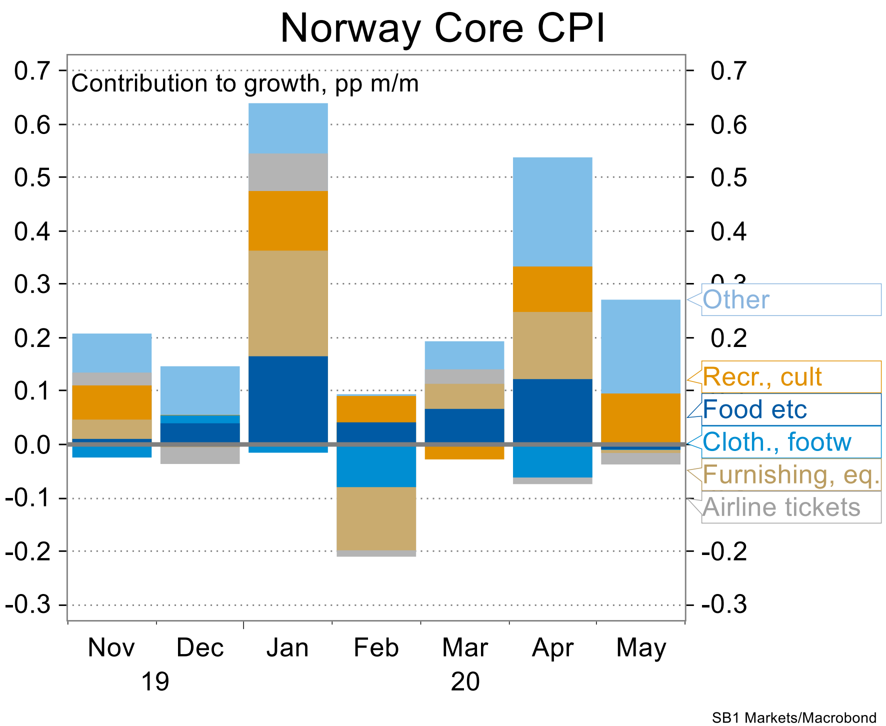
Just clothing on the below zero y/y, housing ex energy (mainly rent) below 2%. The others above

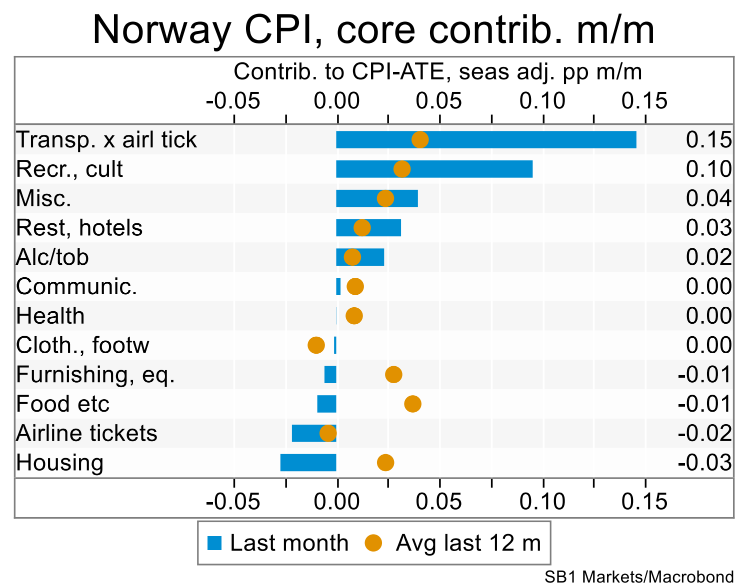




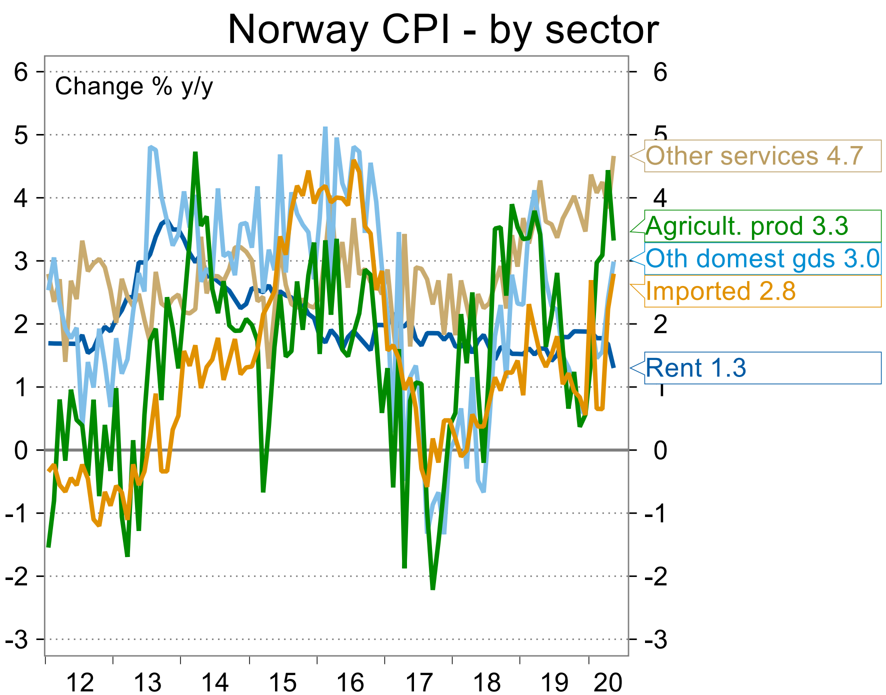
- Transport: In May, auto prices rose sharply. Auto maintenance and spare parts as well as other transport services than airlines are on the way up

Some on the downside in May, but not by much

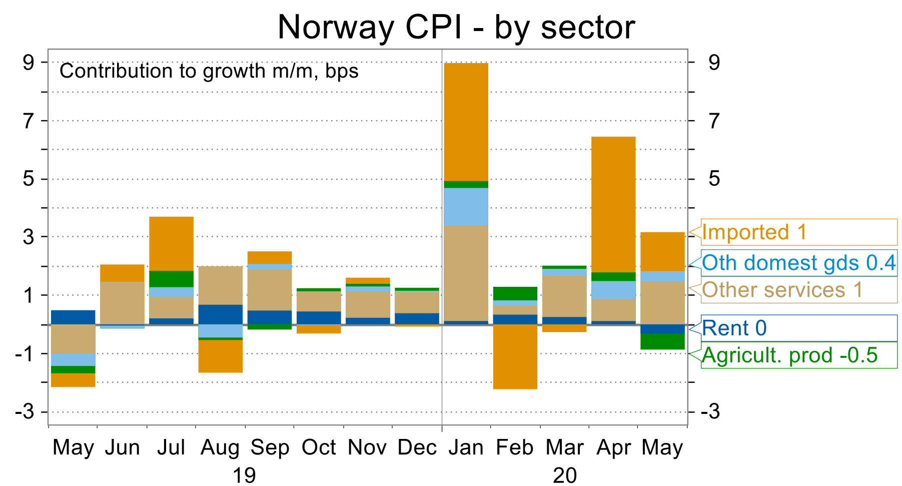




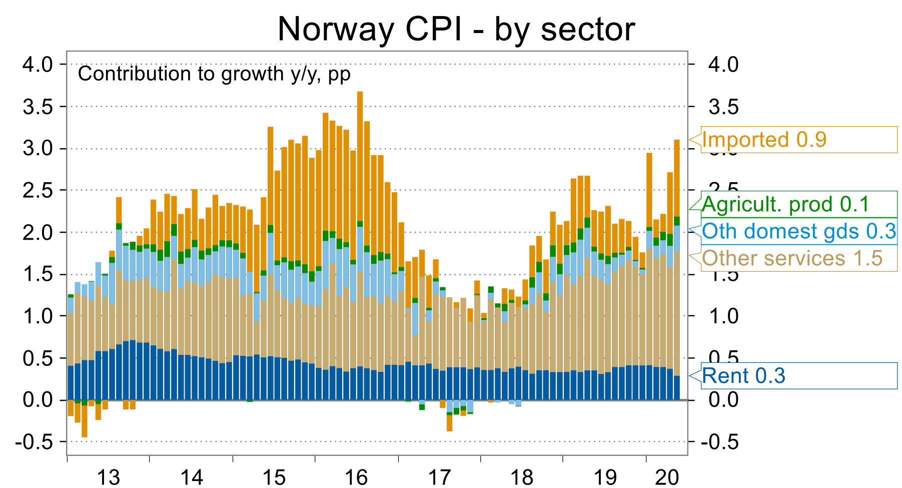
Imported goods inflation up to 2.8% but domestic inflation even higher



SB1 Markets/Macrobond



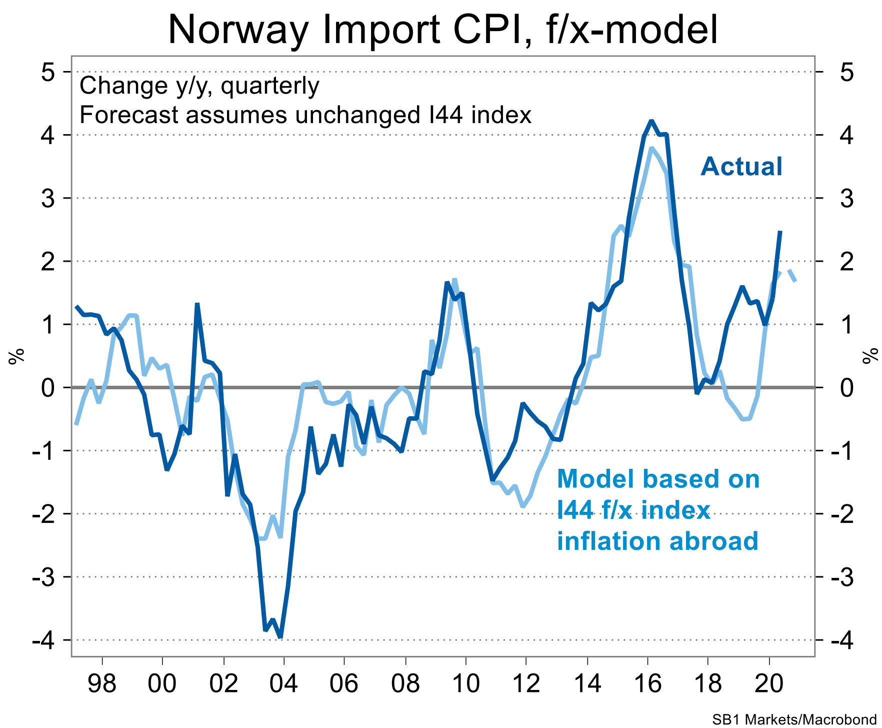
SB1 Markets/Macrobond

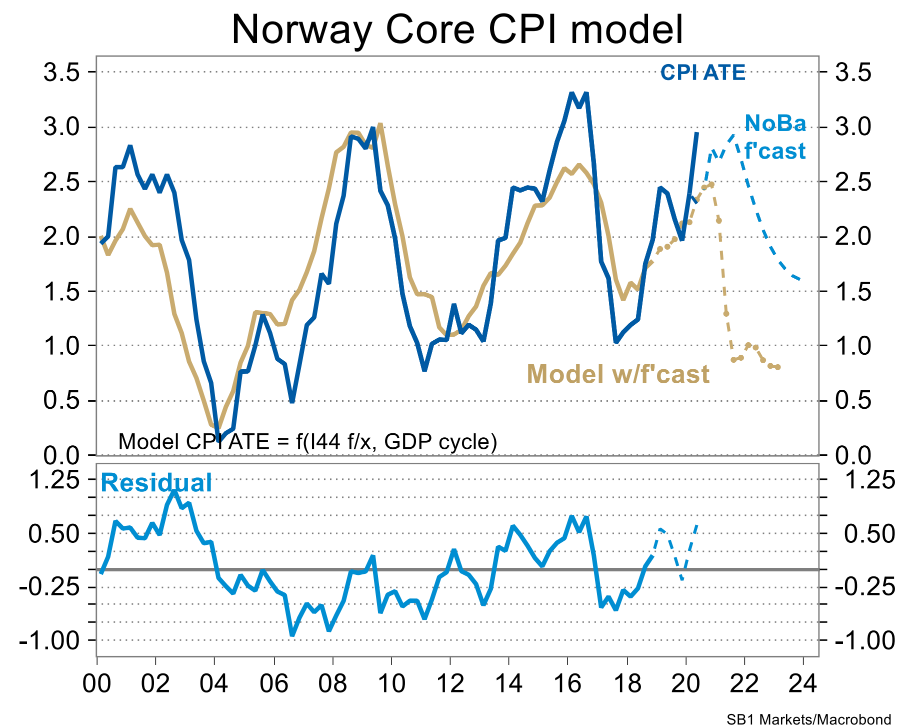


SB1 Markets/Macrobond

Imported prices: Limited upside. In addition, the cycle will take inflation down

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

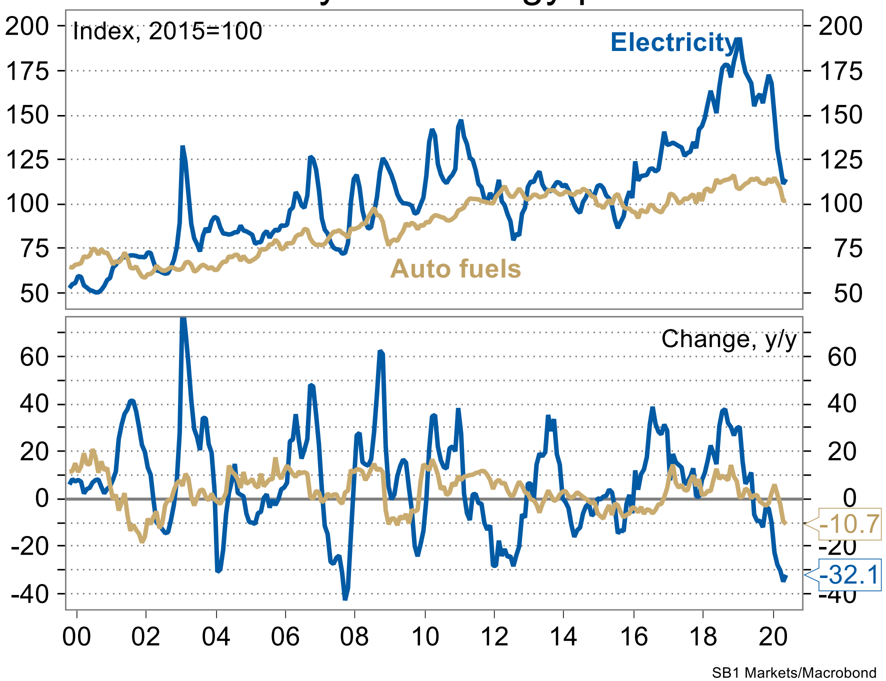




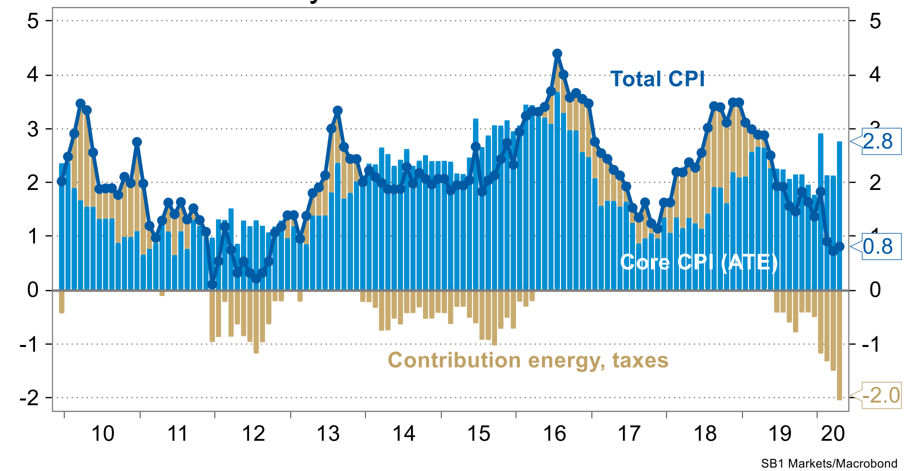
Electricity prices has fallen sharply, taking total inflation down. Now it's done?

The negative contribution to headline CPI has peaked, will decline substantially

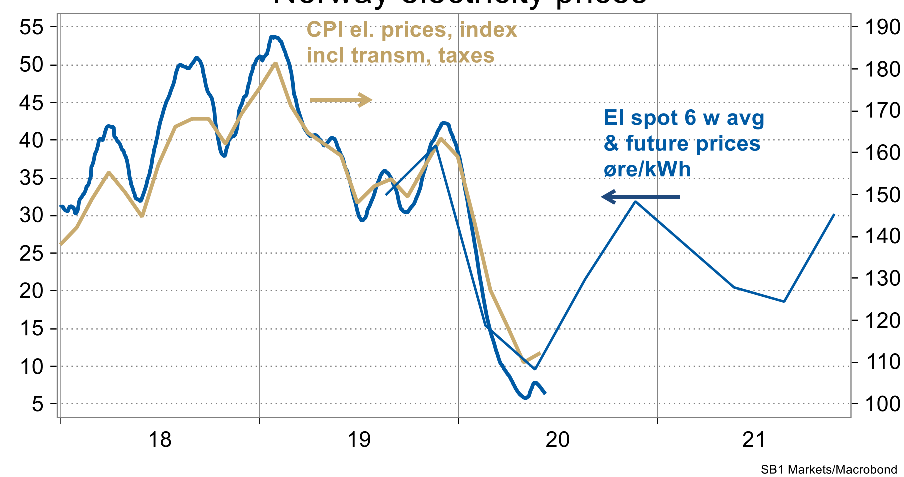
Norway CPI Energy prices



Norway Headline & core inflation



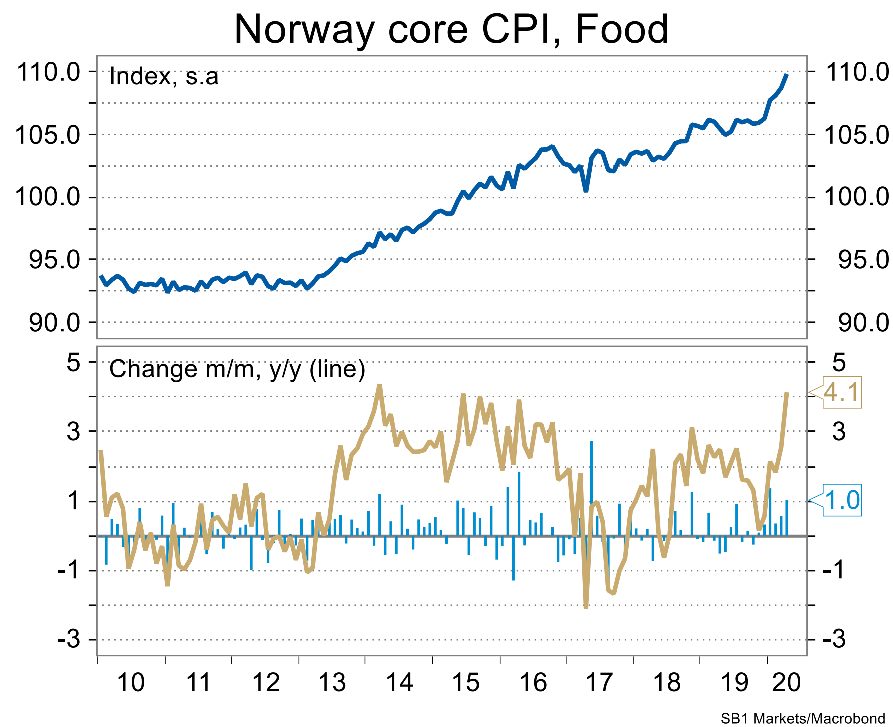
Norway electricity prices

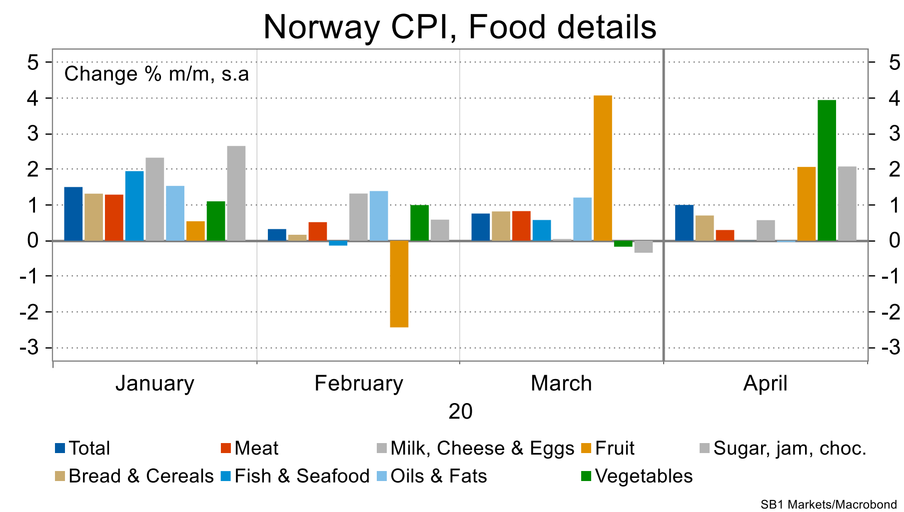


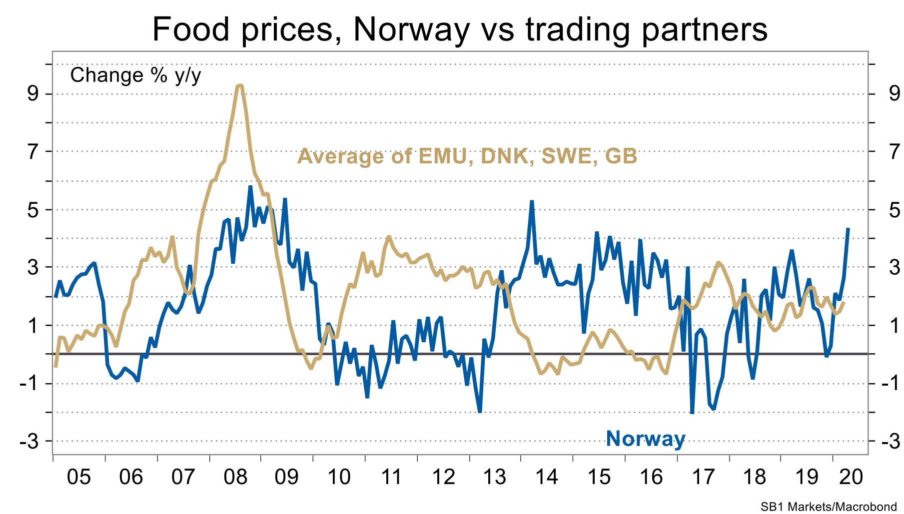
- In 2017/18 the surge in electricity prices lifted the headline CPI, reducing real disposable income significantly. This effect was put in reverse in 2019 and more so in 2020, as electricity prices have fallen sharply.
- From now on, the annual price decline will be significantly reduced

Food prices up 4.1% y/y!

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



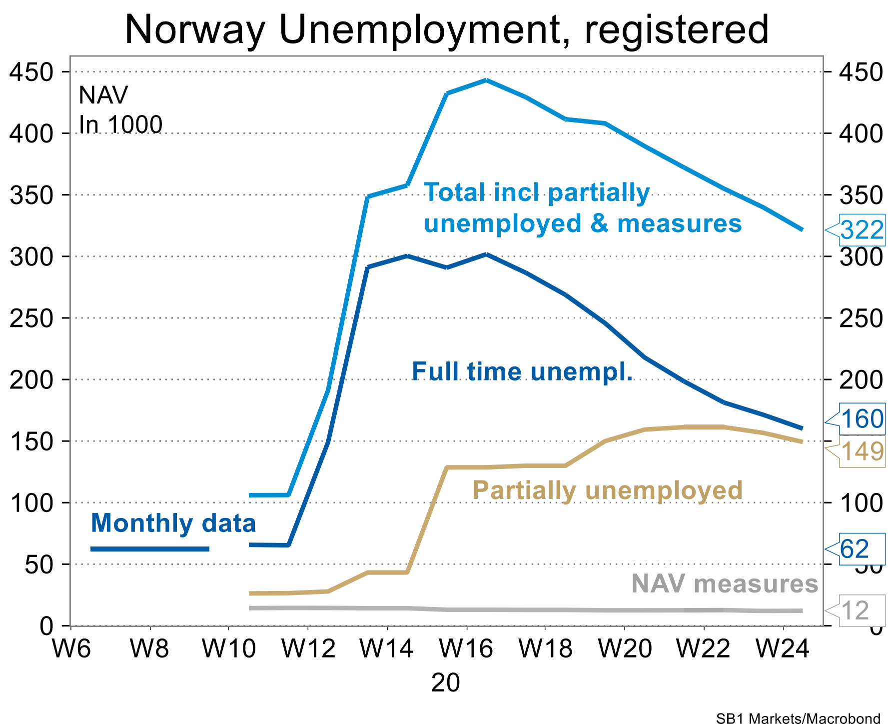


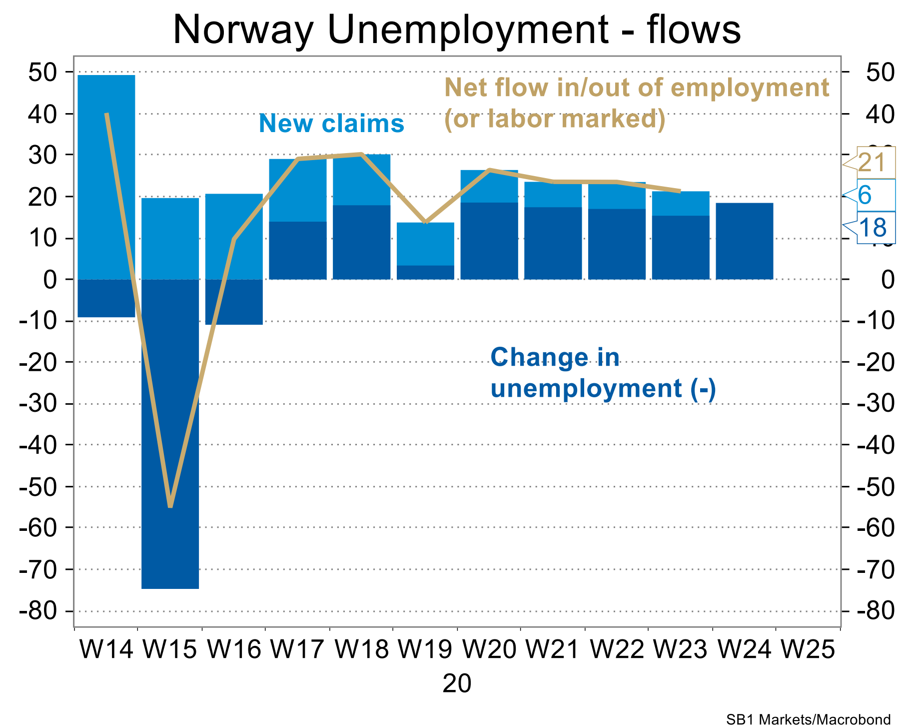


- Prices rose further in March, and the annual rate remained accelerated to 2.5%
- Food prices are now increasing at a somewhat higher pace than abroad

Total unemployment down another 18’ last week, down 0.6 pp

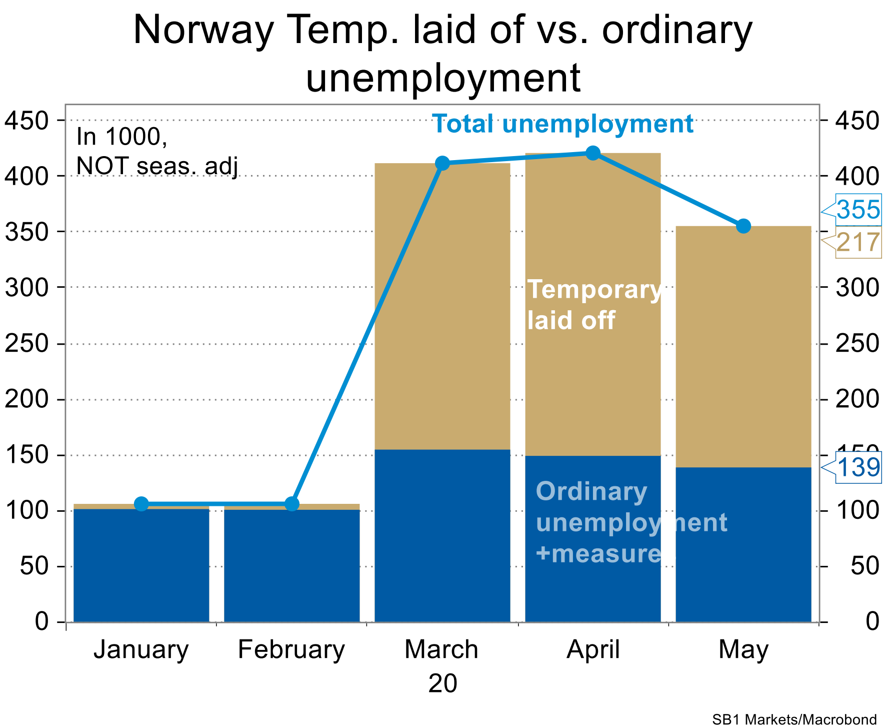
Total unempl. fell by 18’ last week (the 8th of decline in row), down to 11.3% of the labour force

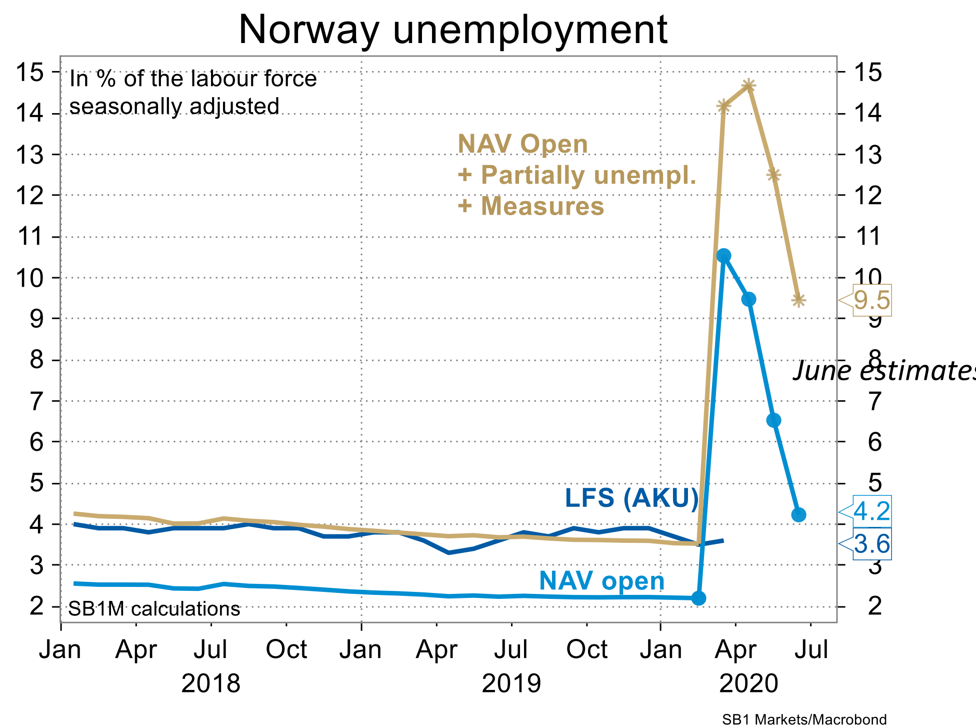




- Unemployment has fallen by 120’ to 322’ since mid April, or by 4.3 pp
- The inflow of new jobless claims has slowed, down to 6’ per week. That’s still far higher than normal but all the extras are temporary laid off persons
- Temporary laid offs equal 60% of total unemployment, and all of the decline in unemployment is due to fewer temps, not a decline in ordinary unemployment

Unemployment rapidly on the way down, still far above normal levels





Highlights

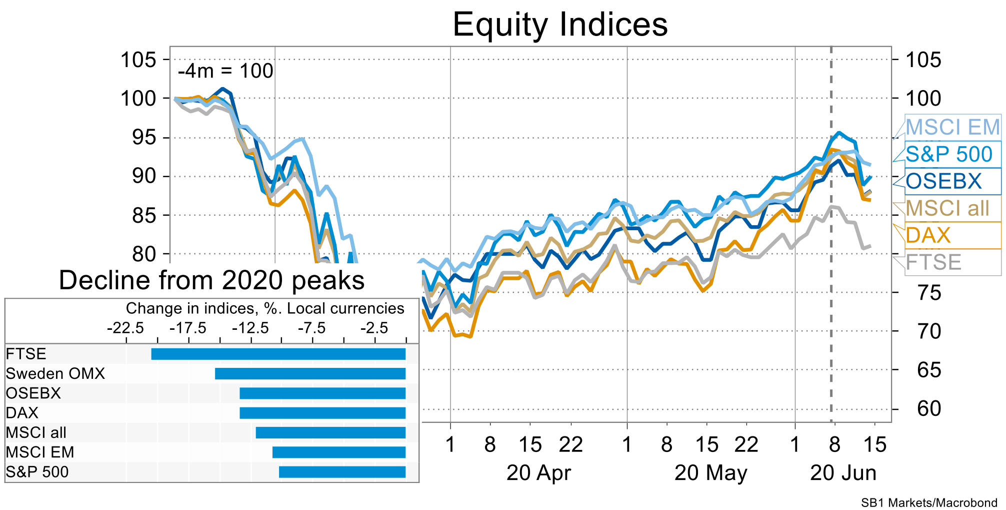
The world around us

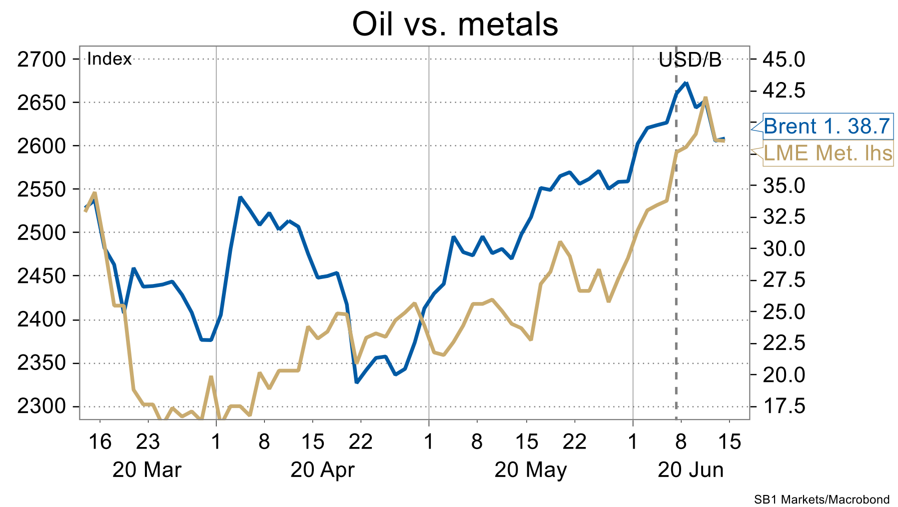
The Norwegian economy

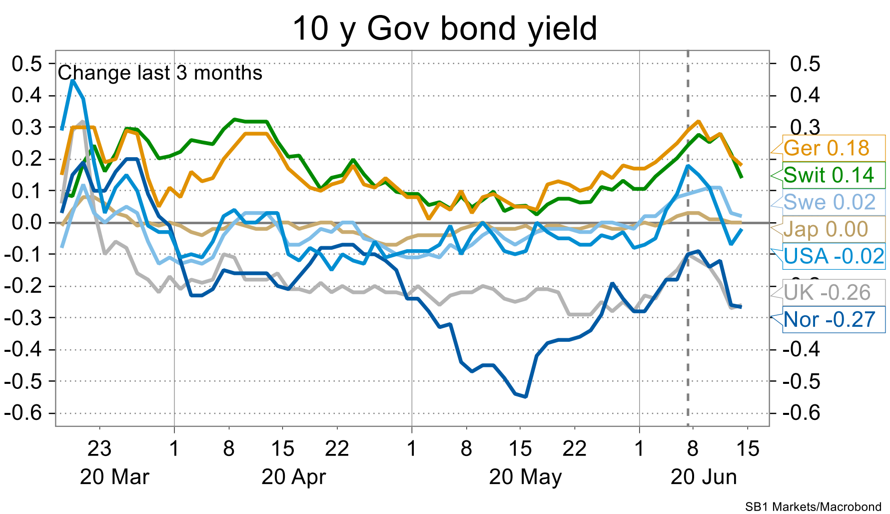
Market charts & comments

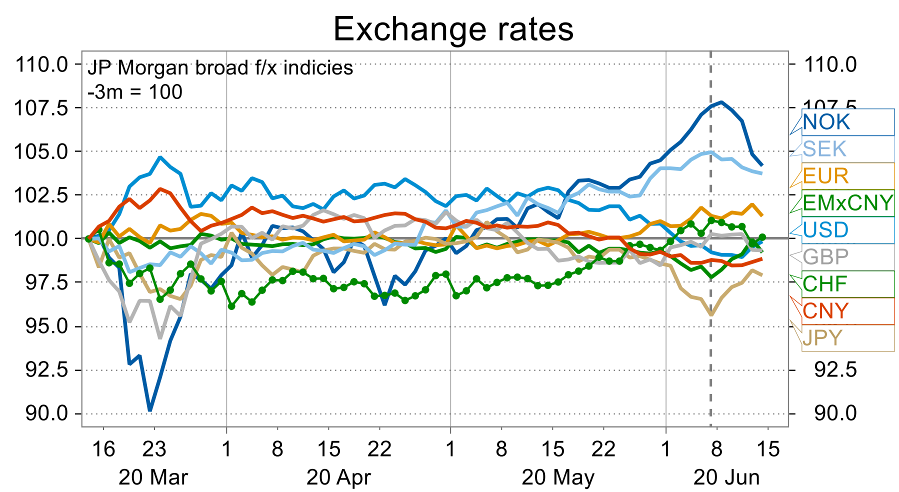
Some risk off, following some goods weeks (at least in average)

Stocks down, yields down, oil & metals down. And of course, the NOK. USD up





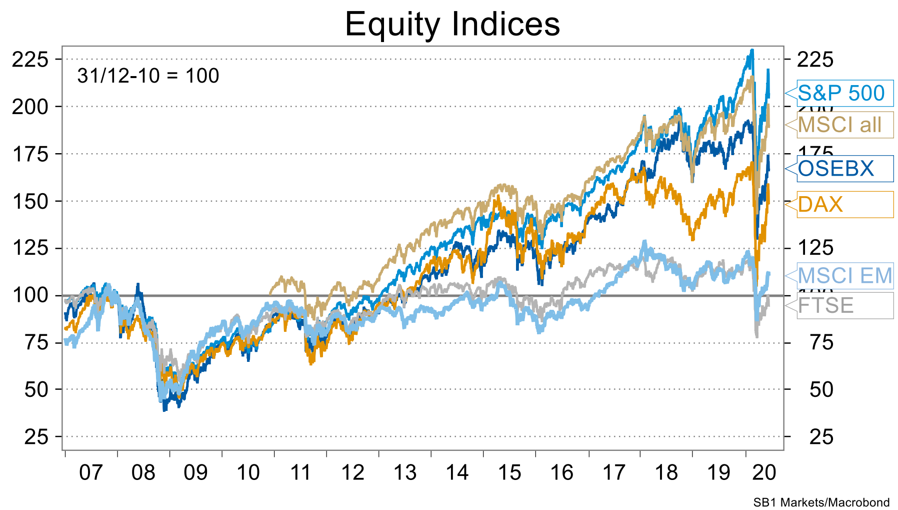


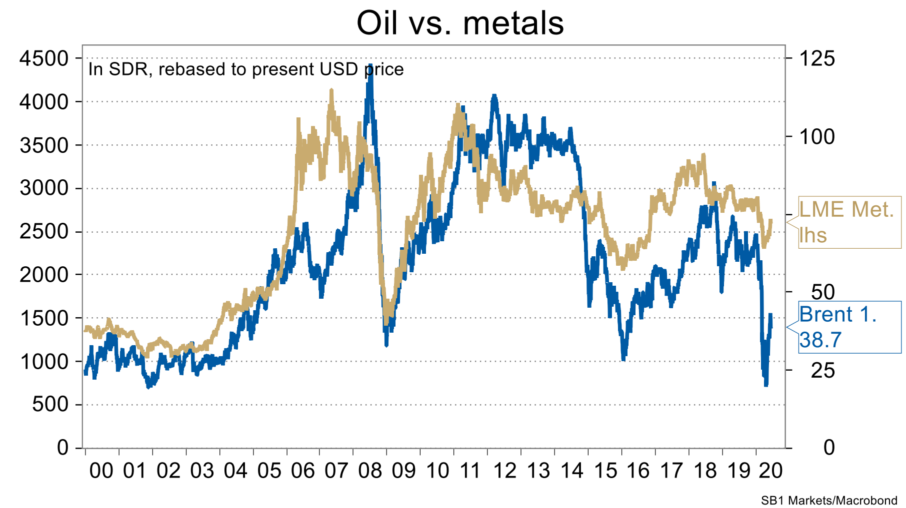


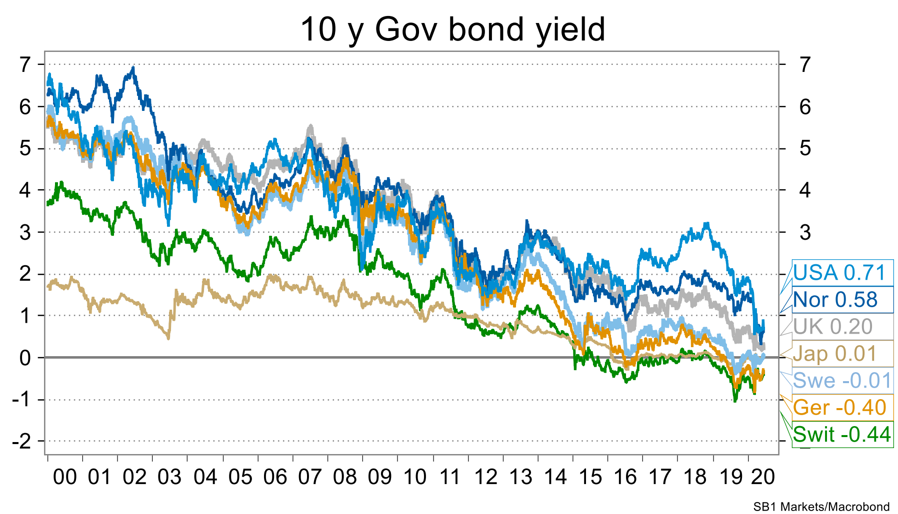
EUR, NOK & EM x China f/x on the way up. USD & CNY on the way down

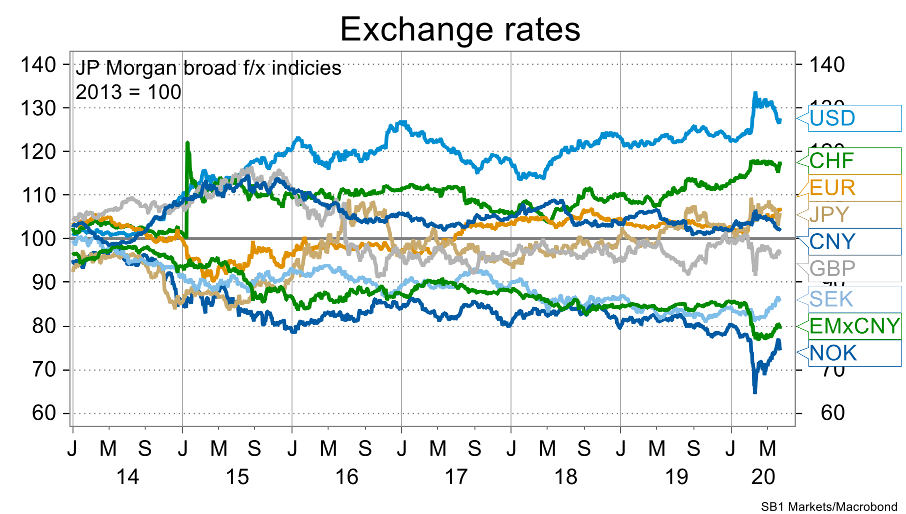
In the long run: Stock markets are looking like a 'V'

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





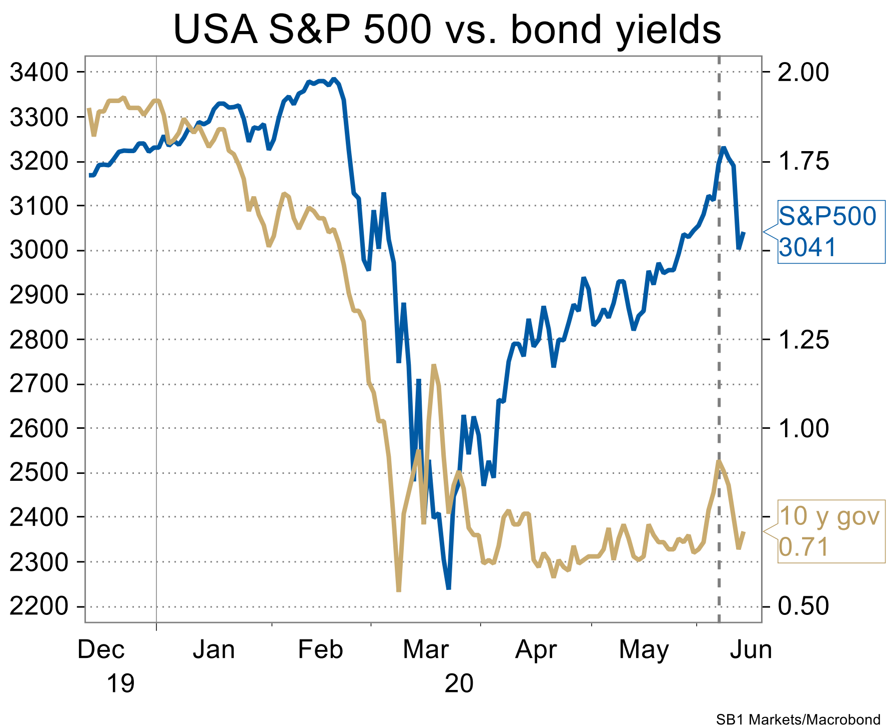


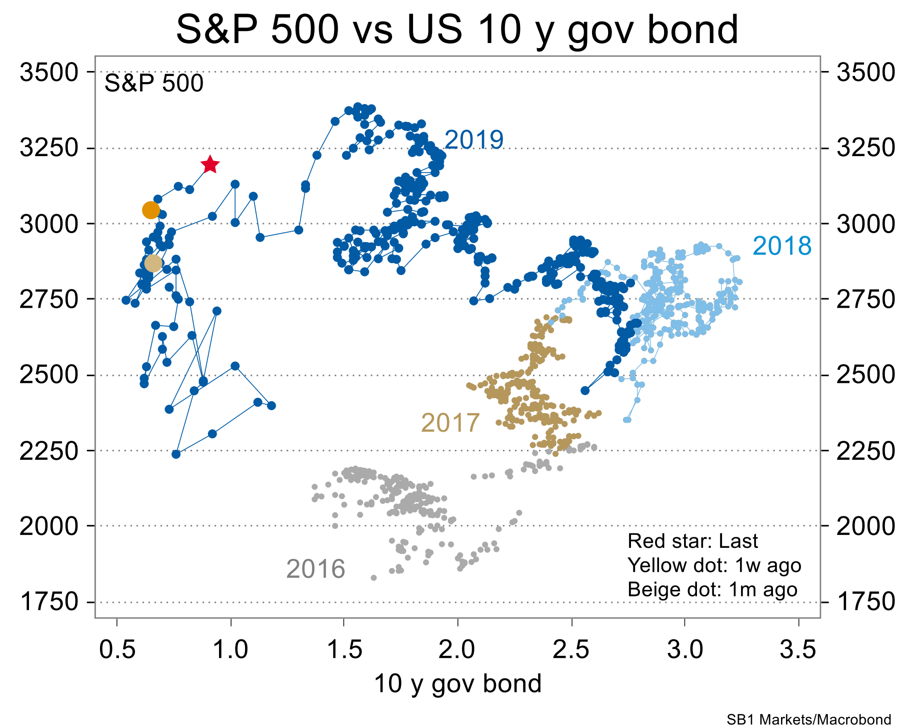


SpareBank 1 MARKETS

S&P up 4.8%, the 10 y bond yield down 20 bps to 0.71%

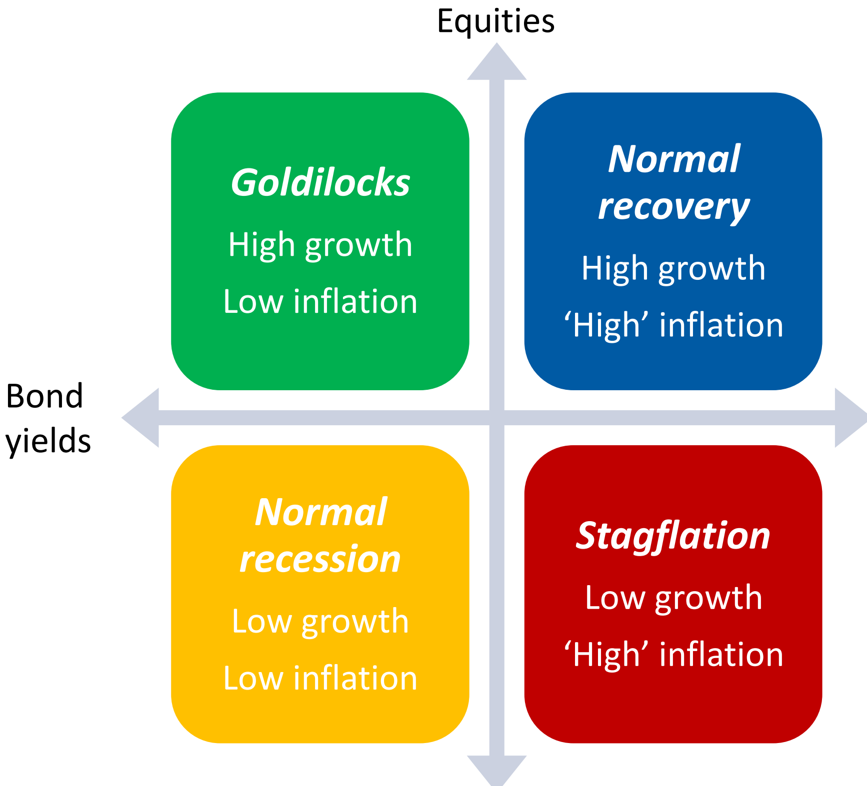
The stock market recovered just some of the Thursday's 5.9% setback

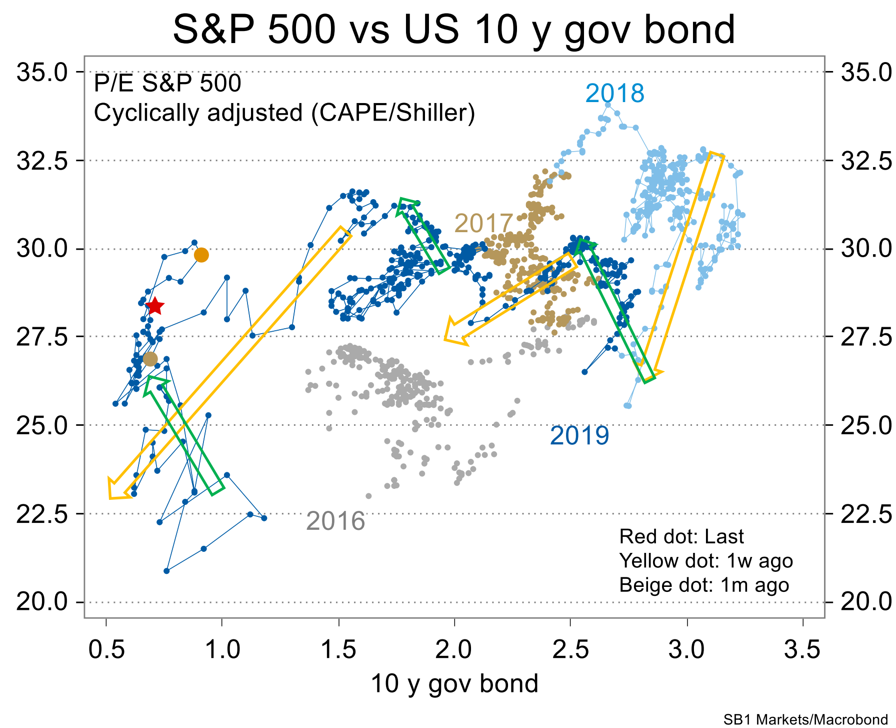




Last week: Towards the 'normal recession' corner again; stocks, yields down

Corona is spreading faster, the Fed is worried

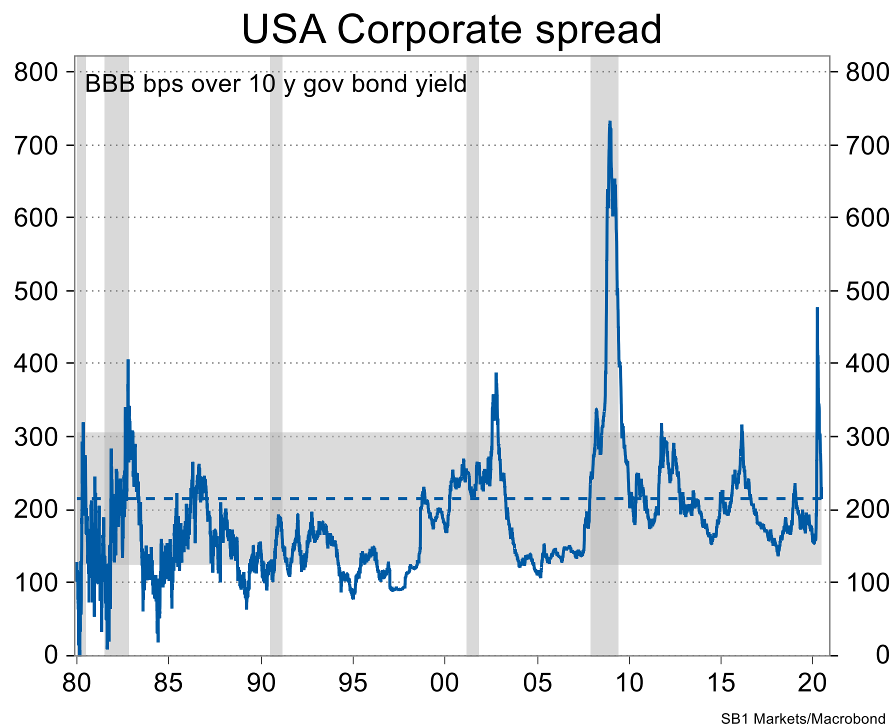


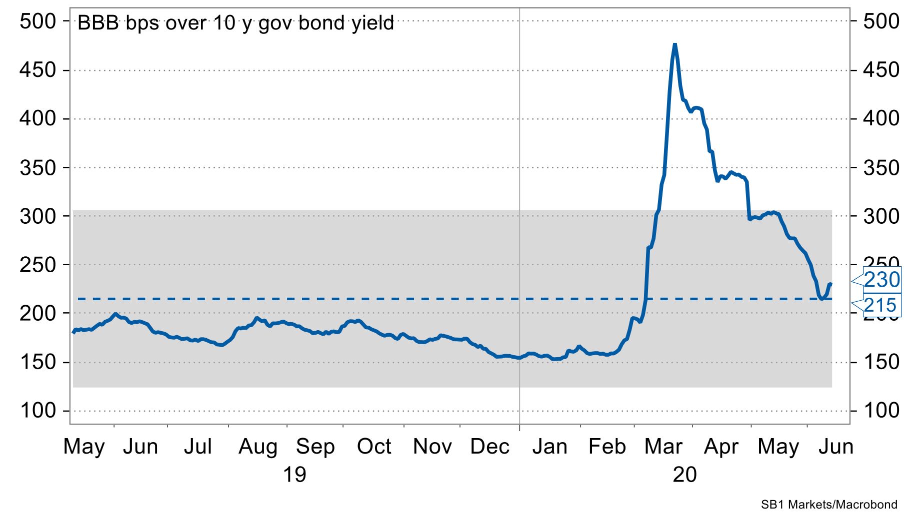


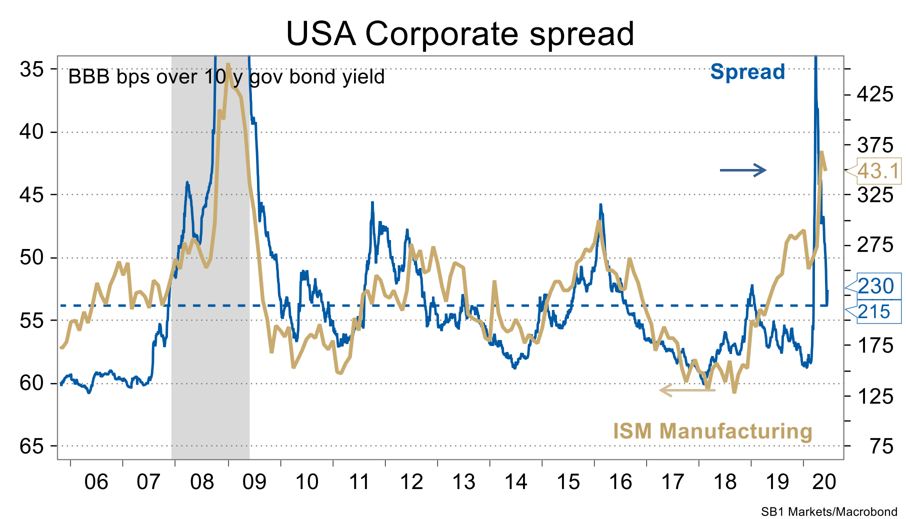
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic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

A huge narrowing since mid May. The US BBB spread just marginally above normal, a tad up last week



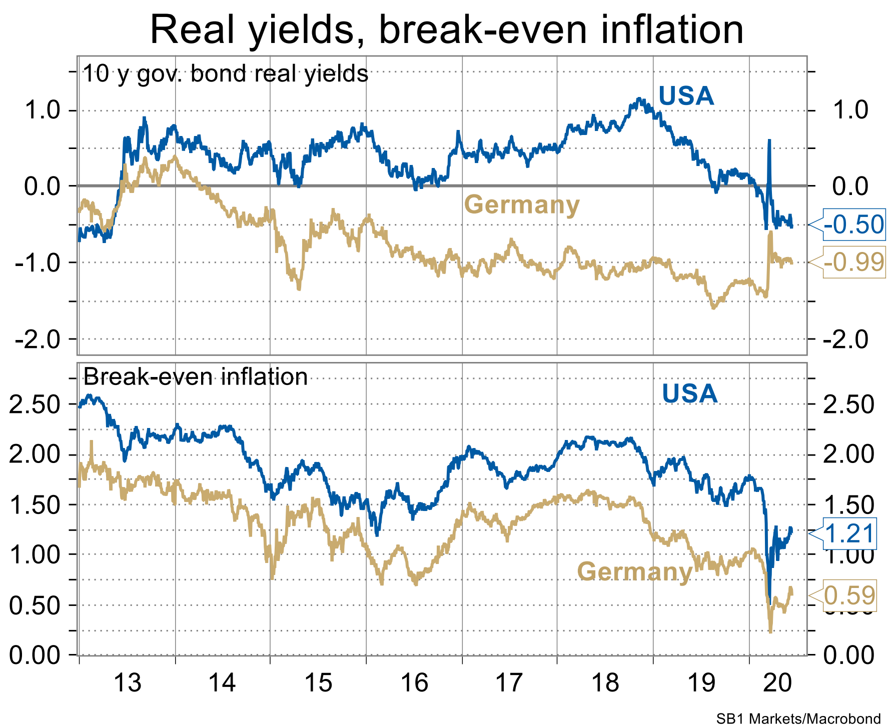


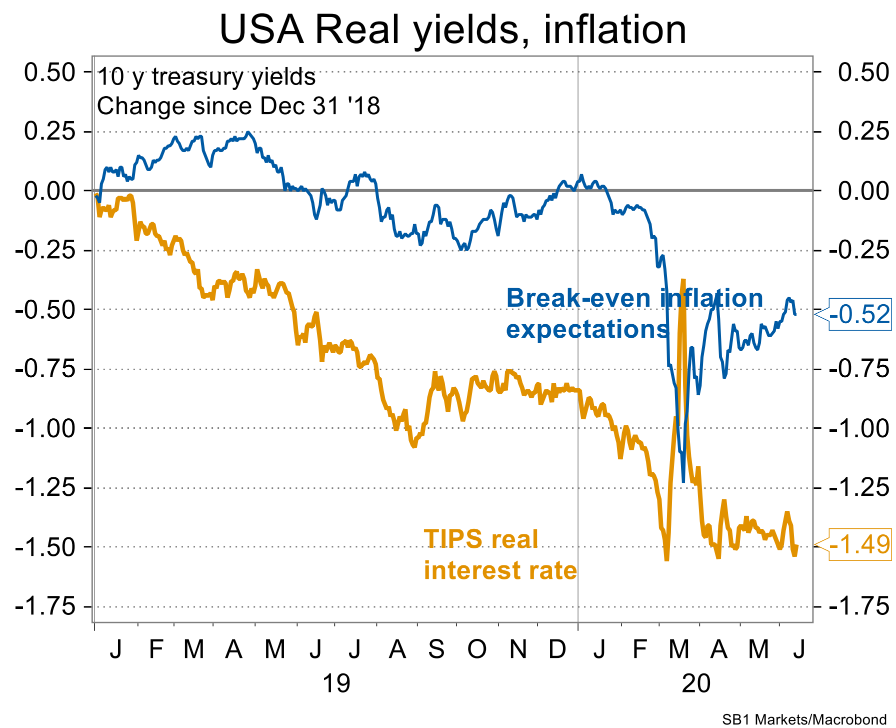


- Is the credit risk at an average level now??

Inflation expectations drifting up are still very low

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

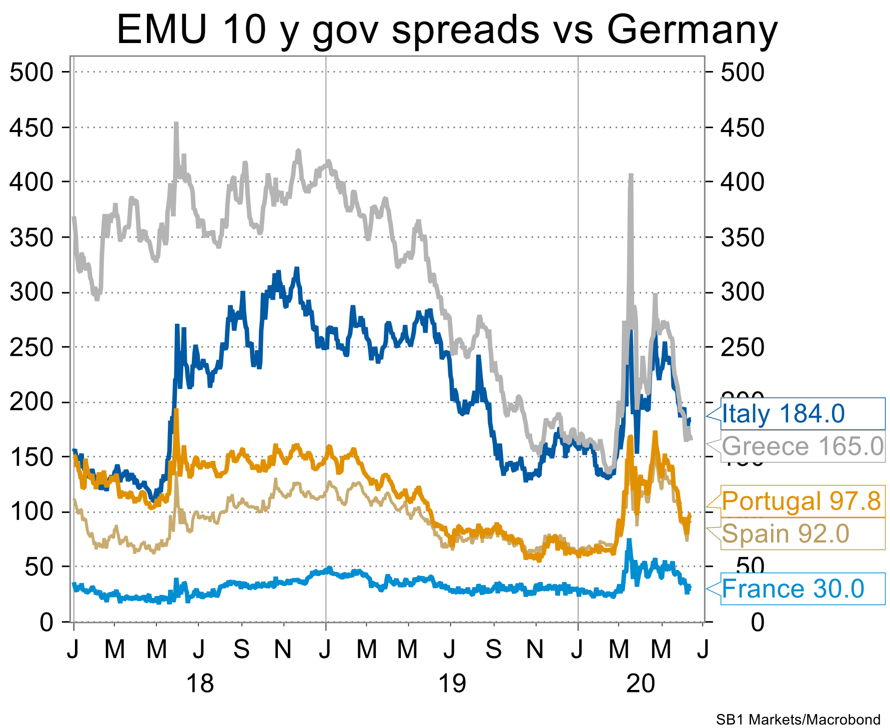


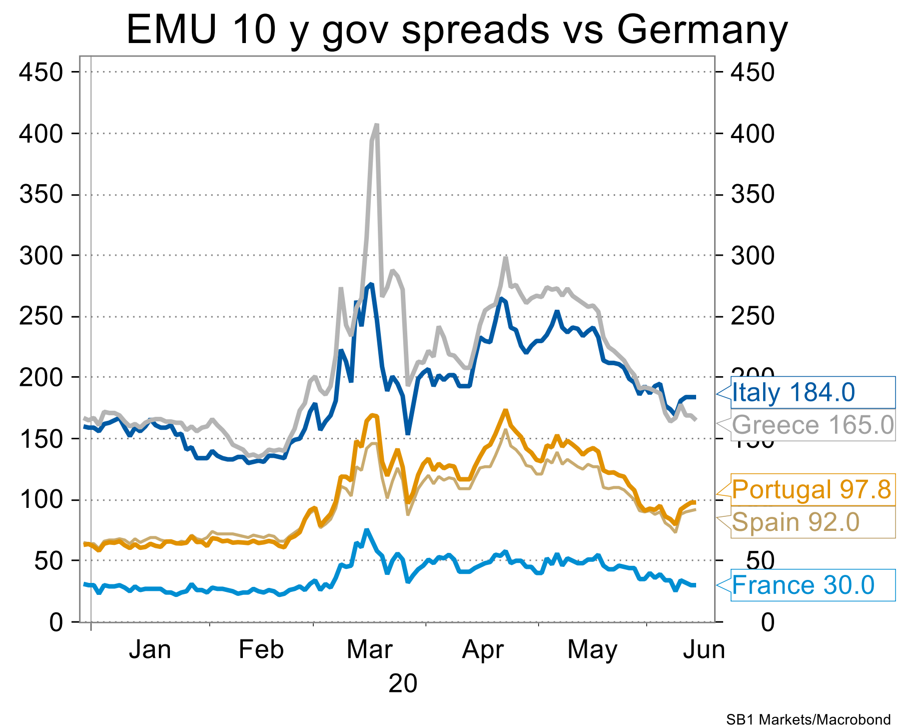


- Real interest rates are very low too

EMU spread marginally out following the policy induced narrowing

The ECB will buy more bonds, the EU help the struggling south with real common fiscal measures

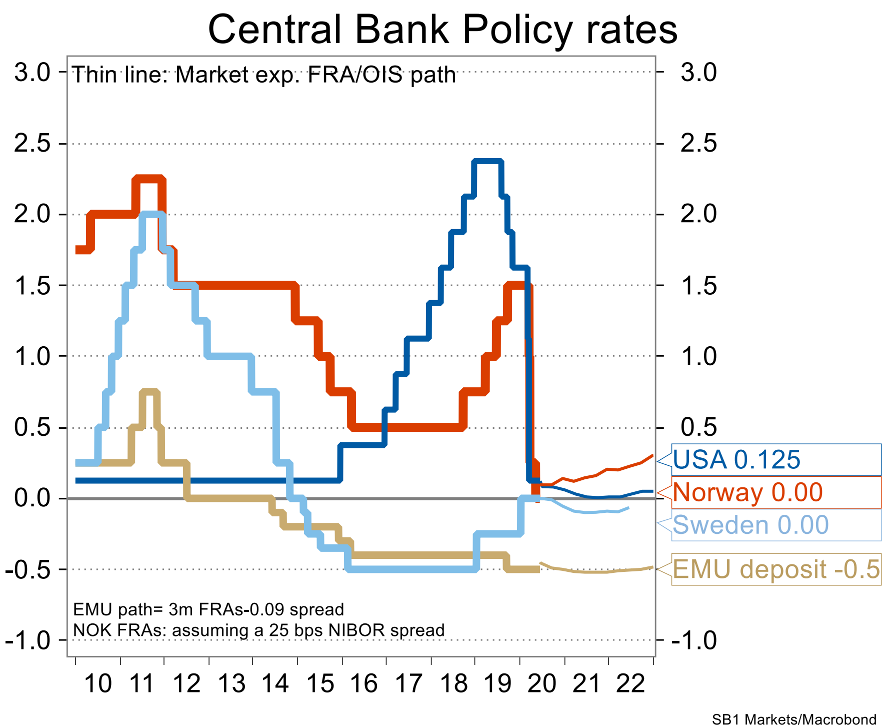


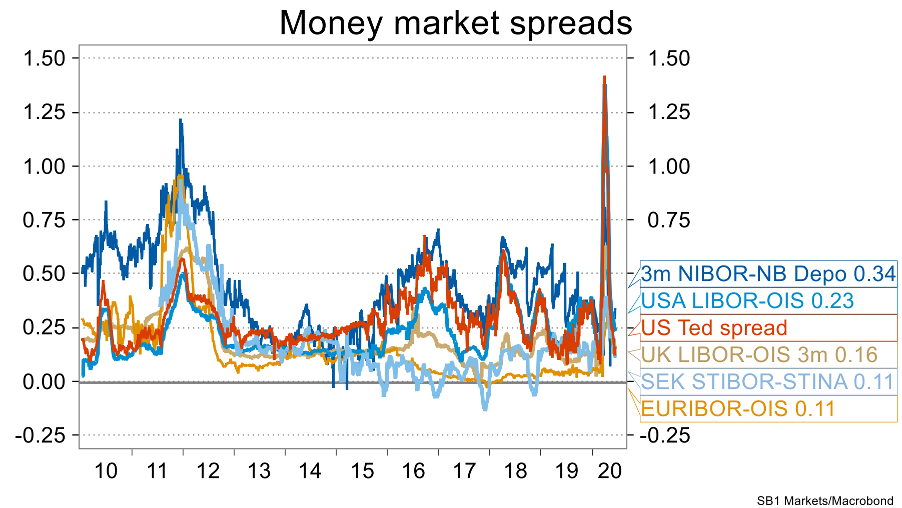


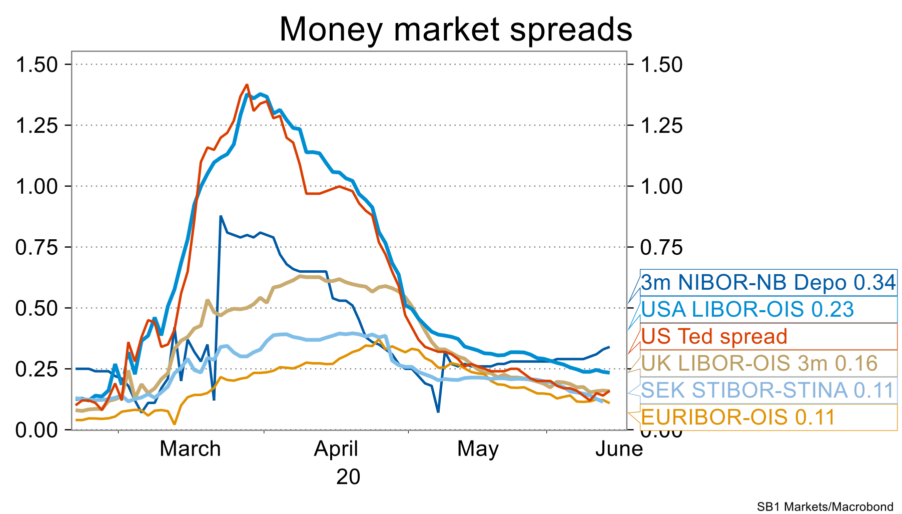
- The EU has not taken a decisions but the force behind the proposals are strong – and probably stronger than the Northern opposition

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

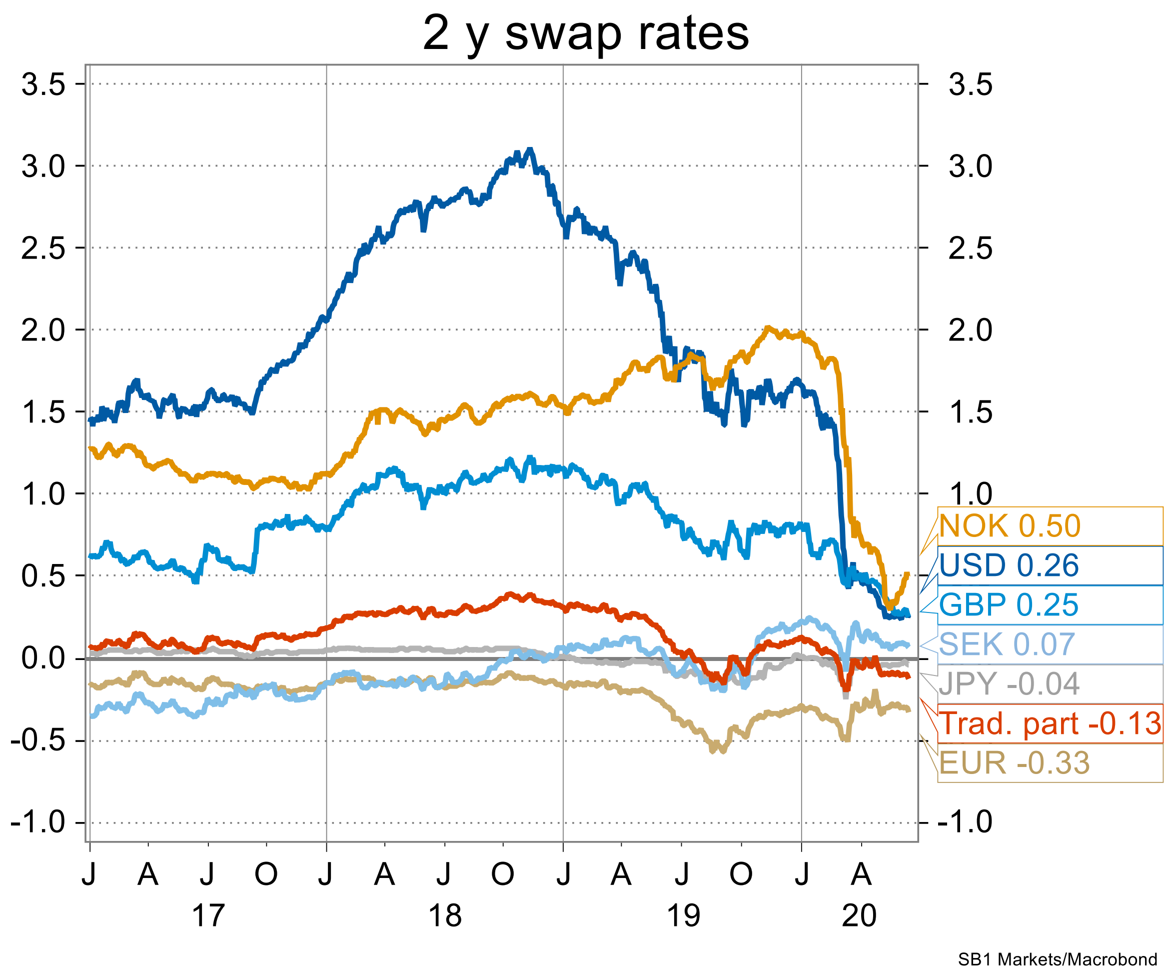
… especially in Norway

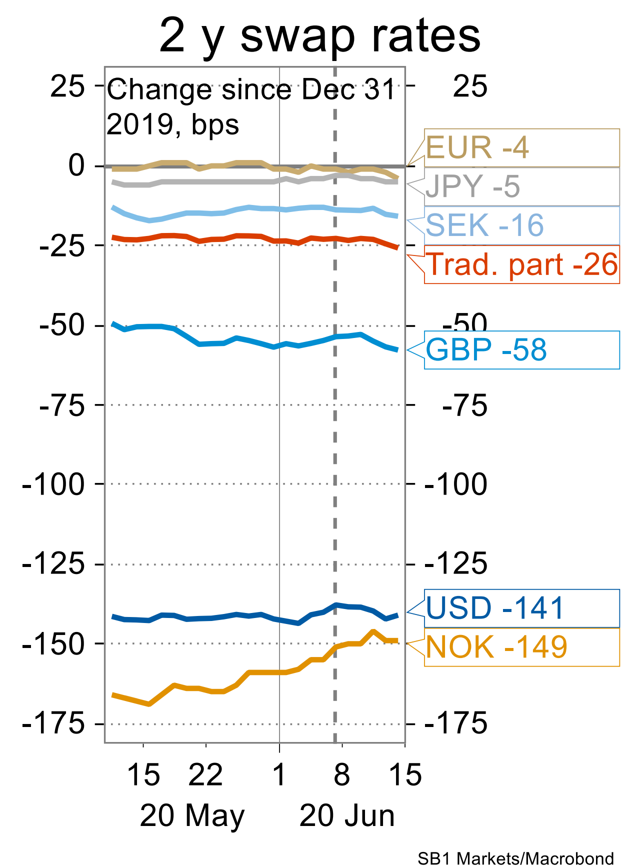




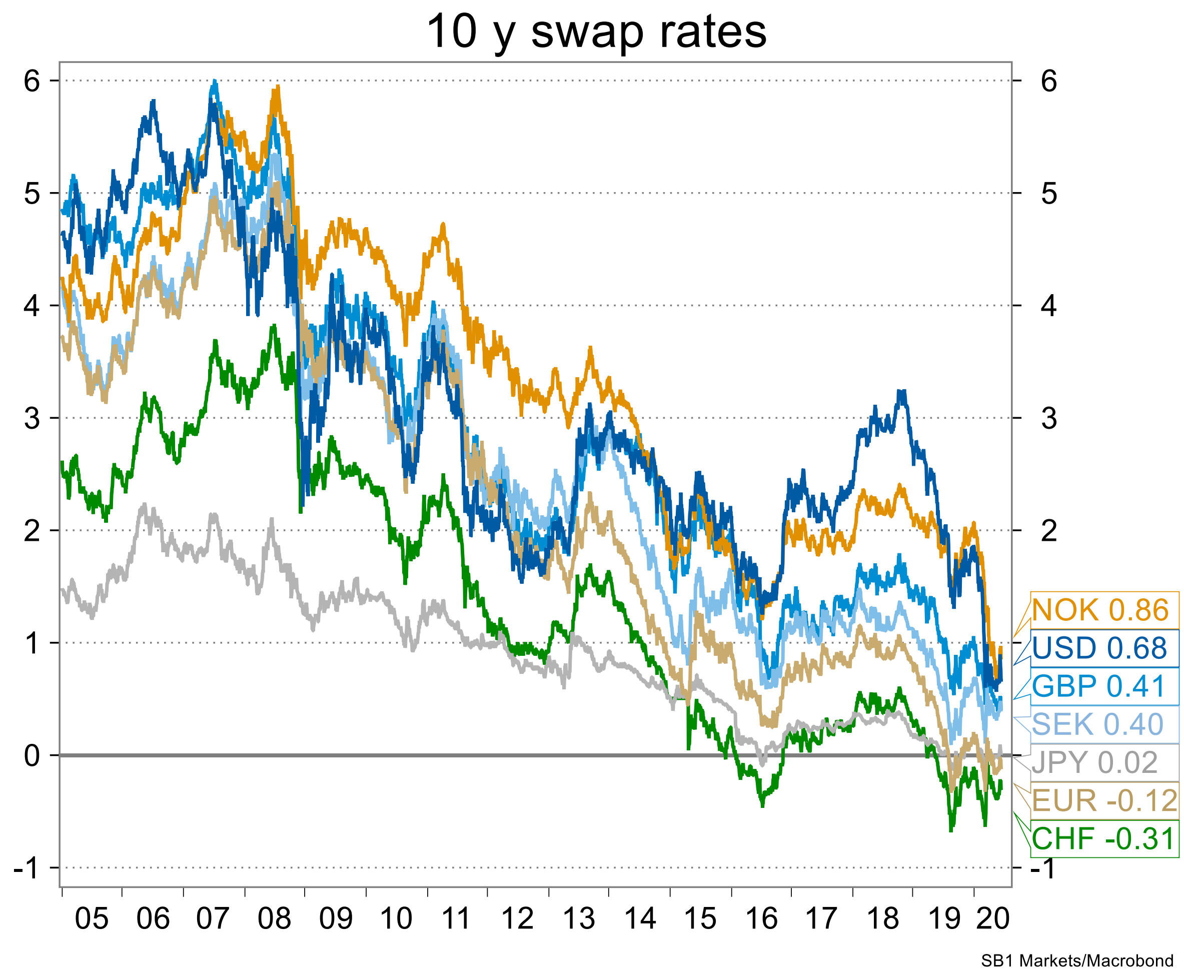


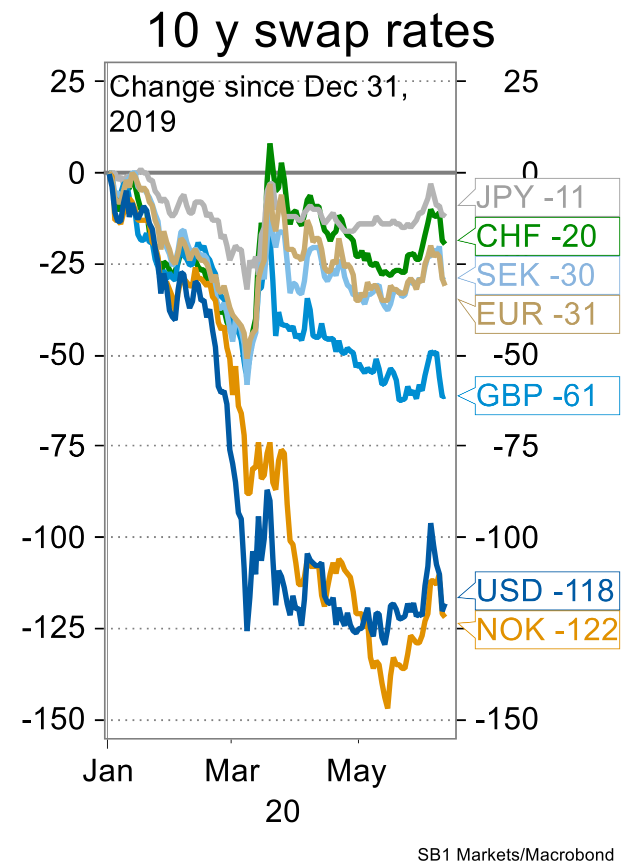
Short term rates marginally down abroad, not in Norway





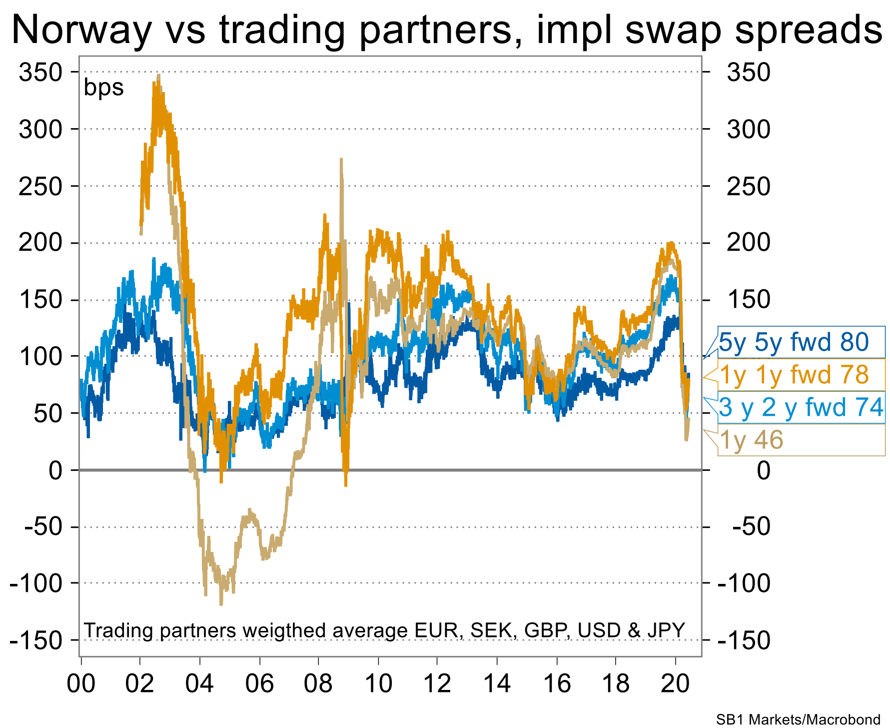
Down everywhere, most in the US

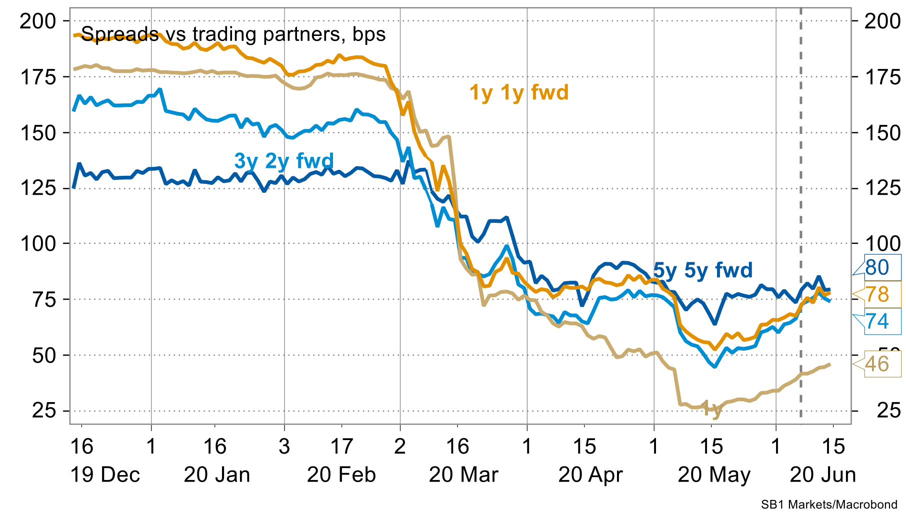


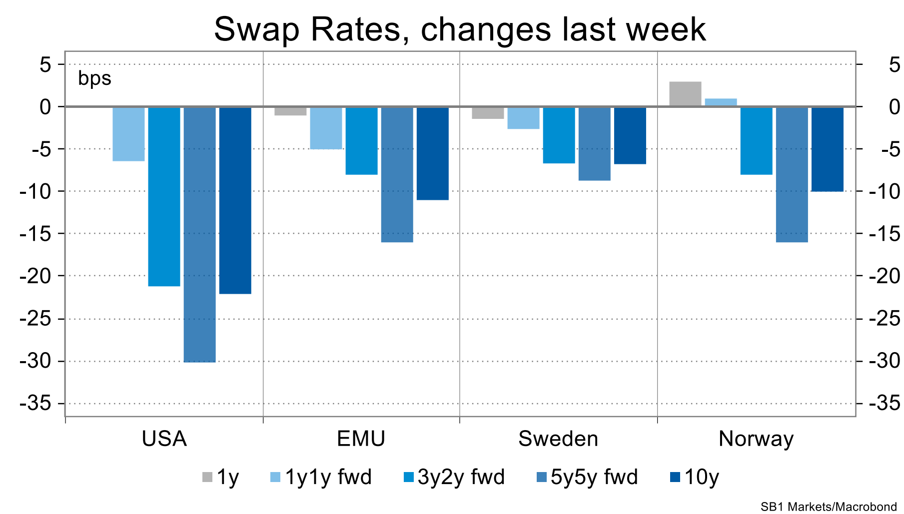


The curve down, marginally less in Norway than abroad

We are neutral vs. the spread following the 100+ bps decline since February

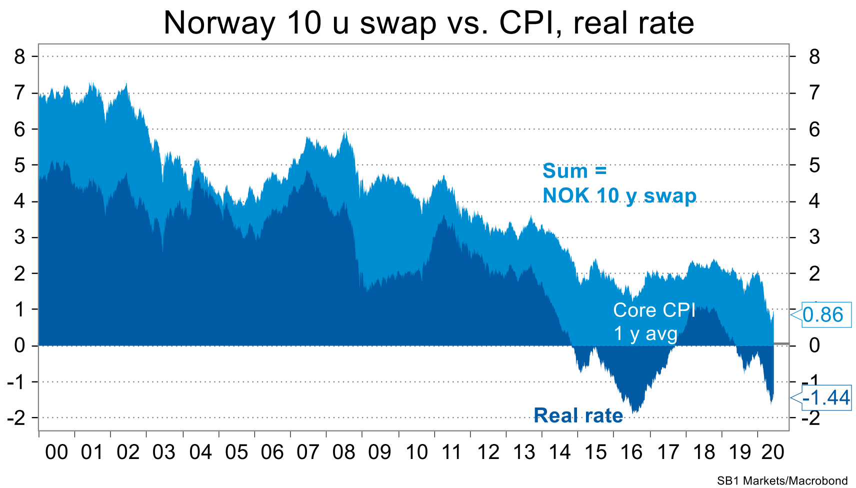




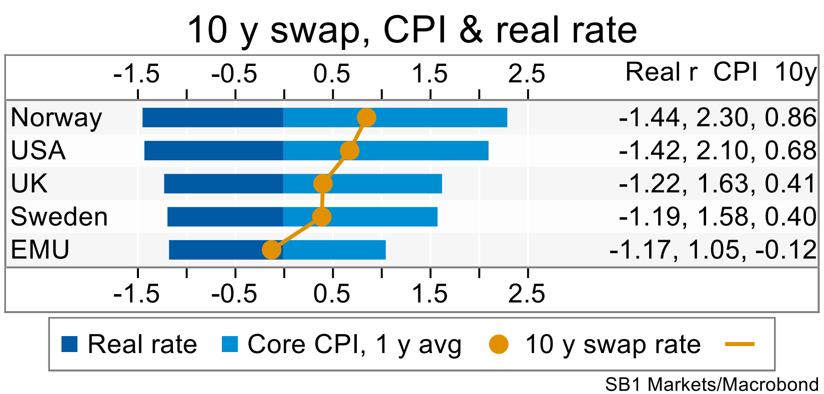


- Spreads vs. trading partners have fallen by some 125 bsp since early 2020 – have climbed some 25 bps since mid May
- We think the current level is far more correct than where we came from

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



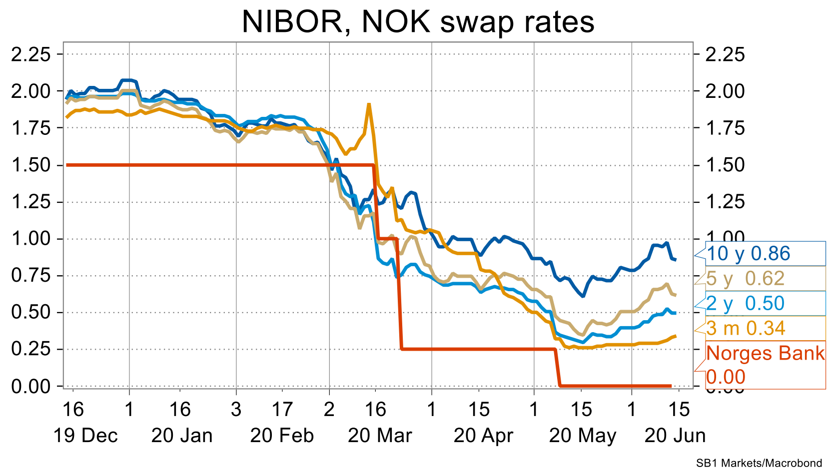
- NOK 10 y nominal rates down more than 1 pp since January
- Real rates are well below -1%, based on actual core annual inflation (smoothed 12 m)

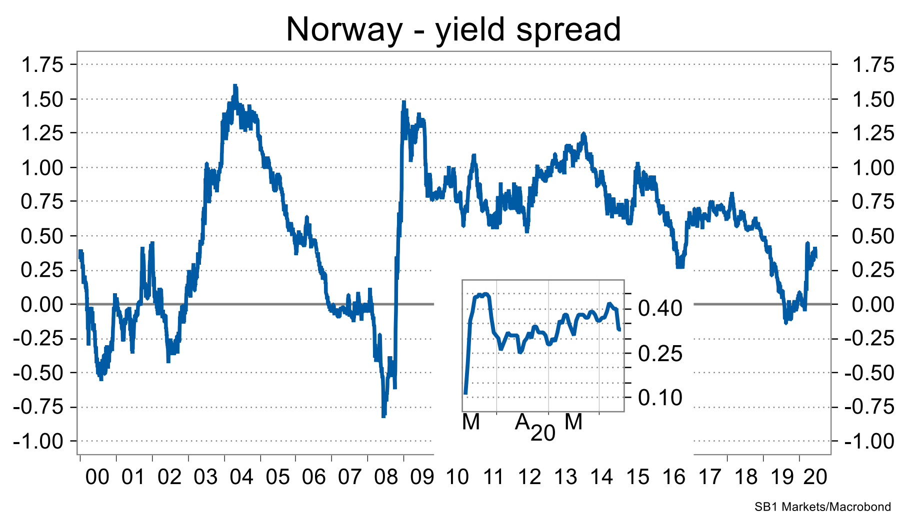


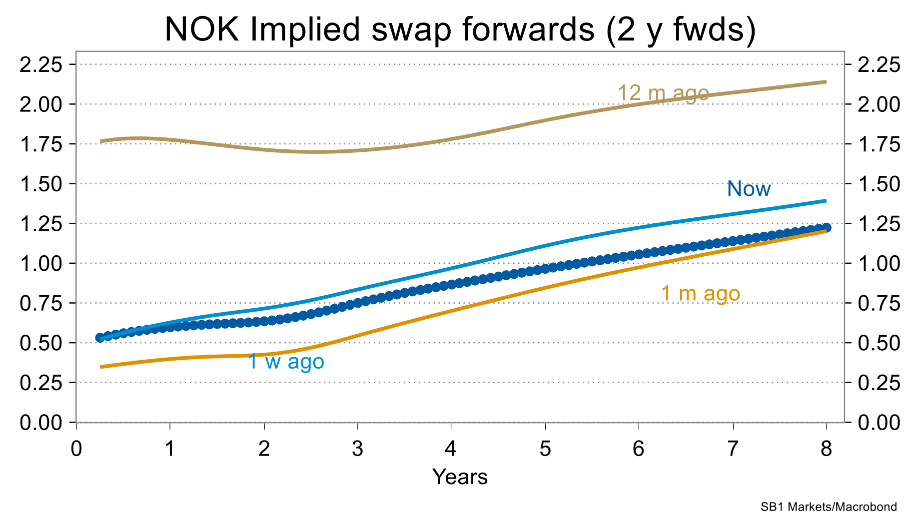
NOK real rates probably among the lowest

- 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 -1.2% (EMU) to -1.4 (Norway & US), measured vs the 10 y swap rates
- *Thus: Differences in inflation explains most of the differences in long term swap rates*

A curve flattener last week

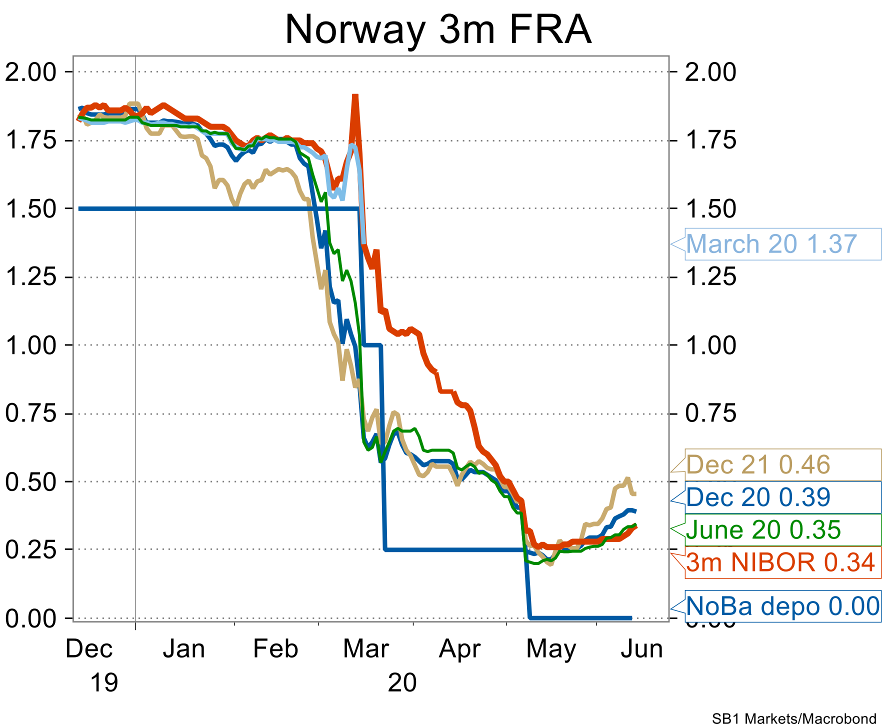


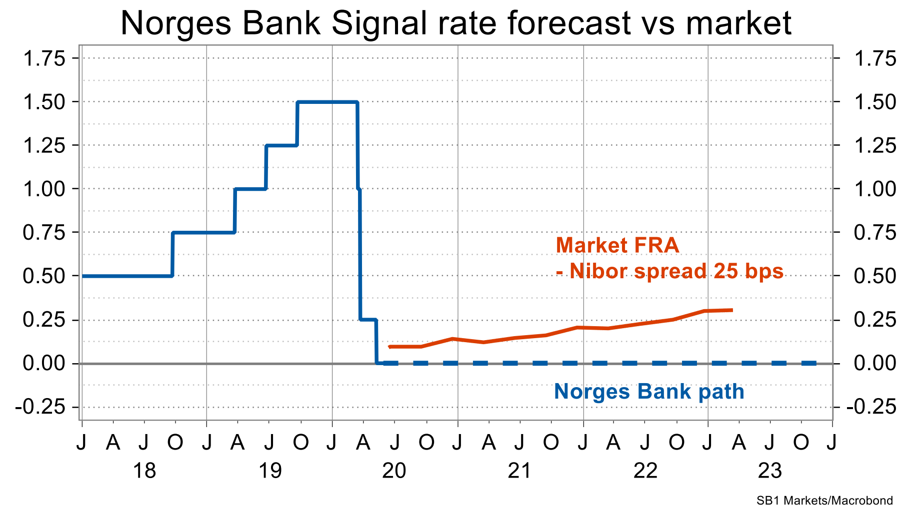


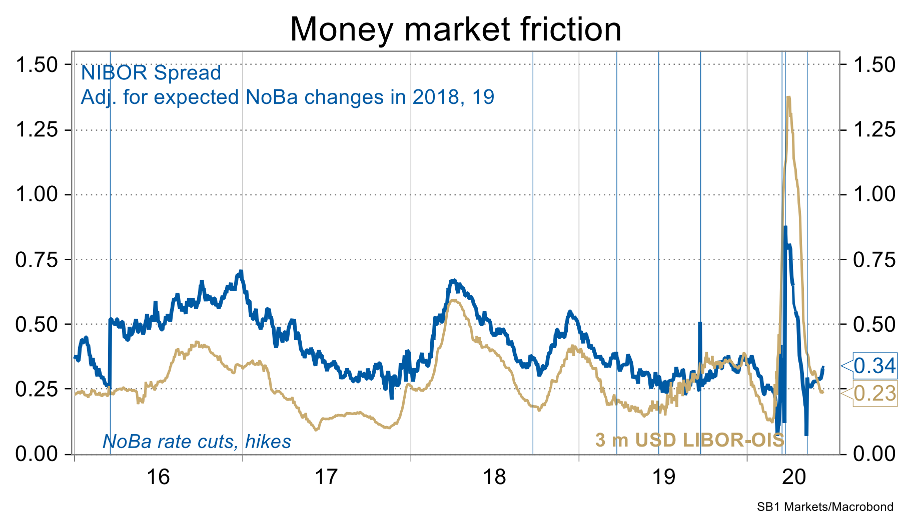


The 3 m NIBOR up to 0.34%, the spread widened (not due to rate hike expect.)

Longer dated FRAs down, is still pricing in a NoBa hike by end of 2021

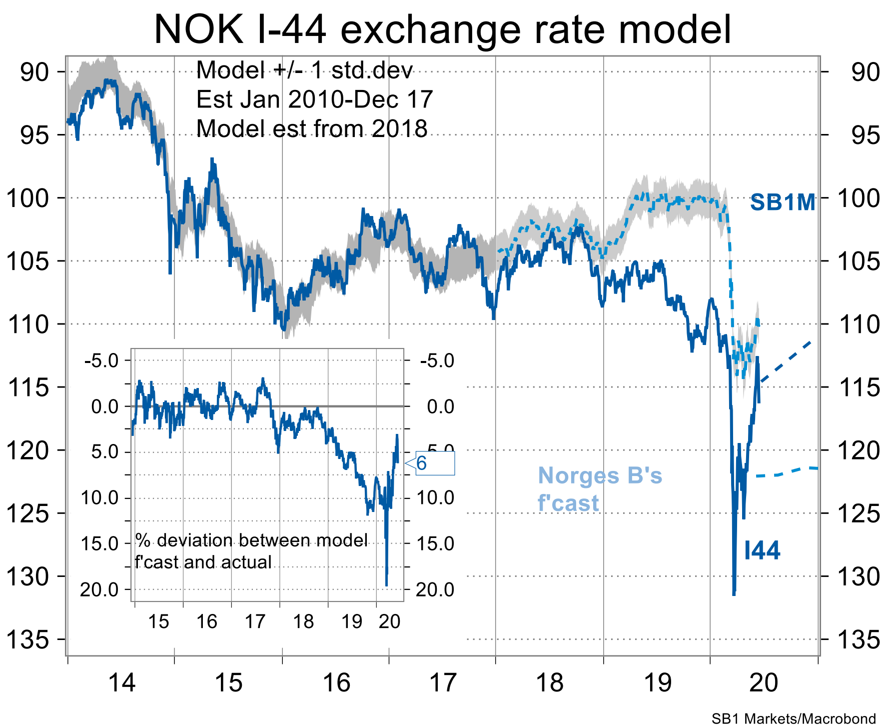


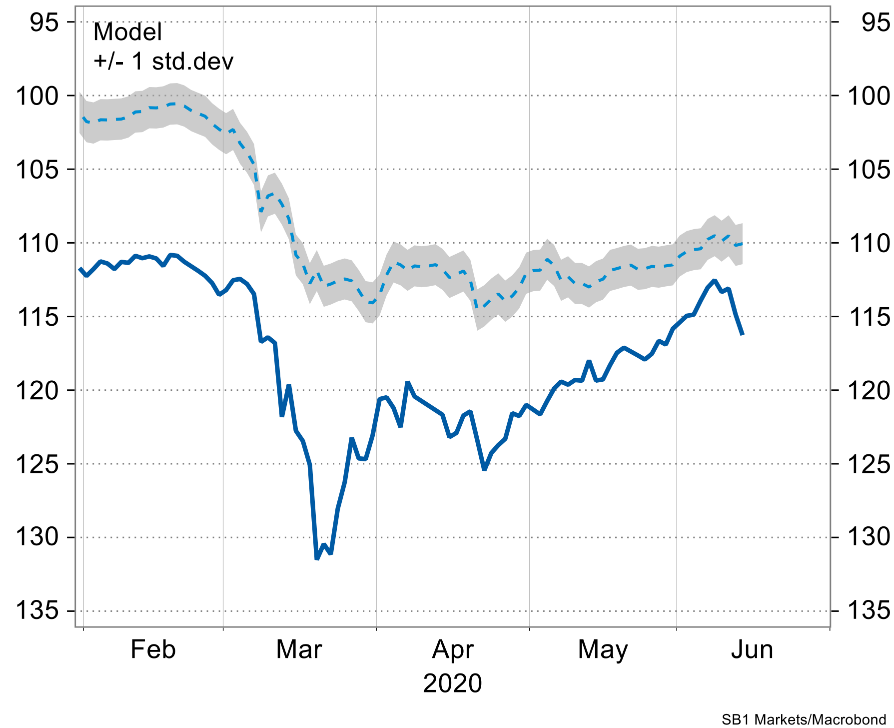




NOK lost ground, more than the oil price & our model can explain

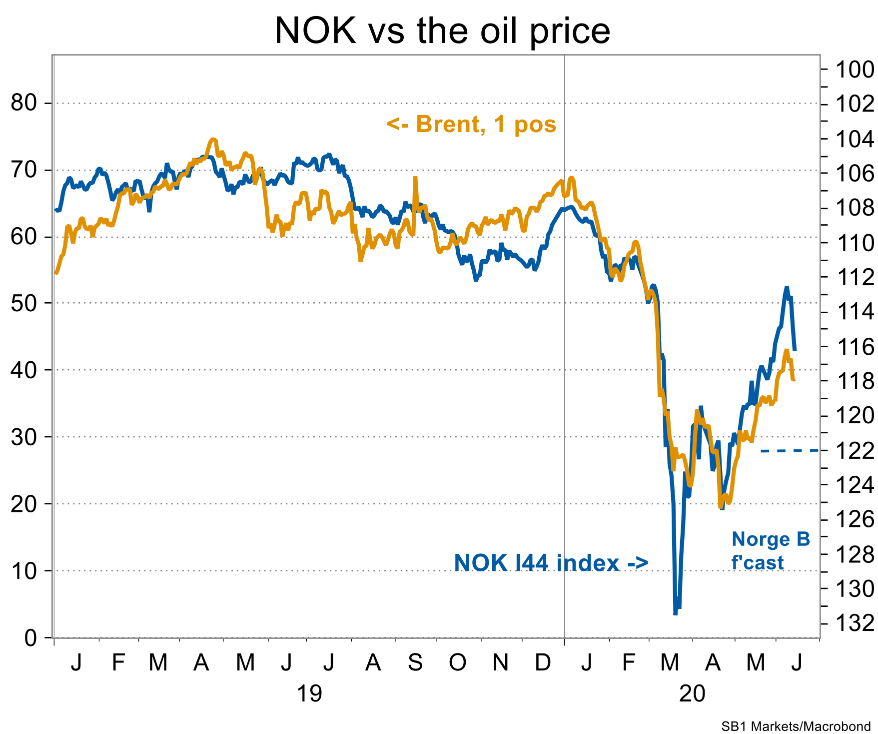
NOK down 2.8%, the model said 0.26%. The gap to the model forecast rose to 6%

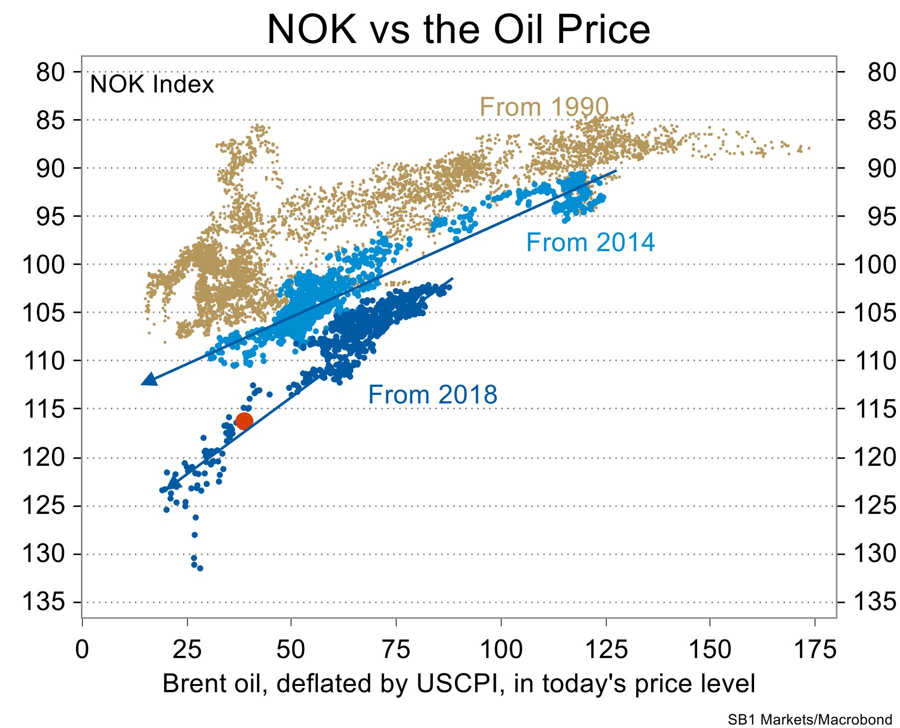




The NOK lost the lead vs. the oil price last week

…as the NOK fell 'more' 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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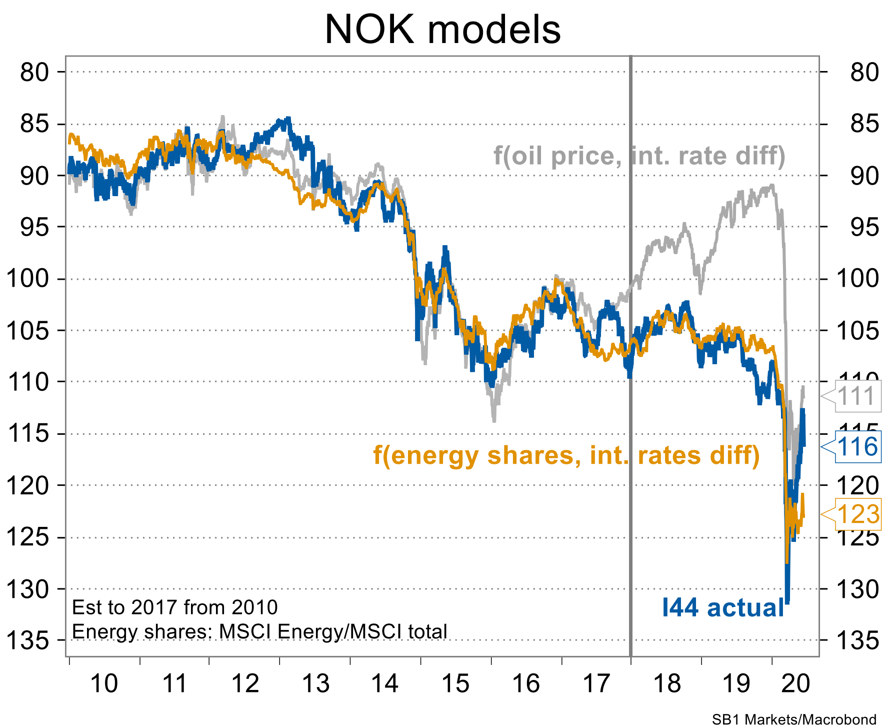
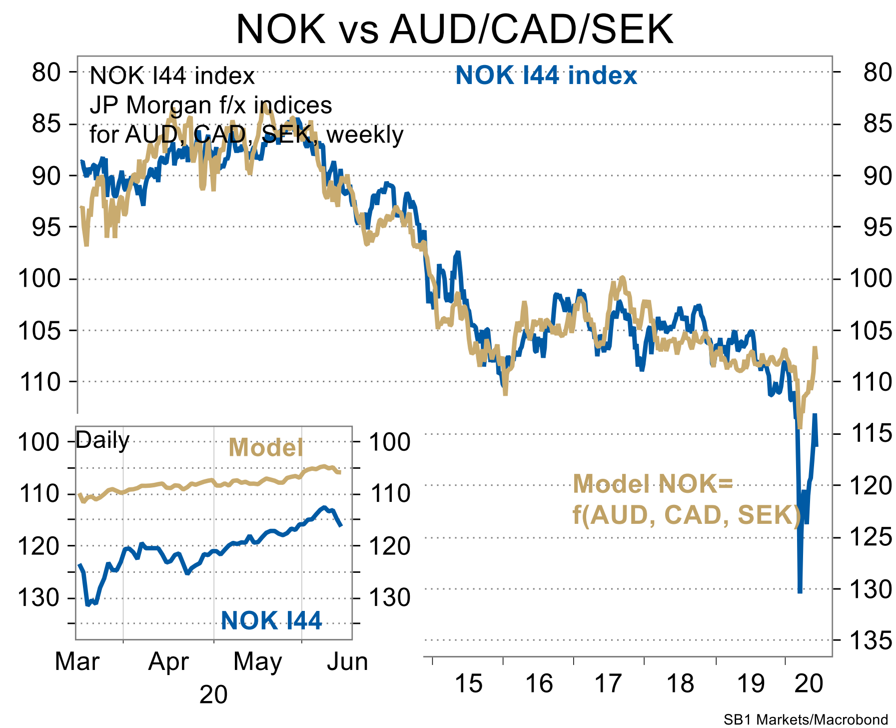
NOK 'stronger' than oil companies but weaker than the other supercyclicals

NOK is almost 10% too weak vs the 'supercycle' model but 6% 'stronger than oil companies

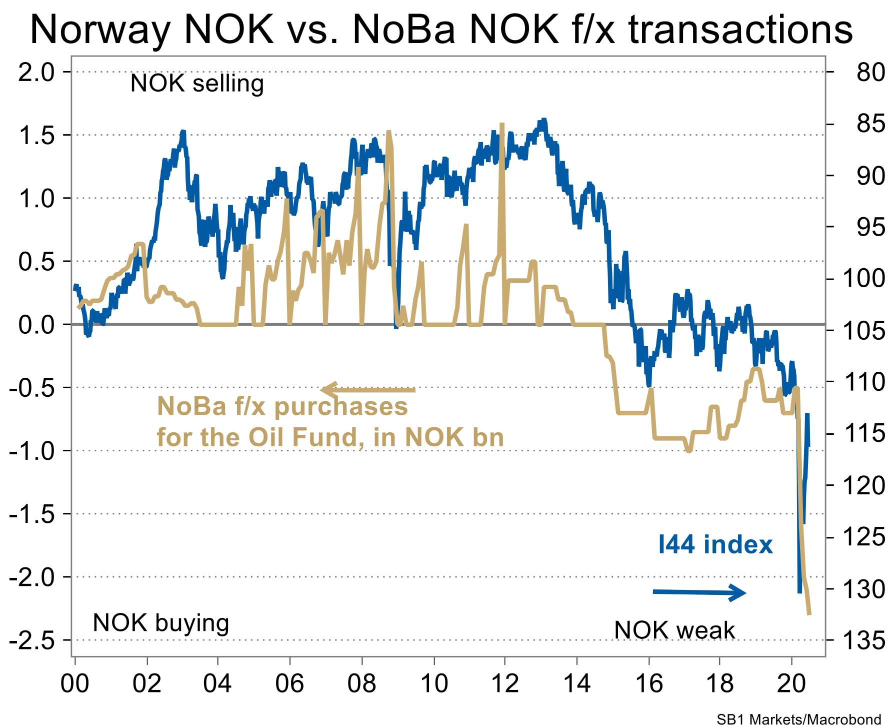


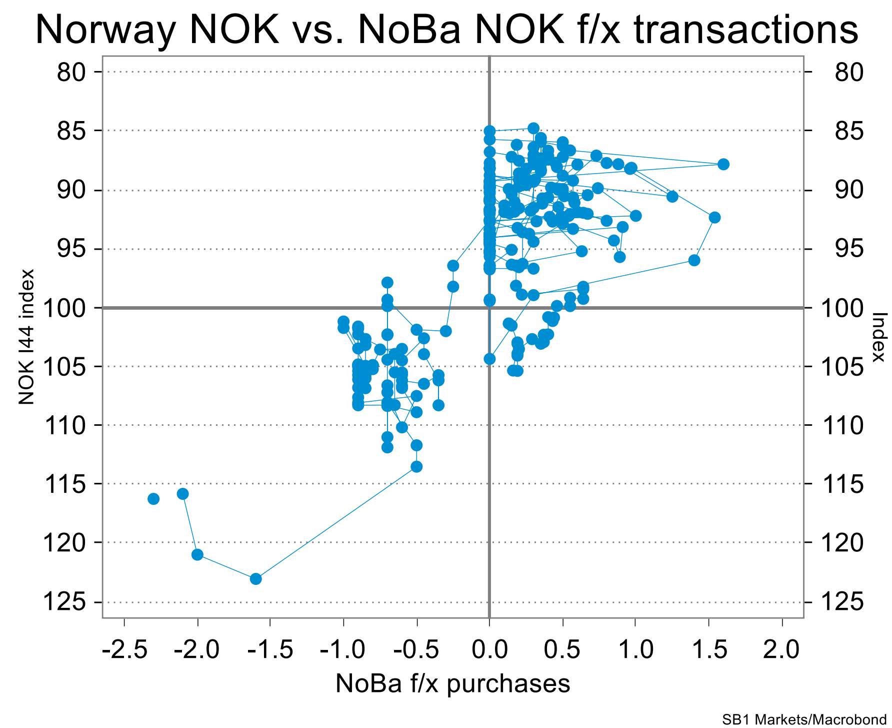


- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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

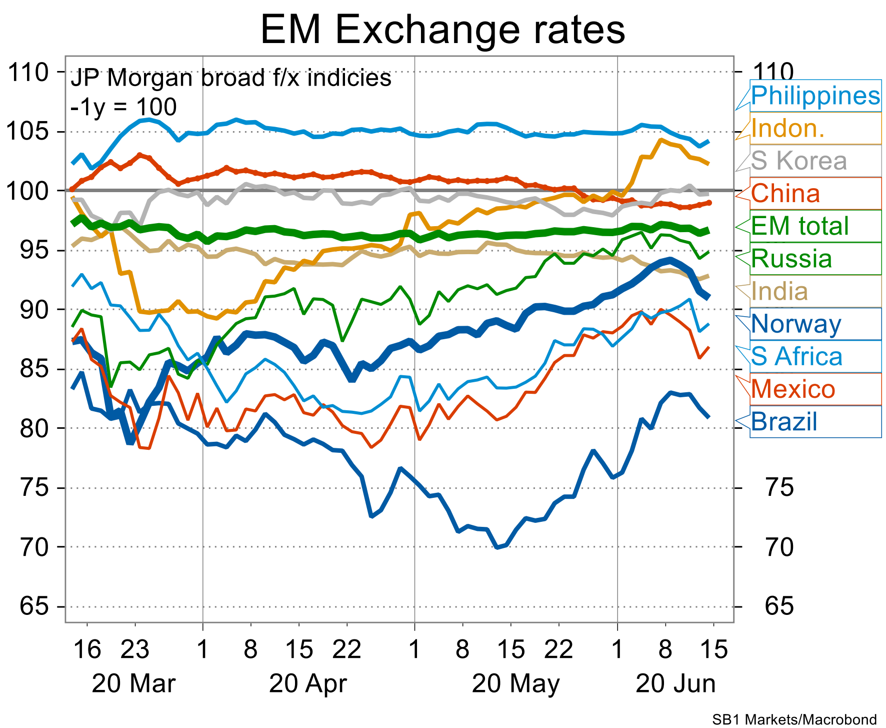


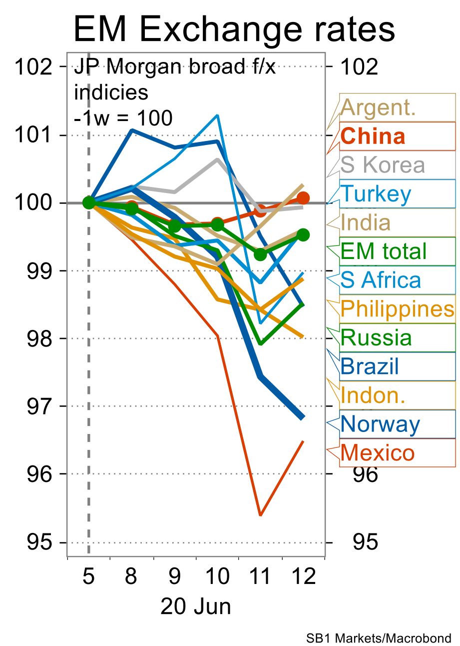


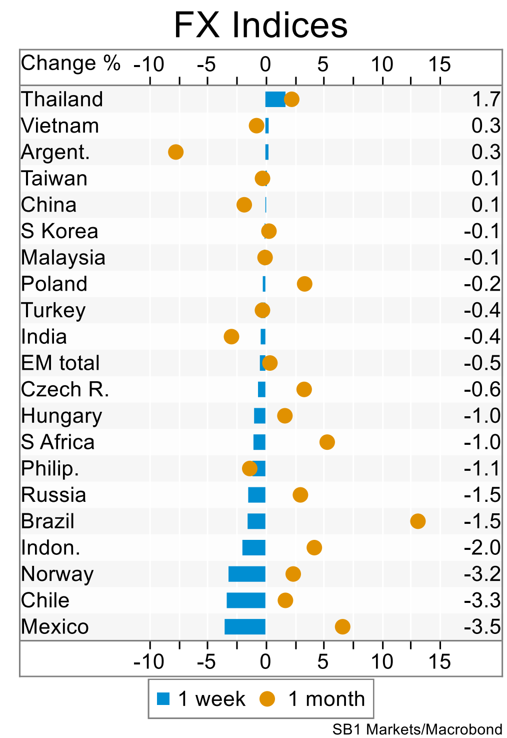
- The correlation do doubt has the wrong sign vs. the popular opinion on the matter. Why? Simply because not everything is equal when NoBa has to buy NOK in the market to fund the government vs. when NoBa has to buy f/x for the Government
- The need for NOK (or f/x) equals the ex oil government budget 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 down last week but up last month

The Chinese CNY marginally, others down (together with the NOK)

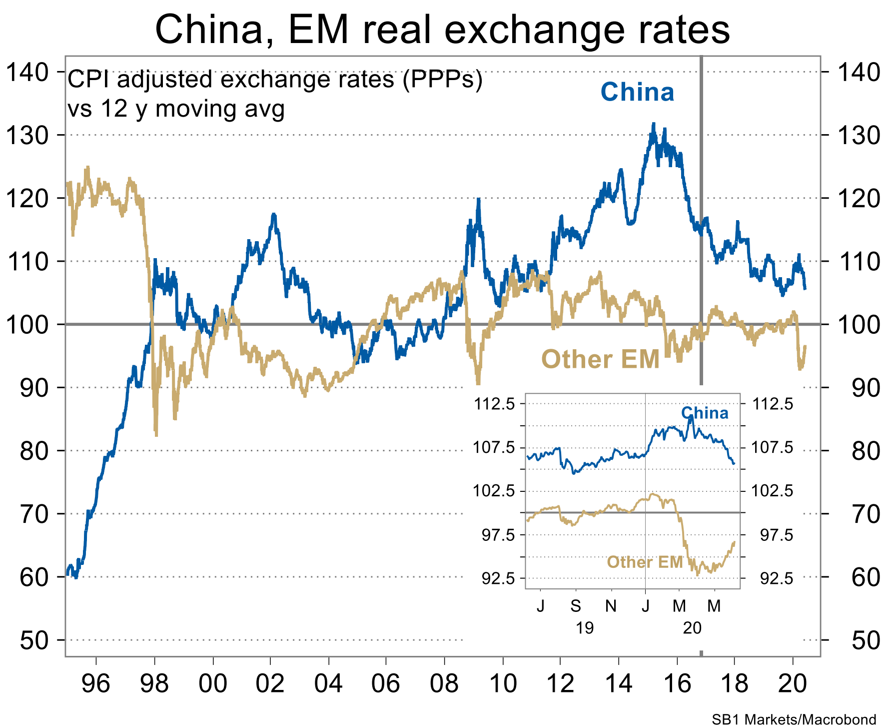


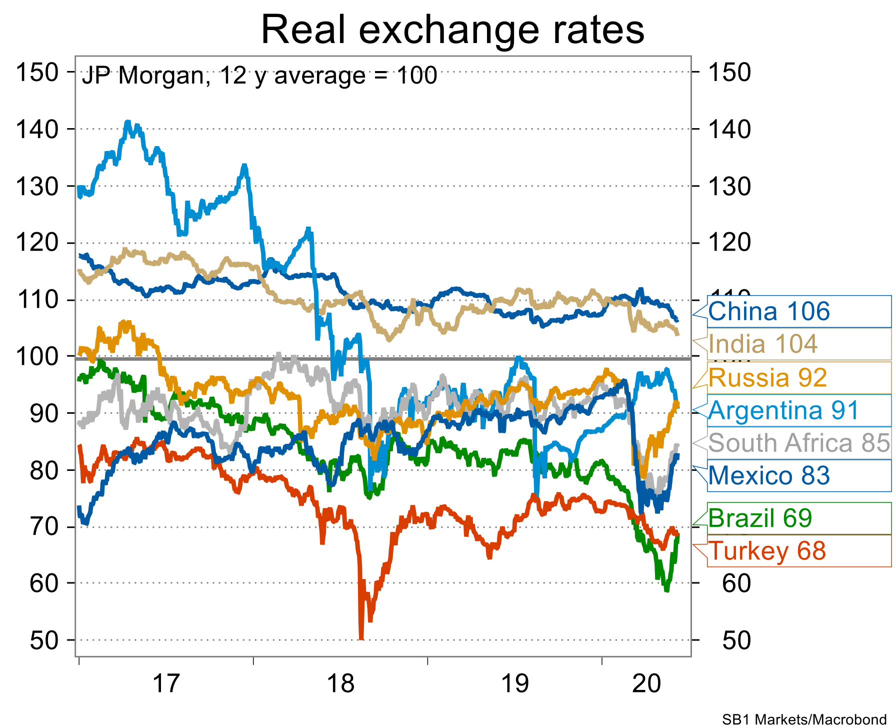




EM currencies are recovering from a not too dramatic depreciation

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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