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Macro Research

Week 33/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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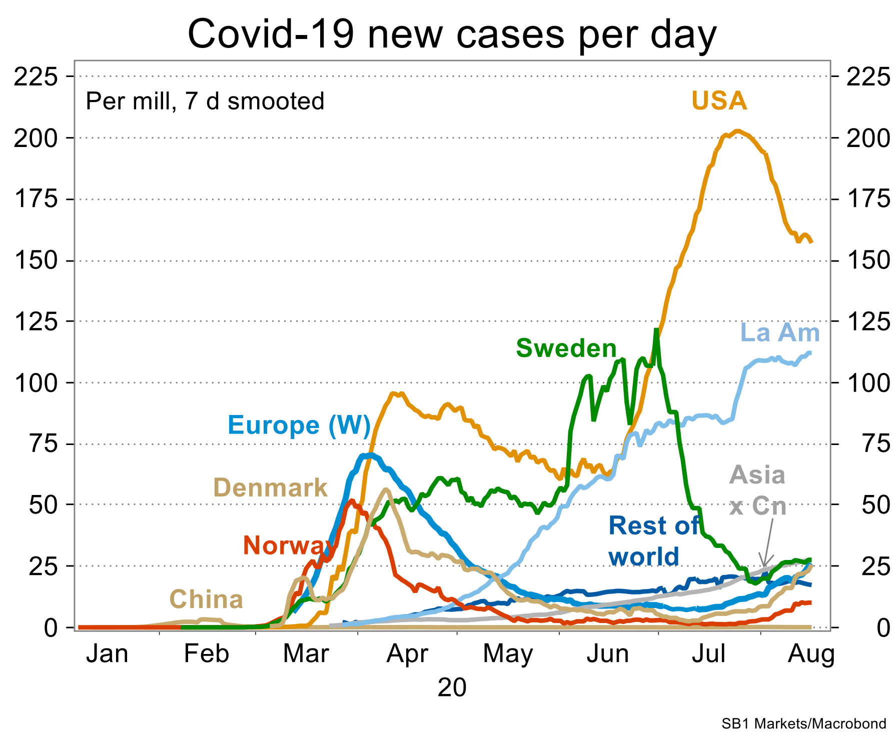
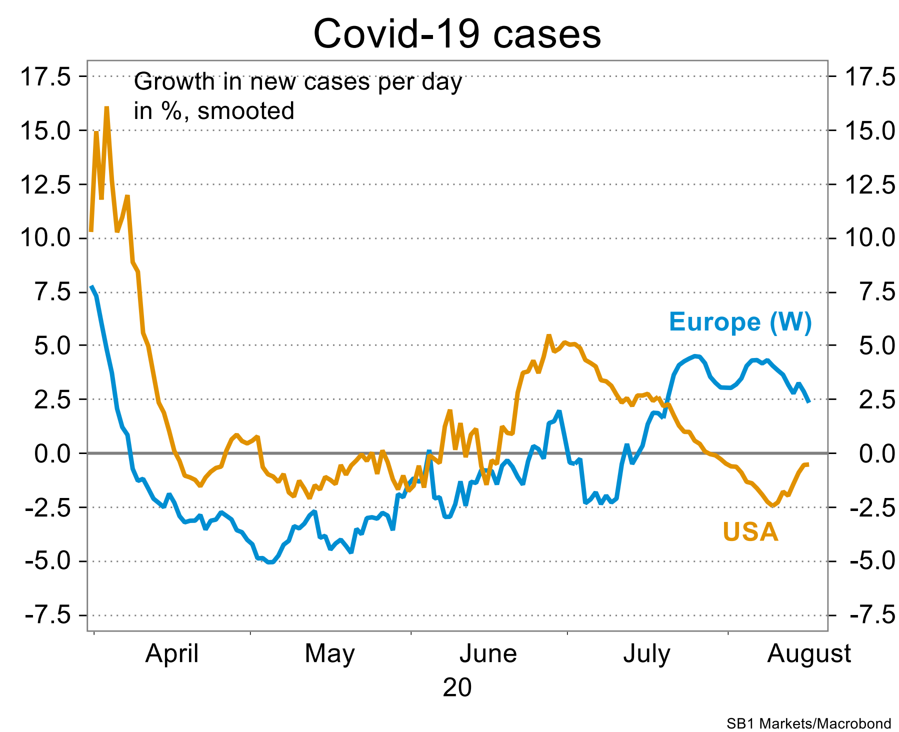
Last week: Corona down in the US, up in Europe but slower. *Most rapidly up here*

- **Mixed corona news last week:** The US **decline** in new cases slowed, while in **Europe growth** in new cases slowed. Following 2 weeks of rapid growth, the curve flattened in **Norway** last week, from reporting the highest growth rate the previous week (though from a low level). More restrictions are imposed in several European countries, Norway included.
- The good news is that restrictions or changes in behaviour <u>so far</u> have not have hurt the overall economy in any major way. The US staged a substantial turnaround in late July, and the economy has not fallen apart once more. However, the activity is still below trend and unemployment is sky high, and we are not rid of the virus. There are daily positive **vaccine** reports – and no negative? Still, few believes vaccines will be widely available before early next year, at the very best
- **Planned US/China trade talks** were postponed (no new date set). President Trump escalated the tech/net war further, and both parties has barred more officials from the other country to travel in their country. Almost all official contact between the two countries have broken down. (However, Trump yesterday praised the Chinese for some bean buying)
- **China** reported somewhat weaker growth data than expected in July, with **retail sales** and other **services** at the downside. Retail sales grew just marginally, and is still 8% below its pre corona trend. Service sector production is up 3.5% y/y, but 3% below trend. **Industrial construction** has almost closed the gap and grew faster than trend in July to. **Investments** is growing at a brisk pace and will probably have fully recovered in Aug/Sept, construction has returned to all time high. **Credit growth** is slowly slowing but is still far above growth in nominal GDP. CPI inflation accelerated 2.7%, even as the core index fell below 1%, as food prices are increasing again
- No compromise on the next **US stimulus package**, and it remains unclear what the President has decided – or can decide, and the Congress has adjourned until Sept, and some stimulus programs are terminated, at least temporary, like the USD 600 extra federal unemployment benefit. <u>Demand may be exposed</u>. **Retail sales** rose less than expected in July but core sales OK and 3% above pre corona trend, **manufacturing production** rose 3.4% but is still 8% down from February. **Inventories** are still being drawn down, will have to be refilled soon. **Core CPI prices** rose 0.6% in July, 3 x more than expected, the most in 30 years, and the annual rate accelerated to 1.6%, not that below the price target (expected 1.2%). Still, prices fell more (vs. normal trend growth) during the spring, and inflation remains in check. Still, if prices in the 3 sectors that took inflation down in Mar-May continue to return to normal, then overall inflation will too – up to above the price target. Wild **productivity & wage cost** data are impossible to decipher, and the 5% lift in unit labour cost in H1 is most likely temporary, still not an argument for an even more aggressive monetary policy. Not surprising then that **bond yields** rose sharply, from a very low level, mostly due to higher **real yields**, that had fallen to record low levels
- **UK GDP** fell by 20.4% in Q2, as expected, services and construction fell more than manufacturing production. GDP rose almost 9% m/m in June – and Q3 will be the best growth quarter, ever – but the output gap can no way be closed, of course. In **Denmark, GDP** fell by 7.4%, following the 2% drop in Q1**. Finland** is far better, just down 3.2% in Q2. **EMU GDP** was confirmed at -12.1%. In **Japan**, GDP fell by 7.8% in Q2
- **The core Norwegian CPI** rose much more than expected in July, up to 3.5%, and just rents are growing less than 2%. We still think the surge inflation is temporary, the NOK has strengthened and wage inflation will come sharply down (but this year's wage negotiations are not concluded). **Consumer confidence** (Finans Norge) rose far less than we assumed in Q3, and remains well below par. **Homebuilders** reported higher June sales, more starts – but just up to the falling pre corona trend. However, we expect a further lift in Q3. **Airline traffic** was still down 66% in July (35% domestic, 85% international)

Mixed fortunes: The decline in the US is slowing, in Europe growth is slowing

More US testing may explain the lack of further decline in new cases. Europe is tightening restrictions

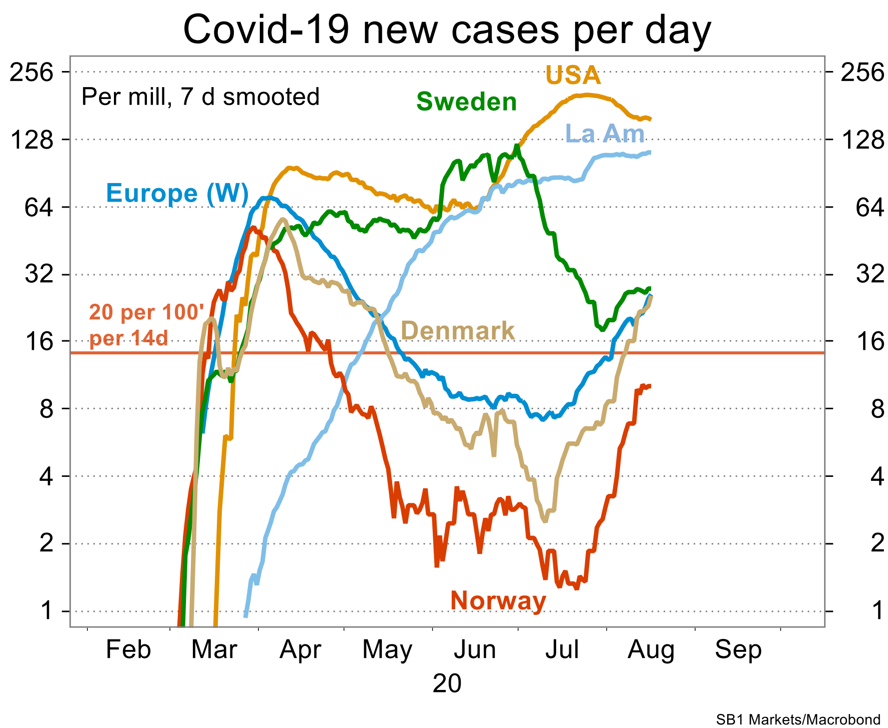




- **The US** trend is still downwards, but slower – and some states, especially California, have reported more cases last week. The economic costs of restrictions, and more voluntary distancing seem to have been visible but still limited – which of course is good news. The level of new cases is still high, as is the number of hospitalisations & deaths (compared to other rich countries)
- Growth in new cases in **Europe** is slowing but R remains above 1, and more measures are still needed – and they will come. Since the level of contagion is 1/6th of the level in the US, Europe still has time to act
- **Norway** took the lead in growth in new cases one week ago – now the number has flattened, flowing a 10 times increase. Measures are tightened, again – but the overall economic impact is very likely minimal. Sweden has flattened, Denmark not (details next page)

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

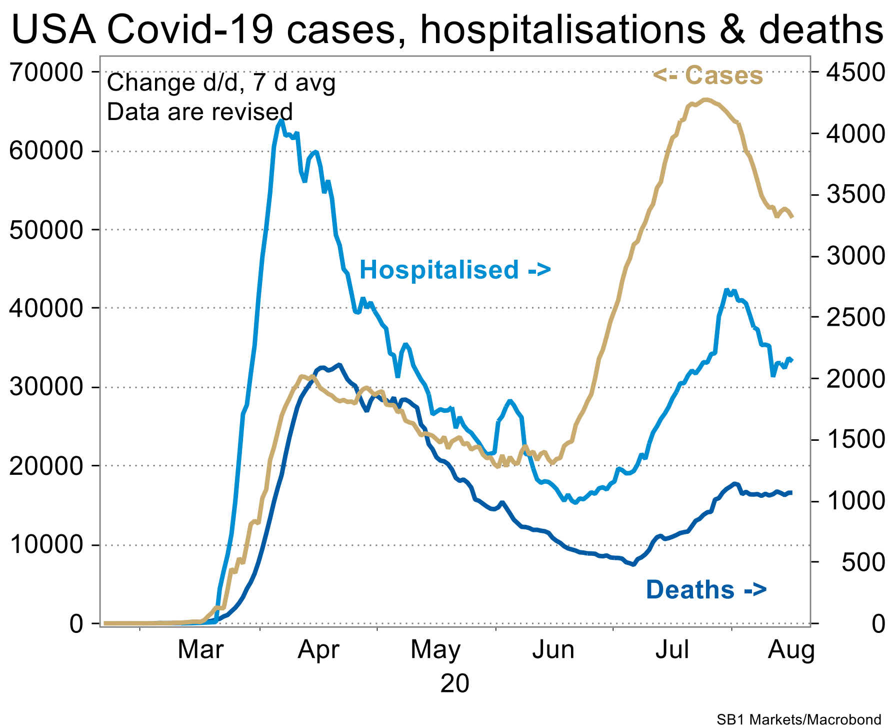
The trend was not Norway's friend, at least not until last week. Denmark still rapidly on the way up

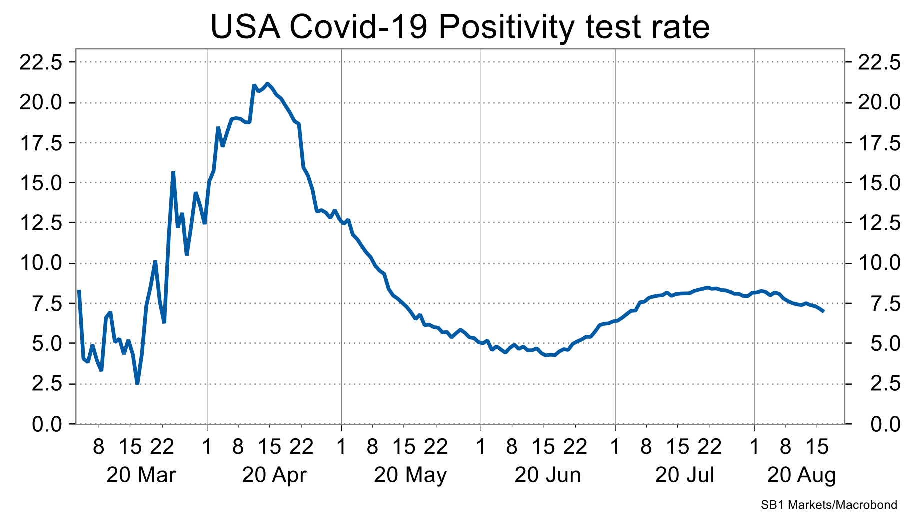


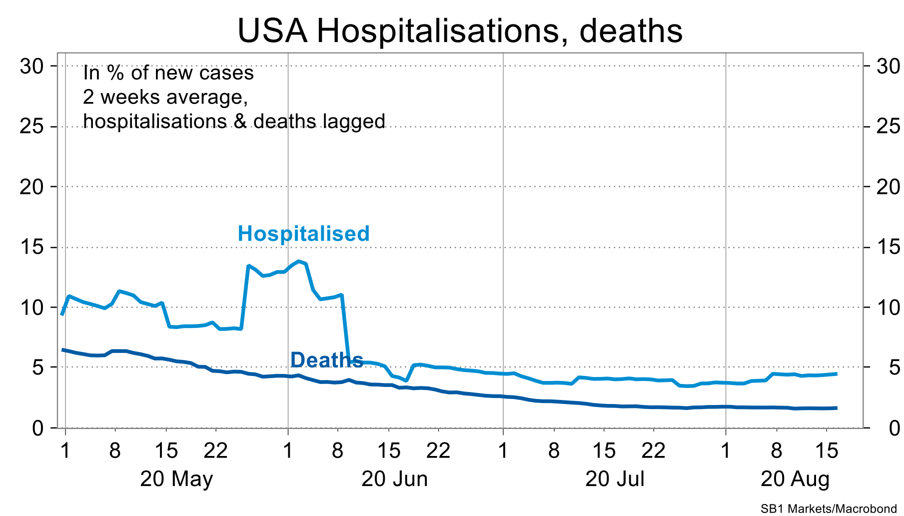
- Corona curves can be bent, if needed. This time around, the economic cost seems to be small vs. the spring experience
- Restrictions are tightened in several European countries, and more will probably come. The curve is still pointing upwards
- More measures may be needed in Norway but the most recent date do not signal a further increase in the spread of the virus

USA New cases are not declining so fast, but the positivity rate is down

... And some more tests are taken



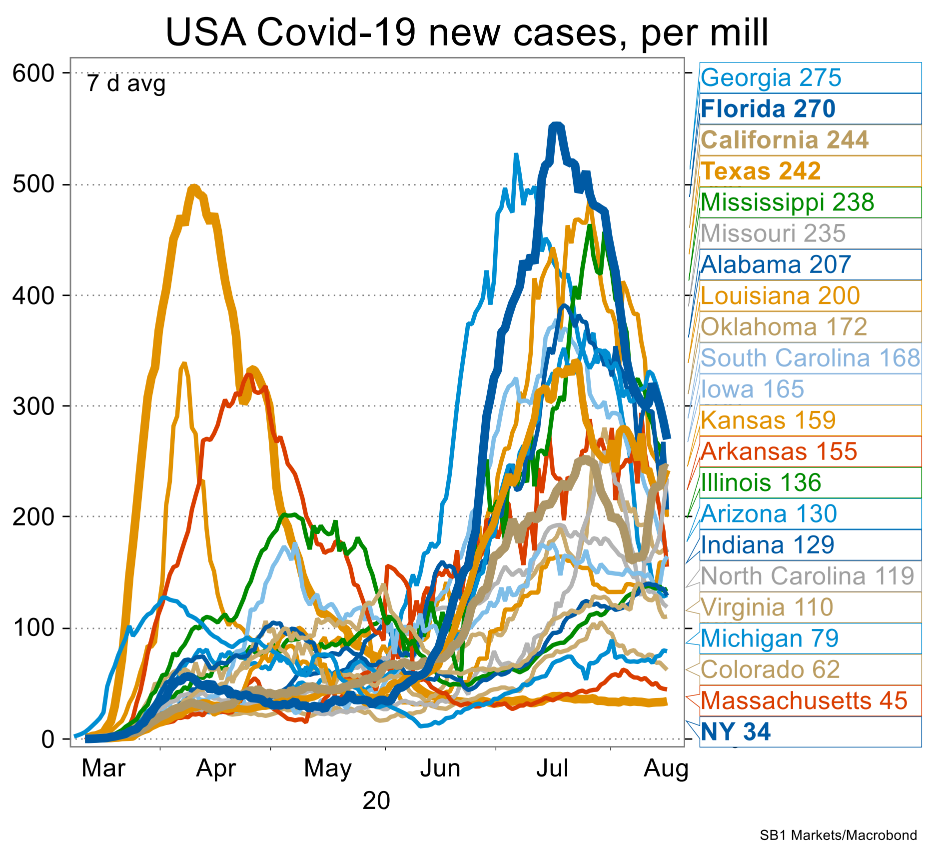


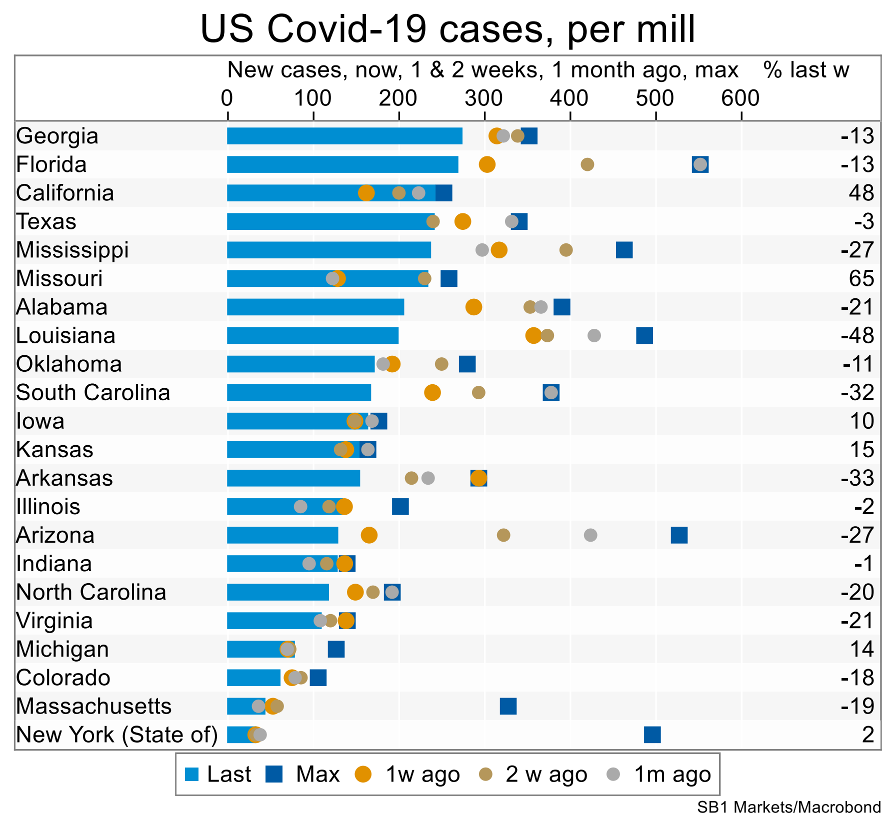


- The hosptialisation rate is far lower than during the spring but has not fallen further the past two months
- The death rate (CFR) is still trending down or at least it din until late July.
  - » The level is just a fraction of the level during the spring, due more cases counted (cfr the decline in the positivity rate), more young people infected and most likely better treatment methods

US: The virus has not disappeared but the overall trend is down

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

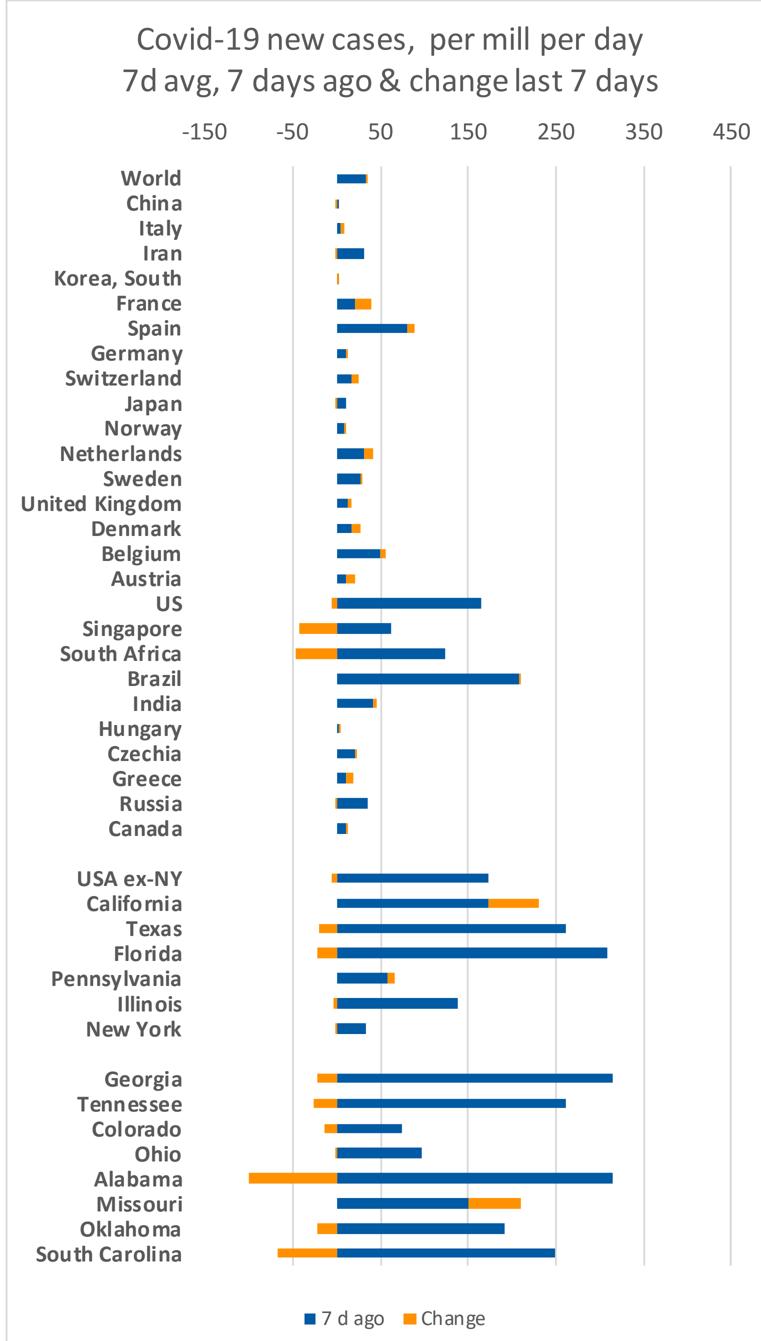


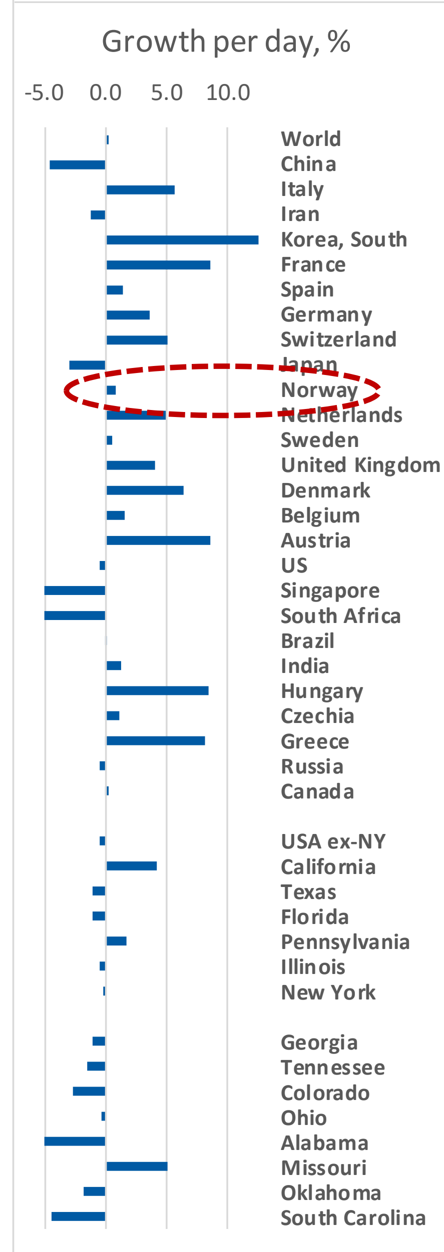


US & the rest: A comparison

More up than down (ex US)

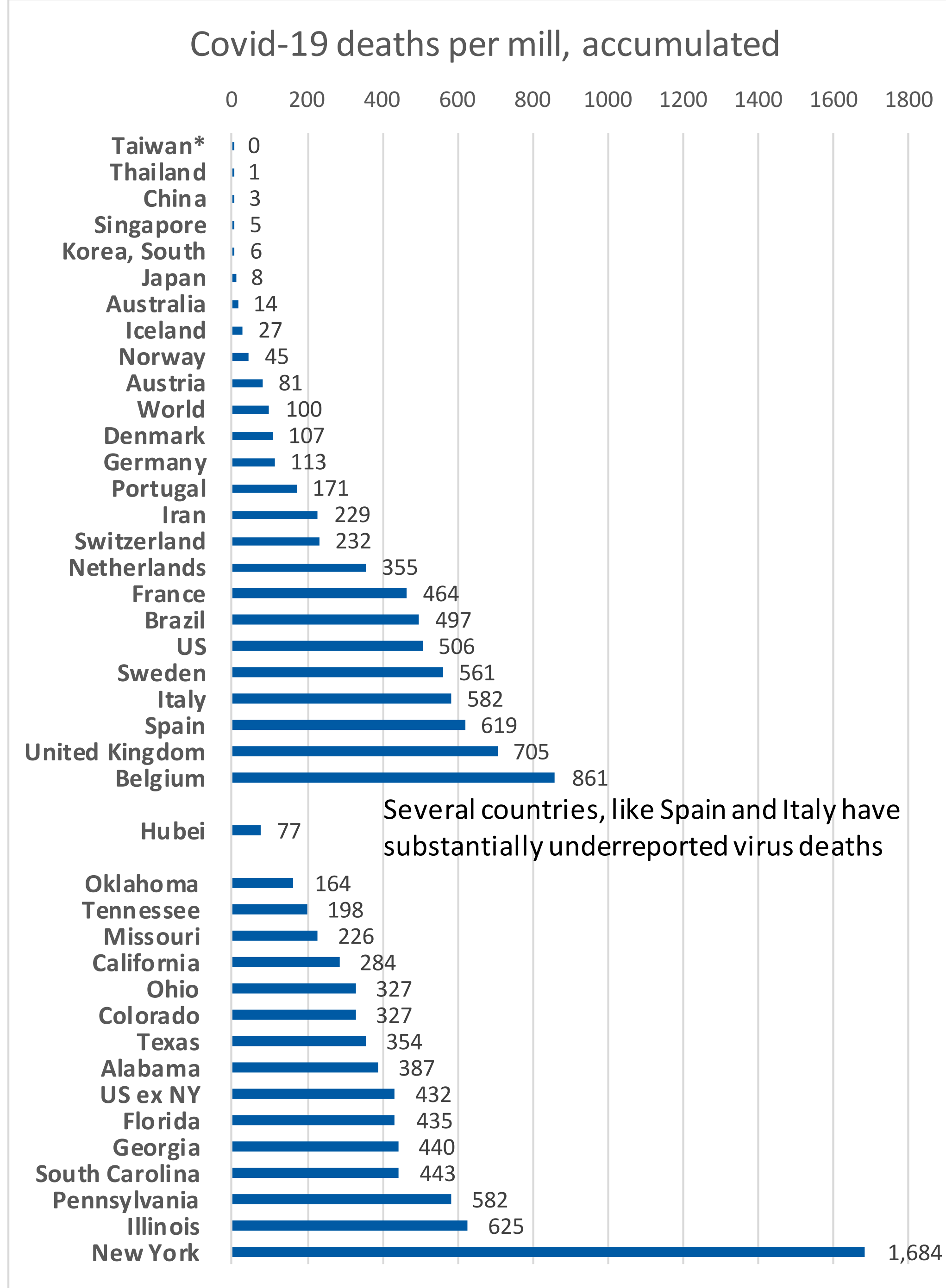
- Two weeks ago, most countries reported an increase in new daily cases but now R has fallen below 1 in several countries, of which US is most important – both economic/market wise, and because US had the highest incidence, and the most rapid growth speed
- In Europe, most countries are still reporting more cases, but at a slower pace than the previous week in the majority of countries
  - » Spain still has the biggest challenge buy growth has slowed substantially
  - » Norway reported the highest growth rate last week, 11%, R = 2!! Now close to zero growth
- Sweden is was an outlier in Europe but the number of cases & deaths has been falling sharply, now flattish
- We do not trust all of these data
  - » There are changes in test policies & capacity
  - » Some countries do probably not report properly





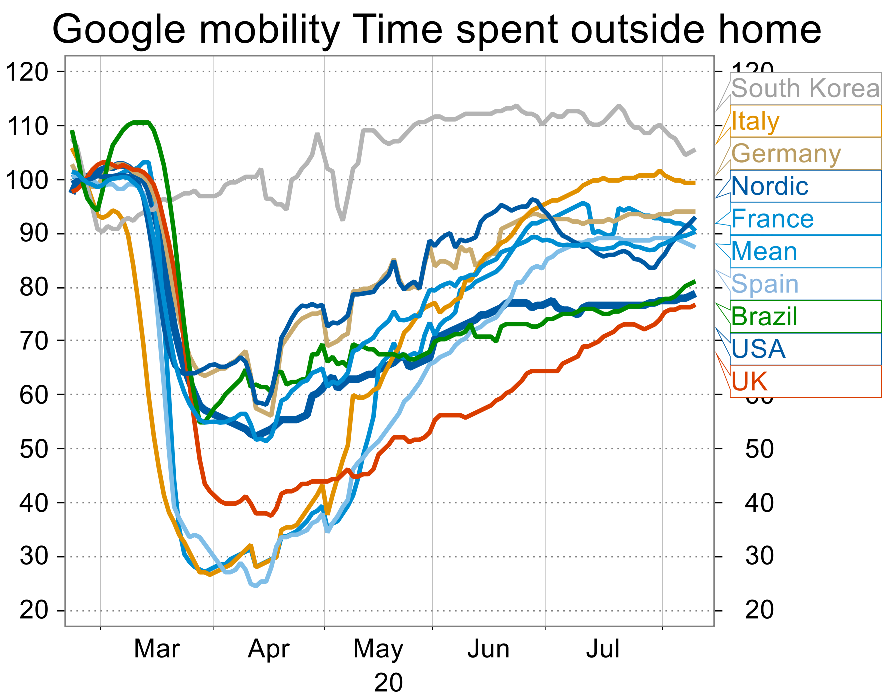
The final count

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



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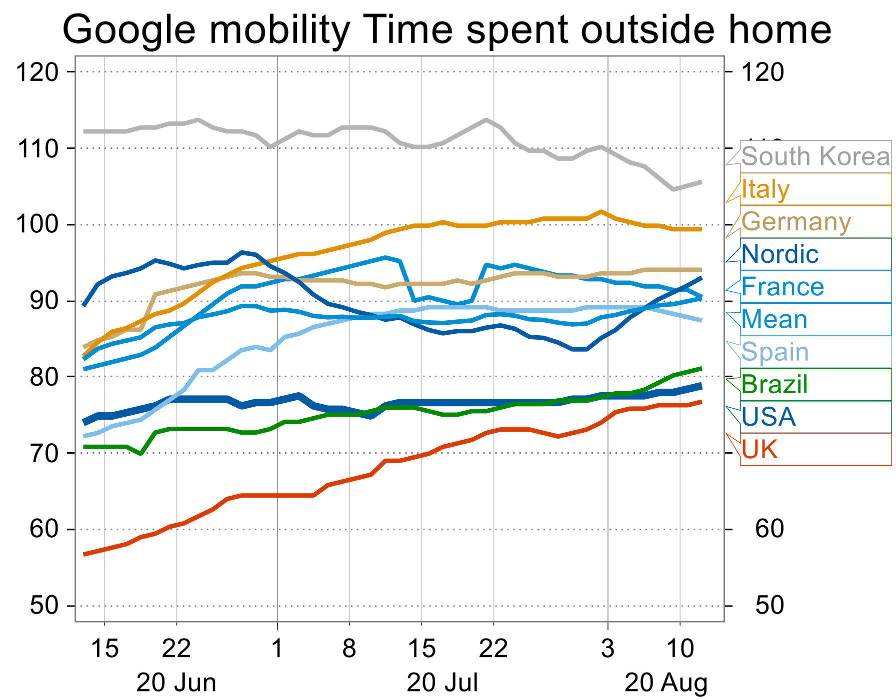

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- The Nordics are quite similar, except for the 2 – 3 weeks from mid March where time spent outside home fell less in Sweden than in Denmark and Norway

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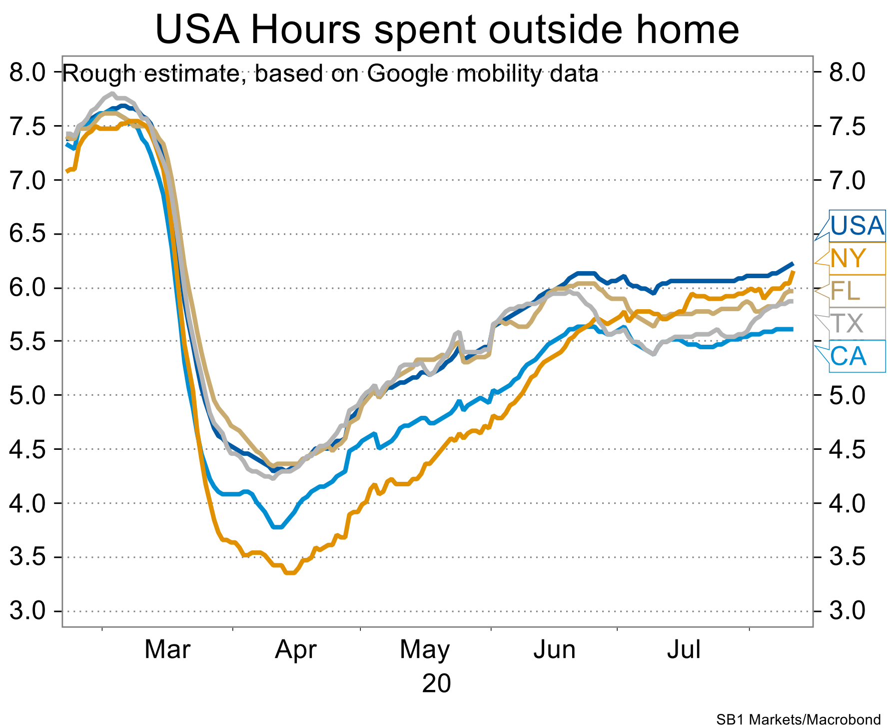
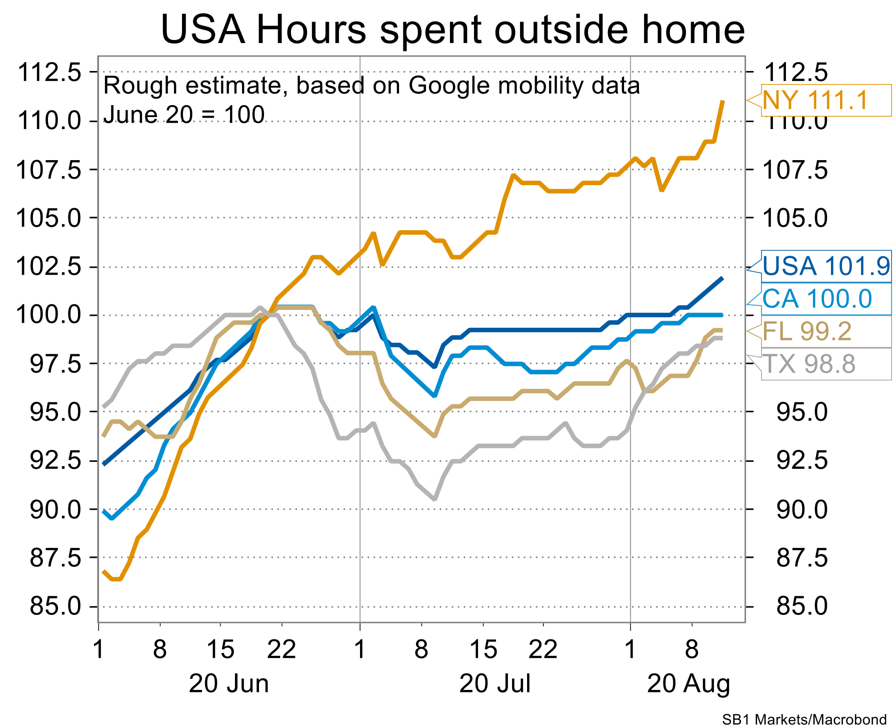
Since June 20: Hours spent outside home +11% in NY, flat in CA/FL/TX

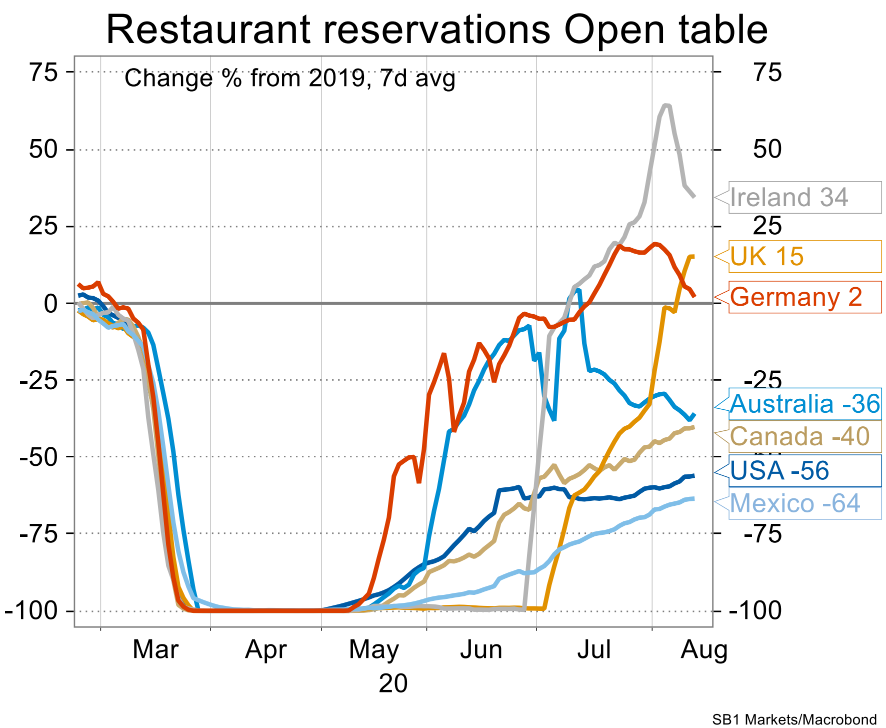
Whatever the authorities decide, the corona situation will influence the economy significantly

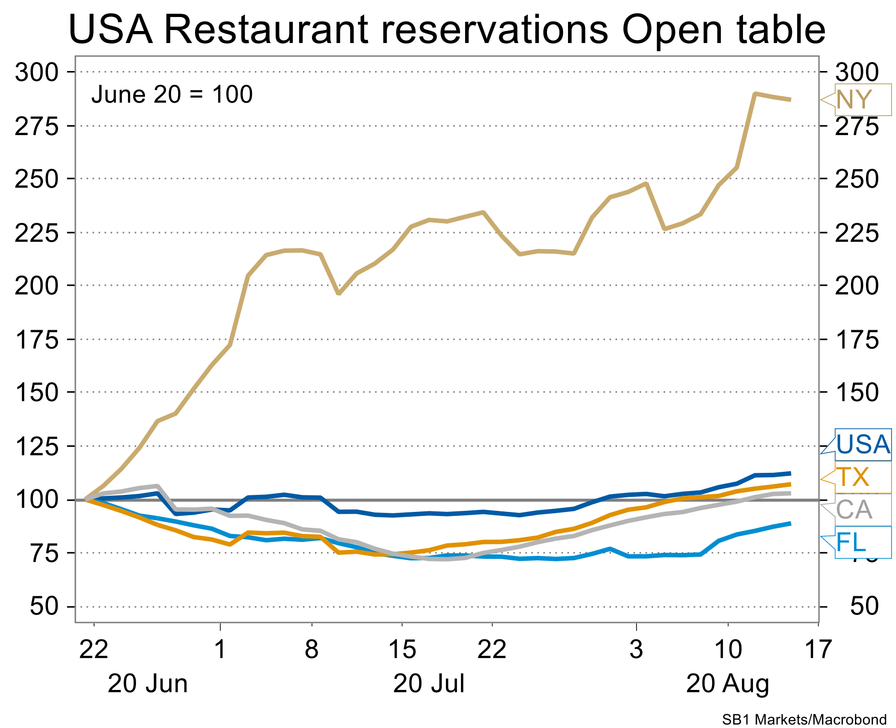




Restaurants are not open for normal business

… if the corona virus is not brought under control. US i gradually on the way up again? Level still low

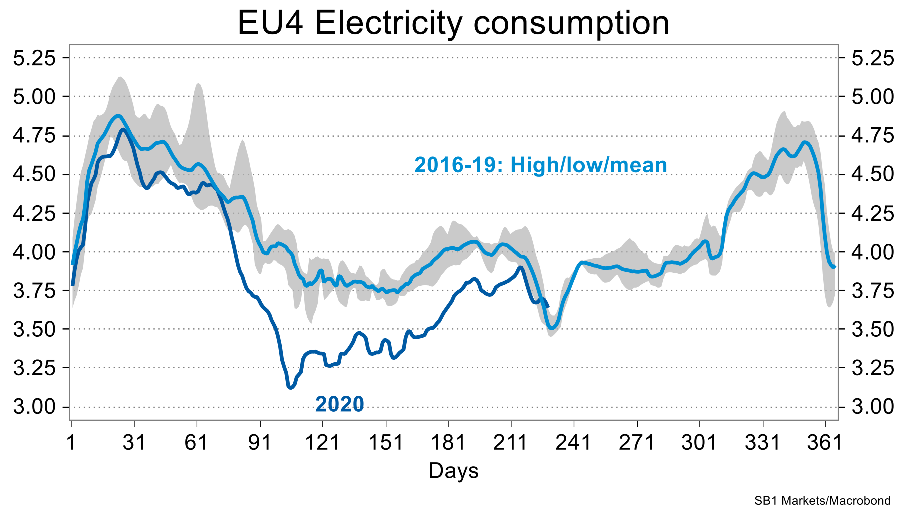


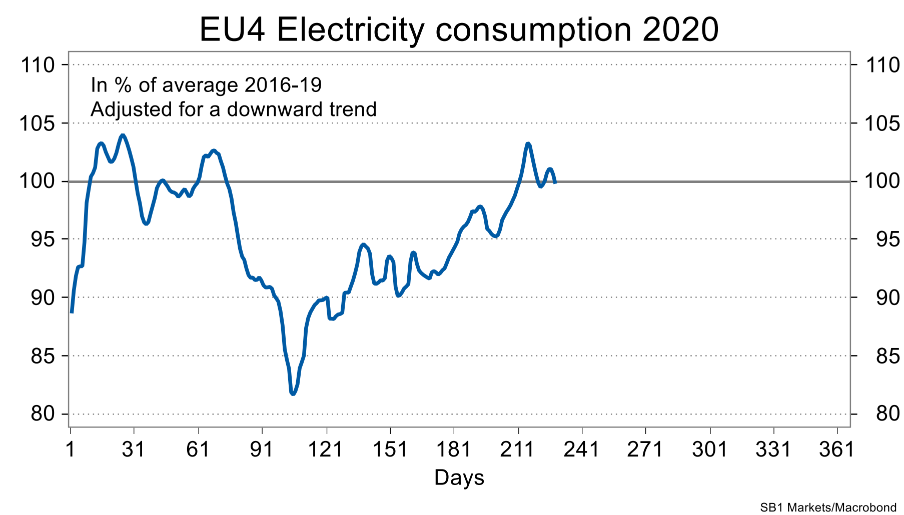


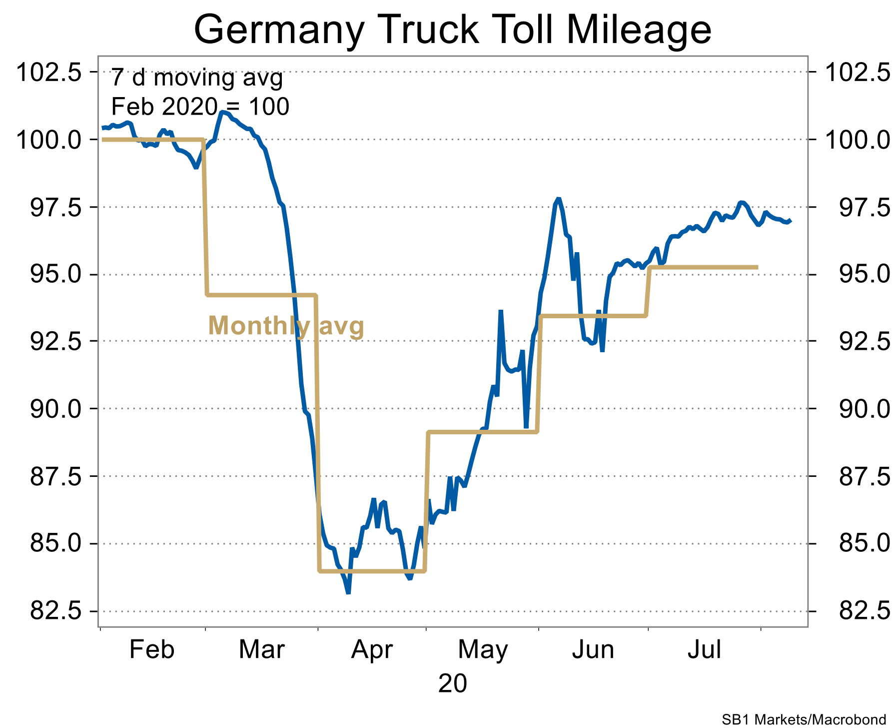
- Again, there are huge differences between US states. NY has been moving sharply up since June 20, almost 200% up. At the other hand, California, Florida and Texas first fall – are not slowly recovering again – but is just flat since June

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

Transport activity in Germany has been increase but not further previous weeks (seas. adj)

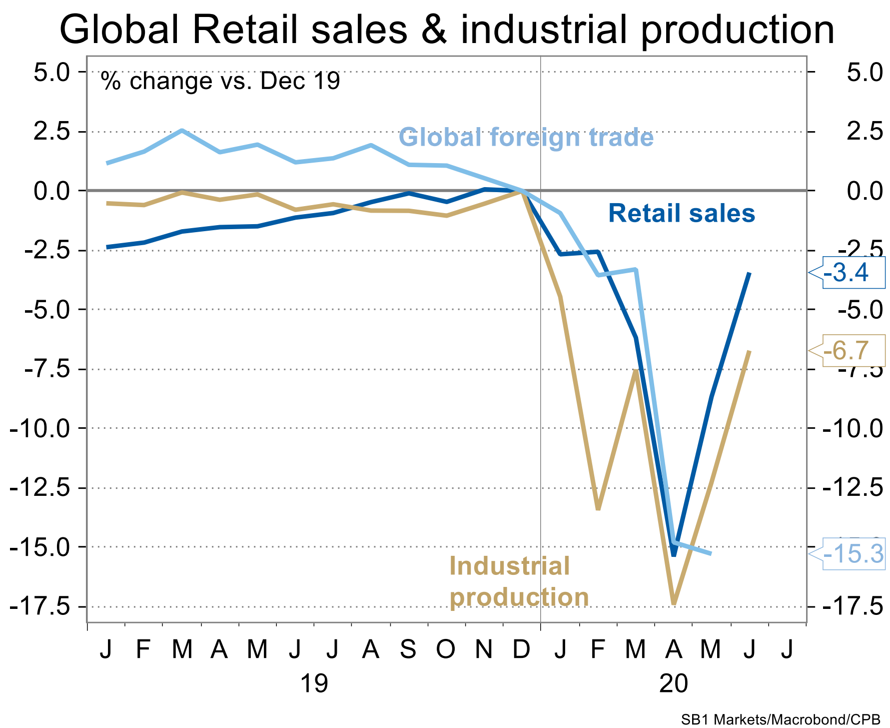


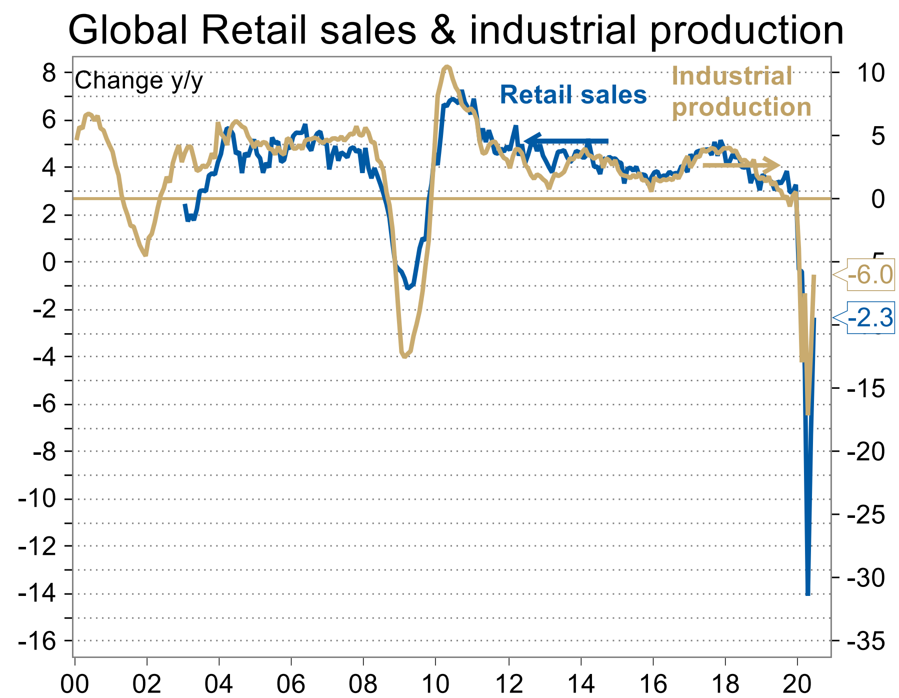




Industrial prod, retail sales further up in June, both still below pre corona trends

Retail sales are 3% below the Dec 19 level, <4% below trend. Manuf. 7% below Dec, 9% below trend

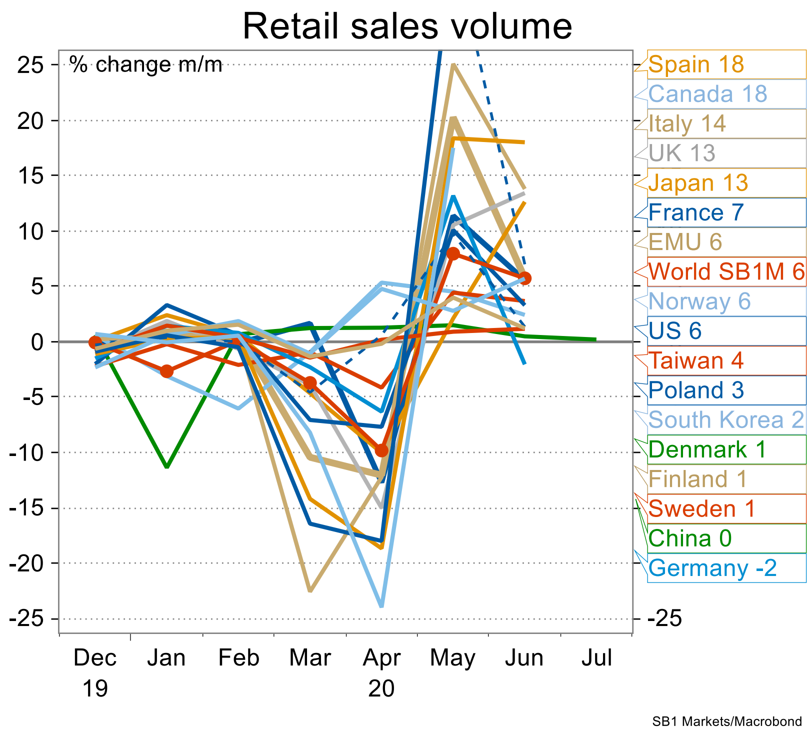




- Global retail sales rose close to 6% in June as in May. Sales were just 3.5% below the pre corona level. Sales in many DM countries are above the Dec level, China is still well below (Not all countries have reported June data)
- Industrial production rose some 7% m/m in June, vs 6% in May. If so, production was still 7% 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%

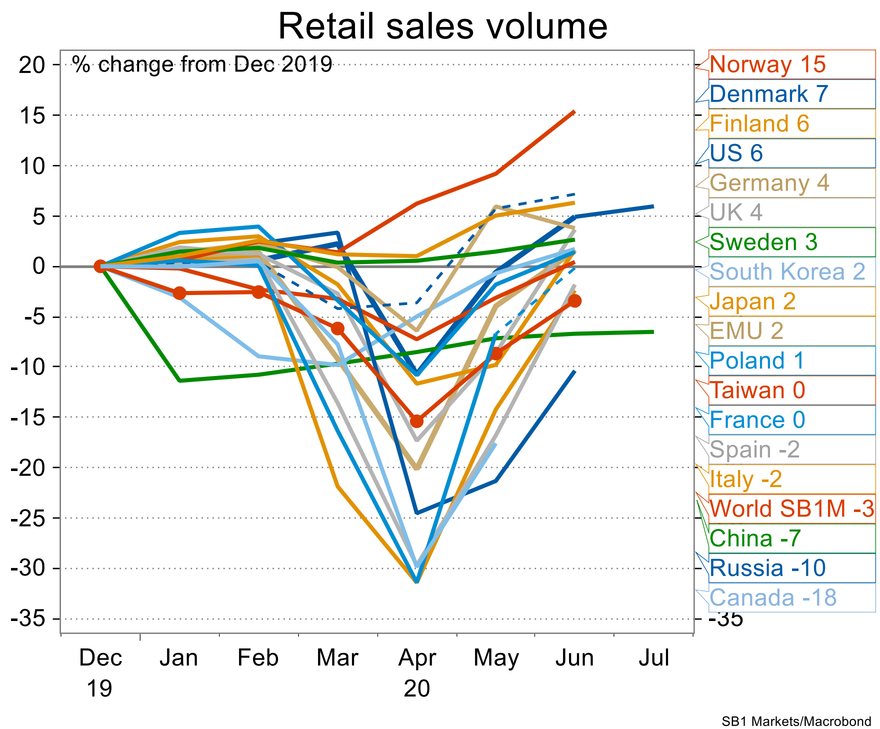
Just Germany has reported a small decline (from a high level) in May, Spain up 18% in June

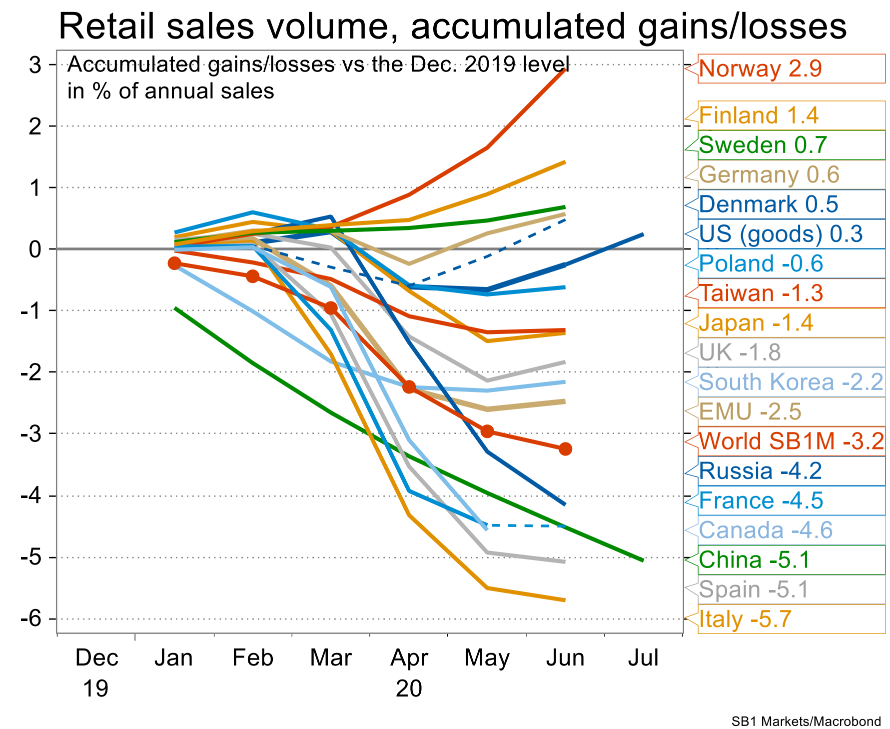


- Sales rose far more in June than we first assumed

Retail sales are on the way back to pre corona levels

… sales are above the pre corona level in many countries, even accumulated through 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 6% above the pre corona level in July but total sales during the first six months of 2020 were still just 0.3% above the pre corona level, measured in % of annual sales
  - » Level wise through H1, Norway is in the lead, by a wide margin, joined by, Finland, Sweden and Denmark – and Germany
- Consumption of services are not included in these retail sales data – and service consumption has fallen sharply, everywhere

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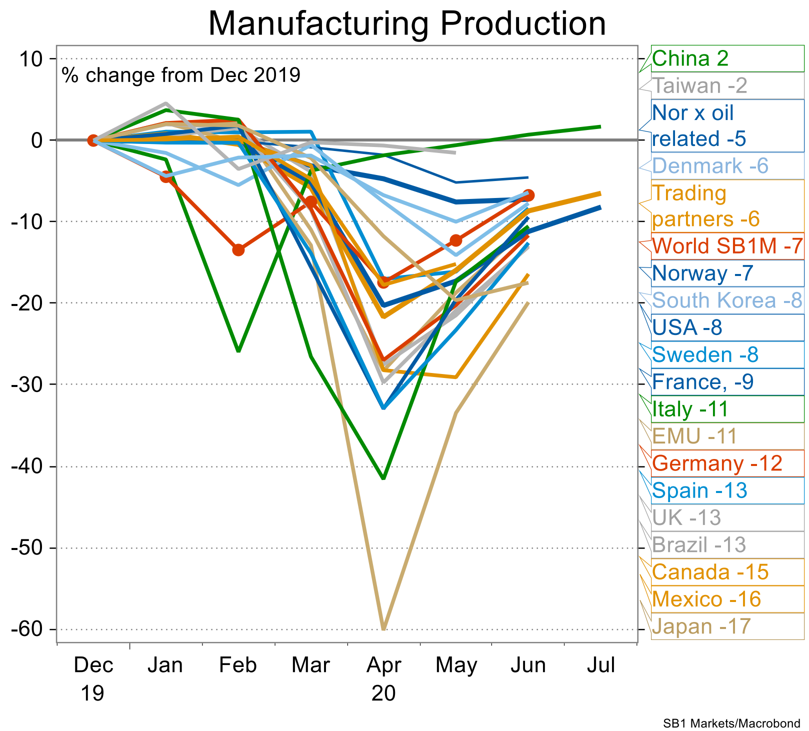
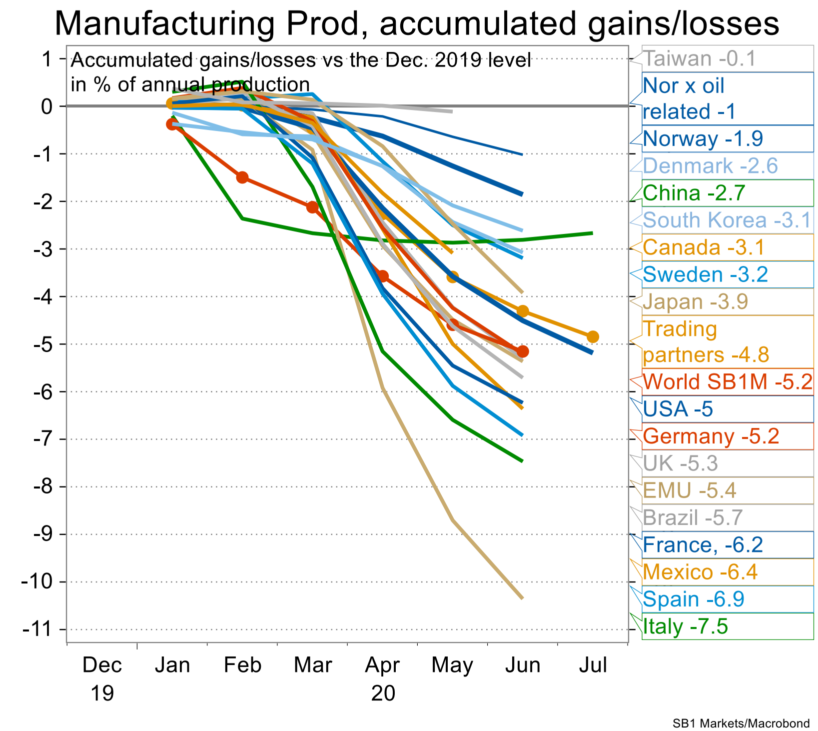
Manufacturing production on the way back, still some 5% of 2020 'is lost'

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

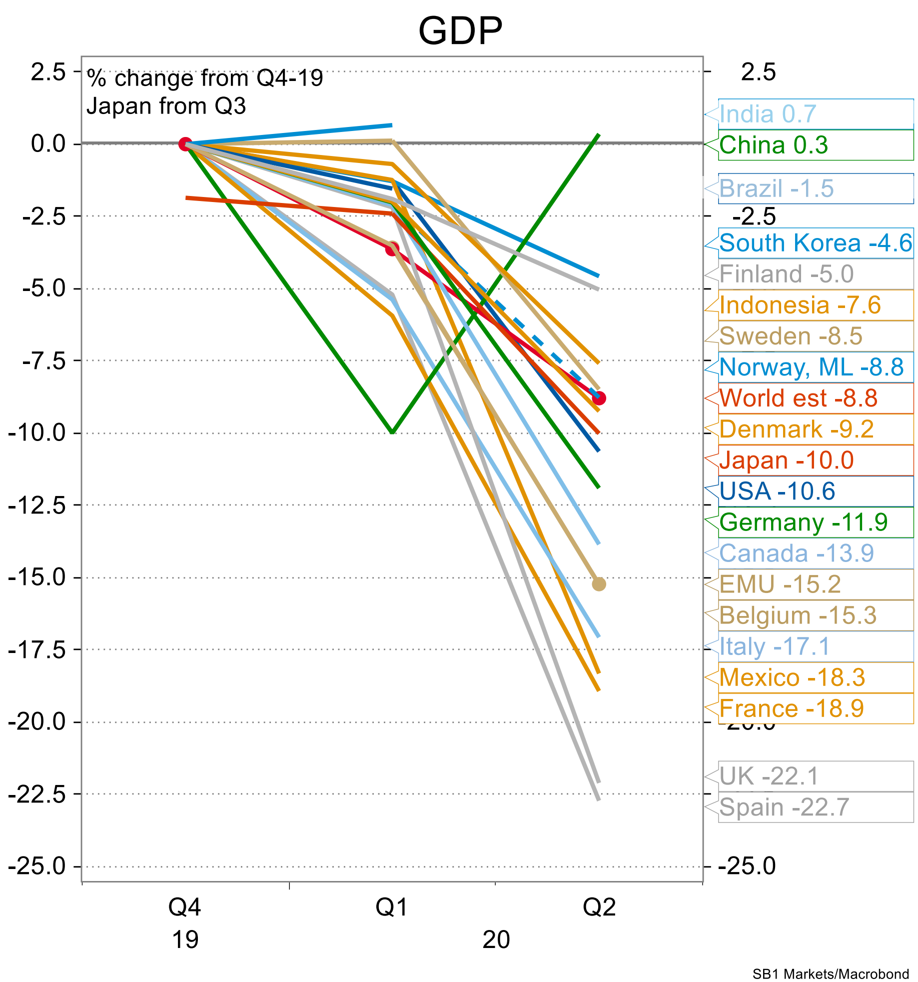




- We estimate an almost 7% m/m increase in manufacturing production in June. Production was still down 6% vs. the Dec level
  - » Compared to the Dec 19 level, China is in the lead (above the Dec level) followed by Norway and the US
- The chart to the right presents the accumulated gains/losses vs. the 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 down 'just' 5% in Q2 but some 12% ex China. Down 9% vs. Q4

Except China, all countries we follow have reported lower GDP. Still mange countries to report

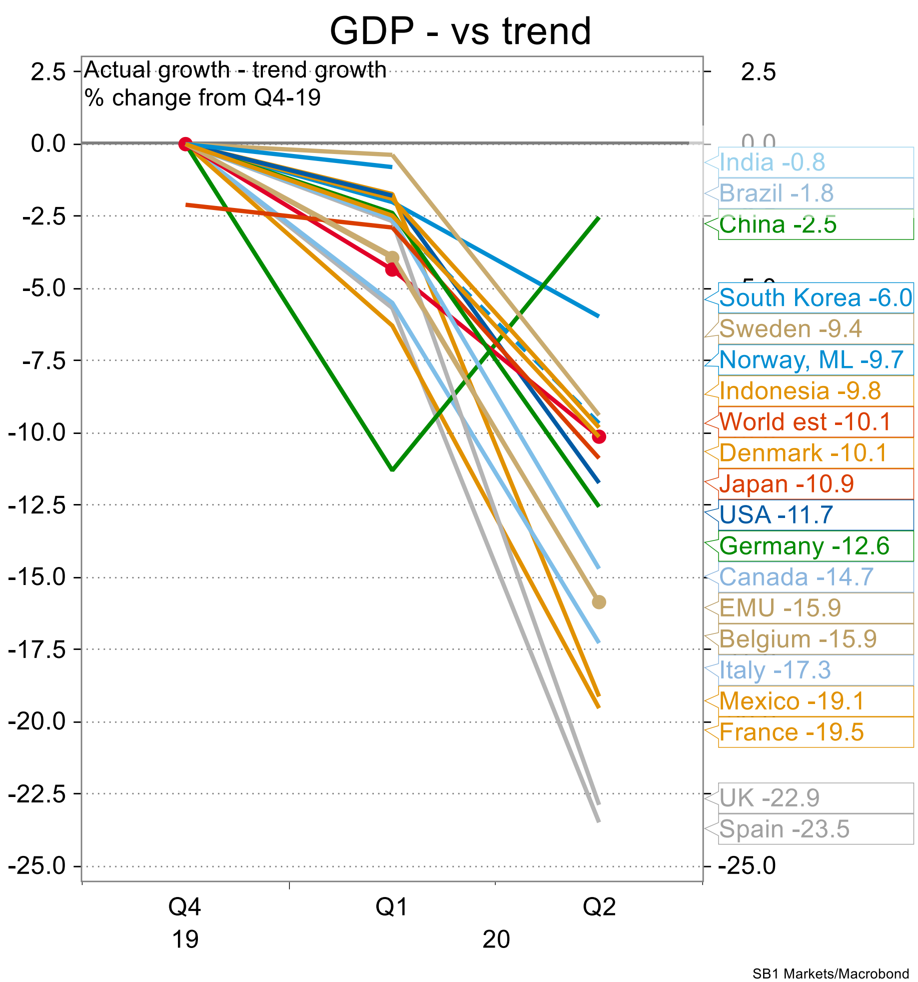


India and Brazil have not yet reported Q2 data! Norway, Japan + the world are our f'casts

- 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
  - UK down 20.4%, as expected, -22.1% from Q4, just as bad as Spain, the two worst DM countries
  - Denmark down 7.4% following the 2% drop in Q1, sum down 9.2%
  - Japan reported a 7.8% decline in Q2 GDP (this morning), marg. weaker than expected
  - Finland down just 3.2%!
- 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
  - Sweden down 8.6%, less than Europe, more than Denmark
- As production and demand recovered through Q2, we estimate that June was some 4 – 5% below the Q4-19 level
- *Our July global nowcast is for a further expansion in activity, and a 2 – 4% shortfall vs. the pre corona level and 5 – 6% negative output gap (check next page)*

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

The world 10% below pre corona trend in Q2



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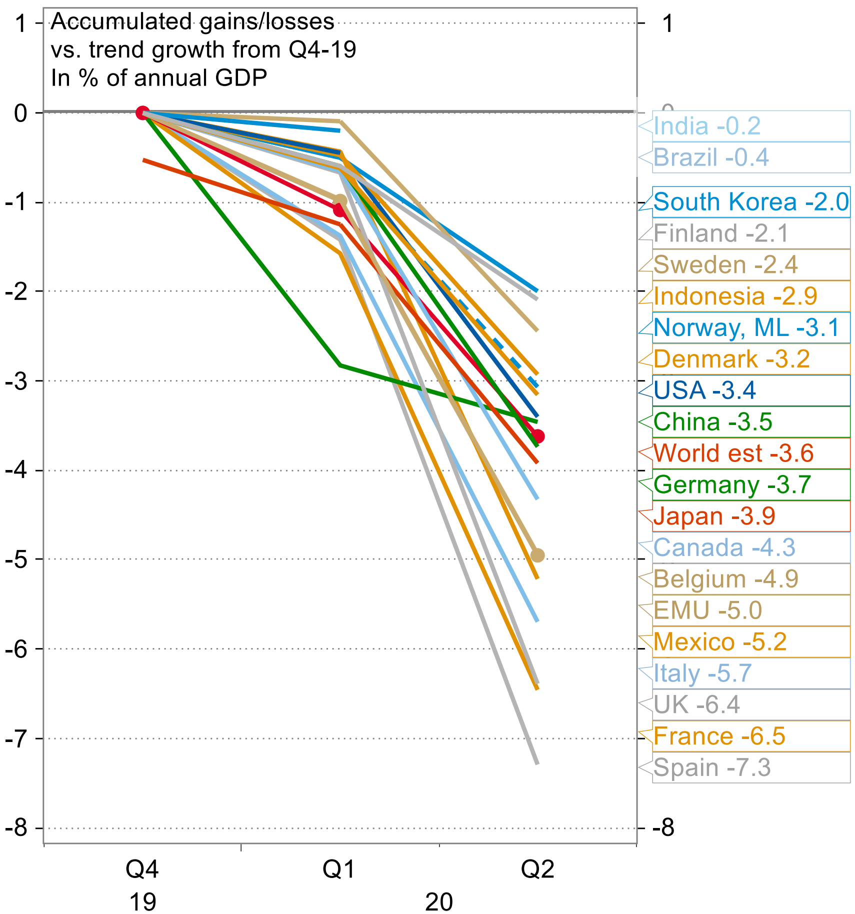
The accumulated losses vs trend growth so far equals 3.6% of global GDP

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

GDP losses vs. trend



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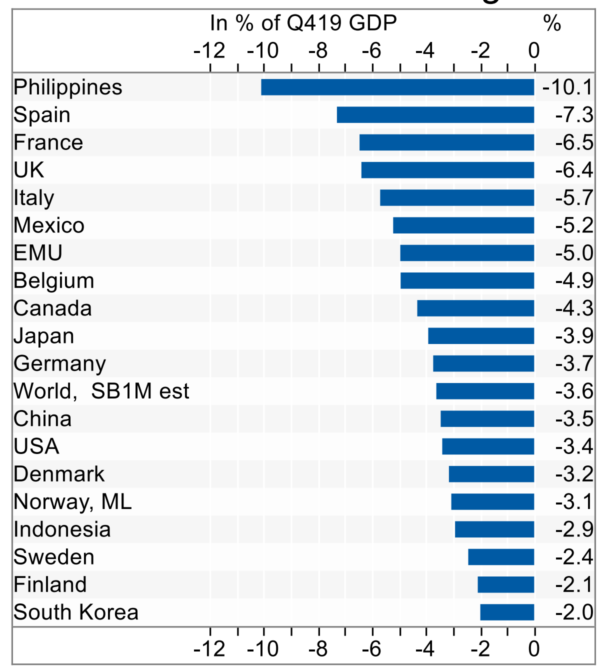
GDP - Loss vs. trend through Q2



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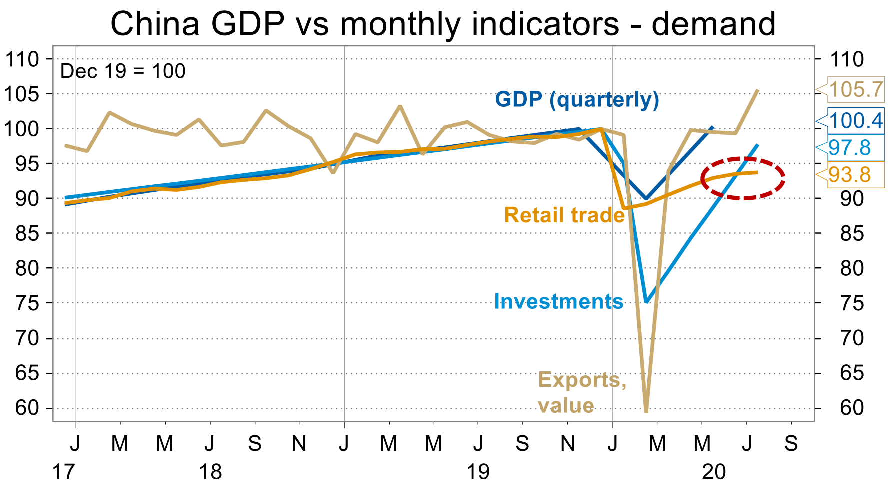
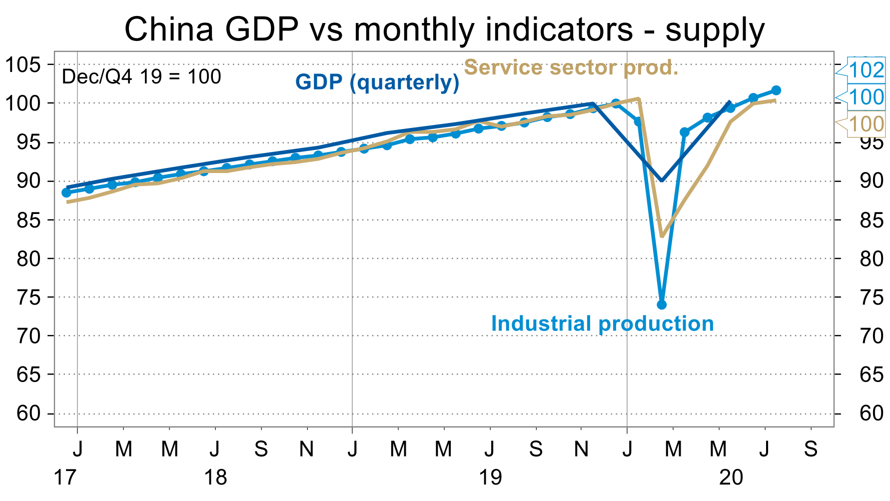
- So far, Sweden has lost less than most other, barring Finland and South Korea
- Spain has reported the largest loss in DM

July slightly below par, retail sales/services slowing but investments, exports OK

Industrial production almost back on track, retail sales still lagging, and grew below trend in July





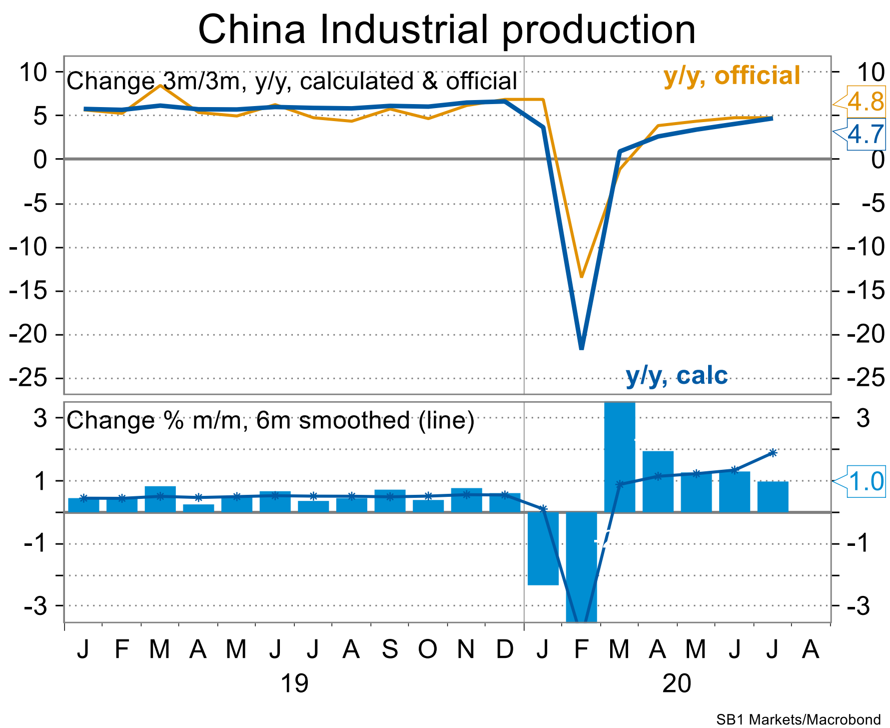
- **Industrial production** rose 1.0% m/m in July, and was up 4.8% y/y, 0.2 pp less than expected. Production is just 1% the pre corona trend – and it still growth faster, even if m/m growth rates are slowing down as the production gap is closed
- **Service sector** production rose just 0.4% m/m in July, down from 2.4% in June and 5% per month March - May. Activity has reached the Jan level (-0.2%), and is up 3.5% y/y – but are still 3% below the pre corona trend. The gap is partly due to lagging retail sales, but transport & hotels are weak too
- **Retail sales** rose just 0.2% in volume terms in July, as growth has slowed rapidly the past months – and it is now below trend. Nominal sales were down 1.1% y/y, expected +0.1%. Sales are now 8% below the pre corona trend. Lower **CPI inflation has come down recent months, and core prices are flat recent months. Total inflation rose to 2.7% in July, due to even higher food prices**
- **Investments** rose another 4.8% m/m in July. Growth is marginally slowing, which is natural as the gap vs the pre corona trend is closing rapidly, now 5% below. The gap will soon be closed. Investments were a tad stronger than expected. New homes sales and starts are at record high levels
- **Credit growth** slowed further in July but the longer term trend is still upwards, and the growth level is far above any long term sustainable path
- **From last week: Exports** were much stronger than expected in July, and is back to the pre corona trend. Imports were at tad weaker than expected
- One month ago, **Q2 GDP** was reported up 11.5% q/q, expected 9.5%, following the 9.8% setback in Q1, and was 0.4% above the Q4 level (but 2.5% below pre corona trend)

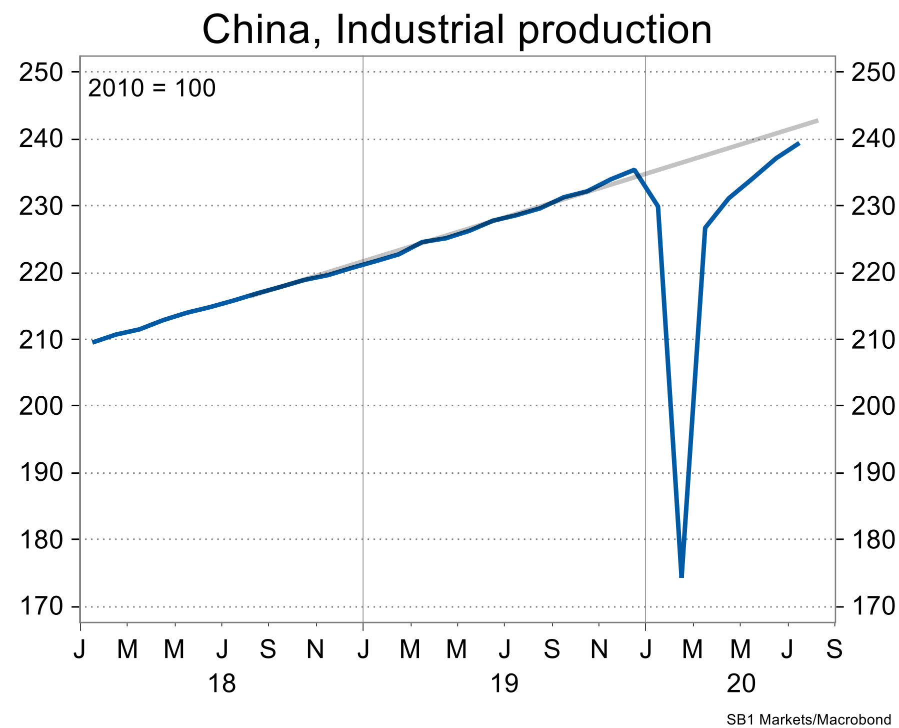
In sum: Final demand for goods is still below the pre corona trend but the gap is narrowing even if retail sales is growing slower. Industrial production seems to be a tad to strong vs. demand. Services are further behind, and July was not that assuring

Some details at the following pages ☺

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

Production rose 1.0% m/m in July, well above trend growth. Up 4.8% y/y, as in June, expected 5.0%

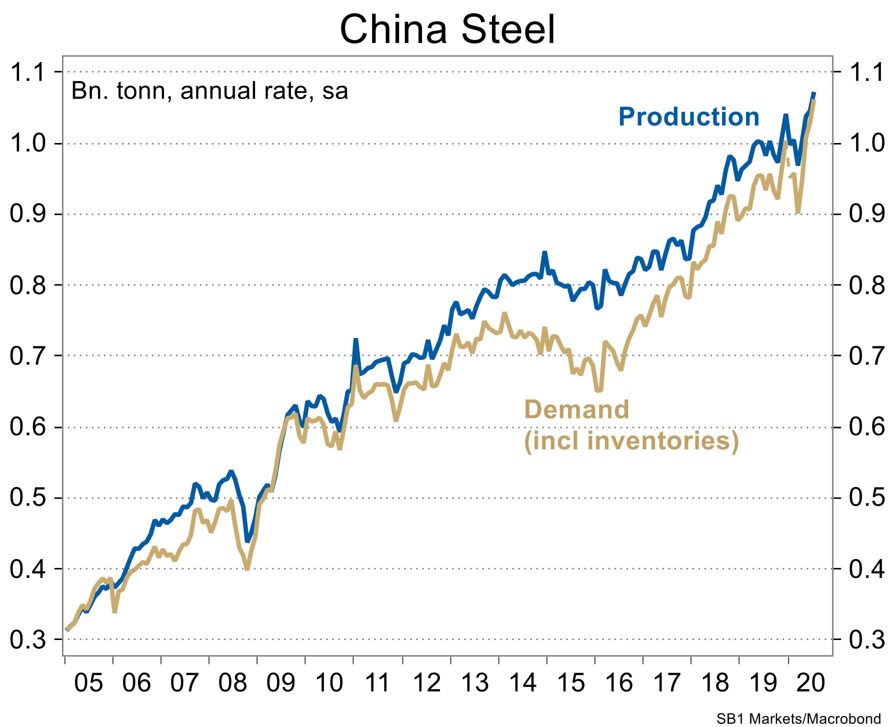




- Production rose 1% m/m, slower than over the previous months but well above the pre corona norm, at some 0.5% per month – as the production level is approaching the old trend path. It is now some
- Production is just 1% below the pre corona trend – and we expect the gap to be closed during the autumn
- Retail sales are 8% pre corona trend, investments 5% - while exports are at trend, and even if imports are lower, the manufacturing sector needs more final demand to keep growth up

Steel demand & production sharply up since the corona bottom in March

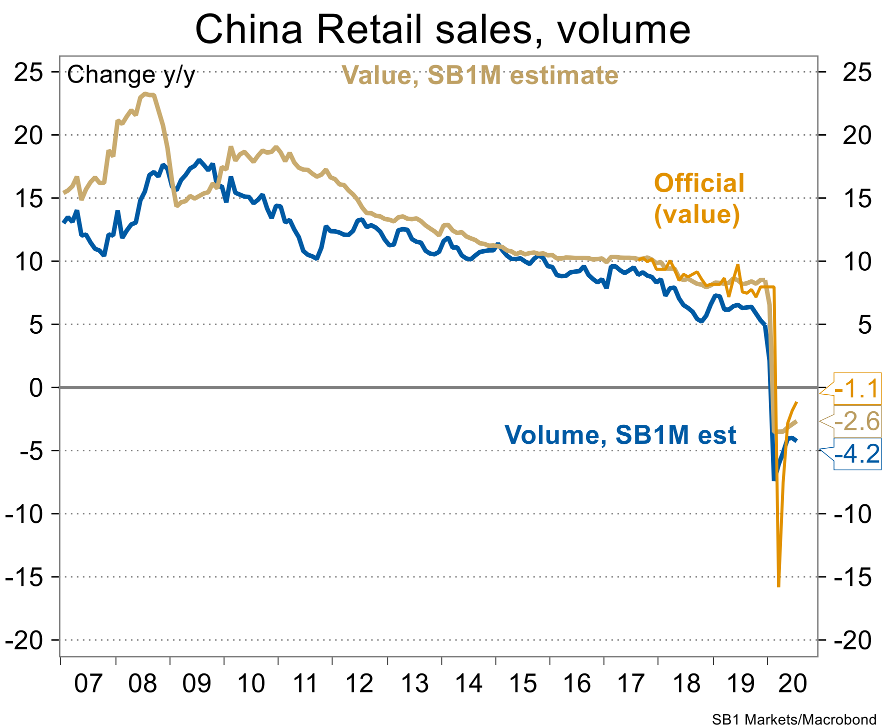
Both are at record high levels, and above trend. Construction starts has climbed fast too, close to ATH

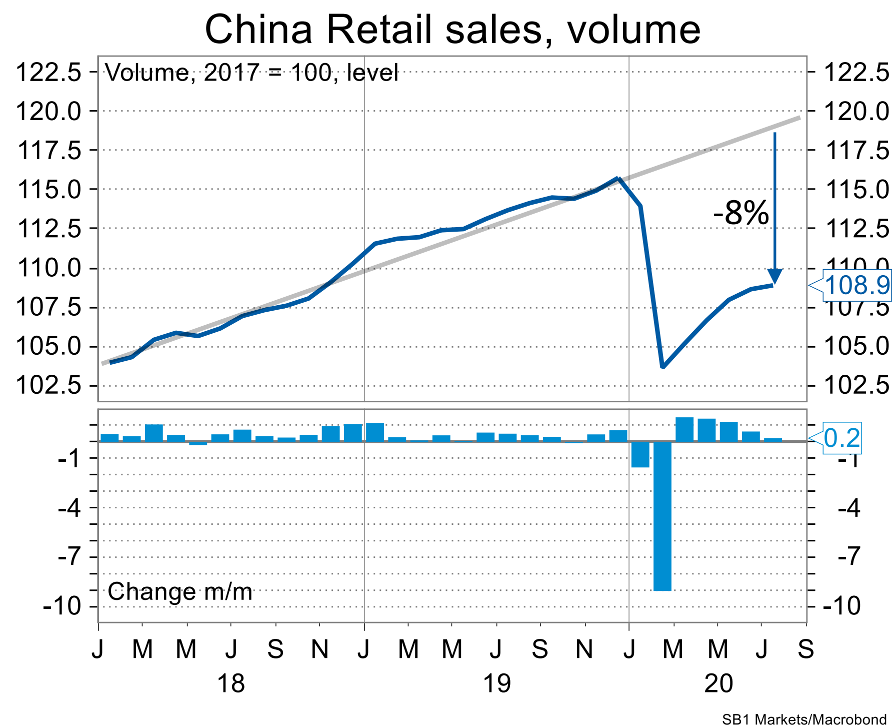


- Demand includes changes in inventories

Retail sales the weak link, m/m growth slowed in July (as in June & May)

Sales volume just up 0.2% in July, and level still 8% below the pre corona trend

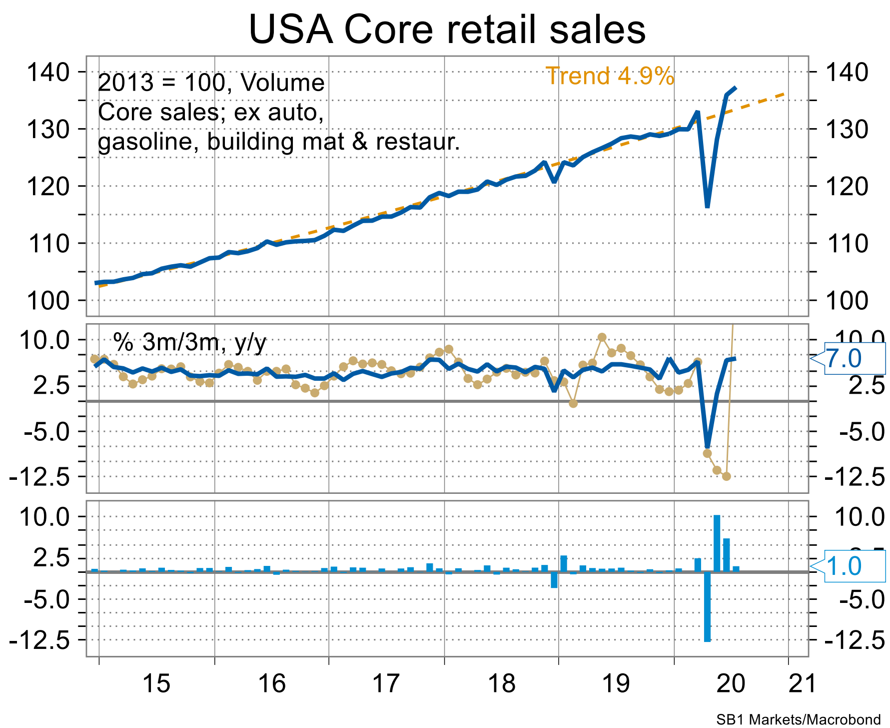


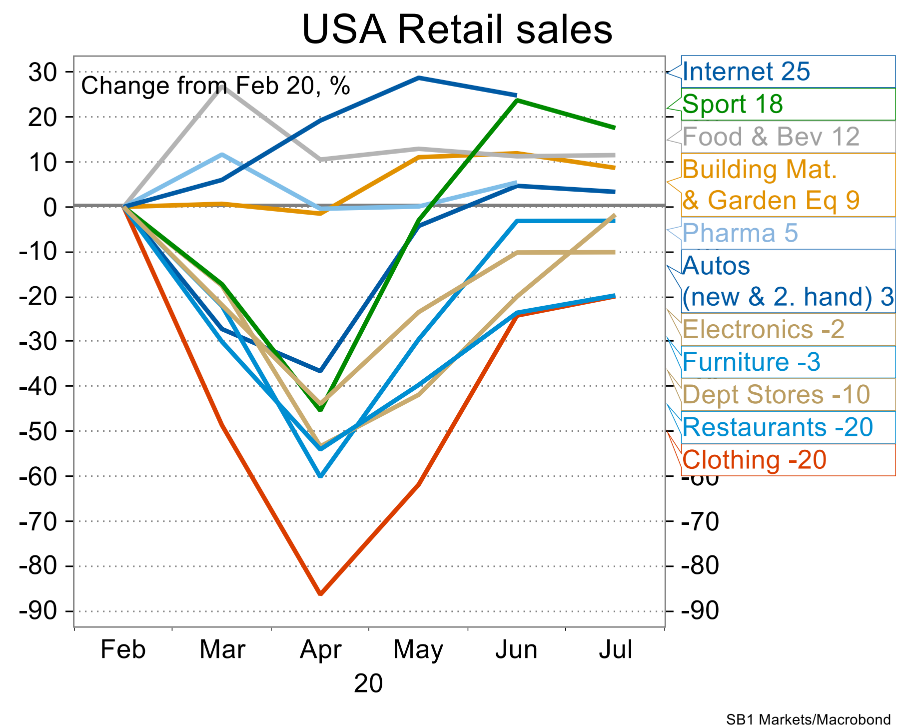


- The official value y/y at -1.1% in July was below expectations (+0.1%)
- In volume terms (calculated by SB1M) slowed to just 0.2% in July
  - » Growth has been slowing since March – and it is now growing slower than the pre corona trend – and the gap vs the pre corona trend level is widening- it is now at 8%. The recovery has stalled

Retail sales up in July but at a slower pace, core sales 3% above trend

Clothing and restaurants are still struggling. Internet, sport, food & building mat./garden eq. strong

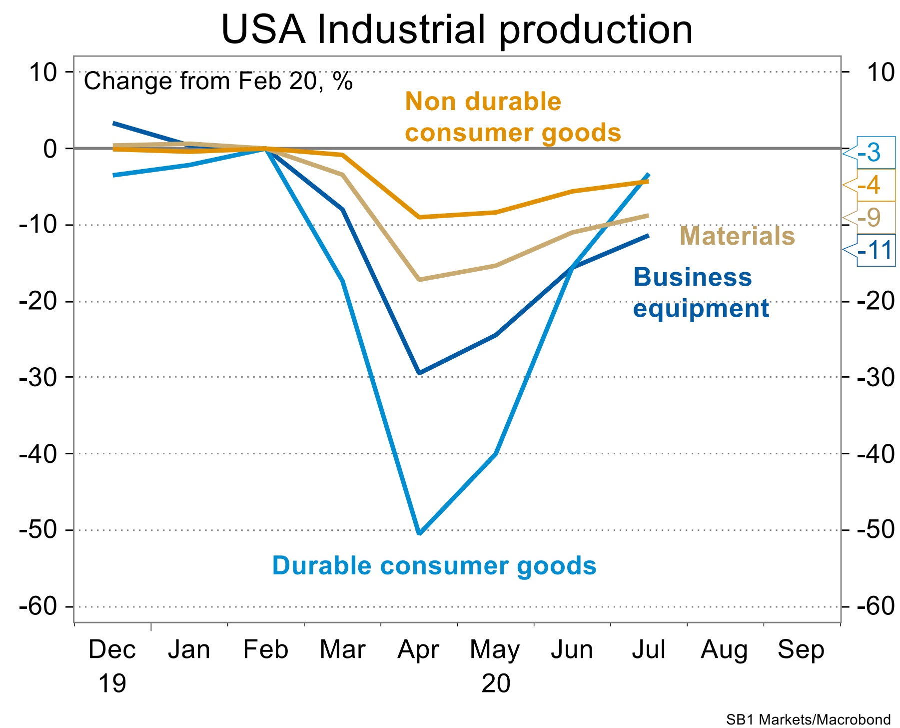




- Total sales rose by 1.2%, half of the expected lift. However, June was revised up to 8.4%, m/m!
- Core sales rose by 1.4%, we assume by 1% in real terms, and is now 3% above the February level, up 7% y/y, and 3% above the rather strong medium term pre corona trend!! (Total retail sales are not that strong, up 1.6% from February (non core auto, gasoline, restaurants are down), and total consumption is far below the Feb level as services are struggling, down 11% in June, taking down total personal consumption by 7% vs Feb
- The gap between different sectors is narrowing as sales in those who have blossomed since February retreated, and those who have struggled continued their way back. Still, restaurants are down 20%, not that surprising given corona measures. It's harder to explain the continued 20% shortfall in clothing – as sales were extreme weak March - May (70%)

Manufacturing up 3.4% in July, still 8% down vs Feb.

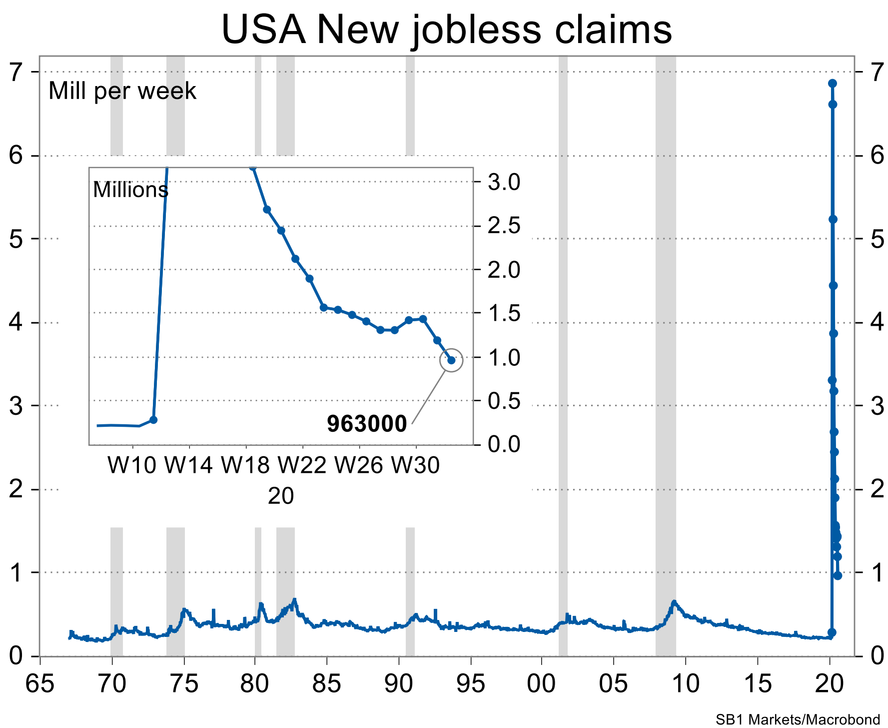
More than half of the decline in March/April is recovered but activity is still at recessionary level

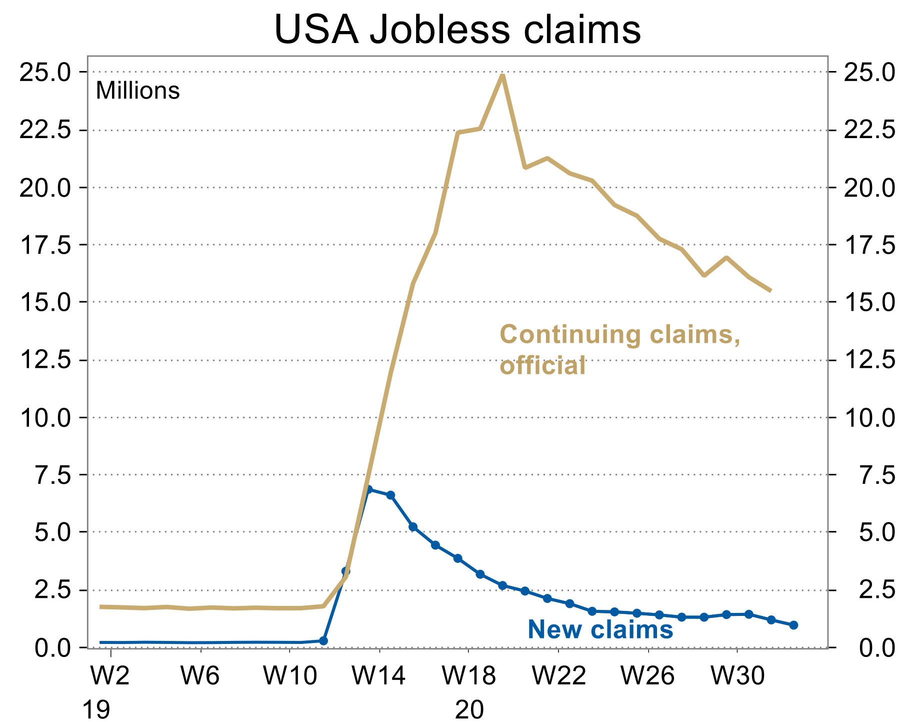


- Manufacturing production grew by 3.4% in July, expected 3.0%, following the 7.4% spike in June – but still 8% down from February
  - » Business equipment production is lagging, down 11% vs. Feb. Durable consumer foods are down
- Total industrial production, including utilities, mines/oil production, rose by 3% in July. Mines, including oil production, is still down 18% vs Feb, and total industrial prod is down more than 8% vs Feb
- PMI/ISM and other surveys signal a continued recovery, but not at a brisk pace, given the still low production level

New jobless claims >1 mill – back on the downward track. Still extremely high

To good weeks, and the downward track is intact. Still 0.6% of the labour force turned up…





- The inflow is still far higher than during previous recessions, and amid a rapid increase in employment. Illustrates the huge sectoral challenges, some have recovered, others are still struggling and have to reduce their payroll at a rapid pace
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 16 mill from 25 mill. but not further last week. The number of persons receiving unemployment benefits is far larger, we are not sure why

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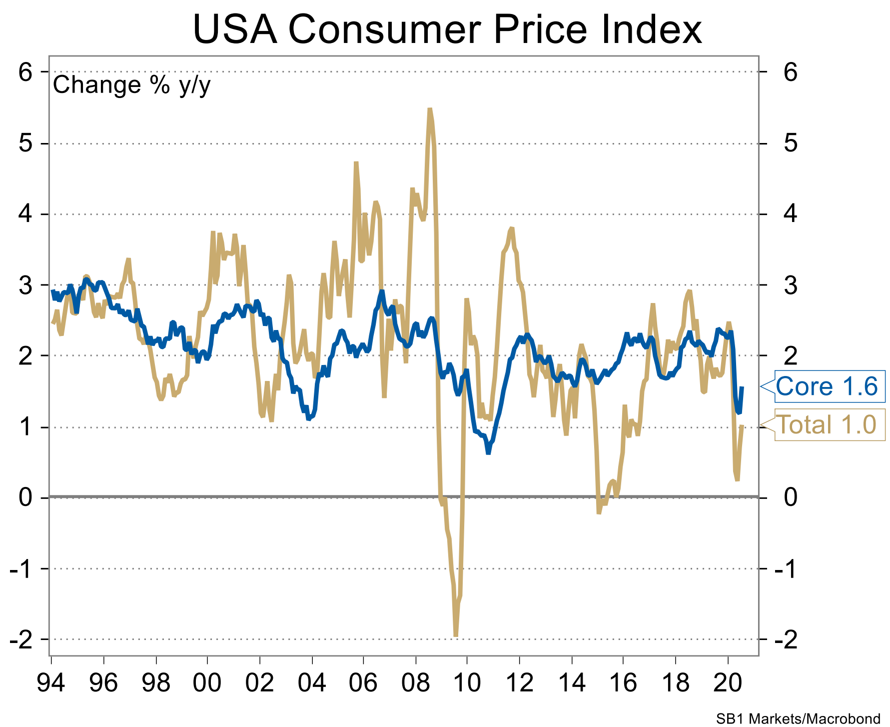
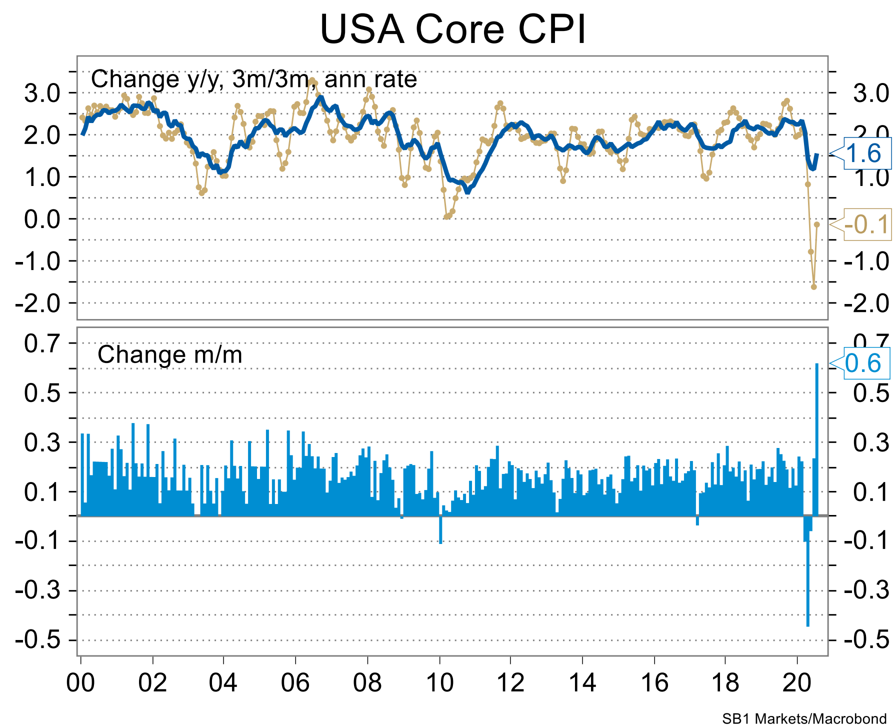
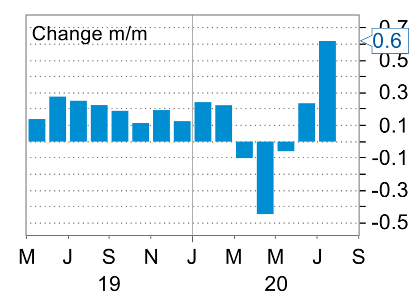
Core CPI up 0.6% m/m in July, most in 30y. Prices still below pre corona trend

Annual rate up 0.4 pp to 1.6%, but still down from 2.4% in February



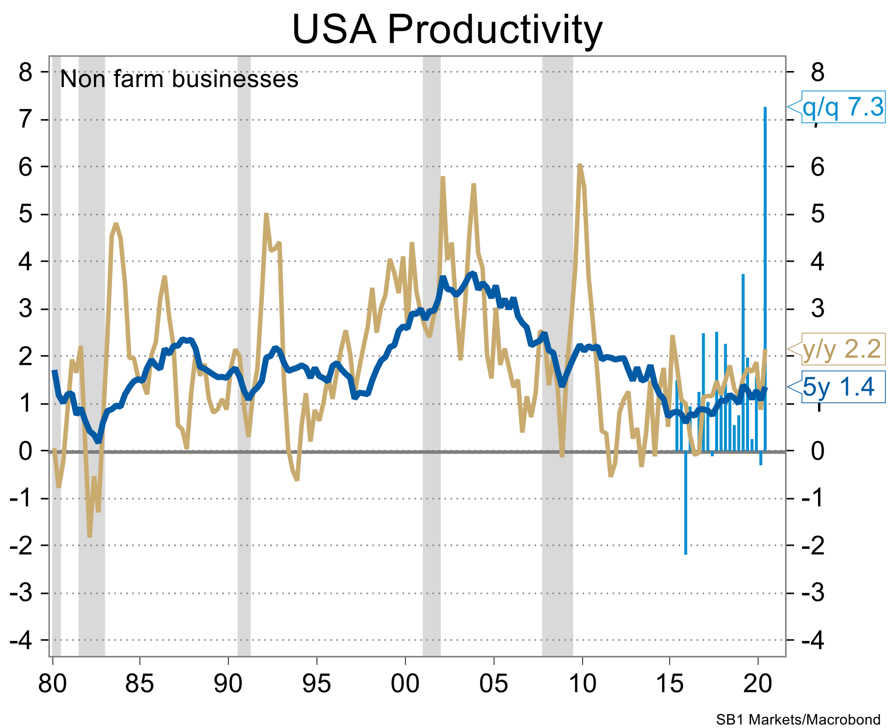


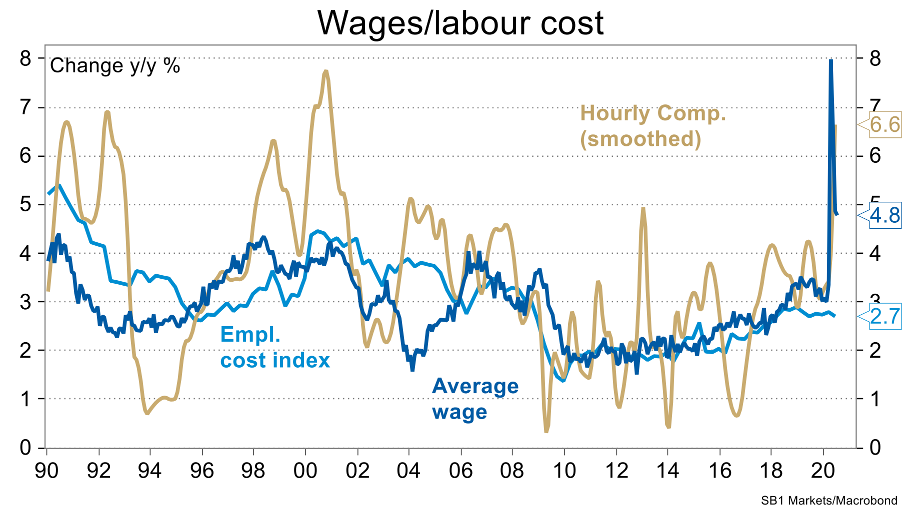
- The 0.6% m/m price hike was the highest in 30 years, and totally unexpected (exp. 0.2%!)
- Core CPI prices fell 1% vs trend growth in the 3 first corona months, and has recovered just 0.4 pp of the 'loss' in June & July - *and the corona shock has so far been deflationary*
- However, the past two months do of course NOT indicate a permanent deflationary impact – and it is has NOT become more likely that the Fed will reformulate its inflation target policy
- Headline CPI is up 1% y/y, up from 0.2% in May. Energy prices are on way up too

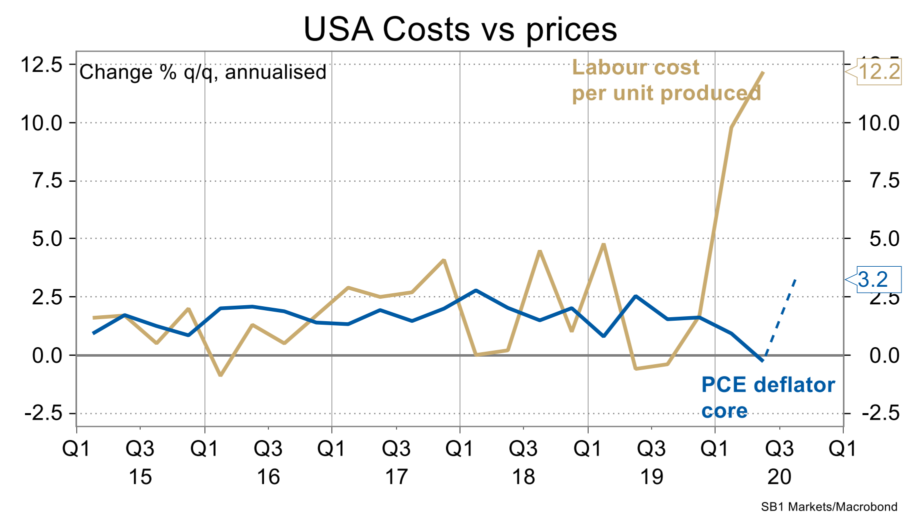


Wild productivity & labour cost data; low productive/low paid workers are shed

Avg hourly compensation up 5% in Q3 (not annualised), productivity up 2%, unit labour cost +3%



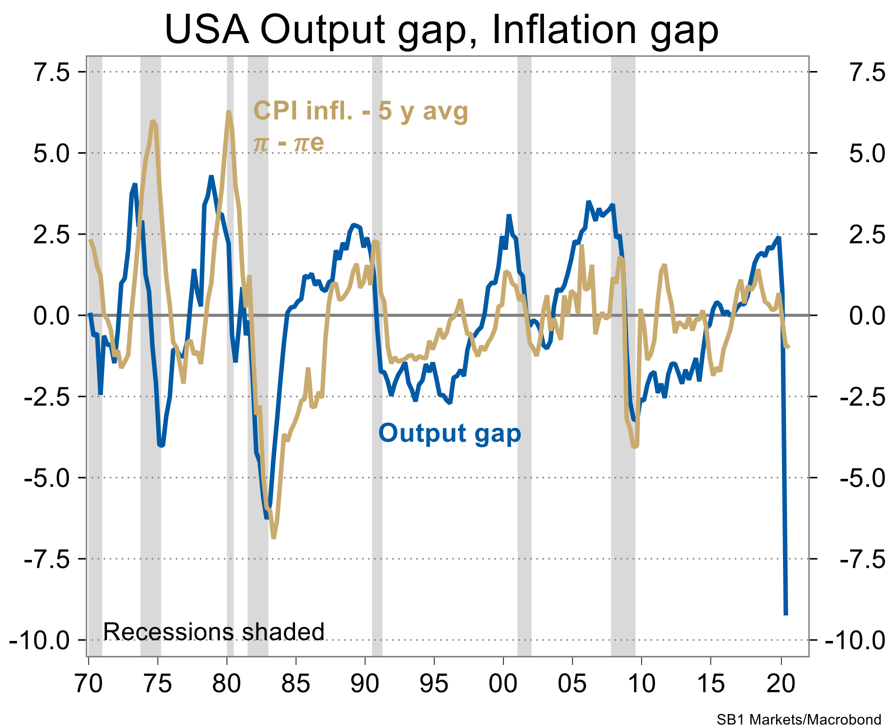




- Output fell 39% - hours worked -43% = Productivity +7.3% (expected 1.5%, hours fell much more than assumed)
- Hourly compensation +20% - productivity 7.3% = Unit labour cost +12.2% (expected 7.2%, Q1 rev to 10%, from 5.1%)
- Well, these Q2, annualised growth rates are rather wild. The y/y rates are more 'sensible':
  - Output -12% - hours worked -14% = productivity +2.2%
  - Hourly compensation +8% - productivity 2.2% = Unit labour cost +5.7%
- Bottom line: Cost have increased far more than prices, profits are squeezed, check next page

High inflation: A substantial risk? Most likely not. At least not short term

Changes in inflation is still correlated to the cycle (yes that's one version of a Phillips curve)



- And now, the cycle is that strong
- Sure, the decline in production is now mostly due to an external supply (corona) shock, not lack of demand – which is normally the reason for recessions. Income is propped up by unprecedented monetary and fiscal stimulus – and demand might become too strong vs. supply in some sectors, like in consumer goods in US as well as in other countries
- At the other hand, unemployment is still high and wage inflation will be subdued for several quarters. Cost inflation will not accelerate, in general

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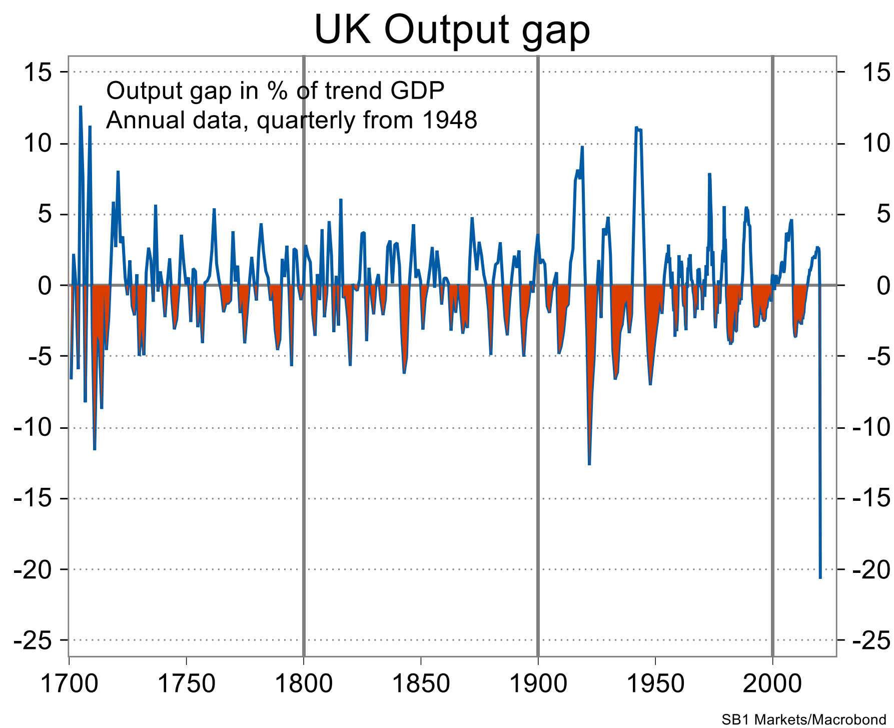
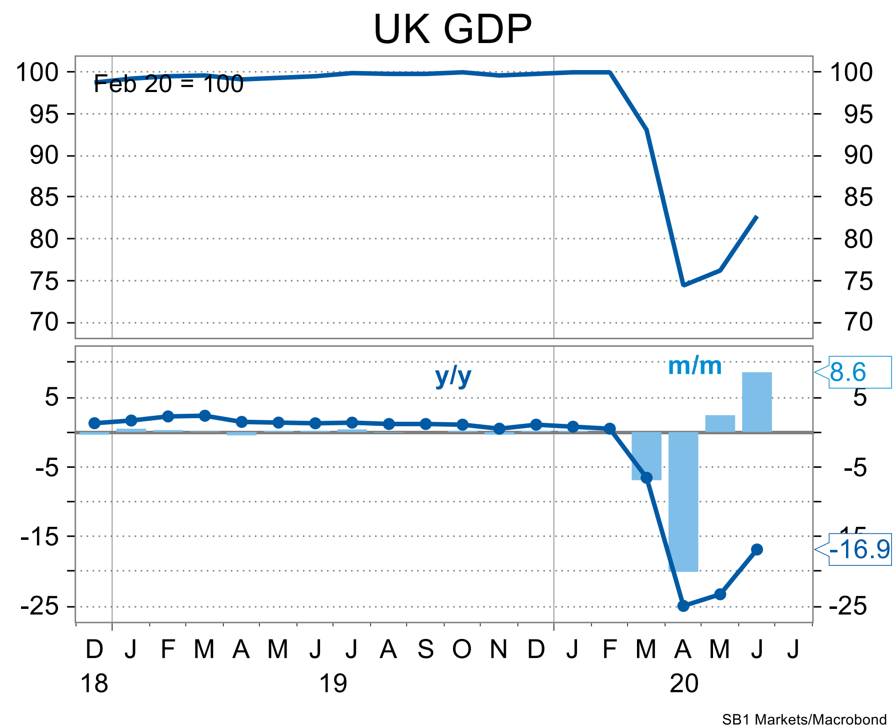
Just a confirmation, the Q2 was worst on the UK record. At least since year 1700

Q2 GDP fell by 20.4%, consumption fell sharply. GDP rose by 8.6% in June. Still 17% down vs. Feb

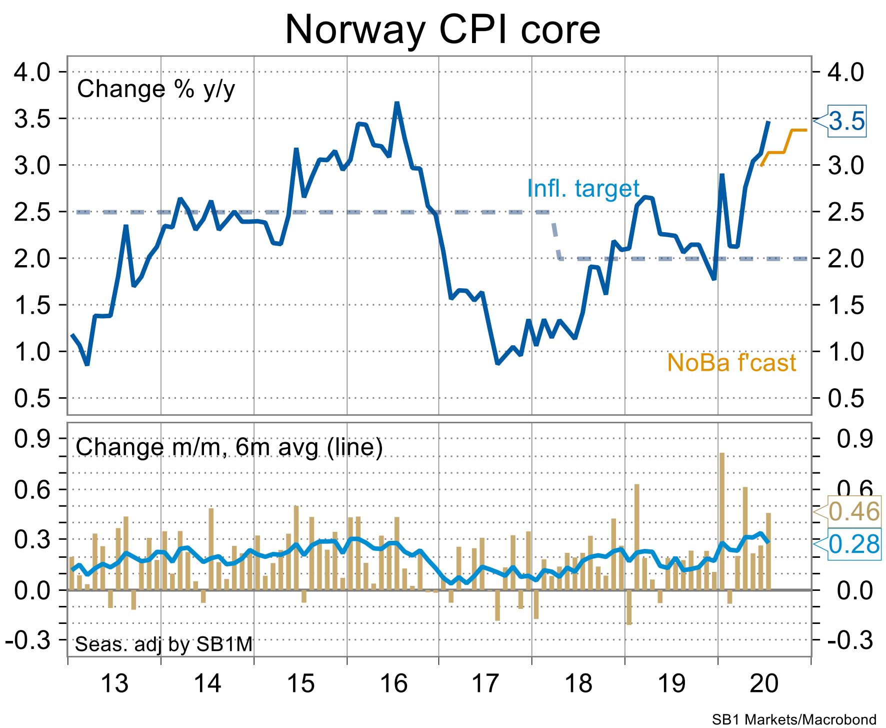




- UK should, like most other countries, report the highest growth ever in Q3. Perhaps 15% in UK - but even so, the GDP level in Sept would be 7% below Feb 20
- Labour market data are still

Oops, core CPI up to 3.5%. Most likely not a lasting problem

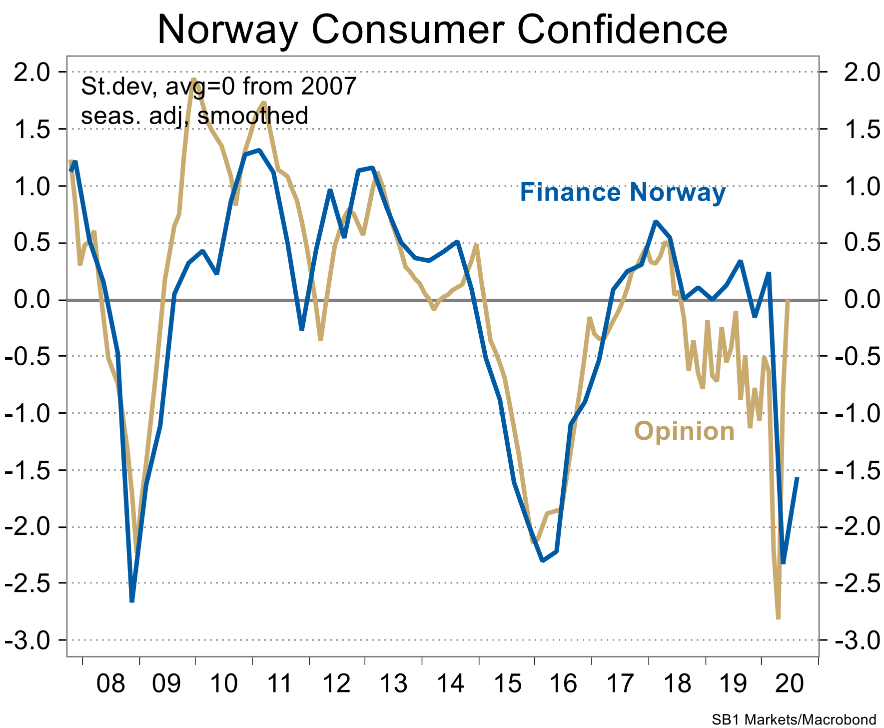
Inflation well above the target – due to temporary factors. Total inflation still low at 1.4%

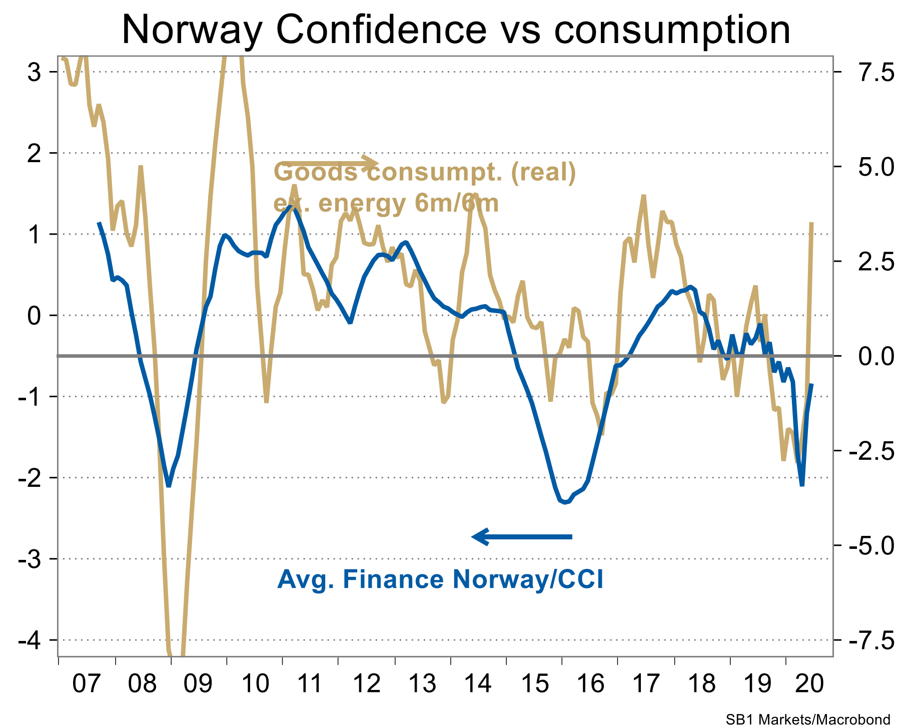


- CPI-ATE (ex. energy and taxes) rose 0.4 pp to 3.5% y/y in July, we expected unch – and it is higher than NoBa's Q3 avg forecast (3.1%). Inflation is above 2% for all major groups, except housing
  - » Prices rose 0.5% m/m (s.a)
- Total inflation slowed 0.1 pp to 1.3%. Electricity prices – but also gasoline prices – explains the 2.2 pp divergence to the core CPI
- **The price outlook**
  - » Impacts of the corona crises are mixed
    - ▪ A weaker economy strongly suggests low inflation. Wage inflation is no doubt on the way down
    - ▪ The weak NOK has lifted inflation but this impact will soon fade as the NOK has stabilied
    - ▪ Energy prices have been falling but the downside from here is limited
  - » Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. Wage growth will no doubt slow, almost whatever CPI data that may be reported – and the headline CPI is very low!

Consumer sentiment up in Q3 but far less than we expected, still far below par

Finance Norway's CCI climbed to -7 in Q3, from -17 in Q1, we expected +12 (an avg level)

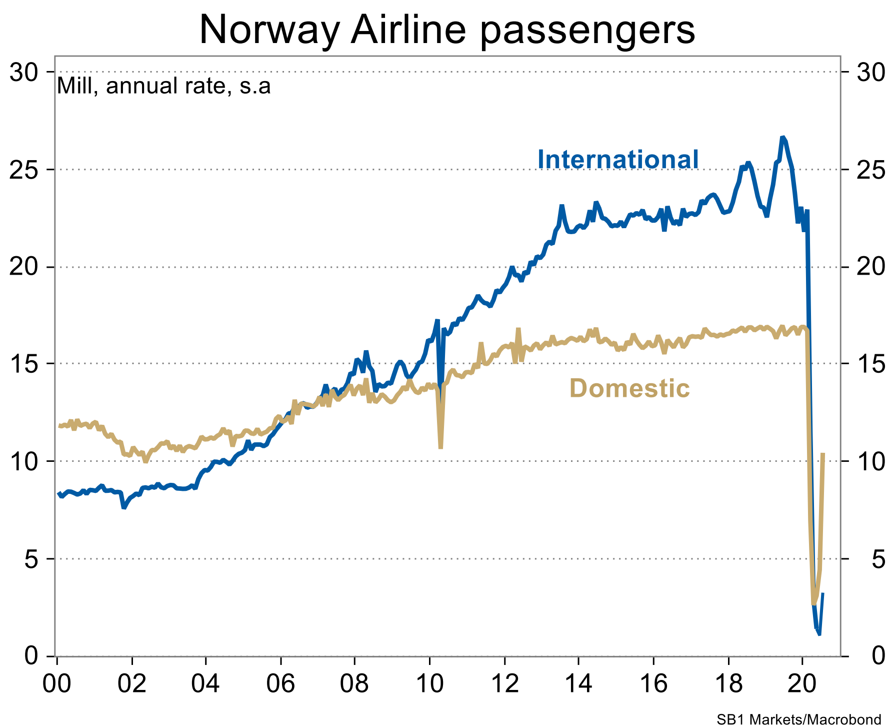




- Finance Norway's quarterly consumer confidence index recovered to -7 in Q3, from -17 in Q2, to -1.5 st.dev below par, from -2.3 st.dev.
  - » FN reports a smoothed trend, which fell to 7, from +5. This transformation is not meaningful at all now
  - » The monthly CCI from Opinion rose to an average level in June (no July survey) – equalling a Finance Norway survey at +15
- The forward looking components were much stronger than the backward looking (except for the major purchase sum index). The backward looking components have a too high (60%) weight in the index, we think
- The avg. of the FN & CCI has recovered but remains below par – while actual consumption has soared since March has stabilised since early 2019, at a decent level, and do not point to an abrupt slowdown in consumption, such as actual consumption/retail data have showed recent months. Any acceleration is unlikely, but a soft recovery should be within reach
  - » Still slower growth in nominal and real income than 'usual', low population growth may explain some of this gap, the 'new normal' is lower than before

Domestic airline traffic halfway back to a normal level in July, still down 35%

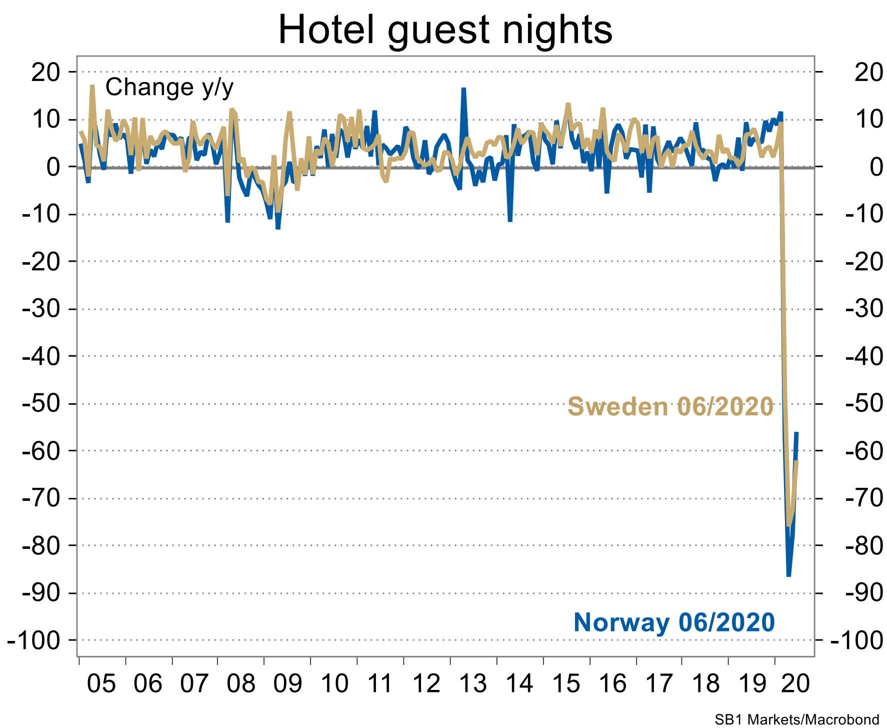
International traffic up too, but just marginally – down 85% vs pre corona. Total traffic down 66%



- More than half of the decline in domestic traffic is recovered
- International traffic was very slow in July too but recovered through the month and
- Total traffic is still down 2/3rd vs the pre corona level

Hotels: Spot the difference between Norway and Sweden, if you can

Formal lockdown policies differed between Norway and Sweden. Hotels felt exactly the same pain



- The chart illustrates the obvious: The virus has been – and still is - the problem, not the policy measures
- The number of hotel nights approx 80% at the worst
- In June, down 60%
- The July figures will be substantially better as the no of domestic guest rose sharply – but with huge regional differences in both countries

The (slim) Calendar

In focus: The prelim. August PMIs. US housing data. FOMC minutes. Norges Bank

Time	Cour	Indicator	Period	Forecast	Prior
Monday August 17					
08:00	NO	Trade Balance NOK	Jul	--	-10.2b
14:30	US	Empire Manufacturing	Aug	15.0	17.2
16:00	US	NAHB Housing Market Index	Aug	74	72
Tuesdat August 18					
14:30	US	Building Permits	Jul	1320k	1241k
14:30	US	Housing Starts	Jul	1240k	1186k
Wednesday August 19					
06:00	SW	House prices			
08:00	UK	CPI Core YoY	Jul	1.3%	1.4%
10:00	NO	Norges Bank expectation surv.	Q3		
20:00	US	FOMC Meeting Minutes	Jul-29		
Thursday August 20					
09:30	SW	Unemployment Rate SA	Jul	9.5%	9.2%
10:00	NO	Policy rate, no inflation report	Aug-20	0.0%	0.0%
14:30	US	Philadelphia Fed Business Outlook	Aug	21	24.1
14:30	US	Initial Jobless Claims	Aug-08	920k	963k
Friday August 21					
02:30	JN	Manufacturing PMI	Aug P		45.2
08:00	UK	Retail Sales Ex Auto Fuel MoM	Jul	0.2%	13.5%
09:15	FR	Markit France Manufacturing PMI	Aug P	53	52.4
09:30	GE	Markit/BME Germany	Aug P	53	51
10:00	EC	Markit Eurozone Manufacturing	Aug P	52.7	51.8
10:00	EC	Markit Eurozone Services PMI	Aug P	54.6	54.7
10:00	EC	Markit Eurozone Composite PMI	Aug P	55.1	54.9
10:30	UK	Markit UK PMI Manufacturing SA	Aug P	53.5	53.3
15:45	US	Markit US Manufacturing PMI	Aug P	51.5	50.9
15:45	US	Markit US Services PMI	Aug P	50.9	50.0
16:00	EC	Consumer Confidence	Aug A	-15	-15

- **PMI/surveys**
  - » In July, the PMIs finally crossed the 50-line, two months too late, as the recovery started in May in most countries x China. Should the PMIs not climb further in August, that would signal a rather muted recovery pace – that still very likely continued in August. Preliminary PMIs will be reported from Japan, EMU, UK and US, both manufacturing and services, all are expected marginally up (barring the strong EMU service PMI, marg. down). In the US, NY & Phil manufacturing surveys will complement the PMI. Both are expected down
- **USA**
  - » **Housing data** have mostly been on the strong side since April, and we doubt the regional corona outbreaks in July have created much problems (and mortgage rates moved up in August). Minutes from July FOMC meeting may reveal signals on a possible reformulation of monetary policy
- **Norway**
  - » **Norges Bank** will no doubt leave the signal rate unch at zero, and is not scheduled to present a monetary policy report or a new interest path. The bank could still give some hints on its assessment of the outlook. Most Norwegian news has no doubt been on the upside vs NoBa's June forecasts, vs. inflation, growth, house prices and credit. The labour market is on track vs forecasts, but the tension in wage negotiations, now entering the mandatory mediation phase tomorrow may signal higher wage inflation than expected. Of course, corona abroad and in Norway creates new downside risks. Still, at the balance, we assume NoBa may leave a positive assessment – which does not imply a lower interest rate path next month**. Norges Bank's expectation** survey will also be published (not the Regional Network)

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

Highlights

The world around us

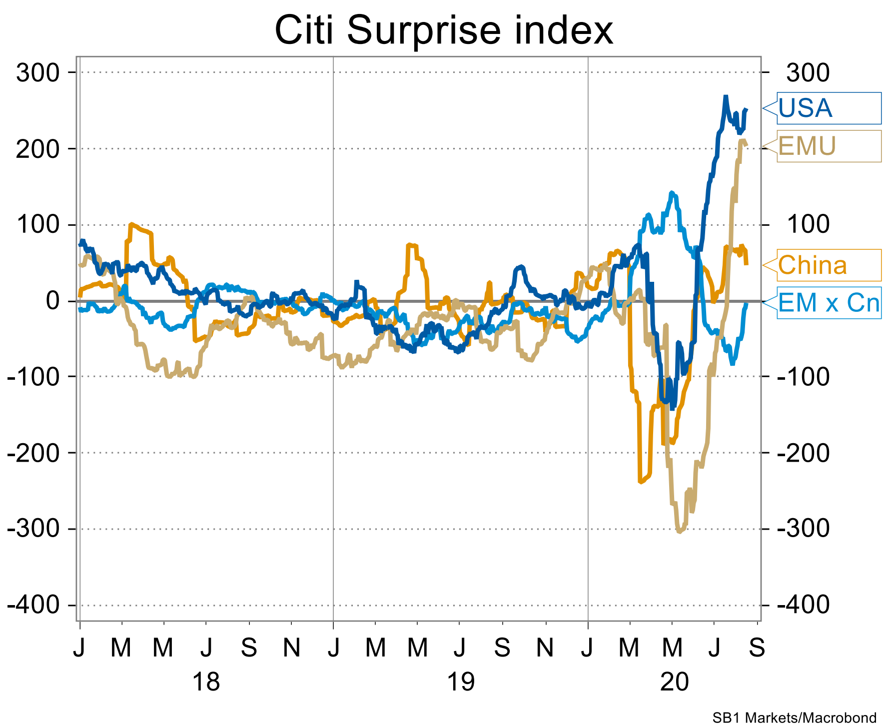
The Norwegian economy

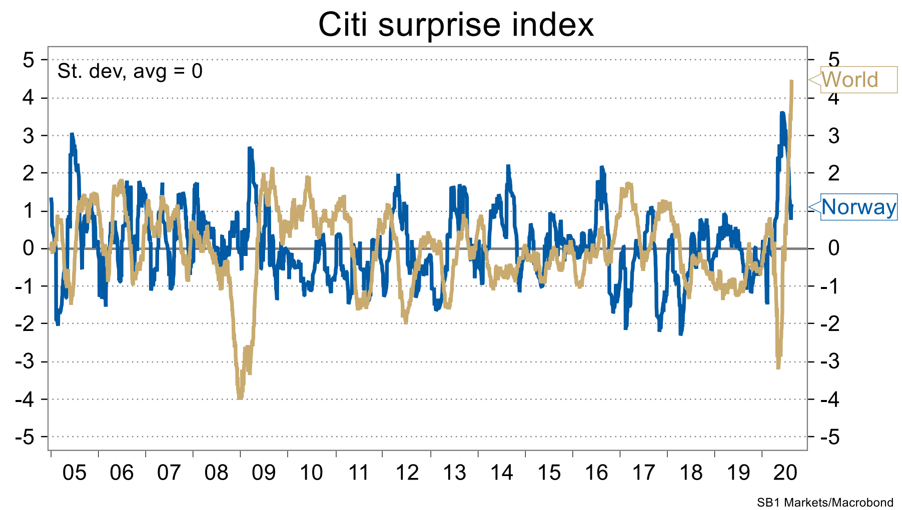
Market charts & comments

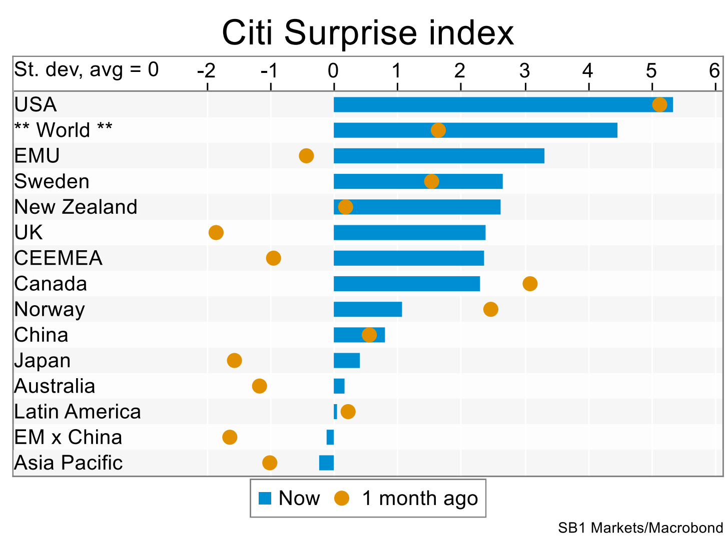
SpareBank 1 MARKETS

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

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







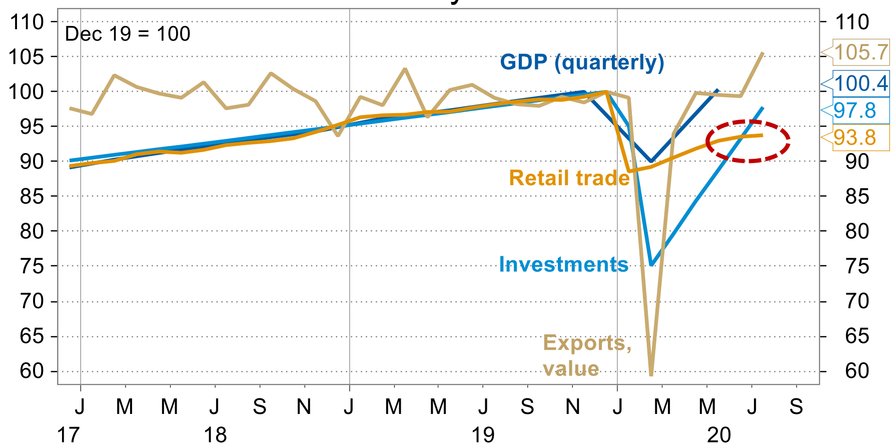
- Both the US & EMU are surprising more on the upside than ever before (data from 2003)
- China in positive territory too
- Other EMs are reporting weaker data than expected
- Norway has been surprising on the upside too – big time – but less so two past weeks

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

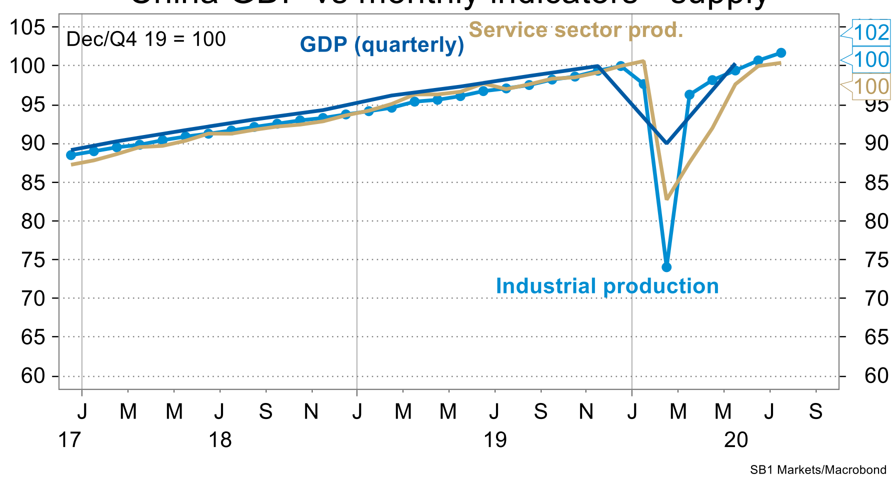
July slightly below par, retail sales/services slowing but investments, exports OK

Industrial production almost back on track, retail sales still lagging, and grew below trend in July

China GDP vs monthly indicators - demand



China GDP vs monthly indicators - supply



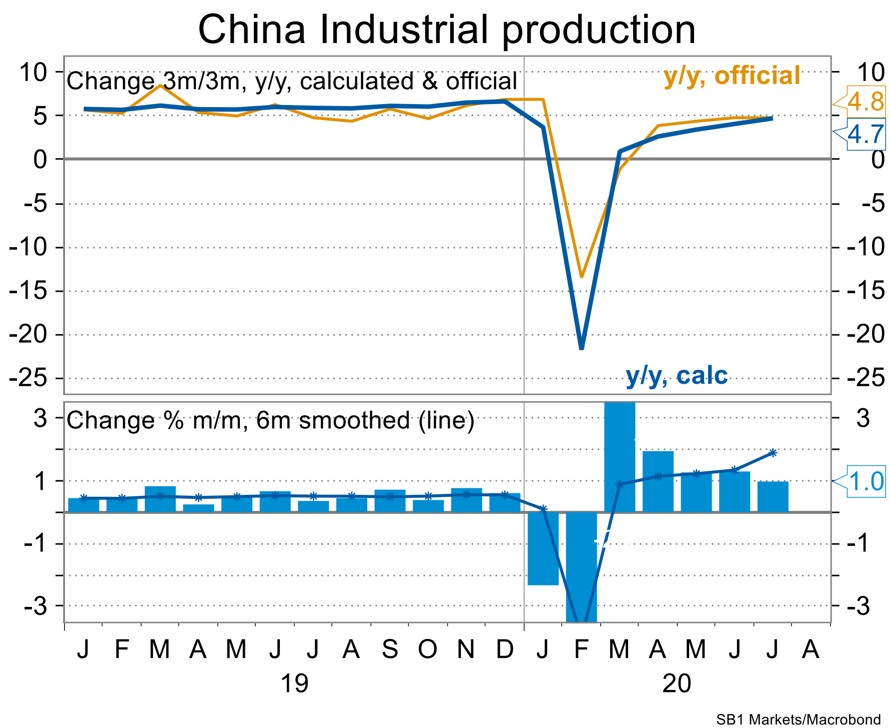
- **Industrial production** rose 1.0% m/m in July, and was up 4.8% y/y, 0.2 pp less than expected. Production is just 1% the pre corona trend – and it still growth faster, even if m/m growth rates are slowing down as the production gap is closed
- **Service sector** production rose just 0.4% m/m in July, down from 2.4% in June and 5% per month March - May. Activity has reached the Jan level (-0.2%), and is up 3.5% y/y – but are still 3% below the pre corona trend. The gap is partly due to lagging retail sales, but transport & hotels are weak too
- **Retail sales** rose just 0.2% in volume terms in July, as growth has slowed rapidly the past months – and it is now below trend. Nominal sales were down 1.1% y/y, expected +0.1%. Sales are now 8% below the pre corona trend. Lower **CPI inflation has come down recent months, and core prices are flat recent months. Total inflation rose to 2.7% in July, due to even higher food prices**
- **Investments** rose another 4.8% m/m in July. Growth is marginally slowing, which is natural as the gap vs the pre corona trend is closing rapidly, now 5% below. The gap will soon be closed. Investments were a tad stronger than expected. New homes sales and starts are at record high levels
- **Credit growth** slowed further in July but the longer term trend is still upwards, and the growth level is far above any long term sustainable path
- **From last week: Exports** were much stronger than expected in July, and is back to the pre corona trend. Imports were at tad weaker than expected
- One month ago, **Q2 GDP** was reported up 11.5% q/q, expected 9.5%, following the 9.8% setback in Q1, and was 0.4% above the Q4 level (but 2.5% below pre corona trend)

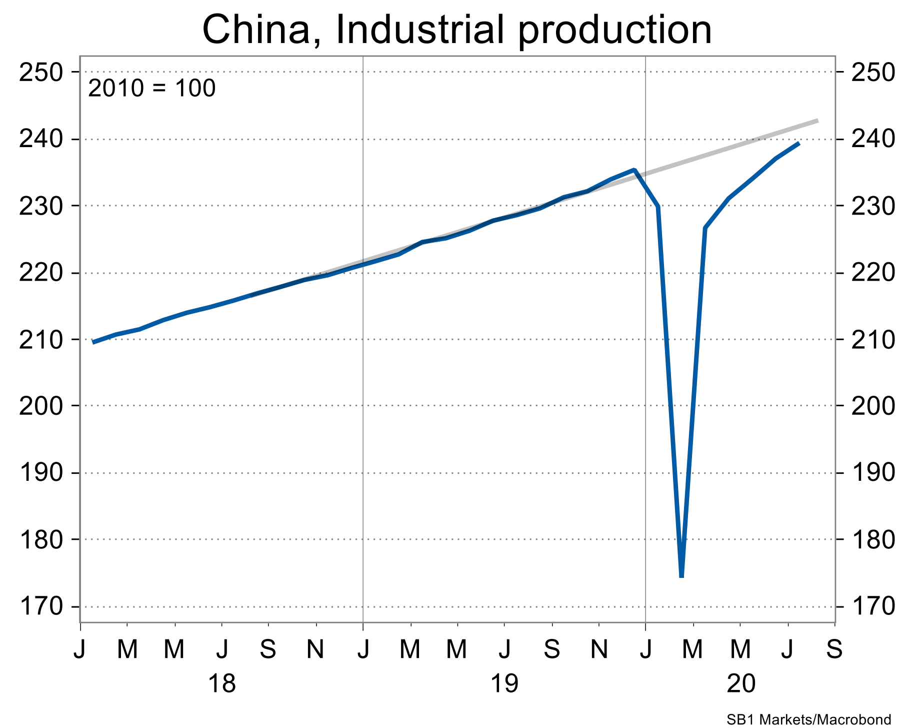
In sum: Final demand for goods is still below the pre corona trend but the gap is narrowing even if retail sales is growing slower. Industrial production seems to be a tad to strong vs. demand. Services are further behind, and July was not that assuring

Some details at the following pages ☺

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

Production rose 1.0% m/m in July, well above trend growth. Up 4.8% y/y, as in June, expected 5.0%

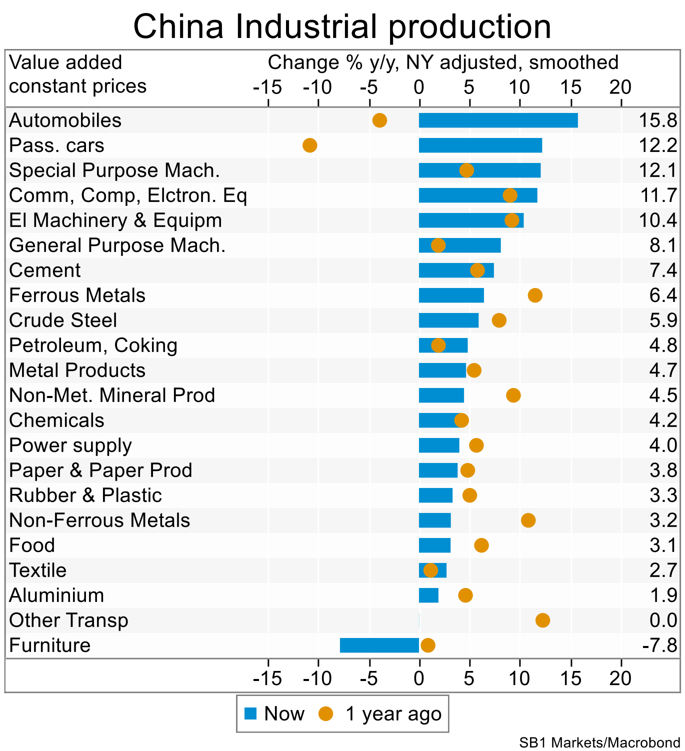


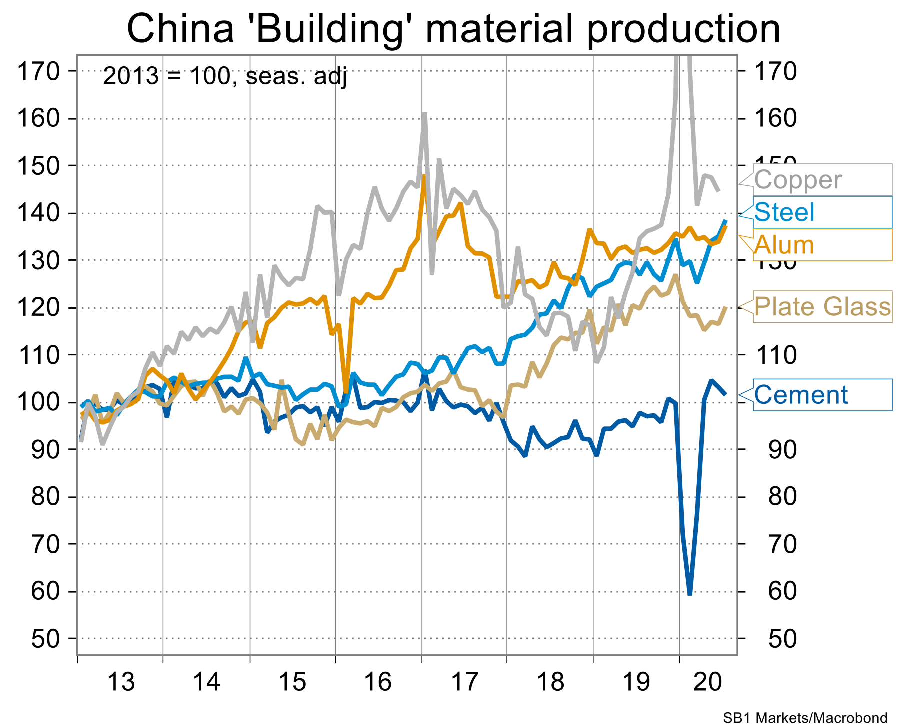


- Production rose 1% m/m, slower than over the previous months but well above the pre corona norm, at some 0.5% per month – as the production level is approaching the old trend path. It is now some
- Production is just 1% below the pre corona trend – and we expect the gap to be closed during the autumn
- Retail sales are 8% pre corona trend, investments 5% - while exports are at trend, and even if imports are lower, the manufacturing sector needs more final demand to keep growth up

Almost all manufacturing sectors are up y/y

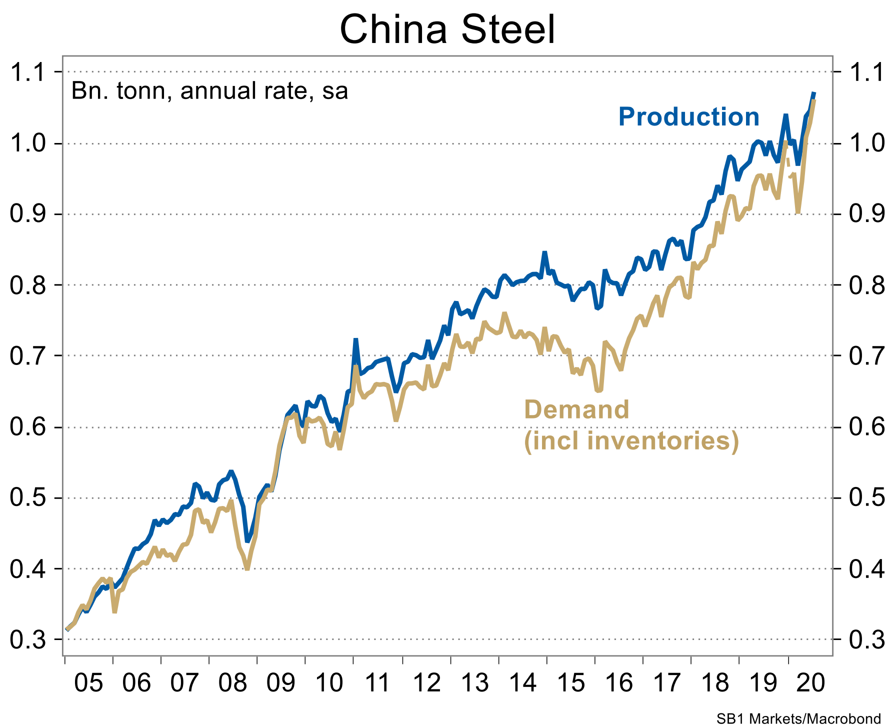
Cement back to pre corona trend, steel above. Auto prod. sharply up. High tech still strong





Steel demand & production sharply up since the corona bottom in March

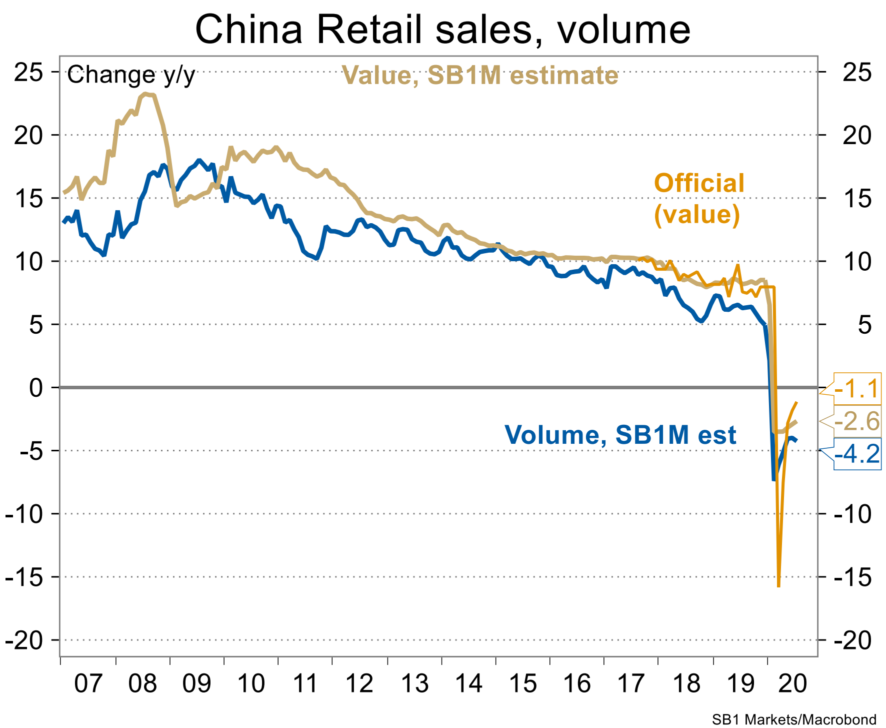
Both are at record high levels, and above trend. Construction starts has climbed fast too, close to ATH

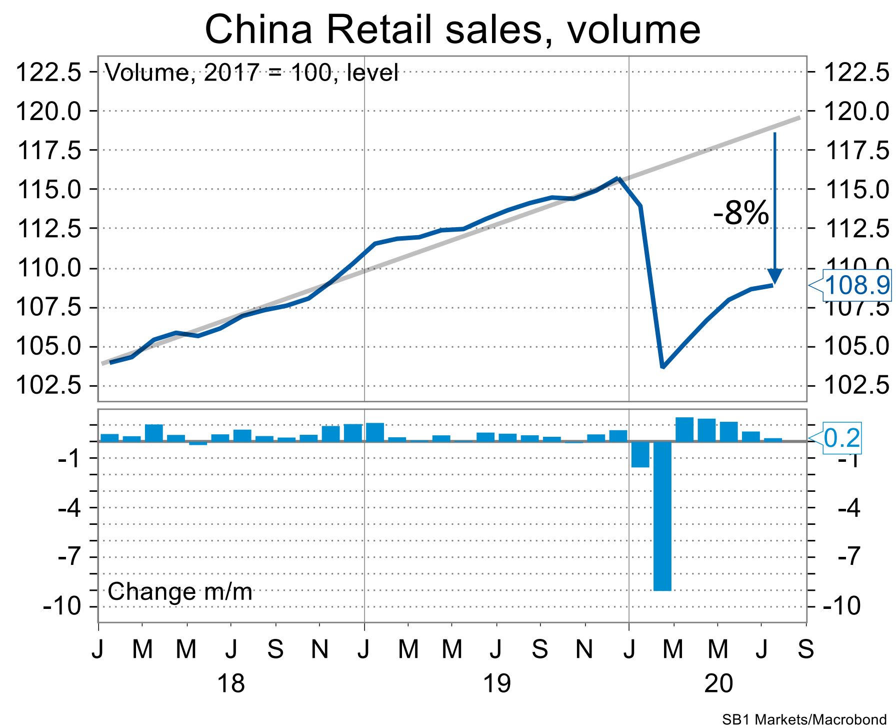


- Demand includes changes in inventories

Retail sales the weak link, m/m growth slowed in July (as in June & May)

Sales volume just up 0.2% in July, and level still 8% below the pre corona trend

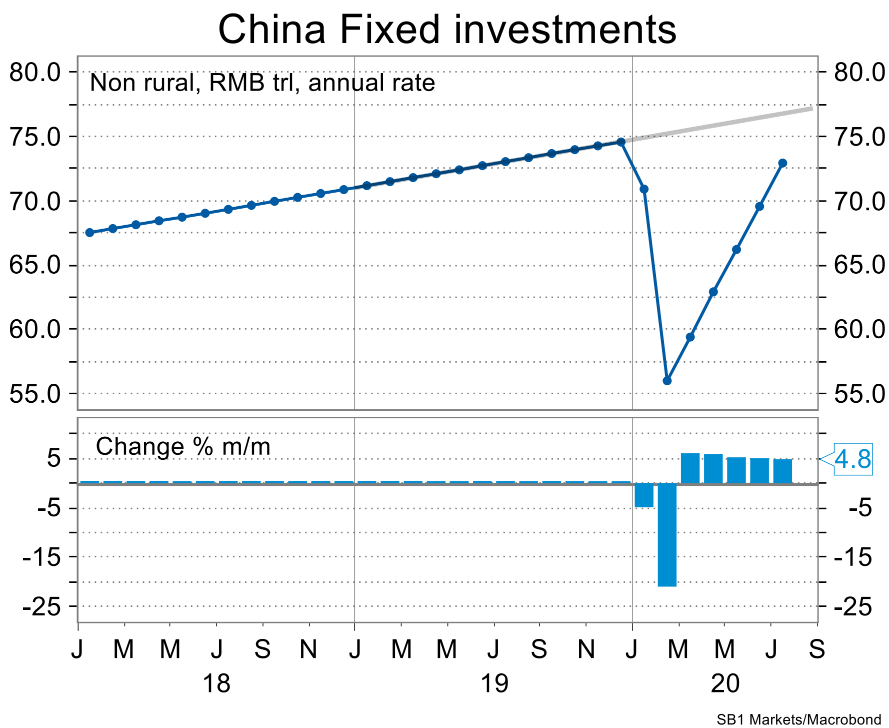




- The official value y/y at -1.1% in July was below expectations (+0.1%)
- In volume terms (calculated by SB1M) slowed to just 0.2% in July
  - » Growth has been slowing since March – and it is now growing slower than the pre corona trend – and the gap vs the pre corona trend level is widening- it is now at 8%. The recovery has stalled

Nominal investments up 4.8% in July, gap vs. pre corona trend is rapidly closing

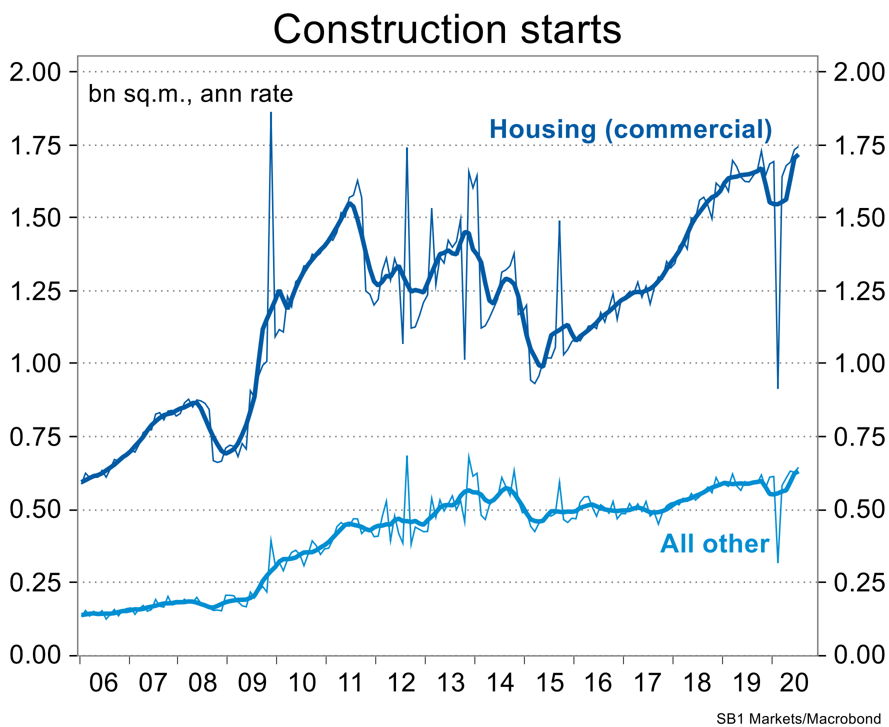
A quite narrow 'V', the level is 5% below the old trend path – and will reach it in September?

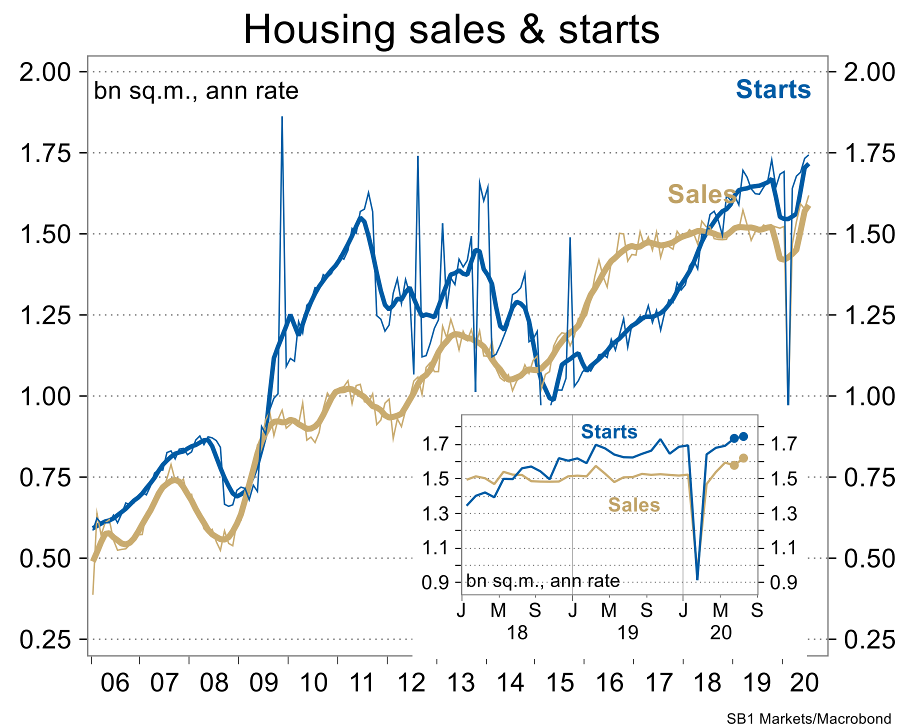


- Measured ytd, investments are down 1.6%, vs. -3.1% in June – expected down 1.8%
- Investments rose by 4.8% m/m (nominal). Growth has been slowing marginally recent months but remains far above a normal growth rate, at 0.4 -0.5% per month ahead of the corona 25% drop. The level is now less than 3% below the Dec level – and it is 5% below the pre corona trend. The gap will probably be almost closed in August – and fully in September
- In real terms investments are down some 1% y/y (our estimate)

Construction back to all time high

... following the 40 – 50% collapse in February

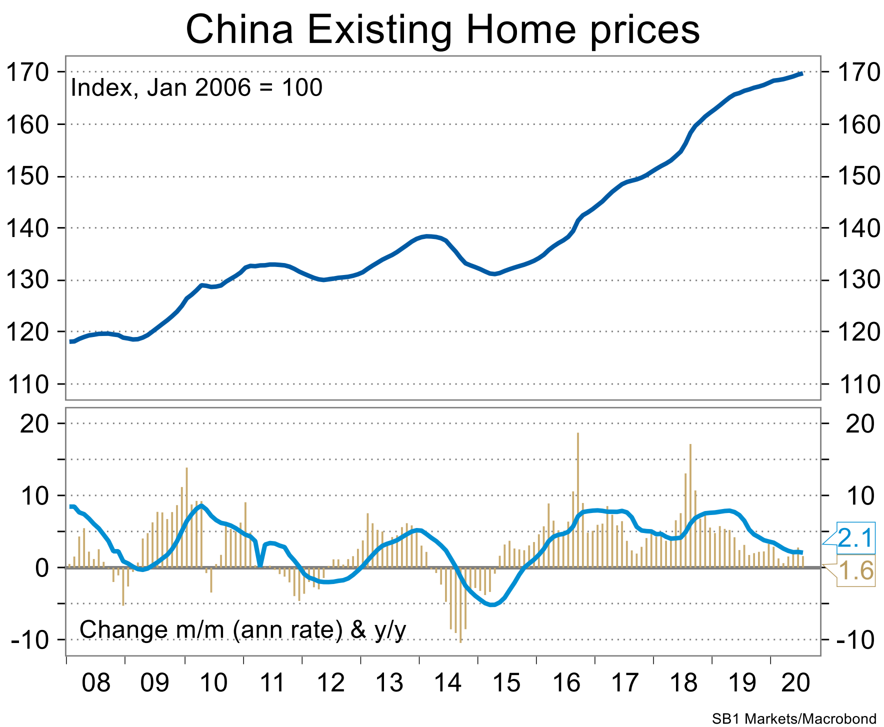


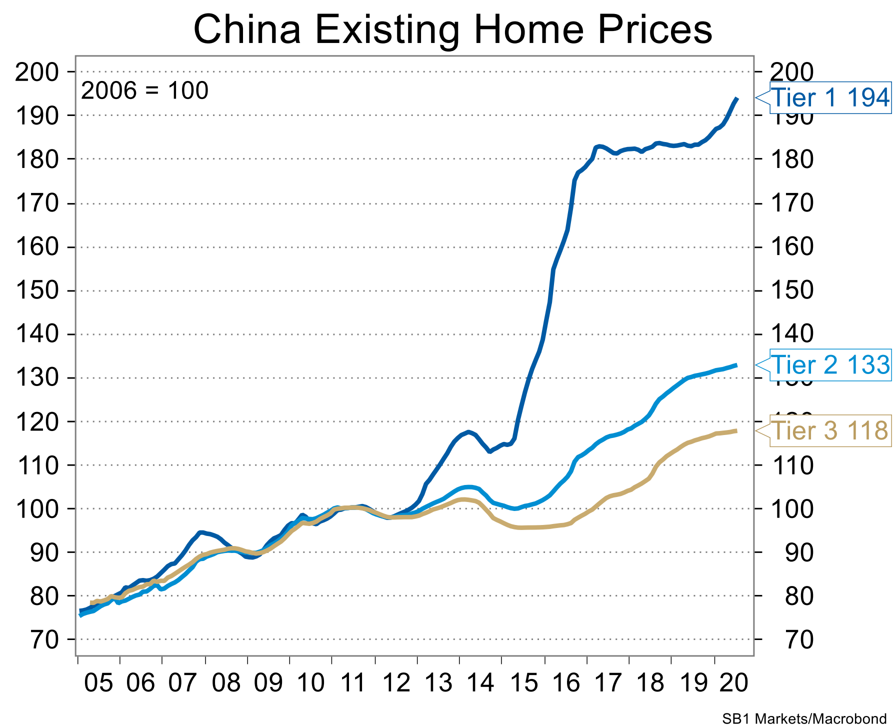


- In fact, just February was a disaster

House price inflation is slow but prices are accelerating in the biggest cities

No corona shock to be seen, prices up 1.6% m/m in July (annualised), up 2.1% y/y

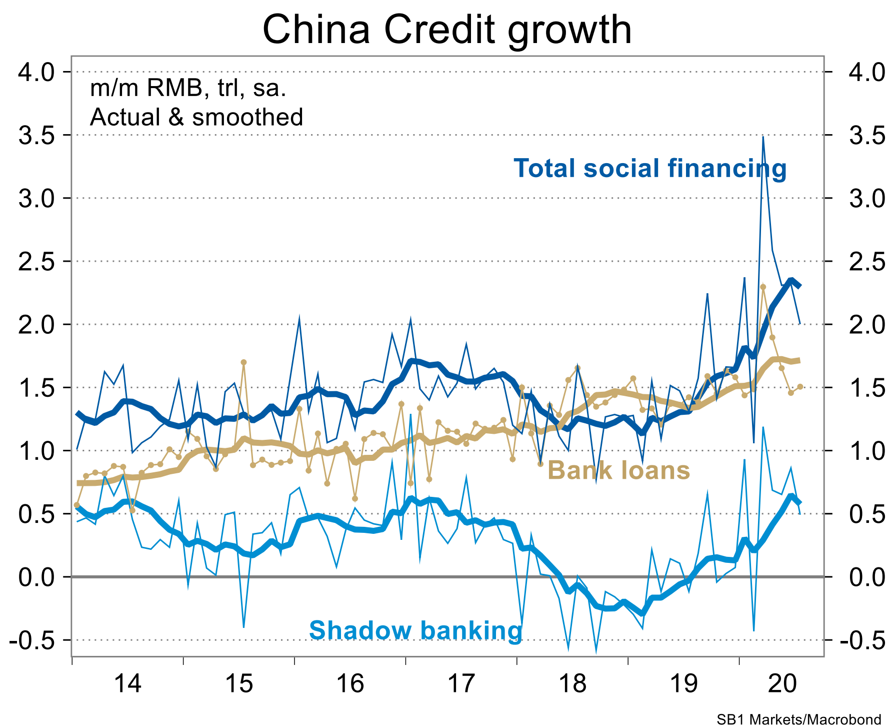


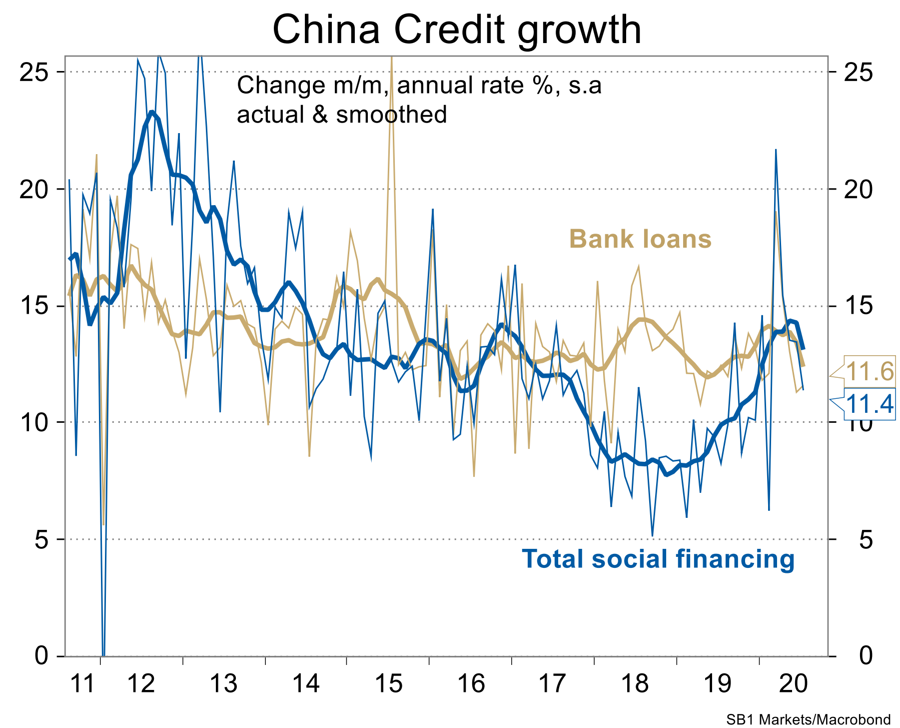


- Price inflation has slowed since mid 2018 (when credit was tightened) but prices are still drifting upwards

Credit growth slowed further in July but it is still quite high

Underlying growth down to 13% but that's not a low growth pace. Both banks, shadow slow

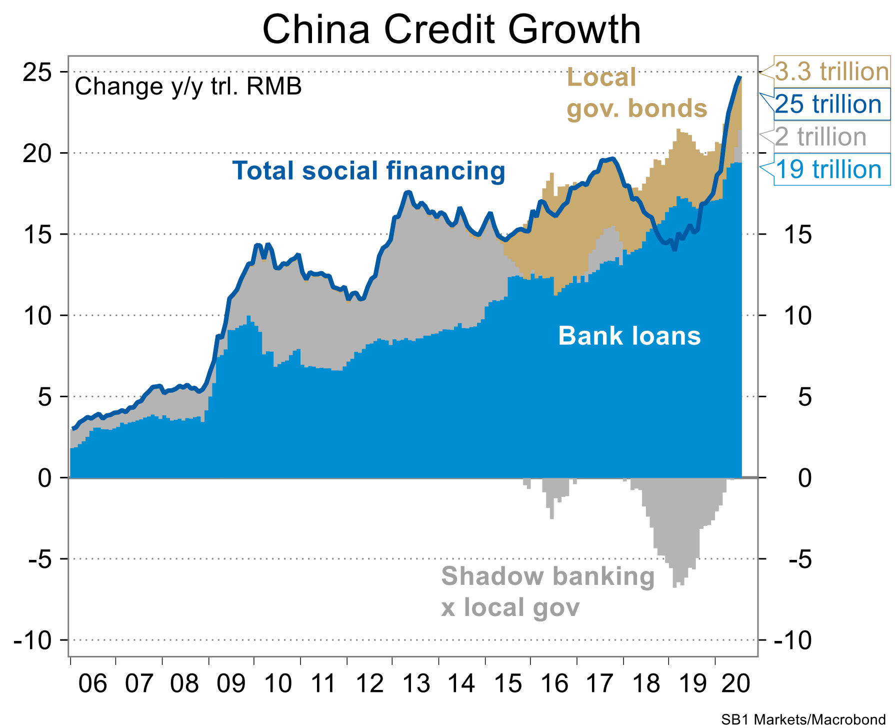


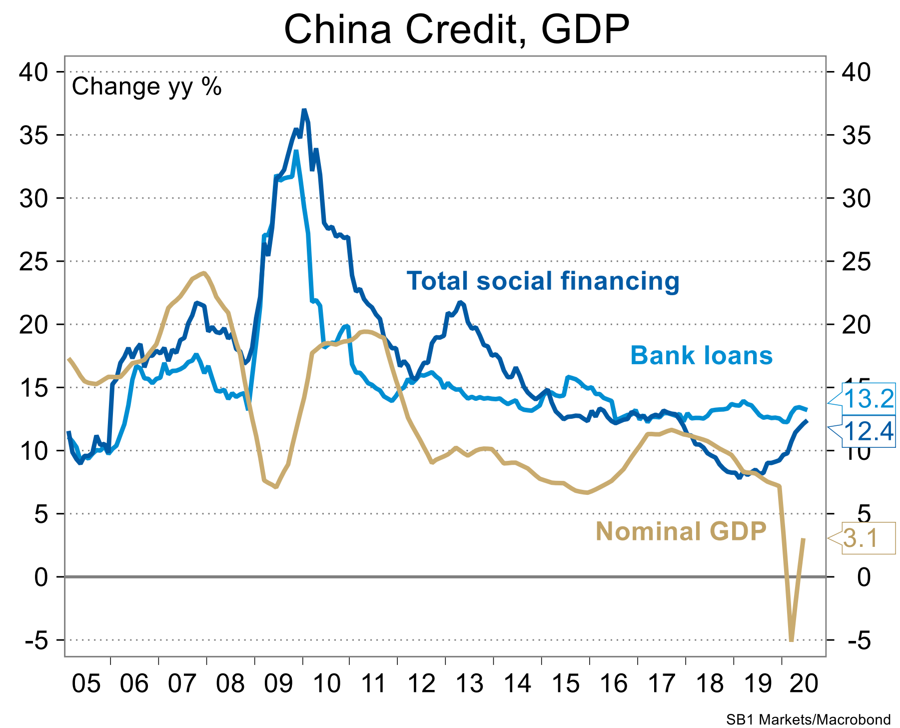


- Total credit growth slowed to a 11.4% pace in July, down from 14% in June
  - » Total credit rose 1 bn RMB (not seasonally adjusted), expected 1.8 bn. Banks supplied some ¾ of the new credit (based on seasonally adjusted)
- The underlying total credit growth has been accelerating since early '19, but has been slowing somewhat recent months, down to 13%
- Authorities have no doubt been trying to support growth through the credit channel, even if the risks are considerable

Credit growth has accelerated over the past year

More bank lending, no more shadow banking in plus too, from contraction

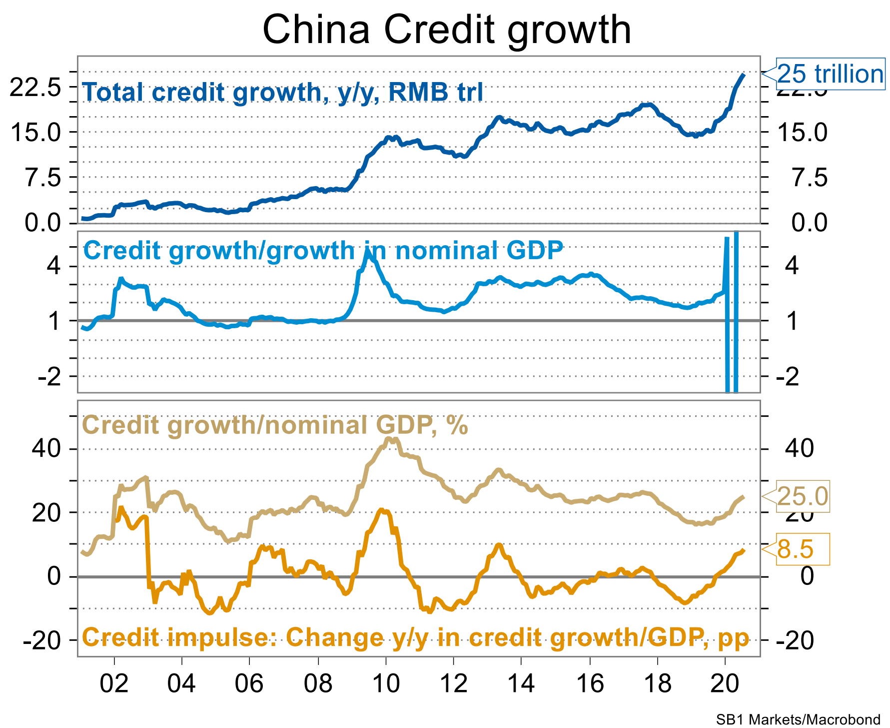


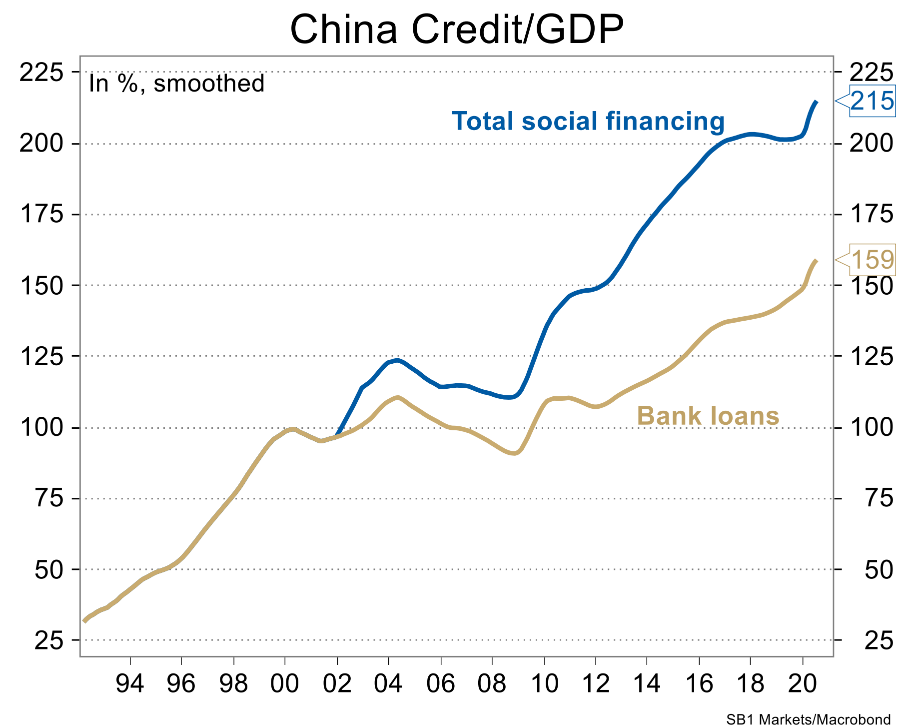


- Over the past year, total credit has grown by CNY 25 trl, equalling 25% of GDP (before the Q1 collapse)
- Banks supplied CNY 19 trl of the y/y increase
- Local governments has not yet accelerated their borrowing by much, at least not in the bond market, still up 3.3 bn y/y
- Other credit – via the shadow credit market x local gov bonds is now marginally up y/y, by 2 bn
- Total credit growth at 12.4% is higher than growth in nominal GDP even before the corona chock – the debt ratio is increasing

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

Credit growth is accelerating, whatever way we measure it

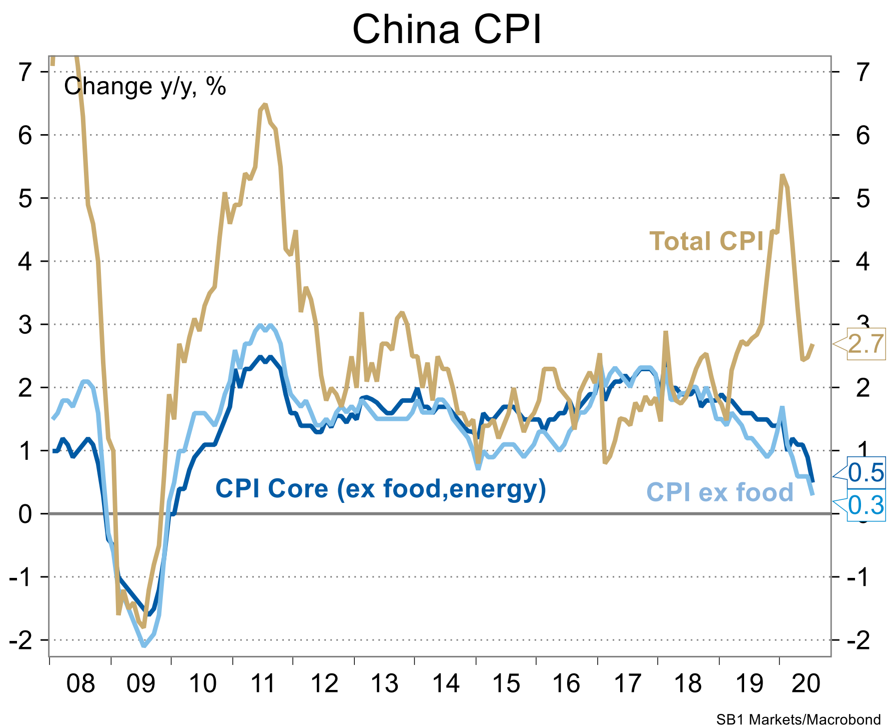


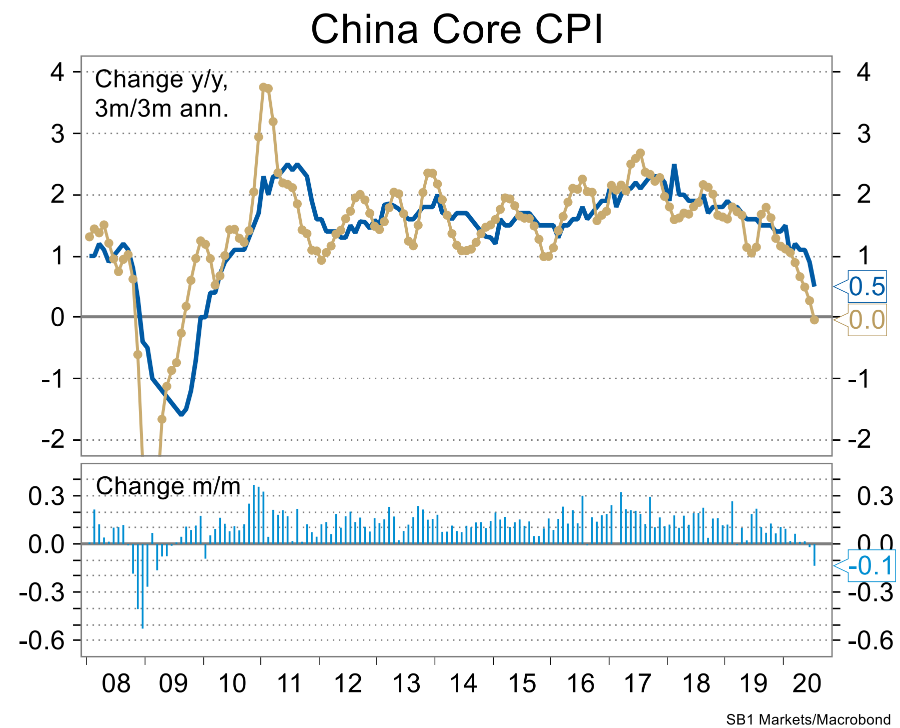


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » Now, the credit impulse has risen well into positive territory
- We are uncertain how far the authorities are willing or able to bring growth back up, even as stimulus is needed now to support the economy. The credit/income level has flattened but the level is disturbingly high. In addition, for every RMB GDP grows, credit increases 2.8 by RMBs (given trend growth in GDP in Q1, which was not the case…), and each year's growth in credit equals 25% of GDP. <u>That's not sustainable, long run, neither for lenders nor borrowers, as nominal GDP growth is well below 10%</u>. The Government may succeed in increasing credit supply short term (if they dare to, vs long term risks) to stimulate the 'post' corona economy but there are risks attached

Core inflation is stalling, up just 0.5% y/y, flat recent months. But food up to 13%

Core down 0.1 m/m, down 0.4 pp to 0.5% y/y. Headline up to 2.7%, still brisk food price inflatin



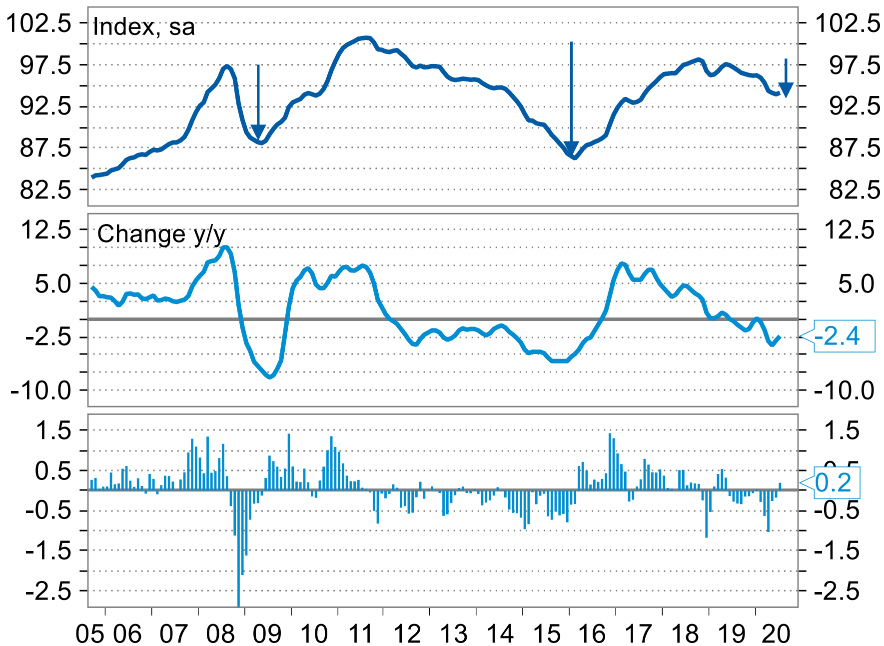


- The corona crisis has no doubt contributed to the decline core (ex energy, food) inflation
- Food prices rose almost 3% m/m, and they are up 13% y/y, up from 10% some few months ago – but down from 22% at the peak. The swine flu is still to blame

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

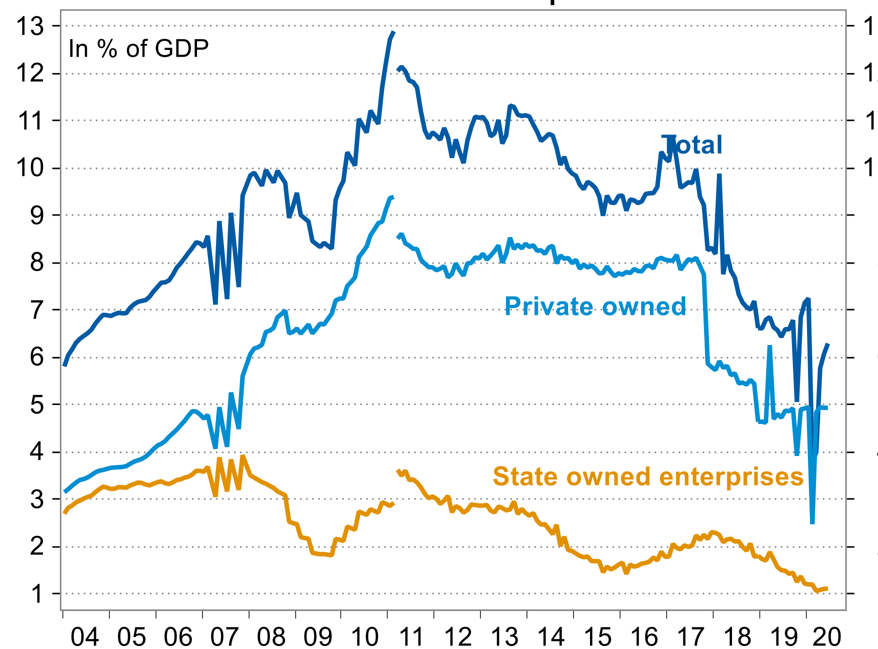
PPI down 2.4% in July but prices are not that much down – and they have stabilised m/m

China PPI



SB1 Markets/Macrobond

China Industrial profits



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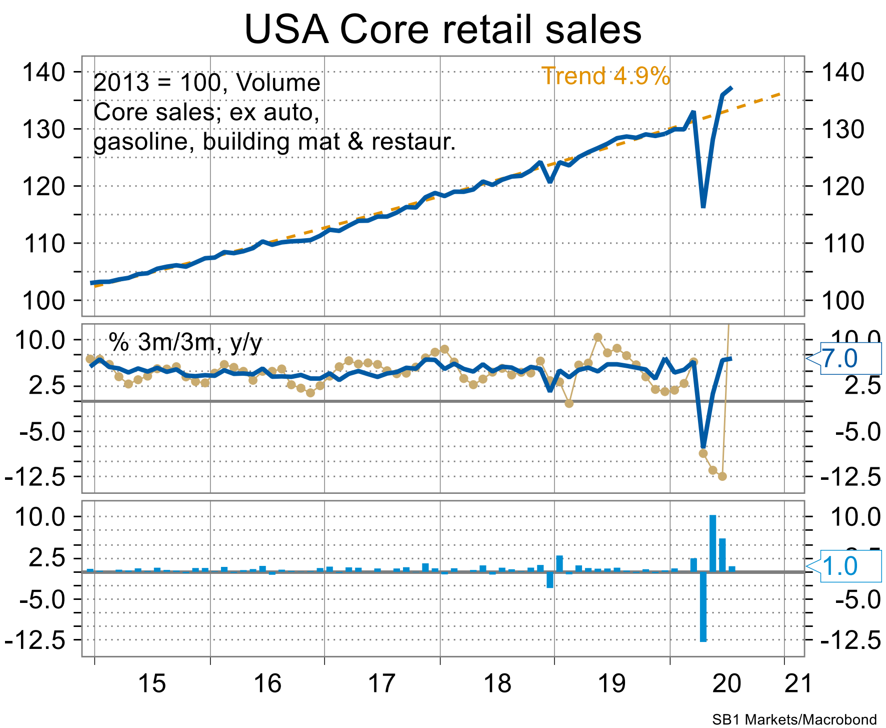
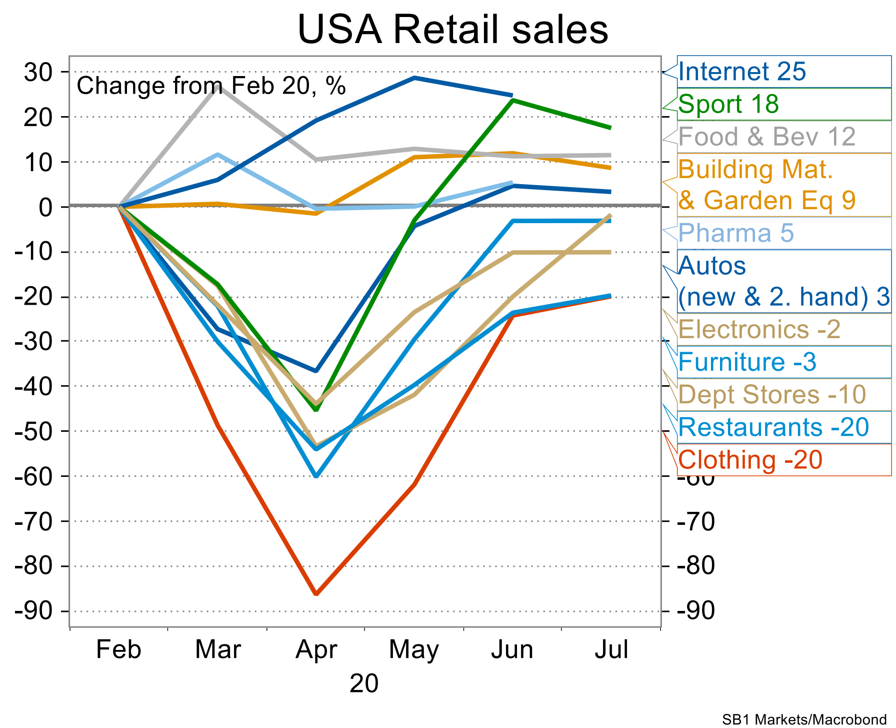
- The PPI peaked in late 2018 but prices are so far just some 4% - and not further the corona crisis. During previous setbacks, PPI s fallen up to 13% (and never less than 8%)
- Industrial profits in privately owed enterprises fell by 50% in February. Profits rose to a normal level in April and May –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

Retail sales up in July but at a slower pace, core sales 3% above trend

Clothing and restaurants are still struggling. Internet, sport, food & building mat./garden eq. strong

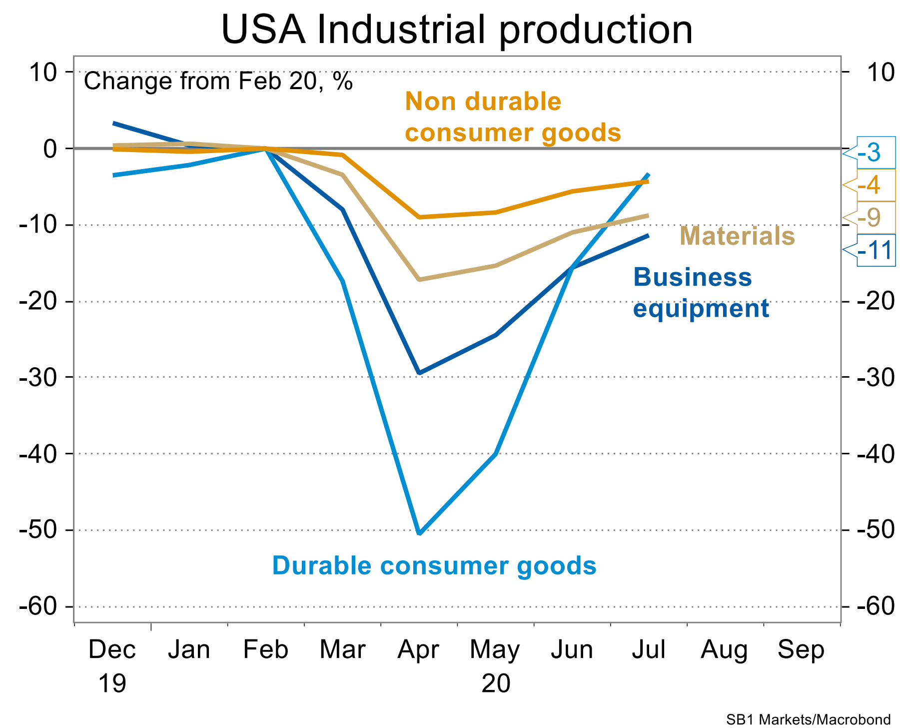




- Total sales rose by 1.2%, half of the expected lift. However, June was revised up to 8.4%, m/m!
- Core sales rose by 1.4%, we assume by 1% in real terms, and is now 3% above the February level, up 7% y/y, and 3% above the rather strong medium term pre corona trend!! (Total retail sales are not that strong, up 1.6% from February (non core auto, gasoline, restaurants are down), and total consumption is far below the Feb level as services are struggling, down 11% in June, taking down total personal consumption by 7% vs Feb
- The gap between different sectors is narrowing as sales in those who have blossomed since February retreated, and those who have struggled continued their way back. Still, restaurants are down 20%, not that surprising given corona measures. It's harder to explain the continued 20% shortfall in clothing – as sales were extreme weak March - May (70%)

Manufacturing up 3.4% in July, still 8% down vs Feb.

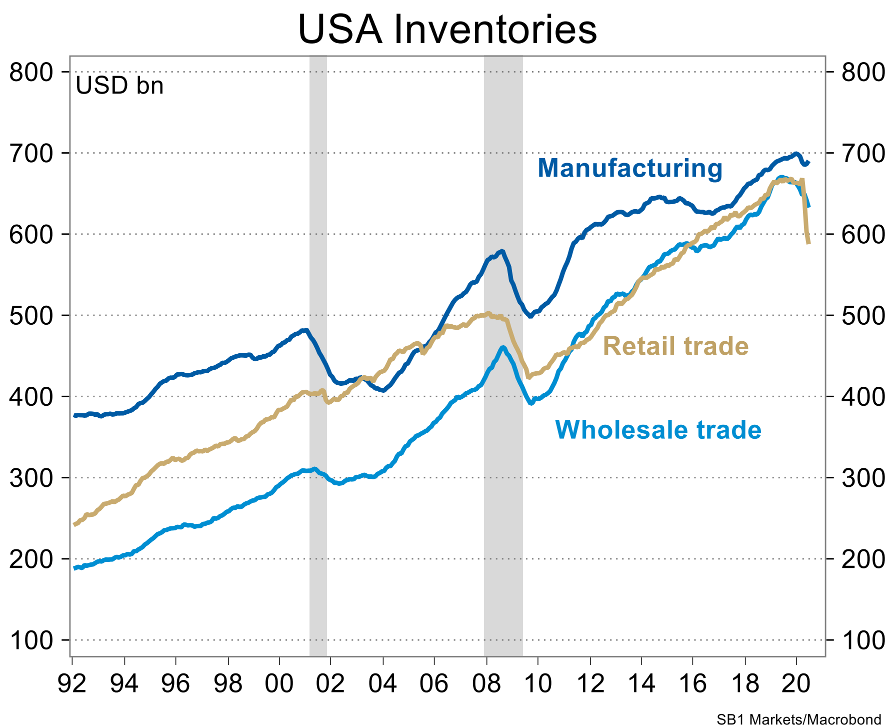
More than half of the decline in March/April is recovered but activity is still at recessionary level

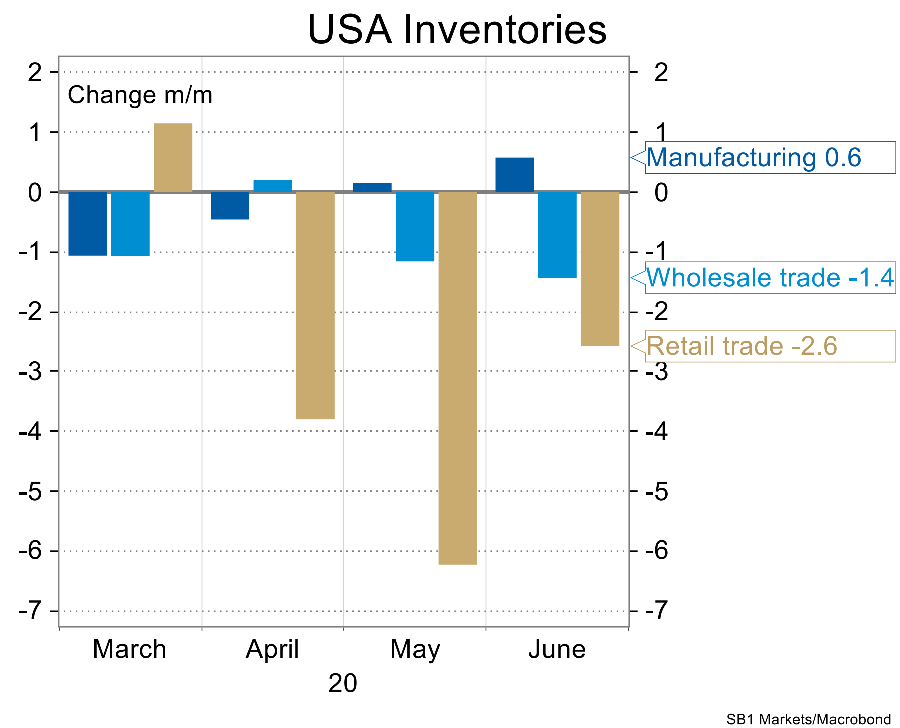


- Manufacturing production grew by 3.4% in July, expected 3.0%, following the 7.4% spike in June – but still 8% down from February
  - » Business equipment production is lagging, down 11% vs. Feb. Durable consumer foods are down
- Total industrial production, including utilities, mines/oil production, rose by 3% in July. Mines, including oil production, is still down 18% vs Feb, and total industrial prod is down more than 8% vs Feb
- PMI/ISM and other surveys signal a continued recovery, but not at a brisk pace, given the still low production level

Inventories are run down, production will have to be ramped further up

… if demand does not fall off the cliff



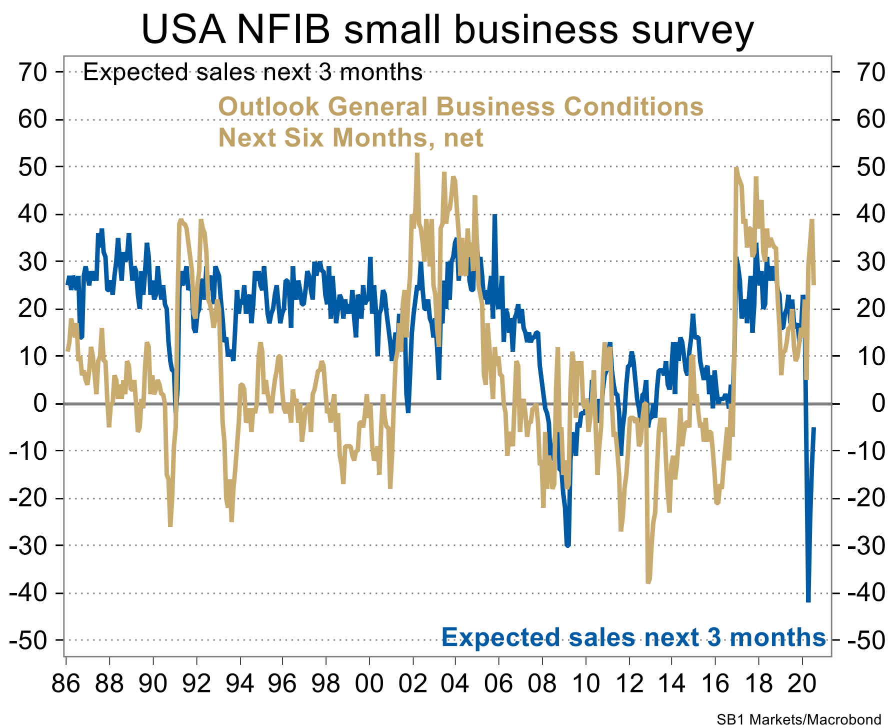


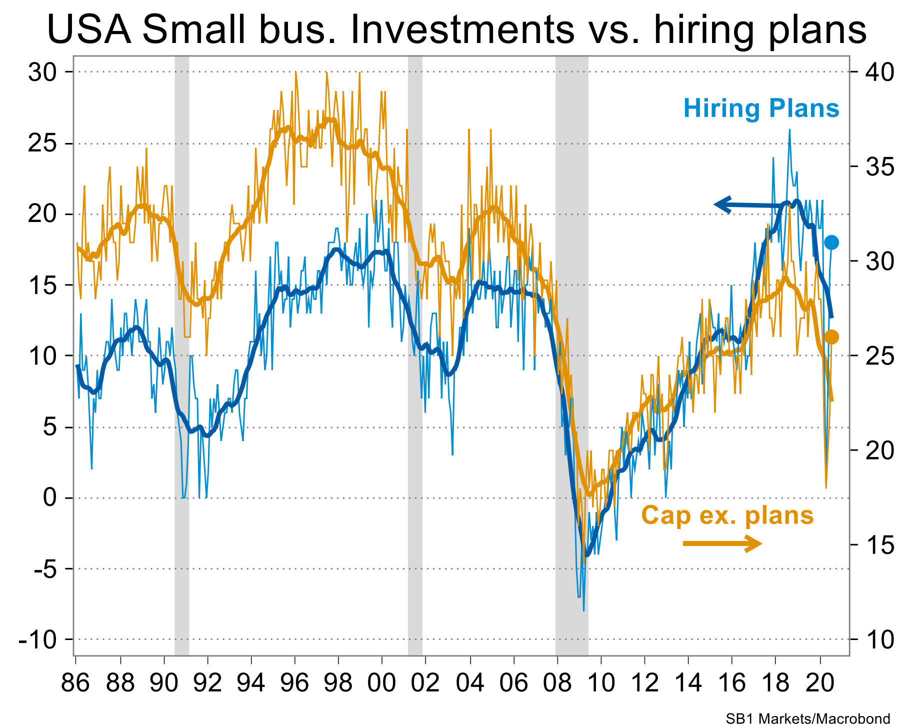
- Retail trade inventories fell sharply in both April, May and June. Retailers will have to stock up substantially the coming months, wholesalers as well

SpareBank 1 MARKETS

Small businesses' optimism down July but above average

NFIB optimism kept up during the corona crisis. Still, sales are not yet expected up. Strange

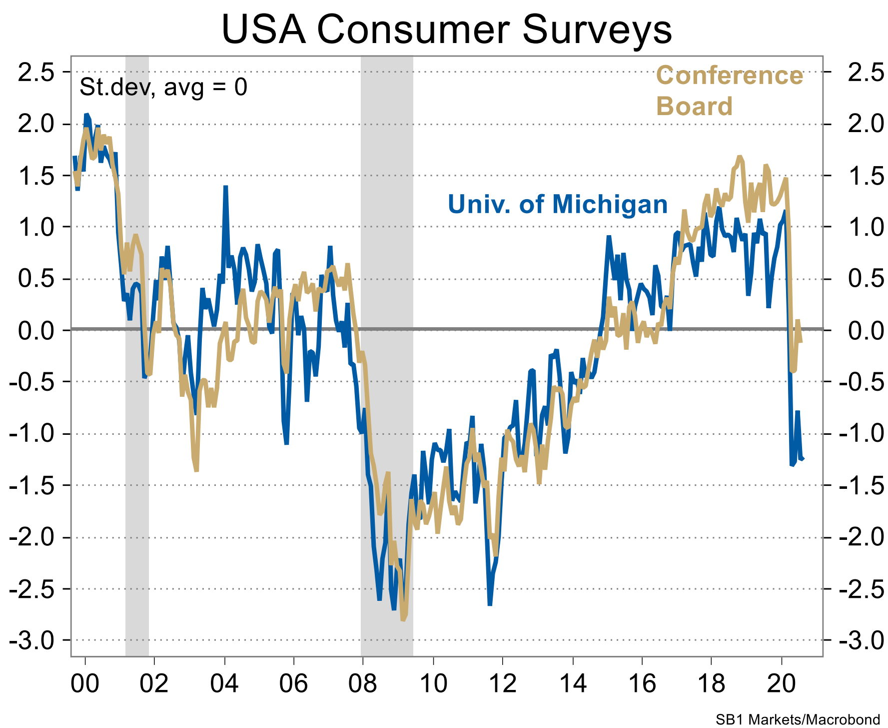


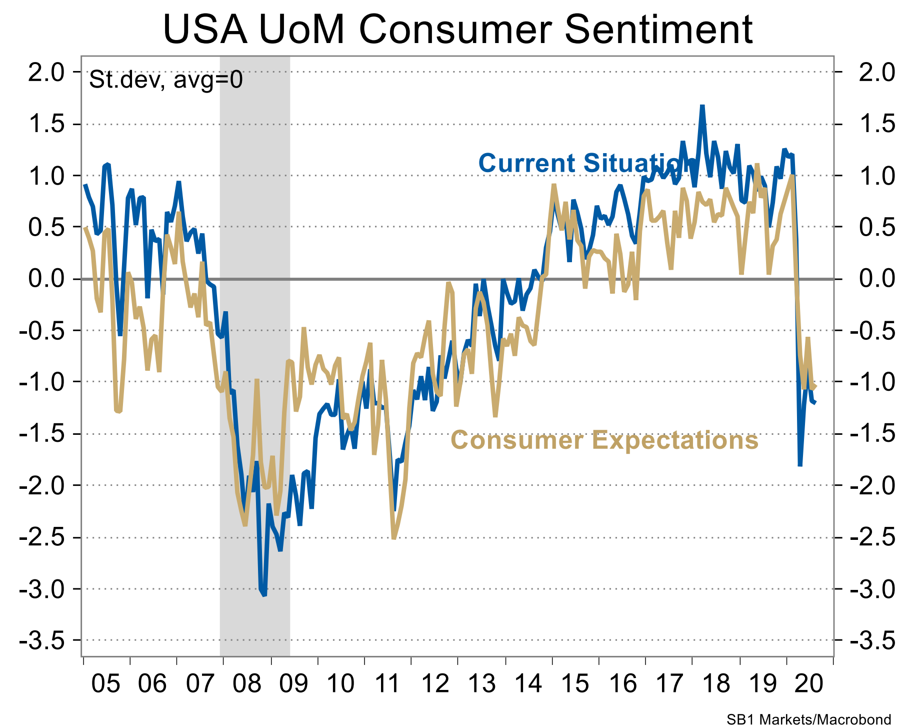


- The NFIB optimism index, fell a tad more than expected in July but remains above average. The expectation index, the outlook for the next 6 months, fell too – but also remains well above an average level. Both indices kept up at surprisingly high level during the corona downturn
- Businesses slashed their sales expectations during the corona downturn (but they remained optimistic). Strangely, small companies are still expecting declining sales –while macro hard data ar .
- Investment plans bottomed in April but have since returned to a normal level, and companies are not signalling substantial cuts in investments (but no growth either)
- Hiring plans fell sharply in April but have also recovered – and their plans are rather aggressive. However, given that employment is still 8% below a pre corona level, it is natural that hiring plans are pretty aggressive – and it do not signal a really string labour market

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

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

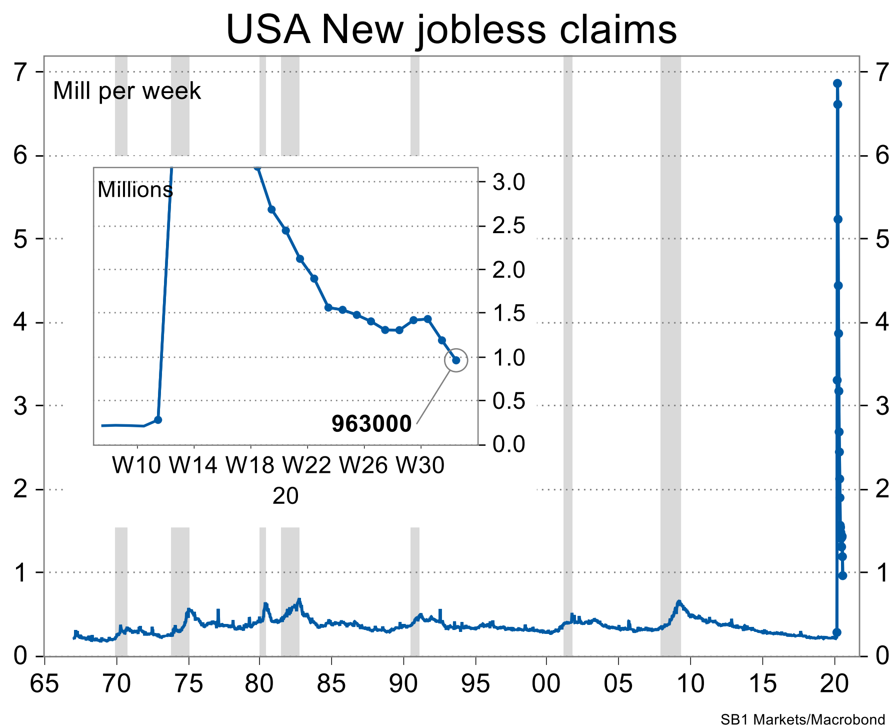


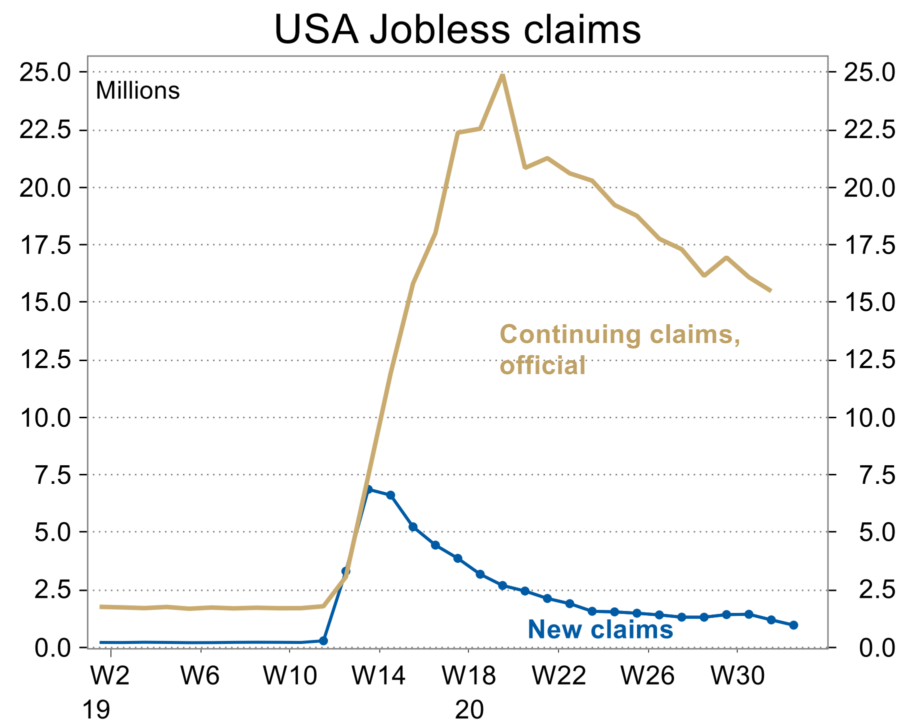


- Both households' assessment of the current situation as well as their expectations fell in July. Expectations are back to the April level
- Hard to find any better explanation than the new corona virus crisis in large part of the US and the restrictions that have been reintroduced

New jobless claims >1 mill – back on the downward track. Still extremely high

To good weeks, and the downward track is intact. Still 0.6% of the labour force turned up…

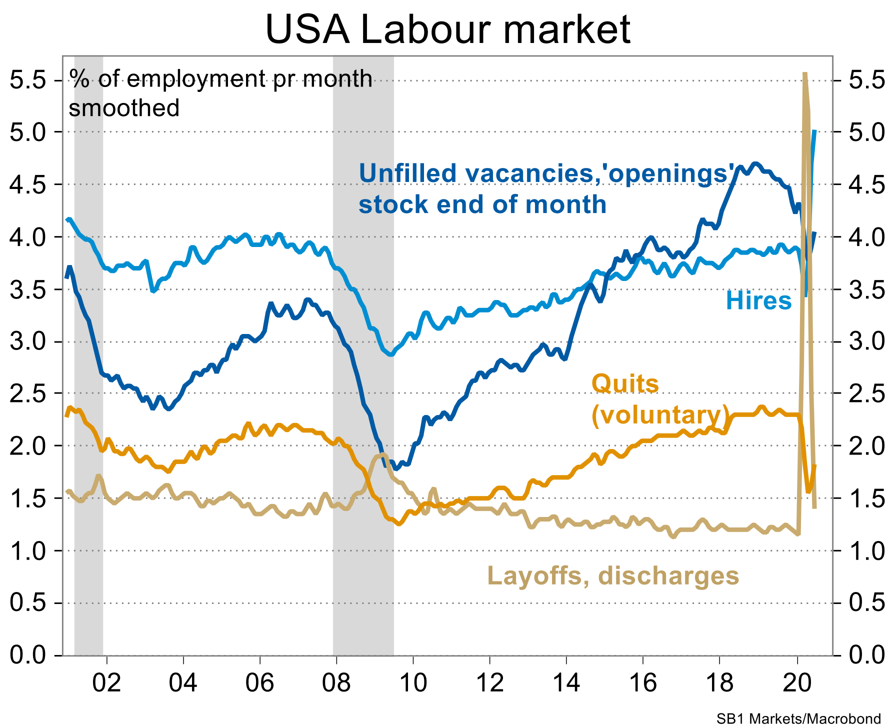


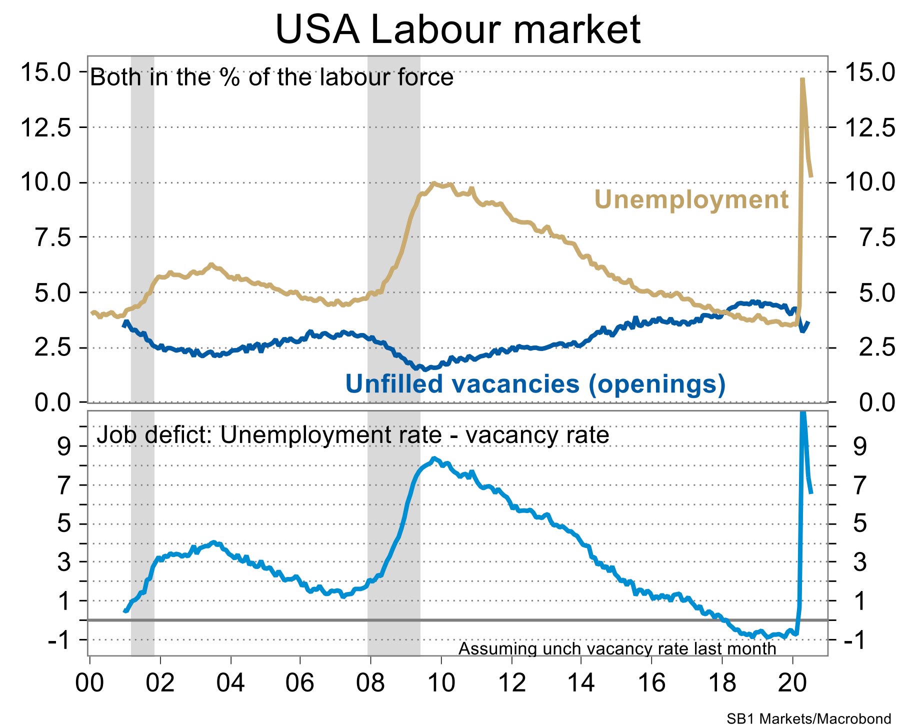


- The inflow is still far higher than during previous recessions, and amid a rapid increase in employment. Illustrates the huge sectoral challenges, some have recovered, others are still struggling and have to reduce their payroll at a rapid pace
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 16 mill from 25 mill. but not further last week. The number of persons receiving unemployment benefits is far larger, we are not sure why

Still more layoffs than normal but not like in a recession. Record high hiring

The number of unfilled vacancies is lower than before corona but not that low

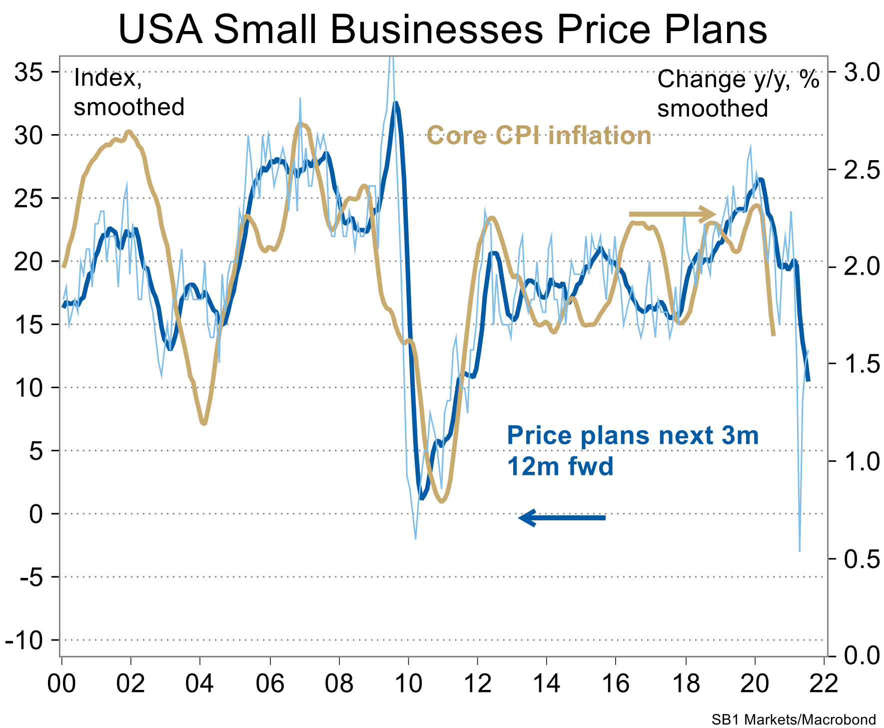


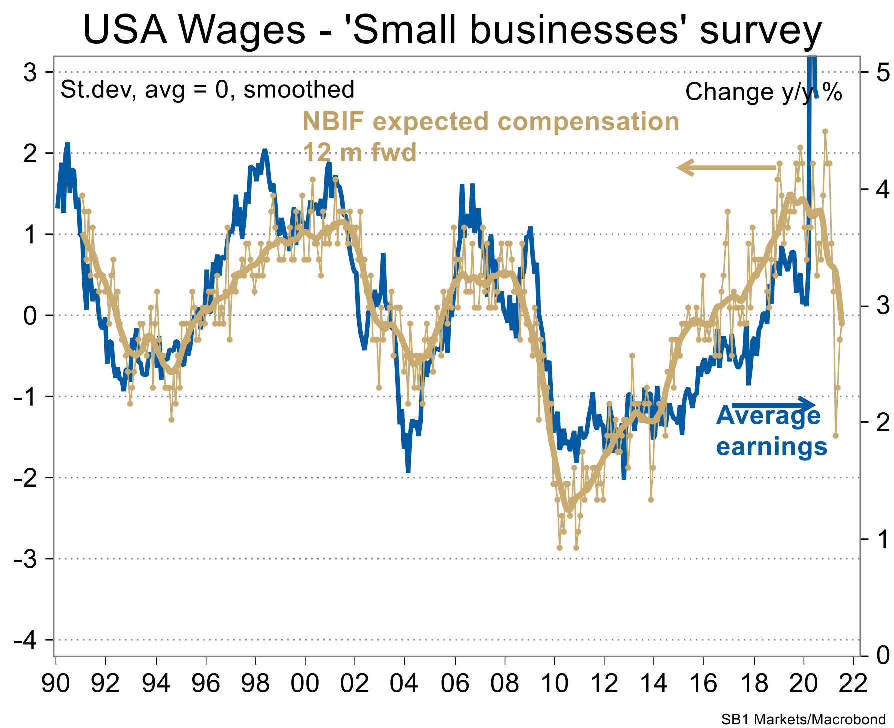


- All in all: A more positive impression of the labour market

Companies assumes low price & wage inflation

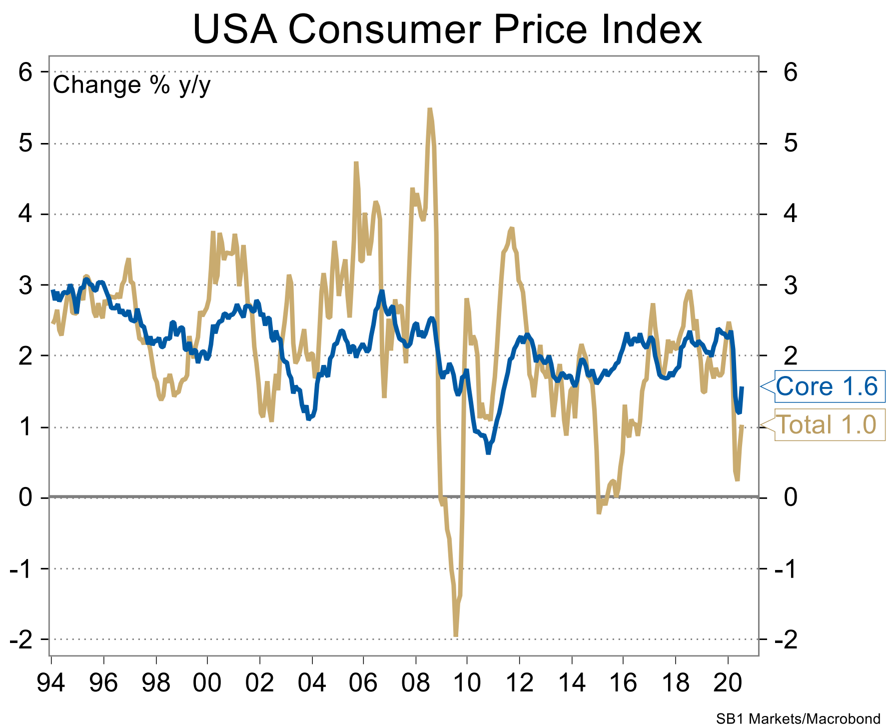
Not surprising, given the low capacity utilisation in several sectors in the economy

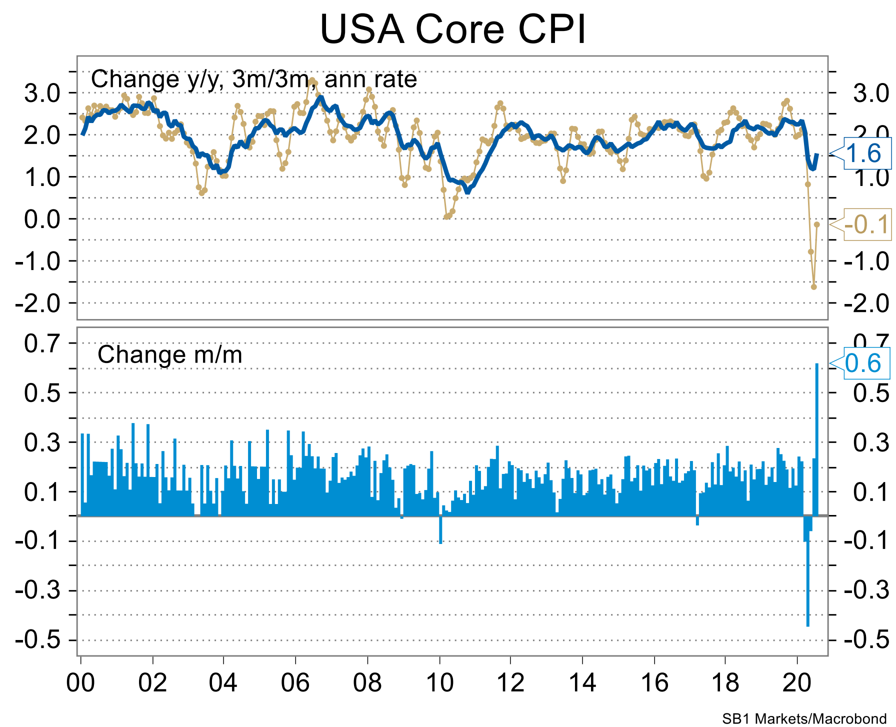




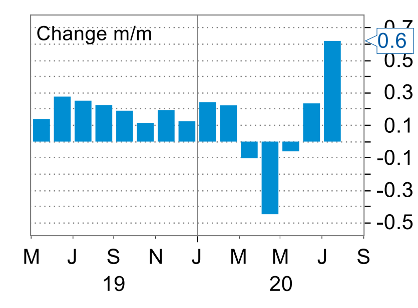
Core CPI up 0.6% m/m in July, most in 30y. Prices still below pre corona trend

Annual rate up 0.4 pp to 1.6%, but still down from 2.4% in February



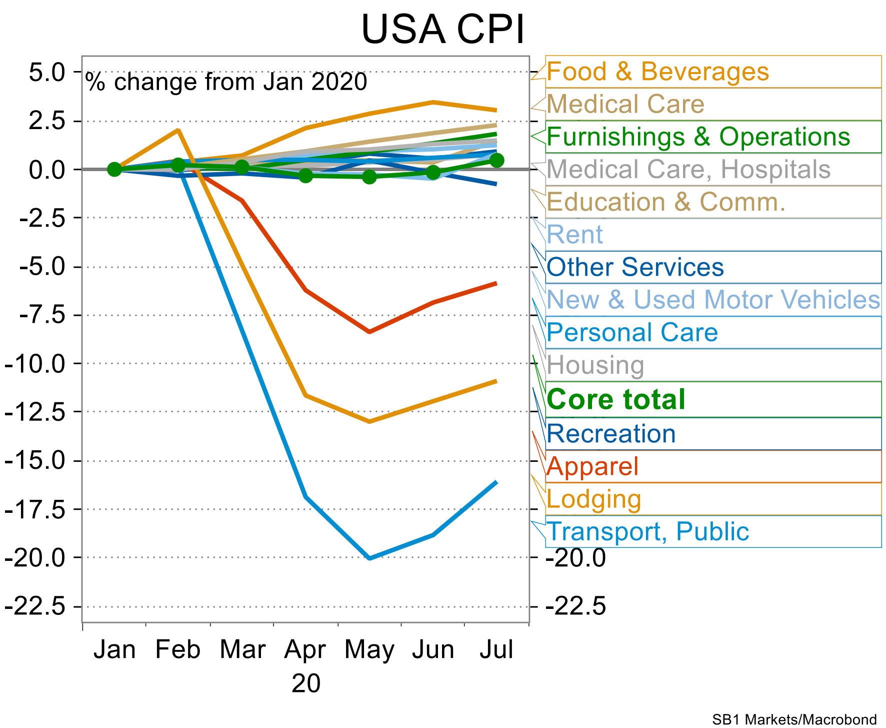


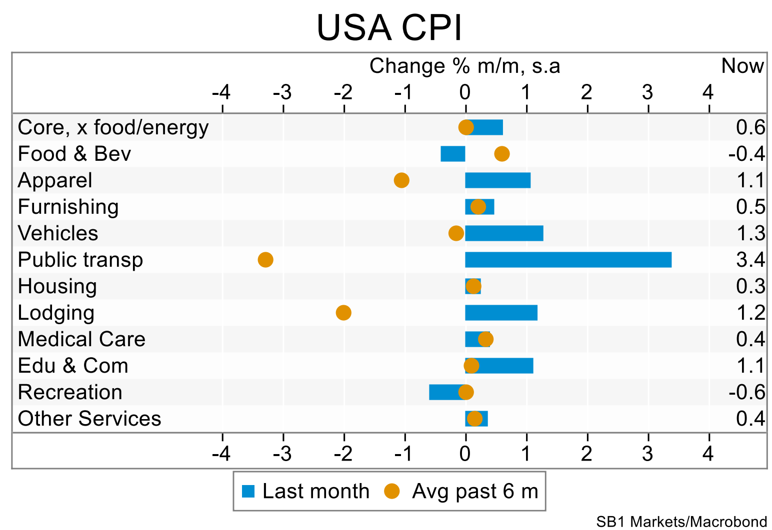
- The 0.6% m/m price hike was the highest in 30 years, and totally unexpected (exp. 0.2%!)
- Core CPI prices fell 1% vs trend growth in the 3 first corona months, and has recovered just 0.4 pp of the 'loss' in June & July - *and the corona shock has so far been deflationary*
- However, the past two months do of course NOT indicate a permanent deflationary impact – and it is has NOT become more likely that the Fed will reformulate its inflation target policy
- Headline CPI is up 1% y/y, up from 0.2% in May. Energy prices are on way up too

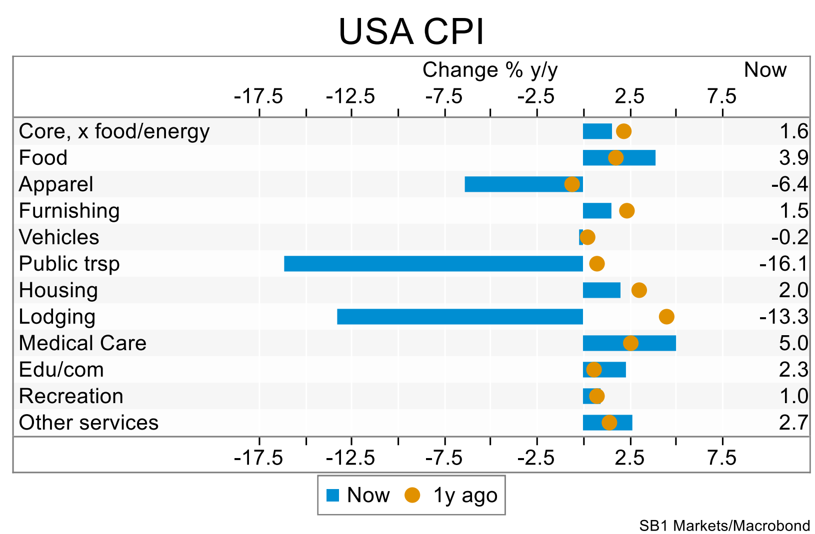


Corona hit prices are on the way back. Food is not sold for free

Public transport (airline tickets), hotels, apparel prices are still far down – but are recovering



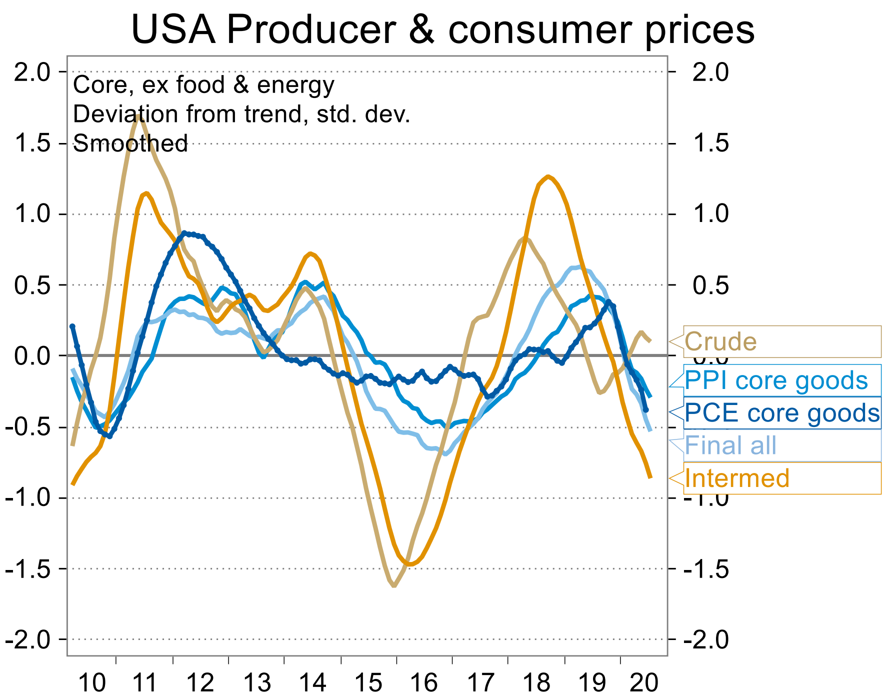




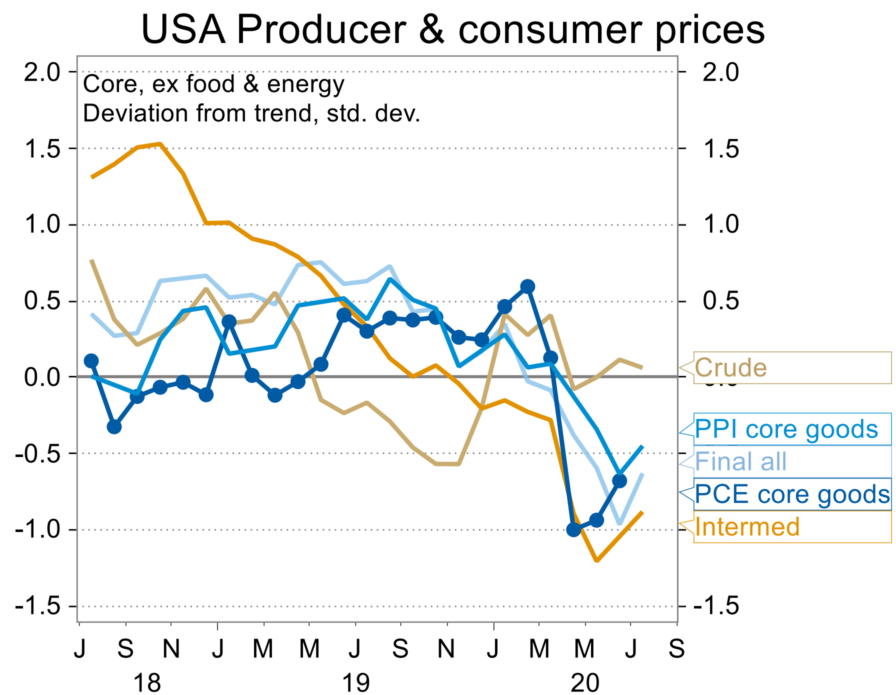
- Just some few components of the CPI contributed to the ‘corona’ setback: Public transport (airline tickets), lodging (hotels), apparel, and partly recreation (parks etc). Other components of the CPI have not slowed
  - » Public transport prices rose more than 3% m/m in July but are still 16% below the January level. Lodging and apparel up too
- Food prices are up almost 4% y/y, quite unusual
- Medical care up 5%

Producer prices do not signal any lasting uplift in consumer price inflation

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



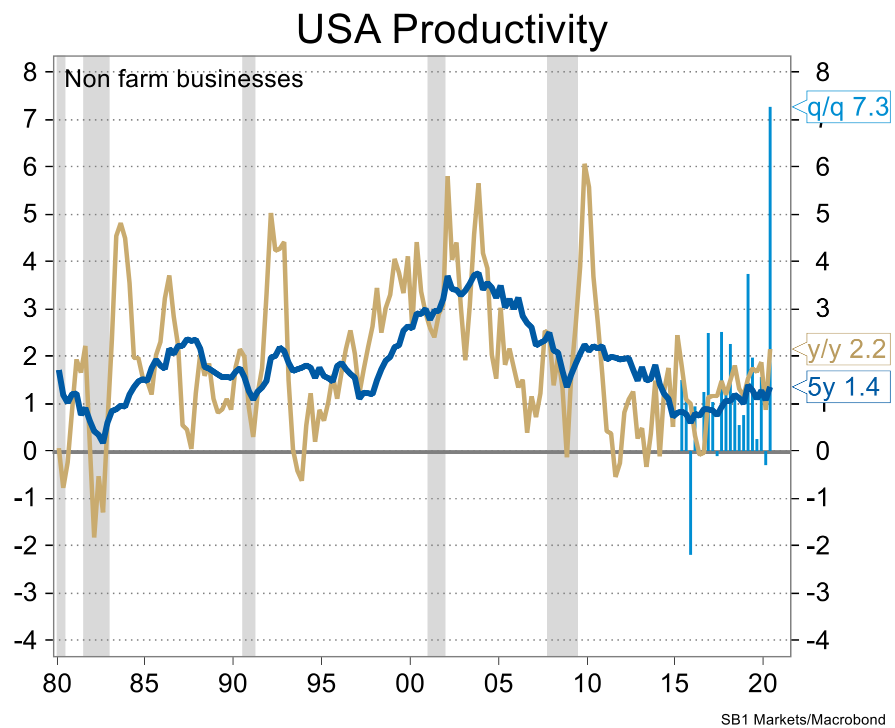
SB1 Markets/Macrobond

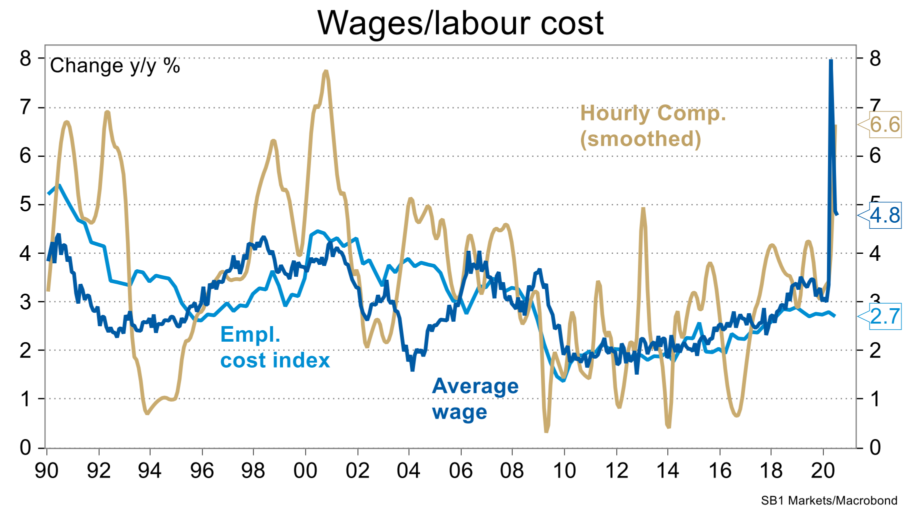


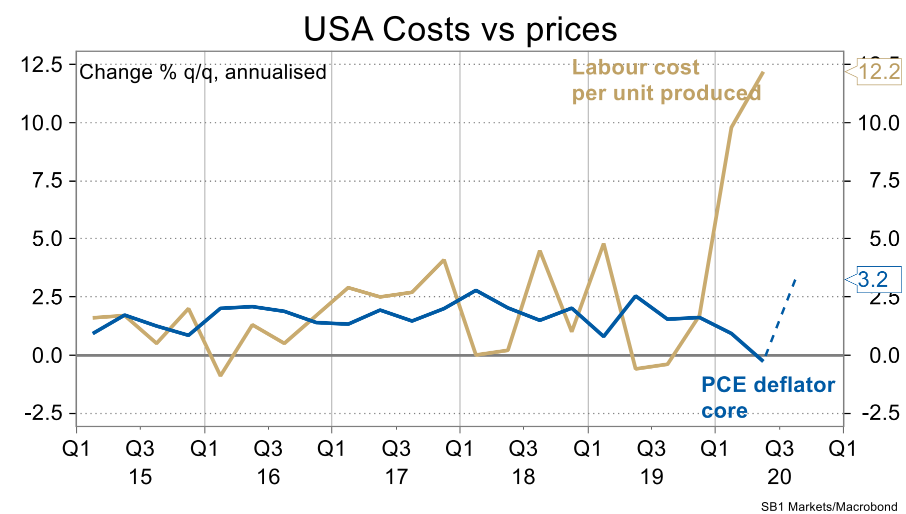
SB1 Markets/Macrobond

Wild productivity & labour cost data; low productive/low paid workers are shed

Avg hourly compensation up 5% in Q3 (not annualised), productivity up 2%, unit labour cost +3%



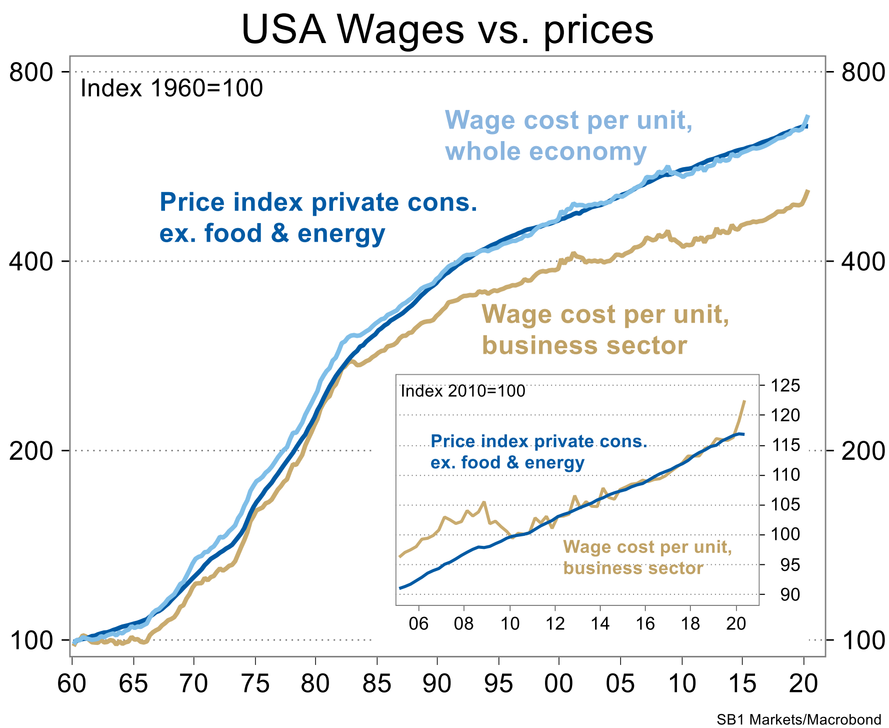


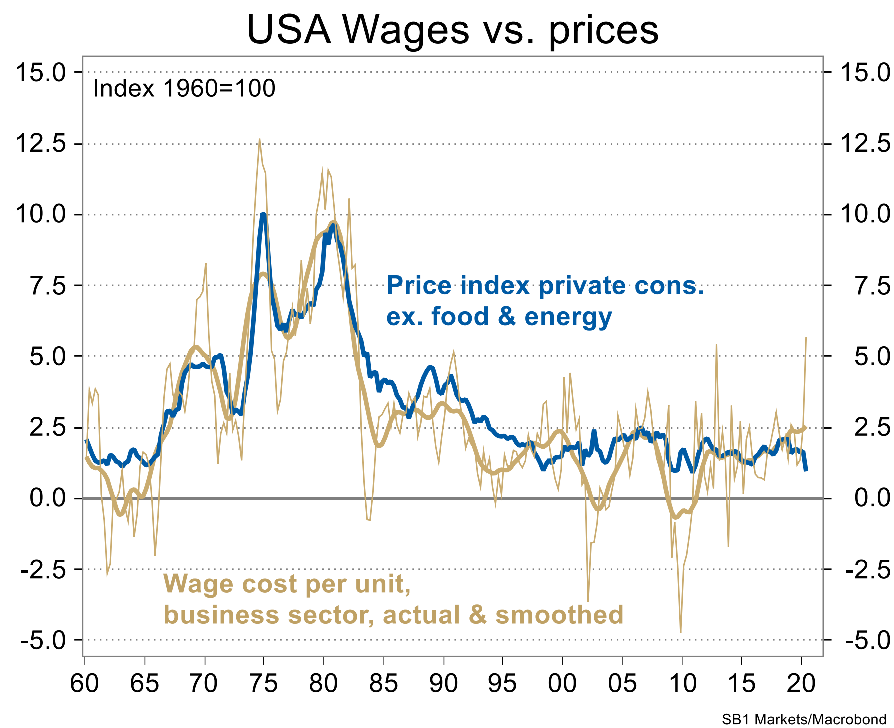


- Output fell 39% - hours worked -43% = Productivity +7.3% (expected 1.5%, hours fell much more than assumed)
- Hourly compensation +20% - productivity 7.3% = Unit labour cost +12.2% (expected 7.2%, Q1 rev to 10%, from 5.1%)
- Well, these Q2, annualised growth rates are rather wild. The y/y rates are more 'sensible':
  - Output -12% - hours worked -14% = productivity +2.2%
  - Hourly compensation +8% - productivity 2.2% = Unit labour cost +5.7%
- Bottom line: Cost have increased far more than prices, profits are squeezed, check next page

A 5%+ lift in production costs in H1, most likely temporary

Businesses were not able to adjust costs as the economy 'collapsed'

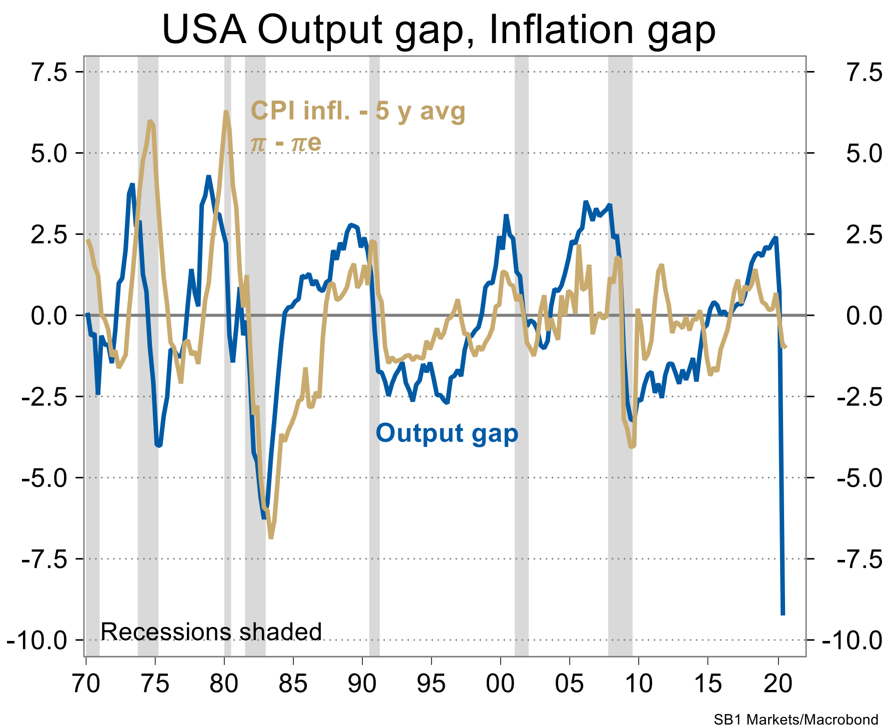




- Unit labour cost (ULC) is the main driver for inflation long term but is very volatile, short term
  - » Short term, the price level is far more stable than the labour cost per unit produced.
  - » Over time however, they are close to equal (barring changes in taxes, import/export prices), they have to – if not, profits would become too high/too low
- We deem the recent hike in ULC to be temporary and just due the corona shock that made it impossible for companies to adjust their costs rapidly enough. In addition to been volatile, the ULC is very often substantially revised
- Even so, we should not be that sure costs and prices cannot start rising faster one day. The bond market is reflecting on the same

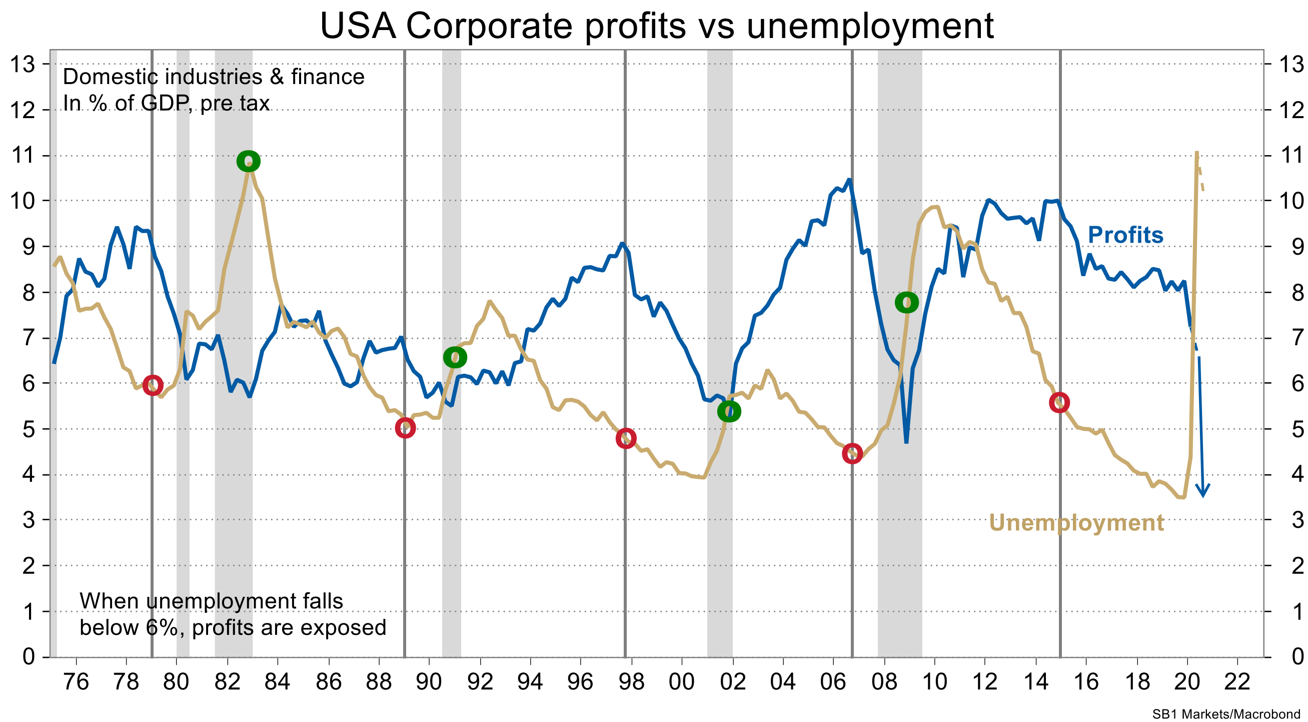
High inflation: A substantial risk? Most likely not. At least not short term

Changes in inflation is still correlated to the cycle (yes that's one version of a Phillips curve)



- And now, the cycle is that strong
- Sure, the decline in production is now mostly due to an external supply (corona) shock, not lack of demand – which is normally the reason for recessions. Income is propped up by unprecedented monetary and fiscal stimulus – and demand might become too strong vs. supply in some sectors, like in consumer goods in US as well as in other countries
- At the other hand, unemployment is still high and wage inflation will be subdued for several quarters. Cost inflation will not accelerate, in general

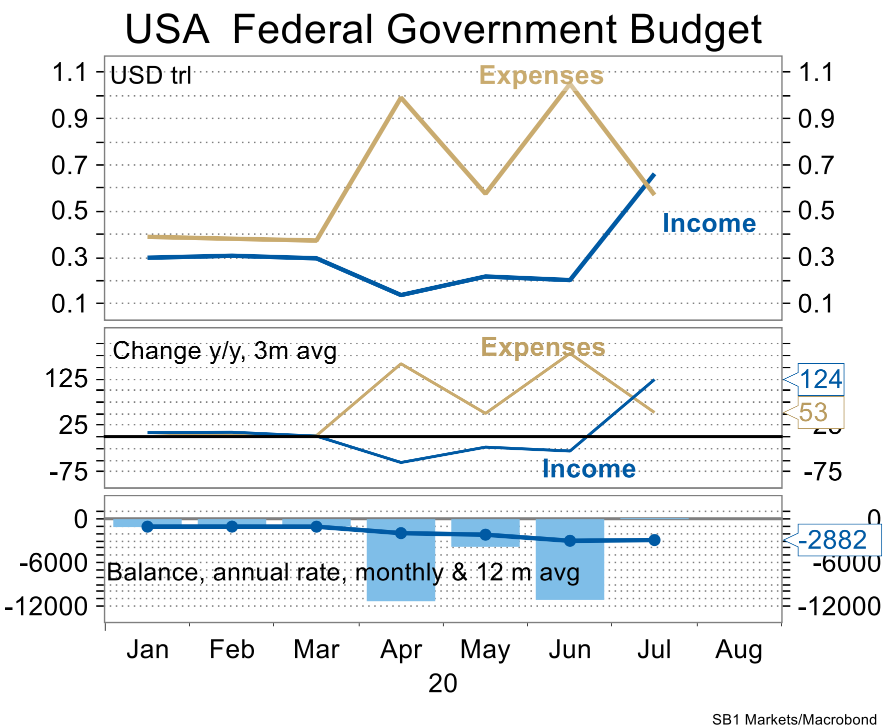
Profits down but not that much due to unprecedented government support

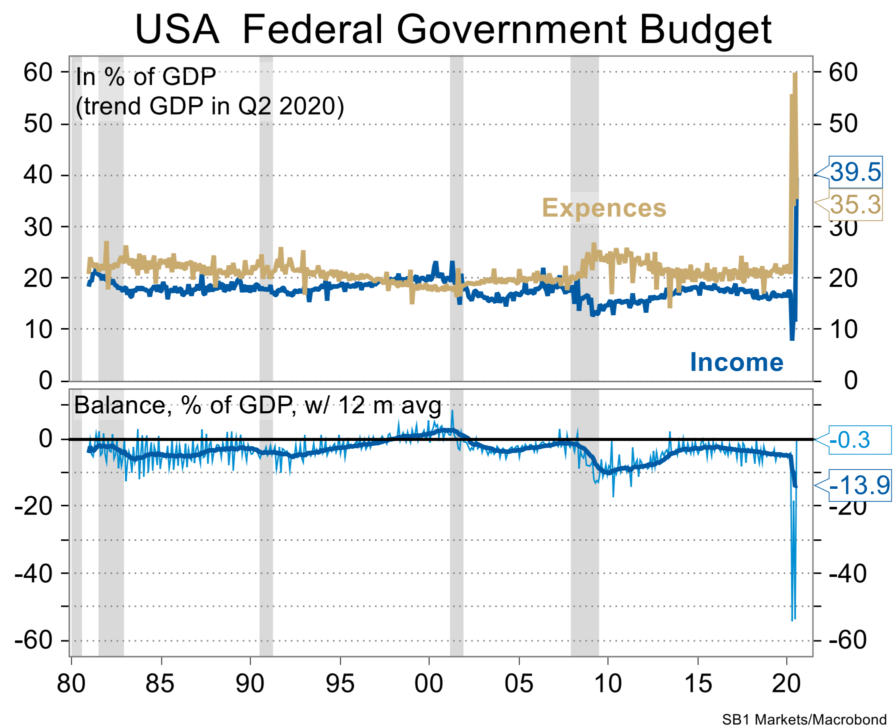


- Q2 nominal domestic corporate output fell by 12.5%. The wage bill was cut by just 6.9%. Still, we calculate that corporate profits fell just 16%, due to an unpresented reduction in production taxes (and higher subsidies), we assume the corona stimulus measures. If not for this support, profits would have fallen by 57% (check the arrow)!
  - » The cut production taxes/increases in subsidies can impossible not be permanent
- We expect low wage cost inflation the coming quarters, and assume that companies will be able to trim the cost level so that profits will not stay at the 3.5% of GDP level they would have fallen to in Q2 barring the stimulus package
- Corporate profits for the past two years were revised up in the annual GDP revision but has still been trending down since early 2015

Deferred taxes were paid in July, expenditures cut (fewer unempl, less transfers)

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

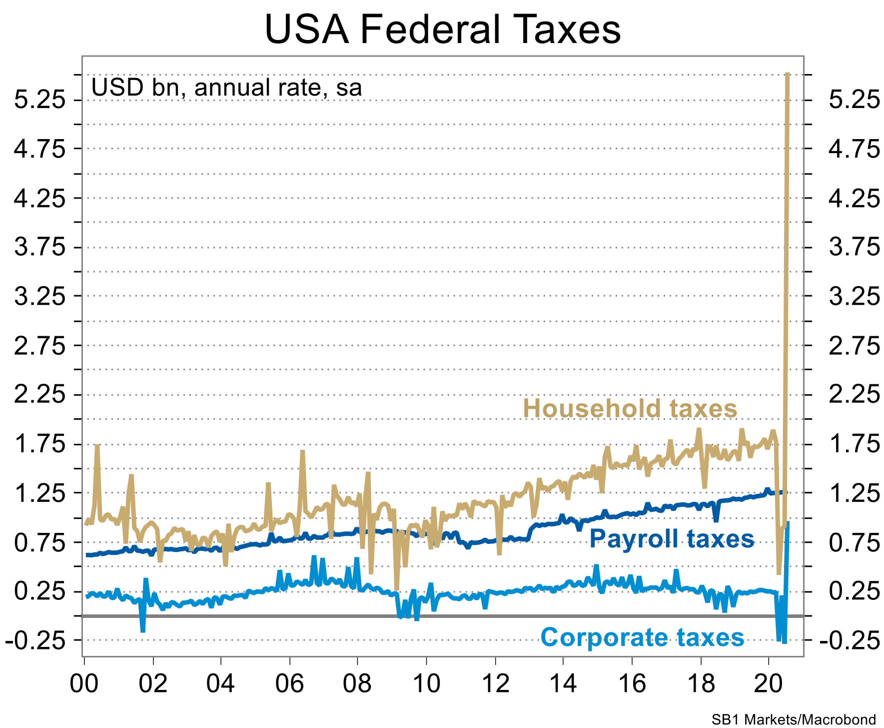


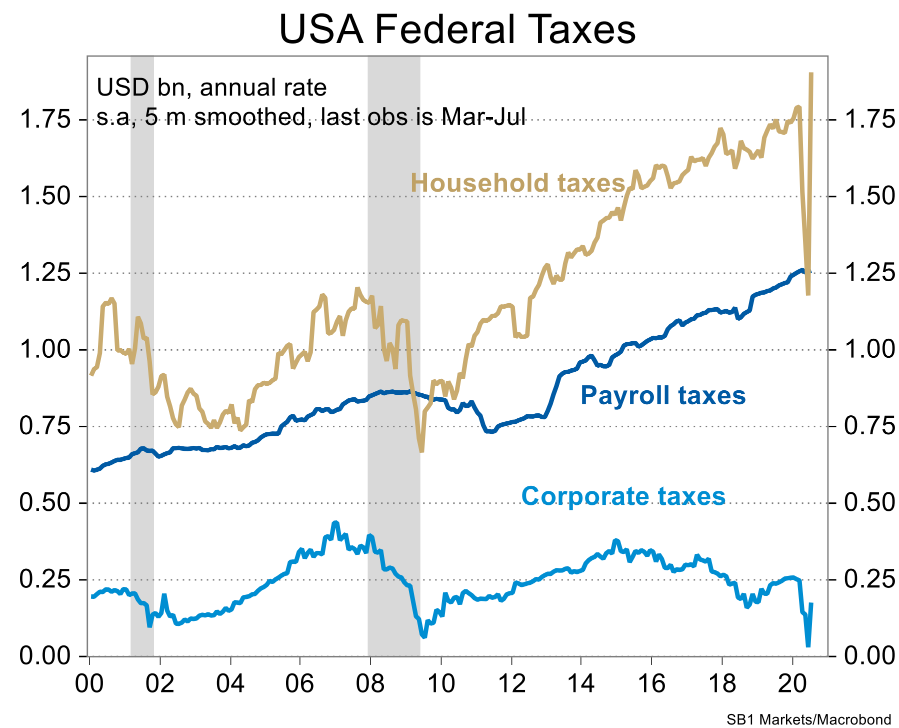


- The aggregate deficit during the past 3 months equalled 10.7% of the annual GDP!! Income fell sharply as private sector revenues fell and tax payments were postponed. Transfers to households rose sharply

Tax payments through the roof in July, deferred taxes were paid

Over the corona period, corporate taxed are cut (by some 40%), household taxes are up

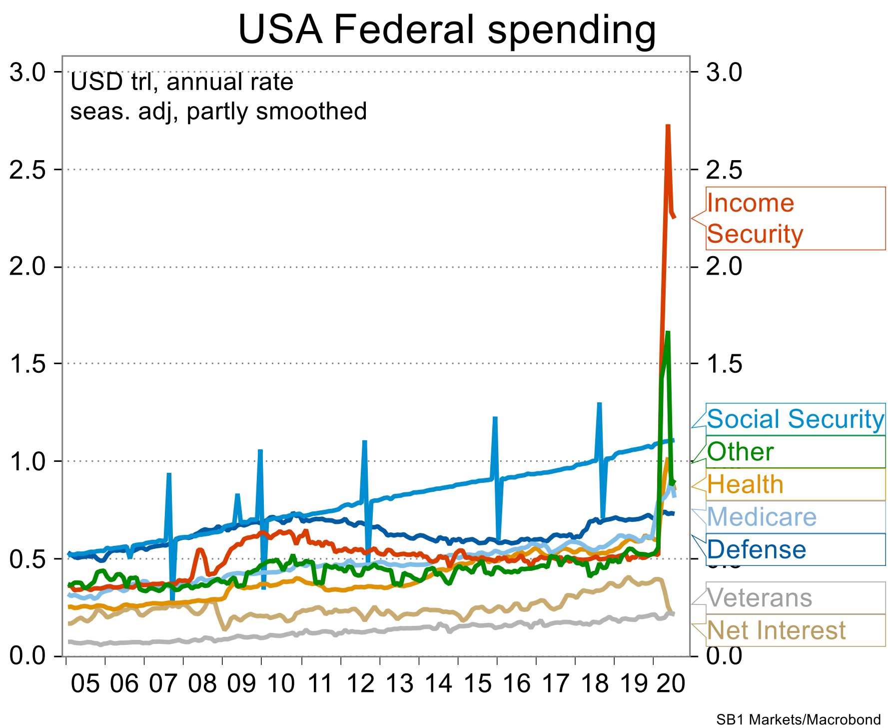


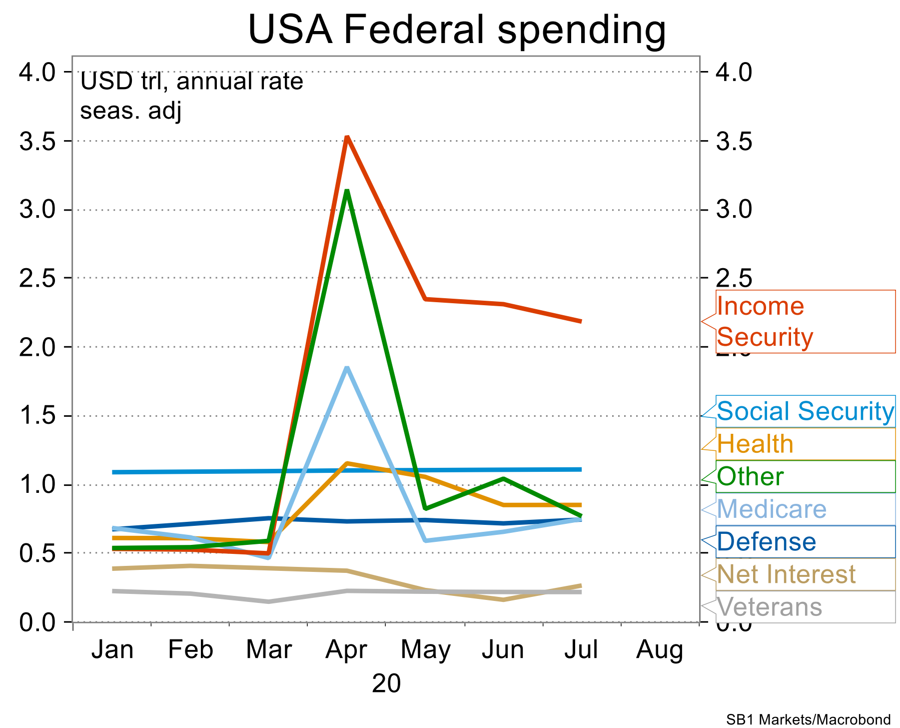


- Household income rose 10% in Q2, has probably influenced tax payments in July. Most of the increase is though due to deferred payments for the previous months

Transfers ex unemployment benefits are scaled back

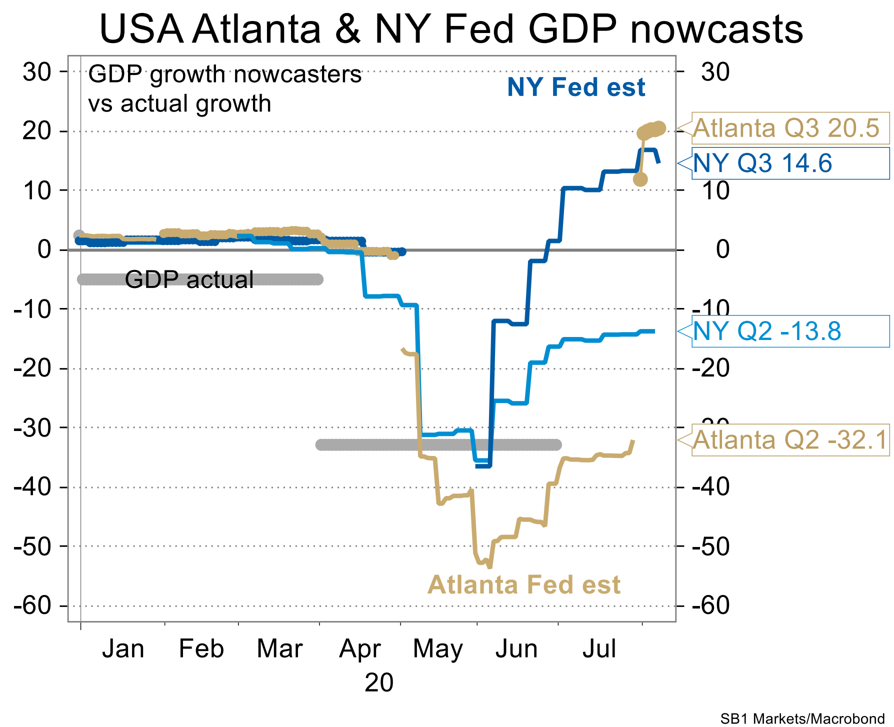
.. And UB payments are decreasing too

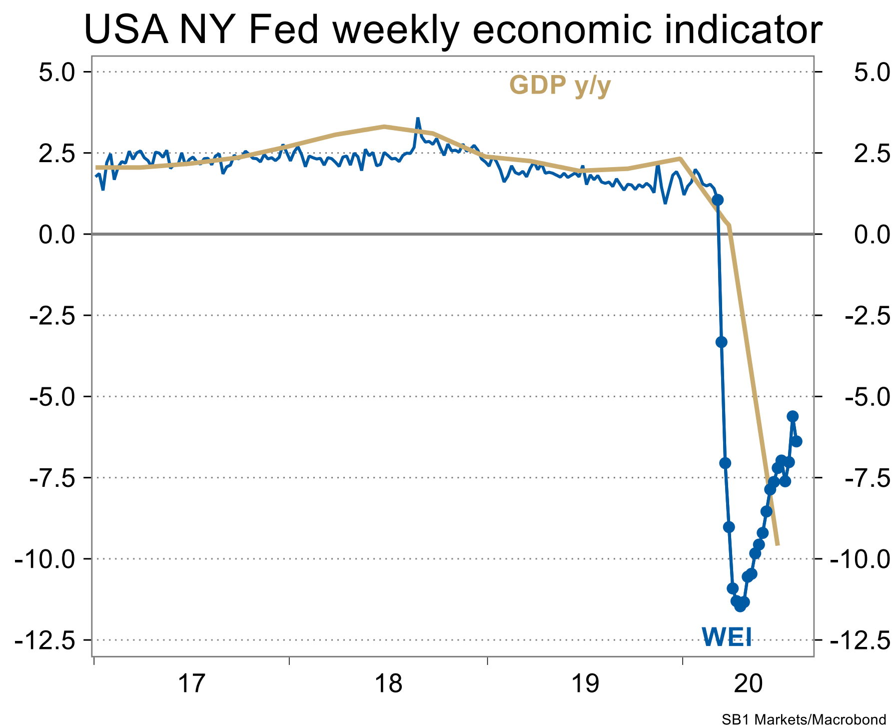




Nowcasters are looking upwards in Q3, of course. But still far less than the Q2 loss

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

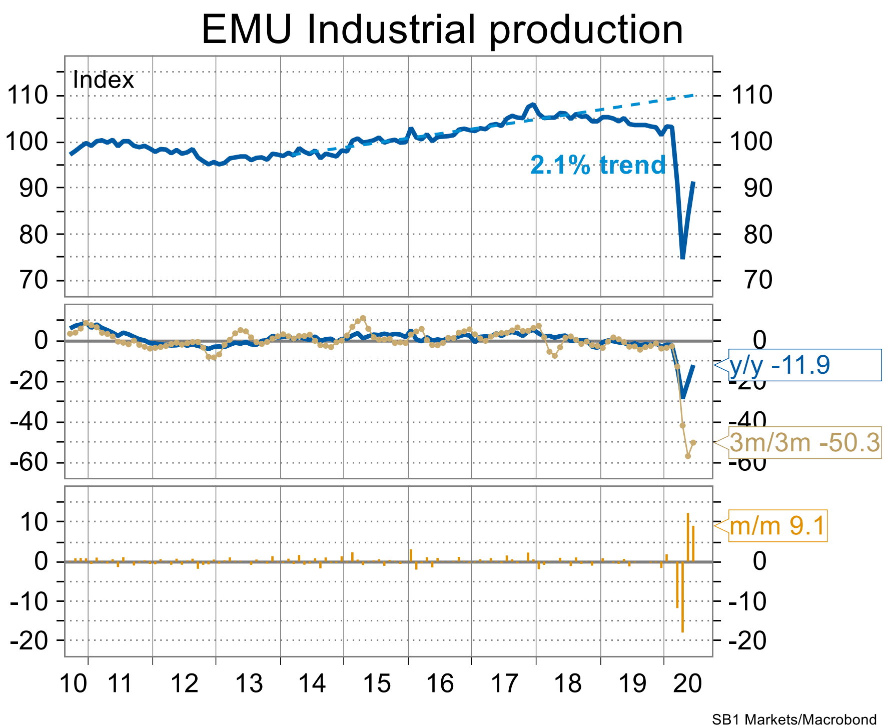


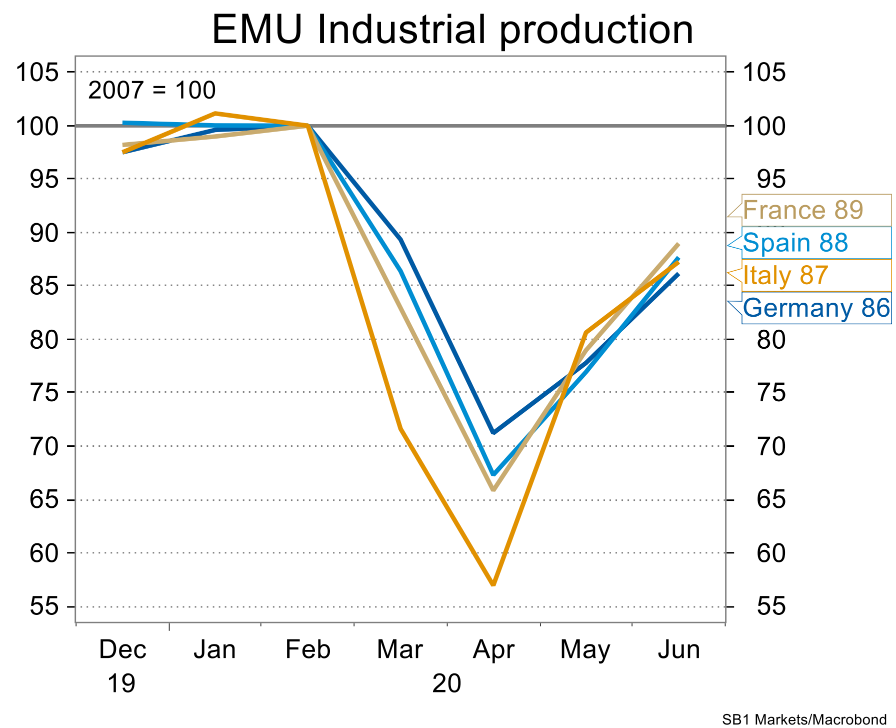


- We still do not have many Q3 data – and the nowcasters' forecast are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the nowcasters reports 14 – 20% growth in Q3 (annual rate)
  - » NY Fed's weekly model signal a 7% decline y/y, equalling 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

Manufacturing production up in June, still 11% below par

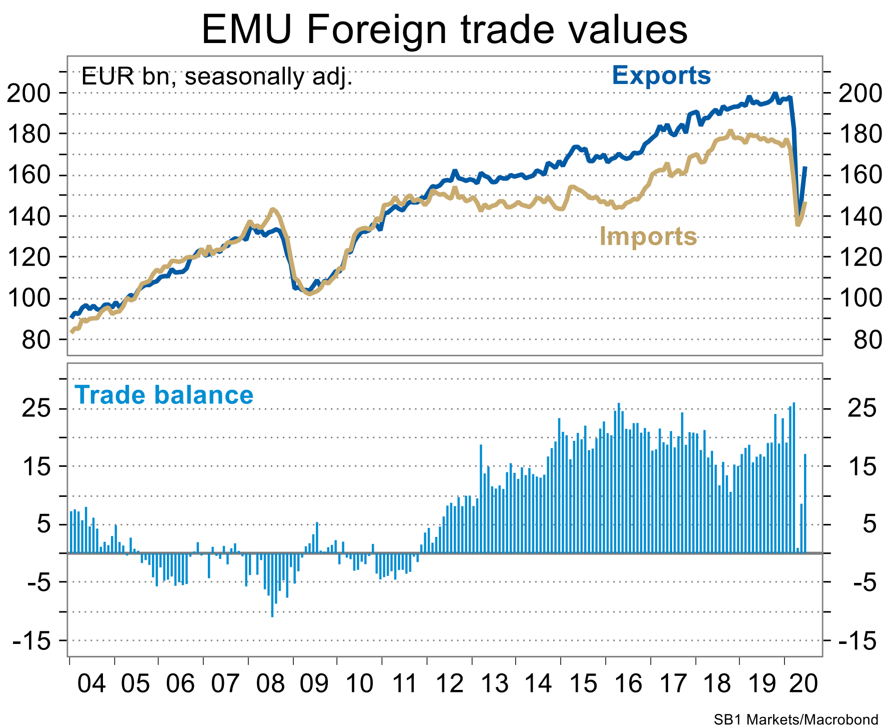
Production up 9% m/m and a broad recovery regionally, but the activity level is still far below normal





EMU foreign trade up from a deep low

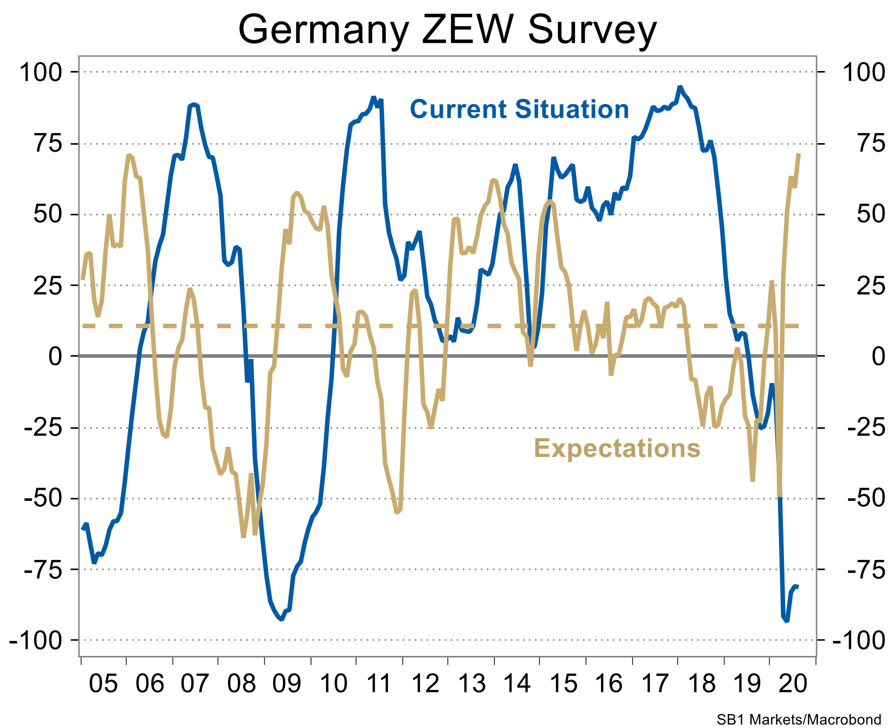
Exports fell 31% - now down 16% vs the February level. Imports less up



- The EMU has been running a substantial trade surplus since the euro crisis in 2012
- Exports have fallen much more than imports (both in value and volume terms) during the corona crisis
- Both are now on the way up but remained depressed in June

The best German future since 2004! Well, check the starting point

Following a 12% decline in GDP, a 6% recovery would be an incredible disaster

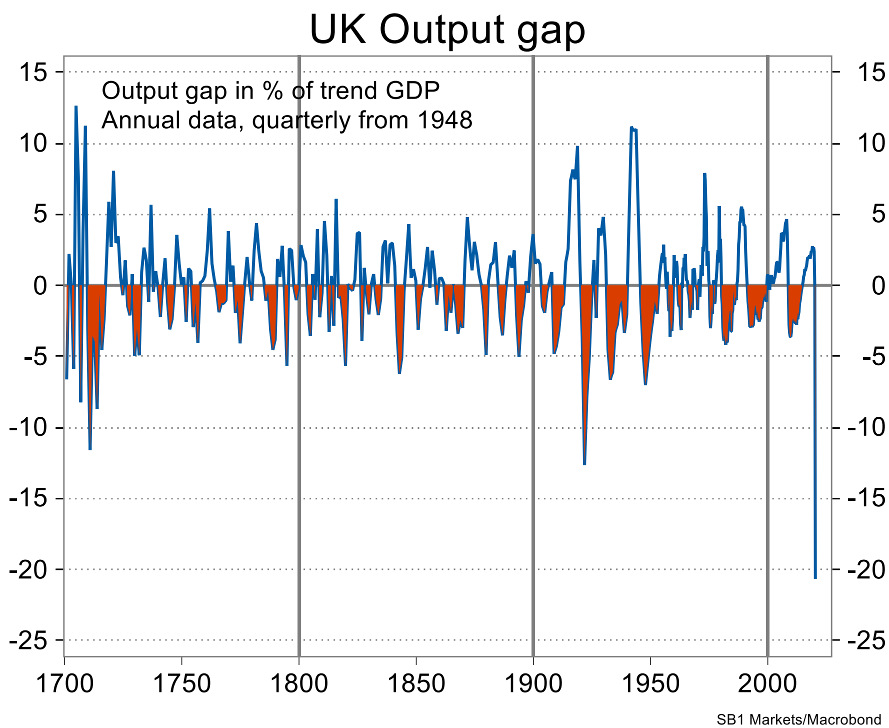


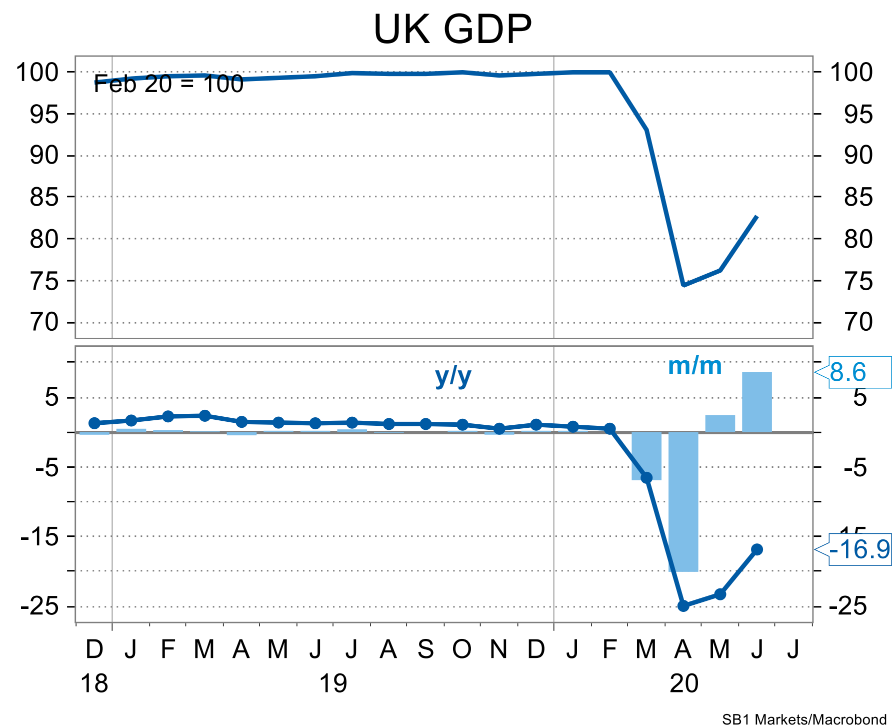
- The ZEW expectation index is the strongest in more than a decade but cannot be used to calibrate any GDP forecast
- Investors and analysts are just pretty sure that the economy will not remain in the basement (or below) forever. Which is reasonable

SpareBank 1 MARKETS

Just a confirmation, the Q2 was worst on the UK record. At least since year 1700

Q2 GDP fell by 20.4%, consumption fell sharply. GDP rose by 8.6% in June. Still 17% down vs. Feb

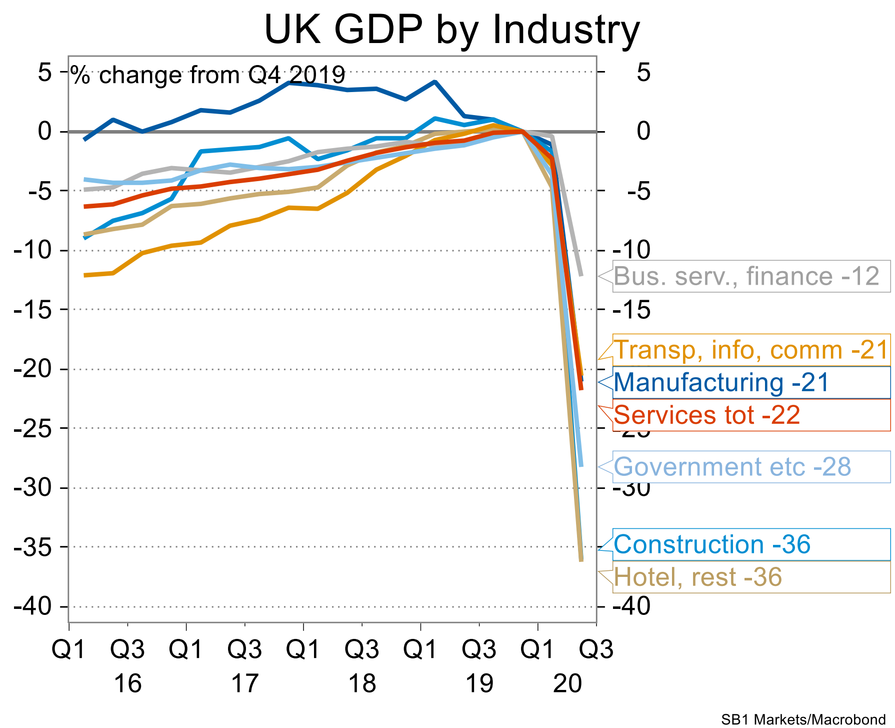


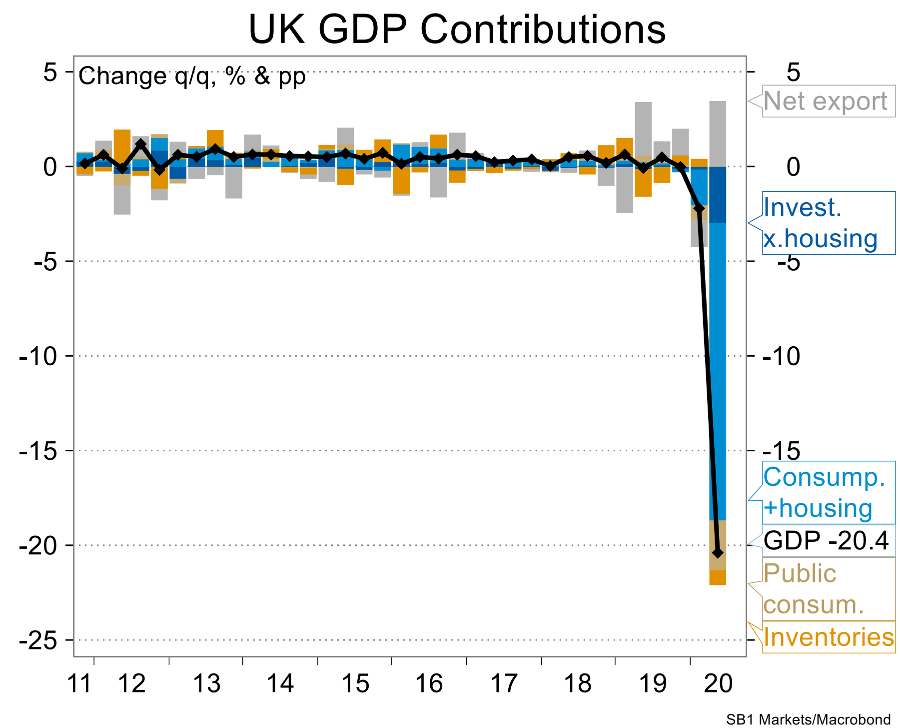


- UK should, like most other countries, report the highest growth ever in Q3. Perhaps 15% in UK - but even so, the GDP level in Sept would be 7% below Feb 20
- Labour market data are still

Hotel & restaurants, construction down 36%, manufacturing - 21

Even the government closed down, cut production by 28%





- Produ

Highlights

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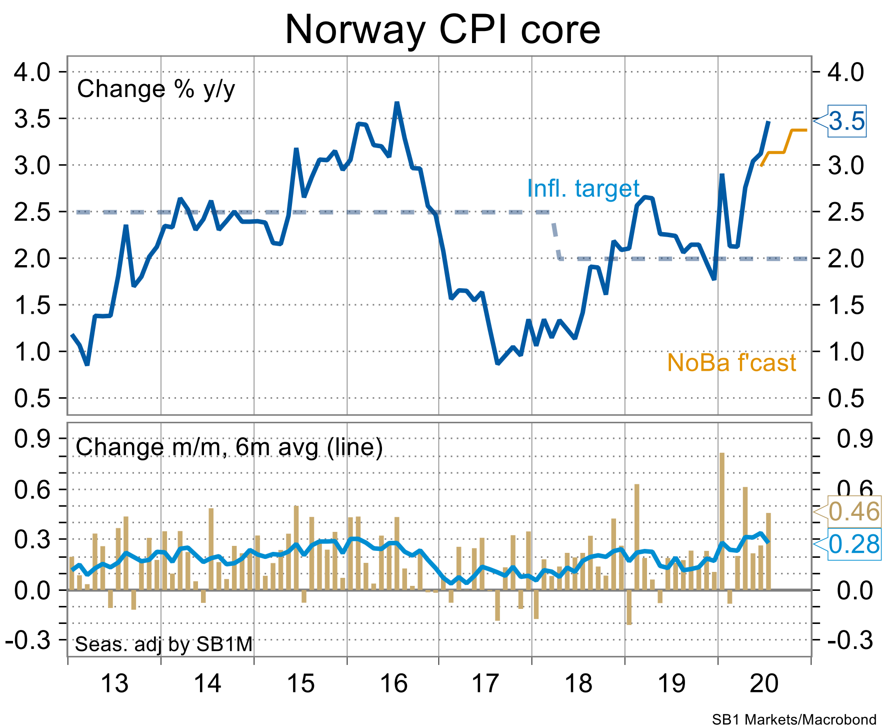
Oops, core CPI up to 3.5%. Most likely not a lasting problem

Inflation well above the target – due to temporary factors. Total inflation still low at 1.4%



- CPI-ATE (ex. energy and taxes) rose 0.4 pp to 3.5% y/y in July, we expected unch – and it is higher than NoBa's Q3 avg forecast (3.1%). Inflation is above 2% for all major groups, except housing
  - » Prices rose 0.5% m/m (s.a)
- Total inflation slowed 0.1 pp to 1.3%. Electricity prices – but also gasoline prices – explains the 2.2 pp divergence to the core CPI
- **The price outlook**
  - » Impacts of the corona crises are mixed
    - ▪ A weaker economy strongly suggests low inflation. Wage inflation is no doubt on the way down
    - ▪ The weak NOK has lifted inflation but this impact will soon fade as the NOK has stabilied
    - ▪ Energy prices have been falling but the downside from here is limited
  - » Our take is that the overall impact will be a slowdown in inflation. It may take some months before these changes are reflected in the CPI
  - » Anyway, actual CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. Wage growth will no doubt slow, almost whatever CPI data that may be reported – and the headline CPI is very low!

No major outliers vs our f’cast in May

Prices are increasing faster in several sectors. 12 out of 13 main groups are above the 2% target

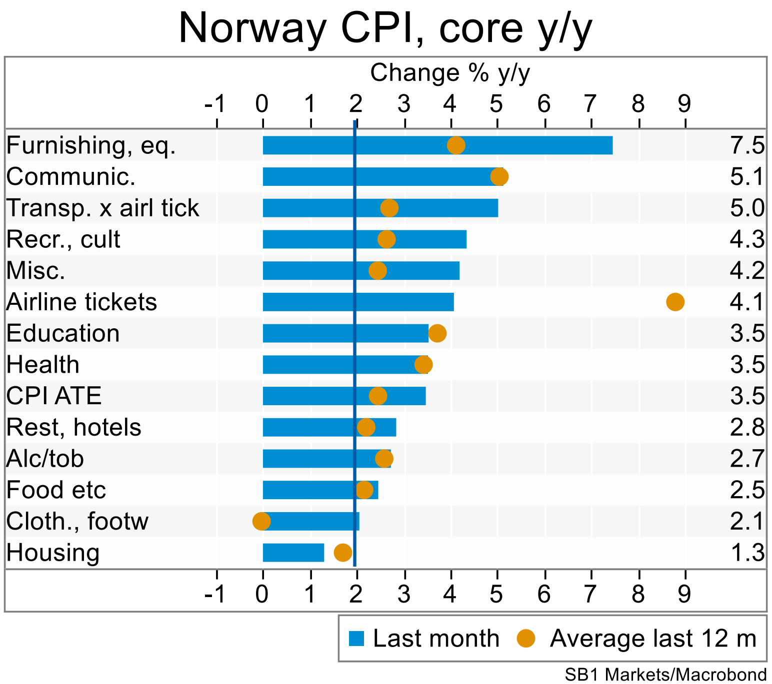
		Change m/m, seas. adj			Change y/y			Contribution, pp		
Jul-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	-0.0	0.3	-0.3	3.0	2.5	2.6	-0.00	0.31	-0.04
Alcohol, tobacco	3.9	0.4	0.3	0.1	2.4	2.7	2.5	0.01	0.11	0.00
Clothing, footwear	4.9	2.1	0.2	1.9	-0.8	2.1	-0.6	0.10	0.10	0.09
Housing x. energy	20.1	0.0	0.2	-0.1	1.4	1.3	1.5	0.01	0.26	-0.03
Furnishing	6.6	0.4	0.5	-0.1	7.1	7.5	7.4	0.03	0.49	-0.01
Health	3.2	0.1	0.3	-0.1	3.5	3.5	3.7	0.00	0.11	-0.00
Transp. ex. gas, airl. tick	12.0	0.4	0.2	0.2	4.7	5.0	4.4	0.05	0.61	0.02
Airline tickets	1.2	-1.7	0.2	-1.9	8.4	4.1	4.9	-0.02	0.05	-0.02
Communication	2.2	0.5	0.3	0.2	4.4	5.1	4.7	0.01	0.11	0.01
Recreation, culture	11.9	0.5	0.4	0.1	3.8	4.3	4.2	0.06	0.52	0.01
Education	0.5	-	-	-	3.5	3.5	3.5		0.02	0.00
Restaurants, hotels	6.2	0.9	0.2	0.7	2.0	2.8	2.0	0.06	0.18	0.04
Other	8.8	0.5	0.3	0.2	3.7	4.2	3.9	0.04	0.37	0.02
CPI-ATE	94	**0.5**	**0.2**	0.2	**3.1**	**3.5**	**3.1**			
Imported	33	0.8	0.3	0.5	3.2	3.8	3.0	0.25	1.24	0.16
Domestic	61	0.4	0.2	0.2	3.1	3.5	3.1	0.27	2.11	0.12
Energy, housing	4	-0.2	-4.0	3.8	-32.6	-35.1	-37.8	-0.01	-1.36	0.15
Energy, transport	4	3.9	2.0	1.9	-7.4	-4.5	-6.3	0.14	-0.16	0.07
CPI Total	101	**0.3**	**0.2**	0.0	**1.4**	**1.3**	**1.3**	0.27	1.36	0.03
Change m/m based on seasonally adjusted data										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

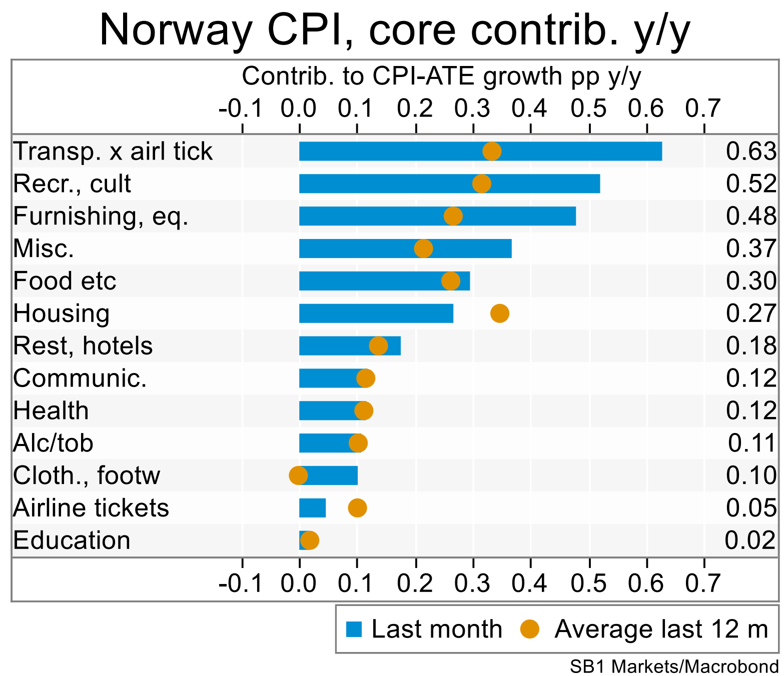
- Food prices slowed further, even if demand is strong
- Clothing prices rose further in July, and much more than we assumed- now up 2.1Y y/y
- Rents are easing, due to interest rate cuts
- Furniture prices are up 7.4% y/y!! Demand is up, the NOK is down
- Car prices are rising sharply. NOK impact
- Books, games, garden equip/plant prices rose more than normal too – demand/NOK impact
- **CPI-ATE up 3.5% y/y, highest in 4 years**
- Imported prices rose by an unusual 0.8% m/m, the annual rate accelerated 0.8 pp to 3.8%
- Electricity prices fell less than we expected but they are down 35% y/y
- Total inflation slowed by 0.1 pp to 1.3%

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

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

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

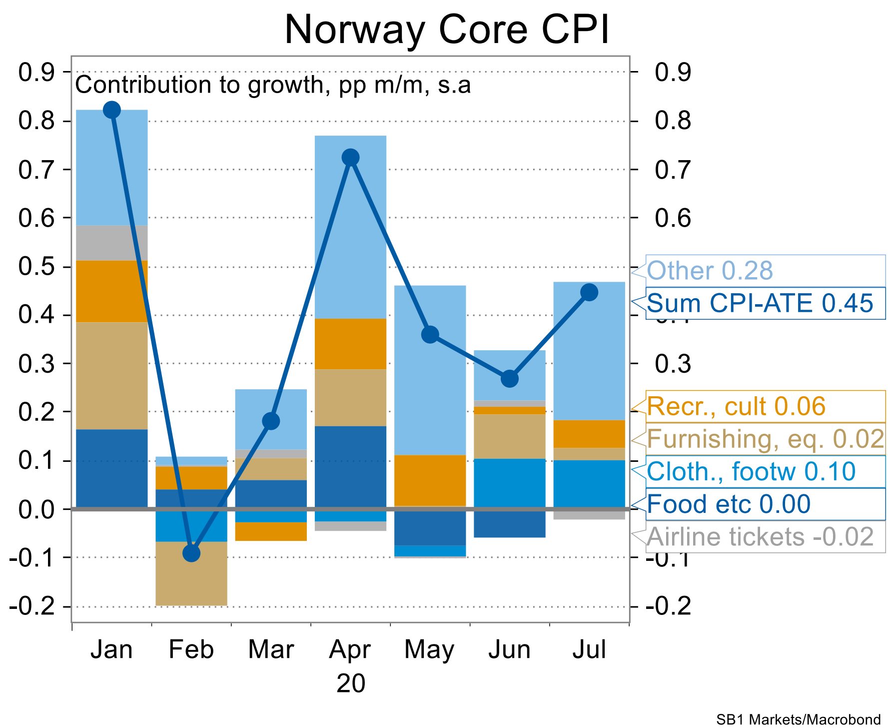


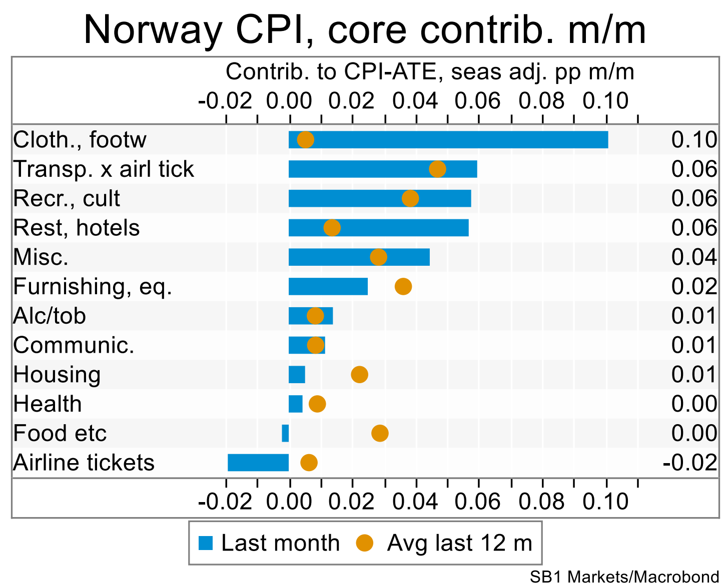


- Transport: In May, auto prices rose sharply. Auto maintenance and spare parts as well as other transport services than airlines are on the way up

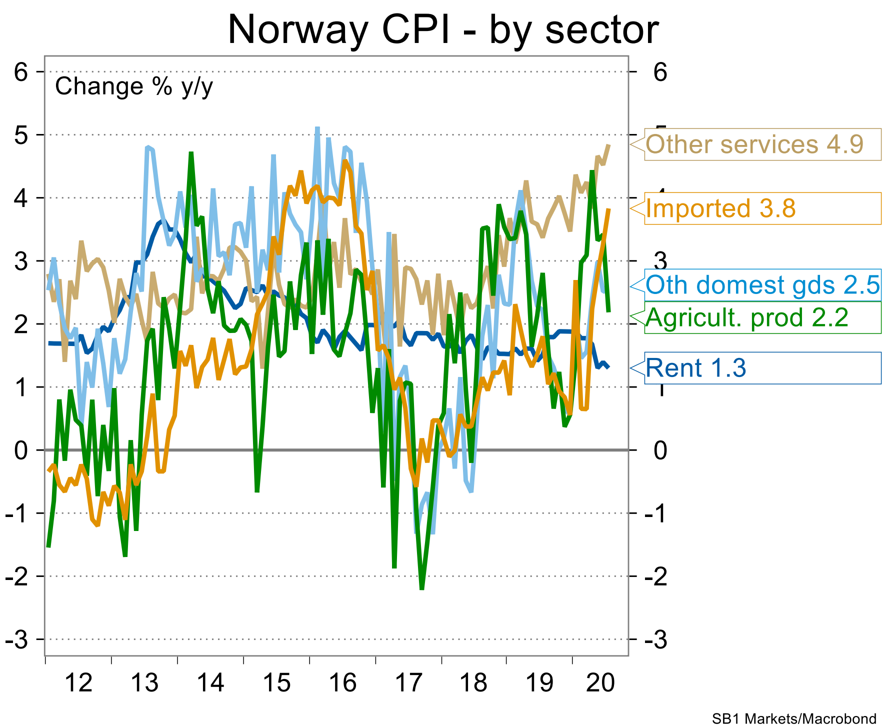
Not much on the downside in July

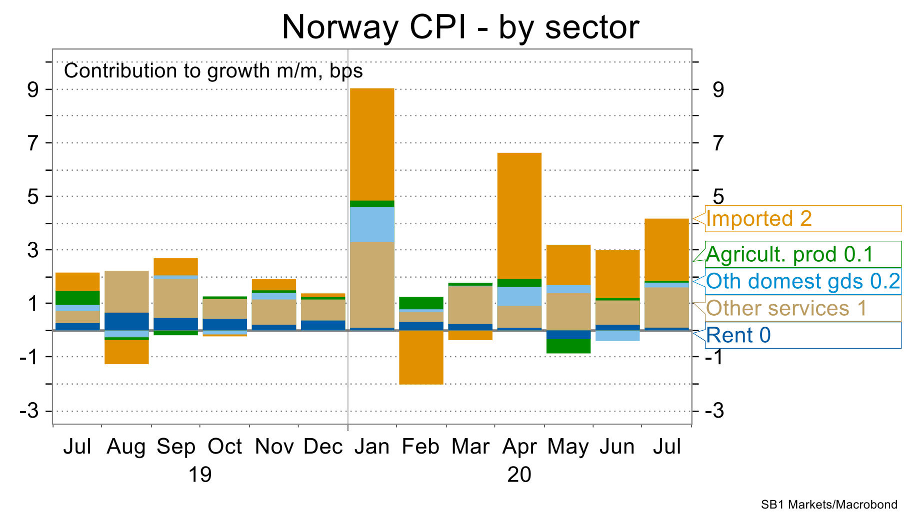
Clothing, transport x airlines, recreation/culture contributed the most

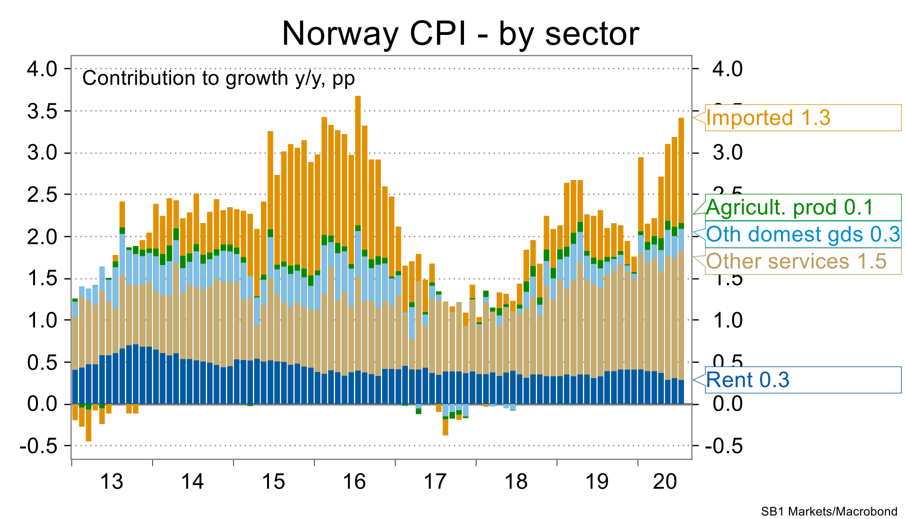




Imported goods inflation up to 2.8% but domestic inflation even higher

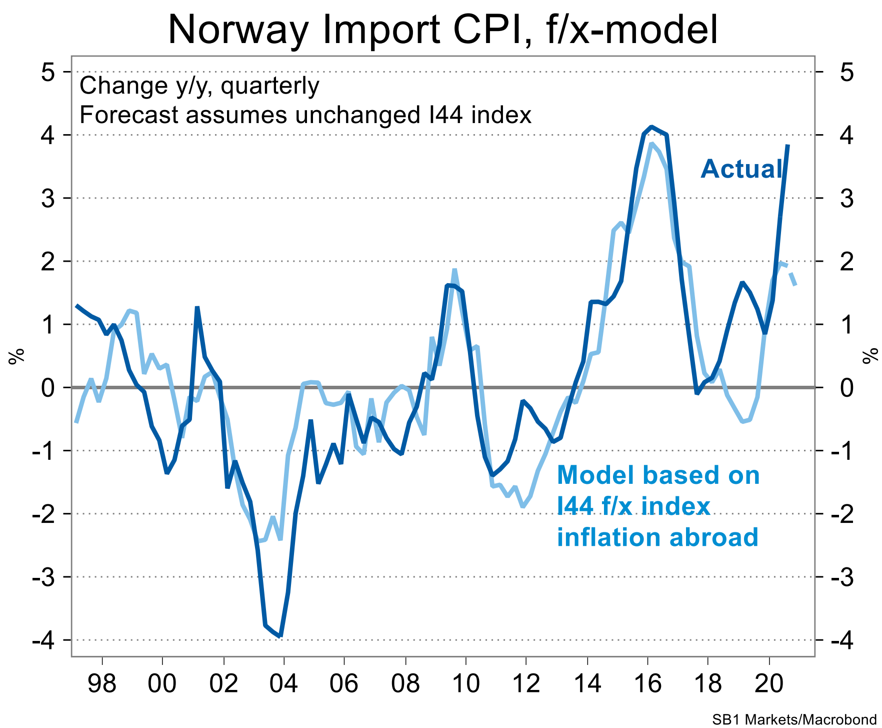


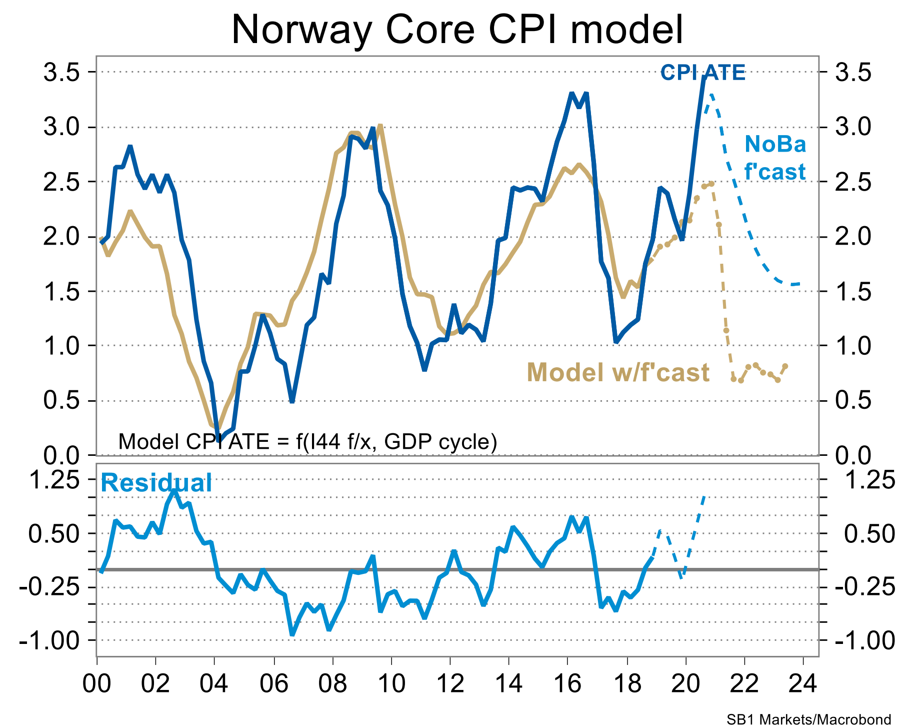




Imported prices: Too much up now? Will probably come down

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

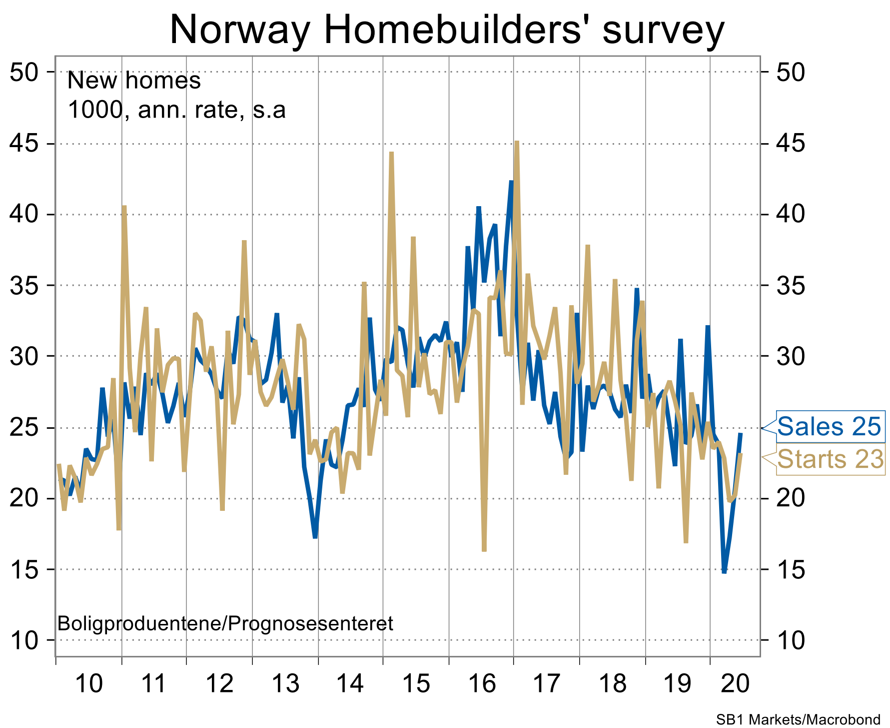


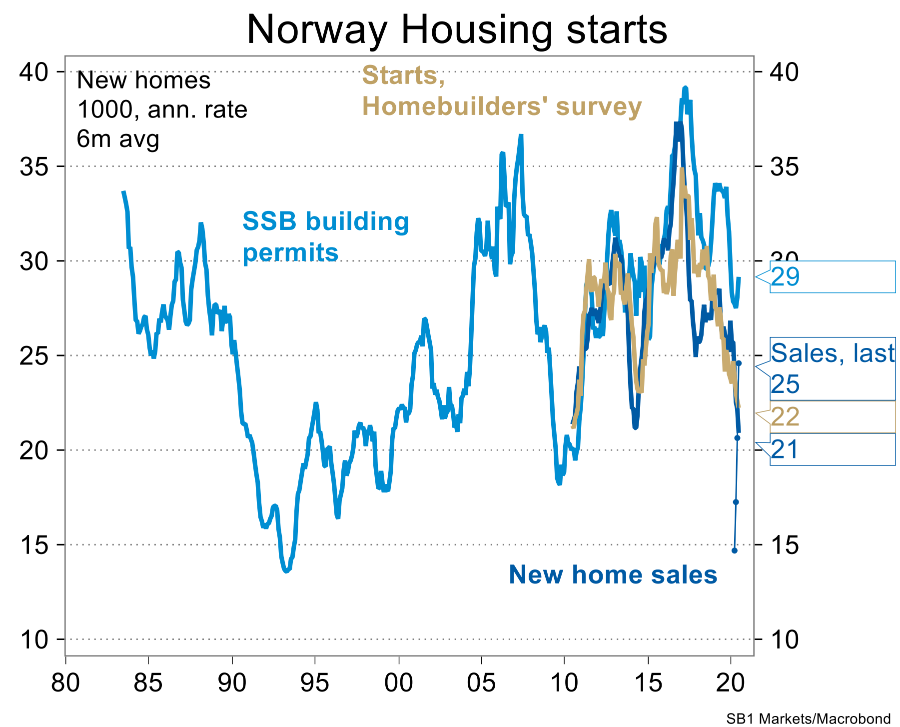


SpareBank 1 MARKETS

New home sales, starts further up in June – back to a declining trend

The Homebuilders' report an increase in sales to 25' in June, starts to 23'. The corona shock recovered



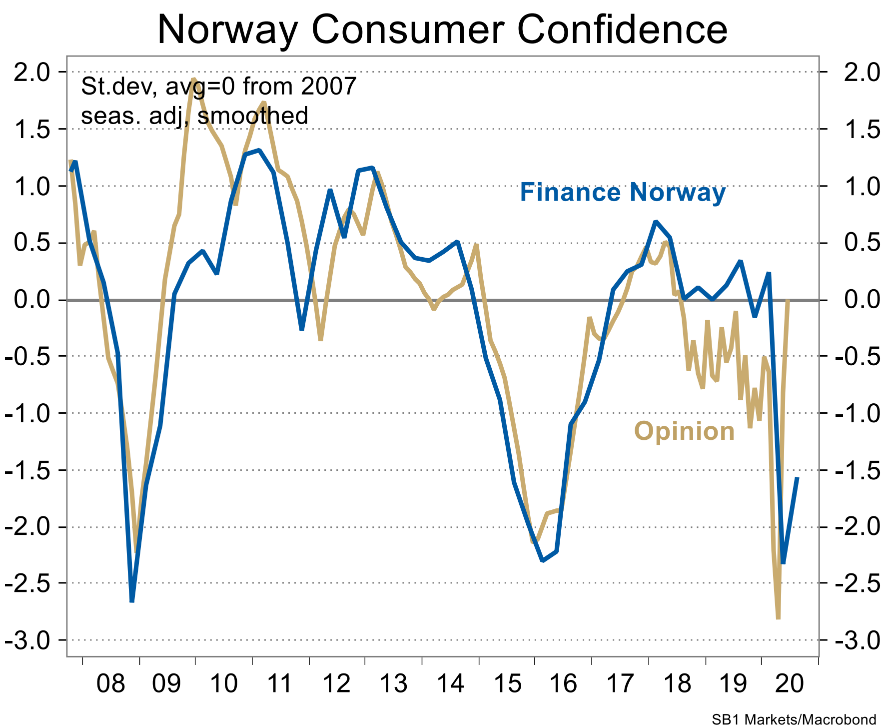


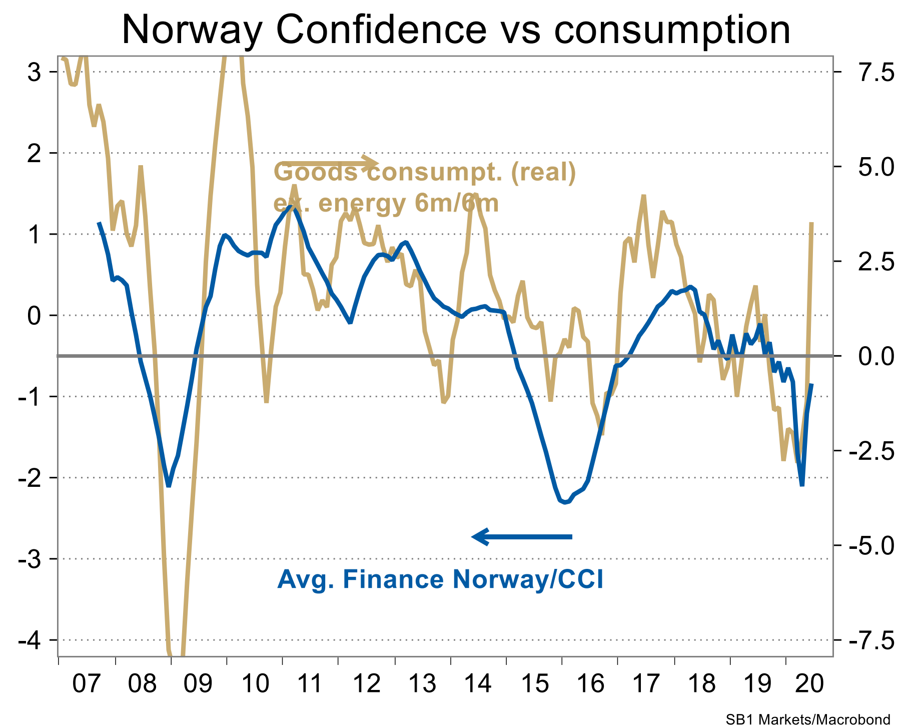
- Homebuilders reported that new home sales (seasonally adjusted) fell sharply in 2nd half of March but recovered in April, and further in May and June, from the bottom at 15' to 25' in June. Starts did not fall that deep but have recovered since April, to 23'
- Both sales and starts have been trending down since late 2016, from a 35' level. Real house prices have been trending down most of this period but is now increasing again
- SSB has reported a decline in building permits but the level (29') is higher than what the homebuilders report. The average discrepancy is some 2.5', now its 7'
- The construction sector reported a downbeat outlook in Norges Bank's Regional Network survey but media have reported much better new home sales than revealed in the Homebuilders' report.

SpareBank 1 MARKETS

Consumer sentiment up in Q3 but far less than we expected, still far below par

Finance Norway's CCI climbed to -7 in Q3, from -17 in Q1, we expected +12 (an avg level)



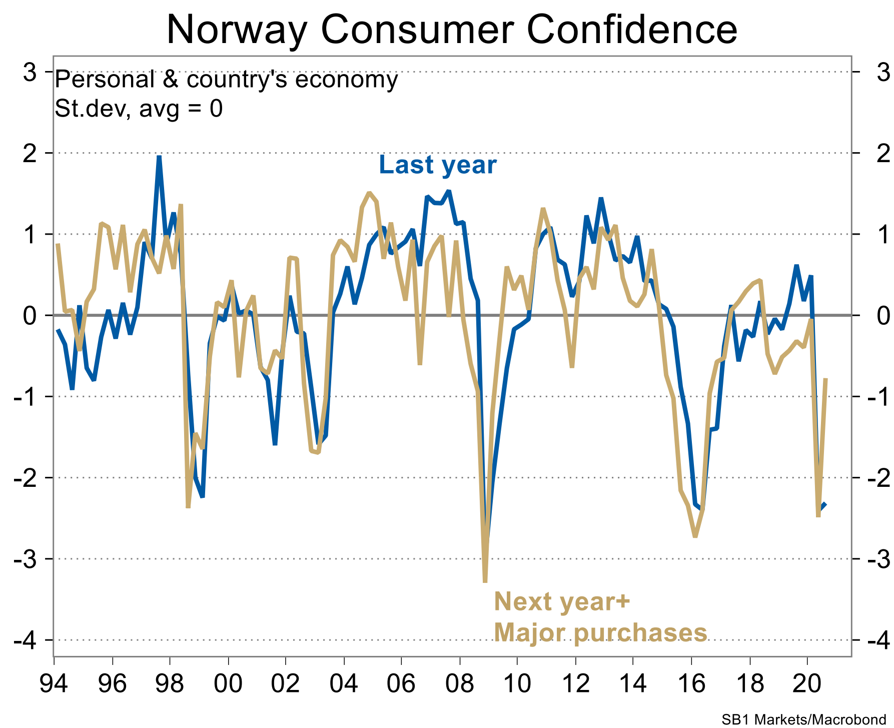


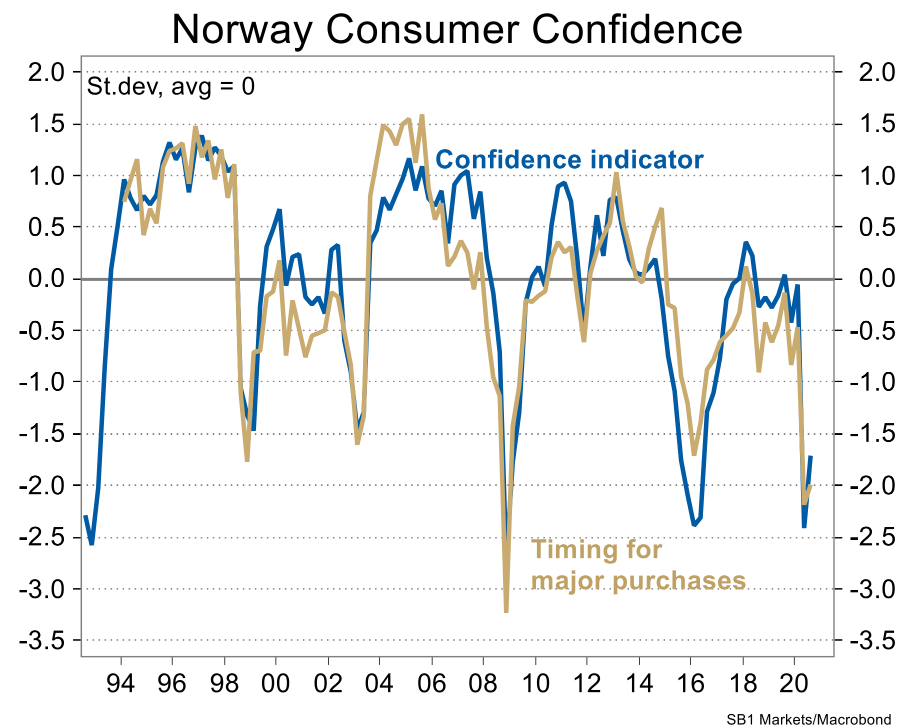
- Finance Norway's quarterly consumer confidence index recovered to -7 in Q3, from -17 in Q2, to -1.5 st.dev below par, from -2.3 st.dev.
  - » FN reports a smoothed trend, which fell to 7, from +5. This transformation is not meaningful at all now
  - » The monthly CCI from Opinion rose to an average level in June (no July survey) – equalling a Finance Norway survey at +15
- The forward looking components were much stronger than the backward looking (except for the major purchase sum index). The backward looking components have a too high (60%) weight in the index, we think
- The avg. of the FN & CCI has recovered but remains below par – while actual consumption has soared since March has stabilised since early 2019, at a decent level, and do not point to an abrupt slowdown in consumption, such as actual consumption/retail data have showed recent months. Any acceleration is unlikely, but a soft recovery should be within reach
  - » Still slower growth in nominal and real income than 'usual', low population growth may explain some of this gap, the 'new normal' is lower than before

SpareBank 1 MARKETS

The confidence indicator taken down by low assessment of the last year

The forward looking components rose much more than the backward looking – but are still low

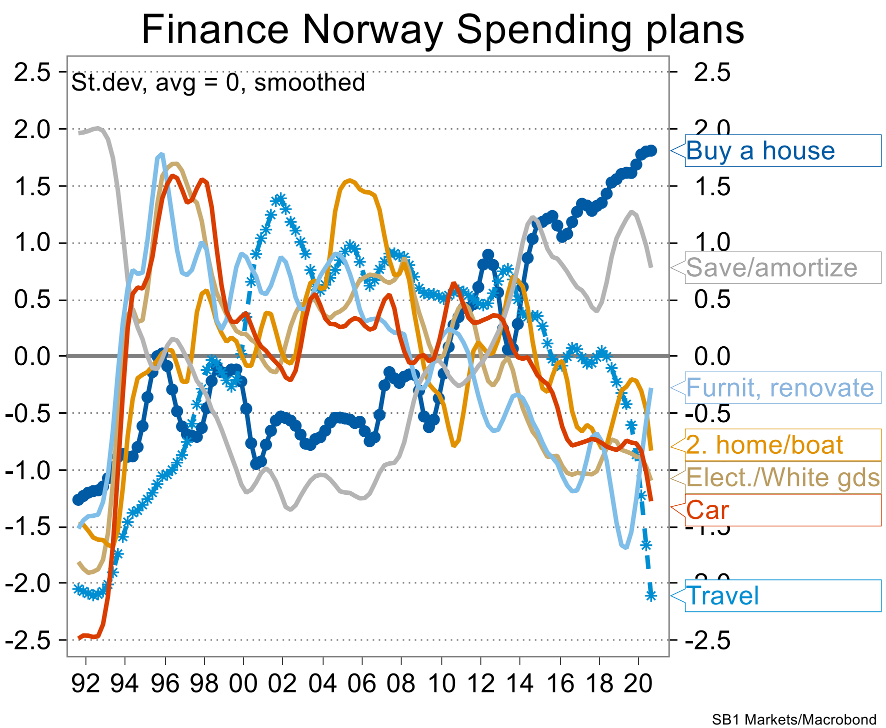


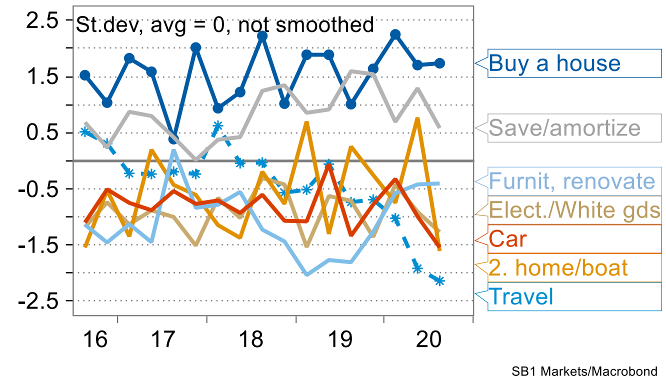


- The forward looking components in the index (equally weighted by us) rose sharply in Q3 but remains well below an average level. The major purchases index remaining at a very low level, while respondents expectations for
- The assessment of the personal economy and the country's economy last year remained just as negative as in Q2, which is not that unreasonable (even if we expected a solid uptick).
  - » These two sub backward looking indices constitute 60% of the total confidence index, a far too high weight, we think
- There are no recognisable regional differences, as usual.
  - » Even during the 'oil crisis', confidence in South/West was just marginally below other regions

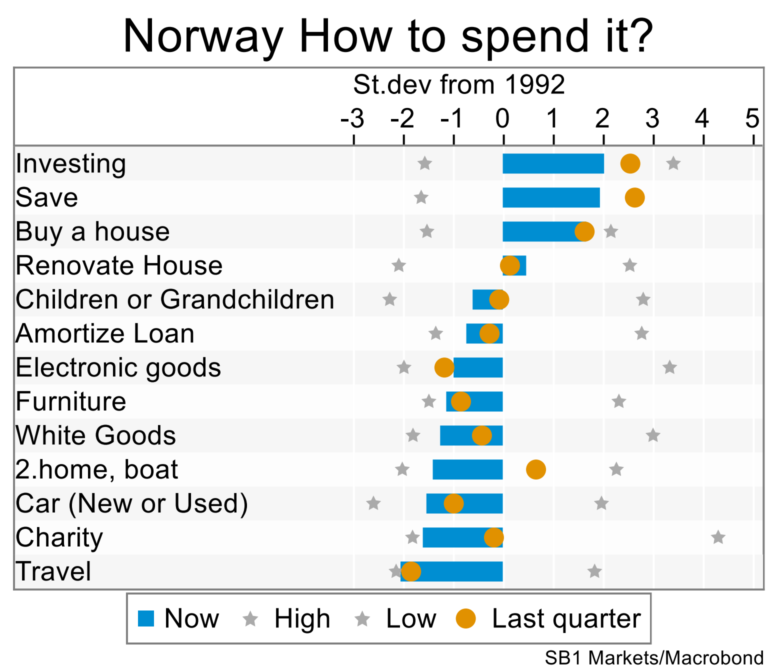
House purchase plans remain high, but saving/amortize still 'popular'

Travel has never less in favour, for good reasons. But cars, 2. home/boat down too, more surprising



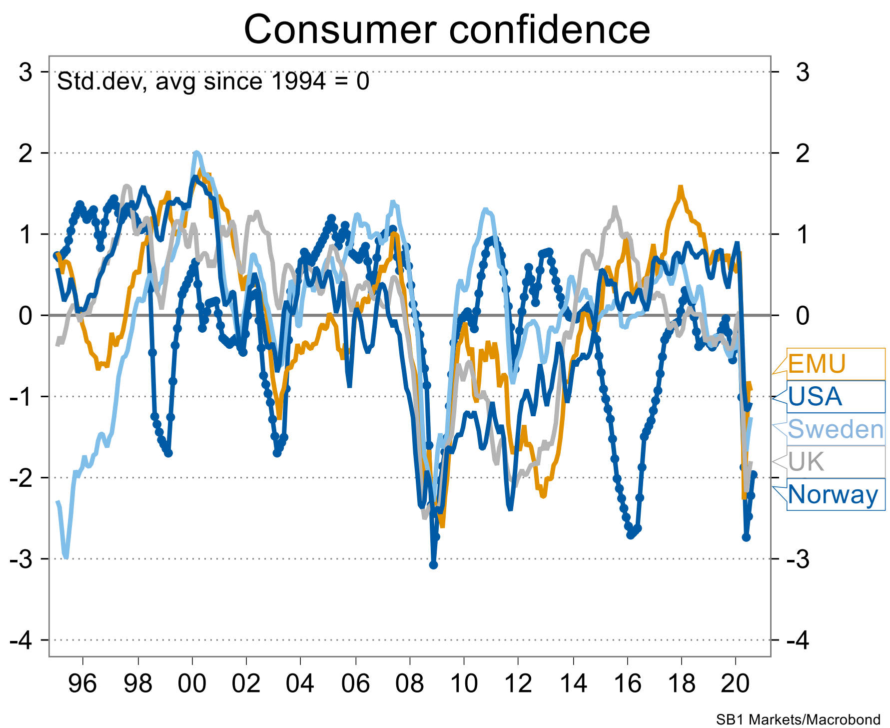


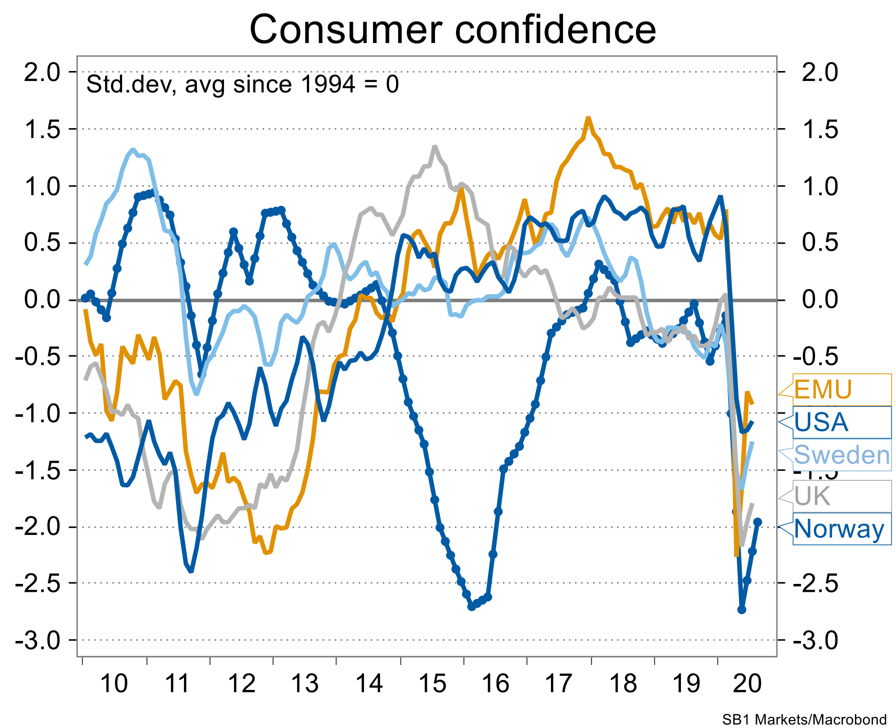
- Demand for 2. homes and boats has been reported very strong, while consumers say they do not plan to buy more of the stuff



Little mirror on the wall… No, the Norwegians are not among the most optimistic

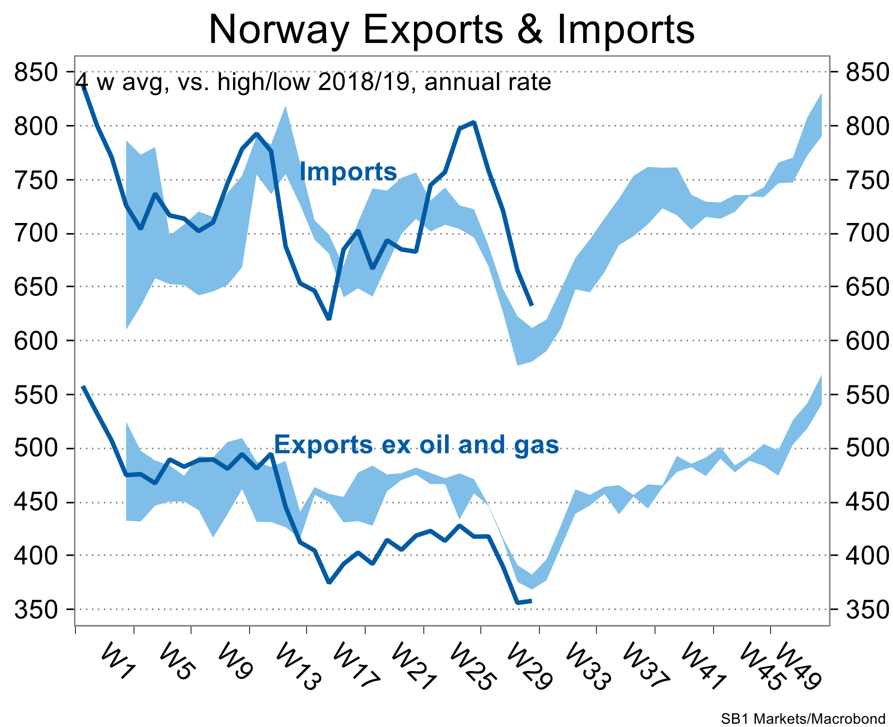
The European are. At least not vs what is usually reported.

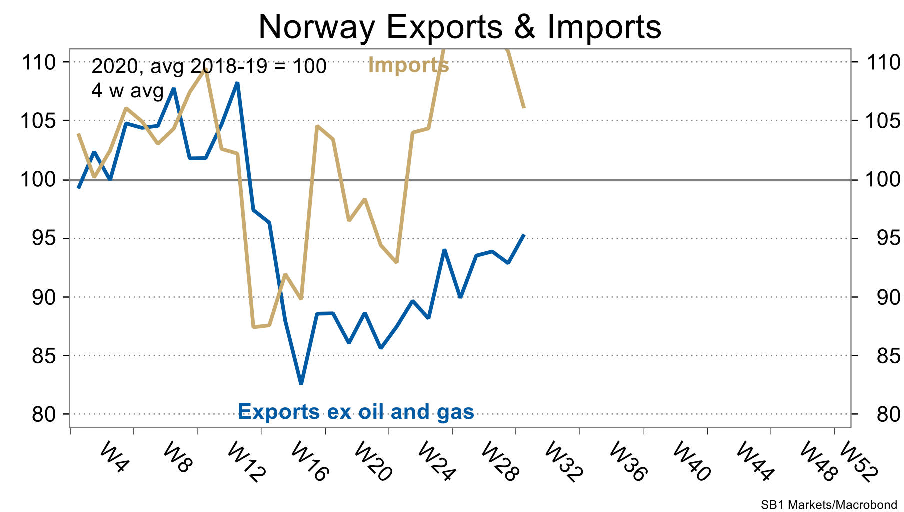


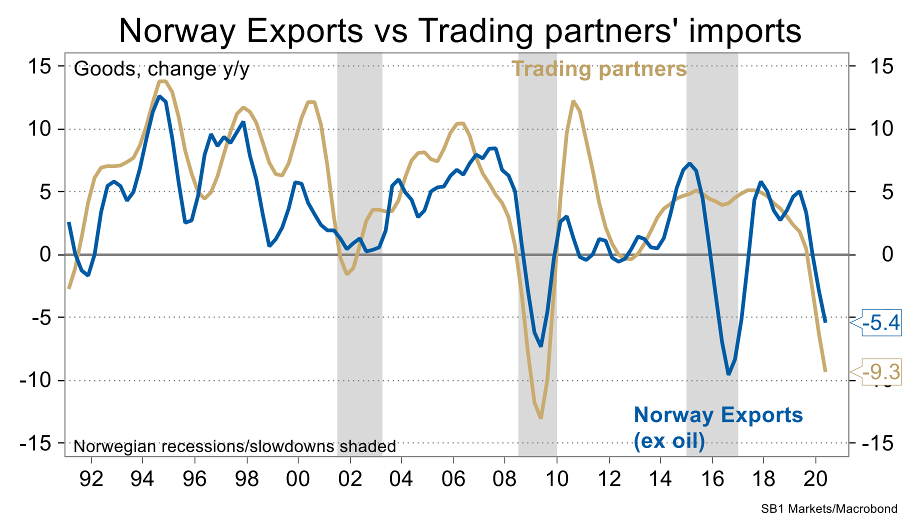


Mainland exports are gradually recovering, now some 5% below par, from -15%

Imports are 5 – 10% above 2018/19 average. Shelves in shops have to refilled!



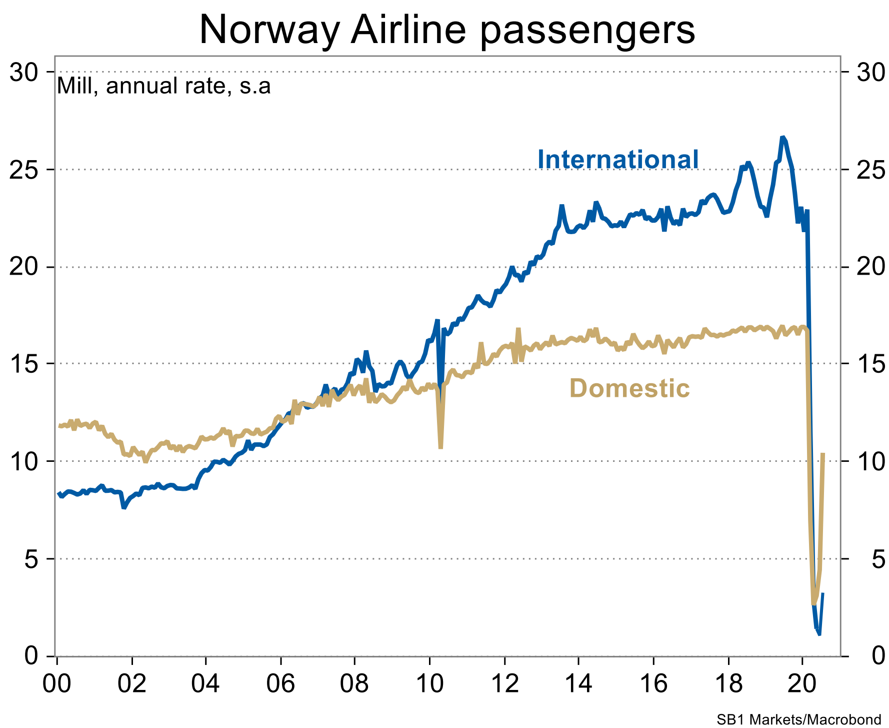




The Q2 Norwegian export is an estimate based on trade statistics

Domestic airline traffic halfway back to a normal level in July, still down 35%

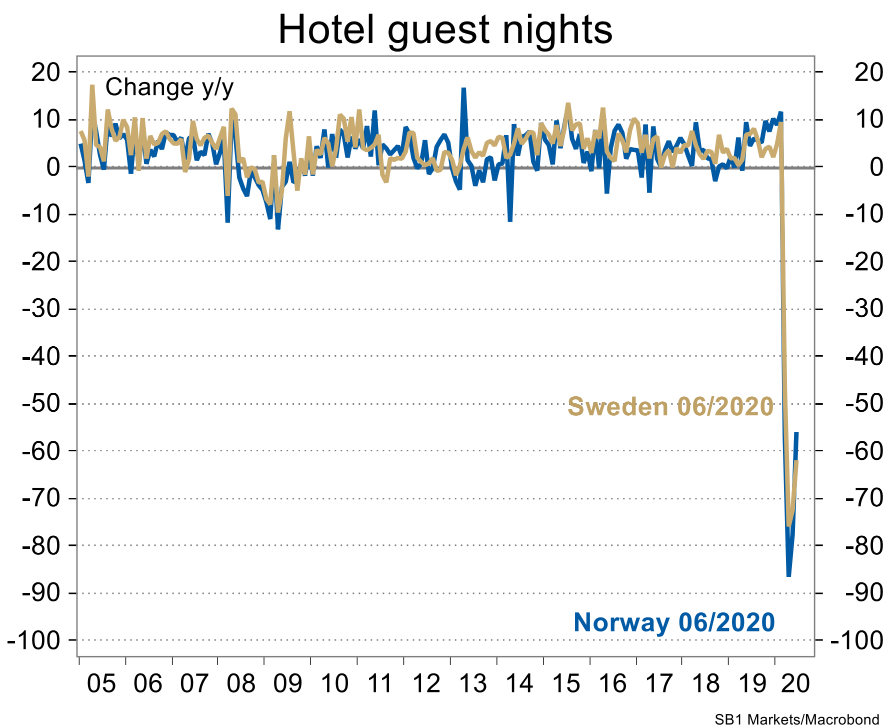
International traffic up too, but just marginally – down 85% vs pre corona. Total traffic down 66%



- More than half of the decline in domestic traffic is recovered
- International traffic was very slow in July too but recovered through the month and
- Total traffic is still down 2/3rd vs the pre corona level

Hotels: Spot the difference between Norway and Sweden, if you can

Formal lockdown policies differed between Norway and Sweden. Hotels felt exactly the same pain



- The chart illustrates the obvious: The virus has been – and still is - the problem, not the policy measures
- The number of hotel nights approx 80% at the worst
- In June, down 60%
- The July figures will be substantially better as the no of domestic guest rose sharply – but with huge regional differences in both countries

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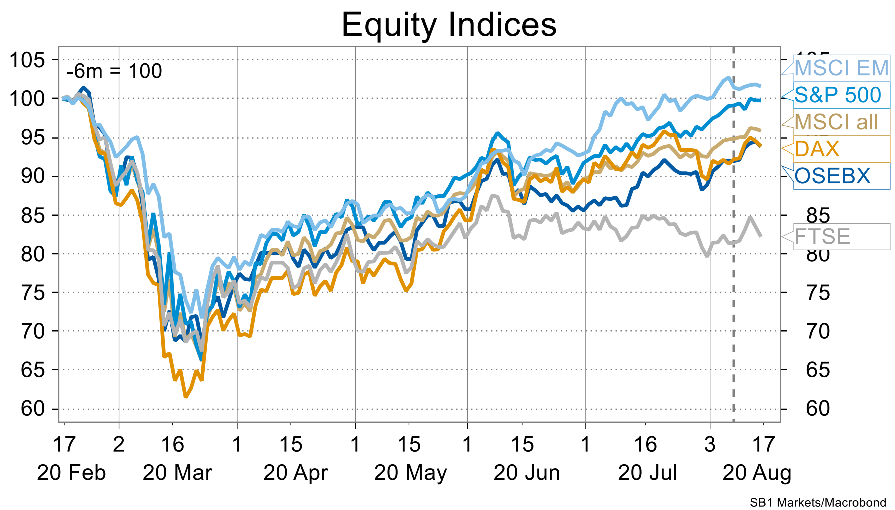
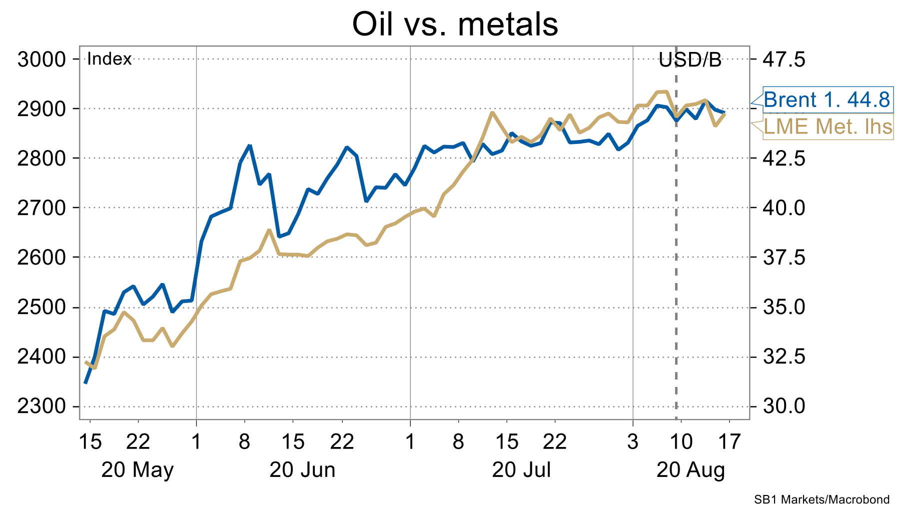
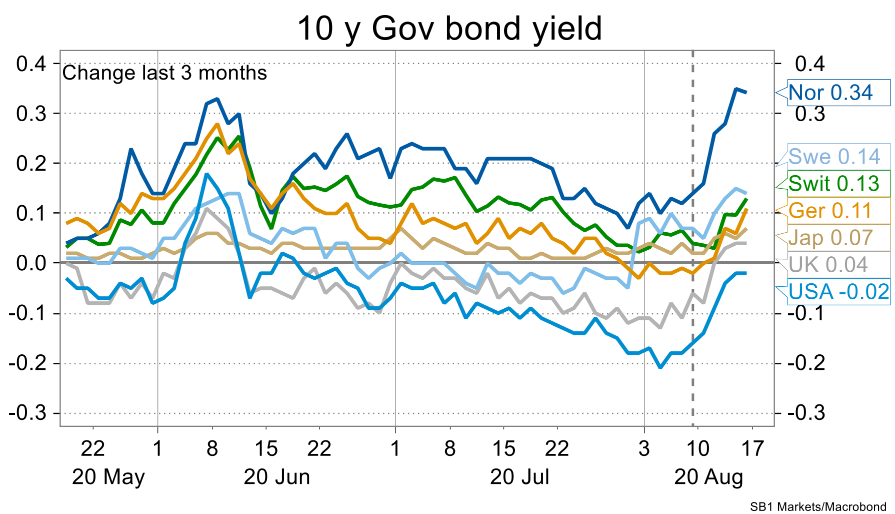
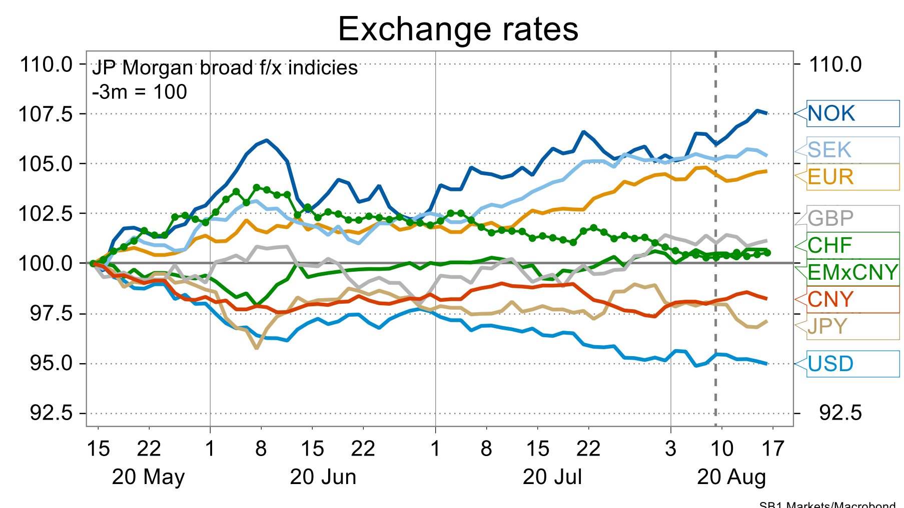
All bond yields up, equities up too – flattish oil/metals

Bond yields the big news, real rates in the lead. USD down again but no drama. NOK further up









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

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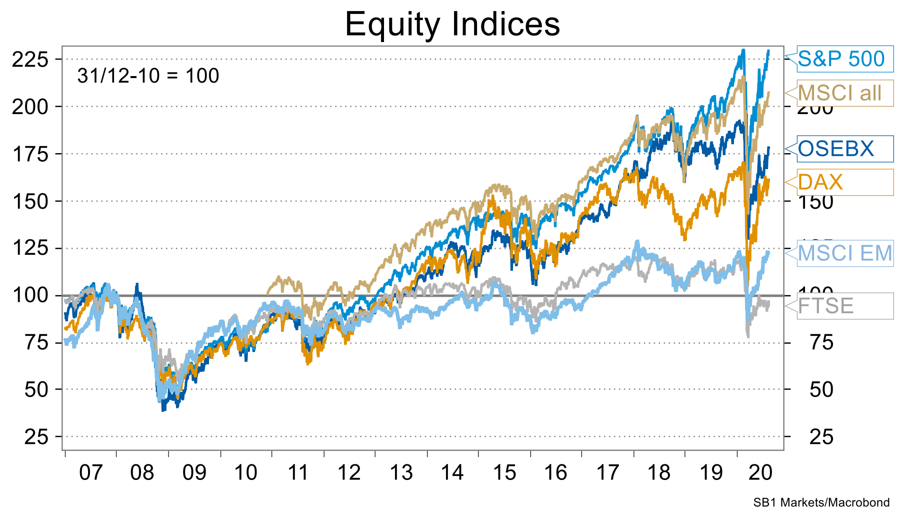
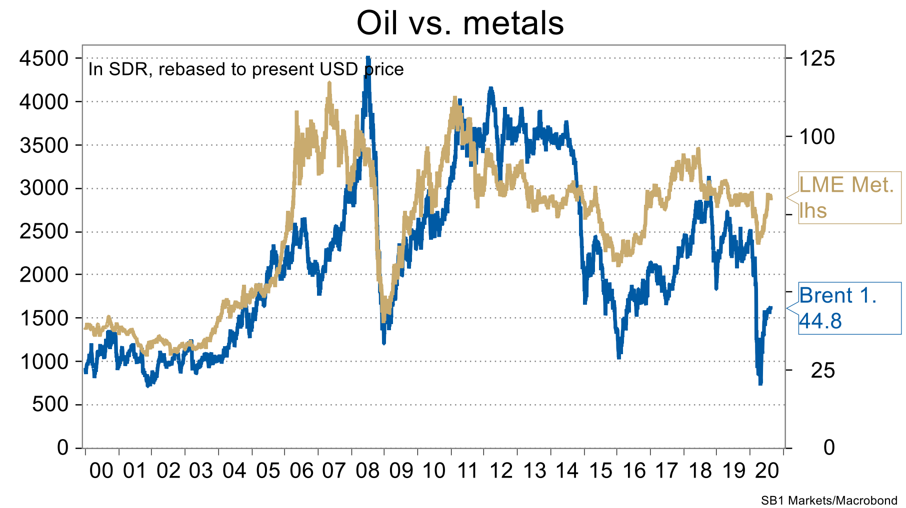
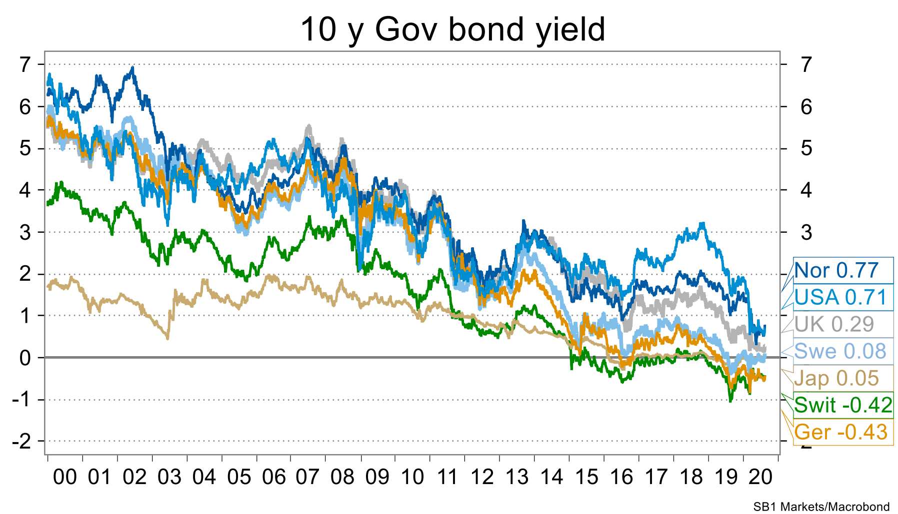
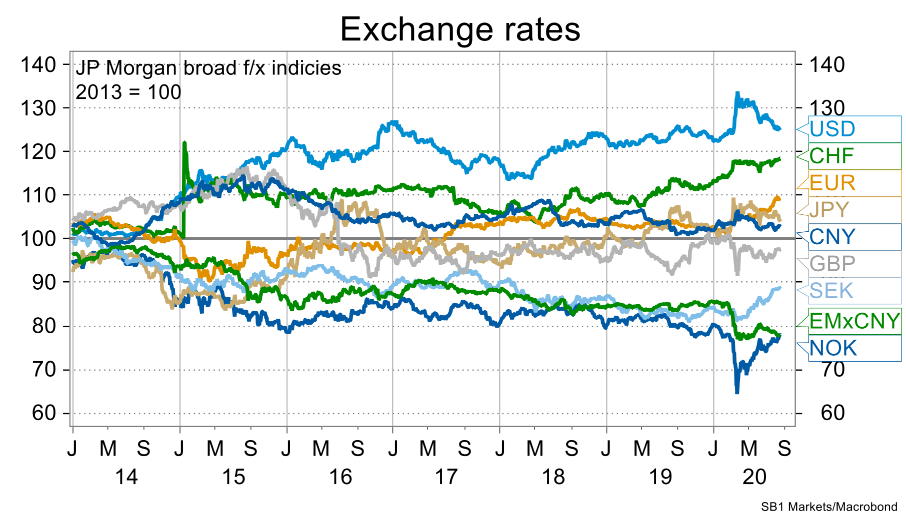
In the long run: Stock markets are looking like a 'V'

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









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

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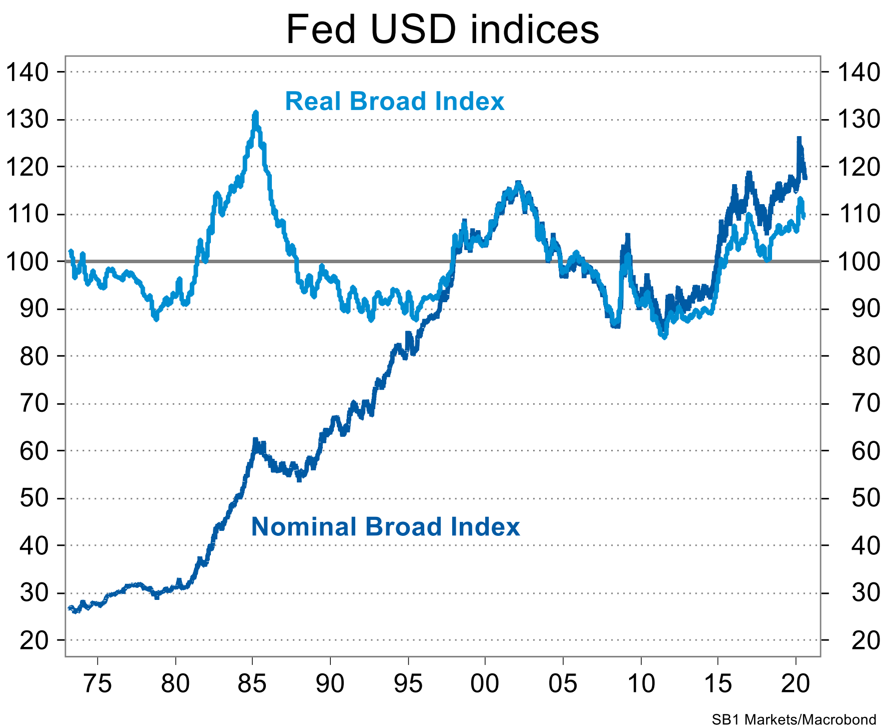
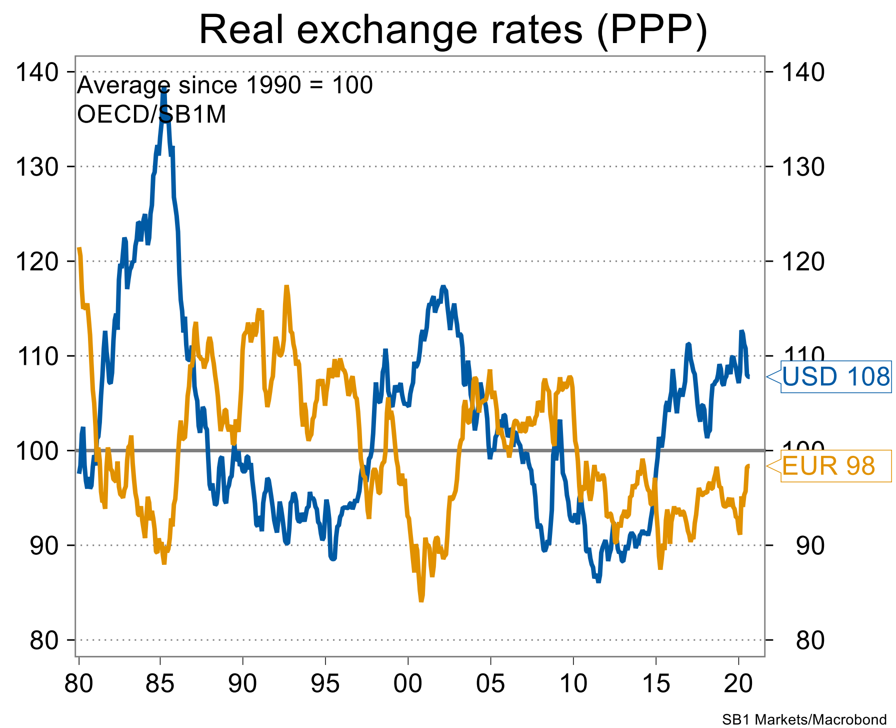
Sure, the USD is down – and it may depreciate much more. But so far, *no drama*!

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, before the corona crisis unfolded

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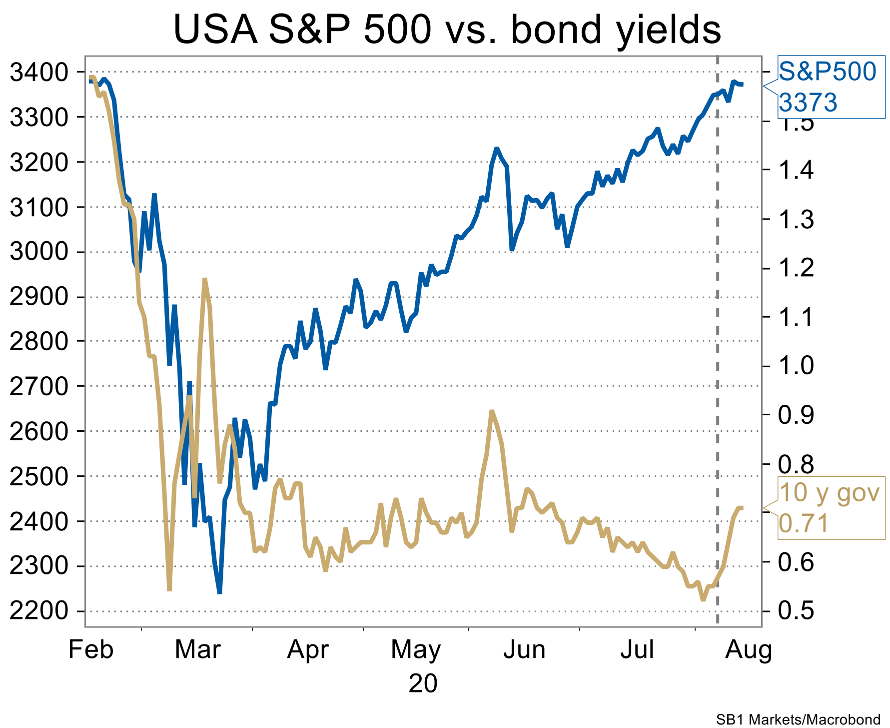
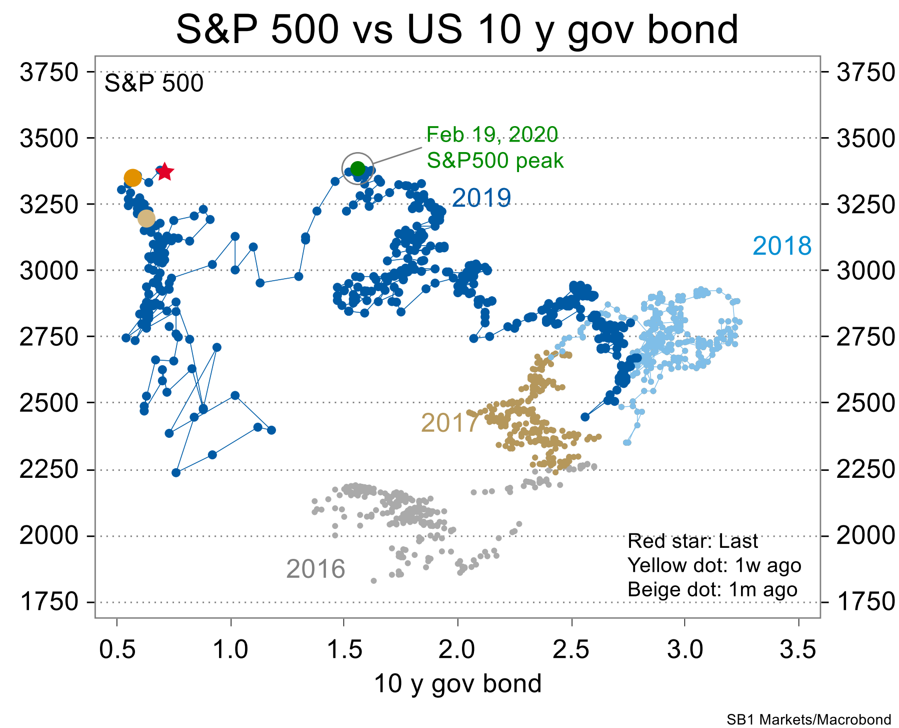
US equities are flirting with the Feb ATH, yields suddenly up 20 bps

Yields are still 80 bps below the pre corona level

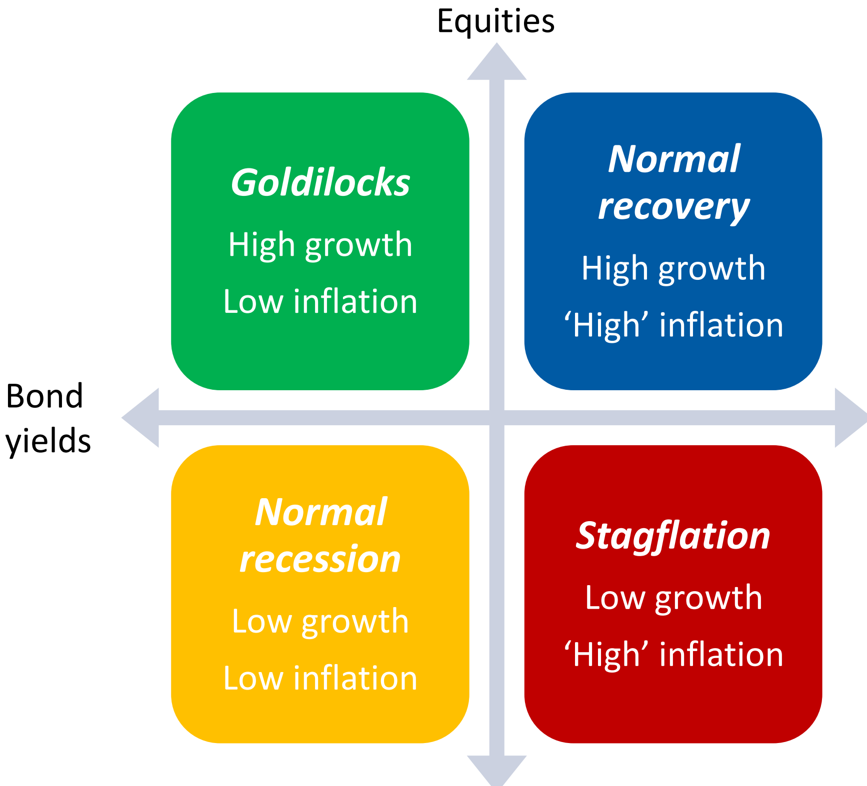


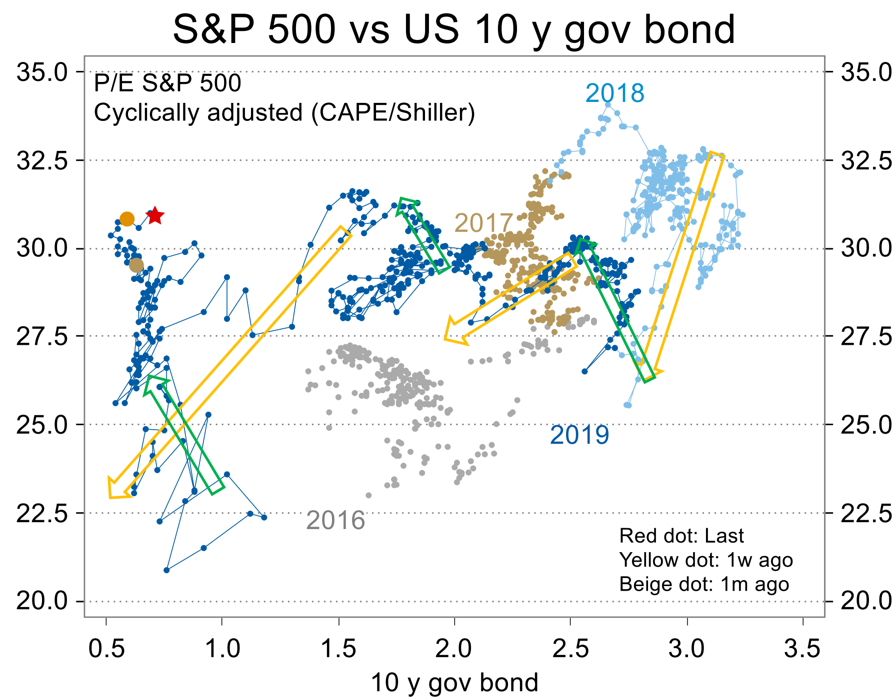


- Higher actual inflation in July, and decent economic data, like the decline in new jobless claims no doubt contributed to the further lift in long bond yields last week, in US like everywhere else
- Equities continued upwards, we assume because the growth outlook was strengthened 'more' than bond yields rose, which is normal in recoveries, at least until they become 'too' mature
- A 'normalisation' of the economy will most likely lead to a reassessment of the belief in extreme expansionary monetary policy the coming decades

Until two weeks ago: Towards the Goldilocks corner

Finally, bond yields rose visibly amid OK growth data – and an inflation uptick. Stock still further up





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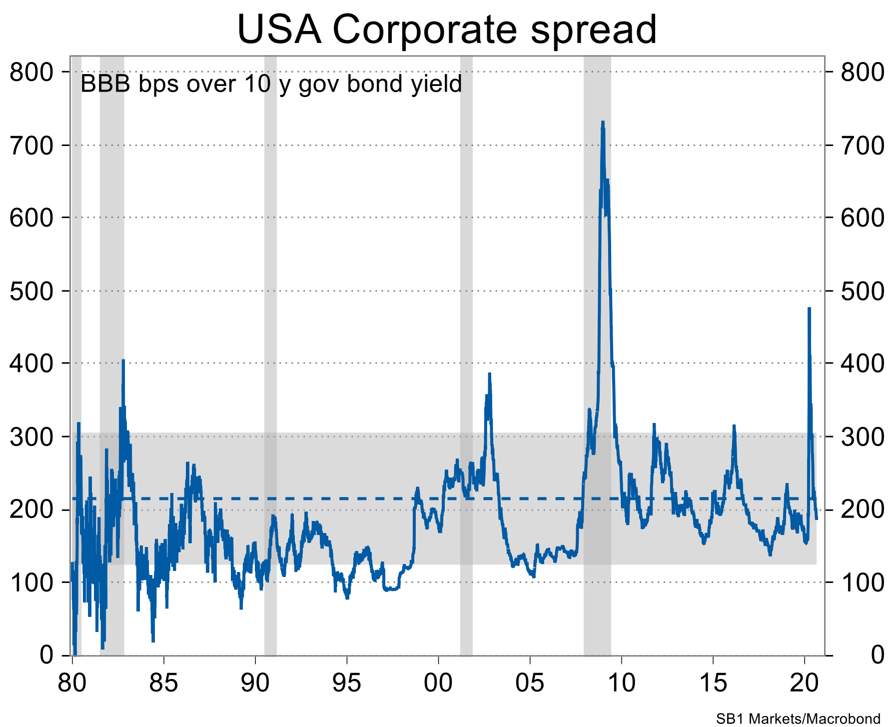
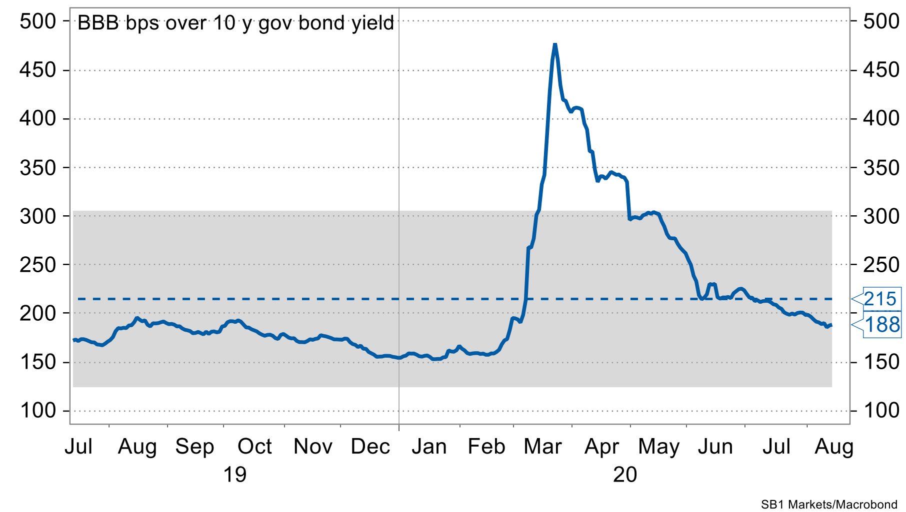
- Has the '**Goldilocks'** travel (towards the green corner) come to an end? May a continued economic recovery, and a normalisation of actual and expected inflation (which both has taken place over the past weeks/months) dampen expectations of an 'eternal' extreme monetary policy (negative real bond yields, even measured forward based, for more than 10 years? Bond yields would increase but not no much that it led to a crash in the stock market a move towards the '**Normal recovery**' (blue) corner. Such a shift has been one of our two most likely scenarios – the other was in the opposite direction, towards the '**Normal recession'** (yellow) corner, falling yields & risk markets.

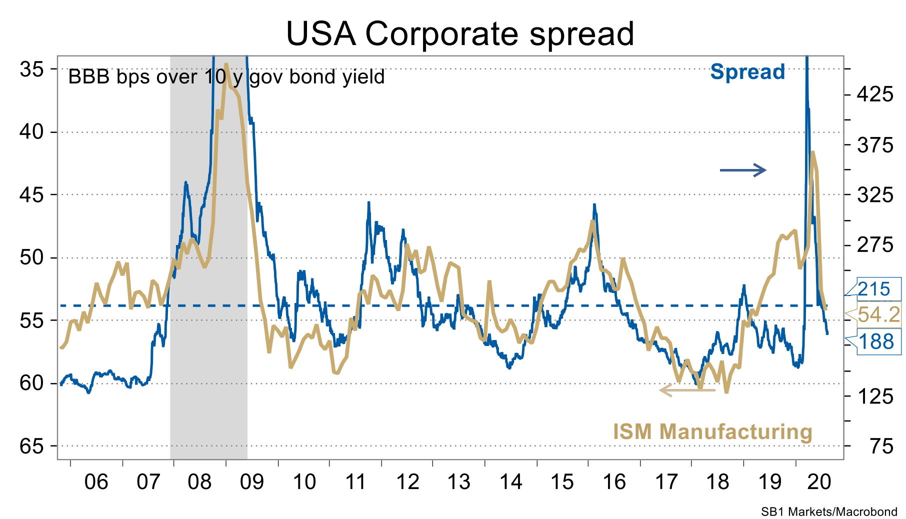
- We are still not worried for the falling into the '**Stagflation trap**', at least not permanently. Inflation (and interest rates) will not climb if the economy weakens again from here - inflation will decline, and rates will remain low. However, given the 80 bps decline in 10y US treasuries since February, and the equity market flat, a short term correction with higher yields and lower stock prices is not that unlikely

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

… supported by hopes of a 'V' shaped recovery – and extreme expansionary monetary policy



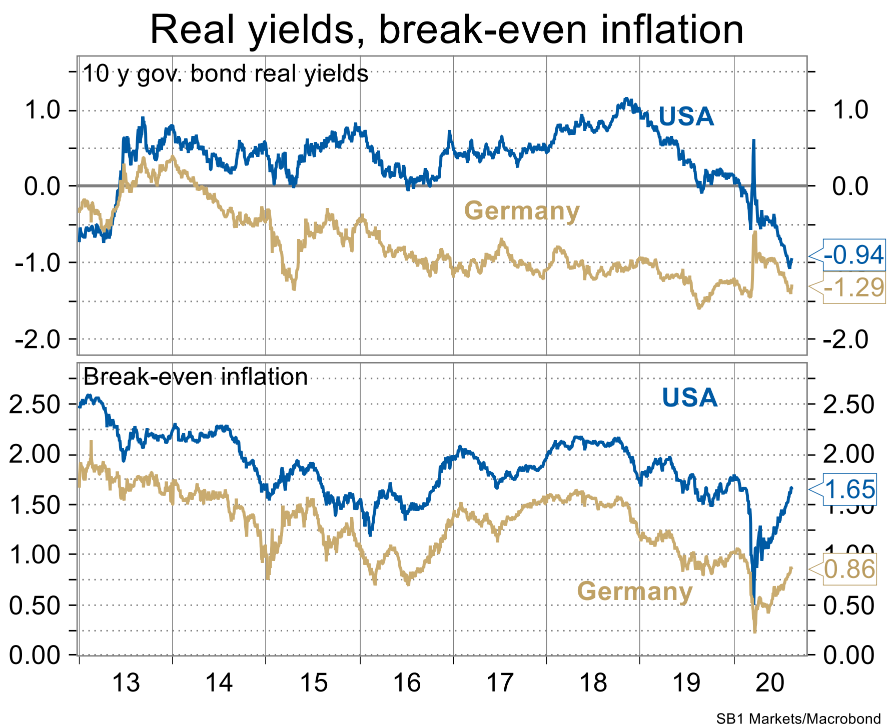


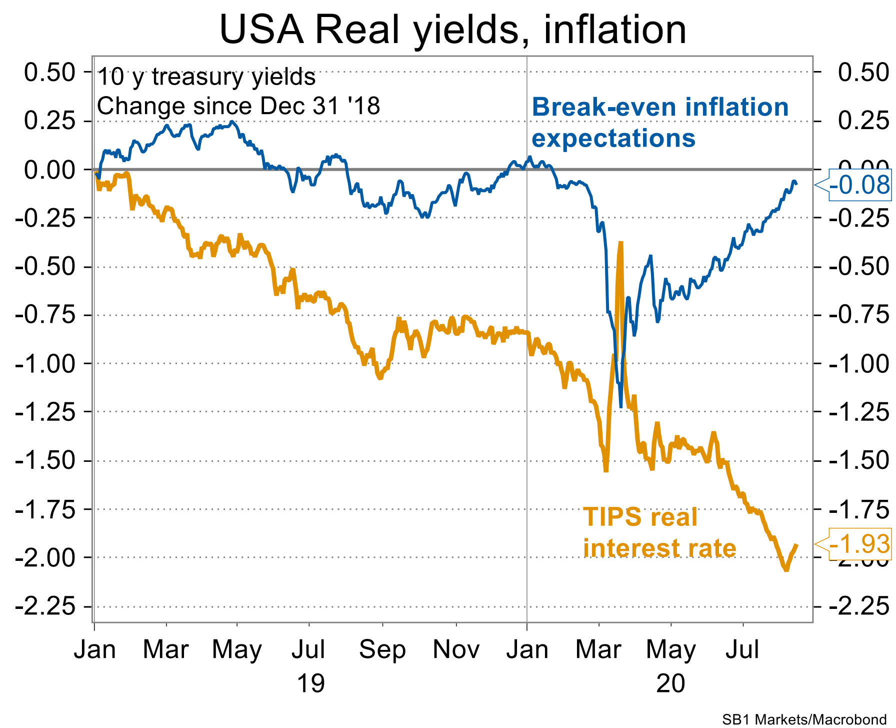


- However, is the credit risk at an average level now??

Inflation expectations is steady on the way up, and are not that low anymore

And suddenly, last week TIPS real rates 'shot' up by 10 bps. 10 y real rate at -0.94% is still very low





- The implied break even inflation rate have steady been increasing by some 20 bps per month since May – and by 25 bps the past 4 weeks. Now, the implied break even inflation is at 1.65% - and if it continues upward at the same pace for two more months, market's inflation will reach 2% - Fed's inflation target
  - » That's probably one reason for the increase in real rates last week – will the Fed have to conduct an extreme expansionary monetary policy forever?
- In Germany, inflation expectation are on the up too, a tad slower than in the US – and the level is just 0.86%. The real rate at -1.29% - close to record low (but rose just like the US real rate last week)

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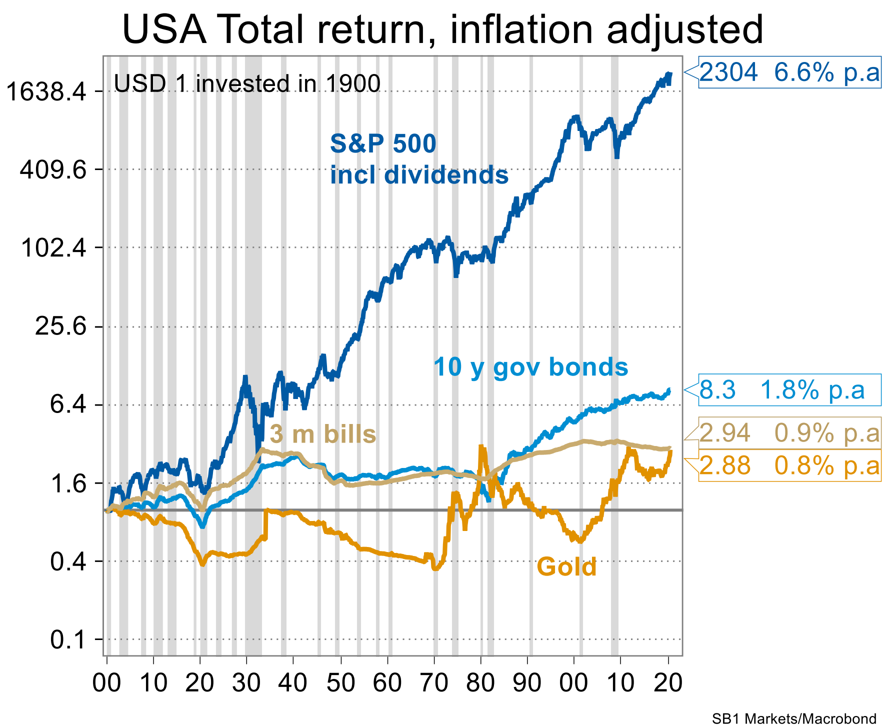
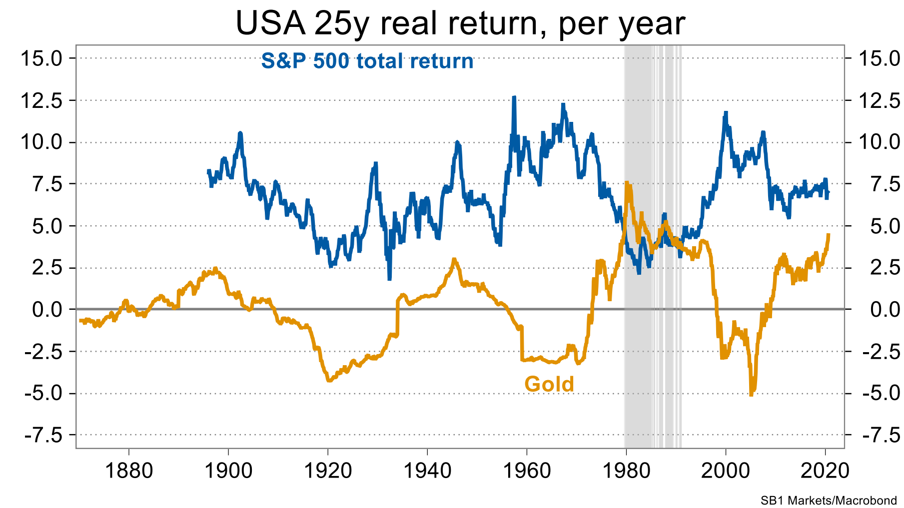
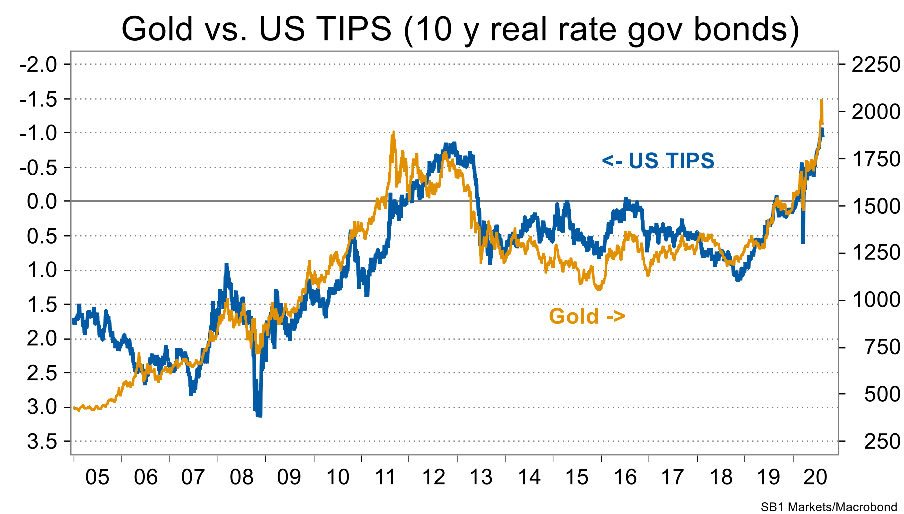
For the gold bugs: A long and a short story

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

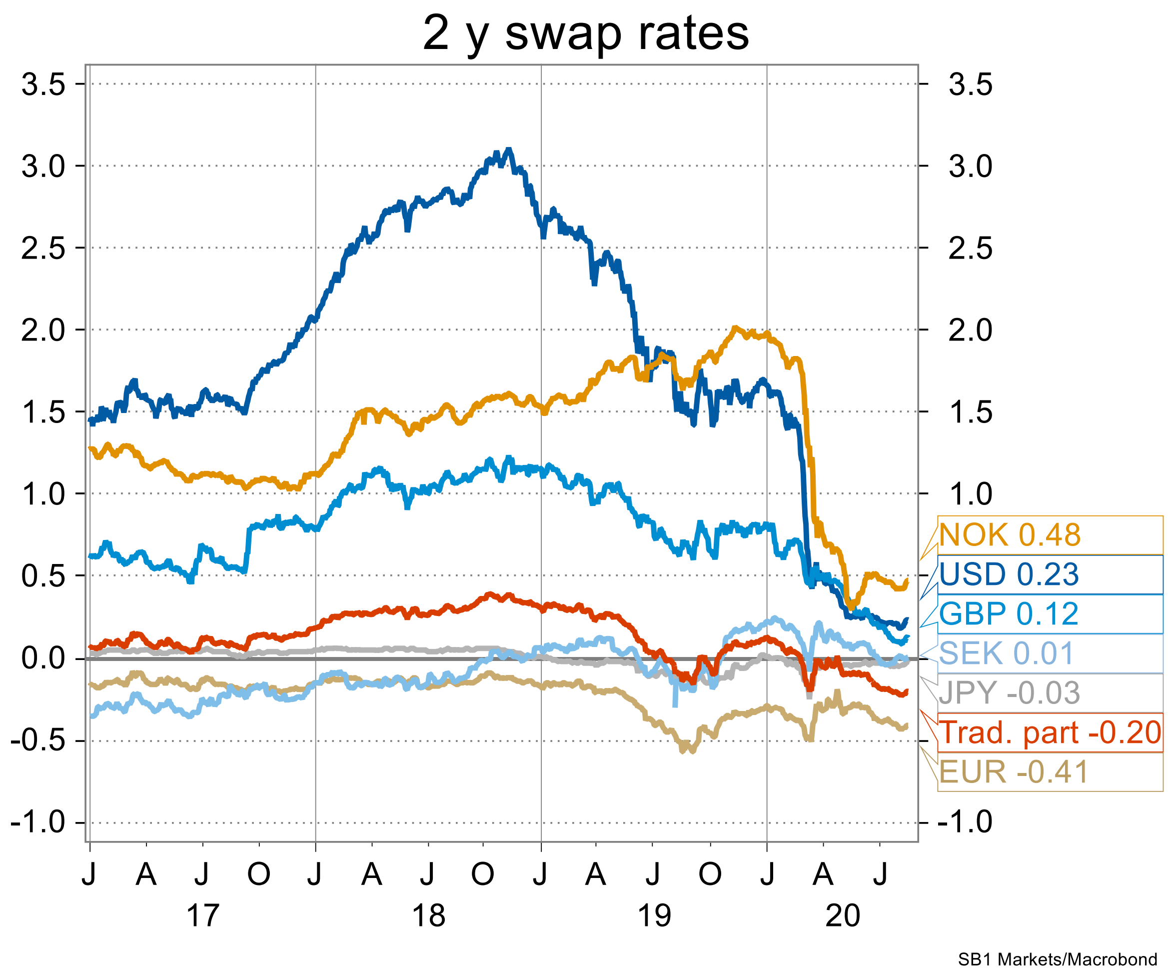


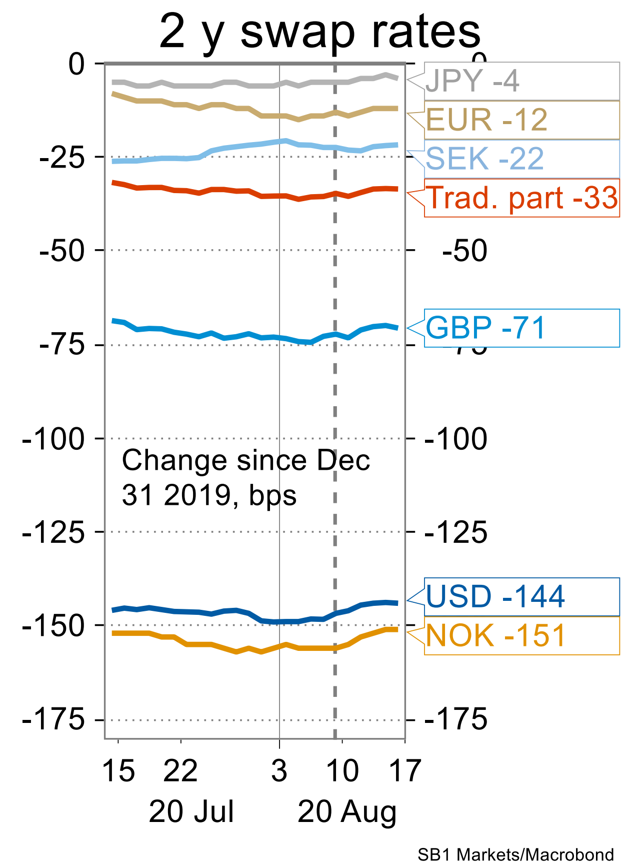




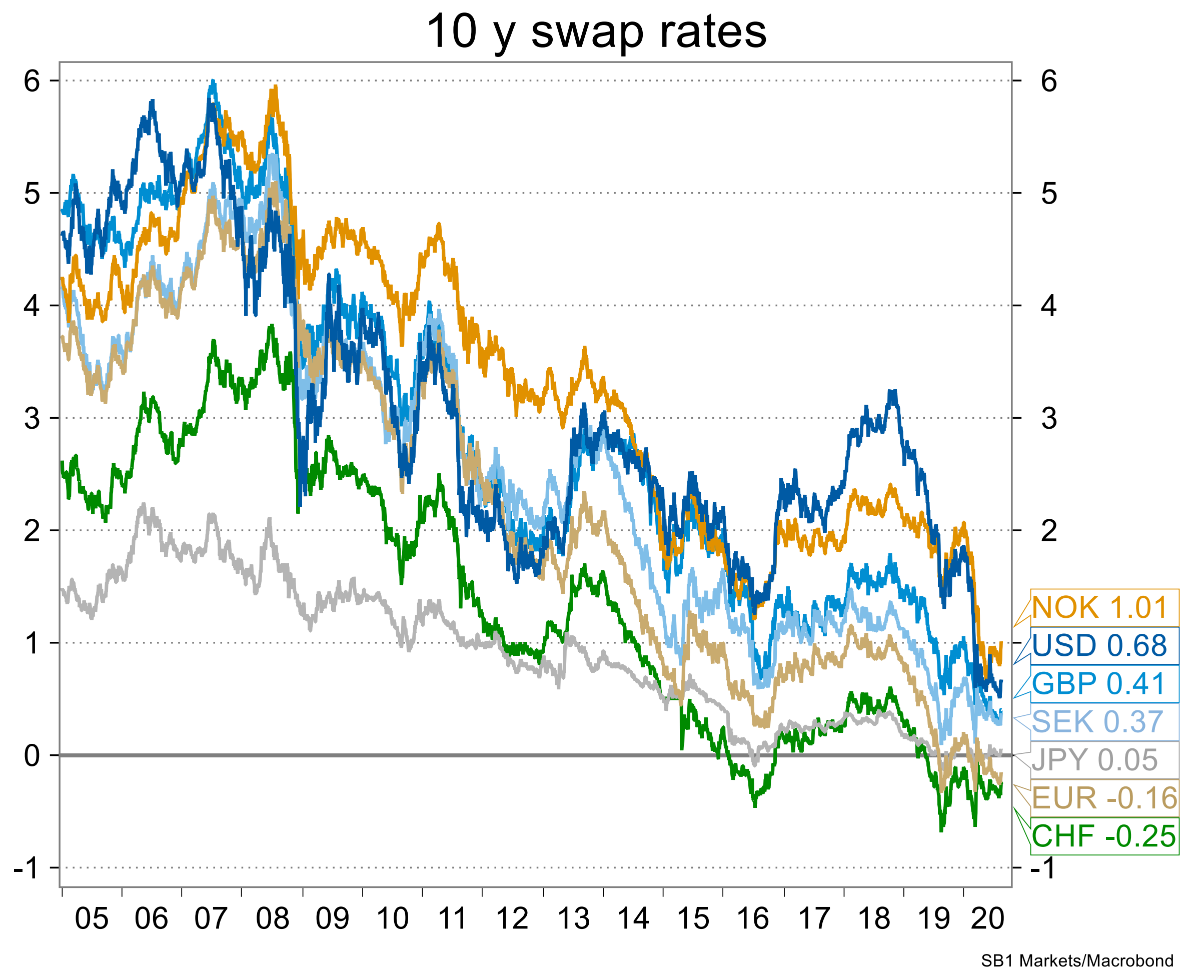
- Like during the past 2½ years when real rates have been tumbling to record low levels
- The past week, real rates rose sharply – and gold fell some few percent
- The long term outlook? We do not know – but long term (and we mean quite long term), gold has normally been a really bad investment, at least 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 2.9 x)

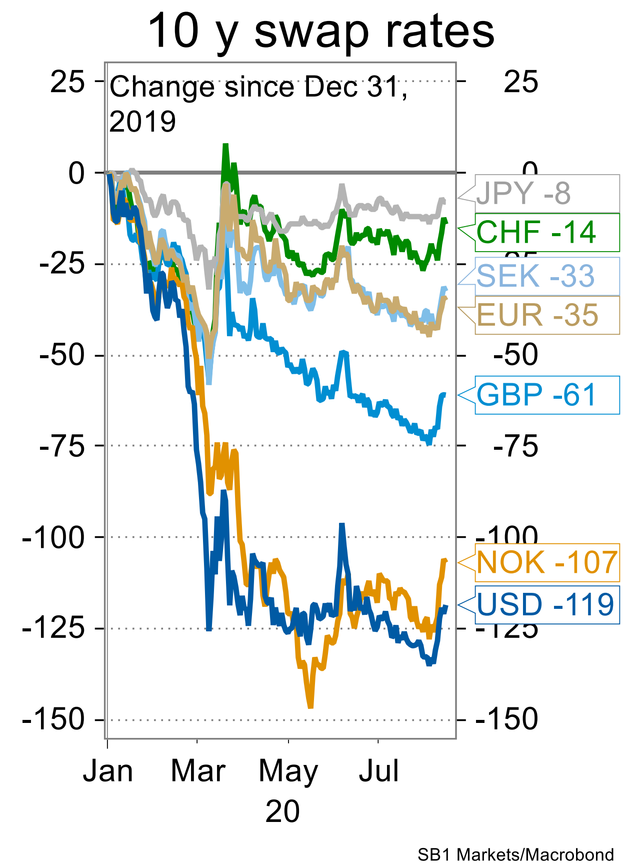
Short term swap rates marginally up last week





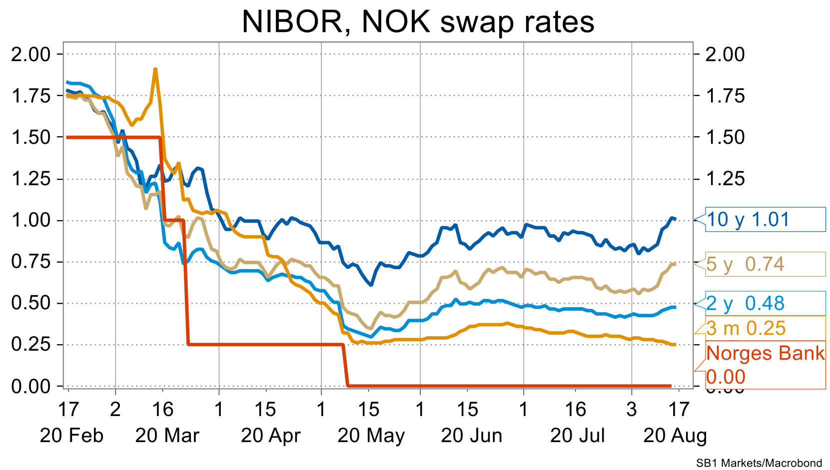
Long term swap rates visibly up last week - everywhere

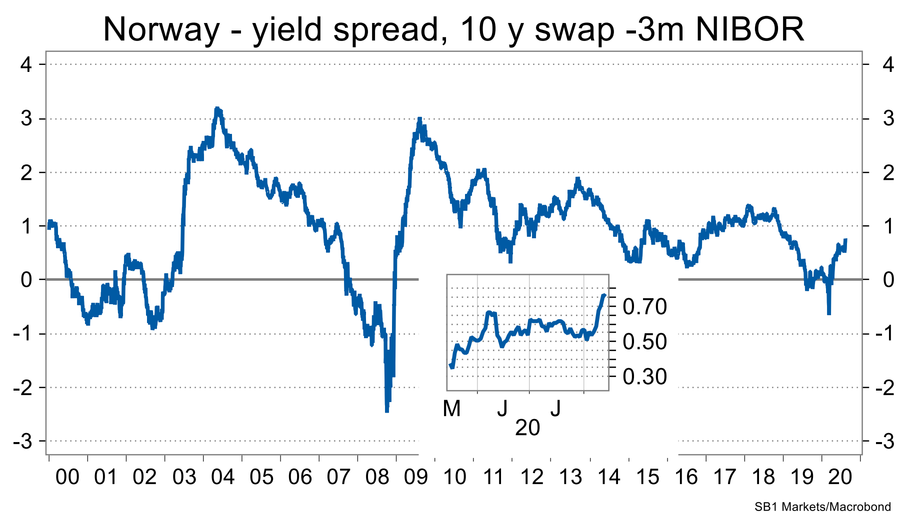


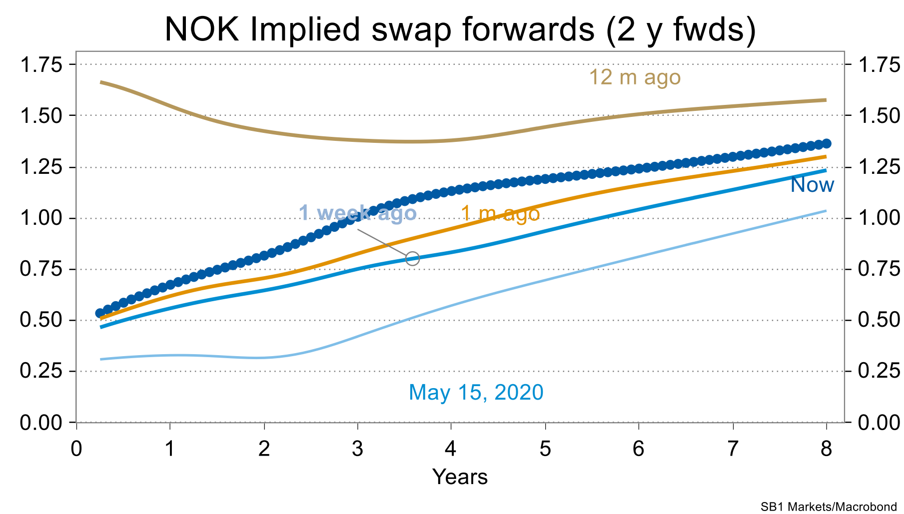


NOK swap rates up to the highest level since April – still very low

The mid segment rose the most, and all in all, the curve steepened

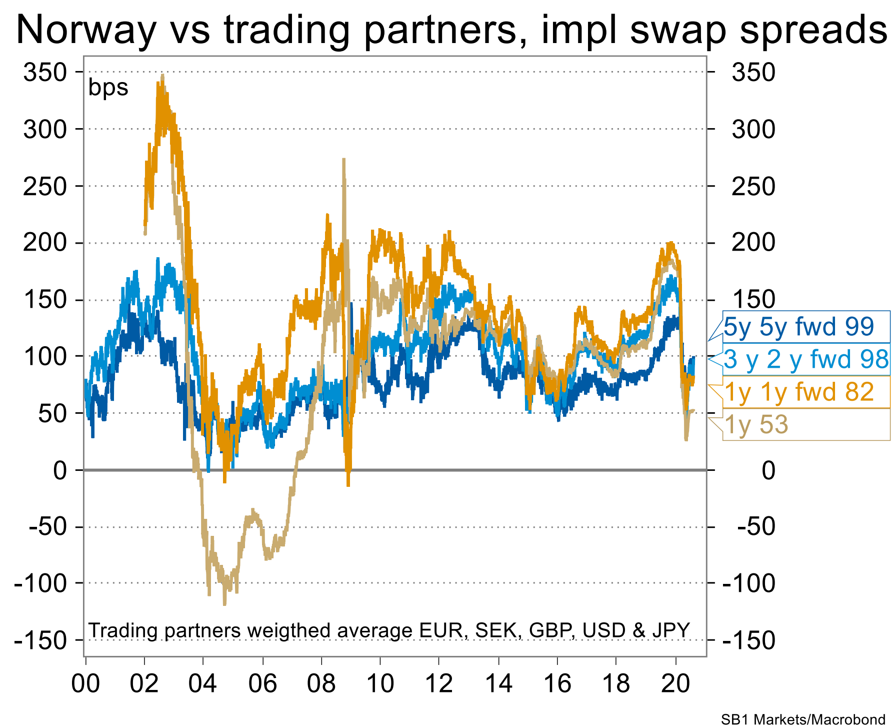


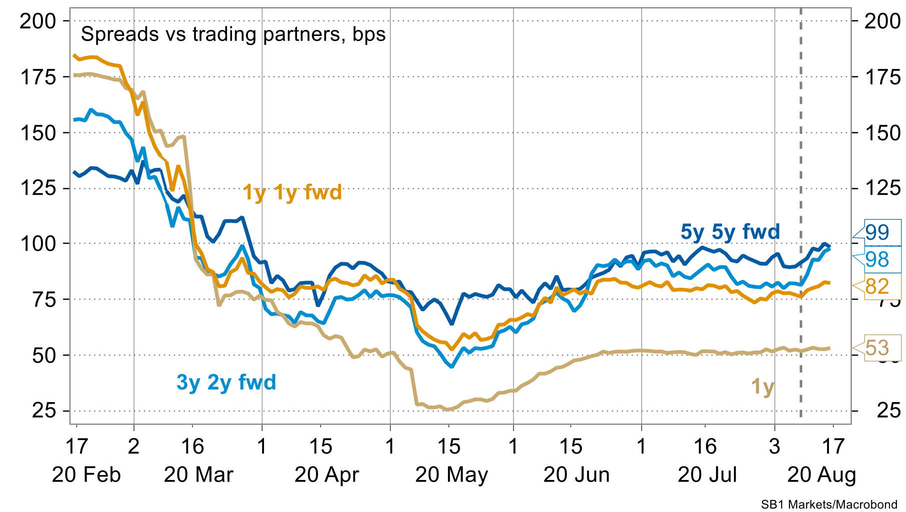


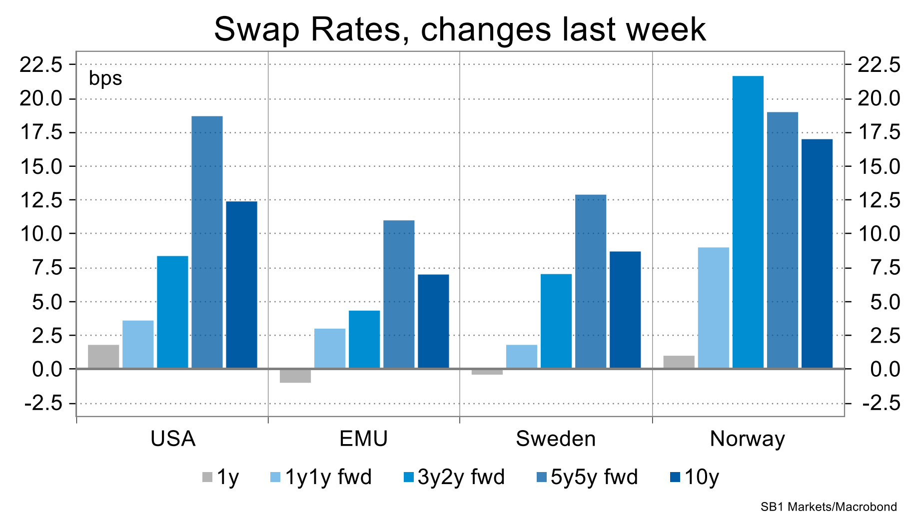


All yield curves up – the long end and the NOK curve the most

The very short end not much affected, but rate rose everywhere from 1 y fwd, by 10 – 20 bp



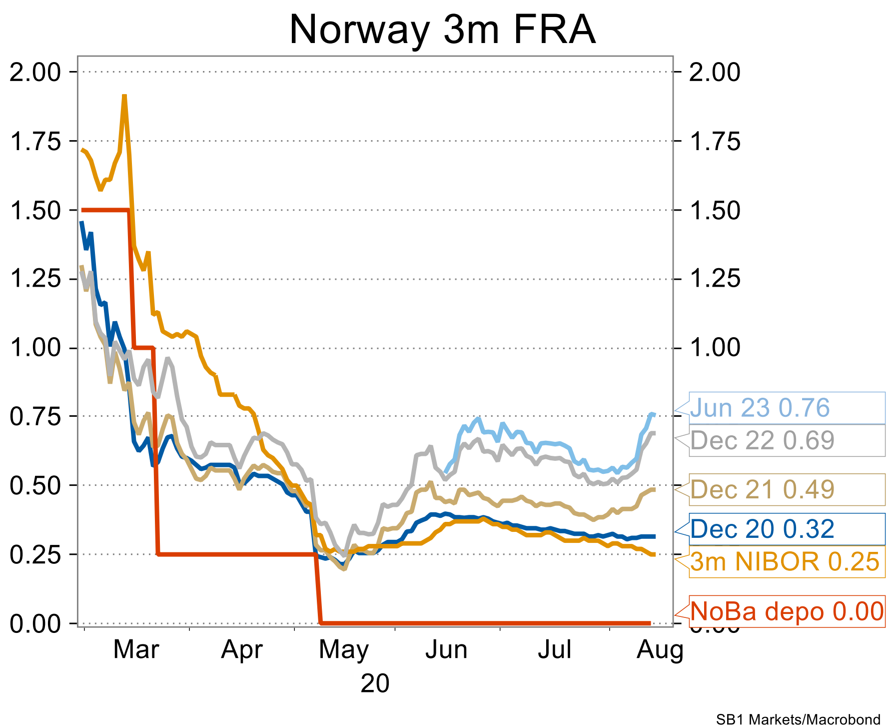


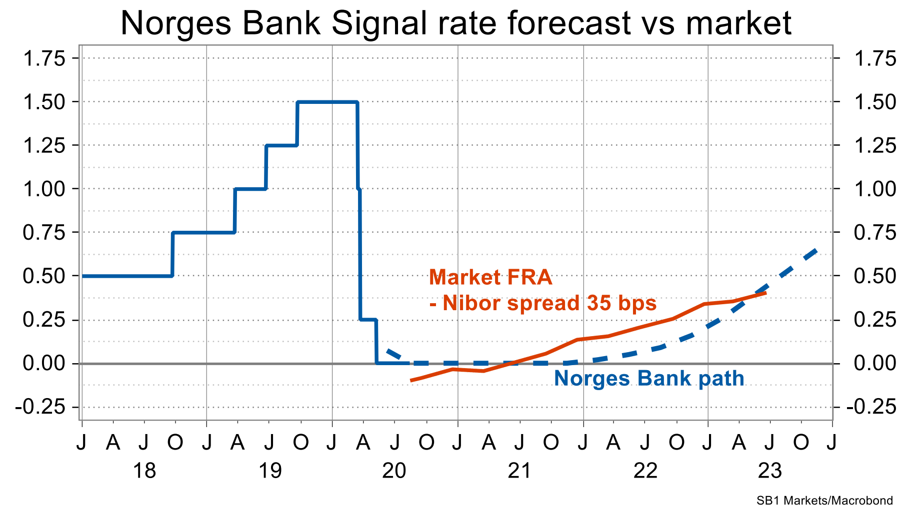


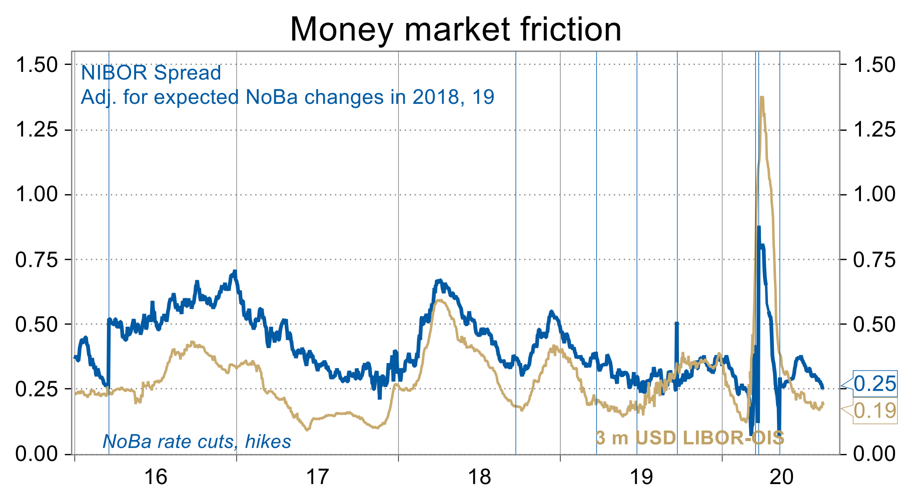
- Spreads vs trading partners widened again last wee, all over the curve
  - » Spreads bottomed in mid May, and have mostly widened since
- We are still neutral vs. the spread

Oobs – 3m NIBOR down to 0.25%! And 2021/22 FRAs straight up last week

FRAs up 10 to 20 bps two last weeks. The market is contemplating a Q4 2021 hike again



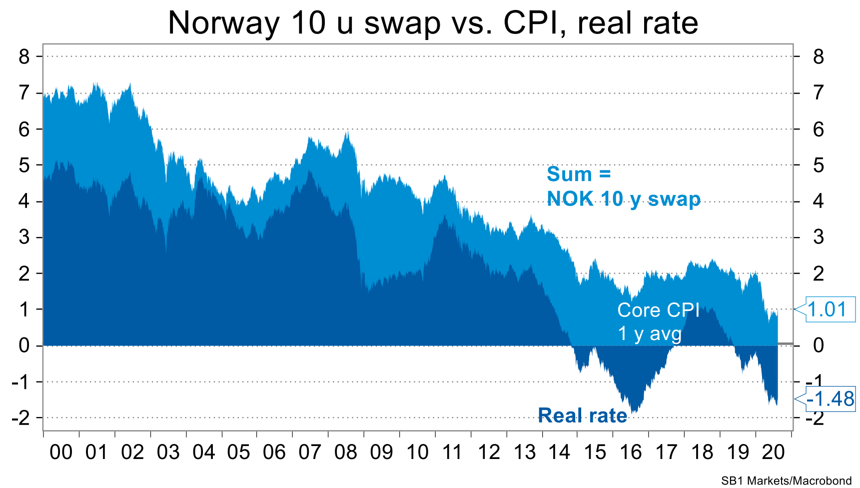




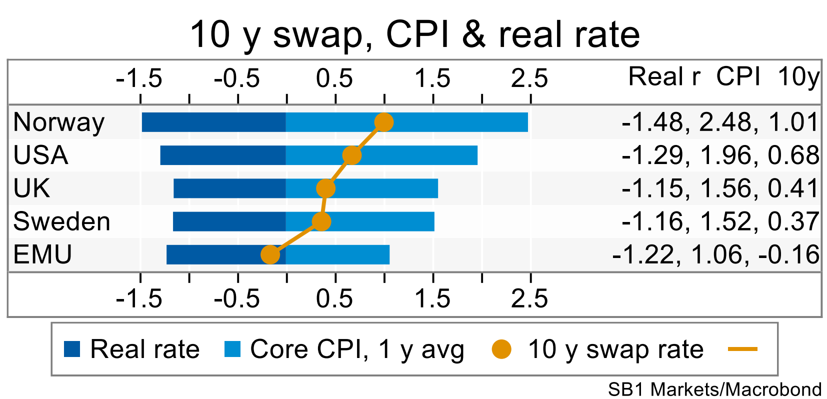
The NIBOR spread has fallen even further, and to 25 bps, as we think it is unlikely that markets are pricing in any probability for an interest hike the coming 3 months

The FRAs market has pushed the timing of the first interest rate hike back and forth, now to Q4 2021, from Q4 2022 a couple a weeks ago

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). Rates rose last week



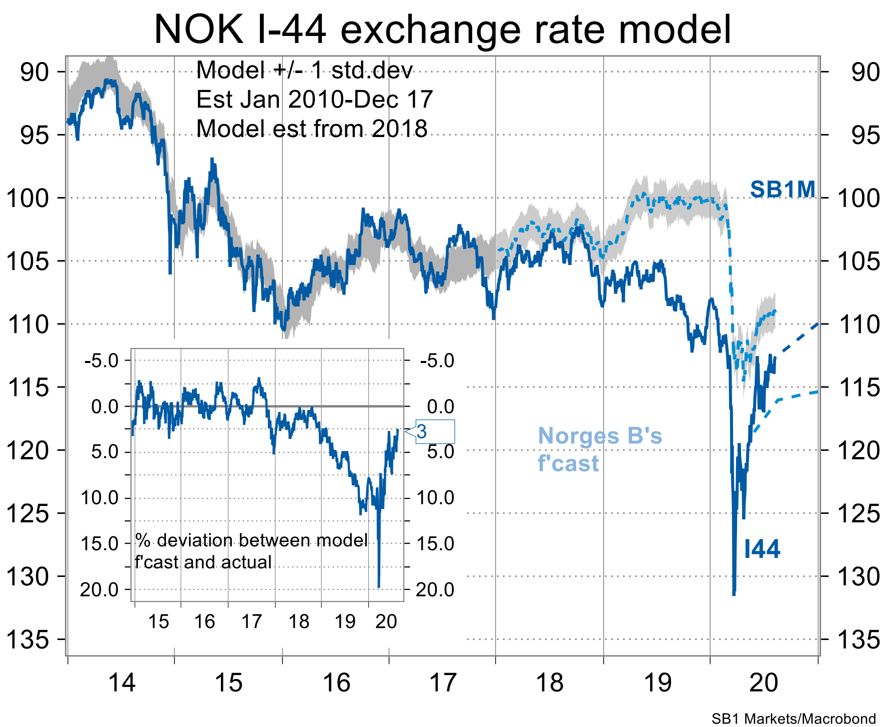
NOK real rates among the lowest

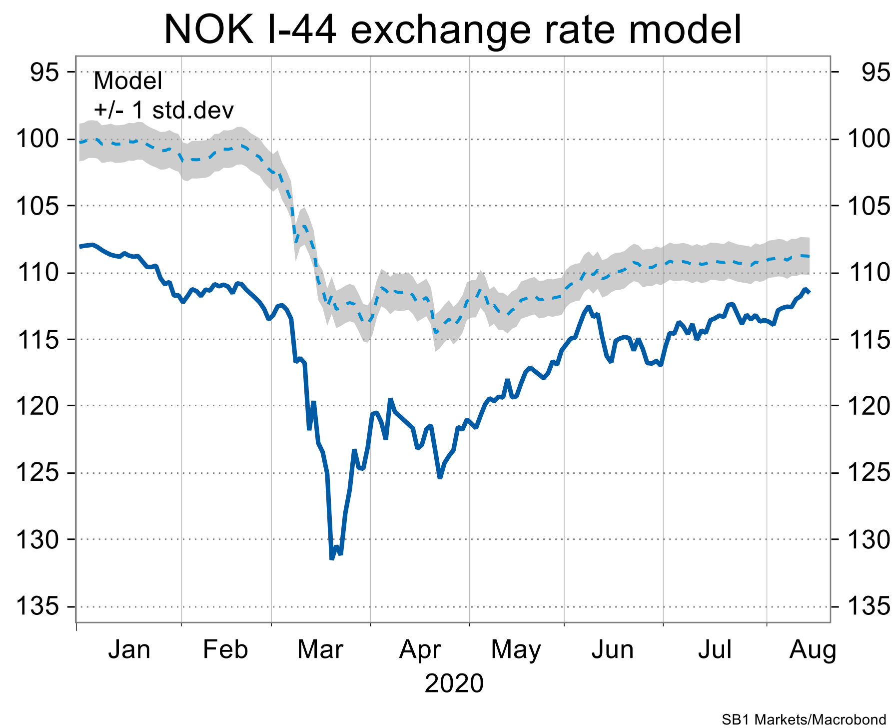
- Inflation among Norway and our main trading partners varies between 1.1 to 2.5% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US and Norway at the top, by a wide margin
- Real rates are quite similar among our trading partners, in the range -1.2% (EMU) to -1.5 (Norway), 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.





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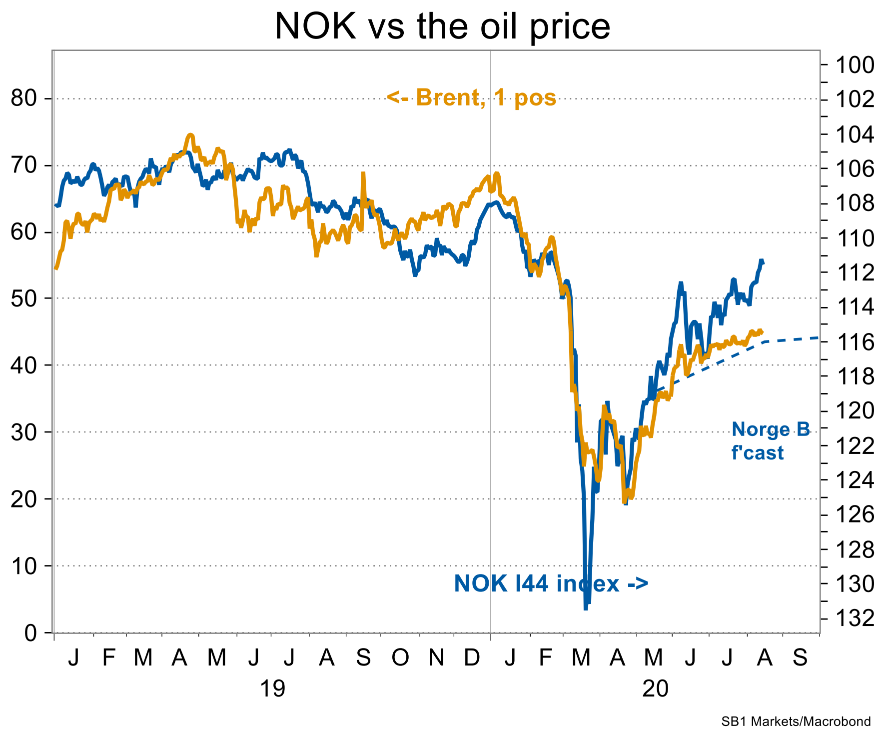
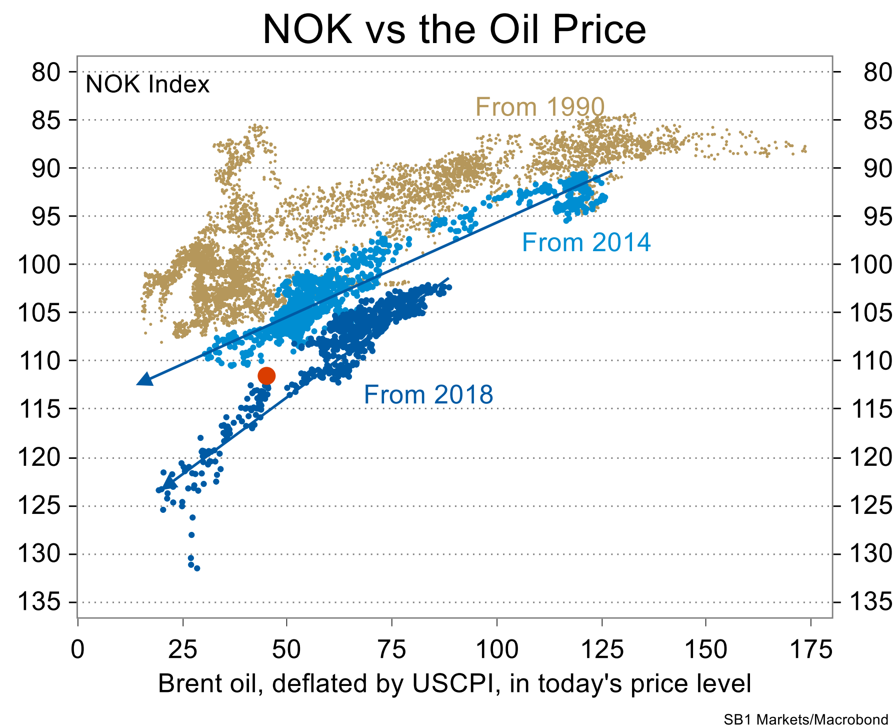
The NOK up, and 'more' than the oil price

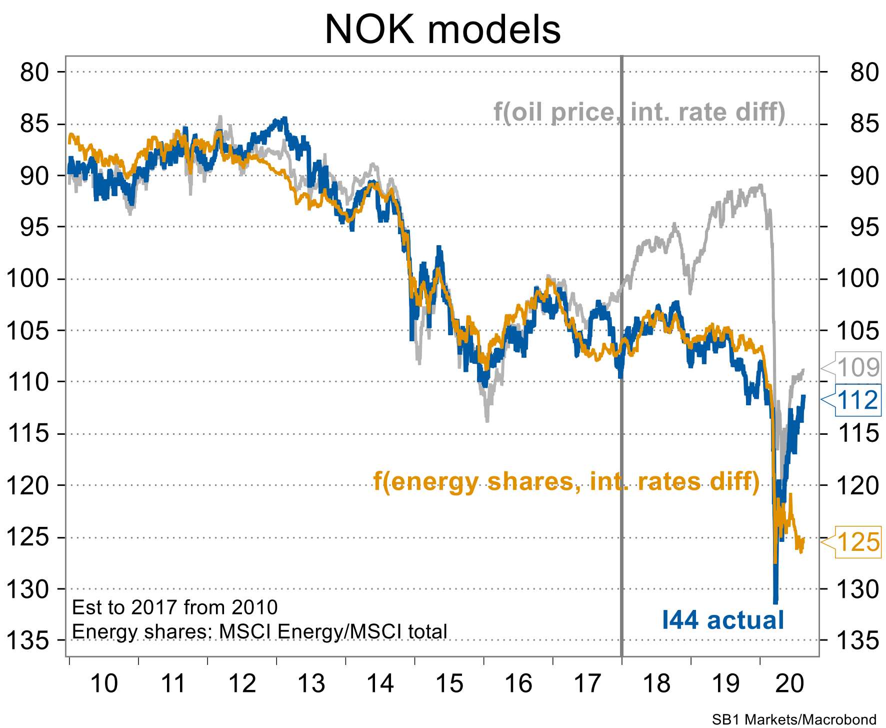


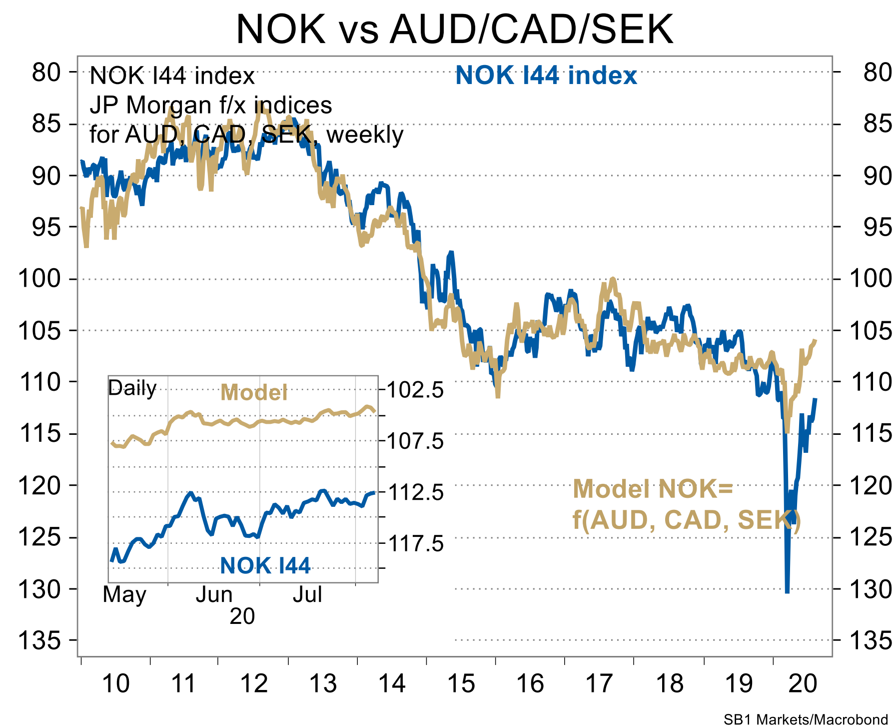


- The NOK has been much weaker vs the oil price than normal the past few years but <u>it is still correlated to the *changes* in the oil price like it used to be. Now the NOK is on the strong side vs the oil price</u>

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

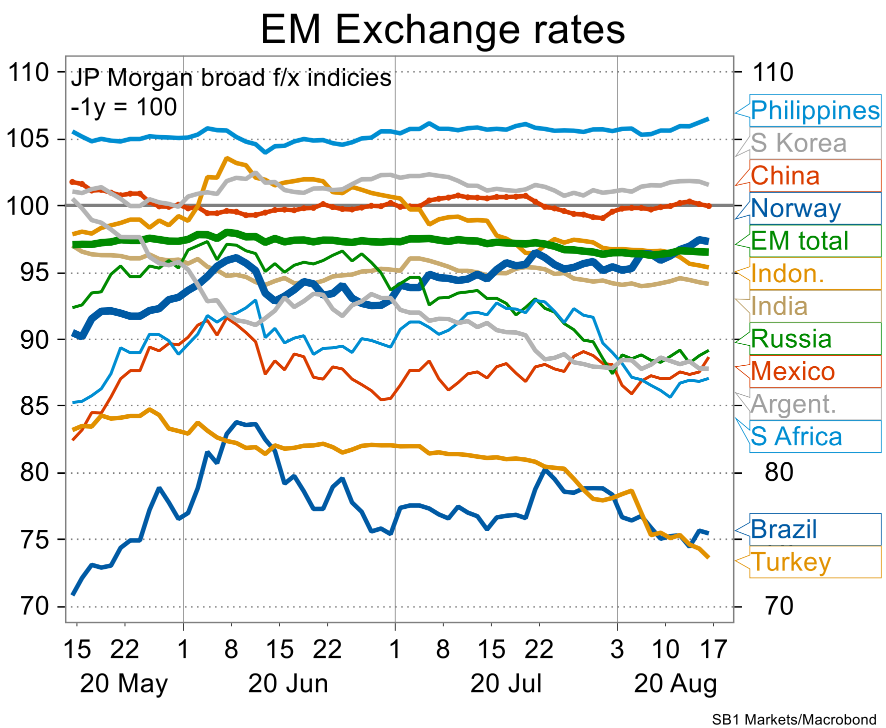


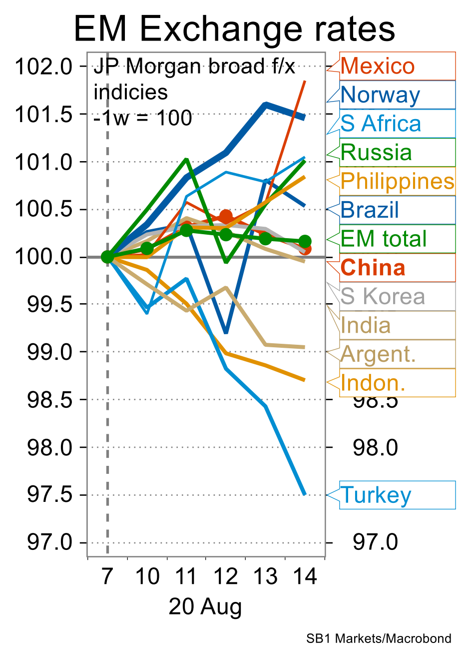


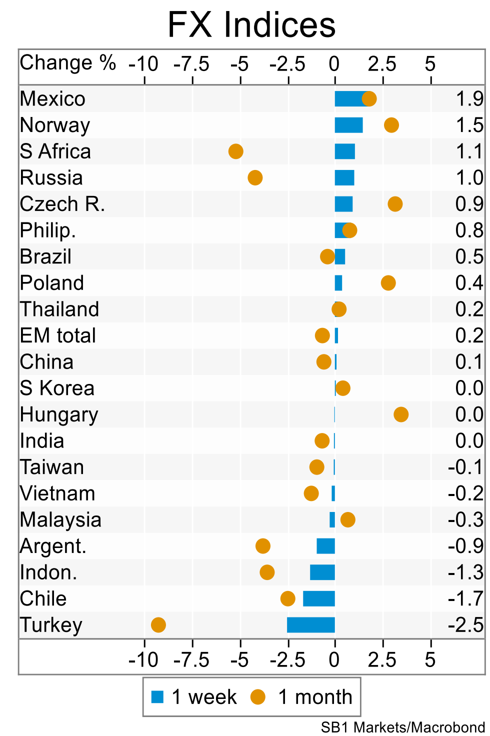
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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

EM currencies stabilised last week, Turkey is still sagging

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