7 September 2020

Macro Research

Week 37/2020

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

The headlines are linked to the relevant section in the report
The elements on the the page “In this report” are linked
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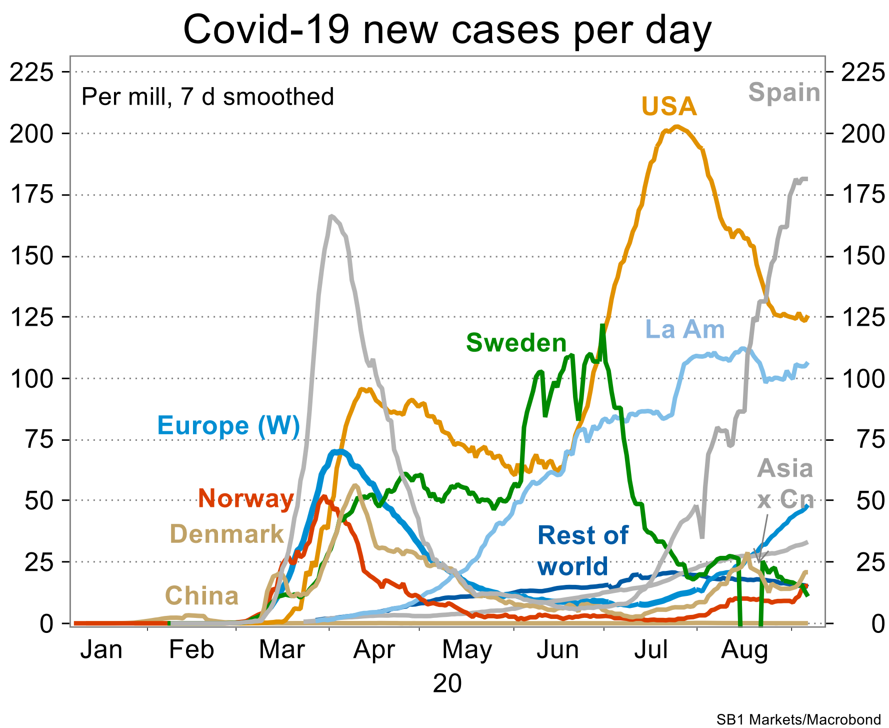
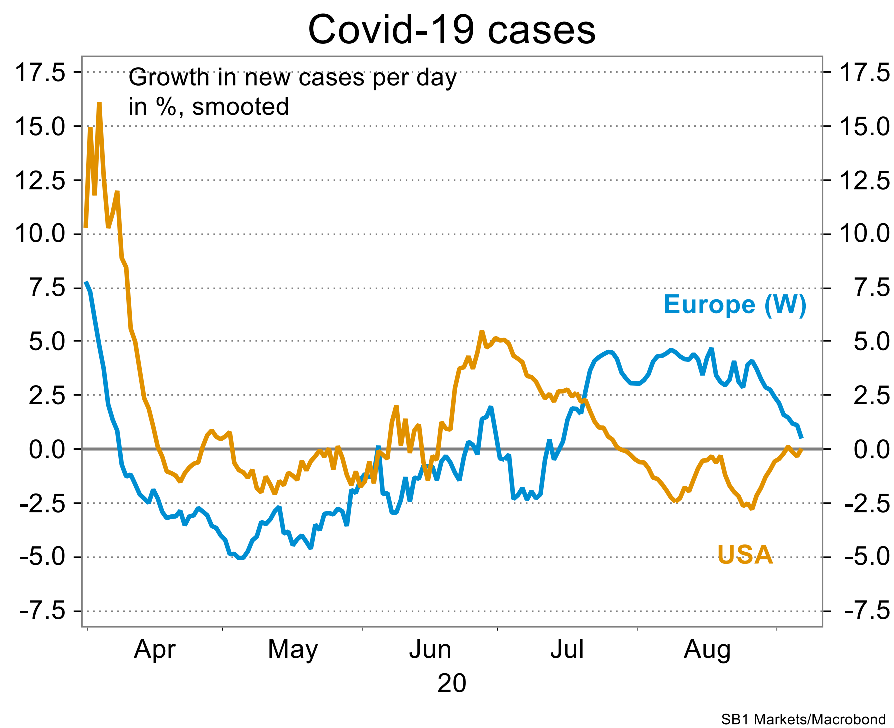
Last week: The US labour market is gradually recovering

- **Mixed corona news:** In the US, the decline in new daily cases has flattened out the past two weeks. The substantial decline in new cases the previous weeks – and still a quite high level of new cases - has not seriously hurt US growth. Growth in new cases is slowing in Europe, and the level is still manageable, at least outside Spain (which is above the US level!). Death rates are much lower than during the spring in both US and EU, as is the need for hospital treatment. No of new cases **in Norway** has almost doubled last week, but the outbreak is still local (primarily due to heavy partying among students in Bergen and intense praying among the faithful in Fredrikstad/Sarpsborg)
- **Global PMI** rose to 52.4 in August, up 1.4 p, but just half the countries/regions reported an increase from July to August**.** The PMIs are anyway not reflecting actual monthly changes now. **Manufacturing PMI** rose to 51.8. **Chinese PMIs** inched up, services recovering faster than manufacturing, which is needed. **The US manufacturing ISM** came in well above expectations, at 56, and the details were promising, and the service sector PMI kept up well. In the **EMU, PMIs** were confirmed down, probably because the corona outbreaks created problem for the tourism industry in the South. In **Norway**, the manufacturing PMI remains soft, below the 50-line, among the weakest globally
- **China exports** rose further in August, and more than expected, up almost 10% y/y in value terms, at ATH. Import rose even more m/m but still less than expected y/y, and are down y/y in value terms. In volume terms, imports are at ATH too (exports may be marginally below)
- **US employment** rose by 1.37 mill in August, very close to expectations (but private employment were weaker than expected). Still, less than half of the March/April decline is so far recovered, and the monthly growth is slowing. However, unemployment fell more than expected, to 8.4%, due to fewer temporary laid off workers. **New jobless claims** rose by 0.88 mill last week, the inflow is slowly on the way down. **Fed's Beige Book** reported just a modest recovery in activity from July to August. Weaker data did not explain the small setback at the stock market last week
- **Eurozone retail sales** failed to expand in July but are anyway back at the pre corona level. **Unemployment** climbed to 'just' 7.9% in July, we expect more to come as the underlying labour market conditions surely are weaker than this. **Core inflation** fell more than expected, to 0.4% and total inflation has fallen to zero
- **Norwegian house prices** rose by 0.3% m/m seasonally adjusted in August, we expected 0.4%. The price acceleration has slowed somewhat, following some wild months, yet prices are >2% above the pre corona level. Prices have increased faster than Norges Bank assumed and should the rapid growth continue**. Household credit growth** is picking up speed along with soaring house prices. Corporate credit growth probably slowing, bringing total credit growth down. **Household savings** jumped to 22% of disposable income in Q2, totally unpreceded, as consumption fell more than their incomes. Good news, households are probably ready to start spending on those services still lagging, as soon as the virus is brought under control

No of new cases in Europe is slowing down; the US takes break on the way down

US has flattened out, Europe still on the way up, at a slower pace



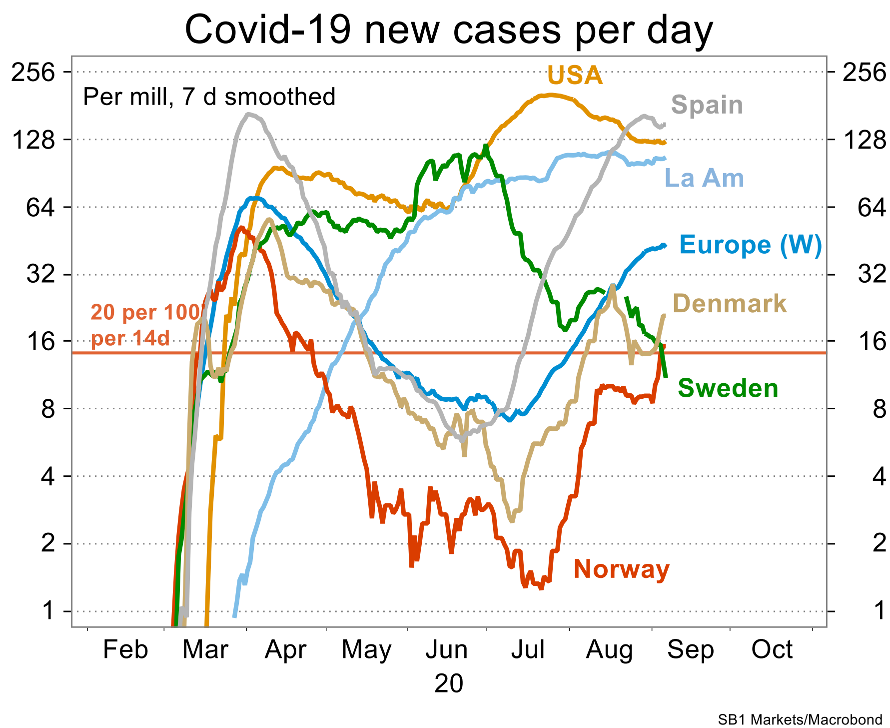


- **The US** curve has been moving down since late July. The past two weeks, the number of new cases has flattened out. The no of hospitalised patients is falling sharply, and the no of deaths is now trending down too. **The economic cost of turning the curve has most likely been limited – the best corona news recently?**

- Growth in new cases in **Europe** 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 (On the Nordics, check next page)

Fewer cases in Sweden than in Norway (and Denmark)

A sharp increase in new cases in Norway, to above the 'red line'. Sweden has fallen below!



- New cases may be flattening in Spain but the last reported data are not reliable
- Sweden is reporting a sharp decrease in new cases - and the country has fallen below the 'red line' – less than 20 cases per 100.000 the past 14 days
- Both Denmark and Norway reported a sharp increase in new cases last week – in Norway almost a doubling (and Norway reported the 2nd fastest growth rate, globally (!)) - but the no of new cases is still low
  - » In Norway, much of the cases are still 'local' due to intense drinking parties among students in Bergen (especially at the business school, NHH), and intense religious activities among faithful's in Fredrikstad/Sarpsborg. Even so, the no of new infected is still rather low

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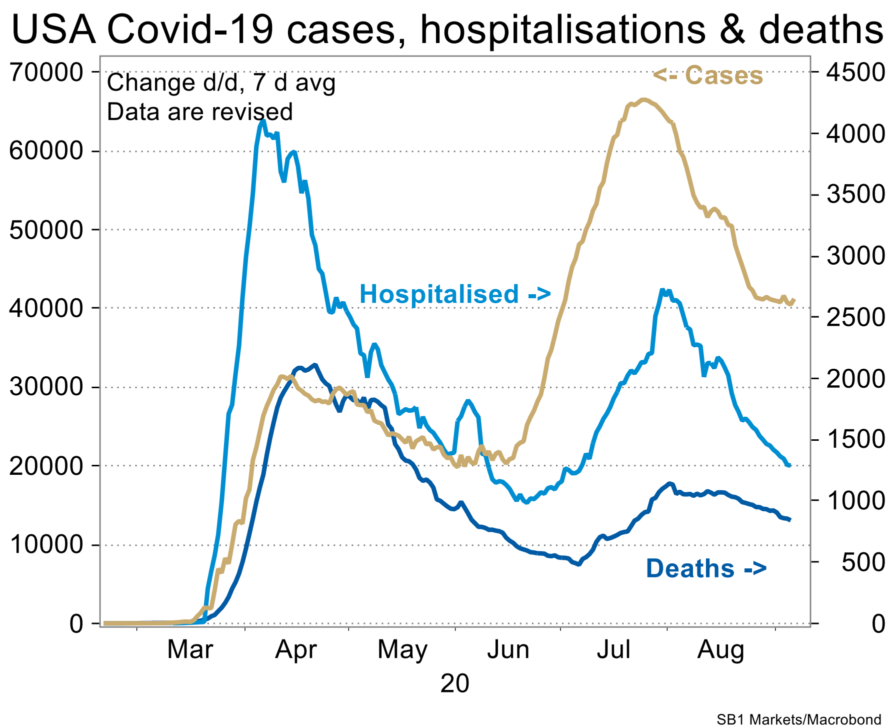
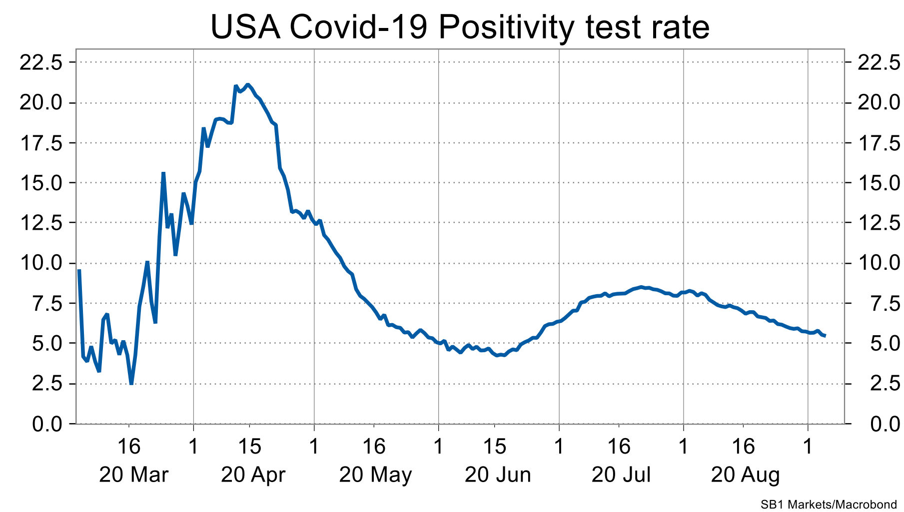
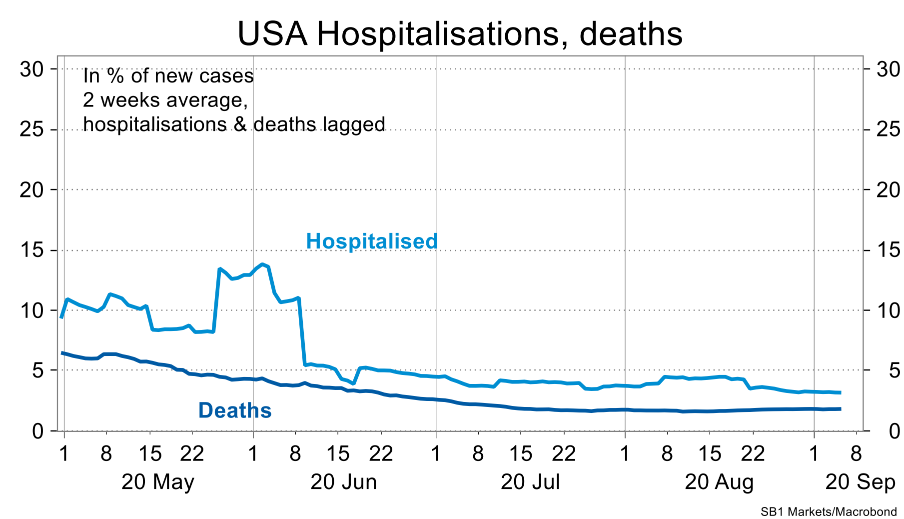
USA: The number of new cases has flattened, hospitalized & deaths sliding down

The trend is most likely still downwards. The positivity test rate is declining steadily



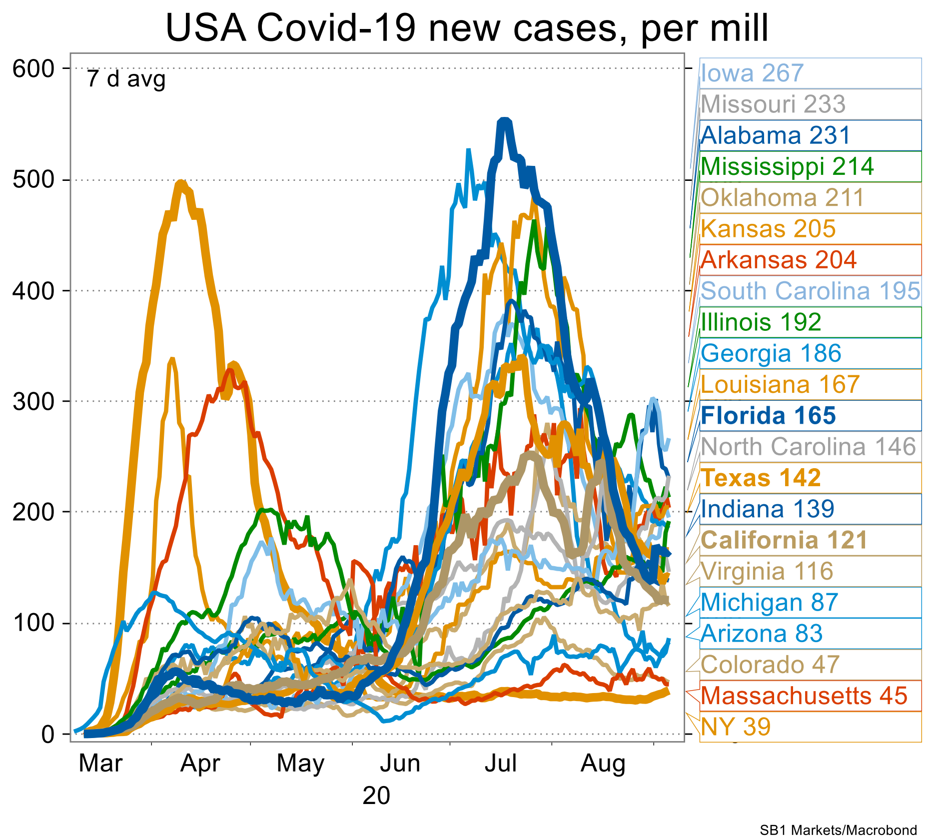


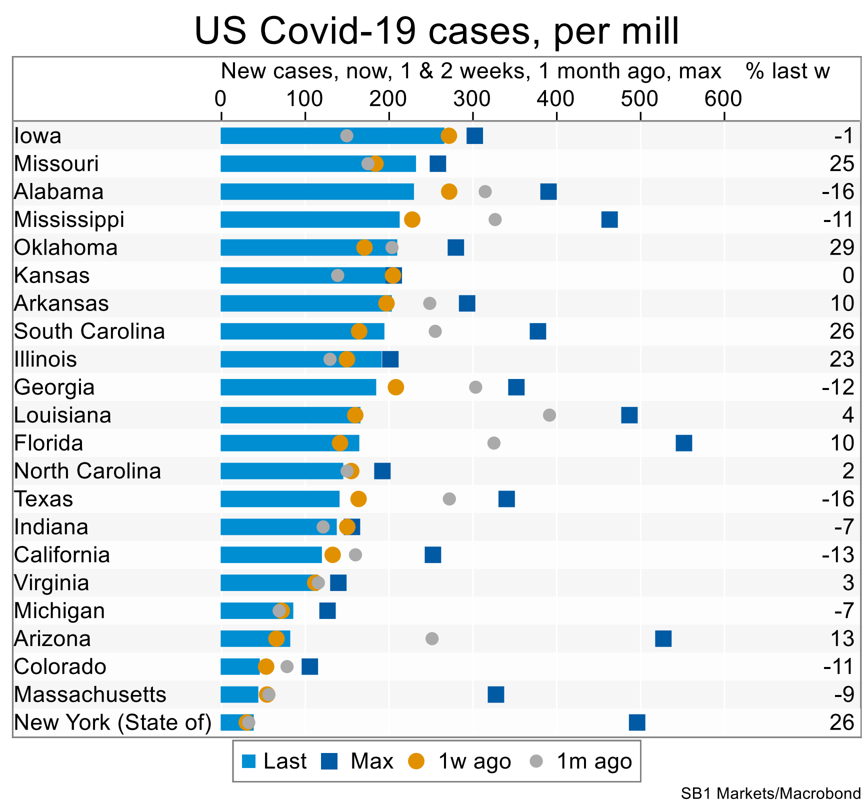


- The hospitalisation rate is far lower than during the early phases of the pandemic but has not fallen further the past two months
- The death rate (CFR) fell sharply until late July but has since flatted out - at a low level

US: Most states steady the past week, declining over the past month

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

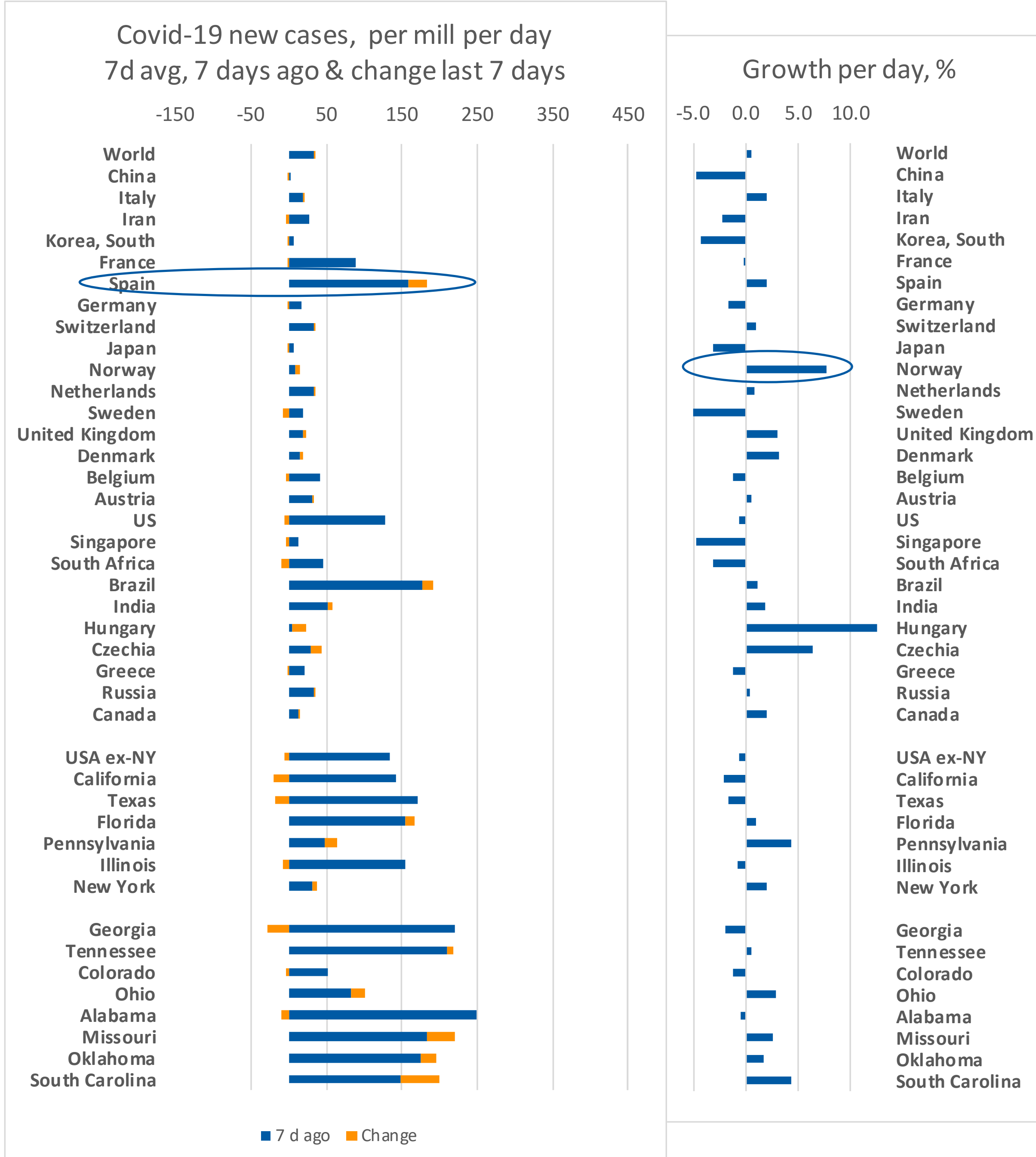




US & the rest: A comparison

It won't lay down…

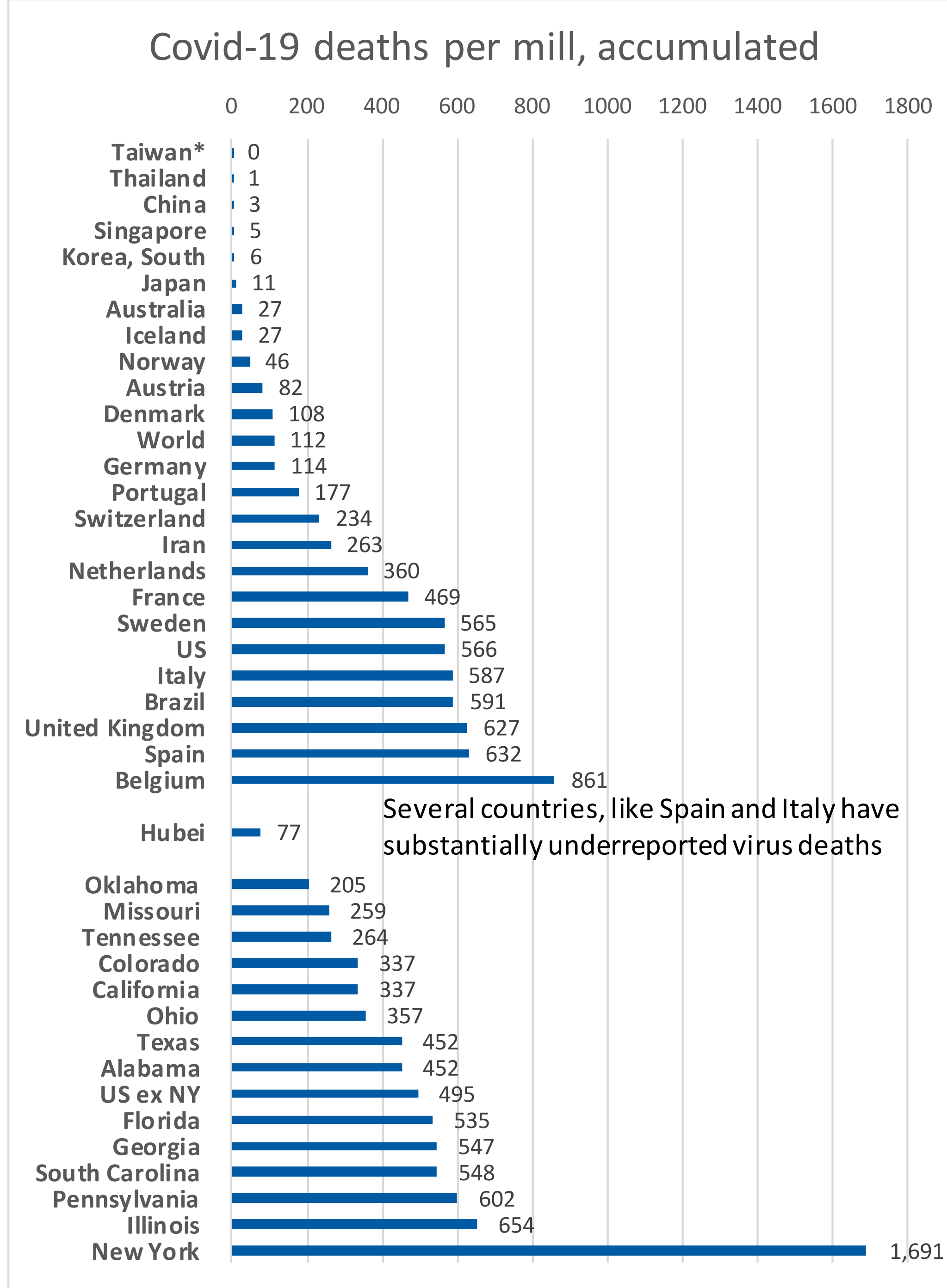
- Mixed reports last week
  - » In the US the number of new cases has barely declined past two weeks – but it is well down from the peak in mid July
  - » In Europe, growth is again slowing down and more countries are reporting a lower number of new cases. In Spain, which is hardest hit, growth is still positive. Growth has slowed in Italy too, where the level is still low
  - » Norway is reporting a sharp increase in cases
- We do not trust all of these data
  - » There are changes in test policies & capacity
  - » Some countries do not report properly



The final count

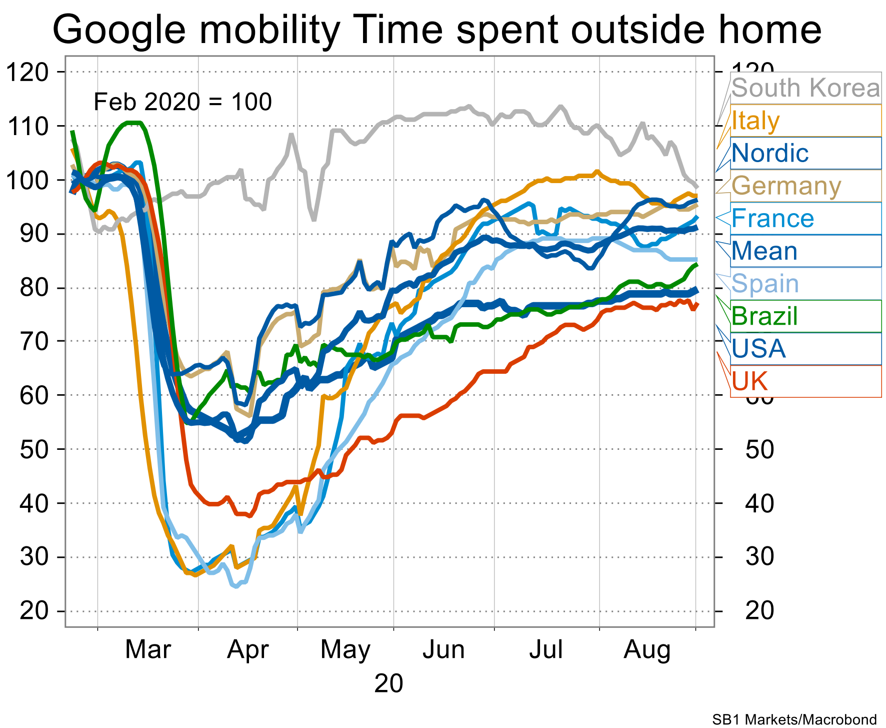
So far, that is

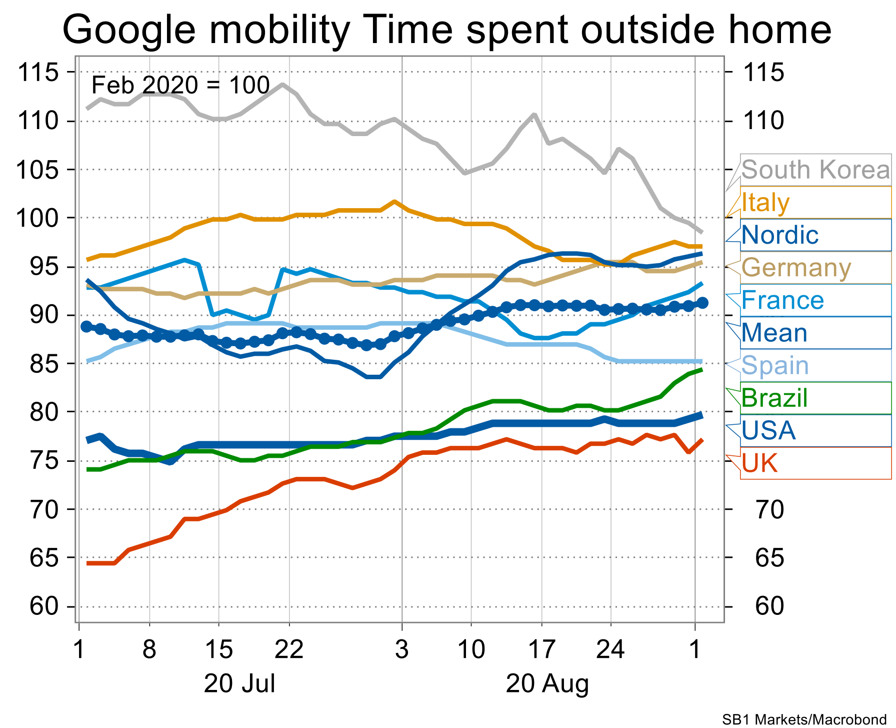
- US has moved closer to the bottom (or top…) of the list, now more deaths than in Sweden per capita. May soon overtake Italy (but deaths in Italy is no doubt substantially underreported)



Time spent outside home on the way up

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





- 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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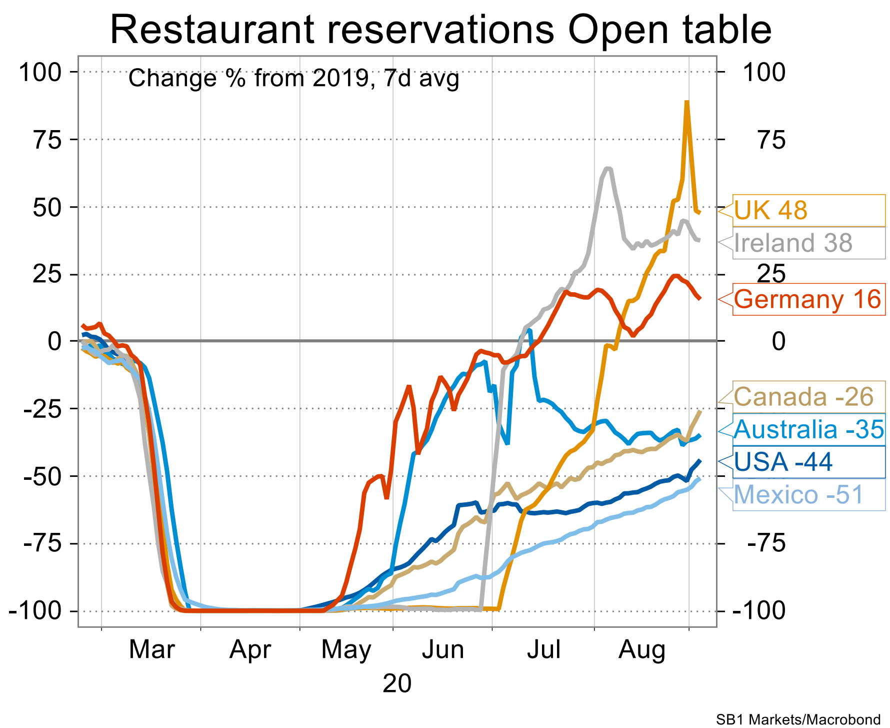
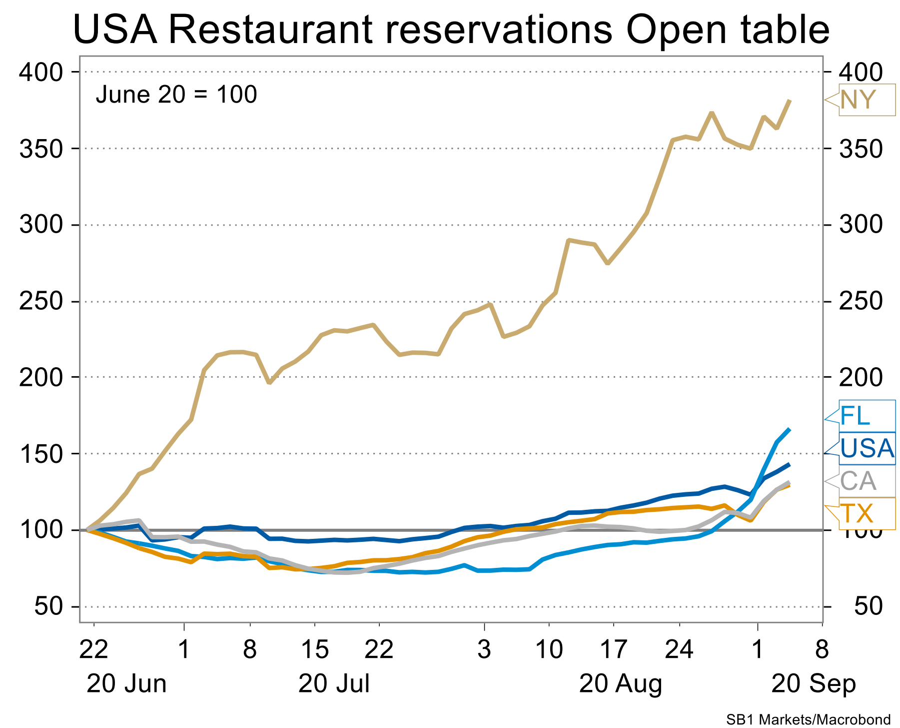
Restaurants are not open for normal business

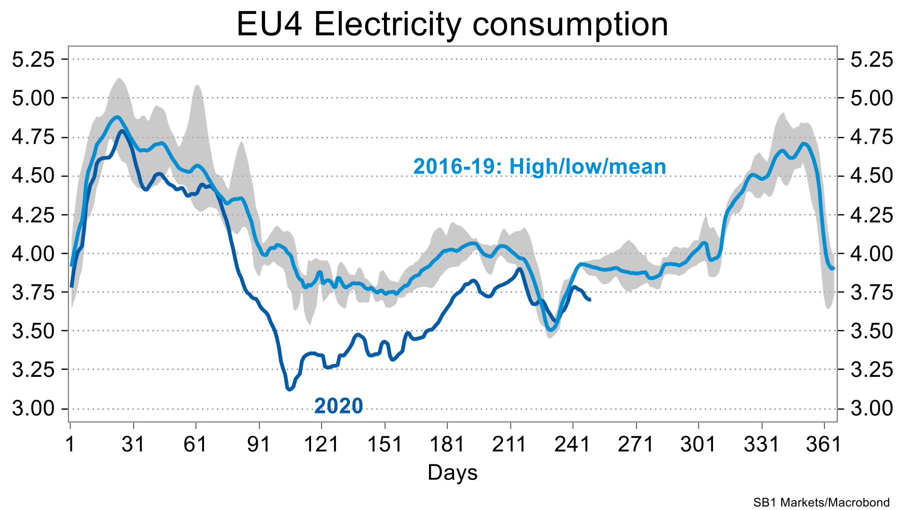
… if the corona virus is not brought under control. US is gradually on the way up again. Level still low

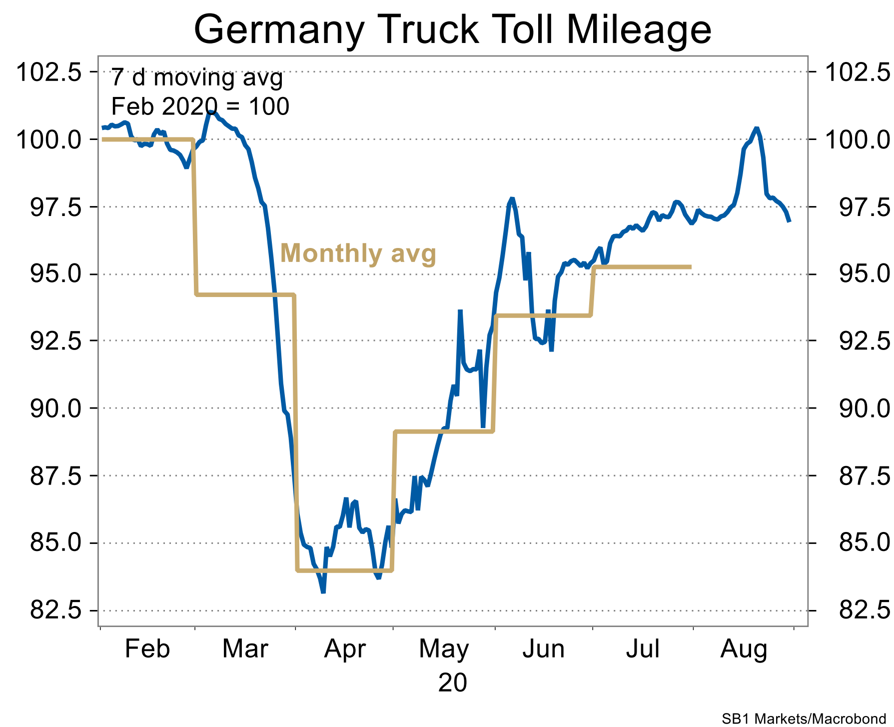


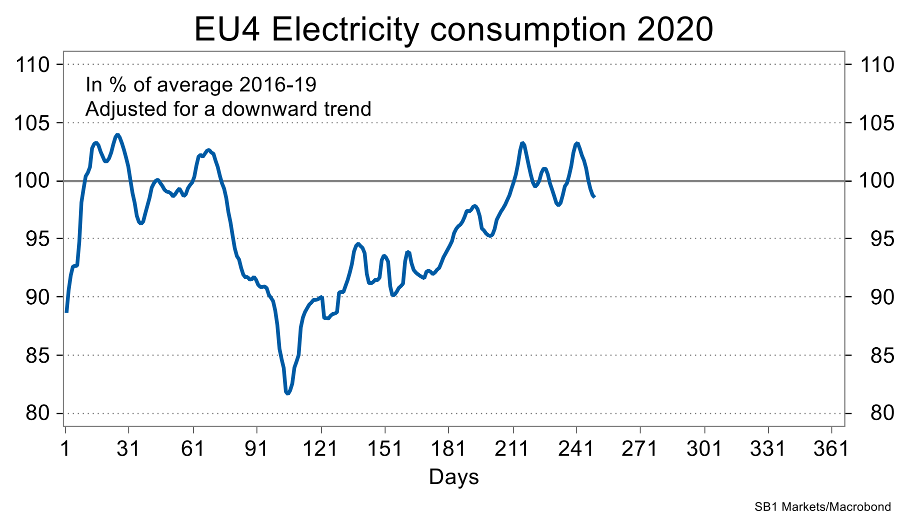


Electricity & German heavy transport: Activity has flattened

At a close to normal level

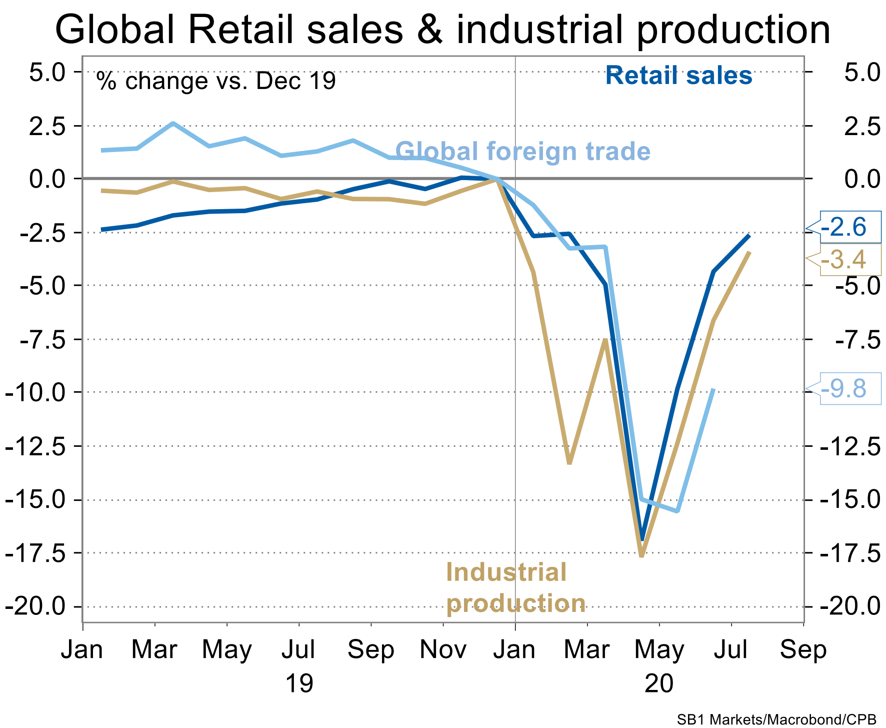


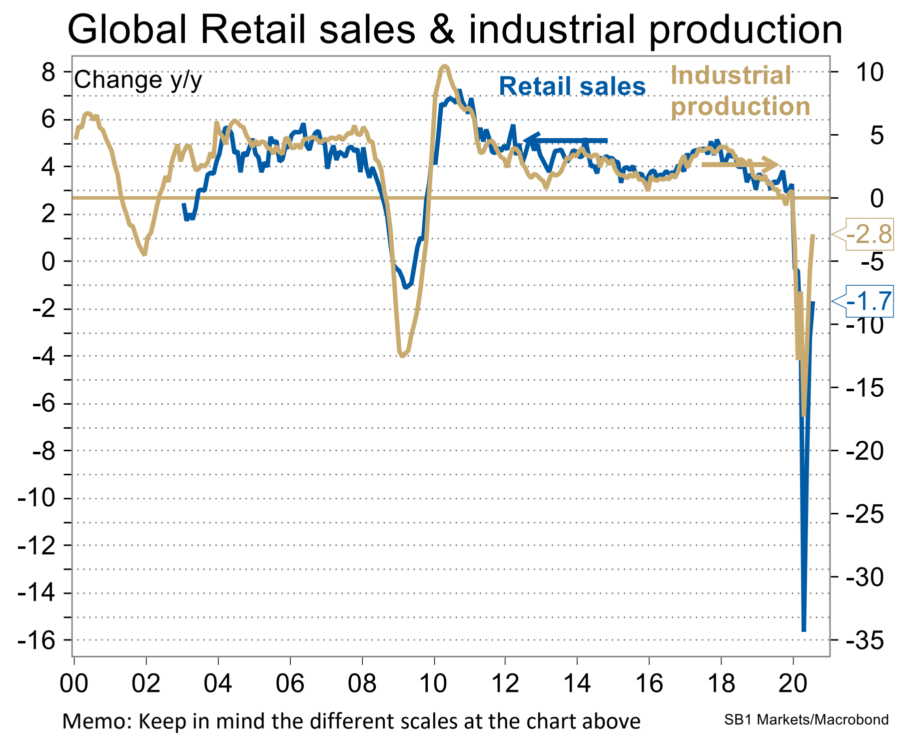




Industrial prod, retail sales further up, both still below pre corona trends

July retail sales are just 2% below the Dec 19 level in July, manuf. 3% below





- Global retail sales grew 2% m/m in July, according to our preliminary est, after rising 6% in June. Sales are 2½ % below the pre corona (Dec) level (but on par with Jan/Feb). Sales in many DM countries are above the Dec level, China (and probably India is still well below (and many countries have not yet reported July data)
- Industrial production rose 3% m/m in July (our est), from 7% in June. Production is still 3½ % below the pre corona level
- Global foreign trade shot up 7% m/m in June but was still 10% below the pre corona level

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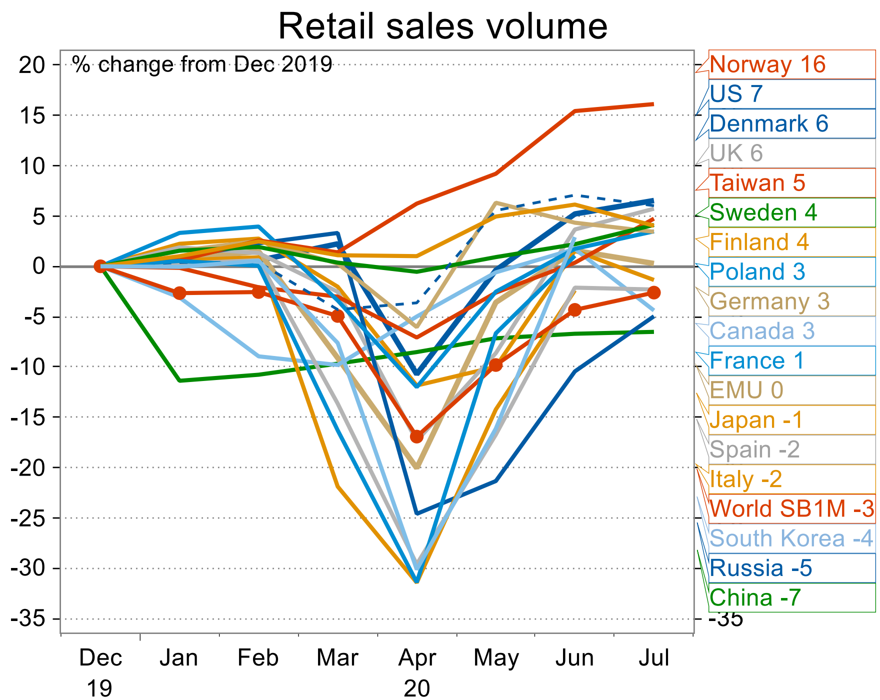
Retail sales are on the way back to pre corona levels

... sales are above the pre corona level in many countries, even accumulated through the 'crisis'



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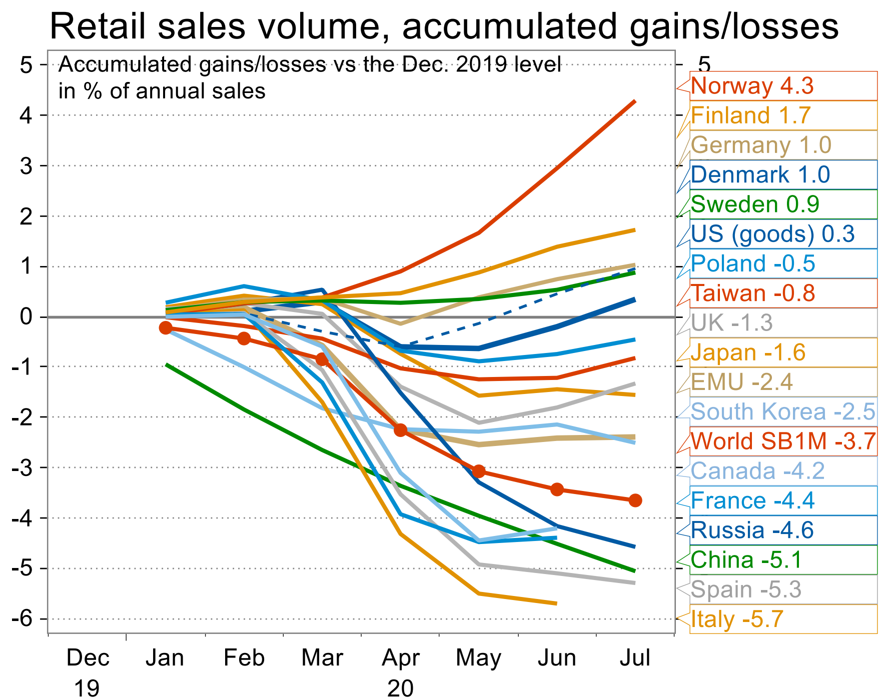
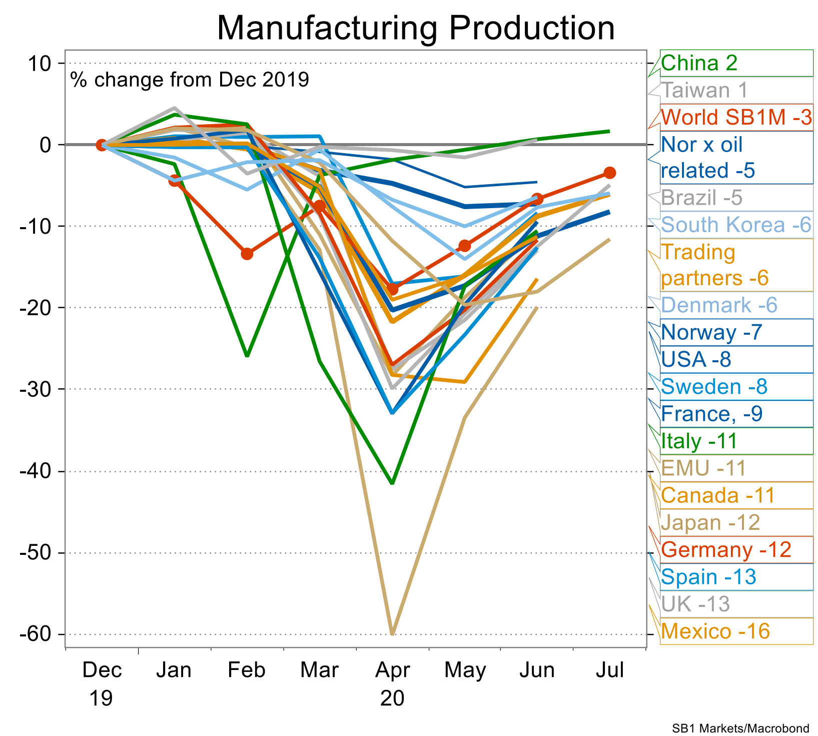
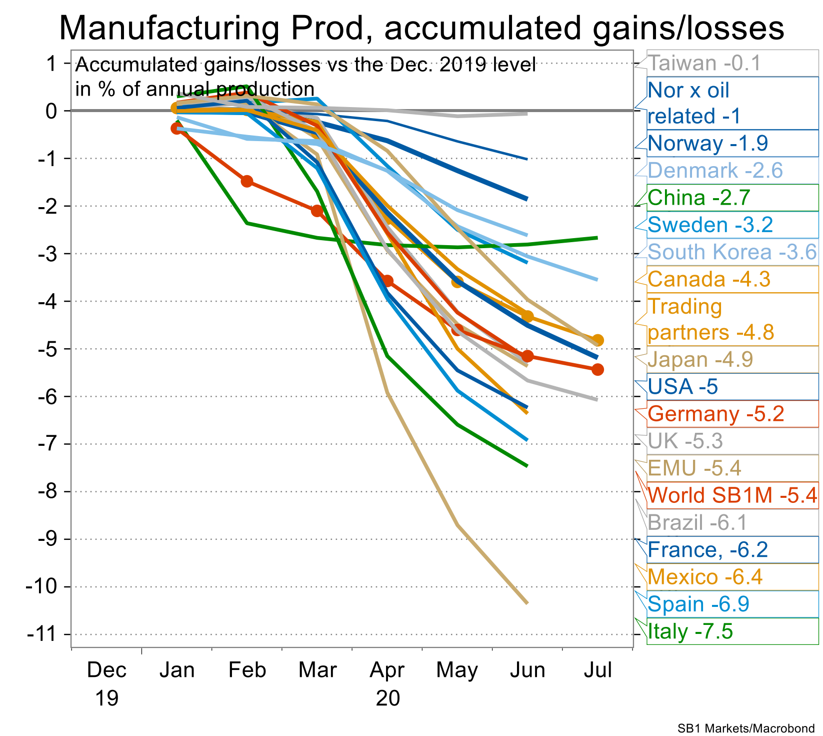


- We assume global retail sales rose 2% in July. If so, sales were just above 2.6% below the pre corona level in June. Most countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual 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
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

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

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





- We estimate approx. 3% m/m increase in manufacturing production in July. Production was still down 3.7% vs. the Dec level
  - » Compared to the Dec 19 level, China is in the lead (above the Dec level) followed by Norway and the US
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in 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, <u>measured in % of annual production</u>. *This illustrates the loss of production during the corona crisis, <u>so far</u>*
  - » Taiwan has not reported any decline, while Norway has reported just a small loss (2%), followed by Denmark, China, South Korea
- <u>Service sector production is not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

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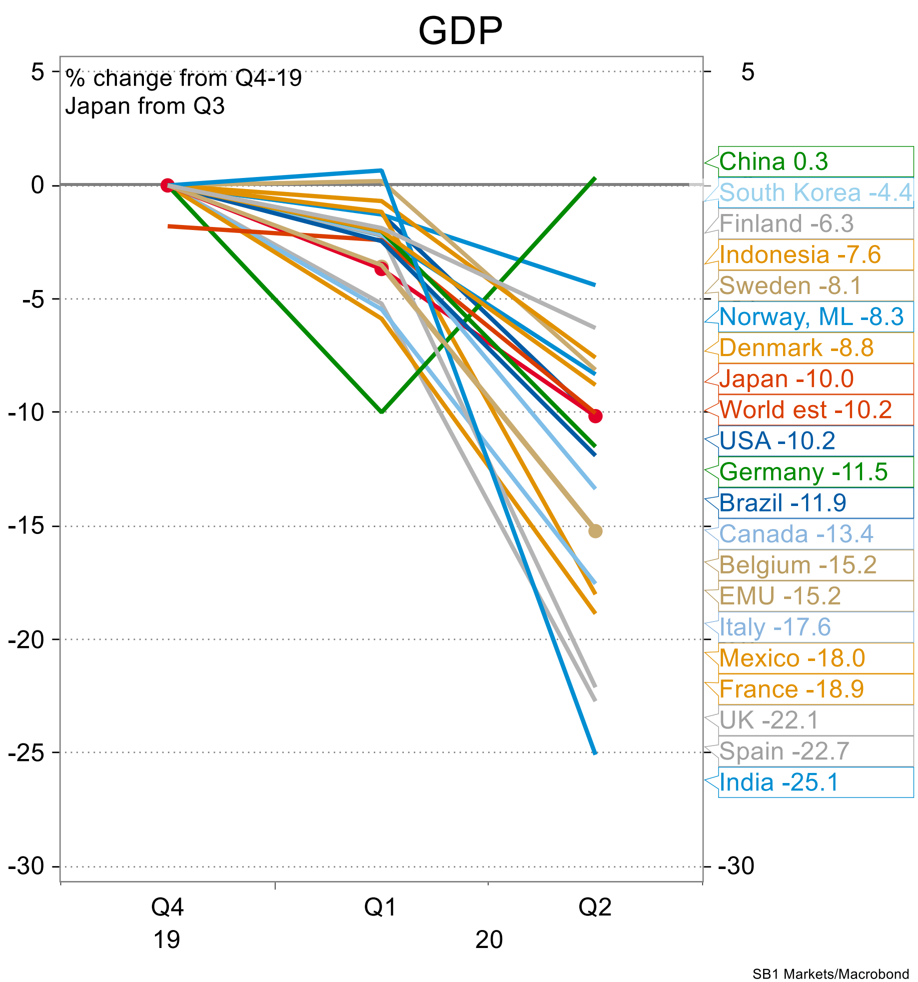
Global GDP down 'just' 5% in Q2 but some 12% ex China. Down 9% vs. Q4

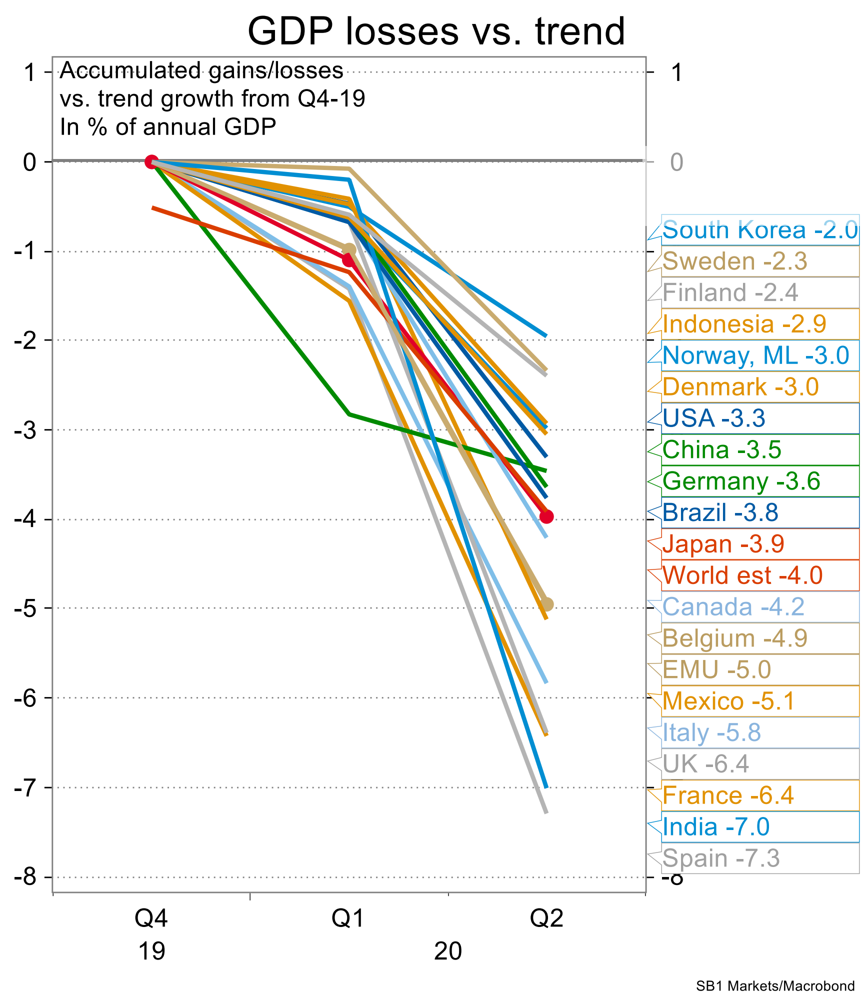
Except China, all countries we follow have reported lower GDP. Still mange countries to report

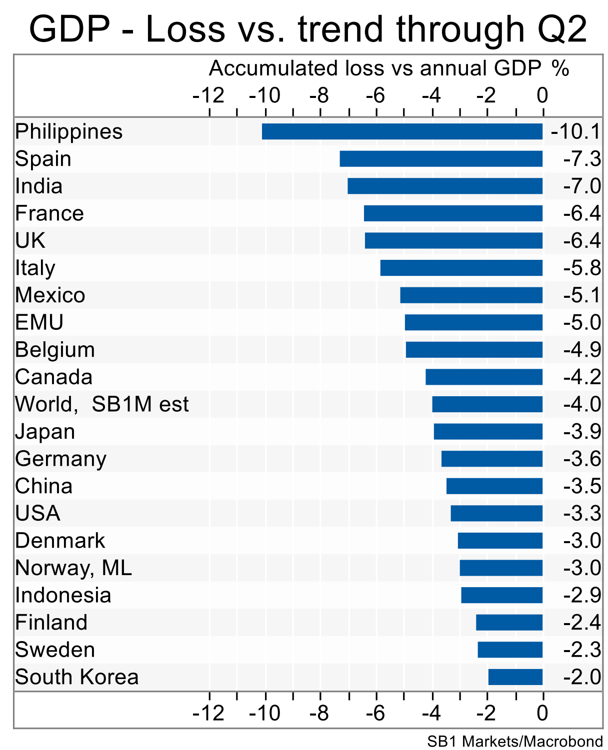


- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, bringing the GDP level up to slightly above the Q4 level
- In most (all?) other countries, GDP fell sharply in Q2 – and global GDP probably fell by approx the same amount as in 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)
  - » India down 26% in Q1, 25% from Q4 – at the bottom of the league
  - » 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 4% of global GDP

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

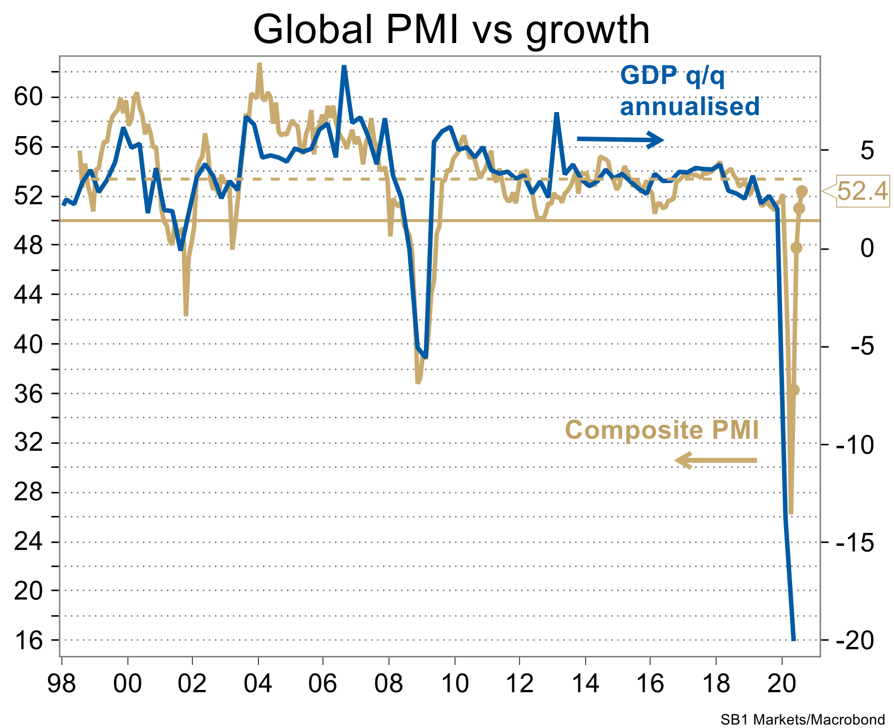


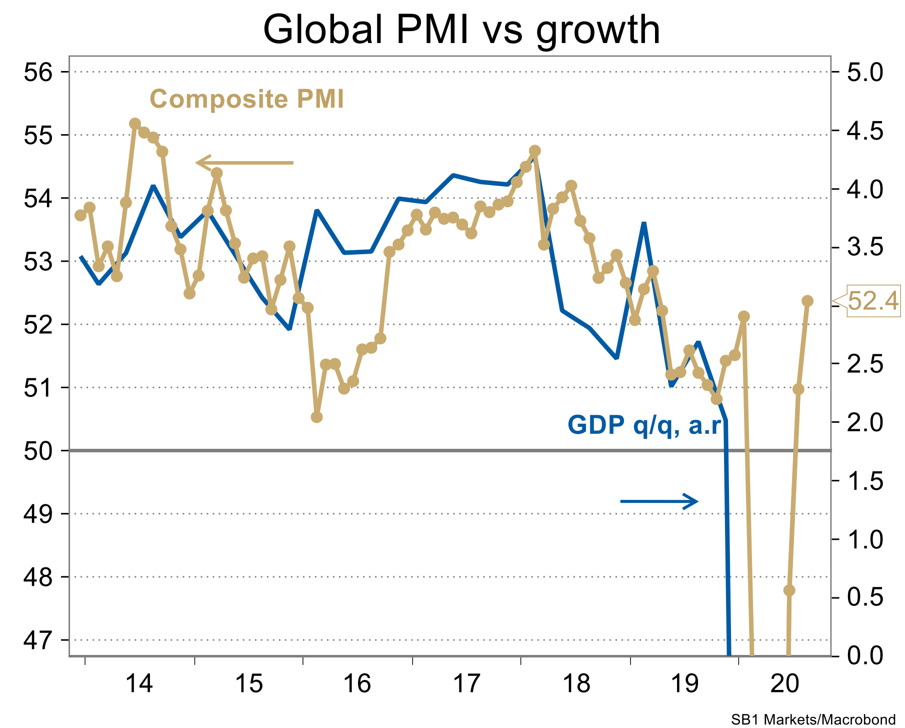


- So far, Sweden has lost less than most other countries, barring South Korea
- Spain has reported the largest loss in DM

PMIs further up in August, still not reflecting the 'real' recovery

PMIs/ISMs describe the cycles well but they have – as usual – been too slow the report the recovery

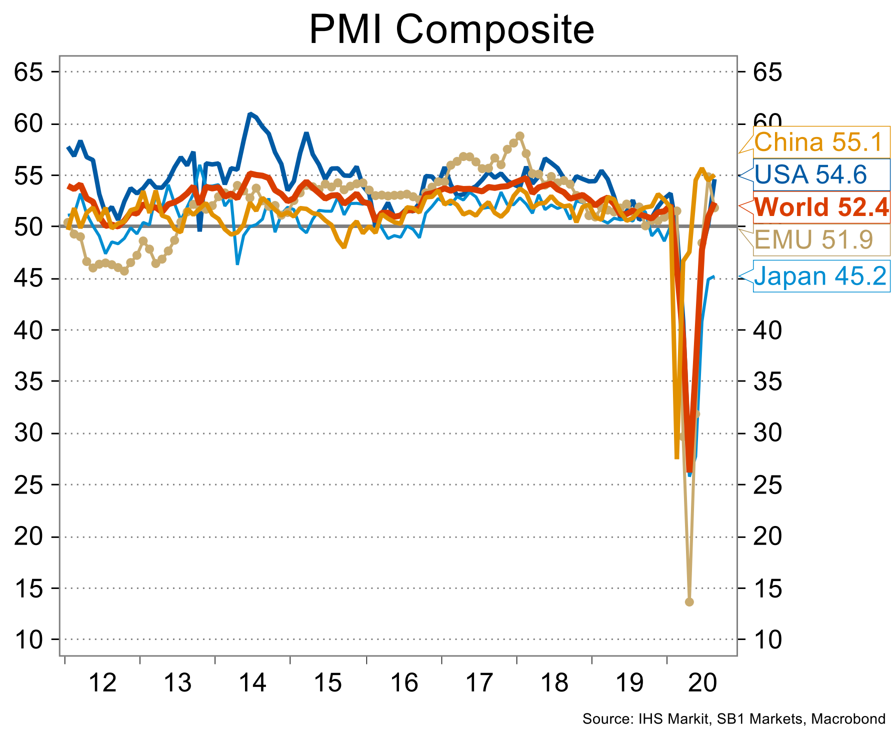


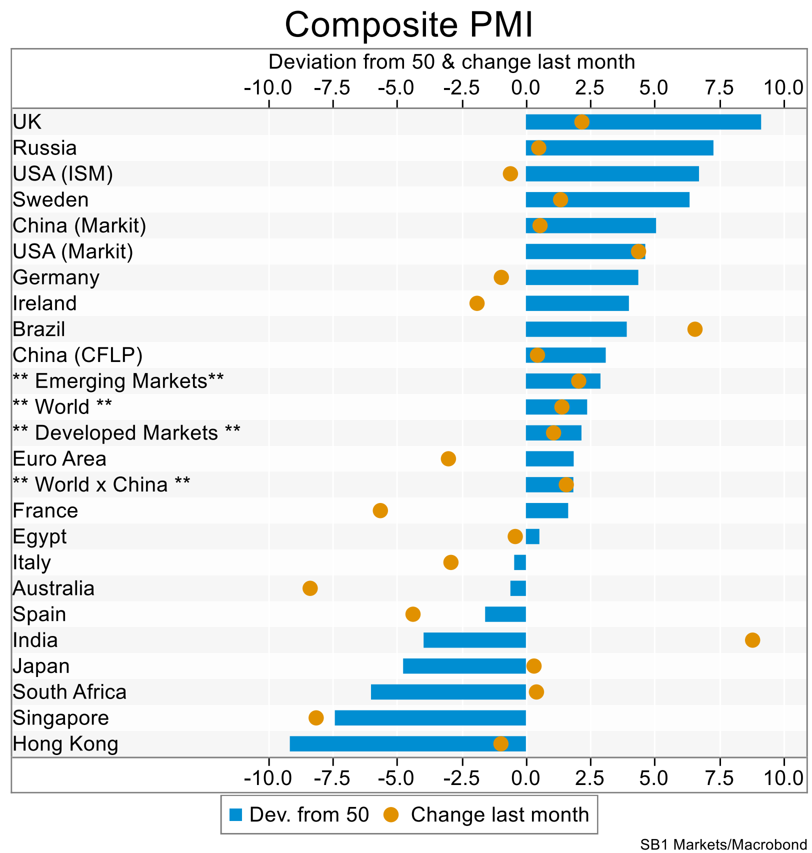


- The global composite PMI rose by 1.4 p to 52.4 in August, slightly better than we expected. Formally, the PMI is signalling 3% growth
- World GDP fell at a 15% pace (close to 4%, not annualised) in Q1 and some 20% (5% not annualised) in Q2. However, all activity data have been signalling strong growth since May. Even if activity stabilises now, growth pace in Q3 will be record high, some 15 – 20%, not the 3% pace the companies are now reporting
- So, as we have discussed recent months, companies are NOT reporting changes in activity from month to month now (which they are asked to do). If they had answered correctly, the PMIs should have been way above 50, as the world economy has been gaining speed at an unprecedented way since May. Companies' answers rather reflect what they have experienced over some few months

‘V’s almost everywhere, most PMIs above 50, but few really upbeat

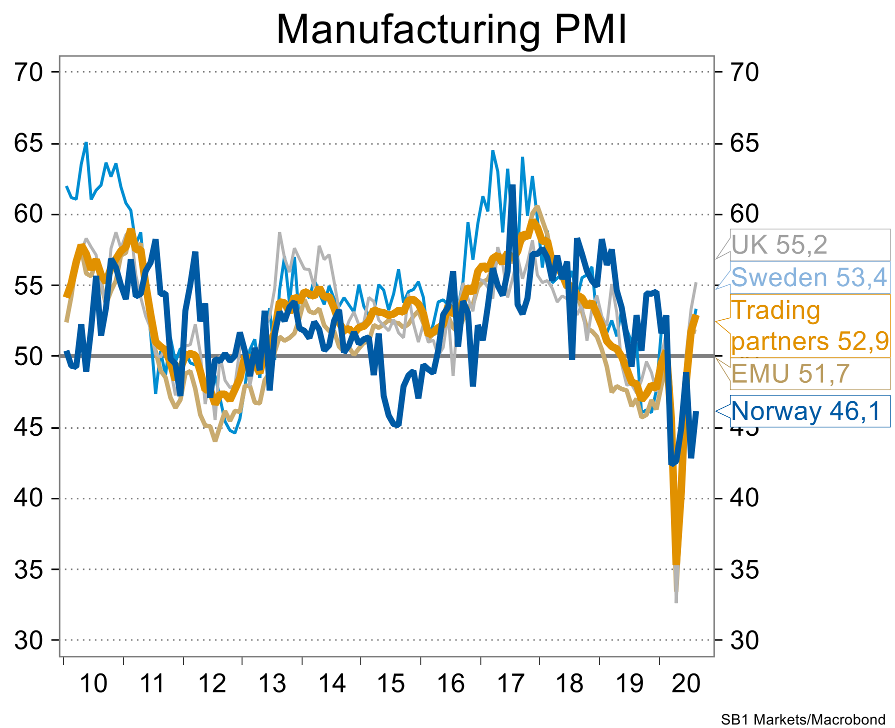
13 of 25 countries/regions reported higher composite PMIs in August vs July

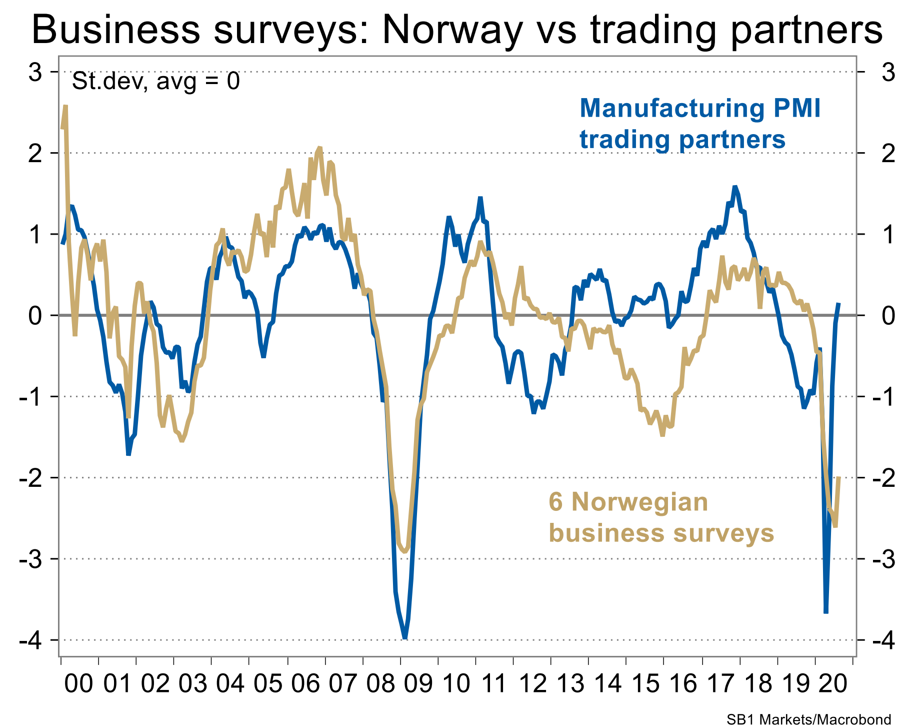




- UK, Russia and the US ISM are the strongest of surveys. The US Markit’s PMI is slightly less upbeat than the PMI even after a large step up in August
- Hong Kong, Singapore and South Africa are still struggling. Japan is the weakest among DM, still well below the 50-line
- The PMIS fell in France, Spain & Australia – possibly due to the new corona outbreaks – and Spain is reporting falling activity. Lack of the normal tourist inflow in August is probably also contributed
- In Markit’s data set, China is the strongest among the largest countries/regions

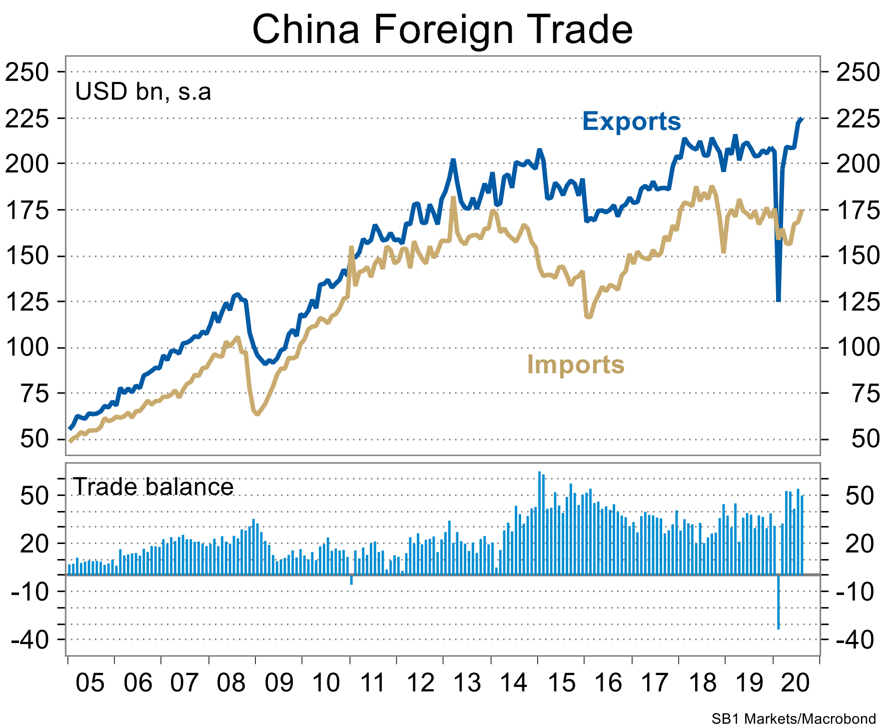
Norwegian manufacturers fared better during the spring but lags now





Exports & imports further up in August – exports (values), imports (vol) at ATH

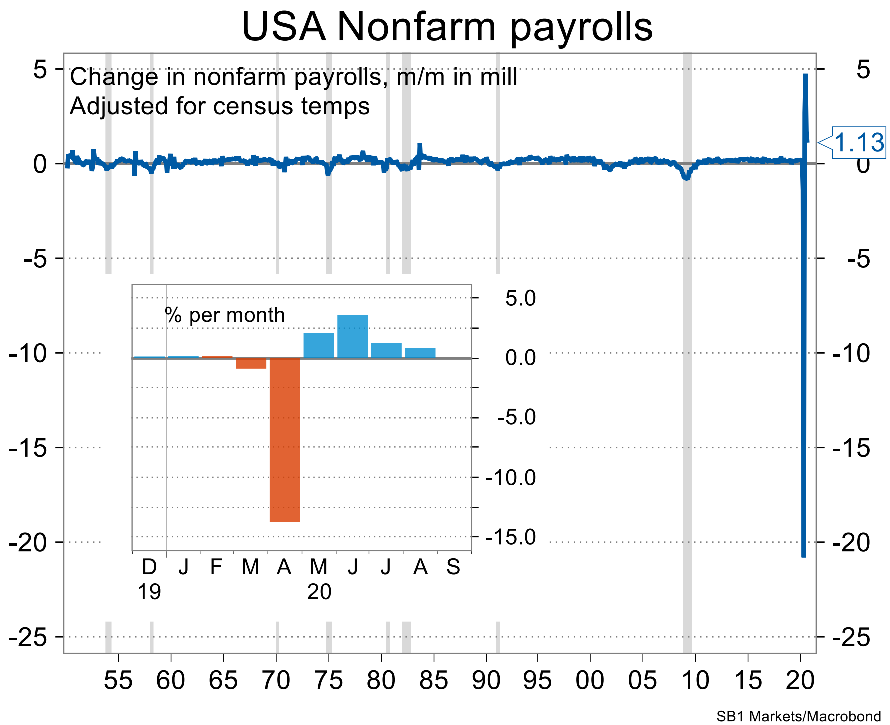
No signs of any collapse domestically or abroad

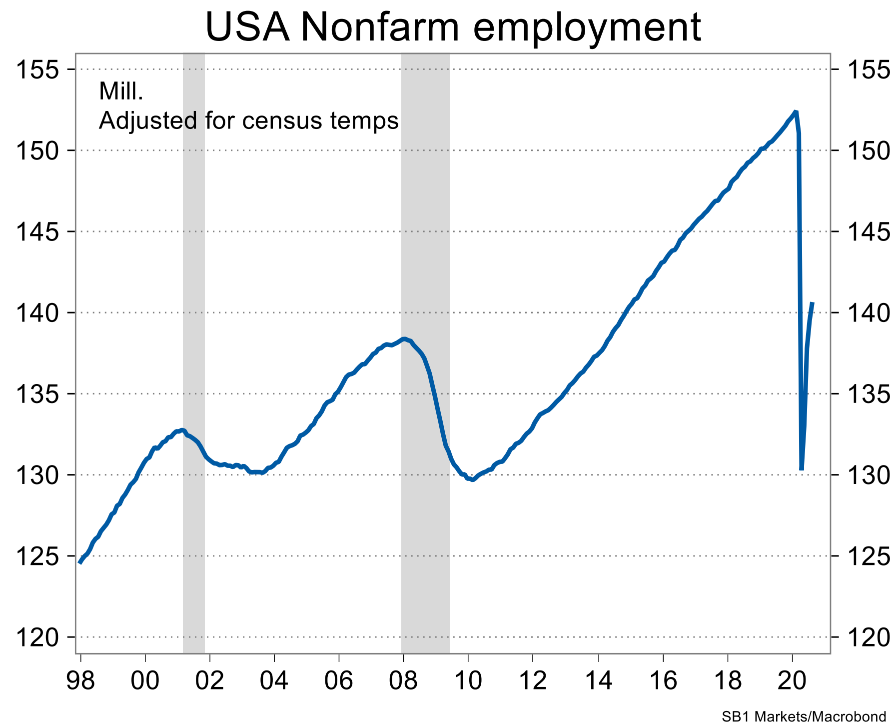


- Exports were 2 pp higher than expected in August – and the highest ever. Exports values rose 9.5% m/m in Aug, expected 7.5%. In volume terms, (based on our own quite uncertain price assumptions for the 3 last months), export are above the pre corona level
- Imports rose sharply in August but were still down 2.1% y/y, expected -0.2%. Import values are down since 2018 but as import prices have fallen, import volumes were record high in Aug (based on our prices assumptions)
- The trade surplus was unch at USD 50 bn. The surplus has been higher than normal since March. Still, China is no more running a large current account surplus, as the deficit in services is larger than before

Employment recovery is slowing but unemployment is falling at a fast pace

Employment up 1.37 mill (1%), still down 7.7% from pre corona, unemployment down 1.8 p to 8.4%

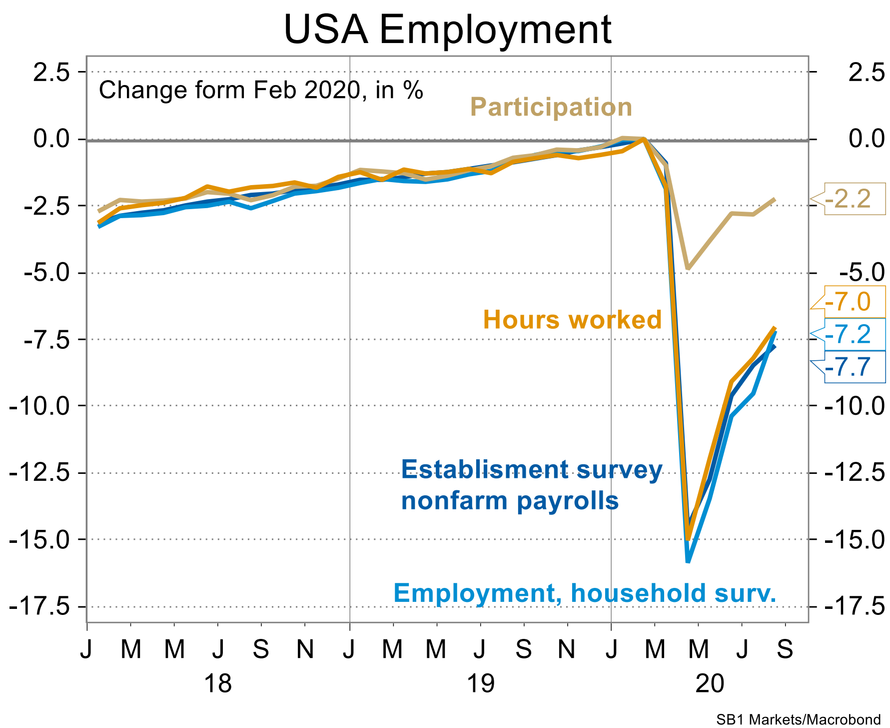




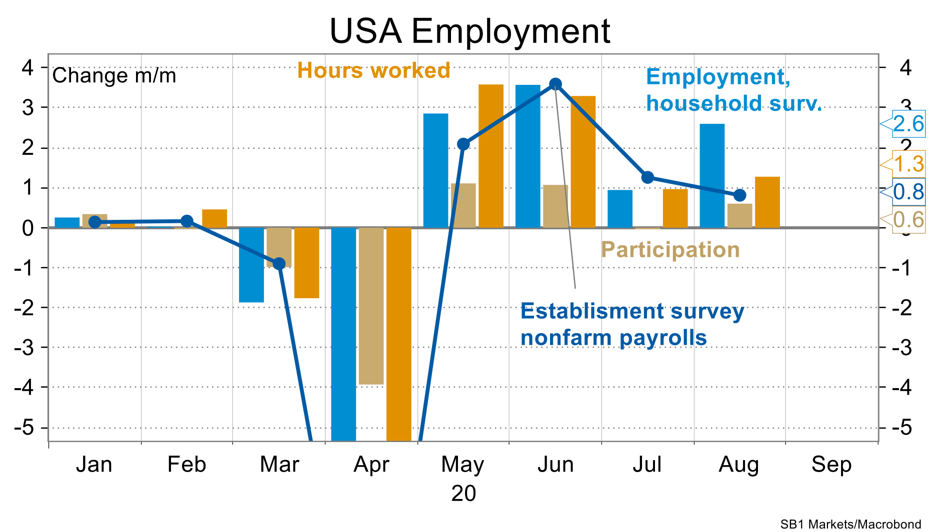
- **Employment** rose by 1.37 mill in August, close to the expected 1.35 mill. However, private employment rose by 0.3 mill less than expected, and the large share of the 0.34 mill increase in government employment reflected temporary Census jobs (0.24 mill). Employment has now recovered almost half (46%) of the 22 mill March and April drop but it is still 7.7% below the Feb level – and the recovery in jobs is clearly slowing
- **Unemployment** dropped 1.8 pp to 8.4%, just a 0.4 pp decline was expected. Unemployment has fallen from 14.7% at the peak but remains elevated. Also, the real unemployment level is still higher, as the participation rate has fallen and more are working involuntary part time etc. The U6 employment rate is 14.2%, up from less than 7% pre corona
- **We expect employment growth to slow the coming months.** New jobless claims are still running at an extreme high level

Employment still 7-8% below par, hours worked too

No big difference between enterprise employment headcount & the household (LFS) survey

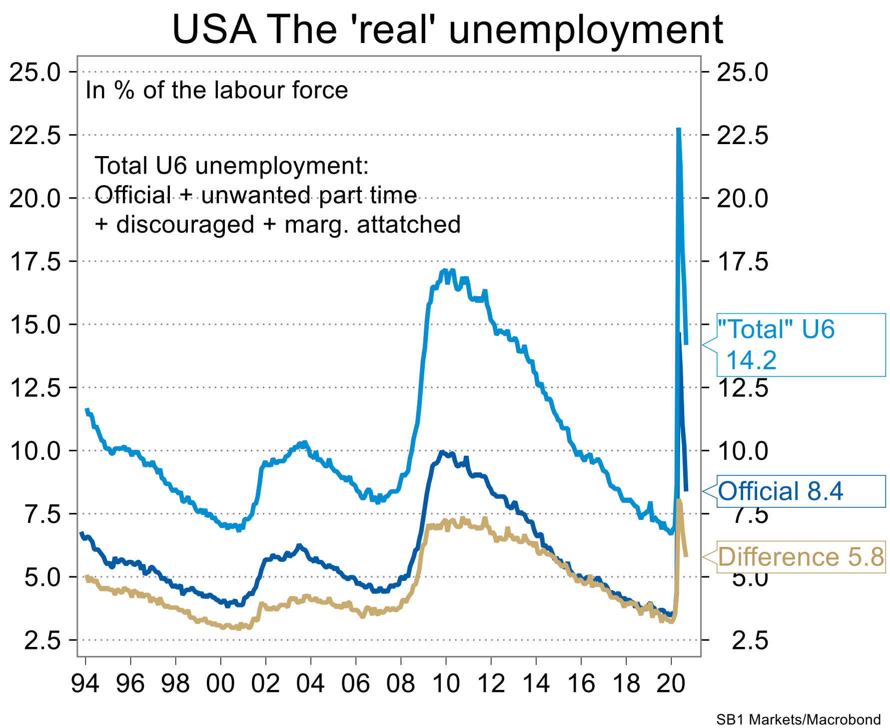


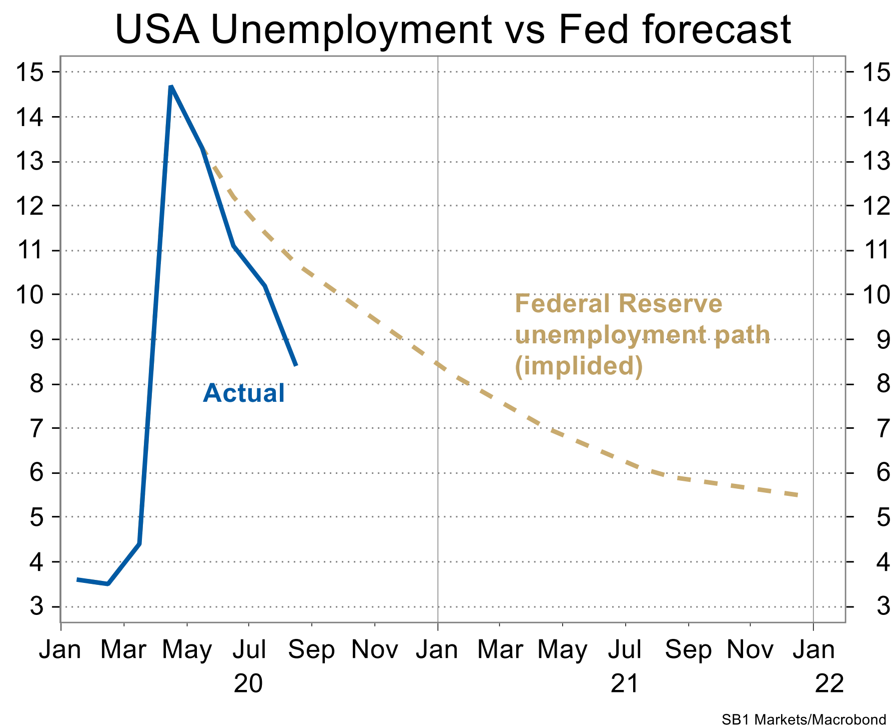
- If the participation rate not had fallen by 2.2% since February, unemployment would have been running 2 pp higher, at 10.4%
- In August, the (usually more volatile LFS ('AKU') employment measure rose 2.6%, explaining the sharp decline in the unemployment rate
- Given another 1% increase in hours worked in Sept, Q3 hours worked are up 5.6% vs. Q2 (a 24% annualised pace)



Unemployment is retreating much faster than the Fed assumed in June

Unempl. down 1.8 pp to 8.4%. Still, the ‘real’ unemployment is 14% - or even higher





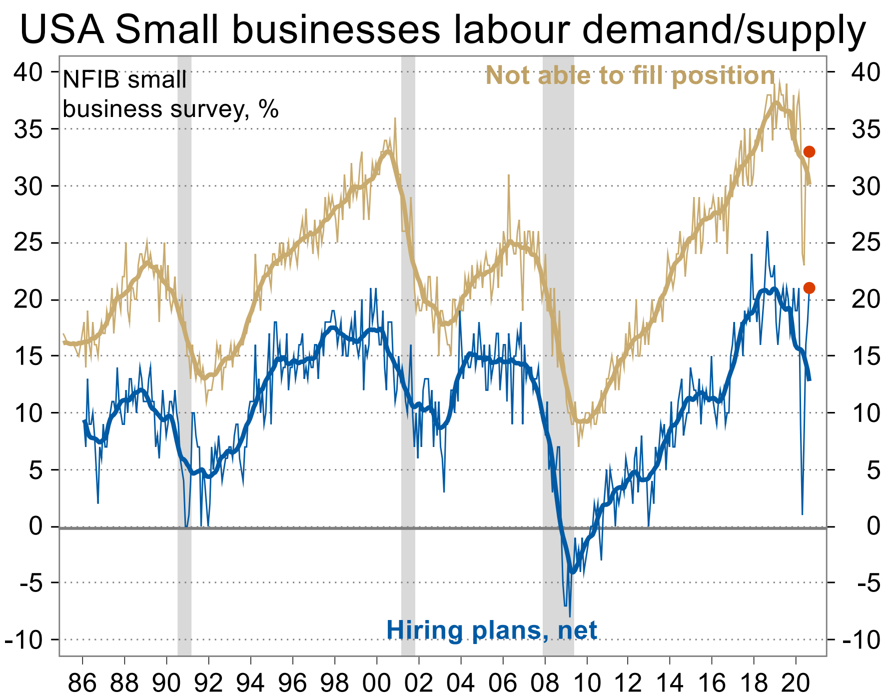
1) Some are counted as employed even if they should have been counted as unemployed
2) Almost 5% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
3) The labour force participation rate has fallen because workers do not bother searching for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

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

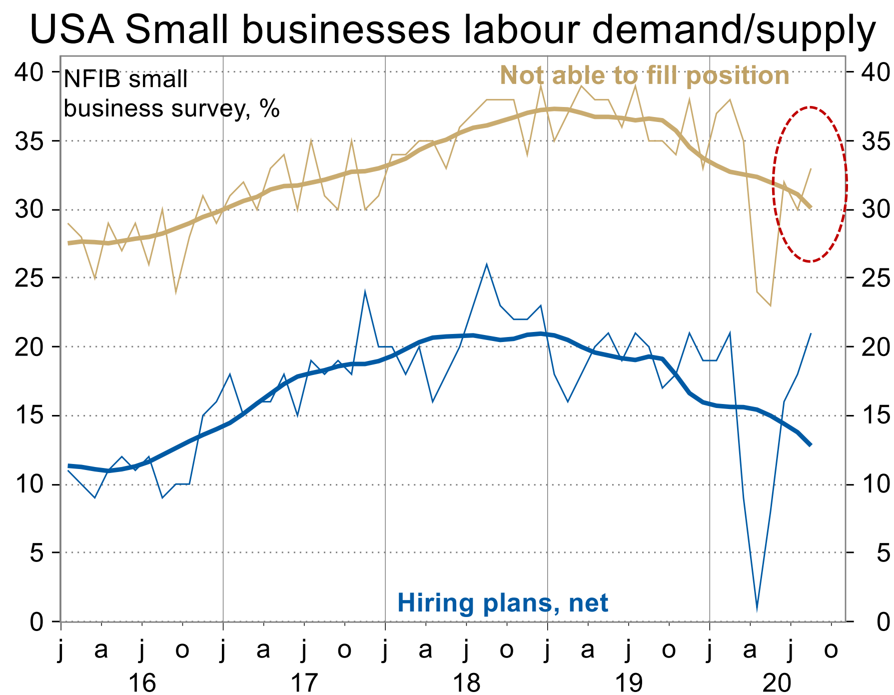
SpareBank 1 MARKETS

Small businesses are not able to fill positions! And many are planning to hire

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



SB1 Markets/Macrobond

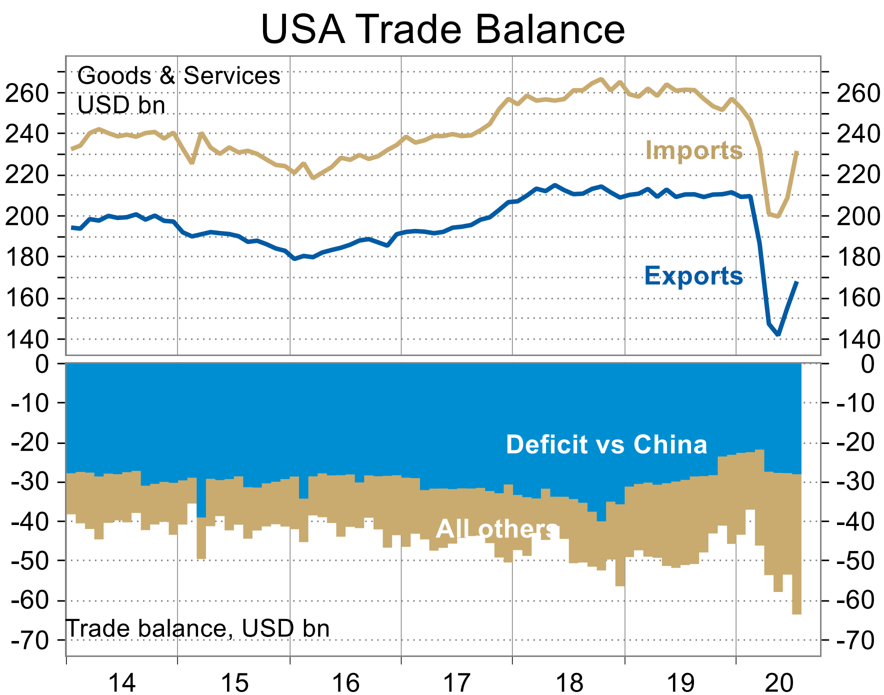


SB1 Markets/Macrobond

- However, it is remarkable that so many companies are reporting that it is still quite difficult to fill vacant positions given the high unemployment level. May signal serious mis-matches at the labour market.
  - » In the Fed August Beige Book, matters such as day care availability, as well as much higher jobless benefits than before, were cited as reasons for the rising difficulties attracting labour. If so, a Covid-19 impact, not a signal of the real underlying slack at the labour market

Widest trade deficit since 2008 as exports have been hit hard by corona

Import volumes are back at the February level, exports still 13% below



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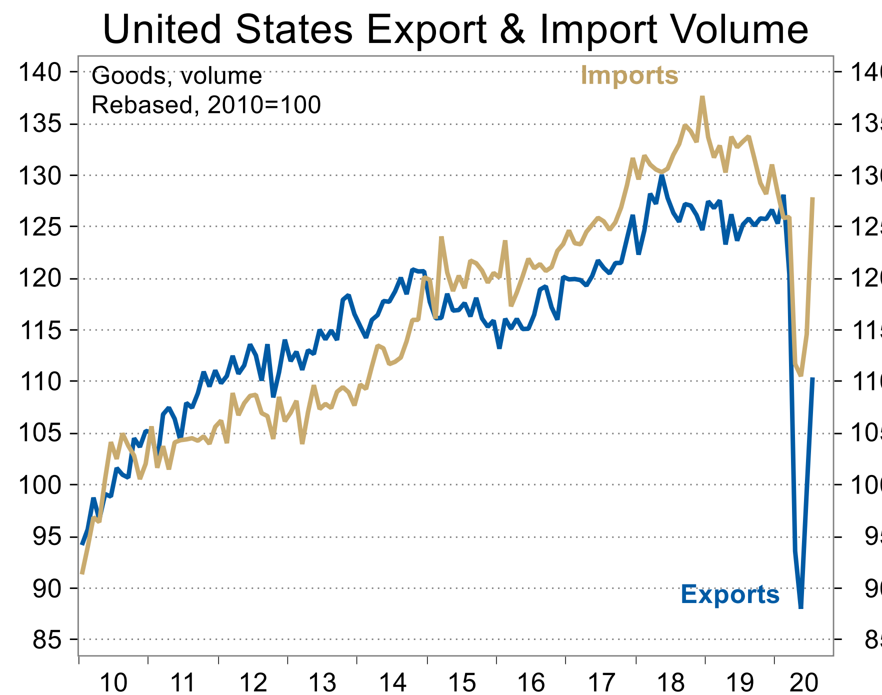


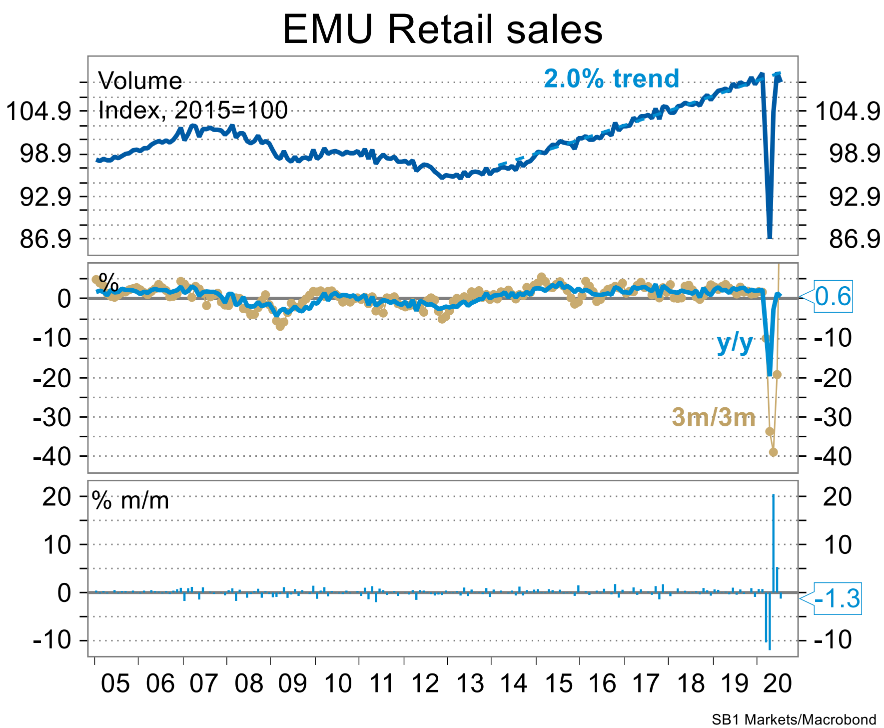
SB1 Markets/Macrobond

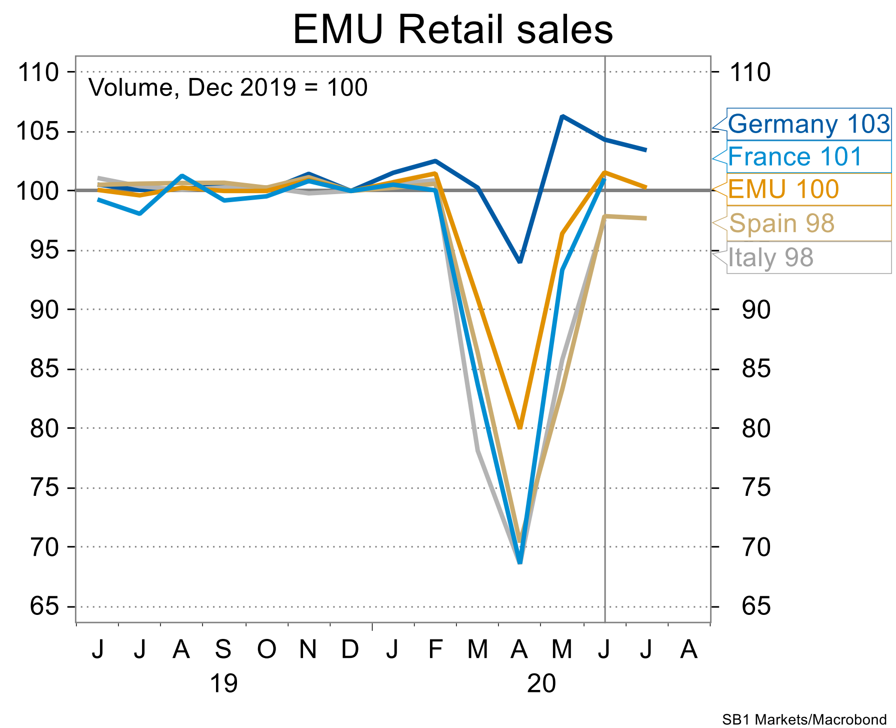
- The overall trade deficit of goods & services rose to 64 bn in July, up from 37 bn in February
  - » Both imports and exports increased rapidly in June and July. During the worst months of the Covid crisis, in Mar-May, exports fell more than imports
  - » We expect exports to continue to recover. Unless exports are ramped up substantially, the trade deficit will subtract from Q3 growth (which will anyway note a substantial lift)

SpareBank 1 MARKETS

Retail sales fell back in July but remains at pre corona level

Retail sales have closed the corona gap, as in many other countries. Spain, Italy still on the weak side

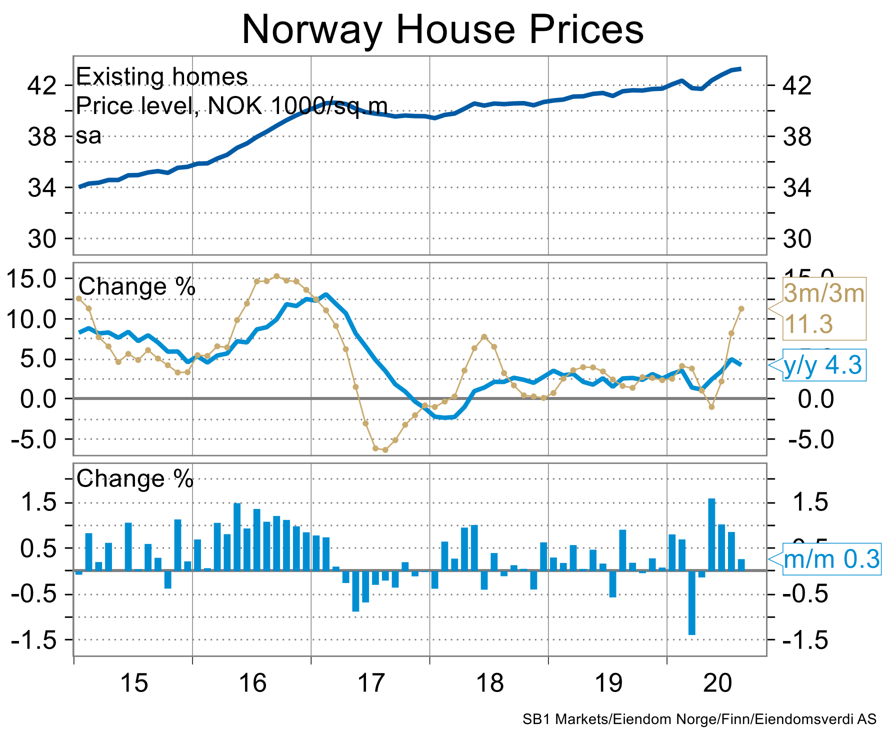


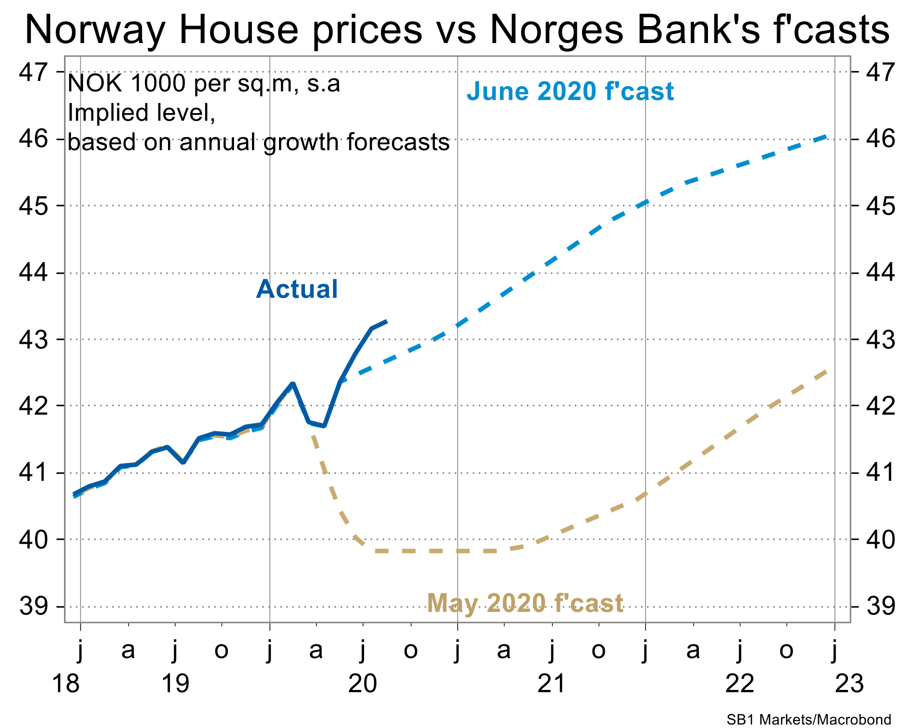


- Sales fell by 1.3% m/m in July, expected up 1.2%, following the strong comeback in May/June. Sales are now marginally below the level from February (but equal to Dec 19), the gap was closed the prior month
- Sales in Germany fell by 0.9% but are still 3% above the Dec 2019 level, France 1% above (in June)
  - » France has not yet reported retail sales but consumption of goods rose moderately
  - » Spain and Italy is 2% below, Italy has not reported July data. Much less tourism than normal during the summer probably took its toll on sales in Spain
- How much is just temporary pent up demand – and how much is normalisation? Probably a mix of both, consumer confidence has recovered somewhat but remains soft and we do not yet have much data on household income

House prices continued to climb in August, 2% above the pre corona level

House price growth calmed to 0.3% m/m, after some wild months, level above NoBa's path

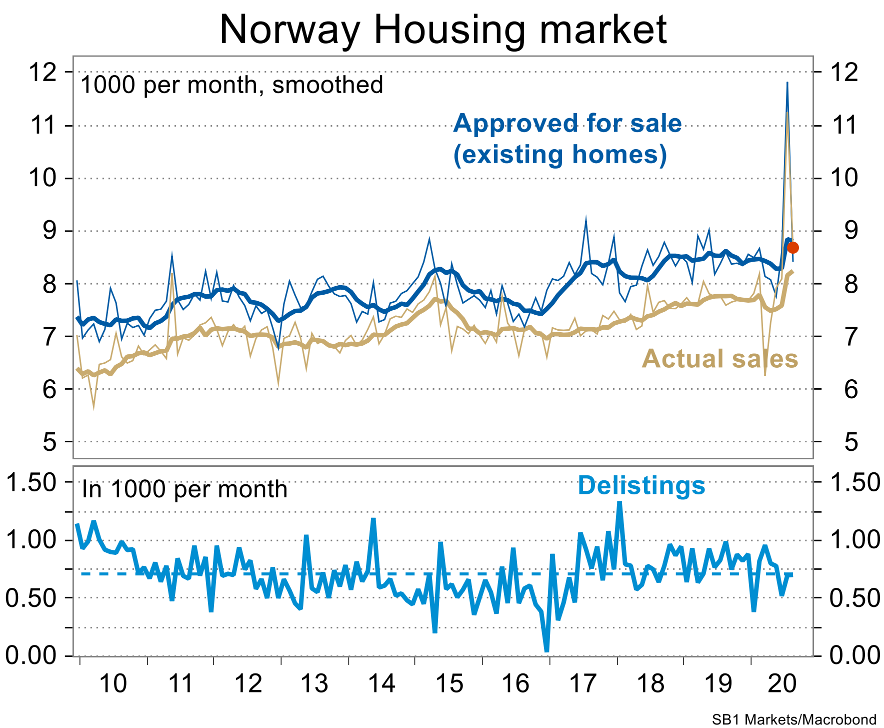


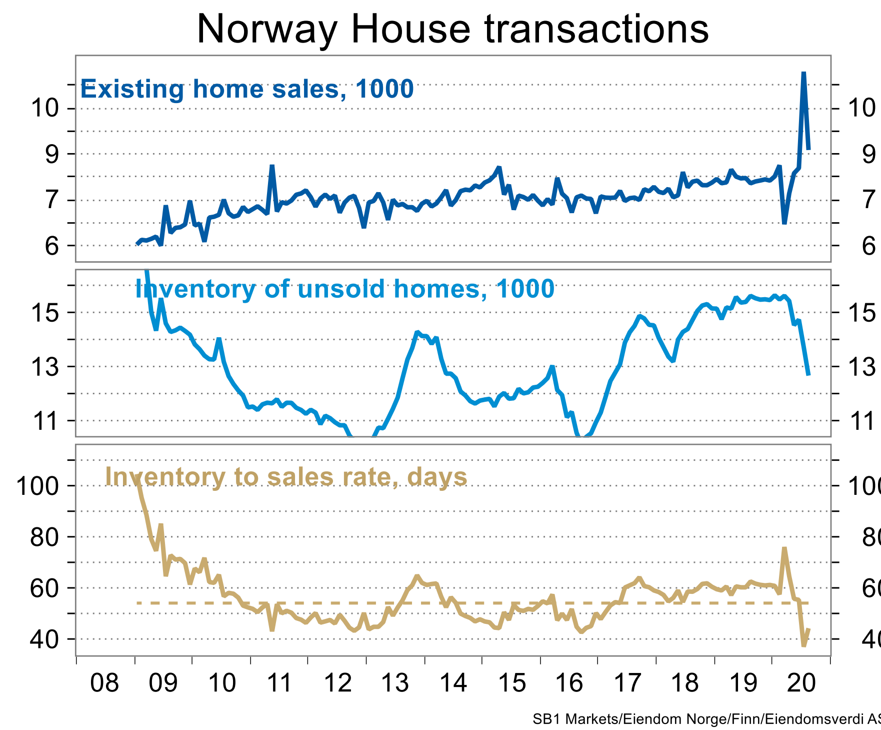


- House prices rose by 0.3% seasonally adjusted in August, following a take off (at 0.9-1.5%) in May-July. We expected 0.4%. Prices are more than 2% above the February level. Underlying growth at 11%, highest since 2016 and already more than 1% above NoBa's upward revised June forecast. A 1.2% cut in mortgage rates (to 1.8% in average in June, from 3% in Feb), has been more important than uncertainty and rising unemployment
  - » Prices were mixed among cities, Oslo up 1.2%, Stavanger down 1.1% Oslo, Asker/Bærum in the lead the past months
- The number of transactions slowed from the record high July, still well above pre corona levels. The inventory of unsold homes falls sharply
- **Should the steep price growth continue, Norges Bank will probably start hiking rates before late 22' (the market already expects 21')**

Sales slowed from record high July, still more than 10% above pre corona level!

The inventory of unsold houses is shrinking fast as sales are booming

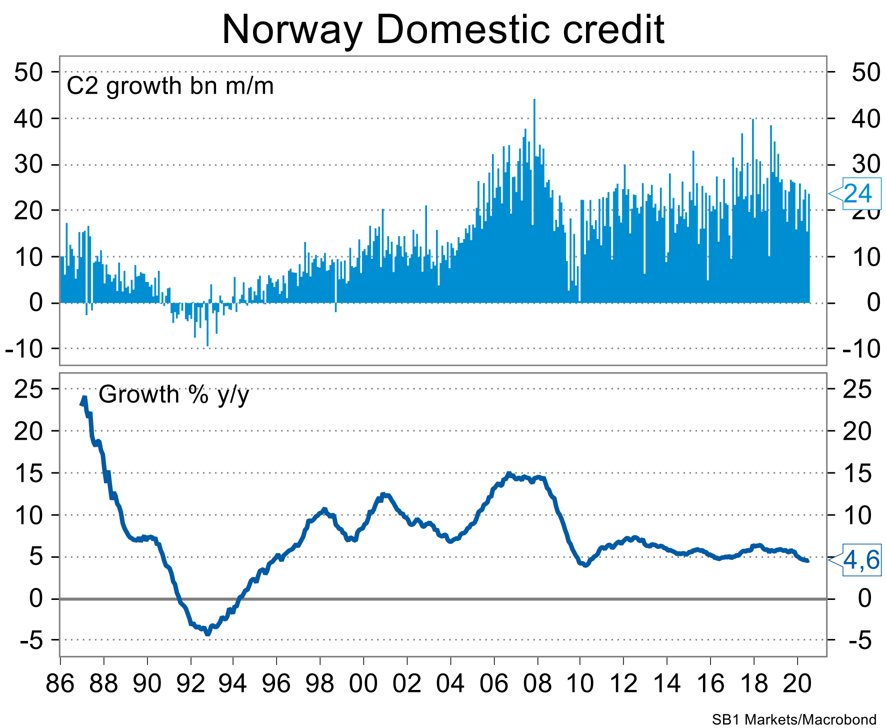


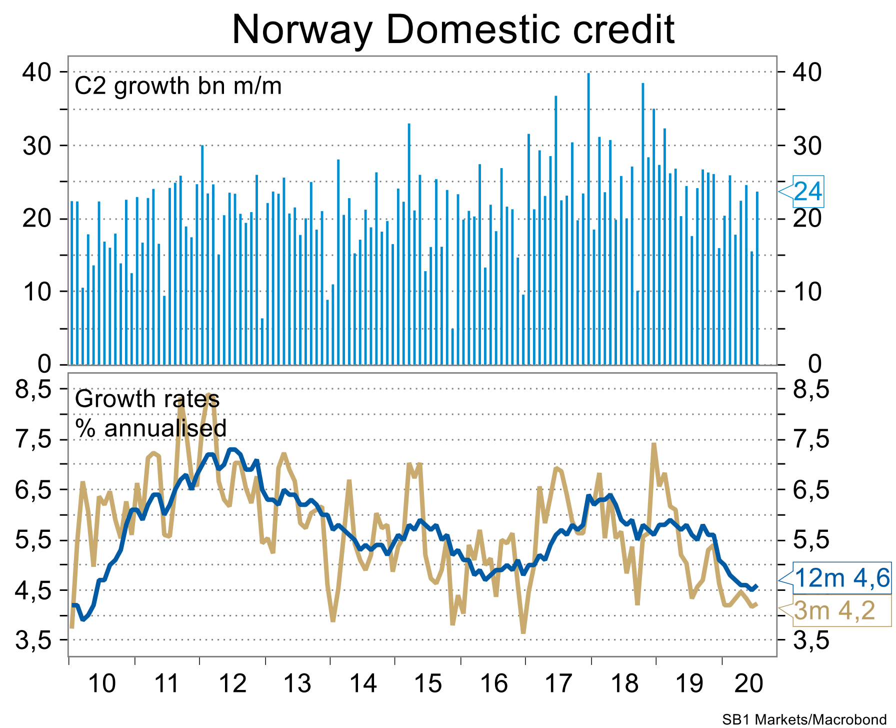


- **The number of transactions** came down in August from the highest level ever in July! The level is still far above normal
- The **supply of new existing homes** is back to the February level, after spiking in July
- **The number of delisting** is at a normal level
- The **inventory of unsold homes** fell sharply in August too, to the lowest level since early 2017– down 18% from before corona hit
- The **inventory/sales ratio** has contracted sharply too, is very low. The turnover time is now below 45 days vs an avg at 54 days

Overall credit growth has been trending down, households are picking up?

Domestic credit growth (C2) up 0.1 pp to 4.6% – the trend is still down

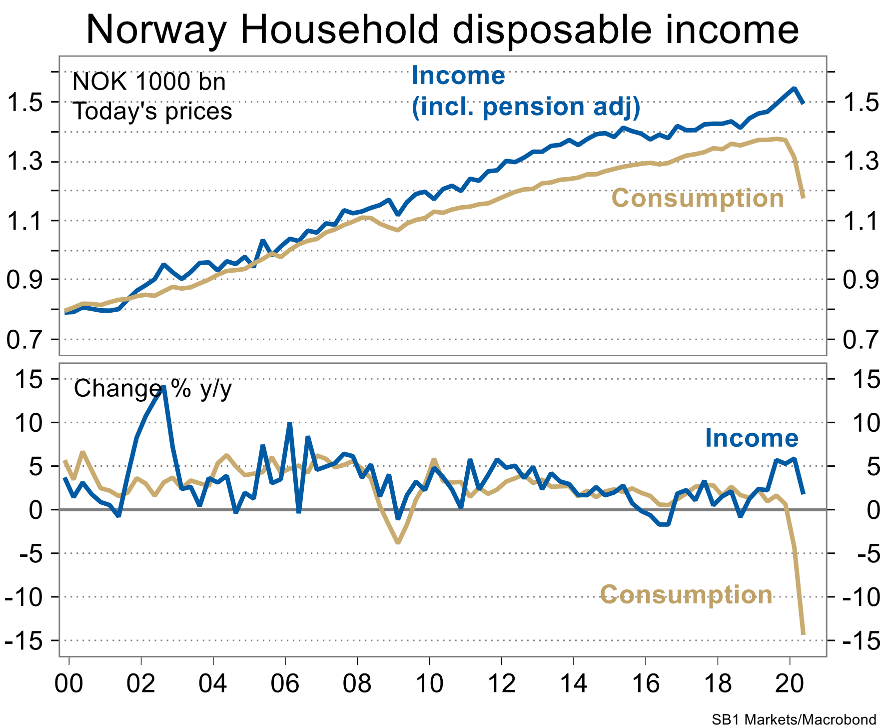


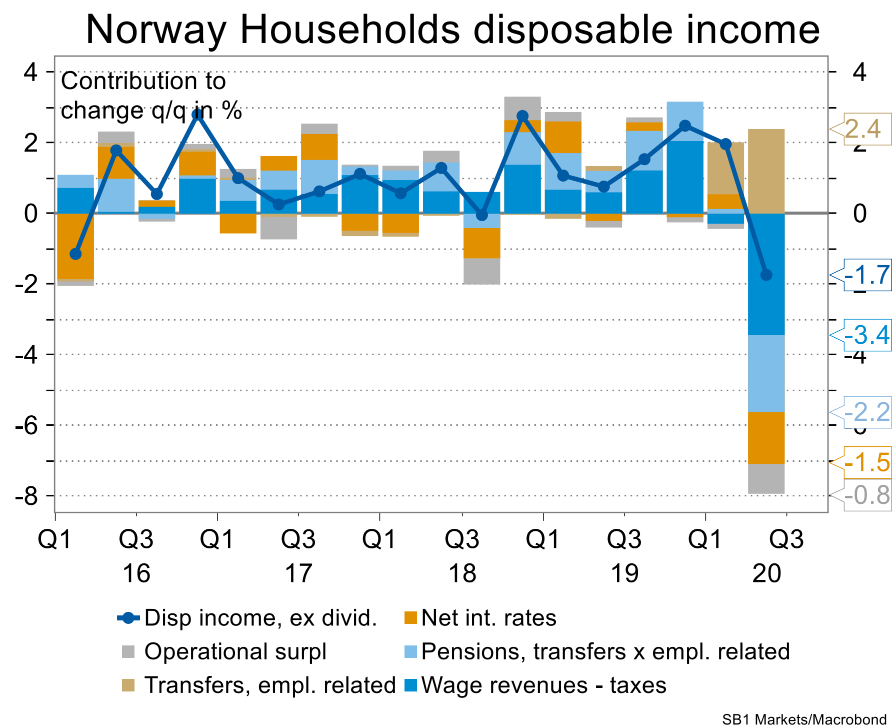


- **Total domestic debt** (C2) rose by NOK 24 bn m/m in July, up from 15 bn in June. The annual growth inched up to 4.6%, expected unchanged at 4.5%. Growth has been heading down since late 2019 (and from early 2018)
- **Household credit** continued to grow at a brisk pace in July, by 15 bn m/m. The annual rate edged up to 4.6%, from 4.4%. The monthly growth rates in June and July have been the highest in more than one year, which is not that surprising given the strong housing market. Over the past year, credit growth has fallen below income growth
- **Corporate credit growth** has been very volatile recent months, the annual rate fell to 4.3% in July. We expect a continued slowdown

Wage income fell rapidly in Q2, dragging total income down

Total income declined by 1.7% q/q in Q2, steepest since 2009, consumption dropped 9.6%



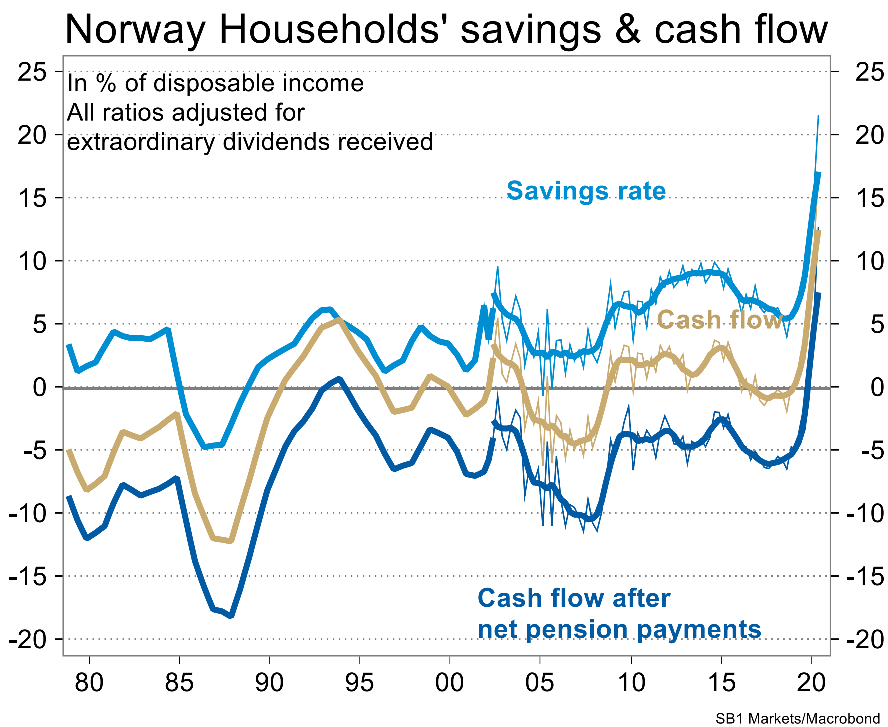


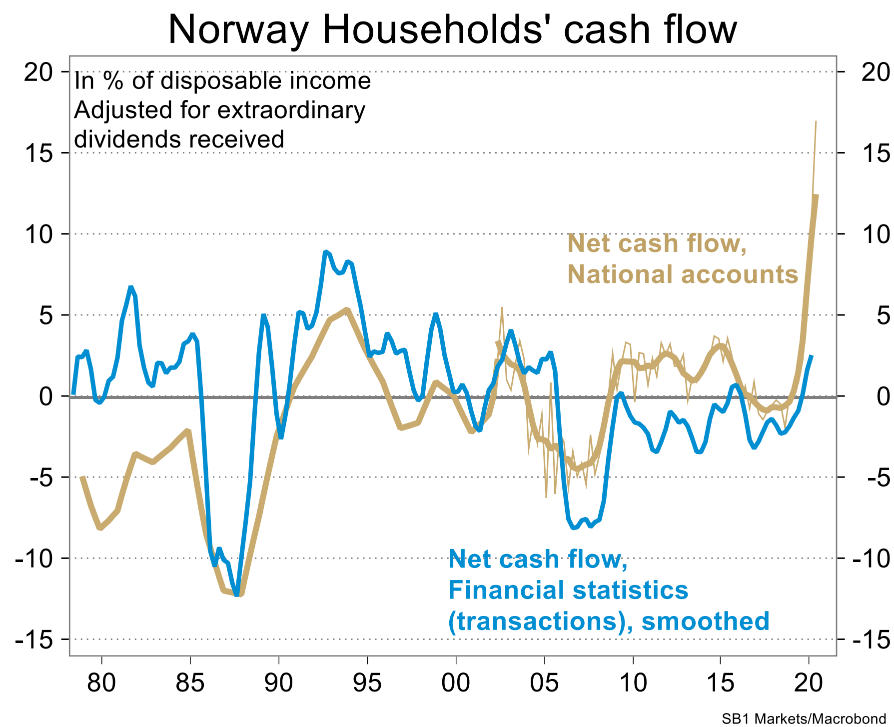
- In Norway, government transfers have not fully compensated the loss of wage income during the Covid crisis – and total household income fell in Q2
  - » In the US, on the contrary, income rose 10% (not annualised!! as households have been overcompensated by unemployment benefits and other government transfers

SpareBank 1 MARKETS

Savings spiked to a record high level in Q2, now 15 pp above a normal level

Consumption was cut sharply and much more than income fell, savings jumped 6 pp to 21% in Q2





- Savings jumped to 20.8% in Q2, the highest rate ever. Savings were already elevated in Q1, at 14.8% (revised up from 12.7%). Adjusted for deviation from trend dividends, the saving rate rose to 21.6%
  - » Consumption dropped 10% in Q2 (q/q) while disposable income fell by 1.7%. Most income components fell and wage revenues (- taxes) fell the most, of course due to the spike in temporary lay offs, as government transfers did not fully compensate for the income loss
  - » After deducting for still high housing investments, net financial investments equals 17% of total disposable income, it was negative in 2018!
  - » When deducting net pension savings (which are not visible or at least not available for households), the cash flow spiked to 12.7% - from -5% in 2018/19
- <u>High household savings is very good news as it increases the potential for demand to pick up rapidly (as it already is)</u>

The Calendar

Time	Count.	Indicator	Period	Forecast	Prior
Monday Sept 7					
08:00	GE	Industrial Production MoM	Jul	4.6 %	8.9 %
08:00	NO	Manufacturing Production MoM	Jul	(0.2)	0.4 %
Tuesday Sept 8					
01:50	JN	GDP Annualized QoQ	2Q F	-28.5 %	-27.8 %
08:00	NO	GDP Mainland MoM	Jul	2% (2.5)	3.7 %
08:00	GE	Trade Balance	Jul	15.5b	15.6b
08:00	GE	Labor Costs QoQ	2Q		2.4 %
09:30	SW	Industrial Orders MoM	Jul		6.7 %
11:00	EC	GDP QoQ, Revision	2Q F	-12.1 %	-12.1 %
12:00	US	NFIB Small Business Optimism	Aug	98.9	98.8
Wednesday Sept 9					
03:30	CH	CPI YoY	Aug	2.4 %	2.7 %
16:00	US	JOLTS Job Openings	Jul	6000	5889
Thursday Sept 10					
01:50	JN	Core Machine Orders MoM	Jul	2%	-7.6 %
08:00	NO	CPI YoY	Aug	1.7% (1.5)	1.3 %
08:00	NO	CPI Underlying YoY	Aug	3.4% (3.4)	3.5 %
08:45	FR	Manufacturing Production MoM	Jul	4.9 %	14.4 %
09:30	SW	CPIF Excl. Energy YoY	Aug	1.5 %	1.5 %
13:45	EC	ECB Deposit Rate	Sep-10	-0.5 %	-0.5 %
14:30	US	PPI Ex Food, Energy, Trade MoM	Aug	0.2 %	0.3 %
14:30	US	Initial Jobless Claims	Sep-05	--	881k
Friday Sept 11					
08:00	UK	Monthly GDP MoM	Jul	6%	8.7 %
08:00	UK	Manufacturing Production MoM	Jul	5%	11.0 %
08:00	NO	SSB Economic Outlook	3Q		
14:30	US	CPI Ex Food and Energy MoM	Aug	0.2 %	0.6 %
14:30	US	CPI Ex Food and Energy YoY	Aug	1.6 %	1.6 %
20:00	US	Monthly Budget Statement	Aug	--	-$63.0b
Monday Sept 14					
03:30	CH	New Home Prices MoM	Aug	--	0.5 %
06:00	SW	Unemployment Rate, Registered	Aug	--	5.7 %
Through the week					
	CH	Aggregate Credit CNY	Aug	2585.0b	1690.0b

- **China**
  - **Credit growth** has been slowing somewhat the past few months, down to 12% growth rates. Still, the trend over the past two years is upward and the credit impulse is positive
- **US**
  - **Price inflation** appears to be normalising after the corona setback, core CPI prices jumped 0.6% m/m last month. We doubt such an increase will be repeated, +0.2% is expected. Core inflation is still well below Fed's target, which is now anyway modified to a longer term, flexible price level target
  - The inflow of **new jobless claims** is still extremely high, 1 million last week
  - **Small businesses** participating in the NFIB survey have been surprisingly upbeat on the outlook through the corona crisis, even as expectations on sales the coming months have been slashed
- **EMU**
  - **The ECB** will publish new economic projections and will probably have to nudge down it's inflation f'cast. No adjustments to policy are expected at this meeting, however, the ECB may signal that it is willing to do more the coming meetings, like expanding the Pandemic Emergency Purchase Program
  - **Manufacturing production** is rising from the deep bottom, still 11% below the Jan/Feb level. PMIs are signalling a subdued recovery (but they are probably not 'correct')
- **Norway**
  - **GDP** increased by 3.7% m/m in June, we expect another lift in July, by 2.5%. Consensus at 2.0%. Service consumption rose sharply, at Norwegians stayed in Norway
  - **Core CPI inflation** surprisingly jumped to 3.5% in July. The coming few months, we expect a slowdown as the negative impacts from the economic crisis will counterweigh the NOK impact (which is anyway fading, as the NOK has strengthened).Our & consensus est. at 3.4% in Aug
  - **Manufacturing production** has struggled to strike back after the corona dip and there are no signs of any strong recovery

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

Highlights

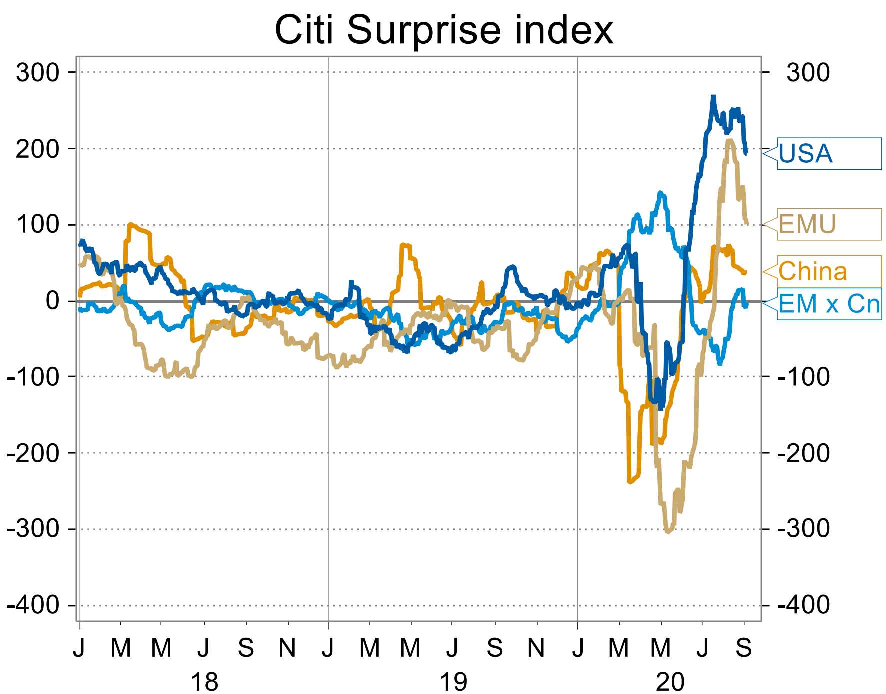
The world around us

The Norwegian economy

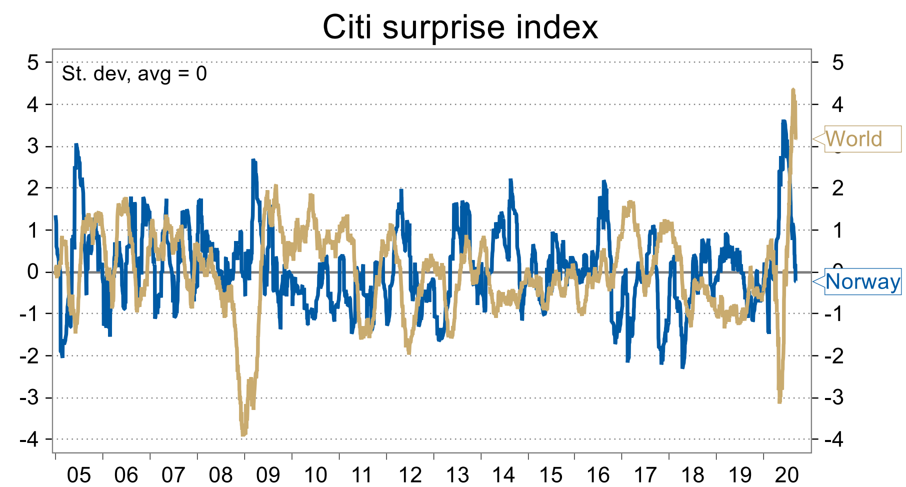
Market charts & comments

Macro data are still surprising on the upside in DM

Citi's US & EMU surprise indices have come down from their ATHs, still unusually strong



SB1 Markets/Macrobond



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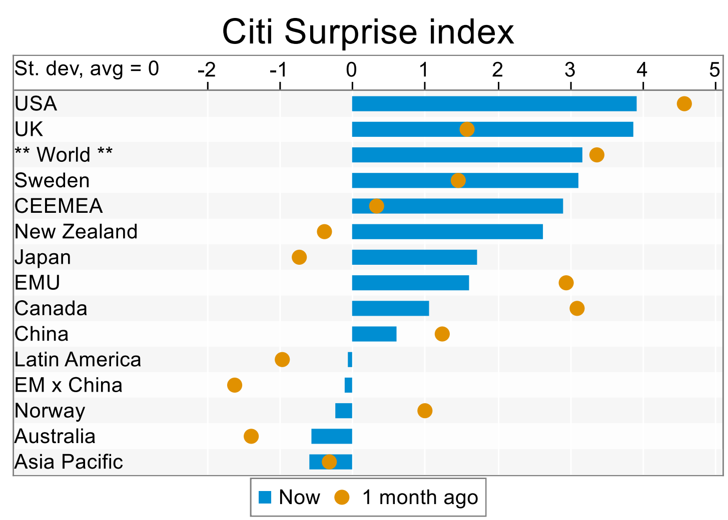


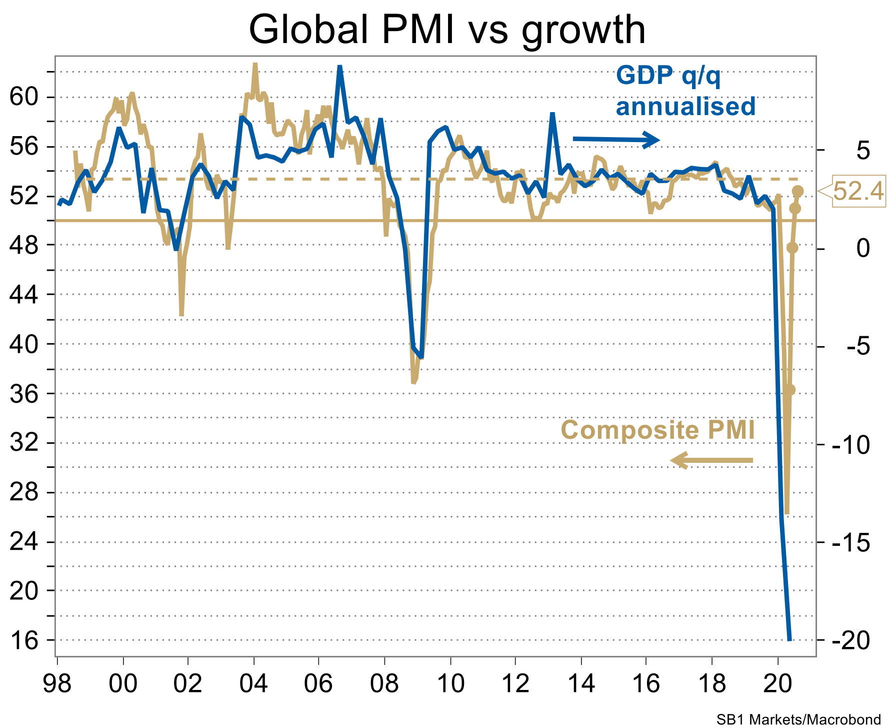
SB1 Markets/Macrobond

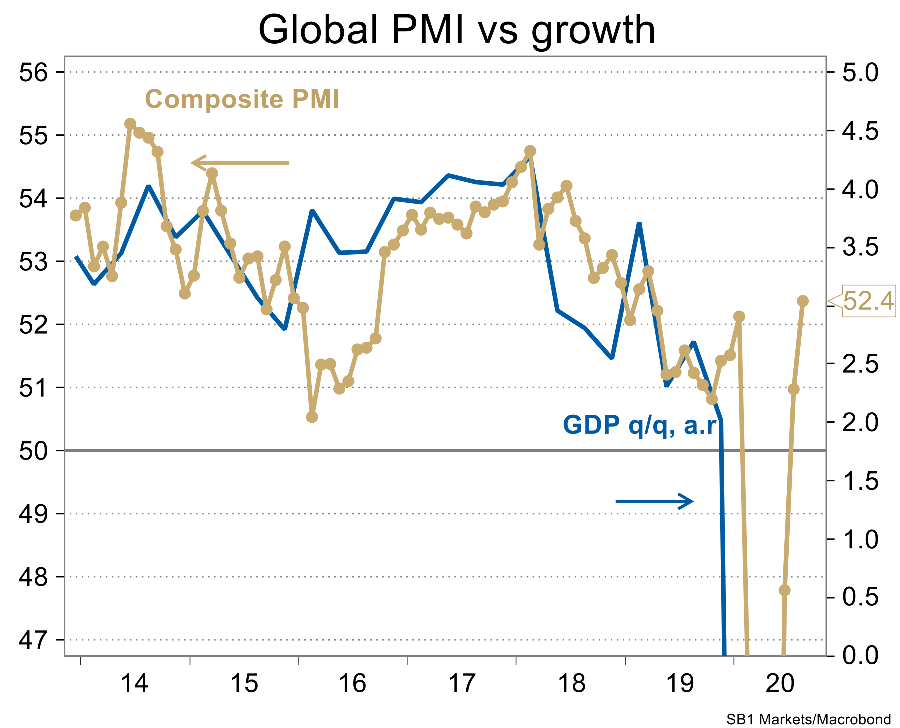
- The US is still surprising more on the upside than ever before (data from 2003) . EMU was close to record high three weeks ago and the index is still elevated
- China well into positive territory
- Other EMs have been reporting weaker data than expected, now back to a normal level
- Norway surprised more than ever on the upside some weeks ago, now the surprise index is back to an average level

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

PMIs further up in August, still not reflecting the 'real' recovery

PMIs/ISMs describe the cycles well but they have – as usual – been too slow the report the recovery

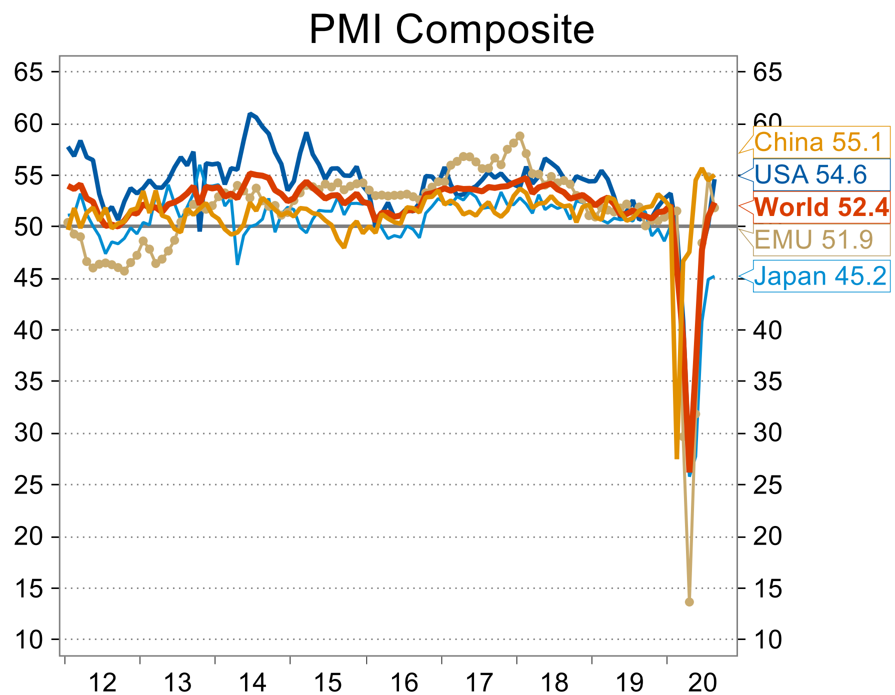




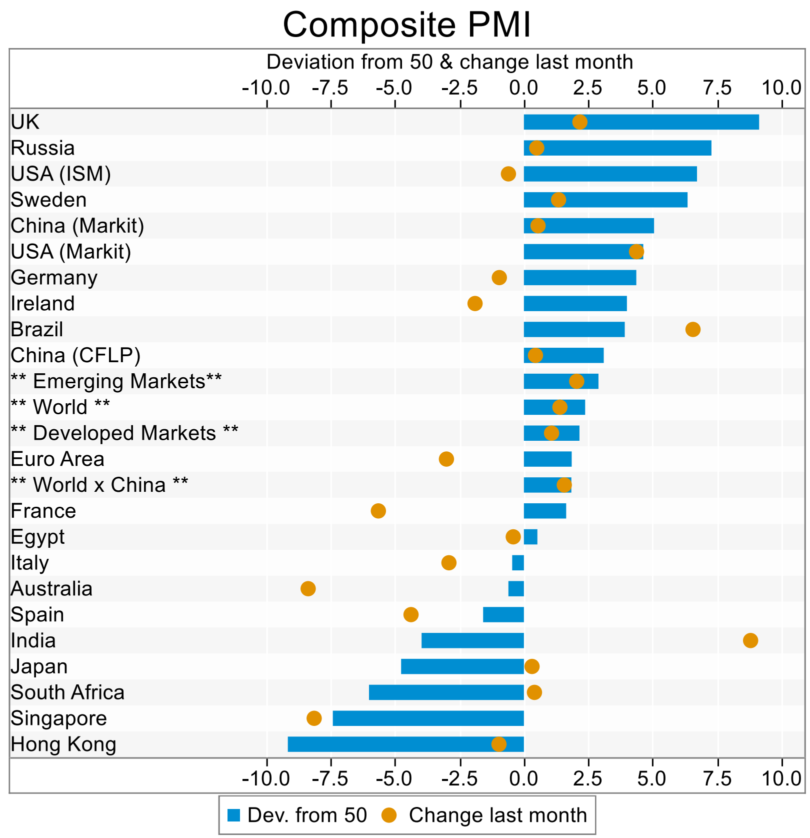
- The global composite PMI rose by 1.4 p to 52.4 in August, slightly better than we expected. Formally, the PMI is signalling 3% growth
- World GDP fell at a 15% pace (close to 4%, not annualised) in Q1 and some 20% (5% not annualised) in Q2. However, all activity data have been signalling strong growth since May. Even if activity stabilises now, growth pace in Q3 will be record high, some 15 – 20%, not the 3% pace the companies are now reporting
- So, as we have discussed recent months, companies are NOT reporting changes in activity from month to month now (which they are asked to do). If they had answered correctly, the PMIs should have been way above 50, as the world economy has been gaining speed at an unprecedented way since May. Companies' answers rather reflect what they have experienced over some few months

‘V’s almost everywhere, most PMIs above 50, but few really upbeat

13 of 25 countries/regions reported higher composite PMIs in August vs July



Source: IHS Markit, SB1 Markets, Macrobond



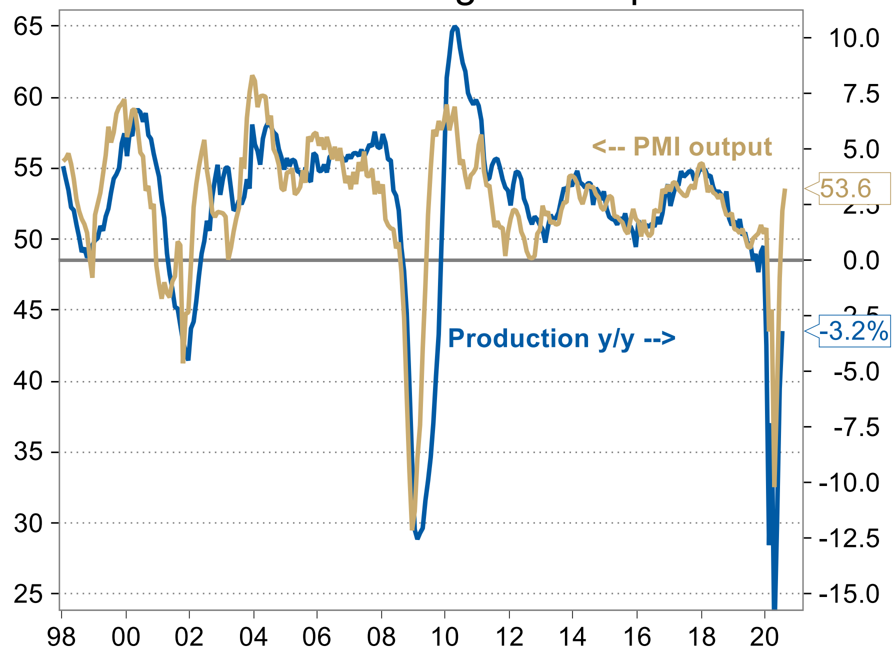
SB1 Markets/Macrobond

- UK, Russia and the US ISM are the strongest of surveys. The US Markit’s PMI is slightly less upbeat than the PMI even after a large step up in August
- Hong Kong, Singapore and South Africa are still struggling. Japan is the weakest among DM, still well below the 50-line
- The PMIS fell in France, Spain & Australia – possibly due to the new corona outbreaks – and Spain is reporting falling activity. Lack of the normal tourist inflow in August is probably also contributed
- In Markit’s data set, China is the strongest among the largest countries/regions

Manufacturing PMI up to 51.8, not that upbeat given the deep low it came from

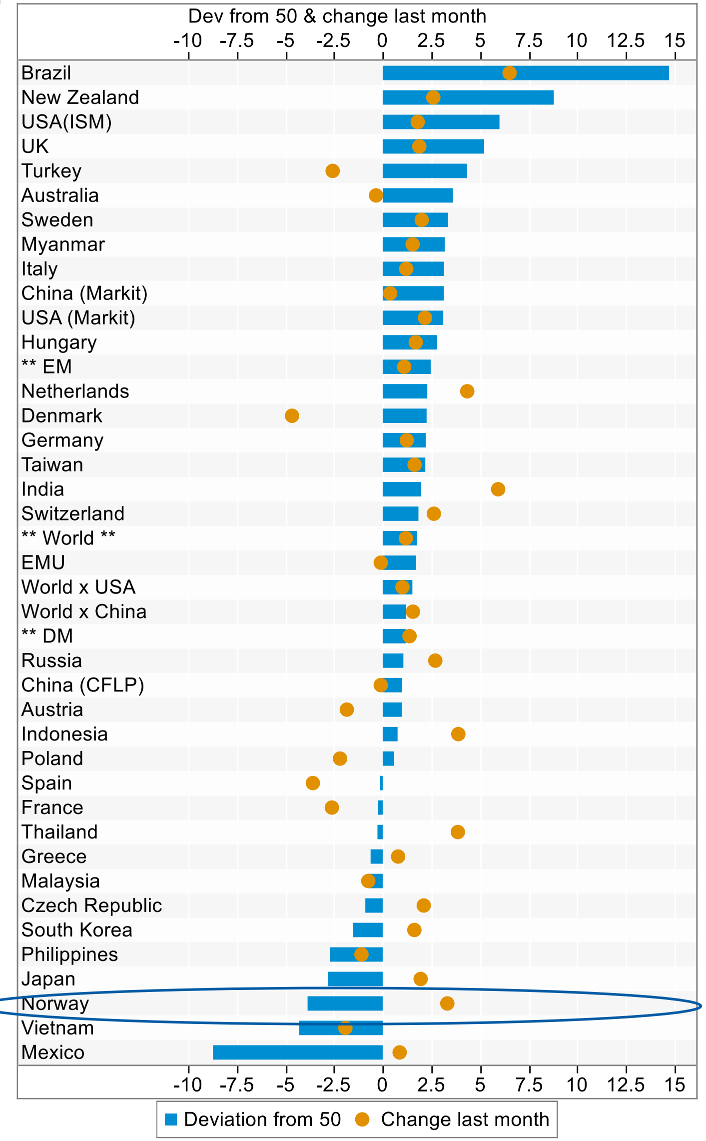
A recovery is surely underway – but no take off is yet signalled

Global Manufacturing PMI vs production



SB1 Markets/Macrobond

PMI Manufacturing



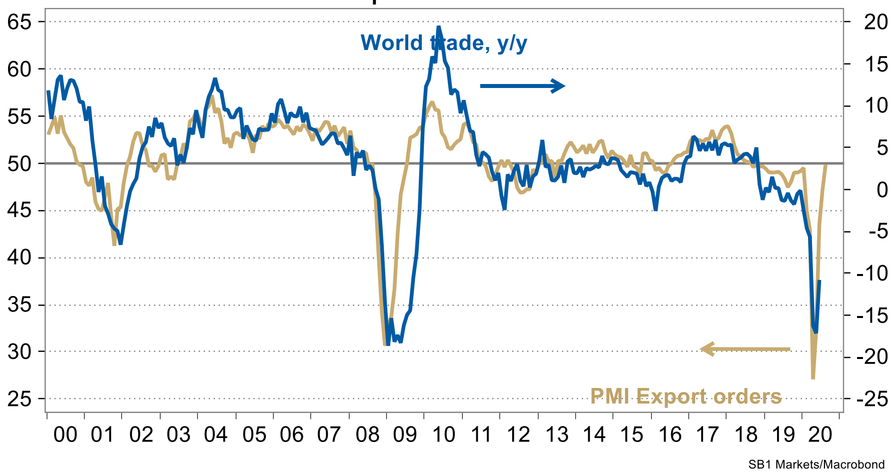
SB1 Markets/Macrobond

- The global manufacturing PMI rose 1.2 p to 51.8 in August
  - » 28 countries/regions reported growth, 10 a decline, a slightly weaker mix than in July
  - » A majority of the countries are reporting PMIs above the 50 line, 3 months ago just China was above!
- Emerging markets have recovered somewhat faster than rich countries (DM), both are reporting positive growth rates. Brazil in the lead, Mexico at the bottom. The Norwegian PMI is among the weakest

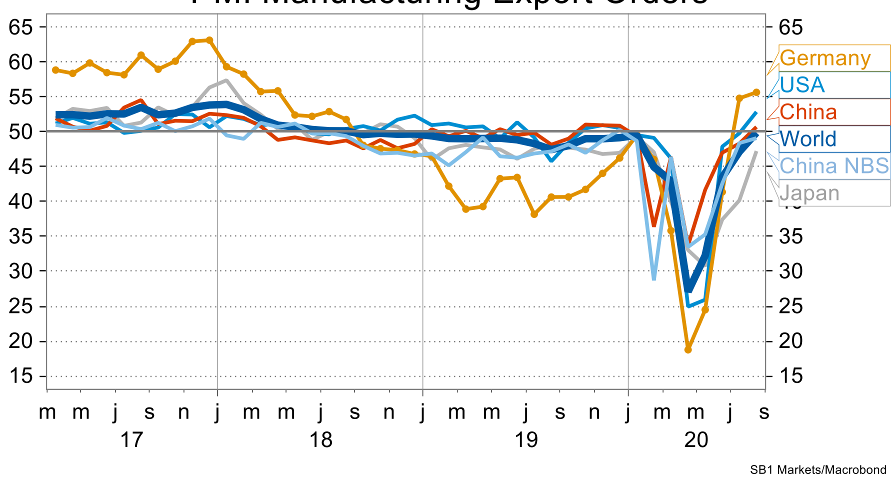
Export orders PMIs further up but are still not reporting a rise in orders

Most likely, exports are now heading up, alongside all other indicators of demand/prod of goods

Global exports vs PMI orders

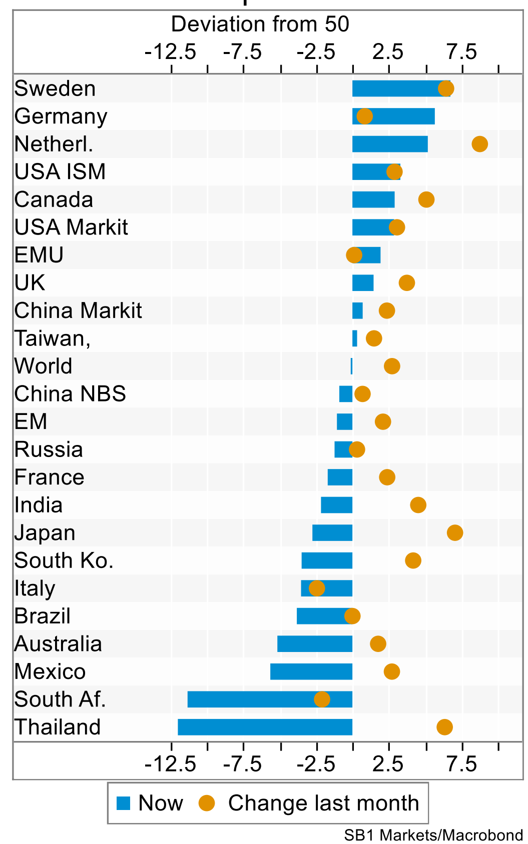


PMI Manufacturing Export Orders



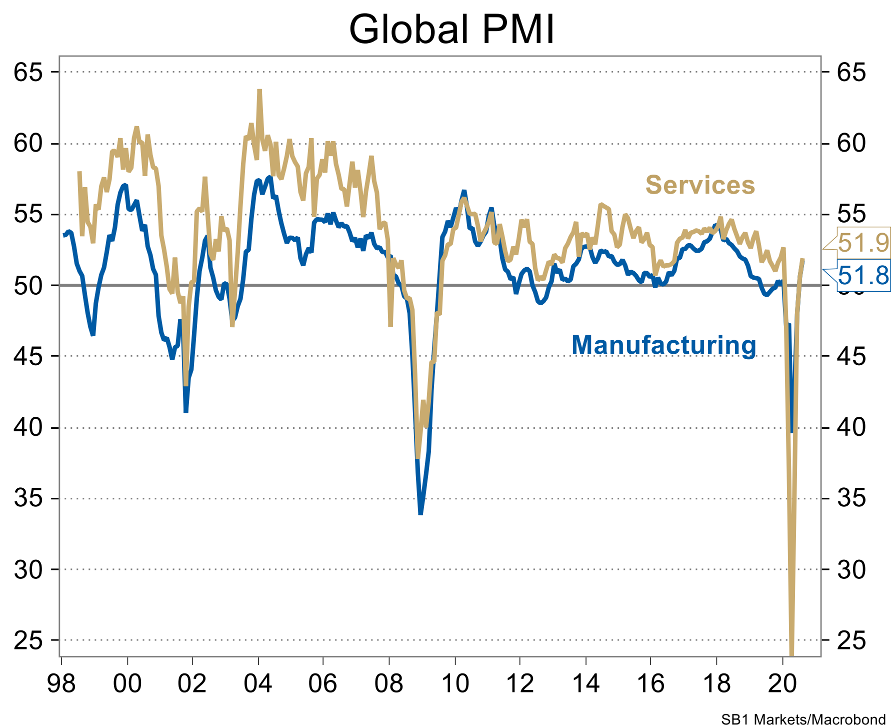
- More countries are still reporting declining export orders than increasing (index <50)
  - » Sweden and Germany is competing for the pole position. Germany was at the bottom in April/May!
  - » 13 countries are below the 50 line, 10 above

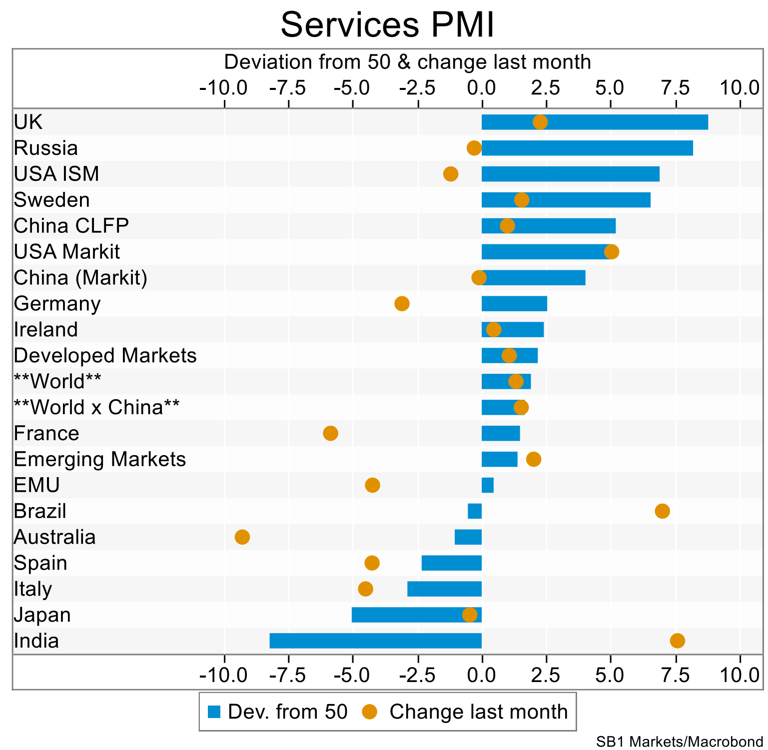
PMI Export orders



Services have restarted too, most places

Spain, Italy reported a slowdown in services in July, probably tourism related. Japan & India weak too

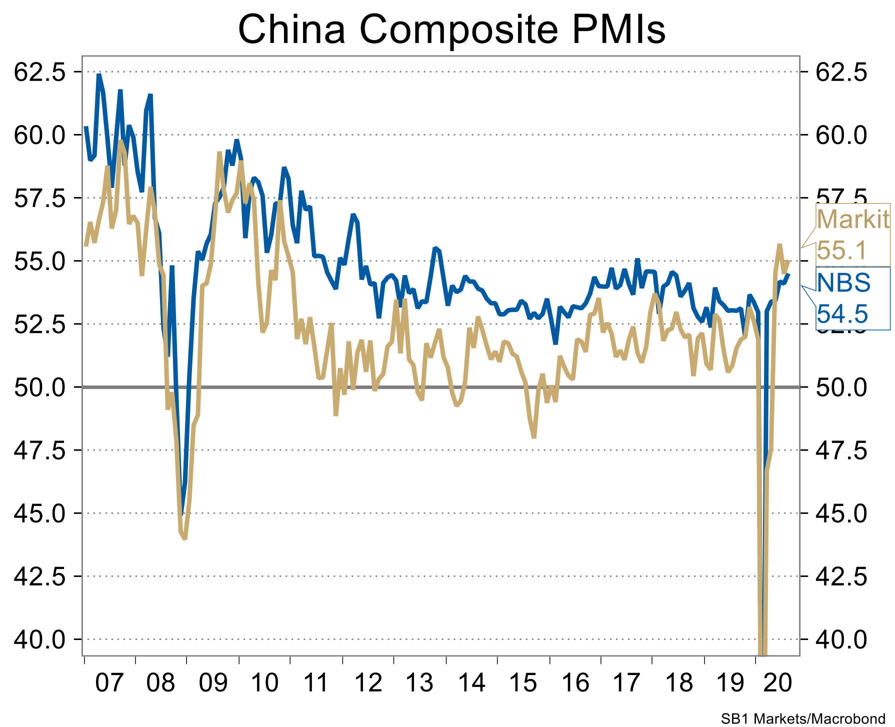


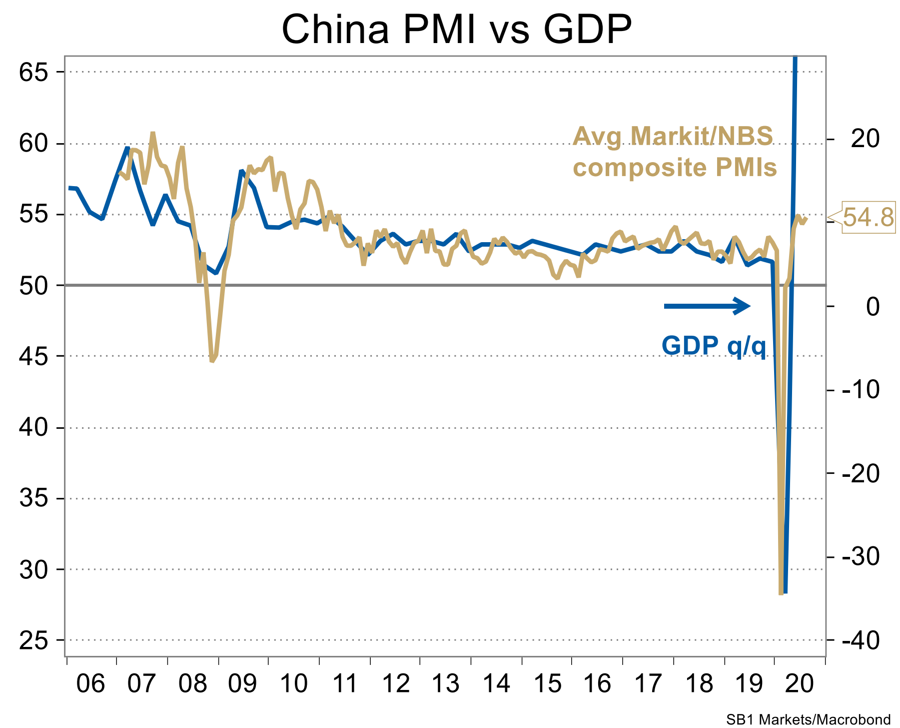


- UK, Russian and the services ISM in the US at the top of the list, followed by Sweden (domestic tourism)
  - No sign of any corona related slowdown in the US, at least not widespread

Both August composite PMIs another step up in August, recovery confirmed

The avg of Markit/NBS surveys rose to 54.8, signaling growth well above trend





- The NBS' 'official' composite PMI inched up 0.4 p to 54.5 in August. The manufacturing index fell marginally, the service sector index climbed. The level of the services index is higher than manufacturing, which is needed to bring activity in the service sector back to pre corona levels (it still lags, manufacturing does not)
- Markit's manufacturing PMI rose to 53.1, services one inch down, to 54.0
- In sum, these to PMI data sets confirm a continued recovery in the Chinese economy (a 8 – 9% growth pace), and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap

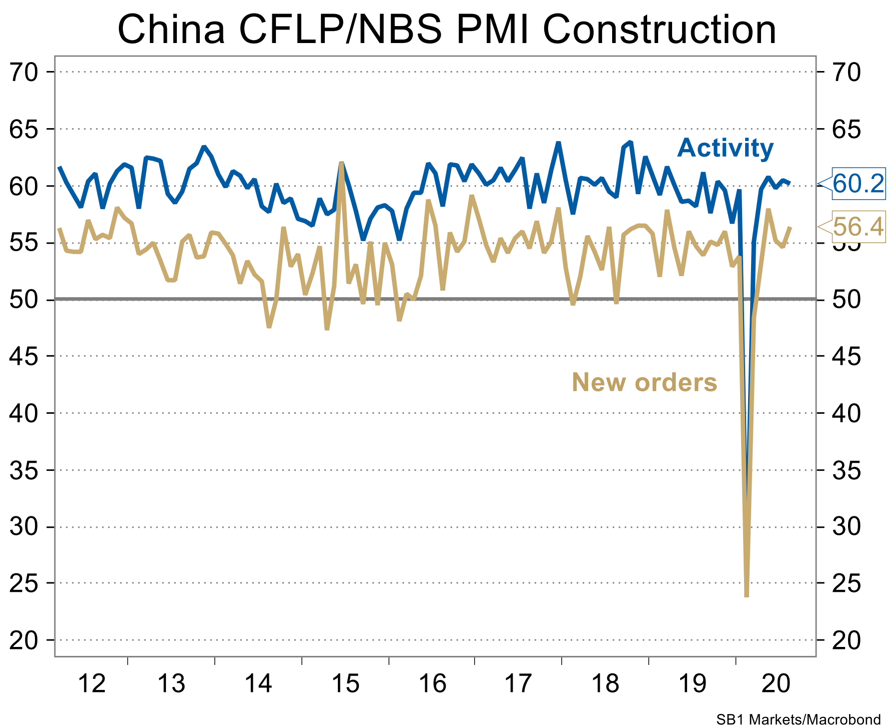
Export orders no longer a drag but domestic demand is fueling growth

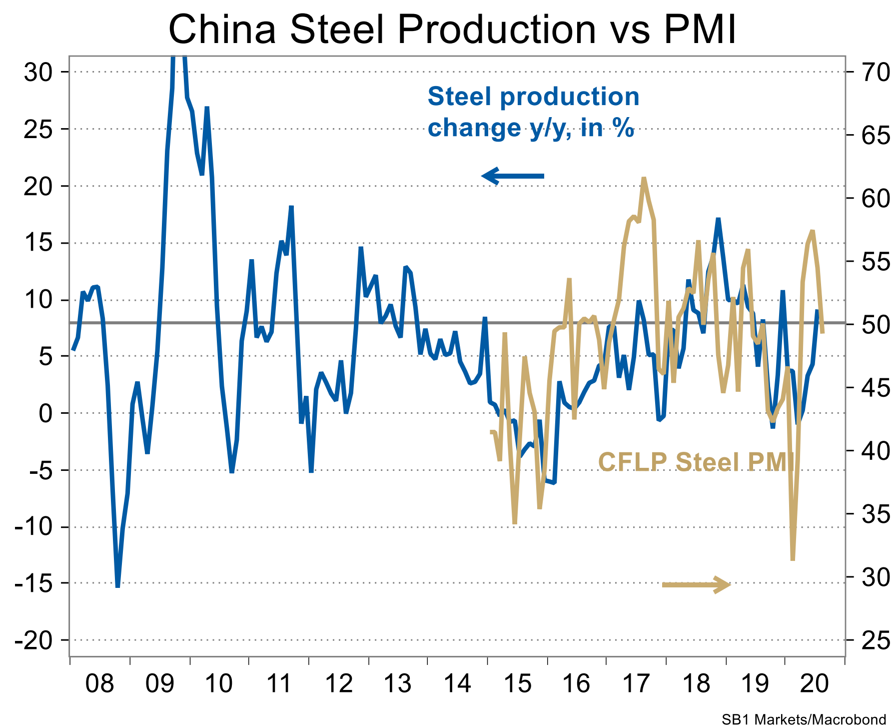
Total and domestic orders are growing at a brisk pace, export orders are stabilizing

- Businesses are no longer reporting a decline in export orders, the avg of Markit's and NBS' order indices came in at 49.9 in August
- Domestic orders are growing at a brisk pace, however at tad slower the past few months
- The total order indices are well above 50, another confirmation of a solid manufacturing recovery
  - » At the chart to the right we have made a rough estimate of an domestic order index (which ins not published).

Construction & steel back on track, signaling growth above trend

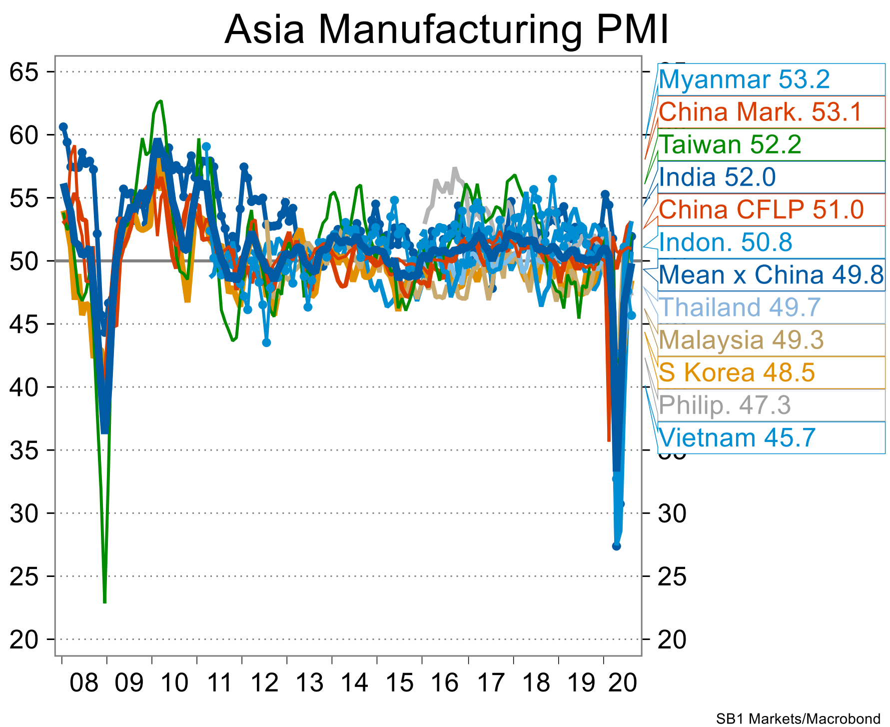
The construction sector PMI stayed strong in August, while the volatile steel PMI fell back below 50

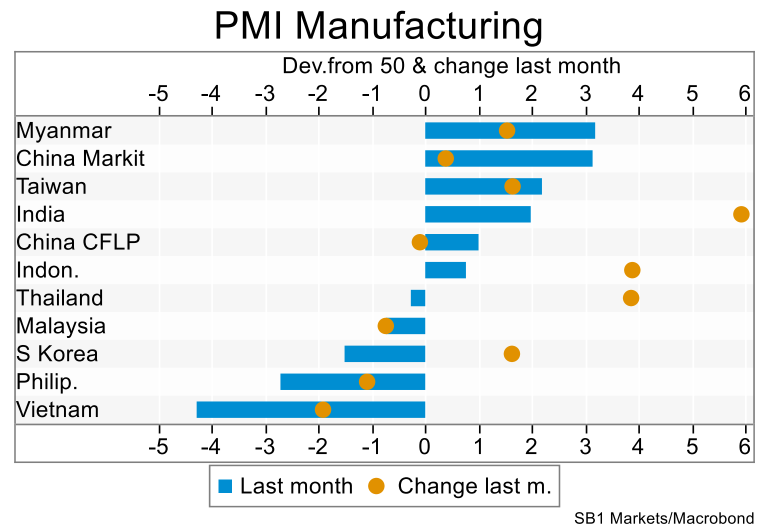


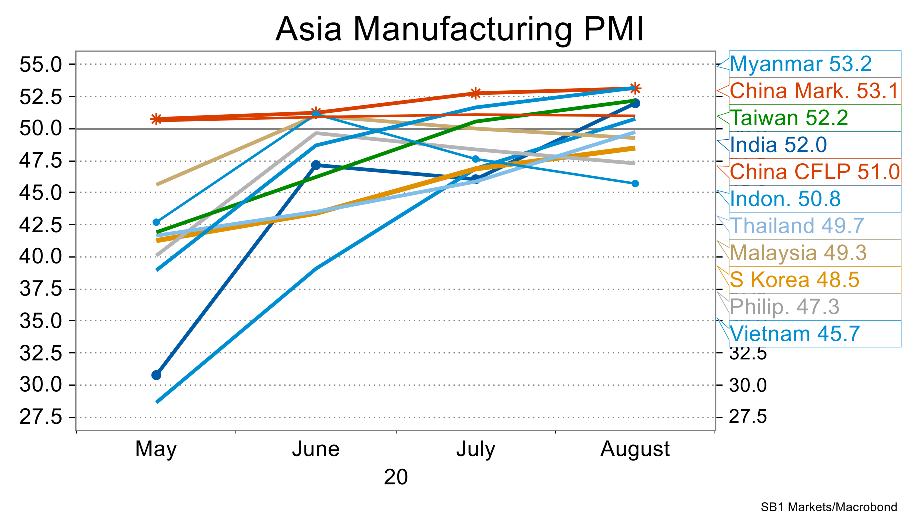


Rest of Asia: More PMIs up than down in August, none very impressive

6 PMIs were above the 50-line in August, 5 below. Vietnam the weakest, at 45.7



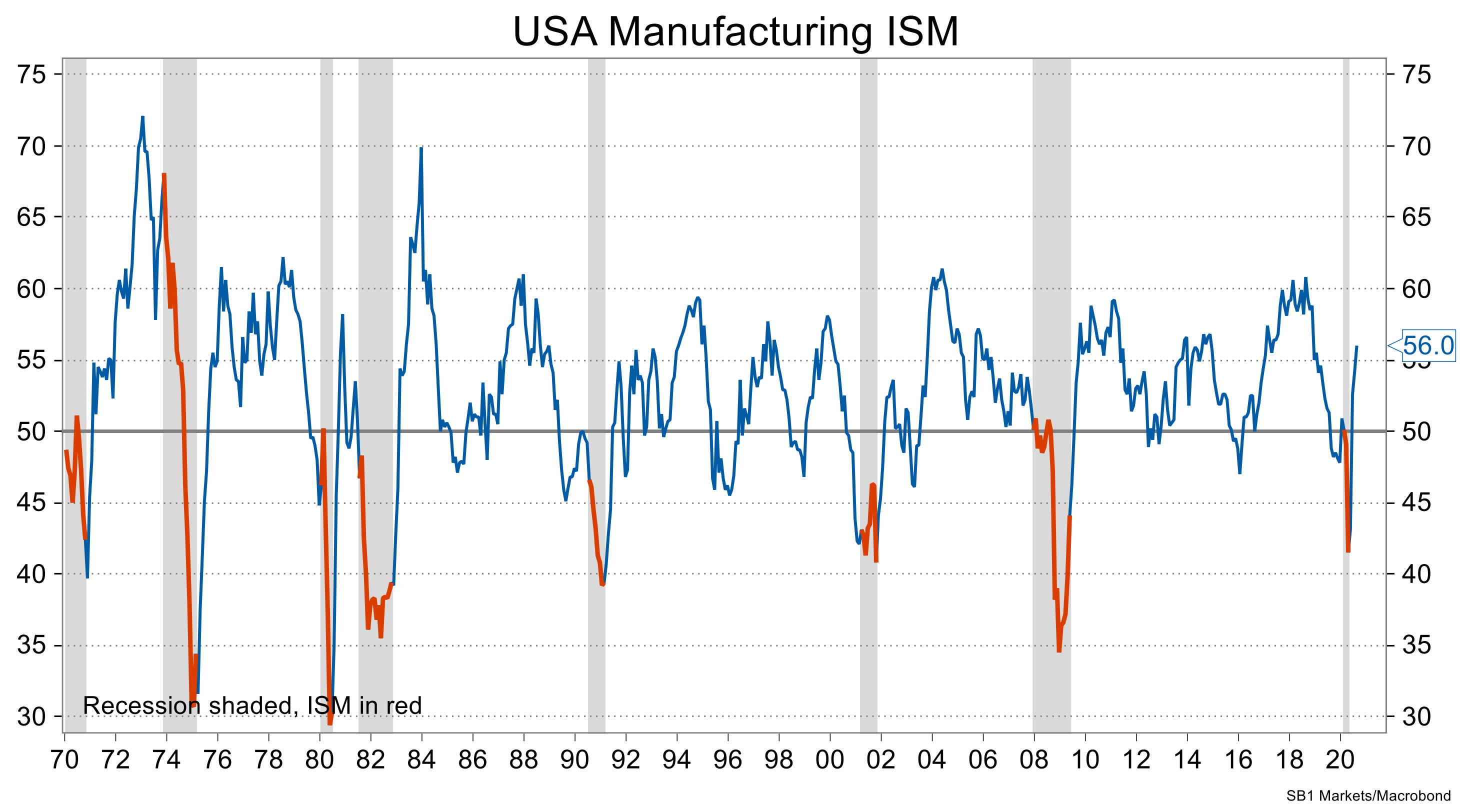




- 7 up, 4 down in August

Manufacturing ISM recovering more swiftly than expected, to 56.0

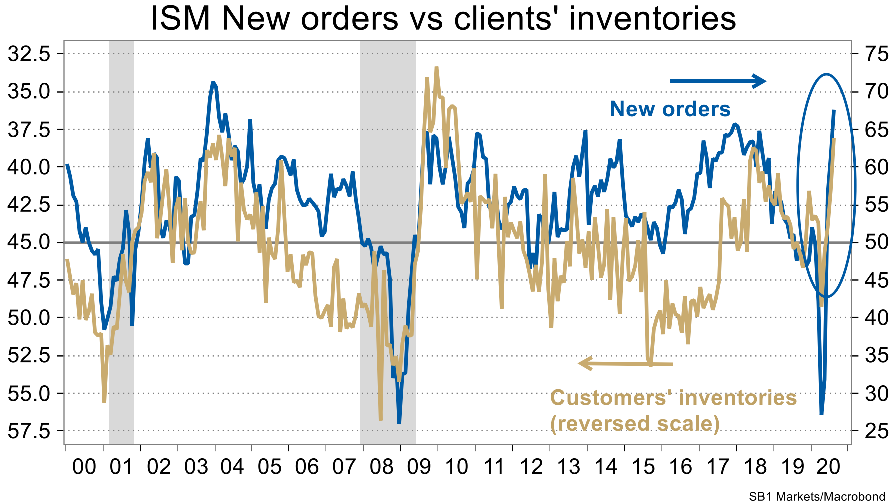
Orders are accelerating, inventories shrinking. The bad news; further employment cuts

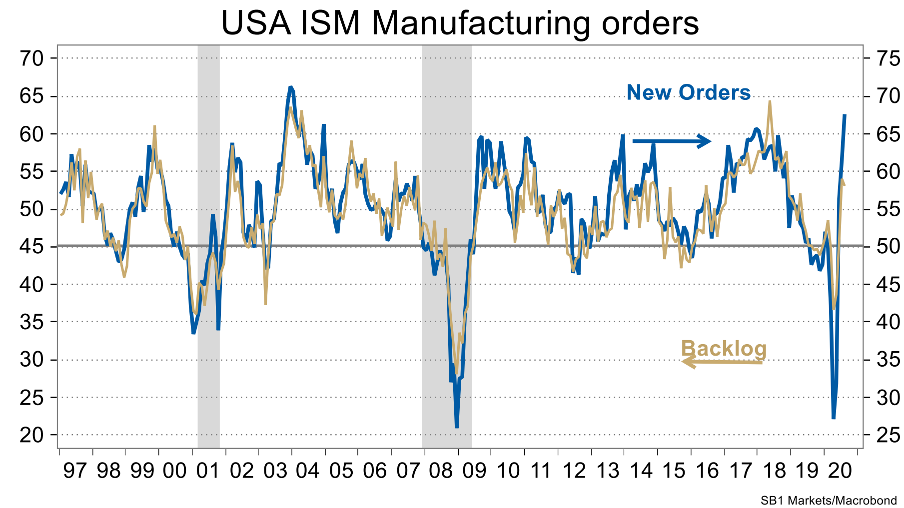


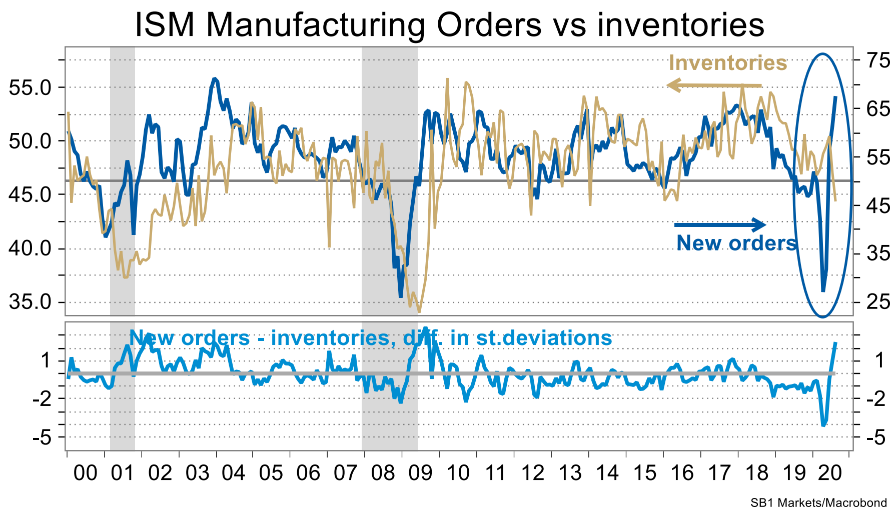
- ISM jumped 1.8 p in August, to 56.0, expected 54.5. The survey confirms that the sector continued to recover and the details reveal a rather bright picture; orders are increasing rapidly and inventories are being drawn down. Employment is the only weak link – companies are reporting further cuts (although less so than the prior months)
- 15 manufacturing sectors reported growth in August, just 3 reported a decline (printing, petroleum & coal products, furniture)
- Manufactures are reporting that their customers have run down their inventories – they will have to restock
- No signs of any new corona trouble in the economy

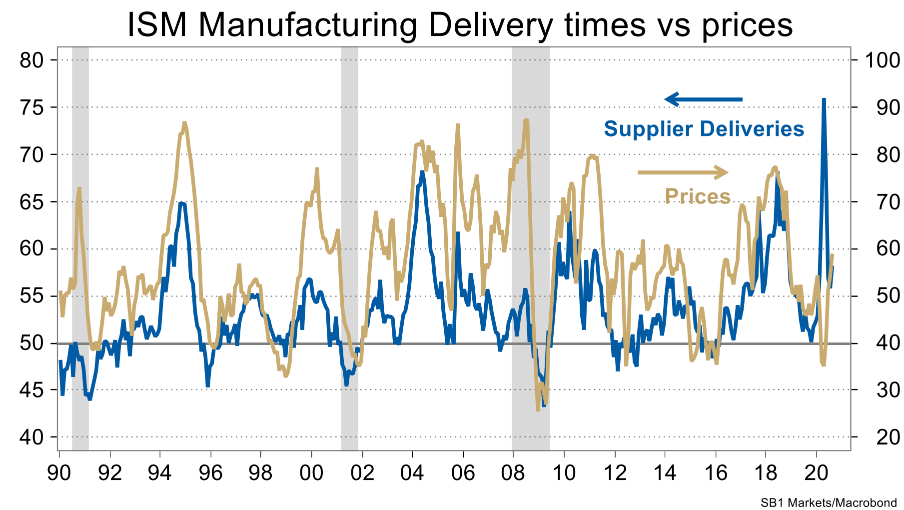
New orders are soaring, inventories down, a favourable mix

Delivery challenges have eased, supply chains intact? Still, prices are increasing again





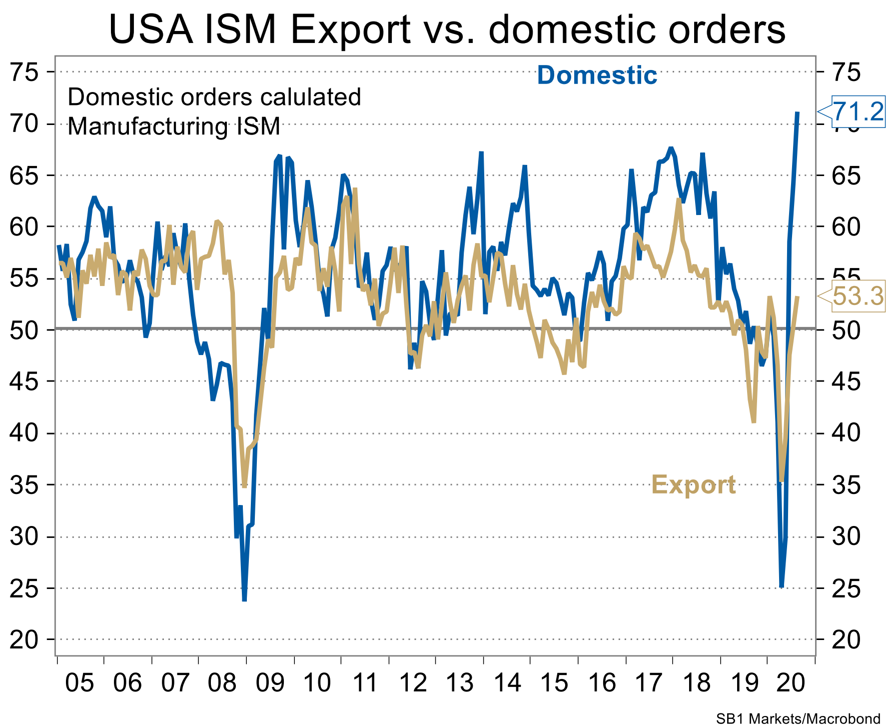


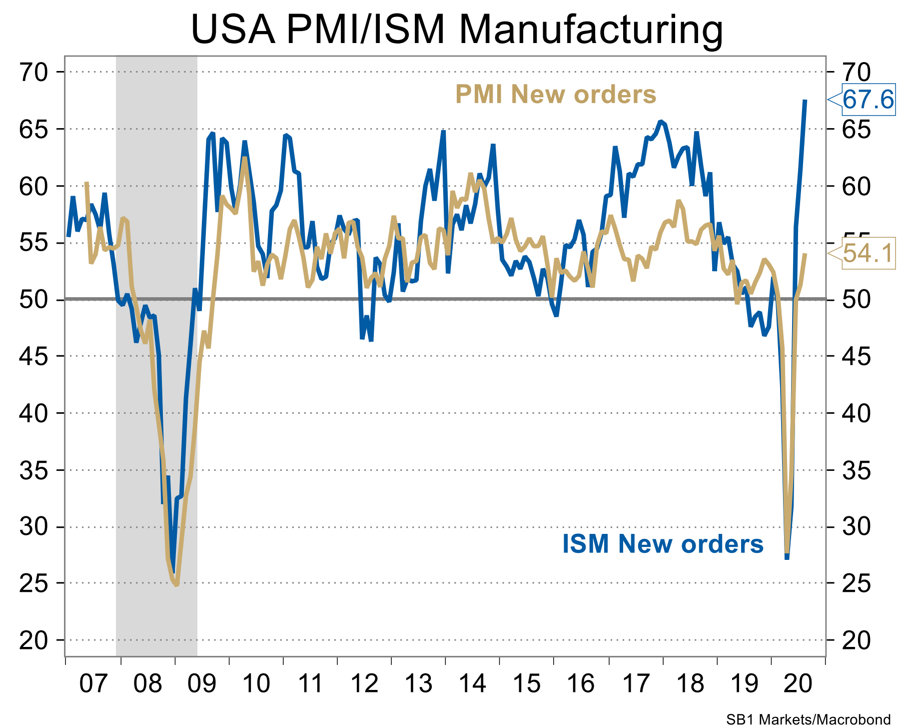


SpareBank 1 MARKETS

Domestic orders saved the day, still modest growth in exports (but no decline)

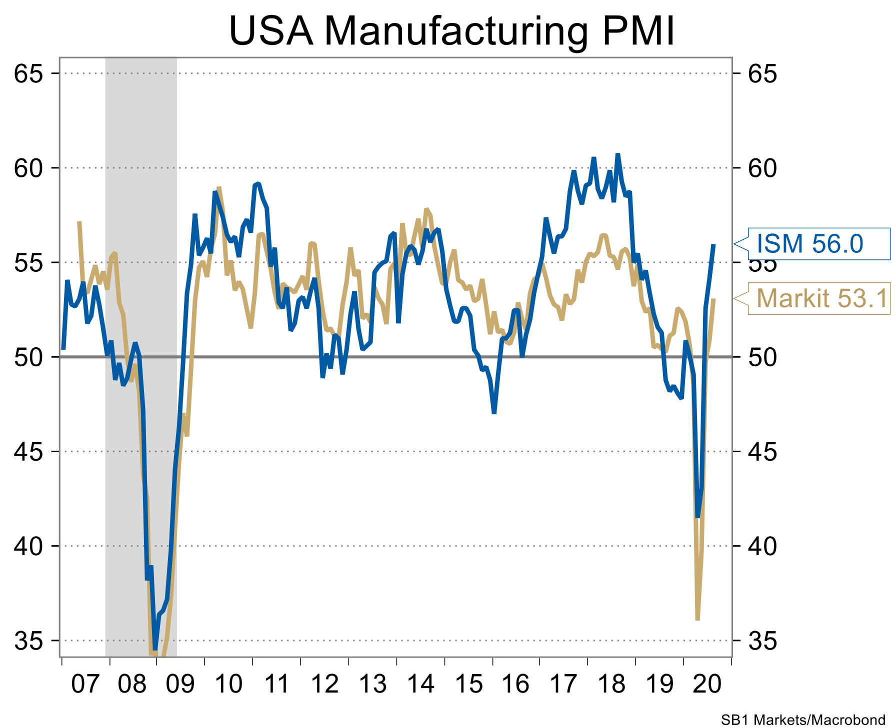
The ISM is MUCH more upbeat than Markit's PMI, which reports a slower orders comeback

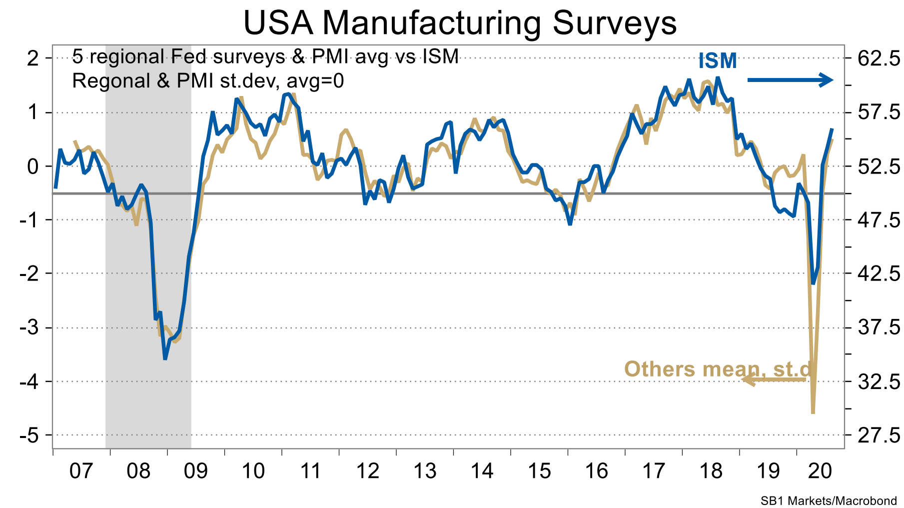


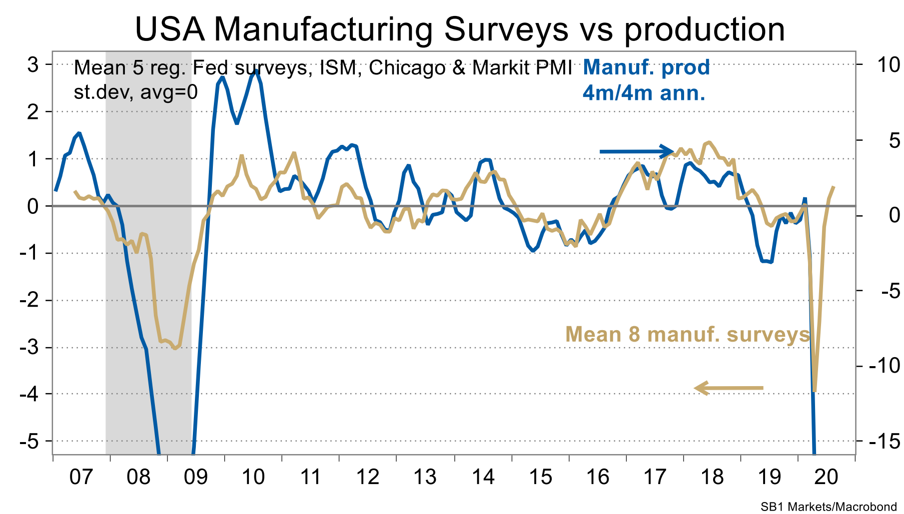


Most manufacturing surveys up in August, ISM far more than Markit's PMI

Still, in average, the surveys are not that impressive, we expect growth well above an average pave



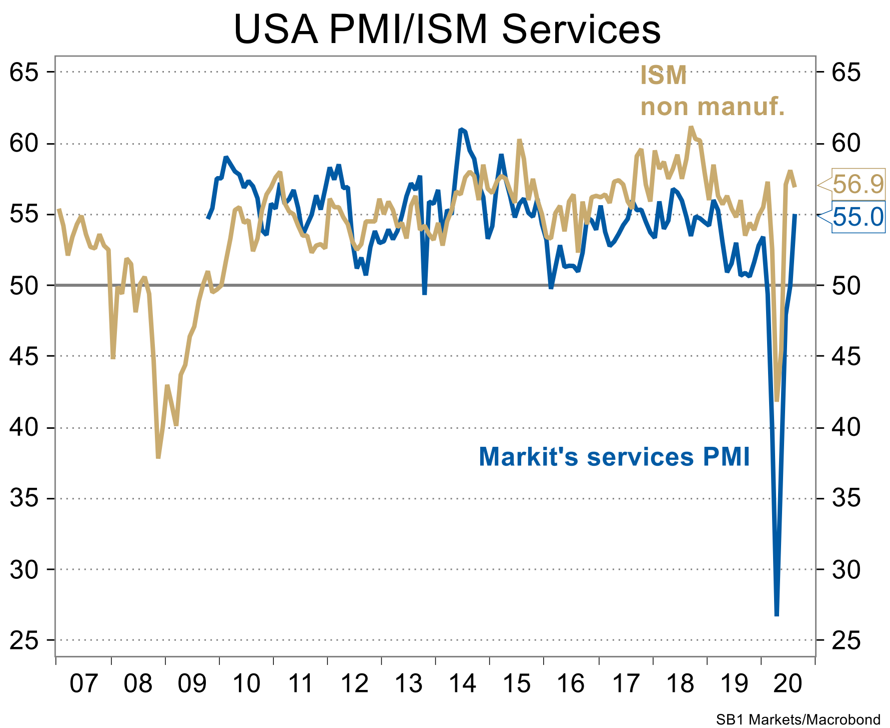


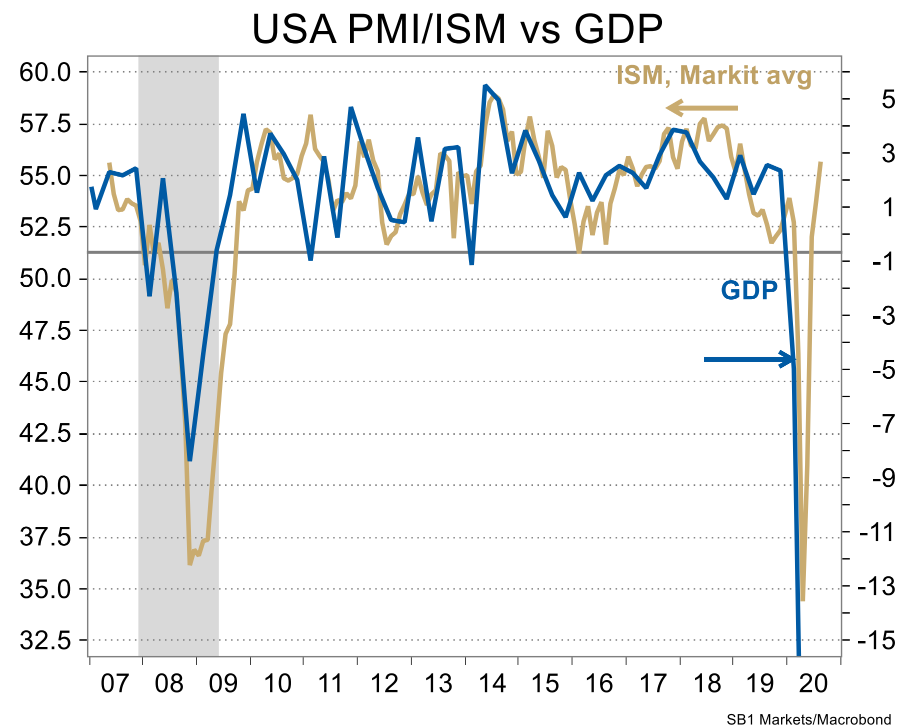


- Markit's PMI rose to 53.1 in Aug, revised down by 0.5 p
- Actual manufacturing production has increased May – July but is still some 8% below the pre corona level
- We expect a continued growth in Aug & Sept. Core durable goods orders are above the pre corona level and goods consumption is strong

Markit's services PMI straight up, ISM down, at a high level

Taken together, this indices signal a continued recovery in the service sector, no visible corona trouble

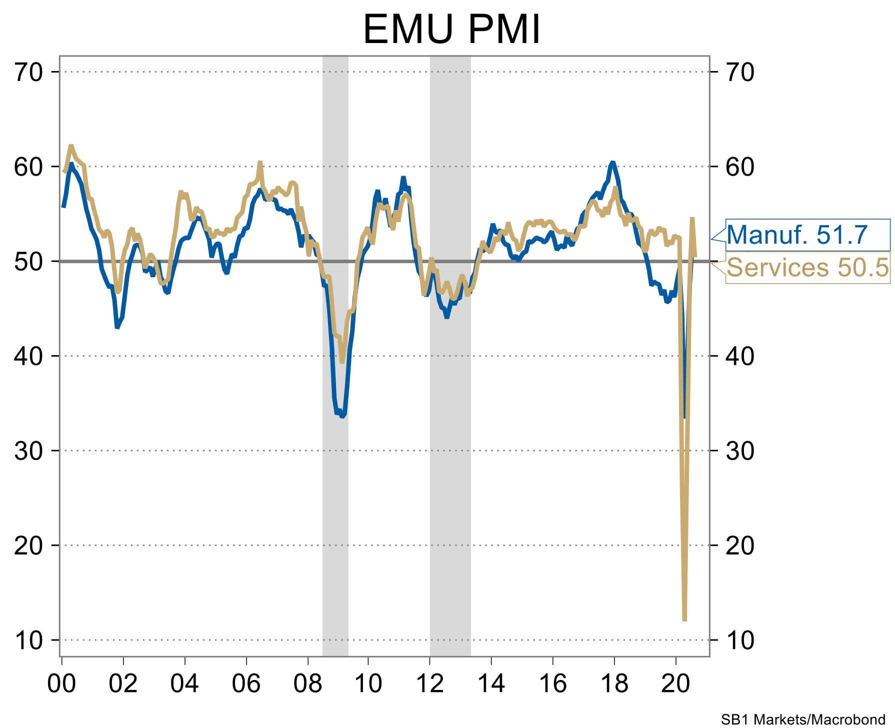


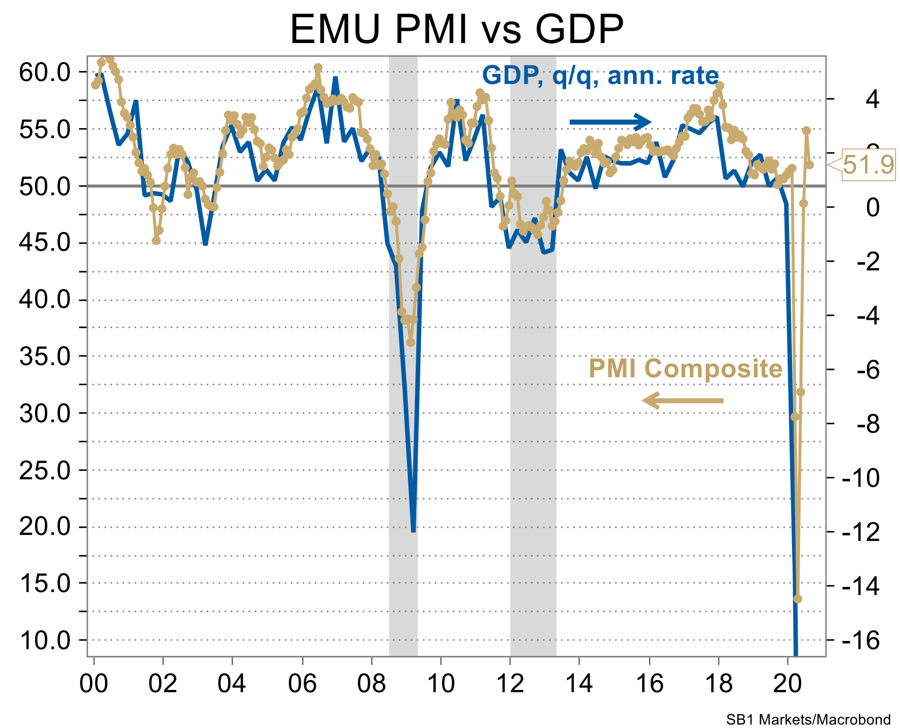


- The non-manufacturing ISM edged down to 56.9, from 58.1, 0.5 p lower than expected
  - The ISM reports an increase in production and new orders, while employment continued to decline (seems strange)
- Both surveys are very likely dramatically underreport growth, following the Q2 collapse. Growth in Q3 20% could easily reach 30% (annualised), not 3%, which the PMI/ISMs are formally signalling

A recovery is underway – but the speed is slow, according to the PMI

Activity in the service sector increased at a slower pace in August, hurt by corona outbreaks?

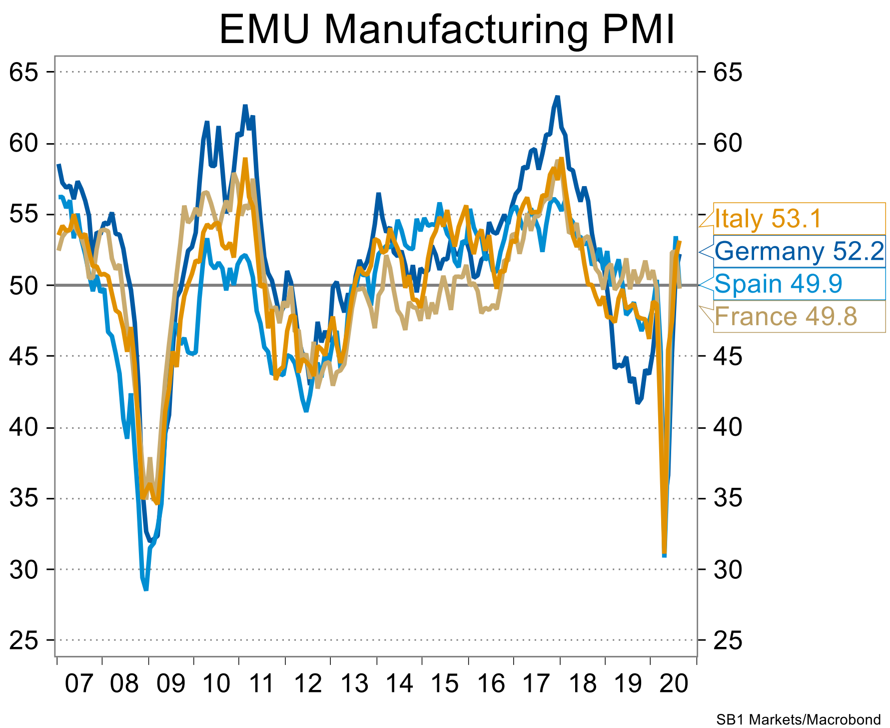


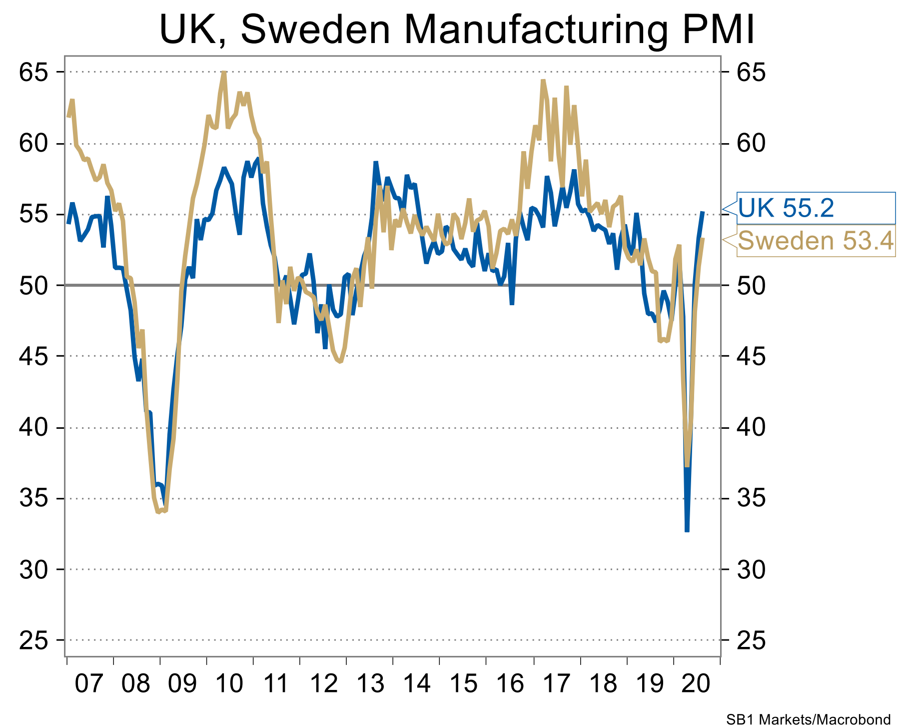


- The PMI respondents are still probably reporting somewhat between growth (which is strong), and the activity level (which is still below par) - and these indices cannot be used to estimate the growth rate now
- Still, det decline in the service sector PMI in August is surely not a signal of strength. Most likely, the new corona outbreaks is having some impact on activity, especially in the tourism sector

PMIs close to or above 50 in Europe

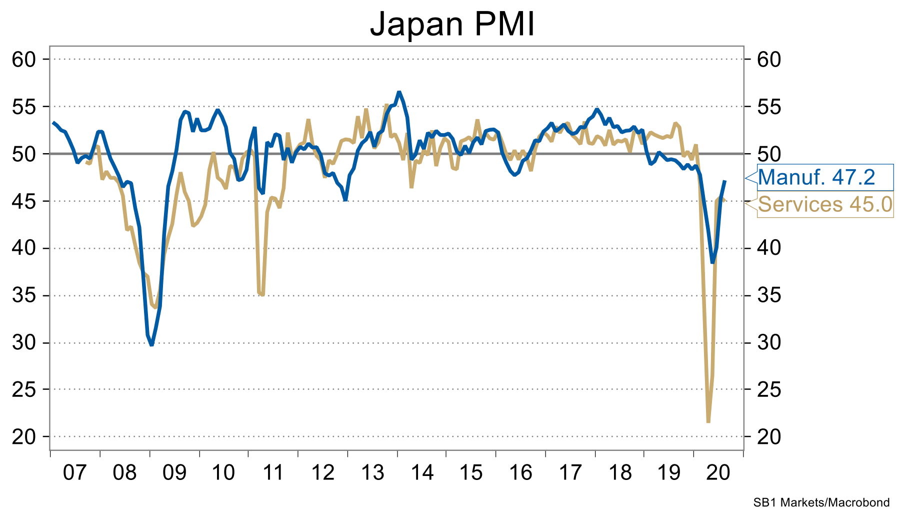
Still, the levels are not impressive given the deep low they came from, a slow recovery?

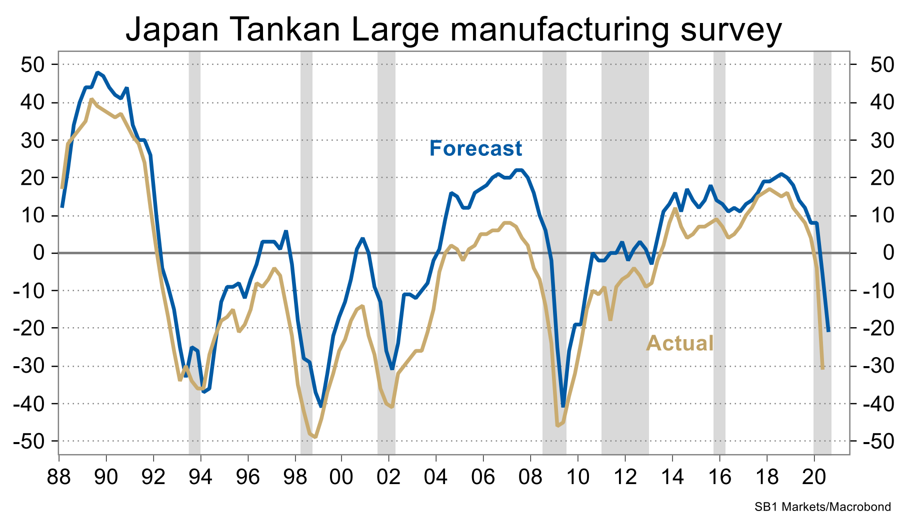


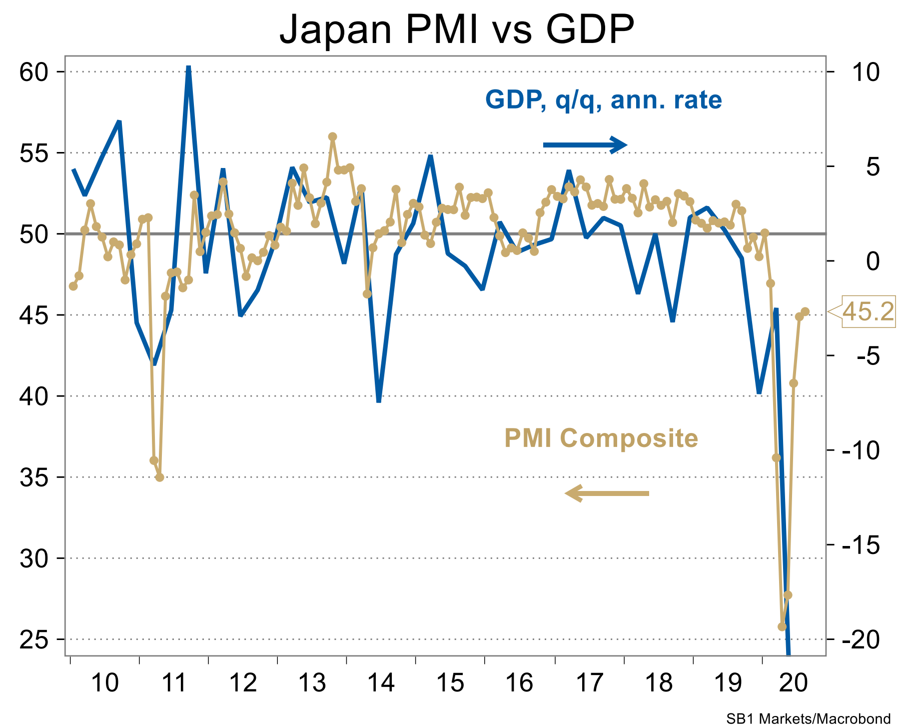


Japanese PMIs remain soft, both manufacturing and services still well below 50

Manufacturing PMI edged up but businesses are still reporting declining activity, as in services

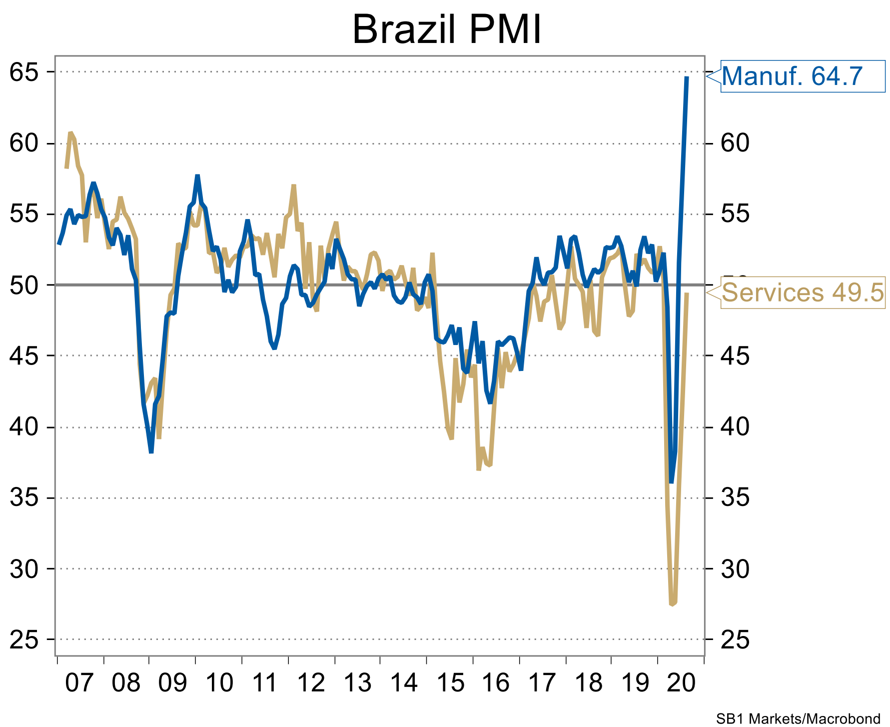


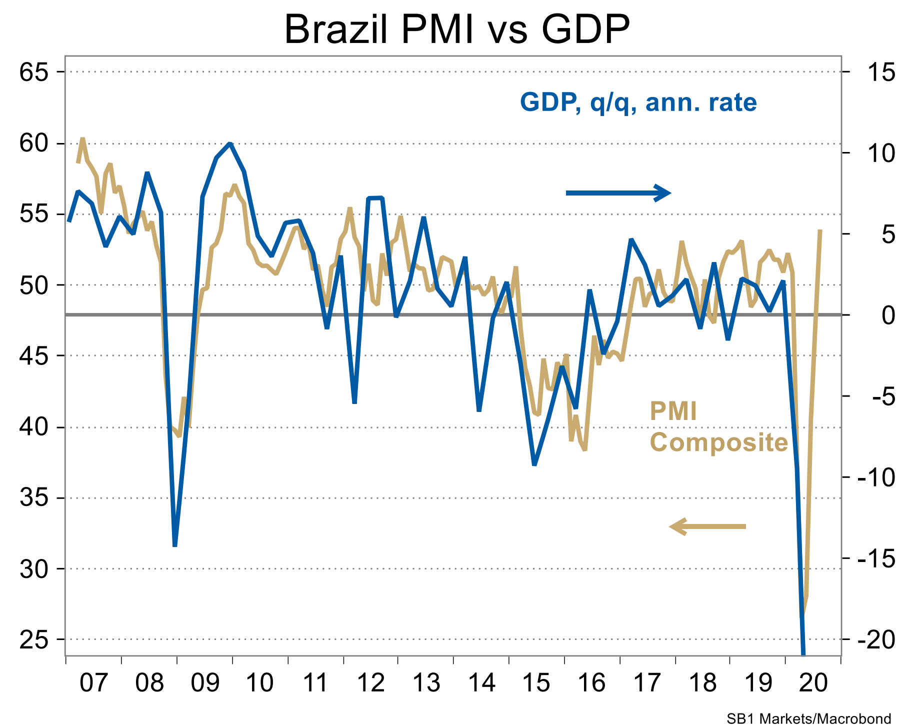




Brazil has turned the corner? Strong recovery in the manufacturing

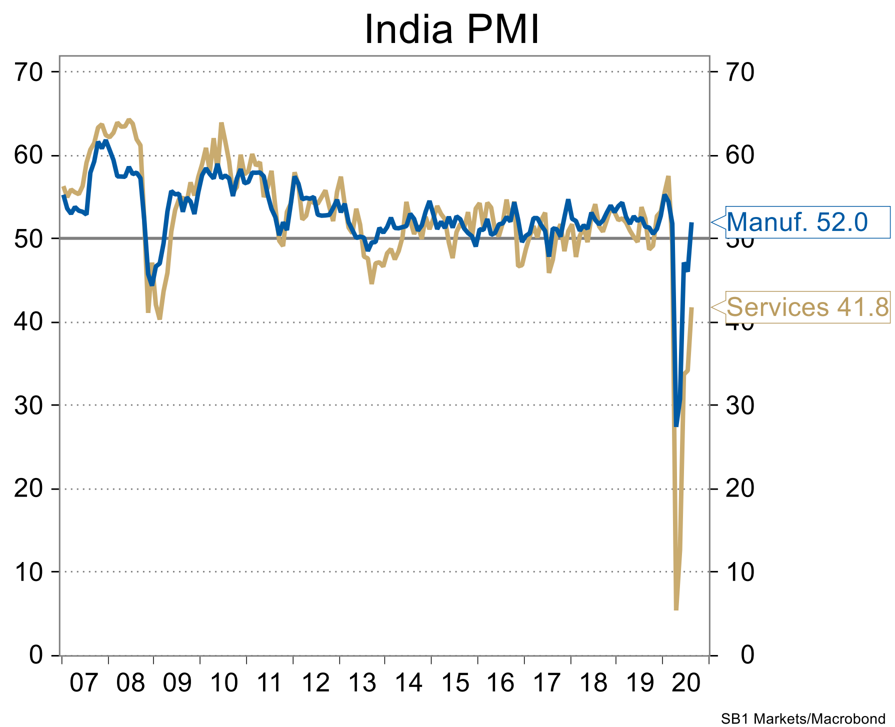
However, services are still contracting – probably the best gauge of 'activity' in Brazil

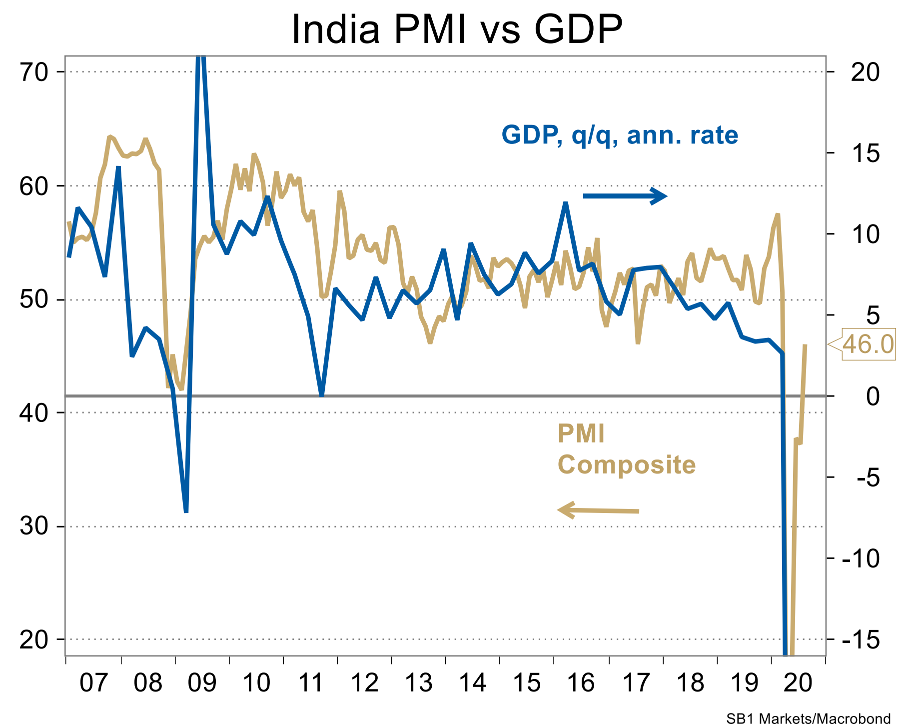




Manufacturing finally into growth territory, services still very weak

Activity is still declining, in sum, although at a much lower pace than in the spring & early summer

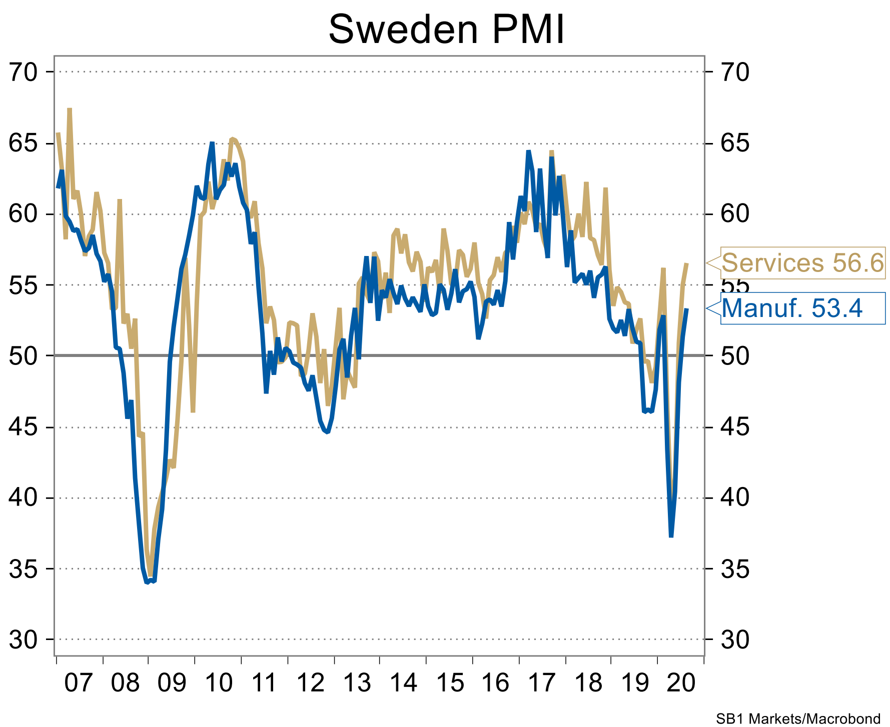


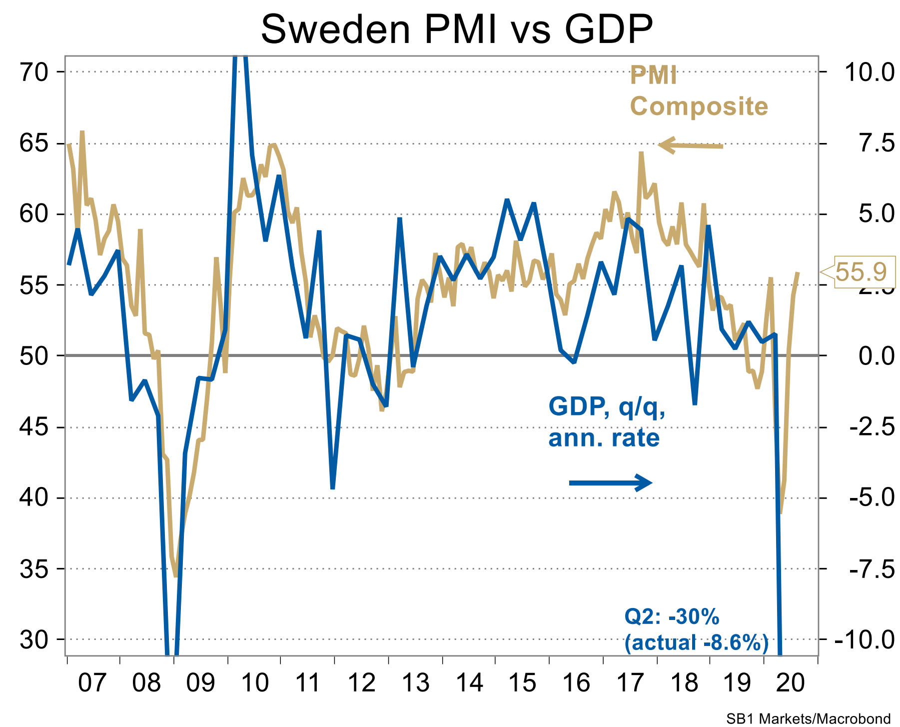


- India reported a dramatic decline in GDP in Q2, by 26% q/q, not annualised (or 70% if you want to have the 'stupid' annualised rate ☺)

The PMIs well above 50, services growing faster than manufacturing

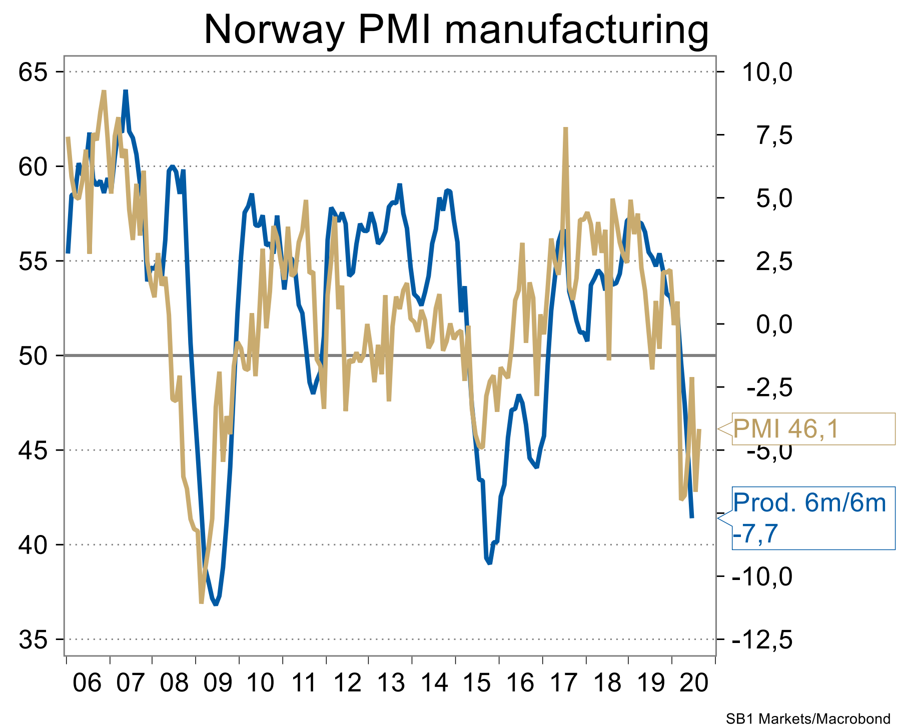
The PMI is signalling a moderate recovery, from a deep low

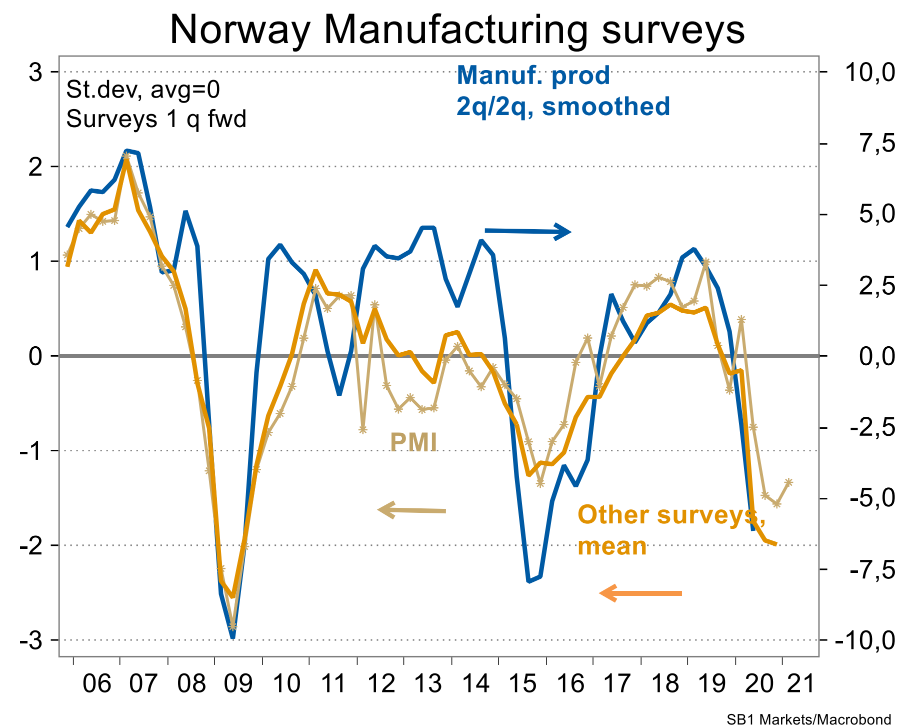




The volatile PMI up just to 46.1 in August, as we expected (consensus up to 50)

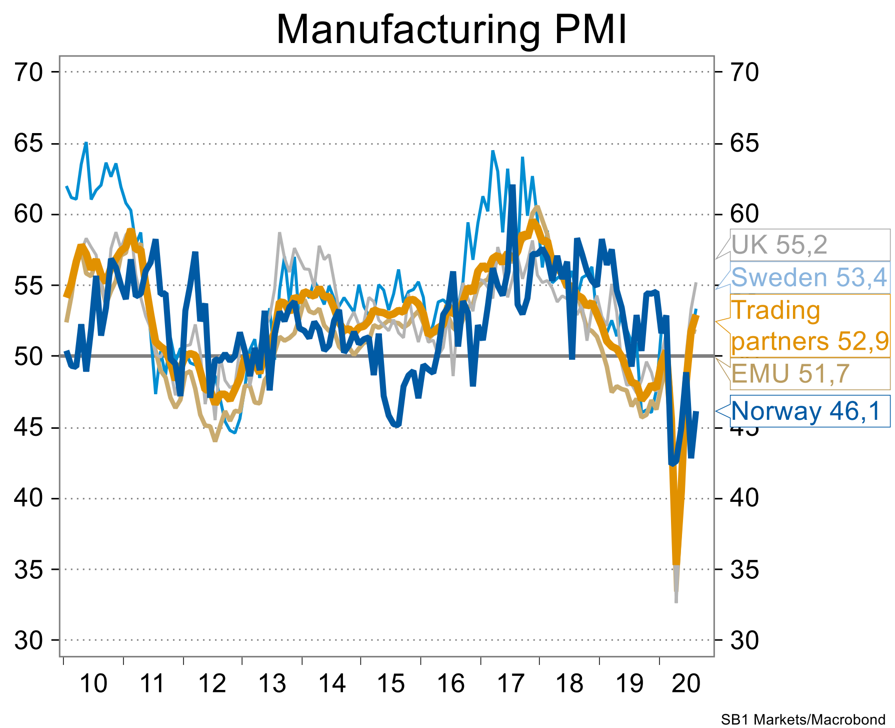
We don't put too much emphasis on the PMIs these days – but the Norwegian surveys is correct?

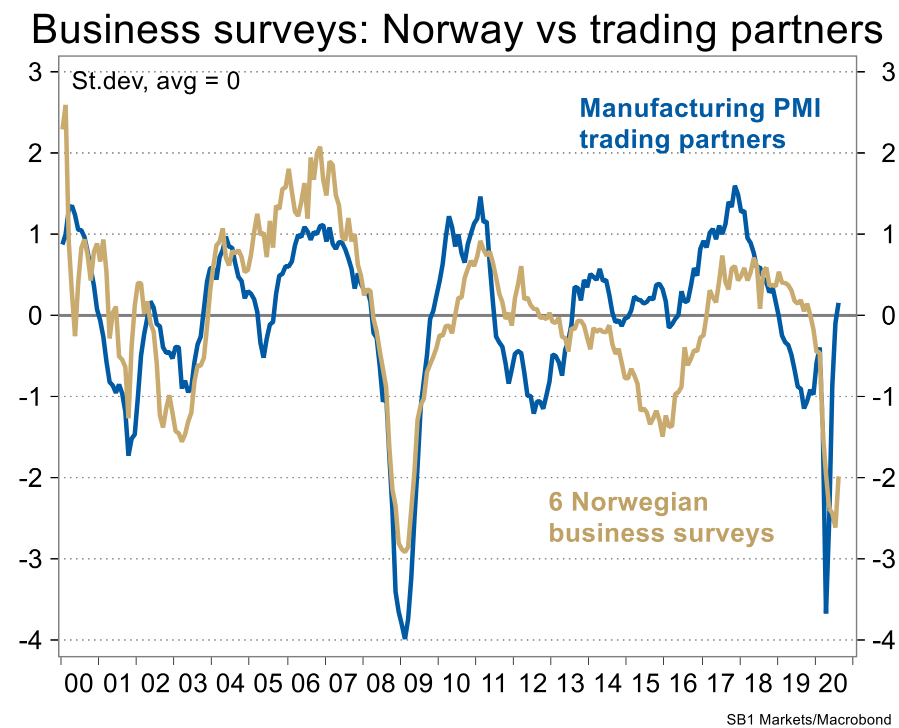




- In other countries, the PMIs have not been able to detect the undisputable rapid recovery in manufacturing activity. The Norwegian manufacturing industries did not experience any deep setback during the spring, and so far we have not seen upturn either. Thus, the Norwegian PMI may send a correct signal now
- Both sub indices for new orders, employment and production ticked up in August but remained below 50, normally indicating a decline from the prior month
- Other surveys have also been signalling a substantial decline in manufacturing production

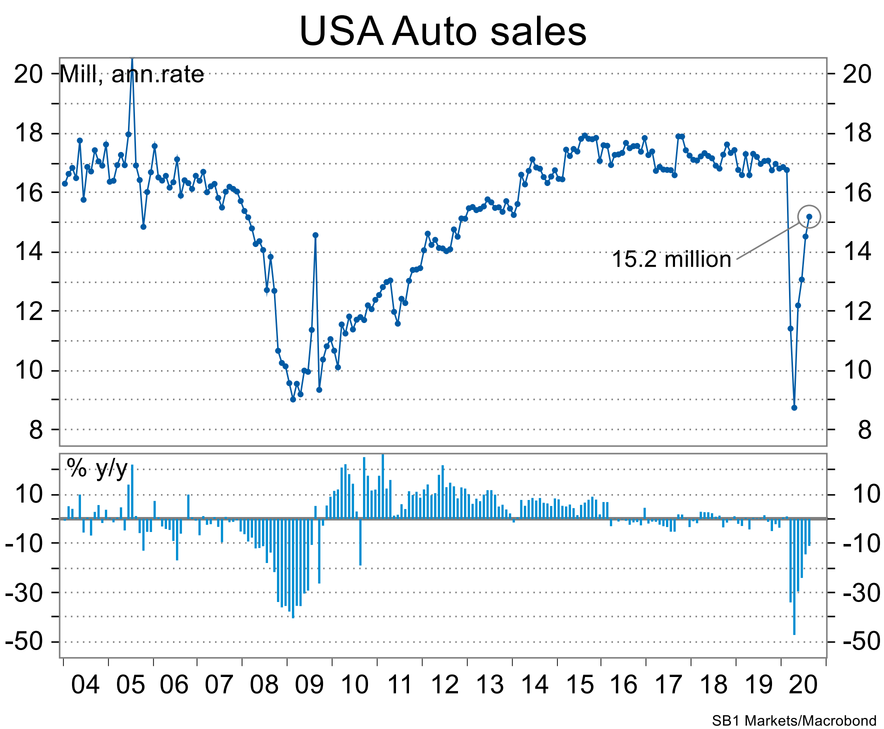
Norwegian manufacturers fared better during the spring but lags now

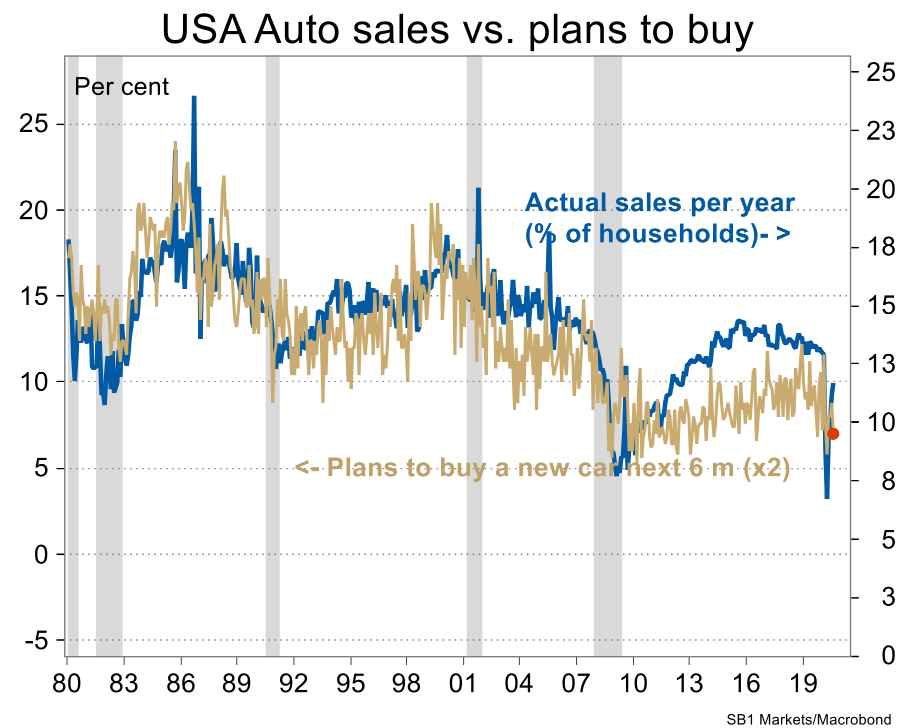




July auto sales another tick up in Aug, 10% below the pre corona level

US sales up to 15.2 mill from 14.5, better than expected. Still 1.6 mill lower than before corona

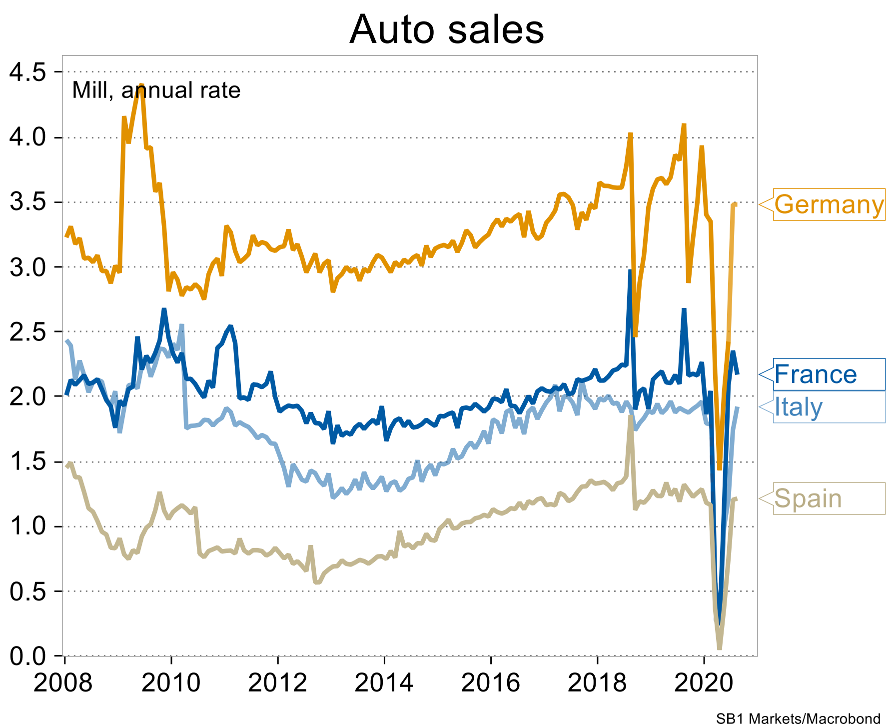


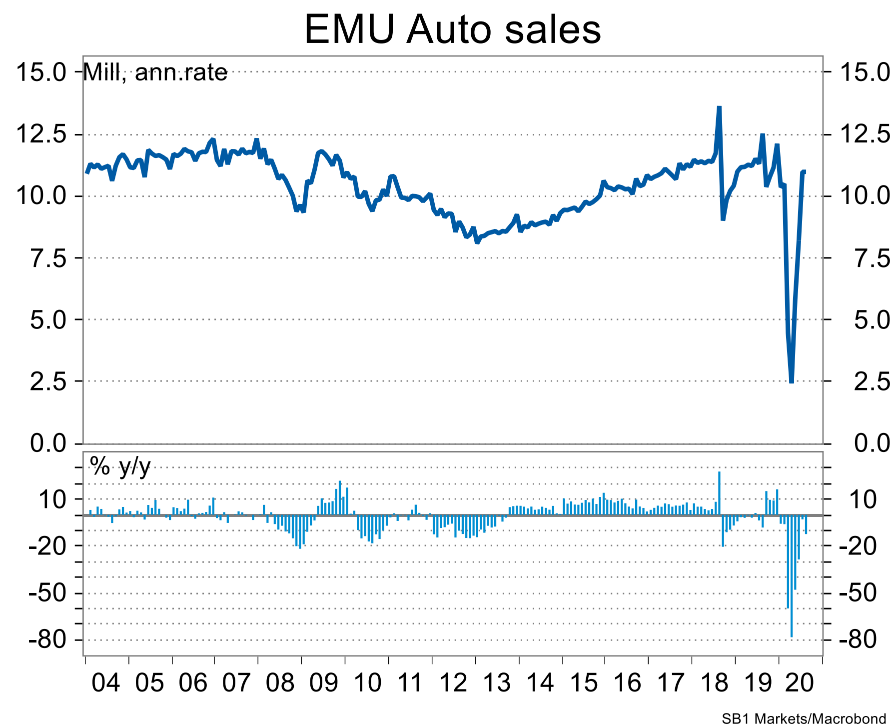


- Sales fell almost 50% in March/April. Most of the setback is now recovered but sales remain 10% below the pre corona level – which was somewhat below the average sales the previous years
- It is impossible to gauge the ‘underlying’ strength of auto demand. In the August consumer confidence survey, households reported below par car buying plans

Auto sales stable at high level in August, are back at a pre corona level

Eurozone sales have recovered everywhere

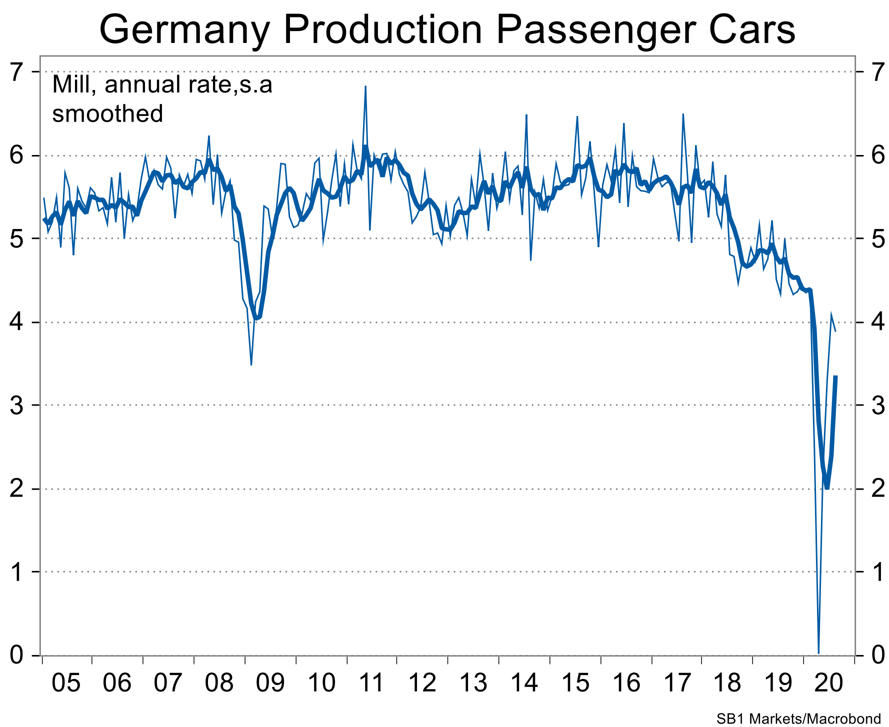


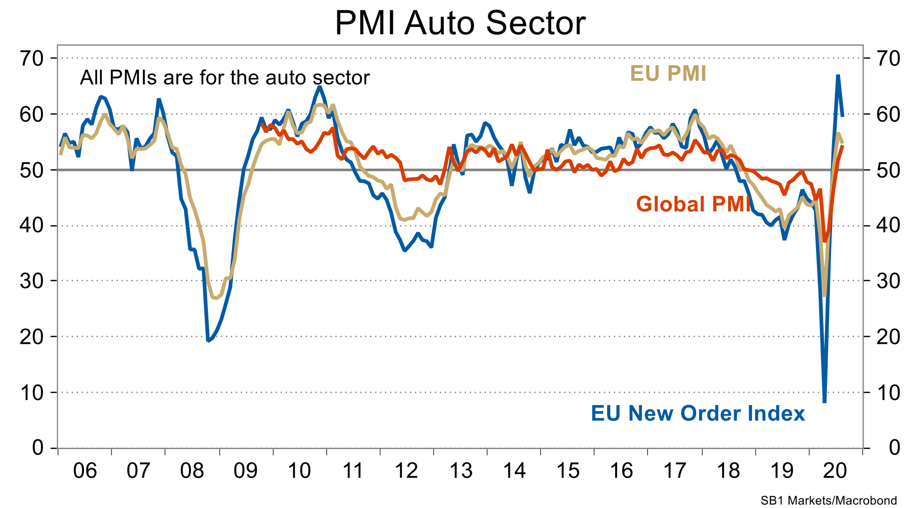


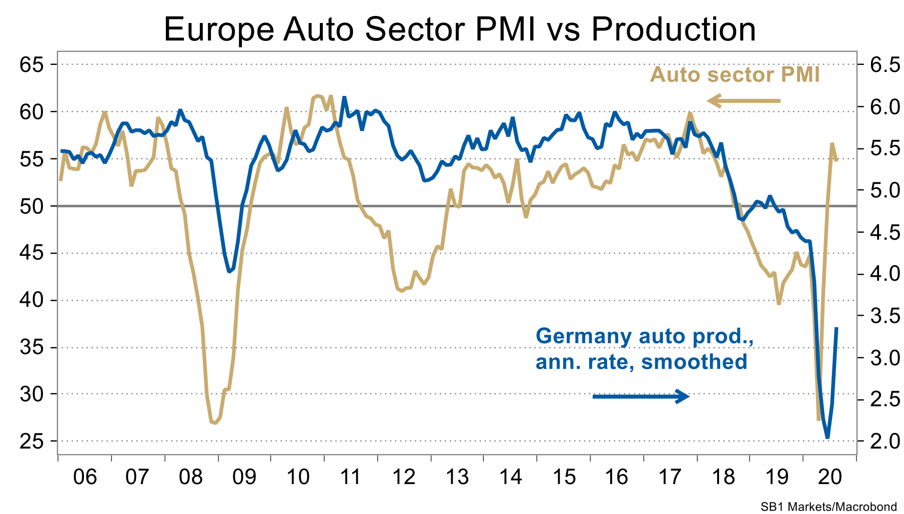
- Last year, 11.3 mill autos were sold in Europe, the best year since 2007. From mid 2018 new emission regulations created substantial volatility in sales, and we assumed that the cycle anyway was mature. In Jan/Feb 2020 sales were at some 10.5 mill (annual rate).
- The strong July/Aug sales may reflect pent up demand due to slow sales the previous months, but anyway households cannot be that scared
- No surprise: Production is up too (and will probably have to increase further given these sales figures), check the next page!

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

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



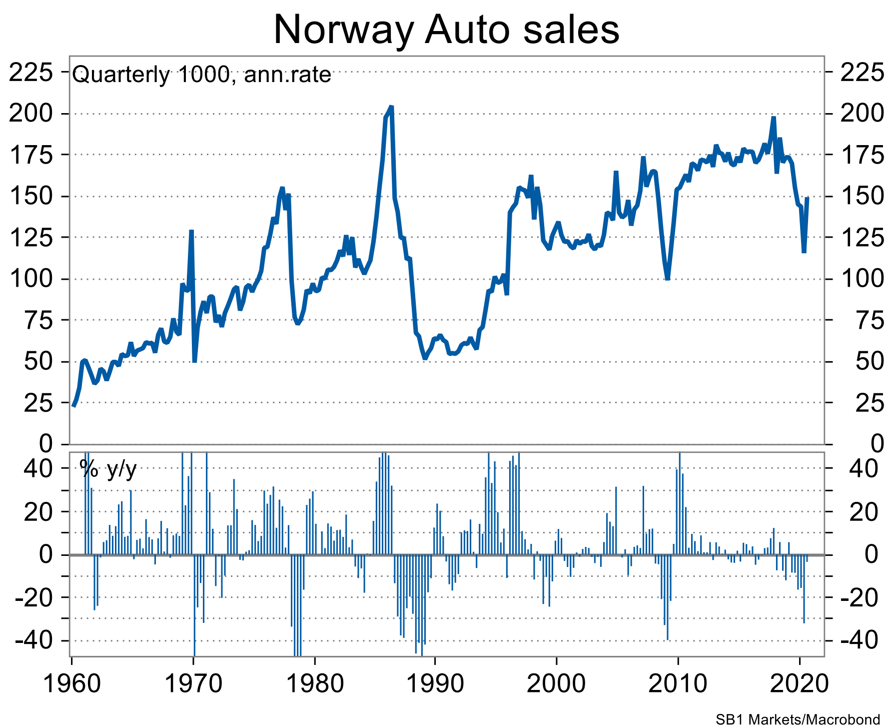


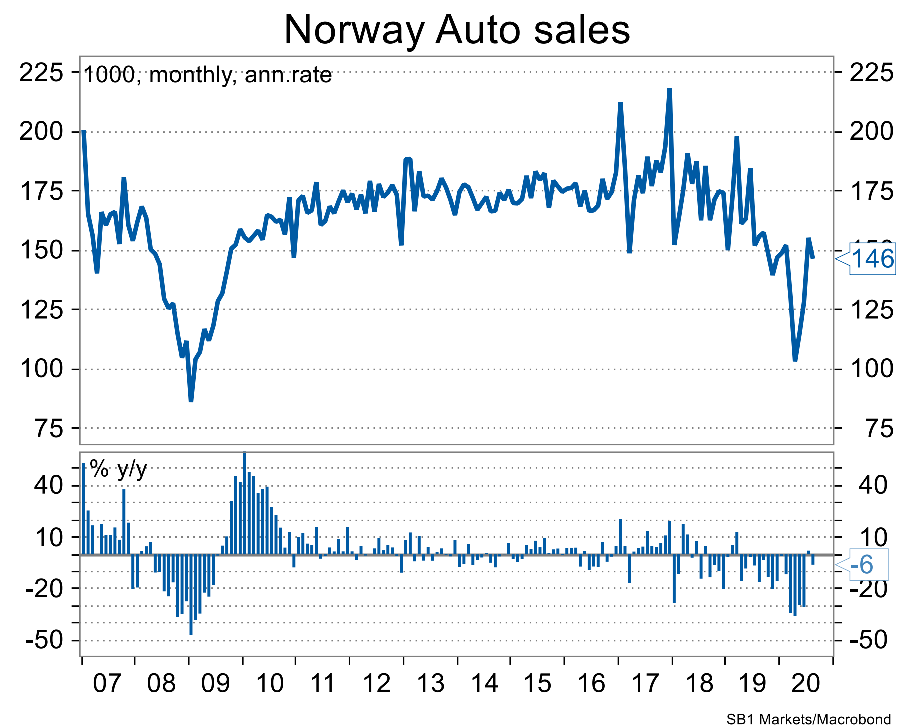


- Production fell to zero in April, during the lockdown, from a 4.4 mill pace in February – which was 1.3 mill below the 'normal' level (5.5 – 6 mill/year). In July, production was back up at 4.0 mill
- The European auto sector PMIs are signalling strong growth- the new order index fell in August from a record high level in July – but the level was still very high in August

Norwegian registr. slightly down in August, back at the (low) pre corona level

Sales down to 146’ in August vs. 156’ in July, the same level as during Jul 19’ – Feb 20’

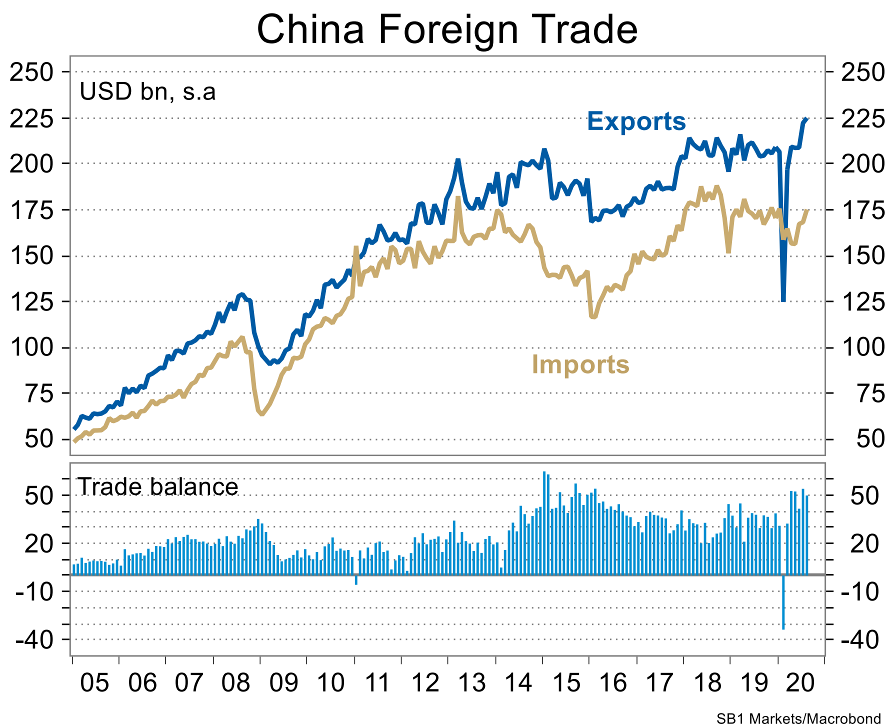




- Sales were down 6% vs August 2019
- Sales have been on the weak side since last summer, which is partly, but not entirely, due to delivery challenges (EVs)

Exports & imports further up in August – exports (values), imports (vol) at ATH

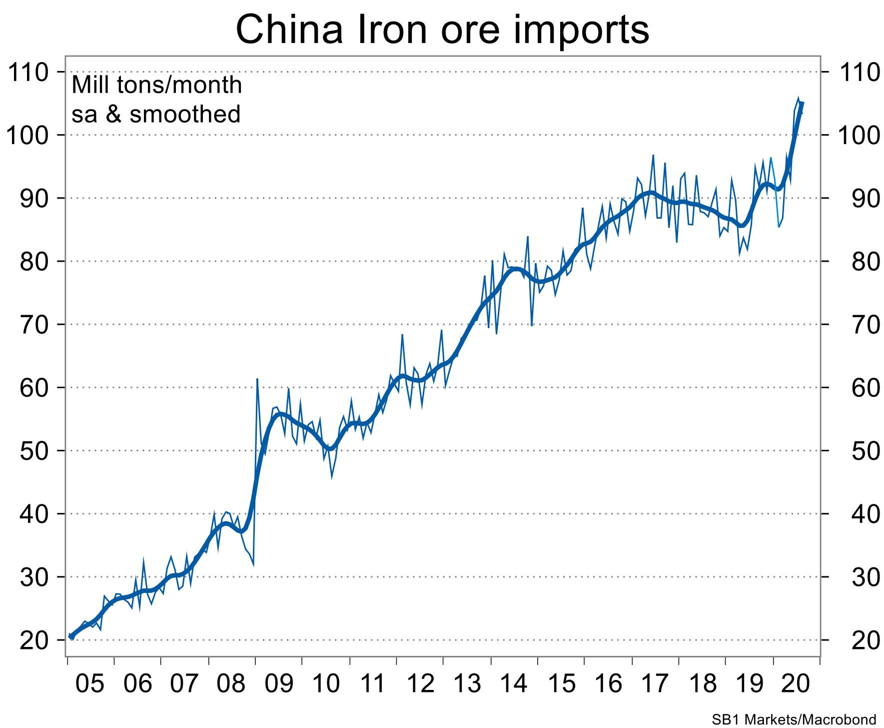
No signs of any collapse domestically or abroad

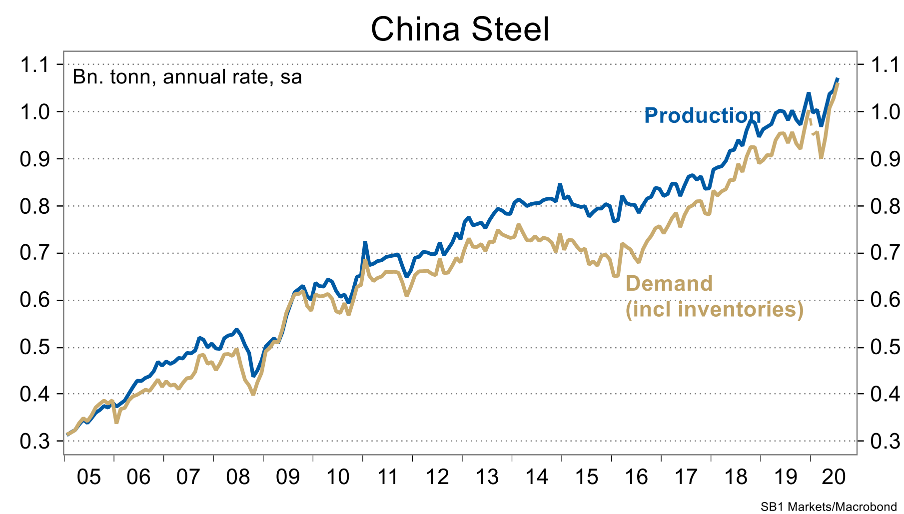


- Exports were 2 pp higher than expected in August – and the highest ever. Exports values rose 9.5% m/m in Aug, expected 7.5%. In volume terms, (based on our own quite uncertain price assumptions for the 3 last months), export are above the pre corona level
- Imports rose sharply in August but were still down 2.1% y/y, expected -0.2%. Import values are down since 2018 but as import prices have fallen, import volumes were record high in Aug (based on our prices assumptions)
- The trade surplus was unch at USD 50 bn. The surplus has been higher than normal since March. Still, China is no more running a large current account surplus, as the deficit in services is larger than before

Iron ore imports further up in August, +15% recent months!

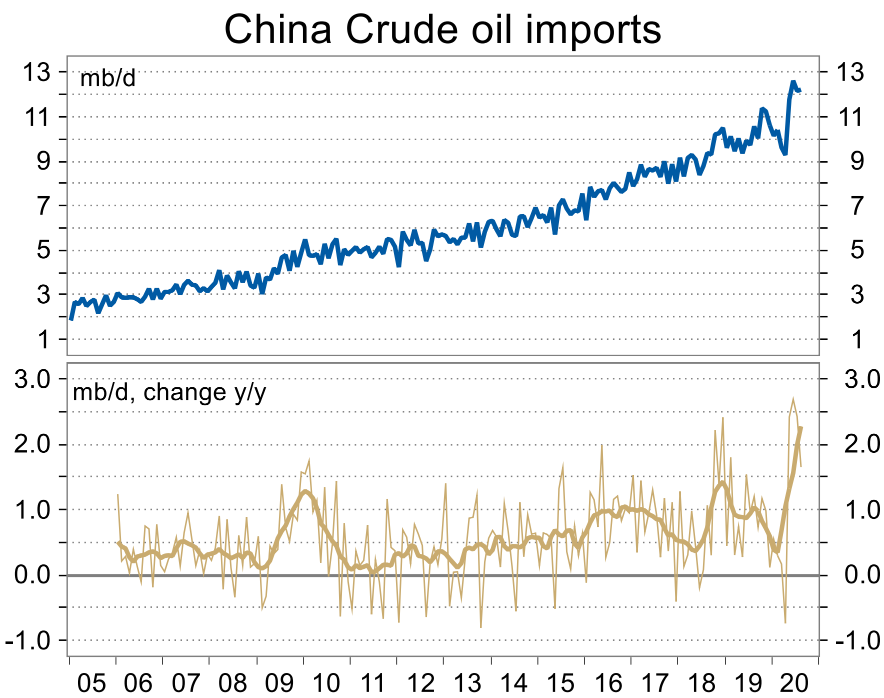
Steel production up too - and domestic demand even more as net steel exports are falling sharply



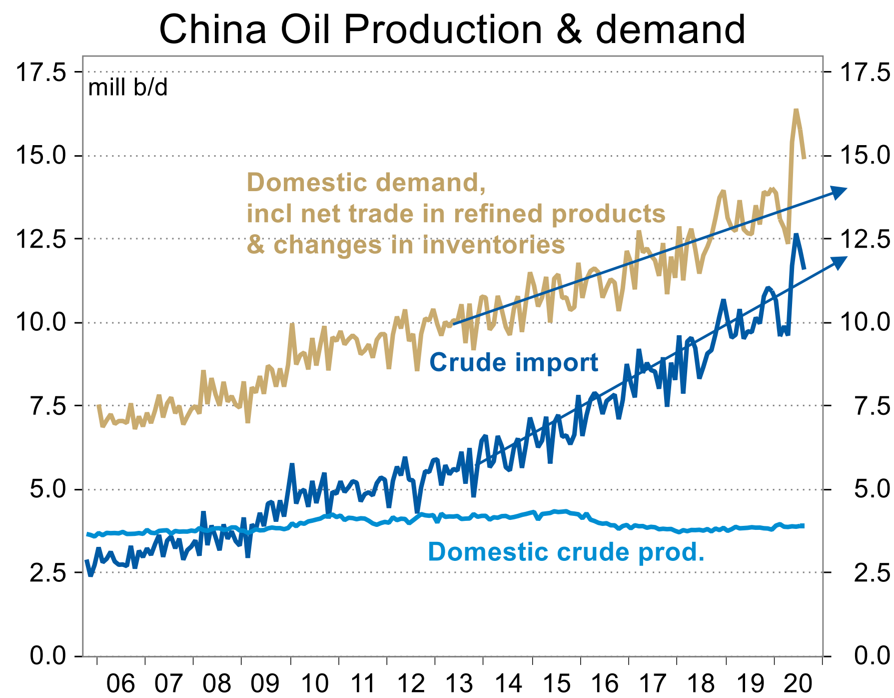


Oil imports at record high level

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

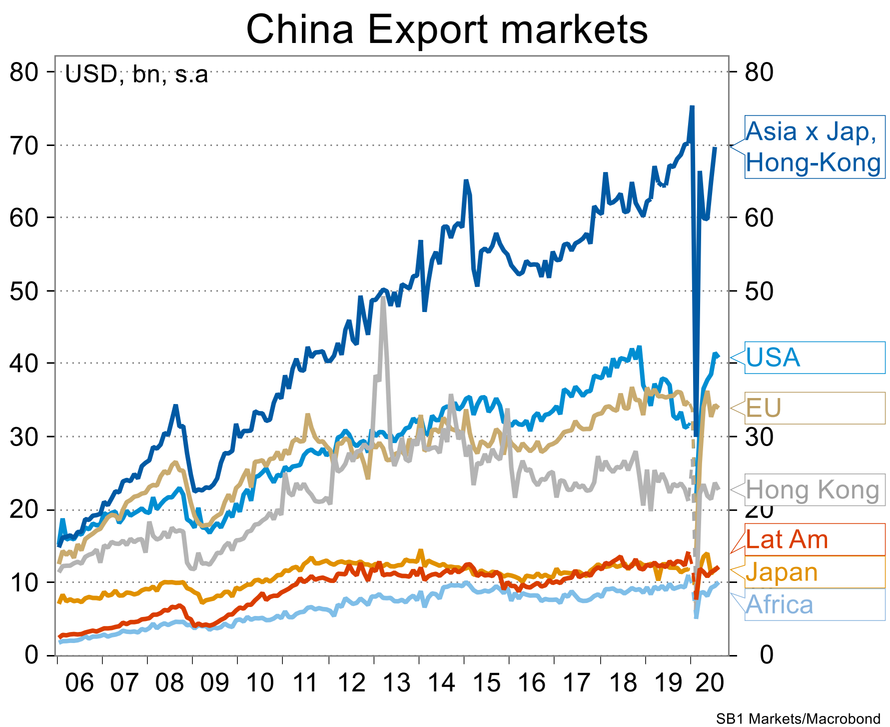


SB1 Markets/Macrobond



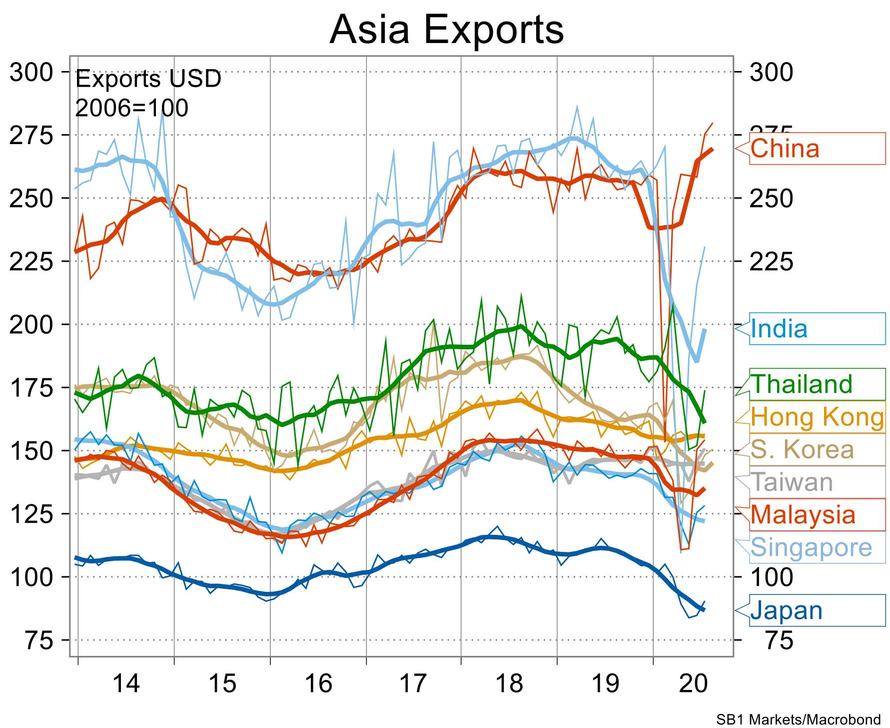
SB1 Markets/Macrobond

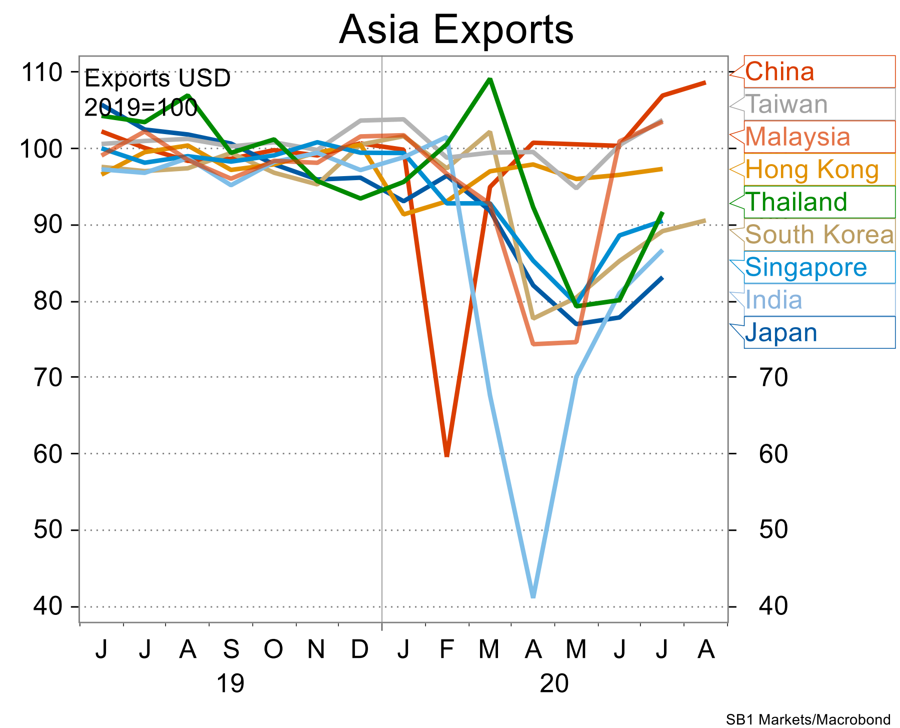
Exports to the US almost back to ATH



Mixed Asian 2020 exports. Some have recovered, most have not

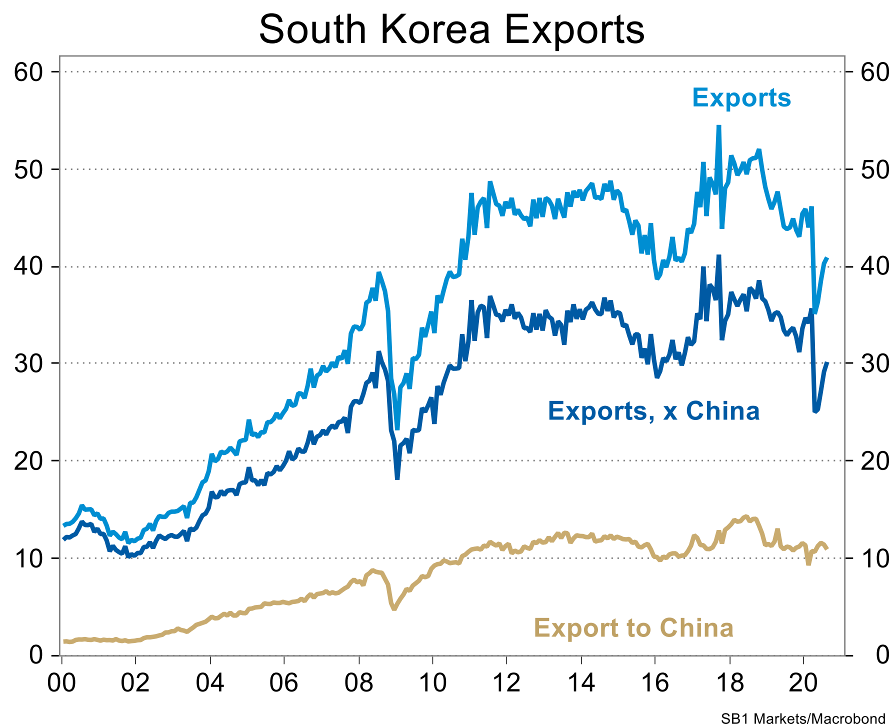
All are up recent months but levels are still 10 – 20% below par





South-K took a beating in April; the recovery in May-Aug is far from impressive

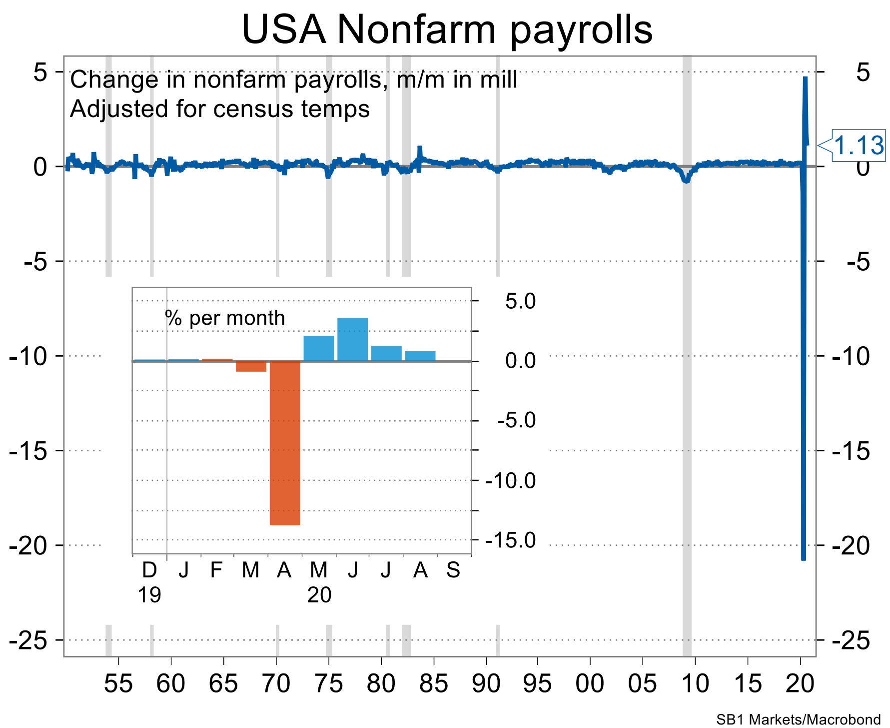
Just ½ of the 25% drop in exports is so far recovered

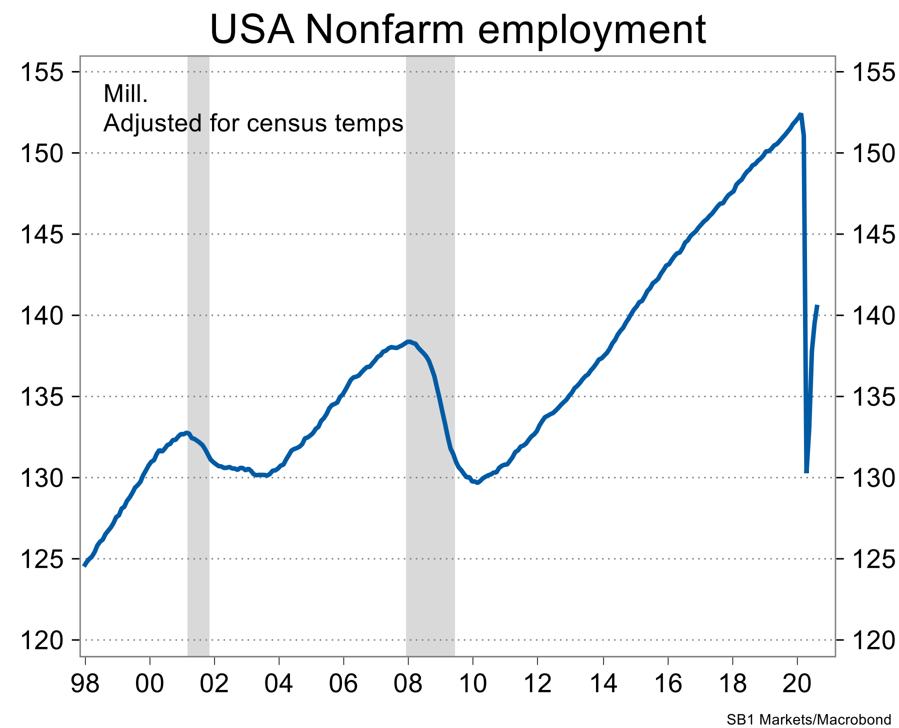


- Korean exports were low even before the corona crisis, down some 10% vs. the 2018 level, and are now still 11% below the pre corona level
- Exports to China fell in February but have since recovered to the pre corona level - still 20% down vs the 2018 level
  - » Thus, exports to China not to blame for the weak exports recent months

Employment recovery is slowing but unemployment is falling at a fast pace

Employment up 1.37 mill (1%), still down 7.7% from pre corona, unemployment down 1.8 p to 8.4%

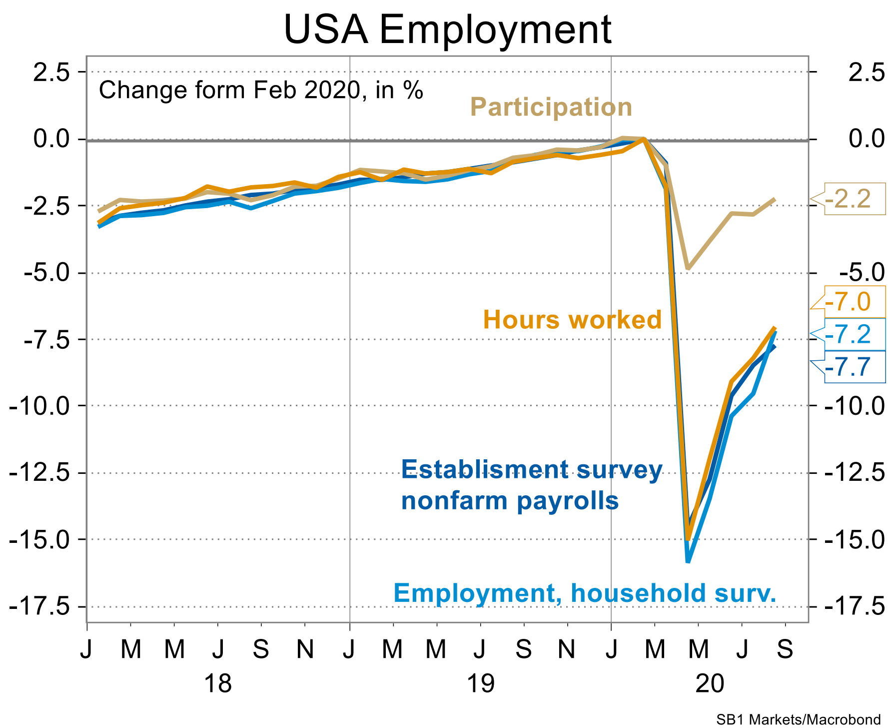




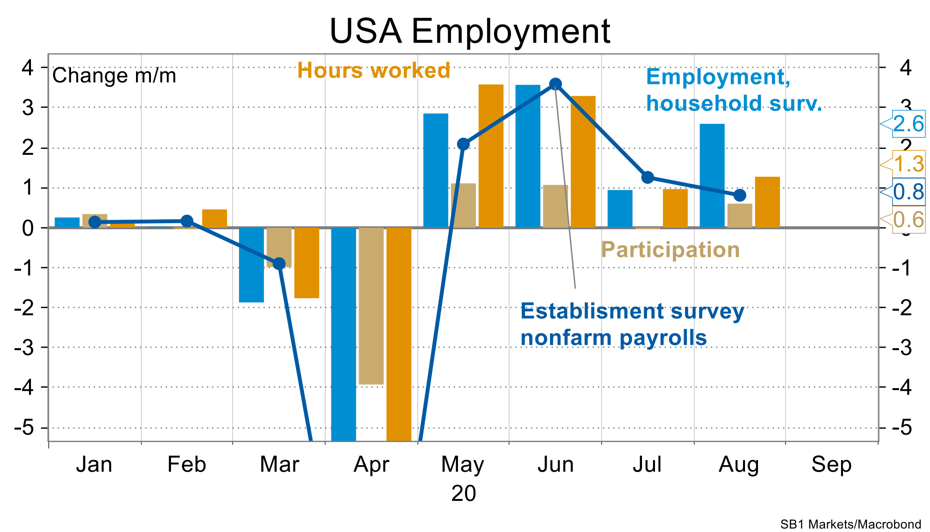
- **Employment** rose by 1.37 mill in August, close to the expected 1.35 mill. However, private employment rose by 0.3 mill less than expected, and the large share of the 0.34 mill increase in government employment reflected temporary Census jobs (0.24 mill). Employment has now recovered almost half (46%) of the 22 mill March and April drop but it is still 7.7% below the Feb level – and the recovery in jobs is clearly slowing
- **Unemployment** dropped 1.8 pp to 8.4%, just a 0.4 pp decline was expected. Unemployment has fallen from 14.7% at the peak but remains elevated. Also, the real unemployment level is still higher, as the participation rate has fallen and more are working involuntary part time etc. The U6 employment rate is 14.2%, up from less than 7% pre corona
- **We expect employment growth to slow the coming months.** New jobless claims are still running at an extreme high level

Employment still 7-8% below par, hours worked too

No big difference between enterprise employment headcount & the household (LFS) survey

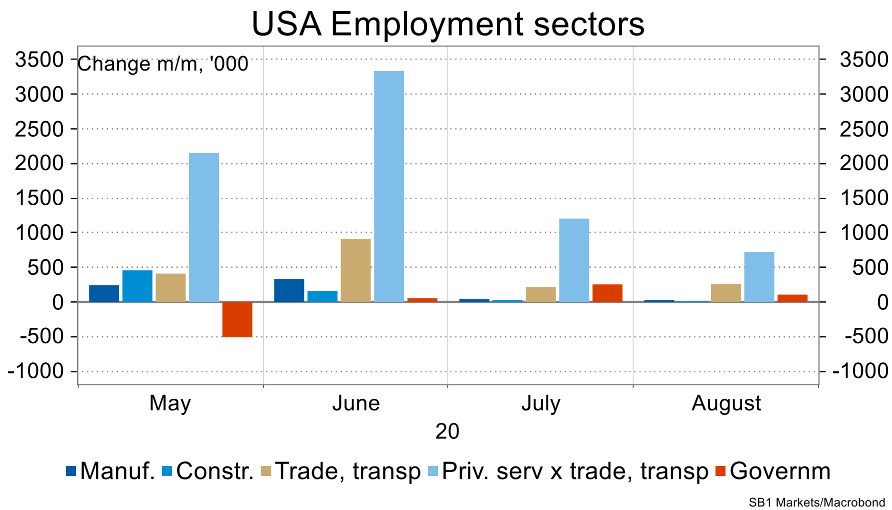


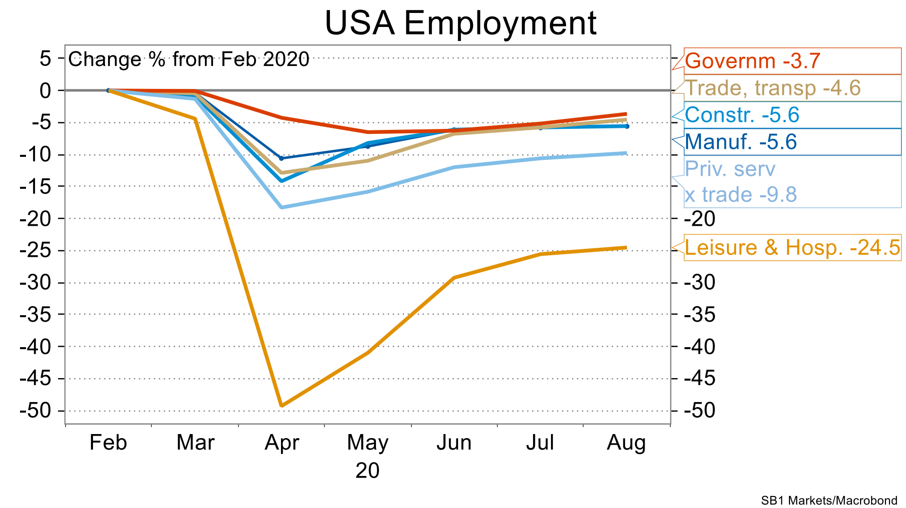
- If the participation rate not had fallen by 2.2% since February, unemployment would have been running 2 pp higher, at 10.4%
- In August, the (usually more volatile LFS ('AKU') employment measure rose 2.6%, explaining the sharp decline in the unemployment rate
- Given another 1% increase in hours worked in Sept, Q3 hours worked are up 5.6% vs. Q2 (a 24% annualised pace)

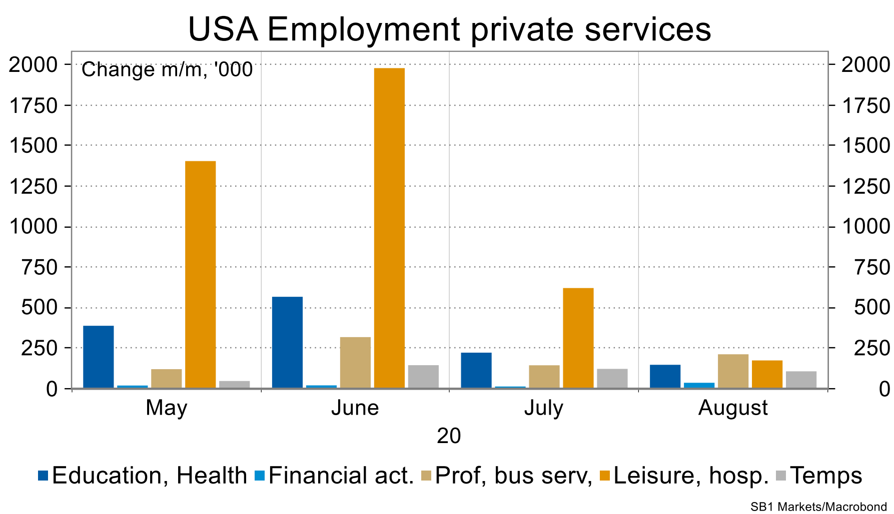


Growth in all major sectors in August – but slower

Employment has not fully recovered in any of the main sectors yet, leisure/hospitality down 25%



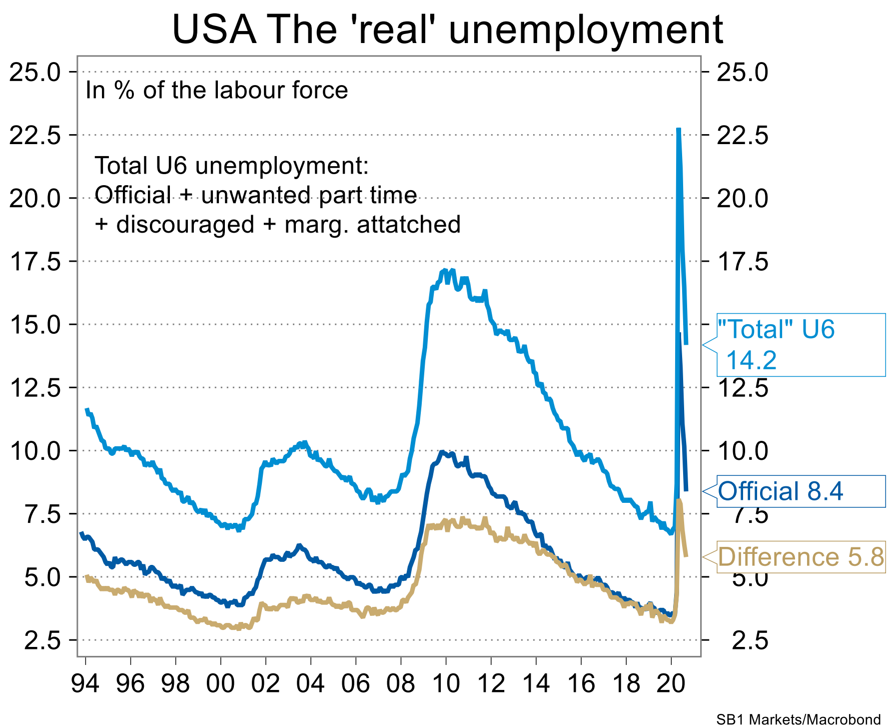


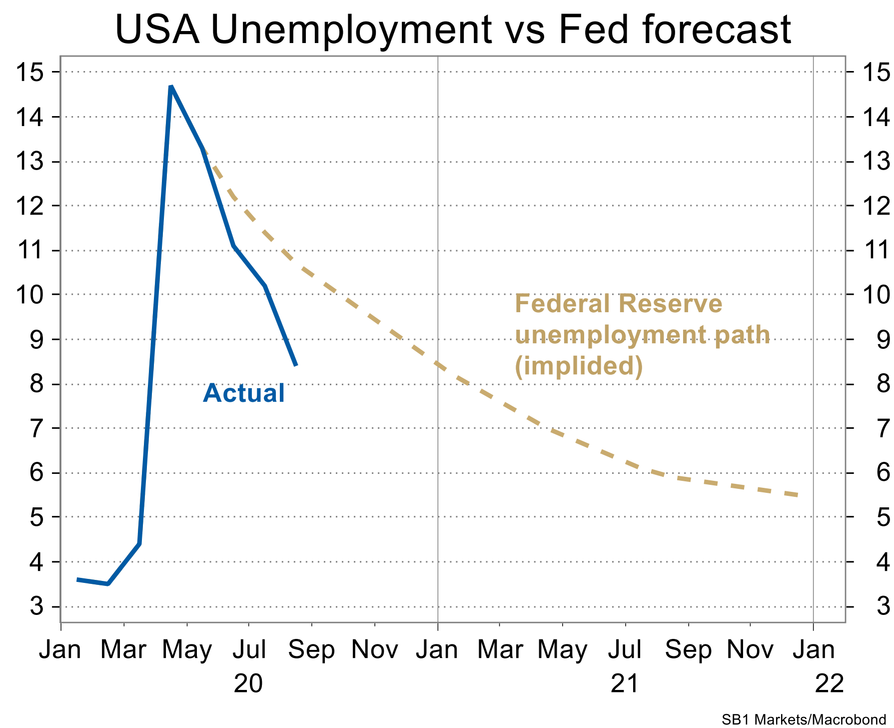


- In May-July leisure & hospitality contributed the most to the increase in total employment – but remains weaker than any other sector, down 24.5% from February
- Manufacturing and construction are both down 5.6%
- Trade & transport is down 4.6%
- (Growth in government employment is adjusted for temp census workers)

Unemployment is retreating much faster than the Fed assumed in June

Unempl. down 1.8 pp to 8.4%. Still, the ‘real’ unemployment is 14% - or even higher



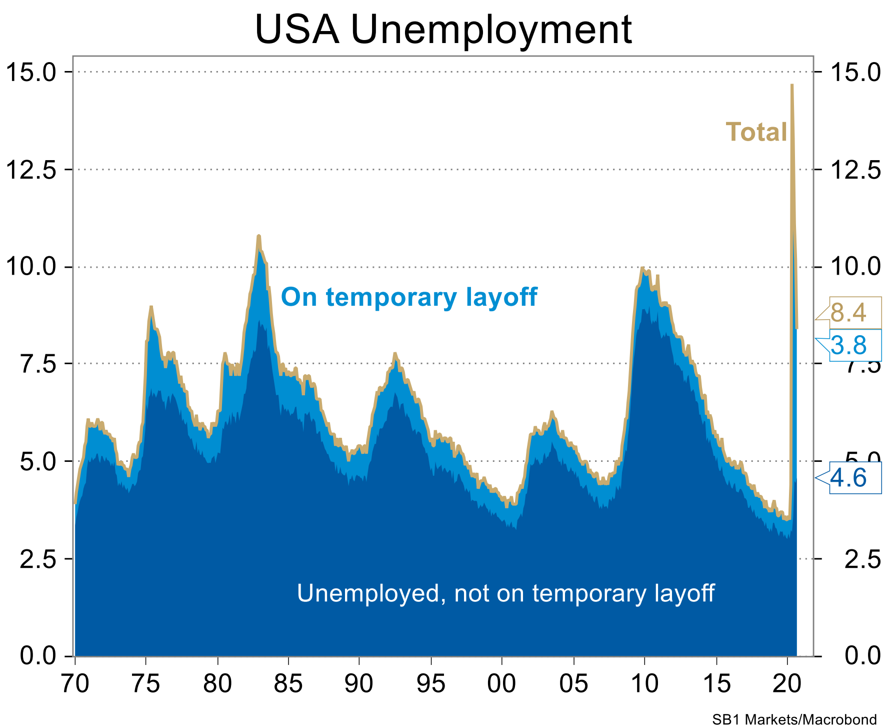


1) Some are counted as employed even if they should have been counted as unemployed
2) Almost 5% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
3) The labour force participation rate has fallen because workers do not bother searching for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

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

2/3 of the temporary laid offs have returned to work

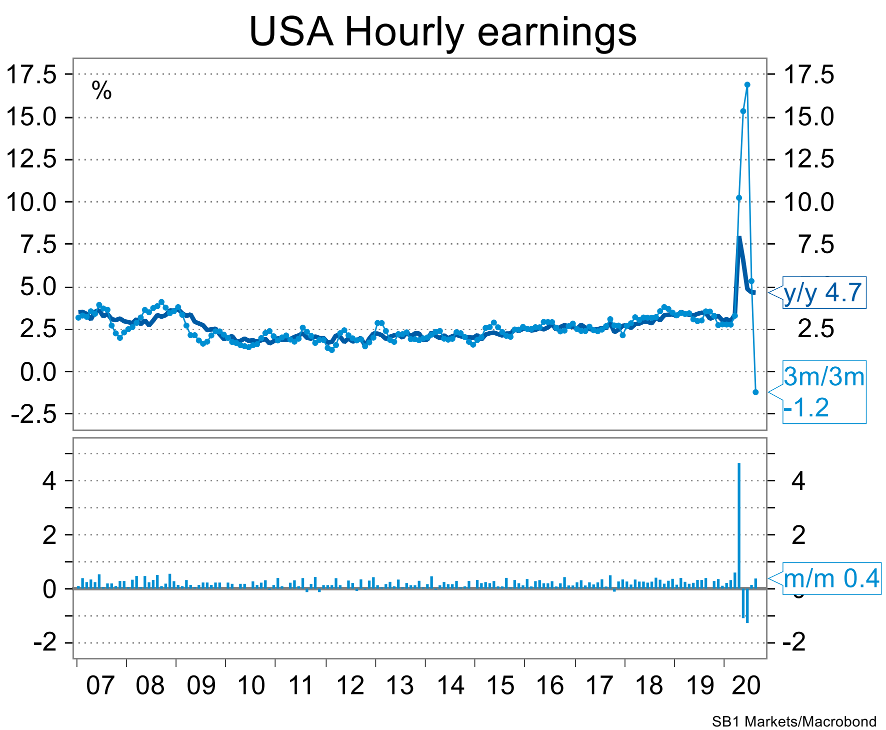
Temp laid off unemployment down 2 pp to 3.8%, was 11.5% in April!

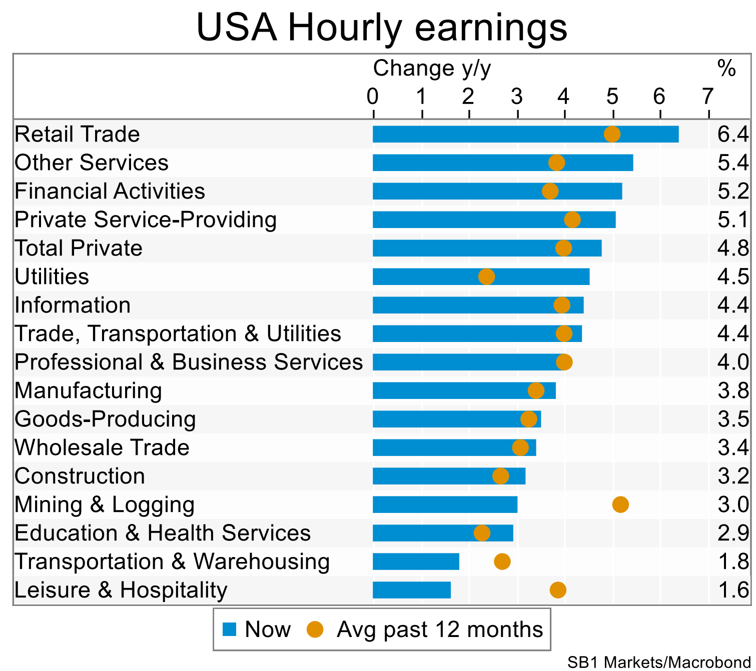


- Unemployed, not on temp layoff equalled 4.6% of the labour force in July, up 0.1 pp from July and from 3% before the corona crisis

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

These wage data are not relevant now. Annual rate still up 4.7%, the ‘real’ rate no doubt below 3%



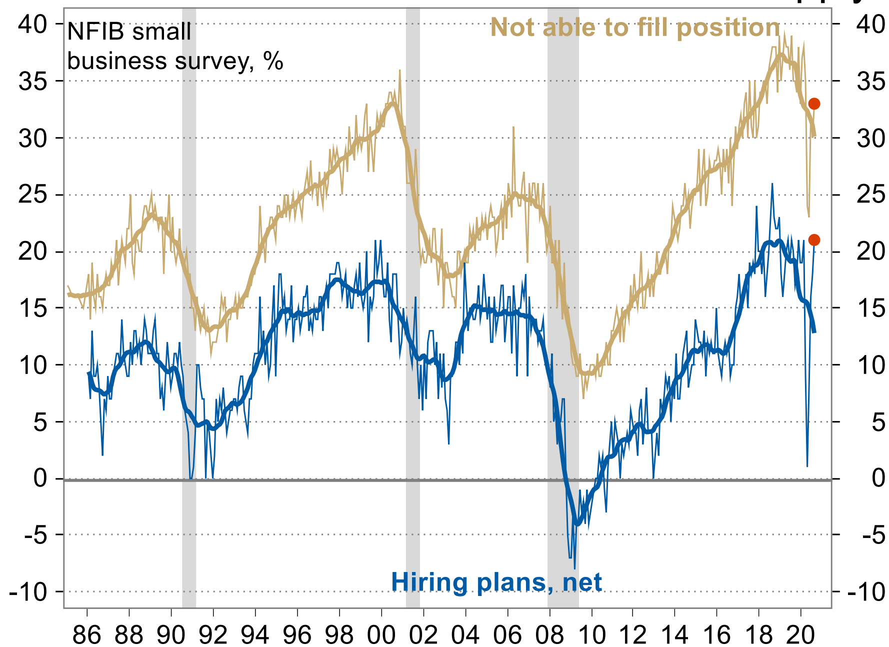


- The quarterly employment cost index is far more relevant for assessing the underlying cost level inflation

Small businesses are not able to fill positions! And many are planning to hire

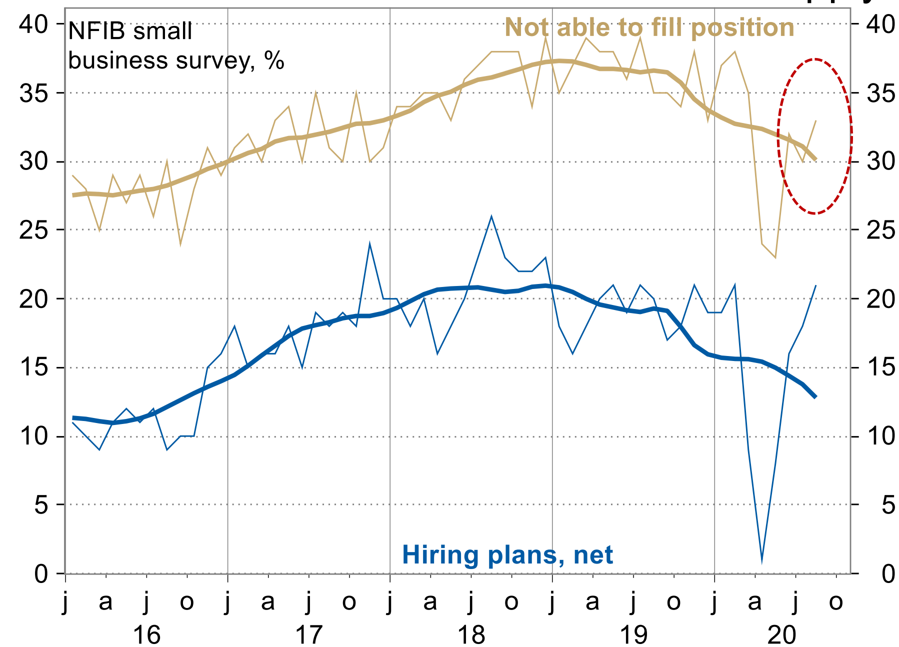
It’s hard to calibrate the hiring plans, as so many companies have cut their workforce lately

USA Small businesses labour demand/supply



SB1 Markets/Macrobond

USA Small businesses labour demand/supply



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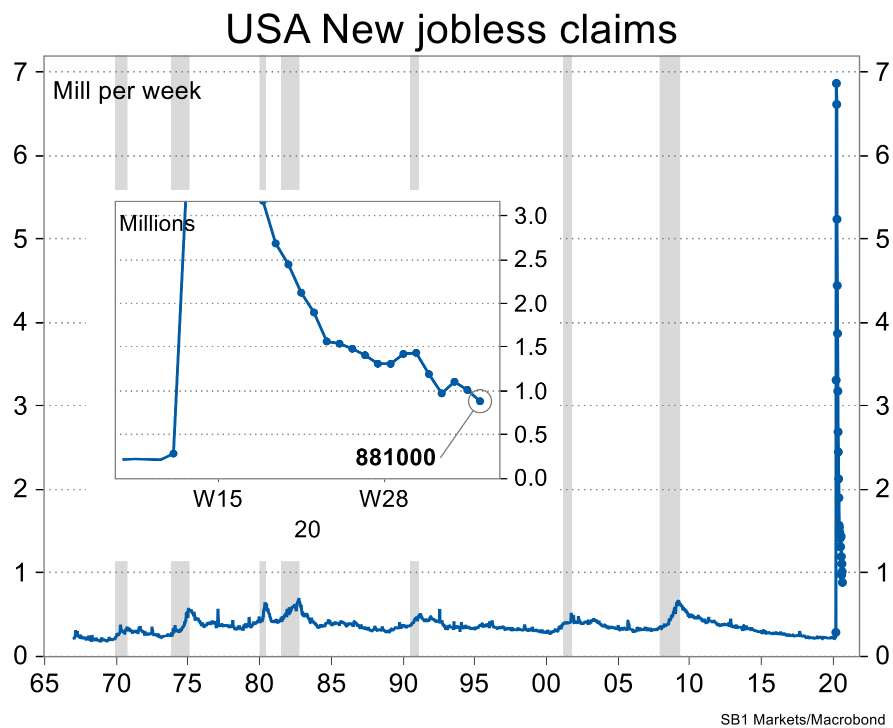
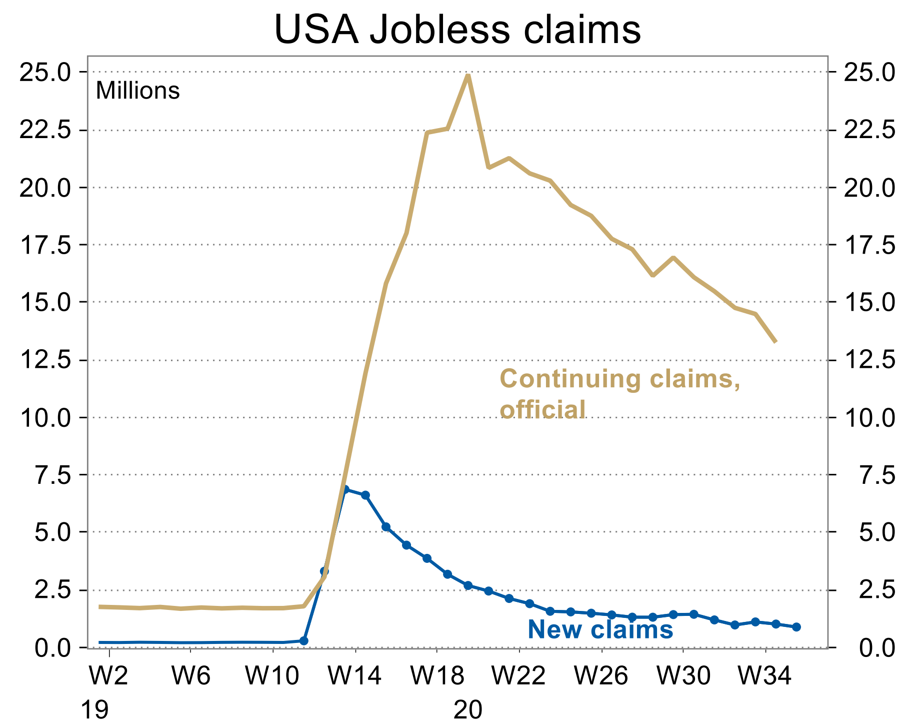
- However, it is remarkable that so many companies are reporting that it is still quite difficult to fill vacant positions given the high unemployment level. May signal serious mis-matches at the labour market.
  - » In the Fed August Beige Book, matters such as day care availability, as well as much higher jobless benefits than before, were cited as reasons for the rising difficulties attracting labour. If so, a Covid-19 impact, not a signal of the real underlying slack at the labour market

SpareBank 1 MARKETS

Fewer new jobless claims last week – but 0.9 mill are still many

The inflow of new claims is sliding down and slowed faster than expected last week



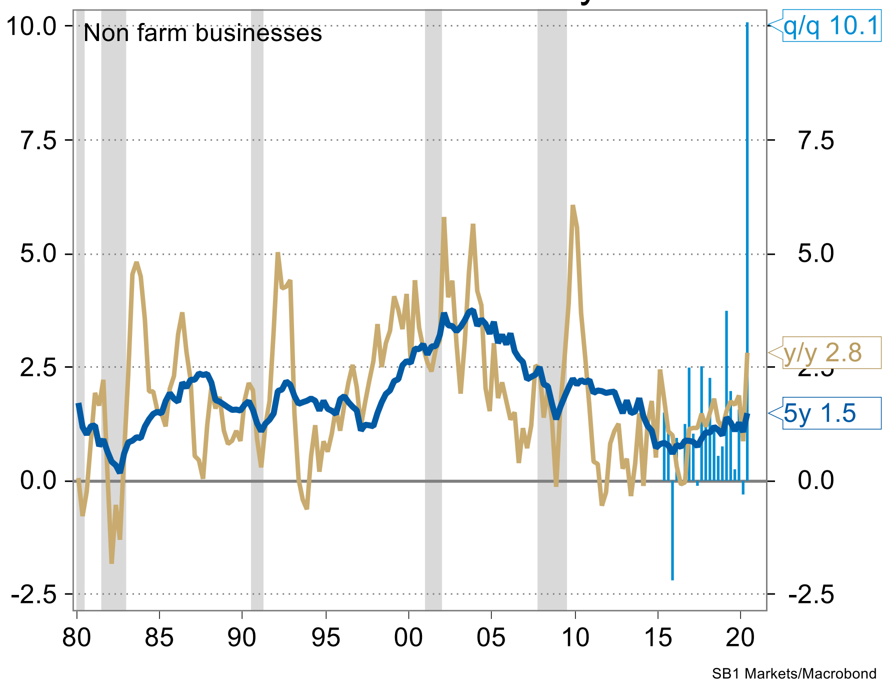


- The inflow is abating, however, it equals 0.6 % of the labour force entering the labour market offices as newly unemployed each week! The number much higher than during any earlier USA recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 13 mill. from 25 mill. – still 8% of the labour force is on the dole

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

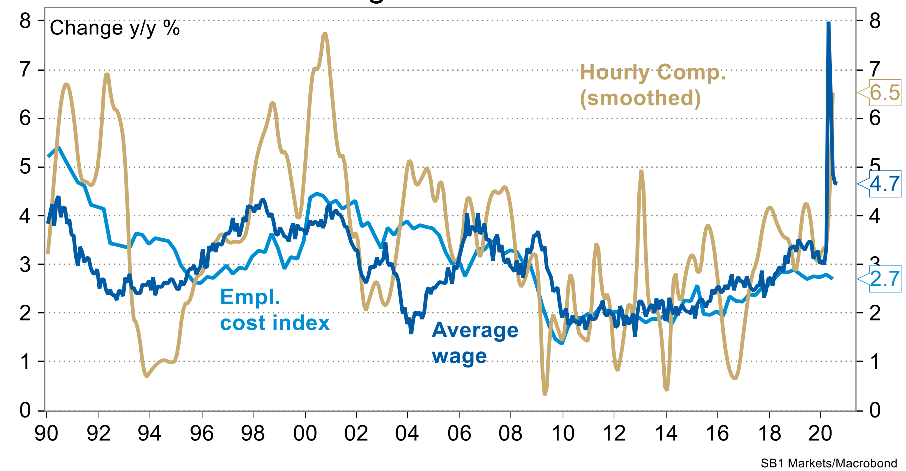
The revised data did not alter the main picture: It's close to meaningless to analyse the Q2 data ☺

USA Productivity

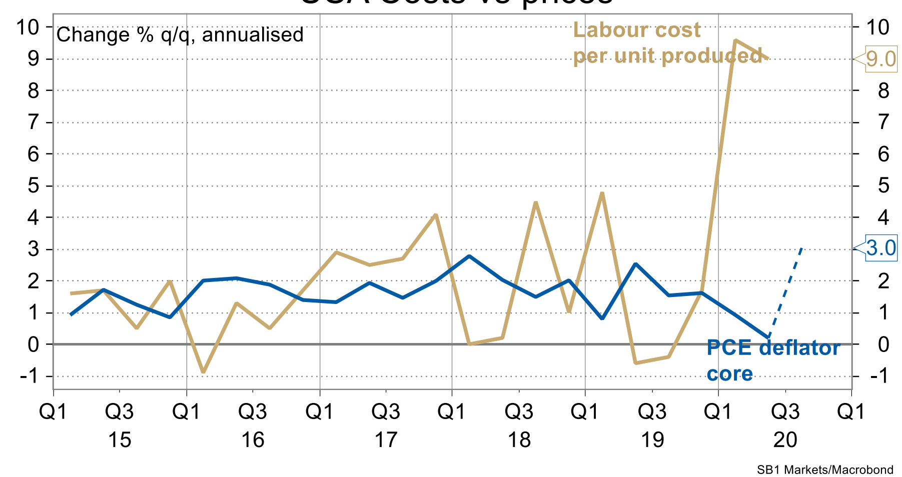


- Output fell 37% - hours worked -43% = Productivity +10.3%
- Hourly compensation +20% - productivity 10.3% = Unit labour cost +9%
- Well, these Q2, annualised growth rates are rather wild. The y/y rates are more 'sensible':
  - » Output -11% - hours worked -14% = productivity +2.8%
  - » Hourly compensation +8% - productivity 2.8% = Unit labour cost +4.9%
- Bottom line: Cost have increased far more than prices, profits are squeezed – and would have collapsed in Q2 if not for the 5% of GDP corporate subsidy program…

Wages/labour cost

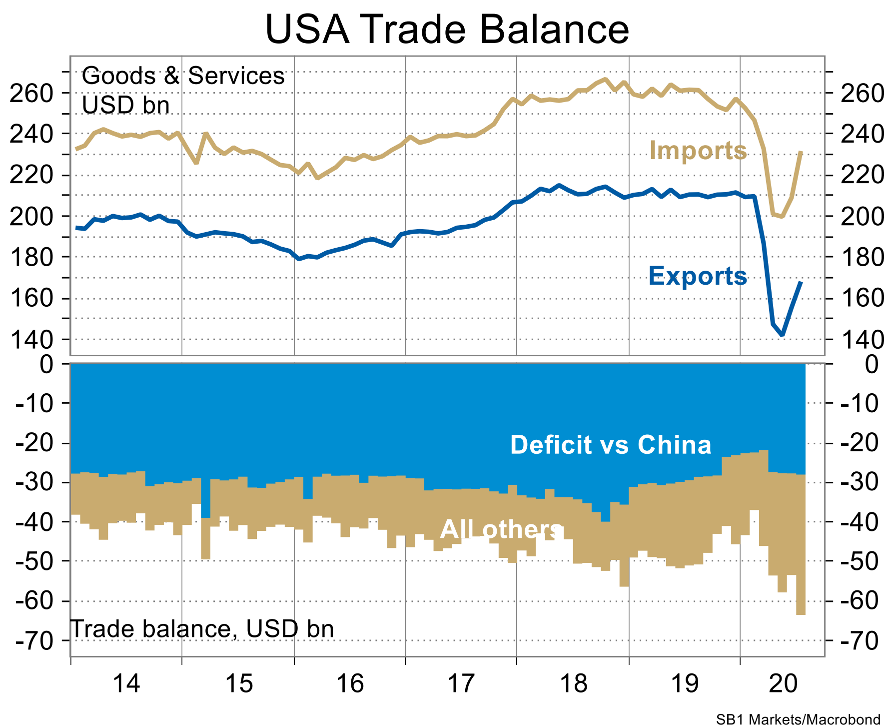


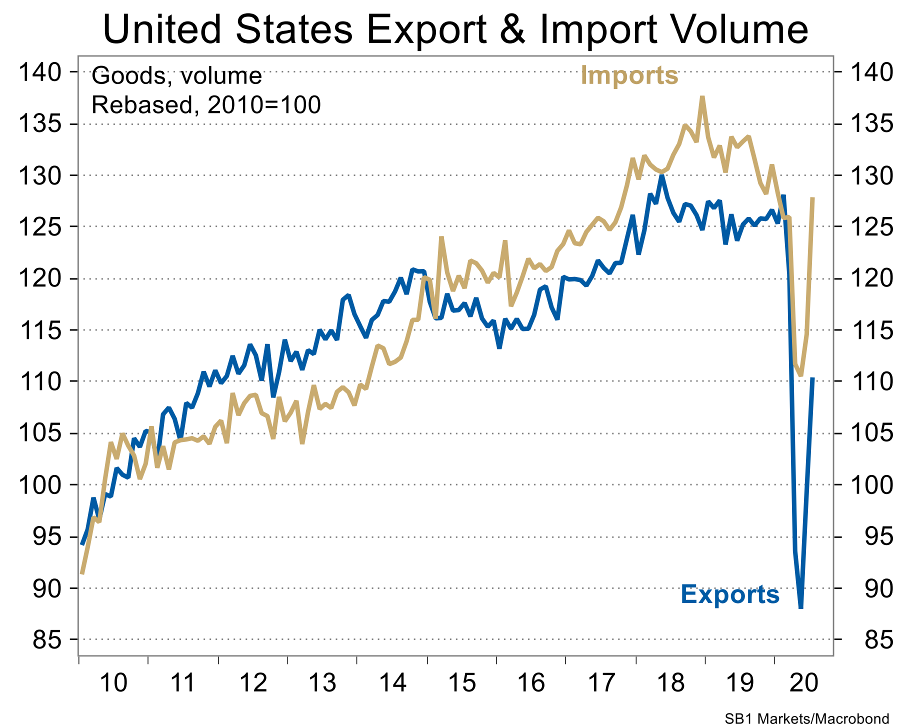
USA Costs vs prices



Widest trade deficit since 2008 as exports have been hit hard by corona

Import volumes are back at the February level, exports still 13% below

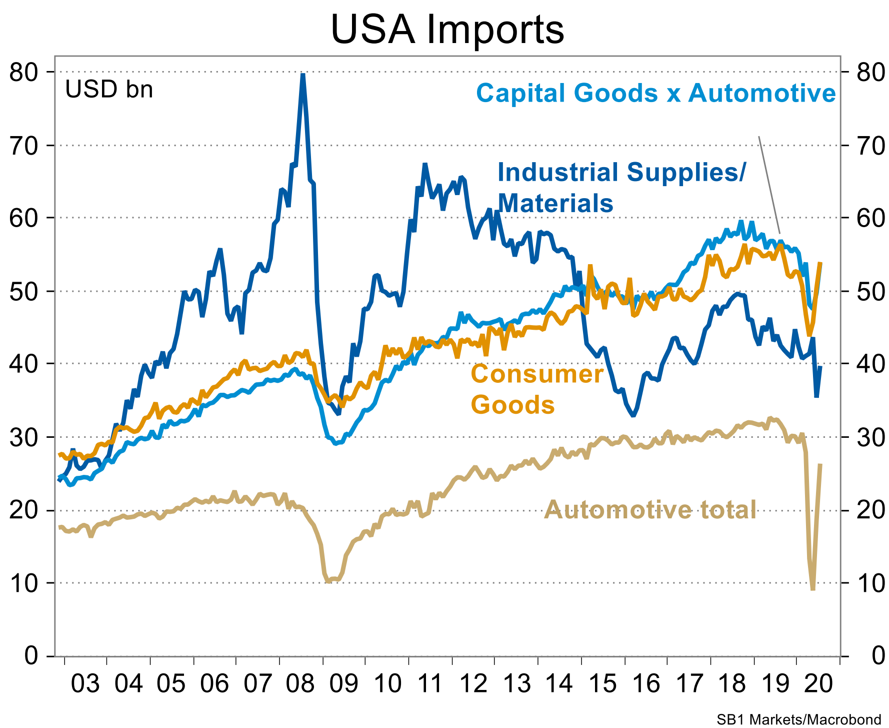


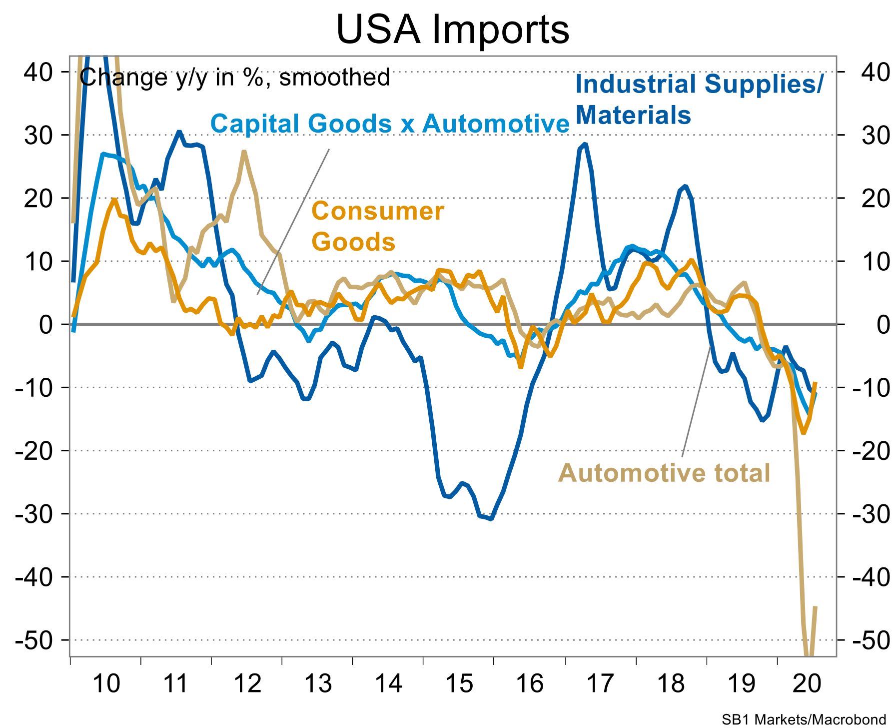


- The overall trade deficit of goods & services rose to 64 bn in July, up from 37 bn in February
  - » Both imports and exports increased rapidly in June and July. During the worst months of the Covid crisis, in Mar-May, exports fell more than imports
  - » We expect exports to continue to recover. Unless exports are ramped up substantially, the trade deficit will subtract from Q3 growth (which will anyway note a substantial lift)

Imports of autos and industrial materials not yet recovered

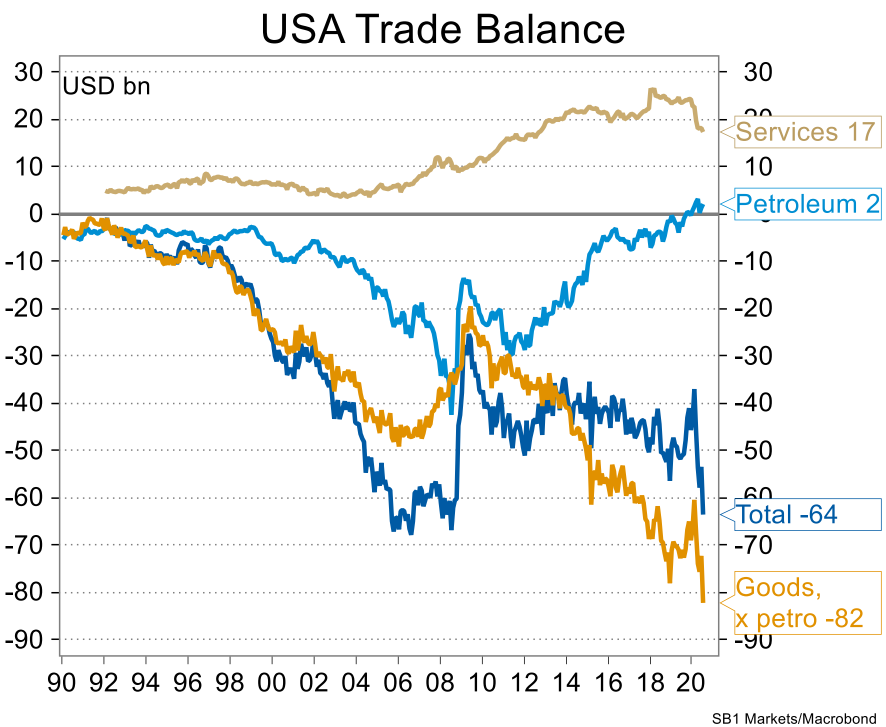
Most sectors were hit, the auto industry more than others

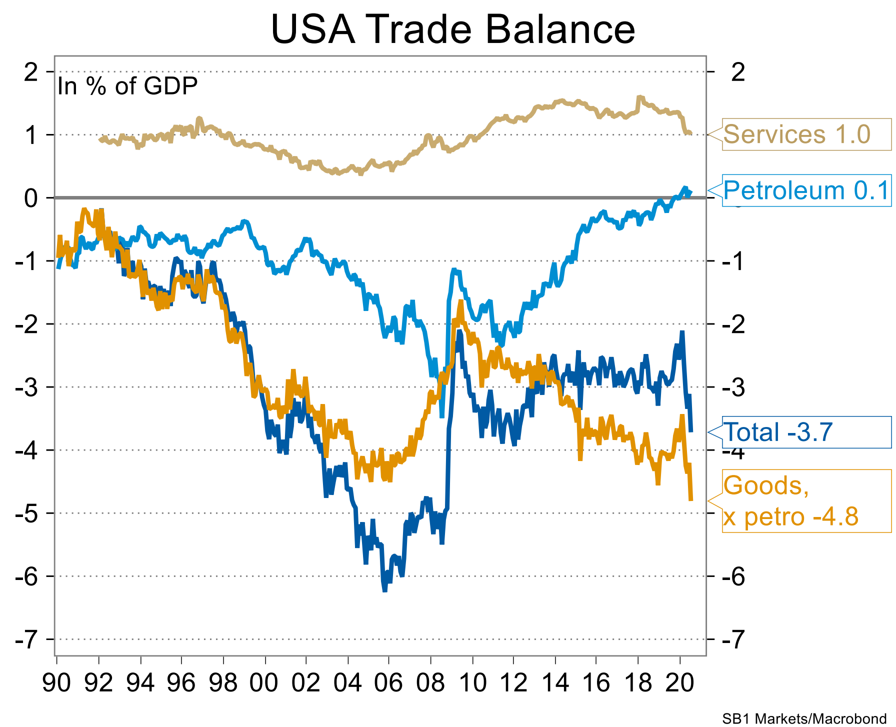




US is no longer running a deficit in petroleum; but record high for other goods

The goods deficit ex petroleum has widened to 4.8% of GDP this spring/summer, from 3.4%

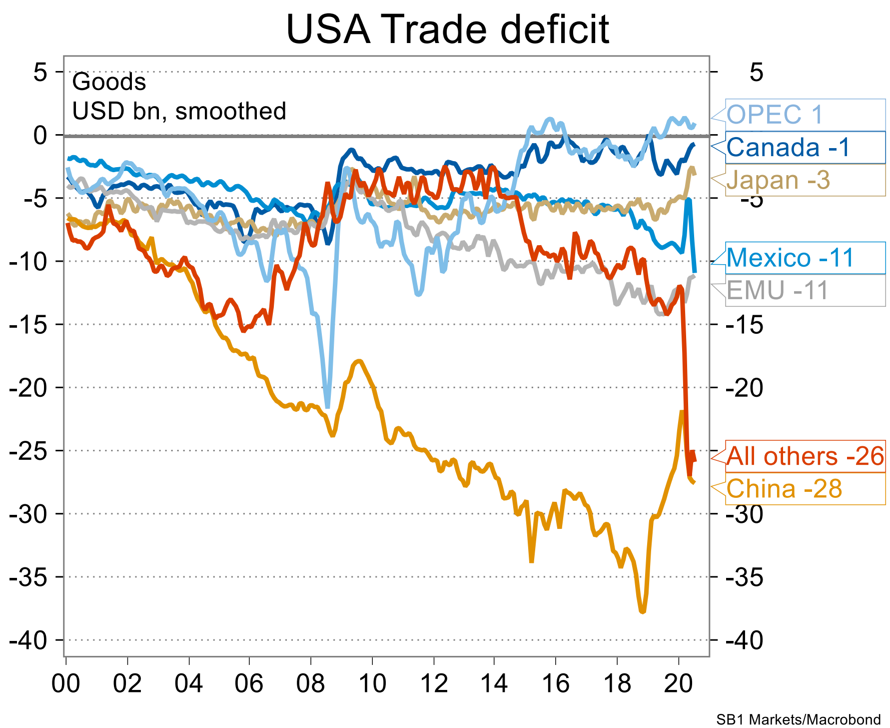


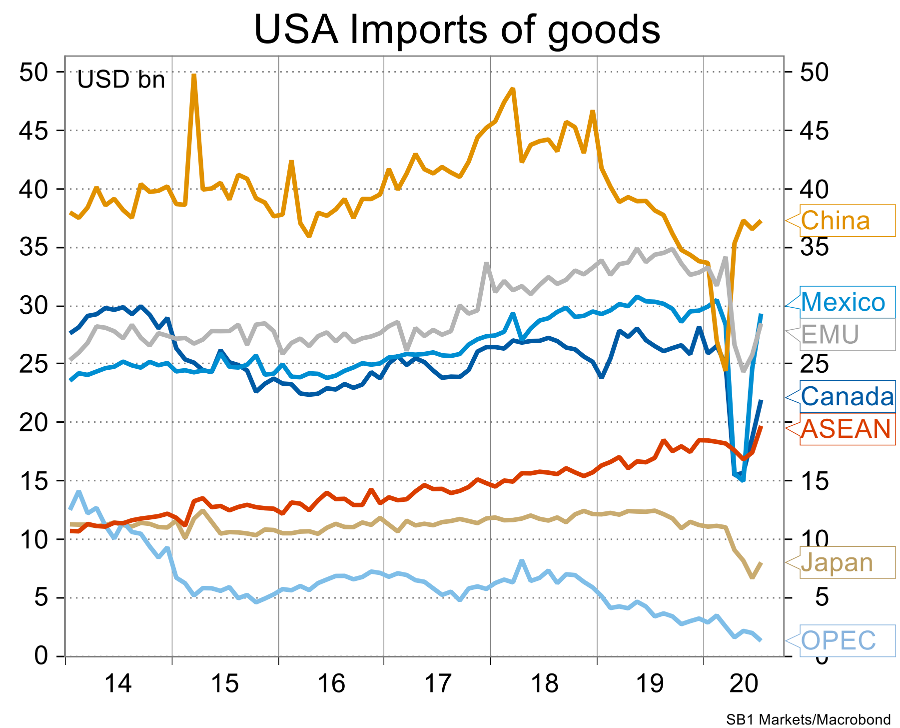


- The goods x petro products deficit dropped to ATL at USD -82 bn in July, or 4.8% of GDP (ATL too). Before the corona virus hit, the goods trade deficit was narrowing before corona
- The petroleum trade deficit has turned into a surplus this year, now +2 bn from -30 bn/m in 2012
- The US runs surplus in services at USD 17 bn, equalling 1% of GDP, trending down

Huge disruptions, both on the supply and demand side

The deficit to China is almost back at the level from Dec 19, before the pandemic



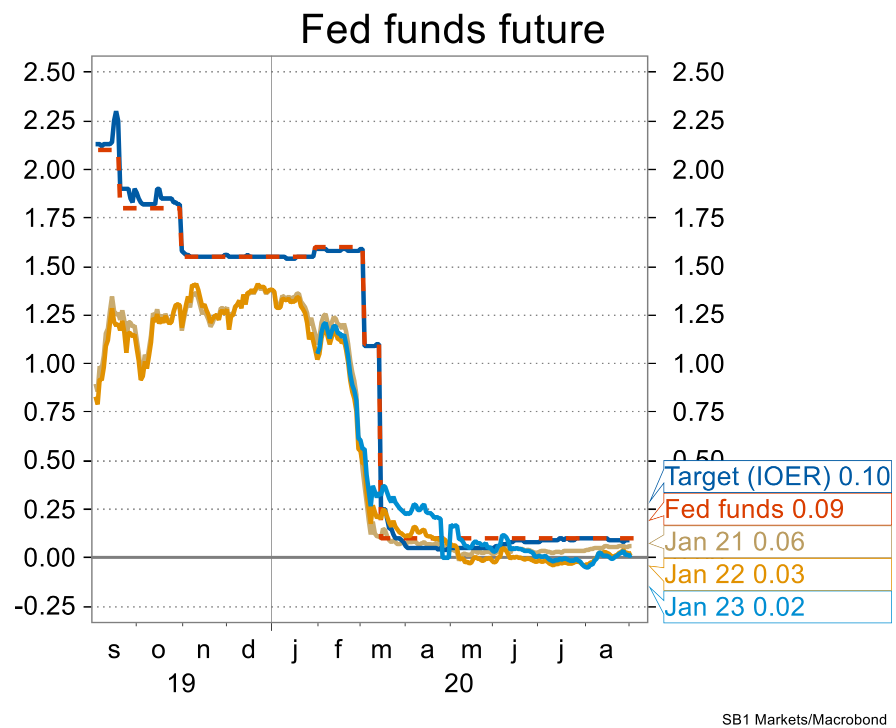


- Imports from China will probably be under pressure given the escalation of all sorts of wars between the US and China

Beige book: Economic activity slowly on the way up

The Beige reports a modest recovery but slower employment growth in some Districts

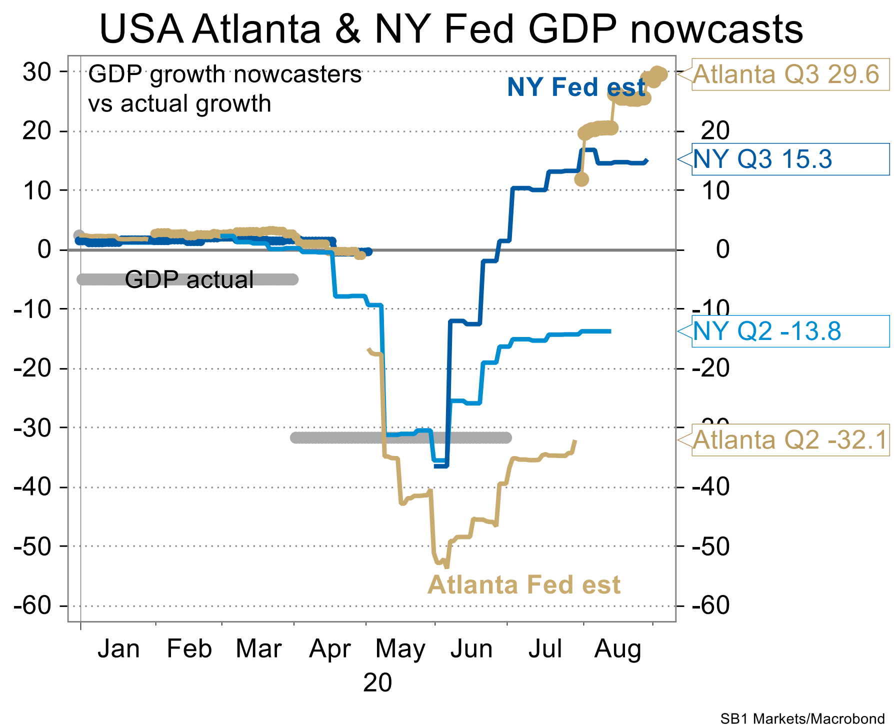
- In sum, the Fed's summary of economic activity among the 12 Districts noted a modest pickup in August vs July. Businesses highlighted continued uncertainties and volatility related to Covid-19
- The Districts reported modest gains in activity, still substantially lower levels than before corona
- Consumer spending continued to gain pace, boosted by auto sales and retail. Some improvements in tourism
- Manufacturing output is reported to be rising and businesses are ramping up hiring
- Strong housing market, residential sales reported notably higher. Commercial construction still weak
- Employment continued to pick up, however, several sectors reported a slowdown as more furloughed were laid off permanently. Wages were mostly flat
- **The Federal reserve is expected to keep rates at zero for several years. The new, flexible price target allows rates to remain low for a longer period of time, even if actual inflation surpasses the long term target (of inflation has been below target for a while). The bank supports the market with unprecedented amounts of liquidity – which financial markets have embraced vigorously**

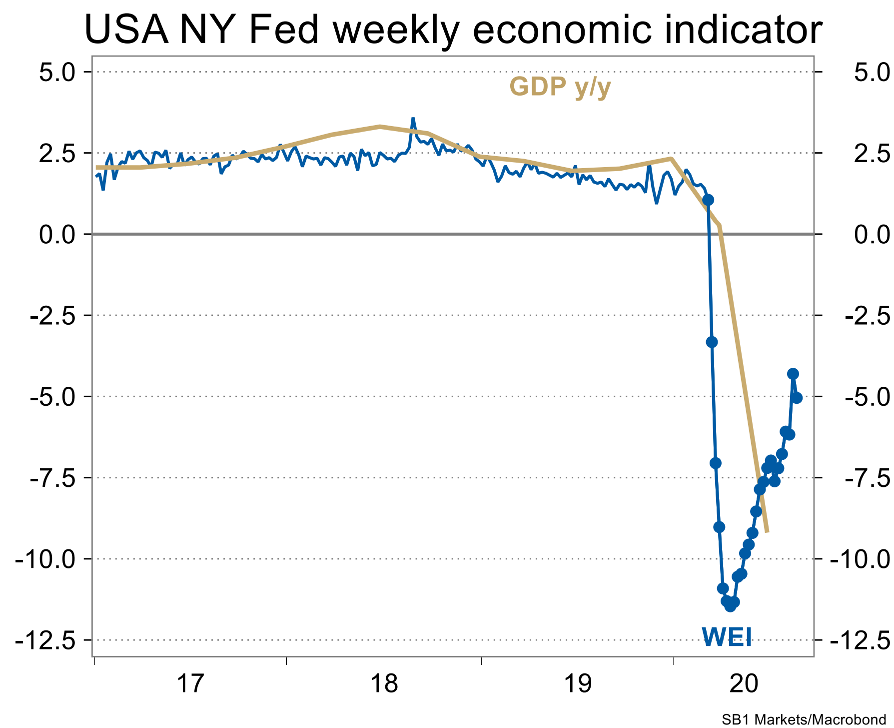


SpareBank 1 MARKETS

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

15 – 20% growth (4 – 7% not annualized) signaled, vs. the 31% (9.1 n.a) Q1 setback

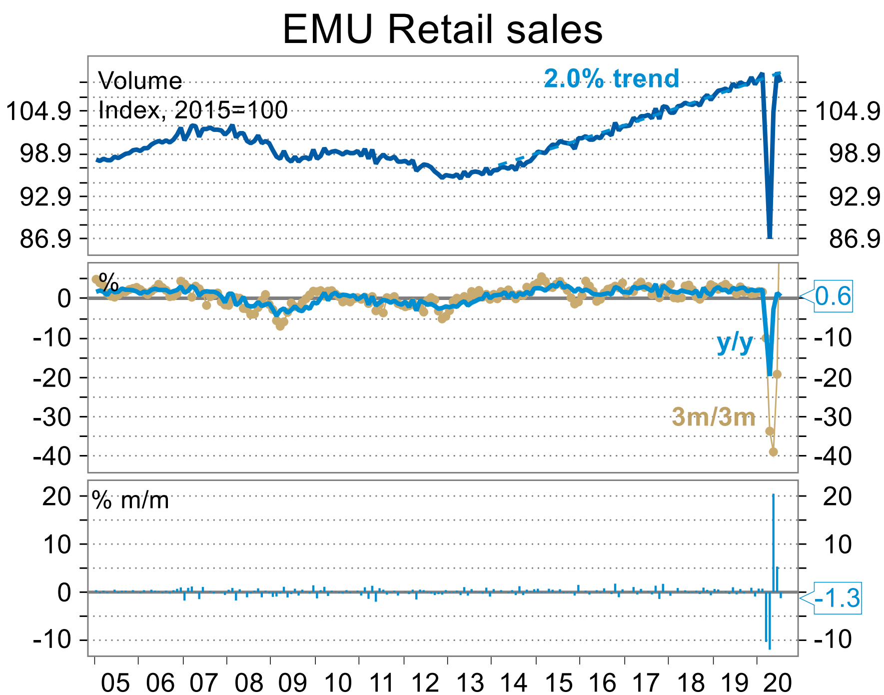




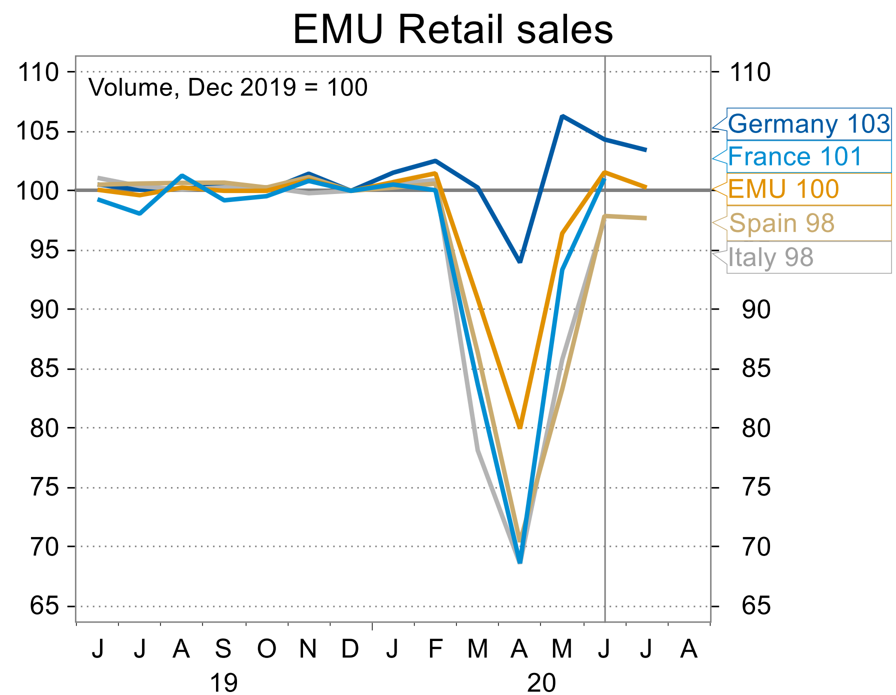
- We still do not have many Q3 data – and the nowcasters' forecast are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the nowcasters reports 15 – 20% growth in Q3 (annual rate)
  - » NY Fed's weekly model signal a 6.5% decline y/y so far in Q3, equalling a 15% (less than 4% not annualised) growth pace q/q in Q3. We really hope growth will turn out to be better than that
  - » We expect Q3 growth to be far stronger. Even without any further growth in consumption form the June level (which is rather unlikely), consumption alone will lift Q3 GDP by 18% (4%, not annualised), a more realistic growth contribution is 28% (6%). Business investments probably rose sharply too
- GDP fell 31.7% (annualised, 9.1% not annualised) in Q2, spot on Atlanta Fed's model estimate. NY Fed's model reported a 13.8% (annualised) decline – a total mis (NY Fed's weekly indicator turned out to be much better)

Retail sales fell back in July but remains at pre corona level

Retail sales have closed the corona gap, as in many other countries. Spain, Italy still on the weak side



SB1 Markets/Macrobond

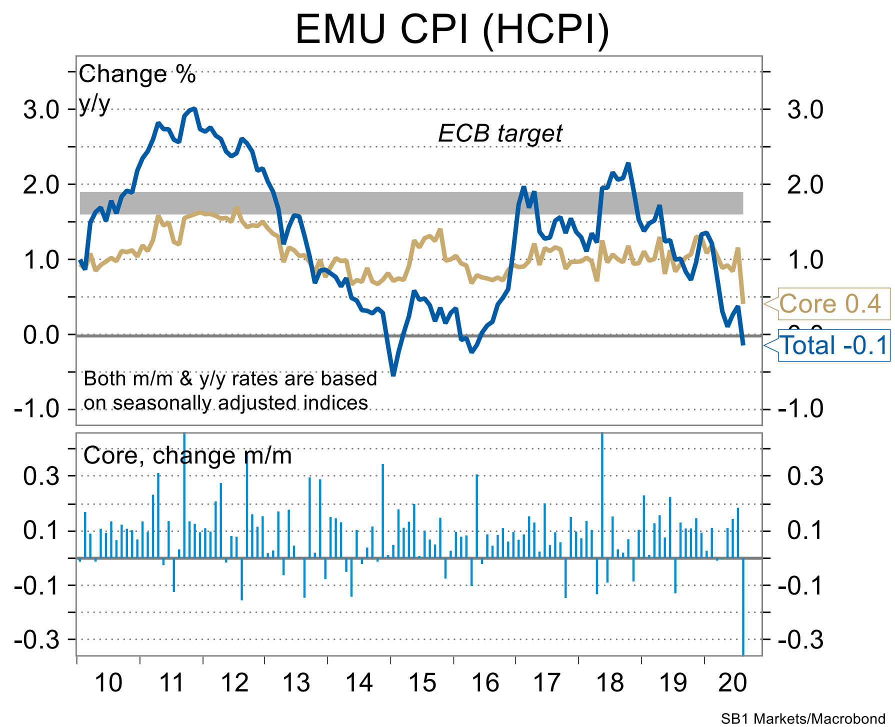


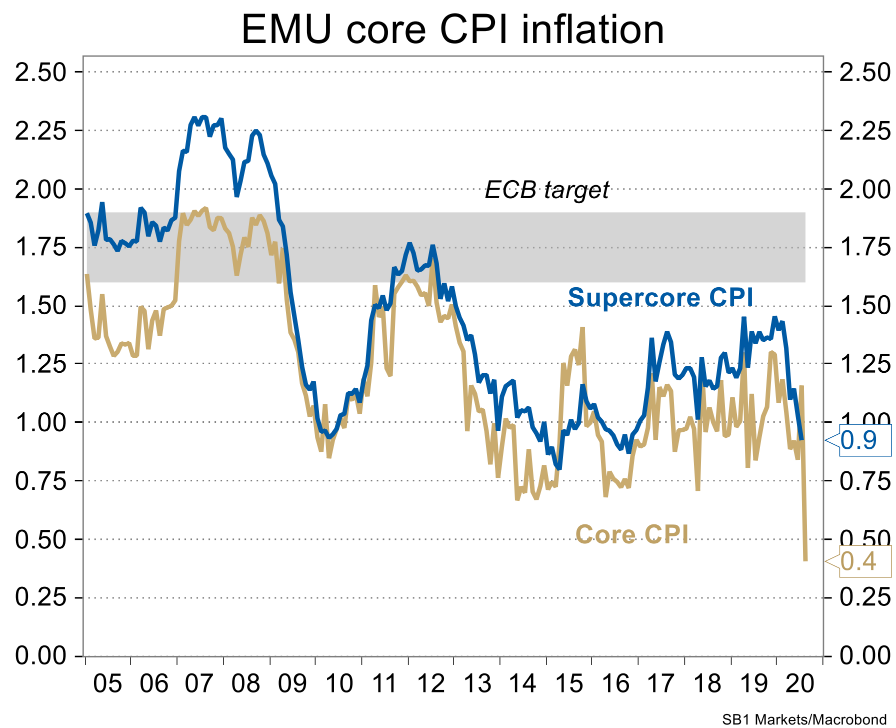
SB1 Markets/Macrobond

- Sales fell by 1.3% m/m in July, expected up 1.2%, following the strong comeback in May/June. Sales are now marginally below the level from February (but equal to Dec 19), the gap was closed the prior month
- Sales in Germany fell by 0.9% but are still 3% above the Dec 2019 level, France 1% above (in June)
  - » France has not yet reported retail sales but consumption of goods rose moderately
  - » Spain and Italy is 2% below, Italy has not reported July data. Much less tourism than normal during the summer probably took its toll on sales in Spain
- How much is just temporary pent up demand – and how much is normalisation? Probably a mix of both, consumer confidence has recovered somewhat but remains soft and we do not yet have much data on household income

Core inflation slowed more than expected in August

Core inflation dropped 0.8 pp to 0.4%, expected 0.9%. Total inflation marginally negative

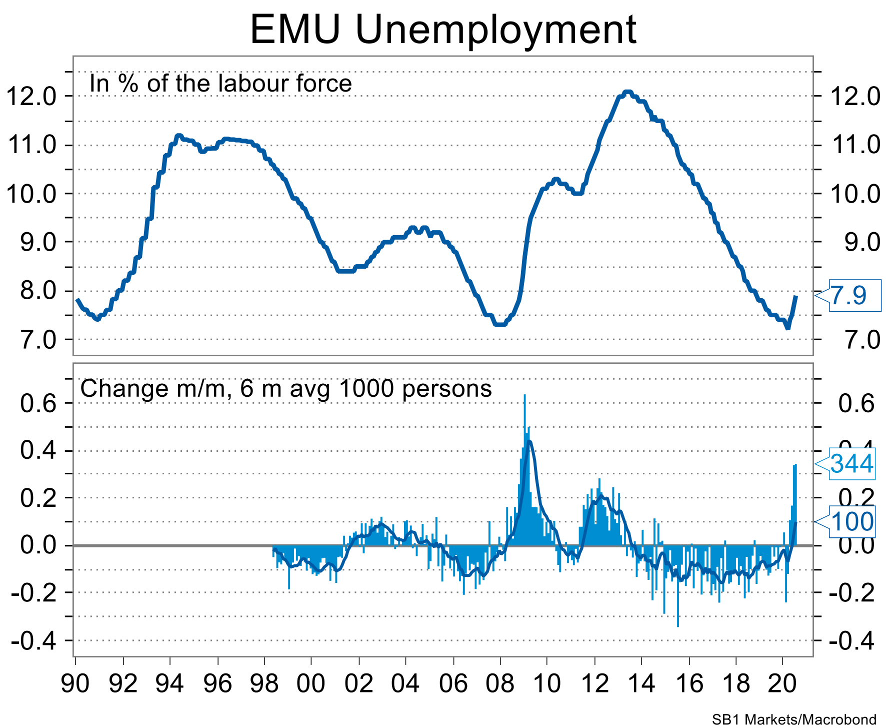


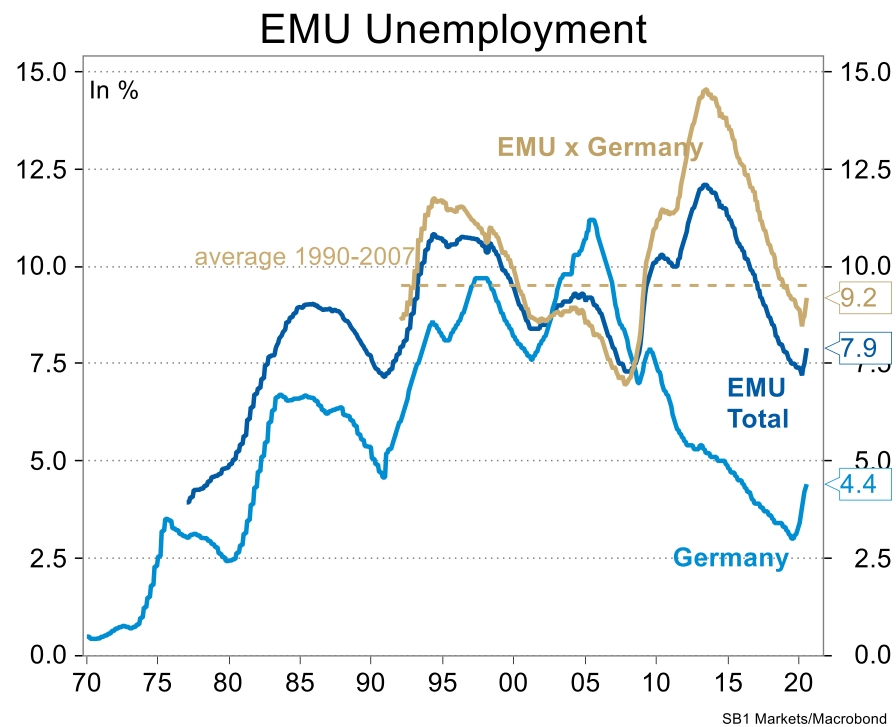


- Energy prices have taken the total CPI down. Good news for European households
- The annual growth in the supercore CPI, which is weighted so that the correlation to indicators of economic slack is optimized, has fallen to 0.9%
- In sum: Core inflation, however measured, is far lower than ECB's target (below, but close to 2%)

Unemployment ticks up – but still not reflecting 'real' labour market conditions

The unemployment rate inched down to 7.9% in July but not all furloughed are included





- In Europe, companies are partly paid to take care of their workers during the lockdown – and those who are furloughed are not counted as unemployed the first 3 months in the labour force surveys (like in the Norwegian 'AKU')
- Unemployment rose by 344' persons in July and by 680' in June and July, still less dramatic than during the financial crisis. The unemployment rate will probably continue to rise as more furloughed are included. Moreover, the government employment programmes are masking much weaker underlying labour market conditions
- We expect more impacts of the corona setback to become more dramatic the coming months

Orders rose moderately in August, do not signal a take off in production

New manufacturing orders up 3% m/m, still 7% below par

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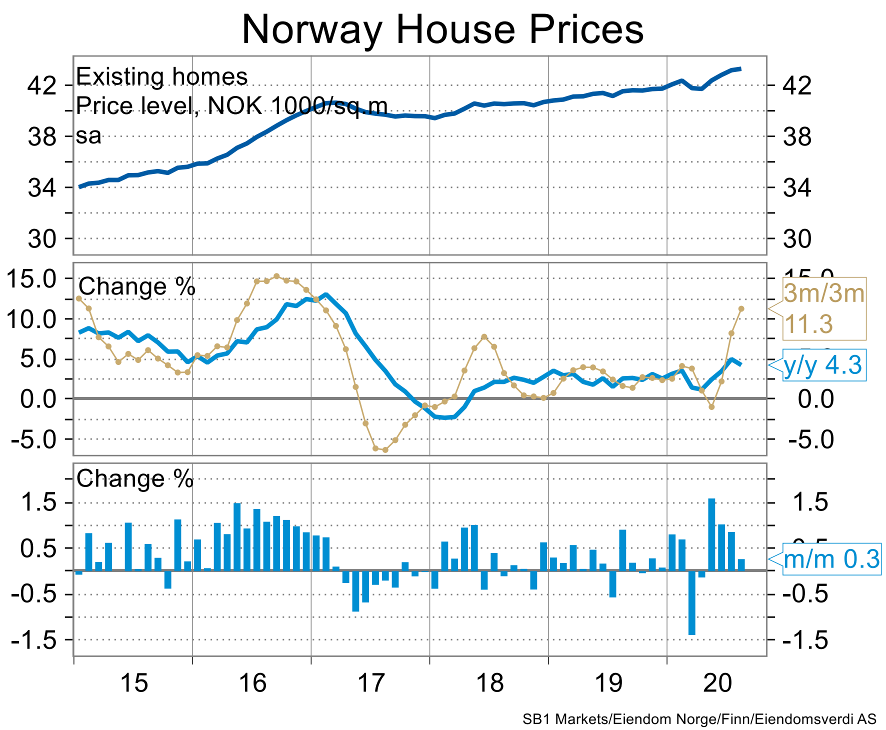
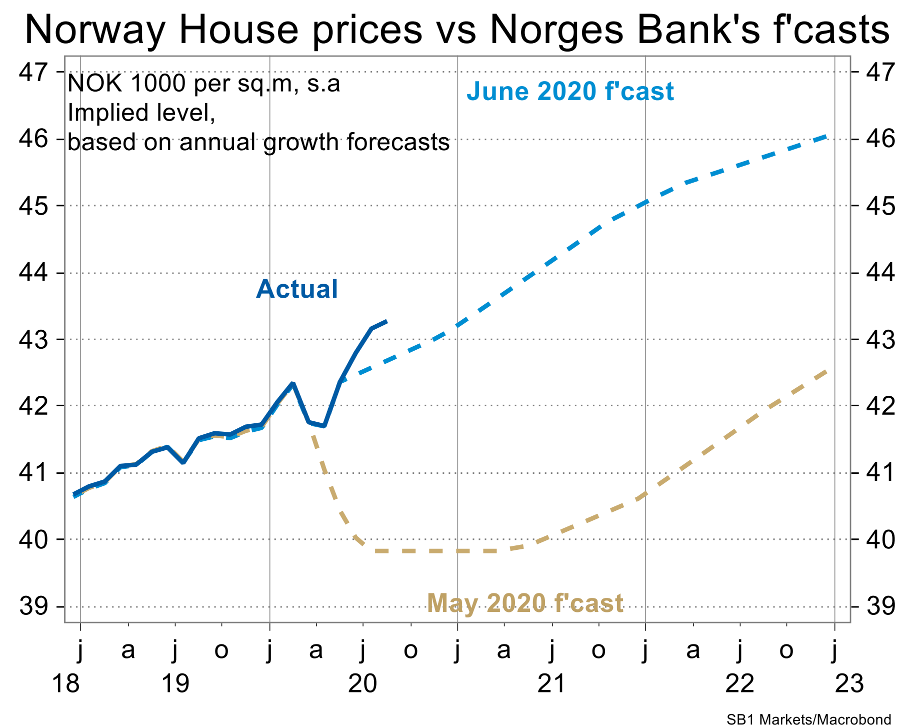
House prices continued to climb in August, 2% above the pre corona level

House price growth calmed to 0.3% m/m, after some wild months, level above NoBa's path

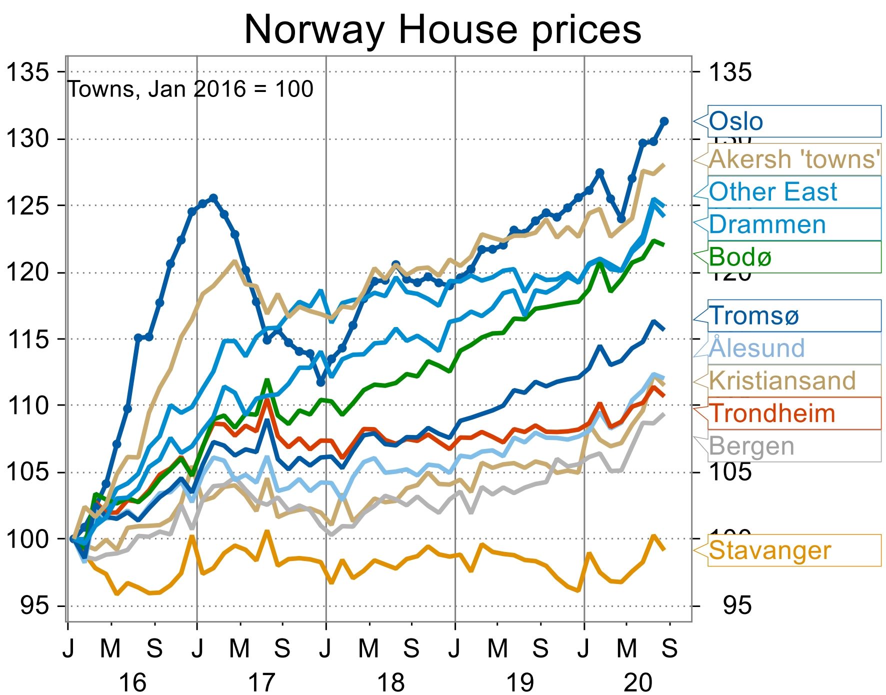




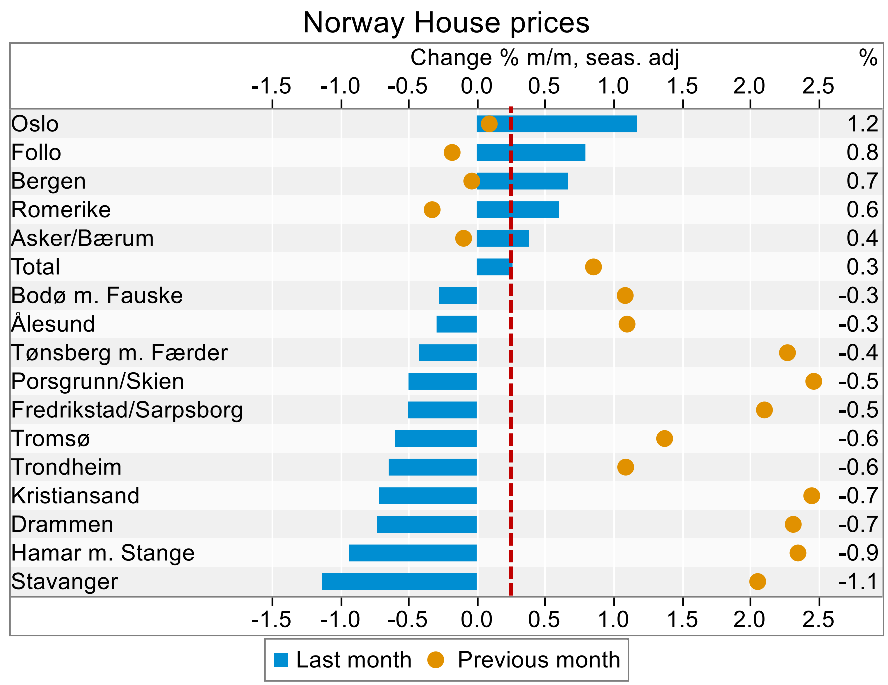
- House prices rose by 0.3% seasonally adjusted in August, following a take off (at 0.9-1.5%) in May-July. We expected 0.4%. Prices are more than 2% above the February level. Underlying growth at 11%, highest since 2016 and already more than 1% above NoBa's upward revised June forecast. A 1.2% cut in mortgage rates (to 1.8% in average in June, from 3% in Feb), has been more important than uncertainty and rising unemployment
  - » Prices were mixed among cities, Oslo up 1.2%, Stavanger down 1.1% Oslo, Asker/Bærum in the lead the past months
- The number of transactions slowed from the record high July, still well above pre corona levels. The inventory of unsold homes falls sharply
- **Should the steep price growth continue, Norges Bank will probably start hiking rates before late 22' (the market already expects 21')**

Prices are increasing everywhere, soaring in Oslo

A broad upturn: Prices are above the pre corona levels in all towns, Stavanger the least



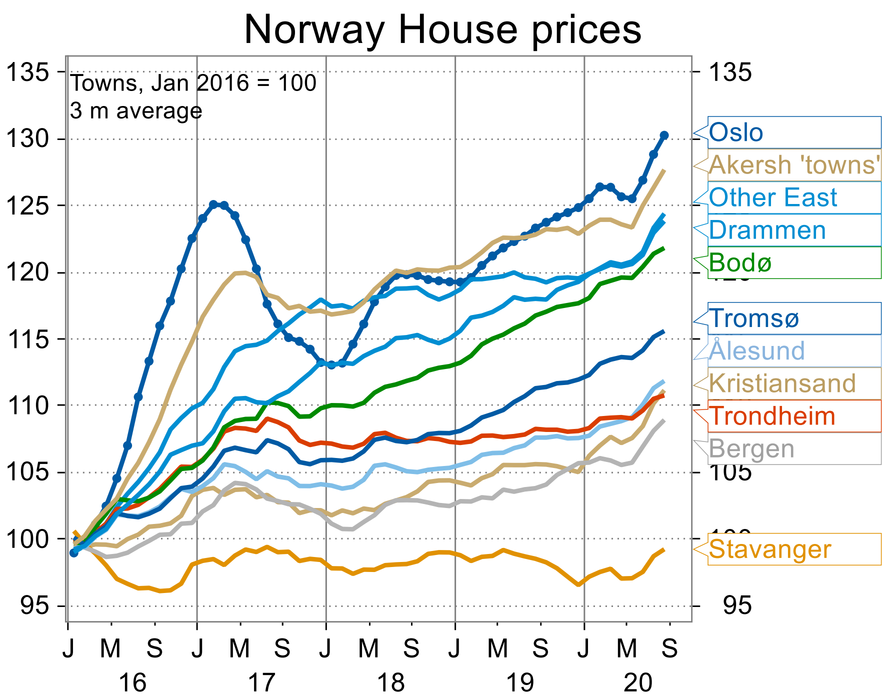
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

Recent months; measured 3m/m: All up, from a 7% pace to 16%!

Prices in Oslo fell the most in March/April – but has recovered sharply since then



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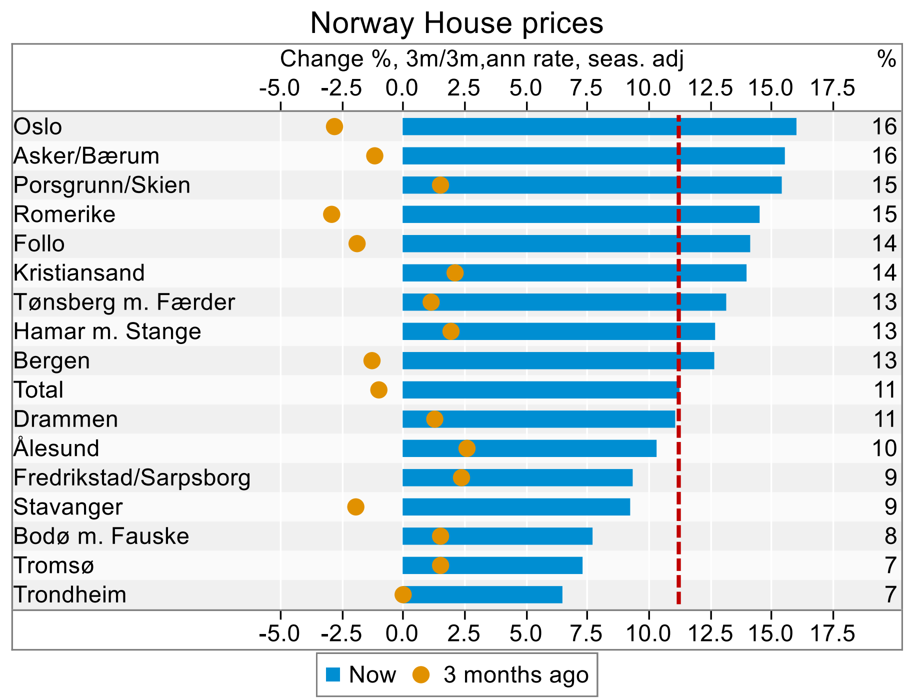
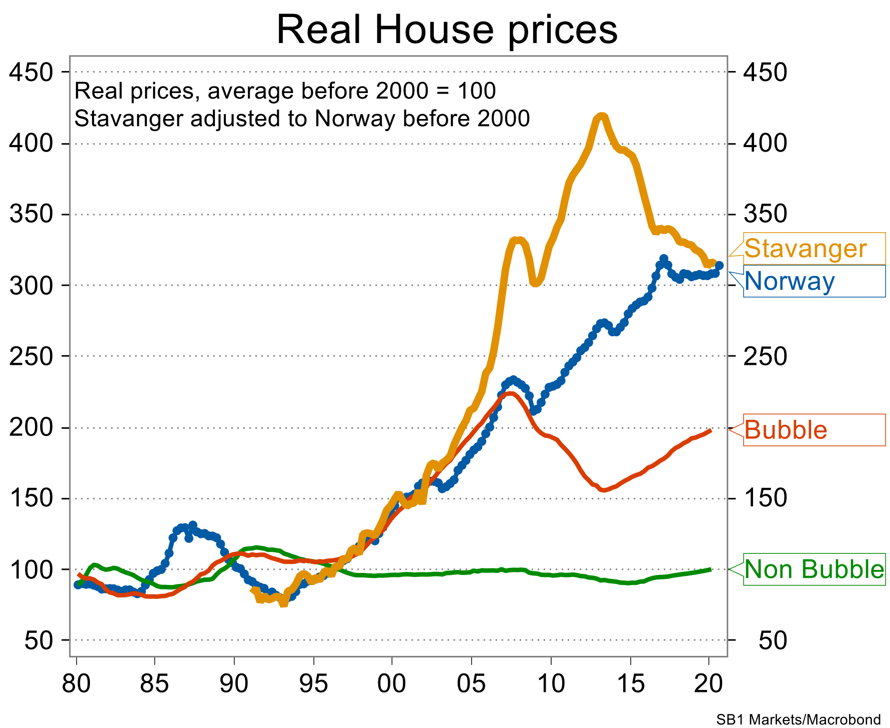


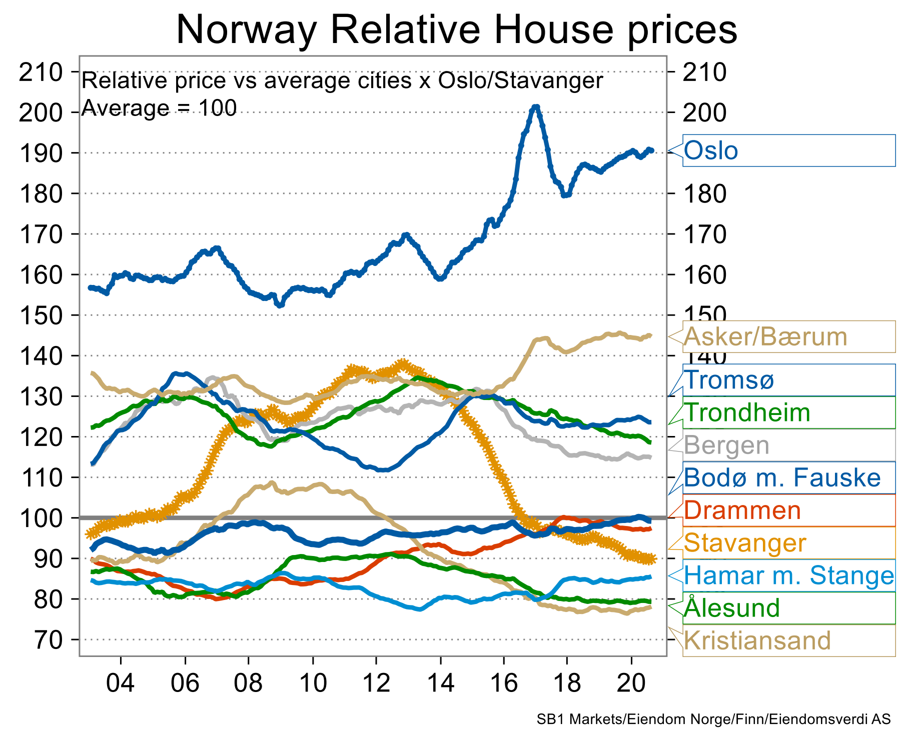
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

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

The Stavanger case: Could it happen elsewhere?

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



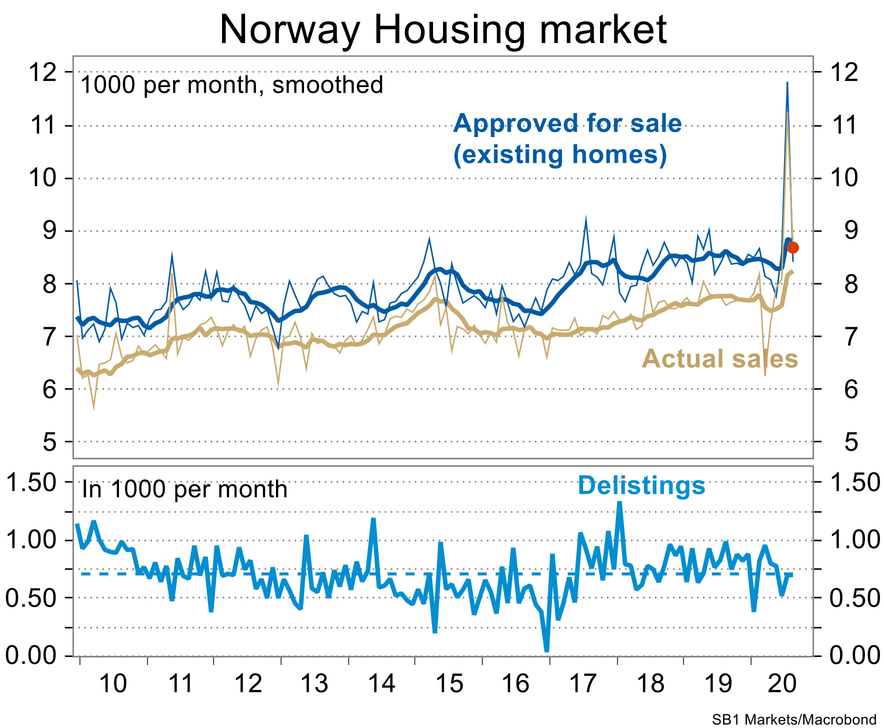


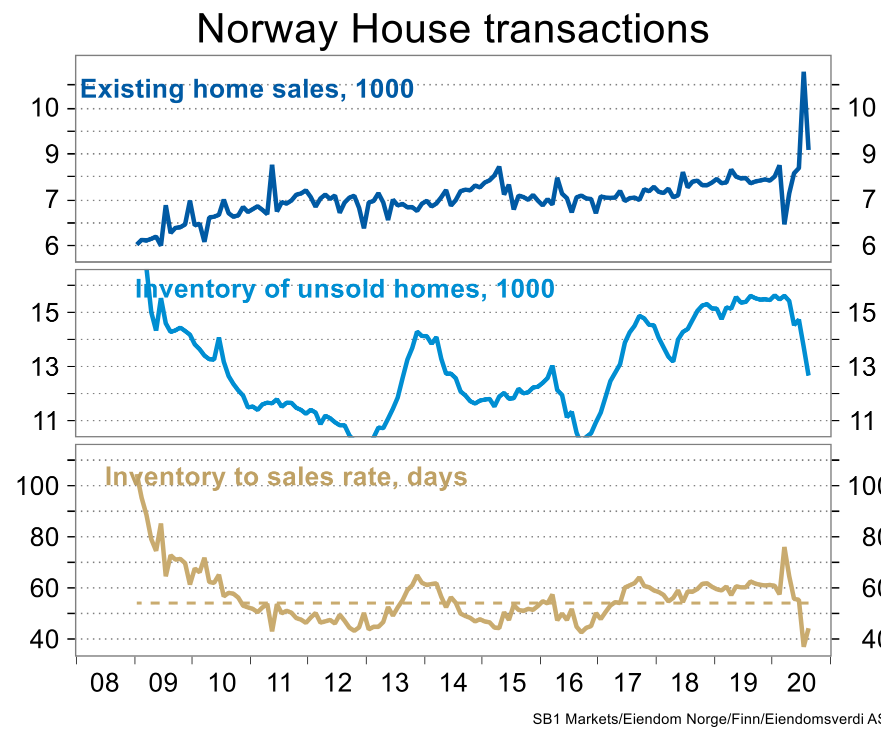
- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

SpareBank 1 MARKETS

Sales slowed from record high July, still more than 10% above pre corona level!

The inventory of unsold houses is shrinking fast as sales are booming

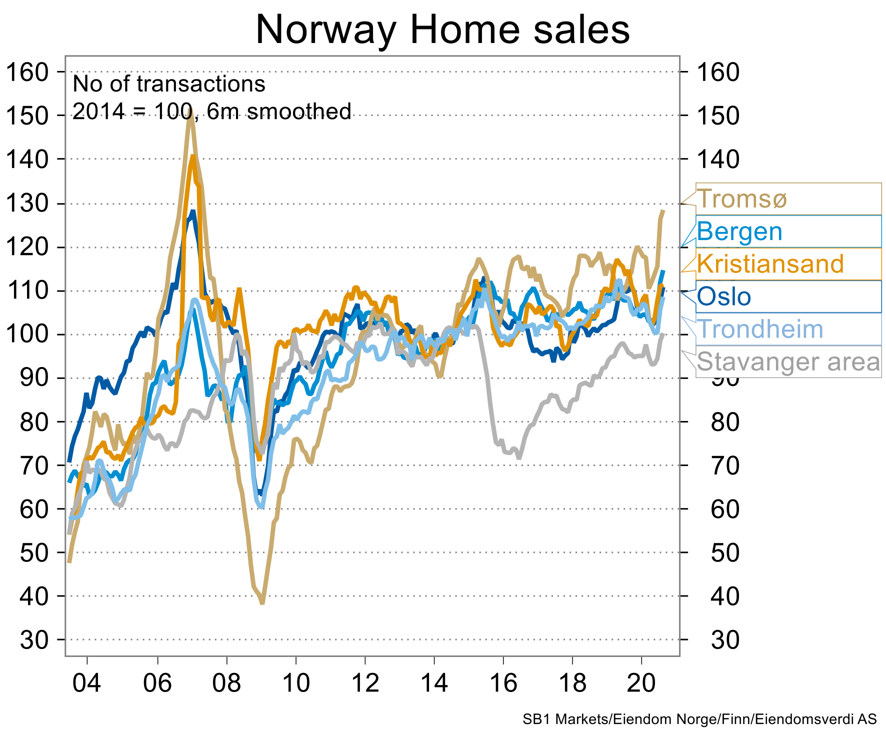


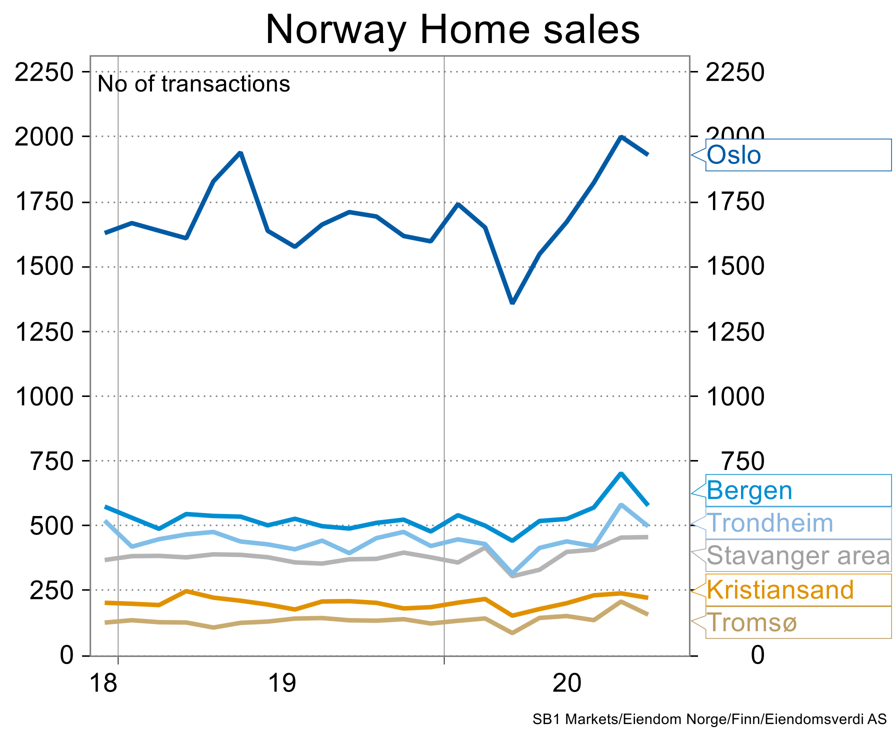


- **The number of transactions** came down in August from the highest level ever in July! The level is still far above normal
- The **supply of new existing homes** is back to the February level, after spiking in July
- **The number of delisting** is at a normal level
- The **inventory of unsold homes** fell sharply in August too, to the lowest level since early 2017– down 18% from before corona hit
- The **inventory/sales ratio** has contracted sharply too, is very low. The turnover time is now below 45 days vs an avg at 54 days

Transactions up everywhere recent months

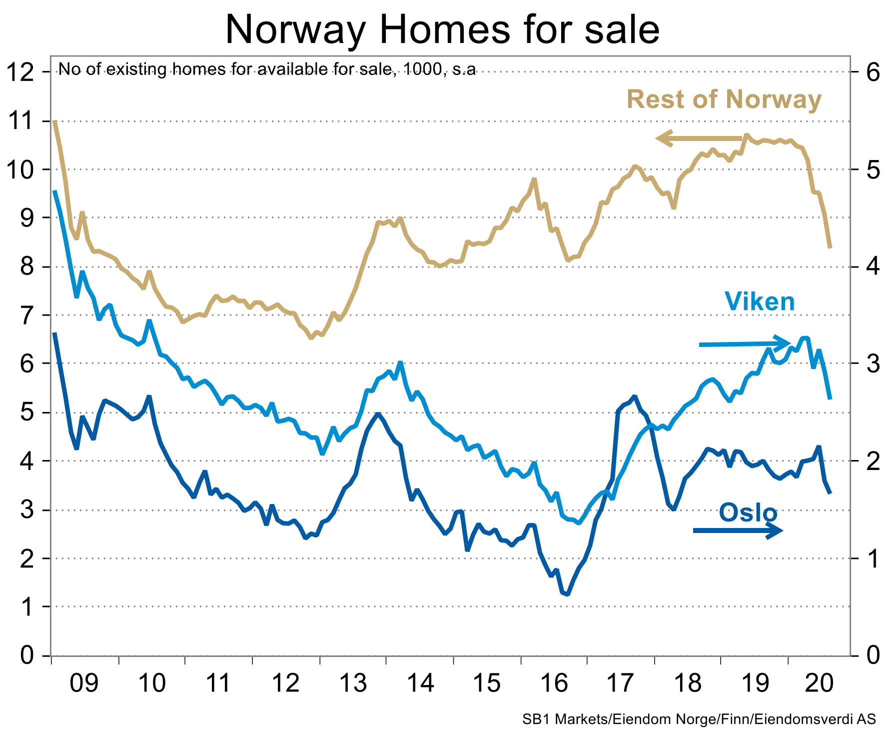
Tromsø more steeply than others, highest level since 2006

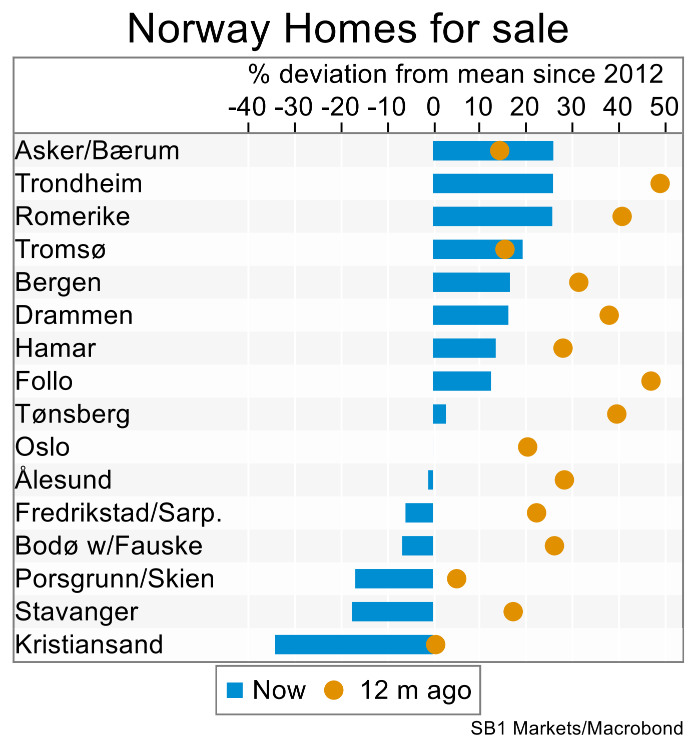




Fewer existing homes for sale almost everywhere

Inventories are still higher than ‘normal’ in many places, Viken at top

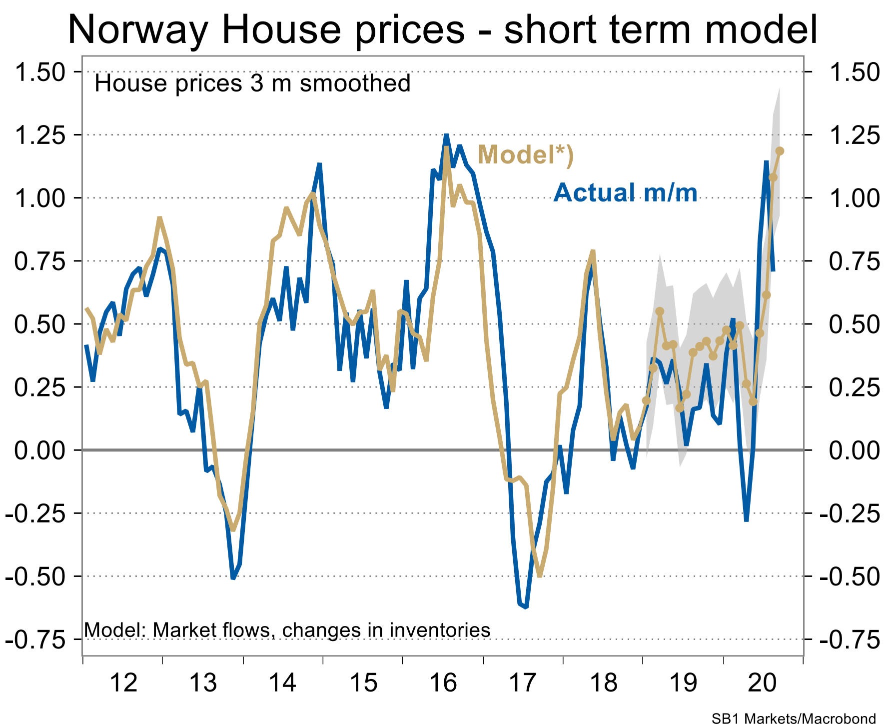




- In some towns, the inventory is still much higher than normal, like Trondheim and some cities around Oslo (while the inventory in Oslo is now at the average level since 2012
- In August, the inventory fell in most cities, like prior month

Short term market flows suggest a price acceleration like in 2016

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



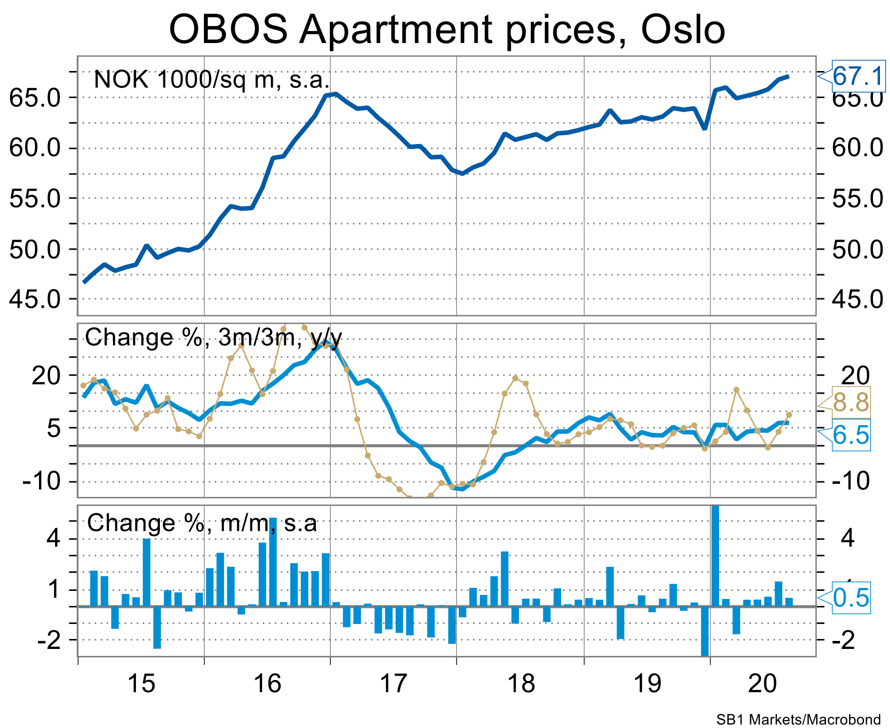
- The supply of new homes for sales and the inventory suggest rapid price growth the coming months, even faster than the past 3 months (avg)!
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

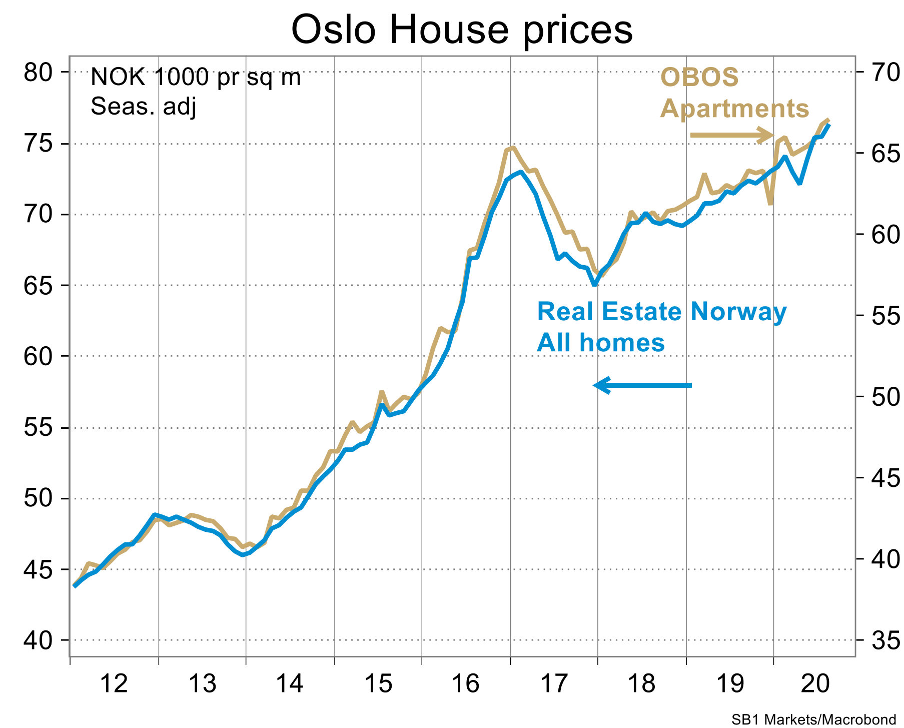
On the policy

- In late March, when the world was expected to fall apart, an easing of the **mortgage regulations** was announced as a temporary measure to support the housing market. The world didn't fall apart, at least not the Norwegian economy. Even so, in June the Ministry of Finance decided to prolong the easing through Q3. Given the recent development, we assume that ordinary regulations will be reintroduced from October
- Norges Bank cut in the **signal rate to zero** in order to support the Norwegian economy. The main channel is via the housing market, and even with rates at zero, the bank expected house prices to fall sharply in its May mini monetary policy report. In the June MPR, house prices were revised up by almost 10%. During the past three months, prices have climbed at an even faster pace than the Bank assumed. So what should NoBa signal now? That the signal rate not necessarily will stay at zero until Q4 2022, of course

Oslo OBOS prices confirm the price hike

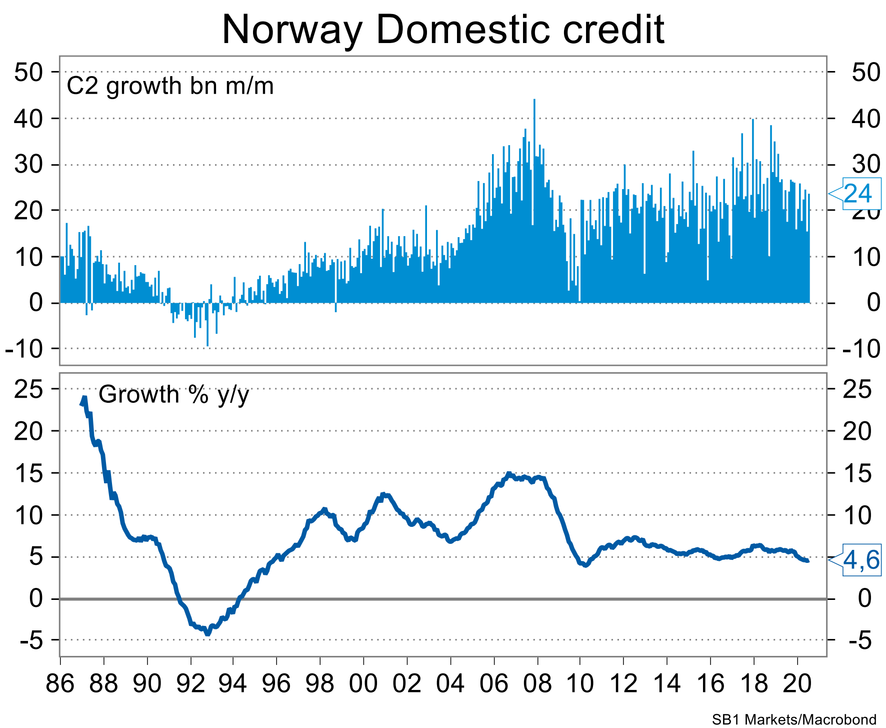
Co-op apartment prices up 0.5% in August (seasonally adjusted)

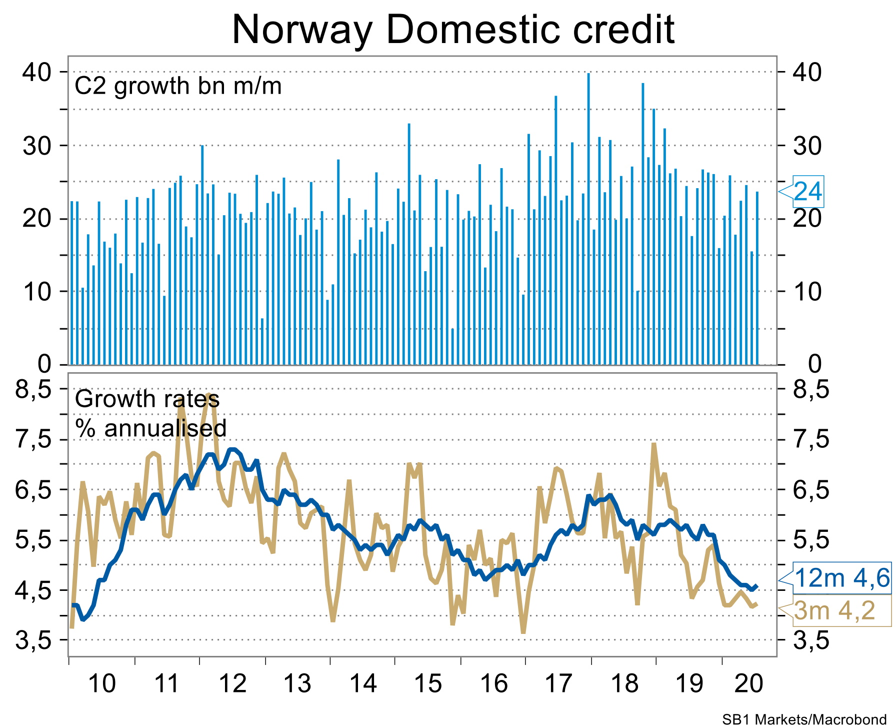




Overall credit growth has been trending down, households are picking up?

Domestic credit growth (C2) up 0.1 pp to 4.6% – the trend is still down

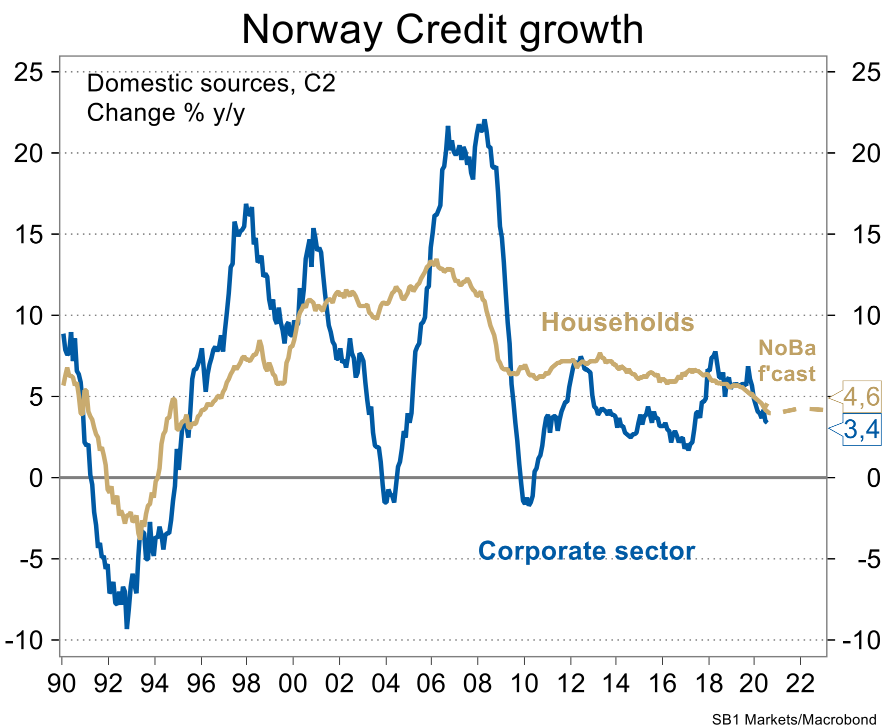


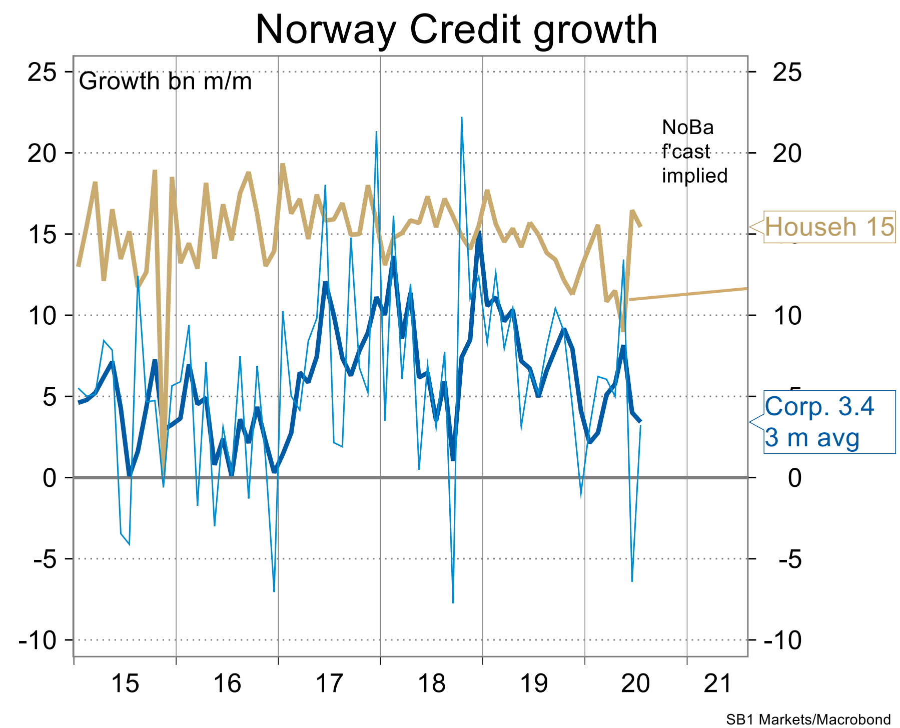


- **Total domestic debt** (C2) rose by NOK 24 bn m/m in July, up from 15 bn in June. The annual growth inched up to 4.6%, expected unchanged at 4.5%. Growth has been heading down since late 2019 (and from early 2018)
- **Household credit** continued to grow at a brisk pace in July, by 15 bn m/m. The annual rate edged up to 4.6%, from 4.4%. The monthly growth rates in June and July have been the highest in more than one year, which is not that surprising given the strong housing market. Over the past year, credit growth has fallen below income growth
- **Corporate credit growth** has been very volatile recent months, the annual rate fell to 4.3% in July. We expect a continued slowdown

Household credit appetite bouncing back, more to come?

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

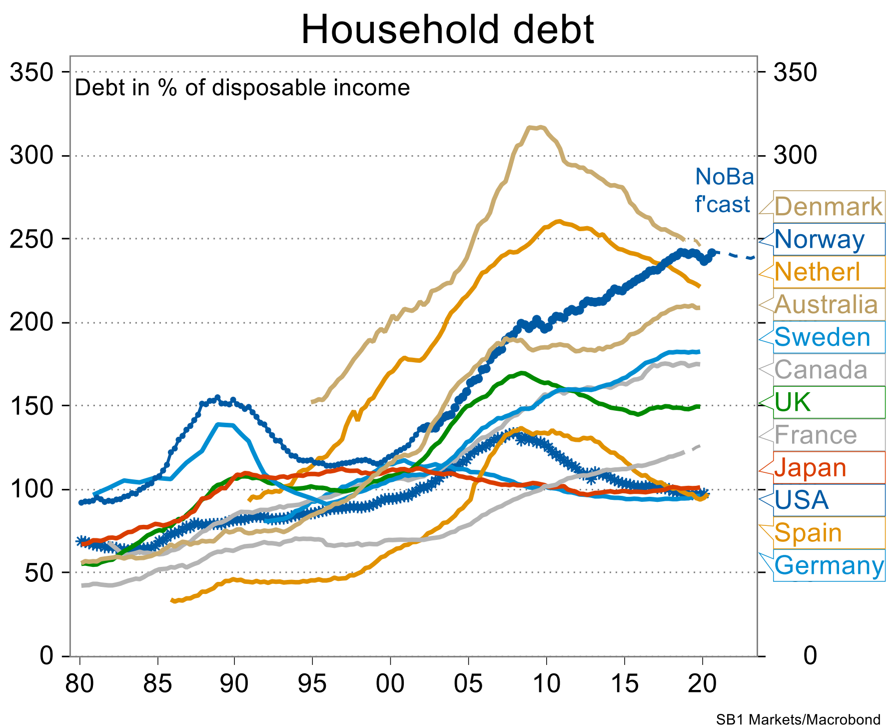


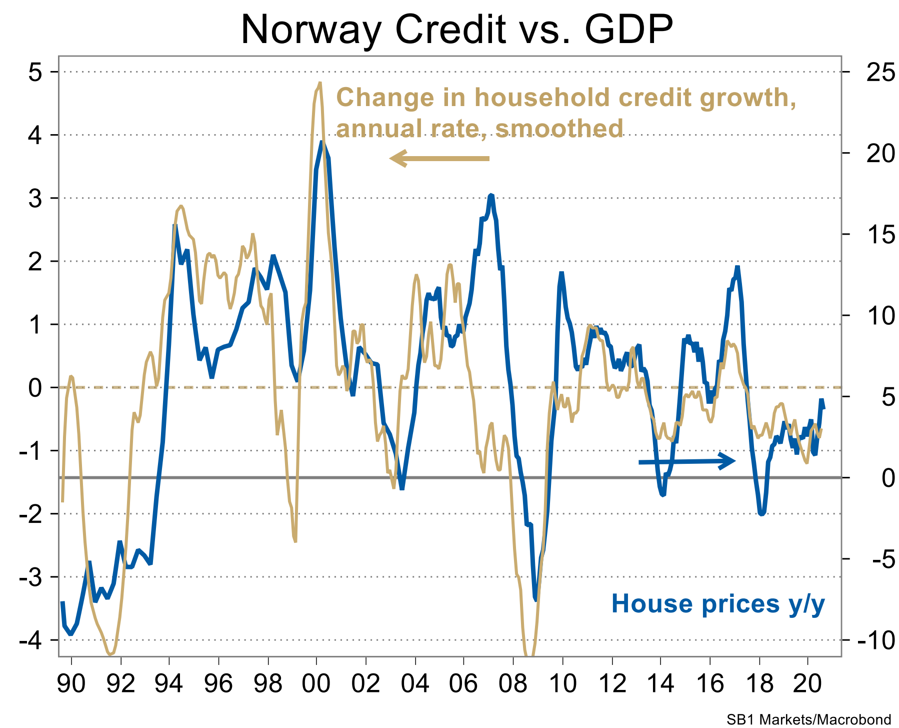


- Households' total borrowing rose by NOK 15 bn m/m in July, following a strong 16 bn rise in June and above the average increase of 13 bn the past year. Given the brisk recovery at the housing market and banks reporting higher demand for credit from households, we expect household credit growth to continue accelerating
- Corporate credit (in C2, domestic lending) rose by 3 bn m/m, following a decline in June. The 3m average speed has slowed the past few months and the annual rate is clearly on the way down. We expect companies to be cautious vs. both investments and more debt the coming months/quarters. On the other hand, banks did not report weaker demand in the lending survey

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

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

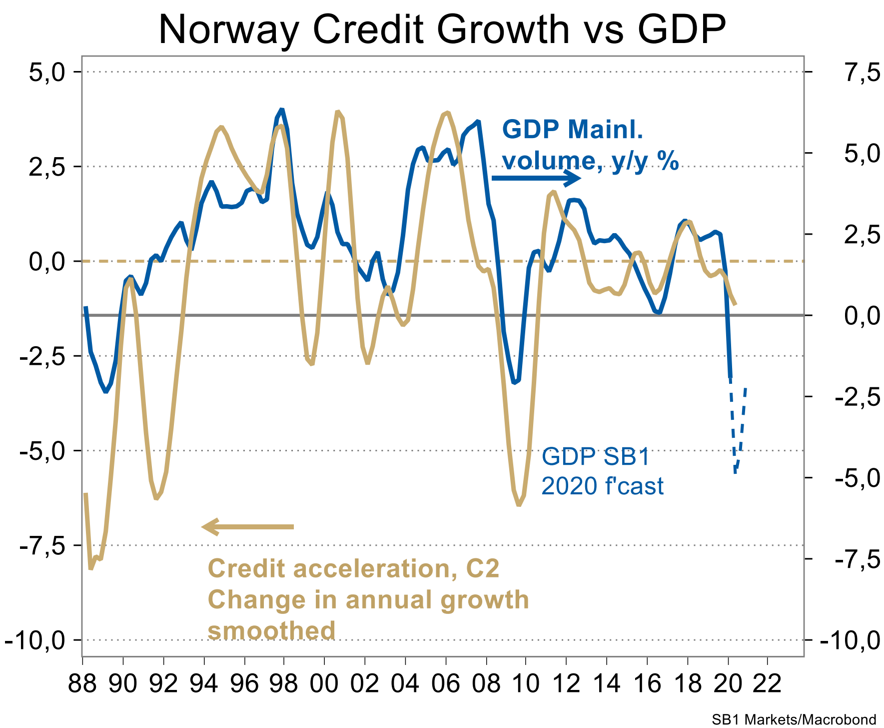




- Household debt has been growing slower than household disposable income, for the first time in 30 years (barring some minor turbulence in 2008/09)
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit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

Credit and GDP growth not that correlated this time around

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



- GDP growth is quite coincident with *changes in credit growth (the 2nd derivative)*
- Face value, the rapid decline in GDP in Q2, should have led to lower credit growth, mostly due to lack of demand for credit. That did not turn out to be the case, this time

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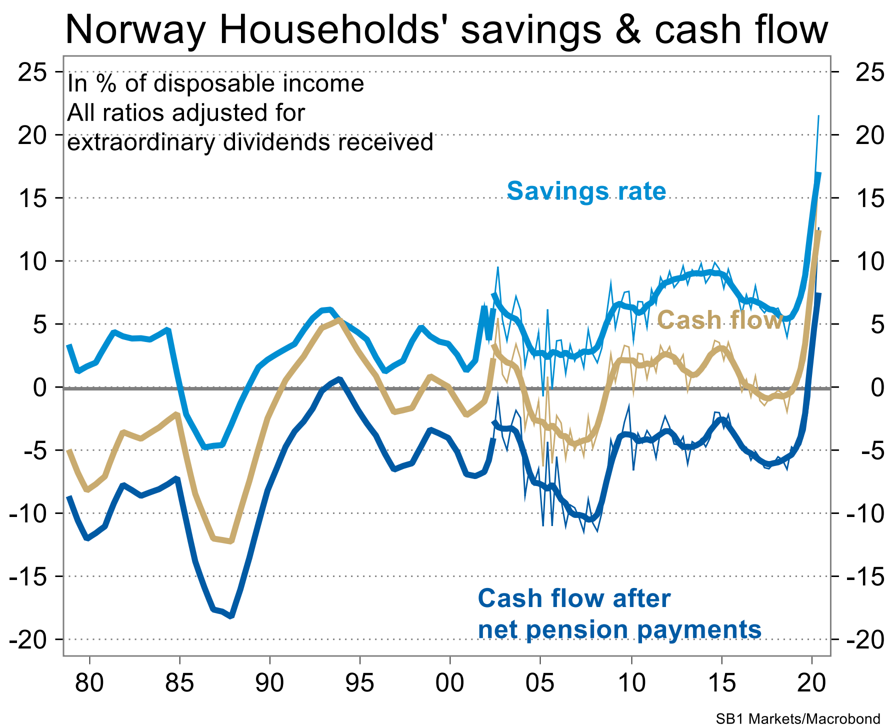
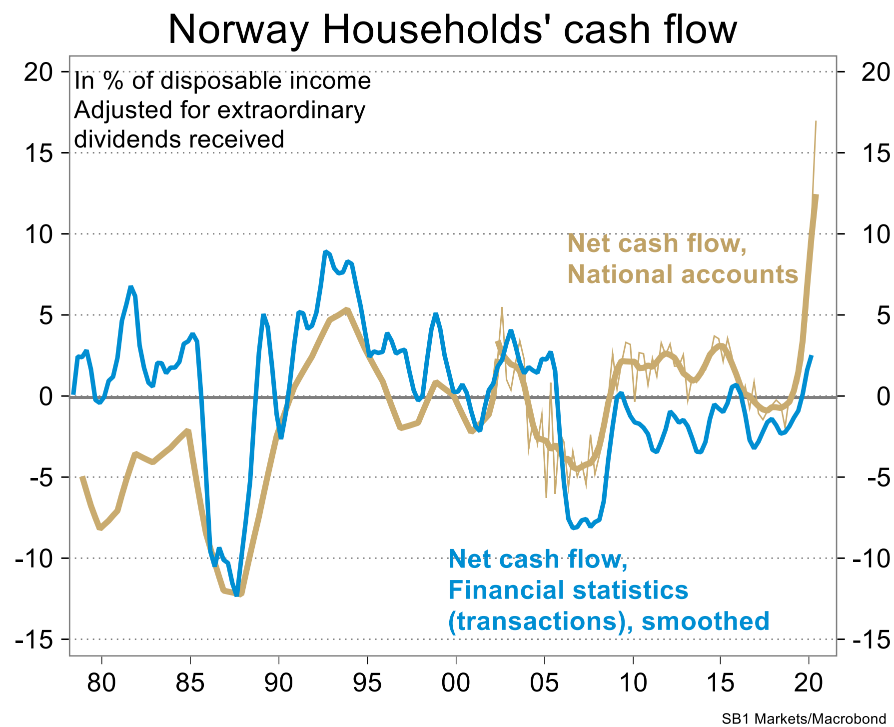
Savings spiked to a record high level in Q2, now 15 pp above a normal level

Consumption was cut sharply and much more than income fell, savings jumped 6 pp to 21% in Q2

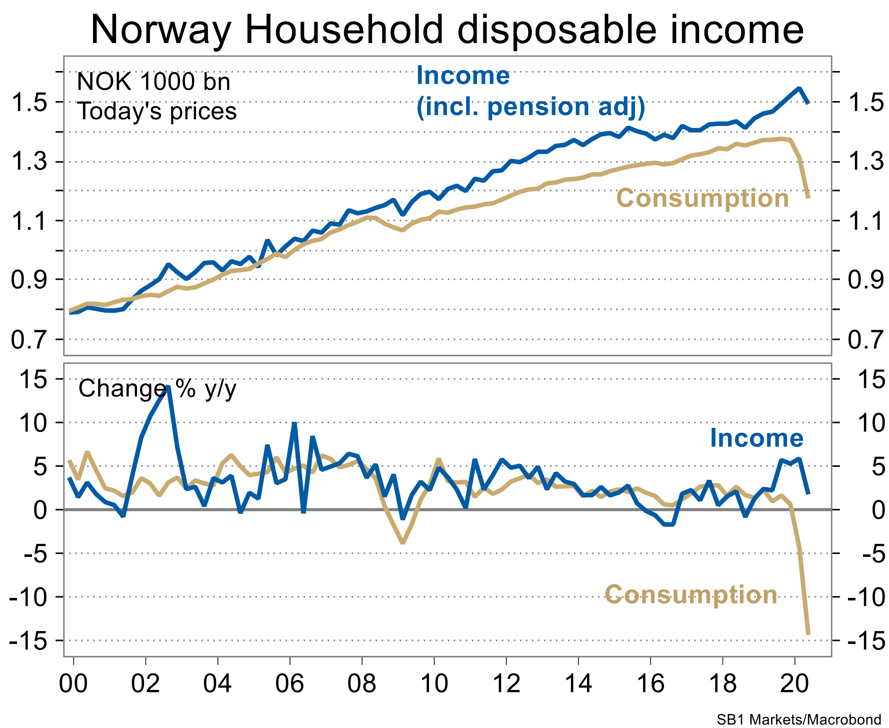


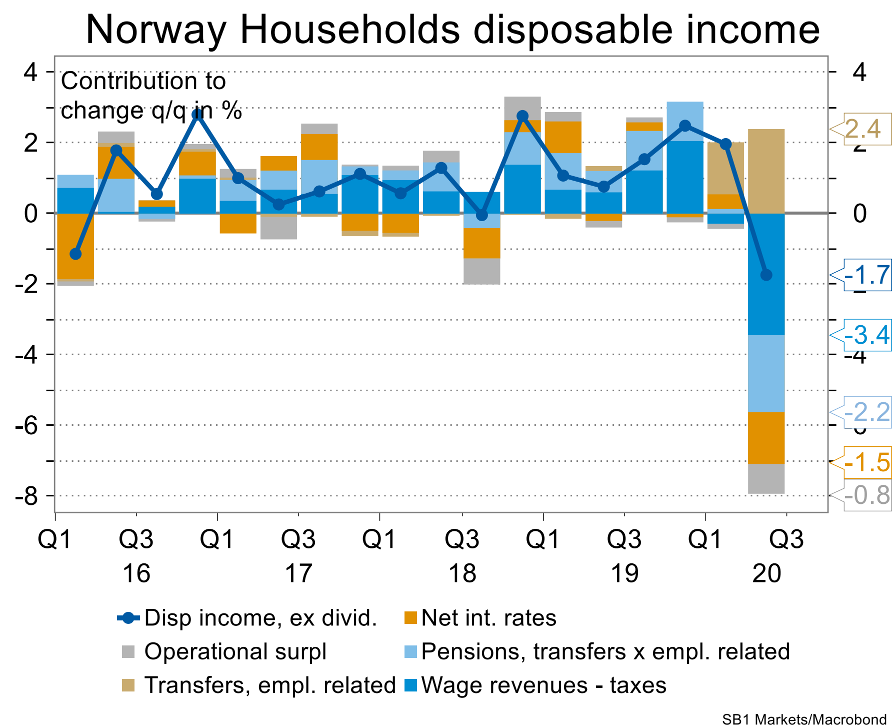


- Savings jumped to 20.8% in Q2, the highest rate ever. Savings were already elevated in Q1, at 14.8% (revised up from 12.7%). Adjusted for deviation from trend dividends, the saving rate rose to 21.6%
  - » Consumption dropped 10% in Q2 (q/q) while disposable income fell by 1.7%. Most income components fell and wage revenues (- taxes) fell the most, of course due to the spike in temporary lay offs, as government transfers did not fully compensate for the income loss
  - » After deducting for still high housing investments, net financial investments equals 17% of total disposable income, it was negative in 2018!
  - » When deducting net pension savings (which are not visible or at least not available for households), the cash flow spiked to 12.7% - from -5% in 2018/19
- <u>High household savings is very good news as it increases the potential for demand to pick up rapidly (as it already is)</u>

Wage income fell rapidly in Q2, dragging total income down

Total income declined by 1.7% q/q in Q2, steepest since 2009, consumption dropped 9.6%

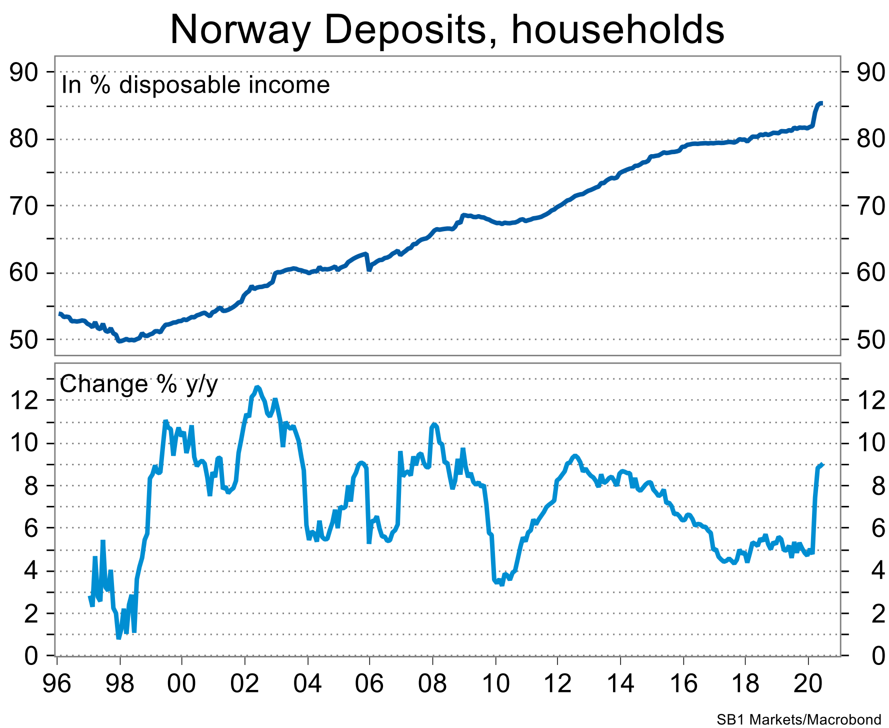




- In Norway, government transfers have not fully compensated the loss of wage income during the Covid crisis – and total household income fell in Q2
  - » In the US, on the contrary, income rose 10% (not annualised!! as households have been overcompensated by unemployment benefits and other government transfers

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

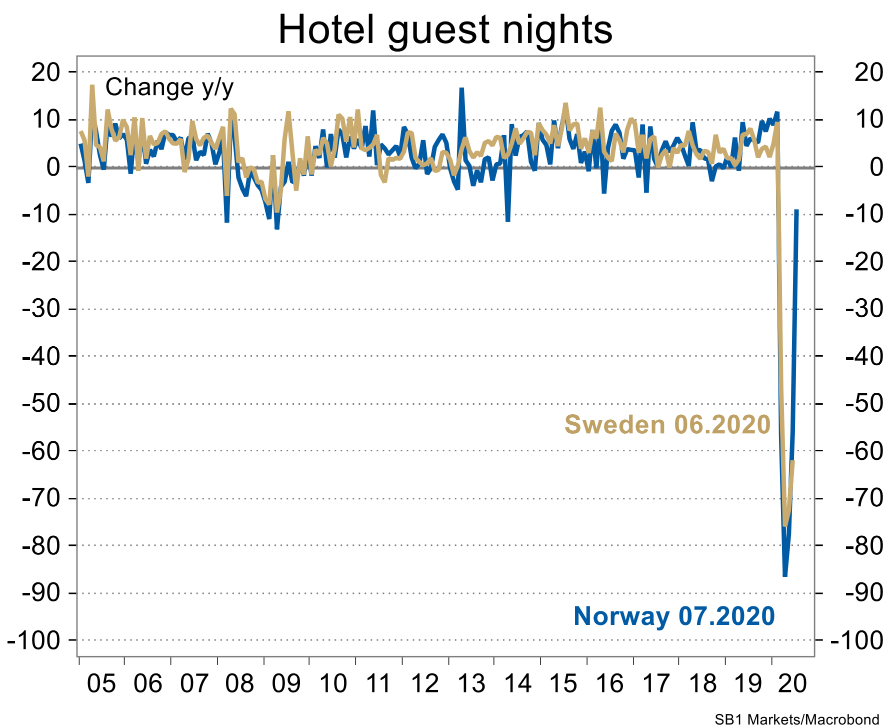
Deposits has been soaring recent months, up to 85% of households disposable income

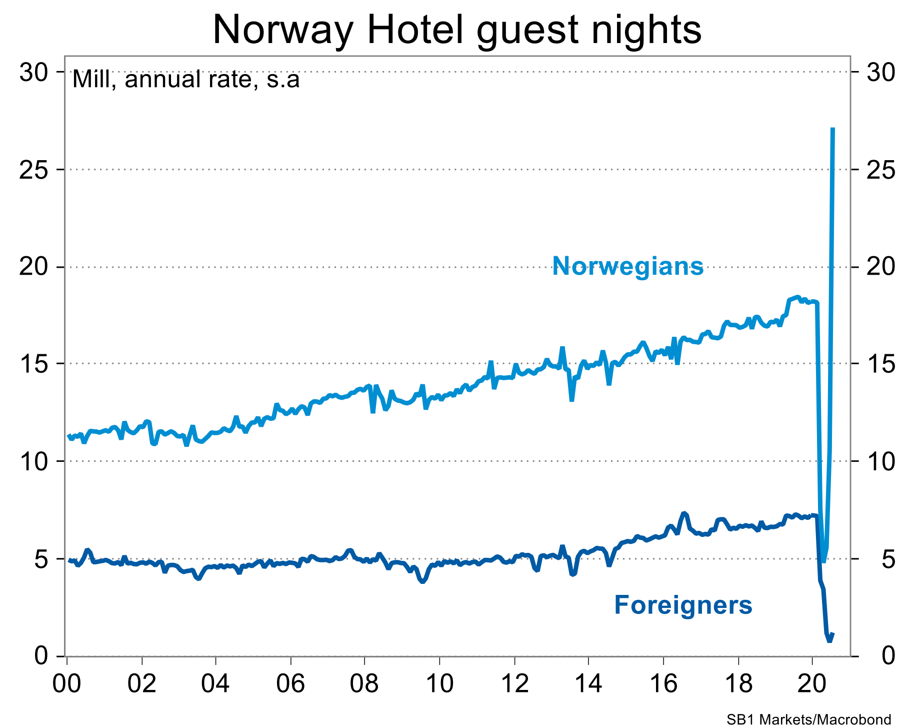


- Spending has been sharply cut, not on goods but services & spending abroad
- Households' income is hurt by lower unemployment benefits than wages income, and by lower income for many self employed (and over time lower dividends) but supported by lower mortgage rates
- From February to May, bank savings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

Hotels: Norwegians saved the summer, or July, at least

Hotel guest nights just 9% down y/y in July, from -56% in June





- The number of hotel nights down by approx 80% at the worst, now ‘just’ 10%
- In July, the number of guest nights recovered sharply, saved by a record high number of domestic hotel guests, up 50% from the pre corona level! Foreigners have more or less disappeared
- Large regional differences, Oslo hotels struggled, other thrived

Highlights

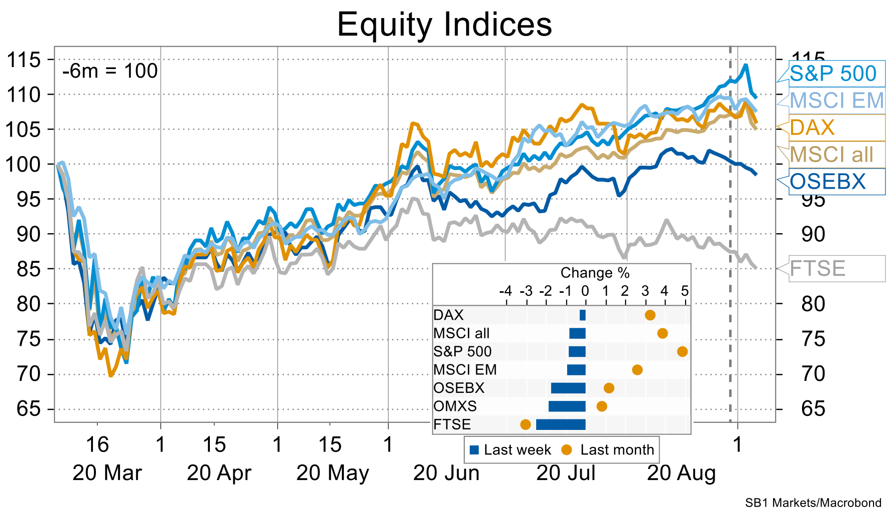
The world around us

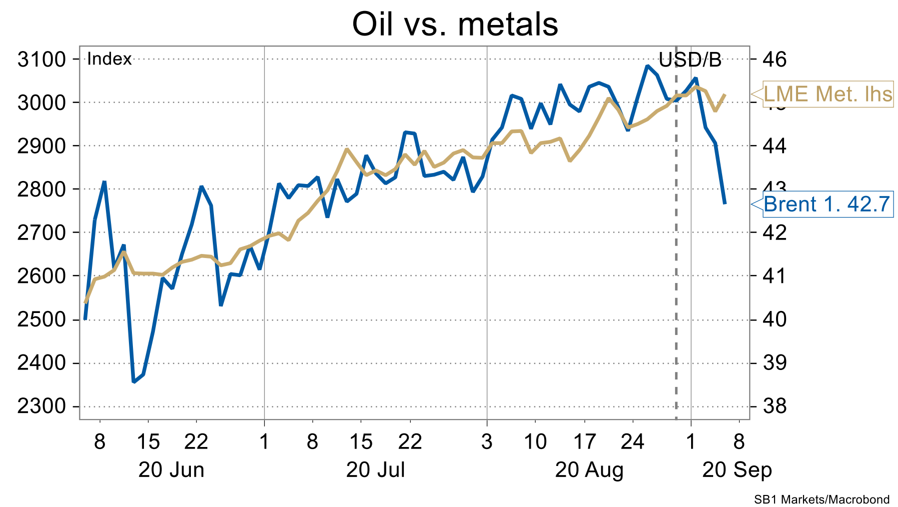
The Norwegian economy

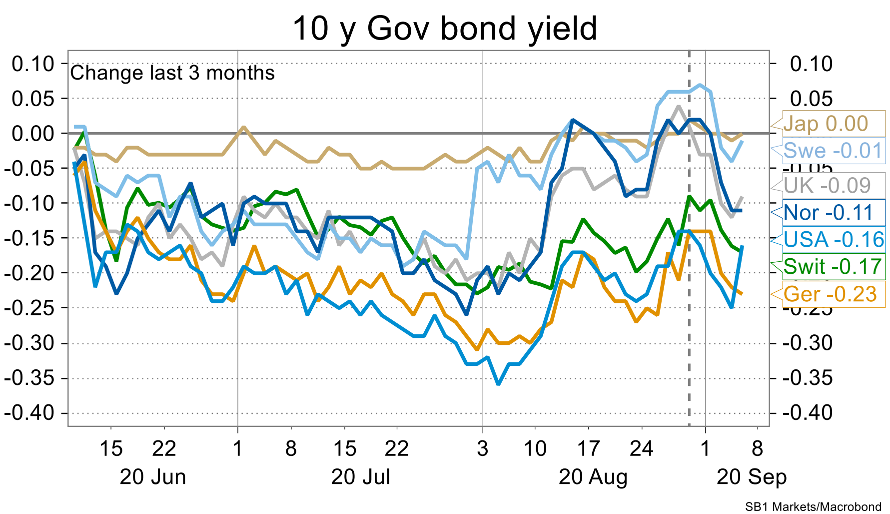
Market charts & comments

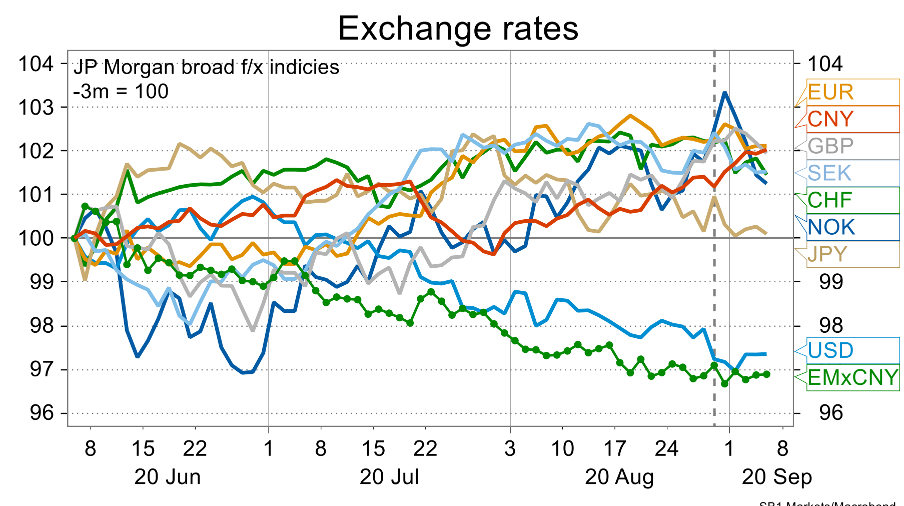
Stock markets down lead by US tech, oil down. NOK followed suit

Bond yields edged down but US long bond yields rose sharply at Friday







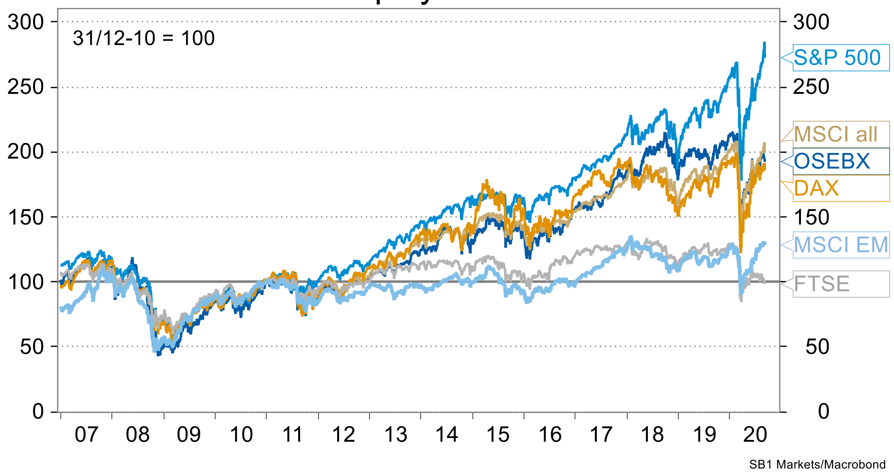


The USD has been the laggard since mid May, and came down marginally last week. Still just as strong a before the corona crisis. NOK 2% down after a climb through August, with the oil price

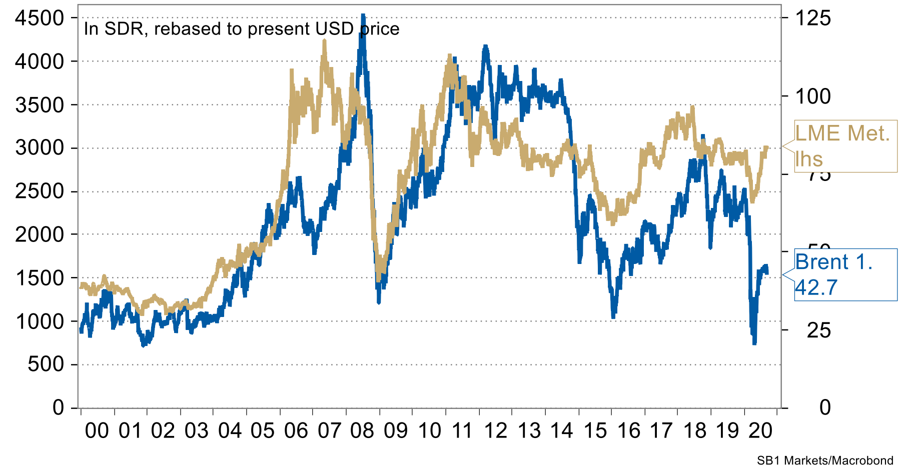
In the long run: Stock markets are looking like a 'V' (except the FTSE!!)

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

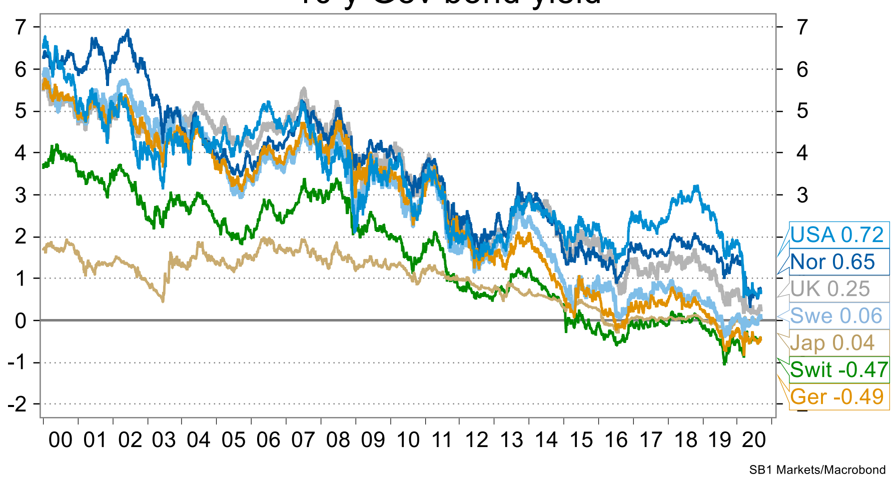
Equity Indices



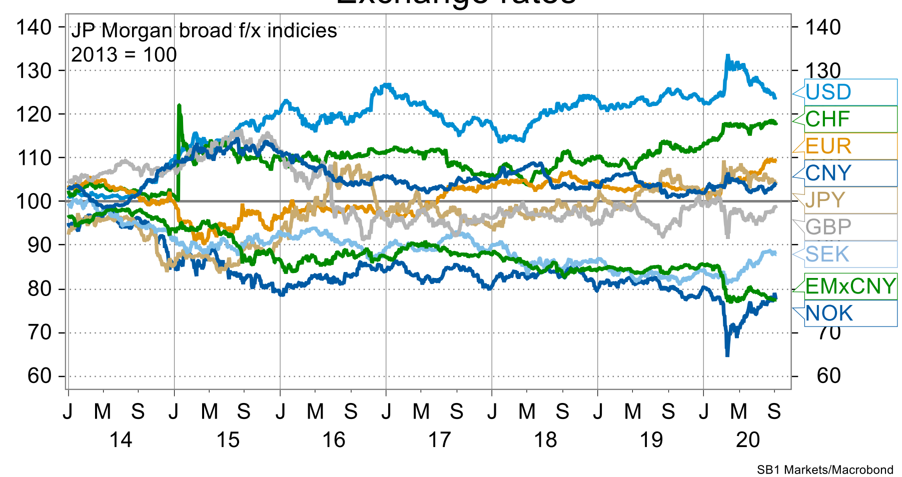
Oil vs. metals



10 y Gov bond yield



Exchange rates



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

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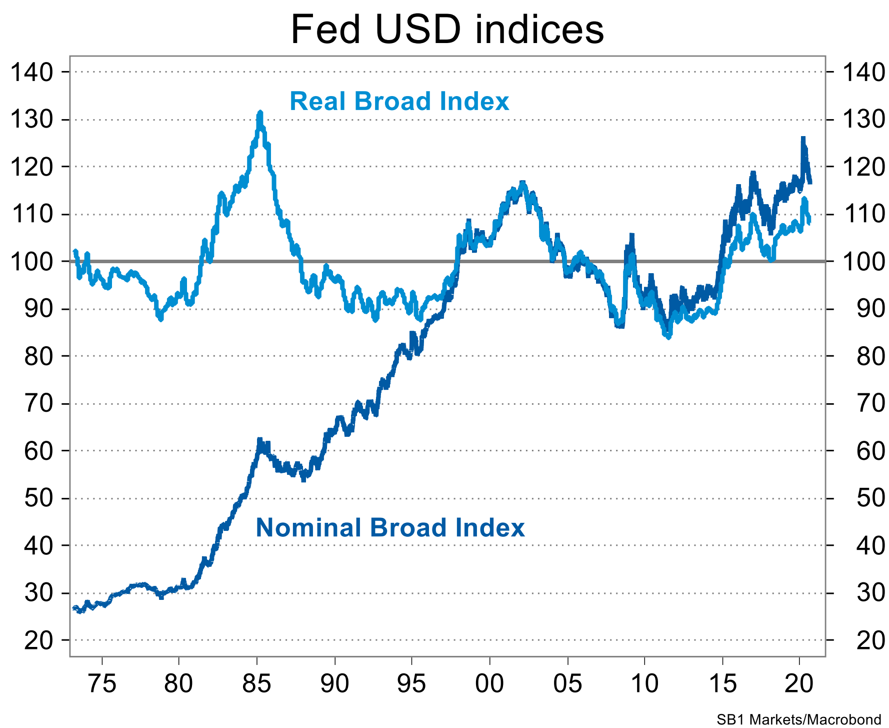
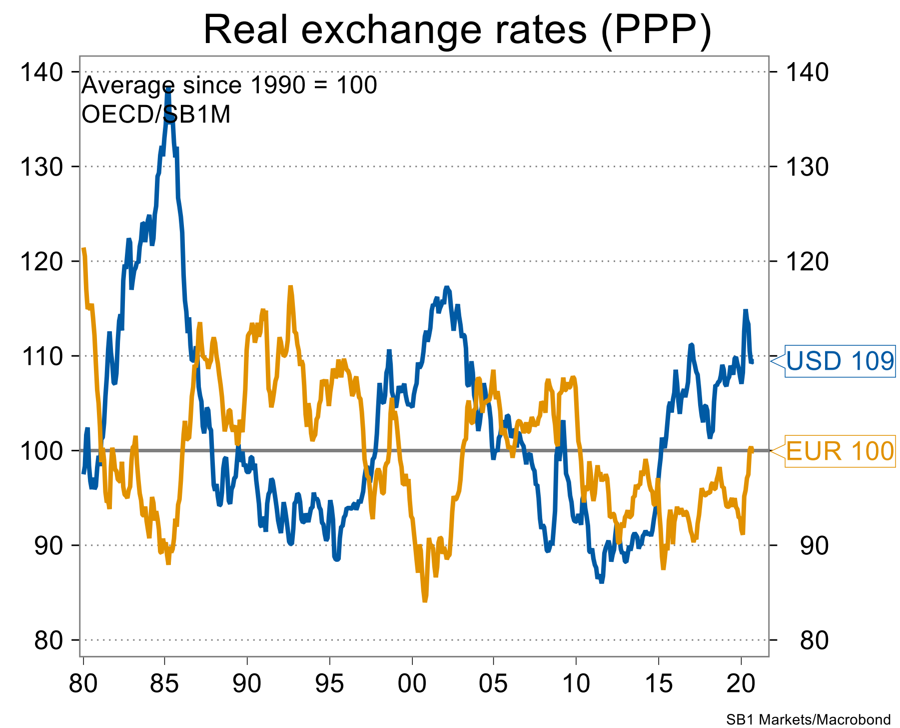
Sure, the USD is down – and it may depreciate much more. But so far, *no drama*!

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

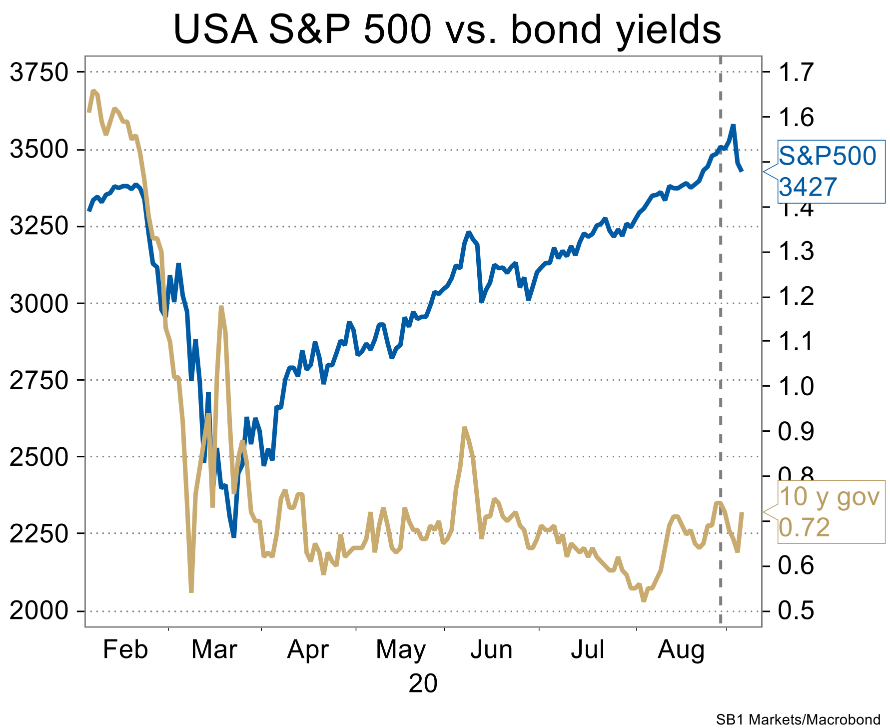


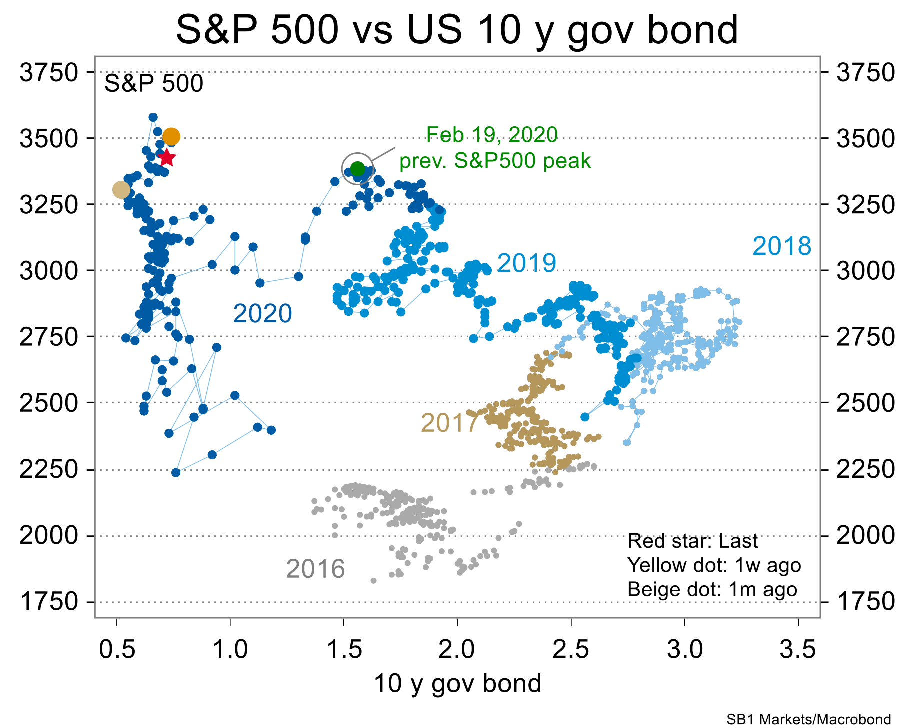


- Corona, slowing growth, social unrest, political turbulence, budget deficits (that will become even larger) & money printing, trade deficits, the US China conflict. You name it, there are always reasons for the USD to decline

A mini tech shock took the broad market down Thursday & Friday

S&P fell 3.5% Thursday. Long bond yields first down, then sharply up Friday, after the jobs report

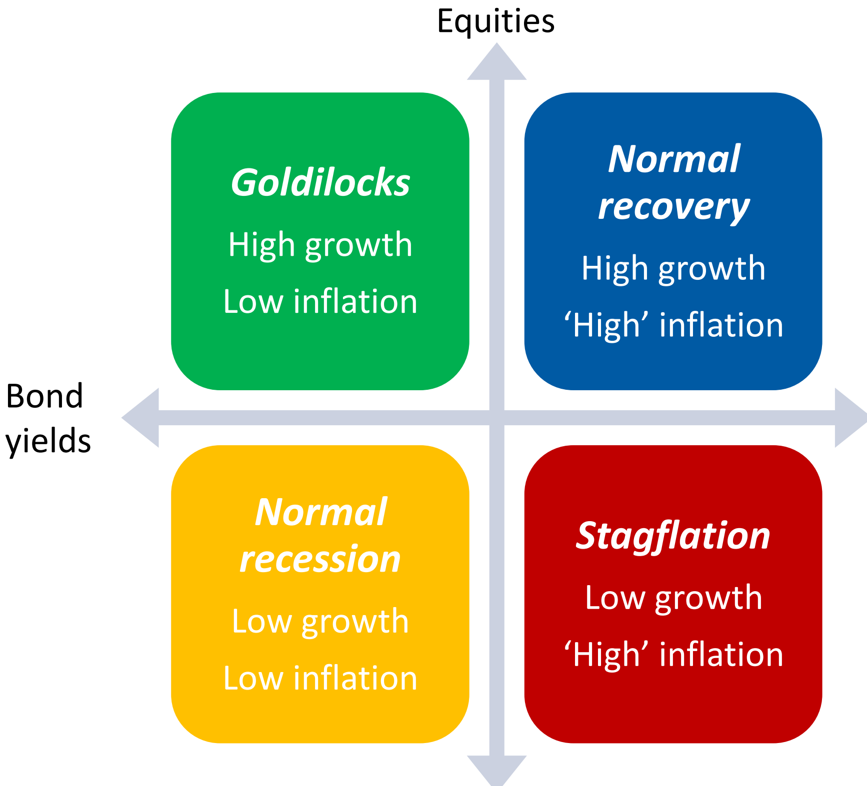


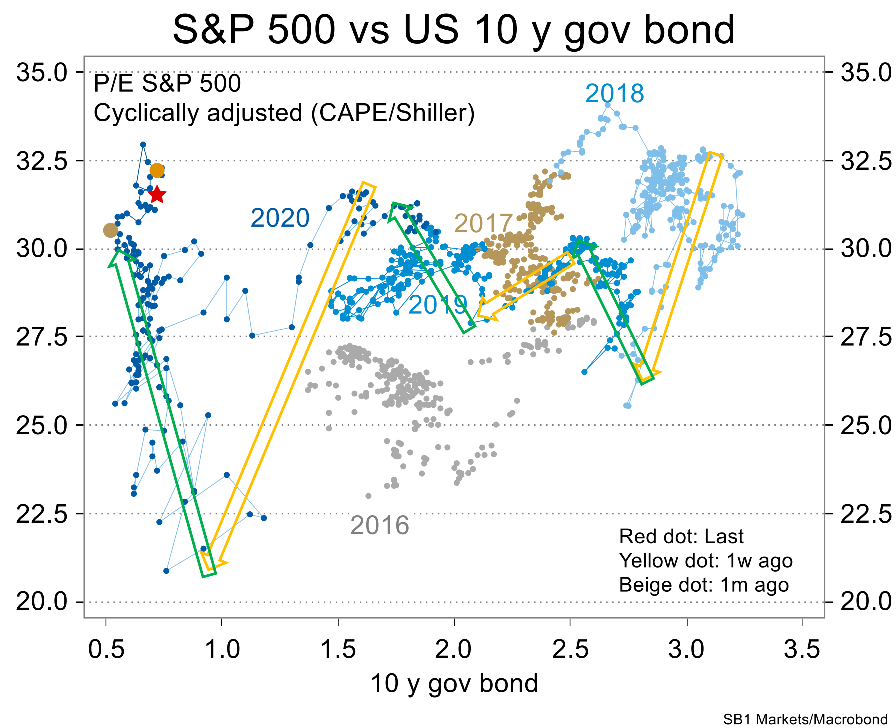


- Stock markets took a breather late last week, after reaching new ATHs the prior days, the first 3%+ drop since June
- The 10 y bond yield initially fell by 11 bps, driven by a retreat in inflation expectations (-12 bps) – than rose by 9 bps Friday most of if following the strong August jobs report

The past month: A step towards the 'normal recovery' corner

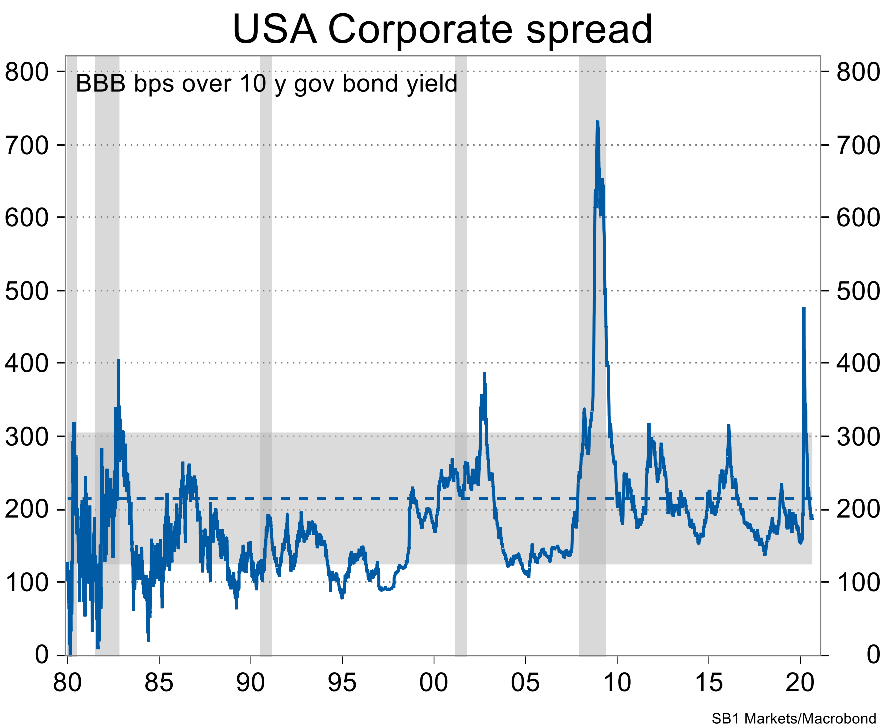
Last week, both stocks and long bond yields fell, toward the southwest corner

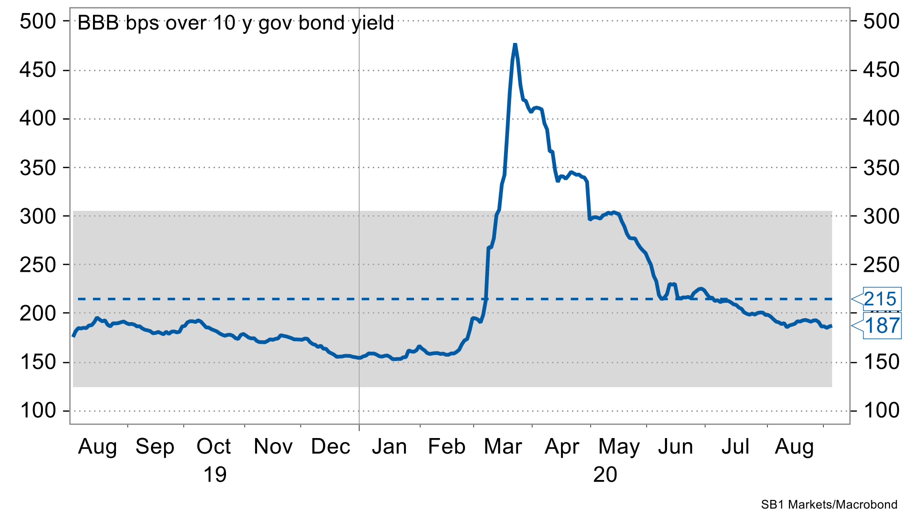


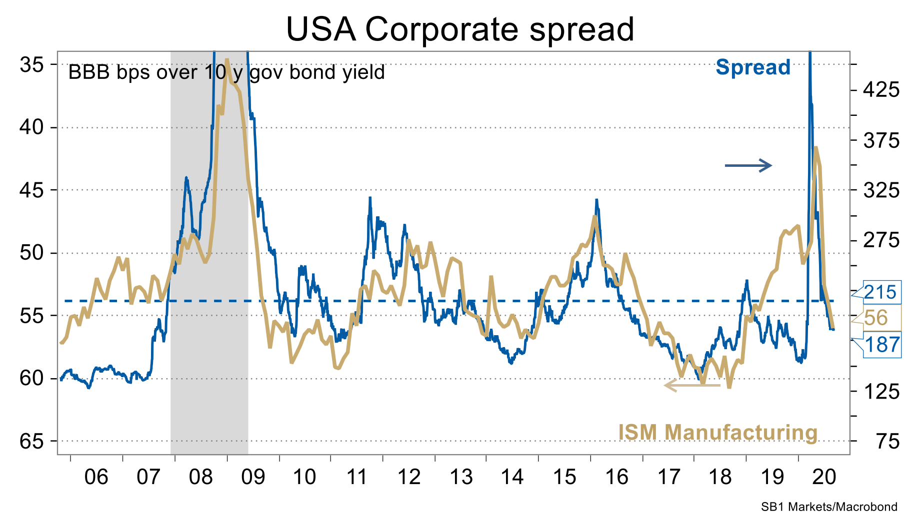


- Has the '**Goldilocks'** travel (towards the green corner) come to an end? May a continued economic recovery, and a normalisation of actual and expected inflation (which both has taken place over the past months) dampen expectations of an 'eternal' extreme monetary policy (negative real bond yields, even measured forward based, for more than 10 years, even if Fed finally confirmed its dovish stance (the smoothed inflation target, more weight on employment)? Bond yields would increase but not so much that it led to a crash in the stock market but to 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 – if the economy sours. The latter scenario is not likely, short term
- We are still not worried for the falling into the '**Stagflation trap**', at least not as a lasting challenge. Inflation (and interest rates) will not climb if the economy weakens again from here - inflation will decline, and rates will remain extremely low

No risk off at credit markets

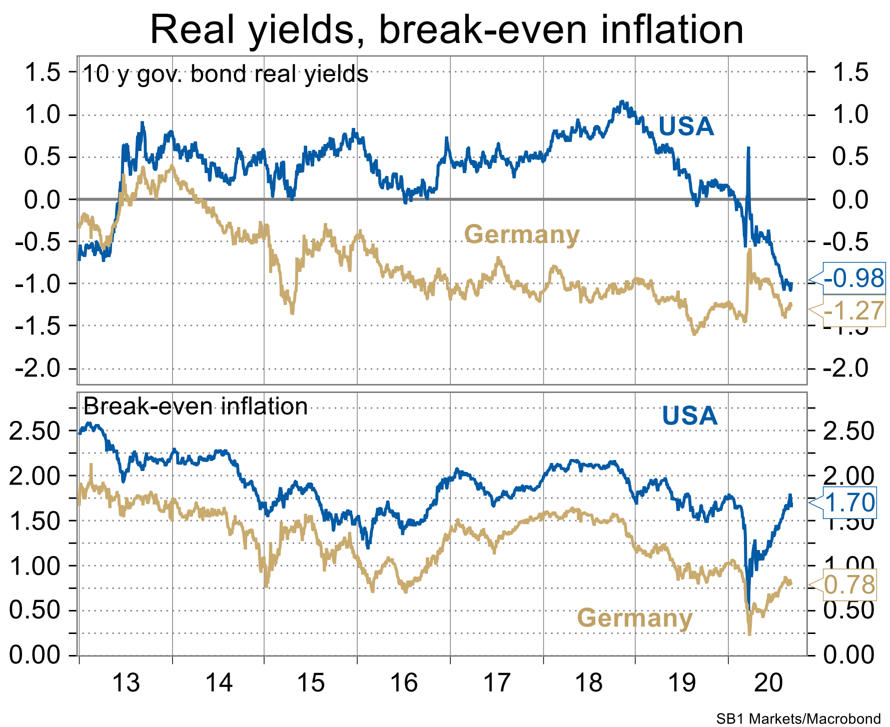


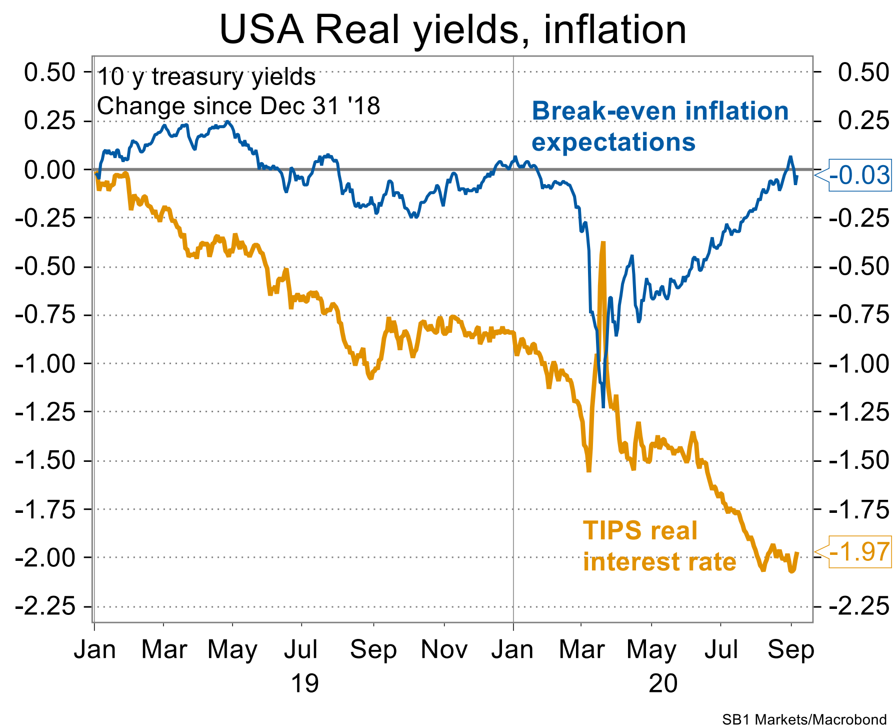




USA 10 y inflation expectations retreated last week, real rates rose

Inflation expectations have been climbing since April and are not that low anymore, at 1.70



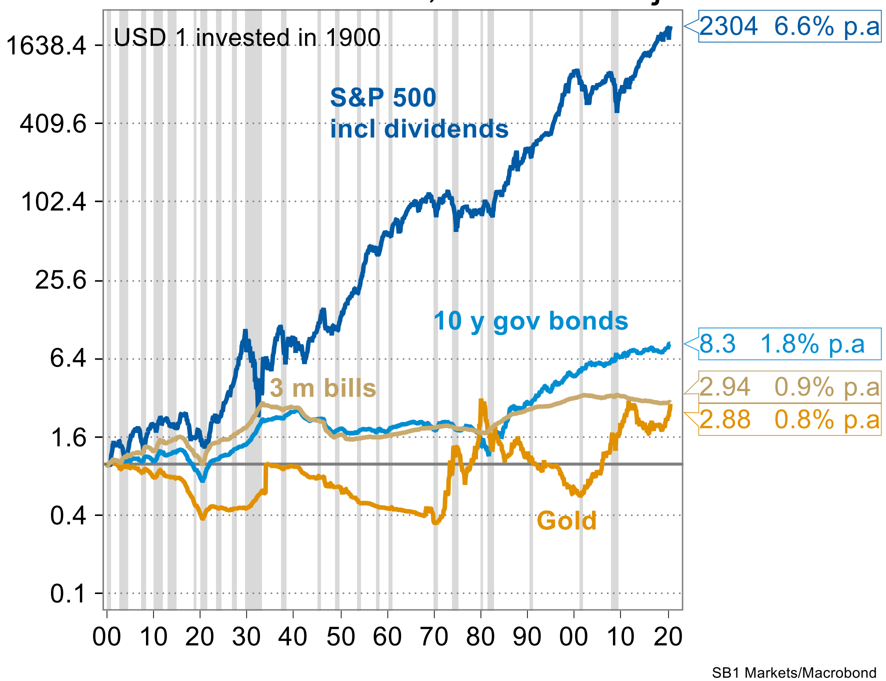


- The implied break even inflation rate rose two weeks ago, following Powell's announcement of the new Fed price level target strategy. Last week, break even inflation fell 7 bps in the US, to 1.70% (10 year)
- The US real interest rate has more or less stabilized since early August, at a very low level, of course – and rose 5 bps last week
- The German real rate has moved marginally up the past weeks, to -1.27%. Inflation expectations flat to slightly down, after edging up since May

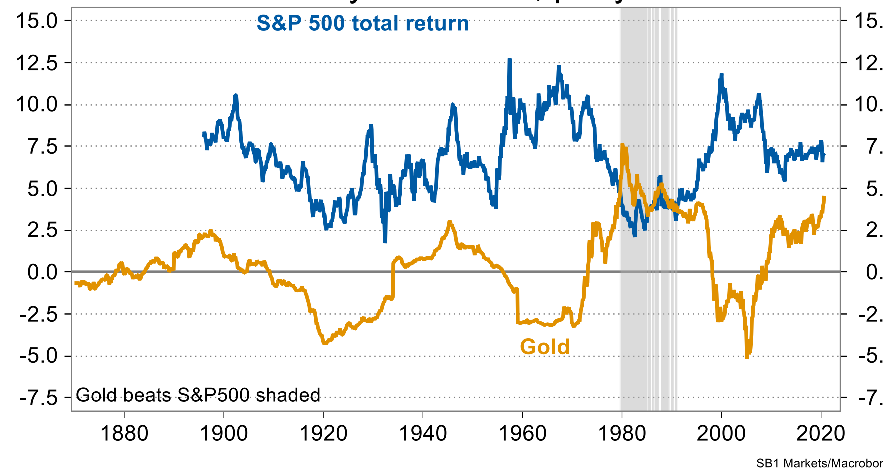
For the gold bugs: A long and a short story

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

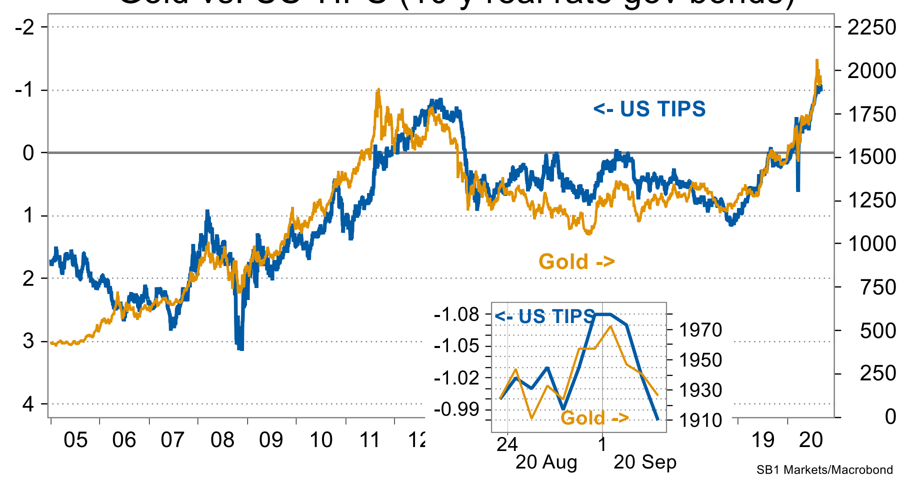
USA Total return, inflation adjusted



USA 25y real return, per year



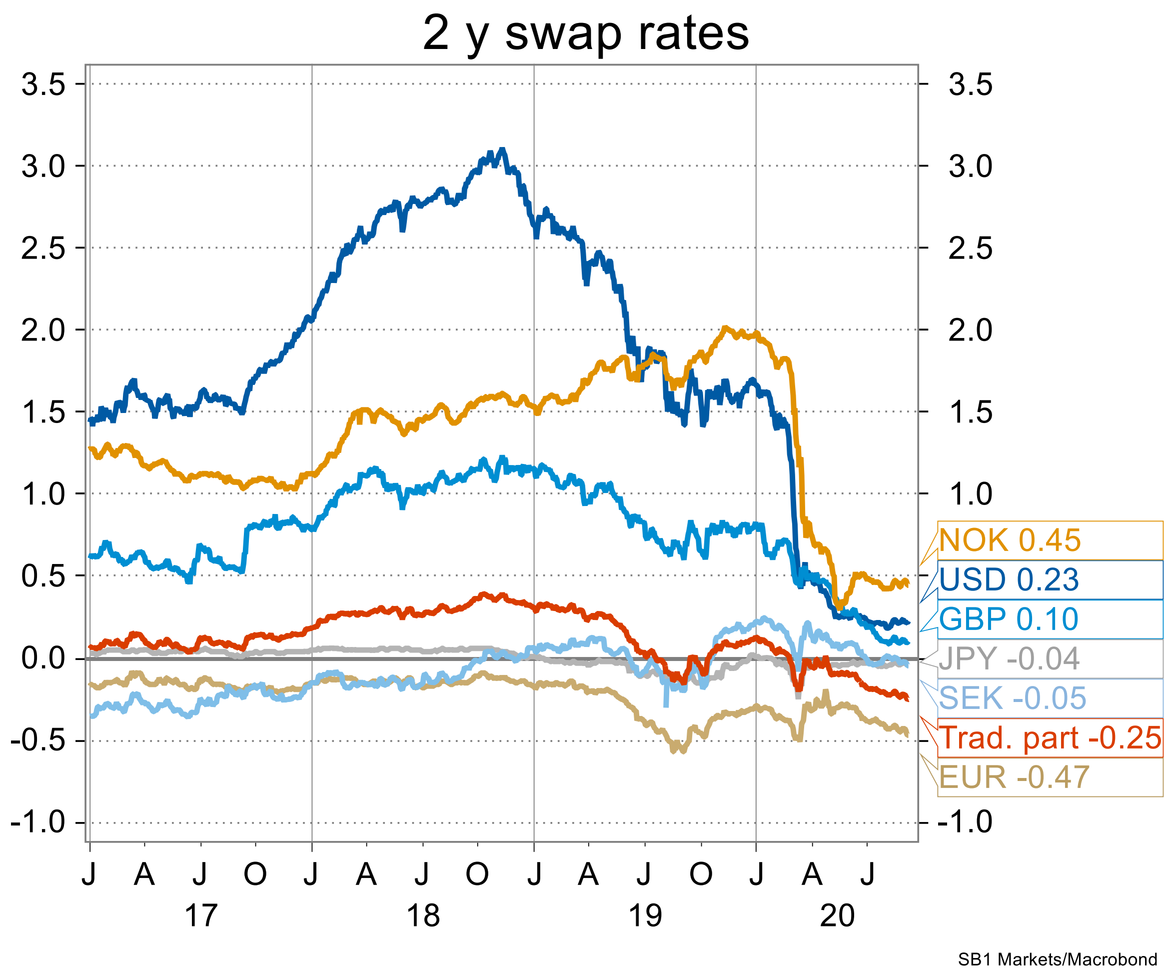
Gold vs. US TIPS (10 y real rate gov bonds)

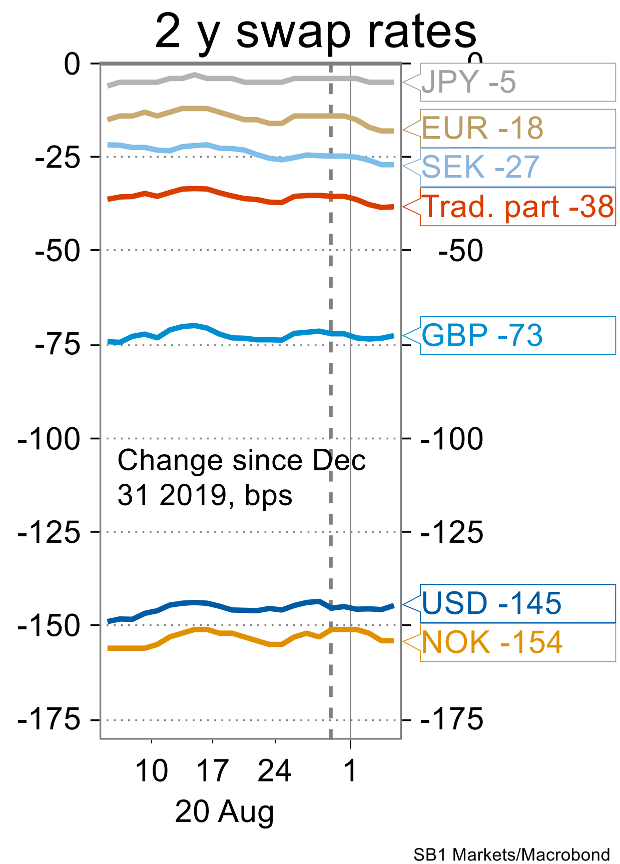


- Like during the past 2½ years when real rates have been tumbling to record low levels
- The long term outlook? We do not know – but long term (and we mean quite long term), gold has normally been a really bad investment, at least compared to equities
  - » The real gold price is still lower than 40 years ago, in 1980. Equities are up 22 times (and 2200 x since 1900. Gold is up 2.9 x)

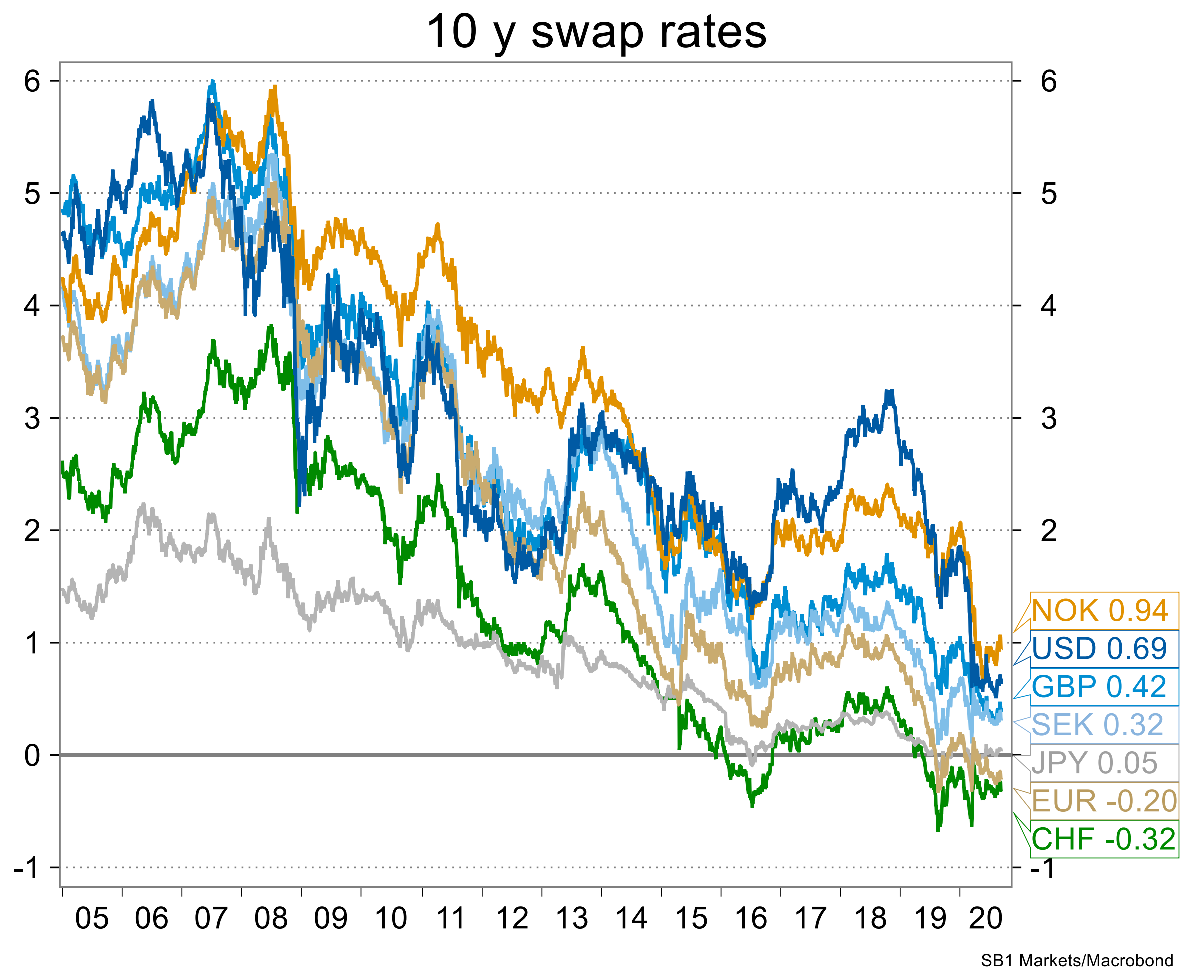
2 y swap rates are still sliding down in EUR, NOK; USD rates steady

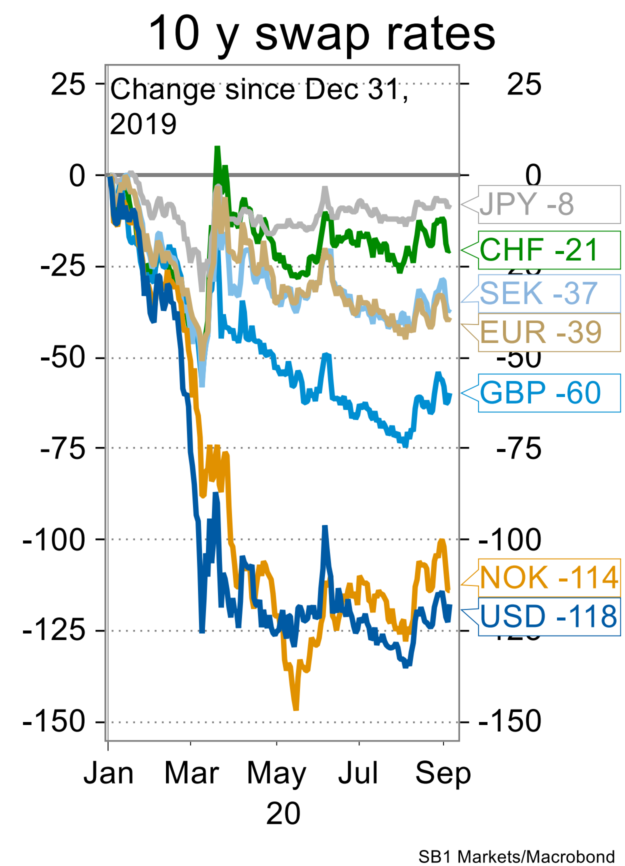
Last week, short rates fell marginally most places





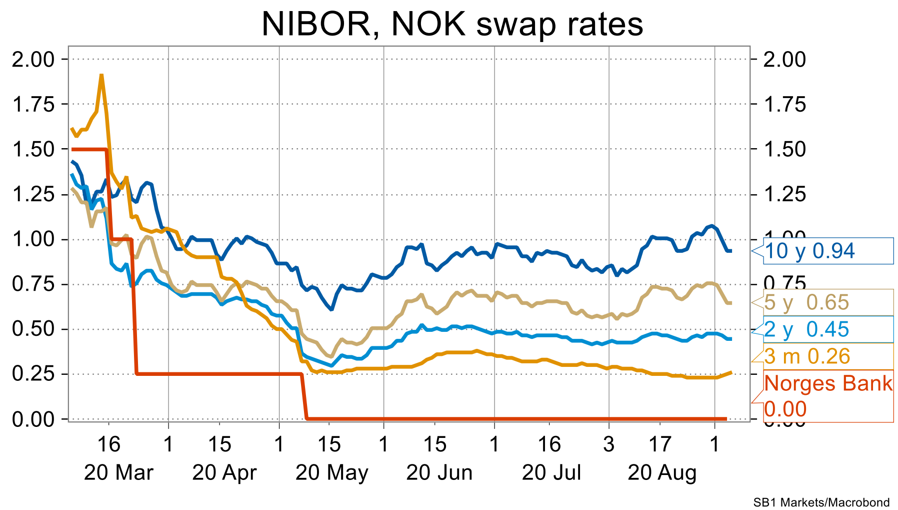
Long term swaps down last week but still up from the August trough

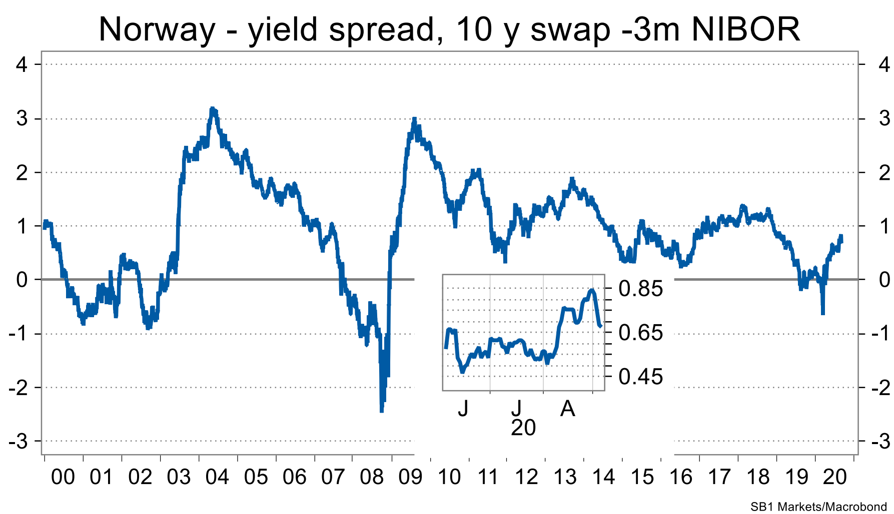


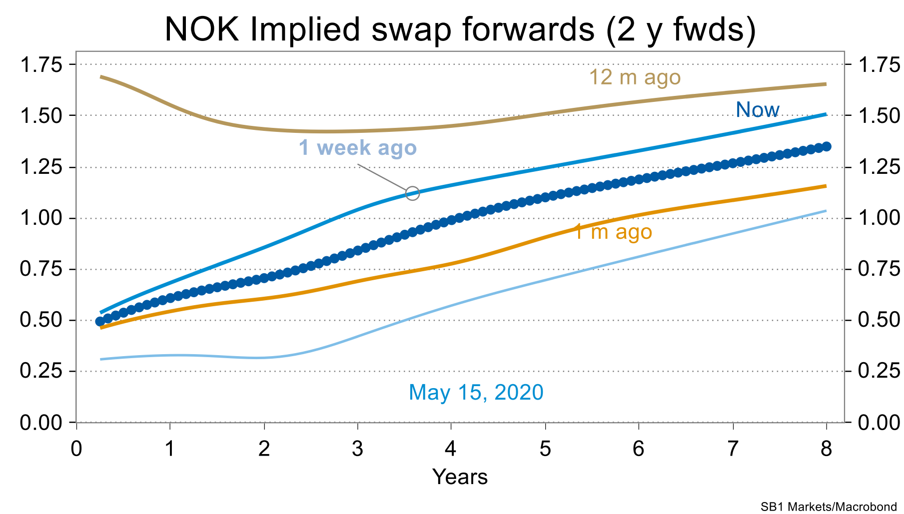


The long end of the NOK curve down again, NIBOR marginally up

The yield spread has been rising since March, still not wide



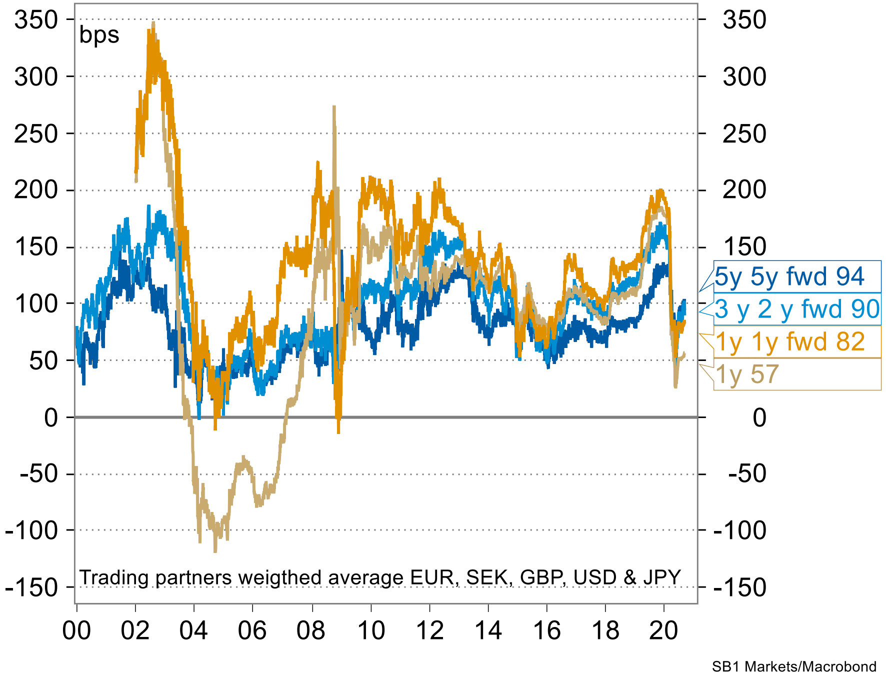


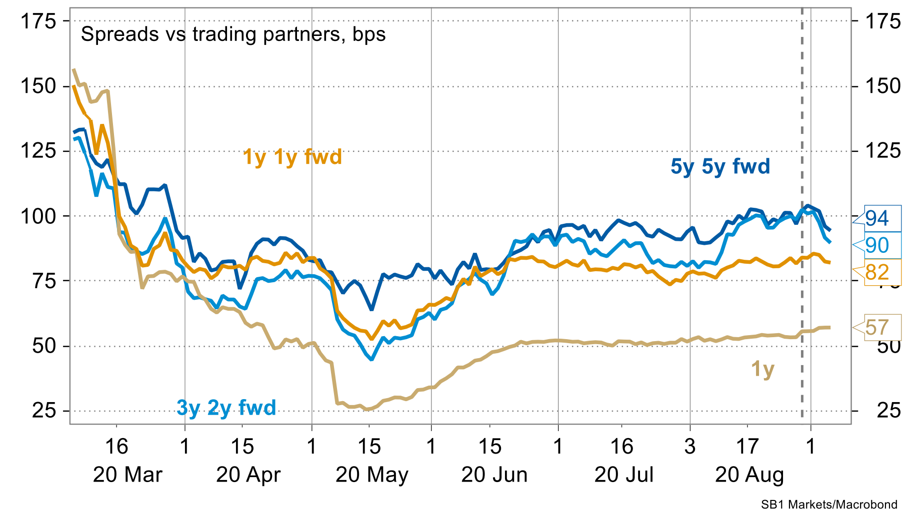


The swap spread vs trading partners down last week

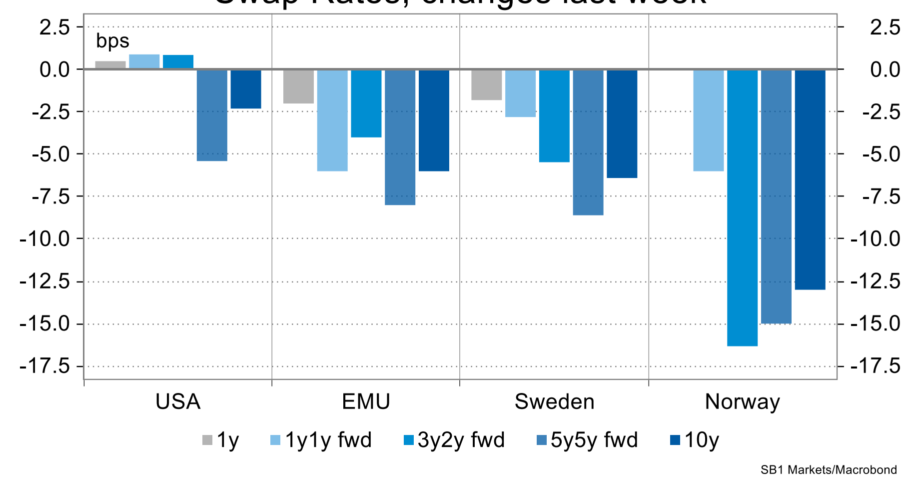
Last week, NOK rates fell more than others, barring the short end

Norway vs trading partners, impl swap spreads





Swap Rates, changes last week

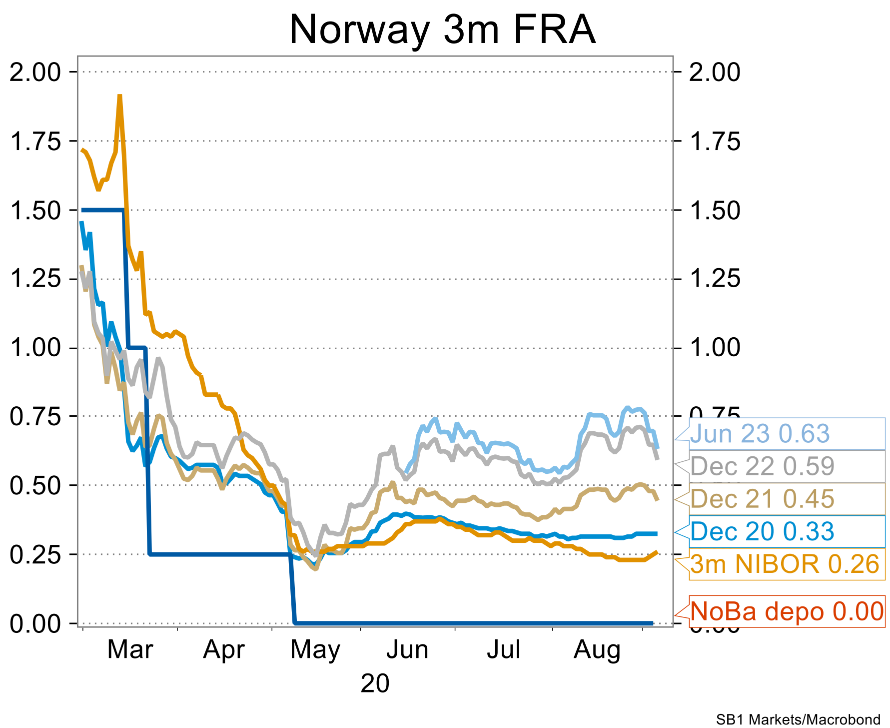


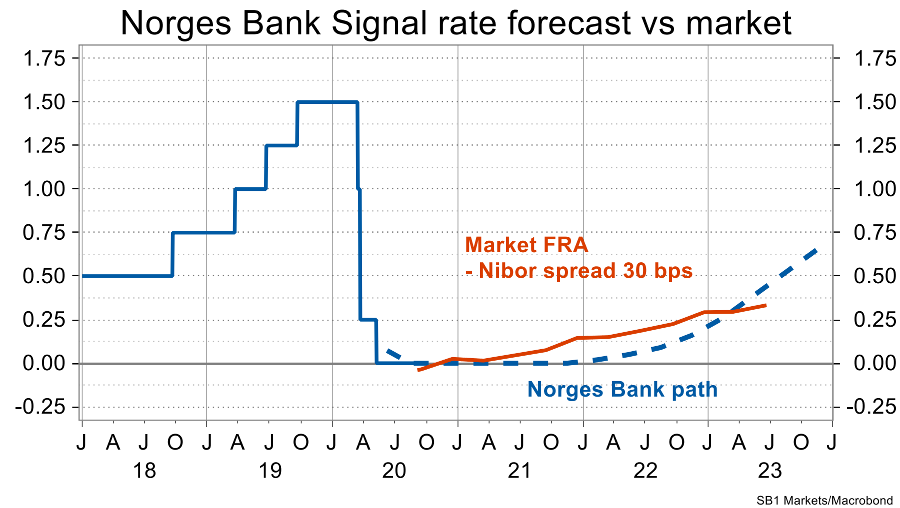
- Spreads vs trading partners have been trending wider since the May local trough
- We are still neutral vs. the spread

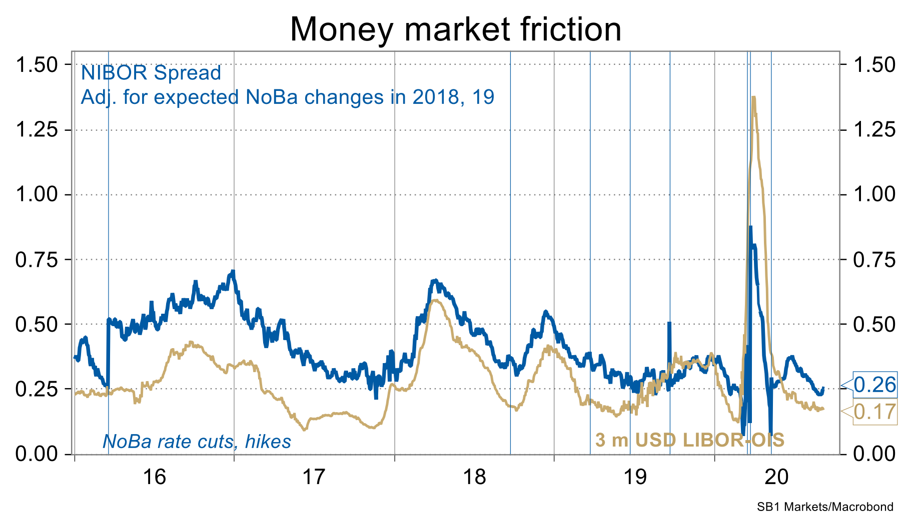
SpareBank 1 MARKETS

3m NIBOR up 3 bps to 0.26% but FRAs down by up to 13 bps

Market pricing still signals a possible hike (50% probability) in Q4 2021

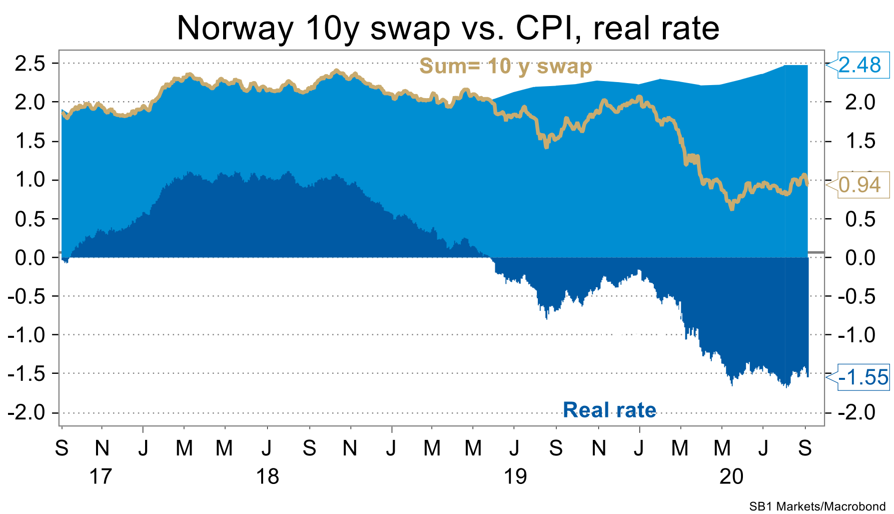




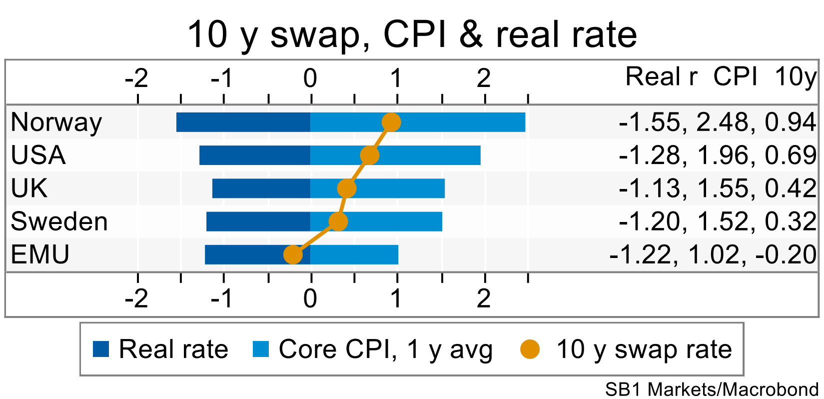


- We think it is unlikely that markets are pricing in any probability for an interest rate cut the coming 3 months.
- The first hike is priced in by Q4 2021 (with >50% prob). In June, NoBa said Q4 2022

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 -1.55%, 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)



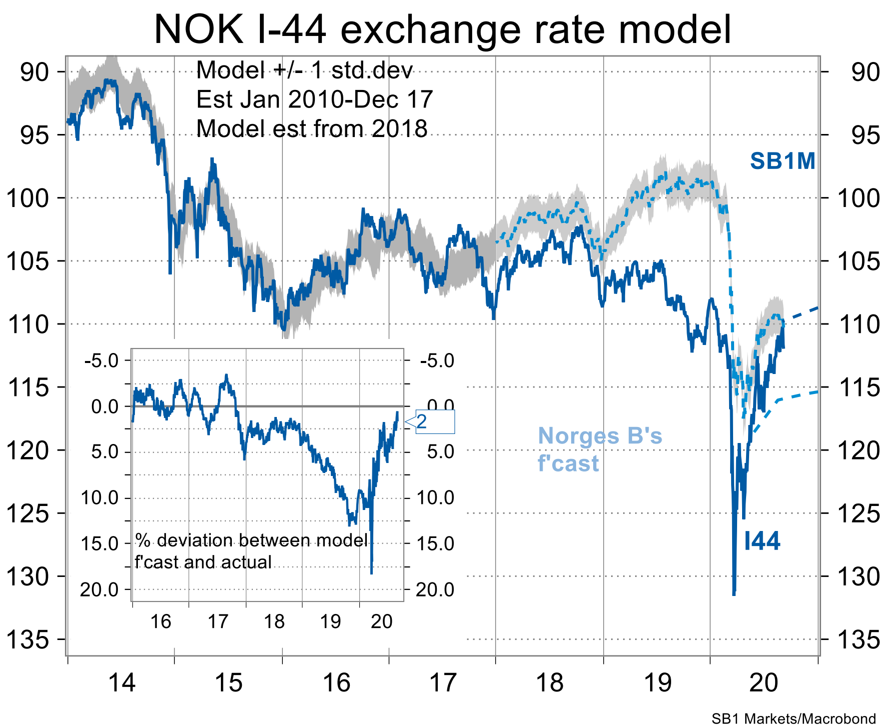
NOK real rates among the lowest

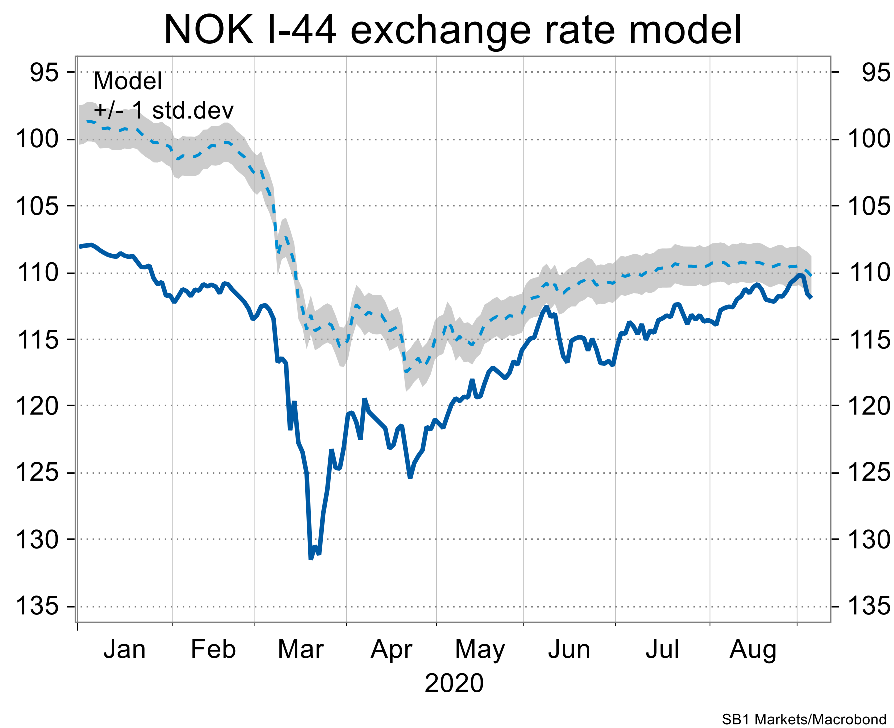
- Inflation among Norway and our main trading partners varies between 1 to 2.5% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US and Norway at the top, the latter by a wide margin
- Real rates are quite similar among our trading partners, in the range -1.2% (UK, Sweden) to -1.6% (Norway), vs the 10 y swap rates

- *Thus: Inflation differentials explain most of the differentials in long term swap rates*

NOK down 1% last week, slightly more than oil etc could explain

The NOK followed risk markets & oil price down last week. The gap vs our trad model just 2%





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

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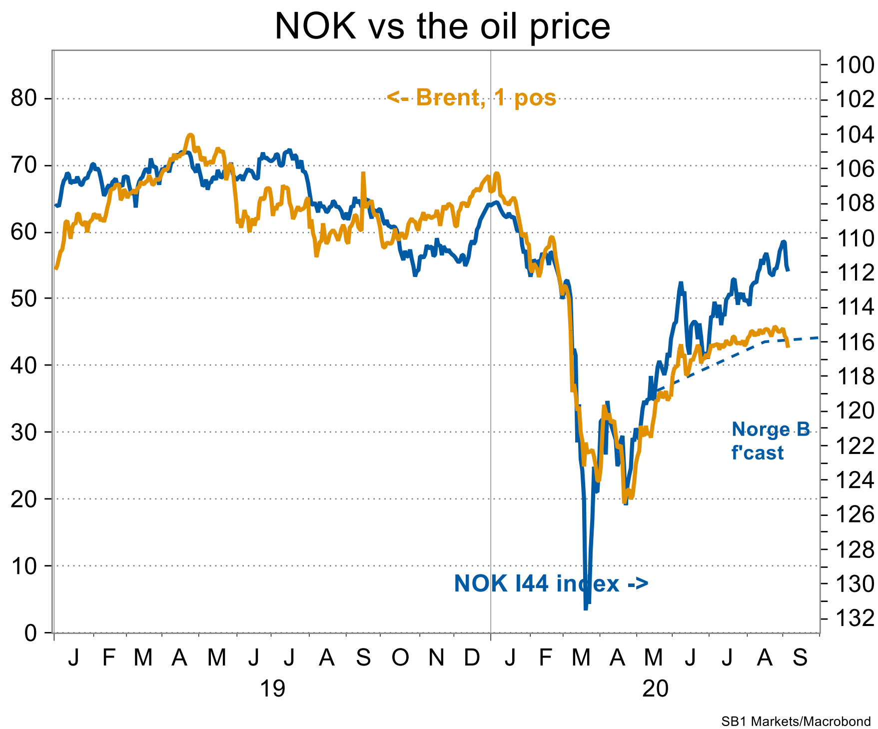
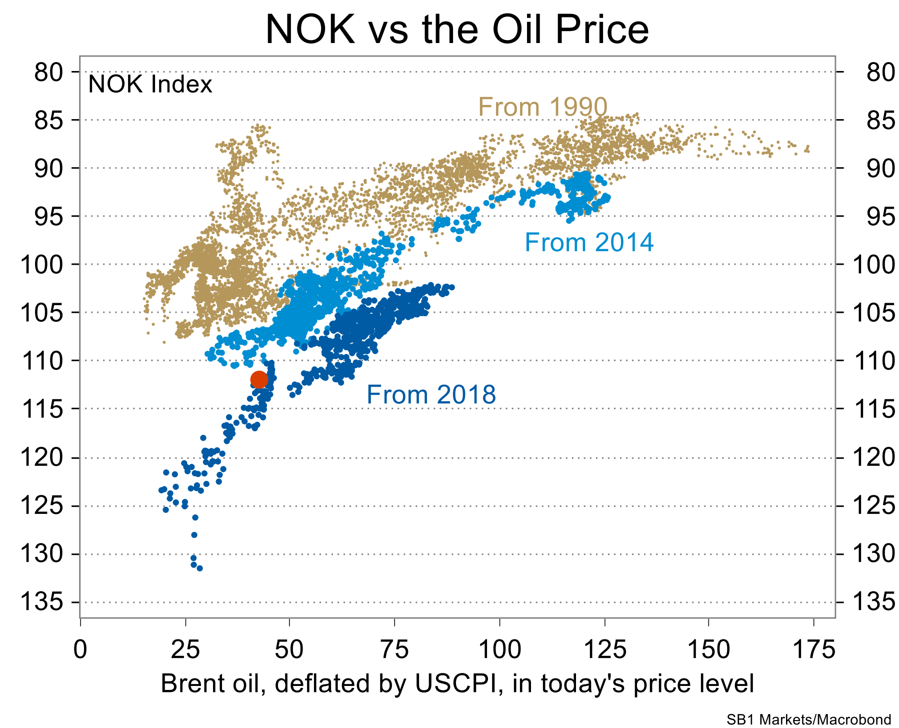
It's not the oil price. NOK has been strengthening without much help from oil

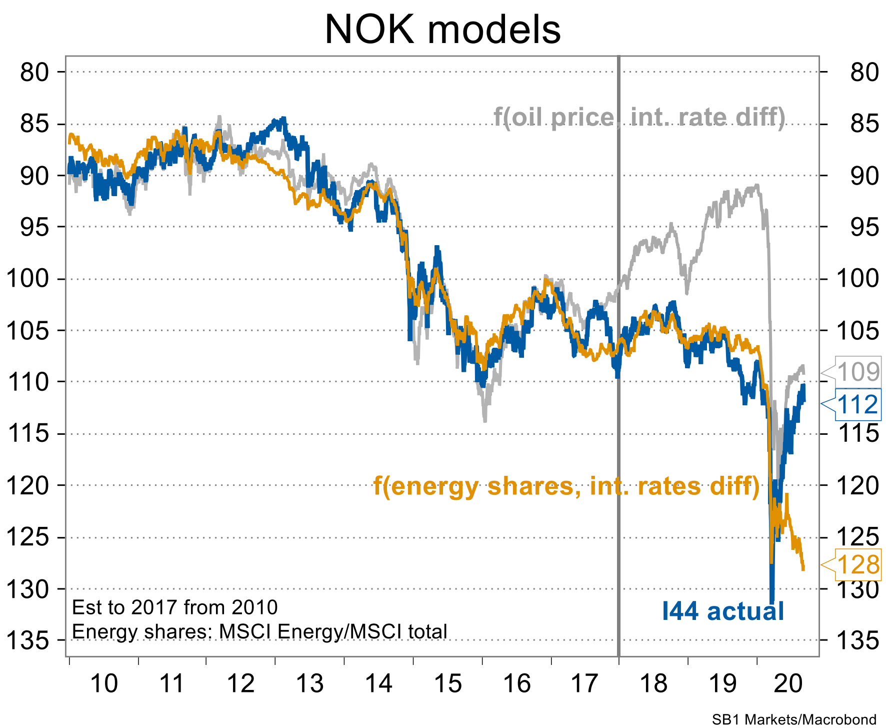


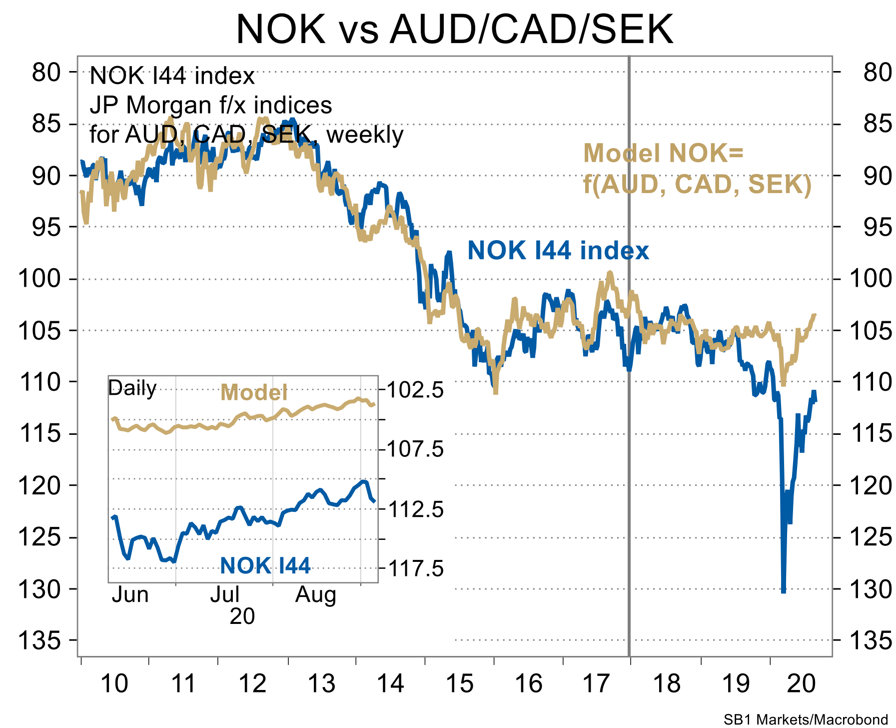


- The NOK has been much weaker vs the oil price than normal since 2018 but it has still correlated closely to the *changes* in the oil price like it used to be. Now the NOK is on the strong side vs the oil price, given the 'new' relationship since 2018

NOK has left the oil companies far behind but is still weak vs its peers

The NOK weaker than the other super-cyclicals last week

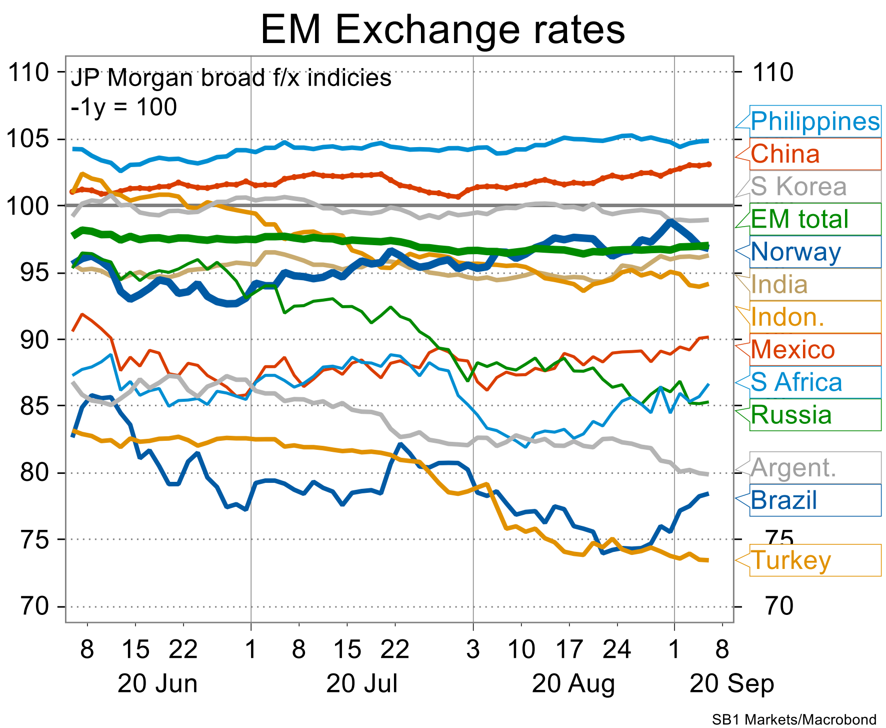


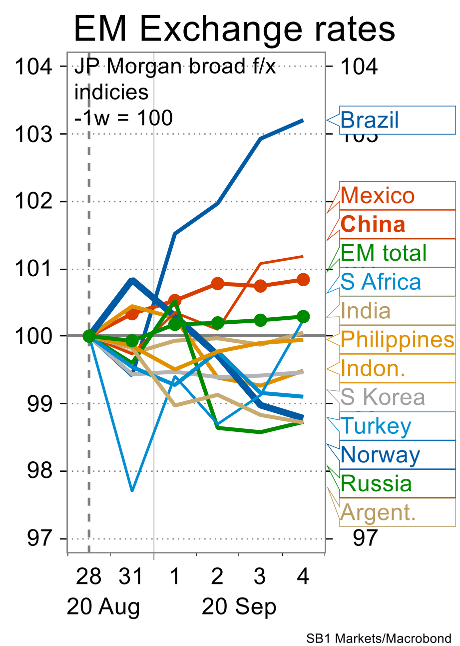


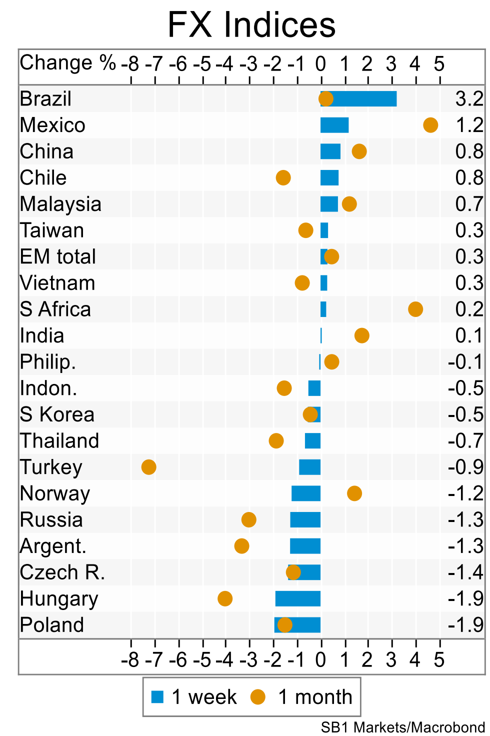
- On the alternative NOK models
  - Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
  - Now, the NOK is 17% '<u>too strong</u>' vs our oil equity 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 8% <u>below</u> our AUD/CAD/SEK model forecast (up almost 1 pp last week)

EM currencies up last week & month. A small Brazilian recovery

The CNY is on the way up too







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