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Macro Research

Weekly update 27/2020

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

Last week – the main takes

- Several US states have **reversed easing of Covid-19 restrictions**, others have **halted further easings** as the number of new cases is increasing, in some states at an alarmingly speed. In Florida, the 'R' reproduction number has climbed to 1.8, and the no cases doubles every 8 days (11 x per month, exponential…), and the no of daily cases will reach the peak NY level in 3 – 4 days, though at far higher speed of growth! Bad data for many other states as well, as for US total

- **The global PMI** rose sharply in June and more than preliminary readings implied, up almost 12 p to 48.0 (still our estimate). Almost all countries reported higher PMIs but not many were above the 50 line, even if almost all activity indicators turned up in May and short term indicators have signalled further growth through June. Thus, the PMIs are lagging actual activity. Japan manufacturers reported the weakest preliminary June PMI (and production fell further in May, like in S Korea), while both **European and US PMIs** rose more than first reported (and national European and regional US surveys followed suit). Services more or less closed the gap to manufacturing. Exports orders are still lagging domestic orders but not by much, and in the US, companies are reporting shrinking delivery times (in the ISM index, where other details were strong too). **No signs of seriously damaged supply chains? China** reported the best PMIs in several years

- **Auto sales** recovered further in the US and Europe but sales are still 25% (US) or 30% (EMU) below the pre corona level. More sales data out this week

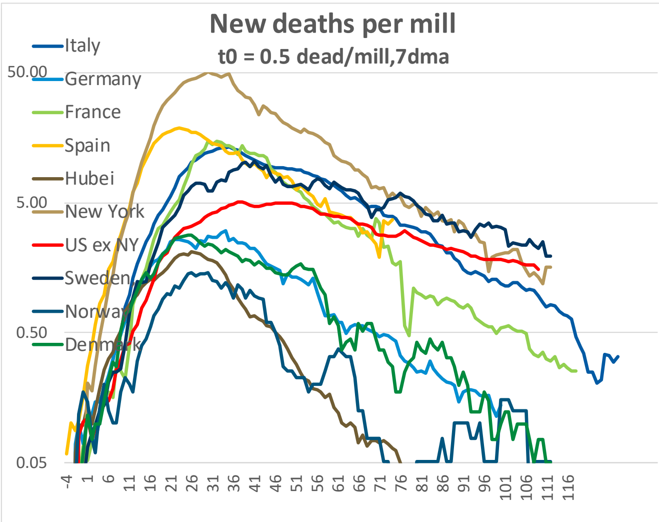
- **The US labour market** surprised at the upside in June too, employment rose sharply, and unemployment fell more than expected. Still, employment is still 10% below the pre corona level, and just 1/3rd of the decline is so far reversed. The real unemployment rate is far above the official 11.1% - and 11% is a high rate

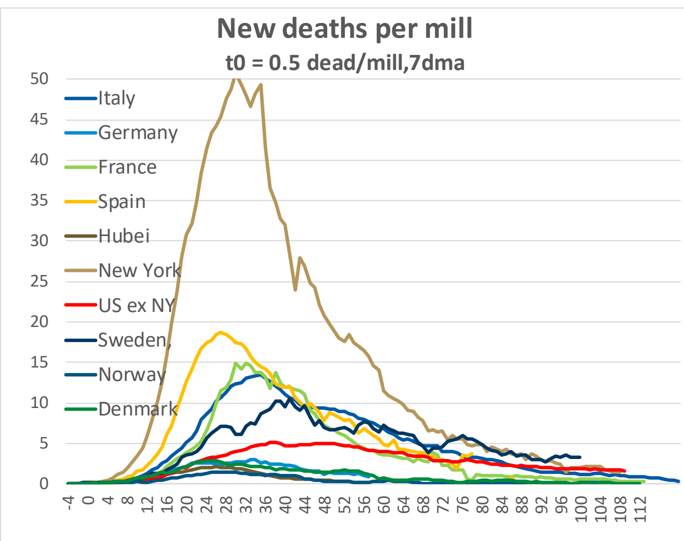
- **Retail sales shot up in Germany and Spain** and very likely in rest of Europe in May – in Germany to well above the pre corona level. Inflation is heading down

- **Norwegian house** prices rose 1% in June, and prices are now above the February level, as we expected (but we did not 2 months ago!).Prices are up 3.5% y/y. Stavanger is still a laggard, while Oslo is in the lead the past two months. Credit may be flowing more freely (regulations are eased) but that did not turn up in May credit data – household credit is slowing further. Corporates increased their debt more than we assumed in May – and overall credit growth was unchanged at 4.6% y/y. Unemployment fell further in the last week of June. Open unemployment is cut in half from the peak, but is still way above a normal level – and total unemployment is just down 1/3rd from the peak

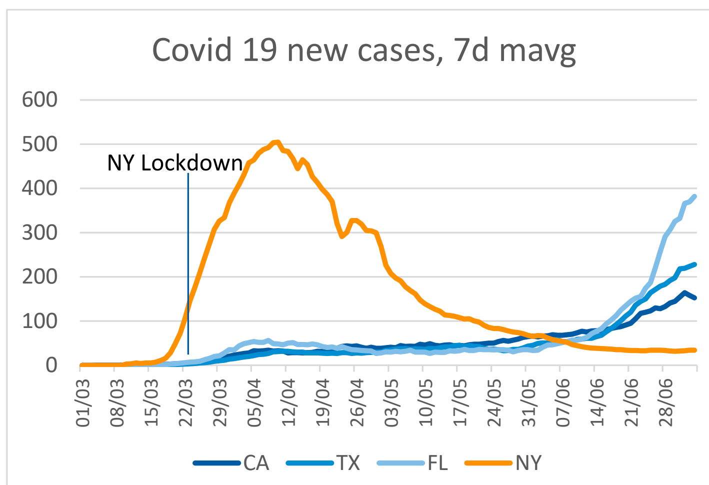
A wide spread acceleration in the US, restrictions are reintroduced several places

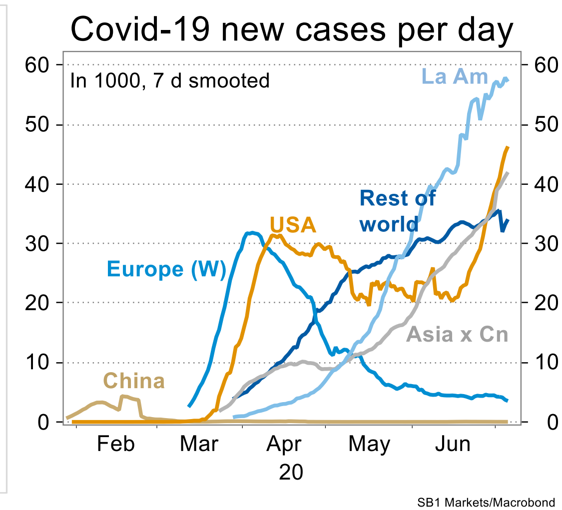
The no of hospitalisations is on the rise too but not the no of deaths, so far





- The number of new Covid-19 case is increase in most cases, and in most of the at very rapid pace, implying 3 – 4 more times more cases per month, and 11 times more per month in Florida (121 x in 2 months), and it will reach NY's peak daily per capita inflow of new cases in in the middle of this week. If the curve is not flattened immediately, a serious health crisis is in the making, even if the average age of the new positives has fallen sharply. Thus, several states are re-imposing restrictions, and more will have to. Masks and basic social distancing should not hurt the economy, both other measures will, and the public will anyway change behaviour. More younger patients, better treatment and medication may explain why the no of deaths has not increased – or it is just takes time to get through the 'process', hospitalisations are already rapidly on the way up
- In other DM, nor serious problems
- Many EMs are still reporting more cases but the numbers are not accelerating – though new daily case records are booked every day





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

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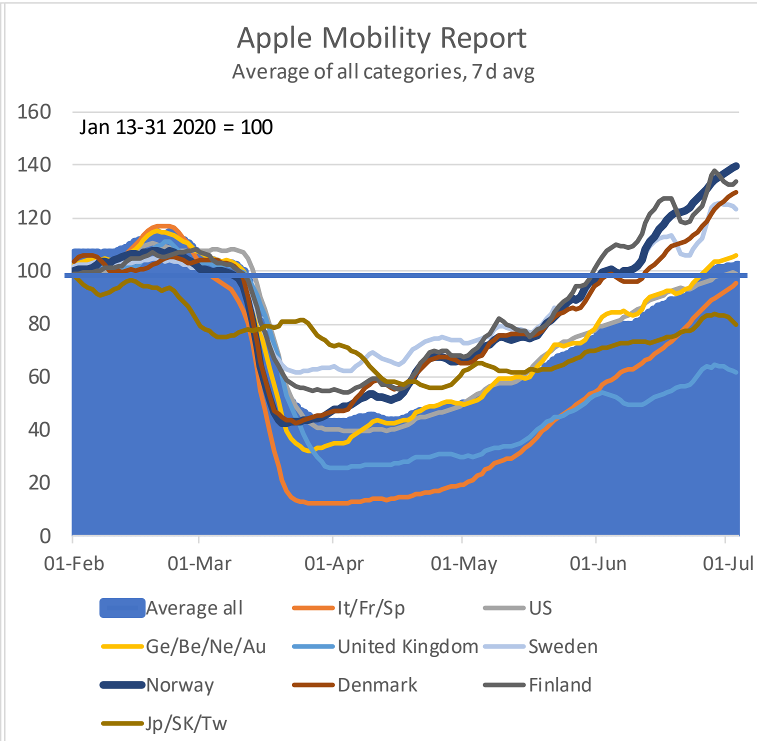
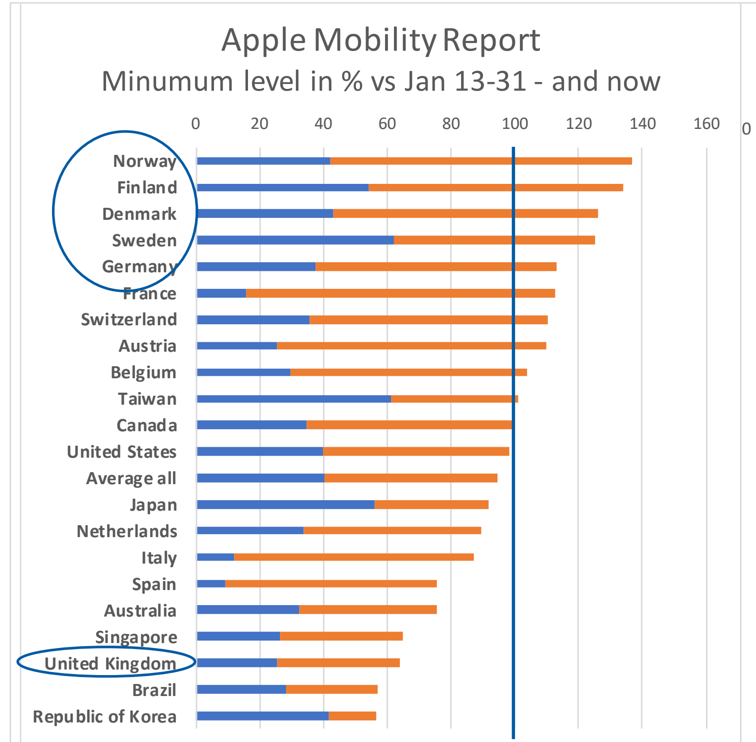
People are moving more around, everywhere; ‘we’ are almost back to normal?

Several countries above a normal level, UK, Spain are still lagging, alongside Brazil and South Korea



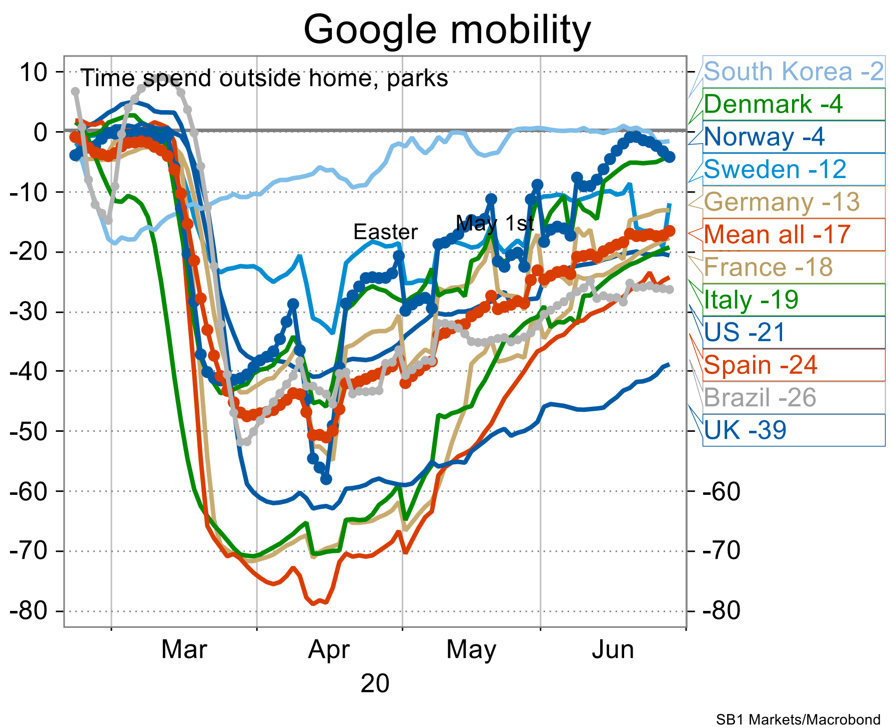


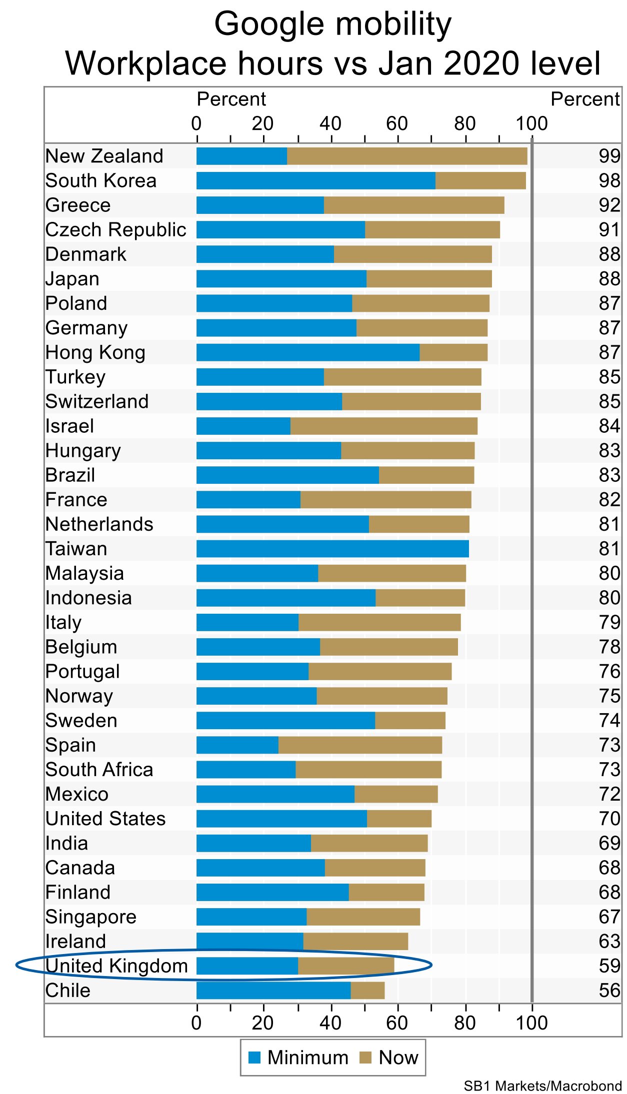
- Map searched in Apple Maps, average of road, walk and public transport searches
- We do not know the seasonality of these data, like if we at the north at the northern hemisphere move more around at this time of the year. It may influence the validity of these data. However, looking at UK vs other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

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

We are spending more time at work

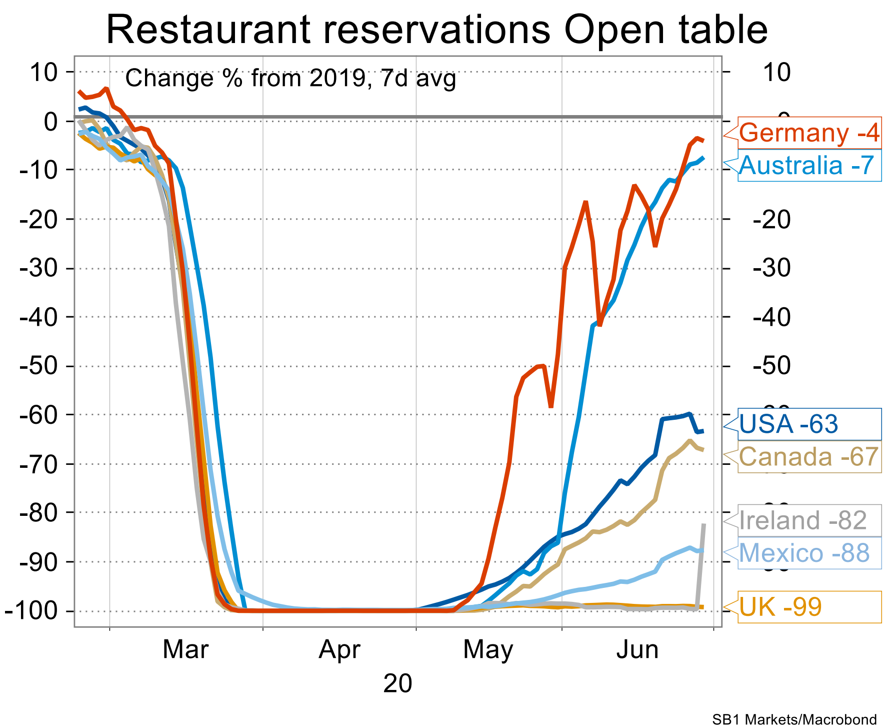
But are still spending much more at home than usual, some of us still working somewhat, hopefully





- UK is lagging, here too!

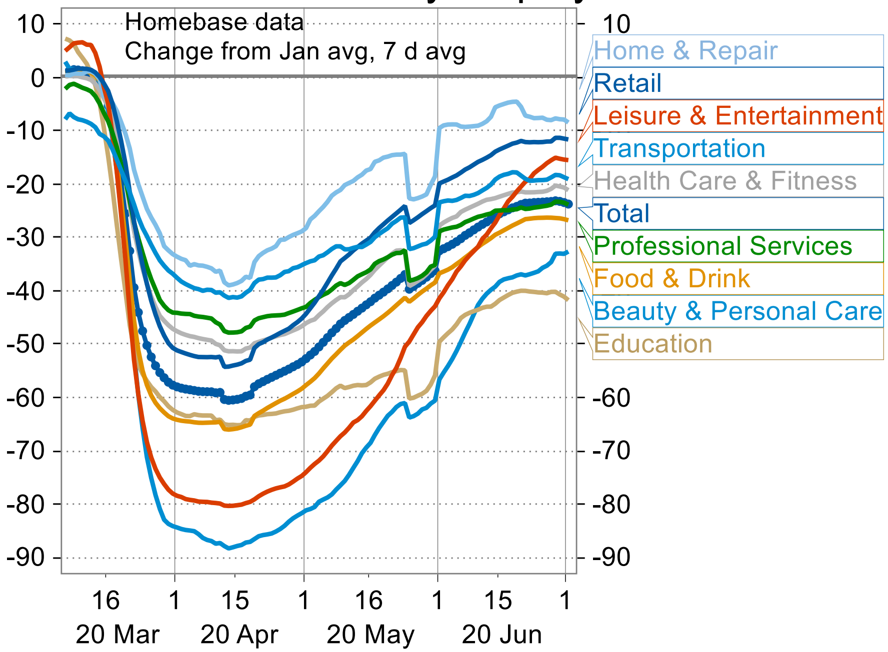
Restaurants are not yet open for normal business most places



US: Some signs of a slower recovery in the US, probably due to corona trouble

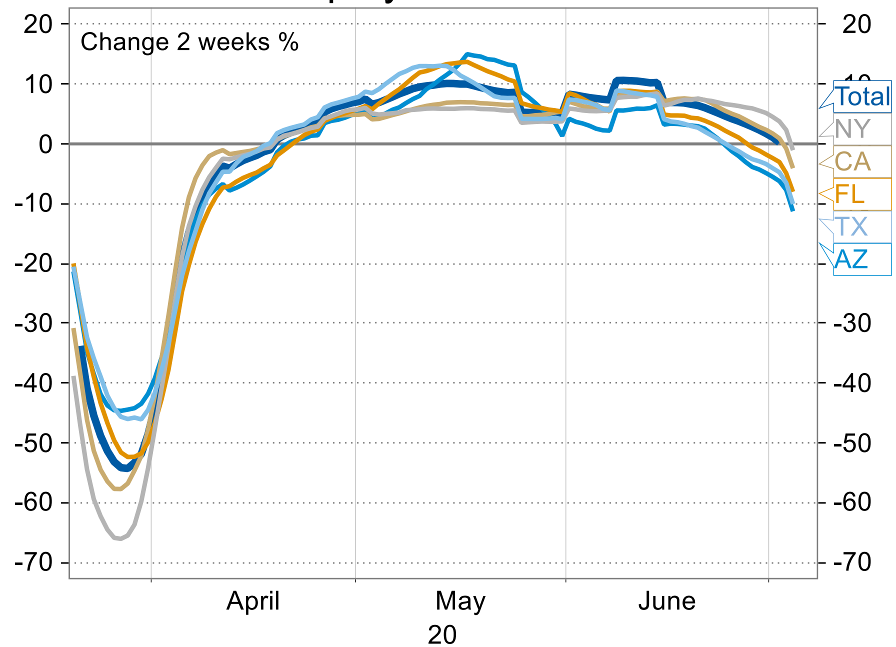
Homebase is reporting a slowdown but data are quite volatile

USA Hourly employees



SB1 Markets/Macrobond

USA Employment - Homebase



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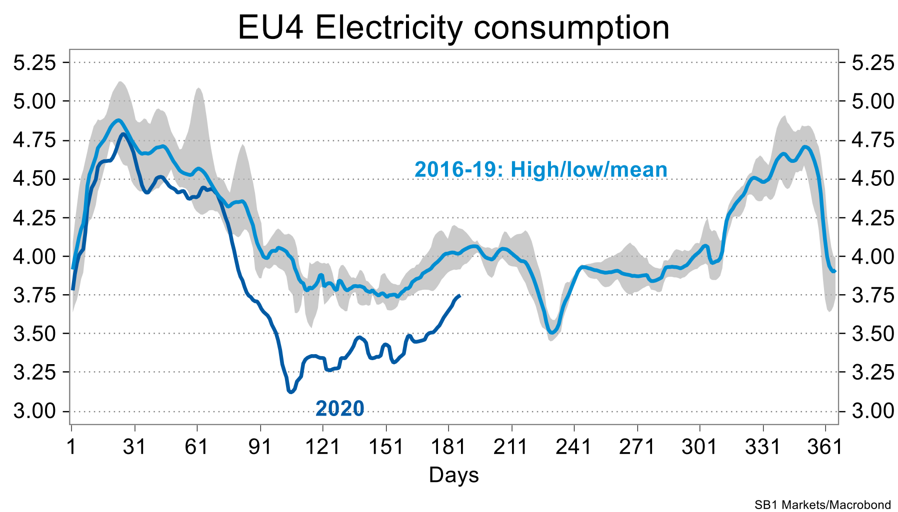
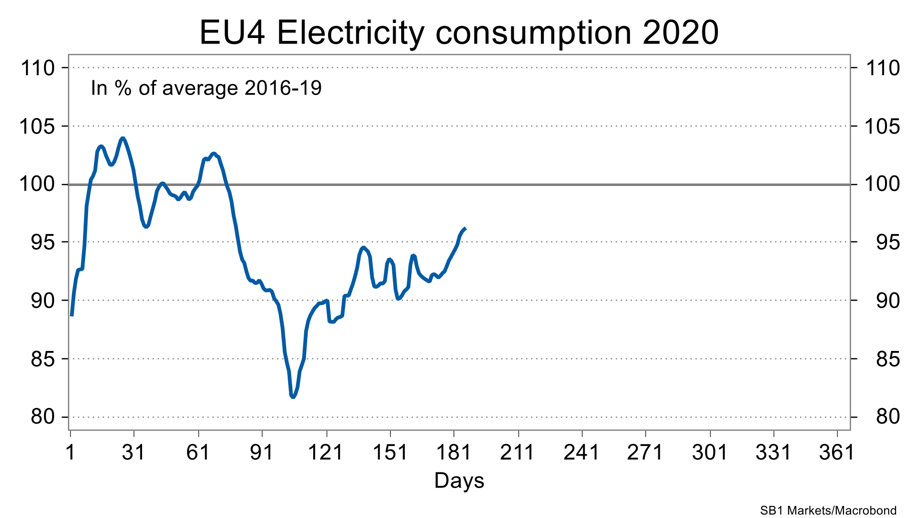
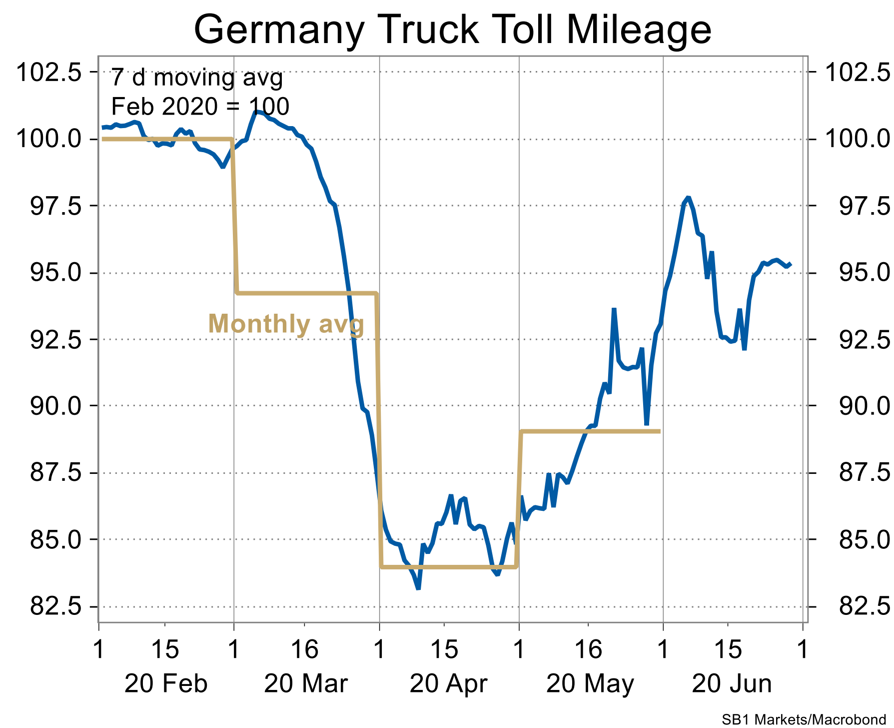
Activity is picking up steam in Europe, electricity up to -4%, from -10/-15%

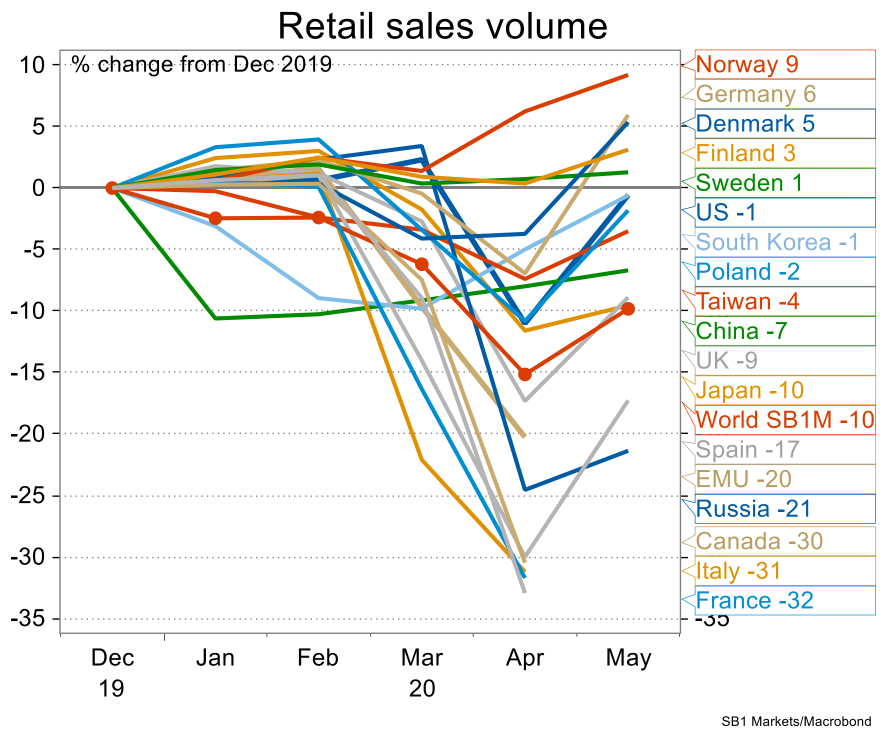


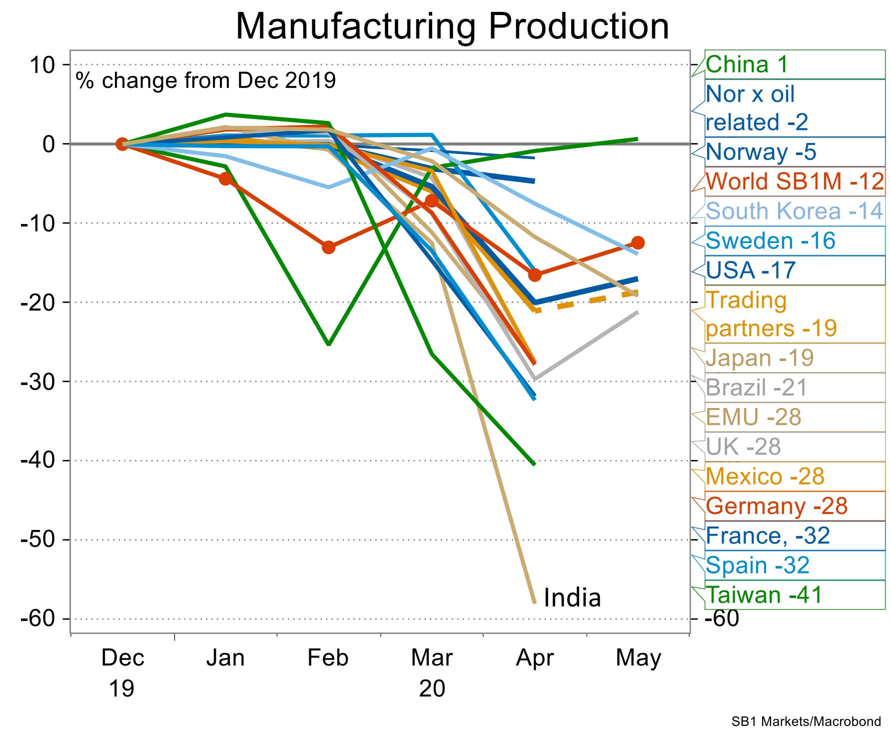




Retail sales & manufacturing production: April was the bottom

Just some few are sliding further down in May (and all who have reported retail sales are up)

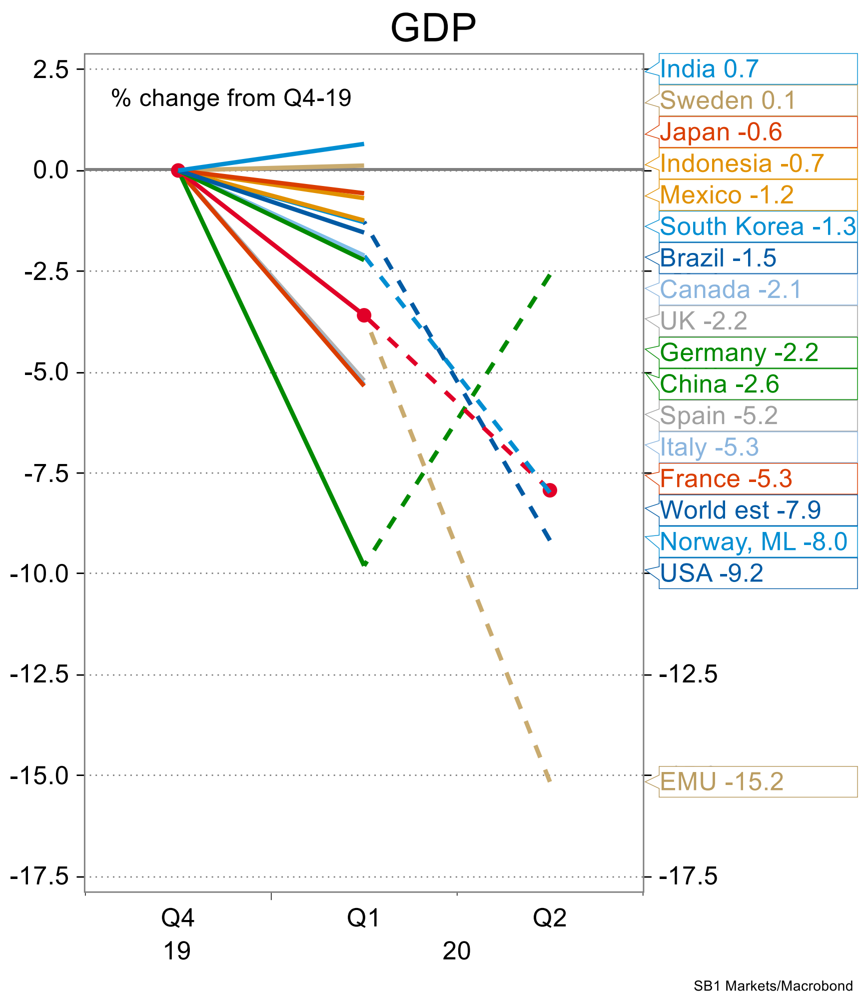




- We assume that both retail sales and industrial production rose some 5 – 6% to May from April. Short term data suggest similar growth rates in June
- Retail sales have kept well up in the Nordics (all at the top), and Germany joined the group in May, due to a strong recovery
- Sales in UK also recovered sharply in May, but remains well below the pre corona level (-9%). The same goes for Spain, -17%). US demand for goods is also not far below the pre corona level
- Manufacturing production in Norway is just marginally down, at least compared to Sweden, US, UK, and the Eurozone (-15 to -30%). Taiwan and India badly hurt, India down 58% in April (From Dec-Feb). Japan & S-Korea have reported lower production in May

Global GDP fell by 3.7% in Q1. We expect even more in Q2

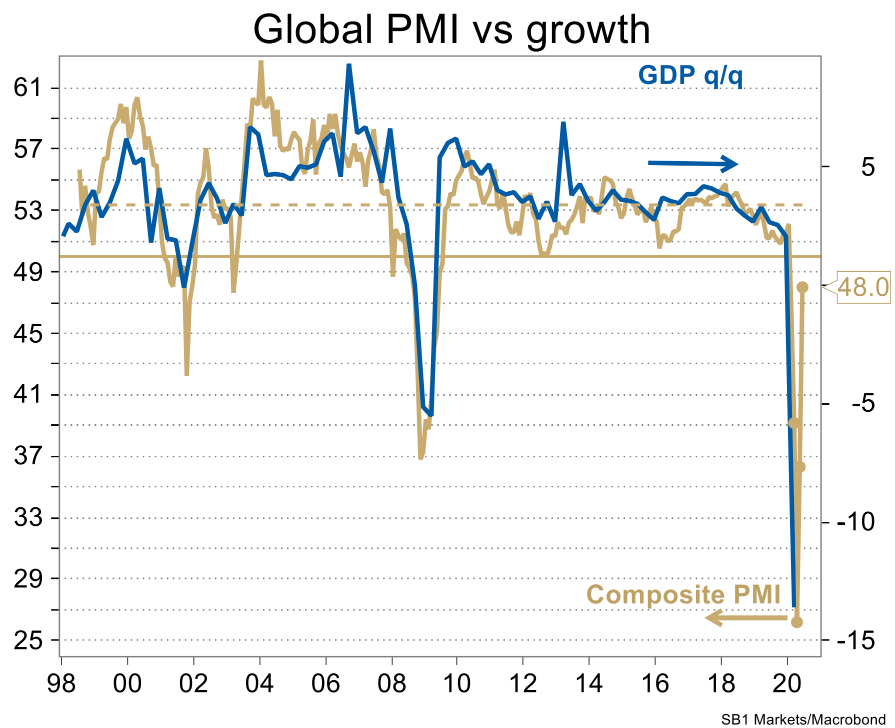
Substantial differences, and not just only depending on when the corona virus hit

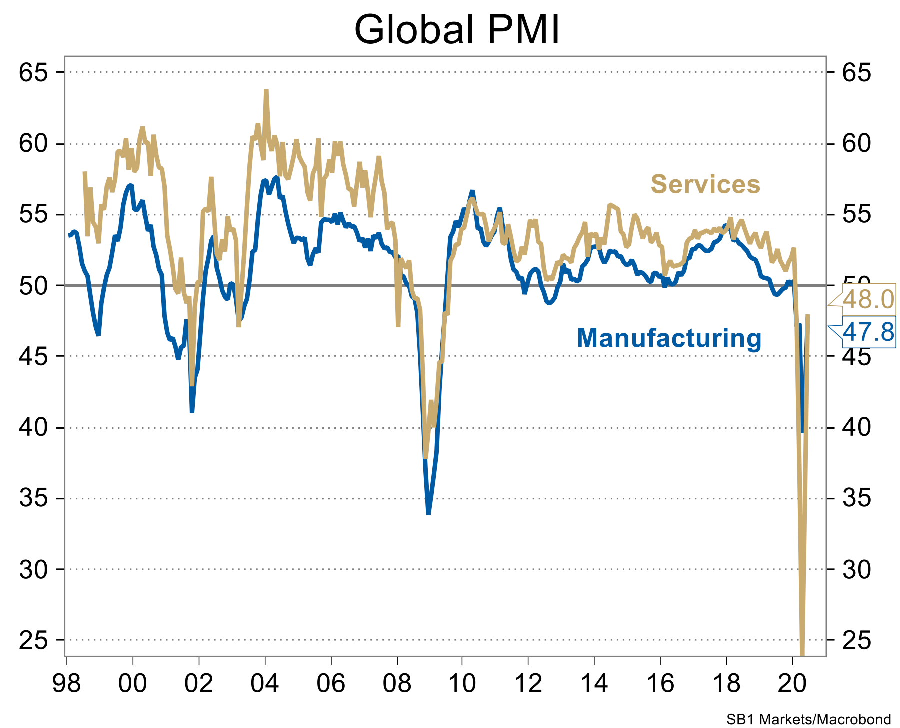


- Global GDP declined by 3.7% in Q1 (up from our first call at -4%), of which almost 2 pp due to China alone
- China should report a substantial growth rate in Q2, reversing most of the Q1 setback
- However, not many other will, and global GDP will contract even faster in Q2, we assume 4.5%
- *All Q2 data are our estimates*

PMI up towards 50, should have been above

PMIs/ISMs describe the cycles well but are not clever in detecting the first recovery month

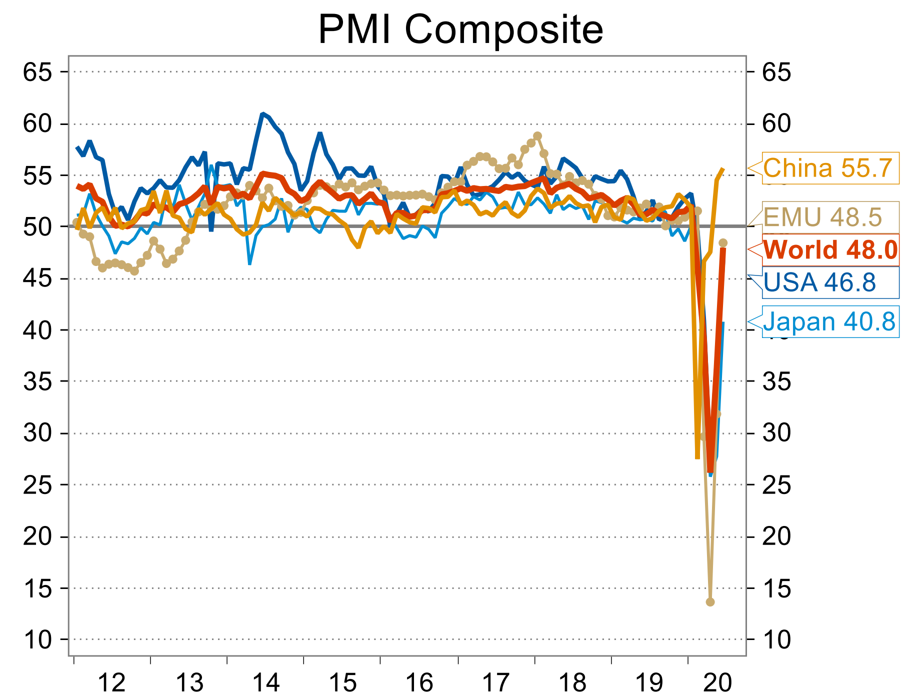




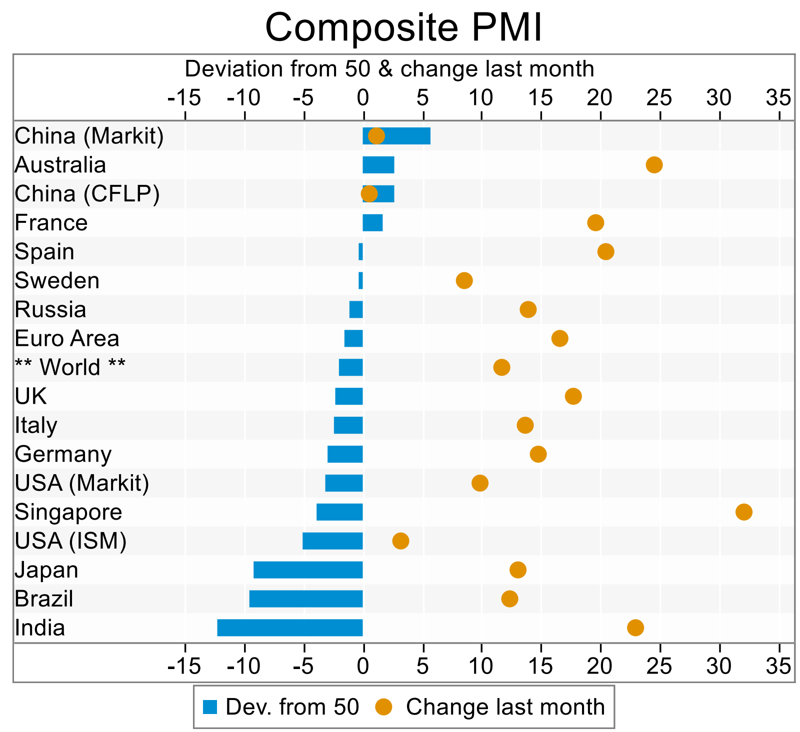
- The global PMI gained almost 3 p more than we assumed, based on preliminary data, up 11.7 p to 48.0 (still an estimate, but barring huge revisions in Markit's service sector PMI, that's the outcome). Both services are manufacturing were substantially better, partly due to upward revision in the European PMIs.
  - » However, these indices should have been even better as we are sure that actual production rose in both May and June. If so, the 50 line should have been crossed by a wide margin (as discussed the previous weeks). Companies are reporting on the development over the recent months, not just the last, which they are asked to do
- The uptick in June is broad, almost all countries are reporting better (or formally, less bad data). China is reporting strong growth

‘V’s everywhere, the recession was the shortest ever

Still, June PMIs weaker than they should have been. Japan, Brazil & India at the bottom. China in lead



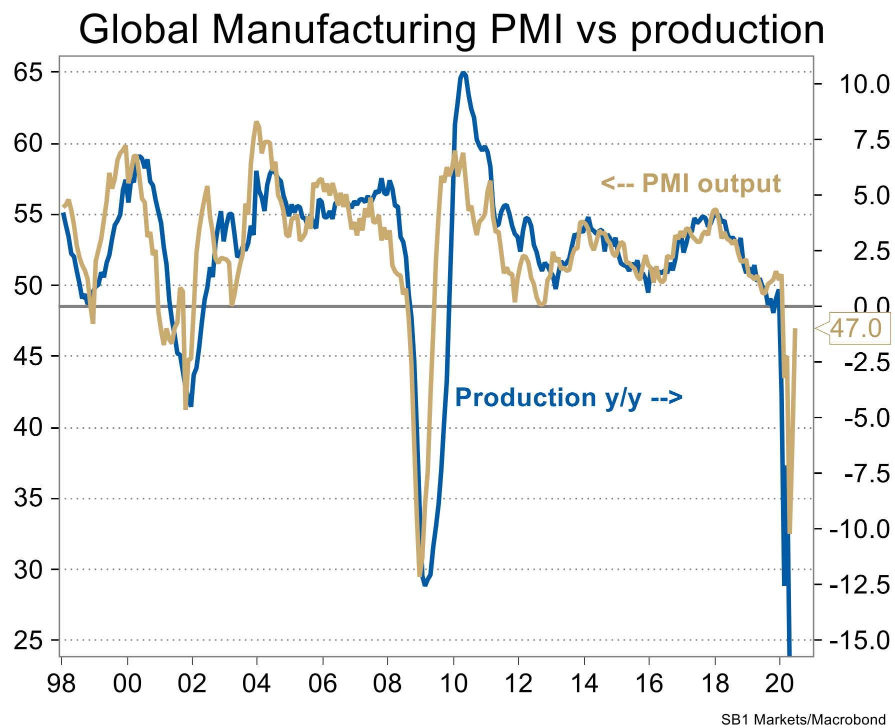
Source: IHS Markit, SB1 Markets, Macrobond

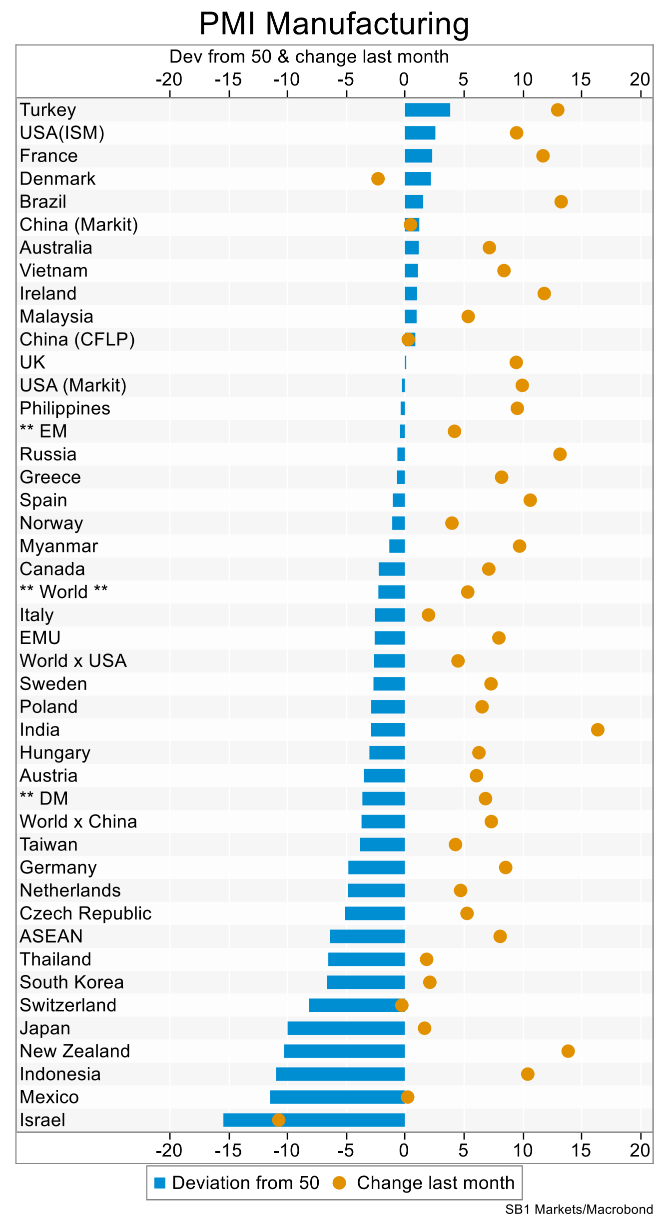


SB1 Markets/Macrobond

Manufacturing PMIs further up almost everywhere in June

Just 2 countries down in June, 11 above the 50-line (but 33 below)

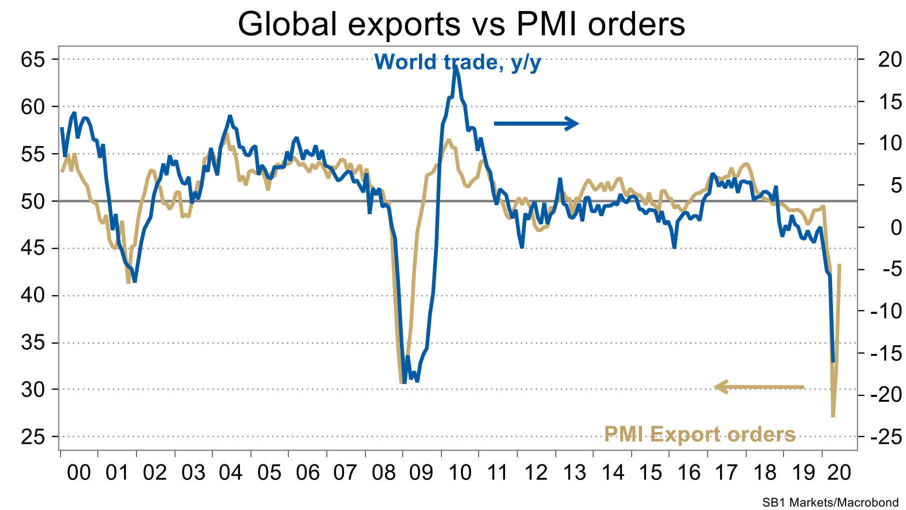




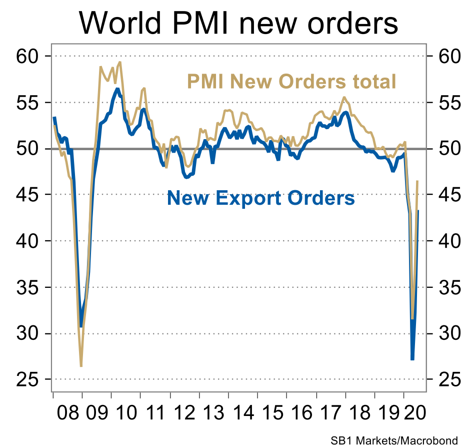
- The global manufacturing PMI not far below the 50-line, following a 5.3 hike up to 47,8 (or 47.0 for the output index)
- 11 manuf PMIs above the 50 line, up from 2 (Chinese PMIs) in May

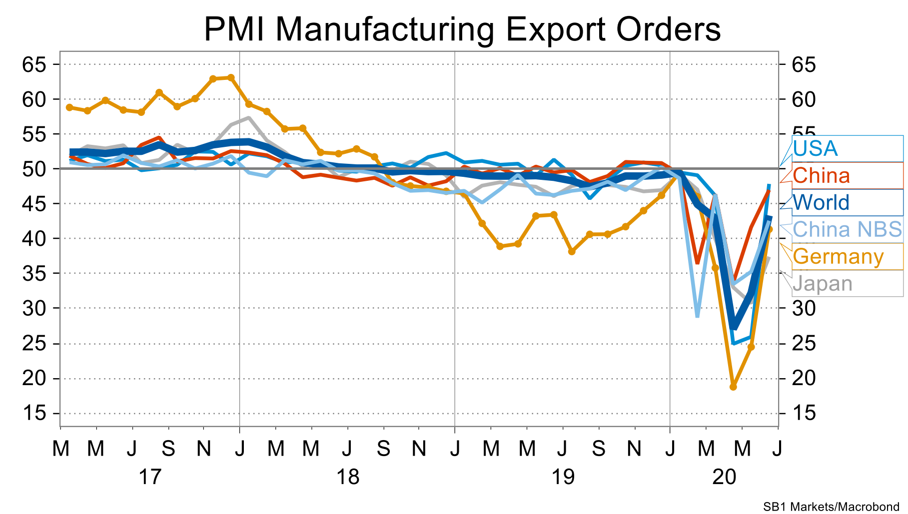
Export order PMIs up everywhere but none above 50

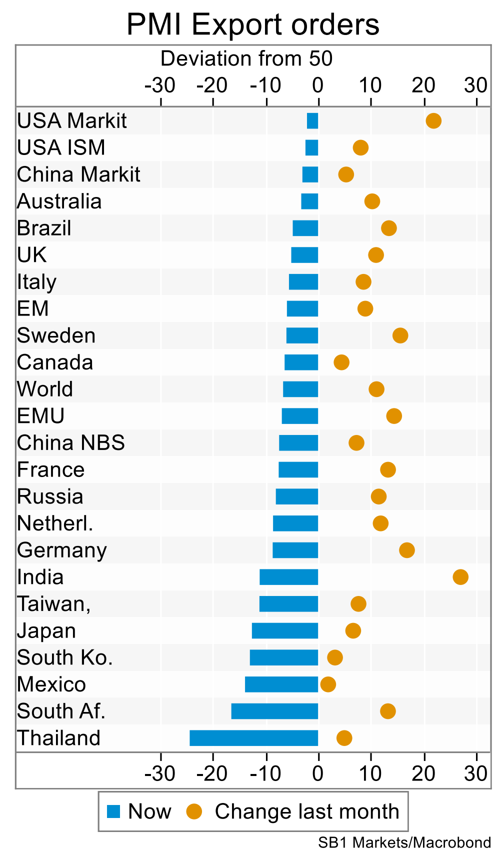
Export orders are weaker than total orders – could signal of 'supply chains' trouble



- However, the discrepancy is not that large, and not that much larger than normal. So. It is anyway far too early to draw any 'now normal de-globalisation' conclusion

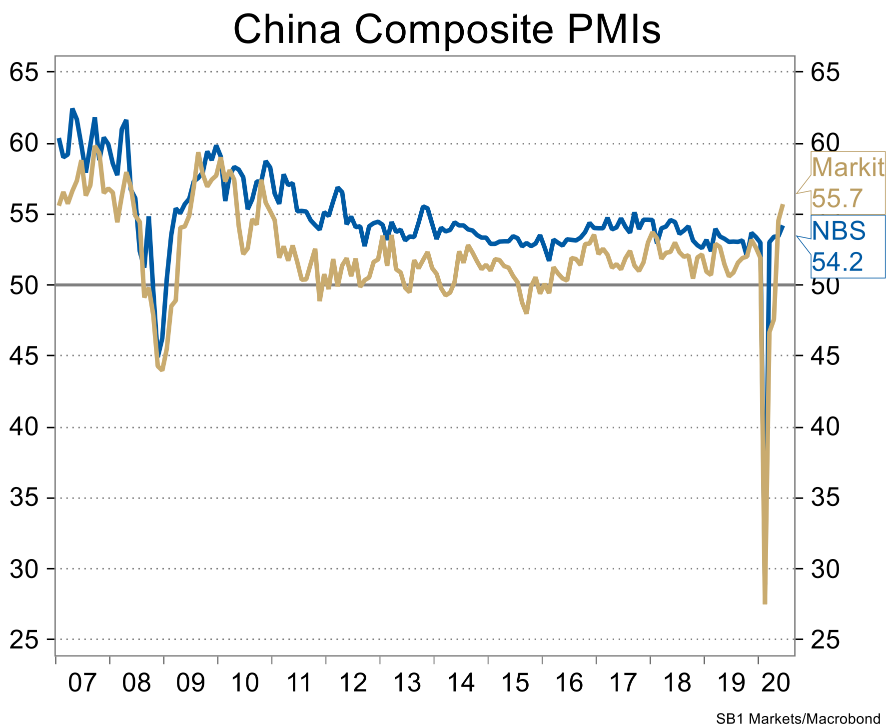


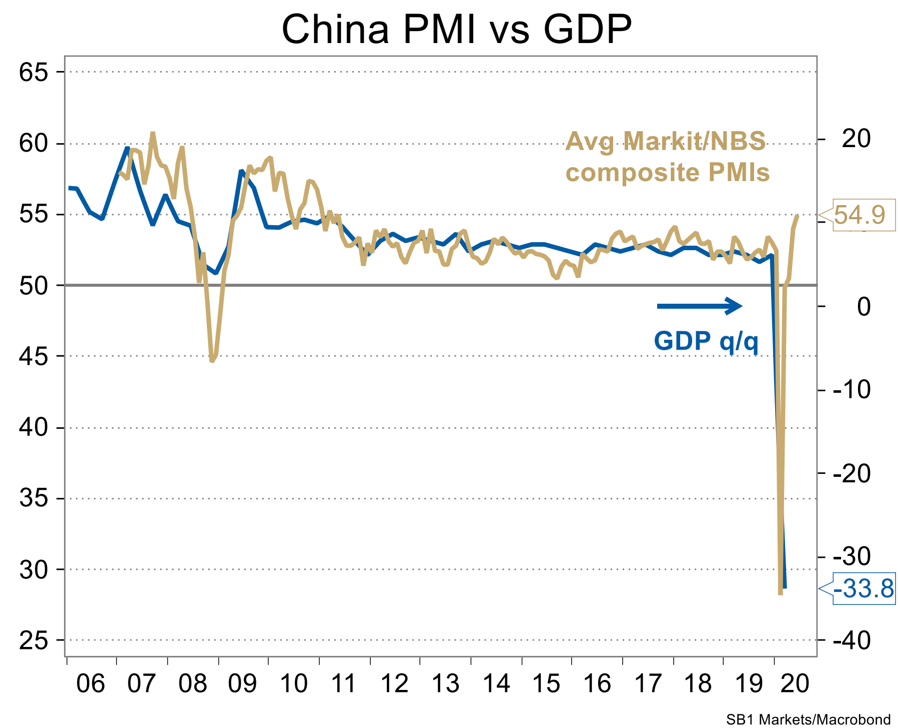




Chinese June PMIs much better than expected, signalling far above trend growth

In average, the best PMIs since 2011, services in the lead. However, strong growth is ‘needed’

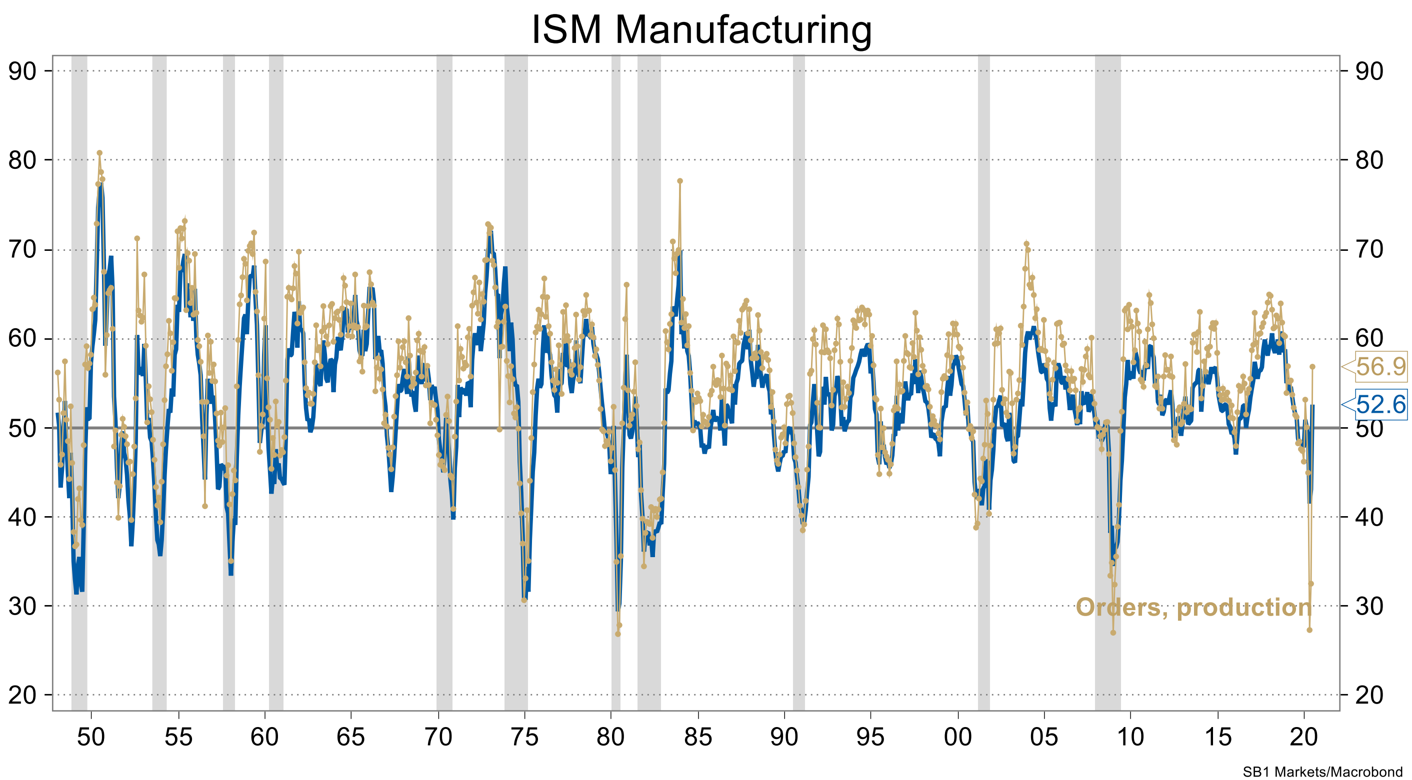


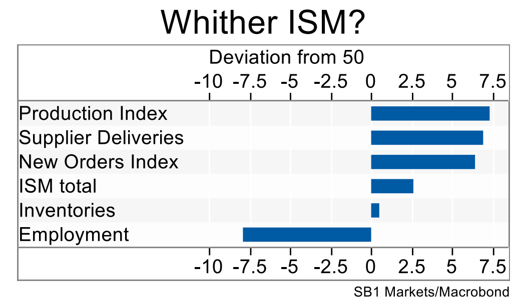


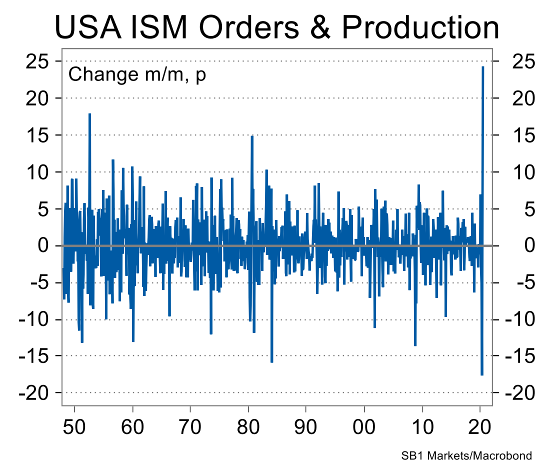
- The NBS’ ‘official’ composite PMI rose further in June, by 0.8 p to 54.2, to the best level since 2018. The manufacturing PMI grew 0.2 p to 50.9, services strengthened more
- Markit’s composite PMI rose by 1.2 p to 55.7, to the highest level since 2010. The manufacturing PMI rose 0.5p to 51,2. The service sector PMI shot up by 3.4 p to 58.4 a decent level
- The export orders PMI rose further (but are still below 50) while growth in domestic manufacturing orders slowed (remained well above 50)
- Taken together, the two data sets signal a 8 - 10 GDP growth pace, at least, or 2 - 2.5% per quarter, not annualised. However, that’s not that impressive as GDO fell by 9.8% in Q1. We assume that actual GDP growth was far better than 2 – 2.5% in Q2, and hopefully in Q3. If not, the negative output gap will remain extremely large

One month too late, the ISM recognised the recovery!

The total index up 9.5 (best in 40 years) to 52.6. Orders/production even better, +24 p to 56.7







- A simple trick: Shut production down, and then open it up again. Voila, production will go up! The ISM rose more than since 1980
  - » Orders and production indices rose by 24 bp, a new record, by far!
- 13 manufacturing sectors reported growth in May, up from 6 in May (and just 2 in April). 4 sectors are still on the way down (11)
  - » Those om the way down: Transportation Equipment; Primary Metals; Fabricated Metal Products; and Machinery
- The bright spot: Manufactures recon their customers have run down their inventories

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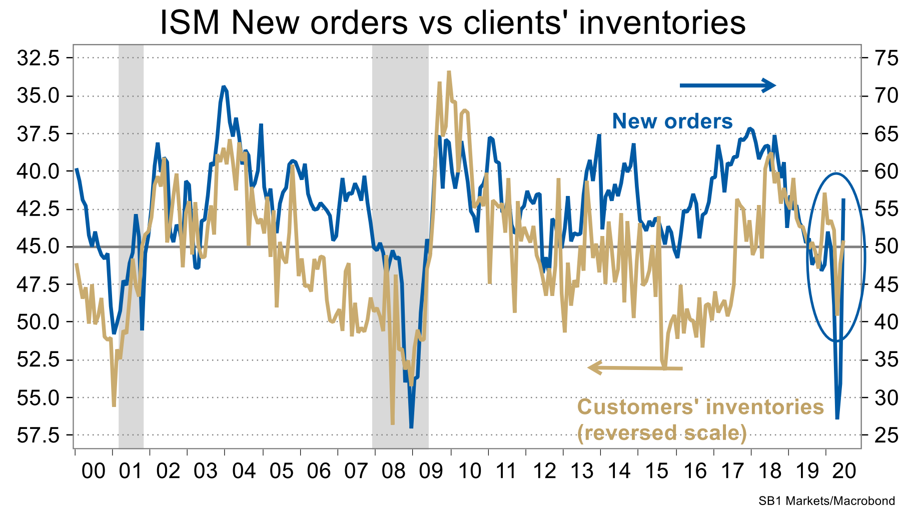
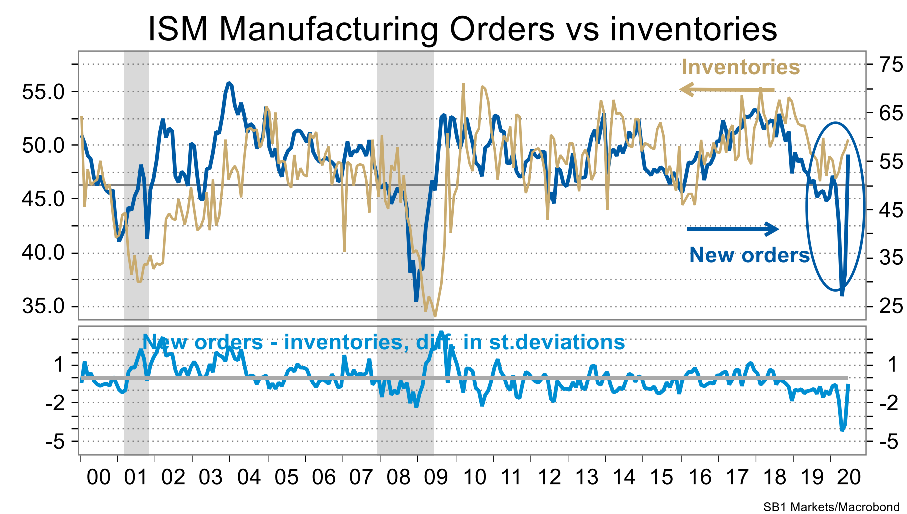
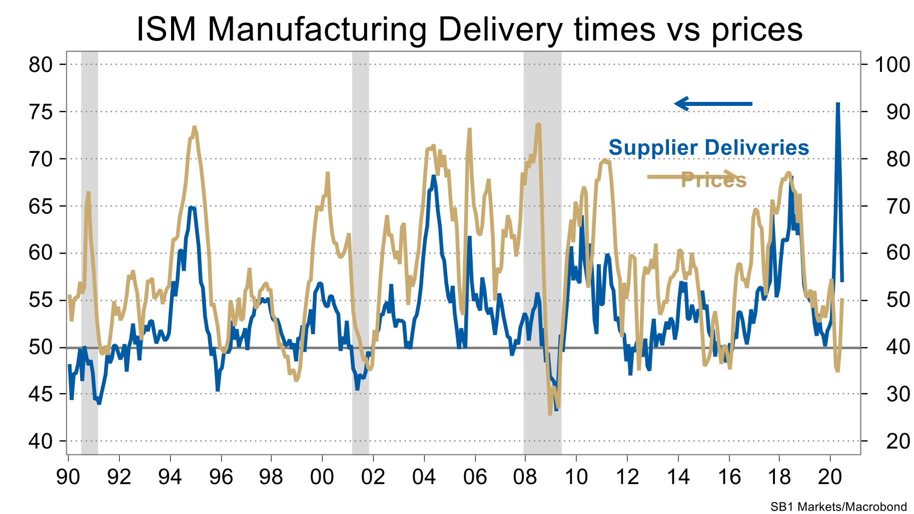
New orders up, less delivery challenges (supply chains intact?) – and prices up

Customers' inventories down, good news. Own inventories up but not by much







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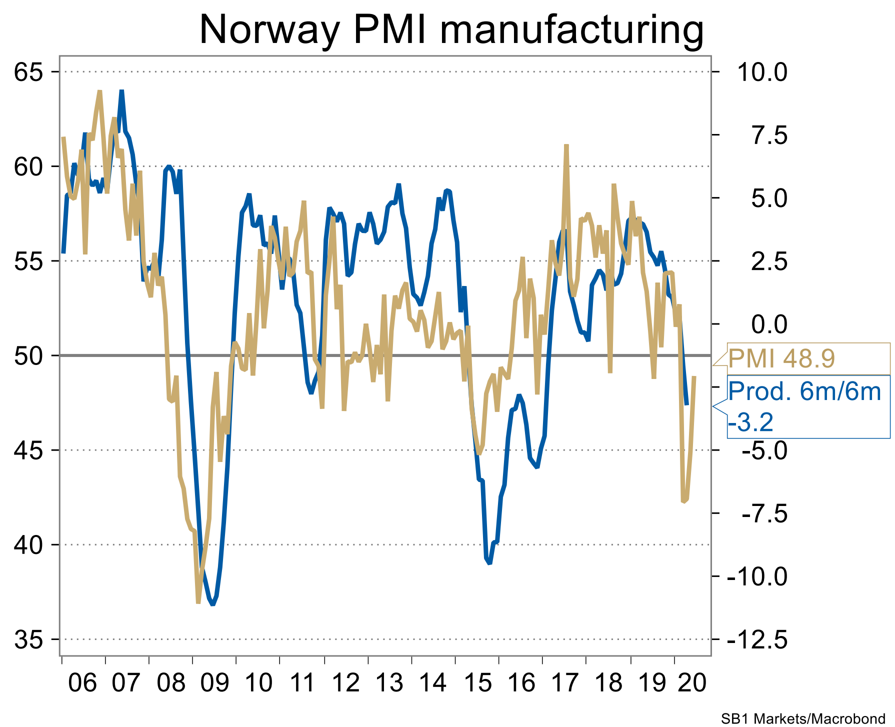
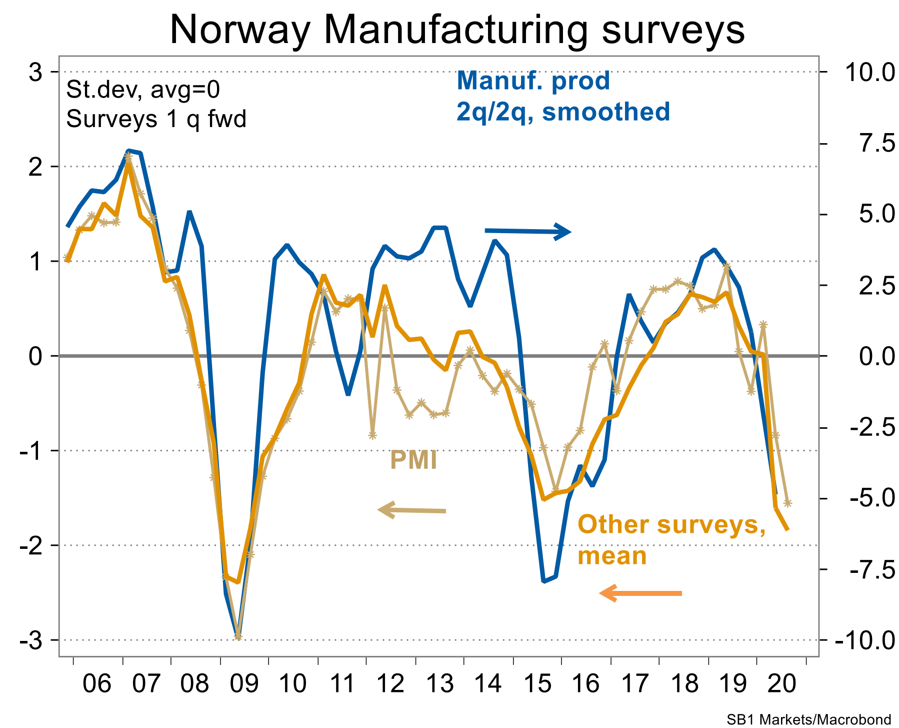
The manufacturing PMI further up in June, to 48.9

PMI rose by another 3 p. The level formally signals a further decline i production





- Other surveys are heading down – but the PMI is now the most updated

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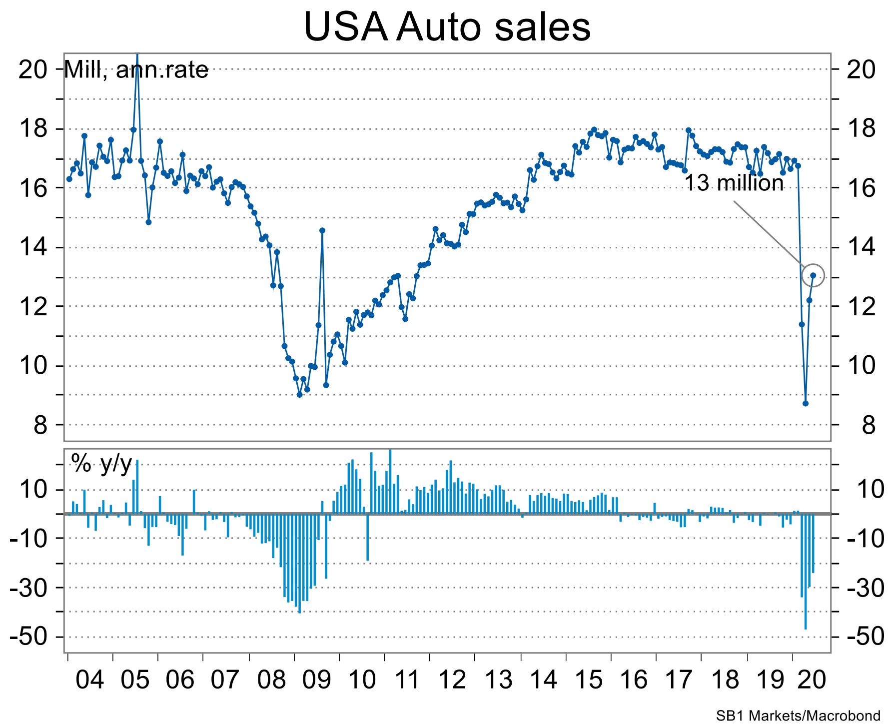
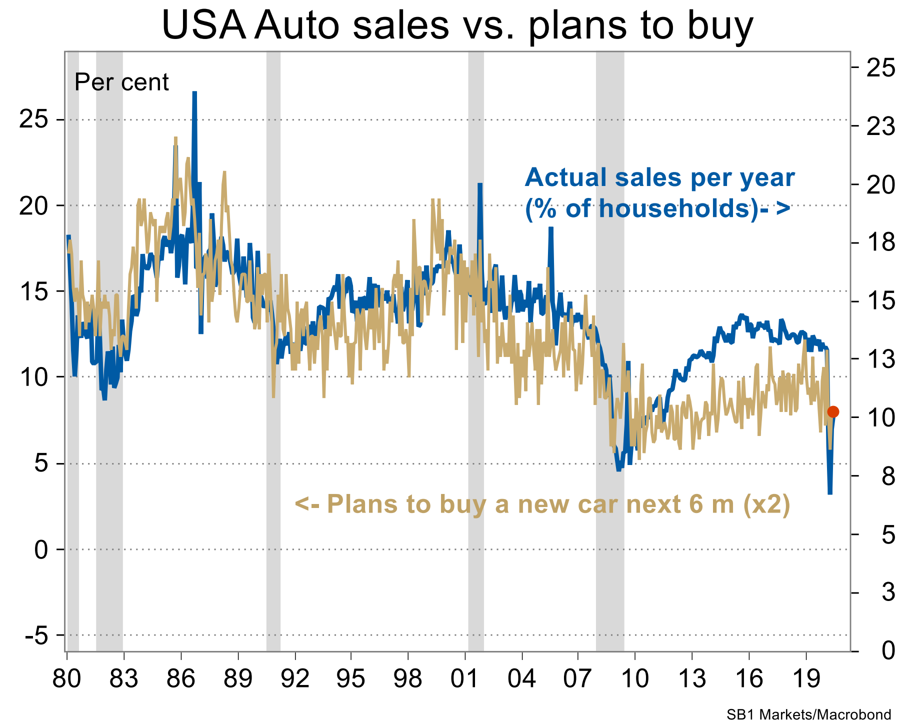
More than half of the decline in auto sales in March/April recovered

Sales rose to 13 mill in May from 12,2, as expected – still 25% below the 17 mill 'normal' level

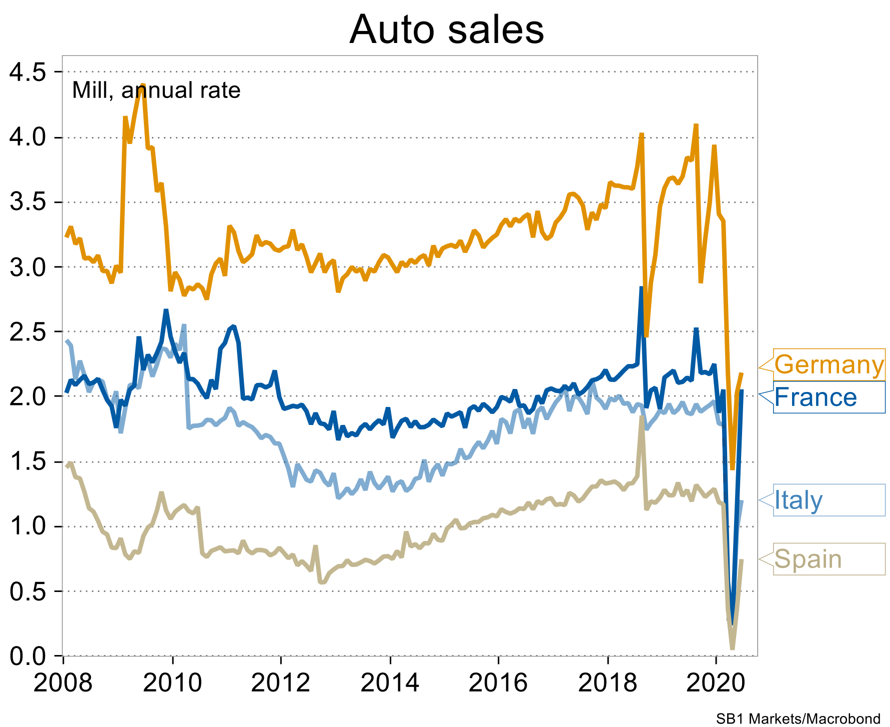


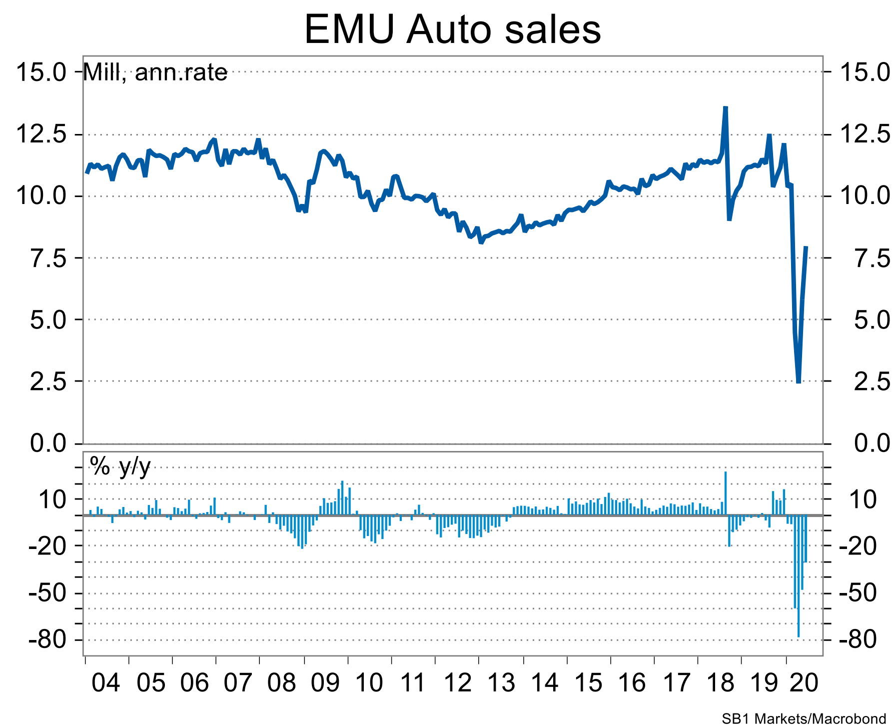


- Sales recovered substantially even if the lockdowns were just partially eased in June
- It is impossible to gauge the 'underlying' strength of auto demand. In the June consumer confidence survey, households reported below par car buying plans – but still better than in May survey

Auto sales further up in June but just France normalised

Sales up to 8 mill in June, from 5.8 mill in May (and 2.4 in April) – still 30% below pre corona level

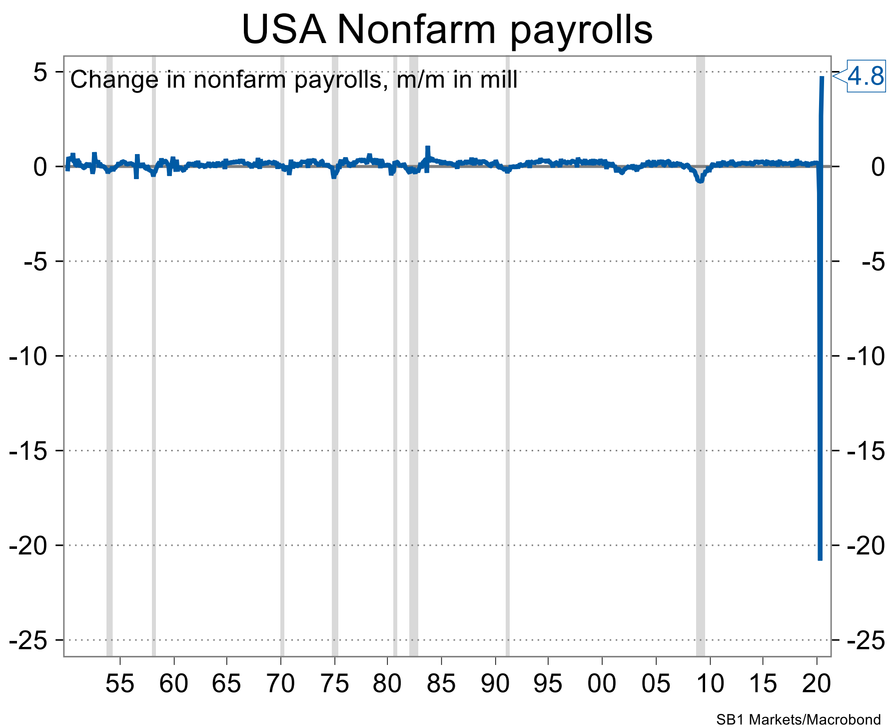


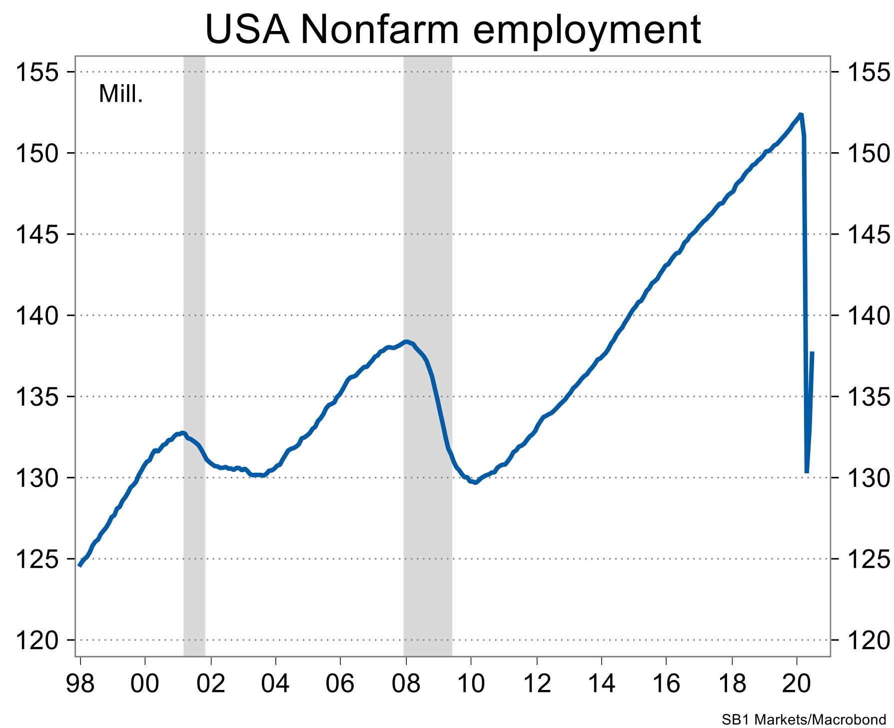


- Sales in France rose to almost a normal level in June but sales are slow elsewhere, especially in Germany (1) , down 40% from the PC level

Another positive surprise. Still a disastrous labour market, employment 10 down

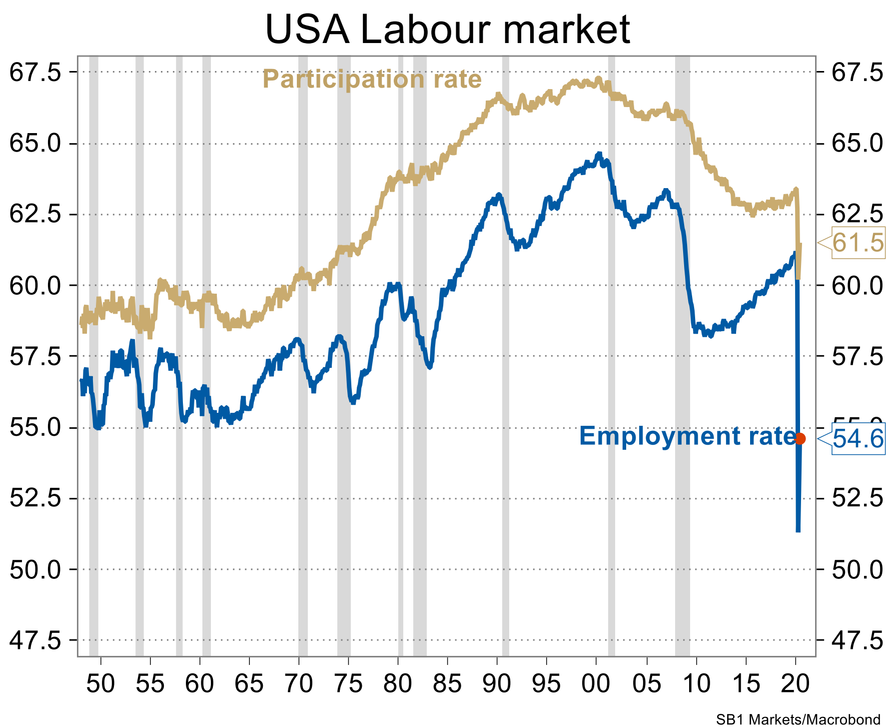
Employment up 4.8 mill (3.6%), unemployment down 2.2 p to 11.2% - both far better than expected

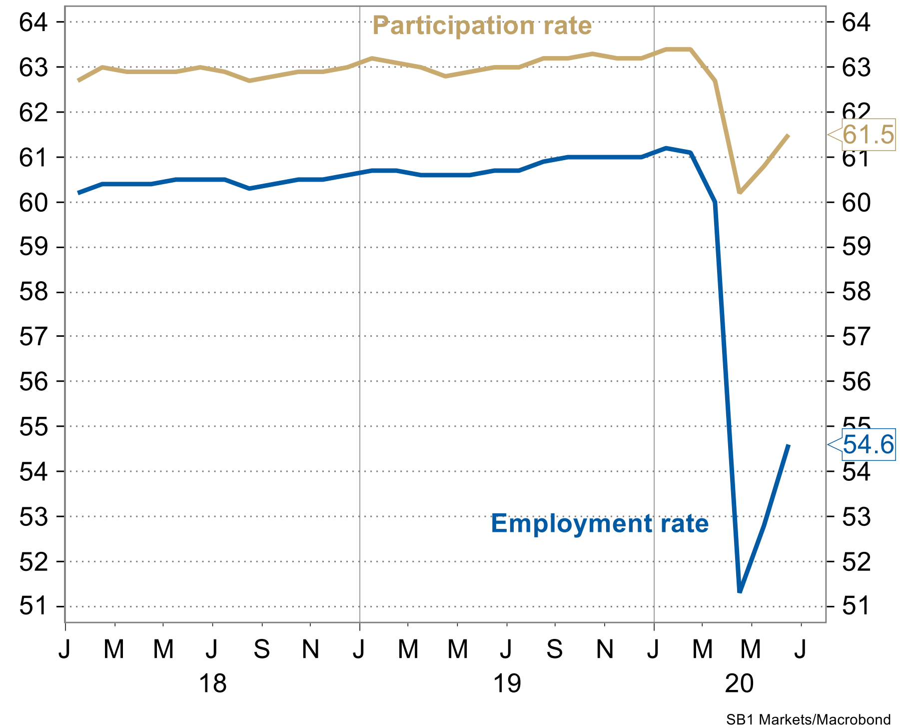




- **Employment** rose by 4.8 mill (3.6%) in June, expected up some 3 mill, following the 2.7 mill lift in May (revised from 2.5, was expected at -8 mill). Still, employment has recovered just 1/3rd of the 22 mill drop in March and April, and it is down 10% vs the pre corona level
- **Unemployment** fell by 2.2 pp to 11.2, expected down to 12.4% - and it is likely well below Fed's estimate. In addition, far fewer respondents reported that they were absent from work due to 'other reasons' (than sickness etc) than in April and May. Thus, the real decline in unemployment was some 2 pp larger than reported. Even so, the real unemployment level is still higher due to the continued mis-reporting, approx 1pp. If we add on some other adjustments we are at 18%, check two pages out.
- **We expect employment growth to slow the coming months.** New jobless claims are still running at an extreme high level and activity in several large stats will be hampered by new corona restrictions

Employment rate is still far below the pre corona level

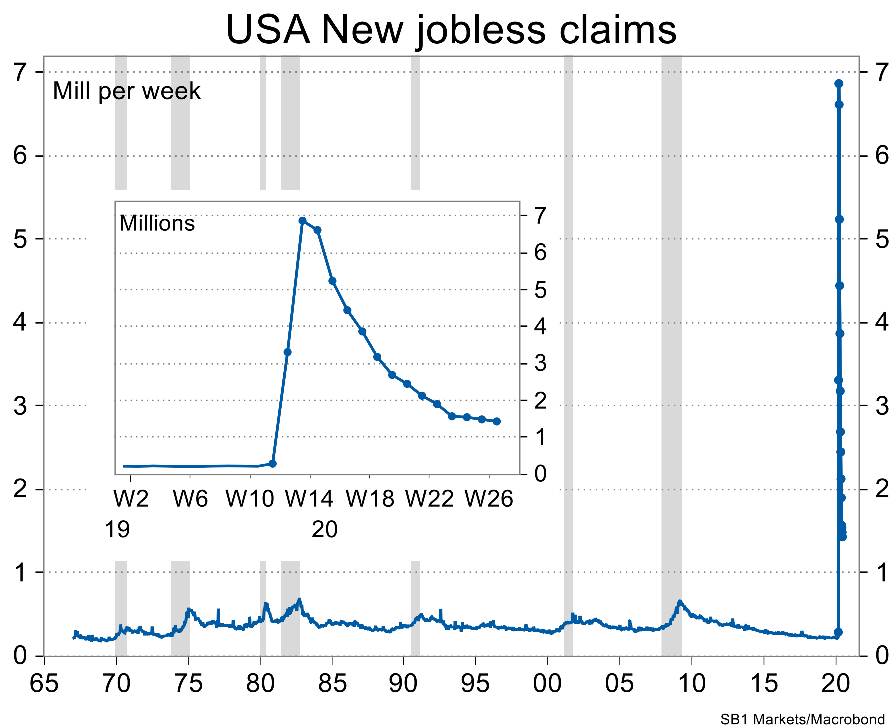


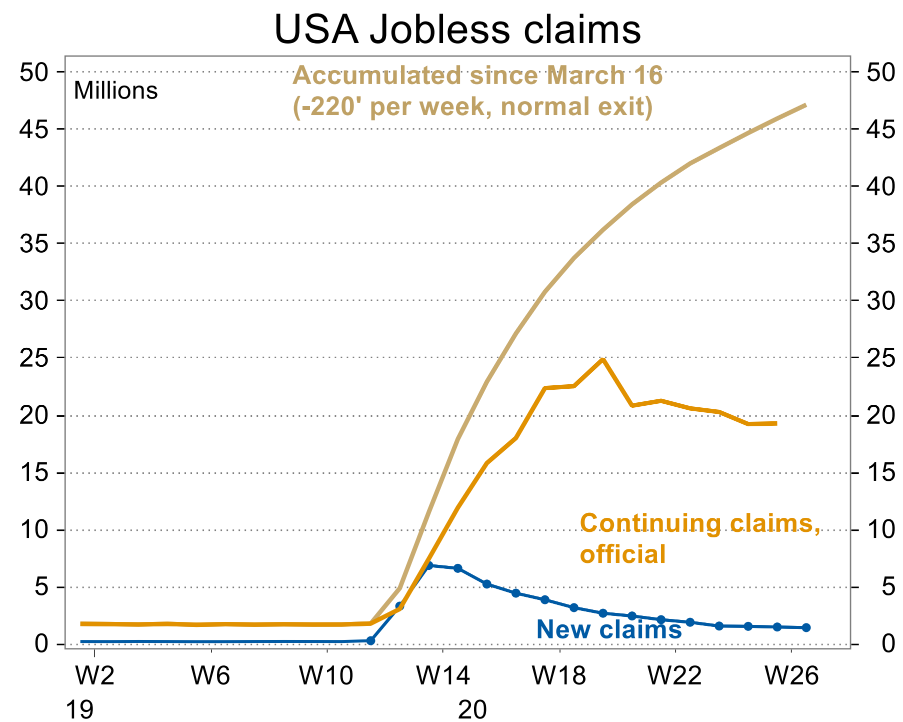


- **The labour force participation rate**, the supply side at the labour market, rose 0.7 pp to 61.5% in June, still down from the February 63.4% level. No doubt the this withdrawal is just because there were no jobs available, and the unemployed did not search actively (they were discouraged) – and they are therefor not counted as unemployed

The decline in new jobless claims is slowing, far too early…

1.48 mill new jobbless claims, just marginally down from past week, 0.9% of the lab. force, per week



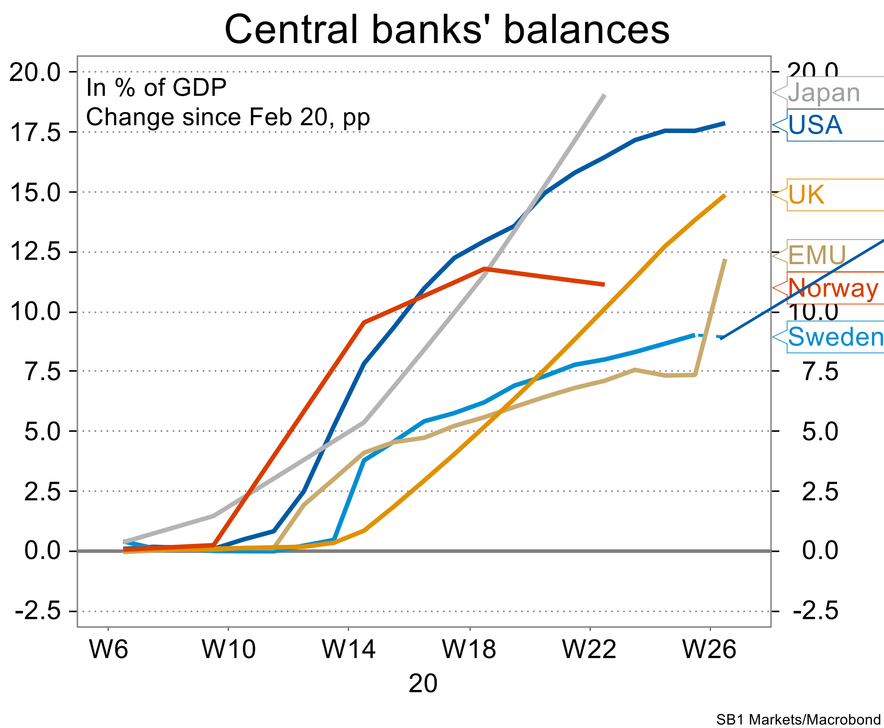


- The inflow is abating, but far slower than expected the previous weeks. Still, almost 1 % of the labour force is entering the labour market offices as newly unemployed each week! The number is really mindboggling, much higher than during any USA recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 19 from 25 mill. but not further last week – and still 11.6% of the labour force are on the dole

Riksbank: More QE, could go negative again, if needed

The Bank will even buy some corporate bonds

Riksbank balance 'target' via QE, corp lending, total up 34% of GDP from Feb 20

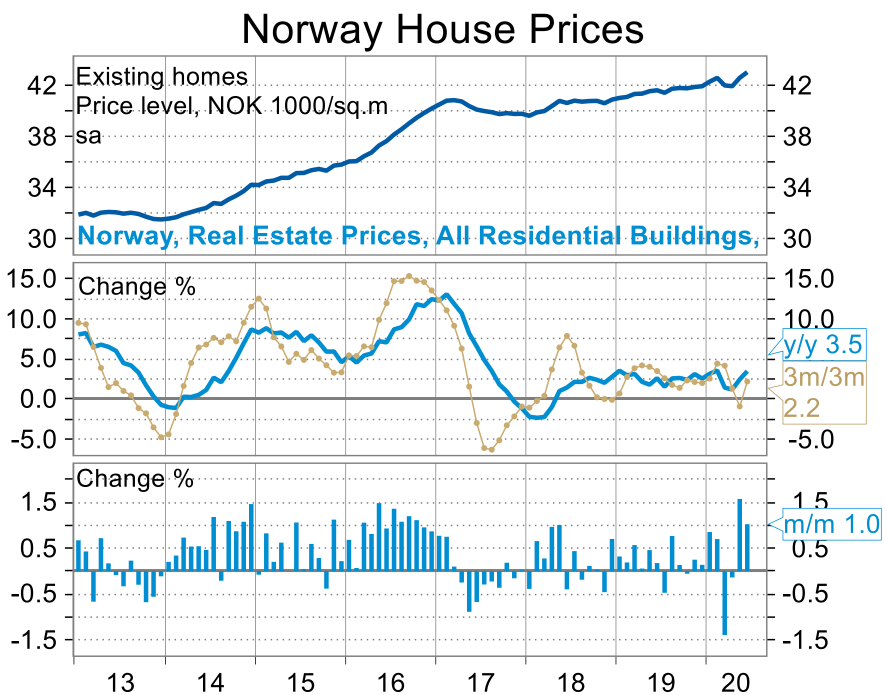


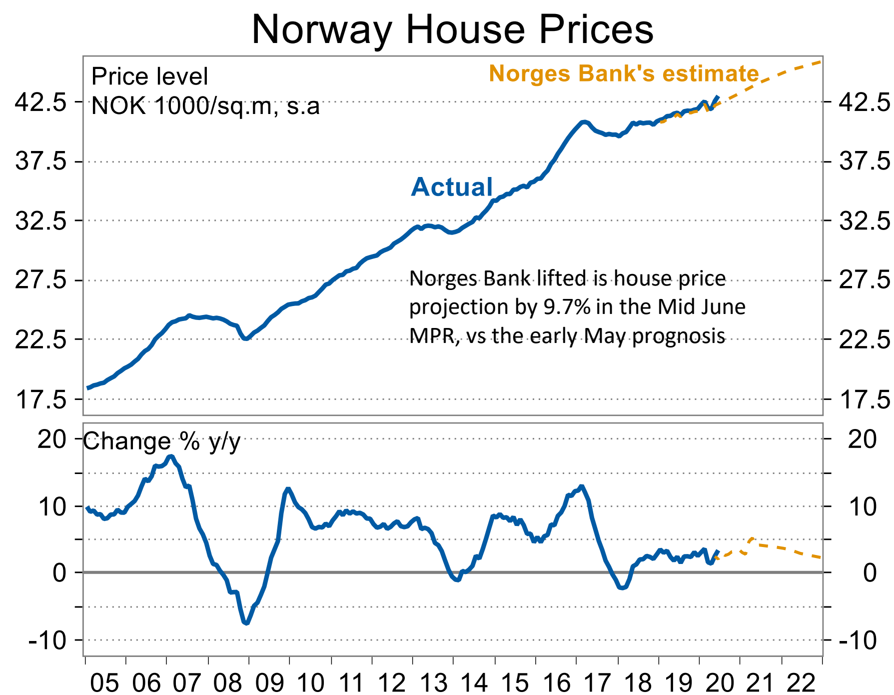
- The repo rate was kept unch at 0,0%, and the Riksbank expect the signal rate to be kept there. However, the Bank does not rule out the possibility of another hike, and the 'rate path fan' is symmetric around zero

- The QE program is lifted to SEK 500 bn (10% of GDP) from 300 bn. The program runs until to end of June 21
  - » Since March the Bank has purchased NOK 130 bn in treasuries (12 bn), municipal bonds (11 bn) and covered bonds (90 bn!!) and commercial papers (6 bn)
- The Bank will begin purchasing corporate bonds, so far by just SEK 10 bn (included in the total QE program)
  - » Until now, the bank has been buying some commercial paper
- In addition, the Bank runs a corporate lending program via banks, up to 600 bn, of which SEK 161 bn is utilised (banks can borrow at 0.1 pp above the rep rate, now up to 4 years)
- The Riksbank will cut interest rates and extended maturities for bank's central bank borrowing
- The Riksbank expects a sharp downturn in 2020 but has put its most pessimistic scenarios on the backburner. Now, a 4.5% GDP setback in 2020 is expected (Rix had two GDP scenarios in April, for 2020 -6.9% and -9.7%)
  - » The Bank expects just a 3.6% GDP recovery in 2021, leaving the output gap at -3.7% (from -5.5% in 2020) vs. +0.9% in 2019.
  - » The unemployment rate is expect to rise to 9.2% in 2021, from 6.8% last year

Crisis, what crisis? House prices rose rapidly in June too, to ATH!

Prices are probably up more than 5% from the bottom in early April; downturn lasted just 3 weeks!



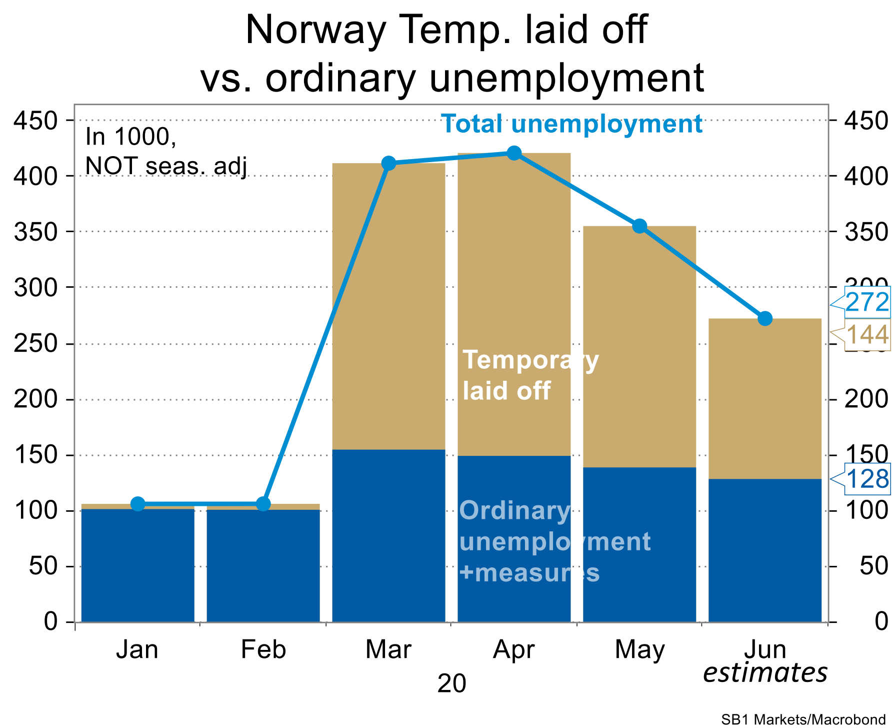


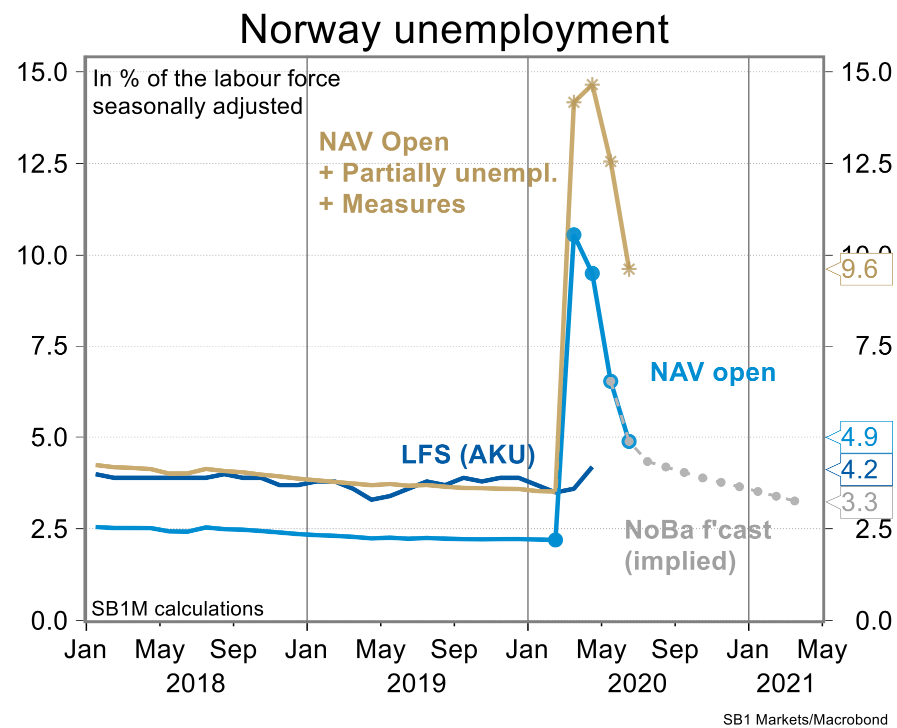
- House prices rose 1% m/m in June, following the 0.2 pp upward revised 1.6% in May. Prices are above the February level, following an approx 5% take off from early April. The corona crisis lasted just 2 – 3 weeks at the housing market. Prices are up 3.5% y/y. A 1.1% cut in mortgage rates (to 1.9% in average in May, from 3% in Feb), was more important than a 6 pp increase in the unemployment rate (and +12 pp at the peak)
  - That's not what the standard model suggests. Most likely, households look upon the corona hike in unemployment as short lived, while low interest rates are here to stay
  - Prices rose everywhere, even in Stavanger. East in the lead in June, but not over the recent months. Oslo up 1.7% in June, and 5.2% y/y, on the top of the list
- The number of transactions rose too, to the 4th highest level ever. More homes were brought to the market too, and the no of unsold homes rose – but less than it fell in May. The inventory of unsold existing homes is increasing in Viken (East) and Oslo but has fallen somewhat in rest of the country
- **Should the house prices continue upward at say more than 6 – 7% per year, Norges Bank will no doubt start hiking rates before late '22**

SpareBank 1 MARKETS

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

Total unemployment fell by 83’ or 3 pp through June, down to 9.6%





- The number of furloughed workers fell by 73’ persons, and ordinary (fully or partially) unemployed by 10’
- The open (full time) unemployment rate fell by 1.6 pp to 4.9% (seas. adj. vs 4.8% not adjusted – as we expected, consensus 4.9%) In April, the rate peaked at 10.6%. The rate was 2.4% ahead of corona
  - » The decline in June was in line with a reasonable interpretation of Norges Bank’s quarterly average forecasts. NoBa probably expects a 0.5 – 0.6pp decline in July, and 0.15 down per month thereafter. From April through, open unemployment has fallen by an average of 1.4 pp per month (and 1.6 pp in June)
- 144’ persons are still temporary laid off (of which ‘just’ 54 full time), equalling 5% of the labour force, down from 272’ (9.6%) at the peak
- Unemployment is falling everywhere, and in all sectors

The Calendar

In focus: The last PMIs/ISM. European production, Norwegian GDP & CPI

Time	Country	Indicator	Period	Forecast	Prior
Monday July 6					
08:00	GE	Factory Orders MoM	May	15.4%	-25.8%
11:00	EC	Retail Sales MoM	May	15.0%	-11.7%
15:45	US	Markit US Services PMI	Jun F	47	46.7
15:45	US	Markit US Composite PMI	Jun F		46.8
16:00	US	ISM Non-Manufacturing Index	Jun	50	45.4
17:00	WO	Composite PMI	Jun	(48)	36.7
Tuesday July 7					
08:00	GE	Industrial Production SA MoM	May	10.5%	-17.9%
08:00	NO	Ind Prod Manufacturing MoM	May	(0)	-1.6%
09:30	SW	Private Sector Production MoM	May		-6.5%
09:30	SW	Industrial Orders MoM	May		-13.9%
16:00	US	JOLTS Job Openings	May	4,800	5,046
Wednesday July 8					
08:00	NO	GDP Mainland (MoM)	May	4.3 (4.0%)	-4.7%
Thursday July 9					
03:30	CH	CPI YoY	Jun	2.5%	2.4%
03:30	CH	CPI YoY	Jun	2.5%	2.4%
Friday July 10					
08:00	NO	CPI Underlying YoY	Jun	1.4 (1.5)	1.3%
08:00	NO	CPI YoY	Jun	3.0 (3.0)	3.0%
08:45	FR	Manufacturing Production MoM	May	22.5%	-21.9%
14:30	US	PPI Ex Food and Energy YoY	Jun	0.5%	0.3%

- **PMIs/ISM**
  - » Just some final US data left – and we know that the global PMI recovered sharply in Q2
- **US**
  - » No major releases this week. Focus at the Covid-19 data & policy responses instead
- **EMU**
  - » A sharp recovery in retail sales in the EMU ads well in manufacturing production in the countries data will be released will confirm that April was the bottom
- **Norway**
  - » Mainland GDP grew at a brisk pace in May, following the large decline in March and April.
  - » We expect inflation to continue upwards due to lagged impacts of the NOK depreciation

Source: Bloomberg. SB1M est. in brackets. 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 is unprecedented modern history. The recovery started in China in March and in May in developed markets but the activity level in still well below par. We expect a further 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 optimistic case is a 3% decline in global GDP y/y in 2020 (from +2.8% before corona), our baseline case is -4%**	<u>PMIs rose sharply in June but the global average remained below 50 – even if we are sure that production rose</u>
China	The Covid-19 'killed' the economy in Q1 but the economy is gradually returning to a normal level. Domestic demand is still well below par – 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 11% 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 trough, and all May data confirmed that the recovery has started**. **Risks, <u>except for corona impacts</u>: Policy uncertainty/trade/business investments &debt, not household demand or debt. And an unstable political leadership?**	<u>PMI/ISM confirm that the recovery is under way. No indications of supply chain breakdown. The labour market is recovering but has a long way to go, just 1/3rd of the decline is so far reversed.</u>
EMU	Corona has sent the Eurozone into a recession, GDP fell everywhere in Q1 and Q2 will be far worse, in average, especially in the south. Services are hardest hit, especially transport and travel. The policy response is mixed 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**	<u>The PMIs rose to close to 50, Germany is the laggard. Retail sales rose sharply in May is those countries that have reported.</u>
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 too. Housing investments are exposed even if the interest rate cuts have ignited the animal spirit again, as usual, 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 4% GDP decline in 2020, and a similar recovery next year, implying a substantial neg. output gap**	<u>House prices up 1% in June, to above the February level. Unemployment is falling further. Credit growth did not slow in May.</u>

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

Highlights

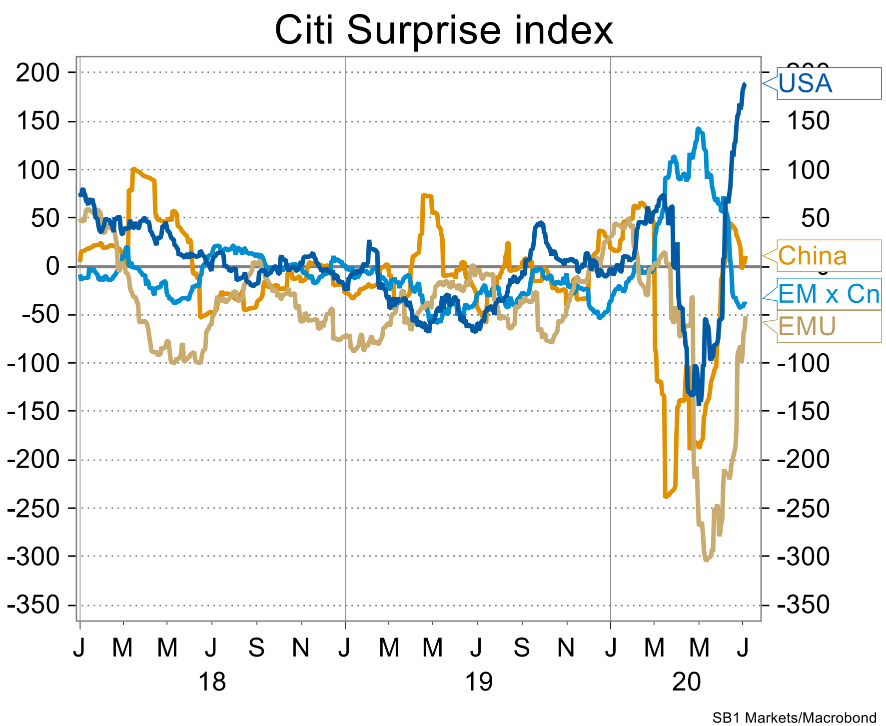
The world around us

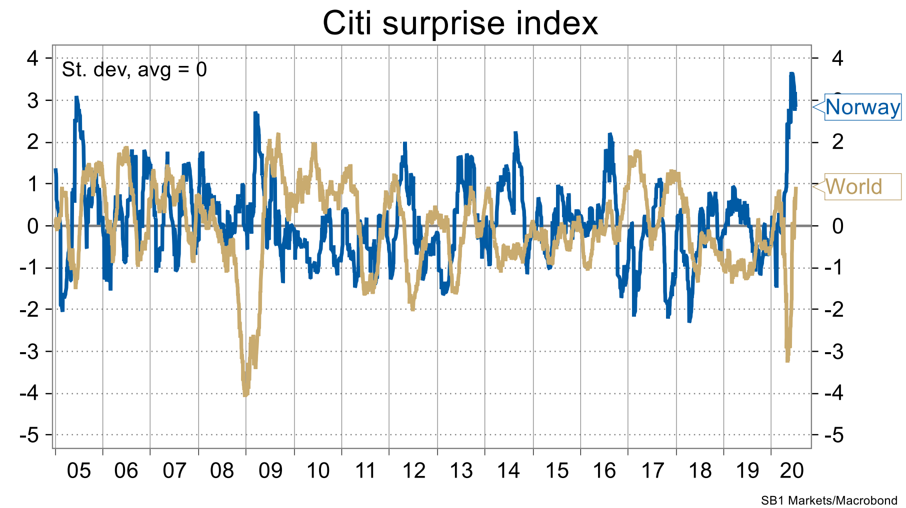
The Norwegian economy

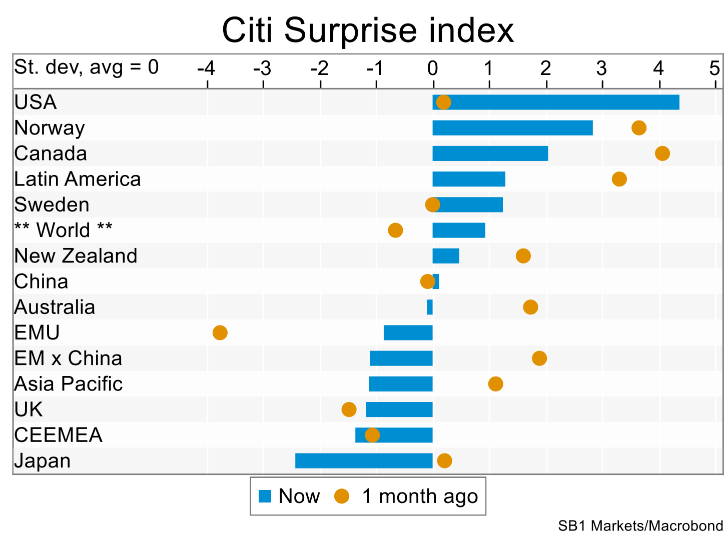
Market charts & comments

Now, the surprises are the upside!

News from US (and Norway) are the best ever (vs. downbeat expectations)





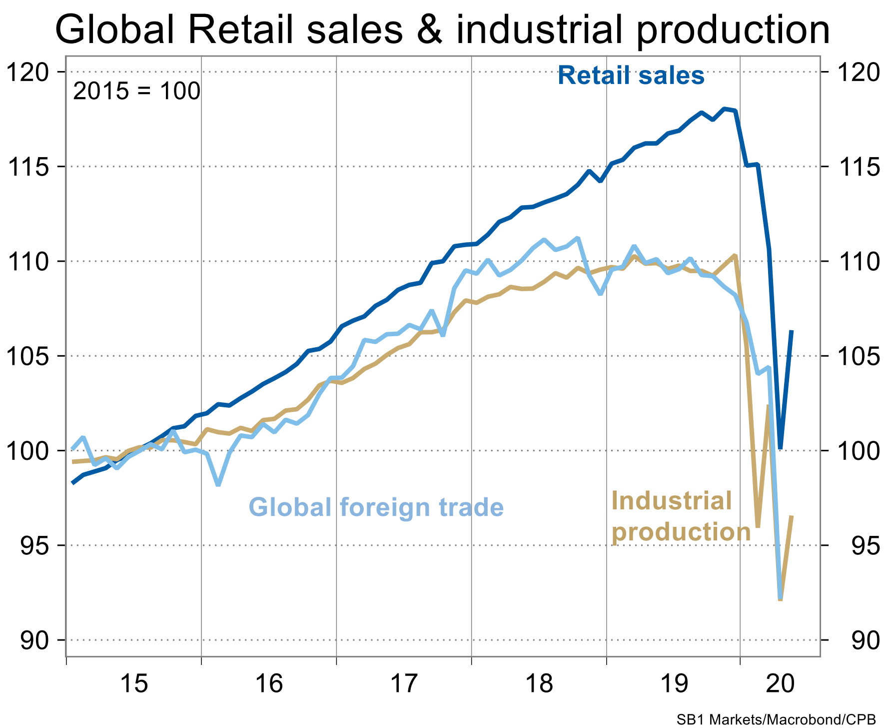


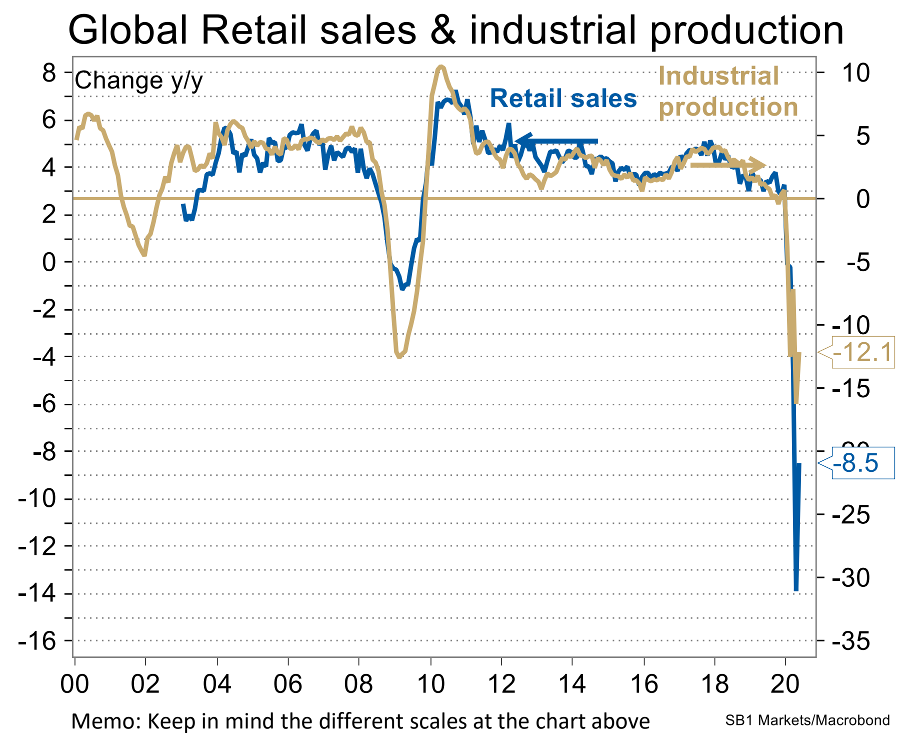
- The global surprise index is above an average level
- US is surprising more on the upside than ever before (data from 2003)
- Norwegian data have not surprised more at the upside, ever
- EMU is surprising most on the downside, as in EM ex China – but Europe is on the way up to neutral level

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

Industrial production and retail sales up some 5-6% in May?

Many countries have not yet reported – but April was no doubt the trough in the global cycle

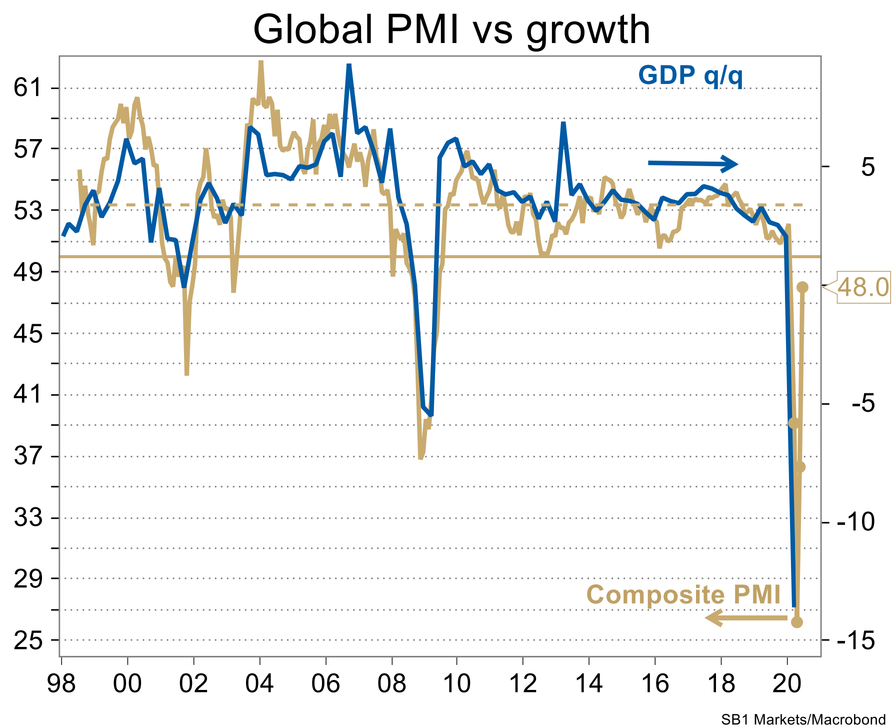


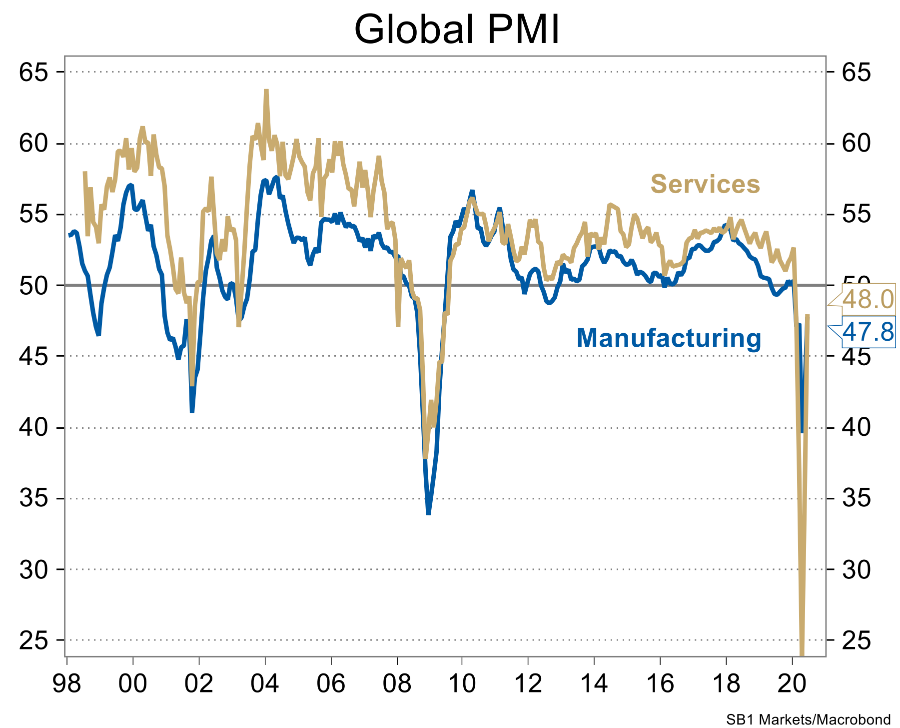


- **Global industrial production** probably fell some 10% in April, like **retail sales**, and **global foreign trade** in goods
- The recovery in May most likely was less than the decline in April - but a new course is set

PMI up towards 50, should have been above

PMIs/ISMs describe the cycles well but are not clever in detecting the first recovery month

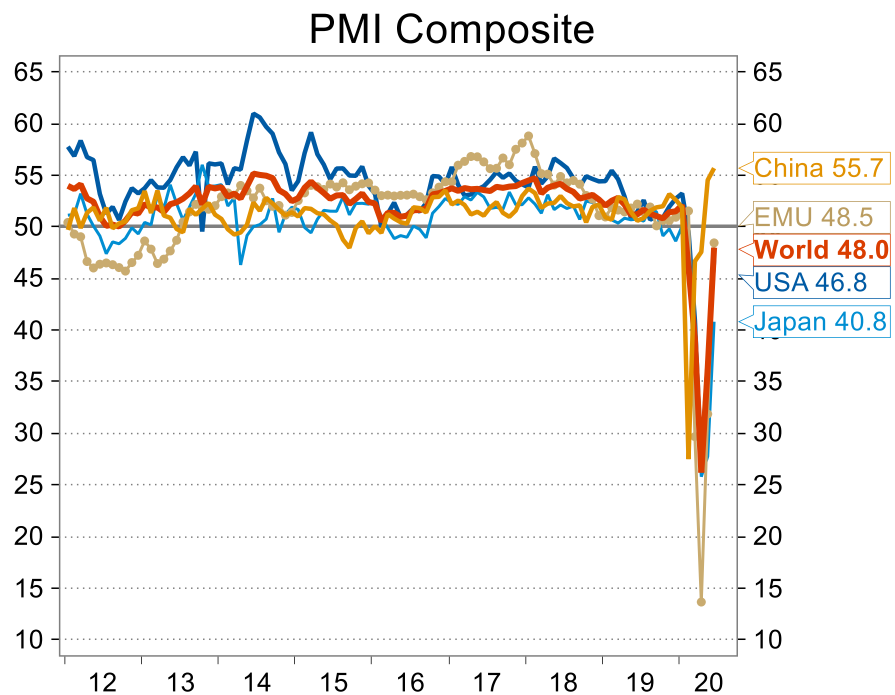




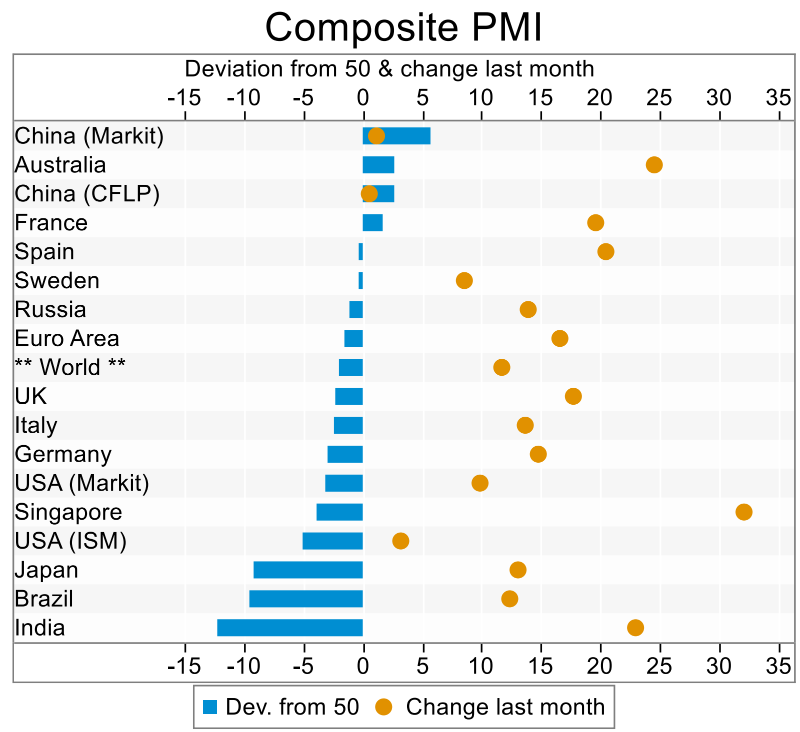
- The global PMI gained almost 3 p more than we assumed, based on preliminary data, up 11.7 p to 48.0 (still an estimate, but barring huge revisions in Markit's service sector PMI, that's the outcome). Both services are manufacturing were substantially better, partly due to upward revision in the European PMIs.
  - » However, these indices should have been even better as we are sure that actual production rose in both May and June. If so, the 50 line should have been crossed by a wide margin (as discussed the previous weeks). Companies are reporting on the development over the recent months, not just the last, which they are asked to do
- The uptick in June is broad, almost all countries are reporting better (or formally, less bad data). China is reporting strong growth

‘V’s everywhere, the recession was the shortest ever

Still, June PMIs weaker than they should have been. Japan, Brazil & India at the bottom. China in lead



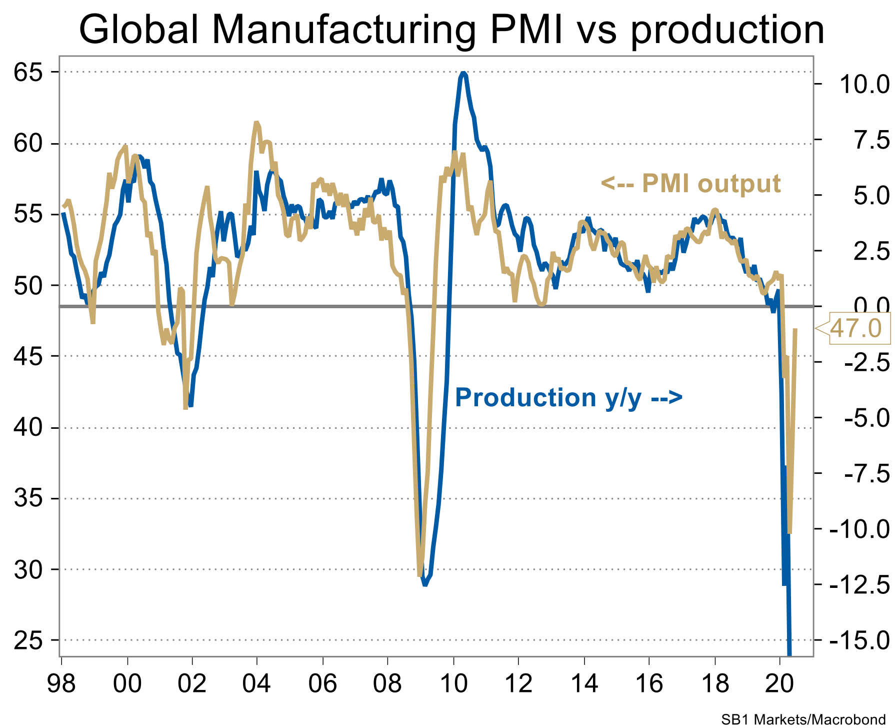
Source: IHS Markit, SB1 Markets, Macrobond

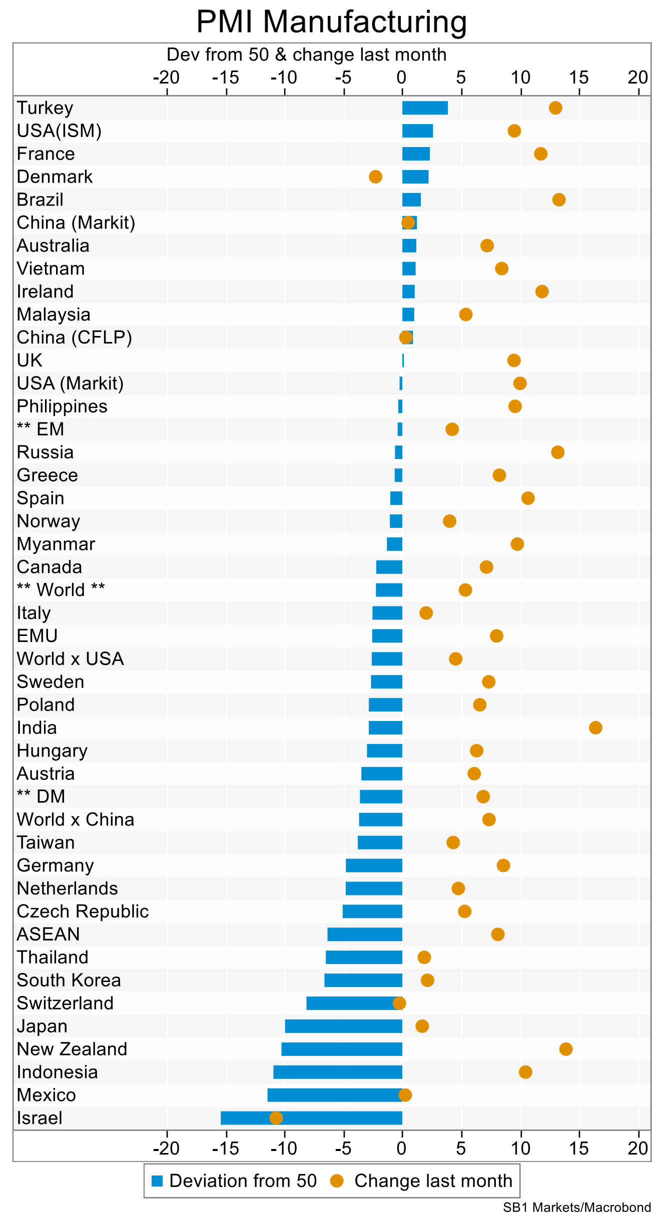


SB1 Markets/Macrobond

Manufacturing PMIs further up almost everywhere in June

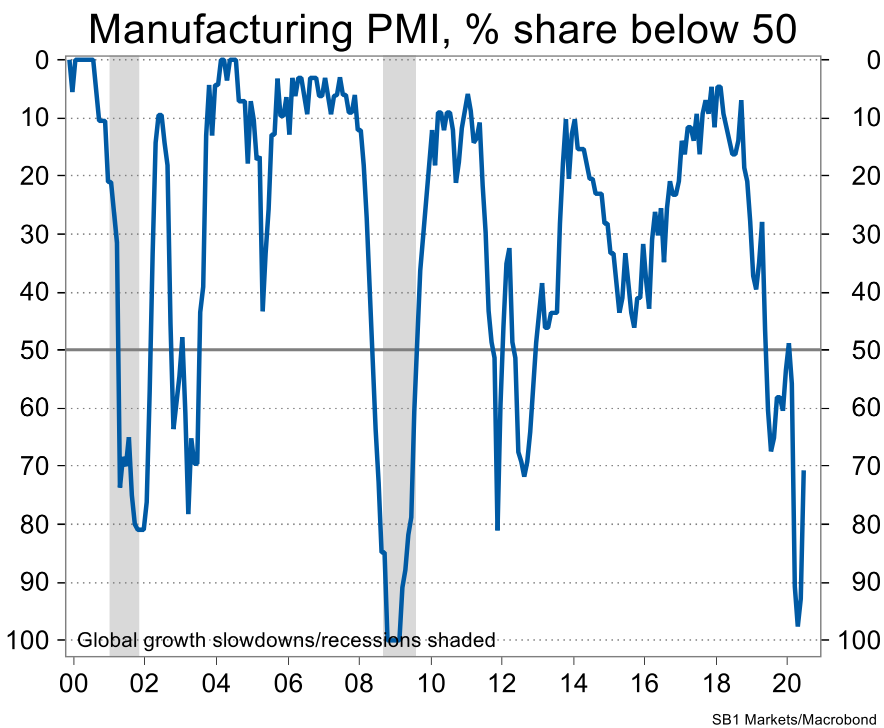
Just 2 countries down in June, 11 above the 50-line (but 33 below)

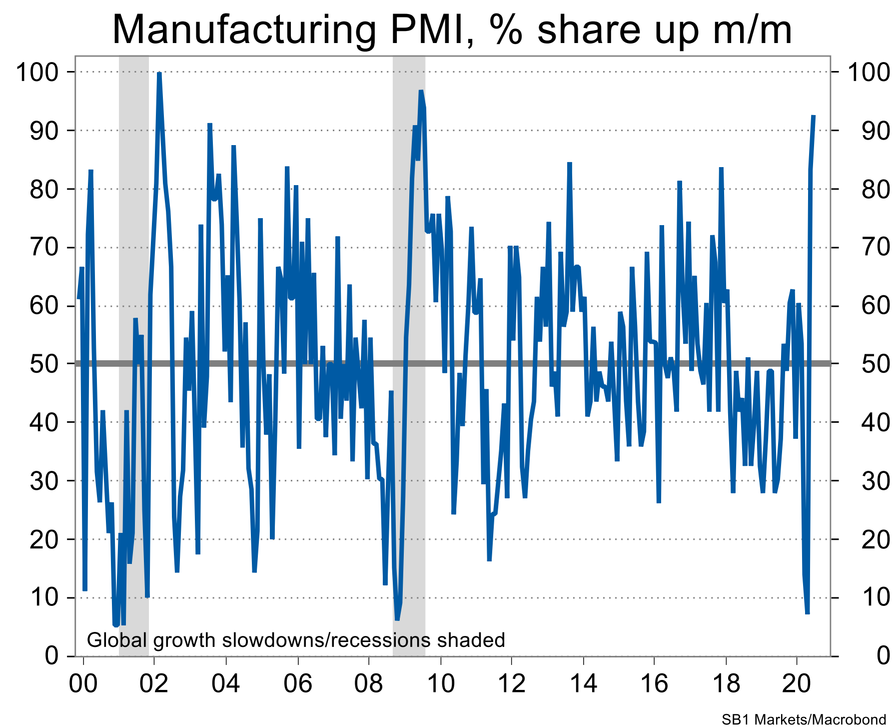




- The global manufacturing PMI not far below the 50-line, following a 5.3 hike up to 47,8 (or 47.0 for the output index)
- 11 manuf PMIs above the 50 line, up from 2 (Chinese PMIs) in May

Almost all up in June, and 30% above the 50-line



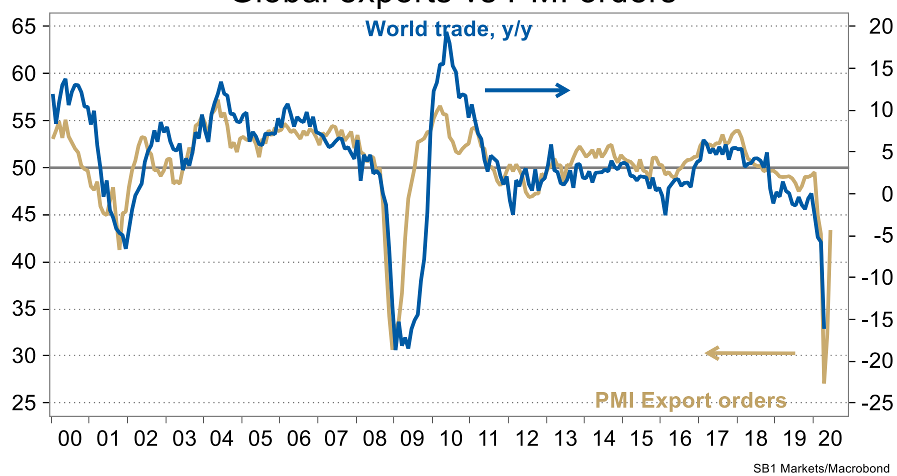


SpareBank 1 MARKETS

Export order PMIs up everywhere but none above 50

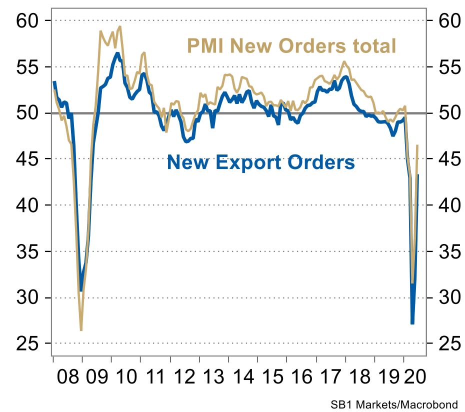
Export orders are weaker than total orders – could signal of 'supply chains' trouble

Global exports vs PMI orders

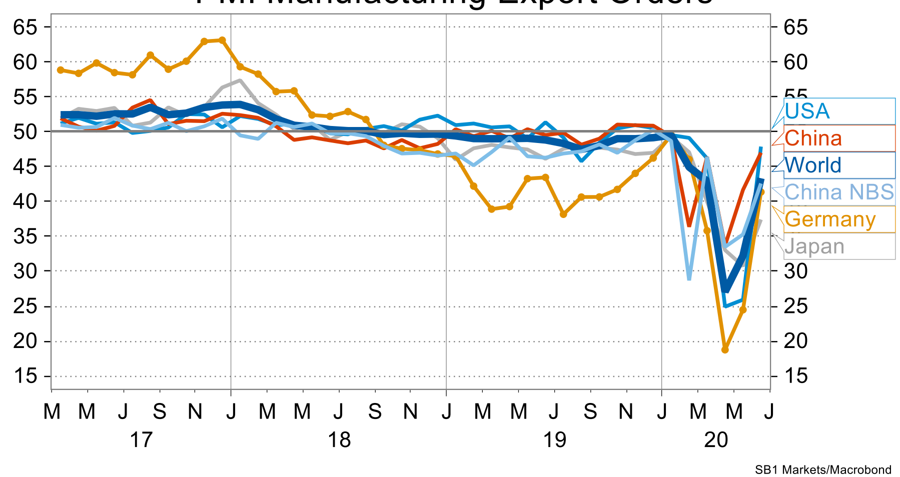


- However, the discrepancy is not that large, and not that much larger than normal. So. It is anyway far too early to draw any 'now normal de-globalisation' conclusion

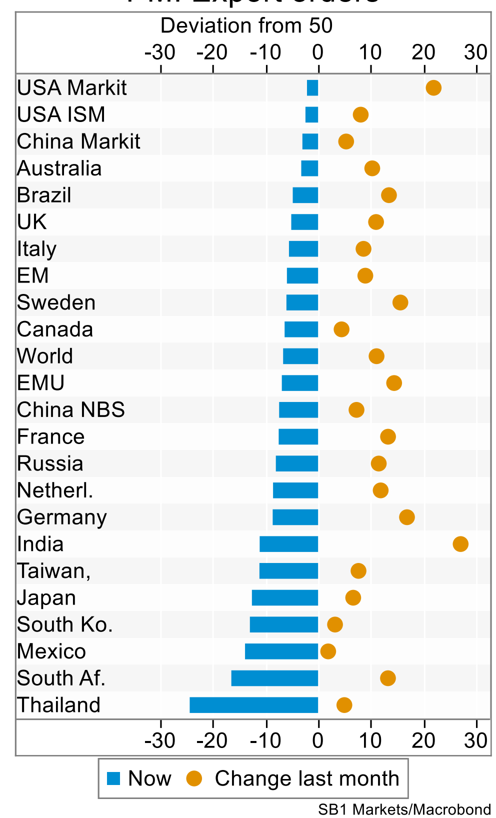
World PMI new orders



PMI Manufacturing Export Orders

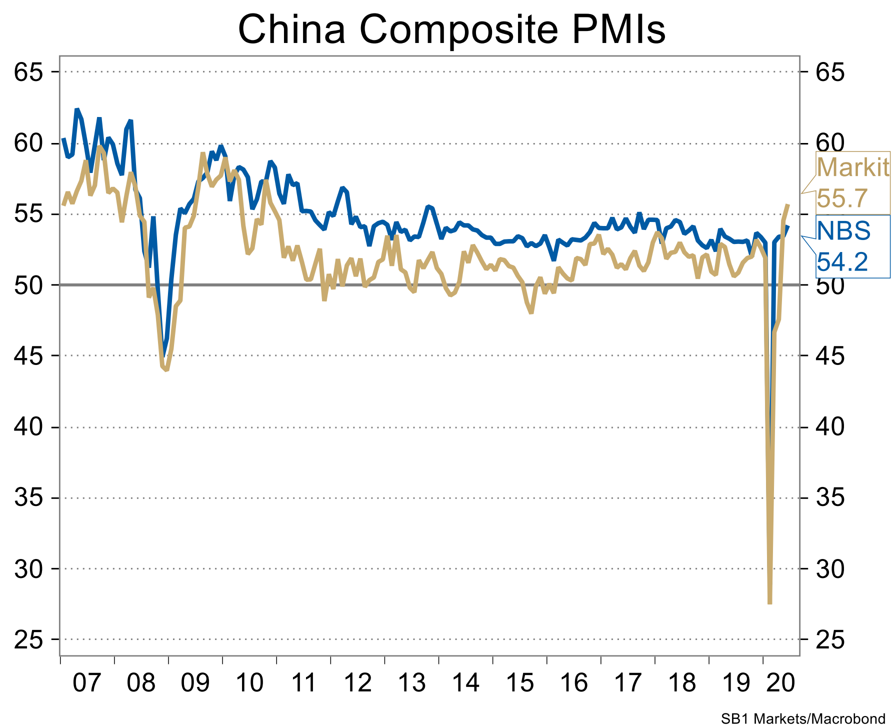


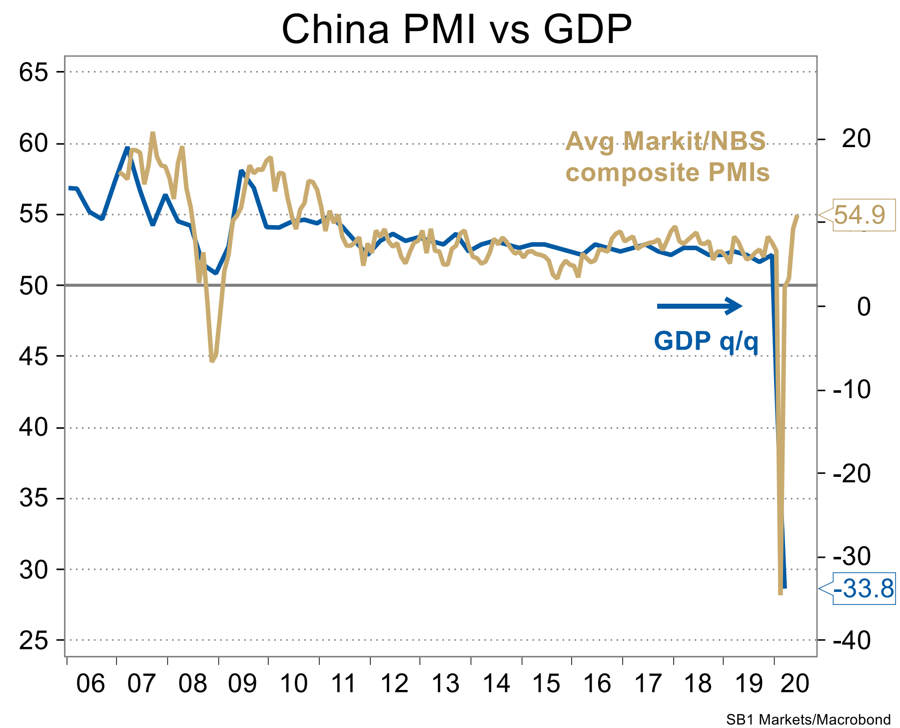
PMI Export orders



Chinese June PMIs much better than expected, signalling far above trend growth

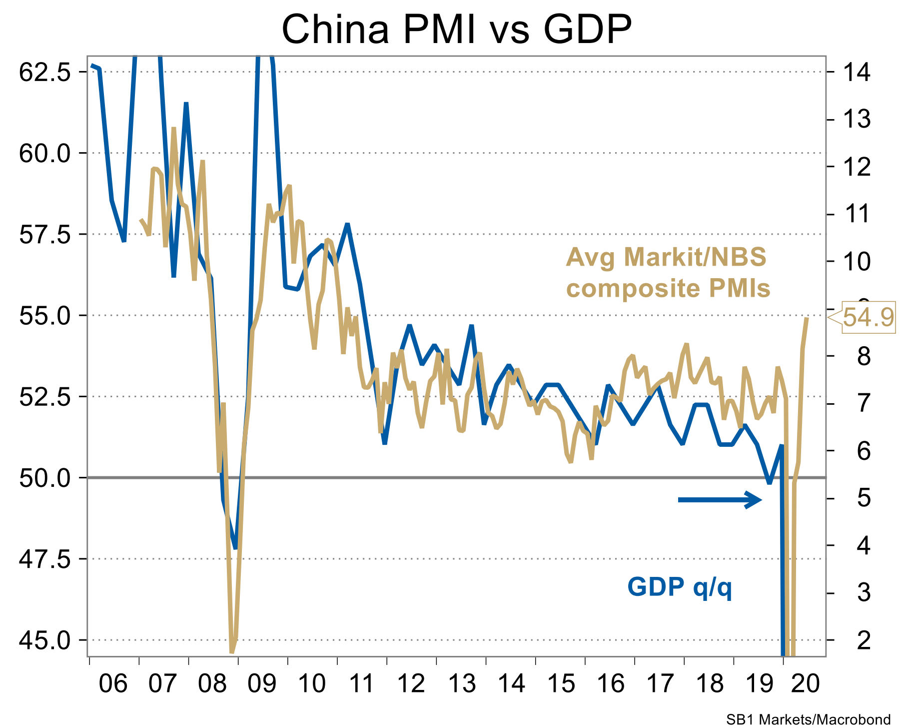
In average, the best PMIs since 2011, services in the lead. However, strong growth is 'needed'





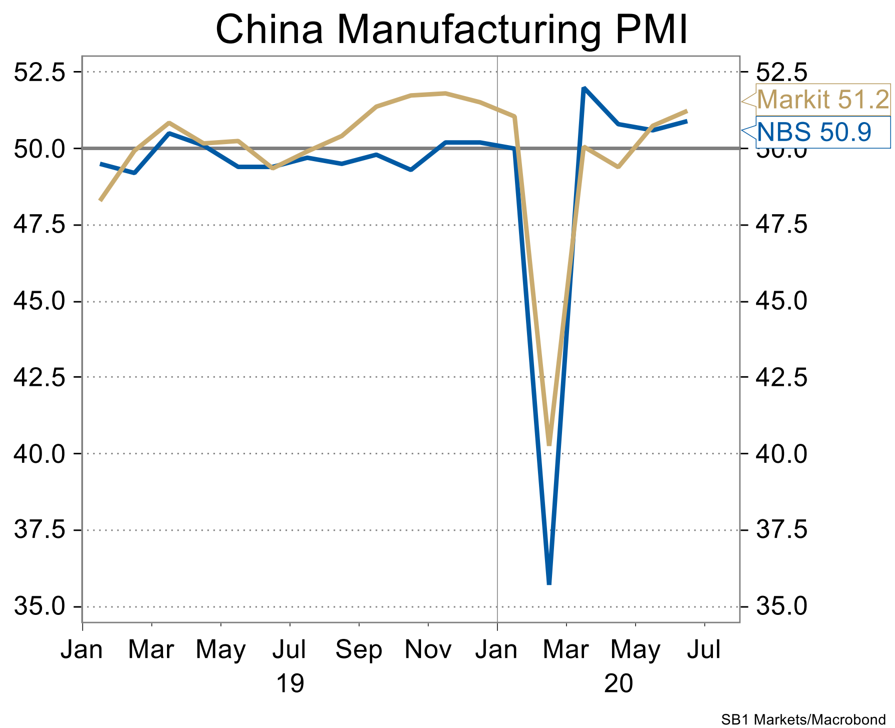
- The NBS' 'official' composite PMI rose further in June, by 0.8 p to 54.2, to the best level since 2018. The manufacturing PMI grew 0.2 p to 50.9, services strengthened more
- Markit's composite PMI rose by 1.2 p to 55.7, to the highest level since 2010. The manufacturing PMI rose 0.5p to 51,2. The service sector PMI shot up by 3.4 p to 58.4 a decent level
- The export orders PMI rose further (but are still below 50) while growth in domestic manufacturing orders slowed (remained well above 50)
- Taken together, the two data sets signal a 8 - 10 GDP growth pace, at least, or 2 - 2.5% per quarter, not annualised. However, that's not that impressive as GDO fell by 9.8% in Q1. We assume that actual GDP growth was far better than 2 – 2.5% in Q2, and hopefully in Q3. If not, the negative output gap will remain extremely large

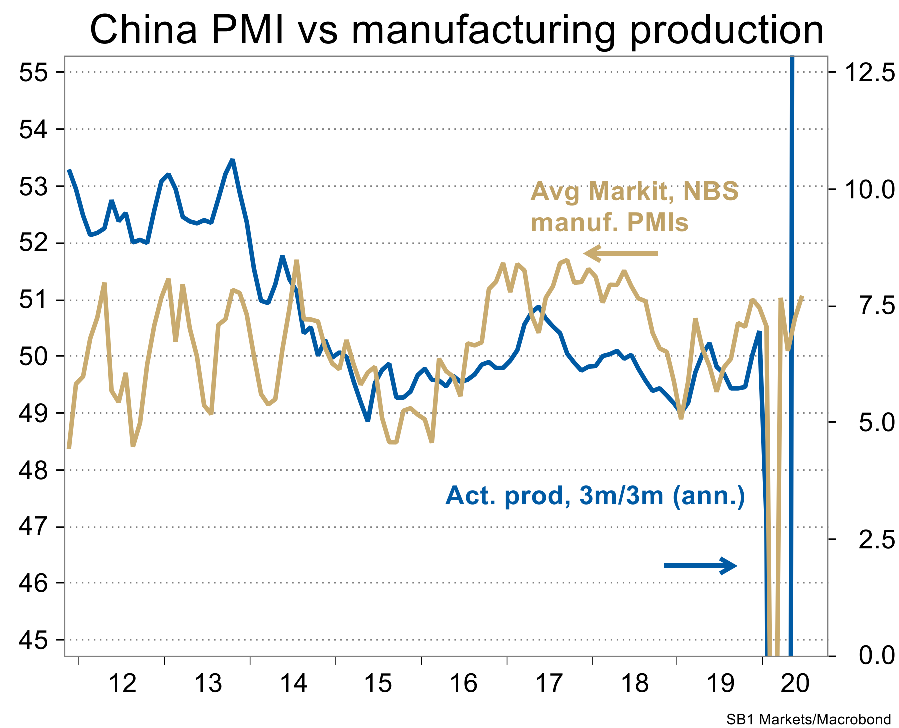
… a closer look, at 'normal' times: The PMIs are signalling 7 - 10 % growth



SpareBank 1 MARKETS

Both manufacturing PMIs up in June, signalling growth above trend

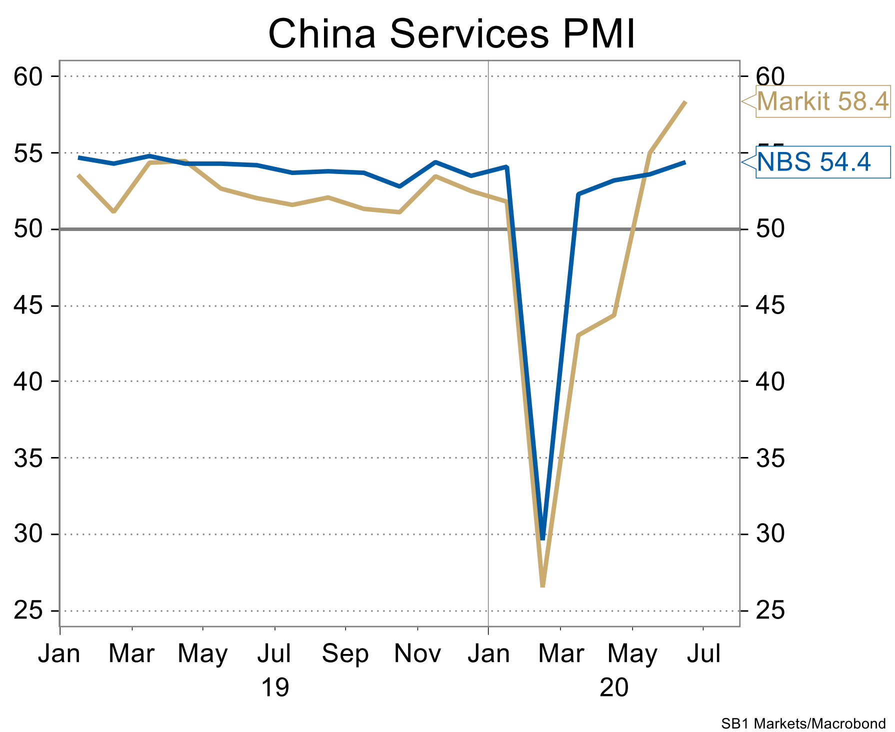


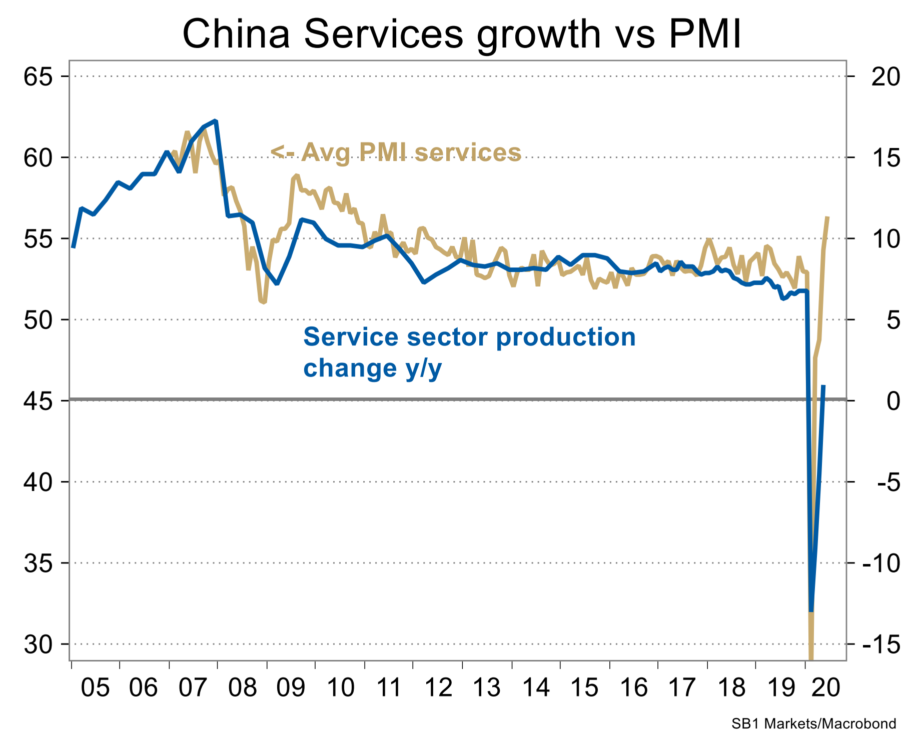


- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

Service sector PMIs signal growth above normal

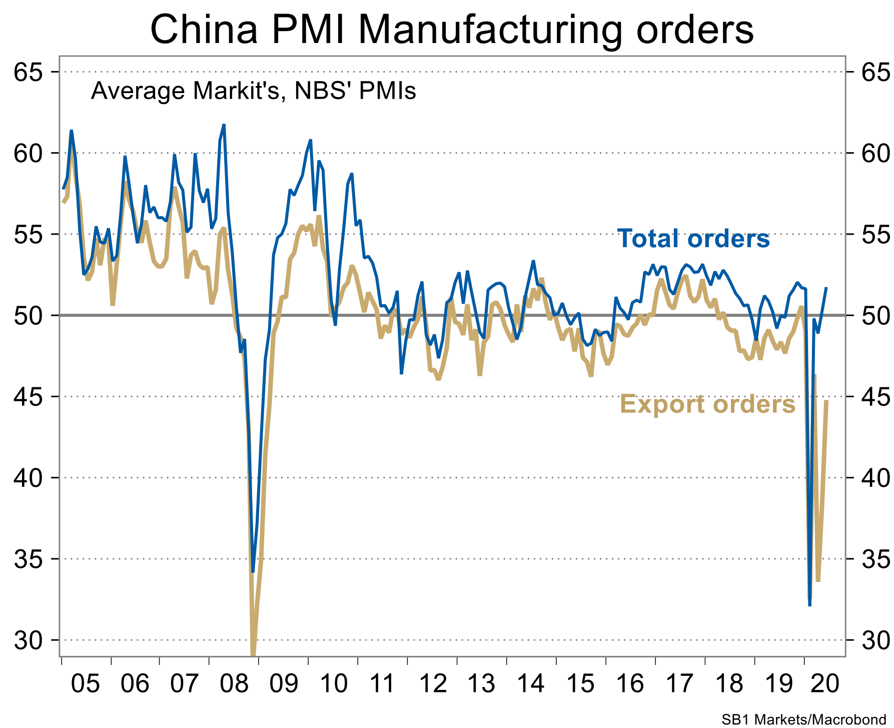
… which is needed in order to close the output gap

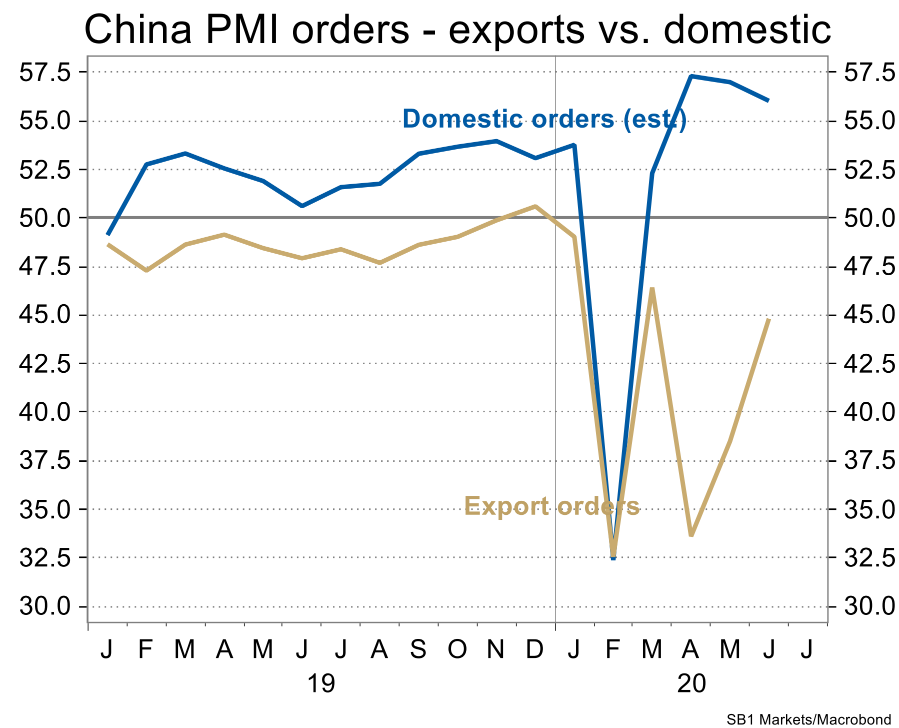




Export orders still a drag but less so

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

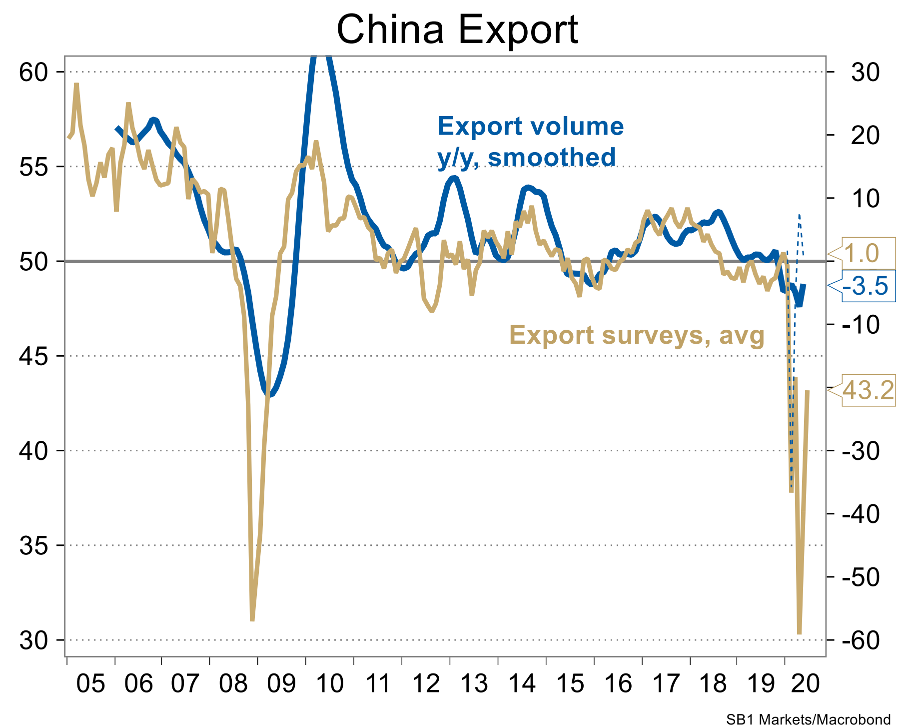




- Export orders are reported further down in June but at a slower pace (the PMIs up, still below 50)
- Domestic orders are growing at a brisk pace, however at tad slower in May and June than in April
- The total order indices are well above 50
  - » At the chart to the right we have made a rough estimate of an domestic order index (which ins not published).

Export surveys up but are still at a depressed level. Actual exports not

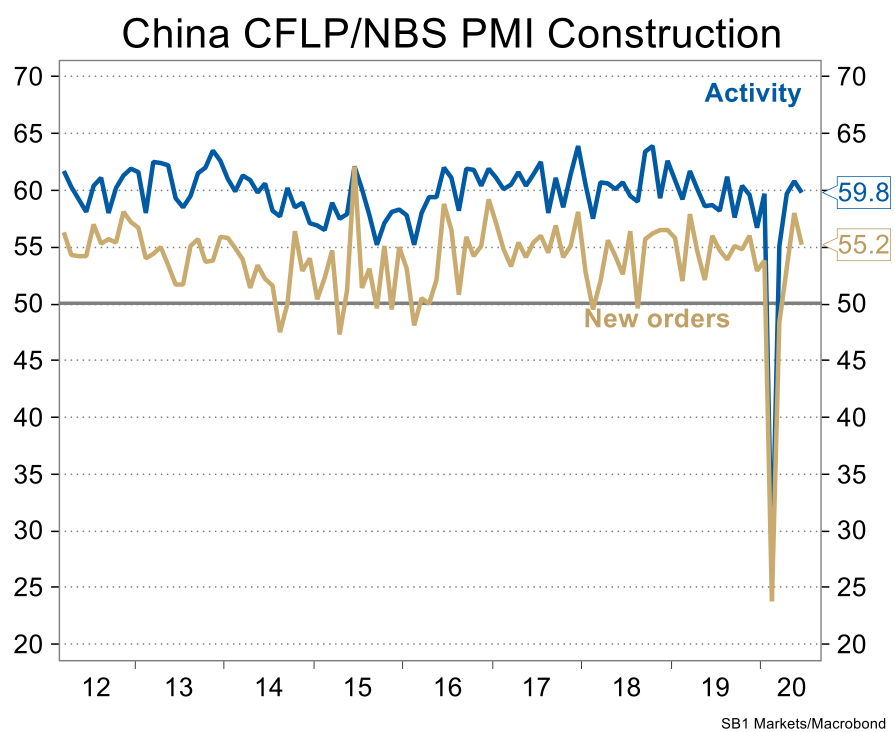
In February, the Chinese Covid-19 lockdowns stopped exports, now it’s lockdowns in ROW

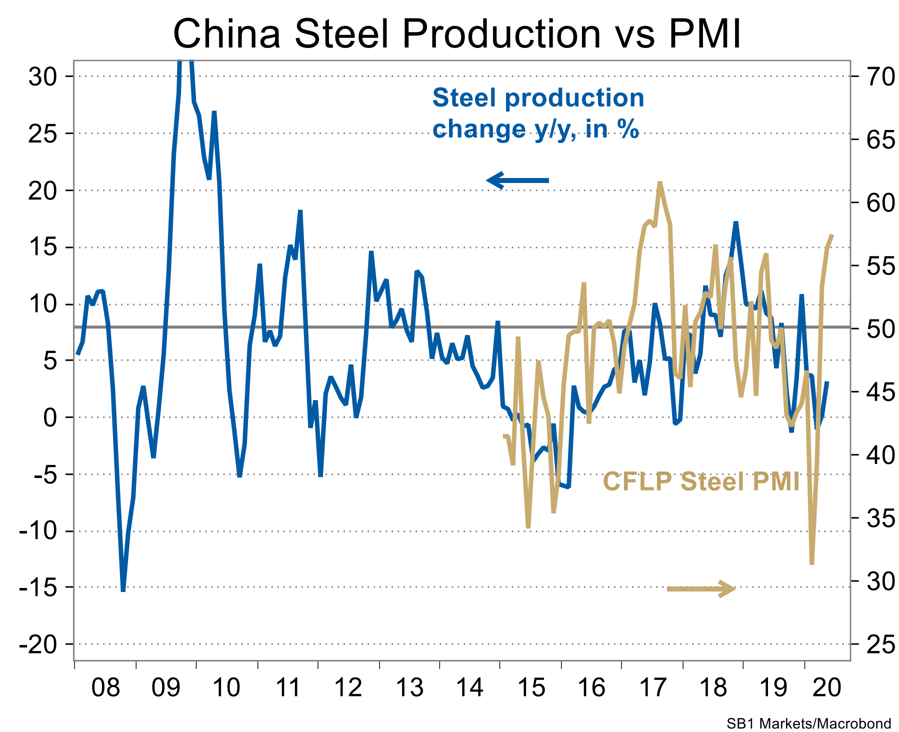


- Actual exports are slightly down y/y measured smoothed due to the 40% drop in exports in February. In April and May exports were close to pre corona levels
- We expect a decline in Chinese exports in May and June

Construction & steel back on track, signaling growth above trend

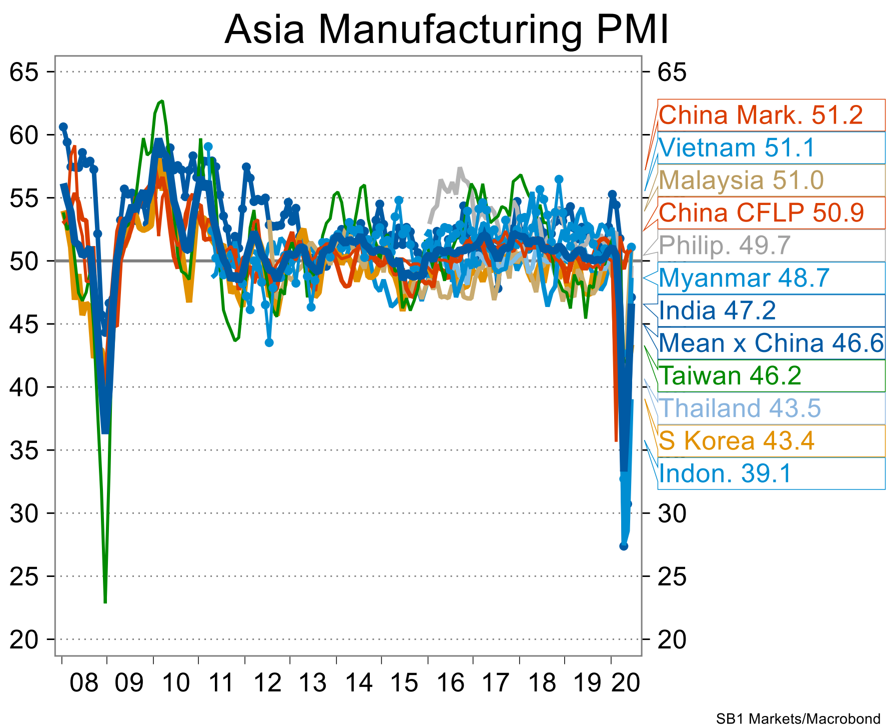
The construction sector PMU fell slightly in June but is still at a comfortable level; steel further up

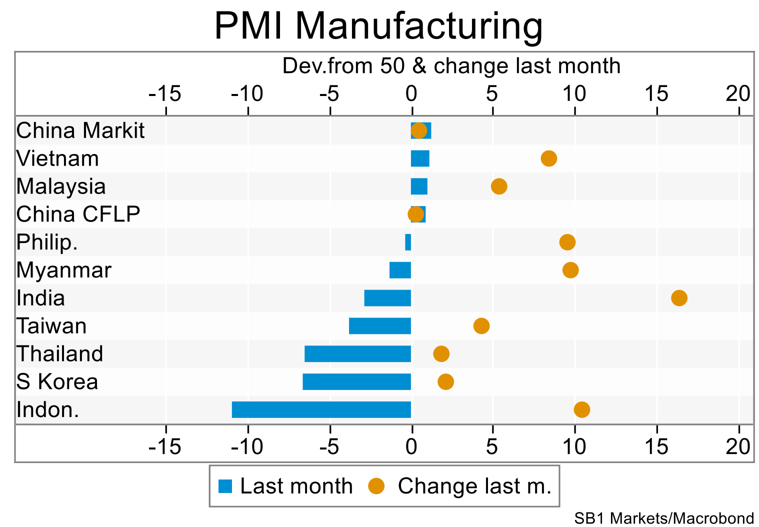


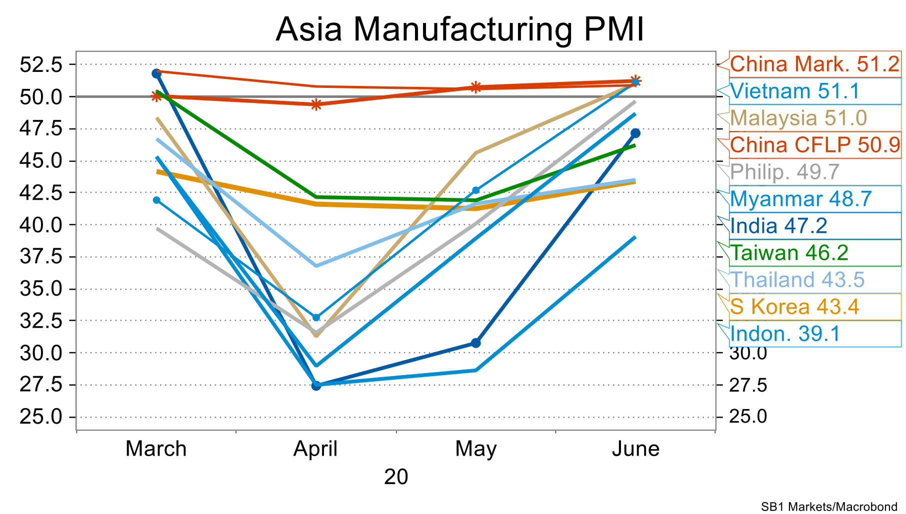


Less bad in Asia, the manufacturing PMIs are heading towards 50

South Korean manufacturers continues to to report a steep decline, just like the Japanese

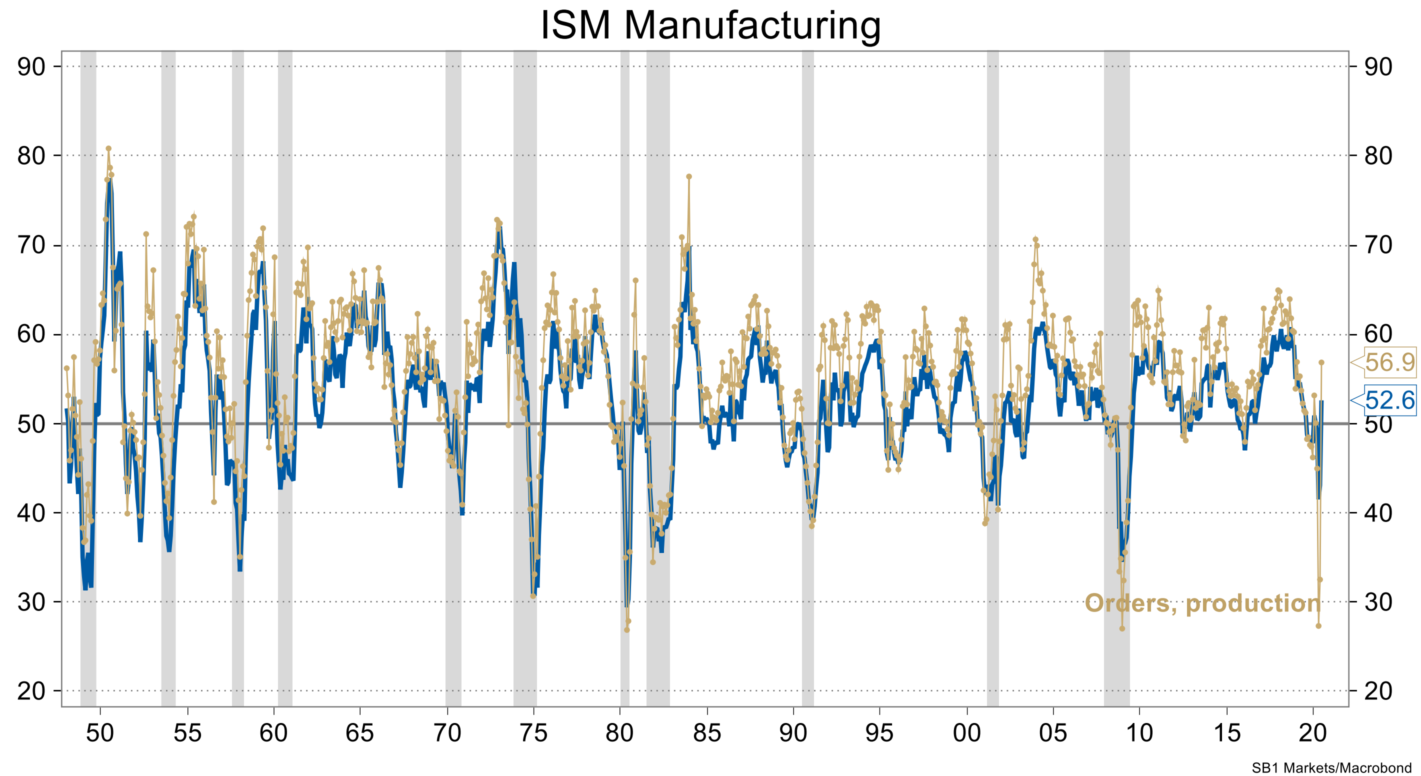


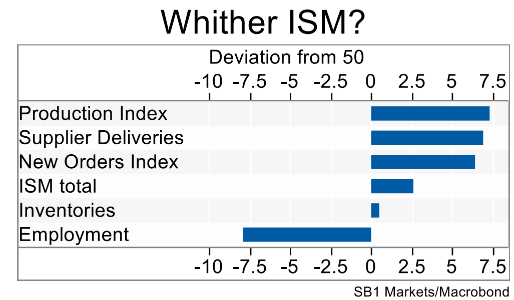


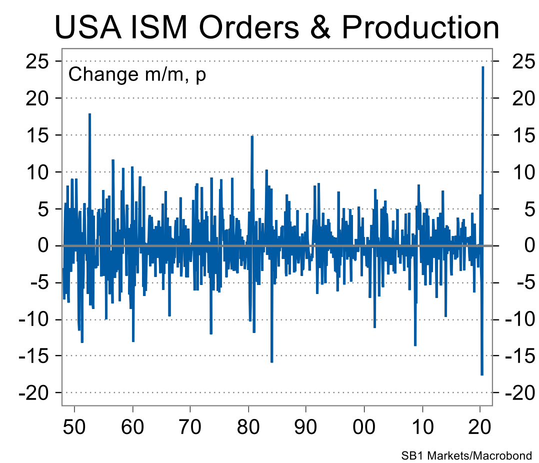


One month too late, the ISM recognised the recovery!

The total index up 9.5 (best in 40 years) to 52.6. Orders/production even better, +24 p to 56.7





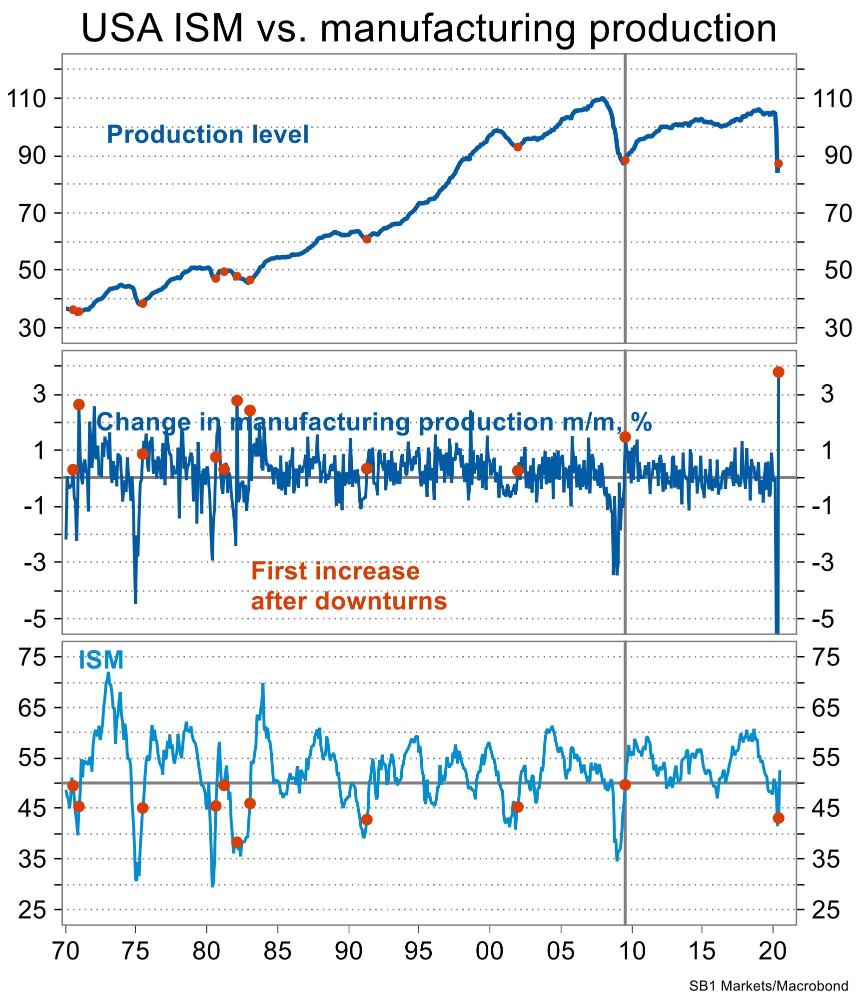


- A simple trick: Shut production down, and then open it up again. Voila, production will go up! The ISM rose more than since 1980
  - » Orders and production indices rose by 24 bp, a new record, by far!
- 13 manufacturing sectors reported growth in May, up from 6 in May (and just 2 in April). 4 sectors are still on the way down (11)
  - » Those om the way down: Transportation Equipment; Primary Metals; Fabricated Metal Products; and Machinery
- The bright spot: Manufactures recon their customers have run down their inventories

SpareBank 1 MARKETS

Normally, the PMIs/ISMs do not spot the first month of a recovery

PMIs should climb to above 50 if production grows m/m but they do not

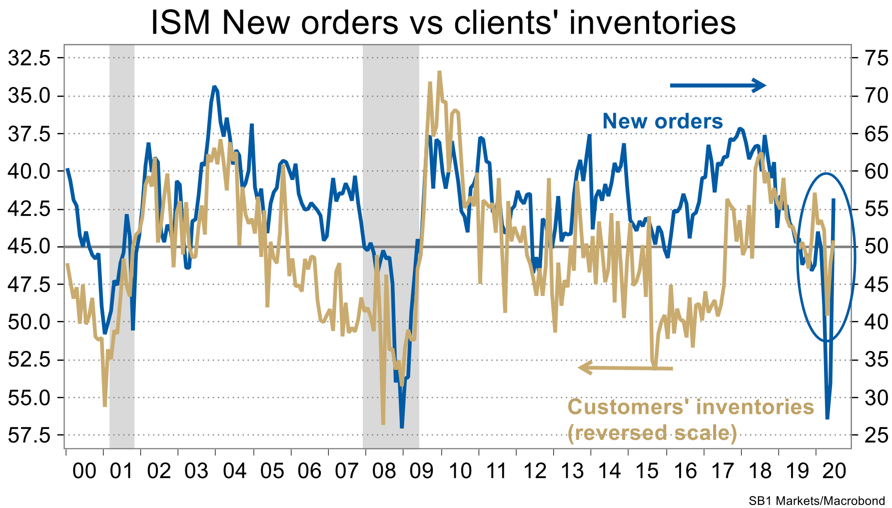


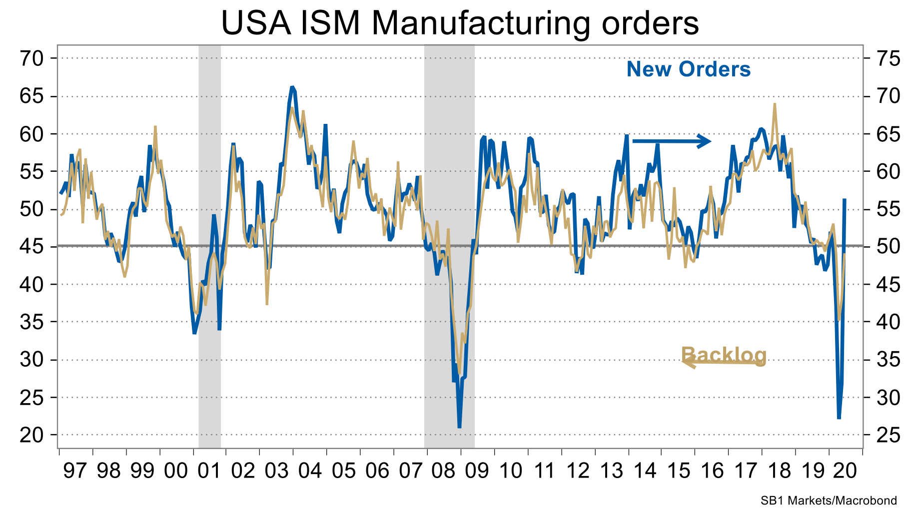
- The ISM (like other PMIs) usually remains below 50 when production increases for the first time after downturns
- Most likely because companies are not answering the survey exact. They are asked about the change in orders, production etc from the previous months but are rather referring to the change in activity previous few months (but not y/y changes and not the activity level vs. a 'normal' level)
- Still, the PMIs/ISMs captures the broad cycles very well, and are useful in an analysis of the momentum in the business cycle

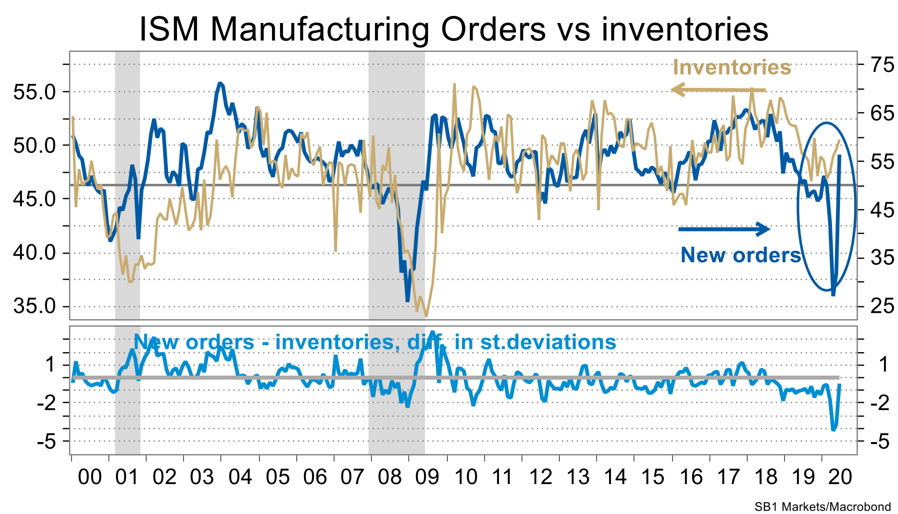
SpareBank 1 MARKETS

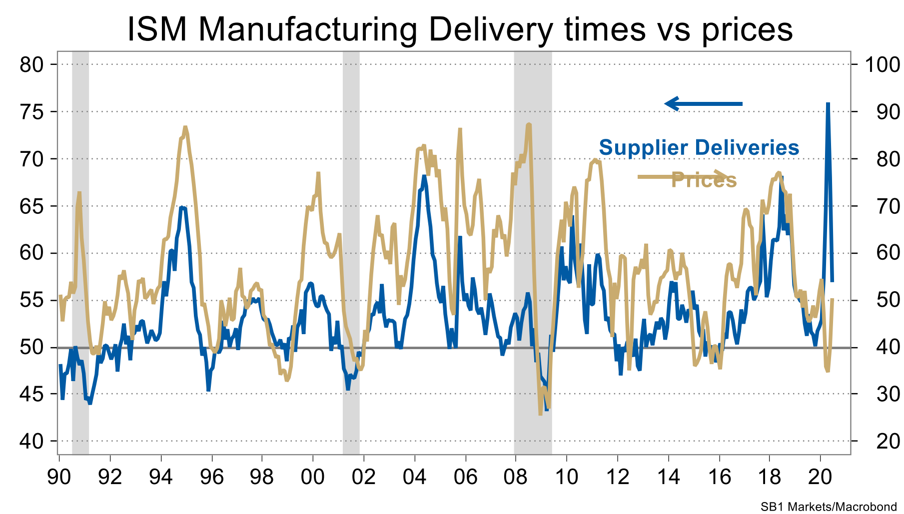
New orders up, less delivery challenges (supply chains intact?) – and prices up

Customers' inventories down, good news. Own inventories up but not by much

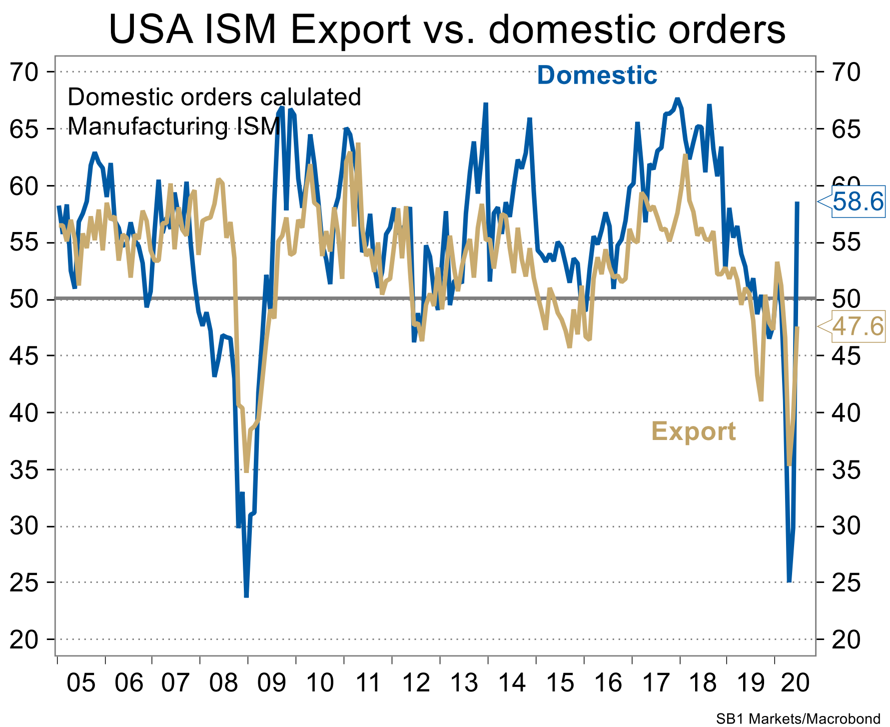


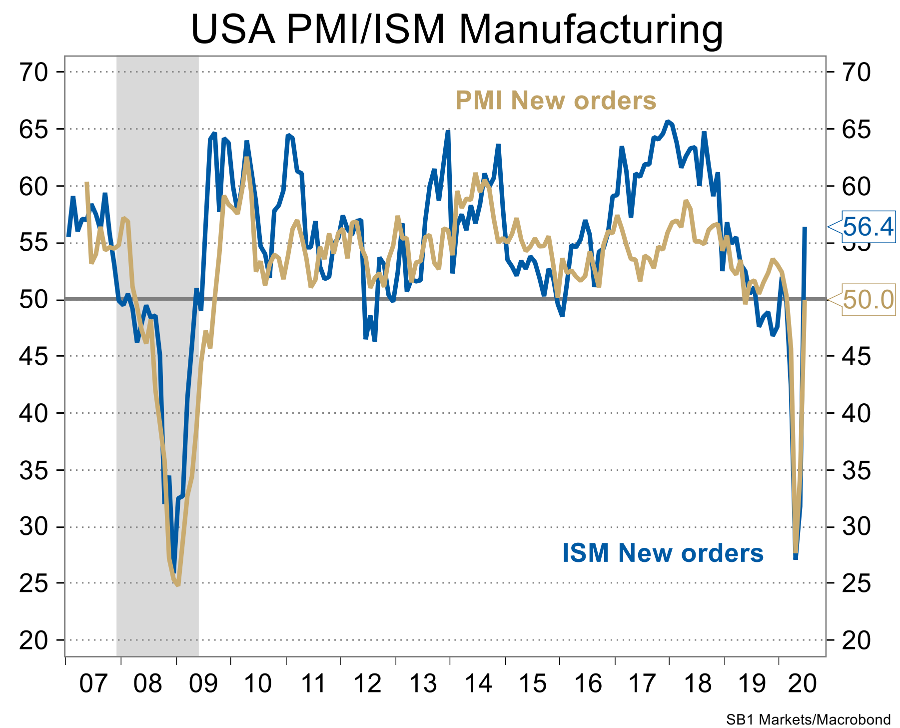






Domestic orders sharply up, exports still below par

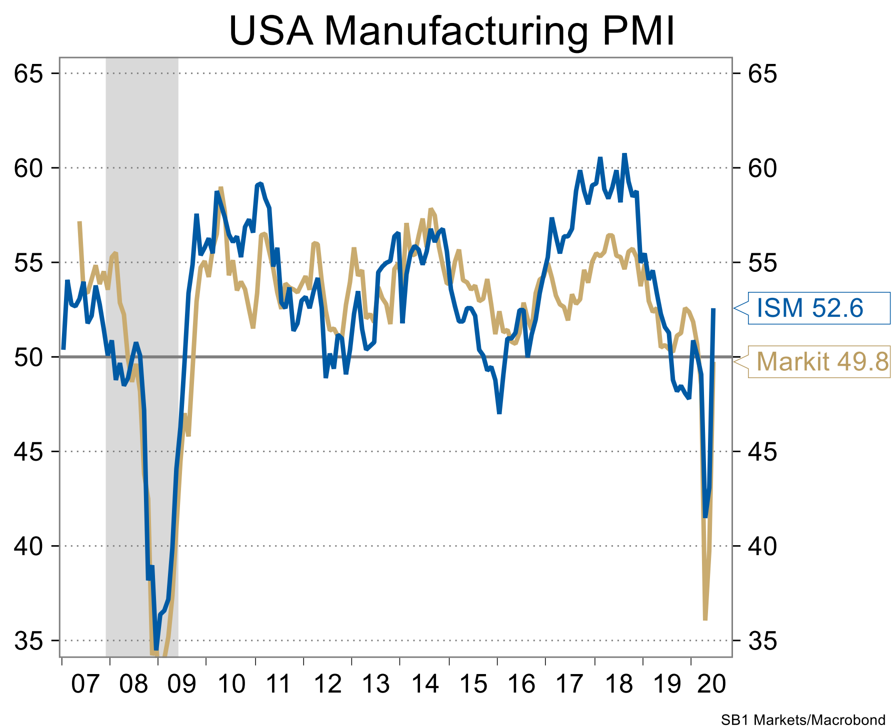


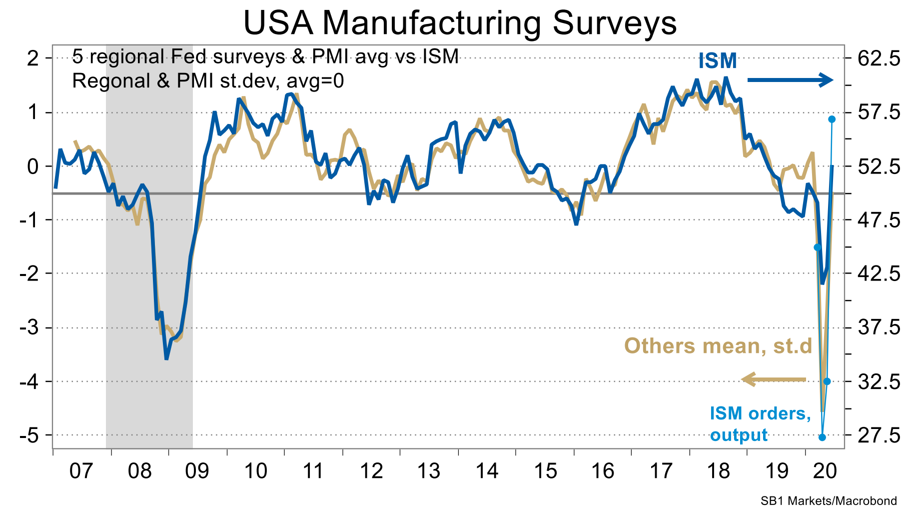


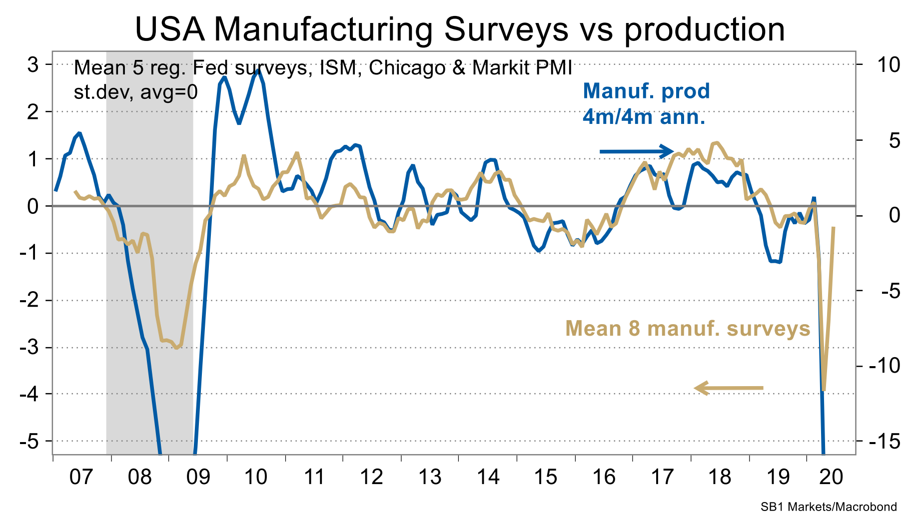
- Both the ISM survey and the PMI are telling the same story on orders

All manufacturing surveys up in May, approaching normal levels

ISM up 9.5 p, PMI 10 p – ISM at an average level, signalling normal growth – PMI just below 50



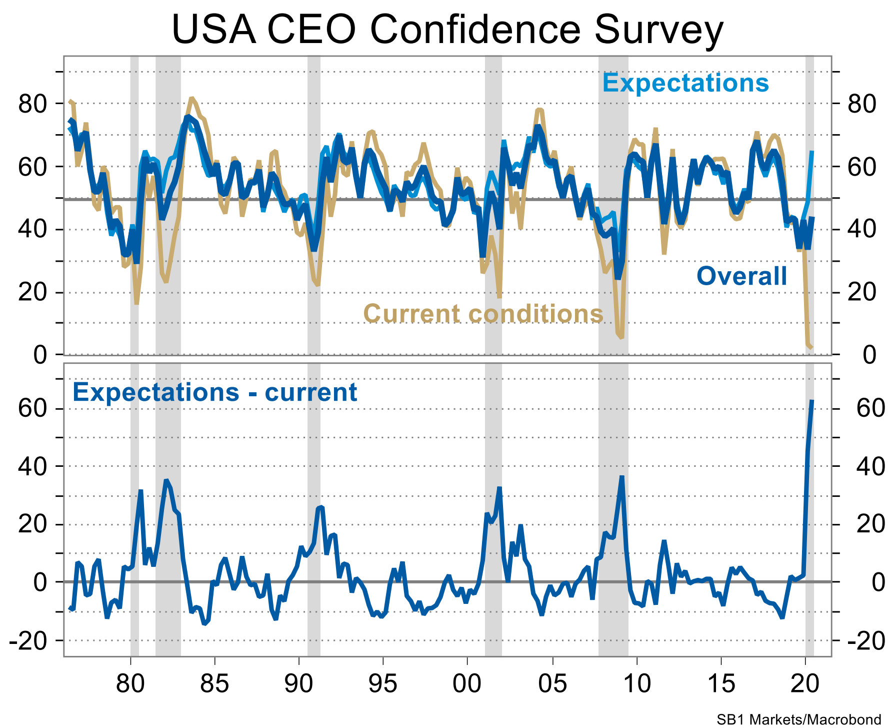


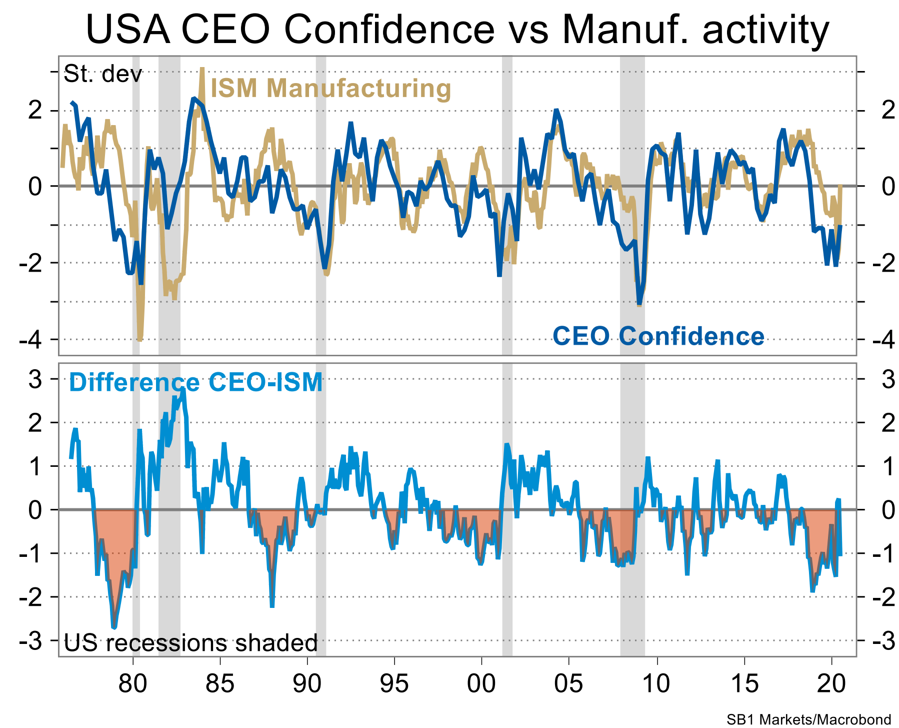


- Actual manufacturing production surprised on the downside in May – but still rose 3%
- Production remained 17% below the pre corona level
- We expect a continued growth in June, we assume quicker than in May

CEOs: It is as bad as it gets now, but tomorrow, tomorrow will be much better

CEOs do not look upon the current crisis exactly as a normal recession – but as a shorter one

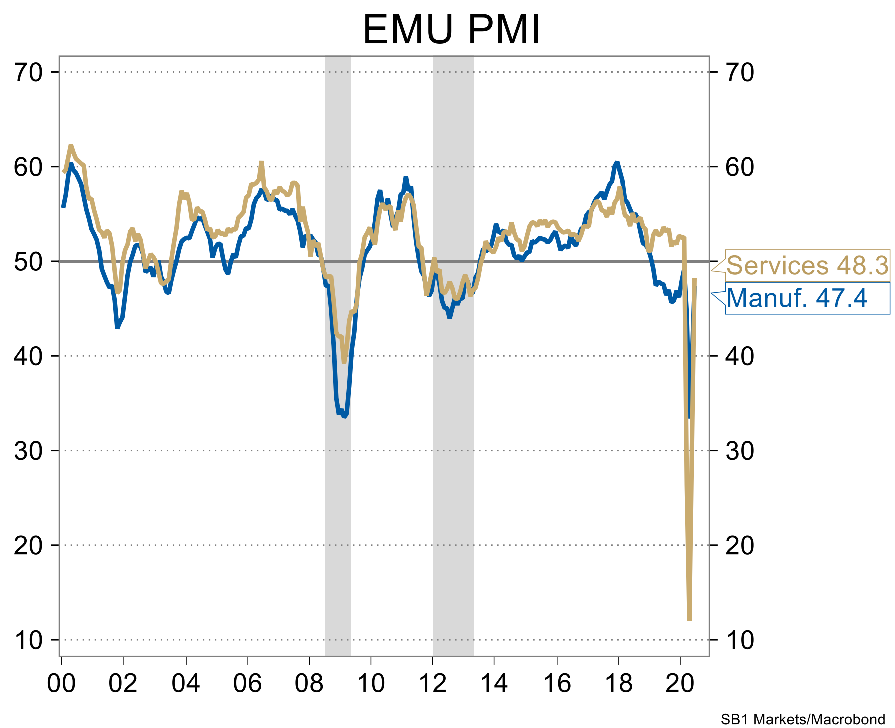


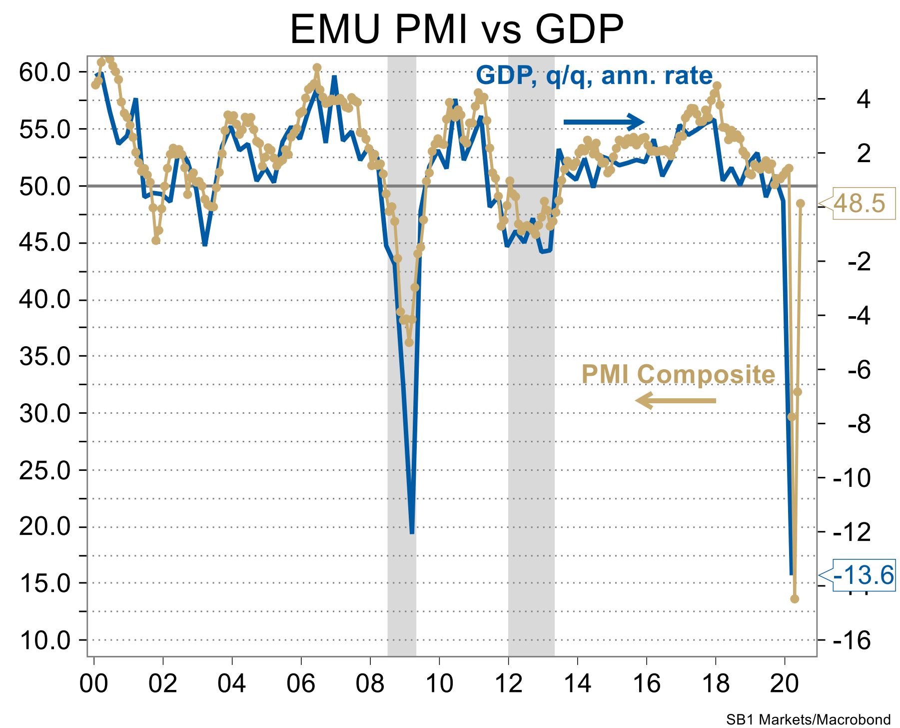


- Expectations started recovered one quarter earlier than normal, and the difference between expectations and the assessment of the current situation. An understandable judgment

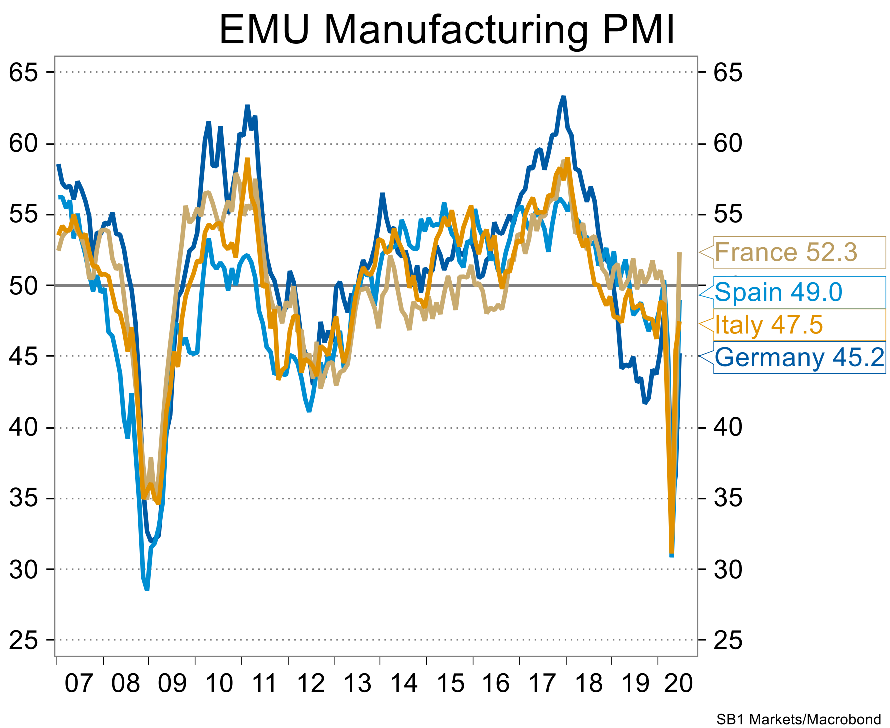
PMIs better than first reported, still formally signalling (an unlikely) contraction

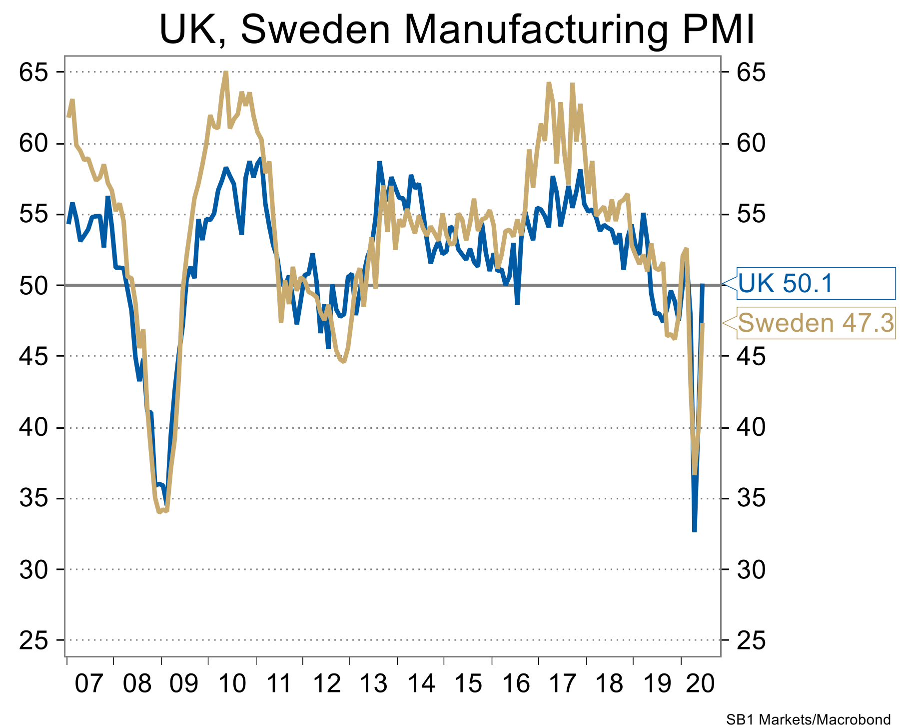
Composite PMI recovered to 48.5 from 32, both manuf. & services – all countries. Germany is lagging





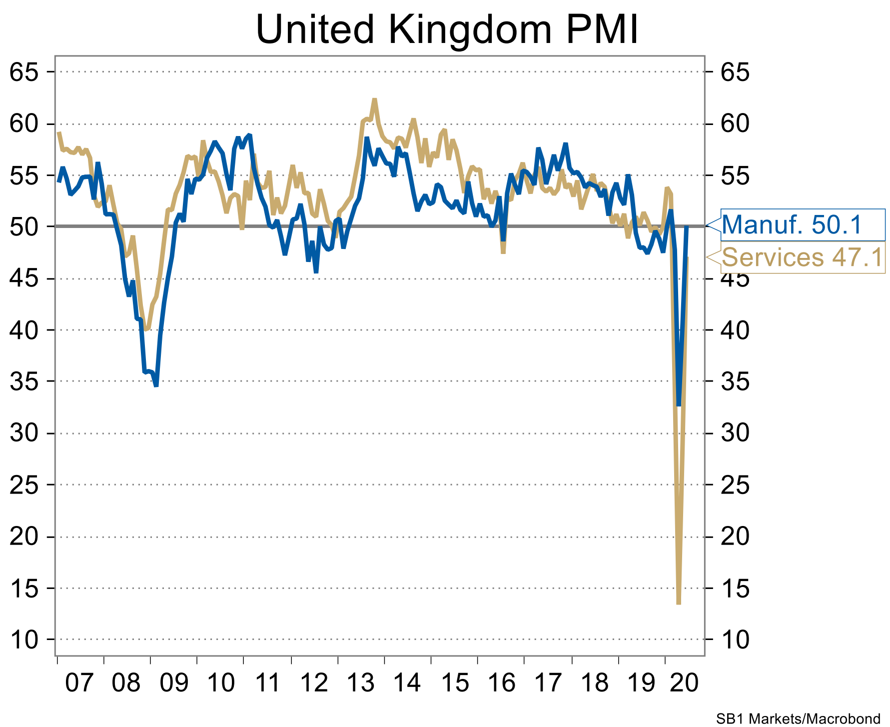
PMIs up all over Europe, France & UK above 50, Germany still at 45

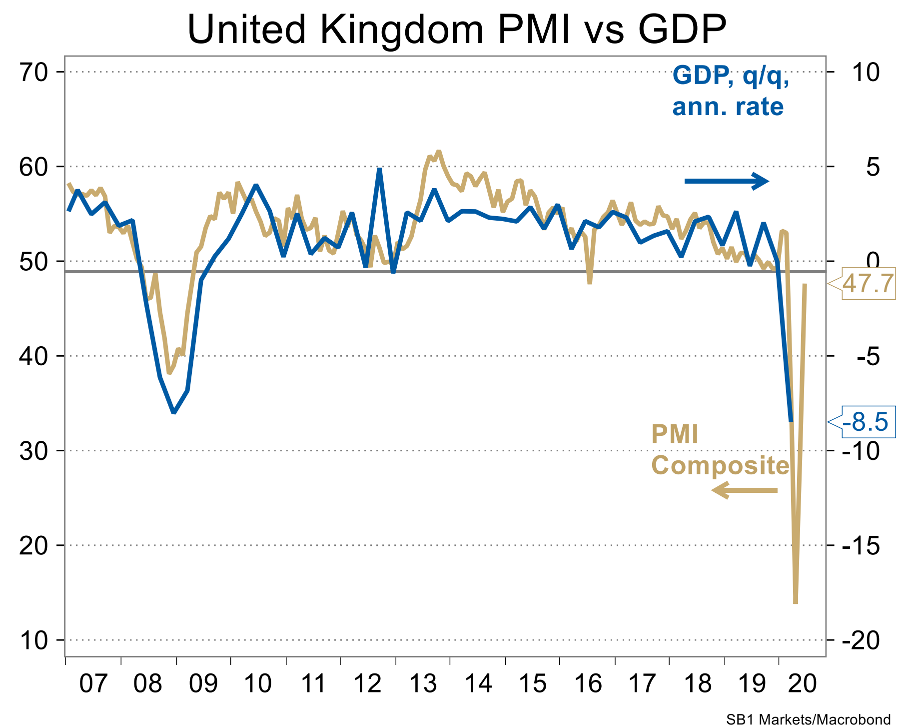




The economy is waking up, from a very low level

We assume the economy grew in June, even if the PMIs did not said so

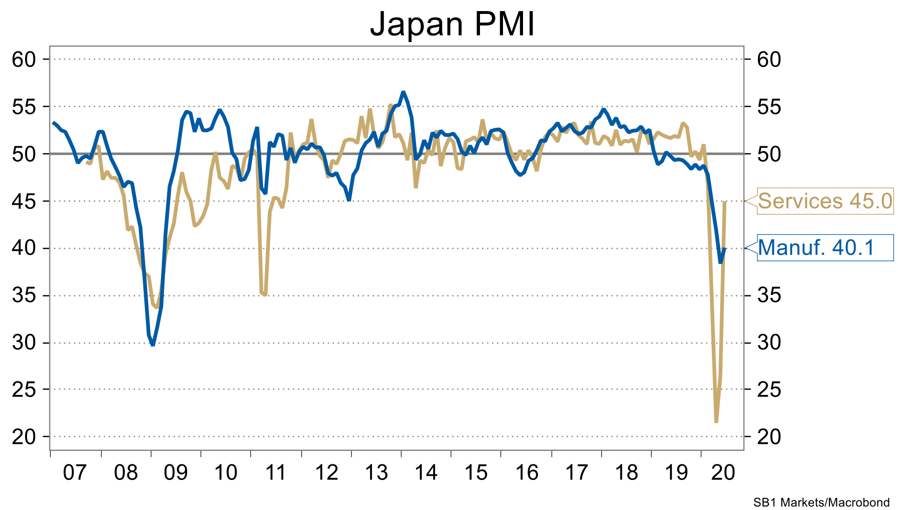


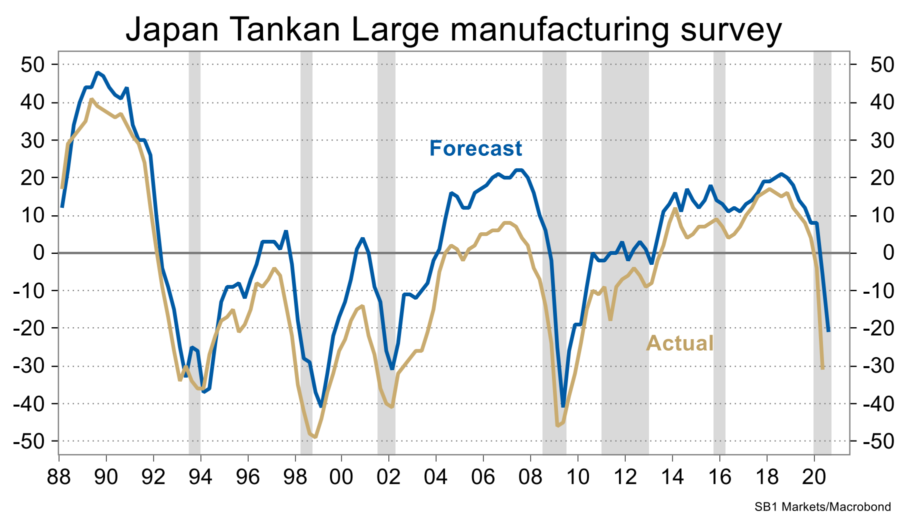


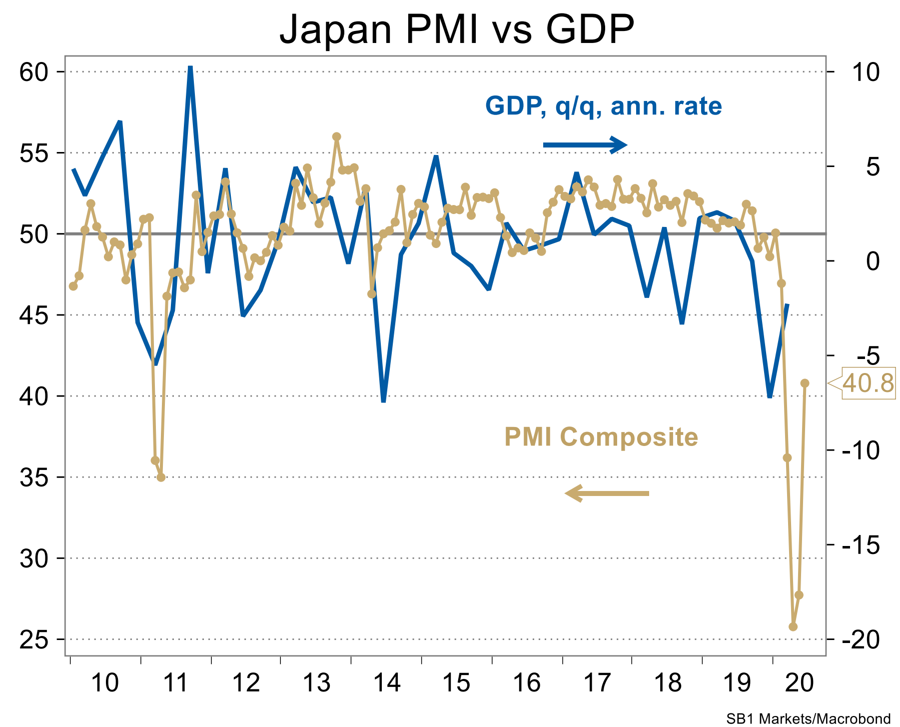
- GDP fell 25% April and it the recovery in May must have been modest (if at all)
- In June, activity indicators are pointing up but not in an impressive way

The Japanese manufacturing PMI still very weak, services not strong. GDP -5%

... and the Tankan Q2 survey signals a further contraction too



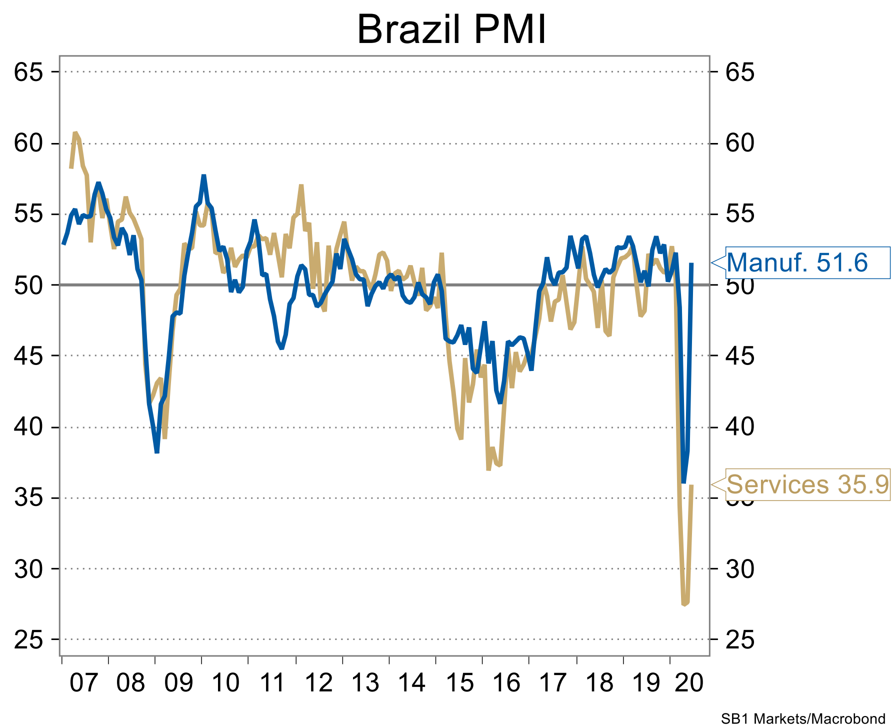


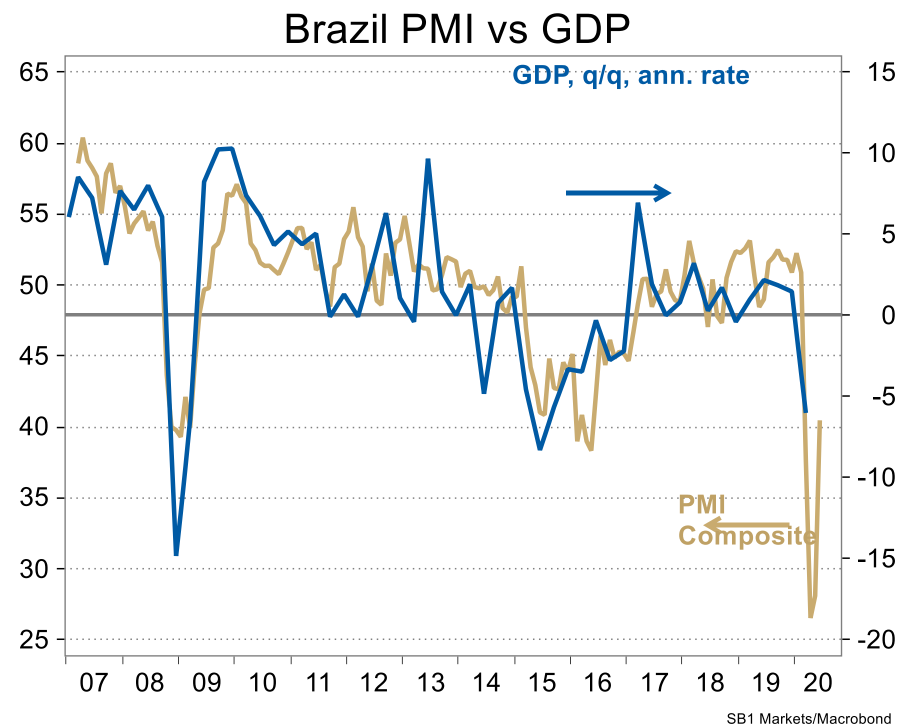


- Face value, both surveys signal a harsh Japanese recession

Brazil has turned the corner too? Well, serviced in deep shit, manuf. above 50

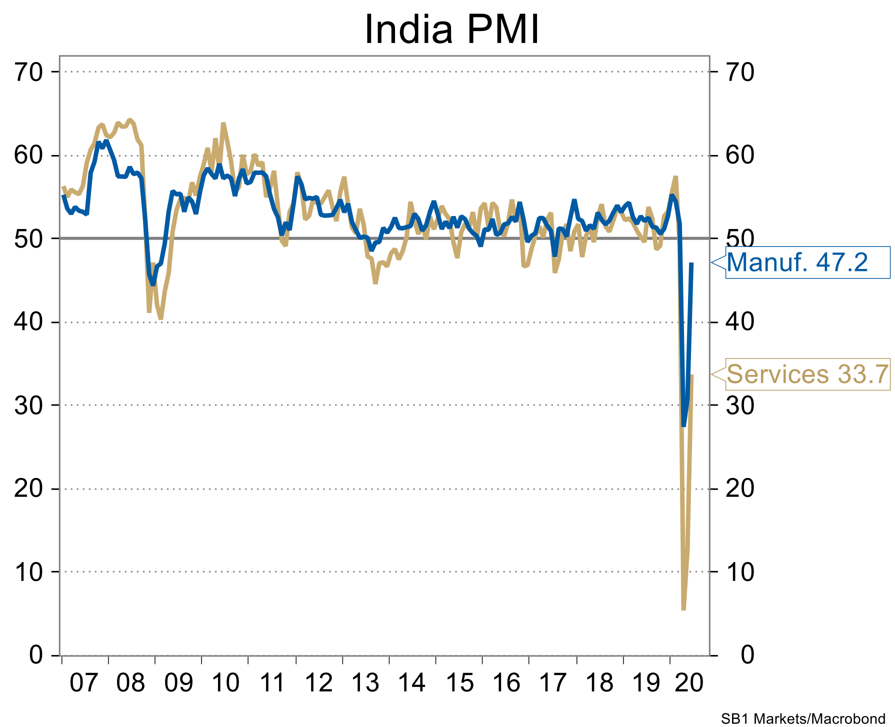
In sum, a continued sharp slowdown is signalled. The corona virus is still a huge challenge

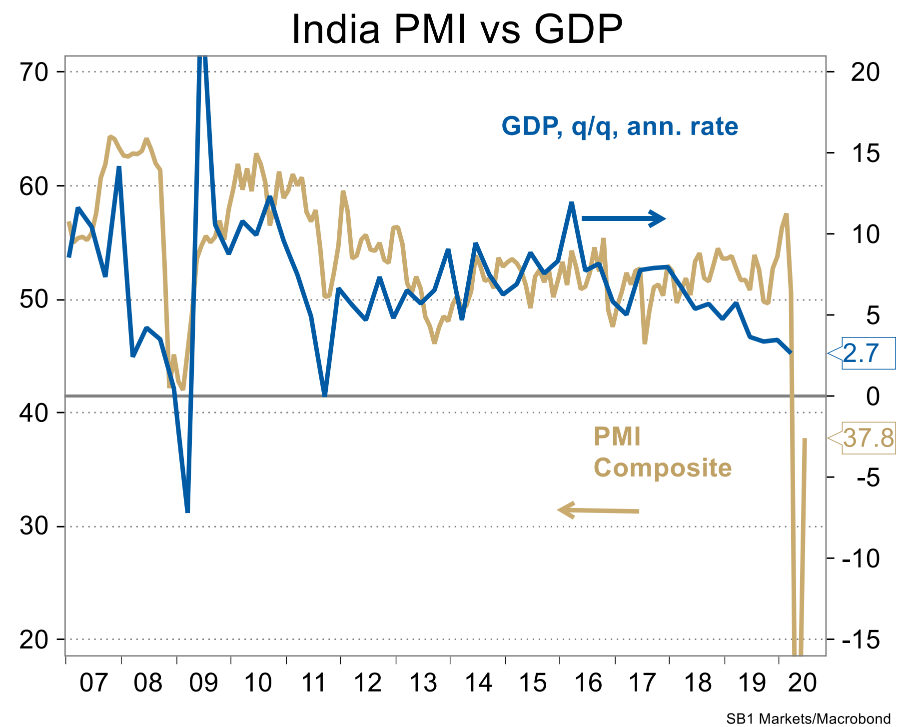




The PMIs up in June but companies are not reporting growth yet

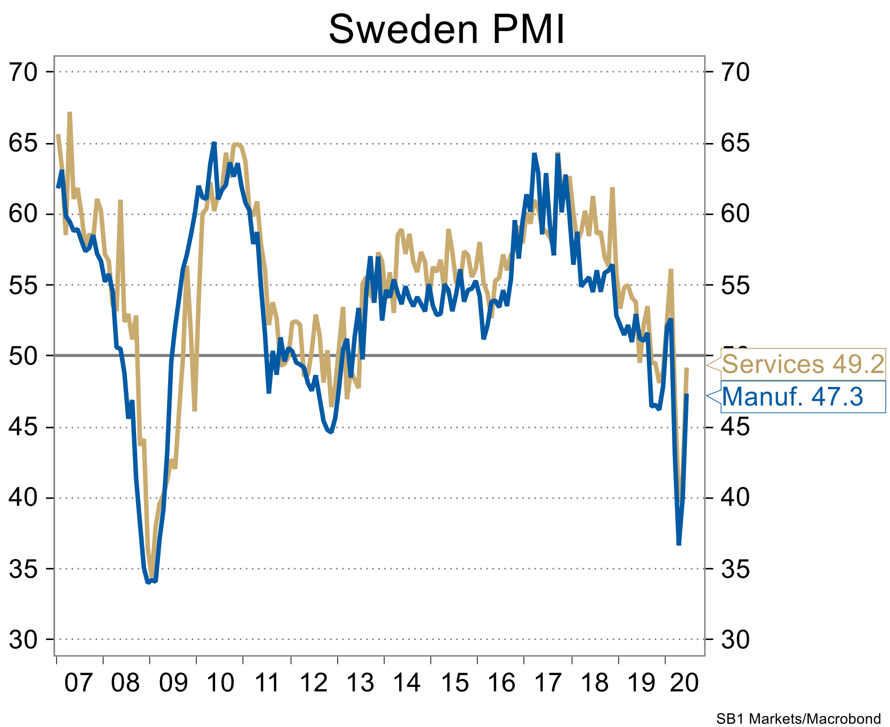
The service sector PMI is among the lowest in the world in June – as is the composite PMI

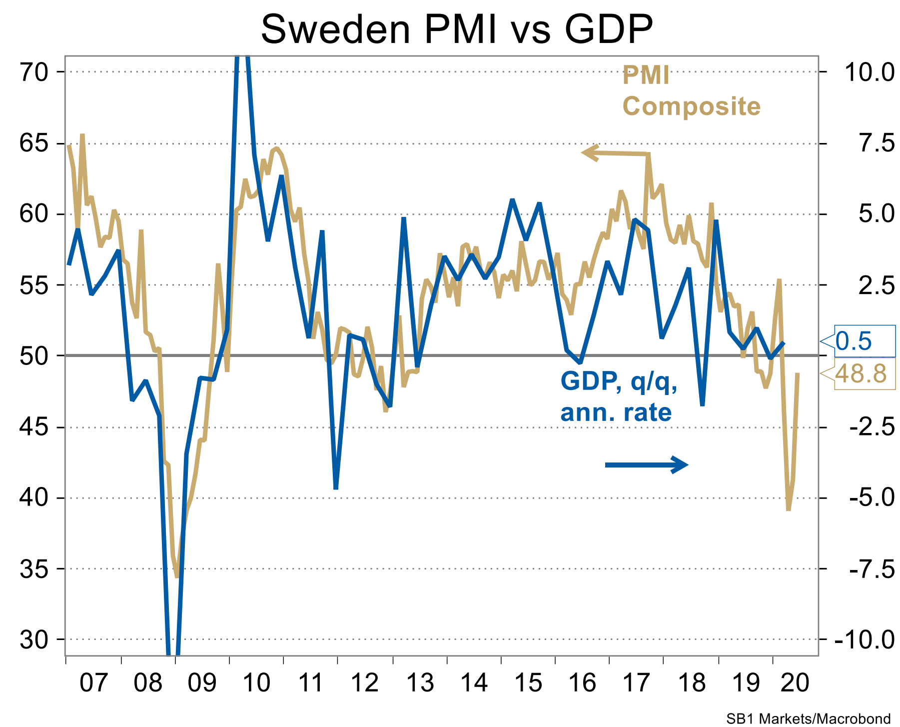




The PMIs still below 50 but productivity probably on the way, here too

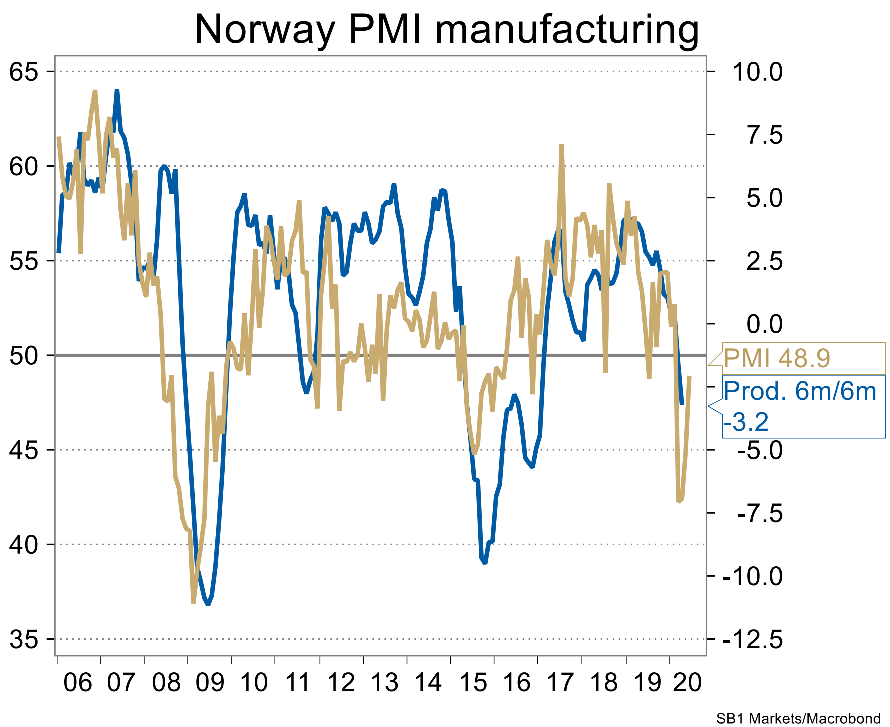
The PMI is signalling a moderate decline in GDP in June – which seems unlikely

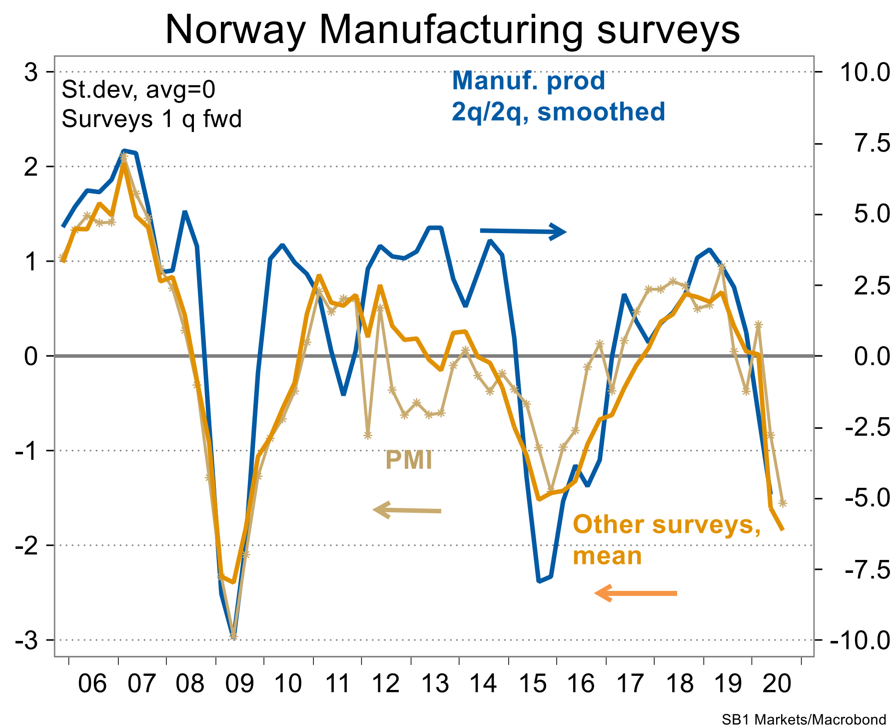




The manufacturing PMI further up in June, to 48.9

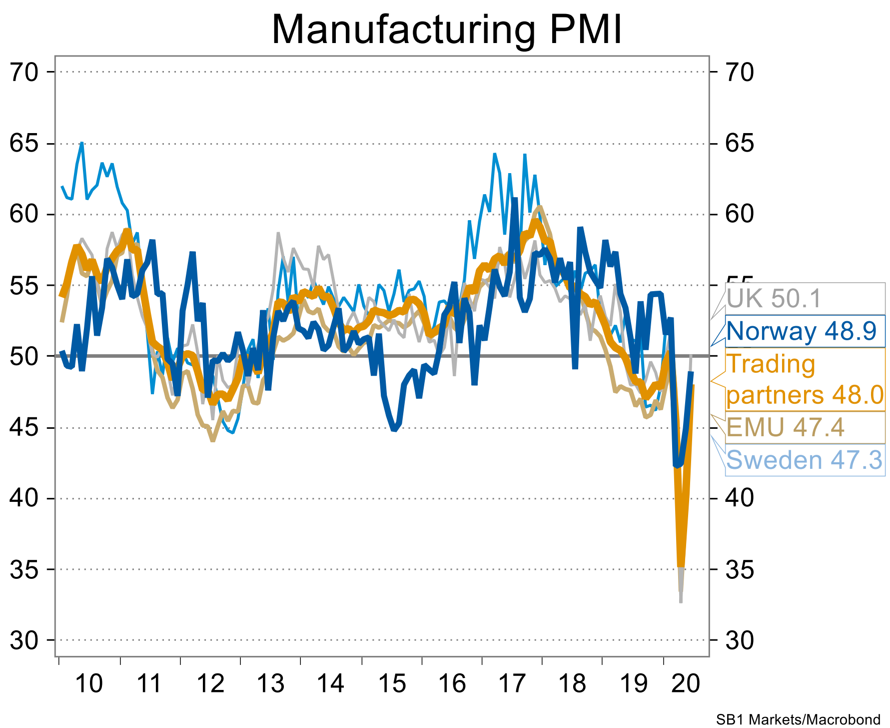
PMI rose by another 3 p. The level formally signals a further decline i production

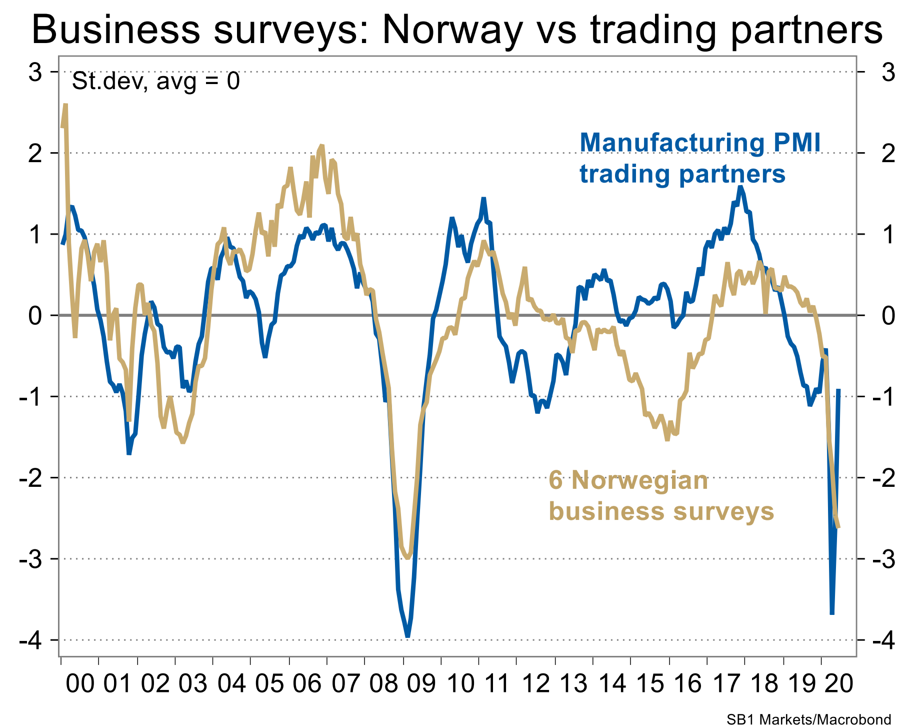




- Other surveys are heading down – but the PMI is now the most updated

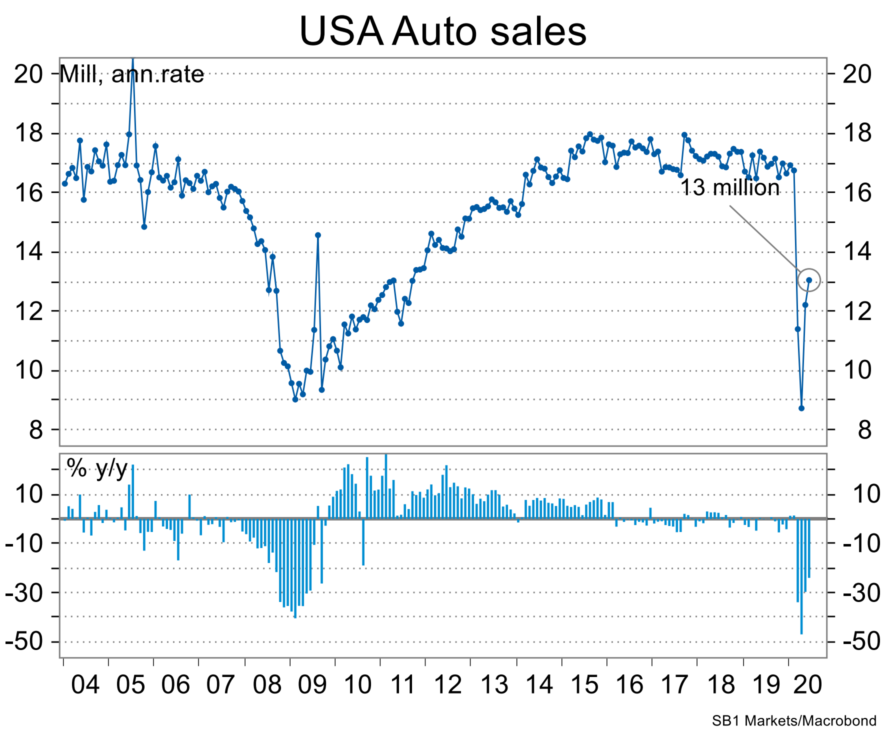
Norwegian manufacturers not that far down as others, now equal

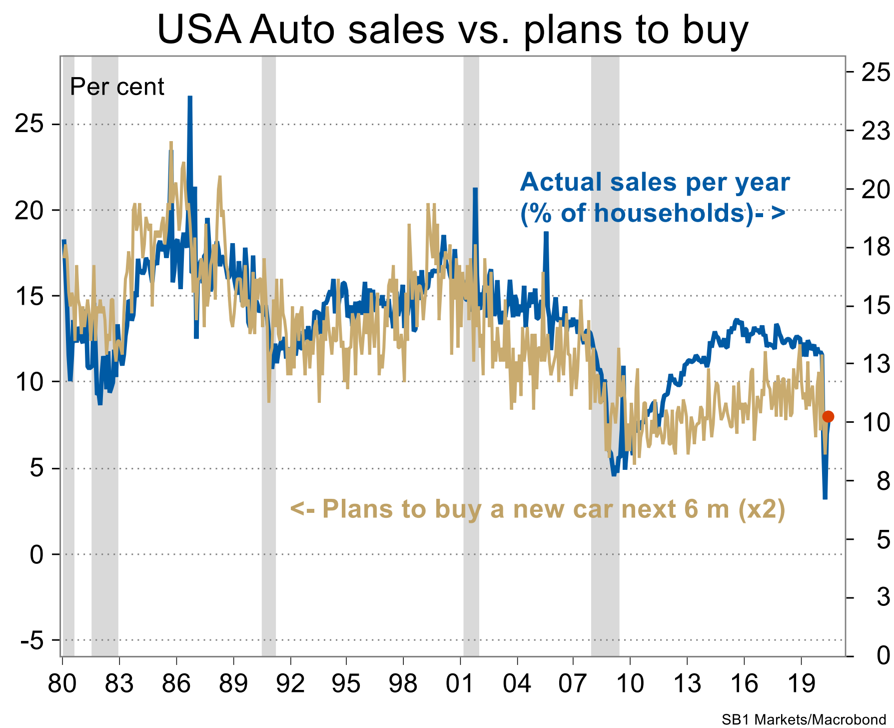




More than half of the decline in auto sales in March/April recovered

Sales rose to 13 mill in May from 12,2, as expected – still 25% below the 17 mill 'normal' level



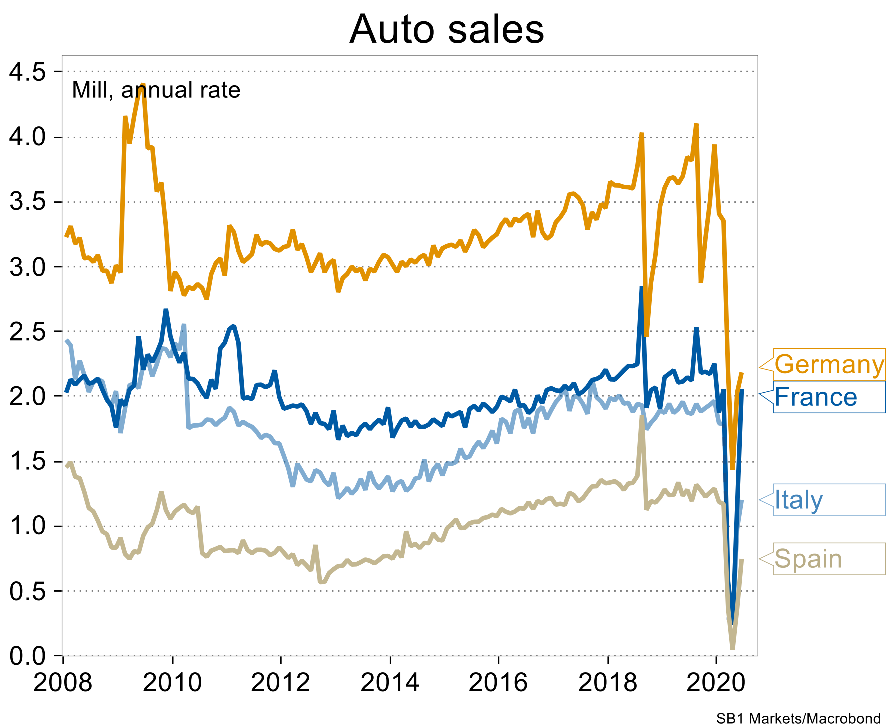


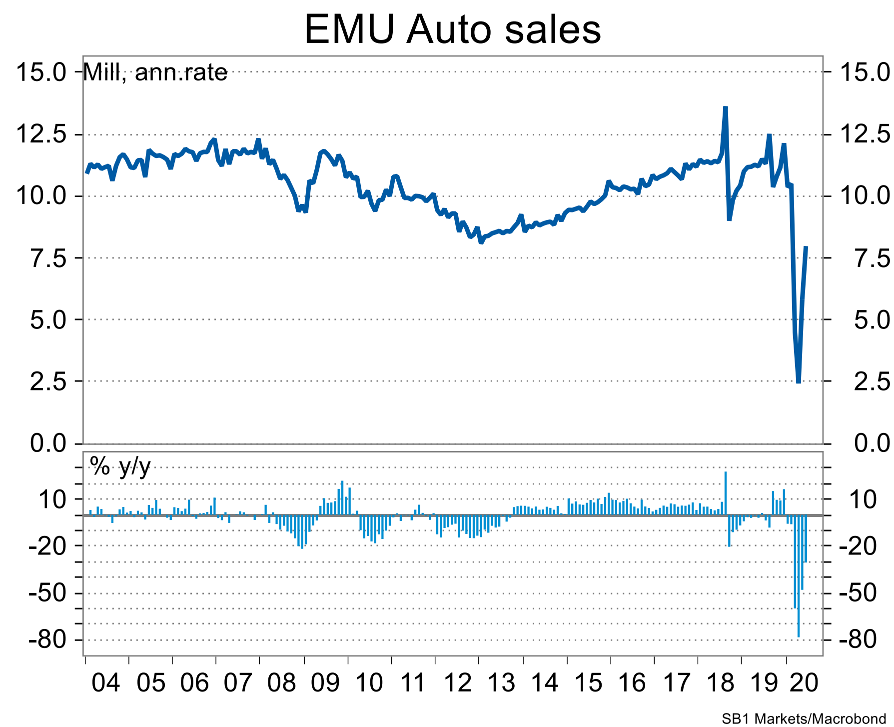
- Sales recovered substantially even if the lockdowns were just partially eased in June
- It is impossible to gauge the 'underlying' strength of auto demand. In the June consumer confidence survey, households reported below par car buying plans – but still better than in May survey

SpareBank 1 MARKETS

Auto sales further up in June but just France normalised

Sales up to 8 mill in June, from 5.8 mill in May (and 2.4 in April) – still 30% below pre corona level

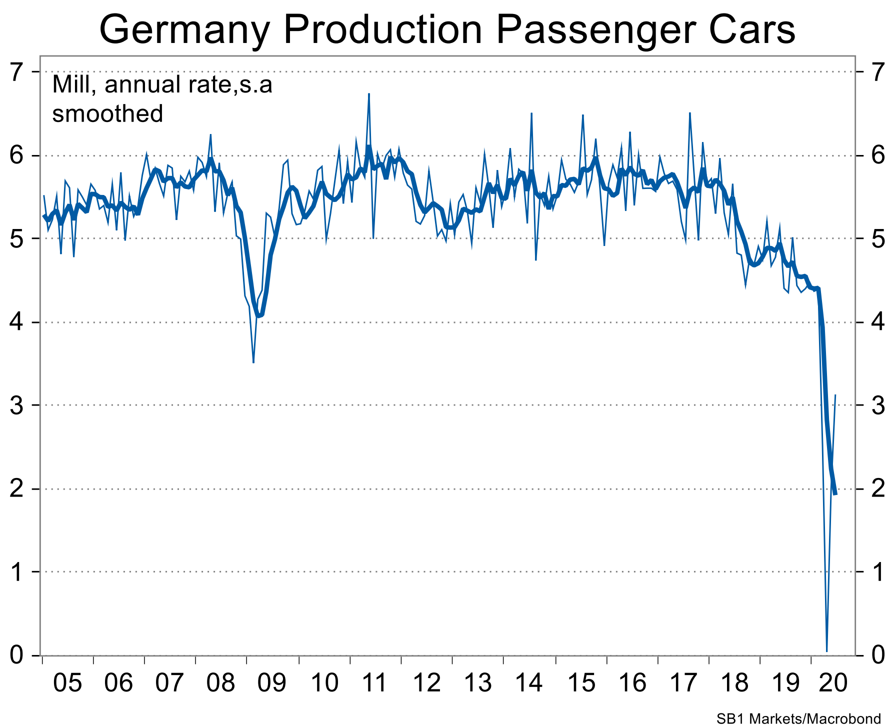


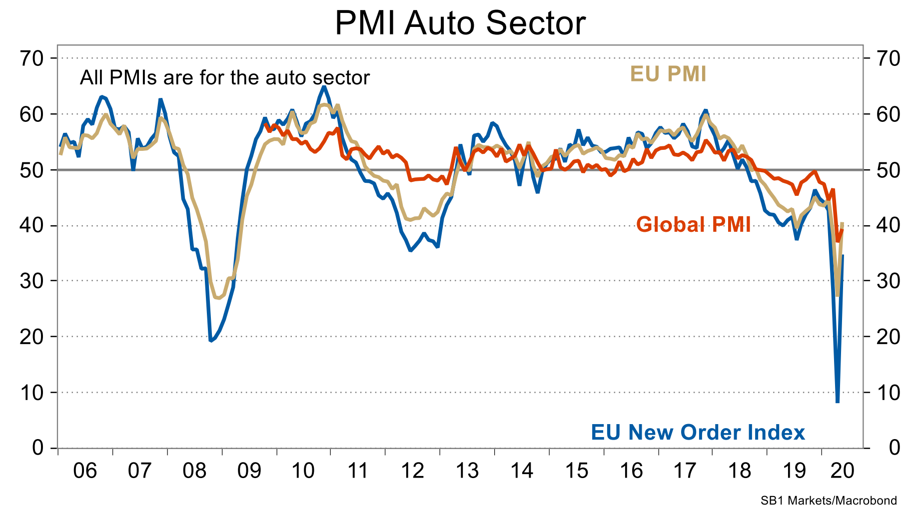


- Sales in France rose to almost a normal level in June but sales are slow elsewhere, especially in Germany (1) , down 40% from the PC level

German auto production up from zero in April to almost 60% of normal in June

Production recovered further in June – but remains extremely low. Global auto sales are higher

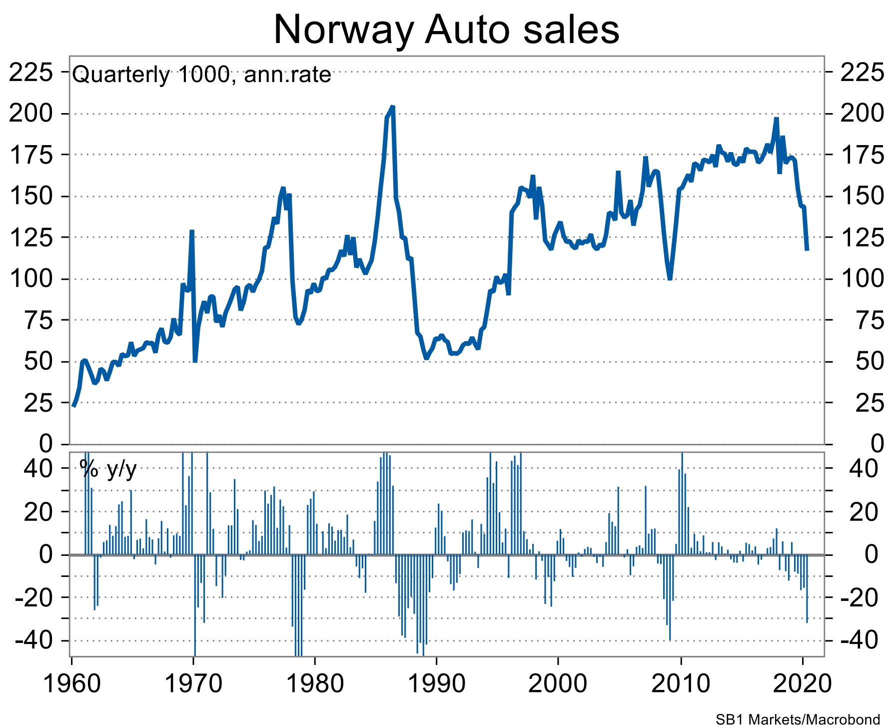


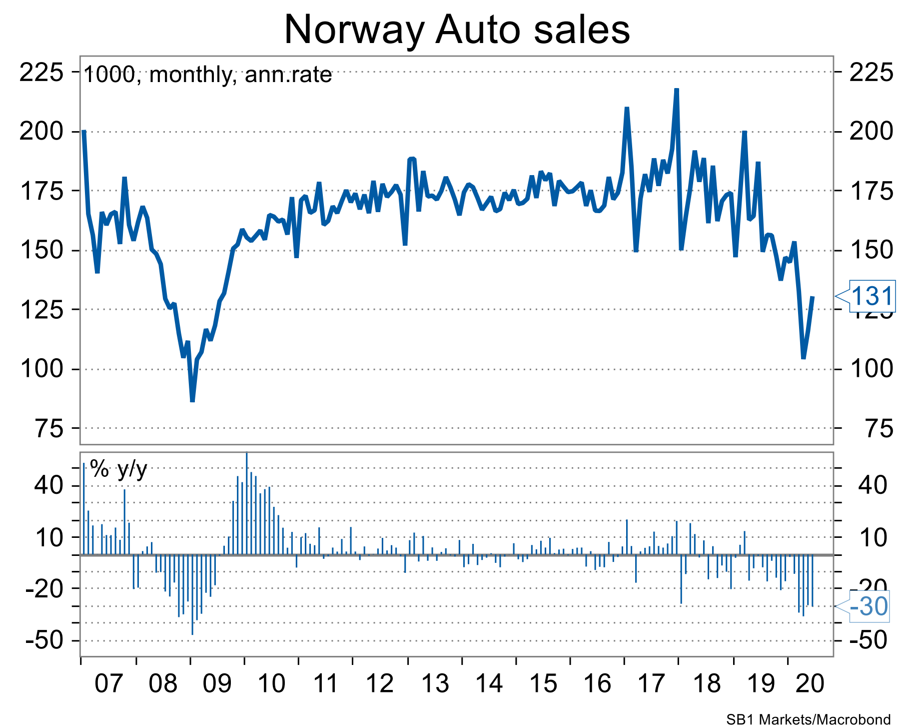


- May PMI data at the chart above – June was very likely much better

Registrations further up in June, still down 13% vs. pre corona, 25% down vs 'avg'

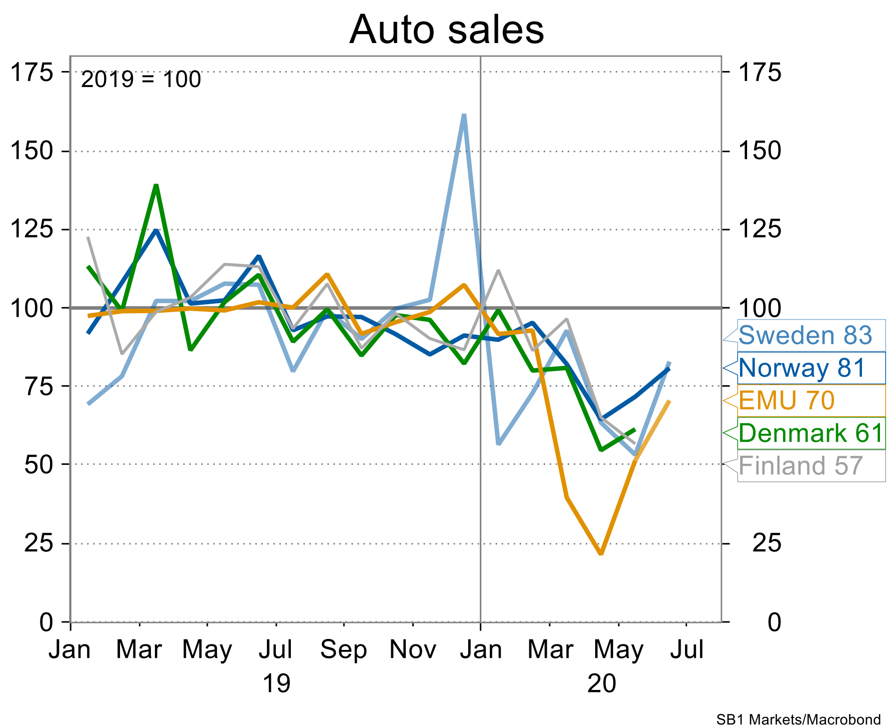
Sales up to 131' in June vs. 115' in May (and 103' in April)





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

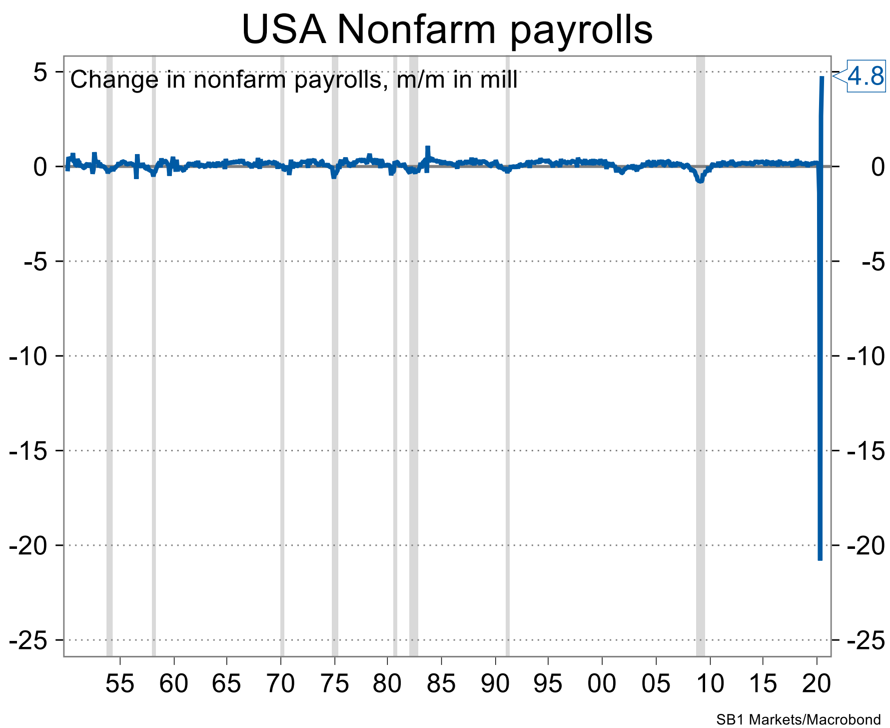
Auto sales in the Nordic region below par too

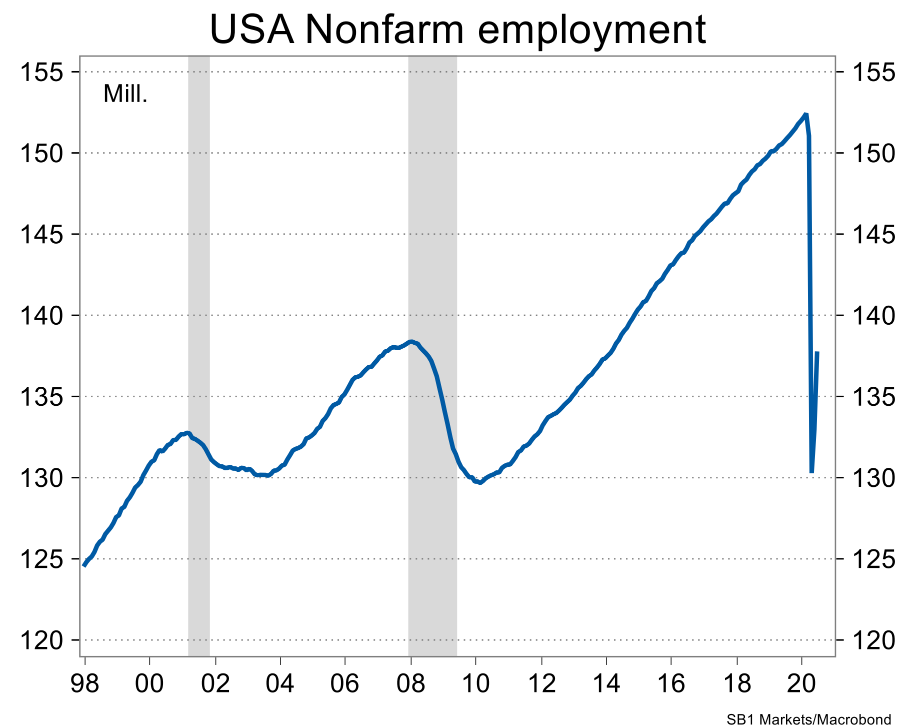


- Denmark & Finland has not yet reported their June data

Another positive surprise. Still a disastrous labour market, employment 10 down

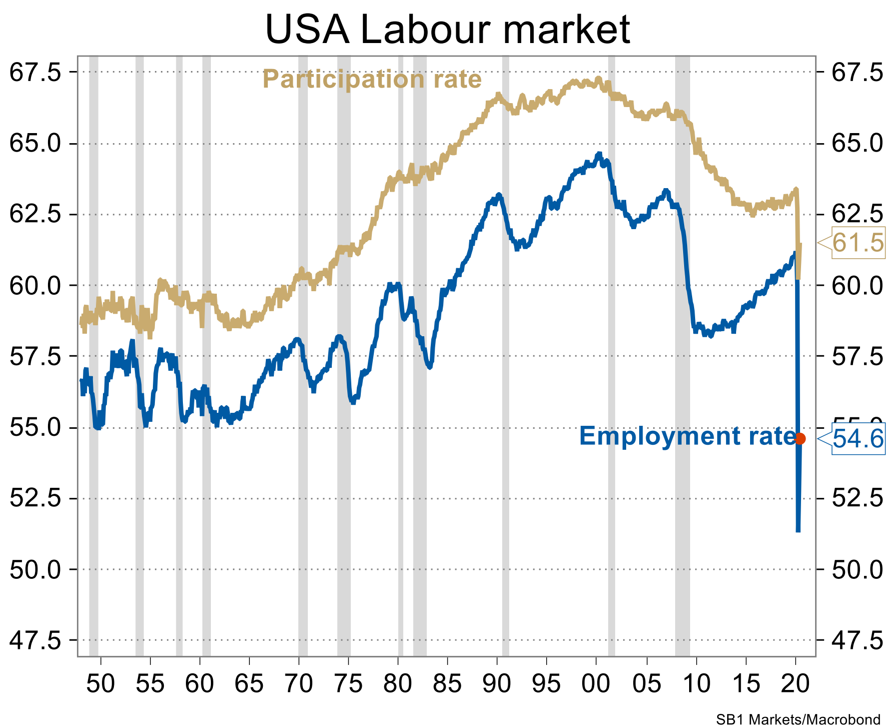
Employment up 4.8 mill (3.6%), unemployment down 2.2 p to 11.2% - both far better than expected

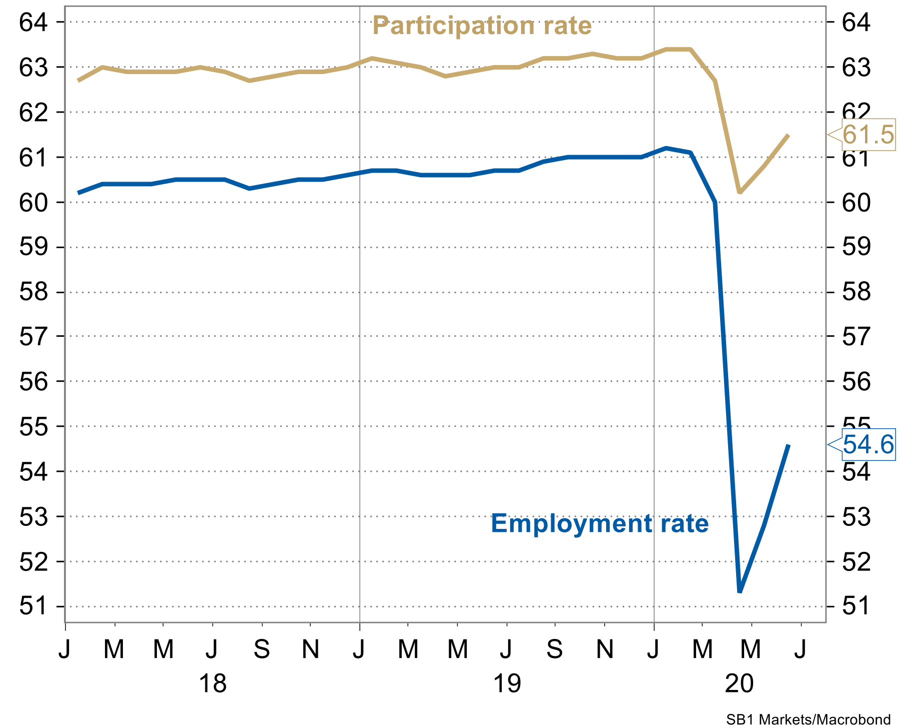




- **Employment** rose by 4.8 mill (3.6%) in June, expected up some 3 mill, following the 2.7 mill lift in May (revised from 2.5, was expected at -8 mill). Still, employment has recovered just 1/3rd of the 22 mill drop in March and April, and it is down 10% vs the pre corona level
- **Unemployment** fell by 2.2 pp to 11.2, expected down to 12.4% - and it is likely well below Fed's estimate. In addition, far fewer respondents reported that they were absent from work due to 'other reasons' (than sickness etc) than in April and May. Thus, the real decline in unemployment was some 2 pp larger than reported. Even so, the real unemployment level is still higher due to the continued mis-reporting, approx 1pp. If we add on some other adjustments we are at 18%, check two pages out.
- **We expect employment growth to slow the coming months.** New jobless claims are still running at an extreme high level and activity in several large stats will be hampered by new corona restrictions

Employment rate is still far below the pre corona level

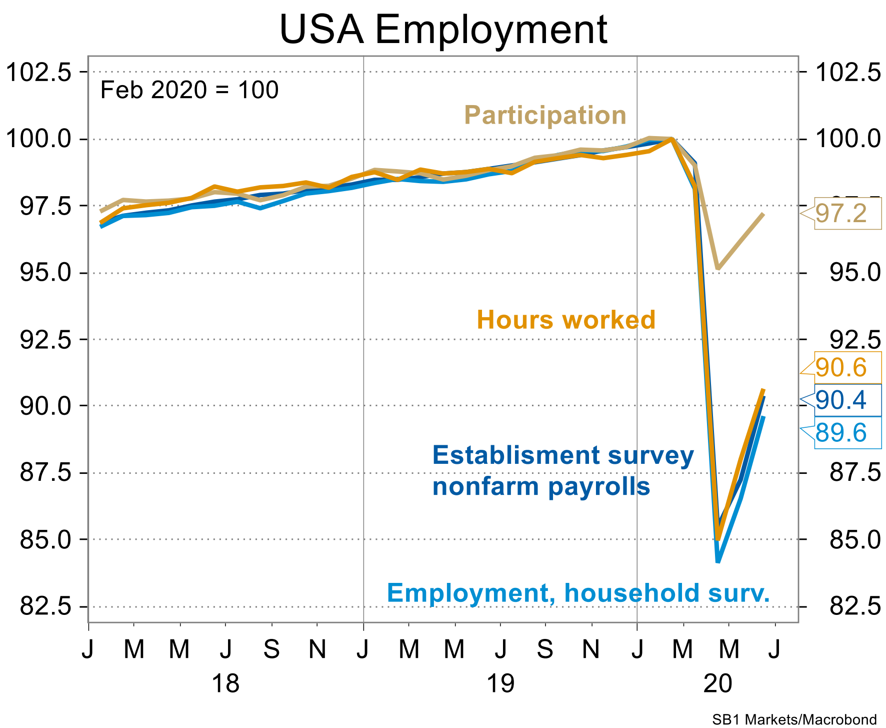




- **The labour force participation rate**, the supply side at the labour market, rose 0.7 pp to 61.5% in June, still down from the February 63.4% level. No doubt the this withdrawal is just because there were no jobs available, and the unemployed did not search actively (they were discouraged) – and they are therefor not counted as unemployed

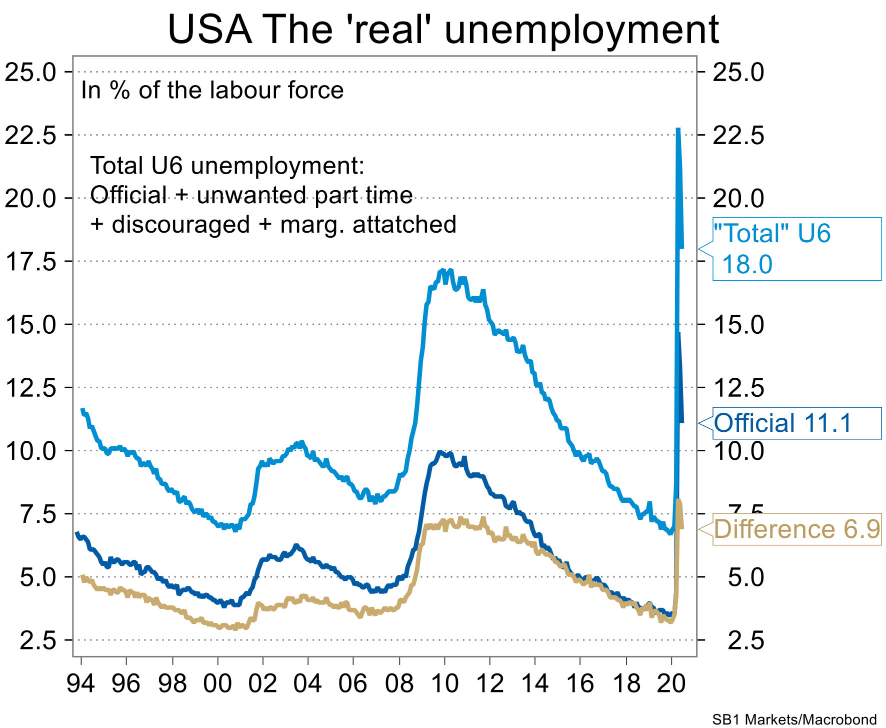
Employment still 10% below par, hours worked too

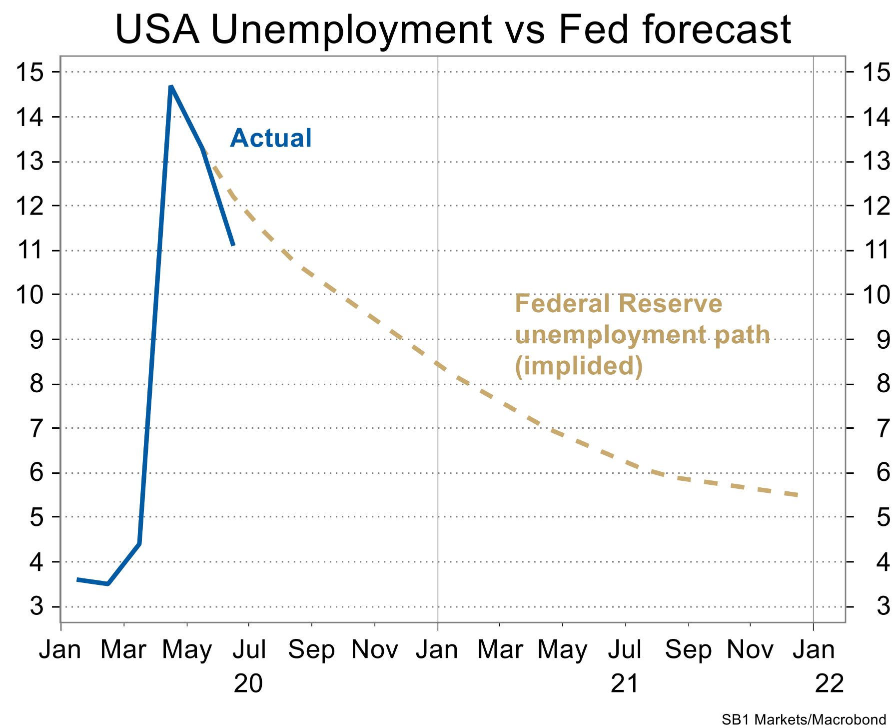
No big difference between enterprise employment headcount & the household survey



The ‘real’ unemployment is well above 11%, at 18 - 22?

Unemployment is (very likely) falling faster than Federal Reserve assumed



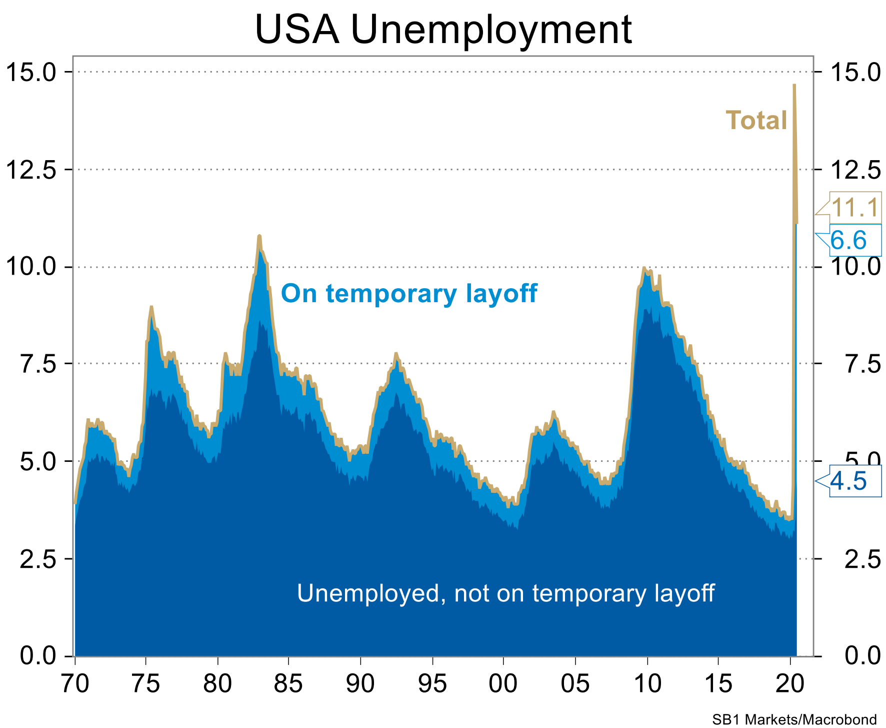


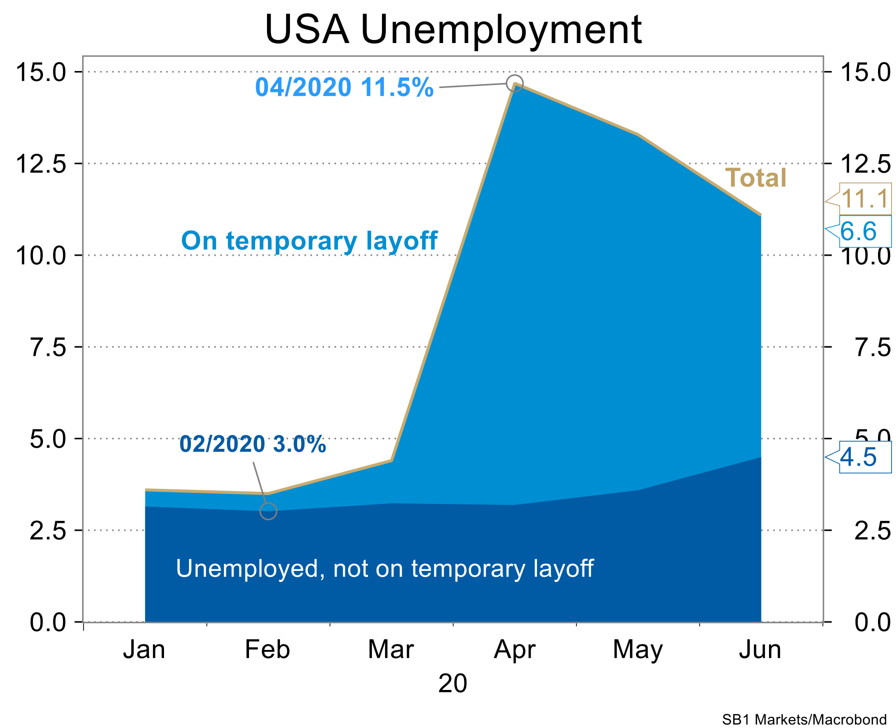
1) Some are counted as employed even if they should have been counted as unemployed (1 pp)
2) Almost 7% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
3) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (2.8 p)

In sum the unemployment is closer to 11 + 7 to 11 = 18% - 22 of the labour force

Almost ½ of the temp. laid offs has returned to work but ordinary unempl. up

Unemployment ex temporary laid off 0.9 pp to 4.5% - and from 3% pre corona

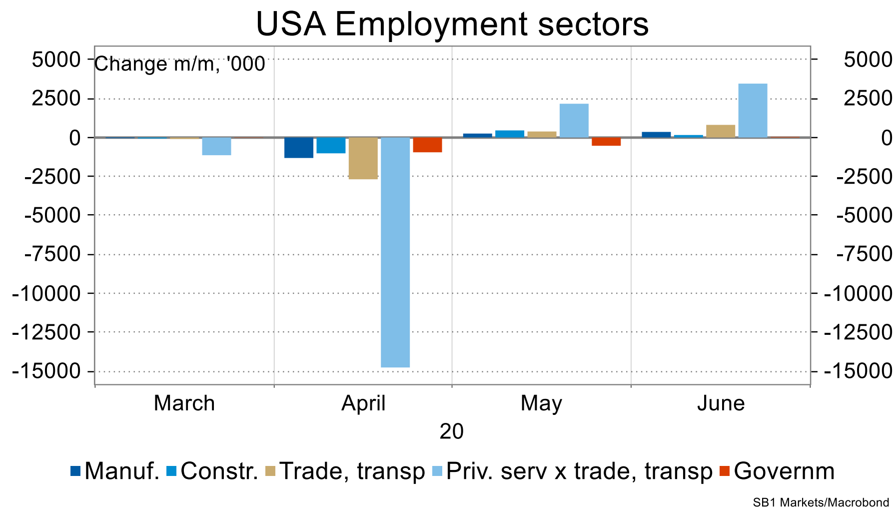


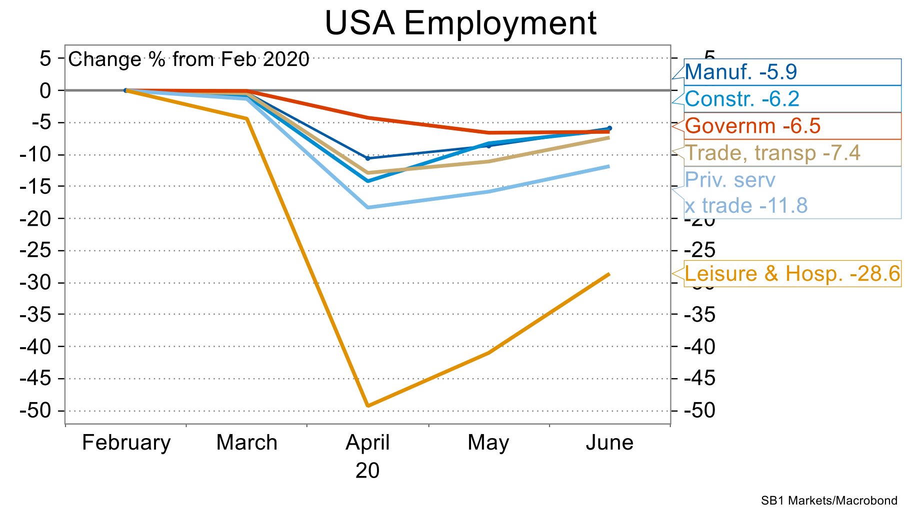


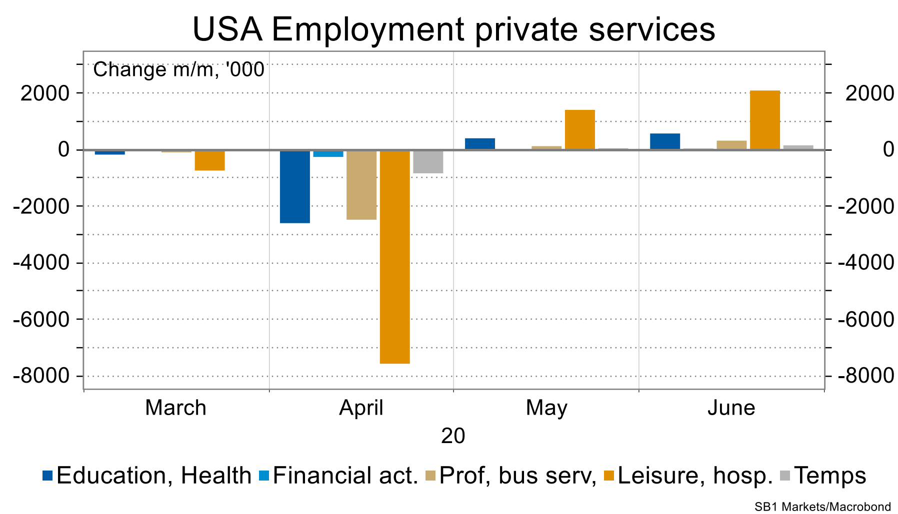
- In April, 11.5 pp of the 14.7% unemployment rate was due to temporary layoffs. Now 6.6% of the total at 11.1% are temporary laid off

Growth everywhere in June, but all 6% or more below pre corona

Hotels & restaurants cut 50%, has re-engaged almost ½ of the furloughed/dismissed



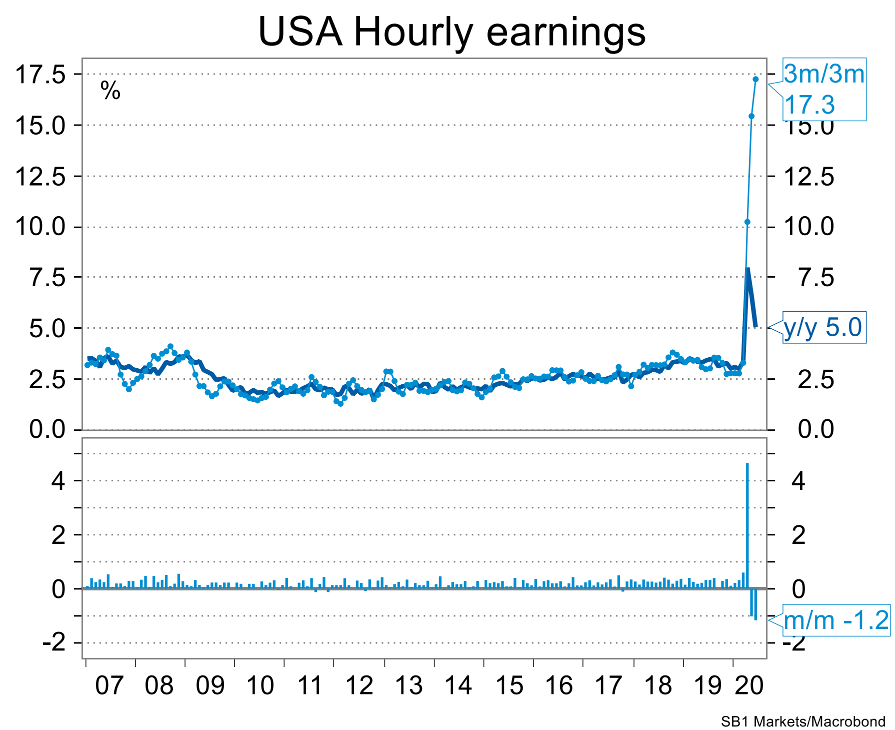


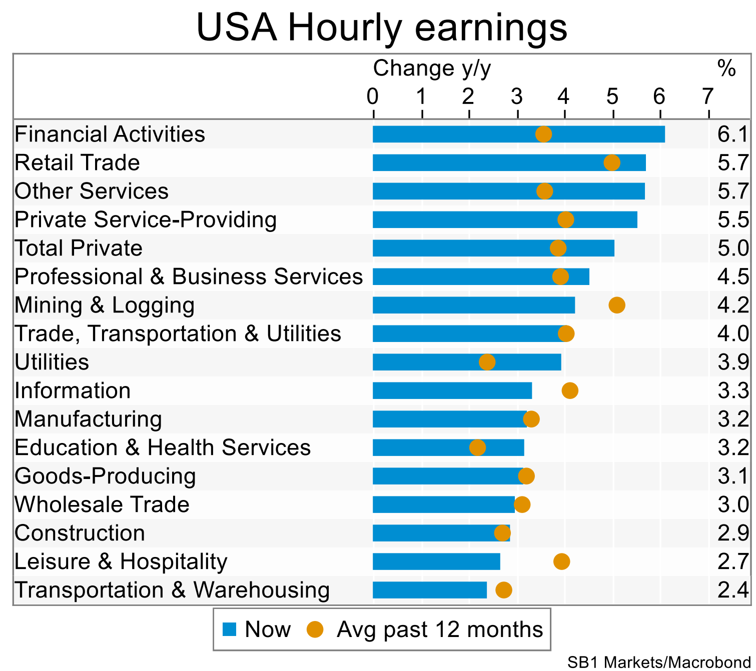


- Employment grew in all main private sectors, most in leisure/hospitality and construction, as well as trade an manufacturing

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

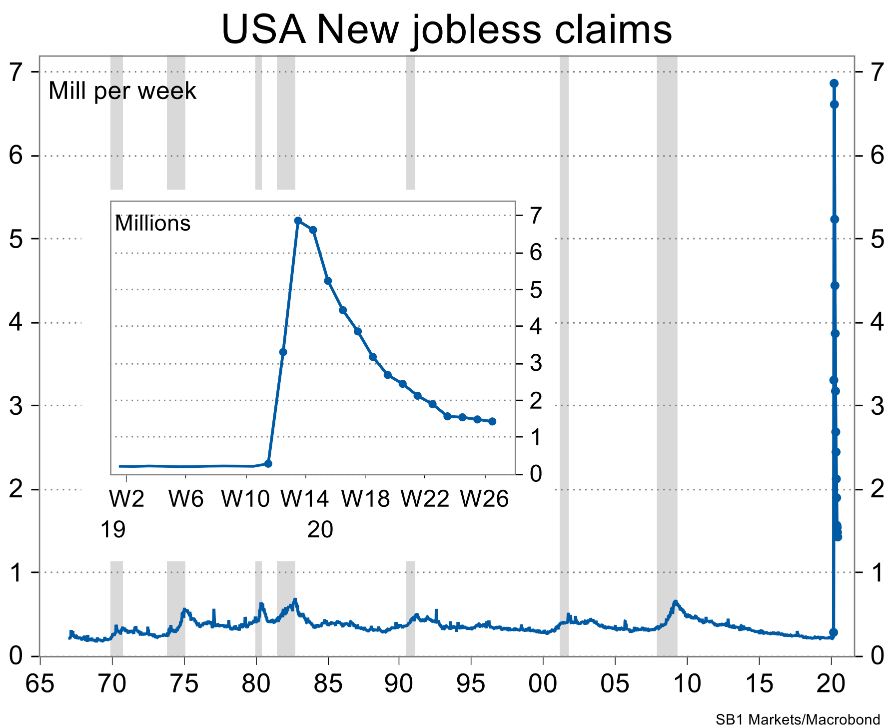
Do not look at these data. The Q2 employment cost index will give a much more relevant answer

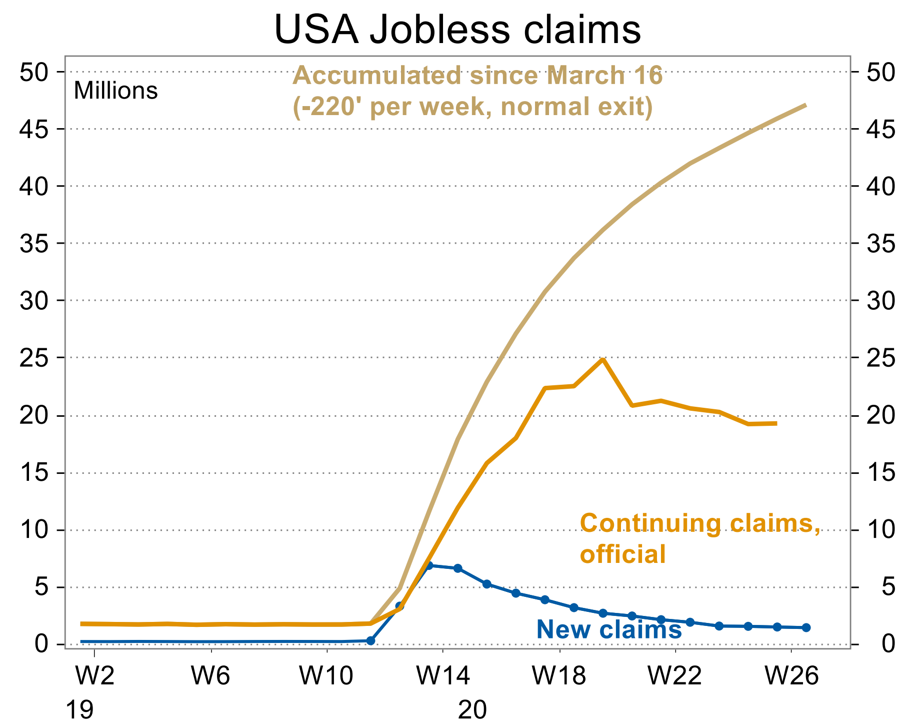




The decline in new jobless claims is slowing, far too early…

1.48 mill new jobbless claims, just marginally down from past week, 0.9% of the lab. force, per week



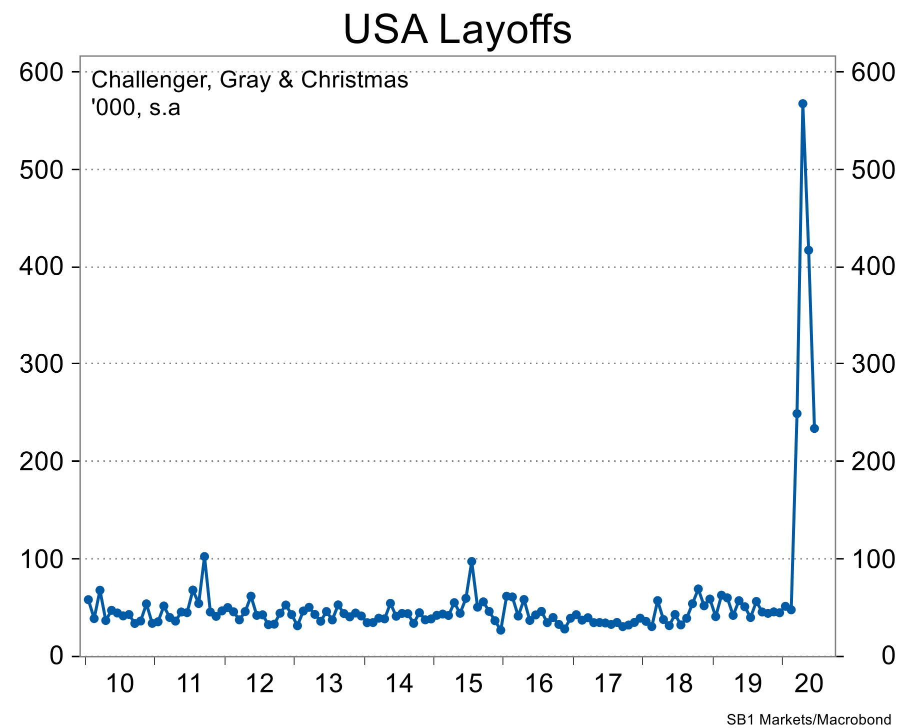


- The inflow is abating, but far slower than expected the previous weeks. Still, almost 1 % of the labour force is entering the labour market offices as newly unemployed each week! The number is really mindboggling, much higher than during any USA recession

- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 19 from 25 mill. but not further last week – and still 11.6% of the labour force are on the dole

Fewer layoffs announced in June, still higher than ever before

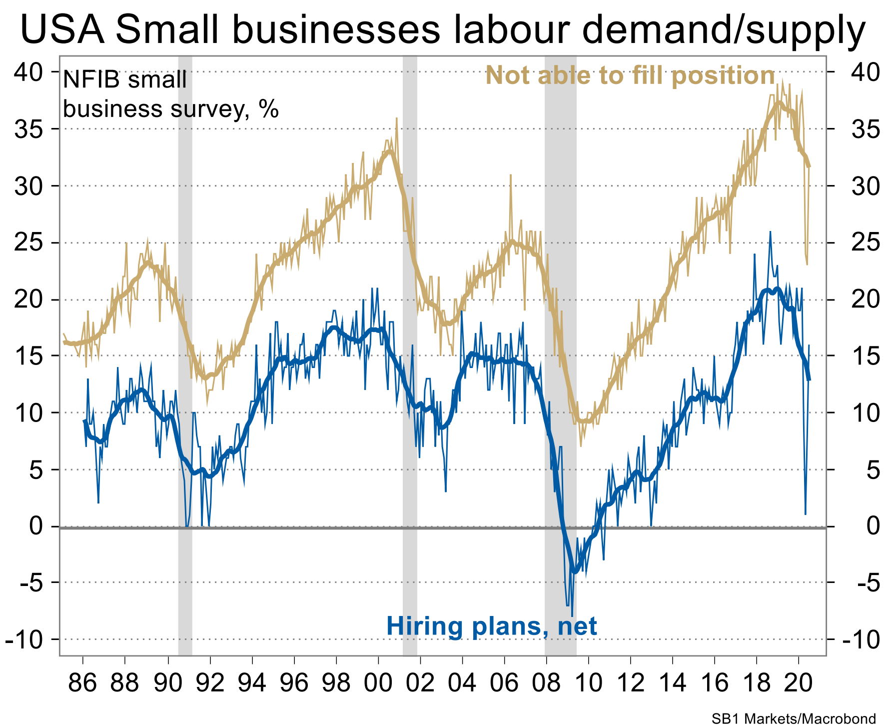
.. barring the three pervious months (and a couple of months during the depth of the 2001 recession)

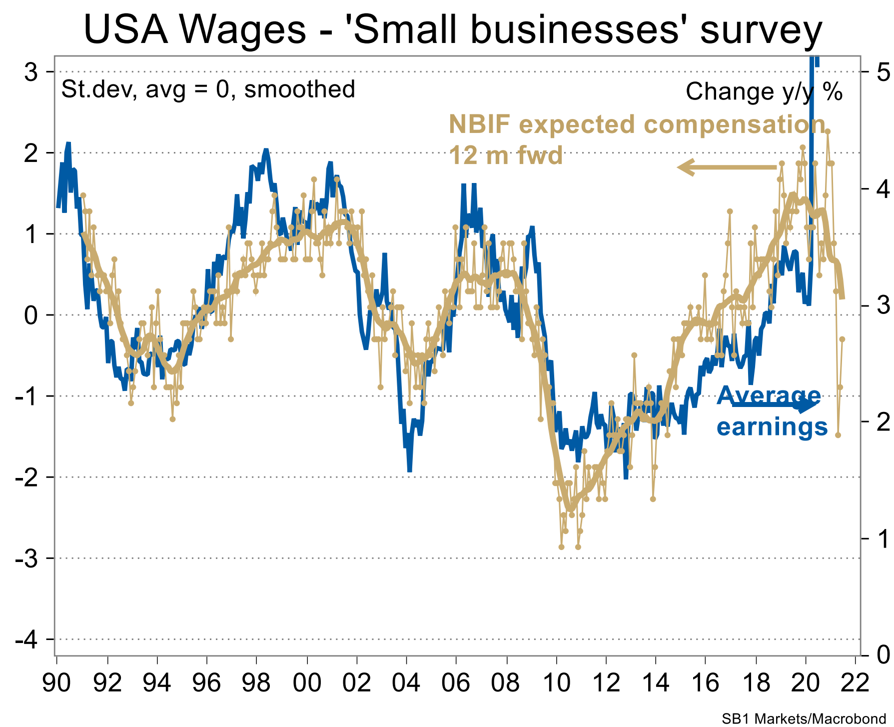


- The number of announced permanent layoffs jumped 570' in April, and has down to 230' in June - still a very high level

Small companies are still unable to fill positions, and they plan to hire again!!?

Rather surprising, given record high actual layoff, and an unemployment rate at 11 – 20%

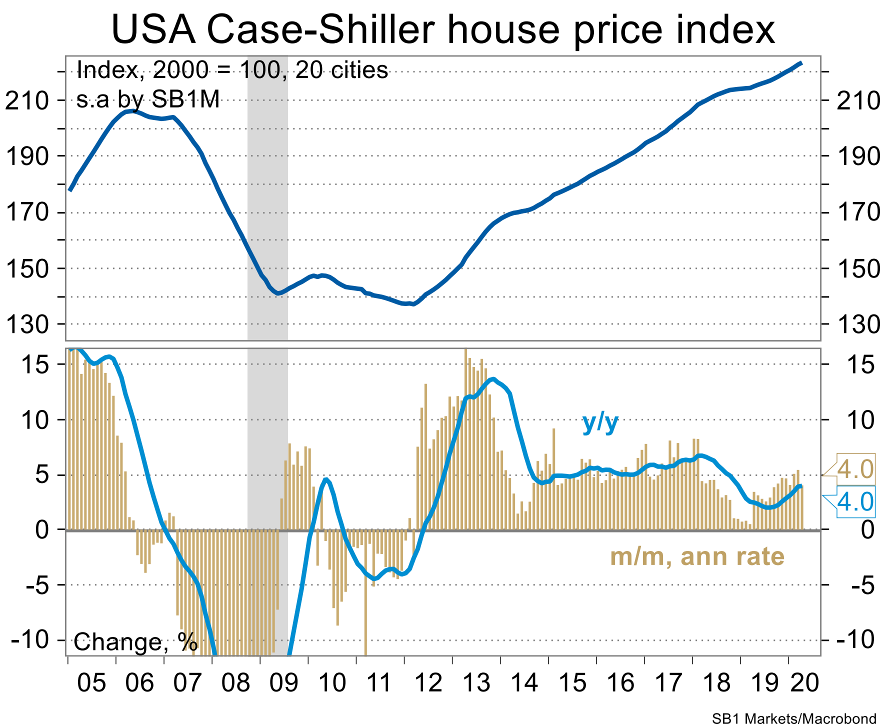


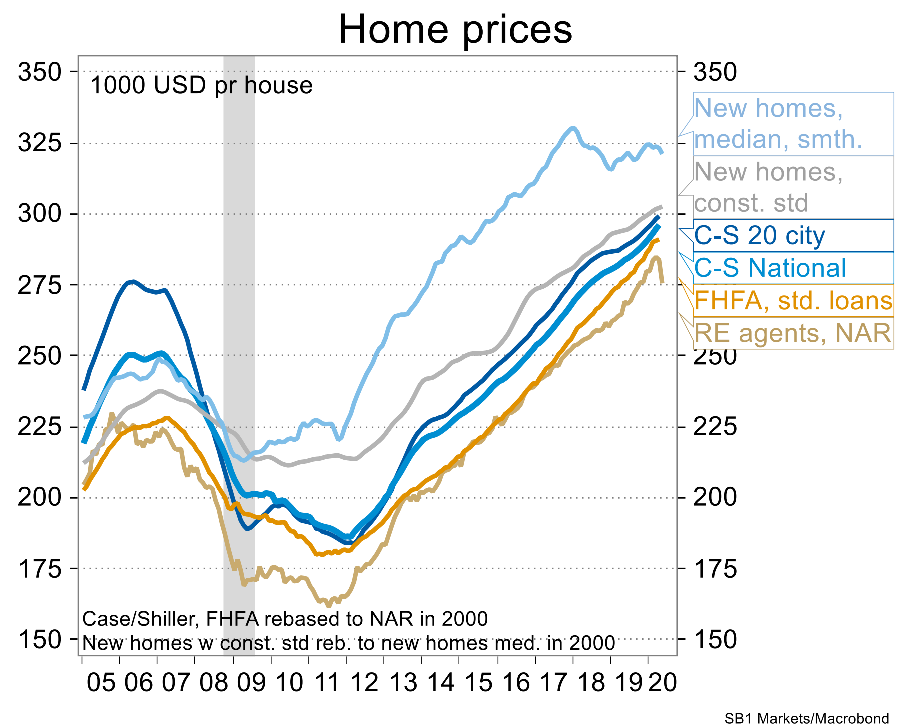


- It there these answers are correct it must be incredible mis-match challenges, occupationally or geographically – and much larger that until recently. It does not seem likely

Case Shiller house price inflation down in April, but not significantly

Prices rose 4% m/m (annualised), down from 6% in March – up 4% y/y. No corona crisis

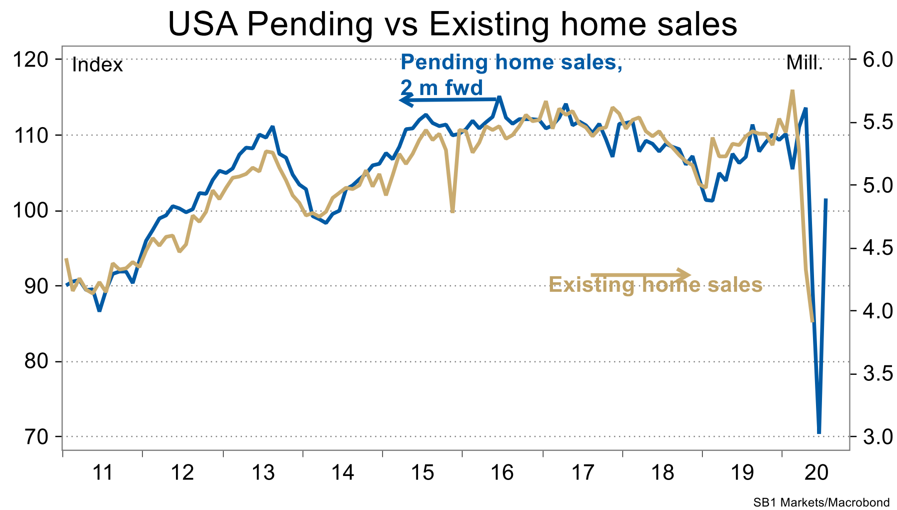


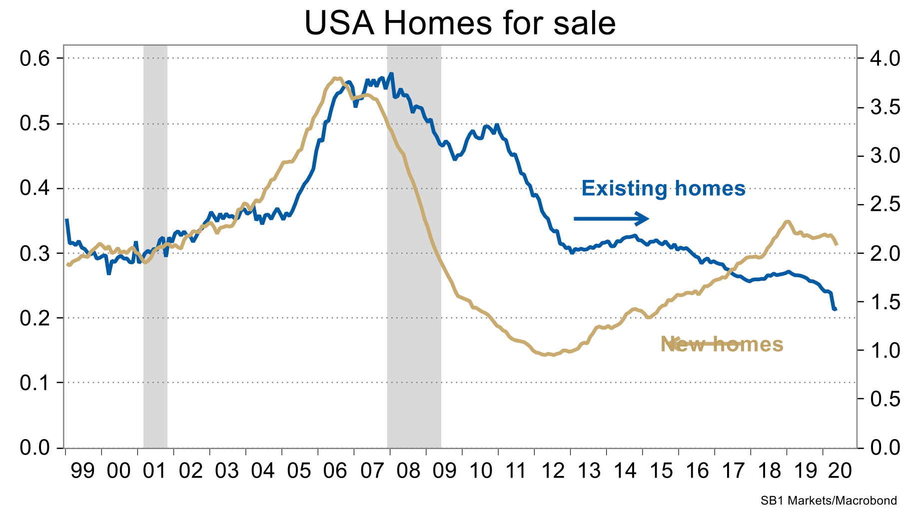


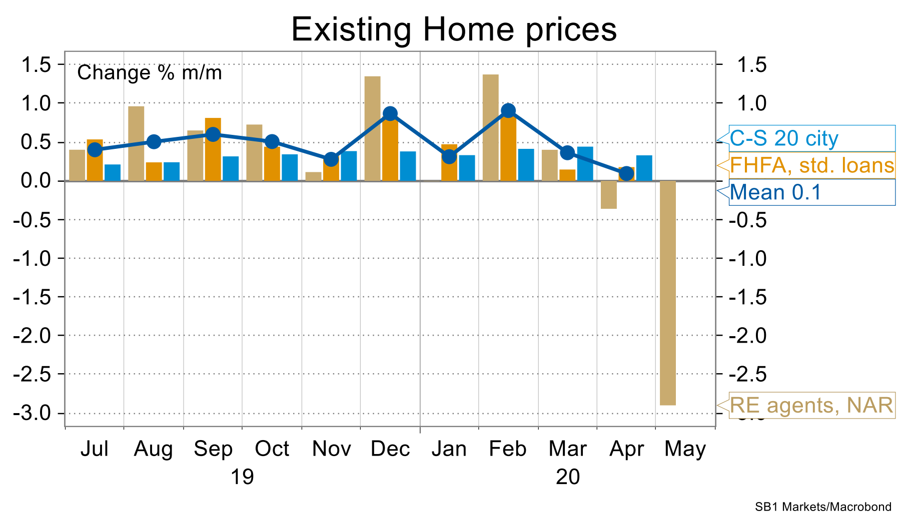
- The index measures prices a 3 month average, and is now covering March - May

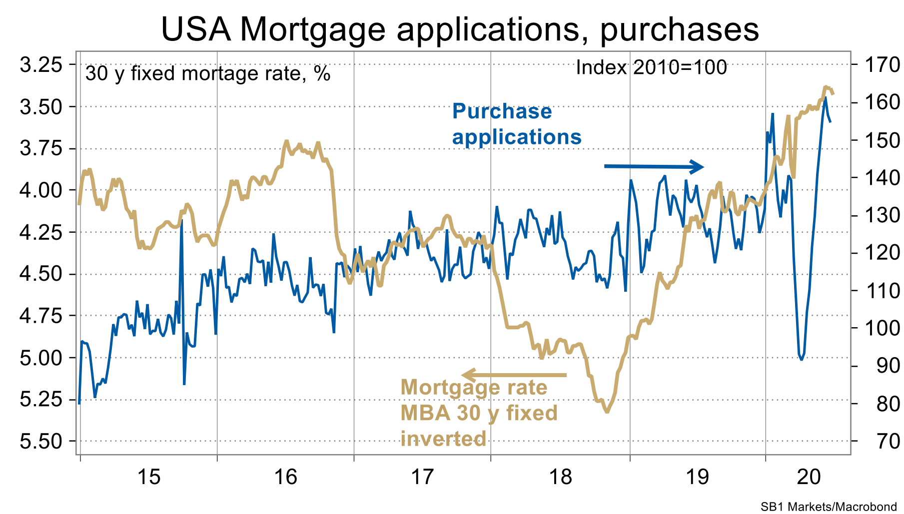
Pending sales recovered most of the spring loss in May, transactions to follow

Agreed home sales to almost 5 mill in May (index calibrated) from 3 mill in April. Another 'V' signal



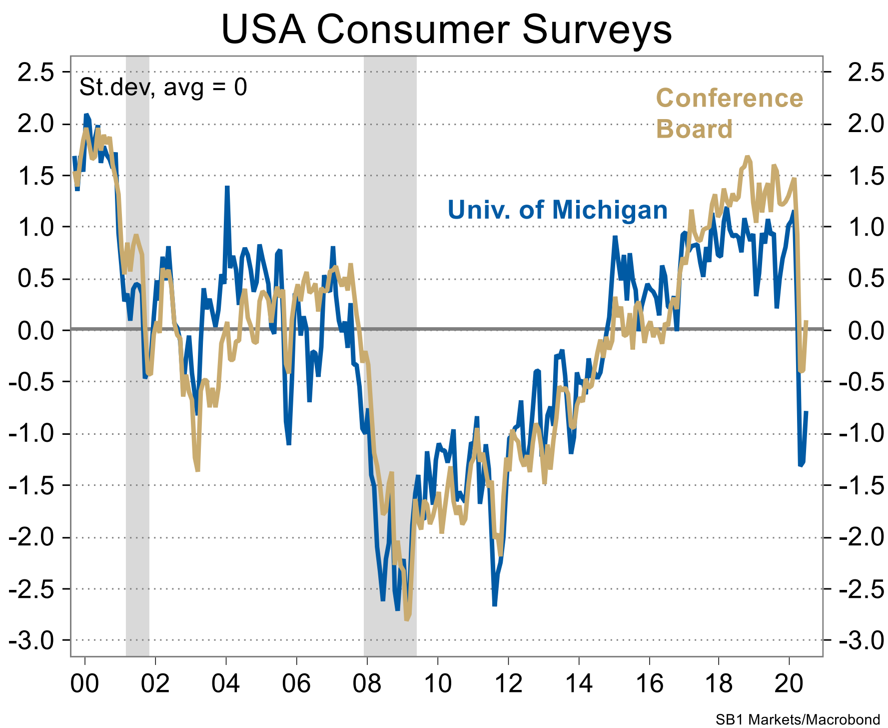


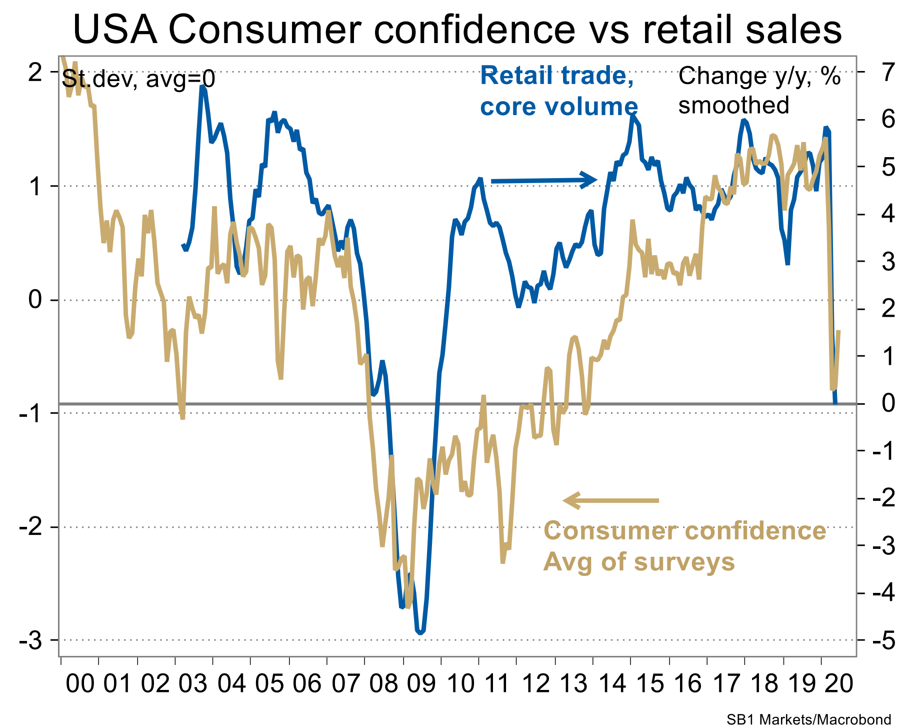




Consumer confidence up to an average level in June, amid corona & social unrest

At least according to Conference Board's survey, Univ of Michigan is still below par

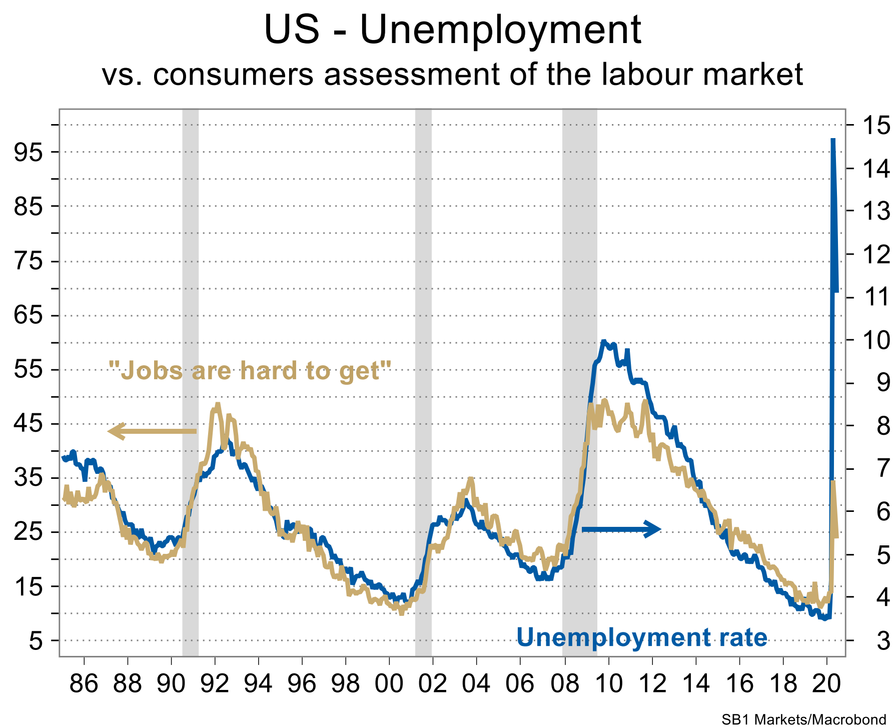


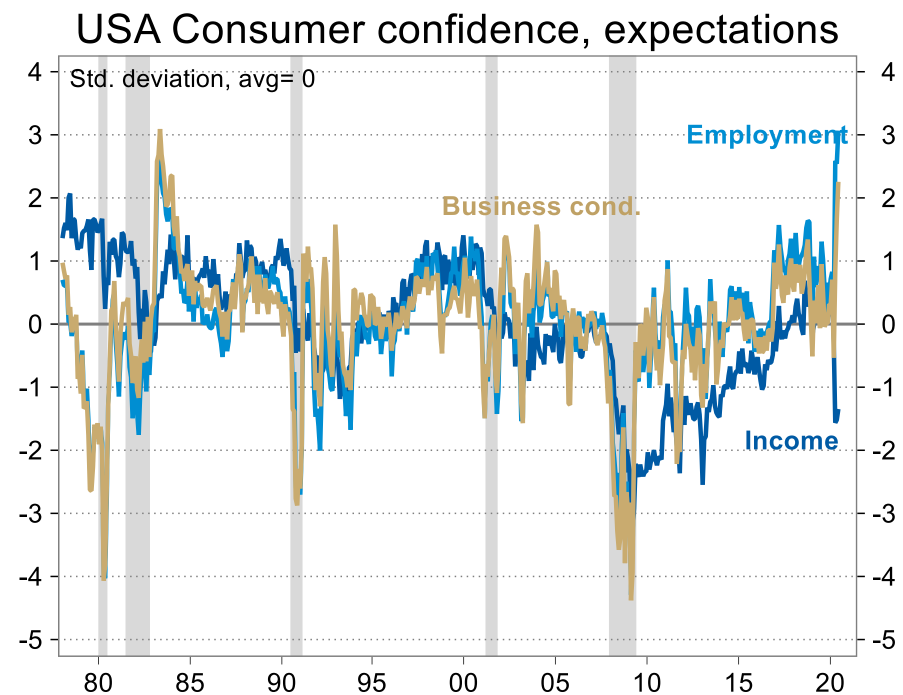


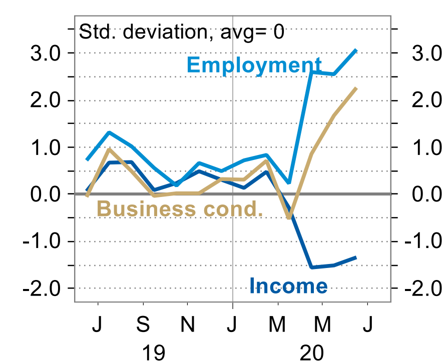
- The two surveys have not reported any breakdown of confidence during the corona crisis
- Still, even after a visible recovery in May and June, confidence is not strong and does not signal any brisk growth in demand

Jobs are not hard to get. As if the unemployment rate was 5.5, not 11%!

And households expect the labour market to strengthen, far enough



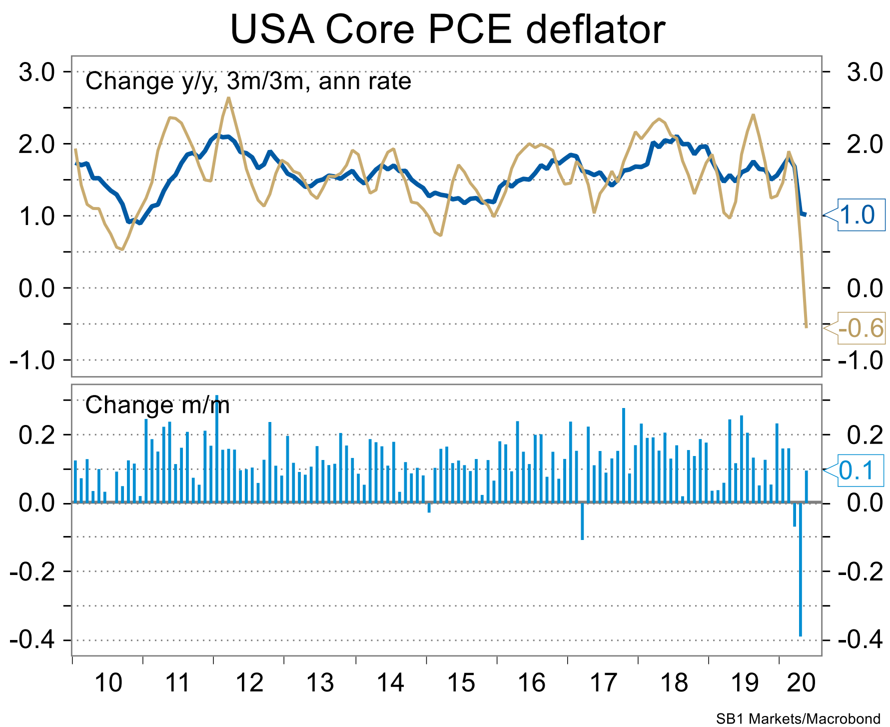


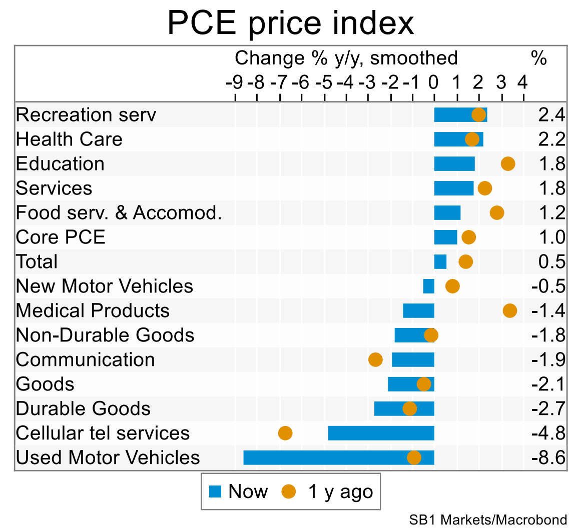


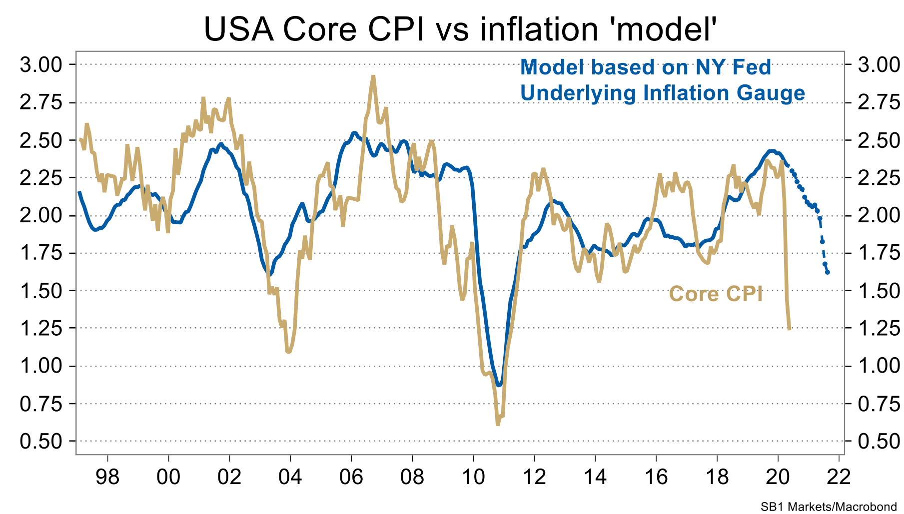
- We think the likely explanation is that households are expecting the corona crisis to fade and people coming back to work – they are not making an assessment of the current situation
- Households average expectations (in this survey) are driven up by employment and business outlook, not own income, it's expected down – not an obvious mix

Inflation is not the problem

Core PCE inflation has fallen to 1% - no reason to expect an immediate take-off



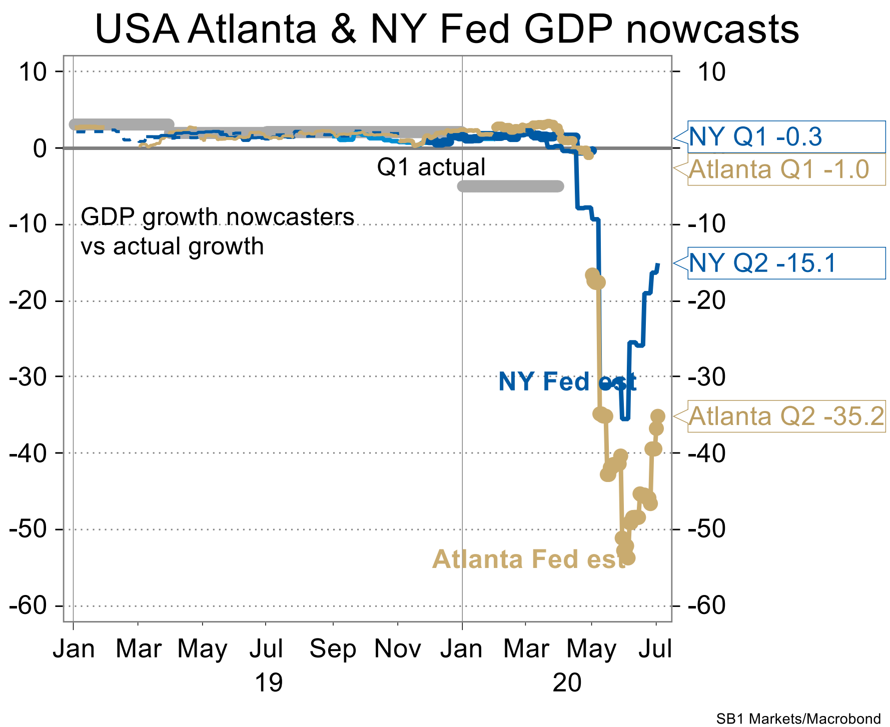


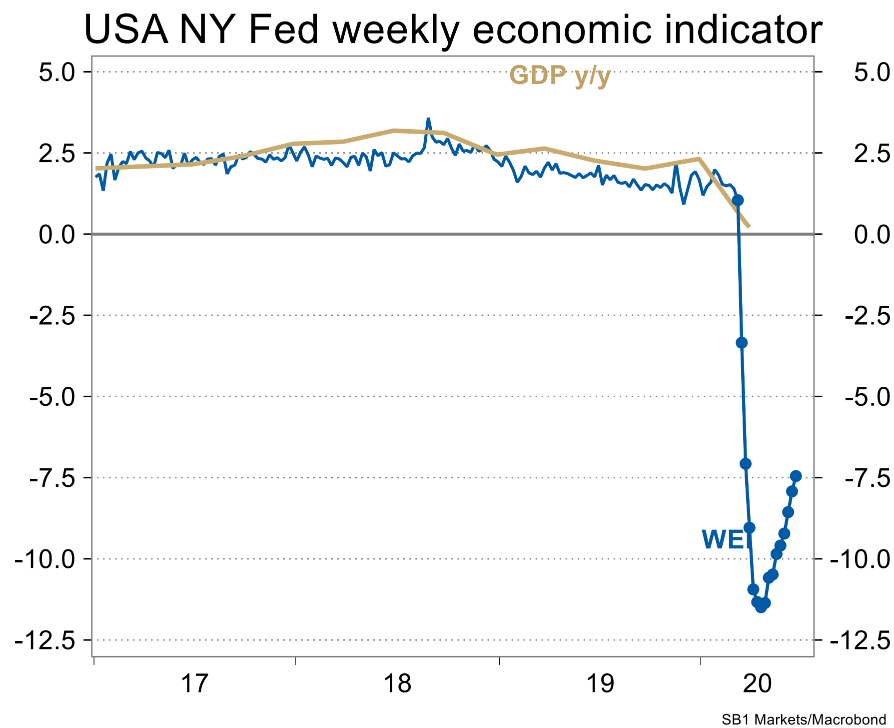


- Inflation has not slowed in all sectors but in most of them

Nowcasters do still not agree: -16% or -40% (annualised) in Q2?

Recent data have been stronger, and the nowcaster models are lifting their Q2 estimates

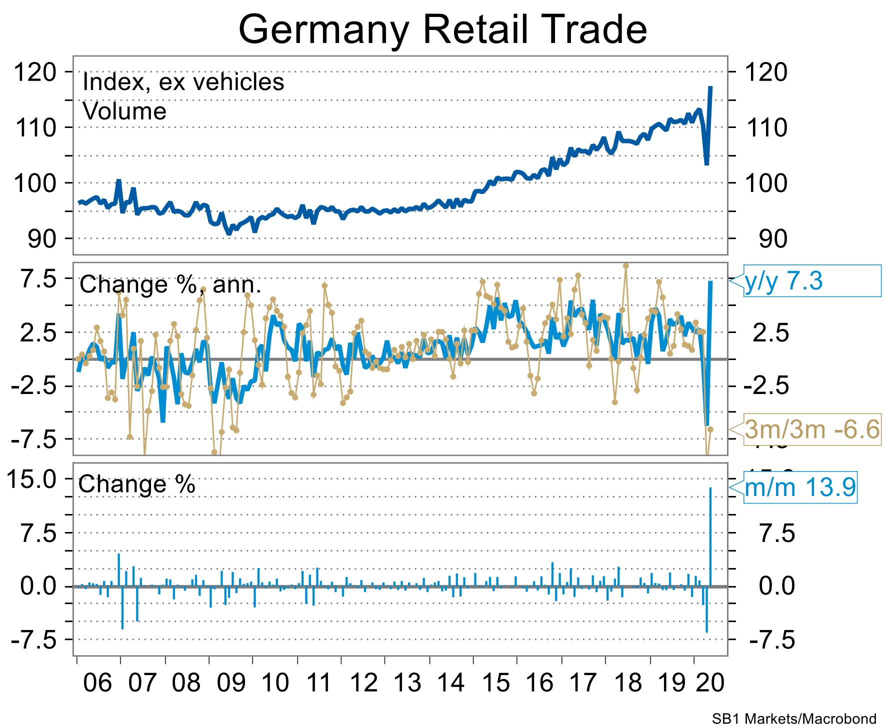


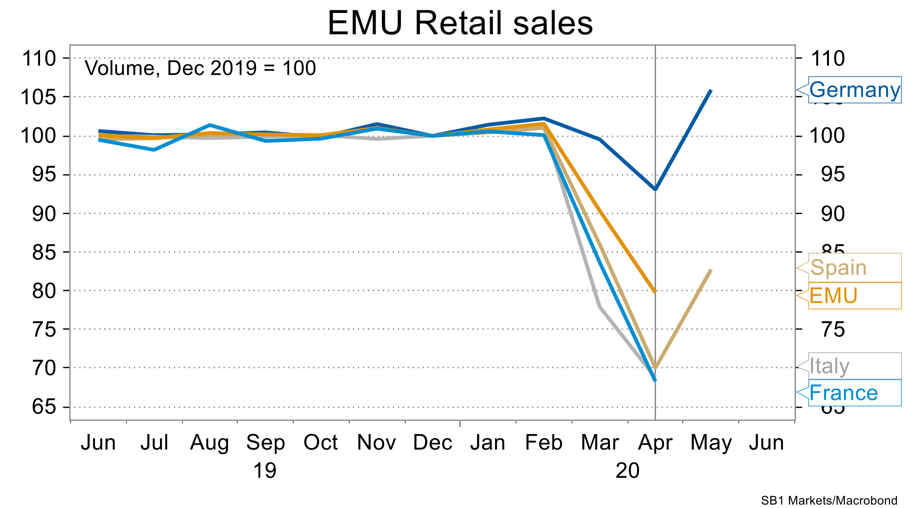


- NY Fed's model reports a 15% decline q/q, annualised, (from -35% at the bottom), equalling a 4% decline not annualised to Q1 from Q1, or some 5.5% y/y
- Atlanta Fed's model reports a 35 % (from -40% last week, and -54% at the bottom), equalling a 10% decline not annualised q/q and more than 11% y/y. We assume something in between, and in line with NY Fed new weekly indicator, which so far in Q2 signals a 9% decline y/y (or somewhat below 8% q/q)
- GDP fell by 1.2% in Q1 (5% annualised)

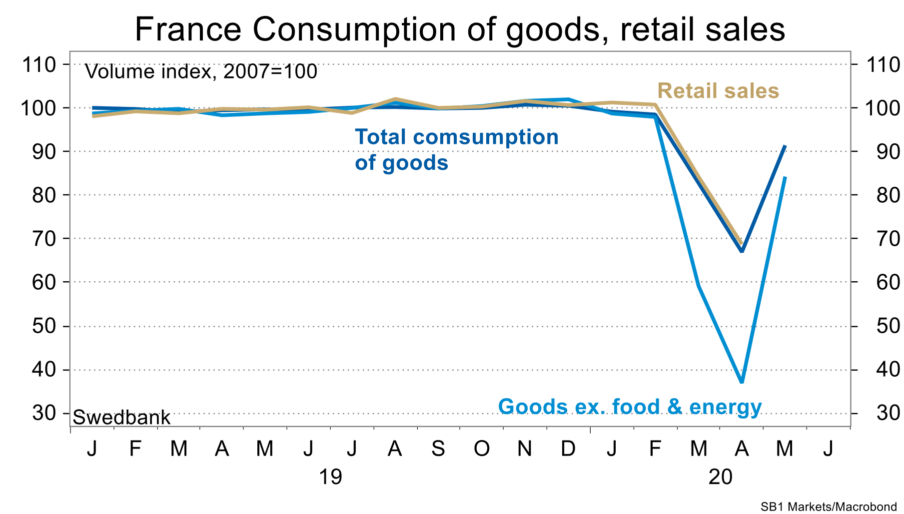
EMU consumers were able and willing to open their purses in May

German retail sales up by 14% m/m, and +7.3% y/y!! Spain +18% m/m, still down 17% y/y





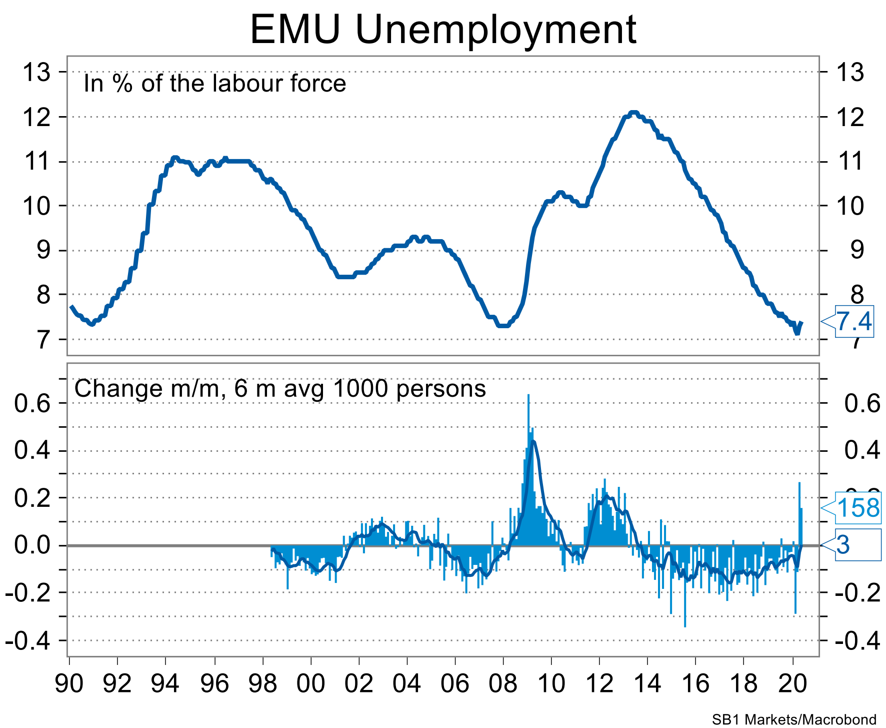
- France has reported strong growth in consumption of goods in May – and retail sales were no doubt sharply up too

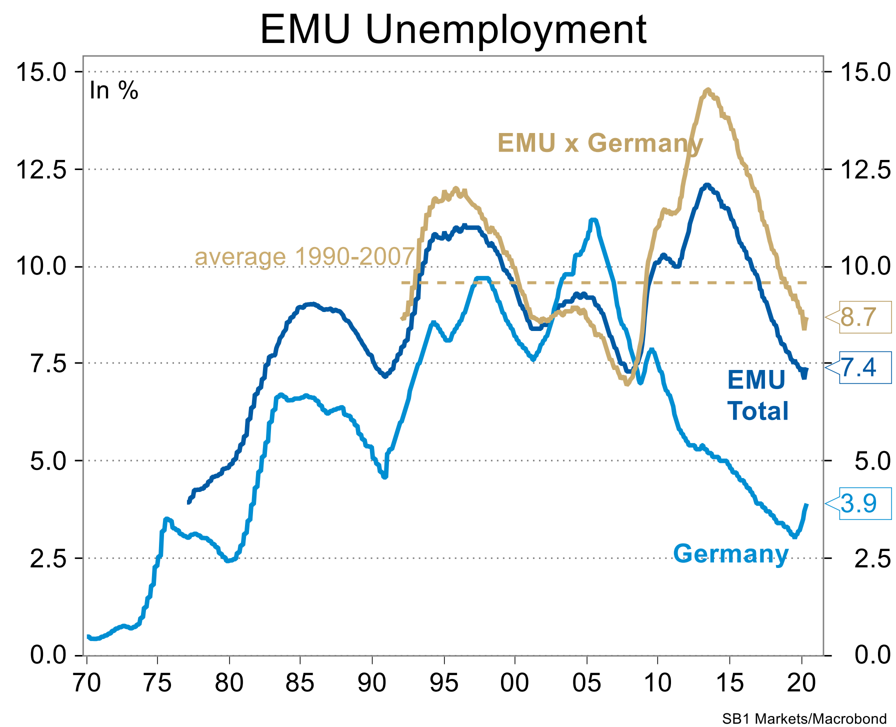


SpareBank 1 MARKETS

Unemployment stats are not relevant

The unemployment rate rose up 0.1 pp to 7.4% in May, no corona impact (in this figures)



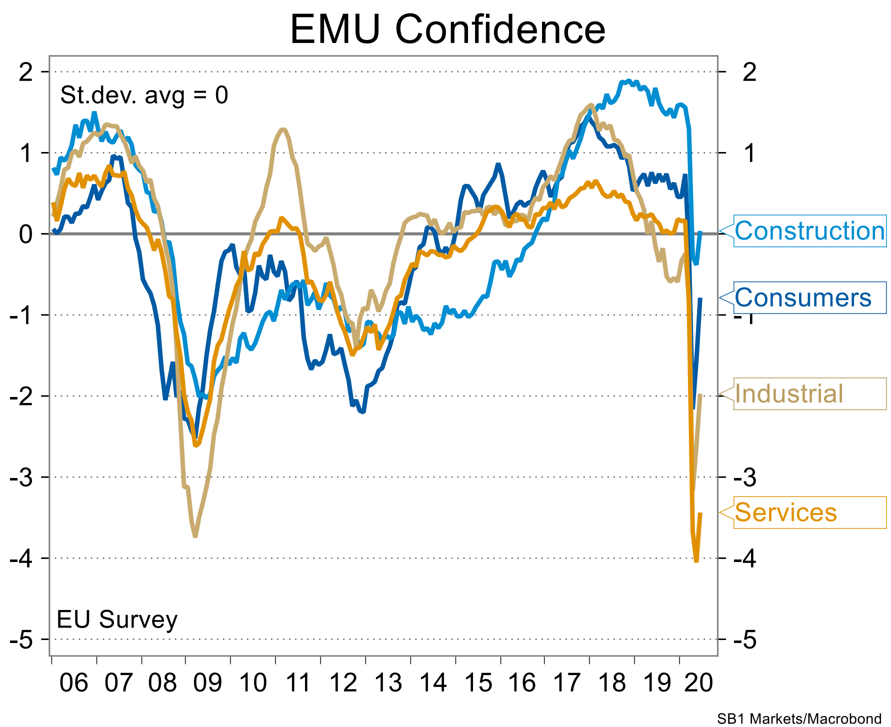


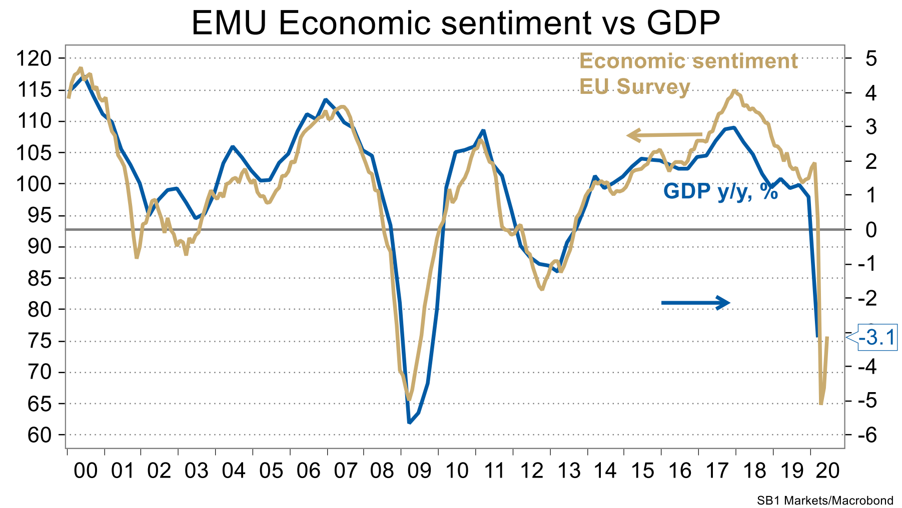
- In Europe, companies are partly paid to take care of their workers during the lockdown – and those who are furloughed are not counted as unemployed the first 3 months in the labour force surveys (like in the Norwegian 'AKU')
- Thus, the LFS unemployment rate is almost unchanged, as the no of unemployed has increased by just 425' persons in April and May. In Italy, unemployment has fallen sharply
- We expect more impacts of the corona setback to become visible in the coming months – activity is down, hours are cut and jobs will be cut too

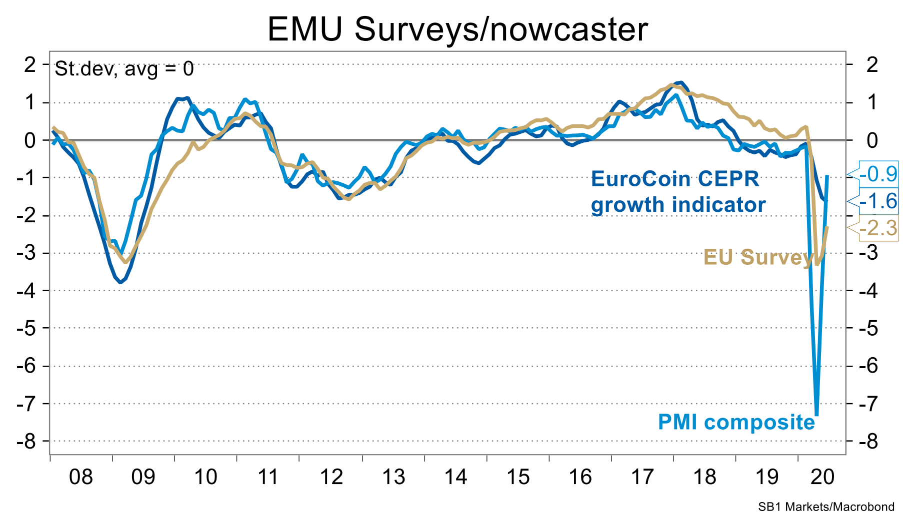
SpareBank 1 MARKETS

EU economic sentiment further up in June, level still strangely low

Services are still the weakest link in the chain. Signals a continued decline in GDP



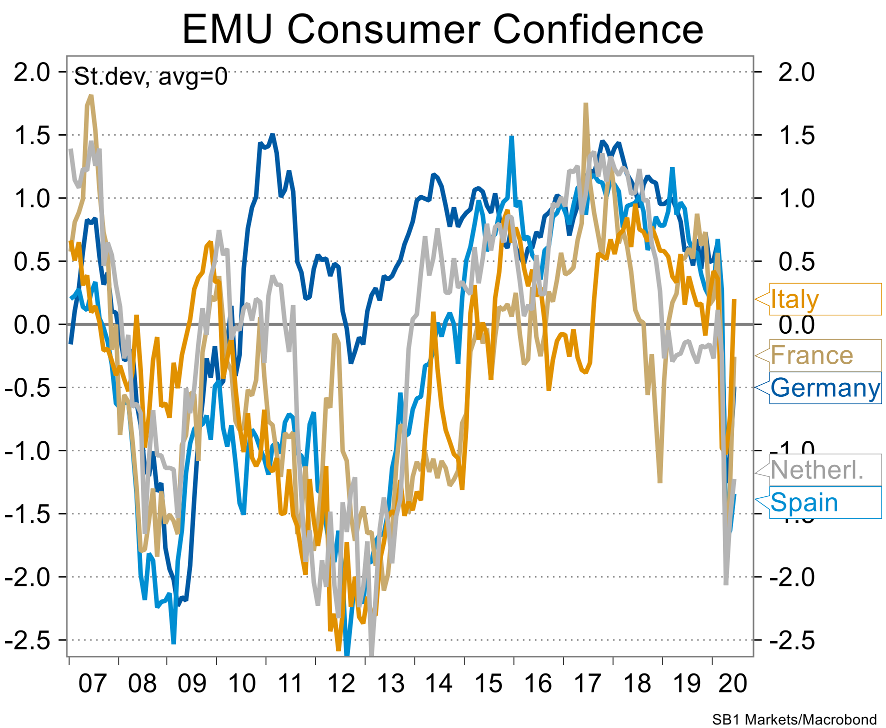


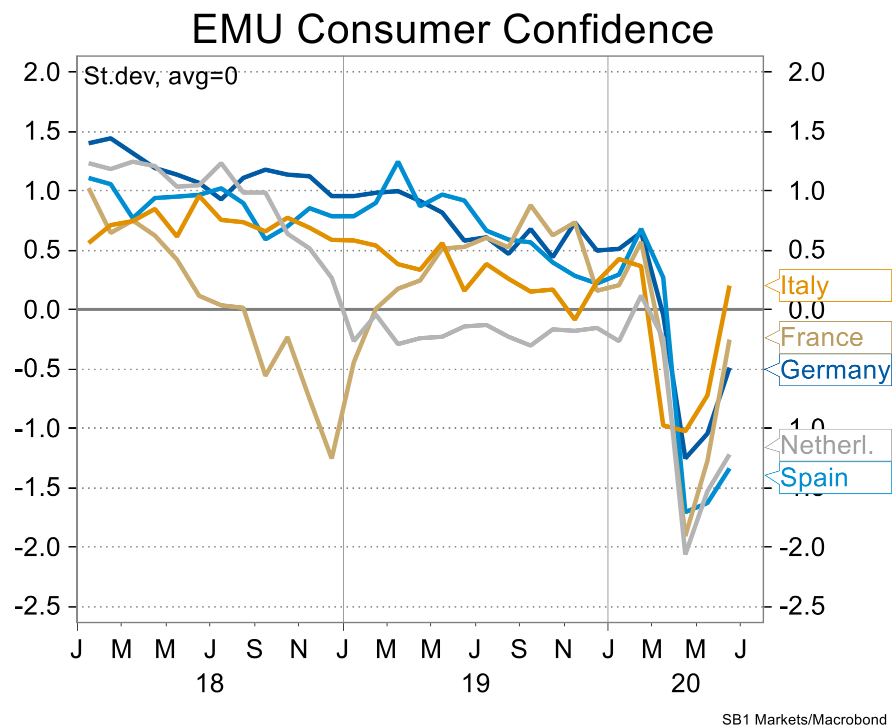


- This survey has not captured the recovery that started in May, just like most other surveys are still signalling a decline in activity

Consumer confidence up, Italy to above an average level!

The corona/lockdown crisis was not as serious as euro crisis (2011/12) or the financial crisis

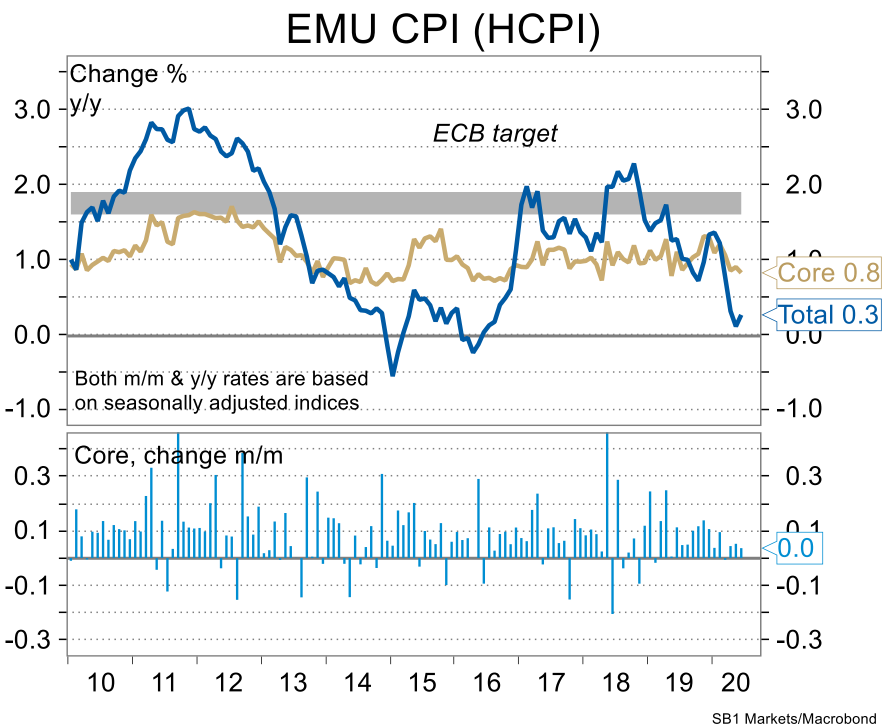


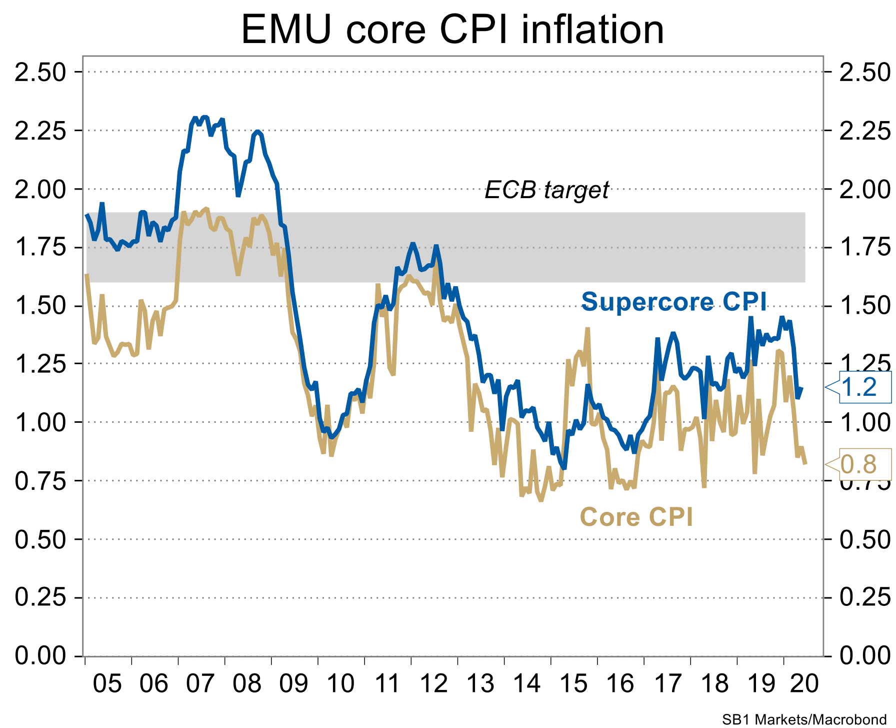


- Sentiment in Italy above an average level – others are still below, Spain and Netherlands at the bottom

Total CPI 0.3%, core at 0.9%. ECB can to whatever it takes to solve other problems

Core underlying growth recent month has slowed to 0.5 – 0.7%

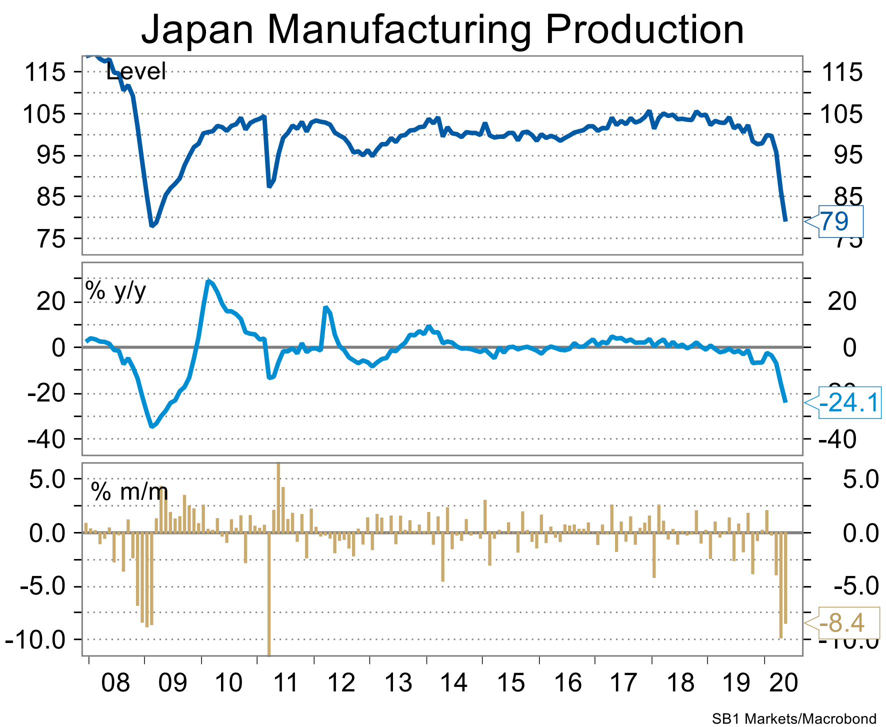


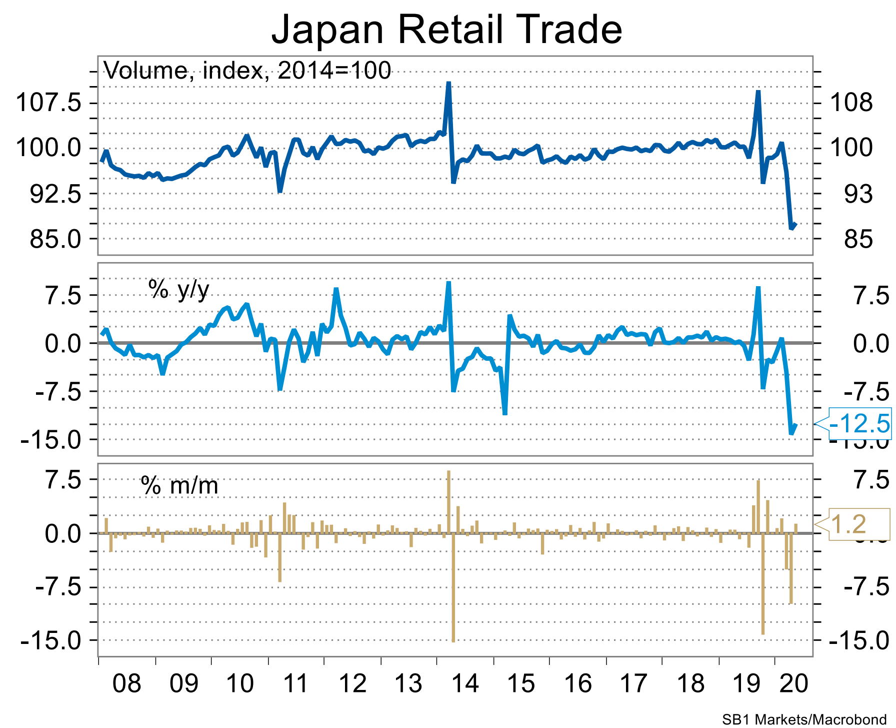


- Energy prices have taken the total CPI down. Good news for European households
- The annual growth in the supercore CPI, which is weighted so that the correlation to indicators of economic slack is optimizes, has fallen to 1.2% from 1.4%. Underlying growth is below 1%
- In sum: Core inflation, however measured, is far lower than ECB's target (below, but close to 2%)

Gosh, not out of the wood yet… Manuf. down 8%, retail just marginally up

Manufacturing production fell by 8.4% m/m in May, 3 pp below expectations. Down 24% y/y

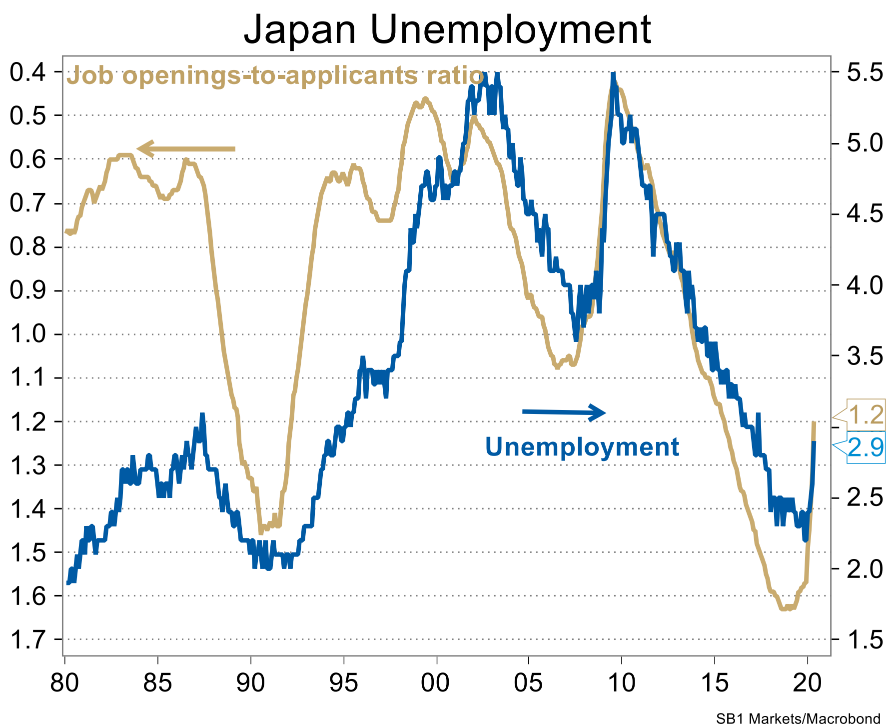


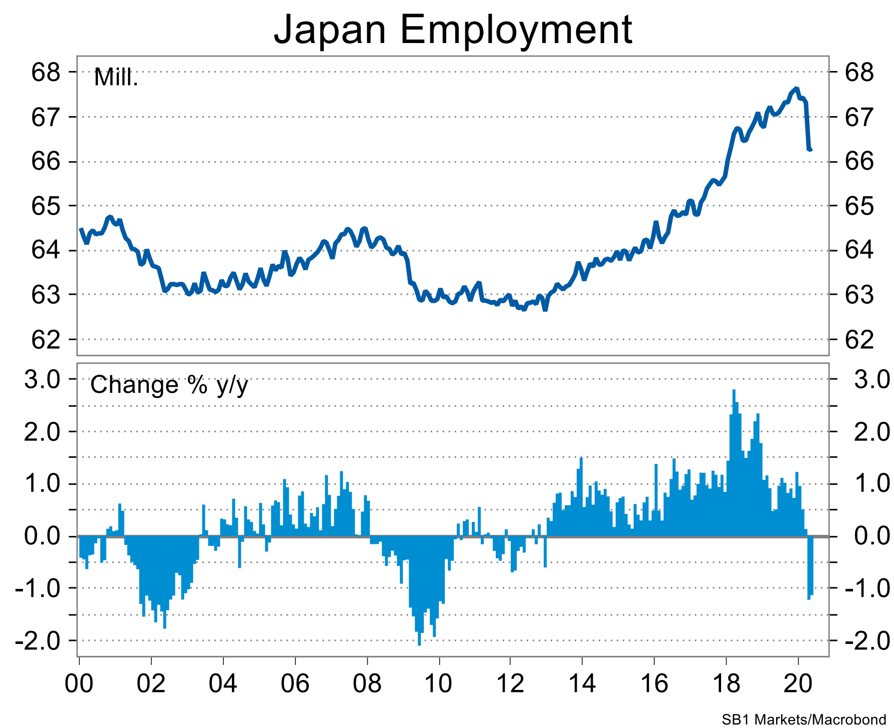


- Retail sales rose by 1.2% in May, following the 9.8% drop in April – and sales are down 12.5% y/y
- Japanese export volumes are down 20% y/y, and import volumes ‘just’ 10% - a substantial net drag on Japanese production

Employment stabilised in May, following the 1.6% April drop. Unempl. up to 2.9%

Unemployment rose 0.3 pp to 2.9% in May, and it is up from 2.4% in Feb.



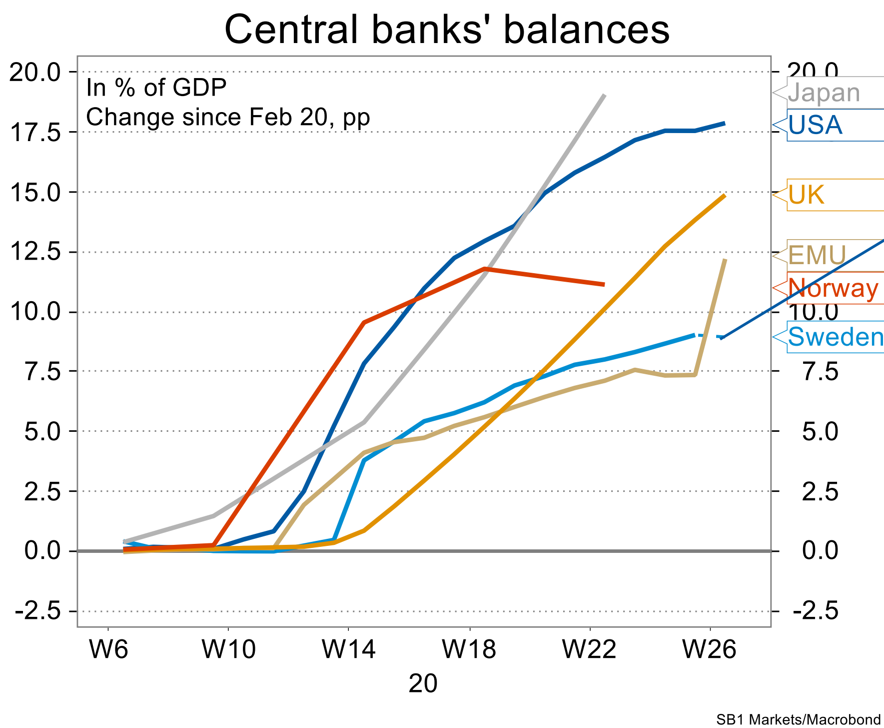


- Labour force participation has fallen – so the increase in unemployment has been far smaller than the decline in employment. Production has fallen more than employment – and productivity must have fallen substantially

Riksbank: More QE, could go negative again, if needed

Riksbank balance 'target' via QE, corp lending, total up 34% of GDP from Feb 20

The Bank will even buy some corporate bonds



- The repo rate was kept unch at 0,0%, and the Riksbank expect the signal rate to be kept there. However, the Bank does not rule out the possibility of another hike, and the 'rate path fan' is symmetric around zero

- The QE program is lifted to SEK 500 bn (10% of GDP) from 300 bn. The program runs until to end of June 21
  - » Since March the Bank has purchased NOK 130 bn in treasuries (12 bn), municipal bonds (11 bn) and covered bonds (90 bn!!) and commercial papers (6 bn)
- The Bank will begin purchasing corporate bonds, so far by just SEK 10 bn (included in the total QE program)
  - » Until now, the bank has been buying some commercial paper
- In addition, the Bank runs a corporate lending program via banks, up to 600 bn, of which SEK 161 bn is utilised (banks can borrow at 0.1 pp above the rep rate, now up to 4 years)
- The Riksbank will cut interest rates and extended maturities for bank's central bank borrowing
- The Riksbank expects a sharp downturn in 2020 but has put its most pessimistic scenarios on the backburner. Now, a 4.5% GDP setback in 2020 is expected (Rix had two GDP scenarios in April, for 2020 -6.9% and -9.7%)
  - » The Bank expects just a 3.6% GDP recovery in 2021, leaving the output gap at -3.7% (from -5.5% in 2020) vs. +0.9% in 2019.
  - » The unemployment rate is expect to rise to 9.2% in 2021, from 6.8% last year

Highlights

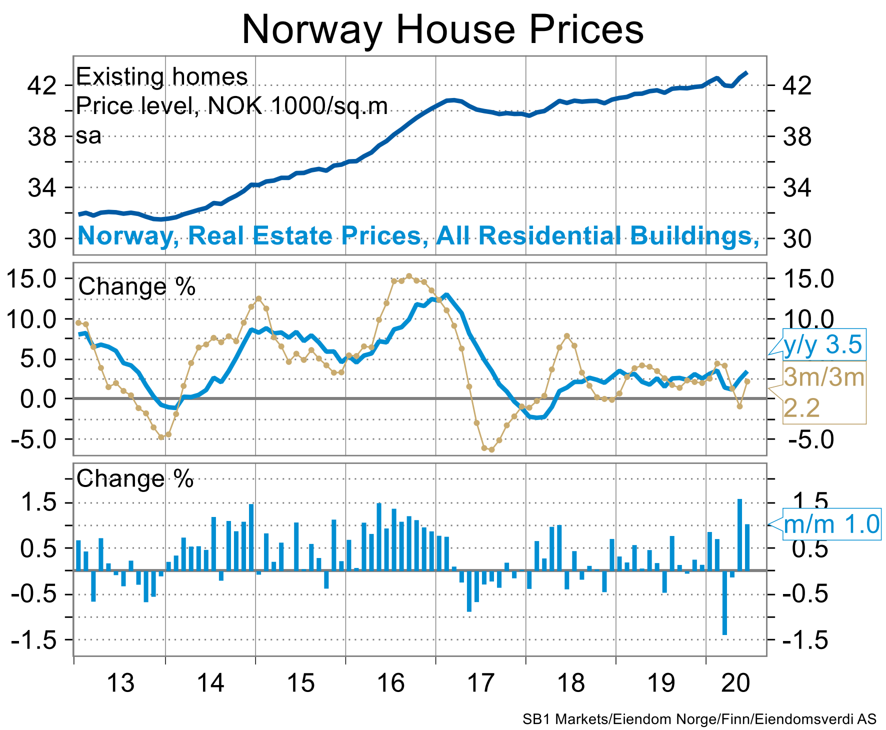
The world around us

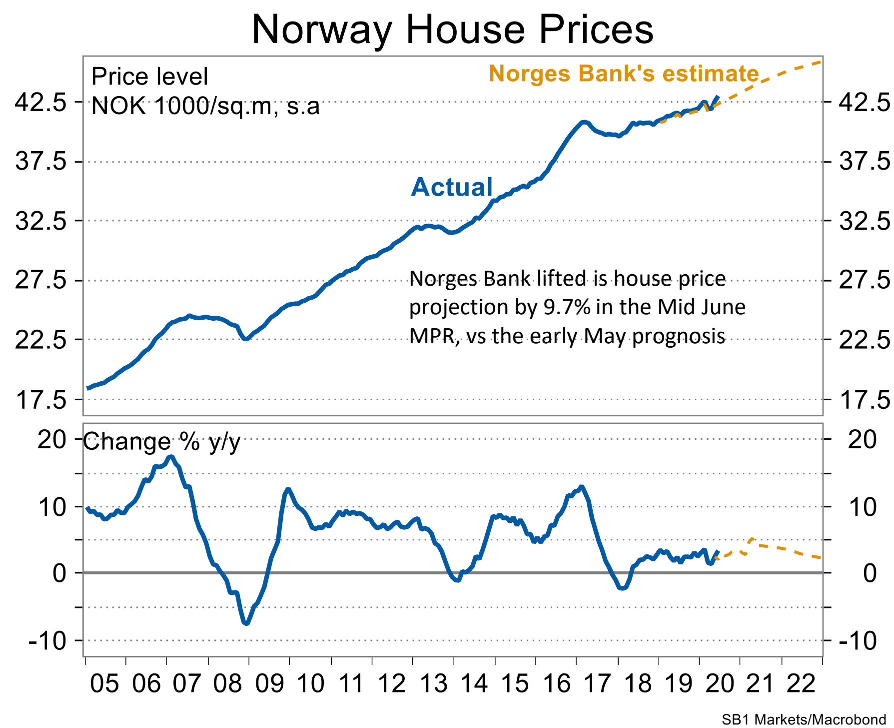
The Norwegian economy

Market charts & comments

Crisis, what crisis? House prices rose rapidly in June too, to ATH!

Prices are probably up more than 5% from the bottom in early April; downturn lasted just 3 weeks!

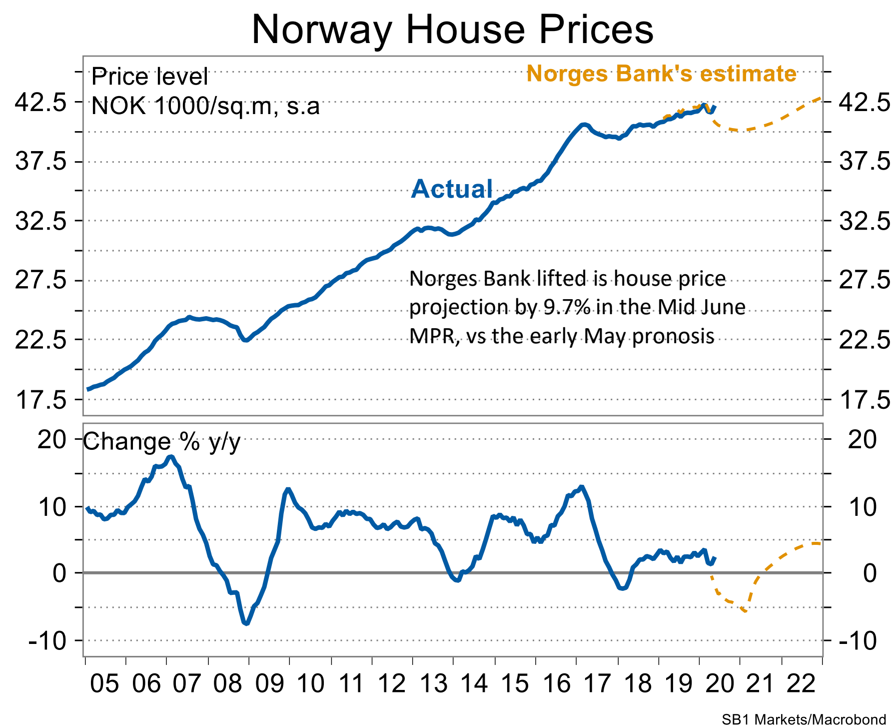




- House prices rose 1% m/m in June, following the 0.2 pp upward revised 1.6% in May. Prices are above the February level, following an approx 5% take off from early April. The corona crisis lasted just 2 – 3 weeks at the housing market. Prices are up 3.5% y/y. A 1.1% cut in mortgage rates (to 1.9% in average in May, from 3% in Feb), was more important than a 6 pp increase in the unemployment rate (and +12 pp at the peak)
  - » That's not what the standard model suggests. Most likely, households look upon the corona hike in unemployment as short lived, while low interest rates are here to stay
  - » Prices rose everywhere, even in Stavanger. East in the lead in June, but not over the recent months. Oslo up 1.7% in June, and 5.2% y/y, on the top of the list
- The number of transactions rose too, to the 4th highest level ever. More homes were brought to the market too, and the no of unsold homes rose – but less than it fell in May. The inventory of unsold existing homes is increasing in Viken (East) and Oslo but has fallen somewhat in rest of the country
- **Should the house prices continue upward at say more than 6 – 7% per year, Norges Bank will no doubt start hiking rates before late '22**

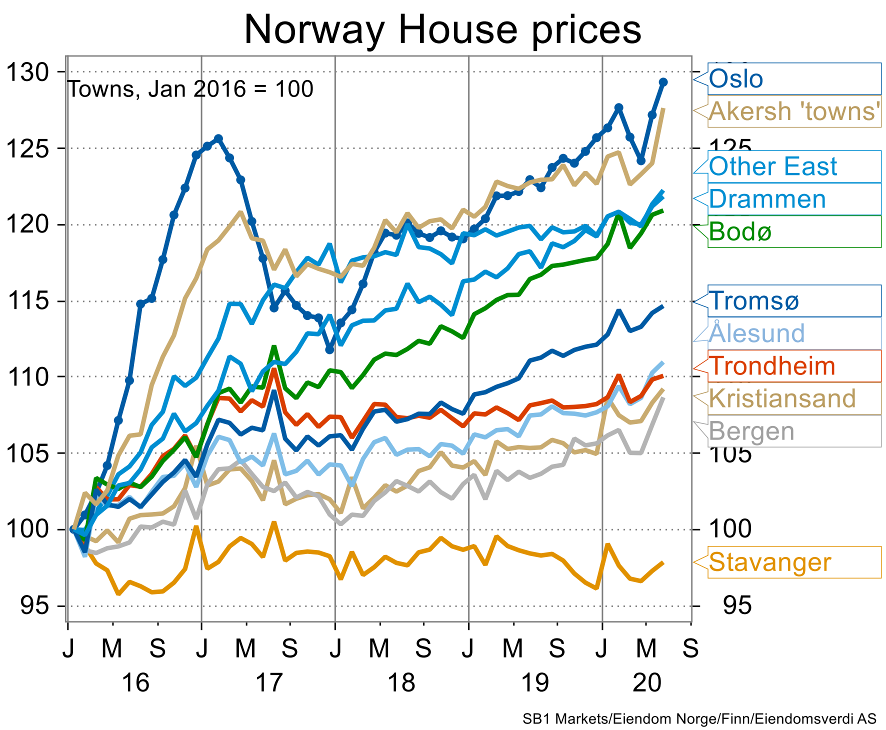
BTW, here is NoBa's early May house price forecast

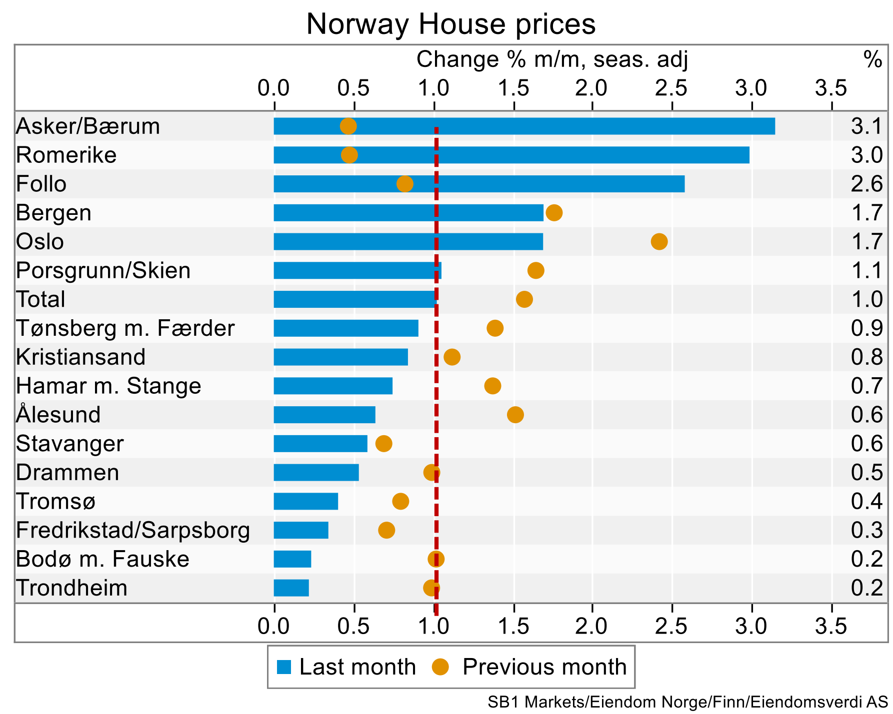
... and our forecast was no better!!!



Prices up everywhere in June too, most in East. Trondheim/North lagging

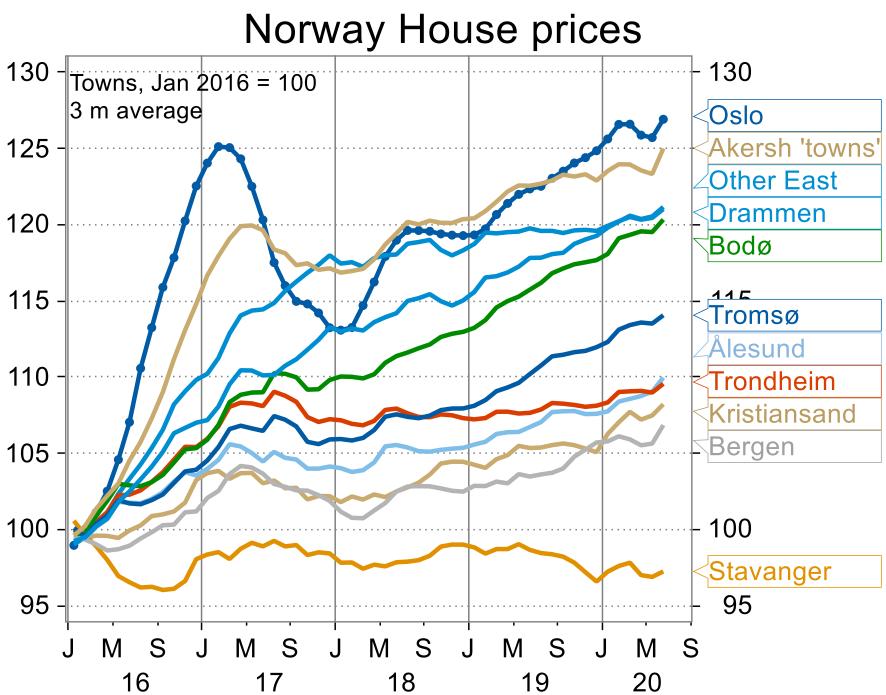
Oslo experienced the largest decline in March/April – and the sharpest increase in May/June



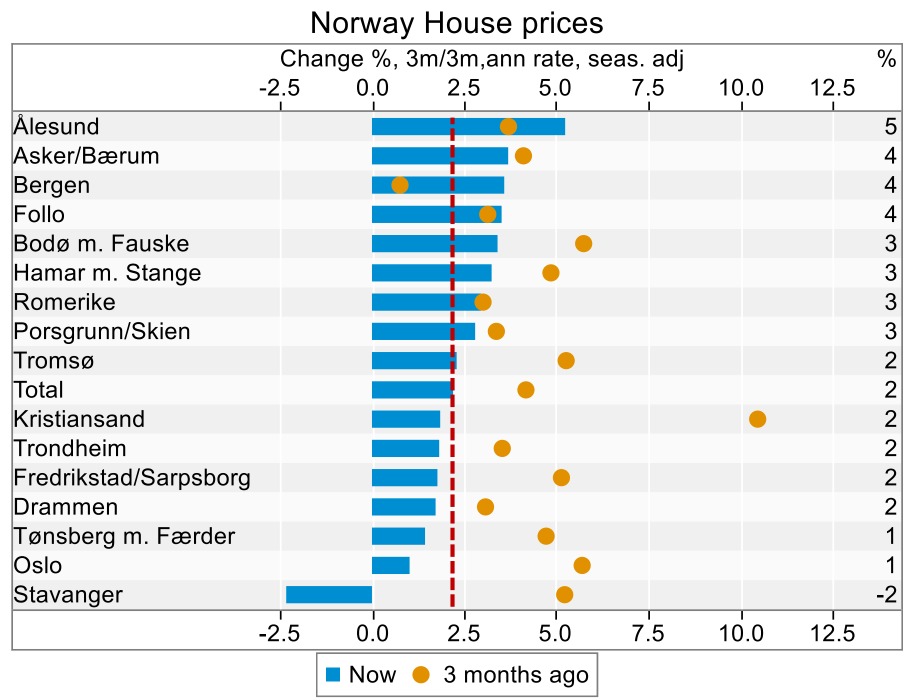


Recent months; measured 3m/m Stavanger still down, Oslo barely up

Prices up all other places, and the corona downturn will soon be forgotten?



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

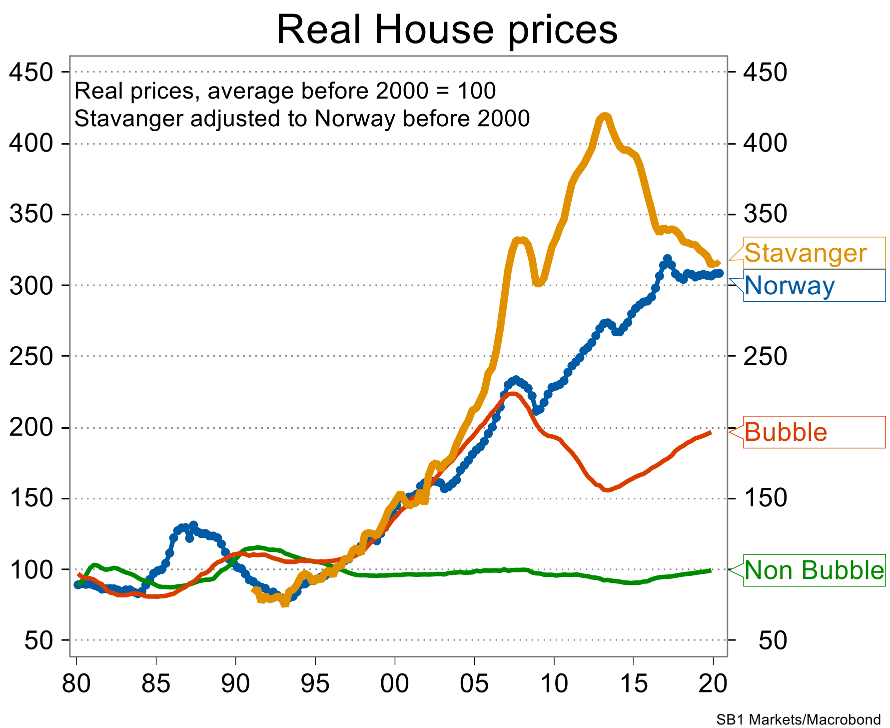


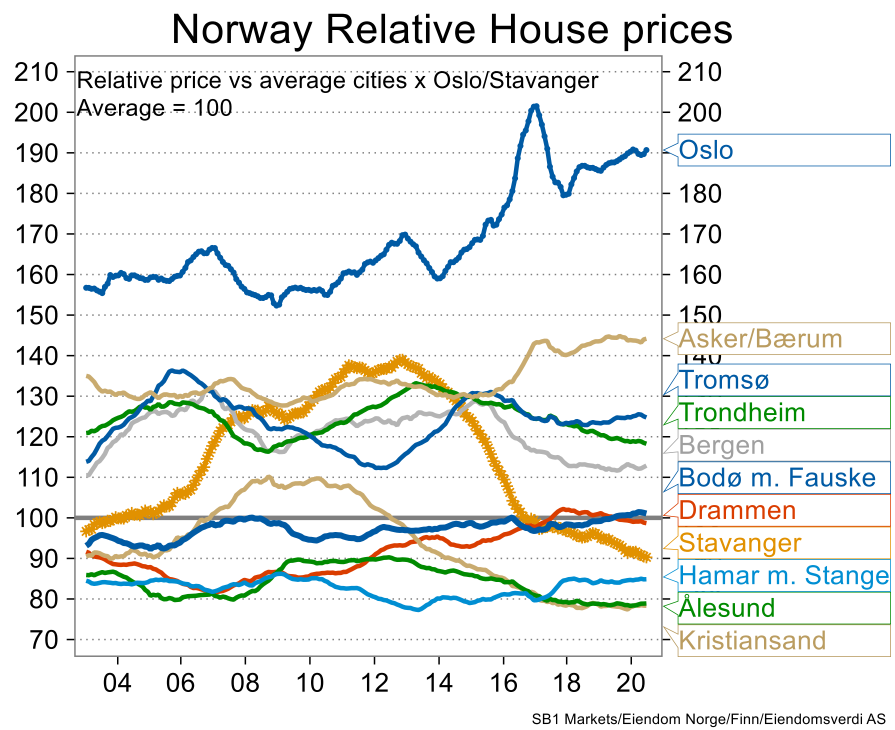
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Measured 3m/3m, prices are now rising in 15 towns, falling just in Stavanger.

The Stavanger case: Could it happen elsewhere?

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

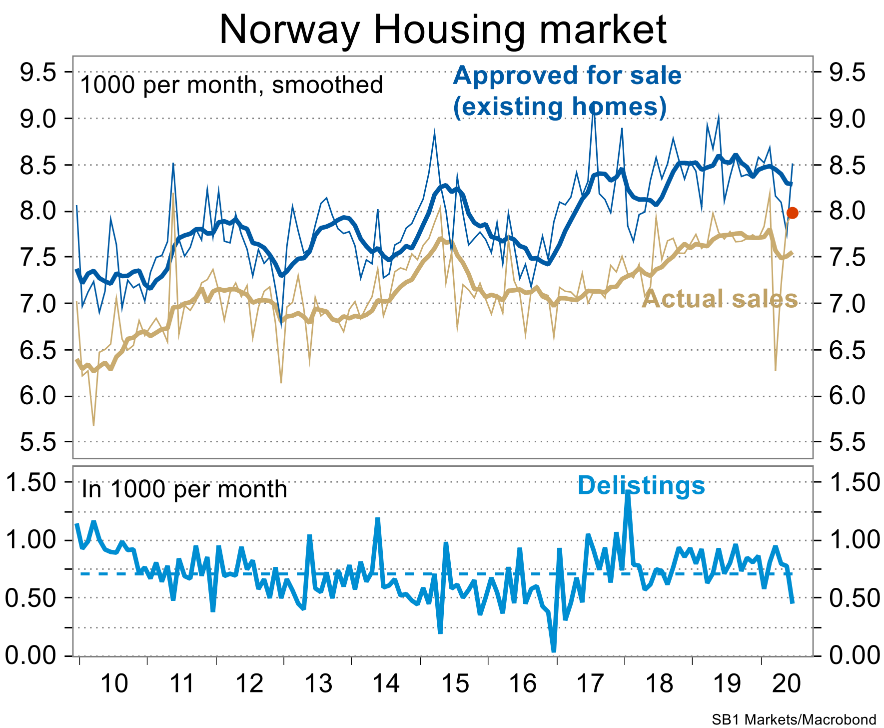


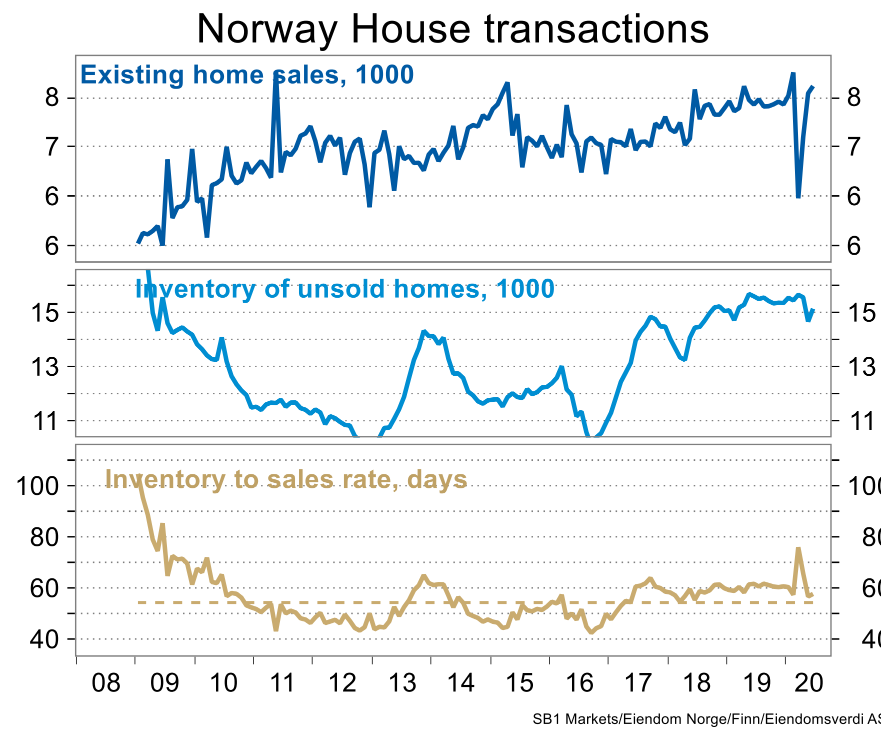


- Housing starts in Stavanger is still not lower than normal. It is still profitable to build!

Transaction level the 4th best ever – but sellers came back too

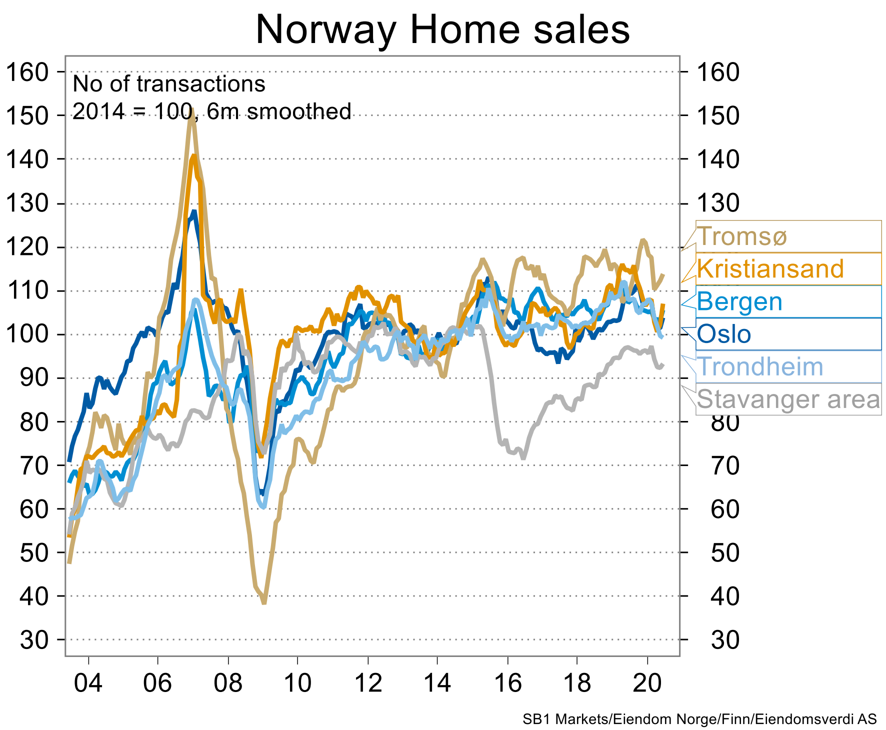
The inventory of unsold houses rose marginally in June, and far less than the decline in May

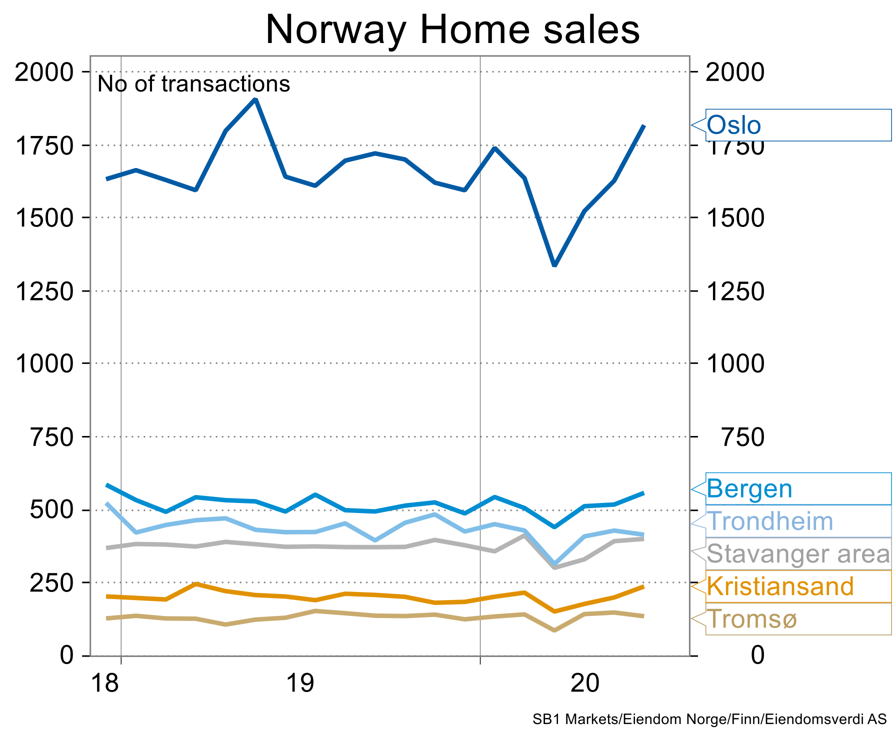




- **The number of transactions** rose further in June. Just 3 months have been better. Sales
- The **supply of new existing homes** recovered too, back to the normal level before the corona crisis
- **The number of delisting** rose in March but has fallen during the spring and was lower than normal in June
- The **inventory of unsold homes** rose marginally in June but far less than the decline in May. The level is below the 12m avg
- The **inventory/sales ratio** is back to a normal level. All in all, the market balance signals further price increases

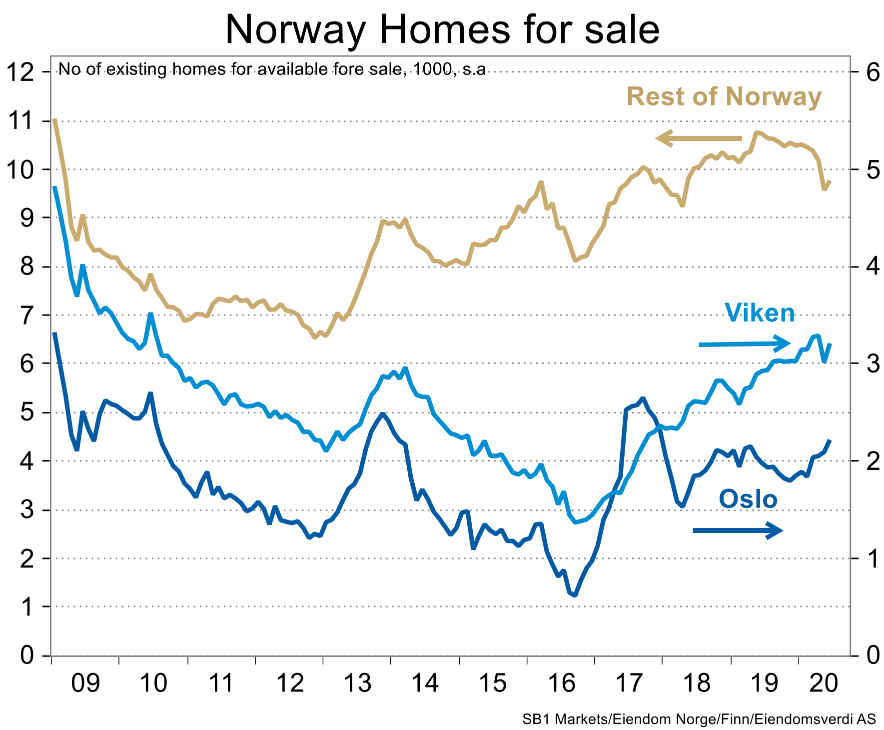
Transactions up everywhere recent months

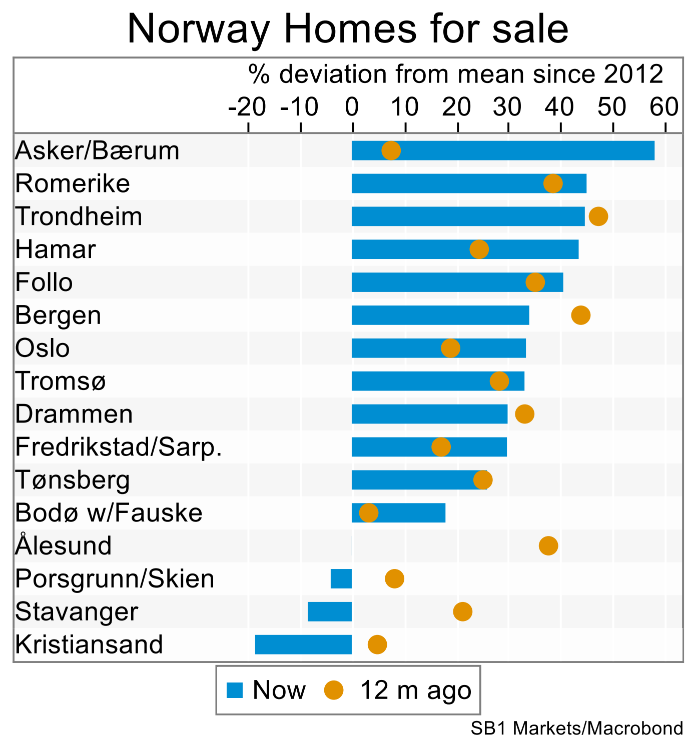




Fewer existing homes for sale most places (but not in Viken/Oslo)

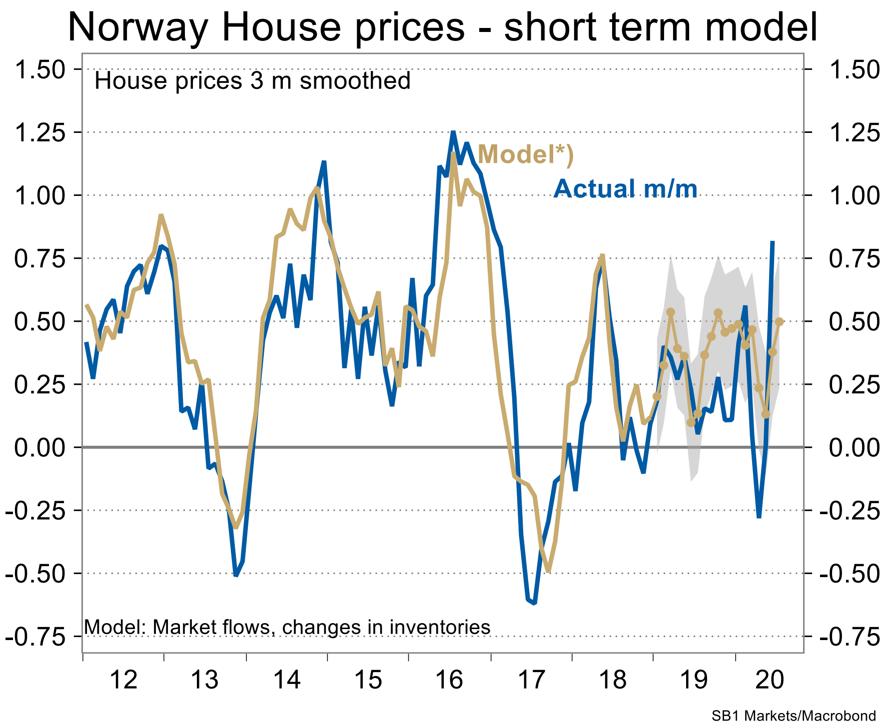
Inventories are still on the high side but just Viken is reporting a ‘disturbing’ trend





- Still, in some towns, the inventory is much higher than normal, like Trondheim and some cities around Oslo (and in Oslo as well)
- In June, the inventory is down y/y in 7 cities, up in 9.

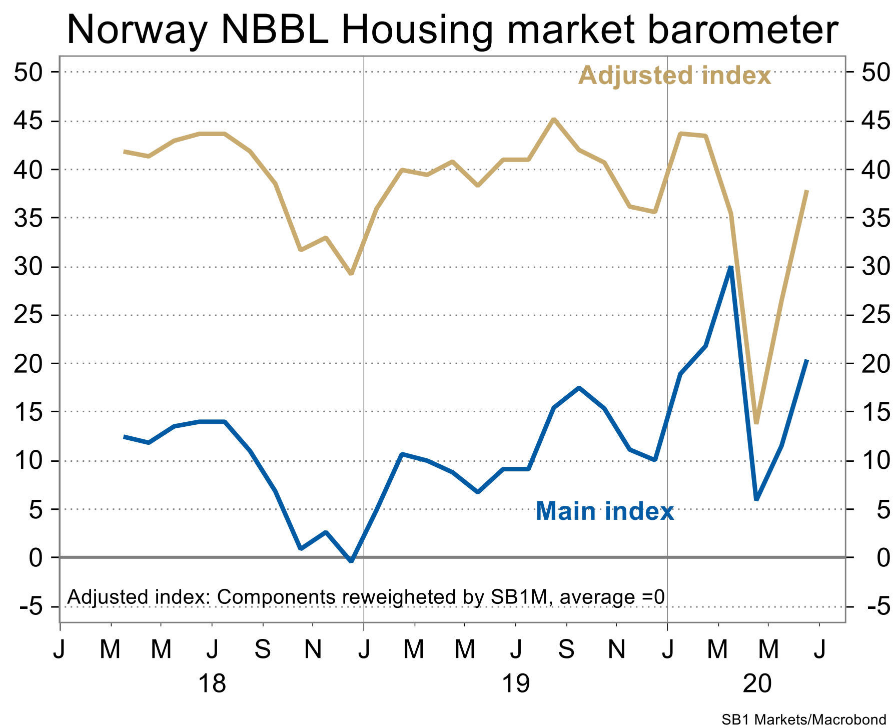
Short term market flows suggest further price hikes

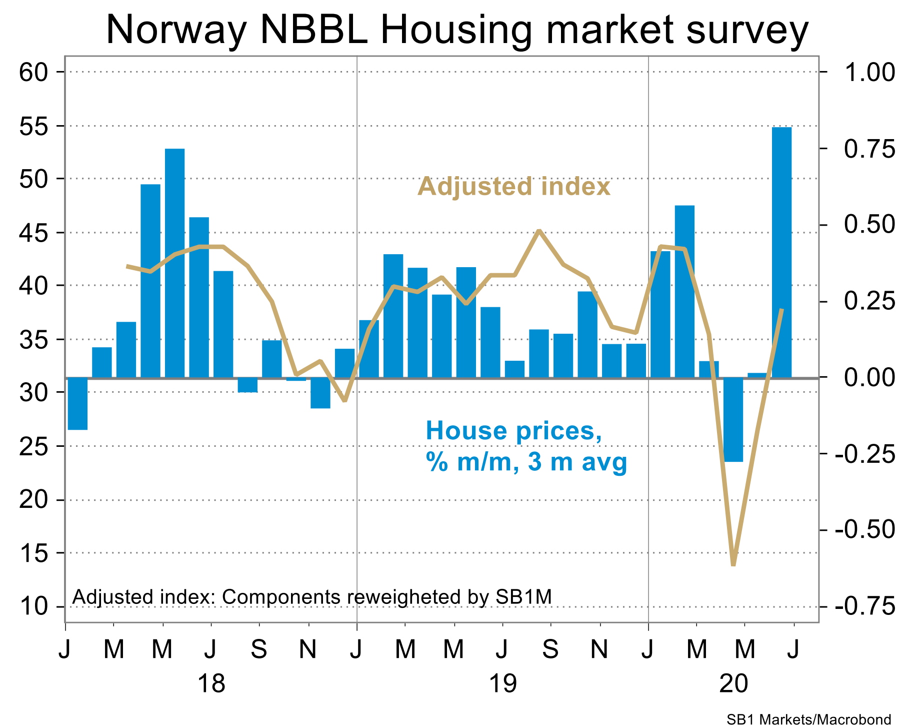


- The supply of new homes for sales and the inventory suggest just marginal price decline the coming months
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

House price sentiment further up in June – prices to follow?

NBBL's index sharply up in June. Prices are expected up. No more worries for the labour market



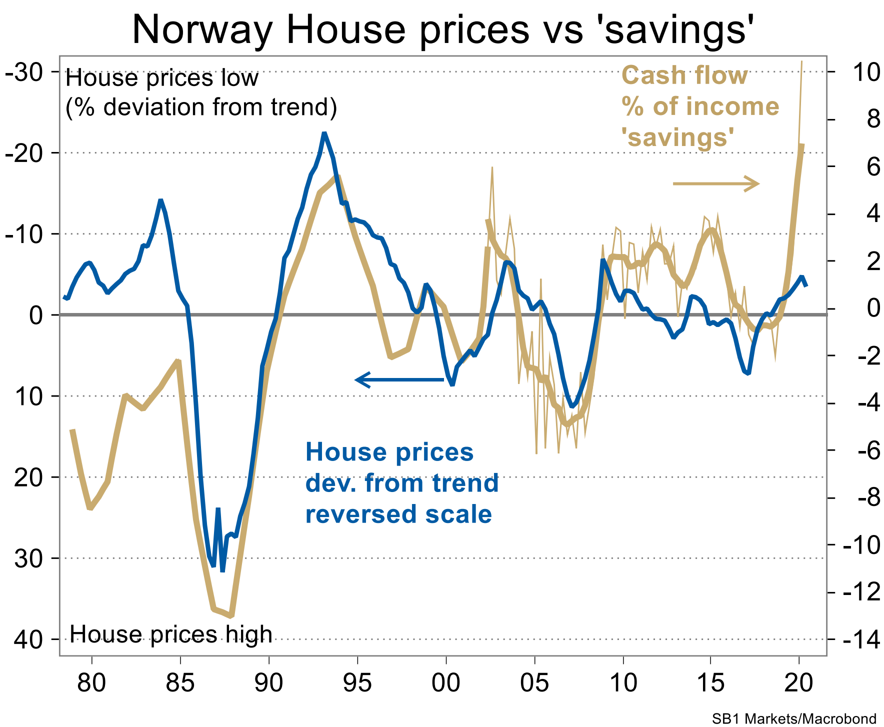


- Since the index was established in March 2018, a large majority of respondents have expected house prices to rise the coming year
  - » In April, the price expectation balance came down to -25%, from +50 in February and 14 in March. In May, the net balance rose sharply, to +2 – and in June the balance rose to +30%, not far below an average level!
- The total housing market barometer, which in addition to price expectations also includes interest rate expectations as well as job security outlook, rose to 20 in June, from 12 in May and 6 in April. In February, the index was at 30, all time high. At 20, the index is at the 2nd level 'ever' (since early 2018), and well above average
- We have recalibrated the components in the survey in order to better capture the underlying data – which implies a larger weight on the job outlook. The alternative index yield an index at an average level in June. Households are just marginally less optimistic on jobs than normal
  - » The NBBL survey is still too young to calibrate vs price changes but we have given it a chance at the chart to the right

SpareBank 1 MARKETS

House prices and savings are usually correlated

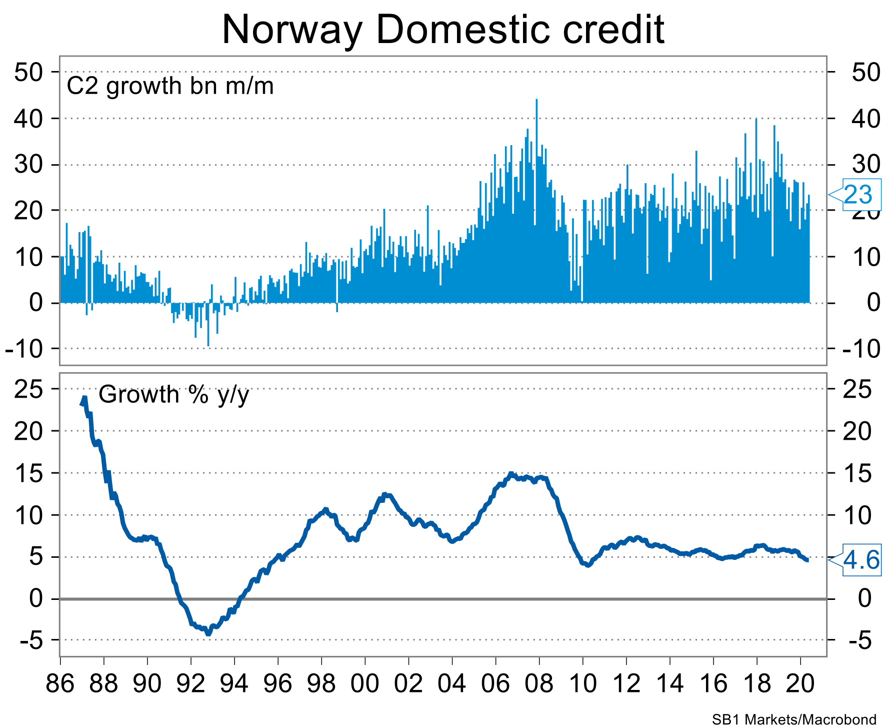
Now, house price inflation is below ‘normal’, and savings are increasing

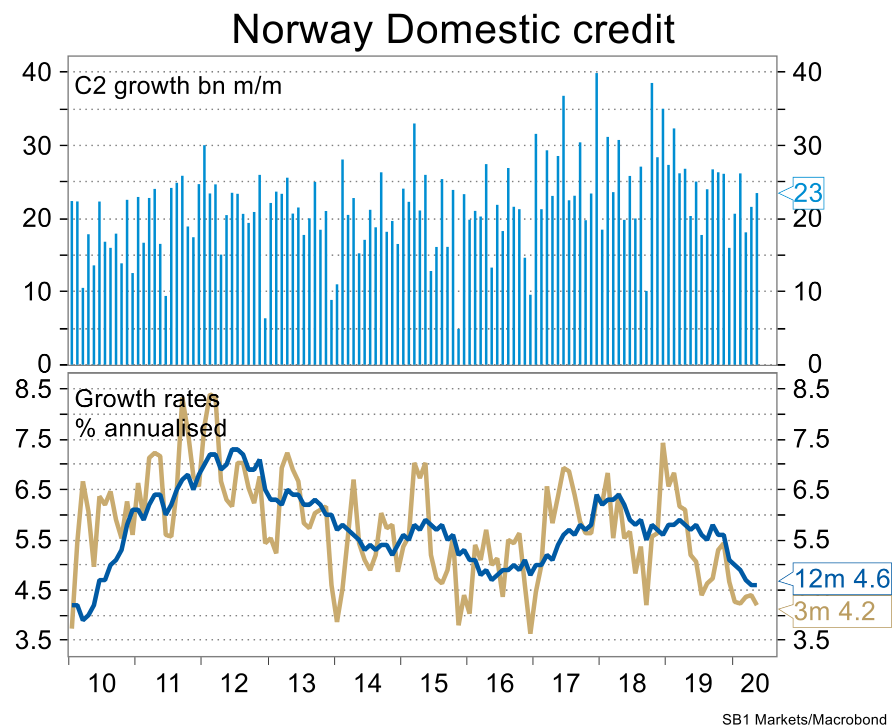


- House prices usually impacts
  - » The savings rate
    - ▪ You normally spend less and saves more when your net wealth falls – but that did not happen when house prices fell through 2017 (and the savings rate fell further)
  - » Housing investments
    - ▪ It is less profitable to build/buy a new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

Higher credit growth in May, the corporate sector needed more money

Domestic credit growth (C2) stable at 4.6% y/y, we exp. 4.5%. Households were unusual modest, corporates not



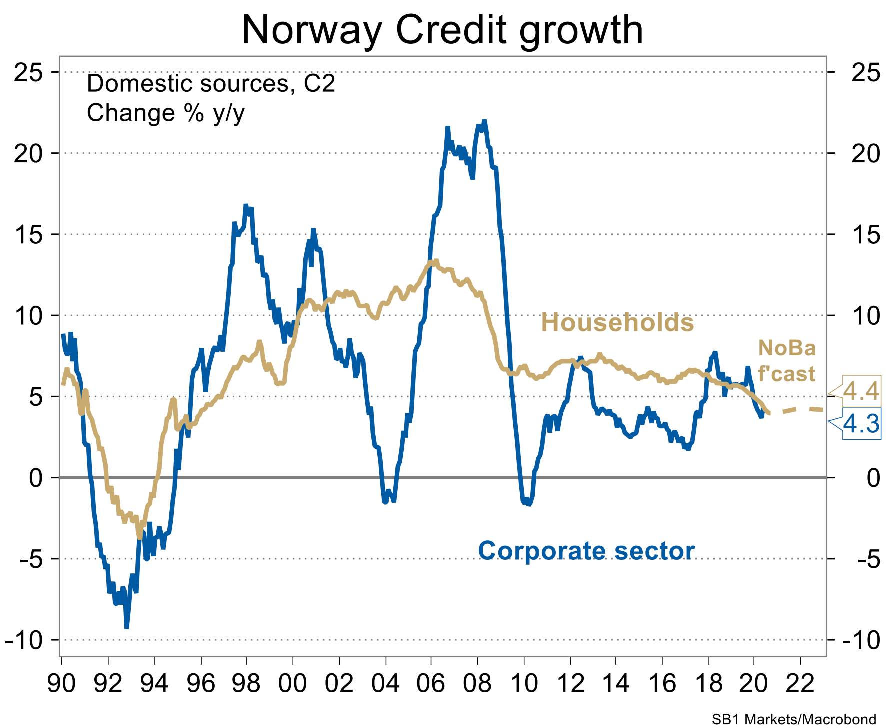


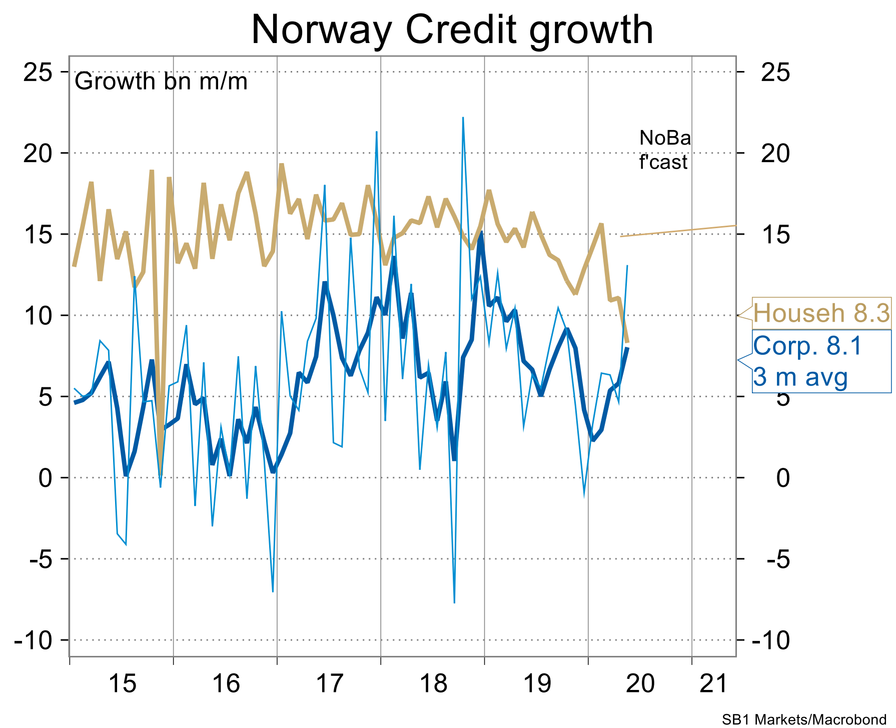
- **Total domestic debt** (C2) rose by NOK 23 bn m/m in May, up from 23 in April. The annual growth was stable at 4.6%, we expected a decline to 4.5%. Growth has been heading clearly down since late 2019 (and from early 2018)
- **Household credit growth** slowed further in May, down 0.2 pp to 4.4%, the lowest in 23 years. The monthly growth at NOK 8 bn, the lowest in almost 5 years (and that was a irregular observation), and the underlying growth recent months has fallen to 3.5. Credit growth is below income growth. As the housing market is recovering, a further decline in credit growth is less likely
- **Corporate credit growth** has been slowing but not further in May – businesses borrowed much more than we assumed, NOK 13 bn and the annual growth rate rose by 0.6 pp to 4.3%. The extra credit has at least been supplied by the bond market

SpareBank 1 MARKETS

Households' credit growth at 23 y low – corporate borrowing up in May

The 'Covid-19 recession' will most likely over time slow corporate credit growth (and investments)

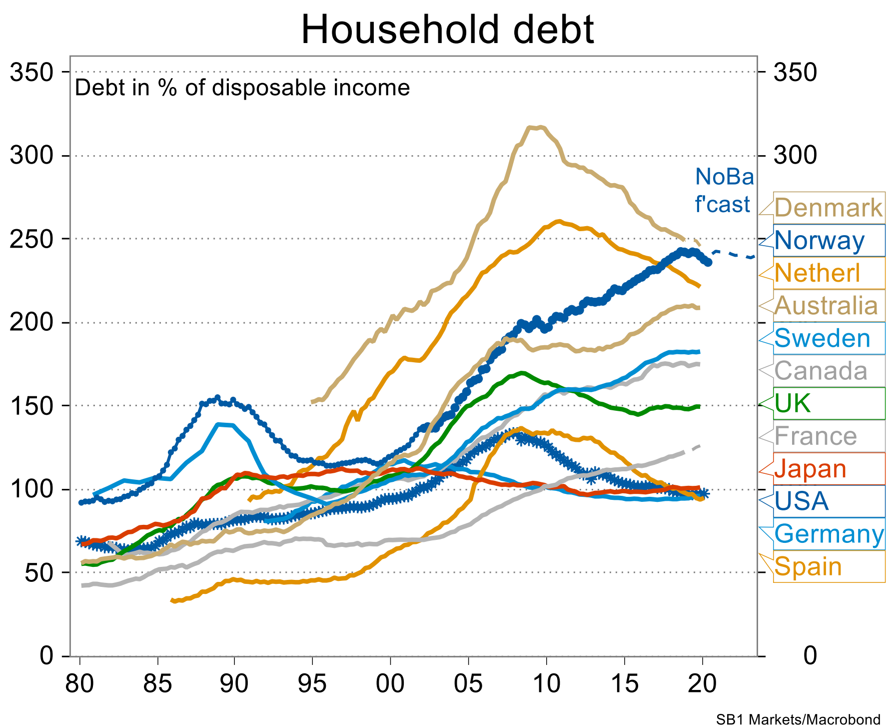


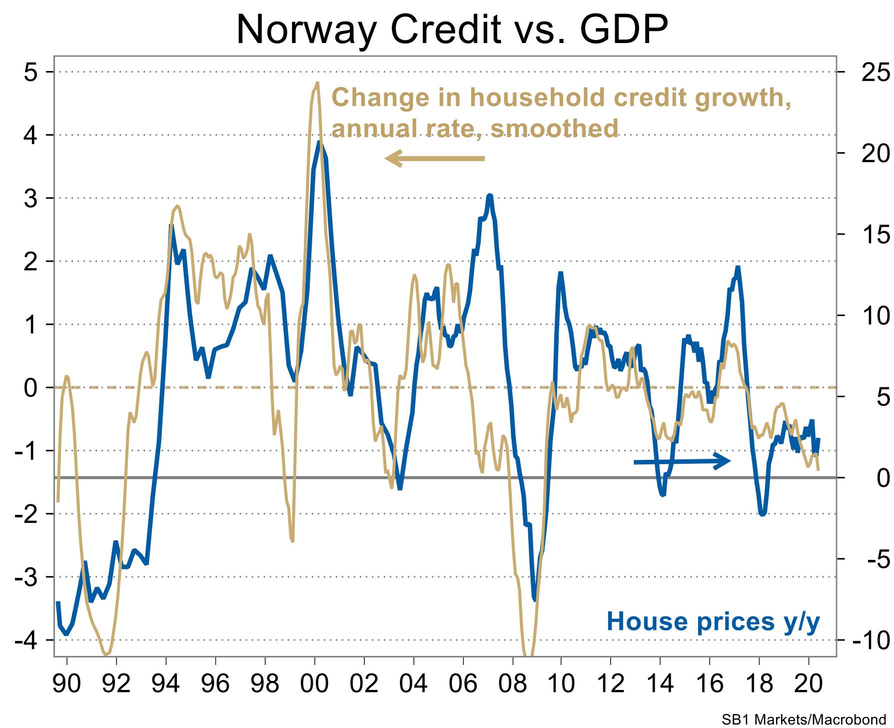


- Households' total borrowing rose by NOK 8 bn m/m in May, clearly below a 'normal' level. Growth has been slowing since 2015, and more in 2019 and further so far in 2020
- Corporate credit (in C2, domestic lending) rose by NOK 13 bn in May, and the annual rate accelerated by 0.6 pp to 4.3%. That may course may be a start of faster corporate borrowing. We doubt, the May spike may be due to extra borrowing to cover corona income shortfalls or just by accident

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

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

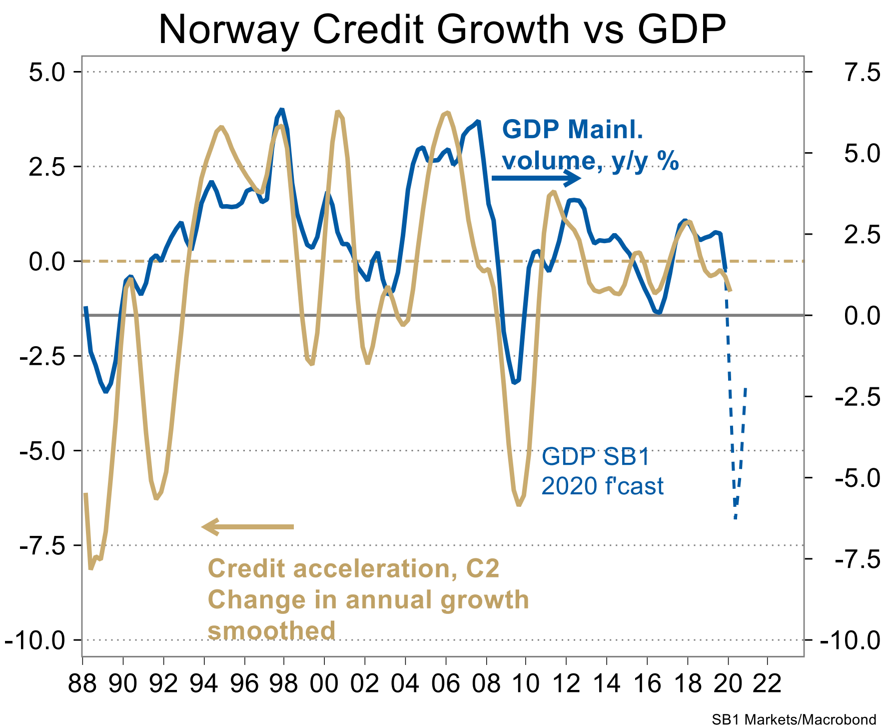




- Household debt is growing slower than household disposable income, for the first time in 30 years (barring some minor turbulence in 2008/09)
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit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

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

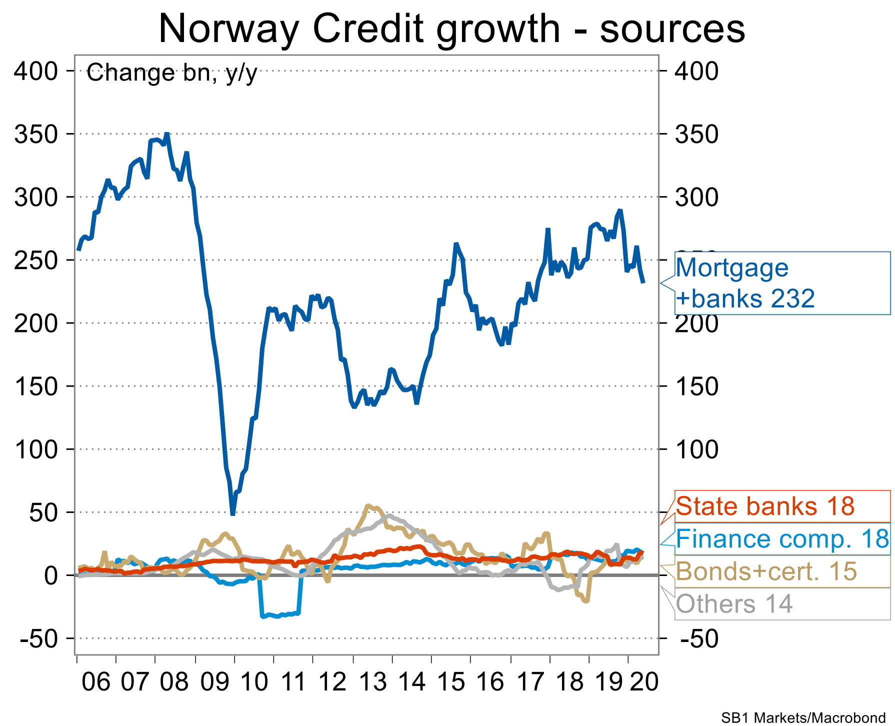
The current economic setback is atypical – and may lead to an atypical credit response

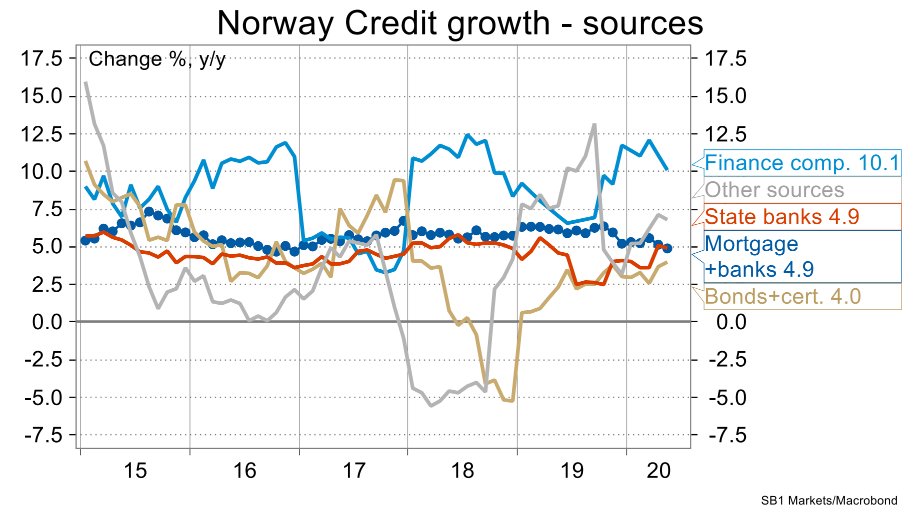


- GDP growth is quite coincident with *changes in credit* *<u>growth (the 2nd derivative</u>)*
- Face value, the expected rapid decline in GDP in both in Q1 and more in Q2 indicates approx. 8 pp slowdown in annual credit growth, indicating a decrease in credit, mostly due to lack of demand. However, in previous crises, the supply has been constrained too, as banks have been struggling. Interest rates cuts and generous liquidity supply to banks from Norge Bank + public supported lending programs may help

Bank lending is slowing

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

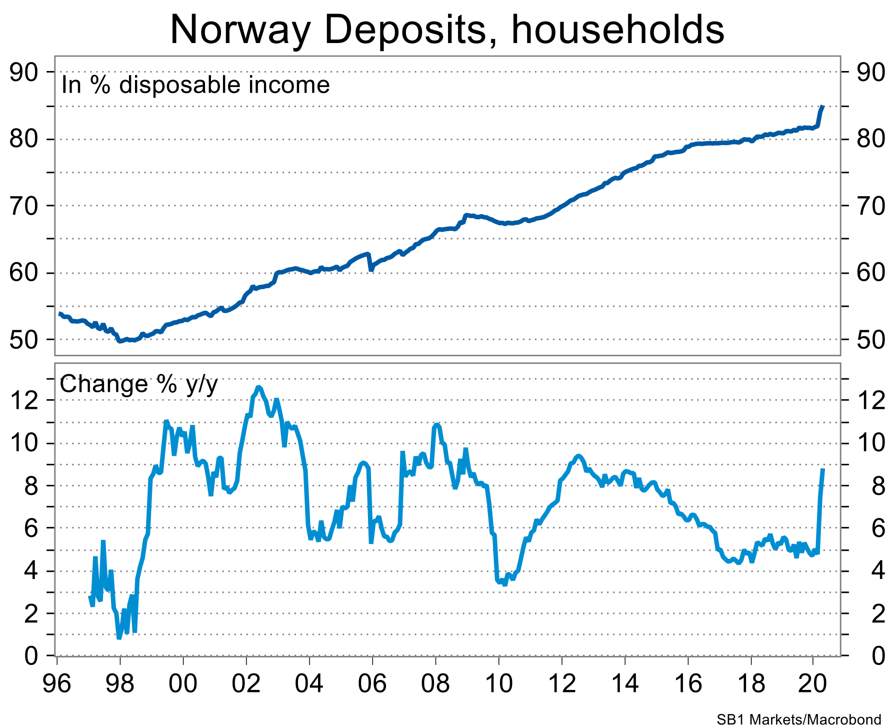




- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in 'sum of the parts' credit supply does not exactly equal changes in the total C2s

When not spending…. Put the money in the bank!

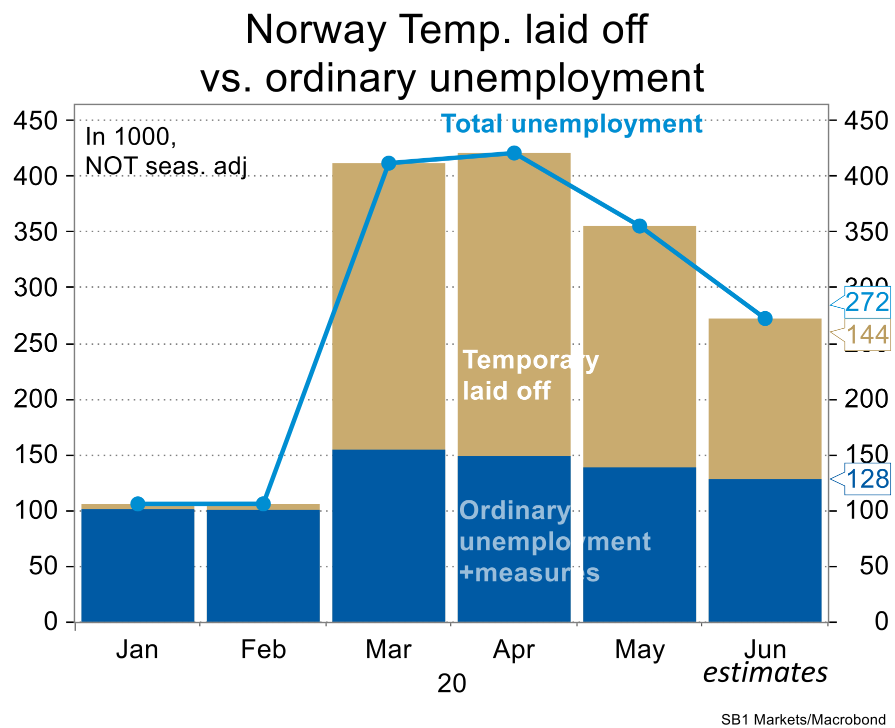
Deposits up 4% over just 2 two months, equalling 3% of (annual) disposable income!

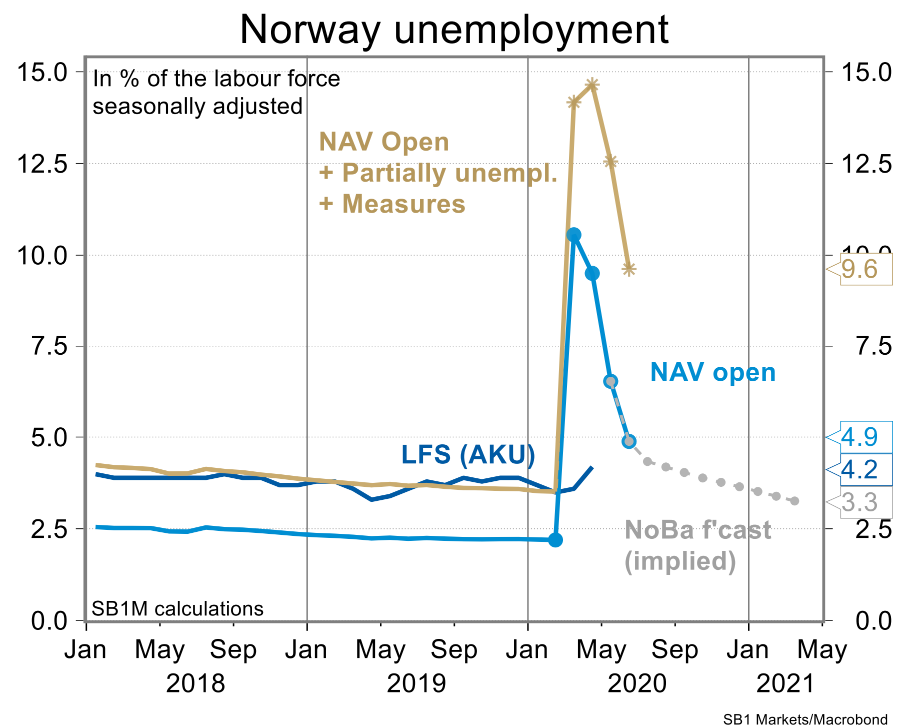


- Spending has been sharply cut, not on goods but services & spending abroad
- Households' income is hurt by lower unemployment benefits than wages income, and by lower income for many self employed (and over time lower dividends) but supported by lower mortgage rates
- From February to April, bank savings rose sharply, equalling 3% of annual disposable income, an incredible rapid increase. (May data will be out soon)

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

Total unemployment fell by 83’ or 3 pp through June, down to 9.6%

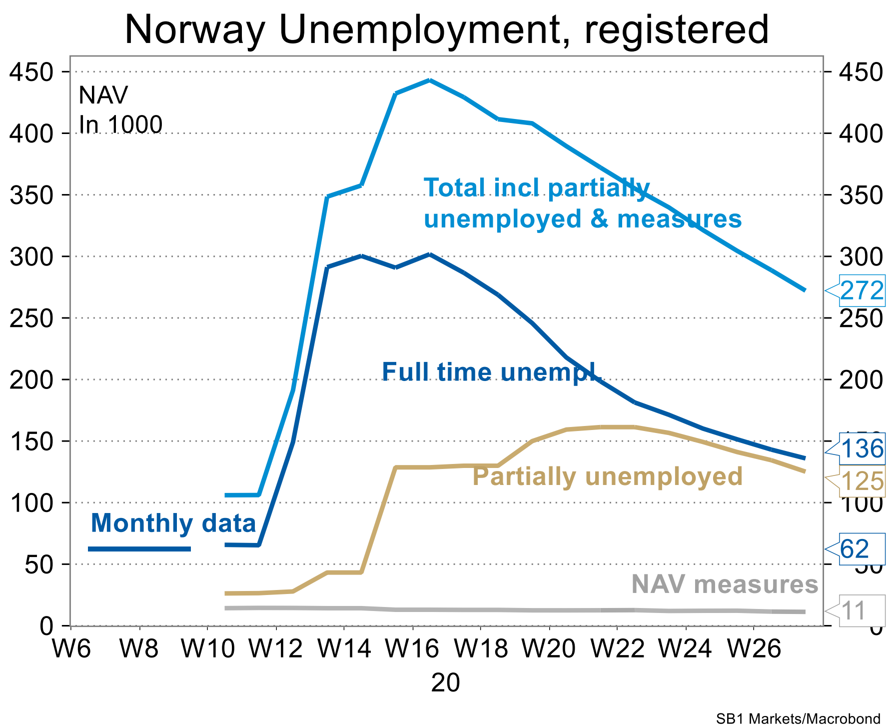


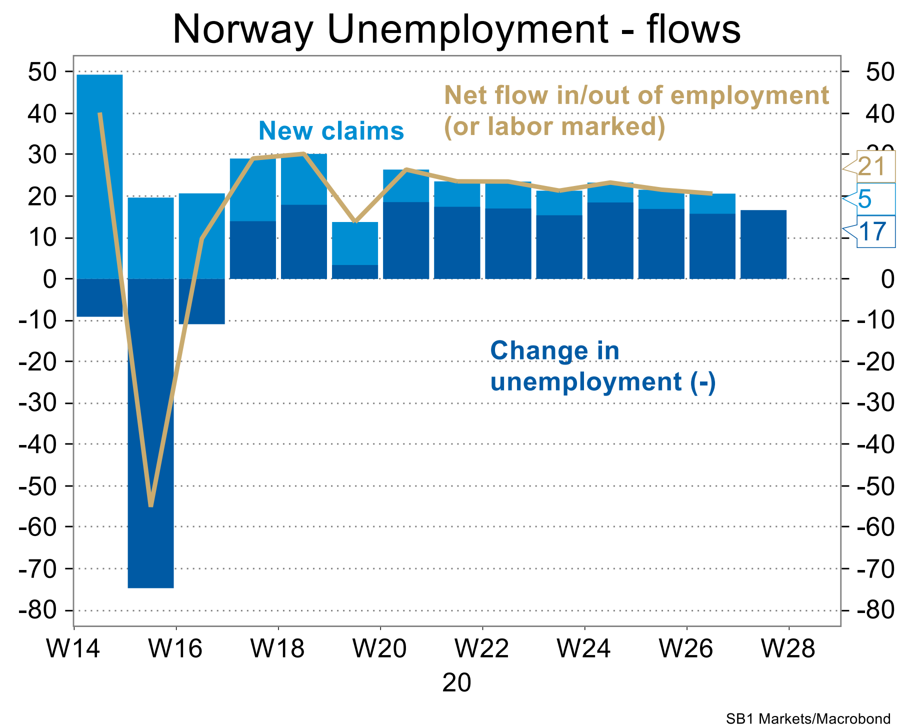


- The number of furloughed workers fell by 73’ persons, and ordinary (fully or partially) unemployed by 10’
- The open (full time) unemployment rate fell by 1.6 pp to 4.9% (seas. adj. vs 4.8% not adjusted – as we expected, consensus 4.9%) In April, the rate peaked at 10.6%. The rate was 2.4% ahead of corona
  - » The decline in June was in line with a reasonable interpretation of Norges Bank’s quarterly average forecasts. NoBa probably expects a 0.5 – 0.6pp decline in July, and 0.15 down per month thereafter. From April through, open unemployment has fallen by an average of 1.4 pp per month (and 1.6 pp in June)
- 144’ persons are still temporary laid off (of which ‘just’ 54 full time), equalling 5% of the labour force, down from 272’ (9.6%) at the peak
- Unemployment is falling everywhere, and in all sectors

Total unemployment down another 16' last week, -0.6 pp to 10.2%

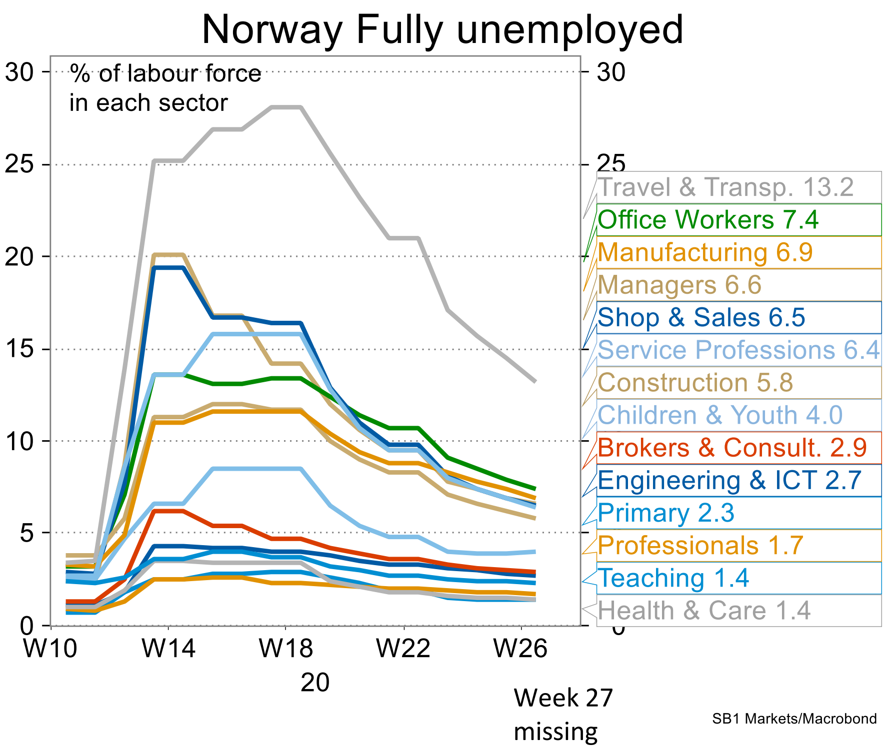
Full time unemployment down to 5.1%. Almost ½ of the rise in unemployment is reversed

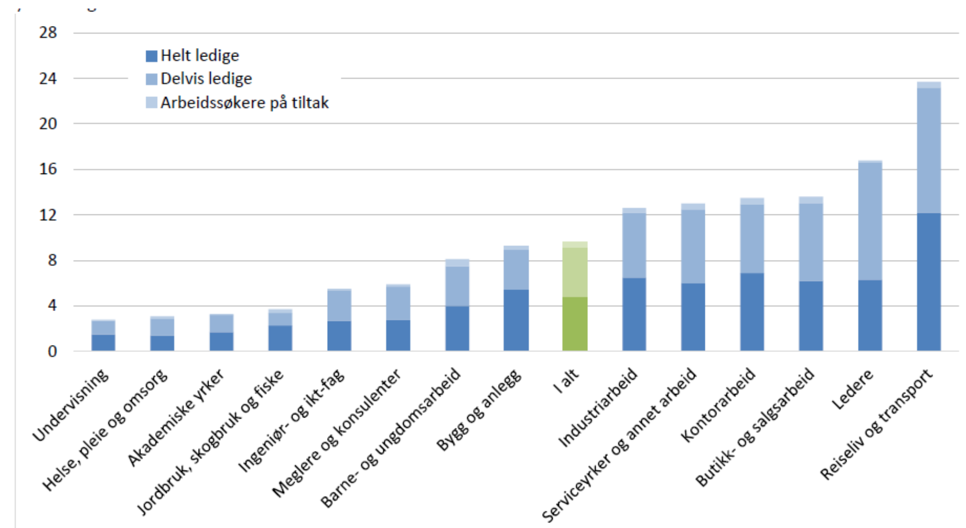




- Unemployment has fallen by 138' to 305' since mid April, or by 4.9% of the labour force
- The inflow of new jobless claims has slowed to 5' per week. That's still higher than normal but all the extras are temporary laid off persons
- Temporary laid offs equal 60% of total unemployment, and all of the decline in unemployment is due to fewer temps, not a decline in ordinary unemployment

Unemployment in travel & transport down but still in the lead





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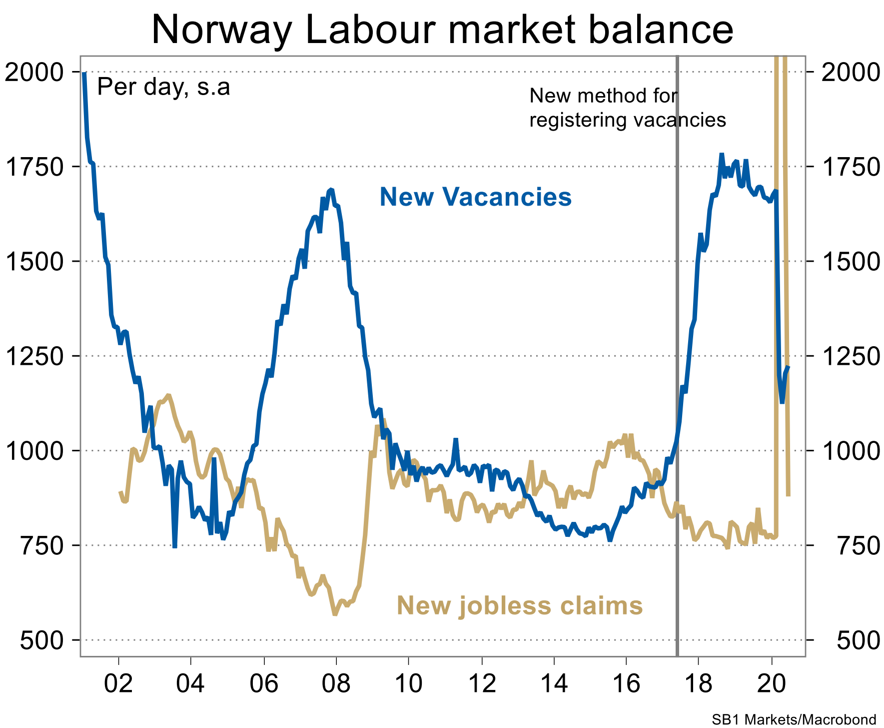
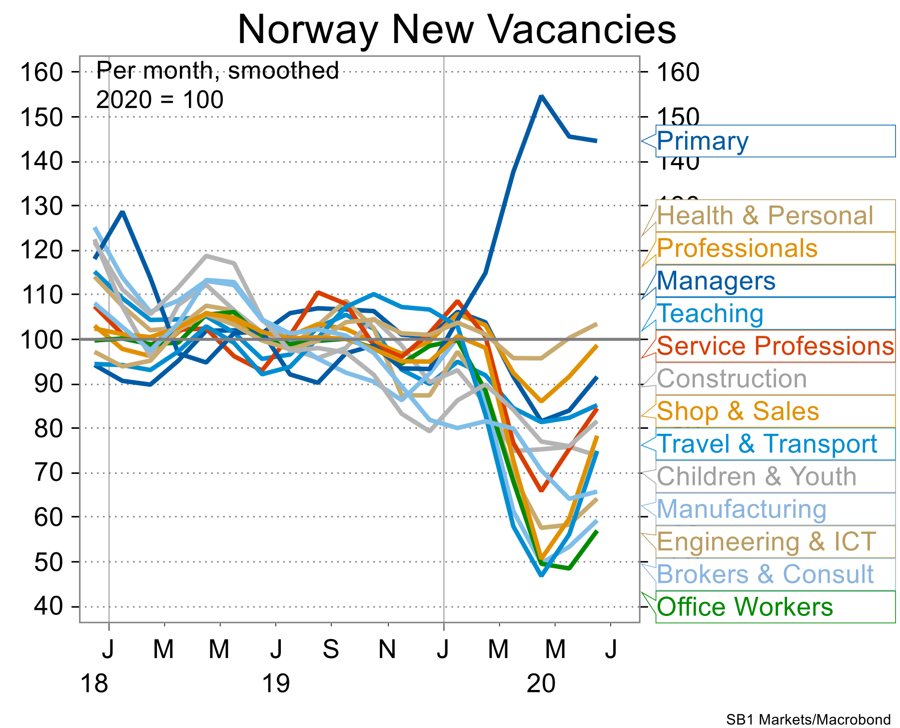
New vacancies down 30% - so there are some openings

… and the inflow of new jobless claims are almost back to a normal level

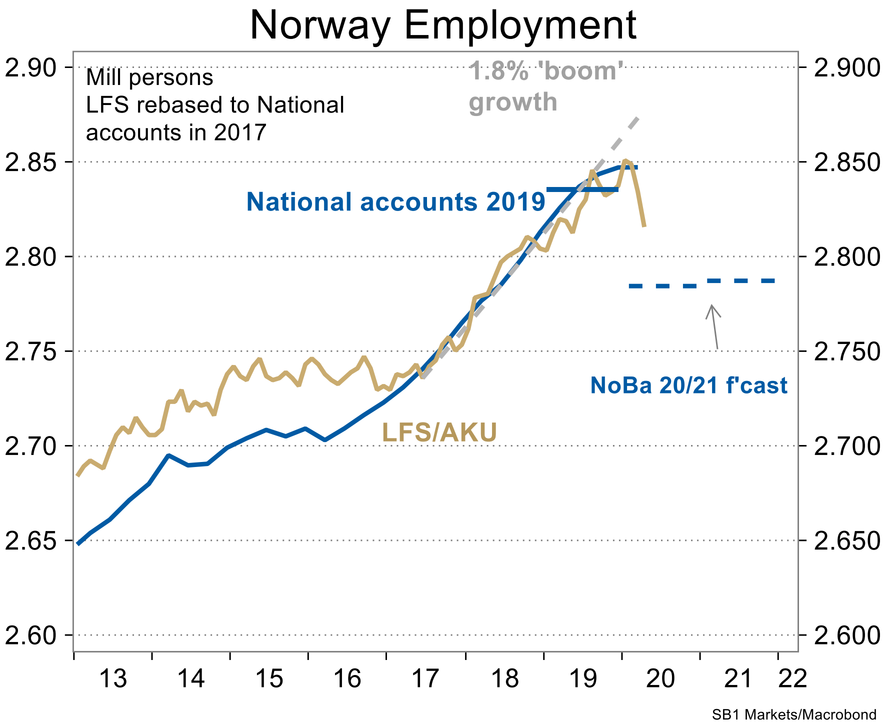


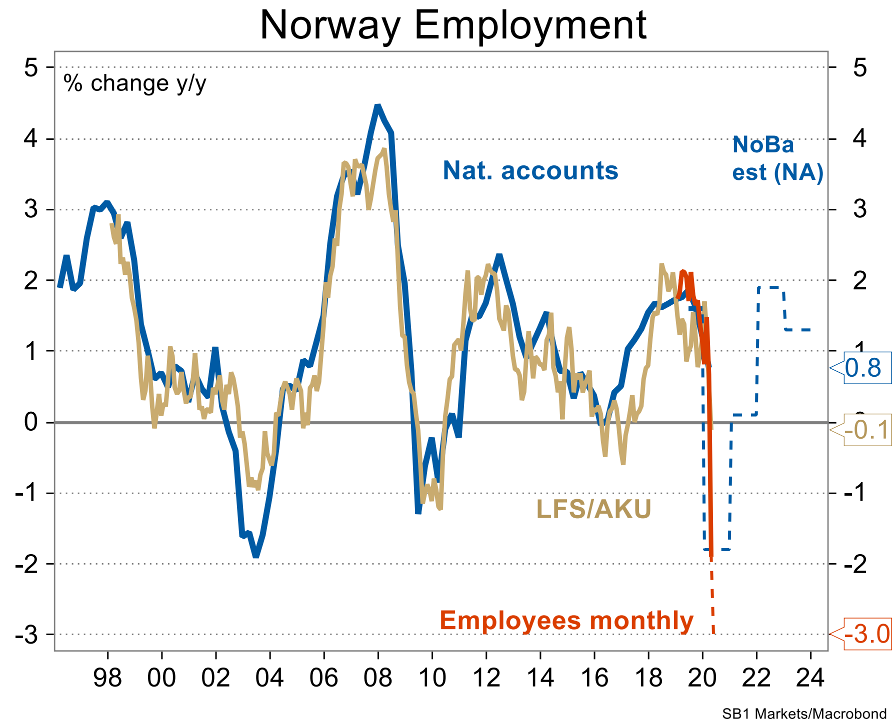


- There are some laggard sectors: Office workers (a permanent clean up, corona the excuse??), brokers & consultants, engineering & manufacturing

Employment down (even if the furloughed are still counted as employed)

Employment down 3% y/y in May, implying at least a 4% decline





- The LFS/AKU employment fell by 34’ to April (avg Mar-May) from Jan (avg Dec-Feb), and is down 0.1%% y/y. Temporary laid off workers are counted as employed the first 3 months of the furlough period. Thus the ‘corona impact’ will be much larger the coming months, both vs employment and LFS measured unemployment
- Hours worked is down almost 8% y/y, and reflects the ‘reality’ in the economy far better
- The experimental monthly employee statistics reports a 3% decline y/y in May, implying a 4% drop from early 2020

Highlights

The world around us

The Norwegian economy

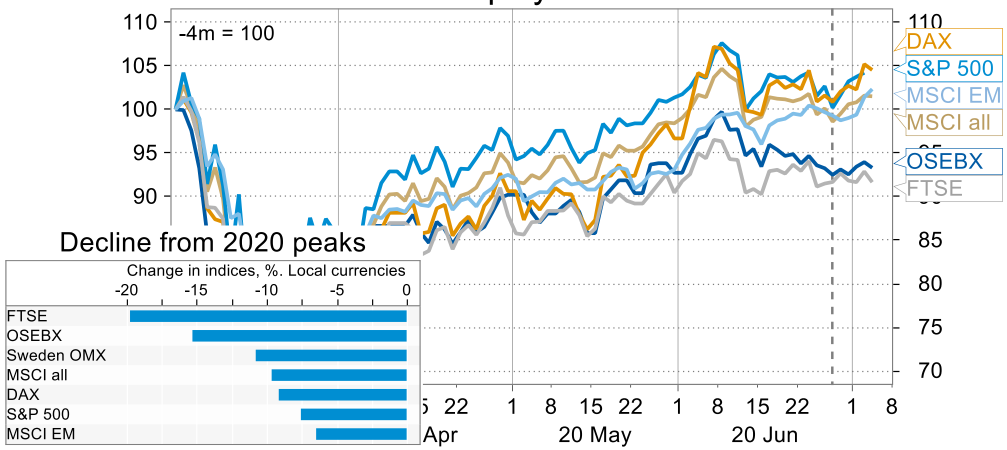
Market charts & comments

SpareBank 1 MARKETS

Most stock markets up, oil metals too. Yields marginally up.

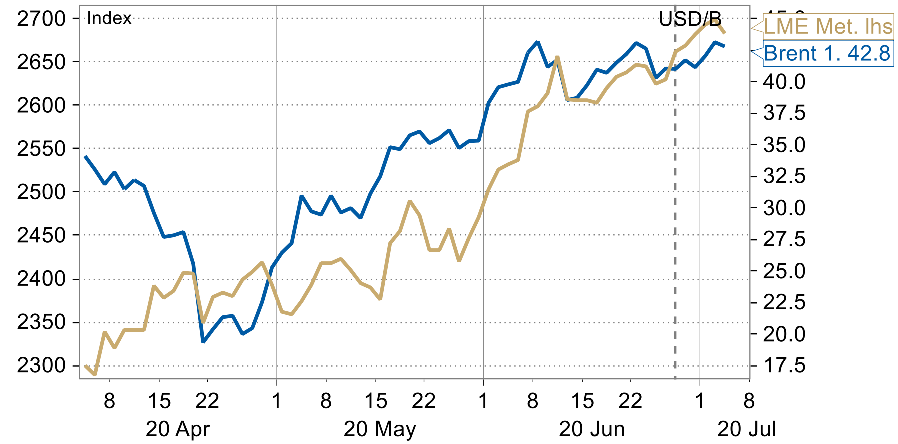
NOK recovered last week but down from early June – has followed the global risk sentiment recently

Equity Indices



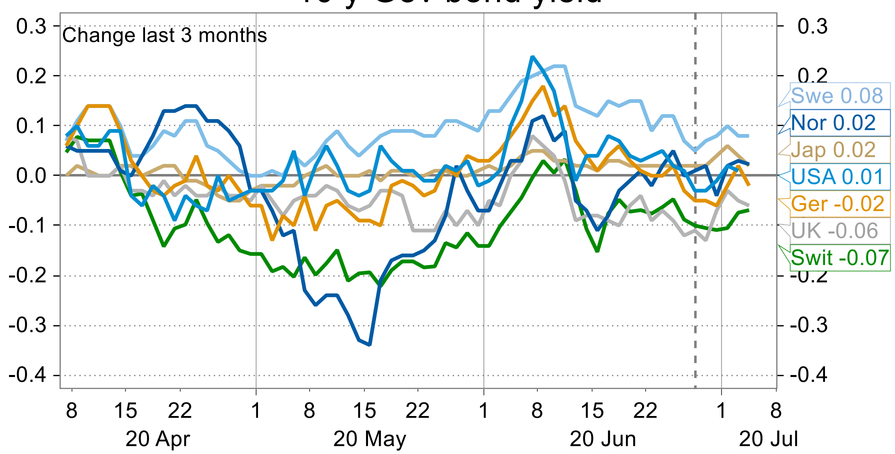
SB1 Markets/Macrobond

Oil vs. metals



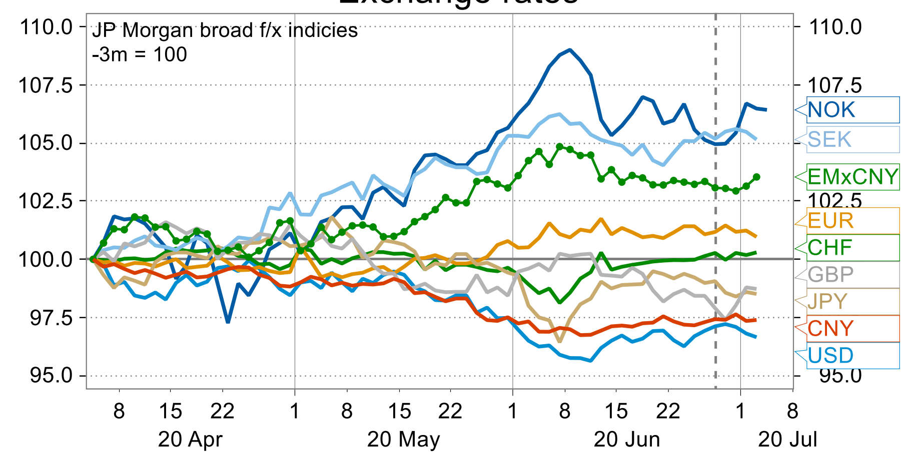
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

Exchange rates

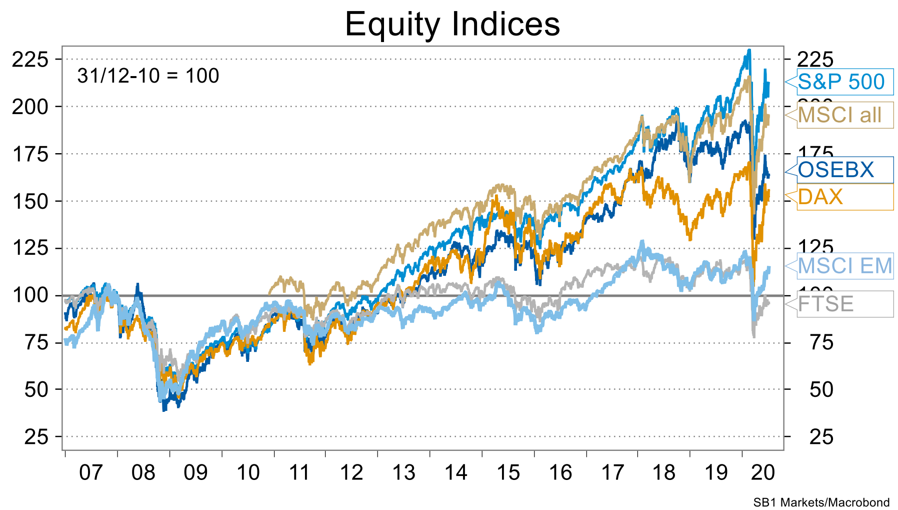


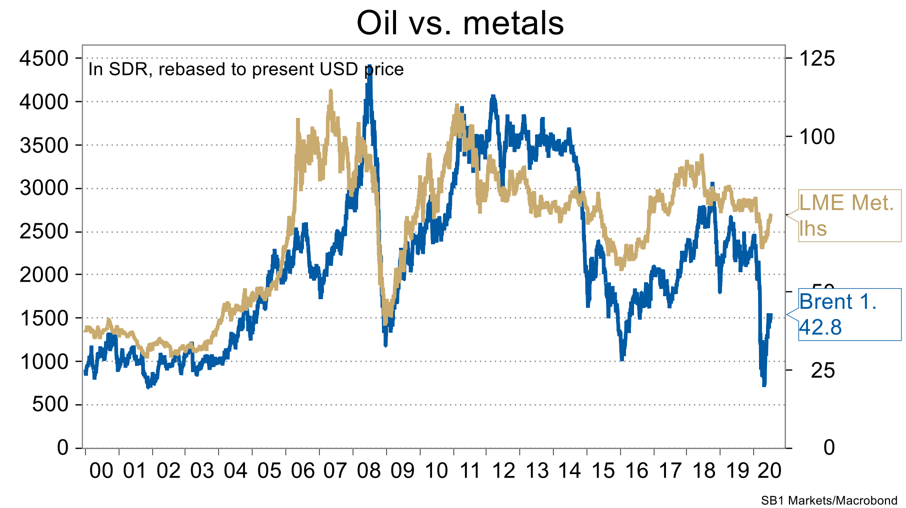
SB1 Markets/Macrobond

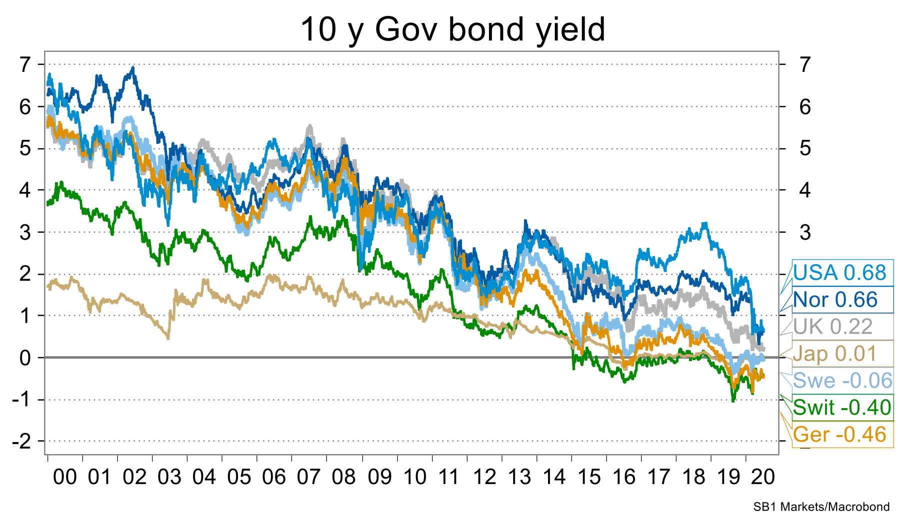
EUR, NOK & EM x China f/x on the way up. USD & CNY on the way down

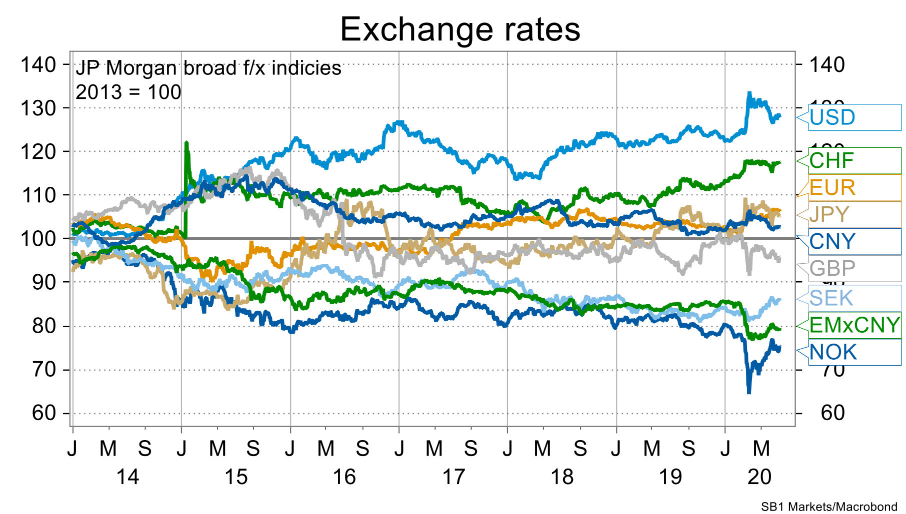
In the long run: Stock markets are looking like a 'V'

… because investors are looking for a 'V'-shaped corona recovery? Oil, metals up too



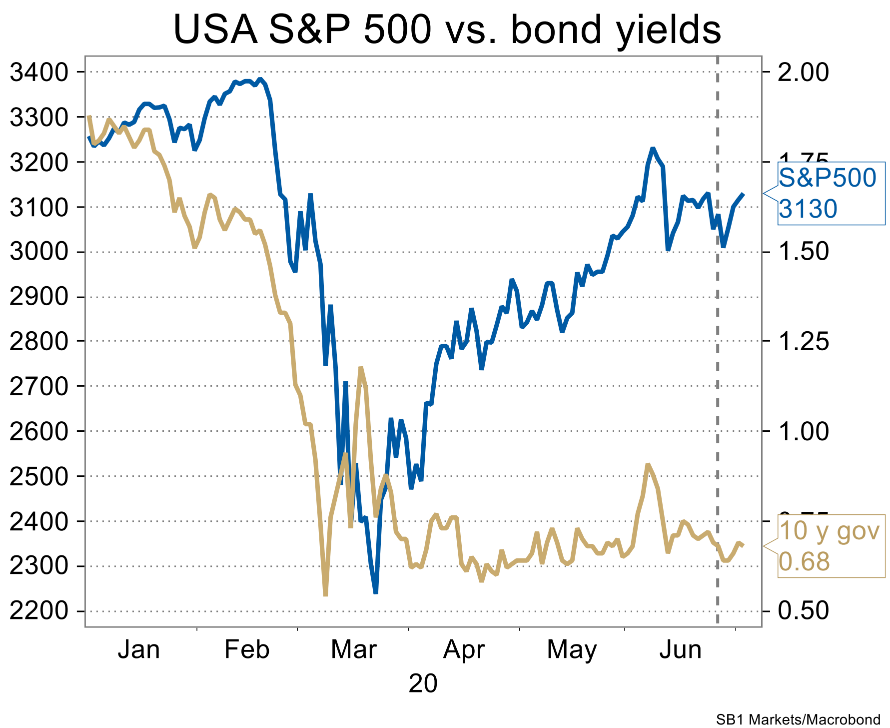


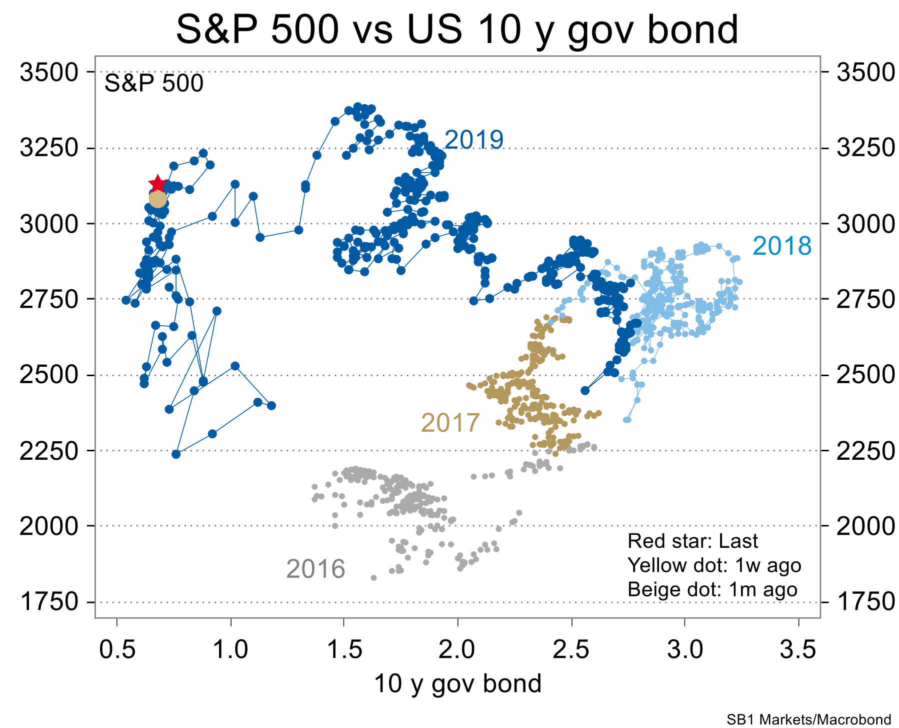




Corona uncertainty: S&P down up 4%, reversing last week's losses, trending up

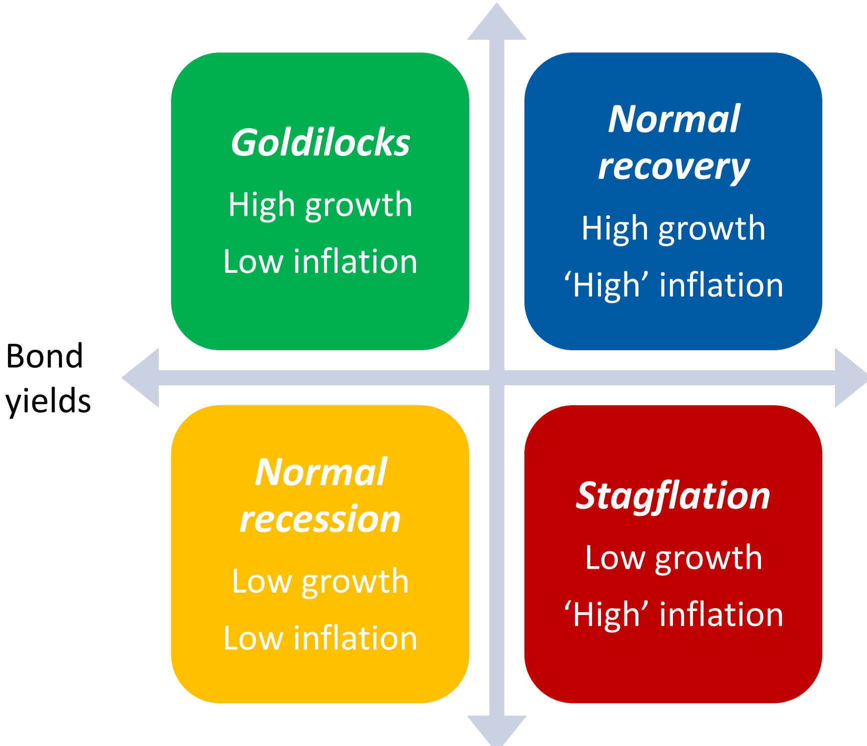
The 10 y gov bond yield up 4 bps to 0.68%, trending completely flat

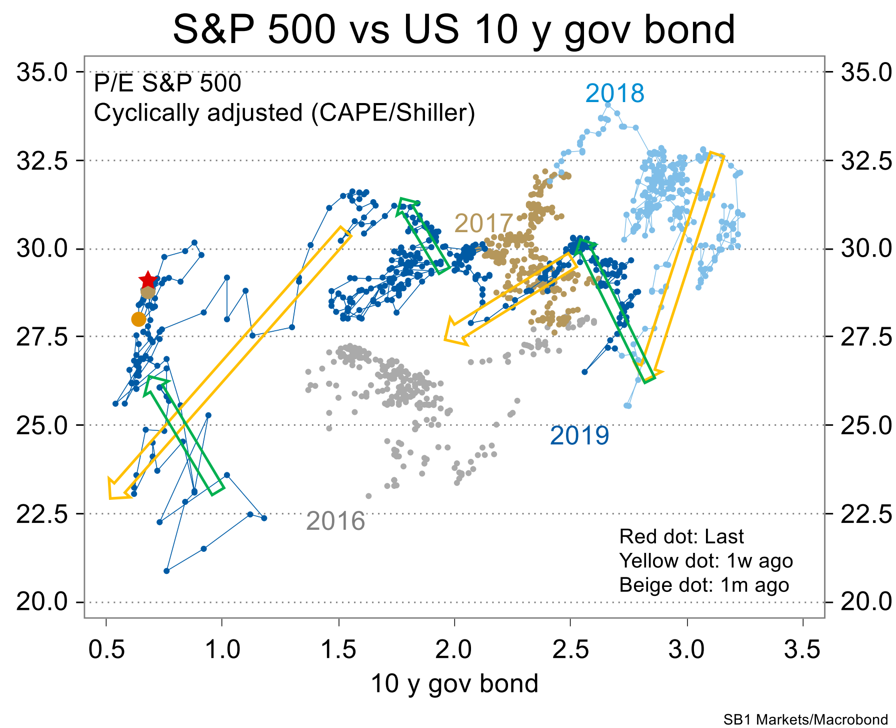




Last week: Corona take off or not, towards the recovery corner last weel

… economic data were no doubt at the strong side



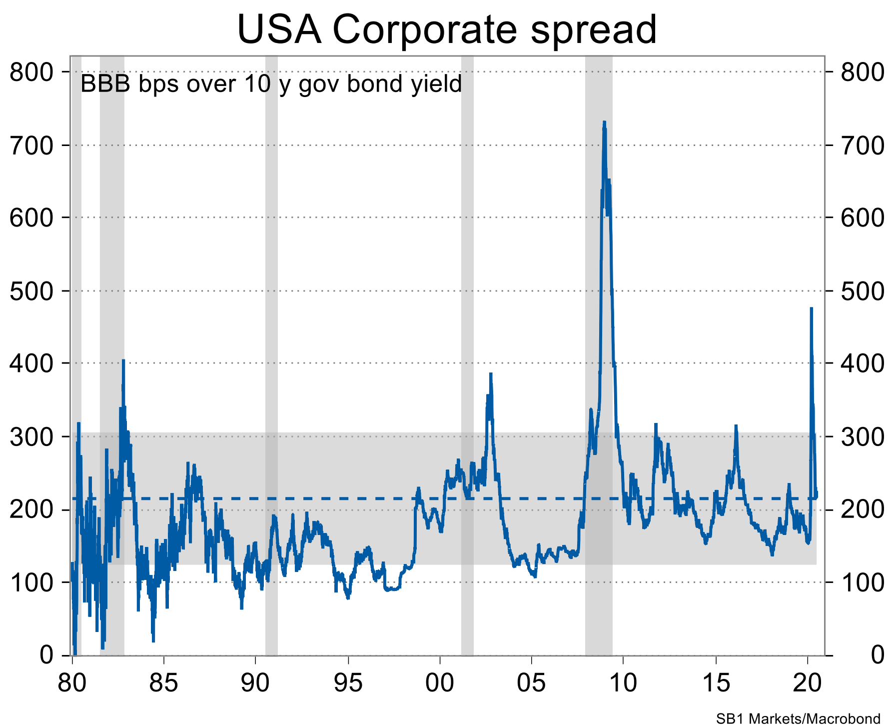


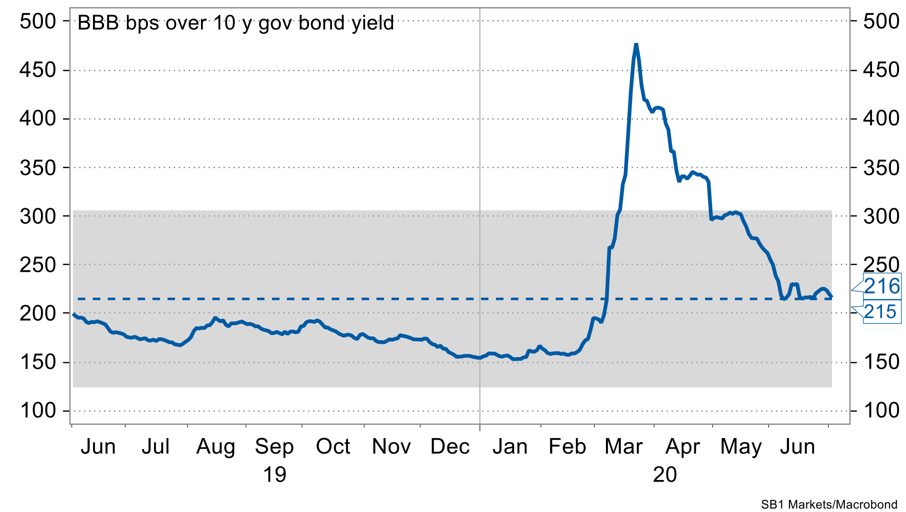
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic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

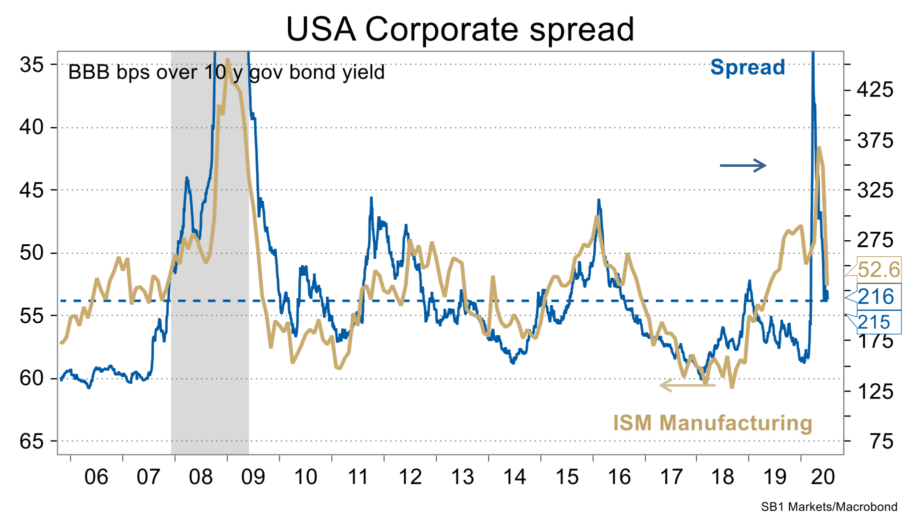
SpareBank 1 MARKETS

Corporate spreads marginally down – at an average level

… supported by hopes of a 'V' shaped recovery



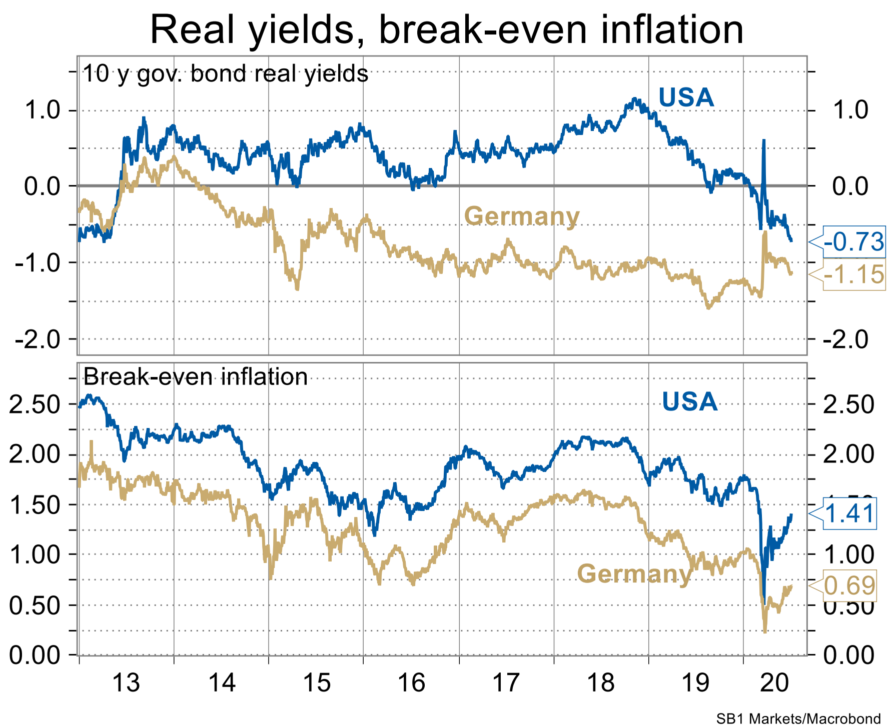


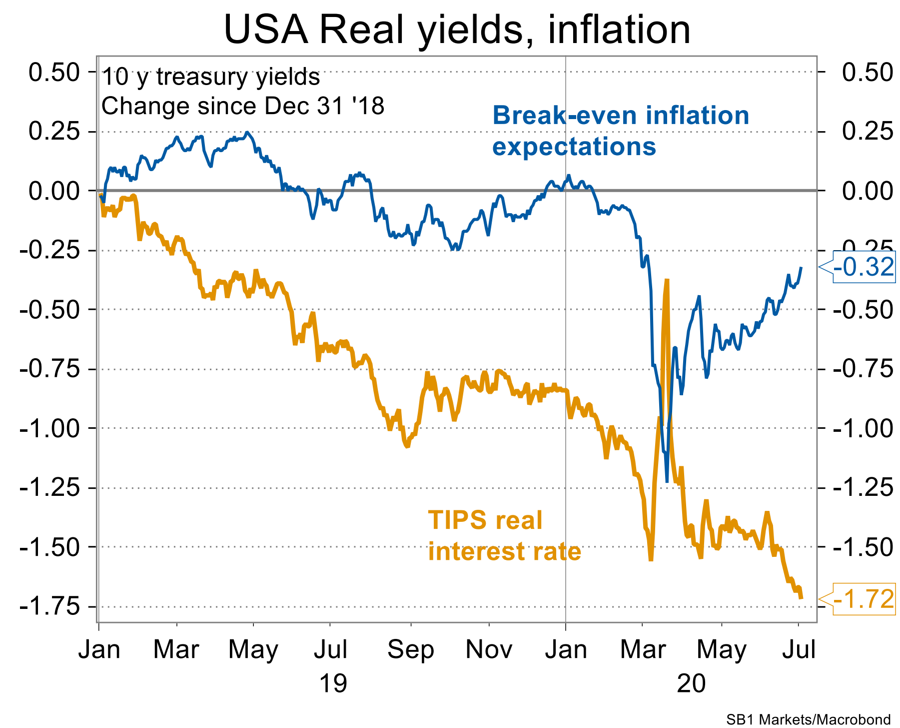


- However, is the credit risk at an average level now??

Inflation expectations drifting up but are below normal – real rates close to ATL

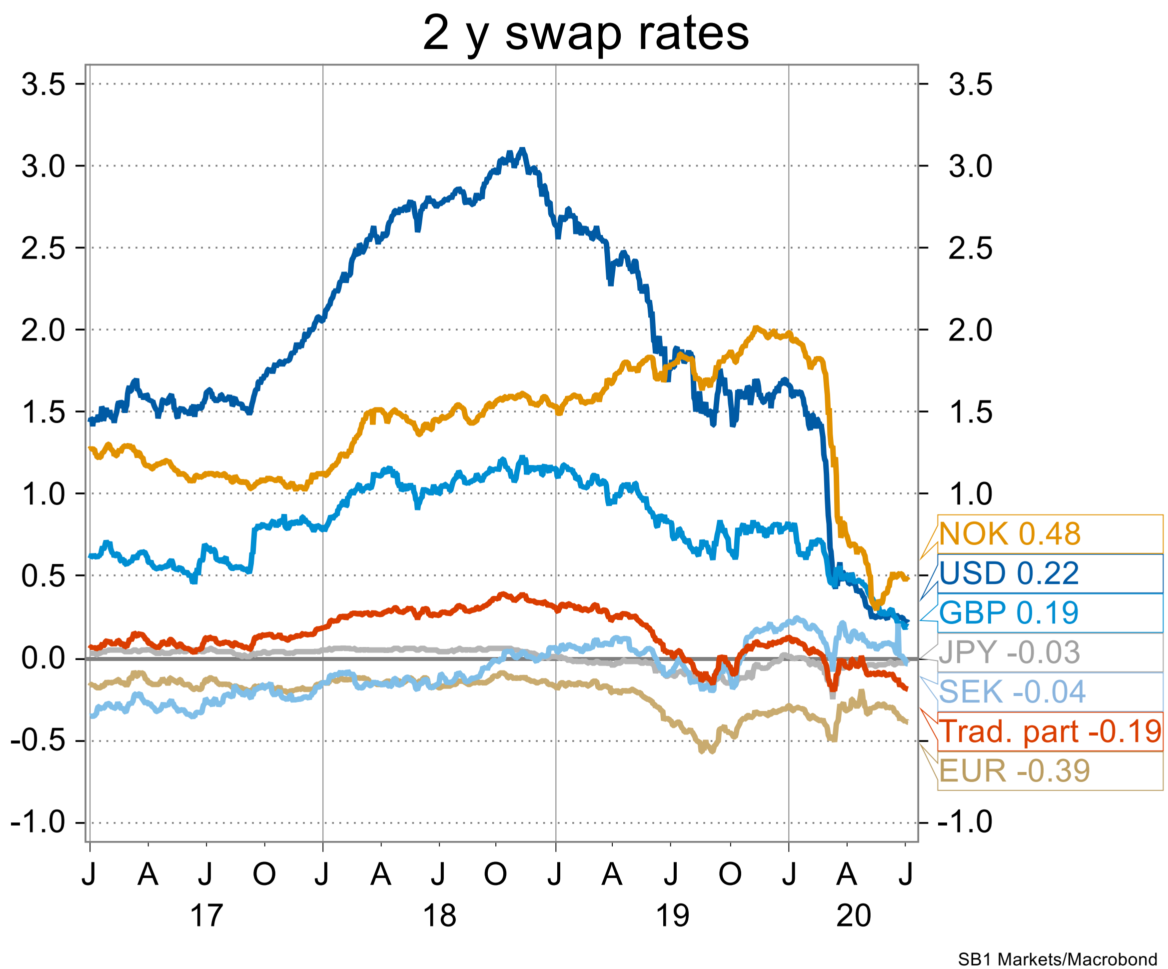
.. At least in the US. No inflation angst, 10 y expectation 0.7% in Germany, 1.7% in the US

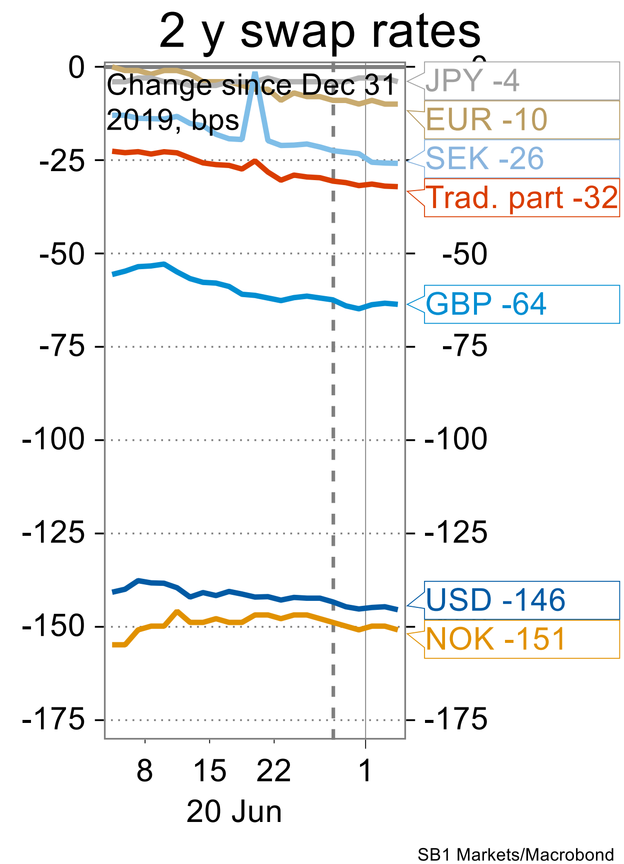




- Real interest rates are falling further – more in the US than in Germany. US 10 y real rate at -0.73 is 14 bps above ATL at -0.87% in 2012. In between time, it has been above 1%

Short term rates down, everywhere





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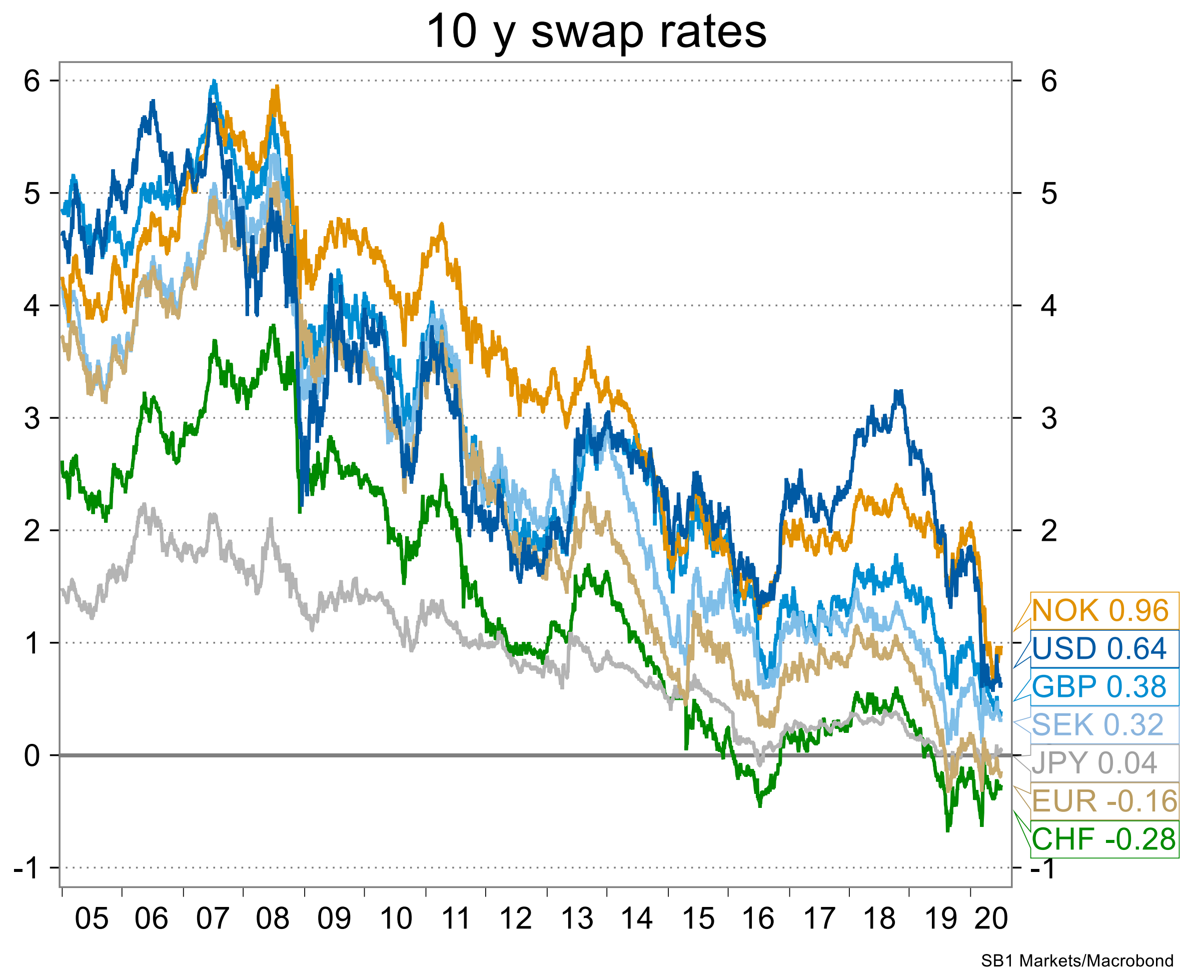
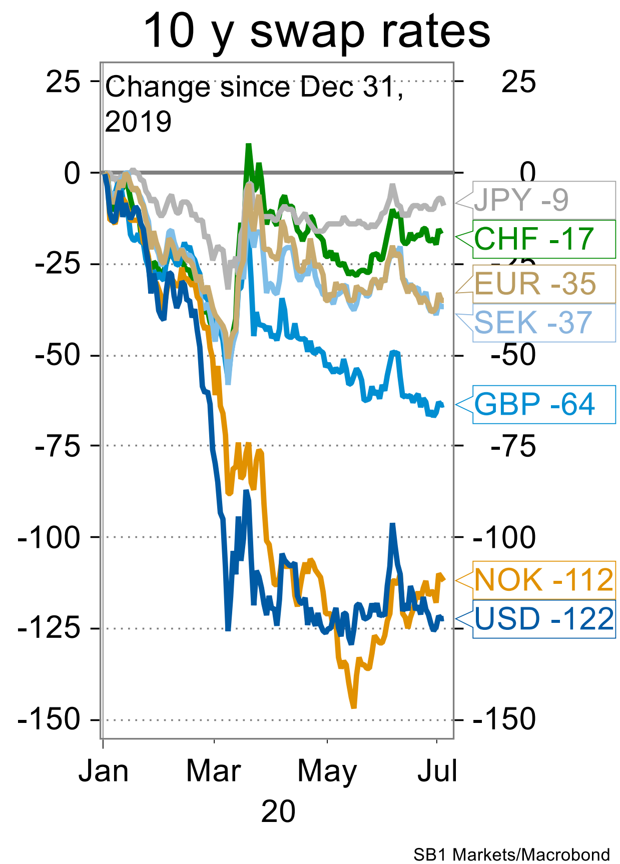
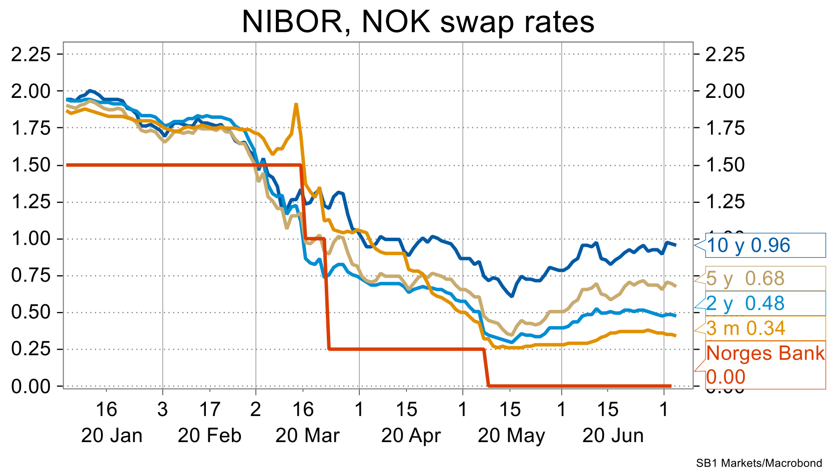
Slightly up last week, everywhere

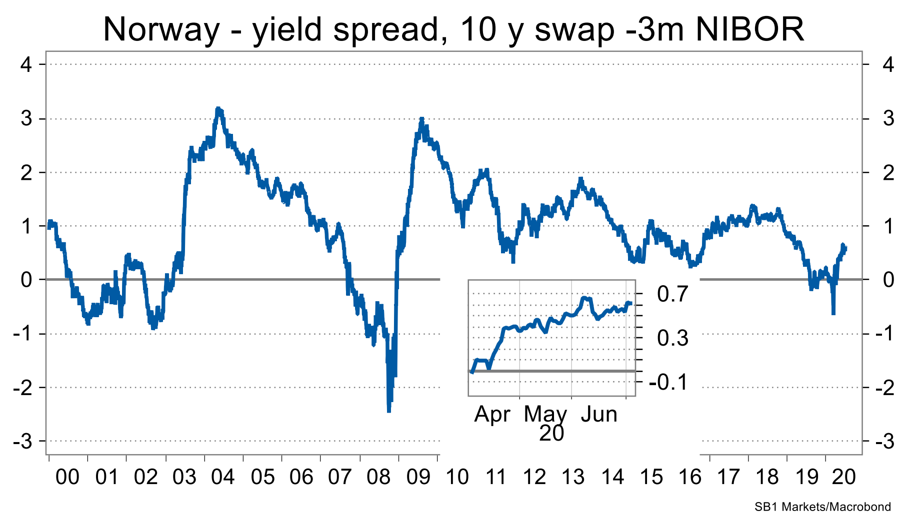


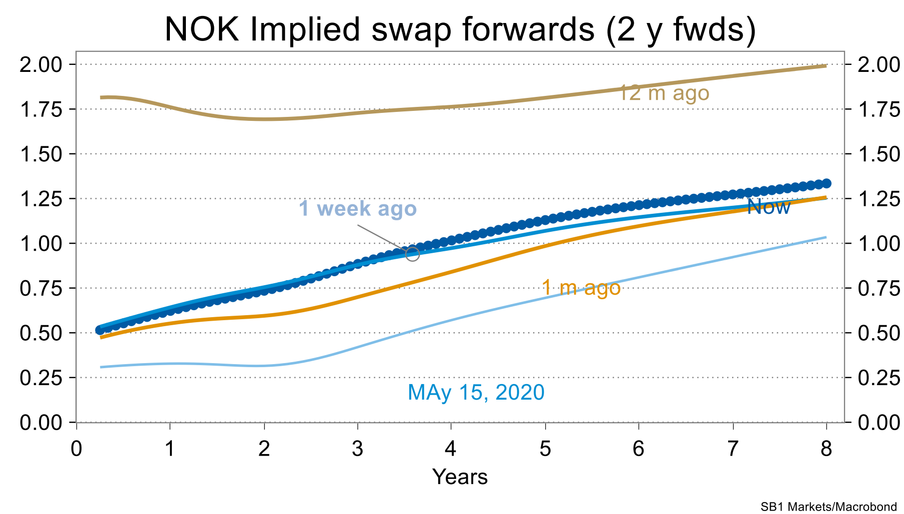


SpareBank 1 MARKETS

A steeper NOK curve last week



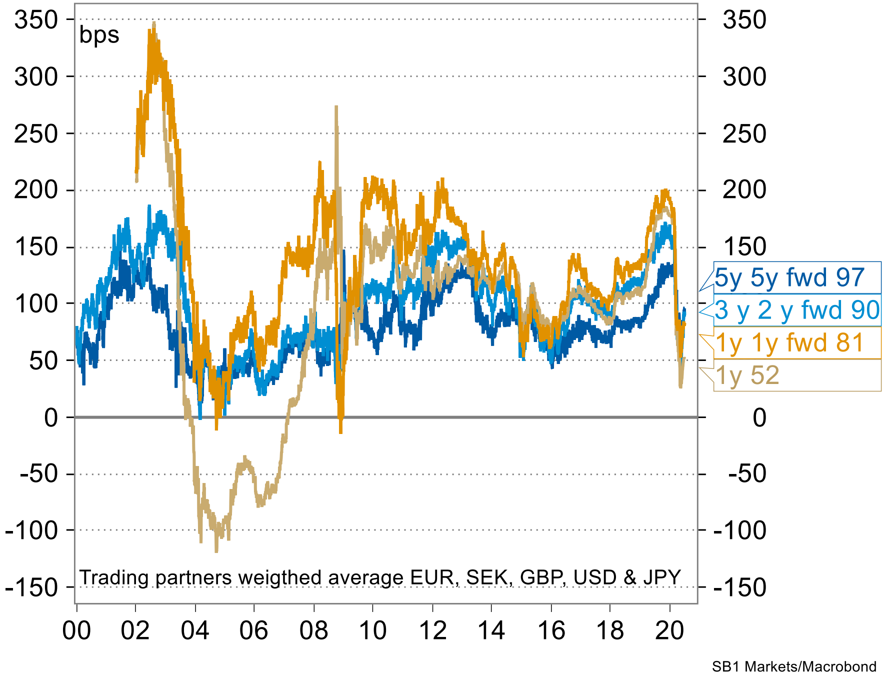


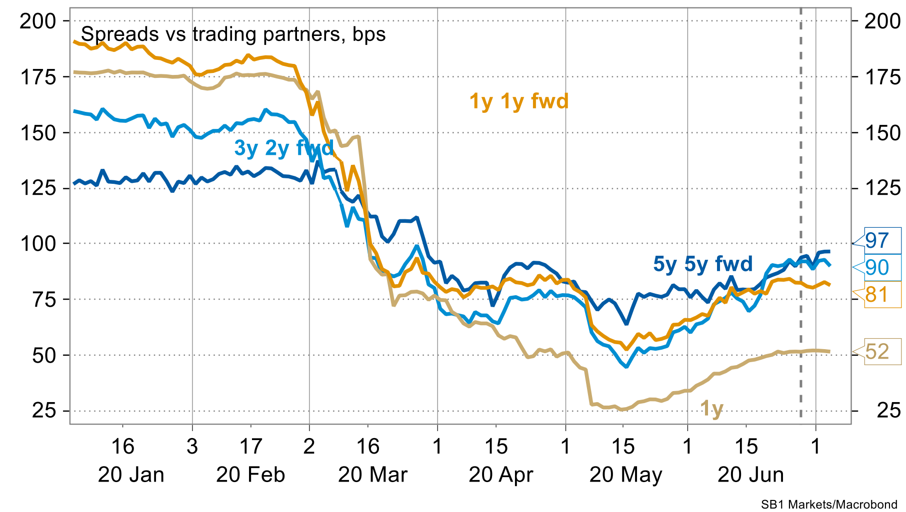


Longer swap rate up everywhere, more here than abroad

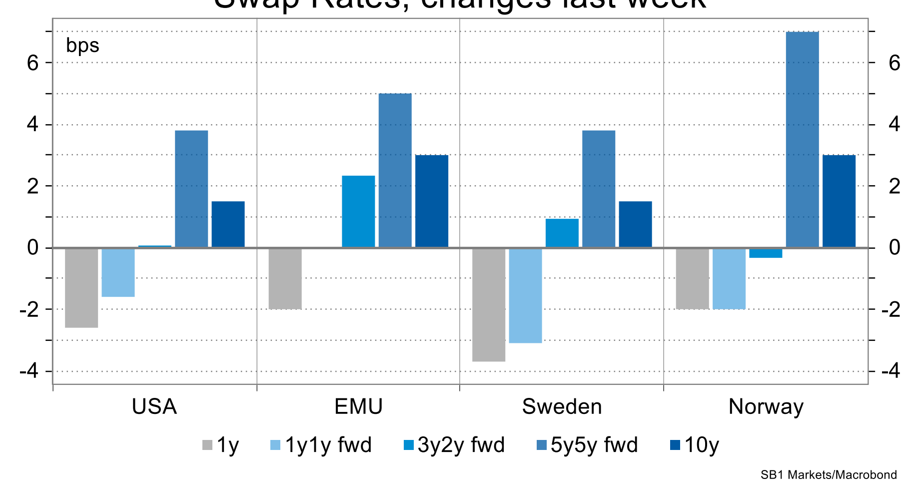
The spread has been widening since mid May but not by much last week

Norway vs trading partners, impl swap spreads





Swap Rates, changes last week



- Spreads vs. trading partners fell some 125 bsp to mid May from late February – from a too high level. Since mid May, spreads have widened by 25 – 50 bps
- We are still neutral vs. the spread

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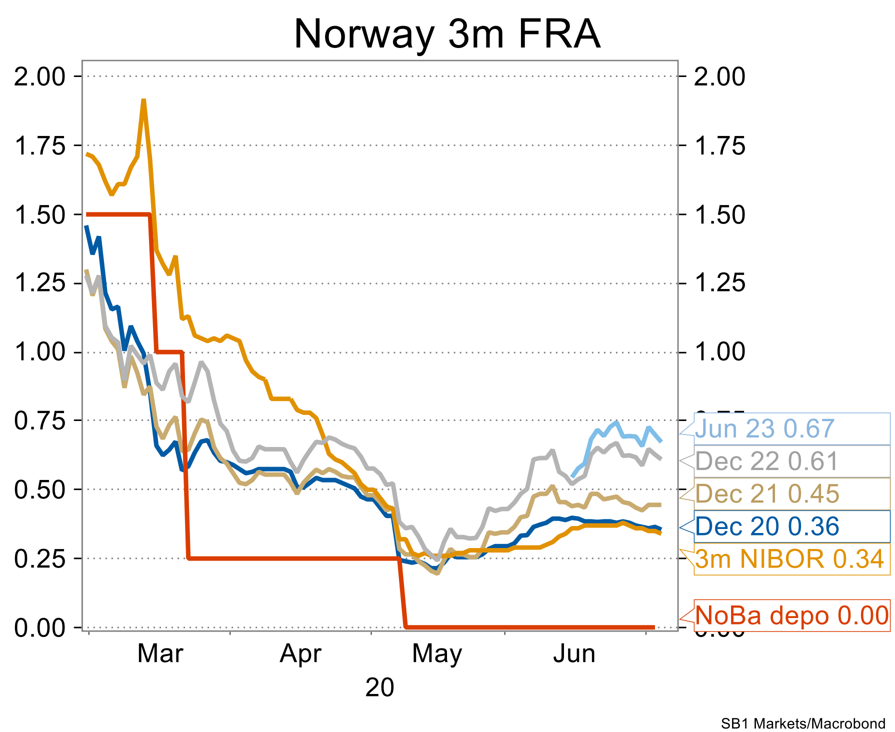
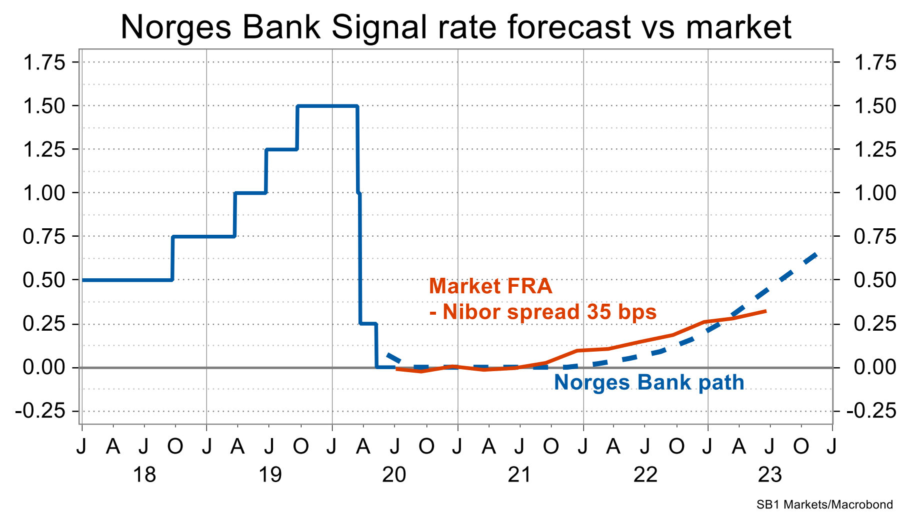
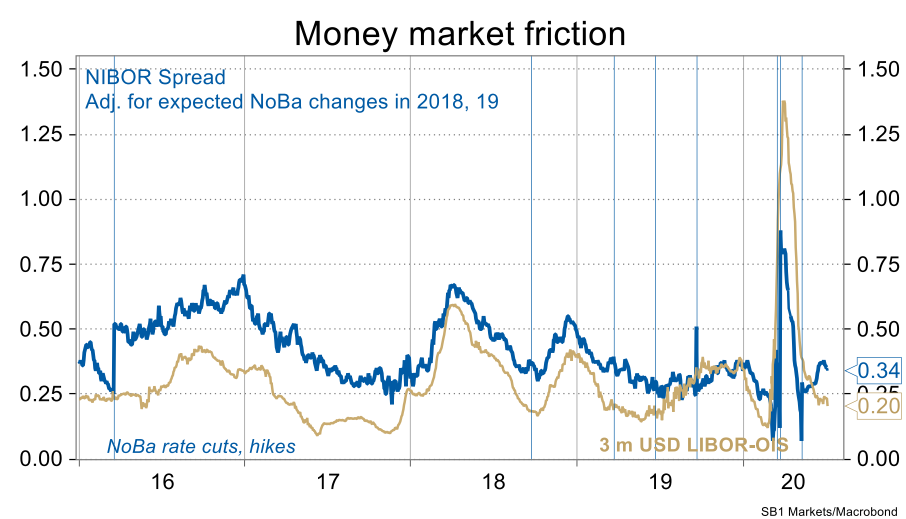
The 3 m NIBOR slightly down after end of Q1, now at 0.34%







The FRAs are pricing an almost 50% probability for late 2021 hike and a first hike in Q4 2022 is fully priced in. A lift in late 2022 is just like Norges Bank signalled in mid June

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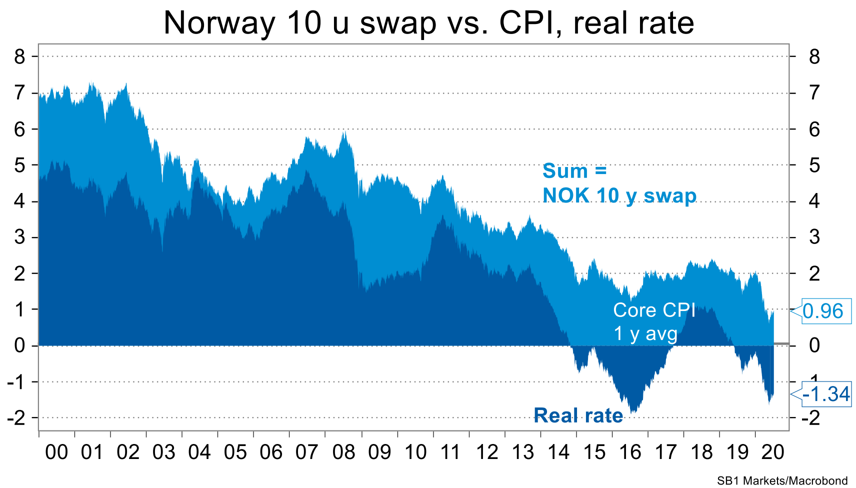
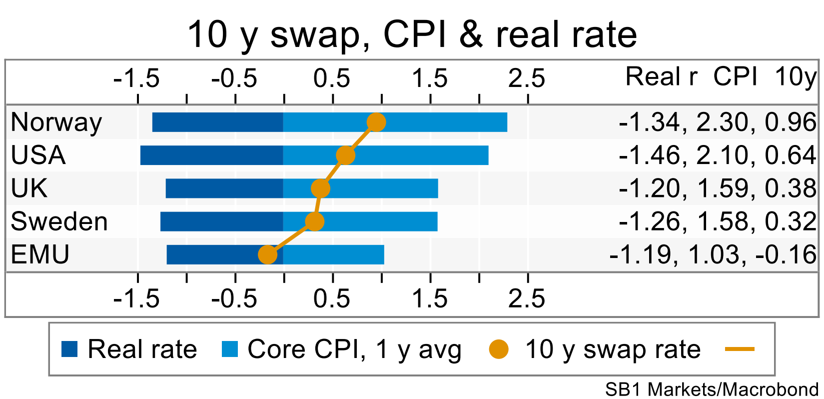
Negative (actual) real interest rates everywhere – NOK & USD at the bottom



- 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)

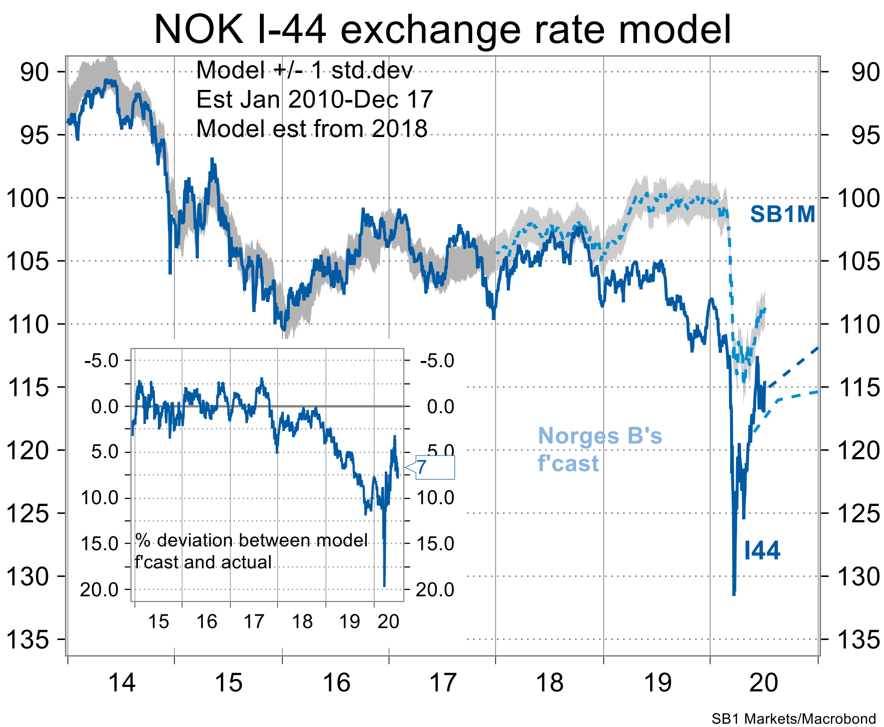


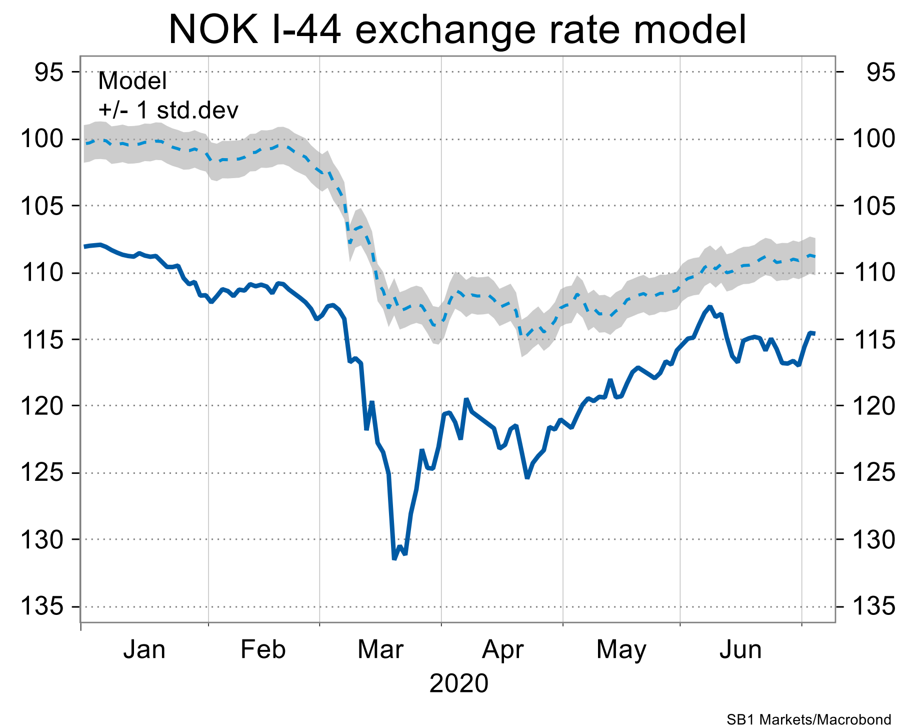
NOK real rates among the lowest

- Inflation among Norway and our main trading partners varies between 1.1 to 2.3% (here 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 our trading partners, in the range - 1.2% (EMU) to -1.4, 1.5 (Norway & US), vs the 10 y swap rates
- *Thus: Inflation differentials explain most of the differentials in long term swap rates*

The NOK recovered last week – up 2%, with limited help (oil & models)

Reversing some of the ‘non justified’ depreciation past two 3 weeks





- Calmer risk markets – higher equity prices is a reasonable explanation, even if the long term correlation is zero (between global/Norwegian equities and the NOK)

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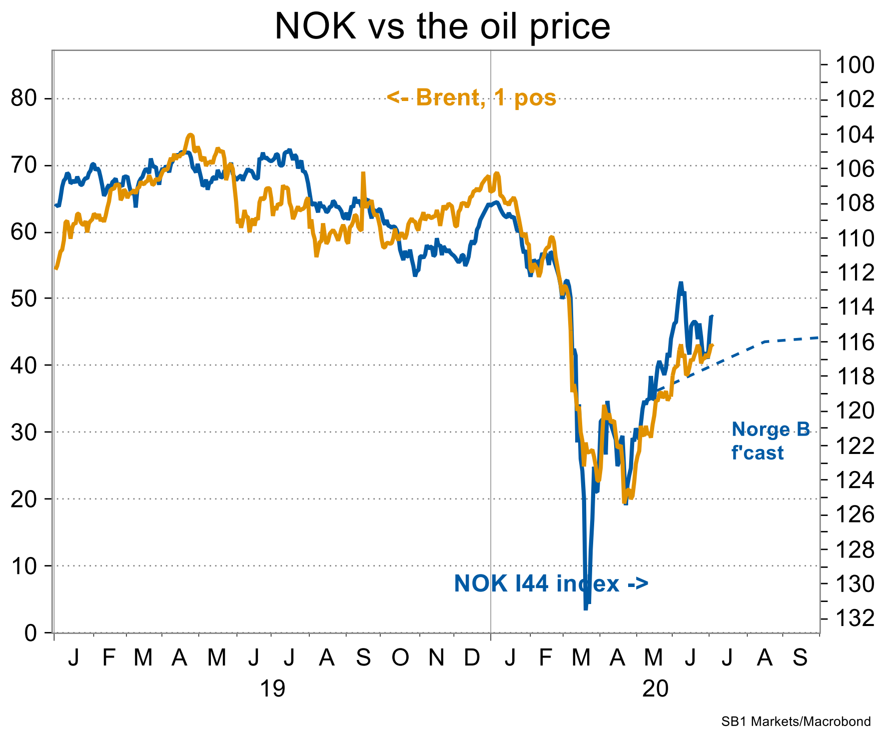
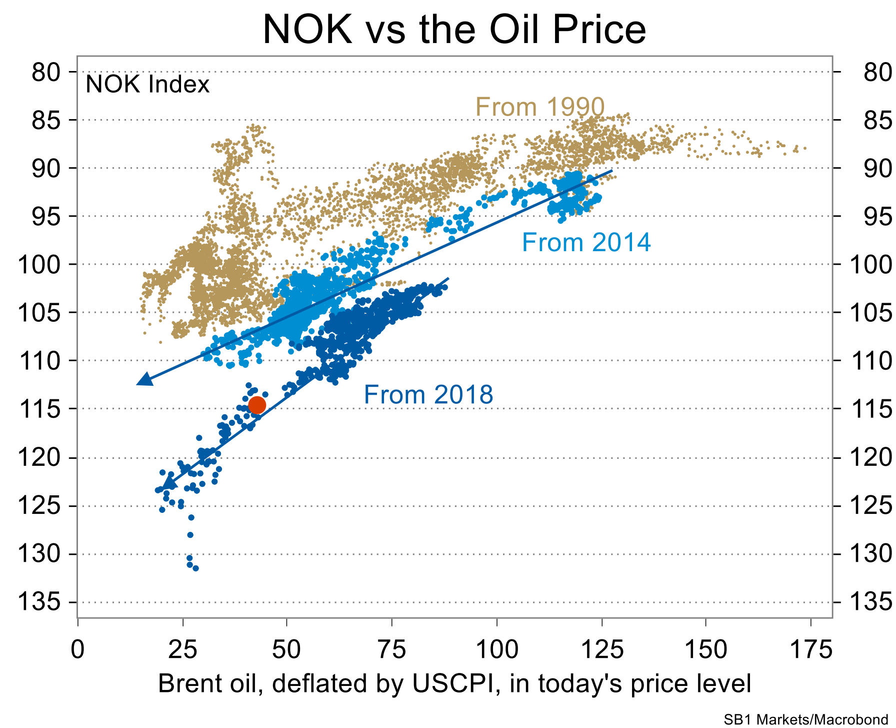
The NOK close to neutral vs the oil price – vs the post 2018 relationship





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

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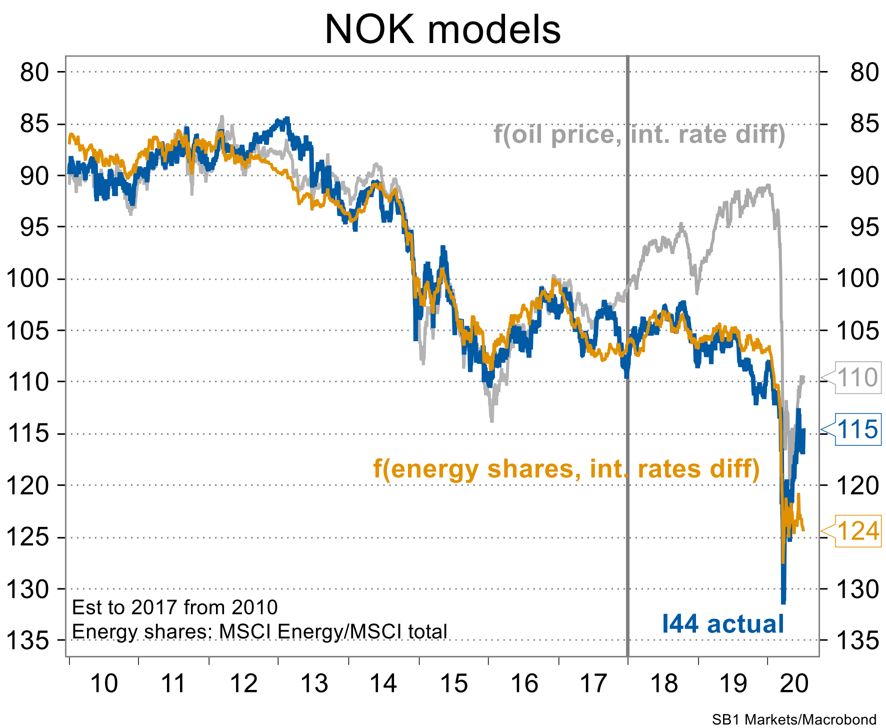
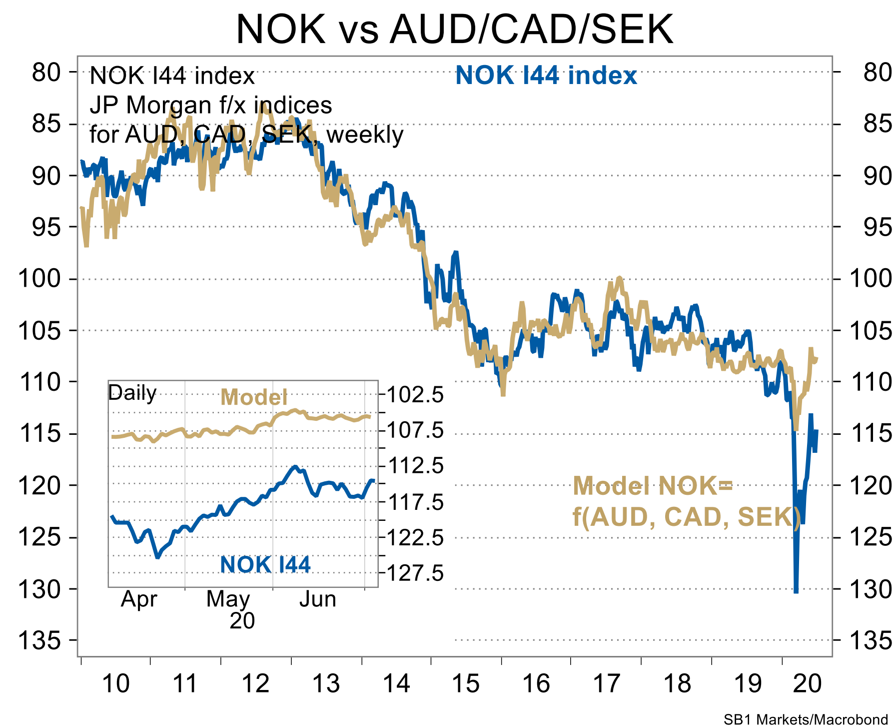
NOK ‘stronger’ than oil companies but weaker than the other supercyclicals

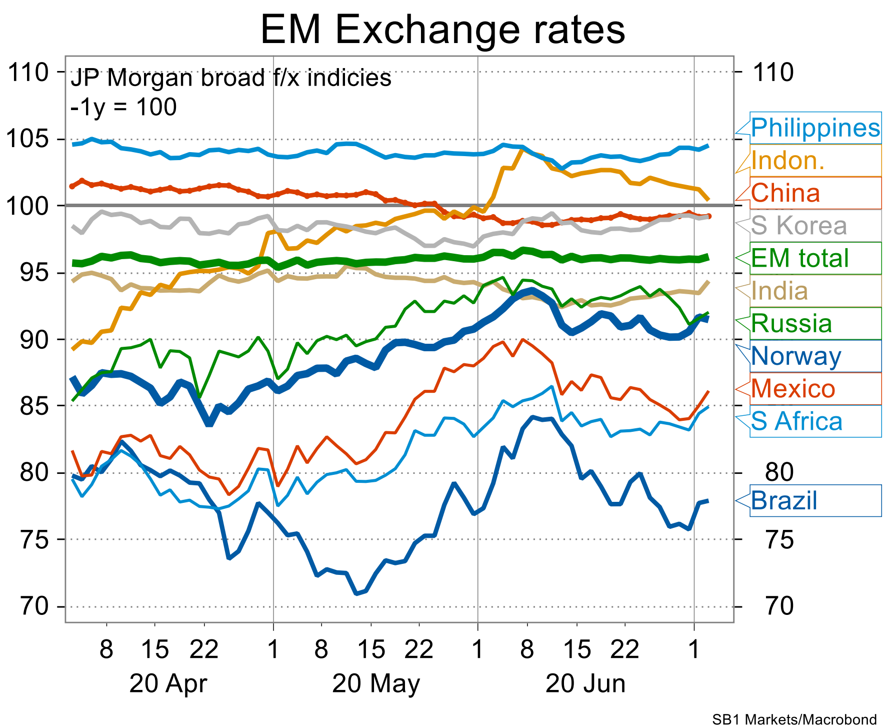
NOK is some 8% too weak vs the ‘supercycle’ model but 8% ‘stronger than oil companies

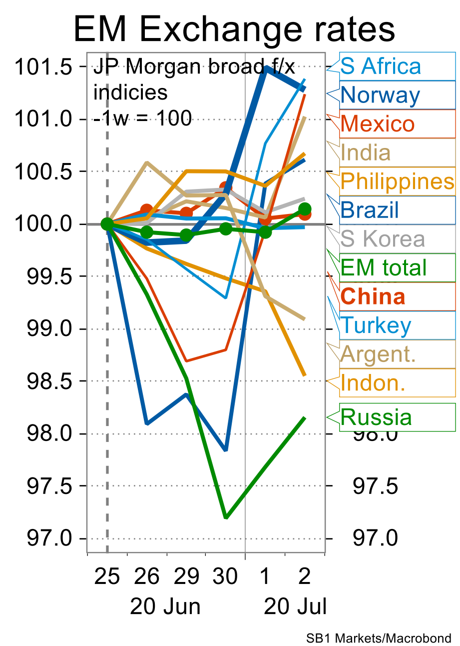


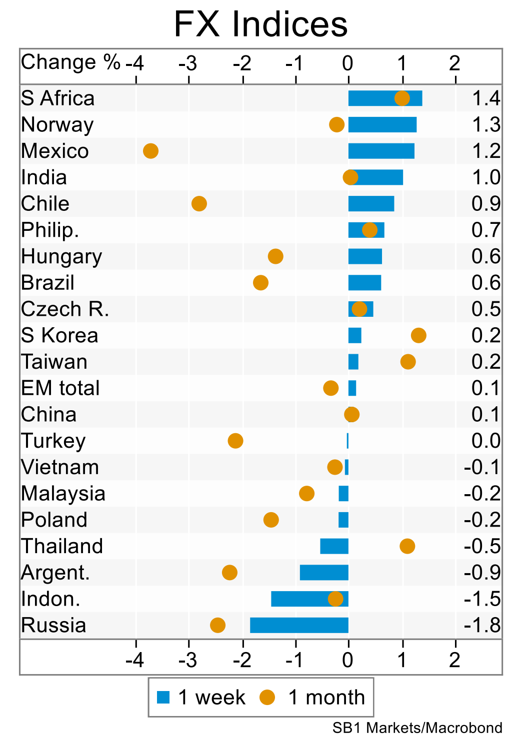


- Our NOK model based on pricing of oil companies has ‘explained’ the NOK much better than our traditional model since 2017, as have our ‘supercycle’ currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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

EM currencies mixed, in sum up last week

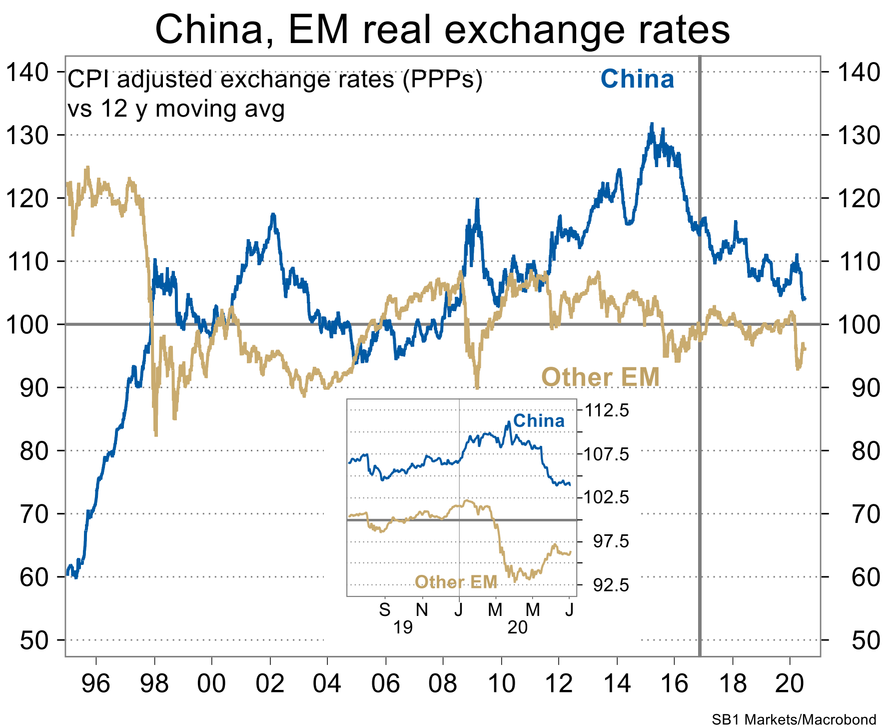


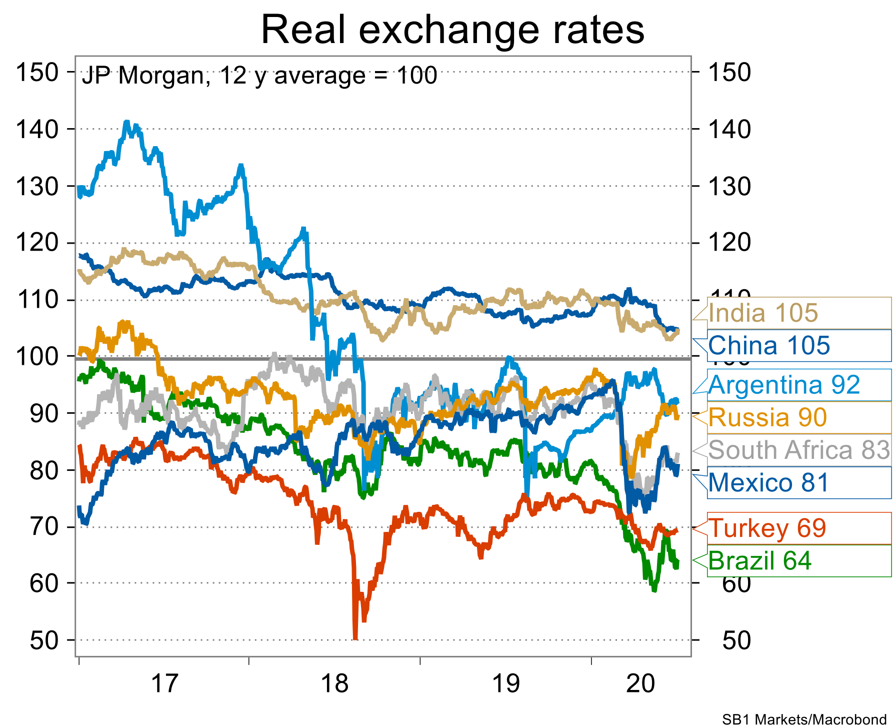




EM currencies have flattened recently, both China & the others

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





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