Macro Research

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Week 33/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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Last week: Corona down in the US, up in Europe but slower. *Most rapidly up here*

- **The US Covid-19 case curve peaked in late July and is now falling rapidly as** states have reintroduced restrictions, and people probably have taken social distancing more seriously. The positive/total test ratio is stable. Hospitalisation and deaths may now be peaking, before wide parts of the hospital system ran into capacity constraints. Economic growth has probably slowed in July but not stalled and new dramatic measures against the virus are probably not needed. In Europe, the no of new cases is still on the way up, but growth has slowed somewhat, probably for the same reasons as in the US. In Norway, new cases are sharply in the way up due to several local outbreaks (11% per day, R=2). Even if the level is still low, the authorities have decided some new restrictions, and have postponed several planned liberalisations. If these measures or others don't work, Norway will reach the European average in 10 days, and the present US level in 30 days. So we still party some more nights!

- More good news on **vaccines** last week too but few experts expect huge quanta to be available before Q1, at the earliest, if trials succeed. The bottom line: There are still **limits to activity and economic growth** the coming months and few quarters, even if smart regulations (using masks, abolishing large (drinking) events) should dampen the need for harsher regulations/changes in behaviour

- The good news: Activity has come considerably back during the May – July period. **Global manufacturing production** and **retail sales** rose sharply in June, and short term indicators signal more of the same i July, albeit probably at a slower pace.

- **The global PMIs** finally crossed the 50 line, two months too late, as the recovery started in May. Just some few countries, like India and Brazil, are reporting further decline in overall activity. EMU PMIs in the lead, but the US ISMs were even stronger, the latter showing no signs of a slowdown in July, even if corona has crated regional problems

- **Global auto sales** rose sharply in July, and are just 4% below the pre corona level (which though was quite depressed). Sales in China is well above, UK at, EMU sales close to, and US 10% below PCL. India recovered sharply in June, and most other EMs are rapidly on the way up

- **US employment** rose more than expected (and much more than feared) in July, buy 1.8 mill. Still just 40% of the unprecedented decline in employment in March and April is reversed, and employment is 9% below the pre corona level, the unemployment rate is above 10%, and the inflow of new jobless claimants still equal 0.7% per week, even after reduction last week. The **Congress** failed to reach a compromise on a new corona relief package, and president Trump decided **executive orders** to prolong the temporary – but now downscaled – federal unemployment benefit program, a payroll tax payment deferral for employees (6.2% up to USD 106' annual income), a student loan relief, and some vague pledges for a eviction moratorium for renters. The budget deficit will widen, but if it is already approaching 17% of GDP in 2020, who cares for some extra pp?? Democrats wanted 5 pp more

- **EMU manufacturing production** rose some 11% in June; all major countries reported decent numbers. Production is still 10% below pre corona level (vs. -11% in the US, and 7% in Norway)

- **US escalated the tech war** with China, and now argues for a full tech/net divide from China, TikTok and WeChat are the new victims. The cost of a divided tech/net world might become large, also for the US. This week, the **US/China trade deal** we reviewed in high level talks. US has escalated its tone – and has introduced tariffs on aluminium vs Canada!

- **Norwegian house prices rose** further in July but less than we expected. The transaction volume shut up 40% vs a normal calm July. Mixed June **credit** data, households borrowed freely, while corporate credit contracted (both reversing opposite May outcomes). Banks have never been more wrong on households' demand for credit, a sharp Q2 contraction was expected, while actual demand rose more than even before, according to **NoBa's lending survey**! No major changes in demand or lending standards are expected in Q3. No 'V' shape recovery in the **manufacturing industry** but no sharp setback the previous months either. The accumulated losses are so far smaller in the Norwegian manufacturing sector than elsewhere among rich countries

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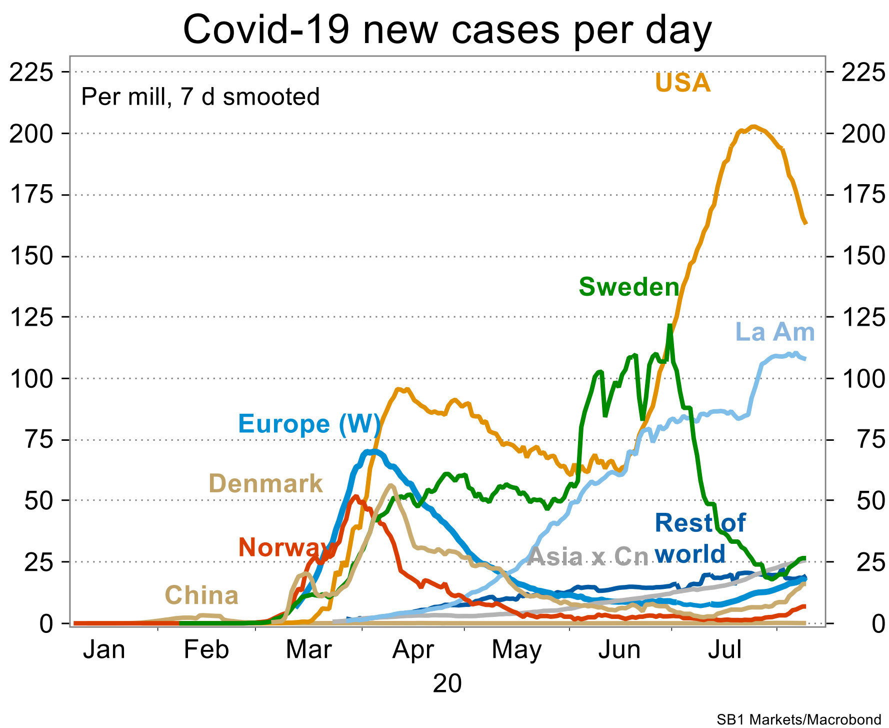
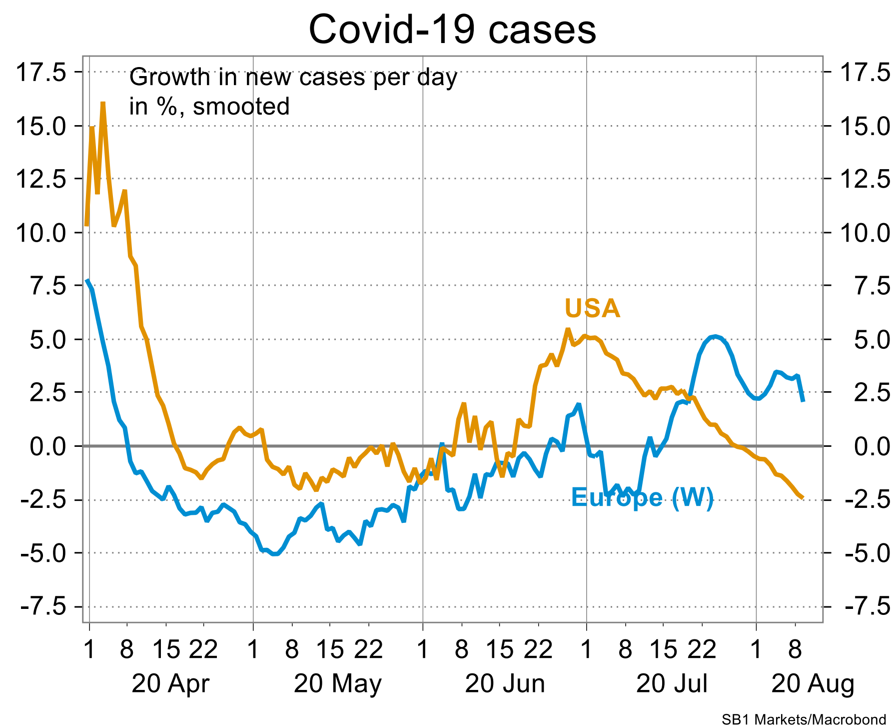
A rapid decline in new cases in US, Europe still on the way up, but a tad slower

The level is still very high in the US, restrictions should not be lifted. The level is still quite low in Eur.





- Some restrictions, and more voluntary social distancing have brought growth in new cases in the US down to far below zero (R<1), from 5% growth per day (R=1.4), two months ago. However, given the high level of cases, R must be kept below 1 for still several weeks
- Growth in new cases in Europe is slowing but R remains slightly above 1, and more measures are still needed – and they will come, just like in the US. Since the level of contagion is 1/10th of the level in the US, Europe still has time to act
- Over the past 16 days, the growth in Norway equals 11% per day, and R =2, almost the highest in Europe. Still, the level is low, at 40% of Europe's. So we will not reach the European average before 10 days, and the US level will not be reached before Sept 10th! Let's party! Check the log chart next page. Something should give – and something will. Bars may not even allowed to open…

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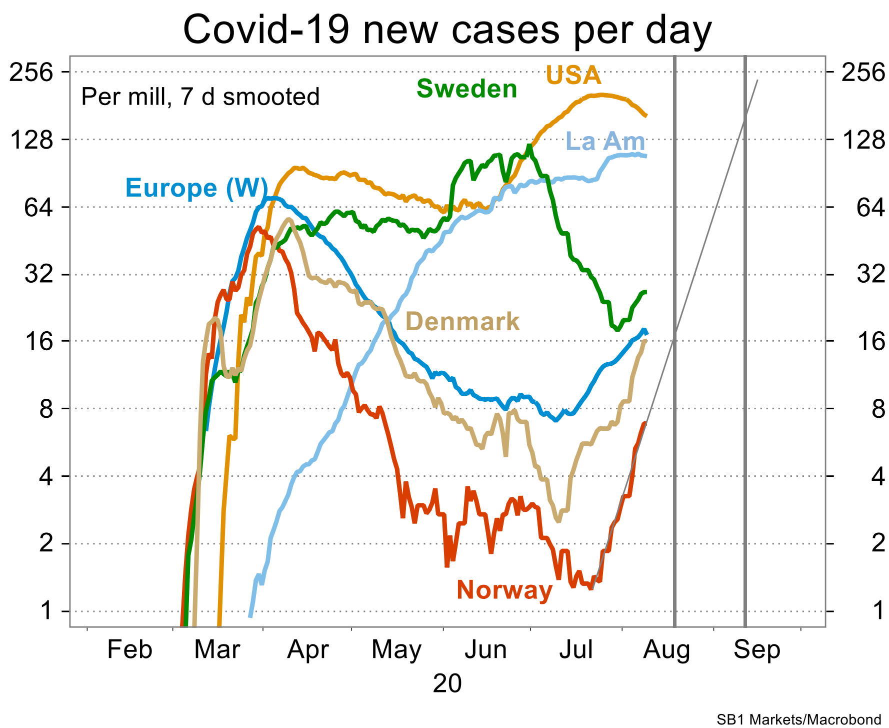
A log scale reveals some disturbing trends before they are 'visible'

Norway (and Denmark) will need to change tack the coming few days/weeks



- There are Norwegian explanations, excuses, special cases etc, etc
- Still, the virus is ruthless. Norway will reach Europe's average in 10 days, the present US level in 30 days
- The R most be lowered substantially the coming 1 – 2 weeks. If not, it most be lowered dramatically in 3 – 4 weeks time
- We expect more voluntary social distancing to take place in Norway, and more restrictions to be decided next week if growth in cases not slows – and we are quite confident that the curve will turn south well before we reach the US level, without too much economic harm
  - » Face masks are of course a low hanging fruit, as are closed gyms or bars (the latter completely closed, or without alcohol)
- So, the coming days will be really interesting ☺
  - also in Denmark, and perhaps also in Sweden

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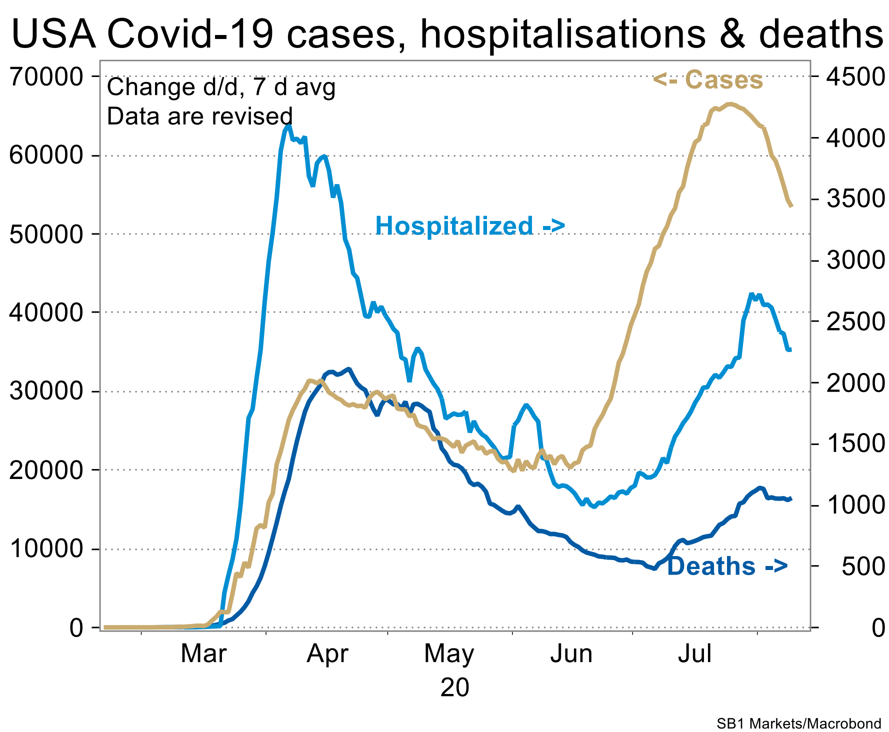
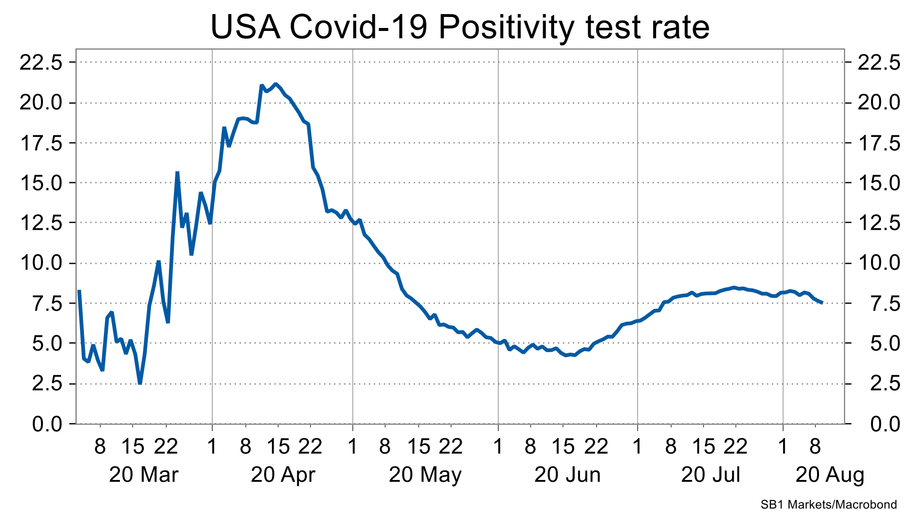
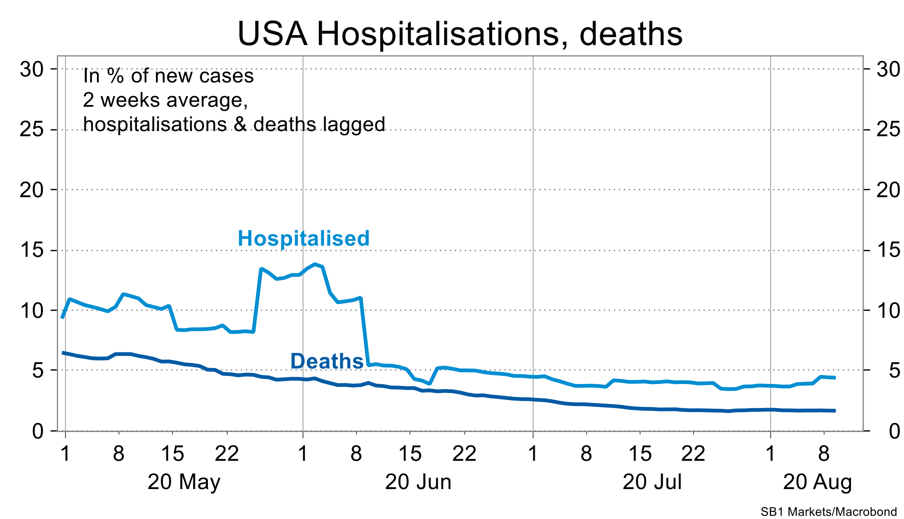
USA New cases are falling sharply, hospitalisations & deaths has peaked too

The positivity rate is heading slowly down, which is good news – but the level is still high



- New cases may not have to come back to a very low level if the need for hospital assistance, and the death rate is sharply reduced – which seem to be the case





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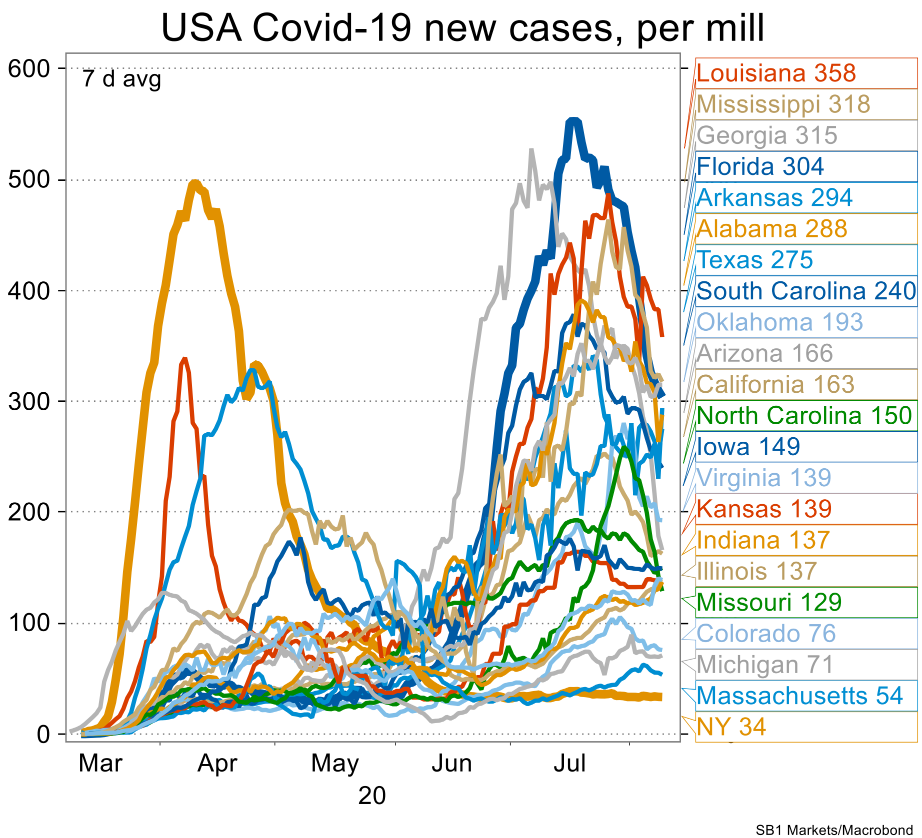
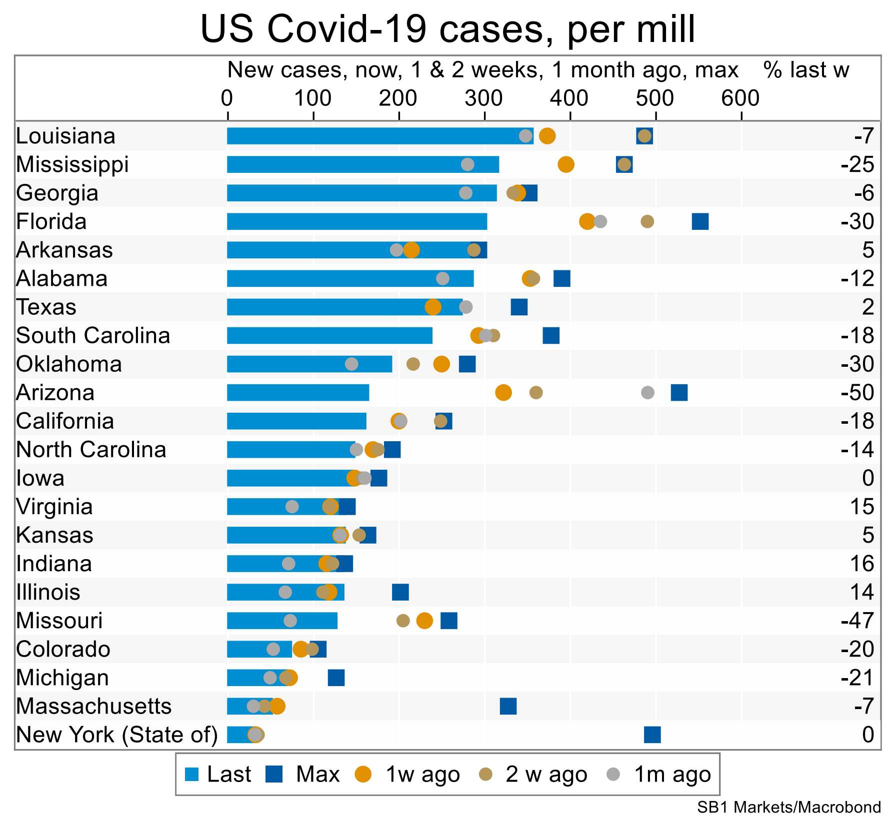
US: The virus has not disappeared yet, but it is retreating almost everywhere

Arkansas, Virginia, Indiana, Illinois, Texas still on the way up – but most on the way down



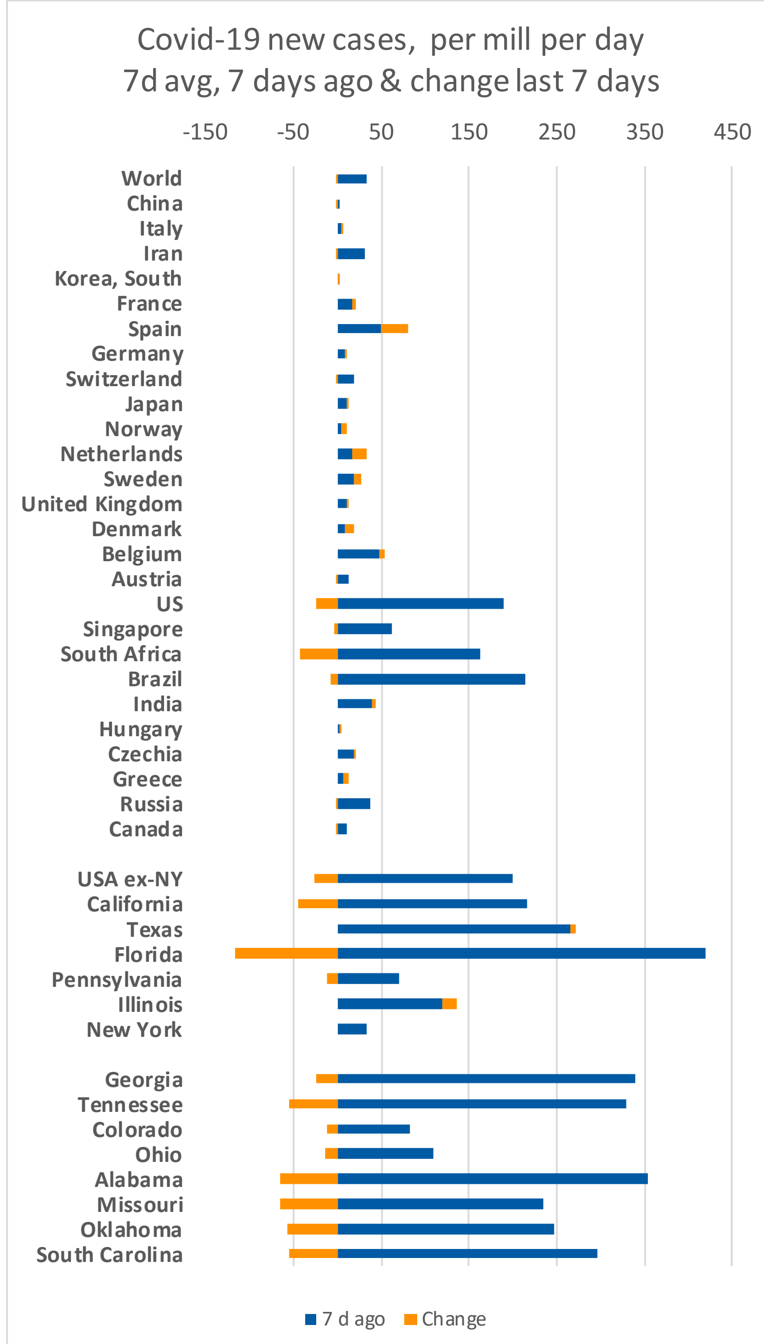


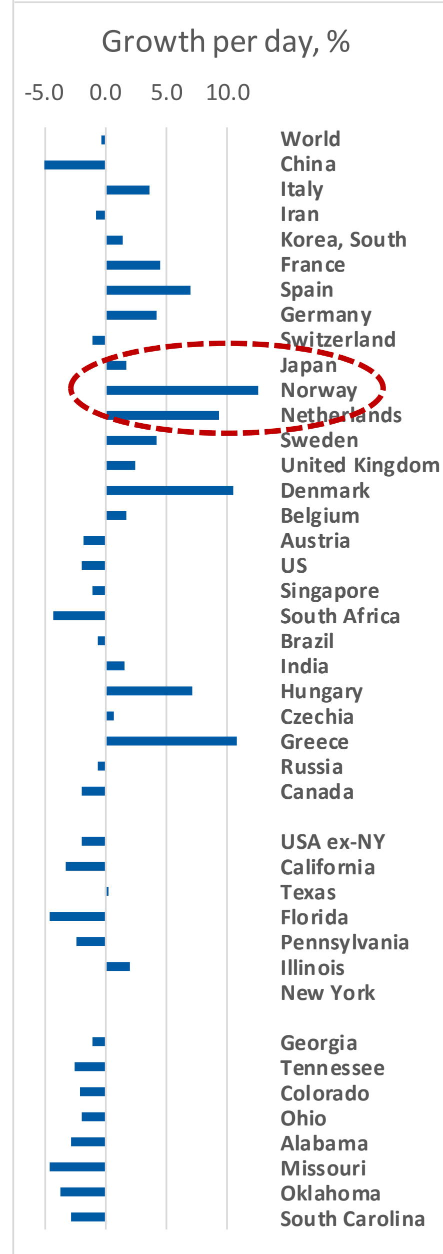
Covid-19

US & the rest: A comparison

Most places, more cases

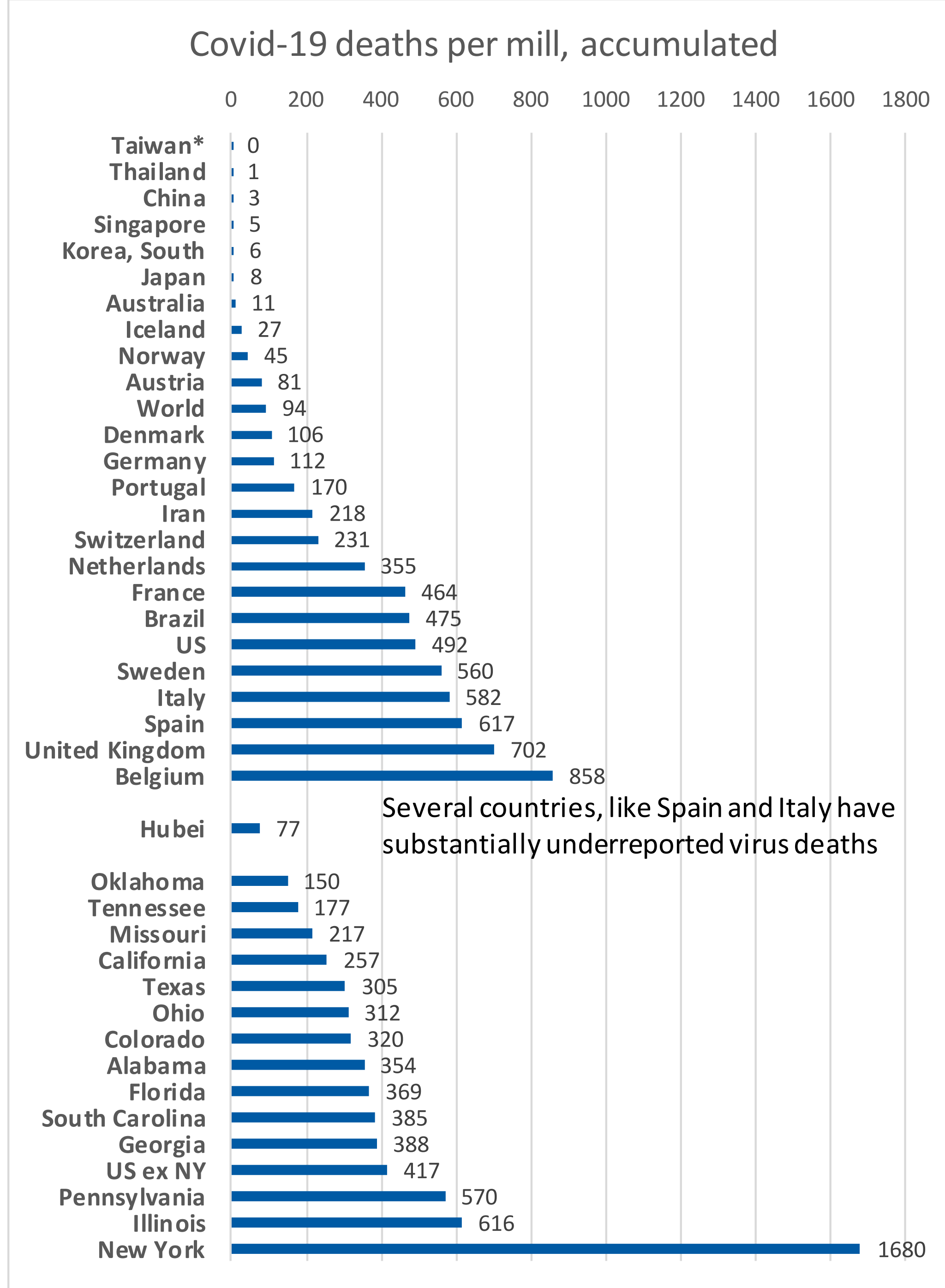
- Two weeks ago, most countries reported an increase in new daily cases but now R has fallen below 1 in several countries, of which US is most important – both economic/market wise, and because US had the highest incidence, and the most rapid growth speed
- In Europe, most countries are reporting more cases, but at a slower pace than the previous week in the majority of countries
  - » Spain still has the biggest challenge
  - » And the highest growth rate is now in Norway ☺
- Sweden is was an outlier in Europe but the number of cases & deaths has been falling sharply, at least until last week
- We do not trust all of these data
  - » There are changes in test policies & capacity
  - » Some countries do probably not report properly





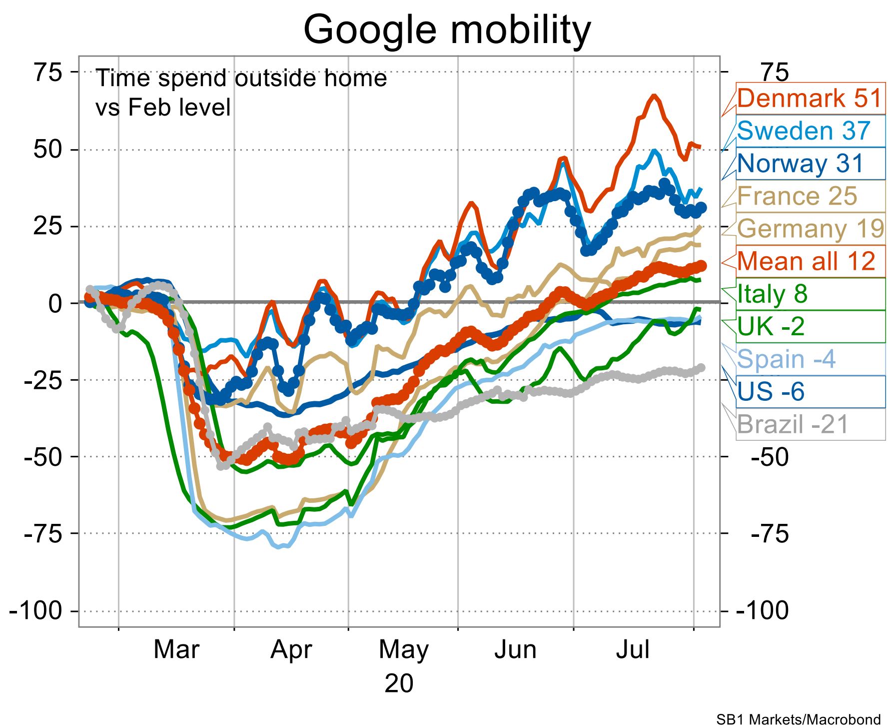
The final count

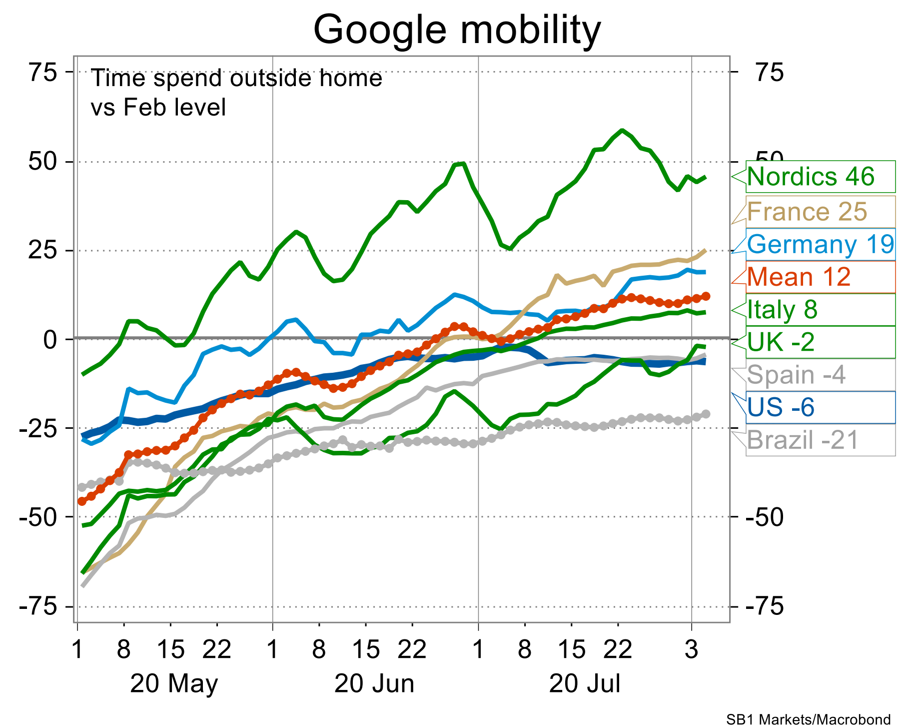
So far, that is



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

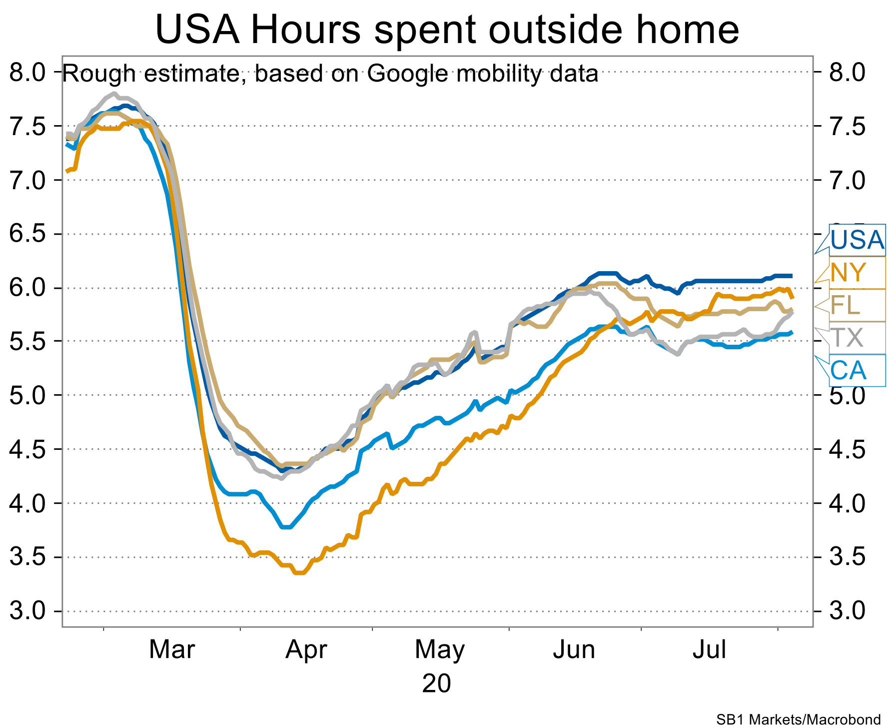


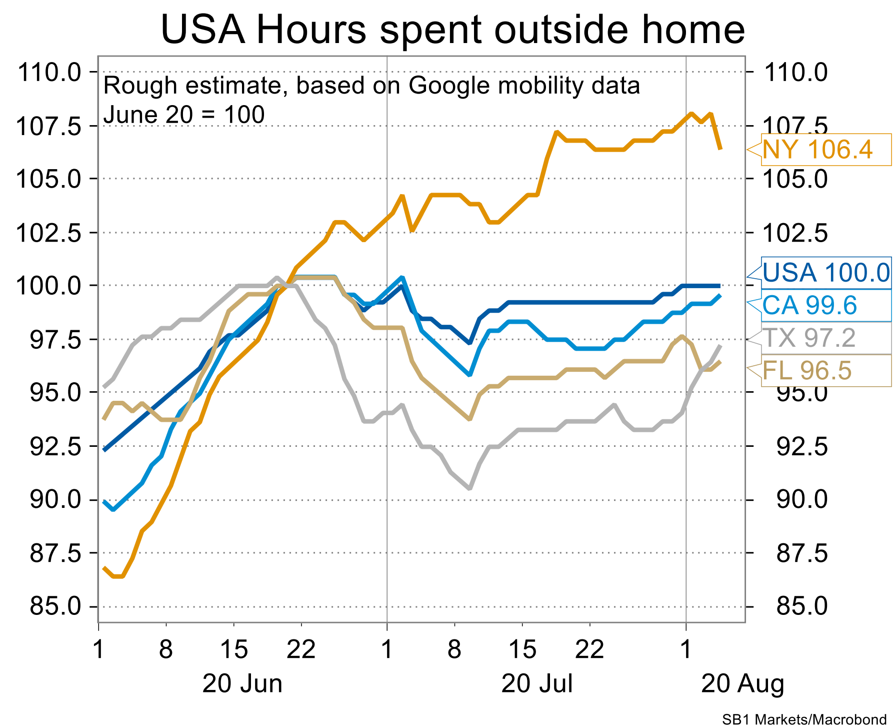


- The Nordics are quite similar, except for the 2 – 3 weeks from mid March where time spent outside home fell less in Sweden than in Denmark and Norway

Since June 20: Hours spent outside home +7% in NY, -4-7% 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

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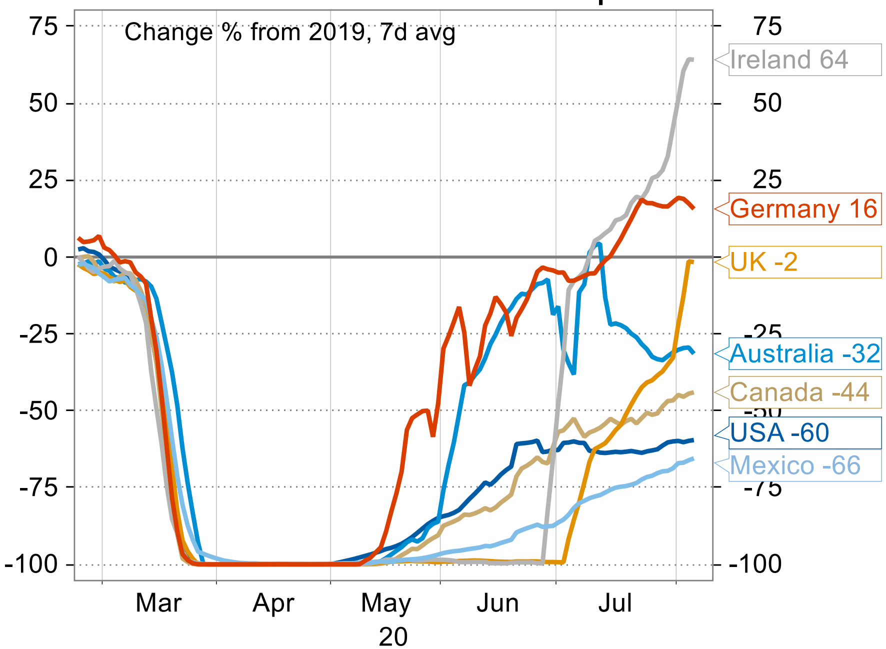
Restaurants are not open for normal business

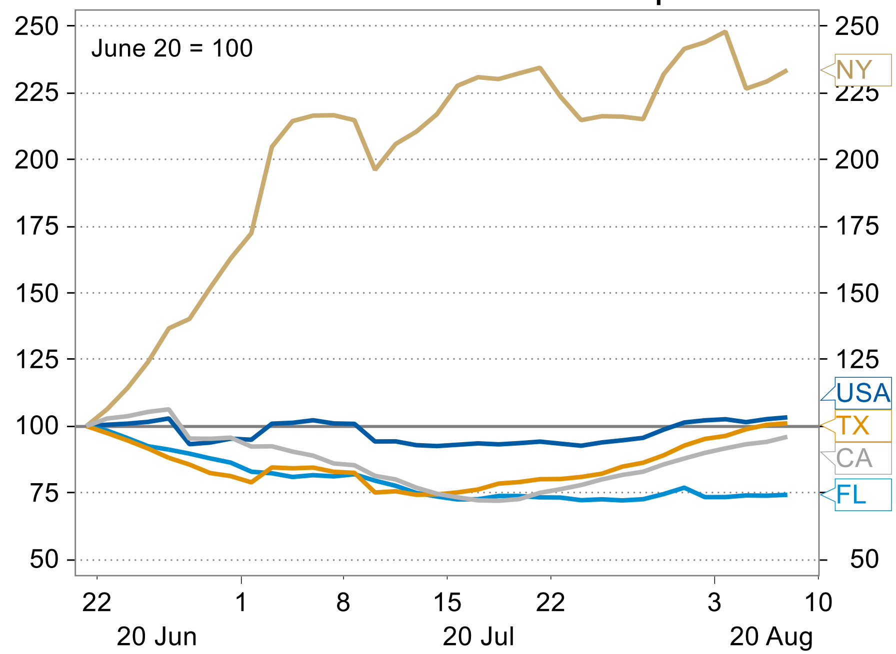
… if the corona virus is not brought under control – like in the US now

Restaurant reservations Open table



SB1 Markets/Macrobond

USA Restaurant reservations Open table



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- 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%
- However, last week some US states reported more bookings

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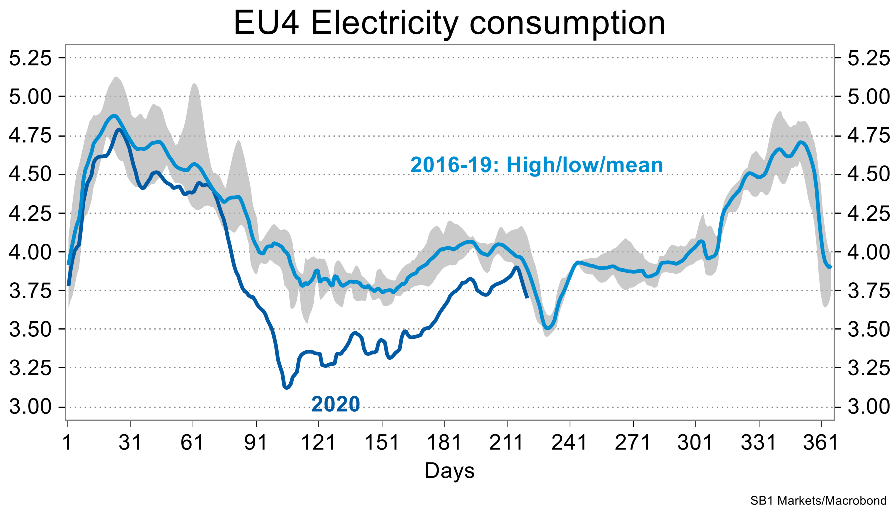
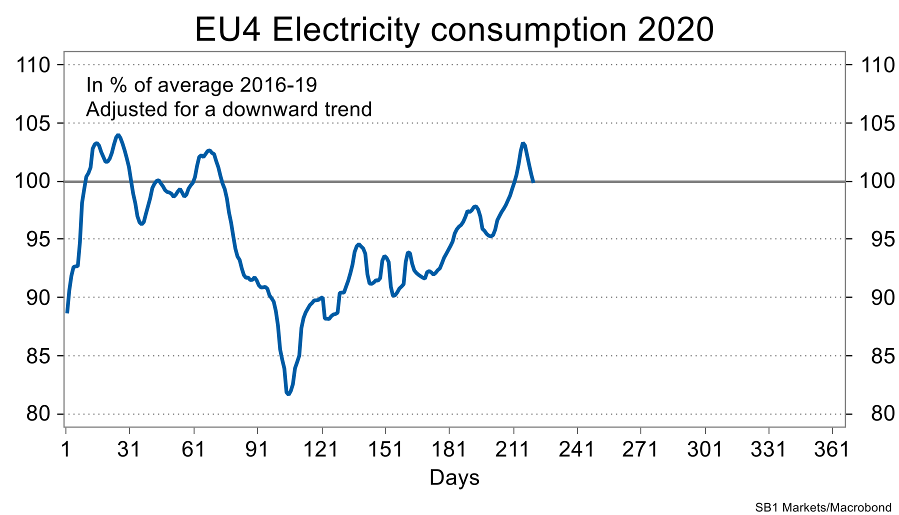
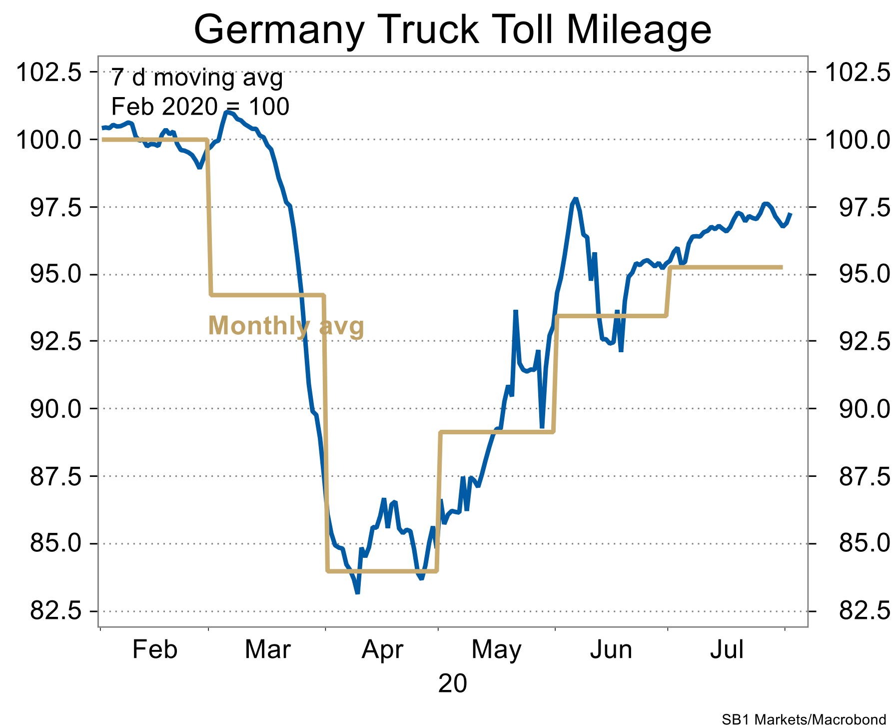
Activity is picking up steam in Europe, electricity production back to normal

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

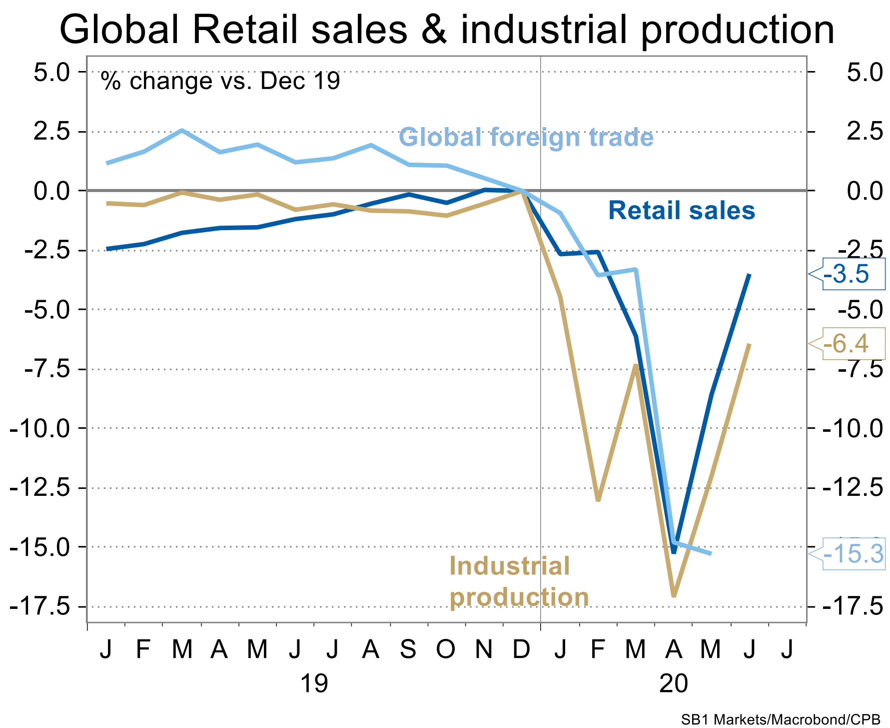


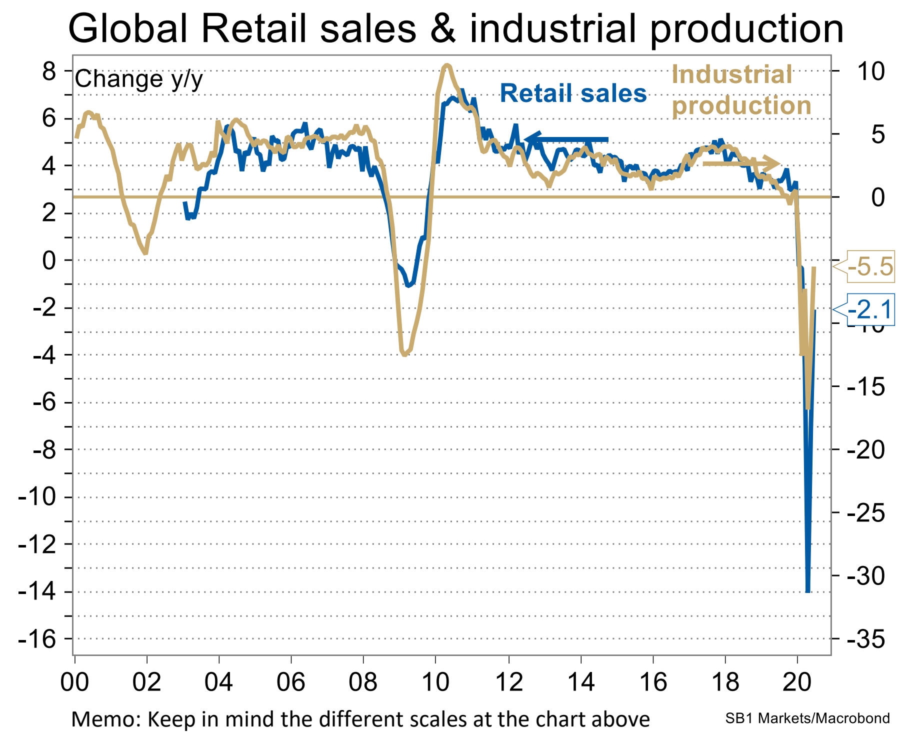




Industrial prod, retail sales further up in June, still 6% below pre corona trend

The global economy bottomed in April, following a 15 - 17% drop. Global trade fell further in May

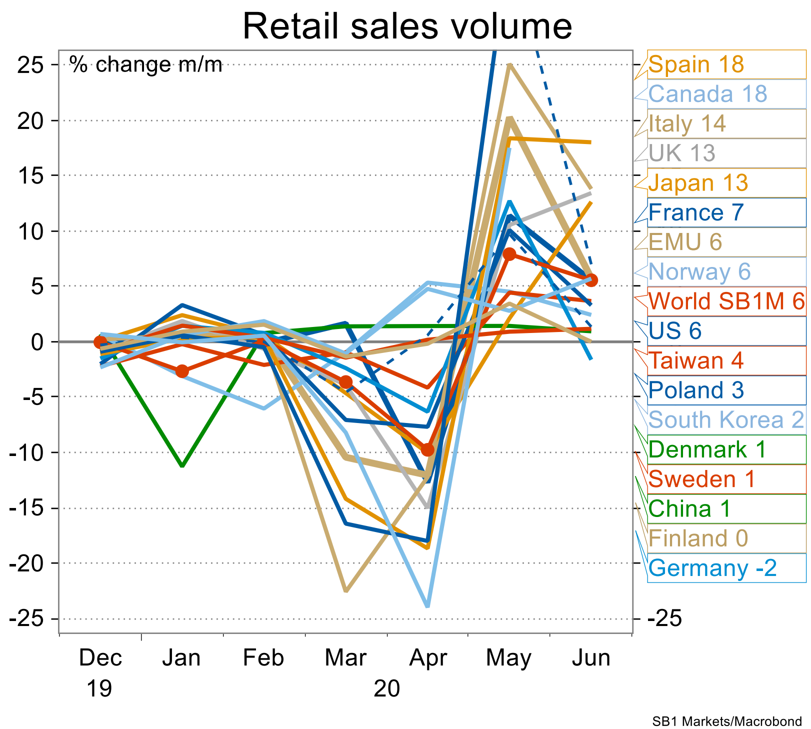




- We assume global retail sales probably rose close to 6% in June as in May. If so, sales were just 3.5% below the pre corona level in June. In May, sales rose in all main countries, and almost in all that so far has reported June data
- Industrial production probably rose some 7% m/m in June, vs 6% in May. If so, production was still 6% below the pre corona level. In May, production rose most places but not in South Korea, Japan, Mexico – and not in Norway
- Global foreign trade fell marginally in May, and was 15% below the pre corona level. June will be far better

Retail sales up everywhere in May and almost everywhere in June, in sum 6%

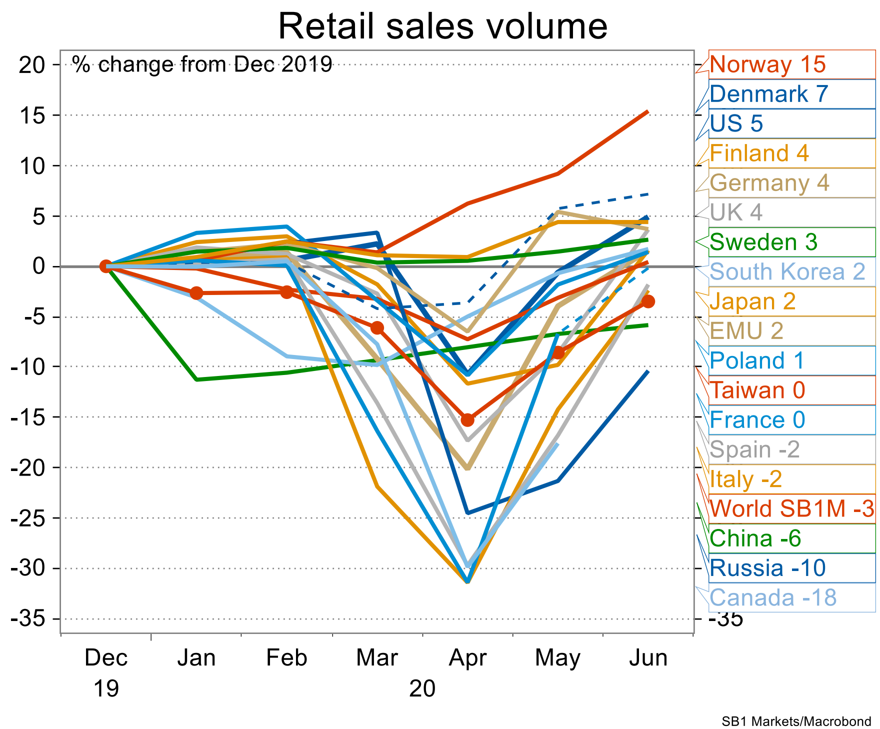
Just Germany has reported a small decline (from a high level) in May, Spain up 18% in June

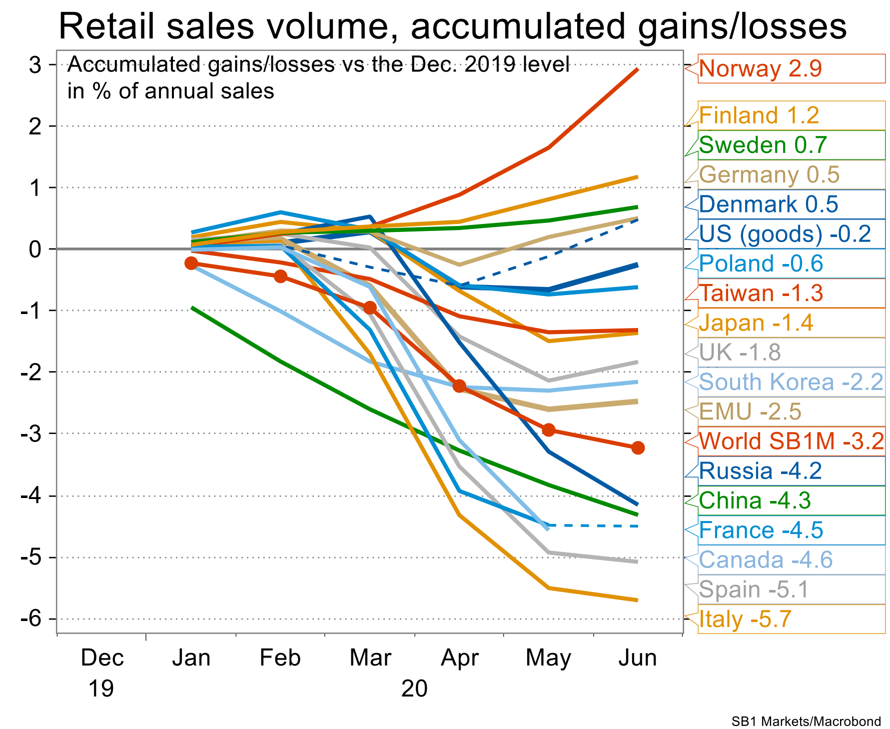


- Sales rose far more in June than we first assumed

Retail sales are on the way back to pre corona levels

… sales are above the pre corona level in many countries, even accumulated during the 'crisis'

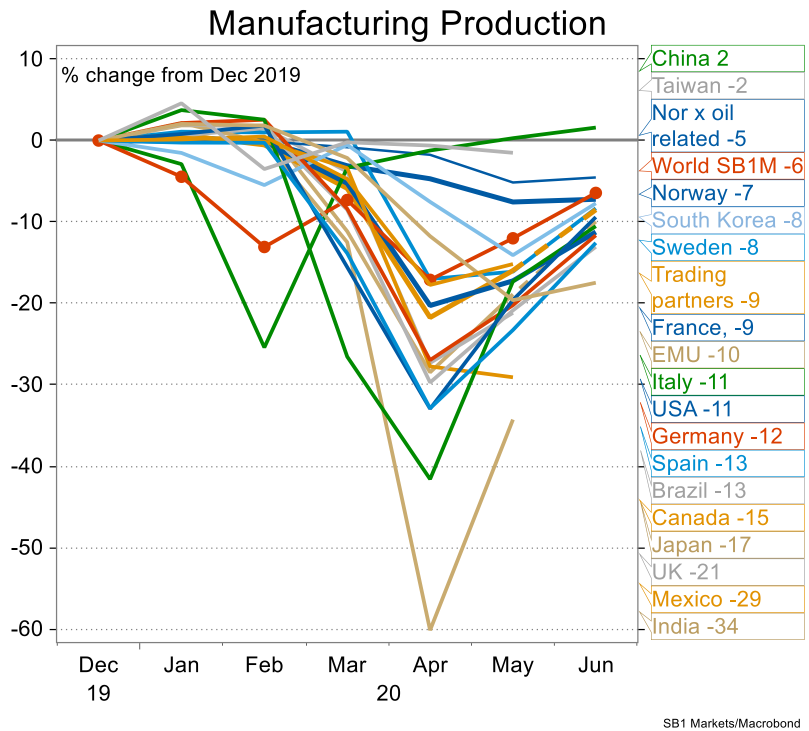


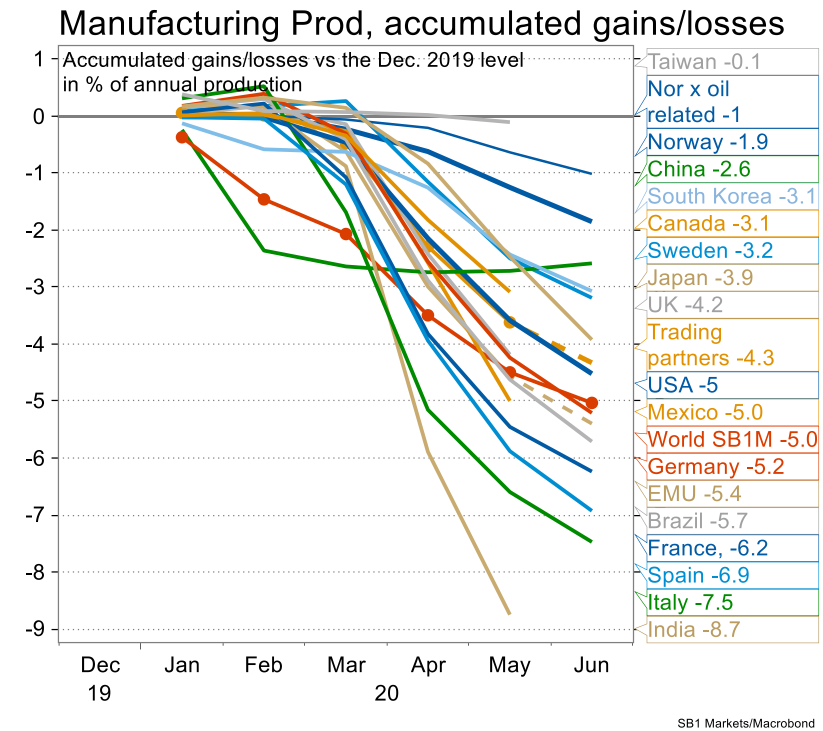


- We assume global retail sales rose more than 6% in June, as in May. If so, sales were still 3% below the pre corona level in June. In May, sales rose in all main countries. Norway is in the lead, far above any others, measured vs. the Dec 19 level
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 5% above the pre corona level in June but total sales during the first six months of 2020 were still 0.2% below the pre corona level, measured in % of annual sales. *This illustrates the loss of sales during the corona crisis, so far.*
  - » Level wise through H1, Norway is in the lead, by a wide margin, joined by Denmark, Finland, and Sweden – and Germany
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production on the way back, still some 5% of 2020 'is lost'

Production probably rose some 6 - 7% in June, and most likely further in July

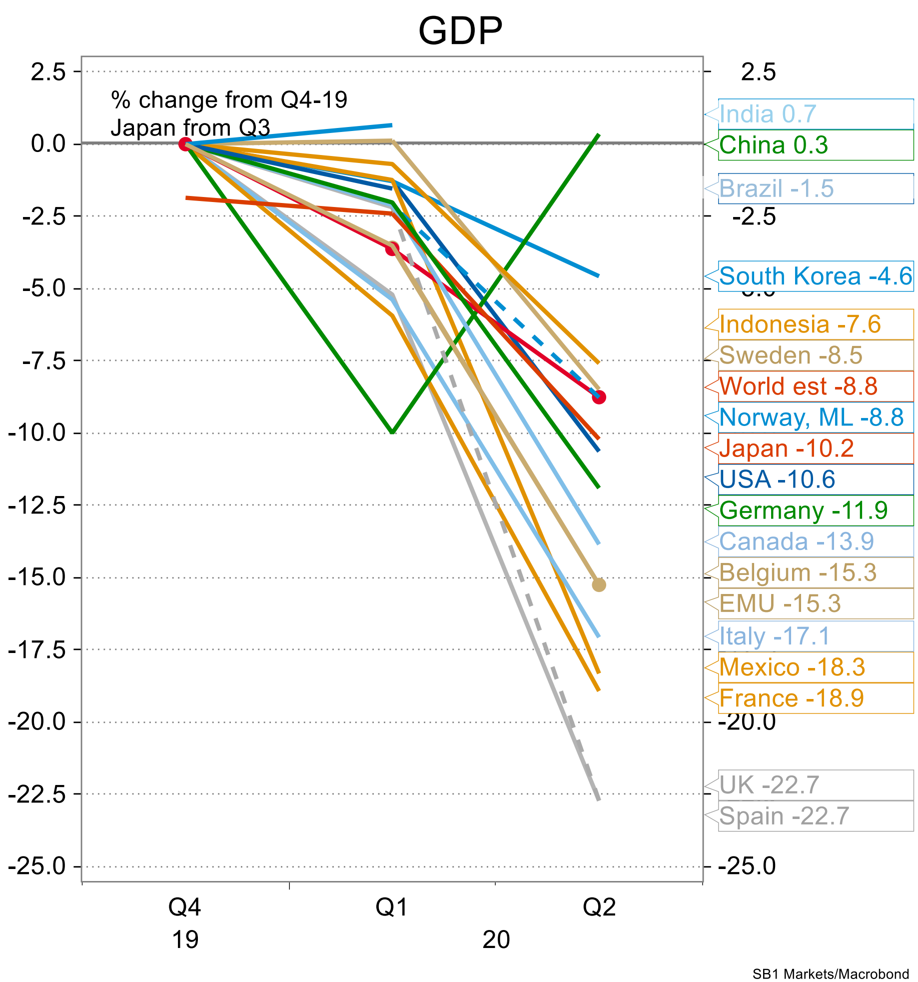




- We estimate an almost 7% m/m increase in manufacturing production in June. Production was still down 6% vs. the Dec level
  - Compared to the Dec 19 level, China is in the lead (above the Dec level) followed by Norway and the US
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in say US was 11% below the pre corona level in June but total production during the first six months of 2020 was 'just' 5% below the pre corona level, measured in % of annual production. *This illustrates the loss of production during the corona crisis, so far.*
  - Taiwan has not reported any decline, while Norway has reported the smallest loss, followed by Sweden, China, and South Korea (Canada has just reported May data so far, comparison irrelevant))
- Service sector production is not included in these retail sales data – and service consumption has fallen sharply, everywhere

Global GDP fell by 3.7% in Q1. Q2 was most likely even weaker

Many countries have not yet reported but we assume a 5% Q2 decline

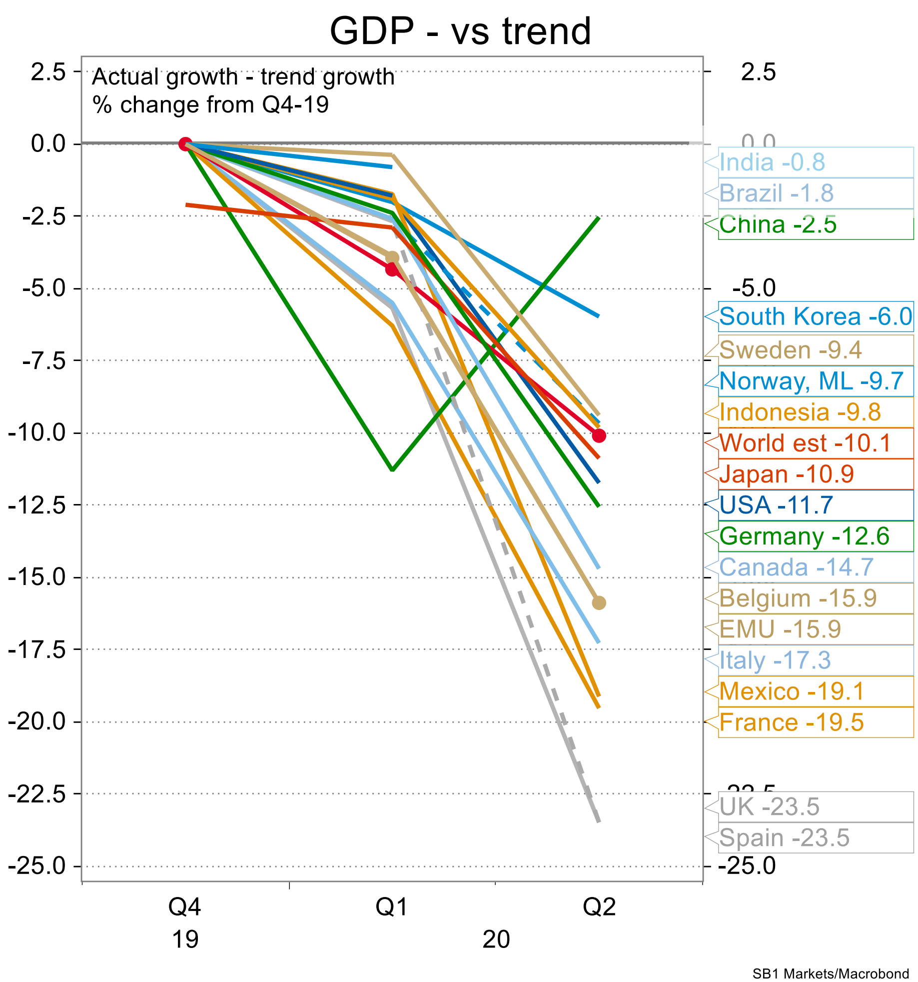


- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, bringing the GDP level up to slightly above the Q4 level
- In most (all?) other countries, GDP fell sharply in Q2 – and global GDP probably fell by approx the same amount as in Q1, or a tad faster.
- If so, global GDP has fallen by almost 9 % from the Q4 2019 level, and it was 10% below the pre corona trend path (see chart next page)
- Q2 news last week
  - » Sweden down 8.6% from Q1, -8.5% from Q4
  - » Mexico -18.3% from Q4
- Previously reported
  - » China up 11.5% q/q, and is up 0.3% from Q4
  - » US down 9.5% q/q, 10.6% from Q4. Canada down 14% from Q4
  - » EMU down 12% q/q, 15.3% from Q4.
    - Germany down 11% from Q4, Spain -23%
  - » South Korea just down 4.6% from Q4
- As production and demand recovered through Q2, we estimate that June was some 4 – 5% below the Q4-19 level
- *Our July nowcast is for a further expansion, and a 2 – 4% shortfall vs. the pre corona level and 5 – 6% negative output gap*

India and Brazil have not yet reported Q2 data! Norway, Japan & UK + the world are our f'casts

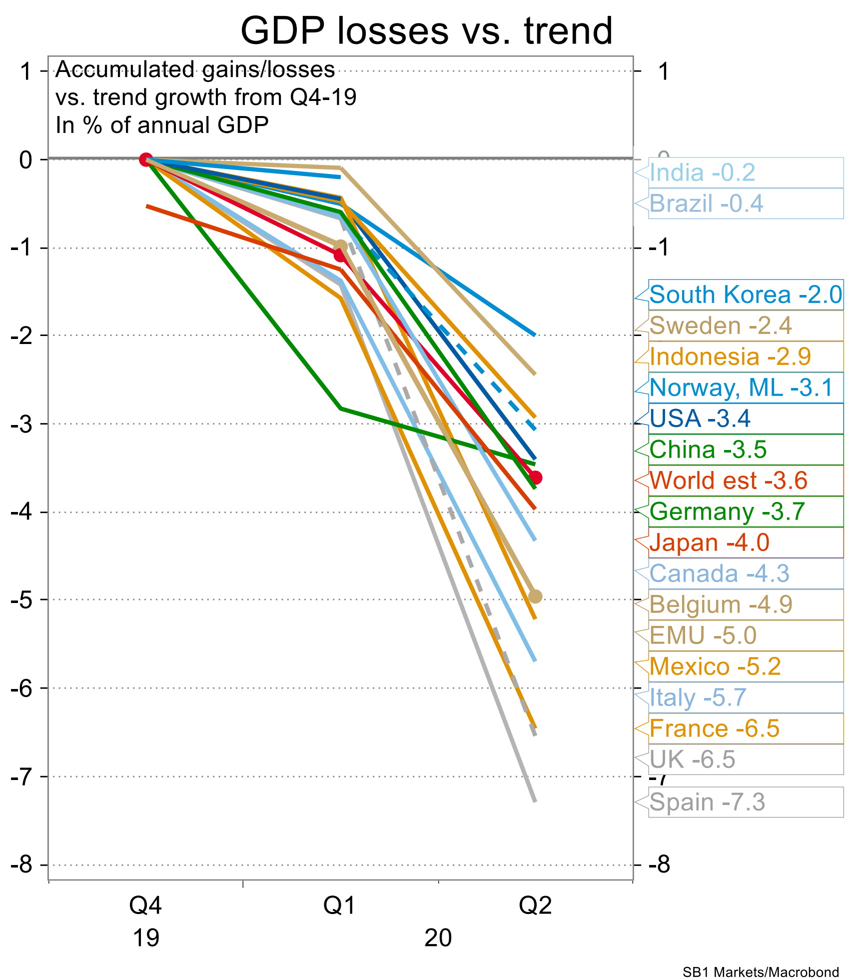
Global GDP a tad weaker vs pre corona growth trends, China still 2.5% below

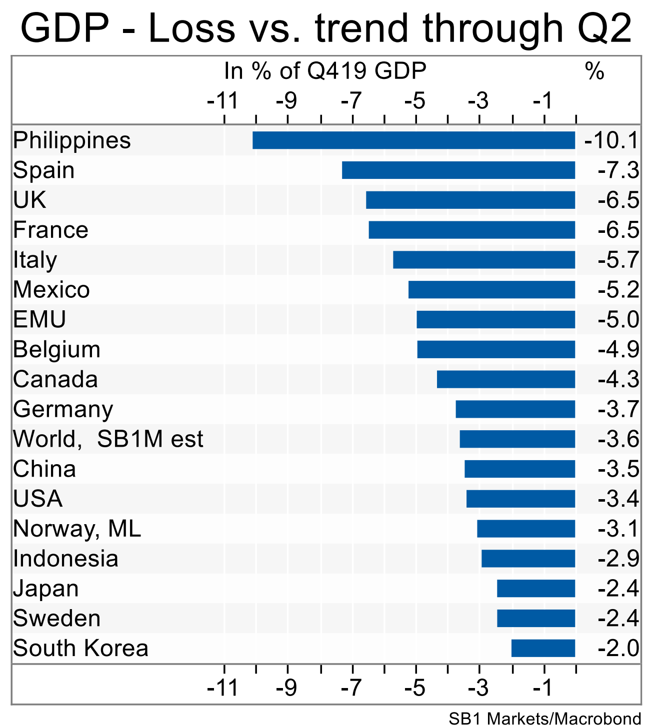
The world some 8.5% below pre corona trend in Q2



The accumulated losses vs trend growth so far equals 3.6% of global GDP

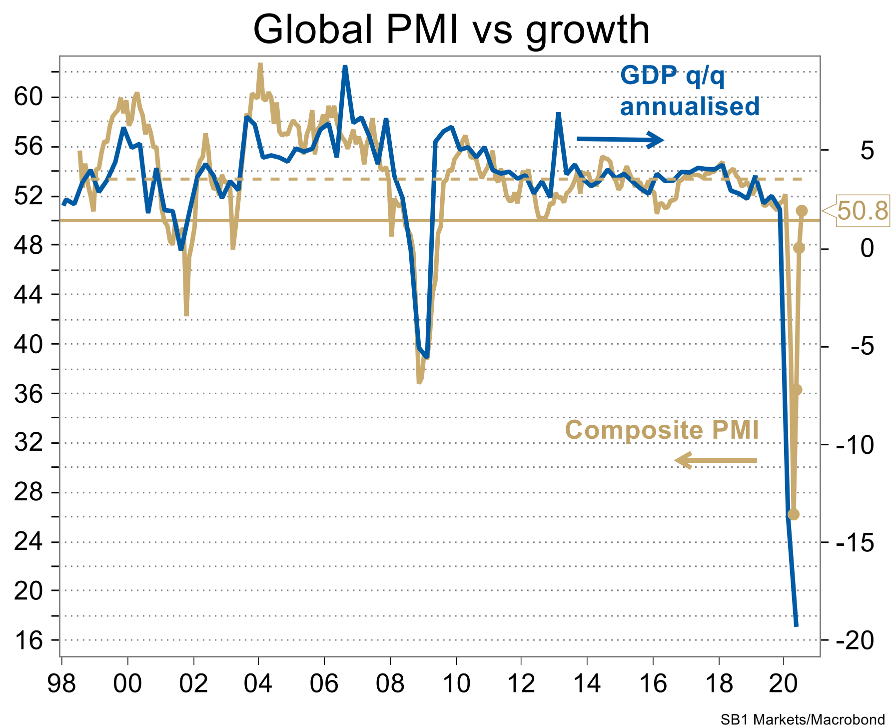
… and it will grow larger in Q3 as the activity level most places will remain below the pre corona trend

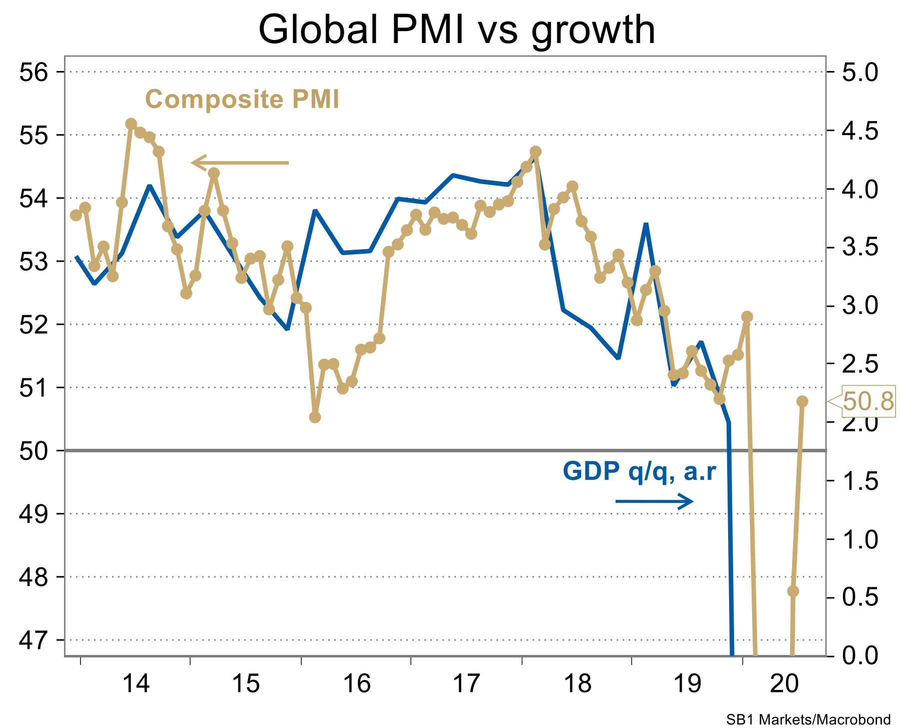




PMIs up to above 50 most places, two months too late

PMIs/ISMs describe the cycles well but the were – as usual – too slow the report the recovery





- As we assumed, the global composite PMI rose by 3 p to 50.8 in July, and it almost back to the 2019-level, which was 2 p below the 'boom' level in 2017 & 18. Formally, the PMI is signalling a 2 – 2.5% growth pace
- World GDP fell at a 15% pace (close to 4%, not annualised) in Q1 and some 20% (5% not annualised) in Q2. However, all activity data have been signalling strong growth in May and June, and there are no signals of a sudden death in July. Even if activity stabilises at the July level, growth pace in Q3 will be record high, some 15 – 20%, not the 2 – 2.5% pace the companies are now reporting
- So, as we have debated recent months, the companies are NOT reporting changes in activity from month to month (which they are asked to do). If they have answered correctly, the PMIs should have been way above 50 in both May and June, as the world economy gained speed at an unprecedented way. Companies' answers rather reflect what they have experienced over some few months. Anyway, we are sure than a large majority of companies globally increased activity in the May – July period, the PMIs should have been far above previous ATHs.

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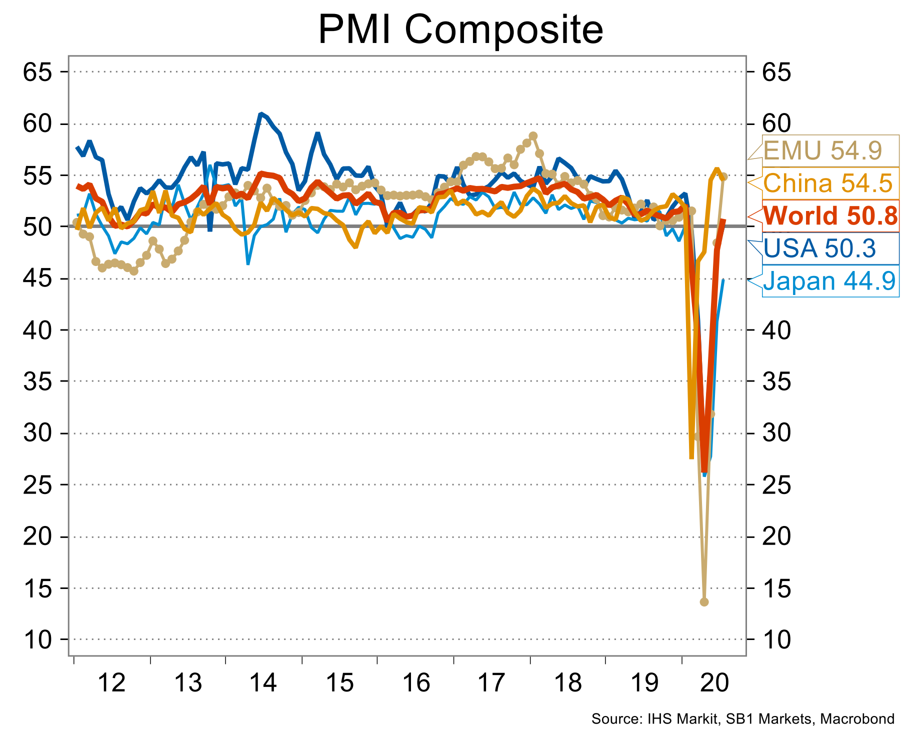
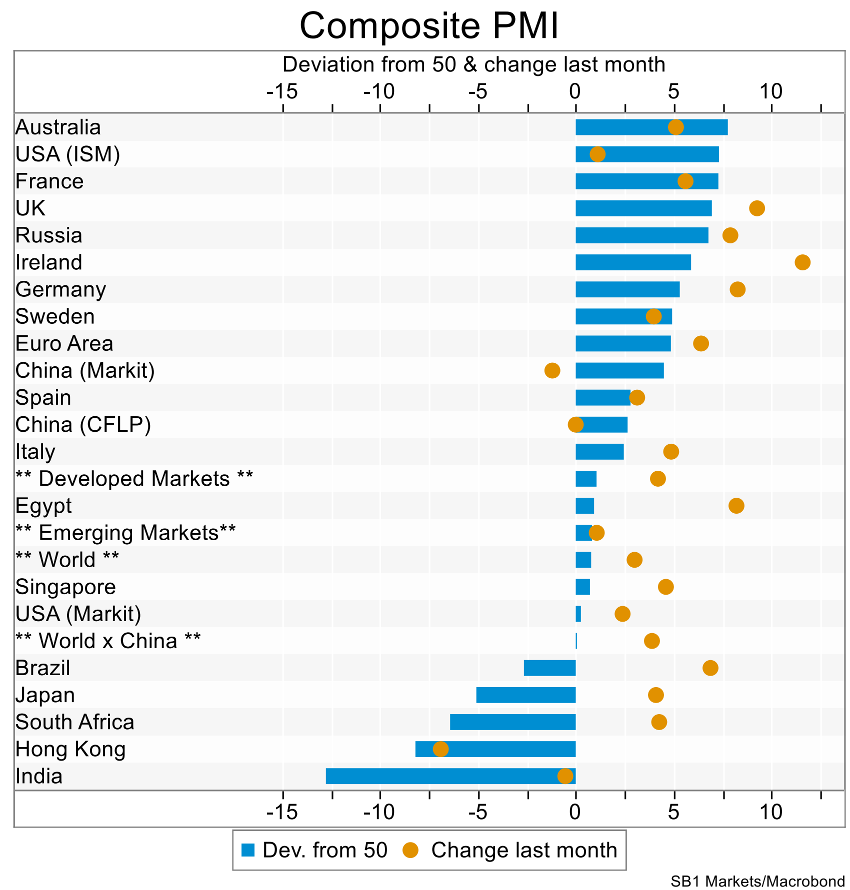
‘V’s almost everywhere, the recession was the shortest ever

21 of 25 countries/regions reported higher composite PMIs in July vs. June, and 20 is now above 50

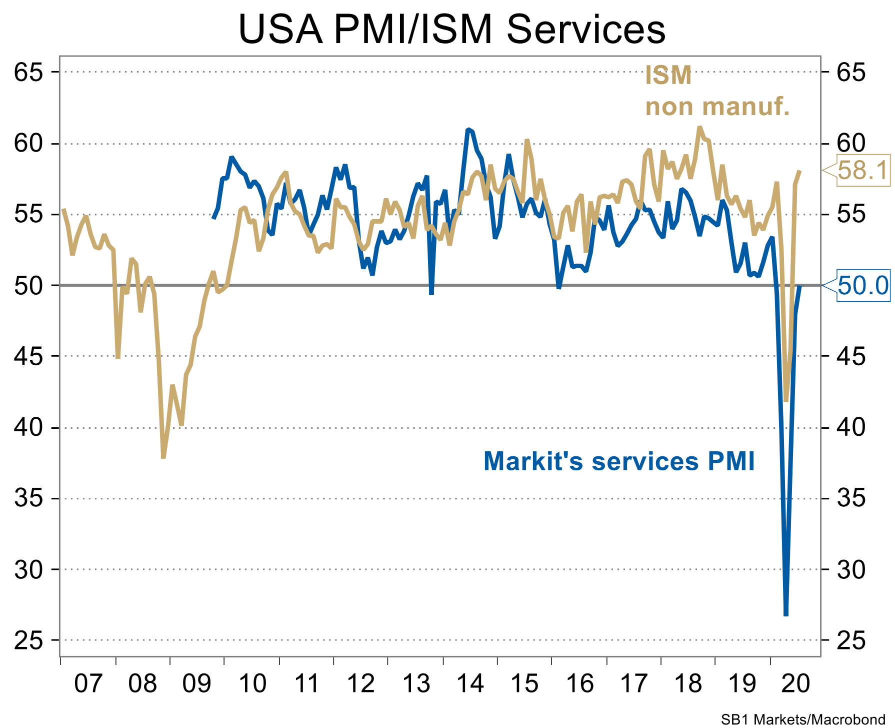


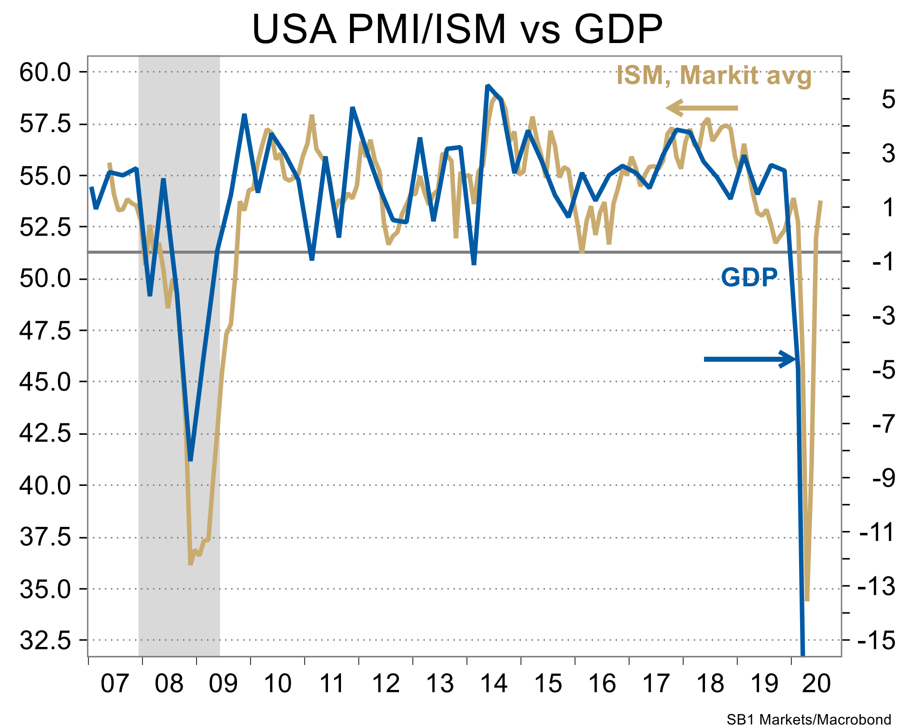


- The US surveys are mixed: The ISMs are strong, while Markit’s PMI is just above the 50 line
- India is still struggling, as is Hong Kong, and South Africa. Japan is the weakest link among DM, while Brazil remains below the 50 line too
- In Markit’s data set, EMU is strongest among the largest countries/regions – after being the weakest. However, the ISMs were even higher

ISM and PMI does not agree, the ISM indices signal strong growth, Markit's not

The gap is largest for the service sector (58.1 vs. 50). Taken together, this indices signal further growth

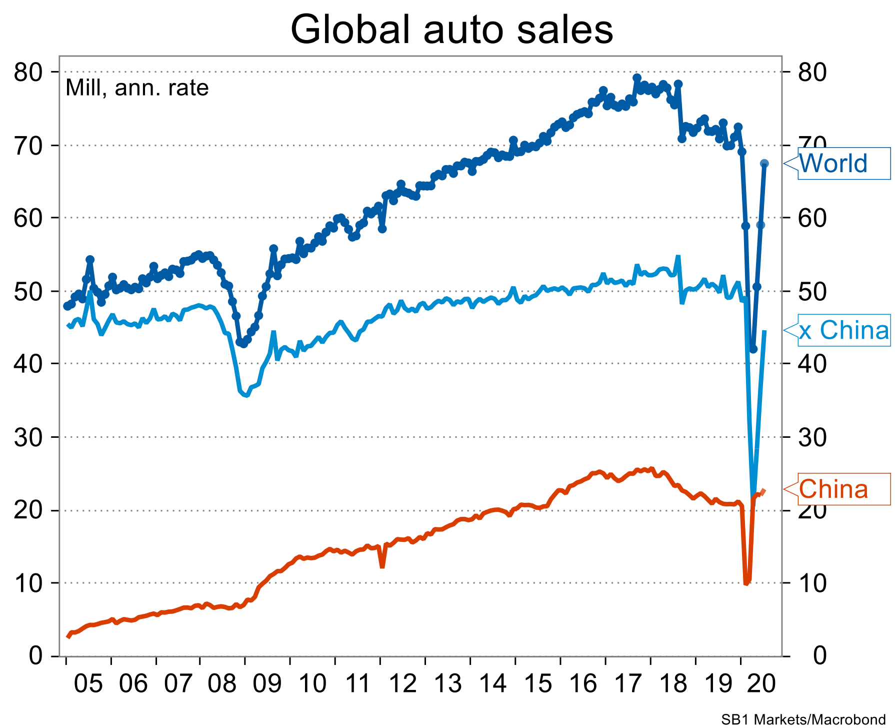


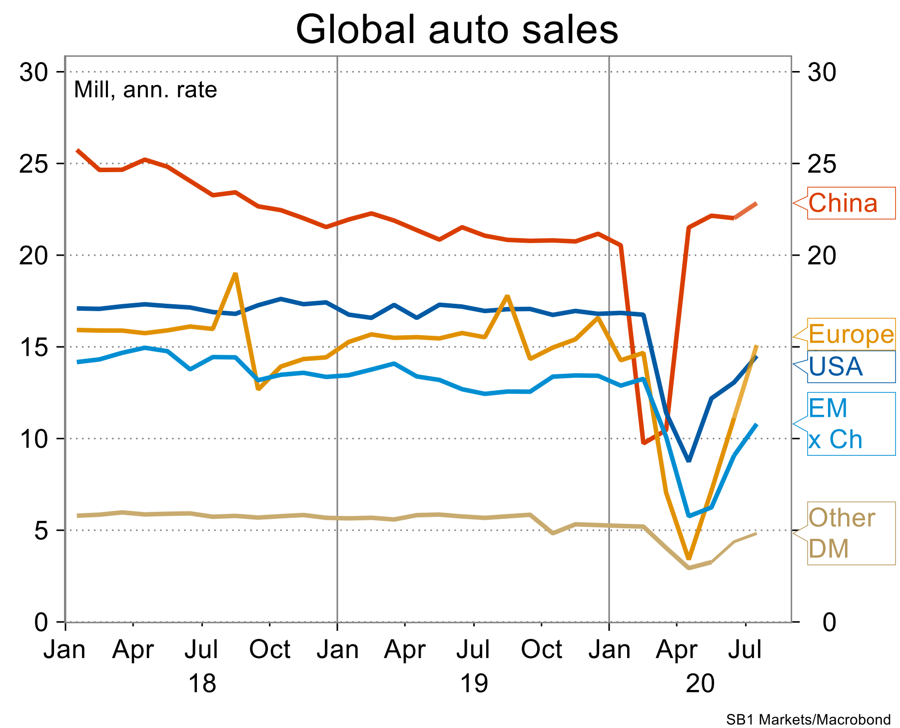


- We think both surveys underreport growth, at least over the tree last months in average. The US economy is not probably growing at 20%+ growth pace

Global auto sales almost back to the (low) pre corona level in July, just 4% below

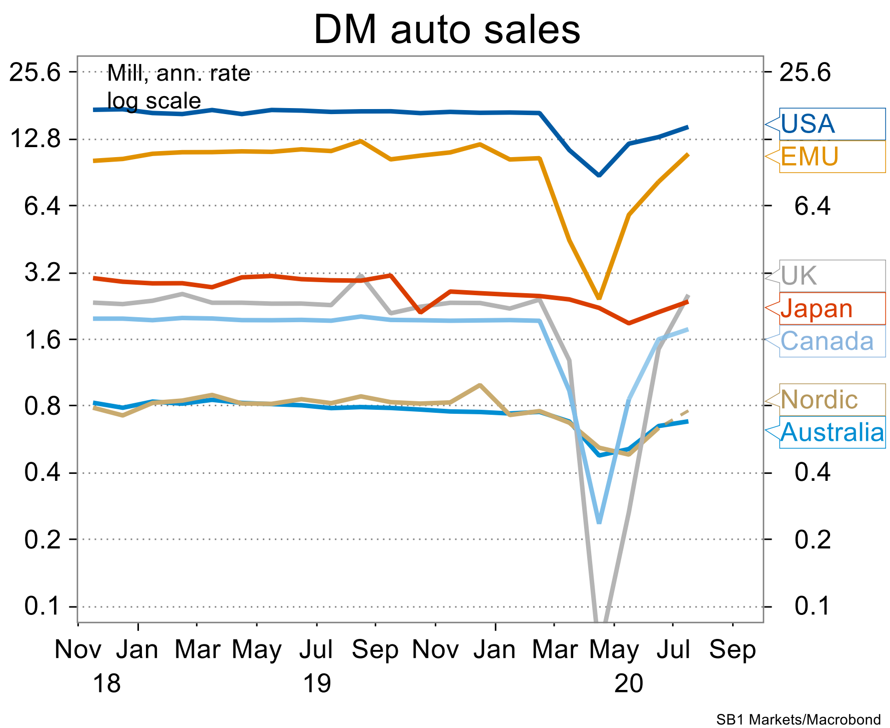
Sales are up everywhere. China well above last year's sales, ROW just 10% below (from -26% in June)

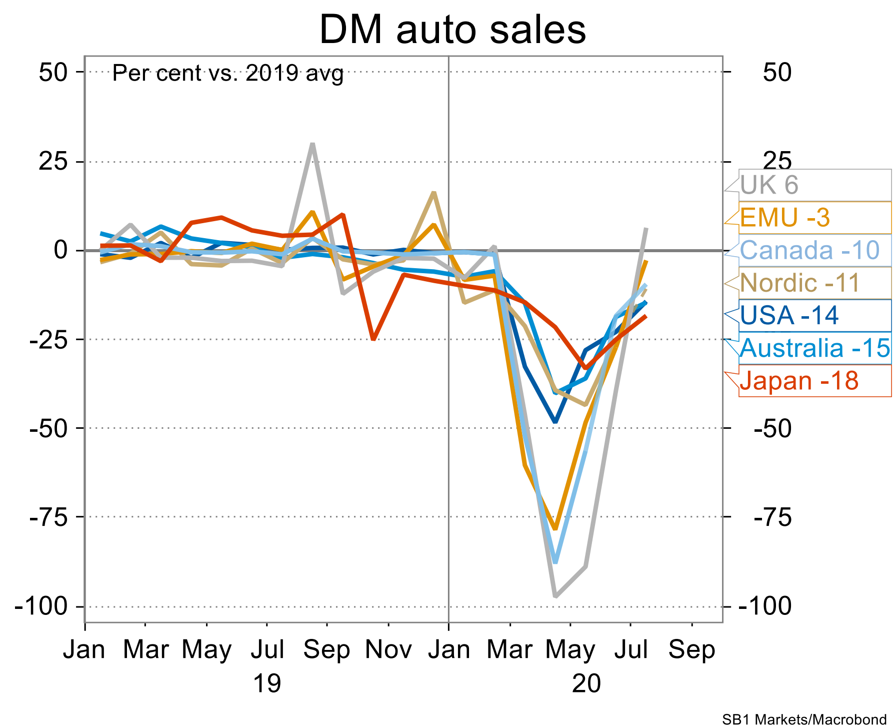




- This is the most undisputable 'V' we have on offer – data are reliable, and updated. Just one caveat: Sales may now be boosted due to pent up demand – and they may slow during the autumn, especially if the corona virus creates new, serious problems
- Chinese auto sales rose further in July, and are up 10% vs the 2019 level – which though were rather depressed – by more than 20% vs. the pre 2018 trend. But the latter modification is history, auto sales in China came back to the pre corona level in April, and is climbing further
- Sales in Europe is almost back to a normal level, just marginally below 2019 sales, which was the best year since 2007. US sales are still some 10% below par. Other DMs are just marginally below the pre corona level
- Sales in EM x China rose sharply in July too, especially in India, which almost returned to a normal level in July. However, there are strong recoveries in most other EMs as well

Sales up to normal levels in EMU, UK; other DMs still 10 – 20% down

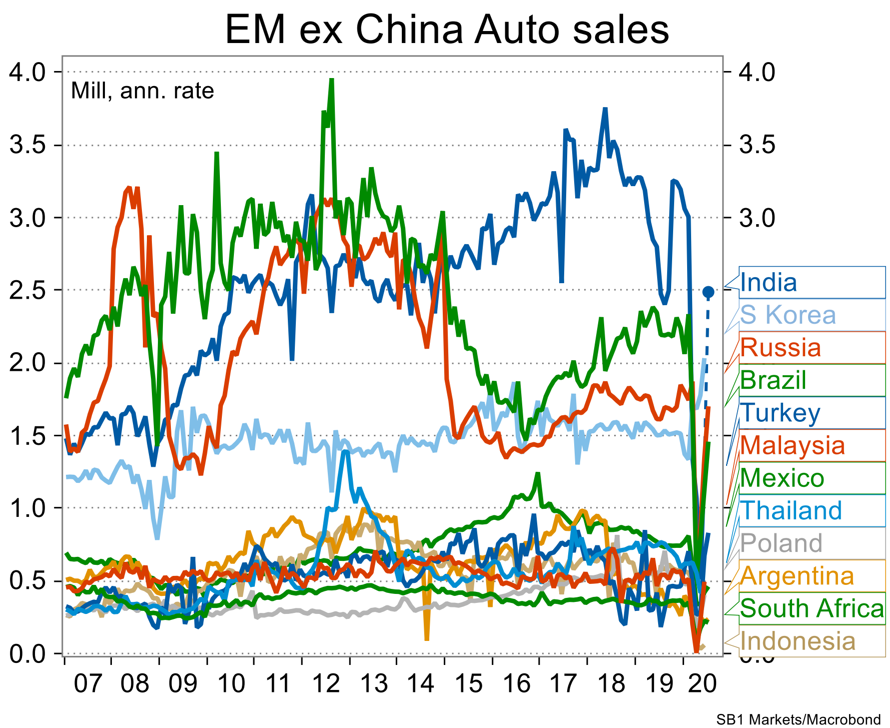


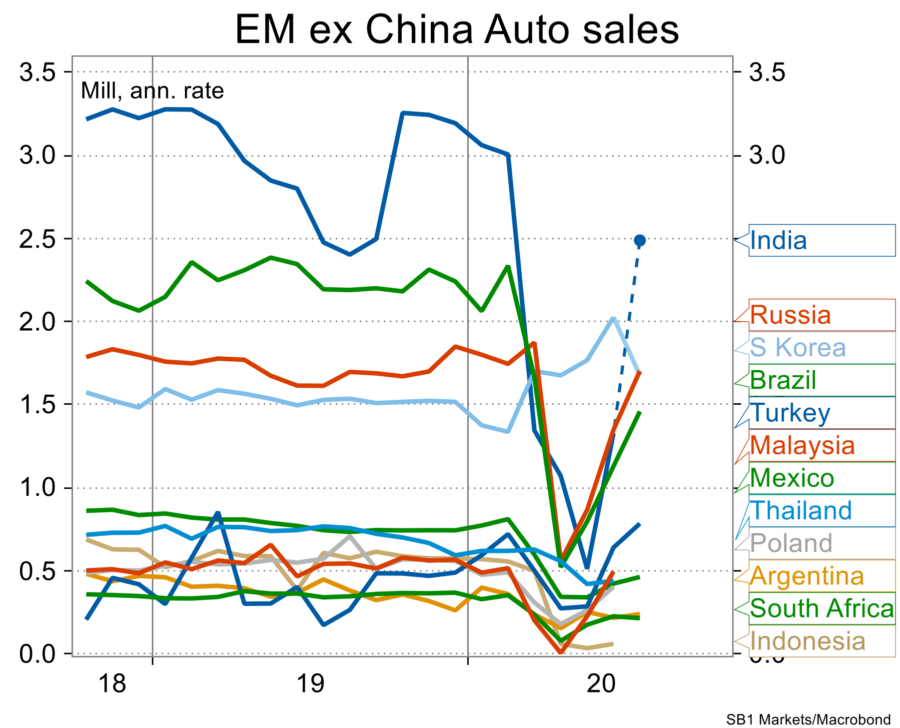


- Sales in both EMU and UK rose sharply in July – and sales are close to (EMU) or at (UK) normal levels
- Sales in other DMs are still somewhat below par, from 10% in Canada to 18% down in Japan – which had the mildest decline in sales

Emerging markets: Auto sales are recovering shaply

India shot up sharply in June & July, as did Russia, both are not far below pre corona levels



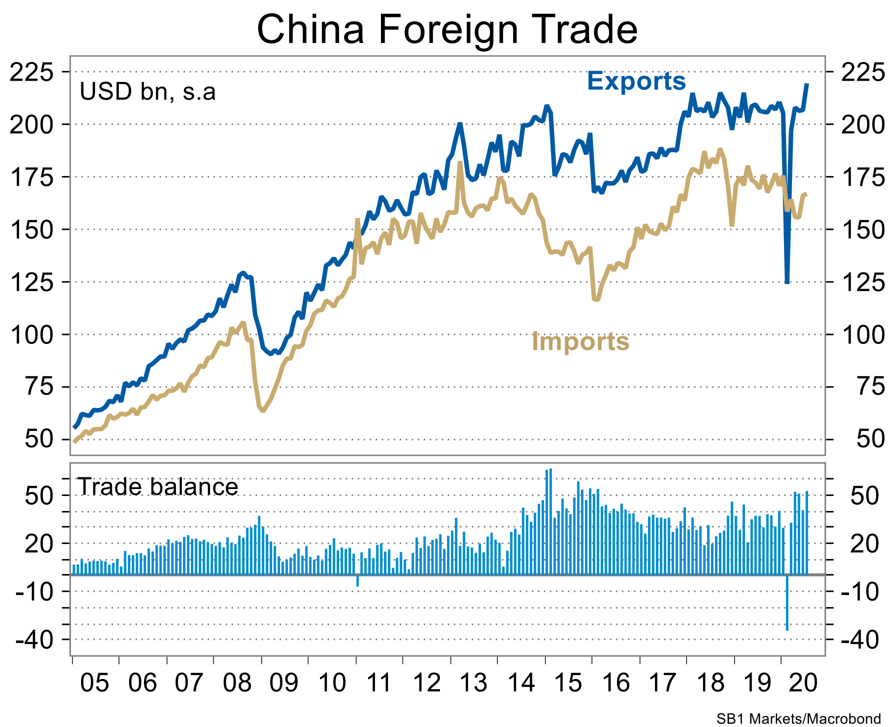


- Sales in Brazil are still 35% below par – while sales in South Korea are the best ever, even without any corona downturn

Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

Exports straight up in July, global ATH ☺. Import volumes OK too

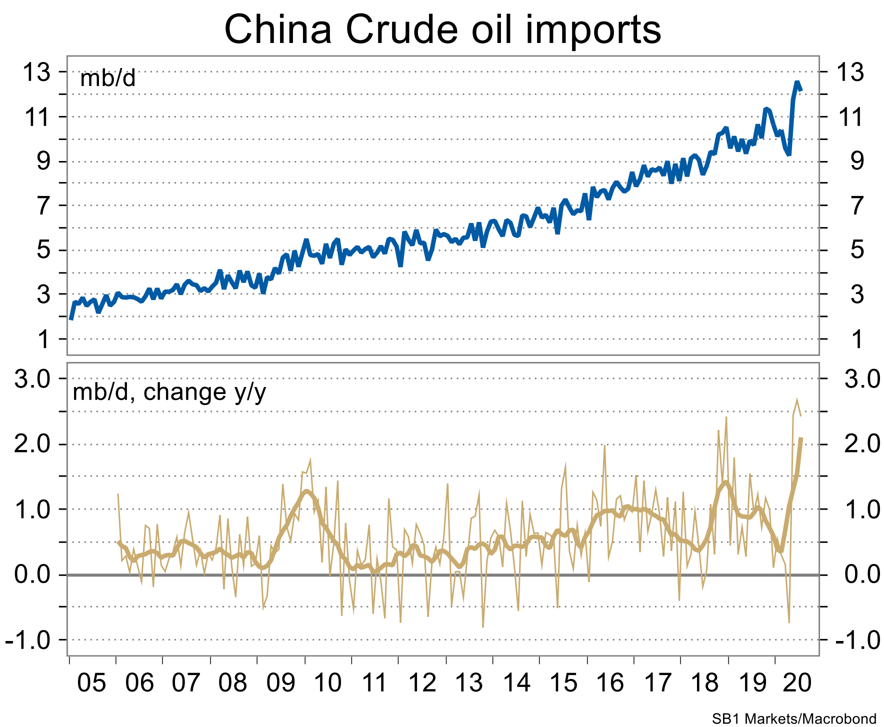
Exports up 6% m/m in July, 7.2% y/y, expected -0,6%. Imports up m/m too, volumes up y/y

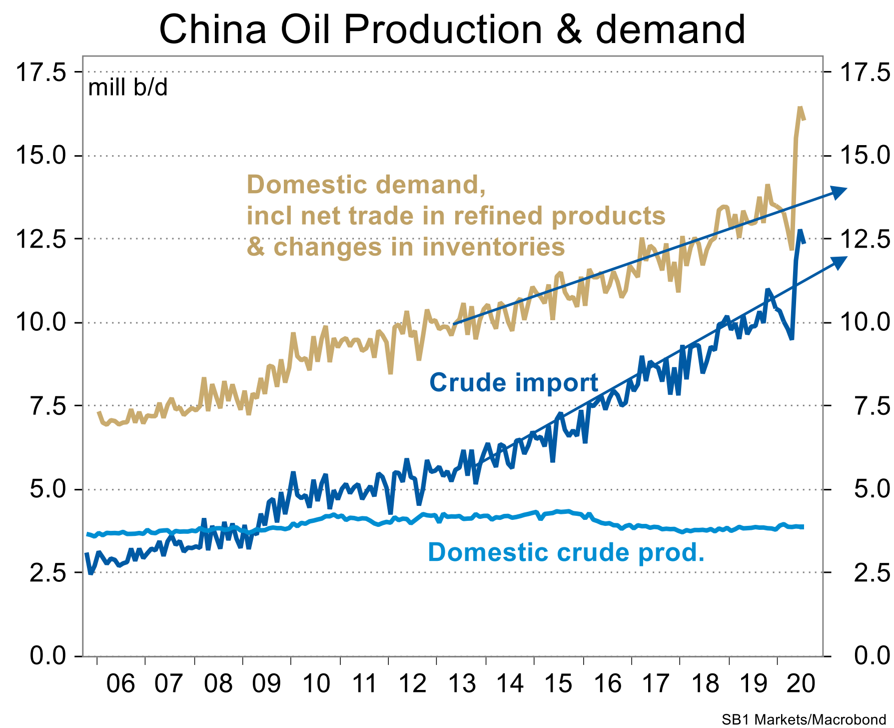


- Exports were much stronger than expected in July – and the highest ever, we assume also in volume terms (we make price assumptions for the 3 last months). Exports rose 6% m/m in July, 7.2% y/y, expected -0,6%. Except for February and July, exports values have been flat since early 2018, which is weaker than the Chinese norm.
- Imports rose marginally in July, following the substantial rise in June - but were still down 1.4% y/y, expected up 0.9%. Import values have fallen almost 10% since 2018 but as import prices have fallen just as much, import volumes are flattish.
- The trade surplus rose by USD 10 bn to 50 bn. The surplus has been higher been normal past 4 months - but China is no more running a large current account surplus, and the deficit in services is larger than before

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

Record high crude imports, according to Chinese data. If correct, inventories must be rapidly build up





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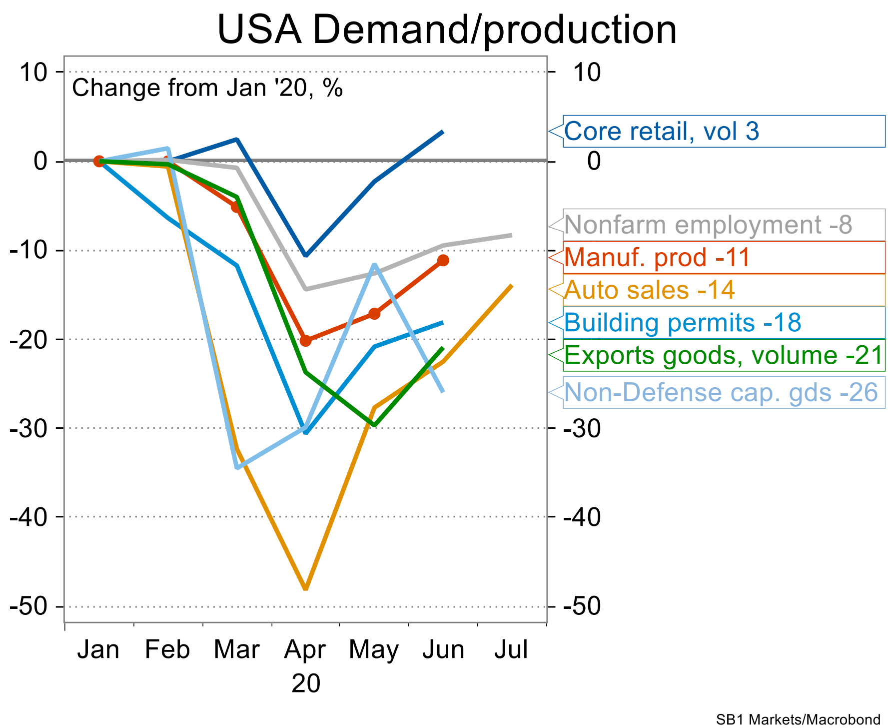
On the way back – but not that synchronised

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



Some different shapes and forms of 'V's

- Barring export volumes, all main indicators rose in May, and most 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 7% below the pre corona level in June – and probably not somewhat less in July even as the recovery probably 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 26% following a new decline in aircraft orders in June
- Export volumes finally turned up in June

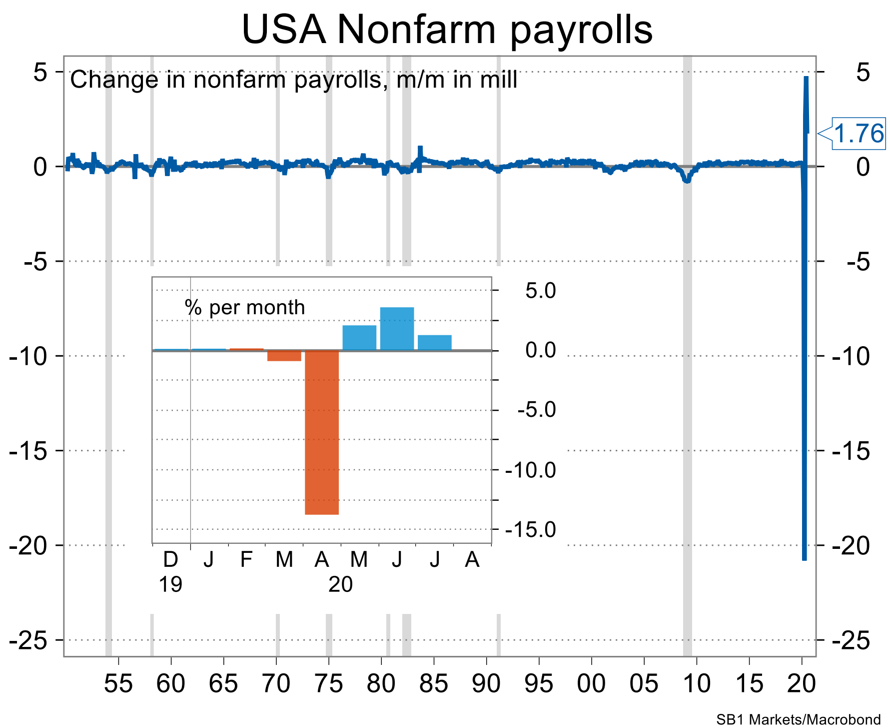
Demand vs production

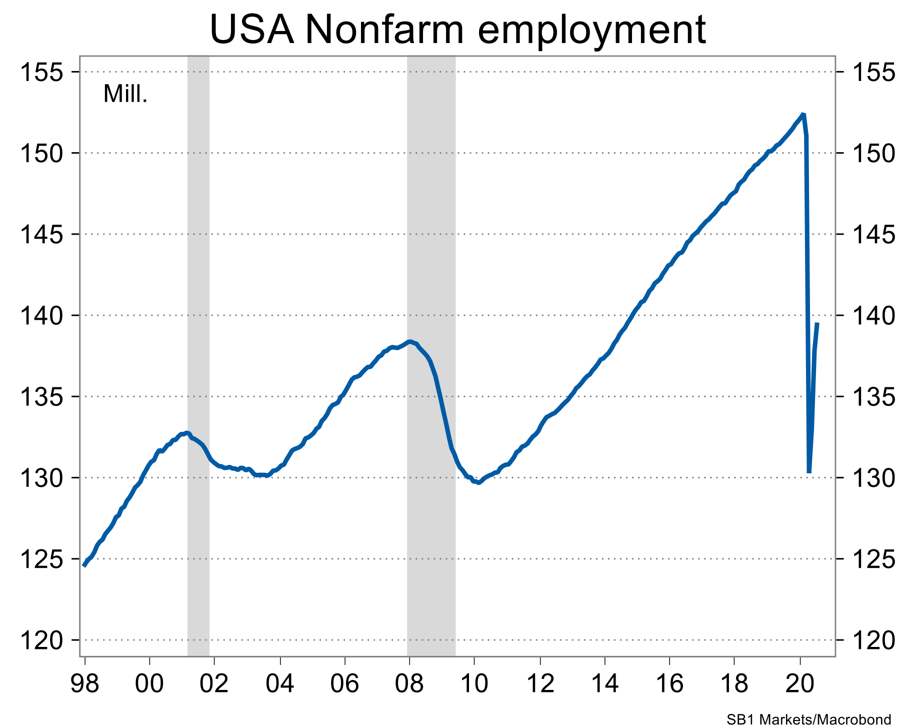
- Manufacturing production and employment rose in May and June but both remains 9 – 11 % down from before corona
- We put more emphasis on the demand side than production
  - » If demand recovers, production will follow – after inventories are emptied

SpareBank 1 MARKETS

Another positive surprise. Still a disastrous labour market, employ. 9% down

Employment up 1.8 mill (1.3%), unemployment down 0.9 p to 10.2% - both better than expected

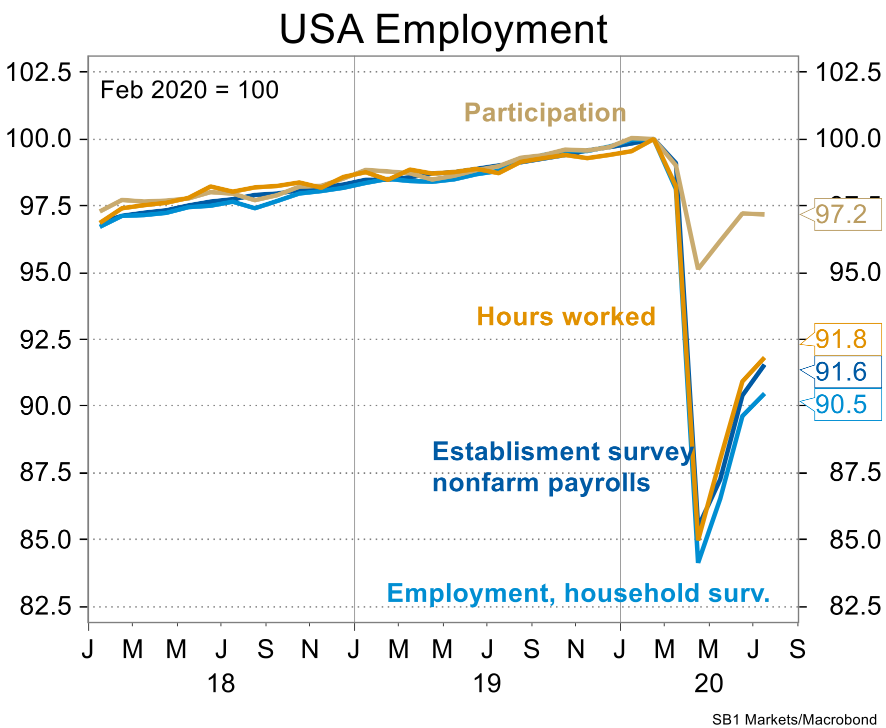




- **Employment** rose by 1.8 mill (1.3%) in July, expected 1.5 mill, but ‘real’ expectations were probably well below as ADP reported less then 0.2 mill more jobs in the private sector (expected 1.2) in July. Still, employment has recovered just 9 mill of the 22 mill drop in employment in March and April, and it is down 9% vs the pre corona level. Other employment measure, hours work yields the same result
- **Unemployment** fell by 0.9 pp to 10.1 (June was revised down 0.1 pp), expected down to 10.6% - and it is likely well below Fed’s estimate. Even so, the real unemployment level is still higher due as the participation rate is down, more a working involuntary part time etc. The U6 employment rate is still at 16.5%, up from less than 7% pre corona
- **We expect employment growth to slow the coming months.** New jobless claims are still running at an extreme high level, and activity in several large states will be hampered by new corona restrictions, at least in August

Employment still 8-10% below par, hours worked too

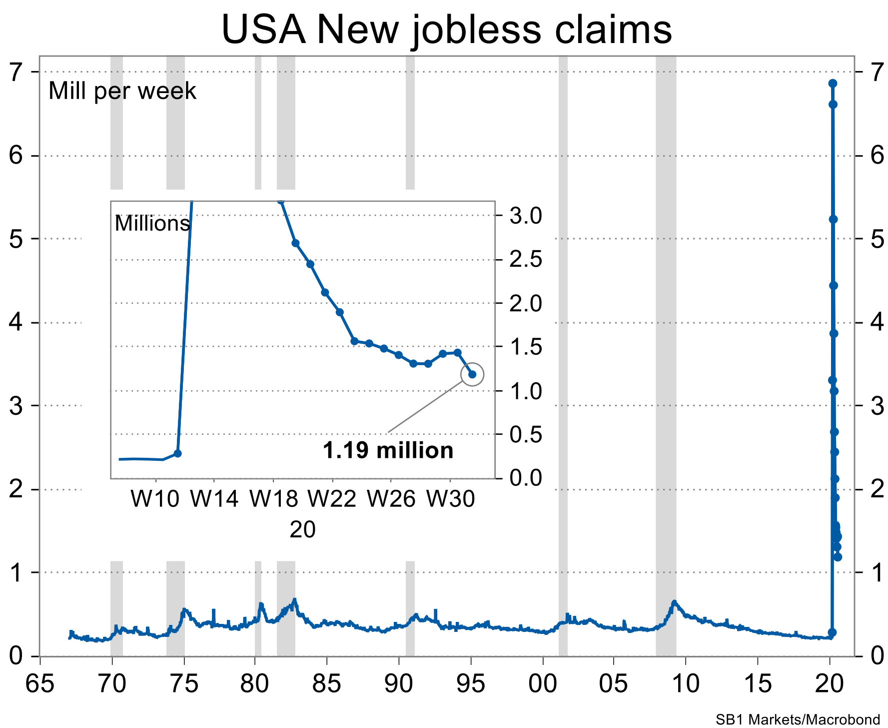
No big difference between enterprise employment headcount & the household survey

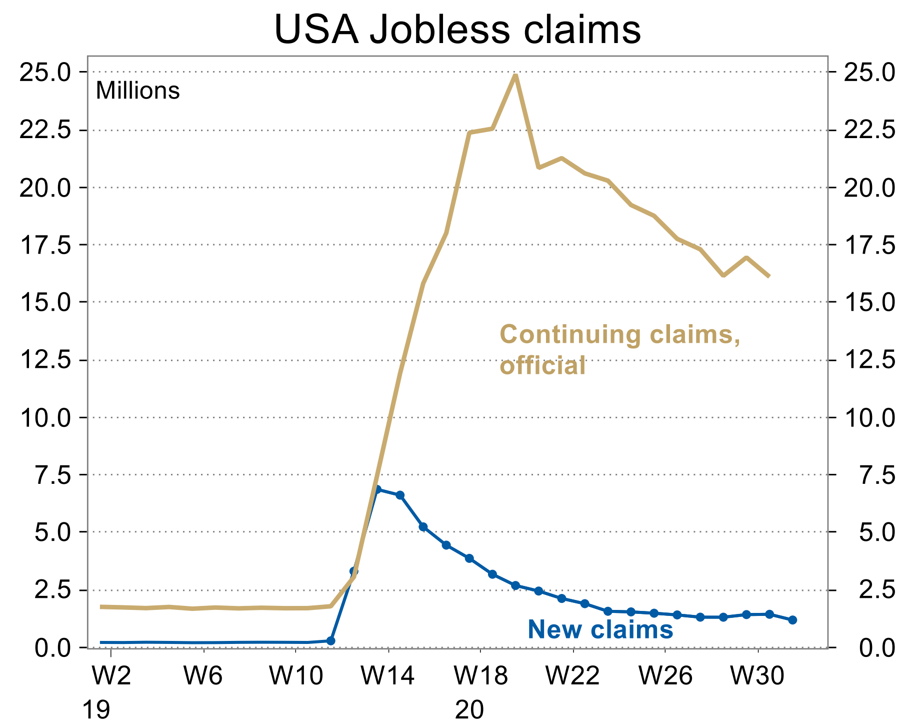


- If the participation rate not had fallen by almost 3%, unemployment would have been 3 pp higher…

Fewer new jobless claims last week – but 1.2 mill are incredible many

After two 'high' weeks, the inflow slowed by 0.2 mill to 1.2 mill last week

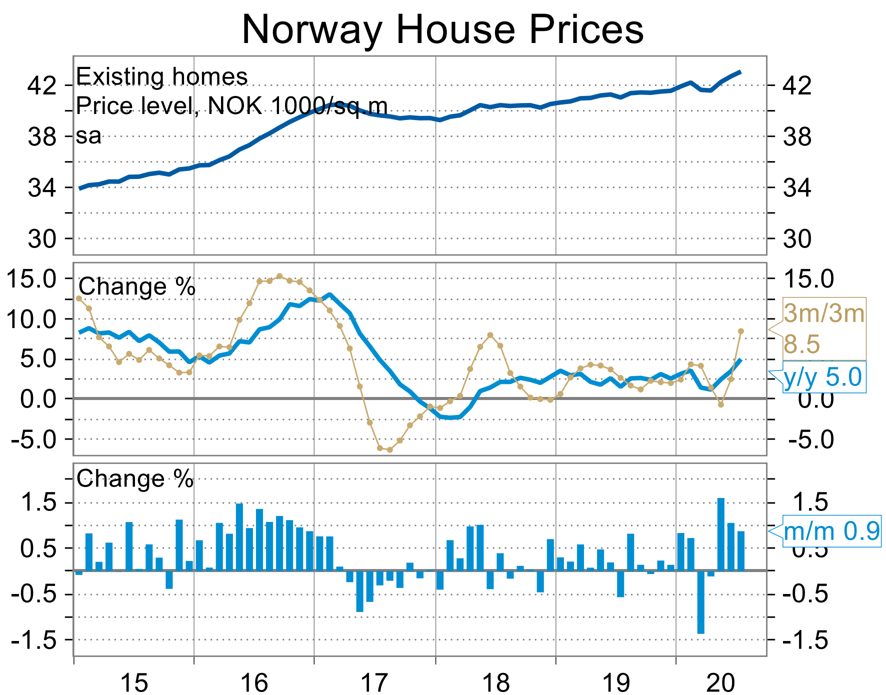




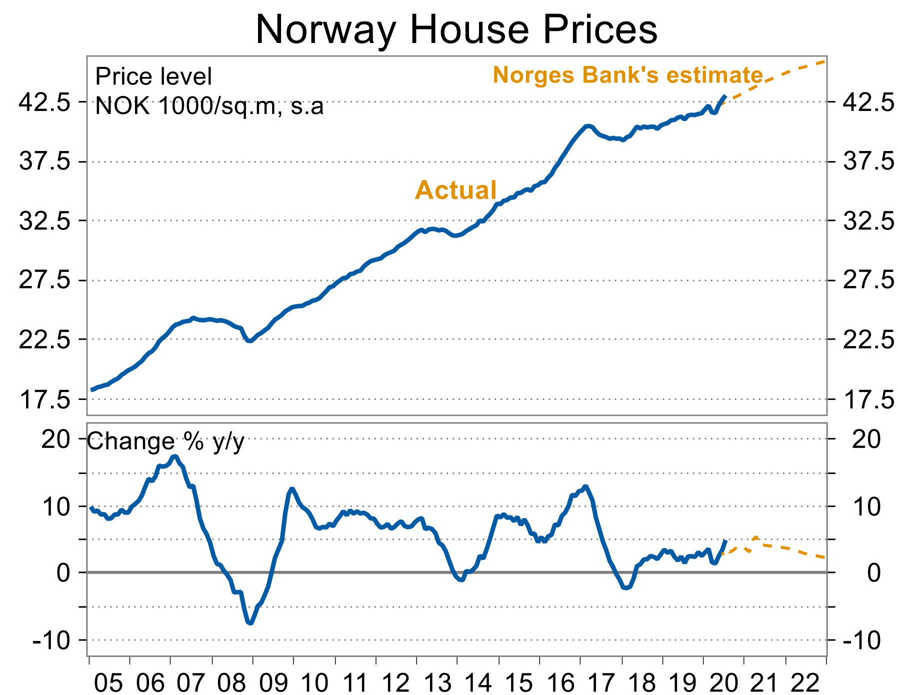
- The inflow is abated last week but it still equals 0.7 % of the labour force is entering the labour market offices as newly unemployed each week! The number is really mindboggling, much higher than during any USA recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 19 from 25 mill. but not further last week – and still 10% of the labour force is on the dole

House prices further up in July, now 2% above the pre corona level

House prices rose by 0.9% m/m in July, and are already above NoBa's path. Are rates too low??



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



SB1 Markets/Macrobond

- House prices rose 0.9% m/m in July, following the 0.1 pp upward revised 1.1% in June. We expected 1.2%. Prices are 2% above the February level, following an approx 5 - 6% take off, which started in early April. Prices are up 5.0% y/y, well above NoBa's upward revised June forecast. A 1.1% cut in mortgage rates (to 1.9% in average in May, from 3% in Feb), has been more important than a 5 pp – 12 increase in the unemployment rate
  - » That's not what the standard model suggests. Most likely, households look upon the corona hike in unemployment as short lived, while low interest rates are here to stay
  - » Prices rose everywhere, even in Stavanger. East in the lead in June, but not during the previous months. Oslo down 0.2% in July, still up 5.5% y/y. Hamar up 8%
- The number of transactions rose too, to highest level ever (up 40%), and the inventory of unsold homes fell sharply
- **Should the house prices continue upwards at more than 5 – 6% per year, Norges Bank will no doubt start hiking rates before late '22**

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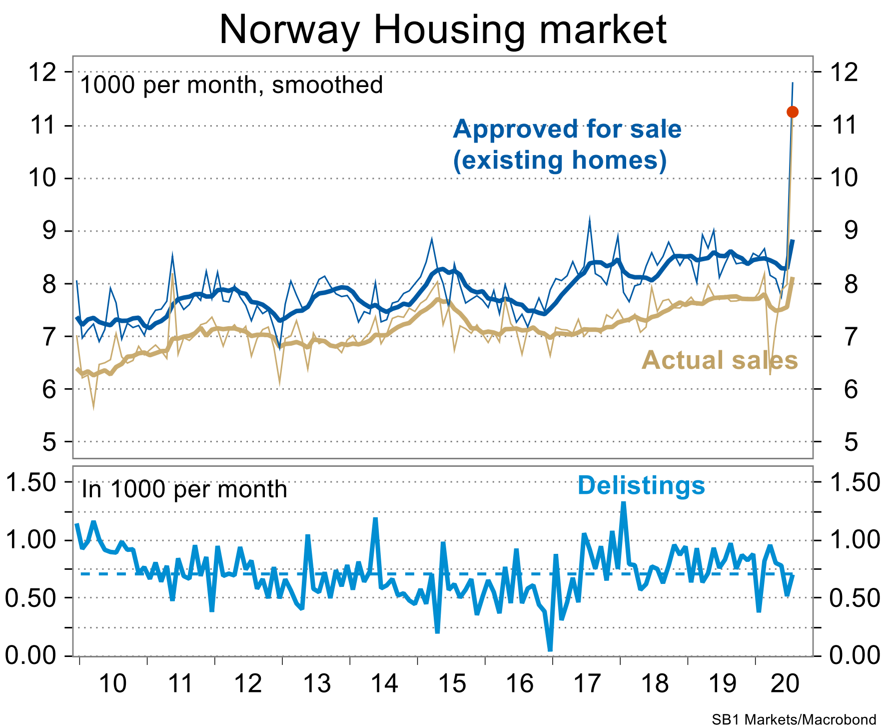
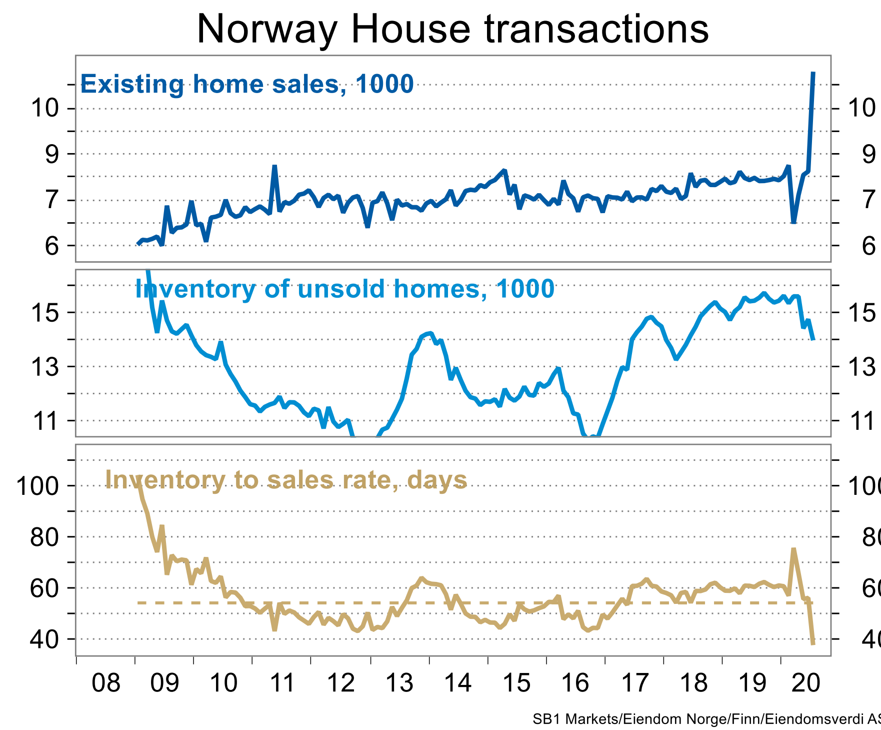
We stayed at home, and bought another one: Sales up 45% vs pre corona level!!

The inventory of unsold houses fell sharply in July, and it's down 17% since April

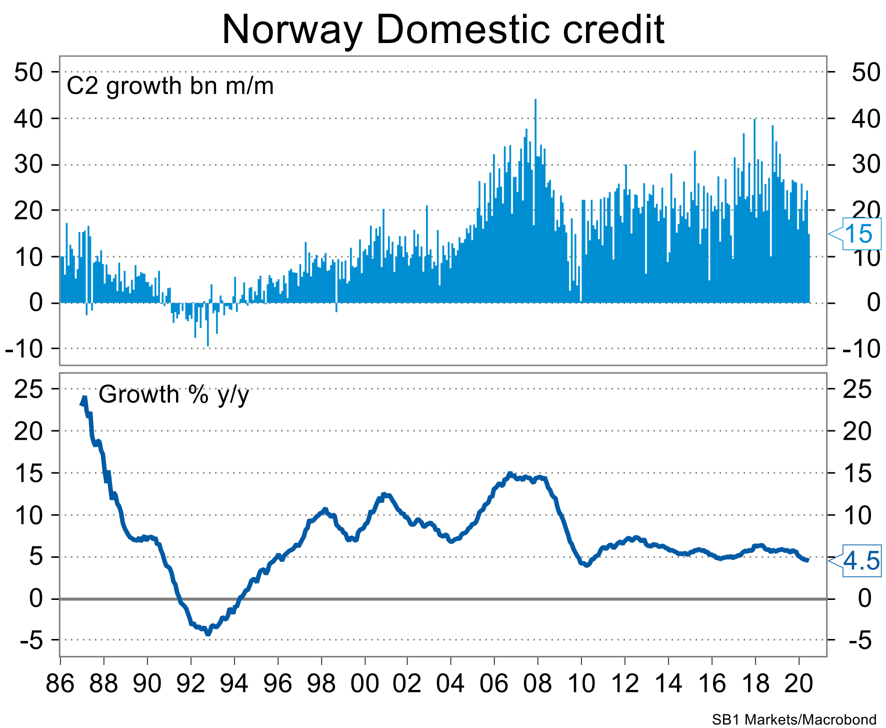


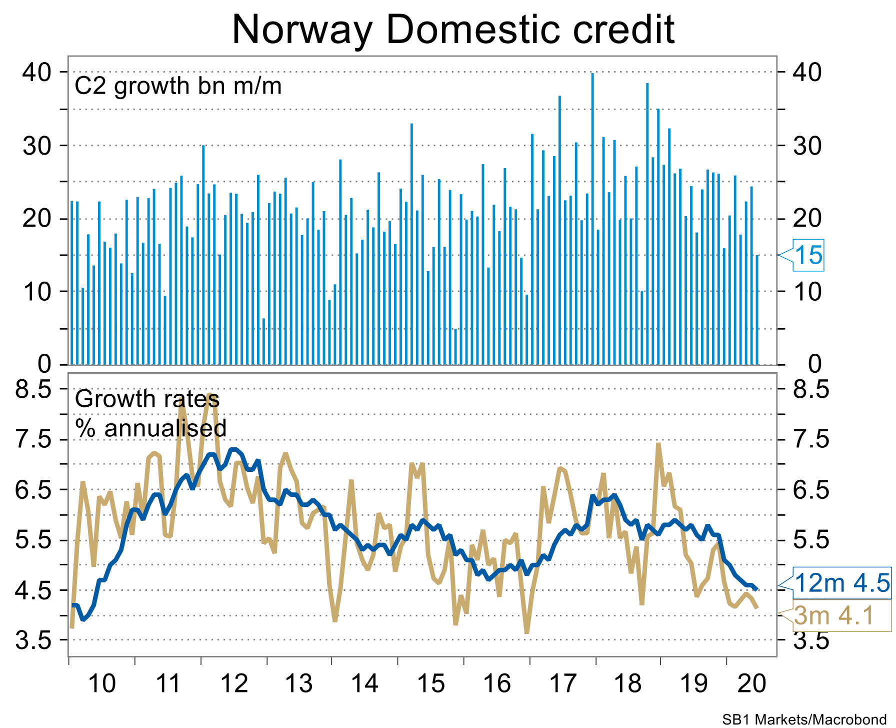


- **The number of transactions** skyrocketed to highest level ever (seasonally adj), by more than 40% to 11'
- The **supply of new existing homes** rose sharply too, to ATH
- **The number of delisting** rose in July vs June but remains at a normal level
- The **inventory of unsold homes** fell sharply in July, to the lowest level since mid 2018 – down 17% the two past months
- The **inventory/sales ratio** contracted sharply too, to the lowest level ever. The turnover time is now below 40 days vs an avg at 55 d

Overall credit growth has been but households borrowed more in June

Domestic credit growth (C2) down 0.1p to 4.5%, as we expected – the trend is still down

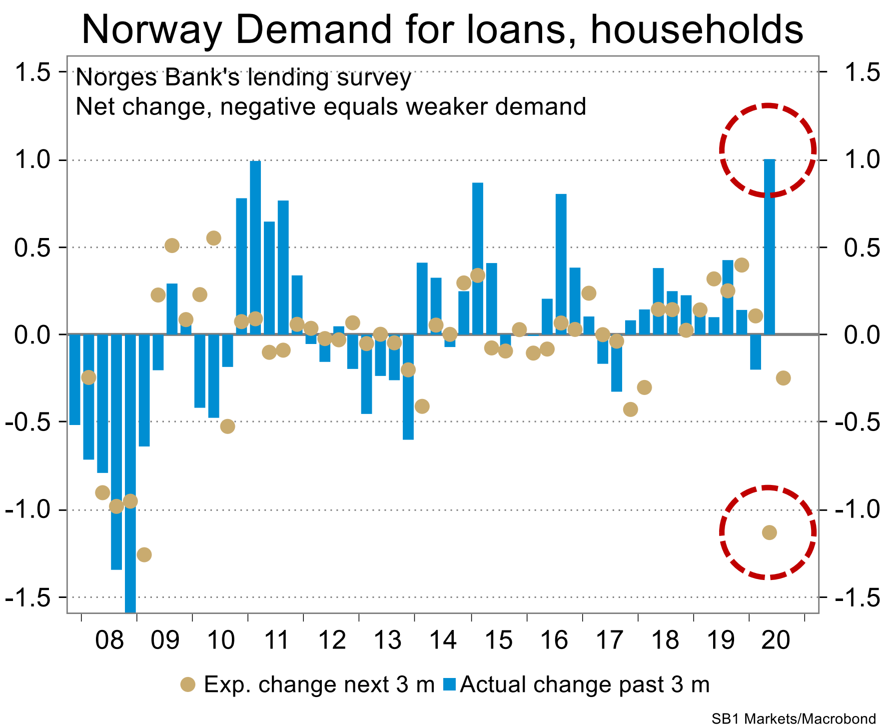


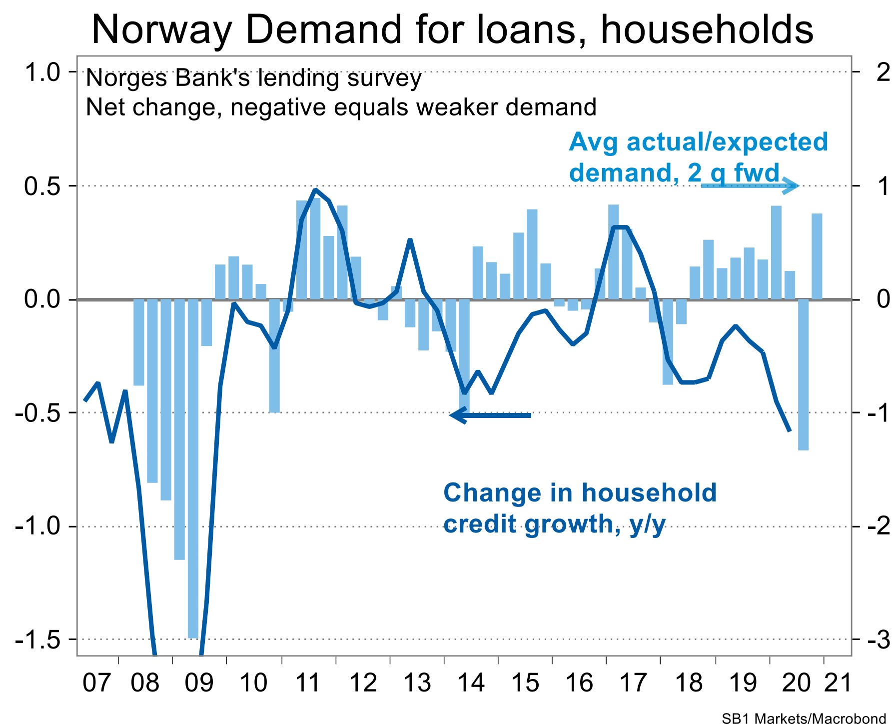


- **Total domestic debt** (C2) rose by NOK 15 bn m/m in June, down from 24 bn in May. The annual growth fell one tenth to 4.5%. Growth has been heading clearly down since late 2019 (and from early 2018)
- **Household credit growth** accelerated in June form a low level in May (to NOK 16 bn from 9 bn). The annual rate was still unch. at 4.4%, the lowest in 23 years. The monthly growth in June was the highest in more than one year, and was not that surprising given the strong housing market – and the slow growth in May. Over the past year, credit growth has fallen below income growth. <u>As the housing market is recovering, we assume household credit growth may accelerate again</u>
- **Corporate credit growth** was very high (+13 bn) and outstanding credit fell in June (-7 bn), and the annual rate fell to 3.3% from 3.5%

Banks (almost) expected the sharpest contraction in household demand….

… but actual demand grew faster than ever!! We have never seen anything like this before, of course

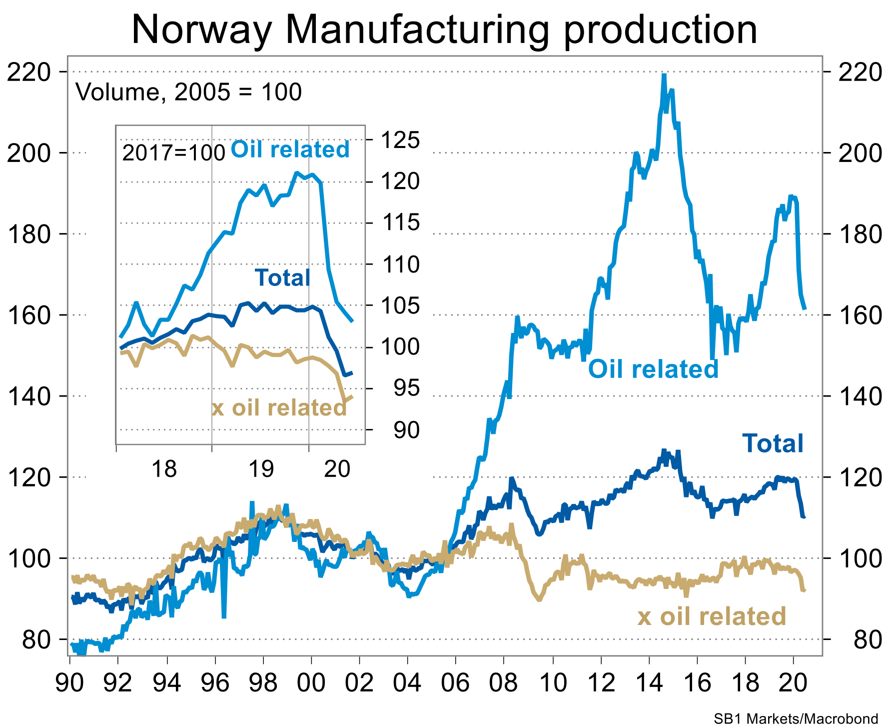




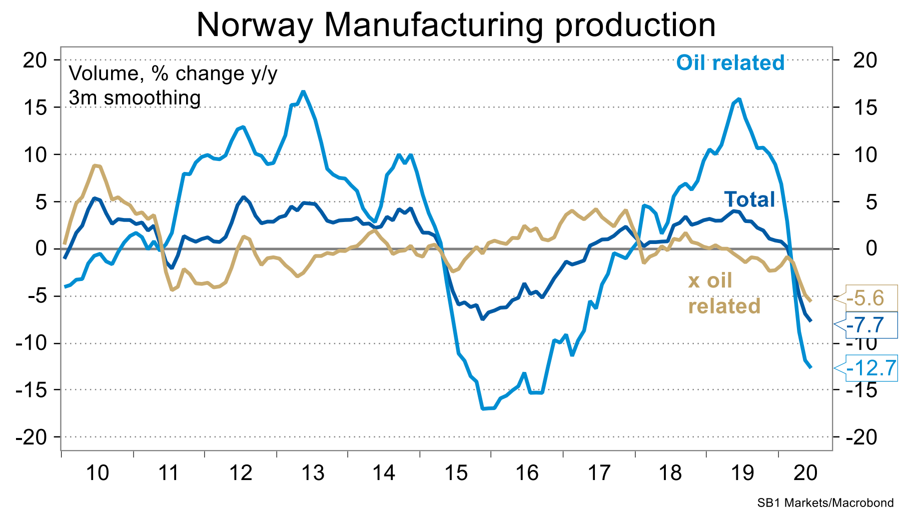
- There is not any tight correlation between banks' expectations for household demand for credit or their assessment of actual growth and the realised growth in households credit. Still, the lending survey probably tells the sentiment among bankers pretty well
- The change from early April to early July is remarkable, like data points from the housing market
- Banks' are now expecting a modest slowdown in household demand in Q3. *But who knows??*

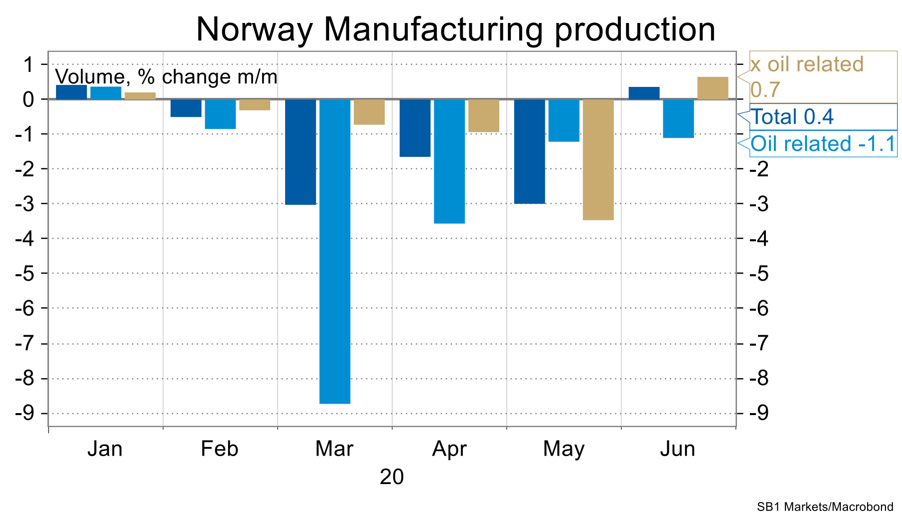
A broad manufacturing downturn – not any better in June. No 'V' here

Production up just 0.4% following the 3% May drop (we exp. +1.5%). Prod down by 7% since Feb



- Oil related manufacturing production has fallen by 15% since early 2020. Production in other sectors has fallen by almost 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, including the weak July PMI, signal a further decline in production. Norwegian manufacturers will probably lag foreign producers on the way up, as they have lagged their peers on the way down





The Calendar

In focus: July Chinese data, US retail sales & manufacturing production.

Time	Cour	Indicator	Period	Forecast	Prior
During the week					
	CH	Aggregate Financing CNY	Jul	1846b	3430b
Monday August 10					
08:00	NO	CPI YoY	Jul	1.30%	1.4%
08:00	NO	CPI Underlying YoY	Jul	3.2% (3.1)	3.1%
16:00	US	JOLTS Job Openings	Jun		5397
Tuesdat August 11					
06:00	SW	PES Unemployment Rate	Jul		5.5%
08:00	UK	Claimant Count Rate	Jul		7.3%
08:00	UK	ILO Unemployment Rate 3Mths	Jun	4.2%	3.9%
08:00	UK	Average Weekly Earnings 3M/YoY	Jun	-1.2%	-0.3%
11:00	GE	ZEW Survey Expectations	Aug	54	59.3
12:00	US	NFIB Small Business Optimism	Jul	100	100.6
14:30	US	PPI Ex Food and Energy YoY	Jul	0.10%	0.10%
Wednesday August 12					
08:00	NO	Average Monthly Earnings YoY	2Q		3.5%
08:00	UK	Monthly GDP (MoM)	Jun	8.6%	1.8%
08:00	UK	Manufacturing Production MoM	Jun	10.0%	8.4%
08:00	UK	GDP QoQ	2Q P	-20.8%	-2.2%
09:30	SW	CPI YoY	Jul	0.3%	0.7%
09:30	SW	CPIF Excl. Energy YoY	Jul	1.1%	1.3%
11:00	EC	Industrial Production SA MoM	Jun	10.1%	12.4%
14:30	US	CPI MoM	Jul	0.3%	0.6%
14:30	US	CPI Ex Food and Energy MoM	Jul	0.2%	0.2%
20:00	US	Monthly Budget Statement	Jul		-$864.1b
Thursday August 13					
08:30	NO	Consumer Confidence	3Q	15	-7.6
14:30	US	Initial Jobless Claims	Aug-08	1250k	1186k
Friday August 14					
03:30	CH	New Home Prices MoM	Jul		0.58%
04:00	CH	Industrial Production YoY	Jul	5.1%	4.8%
04:00	CH	Retail Sales YoY	Jul	0.1%	-1.8%
04:00	CH	Fixed Assets Ex Rural YTD YoY	Jul	-1.6%	-3.1%
11:00	EC	Employment QoQ	2Q P		-0.2%
11:00	EC	GDP SA QoQ	2Q P	-12.1%	-12.1%
14:30	US	Retail Sales Advance MoM	Jul	2.0%	7.5%
14:30	US	Nonfarm Productivity	2Q P	0.5%	-0.9%
14:30	US	Unit Labor Costs	2Q P	5.5%	5.1%
15:15	US	Manufacturing Production MoM	Jul	3.0%	7.2%
16:00	US	U. of Mich. Sentiment	Aug P	72	72.5

- **China**
  - The recovery is well underway, as confirmed by the 11.5% Q2 growth that brought GDP up to above the Q419 level (albei still 3% below the trend growth path). The quarter ended at a positive note, and July data are expected to tell the same story, as indicated by business surveys: China continues to grow above trend. **Retail sales**, **services** have so far been the laggards**,** while the **manufacturing sector** has been in the lead
- **USA**
  - Growth in **retail sales** is expected to slow substantially, partly because the level (ex restaurants) is high (core sales were well above the pre corona level in June), partly because activity probably has stagnated in the corona hit regions. **Manufacturing production** has been 'too weak' vs demand, and is probably less influenced by corona trouble. CPI inflation has slowed, but is probably bottoming, partly because unit labour cost inflation is accelerating
- **EMU**
  - No important 'new' data this week as most countries have already reported **industrial production**, and the preliminary **GDP** report is already out
- **Norway**
  - **Inflation** is far above the target and will probably remain so for a while but Norges Bank does not – and should not – care, yet. Wage inflation will slow, and the NOK has probably stabilised, and CPI inflation will most likely slow after a while. The real economy and the housing market is far more important for interest rates now. We expect **consumer confidence** to recover sharply in Q3, as signalled by a monthly survey (and the housing market)

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

Highlights

The world around us

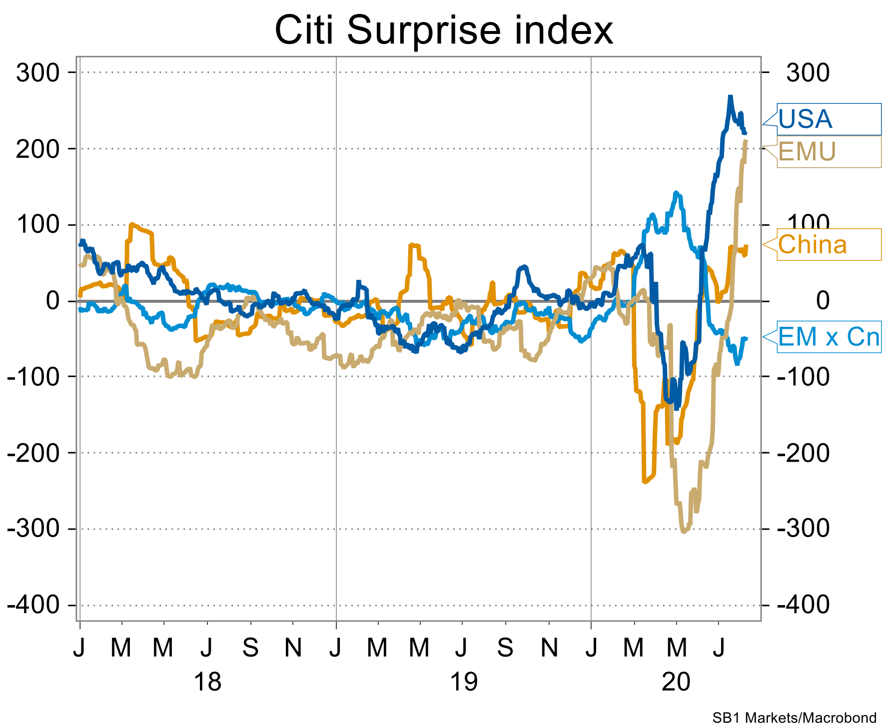
The Norwegian economy

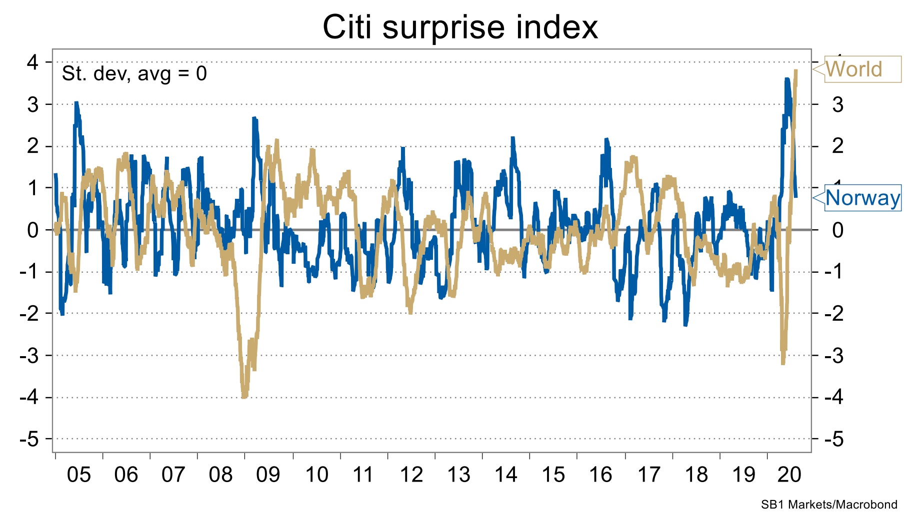
Market charts & comments

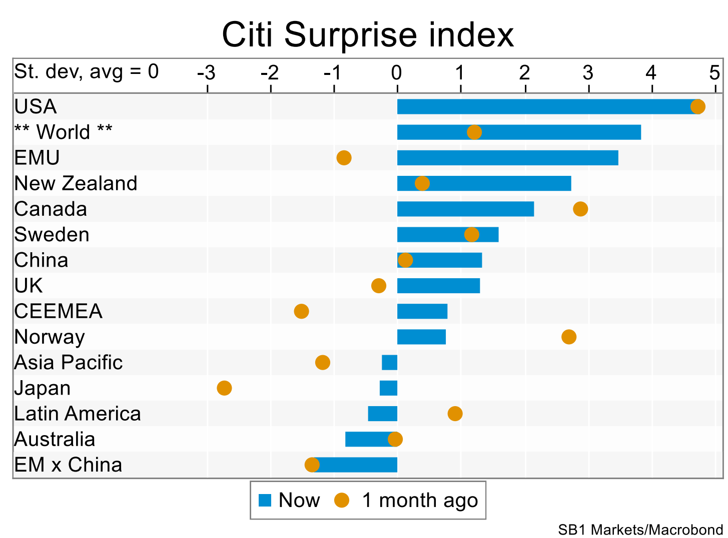
SpareBank 1 MARKETS

Macro data are surprising on the upside in DM, big time

Both US and the EMU – as well as China is suprising on the upside. The global surprise record high





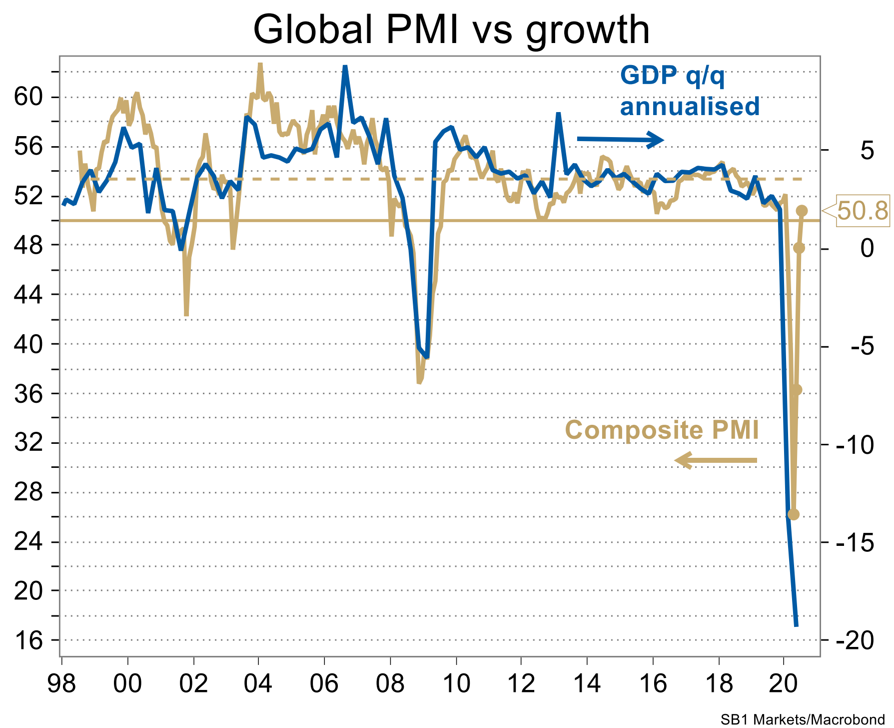


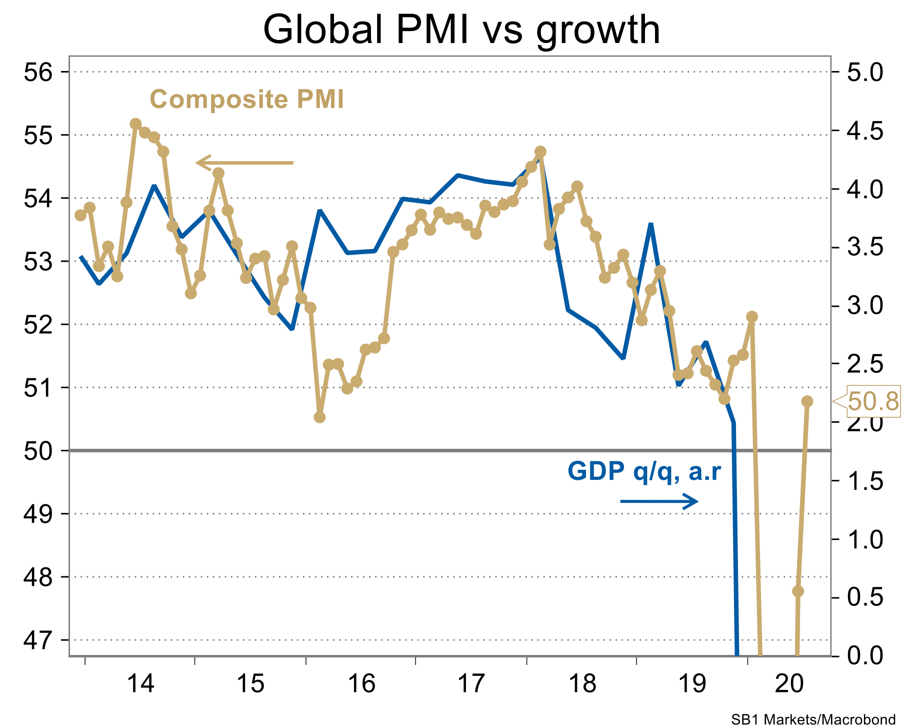
- Both the US & EMU are surprising more on the upside than ever before (data from 2003)
- China in positive territory too
- Other EMs are reporting weaker data than expected
- Norway has been surprising on the upside too – big time – but less so two past weeks

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

PMIs up to above 50 most places, two months too late

PMIs/ISMs describe the cycles well but the were – as usual – too slow the report the recovery

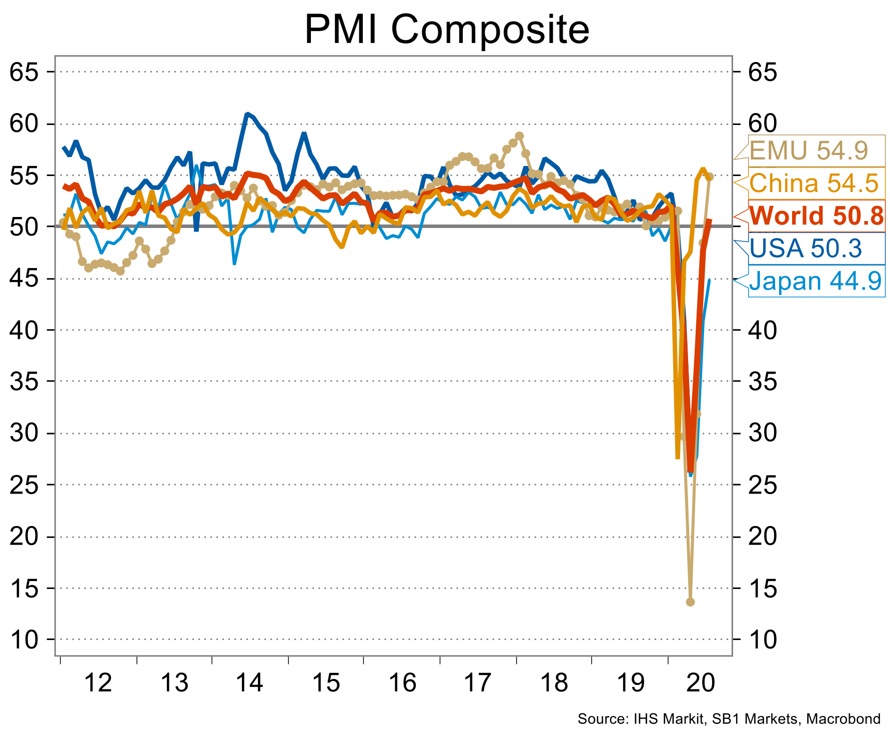


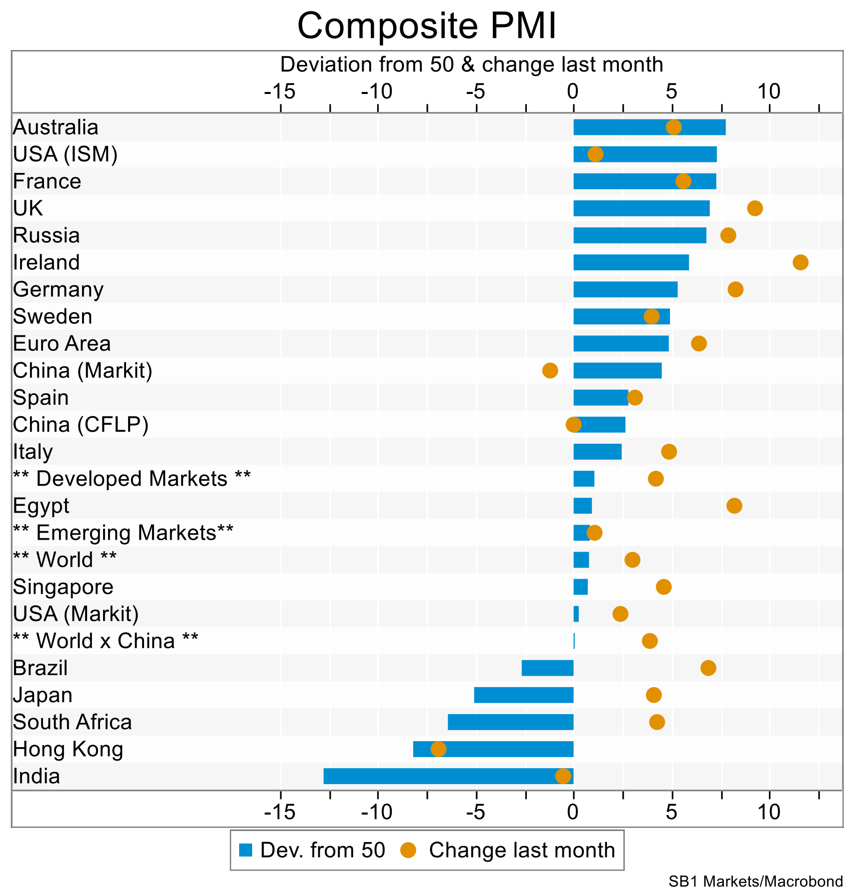


- As we assumed, the global composite PMI rose by 3 p to 50.8 in July, and it almost back to the 2019-level, which was 2 p below the 'boom' level in 2017 & 18. Formally, the PMI is signalling a 2 – 2.5% growth pace
- World GDP fell at a 15% pace (close to 4%, not annualised) in Q1 and some 20% (5% not annualised) in Q2. However, all activity data have been signalling strong growth in May and June, and there are no signals of a sudden death in July. Even if activity stabilises at the July level, growth pace in Q3 will be record high, some 15 – 20%, not the 2 – 2.5% pace the companies are now reporting
- So, as we have debated recent months, the companies are NOT reporting changes in activity from month to month (which they are asked to do). If they have answered correctly, the PMIs should have been way above 50 in both May and June, as the world economy gained speed at an unprecedented way. Companies' answers rather reflect what they have experienced over some few months. Anyway, we are sure than a large majority of companies globally increased activity in the May – July period, the PMIs should have been far above previous ATHs.

'V's almost everywhere, the recession was the shortest ever

21 of 25 countries/regions reported higher composite PMIs in July vs. June, and 20 is now above 50

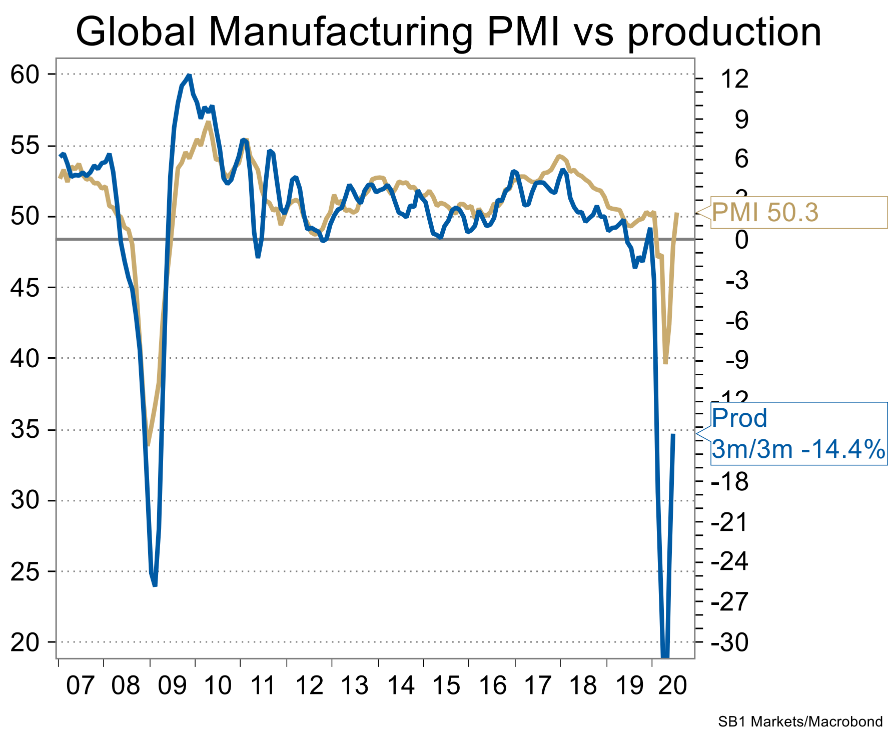


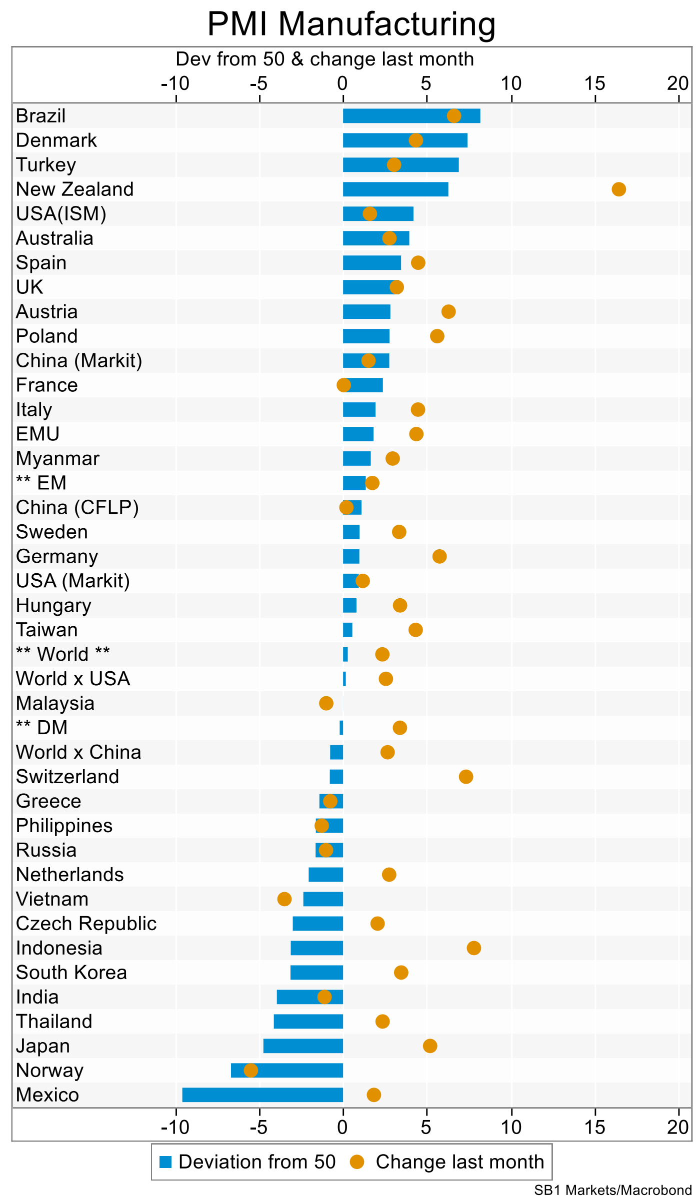


- The US surveys are mixed: The ISMs are strong, while Markit's PMI is just above the 50 line
- India is still struggling, as is Hong Kong, and South Africa. Japan is the weakest link among DM, while Brazil remains below the 50 line too
- In Markit's data set, EMU is strongest among the largest countries/regions – after being the weakest. However, the ISMs were even higher

Manufacturing PMI finally up to above the 50-line

A broad recovery underway

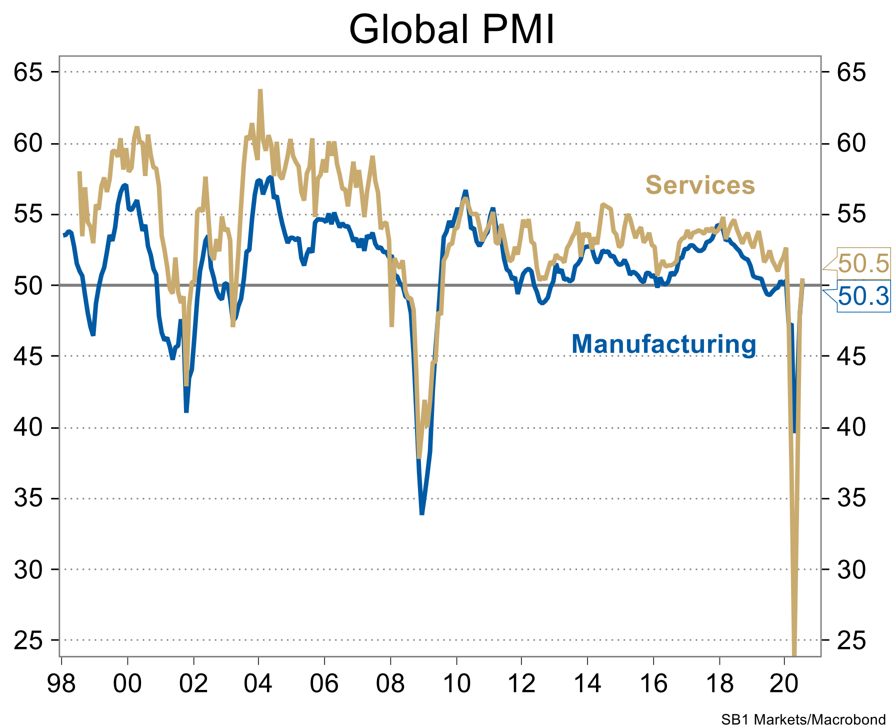


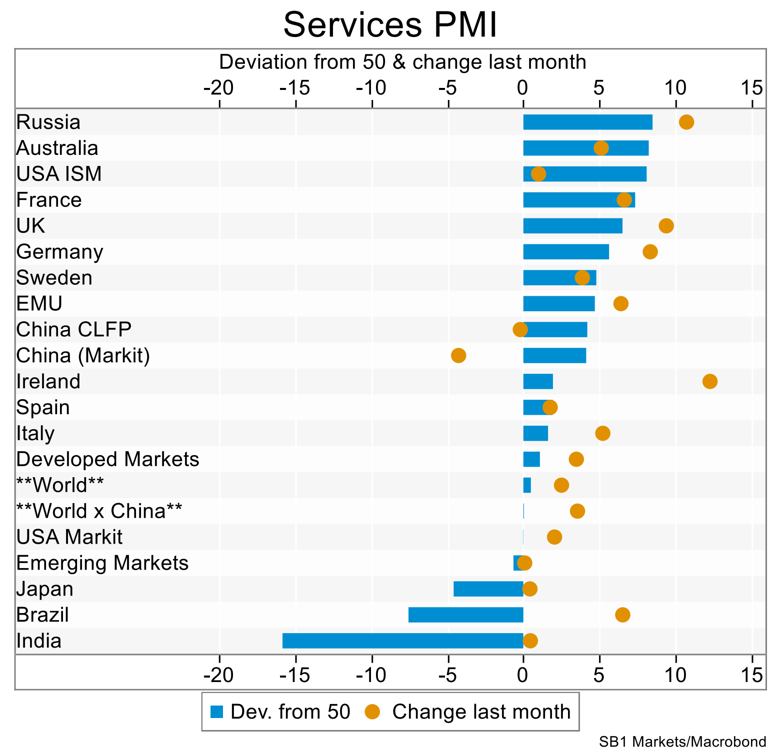


- The global manufacturing PMI rose 2.3 p to 50.3 in July, almost 1 p better than we assumed, based on the preliminary indices
  - » 32 countries/regions reported growth, 7 a decline
  - » A majority of the countries are reporting PMIs above the 50 line, 2 months ago just China was above!
- Emerging markets recovered more than rich countries (DM), and is at a higher level. Brazil in the lead, Mexico at the bottom, followed by Norway

Services have restarted too, most places

Just Markit's China PMI down in July, from a high level. Some countries are still contracting…

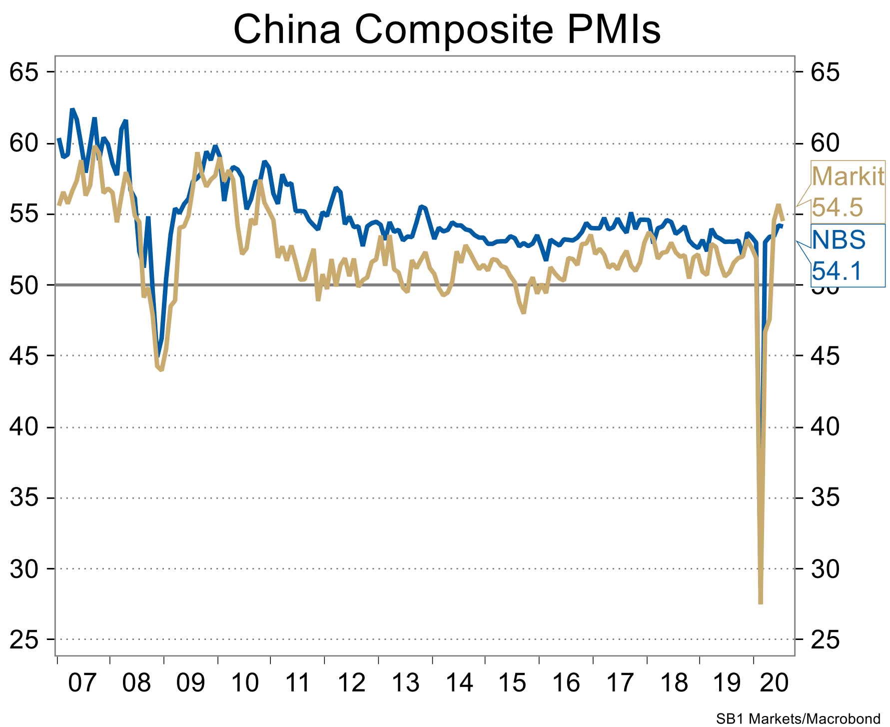


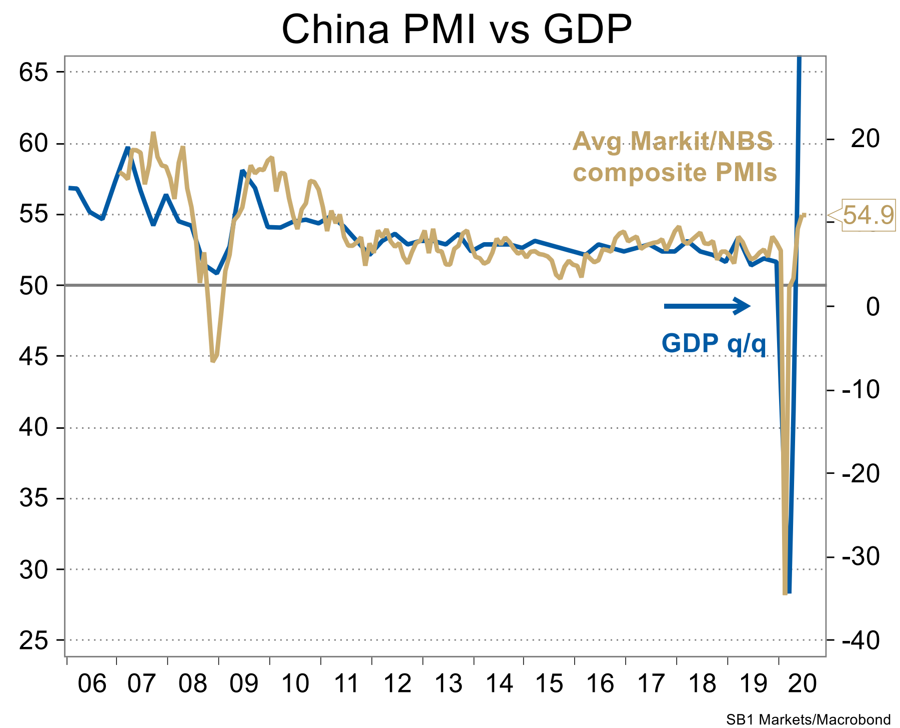


- At least according to the service sector PMIs – and they be correct
- India, Brazil and Japan at the bottom – and still below 50

Chinese July PMIs mixed

In average, slightly down due to a less strong service index from Markit

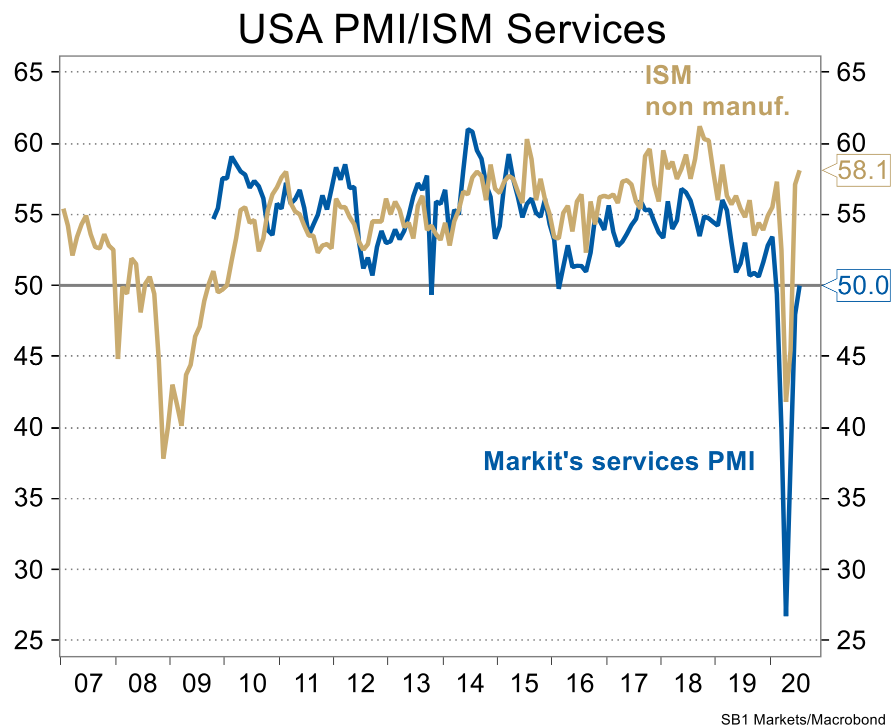


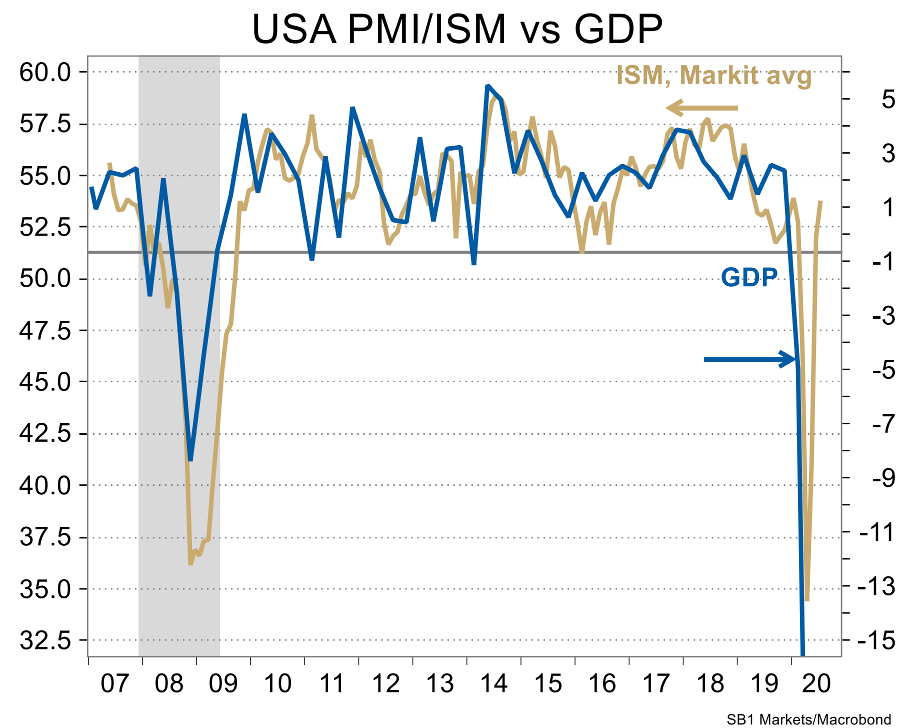


- The NBS' 'official' composite PMI fell 0.1 p to 54.1 in July. The manufacturing index rose marginally, the service sector index fell just as marginally
- Markit's manufacturing PMI rose 1.5 p to 52.8, expected up just 0.1 p. The service sector PMI fell 4.3 p but was still at 54.1, a decent level
- In sum, these to PMI data sets confirm a continued recovery in the Chinese economy (a 8 – 9% growth pace), and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap

ISM and PMI does not agree, the ISM indices signal strong growth, Markit's not

The gap is largest for the service sector (58.1 vs. 50). Taken together, this indices signal further growth

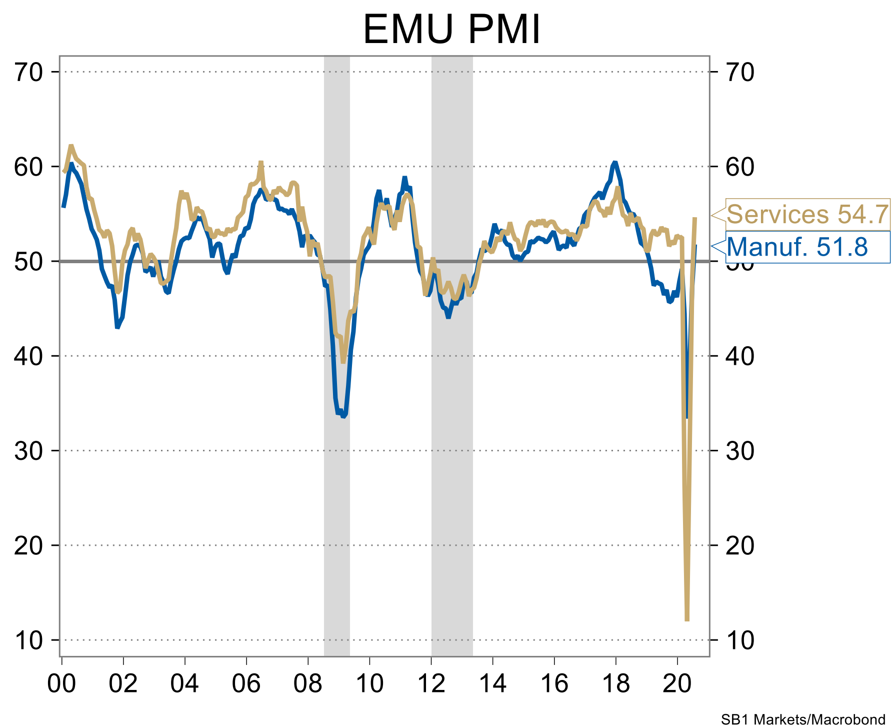


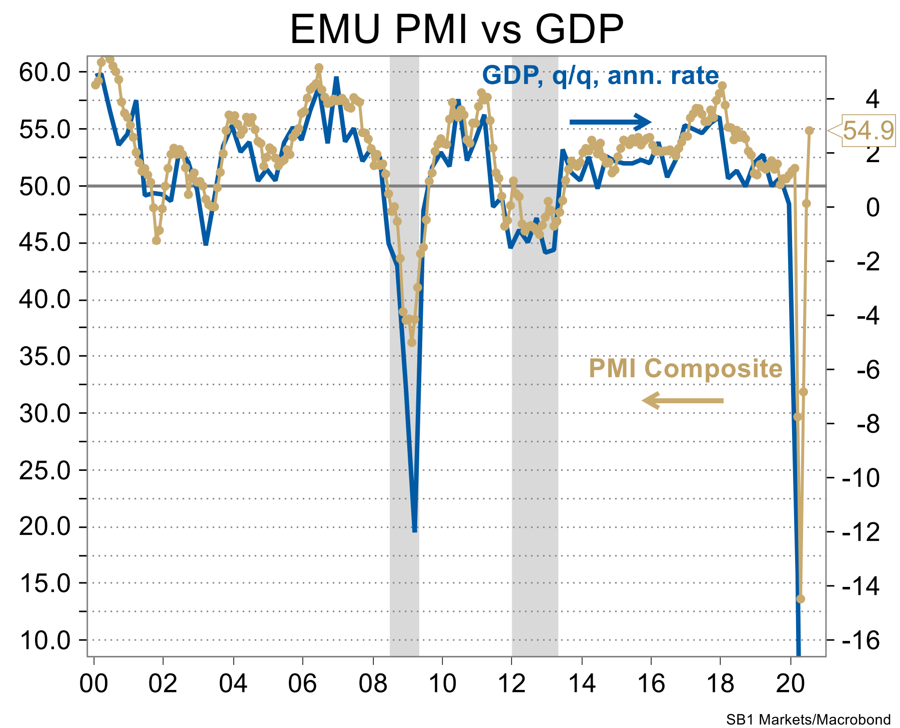


- We think both surveys underreport growth, at least over the tree last months in average. The US economy is not probably growing at 20%+ growth pace

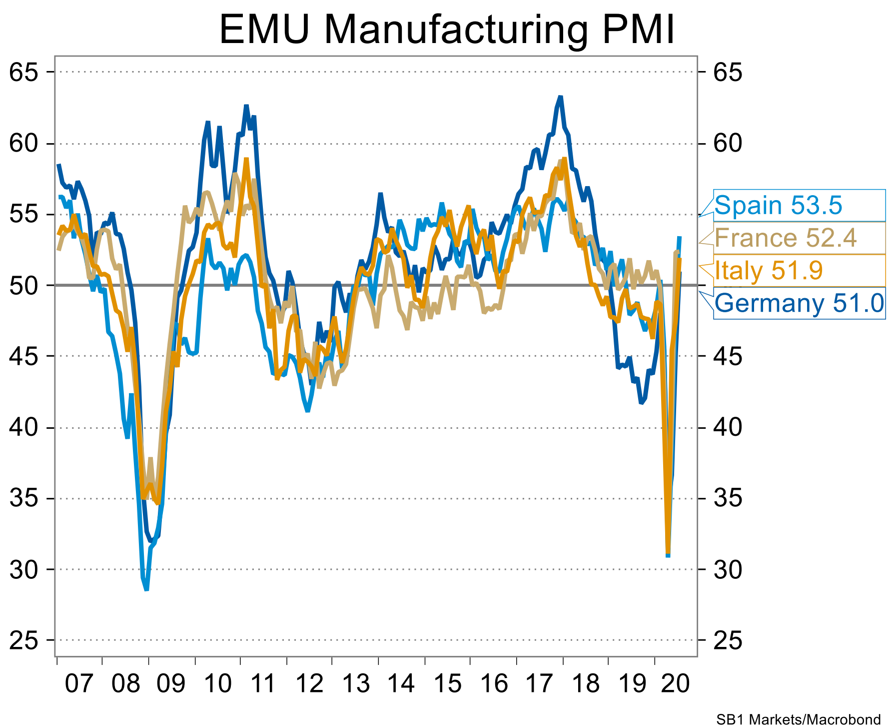
A recovery is underway in EMU too

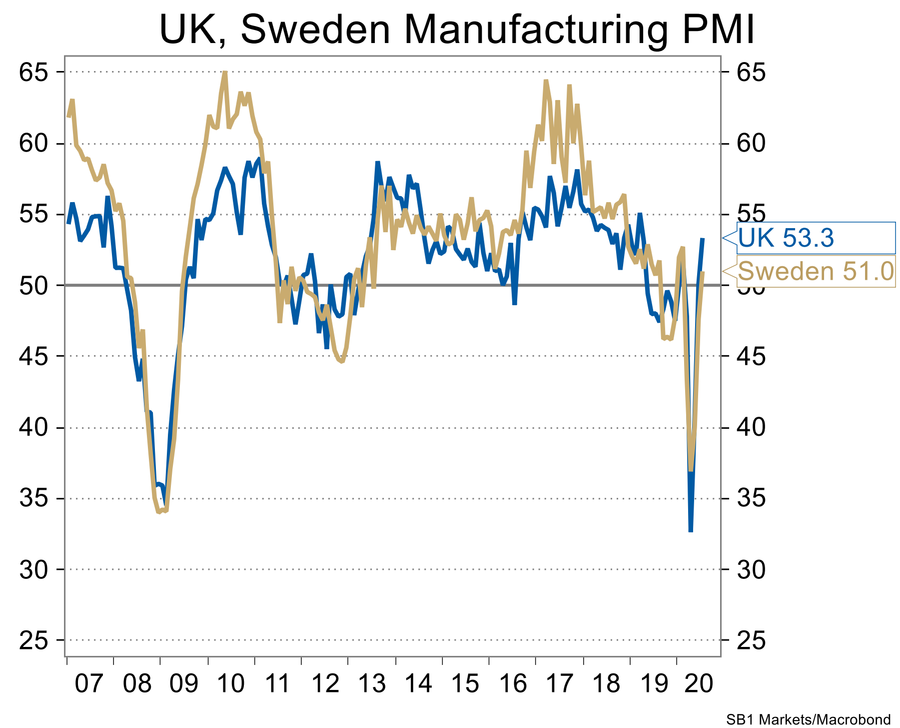
Services are reporting the highest growth rate





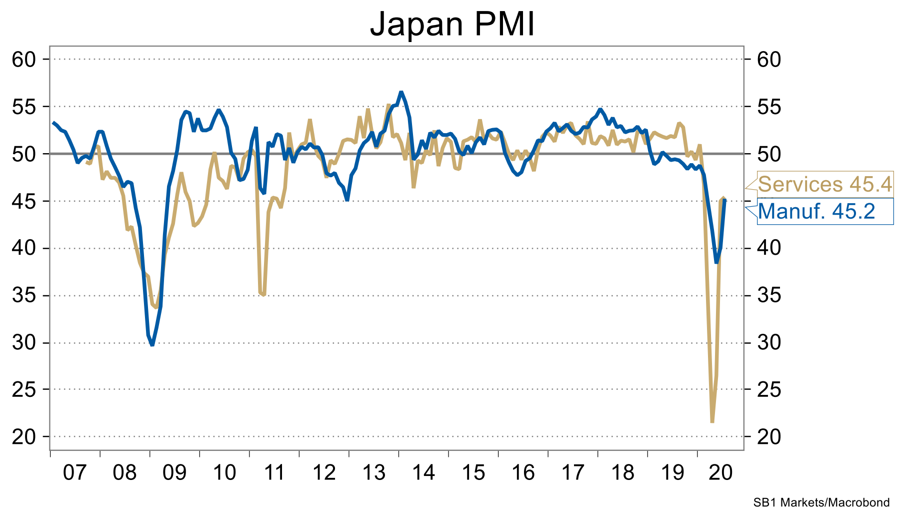
PMIs to above 50 everywhere

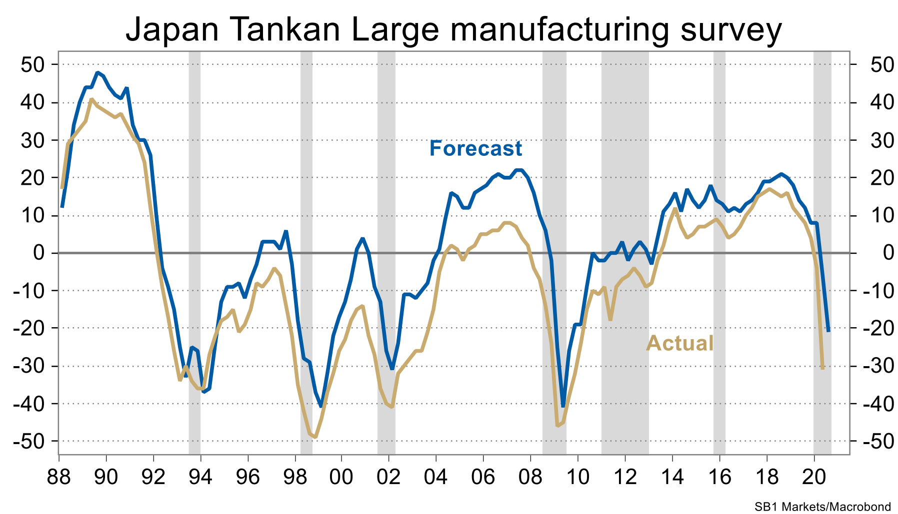


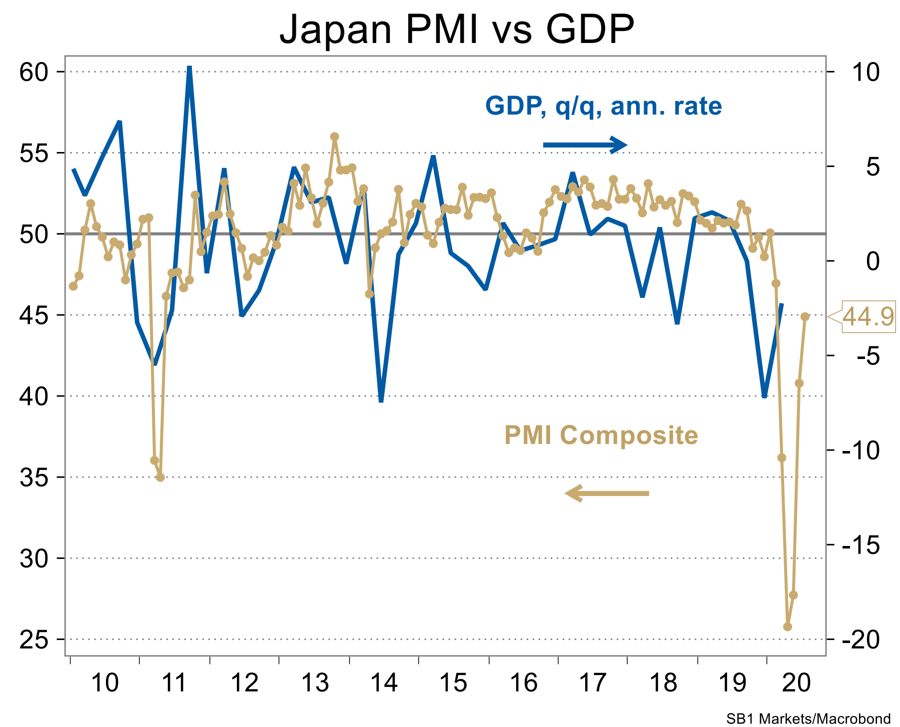


Still weak PMIs from Japan, both in manufacturing and services

… and the Tankan Q2 survey signals a further contraction too

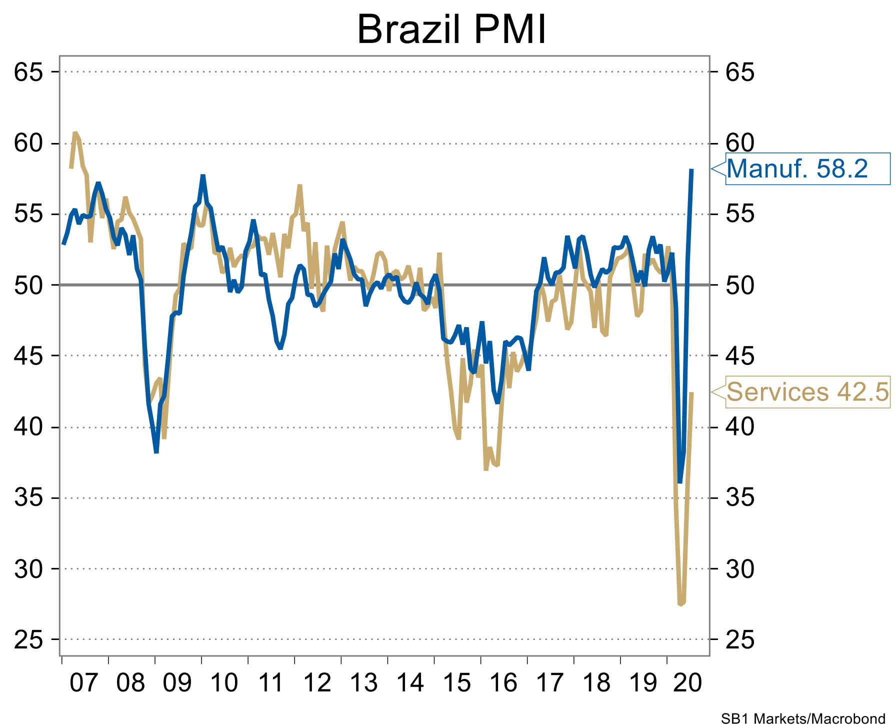


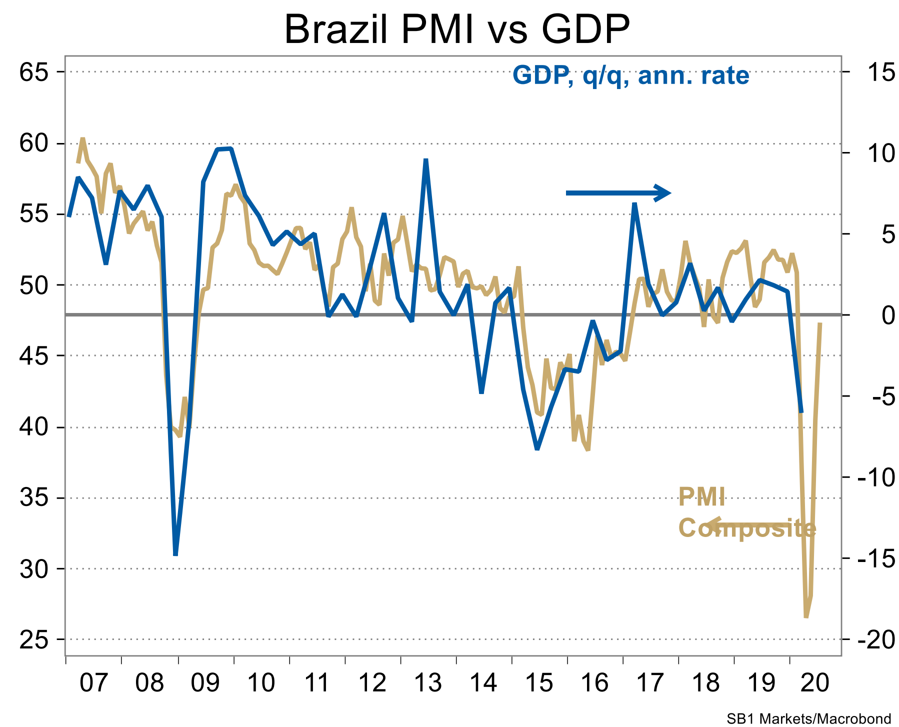




Brazil has turned the corner too? At least the manufacturing sector

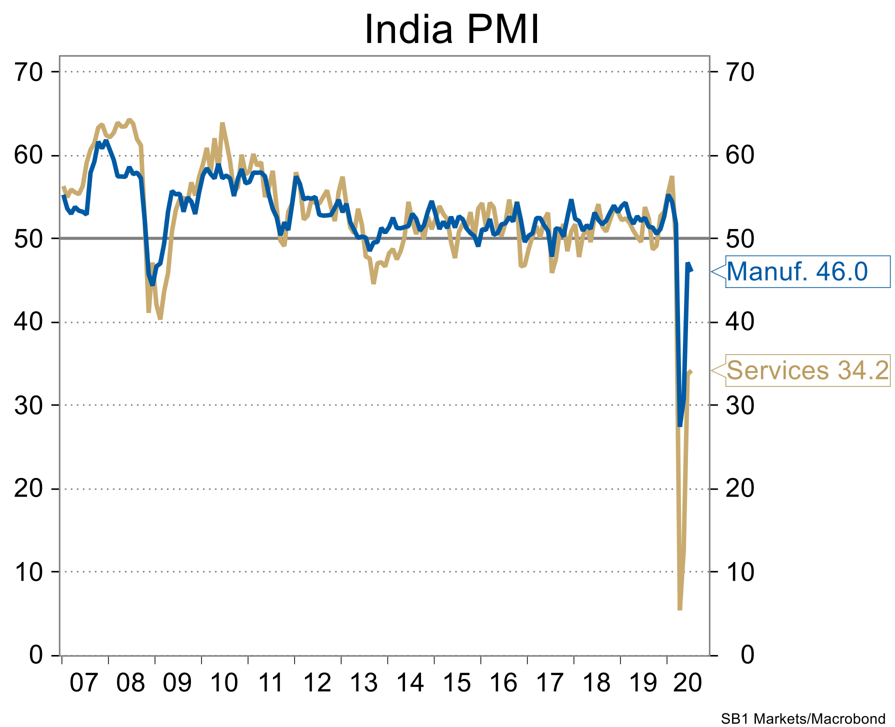
Services are still very weak – and the composite index signal zero growth

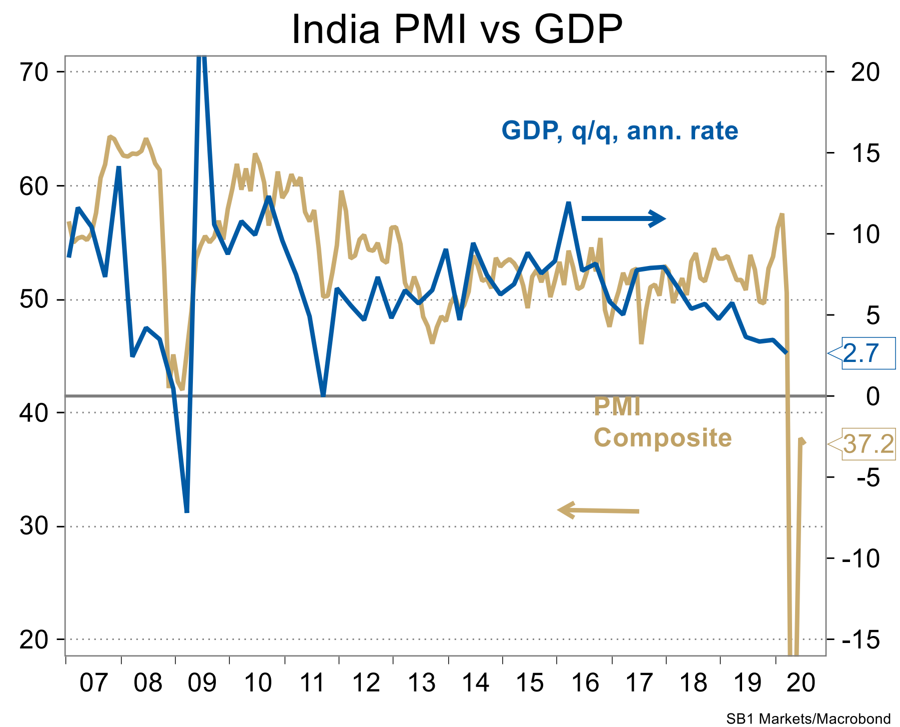




No Indian recovery in July? The PMI did not climb further, and the level is low

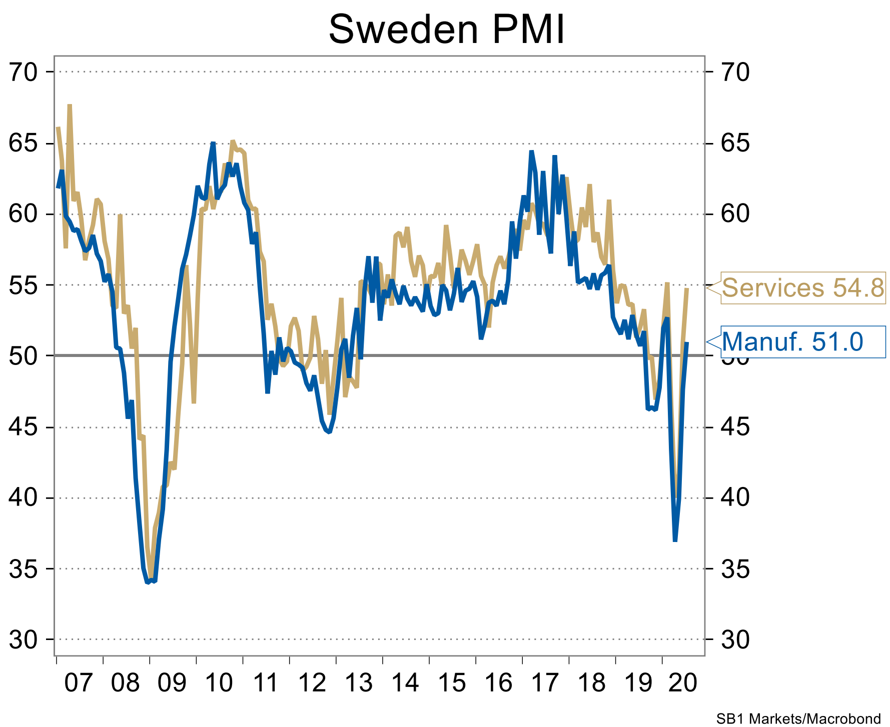
Japan at the bottom of the league, especially in services

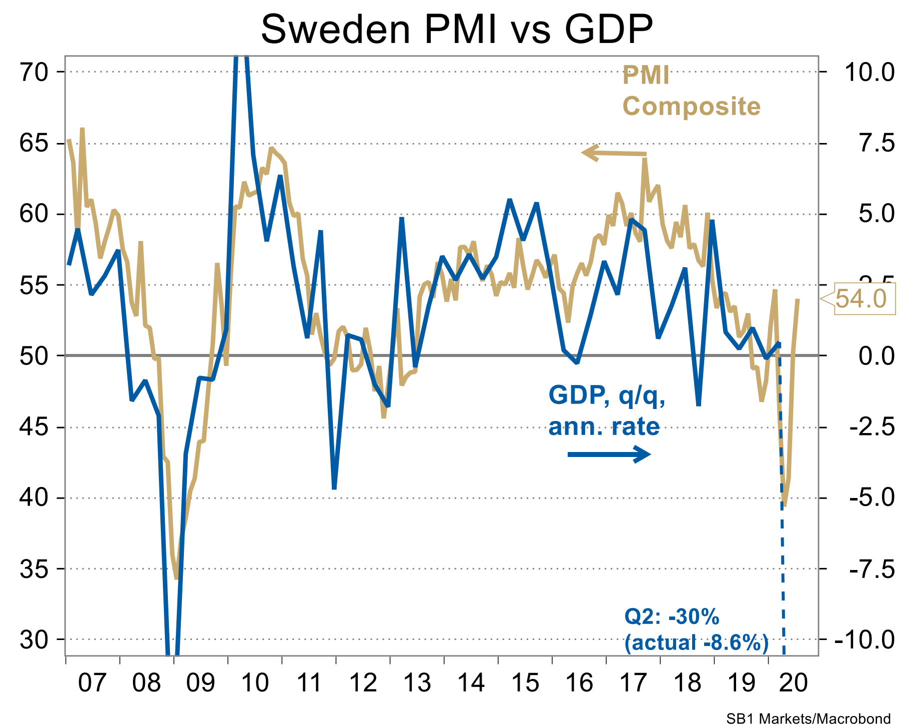




The PMI is above the 50-line, signalling some 2.5% growth

Services recovered the most in July but manufacturing is expanding too

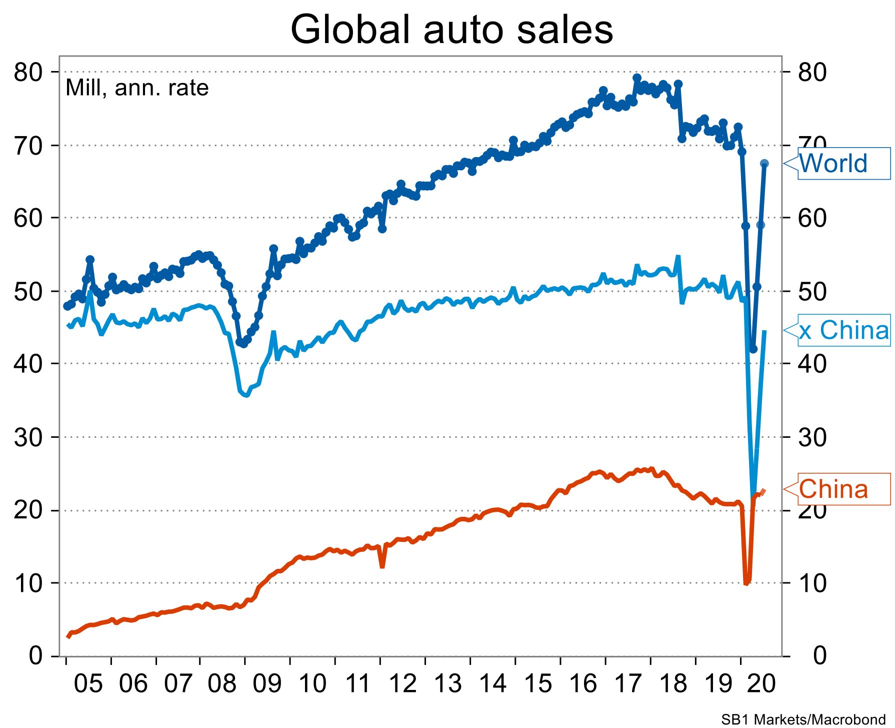


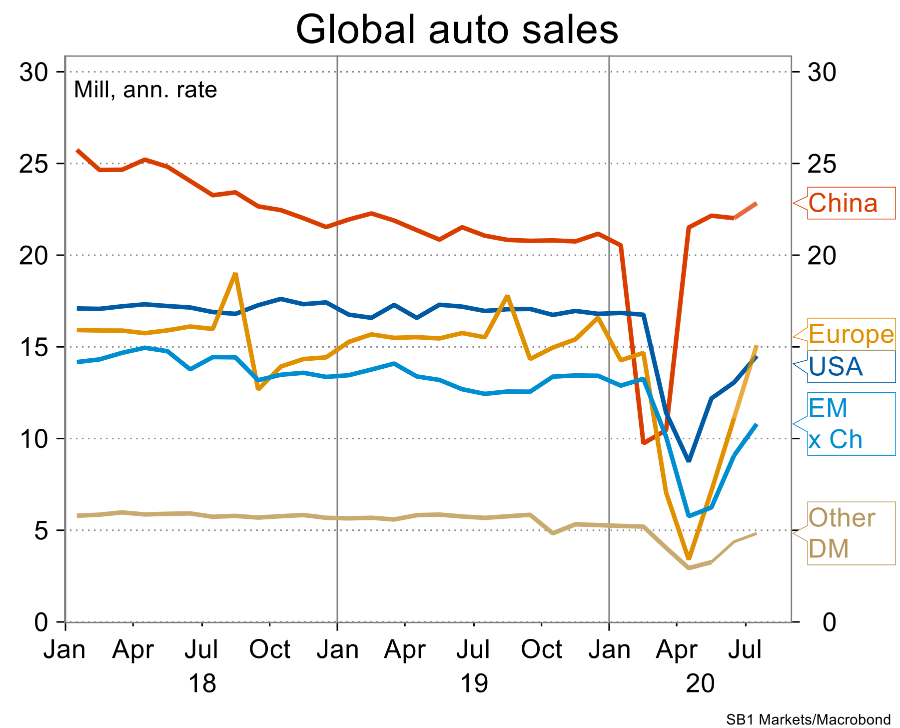


- The decline in Q2 GDP was much larger than the PMI signalled – and we are confident that the recovery in Q3 will be much sharper than indicated by the PMIs or other business surveys

Global auto sales almost back to the (low) pre corona level in July, just 4% below

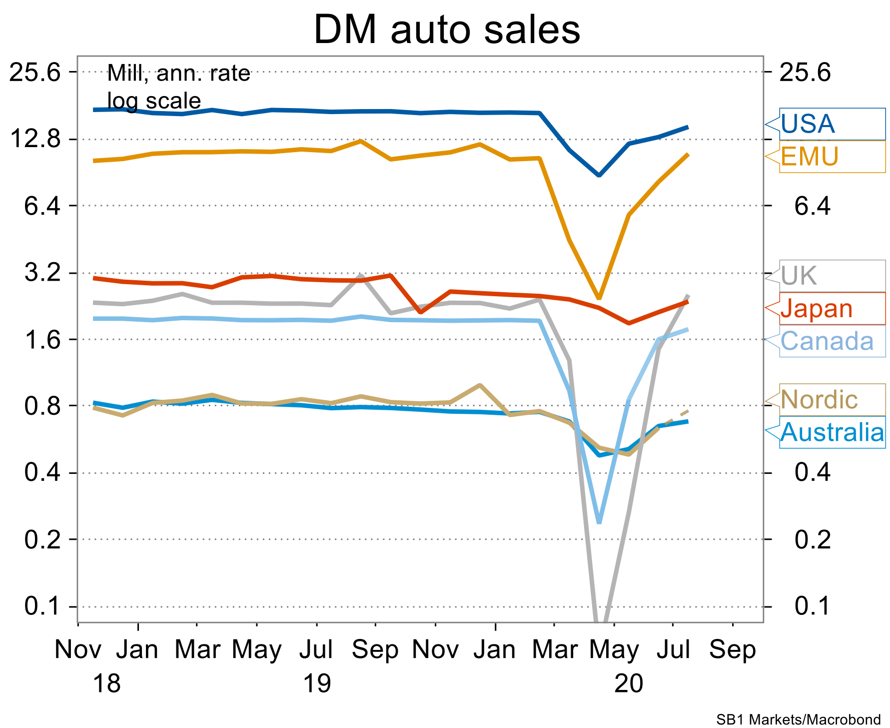
Sales are up everywhere. China well above last year's sales, ROW just 10% below (from -26% in June)

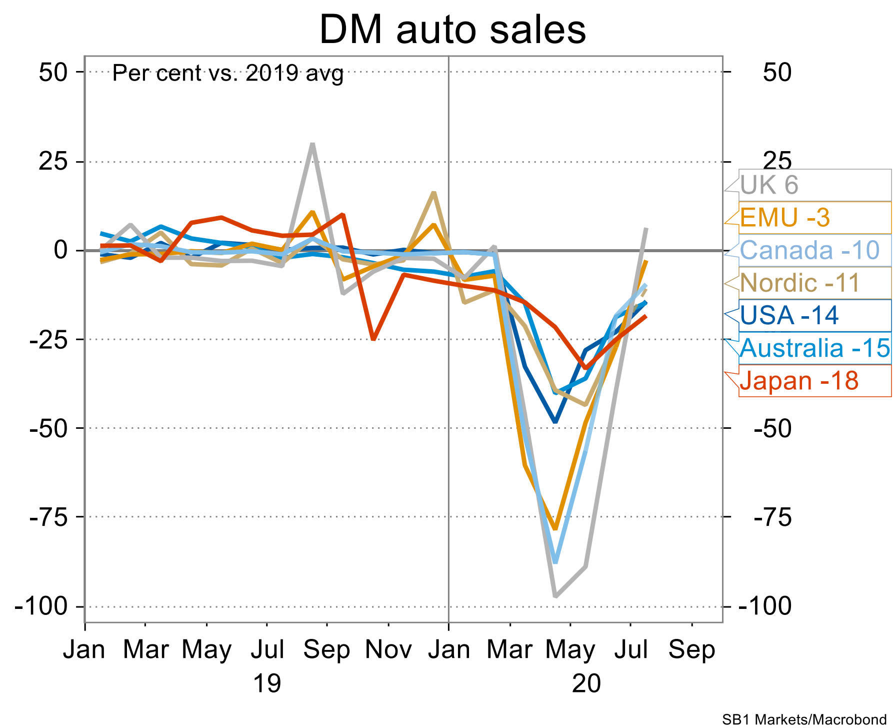




- This is the most undisputable 'V' we have on offer – data are reliable, and updated. Just one caveat: Sales may now be boosted due to pent up demand – and they may slow during the autumn, especially if the corona virus creates new, serious problems
- Chinese auto sales rose further in July, and are up 10% vs the 2019 level – which though were rather depressed – by more than 20% vs. the pre 2018 trend. But the latter modification is history, auto sales in China came back to the pre corona level in April, and is climbing further
- Sales in Europe is almost back to a normal level, just marginally below 2019 sales, which was the best year since 2007. US sales are still some 10% below par. Other DMs are just marginally below the pre corona level
- Sales in EM x China rose sharply in July too, especially in India, which almost returned to a normal level in July. However, there are strong recoveries in most other EMs as well

Sales up to normal levels in EMU, UK; other DMs still 10 – 20% down





- Sales in both EMU and UK rose sharply in July – and sales are close to (EMU) or at (UK) normal levels
- Sales in other DMs are still somewhat below par, from 10% in Canada to 18% down in Japan – which had the mildest decline in sales

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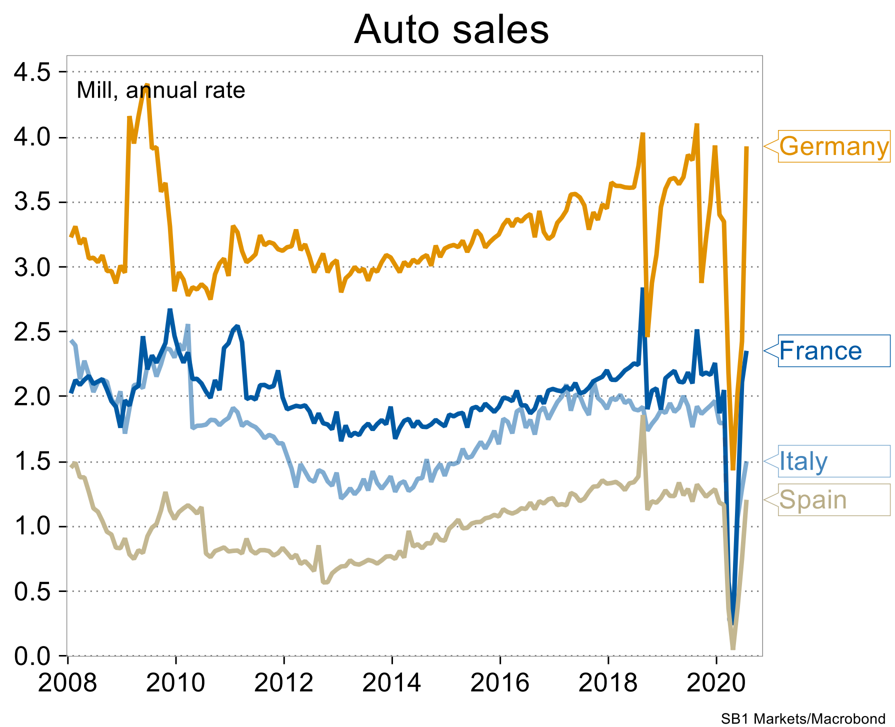
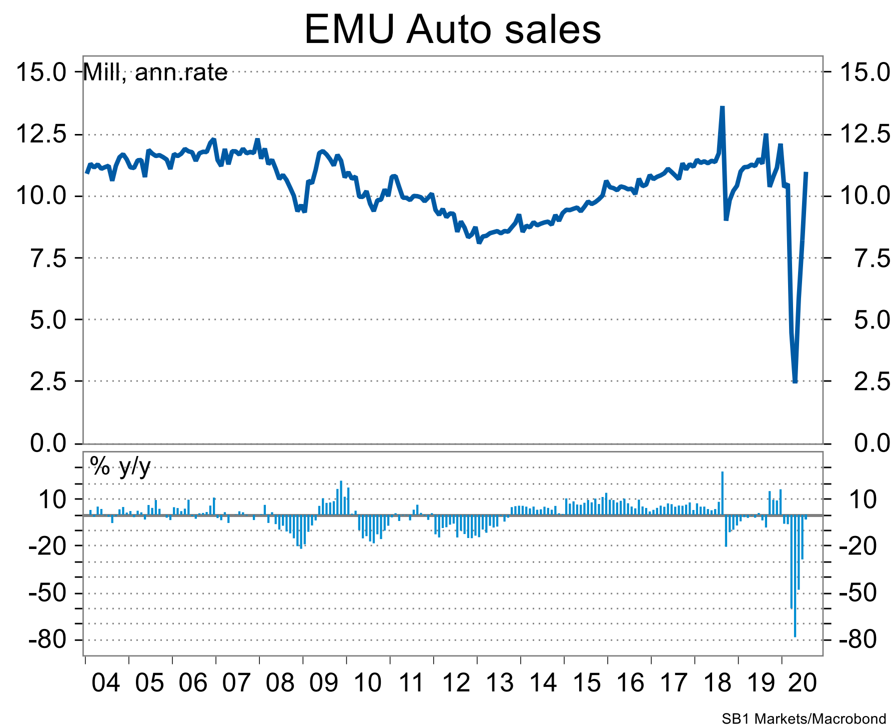
Auto sales back to a normal level in July!

Surprisingly strong July sales: 11 mill, up from 8m in June (and 2.4m in April…). Just Italy lagging

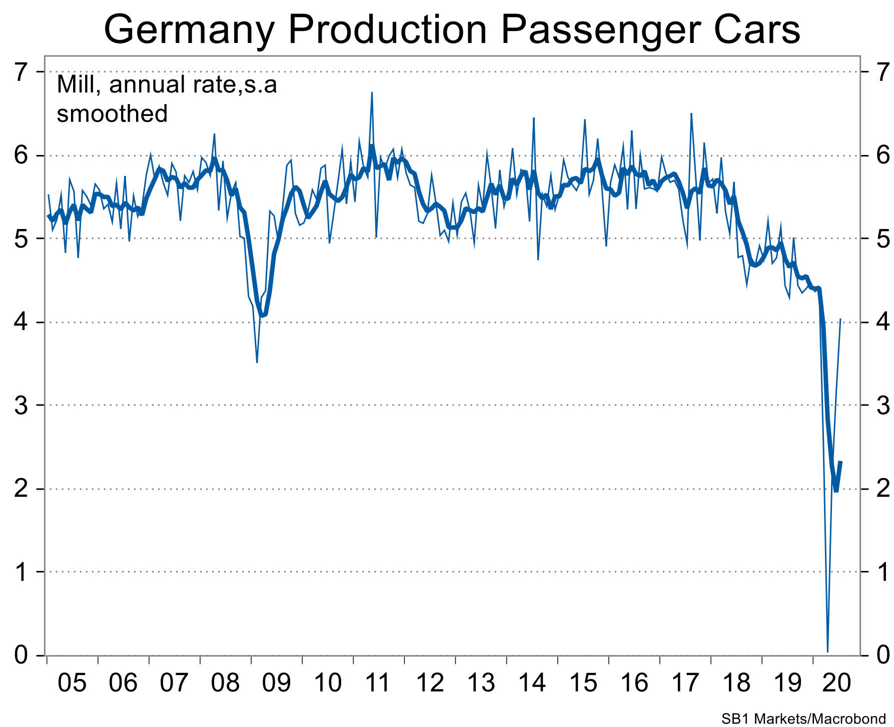


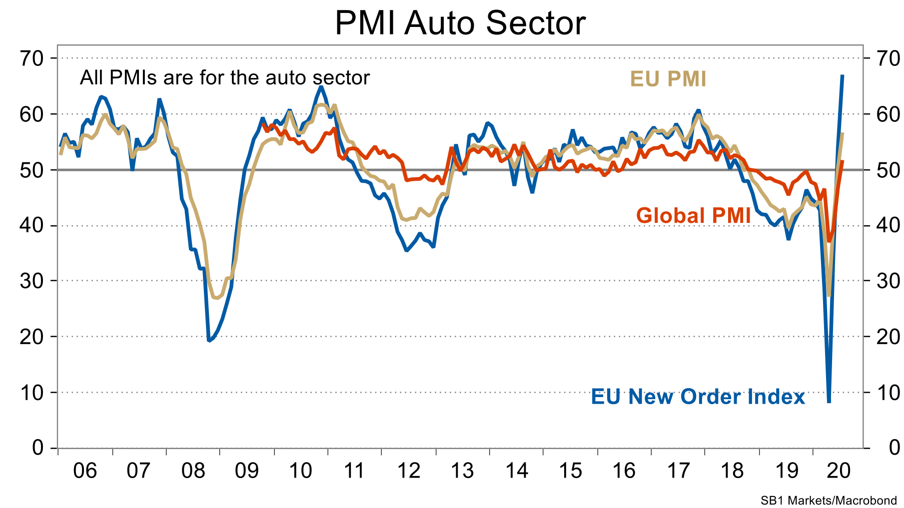


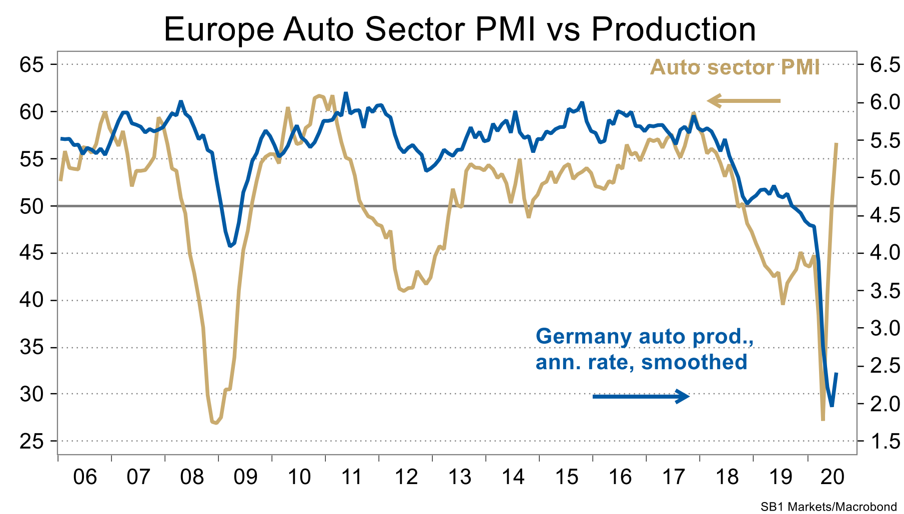
- Last year, 11.3 mill autos were sold in Europe, the best year since 2007. From mid 2018 new emission regulations created substantial volatility in sales, and we assumed that the cycle anyway was mature. In Jan/Feb 2020 sales were at some 10.5 mill (annual rate). The strong July sales (seasonally adjusted) reflects pent up demand due to slow sales the previous months
- In July, sales in both France and Germany were higher than average sales recent years. Sales in Spain was just marginally below.
- Italian sales were still some 0.4 mill – or 20% – below normal
- No surprise: Production is up too, check the next page!

German auto production on the way back to a normal level. PMIs sharply up

July prod. at 4 mill cars (ann rate), less than 0.5 mill down vs. pre corona (which was 1.3 m below par)



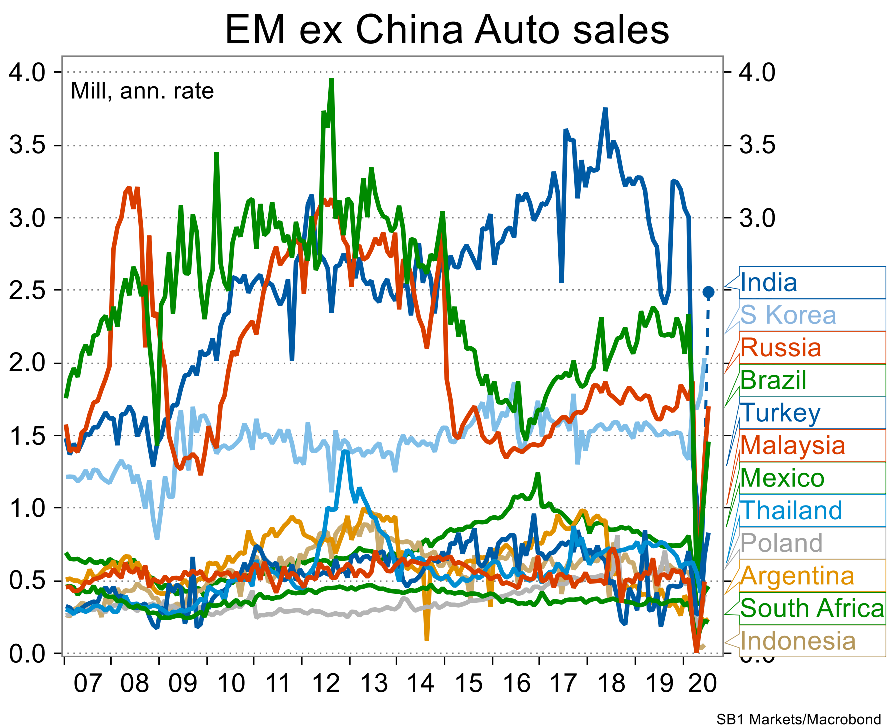


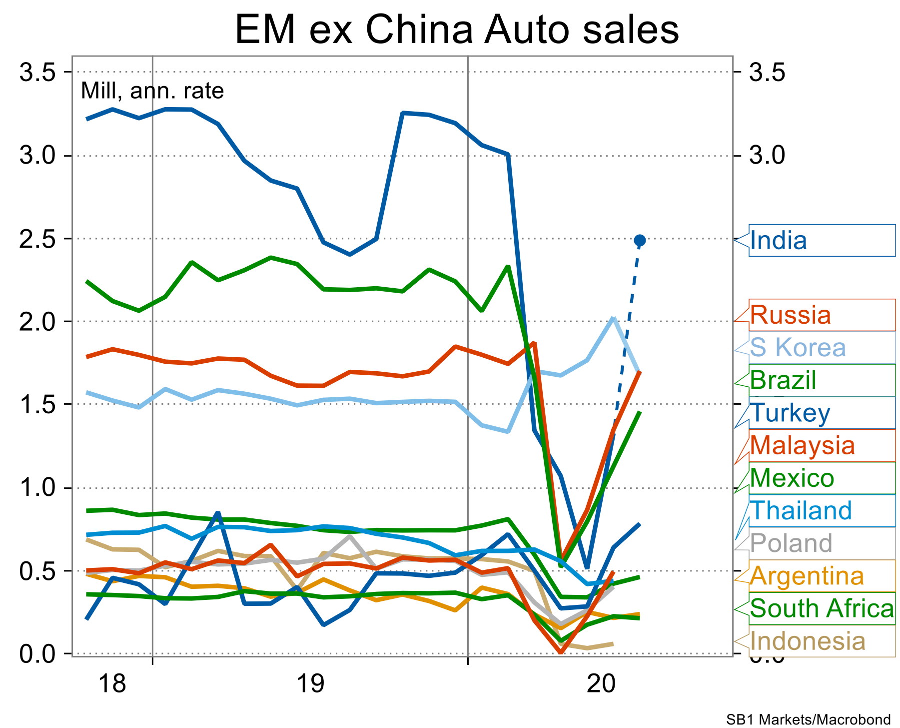


- Production fell to zero in April, during the lockdown, from a 4.4 mill pace in February – which was 1.3 mill below the 'normal' level in good times (5.5 – 6 mill/year). In July, production was back up at 4.0 mill
- The European auto sector PMIs are signalling strong growth- the new order index has never been stronger

Emerging markets: Auto sales are recovering shaply

India shot up sharply in June & July, as did Russia, both are not far below pre corona levels



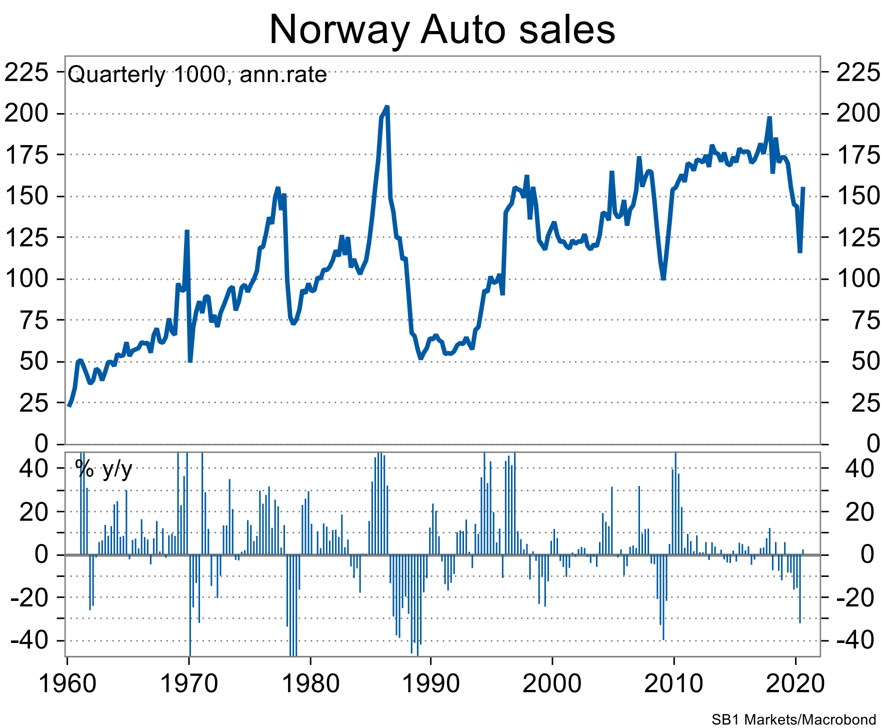


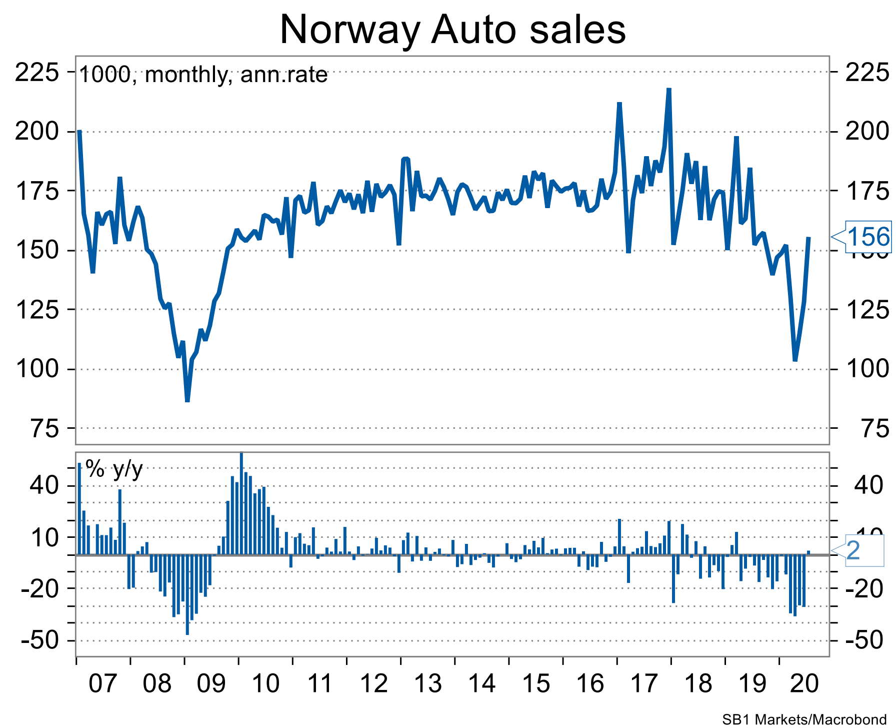
- Sales in Brazil are still 35% below par – while sales in South Korea are the best ever, even without any corona downturn

Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

Registrations up to the (low) pre corona level

Sales up to 156’ in July vs. 131’ in June (and 103’ in April) – to the same level as during Jul 19 – Feb 20

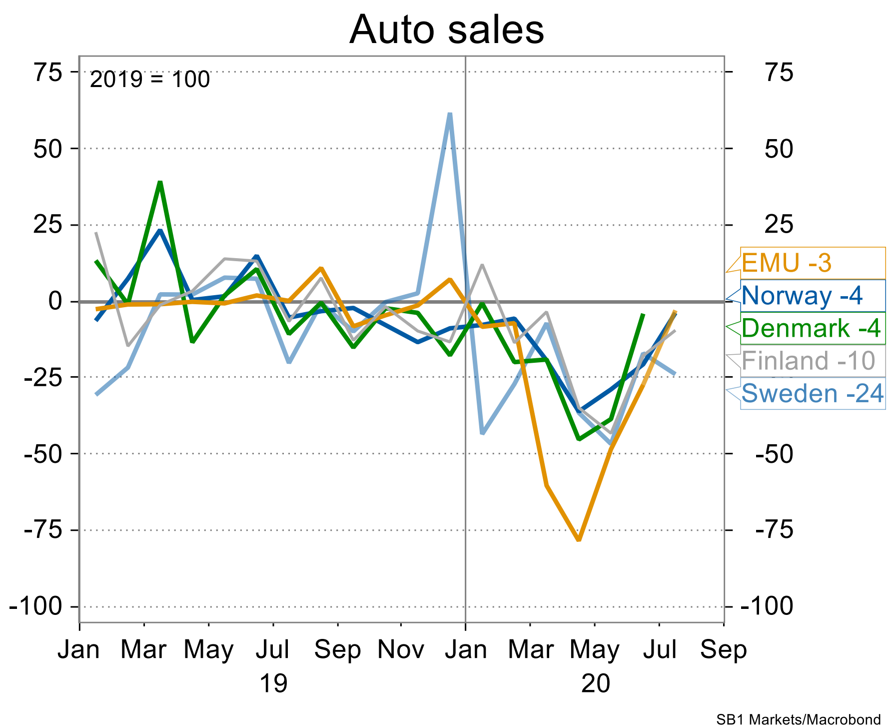




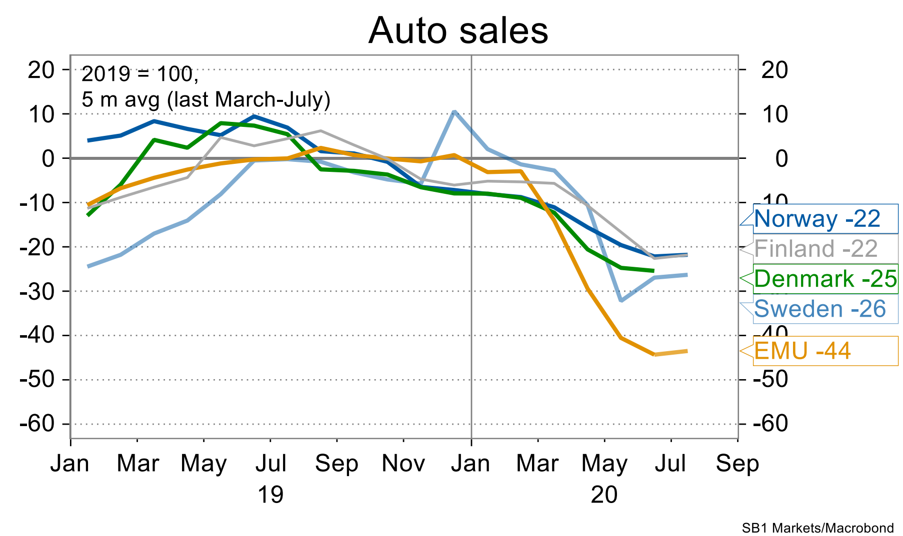
- Sales were up 2% vs July 2019
- Sales were on the weak side since last summer partly – but not entirely – due to delivery challenges (EVs)

Mixed Nordic July auto sales: Sweden down; Norway, Finland up

Sales in the Nordics kept up better than in European average during the depth of the crisis

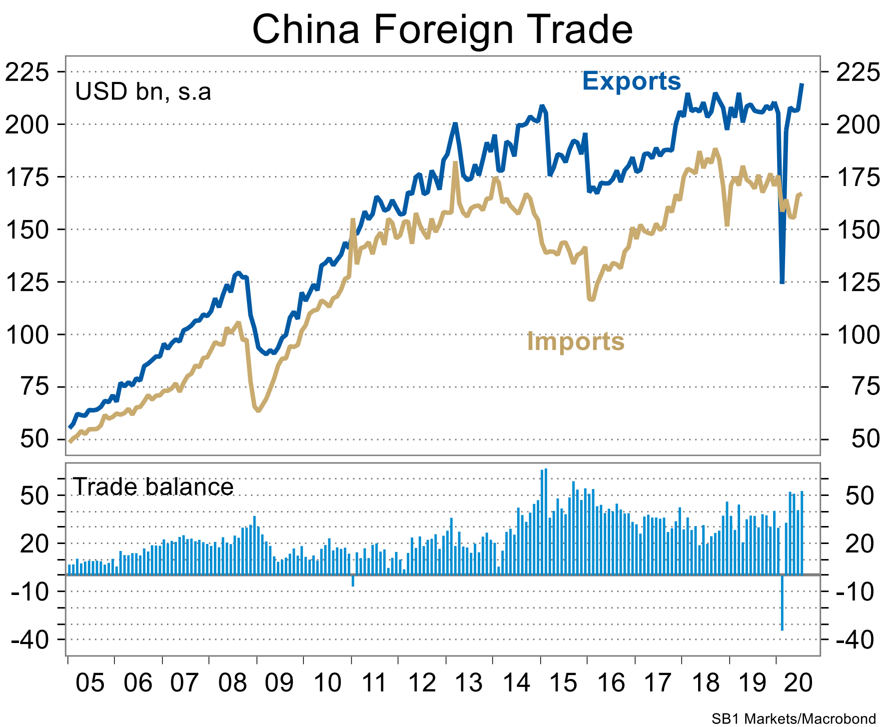


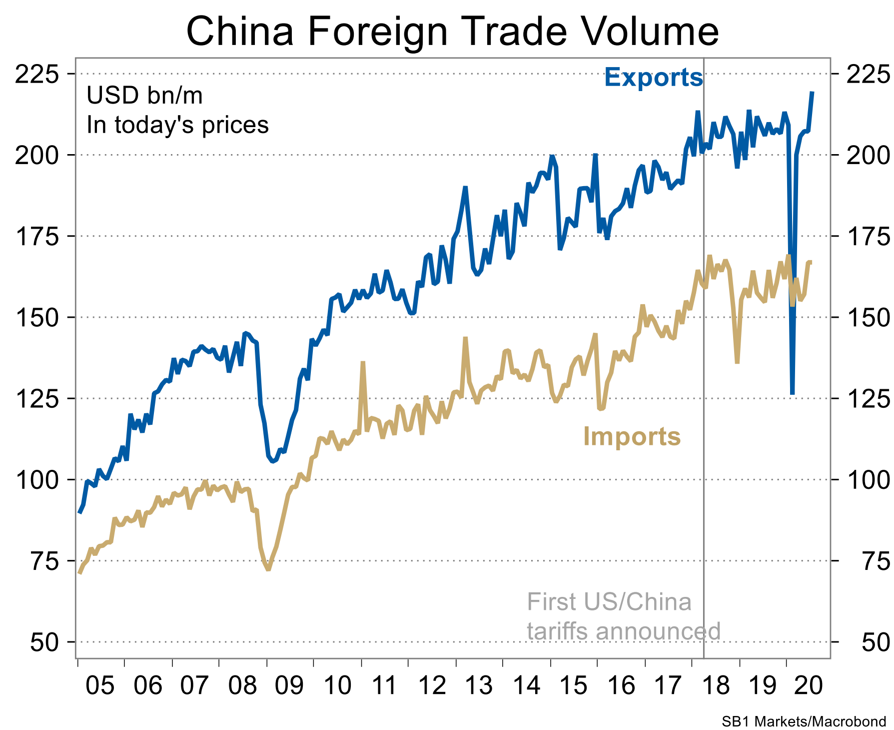
- No major differences between sales in the Nordic region during the 5 corona months (even if sales in Denmark were well ahead of the others in June), sales in the March – July period are down 22% - 26% vs. the 2019 average.
  - » EMU is down 44%, even if sales have recovered sharply past 3 months, almost back to a normla level



Exports straight up in July, global ATH ☺. Import volumes OK too

Exports up 6% m/m in July, 7.2% y/y, expected -0,6%. Imports up m/m too, volumes up y/y

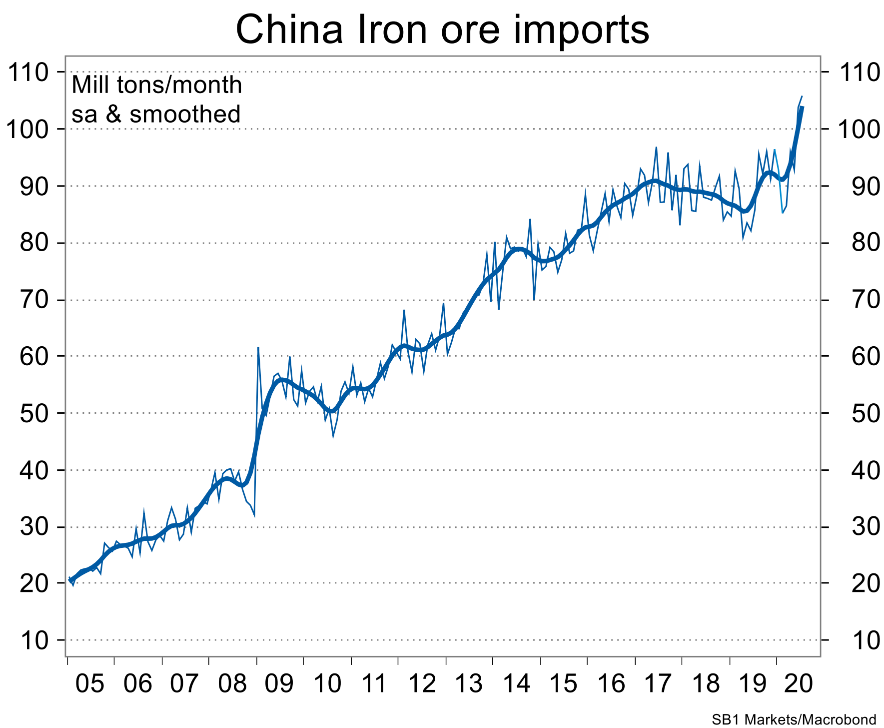


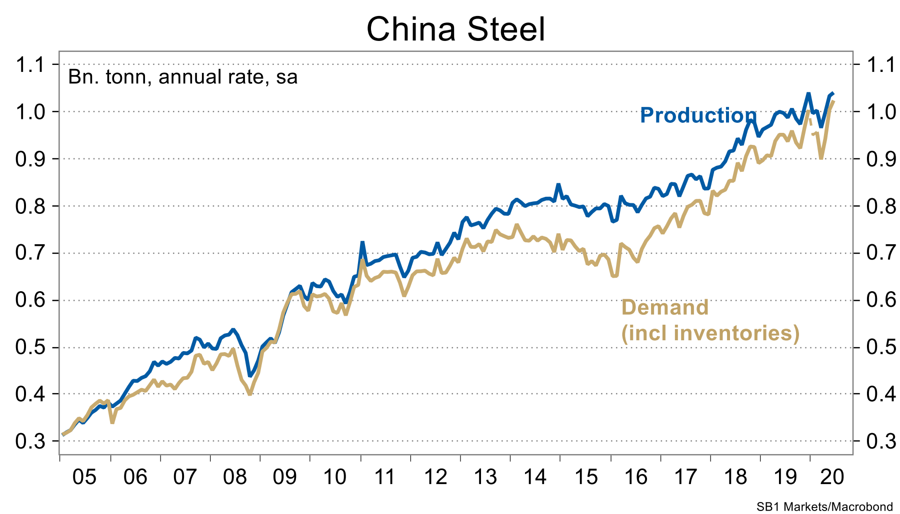


- Exports were much stronger than expected in July – and the highest ever, we assume also in volume terms (we make price assumptions for the 3 last months). Exports rose 6% m/m in July, 7.2% y/y, expected -0,6%. Except for February and July, exports values have been flat since early 2018, which is weaker than the Chinese norm.
- Imports rose marginally in July, following the substantial rise in June - but were still down 1.4% y/y, expected up 0.9%. Import values have fallen almost 10% since 2018 but as import prices have fallen just as much, import volumes are flattish.
- The trade surplus rose by USD 10 bn to 50 bn. The surplus has been higher been normal past 4 months - but China is no more running a large current account surplus, and the deficit in services is larger than before

Iron ore imports further up in July, up more than 10% recent months

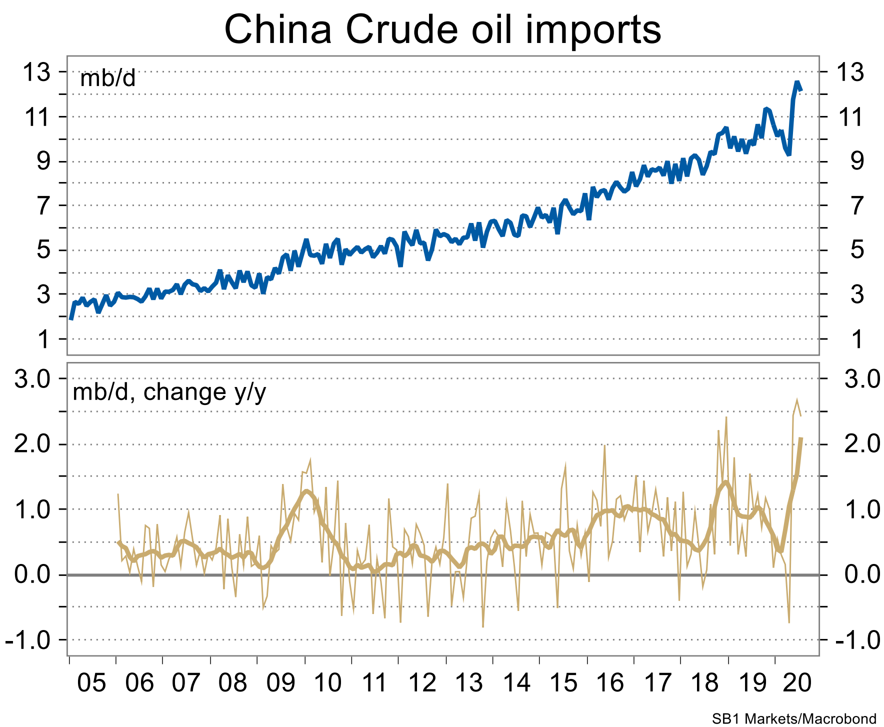
Steel production us up too - and domestic demand even more as net steel exports are falling sharply

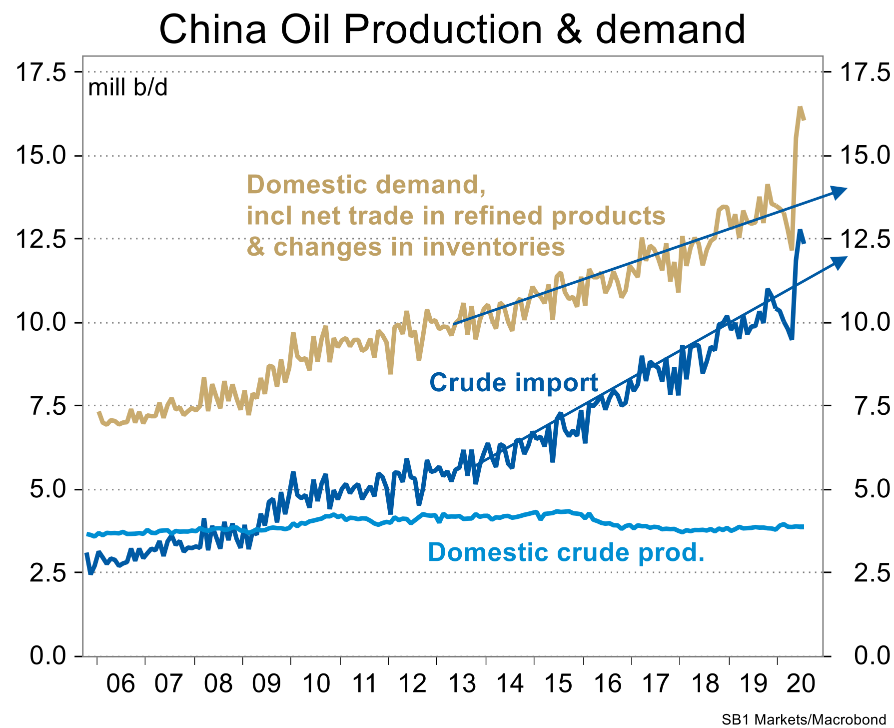




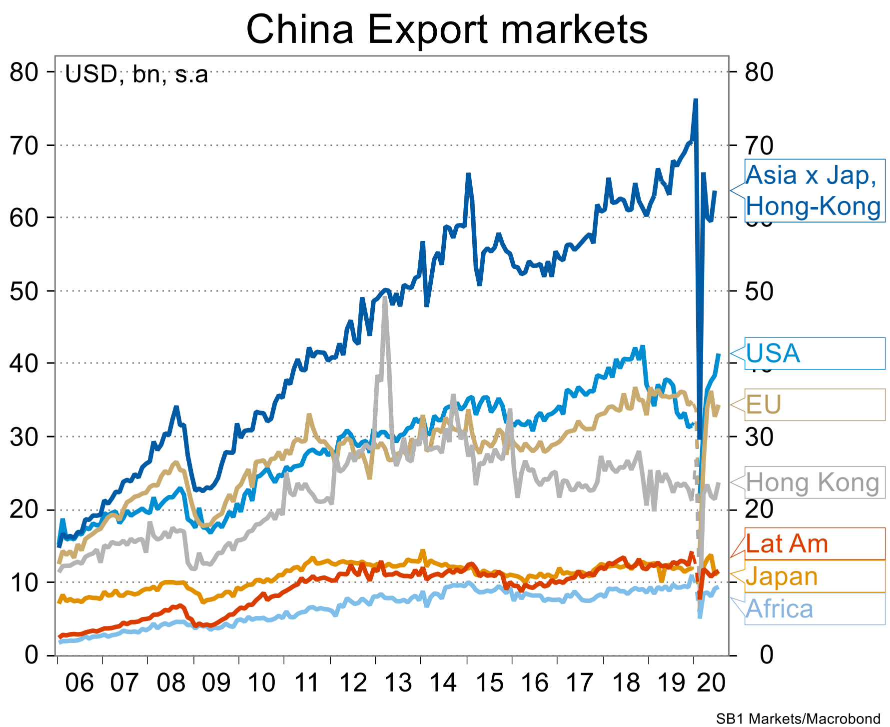
Ai, ai prices are low, let's buy some more oil!

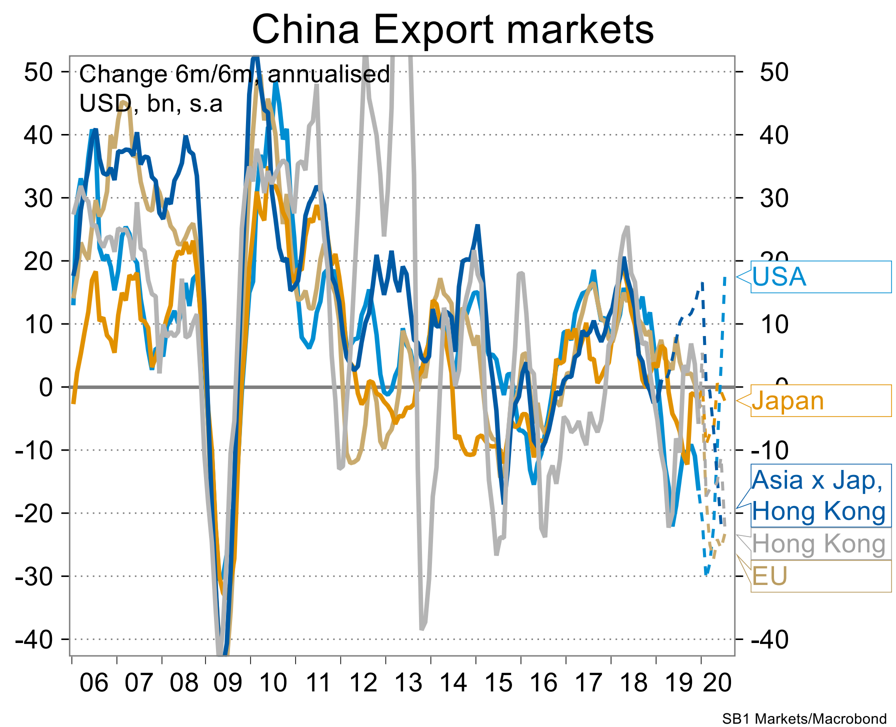
Record high crude imports, according to Chinese data. If correct, inventories must be rapidly build up





Exports to the US soon back to ATH?





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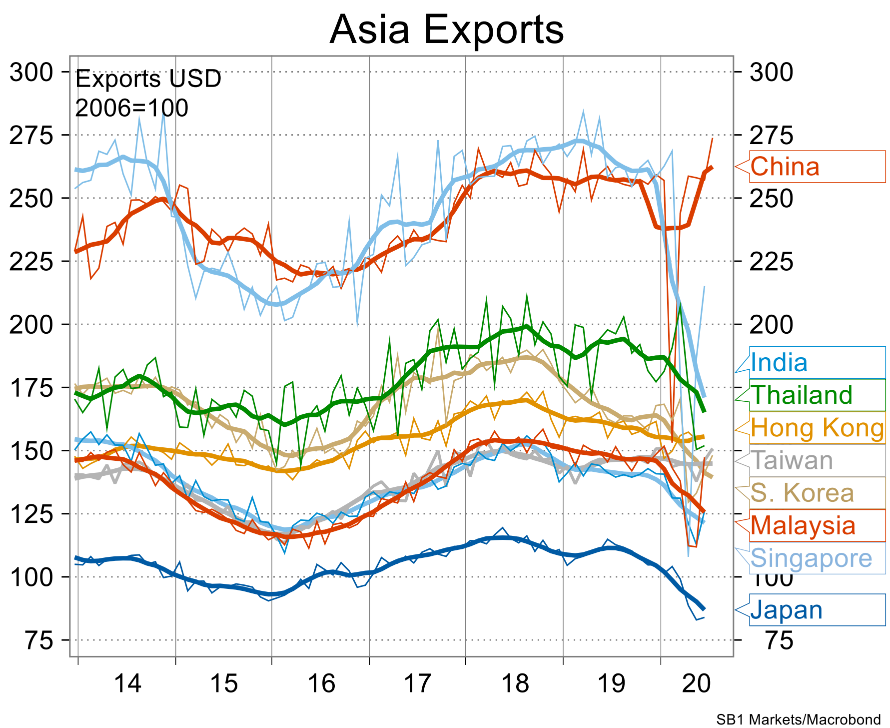
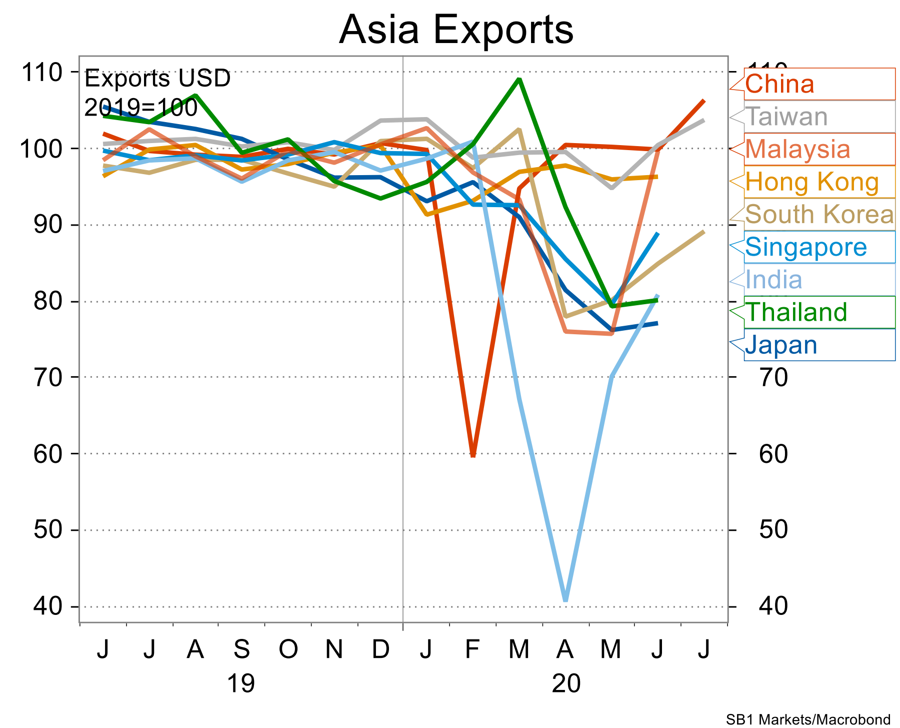
After the downturn, exports are recovering all over Asia

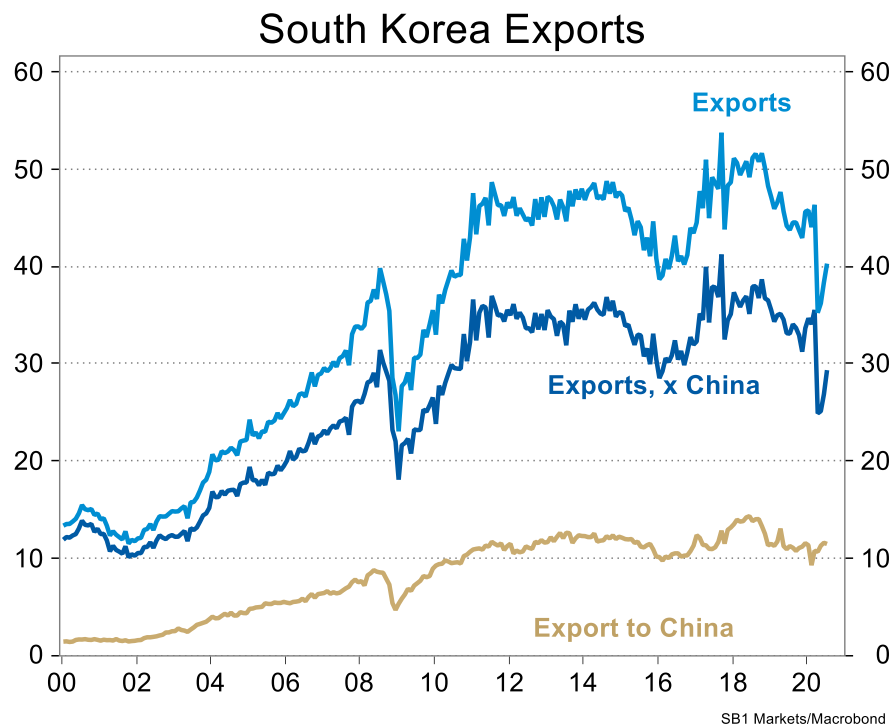
Still most countries are reporting lower exports than before the corona crisis





South Korea took a beating in Apr; the recovery in May-July is not impressive

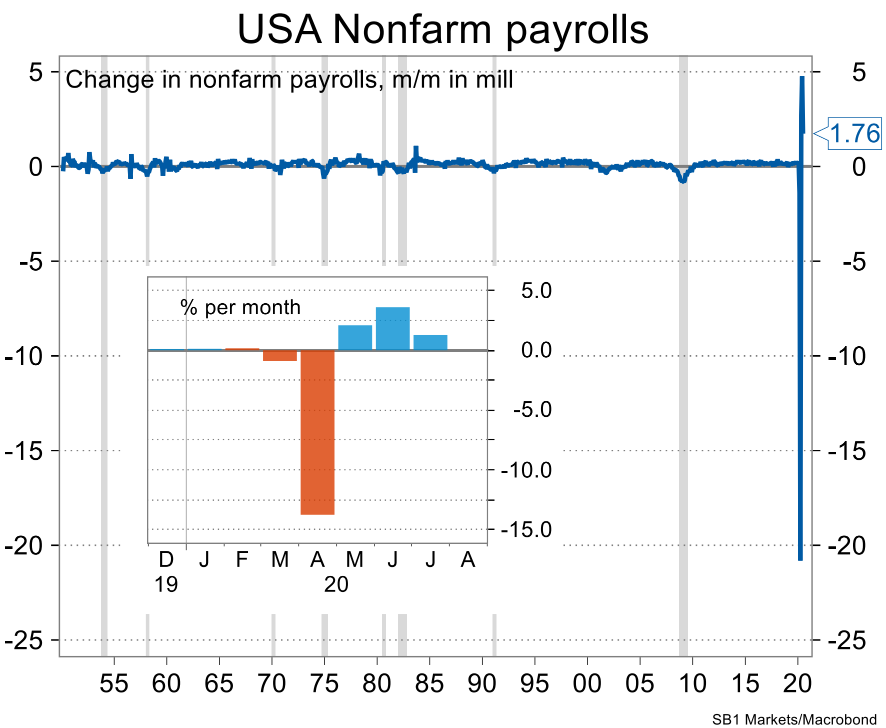
Exports to China fell just marginally, while exports to ROW fell by almost 30%, less than ½ recovered

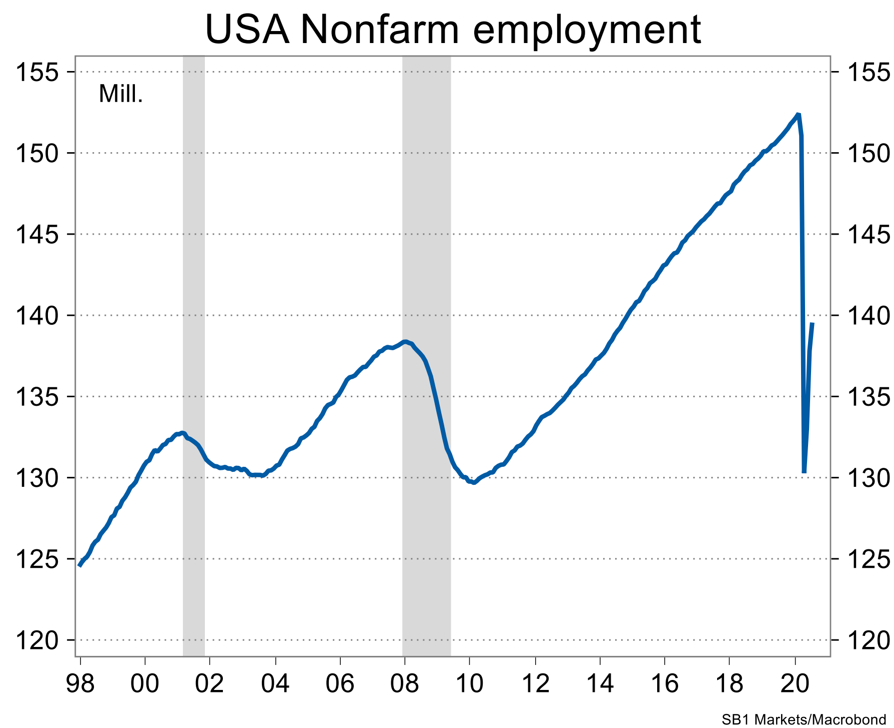


- Korean exports were low even before the corona crisis, down some 10% vs. the 2018 level, and are now still 10% below the pre corona level
- Exports to China fall in February but have since recovered to the pre corona level - still 20% down vs the 2018
  - » Thus, exports to China not to blame for the weak exports recent months

Another positive surprise. Still a disastrous labour market, employ. 9% down

Employment up 1.8 mill (1.3%), unemployment down 0.9 p to 10.2% - both better than expected

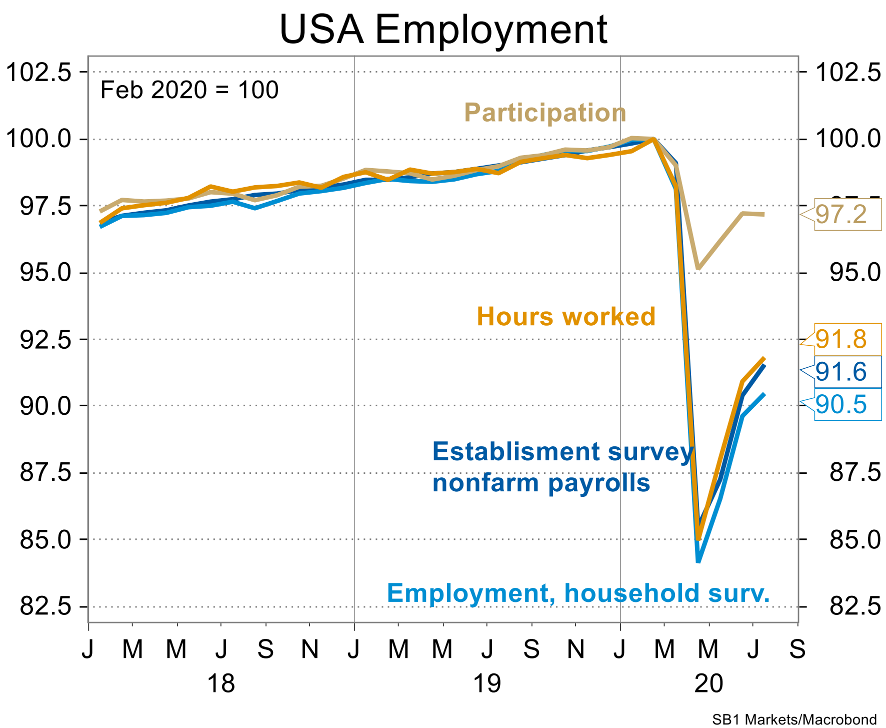




- **Employment** rose by 1.8 mill (1.3%) in July, expected 1.5 mill, but 'real' expectations were probably well below as ADP reported less then 0.2 mill more jobs in the private sector (expected 1.2) in July. Still, employment has recovered just 9 mill of the 22 mill drop in employment in March and April, and it is down 9% vs the pre corona level. Other employment measure, hours work yields the same result
- **Unemployment** fell by 0.9 pp to 10.1 (June was revised down 0.1 pp), expected down to 10.6% - and it is likely well below Fed's estimate. Even so, the real unemployment level is still higher due as the participation rate is down, more a working involuntary part time etc. The U6 employment rate is still at 16.5%, up from less than 7% pre corona
- **We expect employment growth to slow the coming months.** New jobless claims are still running at an extreme high level, and activity in several large states will be hampered by new corona restrictions, at least in August

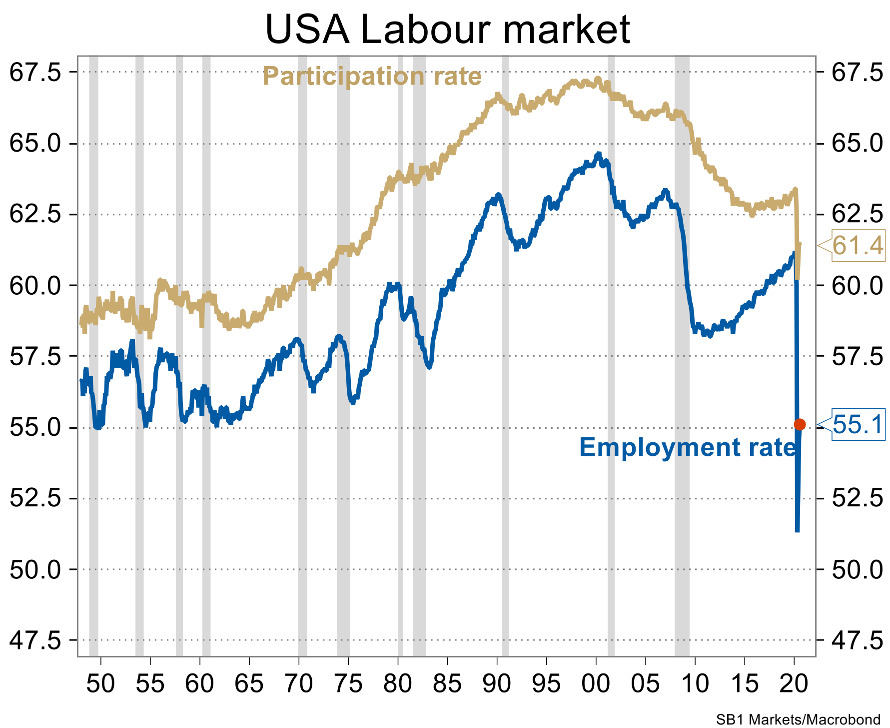
Employment still 8-10% below par, hours worked too

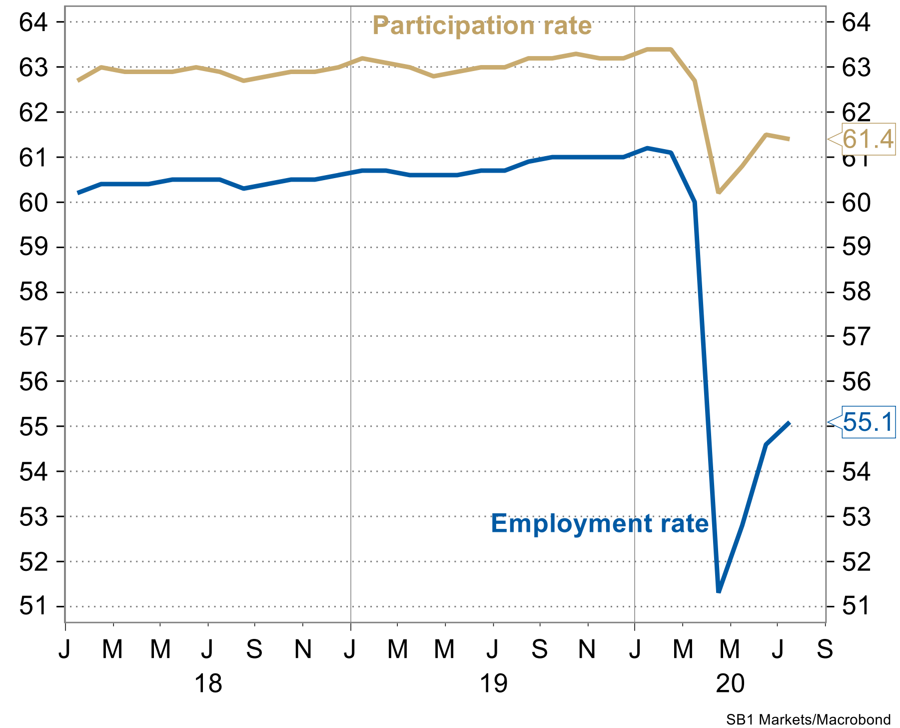
No big difference between enterprise employment headcount & the household survey



- If the participation rate not had fallen by almost 3%, unemployment would have been 3 pp higher…

Employment rate is still far below the pre corona level

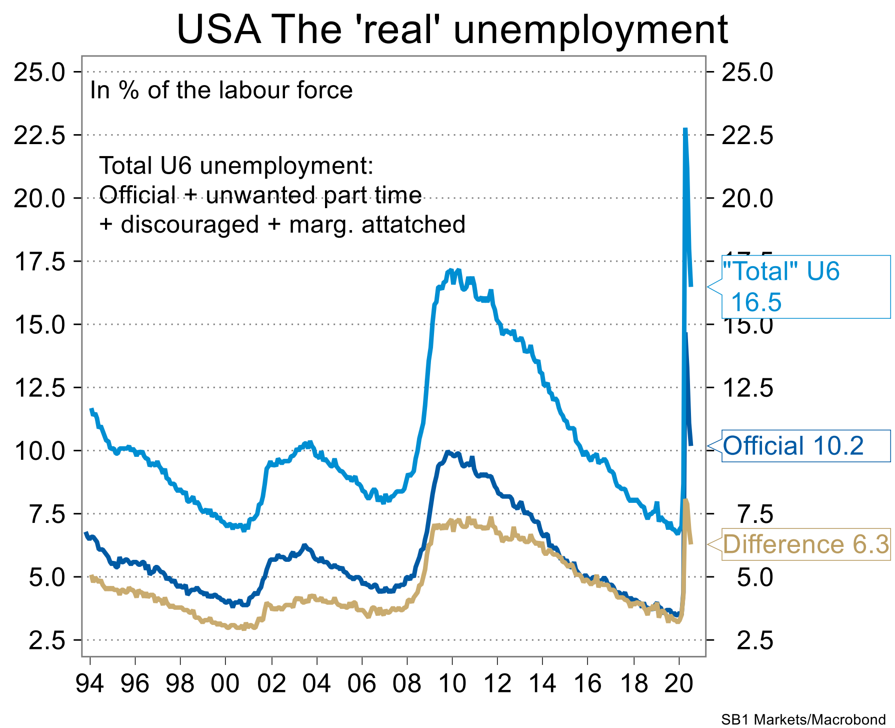


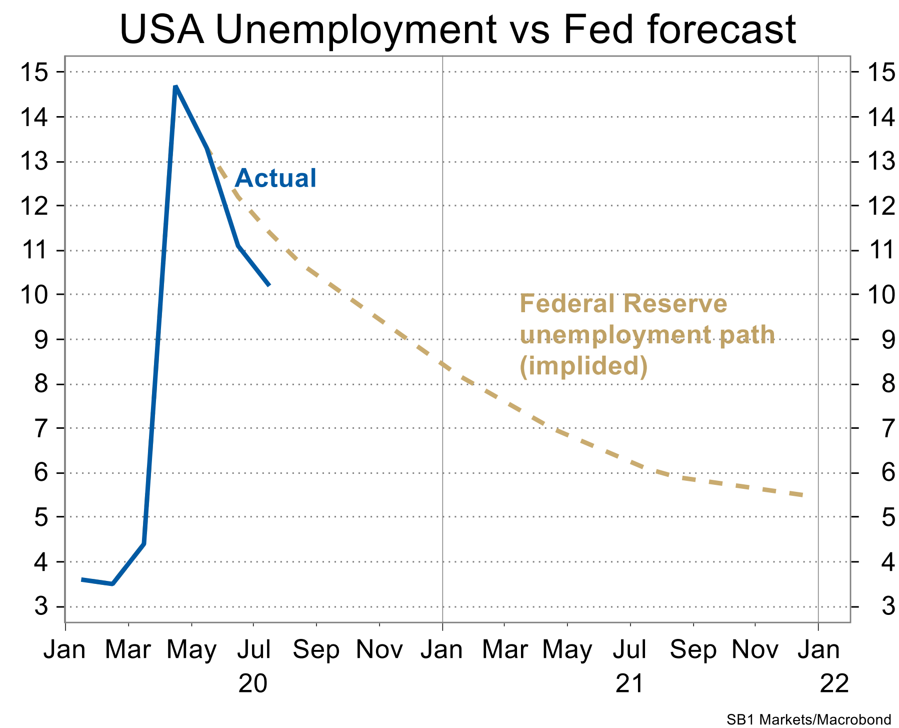


- **The labour force participation rate**, the supply side at the labour market, fell 0.1 pp to 61.4% in July, following an increase the previous 2 months. The level is still 3% lower than before corona

The ‘real’ unemployment is well above 11%, at 16.5% - or even higher

Still, unemployment is (very likely) falling faster than Federal Reserve assumed



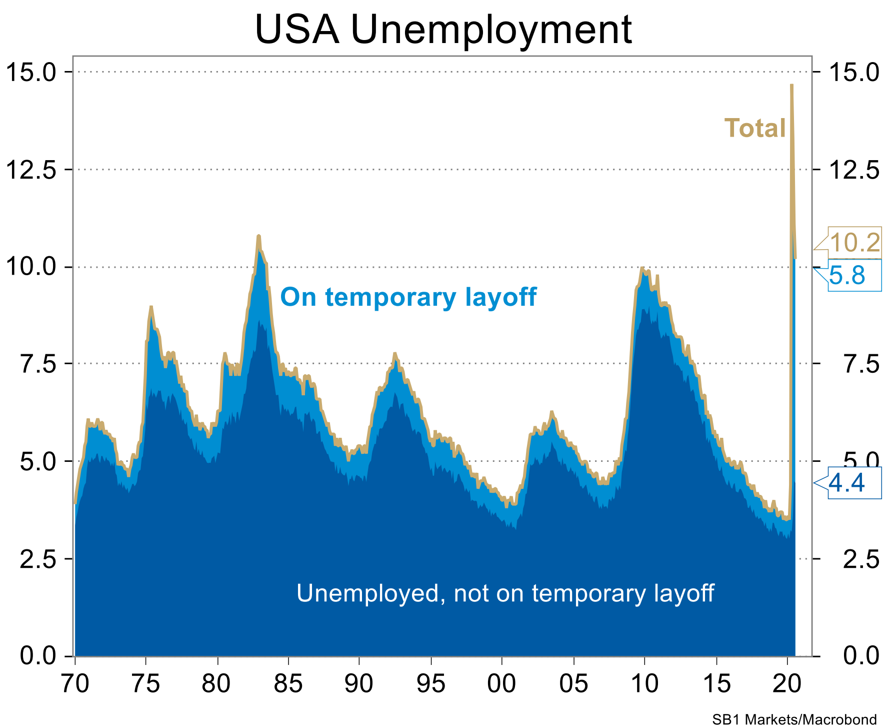


1) Some are counted as employed even if they should have been counted as unemployed
2) 5% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
3) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (3%)
4) In sum the unemployment significantly higher than the official rate

The FOMC has not published a monthly unemployment forecast but the decline in unemployment past two months is faster than any reasonable interpretation of the annual figures implies

More than ½ of the temp. laid offs has returned to work

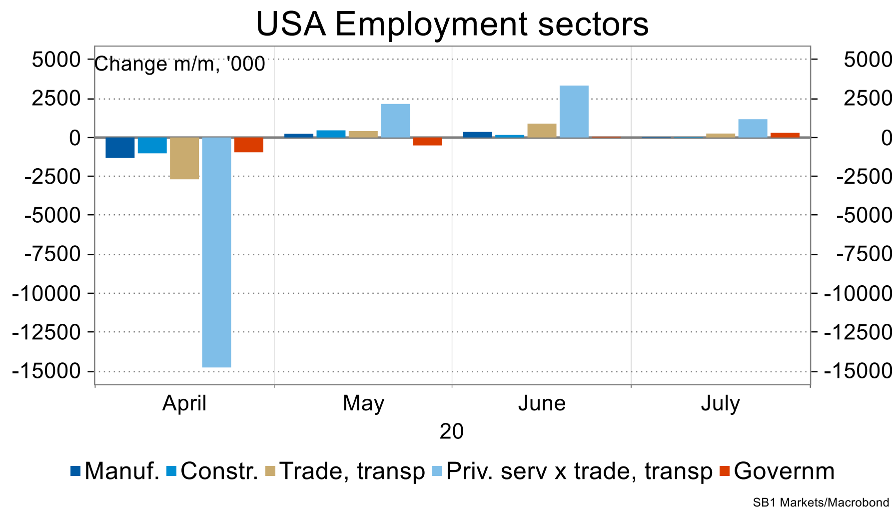
Temp laid off unempl. Down 0.8 pp to 5.8%, was 11.5% in April

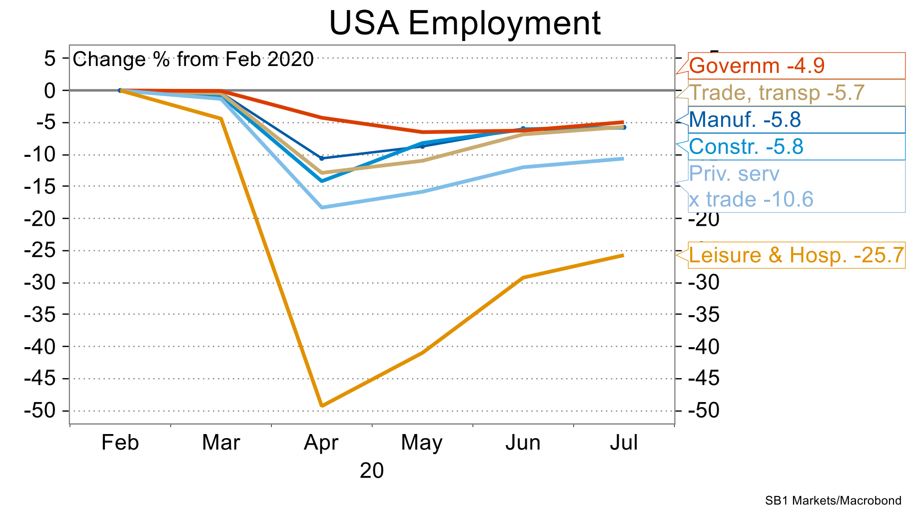


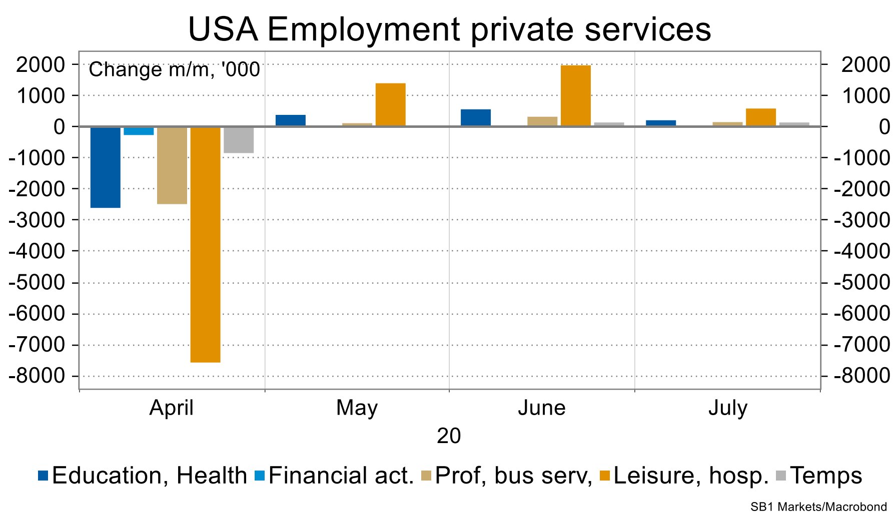
- Unemployed, not on temp layoff equalled 4.4% of the labour force in July, down 0.1 pp vs. June – but up from 3% before the corona crisis

Growth everywhere in July too, but slower

Employment down vs. Feb in all main sectors, by 5% (government) to 26% (leisure/hospit)





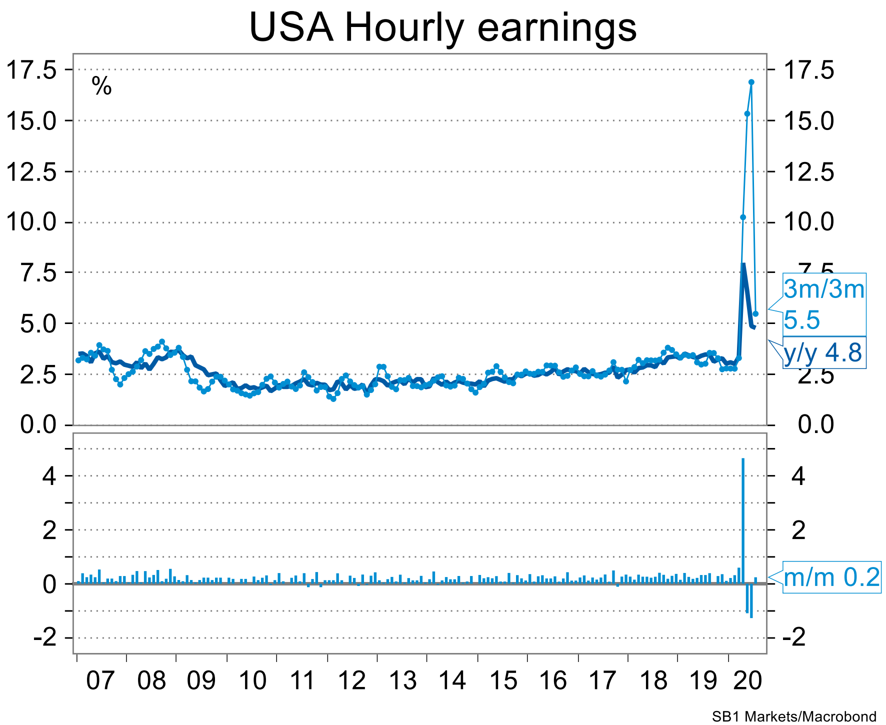


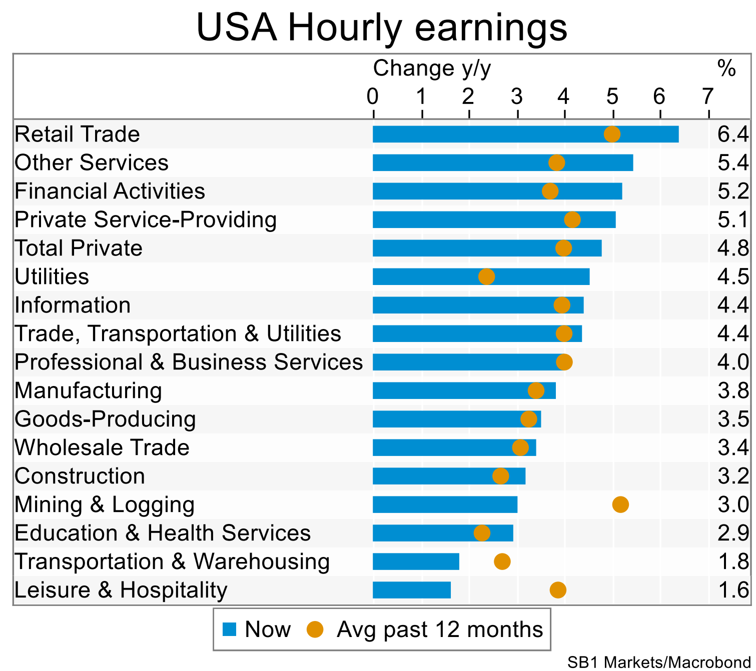
- In May, June & July leisure & hospitality contributed the most to the increase in total employment – but remains at the bottom of league, down 26 from February
- Manufacturing and construction are both down 6%
- Trade & transport is down 6% too

SpareBank 1 MARKETS

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

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

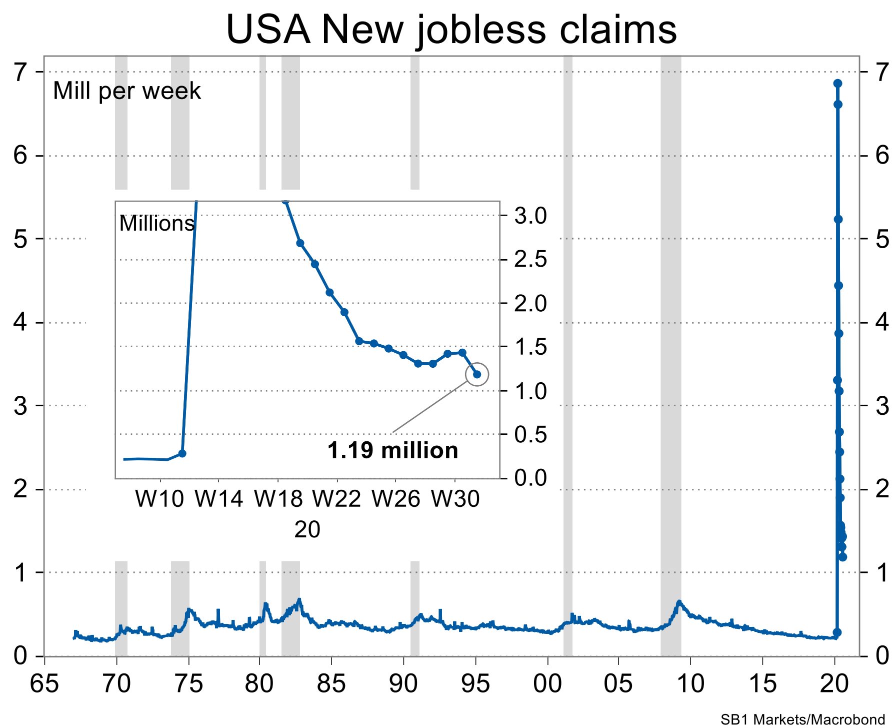


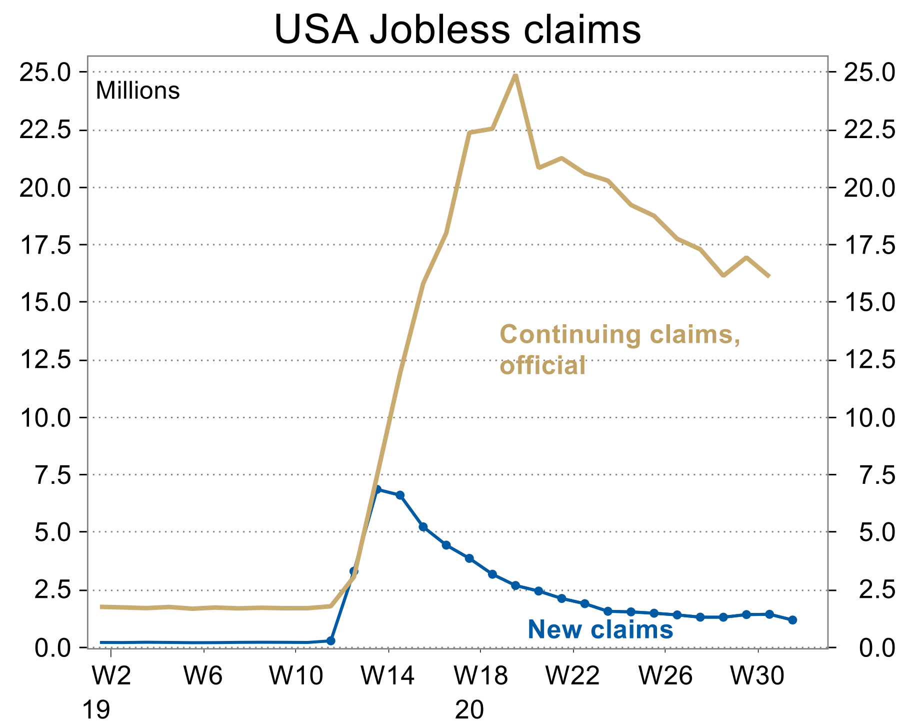


SpareBank 1 MARKETS

Fewer new jobless claims last week – but 1.2 mill are incredible many

After two ‘high’ weeks, the inflow slowed by 0.2 mill to 1.2 mill last week

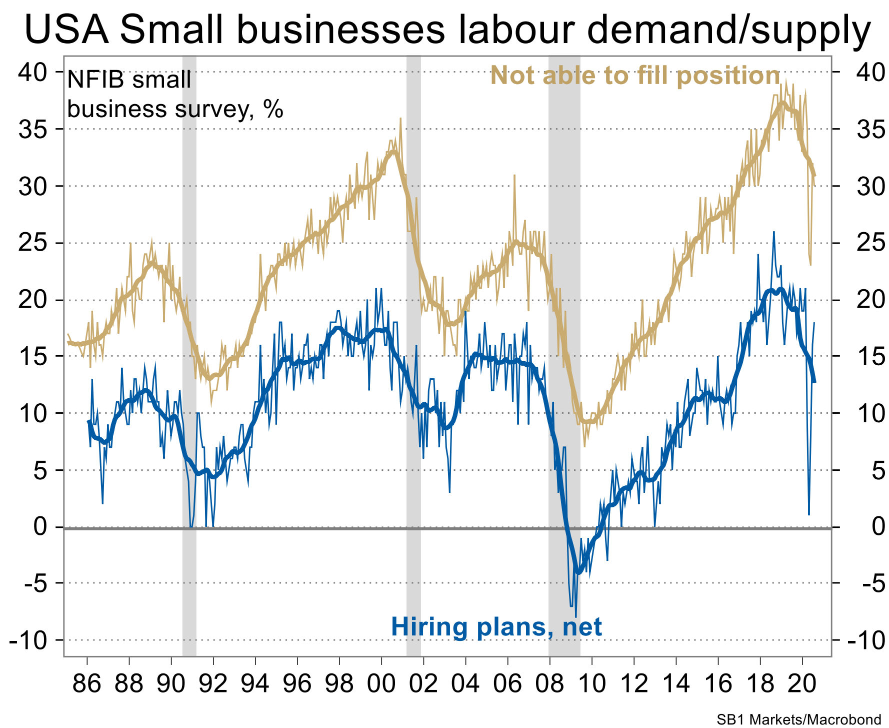


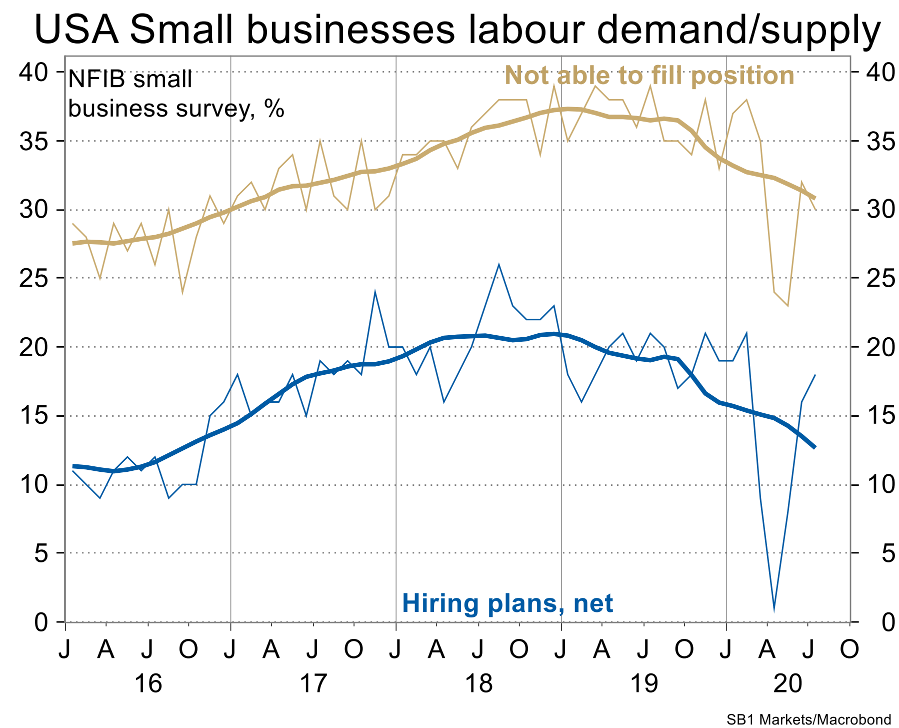


- The inflow is abated last week but it still equals 0.7 % of the labour force is entering the labour market offices as newly unemployed each week! The number is really mindboggling, much higher than during any USA recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 19 from 25 mill. but not further last week – and still 10% of the labour force is on the dole

Small businesses plan to hire again – and it did never become easy to fill positions

It's hard to calibrate the hiring plans, as so many companies have cut their workforce lately

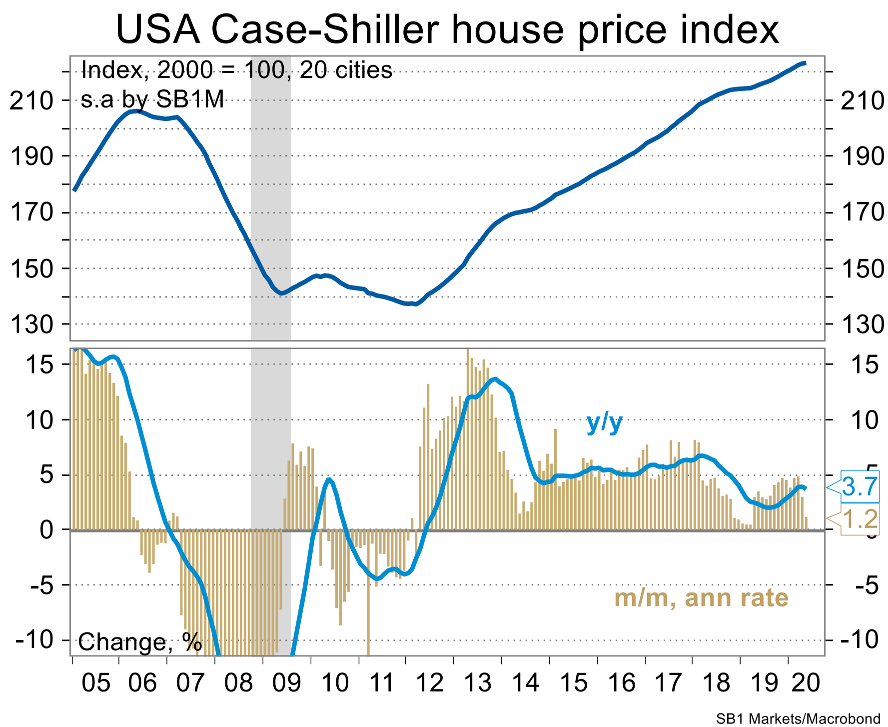


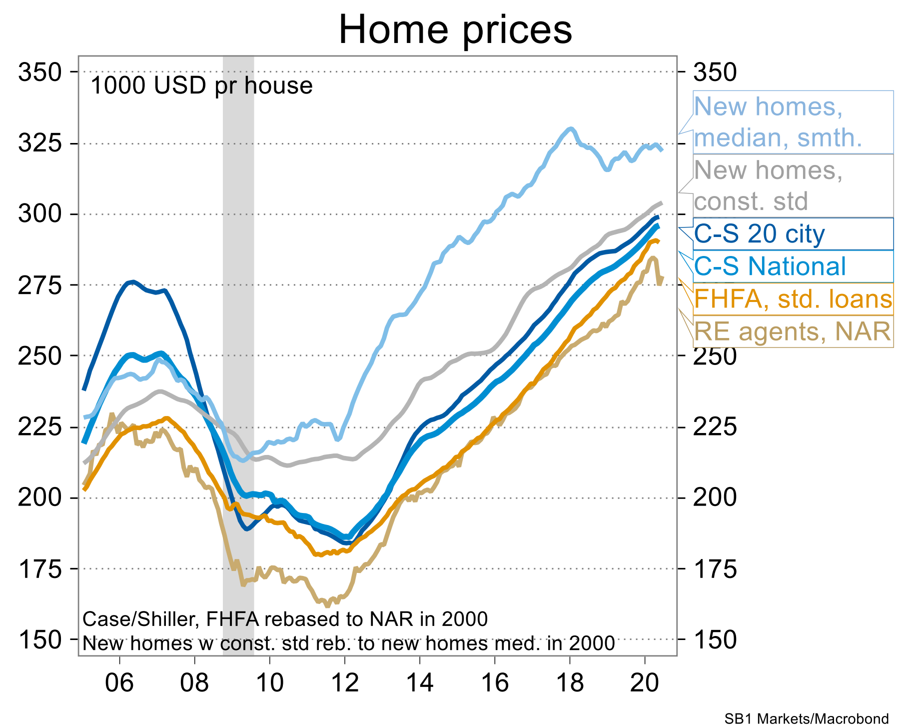


- However, it is remarkable that so many companies are reporting that it is still quite difficult to fill vacant positions when the unemployment rate is as high as now. May signal serious mis-matches at the labour market

House price has flattened during the corona crisis

Prices rose 1% m/m (a.r) in May, down from 6% in March. The realtors have reported a price drop

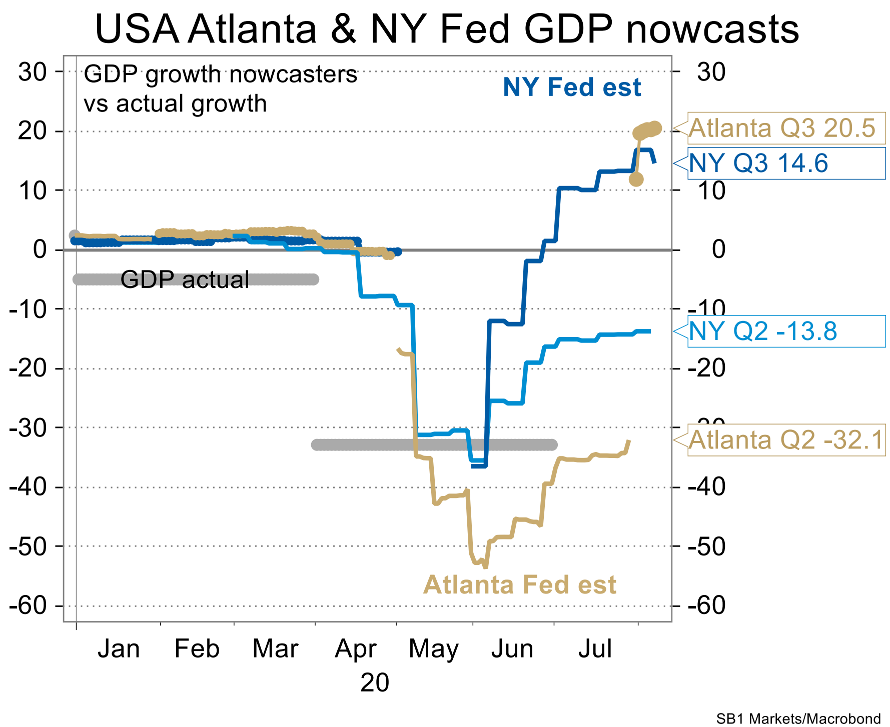


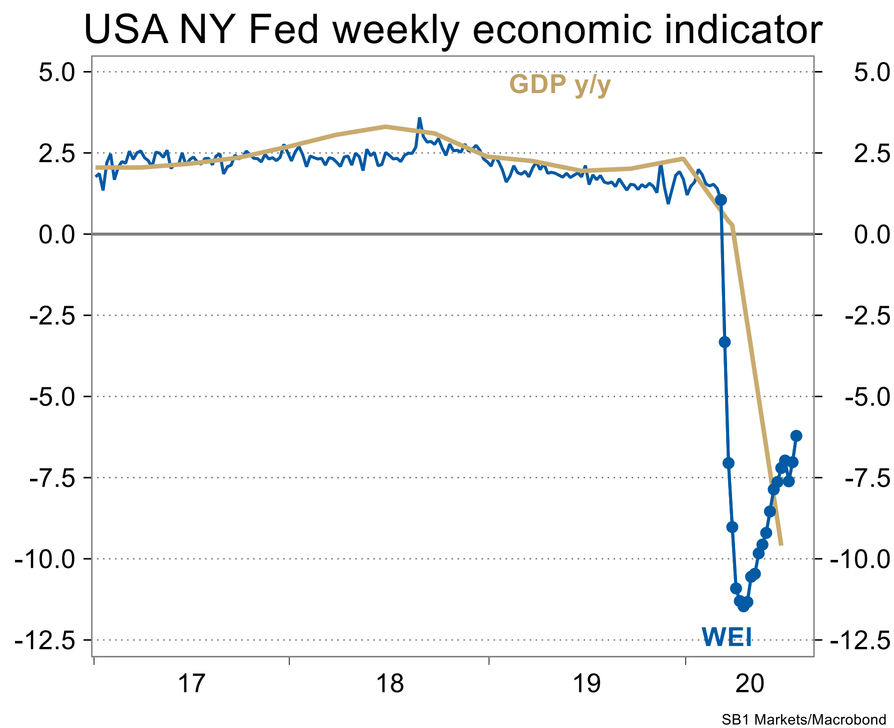


- Case/Shiller's price index is still up 3.7% y/y
  - » The index measures prices a 3 month average, and is now covering April – June
- We have no other indicators of weaker housing demand – amid a substantial decline in mortgage rates

Nowcasters are looking upwards in Q3, of course. But still far less than the Q2 loss

14 – 20% growth (4 – 6% not annualized) signaled

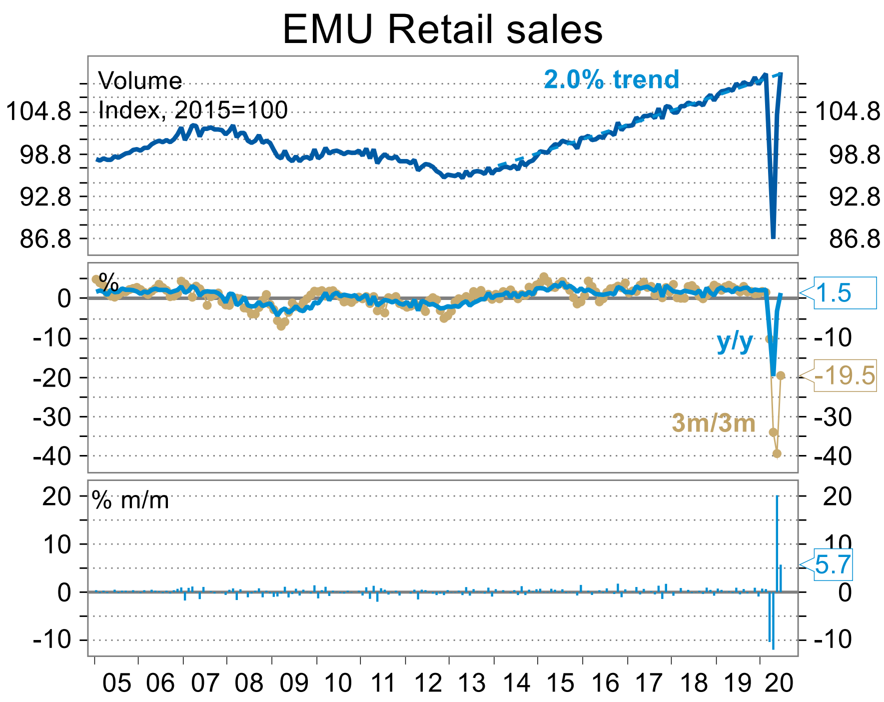




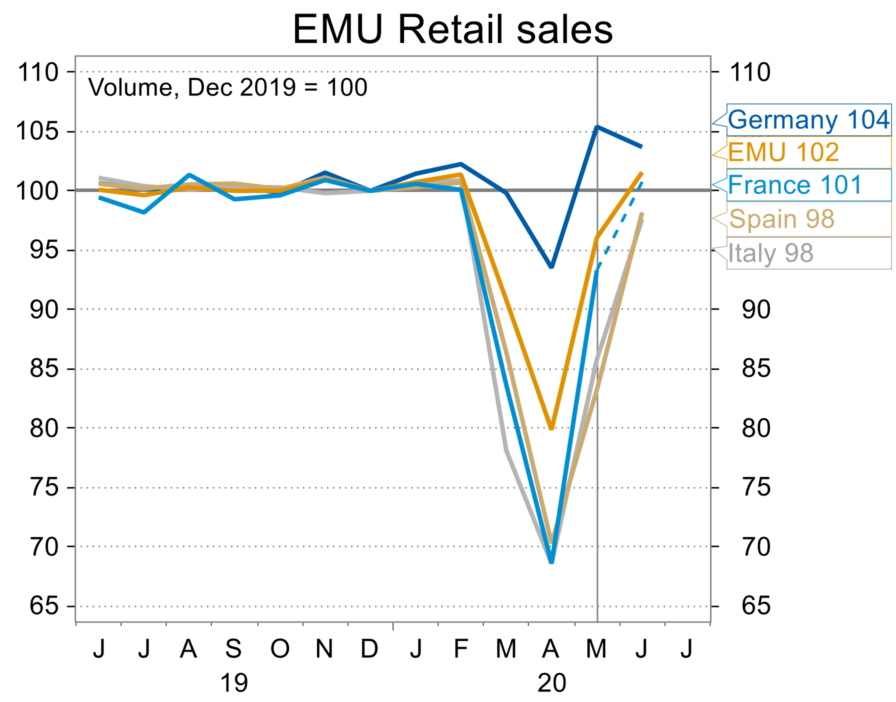
- We still do not have many Q3 data – and the nowcasters' forecast are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the nowcasters reports 14 – 20% growth in Q3 (annual rate)
  - » NY Fed's weekly model signal a 7% decline y/y, equalling a 16% (less than 4% not annualised) growth pace q/q in Q3. We really hope growth will turn out to be better than that
  - » We expect Q3 growth to be far stronger. Even without any further growth in consumption form the June level (which is rather unlikely), consumption alone will lift Q3 GDP by 18% (4%, not annualised), a more realistic growth contribution is 28% (6%)
- GDP fell 32.9% (annualised, 9.5% not annualised) in Q2, spot on Atlanta Fed's model estimate. NY Fed's model reported a 13.8% (annualised) decline

Retail sales above the February level

Retail sales rose 5.7% in June, a tad less than expected, but May was revised more up



SB1 Markets/Macrobond

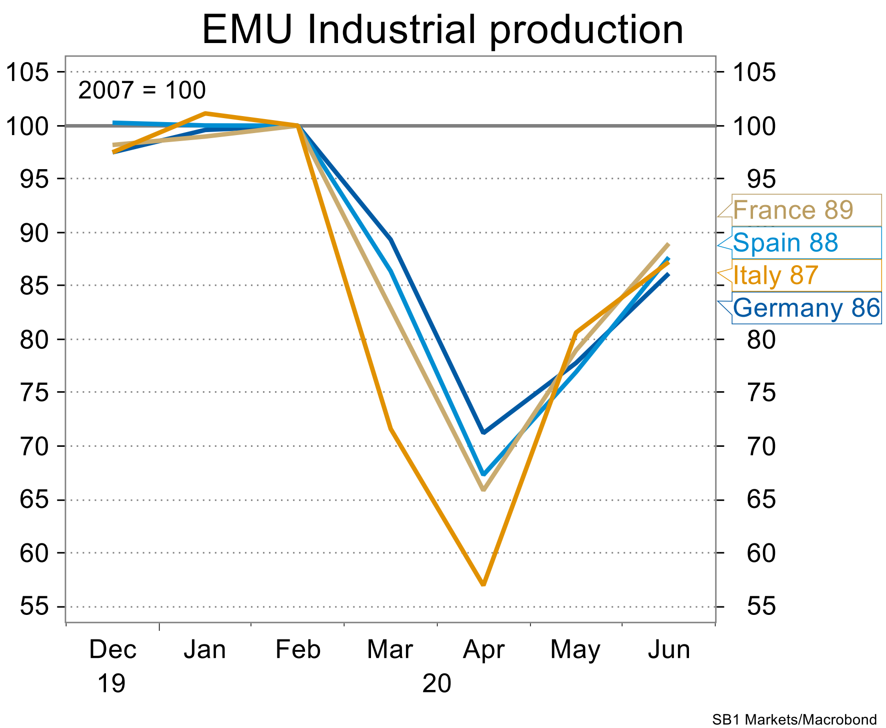


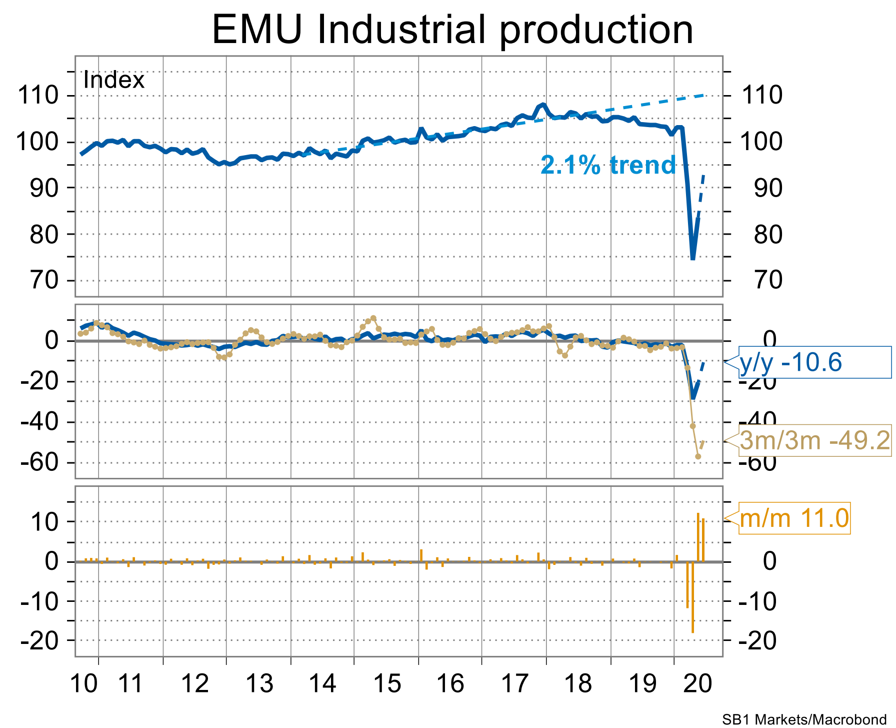
SB1 Markets/Macrobond

- Sales in 5.7% in June, and are now 2% above the pre corona level!
- Sales in Germany fell 2% but are still 4% above the Dec 2019 level, France is 1% above
  - » France has not yet reported retail sales but consumption of goods rose further, and retail sales rose at the same pace
- Spain and Italy is 2 and 4% below, following 18% and 12% lifts to June from April
- How much is just temporary pent up demand – and how much is normalisation? Given consumer confidence and household income probably more the latter than the former?

SpareBank 1 MARKETS

Manufacturing production further up in June, still 10% too low





- Industrial production in the Euro area was on the way down from Q4 2018, and production is far below the pre 2019 trend (some 16%). The distance up to the pre corona level is approx 10%. The gap will probably further reduced in July

When even 28% m/m is not that impressive…

New manufacturing orders up 28% m/m, way above expectations. Still 10% below par

Highlights

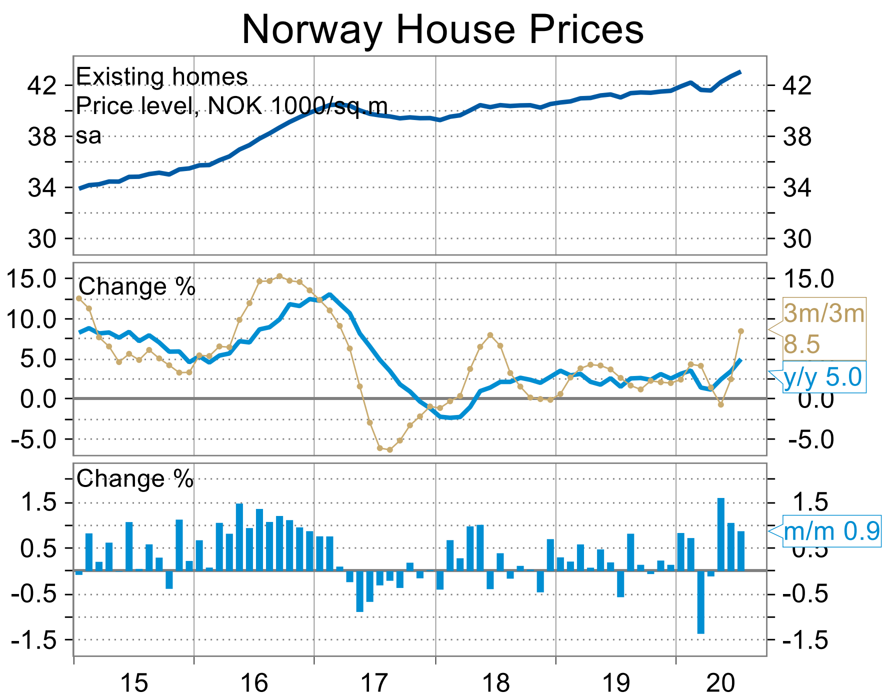
The world around us

The Norwegian economy

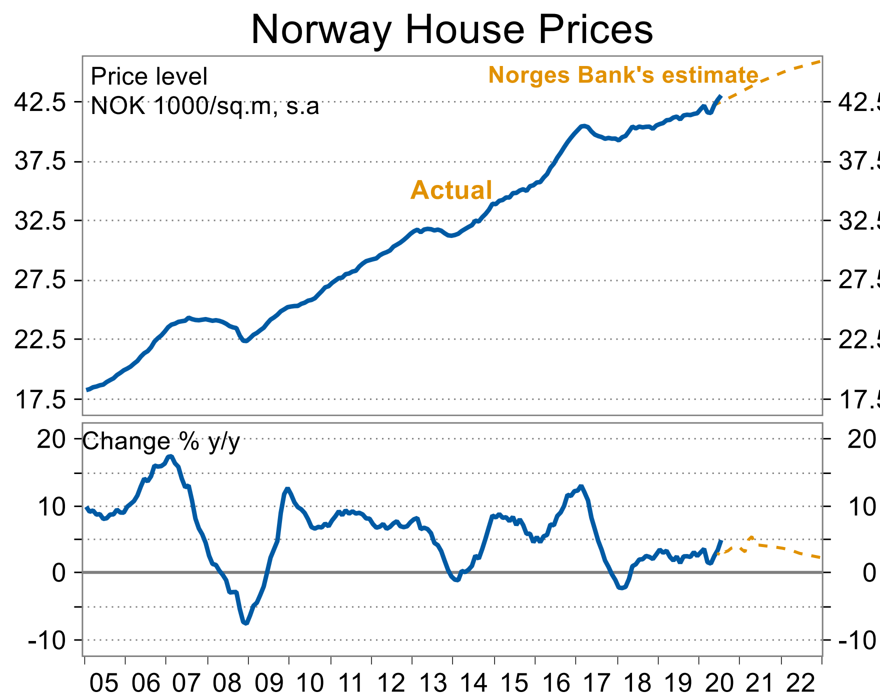
Market charts & comments

House prices further up in July, now 2% above the pre corona level

House prices rose by 0.9% m/m in July, and are already above NoBa's path. Are rates too low??



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

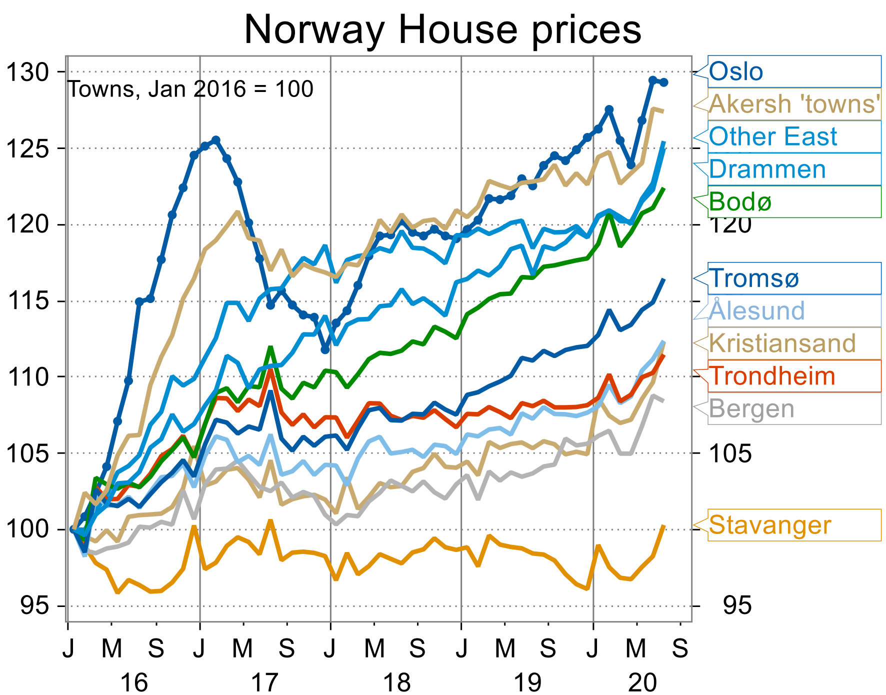


SB1 Markets/Macrobond

- House prices rose 0.9% m/m in July, following the 0.1 pp upward revised 1.1% in June. We expected 1.2%. Prices are 2% above the February level, following an approx 5 - 6% take off, which started in early April. Prices are up 5.0% y/y, well above NoBa's upward revised June forecast. A 1.1% cut in mortgage rates (to 1.9% in average in May, from 3% in Feb), has been more important than a 5 pp – 12 increase in the unemployment rate
  - » That's not what the standard model suggests. Most likely, households look upon the corona hike in unemployment as short lived, while low interest rates are here to stay
  - » Prices rose everywhere, even in Stavanger. East in the lead in June, but not during the previous months. Oslo down 0.2% in July, still up 5.5% y/y. Hamar up 8%
- The number of transactions rose too, to highest level ever (up 40%), and the inventory of unsold homes fell sharply
- **Should the house prices continue upwards at more than 5 – 6% per year, Norges Bank will no doubt start hiking rates before late '22**

Prices up most places but not in and around Oslo, and not in Bergen

Just mean reverting: Prices rose sharply these places in June! Stavanger highest in 3 years!



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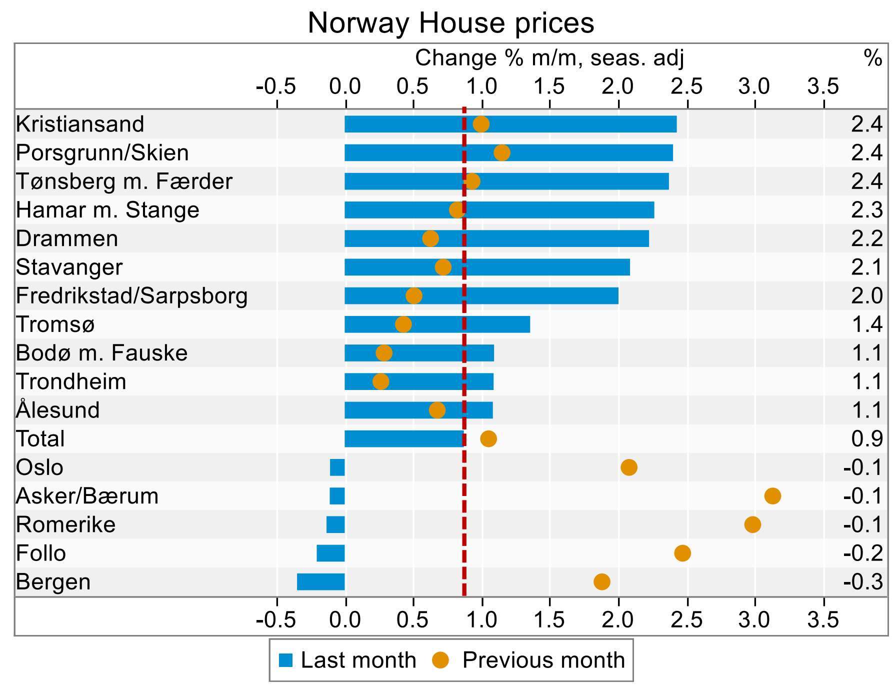
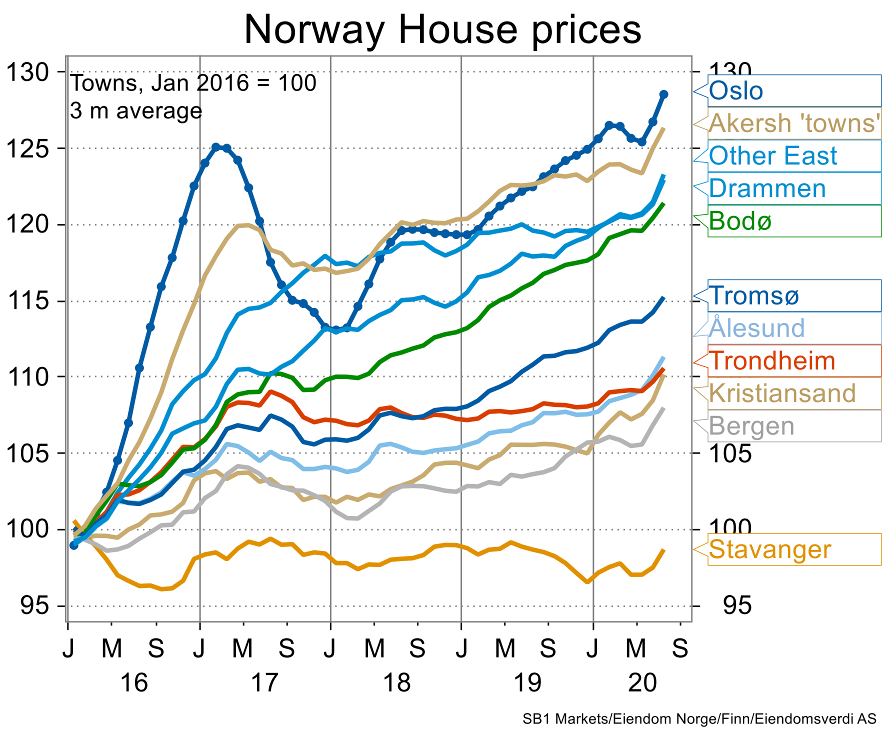
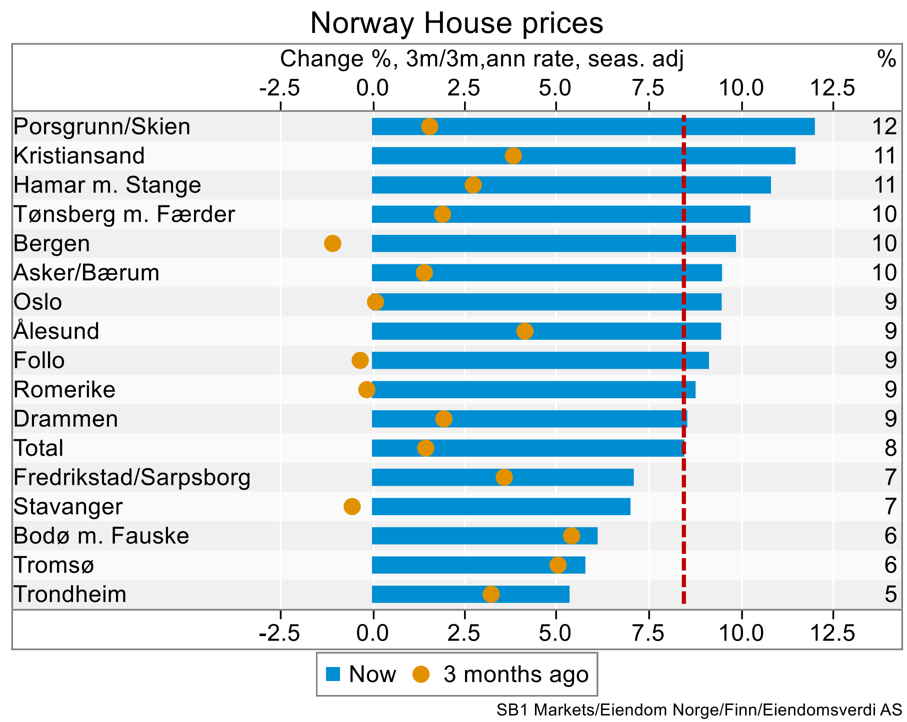


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

Recent months; measured 3m/m: All up, from a 5% pace to 12%!

Prices in Oslo fell the most in March/April – but has recovered sharply from May

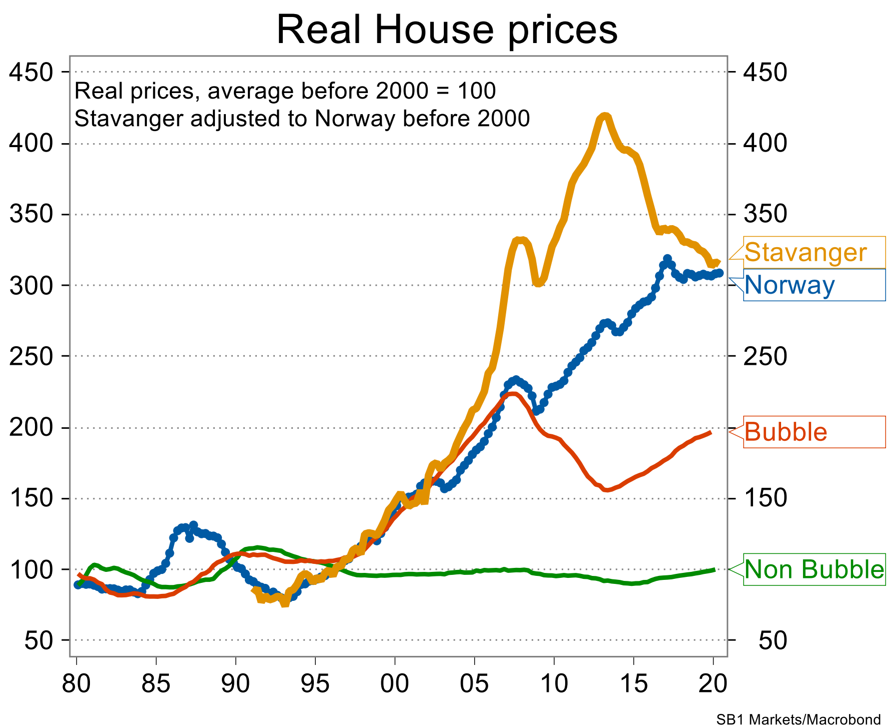


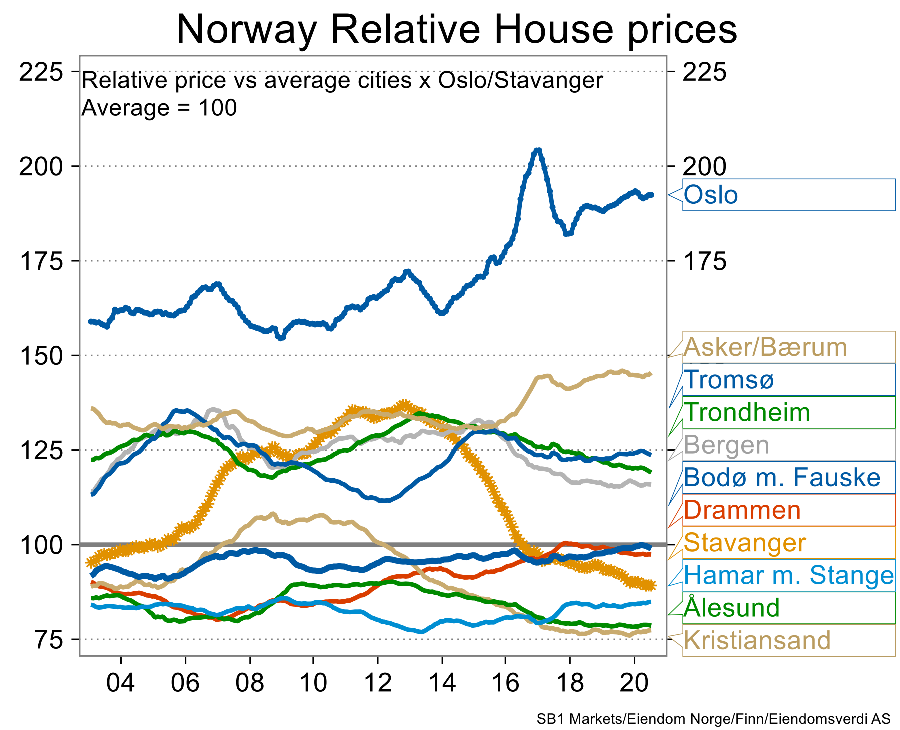


- Stavanger is perhaps best described as flat, recent years, while all other are up – with Oslo in the lead vs the early 2016 price level

The Stavanger case: Could it happen elsewhere?

From no 2 in Norway in early 2012 to the bottom league now

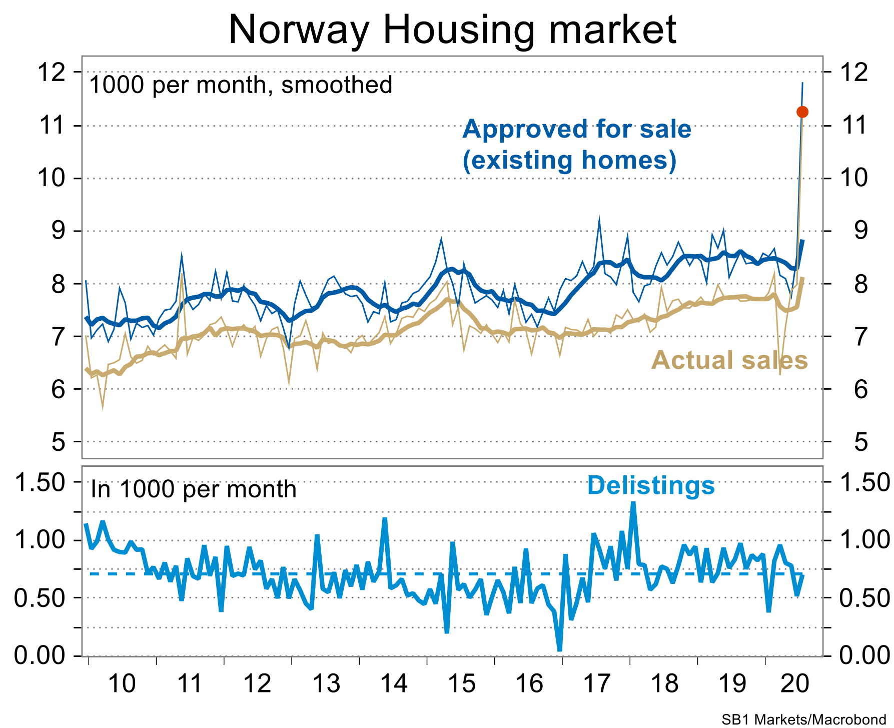


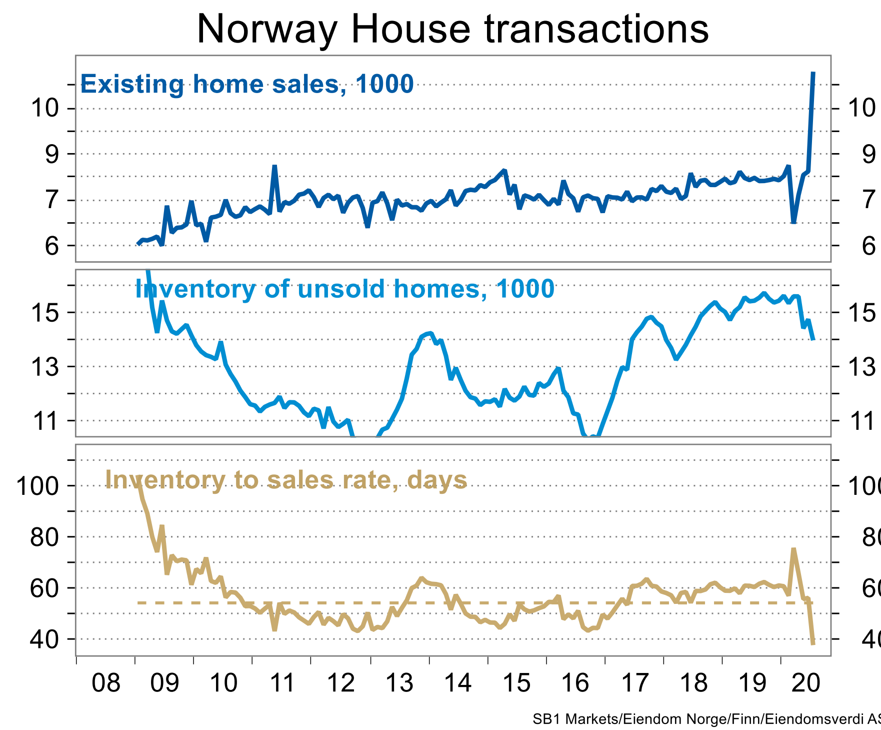


- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

We stayed at home, and bought another one: Sales up 45% vs pre corona level!!

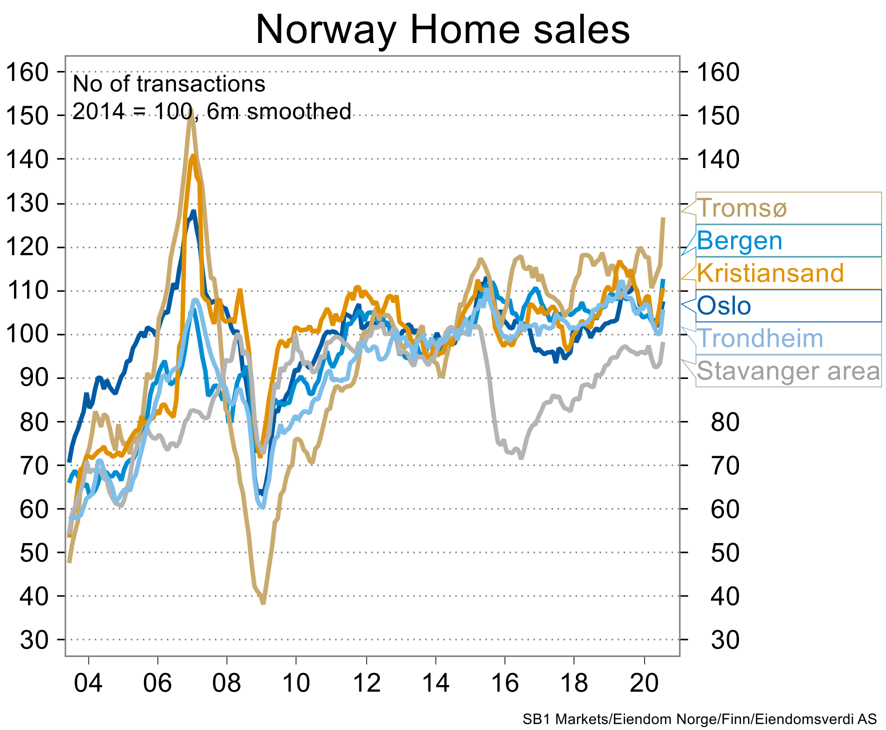
The inventory of unsold houses fell sharply in July, and it's down 17% since April

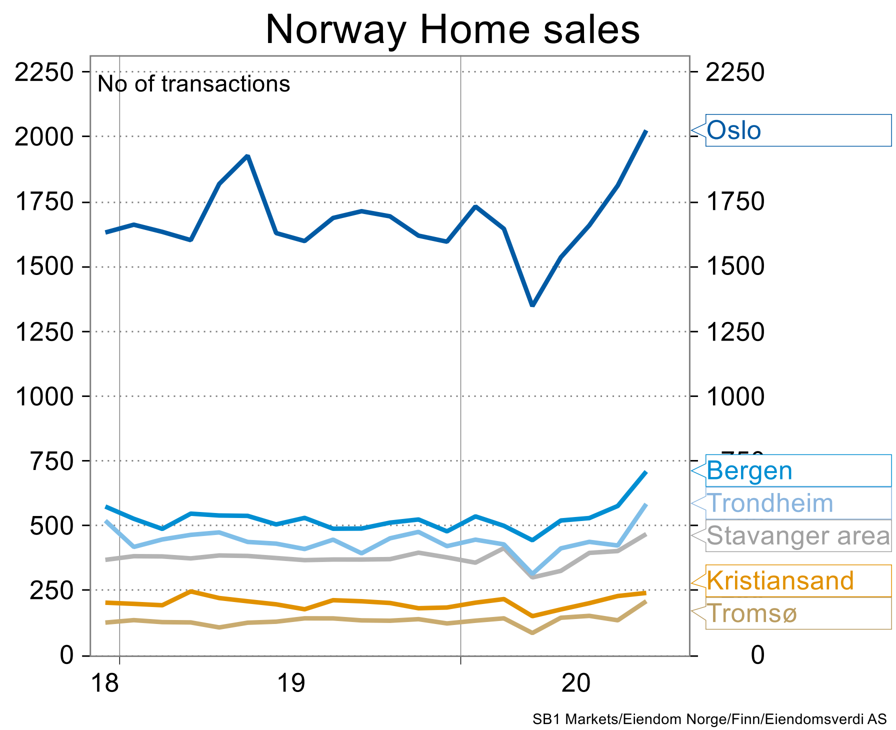




- **The number of transactions** skyrocketed to highest level ever (seasonally adj), by more than 40% to 11'
- The **supply of new existing homes** rose sharply too, to ATH
- **The number of delisting** rose in July vs June but remains at a normal level
- The **inventory of unsold homes** fell sharply in July, to the lowest level since mid 2018 – down 17% the two past months
- The **inventory/sales ratio** contracted sharply too, to the lowest level ever. The turnover time is now below 40 days vs an avg at 55 d

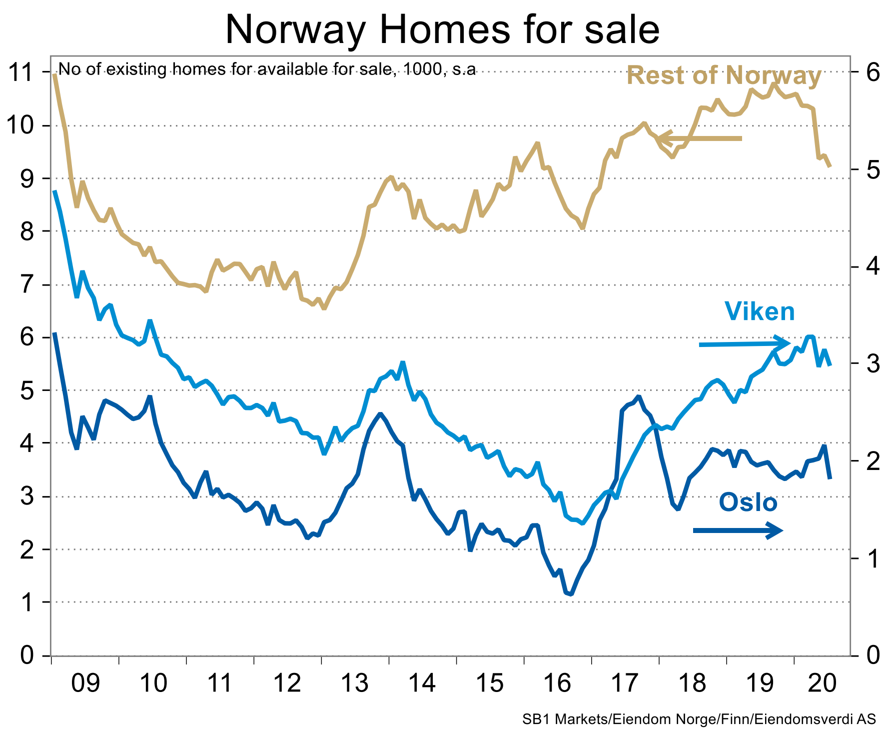
Transactions up everywhere recent months

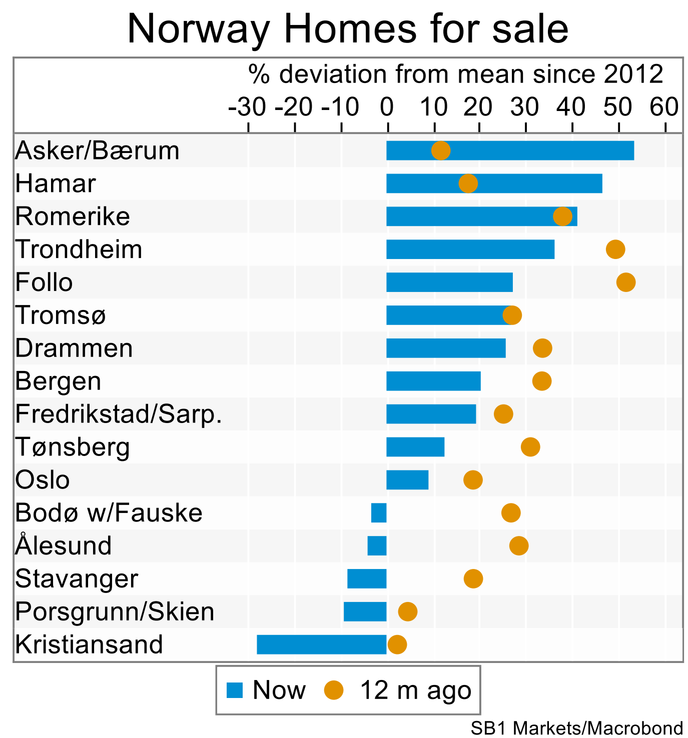




Fewer existing homes for sale most places (but not that much in Viken/Oslo)

Inventories are still on the high side but just Viken is reporting a really high level

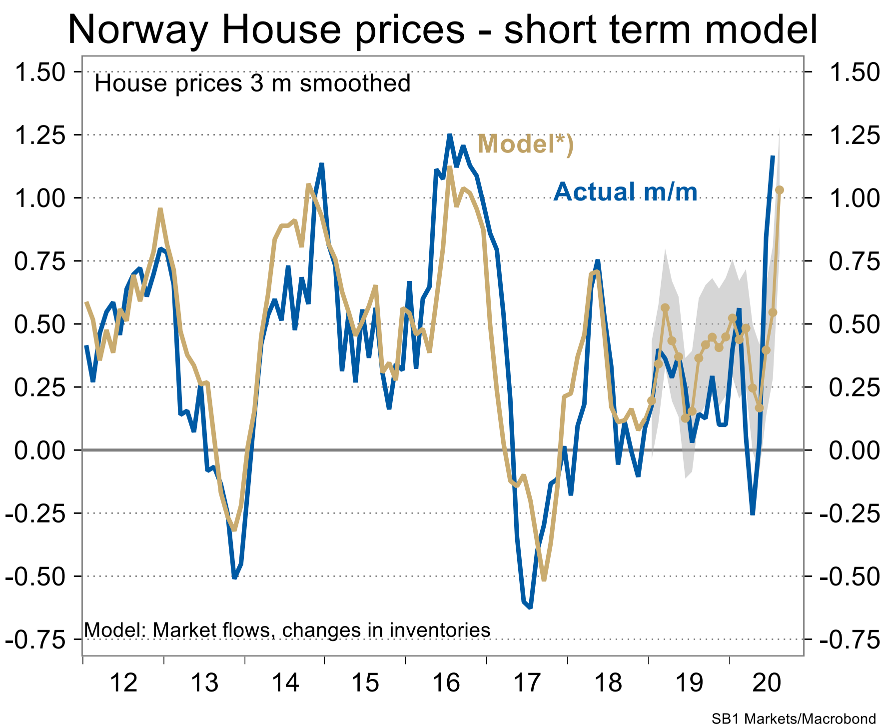




- Still, in some towns, the inventory is much higher than normal, like Trondheim and some cities around Oslo (while the inventory in Oslo is close average
- In July, the inventory is down y/y in 11 cities, up in just 2 (Asker/Bærum and Hamar)

Short term market flows suggest further price hikes, like in 2016

Mortgage regulations were temporary eased in March, and rates were cut…



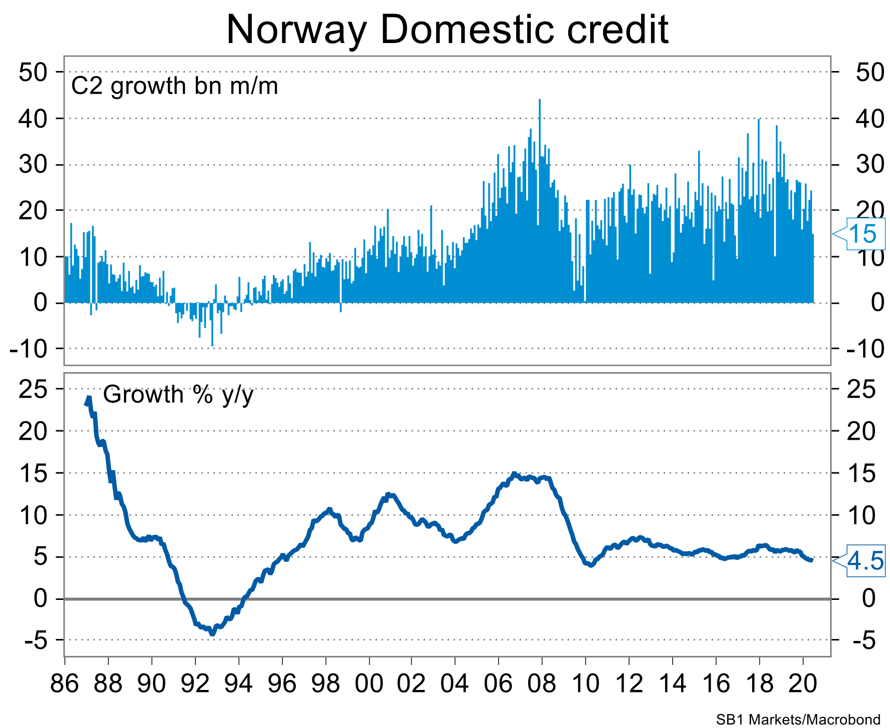
- The supply of new homes for sales and the inventory suggest just marginal price decline the coming months
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

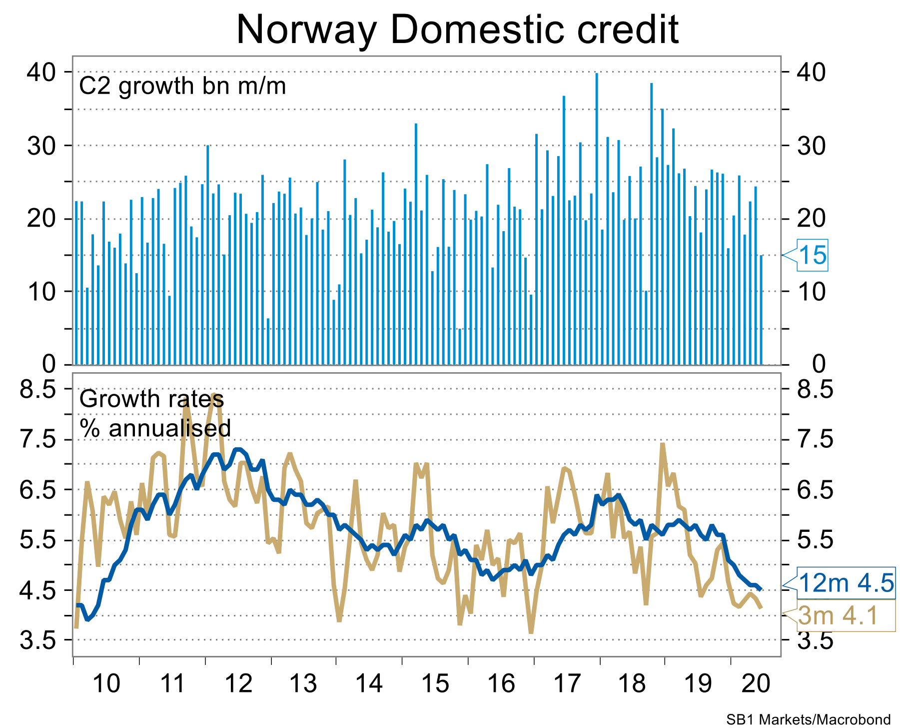
On the policy

- In late March, when the world was expected to fall apart, the easing of **mortgage regulations** was announced as a temporary measure in Q2 to support the housing market. The world didn't fall apart, at least not the Norwegian economy. Even so, in June the Ministry of Finance decided to prolong the easing through Q3. Given the recent development, we assume that ordinary regulations will be reintroduced from October
- Norges Bank cut in the **signal rate to zero** in order to support the Norwegian economy. The main channel is via the housing market, and even with rates at zero, the bank expected house prices to fall sharply in its May mini monetary policy report when the Bank cut the rate to zero. In the June MPR, house prices were revised up by almost 10% (sum over the next 3 years), and during the past two months, prices have climbed at an even faster pace than the Bank assumed. So what should NoBa signal now? That the signal rate not necessarily will stay at zero until Q4 2020, of course

Overall credit growth has been but households borrowed more in June

Domestic credit growth (C2) down 0.1p to 4.5%, as we expected – the trend is still down

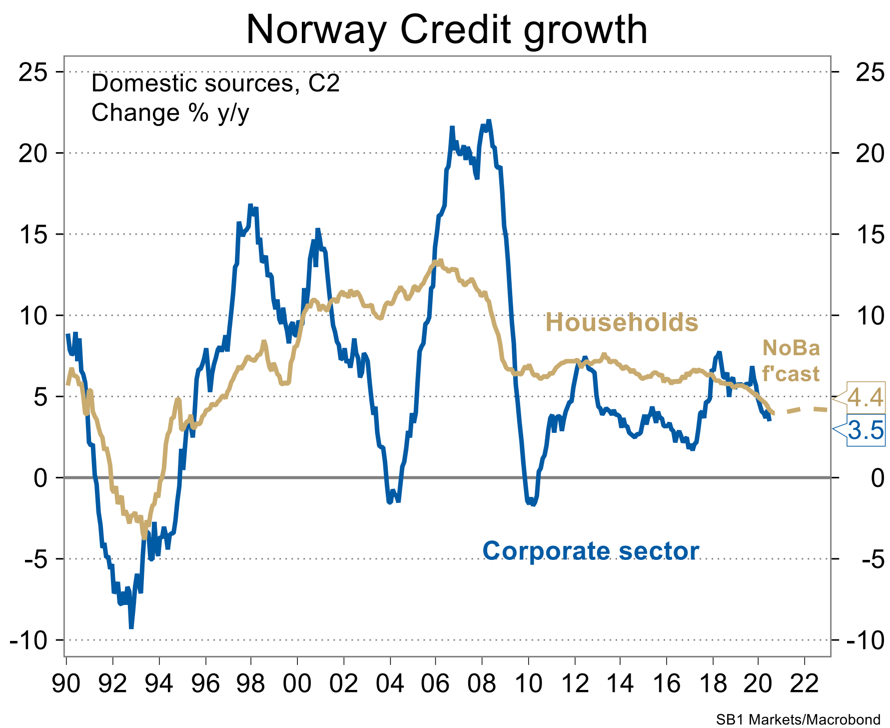


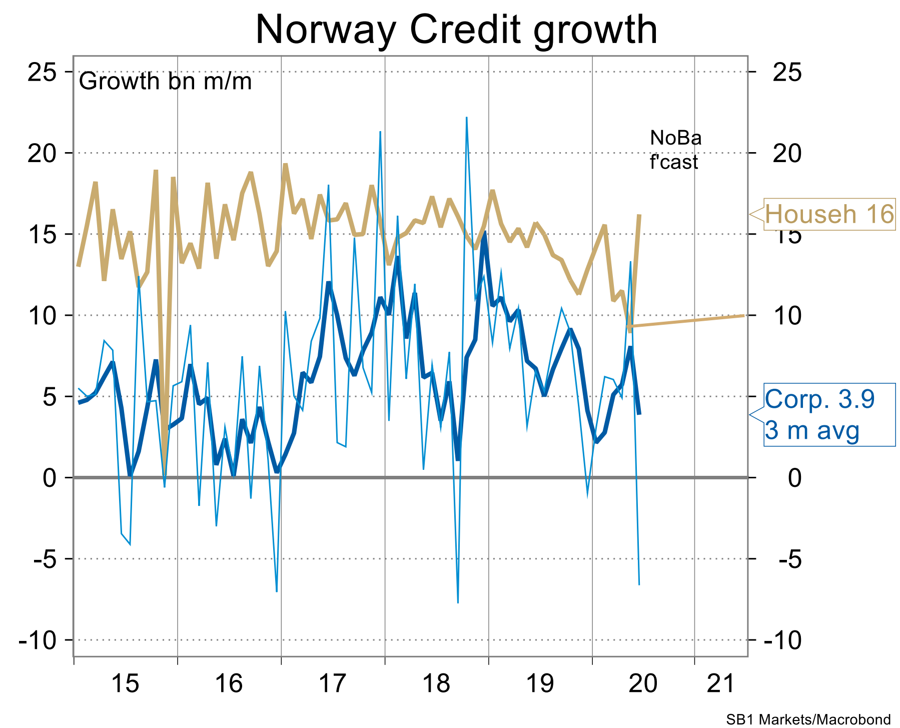


- **Total domestic debt** (C2) rose by NOK 15 bn m/m in June, down from 24 bn in May. The annual growth fell one tenth to 4.5%. Growth has been heading clearly down since late 2019 (and from early 2018)
- **Household credit growth** accelerated in June form a low level in May (to NOK 16 bn from 9 bn). The annual rate was still unch. at 4.4%, the lowest in 23 years. The monthly growth in June was the highest in more than one year, and was not that surprising given the strong housing market – and the slow growth in May. Over the past year, credit growth has fallen below income growth. As the housing market is recovering, we assume household credit growth may accelerate again
- **Corporate credit growth** was very high (+13 bn) and outstanding credit fell in June (-7 bn), and the annual rate fell to 3.3% from 3.5%

Credit growth has been trending down – but now households a ready for more?

We still expect the corporate sector to cut investments, and to dampen their demand for credit

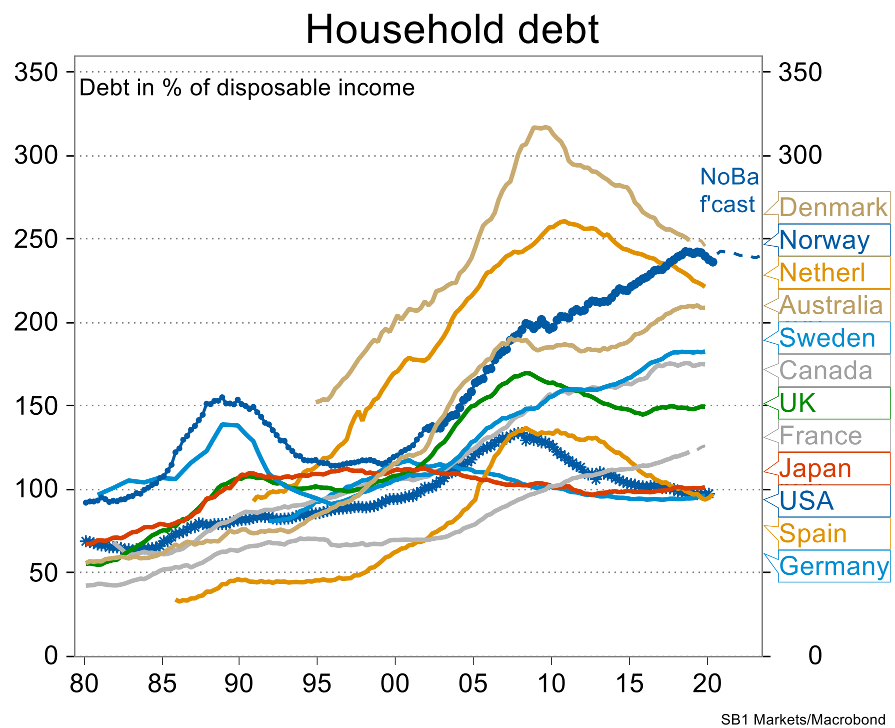


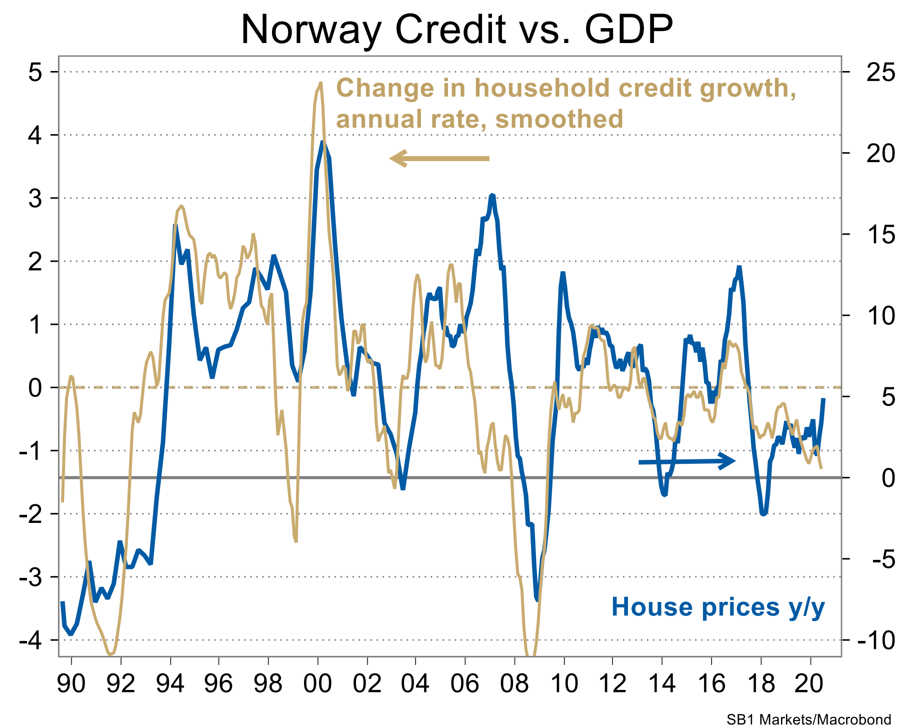


- Households' total borrowing rose by NOK 16 bn m/m in June, following the low 8 bn growth in May – the average at 12 bn, still a rather low level. However, given the brisk recovery at the housing market and banks now reporting higher demand for credit from households, we expect household credit growth to accelerate
- Corporate credit (in C2, domestic lending) fell by NOK 7 bn in June, following the 13 bn hike in May, the average just at 3 bn, somewhat below the average monthly growth recently, and equalling less than a 2% growth pace. We still expect companies to be cautious vs. both investments, and more debt the coming months/quarters – but banks did not report weaker demand in the lending survey

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

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

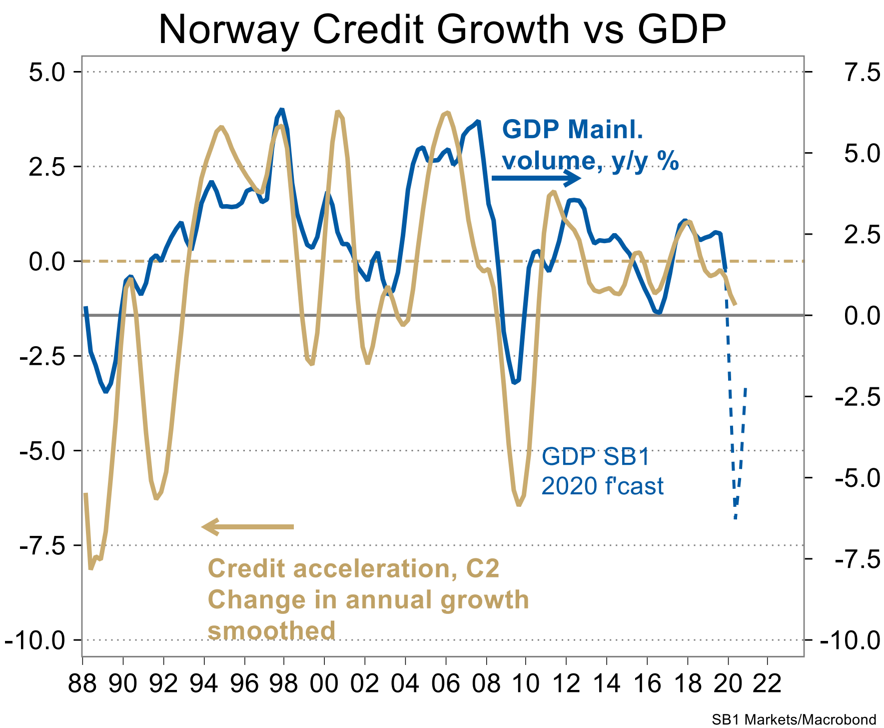




- Household debt has been growing slower than household disposable income, for the first time in 30 years (barring some minor turbulence in 2008/09)
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit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

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

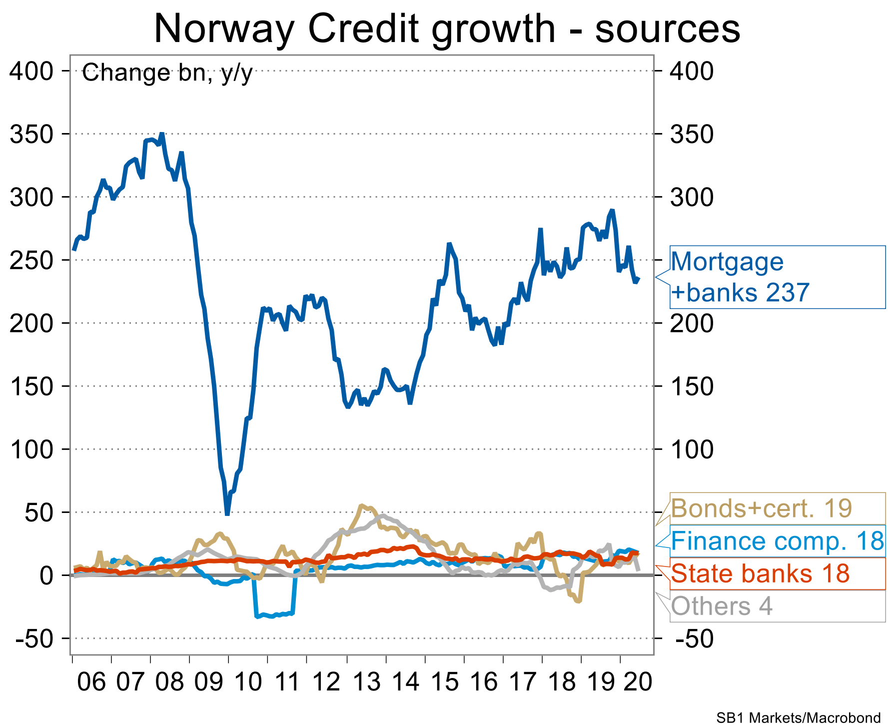
The current economic setback is atypical – and may lead to an atypical credit response

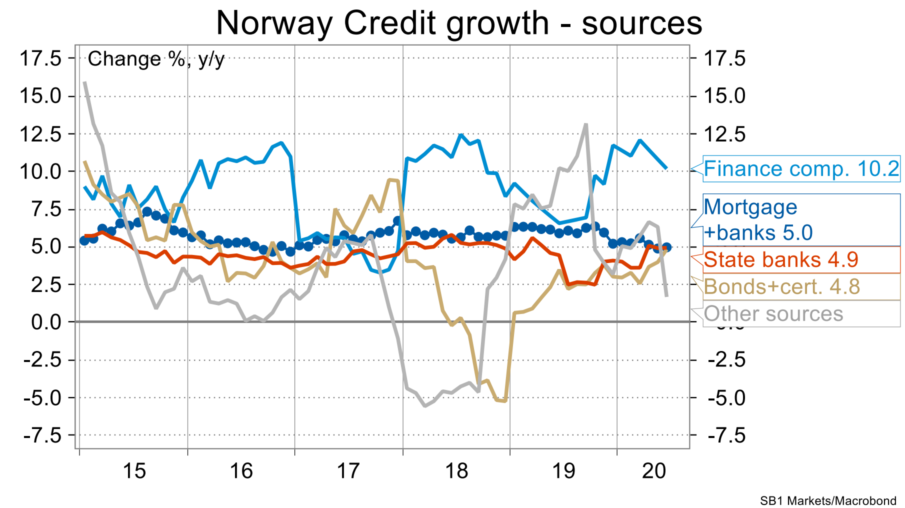


- GDP growth is quite coincident with *changes in credit growth (the 2nd derivative)*
- Face value, the expected rapid decline in GDP in Q2, should have led to lower credit growth, mostly due to lack of demand. So far, no drama at the credit market, and banks do not signal that any thunderstorm is building up

Bank lending is slowing

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

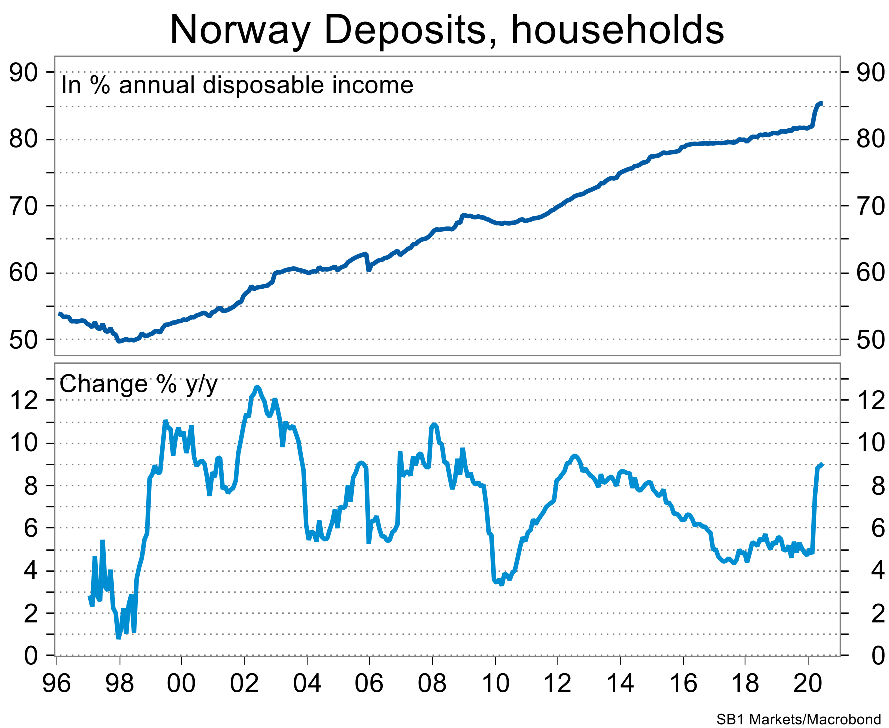




- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in 'sum of the parts' credit supply does not exactly equal changes in the total C2s

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

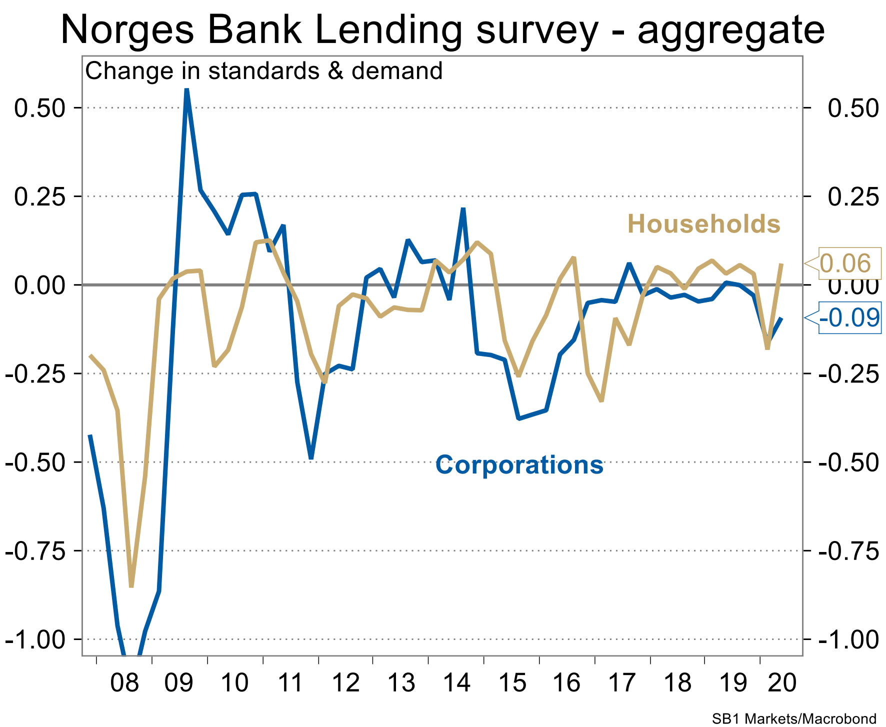
Deposits up 4% over recent 4 months, equalling 13% of household income in the period!

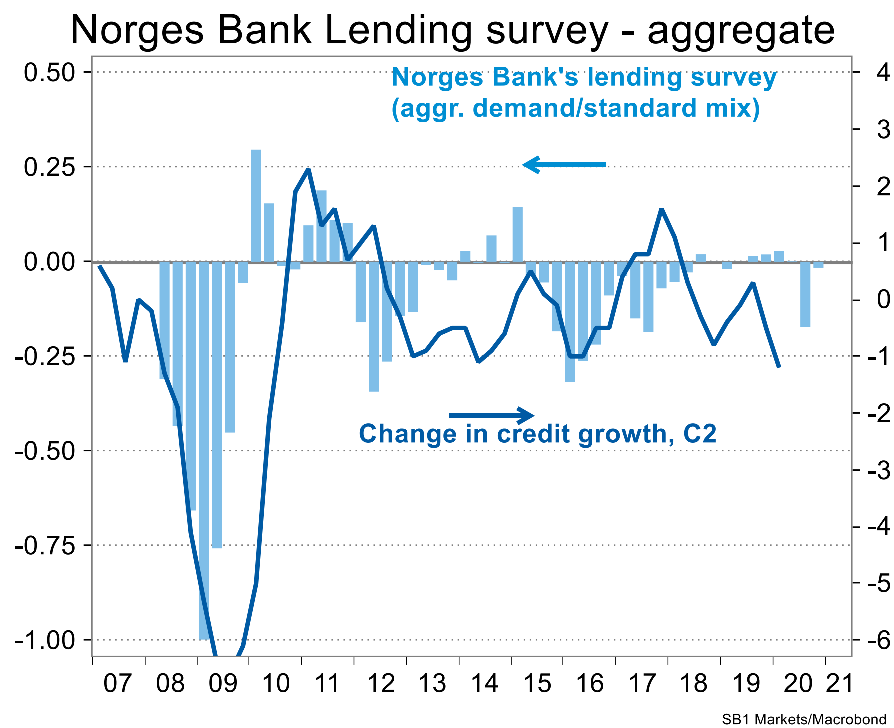


- Spending has been sharply cut, not on goods but services & spending abroad
- Households' income is hurt by lower unemployment benefits than wages income, and by lower income for many self employed (and over time lower dividends) but supported by lower mortgage rates
- From February to May, bank savings rose sharply, up NOK 70 bn, equalling 13% of households' disposable income during these months

Banks were wrong on Q2, no not expect major changes in Q3

NoBa's Q2/Q3 lending survey signals an uptick in lending to households



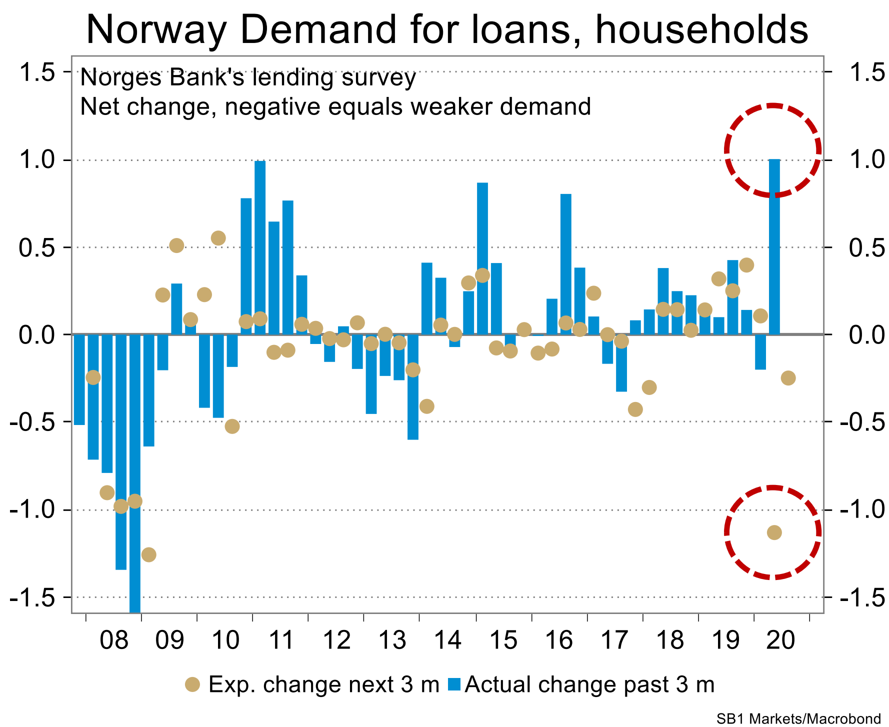


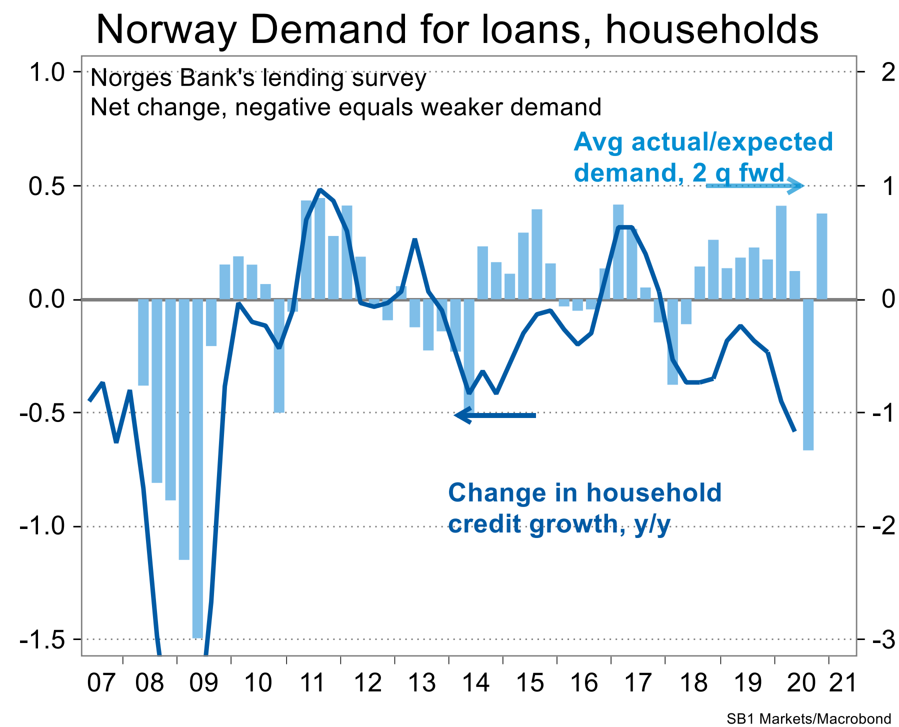
- In sum, banks are quite upbeat vs the household sector – and not that negative vs. the corporate sector

Data in this section are seasonally adjusted

Banks (almost) expected the sharpest contraction in household demand….

… but actual demand grew faster than ever!! We have never seen anything like this before, of course

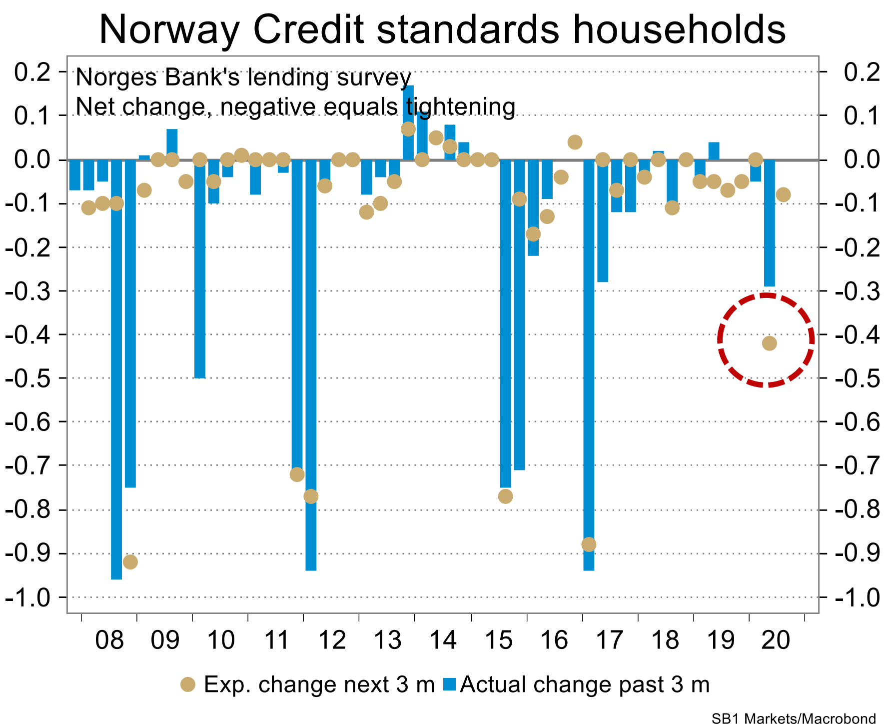


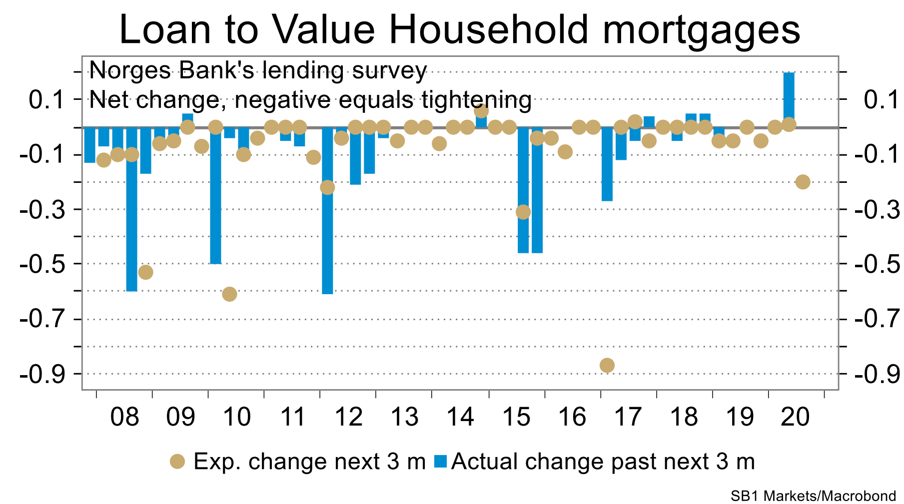


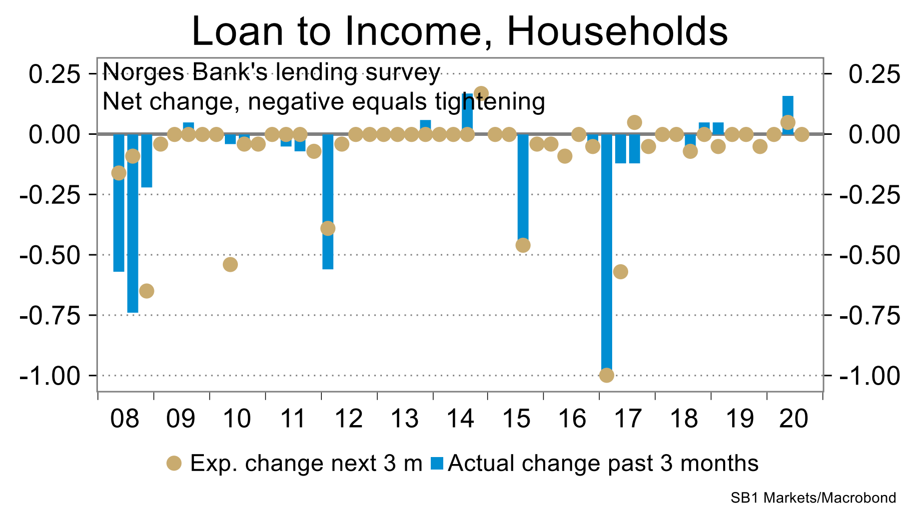
- There is not any tight correlation between banks' expectations for household demand for credit or their assessment of actual growth and the realised growth in households credit. Still, the lending survey probably tells the sentiment among bankers pretty well
- The change from early April to early July is remarkable, like data points from the housing market
- Banks' are now expecting a modest slowdown in household demand in Q3. *But who knows??*

Banks tightened lending standards in Q2, they say. LTV and LTI was loosened…

Banks plan to tighten standards somewhat in Q3. They say.

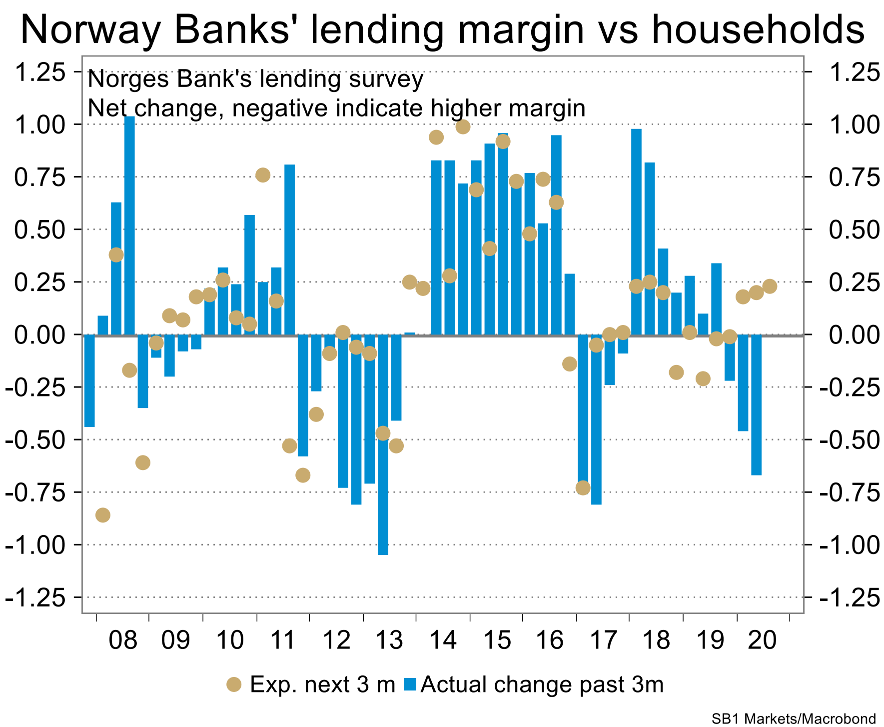


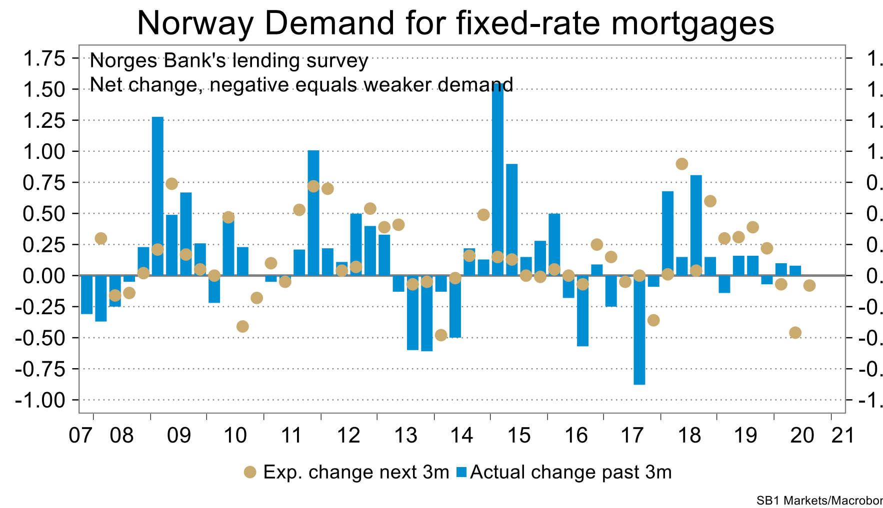


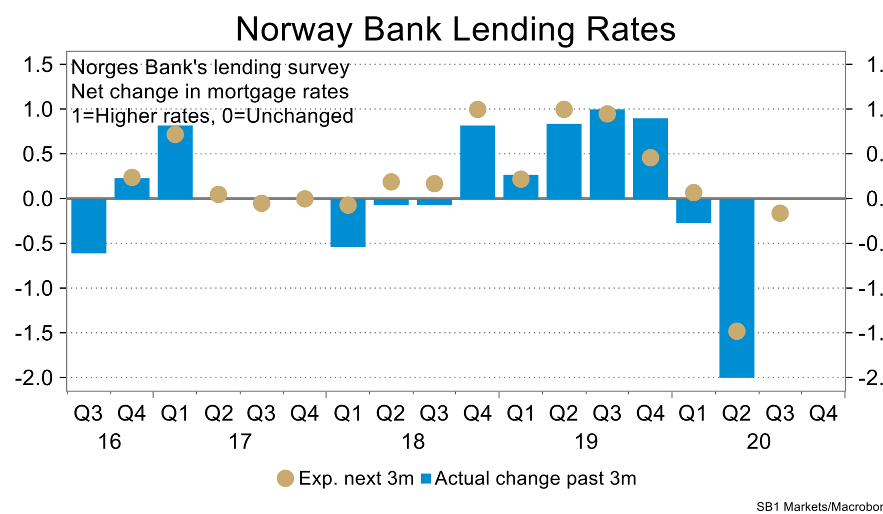


Banks did not expect to widen their lending margins, but they did

… even if they of course cut their rates in Q2, following NoBa's 150 bps cut

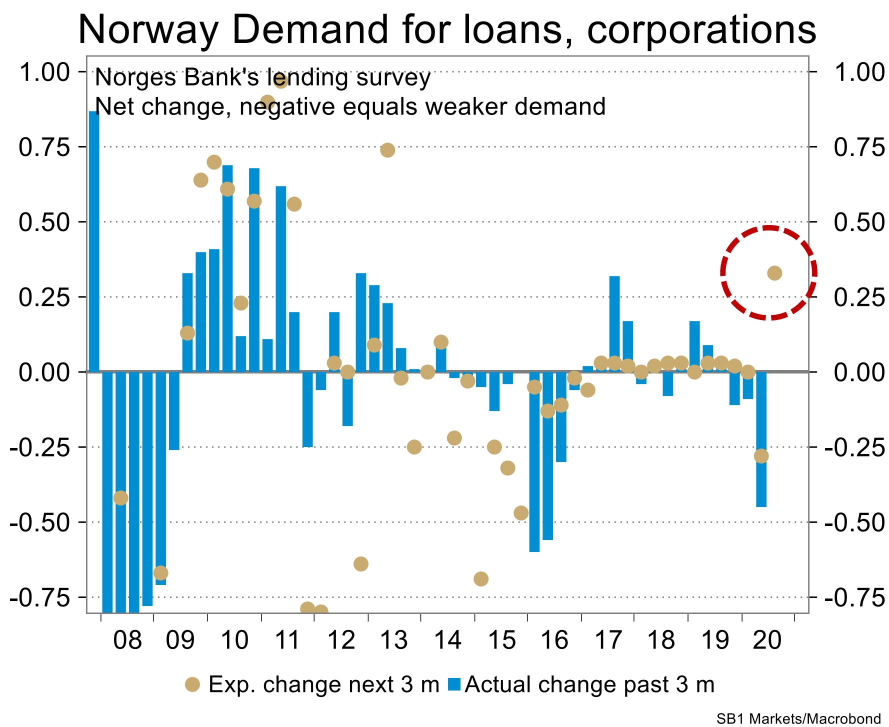


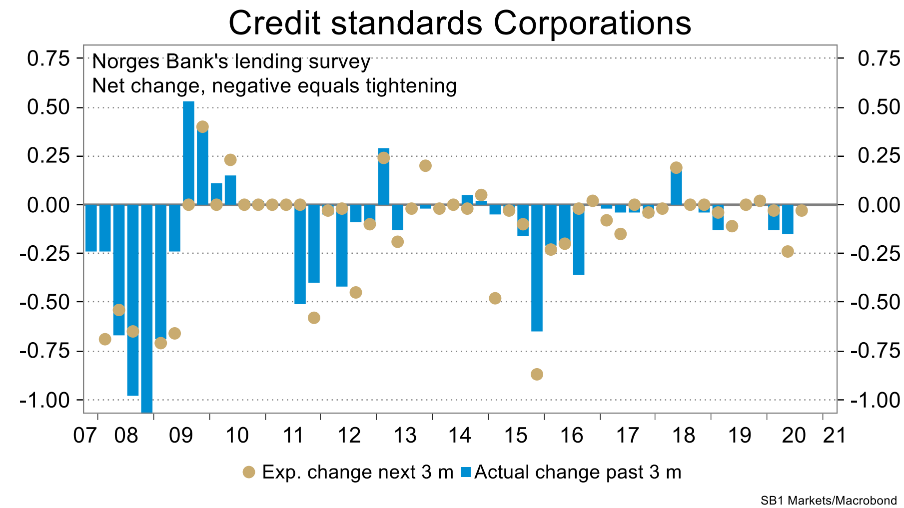


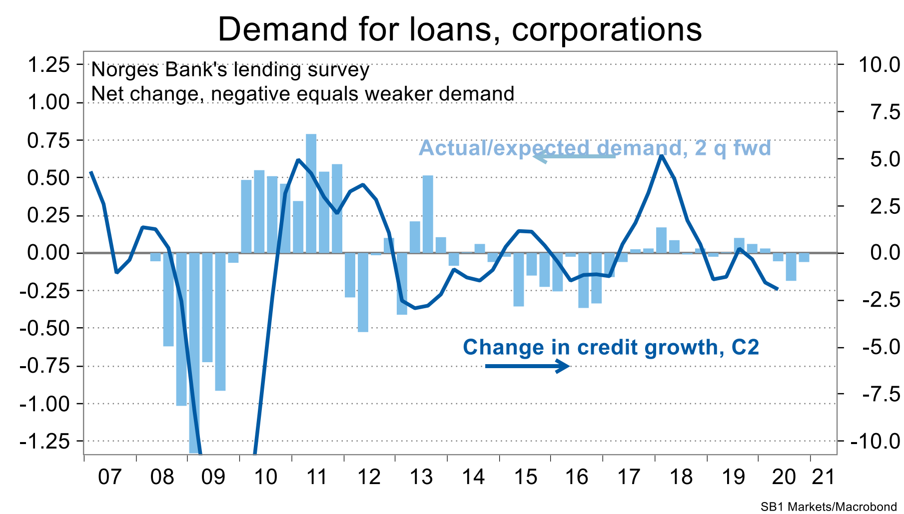


The corporate sector lowered its demand but banks expect then to come back

Demand slowed sharply in Q2 but is expected to recover in Q3. Just small changes in lending stds.

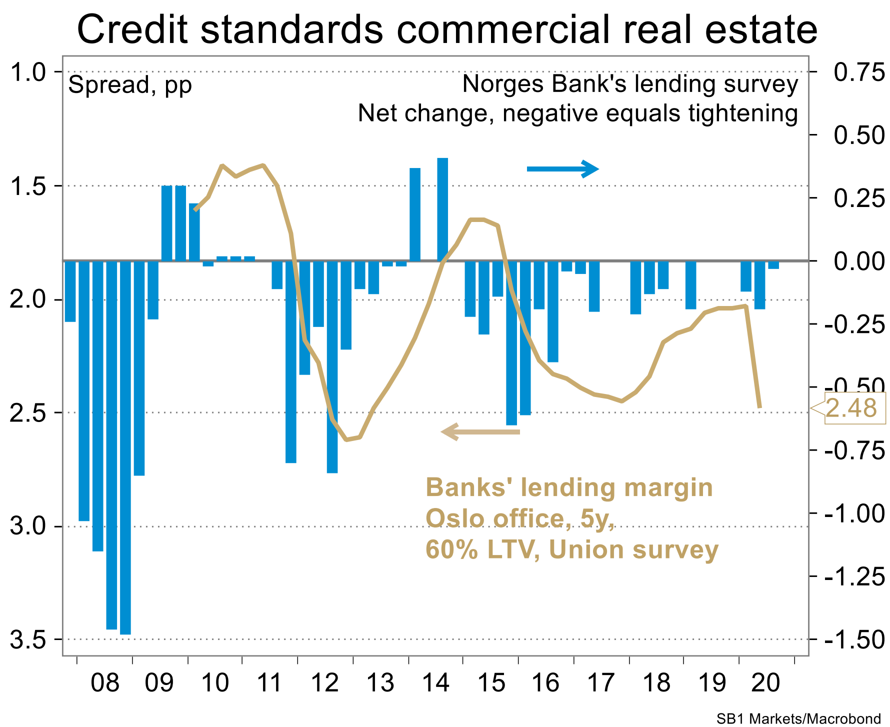


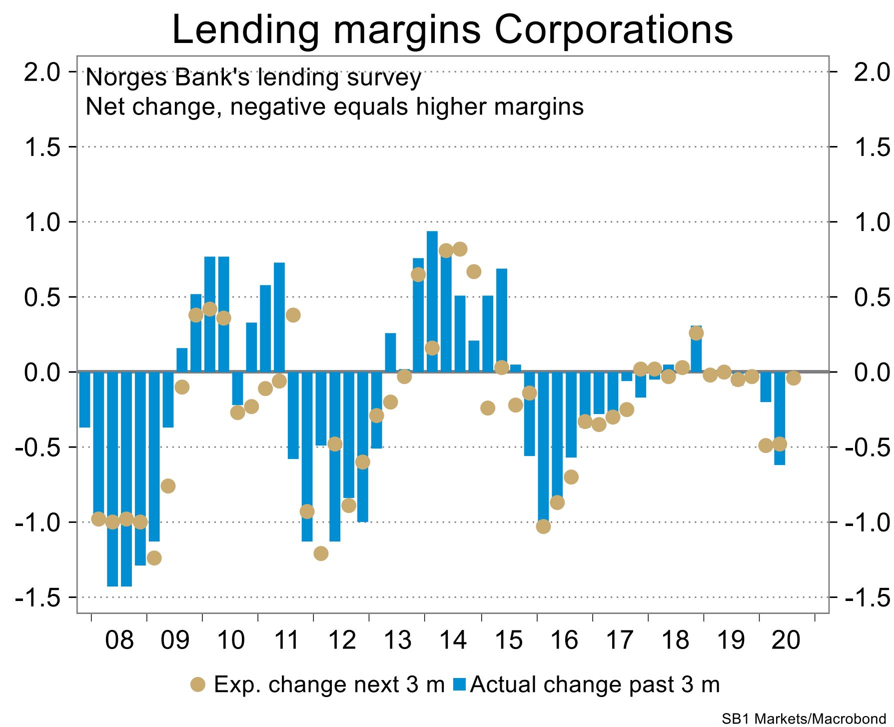




Real estate loan standards are tightened somewhat, margin rose sharply in Q2

However, banks signal no further margin widening in Q3

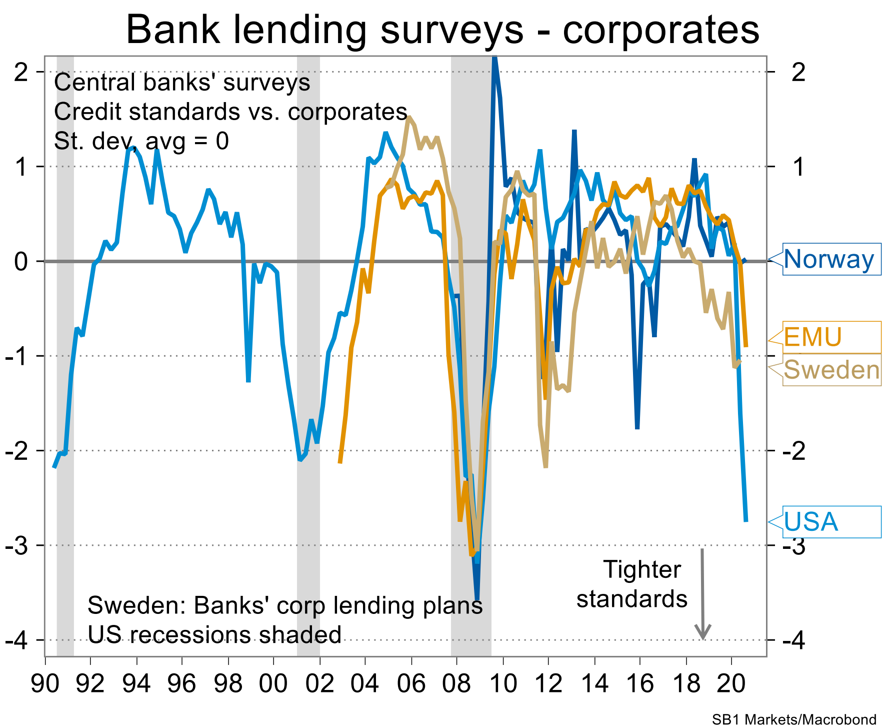


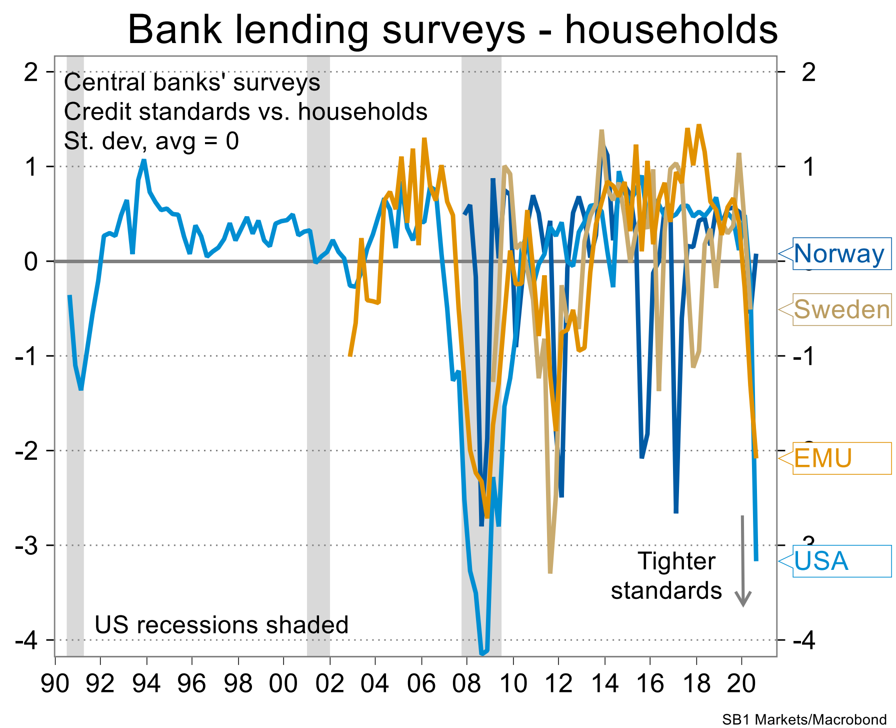


- We expected banks to signal an expected spread narrowing following the an almost 50 bps increase to 2.48% in Q2

Global view: What will banks do now? Tighten, more or less. Norw. banks? Not

Norwegian banks are outliers, at least measured vs the last available bank surveys

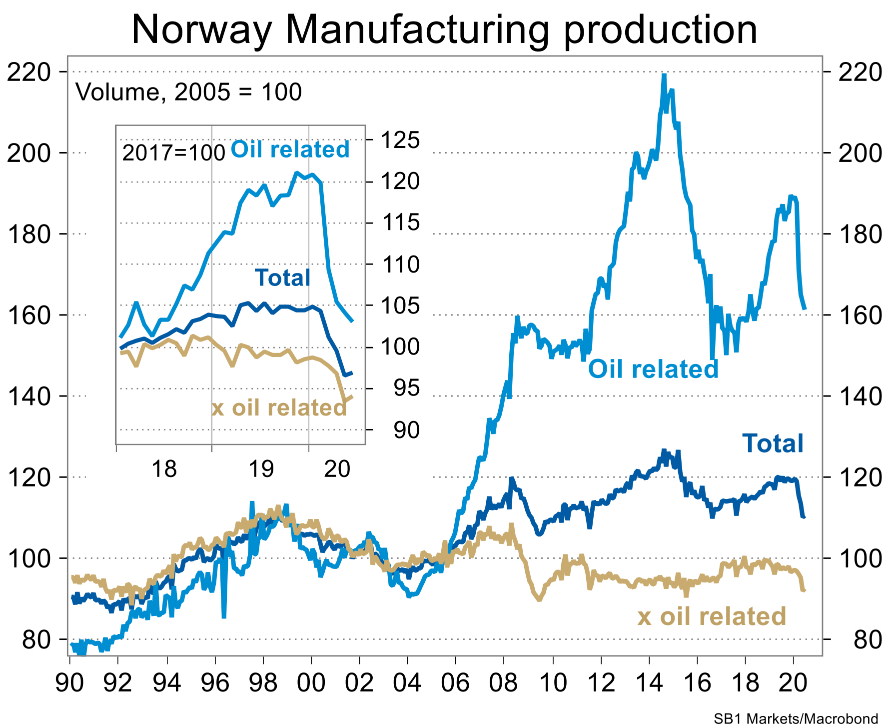


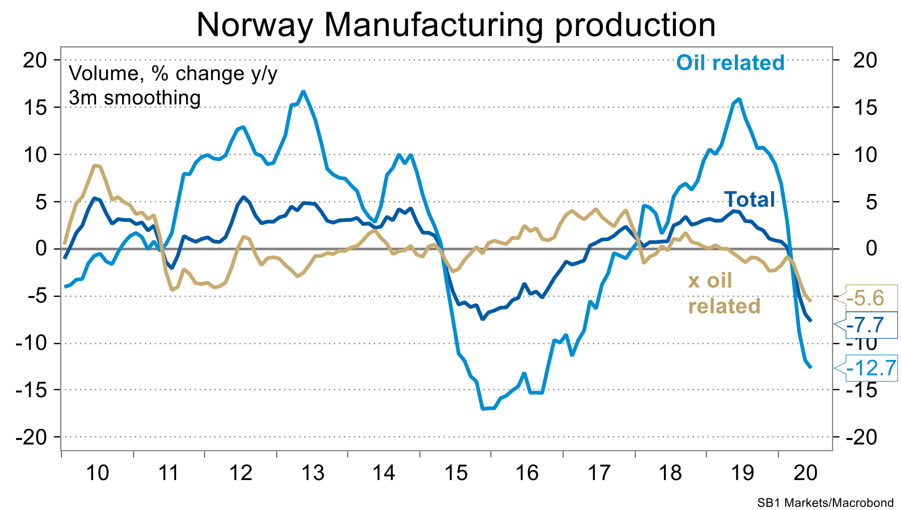


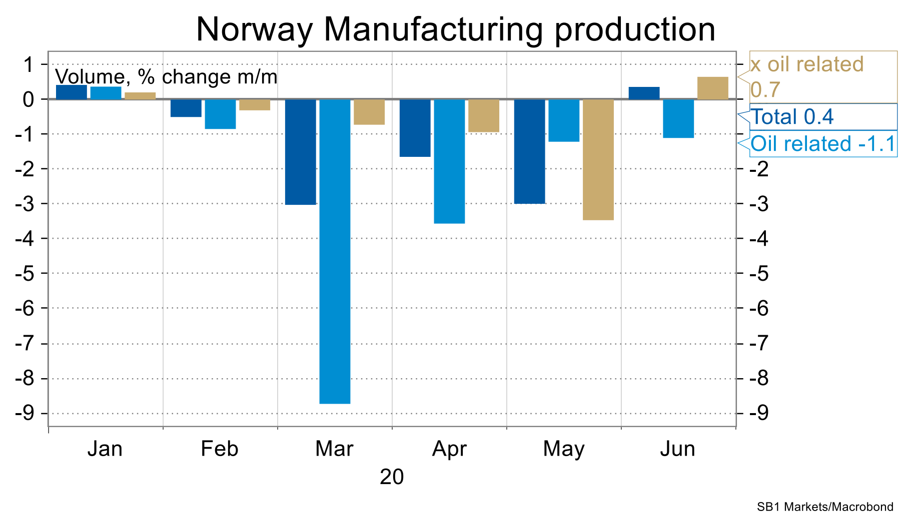
- US banks are signalling a sharp tightening, both vs. households and corporates, not much less than during the financial crisis!
- European banks are reporting a modest tightening, especially vs. the corporate sector. More aggressive tightening vs. households (almost like during the FC)
- Swedish banks are reporting modest tightening, especially vs households
- Norwegian banks just delivers a spot on an average credit standard message, both vs. businesses and households

A broad manufacturing downturn – not any better in June. No 'V' here

Production up just 0.4% following the 3% May drop (we exp. +1.5%). Prod down by 7% since Feb



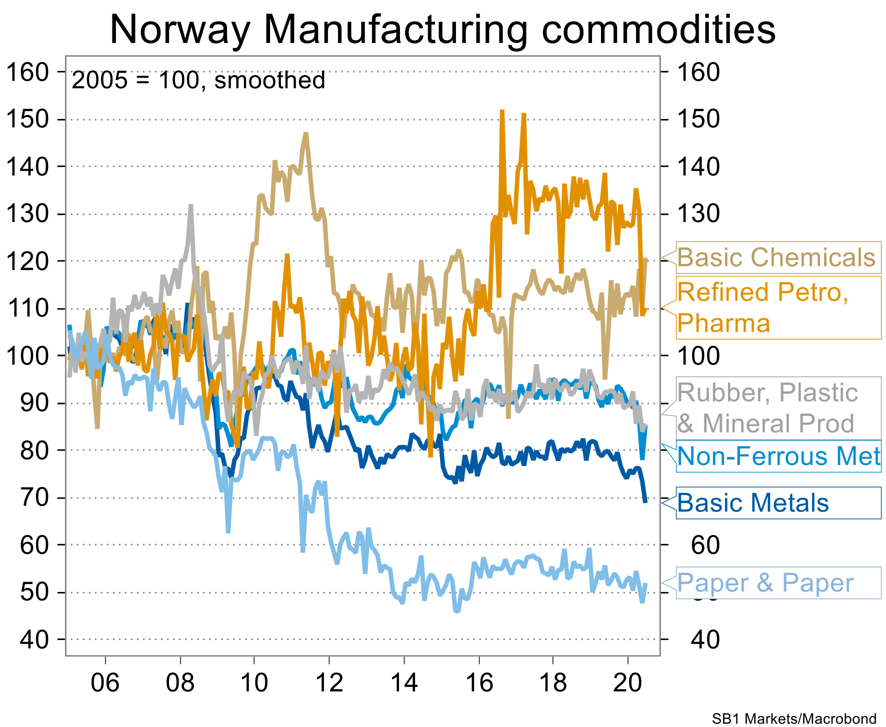


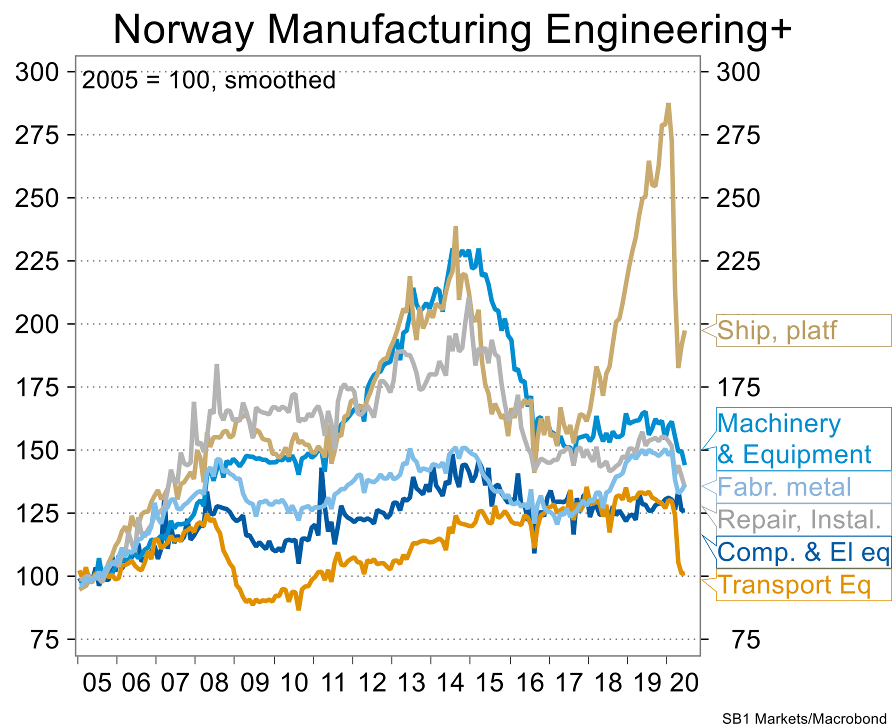


- Oil related manufacturing production has fallen by 15% since early 2020. Production in other sectors has fallen by almost 5%
  - » A substantial part of the decline in oil related production is probably behind us already, given reasonable forecasts for oil investments
  - » In other sectors, the downside 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, including the weak July PMI, signal a further decline in production. 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 still low

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

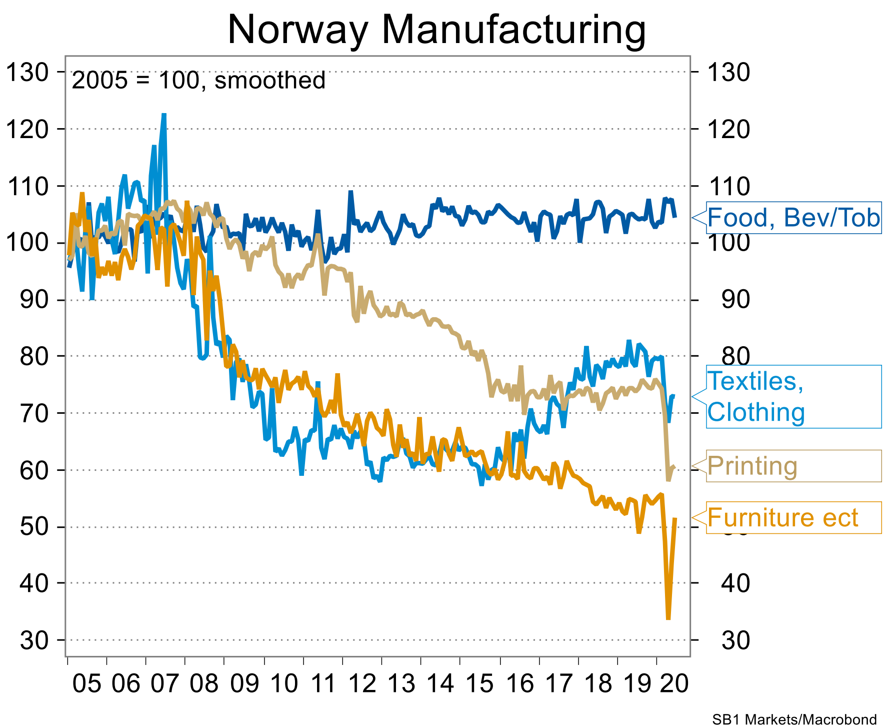




- Ships/platforms: Still above the 2016/17 'oil crisis' downturn following an extreme downturn – which CANNOT be explained by the corona crisis as production is based on long term orders/contracts. The decline is rather due to due to 'holes' in order books as the Johan Sverdrup field is completed (and it was signaled by both oil companies and manufacturers before the corona crisis)
- 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 reported decent production data in June

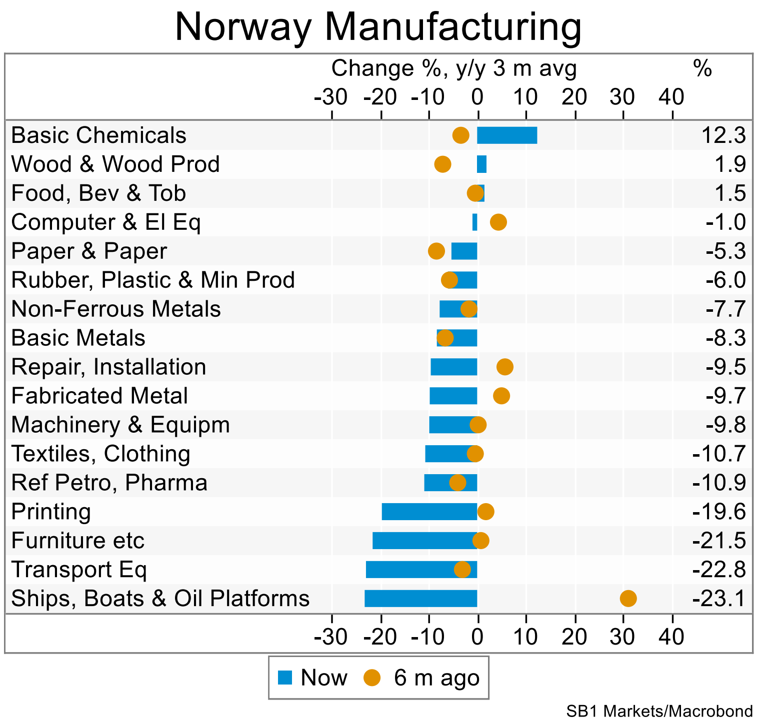
However, we still need food (and more than usual, as we buy/eat less abroad)

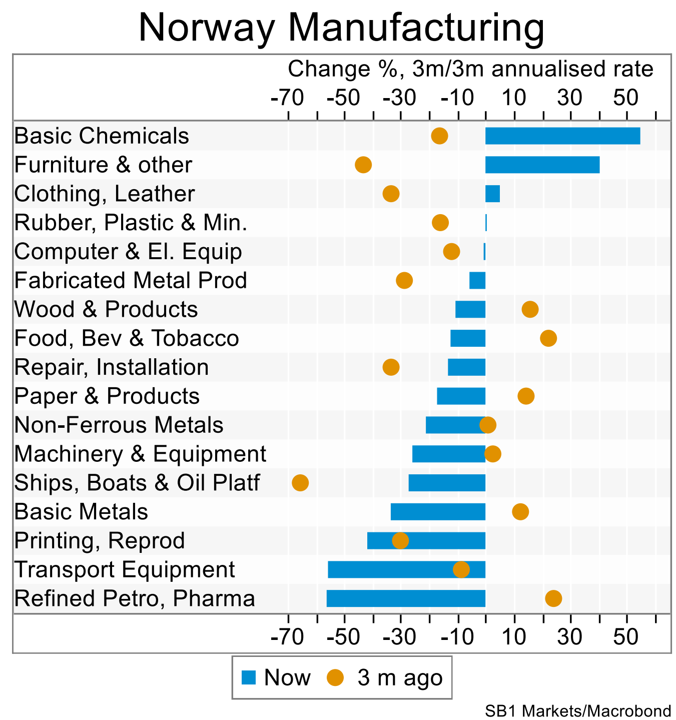
Other domestically oriented sectors down during the corona crisis…



- … but all bottomed in April, and production of furniture is almost back to a normal level

An unusual broad downturn, just food, wood & basic chemicals OK





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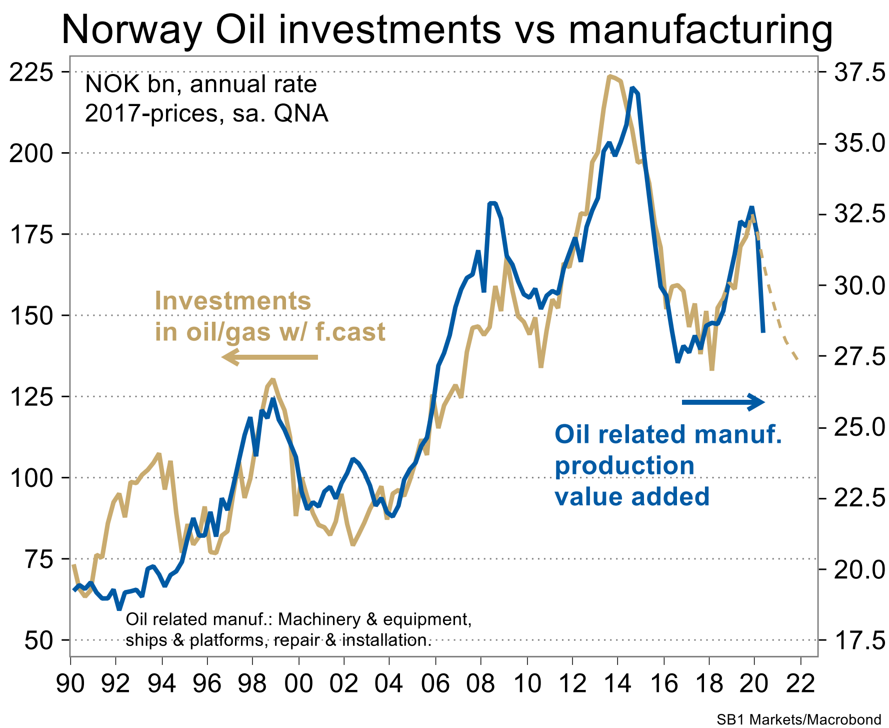
Oil related production has soon fallen enough?

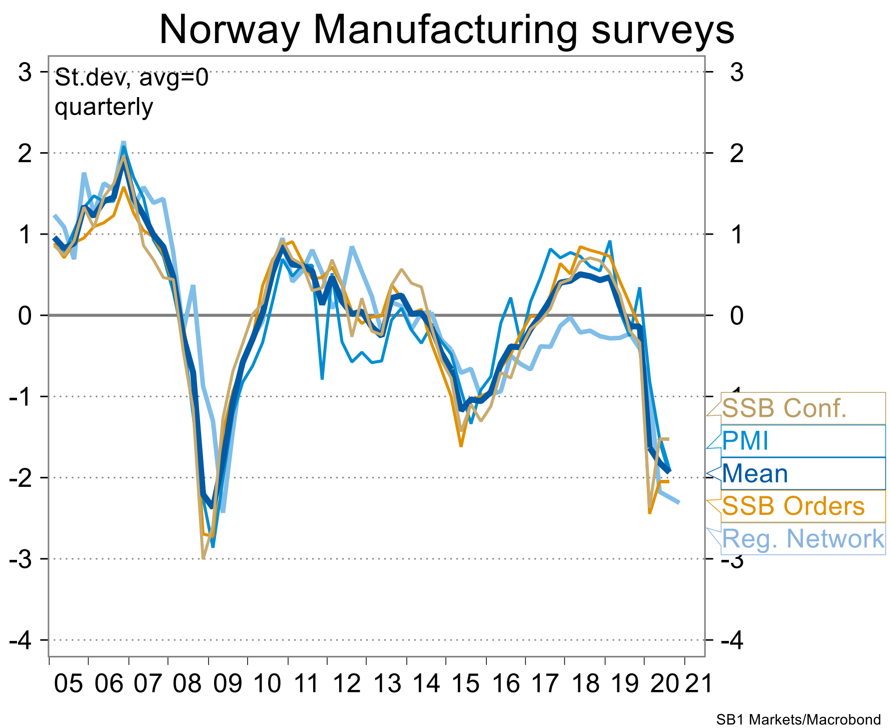
Oil investments are heading down but oil related production has fallen quite a lot already

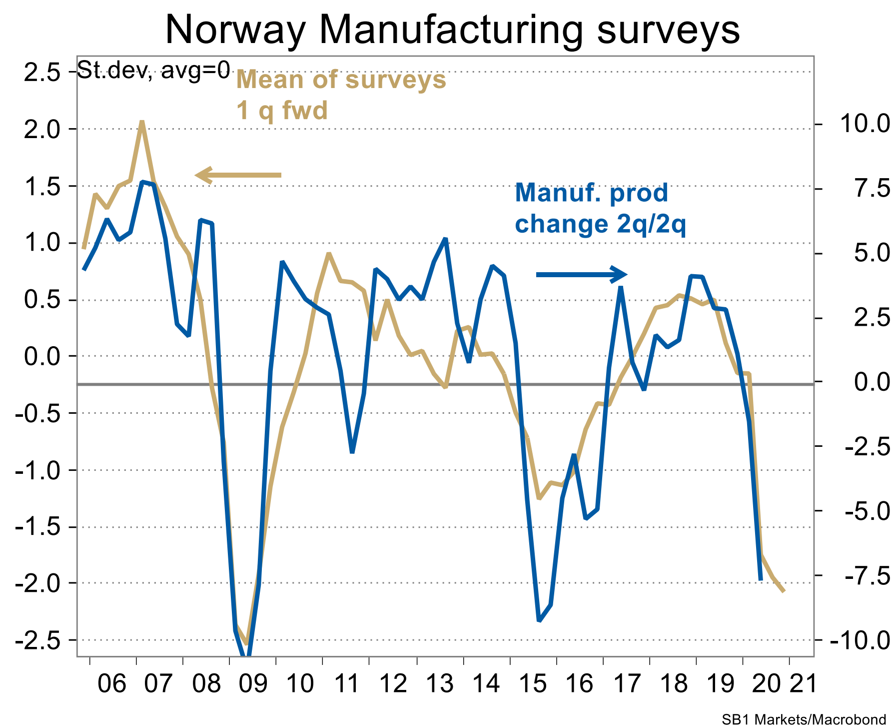


- Both oil sector investments and oil related manufacturing production peaked in Q4 last year, as we forecasted long time ago
- Oil companies have for a long period signalled a substantial decline in investments on the Norwegian shelf through 2020 and 2021 – and in the Q2 investment survey plans were 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

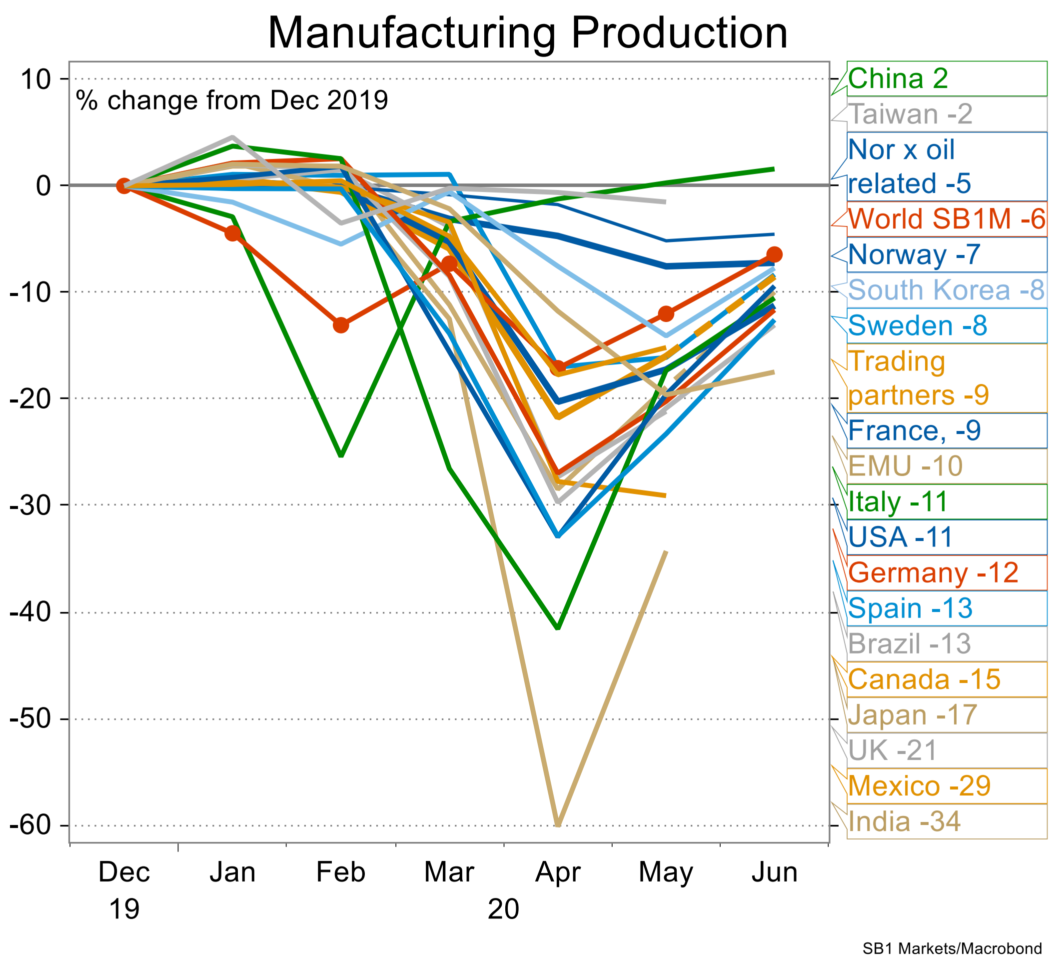




- In sum, the surveys suggest that production is set to stagnate the coming months/quarters
- SSB's industrial confidence survey points to a modest decline in production. The Q4 regional network was more upbeat, signalling just a slowdown (Q1 survey out this week)

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

However, except China & Taiwan, no other country reported at smaller decline in prod in Mar/Apr



- Norway has reported the smallest accumulated loss of production during the corona crisis (barring Taiwan that has not yet reported June data)

SpareBank 1 MARKETS

Highlights

The world around us

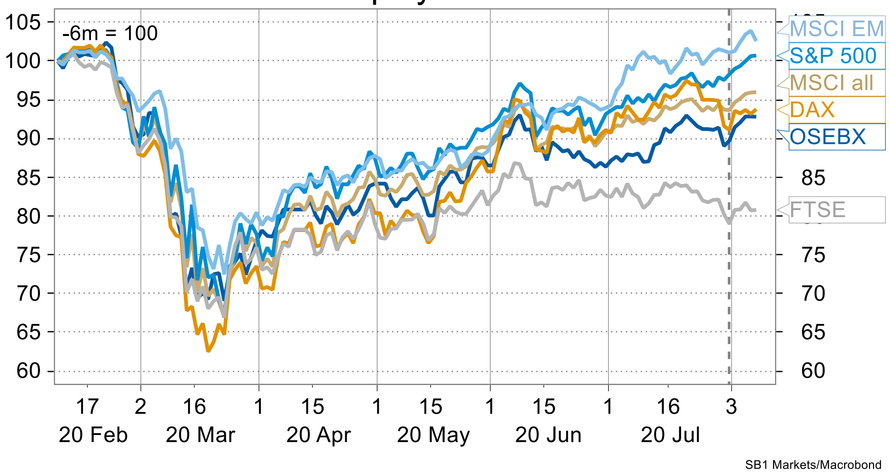
The Norwegian economy

Market charts & comments

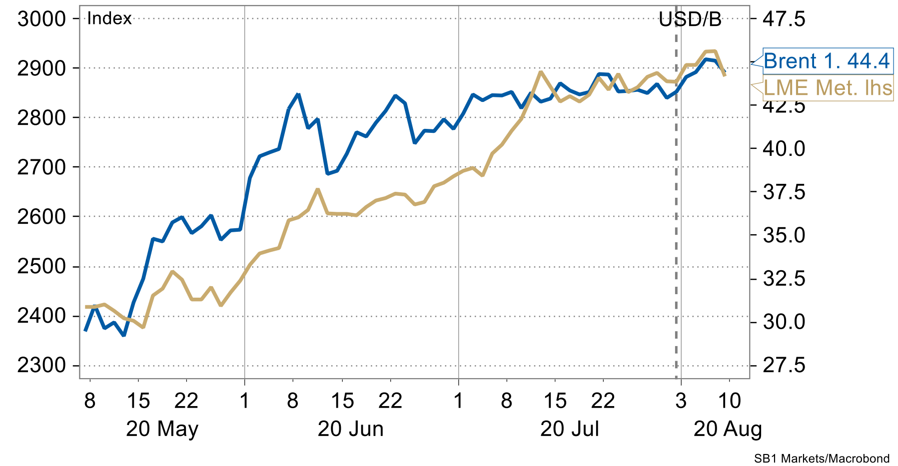
Equities sharply up, oil & metals up, bonds (finally) marginally up, f/x stable

USD is depreciating further, but no drama yet. NOK (& SEK, EUR) has appreciated in July

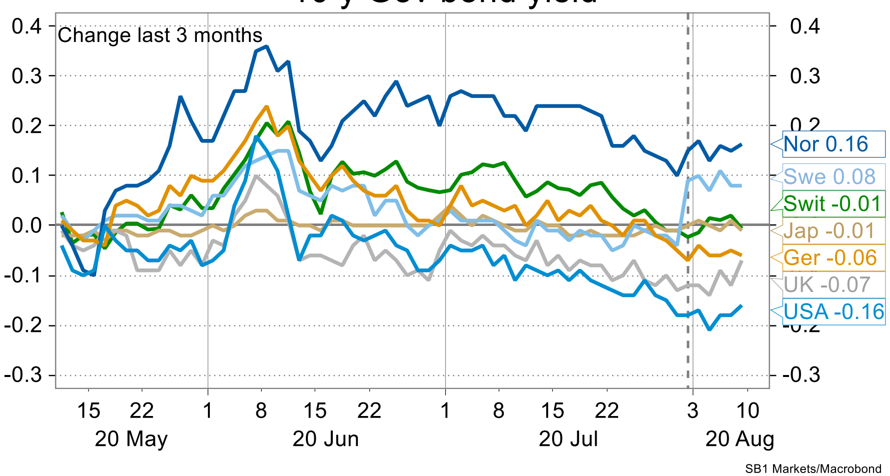
Equity Indices



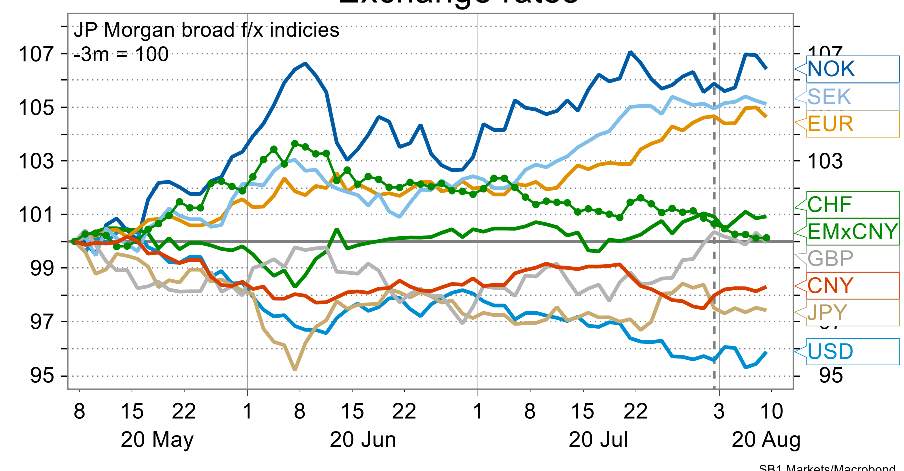
Oil vs. metals



10 y Gov bond yield



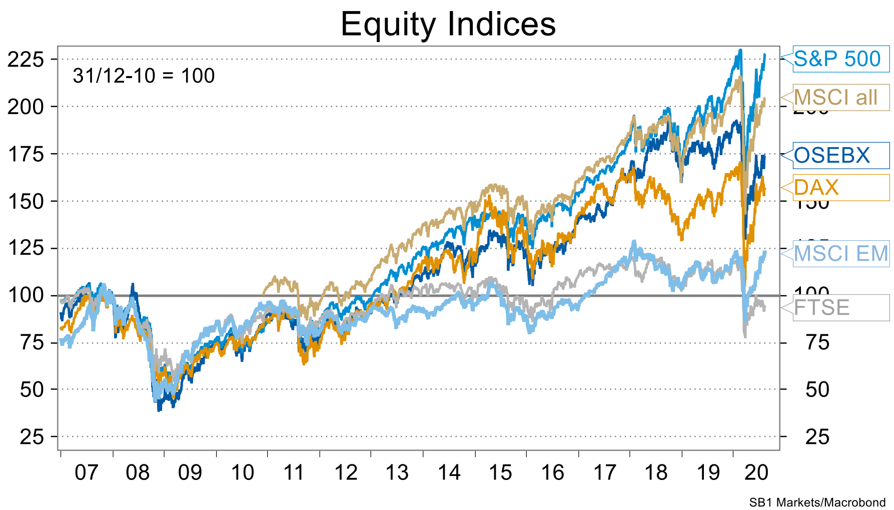
Exchange rates

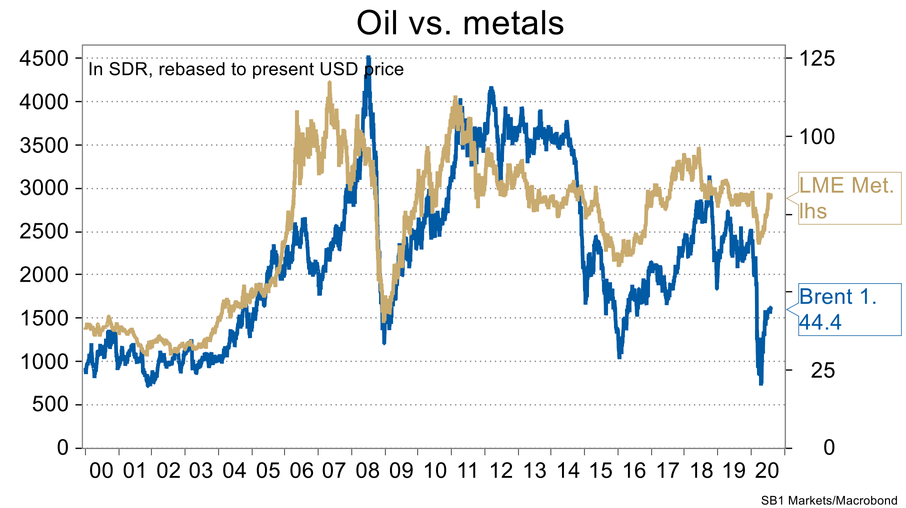


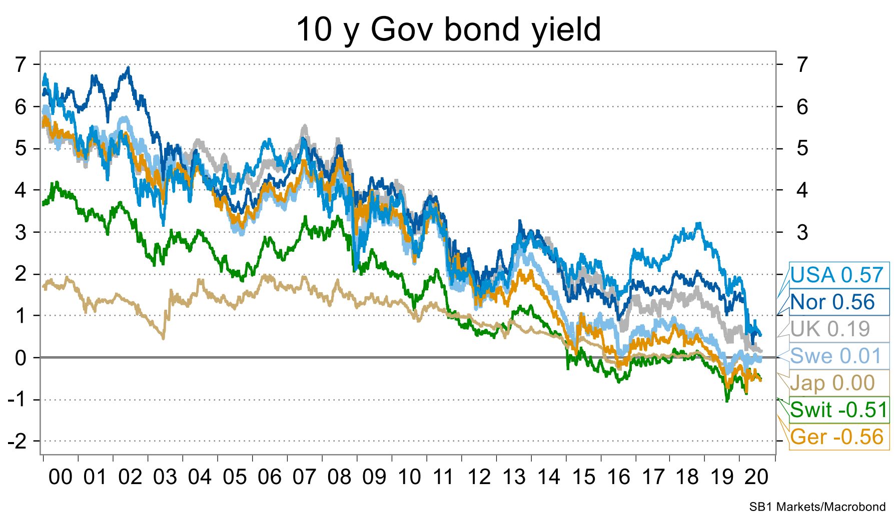
The USD has been the laggard since mid May. NOK, SEK has recovered – and joined by the EUR last week.

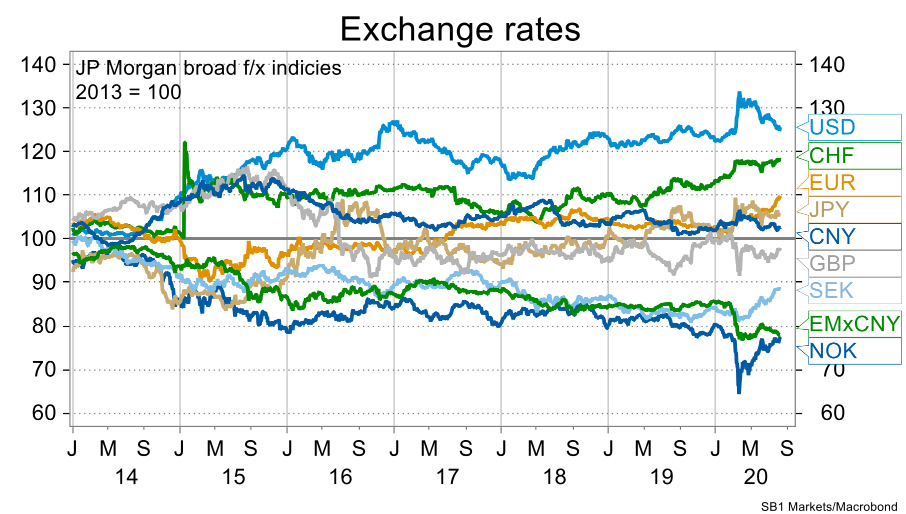
In the long run: Stock markets are looking like a ‘V’

… because investors are looking for a ‘V’-shaped corona recovery? Oil, metals up too. Bond yields not





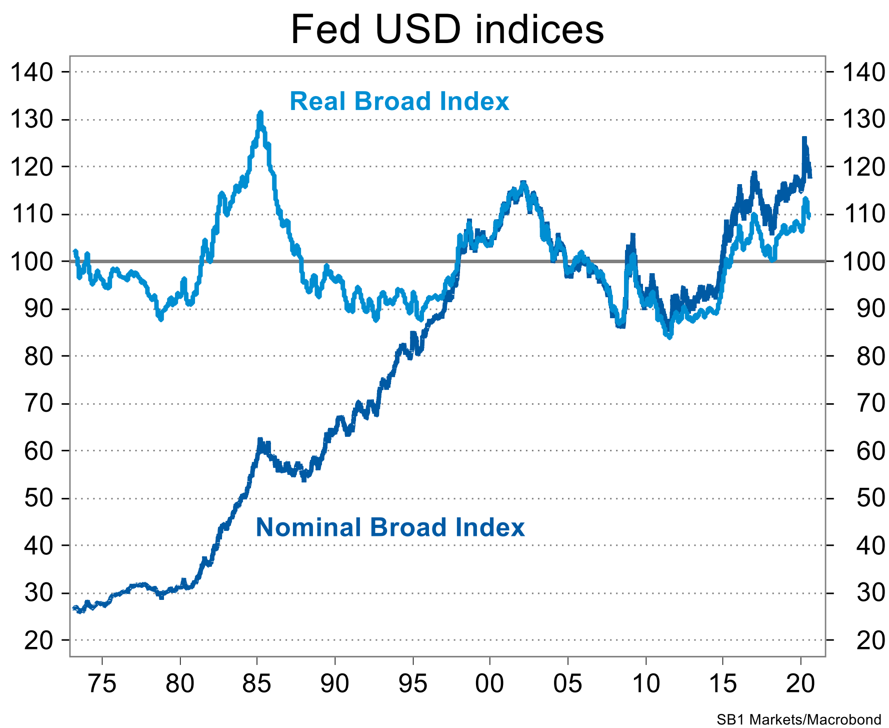


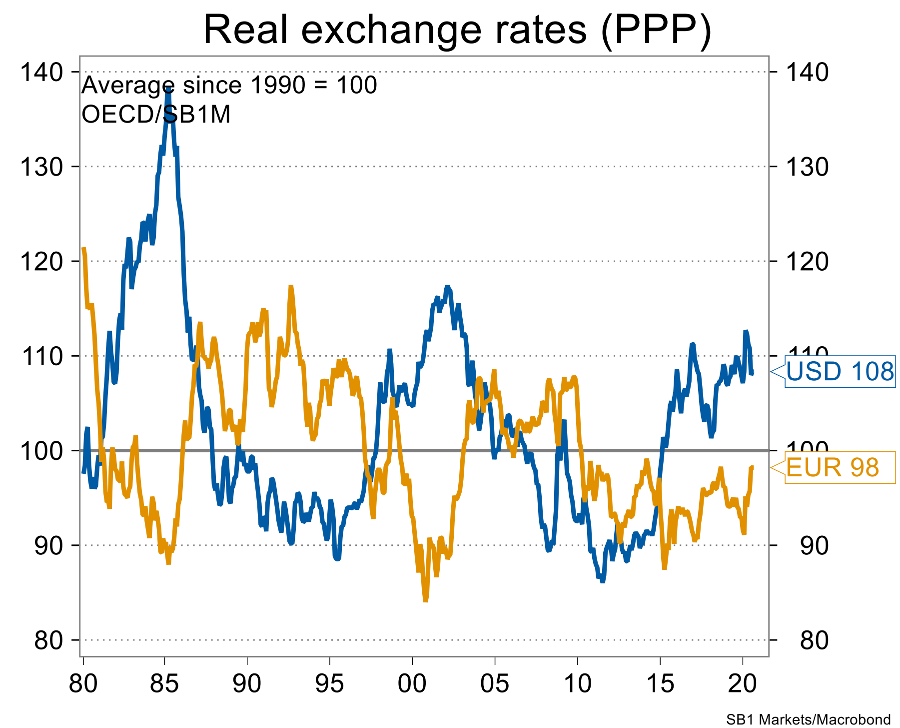


The USD is down but still stronger than in February – and over the previous years (measured by broad f/x indices

Sure, the USD is down – and it may depreciate much more. But so far, no drama!

The USD is down some few per cent – but is still far above average levels in PPP terms

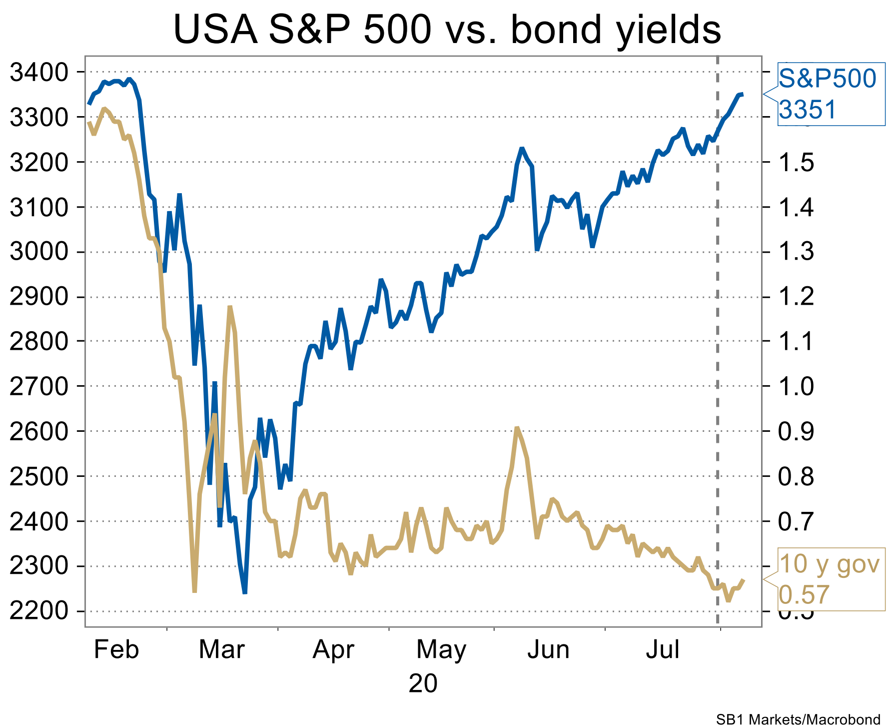


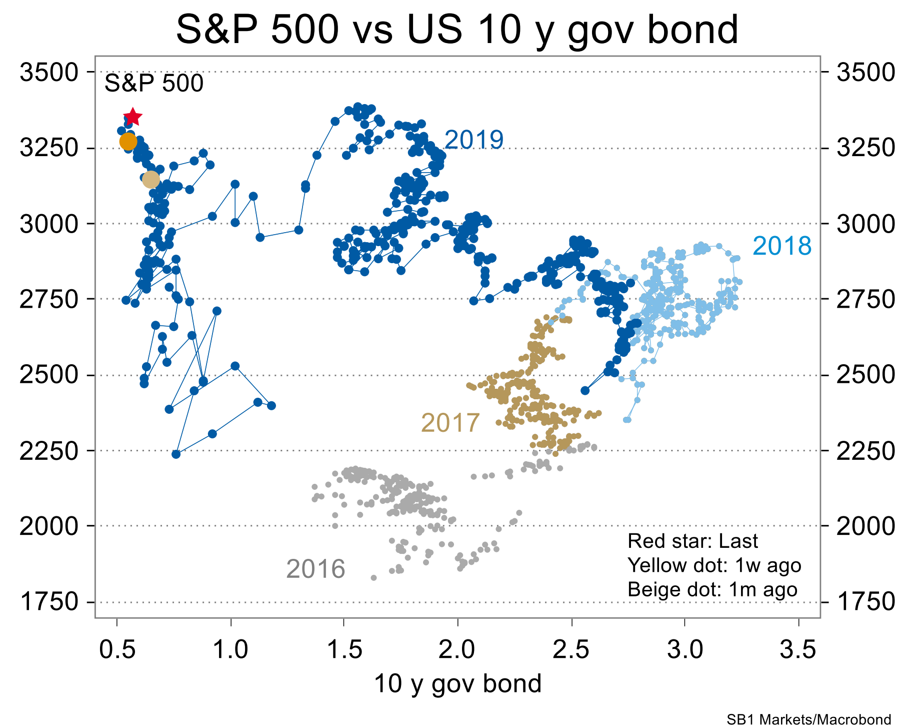


- Corona, slowing growth, social unrest, political turbulence, budget deficits (that will become even larger) & money printing, trade deficits, the US China conflict. You name it, there are always reasons for the USD to decline
- Still, measured by broad indices, the USD remains stronger than in February

US equities just marginally below the Feb ATH (and above, dividend adjusted)

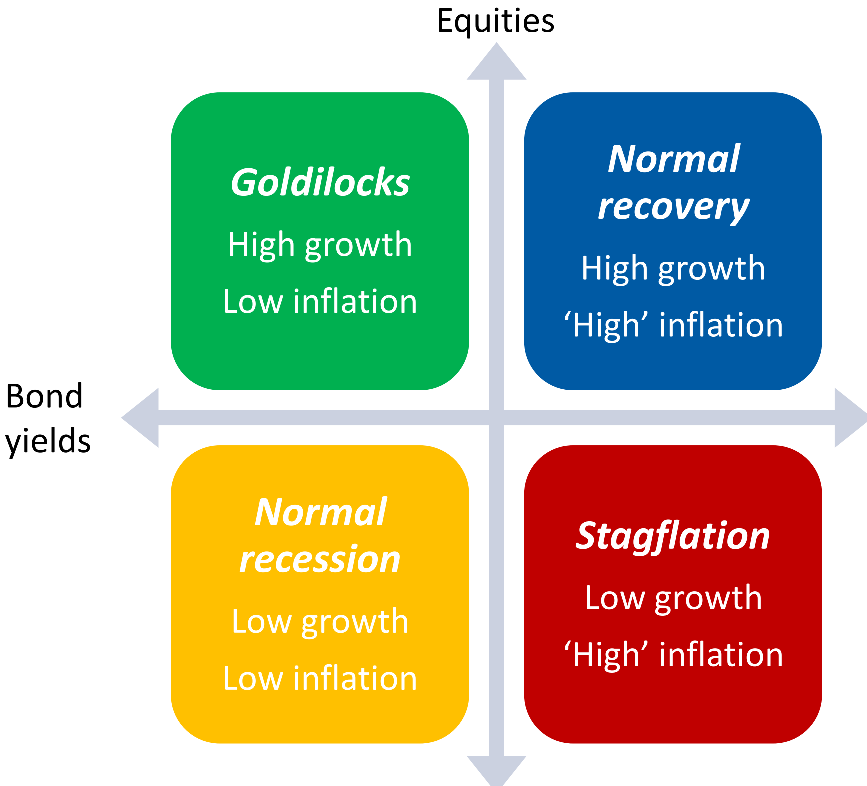
The 10 y gov bond yield close to ATL at 0.57%. Markets expect still very aggressive Fed policy

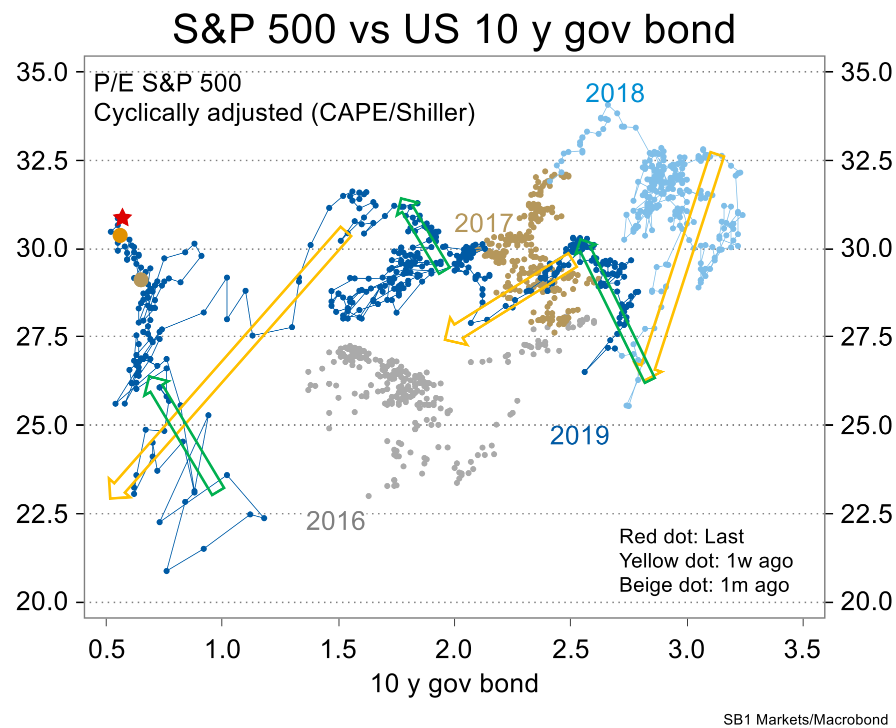




In July : Corona or not, towards the goldilocks scenario

… data have been on the strong side, but (rea) bond yields have been drifting down



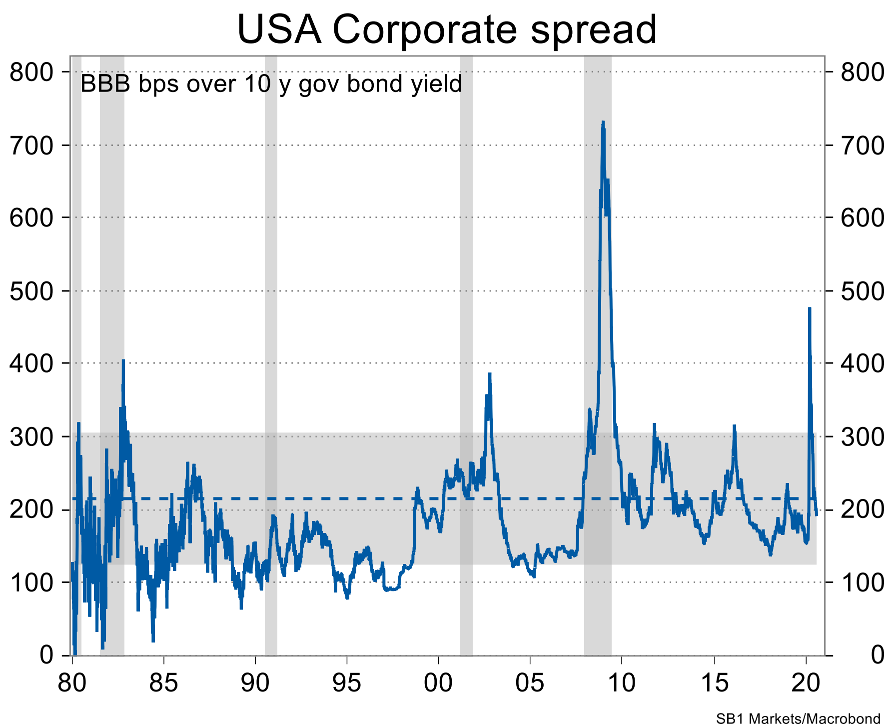


- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic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

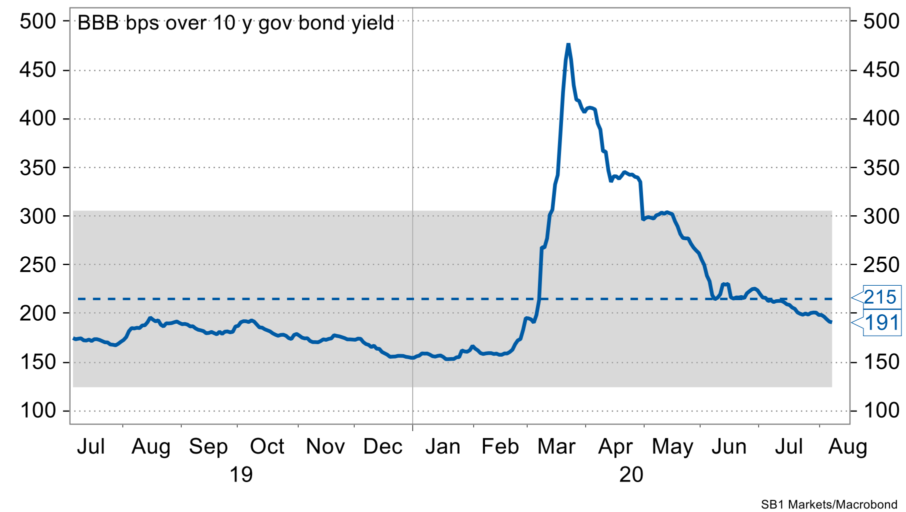
SpareBank 1 MARKETS

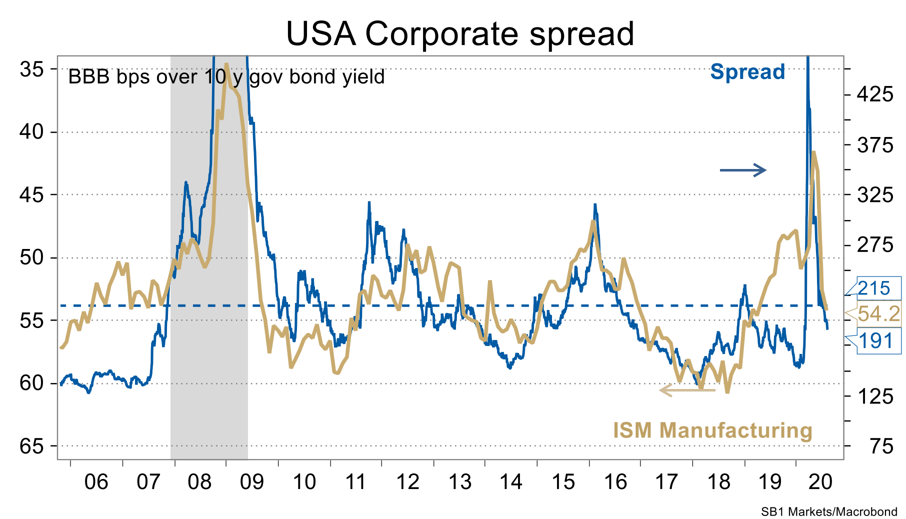
Corporate spreads are still drifting down – and are now below average

… supported by hopes of a ‘V’ shaped recovery



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





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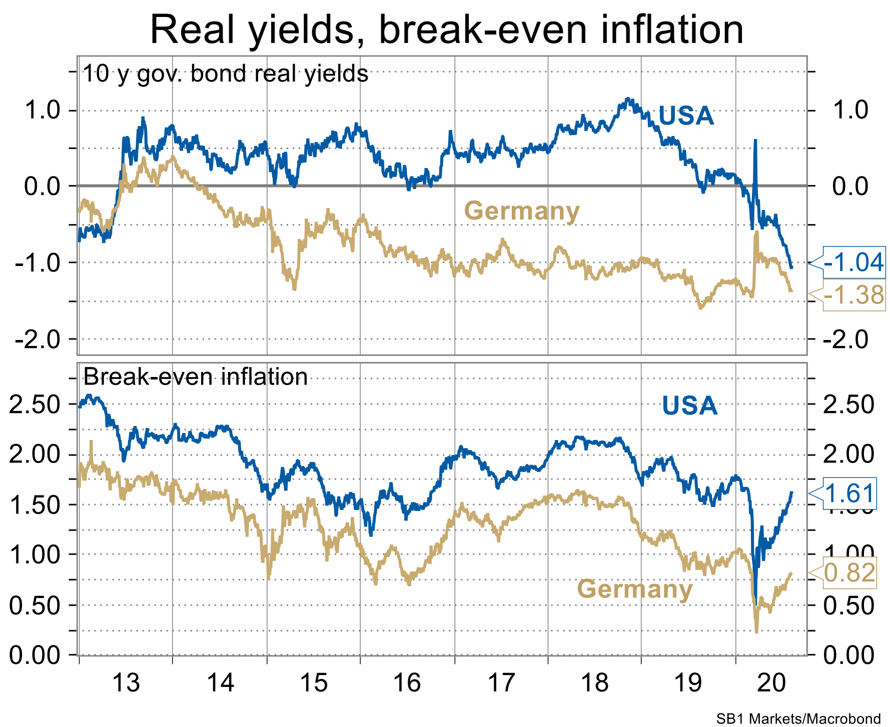
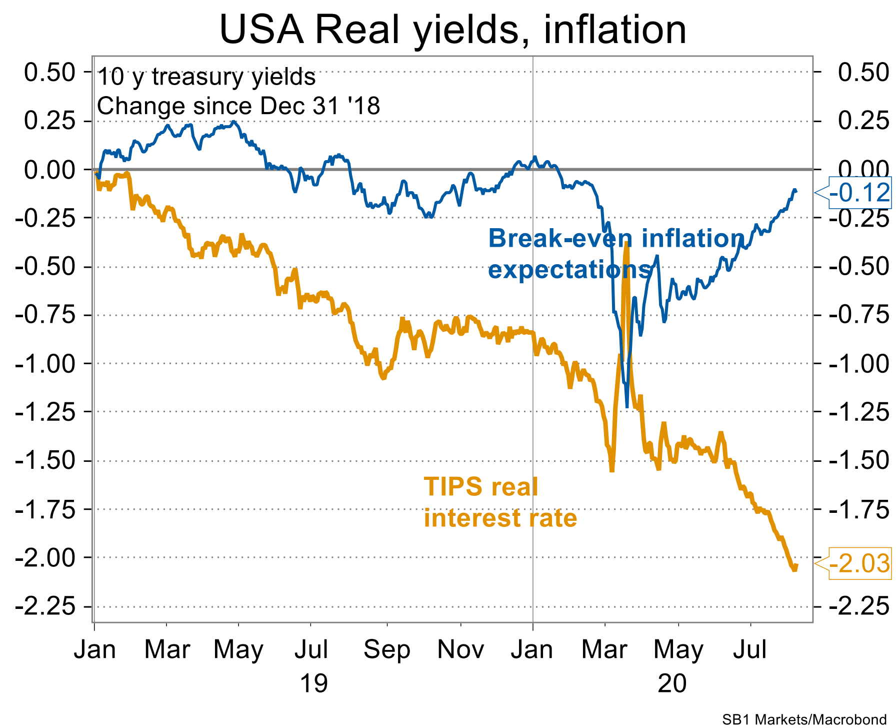
Inflation expectations are drifting up but still not high. Record low US real rates

Real rates are drifting SHARPLY lower –markets are discounting very expansionary monetary policy





- Real interest rates are falling further – more in the US than in Germany. US 10 y real rate at -1.04, ATL at -1.06 earlier last week

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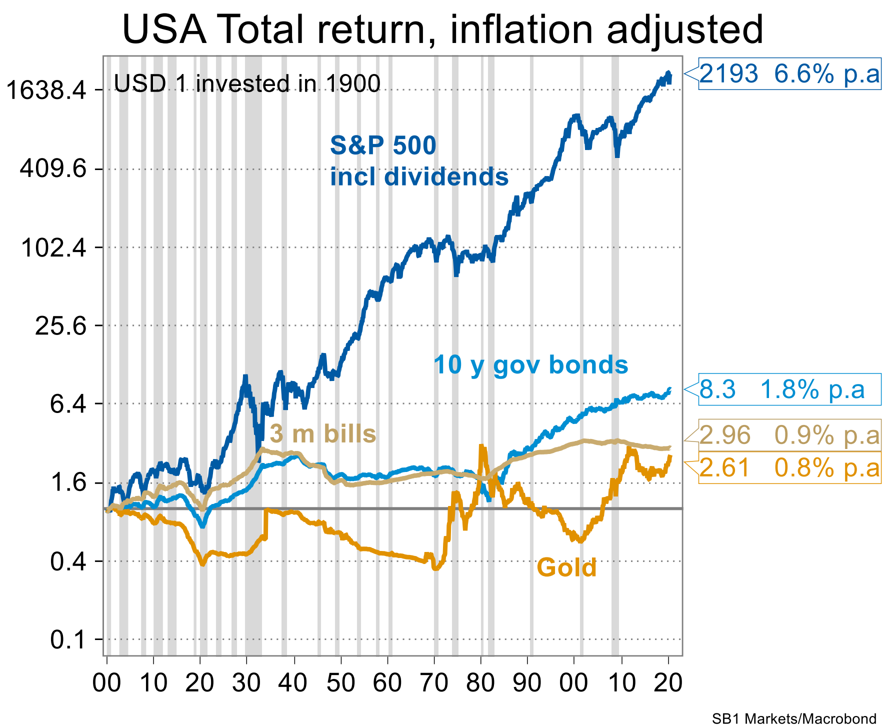
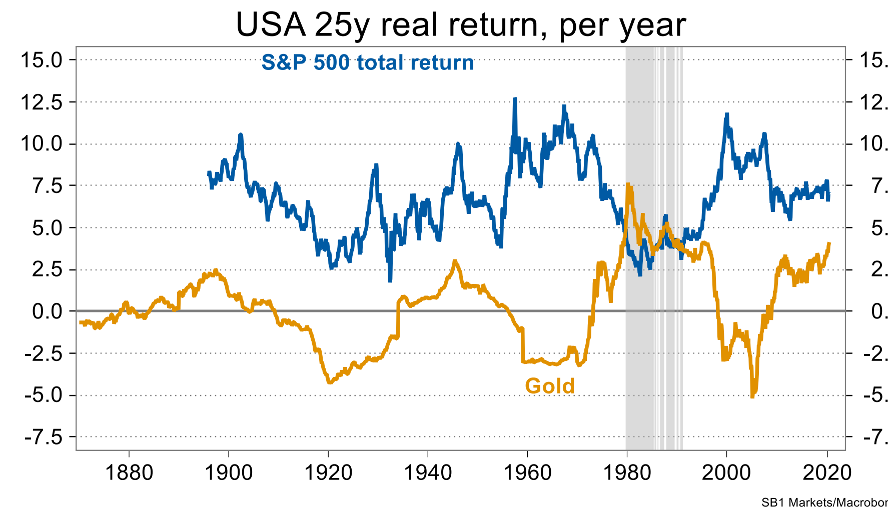
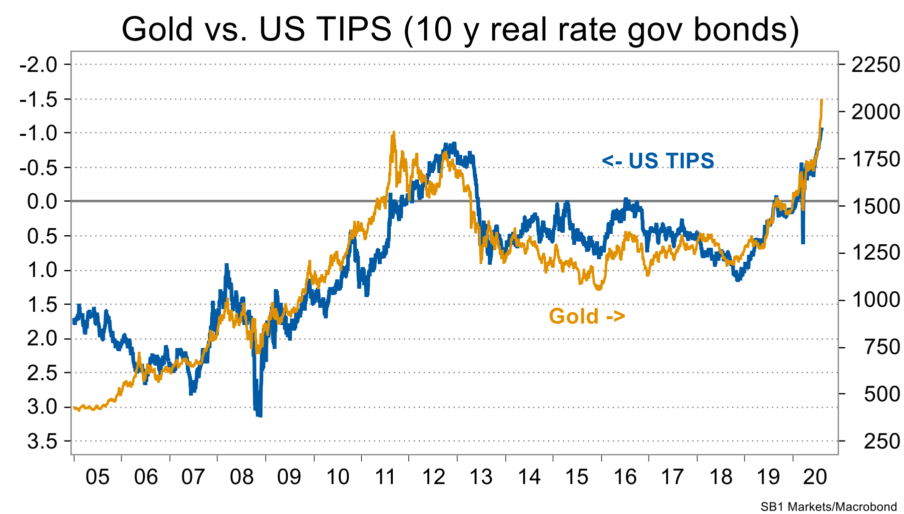
For the gold bugs: A long and a short story

Gold has through the history been a really bad (zero yield) investment. However, from time to time…

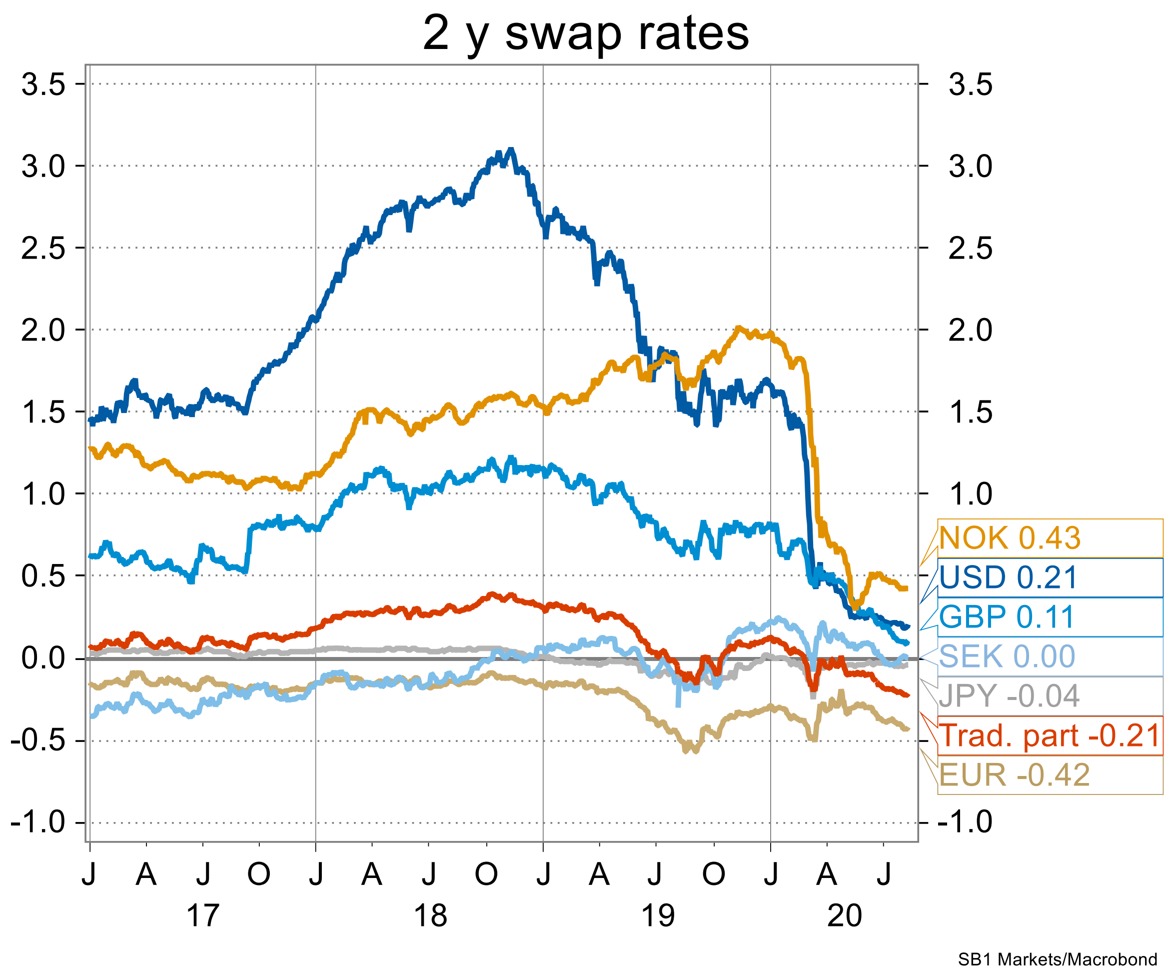


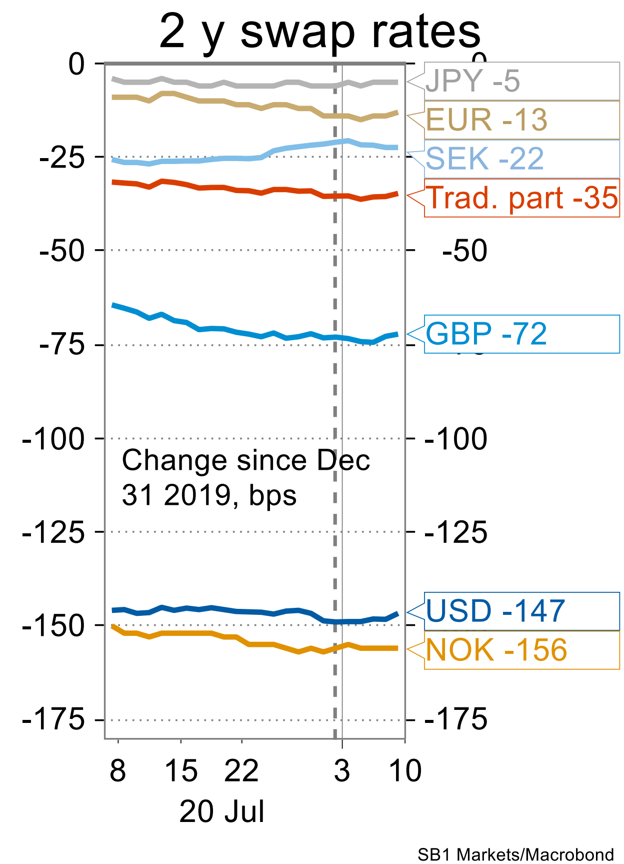




- Like now, when safe real returns are negative, gold has shined!
- It may well be that real rates will remain low - and gold strong - for a long while. But take care. Long term (and we mean quite long term), gold has normally been a really bad investment, at least compared to equities
  - » The real gold price is still lower than 40 years ago, in 1980. Equities are up 22 times (and 2200 x since 1900. Gold is up 2.6 x)

Short term swap rates marginally up last week





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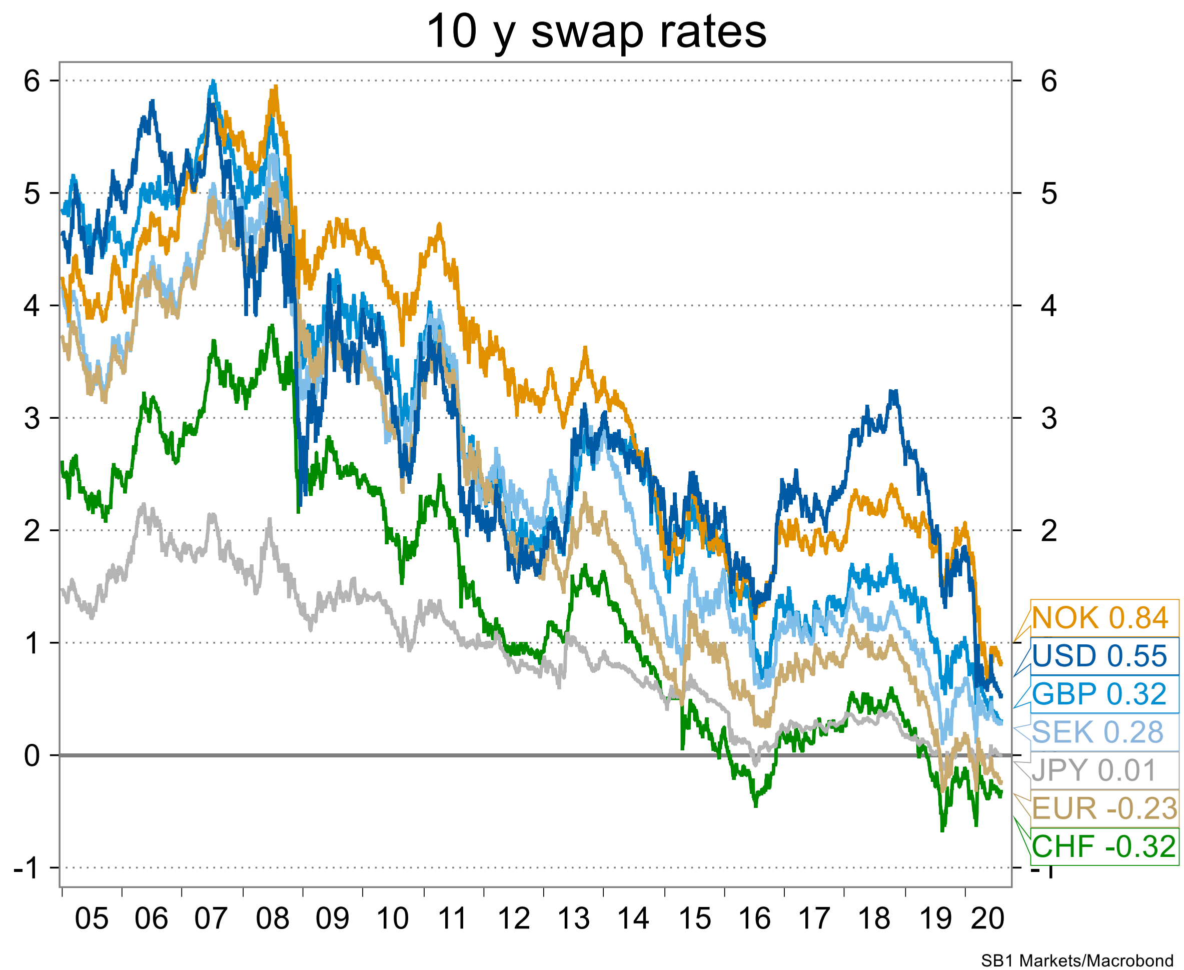
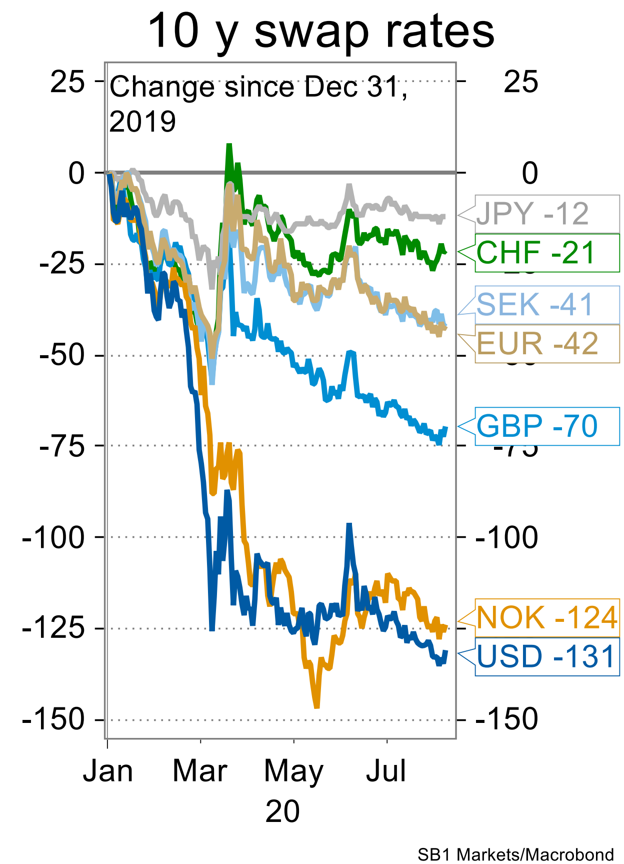
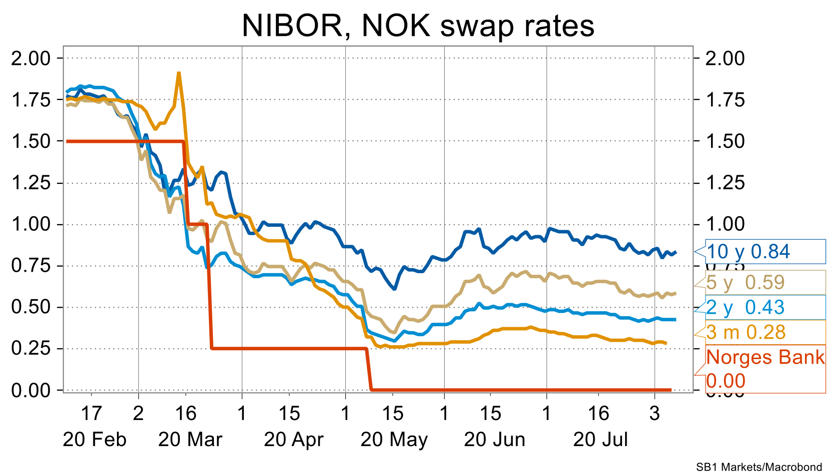
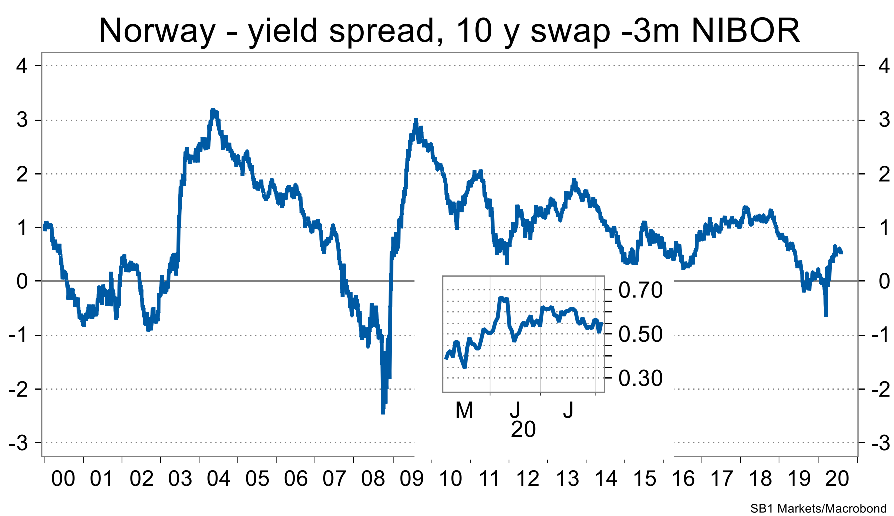
Long swap rates marginally up last week

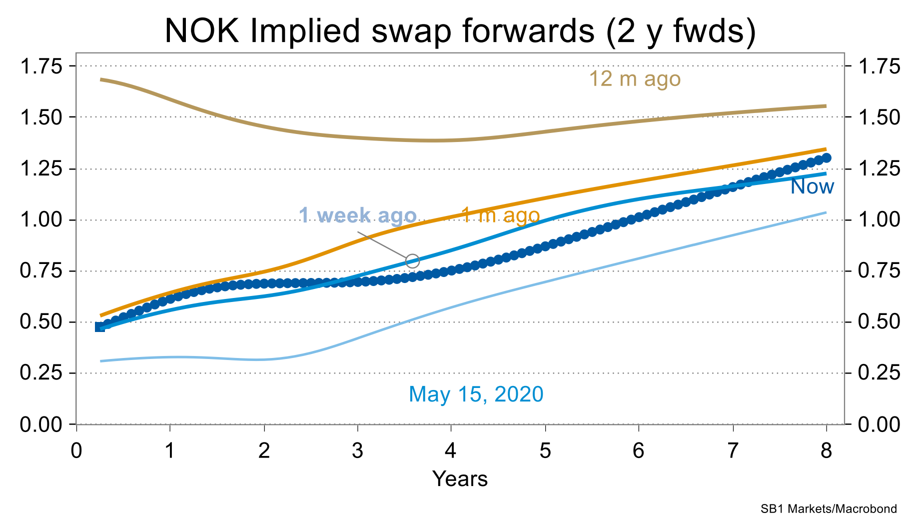




Stable swap rates in July – and into August







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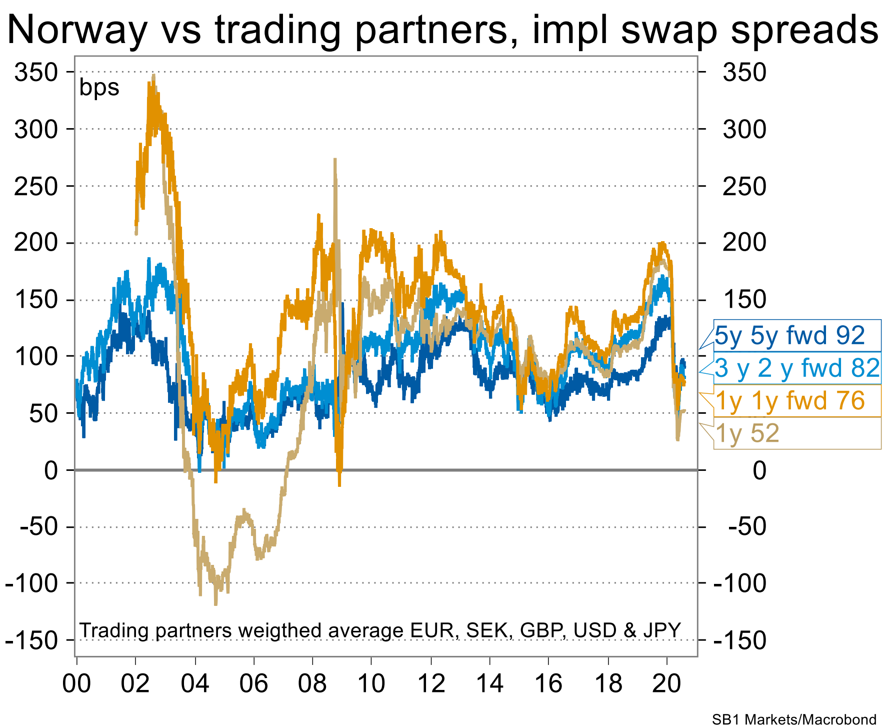
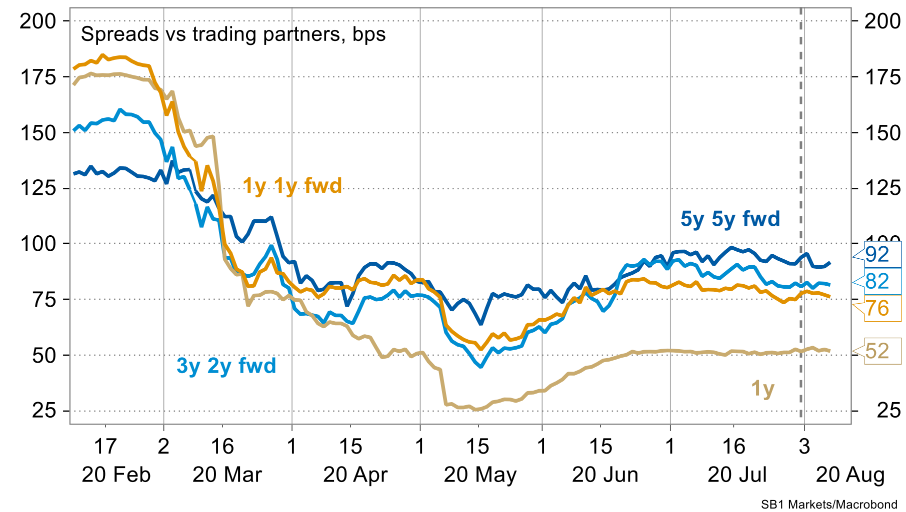
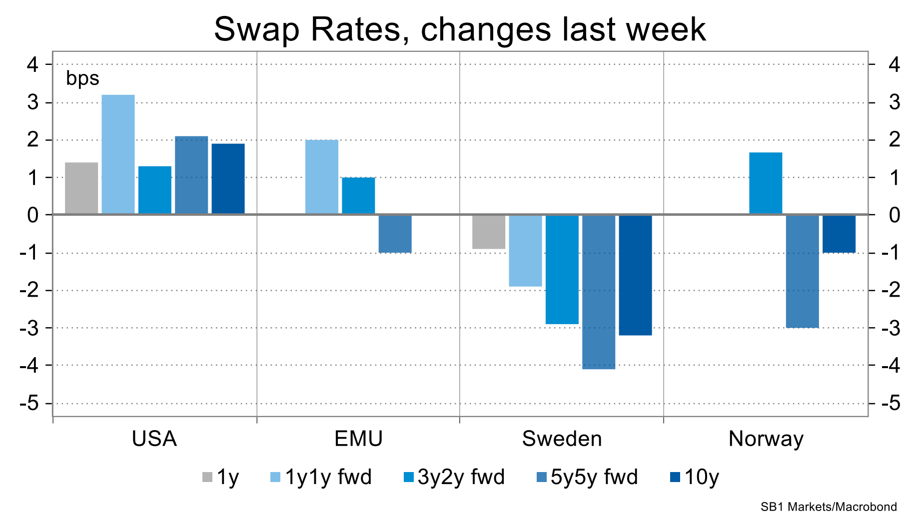
Flattish swap spreads vs our trading partners

The spread widened May to end of June, narrowed marginally through July, flat +/- last week



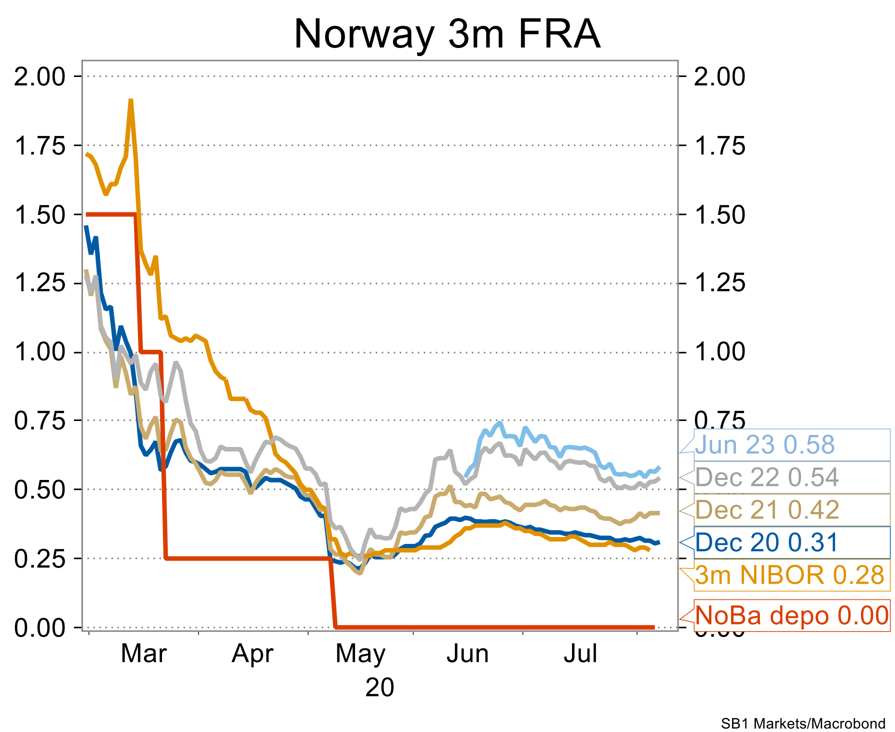


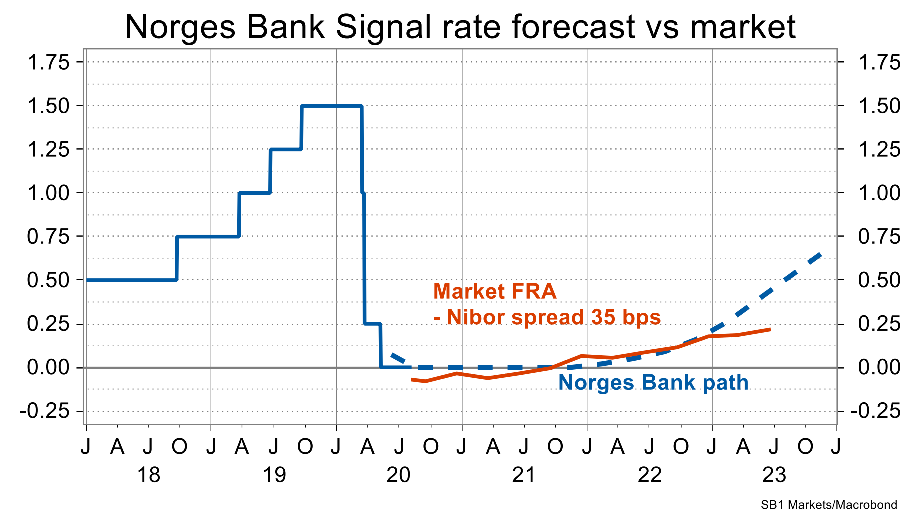


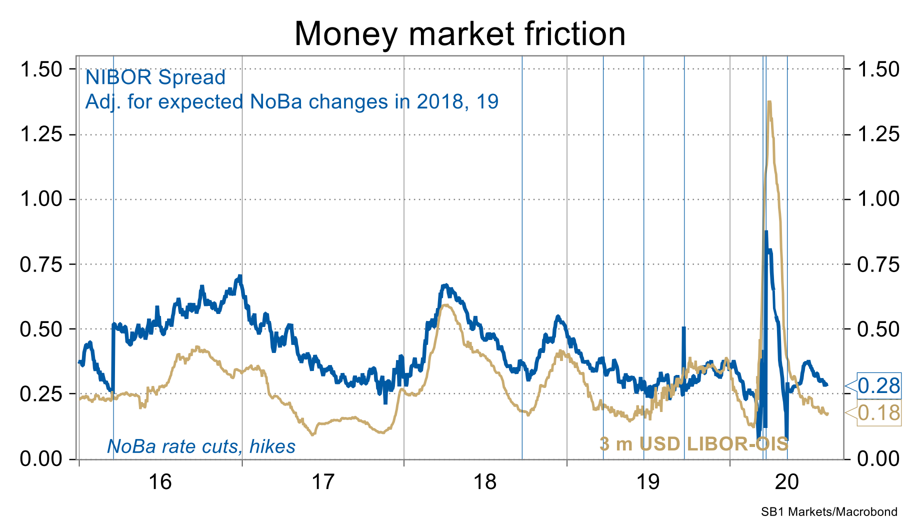
- No big changes in swap rates last week
- Spreads vs. trading partners fell some 125 bps to mid May from late February – from a too high level. Since mid May, spreads have widened by 25 – 50 bps
- We are still neutral vs. the spread

The 3 m NIBOR softly down after end of Q1, now at 0.28%

FRAs have been sliding slowly down too – gained some few bps last week, supported by house prices?



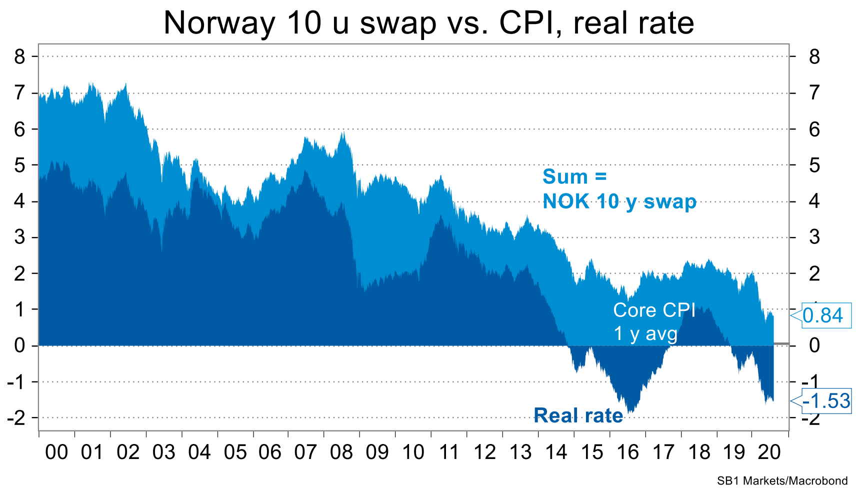




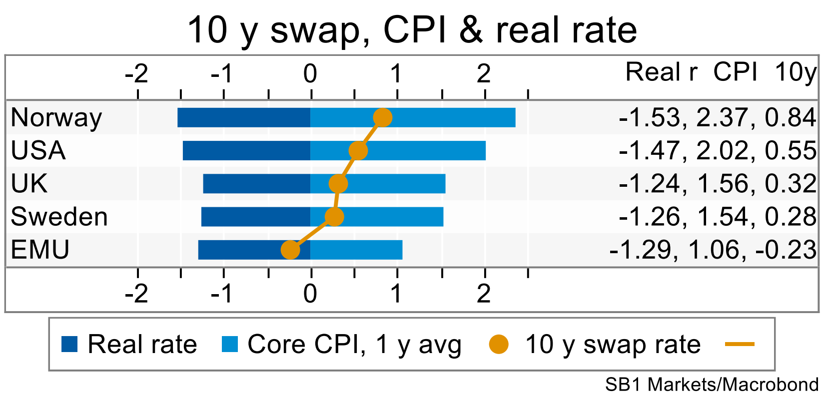
The NIBOR spread has fallen to 28 bps, as we think it is unlikely that markets are pricing in any probability for an interest hike the coming 3 months

The FRAs market has shifted the first likely hike to Q4 2022 from Q4 2021 recent weeks (here, we still apply a 35 bps NIBOR spread, probably a tad too high)

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



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

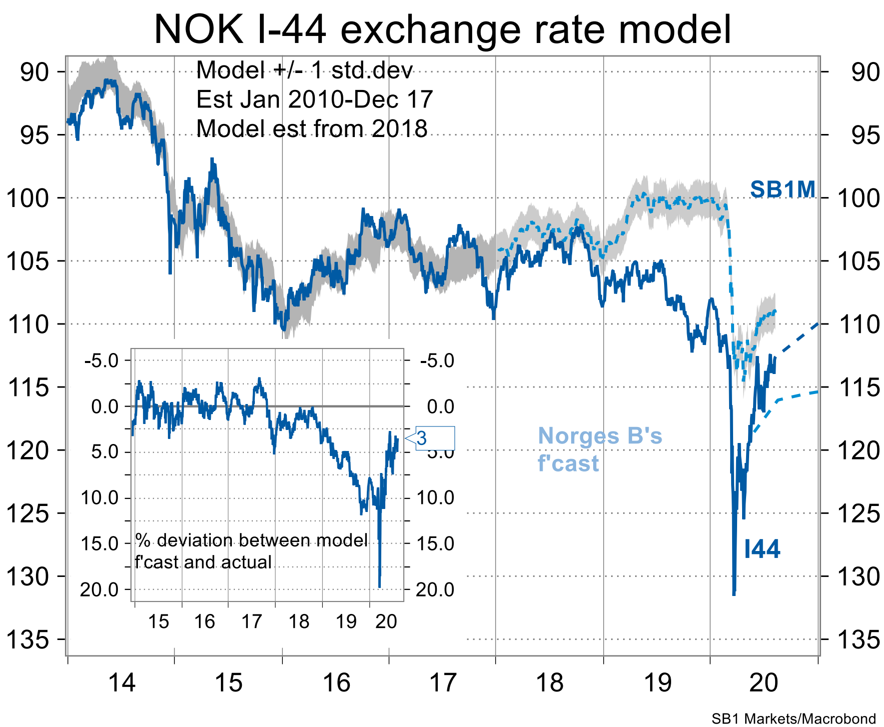


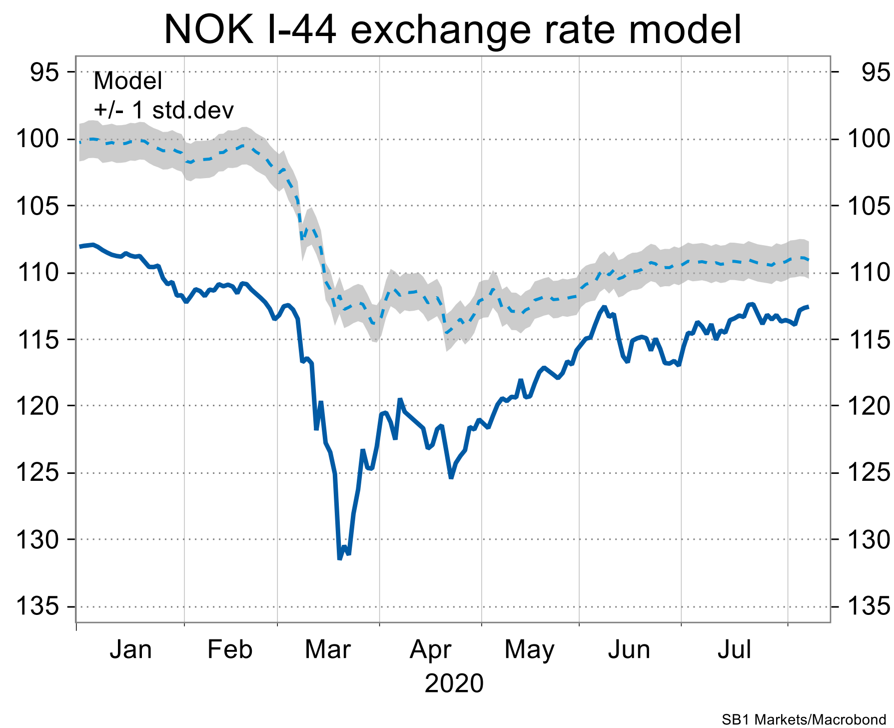
NOK real rates among the lowest

- Inflation among Norway and our main trading partners varies between 1.1 to 2.4% (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 -1.3% (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*

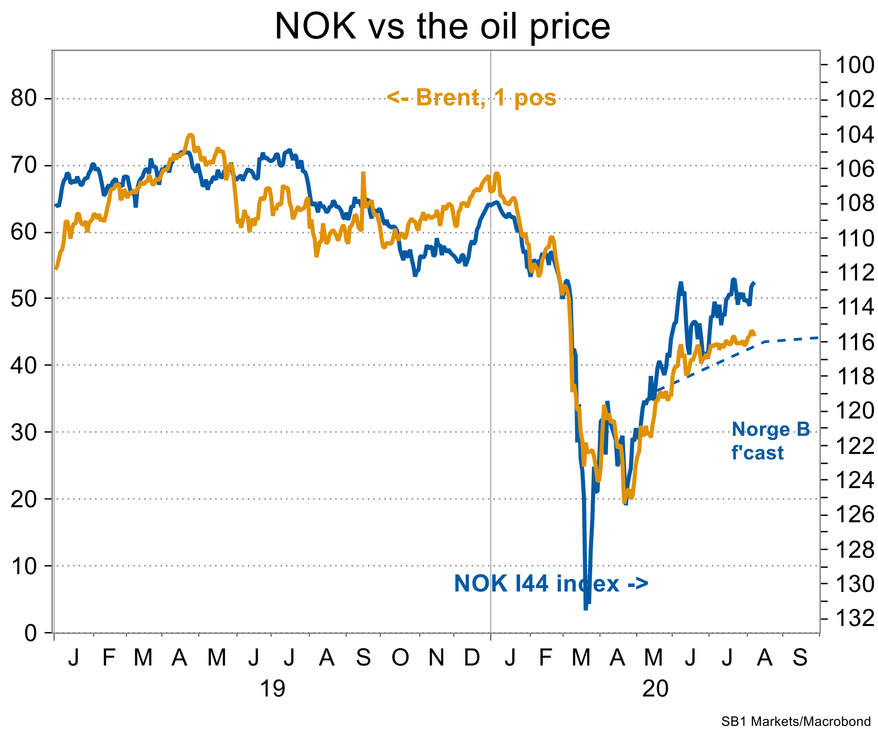
The NOK is slowly closing the gap vs. our good ol' NOK model

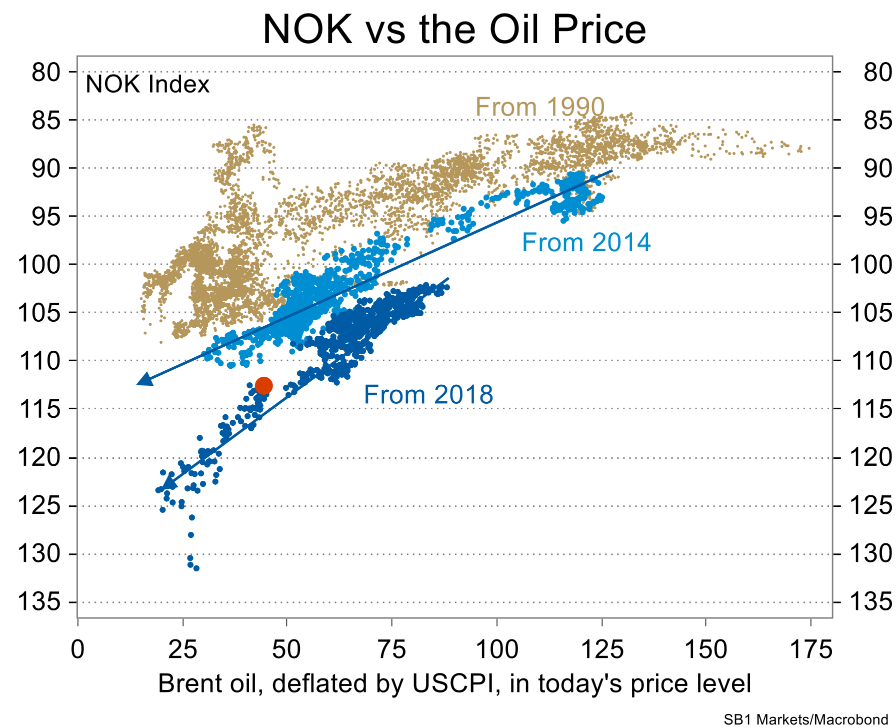
The I44 index rose 0.9% last week, more than the model explained. The NOK is just 3% the model f'c.





The NOK up, and 'more' than the oil price





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

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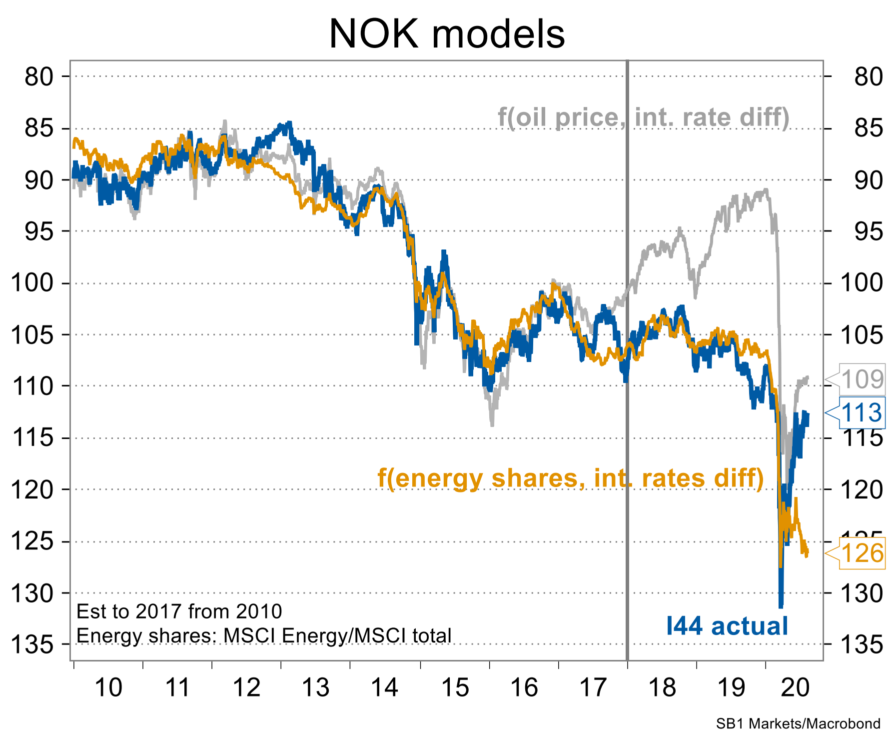
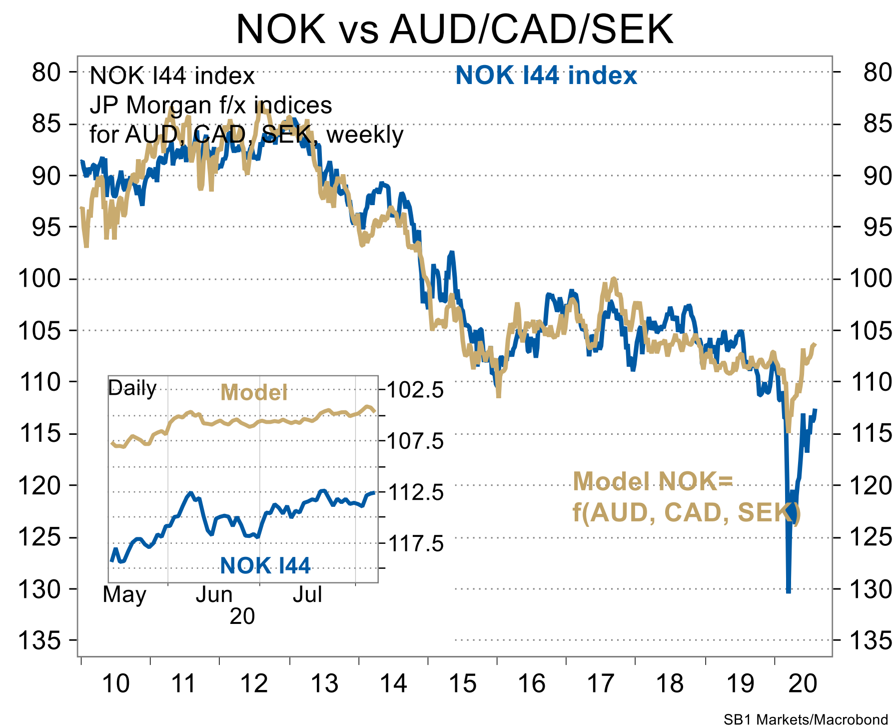
NOK 'stronger' than oil companies but weaker than the other supercyclicals

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

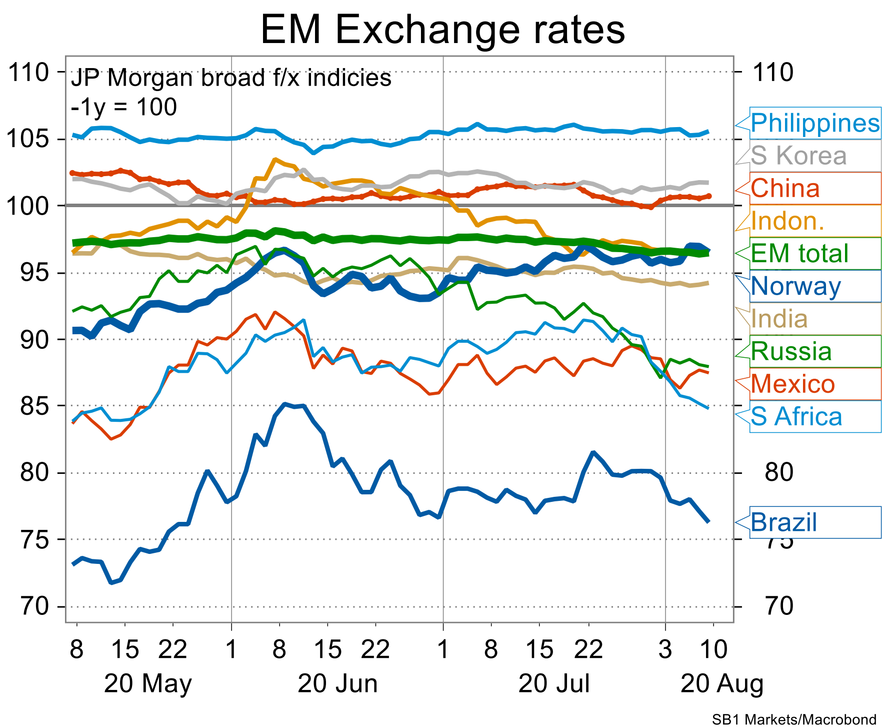


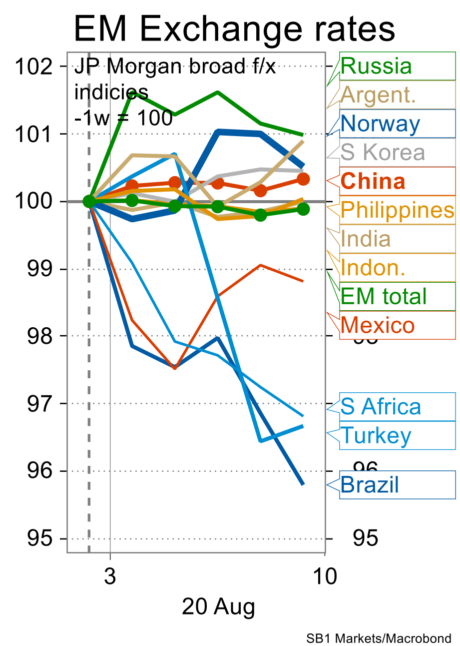


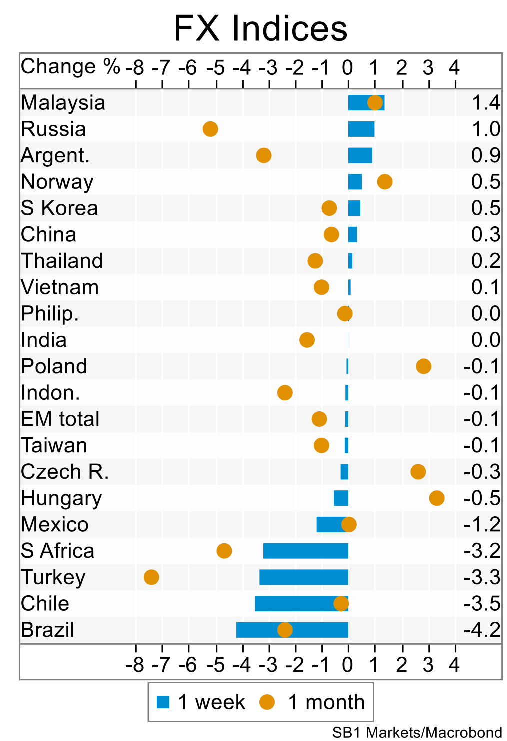
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
- The NOK is now 10% 'too strong' vs the oil price model. Has market realised that Norway is not an oil company, or at least much more than an oil company?

Some EM currencies are heading down: Brazil, Turkey, South Africa, Russia

(Even if the ruble appreciated last week). The CNY withstands US tech attacks pretty well







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Service sector PMIs signal growth above normal

… which is needed in order to close the output gap