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Macro Research

Mid July update 30/2020

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The headlines are linked to the relevant section in the report
The elements on the the page "In this report" <u>are linked</u>
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Last two weeks – the main takes: A 'V'-shaped recovery amid corona trouble

- Several US states have **reversed easing of Covid-19 restrictions**, others have **halted further easings** as the number of new cases has been increasing in a large majority of states, and in some states at an alarmingly speed – to a very high level, followed by more hospitalisations, and recent weeks also an increase in deaths. Economic activity in the troubled states has already been impacted even before restrictions were reimposed. The good news:
  - Growth in new cases in the US is slowing again (but growth remains >0 (equalling an R>1) in a majority of states, and growth is accelerating in some countries in Europe, though from a quite low level)
  - The risks for hospitalisations and death has become much lower, both due to younger patients, use of remdesivir and some other medicines which seem to reduce serious sickness/death rates by more than 50%
  - Oxford and other groups are reporting positive vaccine trial data, and production will soon start (but few believe a vaccine will be widely available before late 2020, at the very earliest, and there are uncertainty about how effective/lasting vaccines will be, due to reports on a rapid reduction in antibody material in corona patients)
- Even though the world still has significant Covid-19 challenges (with daily ATHs in no of new cases, deaths), we think it is likely that **the world economy** can operate at a pretty high level of capacity utilisation. Smarter regulations like closing events/places with high risk of contagion, better hygiene, more usage of masks etc may keep the virus at bay until a vaccine/medication is available without killing the economy. However, a full normalisation is probably not possible either, and some sectors will not recover fully (like travel, restaurants possibly also indoor events/sport).
- After a marathon meeting, **the EU leaders tonight struck a deal on the € 750 bn (7% of GDP) corona reconstruction plan to support the countries that are hardest hit**, funded by a new EU borrowing scheme, of which 390 bn in grants (less than the 500 initially proposed by Macron & Merkel). This may turn out to be a milestone in the EU history, just like 'whatever it takes' Draghi message in 2012, given a total new role for the ECB, a major element in clearing the mess during the Euro crisis
- **Conflicts between China and US, now joined by UK, EMU and Japan** are escalating, on many fronts, economical and political, including the South China Sea. No signs of ambitions of any detente from neither side. These conflicts may become more serious drag of the world economy

Cont. next page!

Last two weeks – the main takes: A 'V'-shaped recovery (cont.)

- **Global retail sales and industrial production** rose almost everywhere in May and in all countries so far reported June data. We assume both sales & production remains 6% below the Dec-19 level in June (up from -15 to -17% in April) – and expect the gap to be further closed in July
- **Global auto sales** recovered everywhere in June but sales remains 20% below the pre corona level – just China is back
- **GDP in China** rose by 11.5% in Q2, more than reversing the Q1 setback – and the level is just 3% below the pre corona level. **June monthly data** confirmed that the recovery is intact. Manufacturing production is almost back on trend, retail sales remain 7% below
- **US manufacturing** production rose a tad more than expected in June but remains 11% below the Jan level. **July surveys** signal a further lift in July. June **retail sales** grew faster than expected, and the core is above the pre corona level. **The budget** balance is… not strong. **Housing** remains OK**. Consumer sentiment** fell sharply in July, probably due to the new corona trouble. The inflow of **new jobless applicants** remains high and higher than expected.
- **EMU retail sales** rose 18% in May, more than expected but **manufacturing production** grew less than expected, by 12.4%. Both were still far below pre corona levels
- **Norwegian GDP** grew just 2.4% in May, as household demand for services rose less than we assumed. GDP was still down 9% from Feb. **Private consumption** (services) has been the main drag – but we expect a further recovery in both June and July. **Manufacturing production** fell further in May, broad based, with oil related 'in the lead', and production is now down 8% from Dec-19 (-5% ex oil related). Most other countries reported a sharp recovery in May, but from far lower starting points

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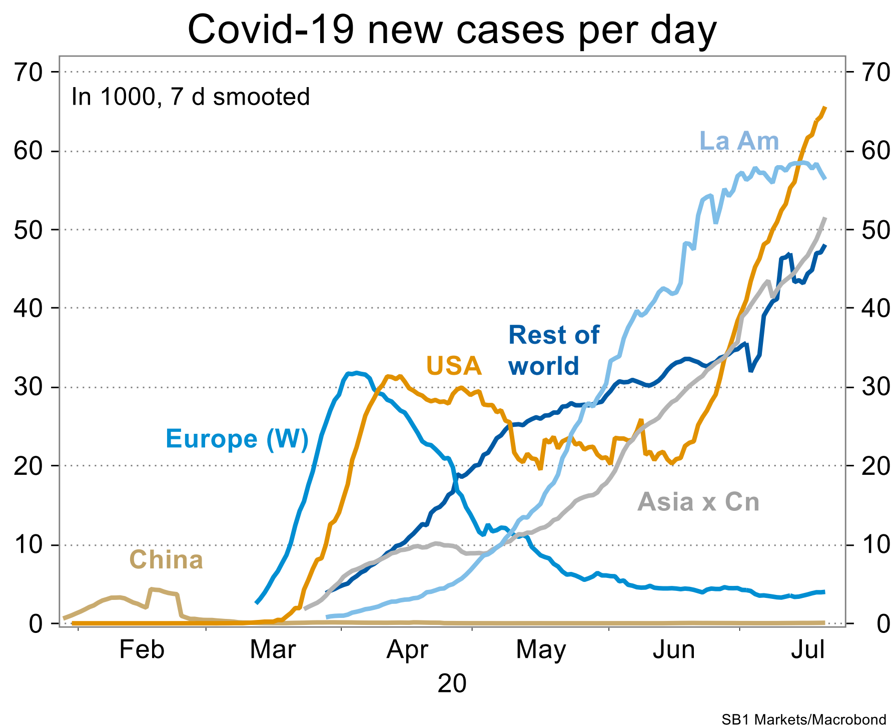
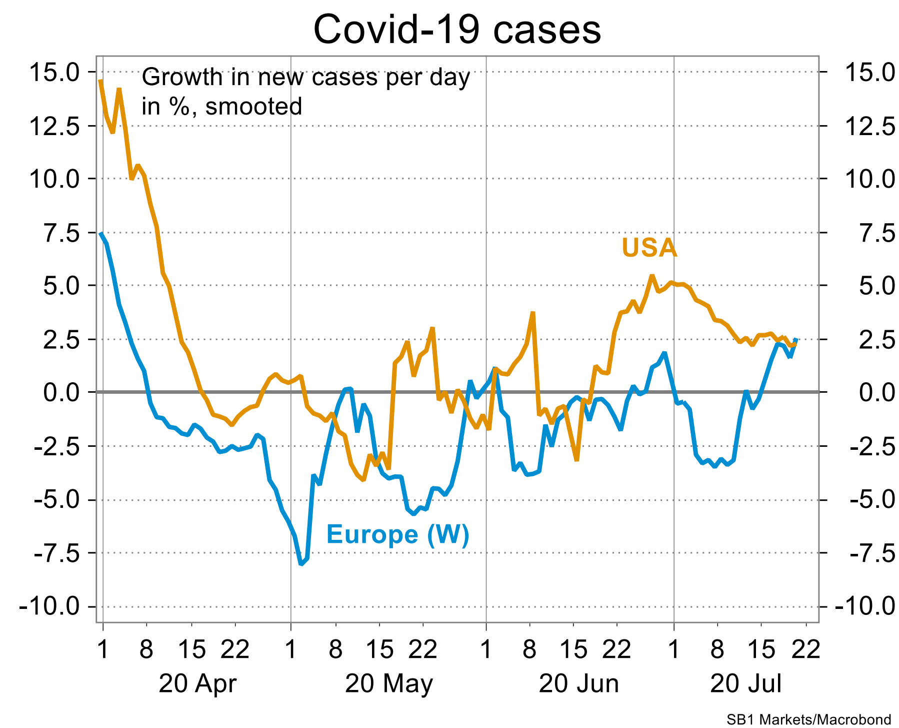
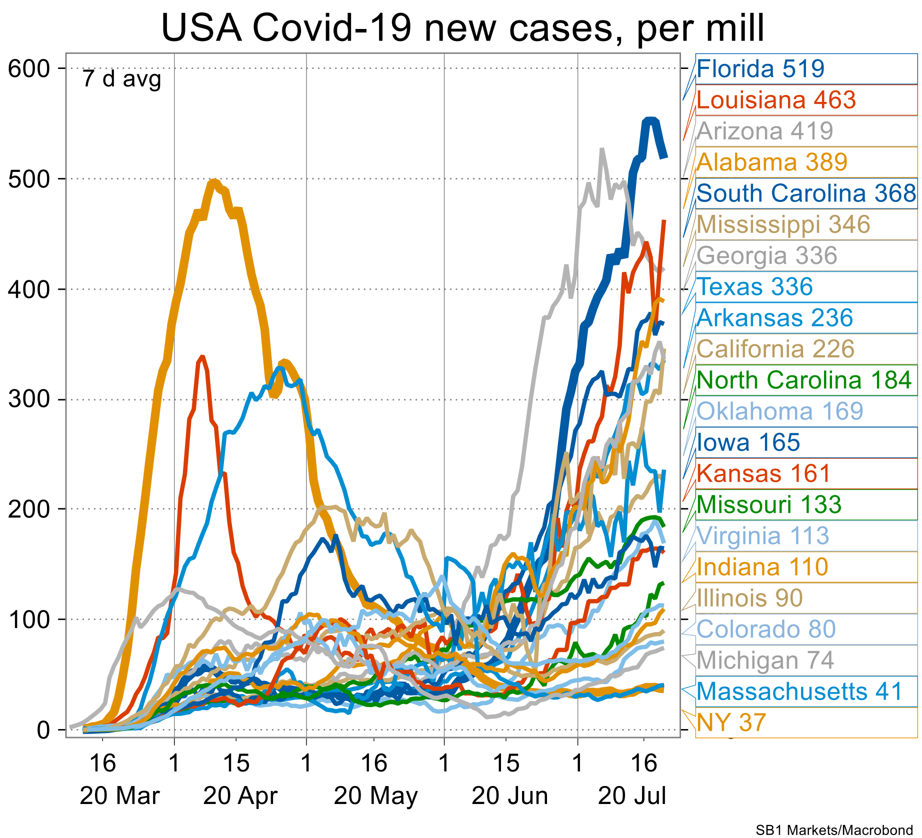
Growth in new cases slows in the US from a high level, EU accel. from a low level

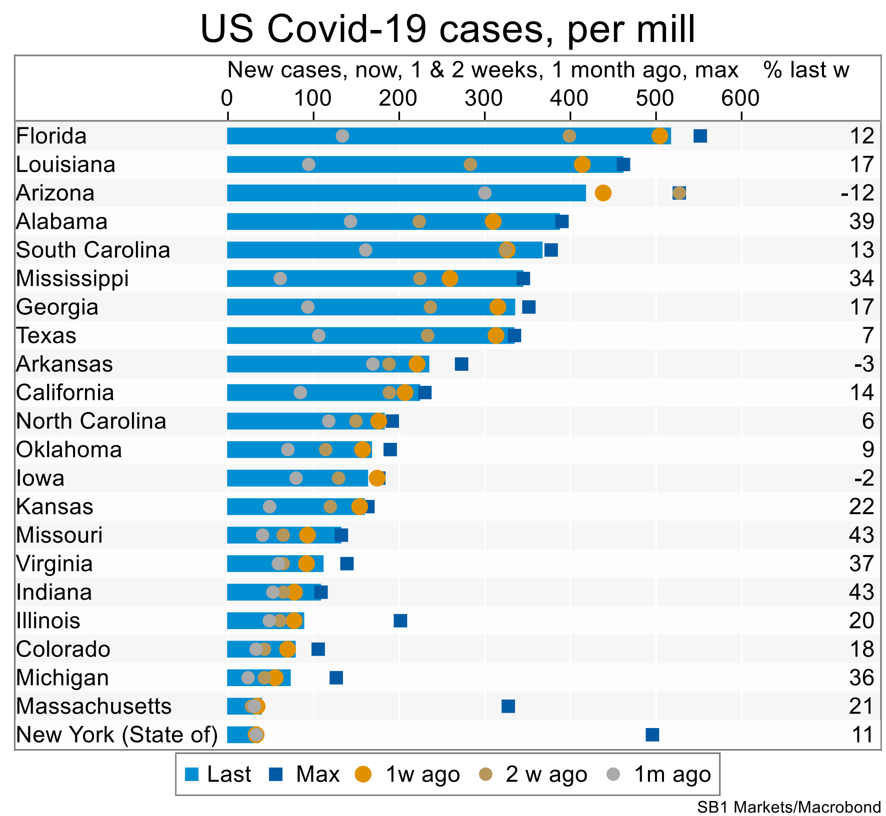
Still, US has a has a much more serious problem, as it has 16 times more new cases per day than EU





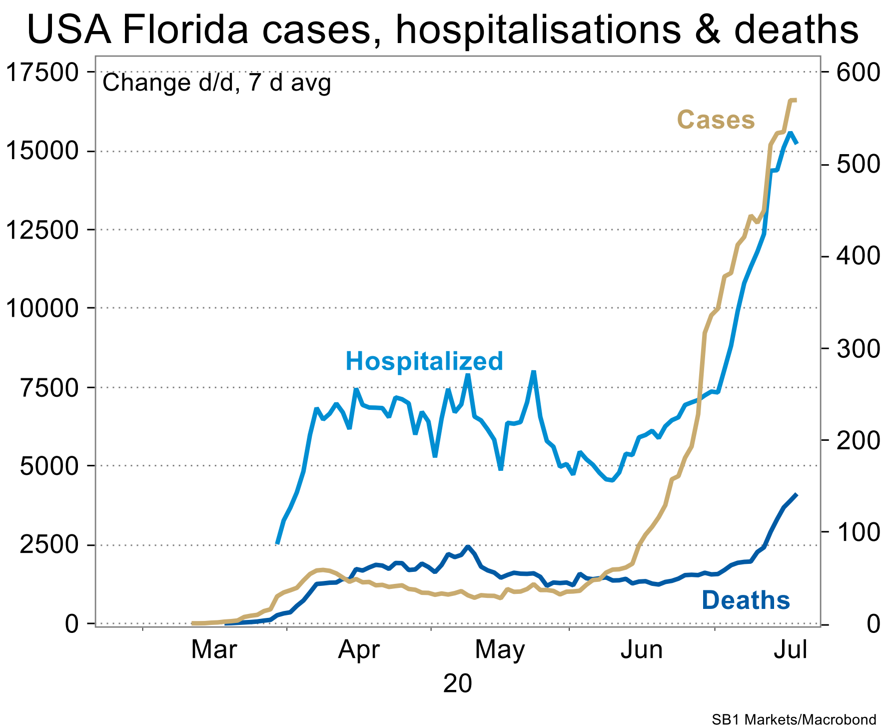
Some US Covid-19 challenges. And they are not due to more testing…

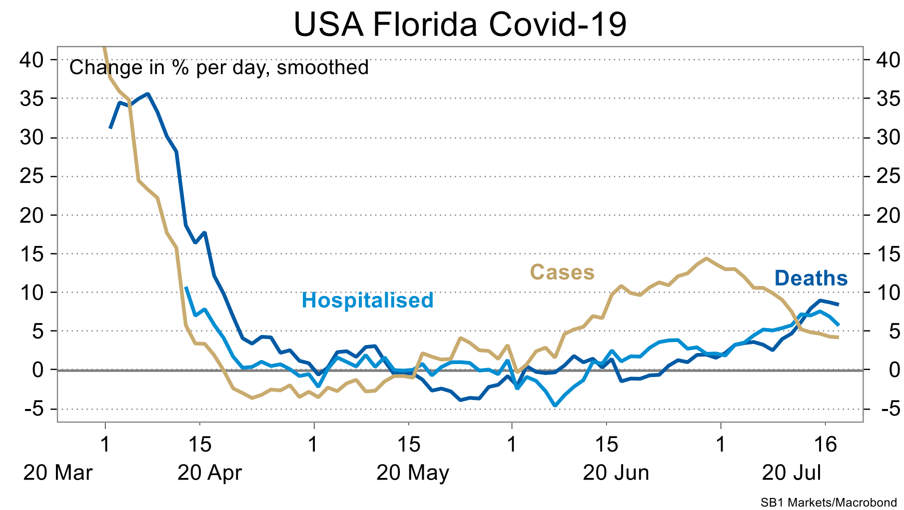


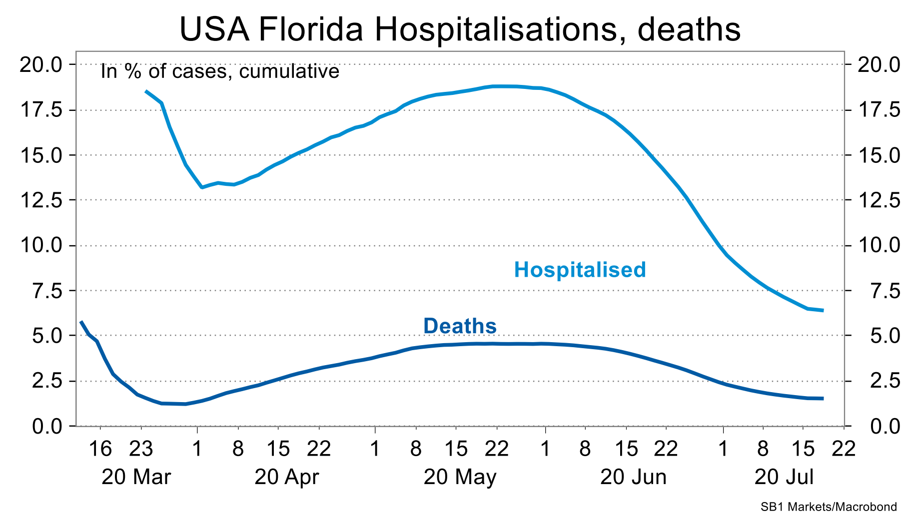


Florida has to change course. Growth in cases has slowed but not enough

The good news: Fewer are hospitalised, fewer are dying (in per cent of cases, that is)

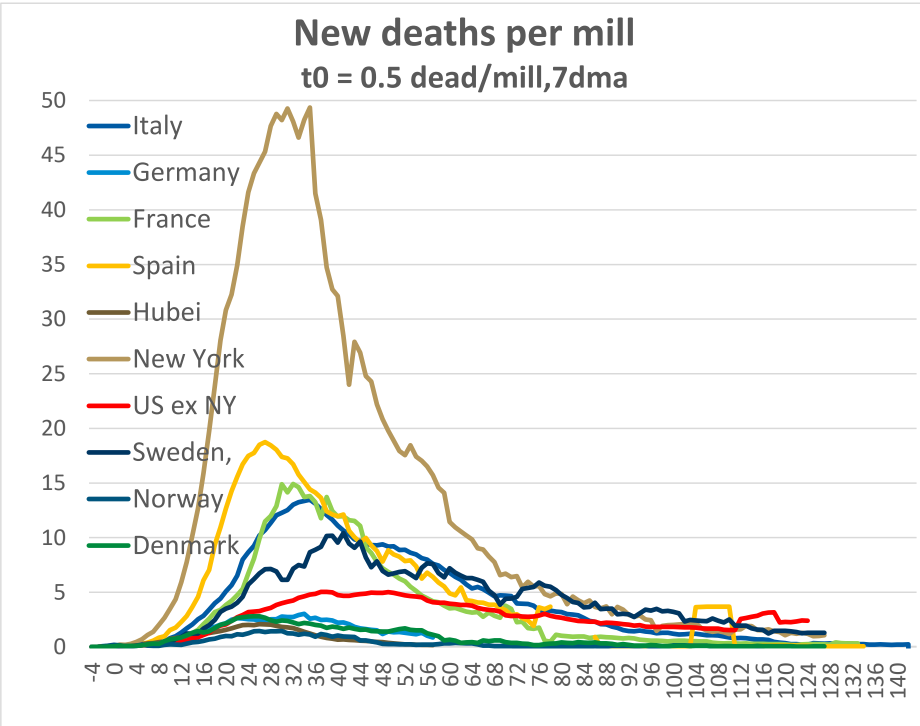


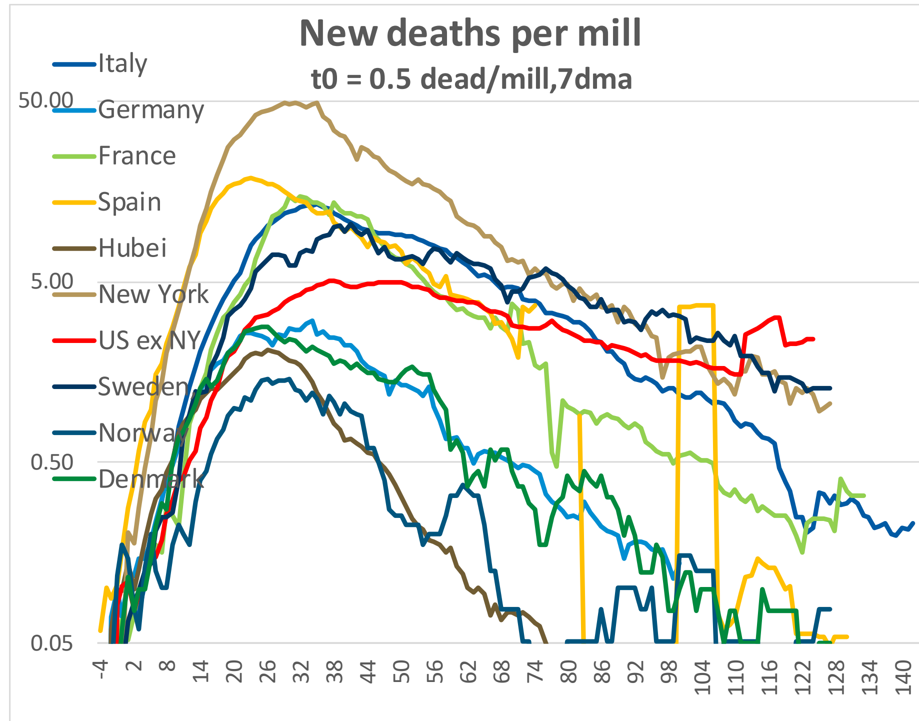




Deaths are on the way up – in the US. But not elsewhere

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

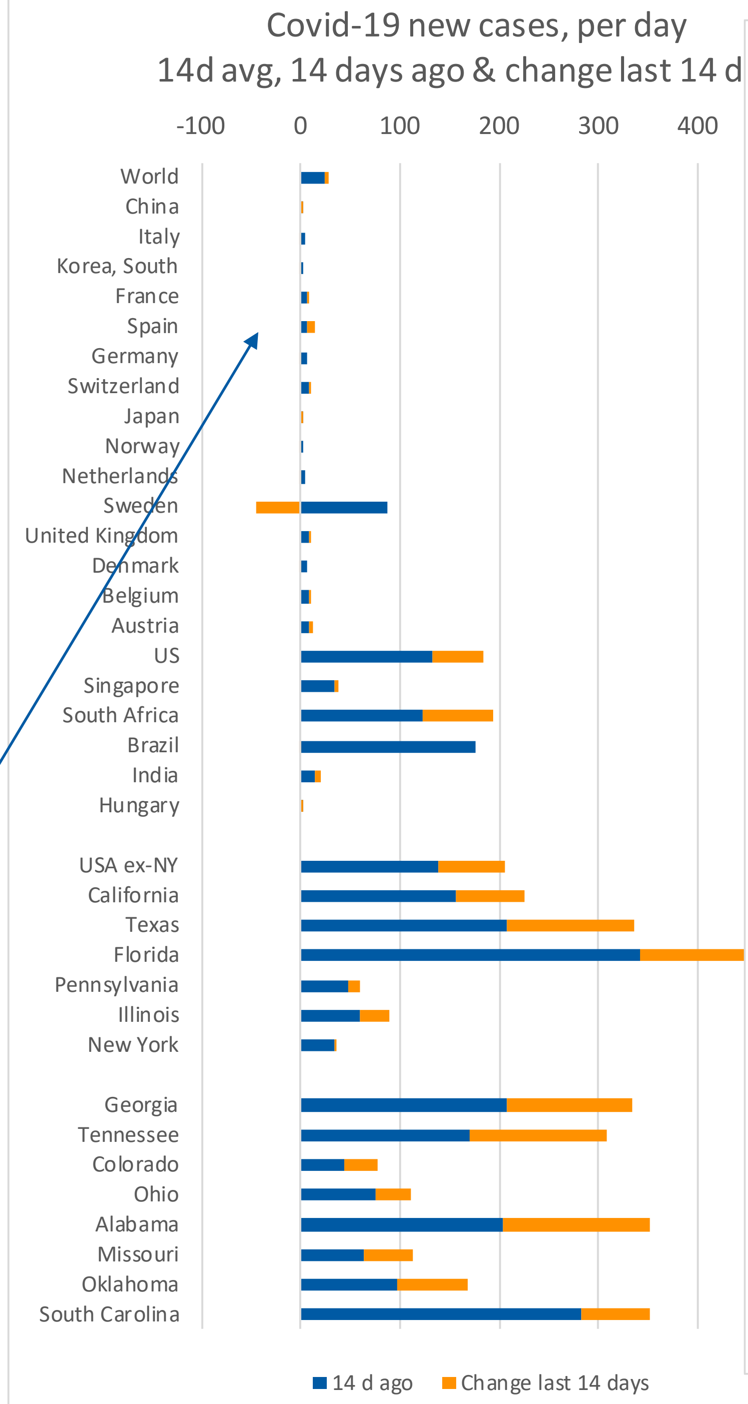


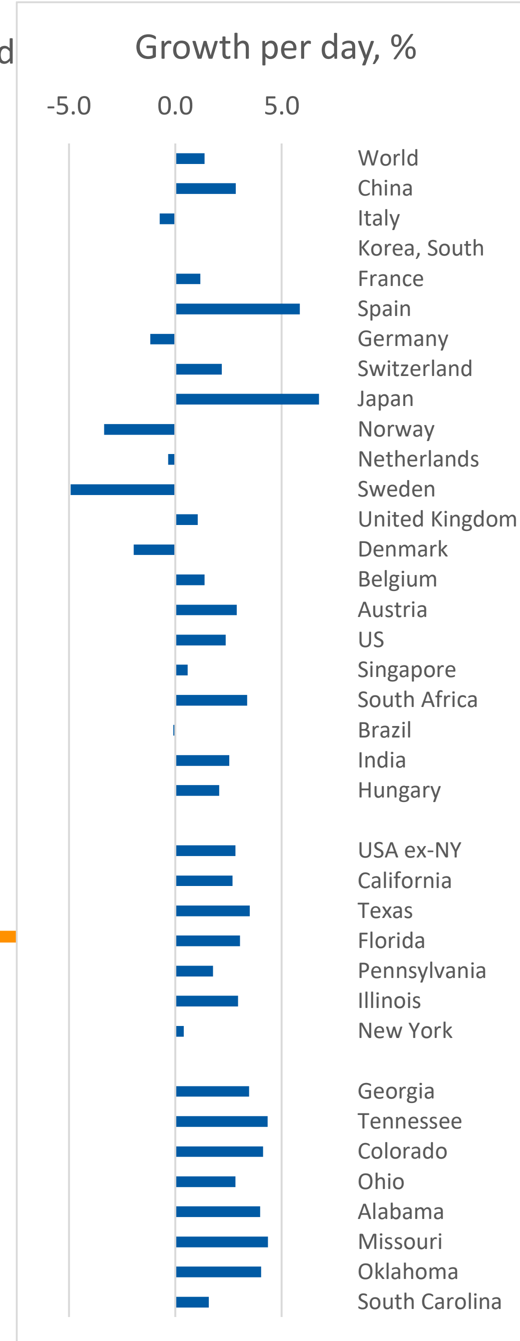


Sources: Johns Hopkins, SB1 Markets

US & the rest: A comparison

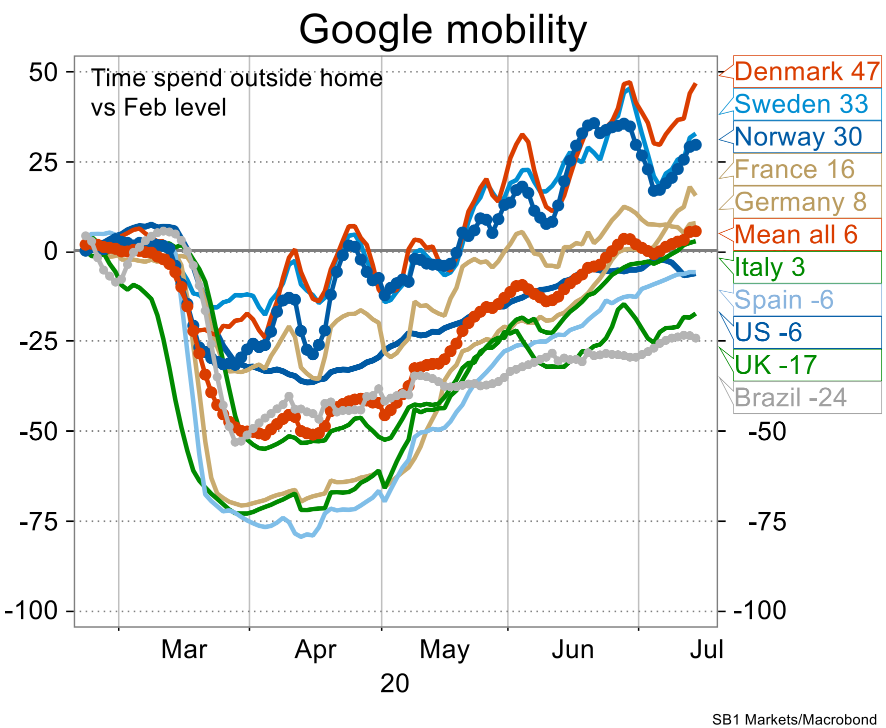
- We do not trust all these data
- There are changes in test policies & capacitiy
- Some countries do probably not report properly
- Sweden is an outlier in Europe but the number of cases & deaths are now finally declining sharply
- BTW, the Norwegian authorities upper limit for allowing travelling to other Schengen countries without quarantine when returning is approx where Spain is now
  » The no of new cases in Spain has increased substantially over the past month – the 'R' is well above 1

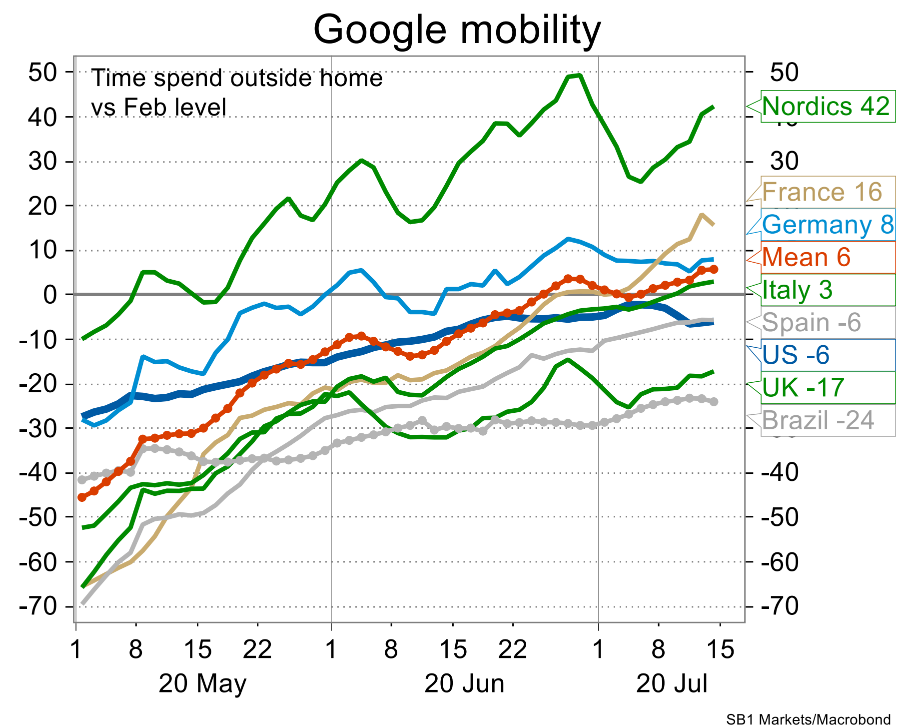




Time spent outside home on the way up – except for the US

Data are volatile but the recent flattening/reduction in US may be due to the new corona outbreak





- The Nordics are quite similar, except for the 2 – 3 weeks from mid March where time spent outside home fell less in Sweden than in Denmark and Norway

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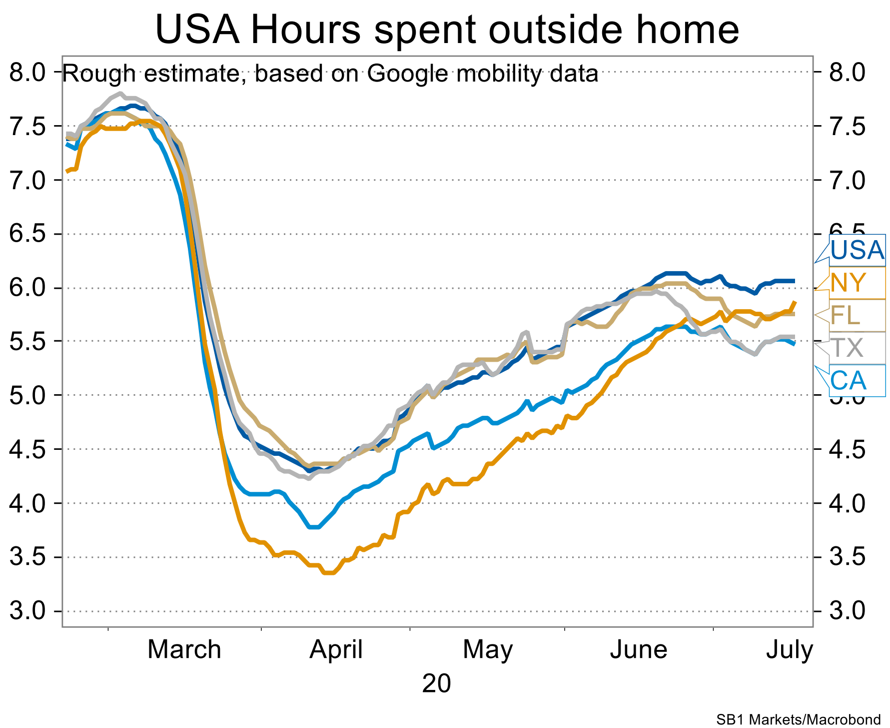
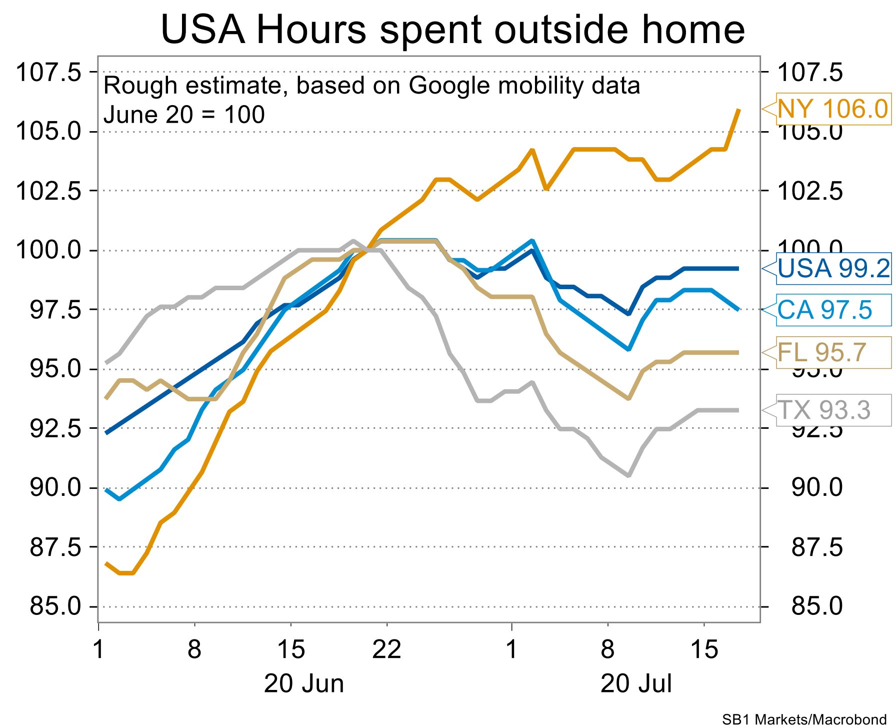
Since June 20: Hours spent outside home +6% in NY, -6-7% in Florida/Texas

Whatever the authorities decide, the corona situation will influence the economy significantly

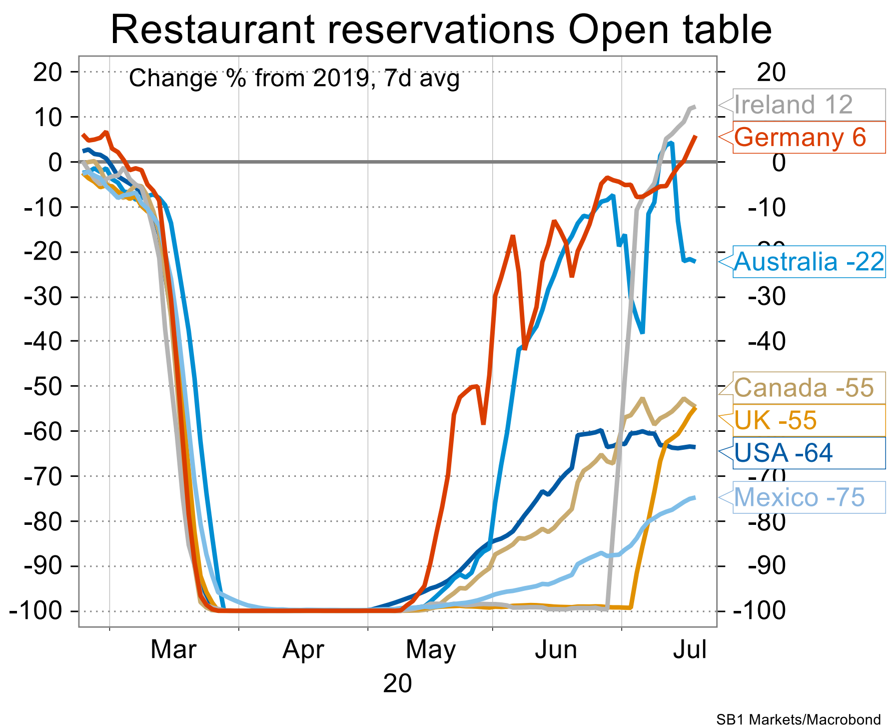


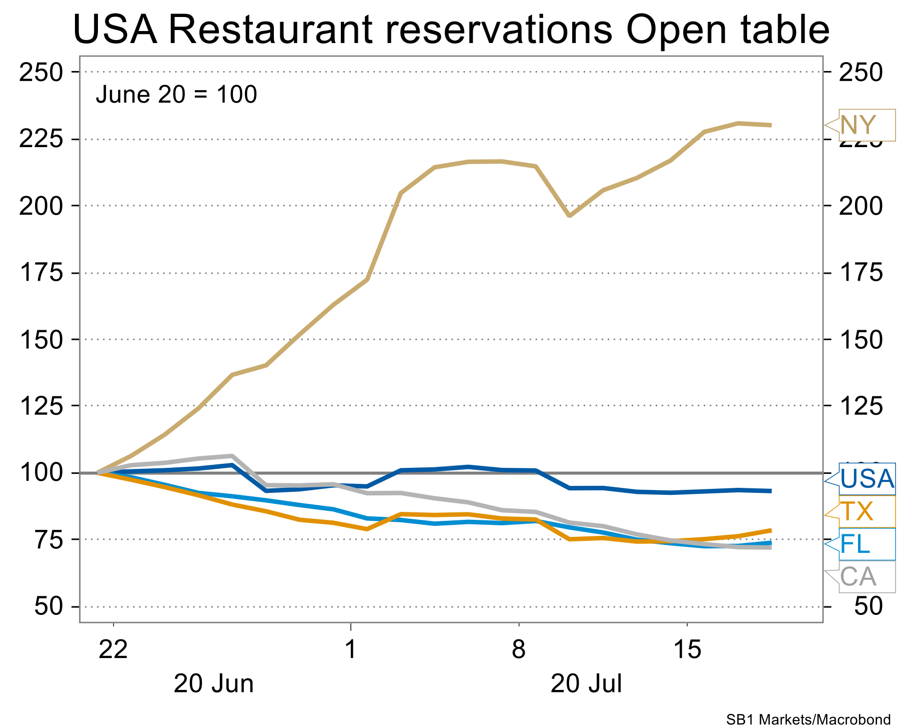


- The differences where people stay is very likely due to the serious corona outbreaks – and people started to adjust behaviour before authorities reimposed restrictions

Restaurants are not open for normal business

… if the corona virus is not brought under control – like in the US now





- Again, there are huge differences between US states. NY has been moving sharply up since June 20, more than 100% up. At the other hand, California, Florida and Texas have been moving down, by 25%

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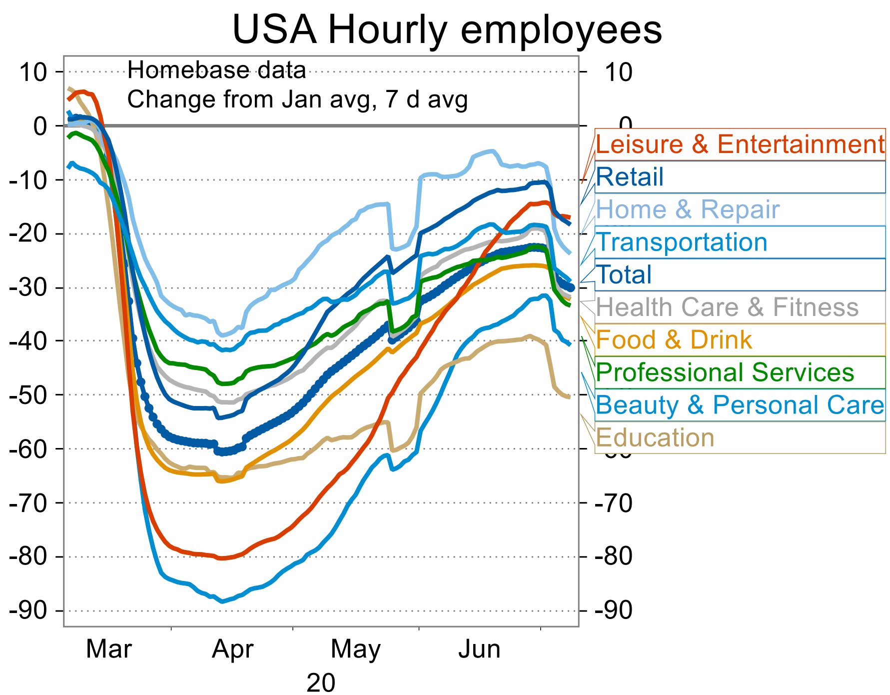
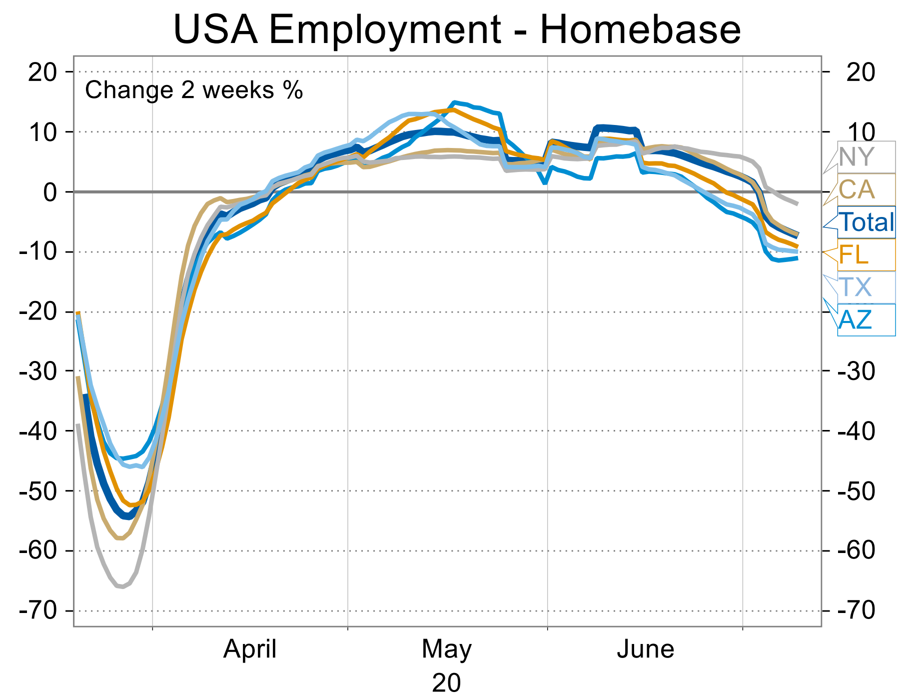
US: Some signs of a slower recovery in the US, probably due to corona trouble

Homebase data are volatile, but now another setback is reported



SB1 Markets/Macrobond



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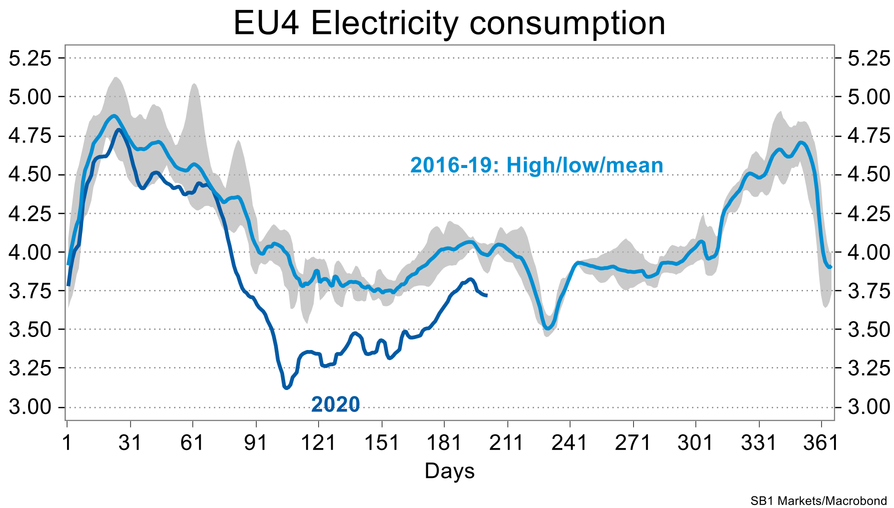
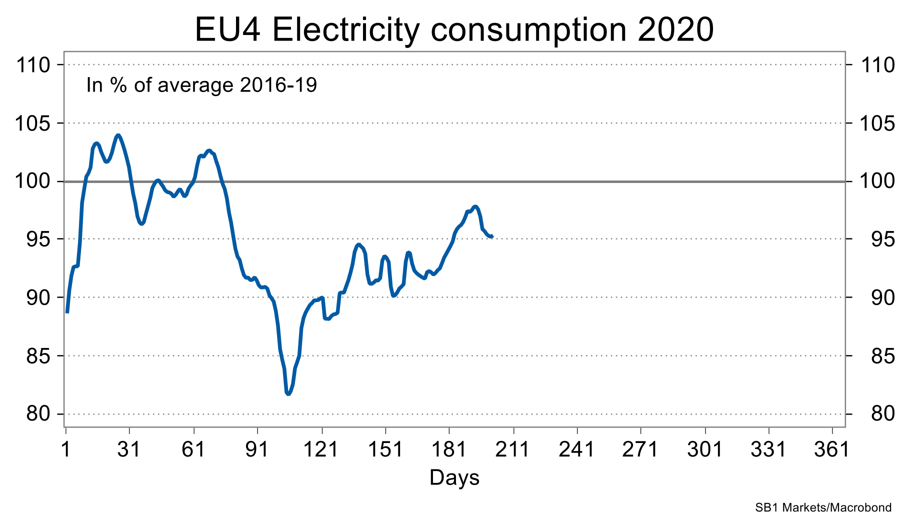
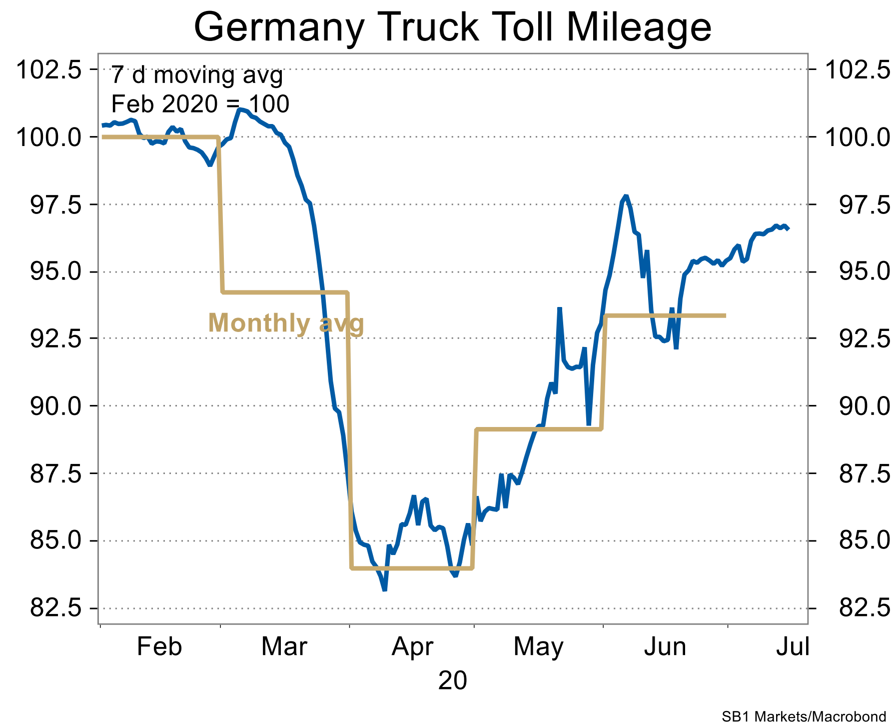
Activity is picking up steam in Europe, electricity up to -5%, from -10/-15%

Transport activity in Germany is on the way up, as is no doubt industrial production

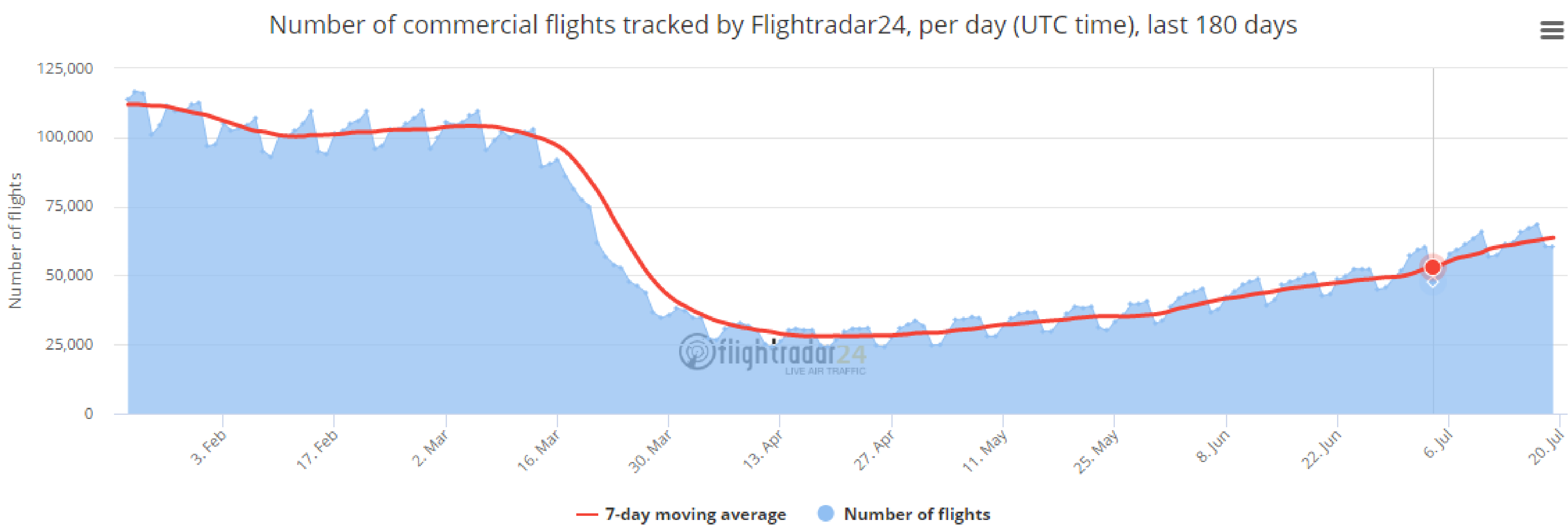






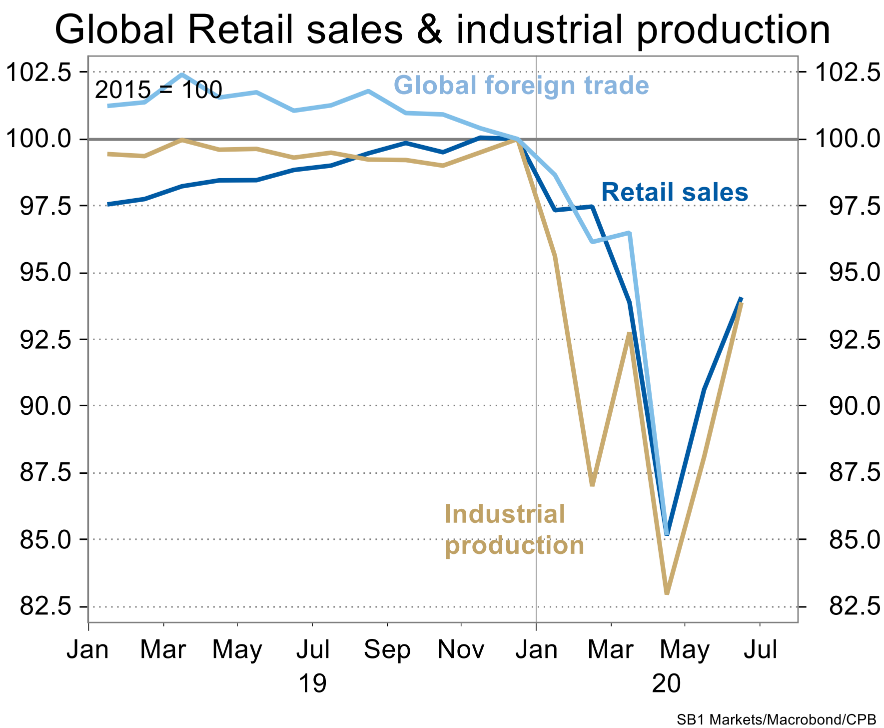
Airborn transport has slowly ascending but level still 40% below normal

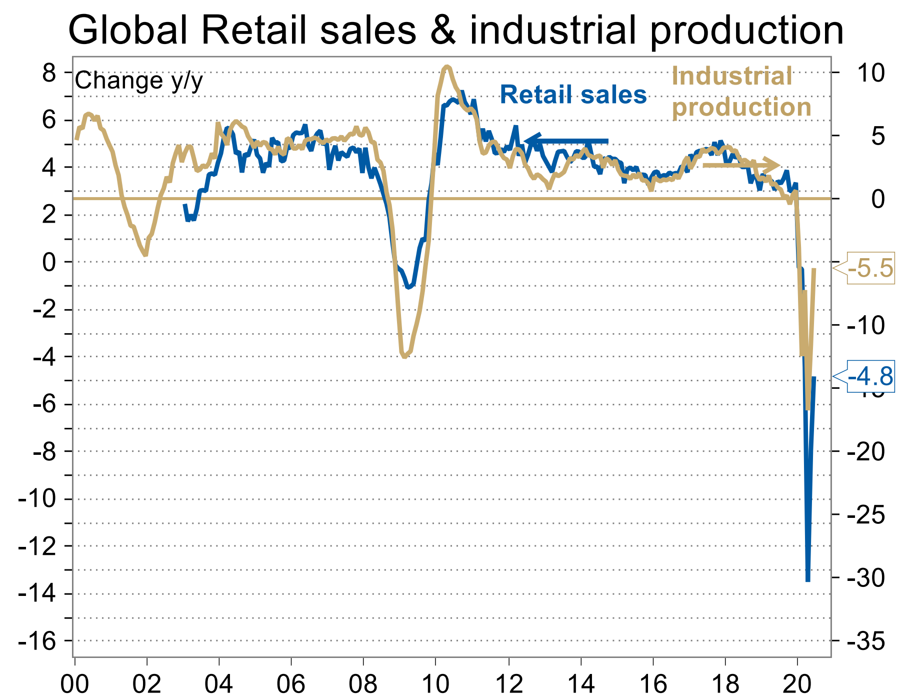
… before we adjust for the holiday season (the real decline is very likely larger than 40%)



Industrial prod, retail sales further up in June, still 6-7.5% below pre corona trend

The global economy bottomed in April, following a 15 - 17% drop





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

- We assume global retail sales rose 3.5% in June following a 6% lift in May. If so, sales were still 6% below the pre corona level in June. In May, sales rose in all main countries. The June forecast is still quite uncertain
- Industrial production probably rose some 6% in June, as from April to May. If so, production still was 6% below the pre corona level. In May, production rose most places but not in South Korea, Japan, Mexico – and not in Norway

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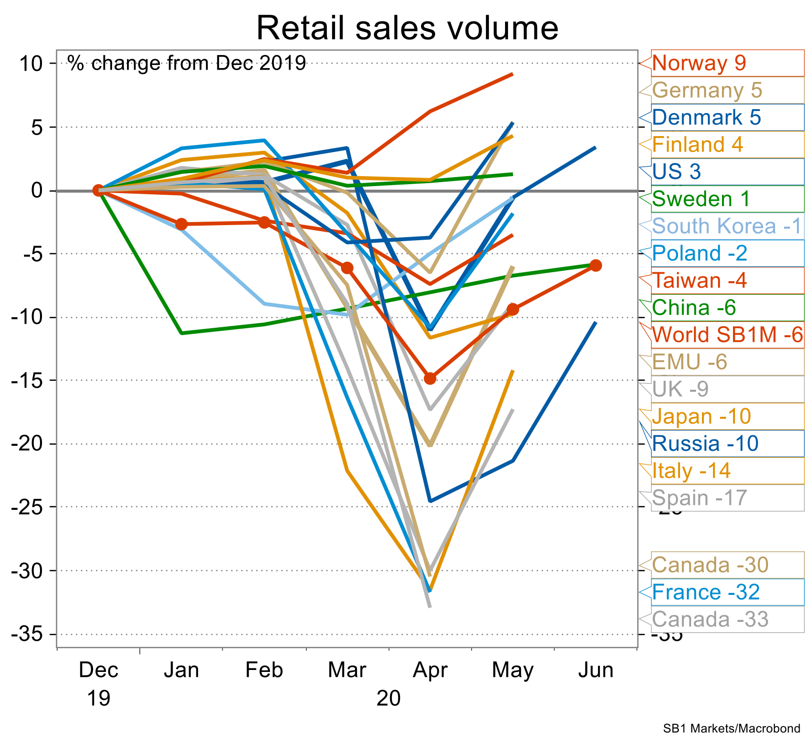
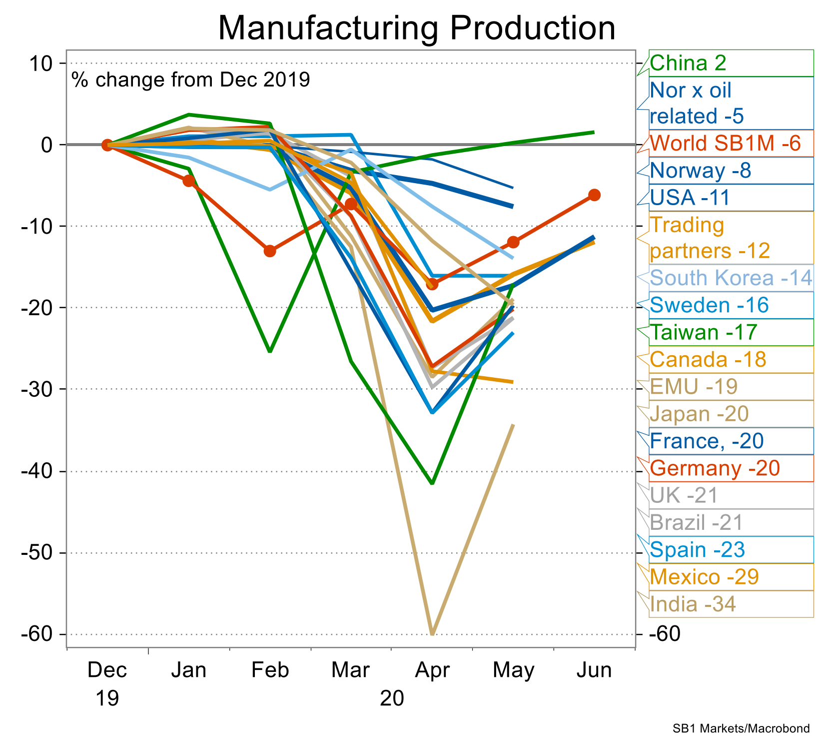
Retail sales up everywhere in May and probably in June

Manufacturing production up in most countries in May – and probably everywhere in June





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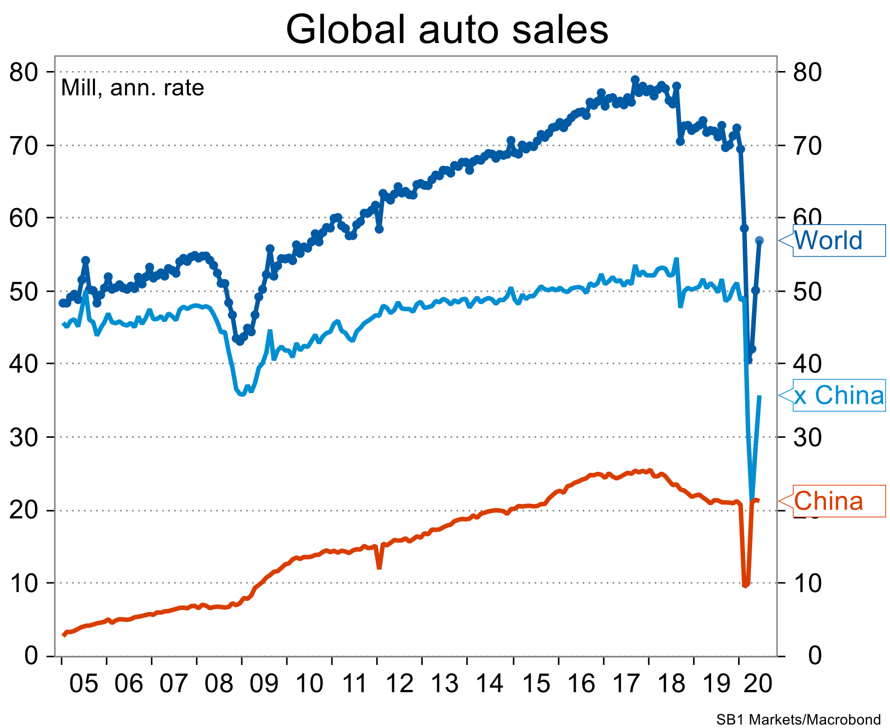
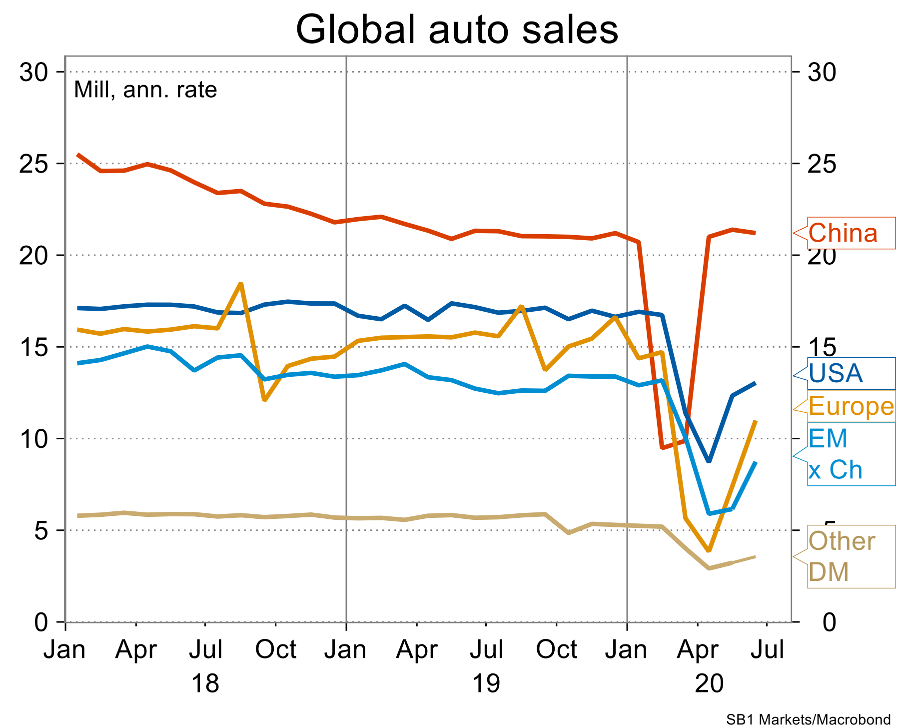
Global auto sales up everywhere in June, still 20% down vs pre corona

China back to normal for 3rd month in row, US down 23%, Europe 30%, EM x China even more

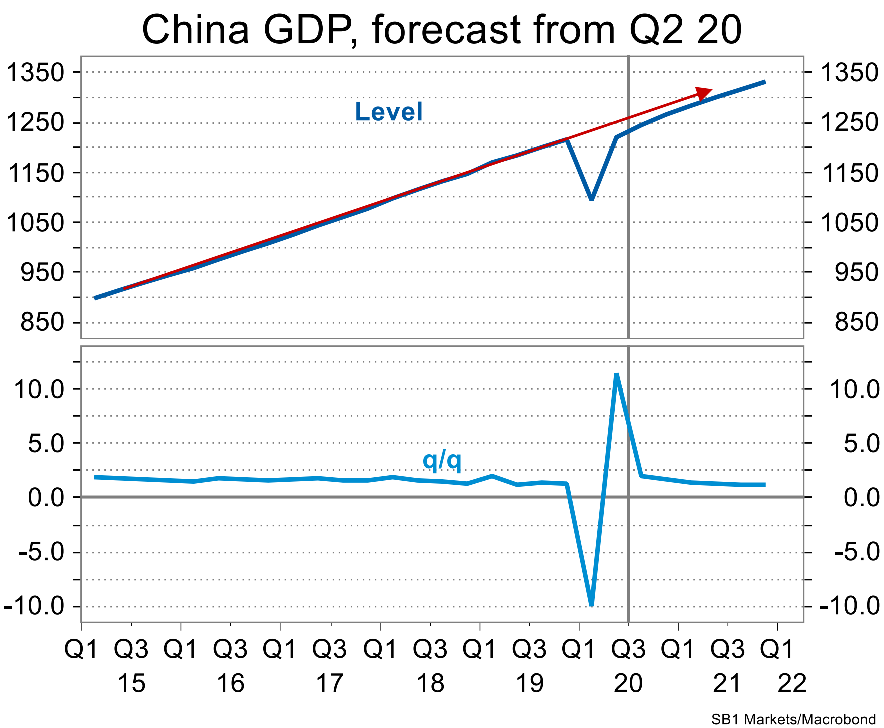




- Sales in China recovered big time in April, and returned to the pre corona level in one go – and have remained there. However, sales are still 15% below sales in late 2017 – and 30% below the pre 2018 trend path
- Sales in both US and Europe have recovered sharply from the April trough – but remain 23 & 30% below the pre corona levels, resp.
- Sales in EM x China rose sharply in June but are still 33% below the level at the beginning of the year

Q2 GDP above the Q4-19 level and just 3% below the pre corona trend!

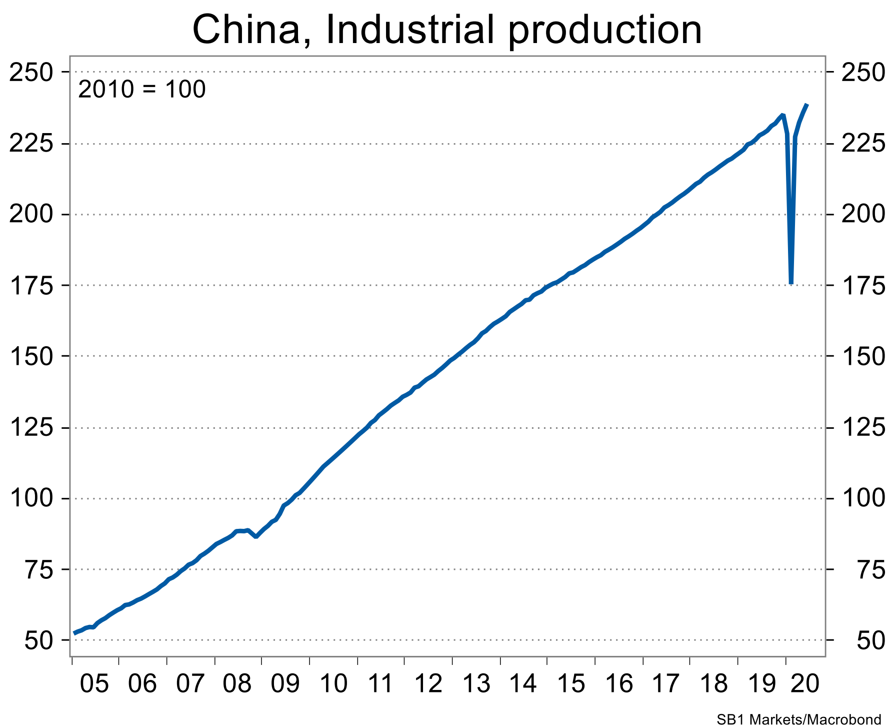
The recovery has been much quicker than we assumed some weeks ago, GDP up 11.5% in Q2

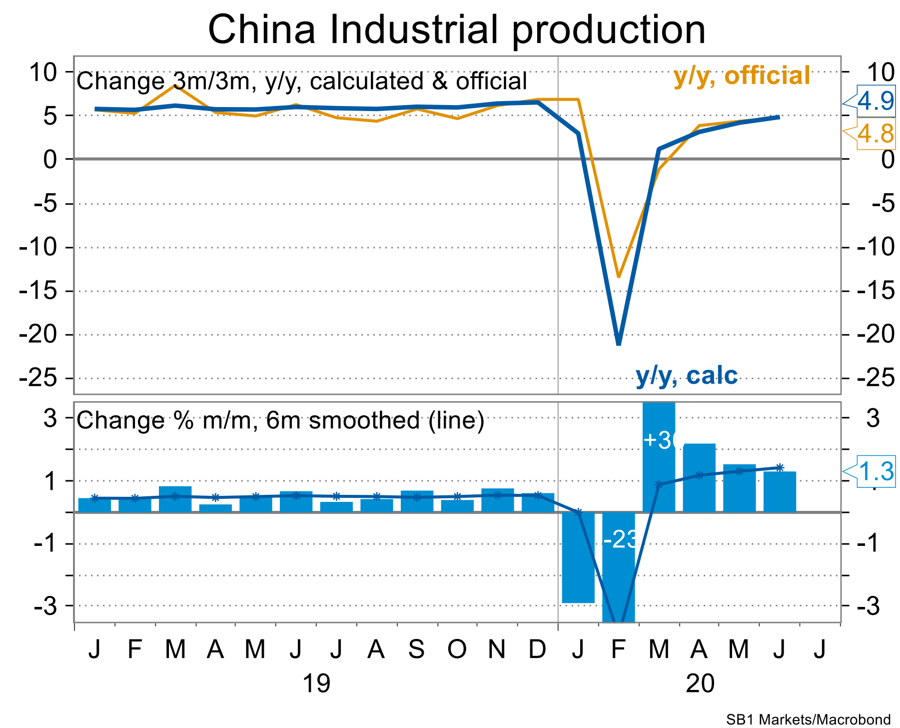


- GDP rose 2 pp more than expected

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

Production rose 1.3% m/m in June, well above trend growth. Up 4.8% y/y, as expected

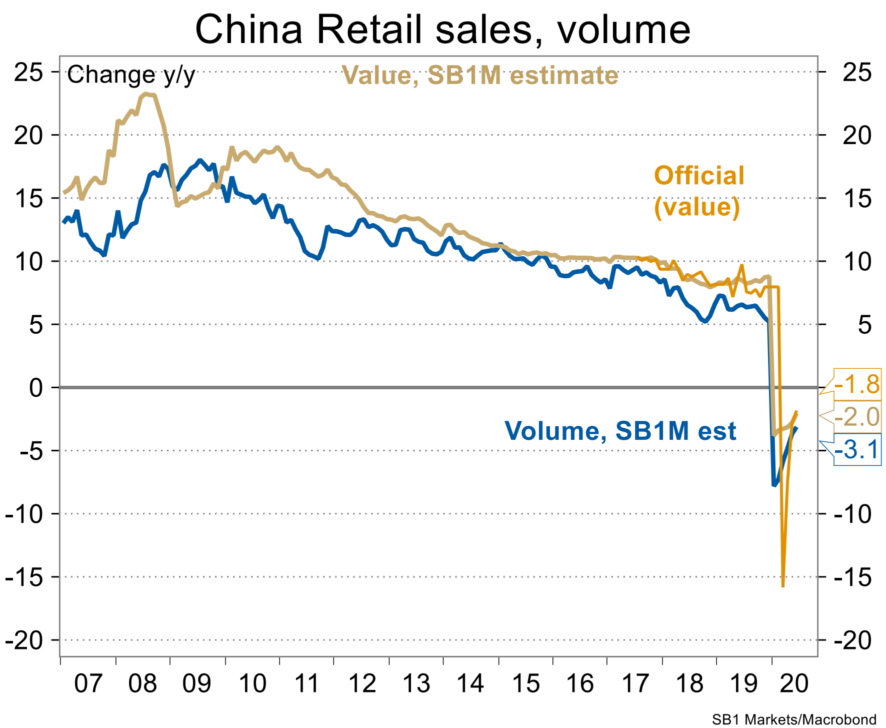


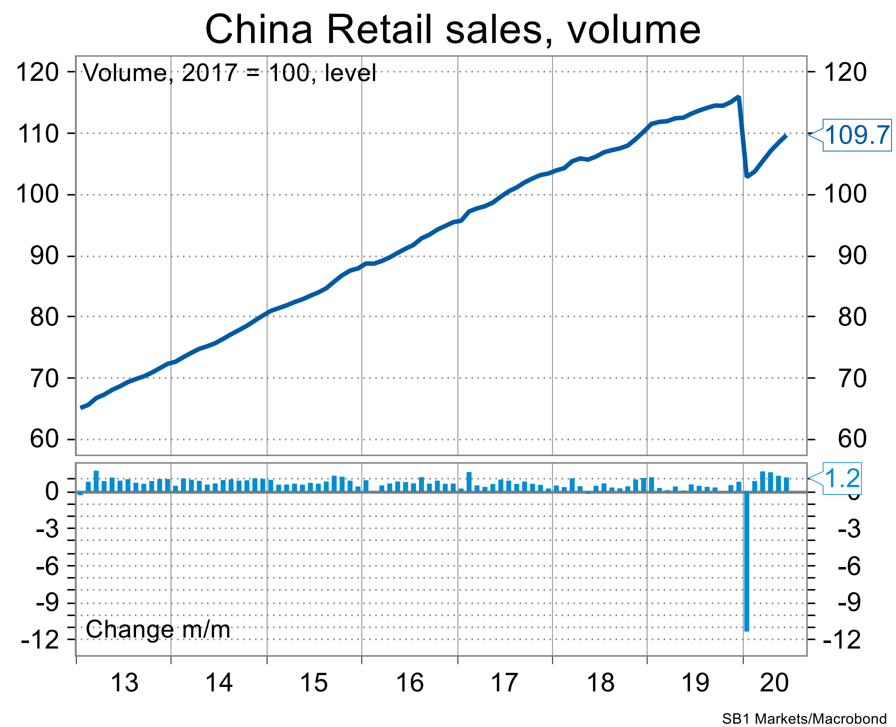


- Production is just 1% below the pre corona trend

Retail sales volume up 1.2% in June, still some 7 % below the pre corona trend

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

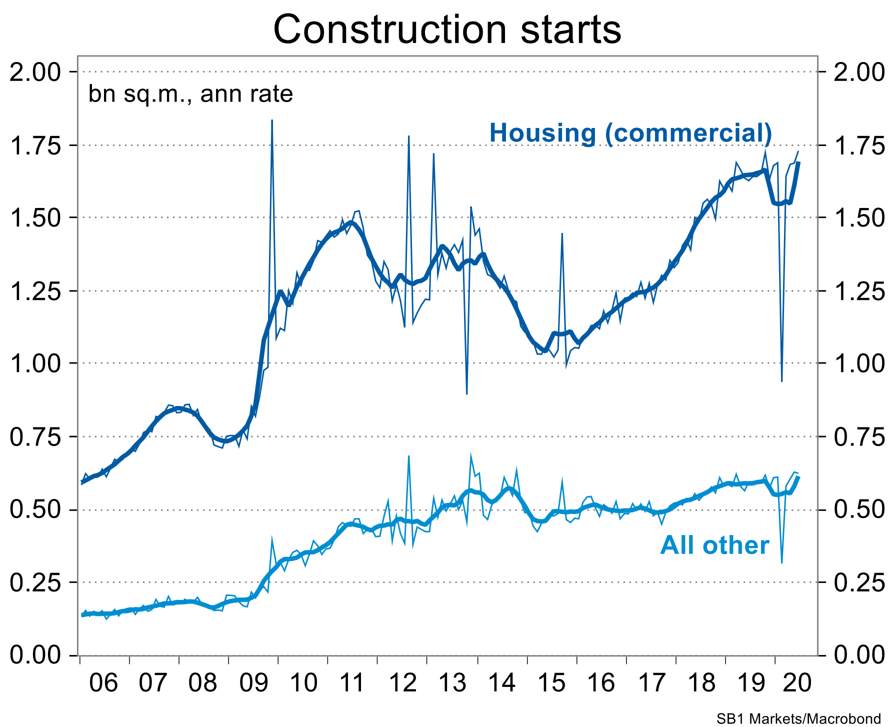


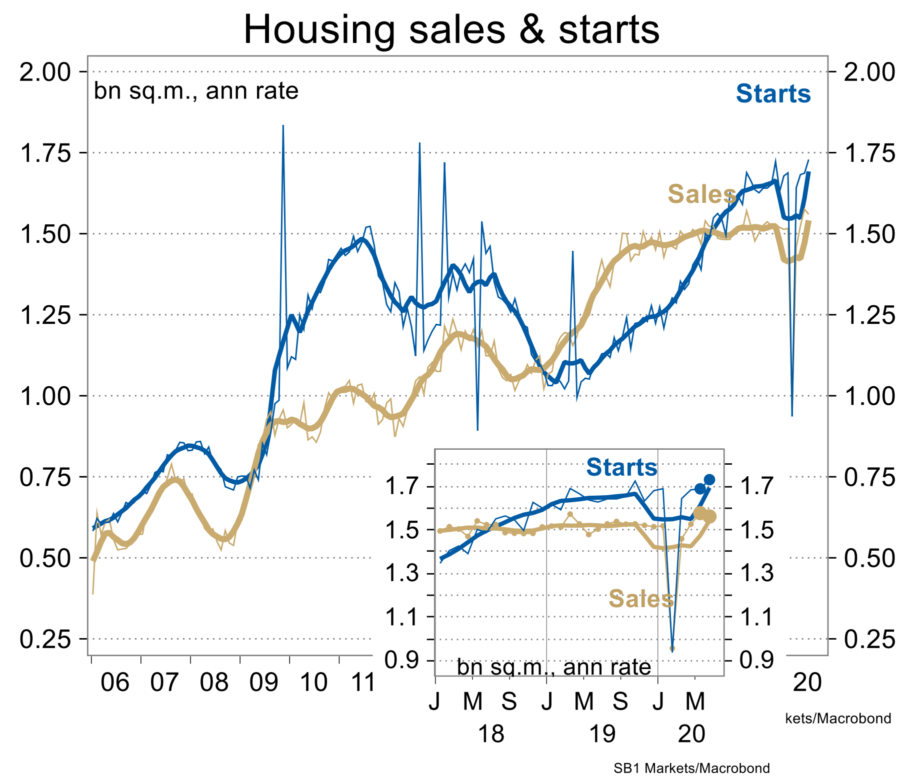


- The official value y/y at -1.8% was well below expectations (+0.5%) but the monthly volume growth rate at 1.2% is above normal – but not sufficient to close the gap to the pre corona trend anytime soon

Construction back to all time high

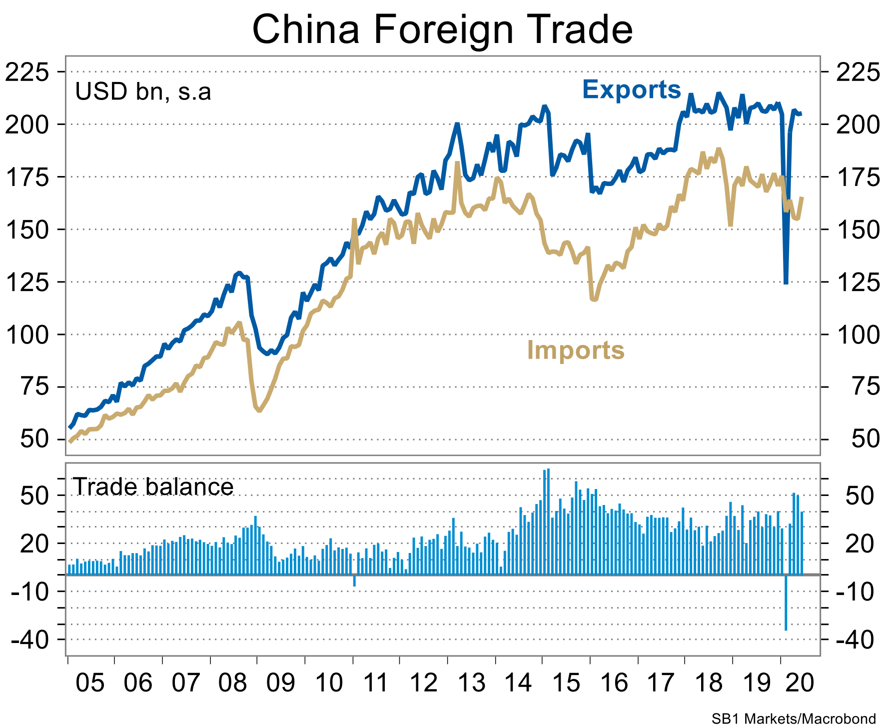
… following the 40 – 50% collapse in February





- In fact, just February was a disaster

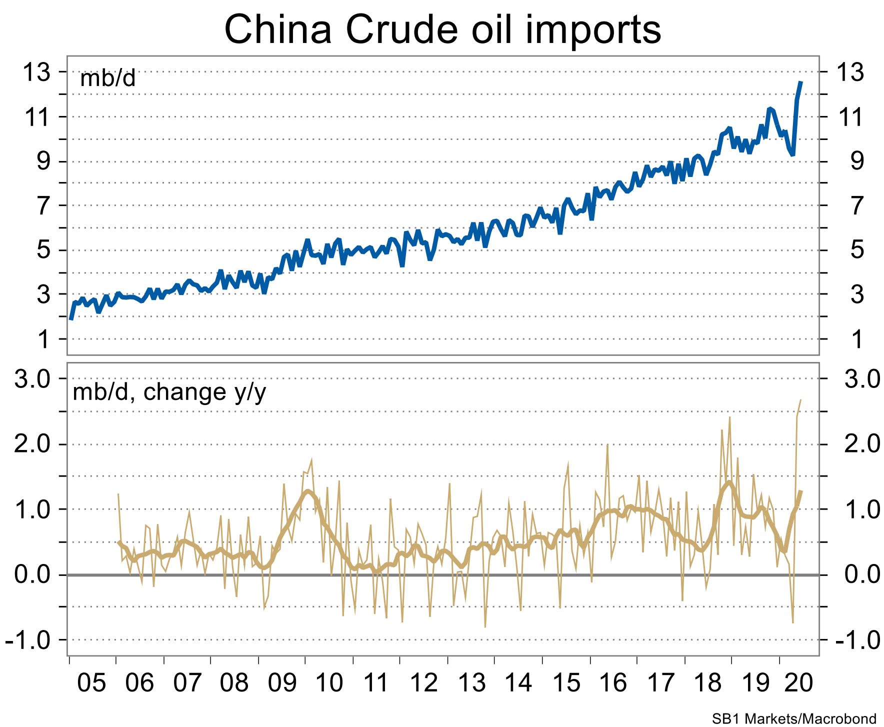
Exports stable in May, imports up – and both are OK, in volume terms

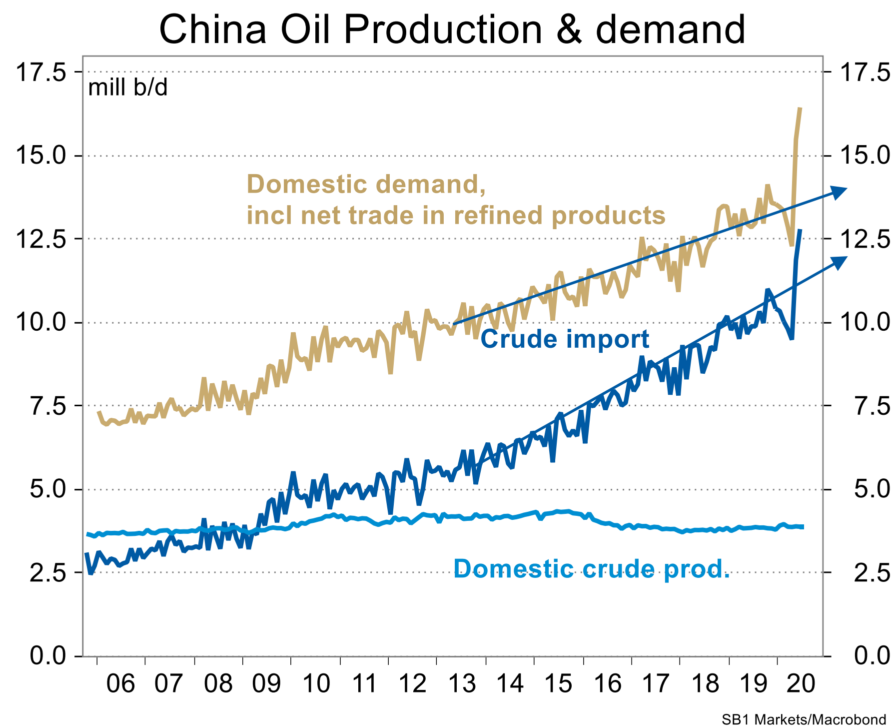


- Exports collapsed during the lockdown in February (-40% m/m) but recovered in March and rose further in April and fell just marginally in May/June. Exports were up 0.5% y/y (in USD terms), expected -2%. In volume terms, exports are close to record high. Export surveys have recovered but are not yet signalling any growth
- Imports rose 2.7% y/y, expected down 9% - a miss at almost 12%, following a weaker than expected May print. Working days adjusted data are less volatile, and less upbeat, -4% y/y in June. Imports rose m/m in June but are so far clearly down in 2020 but not much, a clear indication that domestic demand has not collapsed. Imports are stronger measured in volume terms as import prices have been falling since early 2019
- The trade surplus fell to USD 40 bn in June, down from 50 bn the two previous months. The surplus has been larger than 'normal'

Ai, ai prices are low, let's buy some more oil!

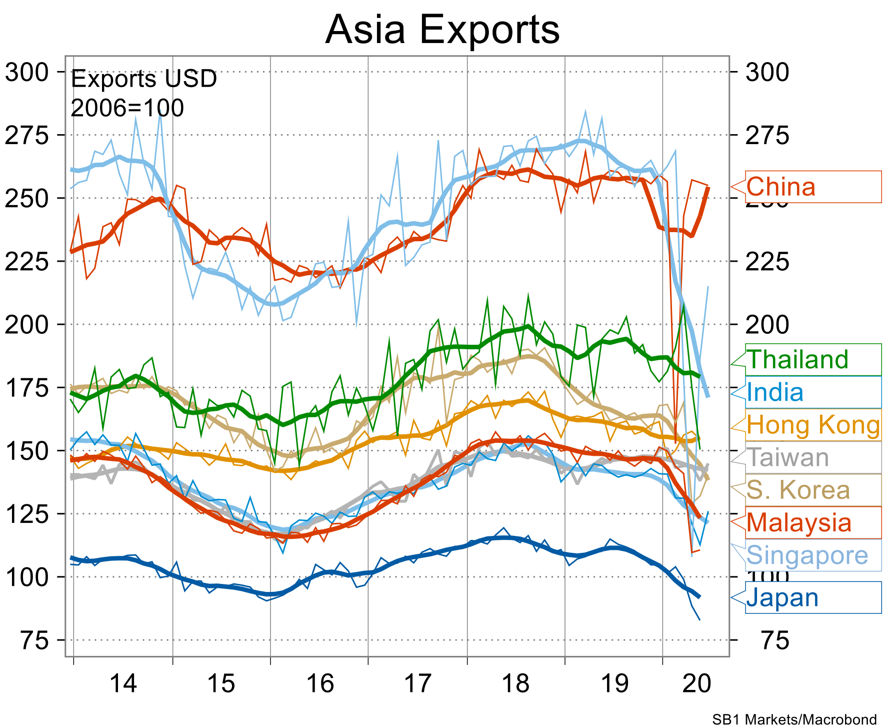
Record high crude imports, according to Chinese data

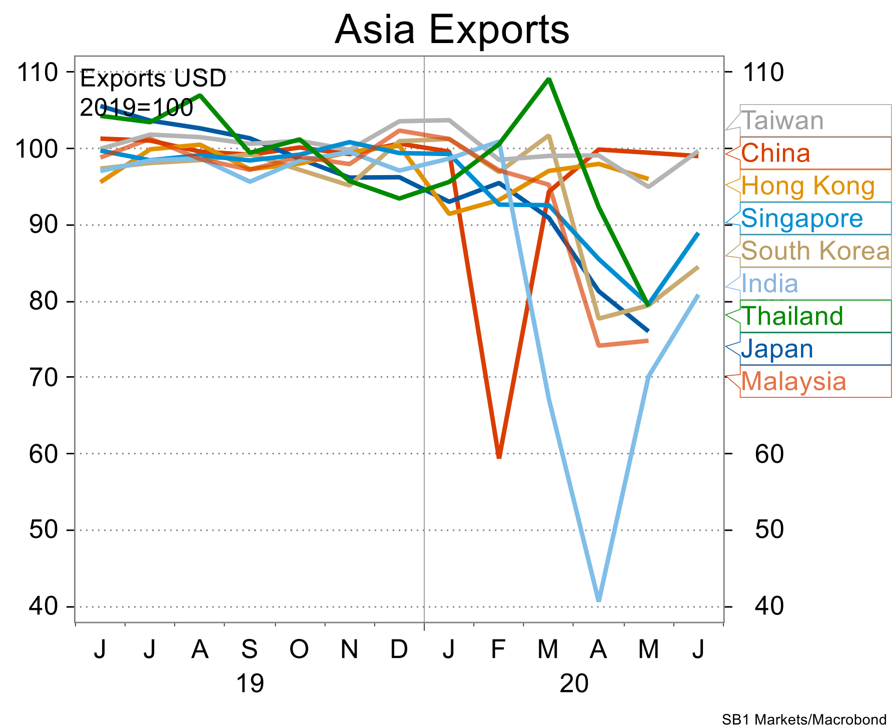




After the downturn, June data reported so far are pointing up

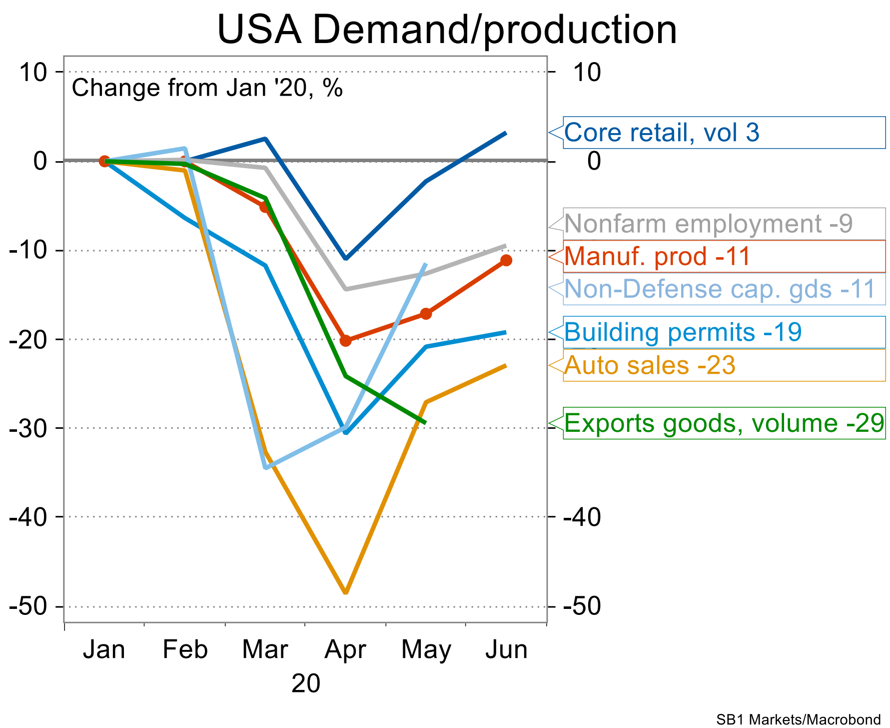
Still most countries are reporting 10 – 20% lower exports than before the corona crisis





On the way back – but not that synchronised

Core retail sales up vs. Jan/Feb but auto sales, housing exports still down 20 – 30%. Mauf. -11%



Some different shapes and forms of 'V's

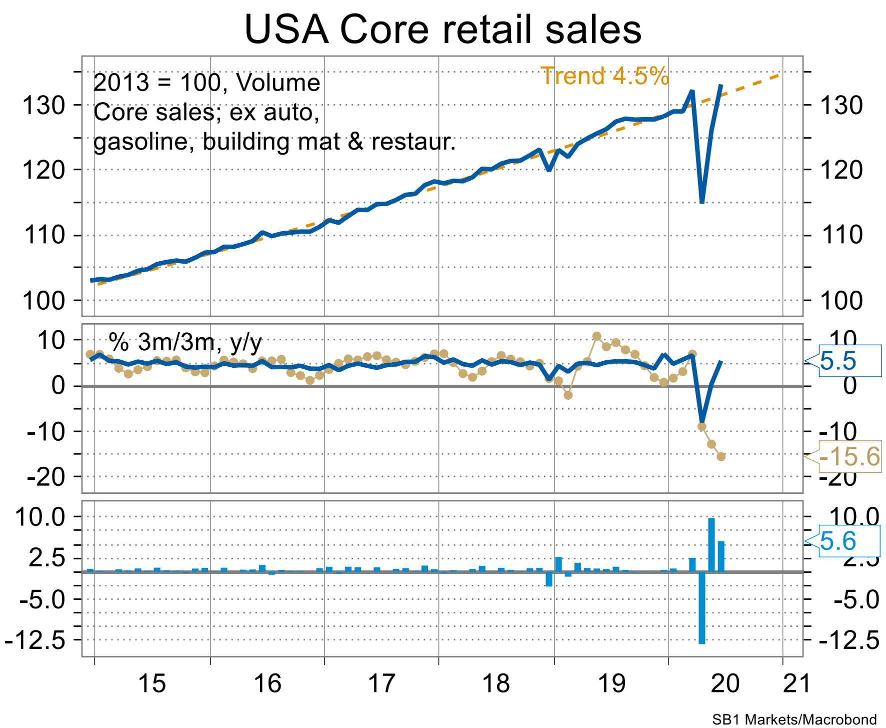
- Barring export volumes, all main indicators rose in May, and all June data published so far are up
- Core retail sales have reported the sharpest recovery, up 3% from Jan/Feb in June, following a 5% lift in June, better than expected
  - Still total consumption was 11% below the pre corona level in May, and we guess some 5 - 7% below in June – and probably not much less in July as the recovery slowed amid the sharp increase in covid-19 cases. Auto sales and service consumption is still lagging
- Non-defence capital orders (including airlines) are down 11% following a steep rise in May
- Export volumes fell further in May, and are down 29% (!). Imports have fallen far less. June data out this week

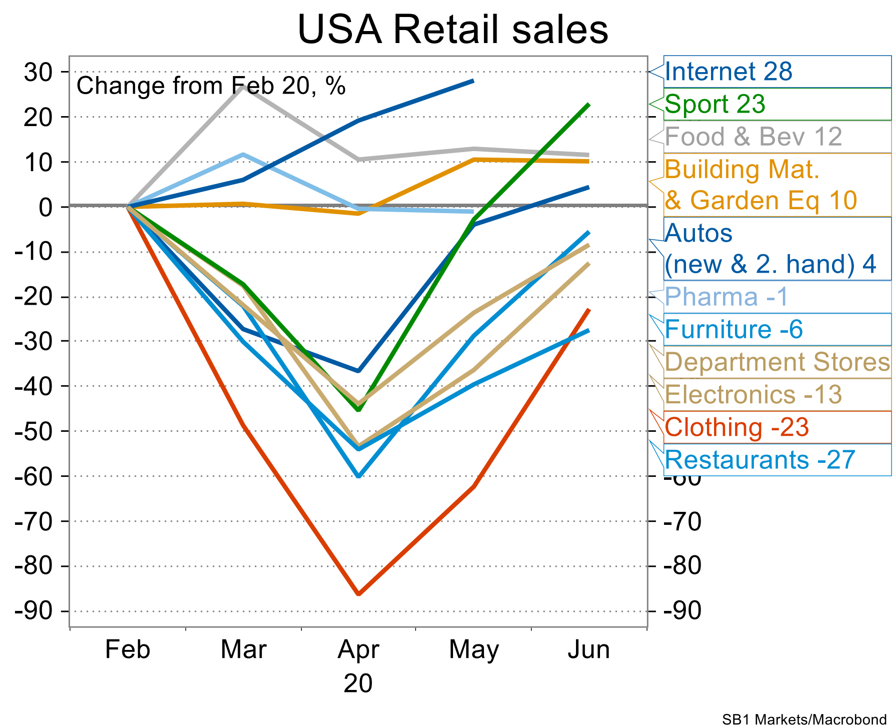
Demand vs production

- Manufacturing production and employment rose in May and June but remains 11% down from Jan, even after a 7.2% m/m lift in June (exp. 5.7%)
- We put more emphasis on the demand side than production
  - If demand recovers, production will follow – after inventories are emptied

Retail sales back on track, in average. Still unprecedented sectoral differences

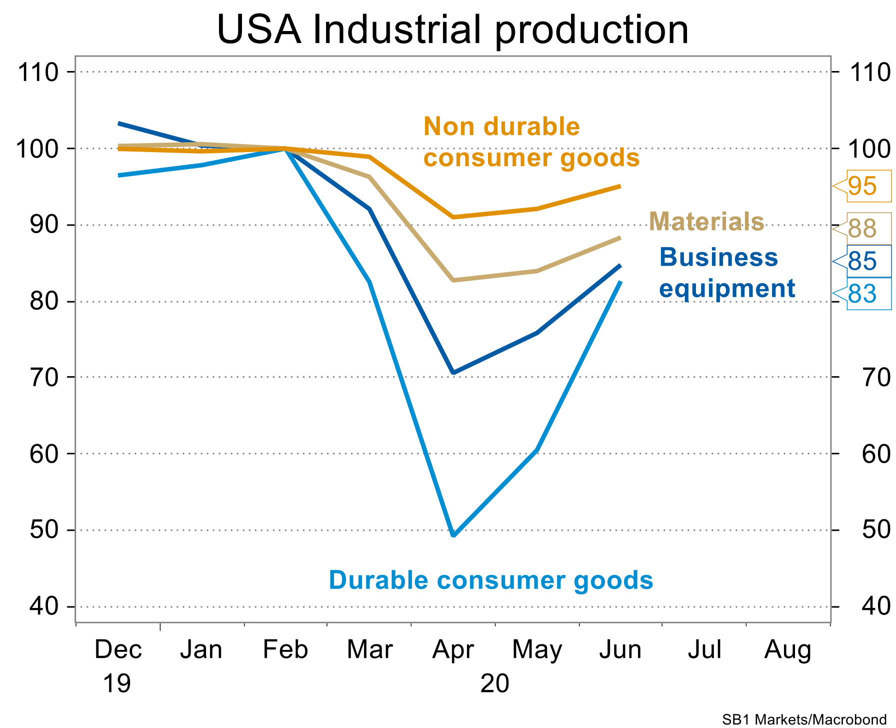
Electronics, clothing and restaurants are still struggling. The net is winning, of course





Manufacturing has still a way to go – 11% below pre corona level

Production of durable consumer goods and business equipment are still 15% down



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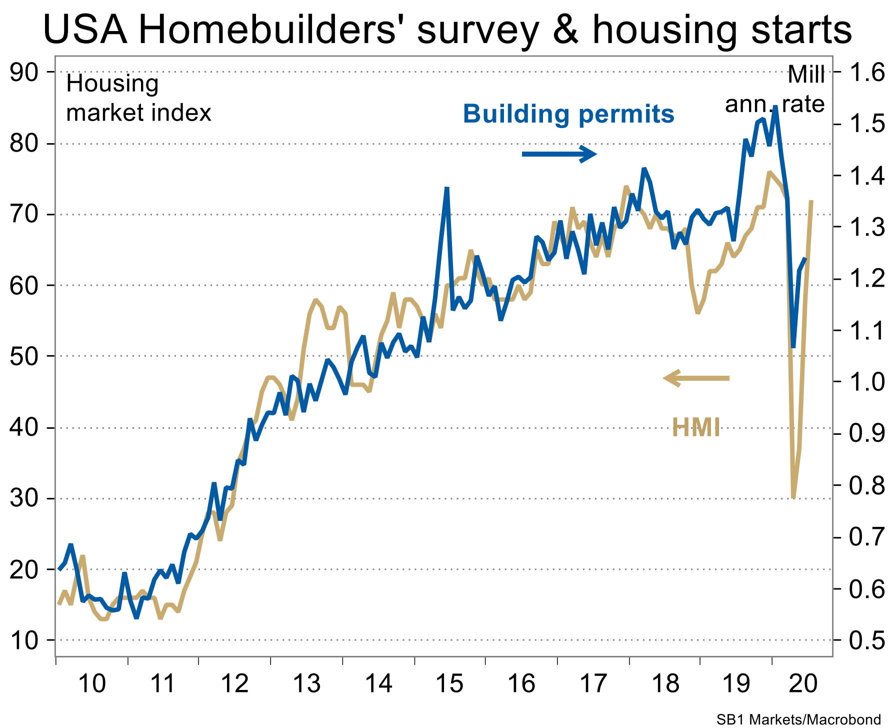
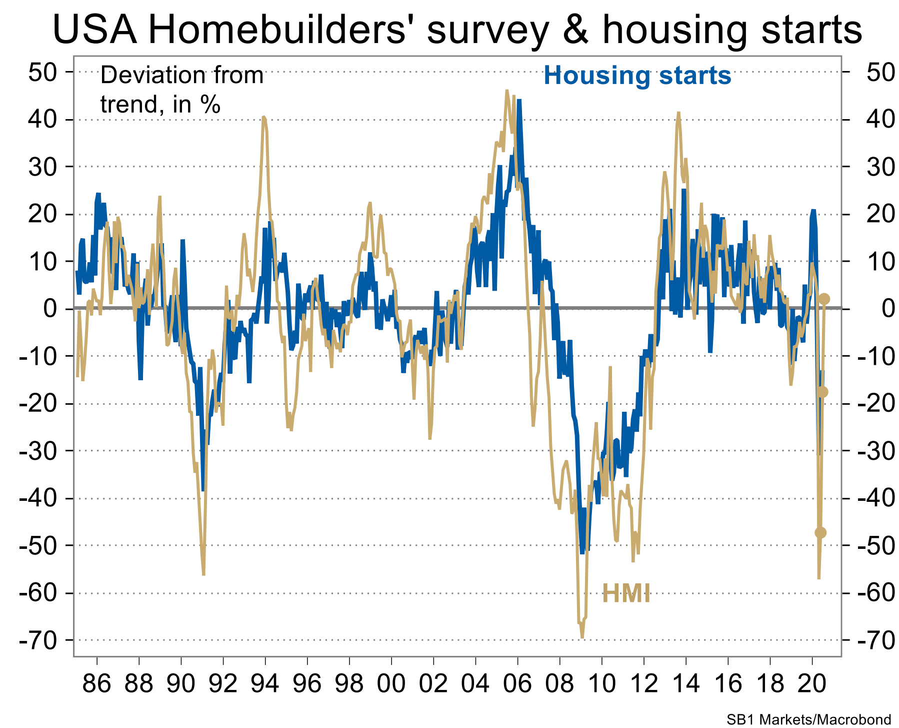
Homebuilders index further up in July, signaling starts 'on trend'

The HMI rose sharply in June, to 72 from 58, expected up to 61. Signals a 15% rise in starts



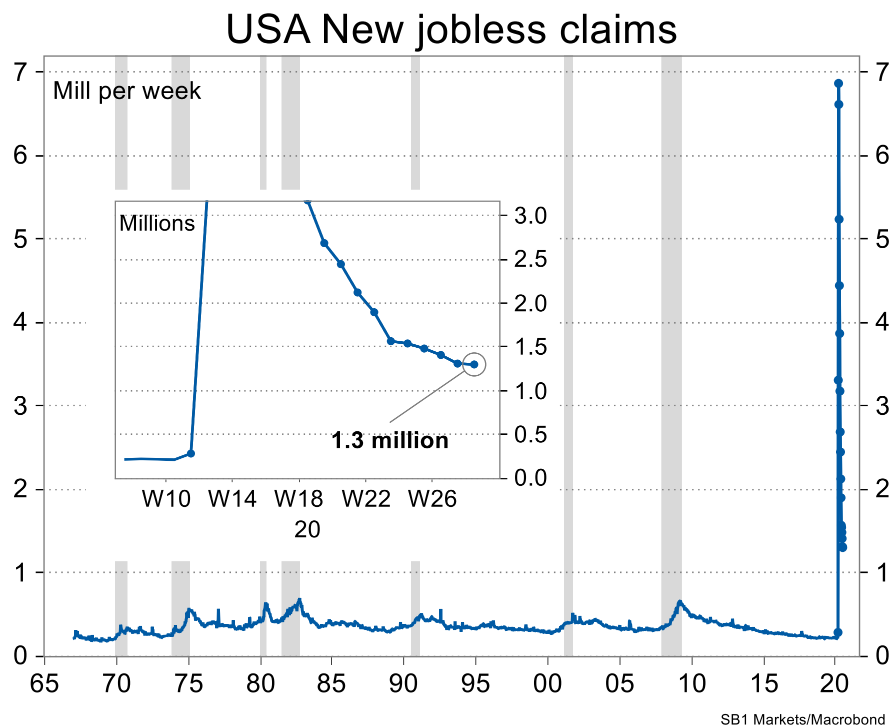


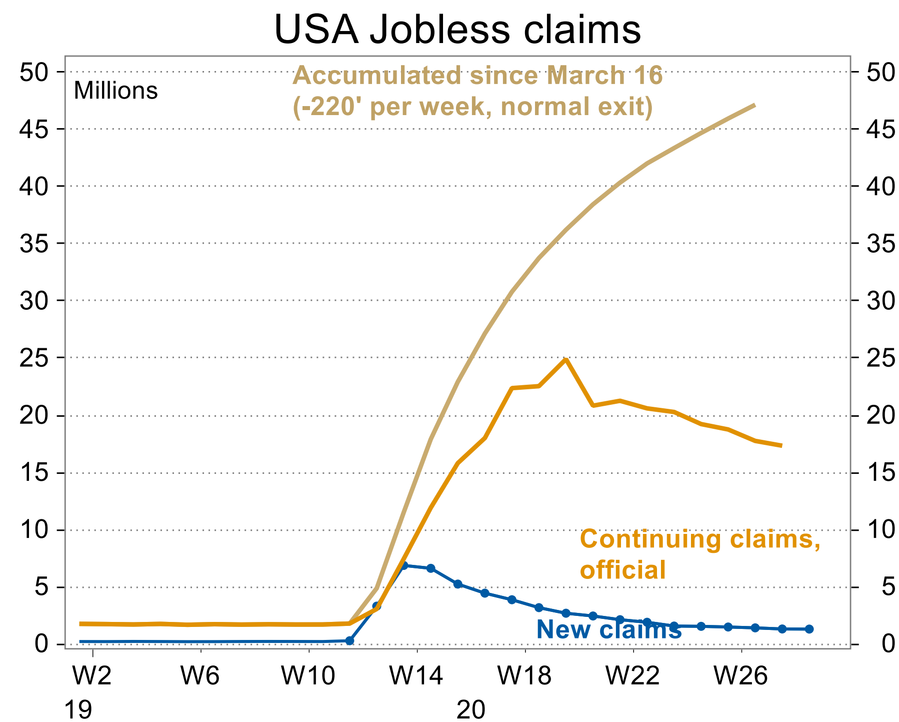
- The HMI is not a PMI, of course ☺, and it correlates better to the housing start level than to growth in the sector.
- At the current level, the Housing Market Index signals a 15% higher level than in June

HMI is a based on a sentiment survey of US homebuilders, in which the respondents rate housing market conditions at the present time and the next six months. The index ranges from 0 to 100. The index is closer correlated to the activity level, than to the growth rate, and does not have a 50 growth/decline waterline.

No further decline in new jobless claims, 0.8% are losing their job, per week

1.3 mill new jobbless claims, just marginally down from past week, 0.8% of the lab. force, per week





- The inflow is abating, but far slower than expected the previous weeks, and almost nothing last week. The number, equalling 0.8% of the labour force is much higher than during any USA previous recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 17.5 mill. from 25 mill. but not further last week – and still 10.6% of the labour force remain on the dole

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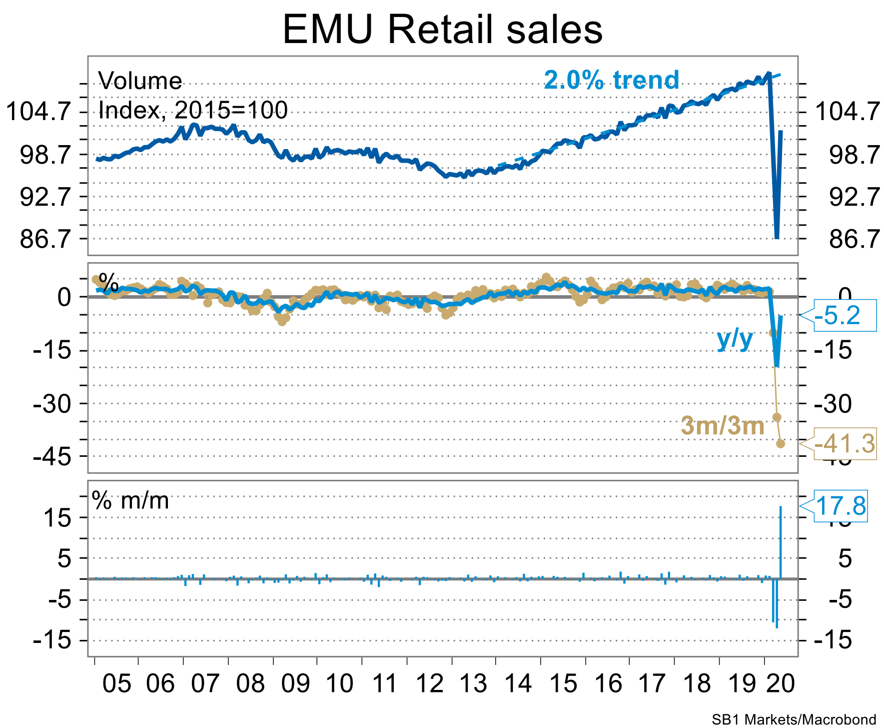
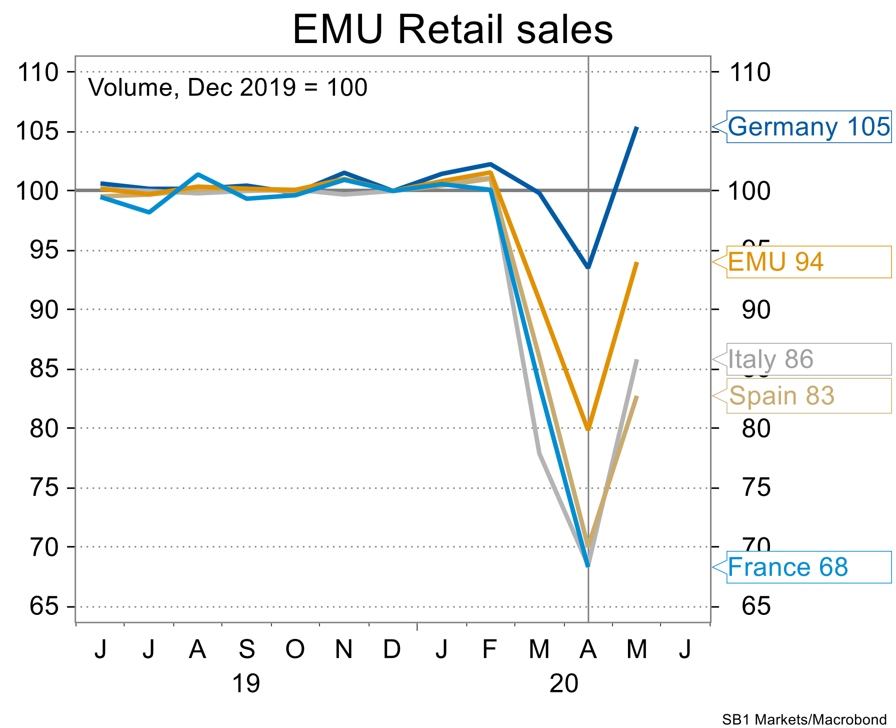
Retail sales up 18% in May, still 7% up to the pre corona level

Germany 5% above, Italy and Spain 14 – 17% below. France probably close to It/Sp

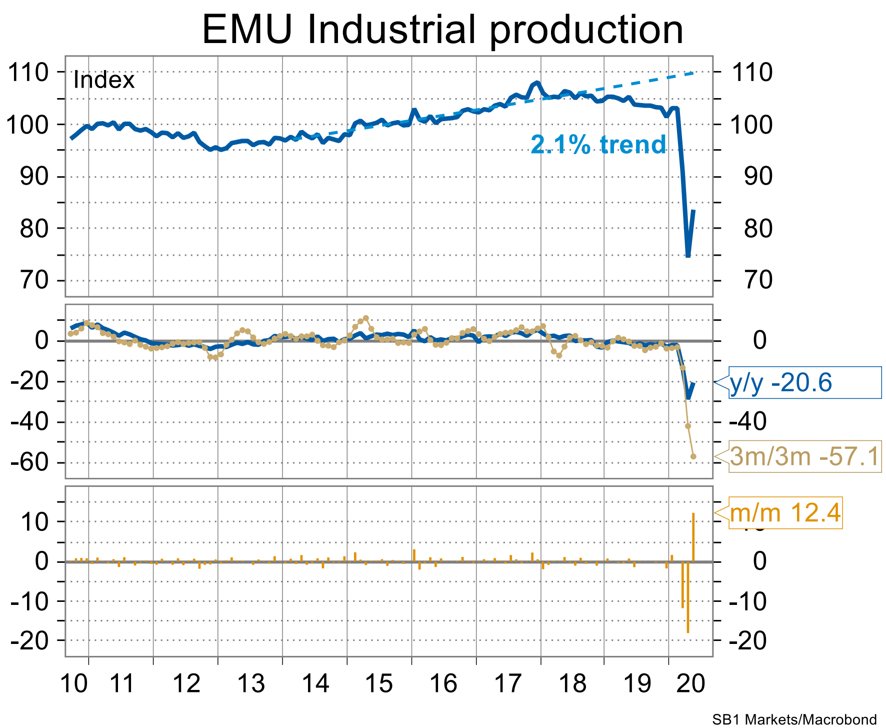


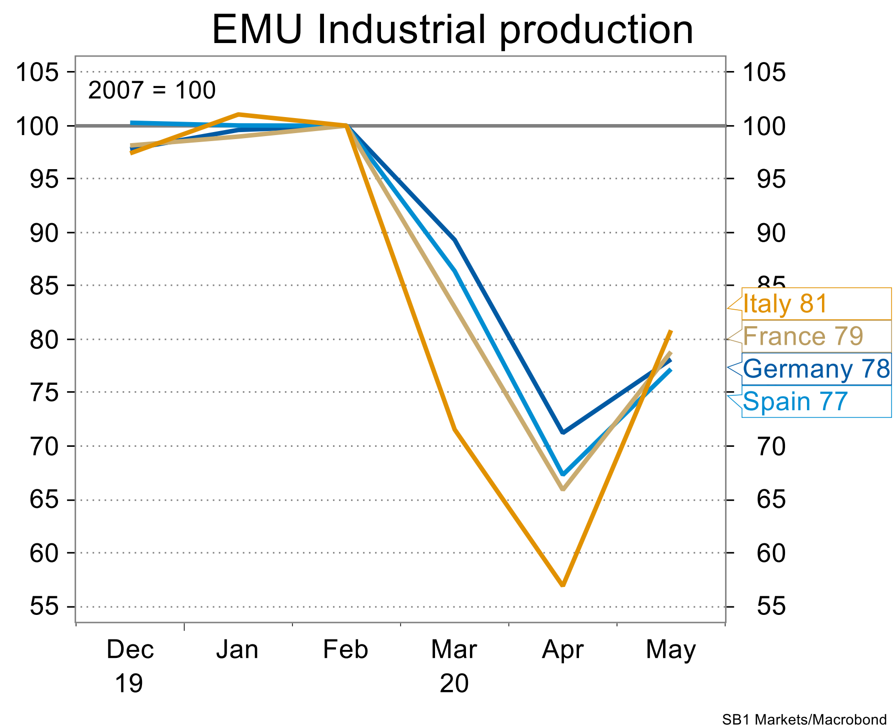


- We expect a further increase in June – and in July

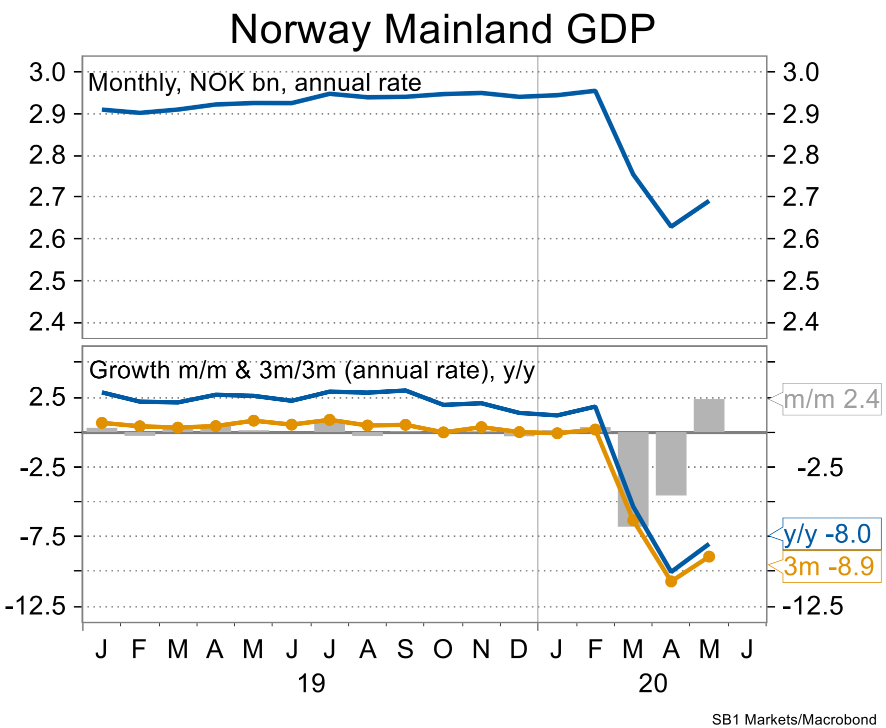
Manufacturing production up in May, still almost 20% below par

Italy came strongly back in May (+42%), though from a very low level – and still 19% below normal





GDP up just 2.4% in May, level 9% below the pre corona level



- Mainland GDP is down 9% to May from February, and it is down 8% y/y. We expect GDP to recover substantially in both June and July but not to reach the pre corona level anytime soon
- <u>On the demand side:</u>
  - » Private consumption rose in May but is still 16% below the level last Dec. Total household demand in Norway is down 11%, of which 2/3rd due to lower demand from Norwegian households, and 1/3rd due to lower demand from foreigners (less tourists). Consumption of goods is up but consumption of services much more down
  - » Government demand rose sharply as kindergartens, schools and health services restarted
  - » Business investments rose marginally
  - » Exports fell further, as did imports

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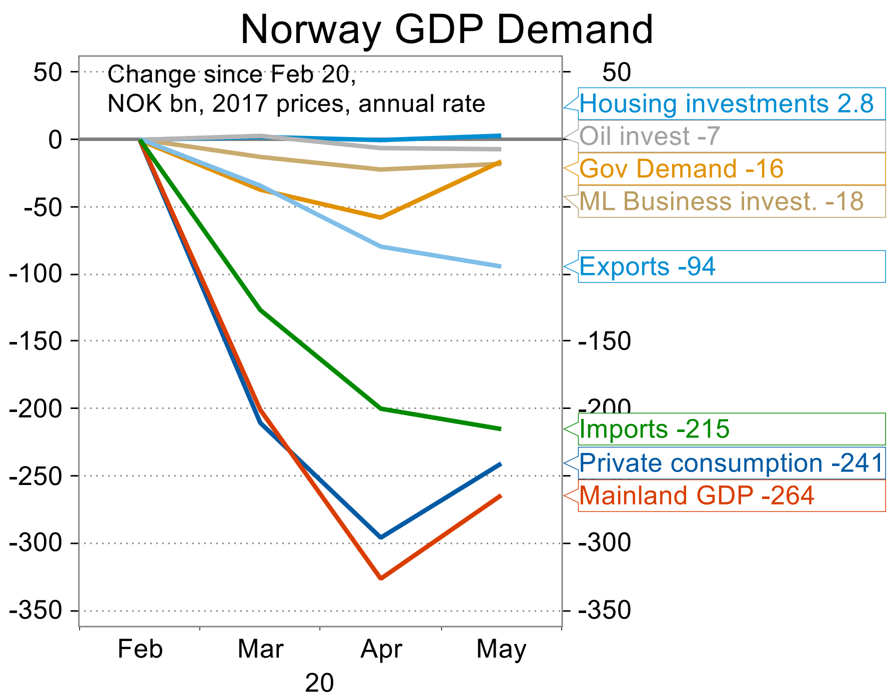
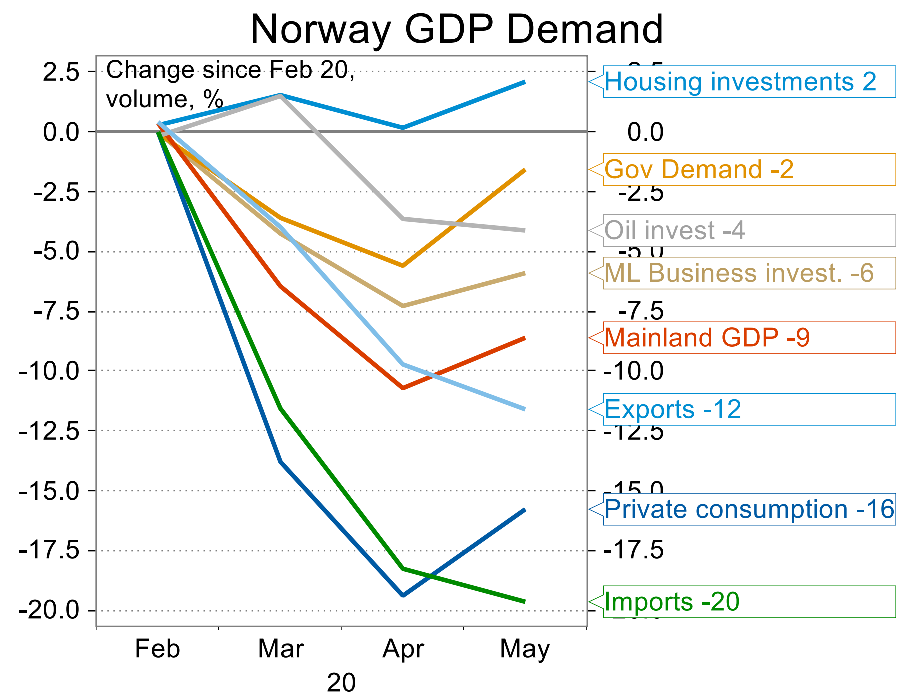
Most demand components, all still below the pre corona level

Private consumption the main drag, both in NOK and in % - even after a partial recovery in May



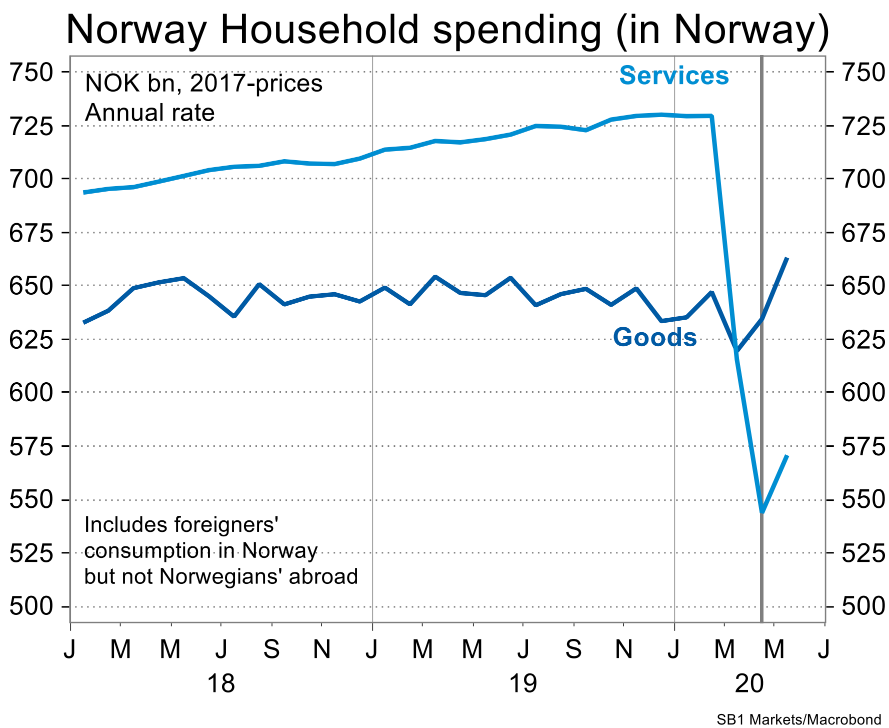
SB1 Markets/Macrobond



SB1 Markets/Macrobond

Consumption of goods up 2.5% from February, services down 22%

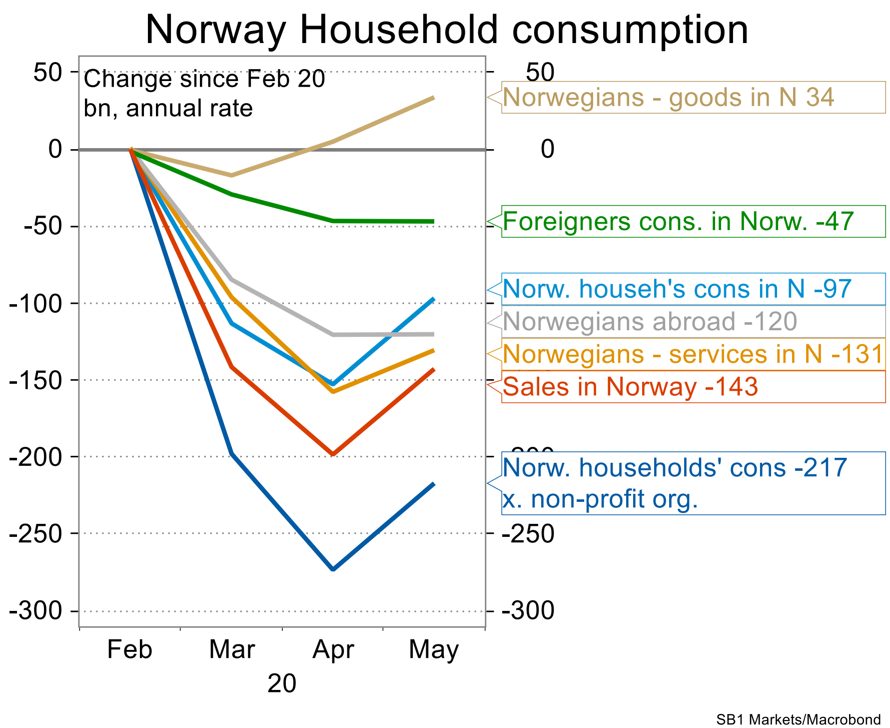
Thus: Total consumption sharply down

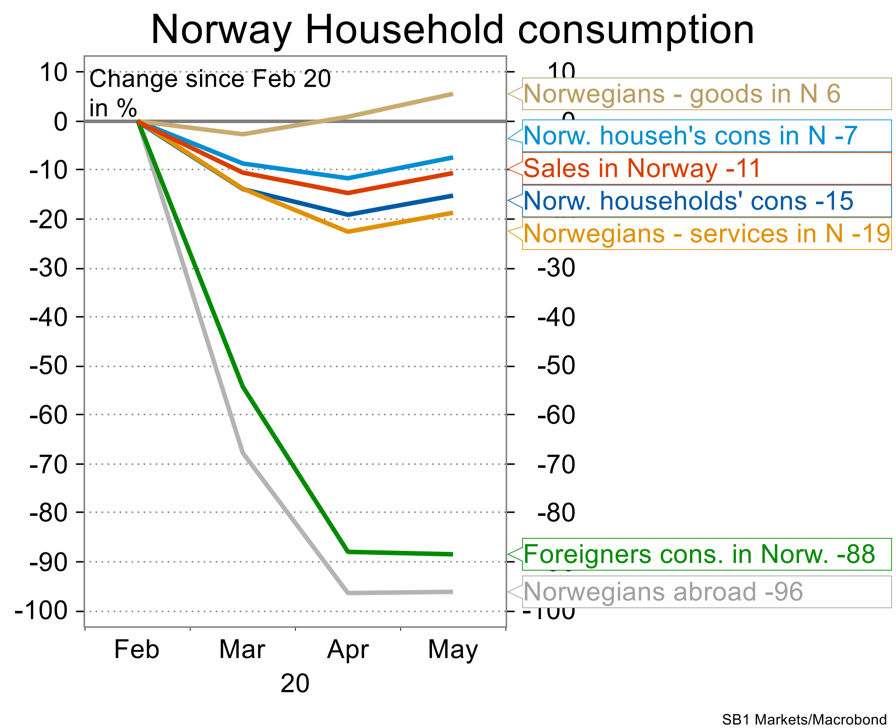


- Norwegian households have reduced their consumption abroad (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports, but less than the decline in imports)

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

Domestic consumption is down 7%, sales are down 11% due to the collapse in foreign demand

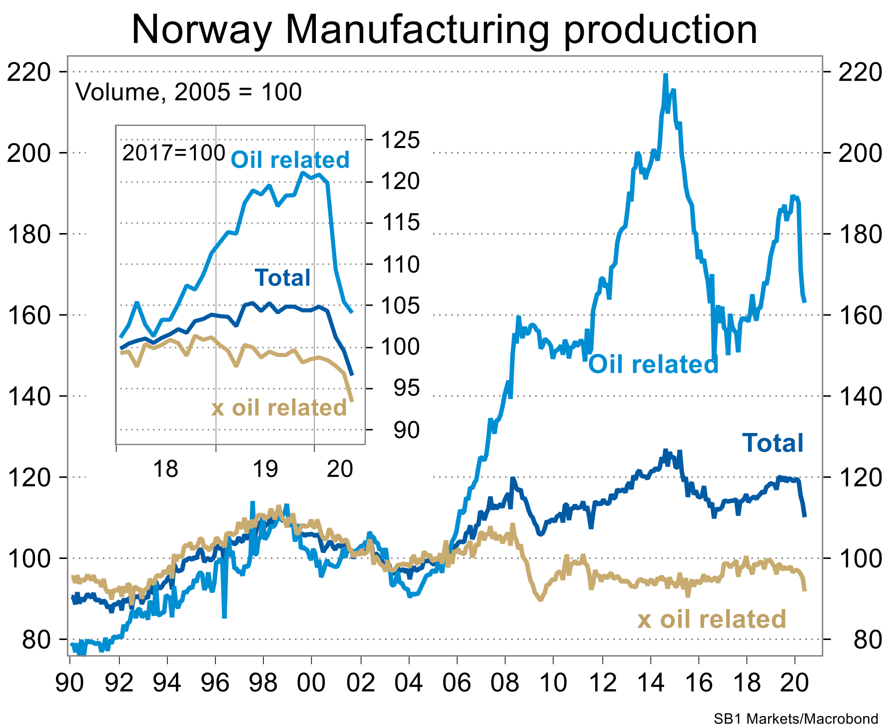




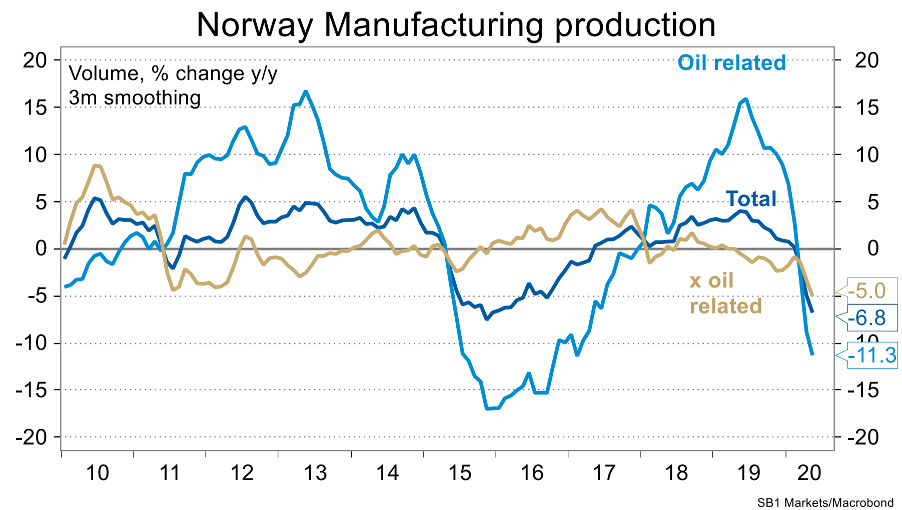
- Norwegian households have reduced their consumption by 15% or 217 bn (annual rate) – of which 120 bn abroad (-96%) and 97 bn (-7%) in Norway. Their consumption of goods is up 6% (34 bn), while their spending on services in Norway is down 131 bn or 19%!
- Sales of goods and services in Norway to Norwegians and foreigners are down by 11% or 143 bn – of which 47 bn due to lower demand from foreigners in Norway (down 88%) and 97 bn due to lower domestic demand form Norwegians (-7%)
- Norwegian households' consumption of services will increase sharply in June and July but will very likely remain below the pre corona level. In July, foreigners will start buying in Norway again – and Norwegians will buy more abroad

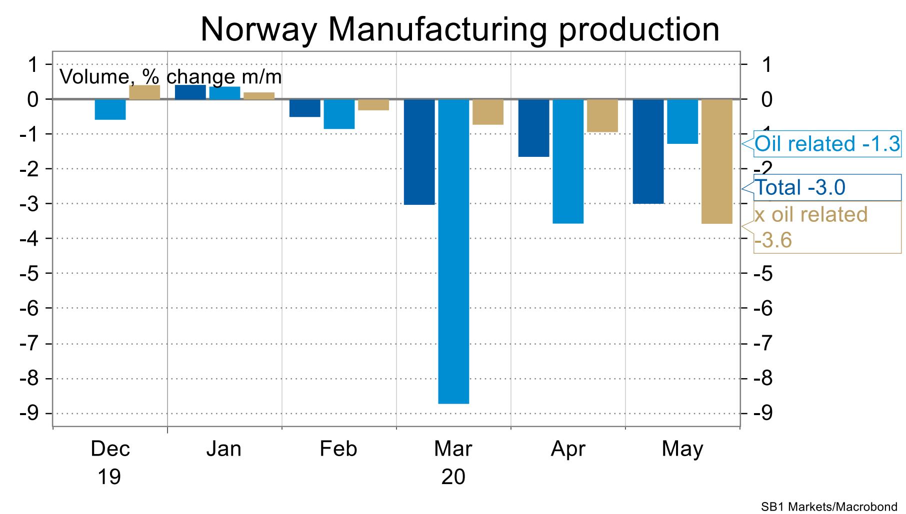
A broad manufacturing downturn – continued in May

Total production down 3% in May – and 8% since Feb. Oil related in the 'lead' but most sectors down



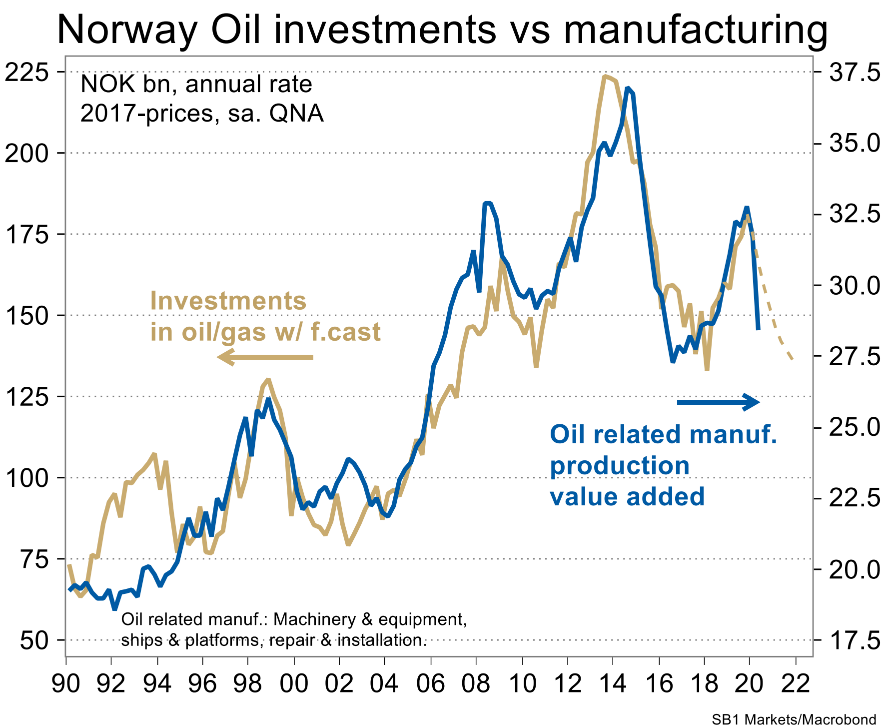
- Oil related manufacturing production has fallen by 14% since early 2020. Production in other sectors has fallen by more than 5%
  - » A substantial part of the decline in oil related production is probably behind us already, given reasonable forecasts for oil investments
  - » In other sectors, the downside should be limited, given the recovery in the global economy and no serious setback in Mainland demand, at least except ML business investments. However, the decline in exports is perhaps not yet reflected in production in some sectors
- Surveys signal a further decline in production, even if the June PMI not was far below the 50 line. Norwegian manufacturers will probably lag foreign producers on the way up, as they have lagged their peers on the way down





Oil related production has soon fallen enough?

Oil investments are heading down but oil related production has fallen quite a lot already



- Both oil sector investments and oil related manufacturing production peaked in Q4 last year, as we forecasted long time ago
- Oil companies have for a long period signalled a substantial decline in investments on the Norwegian shelf through 2020 and 2021 – and in the Q2 investment survey plans were revised further down
- The substantial tax cuts decide by the Parliament in June will no doubt reduce the decline in investments but we still forecast a substantial decline
- Oil related manufacturing production has fallen sharply since early 2020, and the downside is probably limited from the present level

The Calendar, week 30

In focus: The preliminary July PMIs. US Housing market. Norw. unemployment & manufact. survey

Time	Country	Indicator	Period	Forecast	Prior
Tuesday July 21					
14:30	US	Chicago Fed Nat Activity Index	Jun	4	2.61
Wednesday July 22					
02:30	JN	Manufacturing PMI	Jul P		40.1
08:00	NO	Housing starts	Jun		
16:00	US	Existing Home Sales	Jun	4.80m	3.91m
Thursday July 23					
08:00	NO	Unemployment Rate LFS/AKU	May	(4.5)	4.2%
08:00	NO	Industrial Confidence	2Q	(-15)	-17.5
09:30	SW	Unemployment Rate SA	Jun	8.7%	8.5%
14:30	US	Initial Jobless Claims	Jul-18	1280k	1300k
16:00	US	Leading Index	Jun	2.1%	2.8%
16:00	EC	Consumer Confidence	Jul A	-12	-14.7
Friday July 24					
08:00	UK	Retail Sales MoM	Jun	0.08	0.12
09:15	FR	Manufacturing PMI	Jul P	53.2	52.3
09:30	GE	Manufacturing PMI	Jul P	48	45.2
10:00	EC	Manufacturing PMI	Jul P	49.6	47.4
10:00	EC	Services PMI	Jul P	51	48.3
10:00	EC	Composite PMI	Jul P	51	48.5
10:30	UK	Manufacturing PMI	Jul P	52	50.1
15:45	US	Manufacturing PMI	Jul P	52	49.8
15:45	US	Composite PMI	Jul P		47.9
16:00	US	New Home Sales	Jun	700k	676k

- **Preliminary PMIs**
  - » All PMIs rose in June but less than they 'should' have – almost all PMIs remained below 50 even if production rose big time m/m in both manufacturing and services in May and very likely further in June. However, that's the normal way these surveys behave the first or second month of recoveries as companies smooth out their assessment to cover just not one month but 2 – 3 months. Still, in July, we are pretty sure most PMIs will pass the 50-bar and report growth, even in the US where the recovery may be slowed due to the many covid-19 outbreaks recent weeks
- **US**
  - » **The housing market** enjoys falling unemployment, and mortgage rates that is approaching 3%. New and existing home sales out this week
- **Norway**
  - » **The LFS (AKU) unemployment** rate will now gradually be able to measure the impact of the corona crisis as furloughed persons will be counted as unemployed after three months. Employment will decline as well. **SSB's Q2 quarterly manufacturing survey** will probably report continued challenges

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

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The Calendar, week 31

In focus: More July PMIs, US & EMU Q2 GDP. June retail sales/personal consumption

Time	Country	Indicator	Period	Forecast	Prior
Monday July 27					
10:00	GE	IFO Expectations	Jul		91.4
14:30	US	Durable Goods Orders	Jun P	11.0%	15.7%
14:30	US	Cap Goods Orders Nondef Ex Air	Jun P		1.6%
Tuesday July 28					
08:00	NO	Retail Sales MoM	Jun	(2)	2.8%
09:30	SW	Retail Sales MoM	Jun		0.5%
15:00	US	S&P CoreLogic CS 20-City MoM SA	May		0.3%
16:00	US	Conf. Board Consumer Confidence	Jul	99.8	98.1
Wednesday July 29					
09:00	SW	Consumer Confidence	Jul		84
09:00	SW	Manufacturing Confidence s.a.	Jul		89.1
14:30	US	Advance Goods Trade Balance	Jun	-$74.2b	-$74.3b
16:00	US	Pending Home Sales MoM	Jun		44.3%
20:00	US	FOMC Rate Decision (Lower	Jul-29	0.00%	0.00%
Thursday July 30					
01:50	JN	Retail Sales MoM	Jun		2.1%
08:00	GE	GDP SA QoQ	2Q P		-2.2%
11:00	EC	Economic Confidence	Jul		75.7
14:30	US	Initial Jobless Claims	Jul-25		
14:30	US	GDP Annualized QoQ	2Q A	-35.0%	-5.0%
Friday July 31					
01:50	JN	Industrial Production MoM	Jun P		-8.9%
03:00	CH	Composite PMI	Jul		54.2
03:00	CH	Manufacturing PMI	Jul		50.9
07:30	FR	GDP QoQ	2Q P		-5.3%
10:00	NO	Unemployment, NAV	Jul		4.8%
11:00	EC	GDP SA YoY	2Q A		-3.10%
11:00	EC	CPI Core YoY	Jul P		0.8%
14:30	US	Real Personal Spending	Jun		8.1%
14:30	US	PCE Core Deflator YoY	Jun		1.0%
14:30	US	Employment Cost Index	2Q	0.6%	0.8%
During the week					
08:00	GE	Retail Sales MoM	Jun		13.9%

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

Highlights

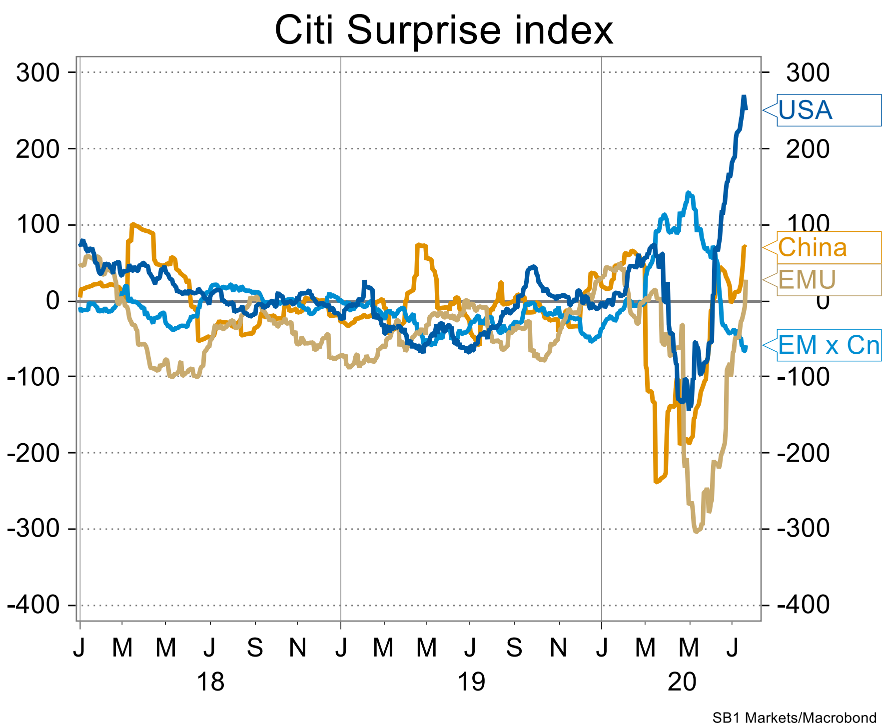
The world around us

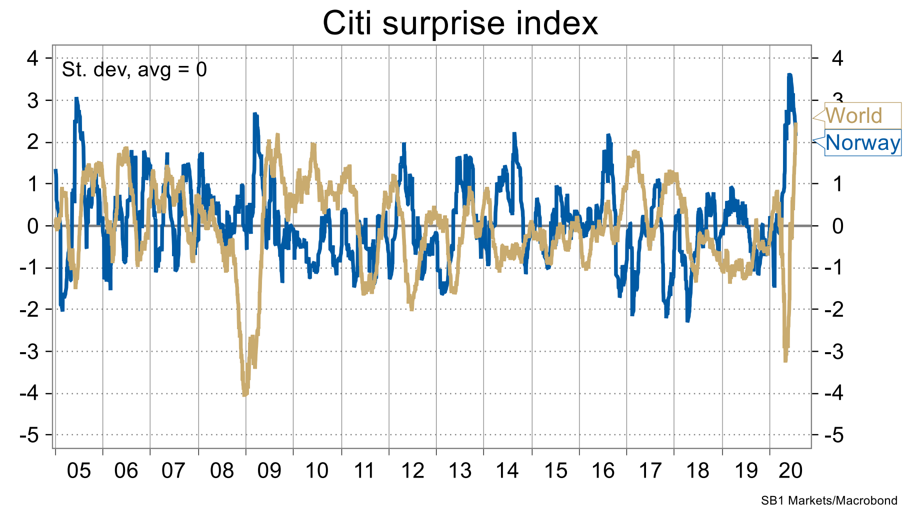
The Norwegian economy

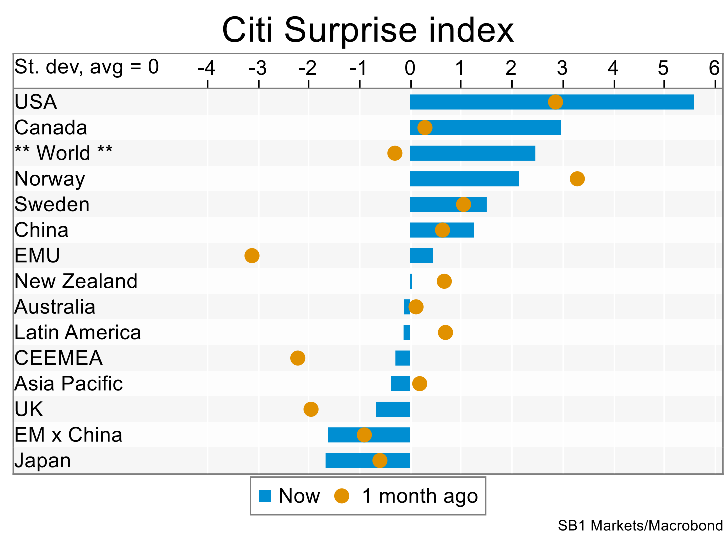
Market charts & comments

US is surprising 6 sigma at the upside?? Well, it ain't *that* strong

Date from the US has been stronger than expected, but the surprise index is exaggerating





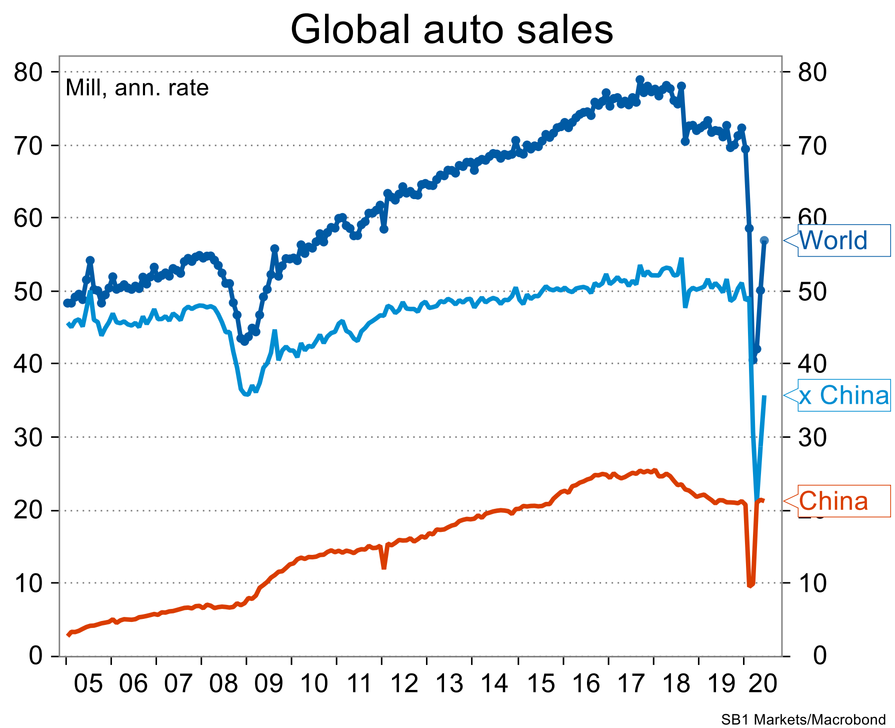


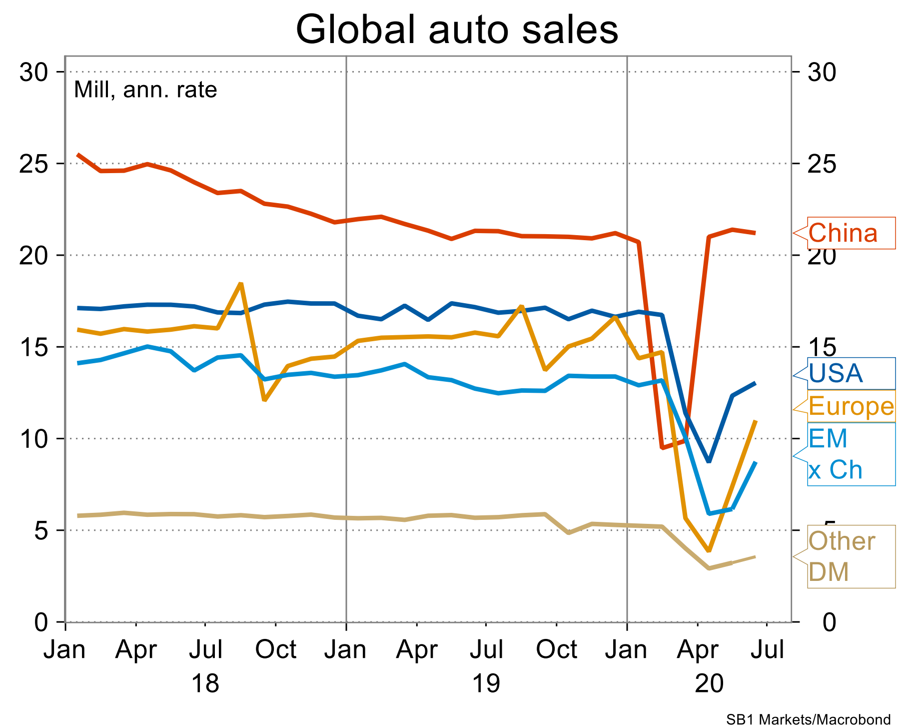
- US is surprising more on the upside than ever before (data from 2003)
- Norwegian data have not surprised more at the upside, ever, according to City
- China in positive territory, EMU has returned to neutral while EM x China surprises more on the downside

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

Global auto sales up everywhere in June, still 20% down vs pre corona

China back to normal for 3rd month in row, US down 23%, Europe 30%, EM x China even more

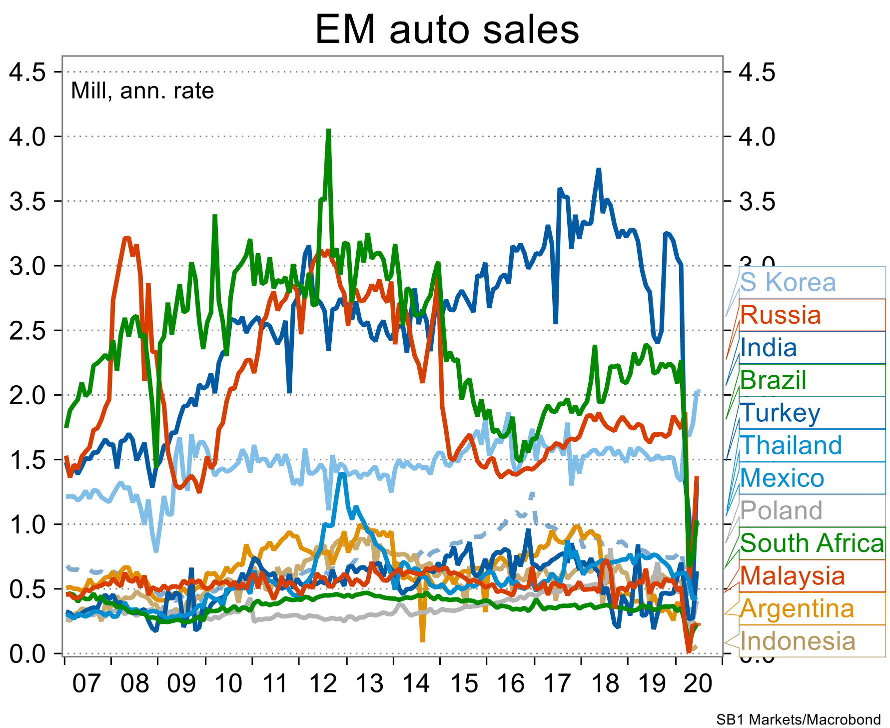


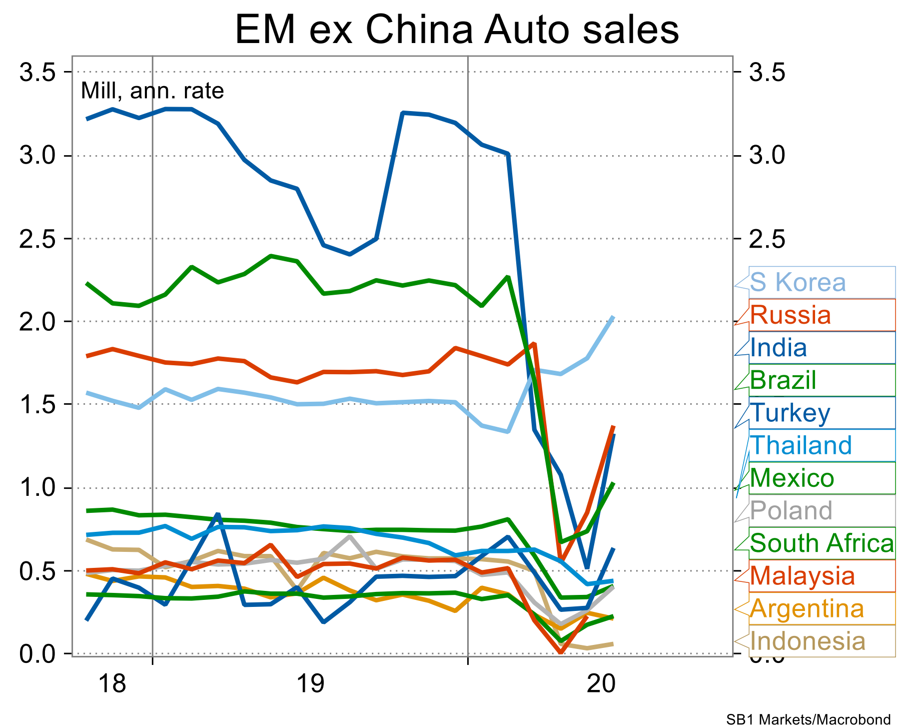


- Sales in China recovered big time in April, and returned to the pre corona level in one go – and have remained there. However, sales are still 15% below sales in late 2017 – and 30% below the pre 2018 trend path
- Sales in both US and Europe have recovered sharply from the April trough – but remain 23 & 30% below the pre corona levels, resp.
- Sales in EM x China rose sharply in June but are still 33% below the level at the beginning of the year

Emerging markets: Sales up almost everywhere – and record high in South Korea

However, sales in India are down 60%, Brazil 55% and Russia 20%, and the EM x China avg -33%





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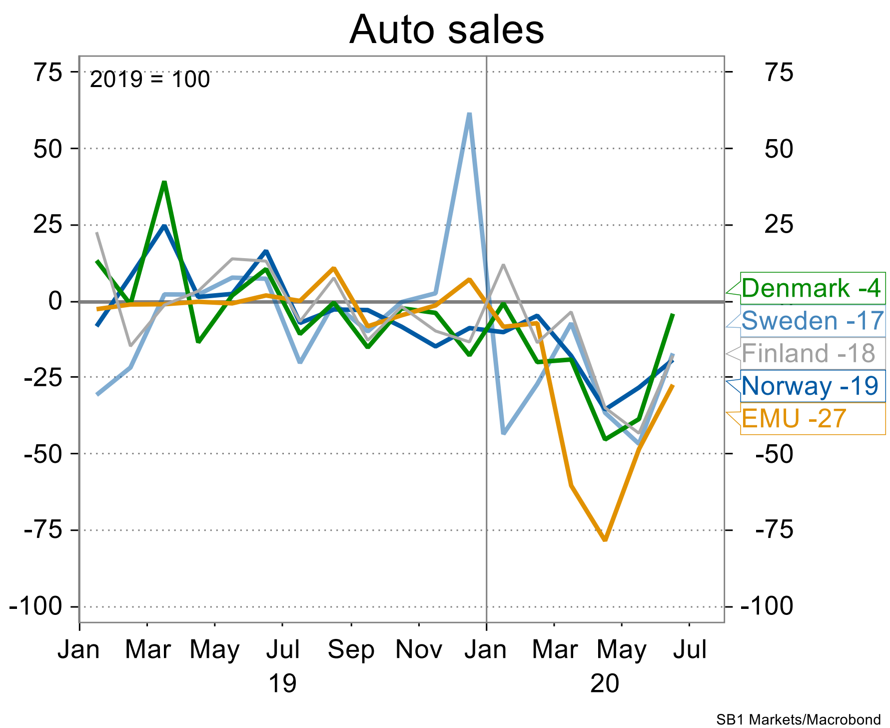
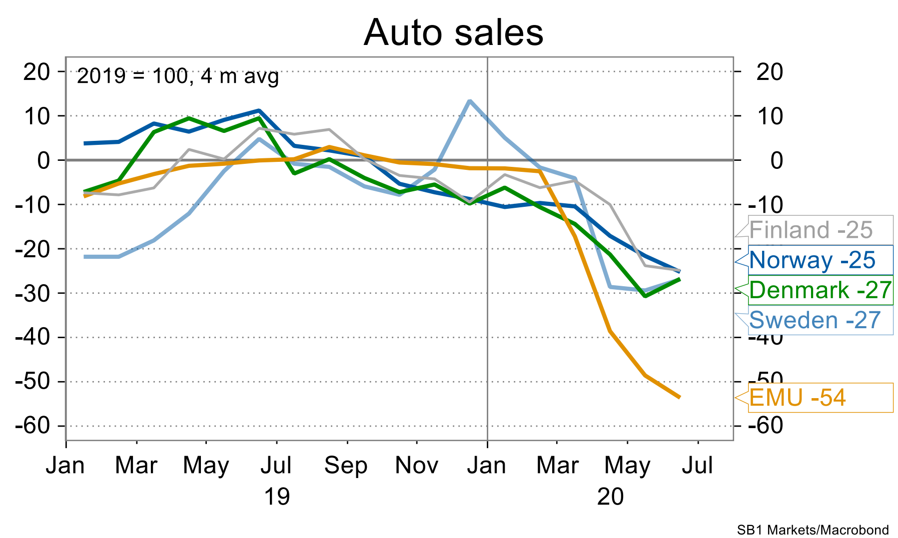
Nordic auto sales up too, still down 4 – 19% vs. the 2019 avg

Sales in the Nordics have kept up better than in European average

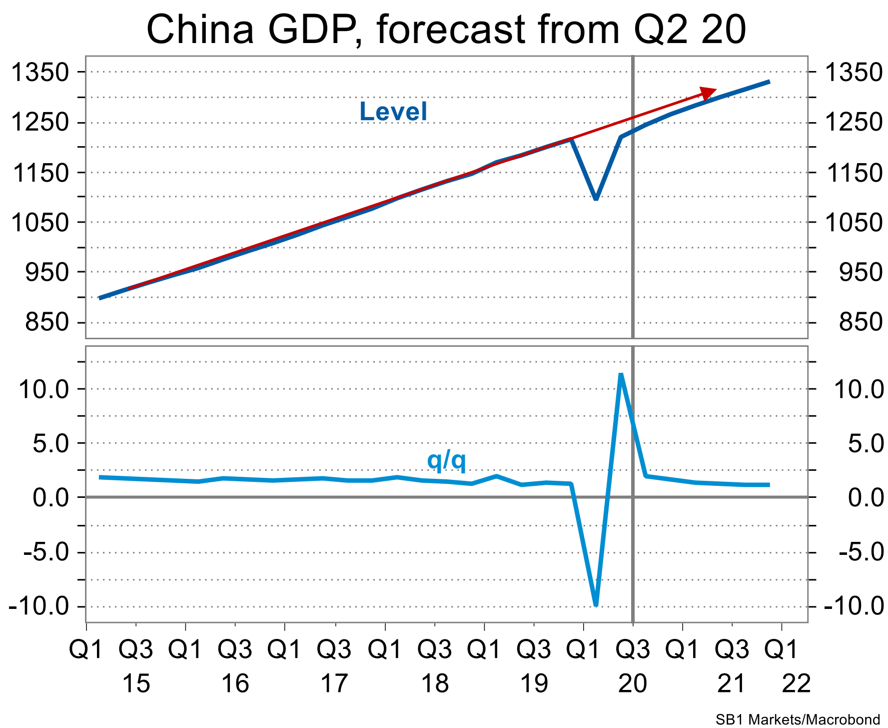


- No major differences between sales in the Nordic region during the 4 corona months (even if sales in Denmark were well ahead of the others in June), sales are down 25% vs. the 2019 average



Q2 GDP above the Q4-19 level and just 3% below the pre corona trend!

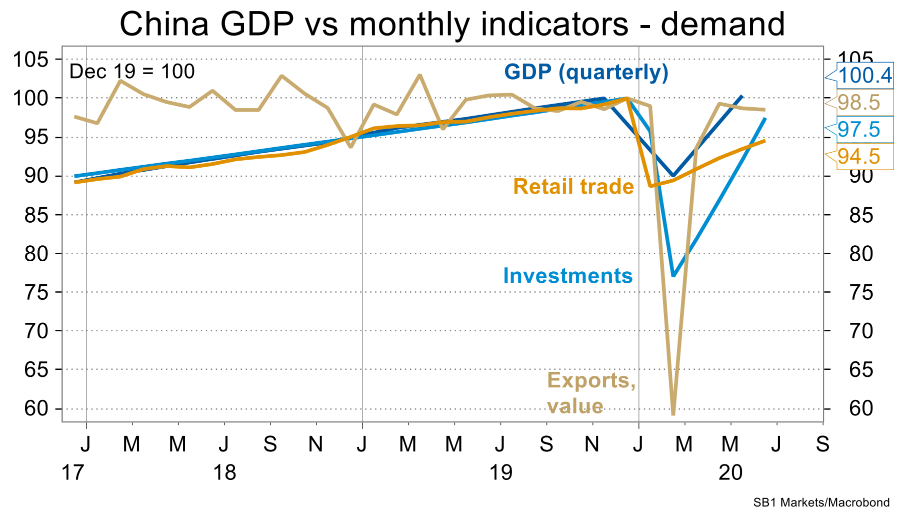
The recovery has been much quicker than we assumed some weeks ago, GDP up 11.5% in Q2

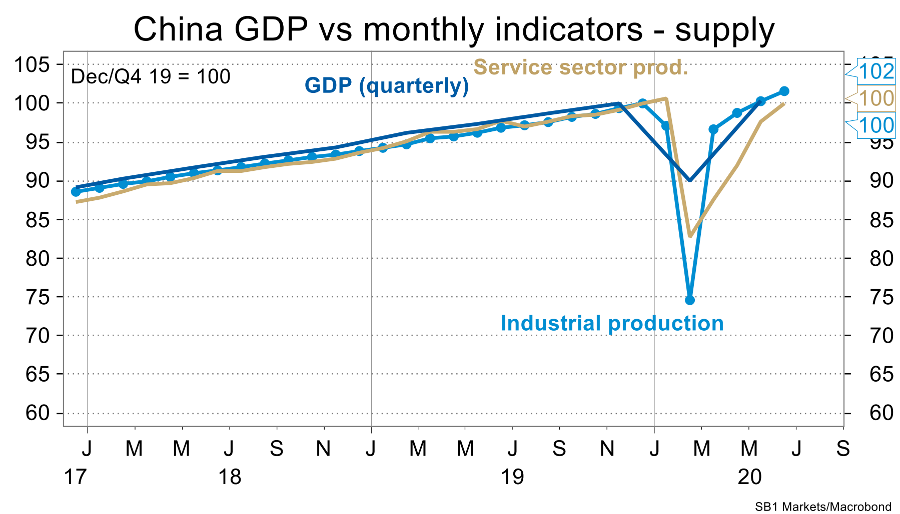


- GDP rose 2 pp more than expected

June monthly indicators OK too

Industrial production almost back on track, retail sales still lagging





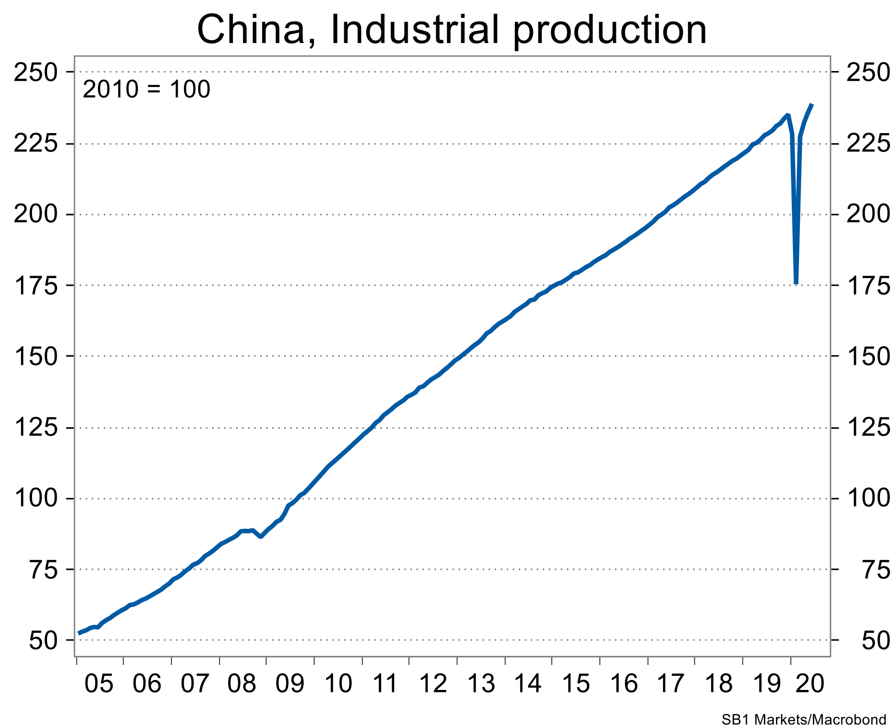
- **GDP rose 11.5% q/q in Q2, expected 9.5%, following the 9.8% setback in Q1**
  - » GDP was 0.4% above the Q4 level, and up 3.2% y/y vs the 6.8% decline in Q1 and is just 3% below the pre corona trend
  - » The recovery has been much quicker than we expected. There are no reasons to expect a market slowdown during the rest of 2020
- **Industrial production** rose 1.3%% m/m in June, and was up 4.8% y/y, as expected. Production just marginally below the pre corona trend. In Q2, production rose by 12%, following the 10% decline in Q1
- **Service sector** production rose 2.4% m/m in June, and was up 2.3% y/y –but is still 2.5% below the pre corona trend
- **Retail sales** rose 1.2% in volume terms in June, and for the 4th month in row. Nominal sales were down 1.8% y/y, expected +0.5%, up from -2.8% in May. Sales are still some 7% below the pre corona trend. Auto sales are confirmed back on track. Lower **CPI inflation** is supporting volume growth
- **Investments** rose another 5.9% in June, and are up 0.2% y/y but remains approx 5% below the pre corona trend path. New homes sales and starts are at record high levels
- **Exports** were a tad stronger than expected in June and is close to the pre corona trend. However, export surveys are still dismal. Imports rose sharply in June, and were 12% higher than expected, signalling firming domestic demand
- **Credit growth** slowed further in May but the longer term trend is still upwards, and the growth level is far above any long term sustainable path

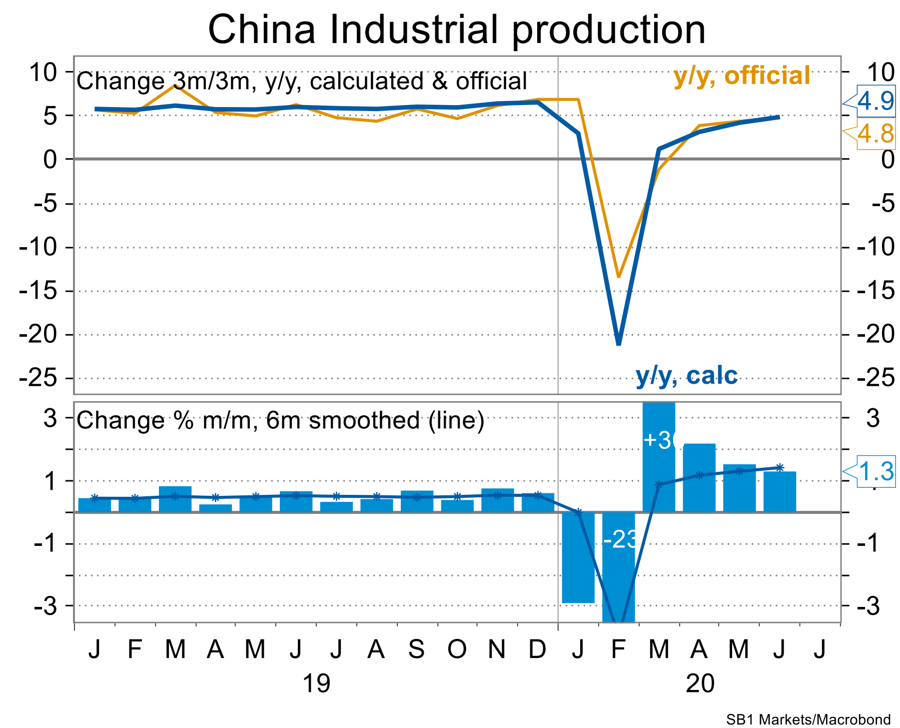
In sum: Final demand is still below the pre corona trend but the gap is narrowing. Industrial production seems to be strong vs. demand. The best news: The service sector is recovering rapidly

Some details at the following pages ☺

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

Production rose 1.3% m/m in June, well above trend growth. Up 4.8% y/y, as expected

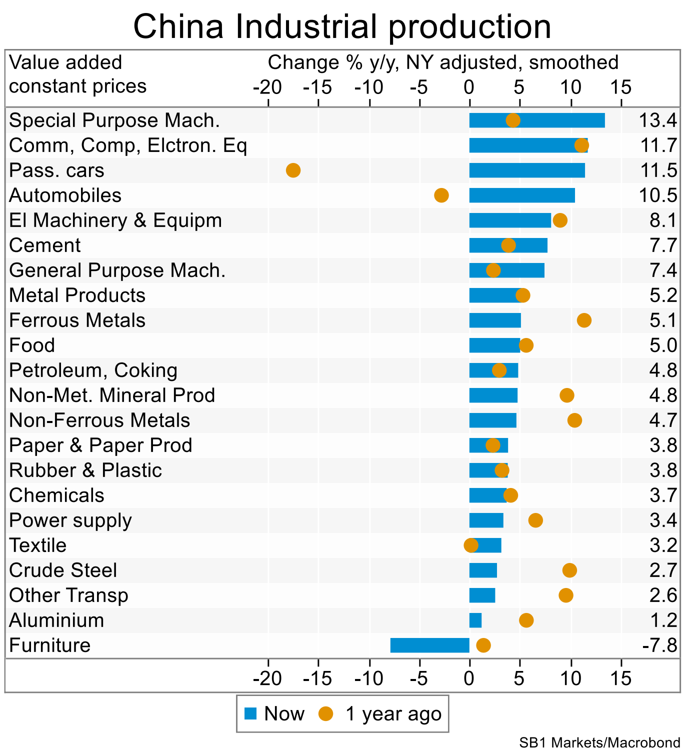




- Production is just 1% below the pre corona trend

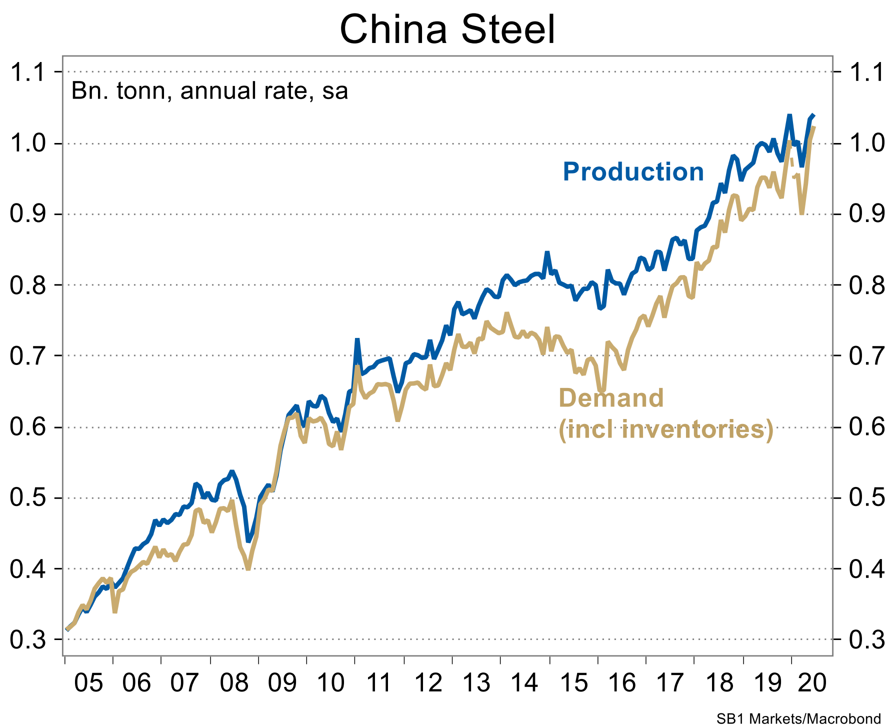
Almost all manufacturing sectors are up y/y. High tech in the lead

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



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

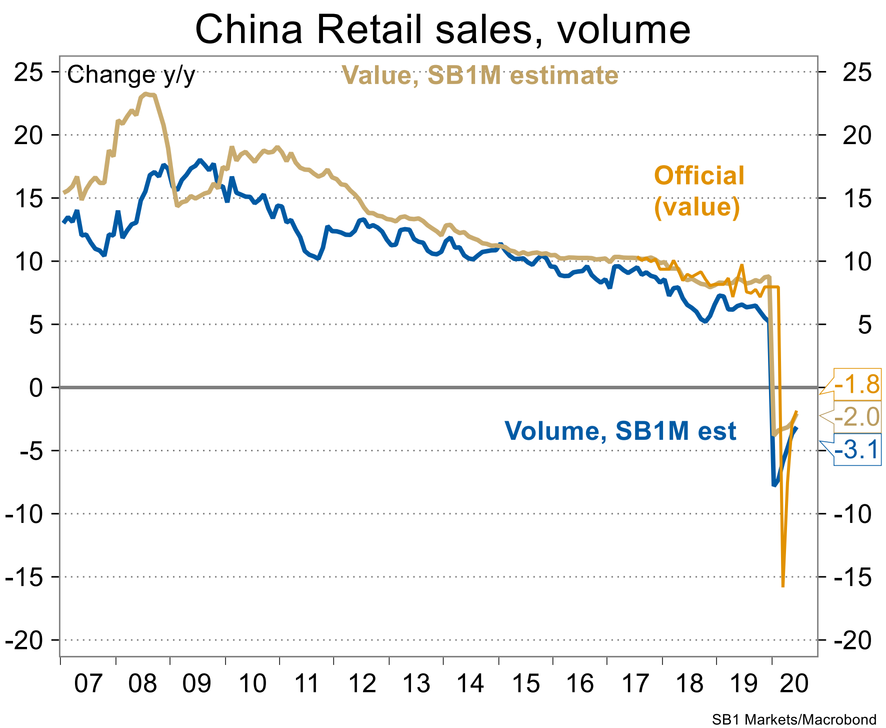
Construction starts almost back at normal level too

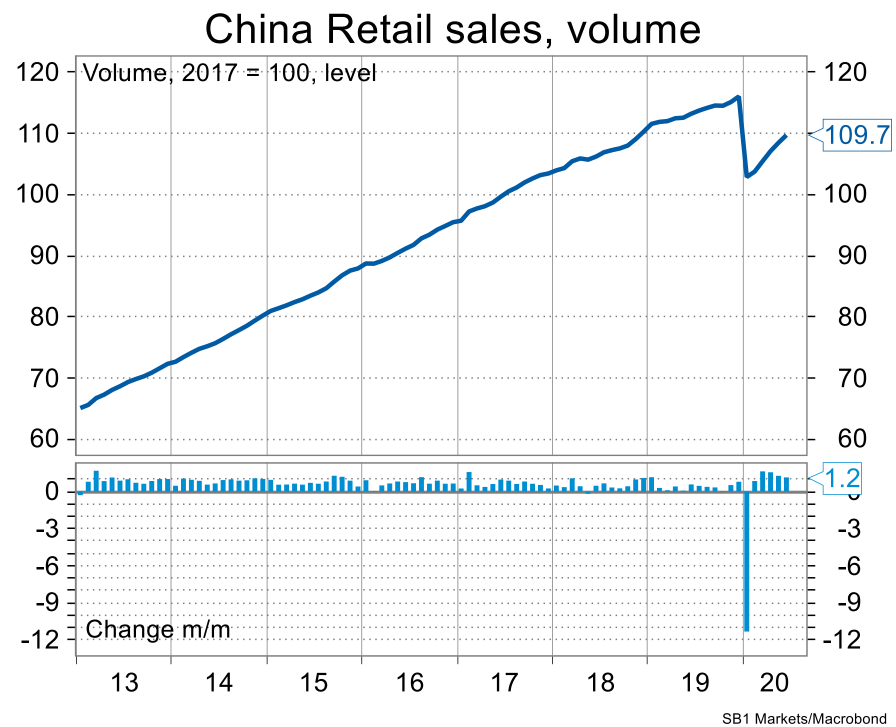


- Demand includes changes in inventories

Retail sales volume up 1.2% in June, still some 7 % below the pre corona trend

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

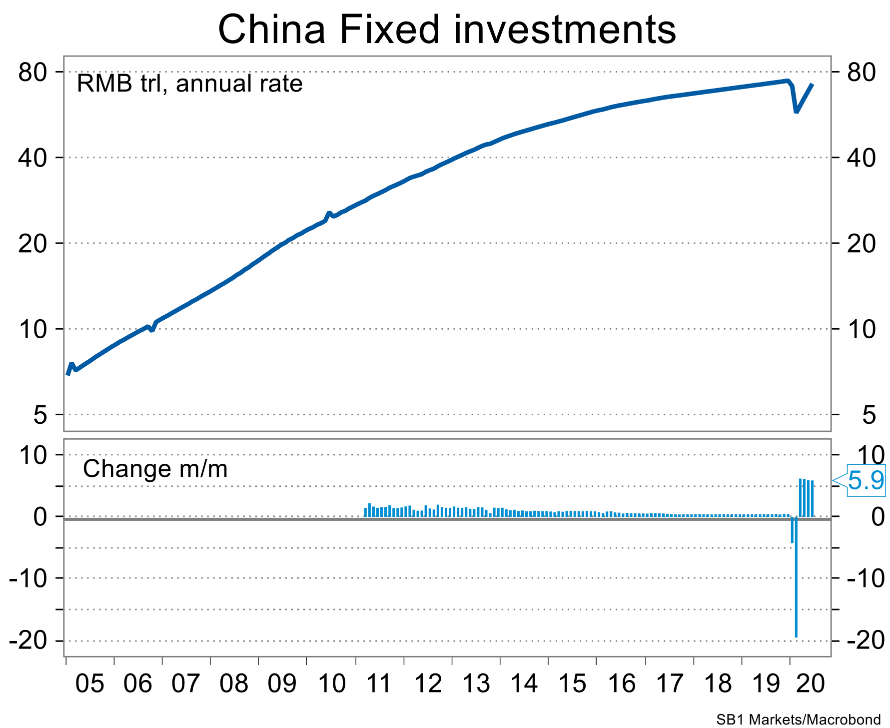




- The official value y/y at -1.8% was well below expectations (+0.5%) but the monthly volume growth rate at 1.2% is above normal – but not sufficient to close the gap to the pre corona trend anytime soon

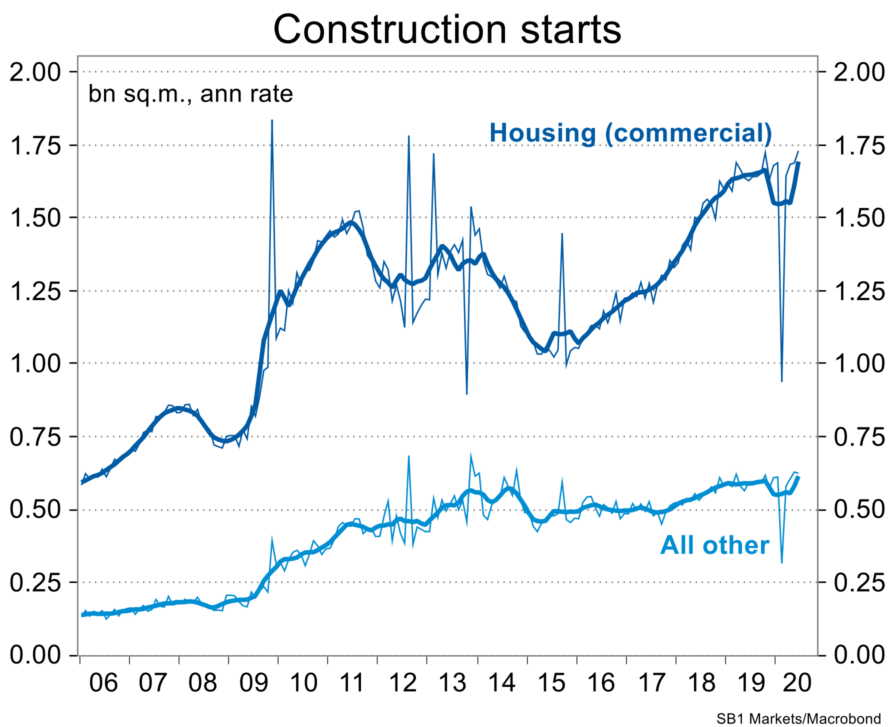
Nominal investments up 5.9 in June, still 5% below the pre corona trend

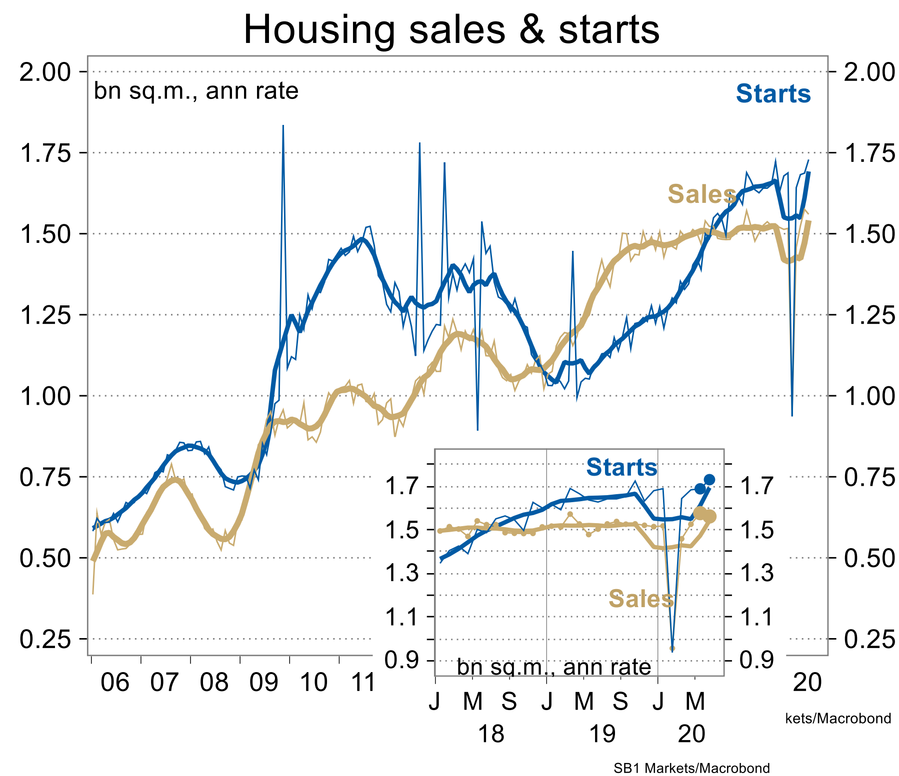
No narrow V here either – but the gap is closing, monthly growth rates are far above normal levels



Construction back to all time high

… following the 40 – 50% collapse in February

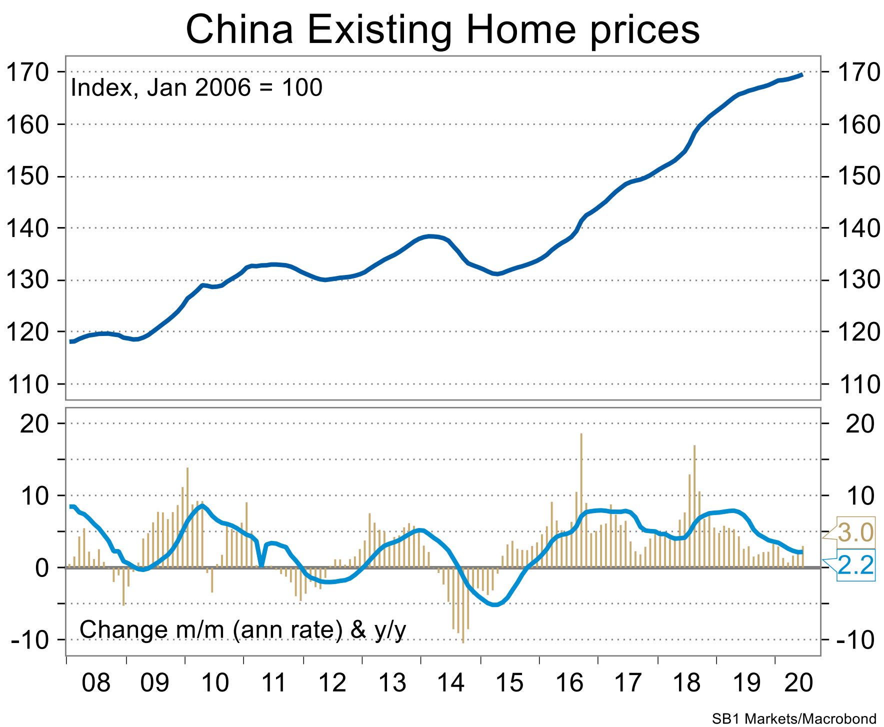


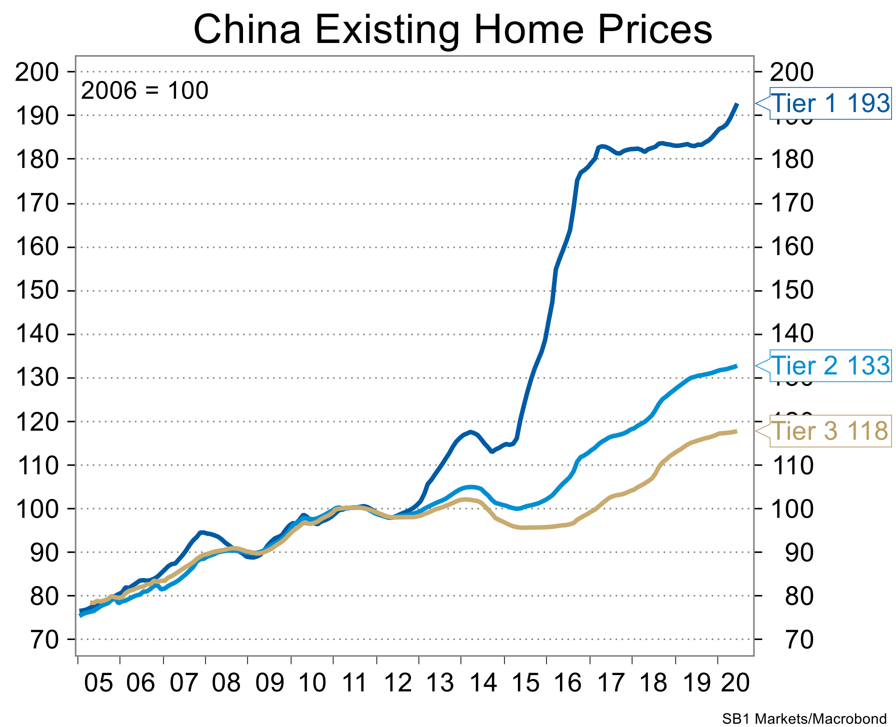


- In fact, just February was a disaster

House price inflation is accelerating somewhat, in the biggest cities

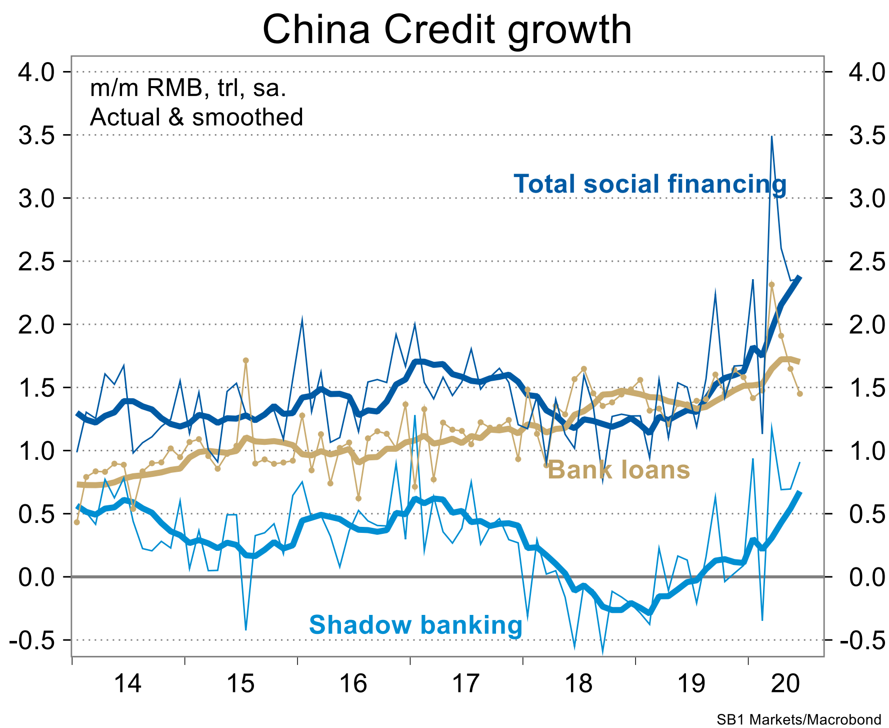
No corona shock to be seen, prices rose further m/m in May (at a 2.2% pace). Up 3.0% y/y

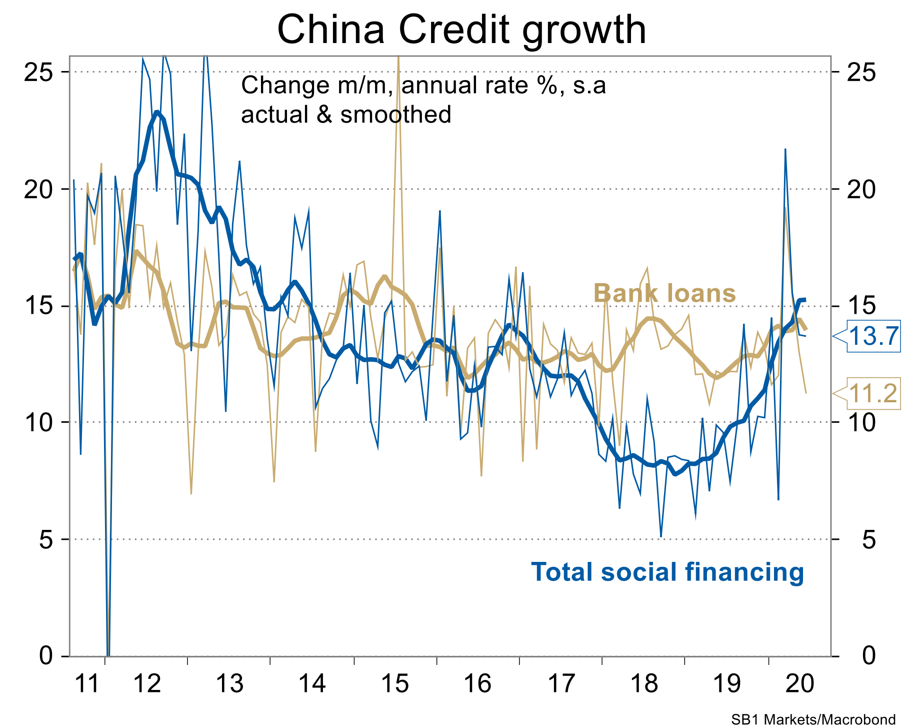




Credit growth slowed further in June but is still high

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

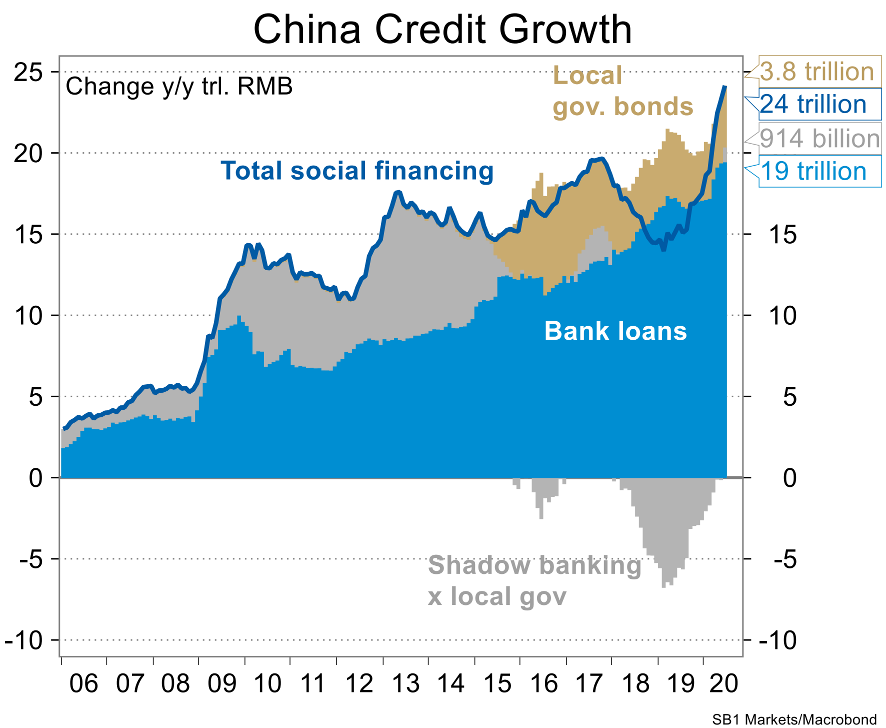


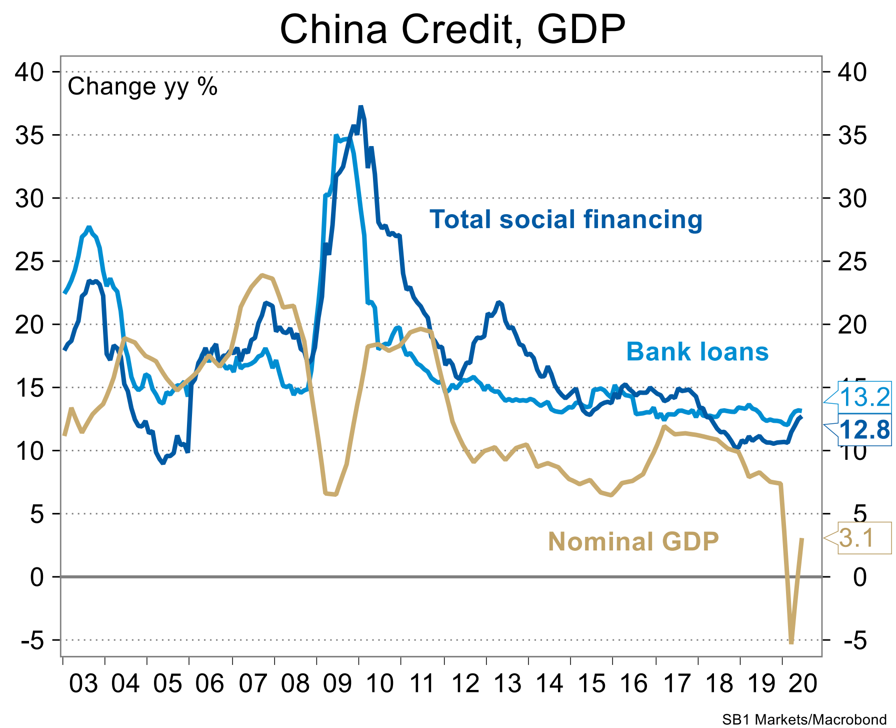


- Total credit growth slowed to a 13.7% pace in June, slightly lower than in May
  - » Total credit rose 3.4 bn RMB, expected 3.1 bn. Banks supplied most of the stuff but the shadow banking system contributed well too (1/3 of total)
- The underlying total credit growth has been accelerating since early ‘19, underlying growth up to 16%, from 7.5%, the highest since 2013
  - » Growth measured y/y credit growth accelerated to 12.5% (banks to 13.2). The credit impulse (acceleration in credit growth) is now clearly positive
- Authorities have no doubt been trying to support growth through the credit channel, even if the risks are considerable

Credit growth has accelerated over the past year

More bank lending, no more shadow banking contraction

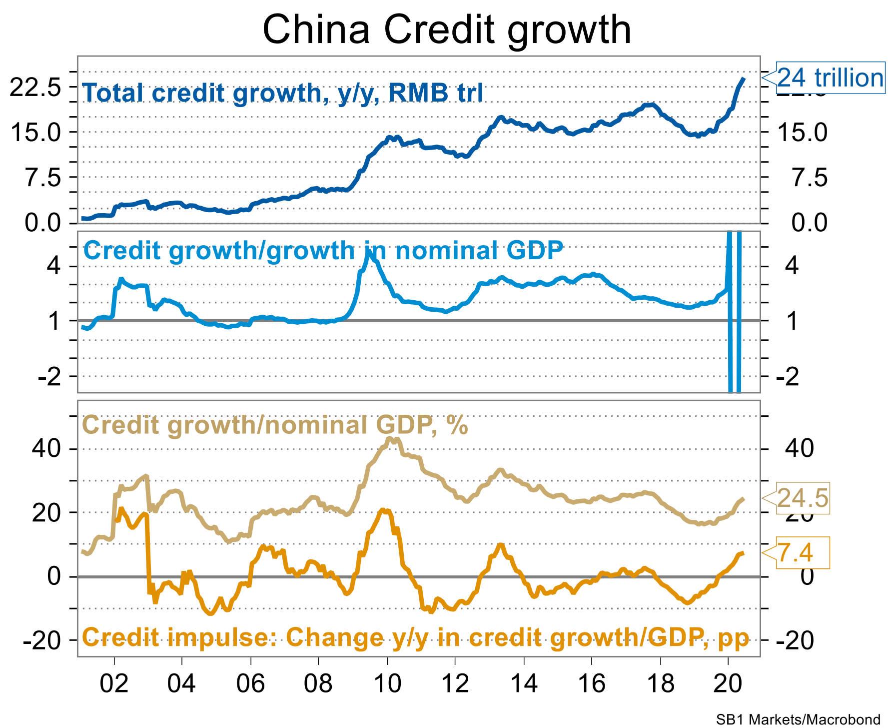


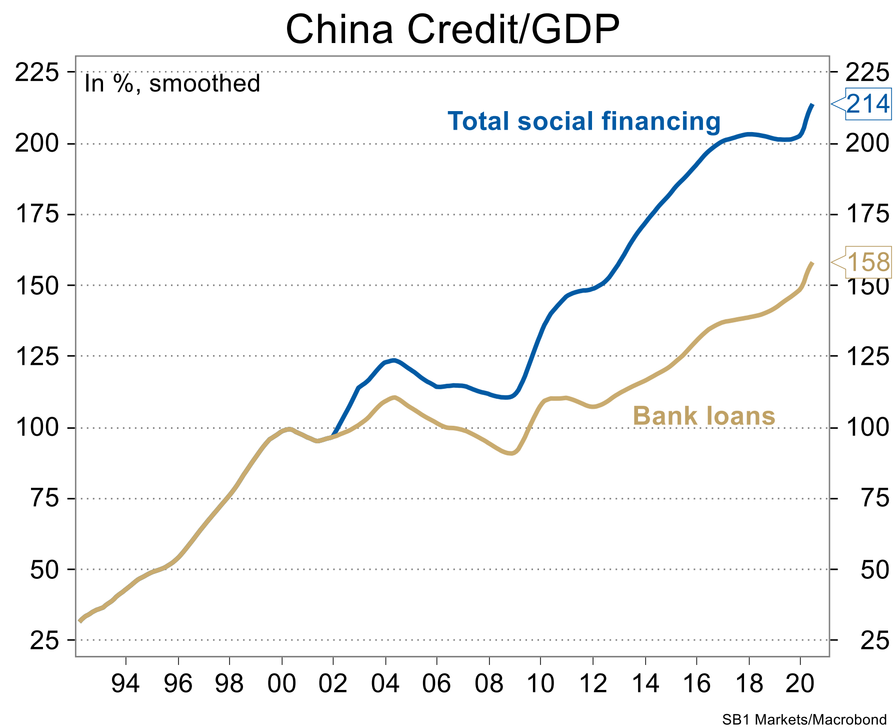


- Over the past year, total credit has grown by CNY 24 trl, equalling 25% of GDP (before the Q1 collapse)
- Banks supplied CNY 19 trl of the y/y increase
- Local governments has not yet accelerated their borrowing by much, at least not in the bond market, still up 3.8 bn y/y
- Other credit – via the shadow credit market x local gov bonds is now marginally up y/y
- Total credit growth at 12.5% is higher than growth in nominal GDP even before the corona chock

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

Credit growth is accelerating, whatever way we measure it

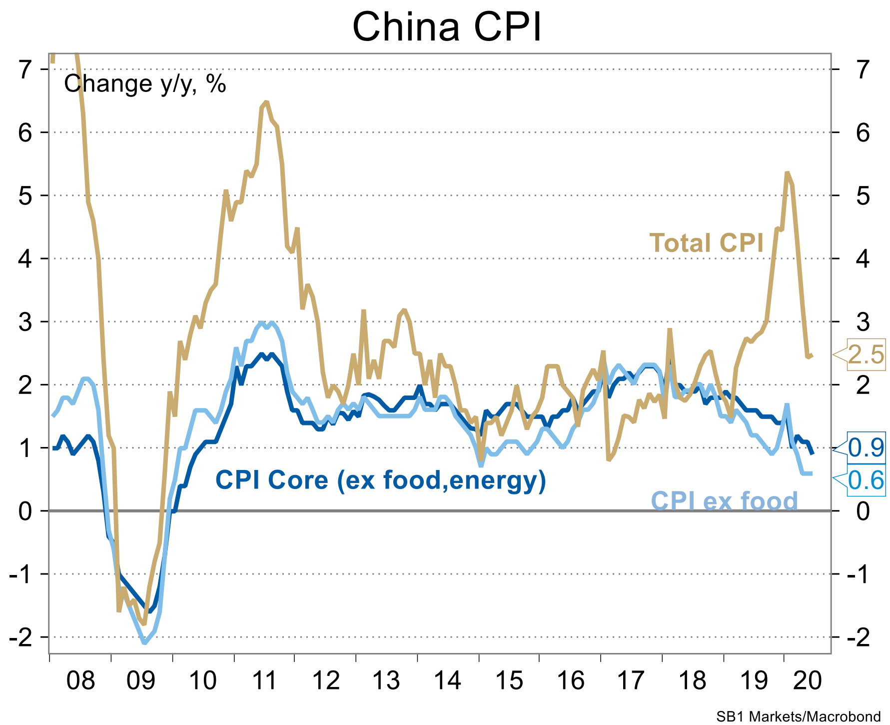


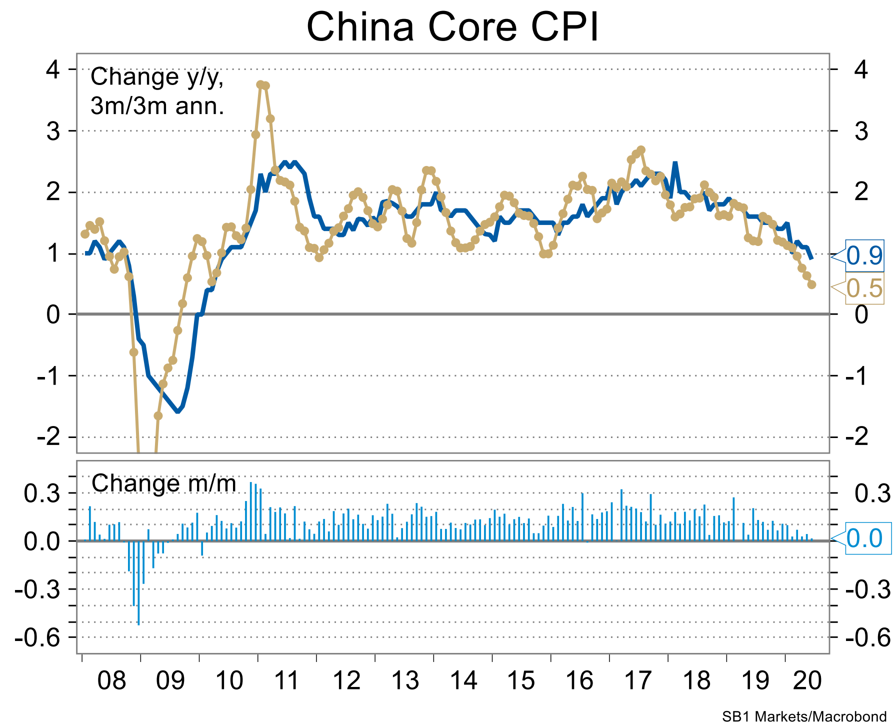


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - Now, the credit impulse has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

Inflation is slowing rapidly, core at 0.9%, drifting lower

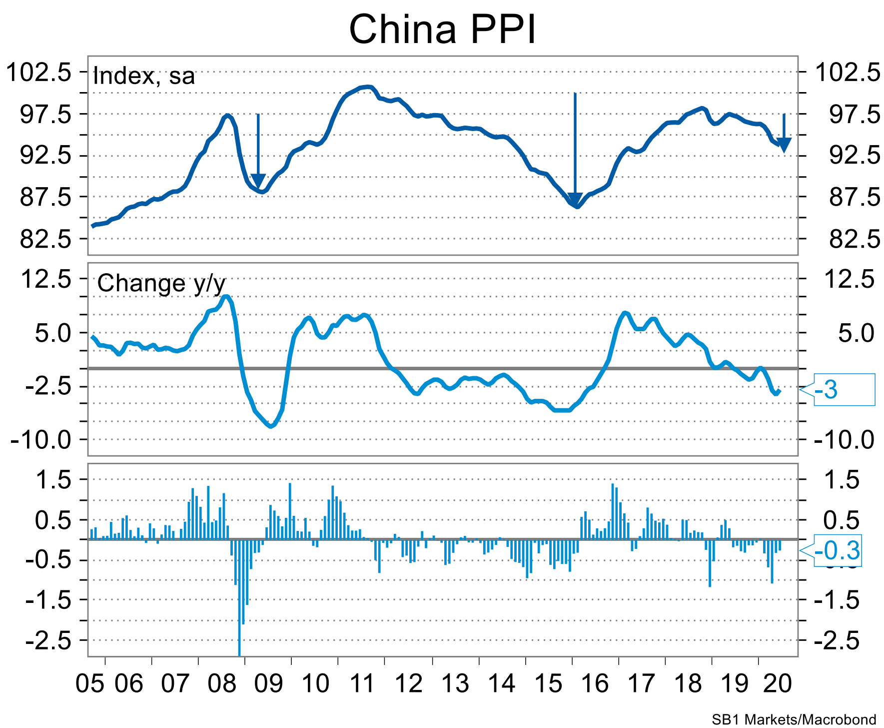
Headline CPI up 0.1 pp to 2.5% in June, has fallen from 5%+. Core too low for comfort?

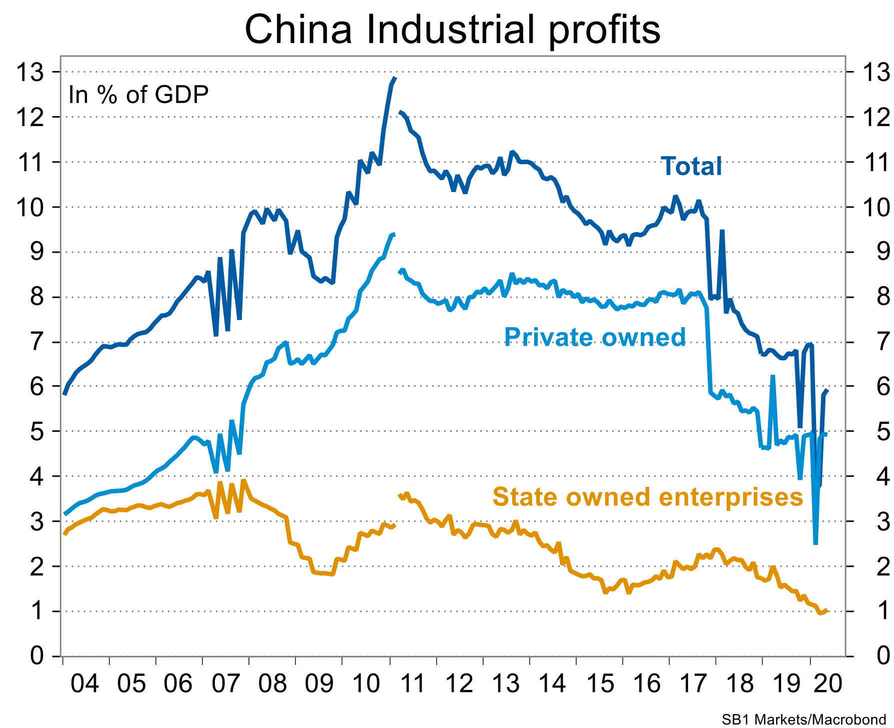




Producer prices are to the way down but not dramatic. Profits have stabilised

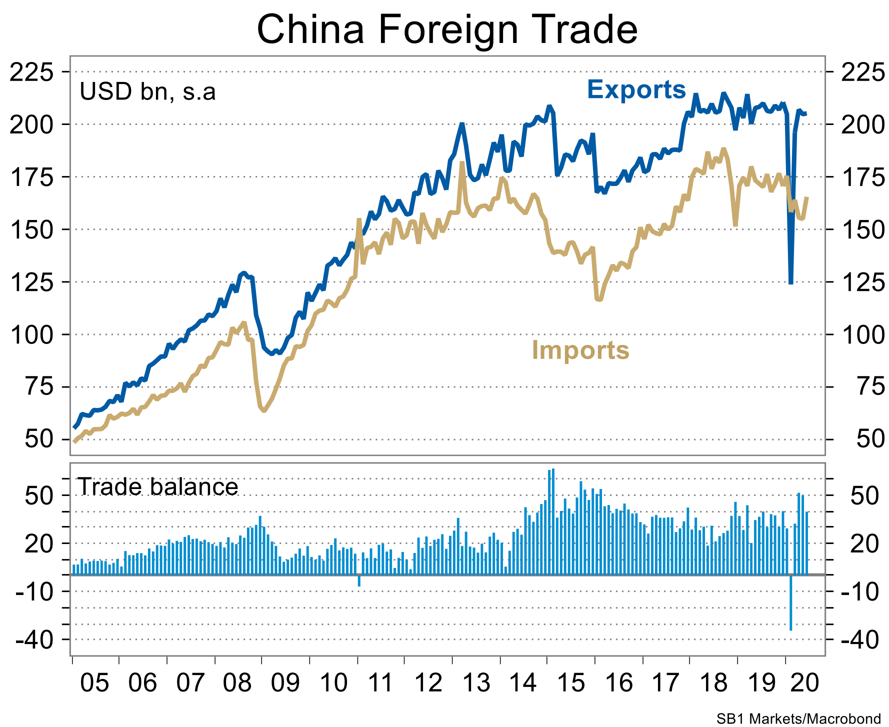
PPI down 3.0% in June but prices are not that much down





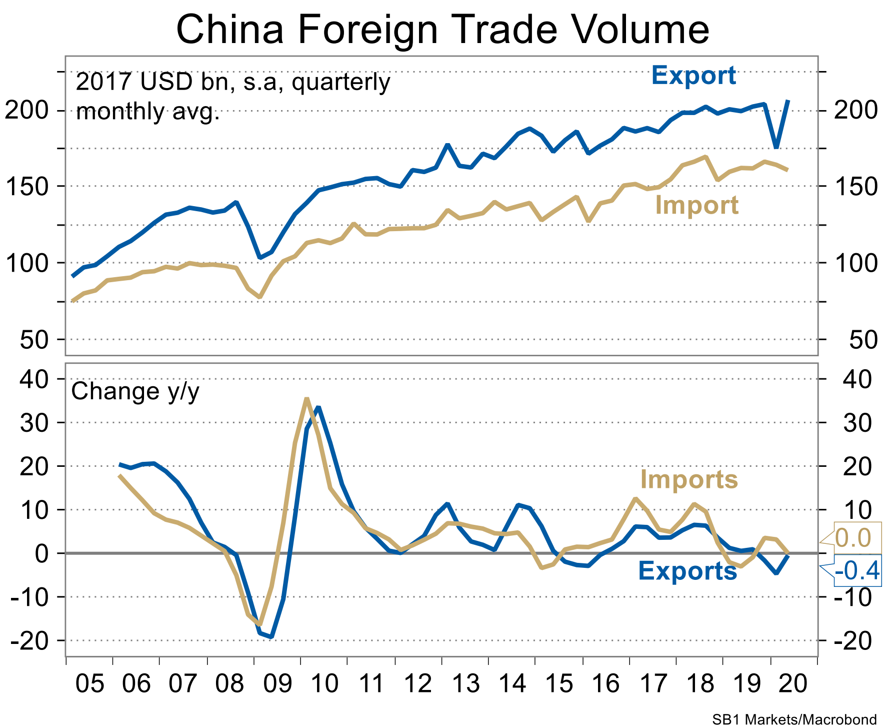
- The PPI peaked in late 2018 but is so far just some 4%. During previous setbacks, PPI s fallen up to 13% (and never less than 8%)
- Industrial profits in privately owed enterprises fell by 50% in February. Profits rose to a normal level in April and May – if we label the profit level in 2019 and early 2020 as normal - at 5% of GDP. Profits used to be far higher
- In state owned enterprises are falling and falling – and now quals less than 1% of GDP, half the level 2 years ago
- The decline in industrial profits is not the best argument for expecting a further recovery in business investments

Exports stable in May, imports up – and both are OK, in volume terms



- Exports collapsed during the lockdown in February (-40% m/m) but recovered in March and rose further in April and fell just marginally in May/June. Exports were up 0.5% y/y (in USD terms), expected -2%. In volume terms, exports are close to record high. Export surveys have recovered but are not yet signalling any growth
- Imports rose 2.7% y/y, expected down 9% - a miss at almost 12%, following a weaker than expected May print. Working days adjusted data are less volatile, and less upbeat, -4% y/y in June. Imports rose m/m in June but are so far clearly down in 2020 but not much, a clear indication that domestic demand has not collapsed. Imports are stronger measured in volume terms as import prices have been falling since early 2019
- The trade surplus fell to USD 40 bn in June, down from 50 bn the two previous months. The surplus has been larger than 'normal'

Exports were weak in Q1 (in February) but that all, folks

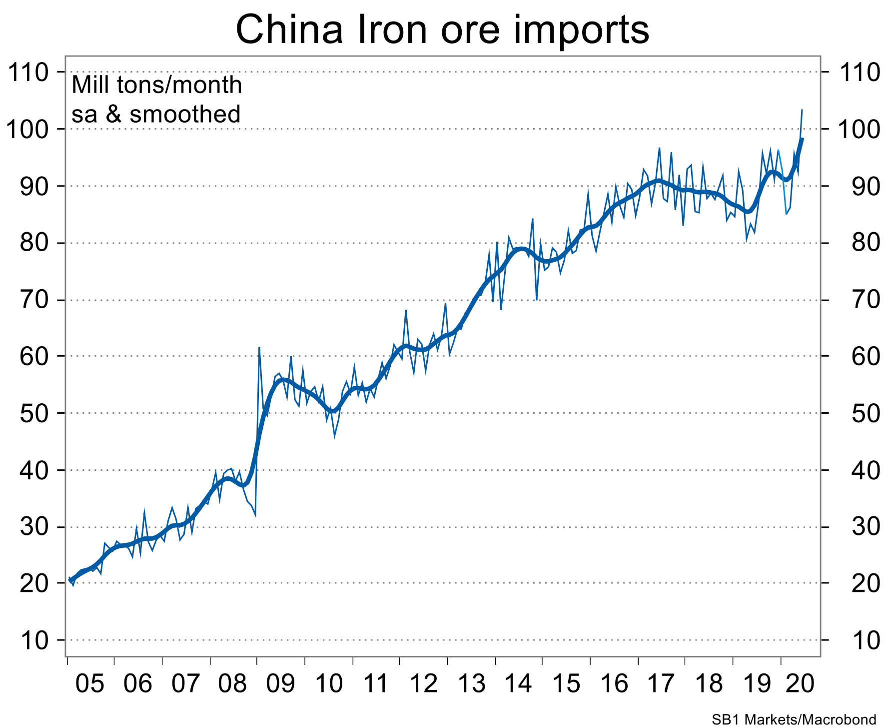


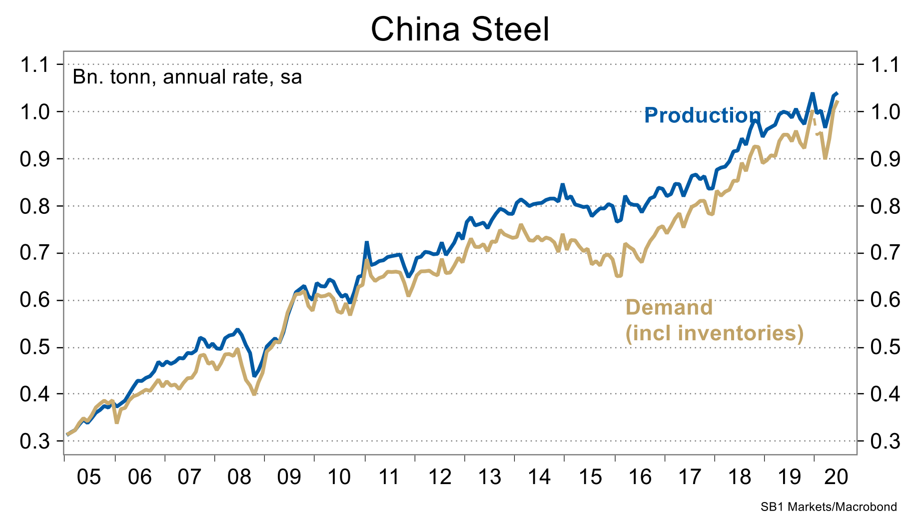
Export surveys signal weaker exports

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

Iron ore imports sharply up as net steel exports collapses

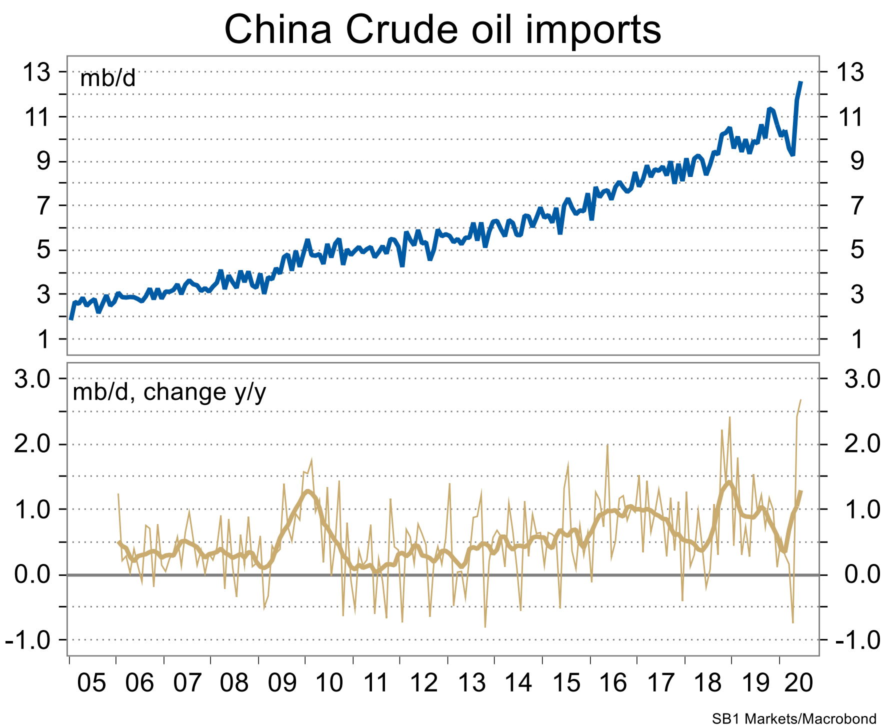
Steel production and domestic demand up too

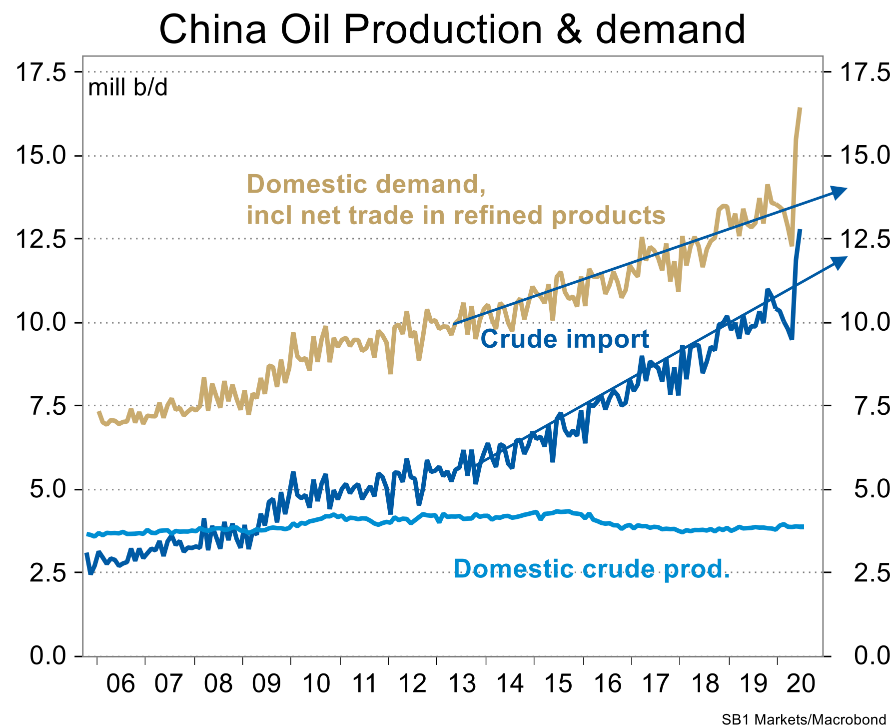




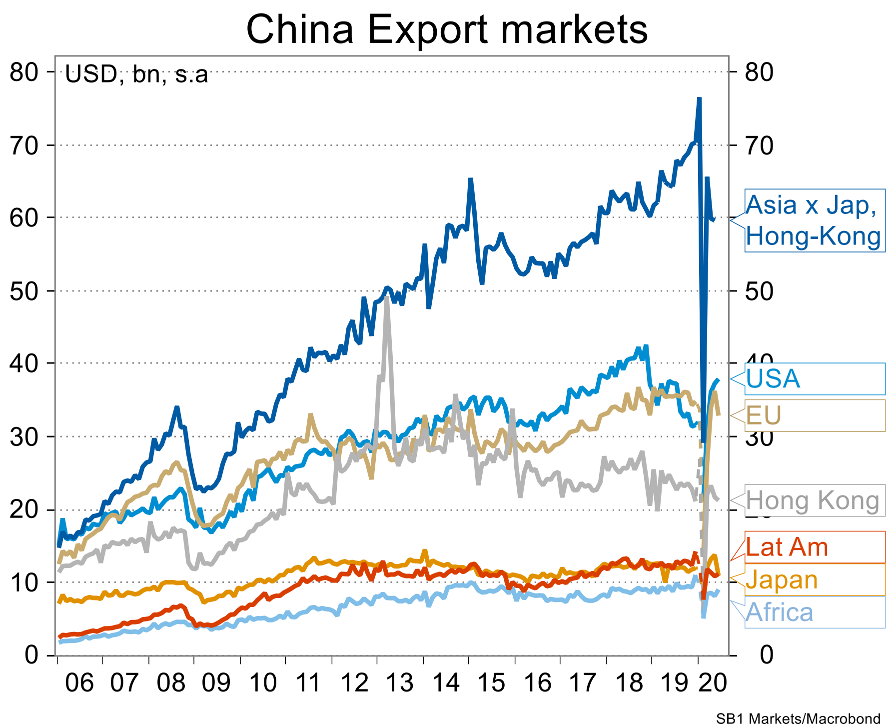
Ai, ai prices are low, let's buy some more oil!

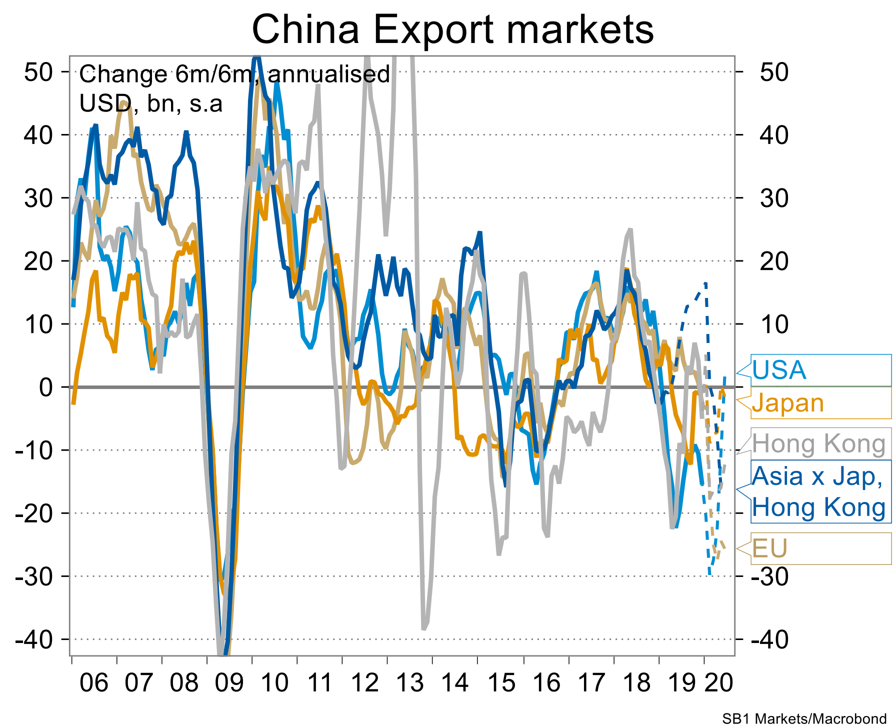
Record high crude imports, according to Chinese data





Exports to the US has recovered lately, in spite of ‘everything’

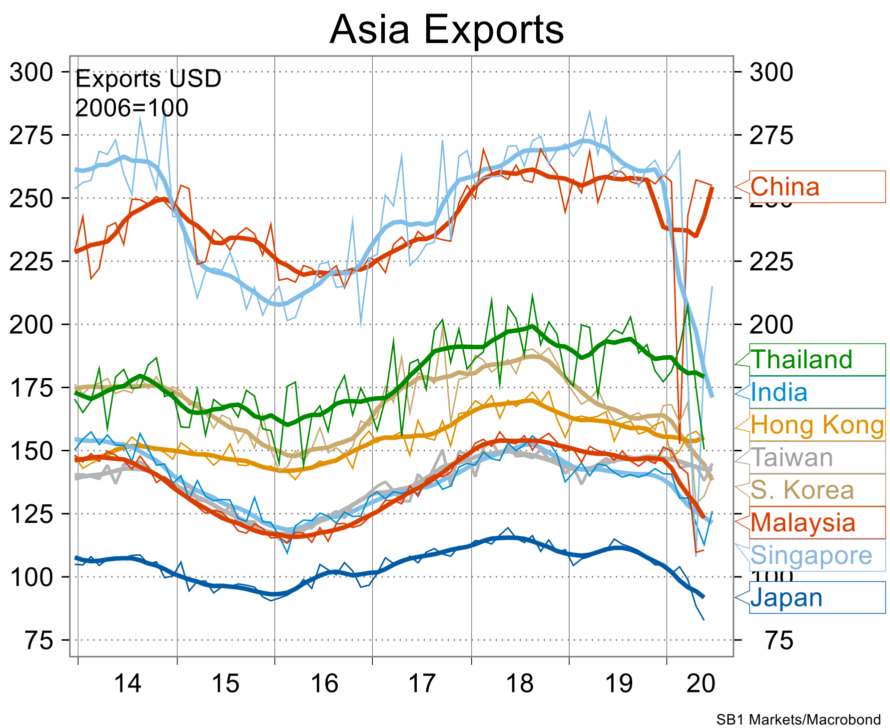


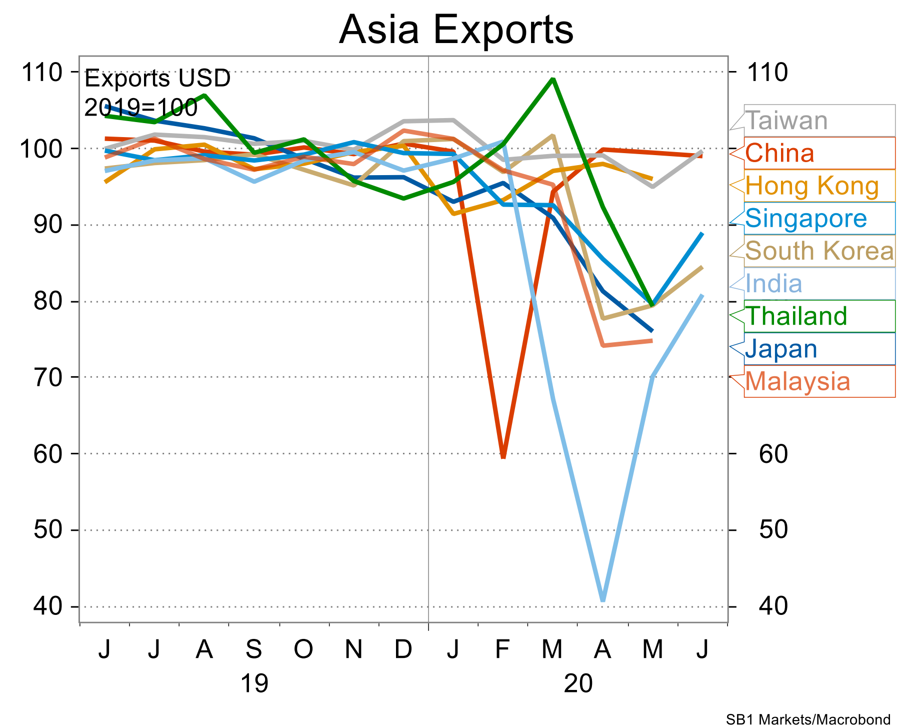


SpareBank 1 MARKETS

After the downturn, June data reported so far are pointing up

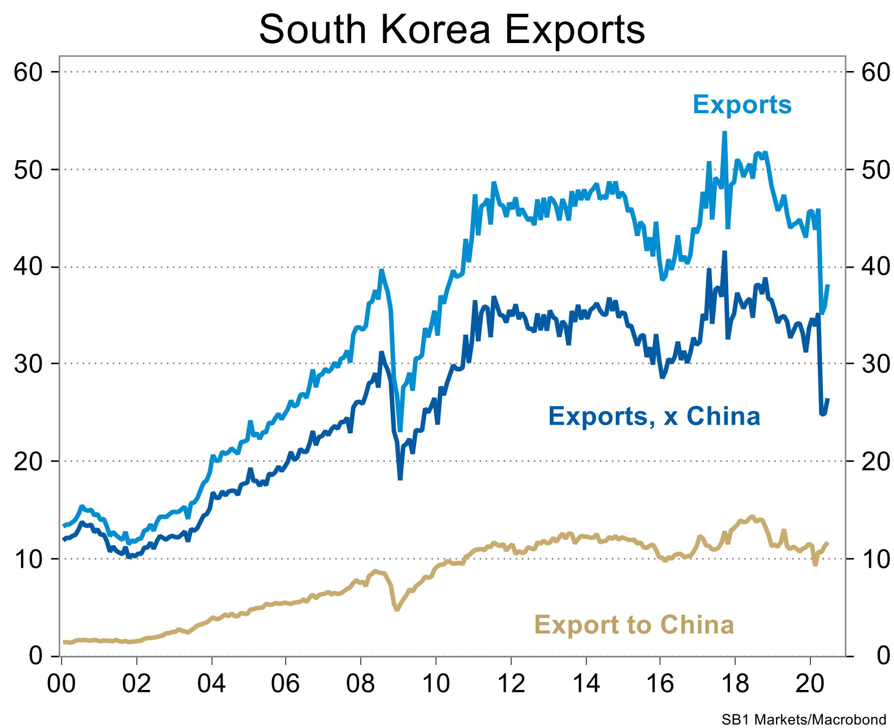
Still most countries are reporting 10 – 20% lower exports than before the corona crisis





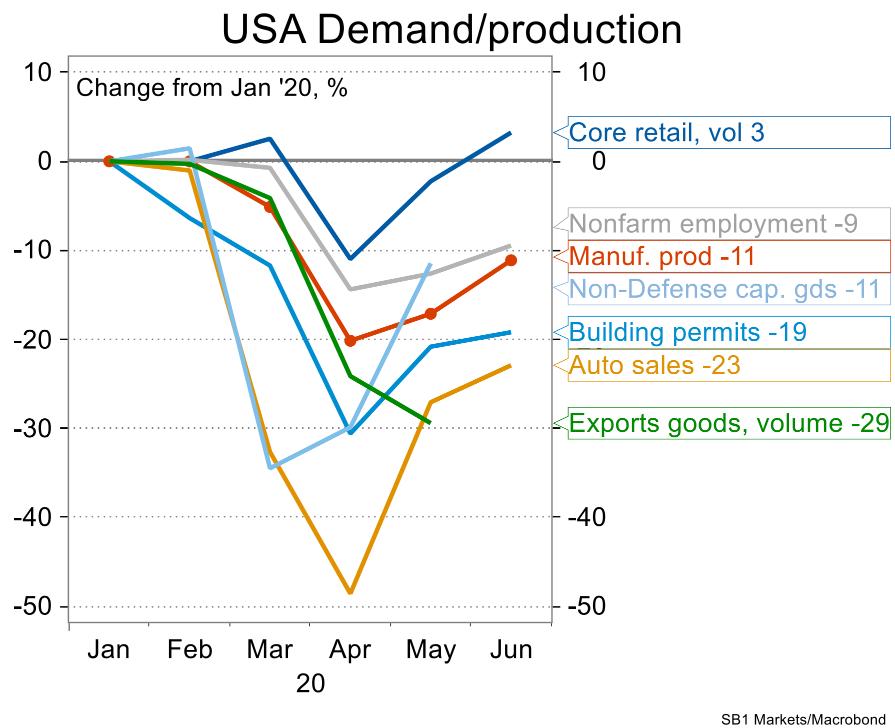
South Korea took a beating in Apr; the recovery in May/June is not impressive

Exports to Chine fell just marginally, while exports to ROW fell by almost 30%



On the way back – but not that synchronised

Core retail sales up vs. Jan/Feb but auto sales, housing exports still down 20 – 30%. Mauf. -11%



Some different shapes and forms of 'V's

- Barring export volumes, all main indicators rose in May, and all June data published so far are up
- Core retail sales have reported the sharpest recovery, up 3% from Jan/Feb in June, following a 5% lift in June, better than expected
  - » Still total consumption was 11% below the pre corona level in May, and we guess some 5 - 7% below in June – and probably not much less in July as the recovery slowed amid the sharp increase in covid-19 cases. Auto sales and service consumption is still lagging
- Non-defence capital orders (including airlines) are down 11% following a steep rise in May
- Export volumes fell further in May, and are down 29% (!). Imports have fallen far less. June data out this week

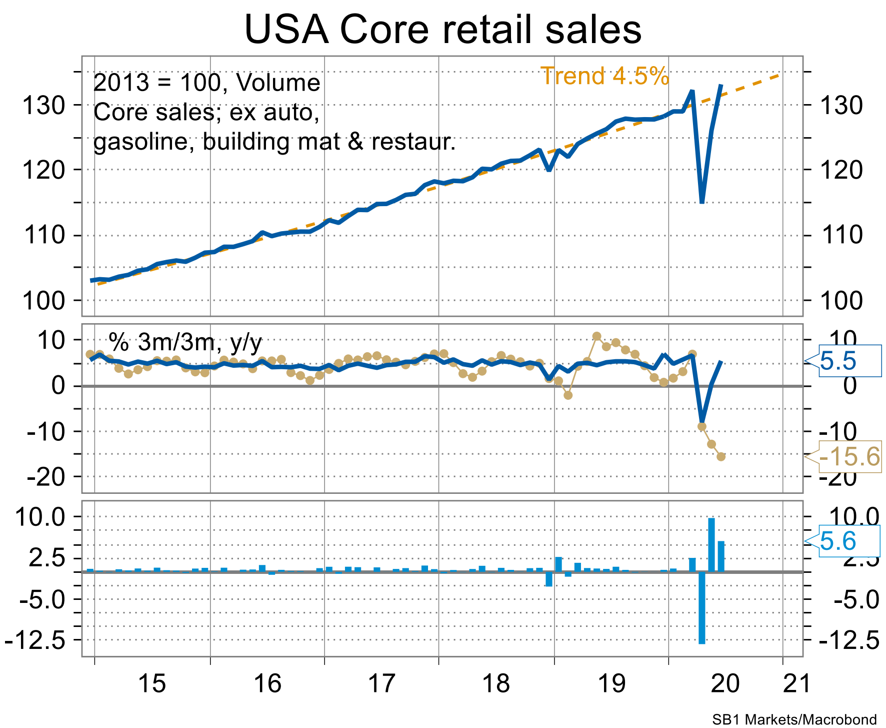
Demand vs production

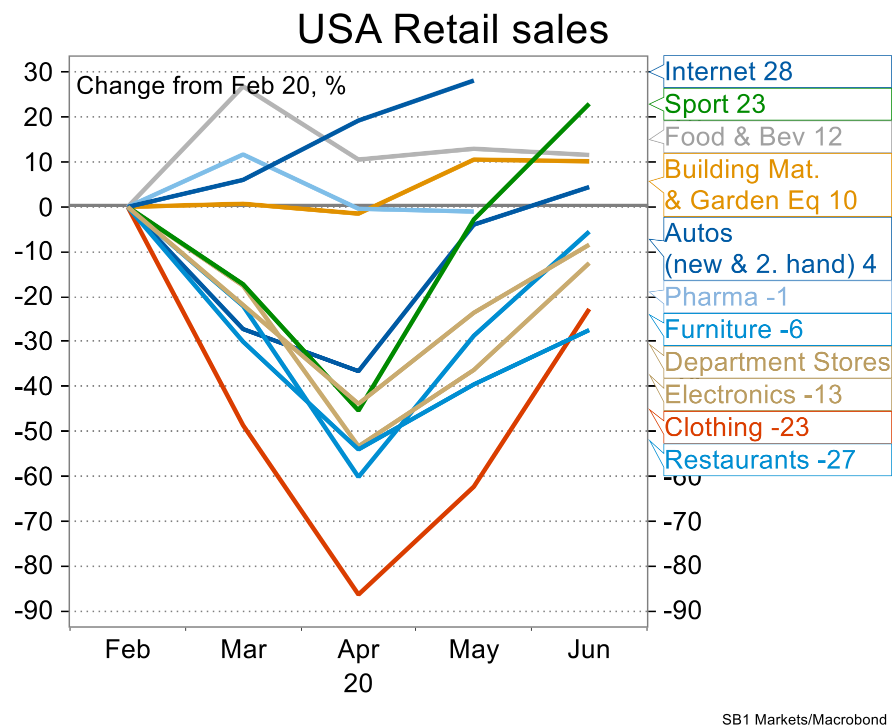
- Manufacturing production and employment rose in May and June but remains 11% down from Jan, even after a 7.2% m/m lift in June (exp. 5.7%)
- We put more emphasis on the demand side than production
  - » If demand recovers, production will follow – after inventories are emptied

SpareBank 1 MARKETS

Retail sales back on track, in average. Still unprecedented sectoral differences

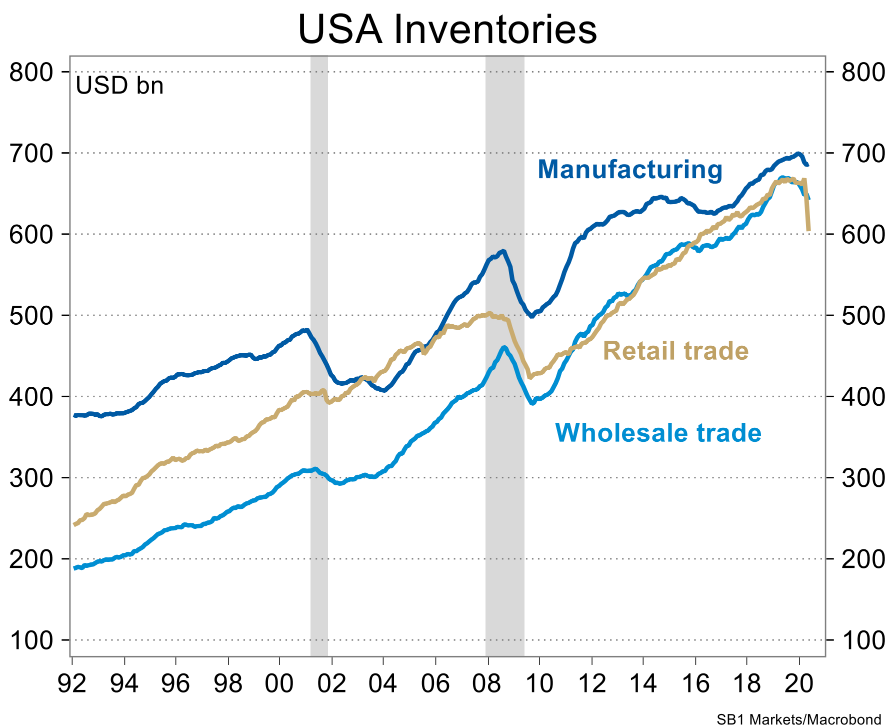
Electronics, clothing and restaurants are still struggling. The net is winning, of course

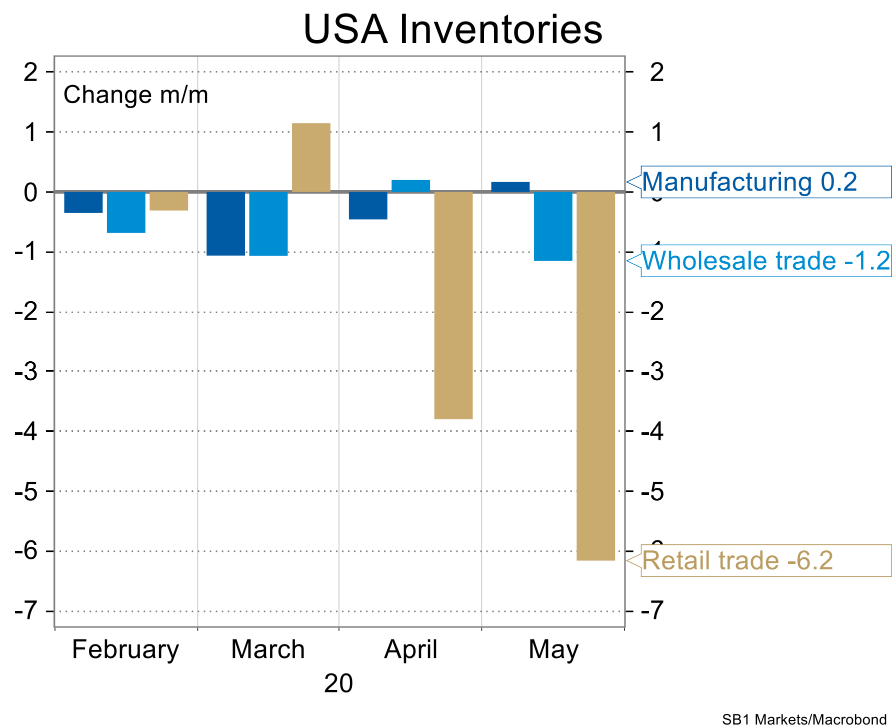




Inventories are run down, production will be ramped up

.. of demand does not fall off the cloff

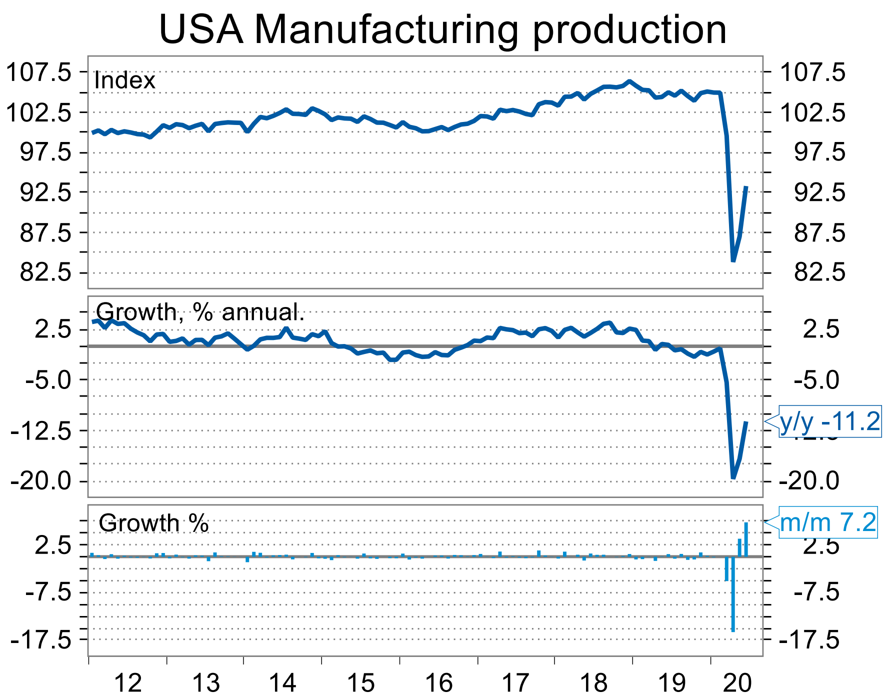




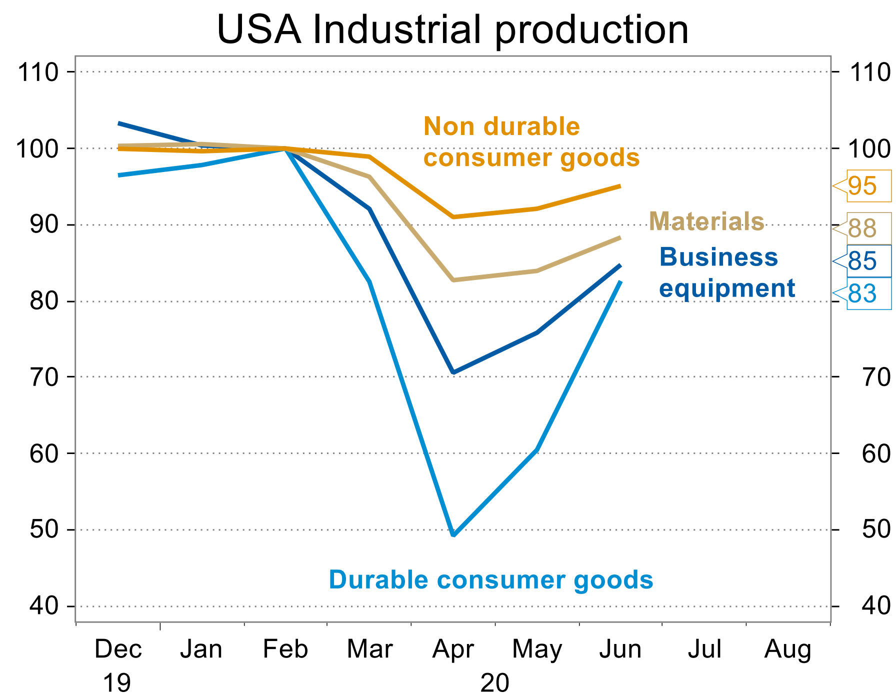
- Retail trade inventories fell sharply in April and May, and very likely in June too. Retailers will have to stock up the coming months

Manufacturing has still a way to go – 11% below pre corona level

Production of durable consumer goods and business equipment are still 15% down



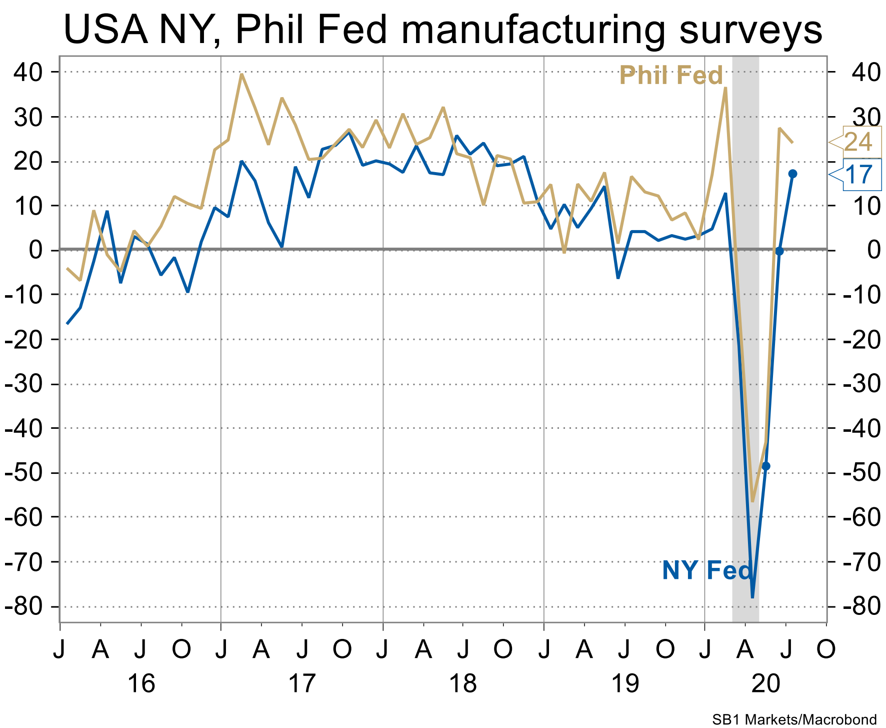
SB1 Markets/Macrobond

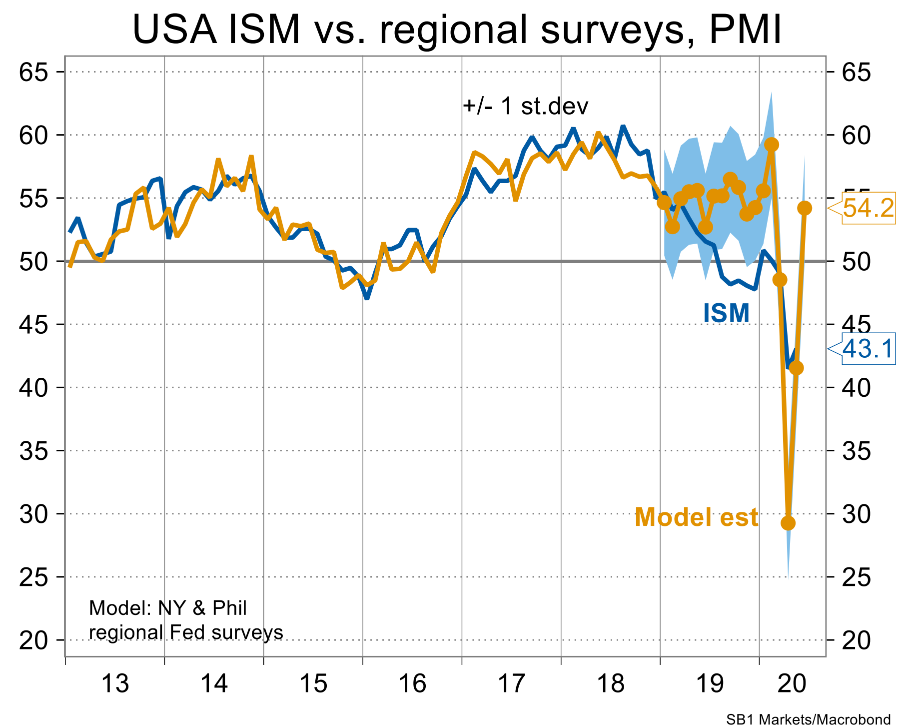


SB1 Markets/Macrobond

NY & Philadelphia Fed manufacturing indices signals growth in July too

Both indices were better than expected in July (Phil Fed fell less than expected)

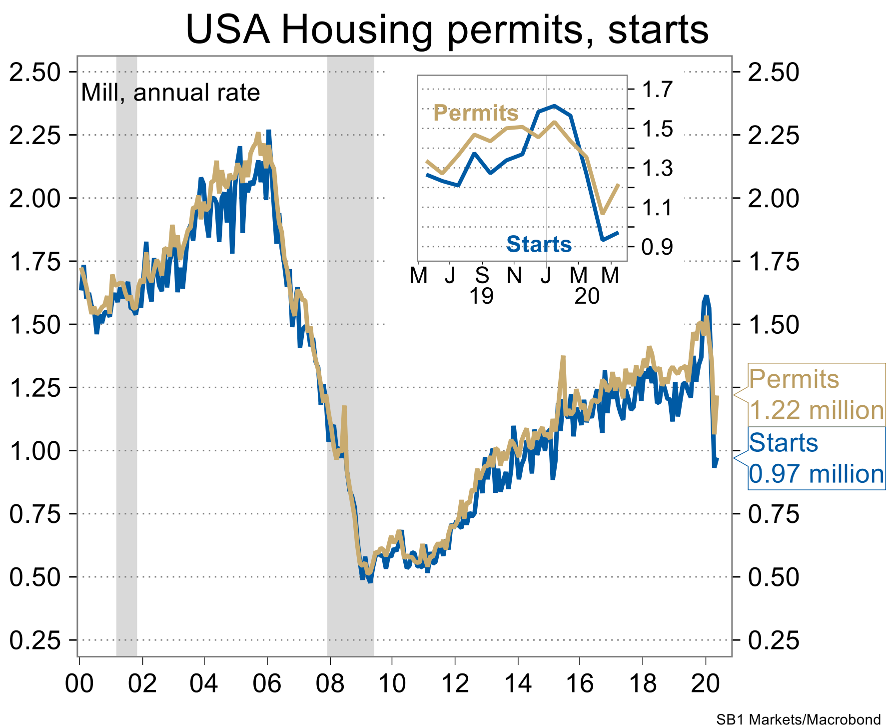


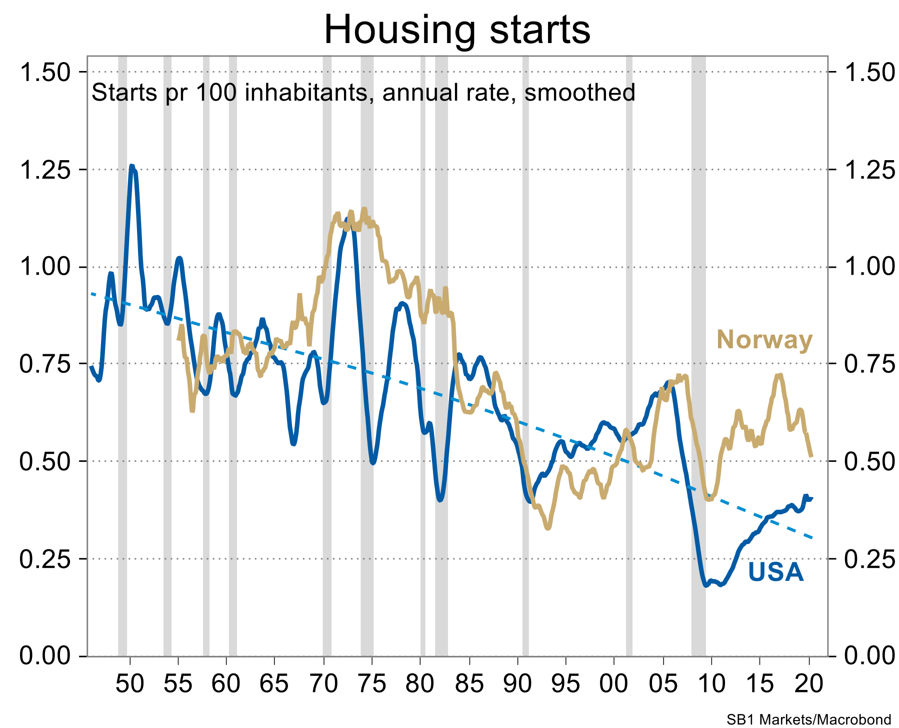


- The surveys have underestimated growth during the first phase of the recovery. We expect them to come better in line the coming months, as normal

Housing starts up as expected in June, permits less than expected

Both are below the pre corona level – which was quite high

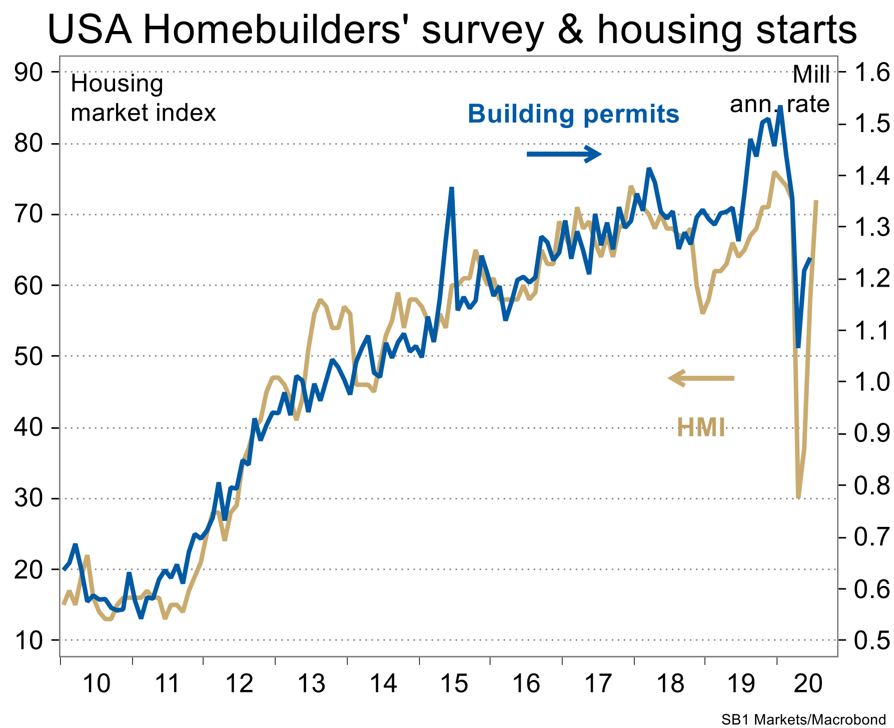


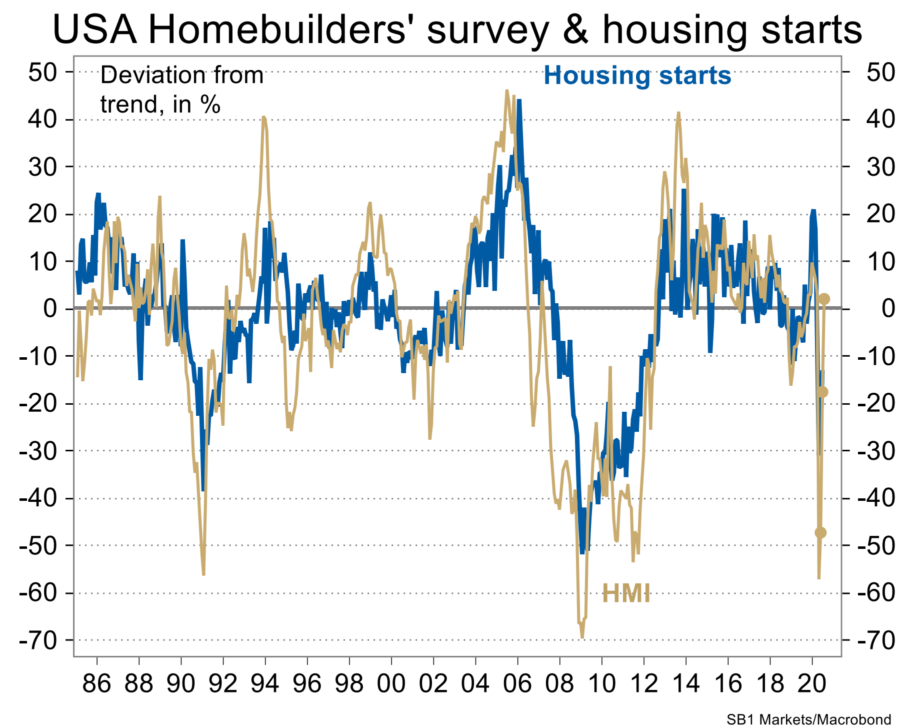


- Housing starts are down 40% from the pre corona level – but that level was 'too high'. A 15% decline vs. the pre corona trend is a more appropriate description
- Homebuilders index rose sharply in July, and does not signal any downside risk from here – and some upside from the present level

Homebuilders index further up in July, signaling starts 'on trend'

The HMI rose sharply in June, to 72 from 58, expected up to 61. Signals a 15% rise in starts



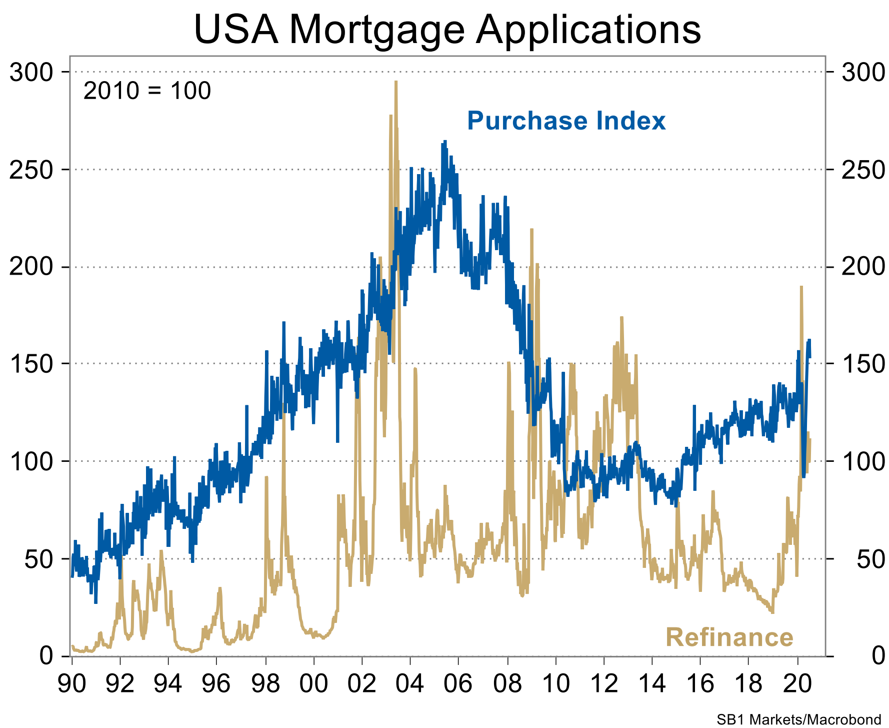


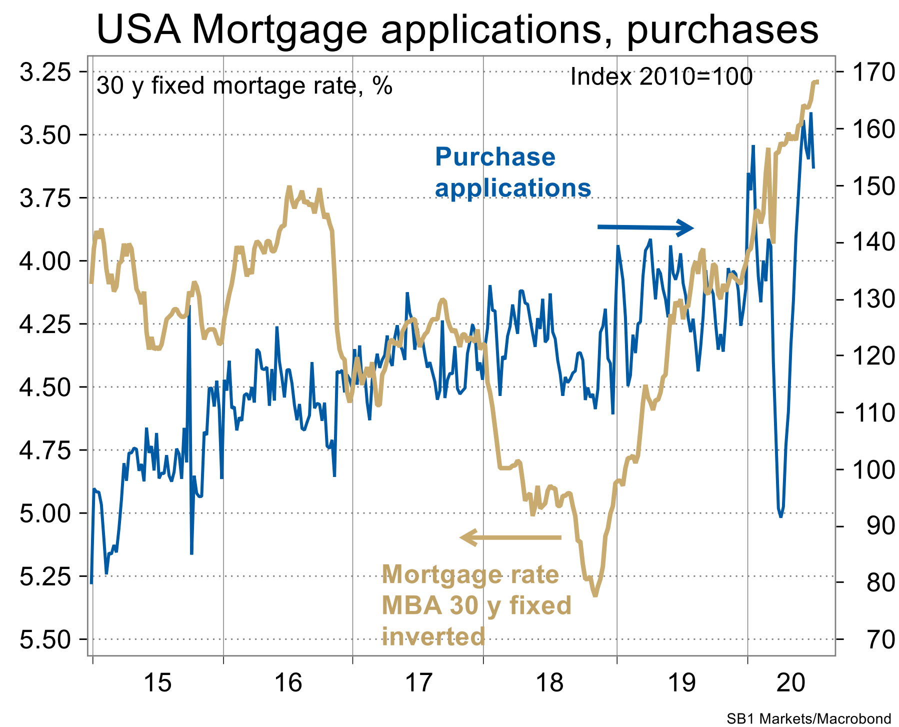
- The HMI is not a PMI, of course ☺, and it correlates better to the housing start level than to growth in the sector.
- At the current level, the Housing Market Index signals a 15% higher level than in June

HMI is a based on a sentiment survey of US homebuilders, in which the respondents rate housing market conditions at the present time and the next six months. The index ranges from 0 to 100. The index is closer correlated to the activity level, than to the growth rate, and does not have a 50 growth/decline waterline.

Mortgage applications take off – with record low mortgage rates

Applications fell sharply during the first phase of the corona crisis, then a sharp ‘V’ recovery

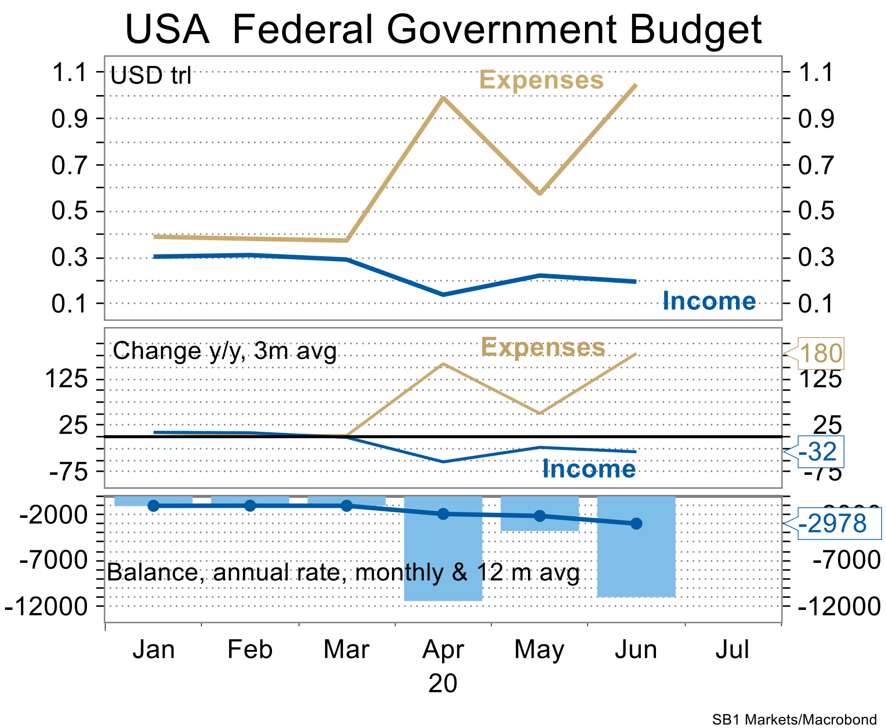


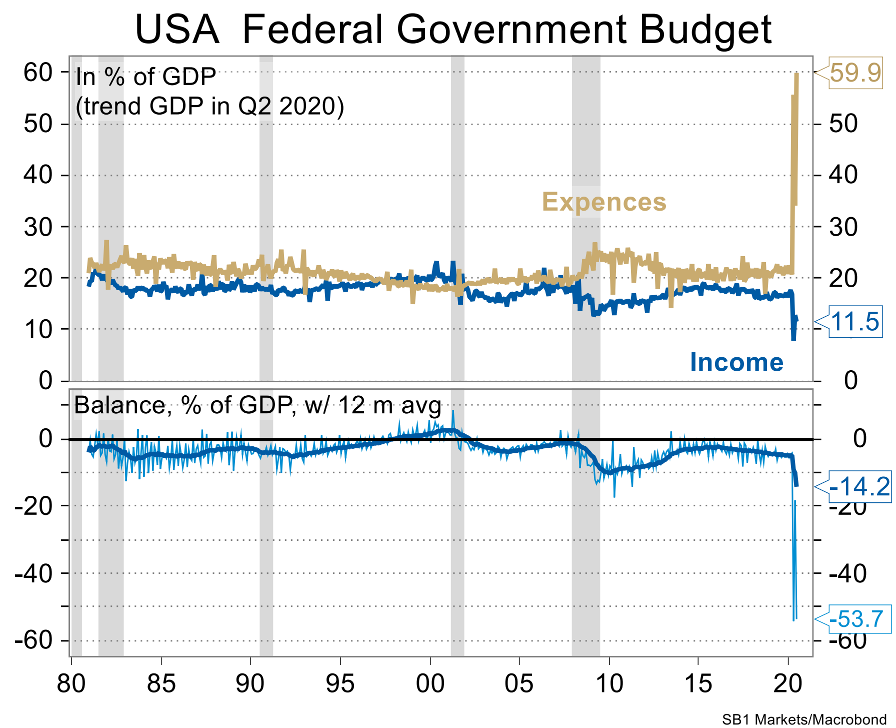


- No doubt, low mortgage rates (30 y fixed rate approaching 3.25%, and some loans 3%) stimulates demand
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market. Still, the spike in demand for new mortgages cannot be a sign of weakness

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

The June budget was a ‘disaster’, another hike in spending – the 12 m avg deficit at 14%

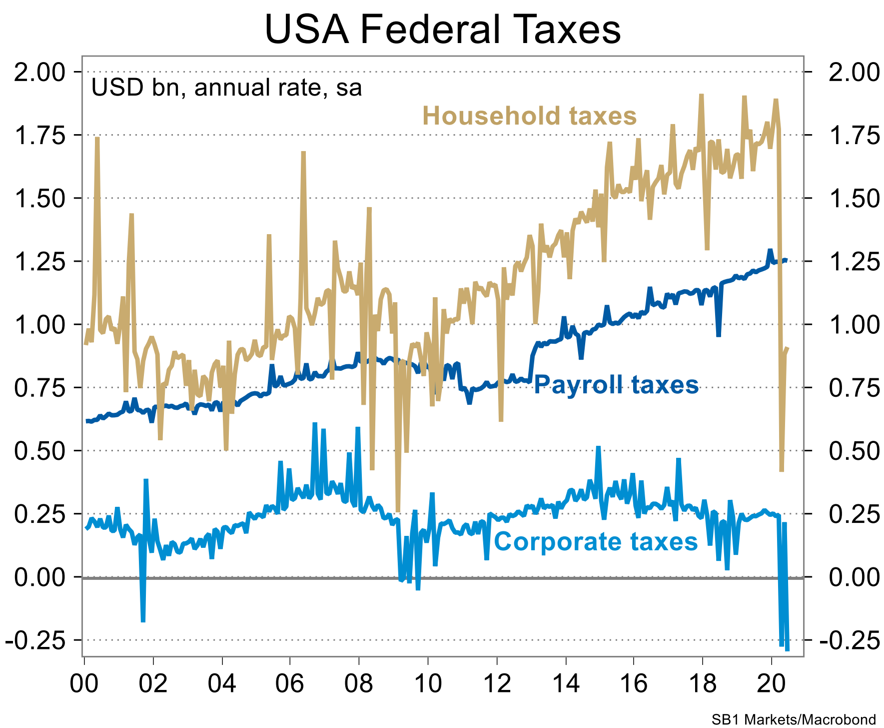


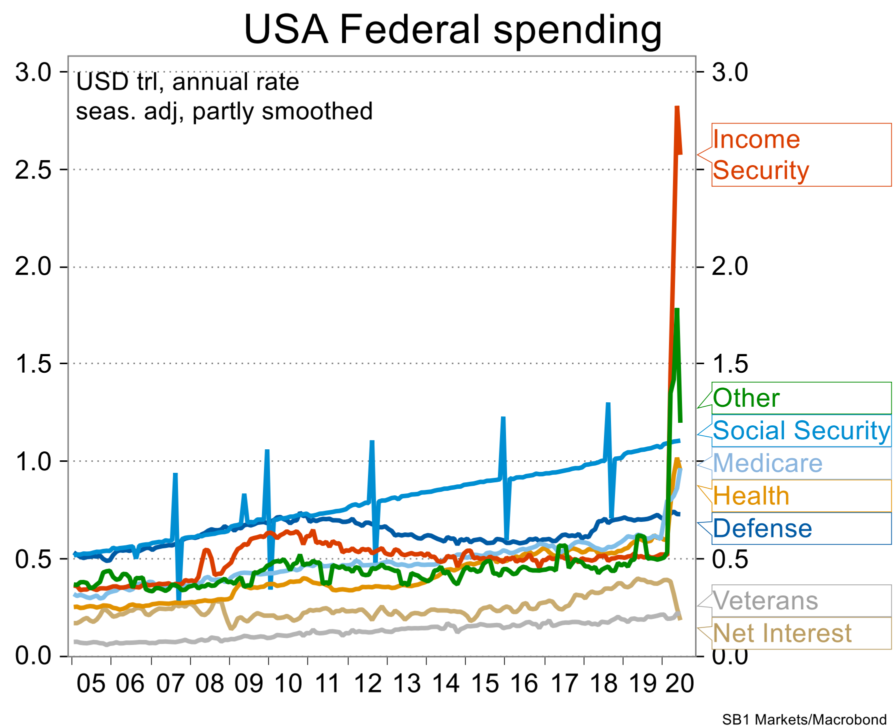


- The aggregate deficit during the past 3 months equalled 10.7% of the annual GDP!! Income fell sharply as private sector revenues fell and tax payments were postponed. Transfers to households rose sharply

Tax payments down, income security payments straight up

Just interest payments are falling due to lower interest rates

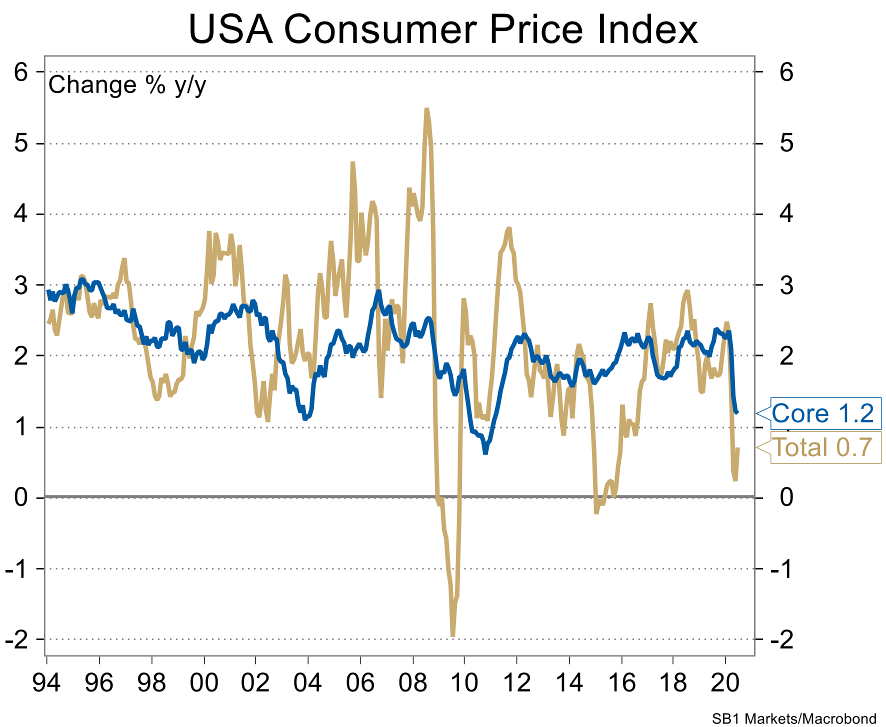


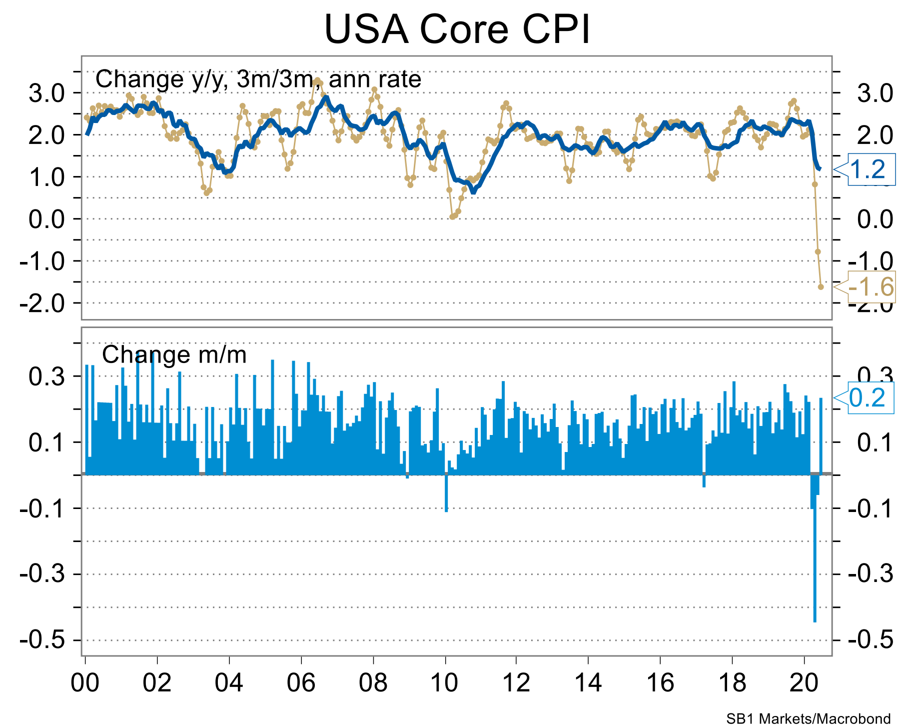


- Spending on defence, health, Medicare and net interest payments (even as interest rates are rather low…) have all been accelerated the past couple of years

Core CPI up 0.2% in June, first 'normal' inflation in 4 months

Annual rate unch at 1.2%, but it is down from 2.4% in February. Total CPI up to 0.7%, from 0.2%

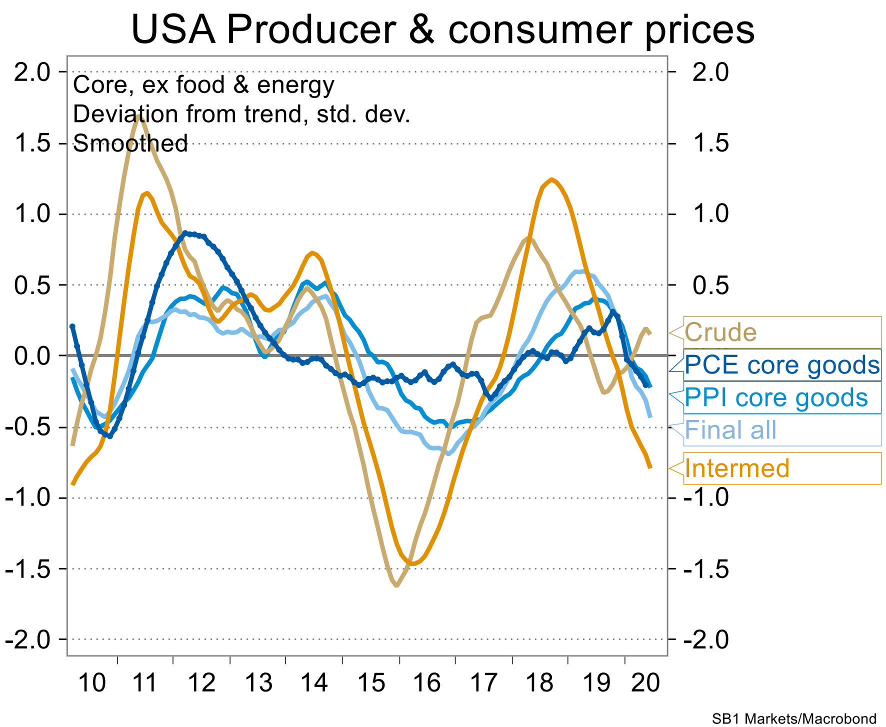


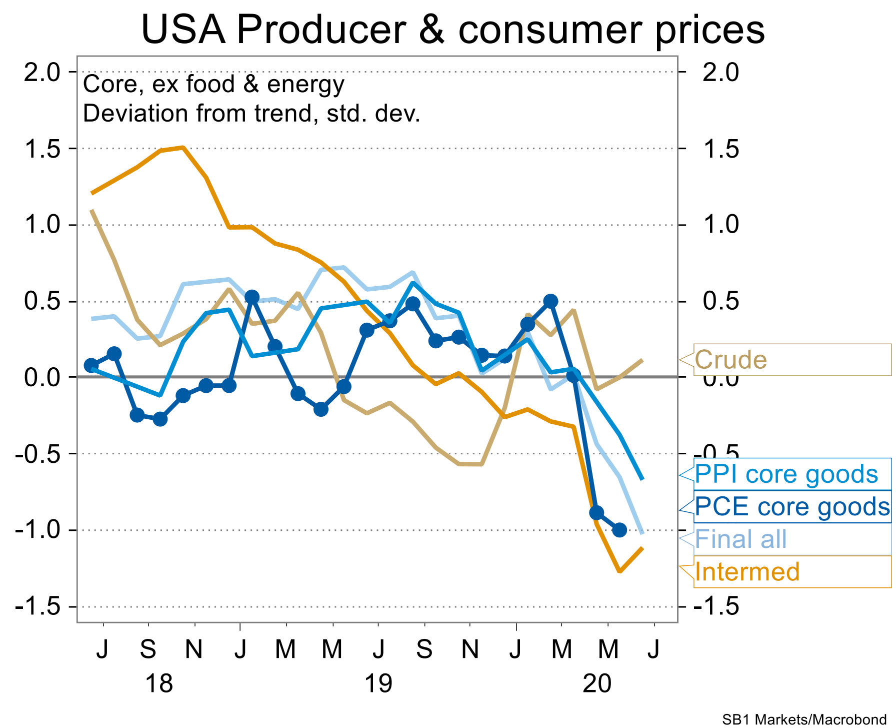


- Core CPI prices fell m/m the past 3 months
- Headline CPI rose due to higher energy prices

Producer prices do not signal an uplift in consumer price inflation

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

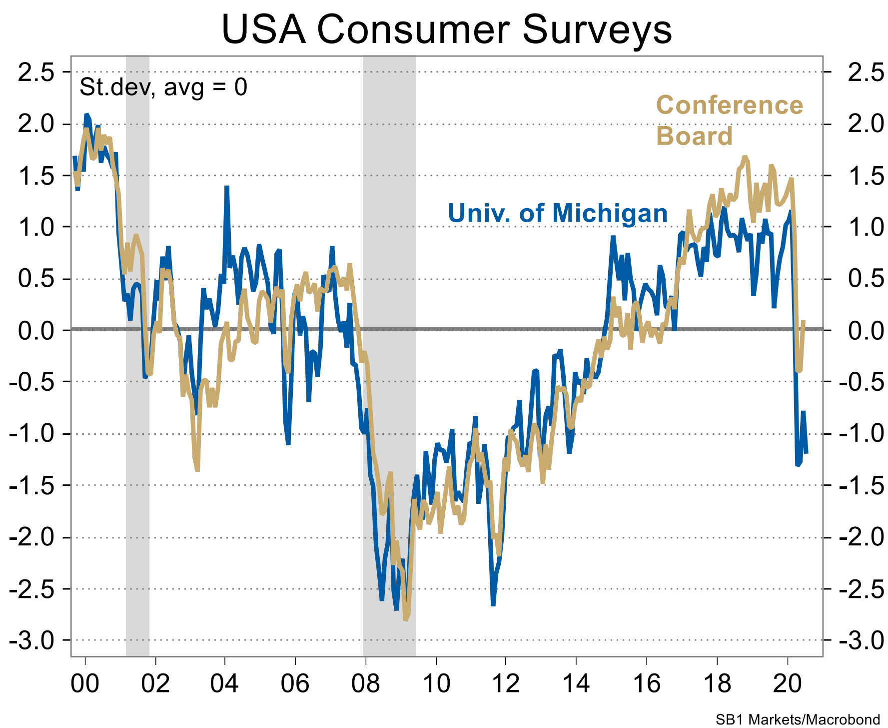


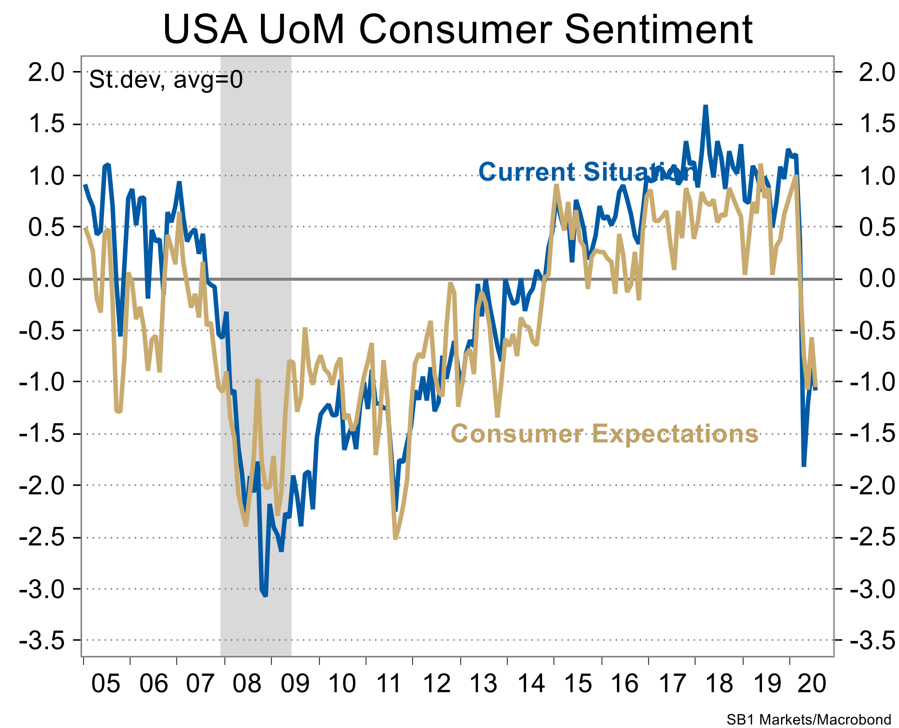


- Crude PPI prices (ex food & energy) have turned up after a slowdown through most of 2019. Higher crude material prices may signal a lift in prices at later production stages; intermediate goods prices are still sliding straight down. Core consumer goods prices at the producer level are trending down

Households not the sure in July, Univ. of Mich sentiment down again

... almost down to the Apr/May local trough, and the level is well below par. Renewed corona angst??

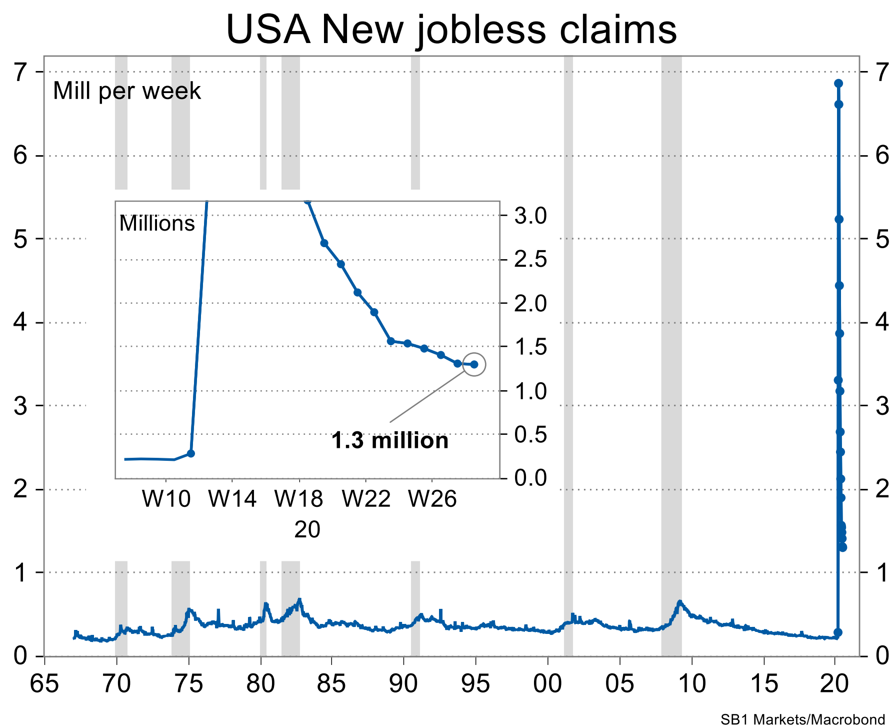


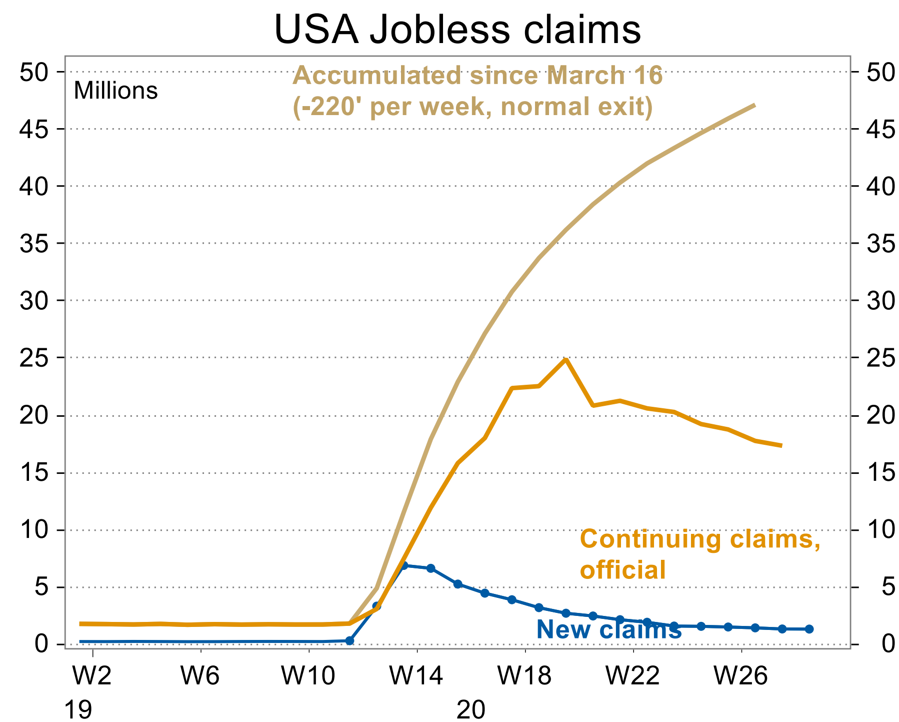


- Both households' assessment of the current situation as well as their expectations fell in July. Expectations are back to the April level
- Hard to find any better explanation than the new corona virus crisis in large part of the US and the restrictions that have been reintroduced

No further decline in new jobless claims, 0.8% are losing their job, per week

1.3 mill new jobbless claims, just marginally down from past week, 0.8% of the lab. force, per week

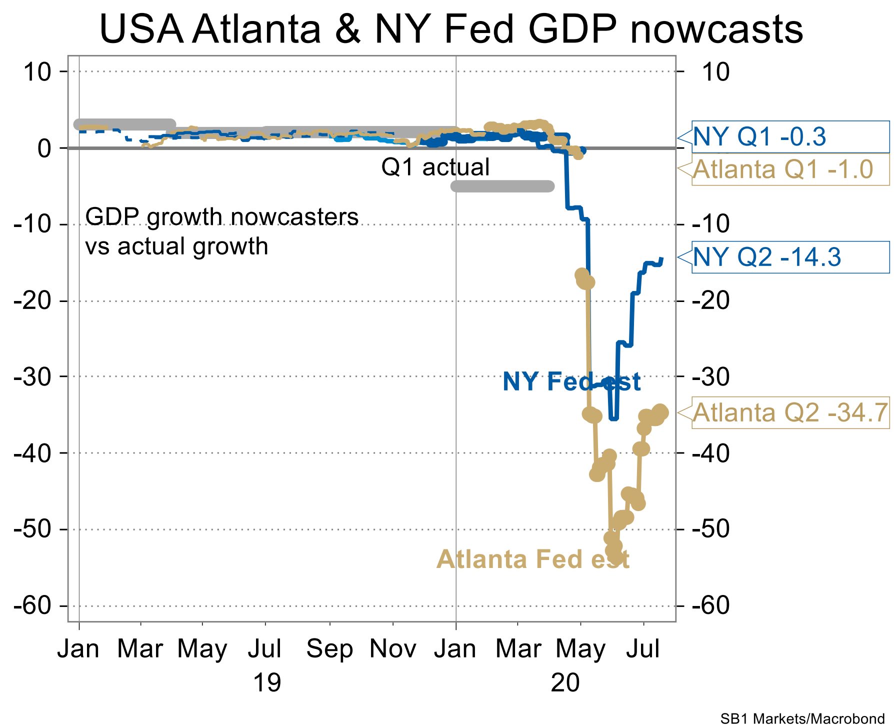


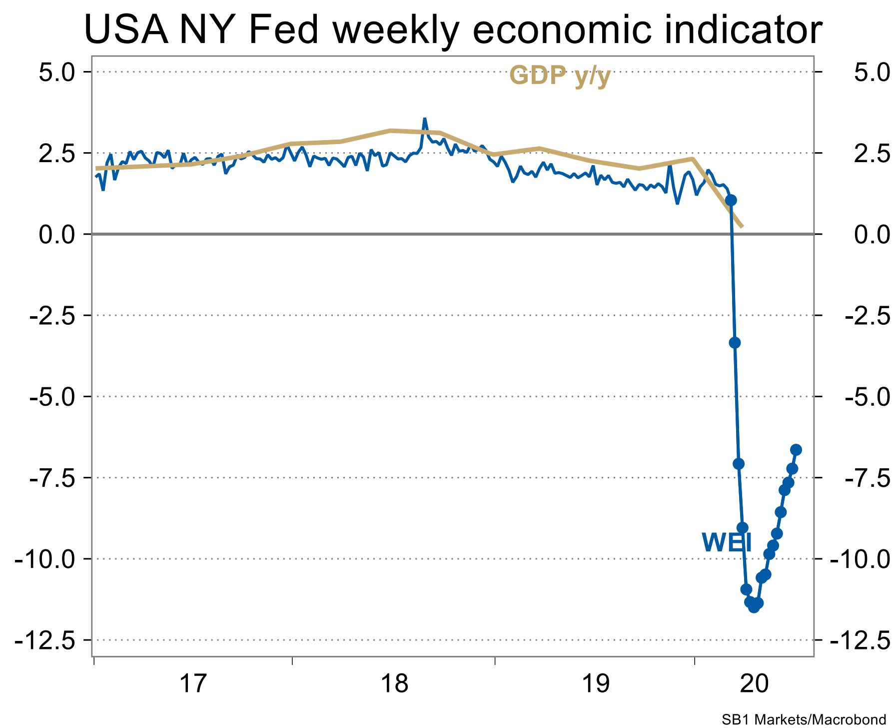


- The inflow is abating, but far slower than expected the previous weeks, and almost nothing last week. The number, equalling 0.8% of the labour force is much higher than during any USA previous recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 17.5 mill. from 25 mill. but not further last week – and still 10.6% of the labour force remain on the dole

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

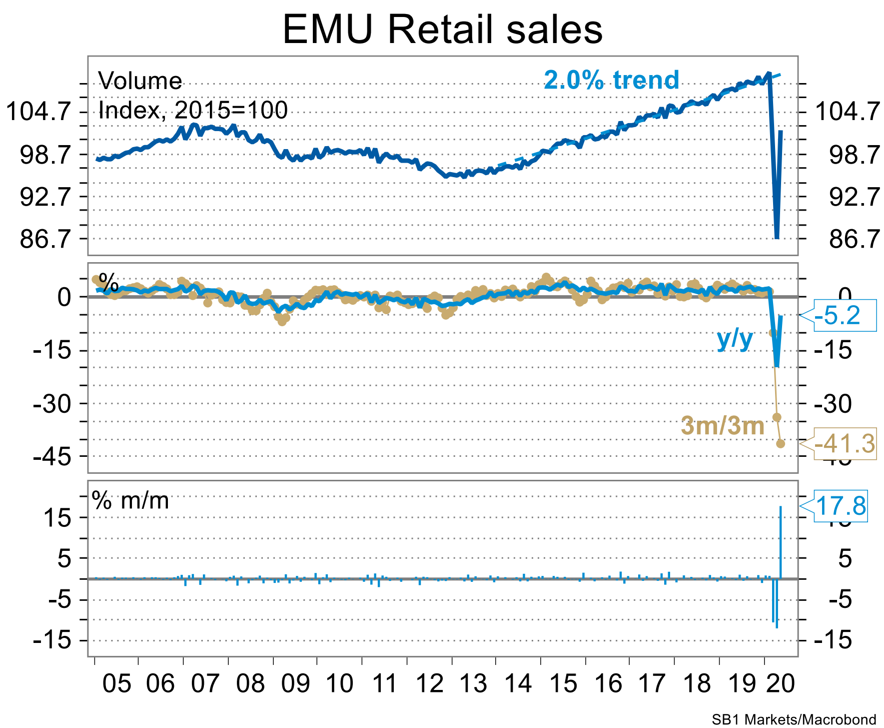


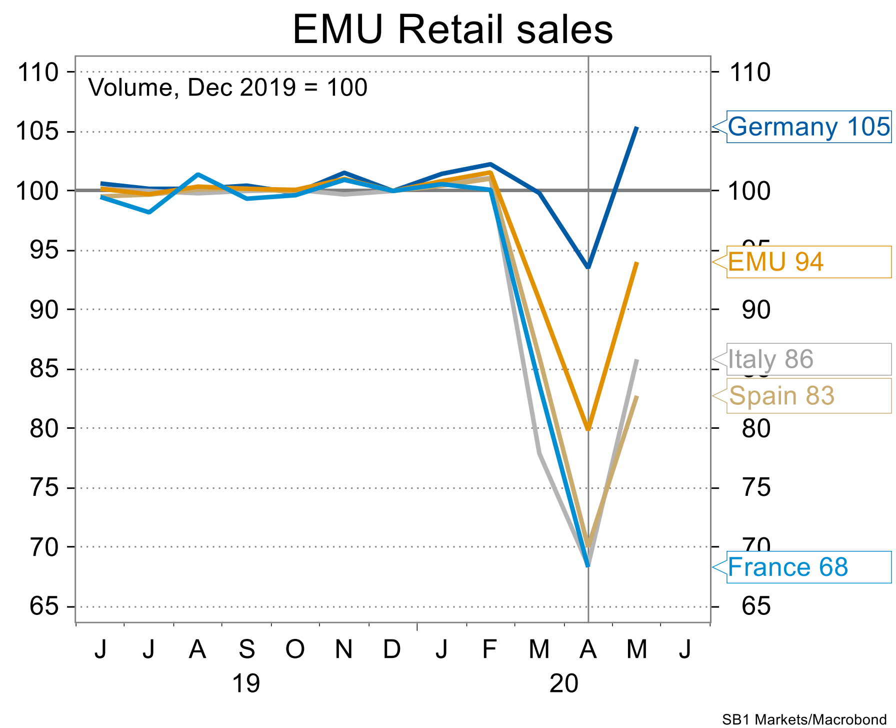


- NY Fed's model reports a 14% decline q/q, annualised, (from -35% at the bottom), equalling a 4% decline not annualised to Q1 from Q1, or some 5.5% y/y
- Atlanta Fed's model reports a 35 % (from -40% two weeks ago, and -54% at the bottom), equalling a 10% decline not annualised q/q and more than 11% 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) (but a smaller decline i July, of course)
- Consensus is for a 10% decline (35% annualised)

Retail sales up 18% in May, still 7% up to the pre corona level

Germany 5% above, Italy and Spain 14 – 17% below. France probably close to It/Sp

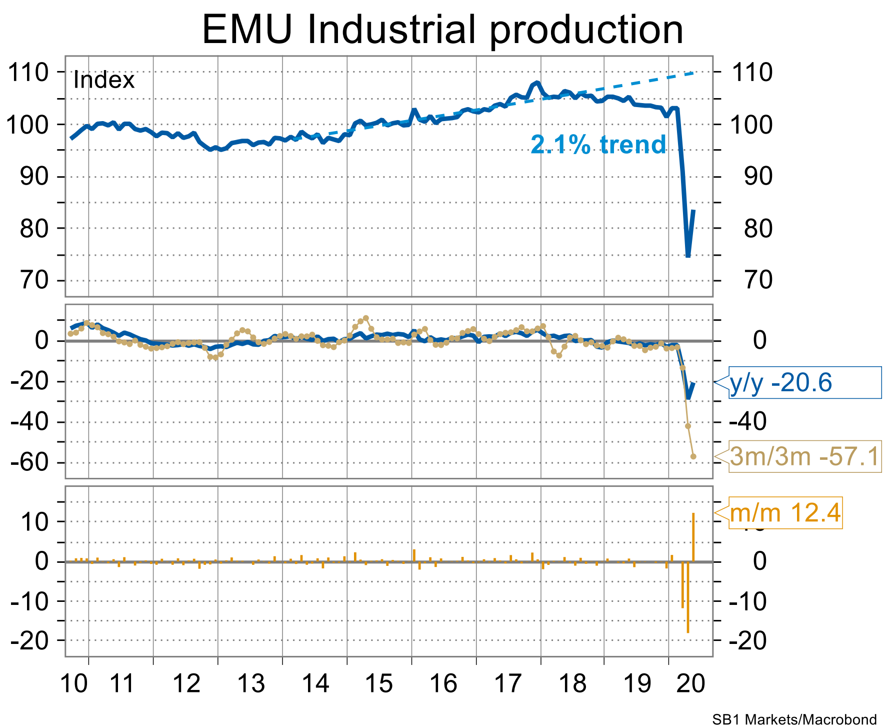


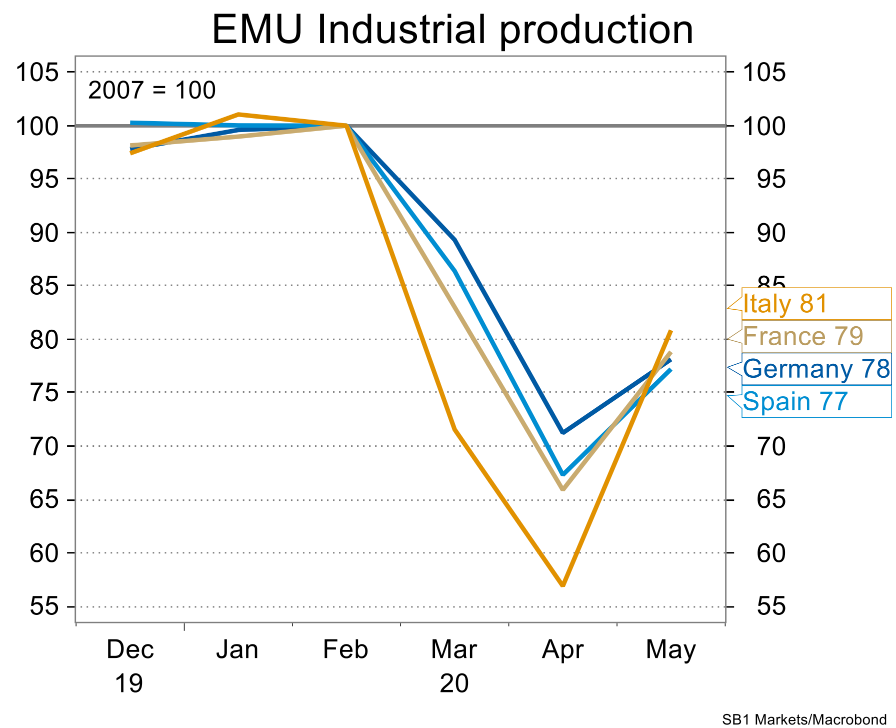


- We expect a further increase in June – and in July

Manufacturing production up in May, still almost 20% below par

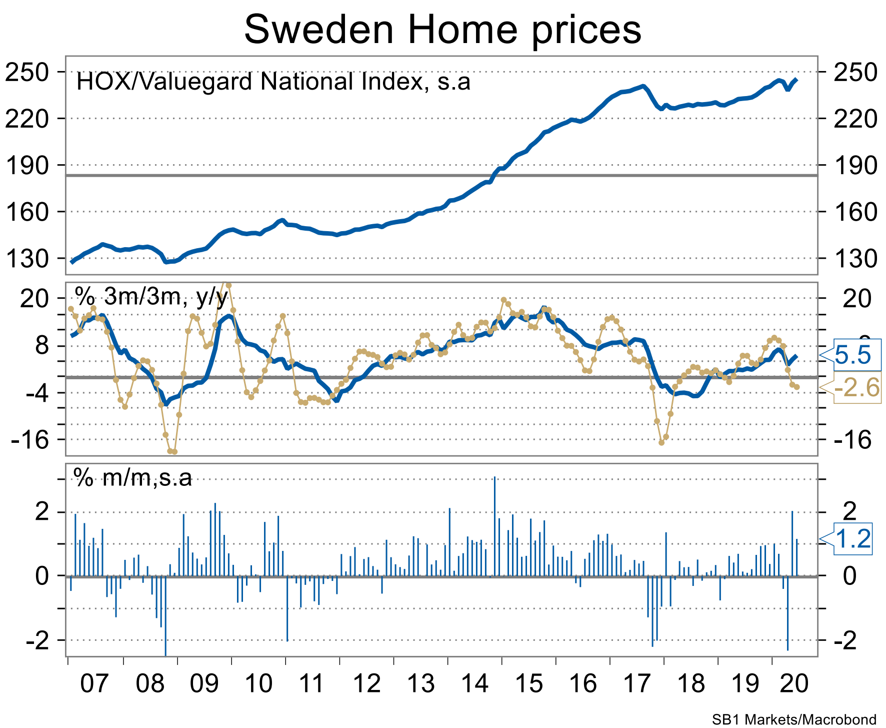
Italy came strongly back in May (+42%), though from a very low level – and still 19% below normal

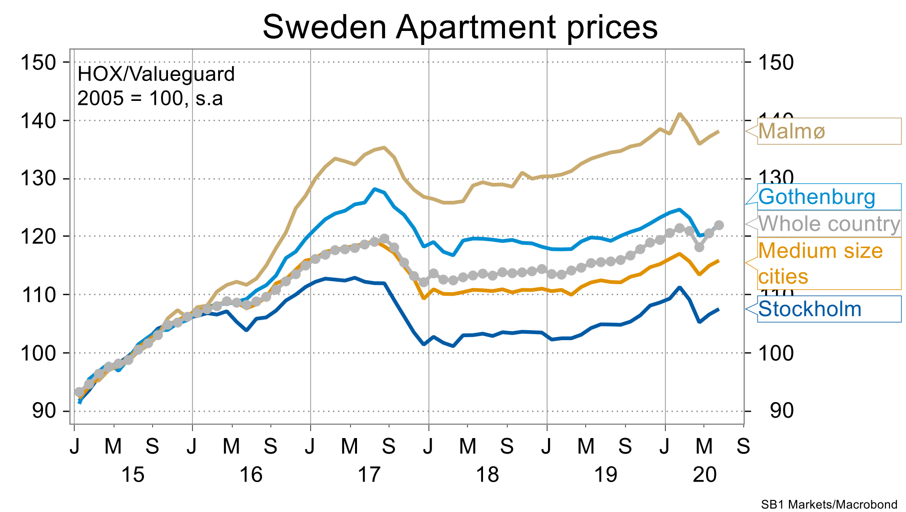


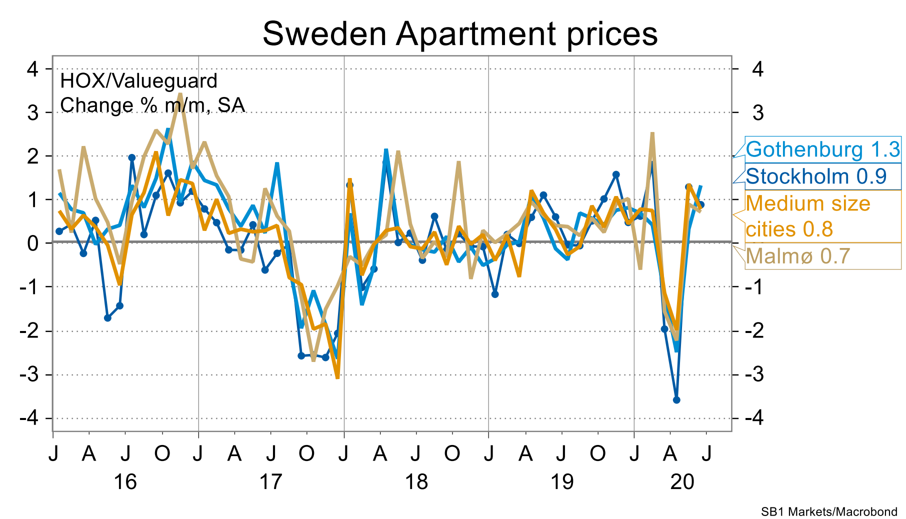


House prices up in June, avg house prices above the Feb level, towns still below

National prices rose 1.2% in June, following +2% in May. Towns up in May/June still below pre corona

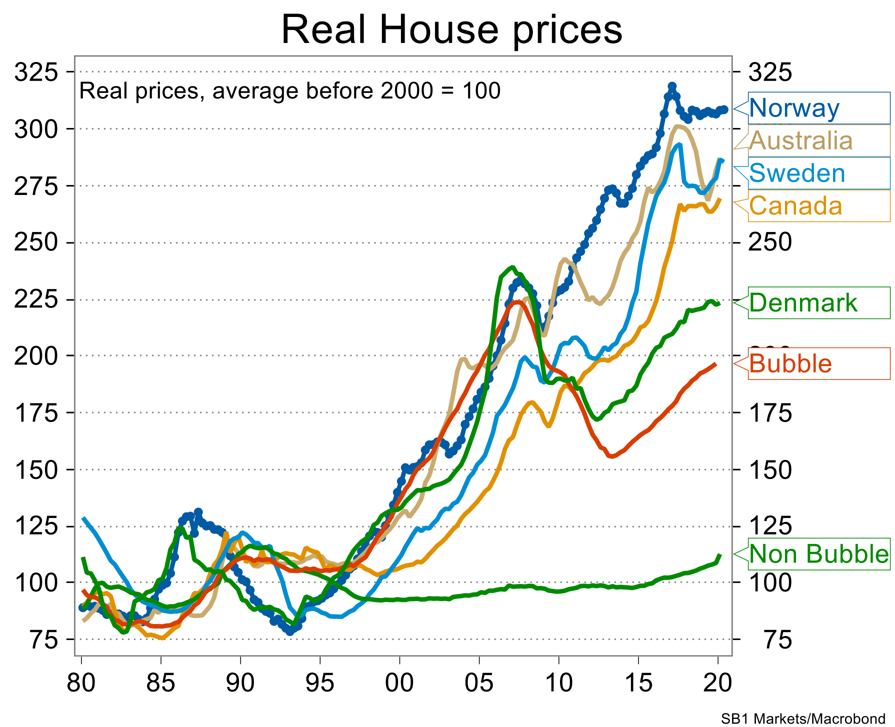


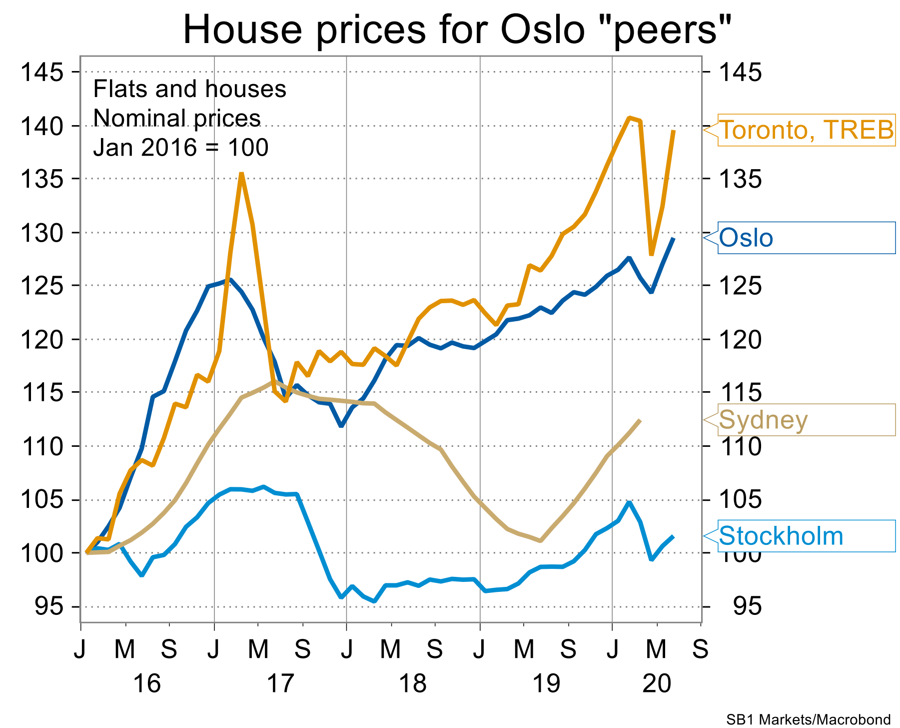




Stockholm the weakest of the 'supercycle' capitals, down 3% from February

Prices have recovered early corona losses in Toronto and Oslo





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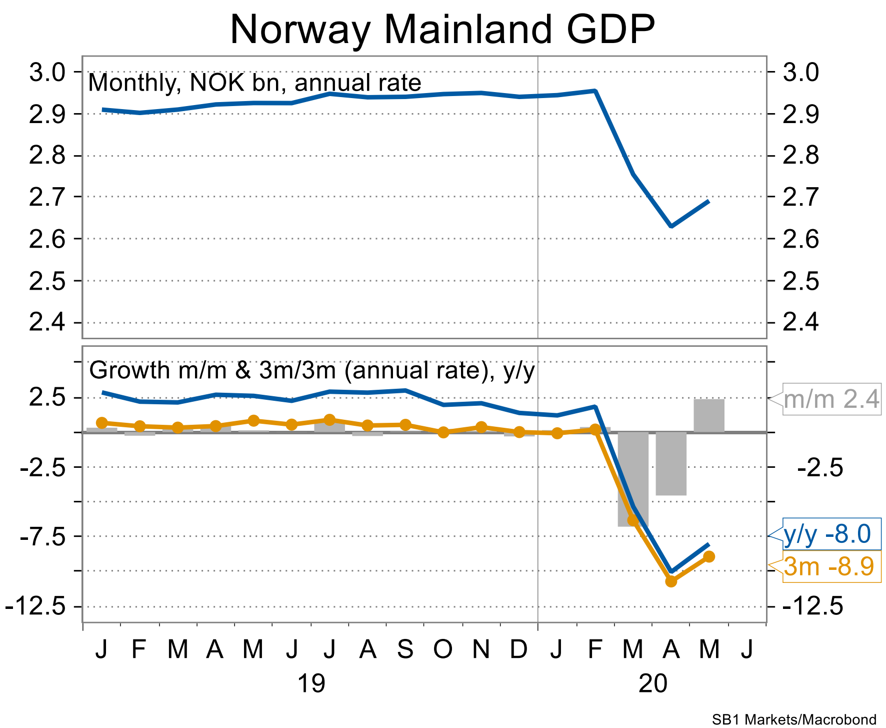
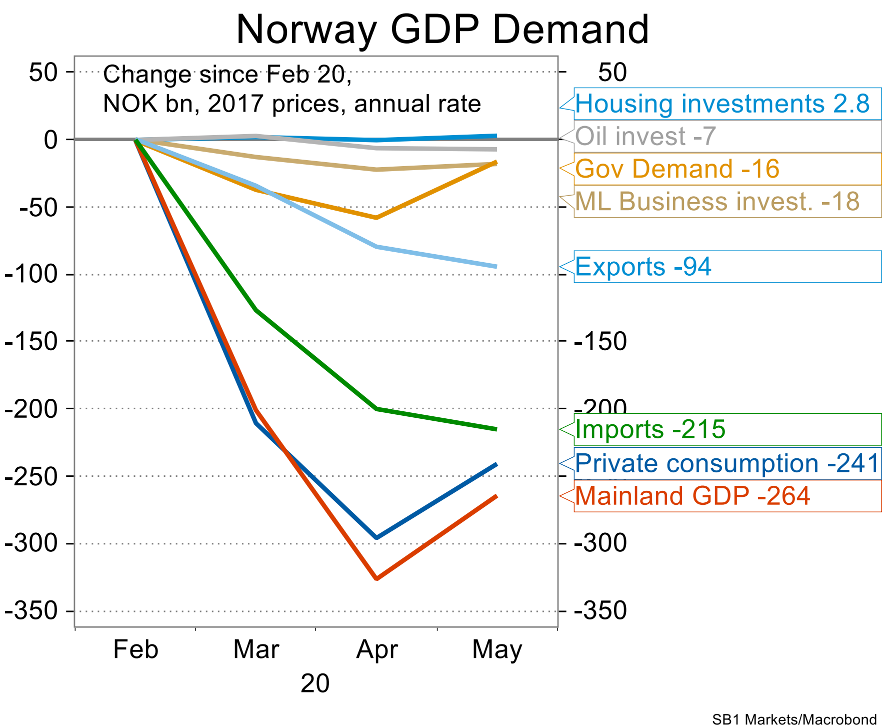
GDP up just 2.4% in May, level 9% below the pre corona level

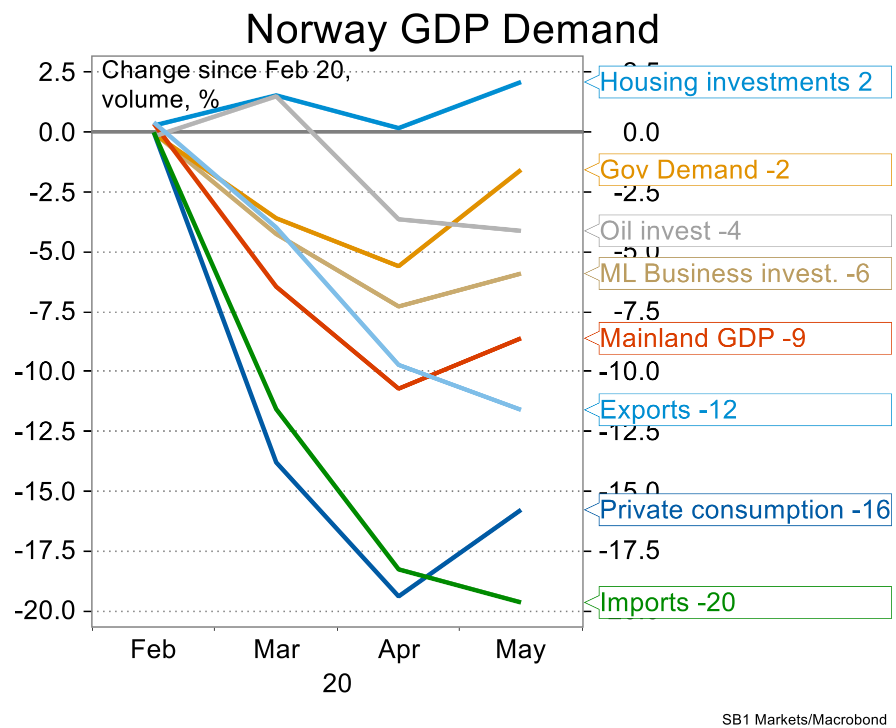


- Mainland GDP is down 9% to May from February, and it is down 8% y/y. We expect GDP to recover substantially in both June and July but not to reach the pre corona level anytime soon
- <u>On the demand side:</u>
  - » Private consumption rose in May but is still 16% below the level last Dec. Total household demand in Norway is down 11%, of which 2/3rd due to lower demand from Norwegian households, and 1/3rd due to lower demand from foreigners (less tourists). Consumption of goods is up but consumption of services much more down
  - » Government demand rose sharply as kindergartens, schools and health services restarted
  - » Business investments rose marginally
  - » Exports fell further, as did imports

Most demand components, all still below the pre corona level

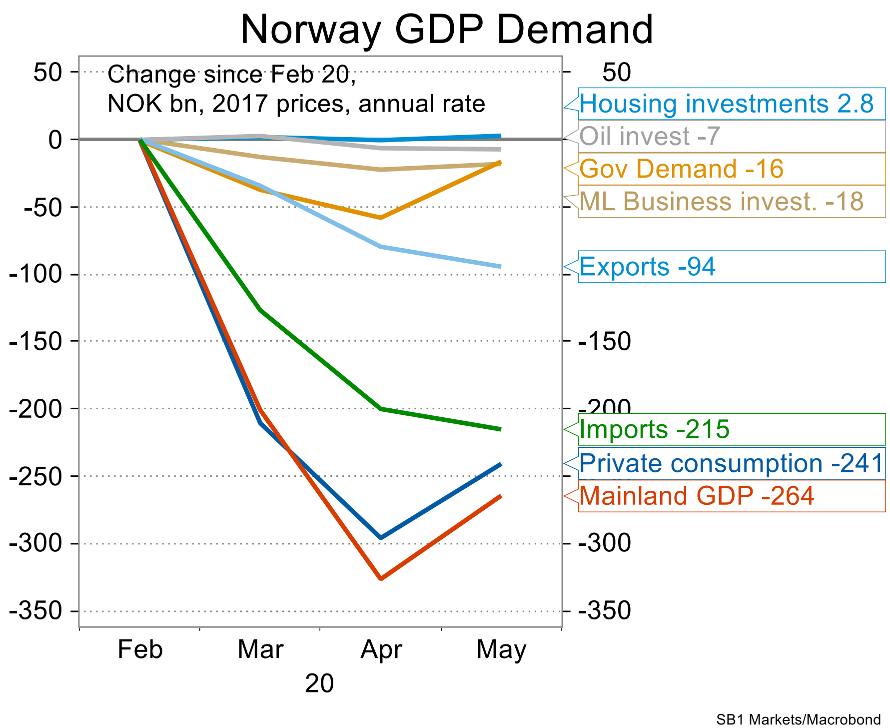
Private consumption the main drag, both in NOK and in % - even after a partial recovery in May

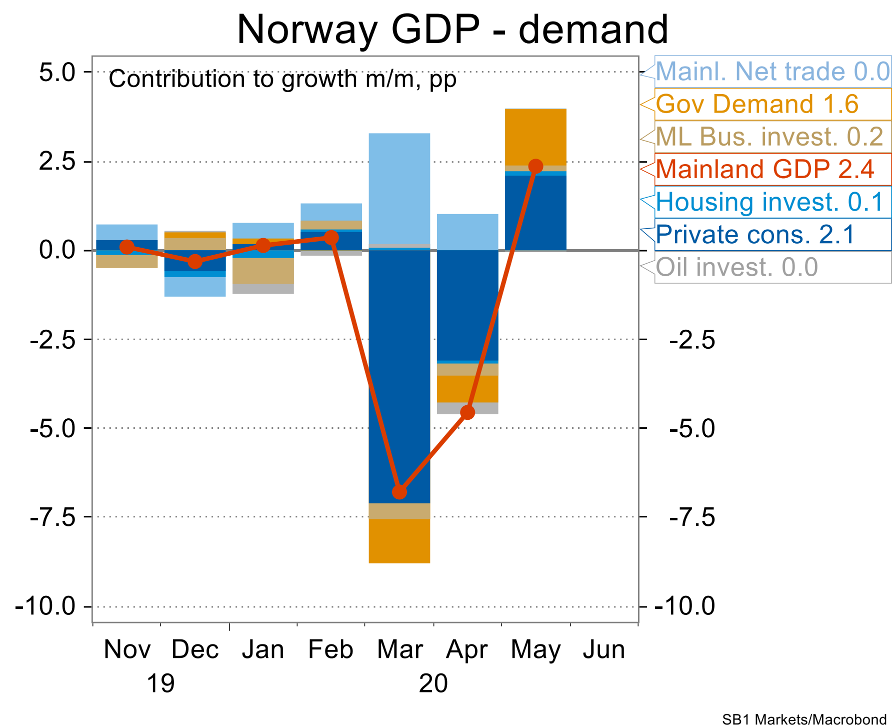




Most demand components, all still below the pre corona level

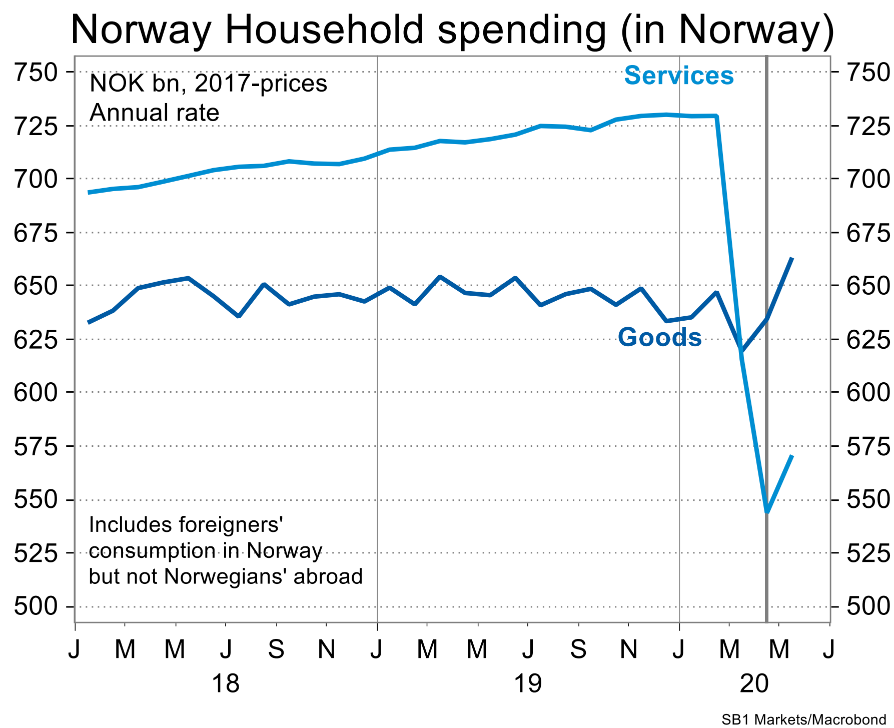
The government and households contributed to the lift in activity in May





Consumption of goods up 2.5% from February, services down 22%

Thus: Total consumption sharply down

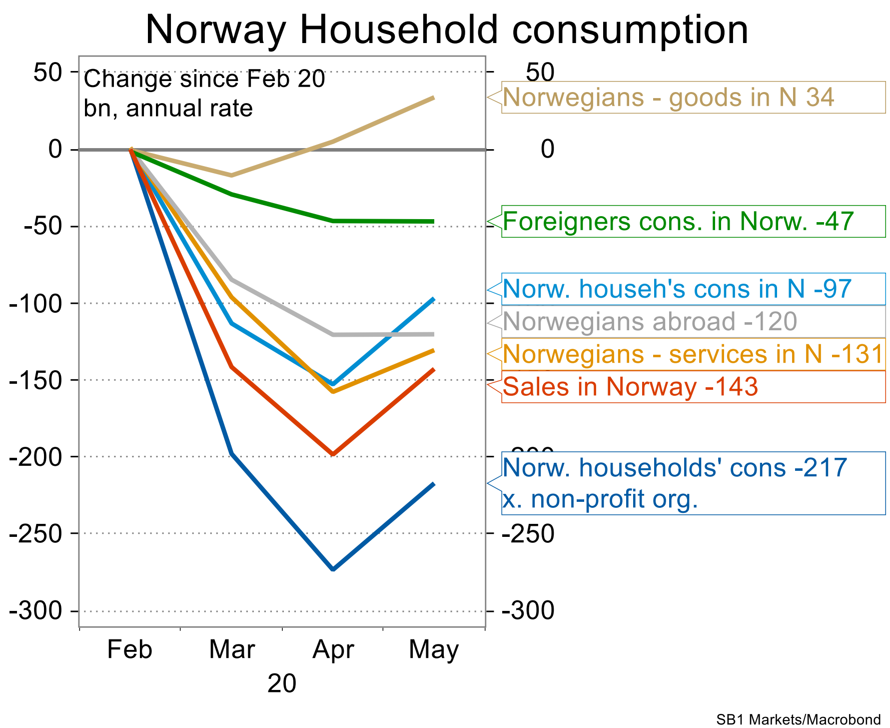


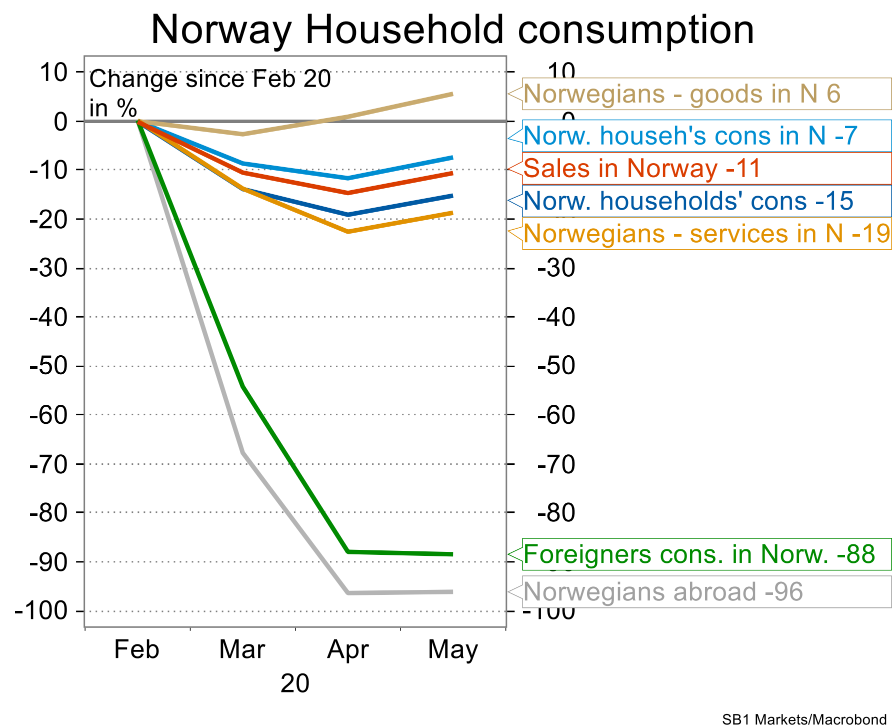
- Norwegian households have reduced their consumption abroad (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports, but less than the decline in imports)

SpareBank 1 MARKETS

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

Domestic consumption is down 7%, sales are down 11% due to the collapse in foreign demand





- Norwegian households have reduced their consumption by 15% or 217 bn (annual rate) – of which 120 bn abroad (-96%) and 97 bn (-7%) in Norway. Their consumption of goods is up 6% (34 bn), while their spending on services in Norway is down 131 bn or 19%!
- Sales of goods and services in Norway to Norwegians and foreigners are down by 11% or 143 bn – of which 47 bn due to lower demand from foreigners in Norway (down 88%) and 97 bn due to lower domestic demand form Norwegians (-7%)
- Norwegian households' consumption of services will increase sharply in June and July but will very likely remain below the pre corona level. In July, foreigners will start buying in Norway again – and Norwegians will buy more abroad

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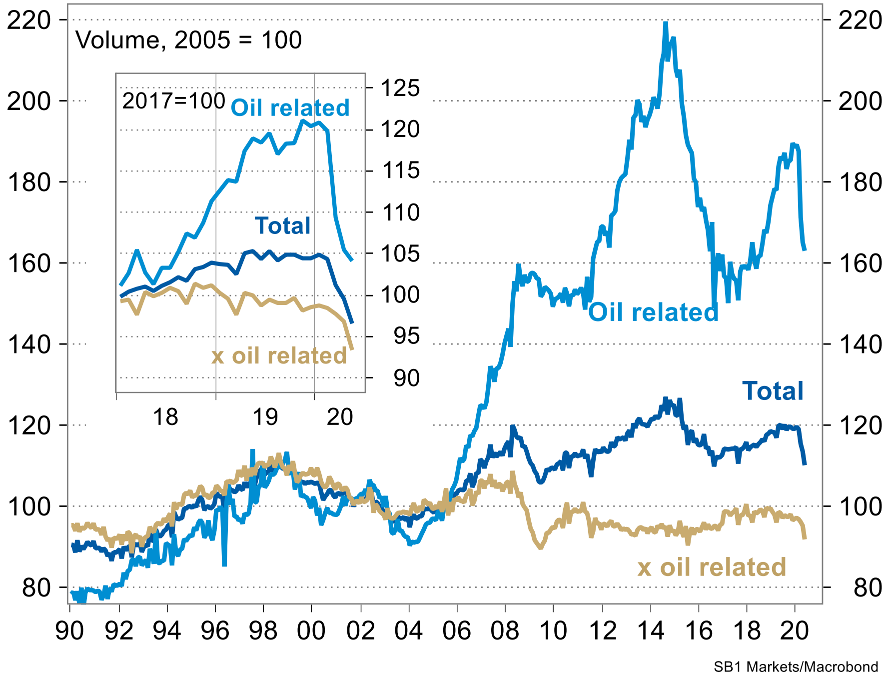
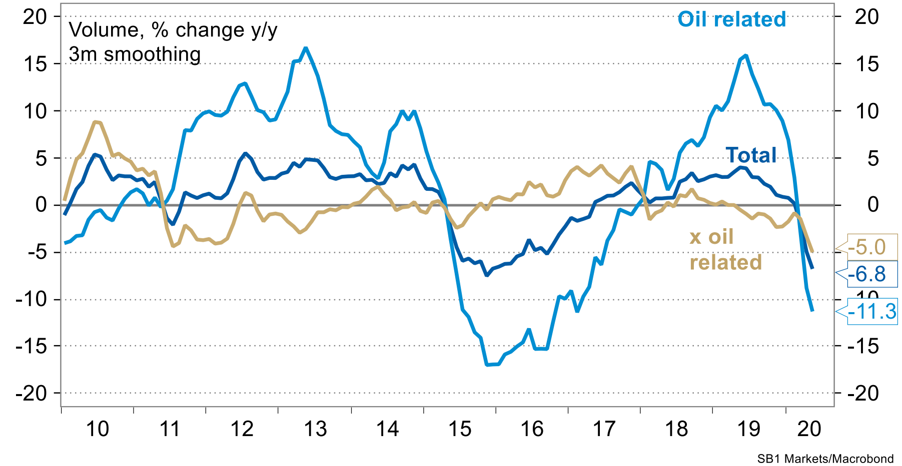
A broad manufacturing downturn – continued in May

Total production down 3% in May – and 8% since Feb. Oil related in the 'lead' but most sectors down

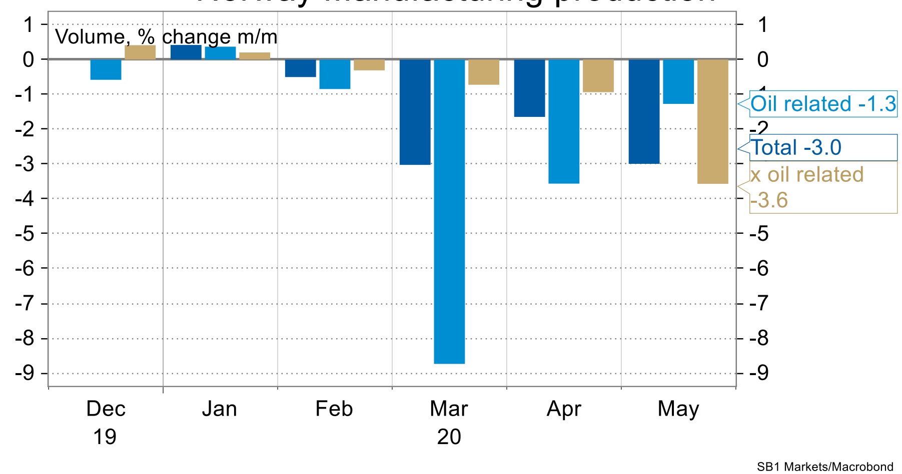
Norway Manufacturing production



Norway Manufacturing production



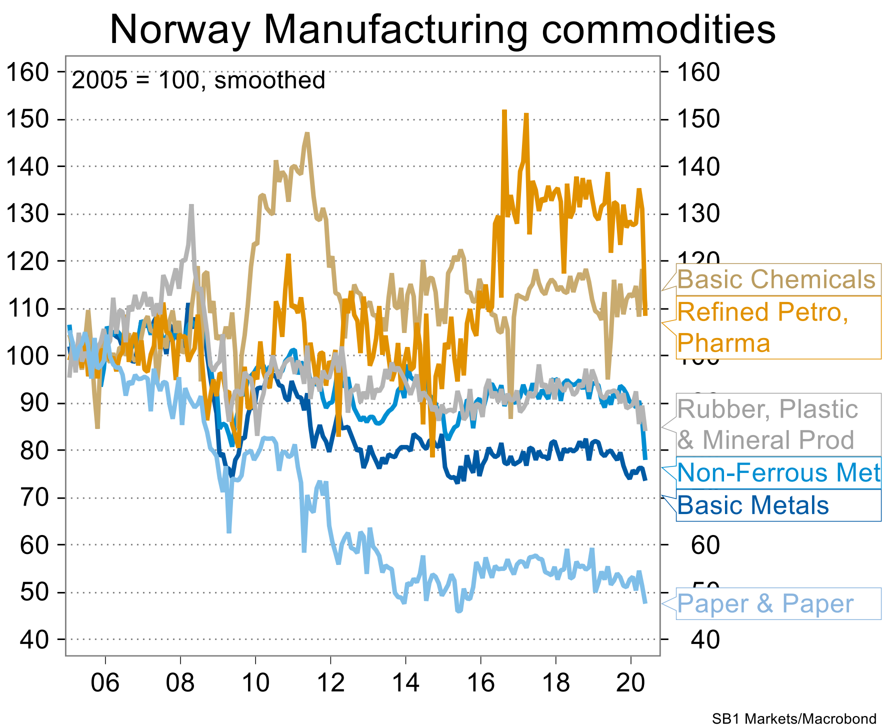
Norway Manufacturing production

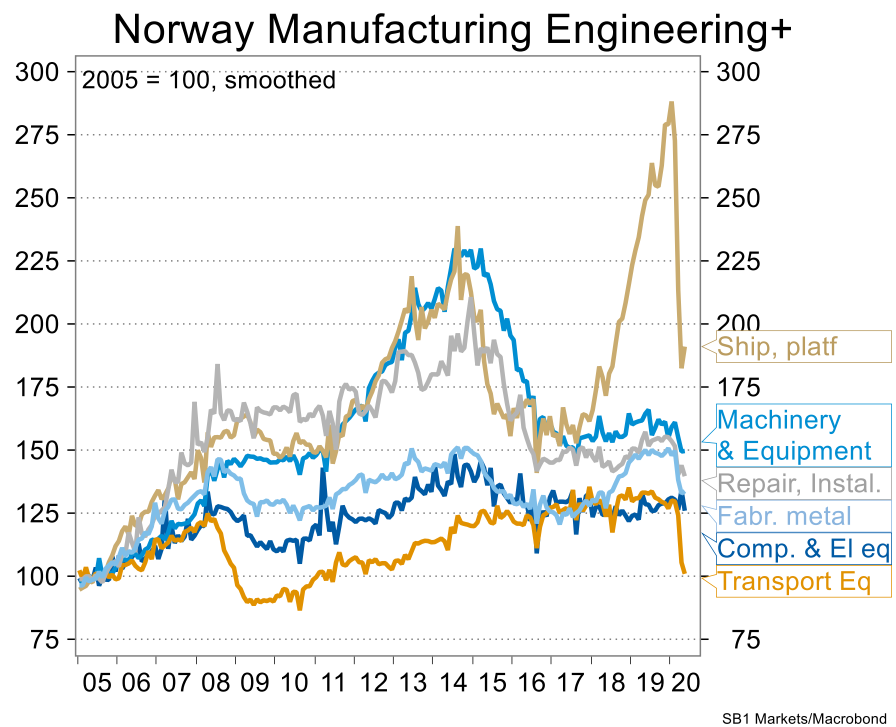


- Oil related manufacturing production has fallen by 14% since early 2020. Production in other sectors has fallen by more than 5%
  - » A substantial part of the decline in oil related production is probably behind us already, given reasonable forecasts for oil investments
  - » In other sectors, the downside should be limited, given the recovery in the global economy and no serious setback in Mainland demand, at least except ML business investments. However, the decline in exports is perhaps not yet reflected in production in some sectors
- Surveys signal a further decline in production, even if the June PMI not was far below the 50 line. Norwegian manufacturers will probably lag foreign producers on the way up, as they have lagged their peers on the way down

Less demand for pills, pharma production sharply down in May

Production down in other sectors too. Recent months: Production of ships/platforms down 1/3rd

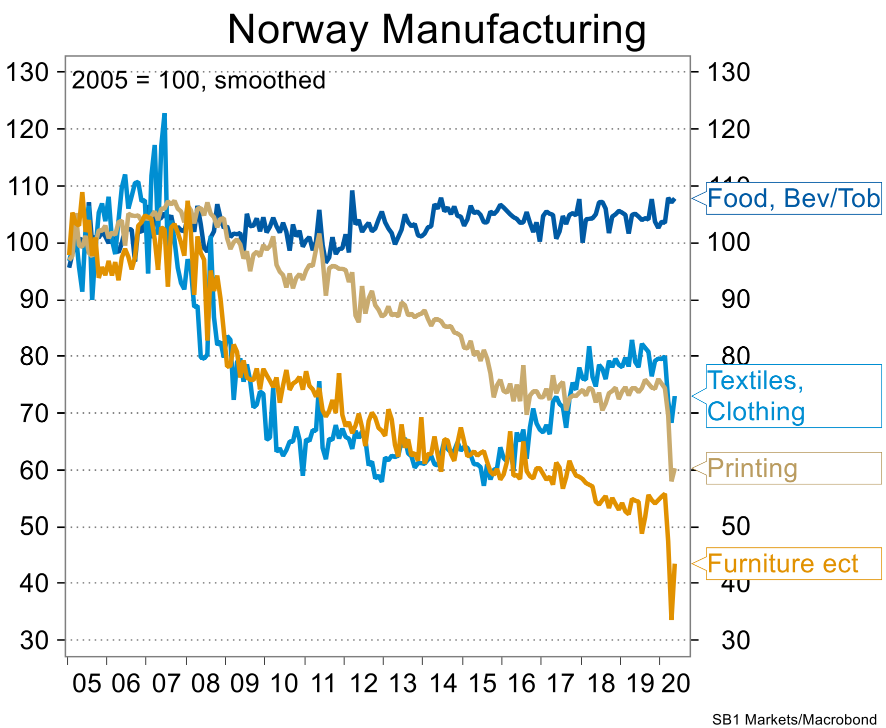




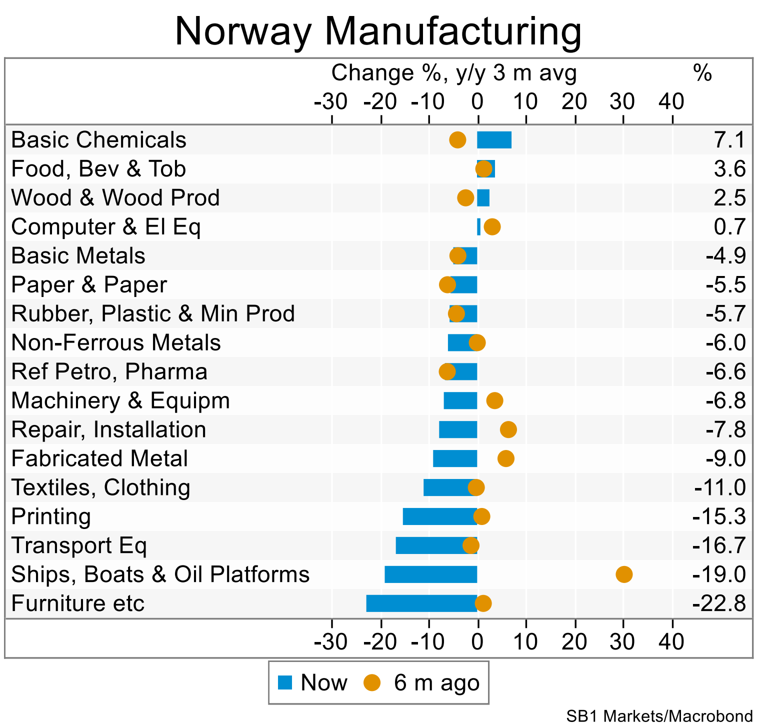
- Ships/platforms: Still above the 2016/17 'oil crisis' downturn following an extreme downturn – which CANNOT be explained by the corona crisis as production is based on long term orders/contracts – and may be due to 'holes' in the order book as the Johan Sverdrup field is completed
- Engineering sectors: Most partly oil-related sectors have lost some steam, particularly machinery & equipment production. Repair & installation is down 10%
- Commodities: None are impressive, just basic chemicals and non-ferrous metals close to flat, others are trending down

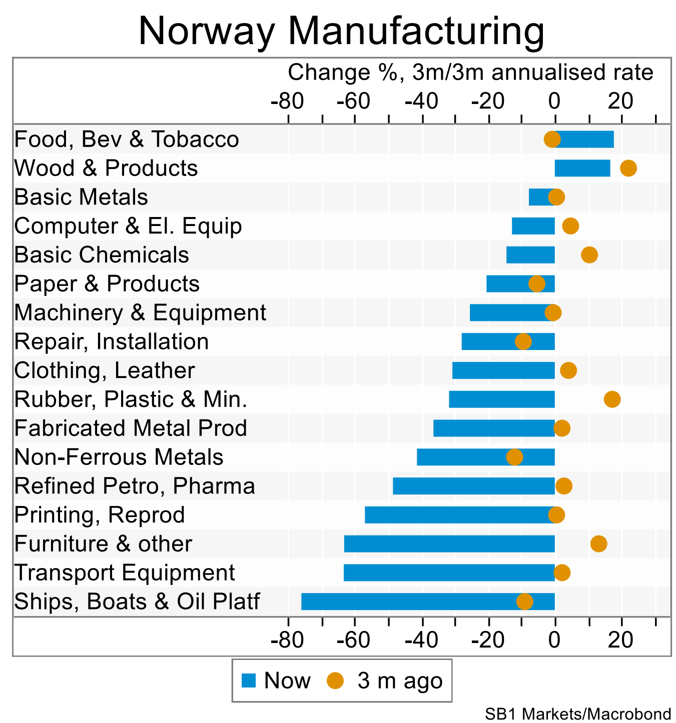
However, we still need food (and more than usual, as we buy/eat less abroad)

Other domestically oriented sectors down during the corona crises but all rose in May



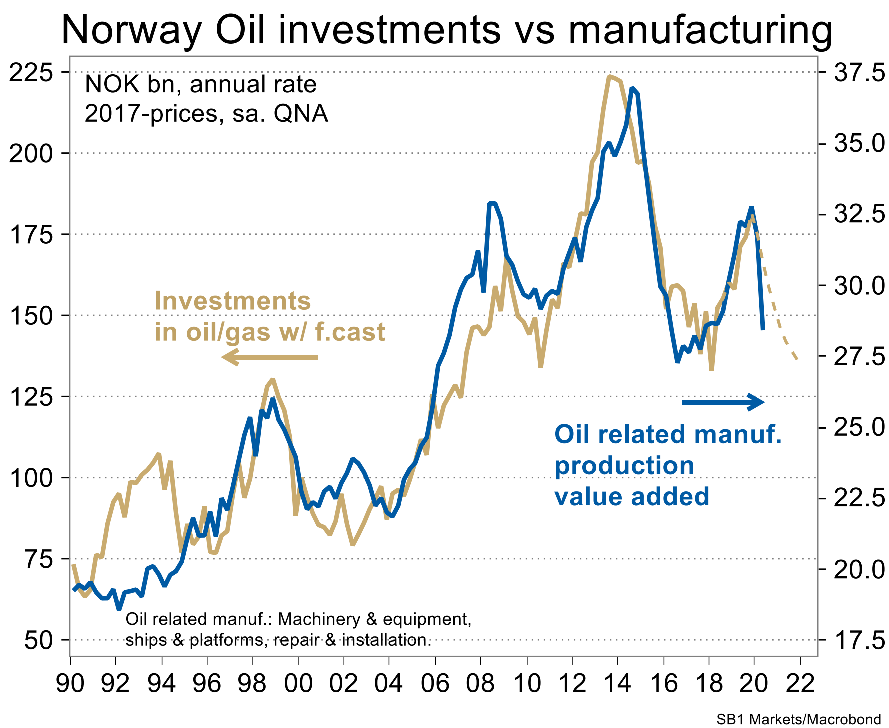
An unusual broad downturn this spring, just food & wood products up





Oil related production has soon fallen enough?

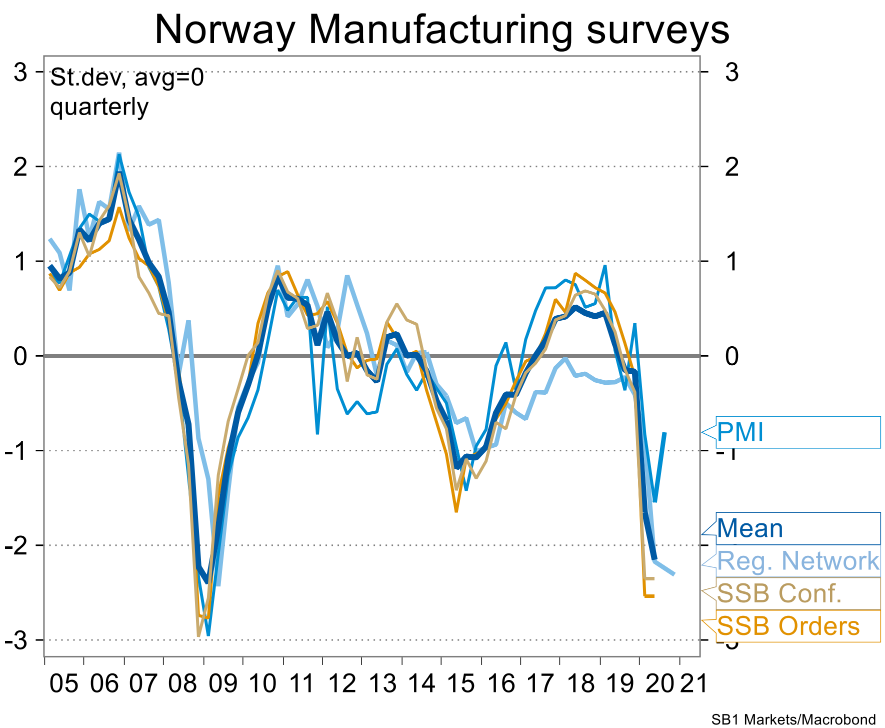
Oil investments are heading down but oil related production has fallen quite a lot already

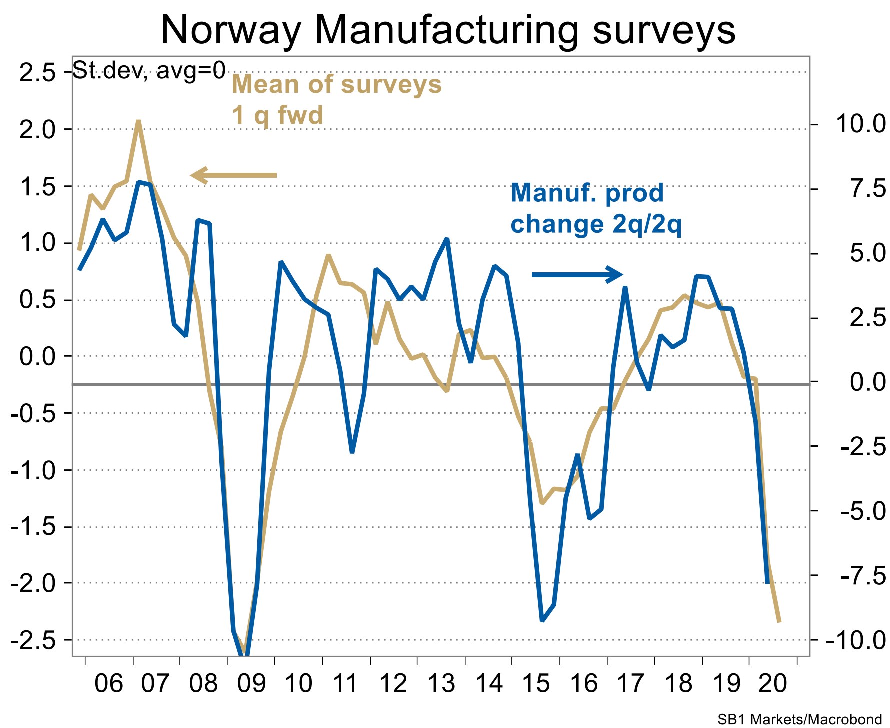


- Both oil sector investments and oil related manufacturing production peaked in Q4 last year, as we forecasted long time ago
- Oil companies have for a long period signalled a substantial decline in investments on the Norwegian shelf through 2020 and 2021 – and in the Q2 investment survey plans were revised further down
- The substantial tax cuts decide by the Parliament in June will no doubt reduce the decline in investments but we still forecast a substantial decline
- Oil related manufacturing production has fallen sharply since early 2020, and the downside is probably limited from the present level

Manufacturing surveys have so far signalled any recovery

All manuf. surveys x Reg. Network have softened, SSB's confidence survey the most downbeat

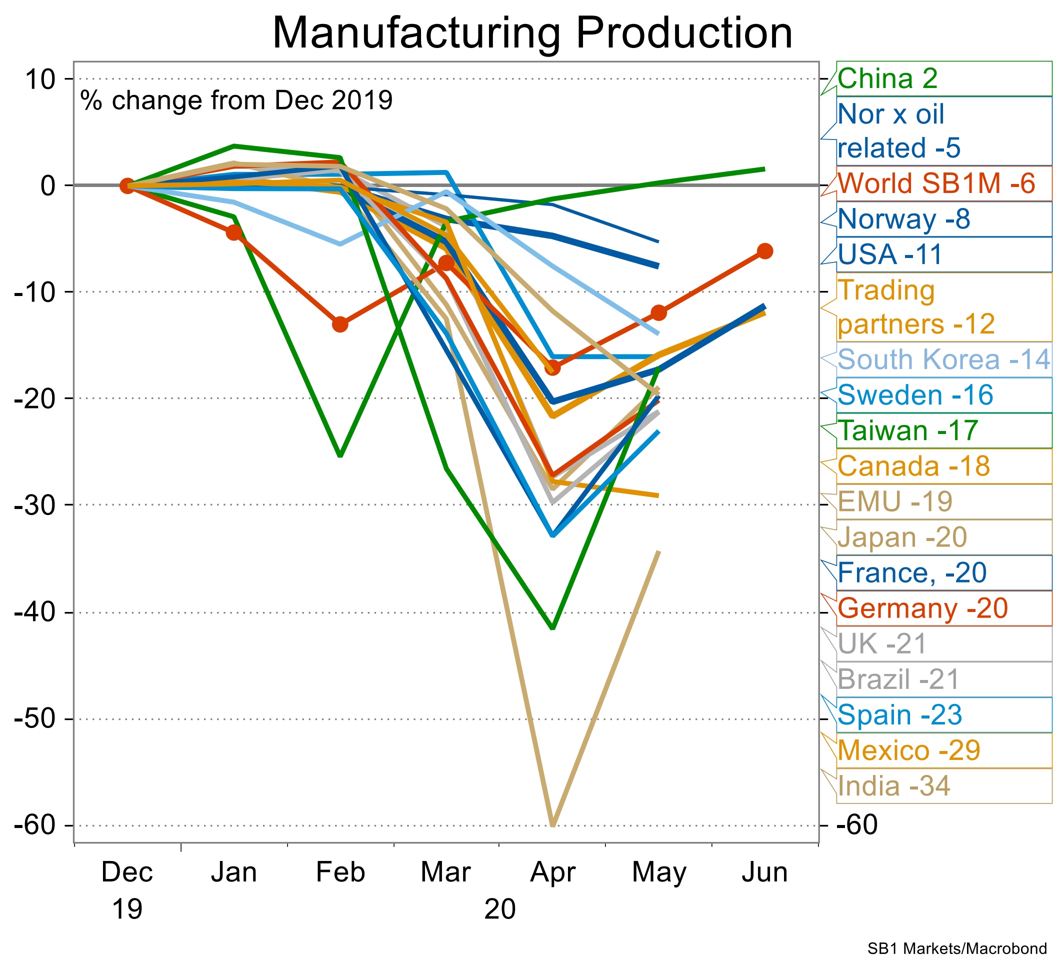




- In sum, the surveys suggest that production is set to stagnate the coming months/quarters
- SSB's industrial confidence survey points to a modest decline in production. The Q4 regional network was more upbeat, signalling just a slowdown (Q1 survey out this week)

Manuf. in Norway is heading down, most other climbed in May (and June)

However no other country reported at smaller decline in production in March/April than Norway!



- Even if oil related production fell sharply in these two months

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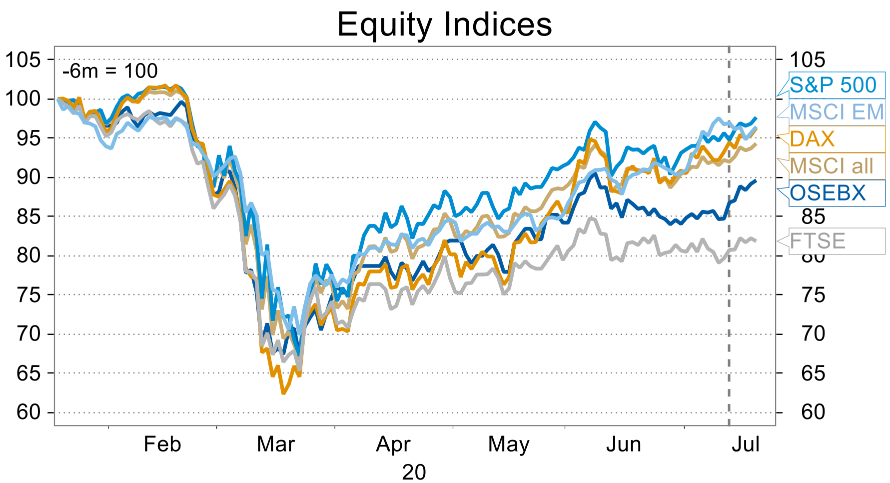
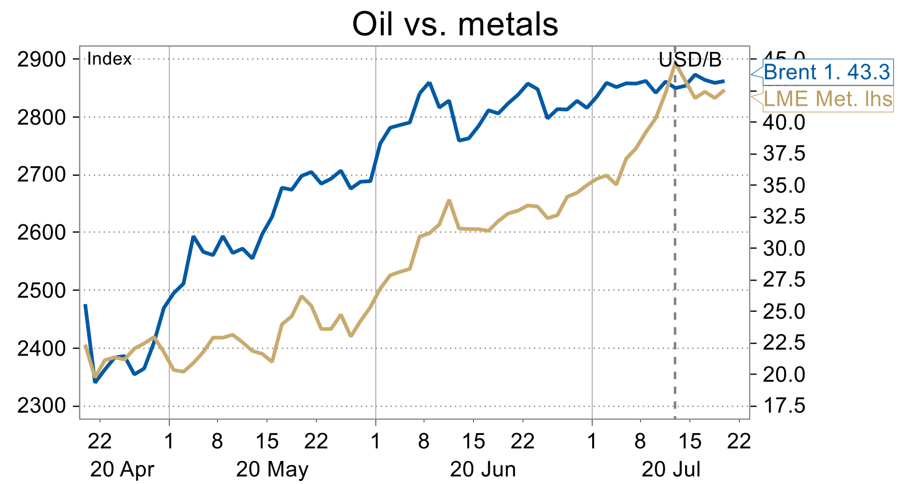
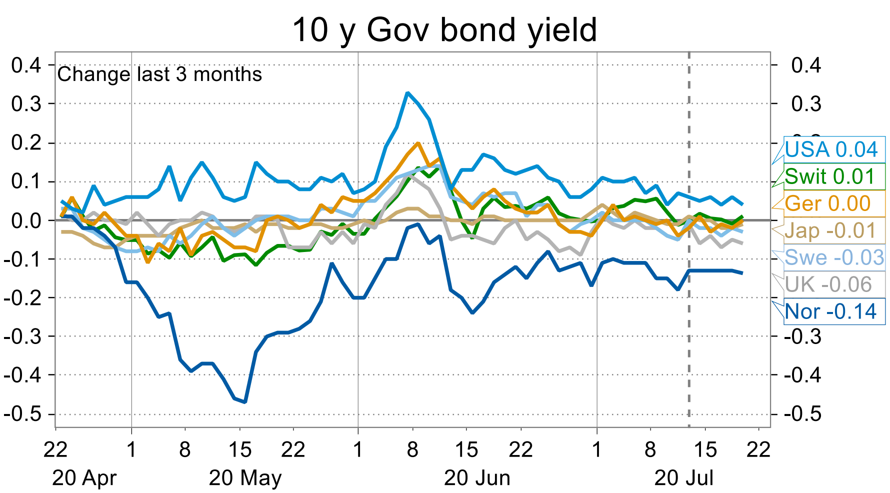
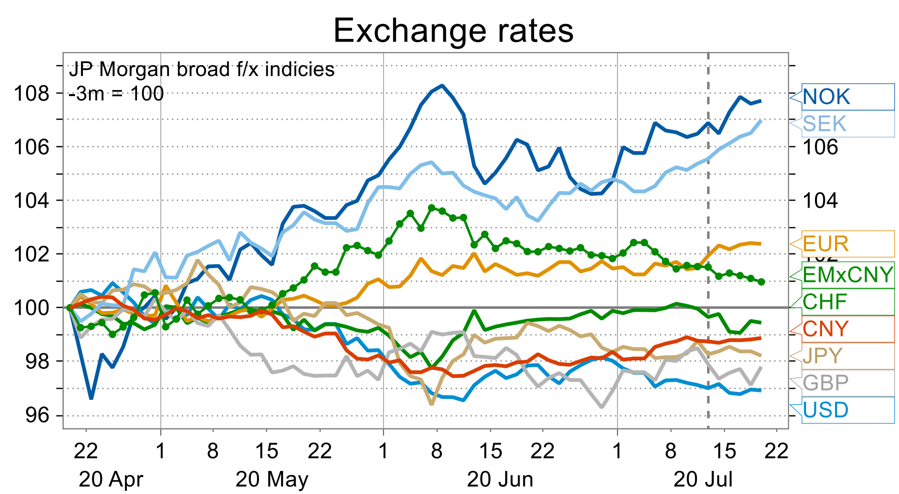
Most stock markets up, oil & metals too. Yields still sliding down

USD is depreciating somewhat. NOK (& SEK, EUR) has appreciated in July









NOK, SEK is recovering – and joined by the EUR last week.

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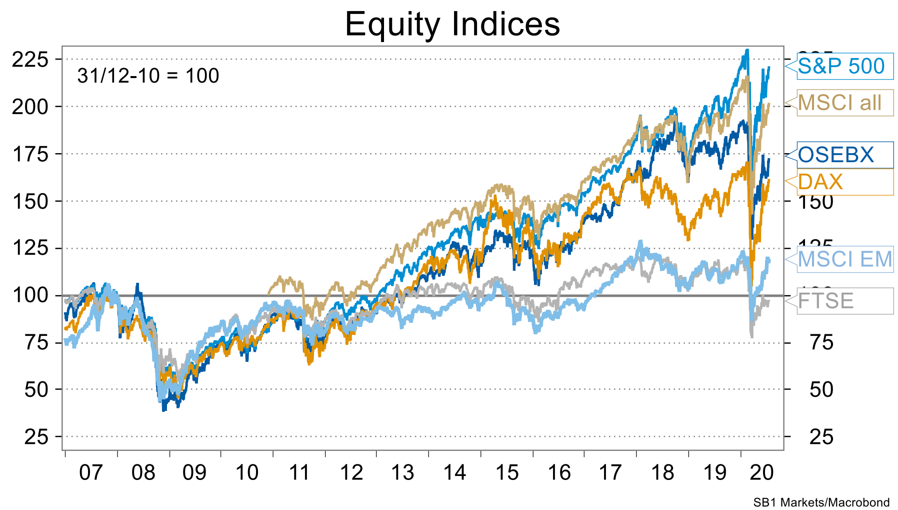
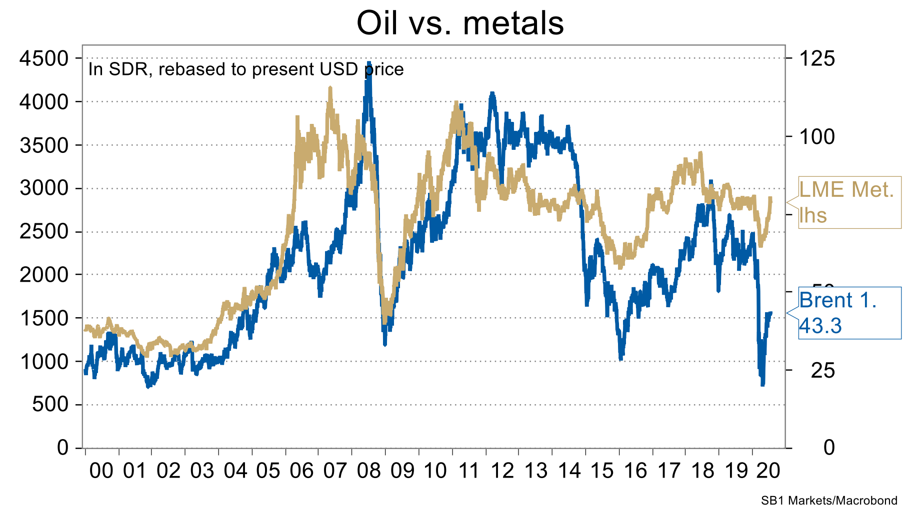
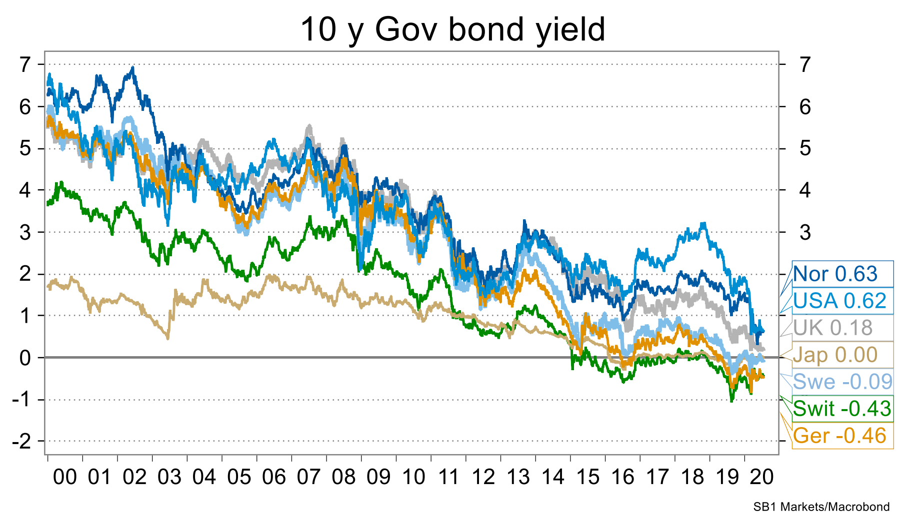
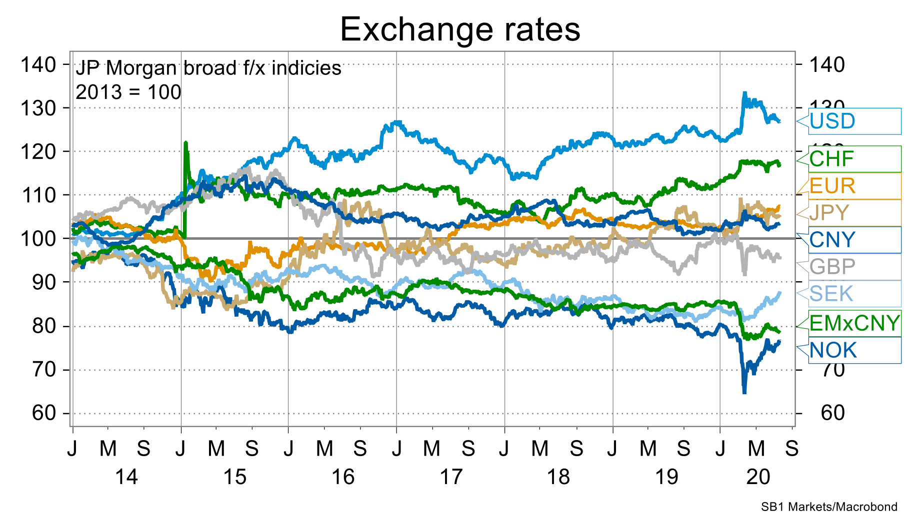
In the long run: Stock markets are looking like a 'V'

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





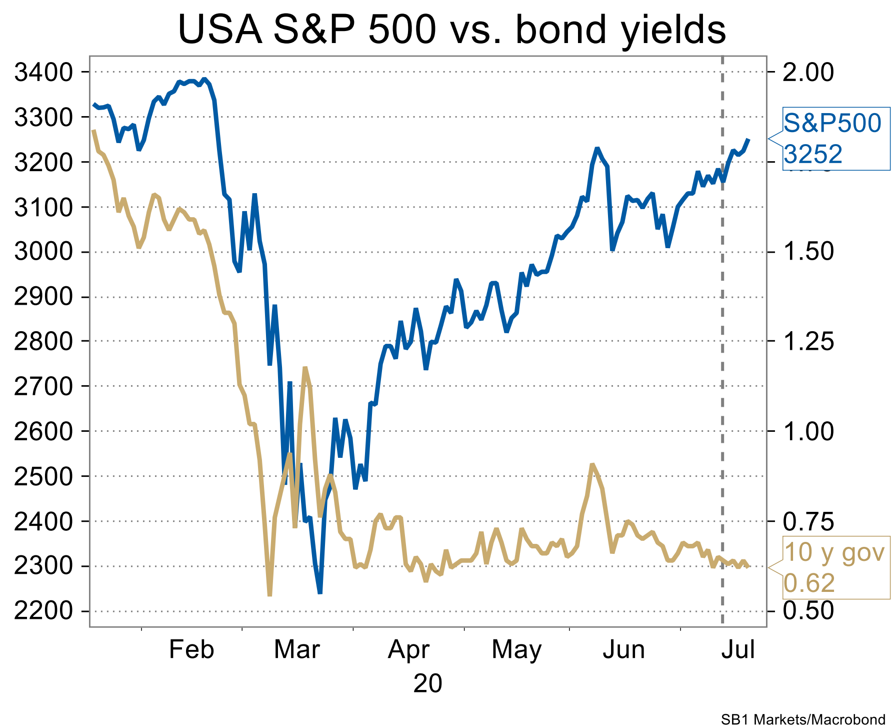


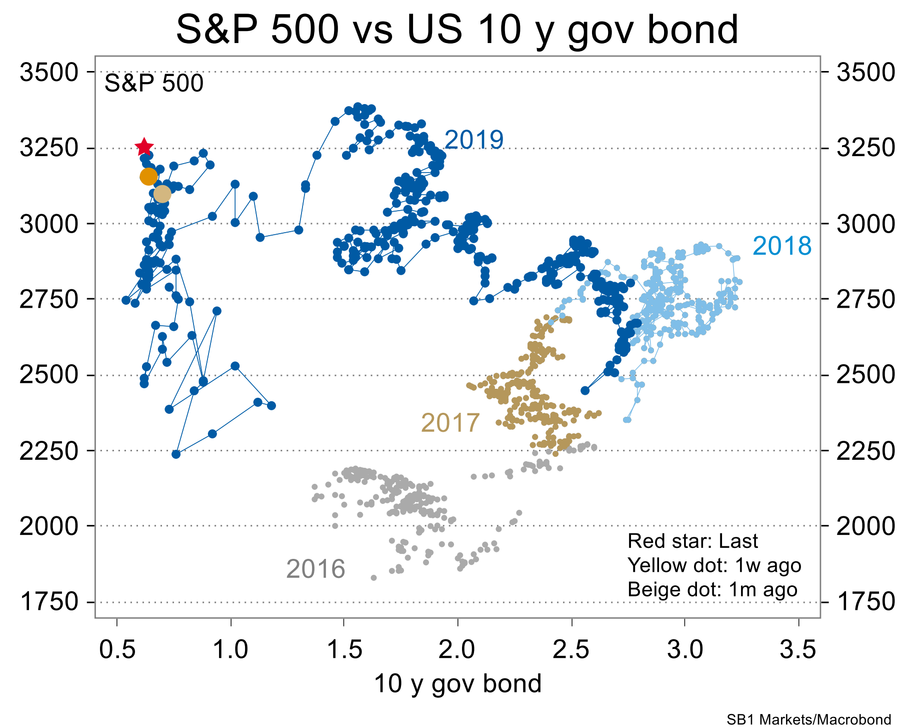


SpareBank 1 MARKETS

Stocks up, bond yields marginally down. Monetary policy will remain supportive

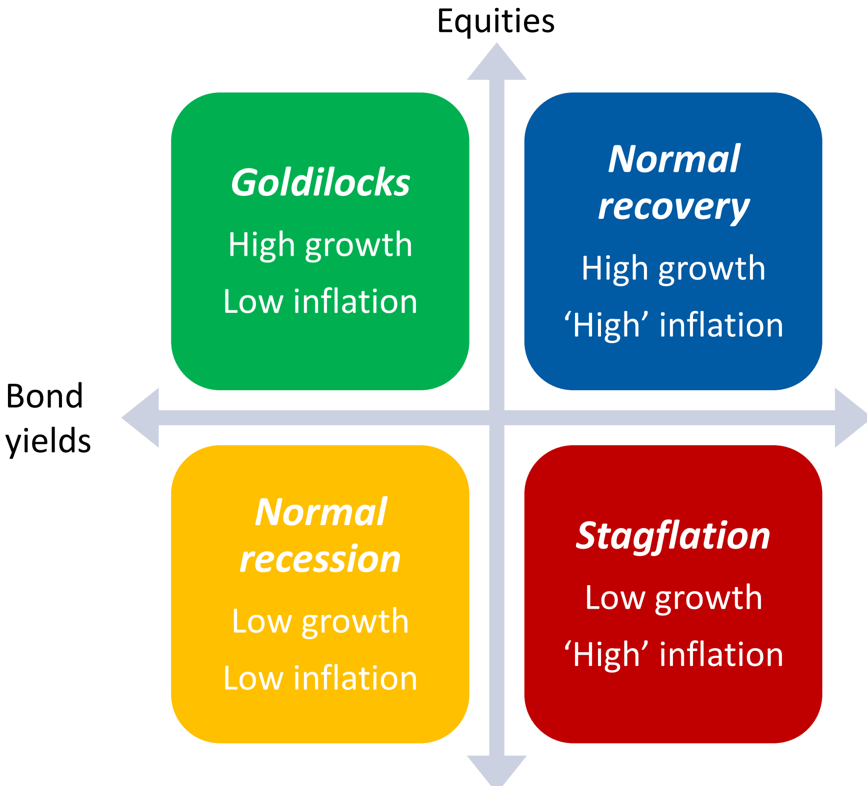
The 10 y gov bond yield down to 0.62%, close to the March ATL. Stocks not far below ATH (Nasdaq is)

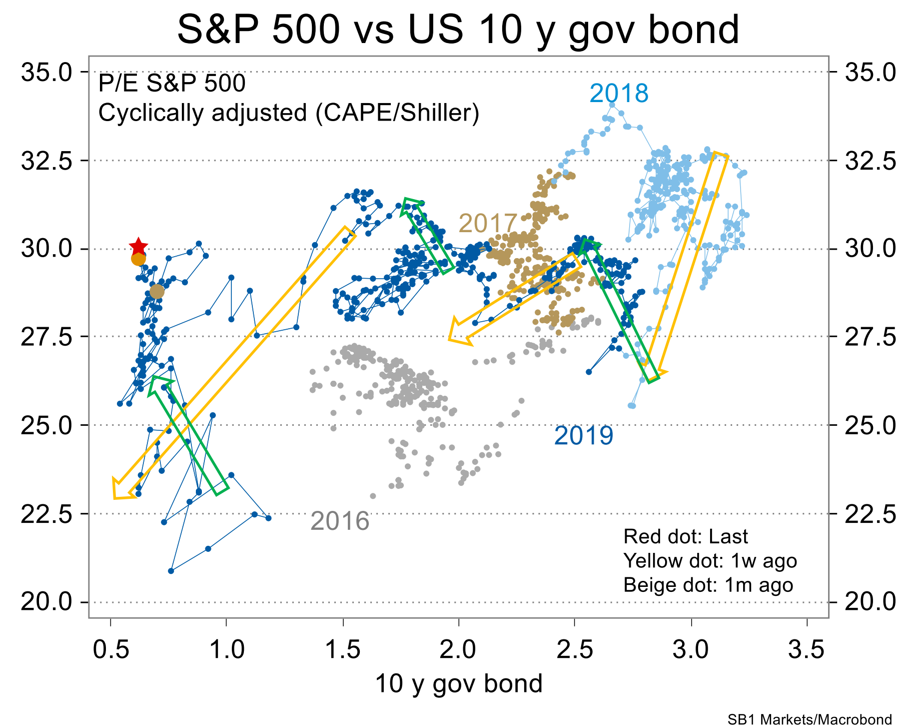




In July, so far: Corona take off or not, towards the goldilocks scenario

… data have been on the strong side – as has the corona virus, at least in the US

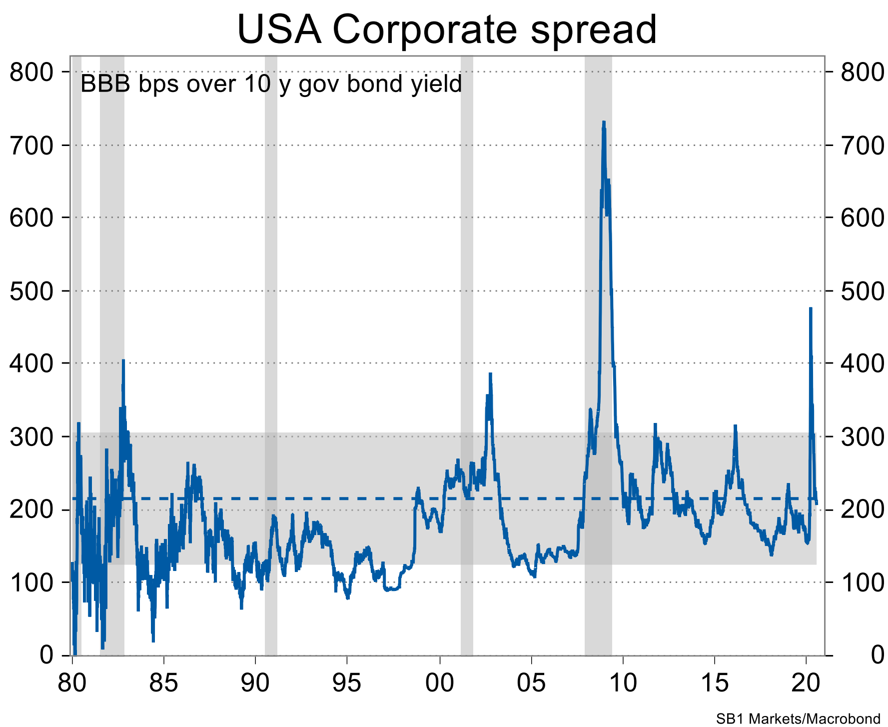


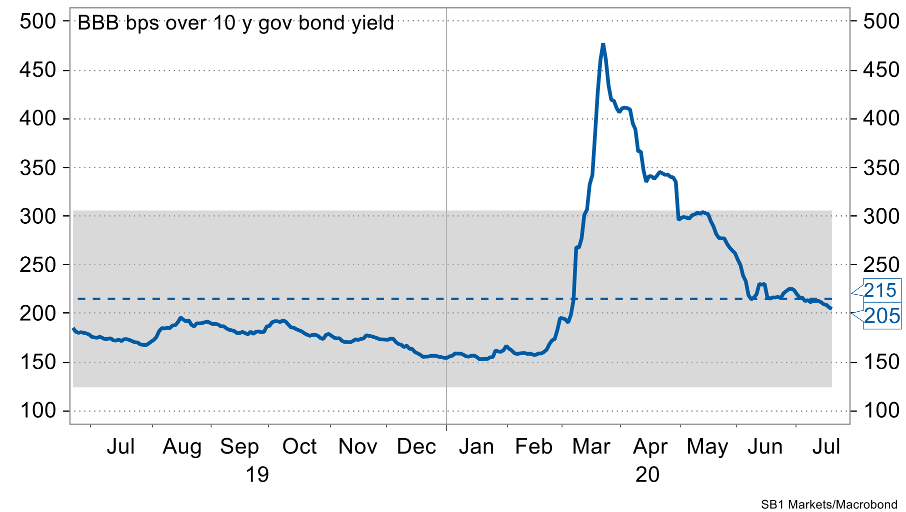


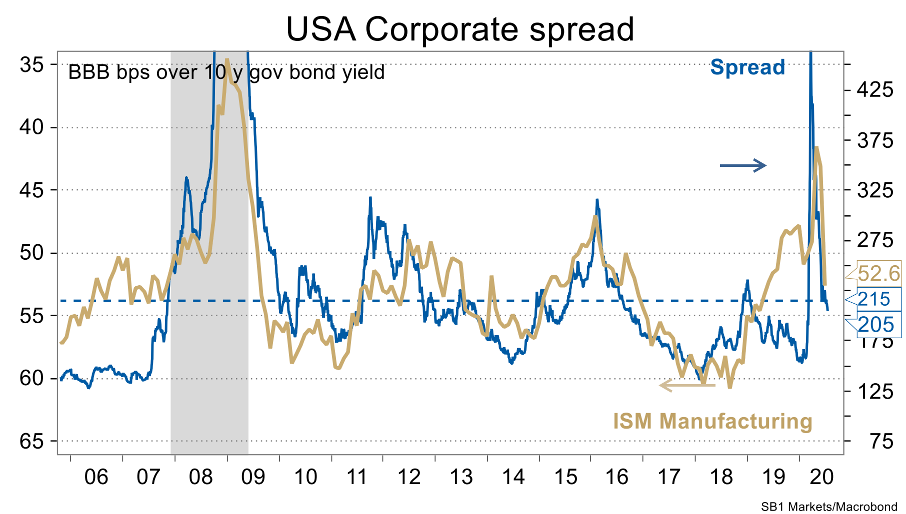
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic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

Corporate spreads are still drifting down – and are now below average

… supported by hopes of a 'V' shaped recovery



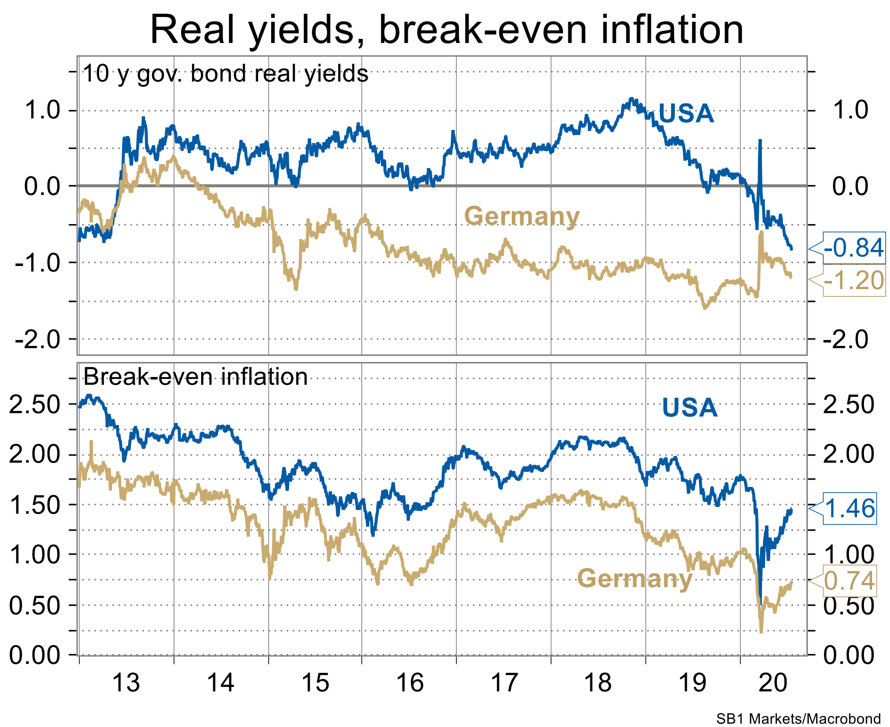


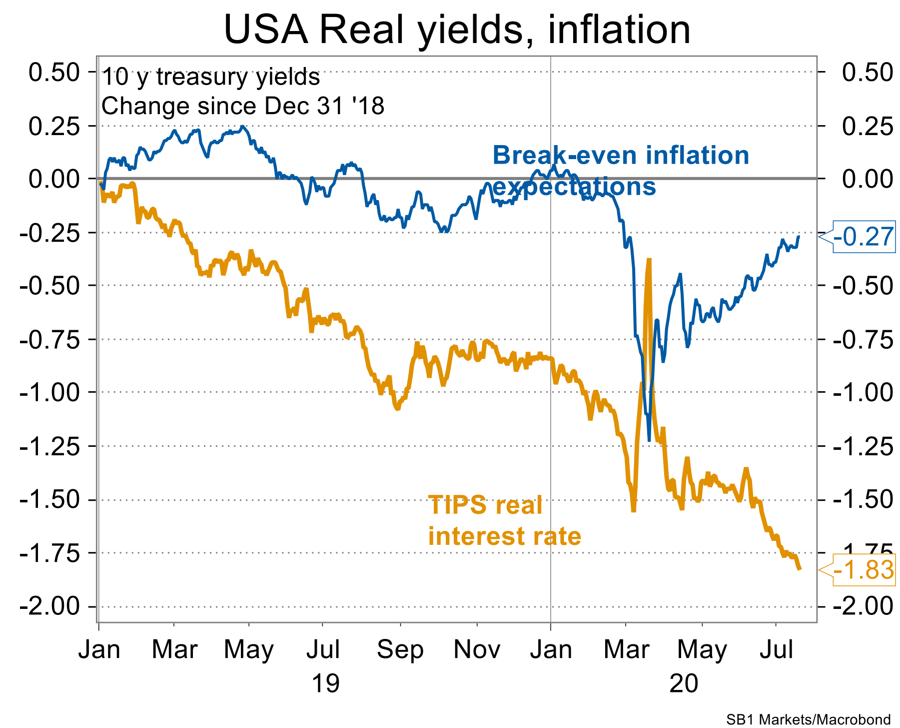


- However, is the credit risk at an average level now??

Inflation expectations are drifting up but still not high

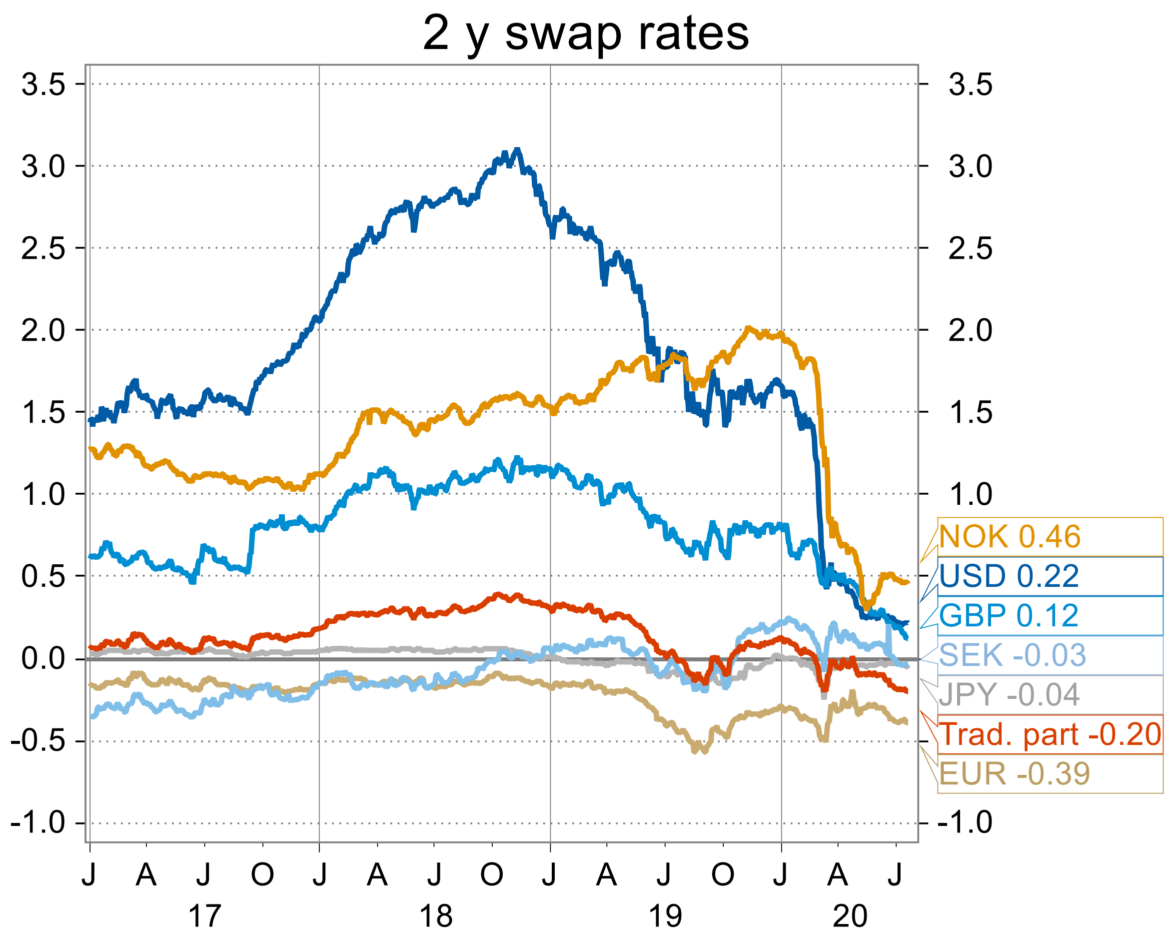
Real rates are drifting lower



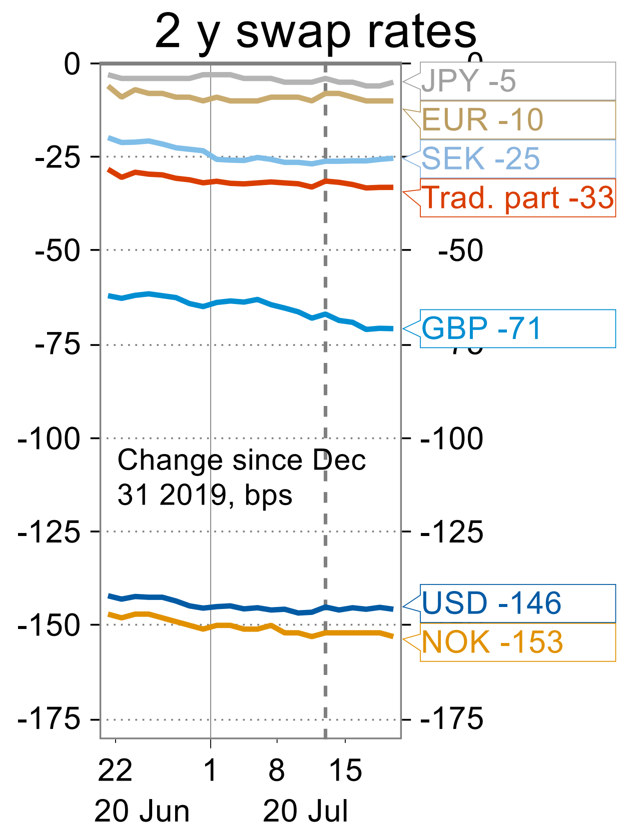


- Real interest rates are falling further – more in the US than in Germany. US 10 y real rate at -0.84% is close to ATL at -0.87% in 2012. In between time, it has been above +1%

Short term rates are trending down again, most places

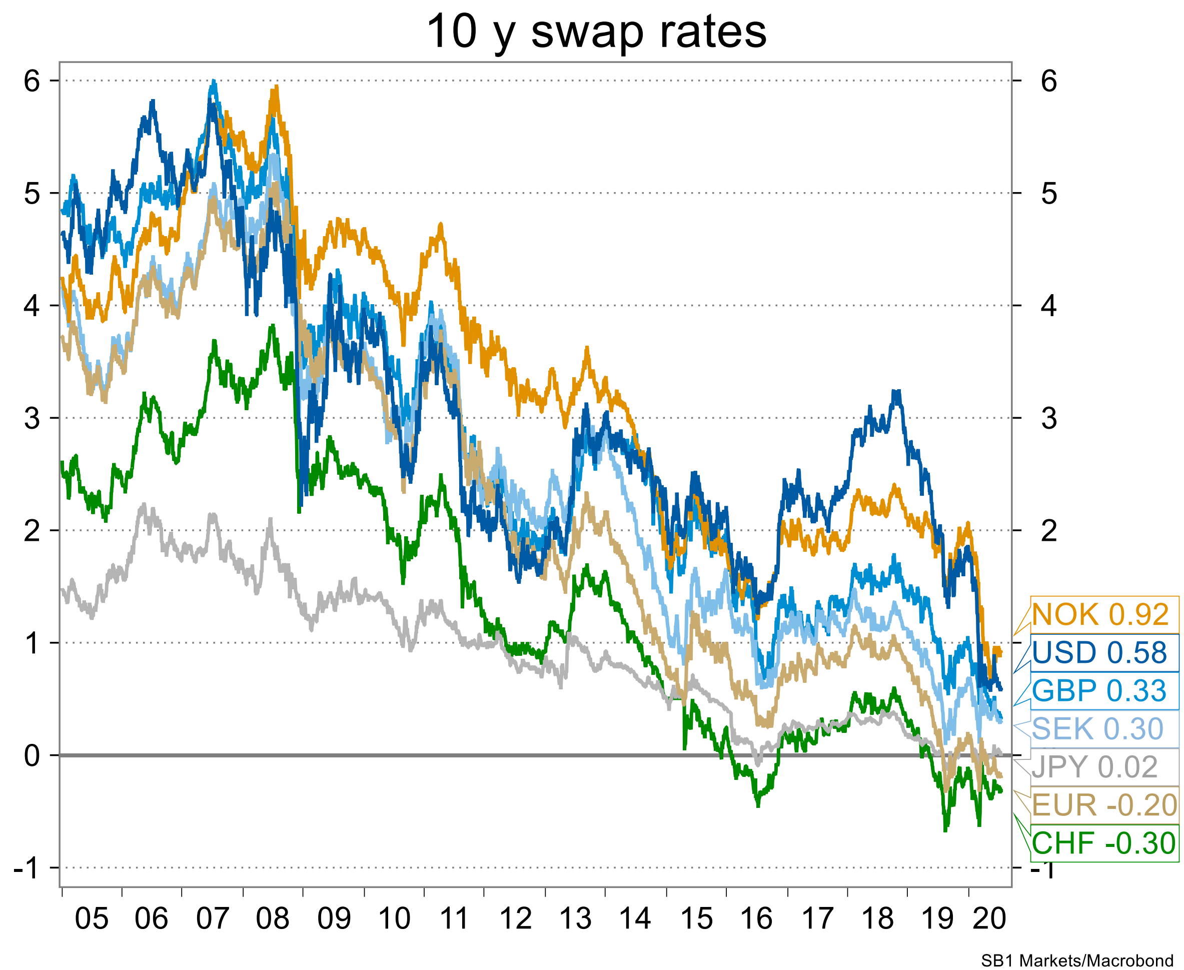


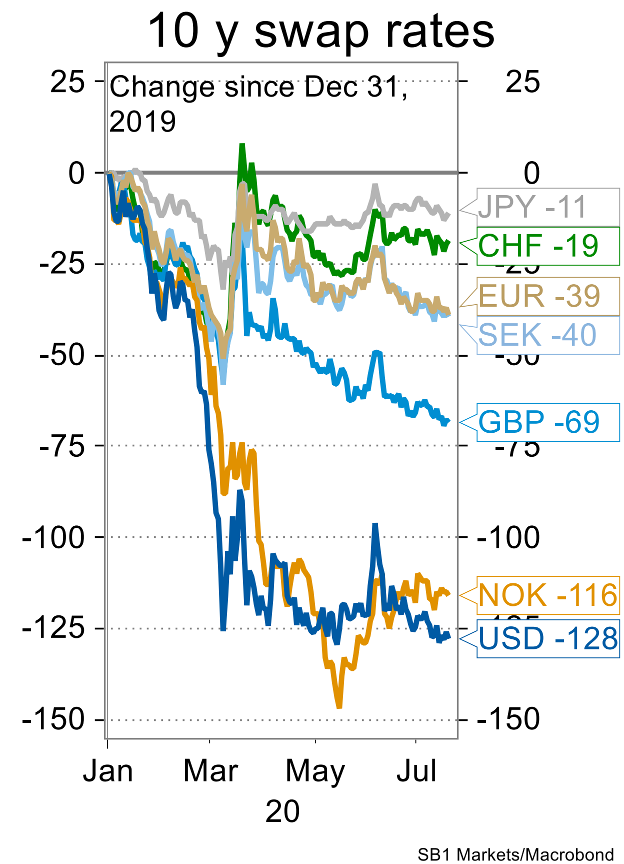
SB1 Markets/Macrobond



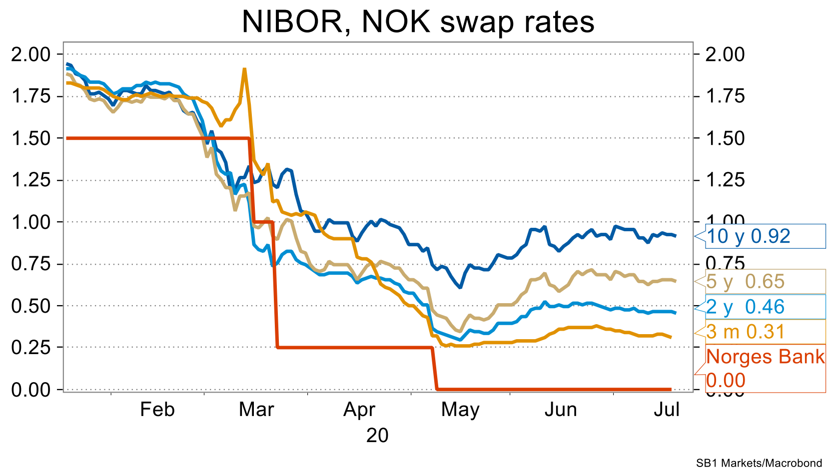
SB1 Markets/Macrobond

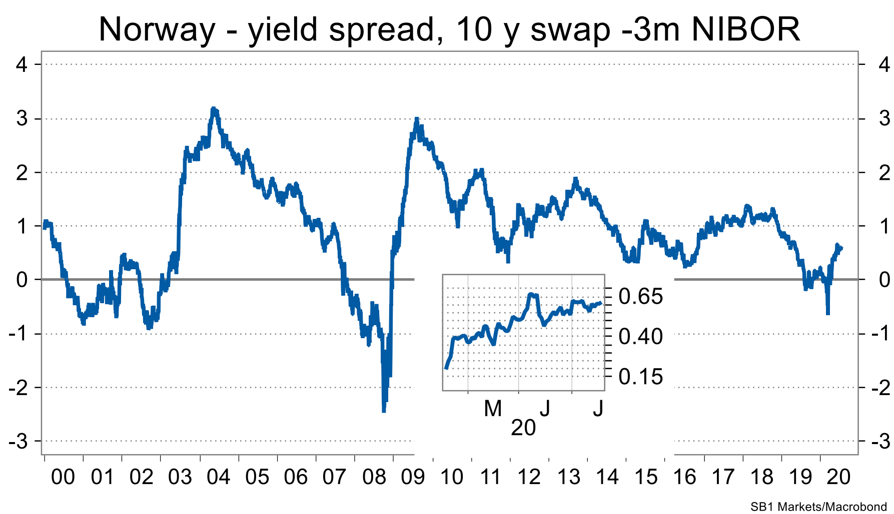
Slightly up last week, everywhere

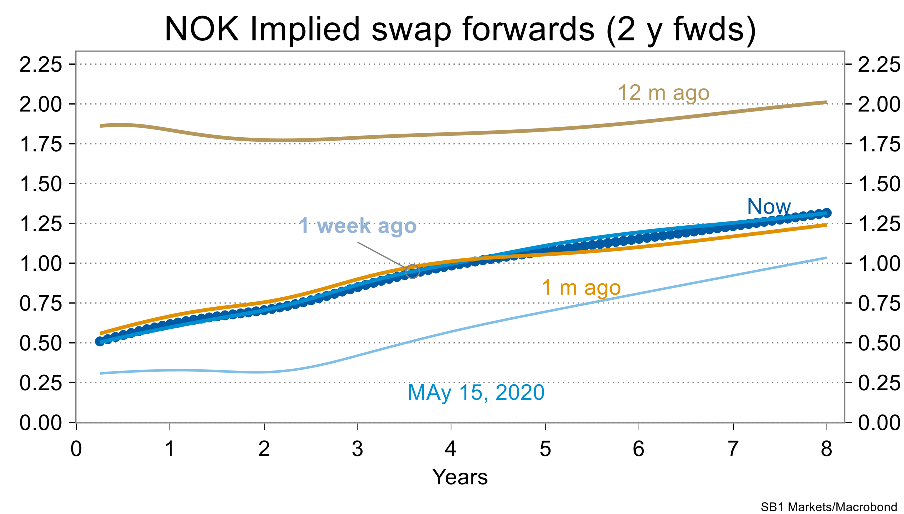




Stable swap rates in July

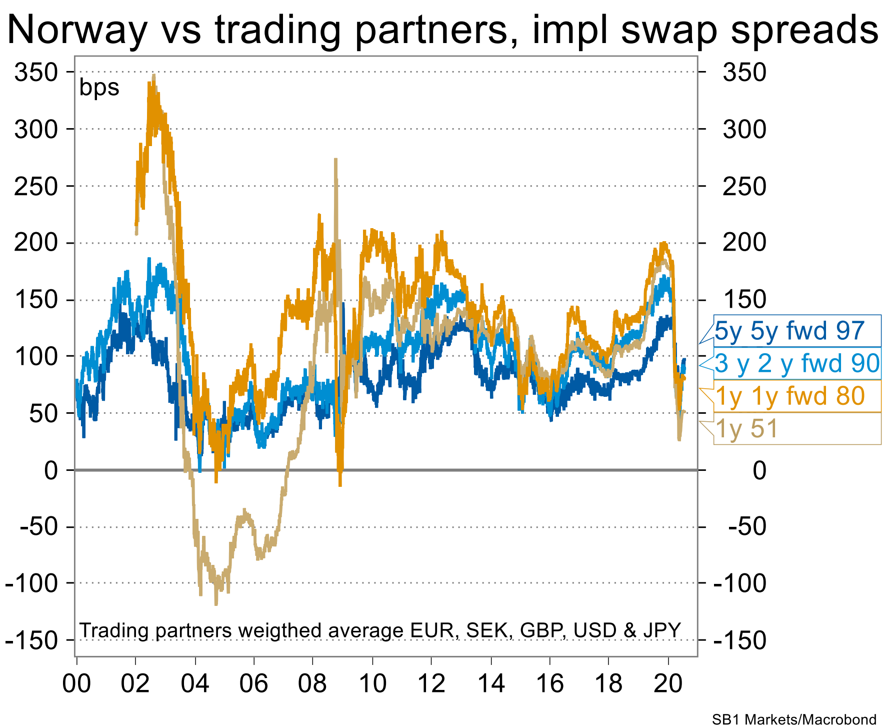


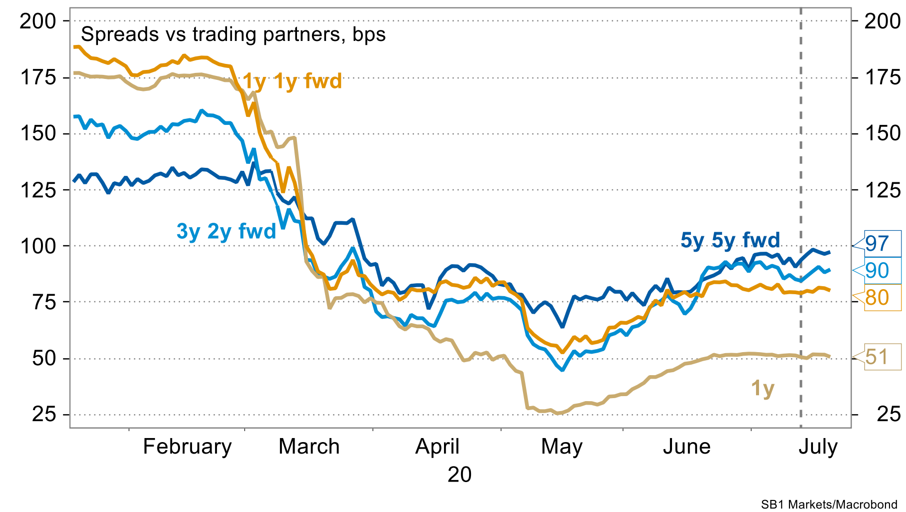


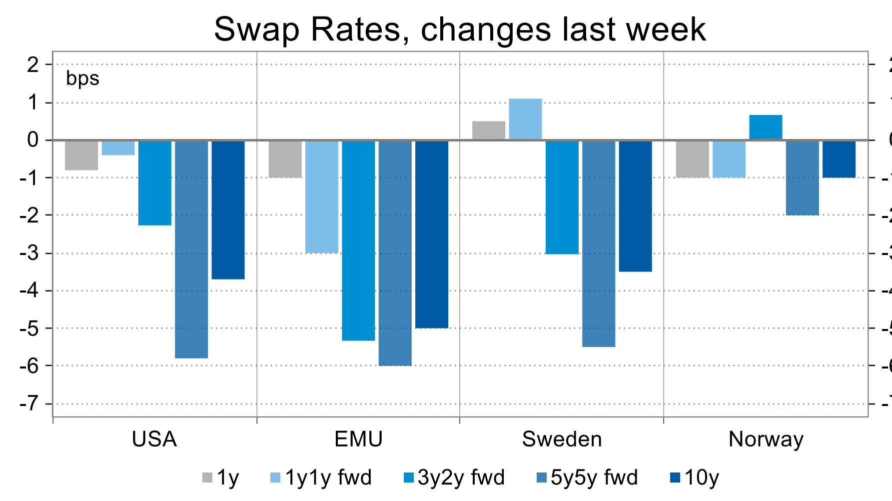


Longer swap rate up everywhere, more here than abroad

The spread has been widening since mid May but not further since mid/late June

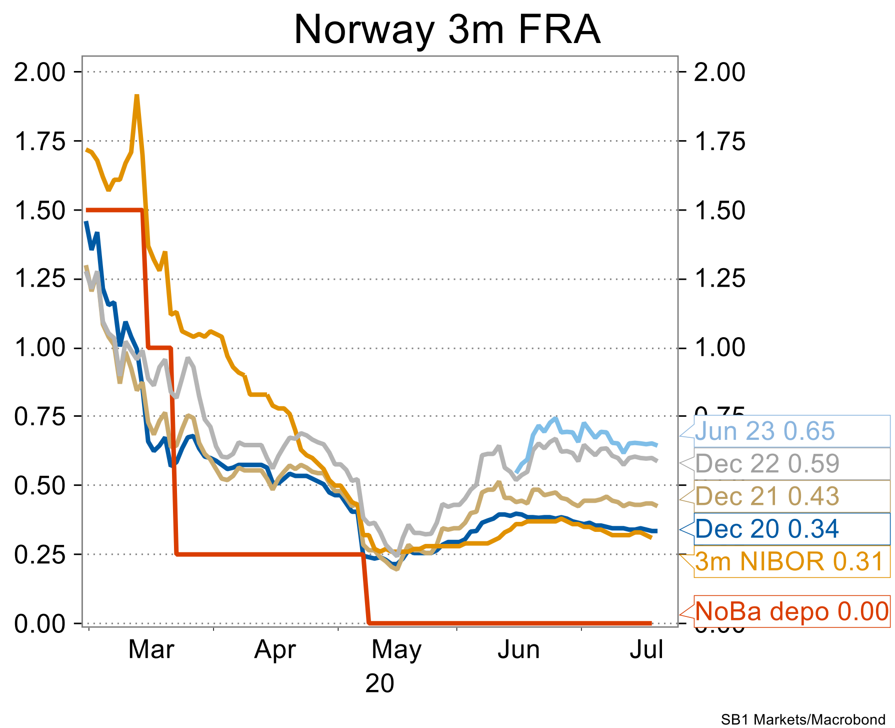


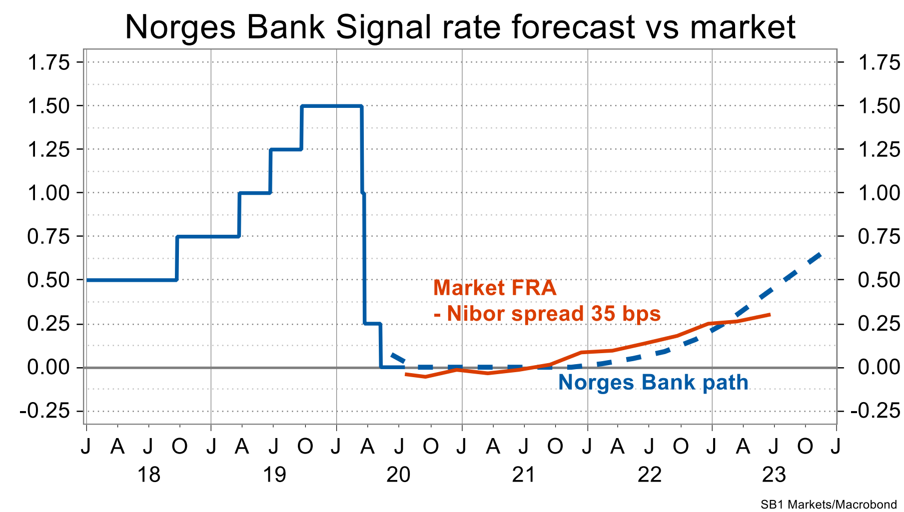


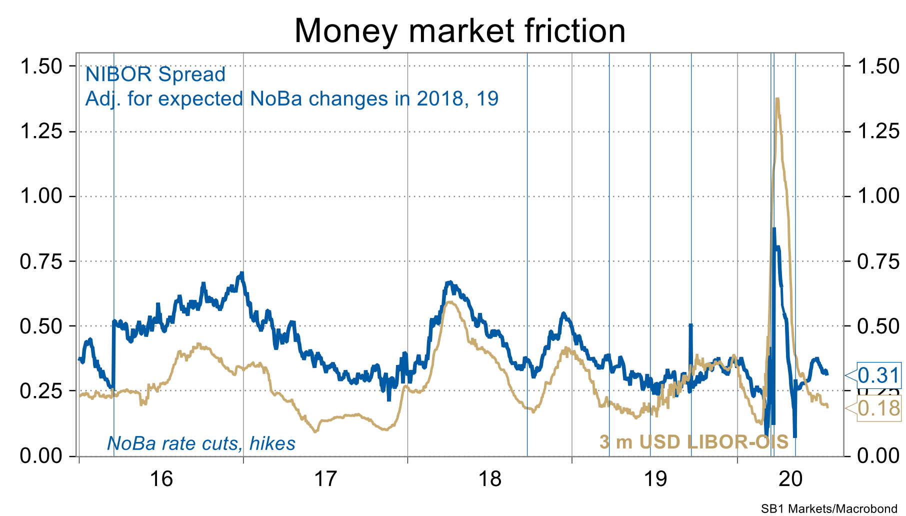


- Spreads vs. trading partners fell some 125 bps to mid May from late February – from a too high level. Since mid May, spreads have widened by 25 – 50 bps
- We are still neutral vs. the spread

The 3 m NIBOR slightly down after end of Q1, now at 0.31%

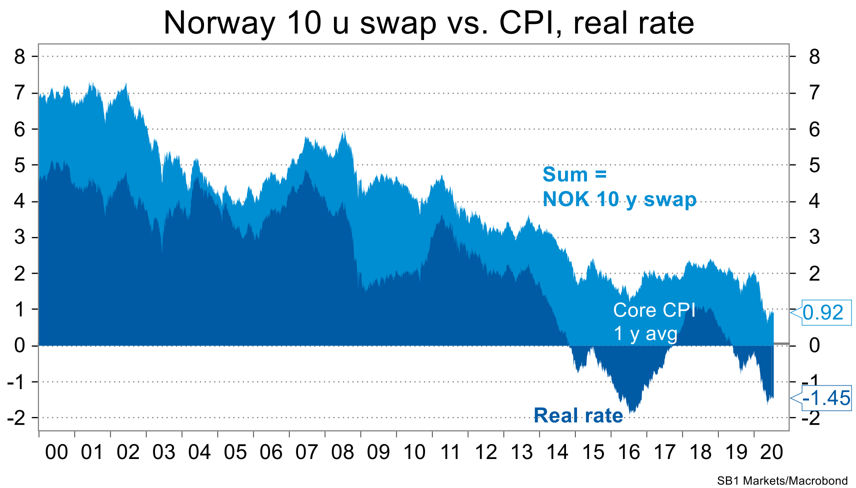




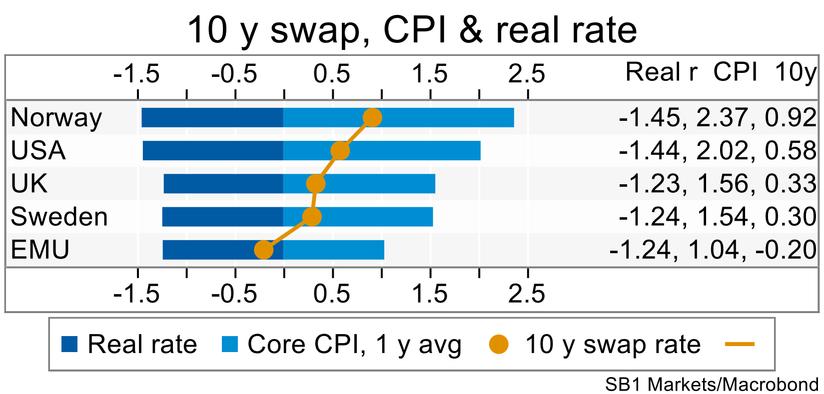


The FRAs are pricing an almost 50% probability for late 2021 hike and a first hike in Q4 2022 is fully priced in. A lift in late 2022 is just like Norges Bank signalled in mid June

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)

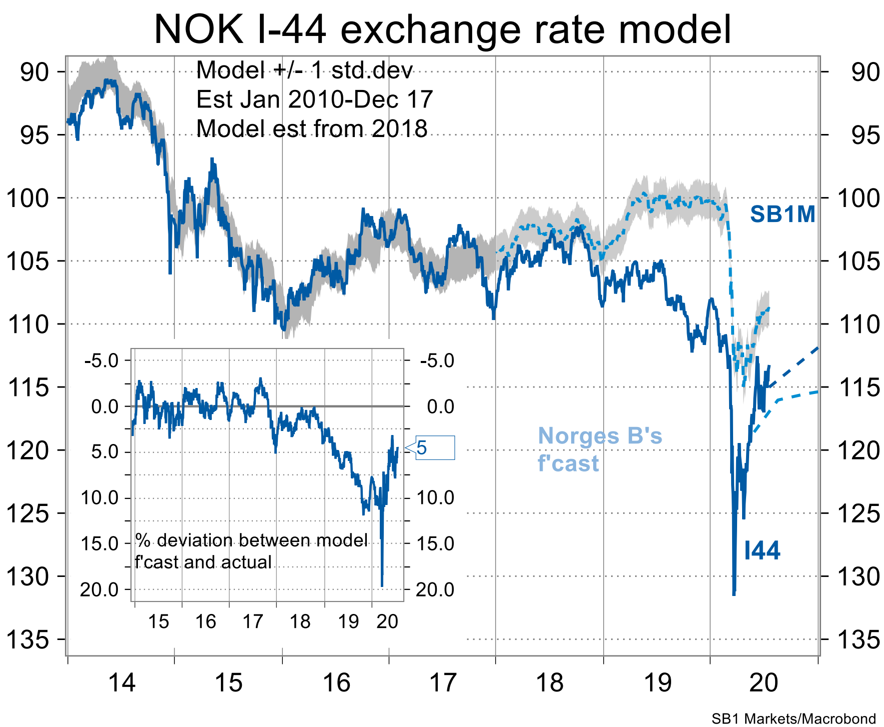


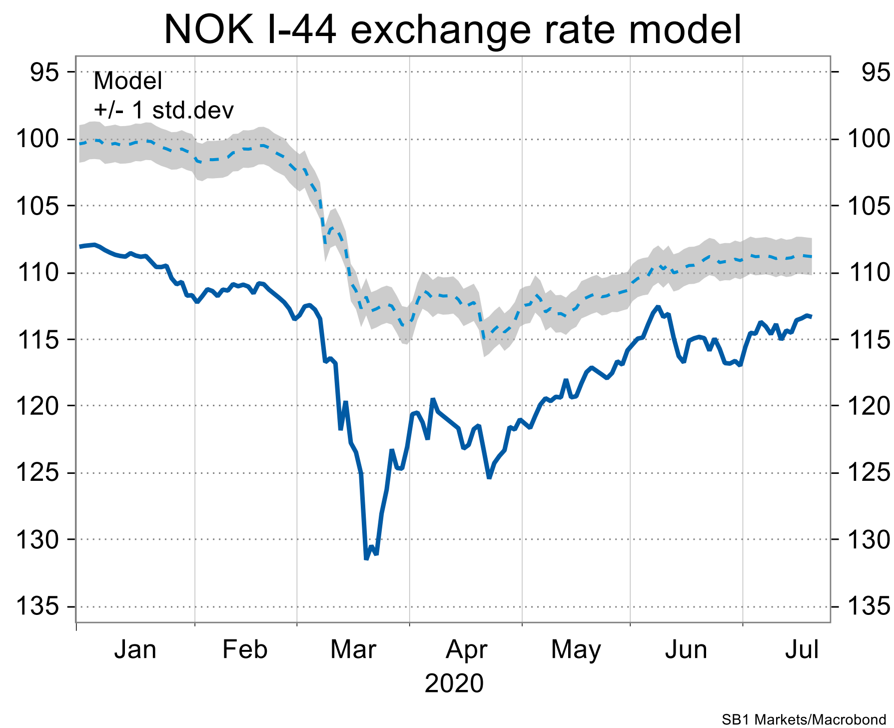
NOK real rates among the lowest

- Inflation among Norway and our main trading partners varies between 1.0 to 2.4% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US and Norway at the top, by a wide margin
- Real rates are quite similar among our trading partners, in the range -1.2% (EMU) to -1.4 to -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)

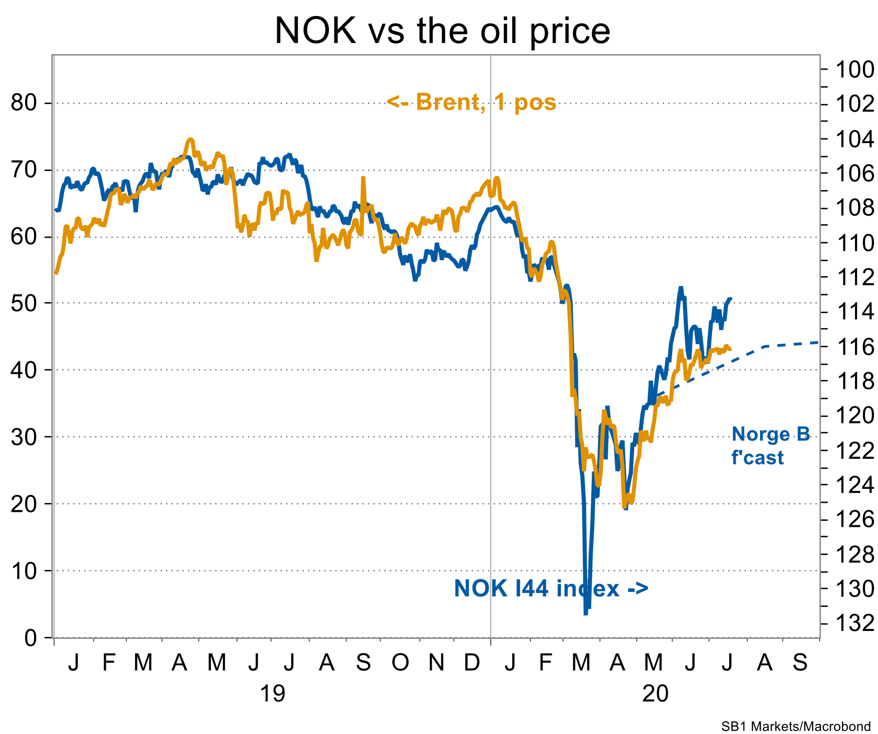
Reversing some of the 'non justified' depreciation past two 3 weeks

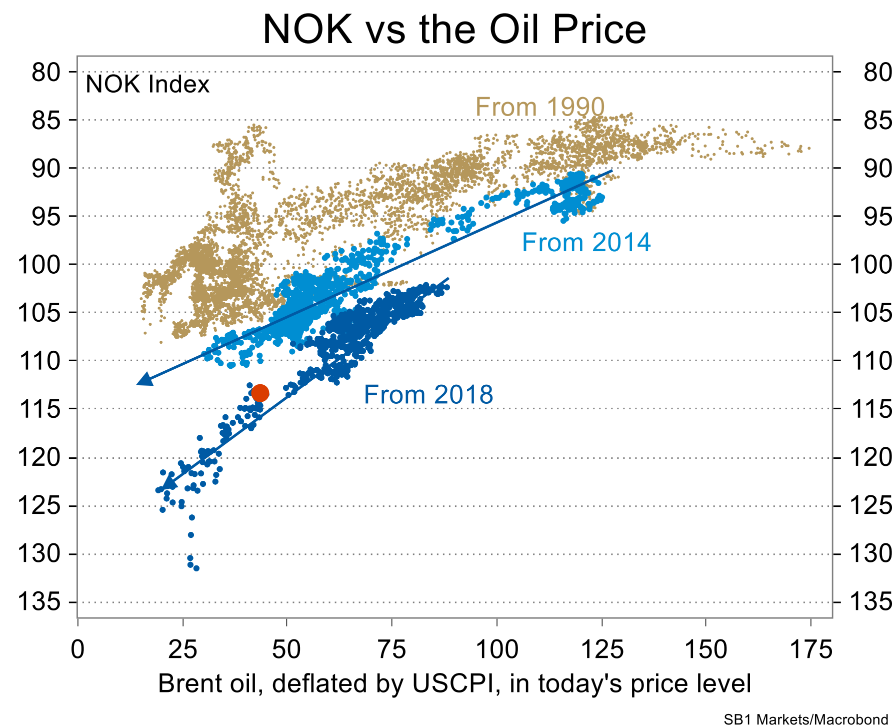




- Calmer risk markets – higher equity prices is a reasonable explanation, even if the long term correlation is zero (between global/Norwegian equities and the NOK)

The NOK "stronger" than the oil price





- 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. Now the NOK is on the strong side vs the oil price

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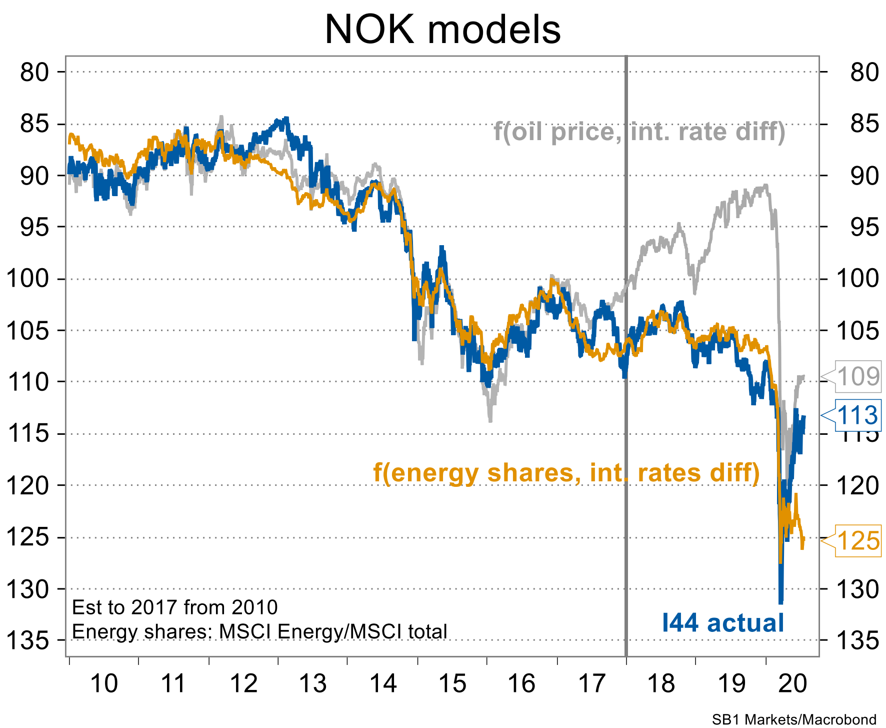
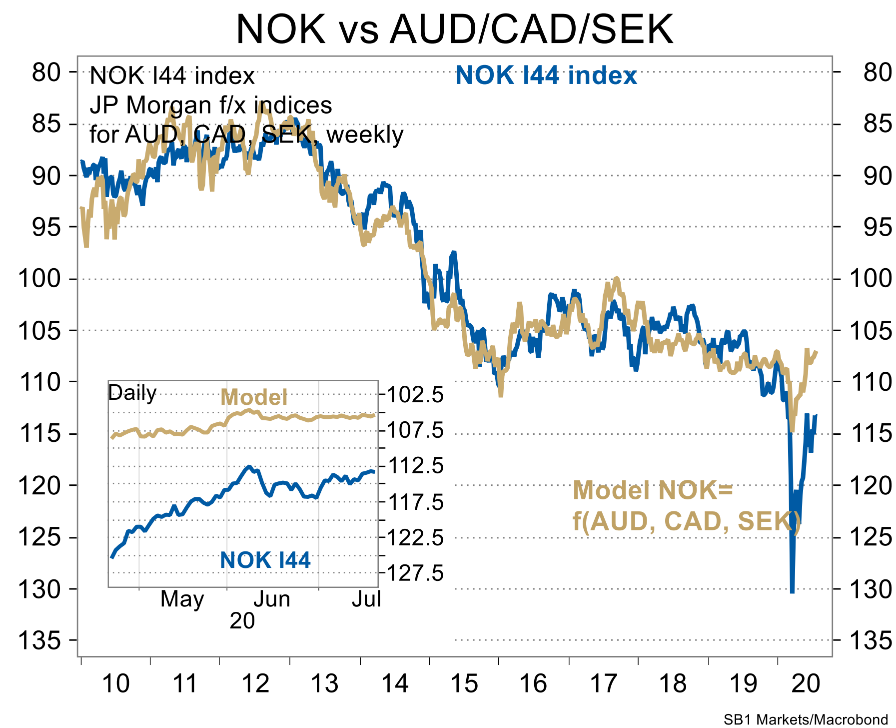
NOK 'stronger' than oil companies but weaker than the other supercyclicals

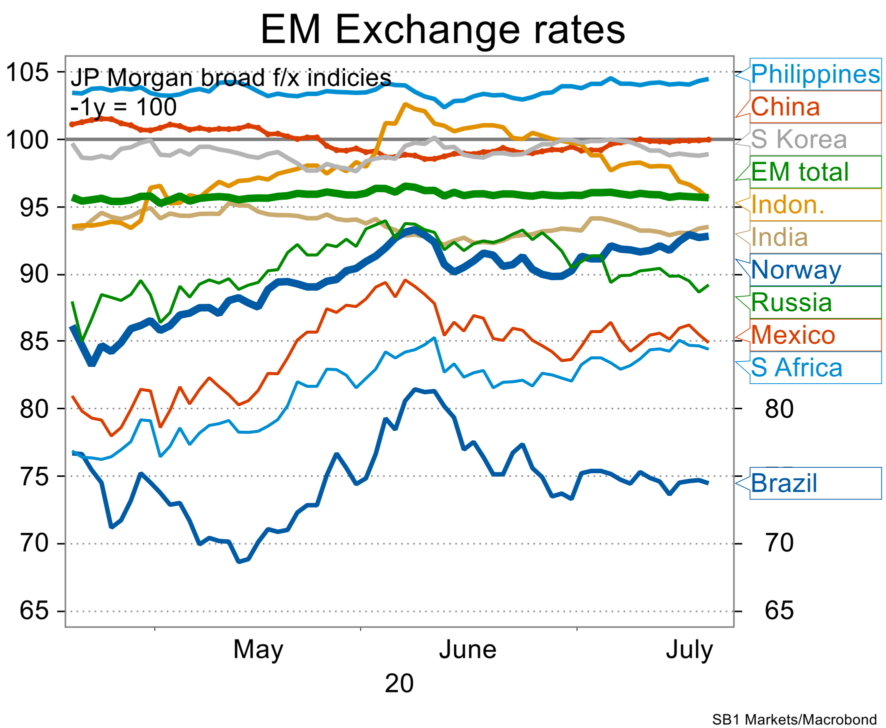
NOK is some 7% too weak vs the 'supercycle' model but 10% 'stronger' than oil companies

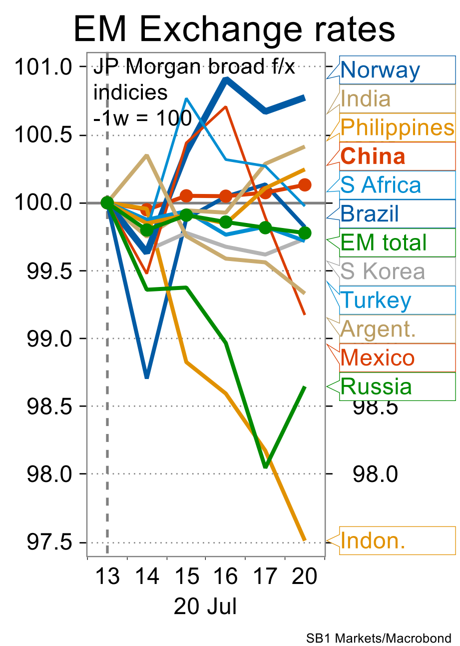


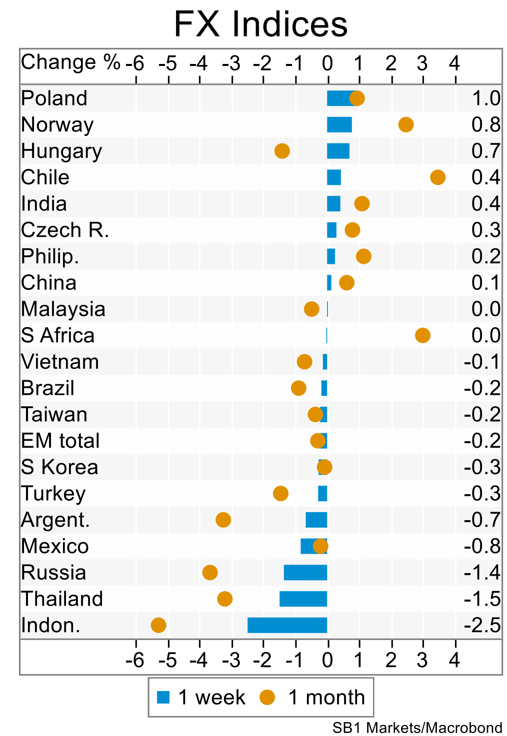


- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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







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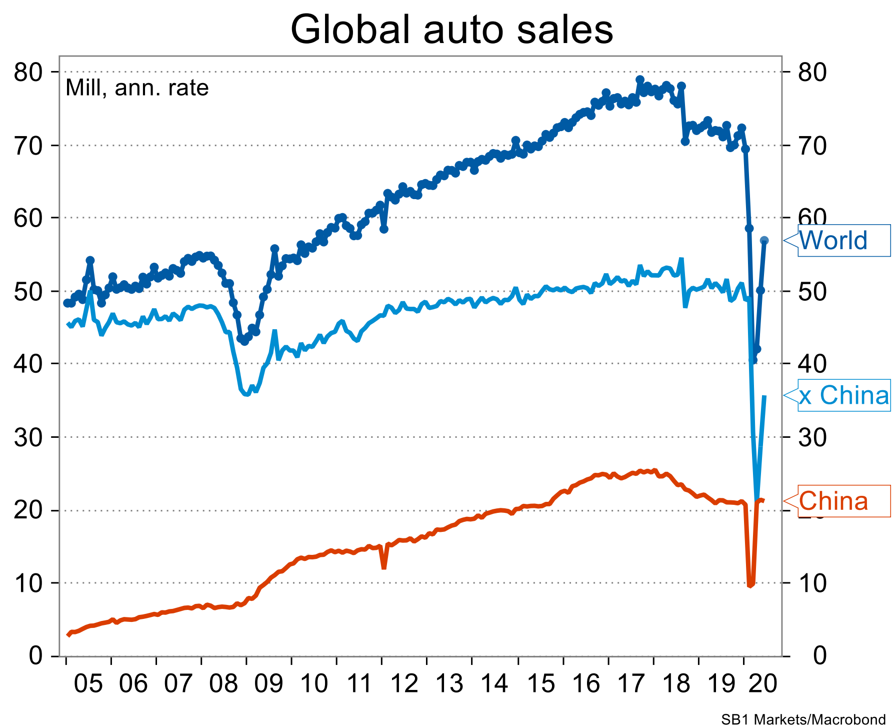
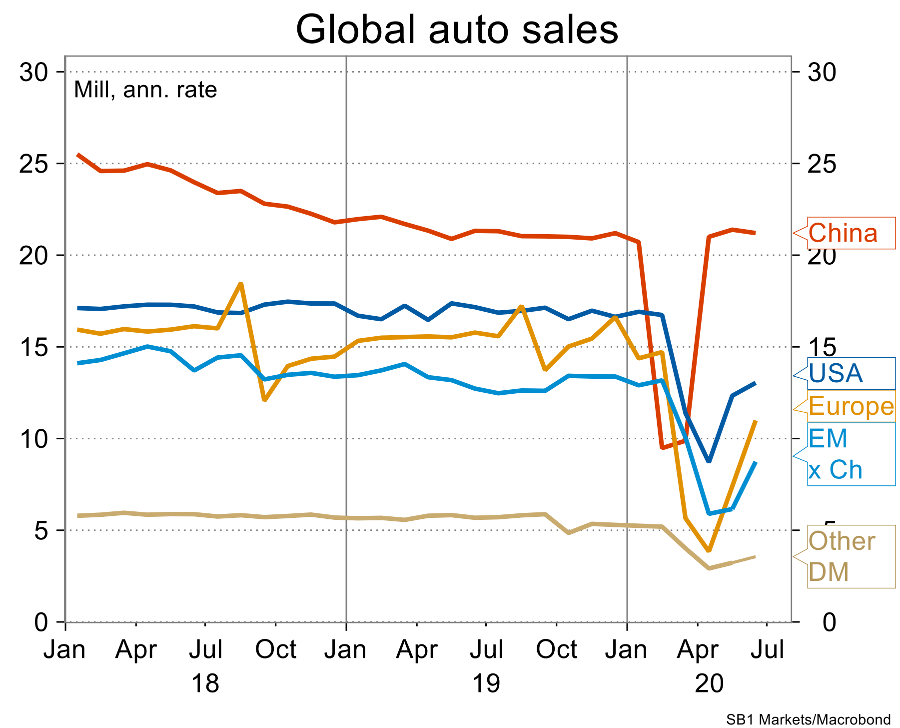
Global auto sales up everywhere in June, still 20% down vs pre corona

China back to normal for 3rd month in row, US down 23%, Europe 30%, EM x China even more

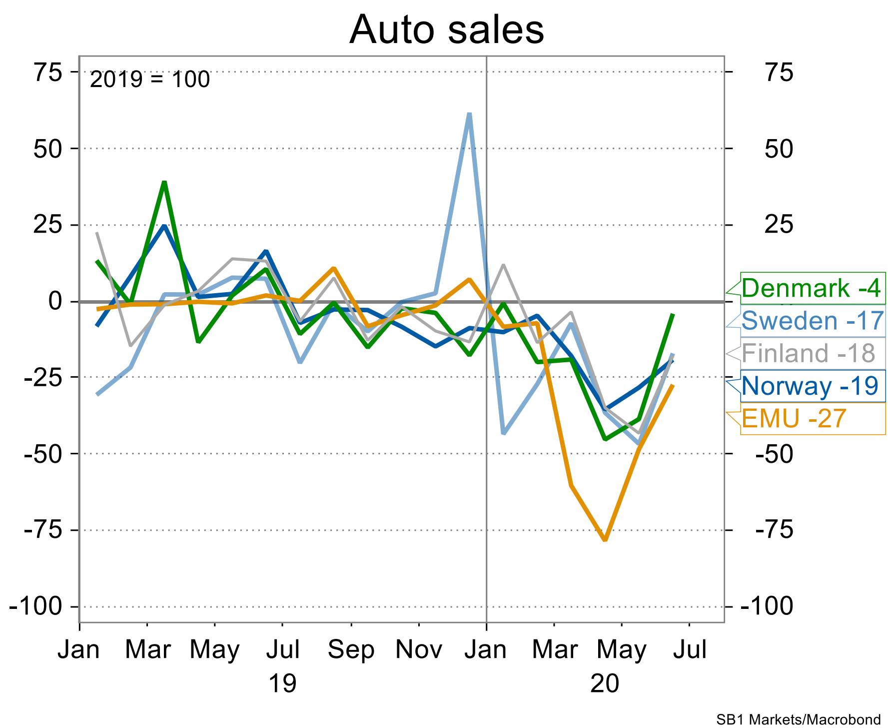




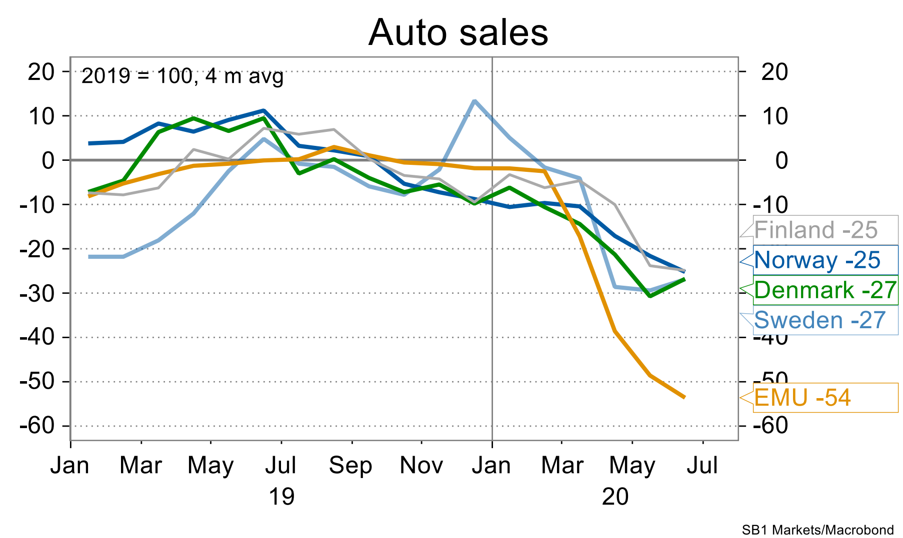
- Sales in China recovered big time in April, and returned to the pre corona level in one go – and have remained there. However, sales are still 15% below sales in late 2017 – and 30% below the pre 2018 trend path
- Sales in both US and Europe have recovered sharply from the April trough – but remain 23 & 30% below the pre corona levels, resp.
- Sales in EM x China rose sharply in June but are still 33% below the level at the beginning of the year

Nordic auto sales up too, still down 4 – 19% vs. the 2019 avg

Sales in the Nordics have kept up better than in European average

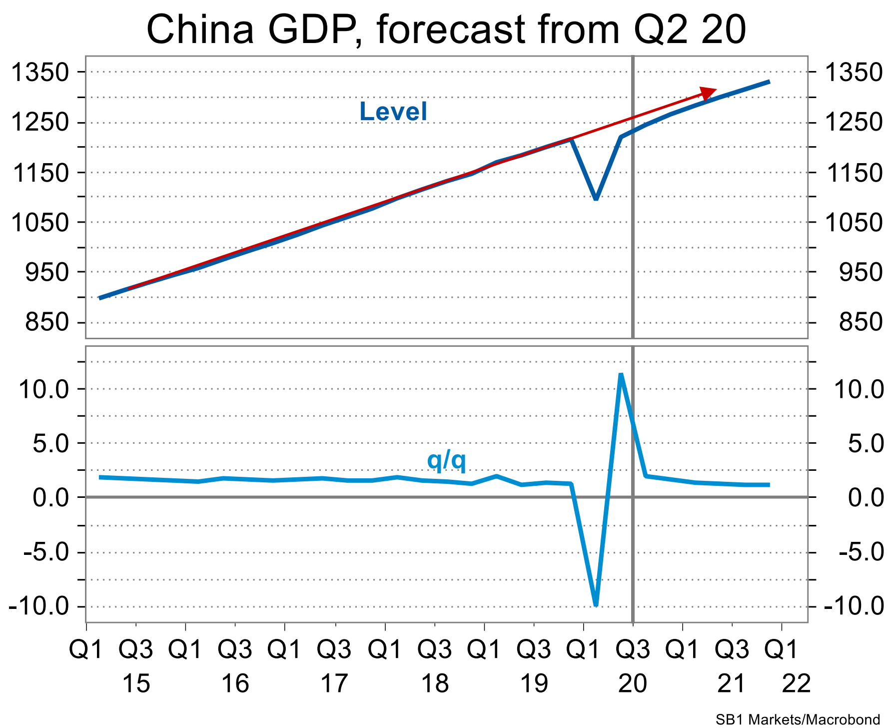


- No major differences between sales in the Nordic region during the 4 corona months (even if sales in Denmark were well ahead of the others in June), sales are down 25% vs. the 2019 average



Q2 GDP above the Q4-19 level and just 3% below the pre corona trend!

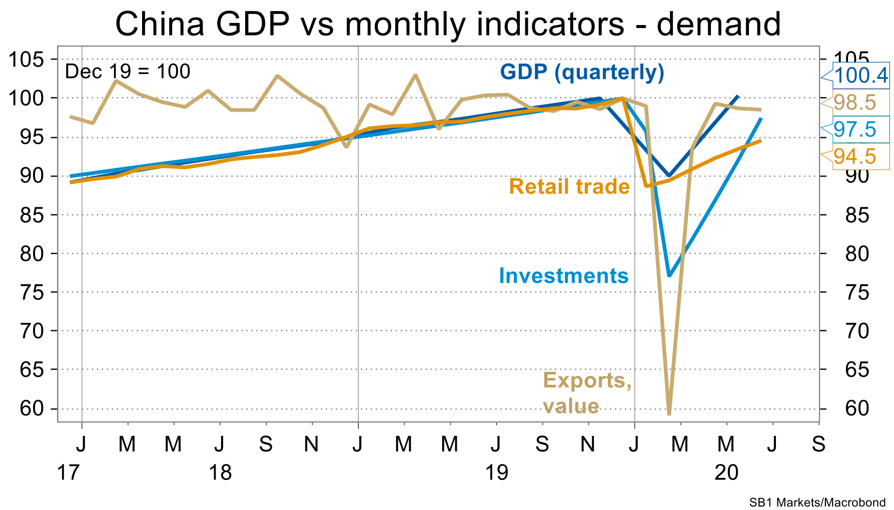
The recovery has been much quicker than we assumed some weeks ago, GDP up 11.5% in Q2

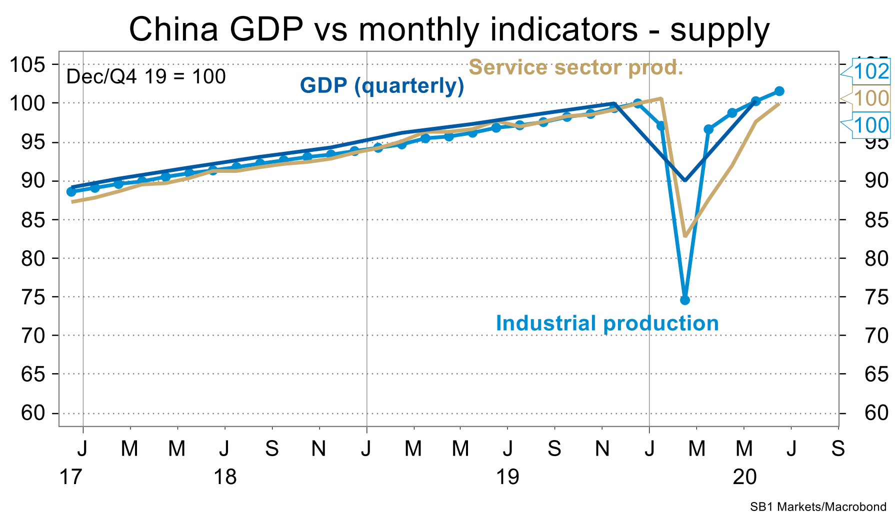


- GDP rose 2 pp more than expected

June monthly indicators OK too

Industrial production almost back on track, retail sales still lagging





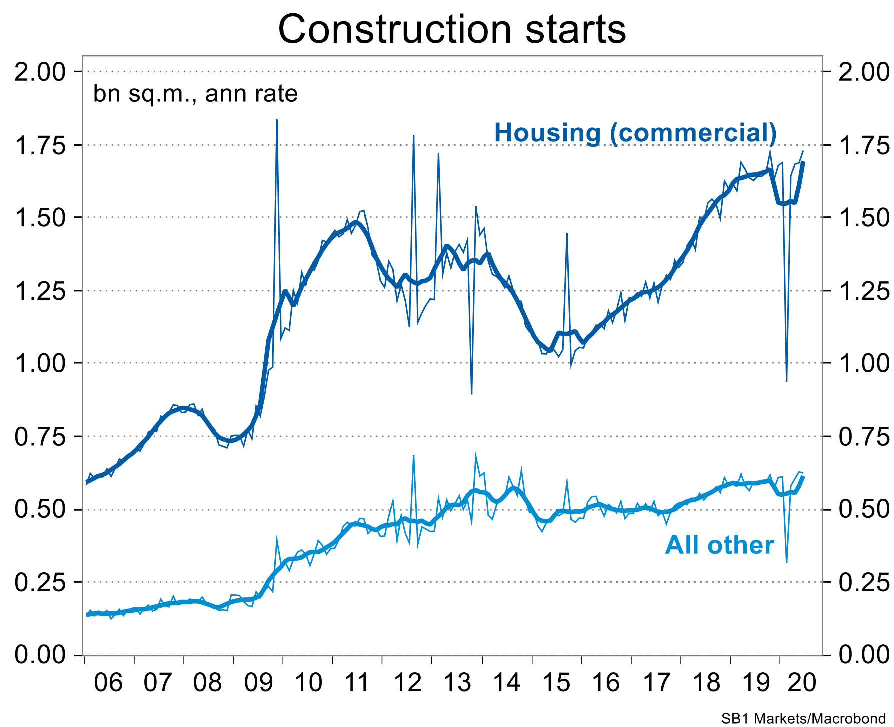
- **GDP rose 11.5% q/q in Q2, expected 9.5%, following the 9.8% setback in Q1**
  - » GDP was 0.4% above the Q4 level, and up 3.2% y/y vs the 6.8% decline in Q1 and is just 3% below the pre corona trend
  - » The recovery has been much quicker than we expected. There are no reasons to expect a market slowdown during the rest of 2020
- **Industrial production** rose 1.3%% m/m in June, and was up 4.8% y/y, as expected. Production just marginally below the pre corona trend. In Q2, production rose by 12%, following the 10% decline in Q1
- **Service sector** production rose 2.4% m/m in June, and was up 2.3% y/y –but is still 2.5% below the pre corona trend
- **Retail sales** rose 1.2% in volume terms in June, and for the 4th month in row. Nominal sales were down 1.8% y/y, expected +0.5%, up from -2.8% in May. Sales are still some 7% below the pre corona trend. Auto sales are confirmed back on track. Lower **CPI inflation** is supporting volume growth
- **Investments** rose another 5.9% in June, and are up 0.2% y/y but remains approx 5% below the pre corona trend path. New homes sales and starts are at record high levels
- **Exports** were a tad stronger than expected in June and is close to the pre corona trend. However, export surveys are still dismal. Imports rose sharply in June, and were 12% higher than expected, signalling firming domestic demand
- **Credit growth** slowed further in May but the longer term trend is still upwards, and the growth level is far above any long term sustainable path

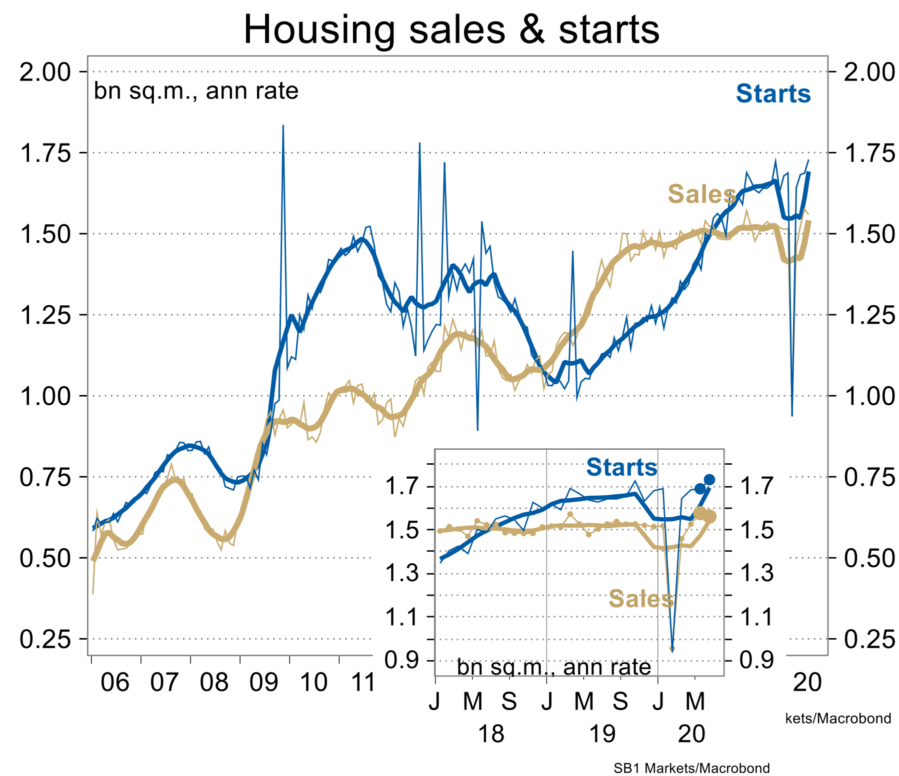
In sum: Final demand is still below the pre corona trend but the gap is narrowing. Industrial production seems to be strong vs. demand. The best news: The service sector is recovering rapidly

Some details at the following pages ☺

Construction back to all time high

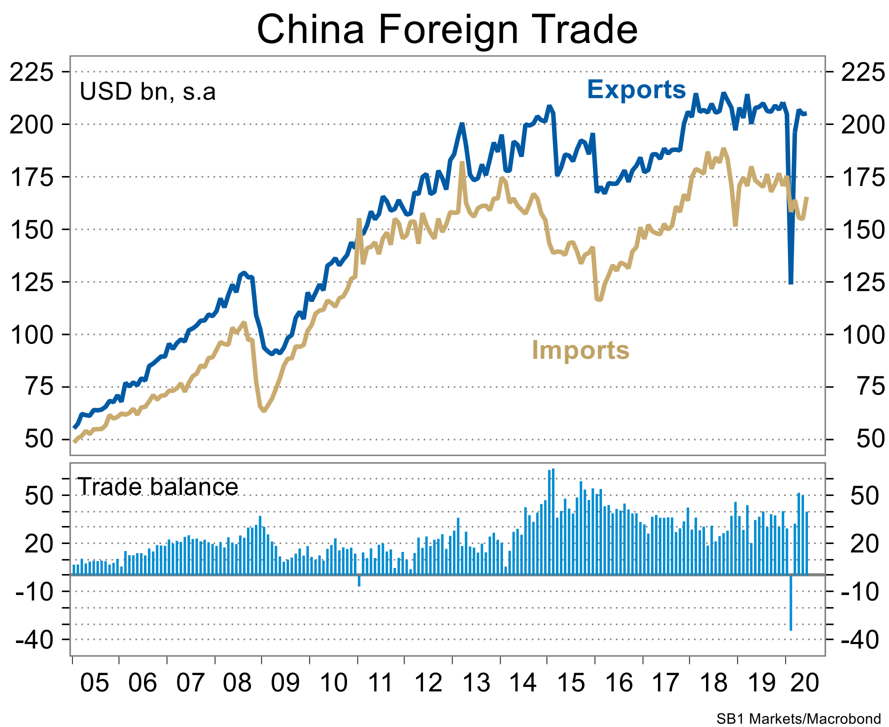
… following the 40 – 50% collapse in February





- In fact, just February was a disaster

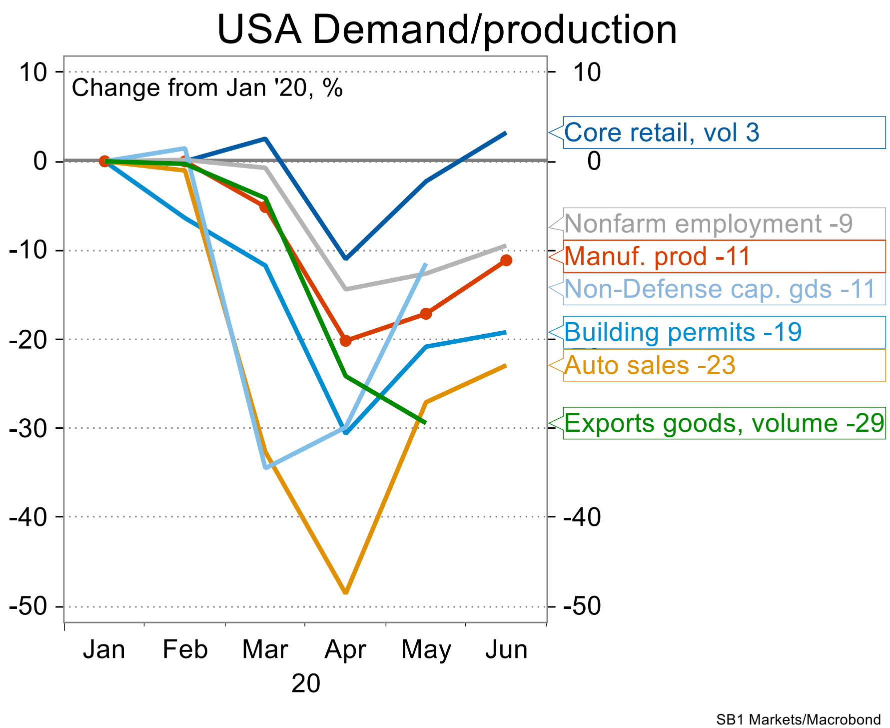
Exports stable in May, imports up – and both are OK, in volume terms



- Exports collapsed during the lockdown in February (-40% m/m) but recovered in March and rose further in April and fell just marginally in May/June. Exports were up 0.5% y/y (in USD terms), expected -2%. In volume terms, exports are close to record high. Export surveys have recovered but are not yet signalling any growth
- Imports rose 2.7% y/y, expected down 9% - a miss at almost 12%, following a weaker than expected May print. Working days adjusted data are less volatile, and less upbeat, -4% y/y in June. Imports rose m/m in June but are so far clearly down in 2020 but not much, a clear indication that domestic demand has not collapsed. Imports are stronger measured in volume terms as import prices have been falling since early 2019
- The trade surplus fell to USD 40 bn in June, down from 50 bn the two previous months. The surplus has been larger than 'normal'

On the way back – but not that synchronised

Core retail sales up vs. Jan/Feb but auto sales, housing exports still down 20 – 30%. Mauf. -11%



Some different shapes and forms of 'V's

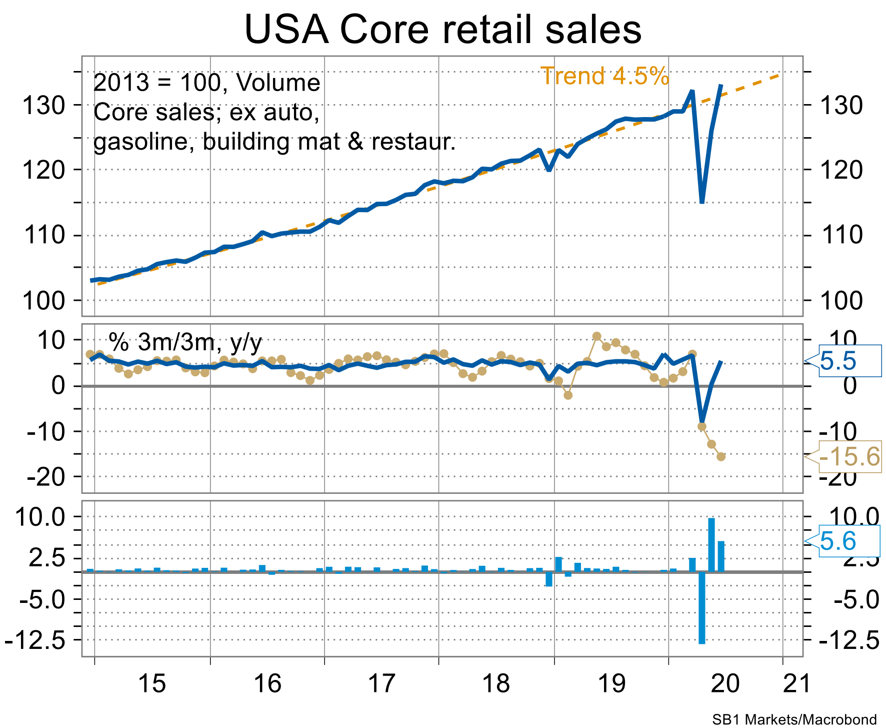
- Barring export volumes, all main indicators rose in May, and all June data published so far are up
- Core retail sales have reported the sharpest recovery, up 3% from Jan/Feb in June, following a 5% lift in June, better than expected
  - » Still total consumption was 11% below the pre corona level in May, and we guess some 5 - 7% below in June – and probably not much less in July as the recovery slowed amid the sharp increase in covid-19 cases. Auto sales and service consumption is still lagging
- Non-defence capital orders (including airlines) are down 11% following a steep rise in May
- Export volumes fell further in May, and are down 29% (!). Imports have fallen far less. June data out this week

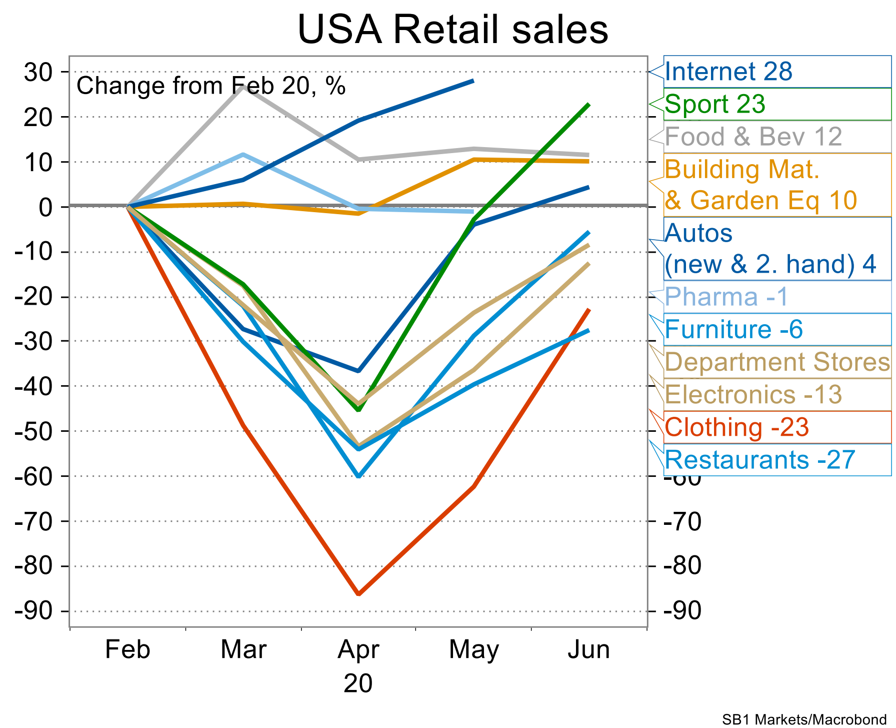
Demand vs production

- Manufacturing production and employment rose in May and June but remains 11% down from Jan, even after a 7.2% m/m lift in June (exp. 5.7%)
- We put more emphasis on the demand side than production
  - » If demand recovers, production will follow – after inventories are emptied

Retail sales back on track, in average. Still unprecedented sectoral differences

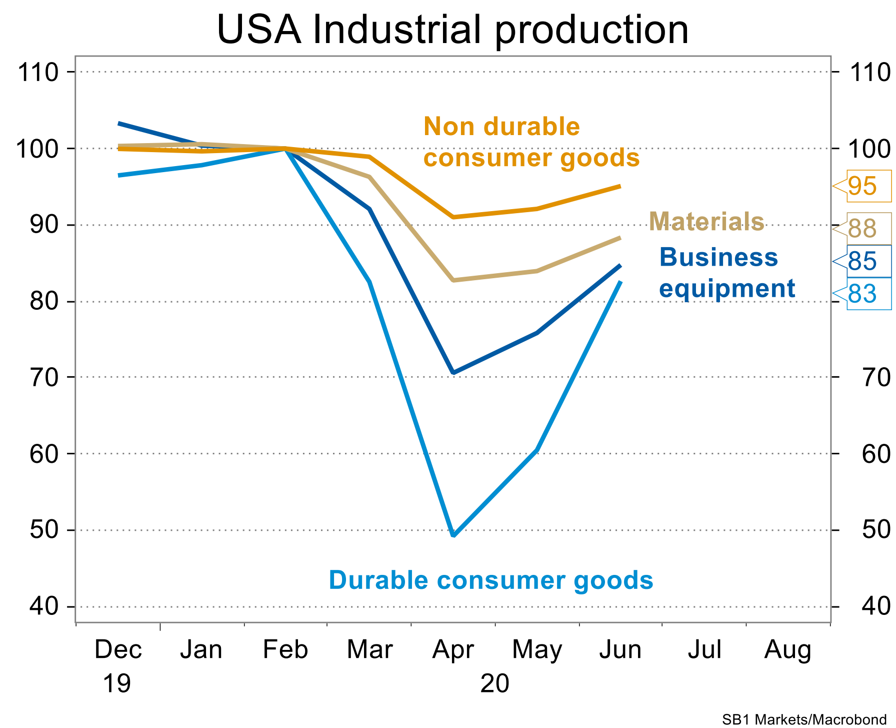
Electronics, clothing and restaurants are still struggling. The net is winning, of course





Manufacturing has still a way to go – 11% below pre corona level

Production of durable consumer goods and business equipment are still 15% down



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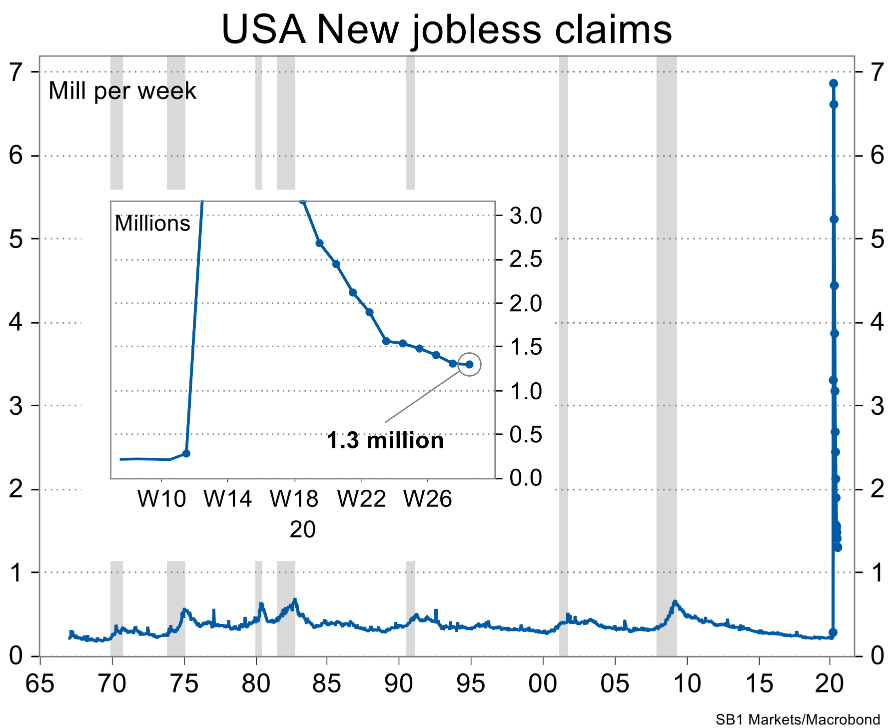
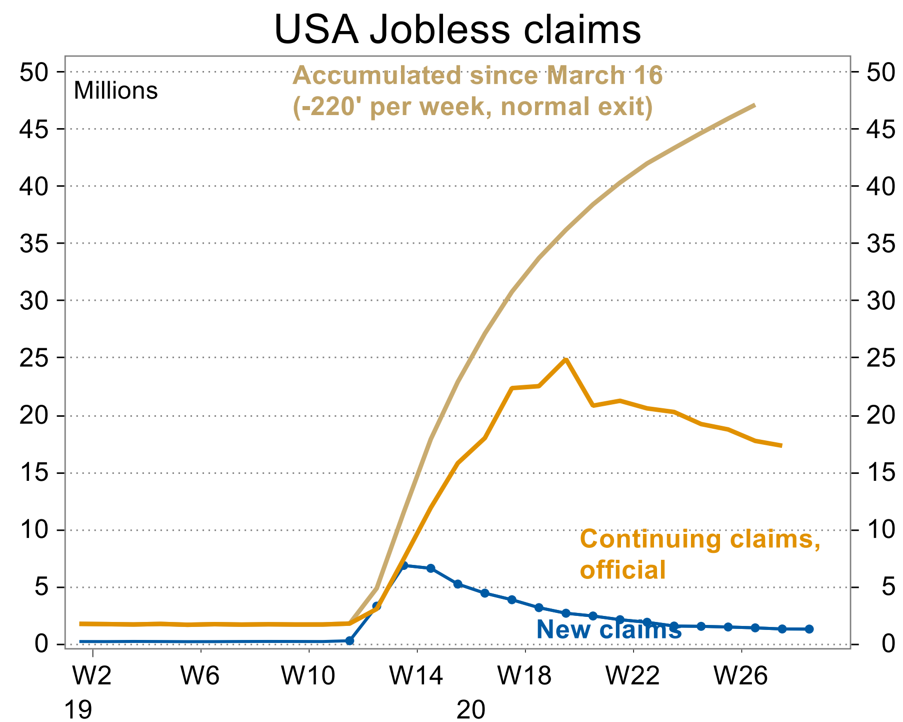
No further decline in new jobless claims, 0.8% are losing their job, per week

1.3 mill new jobbless claims, just marginally down from past week, 0.8% of the lab. force, <u>per week</u>

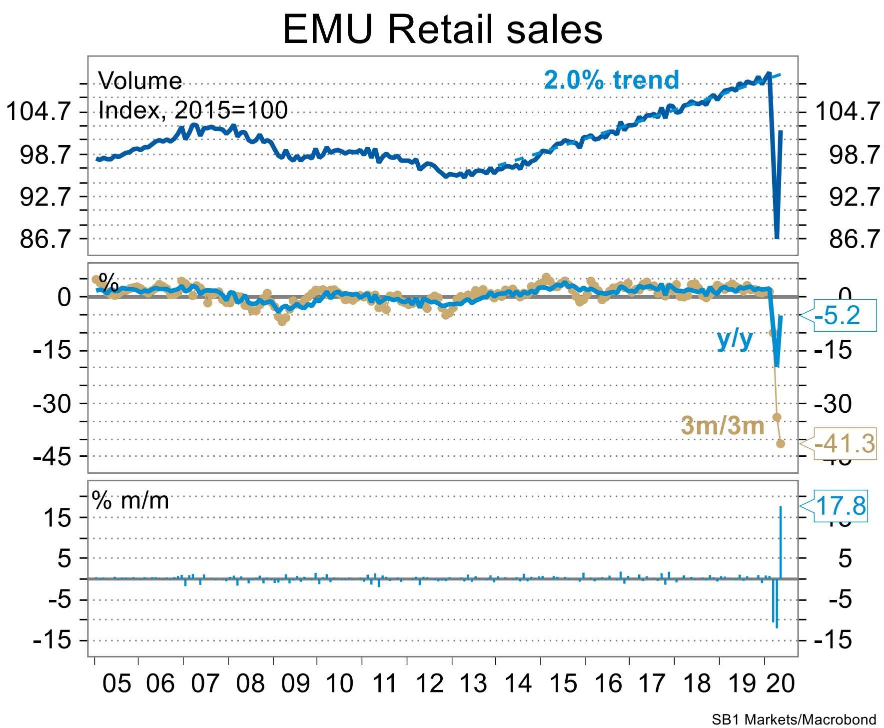


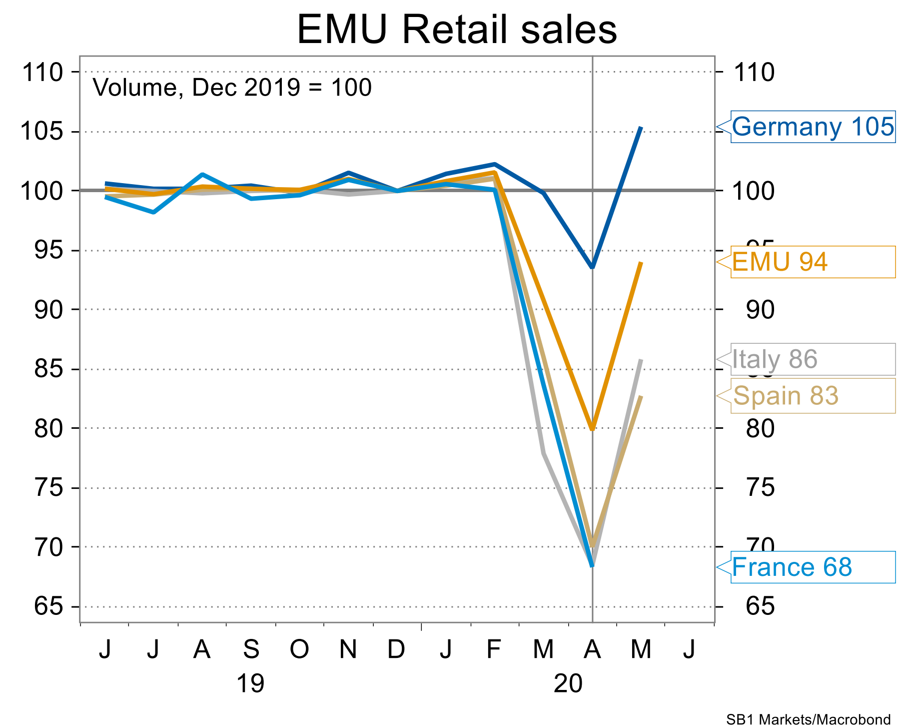


- The inflow is abating, but <u>far slower than expected</u> the previous weeks, and almost nothing last week. The number, equalling 0.8% of the labour force is much higher than during any USA previous recession
- <u>Luckily, more are leaving the </u>dole (for a job or are they leaving the labour market?): Continued claims has fallen to 17.5 mill. from 25 mill. but not further last week – and still 10.6% of the labour force remain on the dole

Retail sales up 18% in May, still 7% up to the pre corona level

Germany 5% above, Italy and Spain 14 – 17% below. France probably close to It/Sp

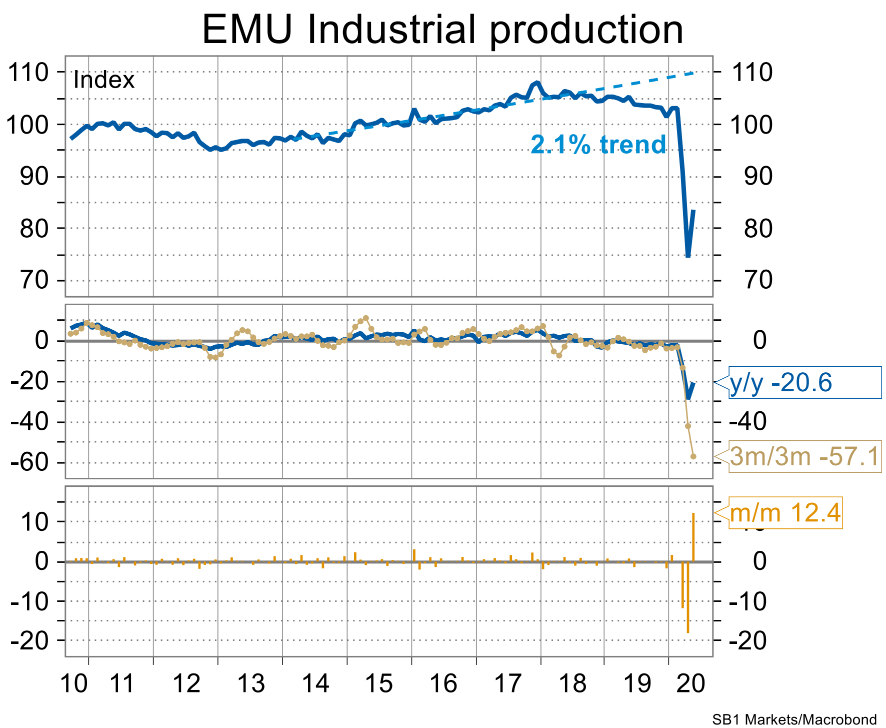


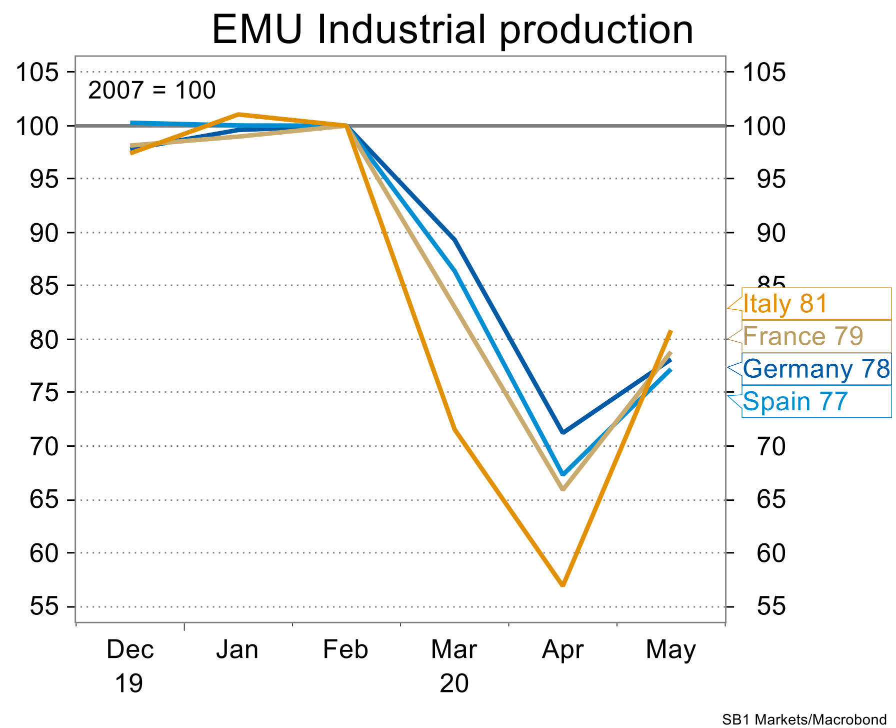


- We expect a further increase in June – and in July

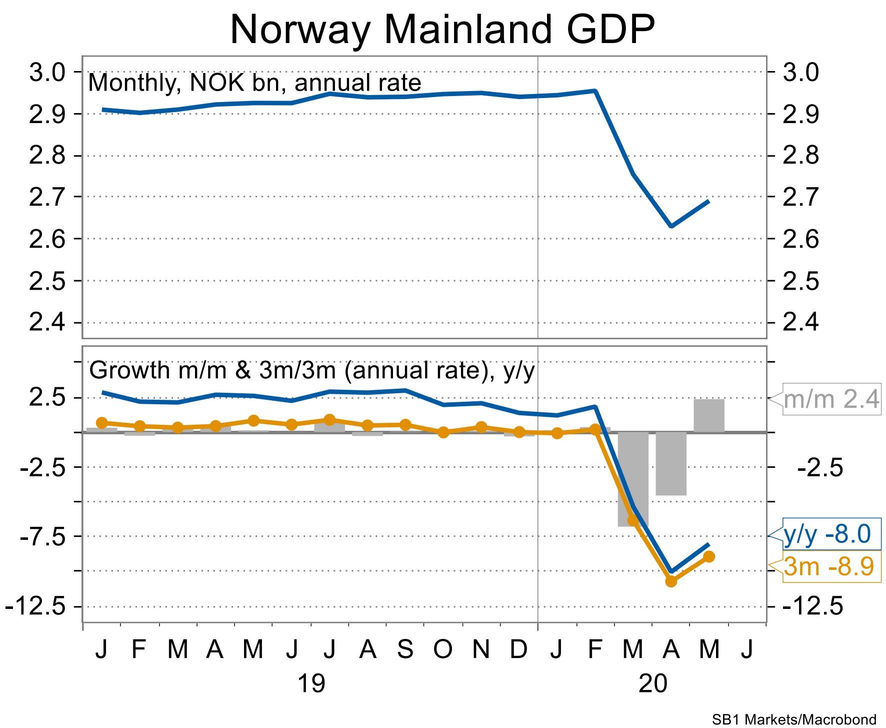
Manufacturing production up in May, still almost 20% below par

Italy came strongly back in May (+42%), though from a very low level – and still 19% below normal





GDP up just 2.4% in May, level 9% below the pre corona level



- Mainland GDP is down 9% to May from February, and it is down 8% y/y. We expect GDP to recover substantially in both June and July but not to reach the pre corona level anytime soon
- <u>On the demand side:</u>
  - » Private consumption rose in May but is still 16% below the level last Dec. Total household demand in Norway is down 11%, of which 2/3rd due to lower demand from Norwegian households, and 1/3rd due to lower demand from foreigners (less tourists). Consumption of goods is up but consumption of services much more down
  - » Government demand rose sharply as kindergartens, schools and health services restarted
  - » Business investments rose marginally
  - » Exports fell further, as did imports

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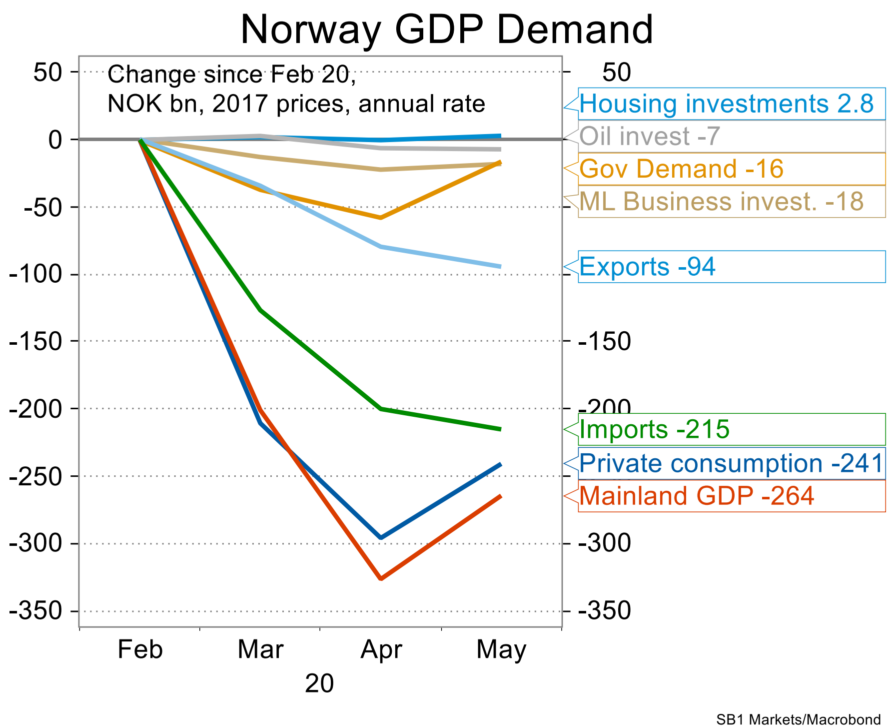
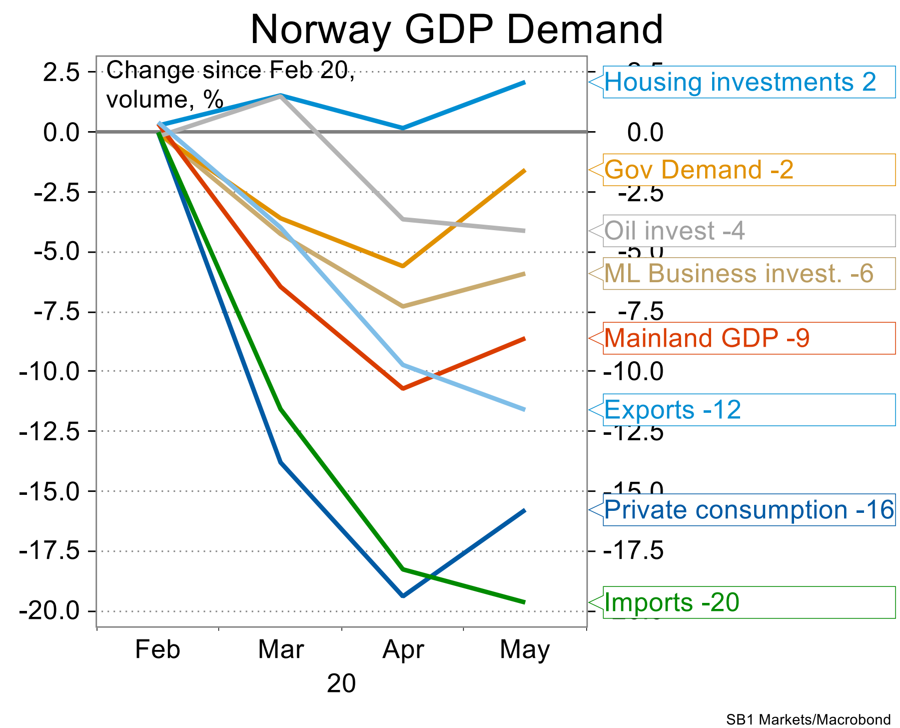
Most demand components, all still below the pre corona level

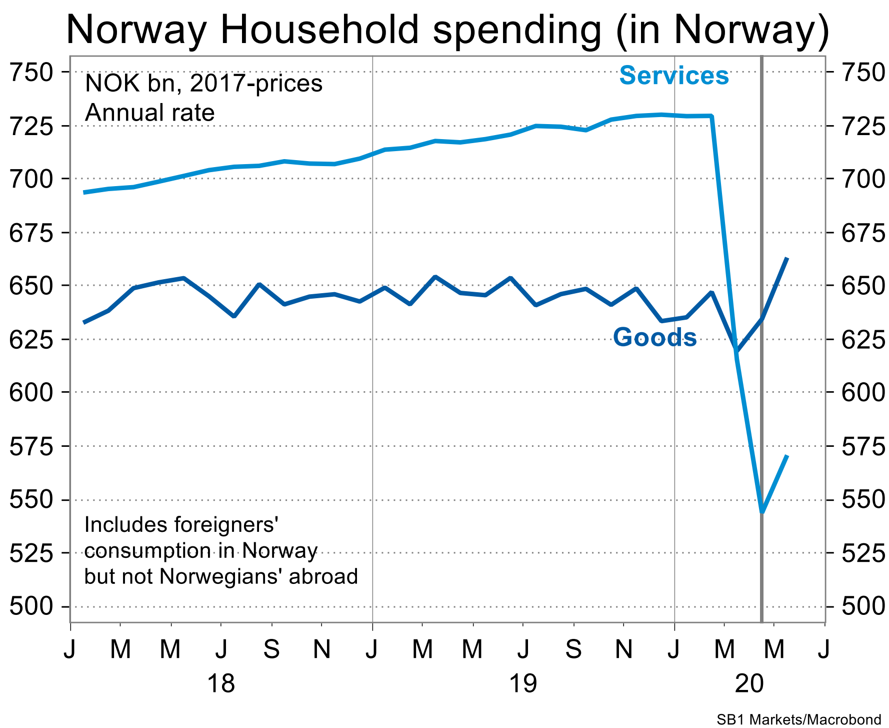
Private consumption the main drag, both in NOK and in % - even after a partial recovery in May





Consumption of goods up 2.5% from February, services down 22%

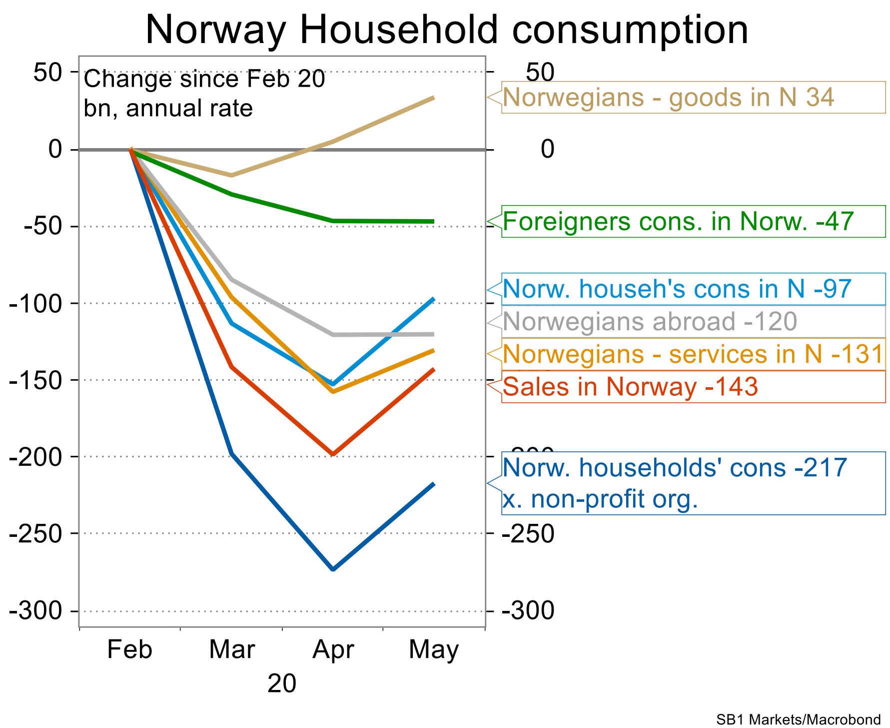
Thus: Total consumption sharply down

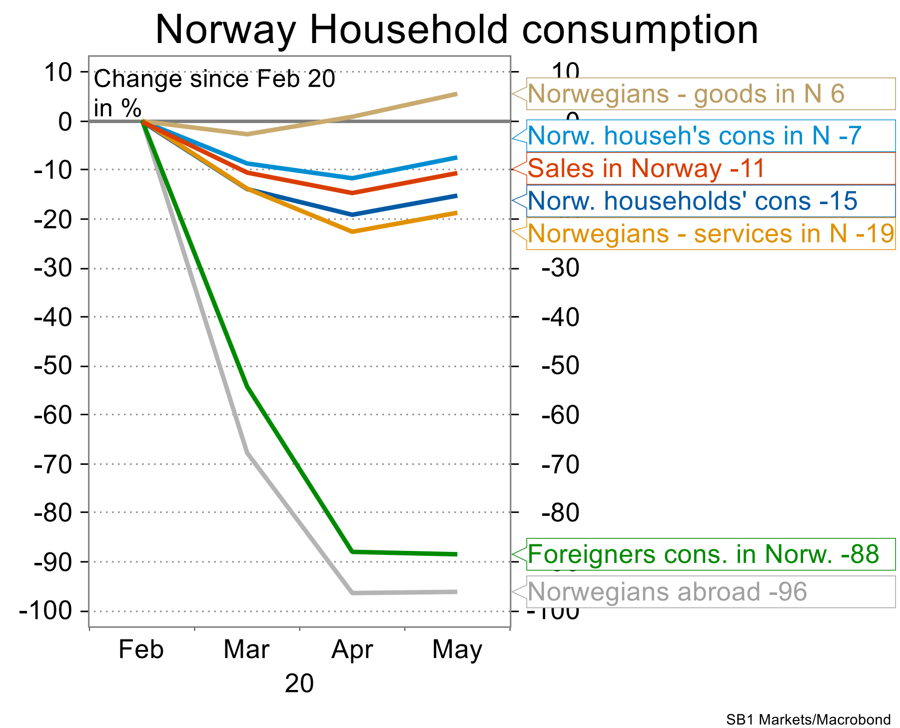


- Norwegian households have reduced their consumption abroad (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports, but less than the decline in imports)

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

Domestic consumption is down 7%, sales are down 11% due to the collapse in foreign demand





- Norwegian households have reduced their consumption by 15% or 217 bn (annual rate) – of which 120 bn abroad (-96%) and 97 bn (-7%) in Norway. Their consumption of goods is up 6% (34 bn), while their spending on services in Norway is down 131 bn or 19%!
- Sales of goods and services in Norway to Norwegians and foreigners are down by 11% or 143 bn – of which 47 bn due to lower demand from foreigners in Norway (down 88%) and 97 bn due to lower domestic demand form Norwegians (-7%)
- Norwegian households' consumption of services will increase sharply in June and July but will very likely remain below the pre corona level. In July, foreigners will start buying in Norway again – and Norwegians will buy more abroad