31 August 2020

Macro Research

Week 36/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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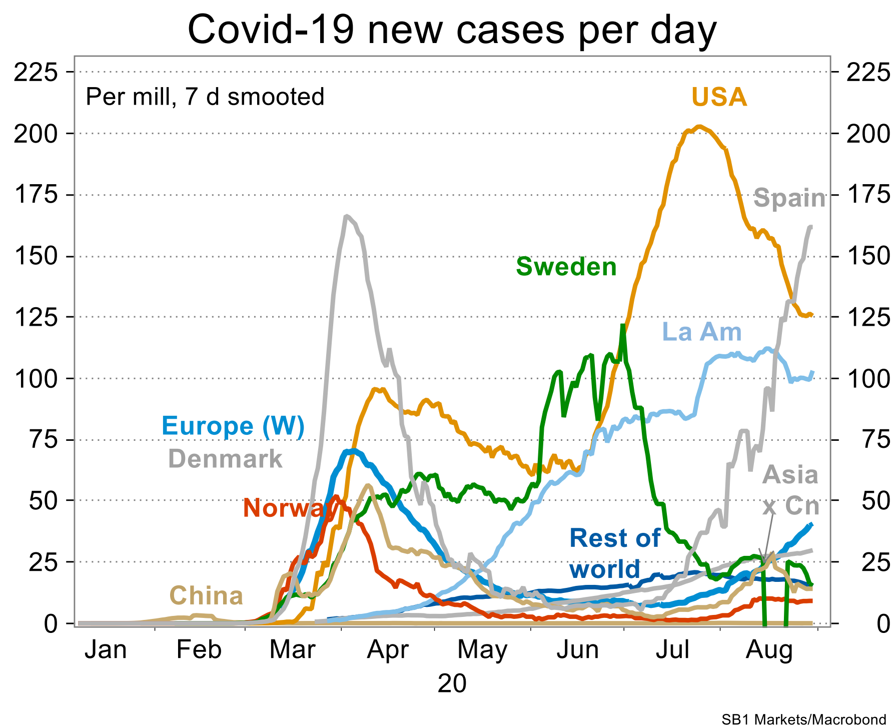
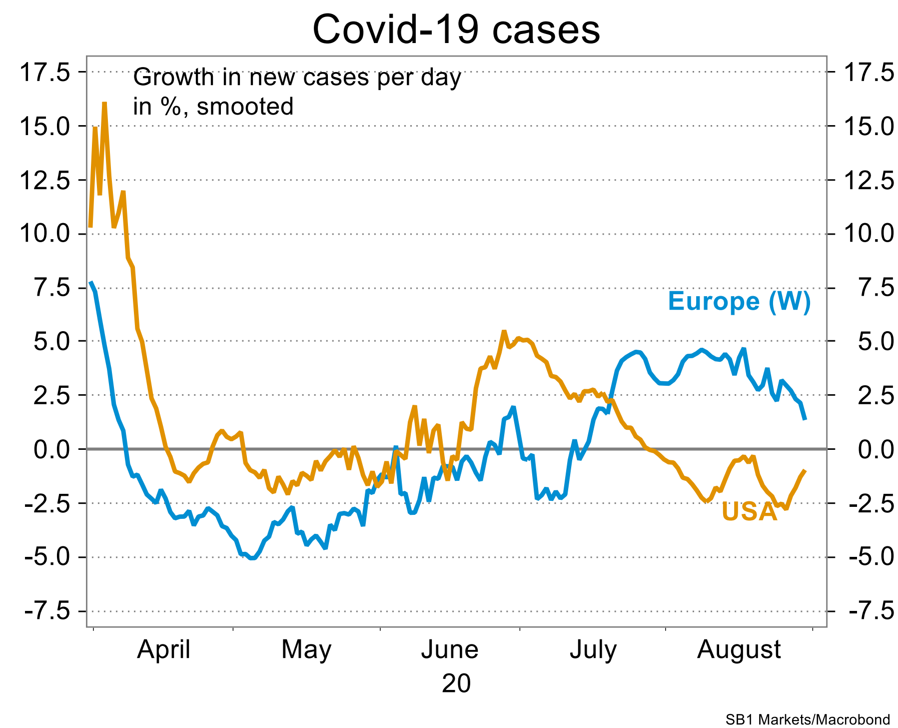
Last week: Besides corona? Price level targeting in the US. Norway recovers

- **Mixed corona news:** In the US, the decline in new daily cases took another pause last week but the trend is probably still down. The substantial decline in new cases last month – and a quite high level of new cases - does not seem to have hurt growth seriously. Growth in new cases in probably slowing in Europe, and the level is still manageable, at least outside Spain (which is above the US!). Deaths rates are much lower than during the spring in both US and EU, the need for hospital treatment too. No of new cases in **Denmark, Sweden and hopefully in Norway too** are on the way down again, in D & N following rapid increases through July and early August. No facts on a vaccine but many hopeful stories
- The first **Chinese PMIs** (NBS) were mixed, manufacturing marginally down, services further up. Reasonable, the industrial production has fully recovered, services not – and 'needs' higher growth than normal.
- The **FOMC announced** two important changes in its revised **monetary strategy**: 1) FOMC will seek to achieve at 2% rate of inflation over time, implying that if inflation has been below 2% for a while, like now, then inflation should be allowed to run above 2% for a period to reach the 2% average over a longer horizon. 2) The FOMC signals that it will put more emphasis on mitigating shortfalls from maximum employment.
- **US Personal spending** rose further in July. Goods are strong, services still not, and total spending is down 5% from February. **Income** is boosted by a 10% of income increase in **transfers from the government** but not further in July. The **savings rate** is still 10% higher than normal at 18% due to the extreme public income support. **Q2 US corporate profits** were also boosted by public support as subsidies to the corporate sector rose equalling 5% of GDP or 70% of Q1 profits. That's really incredible! Even so, profits fell a tad faster than GDP, and the profit rate fell further. **Durable orders** are almost back to a pre corona level, barring aircraft orders. Housing data remain strong as **new home sales** surged to the highest level since 2007. Even so, **consumer confidence** slipped further in August, and it is not far above the April level. Strange?
- **Norwegian Q2 GDP** contracted by an unprecedented 6.3% but rose 3.4 m/m in June. June GDP was 5% below the level in February, and above the Q2 average. We assume GDP grew further in July (and in August), the activity level is probably now just some 2% below the pre corona level. In June, the sectoral differentials were still huge, services are lagging while consumption of goods is XX% higher than in Feb. Norwegian households' domestic consumption was back to normal level in June, while foreigners' consumption is gone, taking consumption demand down 3%. In addition both exports and on- and offshore investments are down vs. February. **Retail sales** rose further in July, new home sales surged in July, as did **hours worked in the LFS (AKU)**, which rose to a pre corona level, even if the **LFS unemployment** rose to 5.8% due to the inclusion of furloughed workers. **NAV unemployment** is heading steady down. Despite goods news, **consumer confidence** fell again in August

Europe is probably slowing down but US takes a break on the way down?

Global headcount up to a new ATH, due to India

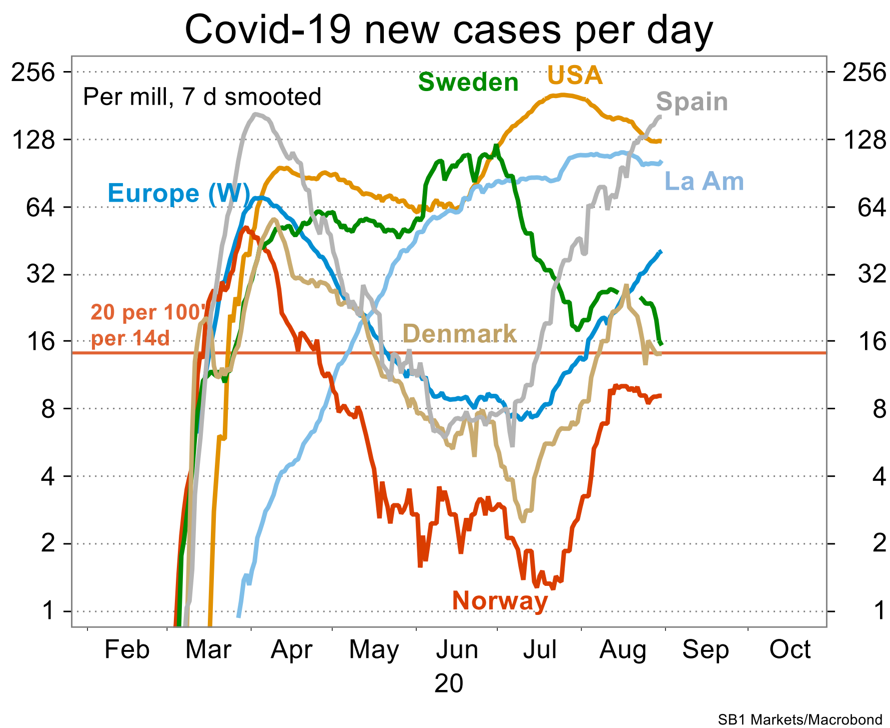




- **The US** curve has been moving down since late July, but not in a straight line – and there were no further decline last week – like two weeks ago. The no of hospitalised patients is falling sharply, and the no of deaths is now trending down too (as we told you, 3 weeks ago**). The economic cost of turning the curve has most likely been limited – the best corona news recently?**
- Growth in new cases in **Europe** is has slowed somewhat but the 'R' remains above 1. More measures are still needed – but the public seems to lose patience several places. Since the level of contagion is 1/3th of the level in the US, Europe still has time to act (but 1 m ago EU was at 1/10th)
- **Norway** has flattened following the rapid surge for a low level late July – and may be heading down. Sweden (though with some data problems) and Denmark is turning down too!

Check the log scale to get the better growth view

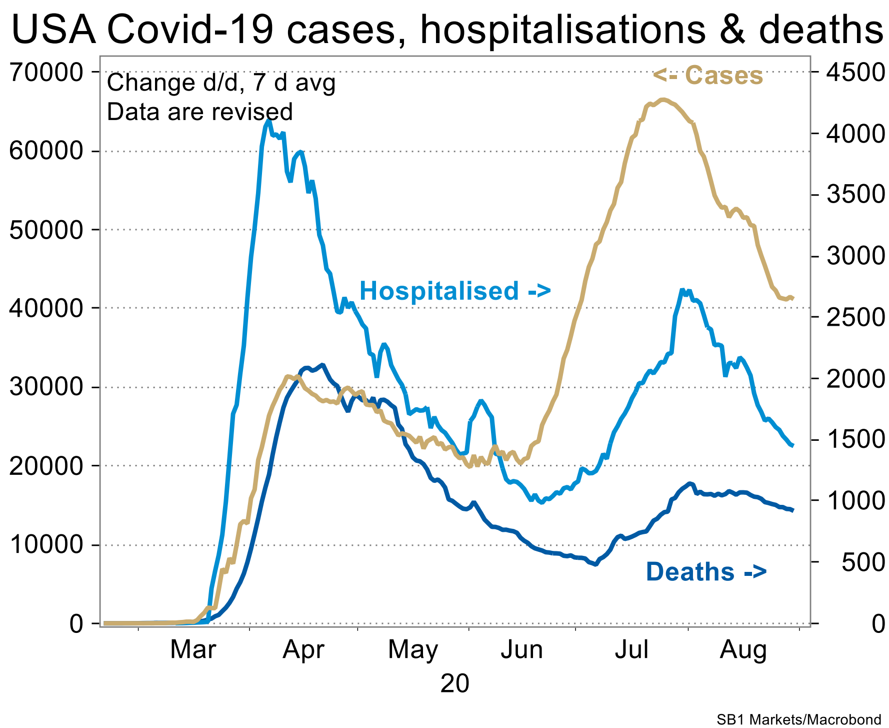
The trend was not Norway's friend, at least not until last week. Denmark still rapidly on the way up

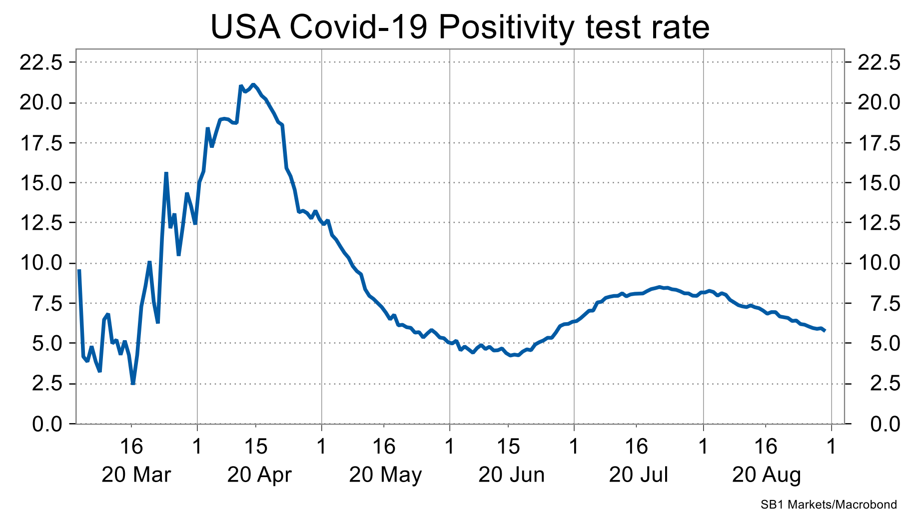


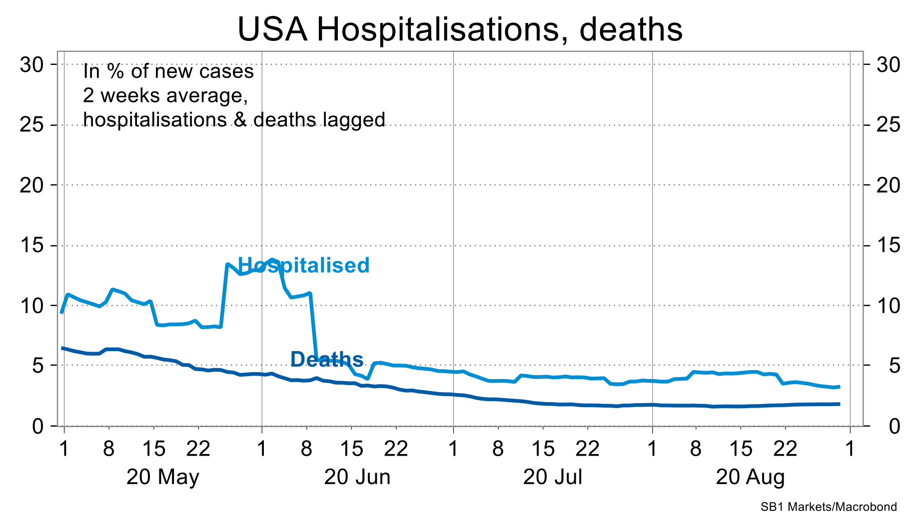
- Corona curves can be bent, if needed. This time around, the economic cost seems to be small vs. the spring experience
- Restrictions are tightened in several European countries, and more will probably come. The curve is still pointing upwards – but now at a tad slower speed – also in Spain – following a 20 times increase in less than 2 months! The fatality rate is luckily far lower than in March/April
- Denmark, Sweden and (almost) Norway are reporting fewer cases again
  - » Further measures to reduce the spread of the virus are probably not be needed

USA The no of new cases stabilised last week, as two weeks ago

The trend is most likely still downwards. The positivity rates is declining steadily



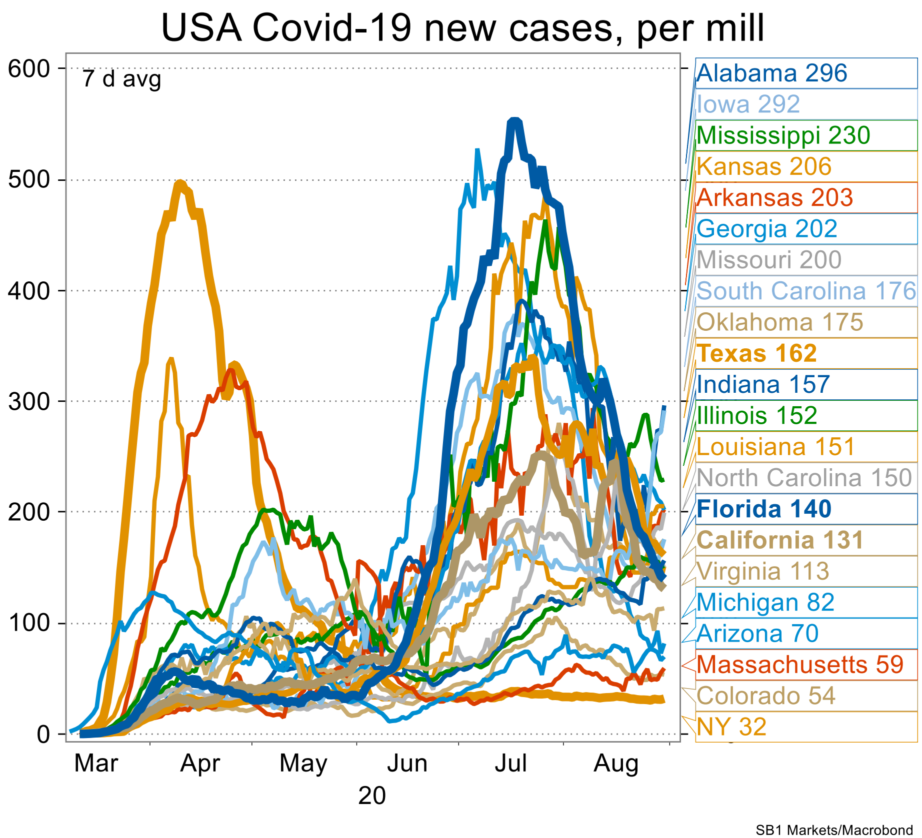


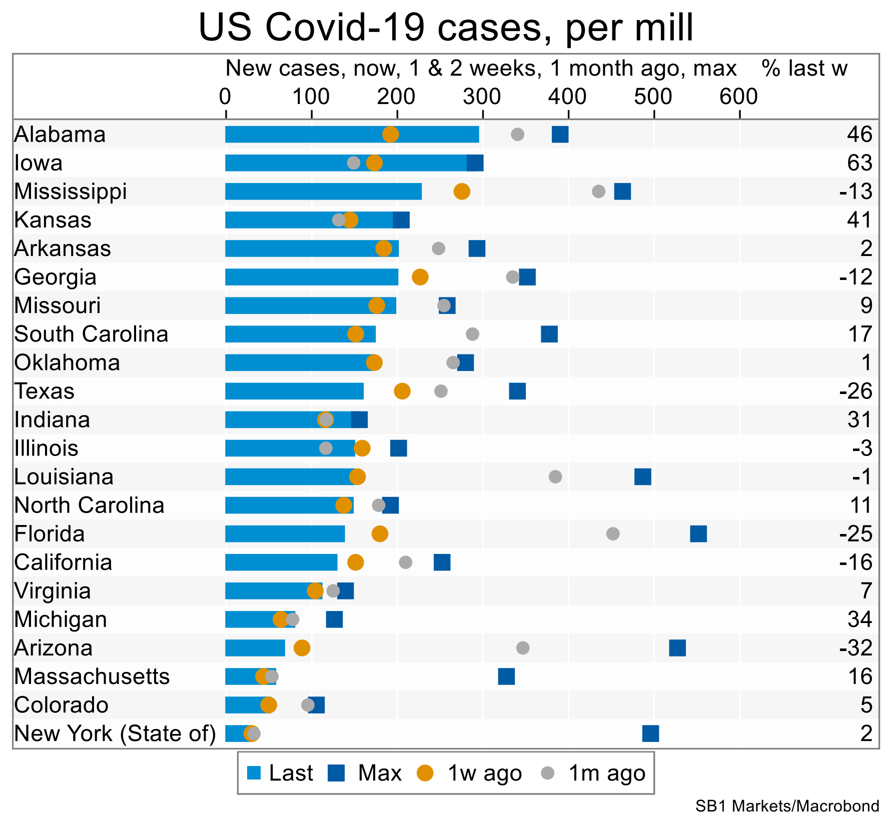


- The hospitialisation rate is far lower than during the early phases of the pandemic but has not fallen further the past two months
- The death rate (CFR) is still trending down or at least it din until late July.
  - » The level is just a fraction of the level during the spring, due more cases counted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

US: More states are reporting more cases again

Will the virus mysteriously disappear before November 3rd ? May be, may be not

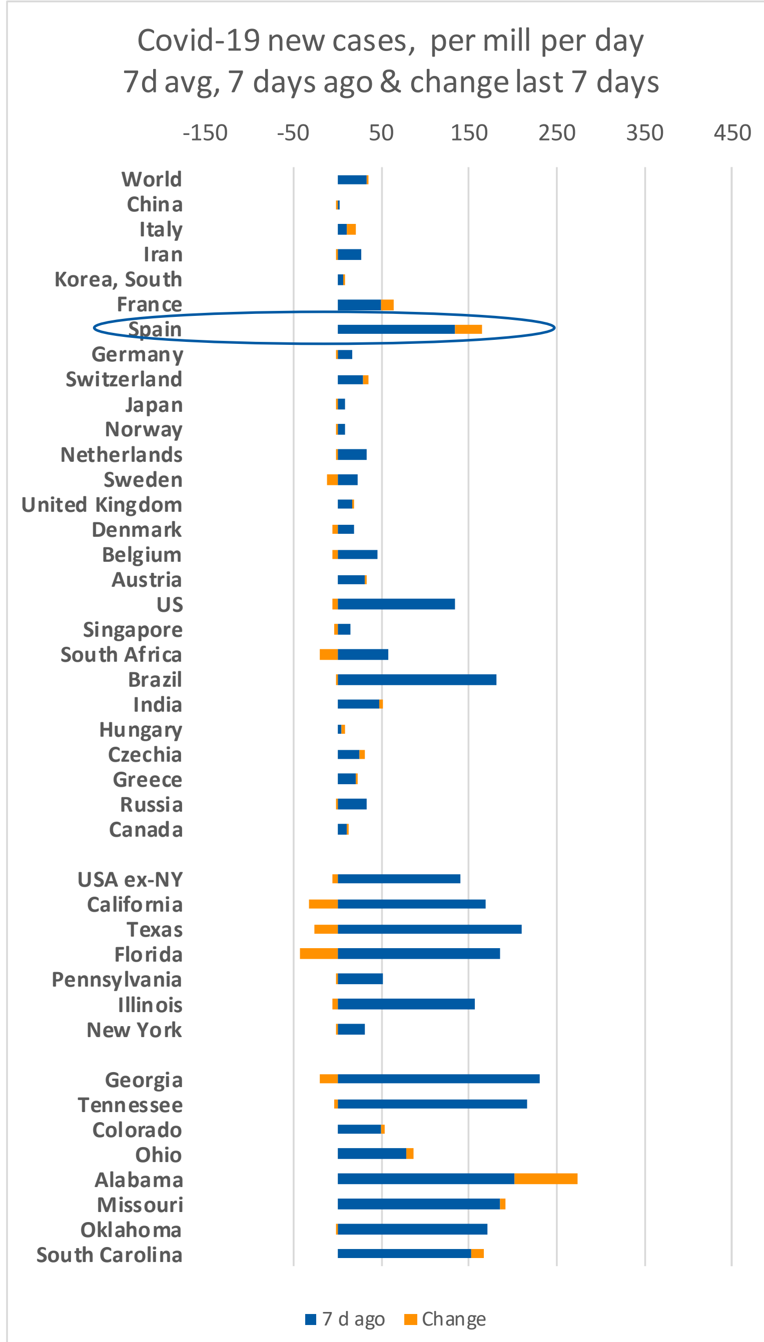


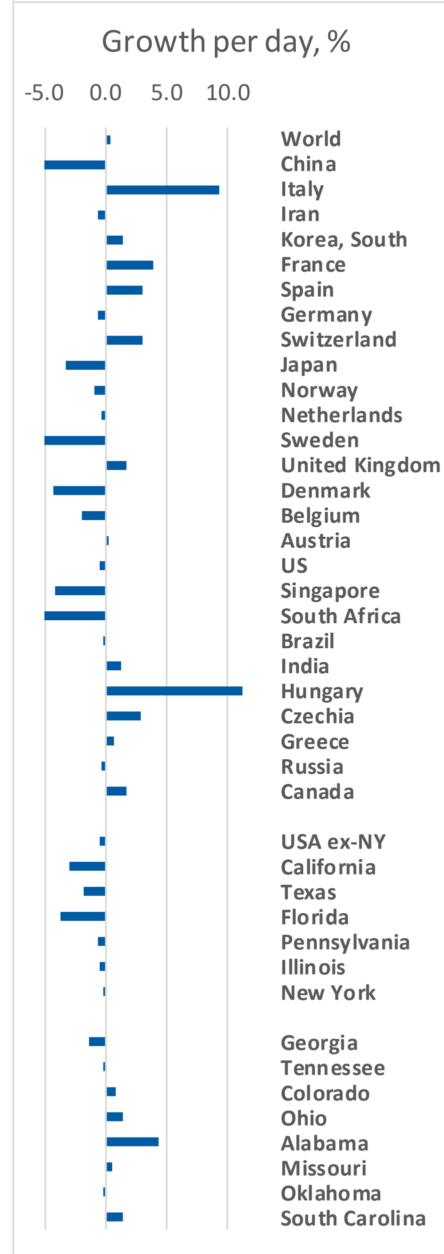


US & the rest: A comparison

It wont't lay down…

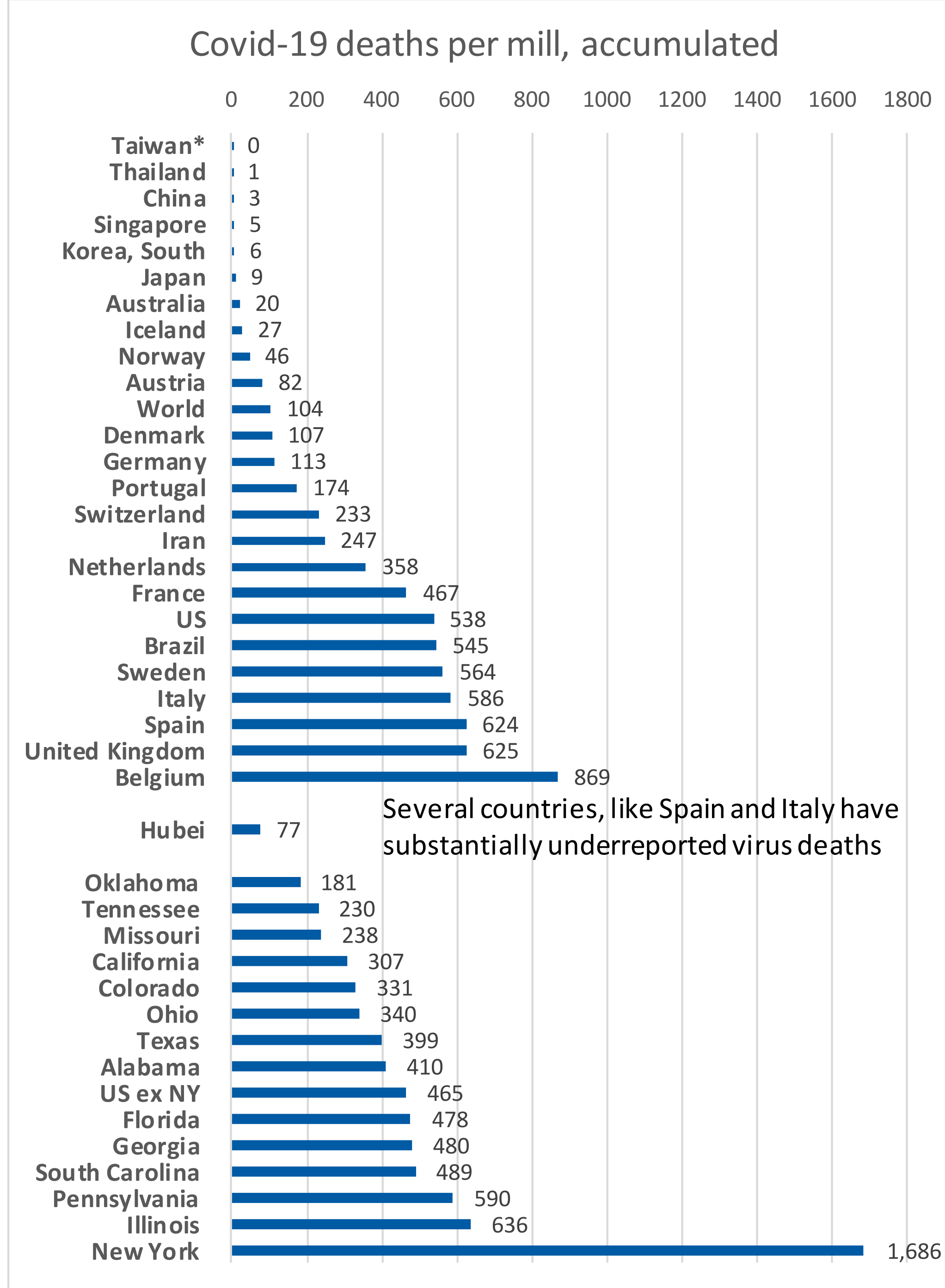
- Last week, more countries reporte more cases, as did more US states and others reported a more muted decline
  - » In Europe, most countries are still reporting more cases, but at a slower pace than the previous week in the majority of countries
  - » Spain still has the biggest challenge. Growth accelerated last week, and the there are now more new cases pr. capita than in the US, just Brazil is worse of the countries we follow. France is also still on the rise.. Italy is rapidly on the way up from a low level. In Belgium, the curve is turning down again.
  - » Norway has flattened, may be heading down
- 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



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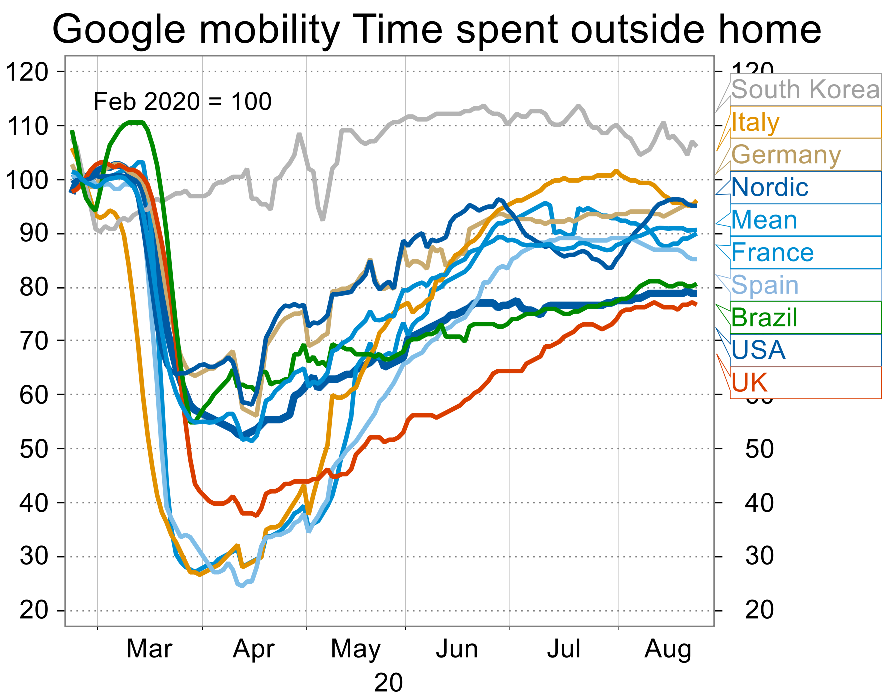
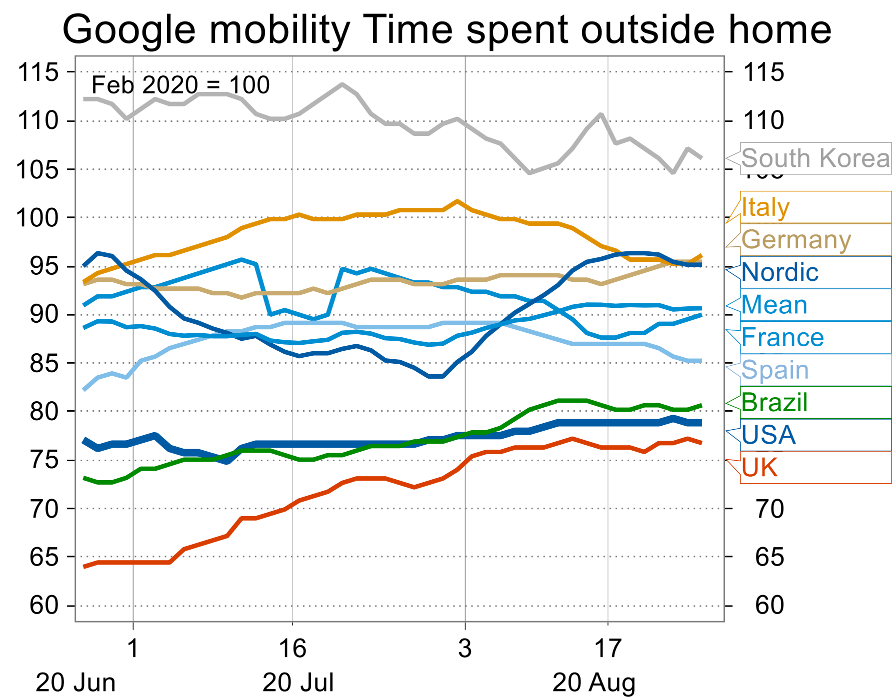
Time spent outside home on the way up, and now in the US again

Data are volatile and seasonality may be fooling us now, at least vs. a relevant economic analysis



SB1 Markets/Macrobond



SB1 Markets/Macrobond

- 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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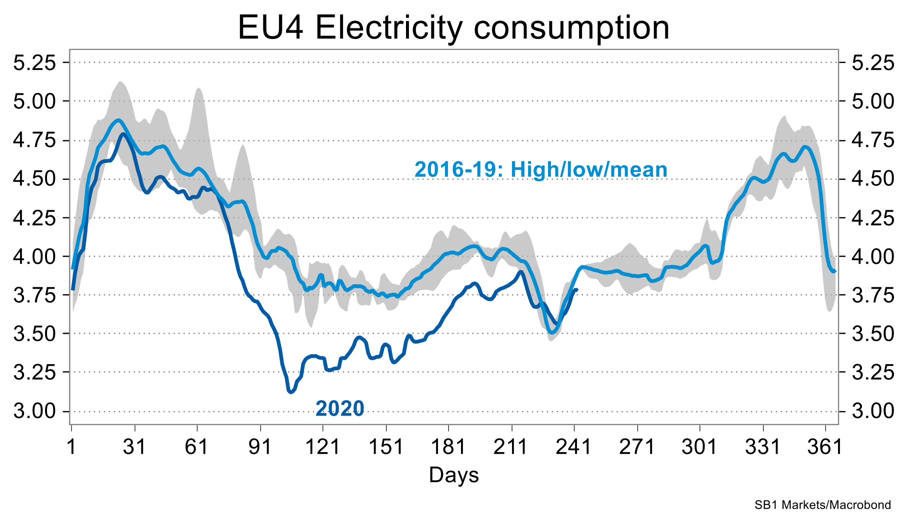
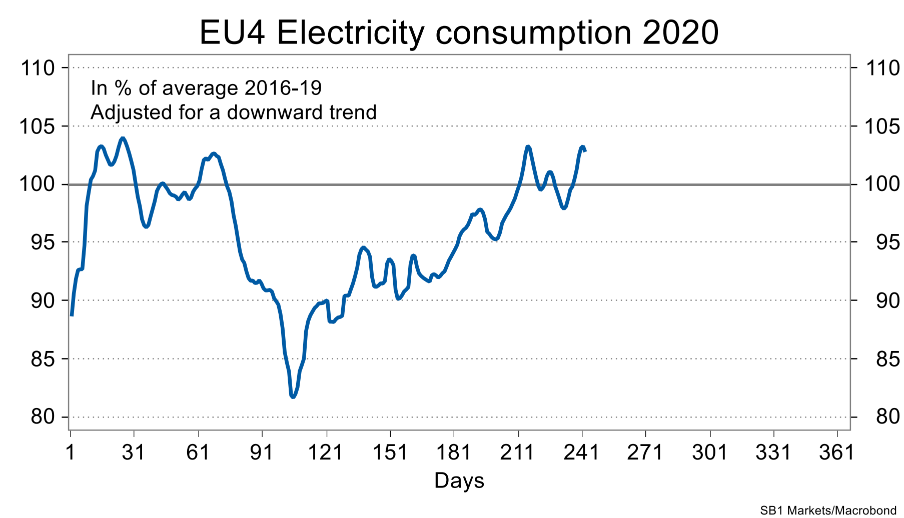
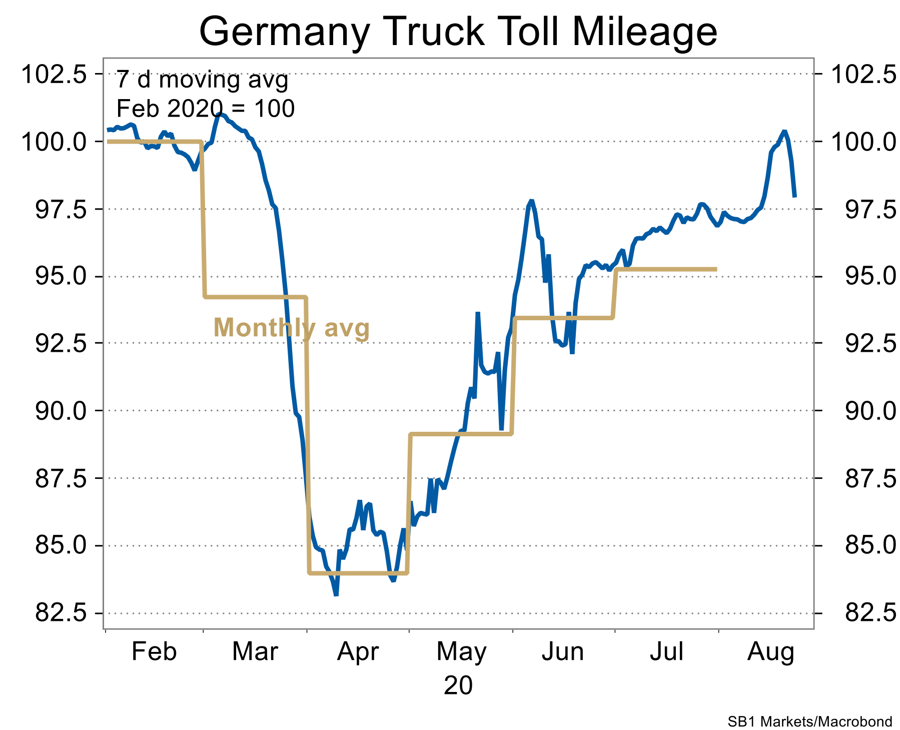
Electricity & German heavy transport: Activity back to normal

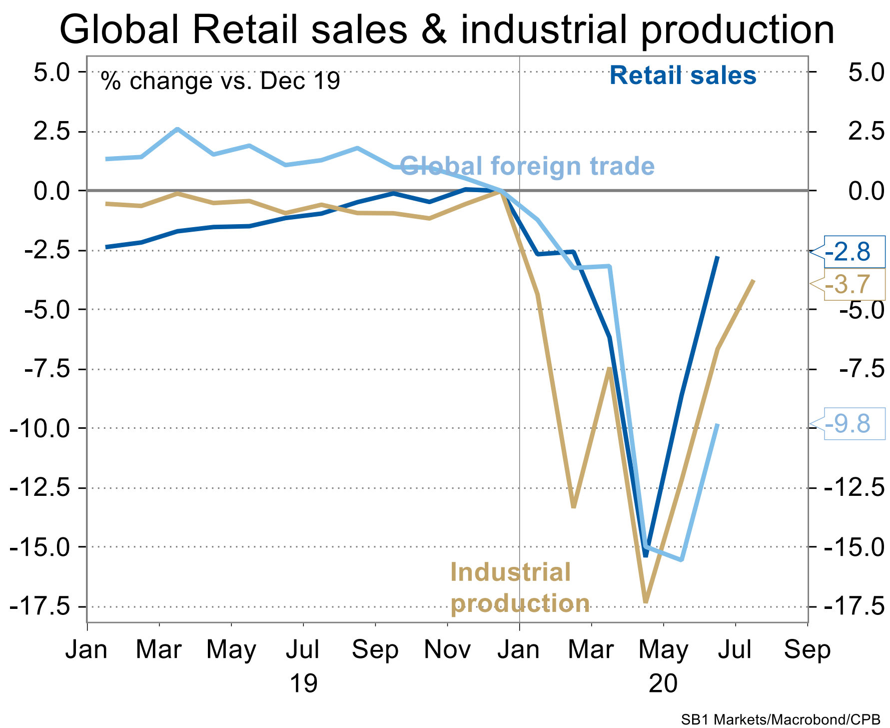


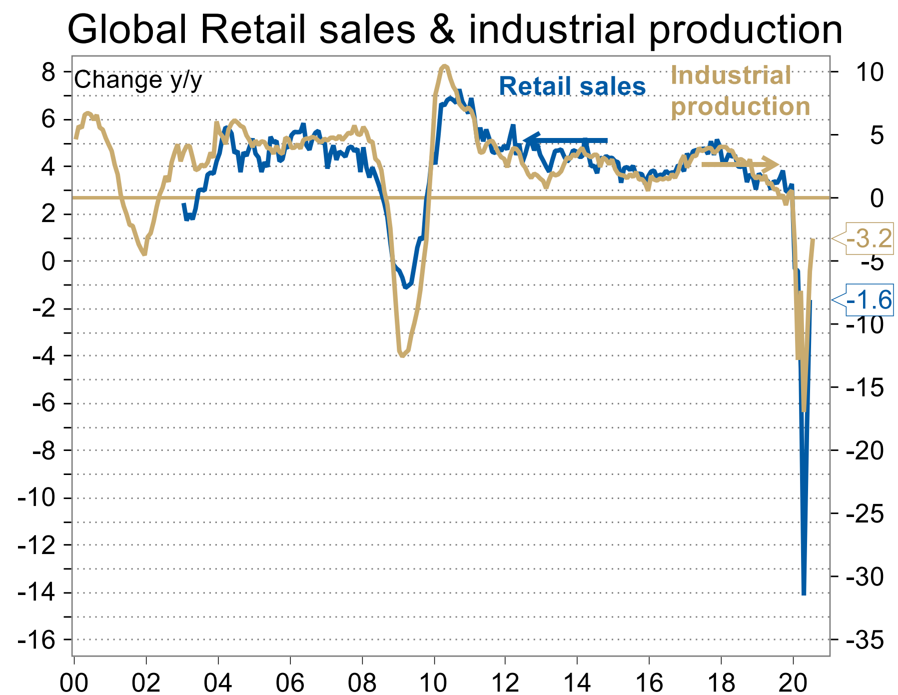




Industrial prod, retail sales further up, both still below pre corona trends

June retail sales are 3% below the Dec 19 level, >4% below trend. Manuf. 7% below Dec, >8% below t.



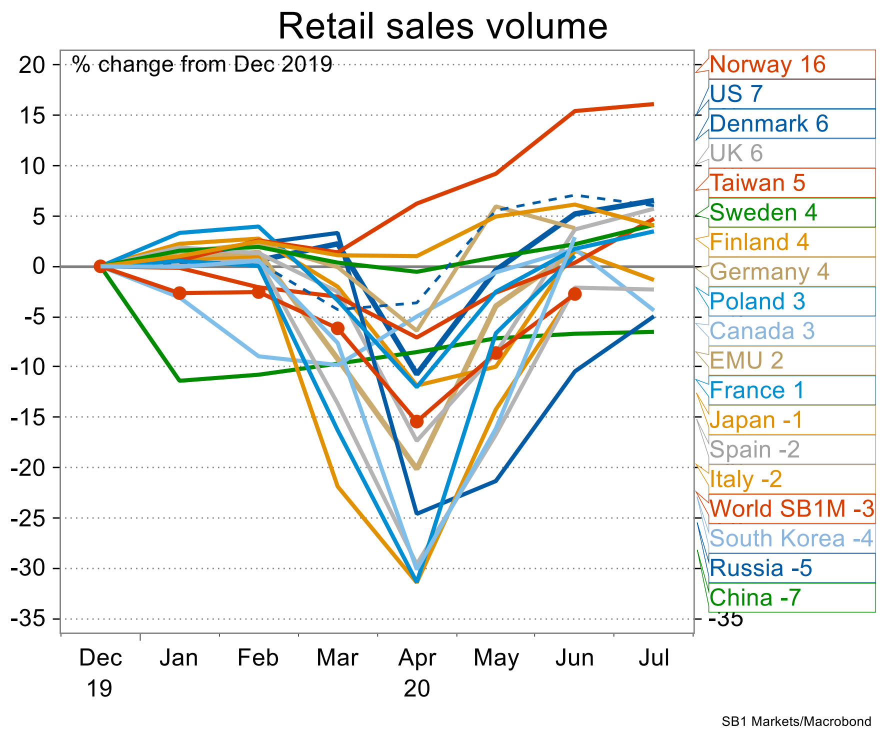


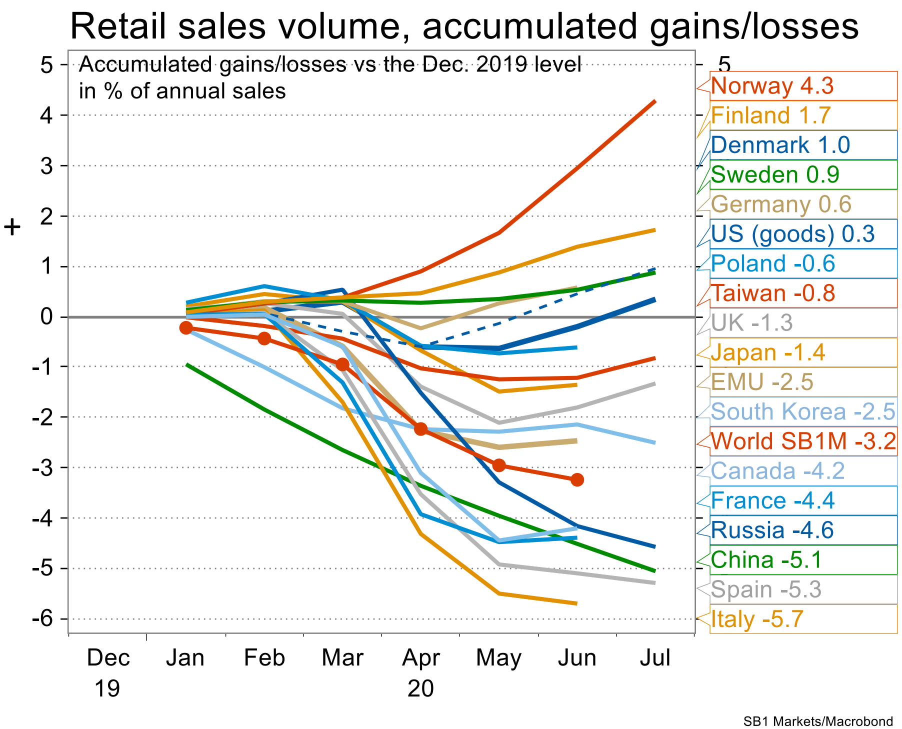
Memo: Keep in mind the different scales at the chart above

- Global retail sales grew 6% m/m 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 6% m/m in June, close to the May outcome. Production was still 7% below the pre corona level. Without too many observations, we assume a 3% increase in July, narrowing the gap vs. Dec to 4%, from 17% at the bottom
- Global foreign trade shot up 7% m/m in June but was still 10% below the pre corona level

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'

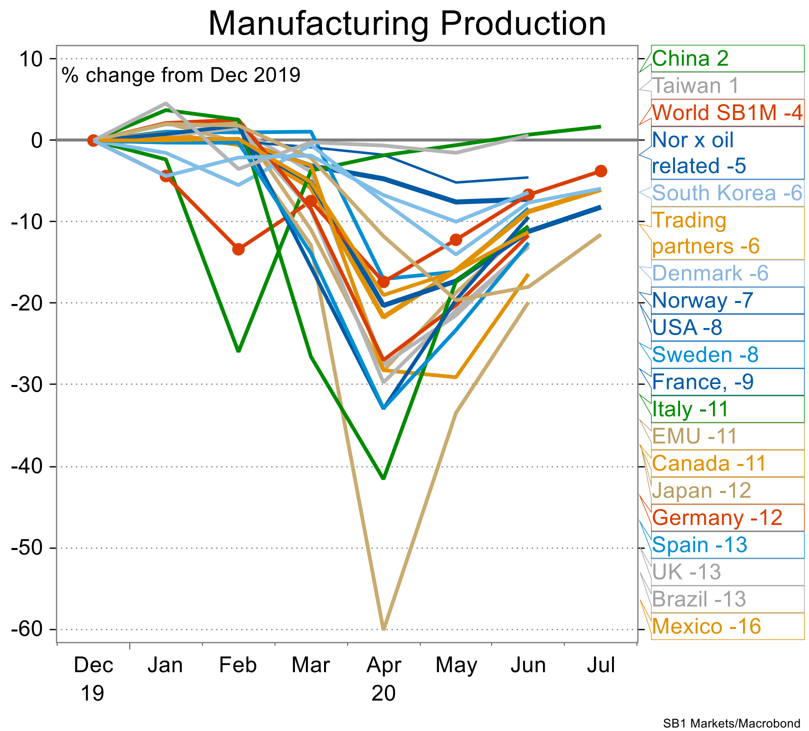


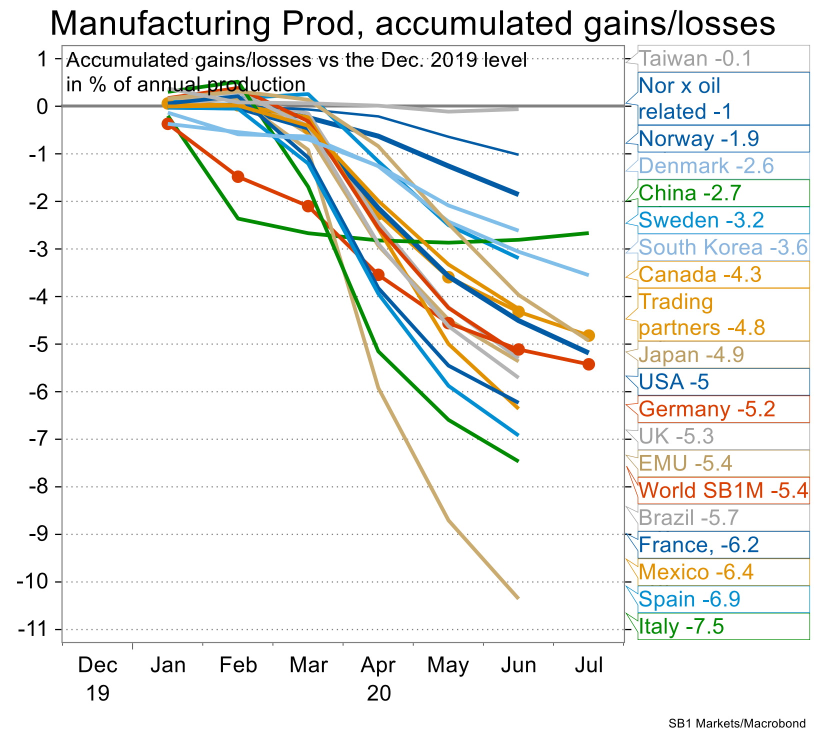


- We assume global retail sales rose 6% in June, as in May. If so, sales were still 3% below the pre corona level in June. Most countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 7% 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, due to the losses during the spring
- Consumption of services are not included in these retail sales data – and service consumption has fallen sharply, everywhere

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

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

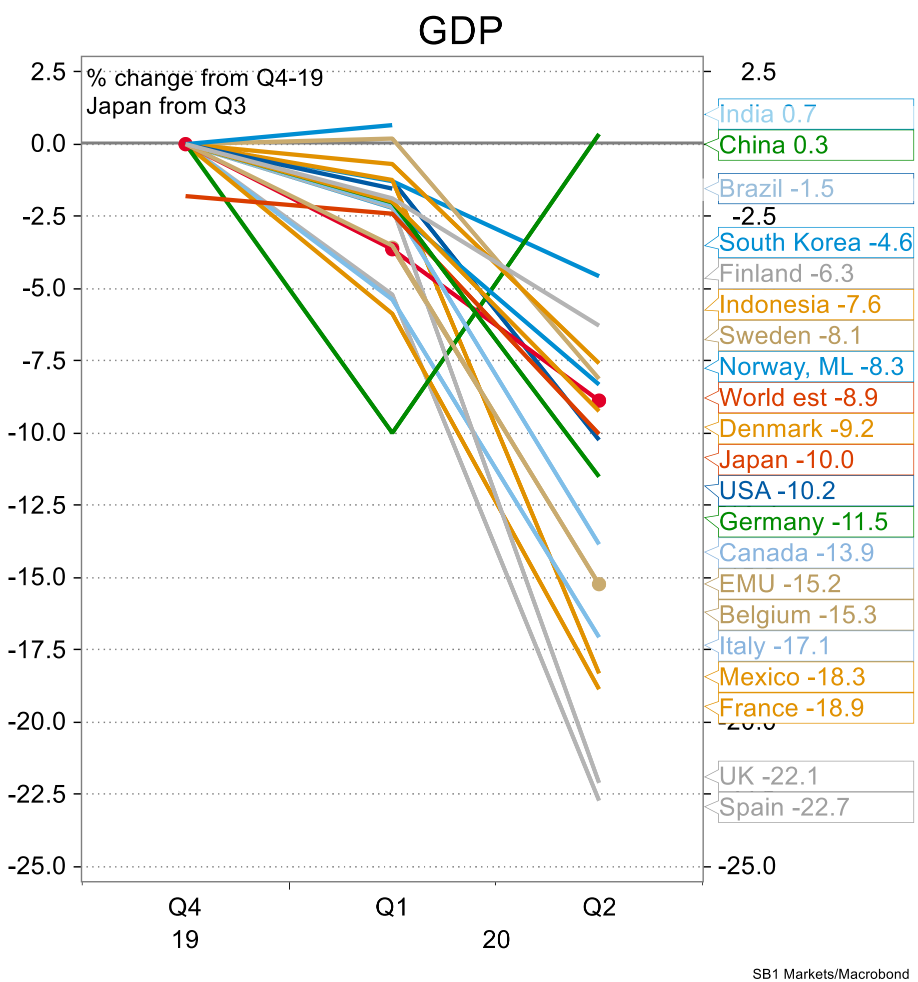




- We estimate 6% m/m increase in manufacturing production in June. Production was still down 7% vs. the Dec level. Production rose further in July
  - » Compared to the Dec 19 level, China is in the lead (above the Dec level) followed by Norway and the US
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 8 below the pre corona level in July but total production during the first 7 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 just a small loss (2%), followed by Denmark, China, South Korea
- 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

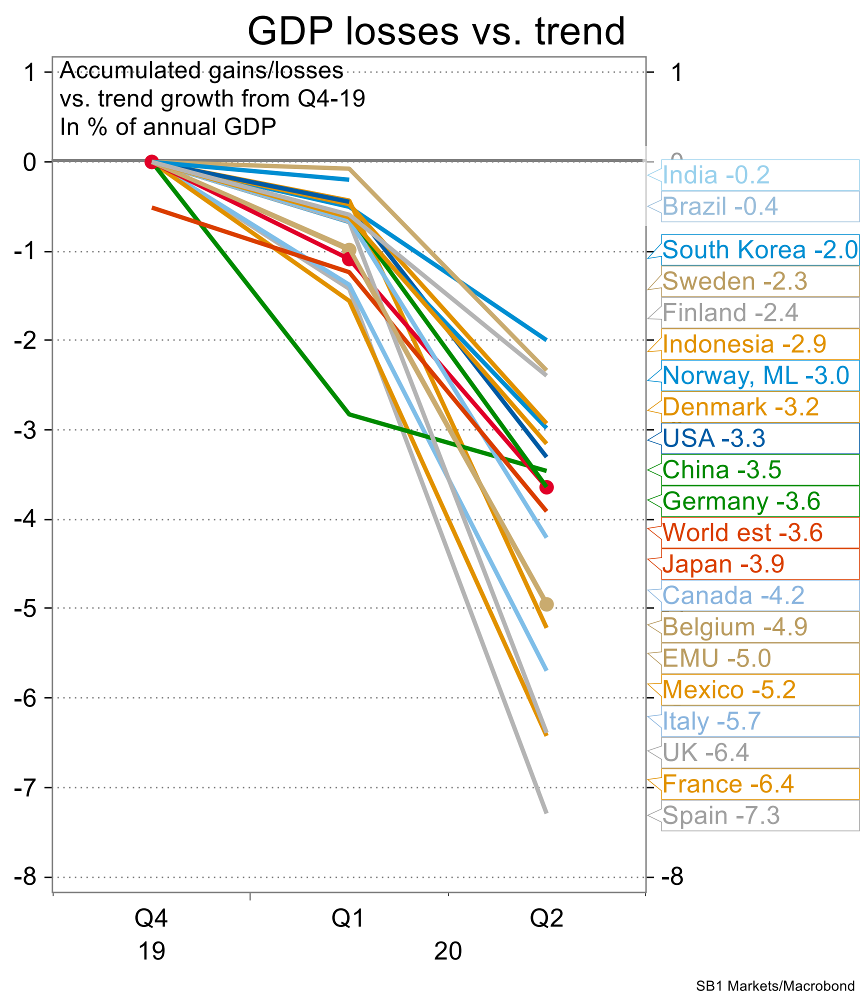


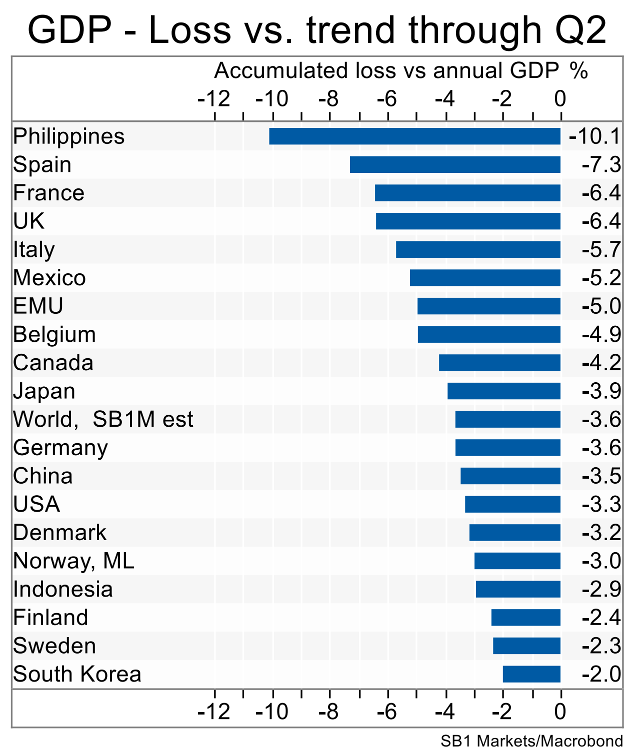
India and Brazil have not yet reported Q2 data! Norway, Japan + the world are our f'casts

- 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)
  - » 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 11.5% from Q4, Spain -23%
  - » UK down 22.1% from Q4, just as bad as Spain, the two worst DM countries
  - » Japan down 10% vs the Q3 19 level (Q4 was 'artificially' weak due to the VAT hike)
  - » South Korea just down 4.6% from Q4
  - » Sweden down 8.6% in Q2, sum 8.5%
  - » Denmark down 7.4% in Q2 following the 2% drop in Q1, sum down 9.2%
  - » Finland down just 3.2% in Q2, 5% through H1
  - » Norway down 6.3% in Q2, 8.3% from Q4
- 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)*

The accumulated losses vs trend growth so far equals 3.7% of global GDP

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

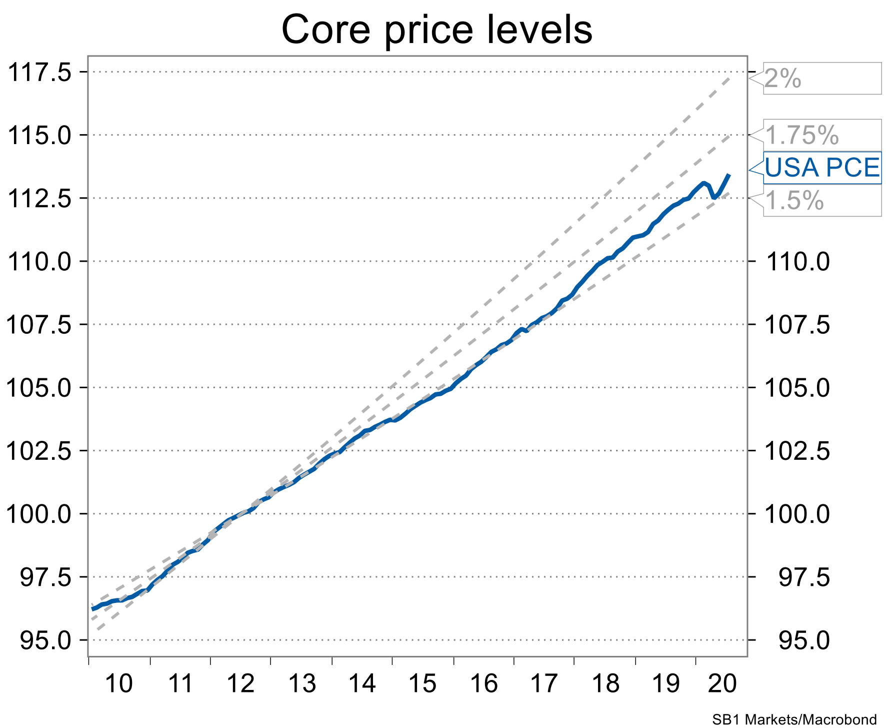


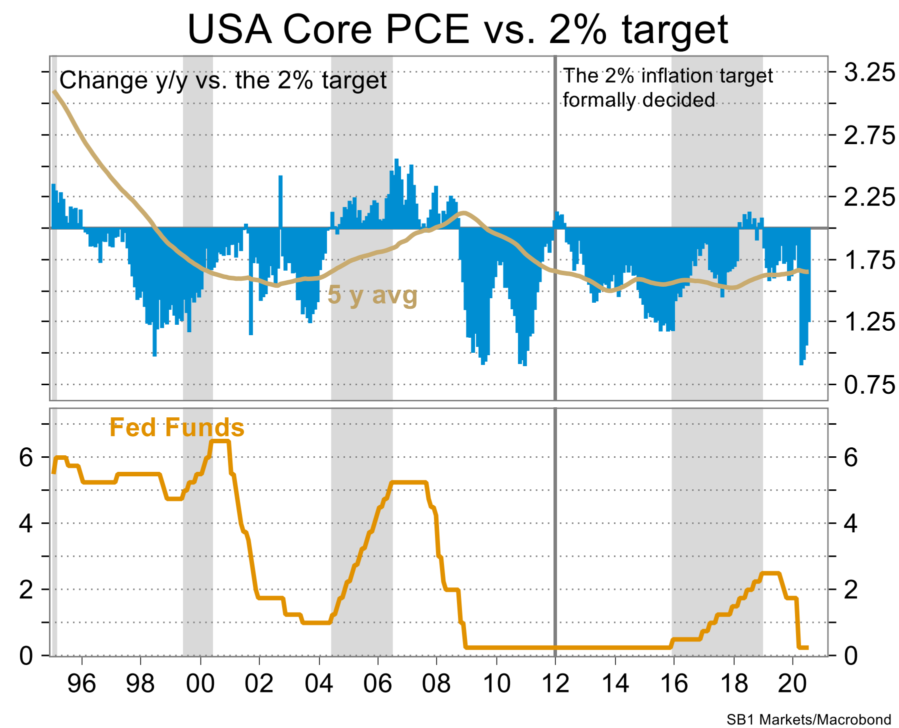


- So far, Sweden has lost less than most other, barring Finland and South Korea
- Spain has reported the largest loss in DM

Fed will target average inflation over time – not short term (and always)

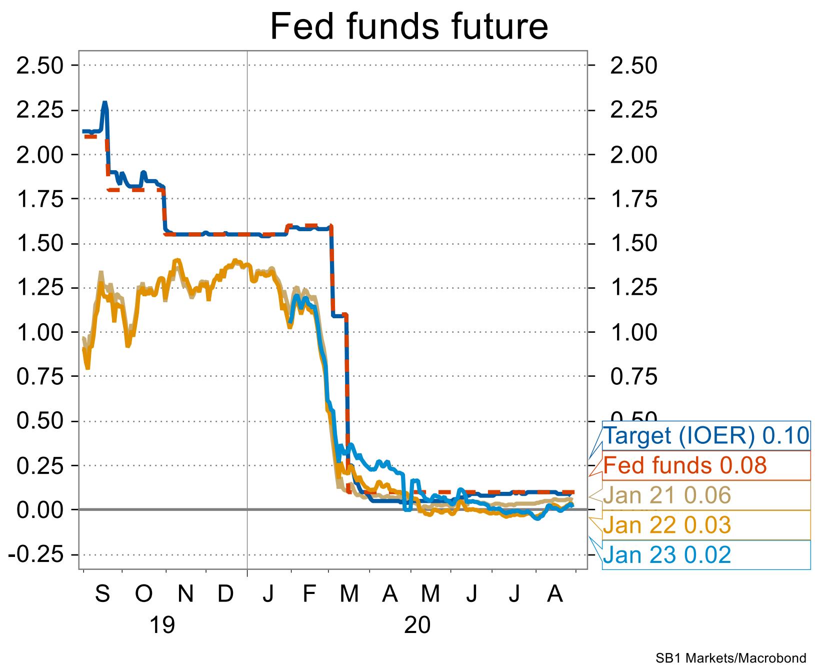
The FOMC has introduced a price level target, following 10 years of sub target inflation





- The change has been pretty well preannounced but the timing was not; Powell revealed the decision at the (virtual) Jackson Hole central bank conference Thursday.
- Since the formal inflation target was introduced in Jan 2012, inflation has been below the 2% target most of the time, and in average 0.4%, measured by the deflator for private consumption expenditure (PCE). (Measured by the core CPI, inflation has been quite close to target
- After a period with low inflation – like now – the Federal Reserve will now accept to let inflation run above 2% for a while, in order to bring average inflation up to the 2% target, to get the price target right. That implies that the signal rate new should remain low for longer. The Fed could wait for inflation to overshoot at the upside before tightening monetary policy(*Continued next page*)

A price level target, max employment – and financial stability. It wont be that easy



- The FOMC statement did not leave any hints on Yield Curve Control, that the Fed could 'decide/dictate' yields along the whole yield curve, not only the short end

- There are two main arguments in favour for a price level target (or achieved the inflation target over time. There are two main arguments in favour of the change:
  - » It is more important for private sector decision markers to know where the <u>price level is in the future</u>, than what actual annual inflation at a future time might be. Obligations must be served by income generated by the price level, and if inflation has been lower than expected for too long, their income level would be lower than expected, even if inflation comes back to the annual price target. By promising to reach average price by pushing inflation up to above the long term target for a while, the average rate of inflation over some year will reach the long term price target
  - » If inflation has been below the inflation for a while due to a downturn in the economy with employment below the maximum level at the same time, the Fed will be able to <u>keep interest rates lower for longer</u> (or apply other expansionary measures) as inflation now will be allowed to overshoot at the upside for some time, making it easier to bring employment up to the 'maximum level'
- The Fed now mentions maximum employment before stabilising inflation, a sign of a new priority?
- The Fed will also assess the risk to the financial system that could impede the attainment of the goals
  - » Keeping risk markets up or cap credit booms? The Fed does not provide any guide
- Markets were not overwhelmed: Short term rate expectations were unchanged – at close to zero. However, long term bond yields rose by 10 bps, due to a hike in inflation expectations, by 15 bps last week – to 1.77% the next 10 years, the highest level since early 2020, still below the price target
  - » The changes were not surprising given many comments from FOMC members recent months, but the timing was not given, of course

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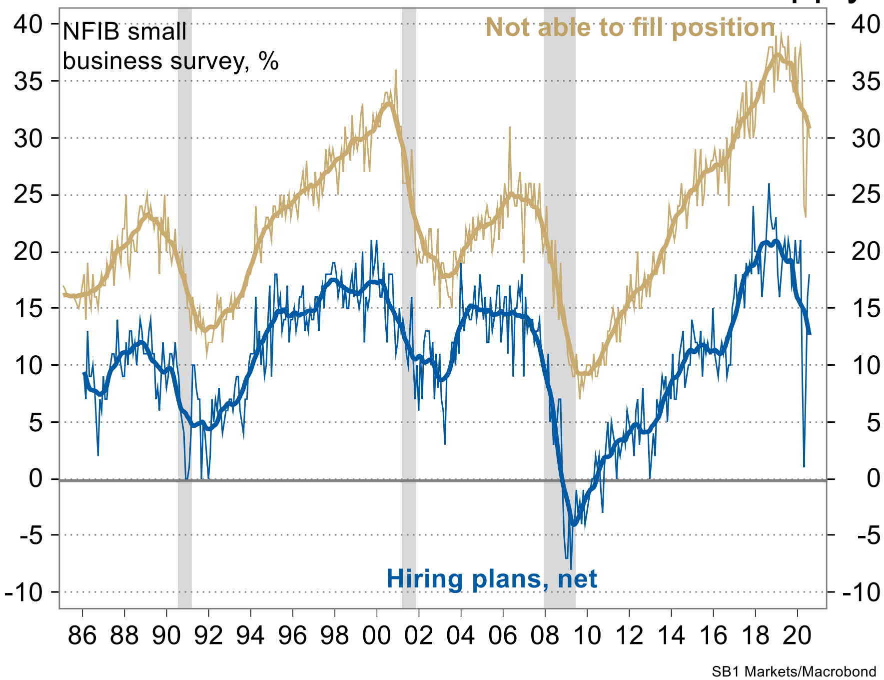
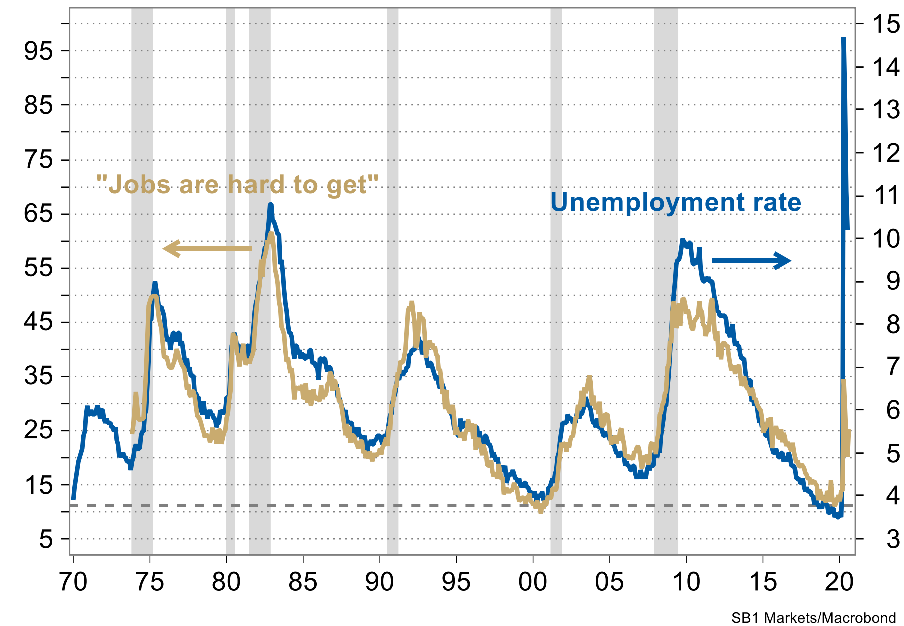
Don't forget, before corona: How far was US below full employment?

Sure, the employment rate was still below previous peaks but….

USA Small businesses labour demand/supply



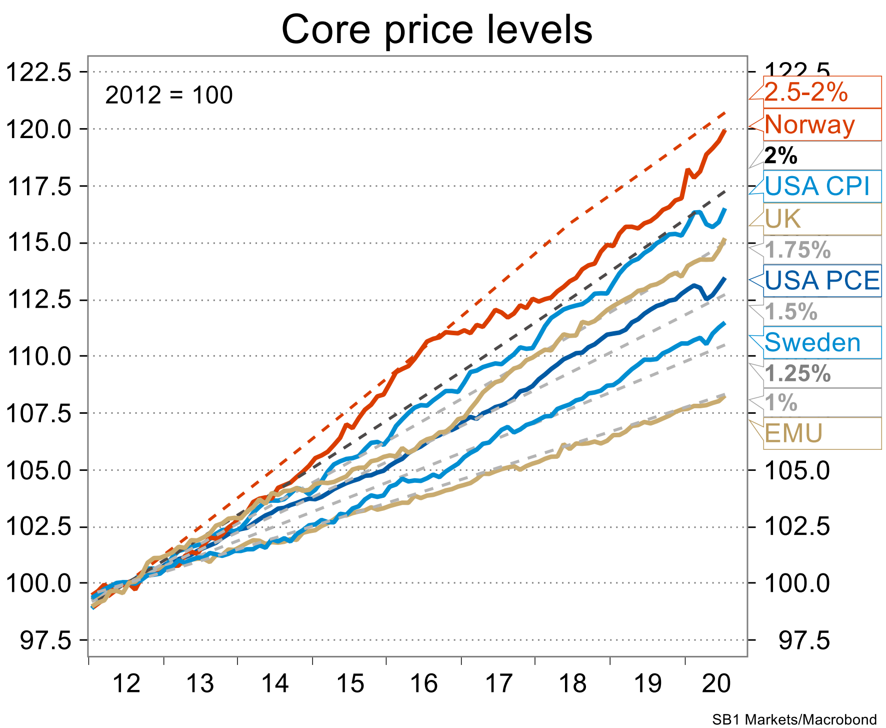
US - Unemployment
vs. consumers assessment of the labour market



- Unemployment was at the lowest level since 1969
- Businesses reported more serious lack of labour that ever before
- Households reported that that jobs were unusually easy to get, just one month since 1975 has been better
- Wage inflation was not high but it had accelerated, and it was high vs. productivity growth, and corporate profits were under serious pressure, we think because the labour market was very tight
- In for for corona (or a bad trade war), more inflation in the shadows? *Not unlikely*

What about ECB, BoE, Riksbanken and Norges Bank?

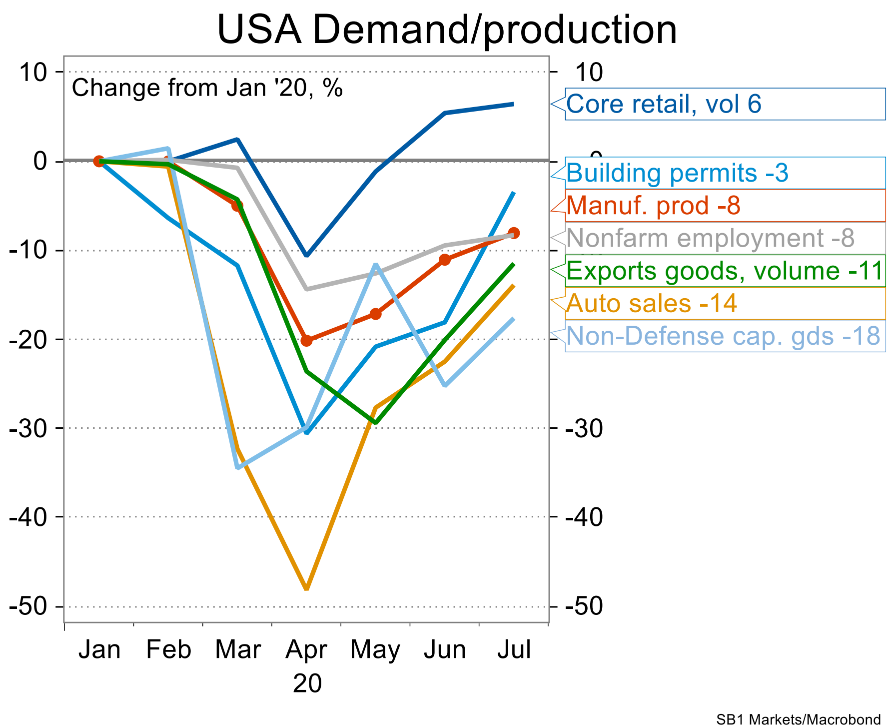
Well, Norway as not had any permanent problem with too low inflation vs the target



- BTW, the US core CPI has not over time been far below the 2% target – but the Fed is referring to the PCE price deflator, now up 1.3% y/y
- UK may follow suit, even if inflation has not been that far below the target
- Sveriges Riksbank may pick up the baton, as professor Lars Svensson has been the leading advocate for a price target model – and inflation has been running well below 2% over time
- The ECB has delivered just 1% core inflation over the past years – which is pretty far below the below, but not far below 2% target

On the way back – but not synchronised yet

Core retail sales well above the pre corona level, building permits close too



Some different shapes and forms of 'V's

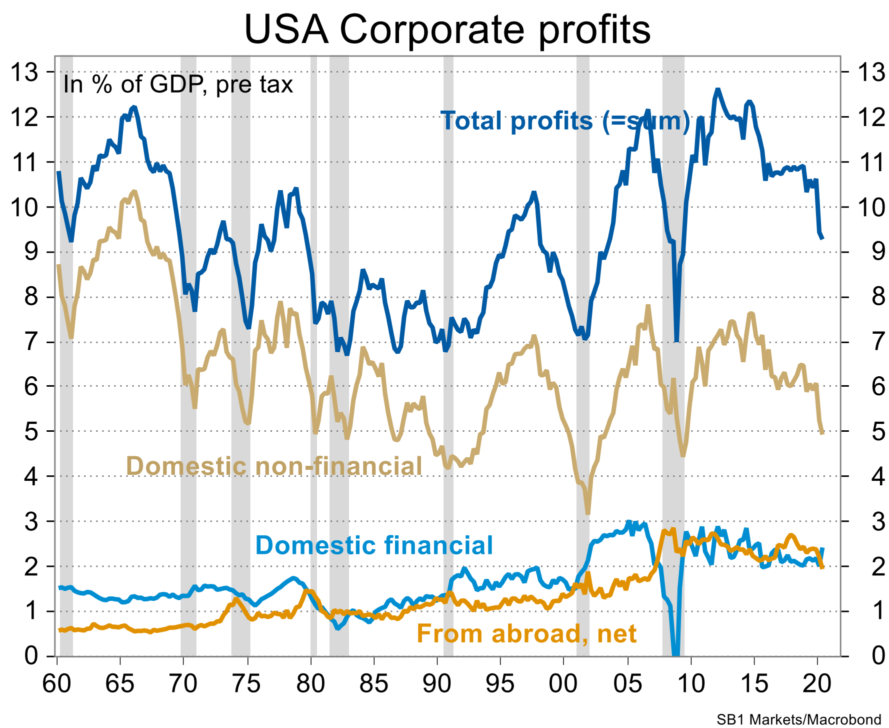
- Export volume still low, as are new investment goods orders (both June data), down 20 – 26%
- Auto sales down 14%
- Employment 8%, and manufacturing production -8%
- Households' goods demand strong, both housing & retail sales

Demand vs production

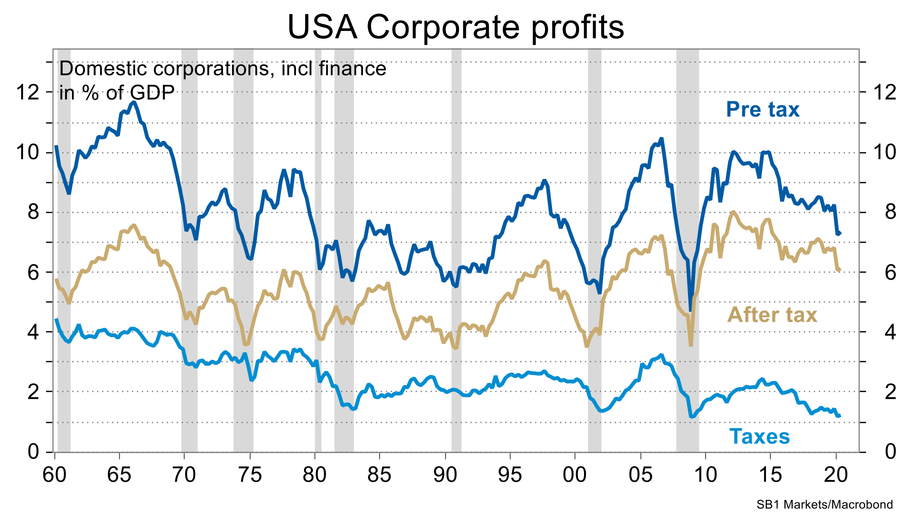
- Manufacturing production is weaker than household demand for goods. Weaker investment demand, exports and a sharp inventory drawdown explains the difference

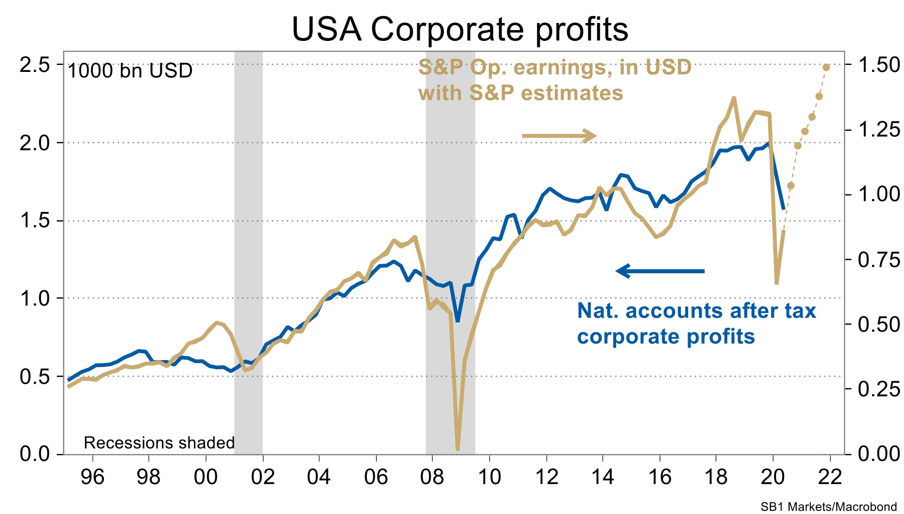
Q2 corporate profits saved by subsidies equalling 5% of GDP (=70% of profits!!)

Subsidies to companies equalling 5% of GDP (70% of Q1 profits), saved the day, you might say



- Total pre tax profits fell by 11% in Q2, and are down 20% y/y. Measured in % of GDP, profits fell marginally to 9.3% - as GDP fell sharply too
  - » Normally a steep decline in GDP should have made a much larger dent in corporate profits. However, companies received USD 1.000 bn in subsidies from the government (annualised, USD 250 in the quarter), equalling 5% of GDP or an incredible 70% of Q1 profits. Deduct 5pp of GDP from total profits at the chart above, and the graph would not look that nice
  - » Corporate profits were revised up in the annual revision (in late July but is still trending down, measure in % of GDP



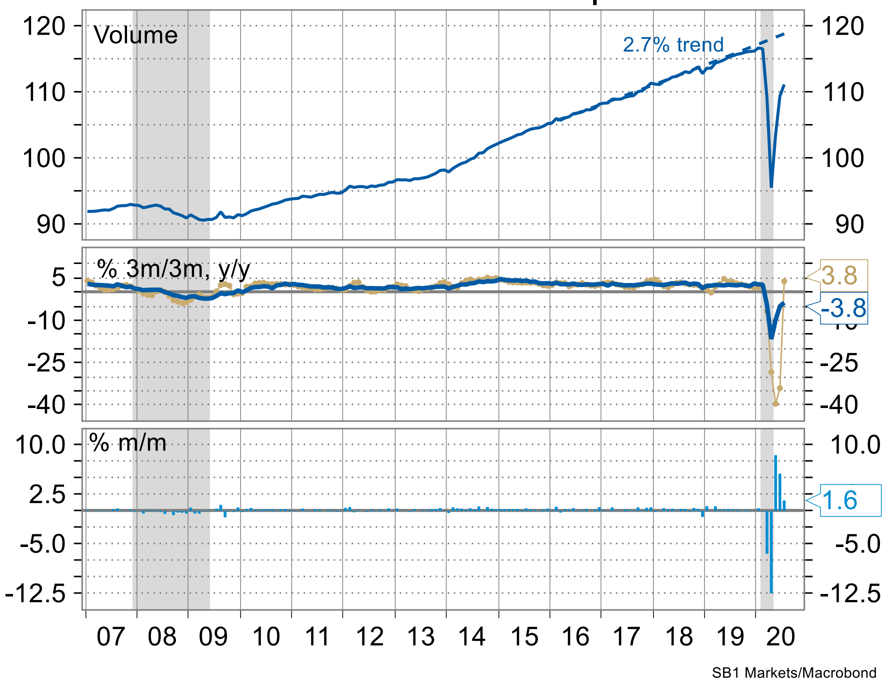


S&P 500 companies are reporting much higher growth in earnings than Nat. Acc. are able to detect. We have seen such discrepancies before, and so far S&P profits have yielded the following years, during recessions…

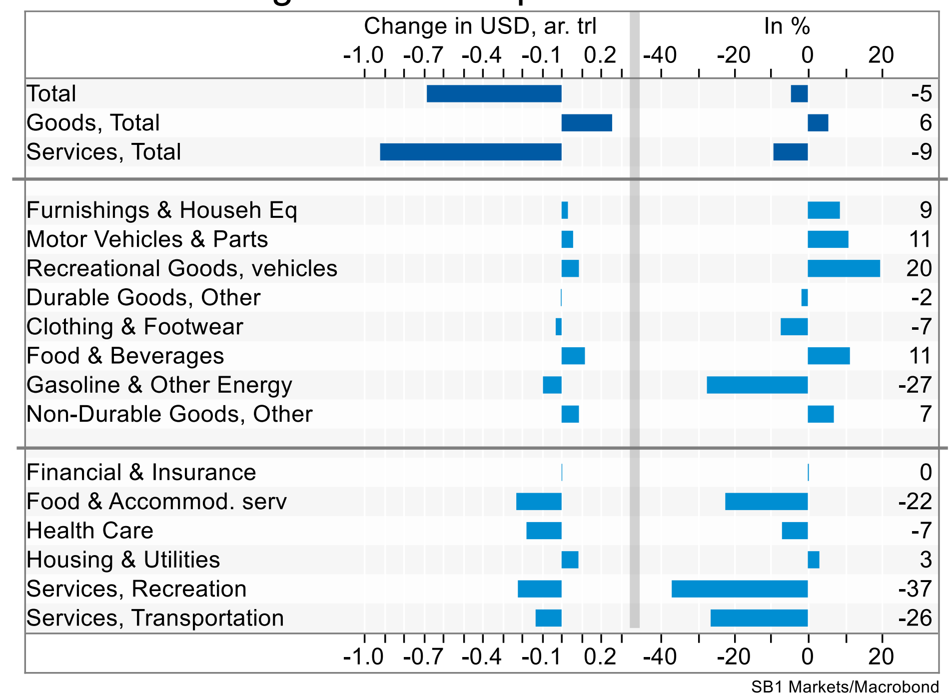
Consumption up ‘just’ 1.6% in July, 5% below Feb, services to blame

Personal income up 0.2% (value), but level is still high, due to extreme government transfers

USA Private consumption



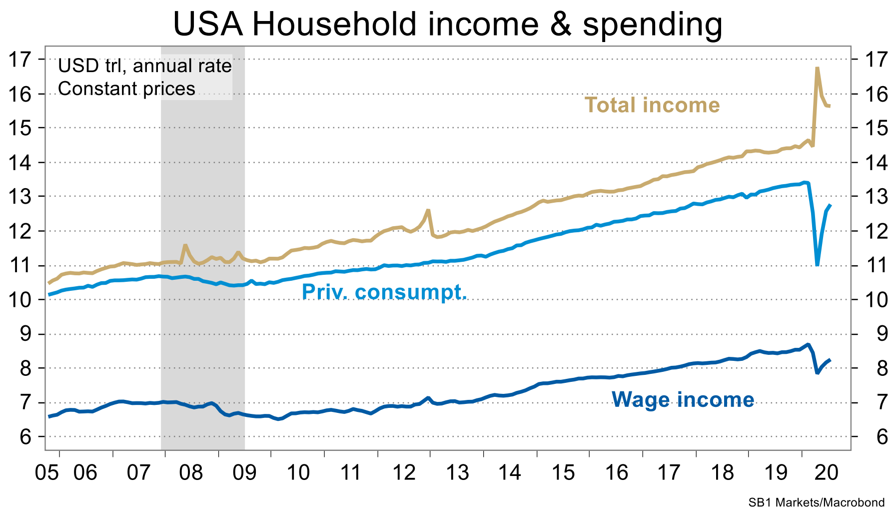
USA Change in consumption from Feb 2020

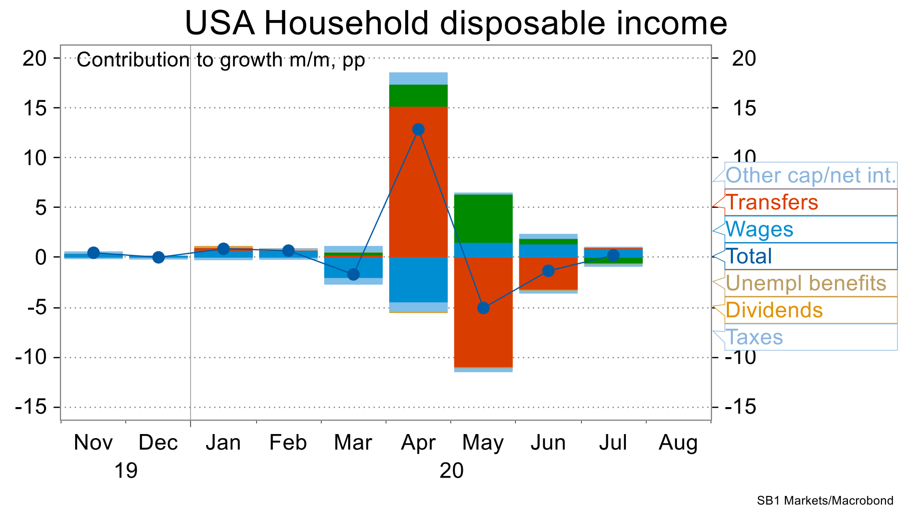


- The increase in spending was some tenths lower than expected, while income was expected down by 0.2%
- Consumption rose broadly in July – but the overall consumption level is still 5% below the Feb level (and 7% below pre c. trend)
  - » Consumption of goods is now 6% above the Feb level, driven by food & beverages (at home), recreational vehicles (!), while gasoline is sharply down
  - » Consumption of services are down 9% due to, restaurants/hotels, recreational services, transport – of course dramatic for these industries (and their empl.)
- In July, consumption was 8% above the Q2 average. If spending flattens from here (which is rather pessimistic, higher consumption will lift Q3 GDP by more 5%, (20% annualised)

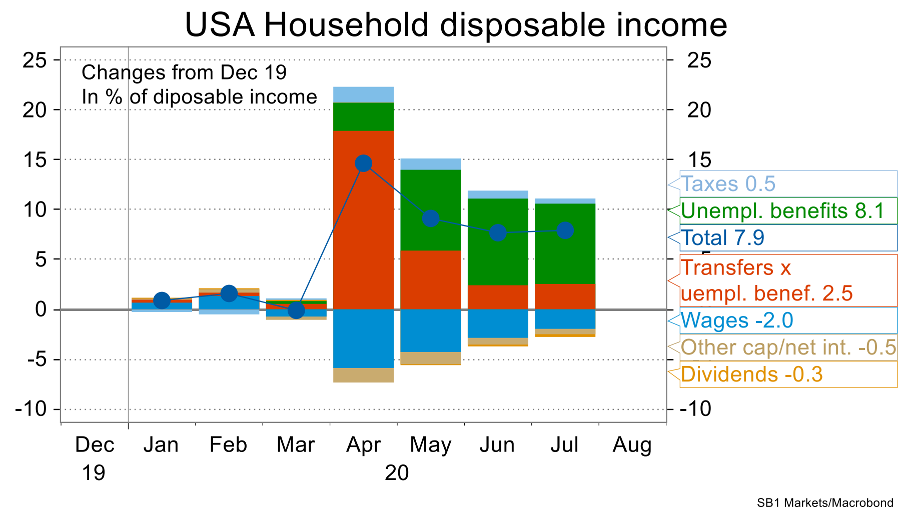
Income is sharply boosted by government transfers, now mostly unempl. benefits

Income fell by 0.2% in July but transfers are still lifting incomes by more than 10%





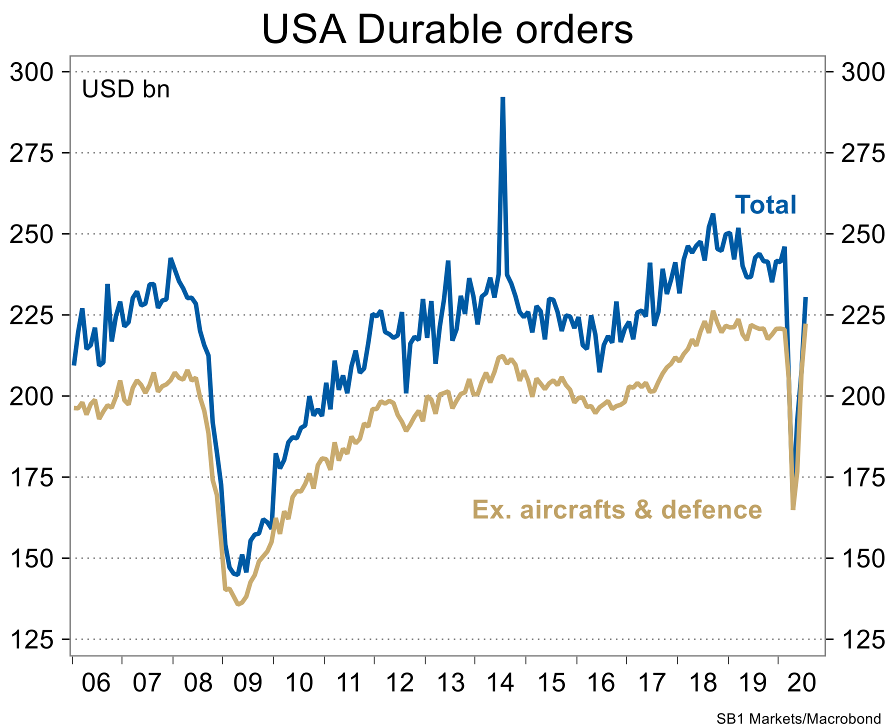
- Changes in household income have been dramatic as they – in aggregate – have been overcompensated, big time
- Overall household income is up 7% from December 19
  - » Wage income is down almost 5%, equalling 2.8%, in % of disp. income
    - Other market based incomes are down equalling 1.3% of disp income
  - » Unemployment benefits are up equalling 8.1% of disp income, 3x more than the cut in wage incomes (partly due to delayed payments)
  - » Other transfers are up equalling 2.4% of disp income. At the peak in April, transfers equalled 17% of the Dec 19 monthly income!!
  - » Government transfers equal in sum still more than 10%, far more than the reduction in wages and other market based income
    - Even if not an extra dime is distributed from here, 2020 household income are boosted by more 4% of income (3% of GDP) by these transfers
- Another support package, both cash transfers to all and a continued extra unemployment benefits has not yet been decided on, and unemployment benefits will be sharply cut in August

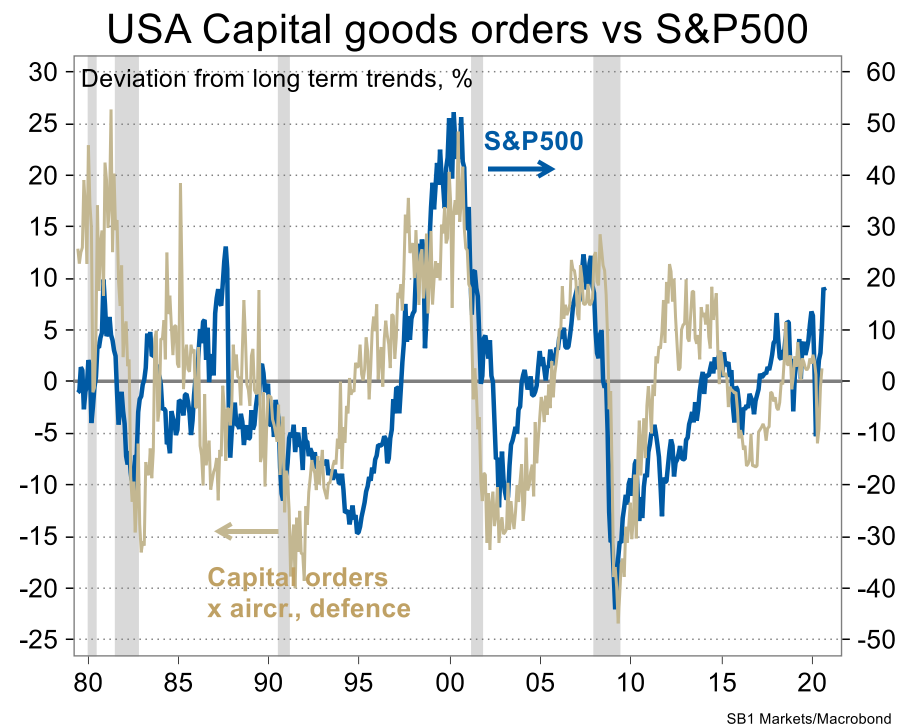


SpareBank 1 MARKETS

Core durable orders up 7% in July, is above the pre corona level! Total 5% below

Total orders up 11%. Investment goods orders ex aircrafts have recovered too, aircrafts not

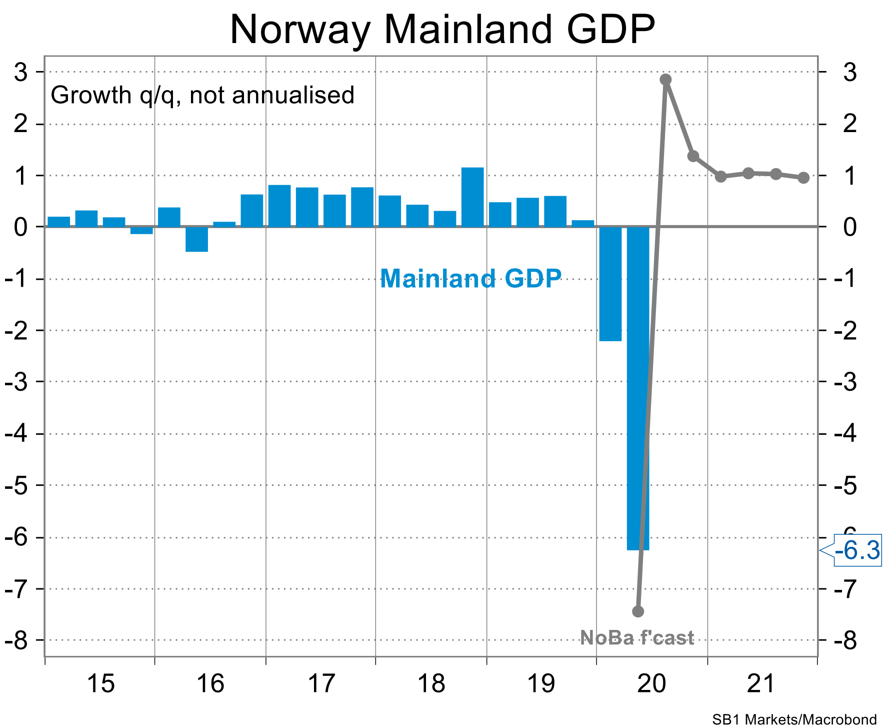


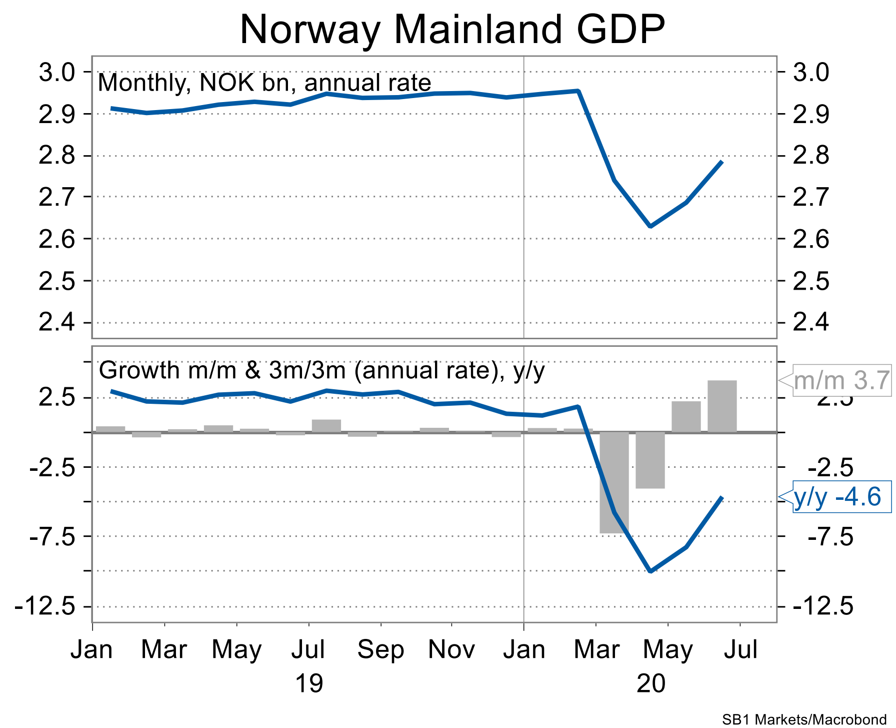


- Airline orders still the main drag, more cancellations than new orders in July too. Auto orders rose sharply in July
- Investment goods orders and actual investments fell sharply in Q2 and even including aircrafts a substantial recovery in underway and growth in Q3 will be record high, of course

Mainland GDP down 6.3% in Q2 but grew 3.7% in June, is 'just' down 5% vs Feb

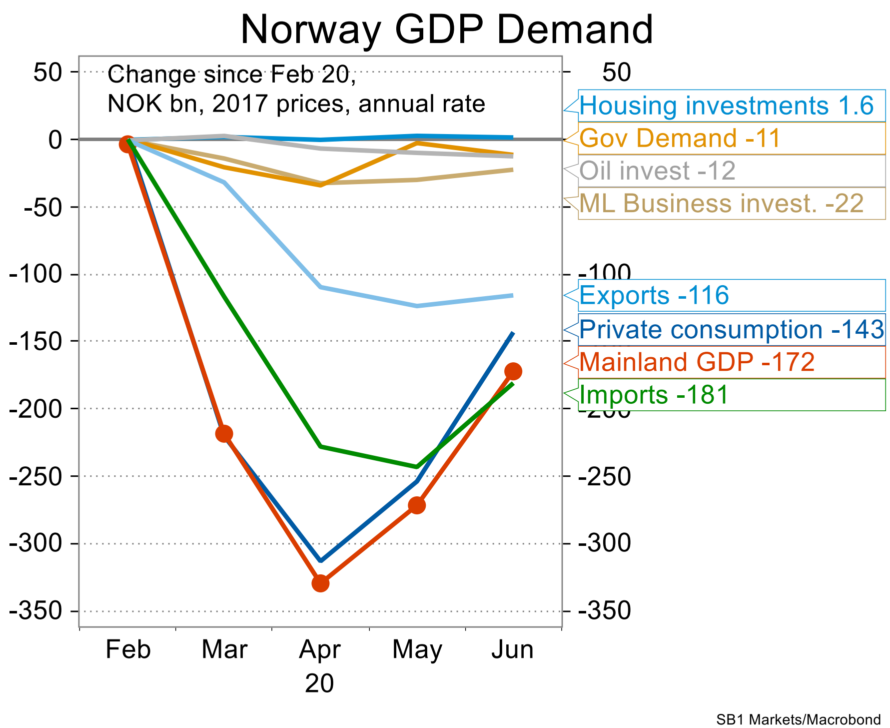
The decline was the sharpest ever, but as expected. The Q3 recovery will be the sharpest ever

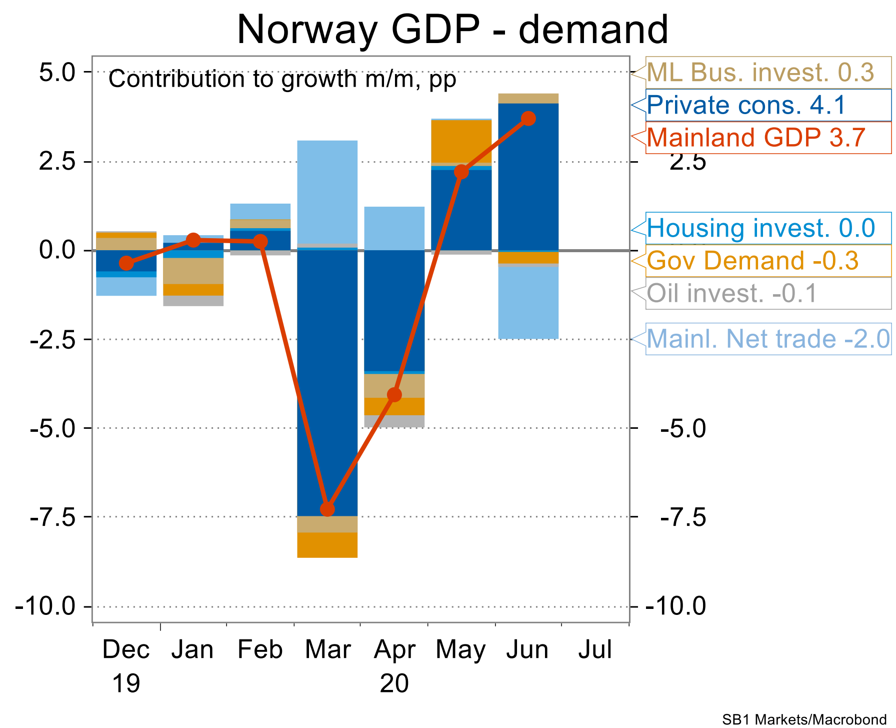




- The decline in Q2 was broad, with private consumption as the main culprit, at last before adjusted for huge cut in spending abroad (Norwegians have kept their consumption at home unch, goods up, services down). Business investments fell sharply, both on- and offshore. Exports fell sharply, also ex reduced direct spending by foreigners in Norway
- The recovery in May and June is sharp as well, by 5.5%, and almost half of the decline in March and April was recovered by June – leaving GDP down 5% vs. the Feb level. We assume the gap to be close further in July, to 2.5 – 3%. Q3 growth could easily each 6 - 7%. The June level is already 3.2% above the Q2 average.
- All GDP data are more uncertain than normal, for obvious reasons, especially hours worked, productivity & costs. Still, the headline data are well in line with each other and seems reasonable.

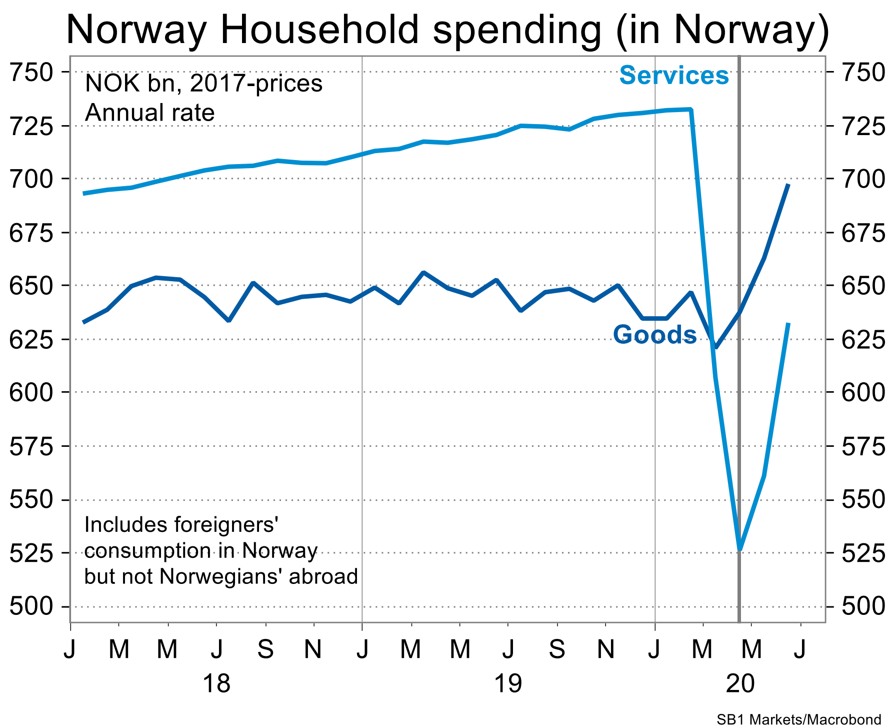
Most demand components up in June, all still below the pre corona level





Consumption of goods up 8% from February, services still down 14% (from -28)

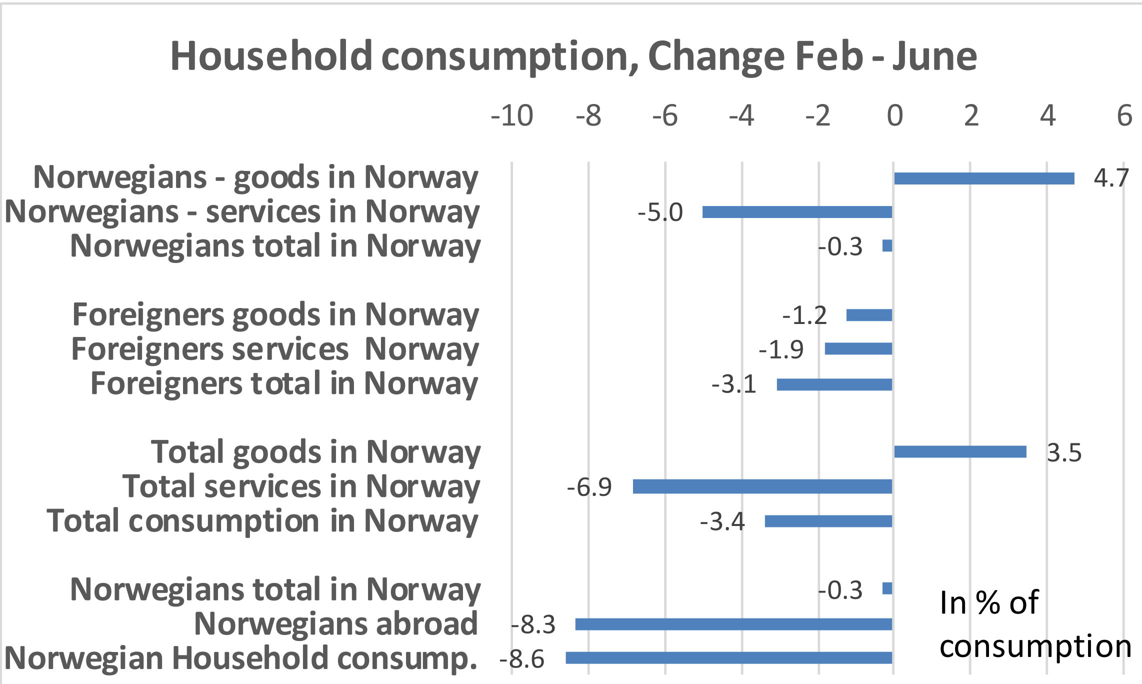
Total sales of consumption goods and services are down 3.6%



- Norwegian households have reduced their consumption abroad (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports). Check the next two pages for details

How has Norwegian household consumption fallen by 9%?

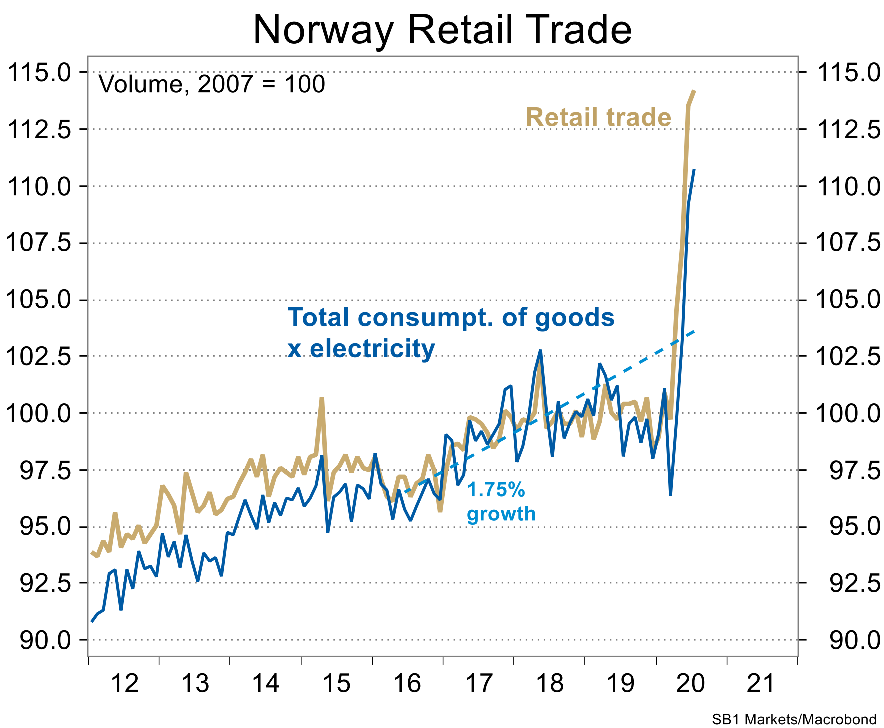
And why has sales of consumption goods & services in Norway contracted by 'just' 3%?

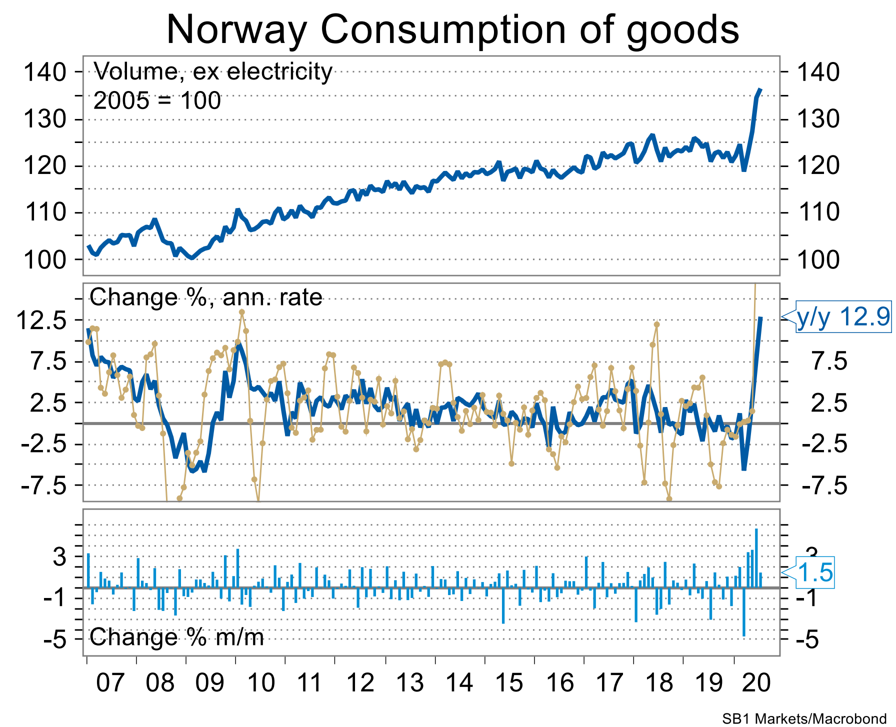


- Norwegian households have reduced their consumption of services in Norway more than they have lifted their consumption of goods – in sum down 0.3% of total household consumption
- Foreigners have cut their spending in Norway equalling 3.1% of total private consumption
- Sales of consumption goods are up 3.5%, and services are down 6.9%. The total is down 3.4% - all in % of consumption
- Norwegians have reduced their spending abroad equalling 8.3% of their total consumption – and total Norwegian household consumption is down by 8.6%
  - » Other countries 'have taken 96% of the beating' of the cut in Norwegian's spending (before calculating for import content in consumption
- Norwegians have reduced their consumption abroad almost 2.5 x more than foreigners have cut their spending in Norway (because Norwegians are spending 2.5 more abroad than foreigners in Norway)

Retail sales at the peak in July? Probably

Sales further up in July, by 0.6% - and up 13% from February – *far above any sustainable level*

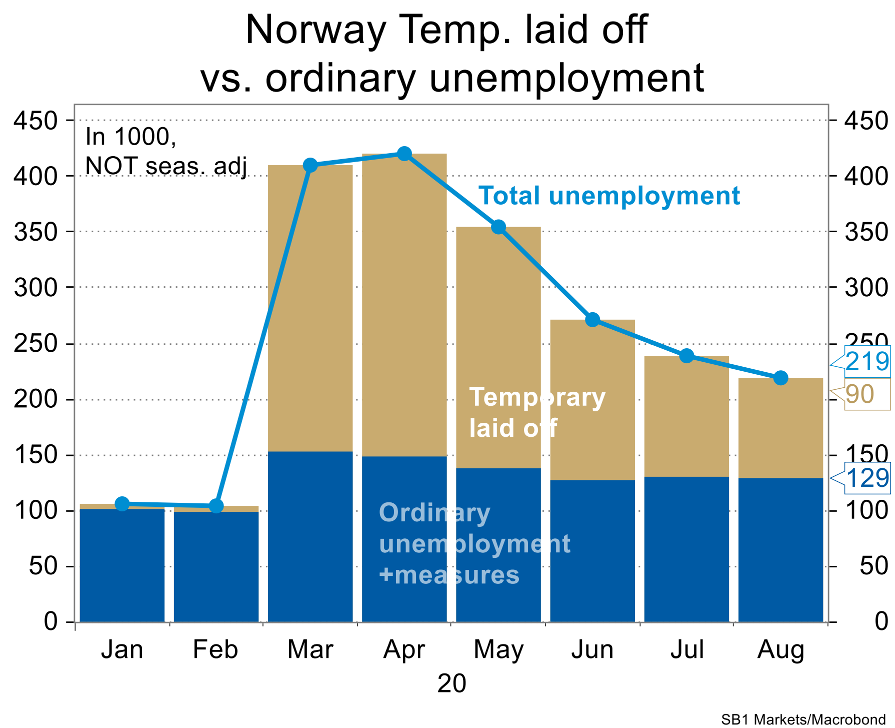


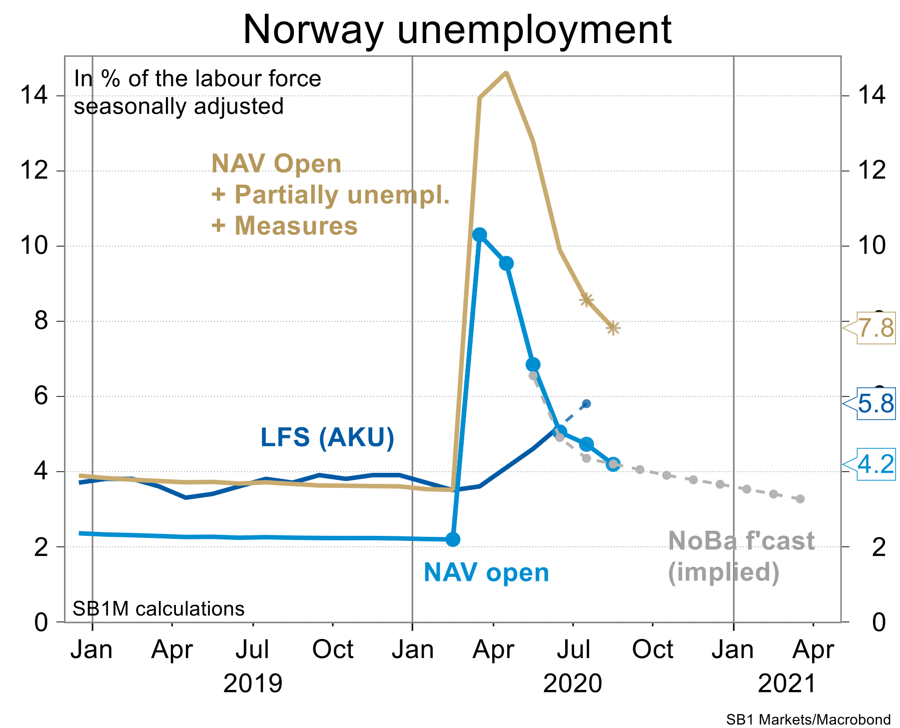


- Sales rose in line with consensus expectations, following the 5.7% jump in June (we thought 0 was sufficient). Total consumption of goods (ex electricity) rose 1.5% in June and is up 9.6% from February
- Food sales are up 18% vs pre corona, an incredible increase. Sport equipment is up 48%. Net sales are strong, but may have peaked. Even clothing sales came back to a normal level in June, following 3 really bad months
- Total consumption of goods (x electricity) grew 6.1% in June. Total consumption of goods is some 4% above the pre corona level
  - » If consumption keeps up in June, Q2 is up 3% vs. Q1 and 0.6% vs. Q2 19
- No doubt, less x-border shopping in Sweden, more food sales due to less capacity on restaurants and probably more important, lack of 'holiday' spending opportunities domestically and abroad explain the hike in retail sales. Service consumption started a recovery in May but remained far below the pre corona level – as was total private consumption, but just including less (almost) no spending abroad (check here)

NAV unemployment further down, in line with NoBa f'cast

The number of ordinary unemployed fell by further 15' in Aug, -0.5 pp to 4.2%. Total -0.8 pp to 7.8%



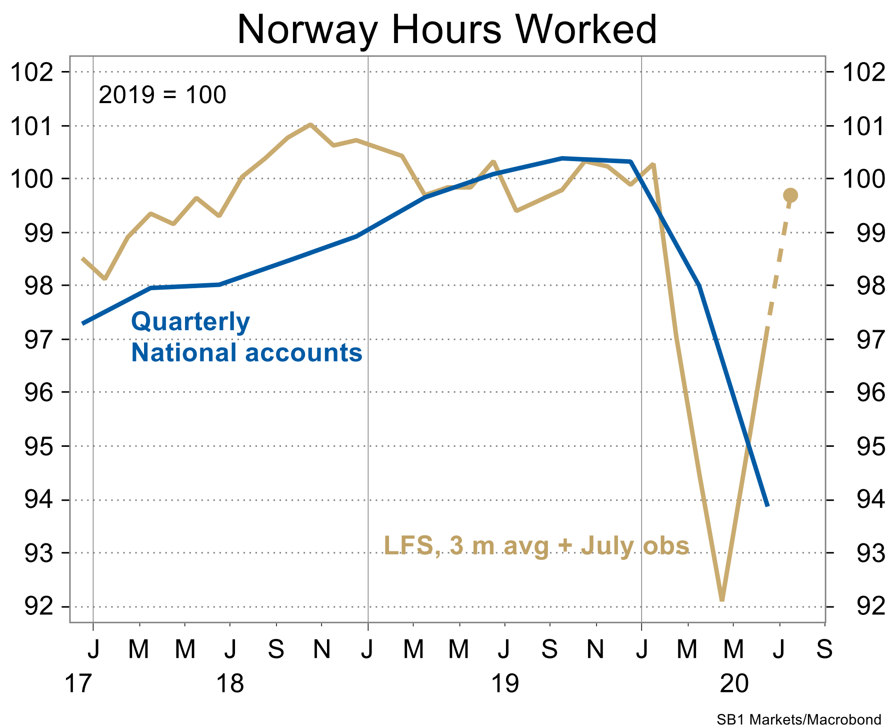


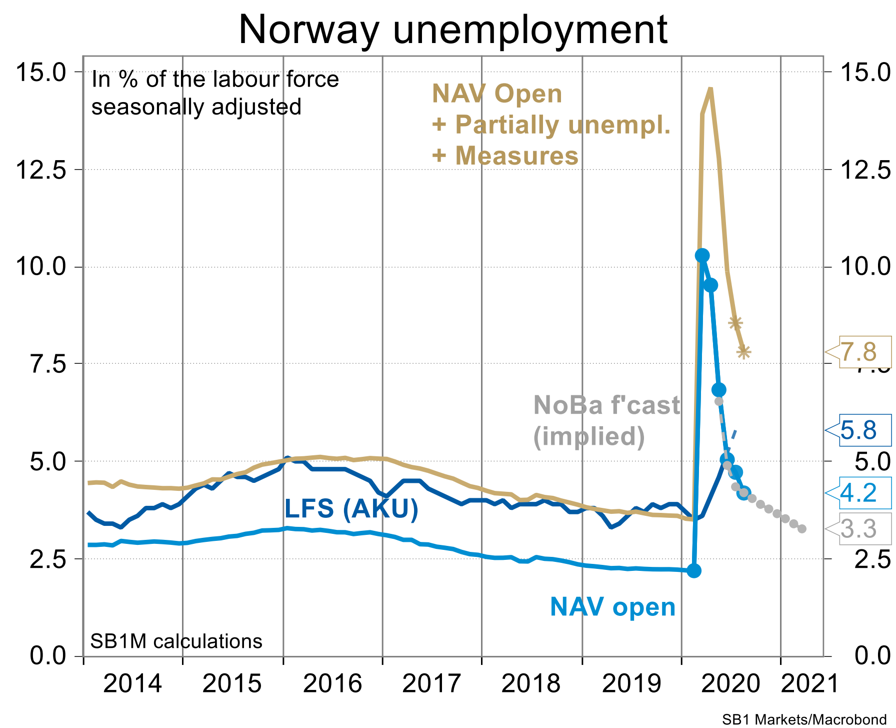
- Open 'full time' unemployment measured at NAV, which includes furloughed workers, fell by 15' in August, down to 122' or 4.2% of the labour force. In April, more than 10% were unemployed. In February, the unemployment rate was 2.2%
  - » Including labour market measures, the unemployment fell by 17' to 135', or 4.8%
- Including the partially unemployed, the total unemployment is at 219' or 7.8% - down 20' or 0.8 pp. The speed of decline is slowing somewhat
- The LFS (AKU) reported a 0.6 pp increase in the unemployment rate from May to June (3 m centred avg) up to 5.2%, and further up to 5.8% in July (single month obs) as most furloughed workers are counted as unemployed after 3 months in the dole (from March)

SpareBank 1 MARKETS

LFS (AKU) unemployment further up as more furloughed are included

However, an encouraging recovery in no of employed at worked and hours worked

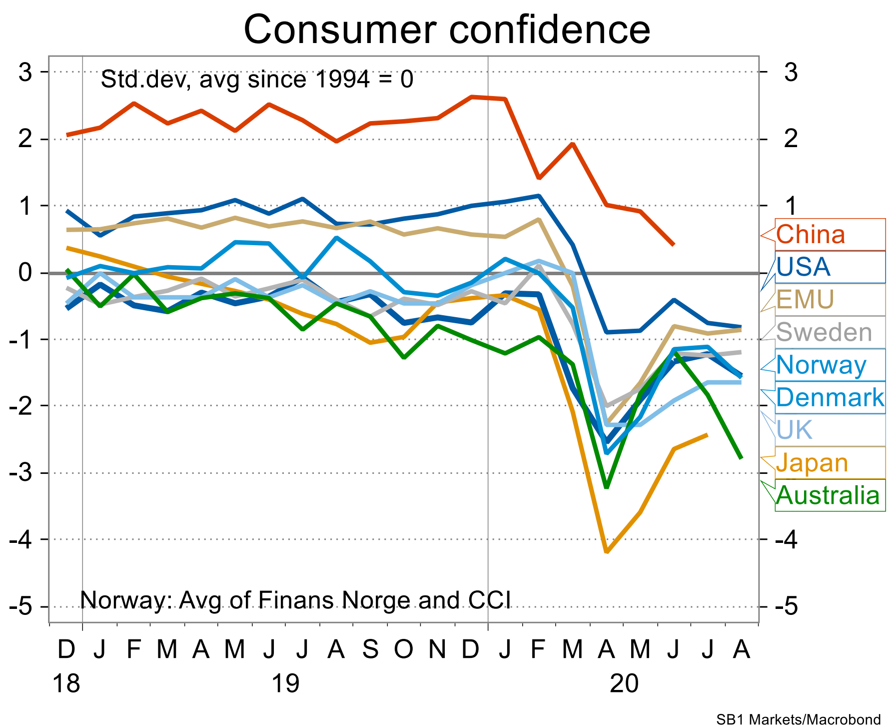




- In the LFS, temporary laid off (furloughed) workers are counted as employed the first 3 months of the unemployment period, thereafter as unemployed. Since most were furloughed in the second half of March, ¾ of those still on leave entered the ranks of measured unemployed in July. SSB published this single month data point last week a 5.8% unemployment rate. Normally just the 3 m moving average is published. The 3 m avg rose to 5.2% in June (May – July) from 4.6% in May (April – June), expected up to 4.8%.
- The LFS employment fell 1.6% from March to June (again smoothed), and by 2% since February – and probably by another 0.6 pp in July. National accounts reported a 1.3% decline in Q2 and -1.4% from Q4.
- However, hours worked are down 2.5% in Q2 in the LFS, and by 4.2% according to the Nat. Acc (or by 5.7% and 6.5% from Q4, resp.) According to the LFS hours worked rose sharply through Q2 and further sharply in July – back to a normal level! (But these data are volatile!)

Consumer confidence down again in several countries

US, Denmark, Australia and Norway down; EMU, Sweden and UK (in August) have flattened



- Are any common factors among the ‘down countries’?
  - » More corona trouble some weeks in July/August?

The Calendar

Time	Cour	Indicator	Period	Forecast	Prior
Monday August 31					
08:00	NO	Credit Indicator Growth YoY	Jul	(4.5)	4.5%
14:00	GE	CPI YoY	Aug P	0.10%	-0.10%
Tuesday September 1					
03:45	CH	Manufacturing PMI, Markit	Aug	52.5	52.8
08:30	SW	Manufacturing PMI	Aug	52.1	51
10:00	NO	DNB/NIMA PMI Manufacturing	Aug	50(46)	43.3
10:00	EC	Manufacturing PMI	Aug F	51.7	51.7
11:00	EC	Unemployment Rate	Jul	8.0%	7.8%
11:00	EC	CPI Core YoY	Aug P	0.9%	1.2%
15:45	US	Manufacturing PMI	Aug F	53.6	53.6
16:00	US	ISM Manufacturing	Aug	54.5	54.2
16:00	US	Construction Spending MoM	Jul	1.1%	-0.7%
17:00	WO	Manufacturing PMI	Aug	50.3	51.0
	US	Total Vehicle Sales	Aug	14.55m	14.52m
Wednesday September 2					
08:00	GE	Retail Sales MoM	Jul	0.5%	-1.6%
14:15	US	ADP Employment Change	Aug	1250k	167k
20:00	US	Fed's Beige Book			
Thursday September 3					
03:45	CH	Services PMI, Markit	Aug	54	54.1
08:30	SW	Services PMI	Aug		54.8
10:00	EC	Services PMI	Aug F	50.1	50.1
10:00	EC	Composite PMI	Aug F	51.6	51.6
11:00	NO	House prices MoM	Aug	(0.4)	0.9%
11:00	EC	Retail Sales MoM	Jul	1.2%	5.7%
14:30	US	Initial Jobless Claims	Aug-22	965k	1006k
14:30	US	Trade Balance	Jul	-$52.2b	-$50.7b
14:30	US	Nonfarm Productivity	2Q F	7.3%	7.3%
15:45	US	Services PMI	Aug F	54.8	54.8
16:00	US	ISM Services	Aug	57.4	58.1
17:00	WO	Composite PMI	Aug	50.8	51.8
Friday September 4					
08:00	GE	Factory Orders MoM	Jul	5.0%	27.9%
14:30	US	Nonfarm Payrolls MoM	Aug	1518k	1763k
14:30	US	Unemployment Rate	Aug	9.8%	10.2%
14:30	US	Average Hourly Earnings YoY	Aug	4.5%	4.8%
14:30	US	Average Weekly Hours	Aug	34.5	34.5

- **PMI/ISM**
  - » We have not put too much emphasis on the PMI/ISM recent months as these surveys have not been able to detect the first months of the recovery – which in fact is quite normal. We assume the surveys gradually will become more useful, as economies are coming back to more normal activity levels. The preliminary PMI signals a further lift in the global PMI. EMU was the exception, as the service sector reported slower growth, amid the increase in new COVID-19 cases. In the US, the PMI rose further but the ISM, which was better than expected, is expected unchanged. The Norwegian PMI is expected sharply up (we are sceptical)
- **USA**
  - » **Employment** rose more than expected in July, as has been the case since May. A 1.5 mill lift is expected in August, but even so, employment will remain 7% below the pre corona level – and unemployment is still high. **Auto sales** are expected to remain unch. at some 14% below the pre corona level
- **EMU**
  - » Several countries report July **retail sales**. In June sales in the region was 2% above the pre corona level. **Inflation** is expected down, **unemployment** up as more furloughed workers are counted as unemployed (after 3 months)
- **Norway**
  - » Households may have become more eager to borrow, while businesses are still cautious. We expect an unch. **total C2** credit growth at 4.5%. In August, **house prices** were 8% higher than Norges Bank assumed in June (and well above the June f'cast too). We expect another 0.4% lift in August, a slowdown from 0.9% in July (and 1.6% in June)

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

Highlights

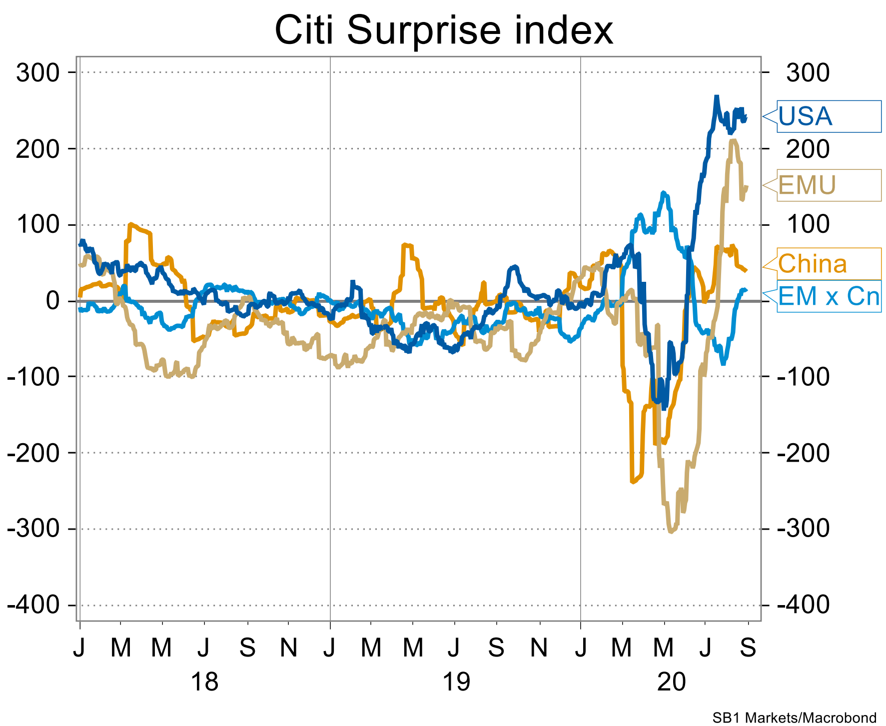
The world around us

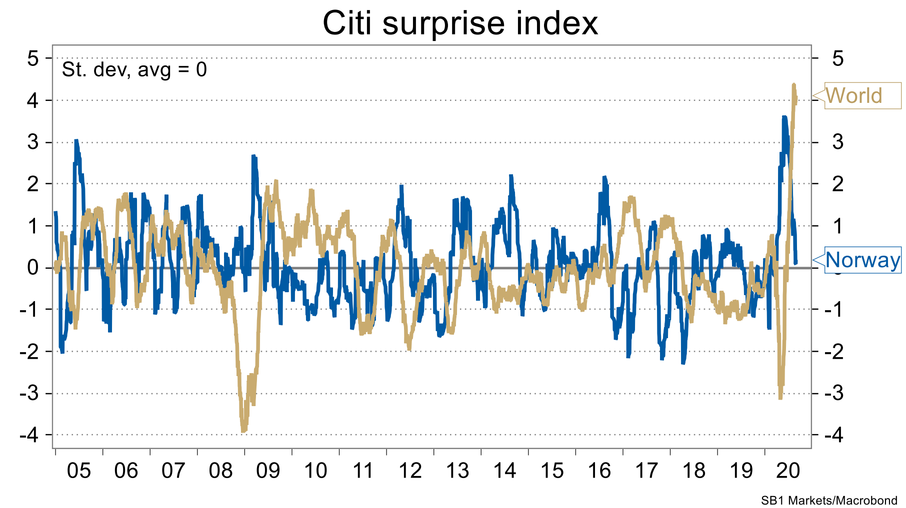
The Norwegian economy

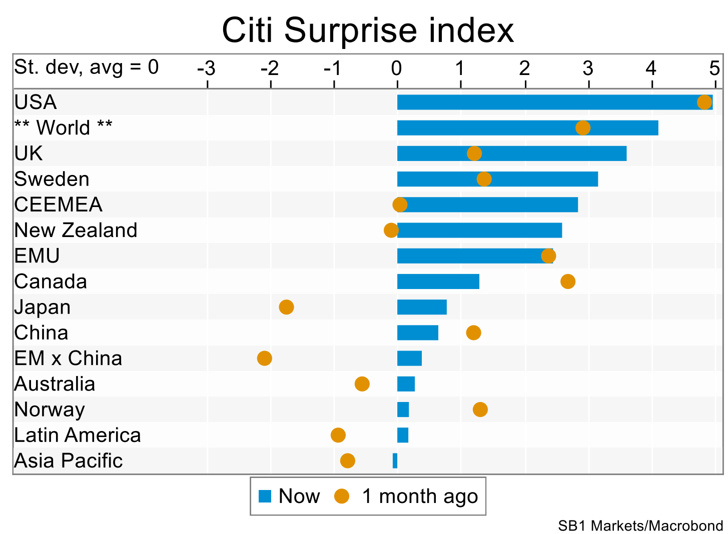
Market charts & comments

Macro data are still 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 at ATH high





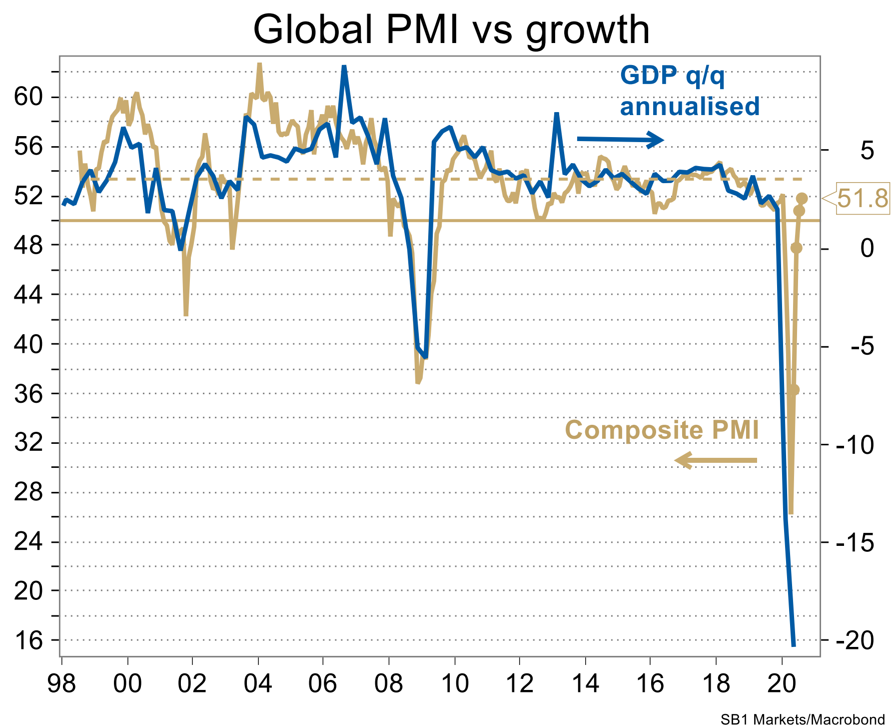


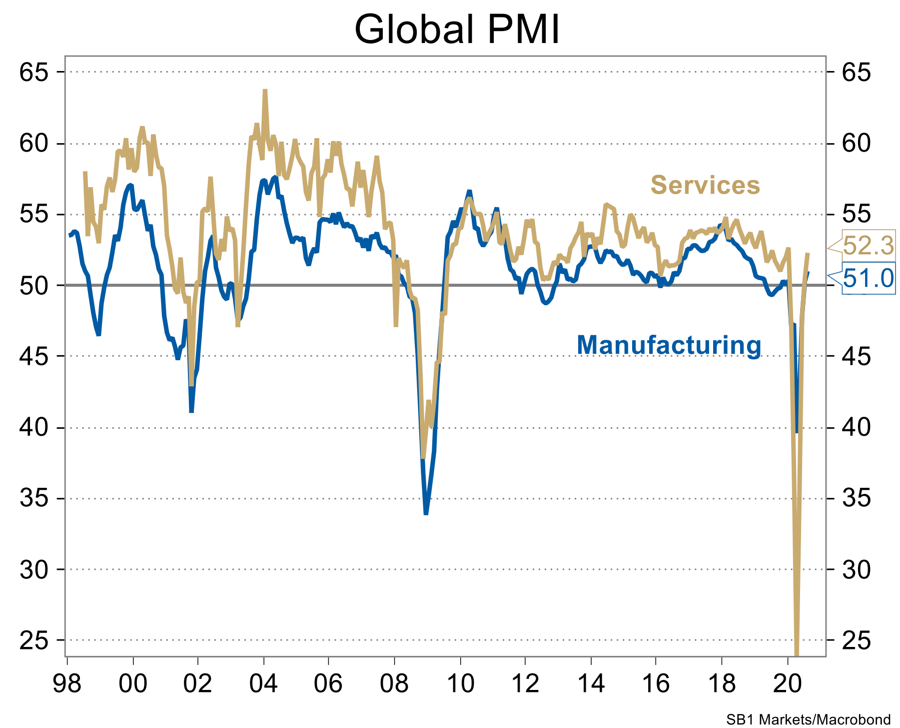
- Both the US is still surprising more on the upside than ever before (data from 2003) . EMU is at close to record high too
- China well into positive territory
- Other EMs have been reporting weaker data than expected, now back to a normal level
- Norway surprised more than ever on the upside some weeks ago, now the surprise index is back to an average levelon the upside too – big time – but less so recent weeks

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

PMIs further up in August but not in Europe

The global PMI probably rose by 1 p to 51.8 p. Still a low level in the 'sharpest recovery ever'



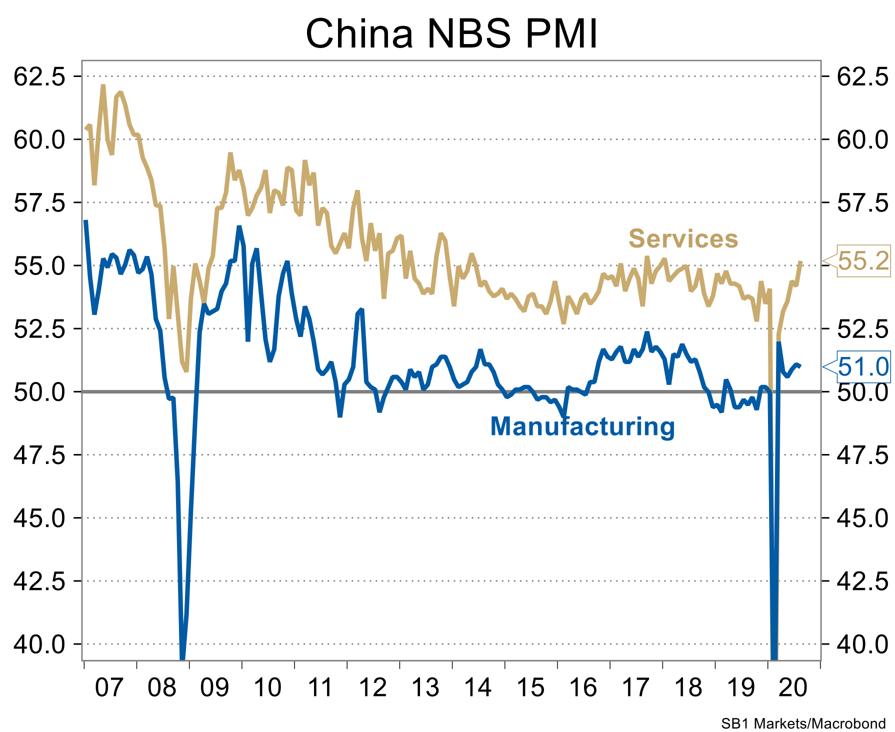


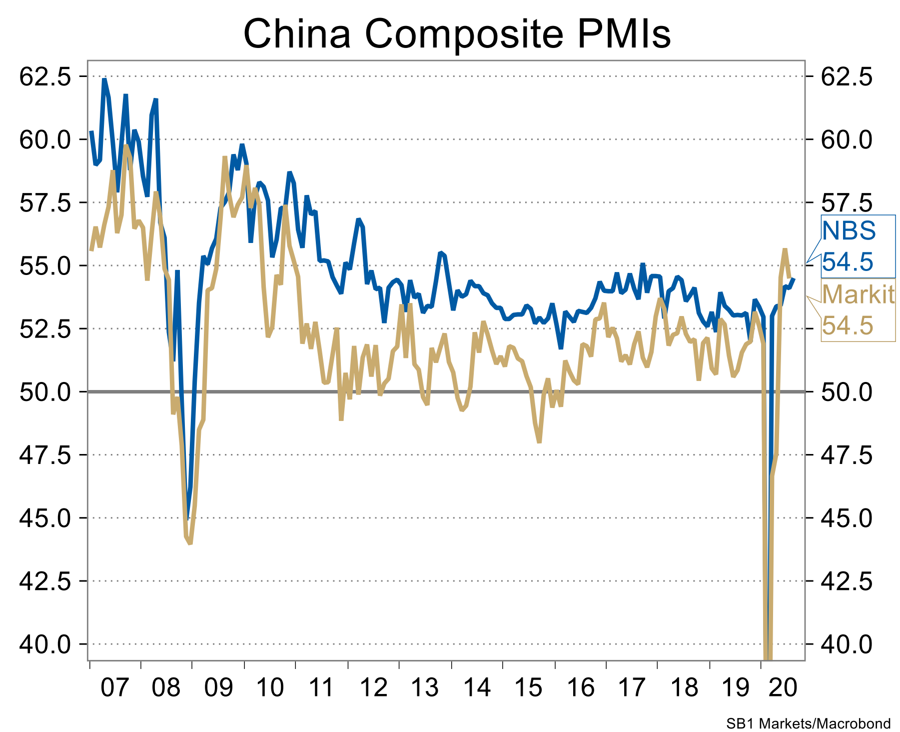
- The PMI respondents are still probably reporting somewhat between growth (which is strong), and the activity level (which is still below par) - and these indices cannot be used to estimate the growth rate – as we usually do
- Both global manufacturing and services PMIs rose further in August
- The EMU composite PMI surprisingly fell, while the US data set rose sharply – also unexpected – and US took the lead in the race. Japan is still struggling, the composite remained at 44.9, a low level

Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

The NBS Chinese composite PMI up in August, due to services

The manufacturing PMI down 0.1 p to 51.0, expected up 0.1. Services +1 p to 55.2, exp. unch

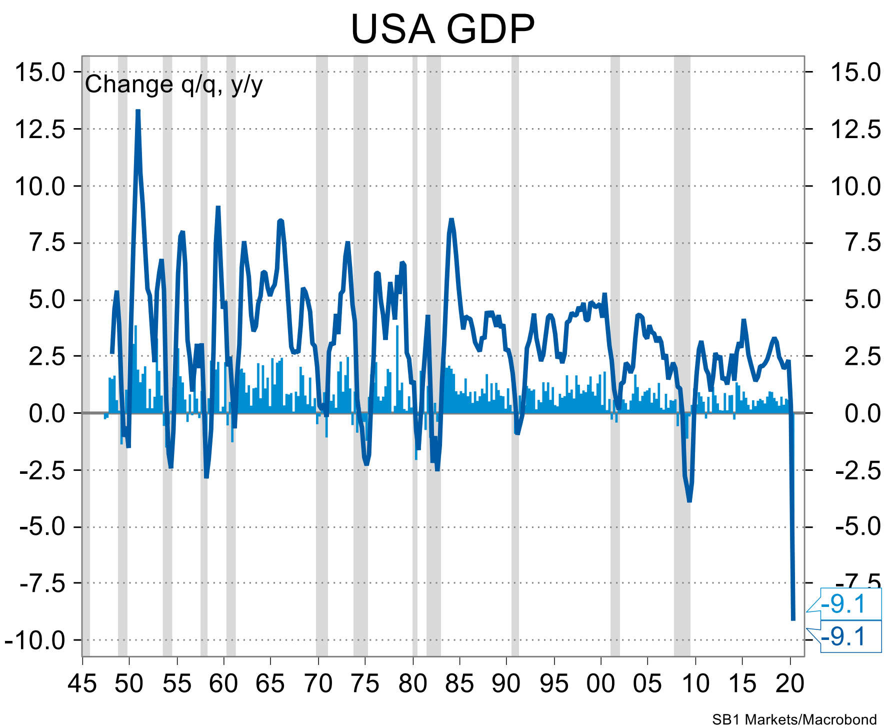


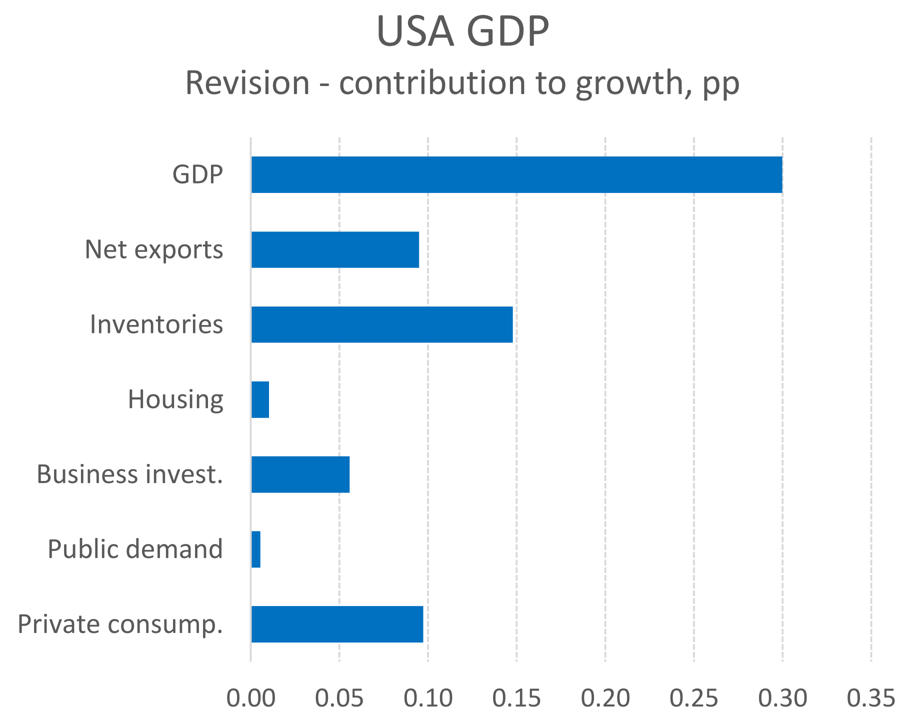


- The manufacturing PMI is signals approx average growth – and since production is back to a normal level, that's reasonable (but the PMI did not report strong growth during the first phase of the recovery, when activity grew really fast)
- Activity in the service sector is still below par – but the PMI is now at least reporting growth well above a normal level

Q2 GDP revised marginally up –but it was a disaster anyway

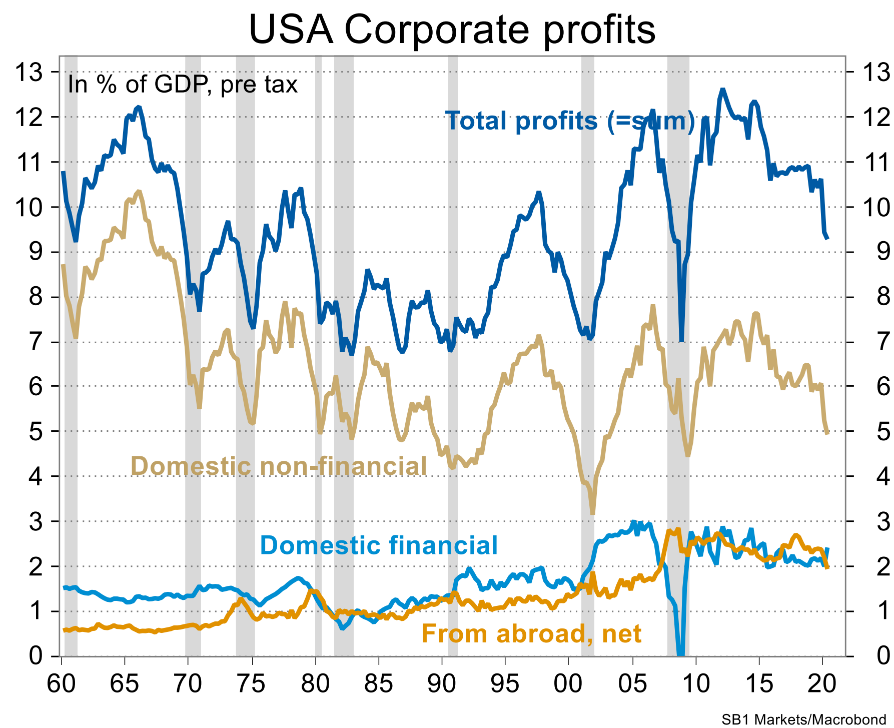
Q2 GDP marginally revised up, to -9.1% from -9.4% - minor positive adjustments everywhere

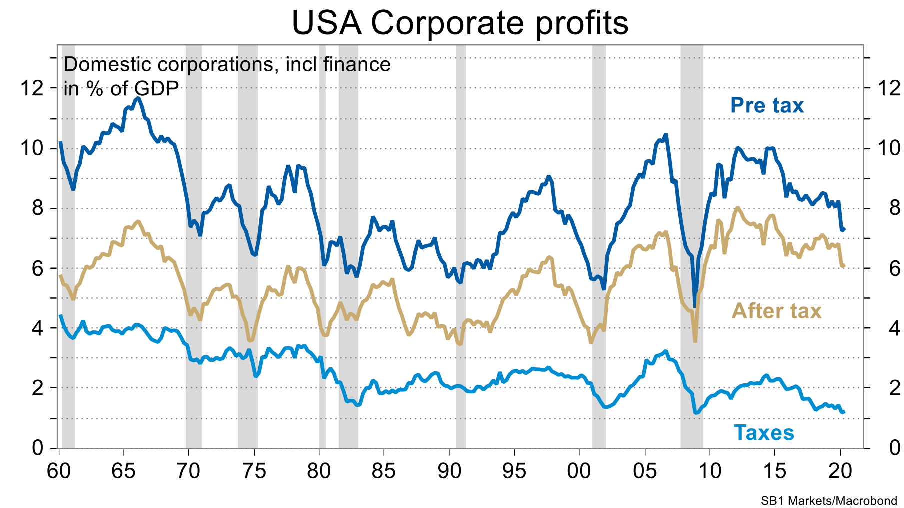




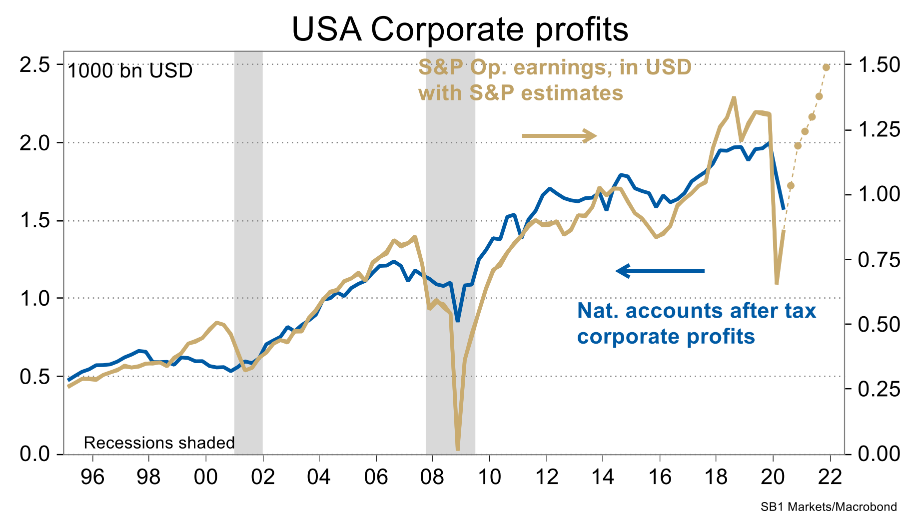
Q2 corporate profits saved by subsidies equalling 5% of GDP (=70% of profits!!)

Subsidies to companies equalling 5% of GDP (70% of Q1 profits), saved the day, you might say





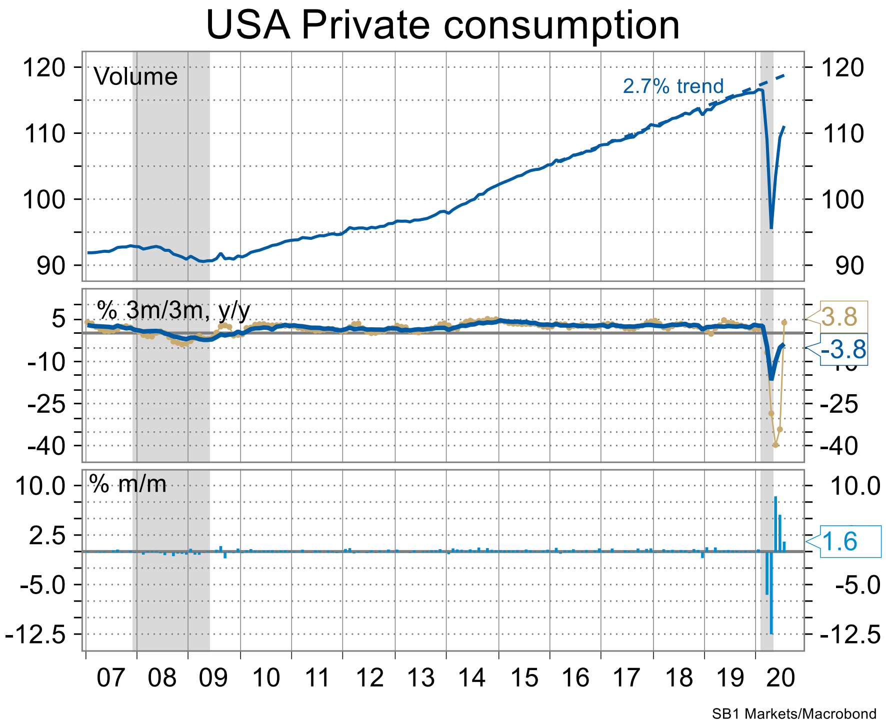
- Total pre tax profits fell by 11% in Q2, and are down 20% y/y. Measured in % of GDP, profits fell marginally to 9.3% - as GDP fell sharply too
  - » Normally a steep decline in GDP should have made a much larger dent in corporate profits. However, companies received USD 1.000 bn in subsidies from the government (annualised, USD 250 in the quarter), equalling 5% of GDP or an incredible 70% of Q1 profits. Deduct 5pp of GDP from total profits at the chart above, and the graph would not look that nice
  - » Corporate profits were revised up in the annual revision (in late July but is still trending down, measure in % of GDP

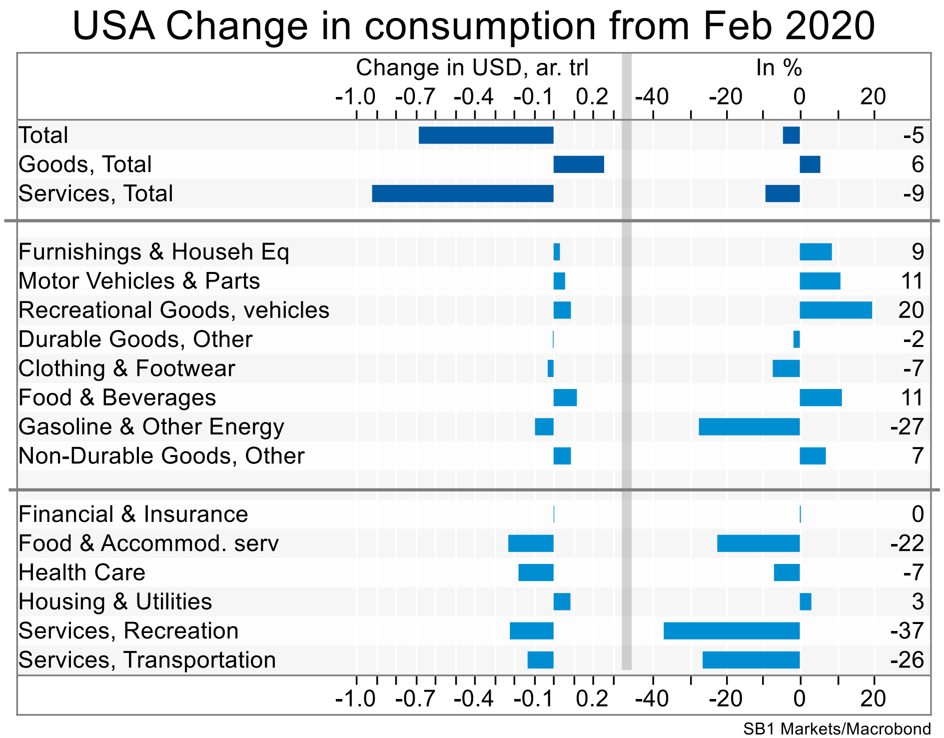


S&P 500 companies are reporting much higher growth in earnings than Nat. Acc. are able to detect. We have seen such discrepancies before, and so far S&P profits have yielded the following years, during recessions…

Consumption up ‘just’ 1.6% in July, 5% below Feb, services to blame

Personal income up 0.2% (value), but level is still high, due to extreme government transfers

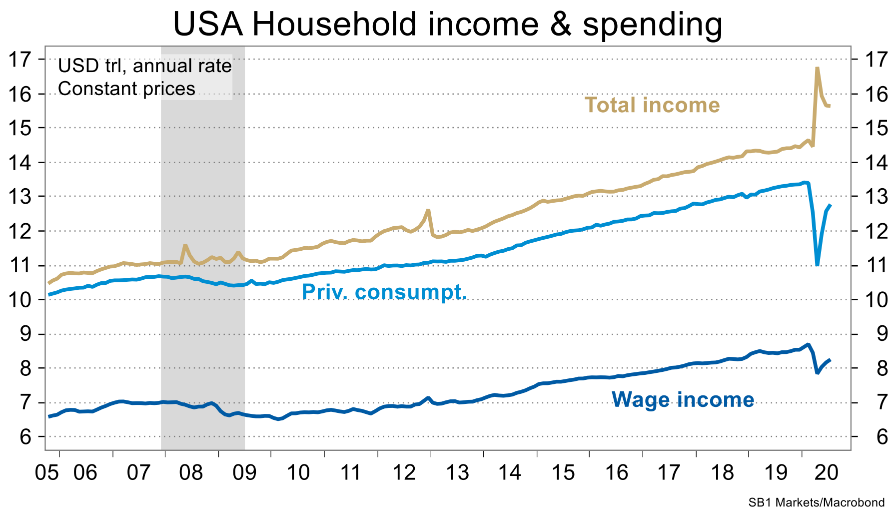


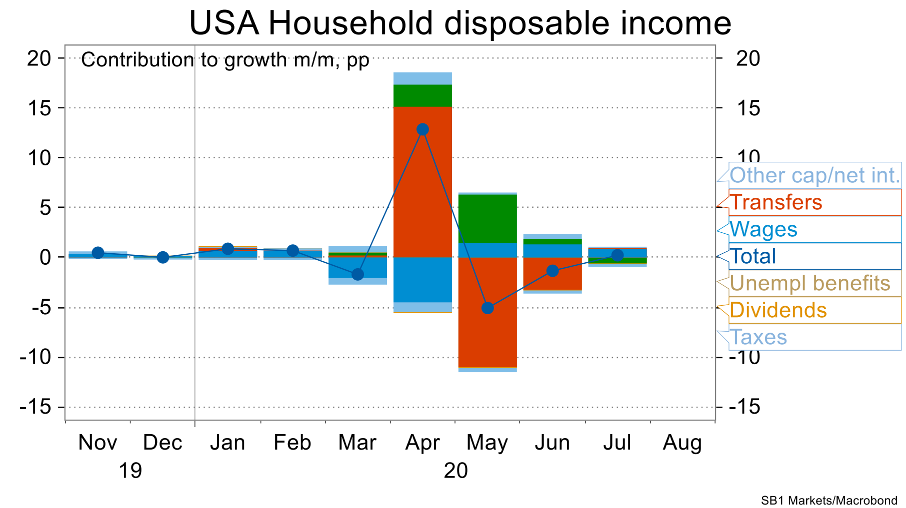


- The increase in spending was some tenths lower than expected, while income was expected down by 0.2%
- Consumption rose broadly in July – but the overall consumption level is still 5% below the Feb level (and 7% below pre c. trend)
  - » Consumption of goods is now 6% above the Feb level, driven by food & beverages (at home), recreational vehicles (!), while gasoline is sharply down
  - » Consumption of services are down 9% due to, restaurants/hotels, recreational services, transport – of course dramatic for these industries (and their empl.)
- In July, consumption was 8% above the Q2 average. If spending flattens from here (which is rather pessimistic, higher consumption will lift Q3 GDP by more 5%, (20% annualised)

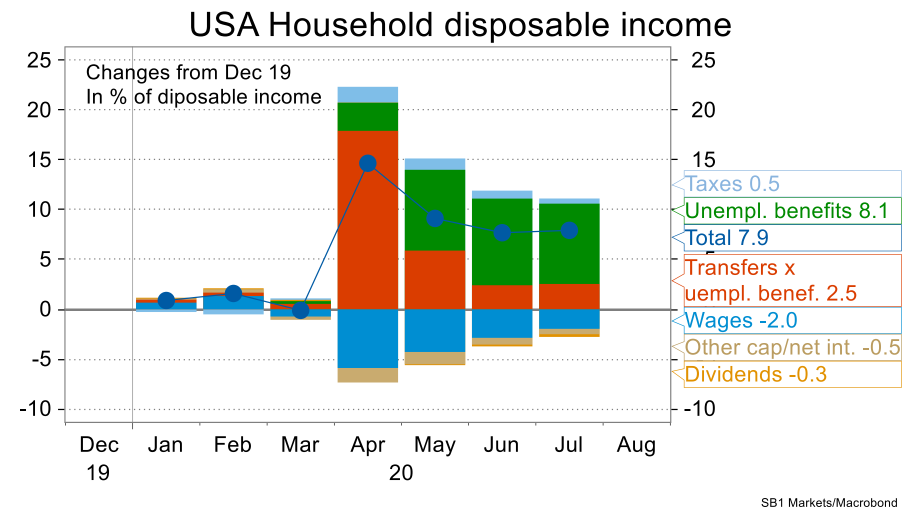
Income is sharply boosted by government transfers, now mostly unempl. benefits

Income fell by 0.2% in July but transfers are still lifting incomes by more than 10%

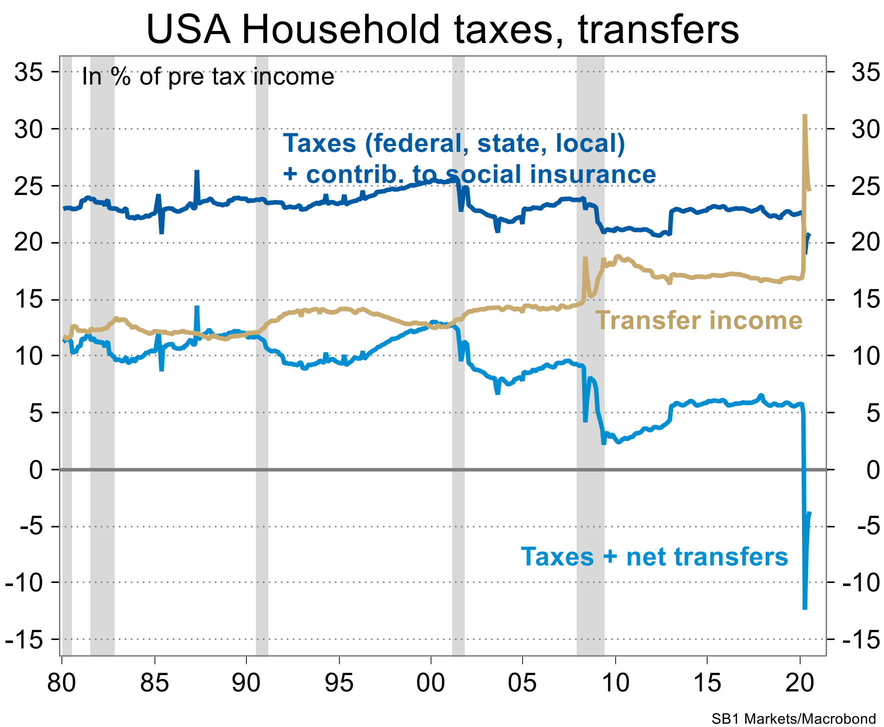


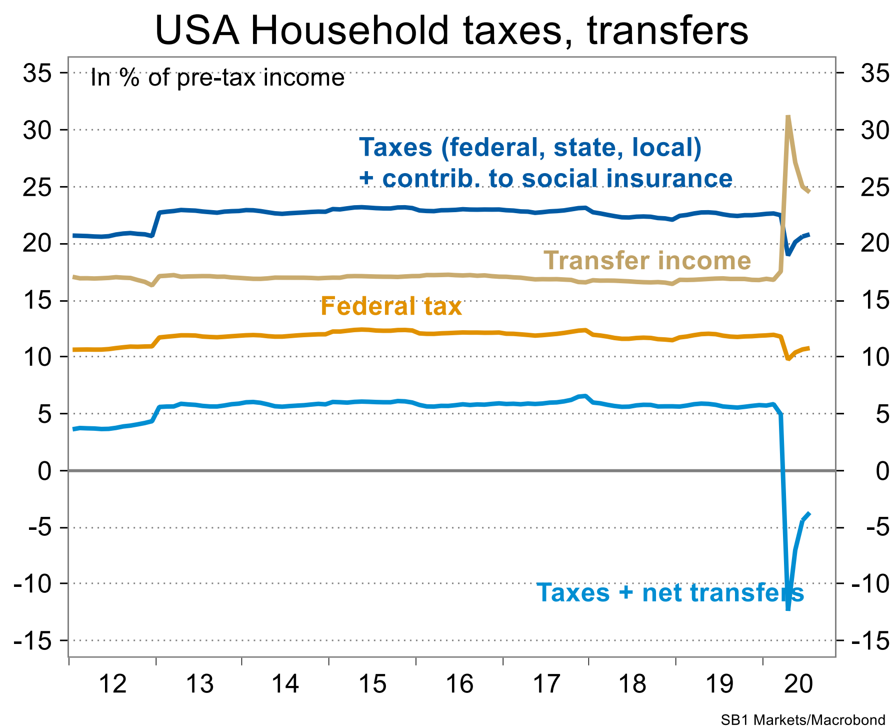


- Changes in household income have been dramatic as they – in aggregate – have been overcompensated, big time
- Overall household income is up 7% from December 19
  - » Wage income is down almost 5%, equalling 2.8%, in % of disp. income
    - ▪ Other market based incomes are down equalling 1.3% of disp income
  - » Unemployment benefits are up equalling 8.1% of disp income, 3x more than the cut in wage incomes (partly due to delayed payments)
  - » Other transfers are up equalling 2.4% of disp income. At the peak in April, transfers equalled 17% of the Dec 19 monthly income!!
  - » Government transfers equal in sum still more than 10%, far more than the reduction in wages and other market based income
    - ▪ Even if not an extra dime is distributed from here, 2020 household income are boosted by more 4% of income (3% of GDP) by these transfers
- Another support package, both cash transfers to all and a continued extra unemployment benefits has not yet been decided on, and unemployment benefits will be sharply cut in August



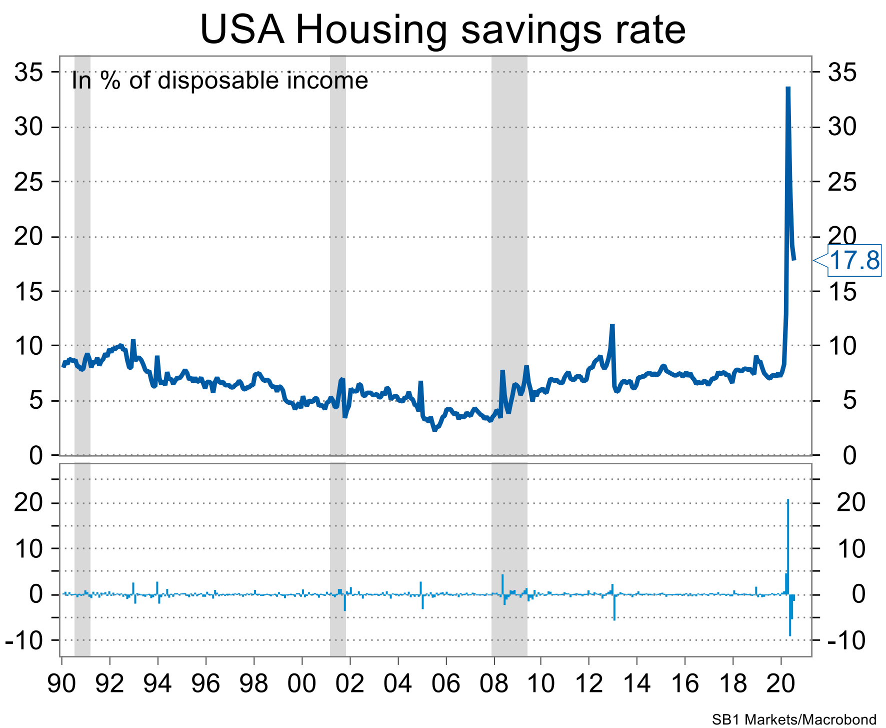
Transfers up, taxes down

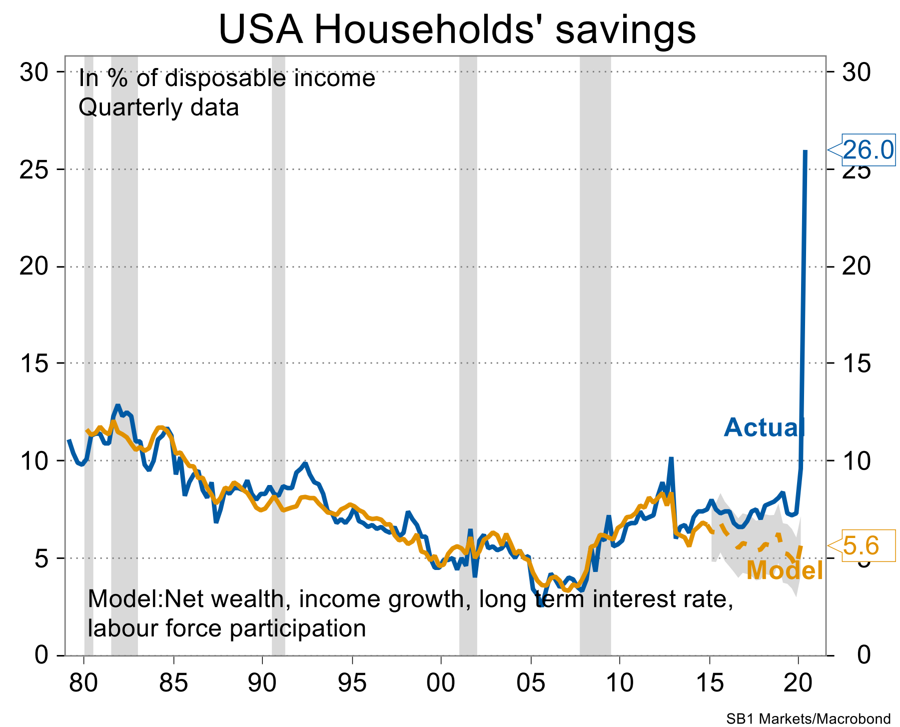




Households savings down to 18% in July, still an incredible high number!

Spending is down from February, income is sharply up – and the savings rate is record high

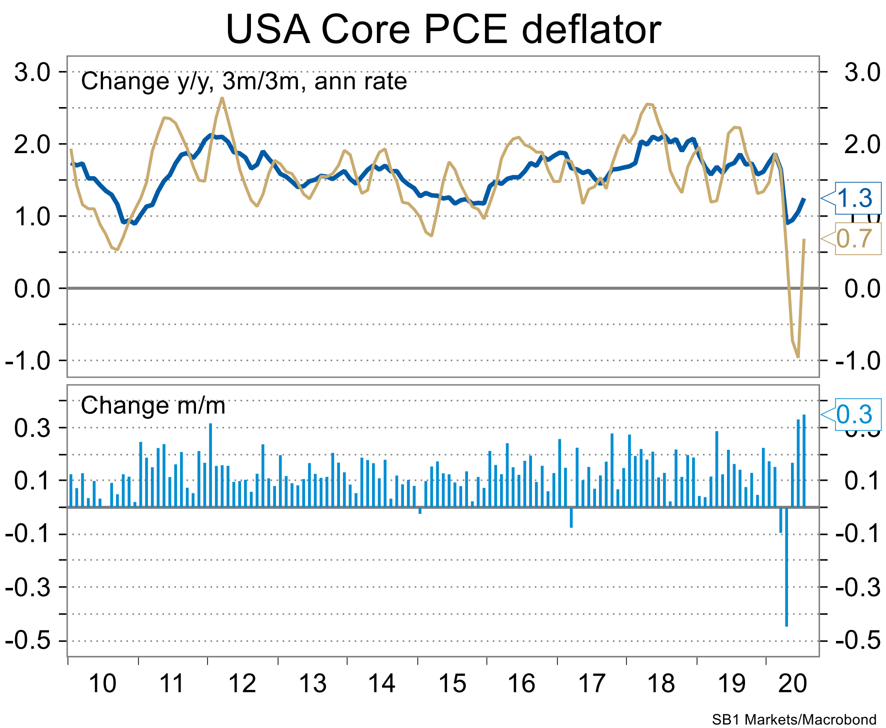


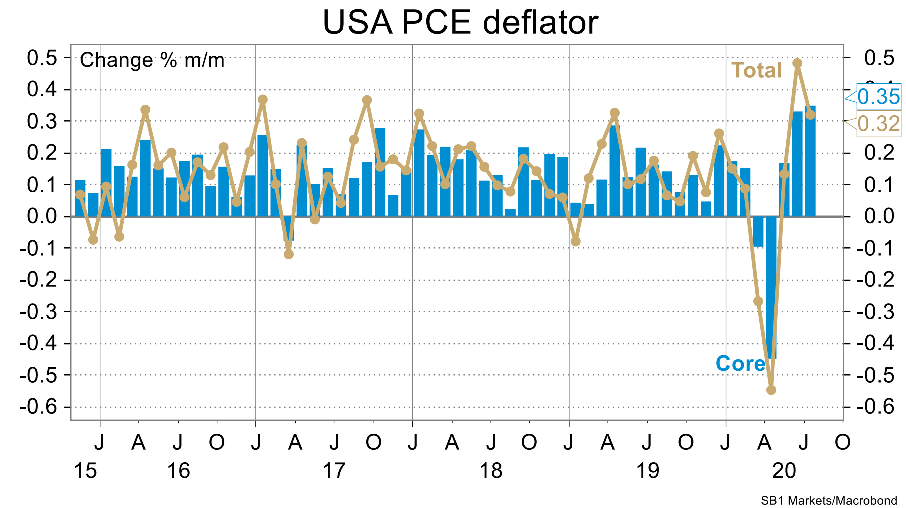


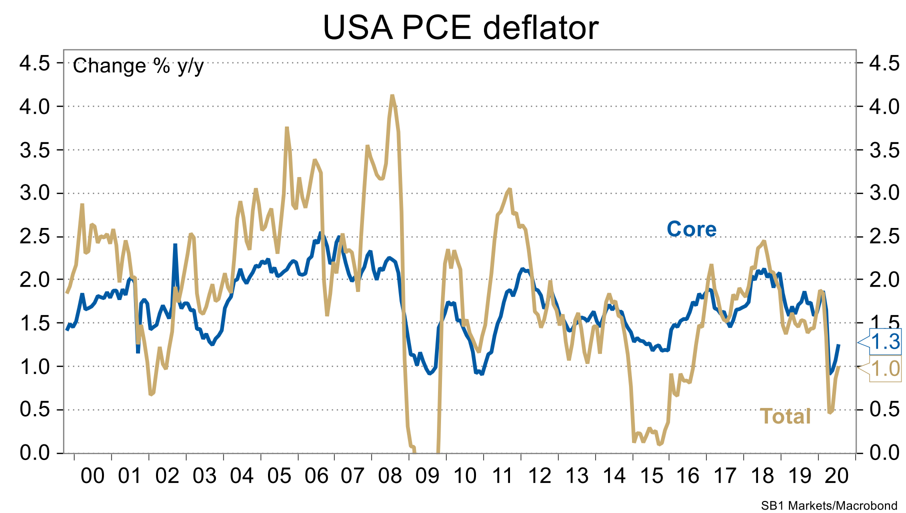
- Distributed over one year, the increase in savings from February through July equals almost 6% of (one year's) disposable income - as much of the extra government transfers are not spent but saved (in aggregate)
- The income support increases the probability for a full recovery in spending (or even an overshooting) as soon as the services side of the economy one day fully opens up

Core PCE prices up 0.3% m/m in August too. Headline up to 1.3% still <<2%

Prices are 'normalising' following the COVID-19 shock



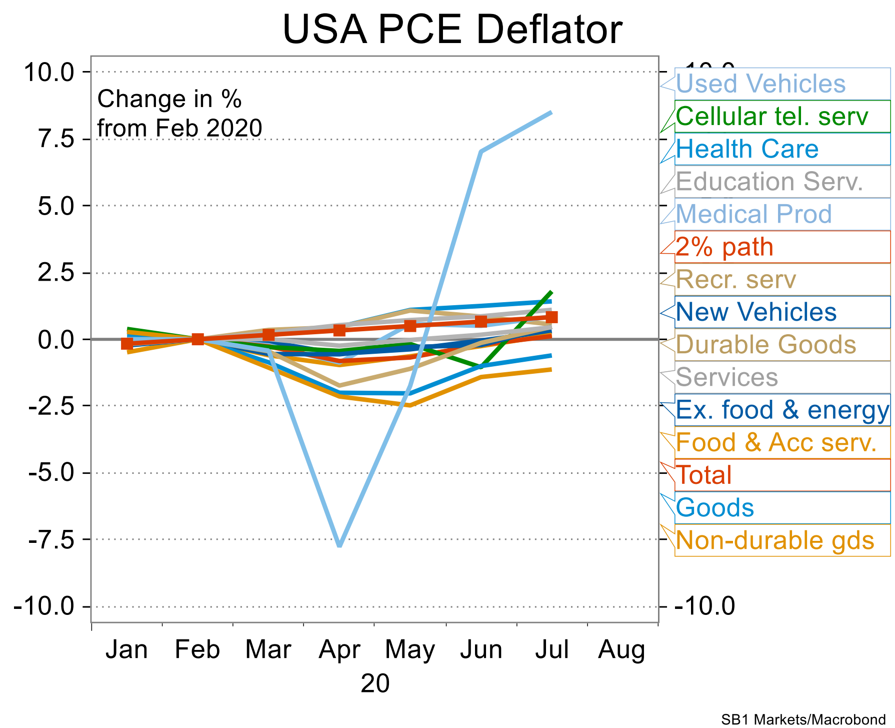


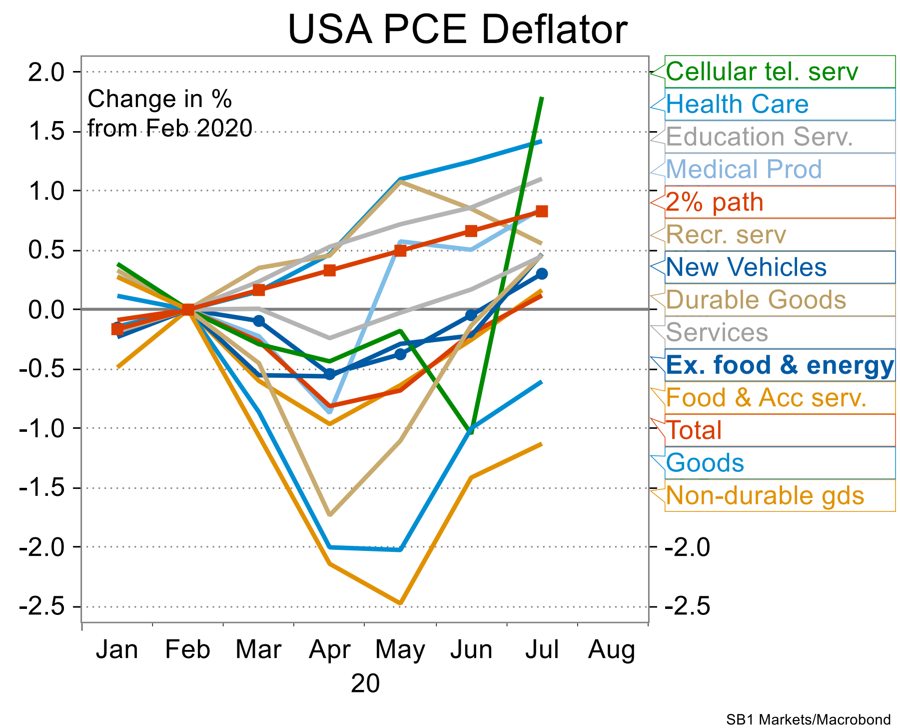


- The core price deflator rose by 0.2% in July, as expected.
- The annual rate was unchanged at 0.9%. Total PCE is up 0.8% y/y, up from 0.5% - due to higher energy prices
- Core PCE is 1.1 pp below Fed's symmetric 2% price target, and the lowest since 2010

Oh Lord, won’t you buy me a second hand car… But they are so expensive!

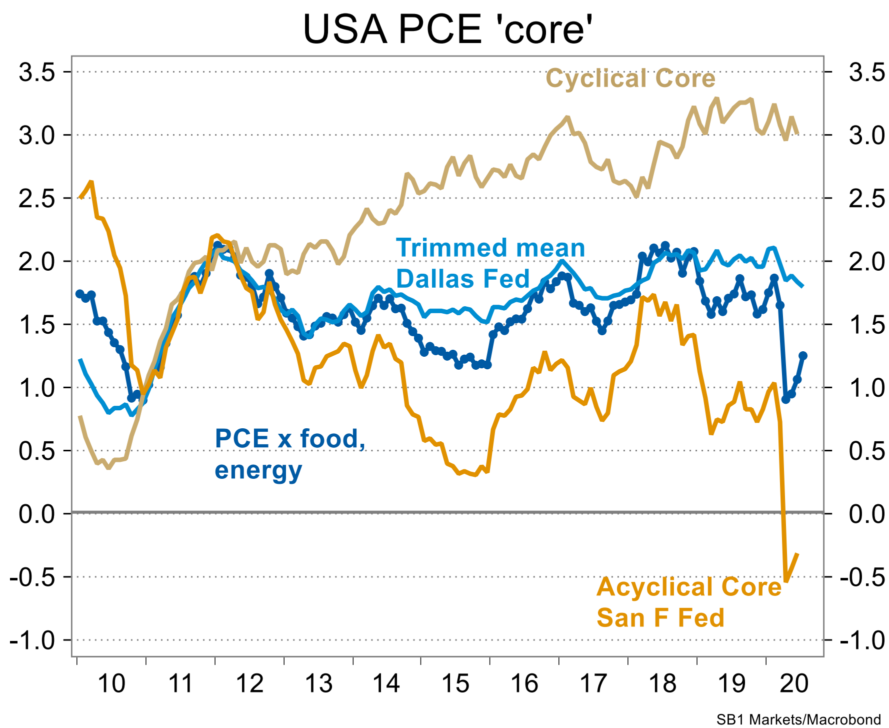
Second hand car prices are up 8% since Febr- after an 8% decline! Most other prices on the way up

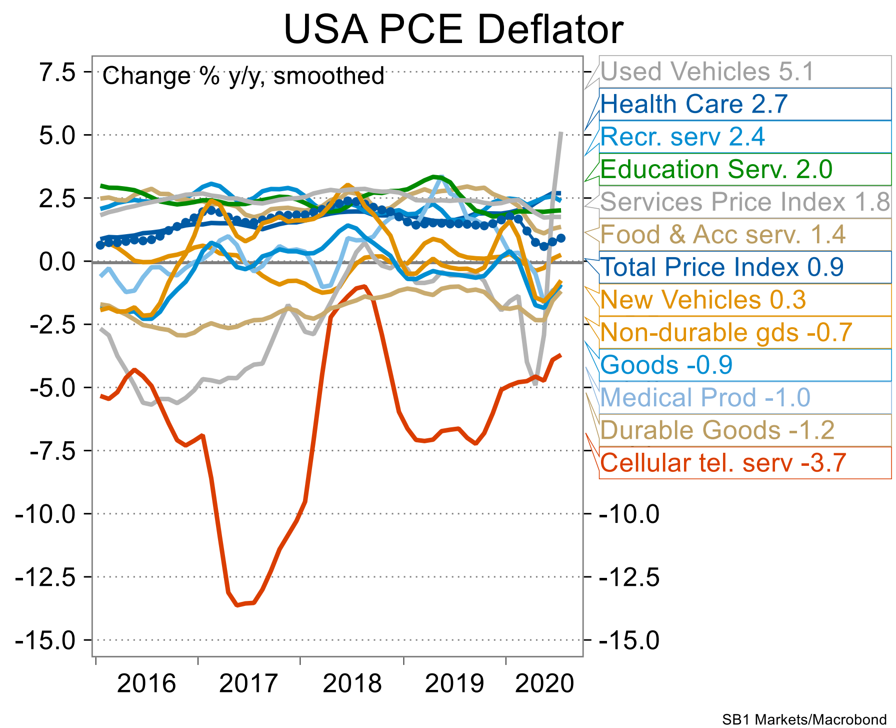




The PCE deflator is below par – but not due to cyclical factors

Cyclical core PCE inflation at 3% - the acyclical index at -0.3%

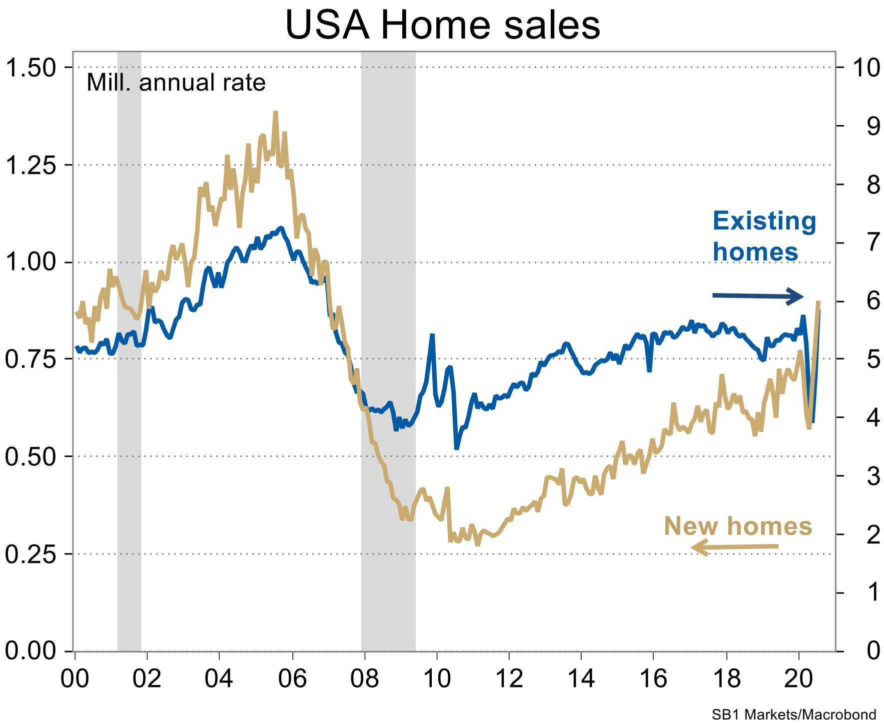


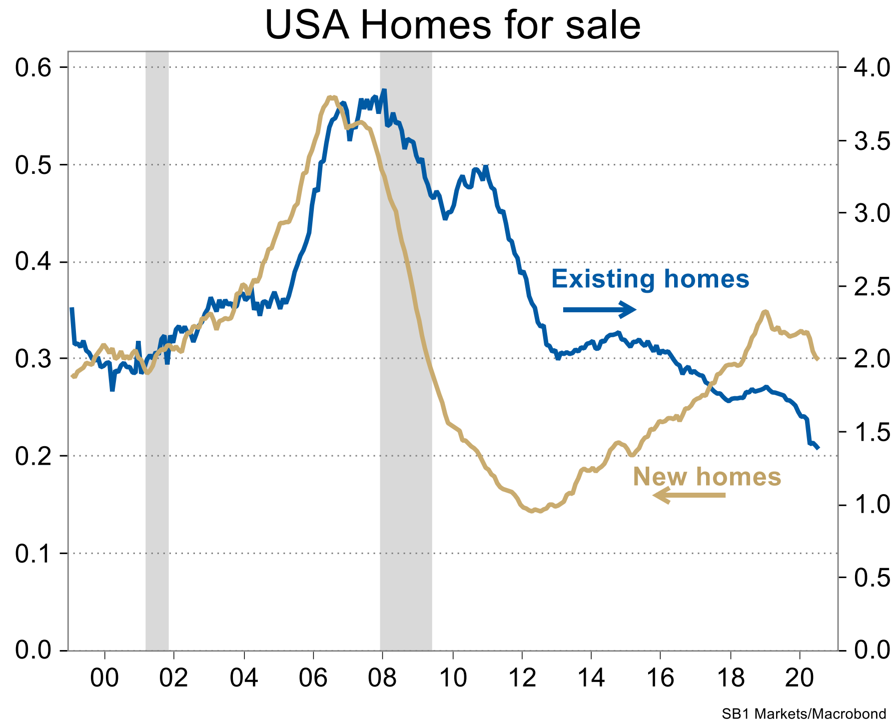


- Cyclical core PCE inflation at 3% - the acyclical index at -0.7%

And now, new home sales shot up too – best since 2007 in July

The number of homes for sale are falling fast – the housing market has fully recovered

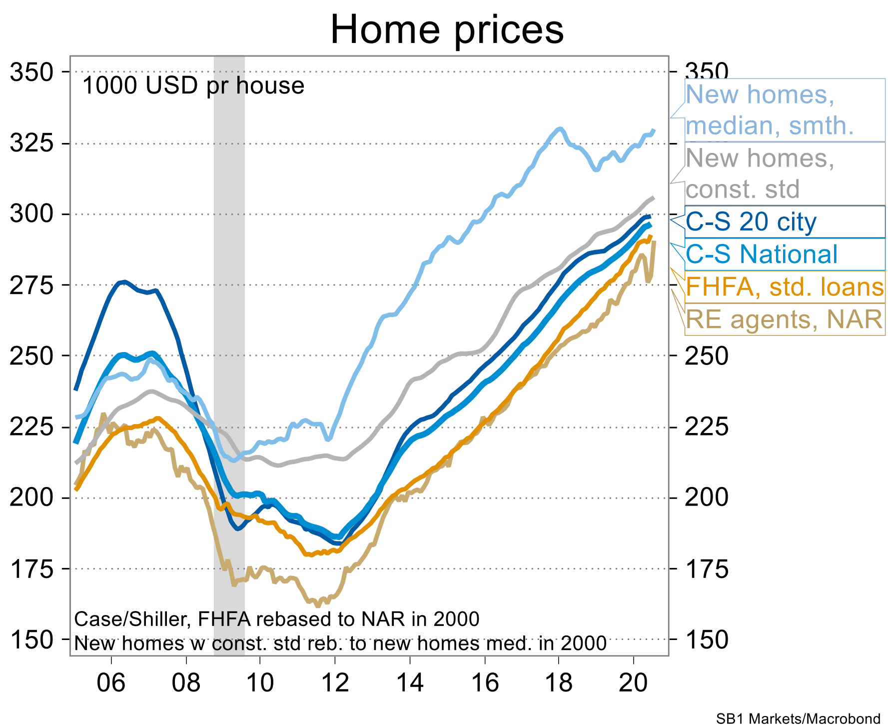


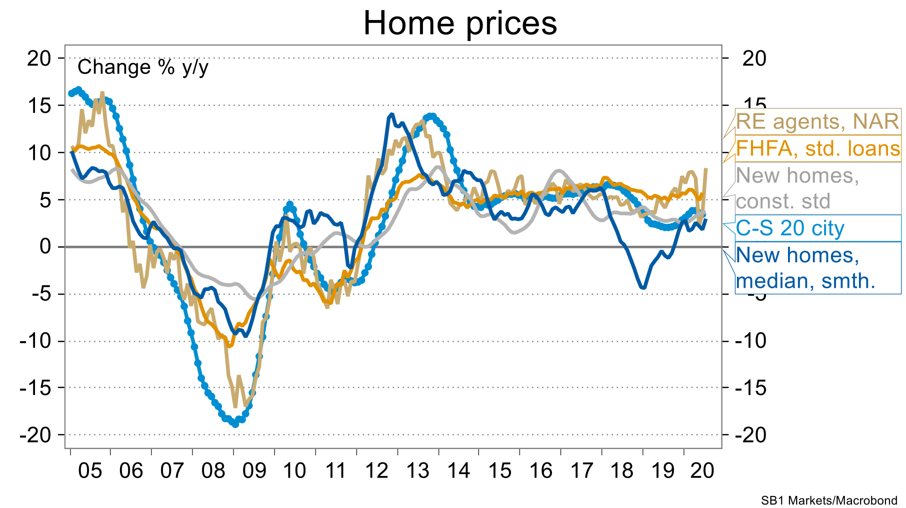


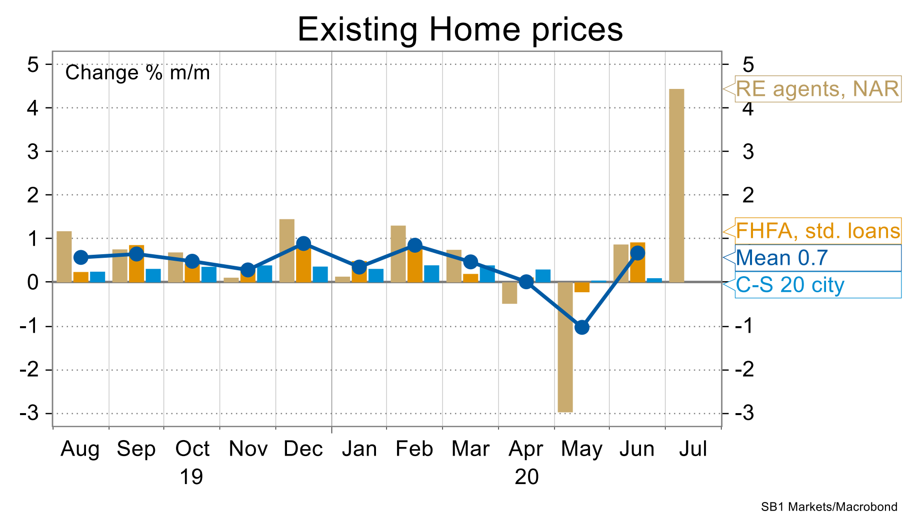
- New home sales rose 36% m/m in July, far better than expected, following steep rises in May and June. Sales are 20% above the pre corona level, partly due to pent up demand – but anyway a strong figure
- Existing home sales jumped by 9% m/m in July, up to 5.86 mill – the highest level since 2007
- Home prices rose sharply

House prices up again – but not more than by 0.1% according to Case/Shiller

Others are reporting rapid price increases – the realtors more than 4% m/m in July



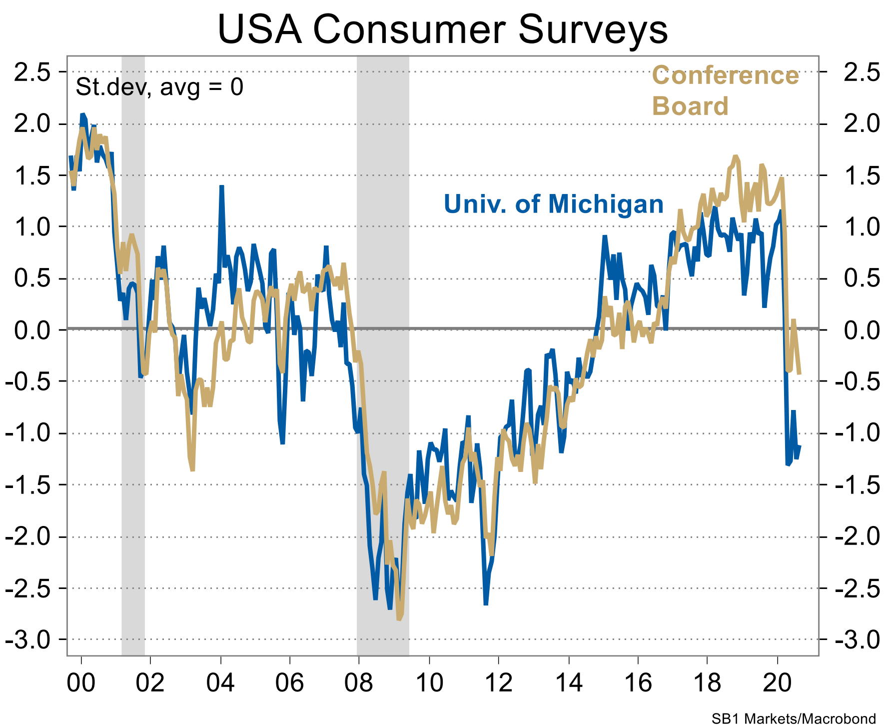


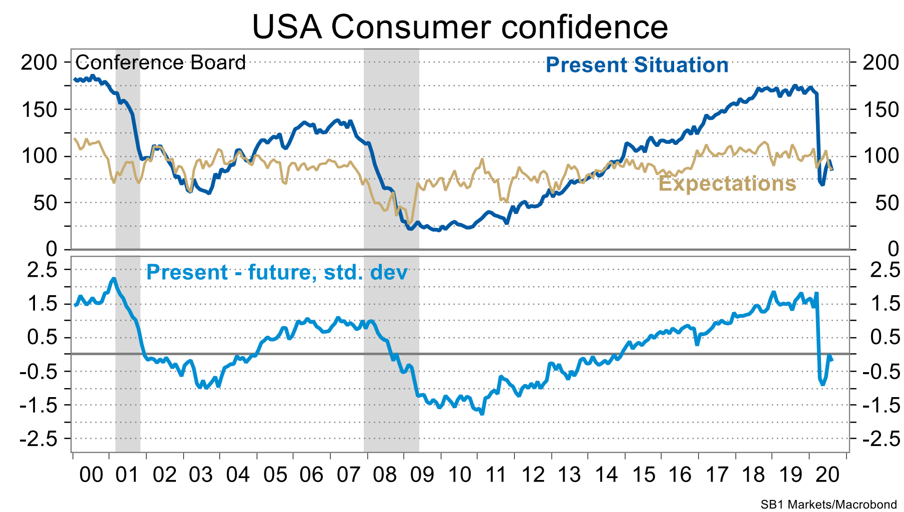


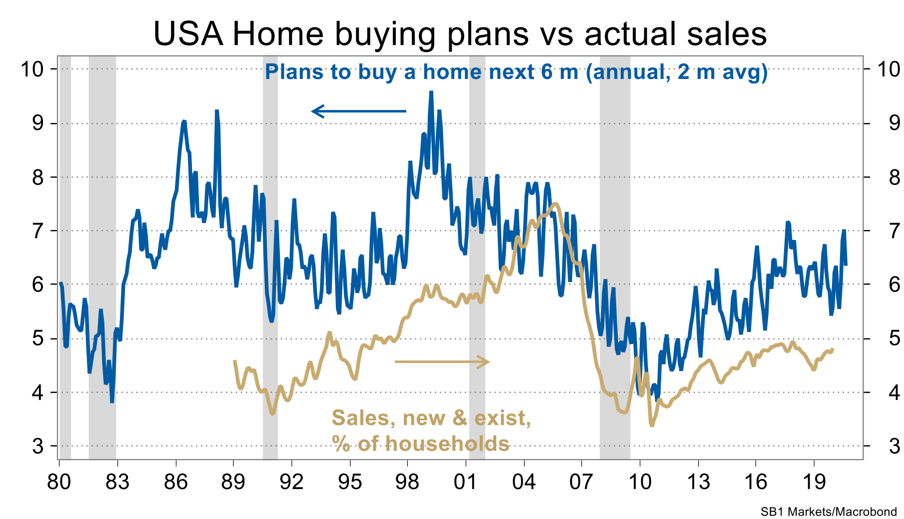
- NAR prices are more volatile – and prices fell by 3% in May – but the price recovery is impressive too
  - » We assume some of the price changes are due to changes in the mix of home sales. This price level is measured by the median of actual sales in each month, not adjusted for factors like location, size or quality
- Overall, prices are on the way up again

Households not that sure in August either, consumer confidence further down

Both Conference Board and Univ. of Michigan reported weaker confidence data



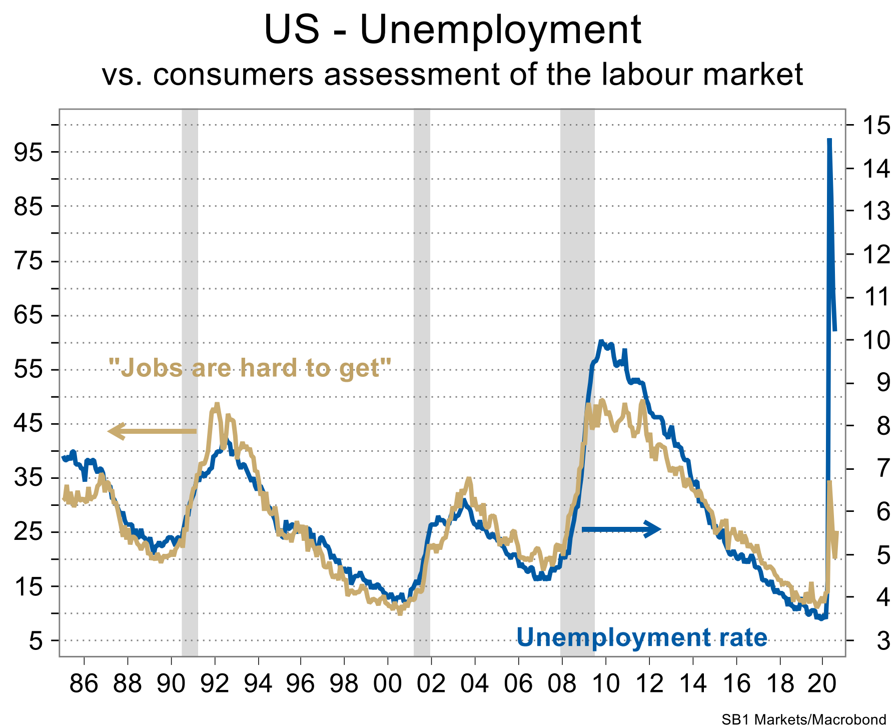


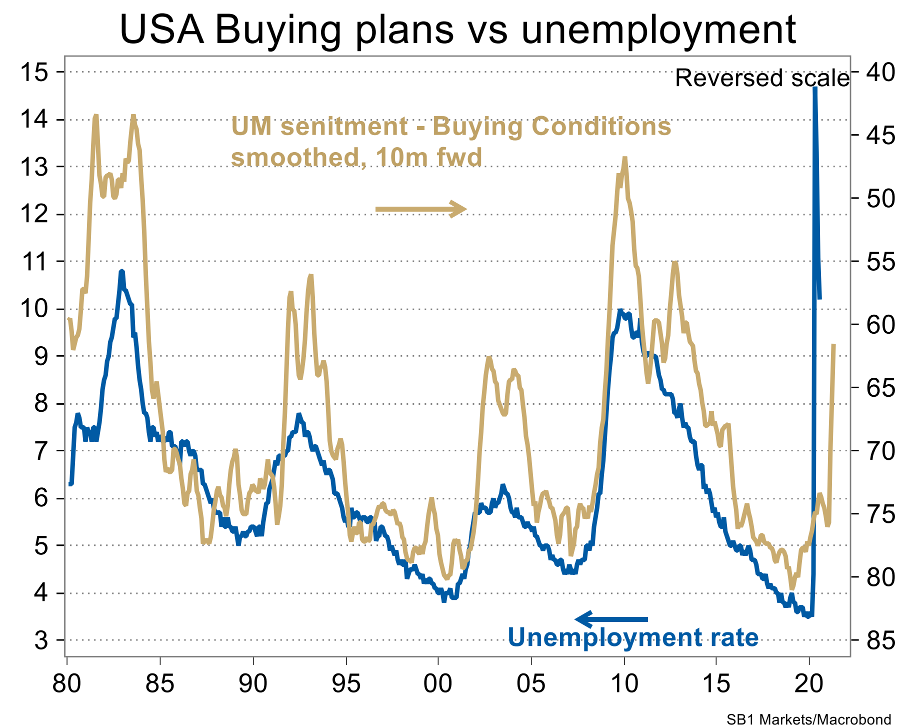


- Given the strong housing and equity markets, the changes (to the better, tough from a disasterous level) at the labour market, and the slowdown in corona cases, it is rather surprising the consumer confidence has fallen the past two months

The labour market is not perfect, and we might tighten the purse

Still, households' assessment of the labour market is far better than the unempl. rate should imply

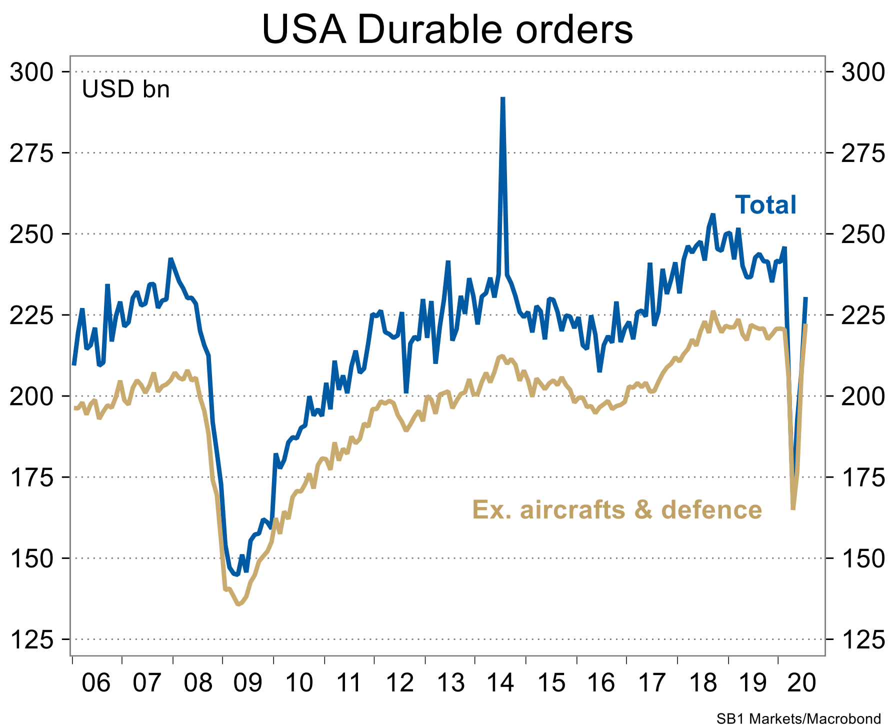


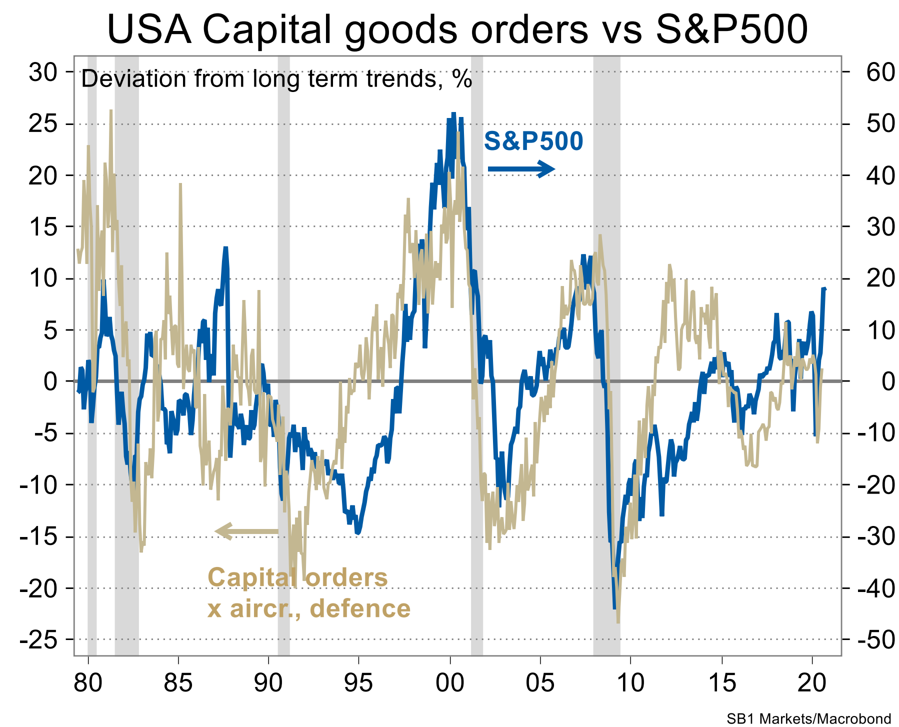


- The 'jobs are hard to get' index from Conference Board rose in both July and August, following a larger decline in June. The assessment now has been consistent with a 5.5 unemployment rate, well below the present 10% rate.
- The measure of buying conditions from UoM has been weakening since mid-2018. This index is usually quite closely correlated to the unemployment rate, leading in average by 10-12 months (with a lower correlation than the jobs assessment). The chart above is surely not encouraging, although false warnings have been sent before

Core durable orders up 7% in July, is above the pre corona level! Total 5% below

Total orders up 11%. Investment goods orders ex aircrafts have recovered too, aircrafts not

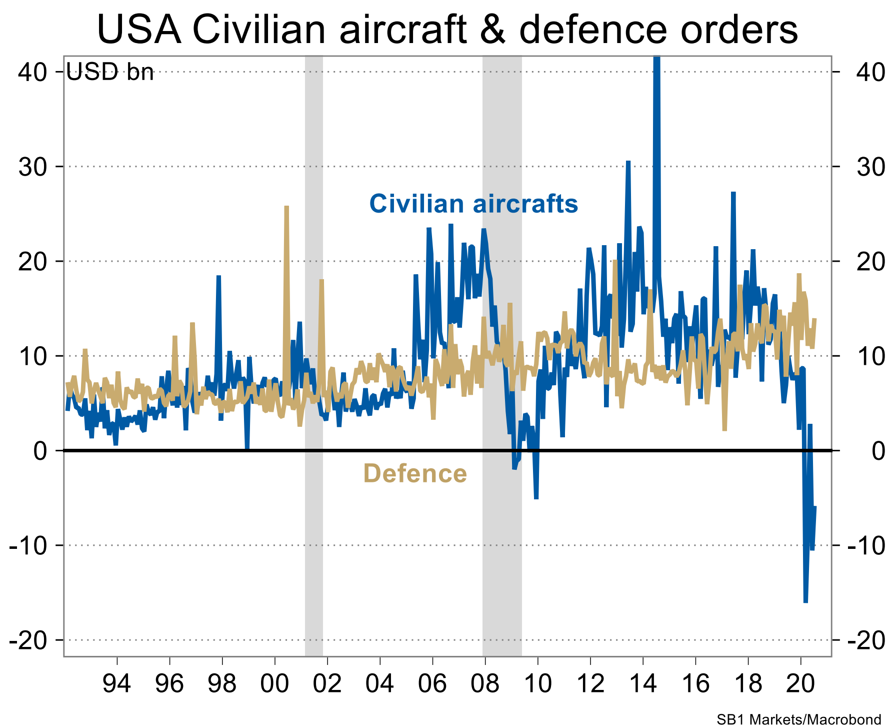


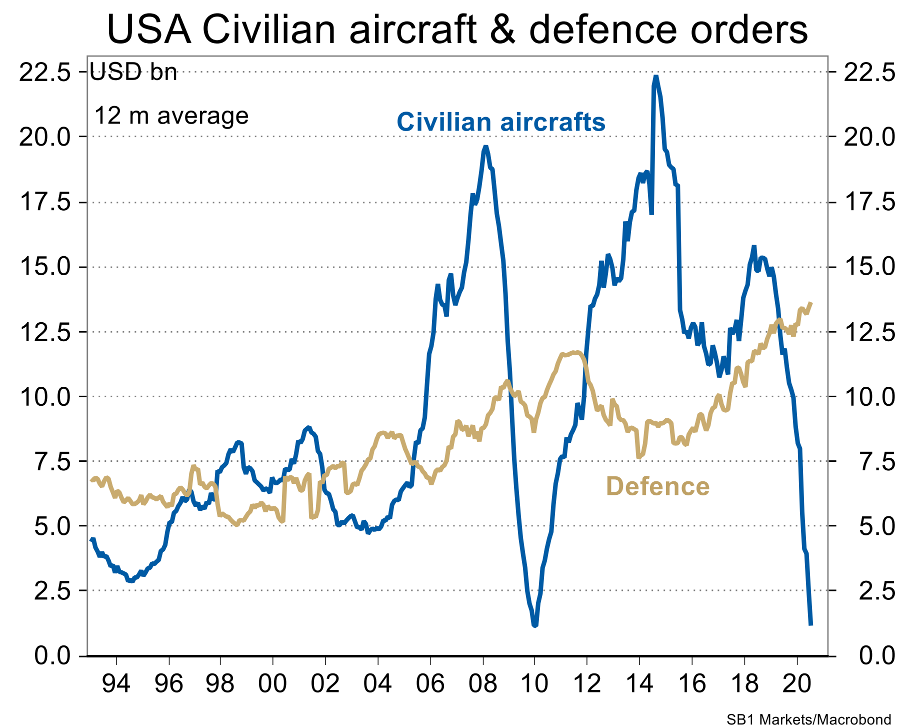


- Airline orders still the main drag, more cancellations than new orders in July too. Auto orders rose sharply in July
- Investment goods orders and actual investments fell sharply in Q2 and even including aircrafts a substantial recovery in underway and growth in Q3 will be record high, of course

No more Boeing (net) cancellations

Negative net aircraft orders in in March, April, and again in June & July

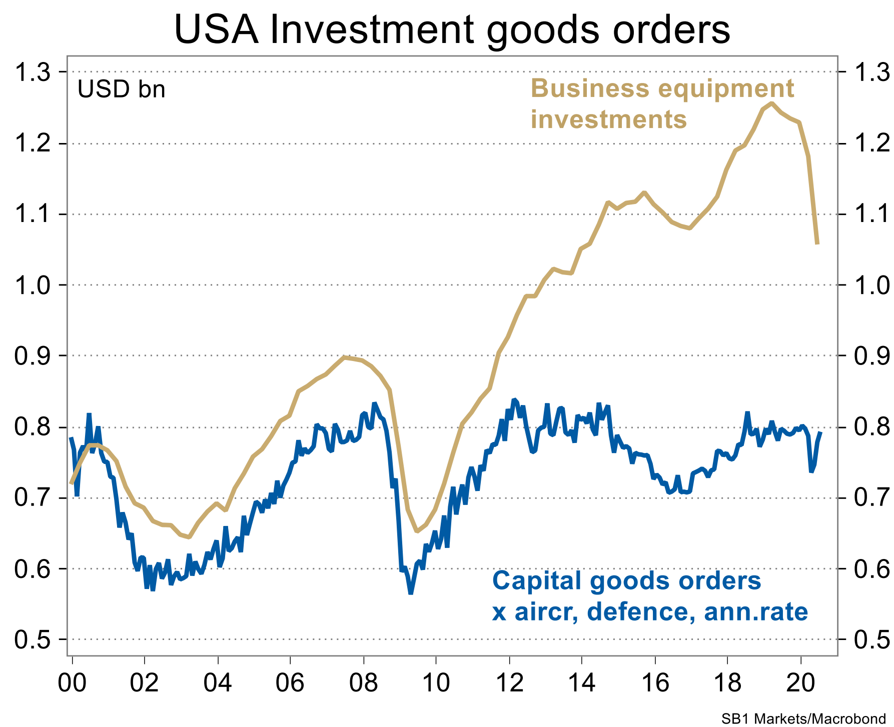


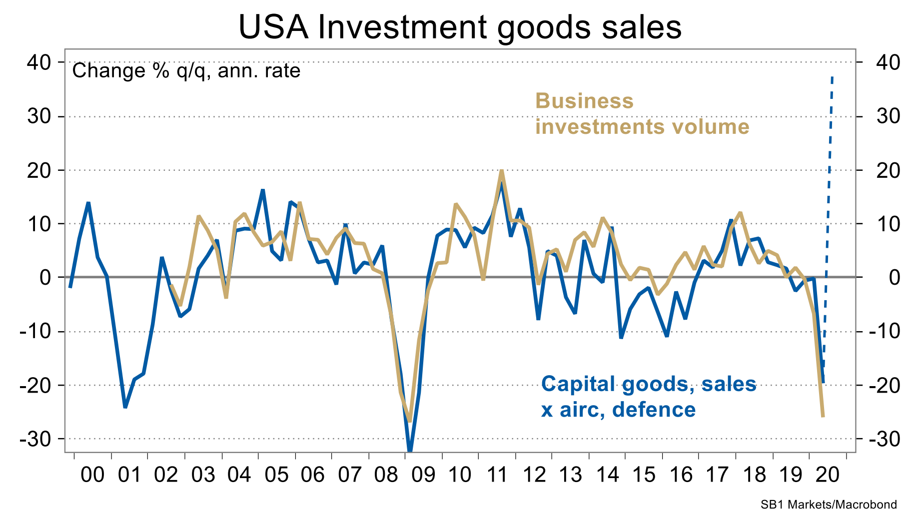


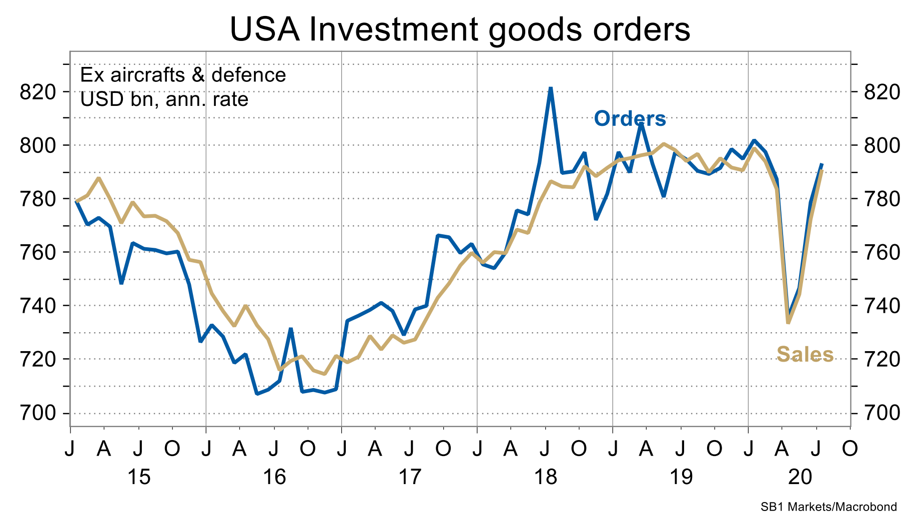
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 45 bn net cancellations in March, April and June was an unprecedented blow

Core capital goods orders & sales up 2% in July, and both are back

Anyway, the decline was very muted indeed, just ¼ of the Fin Crisis setback



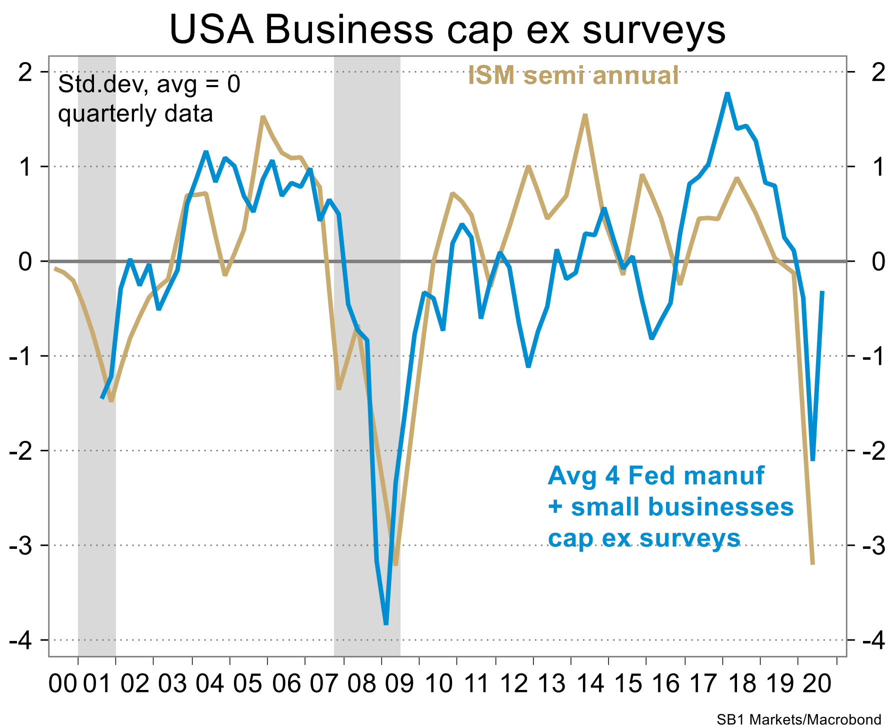


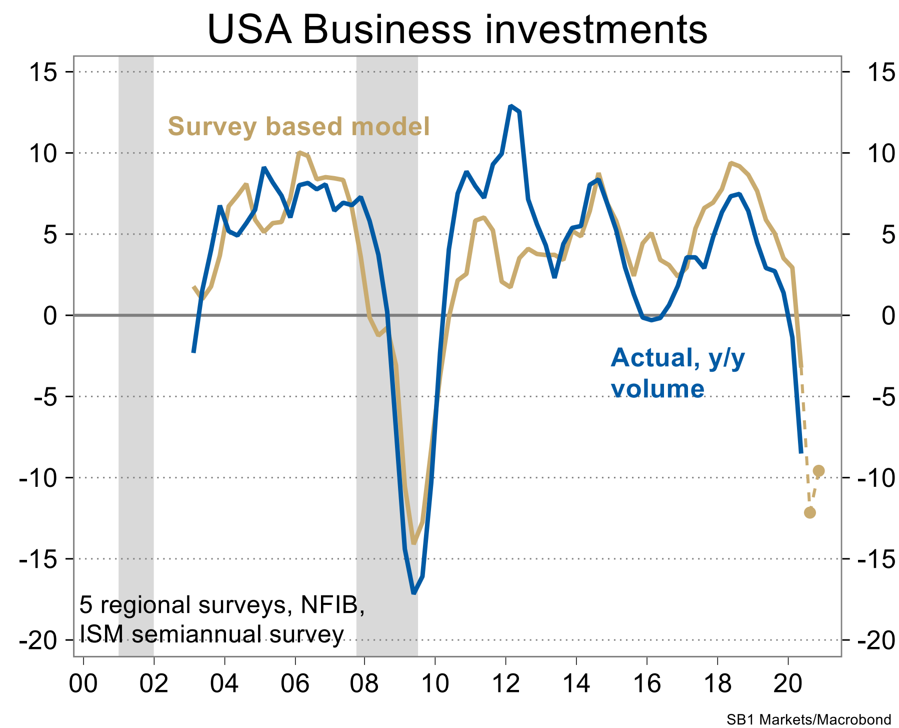


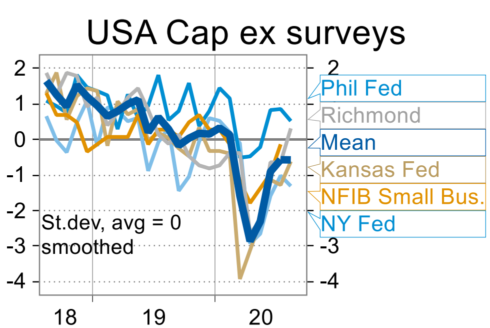
- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
  - » Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more
- Business survey do not signal any brisk recovery – but they may be to subdued, like the PMIs/ISMs

Business were planning aggressive investment cuts. They are less downbeat now

Both manufacturing and services are planning cuts – but probably far less than during the GFC



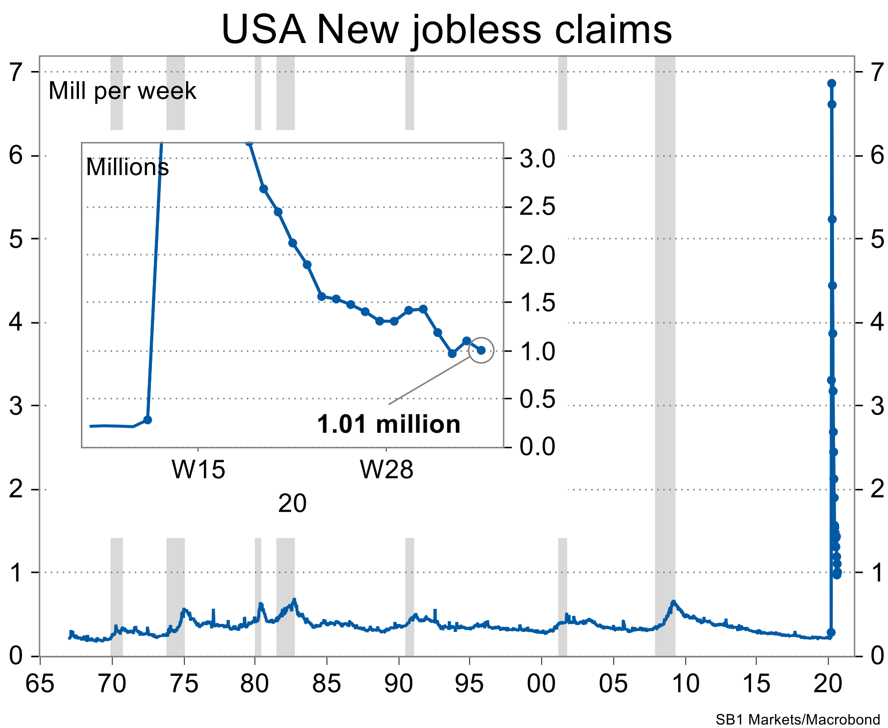


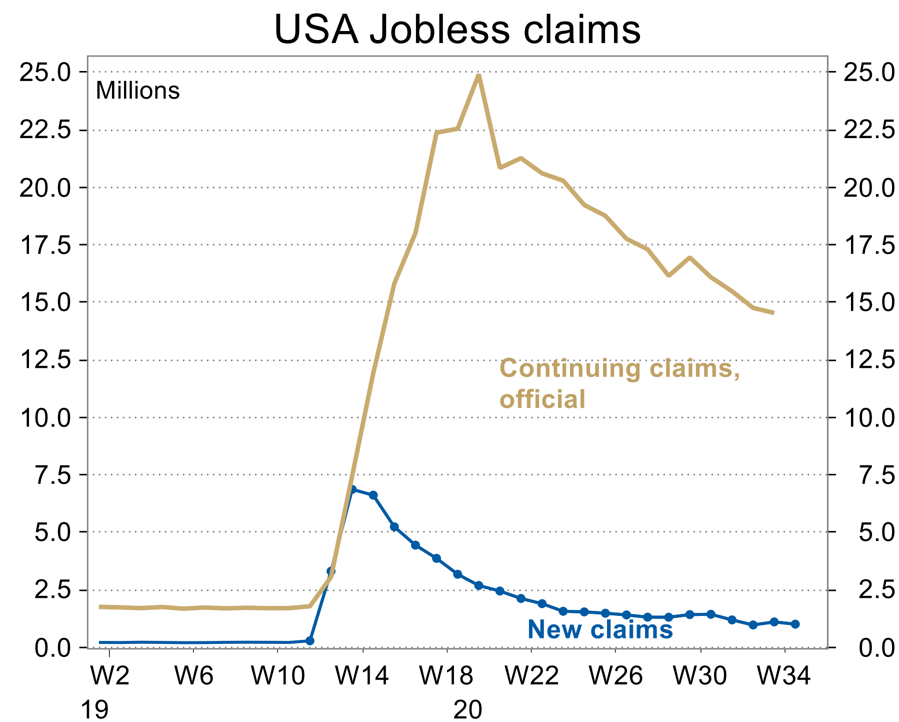


- Some bright spots: Investment plans were revised up in several regional Fed surveys in May-July. They are still below par but are not that weak anymore - and Phil Fed reports above normal investments in the manufacturing sector in that region

Jobless claims are zig-zagging downwards, to 1 mill last week

The trend is no doubt down but the weekly inflow is still extremely high

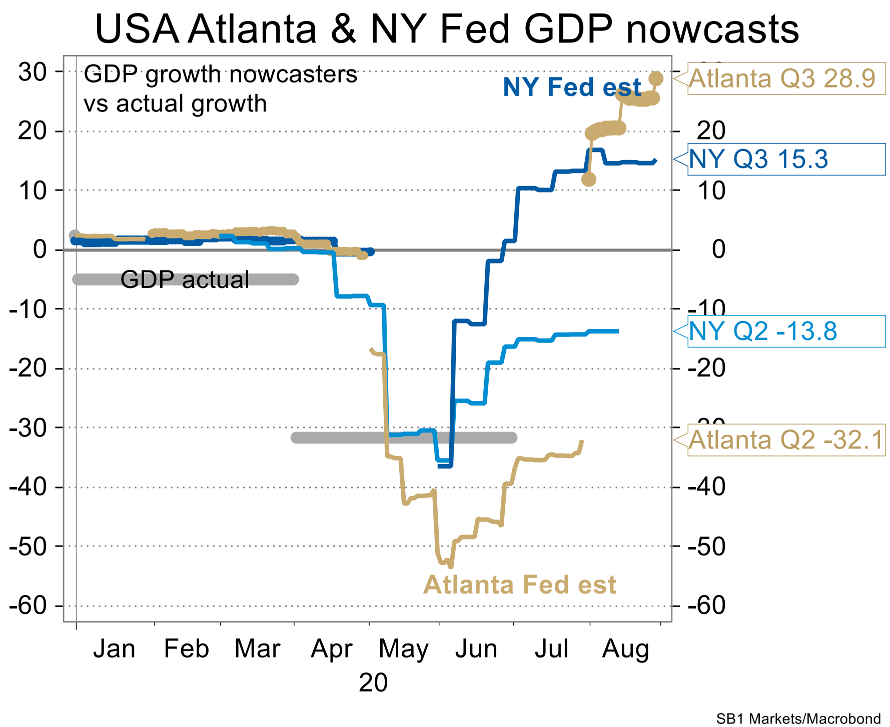


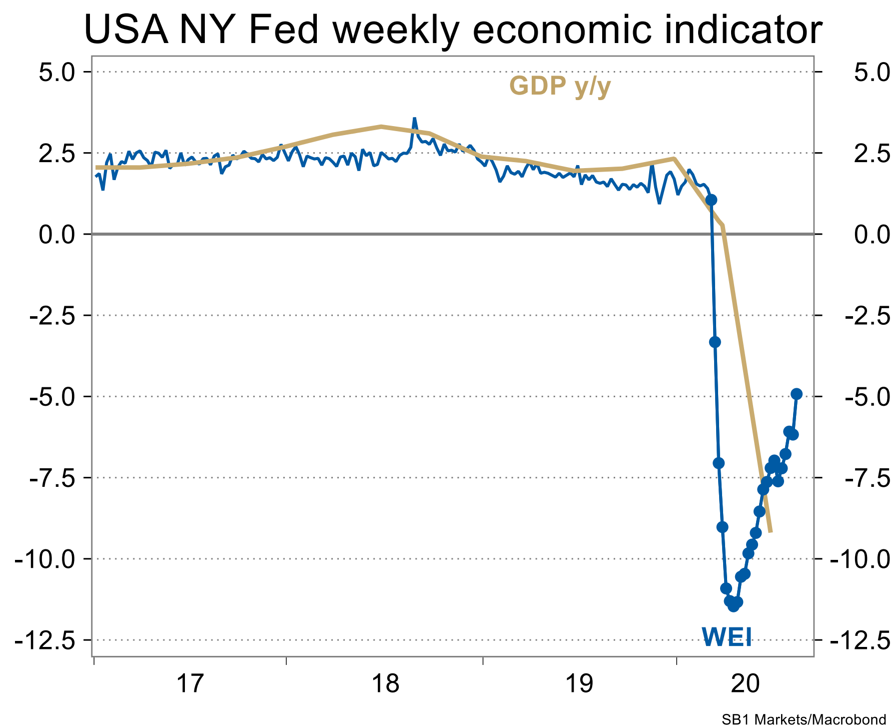


- The inflow is still far higher than during previous recessions now at 0.7% of the labour force, per week – even if total employment is on the way up
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 15 mill from 25 mill.
- Most of the unemployed (at least for a while) lost their temporary USD 600/week extra federal unemployment benefit as the states have not been able to match the reduced USD 300/w federal assistance by 100 extra from the local state

Nowcasters signal strong growth in Q3, of course

The NY Fed nowcaster seems to be too passim., but even NY Fed's weekly indicator not that strong

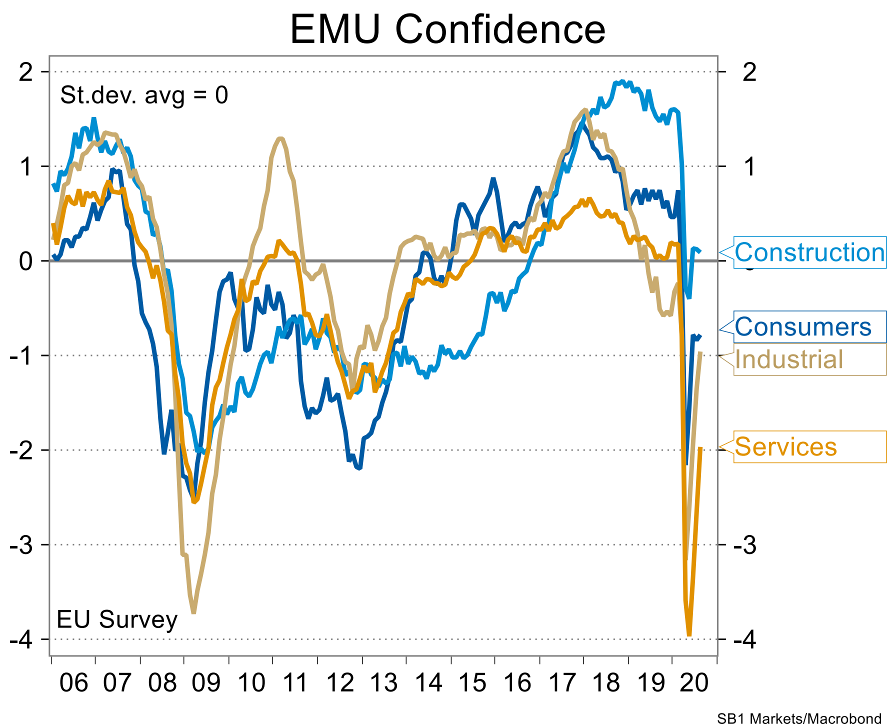


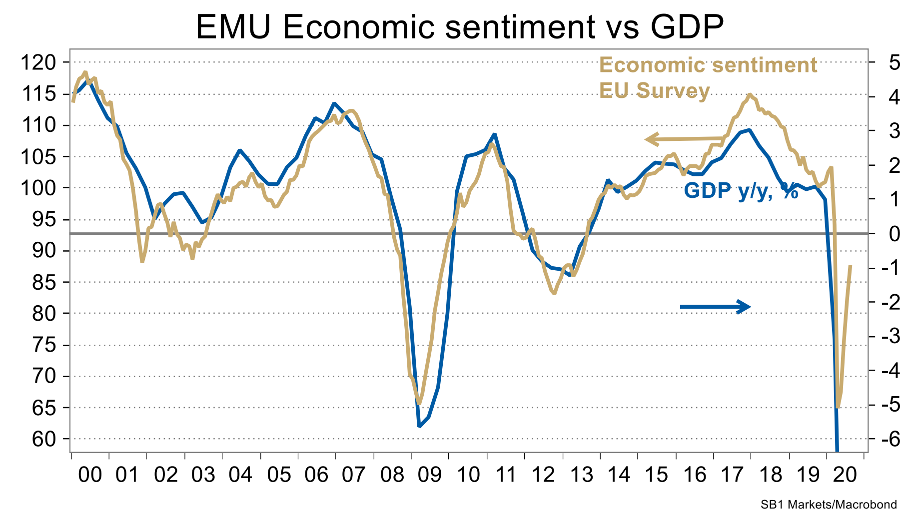


SpareBank 1 MARKETS

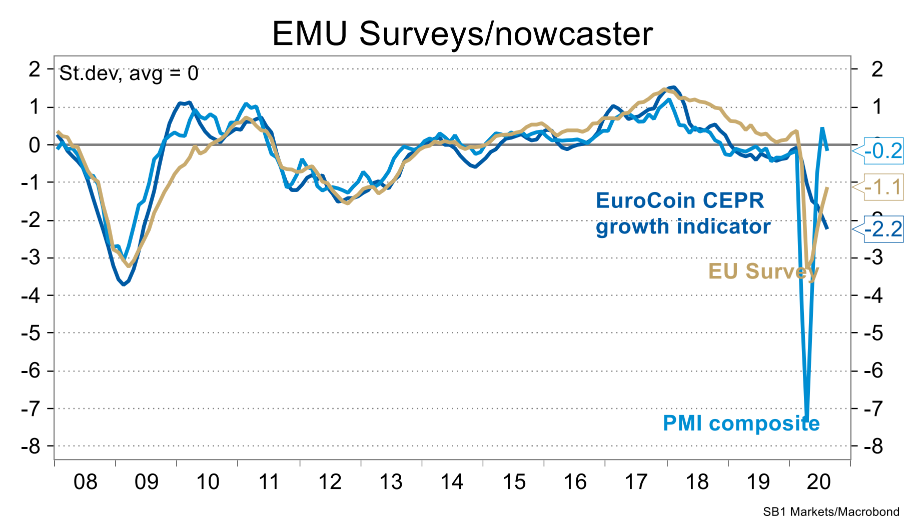
EU economic sentiment up August too but just construction above par

EU's confidence indicator further up in August but the level signals a further GDP contraction





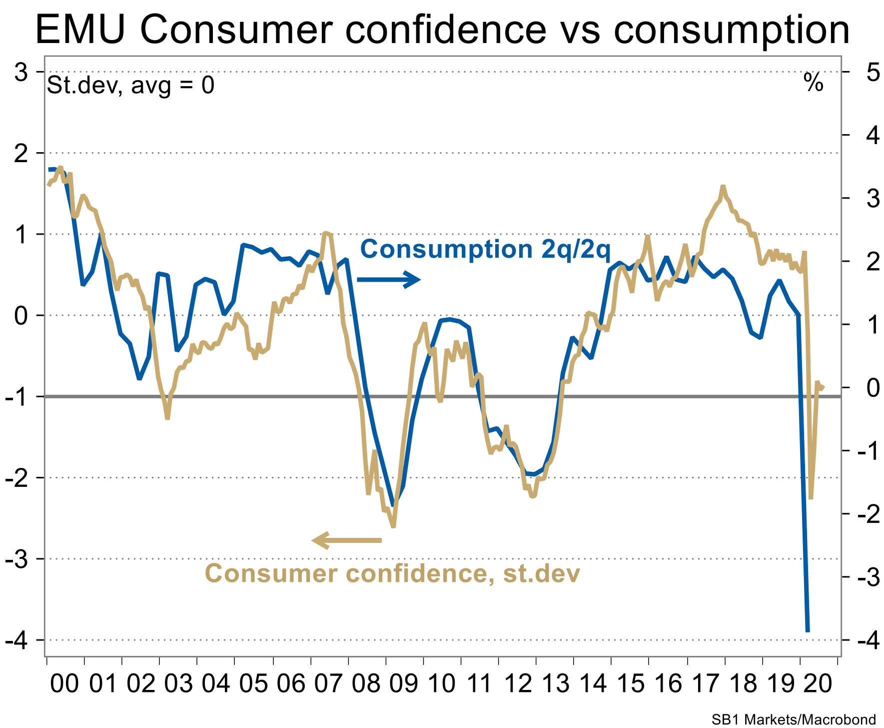
- … which is totally unlikely, given all the real economic data we have seen so far
- However, the together with the decline in the PMI, it is likely that growth has slowed substantially compared to the rapid re-opening rally in May-June

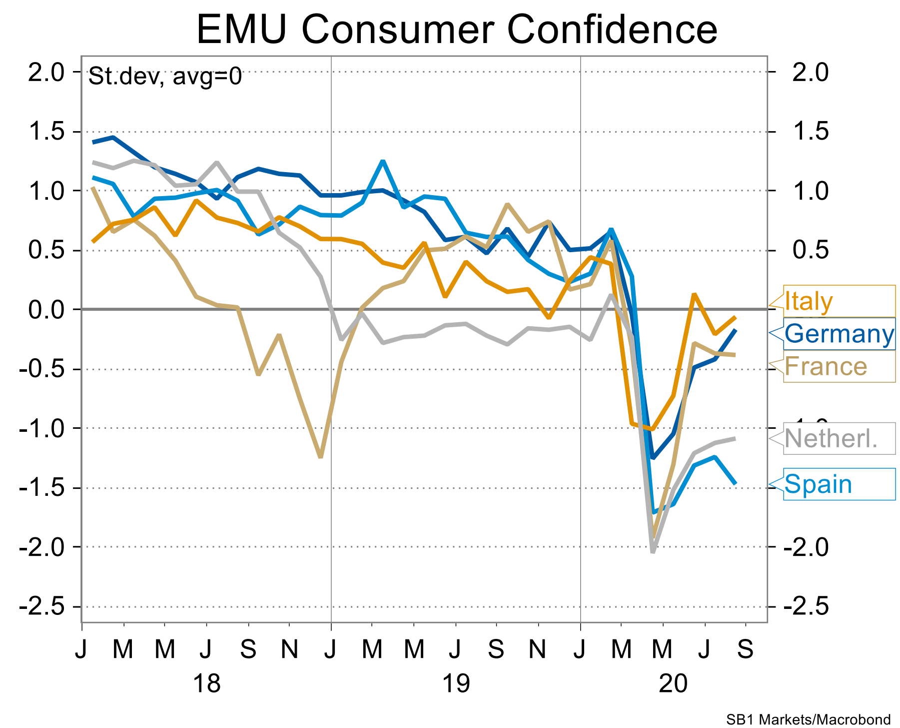


SpareBank 1 MARKETS

Consumer sentiment flattens in August, down in Spain – but up in Germany

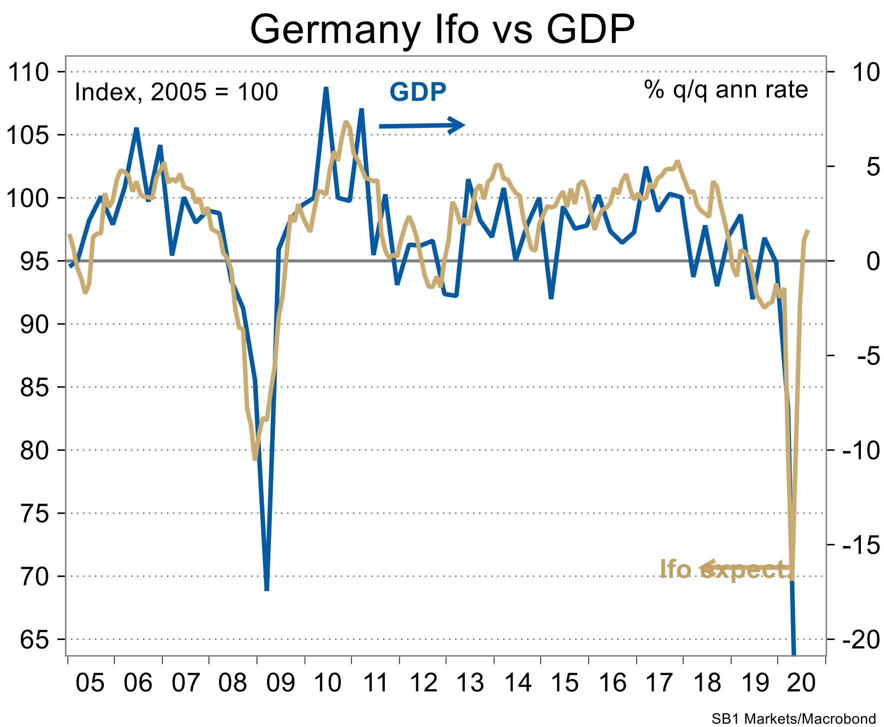
The CCI in Germany and Italy has returned to an average level, but others are still lagging





The German surveys suggest a (modest) German recovery

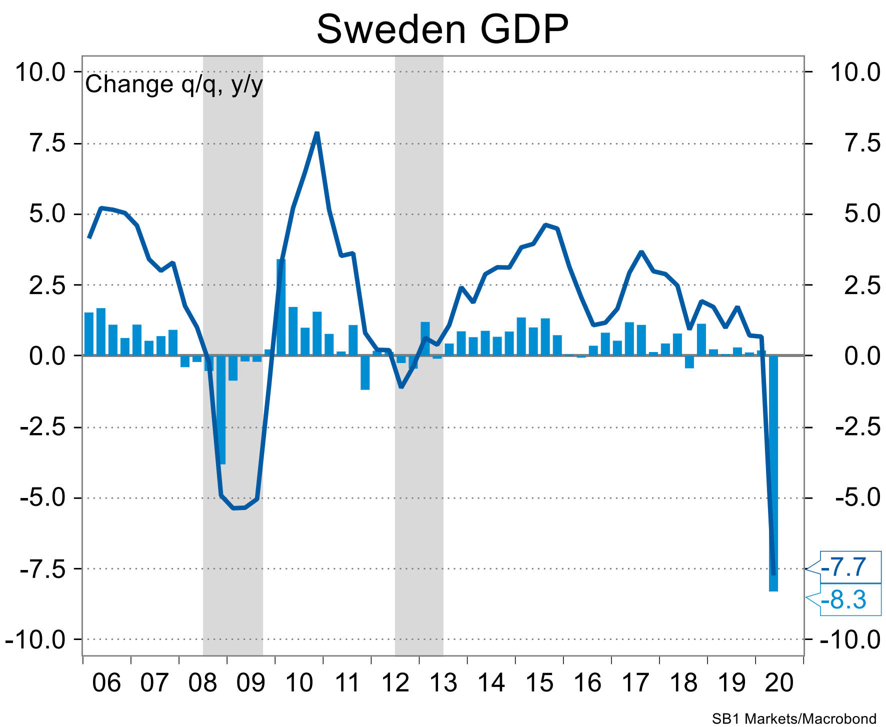
Business expectations in the Ifo survey rose sharply in July, to above average

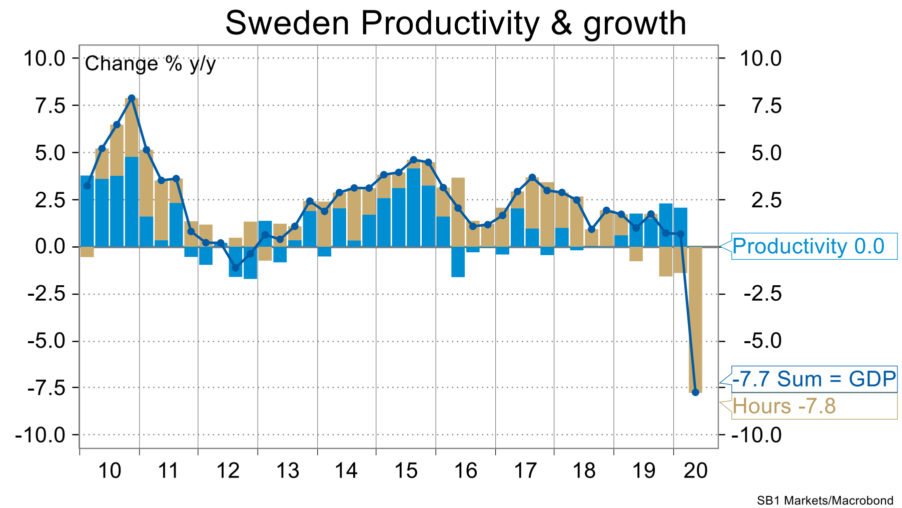


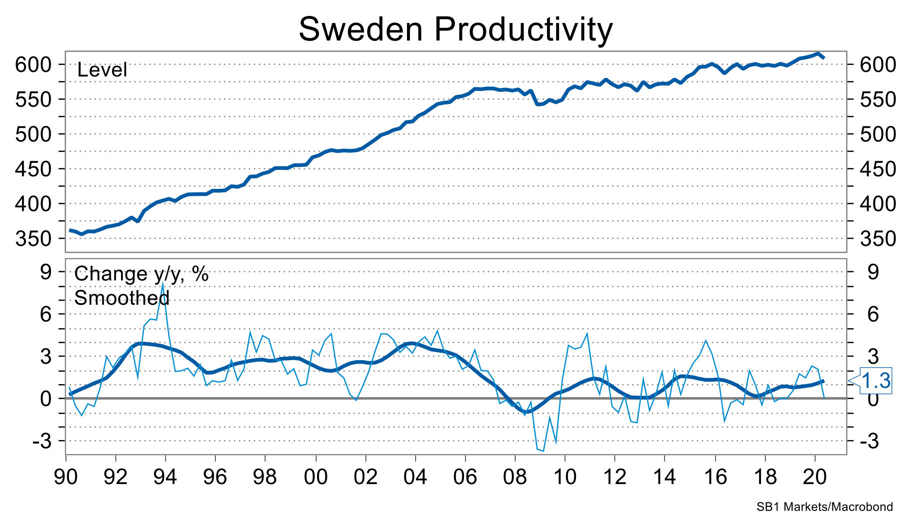
- Businesses are not reporting strong growth, even after the huge decline in Q2

Q2 GDP ‘just’ down 7.7%, not 8.6%, as first reported

Both domestic demand as well as net trade sharply sharply down

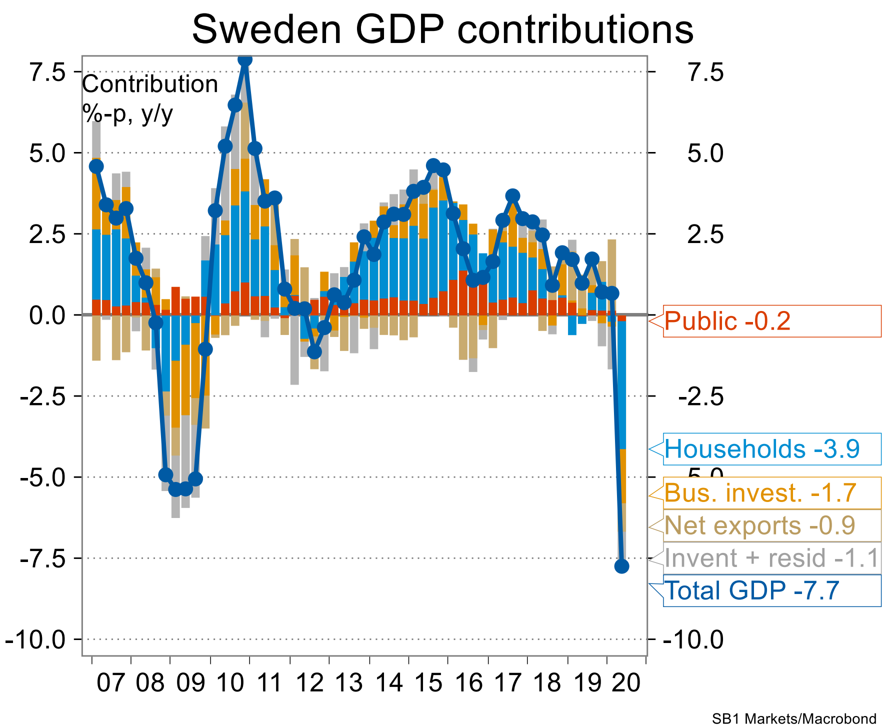


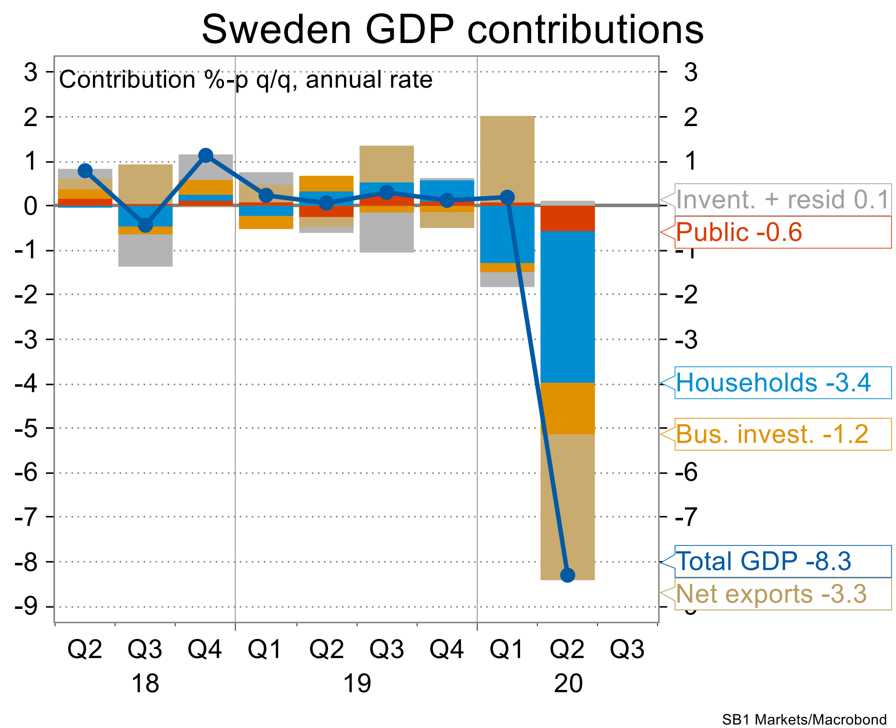




A broad decline in household demand, but a net trade disaster too

And business investments fell further – and even the public sector reduced its demand

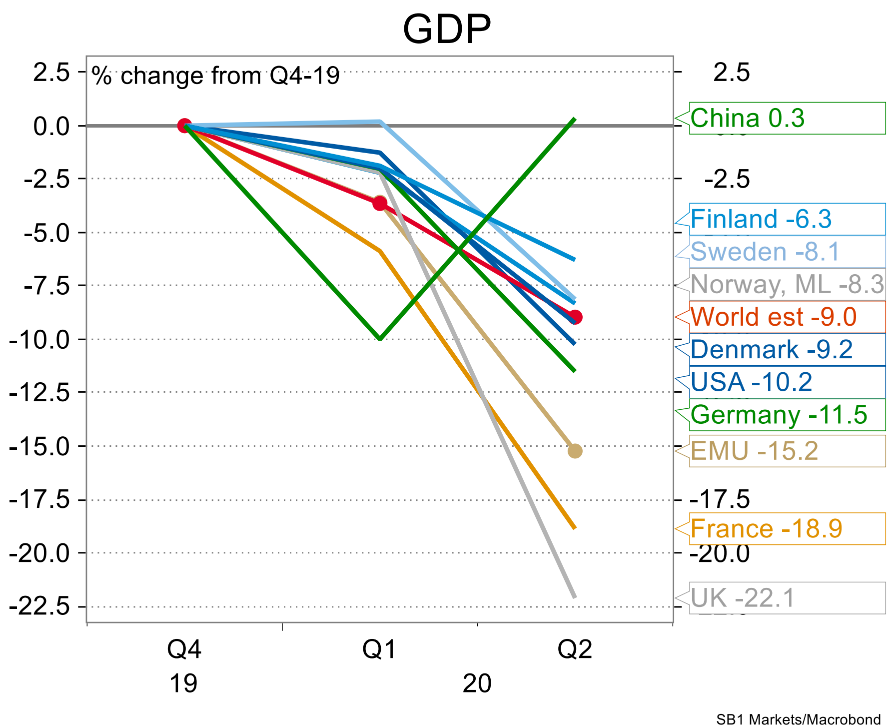




- The Swedish economy has taken a much harder net export beating than Norway; a substantial decline in Sweden, the opposite for Mainland Norway!
- However, domestic demand fell sharply too

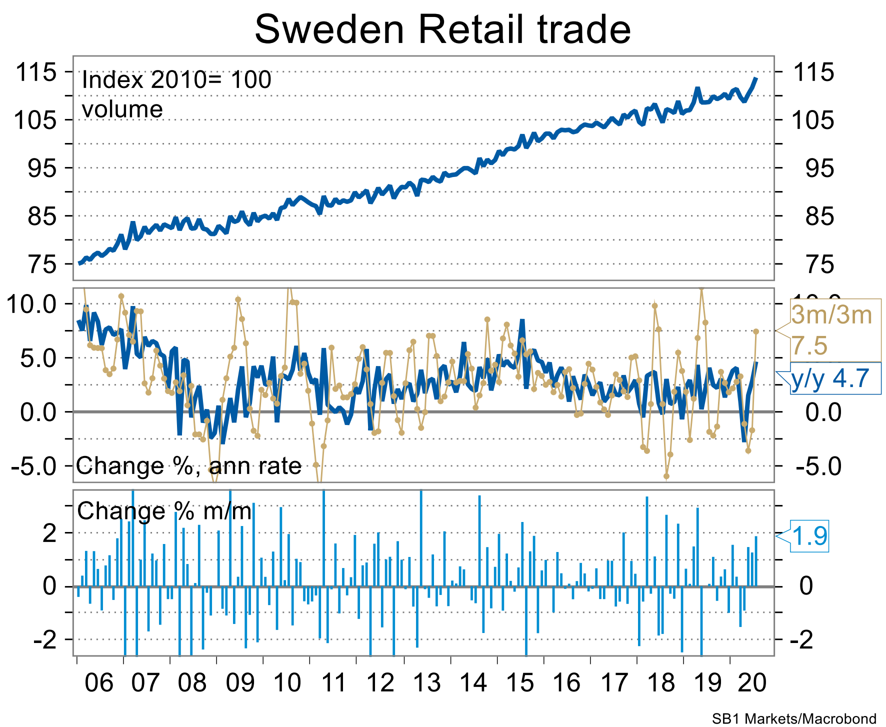
Not that important differences between the Nordics, so far

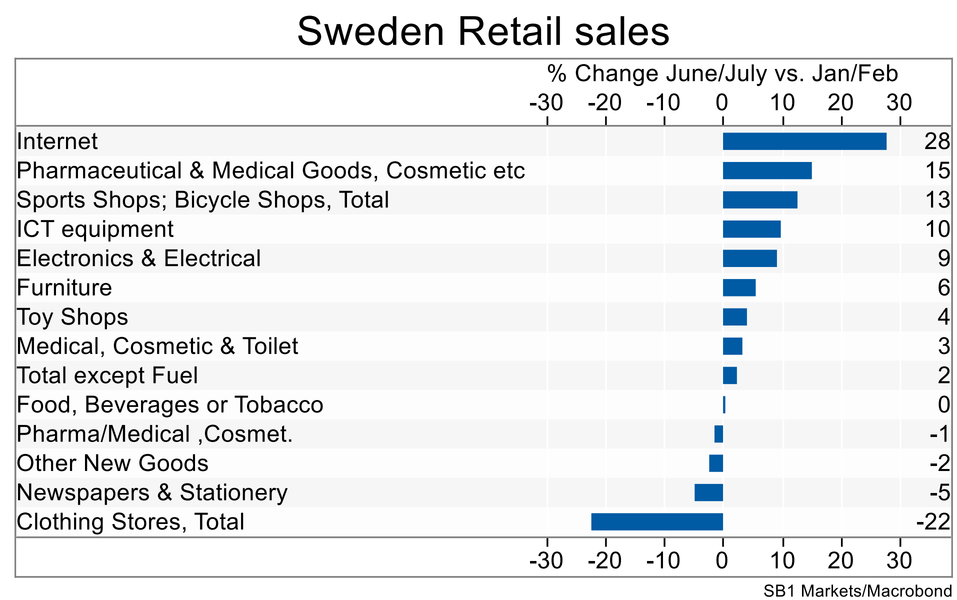
Finland at the top, Denmark at the bottom



Retail sales up in June/July, by 1.3% and 1.9% - still up just 2% from February

Rather a muted increase compared to most outher countries



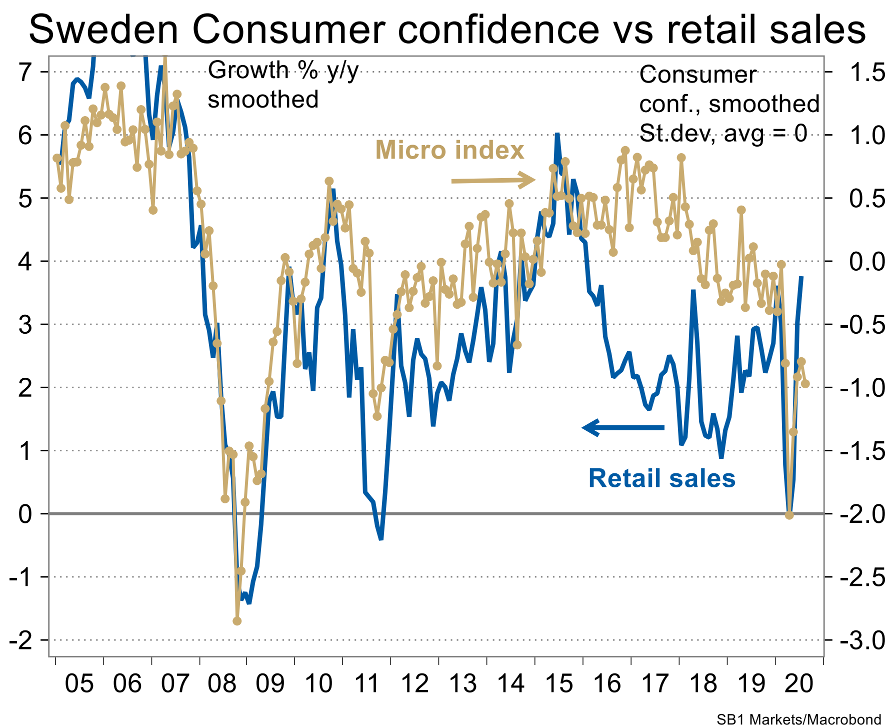


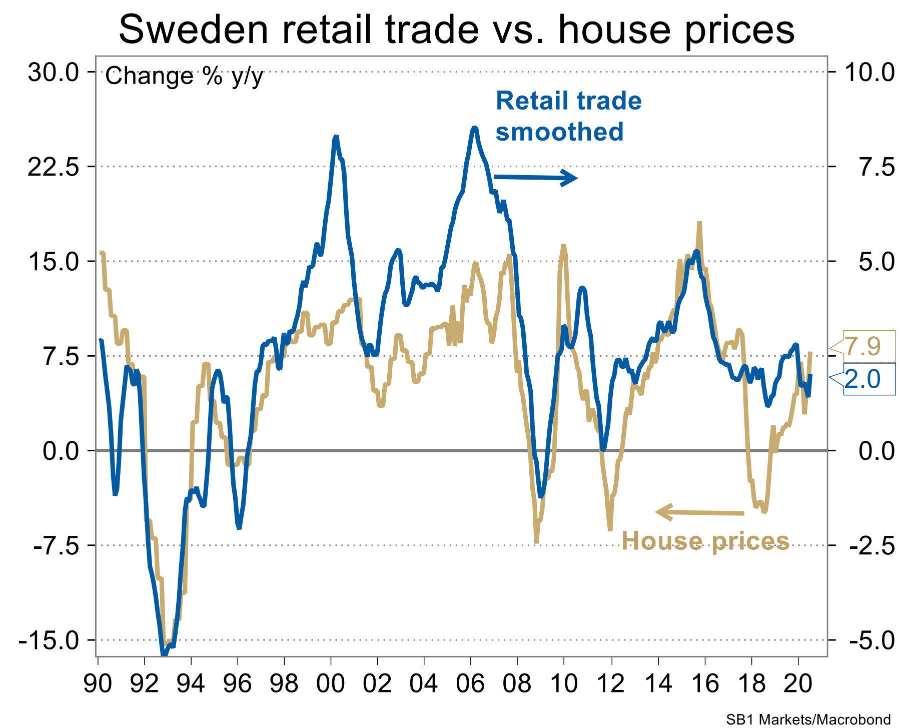
- Huge sectoral differences, though not as wild as in Norway
- Service consumption is sharply down, but less than in Norway.
- Total consumption is down is down 9%, as in Norway

SpareBank 1 MARKETS

Consumer confidence down in August, and still well below par

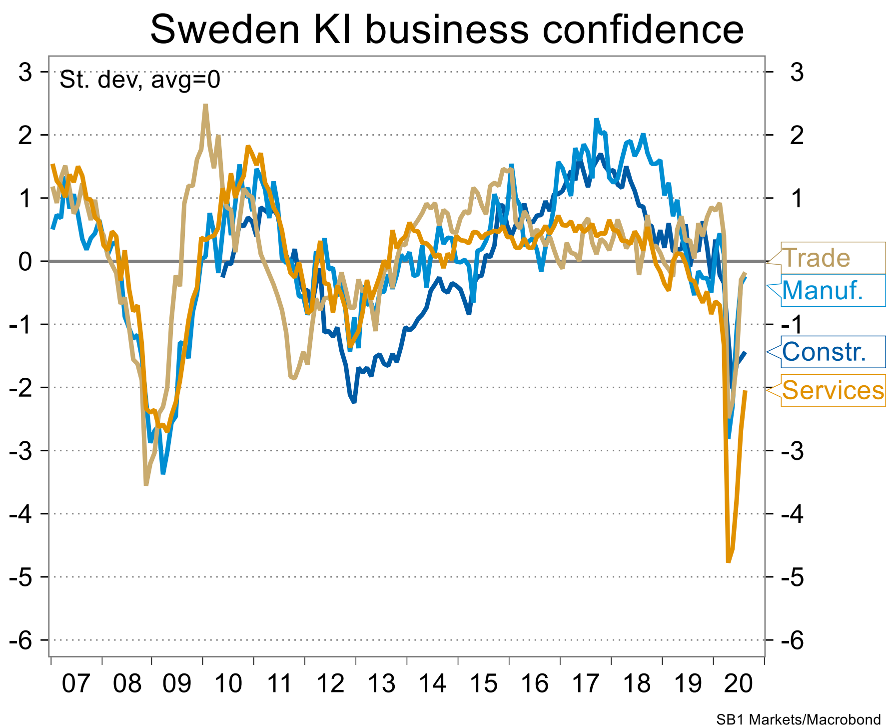
Retail sales are recovering (there too) – and housing market is booming (at least outside Stockholm)

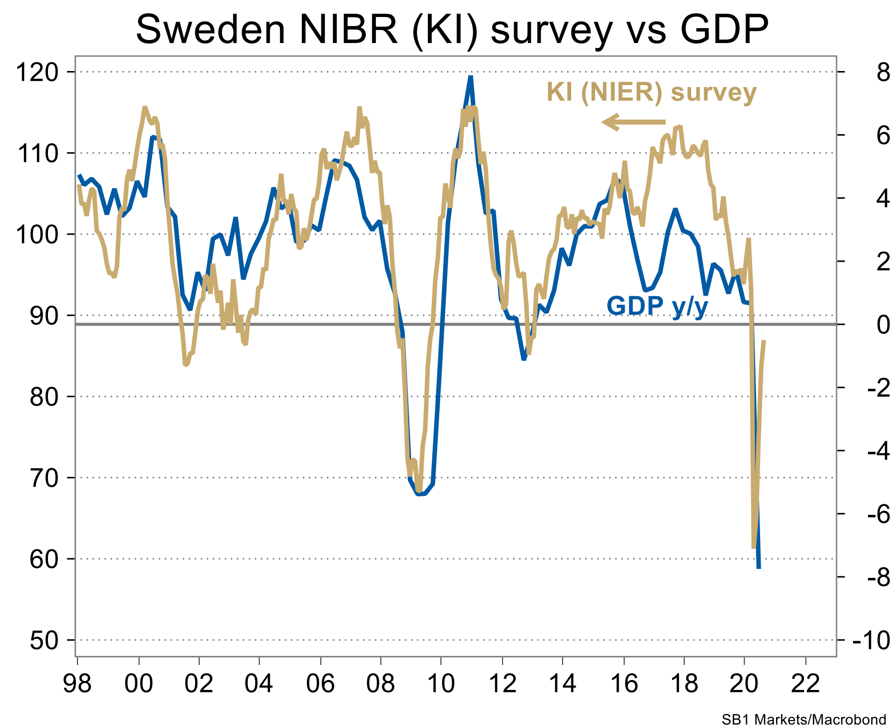




KI business survey suspiciously weak in August, still signalling no growth!

All sectors indices are up but remains below average – and services are still struggling



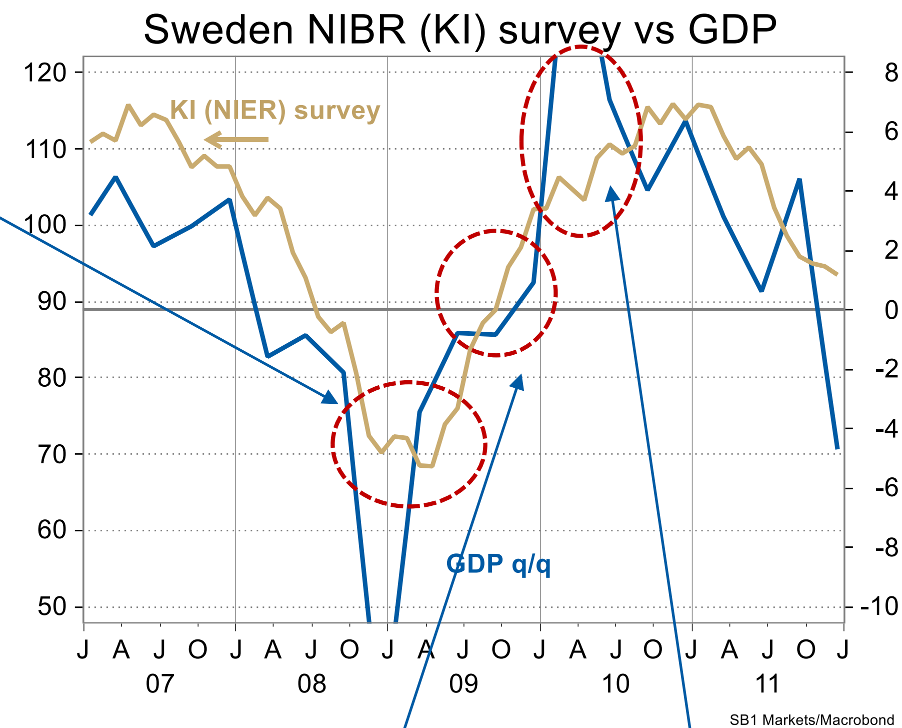


- The composite index signals a marginal decline in GDP – but the correlation to growth is far from perfect
- May the companies be to late to report growth, like what we expect the PMIs etc to do? Well, that has not been the case with the KI survey, check the details during the Financial Crisis at the next page

Did the KI survey catch the post Fin Crisis recovery?

Both yes and no – it reported the first growth quarter correctly. But no the turning point

It was a bit too late to recognise that the downturn eased during the first part of 2009

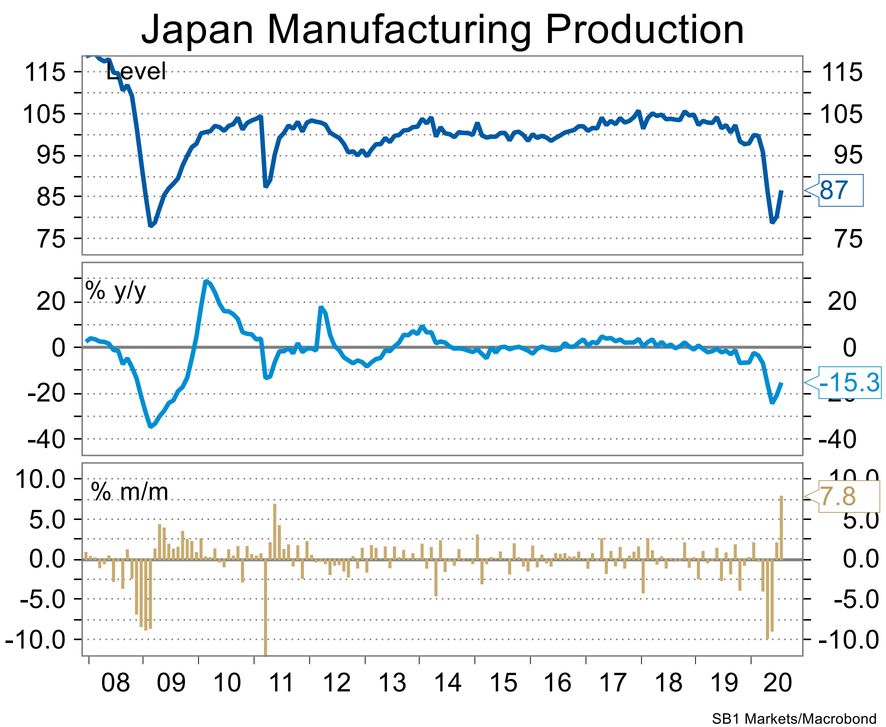


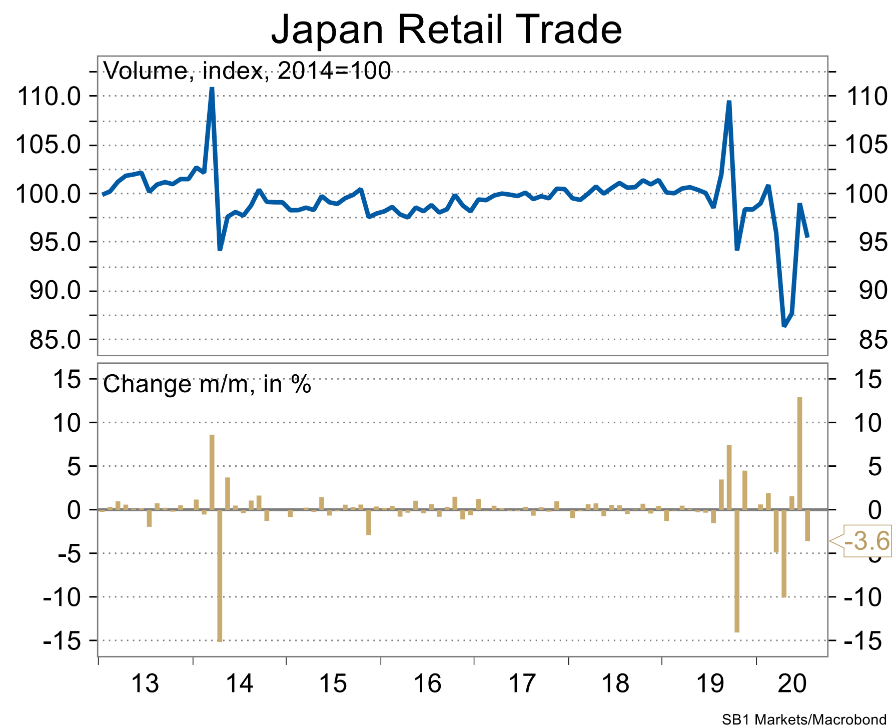
However, growth did not turn positive before Q4 2009, and the survey crossed the 90-line (which typically signals growth vs contraction) in October that year

The survey under-estimated growth in 2010, when the real recovery started

Manufacturing productin finally on the way up, level still low. Retail sales down

Manuf. prod up 8% m/m in July (exp +5), still 13% below the Feb level. Retail sales -3.6% (exp. -2.5)





- Manufacturing production in Japan has been hard hit by the corona crises – and it still is, even if production recovered more than expected in July. The PMI and other surveys are still well below 50
- Retail sales are sluggish too, even in sales in June were quite strong (+13%). However, sales retreated again in July, and more than expected. The trend since last autumn (where the VAT rate was lifted) is not encouraging

Highlights

The world around us

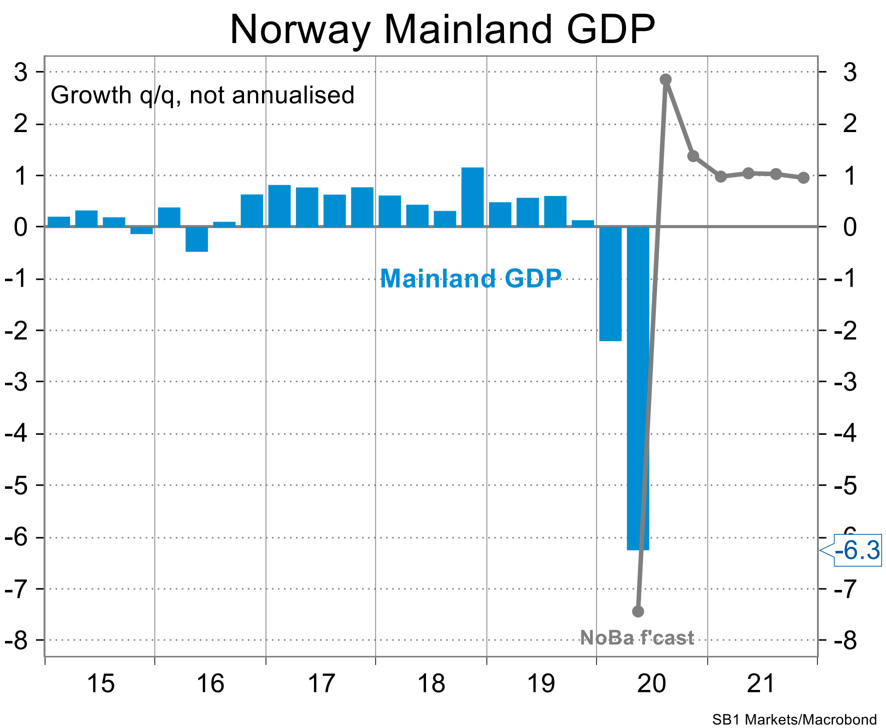
The Norwegian economy

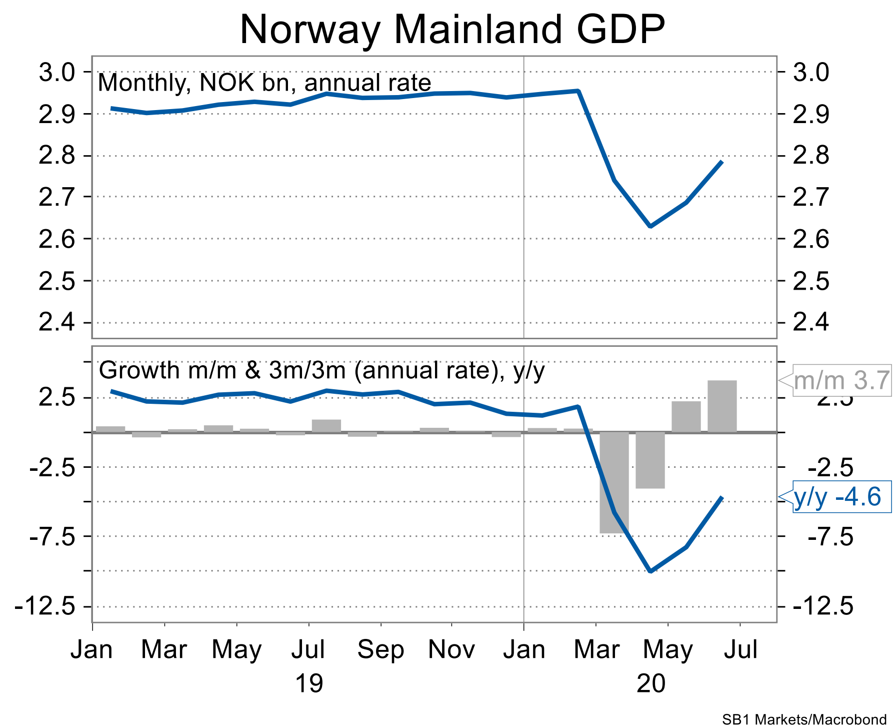
Market charts & comments

SpareBank 1 MARKETS

Mainland GDP down 6.3% in Q2 but grew 3.7% in June, is 'just' down 5% vs Feb

The decline was the sharpest ever, but as expected. The Q3 recovery will be the sharpest ever

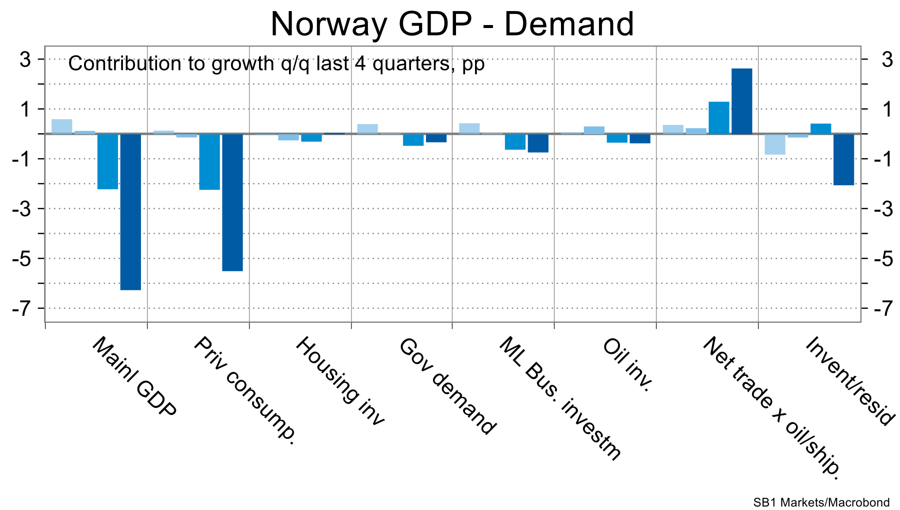


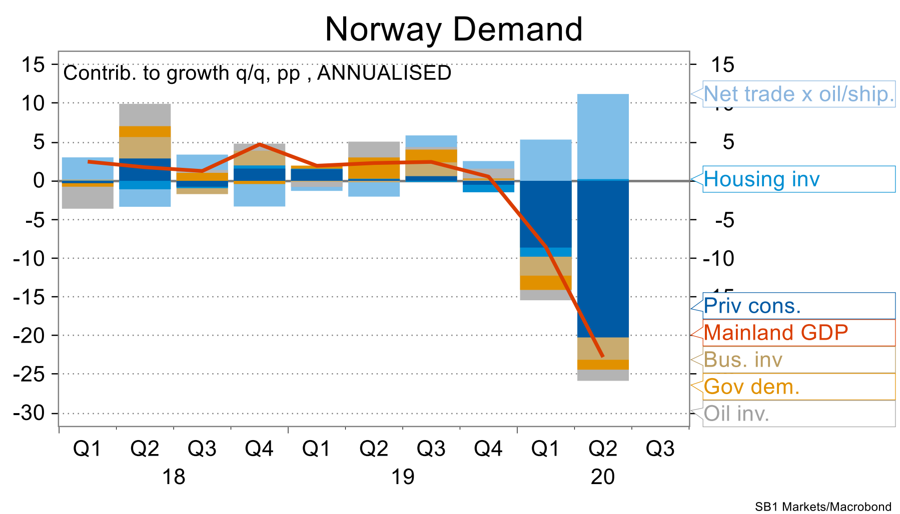


- The decline in Q2 was broad, with private consumption as the main culprit, at last before adjusted for huge cut in spending abroad (Norwegians have kept their consumption at home unch, goods up, services down). Business investments fell sharply, both on- and offshore. Exports fell sharply, also ex reduced direct spending by foreigners in Norway
- The recovery in May and June is sharp as well, by 5.5%, and almost half of the decline in March and April was recovered by June – leaving GDP down 5% vs. the Feb level. We assume the gap to be close further in July, to 2.5 – 3%. Q3 growth could easily each 6 - 7%. The June level is already 3.2% above the Q2 average.
- All GDP data are more uncertain than normal, for obvious reasons, especially hours worked, productivity & costs. Still, the headline data are well in line with each other and seems reasonable.

A broad decline in demand in Q2

Less net Mainland imports ‘saved’ the quarter. Private consumption (services) the main drag

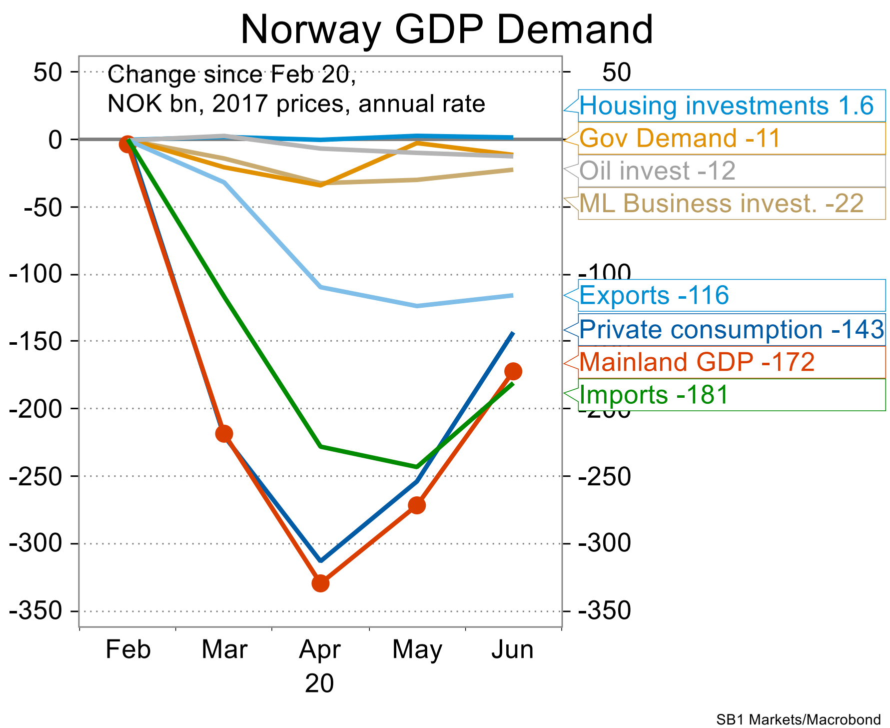


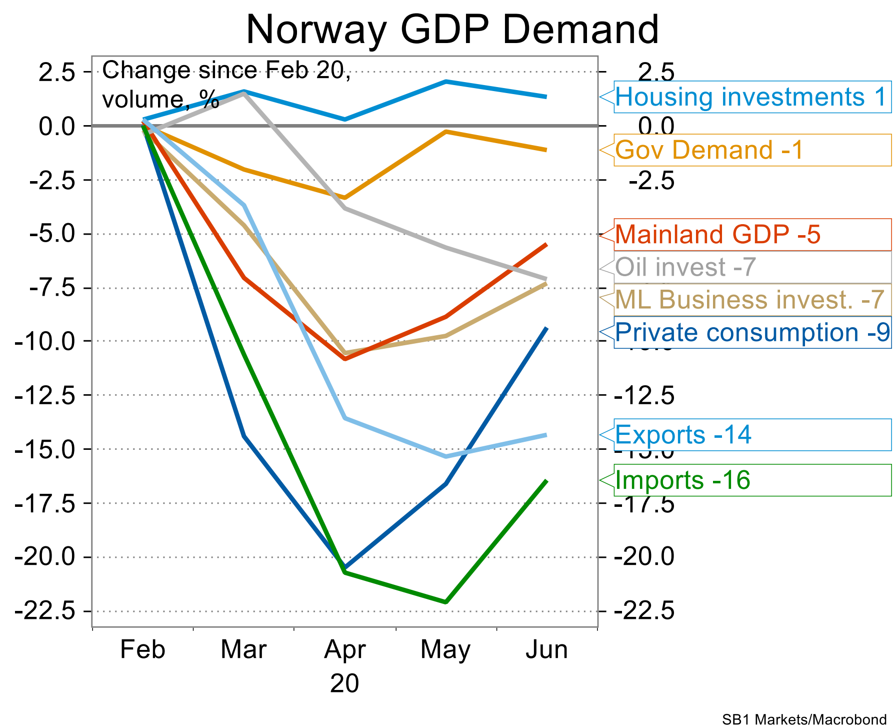


- **Private consumption** has been slowing for several quarters, and fell sharply in Q1 (but just abroad, check some few pages further out)
- **Housing investments** rose marginally in Q2, following a decline the 3 previous quarters
- **Mainland business investments** fell by 7% following almost 5% decline in Q1
- **Oil investments** fell by the same pace as Mainland business investments in both Q1 and Q2
- **Government demand** fell in Q2, and not due to the normal culprit, investments (often military fighters) but due to a sharp decline in the health sector as it was busy fighting the corona virus (and other activities were sharply reduced)
- **Mainland net exports** rose sharply, as total imports fell more than exports, partly due to no sales to foreign consumer visiting Norway
- **Inventories** were build sharply down, as ‘shelves were emptied’ when demand surprisingly rose sharply during the corona months

Most demand components up in June, all still below the pre corona level

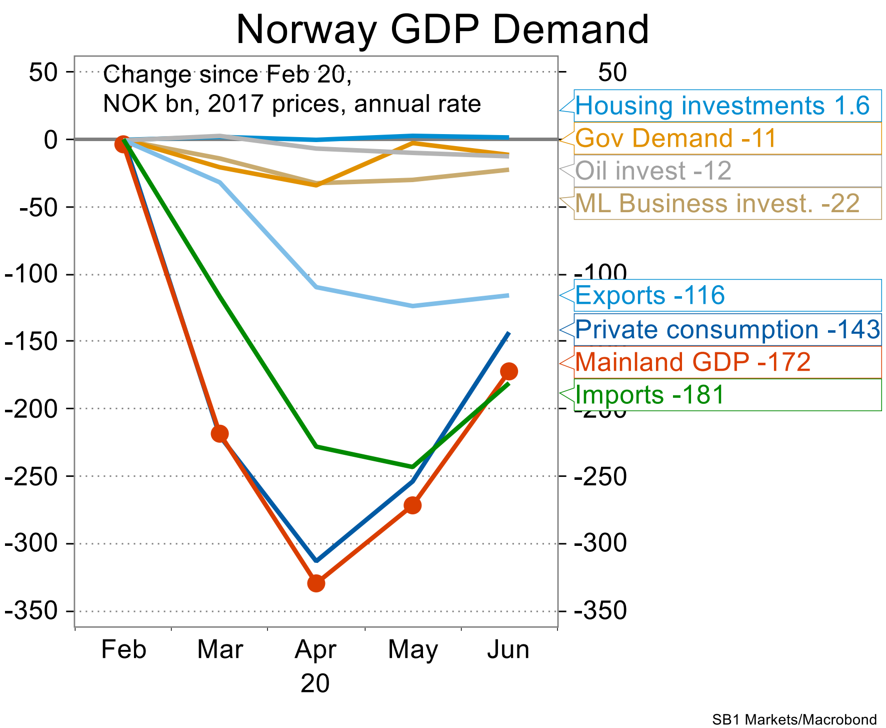
Private consumption the main drag, even after a rapid recovery

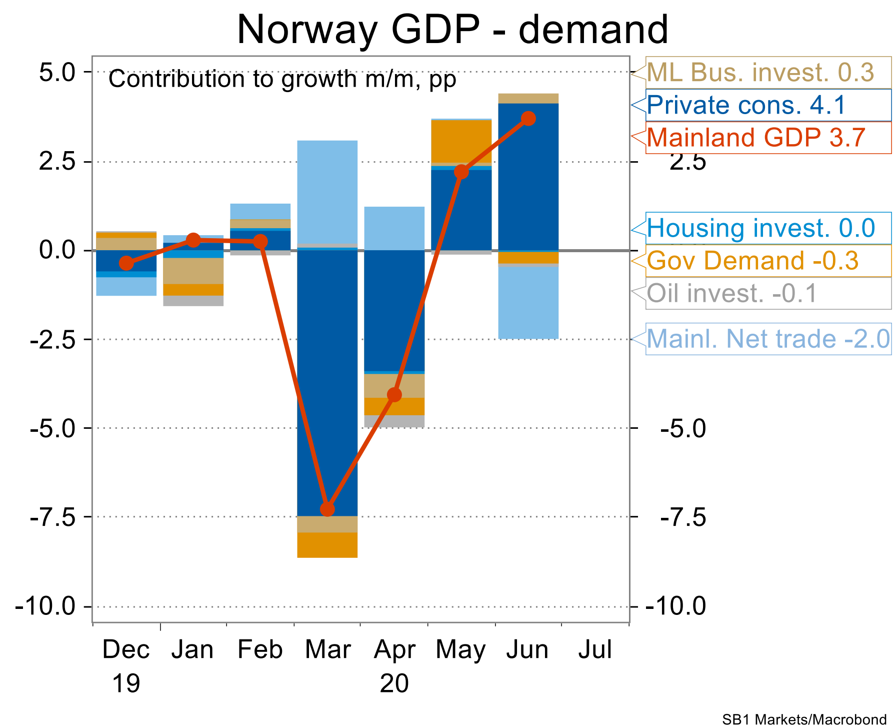




- Private consumption, exports have been the larges negative factor but oil investments as well as Mainland business investments has also contributed at the downside. Even government demand is down
- However in May and June most factors contributed at the upside. Private consumption rose by 8.6% m/m!

Most demand components up in June, all still below the pre corona level

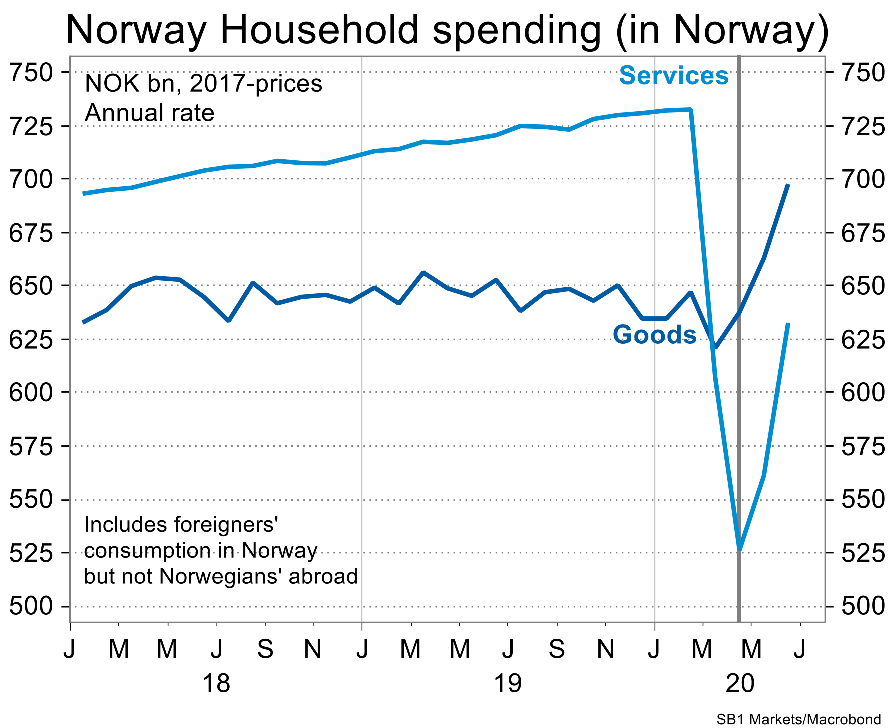




SpareBank 1 MARKETS

Consumption of goods up 8% from February, services still down 14% (from -28)

Total sales of consumption goods and services are down 3.6%

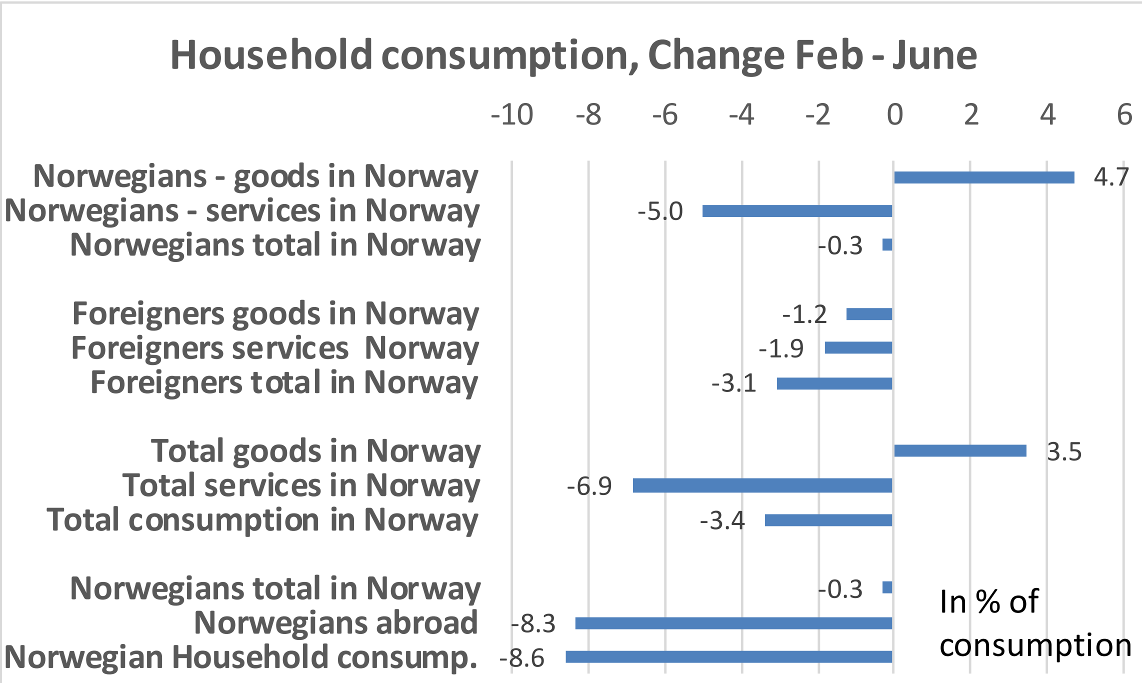


- Norwegian households have reduced their consumption abroad (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports). Check the next two pages for details

SpareBank 1 MARKETS

How has Norwegian household consumption fallen by 9%?

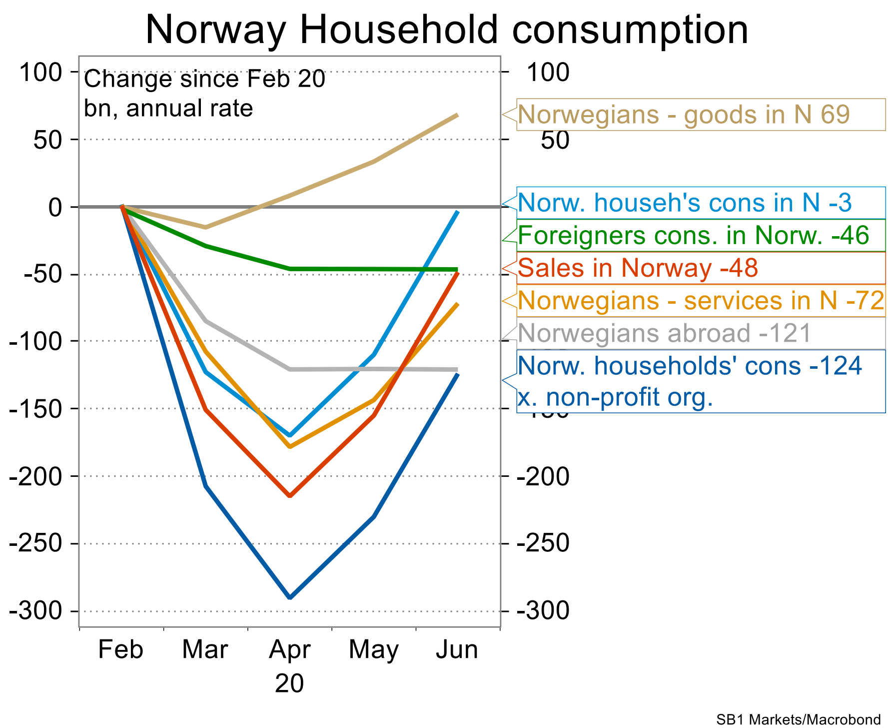
And why has sales of consumption goods & services in Norway contracted by ‘just’ 3%?

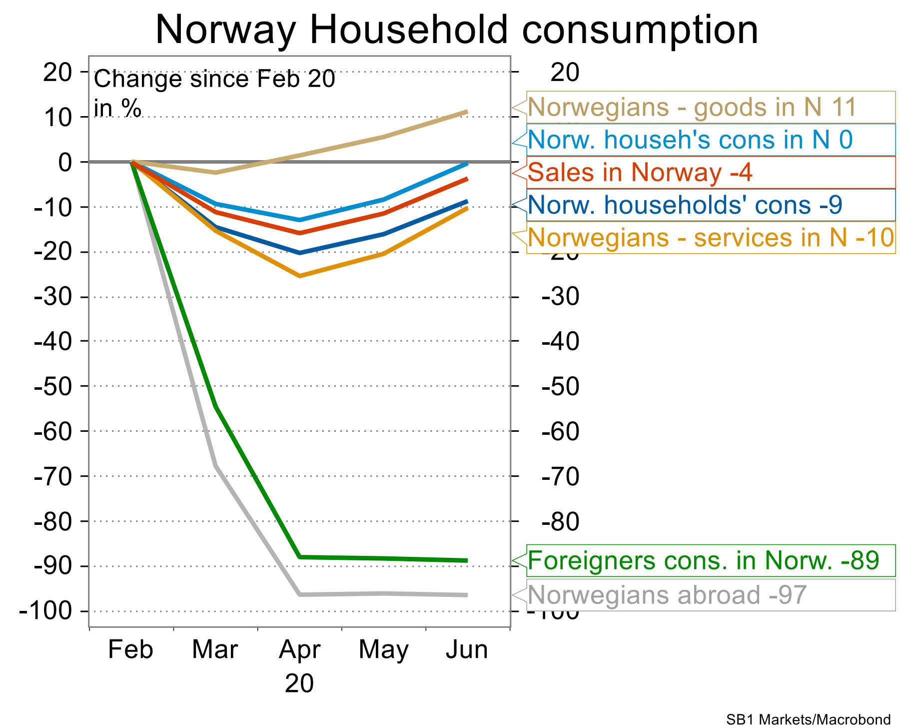


- Norwegian households have reduced their consumption of services in Norway more than they have lifted their consumption of goods – in sum down 0.3% of total household consumption
- Foreigners have cut their spending in Norway equalling 3.1% of total private consumption
- Sales of consumption goods are up 3.5%, and services are down 6.9%. The total is down 3.4% - all in % of consumption
- Norwegians have reduced their spending abroad equalling 8.3% of their total consumption – and total Norwegian household consumption is down by 8.6%
  - » Other countries ‘have taken 96% of the beating’ of the cut in Norwegian’s spending (before calculating for import content in consumption
- Norwegians have reduced their consumption abroad almost 2.5 x more than foreigners have cut their spending in Norway (because Norwegians are spending 2.5 more abroad than foreigners in Norway)

Consumption: Another twist of the numbers

Domestic consumption flat, but sales of consumer goods & services down 4%m due to the foreigners

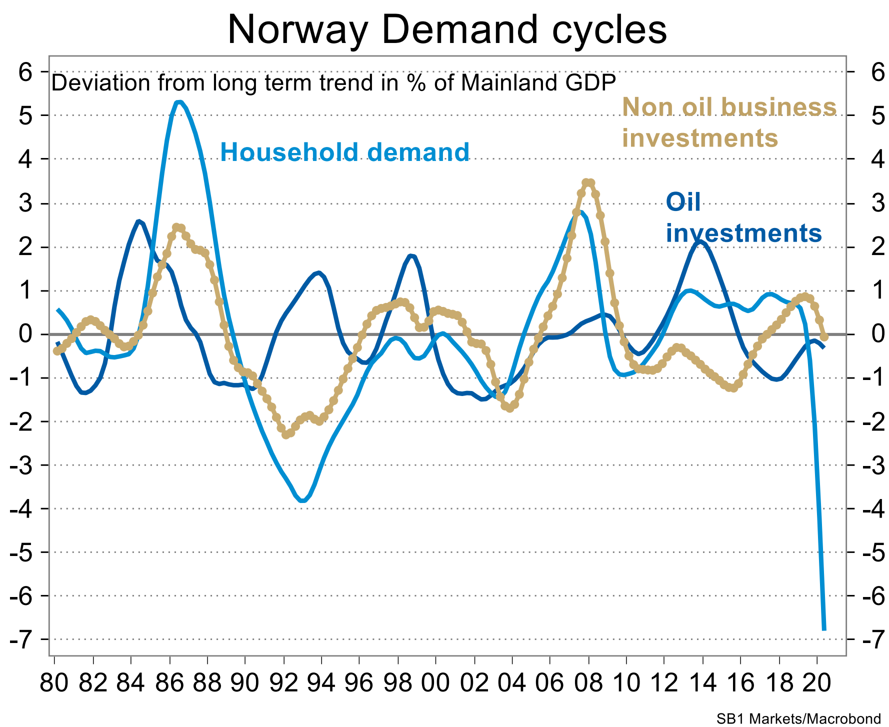


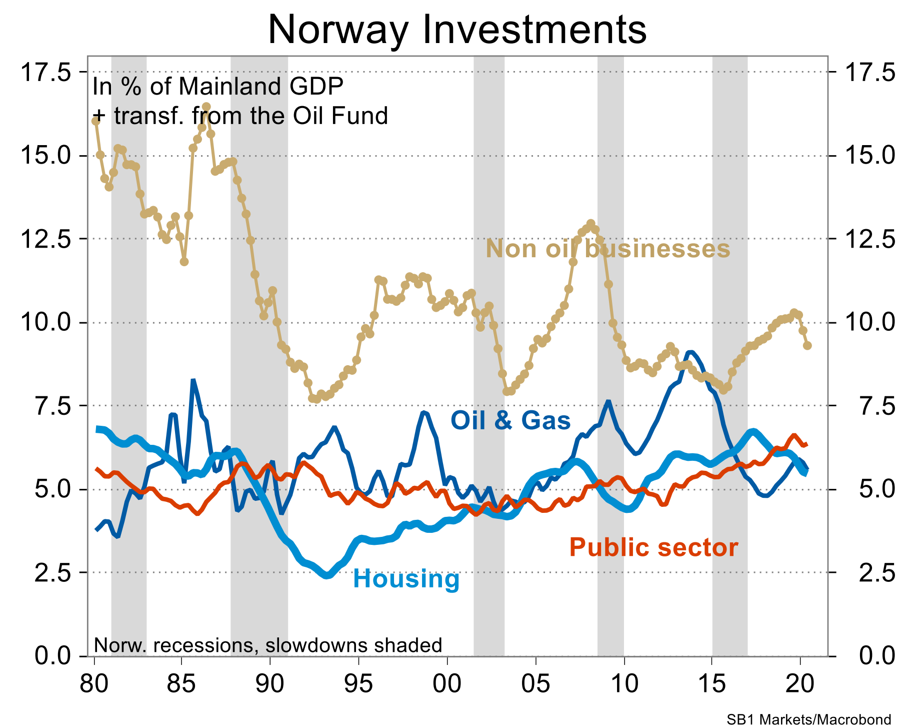


- Norwegian households have reduced their consumption by 9% or 124 bn (annual rate) – of which 121 bn abroad (-96%) and just 3 bn in Norway! Their consumption of goods is up 11% (69 bn), while their spending on services in Norway is down 72 bn or 10%!
- Sales of goods and services in Norway to Norwegians and foreigners are down by 4% or 48 bn – of which 46 bn are due to lower demand from foreigners in Norway (down 89%) and just 3 bn due to lower domestic demand form Norwegians
- Norwegian households' consumption of services will increase sharply in may still remain below the pre corona level. In July, some few foreigners started buying in Norway again – and Norwegians will buy somewhat abroad

The cycles: Soon all arrows will point down? Consumption sharply down in Q1

Mainland business investments have peaked too – and will contract sharply coming quarters



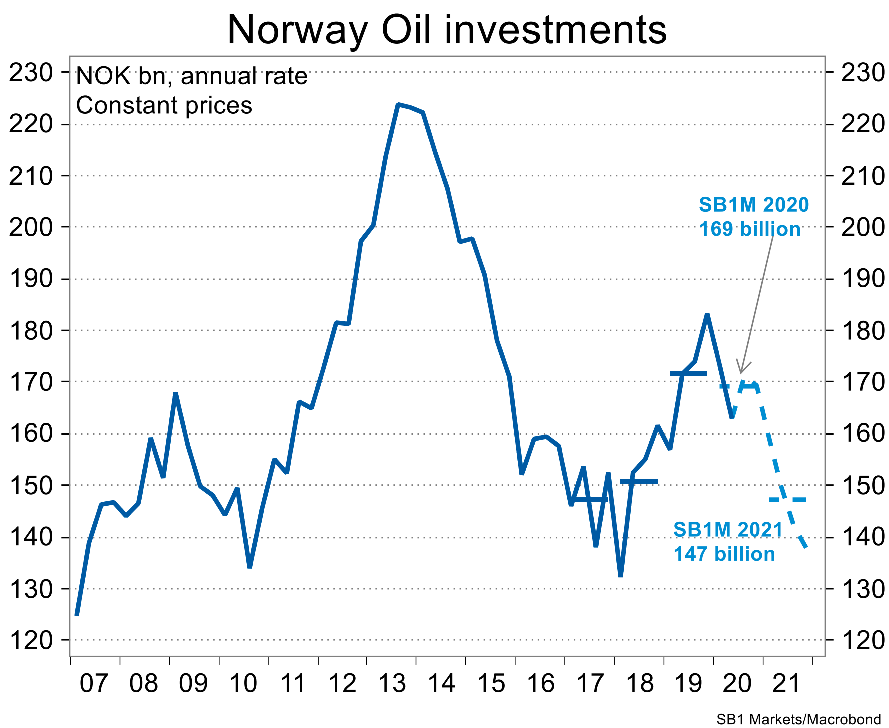


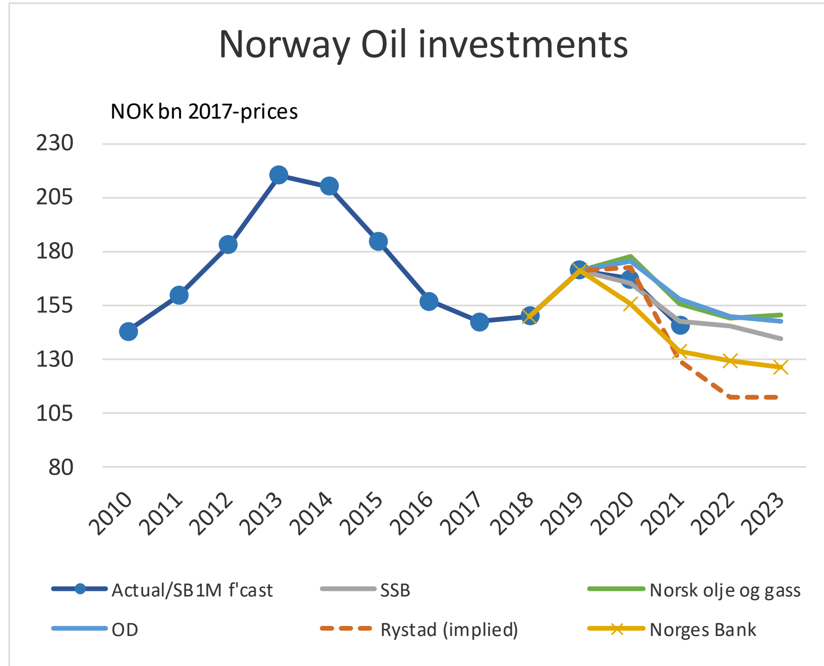
- And should housing investments continue down, the Norwegian growth outlook would not be that good…
- The downside risk for Mainland business investments is not that large, but a decline equalling 2 – 2½% of GDP is equivalent to the expected decline in oil and gas investments, see next page
- We expect household consumption to recover sharply from the Q1 (and we assume Q2) setback but that would not be sufficient to lift the Norwegian economy

SpareBank 1 MARKETS

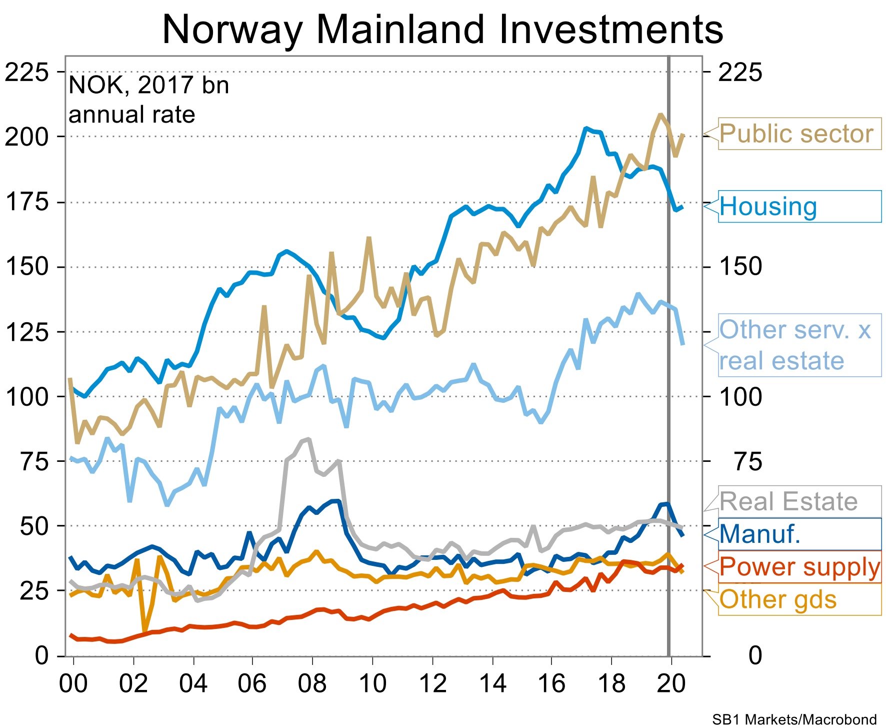
Oil investments: Down in Q1 & Q2, a pause in H2 – and down again in 2021?

Oil investments fell more than we assumed in Q2, and to reach the 2020 oil survey f'cast – up in H2





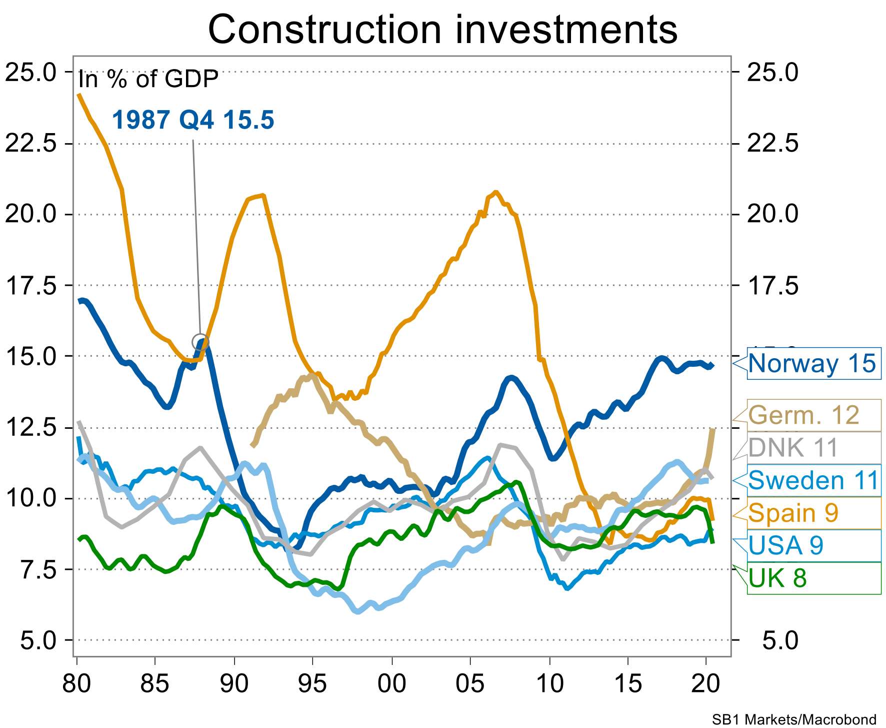
Mainland business investments sharply down in Q2

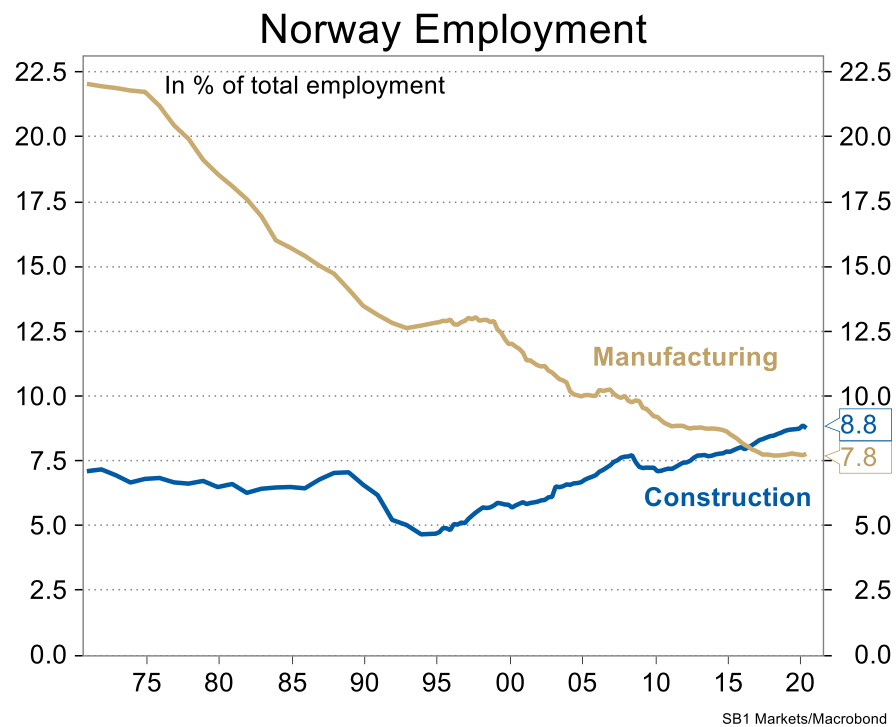


- Public sector rose after 2 quarters down – on upward trend
- Housing investments rose marginally in Q2, and may continue up in H2
- Private services investments soared in 2016-2017, then flattened and fell sharply in Q2. The level is probably still above a reasonable long term level
- Manufacturing investments have fallen sharply in Q1 and Q2, and will mostly continue down through most of 2021
- No boom in real estate but the level is probably high – and flattened trough last year – and we expect a further decline in 2020
- Investments in power supply has flattened – and will probably retreat in 2021

Construction investments have flattened, is exposed?

We are quite confident: Construction activity is higher than needed, long term





- Construction investments/GDP has flattened but remain at a high level
- Construction employment now equals 8.8% of total employment, much higher than anytime before
  - » <u>Construction is larger than manufacturing industries, employment wise, probably for the first time in a civilised country (except Spain and Ireland before the financial crisis)</u>

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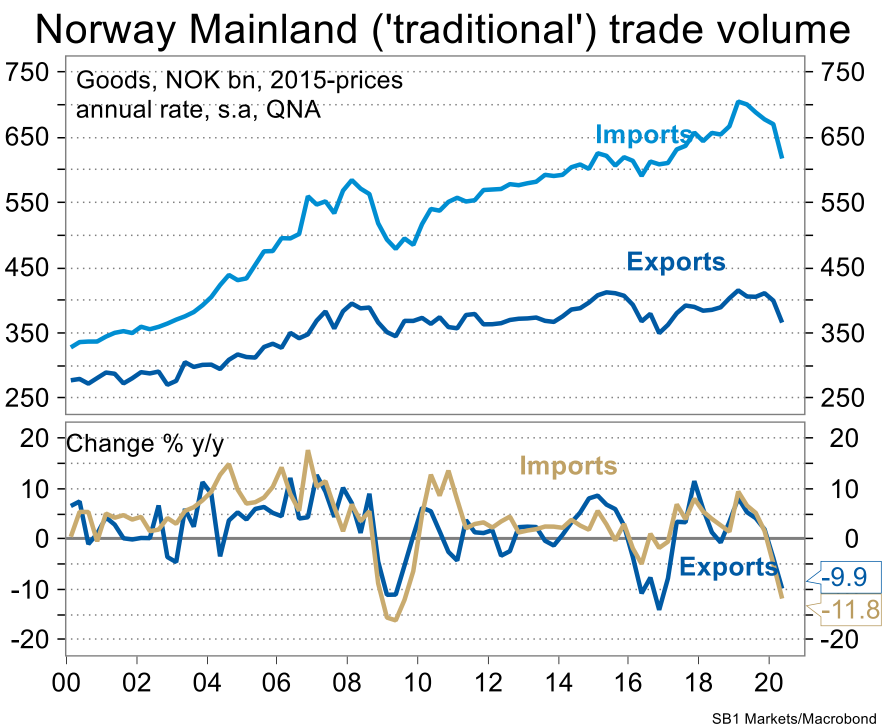
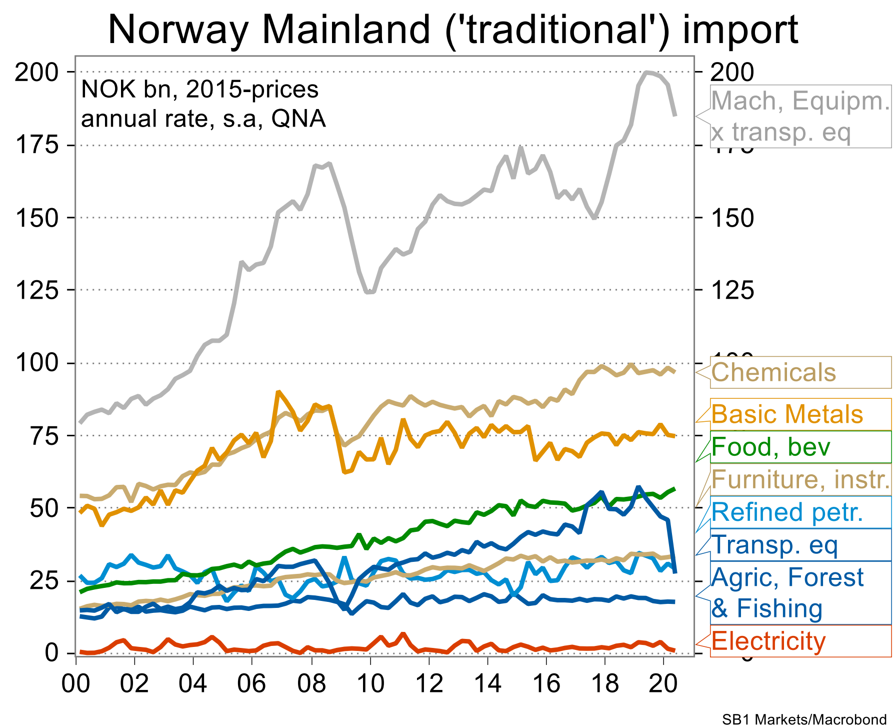
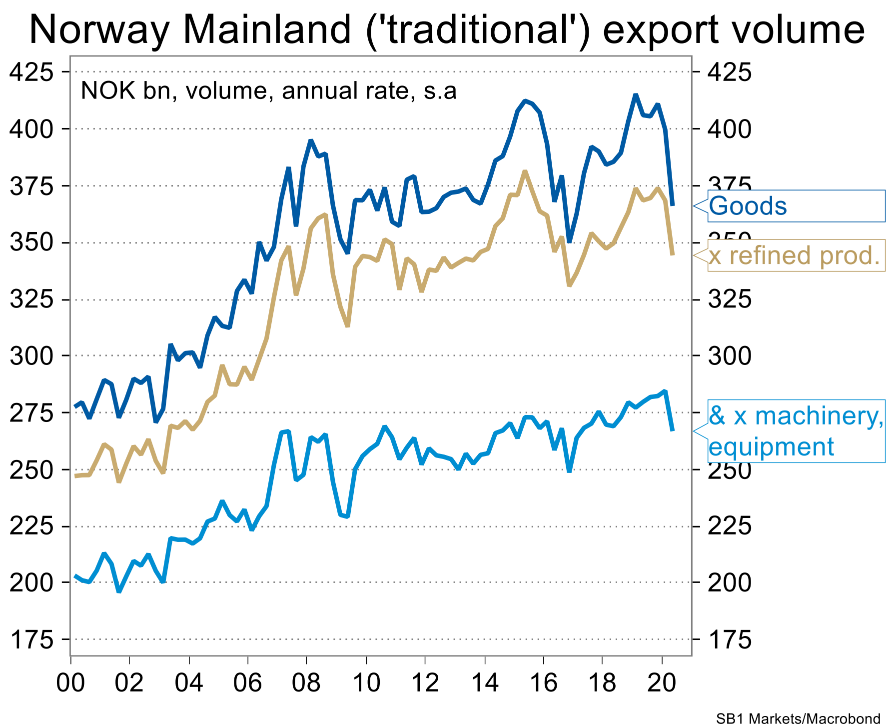
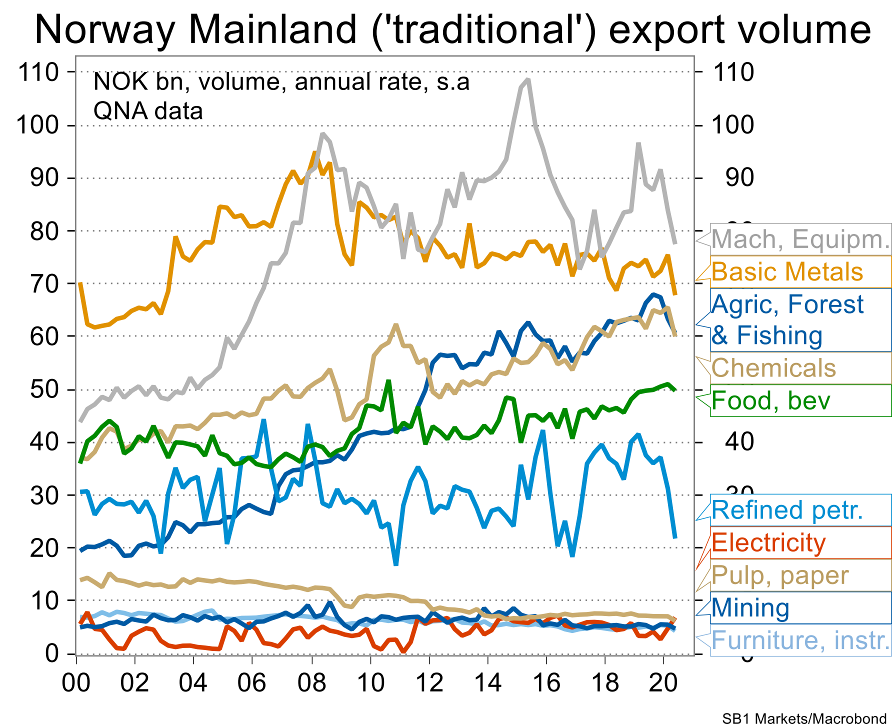
Import of goods more down than exports in Q2, both down some 10% y/y





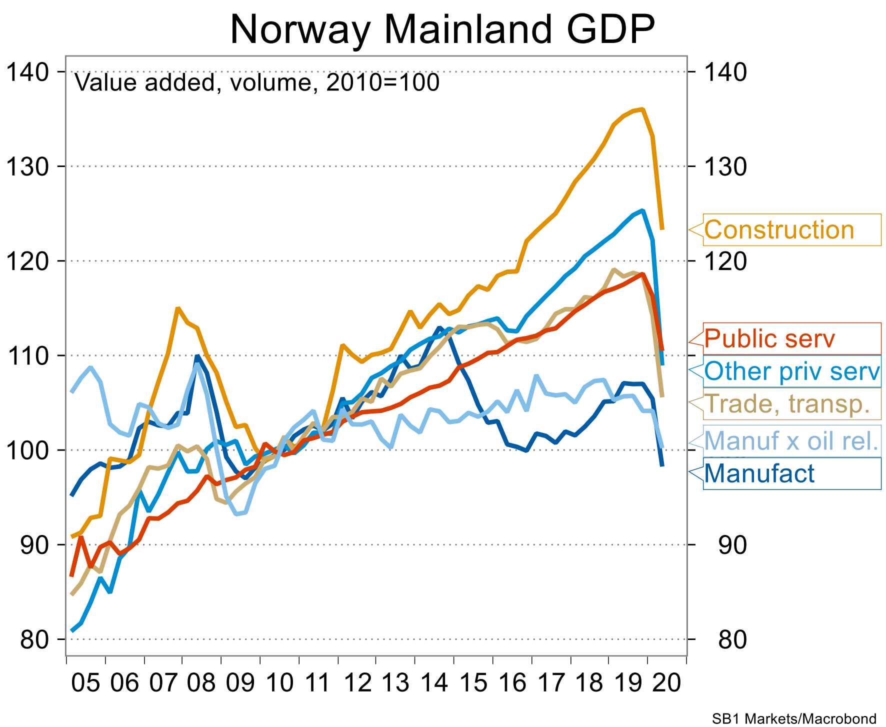
Mainland goods exports volumes down all over

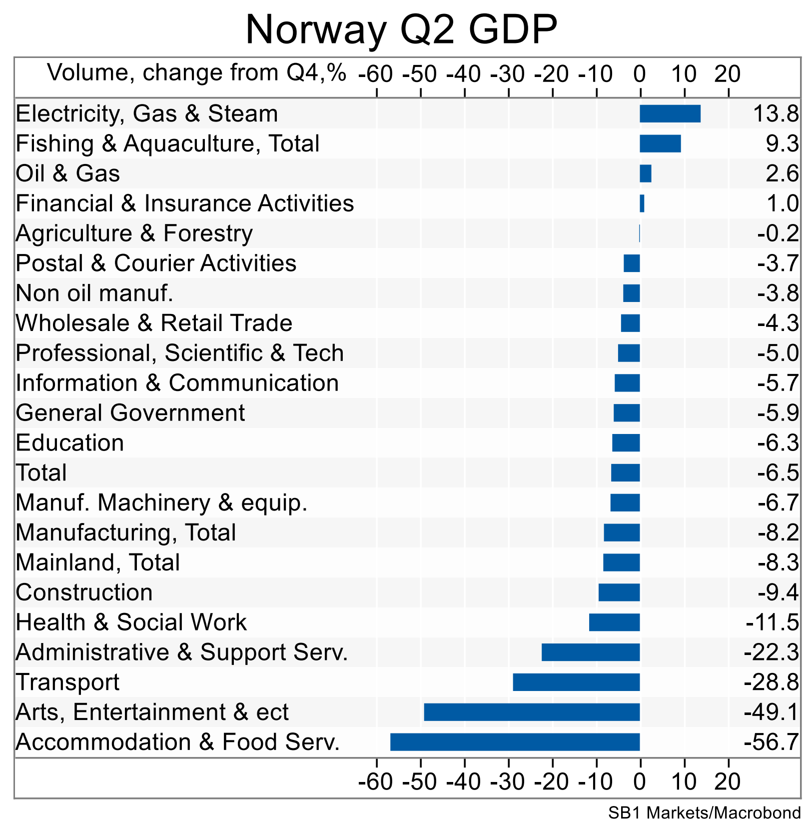




Production: Down almost everywhere, most in services

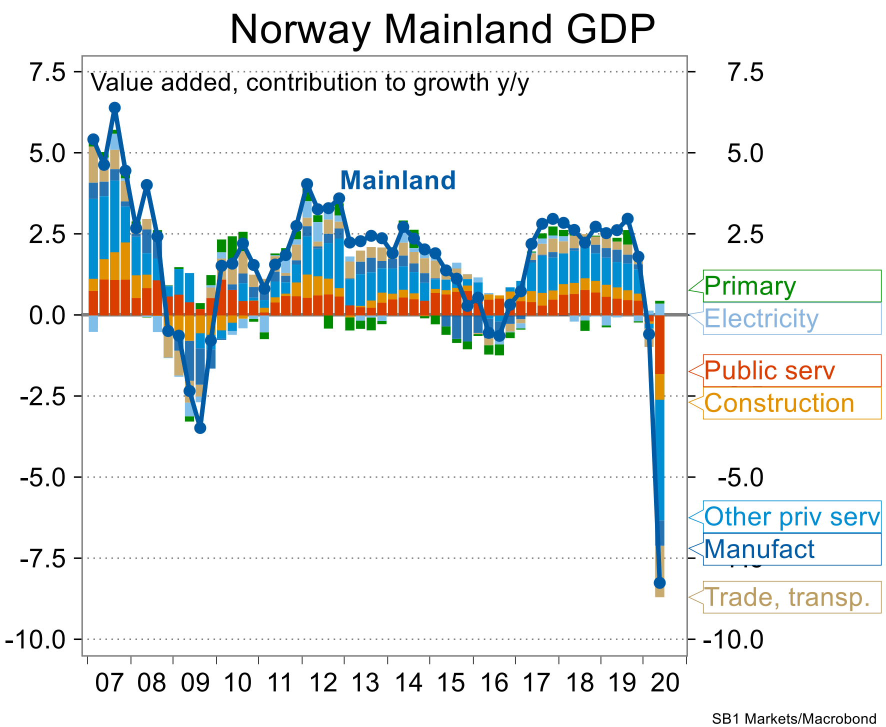
Transport, arts, entertainment, hotels & restaurants at the bottom

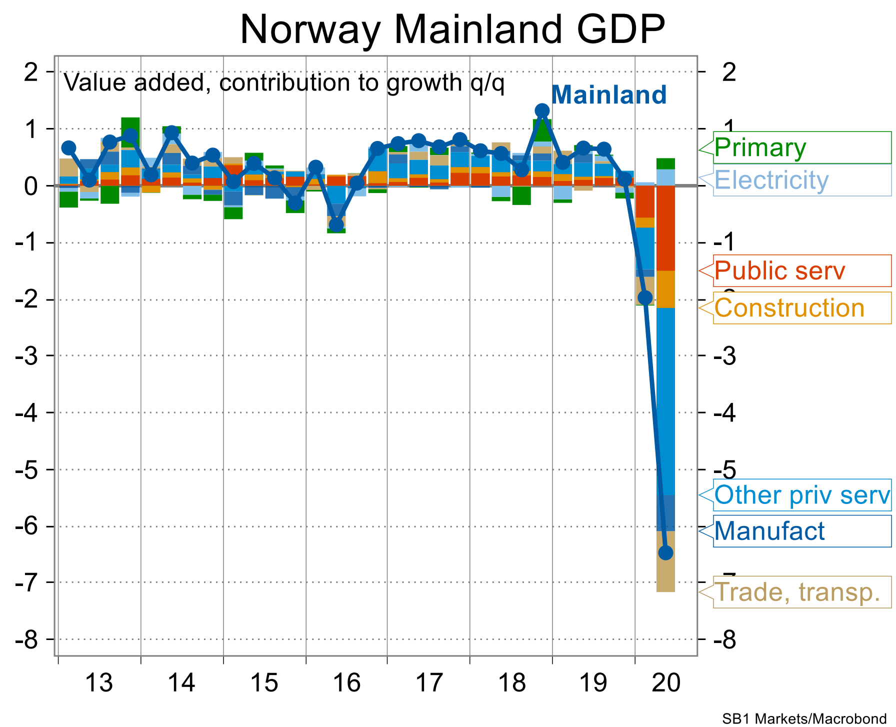




Production: Contribution wise, both public and private services to blame

However, barring primary & electricity, all were down in Q2

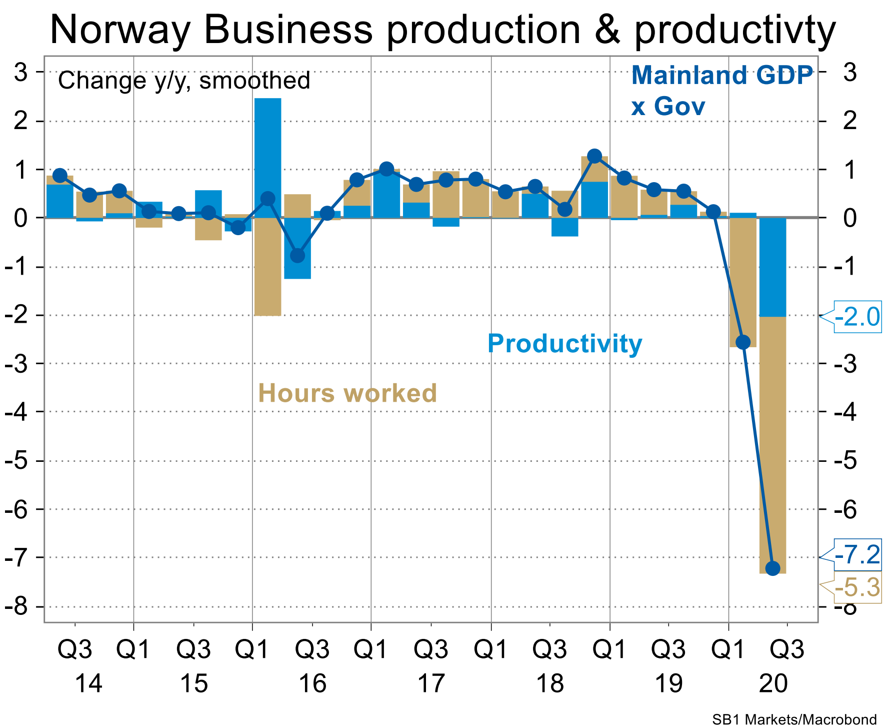


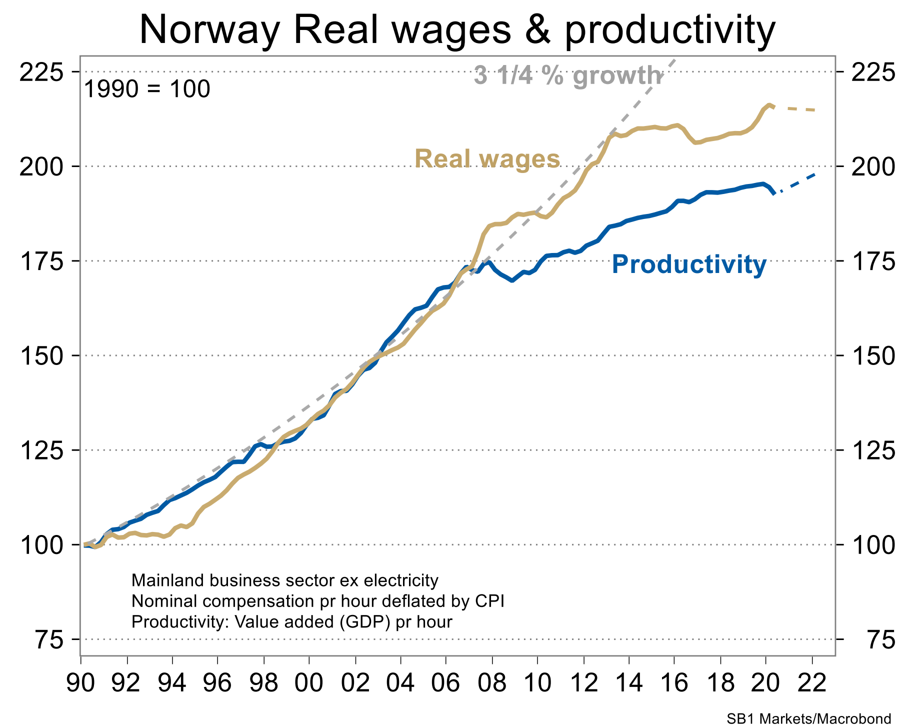


SpareBank 1 MARKETS

Deep cuts in hours worked but productivity still sharply down in Q2

We take the data with a grain of salt – both production, ours worked and average wages

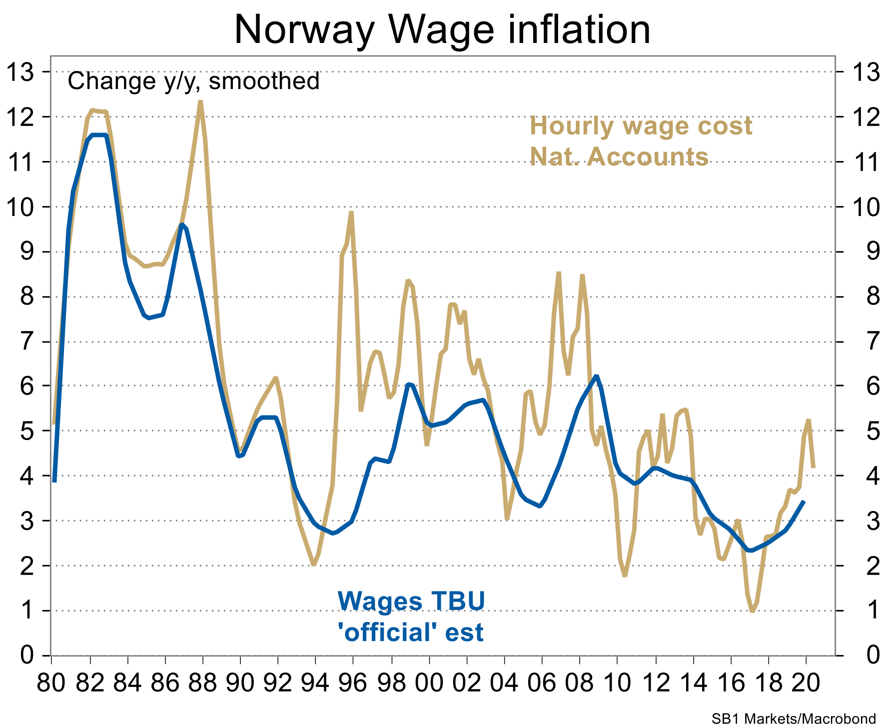


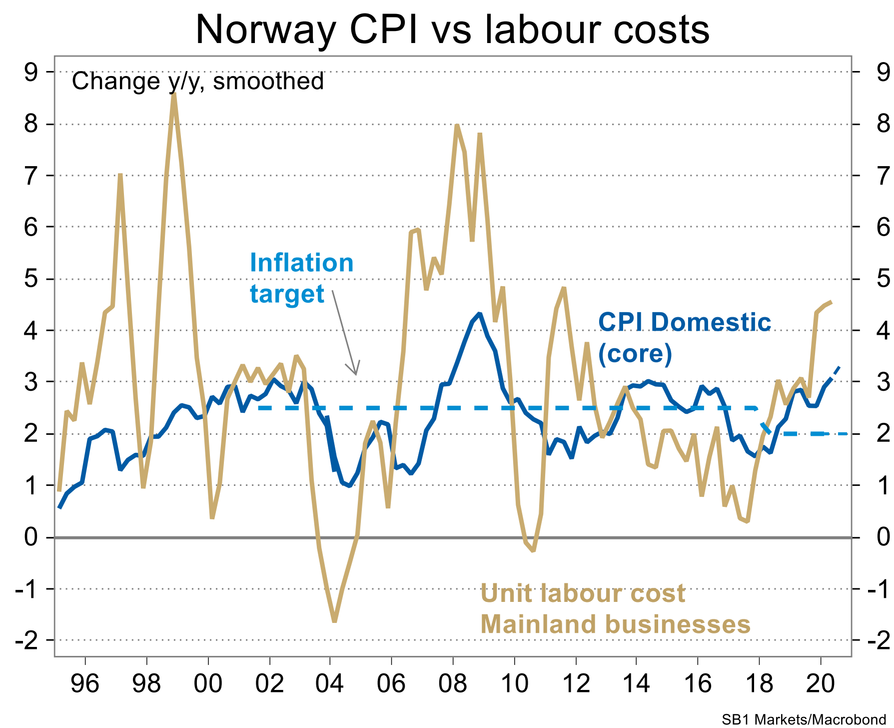


- Productivity in the business sector fell by 2% y/y in Q2
- Hours worked are down 5.3% y/y, much more than the no of employed
- The average hourly real wage fell slightly
- We expect real wages to decline marginally the coming quarters – and the potential for a pick up in real wages is limited as long as the underlying productivity growth is as low as has been past 10 years – and the profit rate is as low as now (check some few pages out in the report)

Labour cost inflation on the way up, but will come down

Hours worked cut, and hourly wage cost up 4%+ y/y, Unit Labour Cost up 4.5%. Perhaps.

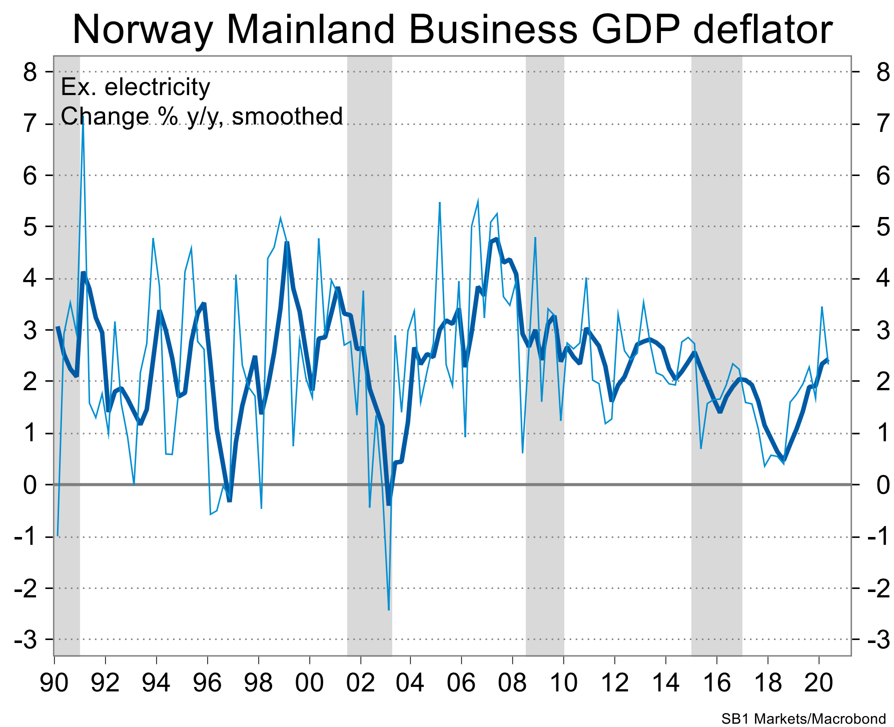


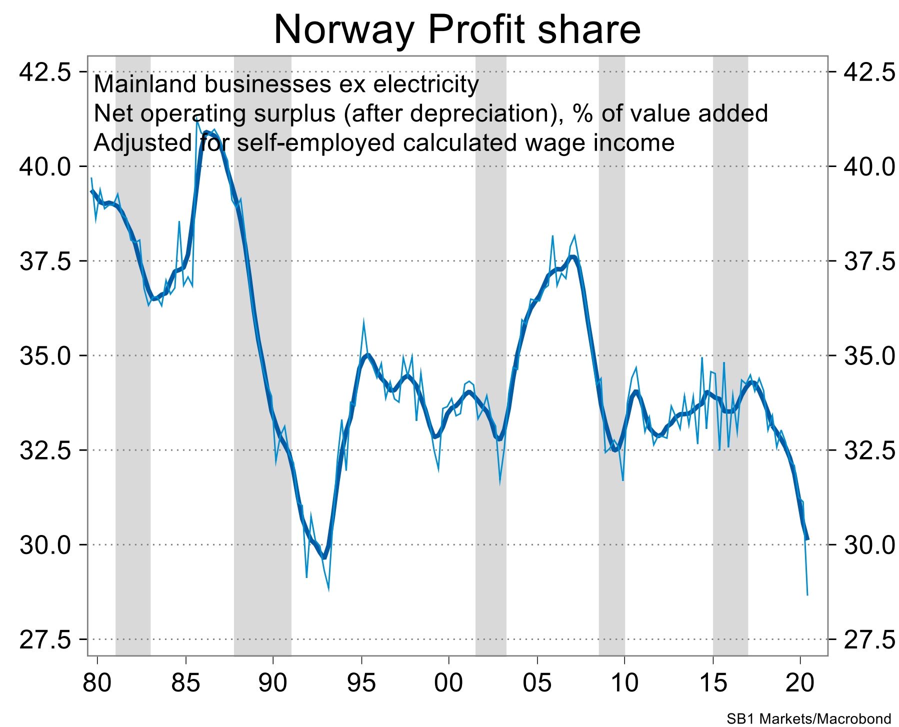


- Hours were cut, not employment, and hourly earnings rose as most are receiving monthly paychecks
- Still, labour cost inflation was on the way up before the corona crisis

The profit share is under pressure, profit rate record low in Q2

.. and it was at the lowest level in almost 30 years, before corna

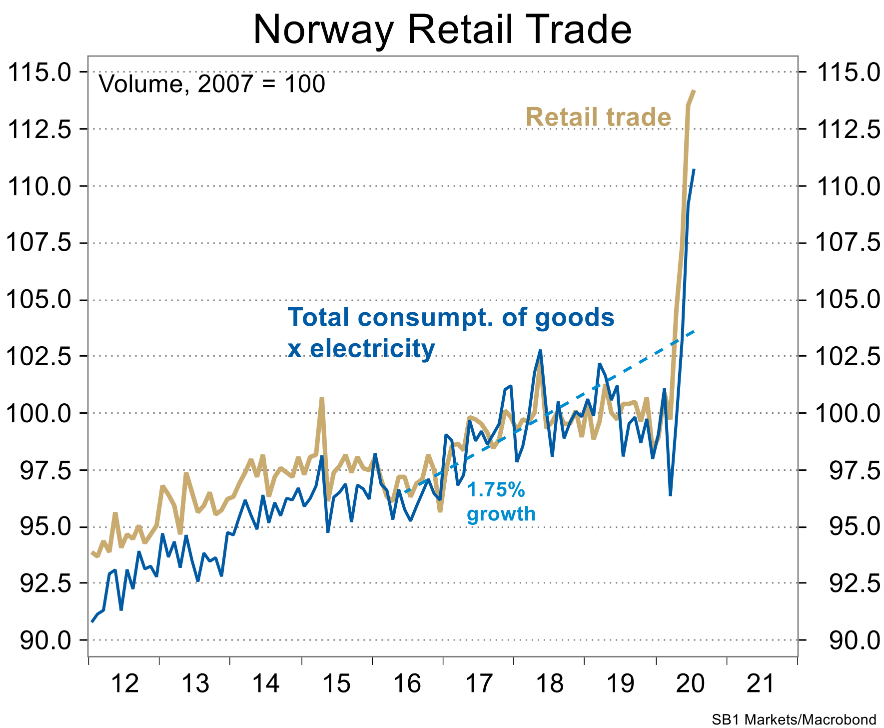


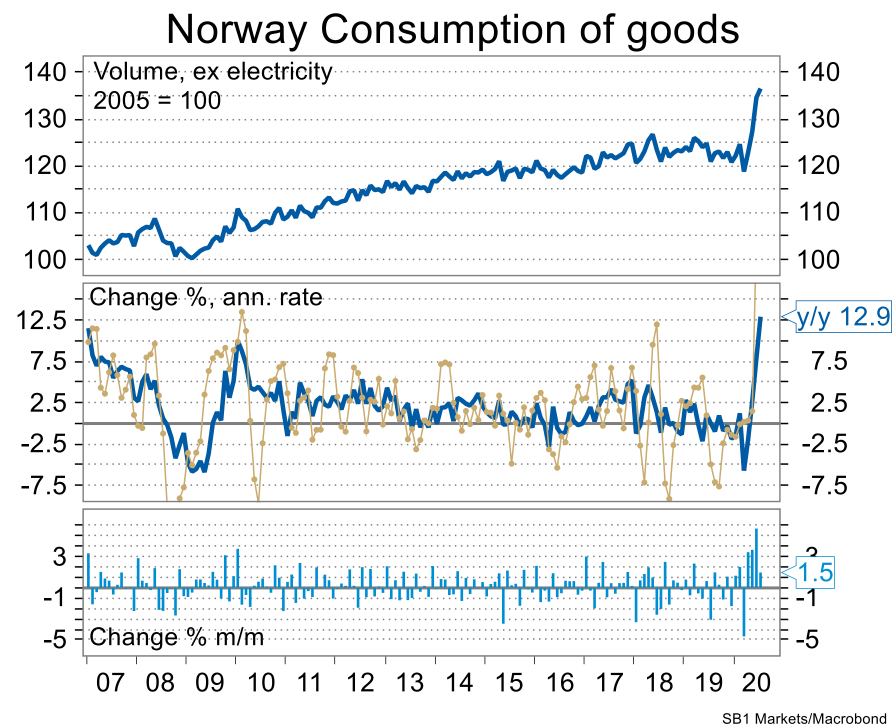


- The Mainland business GDP price deflator (ex the volatile electricity sector) has accelerated the past quarters, and is now up 2.5 – 3%. Higher export prices (due to a weak NOK) explained some of the lift from 1.8% in Q4. End user prices did not increase much
- The H1 decline in profits will probably be reversed in H2, at least partly.

Retail sales at the peak in July? Probably

Sales further up in July, by 0.6% - and up 13% from February – *far above any sustainable level*

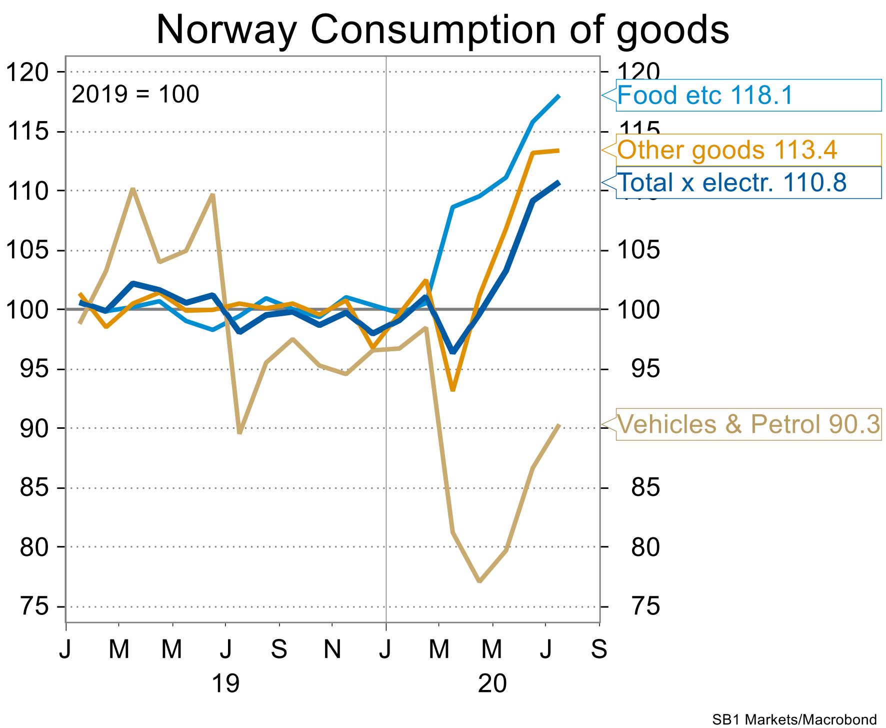


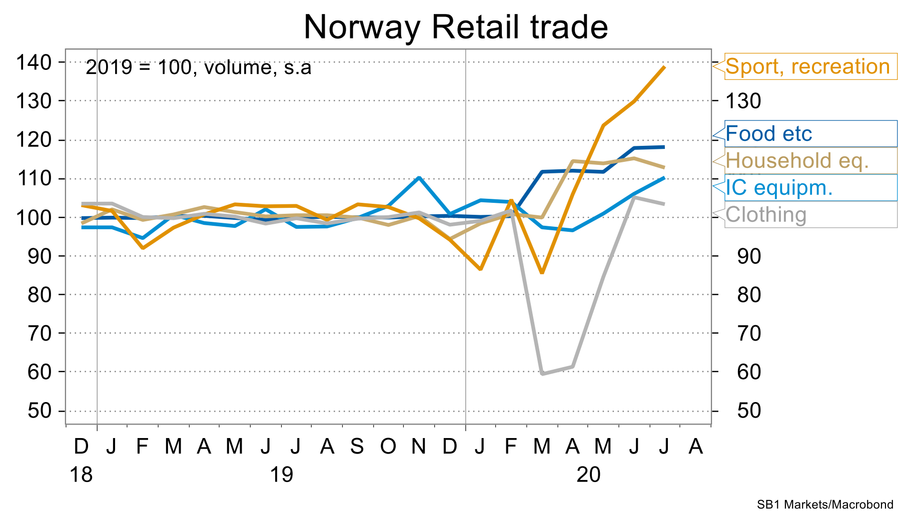


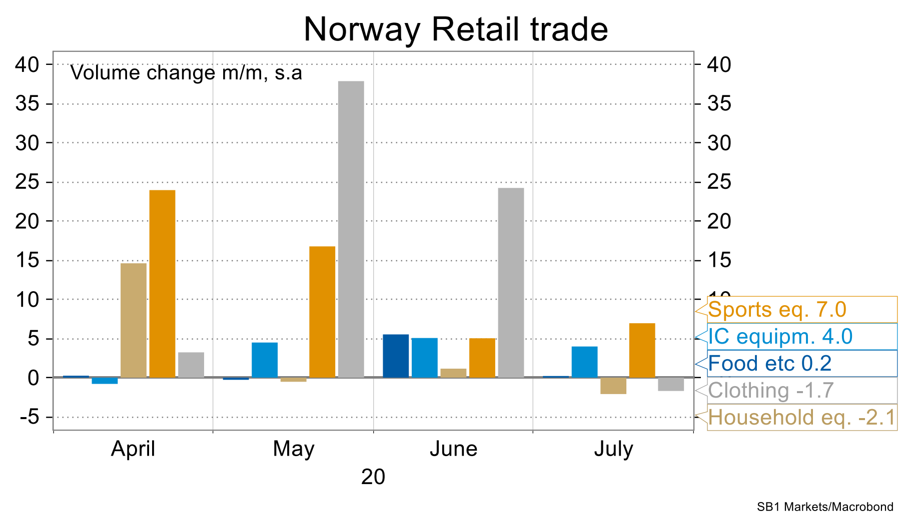
- Sales rose in line with consensus expectations, following the 5.7% jump in June (we thought 0 was sufficient). Total consumption of goods (ex electricity) rose 1.5% in June and is up 9.6% from February
- Food sales are up 18% vs pre corona, an incredible increase. Sport equipment is up 48%. Net sales are strong, but may have peaked. Even clothing sales came back to a normal level in June, following 3 really bad months
- Total consumption of goods (x electricity) grew 6.1% in June. Total consumption of goods is some 4% above the pre corona level
  - » If consumption keeps up in June, Q2 is up 3% vs. Q1 and 0.6% vs. Q2 19
- No doubt, less x-border shopping in Sweden, more food sales due to less capacity on restaurants and probably more important, lack of 'holiday' spending opportunities domestically and abroad explain the hike in retail sales. Service consumption started a recovery in May but remained far below the pre corona level – as was total private consumption, but just including less (almost) no spending abroad (check here)

Food & alcohol sales up 18% from Feb, sport/recreation +40%

Even clothing has come back to the Feb level, was down 40%. IC equipment just up 10%



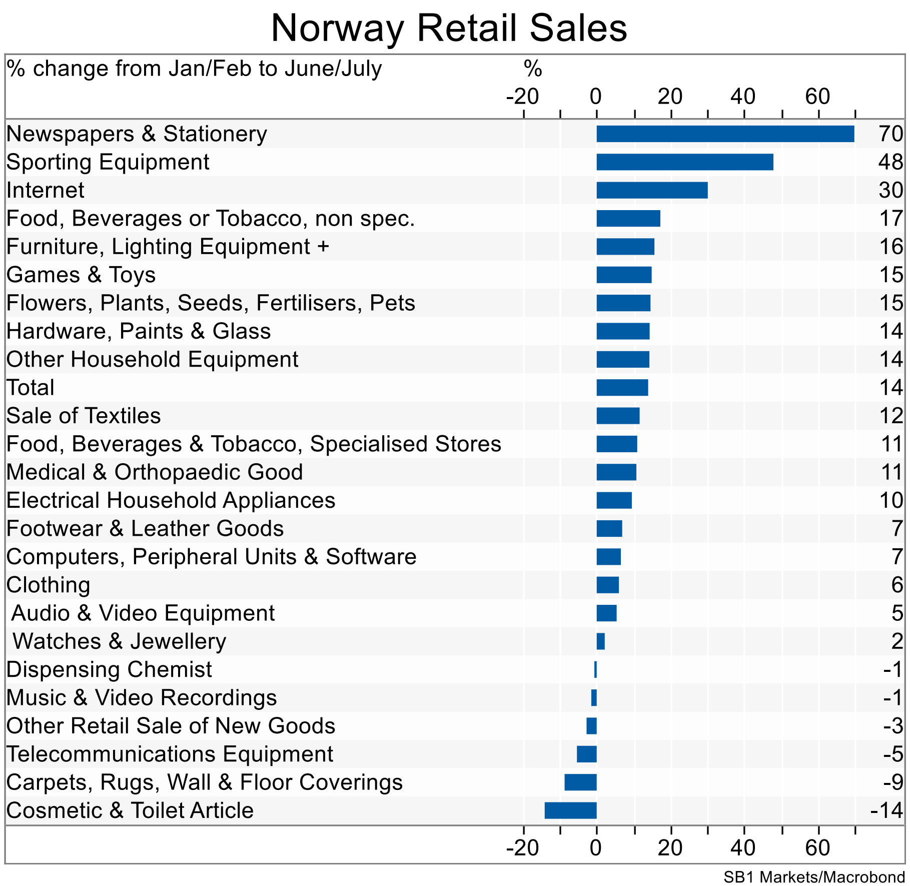


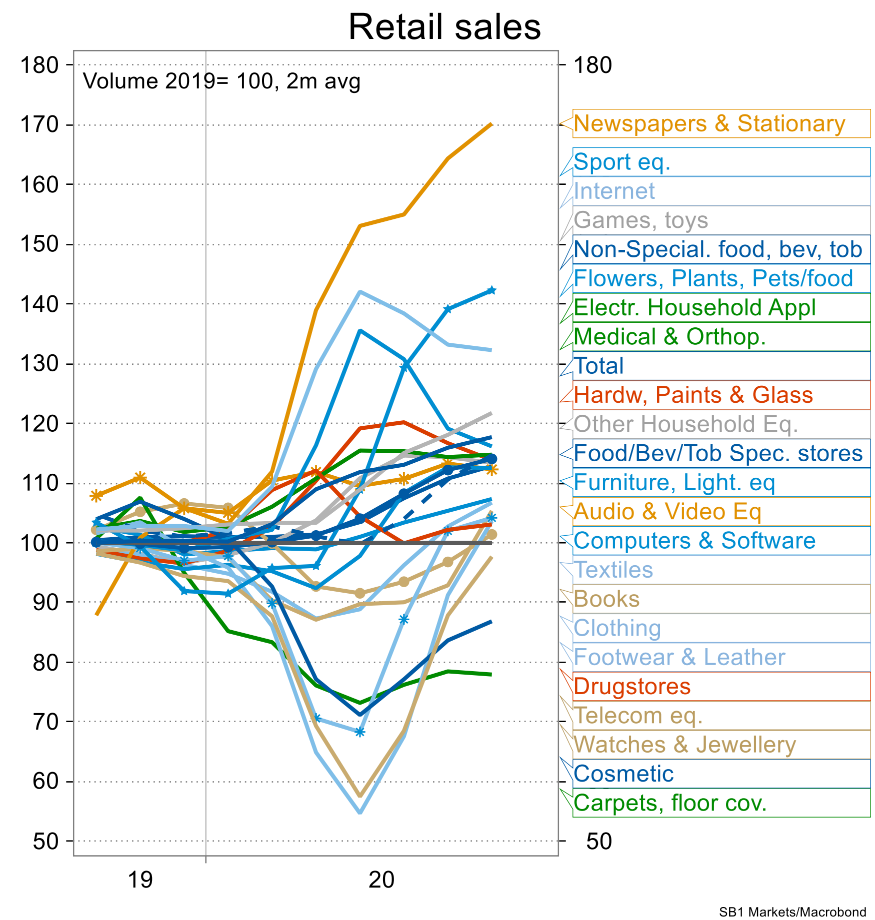


Food etc in total goods consumption includes more categories than in the retail trade index

Some wild months – probably towards more normal times the coming months

Spending on services and gradually also abroad will dampen retail trade demand in Norway

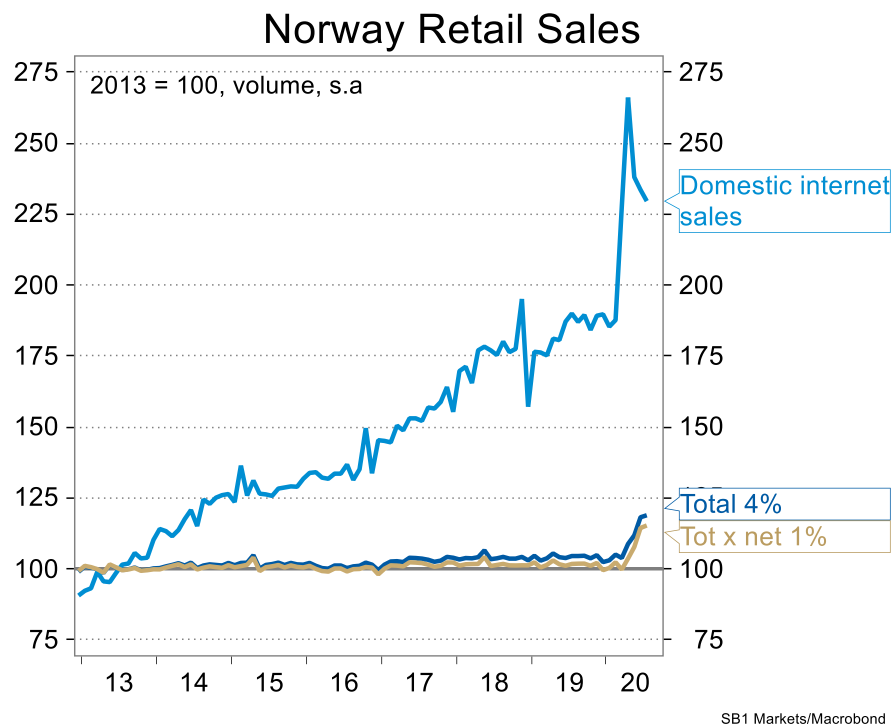


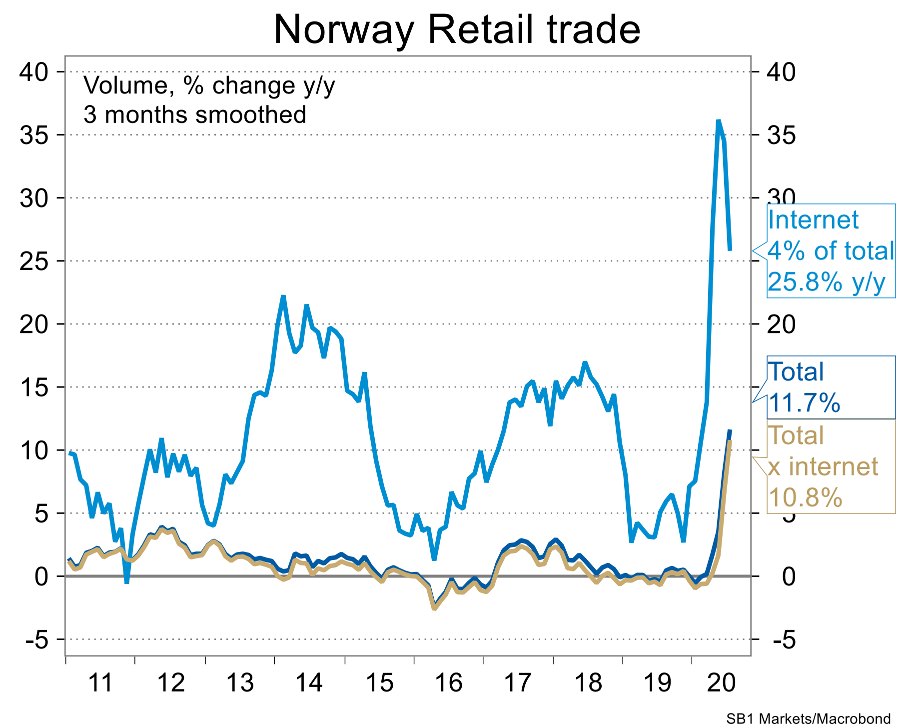


- Just some branches are still reporting lower sales than in before corona

Internet sales (domestic) slightly since May - following a 40% rise

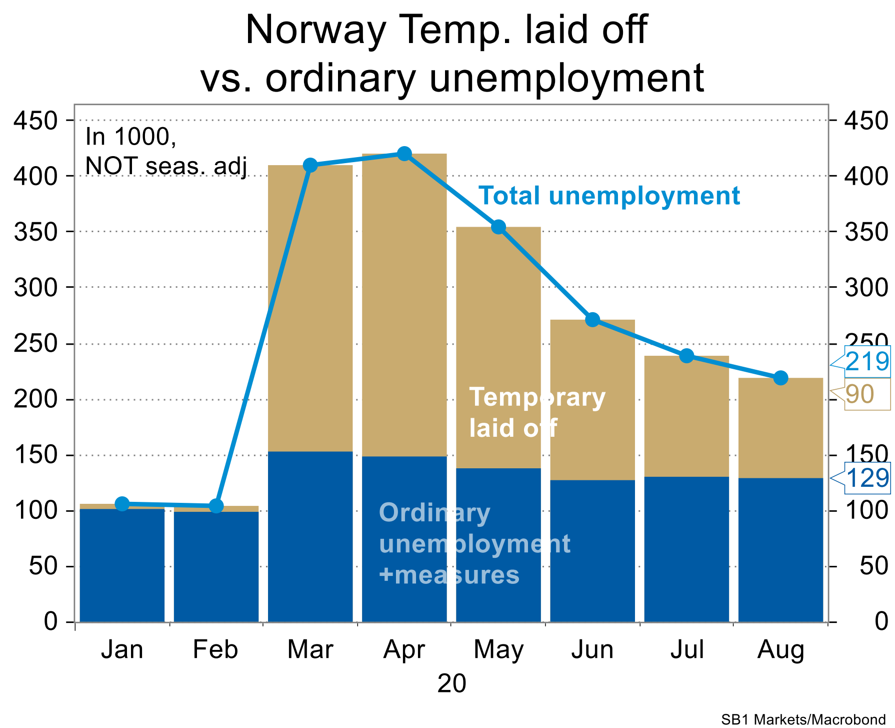
Domestic net sales have captured more than half of the growth in total retail sales

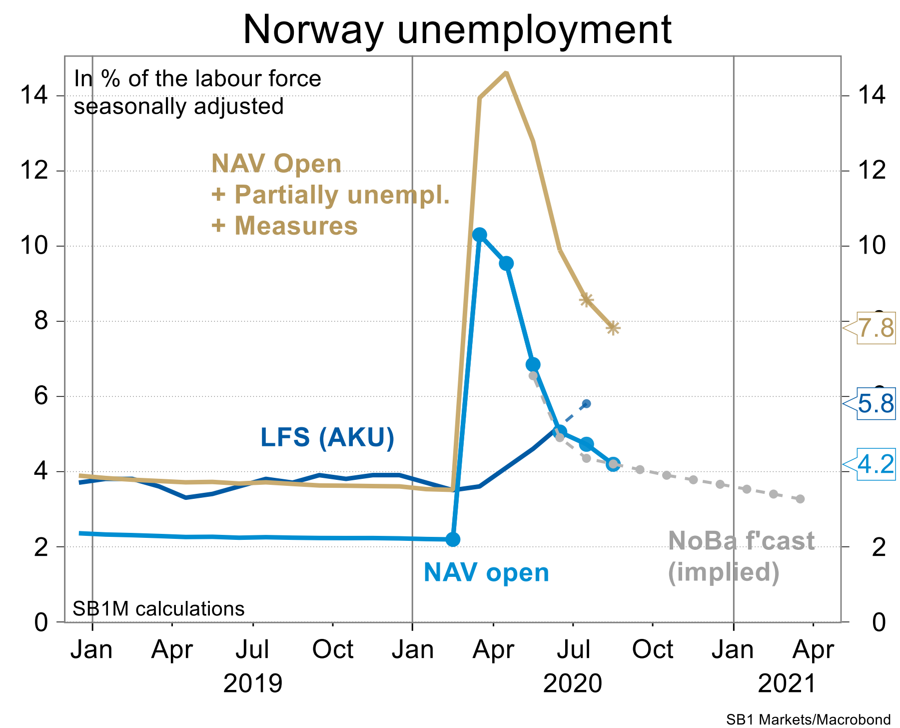




NAV unemployment further down, in line with NoBa f'cast

The number of ordinary unemployed fell by further 15' in Aug, -0.5 pp to 4.2%. Total -0.8 pp to 7.8%

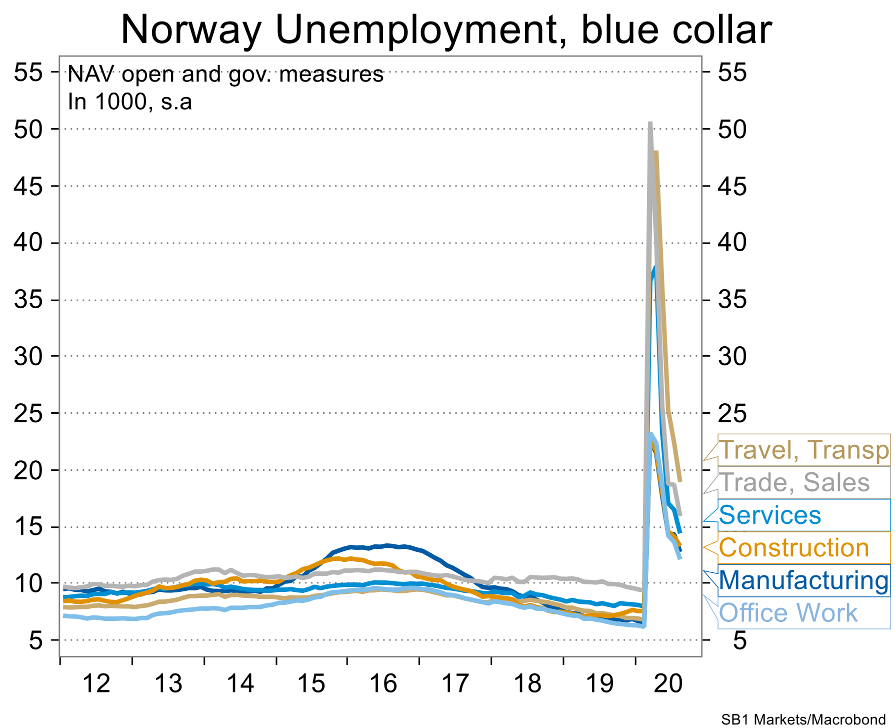


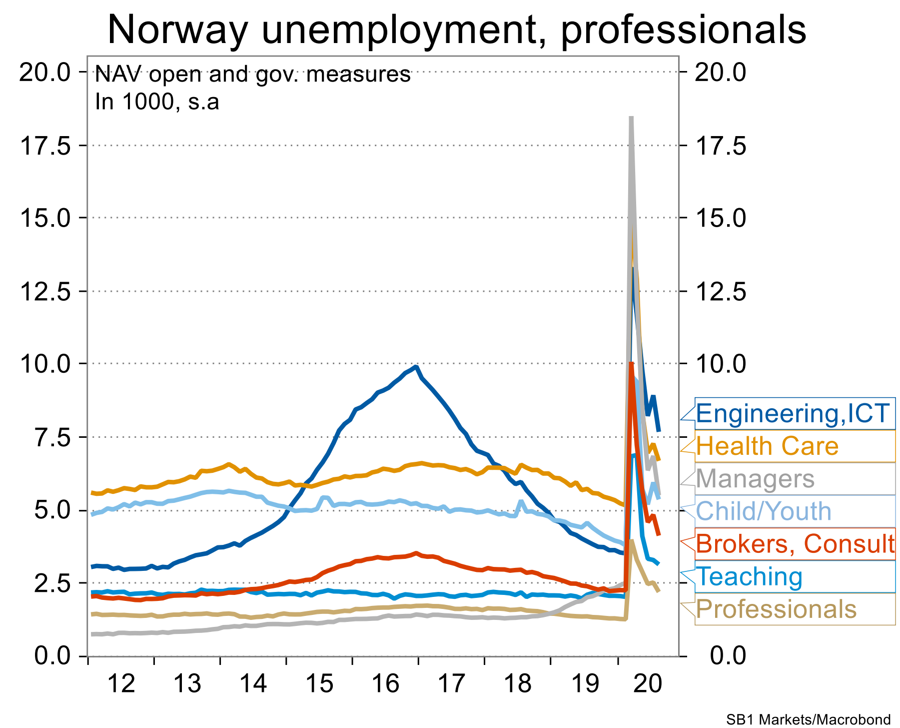


- Open 'full time' unemployment measured at NAV, which includes furloughed workers, fell by 15' in August, down to 122' or 4.2% of the labour force. In April, more than 10% were unemployed. In February, the unemployment rate was 2.2%
  - Including labour market measures, the unemployment fell by 17' to 135', or 4.8%
- Including the partially unemployed, the total unemployment is at 219' or 7.8% - down 20' or 0.8 pp. The speed of decline is slowing somewhat
- The LFS (AKU) reported a 0.6 pp increase in the unemployment rate from May to June (3 m centred avg) up to 5.2%, and further up to 5.8% in July (single month obs) as most furloughed workers are counted as unemployed after 3 months in the dole (from March)

Unemployment far higher than normal in all sectors

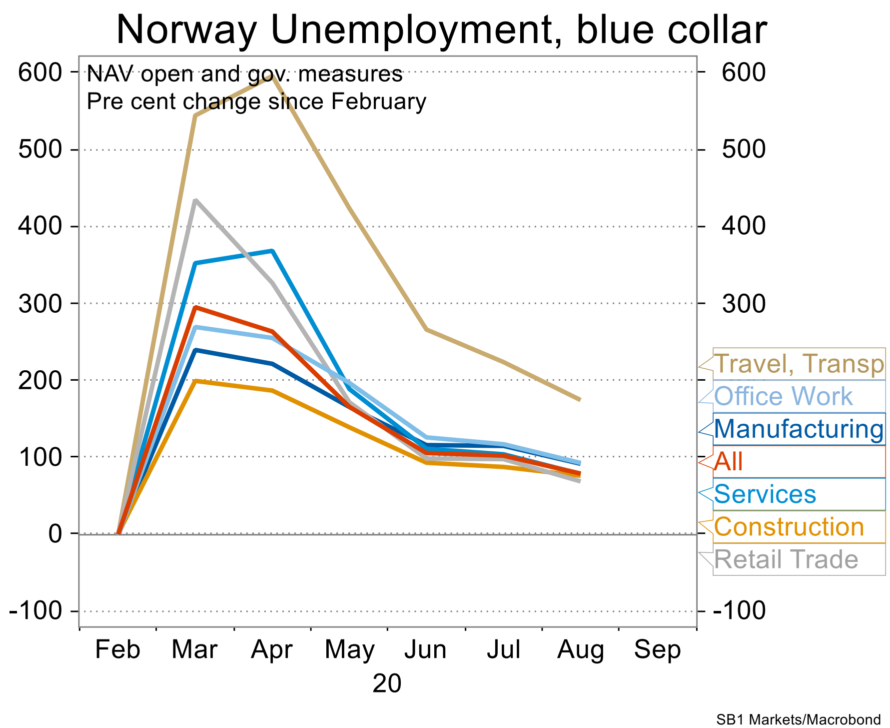
Even among engineering, ICT workers. Travel at the top, of course

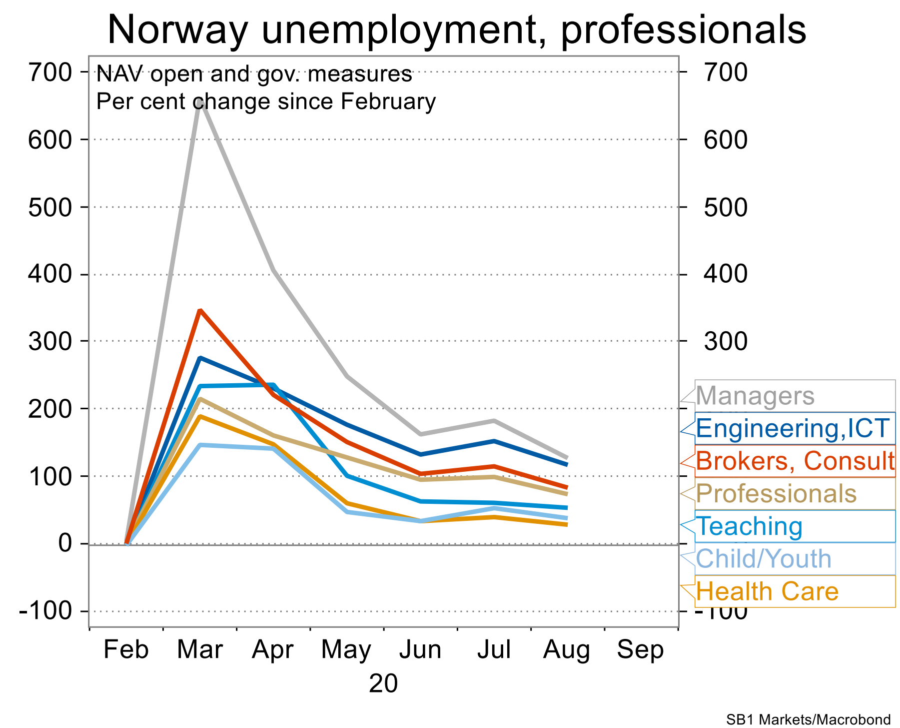




Unemployment far higher than normal in all sectors

Even among engineering, ICT workers. Travel at the top, of course

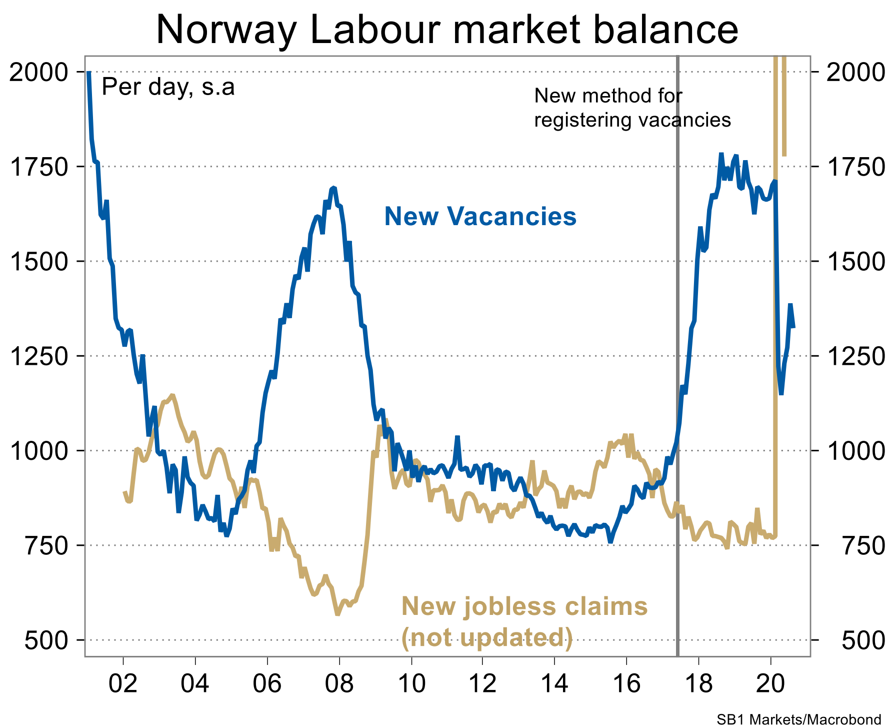


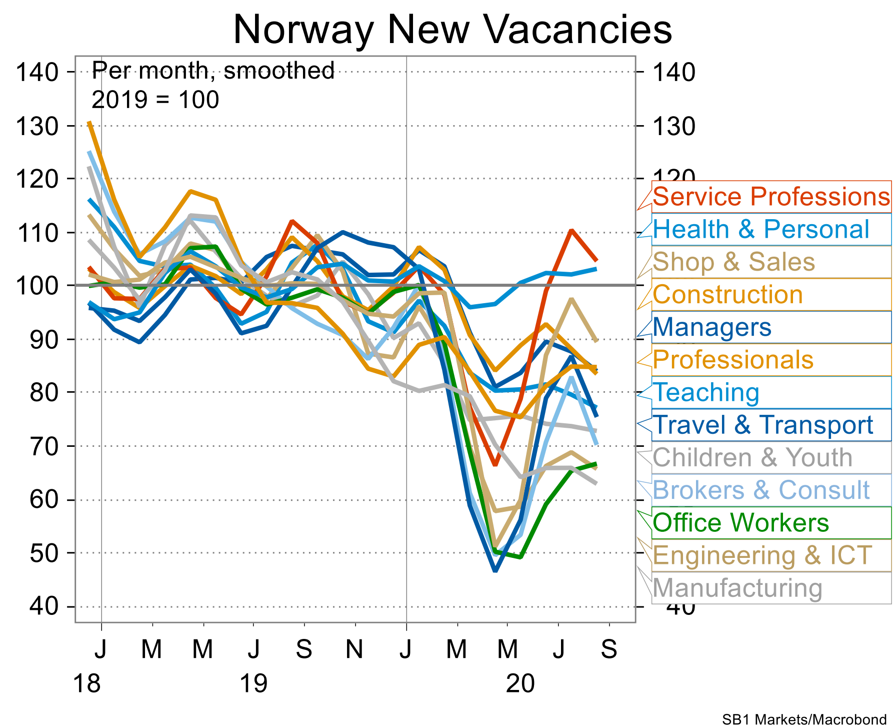


SpareBank 1 MARKETS

Just a partial recovery in new vacancies – and a new decline in August

New vacancies still down 20% from the pre corona level, as companies re-engage furloughed workers

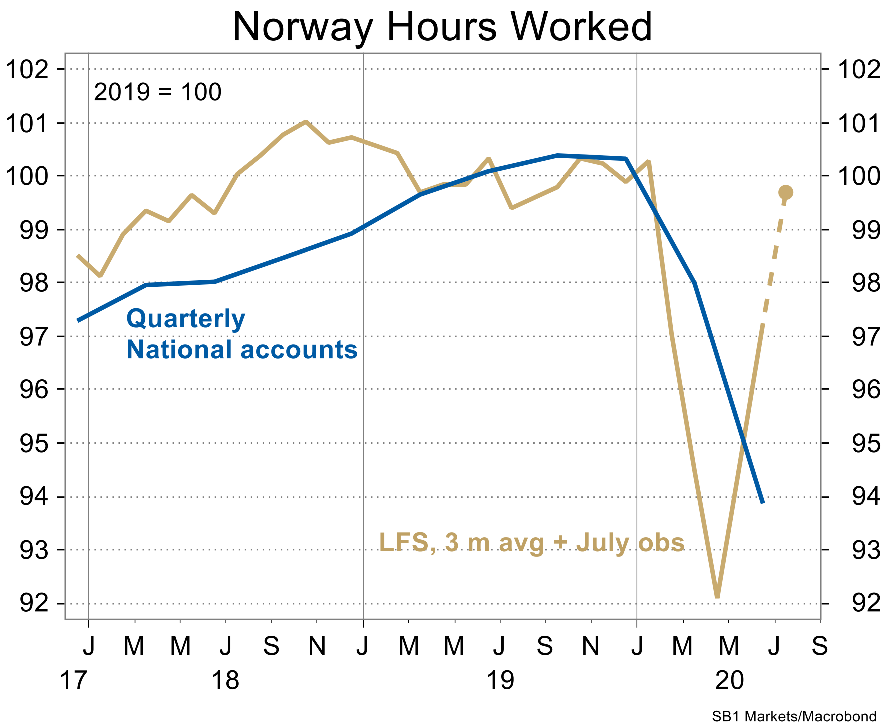


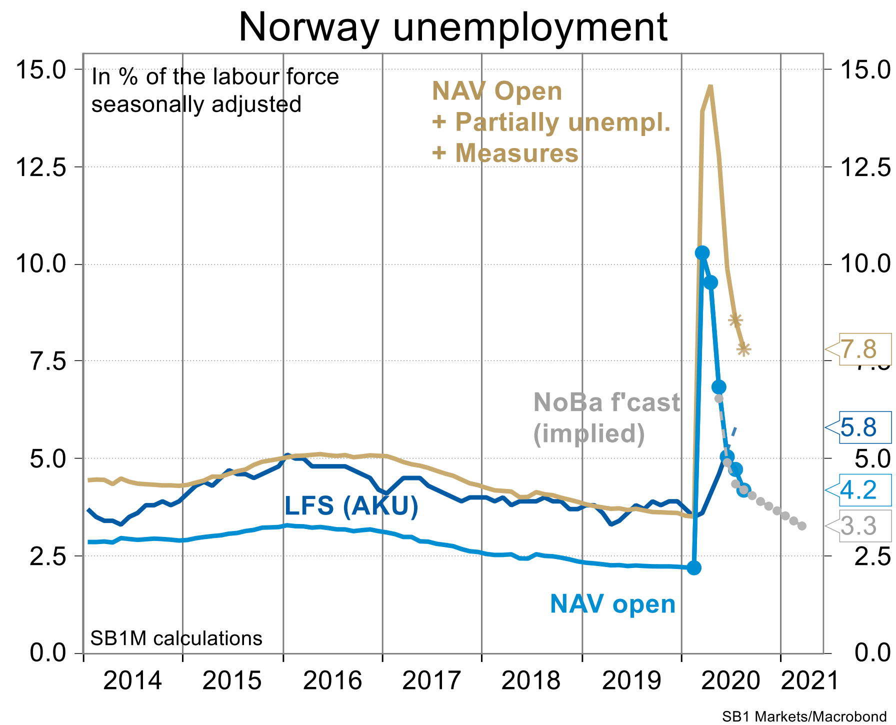


- A sign of the state in the manufacturing industries/engineering/ICT: At the bottom vs. pre corona levels

LFS (AKU) unemployment further up as more furloughed are included

However, an encouraging recovery in no of employed at worked and hours worked

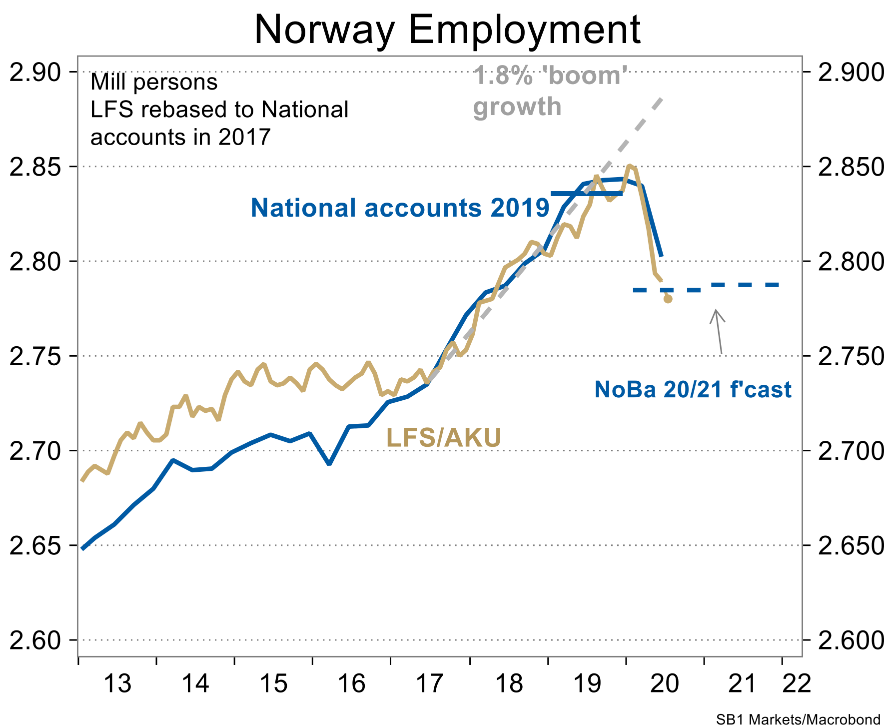


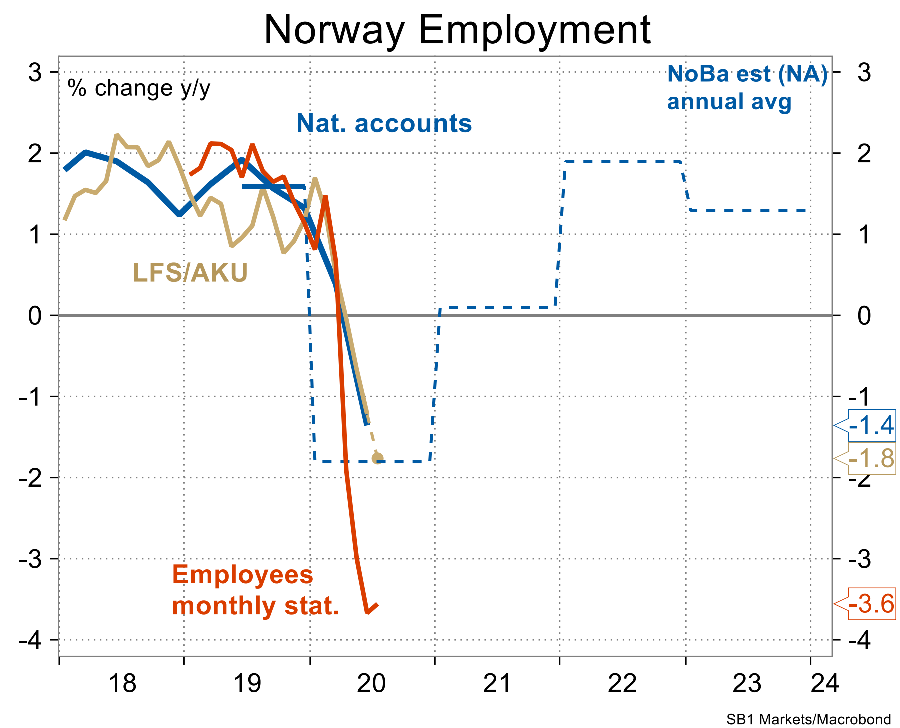


- In the LFS, temporary laid off (furloughed) workers are counted as employed the first 3 months of the unemployment period, thereafter as unemployed. Since most were furloughed in the second half of March, ¾ of those still on leave entered the ranks of measured unemployed in July. SSB published this single month data point last week a 5.8% unemployment rate. Normally just the 3 m moving average is published. The 3 m avg rose to 5.2% in June (May – July) from 4.6% in May (April – June), expected up to 4.8%.
- The LFS employment fell 1.6% from March to June (again smoothed), and by 2% since February – and probably by another 0.6 pp in July. National accounts reported a 1.3% decline in Q2 and -1.4% from Q4.
- However, hours worked are down 2.5% in Q2 in the LFS, and by 4.2% according to the Nat. Acc (or by 5.7% and 6.5% from Q4, resp.) According to the LFS hours worked rose sharply through Q2 and further sharply in July – back to a normal level! (But these data are volatile!)

Employment down as most furloughed workers are defined as unemployed

LFS employment down 2% since Feb, National Accounts reports -1.4% from Q4

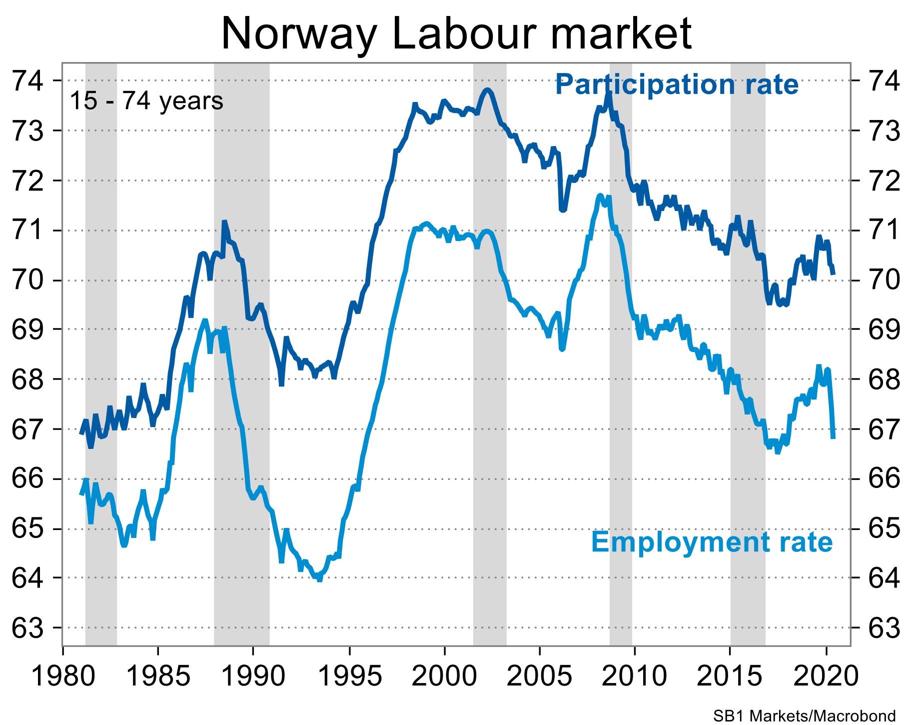


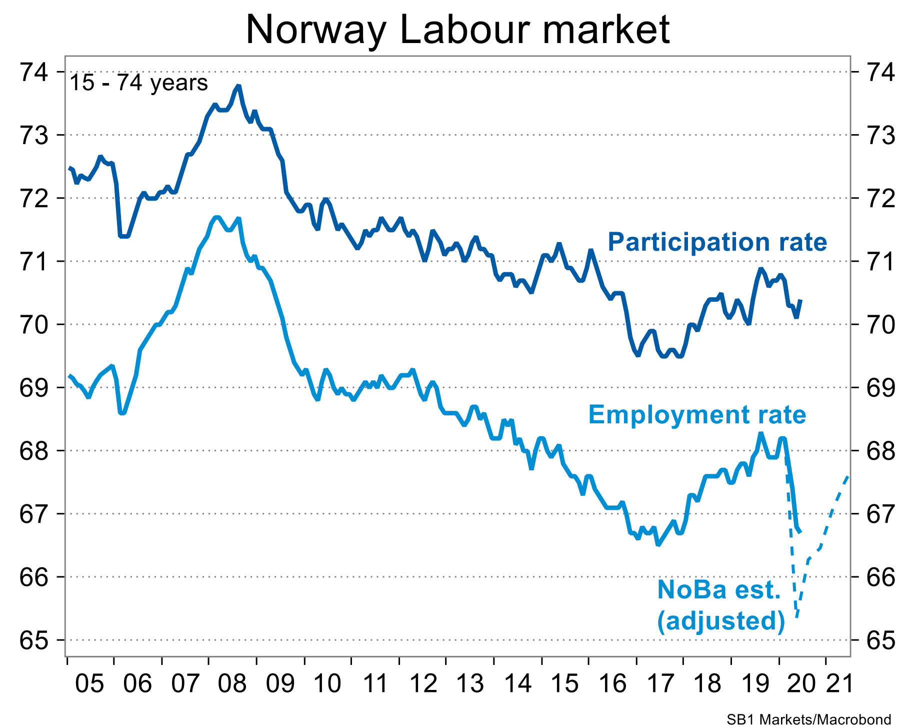


- Employment fell further in July, according to the LFS (the final dot at the employment line on the charts above)
- SSB’s new monthly employee stats reports a 3.6% y/y decline in the number of unemployed persons in July, just slightly better than the June y/y rate

The employment rate sharply down, but far less than NoBa assumed??

The employment rate fell further in June, according to the LFS

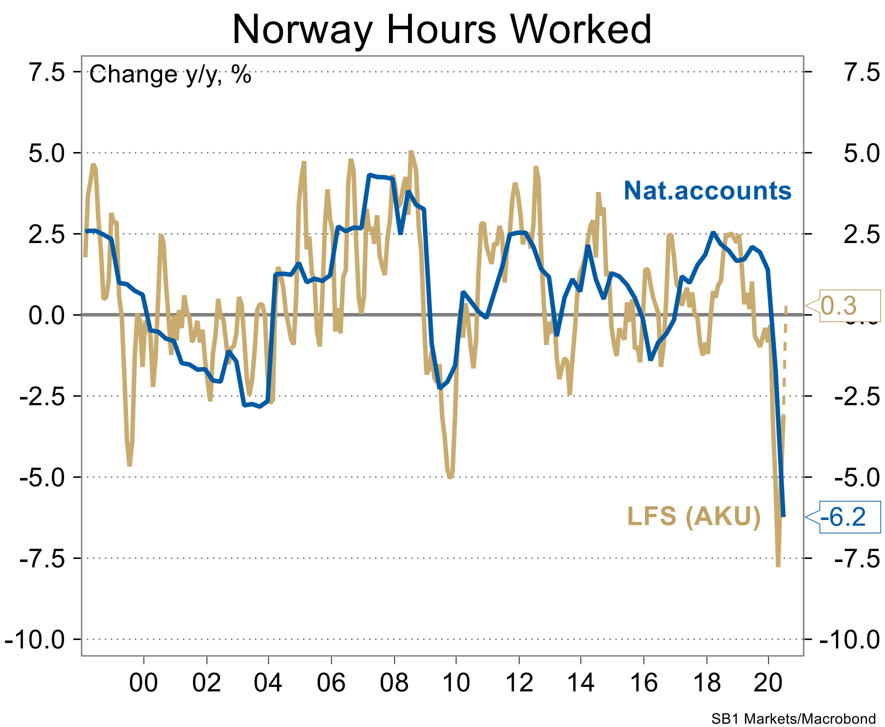


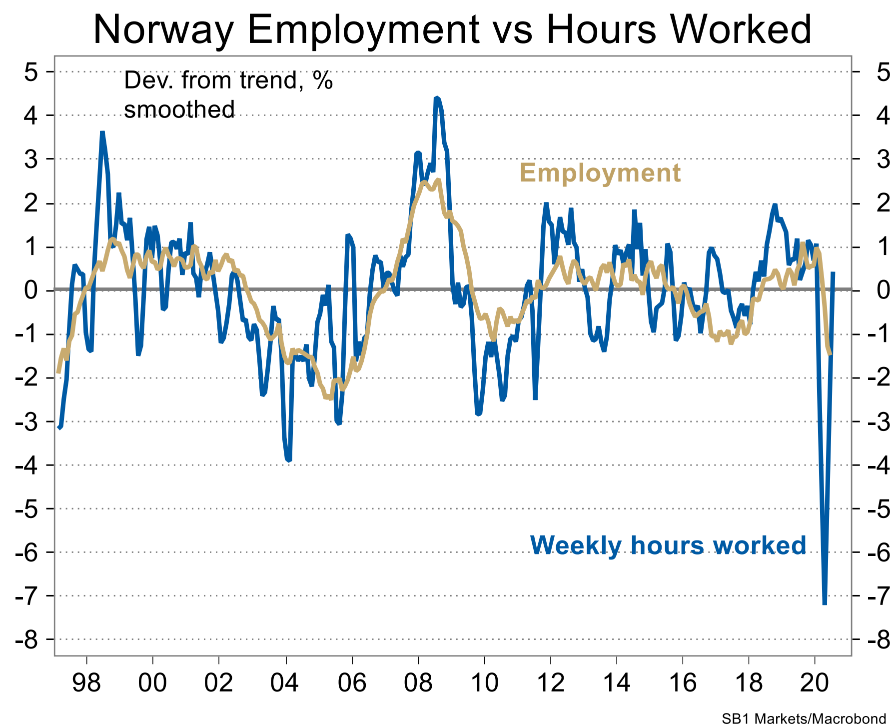


- In the June report, NoBa forecasted a decline in participation rate, measured by National Account employment data, not the LFS survey data, by 3 pp in Q2 (to 64.6%), implying a 4%+ decline in employment from Q1. Actual employment, whether measured by the LFS or NA, fell just a fraction of NoBa's estimate. We assume the Bank will revise its forecast substantially. (It seems like NoBa has assumed unchanged average working hours in its employment rate f'cast).
- The participation rate has fallen by just 0.3 pp since Feb, and was equal to the level in June last year.

Hours worked sharply down in Q2 – but sharply up May to July!

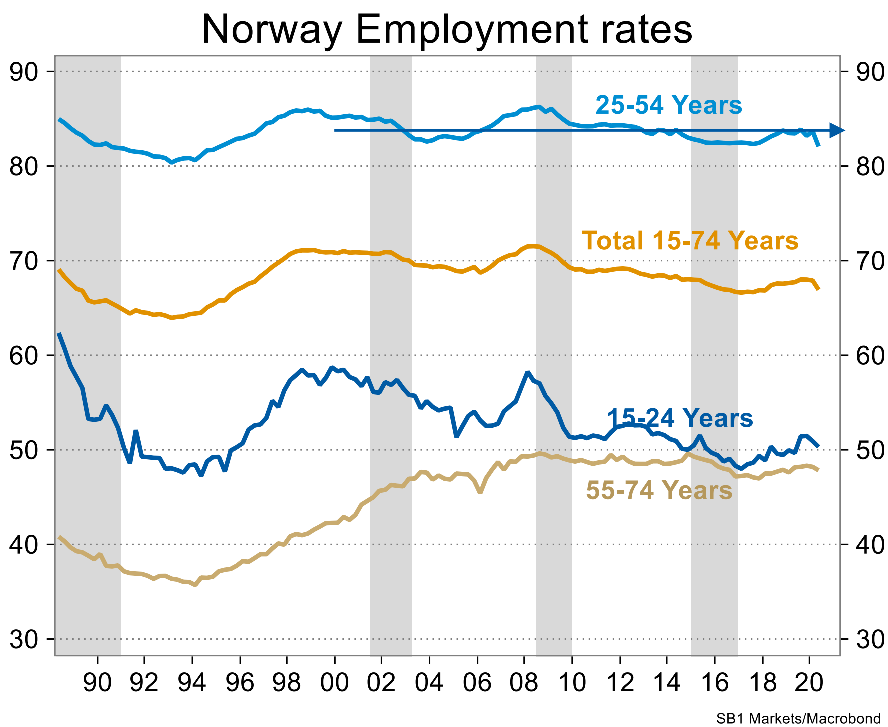
In July, hours worked were back to a normal level, according to (volatile) LFS data

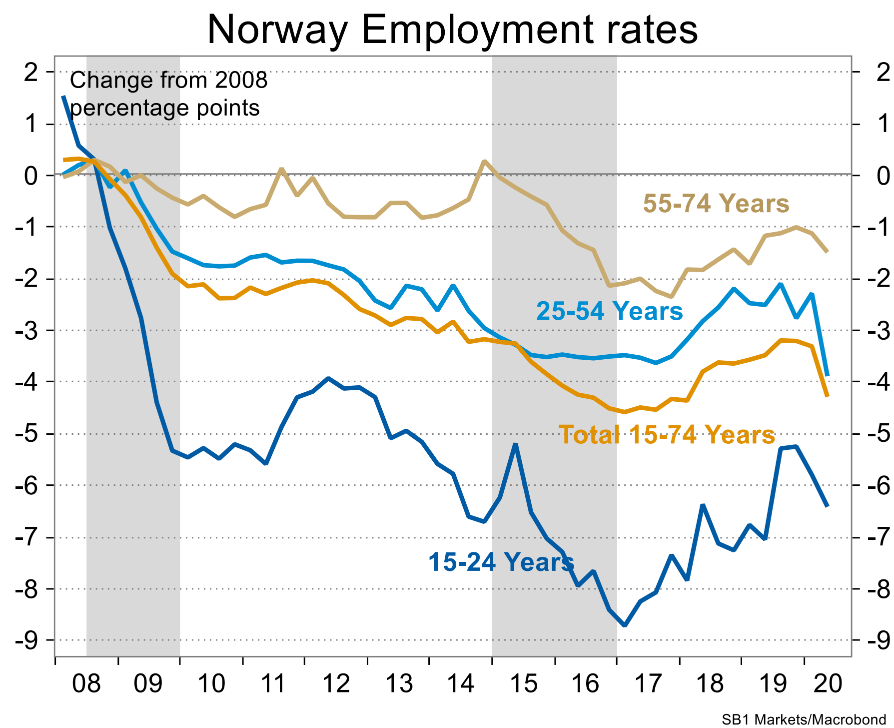




- Hours worked are published as a 3 months moving average. At the charts above, the surprisingly strong July single month observation is added. Take care: Even the 3 m avg is rather volatile, and monthly data even more – so the July observation must be taken with a grain of salt!

Employment rates down among all age groups, the 25-54 group hardest hit

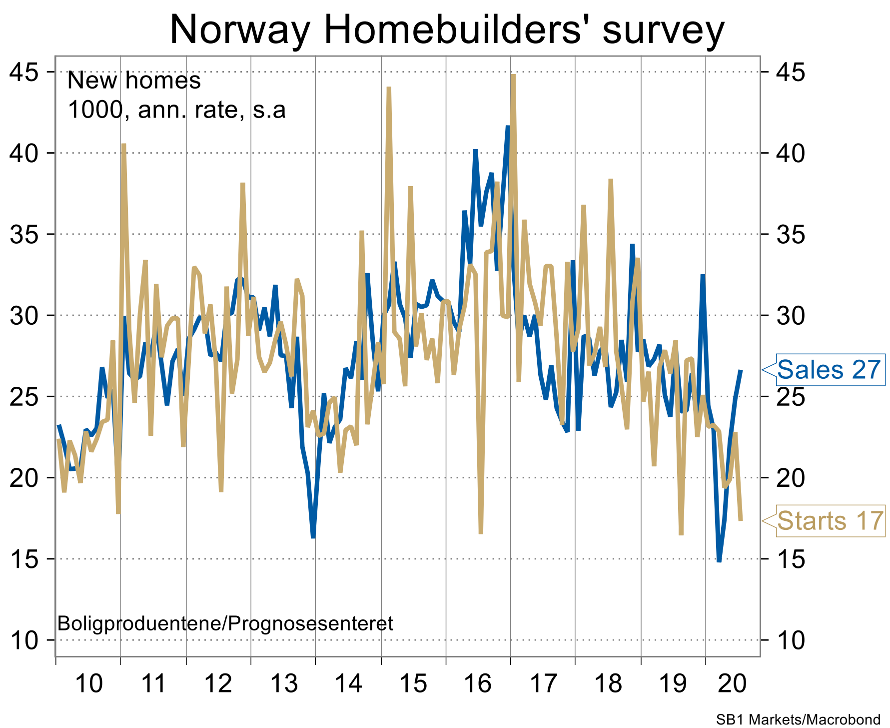


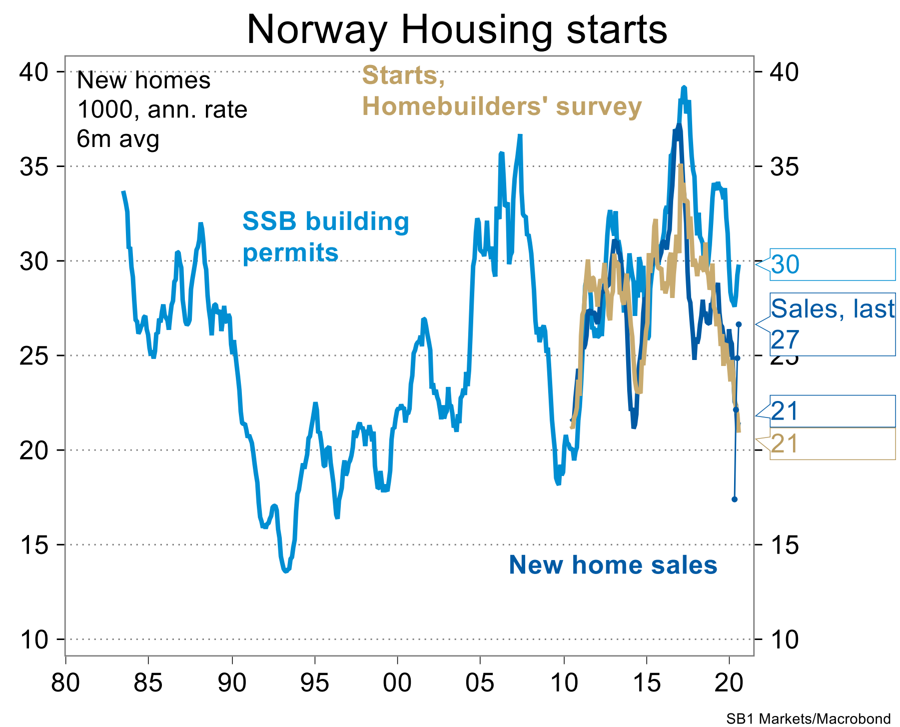


- The regional differences in employment rates are not significant

New home sales further up in July, to above pre corona downward trend

The Homebuilders' report an increase in sales to 27' in July, while actual starts fell sharply, to 17'

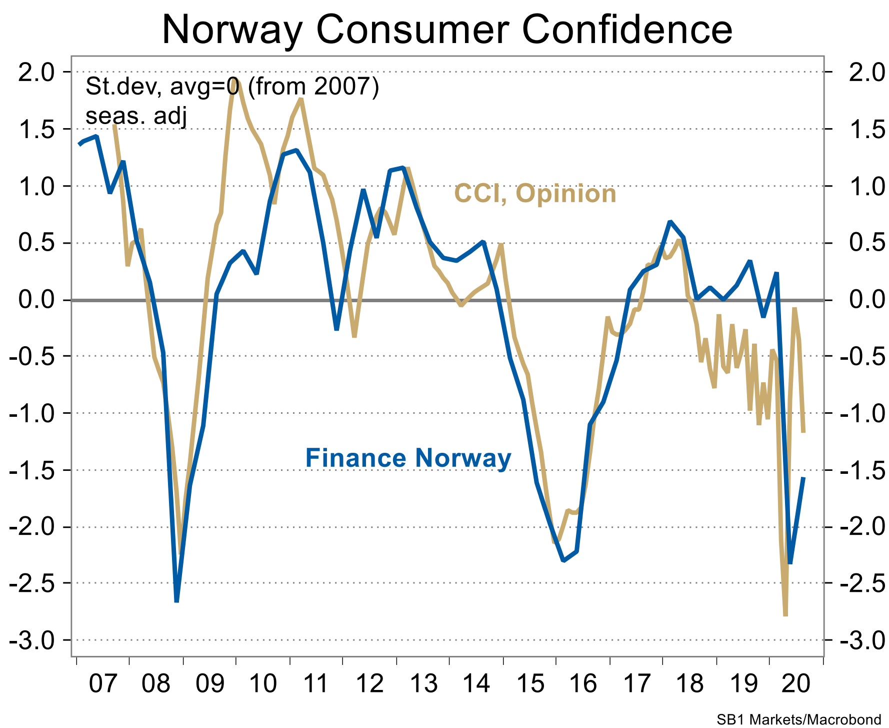


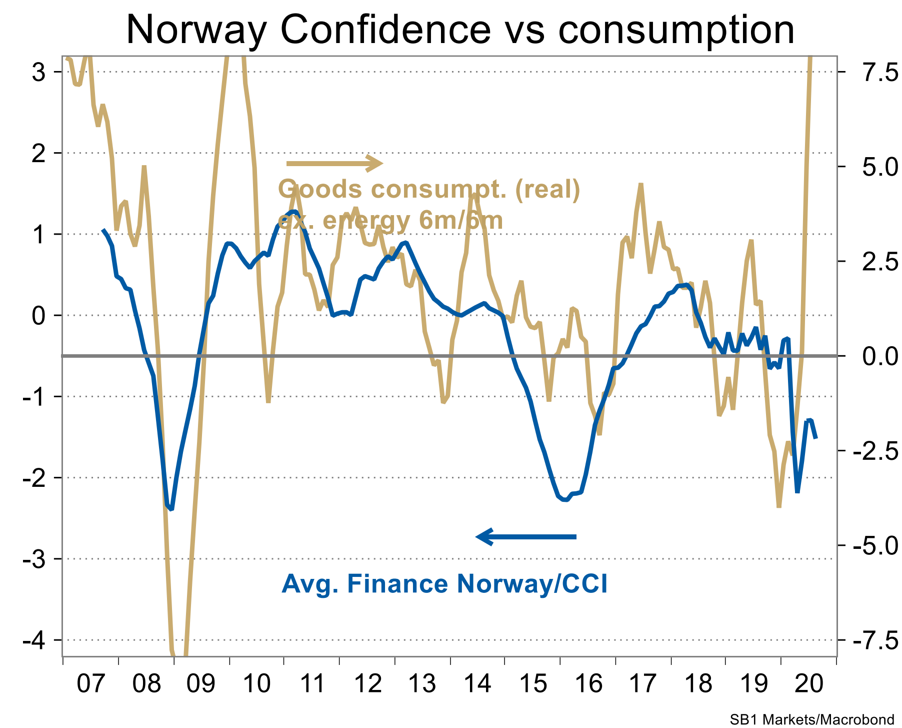


- Homebuilders reported that new home sales (seasonally adjusted) fell sharply in 2nd half of March but recovered in April, and further the next months, up to 27' in July. Actual starts fell sharply, to 17' but these data are quite volatile
- Both sales and starts have been trending down since late 2016, from a 35' level. Real house prices have been trending down most of this period but is now increasing again – and sales were strong in July
- SSB has reported a decline in building permits but the level (30') is higher than what the homebuilders report but the discrepancy is now at an average level
- The construction sector reported a downbeat outlook in Norges Bank's Regional Network survey but media have reported even better new home sales than revealed in the Homebuilders' report, at least in the Oslo region

Oops, Consumer confidence down again during the summer

Finans Norges' Q3 survey surprised (us) sharply on the downside, and now the CCI follows suit

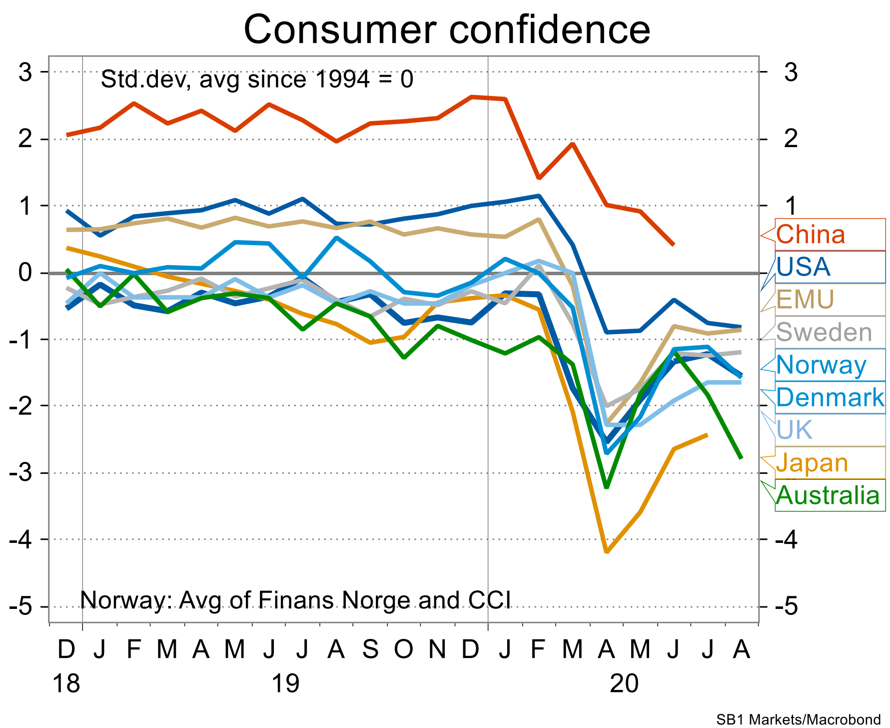




- The Consumer Confidence Index CCI from Opinion fell from -0.5 in June through -2 in July to -5.5 in August. The level is still up from -13 in April but 2/5th of the recovery in confidence from April is reversed The CCI is now some 1.1 st.dev below an average level (it was down -2.8 st.dev in April, a record low, data from 2008
- Finance Norway's quarterly consumer confidence index recovered to -1.6 st.dev below par, from -2.3 st.dev in Q2
- The weakening – or still weak – household confidence is a but surprising to us, given the sharp decline in the unemployment rate, and amid a so far blooming housing market. The stock market has recovered too. The recent uptick in corona cases may explain a weaker sentiment but it is not our impression that Norwegian outbreak is anything close to '40% of the 1st corona shock in March/April.
- However, the recent souring of household sentiment is not just a Norwegian thing, check next page

Consumer confidence down again in several countries

US, Denmark, Australia and Norway down; EMU, Sweden and UK (in August) have flattened

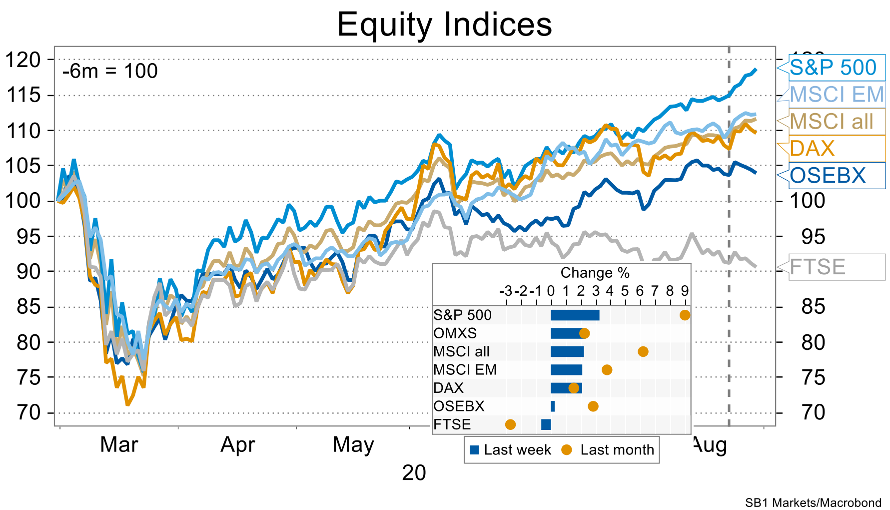


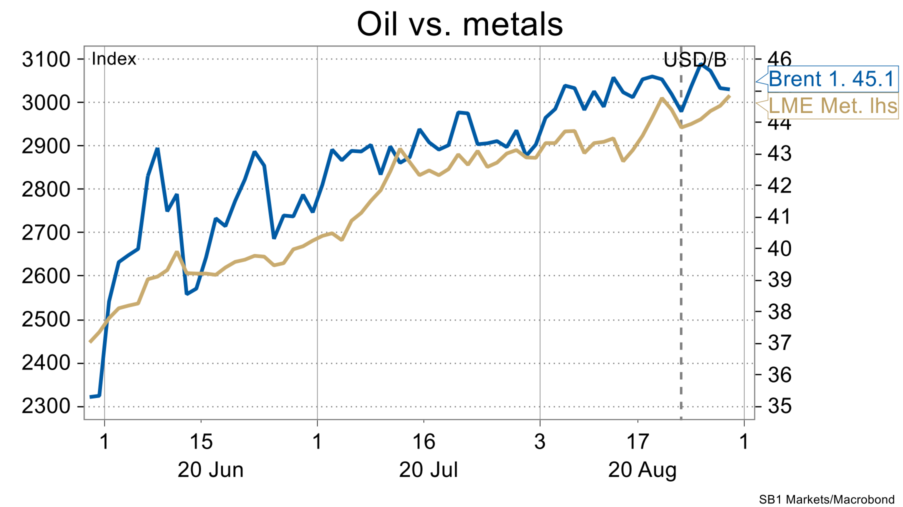
- Are any common factors among the ‘down countries’?
  - » More corona trouble some weeks in July/August?

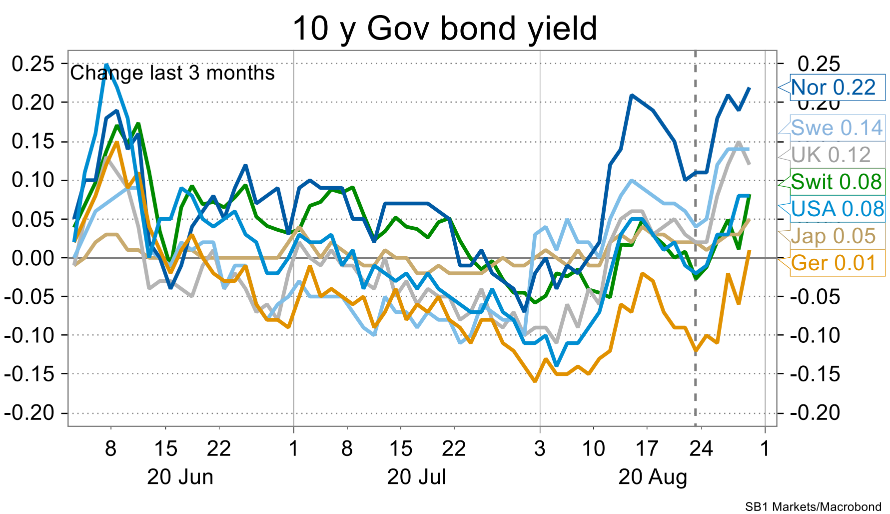
SpareBank 1 MARKETS

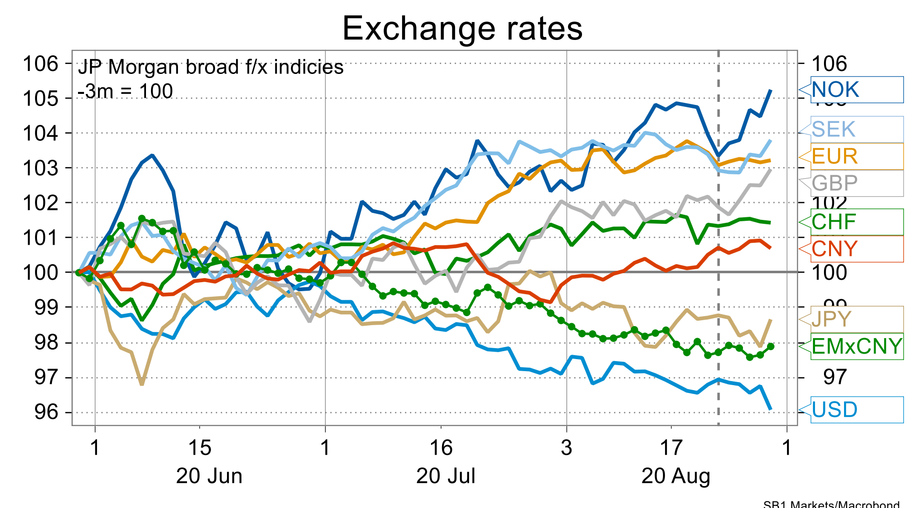
Stocks up, bonds up, NOK up, USD down

Some of the hike in bond yields reversed last week but all up from the bottom





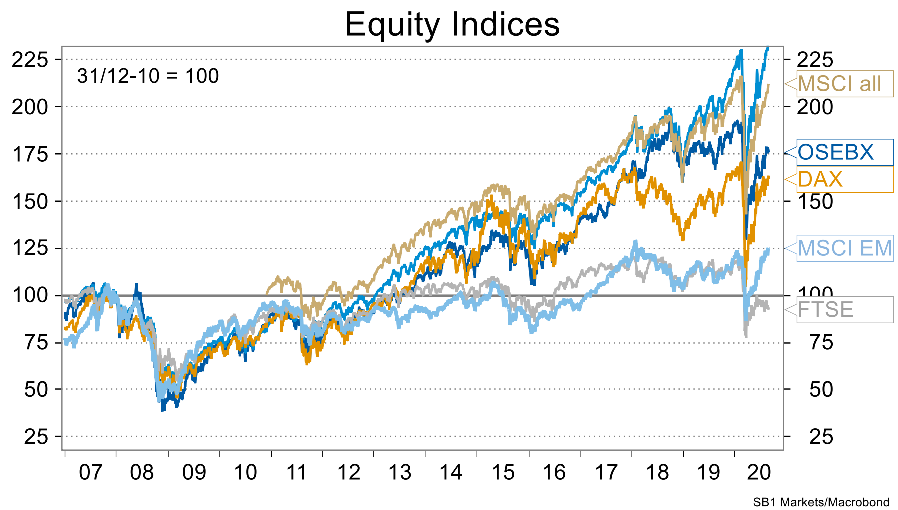


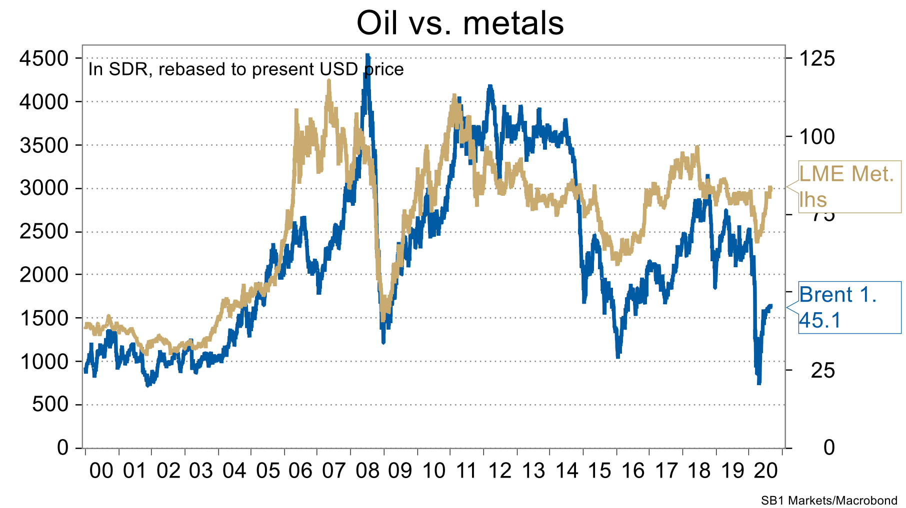


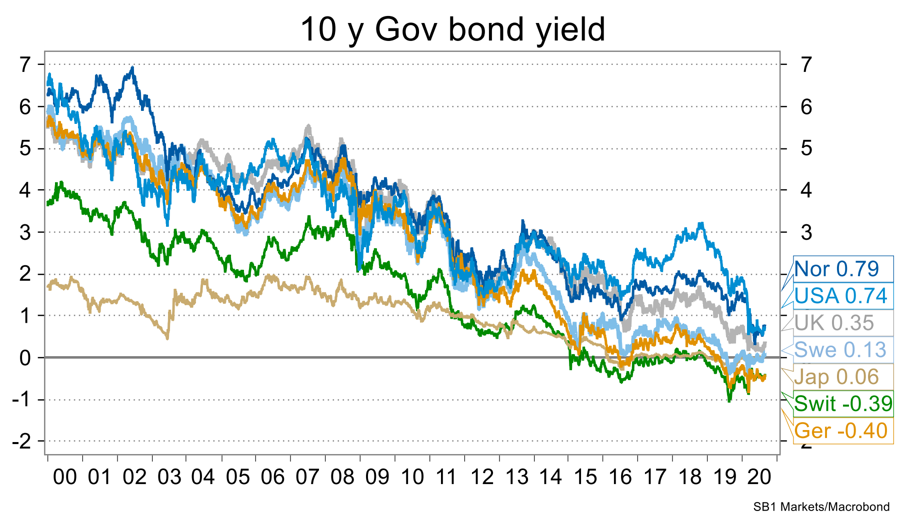
The USD has been the laggard since mid May, and was just flat last week Still just as strong a before the corona crisis. NOK lost last week, and more than the oil price usually explains. Something else going on??

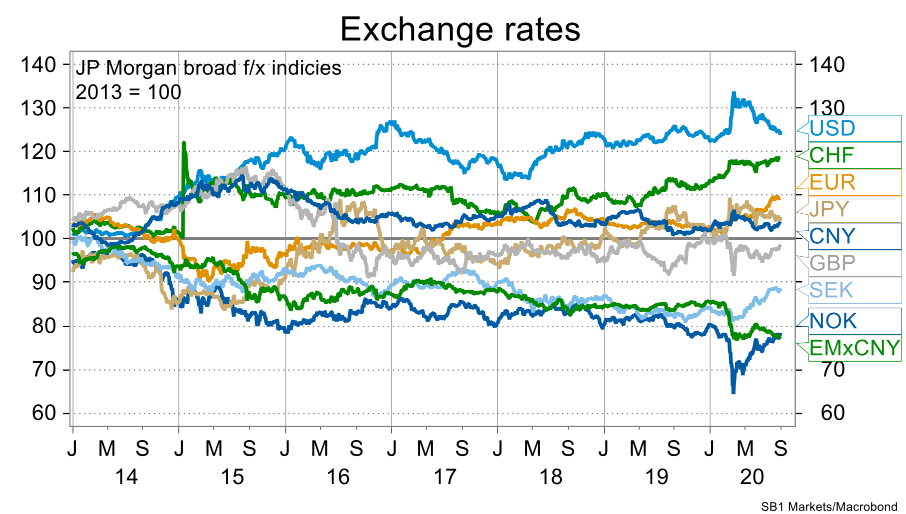
In the long run: Stock markets are looking like a 'V' (except the FTSE)

Bond yields are still close to record low everywhere. The USD is on the way down, NOK on the way up





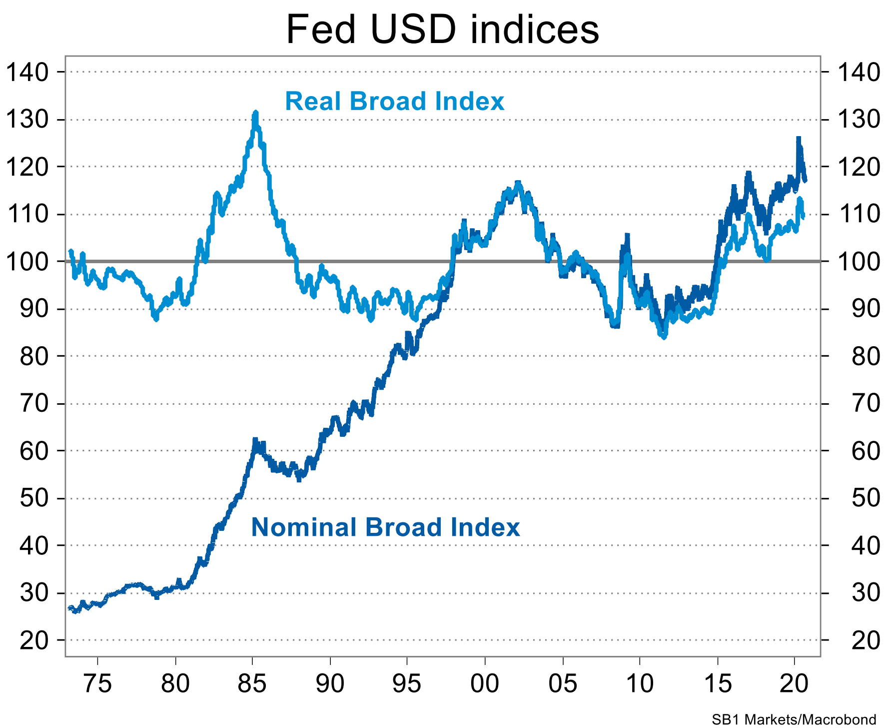


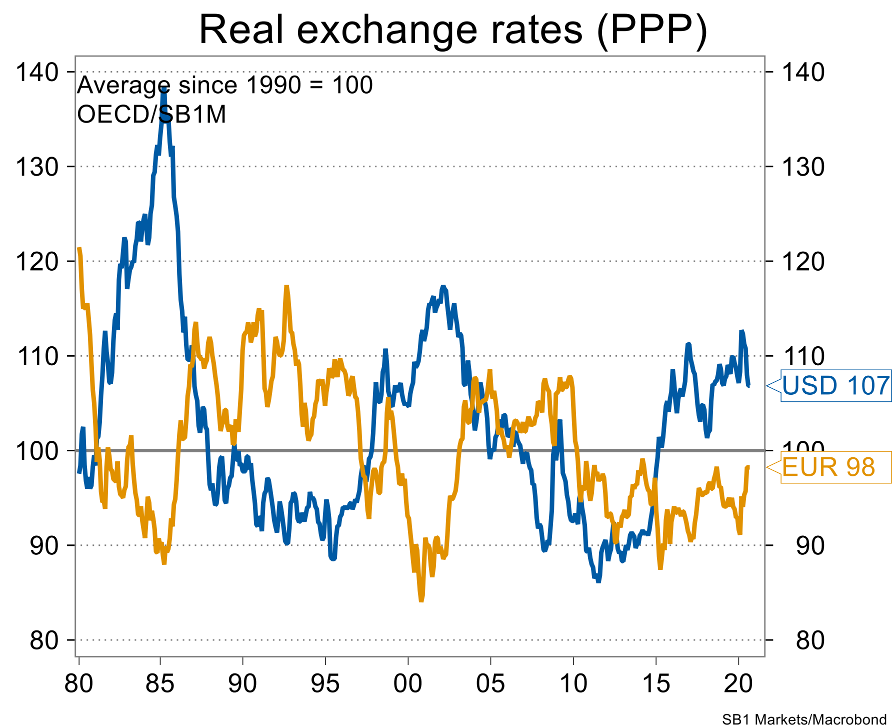


The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices)

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

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

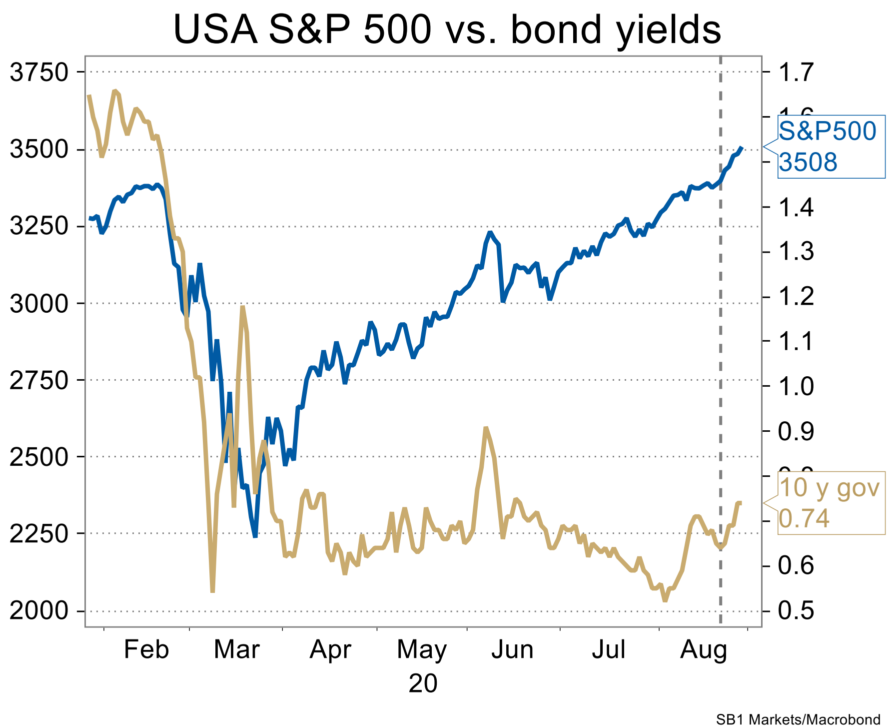


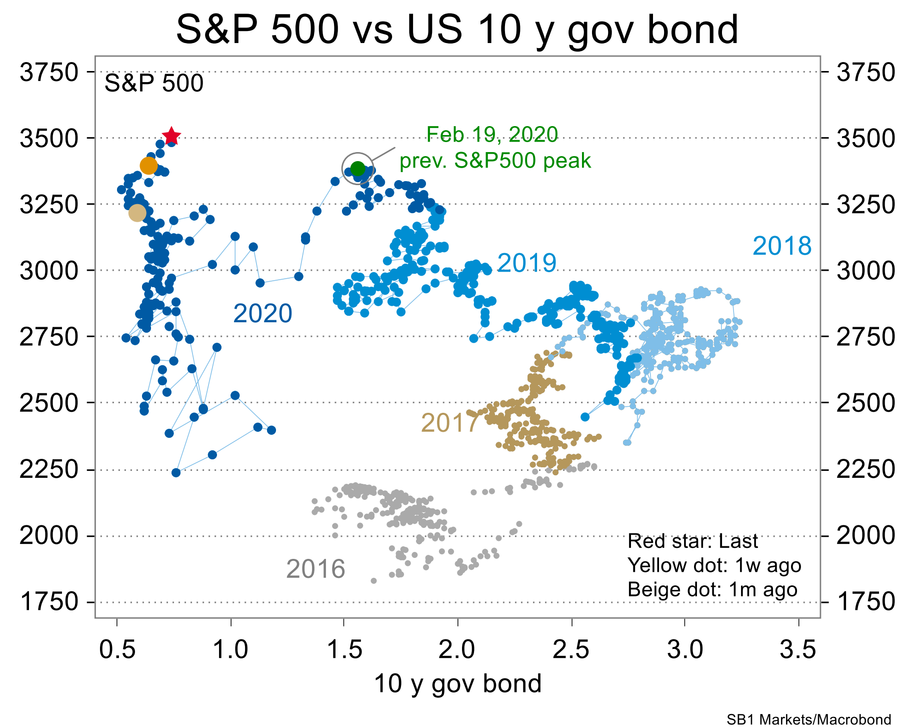


- Corona, slowing growth, social unrest, political turbulence, budget deficits (that will become even larger) & money printing, trade deficits, the US China conflict. You name it, there are always reasons for the USD to decline

S&P 500 surges on strong data, a more dovish Fed. But long bond yields up

New equity market ATHs day by day. Long bond yields up due to higher inflation expectations

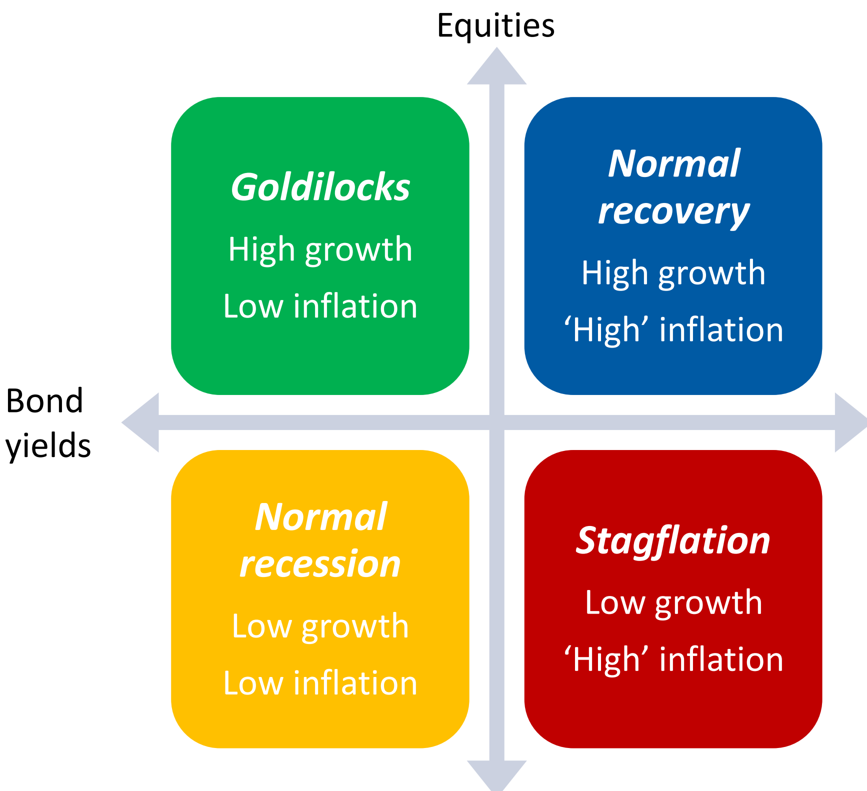




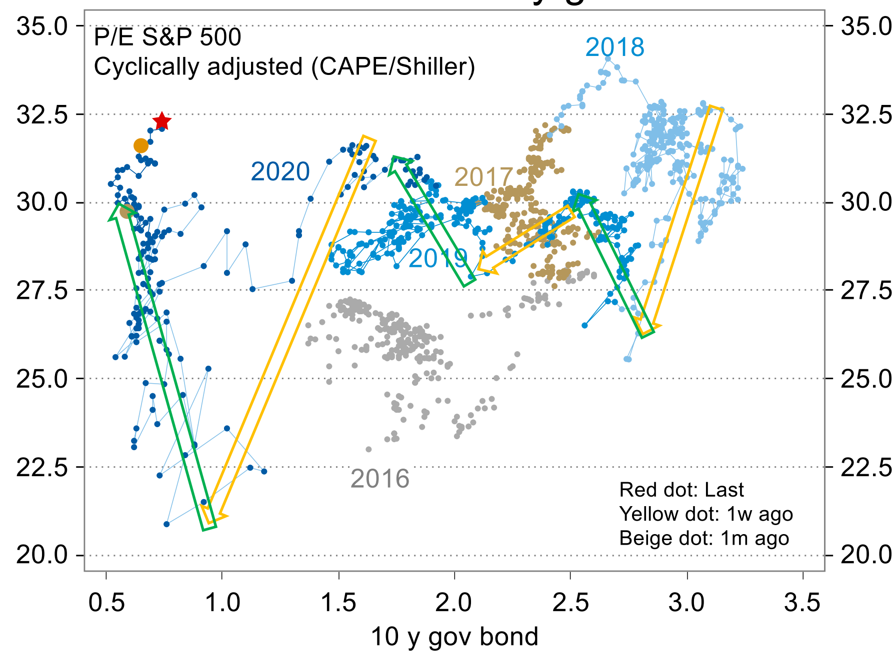
- S&P500 up 3¼% - to a new ATH
- The 10 y bond yield up 10 bps 0.74%, to the highest level since June, driven by higher inflation expectations (+15 bps)
- Fed's new price level target strategy may explain the change in bond yields and equities: The inflation rate may be allowed to drift higher before interest rates are hiked, leaving room for more growth short term – at the cost of higher inflation, also long term
  - » However, the change in strategy was well communicated on beforehand, and the short end of the curve did no respond the announcement. In this market, market participants had discounted the change, if not last Thursday, then during the coming months

Until 3 weeks ago: Towards the Goldilocks corner, now vs a ‘normal recovery’

Stocks up, long bond yields up, as Fed confirms that it want to restore the price level, not the rate of inflation



S&P 500 vs US 10 y gov bond

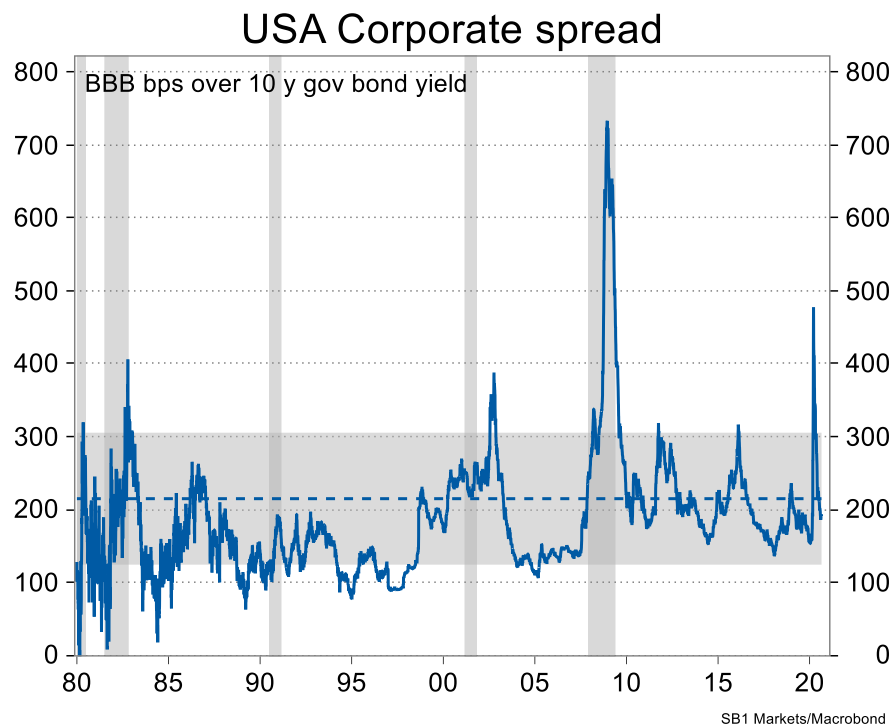


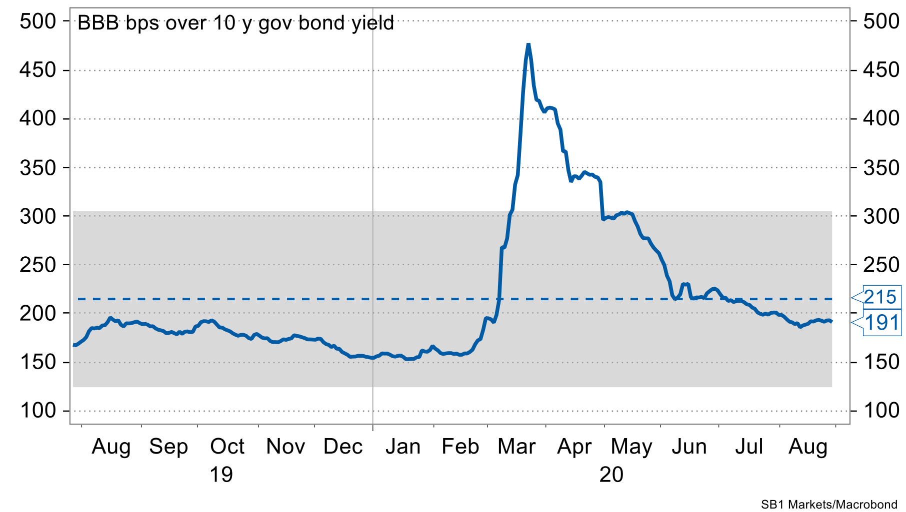
SB1 Markets/Macrobond

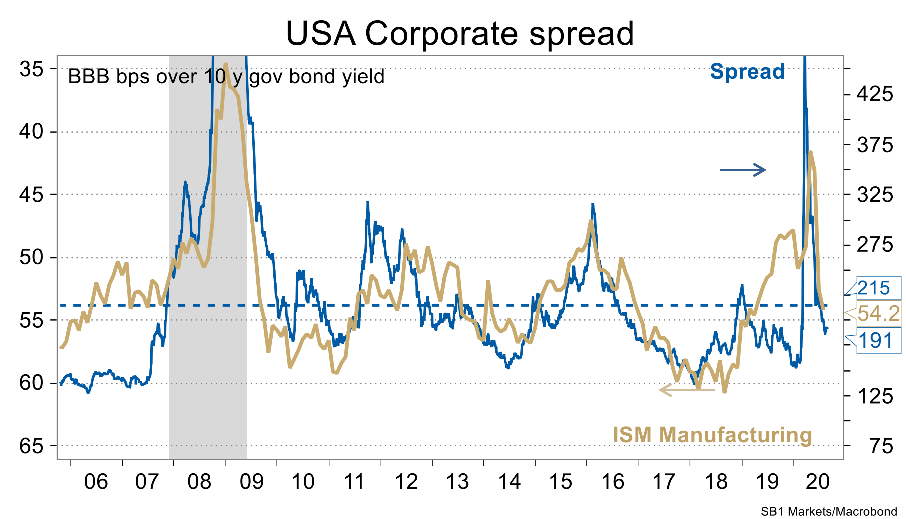
- Has the ‘**Goldilocks’** travel (towards the green corner) come to an end? May a continued economic recovery, and a normalisation of actual and expected inflation (which both has taken place over the past weeks/months) dampen expectations of an ‘eternal’ extreme monetary policy (negative real bond 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 stabilised after falling below an average level

Bond issuances are at record high levels

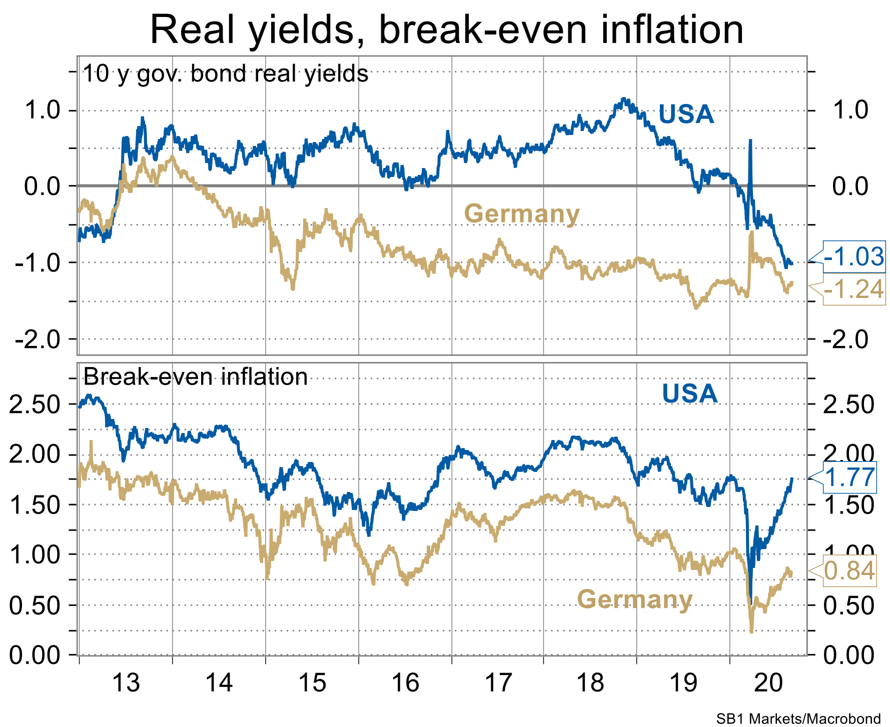


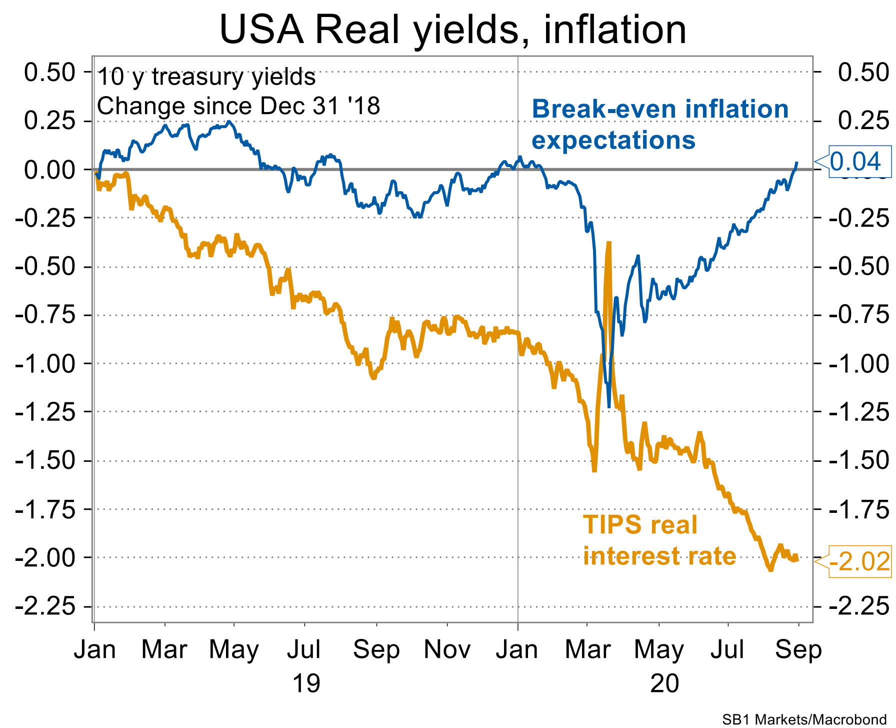




USA 10 y inflation expectations up 15 bps last week, real rates down bps

Fed's new strategy was not a big surprise but markets responded somewhat

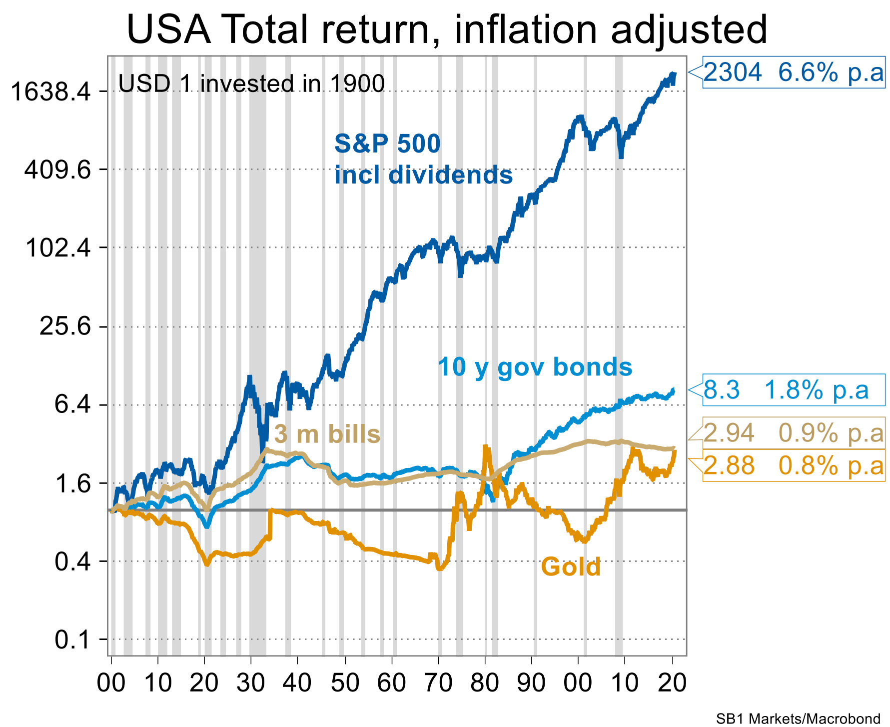


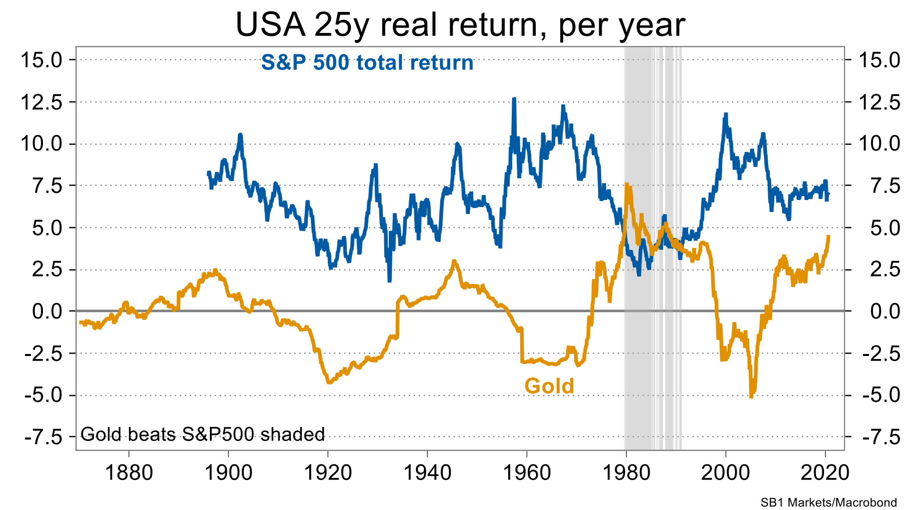


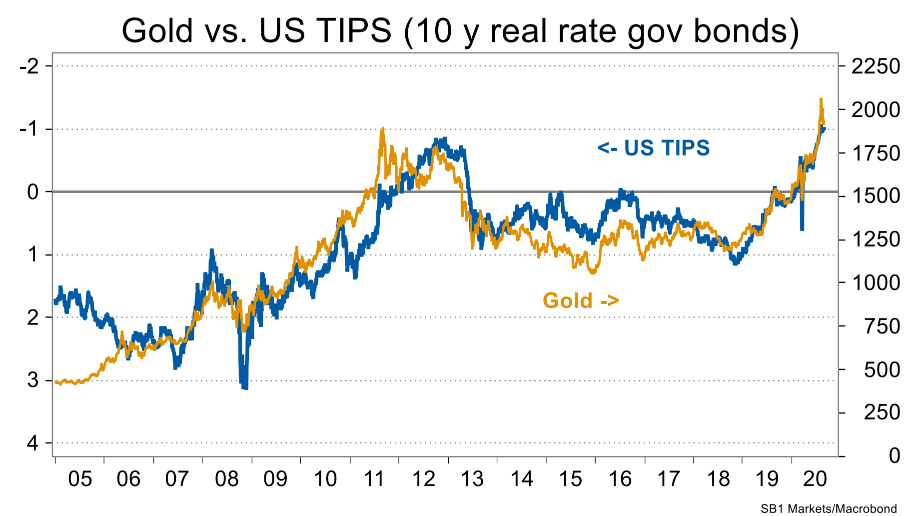
- The implied break even inflation rate rose more than the normal 20-25 bps/month pace last week, following Powell's announcement of the new strategy document at Thursday. However, the break even fell the previous week, and the level at Friday was spot on the upward trend since April, no more, no less, now at 1.77%, above the pre corona level.
- The real interest rate fell by 3 bps to 1.03% but it has been close to flat recent weeks
- The German market was not that impressed by the US 'surrender to inflation' (just kidding). Break even inflation rose 7 bps but it still lower than 2 weeks ago (at 0.84%), and the real rate rose (to -1.24%, very low though)

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…

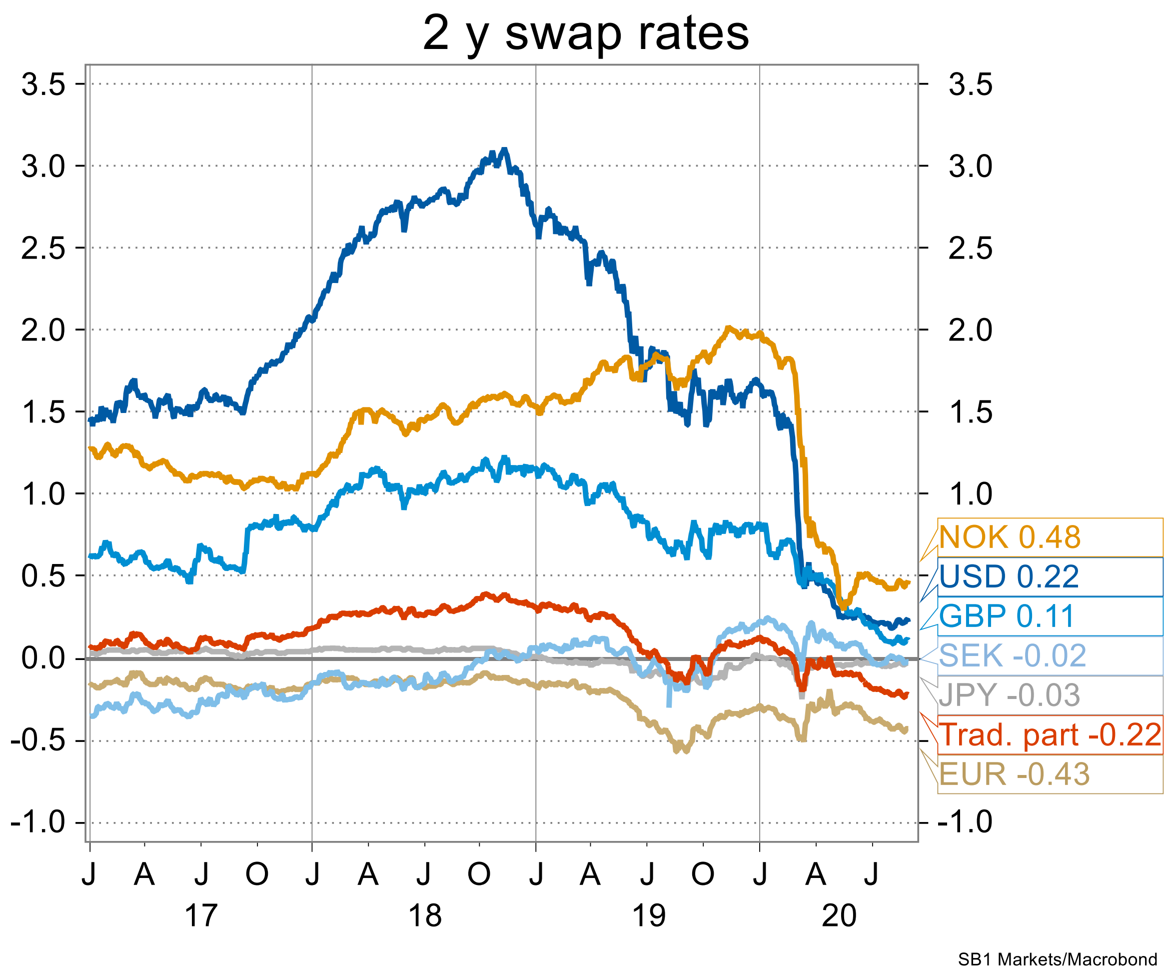


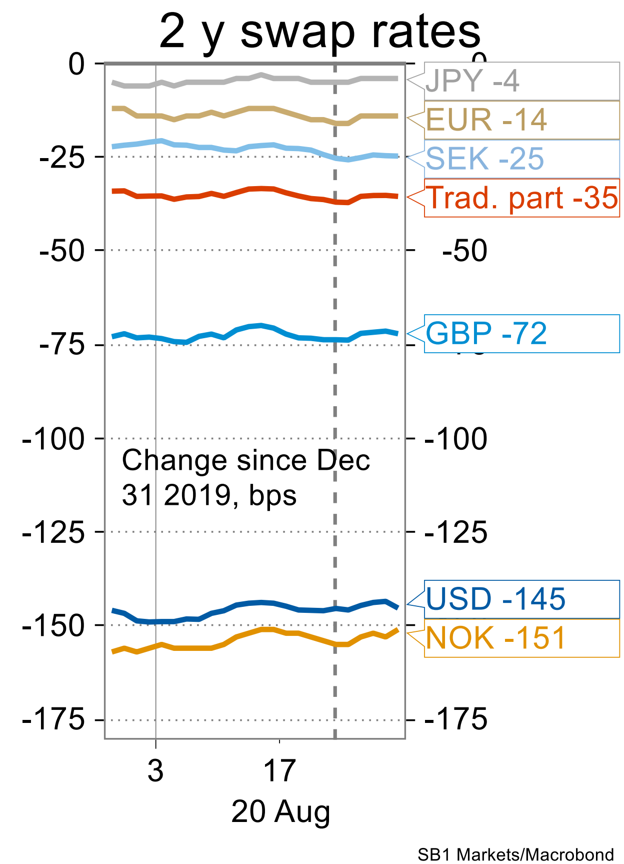




- Like during the past 2½ years when real rates have been tumbling to record low levels
- The past week, real rates rose sharply – and gold fell some few percent
- The long term outlook? We do not know – but long term (and we mean quite long term), gold has normally been a really bad investment, at least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

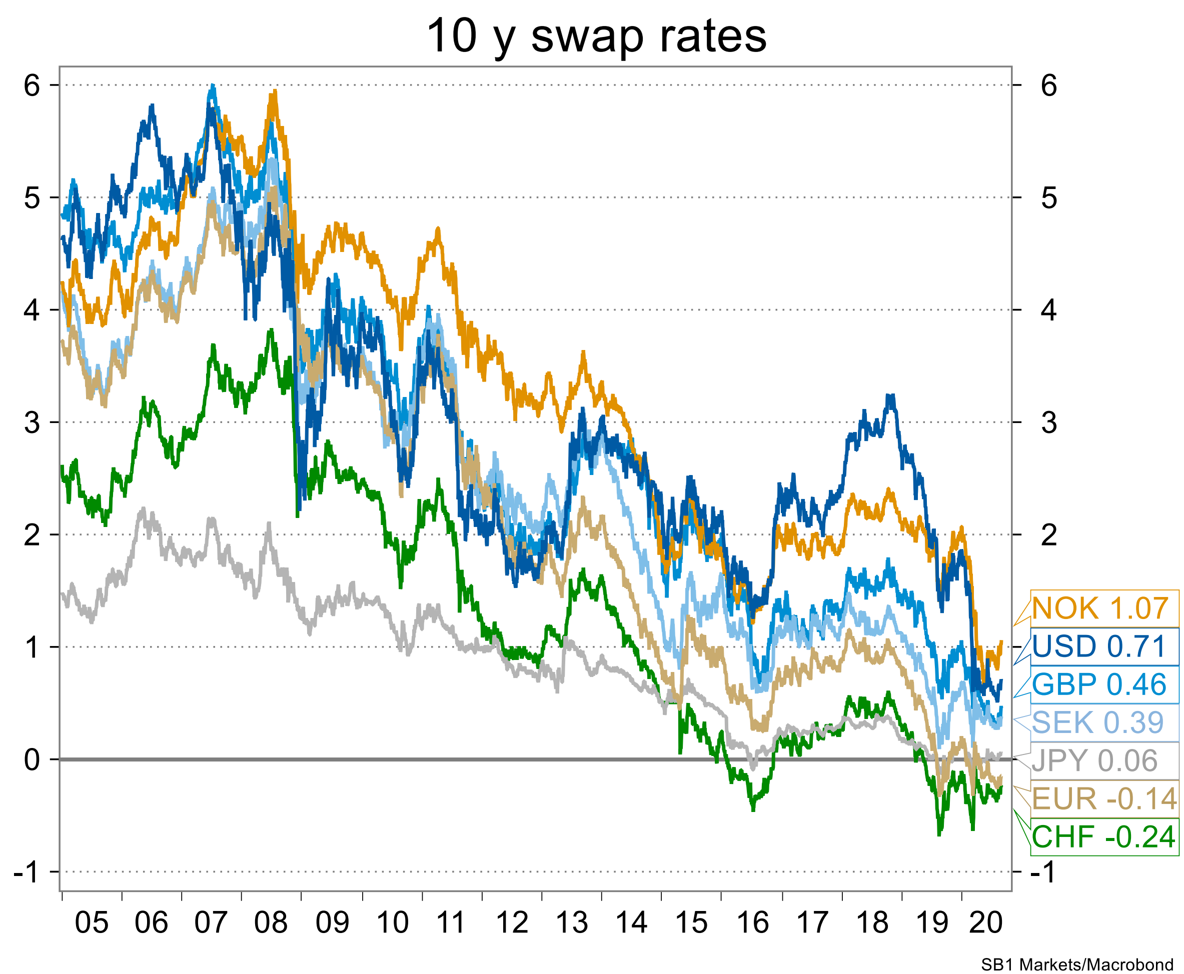
2 y wap rates flattish (but marginally up in Norway)

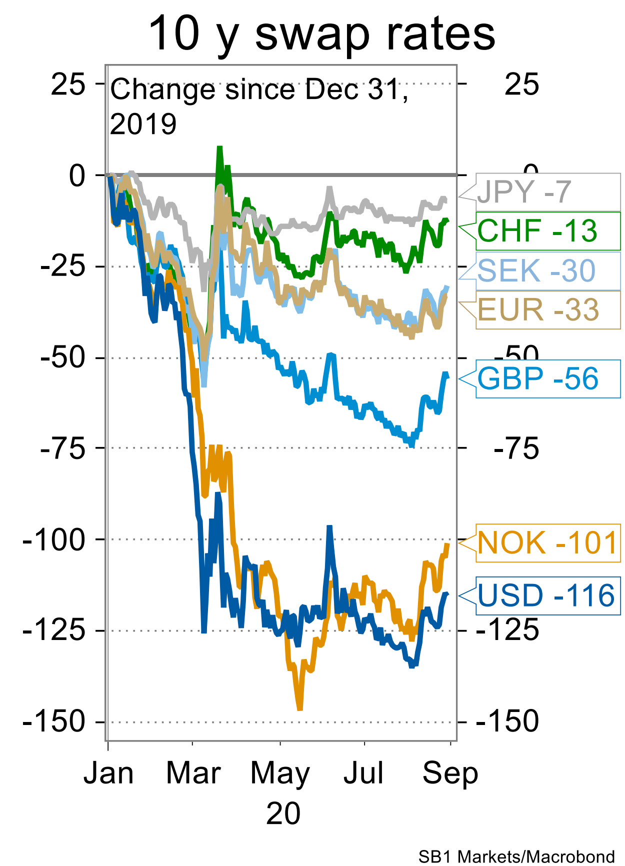




Long term swap returned to the upward path, as Fed promised to keep rates low

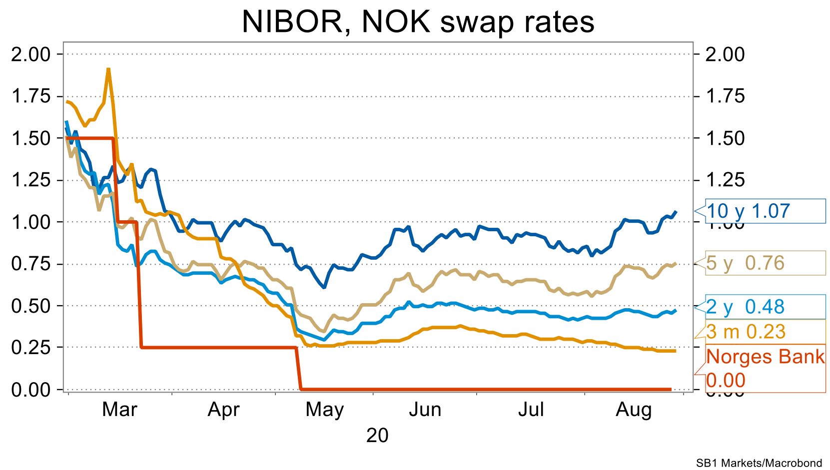
… in order to push inflation up, to reach a price level target

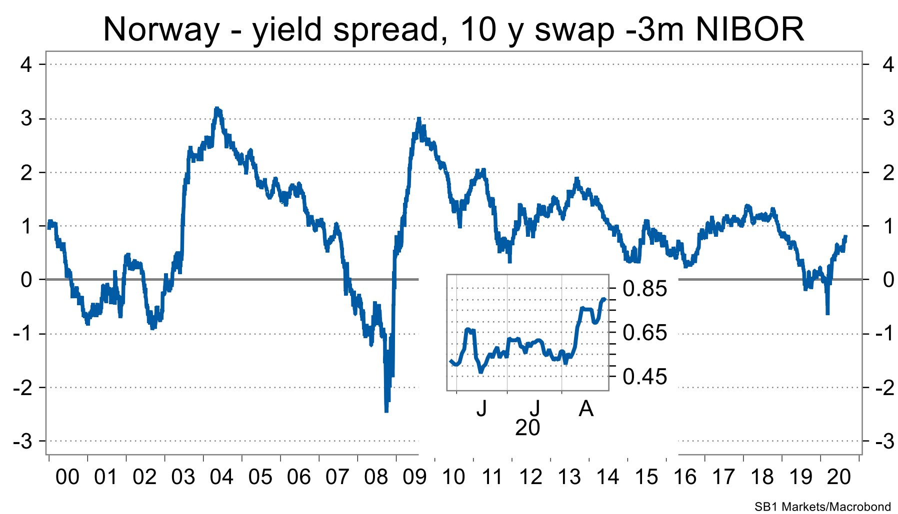


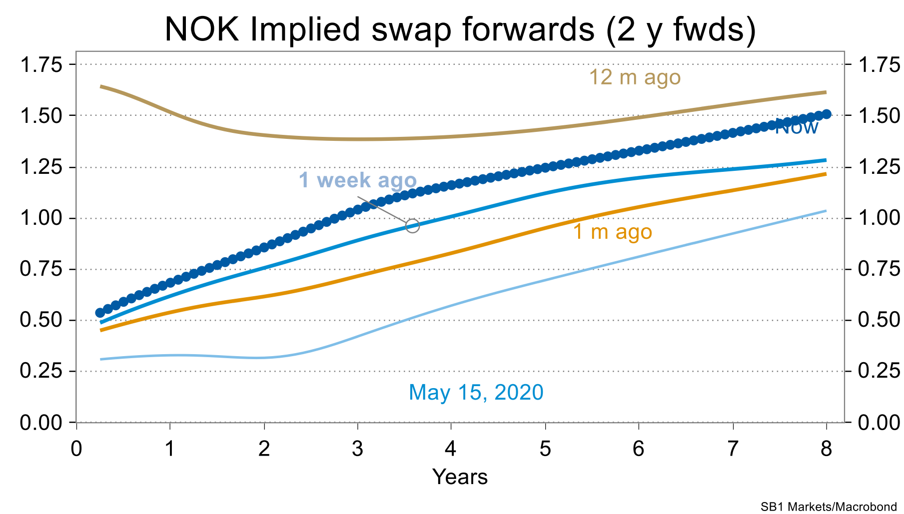


The long end of the NOK curve up to the highest level since late March

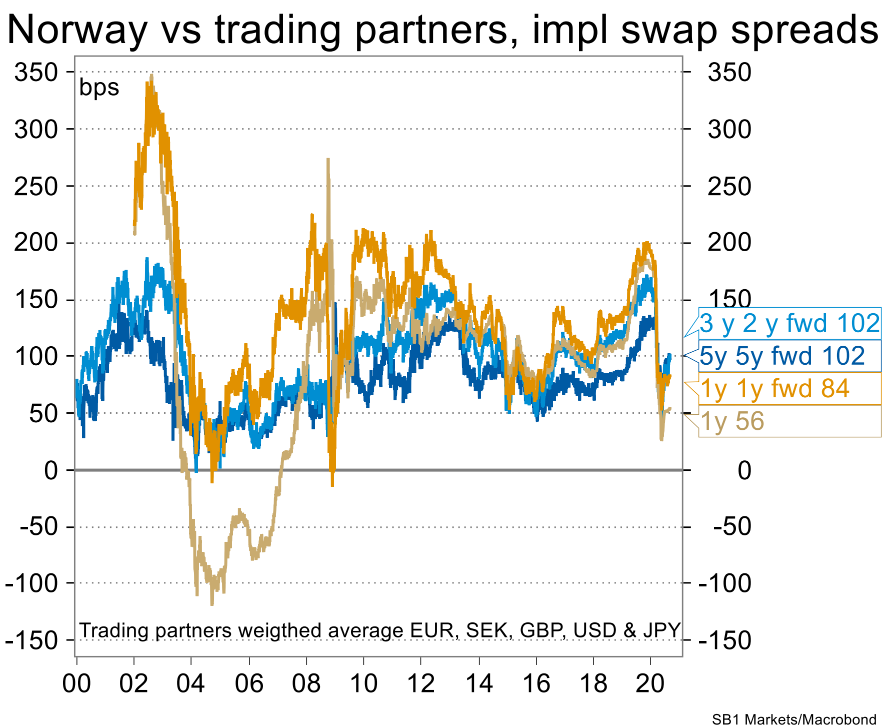
All rates up last week (except for the 3 m NIBOR), most in the long end of the curve

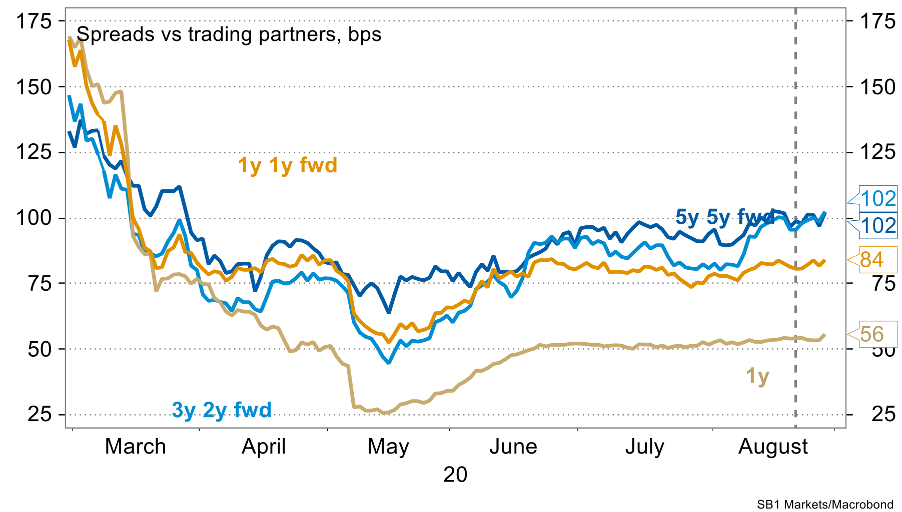


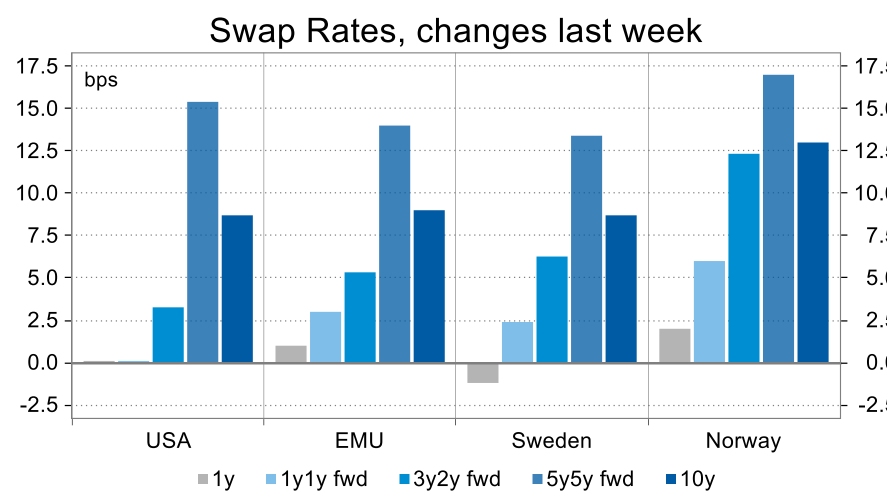




Long rates up, and a steeper curve, everywhere. NOK rates in the lead





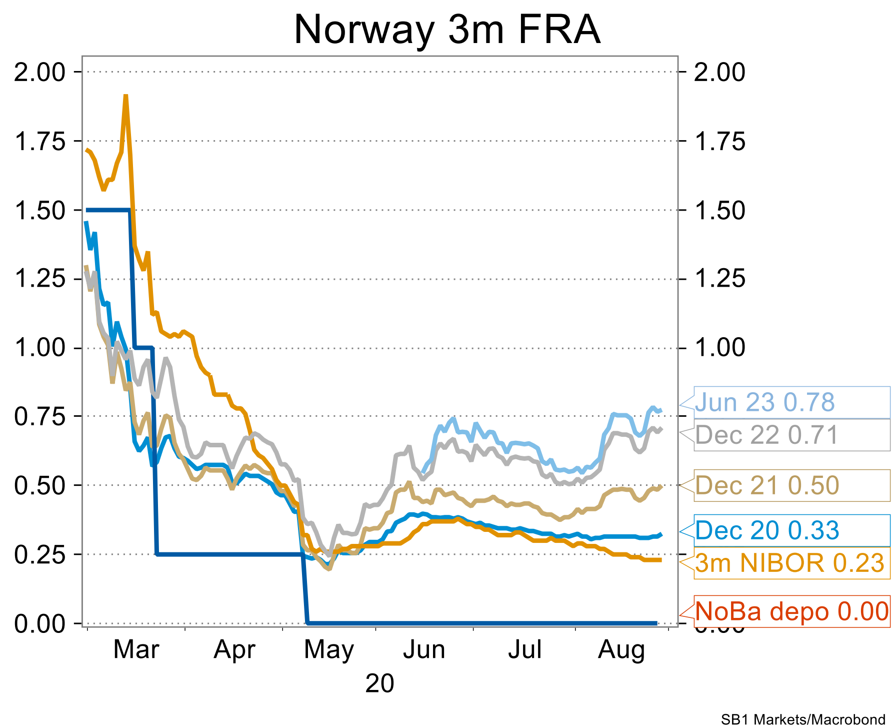


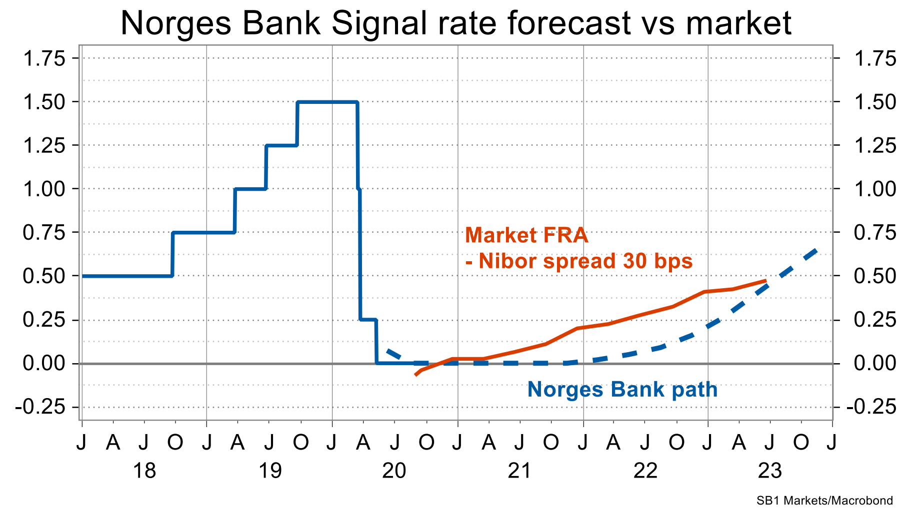
- Spreads vs trading partners rose marginally last week, and have been trending wider since the May local trough
- We are still neutral vs. the spread

SpareBank 1 MARKETS

The 3 m NIBOR is sliding down, while FRAs are on the way up

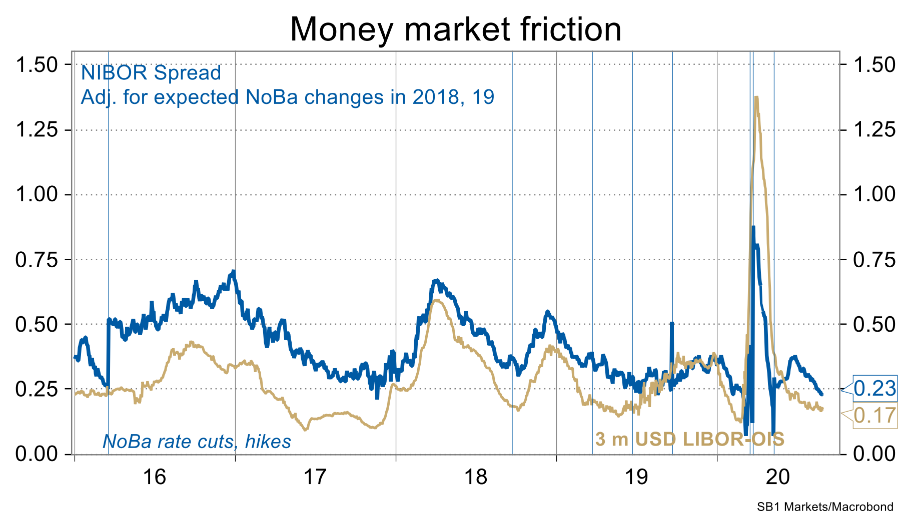
NIBOR at record low 0.23%, the spread to NoBa is still shrinking. However, FRAs are on their way up



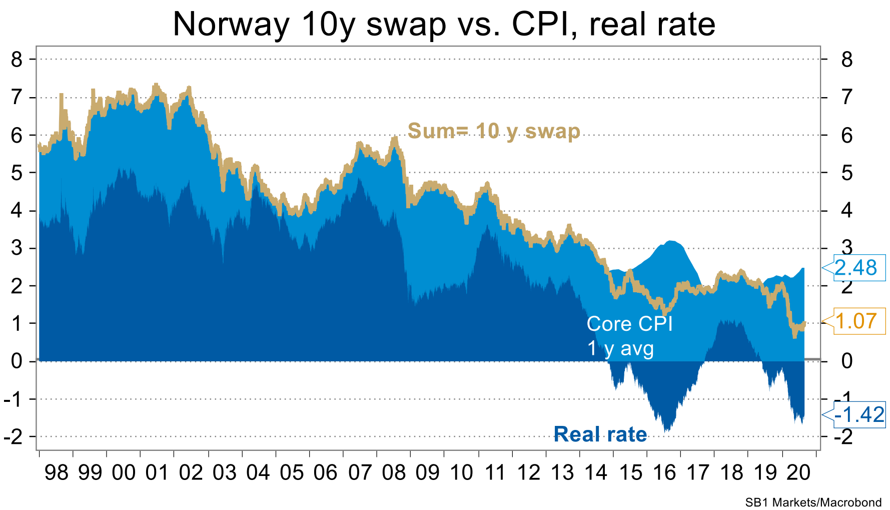


The NIBOR spread has fallen even further, and to 23 bps, as we think it is unlikely that markets are pricing in any probability for an interest rate cut the coming 3 months. We have cut out estimate for the forward NIBOR spread to 30 bps, from 35

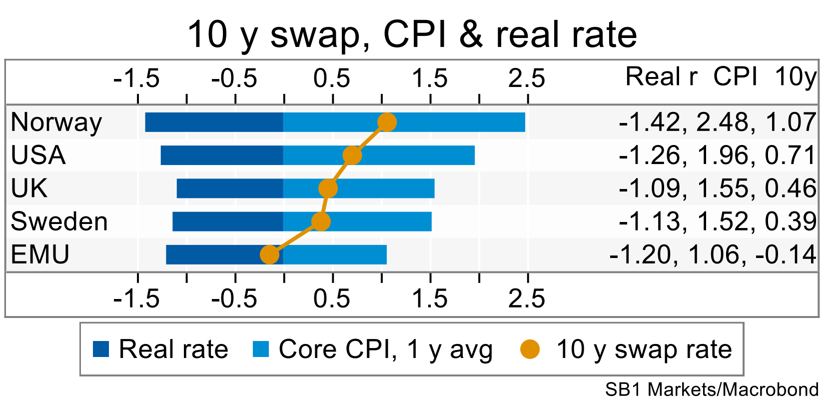
FRAs more than regained the losses from the previous week, and they are up almost 50 bps from early May. The first hike is priced in by Q4 2021 (with >50% prob). In June, NoBa said Q4 2022



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



- NOK 10 y swap nominal rates are down more than 1 pp since January
- Real rates have fallen to -1.4%, based on actual core annual inflation (smoothed 12 m
  - All other measures of actual/expect inflation will yield results in the same ballpark, from -1% or lower)

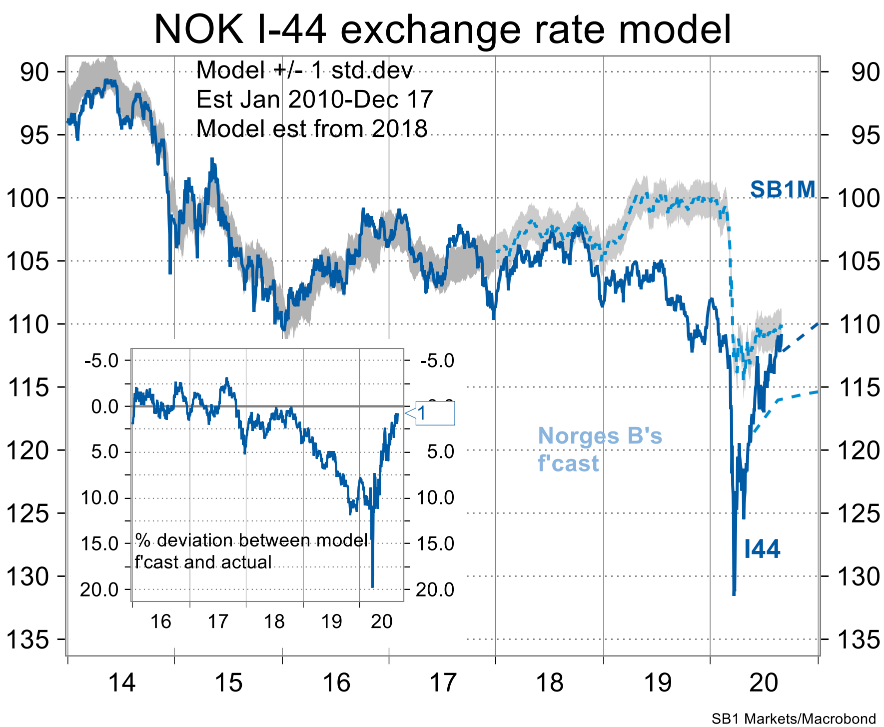


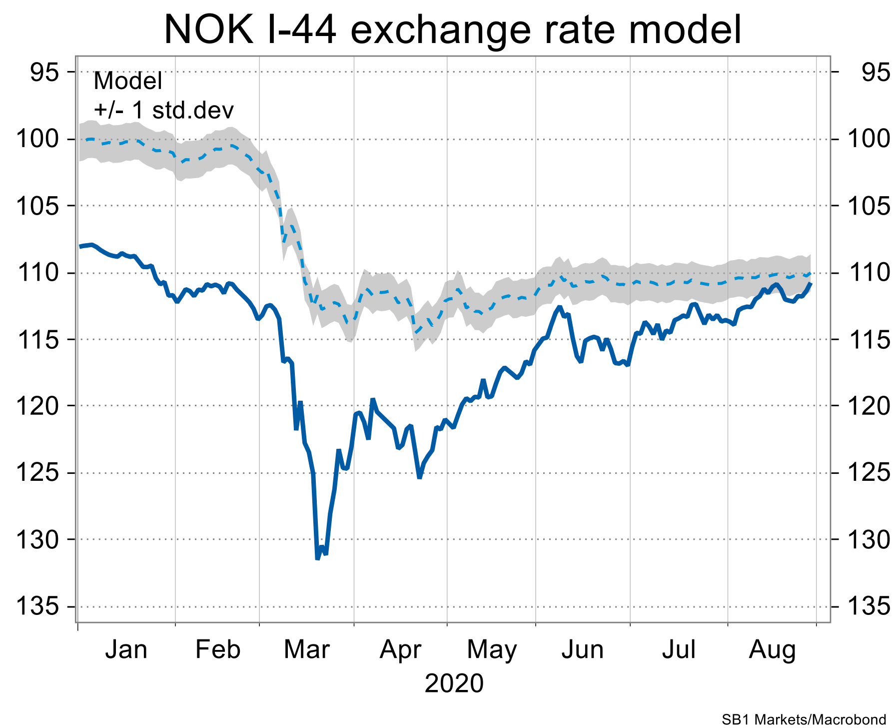
NOK real rates among the lowest

- 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% (UK, Sweden) to -1.4 (Norway), vs the 10 y swap rates
- *Thus: Inflation differentials explain most of the differentials in long term swap rates*

Wellcome back, NOK! The NOK recovered prev week's loss, just 1% below model

The NOK appreciated 1.2% last week (vs. -1% the prev. week), model said 0.3%. Gap just 1%





- We still have a NOK buy recommendation but it is now not as strong as before

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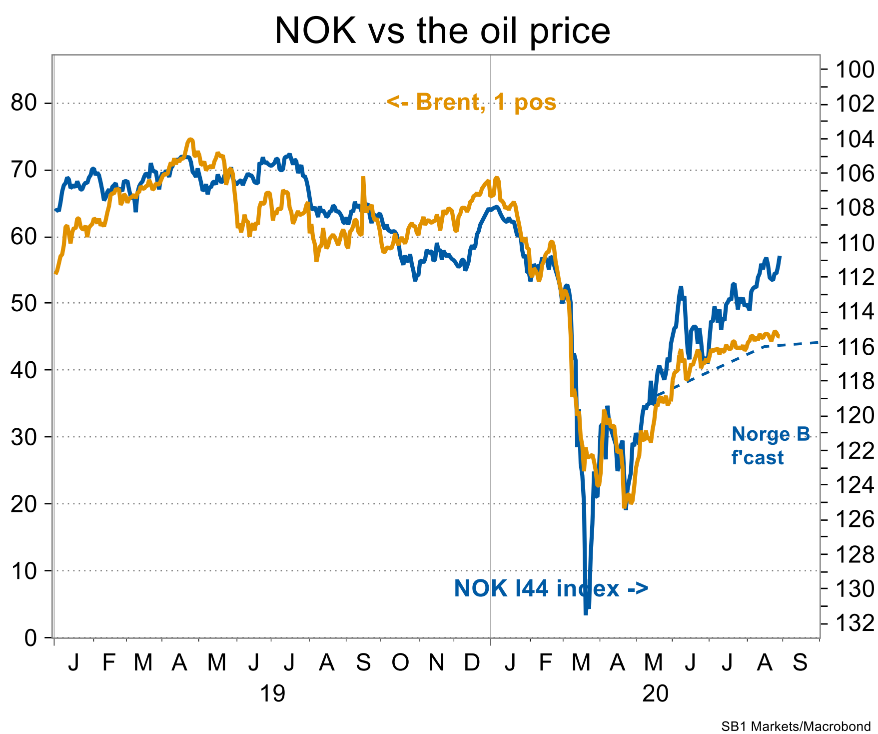
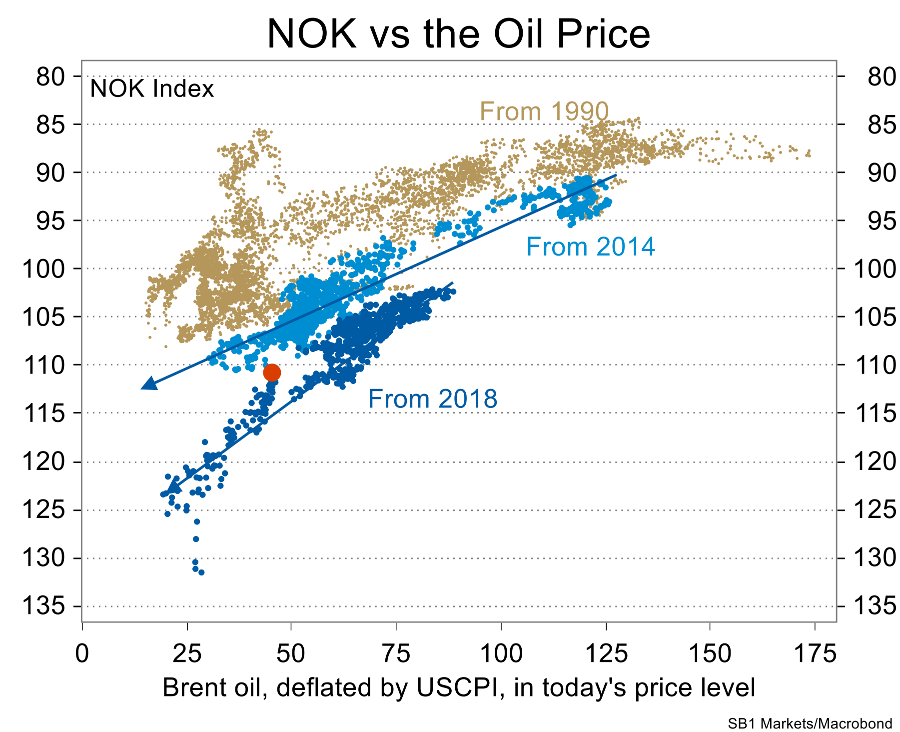
It’s not the oil price, stupid. NOK is strengthening without much help from oil

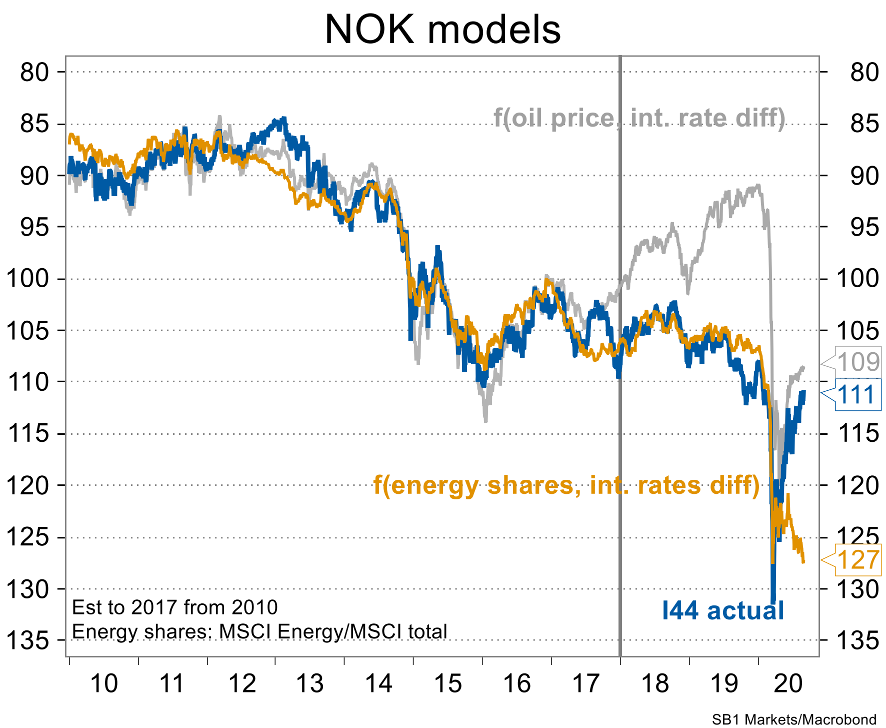


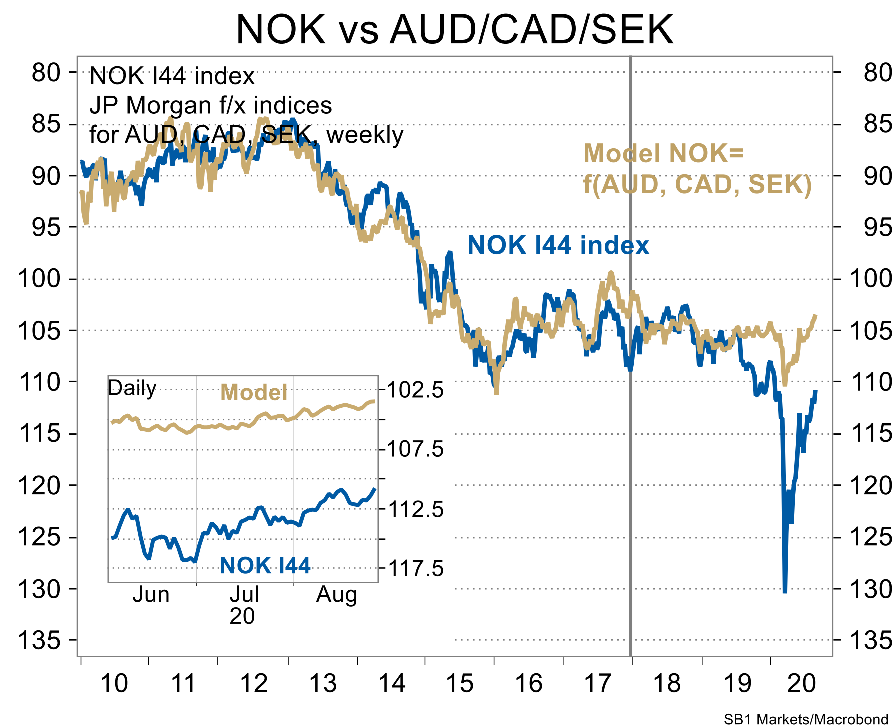


- The NOK has been much weaker vs the oil price than normal since 2018 but <u>it has still correlated closely to the *changes* in the oil price like it used to be. Now the NOK is on the strong side vs the oil price vs the ‘new’ relationship since 2018</u>

NOK has left the oil companies. NOK a tad stronger than its peers last week

The NOK regained the previous week losses, and follows other super-cyclicals on the way back

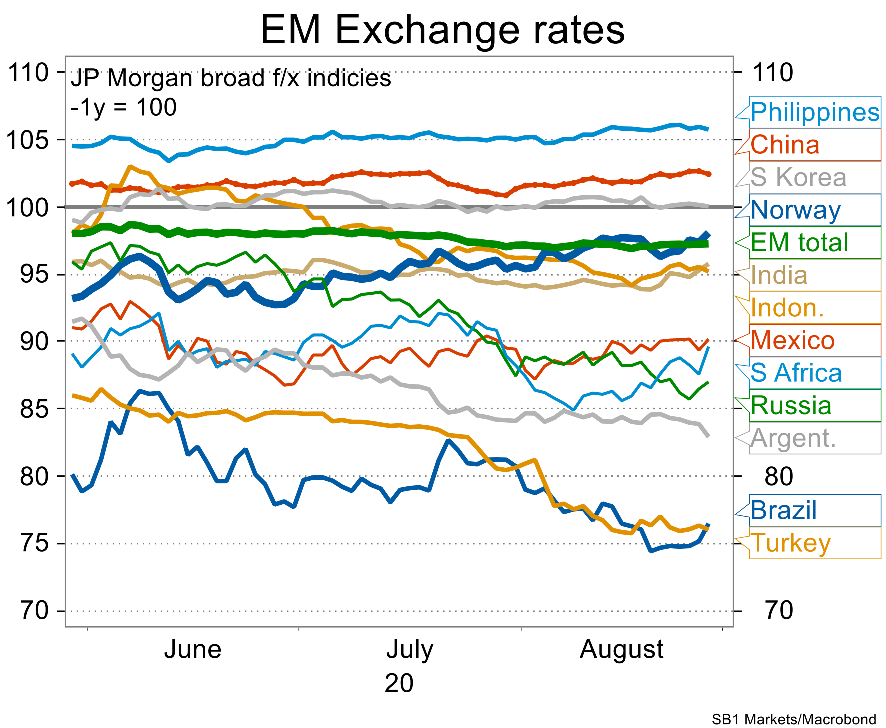


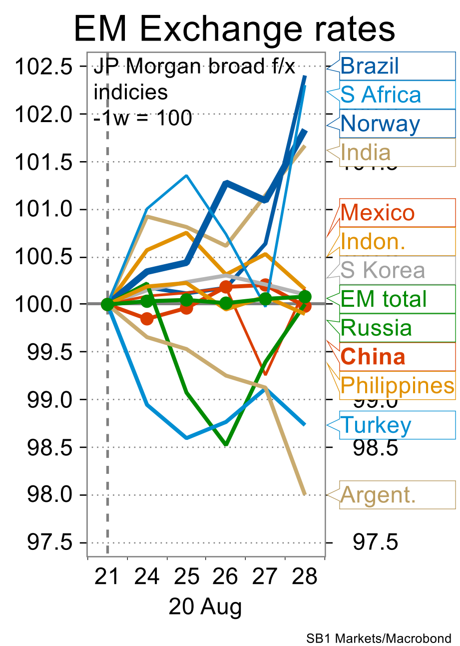


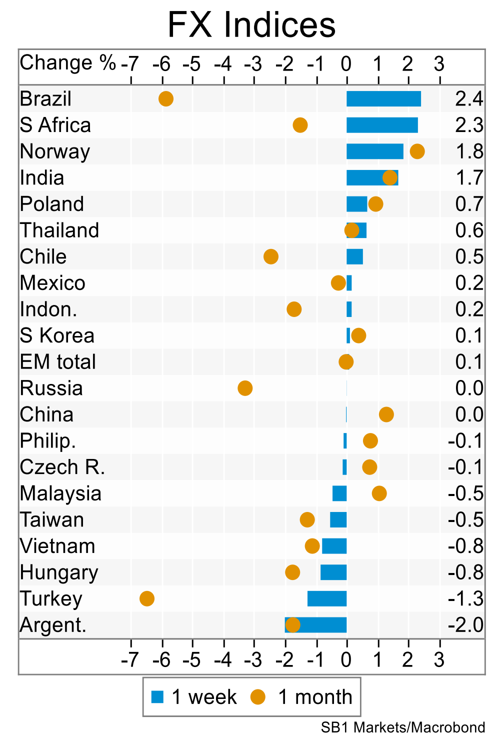
- Well, we have seen much larger NOK movements than over the past few days… The NOK lost 1% vs out supercycle friends
- On the alternative NOK models
  - » Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers 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 12% '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? On the other hand, the actual NOK is 7% below our AUD/CAD/SEK model forecast (up almost 1 pp last week)

EM currencies close to flat last week & month. A small Brazilian recovery

Turkey & Argentina still on a slippery slope







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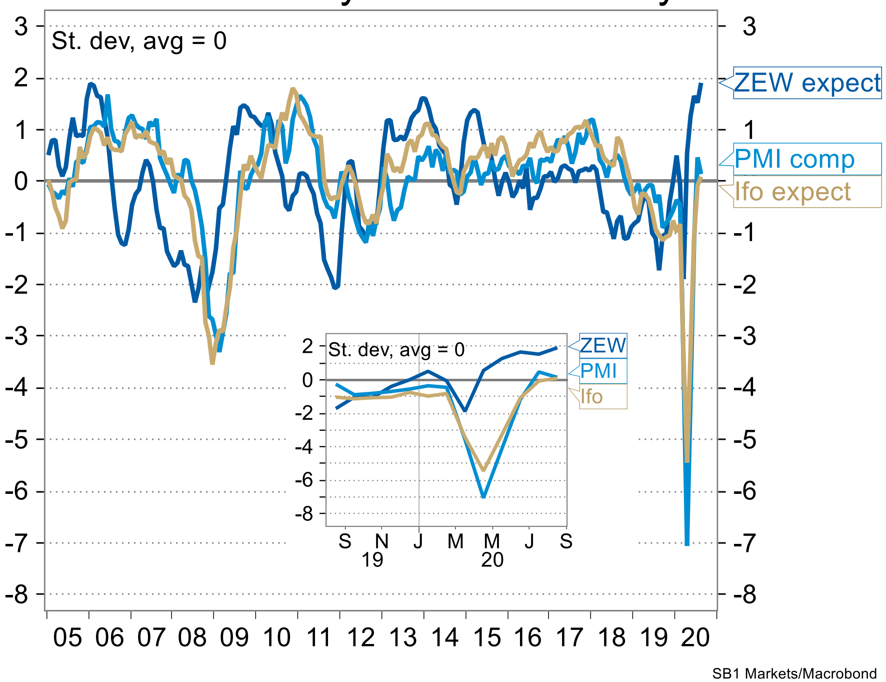
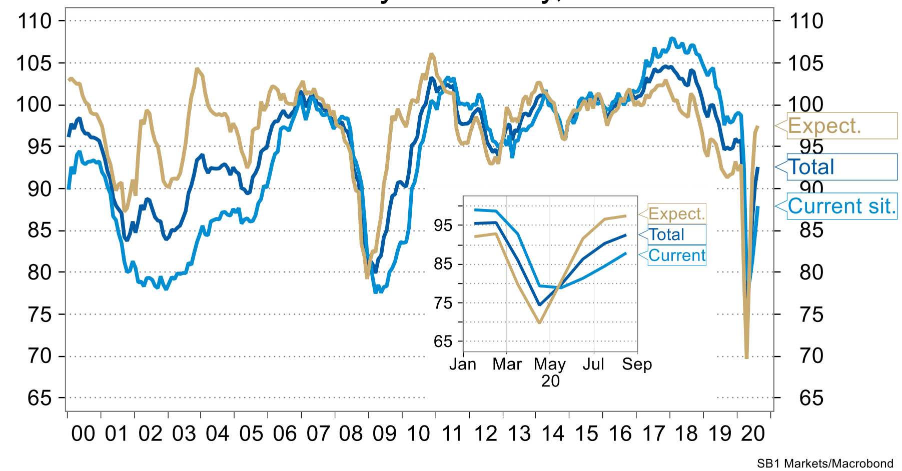
Ifo further up in August, but is not that impressive

Retail trade is reporting growth, while manufacturing production and services are still well below par

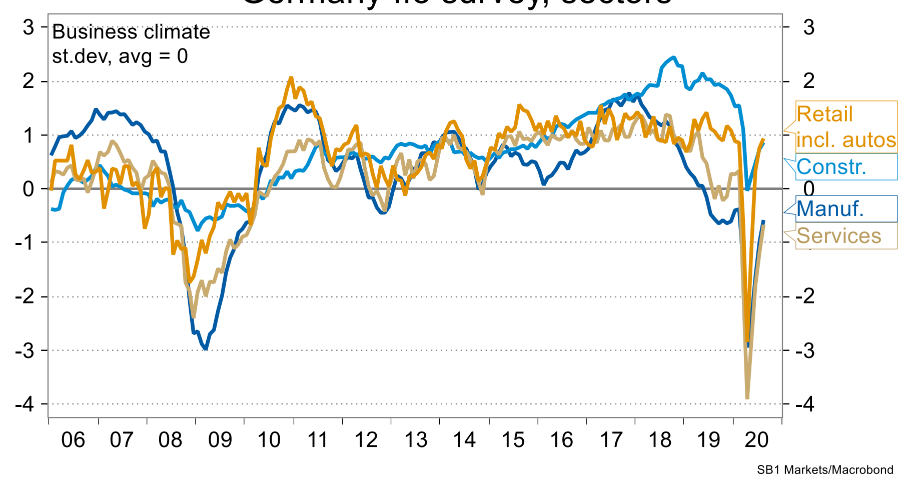
Germany Business surveys



Germay Ifo survey, total



Germany Ifo survey, sectors



- The ZWE expectation survey is the most upbeat – and might be the most correct vs growth rates in Q3