21 September 2020

Macro Research

Week 39/2020

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The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
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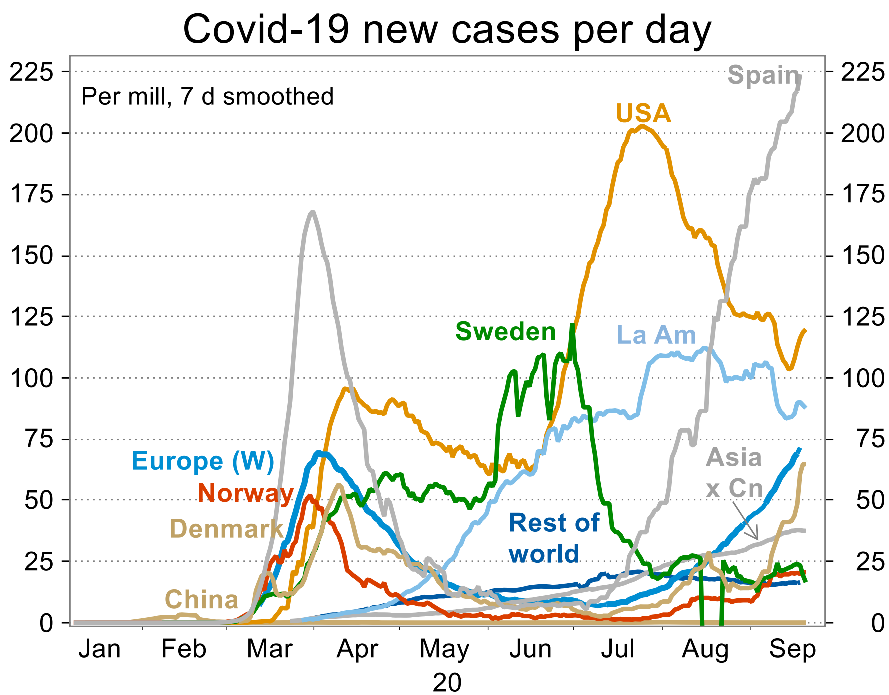
Last week:

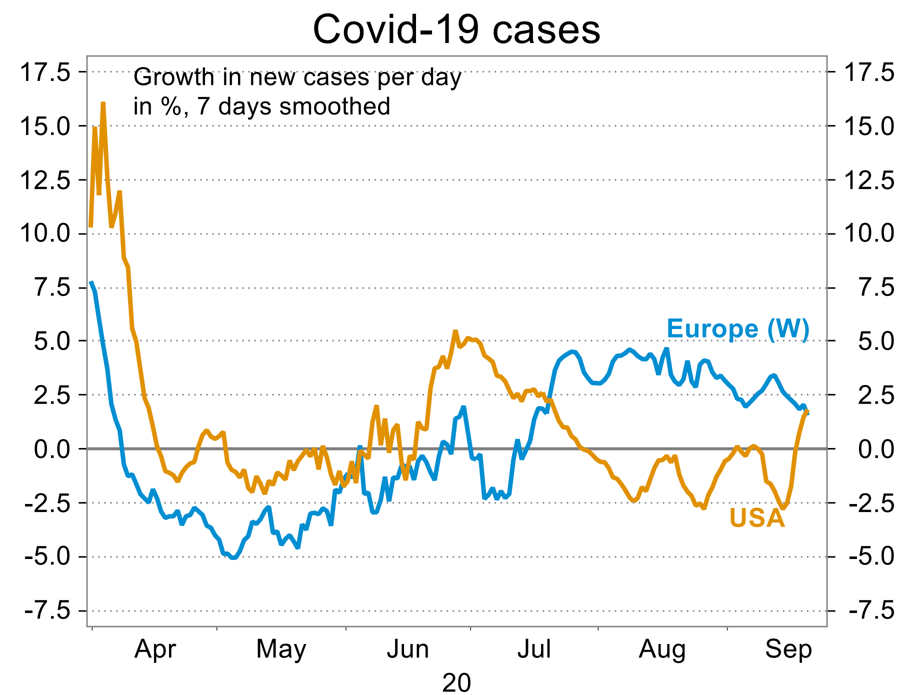
- **Corona news:** The number of new daily cases in the US turned up last week, we assume temporarily, following a decline by almost 50%. Hospitalisations and deaths are still low (vs. spring levels) – and the economic costs of turning the curve have been limited, the recovery has at least not stalled. The no of new cases in Europe is still on the way up but the virus is far less aggressive than before, the no of hospitalisations and deaths are even lower than in the US (vs. no of new cases). However the no of deaths doubled last week, both Spain, France, Italy and UK contributed. In Norway, growth in cases has stabilized, while Denmark continued to report an sharp acceleration
- **China August data** came in above expectations. **Industrial production** rose another 1% m/m and is back at the pre corona trend path. **Investments growth** is slowly easing, up 4.2% m/m and the gap to the trend before corona is shrinking (still at 4%). The weakest data point is **retail sales**, which are growing but remain 7% below the old trend. **Services** in total are up 2% vs. Dec, but is still 3% below the pre corona trend path
- **The FOMC** came across as slightly less dovish than expected, stating that interest rates will be kept at zero until inflation has reached 2% and is on track to moderately exceed that level. Thus, the Fed does not have to wait raising rates until actual average inflation over some time has reached 2%; it will be sufficient that the forecast implies so. Q4 2020 GDP revised up by almost 3 pp to -3.7% and unemployment down by 1.7 pp, vs the June forecast, illustrating the huge uncertainty in any forecast these days! (Both OECD and IMF revised their US & global forecasts sharply up last week). The FOMC did not promise any increase in bond purchases, as some had expected. **US retail sales** growth slowed further in August, following a steep rise the prior months. However, that's not surprising as sales are 3% above the pre corona trend. **Manufacturing production** growth also slowed in August, and the gap vs the February level is still wide, at 7%. **The first September manufacturing surveys** rose but are not signalling a rapid recovery from here – but still decent growth. More evidence of a housing market recovery; the **Homebuilders' index** rose to a new ATH and housing starts fell just marginally, after soaring the past months. **New jobless claims** are slowly heading down
- **The Bank of England** held the interest rate unchanged at 0.1% and will continue the bond purchase programmes
- **Eurozone industrial production** rose 4.1% in July, and ¾ of the decline in March/April is reversed (but 7% is still missing, like in the US, in August). Germany the weakest of the major countries
- **Norges Bank Q3 Regional Network survey** was weaker than we expected. The Network expects a substantial slowdown the coming months, to a 0.4% growth pace, from 2.9% in May-July (however, we do not interpret these figures literally due to the huge changes in activity recent months, but the forecast was anyway not strong)! The construction sector is expecting close to a normal growth rate the next 6 month, others not. Oil related, exports and household services are expecting a decline. In addition, Mainland businesses are signalling what will be the sharpest cut in investments in 3 decades, if they do what they say (and not just to the Network survey)

US has turned up again, Europe continues upwards. Norway has flattened

The US curve has been tilting downward but not the past week. A slow slowdown in Europe



SB1 Markets/Macrobond

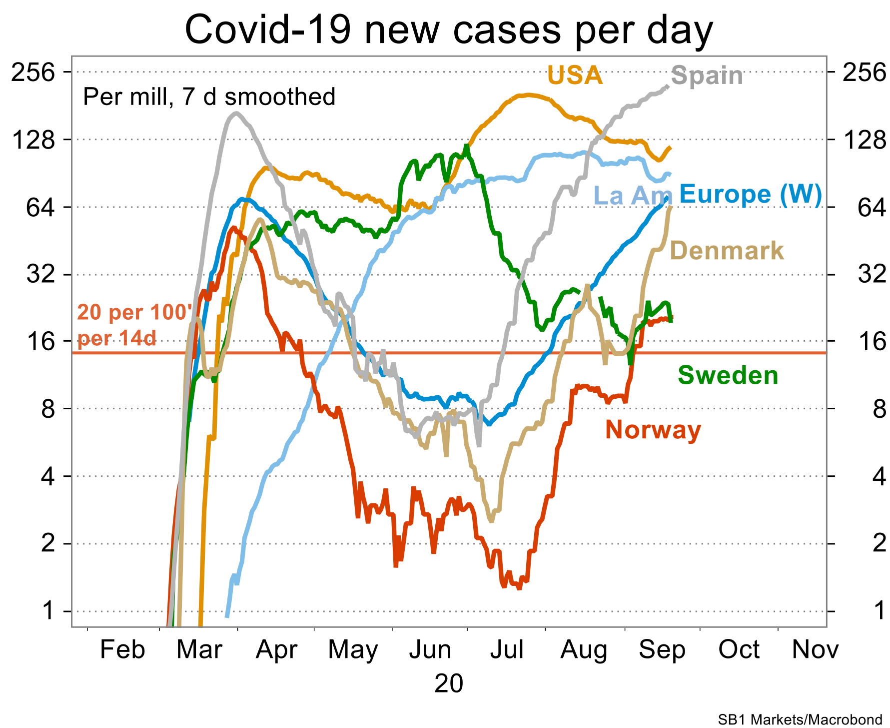


SB1 Markets/Macrobond

- **The number of new cases in the US** has been moving down since late July. The number of new cases increased again the past week, in most states. The number of hospitalised patients and the number of deaths increased marginally to, but these levels are low and trending down too. Most likely, the curve will soon tilt down again**. The economic cost of turning the curve has been limited**
- Growth in new cases in **Europe** has slowed somewhat but the 'R' remains above 1. Clearly, more measures are still needed – but the public seems to lose patience several places. The no of hospitalisation & deaths rose last week but remains low, the latter at just 2% of all deaths. (And 0.4% in Norway)

Norway, Sweden stabilized, Denmark keeps rising

We are all in the 'red zone' now, but just Denmark is on the way up



- Demark has announced some new restrictions, like Norway (no changes in Norway since mid August)
- The no of cases has risen more than 10x from the July trough, but remains lower than in most other European countries
  - » Luckily, the number of hospitalised (16 persons now) and deaths in Norway remain very low (11 persons since Aug 1, out of 5.000 deaths (0.2%)

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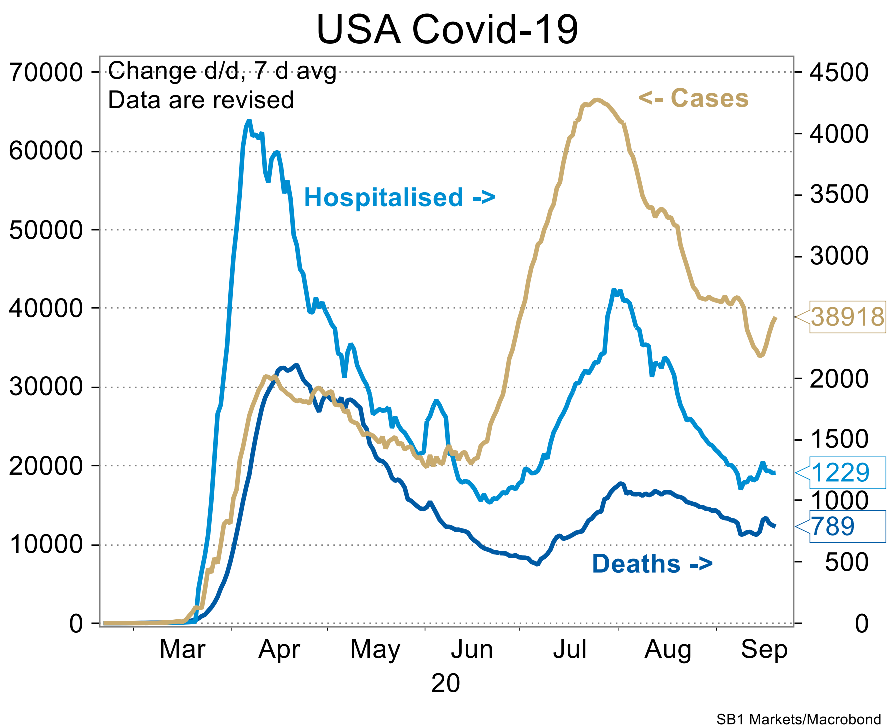
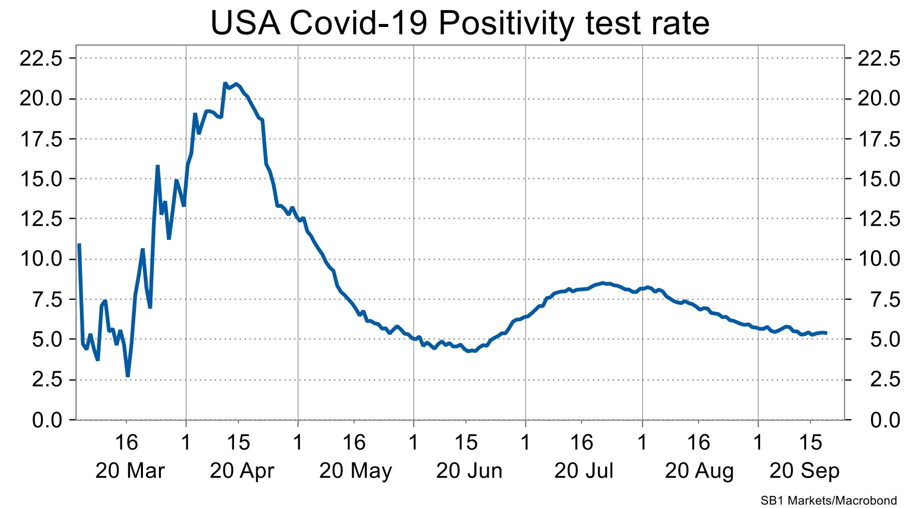
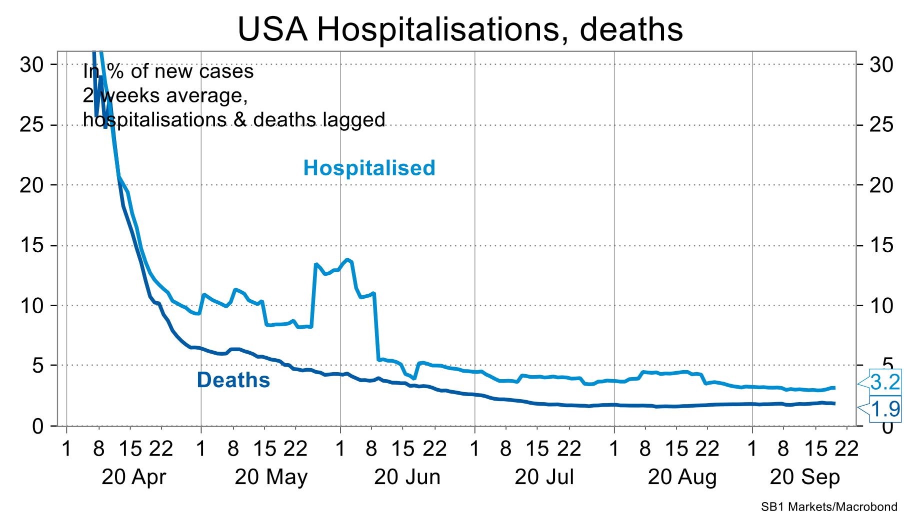
USA: New cases down almost 50%, hospitalized & deaths down too

Cases, hospitalized and deaths up past two weeks but are all trending down



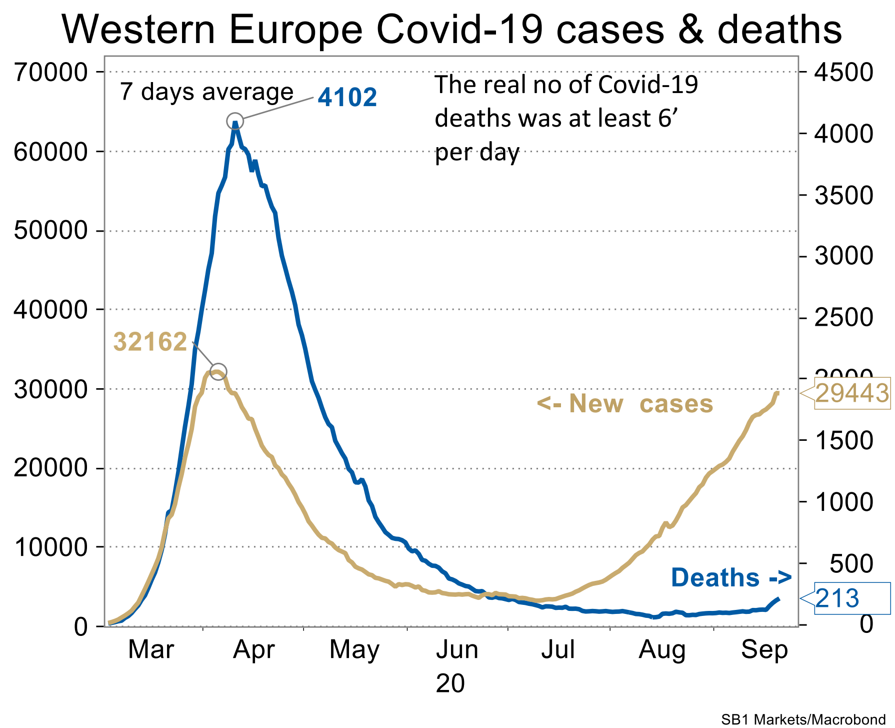


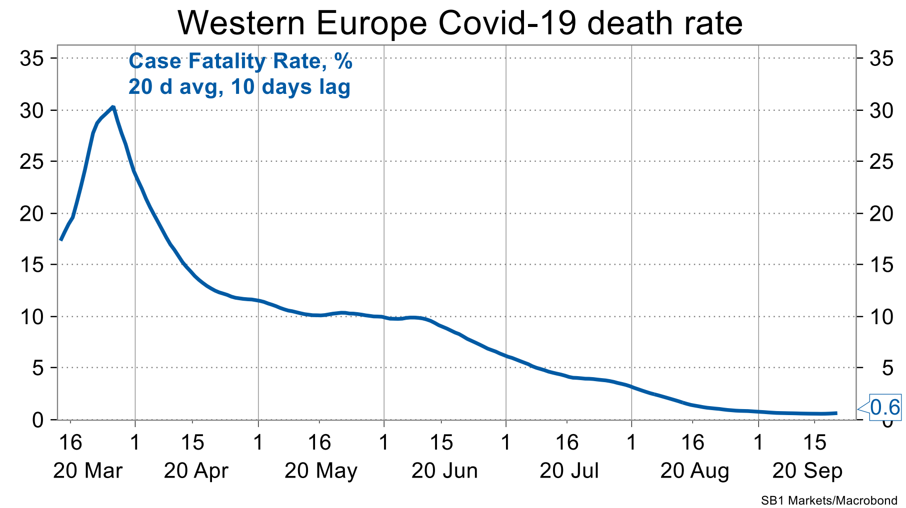


- The hospitalisation rate is far lower than during the early phases of the pandemic but has not fallen further the past two months
- The death rate (CFR) fell sharply until late July but has since flatted out – at just below 2%. In Europe, the CFR has fallen to 0.6% (and it is half of that again in Norway). This indicates that just a fraction of new cases in US are discovered (or that the European version of the virus is less aggressive). A rather high (but not increasing) positivity test rate at 5% also indicates a much higher infection rate than in Europe

More Covid deaths in Europe last week but still few, just 2% of total deaths

The CFR has fallen to close to 0.6% - from 10 – 20% during the spring, but more deaths last week





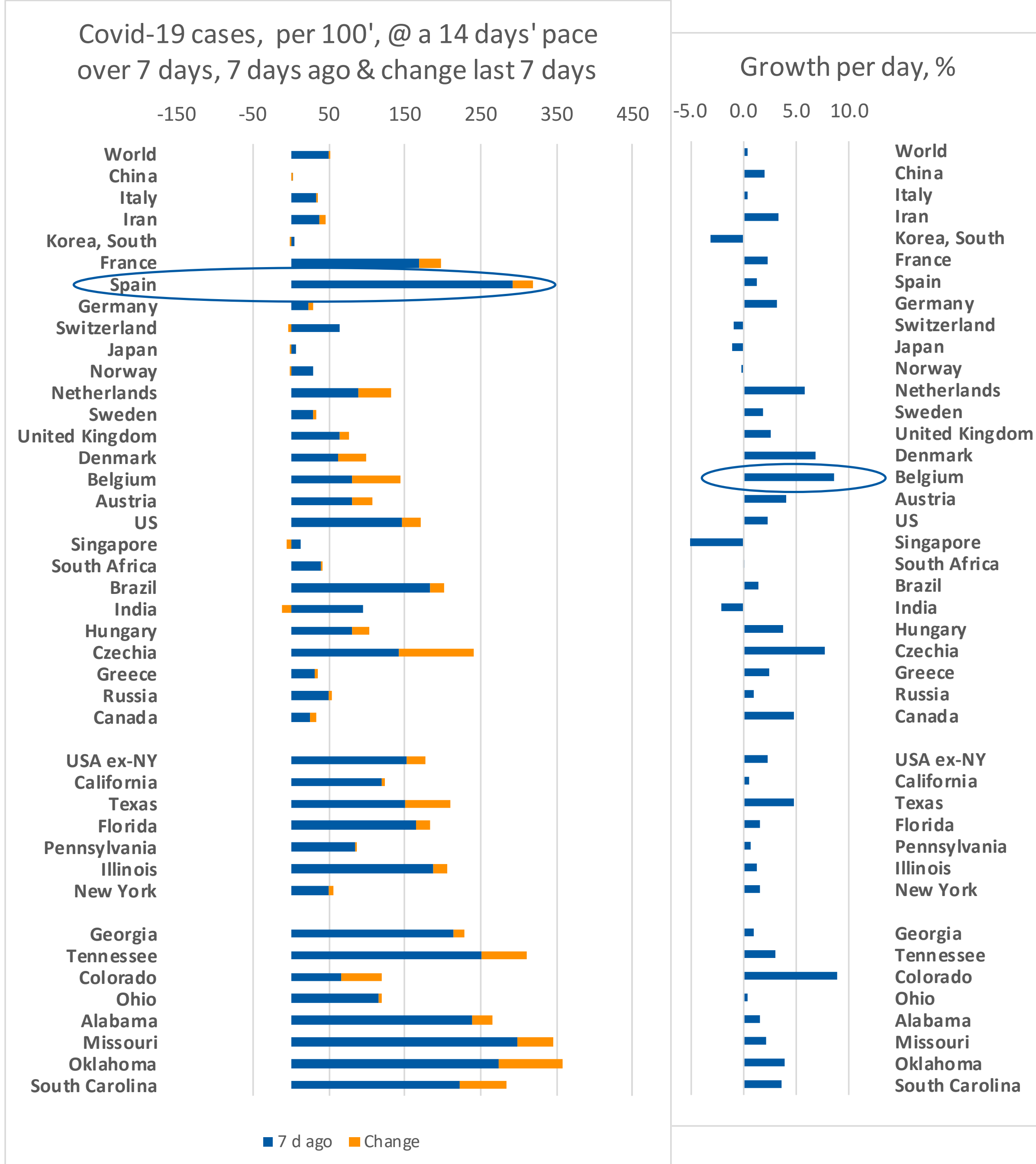
- Last week, the number of deaths in Europe rose sharply, a doubling (10% per day), to above 200.
  - » The number was highest in Spain, followed by France and UK (all up some 2 x)
- Still, Covid-19 deaths equal 2% of the daily number of the 9.000 deaths per day in Western Europe. Do not forget: That was not the case in early April, the no of death was 70% higher than normal due to Covid-19 (40% of all deaths were Covid-19 related)

- The test regime is far more rigorous now than during the spring where the real no of infected was many times higher than the no of positive tests. The 'real' death rate was miles below 25% at the peak. However, it seems unlikely that the death rate back then was far less than 1% as the health system was overwhelmed with patients
  - » The present number of deaths is not visible in overall death stats in any European country
- In addition, the number of hospitalisations is a small fraction compared with the levels during the spring and hospitals can return to their normal activities. The number of Covid-19 patient has increased in France last week, but has fallen in Spain
- We assume that over the coming weeks, the number of really sick patients, and corona related deaths will become the main gauge of the corona crisis (as it was during the spring), and the focus at number of new case number will diminish

US & the rest: A comparison

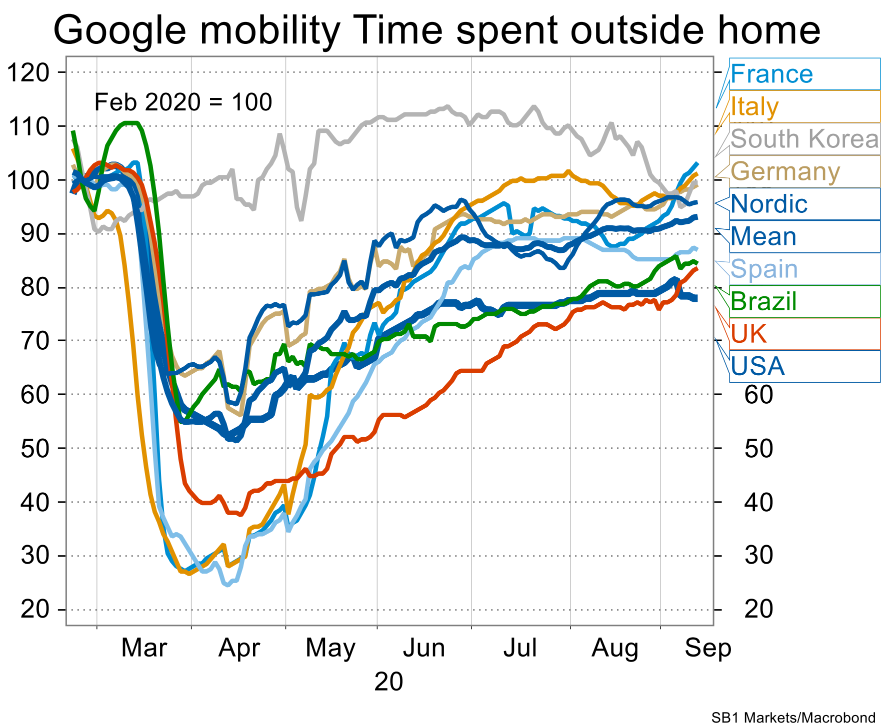
It won't lay down…

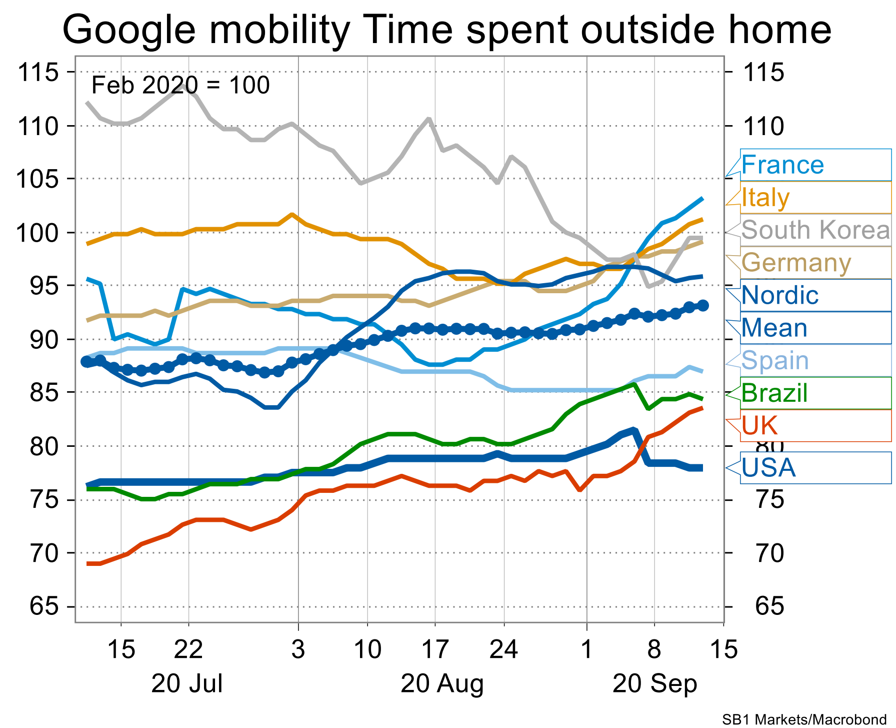
- Most all countries reported an increase last week:
  - » US is well down from the July peak but up last week, most states up again
  - » In Europe, cases are still increasing but growth is slowing down. Spain is reporting the highest number but growth is at least slowing
  - » Belgium and Czechia reported the highest growth rates last week
  - » The no of new cases in Norway has stabilised over the past two weeks
- We do not trust all of these data
  - » There are changes in test policies & capacity
  - » Some countries do not report properly



Time spent outside home on the way up (but not in the US recent weeks)

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

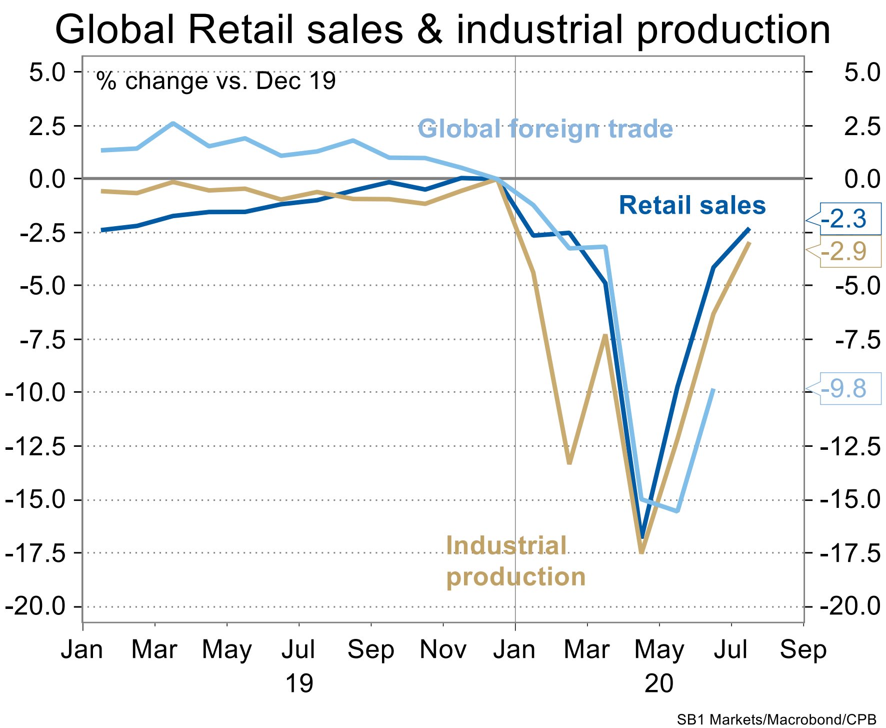


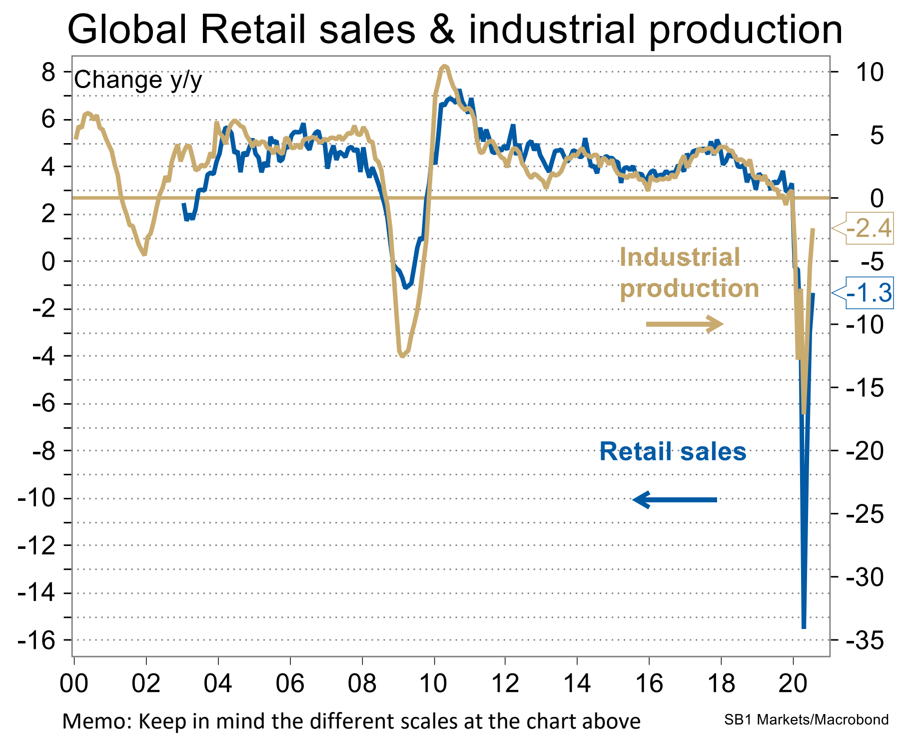


- The Nordics are quite similar, except for the 2 – 3 weeks from mid March when time spent outside home fell less in Sweden than in Denmark and Norway

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

July retail sales are just 2.3% below the Dec 19 level in July, manuf. 2.9% below





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

- Global retail sales grew by 1.9% m/m in July, according to our estimate, after rising 6% in June. Sales are 2.3% 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 3.6% m/m in July (our est), from 7% in June. Production is just 2.9% below the pre corona level
- Global foreign trade shot up 7% m/m in June but was still 10% below the pre corona level. No July data

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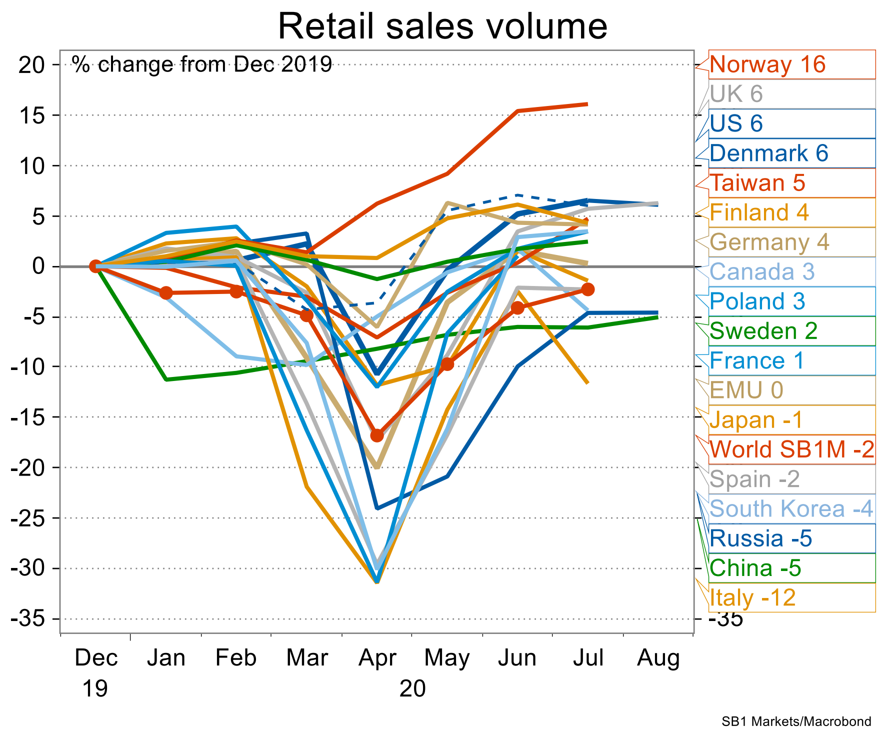
Global retail sales are on the way back to pre corona levels

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



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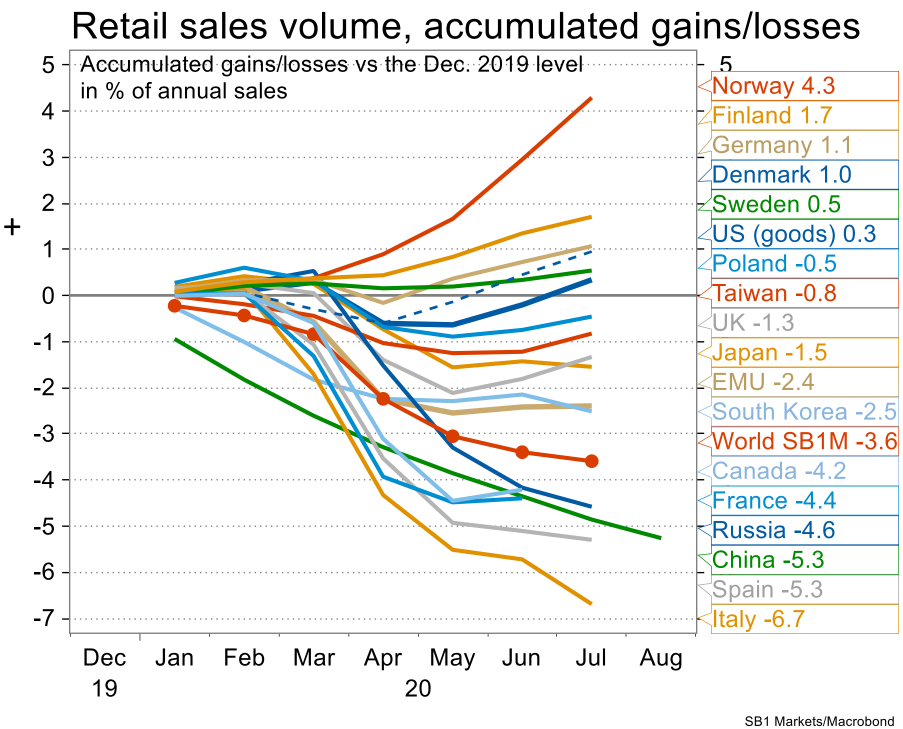

- Global retail sales rose 1.9% in July, and sales were just 2% below the pre corona level. Most countries are now reporting higher sales than before corona hit. Norway is in the lead, big time
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 6% above the pre corona level in July but total sales during the first six months of 2020 were still 'just' 0.3% above the pre corona level, measured in % of annual sales, 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

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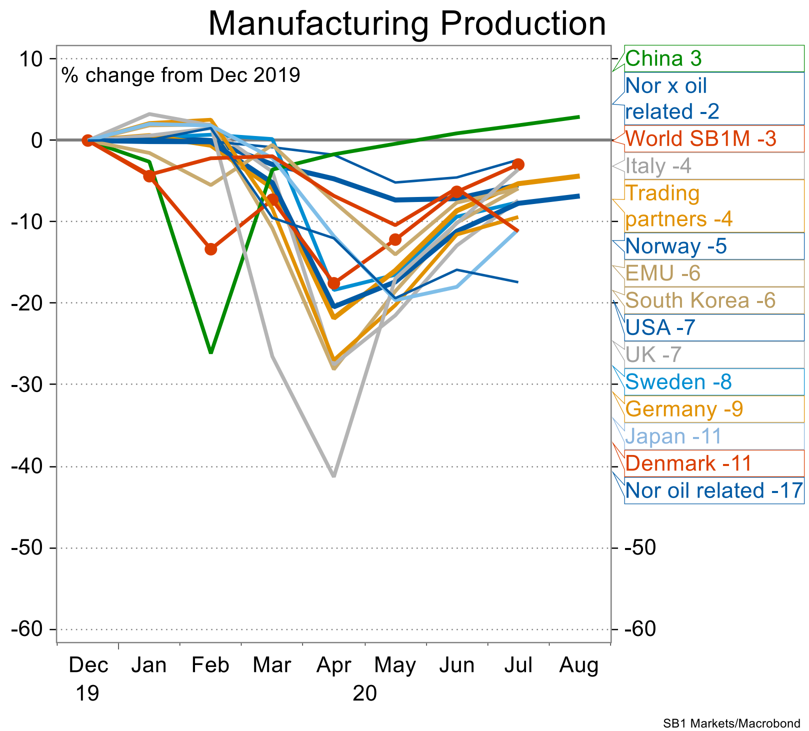
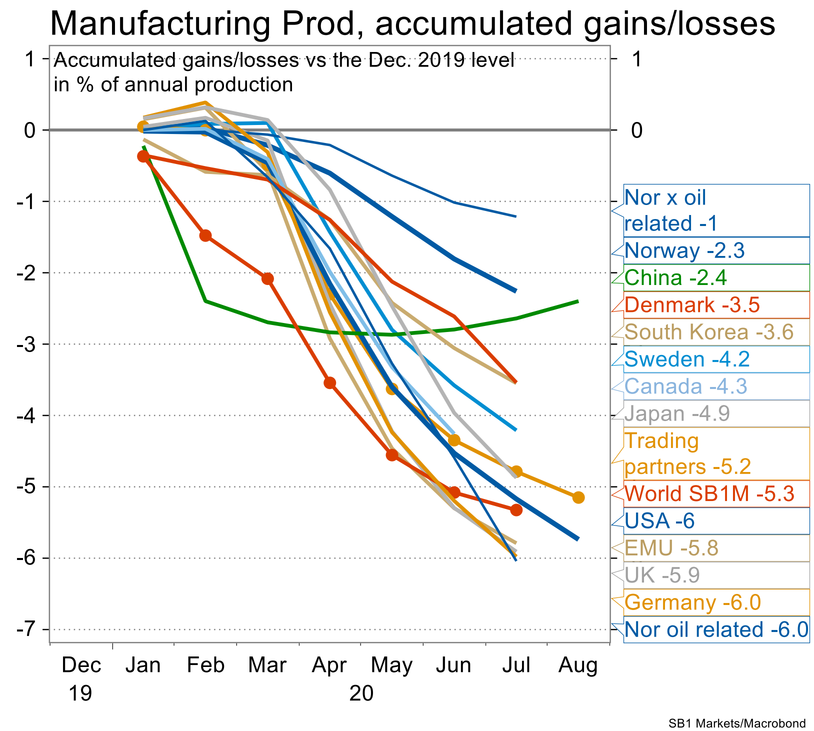
Manufacturing production on the way back, still some 5% of 2020 'is already lost'

Production rose by more than 3% in July and the gap will probably be closed within a month or two

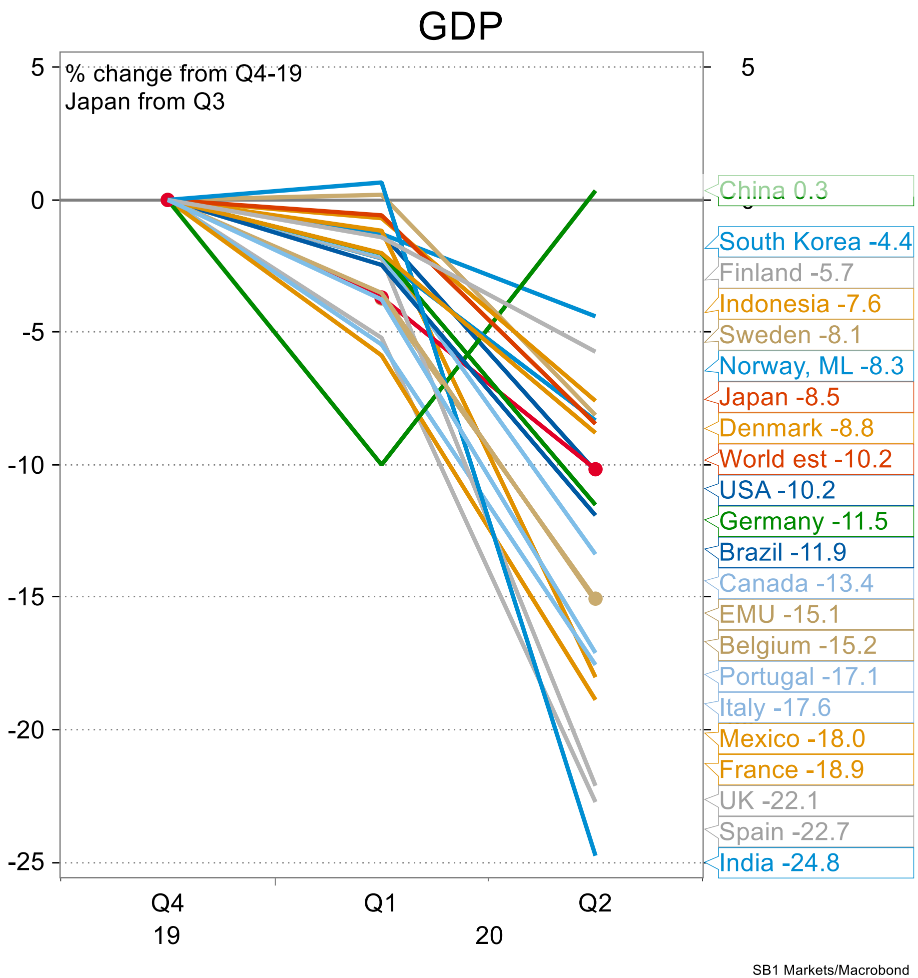




- Manufacturing production rose approx 3.5% in July but was still down 3% vs. the Dec level
  - » Compared to the Dec 19 level, China is in the lead (3% above the Dec level) followed by Norway and the US. Norway oil related manuf. at the bottom!
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 7 % below the pre corona level in Aug. Total production during the first 7 months of 2020 was 6% below the pre corona level, measured in % of annual production. *This illustrates the loss of production during the corona crisis, so far*
- Service sector production is not included in these retail sales data – and service consumption has fallen sharply everywhere

Global GDP down 'just' 6.7% in Q2 but down 10% v. Q4

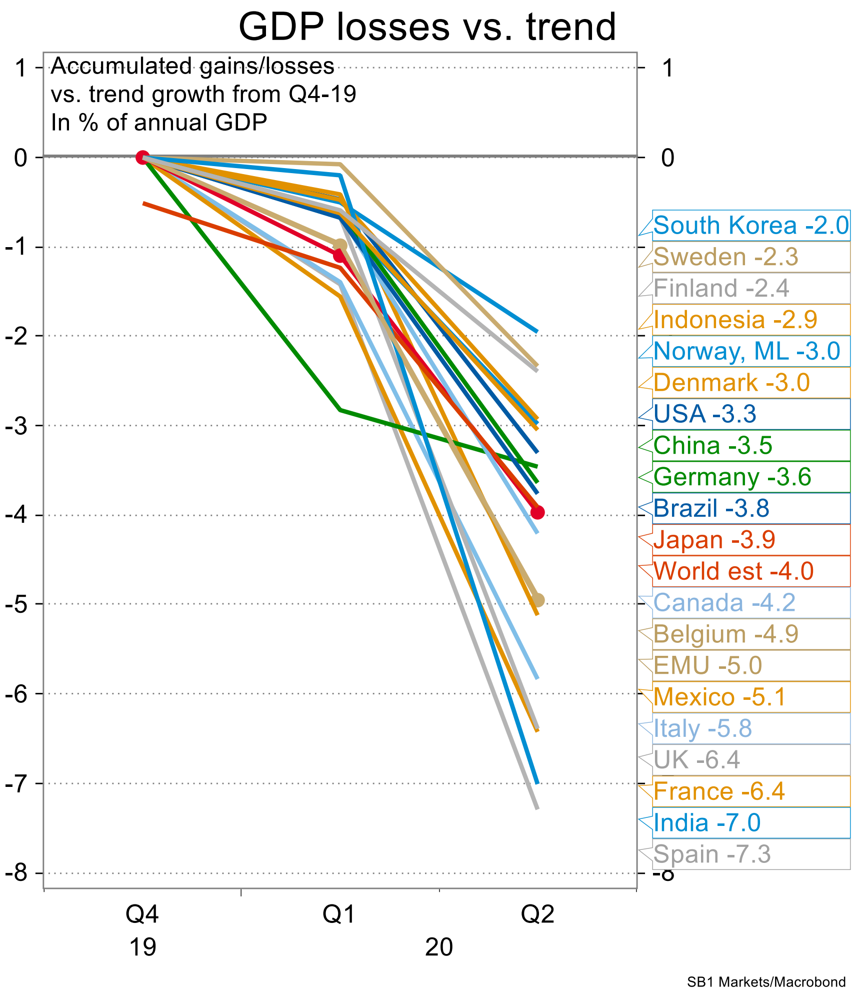
Except China, all countries we follow have reported lower GDP

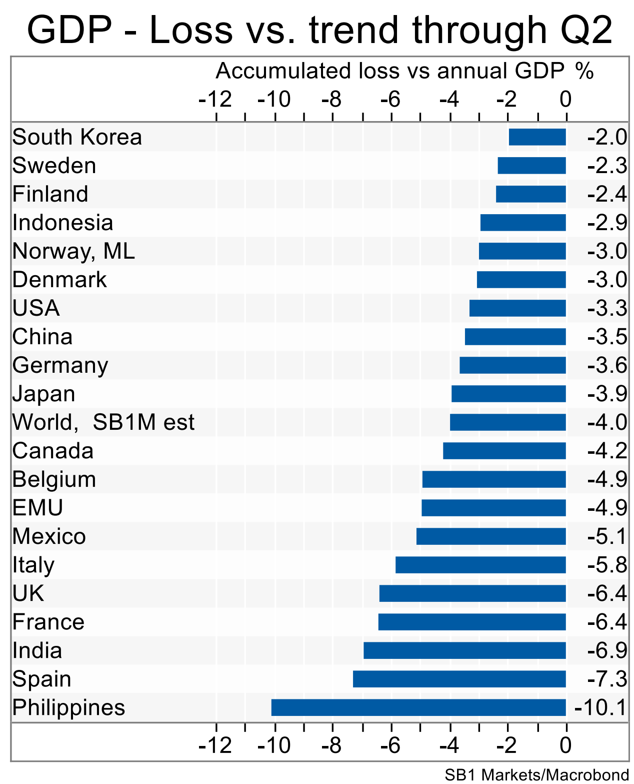


- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, bringing the GDP level up to slightly above the Q4 level
- In most (all?) other countries, GDP fell sharply in Q2 – and global GDP probably fell by approx the same amount as in Q1, or a tad faster
- If so, global GDP has fallen by 10% from the Q4 2019 level, and it was 10% below the pre corona trend path (see chart next page)
  - China up 11.5% q/q, and is up 0.3% from Q4
  - US down 9.1% q/q
  - EMU down 11.8% q/q
  - UK down 20.4%
  - Sweden down 8.3% in Q2, Denmark 7%
  - Norway Mainland 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

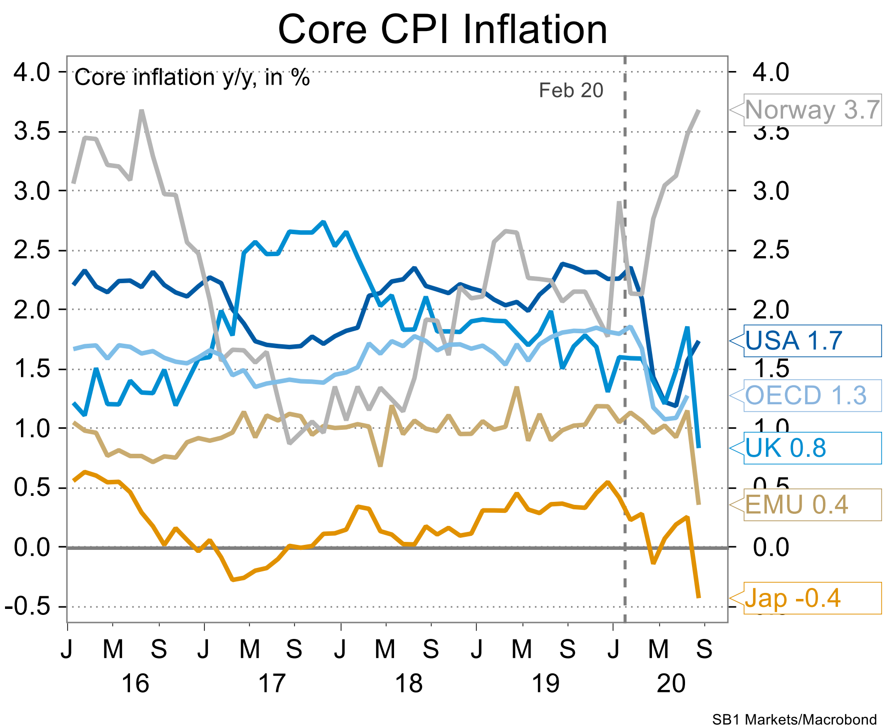


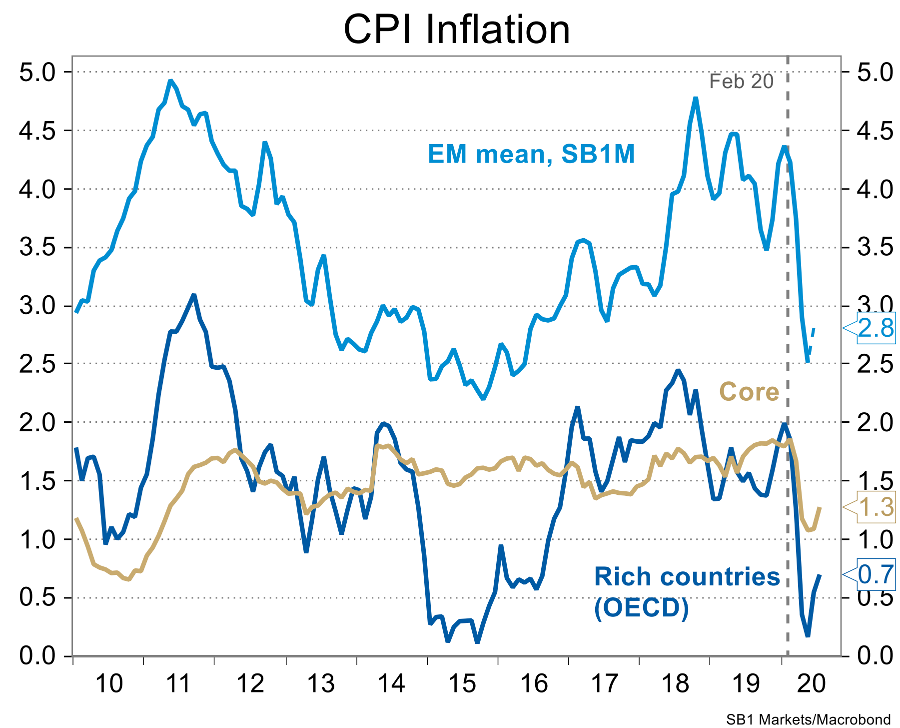


- So far, Sweden has lost less than most other countries, barring South Korea
- Spain has reported the largest loss in DM

The inflation impact has so far been a downward shift – Norway the exception

Some temporary factors such as VAT cuts have contributed, we are not too worried about deflation

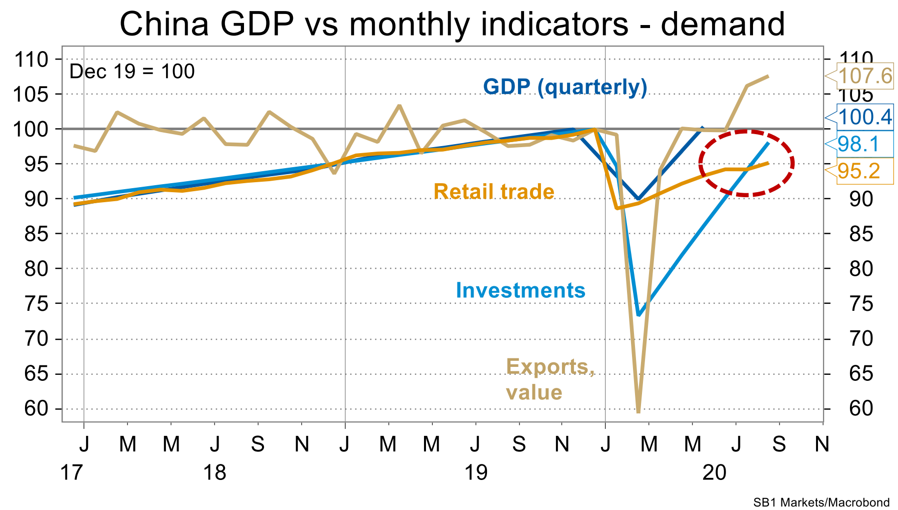


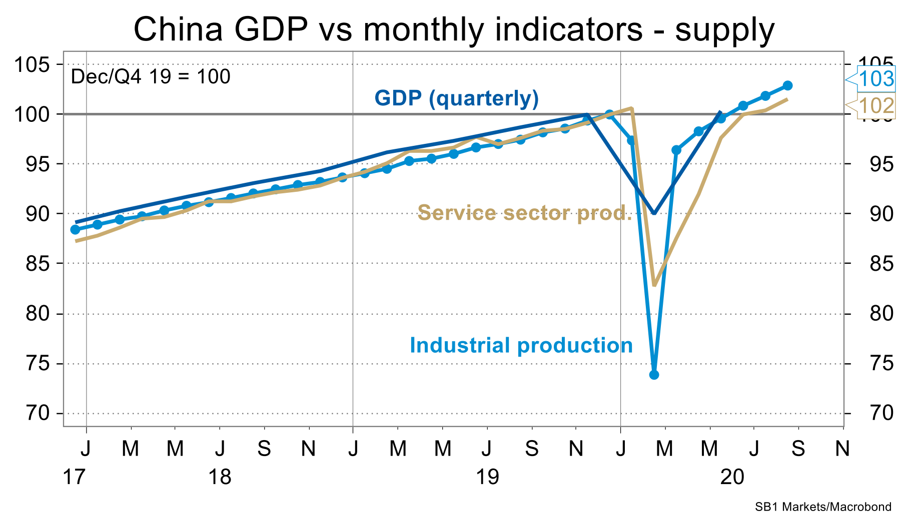


- We expect core inflation to pick up the coming months as demand is recovering most places

August data above expectations but retail sales are still lagging

Industrial production back on the pre corona trend, retail sales 7% below, investments 4%





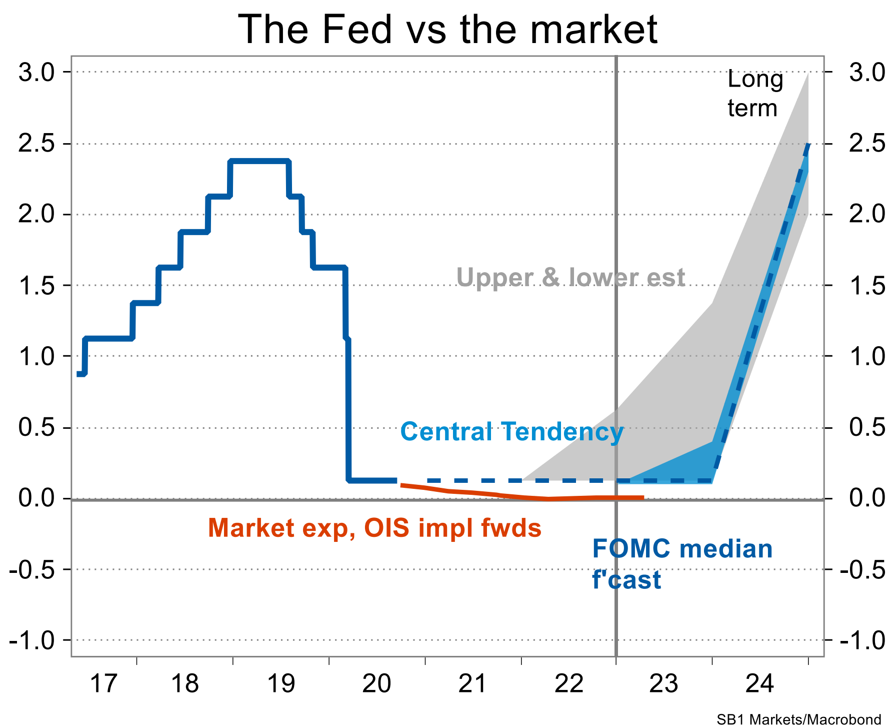
- **Industrial production** rose 1.0% m/m in August and 5.6% y/y, 0.5 pp better than expected. Production has now fully recovered, after 8 months, back at the trend from before Covid
- **Service sector production** increased by 1.1% and is 2% above the Dec 19 level – but almost 3% below the old trend path
- **Retail sales** rose 1.0% m/m in volume terms in August, faster than the 'normal' growth rate. Annual rate at -1.6% (our est) and the gap to the pre corona trend path is wide, at 7%. If sales growth do not pick up speed, the gap may not be closed before early 2021. In nominal terms, sales were up 0.5% y/y, expected at 0%. CPI inflation has been slowing, core CPI is up just 0.5% y/y and may help sales the coming months?
- **Investments** rose 4.2% m/m in August. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly, now 4% below. The gap will soon be closed
- **From last week:** Credit growth has stabilized at a 12% pace

In sum: Final demand for goods is still below the pre corona trend but the gap is narrowing. August data came in above expectations, however, retail sales are the weak link. In the US and Europe (and many others), retail sales have been the main growth engine the past few months

Some details at the following pages ☺

The Fed will keep rates at zero for at least 3 years, but no infl. overshoot in sight

The Fed was somewhat more hawkish than we expected as to whether inflation has to exceed 2%



- There were no substantial market reactions to the Fed's announcements. Long term interest rates rose moderately due to higher inflation expectations (not easy to square with Fed's announcement). Stock markets fell, perhaps because Fed was judged to be at the dovish side, and that Powell did not impress that much during his press conference. The pressure for fiscal stimulus was also put somewhat at the backburner. (Or it might have been trouble in the tech world, the lowered the NASDAQ and others)

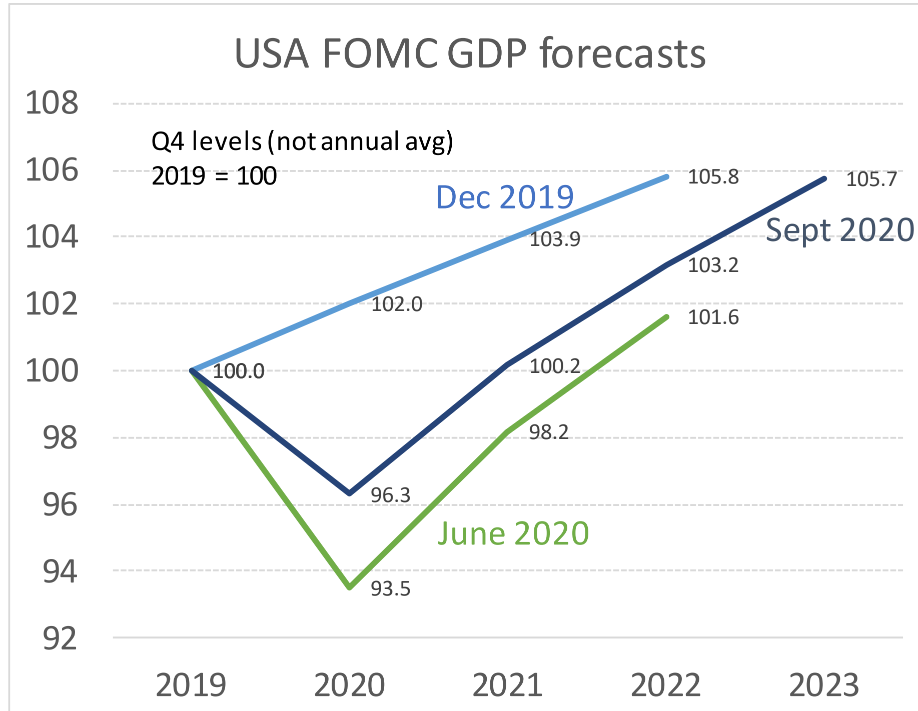
- *With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent*
- The Committee expects to maintain an accommodative stance of monetary policy until these outcomes (infl. and maximum employment) are achieved. (No further definition of "maximum employment was offered)
- Rates will be kept at <u>zero</u> '*until labour market conditions have reached (…) maximum employment and inflation has <u>risen to 2 percent</u> and is <u>on track to moderately exceed</u> 2 percent for some time.* The Fed expects inflation to reach 2% only in 2023, thus, rates will be kept zero at least until this. <u>However, Fed does not have to see actual inflation exceed 2%</u> in order to start hiking, just the prospect of that to take place. Many had hoped for a more aggressive stance, like a promise not to hike before average inflation over some years had reached 2% (which was a not unreasonable interpretation of Powell's Jackson Hole speech 3 weeks ago)
- In addition, over the coming <u>months</u> (and not years) the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace (which already as slowed to a trickle…). Some had expected the Fed to promise an increase in its bond purchases – which also could have been consistent with the Jackson Hole message
- **All in all: A less dovish (or supportive) Fed than expected**

GDP, inflation revised up considerably from the June meeting – as expected

Q4 2020 GDP up 2.8 pp and unempl. down 1.7 pp vs June, and no changes to the Fed funds rate path

Percent

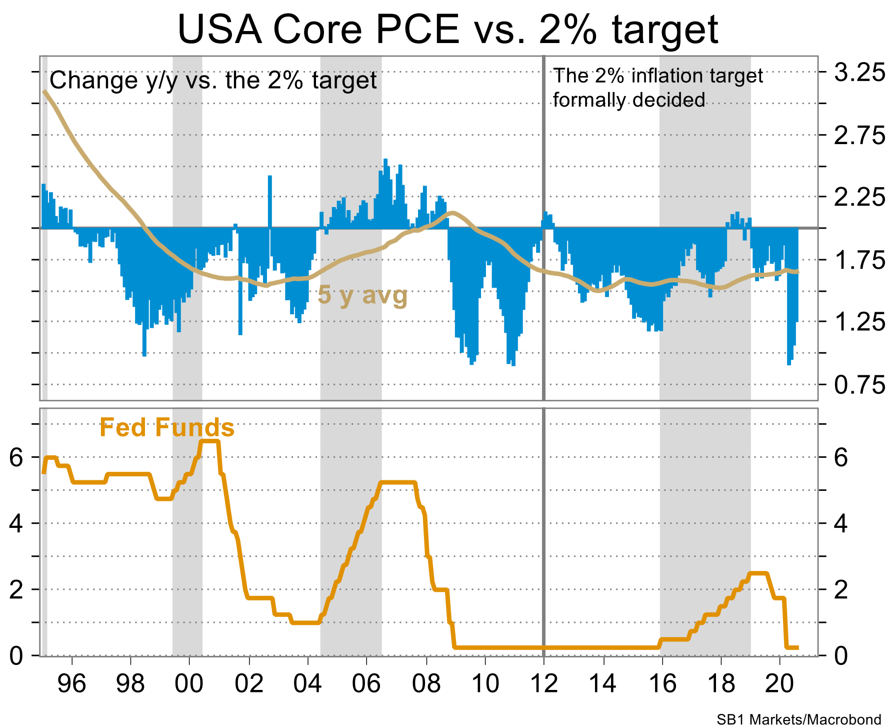
Variable	Median[1]				
	2020	2021	2022	2023	Longer run
Change in real GDP	-3.7	4.0	3.0	2.5	1.9
June projection	-6.5	5.0	3.5		1.8
Unemployment rate	7.6	5.5	4.6	4.0	4.1
June projection	9.3	6.5	5.5		4.1
PCE inflation	1.2	1.7	1.8	2.0	2.0
June projection	0.8	1.6	1.7		2.0
Core PCE inflation[4]	1.5	1.7	1.8	2.0	
June projection	1.0	1.5	1.7		
Memo: Projected appropriate policy path					
Federal funds rate	0.1	0.1	0.1	0.1	2.5
June projection	0.1	0.1	0.1		2.5

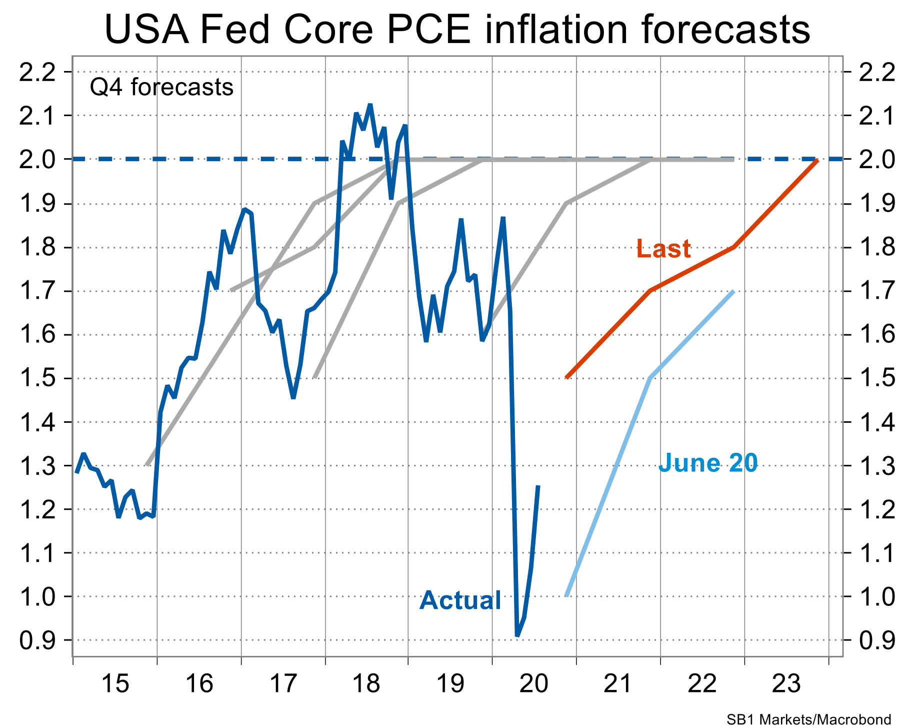


- PCE inflation (Fed's preferred price measures, which is running some few tenths lower than the CPI inflation) is expected to reach 2.0% first by the end of 2023. Hence, the Fed will keep rates at zero for at least this long, and raise the Fed funds rate only when inflation is on track to exceed 2%. The banks says now. Do not forget however, to September from June the Fed revised its inflation forecast up by up to 0.5 pp (check next page too)
- The revisions in GDP and unemployment forecasts were the largest on record, like the revisions in the opposite direction in June. Most likely the Fed will – as all others – revise its forecast several times before Q4 2023. So please, do not take for granted that rates will be stuck at zero for more than 3 more years
- The bank did not change its forecast for the longer term neutral policy rate – now at 2.5% nominal and 0.5% in real terms

Fed lifted inflation forecasts but do not expect any overshoot the coming 3 yrs!

The Q4 est. was revised up by 0.5 pp, to 1.5% - and 2% is not reached until end of 2023

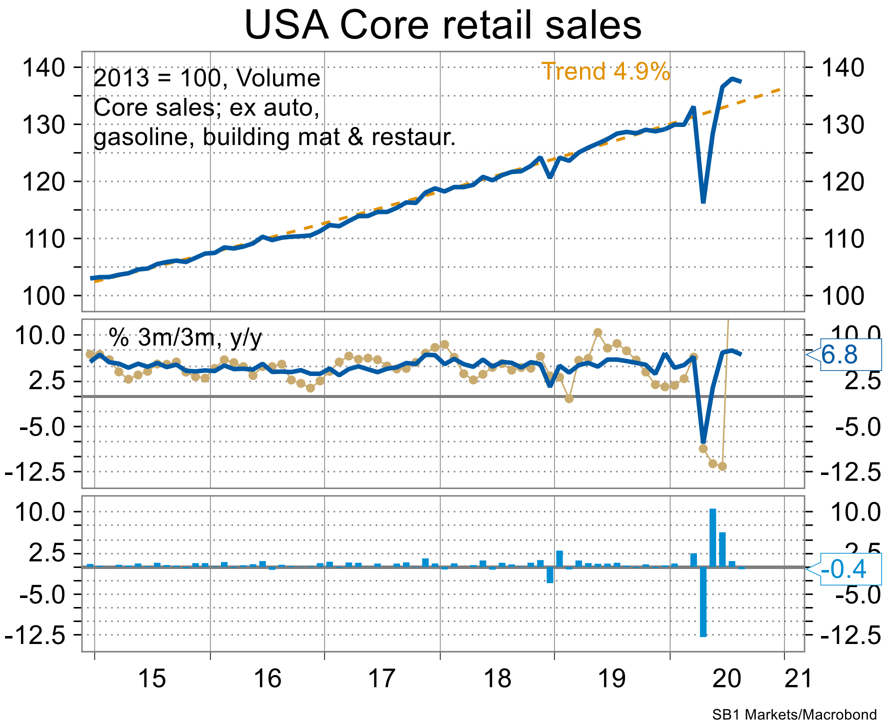


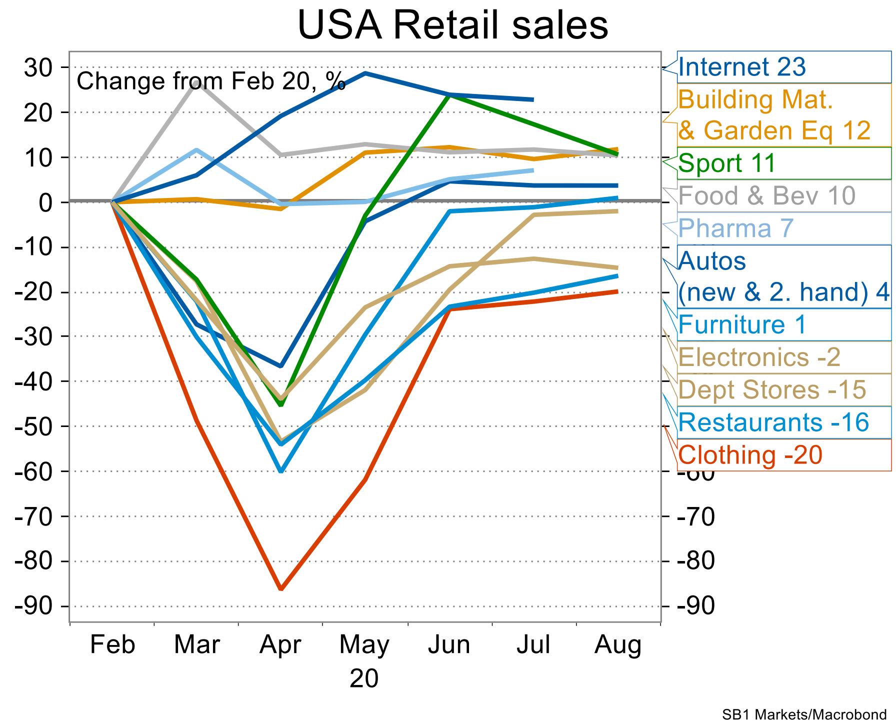


- The new ‘average inflation target’ strategy did not materialise in the FOMC inflation forecasts, as the committee do not expect to overshoot the inflation target, at least during the coming 3 years – even if inflation is and has been running below 2 % almost all the time since the 2% target was formalised back in 2012
- At the same time, the FOMC pledges to keep the signal rate at zero until inflation has (moderately) overshot the target for a while

Retail sales growth is slowing, core sales still 3% above trend

Purchases of sport equip, building & garden materials & internet have been thriving, easing now

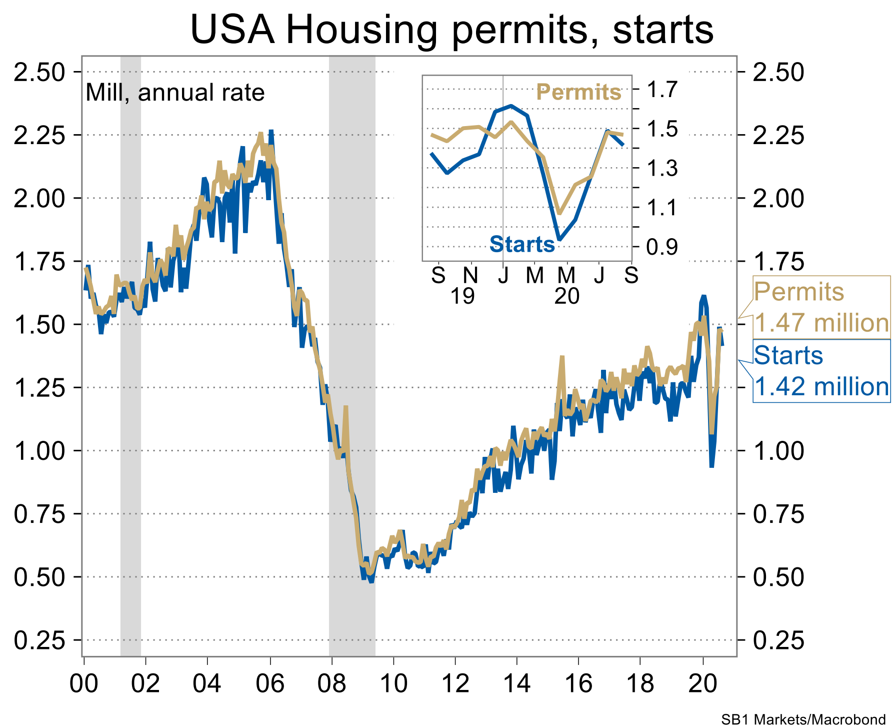


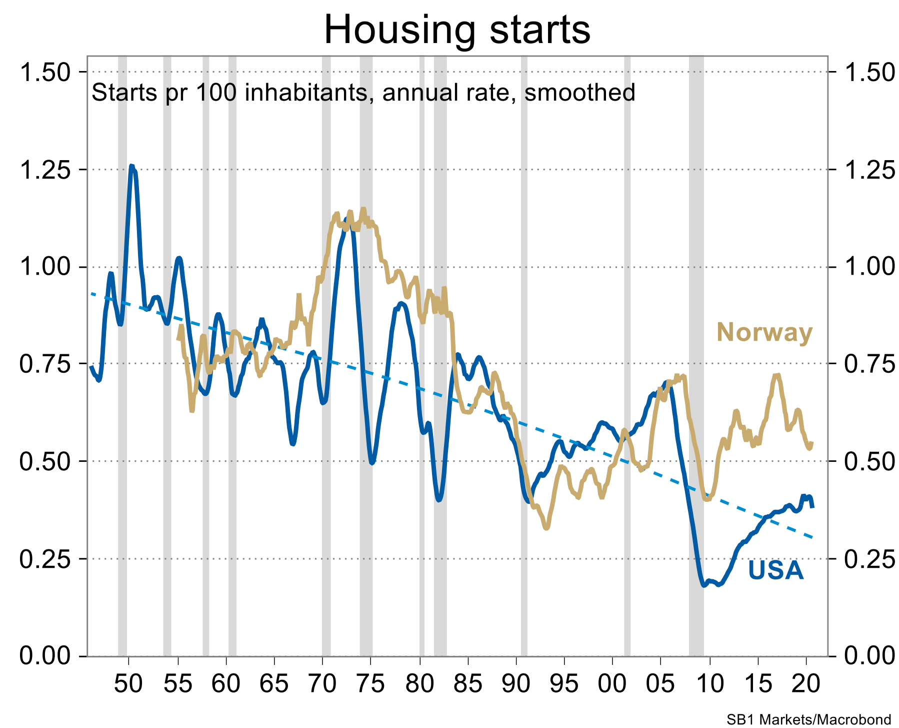


- Total nominal sales rose by 0.6% m/m in August, 0.3 pp weaker than expected
- Core sales (=control group) fell by 0.1%, we assume by 0.4% in real terms. Sales in July were revised down by 0.3 pp to 0.9%
- Sales are still 2.5% above the pre corona trend (which was rather strong), following a sharp recovery in May/June. We expect sales to slow further, as the upward speed recent months cannot possibly last, even if households have been generously (over) compensated for the loss of wage income by the government
- The gap between different sectors is narrowing as sales in those who have blossomed since February flattened out or retreated, and those who have struggled continued to rise slowly. Restaurants are down 16% vs February, not that surprising given corona measures. It’s harder to explain the continued 20% shortfall in clothing! Working for home and less social activity has reduced the need for buying cloths.

Housing: Back at the pre corona level, a sharp 'V'

Housing starts and permits fell marginally in August, after soaring the prior months

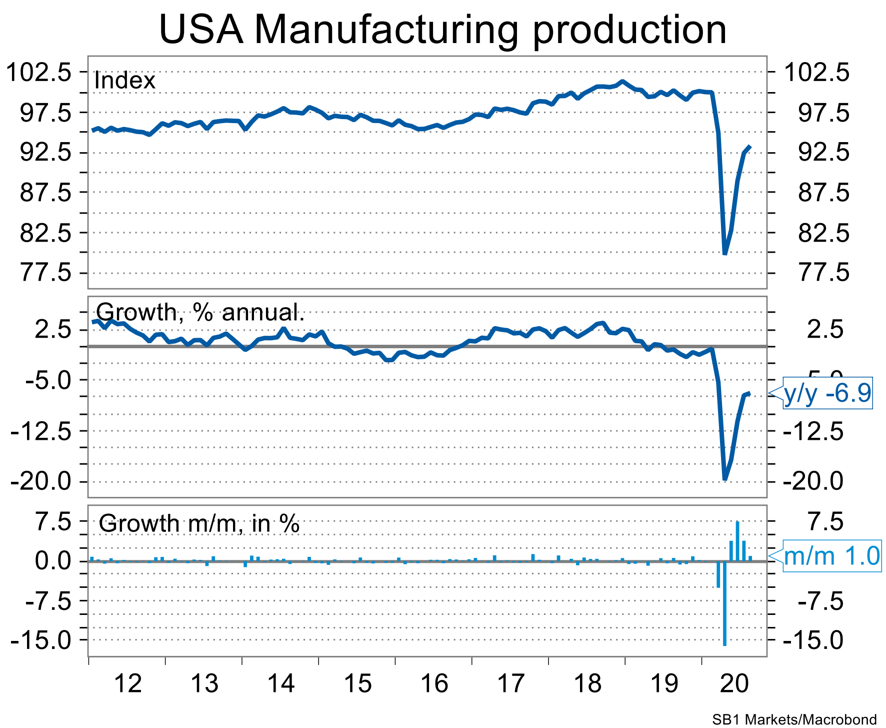


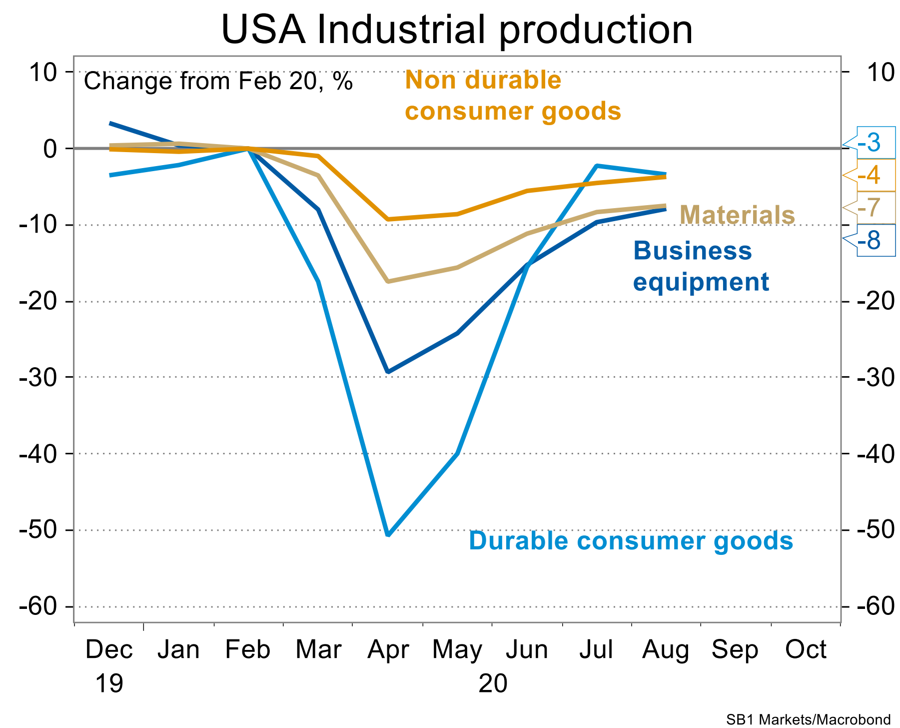


- Housing starts fell by 5% m/m in August and permits by 0.9%, following strong growth the prior 3 months (+63%). The housing market 'V' was quite narrow, it took just 5 months to come back to the pre corona level!
- The Homebuilders are reporting record high sales and are unusually optimistic on the outlook, low interest rates must be boosting demand for housing. Other housing market components are strong too, both new and existing home sales rising

Manufacturing rose 'just' 1% in August, 7% below February level

Production is lagging in all major sectors and August was not impressive

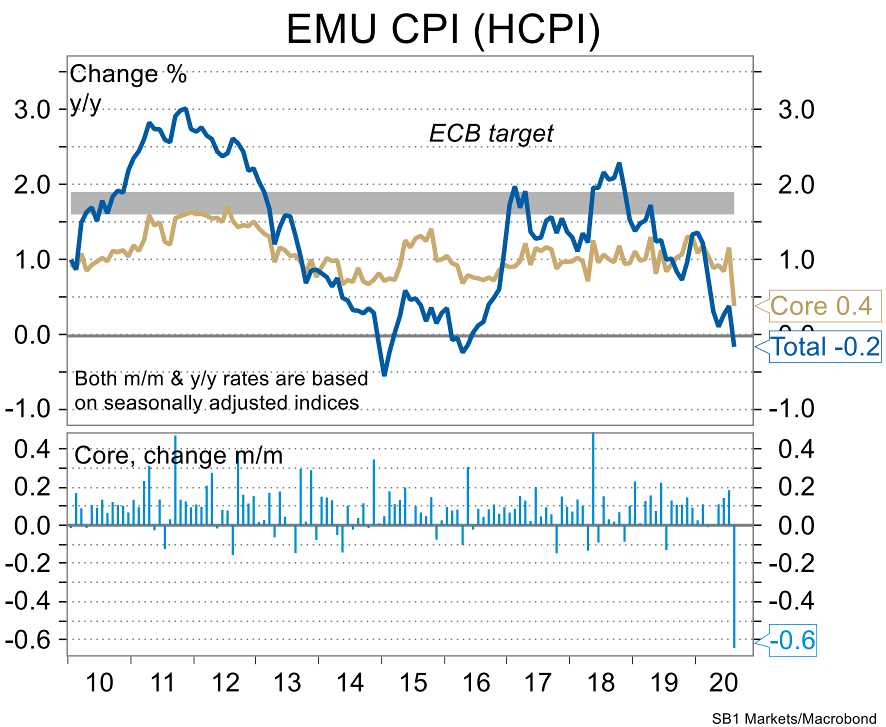


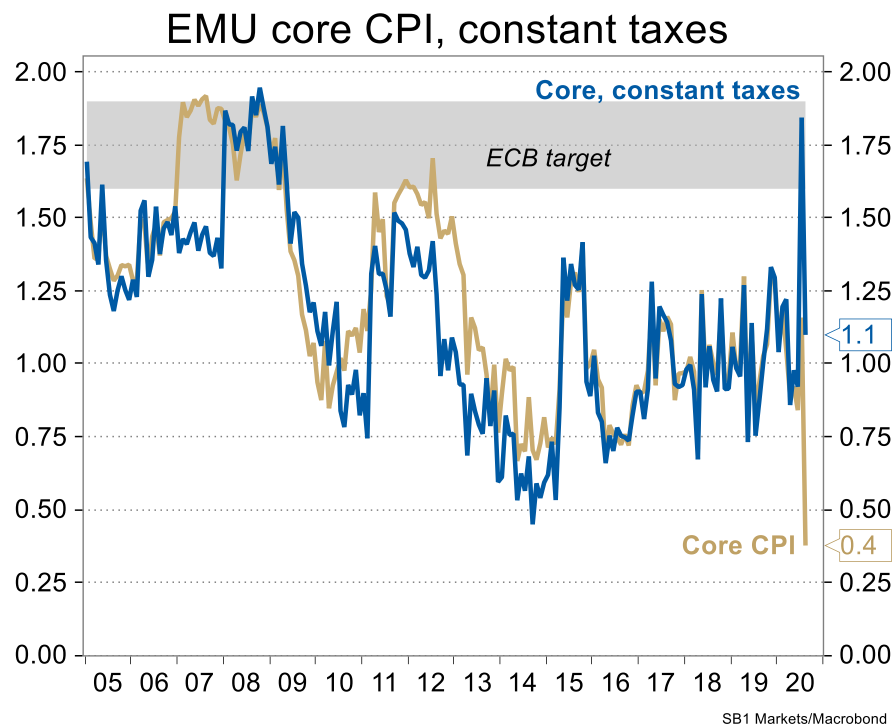


- Manufacturing production grew by 1% in August, expected up 2.3%. More than half the March & April drop is reversed, but production is still down 7% down from February
  - » Business equipment production is the main drag, down 8% vs. Feb. Durable consumer goods down 3%
- Total industrial production, including utilities, mines/oil production, rose by just 0.4% in August (7% below Feb level)
- PMI/ISM and other surveys signal a recovery, but not at a brisk pace, given the continued low production level

Core inflation confirmed at just 0.4% in August, total inflation -0.2%

The German VAT cut has lowered EMU inflation by 0.7 pp, the constant tax core HICP at 1.1%



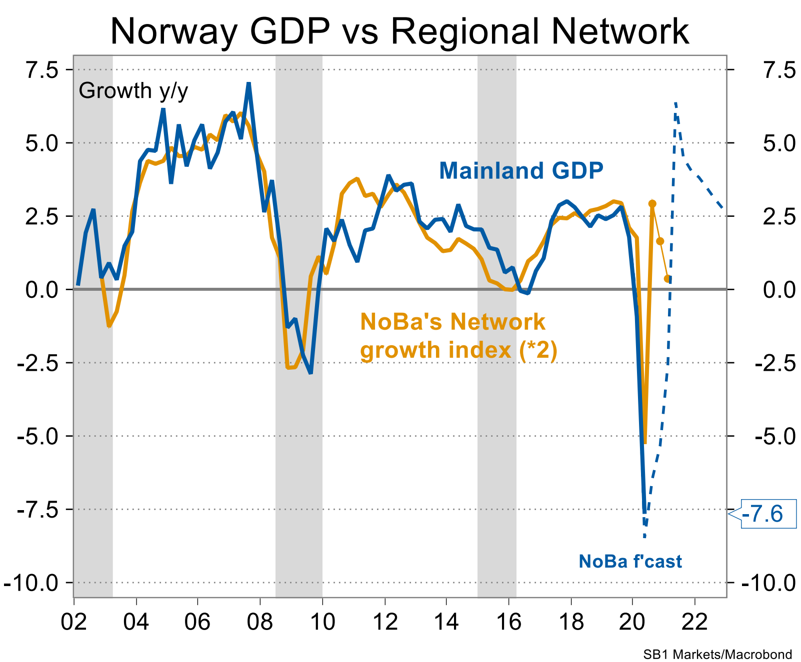


- In July, core price growth would have soared if it wasn't for a cut in VAT rates in Germany, as prices jumped in France (which was then reversed in August, check next page).
- The HICP core constant tax CPI spiked 1 pp to 1.9% in July and fell back to 1.1% in August (but the impact on price growth m/m in August was zero). Anyway, the core CPI most are looking at will most likely remain below the normal level for the coming 10 months
- Energy prices have taken the total CPI down – and the headline HICP was down 0.2% y/y in August. *Good news for European households, and their purchasing power*

SpareBank 1 MARKETS

Norges Bank's Network expects a slowdown the coming months

However, the Network indices cannot be translate into precise growth estimates now

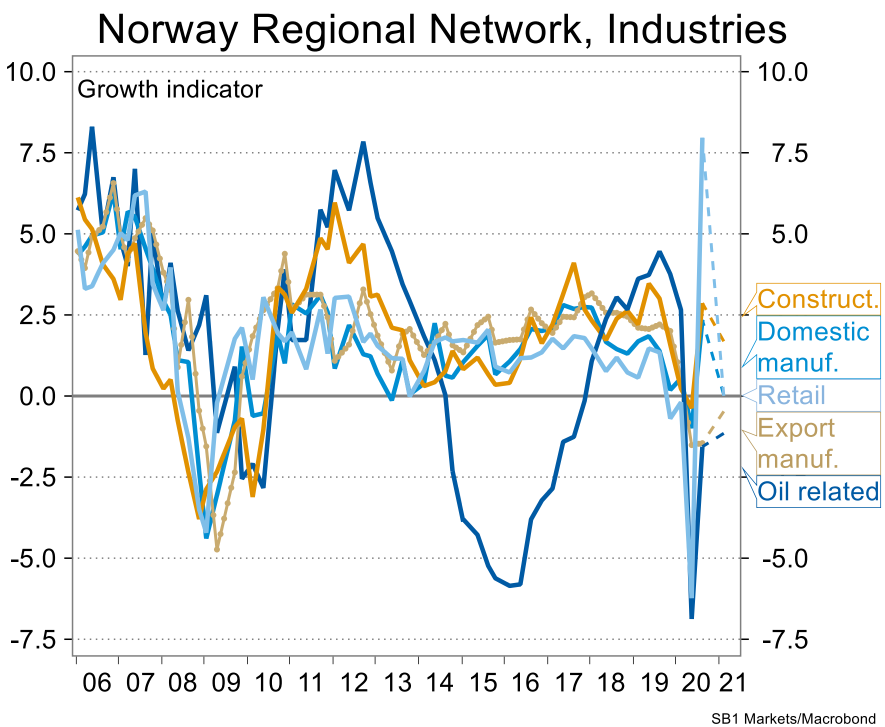


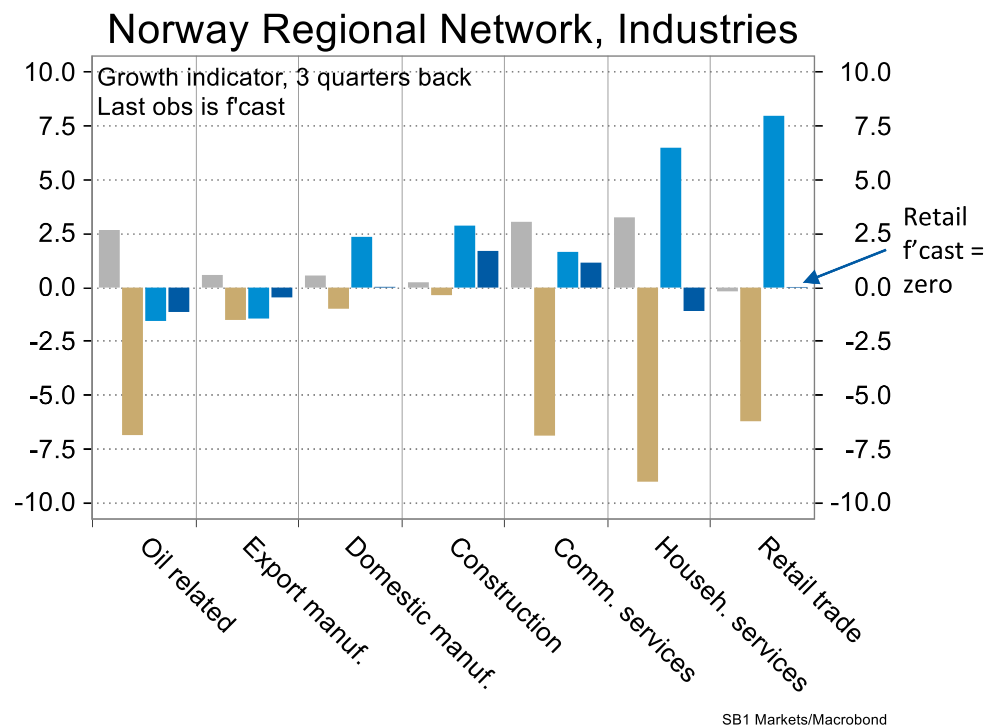
- **Activity the past 3 months**
  - » If we take the survey results literally, activity rose by 2.9% in May-July, measured in annual rate vs the Feb-April level. This was 1.1 pp better than the respondents expected 3 months ago. However, actual growth was -1.8% to May-June from Feb-April. Move one month forward (June-Aug from March-May), the growth would be +19% (annualised – and -23% if the growth had been calculated up to June!) In addition, Norges Bank's -5 to +5 grade scale (growth -10 to +10%) is too narrow to capture the huge swings in the economy past 6 months. Thus, we do not put much emphasis on these backward looking answers
    - The retail sector, construction and domestically oriented manufacturing reported an increase in activity, retail much more rapidly the others. Output in oil related and export related manufacturing fell
- **Expectations for the coming 6 months**
  - » Respondents do not expect a meaningful further recovery (just a 0.4% growth pace) the coming 6 months, formally covering the Aug-Jan period. Construction is at the top due to housing, while household services, that boomed the previous 3 months, including the strong July and oil service expect a decline in activity (as do manufacturing exporters). Given the steep rise in the retail sector the past months, we are surprised that businesses are not expecting a decline
  - » Investments are expected to decline all sectors barring local govern & health
- **Implications**
  - » Given that the Network underestimated both the decline in the spring, the 0.4% growth pace the coming 6 months should be interpreted with caution
    - During the financial crisis it turned out to be useful to interpret Network indices as changes y/y, as shown at the chart to the left. If so, 0.4% growth y/y the coming 6 months would be an unlikely strong figure, given that July Mainland GDP was -4.7% below the Feb (and H2 2019) level
  - » So, the Network cannot easily be translated into growth estimates now. Even so, the Network was weaker than we expected and most likely points to a slow recovery the coming months. Moreover, the cuts in investment plans in almost all sectors (which not surprised us) are rather worrisome

SpareBank 1 MARKETS

The short retail boom is soon over – but companies do not expect any decline

The steep downturn in oil services has eased. Growth just in construction the next 6 months

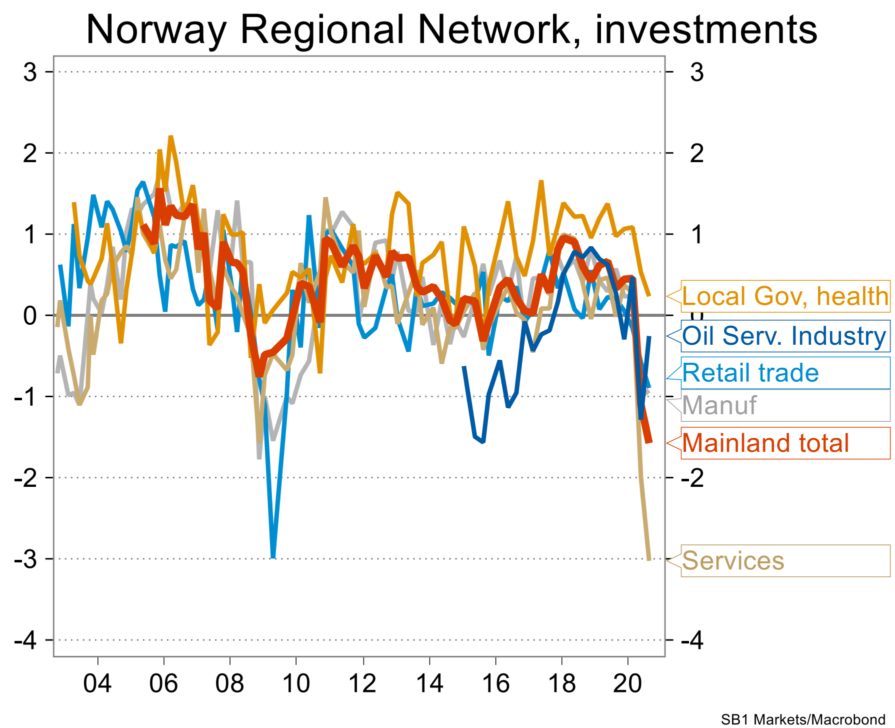


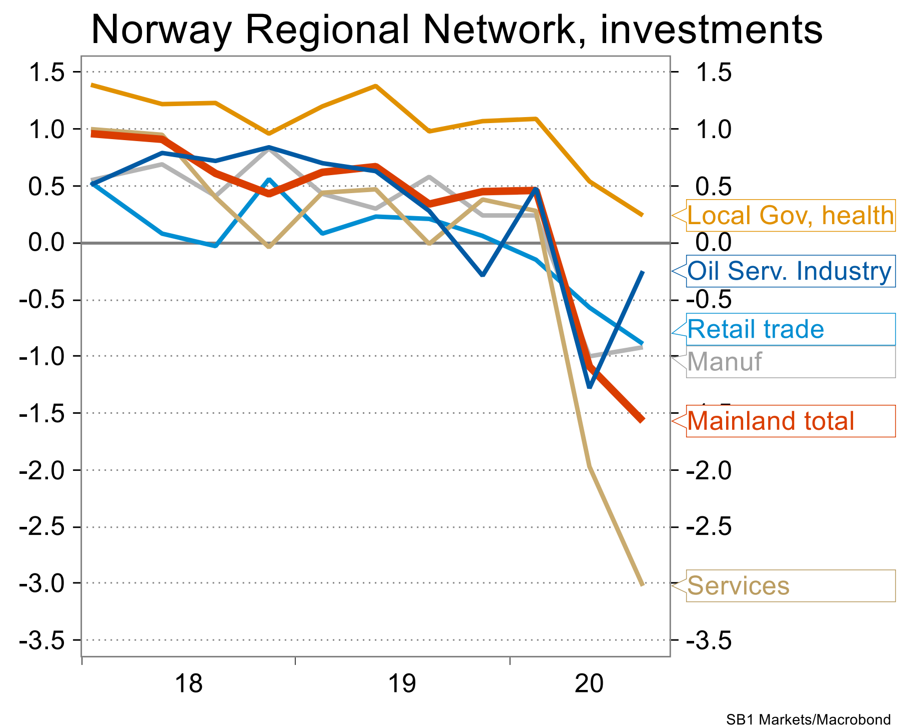


- Retail trade and household services reported a comeback in May-July, as we already knew. However, following the rapid increase the past months, we would have expected companies to project a decline within the next 6 months. Household services expected to decline just modestly (from a lower level)
- Export related manufacturing is still decreasing, but just moderately. Domestically oriented manufacturing has been rising, helped by strong demand from retail and construction sectors. Commercial services are just expected to increase marginally
- Businesses reported just a moderate decline in oil services, following the steep drop in the spring, and prospects are much less negative than a few months ago

The Network signals record deep cuts in Mainland investment

Local governments will still invest more but all private sectors plan to reduce investments



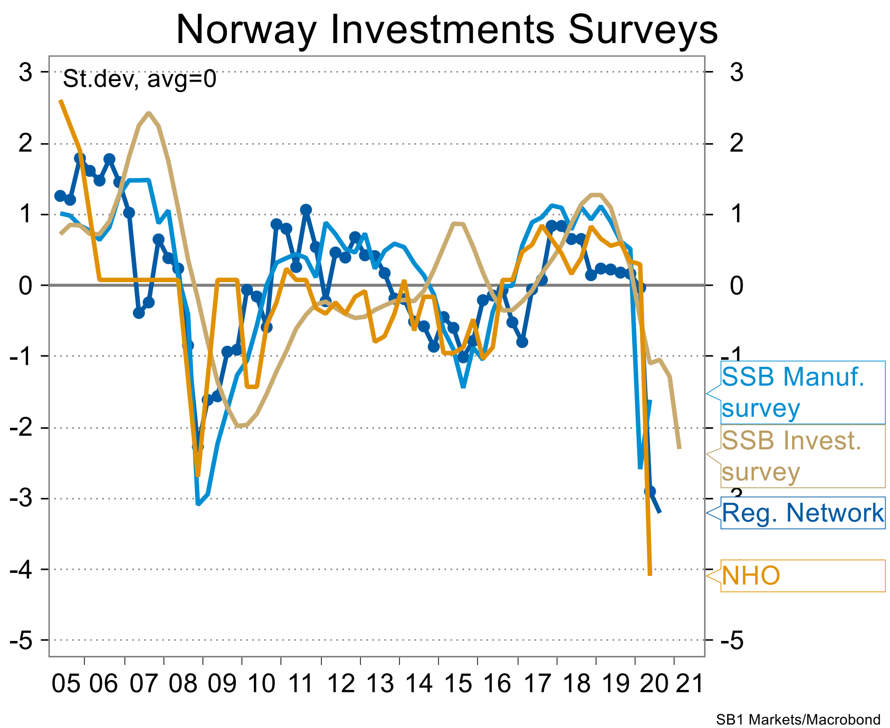


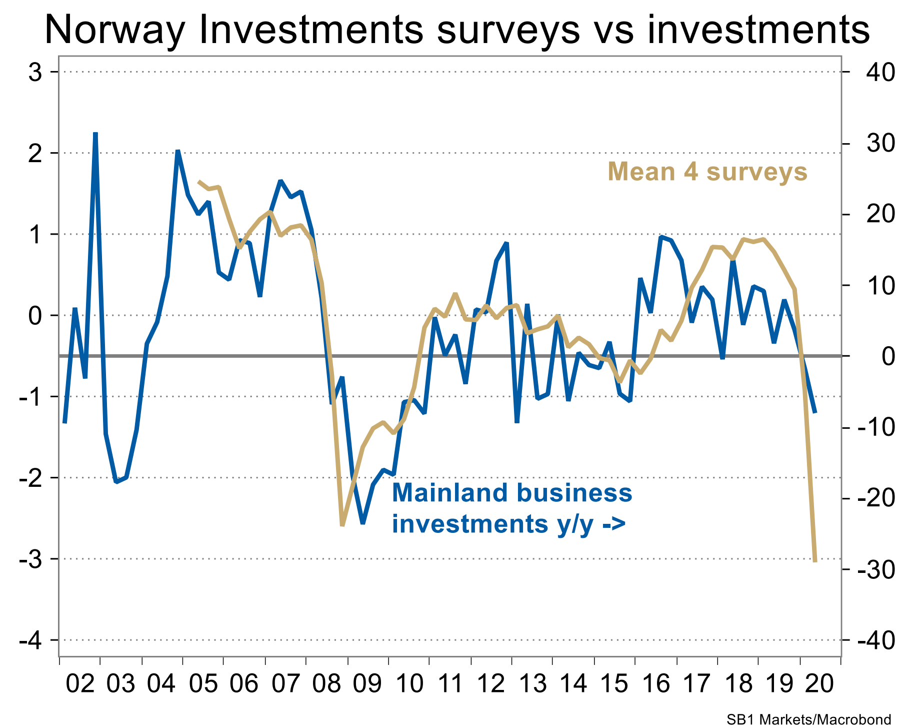
- Services, which represents almost 50% of Mainland non-residential investments, signals extreme cuts in their cap-ex, even more steeply than what they reported in the Q2 network survey. Hotels, restaurants & transport are placed in this group
- Oil services (not oil companies!) (9% of total) plan cuts too, but much less than 3 months ago. Manufacturers (12%) expect a 1% decline. Retail trade (7%) plans cuts too
- <u>**The gloomy investments outlook is no doubt the most worrisome data points in the Network**</u>

SpareBank 1 MARKETS

Other surveys tell the same story: Investment plans are sharply cut

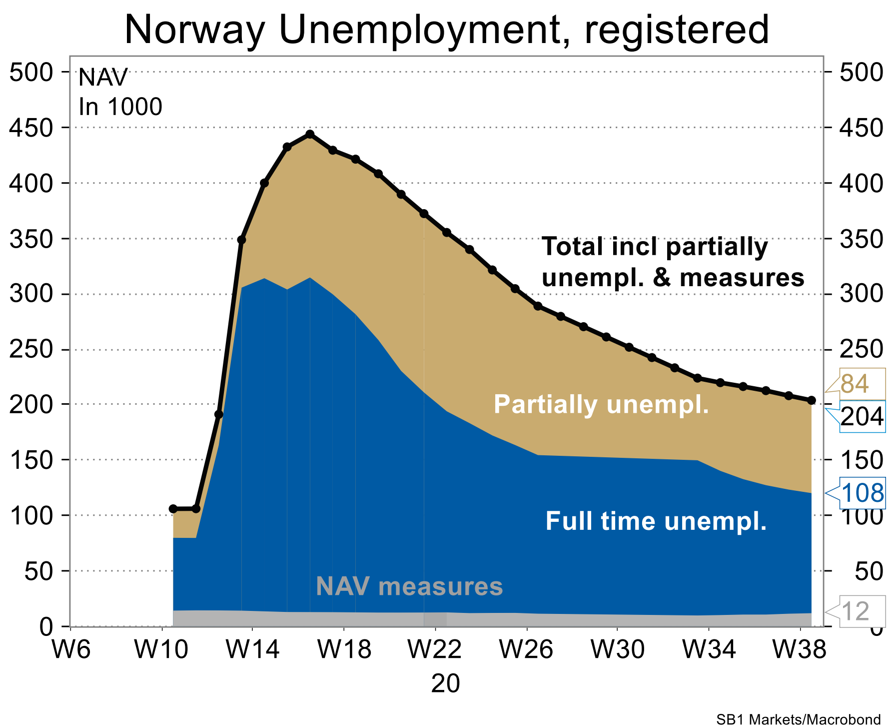
Can Mainland business investments drop 30%? We think this forecast is too pessimistic. But…

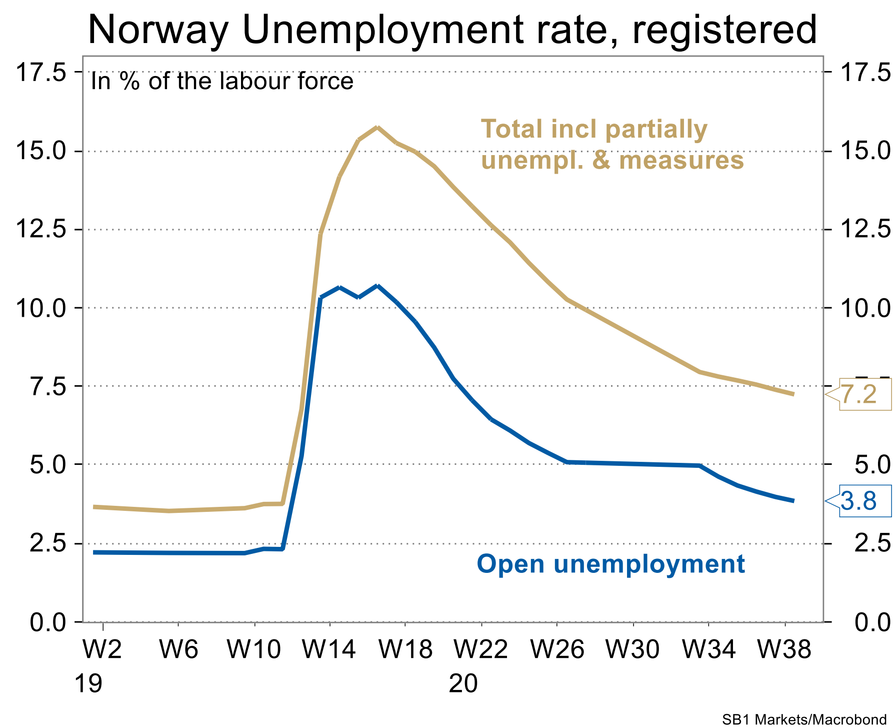




NAV unemployment slides down steadily, 204’ last week

Full time unemployment down to 3.8%, from above 10%, due to fewer furloughed

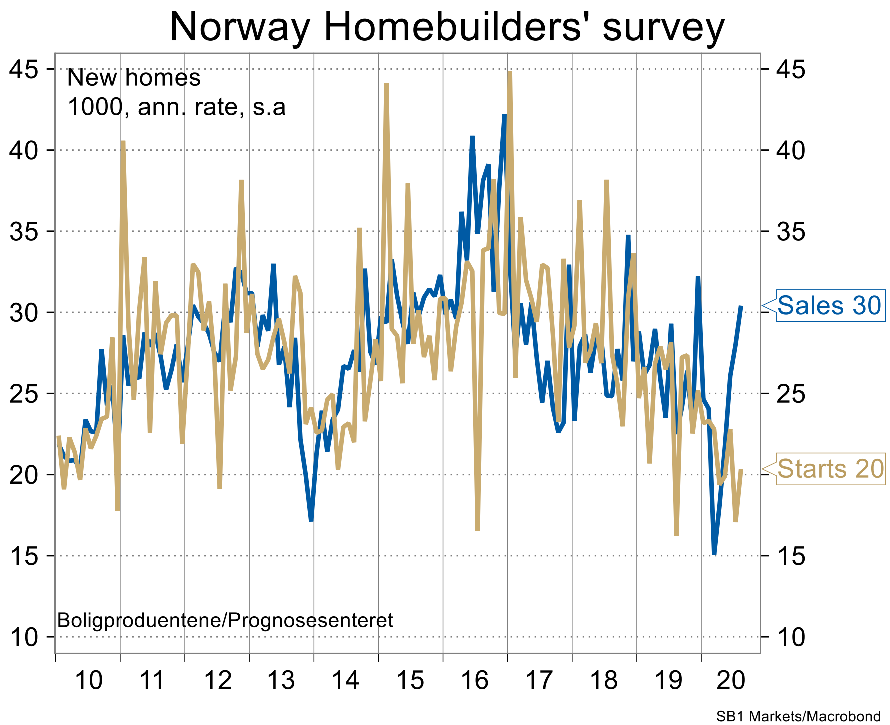


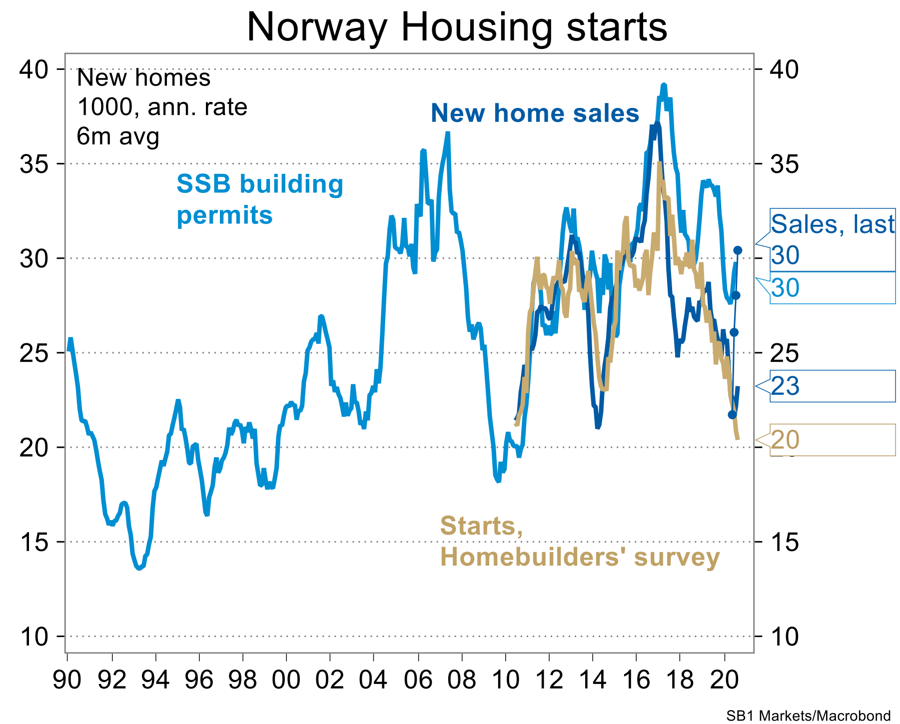


- Total unemployment (including partially unemployed and labour market measures) has fallen by 240’ in April, to 204’ last week (before corona, just above 100’ was unemployed). This equals 7.2% of the labour force
- Unemployment is now declining by approx. 4000 persons per week (equalling 0.6 pp per month), but some of the decline is due to seasonal factors – the real decline is somewhat smaller. Still, seasonally adjusted unemployment will decline substantially in September
- Temporary laid offs equal 40% of total unemployment, and all of the decline in unemployment is due to fewer temps

New home sales straight up in Aug, starts still weak – should follow sales up

The Homebuilders' report an increase in sales to 30', above pre corona level. Starts at 20', will follow





- Homebuilders reported that new home sales (seasonally adjusted) fell sharply in 2nd half of March but recovered in April and further the next months. In August, sales rose to 30', higher than the average speed the past 3 – 4 years. Actual starts were reported up but just to 20' in Aug and are still trending down. If sales do not collapse, starts will pick up the coming months
- Both sales and starts were trending down already before corona hit. Real house prices have been trending down most of this period but are now increasing again, rapidly the past few months. In the longer term, starts are usually correlated to house price inflation
- SSB has reported an increase in building permits since Dec 2019, and the level (at 30') is higher than what the Homebuilders report
- The construction sector reported a comeback in May-July in Norges Bank's Regional Network survey – and expect a further expansion in Q4/Q1

The Calendar

The first September PMIs, Norges Bank meeting, US households' cash flows

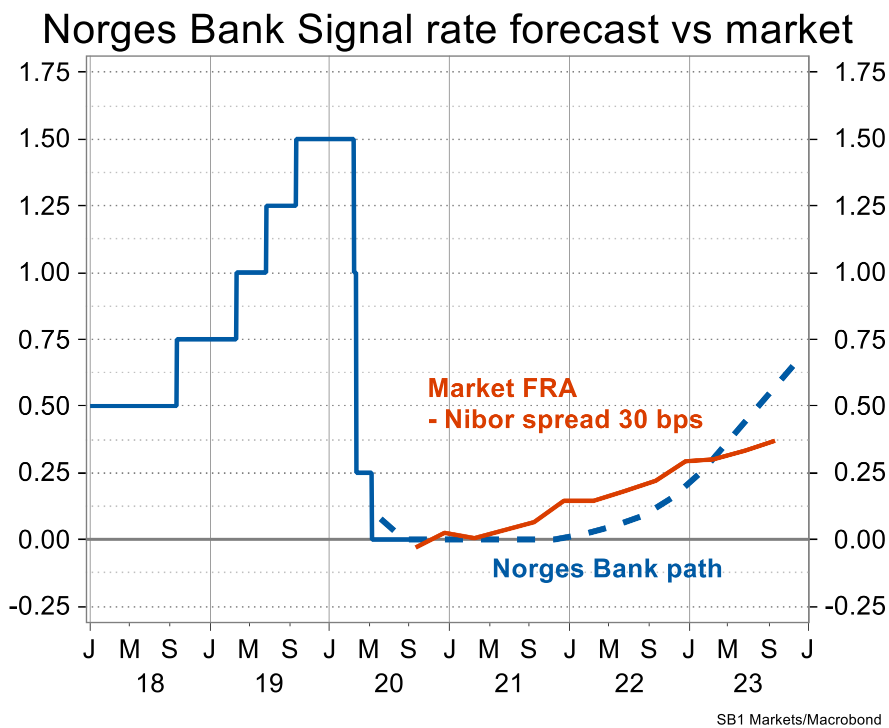
Time	Count.	Indicator	Period	Forecast	Prior
Monday Sept 21					
12:00	NO	SSB Housing Starts (Permits)	Aug		30'
14:30	US	Chicago Fed National Activity Index	Aug	1.19	1.18
18:00	US	Flow of Funds	2Q		-$6548b
Tuesday Sept 22					
09:30	SW	Riksbank Interest Rate	Sep-22	0.0%	0.0%
12:00	UK	CBI Trends Total Orders	Sep	-40	-44
16:00	EC	Consumer Confidence	Sep A	-14.6	-14.7
16:00	US	Existing Home Sales	Aug	6.01m	5.86m
Wednesday Sept 23					
02:30	JN	PMI Composite	Sep P	--	45.2
06:30	JN	All Industry Activity Index	Jul	1.3%	6.1%
08:00	NO	Unemployment Rate, LFS	Jul	5.2%(5.6)	5.2%
10:00	EC	Manufacturing PMI	Sep P	51.9	51.7
10:00	EC	Services PMI	Sep P	50.5	50.5
10:00	EC	Composite PMI	Sep P	51.7	51.9
10:30	UK	Manufacturing	Sep P	54	55.2
10:30	UK	Services PMI	Sep P	55.8	58.8
10:30	UK	Composite PMI	Sep P	55.5	59.1
15:45	US	Markit Manufacturing PMI	Sep P	53.3	53.1
15:45	US	Markit Services PMI	Sep P	54.5	55
15:45	US	Markit Composite PMI	Sep P	--	54.6
Thursday Sept 24					
10:00	NO	Norges Bank Deposit Rates + MPR	Sep-24	0.0%	0.0%
10:00	GE	IFO Expectations	Sep	98	97.5
14:30	US	Initial Jobless Claims	Sep-19	840k	860k
16:00	US	New Home Sales	Aug	890k	901k
Friday Sept 25					
14:30	US	Durable Goods Orders	Aug P	1.1%	11.4%
14:30	US	Capital Goods Orders Nondef Ex Air	Aug P	0.8%	1.9%

- **Preliminary September PMI**
  - » We expect the **first September PMIs** to continue to note a continued recovery but not strong enough to close the gap anytime soon in services. During the previous months, PMIs have been useless when it comes to the translation into actual growth rates. Hopefully, the PMIs will soon reflect actual changes from month to month, as they failed to do during the most 'extreme' months
- **US**
  - » **Durable goods orders** have recovered rapidly and are above the levels prior to corona! Signals an 'extreme' lift in business investments in Q3
  - » **The flow of funds report** will confirm an incredibly rise in household savings in Q2, as household income have been overcompensated. Low interest rates are fuelling a mortgage boom, driving household credit growth up. Businesses most likely pulled back their lending
  - » The housing market is thriving, both **new** and **existing home sales** have shot up
- **Sweden**
  - » The **Riksbank** will maintain the interest rate at 0% and continue its bond purchases. Just SEK 195 bn of the 500 bn program has been utilised so far
- **Norway**
  - » Will **Norges Bank** signal an interest hike before Q4 2022, as the Bank communicated in June? Given the sharp growth in house prices and expectations of upward revisions of the growth forecasts vs June, there are strong arguments in favour of this. However, the soft Regional Network report as well as elevated uncertainties could justify a more dovish approach and our take is that the bank will wait and see. The market probably expects an upward adjustment as a hike is priced in by more than 50% in late 2021
  - » **The LFS unemployment rate rose to 5.8% in July, according to unsmoothed monthly data, while the May – July average equalled 5.2%. In the LFS,** furloughed workers are only counted as unemployed after 3 months – and in July the March cohort of furloughed were counted. Even if we expect a decline in August, we assume that the 3 m average will get a lift, up to 5.6%. Hours worked rose sharply in July, but may have fallen in August, as parts of the service sector most likely slowed

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

Ahead of Norges Bank: Will the path be lifted to signal a possible hike in '21?

Our bet is that the bank will emphasize uncertainties, and keep the June path unchanged



- On the positive note
  - » The Bank will probably revise up its growth projections. Q2 Mainland GDP fell slightly less than the bank f'casted in June, and Q3 is set to increase more than the Bank projected (2.9%)
  - » Unemployment may now be falling faster than expected, registered unemployment is already approaching the level NoBa projected in Q4
  - » Inflation is higher than expected (3.7% y/y in Aug)
  - » House prices have shot up, and more rapidly than the bank expected in June
  - » The oil price has been and still is somewhat higher than assumed in June
- On the downside
  - » The Regional Network (along with other surveys) signals a slow recovery and a substantially lower speed in the months to come. Mainland business investments may be revised sharply down
  - » The NOK has appreciated more than expected.
- What the market expects
  - » The FRA curve (given a 30 bps money market spread) is 15 bps above the September interest rate path in late 2021. The market is pricing a hike in Q4 2021 by more than a 50% probability
- Our view
  - » Norges Bank can afford to wait and see. The trajectory of the recovery is still uncertain – and the Bank will probably highlight the downside risks

Highlights

The world around us

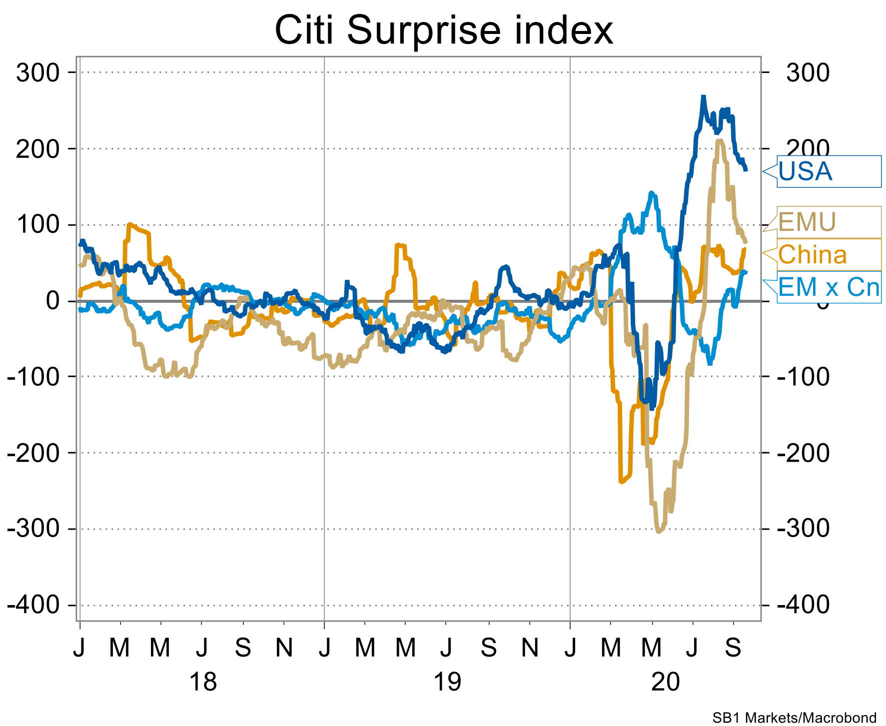
The Norwegian economy

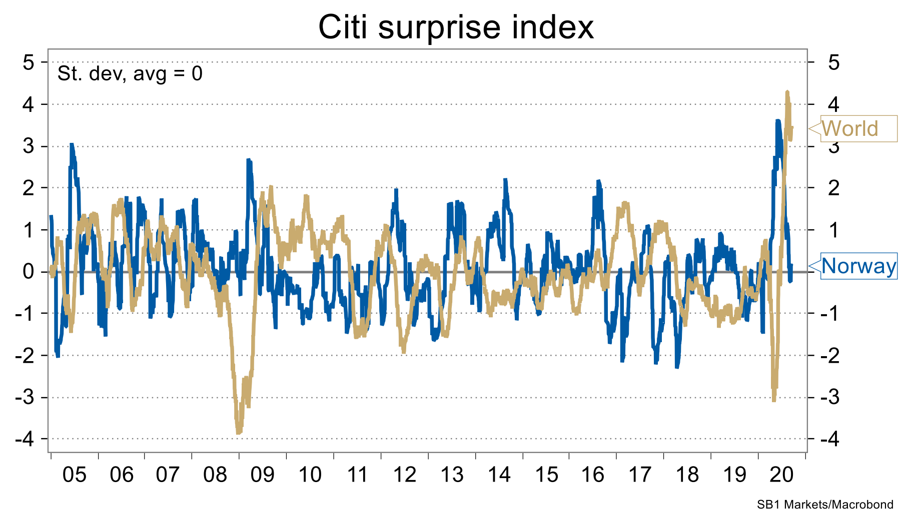
Market charts & comments

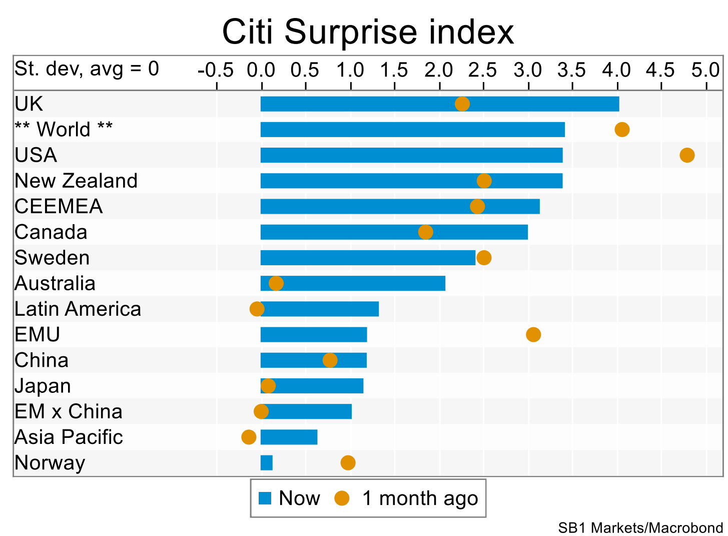
SpareBank 1 MARKETS

Macro data are less on the upside (3 m avg measured)

Citi's surprise indices are still elevated but less so than a few months ago





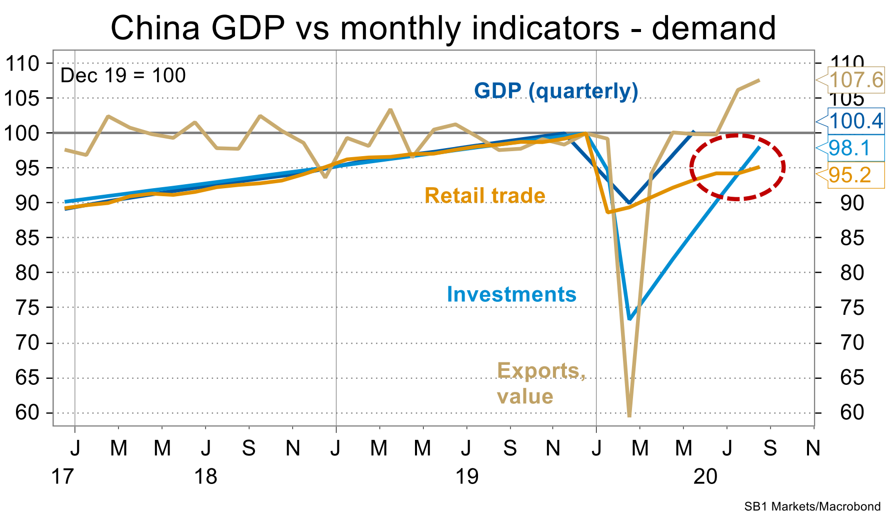


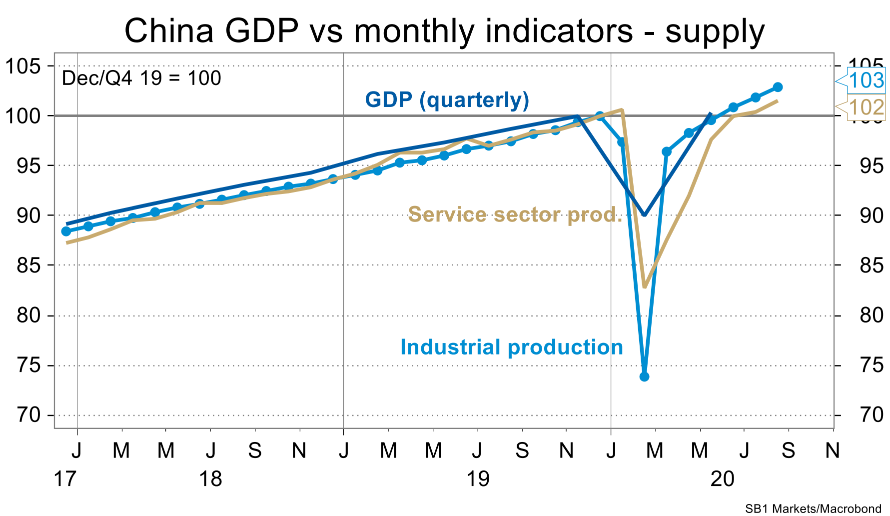
- All major countries/regions are reporting data above expectations
- The US has been surprising more on the upside than ever before (data from 2003), although a tad less so the past weeks
- EMU sliding down but the index is still elevated
- China well into positive territory
- Other EMs rose to an above average level last week!

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

August data above expectations but retail sales are still lagging

Industrial production back on the pre corona trend, retail sales 7% below, investments 4%





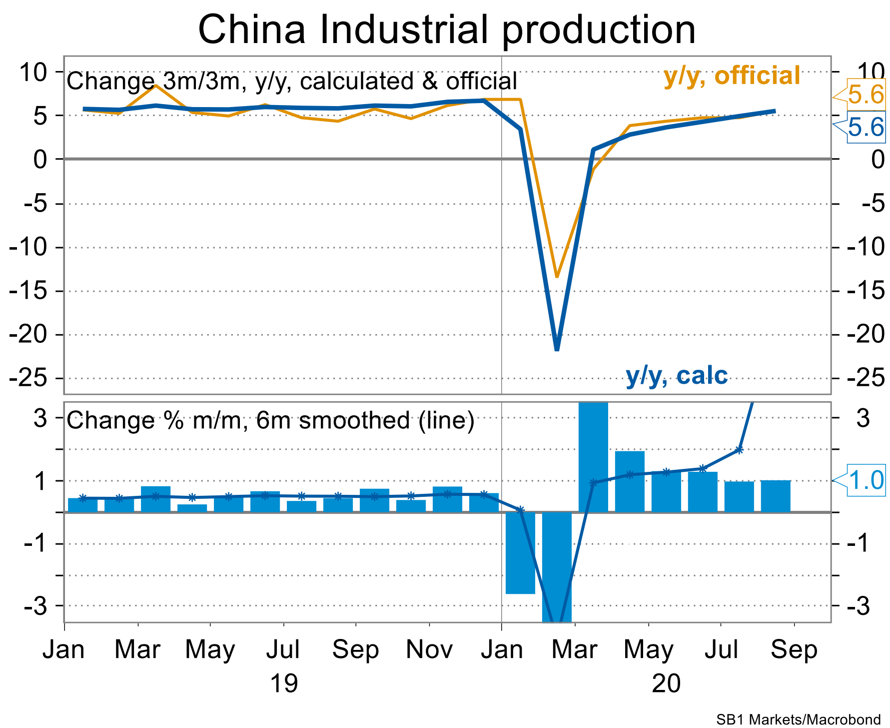
- **Industrial production** rose 1.0% m/m in August and 5.6% y/y, 0.5 pp better than expected. Production has now fully recovered, after 8 months, back at the trend from before Covid
- **Service sector production** increased by 1.1% and is 2% above the Dec 19 level – but almost 3% below the old trend path
- **Retail sales** rose 1.0% m/m in volume terms in August, faster than the 'normal' growth rate. Annual rate at -1.6% (our est) and the gap to the pre corona trend path is wide, at 7%. If sales growth do not pick up speed, the gap may not be closed before early 2021. In nominal terms, sales were up 0.5% y/y, expected at 0%. CPI inflation has been slowing, core CPI is up just 0.5% y/y and may help sales the coming months?
- **Investments** rose 4.2% m/m in August. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly, now 4% below. The gap will soon be closed
- **From last week:** Credit growth has stabilized at a 12% pace

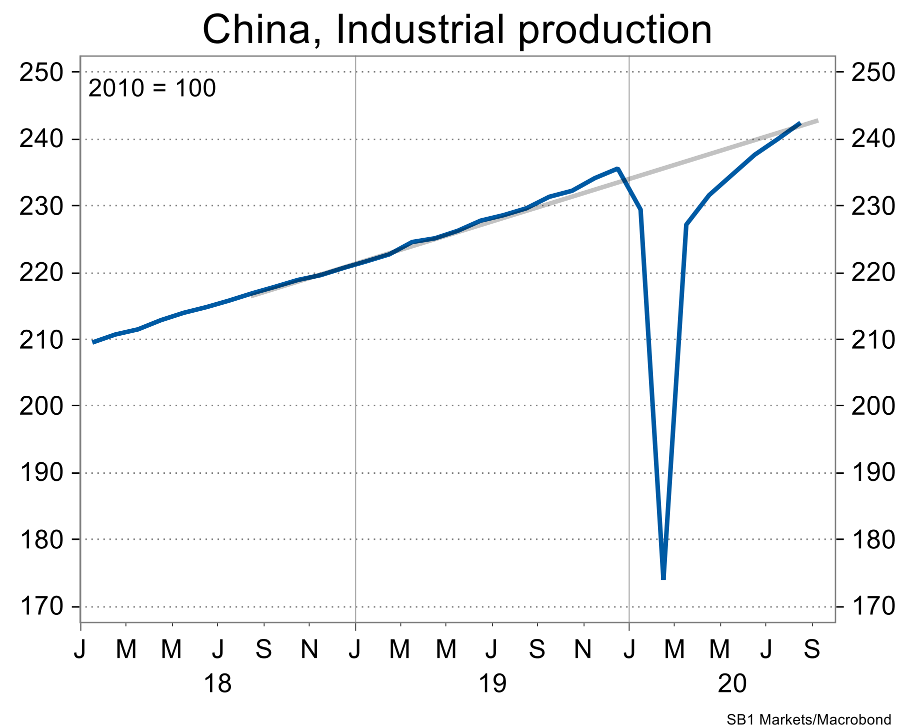
In sum: Final demand for goods is still below the pre corona trend but the gap is narrowing. August data came in above expectations, however, retail sales are the weak link. In the US and Europe (and many others), retail sales have been the main growth engine the past few months

Some details at the following pages ☺

Give me a 'V'! Industrial production back at the pre corona trend

Production rose another 1.0% m/m August. Annual growth up to 5.6%, expected at 5.1%

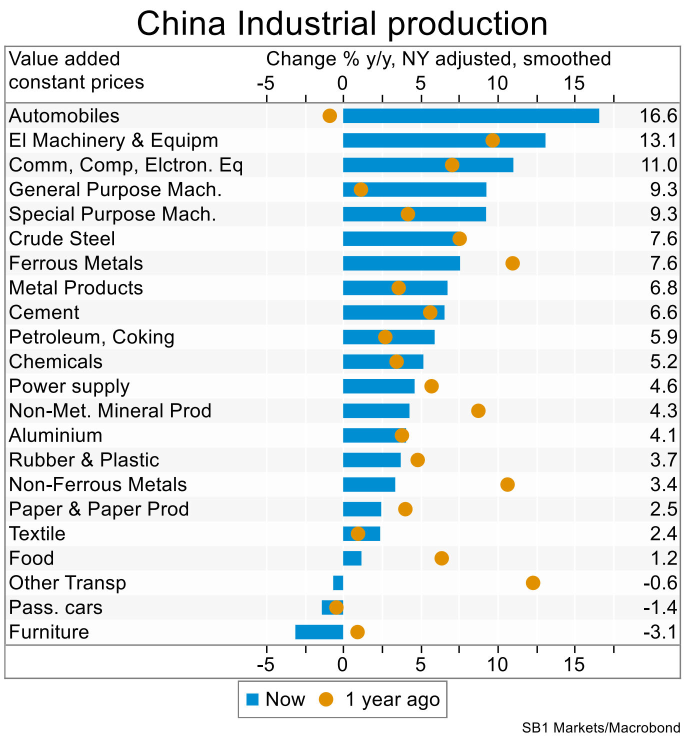


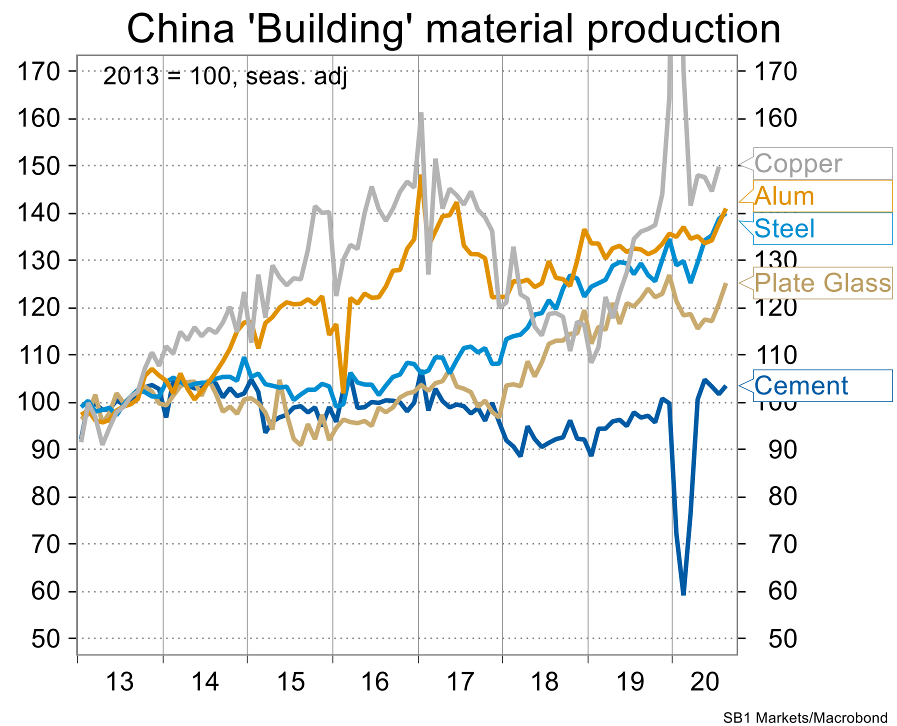


- Production rose 1% m/m in August, as in July, well above the pre corona norm, at some 0.5% per month. The gap to the pre corona trend is now fully closed – and the production level is 3% above the December 2019 level
- The y/y rate climbed to 5.6% (both the official number and our less volatile calculation), 0.5 pp better than expected
- Retail sales are still 7% below pre corona trend, investments 4% and growth is slowing, the manufacturing sector needs more final demand to keep growth up (even if exports are now above the pre corona level)

Almost all manufacturing sectors are up y/y

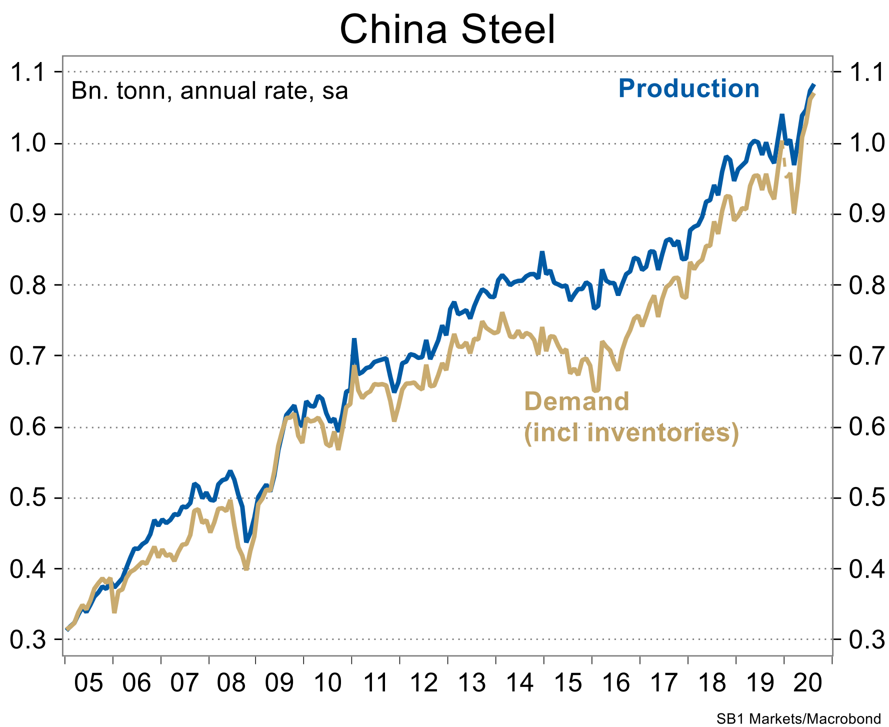
Cement back to pre corona trend, steel above. Auto production sharply up, 17% y/y





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

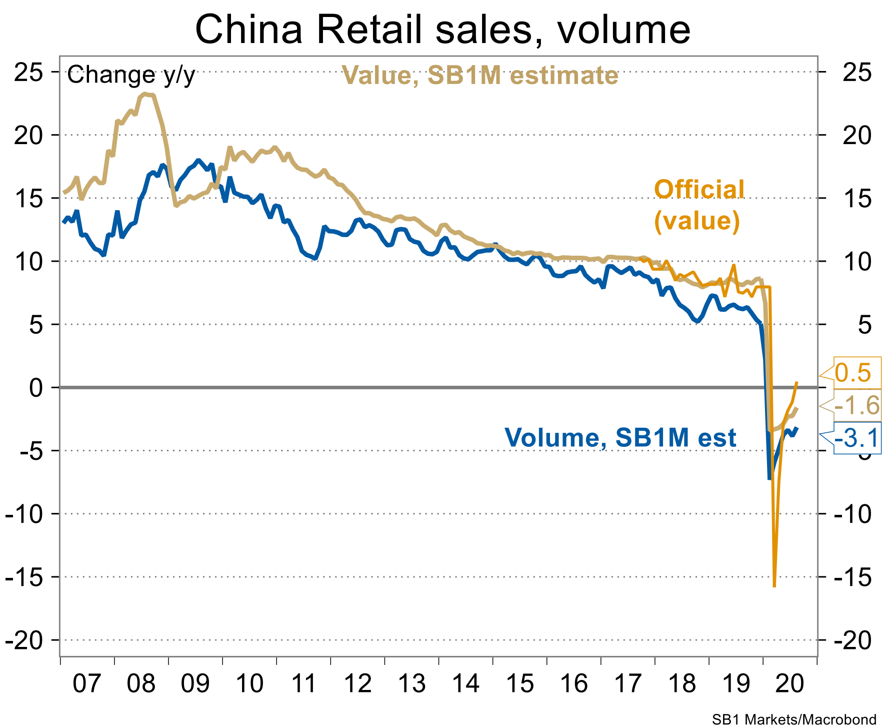
Both are at record high levels, and above trend. Construction starts have climbed too, close to ATH

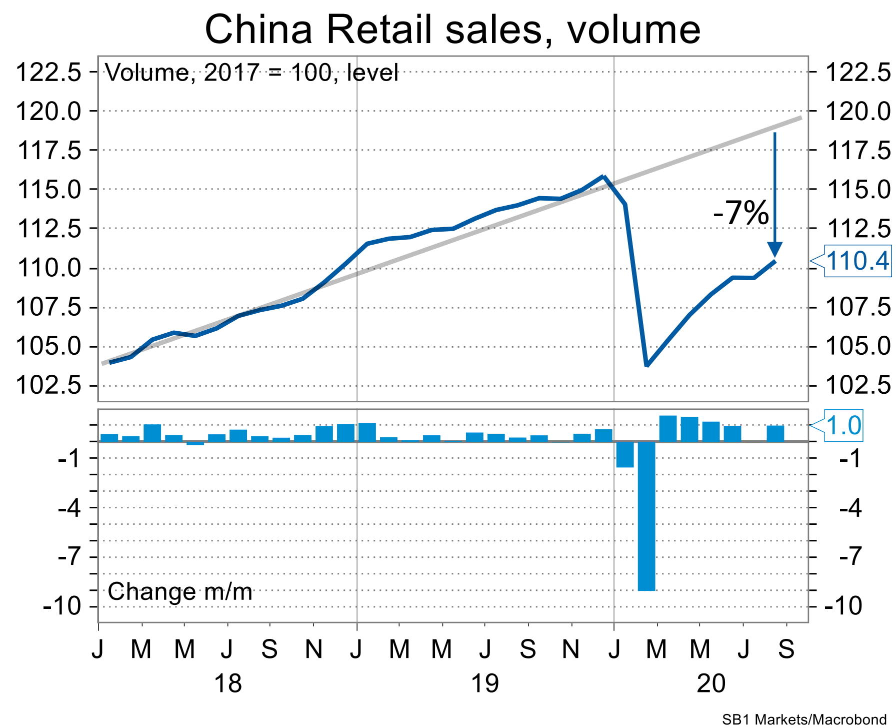


- Demand includes changes in inventories

Retail sales still the weak link, 7% below pre corona trend

Sales volume rose by 1% m/m in Aug, the official annual rate at 0.5% was better than expected

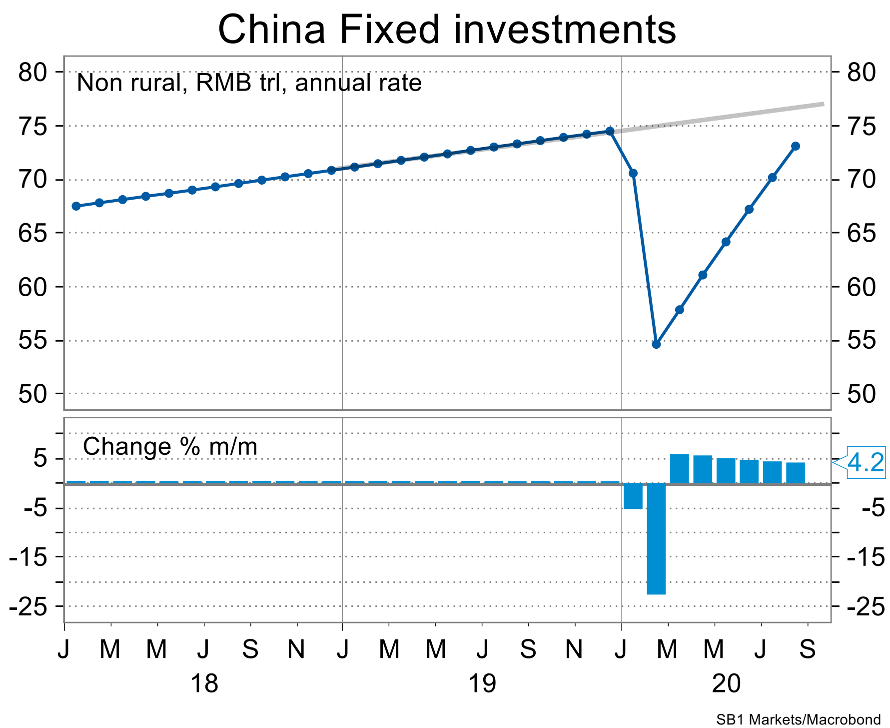




- The official value y/y rate at 0.5% in August was above expectations (at 0.0%). However, the recovery is muted, sales are still 5% below the Dec 2019 level and 7% below the trend path from before corona, in volume terms (calculated by SB1M). Given the current upward speed, it will take a long time to close the gap to the pre corona trend
- Adjusted for inflation, monthly growth picked up in August, to a 1.0% (from stalling in July)

Nominal investments up 4.2% in August, gap vs. pre corona trend is soon closed

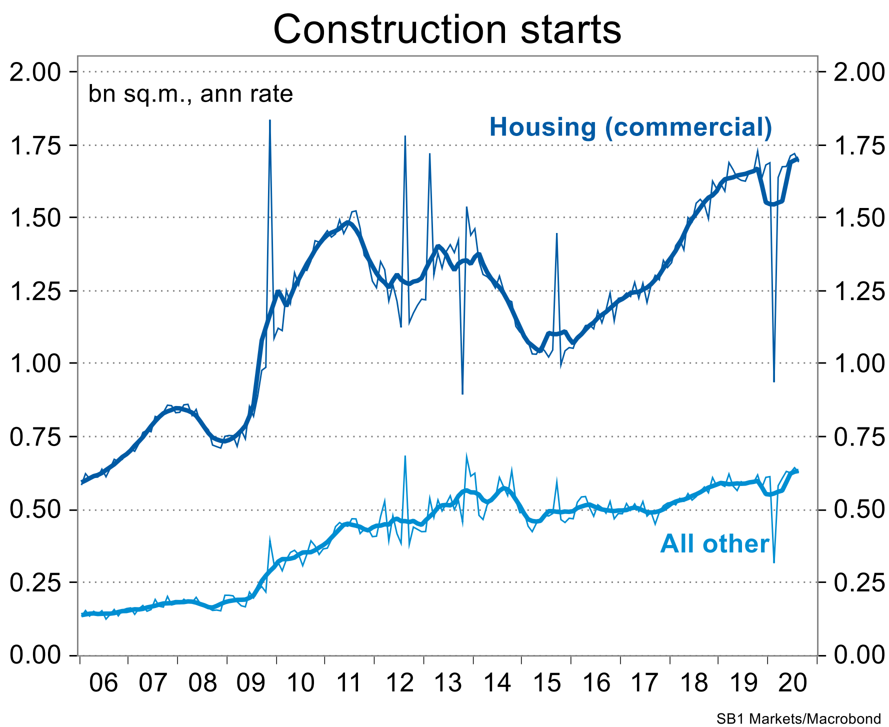
A quite narrow ‘V’, the level is 4% below the old trend path – and the upward speed is now slowing

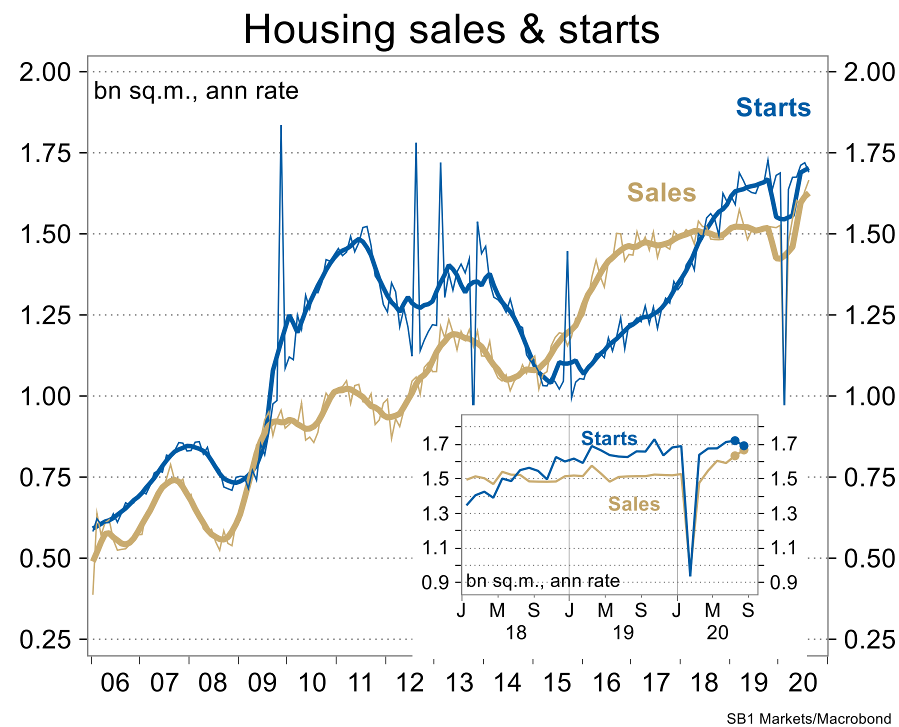


- Measured ytd, investments are down 0.3%, from -1.6% in July and a tad better than expected (-0.5%)
- Investments rose by 4.2% m/m (nominal). Growth has been slowing recent months but remains far above the normal growth rate, at 0.4 -0.5% per month ahead of the corona 25% drop. The level is now just 2% below the Dec 2019 level – and it is 4% below the pre corona trend. The gap will probably be almost closed in September or at least in October
- In real terms, investments are down some 1% y/y (our estimate)

Construction back to all time high

… following the 40 – 50% collapse in February. Sales record high, starts marginally down

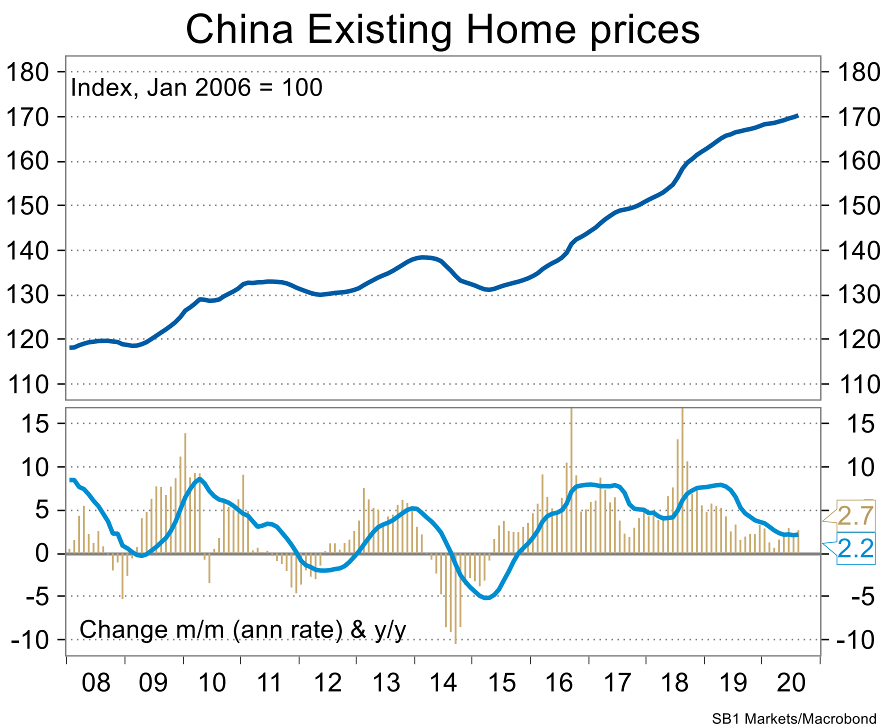


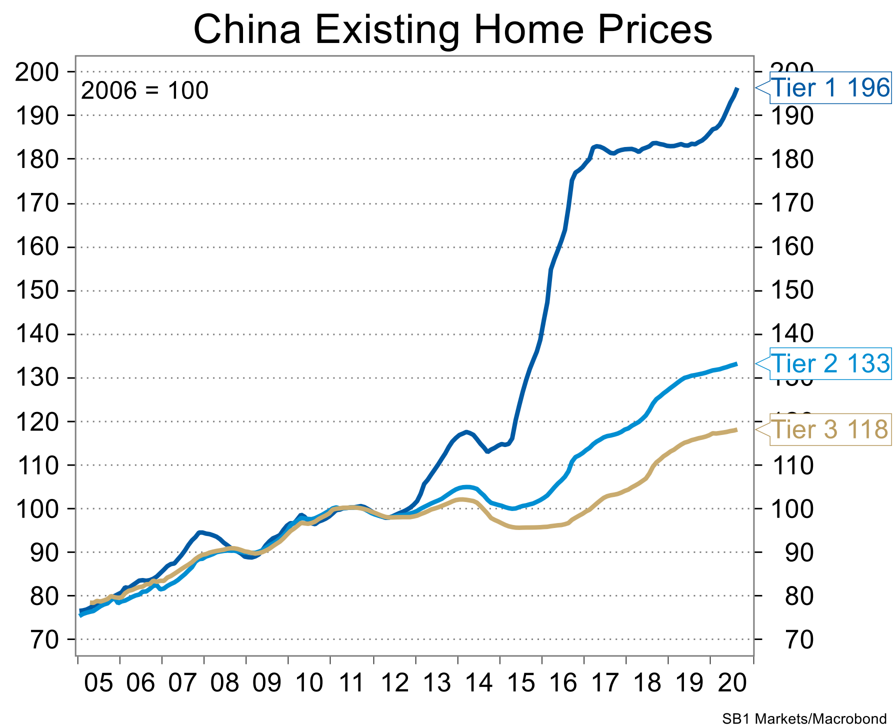


- In fact, just February was a disaster sales and starts have been growing rapidly since

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

Steady inflation the past 3-4 months, prices up 2.2% m/m in August (annualised), up 2.2% y/y

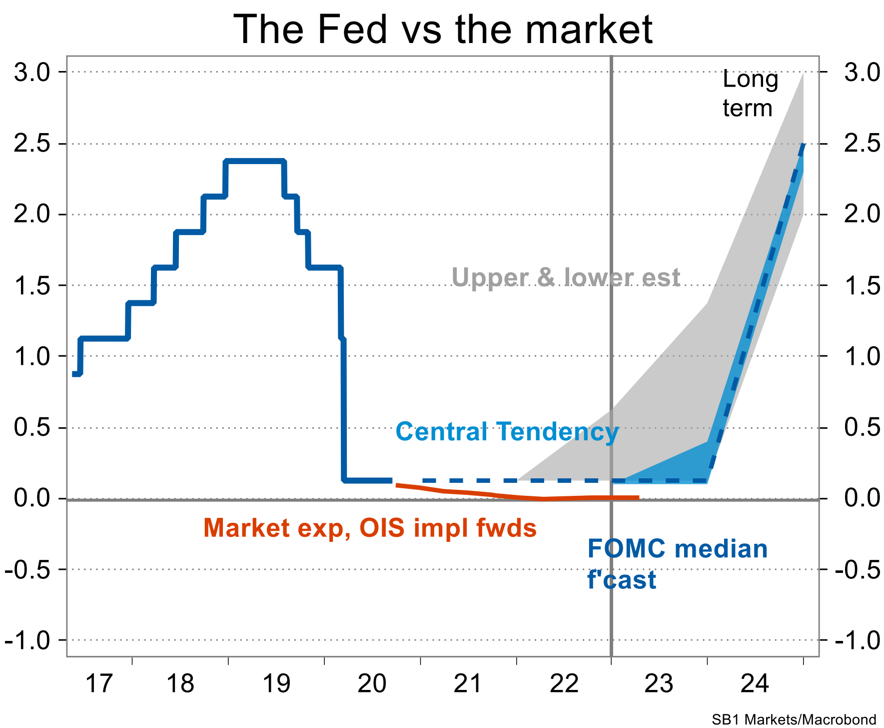




- Price inflation has gradually slowed since mid 2018, when credit was tightened, but has been stable the past months (as credit growth)

The Fed will keep rates at zero for at least 3 years, but no infl. overshoot in sight

The Fed was somewhat more hawkish than we expected as to whether inflation has to exceed 2%



- There were no substantial market reactions to the Fed's announcements. Long term interest rates rose moderately due to higher inflation expectations (not easy to square with Fed's announcement). Stock markets fell, perhaps because Fed was judged to be at the dovish side, and that Powell did not impress that much during his press conference. The pressure for fiscal stimulus was also put somewhat at the backburner. (Or it might have been trouble in the tech world, the lowered the NASDAQ and others)

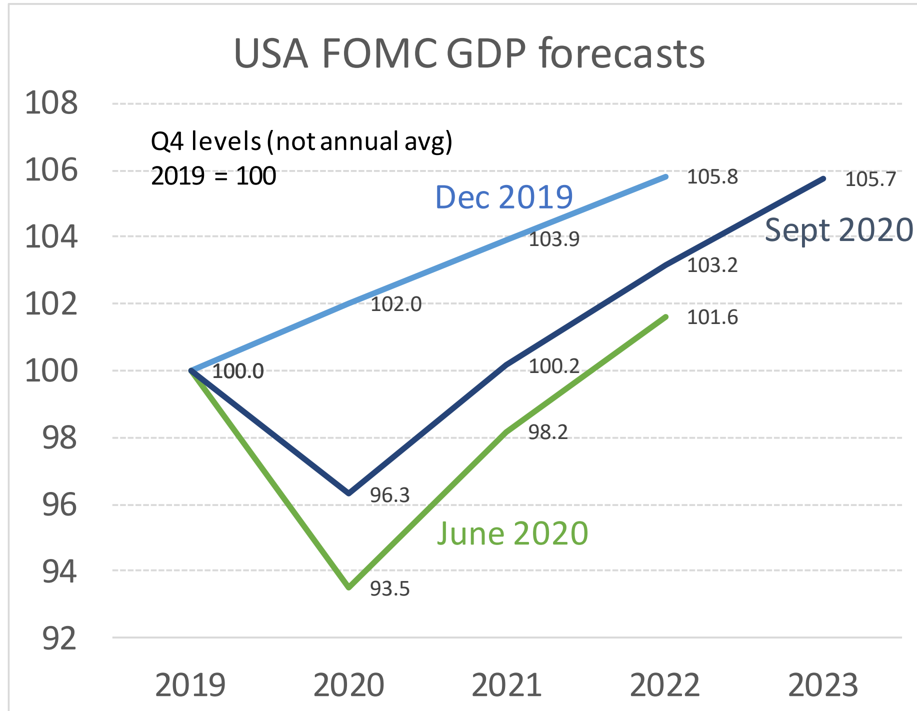
- *With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent*
- The Committee expects to maintain an accommodative stance of monetary policy until these outcomes (infl. and maximum employment) are achieved. (No further definition of "maximum employment was offered)
- Rates will be kept at zero *'until labour market conditions have reached (…) maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.* The Fed expects inflation to reach 2% only in 2023, thus, rates will be kept zero at least until this. However, Fed does not have to see actual inflation exceed 2% in order to start hiking, just the prospect of that to take place. Many had hoped for a more aggressive stance, like a promise not to hike before average inflation over some years had reached 2% (which was a not unreasonable interpretation of Powell's Jackson Hole speech 3 weeks ago)
- In addition, over the coming months (and not years) the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace (which already as slowed to a trickle…). Some had expected the Fed to promise an increase in its bond purchases – which also could have been consistent with the Jackson Hole message
- **All in all: A less dovish (or supportive) Fed than expected**

GDP, inflation revised up considerably from the June meeting – as expected

Q4 2020 GDP up 2.8 pp and unempl. down 1.7 pp vs June, and no changes to the Fed funds rate path

Percent

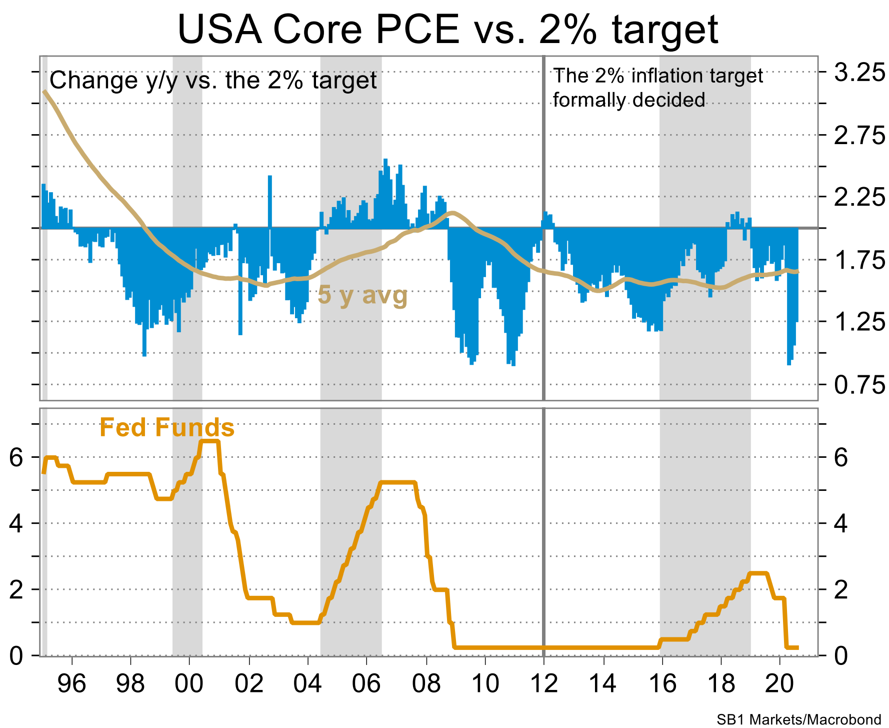
Variable	Median[1] 2020	2021	2022	2023	Longer run
Change in real GDP	-3.7	4.0	3.0	2.5	1.9
June projection	-6.5	5.0	3.5		1.8
Unemployment rate	7.6	5.5	4.6	4.0	4.1
June projection	9.3	6.5	5.5		4.1
PCE inflation	1.2	1.7	1.8	2.0	2.0
June projection	0.8	1.6	1.7		2.0
Core PCE inflation[4]	1.5	1.7	1.8	2.0	
June projection	1.0	1.5	1.7		
Memo: Projected appropriate policy path					
Federal funds rate	0.1	0.1	0.1	0.1	2.5
June projection	0.1	0.1	0.1		2.5

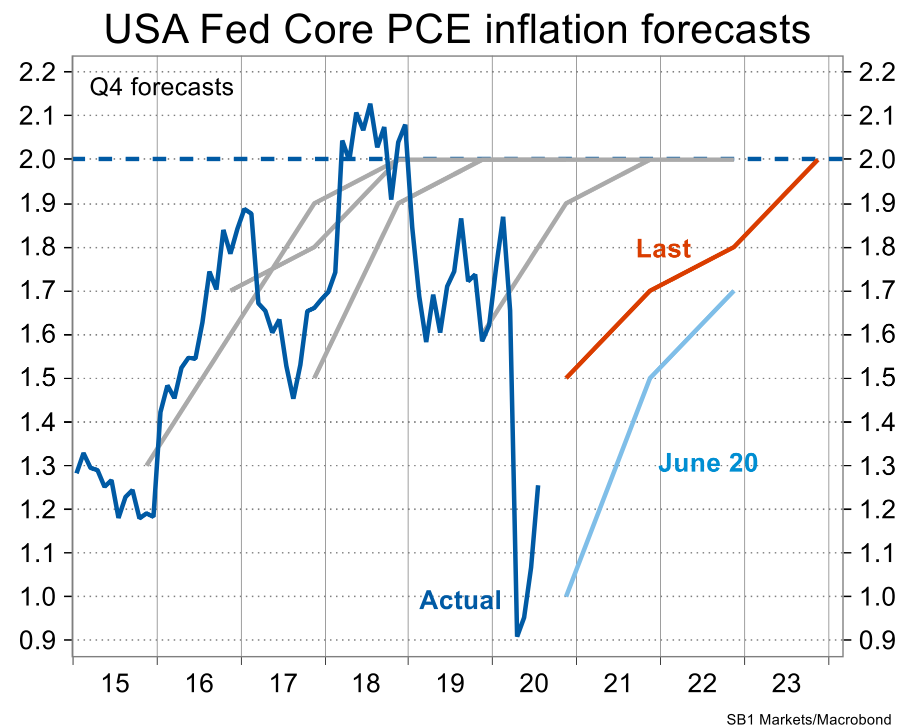


- PCE inflation (Fed's preferred price measures, which is running some few tenths lower than the CPI inflation) is expected to reach 2.0% first by the end of 2023. Hence, the Fed will keep rates at zero for at least this long, and raise the Fed funds rate only when inflation is on track to exceed 2%. The banks says now. Do not forget however, to September from June the Fed revised its inflation forecast up by up to 0.5 pp (check next page too)
- The revisions in GDP and unemployment forecasts were the largest on record, like the revisions in the opposite direction in June. Most likely the Fed will – as all others – revise its forecast several times before Q4 2023. So please, do not take for granted that rates will be stuck at zero for more than 3 more years
- The bank did not change its forecast for the longer term neutral policy rate – now at 2.5% nominal and 0.5% in real terms

Fed lifted inflation forecasts but do not expect any overshoot the coming 3 yrs!

The Q4 est. was revised up by 0.5 pp, to 1.5% - and 2% is not reached until end of 2023

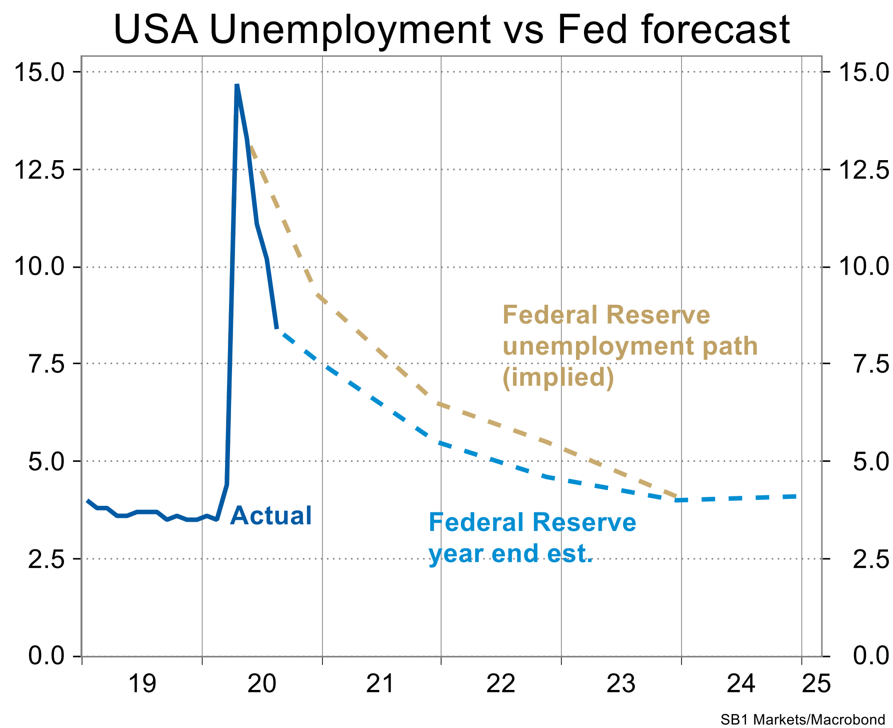


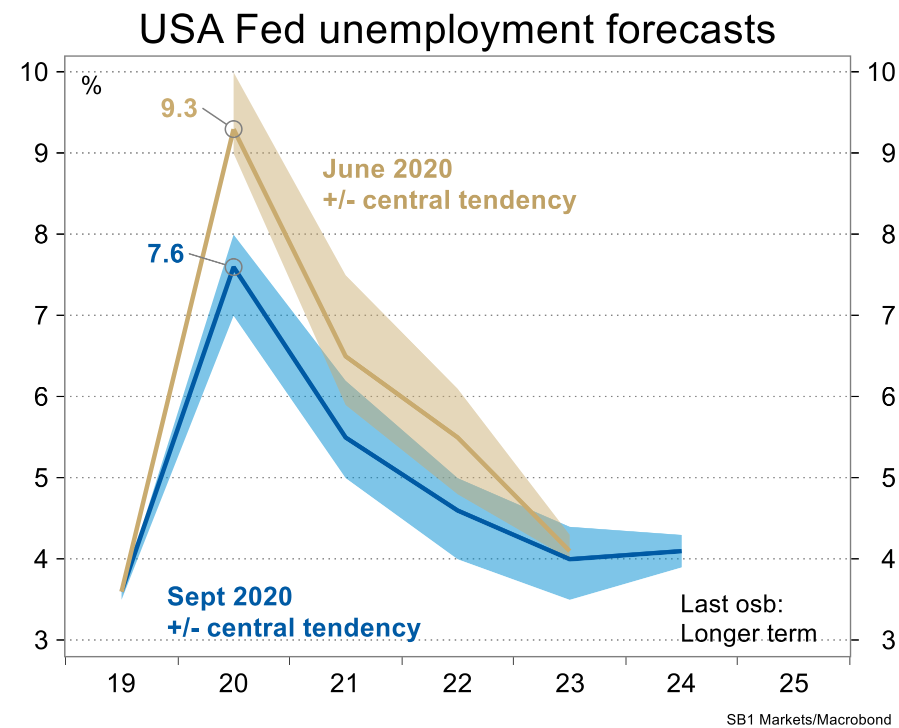


- The new 'average inflation target' strategy did not materialise in the FOMC inflation forecasts, as the committee do not expect to overshoot the inflation target, at least during the coming 3 years – even if inflation is and has been running below 2 % almost all the time since the 2% target was formalised back in 2012
- At the same time, the FOMC pledges to keep the signal rate at zero until inflation has (moderately) overshot the target for a while

Dec 2020 unemployment revised down by 1.7 pp to 7.6

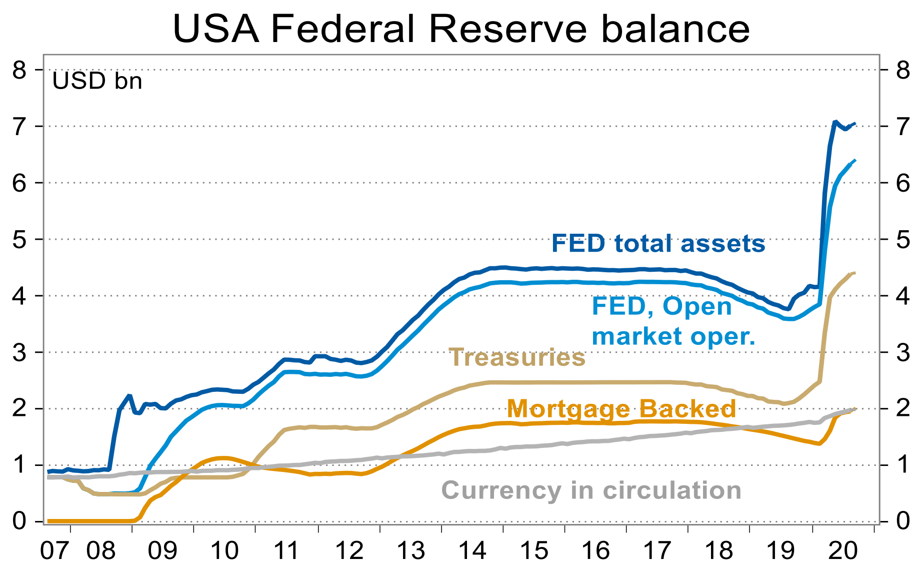
Unemployment has been falling much faster than the Fed expected back in June



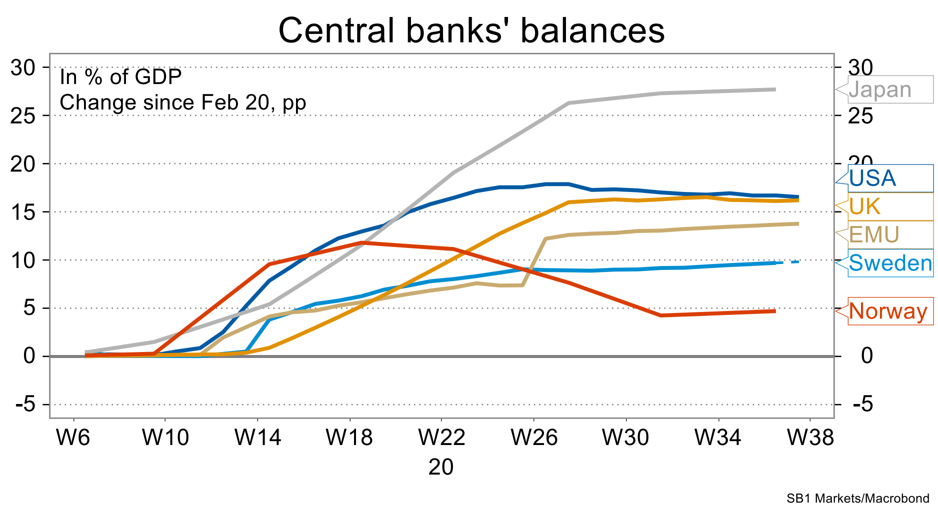


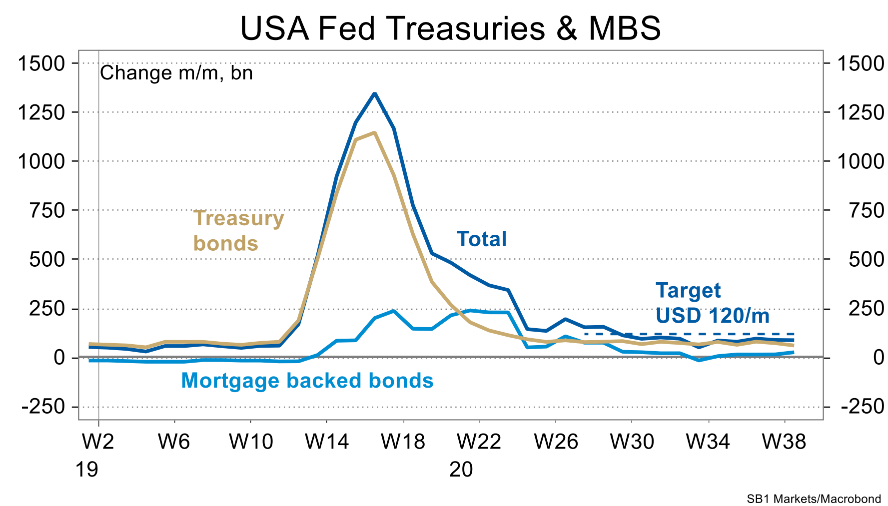
FOMC: We are stand by – will support the economy as long as needed

But no new measures or yield curve control or 'actual inflation target' decided (now)



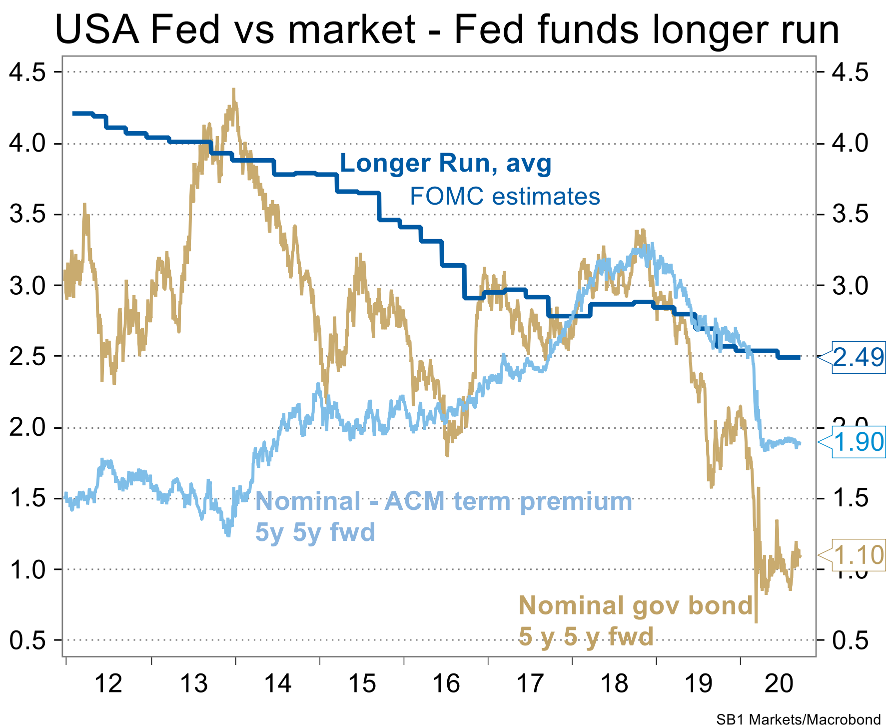
- Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace - which has been announced to USD 120 bn/month
  - » The current pace is somewhat slower, less than USD 100/b. Fed's total balance has been shrinking since end of July
- There were no signals in yield curve control (YCC) or fixing of longer dated Gov bonds in order to strengthen forward guidance





Long term, a 2.5% neutral nominal rate. At 2% inflation, a 0.5% real r*

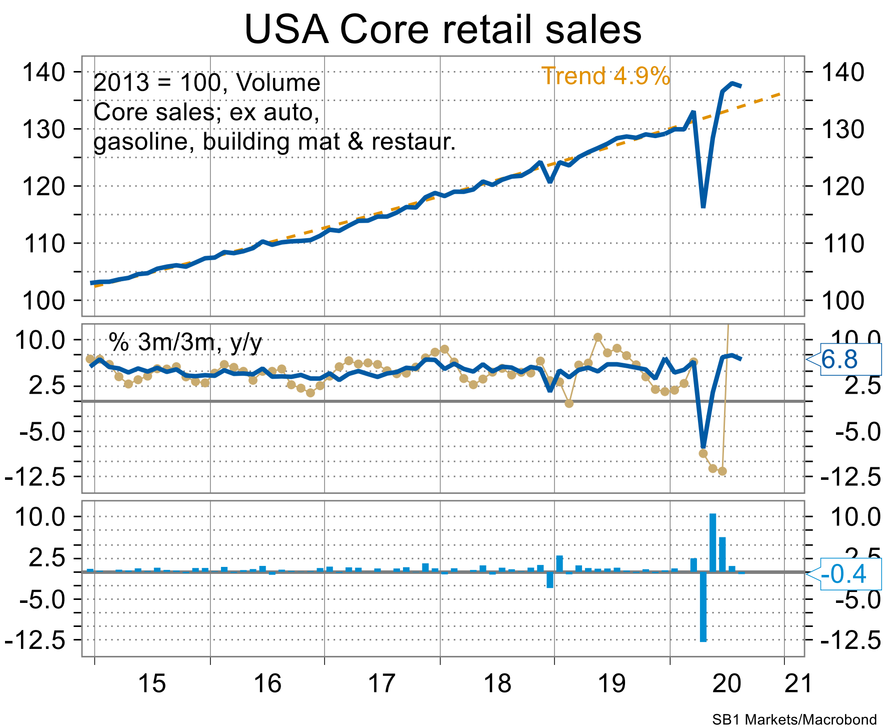
Market rates are well below, even after a term premium adjustment (here the ACM estimate)

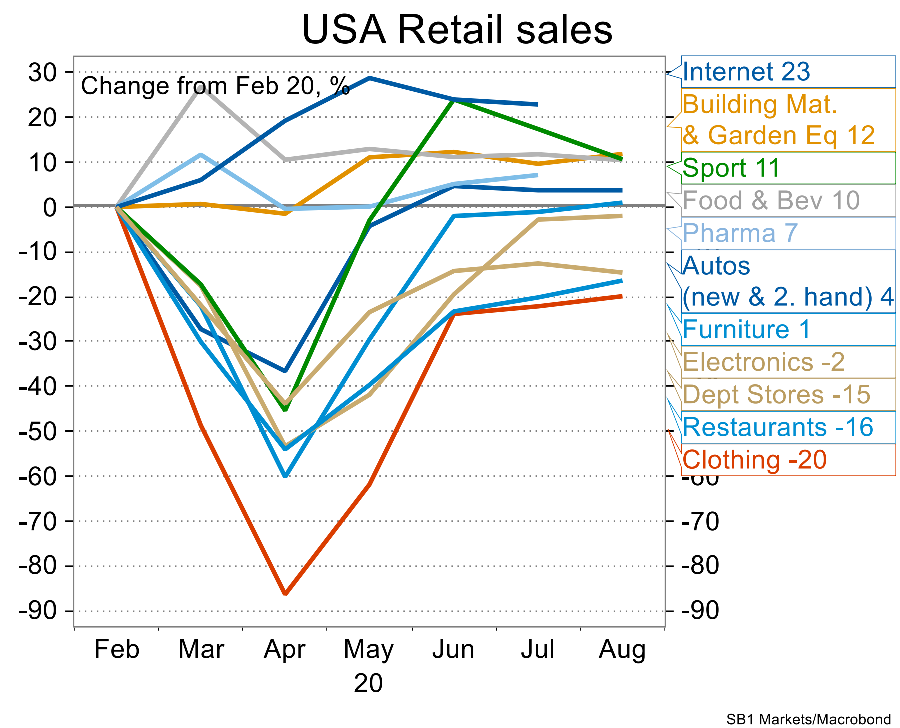


- The 5 y 5y fwd gov bond yield is at 1.1%, the real rate at -0.65%
- Adjusted for various estimates of the term premium, the component of long term bond yields that are not decided by expectations of future short term interest rates, market rates are below Fed's estimate of the natural rate (r*)
  - » The unobservable term premium is calculated by decomposing the yield curve by different technics
- The Fed is probably not that sure where the r* is these days (or over the recent years), the estimate has fallen by 1.7 pp over the past 8 years

Retail sales growth is slowing, core sales still 3% above trend

Purchases of sport equip, building & garden materials & internet have been thriving, easing now

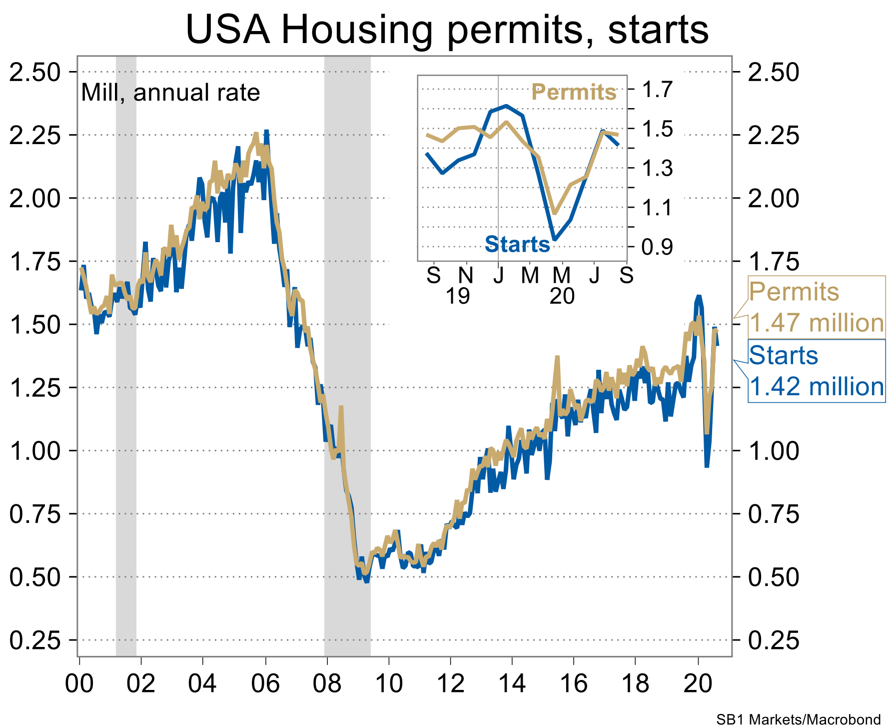


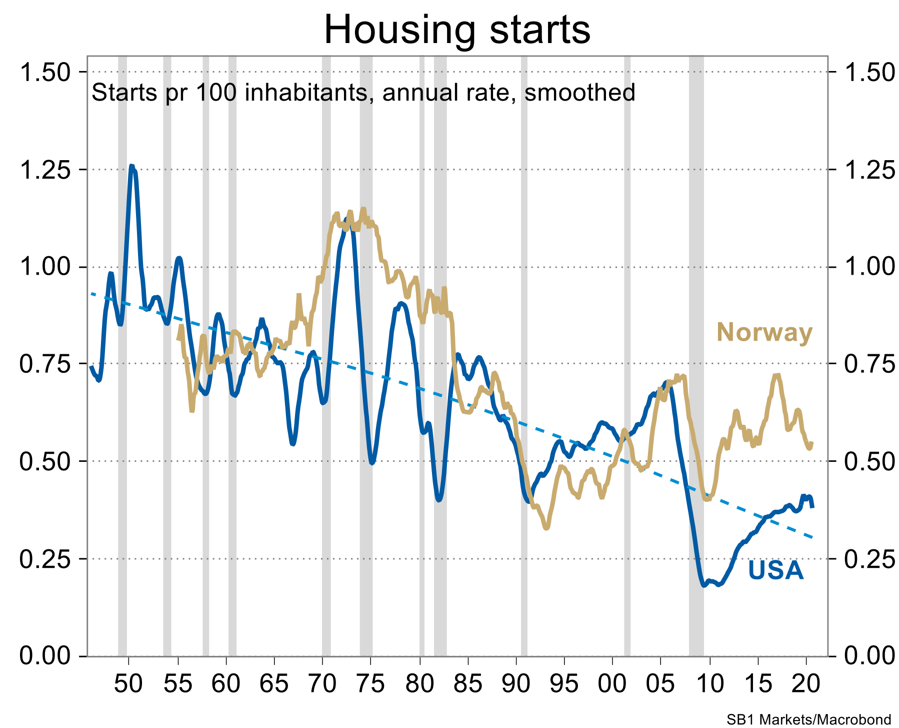


- Total nominal sales rose by 0.6% m/m in August, 0.3 pp weaker than expected
- Core sales (=control group) fell by 0.1%, we assume by 0.4% in real terms. Sales in July were revised down by 0.3 pp to 0.9%
- Sales are still 2.5% above the pre corona trend (which was rather strong), following a sharp recovery in May/June. We expect sales to slow further, as the upward speed recent months cannot possibly last, even if households have been generously (over) compensated for the loss of wage income by the government
- The gap between different sectors is narrowing as sales in those who have blossomed since February flattened out or retreated, and those who have struggled continued to rise slowly. Restaurants are down 16% vs February, not that surprising given corona measures. It’s harder to explain the continued 20% shortfall in clothing! Working for home and less social activity has reduced the need for buying cloths.

Housing: Back at the pre corona level, a sharp 'V'

Housing starts and permits fell marginally in August, after soaring the prior months

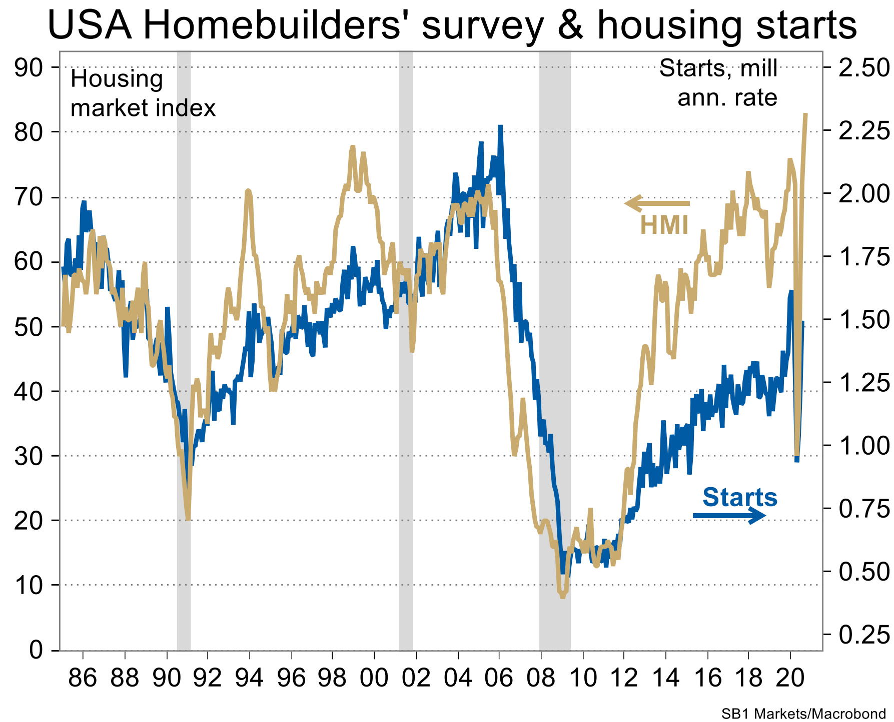


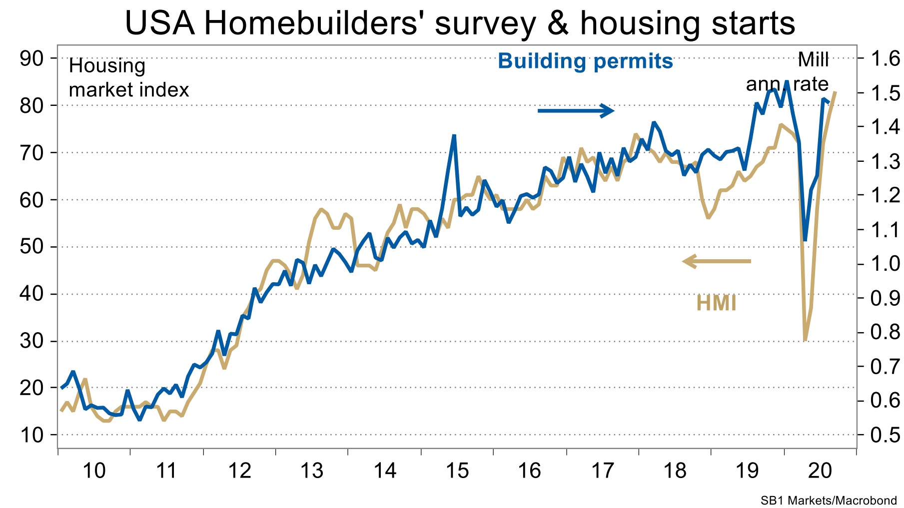


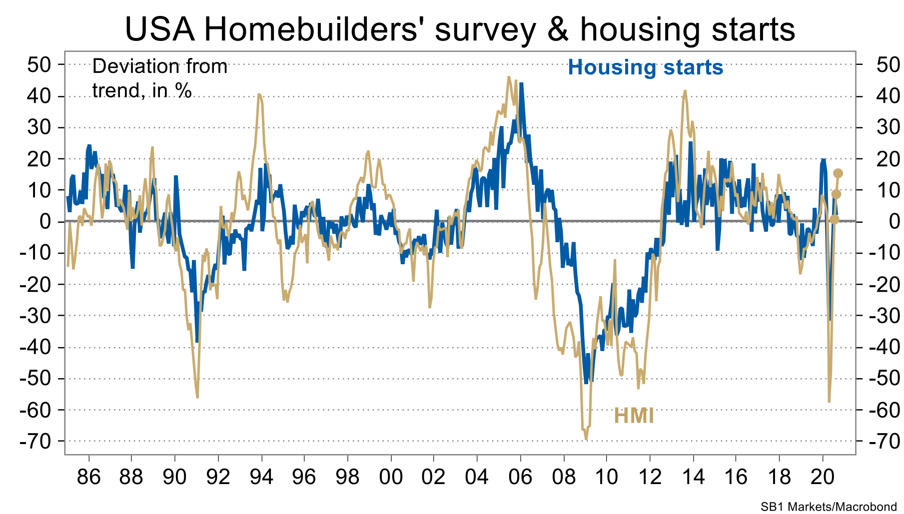
- Housing starts fell by 5% m/m in August and permits by 0.9%, following strong growth the prior 3 months (+63%). The housing market 'V' was quite narrow, it took just 5 months to come back to the pre corona level!
- The Homebuilders are reporting record high sales and are unusually optimistic on the outlook, low interest rates must be boosting demand for housing. Other housing market components are strong too, both new and existing home sales rising

Homebuilders are reporting the highest activity, ever!

The Housing Market Index soared to a new ATH in Sept, the housing market must be blooming



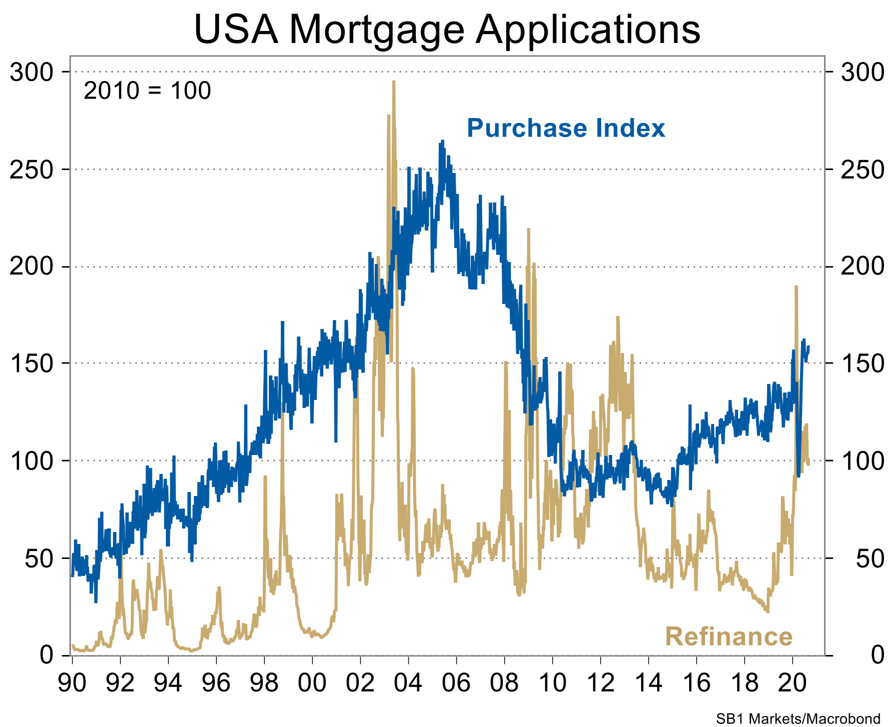


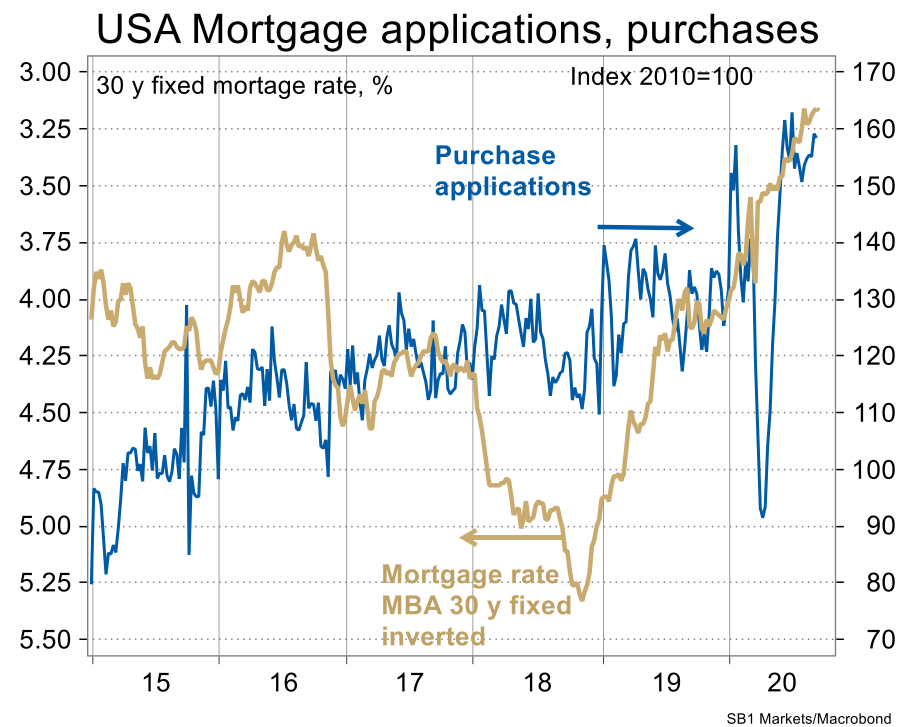


- Builders confidence has never before been at this level (index level at 82). Both the present sales level and expectations on the next months are upbeat
- The HMI is not an assessment of growth in housing stars nor the 'level' of housing starts vs a long term average. The best fit seems to be deviation of starts from a more flexible trend, check the difference between the chart above and to the right
- The current index signals another lift in the housing starts level vs. starts in August

Mortgage applications at a high level

Applications fell sharply during the spring, then a sharp 'V' recovery, up to the best levels in 12 years

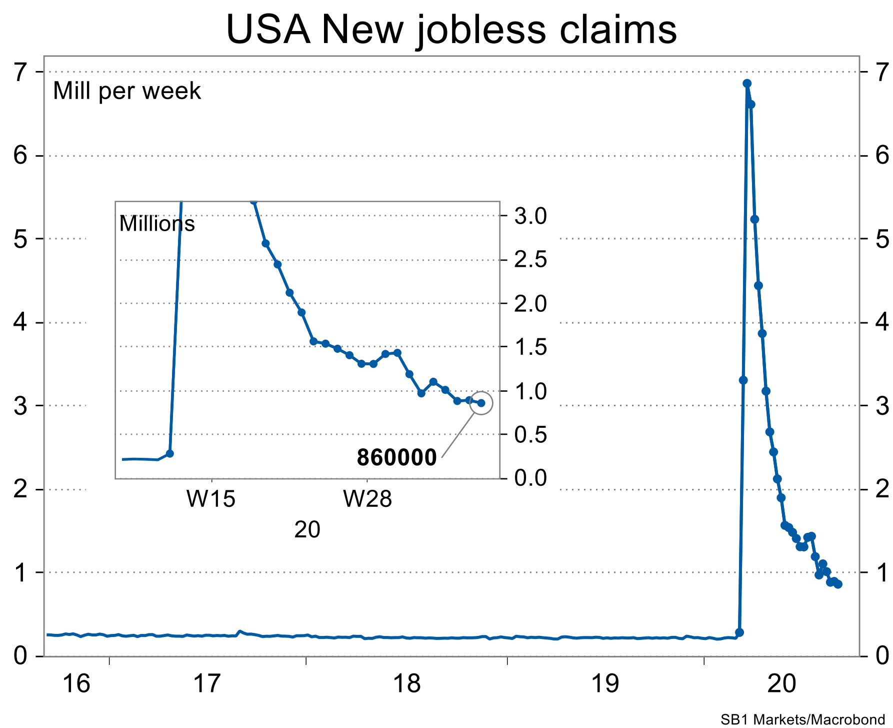


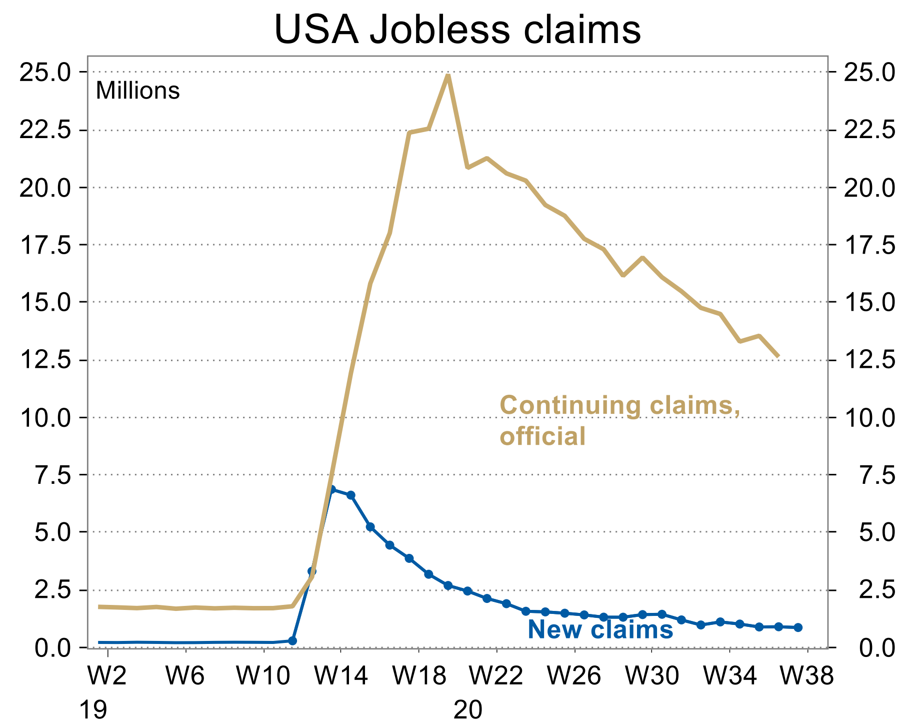


- No doubt, low mortgage rates stimulates demand
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market. Still, the spike in demand for new mortgages cannot be a sign of weakness

New jobless claims sliding slowly down, level still very high

The inflow of new claims fell to 860', still more than 600' higher than the weeks before corona hit

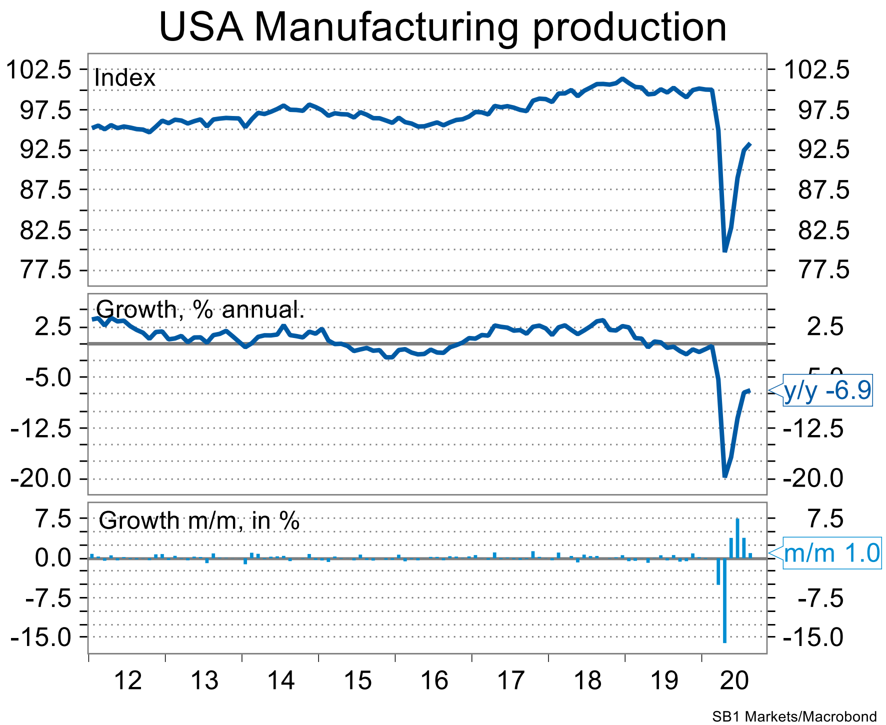


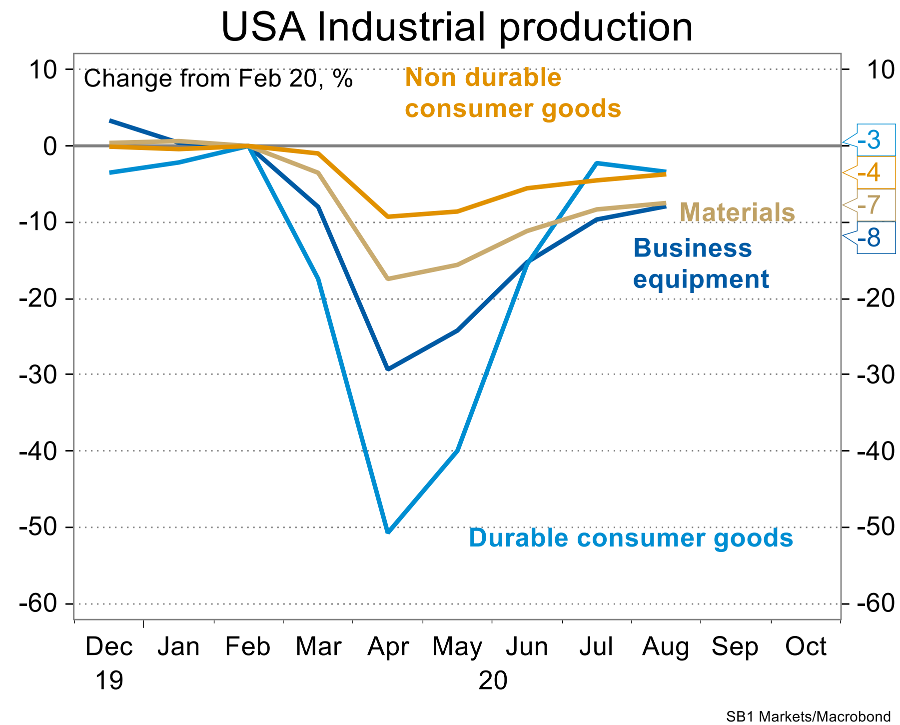


- The inflow is abating, however, it equals 0.5% of the labour force entering the labour market offices as newly unemployed each week! The number is much higher than during any earlier USA recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 12.6 mill. from 25 mill. – still 8% of the labour force is on the dole

Manufacturing rose ‘just’ 1% in August, 7% below February level

Production is lagging in all major sectors and August was not impressive





- Manufacturing production grew by 1% in August, expected up 2.3%. More than half the March & April drop is reversed, but production is still down 7% down from February
  - » Business equipment production is the main drag, down 8% vs. Feb. Durable consumer goods down 3%
- Total industrial production, including utilities, mines/oil production, rose by just 0.4% in August (7% below Feb level)
- PMI/ISM and other surveys signal a recovery, but not at a brisk pace, given the continued low production level

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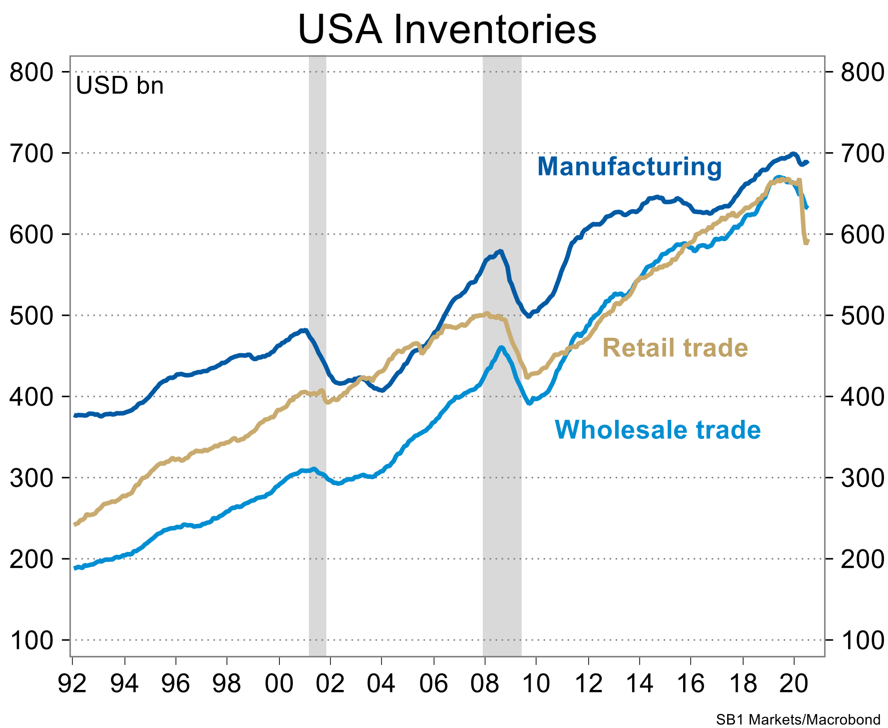
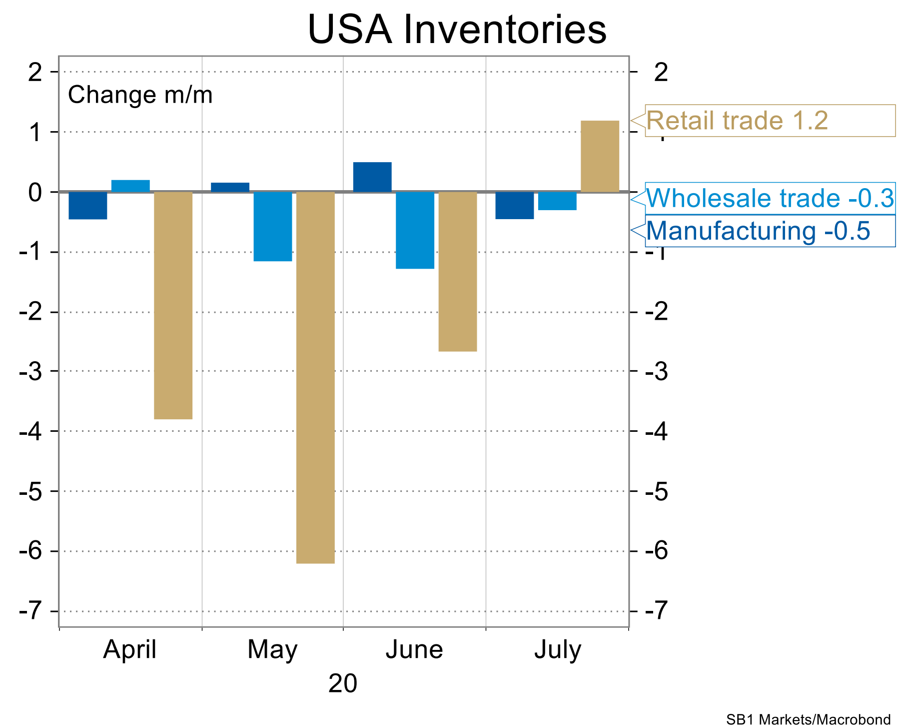
Inventories have been run down, prod. will have to be ramped further up

… if demand does not fall off the cliff, again

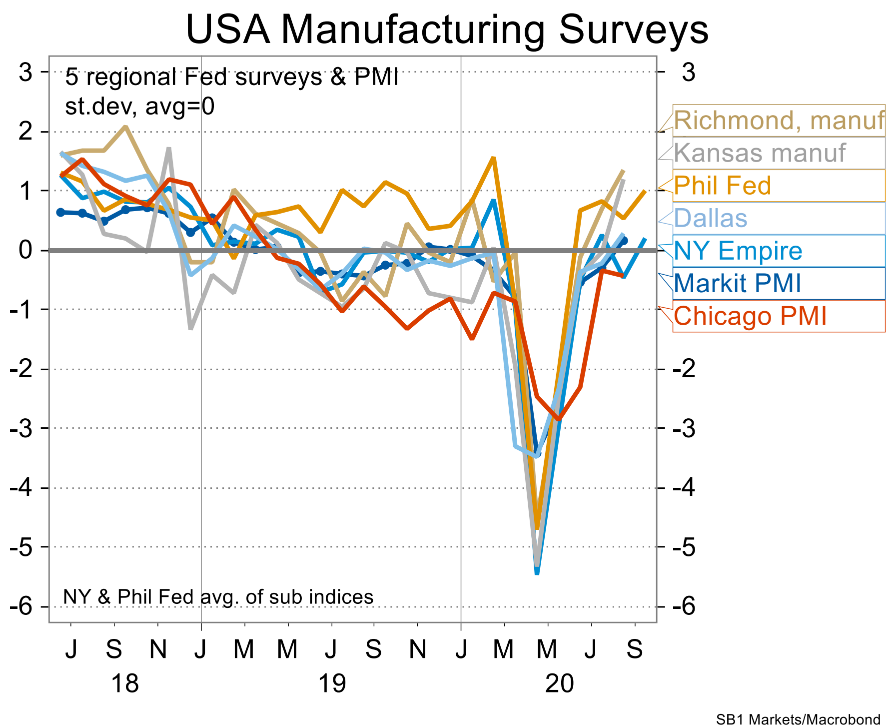


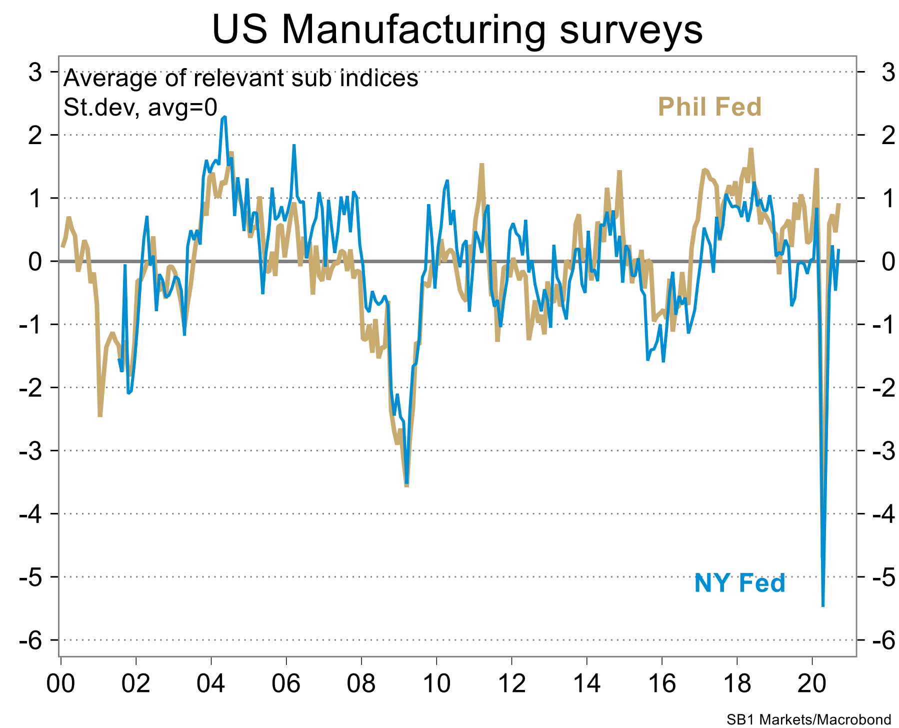


- Retail trade inventories fell sharply in April-June. Inventories rose in July but both retailers and wholesalers will have to stock up substantially the coming months, perhaps even manufacturers themselves

The first September manufacturing surveys are signalling a ‘slow’ recovery

NY Fed Empire and Phil Fed are at OK levels but not impressive give than production is 7% below par

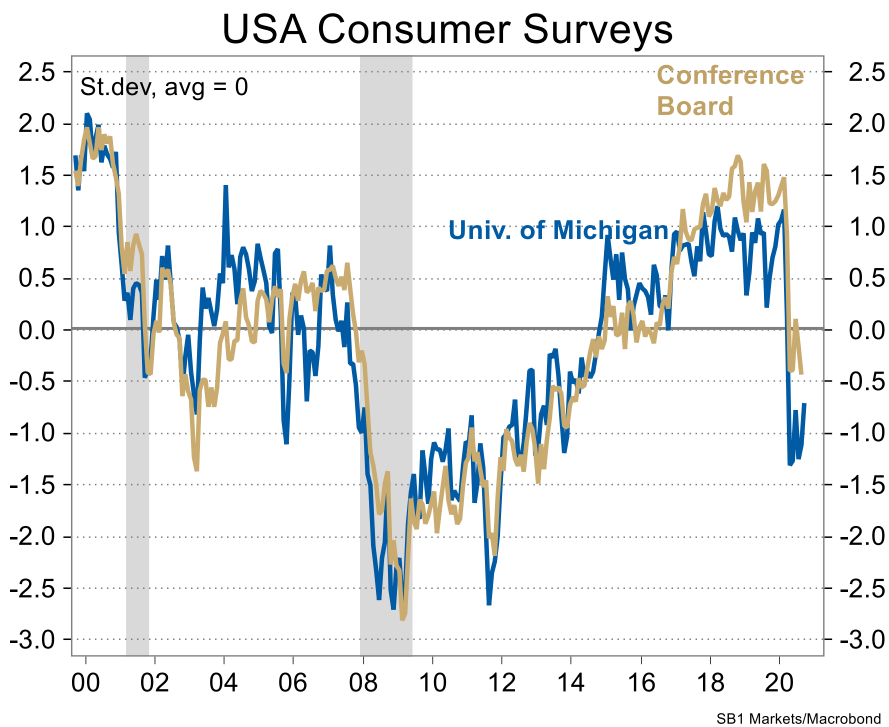


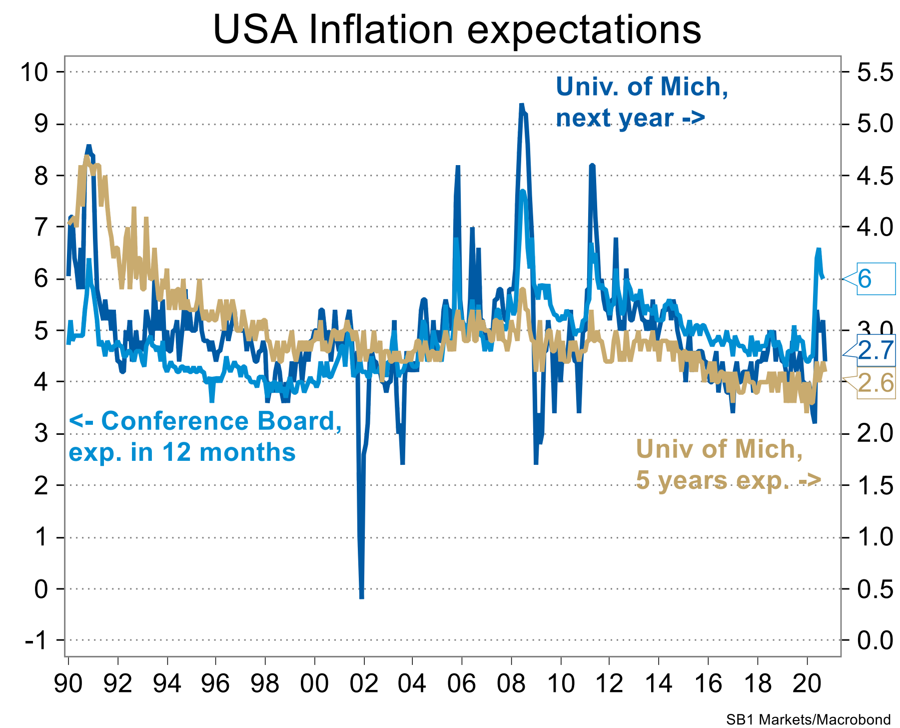


- NY Fed’s manufacturing survey rose to 7.4 in September, close to expectations. Phil Fed’s survey climbed to 17.9, was expected to slide down to 15
  - Order indices improved. In the Phil Fed survey, 42% of businesses reported rising orders compared to the previous month. The NY Fed survey reported a modest rise in orders, do not signal a swift recovery in production
- The Markit manufacturing PMI will be released this week, these surveys suggest a modest uptick in the PMI
- The surveys signal further growth in manufacturing production but at a modest pace, given the ‘need’ for a rapid recovery to close the gap to a normal production level

Consumer sentiment strengthened in September, more than expected

The Univ. of Michigan reported a visible uptick in the household survey. The level is still low

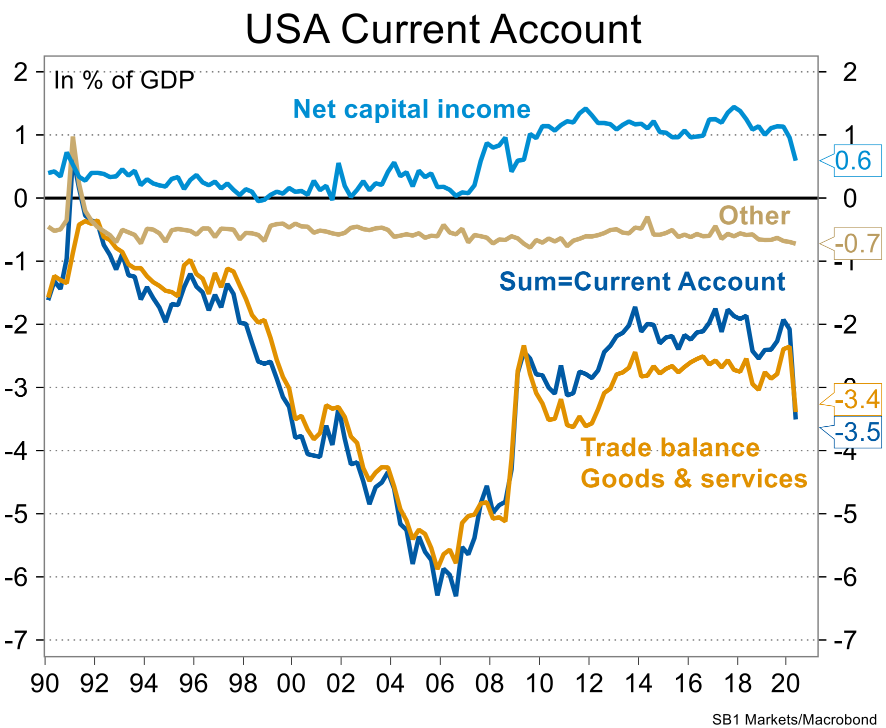


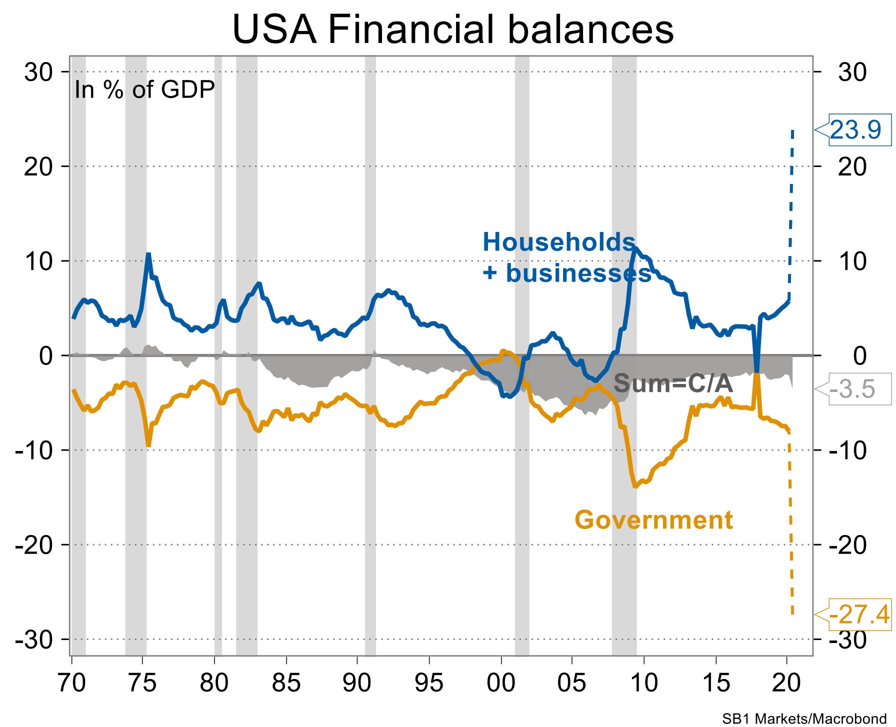


- The index is at the best level since March, before corona became a big problem. Still, the level is low, far below an average level
- Given the strong housing and equity markets, the changes (to the better, tough from a disastrous level) at the labour market, and the slowdown in corona cases, it is rather surprising the consumer confidence has not strengthened more recent months
- Inflation expectations are inching up, perhaps due to somewhat higher consumer prices recent months, like on food

The current account deficit widened to 3.5% of GDP in Q2

The government deficit rose to… 27% of GDP in Q2? And the private sector surplus to 24%??

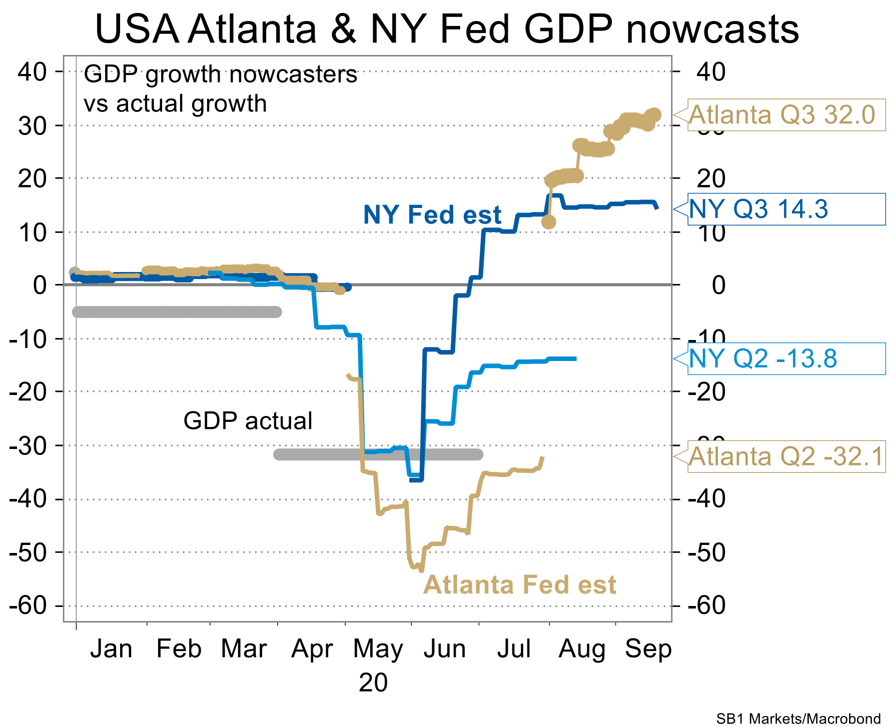


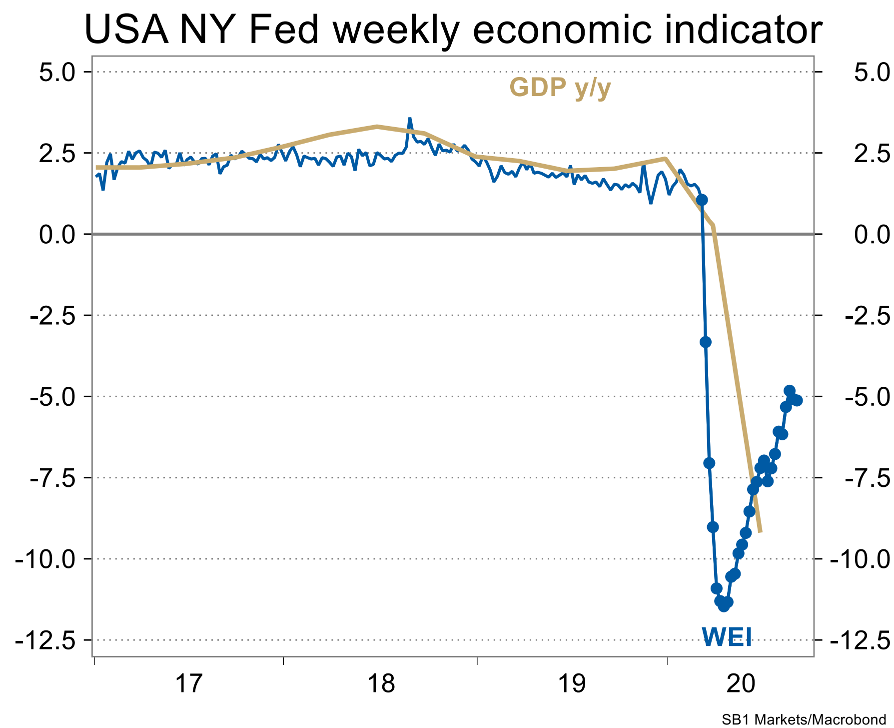


- Well, that's what our data so far show (not all details are yet published). The private sector, especially households were overcompensated for corona losses, big time – by the government. Thus, the public sector deficit exploded in Q2 – but will contract sharply, if not back to a normal level in Q3.
- The current account deficit widened rapidly in Q2 as both the trade balance and net capital income fell

Nowcasters are looking upwards in Q3, of course. In avg less than the Q2 loss

15 – 30% growth (4 – 8% not annualized) signaled, vs. the 31% (9.1 n.a) Q1 setback





- The nowcasters' Q3 forecasts are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the Atlanta and NY Fed nowcasters reports 15 – 30% growth in Q3 (annualised rate)
- NY Fed's weekly model signal some 5% decline y/y in Q3, equalling a 20% growth pace q/q in Q3. We still assume growth will turn out to be better than that

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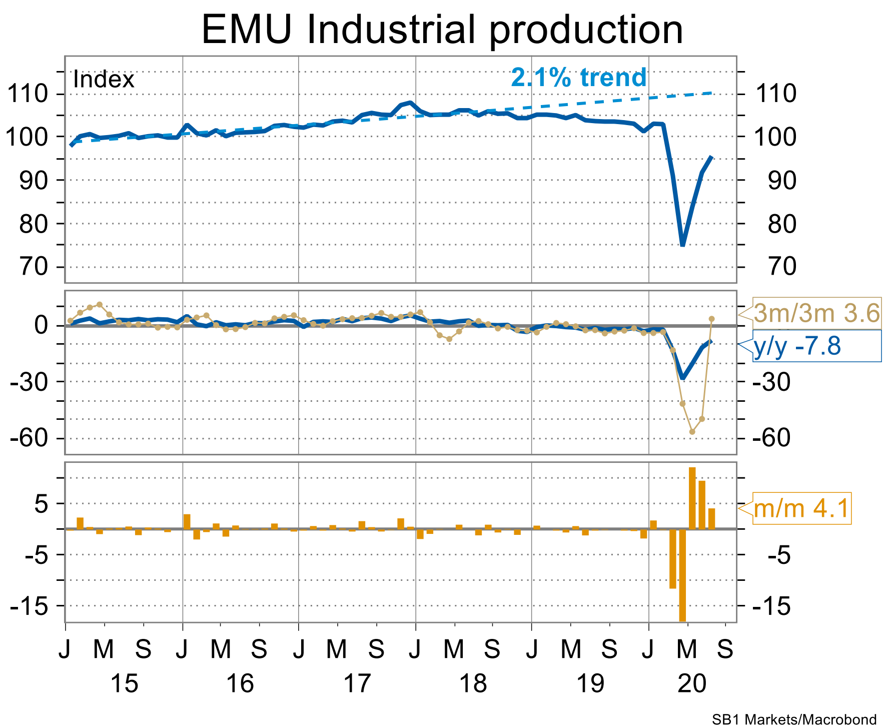
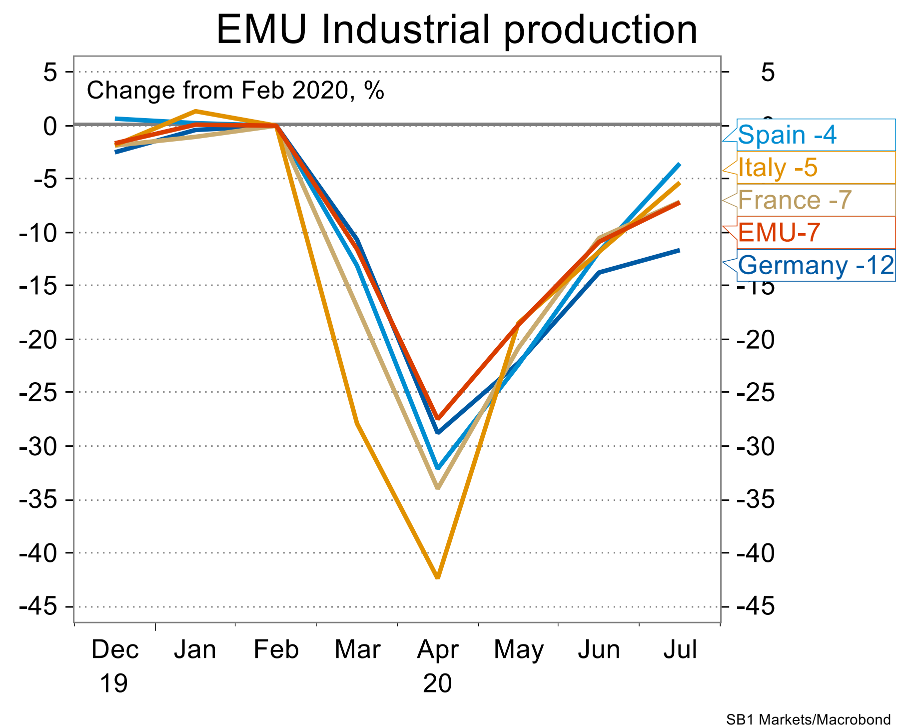
Industrial production up 4.1% in July, has recovered ¾ of the loss

Production is recovering but the activity level is still 7% below the February level (like in the US)

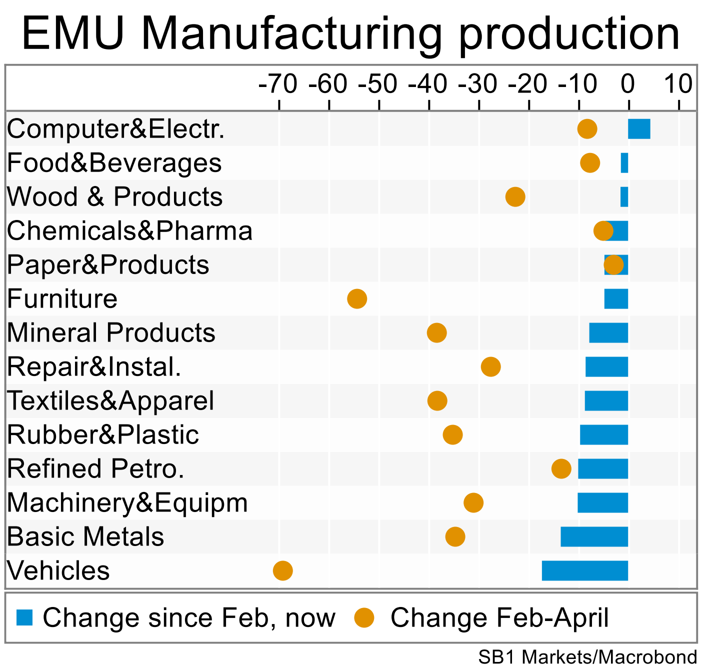


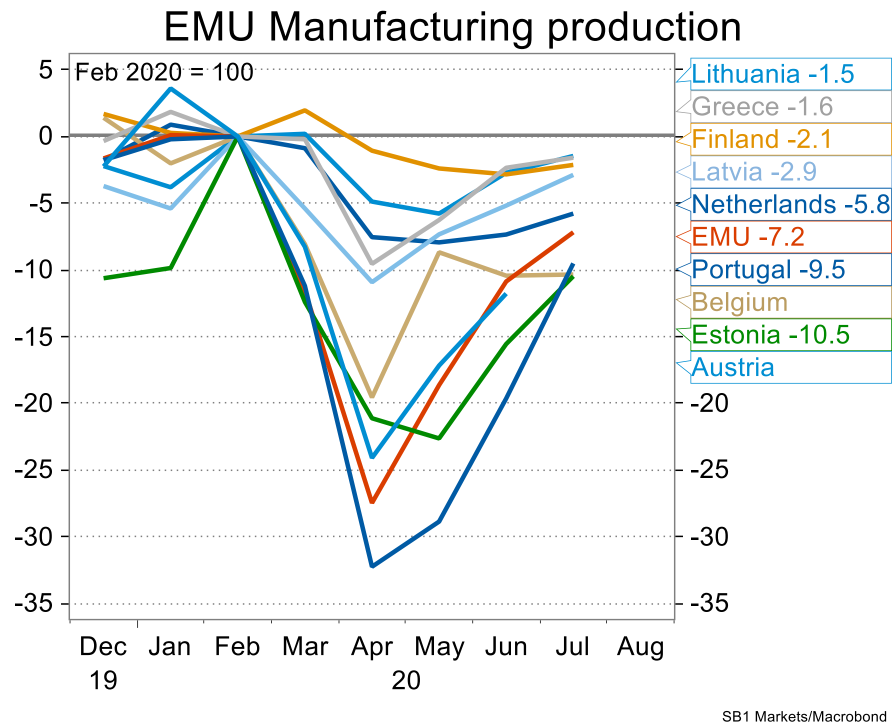


- The recovery is broad regionally, all major countries have reported increasing production since May. Germany the weakest link, 12 % below February level, Spain just 4%

A broad recovery – after a broad downturn

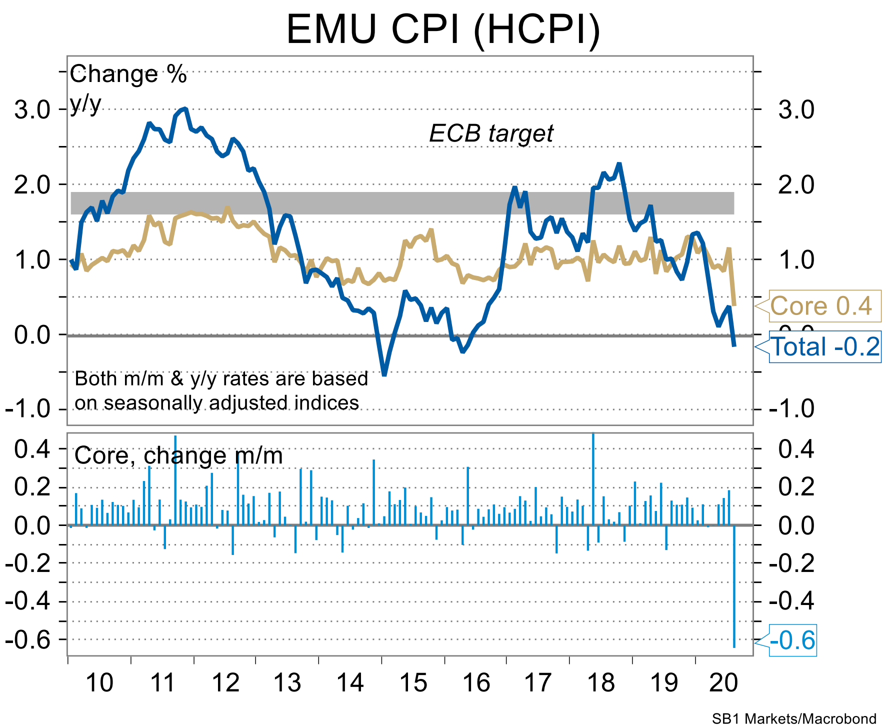
Production is below normal levels in most sectors & countries, autos at the bottom of the league

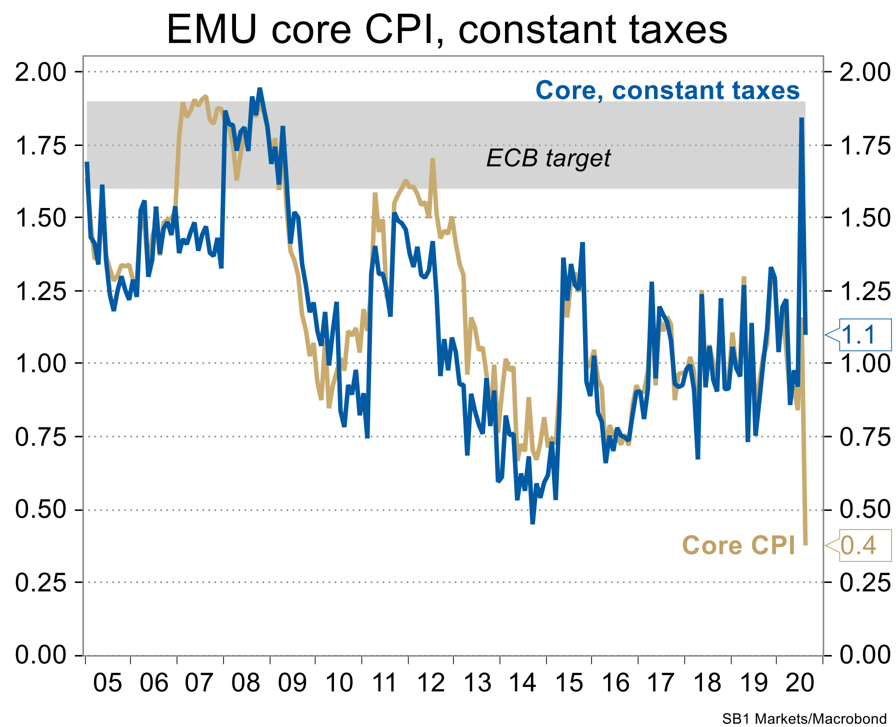




Core inflation confirmed at just 0.4% in August, total inflation -0.2%

The German VAT cut has lowered EMU inflation by 0.7 pp, the constant tax core HICP at 1.1%

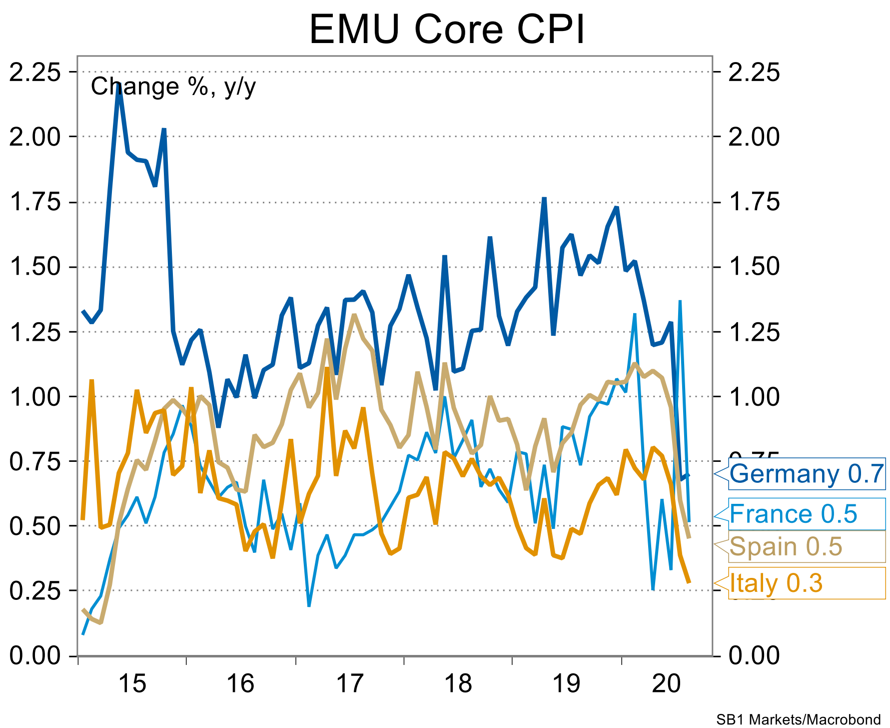


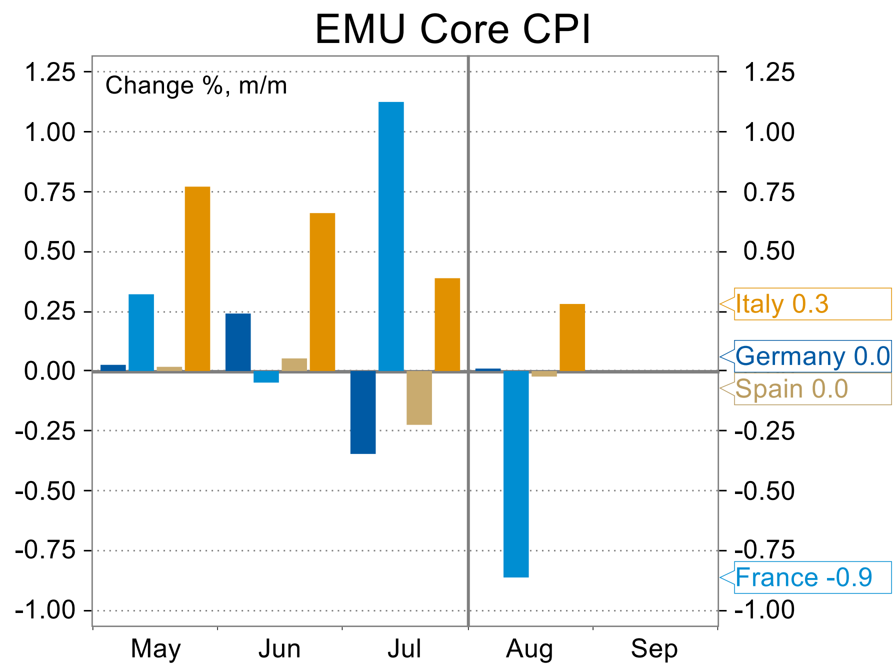


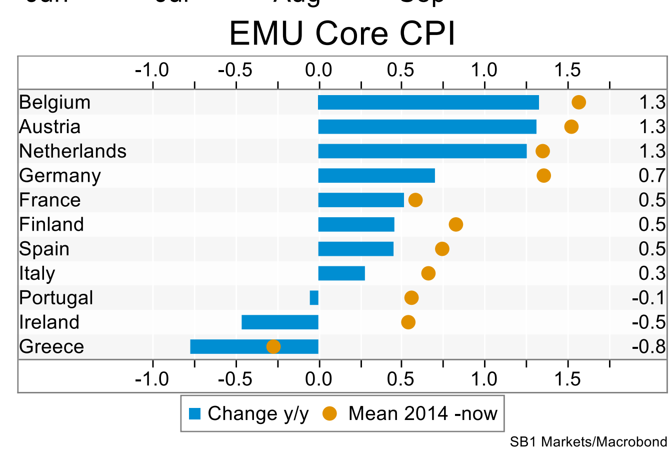
- In July, core price growth would have soared if it wasn't for a cut in VAT rates in Germany, as prices jumped in France (which was then reversed in August, check next page).
- The HICP core constant tax CPI spiked 1 pp to 1.9% in July and fell back to 1.1% in August (but the impact on price growth m/m in August was zero). Anyway, the core CPI most are looking at will most likely remain below the normal level for the coming 10 months
- Energy prices have taken the total CPI down – and the headline HICP was down 0.2% y/y in August. *Good news for European households, and their purchasing power*

SpareBank 1 MARKETS

Core inflation ex the German VAT cut is at 1.1%, a normal (too low) level

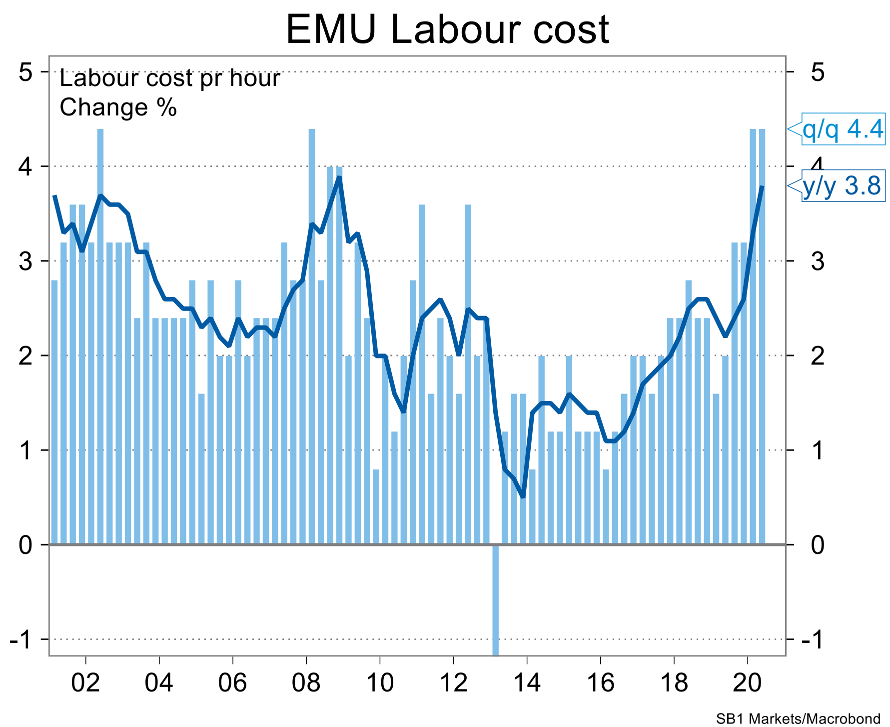


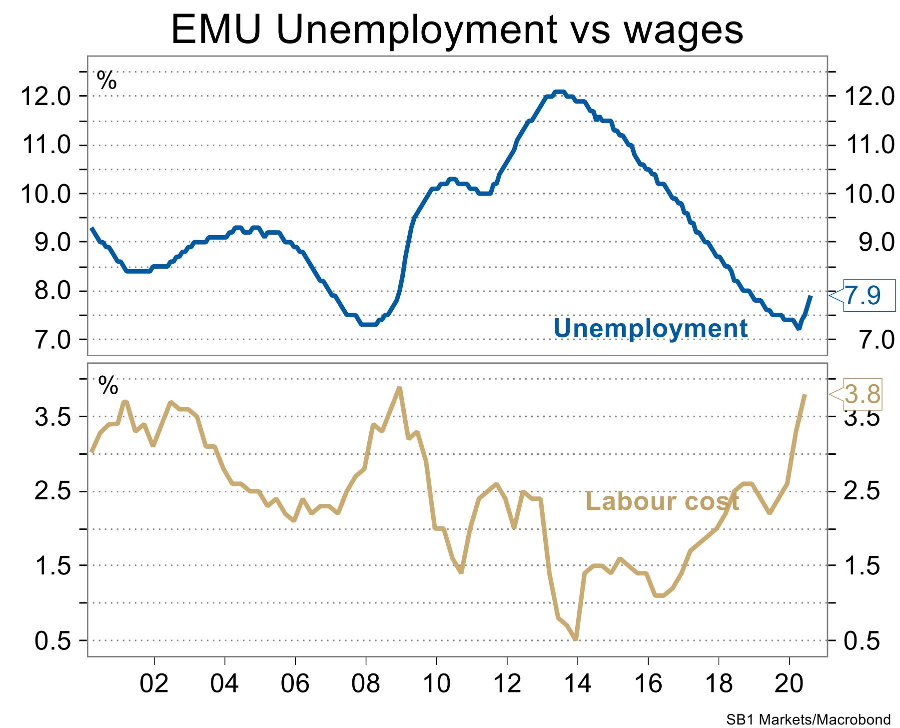




Wage inflation jumped in Q1&Q2 as lower paid employees have been laid off

Wage data are rather irrelevant now. Strange upward revision of 2019 wage growth

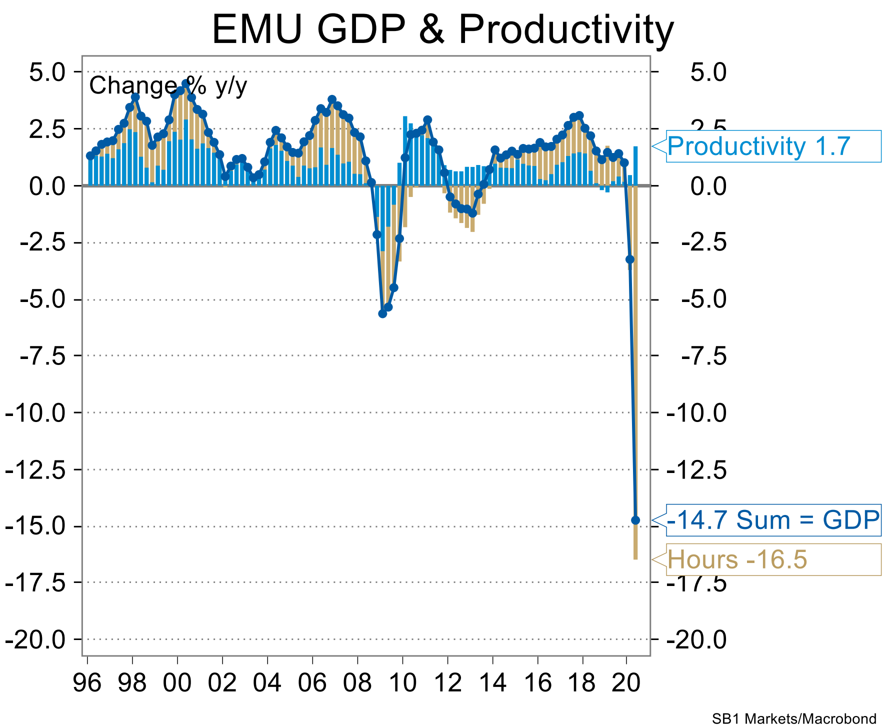


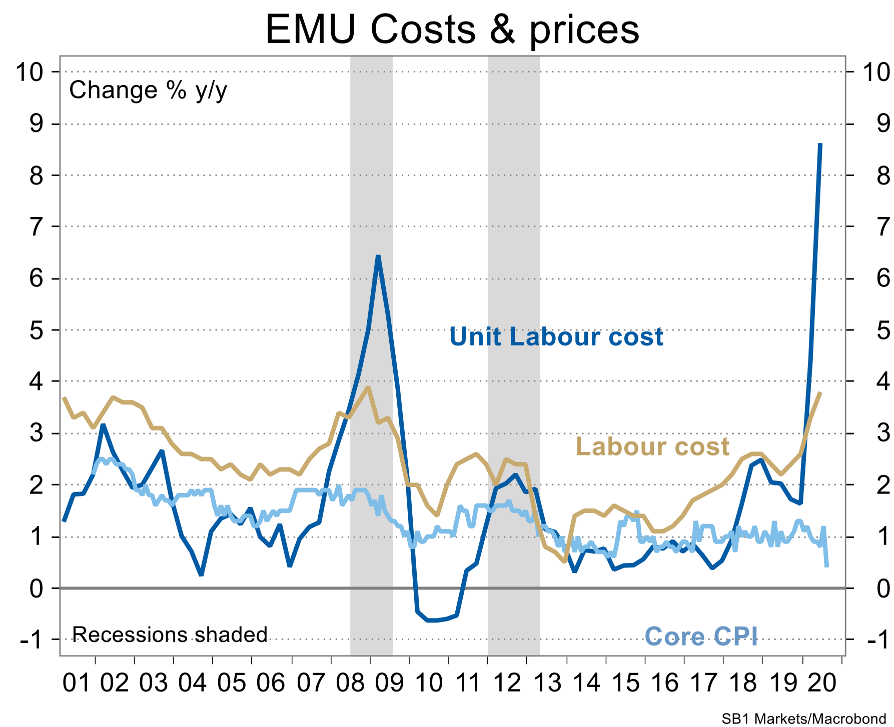


- Wage growth up 4.4% q/q annualized, the highest since 2008. Wages have been accelerating everywhere during the corona crisis, merely because the low paid workers have been furloughed or laid off
  - » Unemployment is rising the 'real' rate is most likely much higher than 7.9%, as furloughed are only included after 3 months
- The longer term impact of the corona downturn will probably be a slowdown in wage inflation
- 2019 wage data were revised up, Q4 to a 3.2% speed, from 2%! Apparently due to a new data source. Strange…

Hours worked tumbled 16.5% in Q2, productivity up 1.7%

Thus, unit labour cost inflation spiked to 8.6%. Do not focus on these data

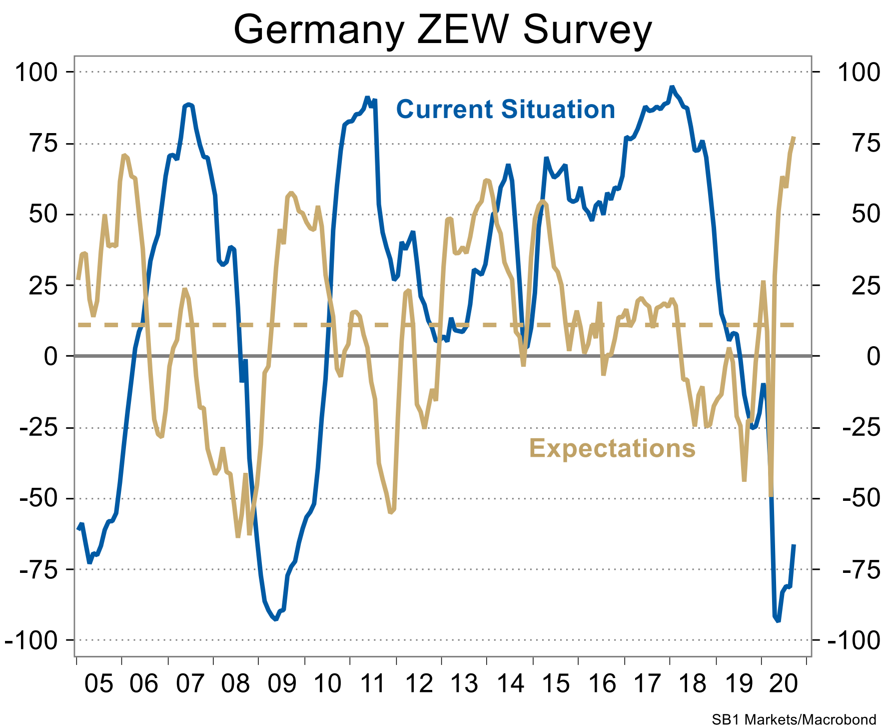


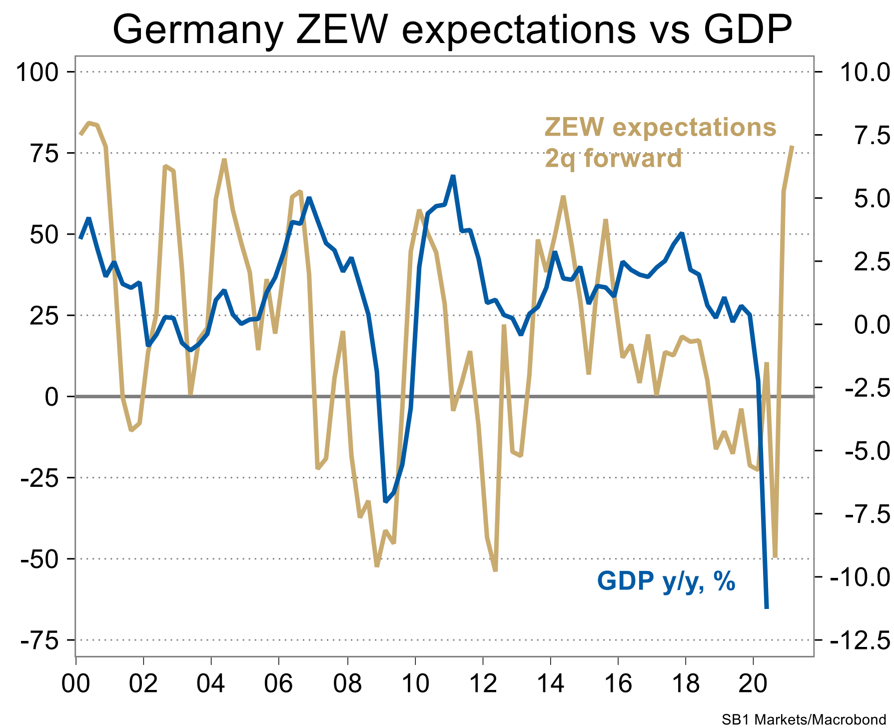


- These data are similar to what the US reported in Q2 – and are rather meaningless to analyse

The best German future since 2000! Check the starting point, the current position

We do not trust these data to be translated to growth figures, but 7% is anyway not impressive





- The ZEW expectation index climbed further in September, better than expected. The index is at the highest level in 20 years but cannot be used to calibrate any GDP forecast – as the starting point, the current (or at least the Q2) GDP level the lowest ever (vs the pre corona trend)
- Investors and analysts are just pretty sure that the economy will not remain in the basement (or below) forever. Which is reasonable
- The view of the current situation remains very weak – but still better than during the spring

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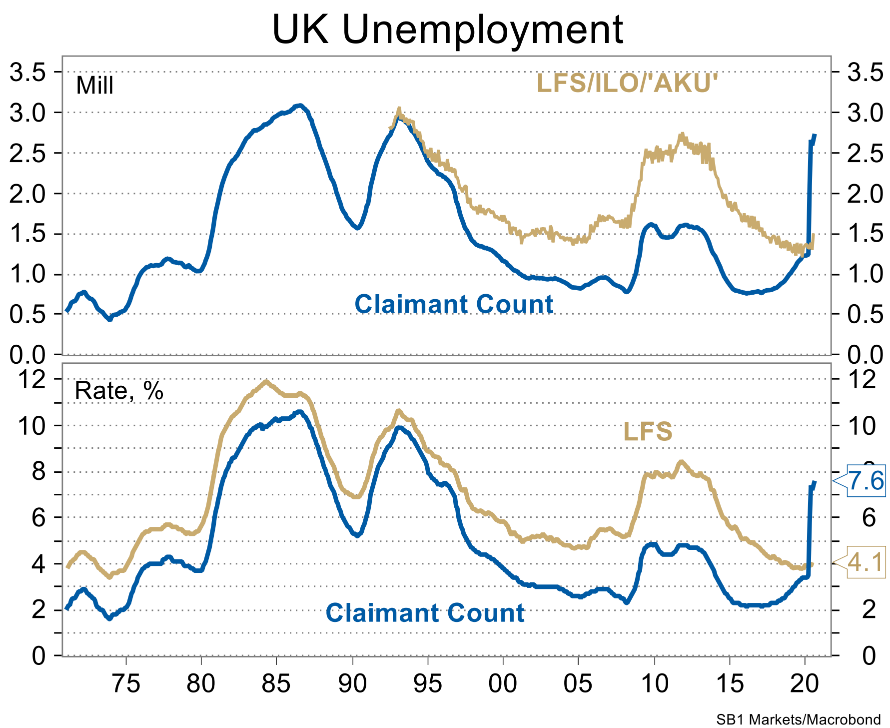
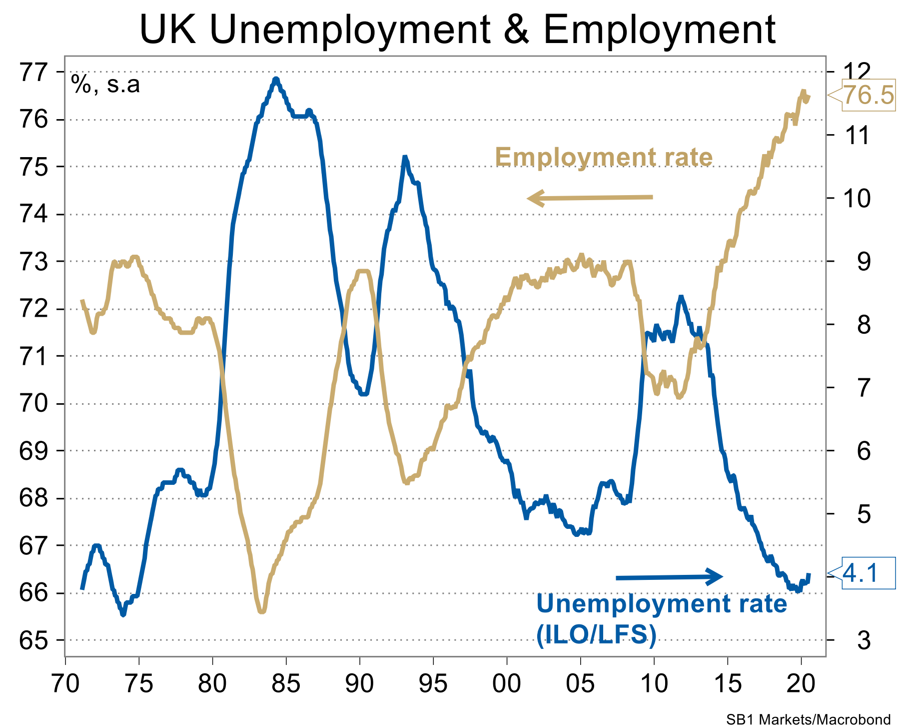
'Open' unemployment up to 7.6% in August, ILO/LFS 4.1% rate is irrelevant

The ILO unemployment data do not yet reflect the actual labour market conditions

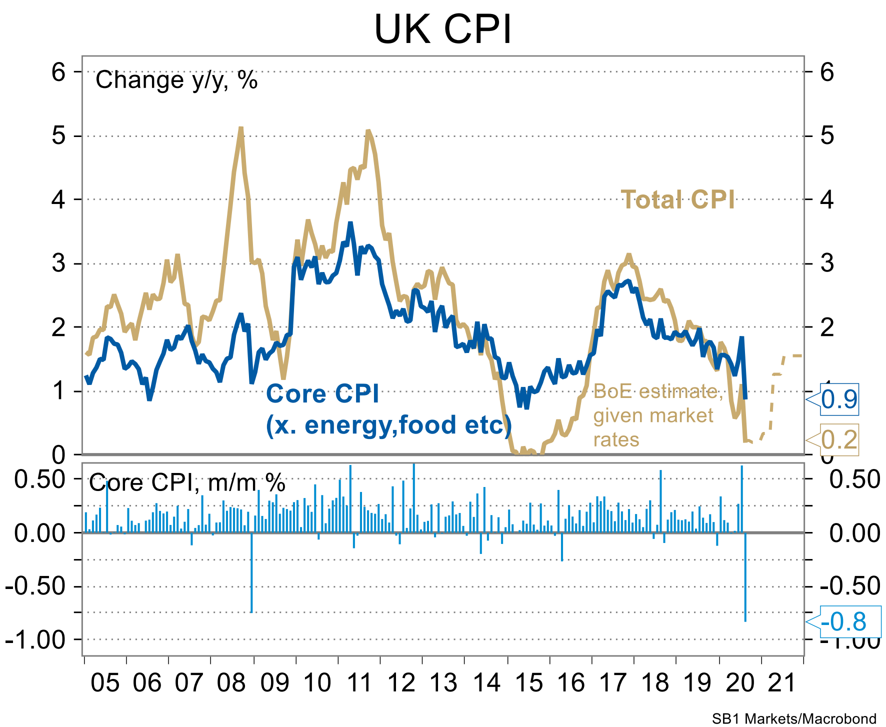


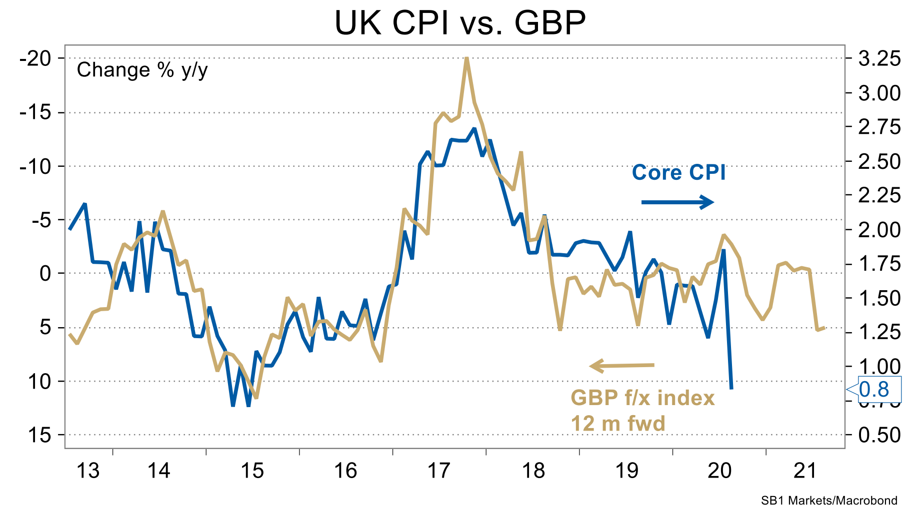


- The ILO/LFS unemployment rate has too much of a time lag to be relevant. These data are the avg of June-August but do not include furloughed/temporary laid off workers until after 3 months
- According to the claimant count data (registered unemployment), the unemployment rate is now running at 7.6%, up from 3.4% before corona. Still, compared to many other Western countries, the upturn has been limited. This is probably related to the generous rescue program for businesses, as the UK government has compensated businesses for a share of workers salaries

CPI inflation dropped temporarily in August

Core CPI down 0.8% m/m in Aug, restaurant discount scheme and VAT cut drove prices down

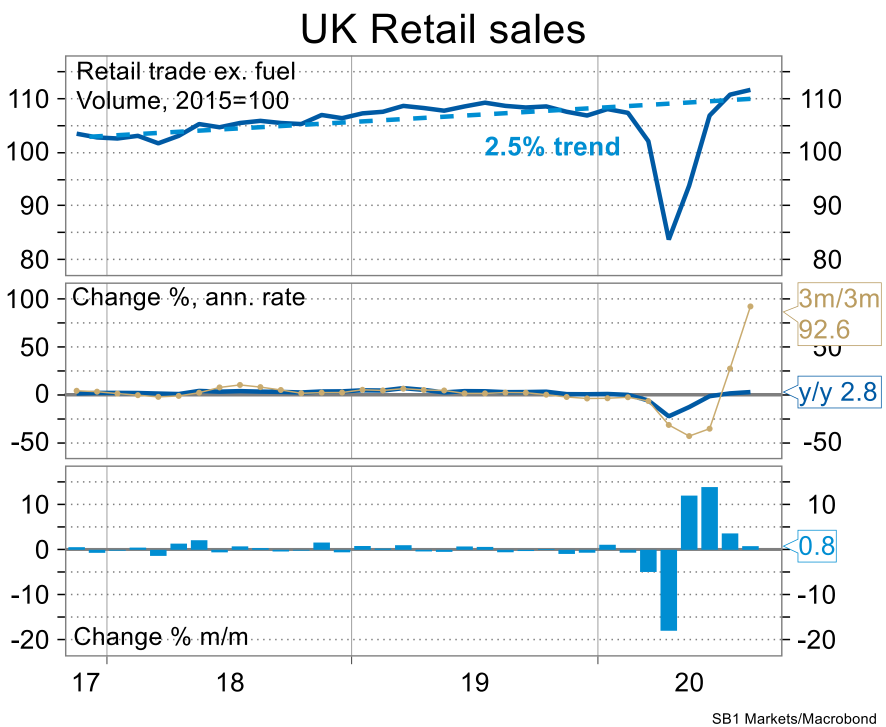


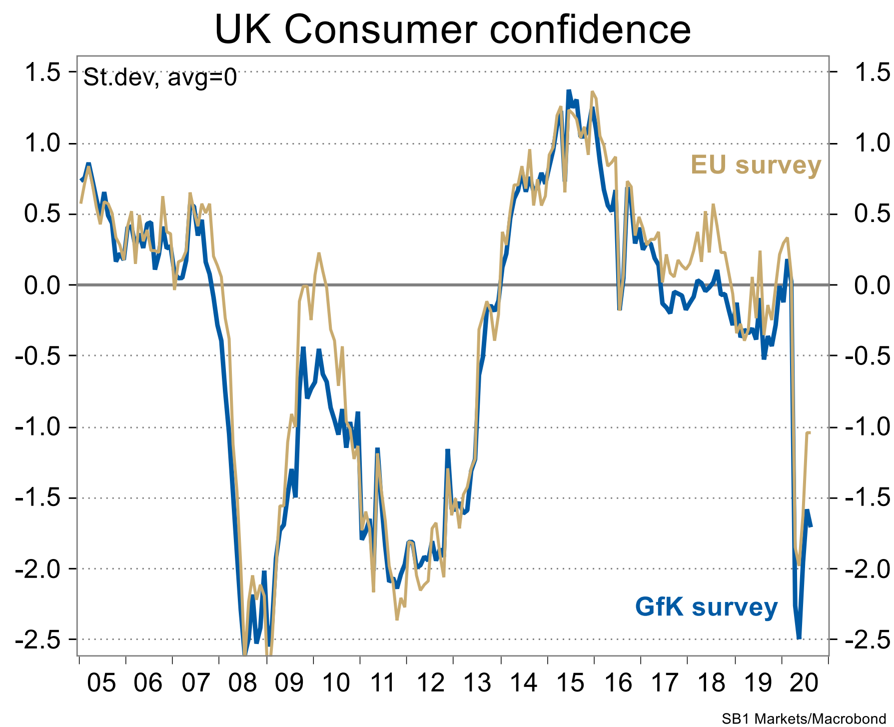


- Core CPI inflation fell to 0.9%, a 1 pp decline. A rebound is expected, however, the main impact from the corona crisis is probably a slowdown in inflation. Total inflation down to 0.2%
- Our simple f/x based model indicates that the impact from the GBP depreciation in 2018 is taken out, the slowdown in the UK economy is more important now

Retail sales back on track

Sales growth is now slowing, after a strong rebound. Consumer confidence still weak

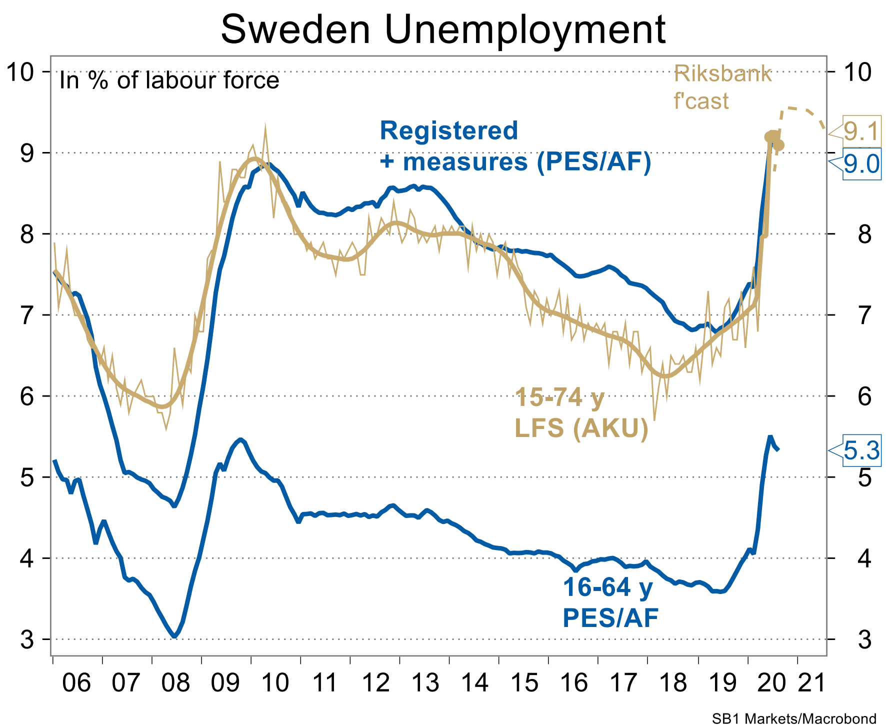


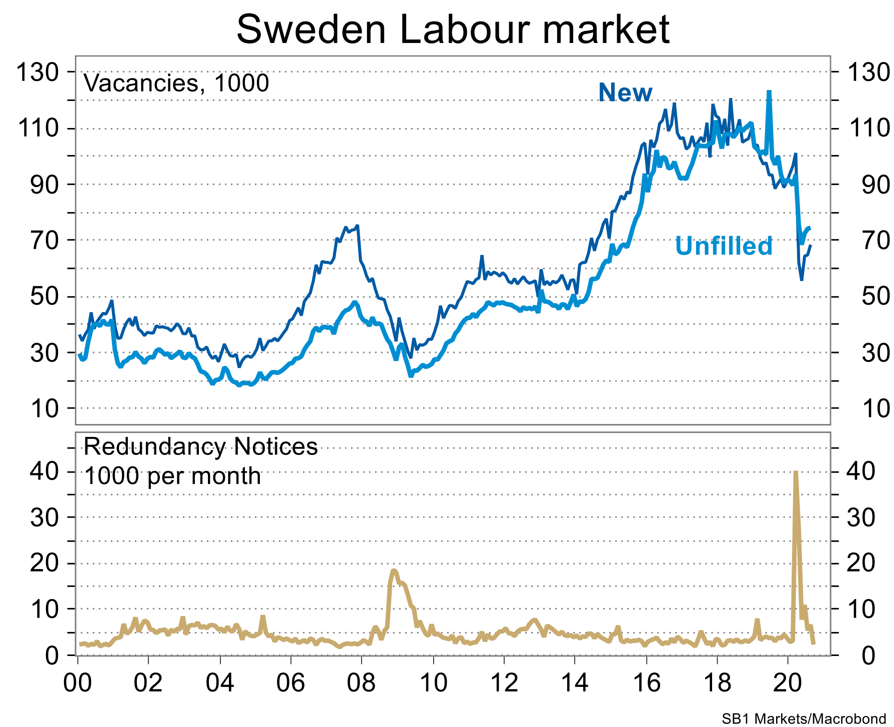


- A sharp ‘V’: as in many other countries, retail sales have fully recovered and are back on the usual 2.5% trend path
- The two major consumer confidence surveys have turned up from the bottom but remain at very low levels. These surveys do not suggest that consumption will thrive the coming months

Unemployment marginally down from peak, employment recovers

Registered open unemployment a tad down to 9.0%, LFS to 9.1%

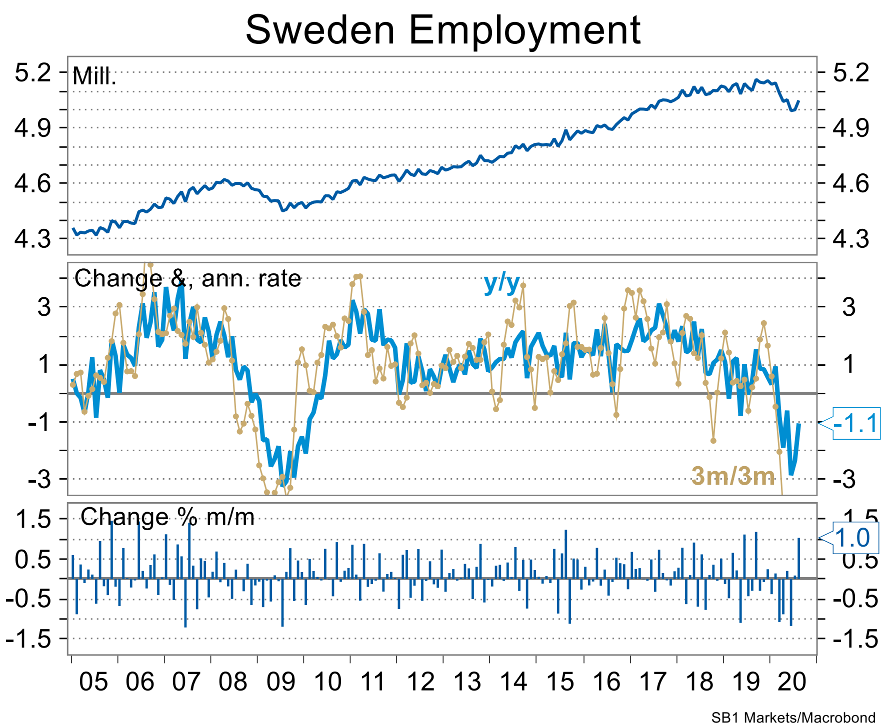


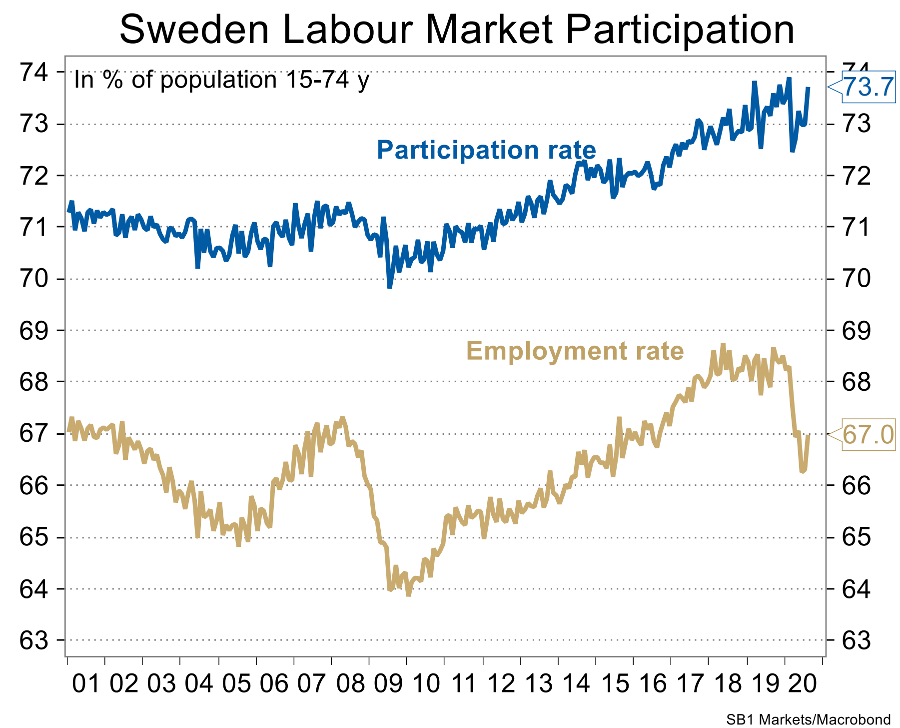


- Sweden has less furlough schemes, and less measures to subsidise employers to keep workers at job, and the unemployment rate is not comparable to other countries (like between most countries these days). Unemployment has anyway peaked and will most likely slide down the coming months as activity returns in more sectors
- Registered unemployment has inched down in July and August, to 9.0% incl. labour market measures (from 7.3% in February)
- LFS unemployment fell by 0.1 pp to 9.1% in August
- The number of unfilled vacancies has fallen sharply but the level is not very low. Redundancies back to a low level

Employment rose in August, has fallen steeper but less than during the FC

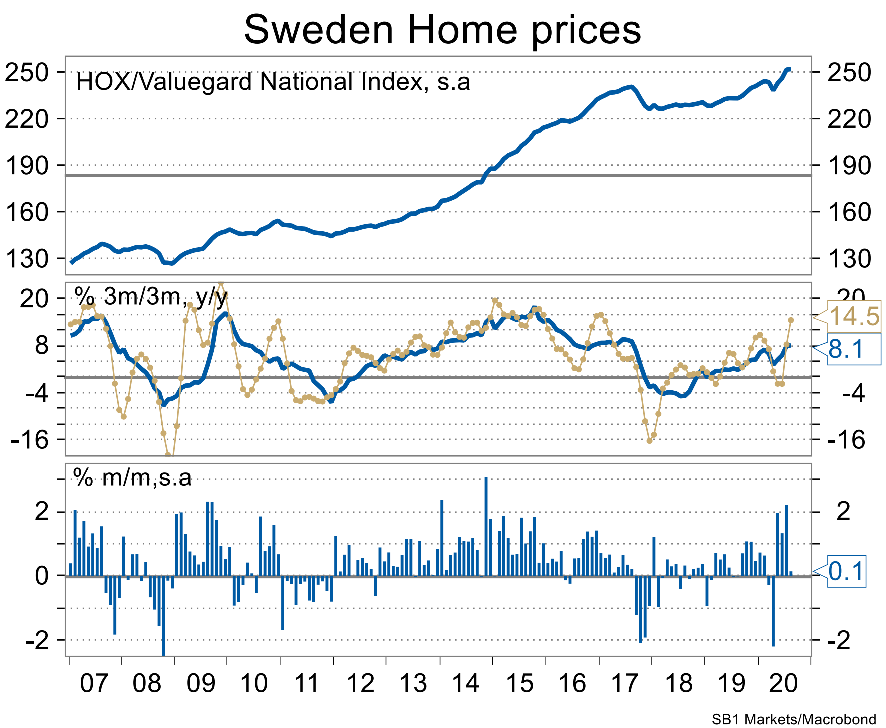
The employment rate is 1.3 pp lower than before corona and participation back to a normal level

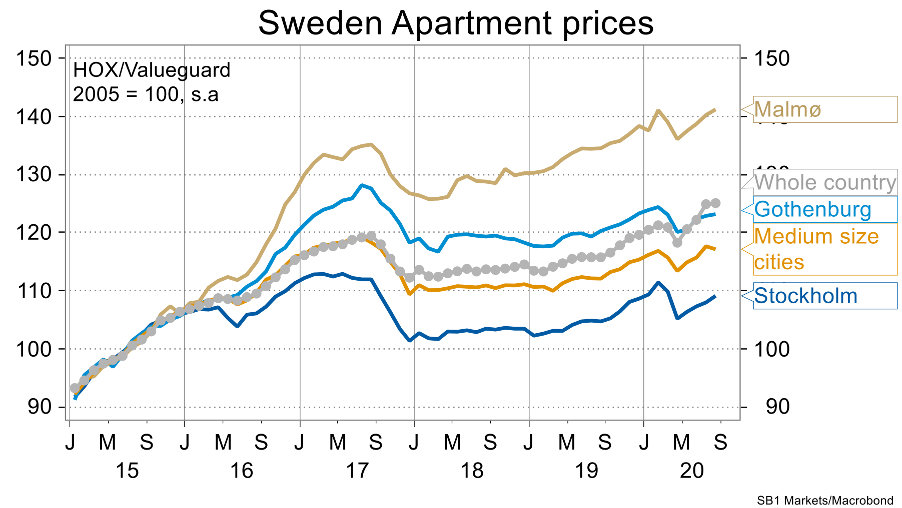


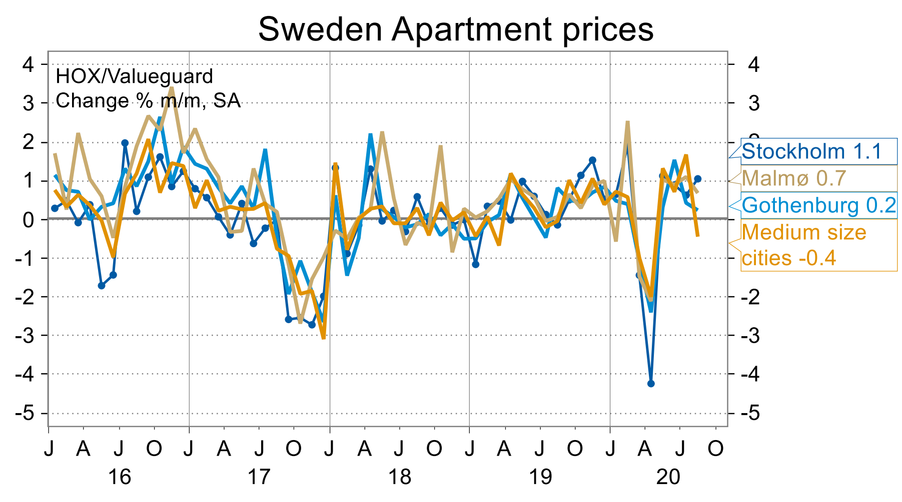


House prices steady in August after rapid growth the prior 3 months

National prices up 0.1% m/m, prices are 3% higher than before corona (not in Stockholm/Gothenb.)







- In total, prices are above the level from before corona, after soaring in May-July.
- Prices are now increasing in all the major cities. However, in Stockholm and Gothenburg prices are still below the February level. Prices in Malmø are flat. In medium sized cities, prices are above the Feb level

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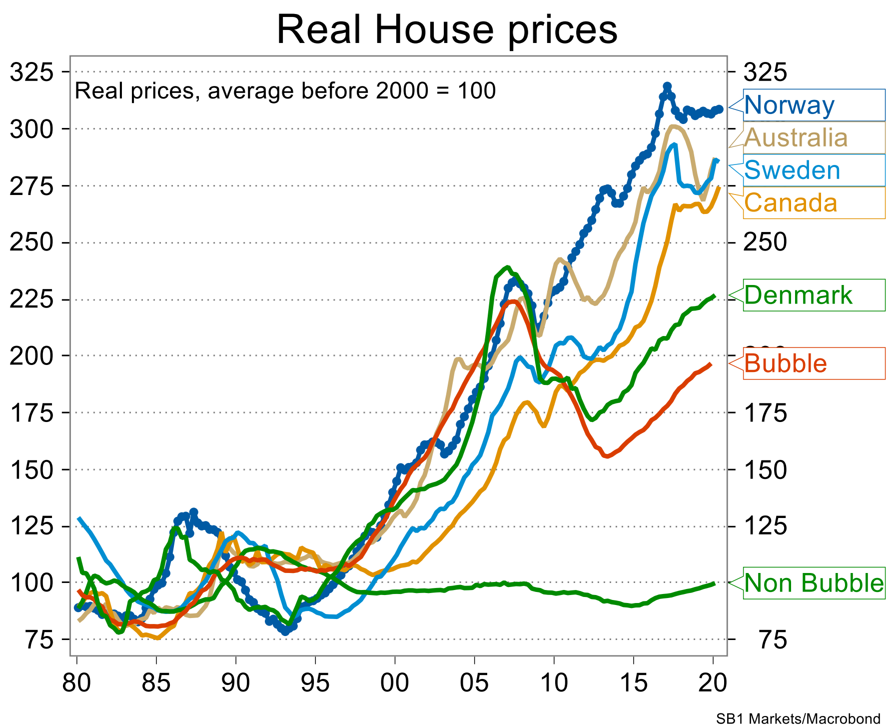
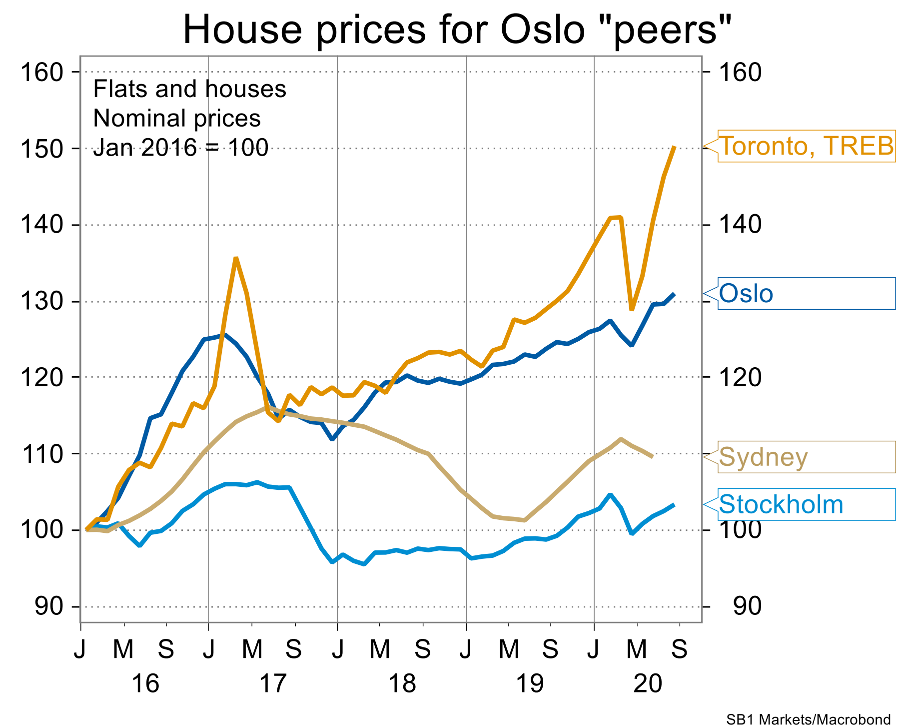
Of the recent ‘V’s, the Stockholm ‘V’ is the least impressive

Prices have more than recovered early corona losses in Toronto and Oslo





- Real house prices are below the early 2017 level in both Australia, Norway, and Sweden but not in Canada

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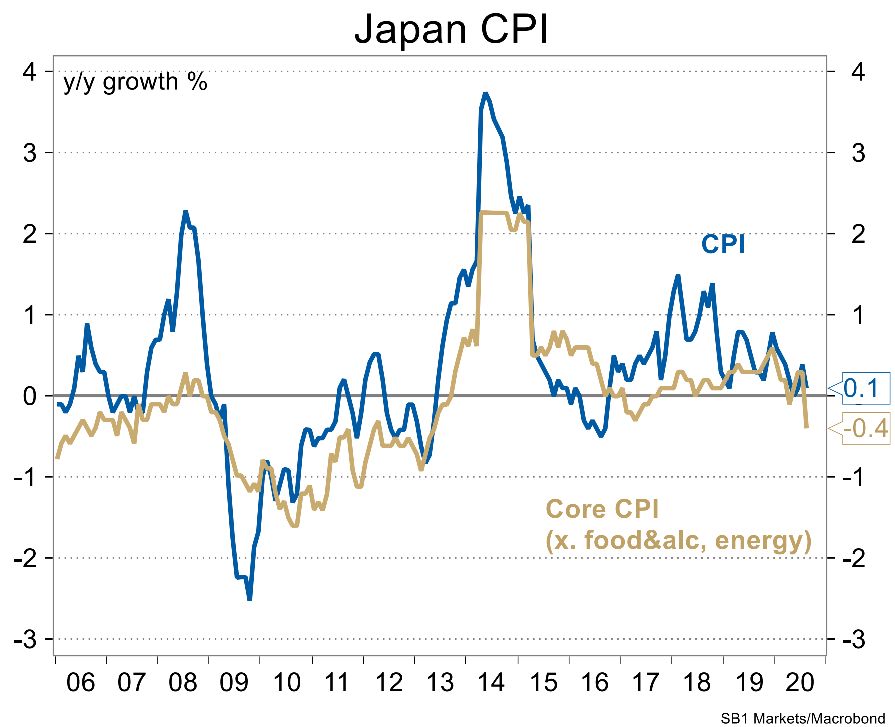
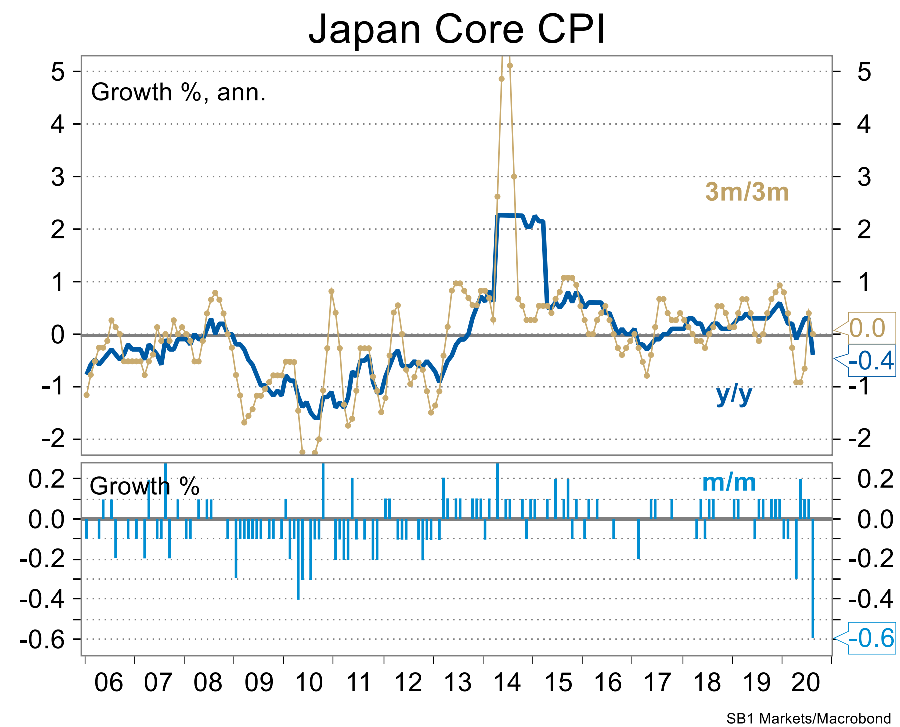
Core CPI dropped in August, annual rate at -0.4%, due to “Go to travel” subsidy

A 35% (!) subsidy for the travel industry lowered prices by 0.44%





- Core inflation slipped 0.6% m/m in Aug and is falling by 0.4% y/y, from +0.3% the prior month. The decline was du eot an unprecedented support for the travel industry. The Government pays 35% of the cost, in the “Go to travel” program
- Total inflation has vanished too, up just 0.1% y/y
- Bank of Japan has not succeeded in bringing inflation up to the 2 % target…

Highlights

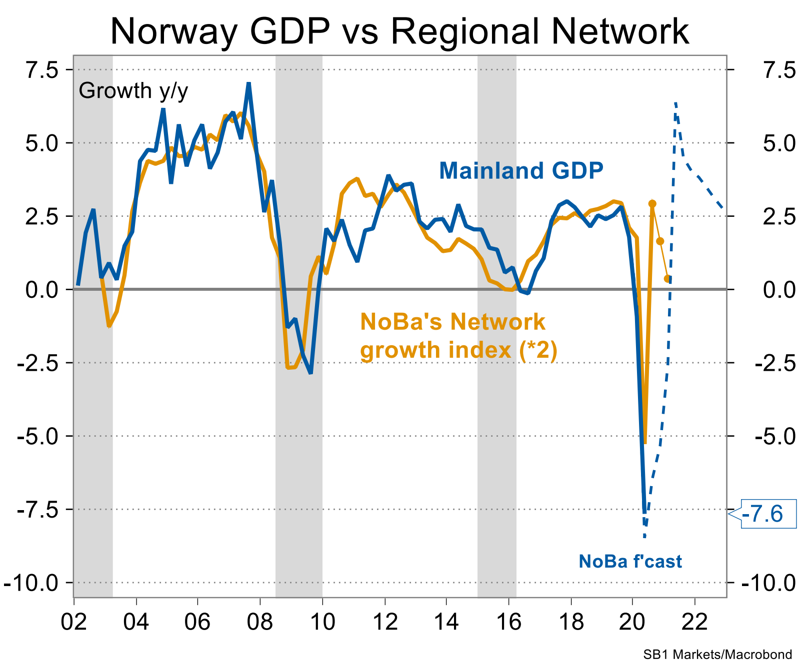
The world around us

The Norwegian economy

Market charts & comments

Norges Bank's Network expects a slowdown the coming months

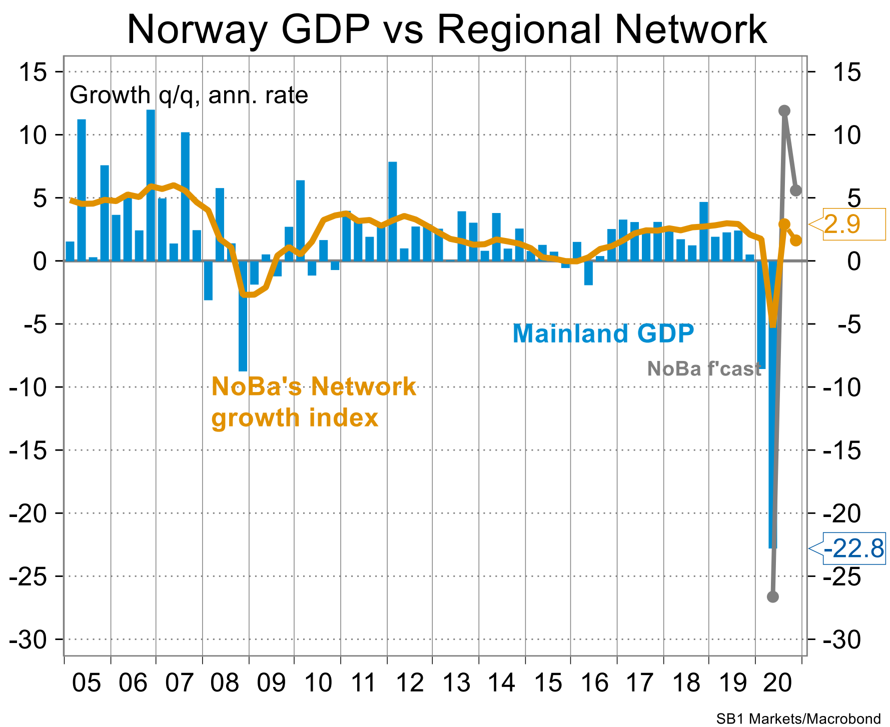
However, the Network indices cannot be translate into precise growth estimates now

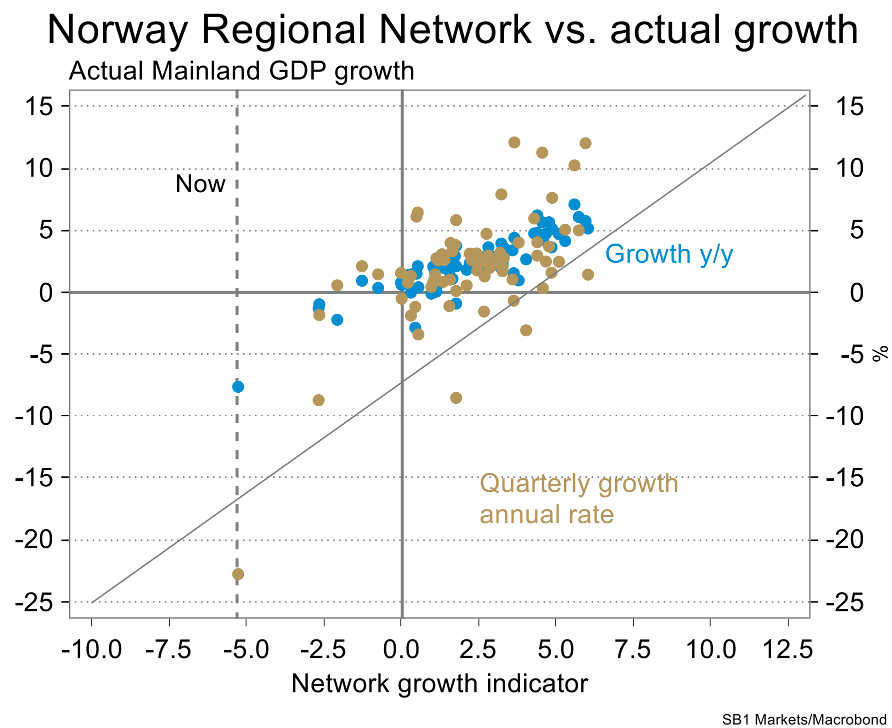


- **Activity the past 3 months**
  - » If we take the survey results literally, activity rose by 2.9% in May-July, measured in annual rate vs the Feb-April level. This was 1.1 pp better than the respondents expected 3 months ago. However, actual growth was -1.8% to May-June from Feb-April. Move one month forward (June-Aug from March-May), the growth would be +19% (annualised – and -23% if the growth had been calculated up to June!) In addition, Norges Bank's -5 to +5 grade scale (growth -10 to +10%) is too narrow to capture the huge swings in the economy past 6 months. Thus, we do not put much emphasis on these backward looking answers
    - ▪ The retail sector, construction and domestically oriented manufacturing reported an increase in activity, retail much more rapidly the others. Output in oil related and export related manufacturing fell
- **Expectations for the coming 6 months**
  - » Respondents do not expect a meaningful further recovery (just a 0.4% growth pace) the coming 6 months, formally covering the Aug-Jan period. Construction is at the top due to housing, while household services, that boomed the previous 3 months, including the strong July and oil service expect a decline in activity (as do manufacturing exporters). Given the steep rise in the retail sector the past months, we are surprised that businesses are not expecting a decline
  - » Investments are expected to decline all sectors barring local govern & health
- **Implications**
  - » Given that the Network underestimated both the decline in the spring, the 0.4% growth pace the coming 6 months should be interpreted with caution
    - ▪ During the financial crisis it turned out to be useful to interpret Network indices as changes y/y, as shown at the chart to the left. If so, 0.4% growth y/y the coming 6 months would be an unlikely strong figure, given that July Mainland GDP was -4.7% below the Feb (and H2 2019) level
  - » So, the Network cannot easily be translated into growth estimates now. Even so, the Network was weaker than we expected and most likely points to a slow recovery the coming months. Moreover, the cuts in investment plans in almost all sectors (which not surprised us) are rather worrisome

The network reported a far too mild downturn – and upturn

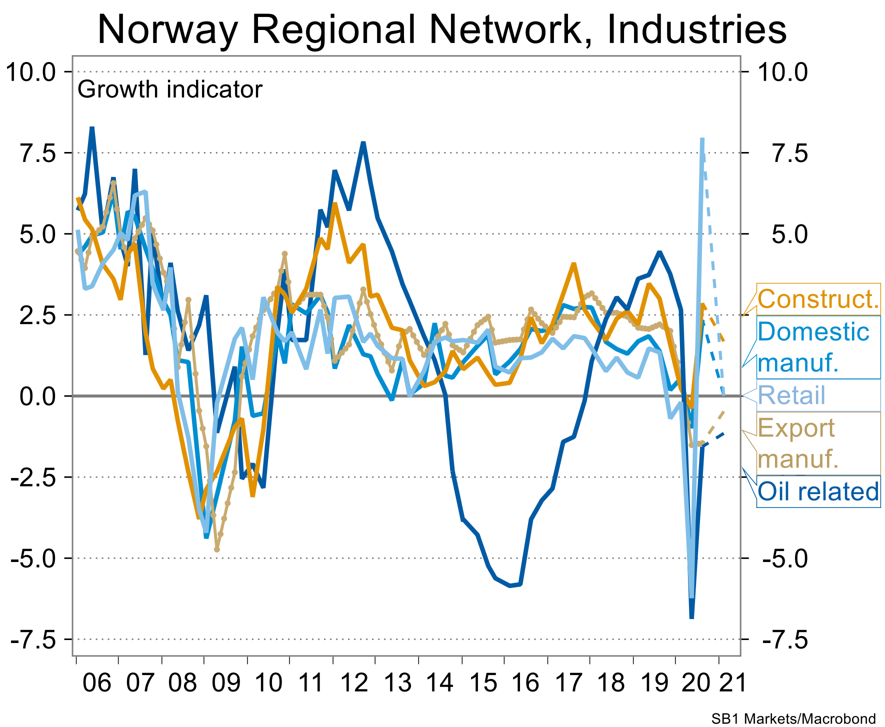
Just a 5.3% annualised contraction was reported in the spring, when GDP tumbled 22.8%

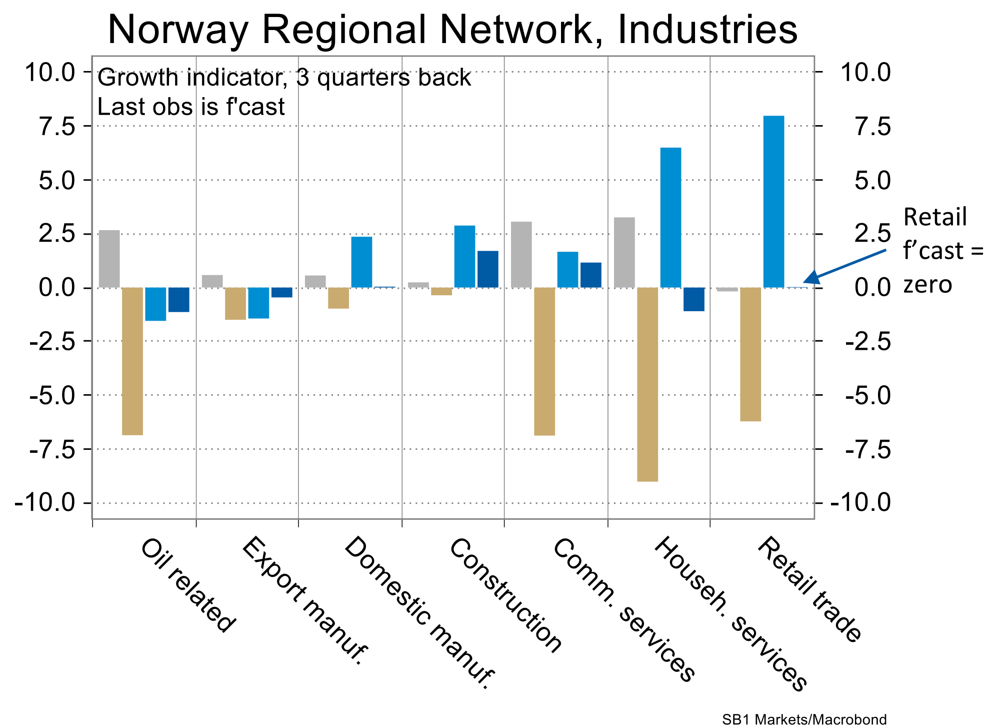




The short retail boom is soon over – but companies do not expect any decline

The steep downturn in oil services has eased. Growth just in construction the next 6 months

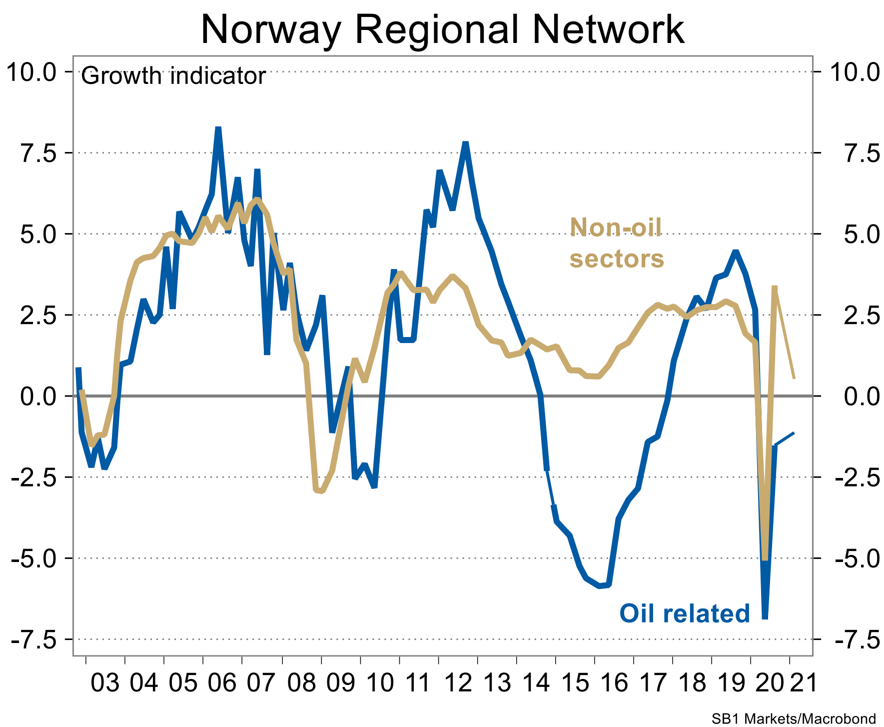


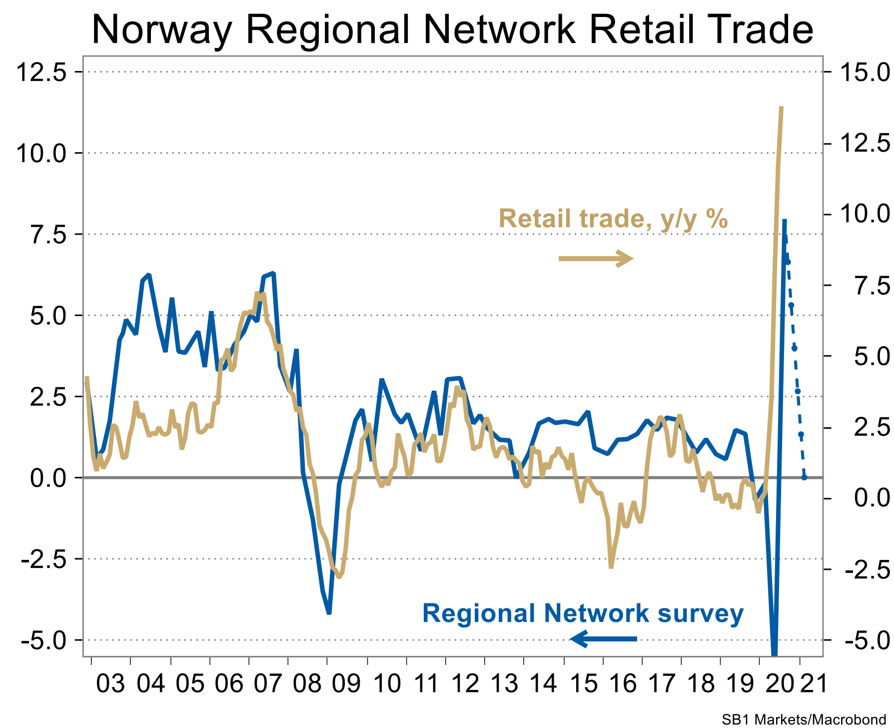


- Retail trade and household services reported a comeback in May-July, as we already knew. However, following the rapid increase the past months, we would have expected companies to project a decline within the next 6 months. Household services expected to decline just modestly (from a lower level)
- Export related manufacturing is still decreasing, but just moderately. Domestically oriented manufacturing has been rising, helped by strong demand from retail and construction sectors. Commercial services are just expected to increase marginally
- Businesses reported just a moderate decline in oil services, following the steep drop in the spring, and prospects are much less negative than a few months ago

Oil related businesses are projecting just a moderate decline from here

Non-oil related sectors expect subdued growth in Q4/Q1

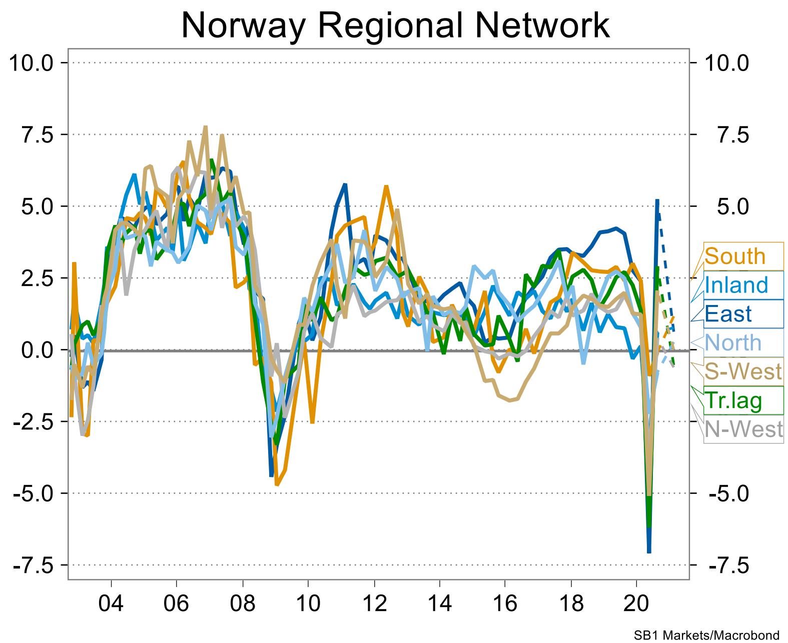


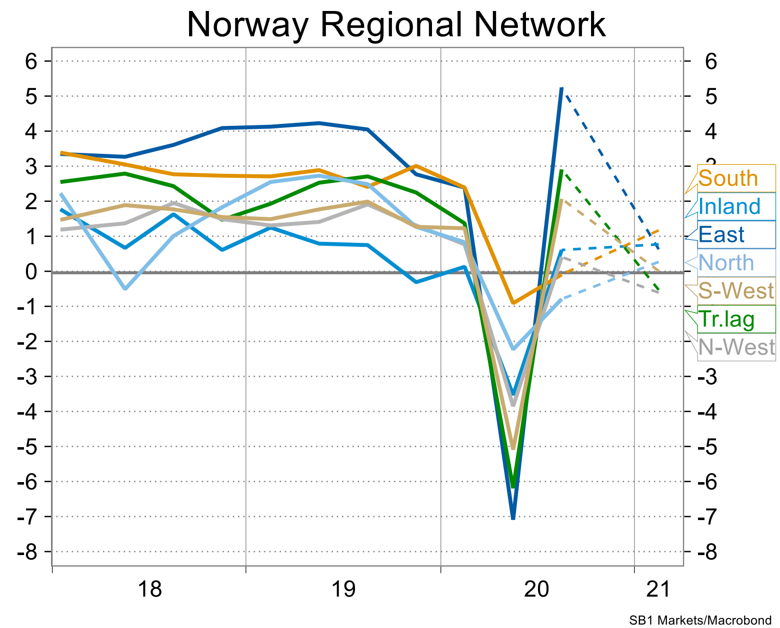


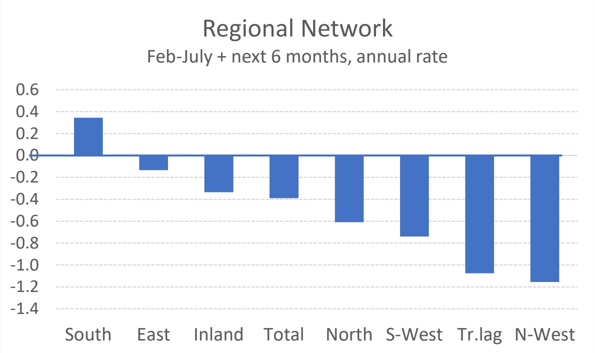
- The rapid increase in retail trade this spring/summer could not possibly last. We find the Network forecast to be rather optimistic

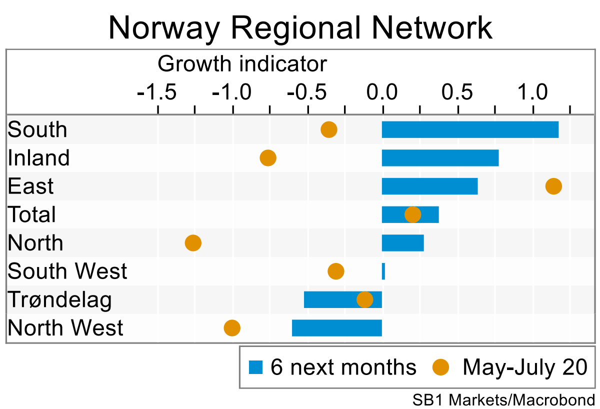
Regions: Slow/no growth everywhere the next 6 months

The East steeply up, from a deep low. The outlook is not upbeat anywhere. South in the lead



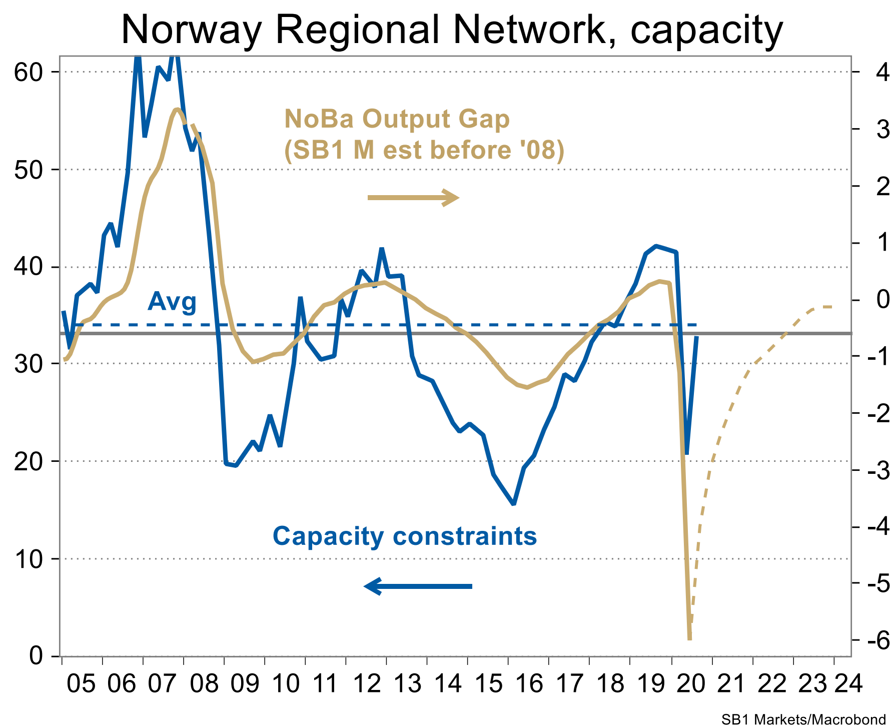


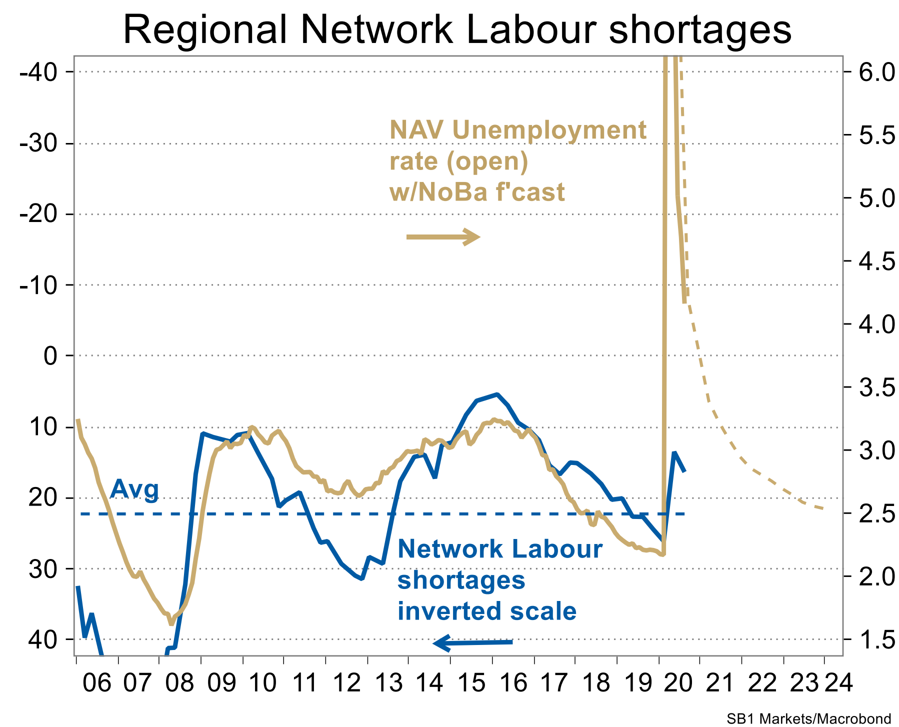




Capacity utilisation up, not that low. Neither are labour shortages

Capacity utilisation close to average – and it was not even close to most GDP-based gap calculations

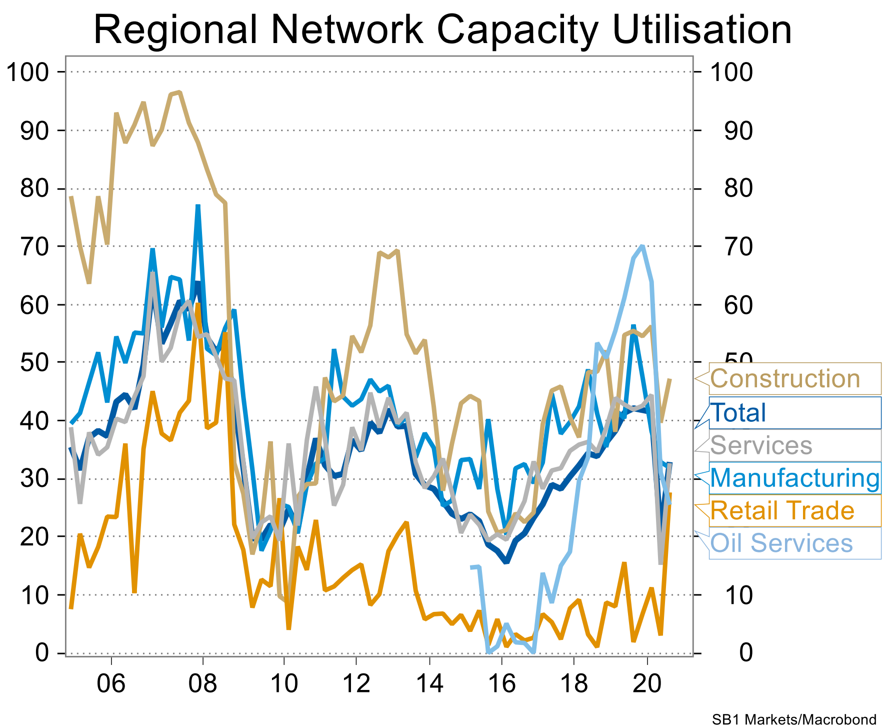


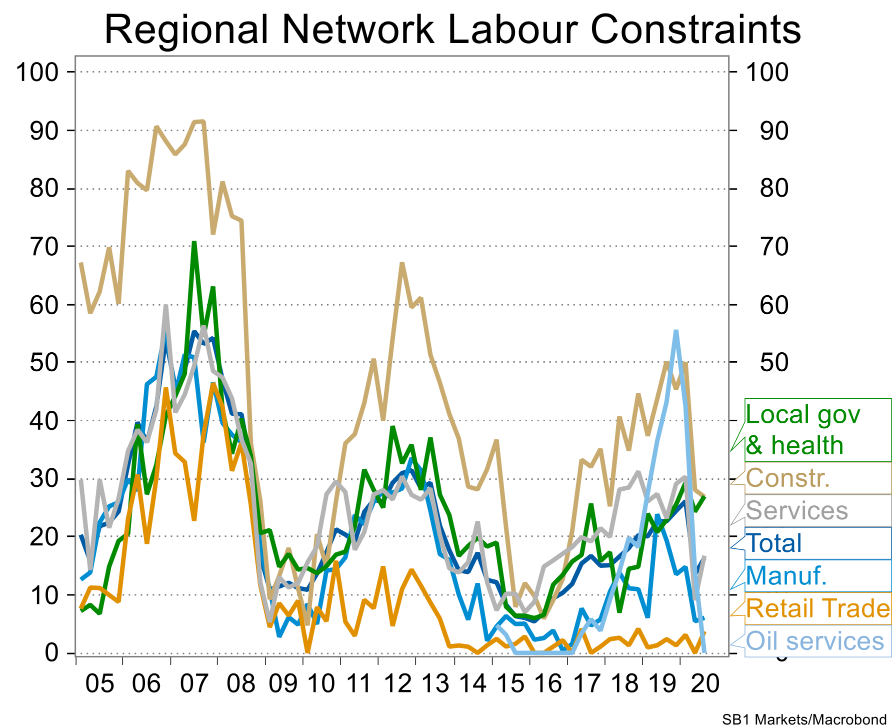


- Labour supply shortages of course have eased this year, but remarkably little given the surge in unemployment. An irrelevant data point – or have businesses really experienced more labour shortages during the current crisis than in 2015? We doubt so

Capacity utilisation down in oil service industries, retail trade at 10+ y high

Construction and local gov report substantial labour shortages. Oil services not at all

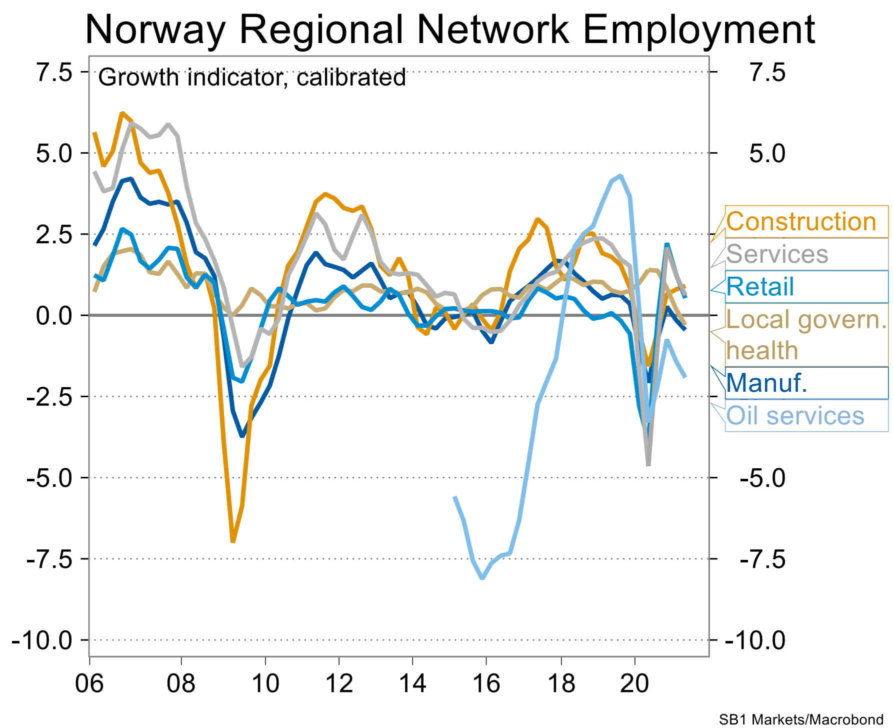


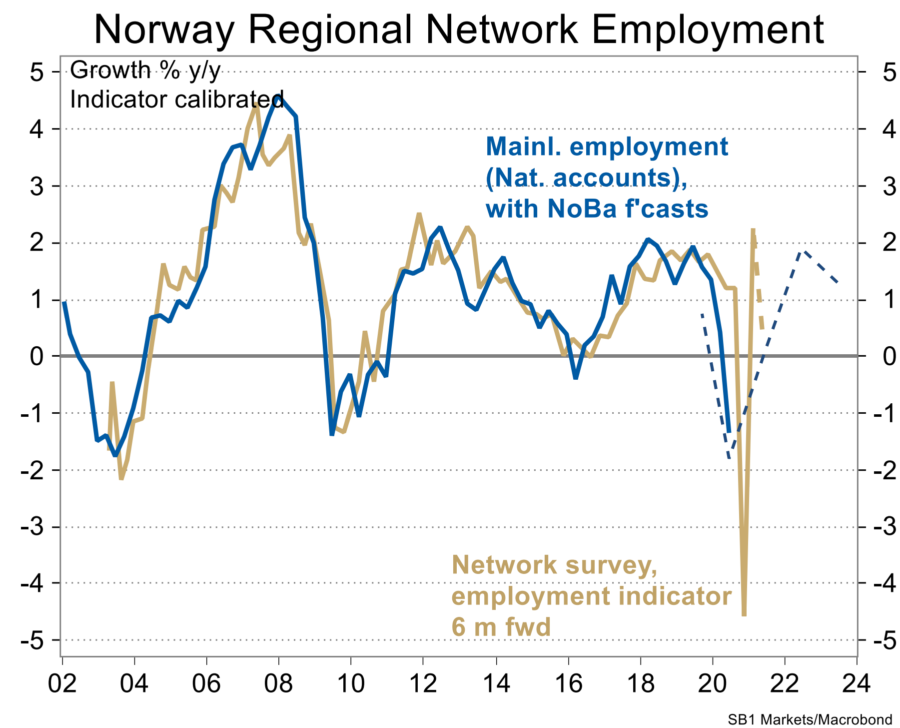


- Retail trade is reporting higher capacity utilisation, 28% of businesses are reporting capacity constraints (the highest since 2009). Still, the sector does not have any problems attracting labour
- Labour constraints in the oil service industry has completely vanished, and capacity utilisation has fallen to a 26% share (of businesses), from 70% one year ago!
- The construction sector is experiencing the highest level of labour shortages and capacity constraints (but the levels are not high, of course). Activity is increasing and businesses may be having trouble with foreign labour

A modest employment recovery

Employment rose 2.2% in May-July following the 4.6% drop, just 0.5% growth expected in Q4/Q1

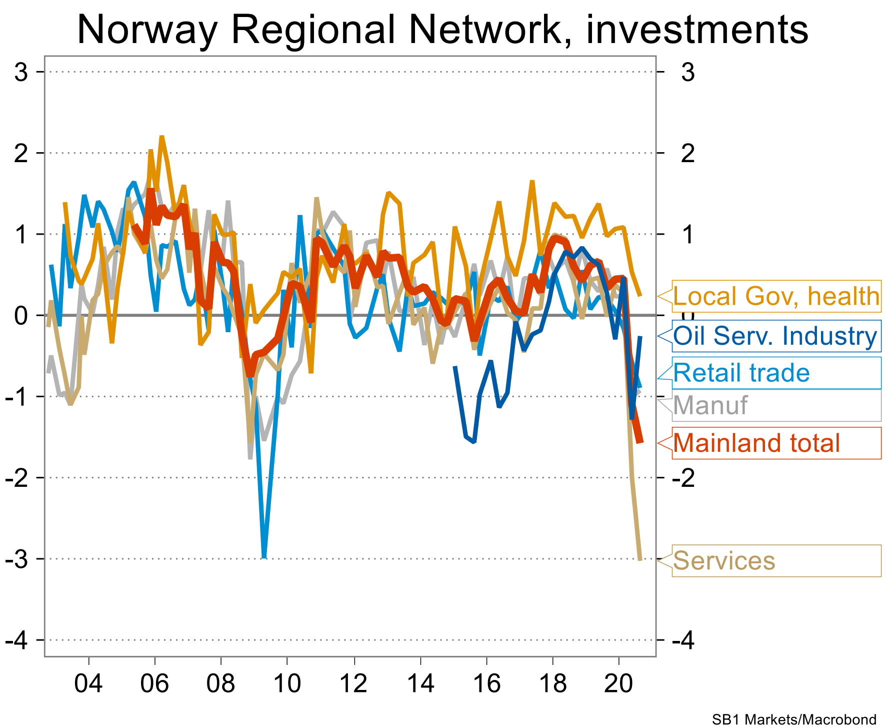


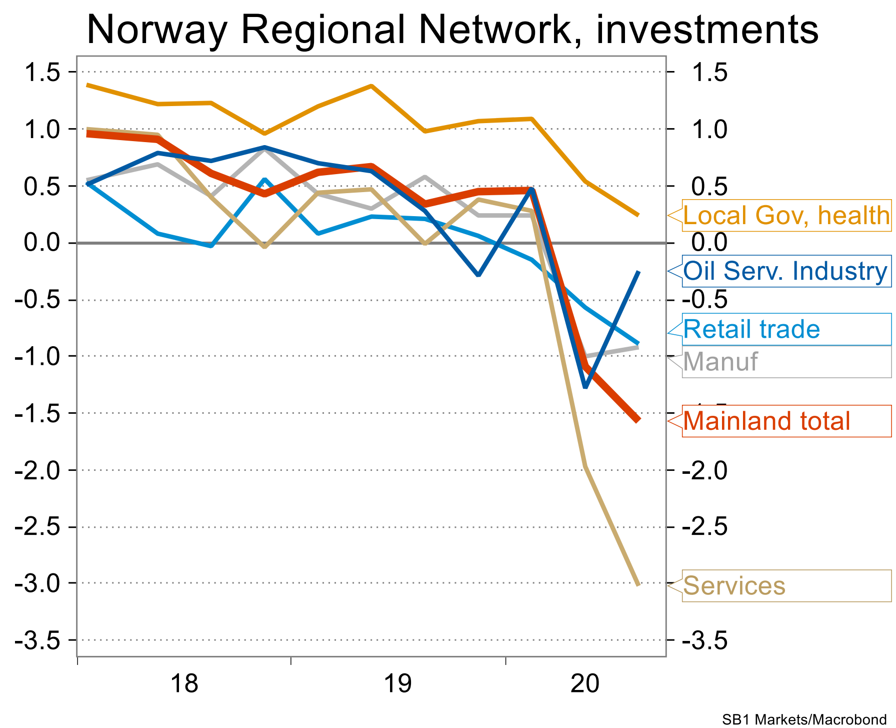


- Like for other Network indicators, it is difficult to calibrate the employment index, partly because NoBa's network was not constructed for sudden stops and sharp recoveries like what we have been through since March
- Given the decline in the spring, a 2% speed is not impressive, and companies expect just 0.5% growth the coming 6 months
- The NoBa forecast at the chart to the right is annual averages

The Network signals record deep cuts in Mainland investment

Local governments will still invest more but all private sectors plan to reduce investments

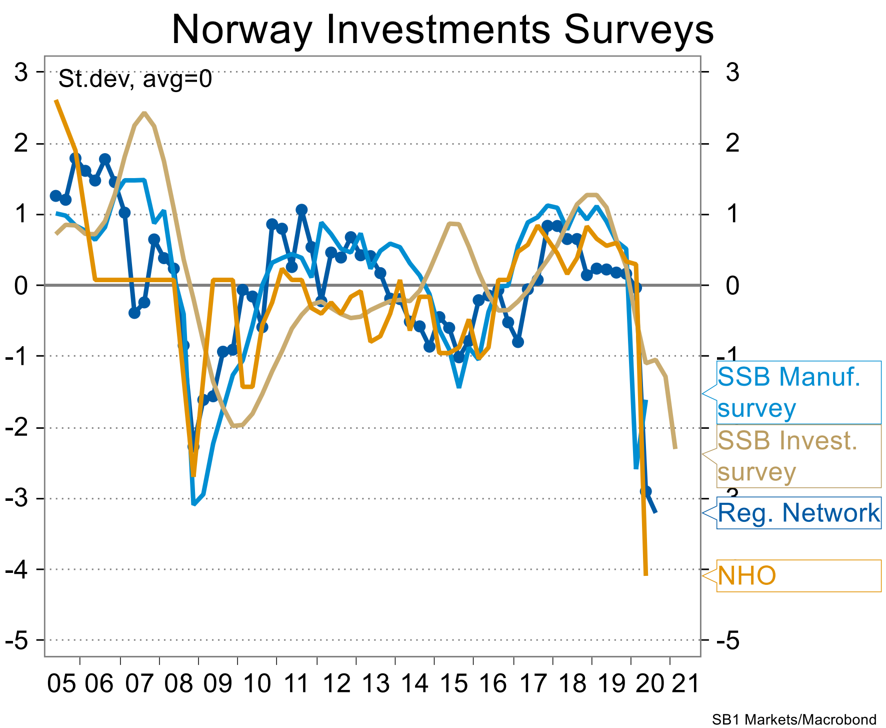


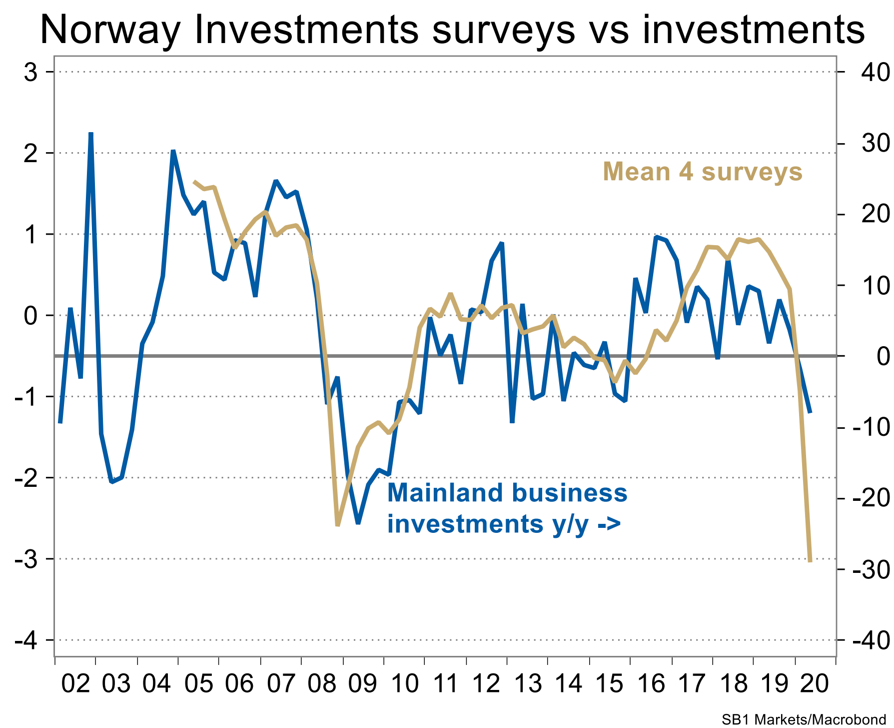


- Services, which represents almost 50% of Mainland non-residential investments, signals extreme cuts in their cap-ex, even more steeply than what they reported in the Q2 network survey. Hotels, restaurants & transport are placed in this group
- Oil services (not oil companies!) (9% of total) plan cuts too, but much less than 3 months ago. Manufacturers (12%) expect a 1% decline. Retail trade (7%) plans cuts too
- **<u>The gloomy investments outlook is no doubt the most worrisome data points in the Network</u>**

Other surveys tell the same story: Investment plans are sharply cut

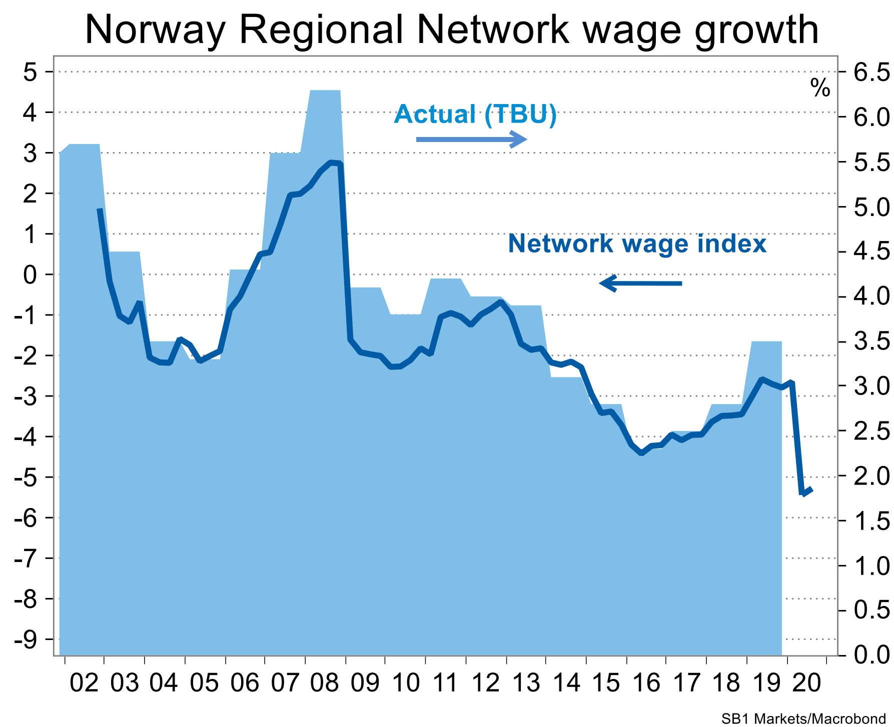
Can Mainland business investments drop 30%? We think this forecast is too pessimistic. But…

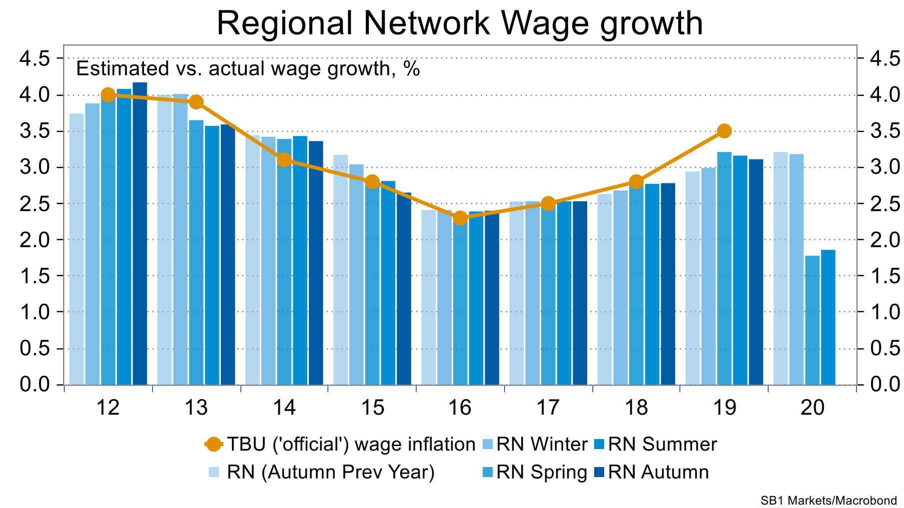




The Network expects 1.9% wage growth, a fair estimate

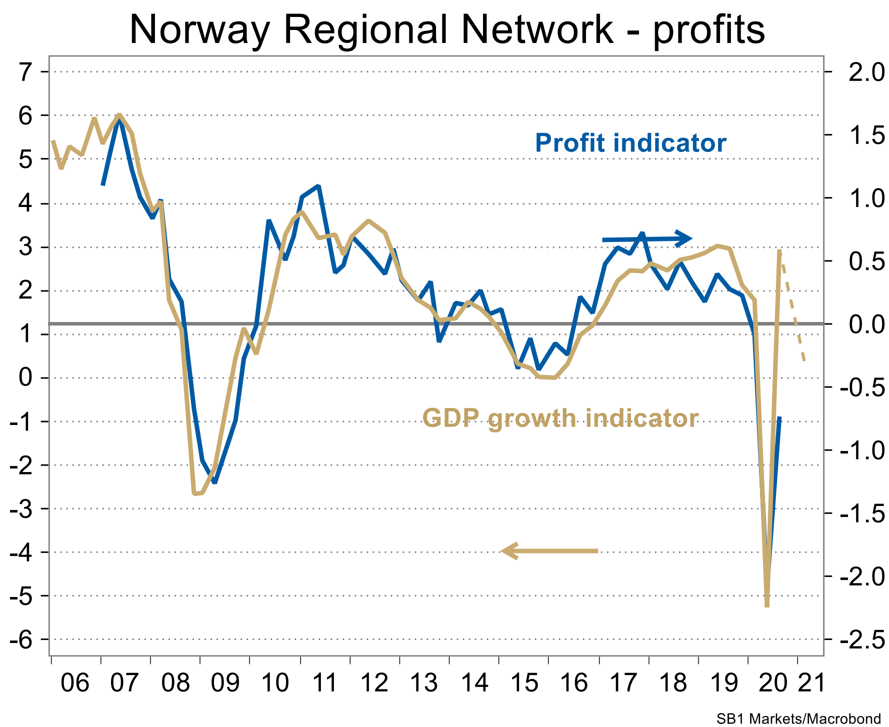
Wage expectations up 0.1 pp vs the Q2 survey





Businesses are expecting a further decline in profits

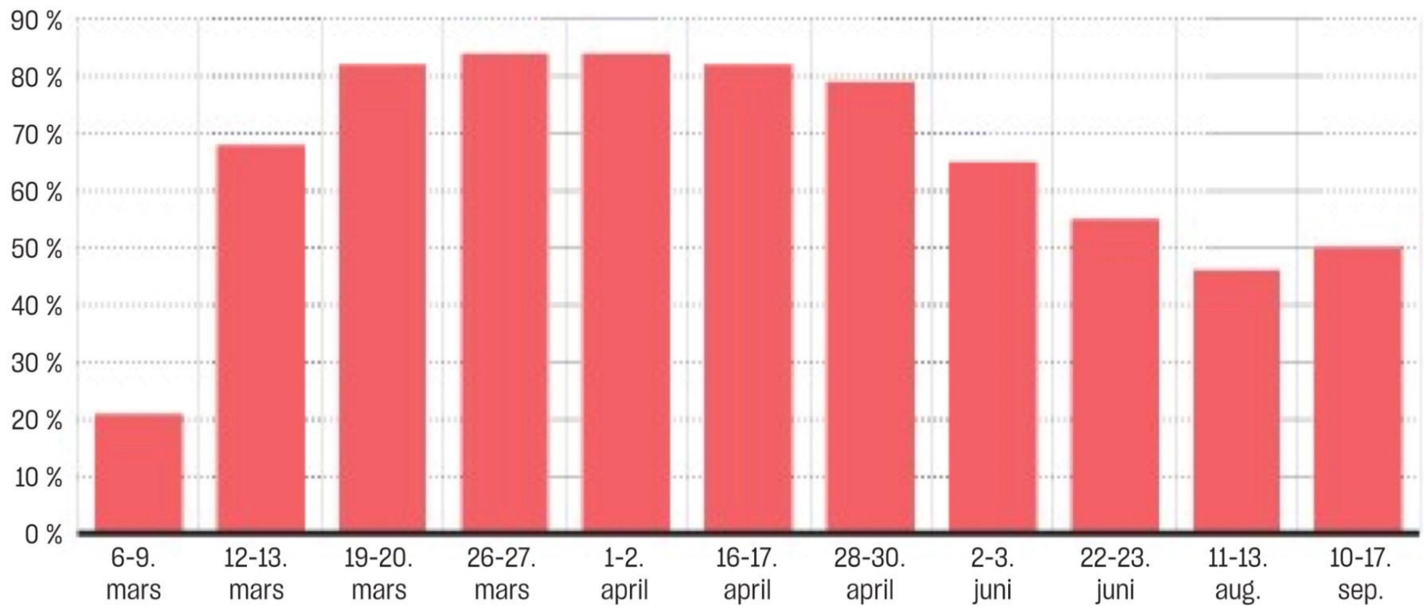
Not surprising, given their growth outlook



NHO survey: More companies are reporting declining sales again

Parts of the service sector may be slowing following the summer domestic vacation surge

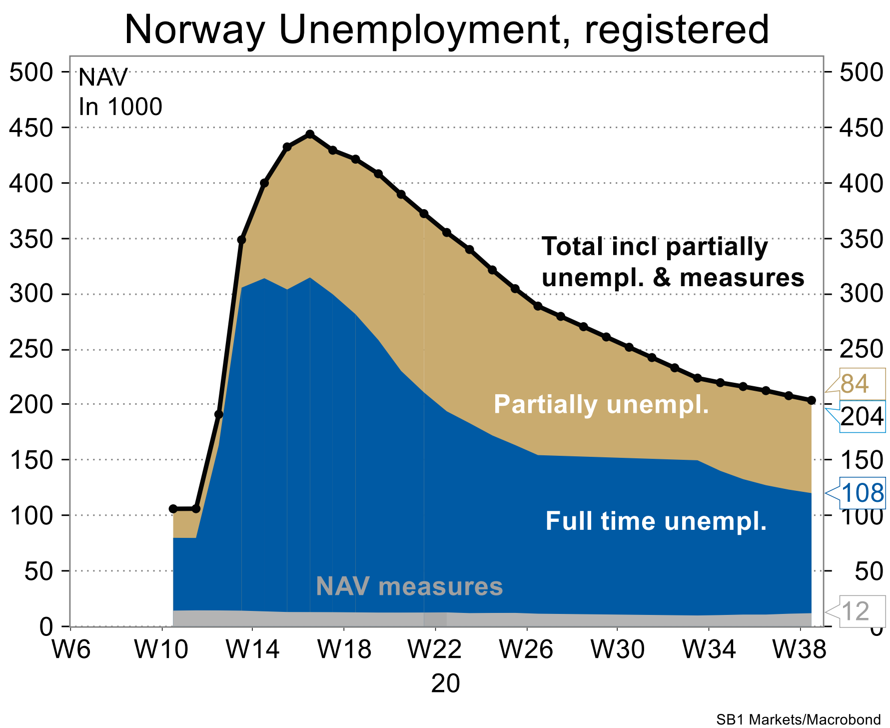
Norway: Share of companies reporting slower sales or cancellations

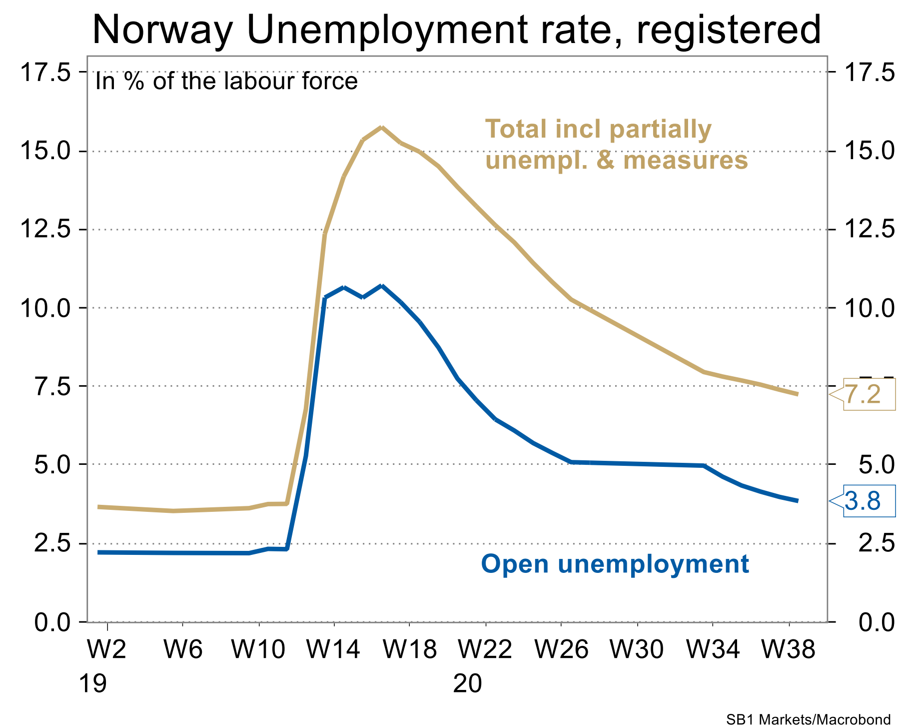


2019 DN grafikk / Kilde: NHOs medlemsundersøkelse

NAV unemployment slides down steadily, 204’ last week

Full time unemployment down to 3.8%, from above 10%, due to fewer furloughed

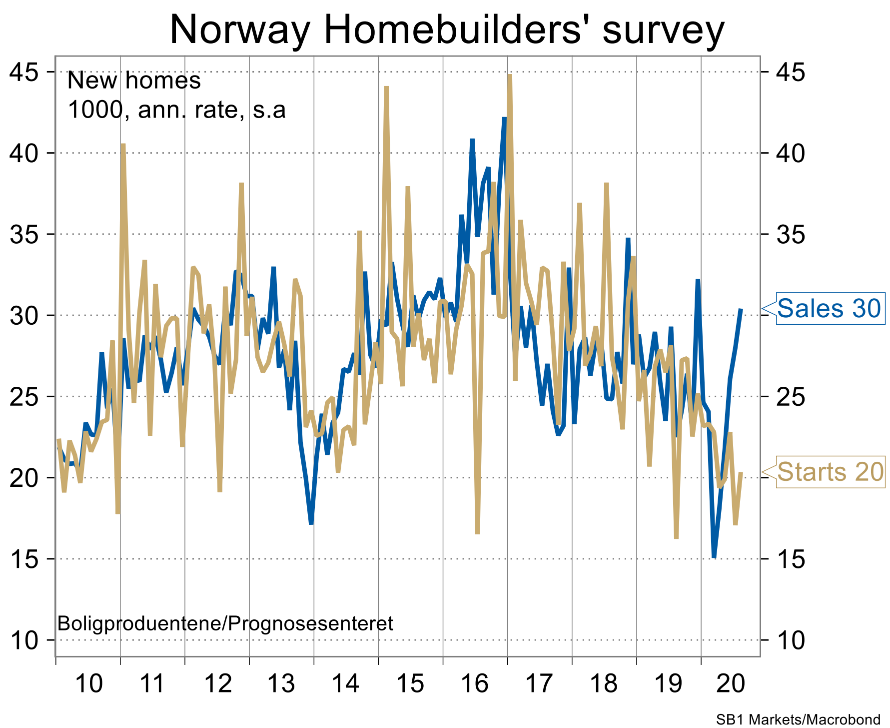


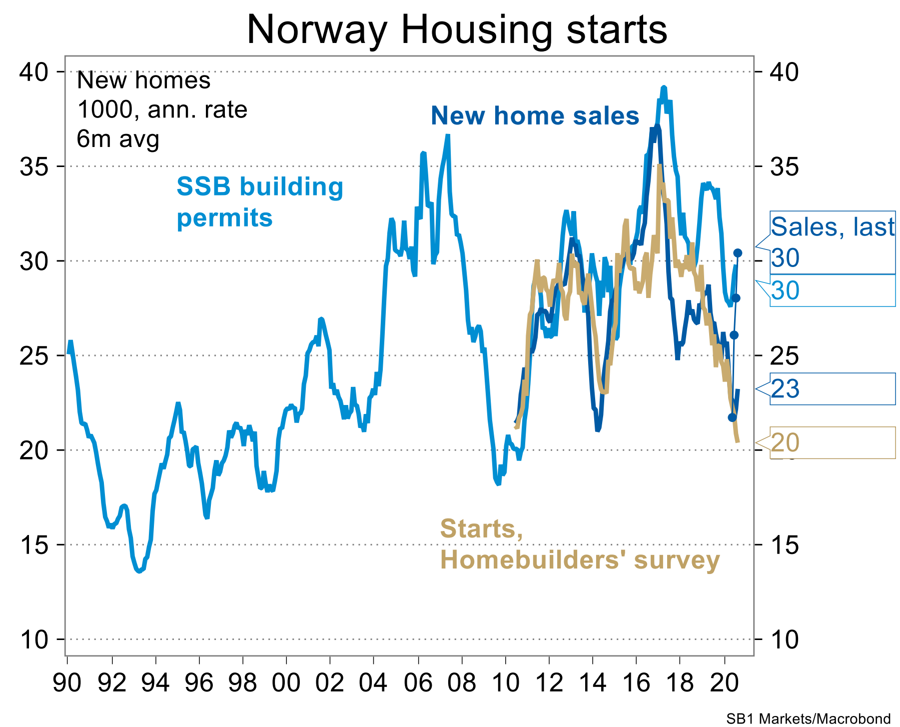


- Total unemployment (including partially unemployed and labour market measures) has fallen by 240’ in April, to 204’ last week (before corona, just above 100’ was unemployed). This equals 7.2% of the labour force
- Unemployment is now declining by approx. 4000 persons per week (equalling 0.6 pp per month), but some of the decline is due to seasonal factors – the real decline is somewhat smaller. Still, seasonally adjusted unemployment will decline substantially in September
- Temporary laid offs equal 40% of total unemployment, and all of the decline in unemployment is due to fewer temps

New home sales straight up in Aug, starts still weak – should follow sales up

The Homebuilders' report an increase in sales to 30', above pre corona level. Starts at 20', will follow

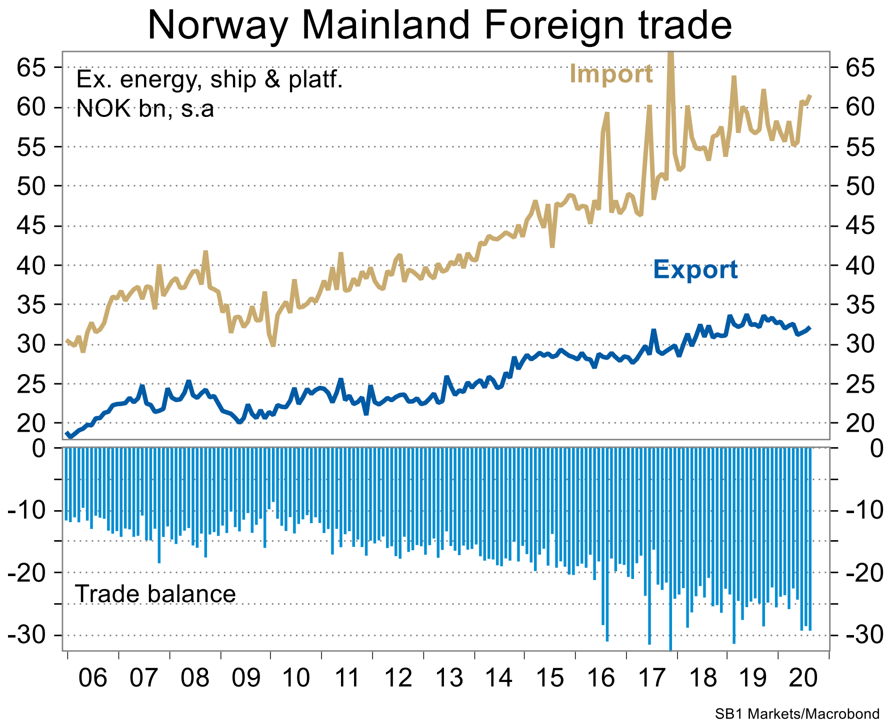


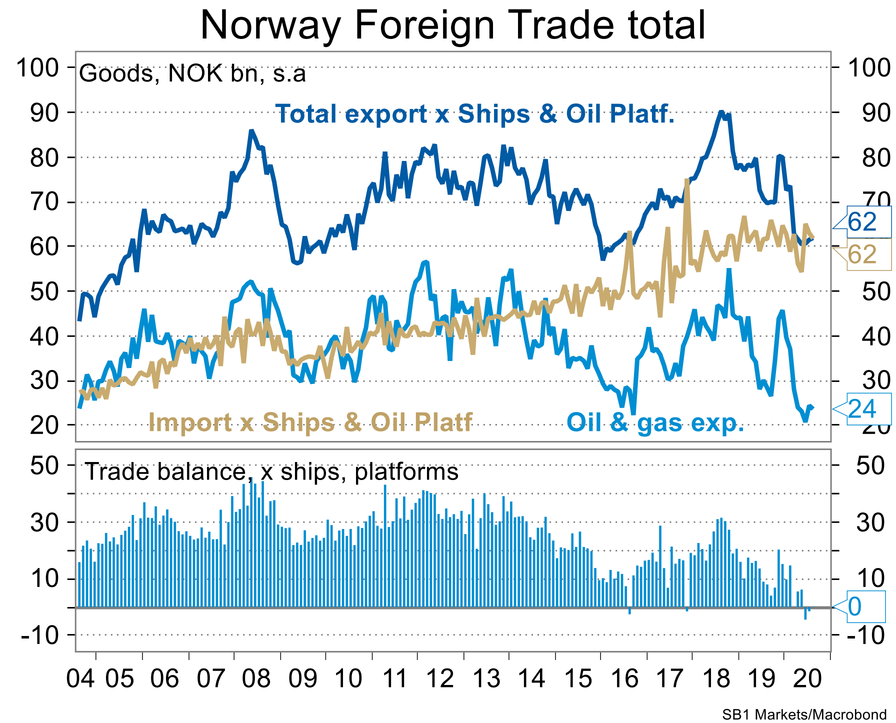


- Homebuilders reported that new home sales (seasonally adjusted) fell sharply in 2nd half of March but recovered in April and further the next months. In August, sales rose to 30', higher than the average speed the past 3 – 4 years. Actual starts were reported up but just to 20' in Aug and are still trending down. If sales do not collapse, starts will pick up the coming months
- Both sales and starts were trending down already before corona hit. Real house prices have been trending down most of this period but are now increasing again, rapidly the past few months. In the longer term, starts are usually correlated to house price inflation
- SSB has reported an increase in building permits since Dec 2019, and the level (at 30') is higher than what the Homebuilders report
- The construction sector reported a comeback in May-July in Norges Bank's Regional Network survey – and expect a further expansion in Q4/Q1

A higher Mainland trade deficit than usual – due to rising imports

Sharp increase in imports in June-Aug, exports just modestly up

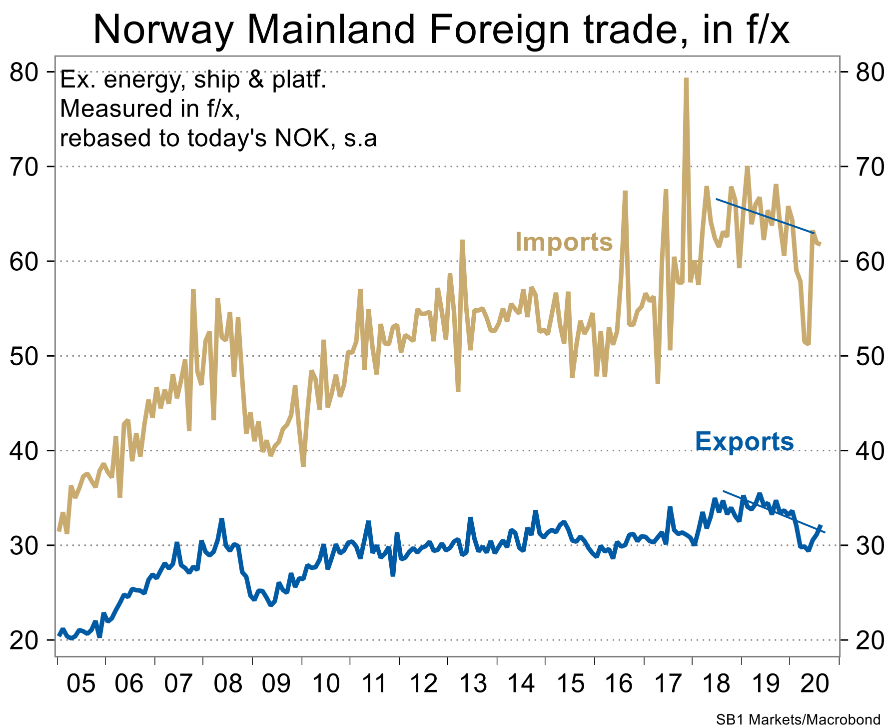


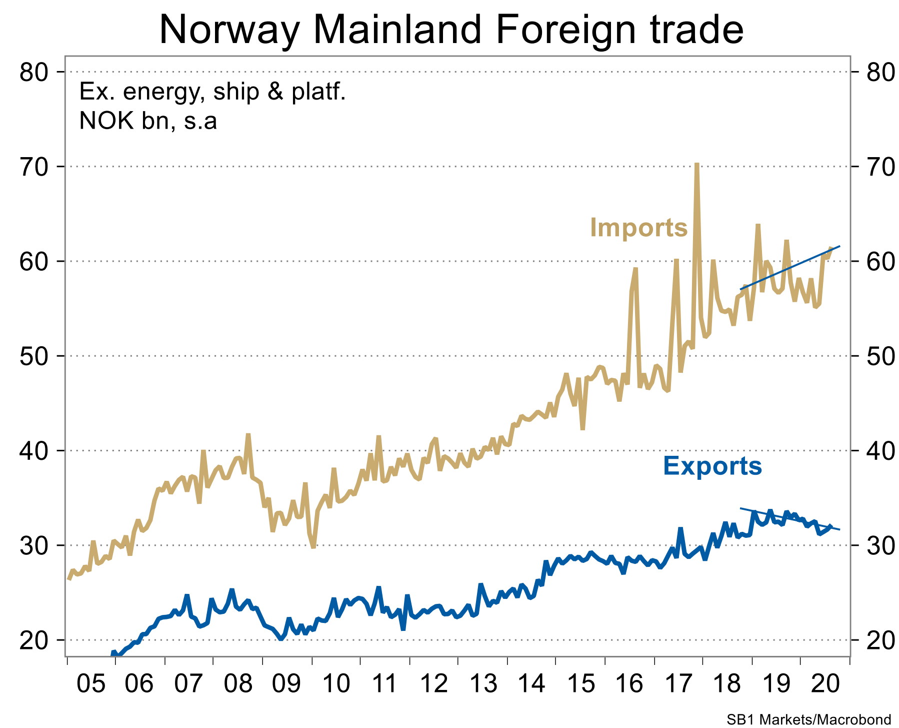


- The Mainland (non energy) trade deficit widened marginally to NOK 29.4 bn in August. The deficit has been higher than usual the past months, due to strong growth in imports since June. The economic crash in March/April had no substantial impact on Mainland trade, both imports and exports remained at normal levels. The longer term trend is a widening deficit
  - » Imports (in value) rose by 2% in August and are up 7% y/y (smoothed).
  - » Mainland exports increased by 1.5% m/m but are down 2% y/y, smoothed. Exports have been sliding slightly downwards since late 2019
- The impact of the corona crisis on the overall trade surplus (incl oil & gas, ex ships & platforms) has been large. In the spring, oil & gas exports fell steeply as the oil price dropped and demand fell. Since then, oil exports have recovered somewhat while gas exports are still very low. Zero surplus in August, following a marginal deficit in May and June, rather unusual

… in f/x, both exports and imports are heading down

The NOK depreciation in the spring has lifted import values in NOK. This impact will soon fade

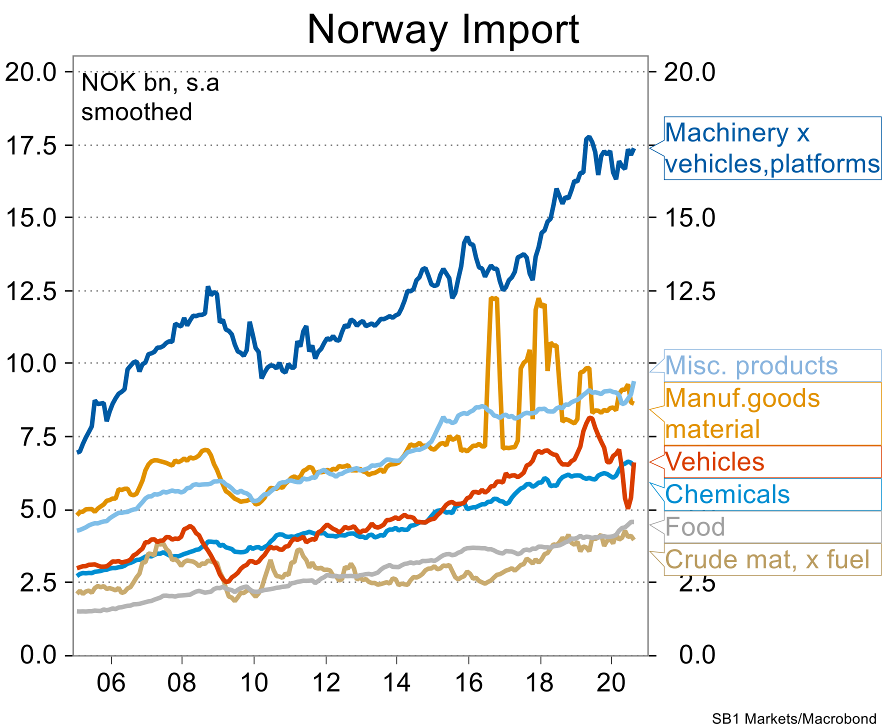


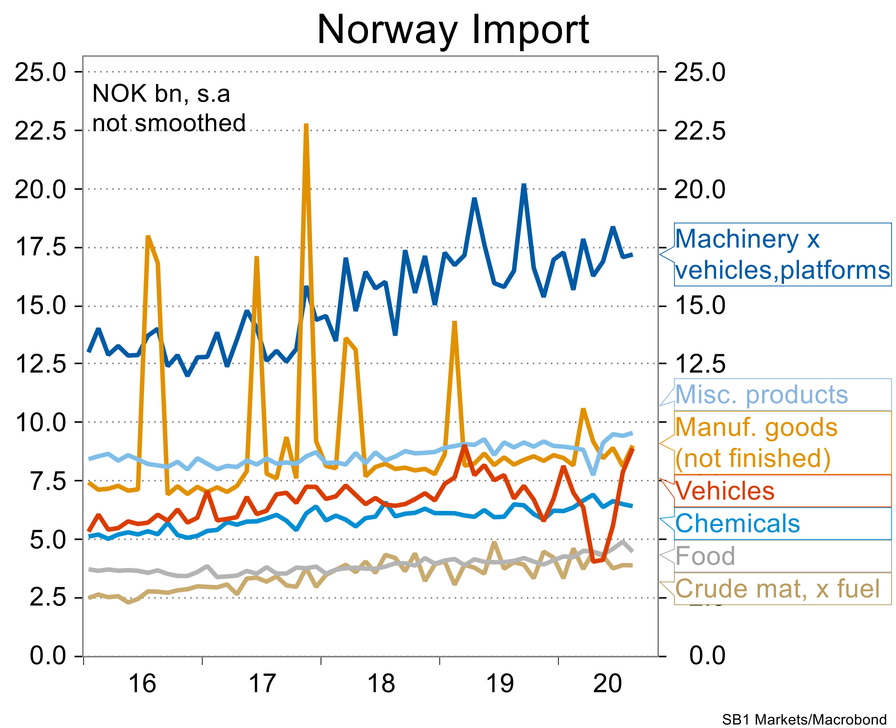


- At the chart to the left, trade values are rebased to today’s NOK I-44 index

Imports of vehicles straight up, machinery heading slowly up

Auto imports fell rapidly in March/April but are now soaring. Most others slightly up

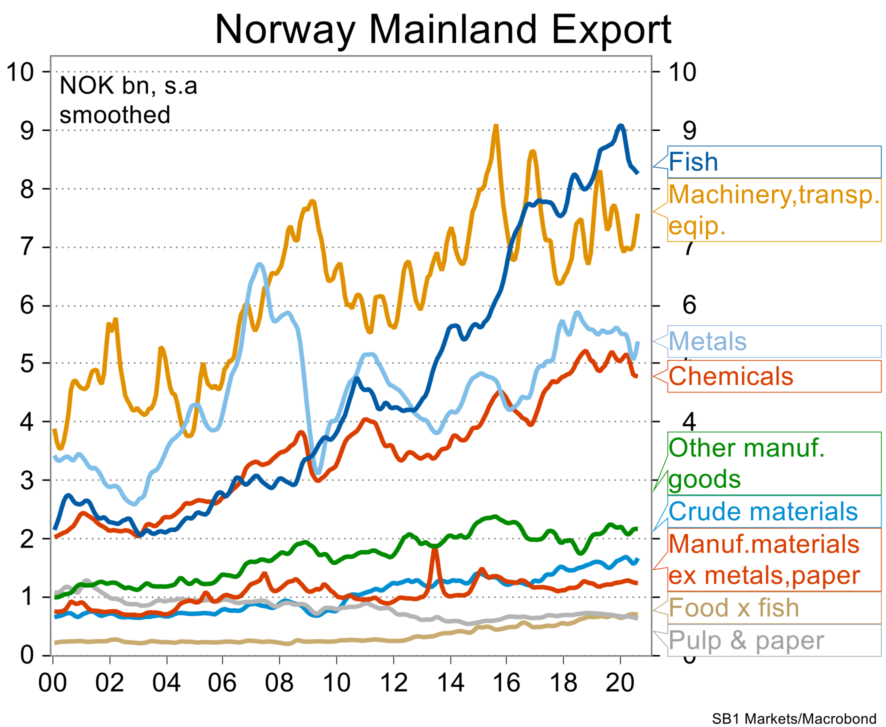


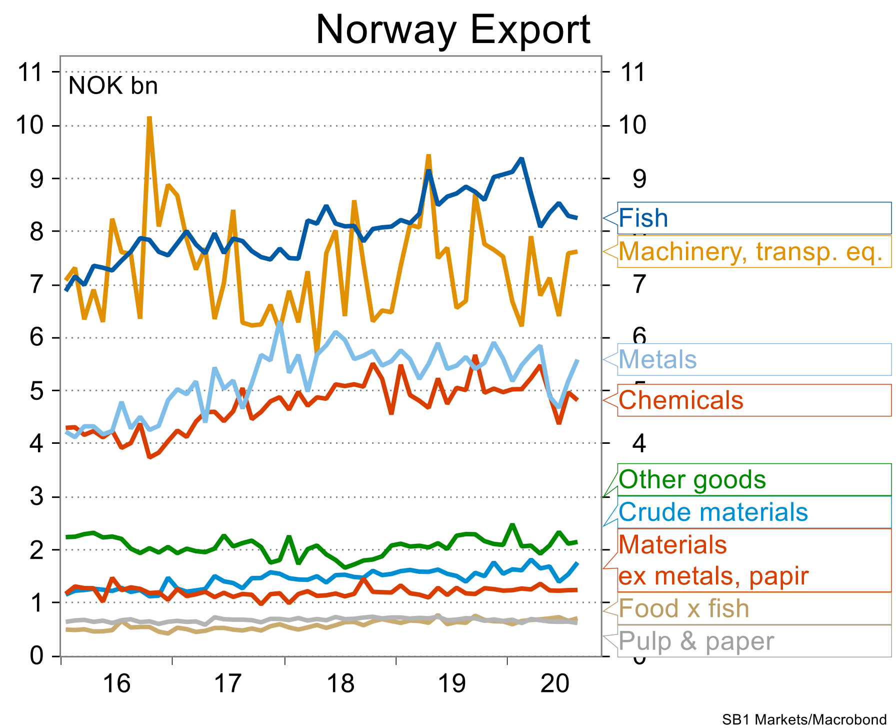


- Import values are somewhat higher than before corona hit in most sectors, just crude materials ex fuel are lagging (but trending slowly up)
- Imports of chemicals, food, and machinery have all increased this year. Machinery imports are still below the 2019 levels. Manufacturing materials more or less flat recent years, with some ridiculous volatility, due to huge transactions of oil platforms, wind mills and airplanes
- Vehicle imports slowed rapidly in H2 2019 and early 2020, along with auto sales. Since April, imports have picked up, both in tons and in NOK (although the level is even higher, relatively, in value, due to the prior NOK depreciation). Auto sales have recovered and are back at the pre corona level, which was anyway rather low. Do the spike in imports suggest another lift in sales? Unfortunately, imports are not leading on sales, and it might as well be due to a larger share of electrical cars (which are heavier, and more expensive)

Exports flat/slightly down in most sectors

Some moderate corona impacts; exports of fish, metals and chemicals down

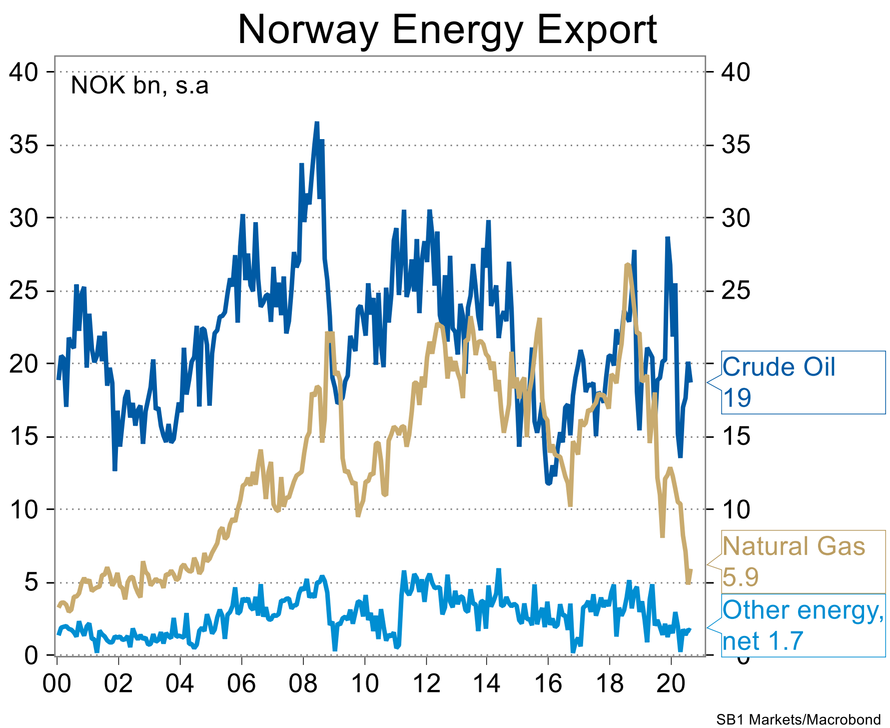


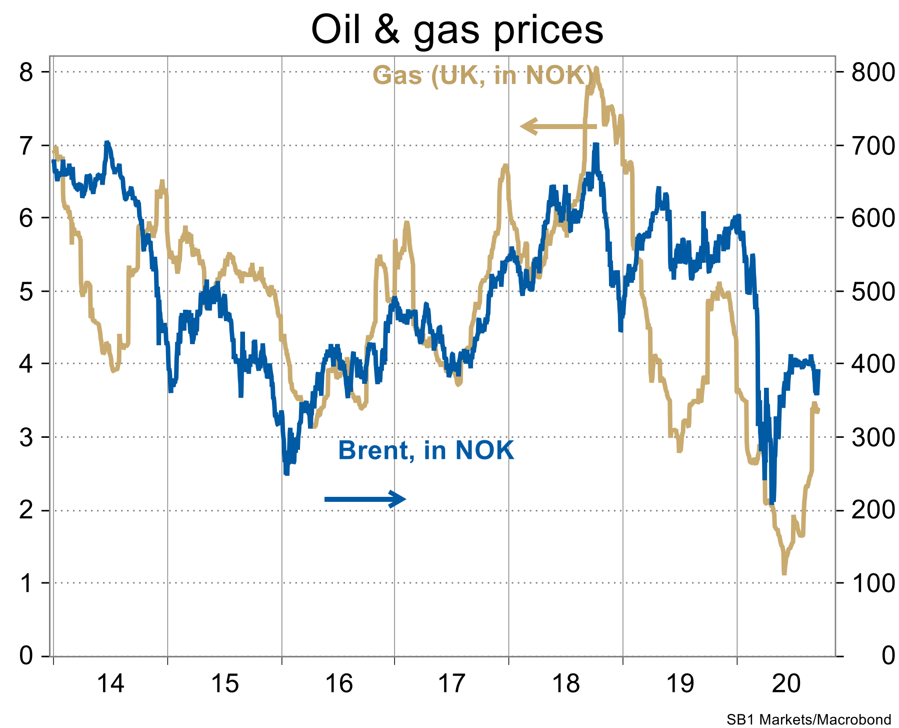


- Fish exports fell in the spring, after soaring the prior years, in value and volume recent years. Exports of fish are still lower than before corona but the level is anyway rather high
- Exports of machinery and transport equipment (of which much is related to oil activities abroad) have been more or less flat, these are highly volatile. Exports of chemicals and metals fell during the corona downturn but have picked up somewhat since. Crude materials too. Manufacturing materials ex metals & paper flat

Oil exports slowly picking up, gas exports still at 16 y low

Oil exports have recovered almost half the March/April drop (in value terms)



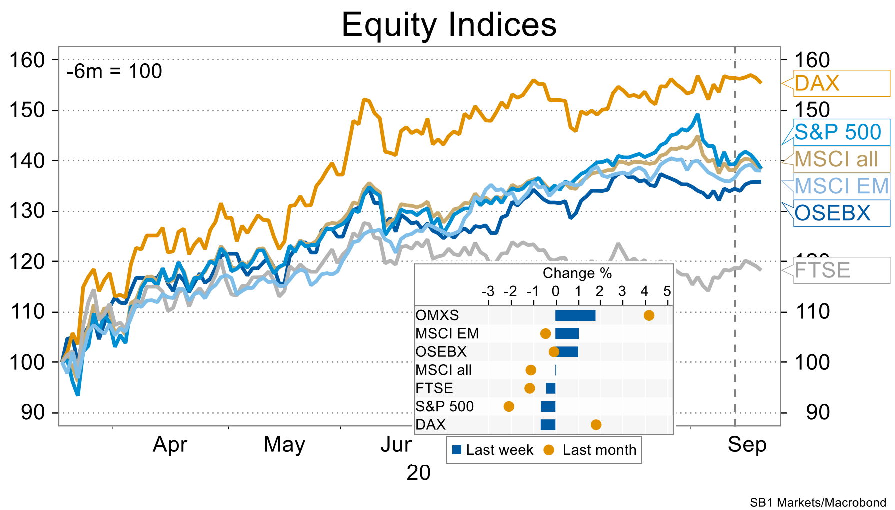


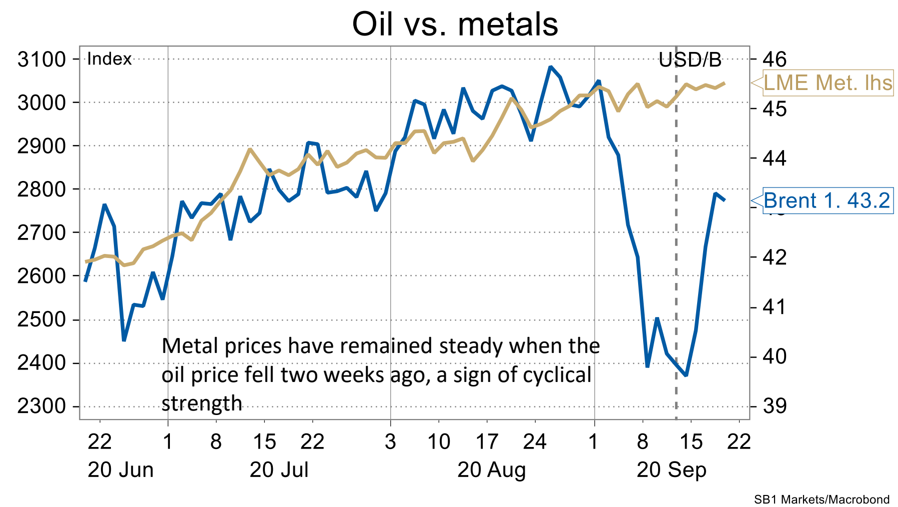
- **Crude oil** exports (in NOK bn) fell rapidly in March and April as the oil price dropped and global demand subsided. Exports have slowly turned up since then, with the oil price. Oil exports are still far lower than before corona, just below 50% of the decline is now reversed
- **Gas** export values have been sliding down since January (and trending down since mid-2018). Exports are at the lowest level since 2004, even as gas prices have turned up since the summer. Recently, the gas price has recovered substantially, and in September the value of gas exports should increase substantially

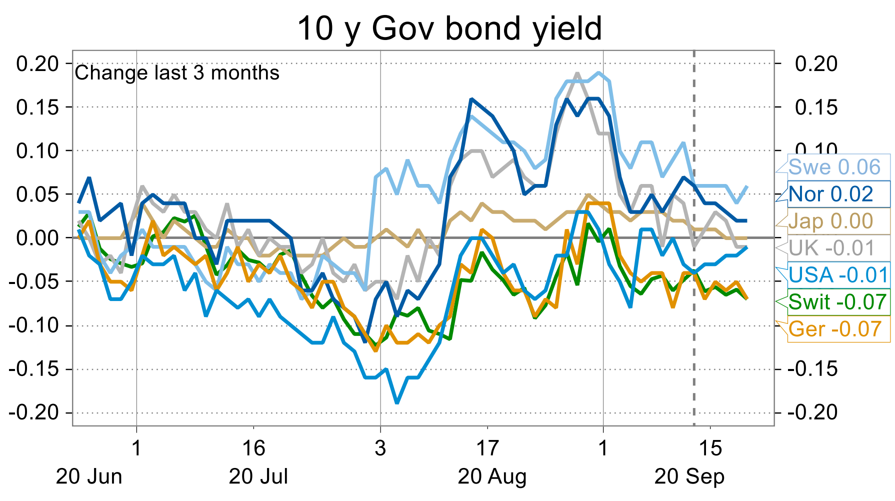
SpareBank 1 MARKETS

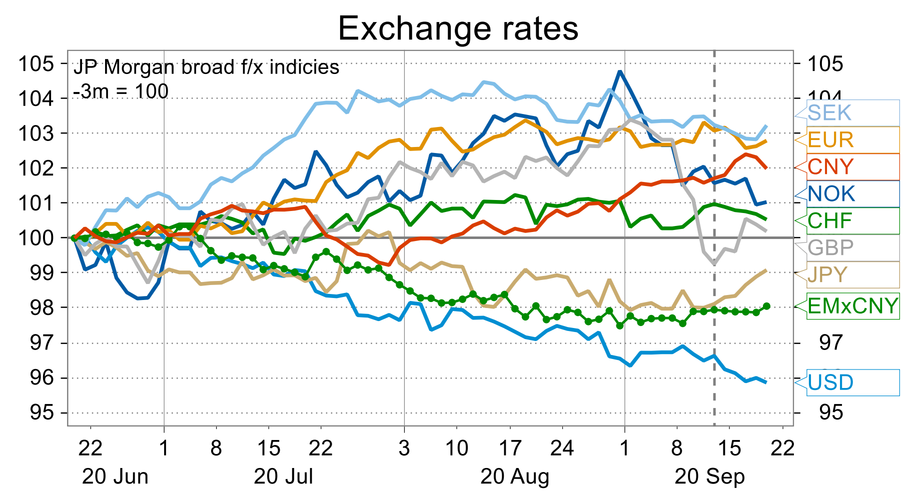
Stocks, bonds mixed last week, oil price rebounding, metals still strong

Markets were not shocked by the Fed, mixed reactions. USD, NOK further down, JPY & CNY up





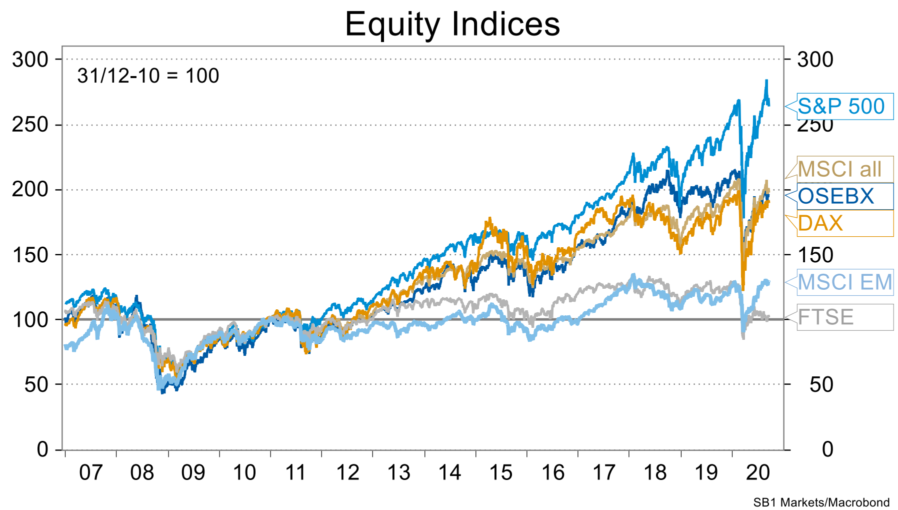


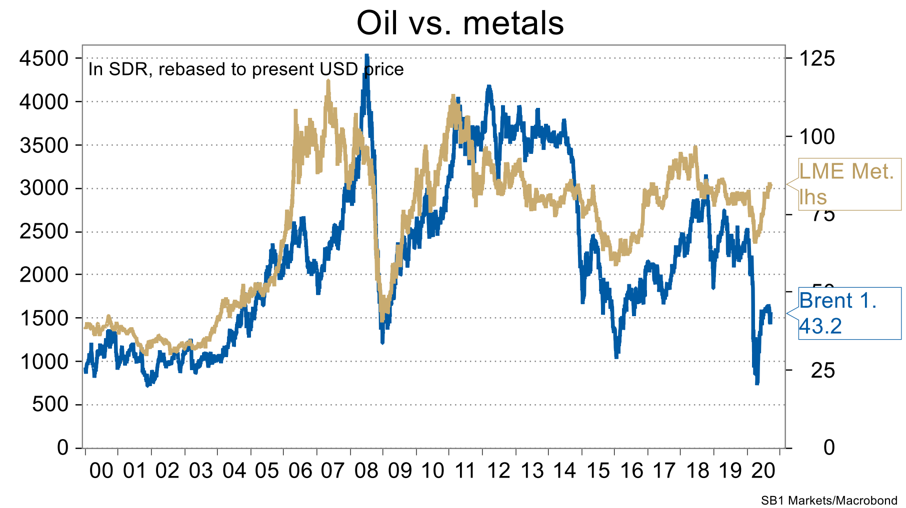


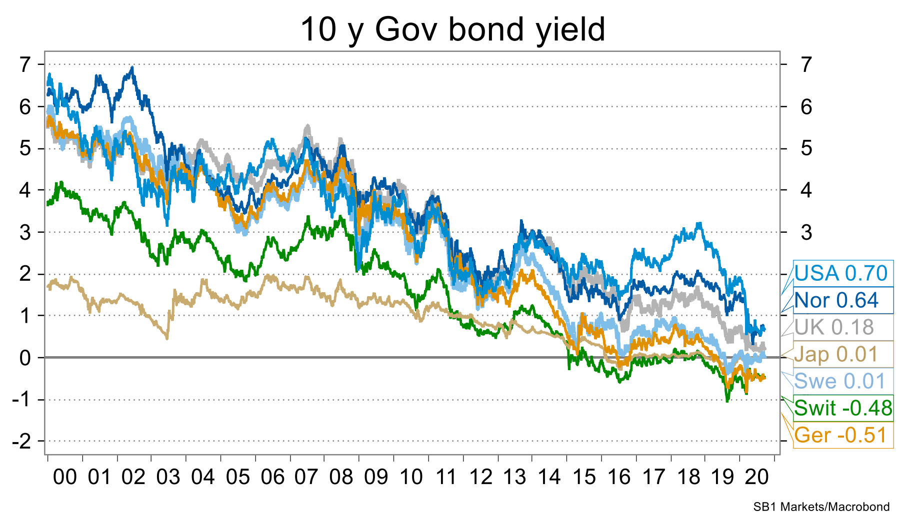
The USD is sliding down but is not yet weak. NOK further down. CNY appreciated, helped by upbeat Chinese macro data

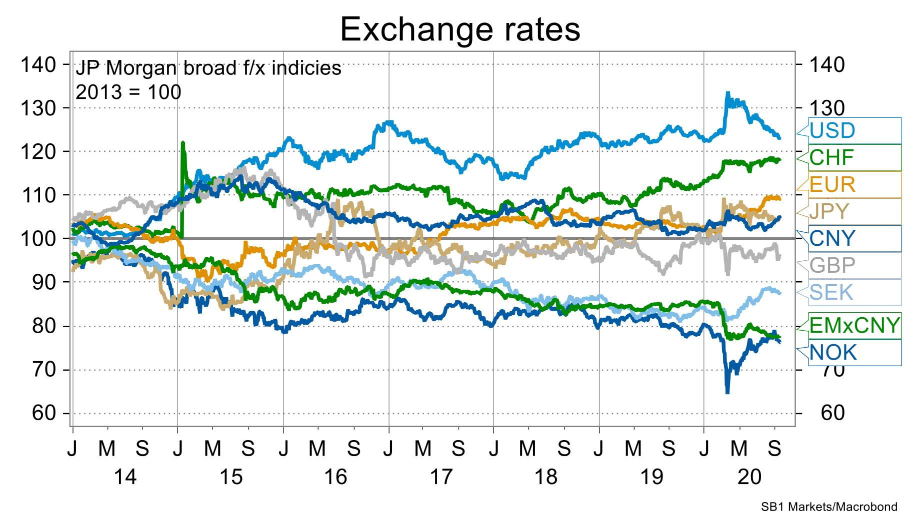
In the long run: Stock markets are looking like a ‘V’ (except the FTSE ‘L’!)

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





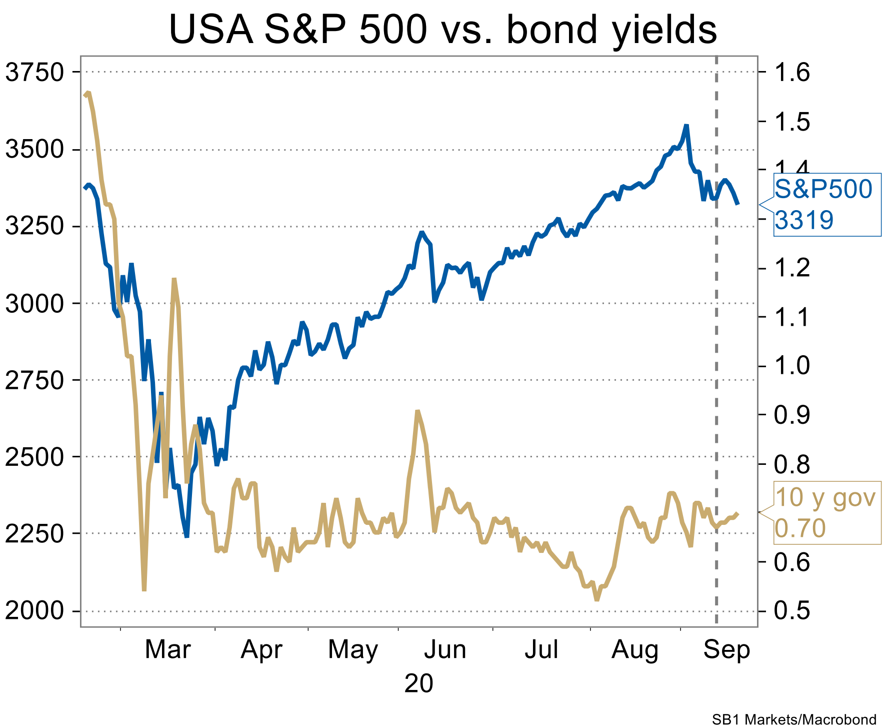


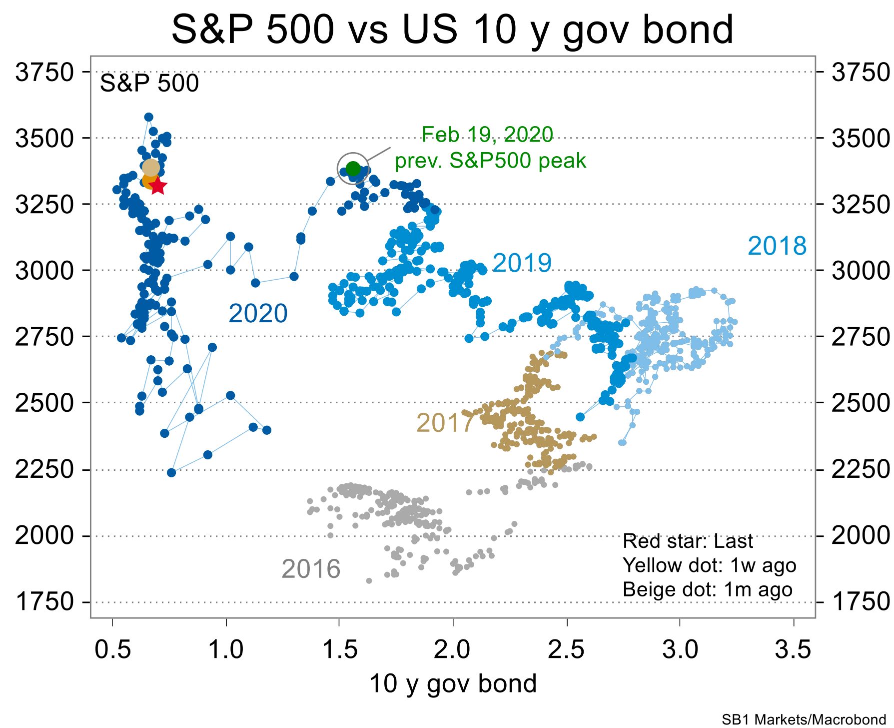


The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices)

US stocks (marginally) down for the 3rd week in row, bond yields up

Reactions to the Fed meeting were mixed but stock markets fell slightly and bond yields inched up

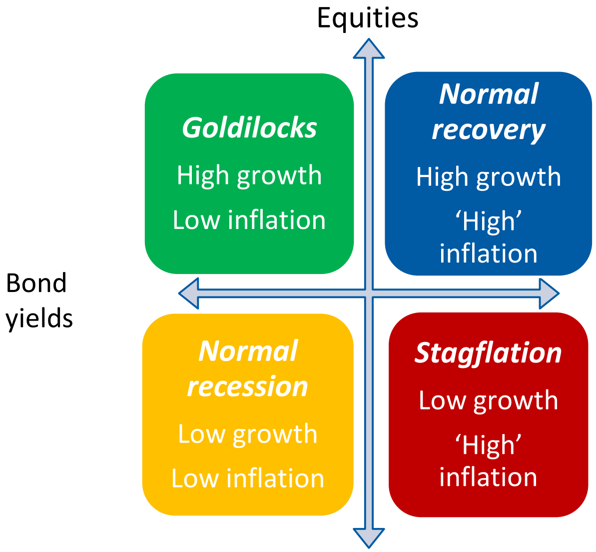


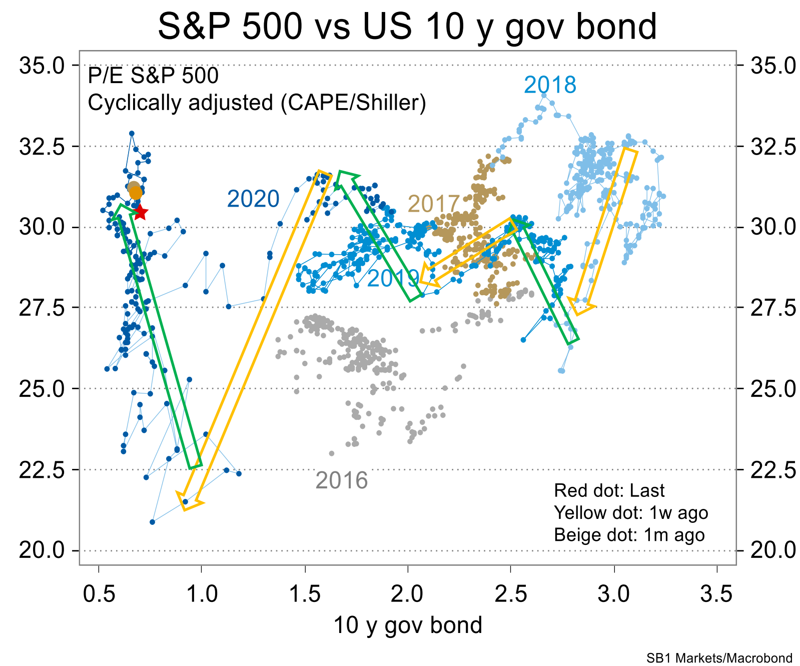


- Last week, S&P fell by 0.6%, and the 10 y gov bond yield climbed 2 bps –but has been more or less flat since early august
- More on the Fed meeting on these slides

From the 'Goldilocks corner', where to go?

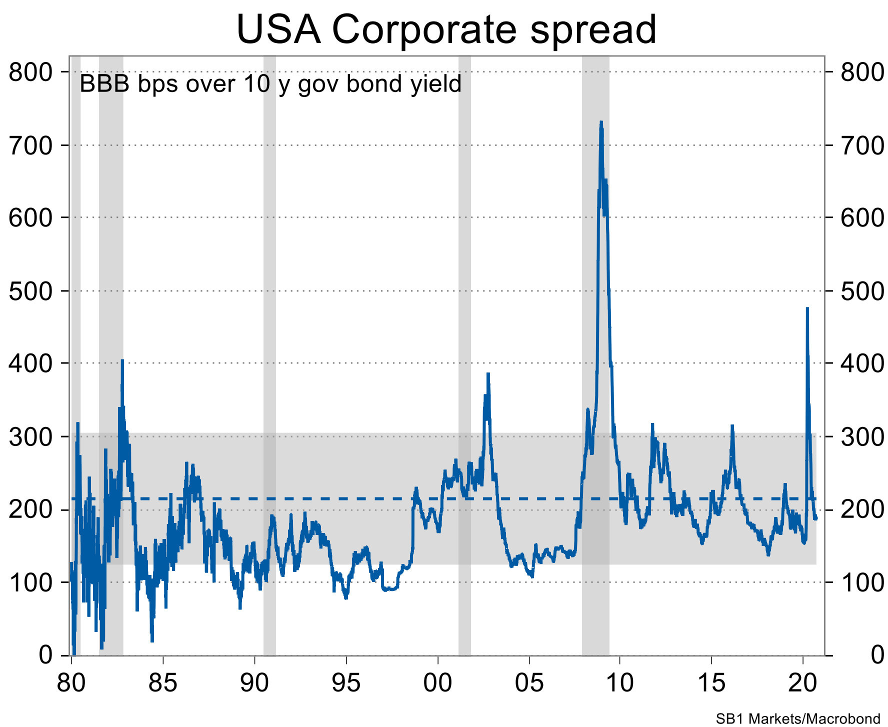
Fed's new strategy implies low rates until inflation reaches 2% - and is expected to climb further

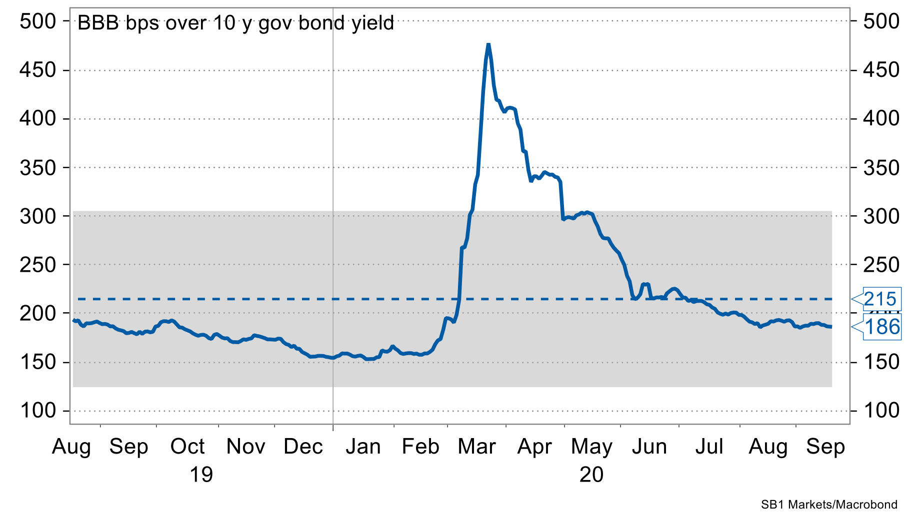


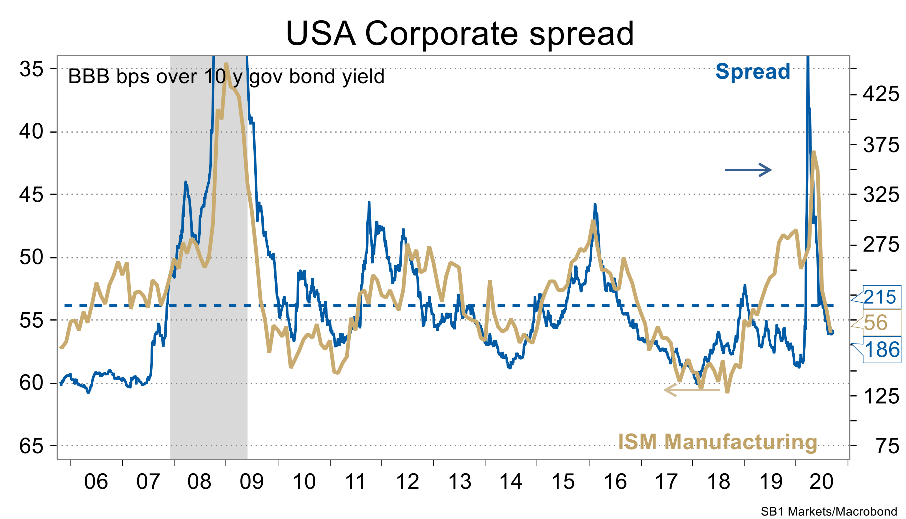


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets were growth above trend had not yet created imbalances in the economy – or at least not inflation.
- Now, the US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and expected to exceed 2% for some time. As a bonus (at this stage of the cycle), that would also make it possible for the Fed to push employment higher and profits margins lower
- Will we stay up there, in the green? Perhaps, for while – but probably not, long term
  - » The economy has rebounded rapidly from the corona trough. Any substantial disappointment on corona/vaccine or the growth cycle in general would be challenging for the equity market
  - » The Fed will not yield from its new strategy anytime soon. However, (higher than expected) actual wage or price inflation numbers may shake the market's confidence in the sustainability of Fed's strategy, pushing long term bond yields up. Again, the risk is not serious, short term
- Why are we sceptical vs. the long term outcome? Before corona, the employment rate was high in the core age group, businesses reported (and are now again reporting) unprecedented lack of labour, wage inflation was not low vs. inflation or productivity. Profits were under pressure, and investments on the way down. Interest rates had not been too low, even if that is the popular view these days

Credit spreads steady at a rather low level

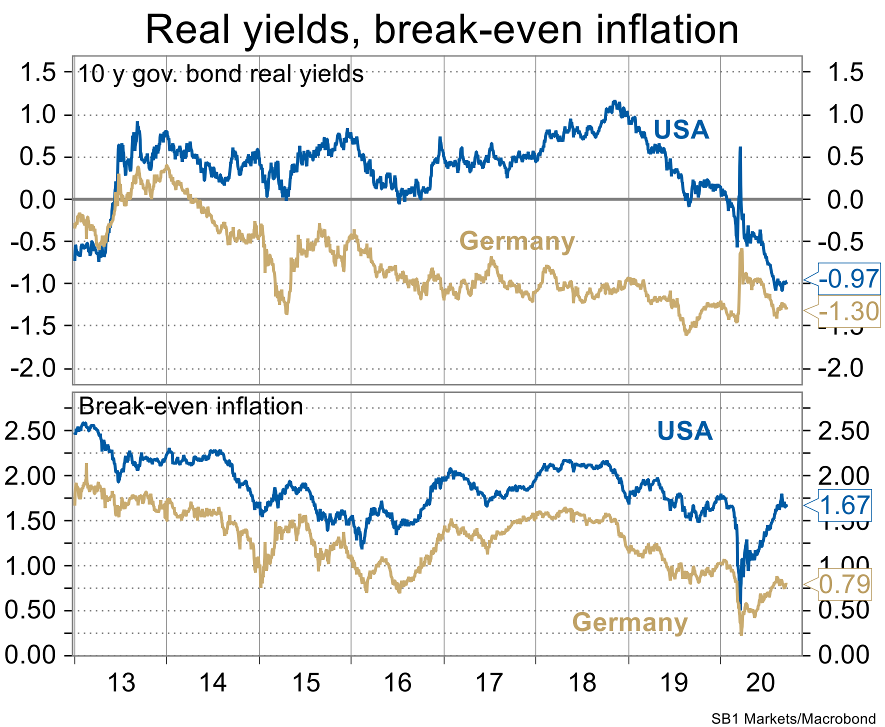


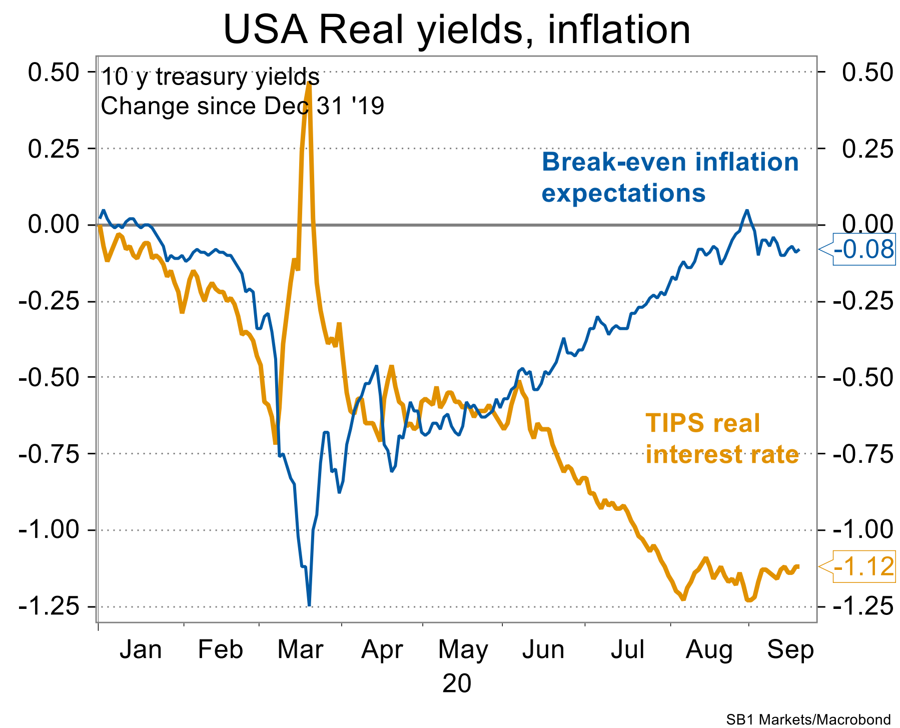




USA 10 y real rates steady at a very low level, inflation expectations has flattened

US inflation exp. peaked following Powell's Jackson Hole 'avg. inflation target speech', down since

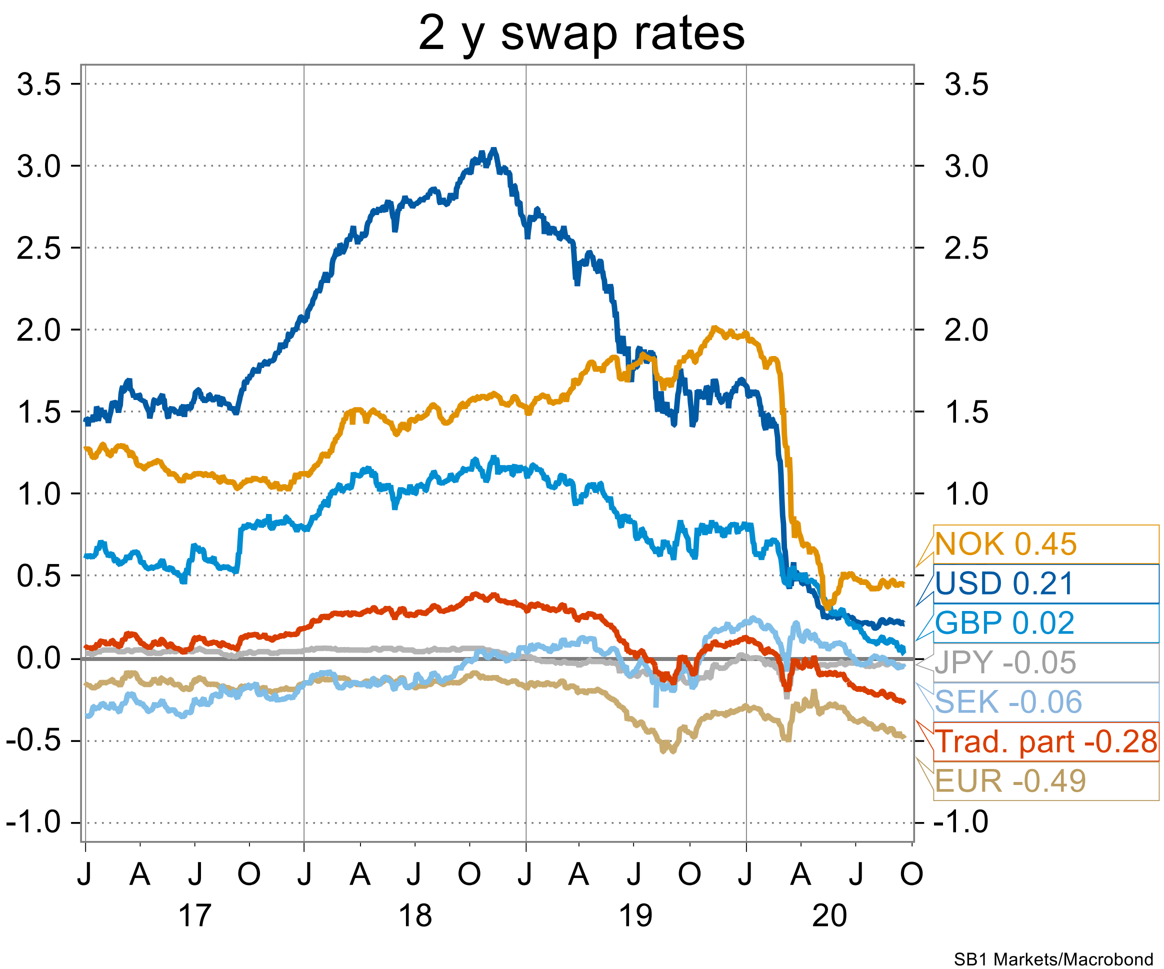


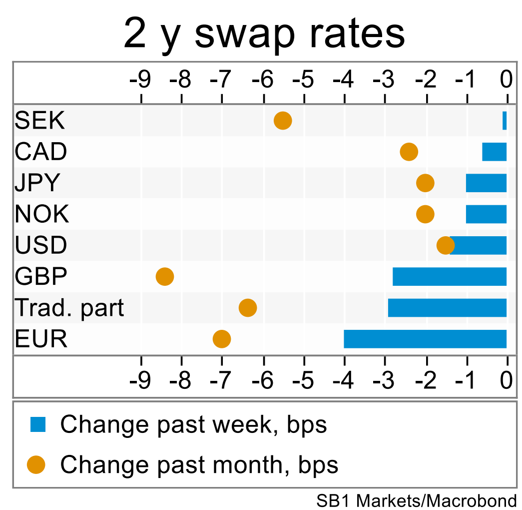


- The implied break even inflation rate has increased since April. Following Powell's announcement of the new Fed price level target strategy in late August, inflation expectations were pushed further up. Thereafter, inflation expectations have declined marginally. Fed's upward revision of its inflation forecast last week did not frighten markets
- The US real interest rate has more or less stabilized since early August, at a very low level, of course – close to -1% (10 y)
- The German real rate is at -1.30%, marginally down the past week. Inflation expectations slightly up, to 0.79%

2 y swap rates are still sliding down everywhere

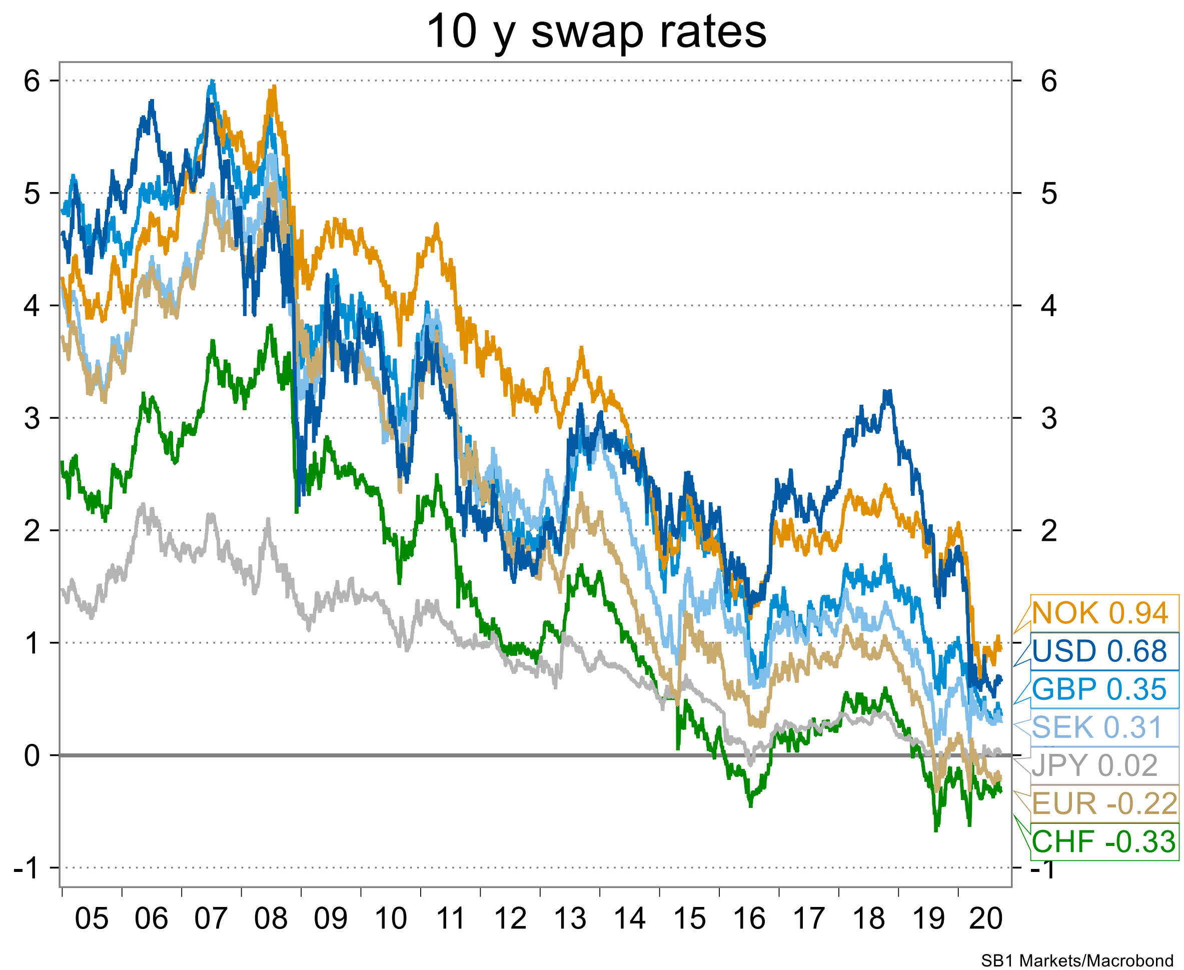
Last week, short rates inched down everywhere x the SEK, and Brexit trouble sent GBP rates down

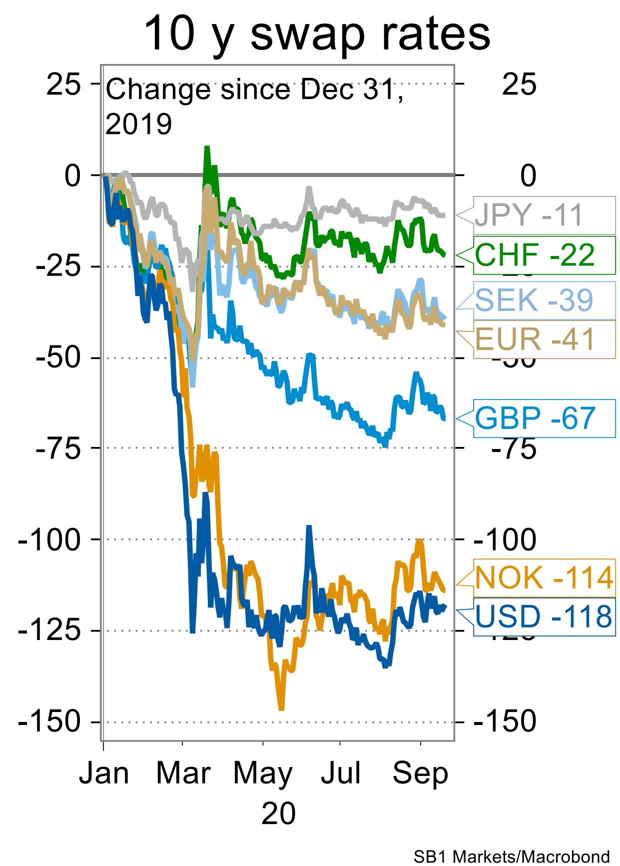




Long term swaps up are sliding down again, at least in Europe

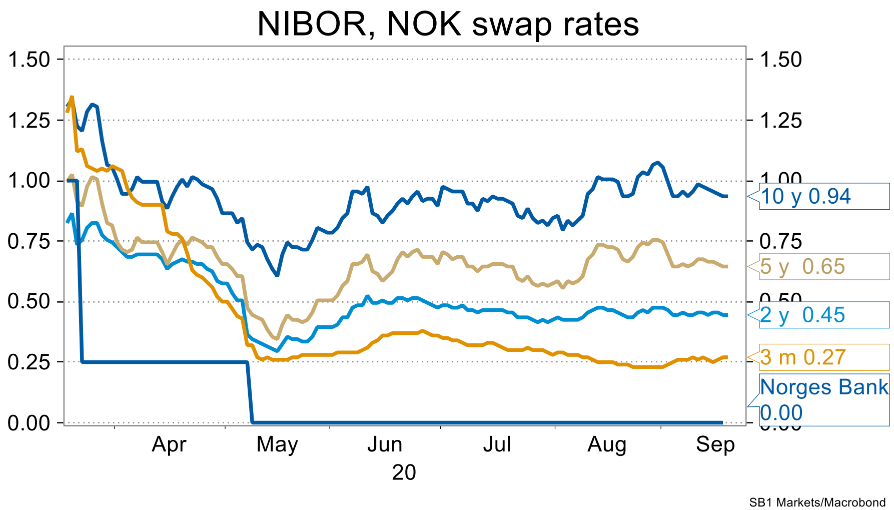
10 y swap rates have been slowly moving upwards – but last week all edged down

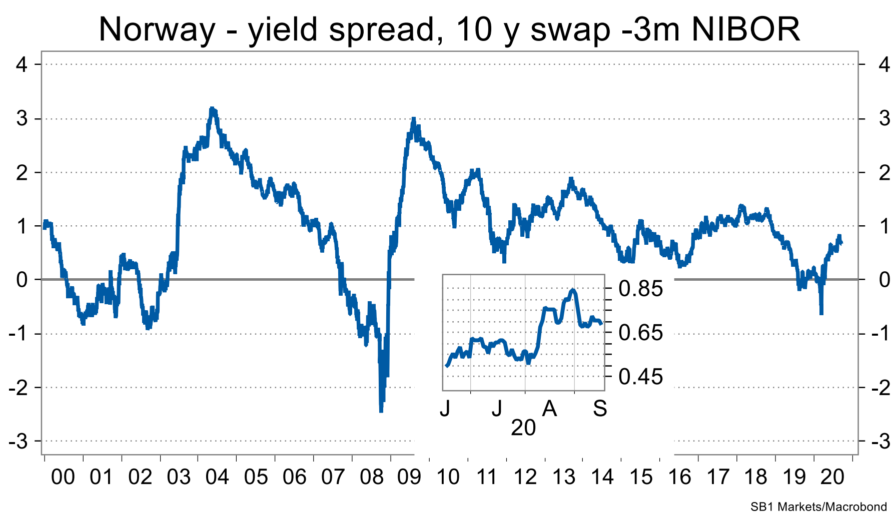


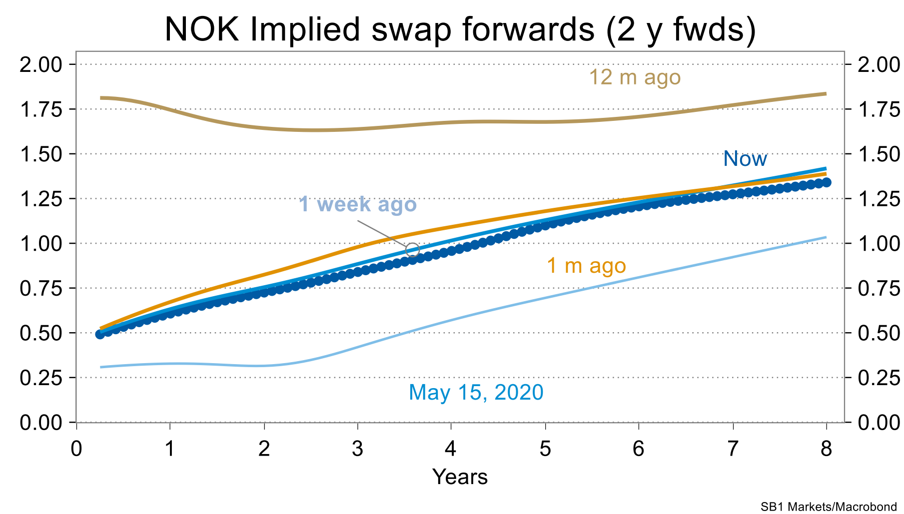


The long end of the NOK curve steady the past month, 3m NIBOR at 0.27%

The yield spread has been trending up since March but not further the past weeks



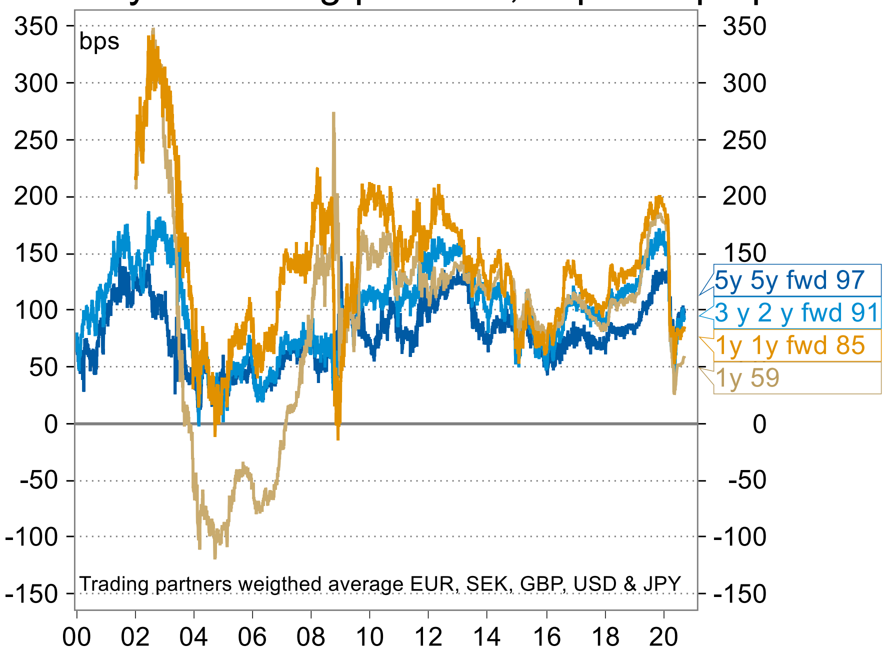




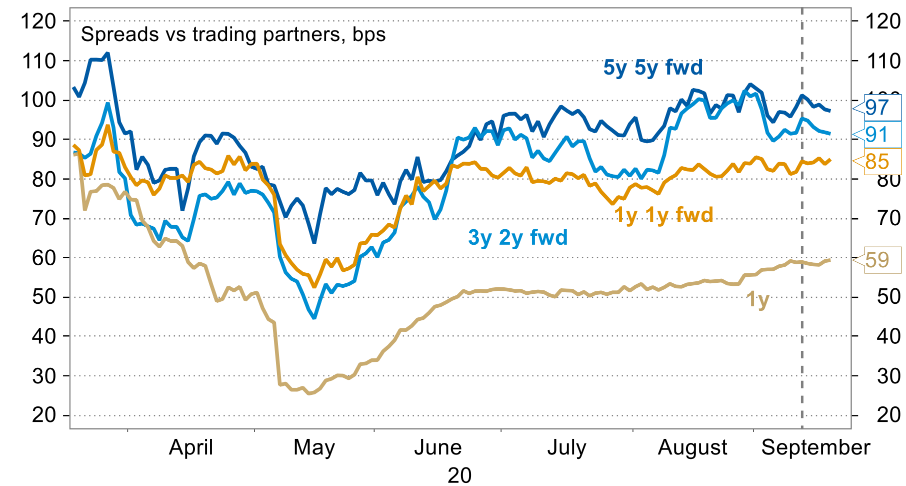
Swap spread vs trading partners down last week, in the long end

Spreads have flattened out in the long end since July, short end moving slowly upwards

Norway vs trading partners, impl swap spreads

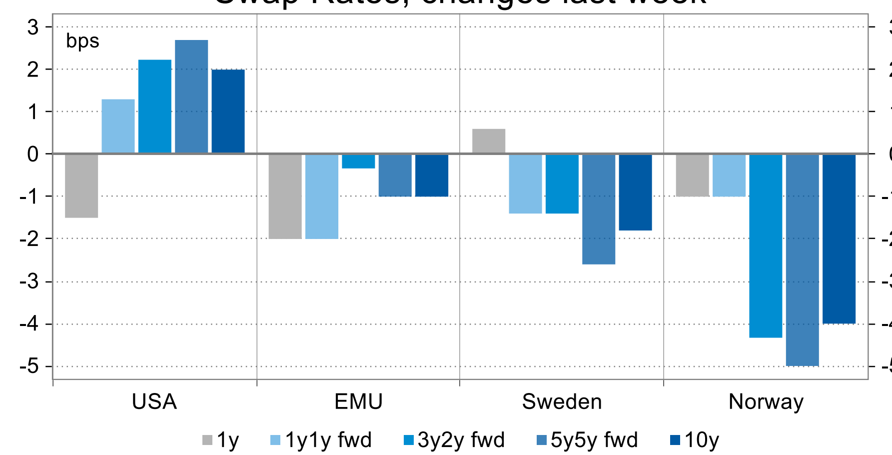


SB1 Markets/Macrobond



SB1 Markets/Macrobond

Swap Rates, changes last week

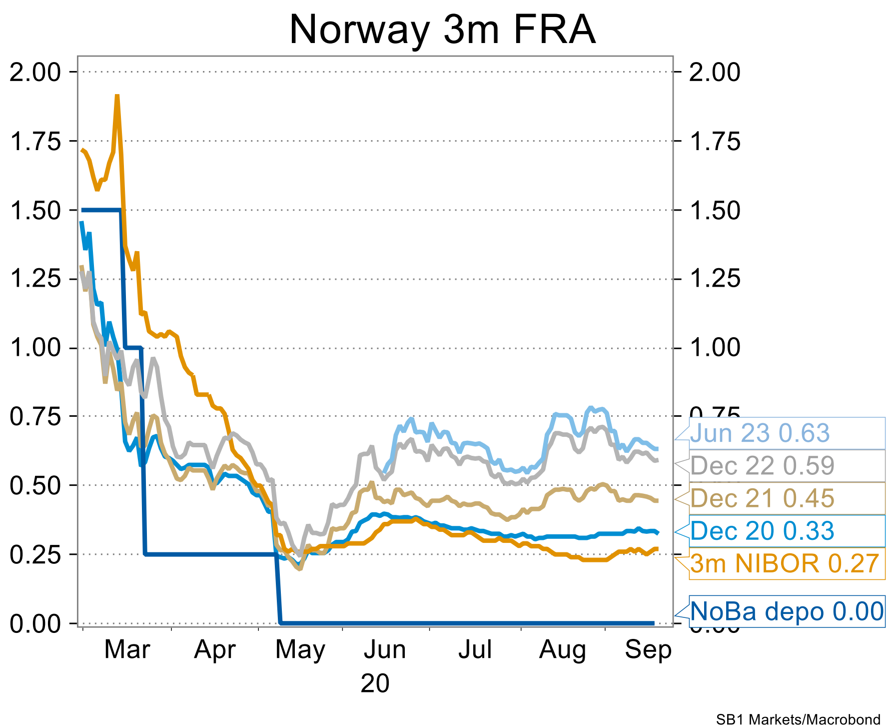


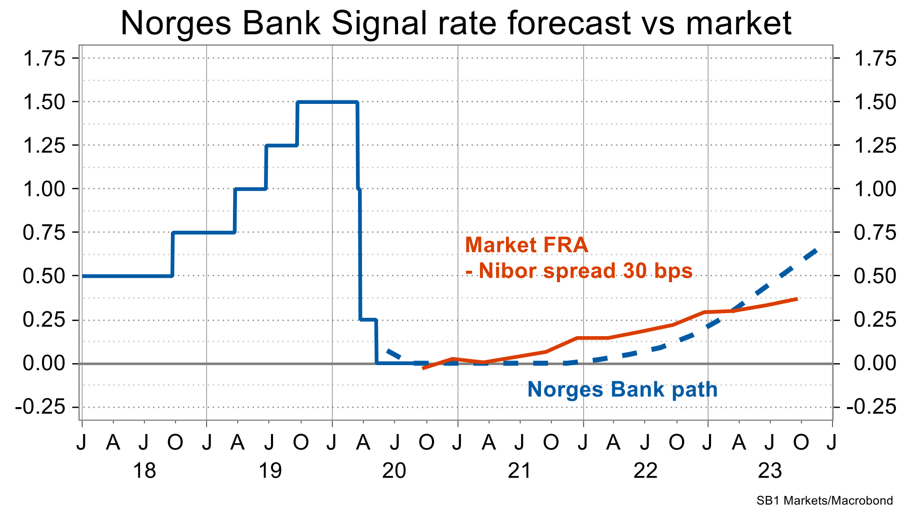
SB1 Markets/Macrobond

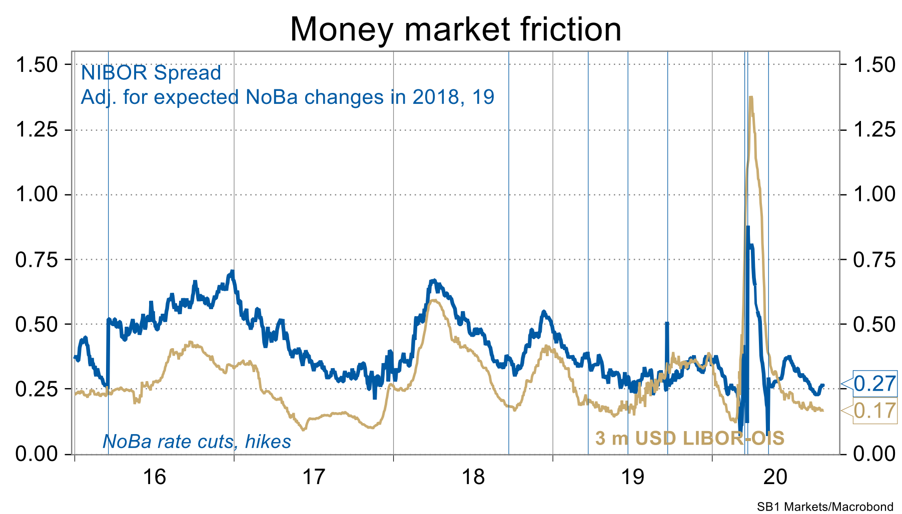
- Spreads vs trading partners have been trending wider since the May local trough but not further recent weeks (in average)
- We are still neutral vs. the spread

3m NIBOR stable at 0.27%, FRAs are trending down again

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



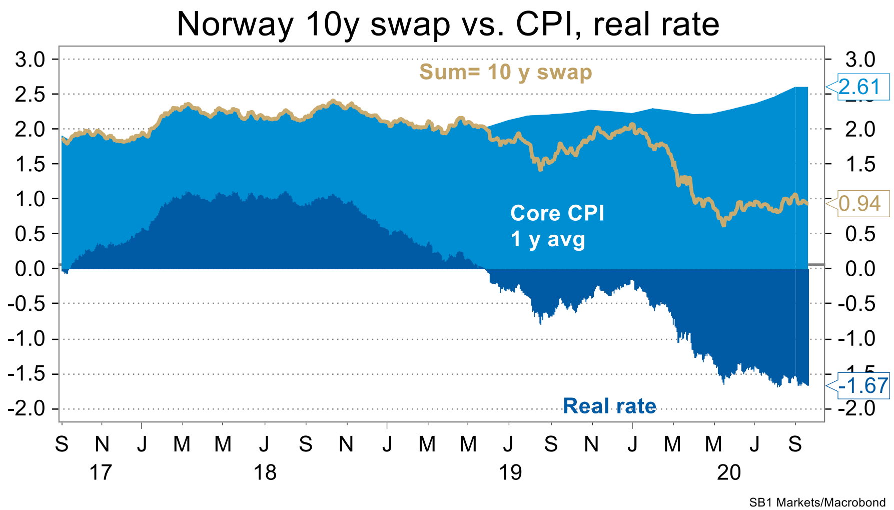




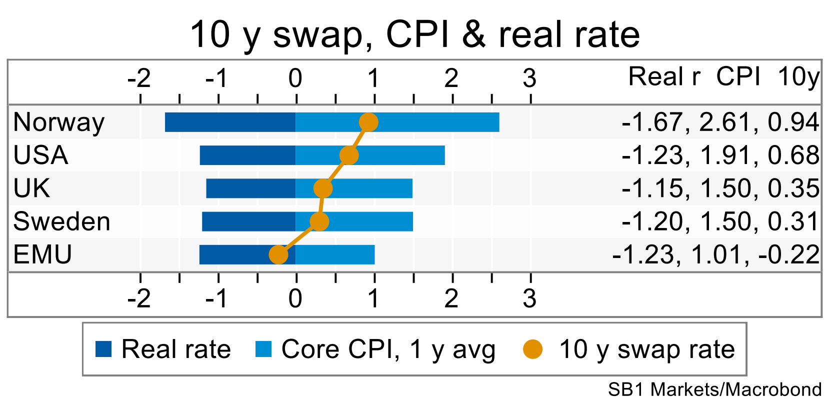
- We think it is completely unlikely that markets are pricing in any probability for an interest rate cut (or hike) the coming 3 months, the NIBOR spread is at 0,27%
- The first hike is probably priced in by Q4 2021 (with >50% prob). In June, NoBa said Q4 2022

SpareBank 1 MARKETS

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



- NOK 10 y swap nominal rates are down more than 1 pp since January
- Real rates have fallen to -1.67%, 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)

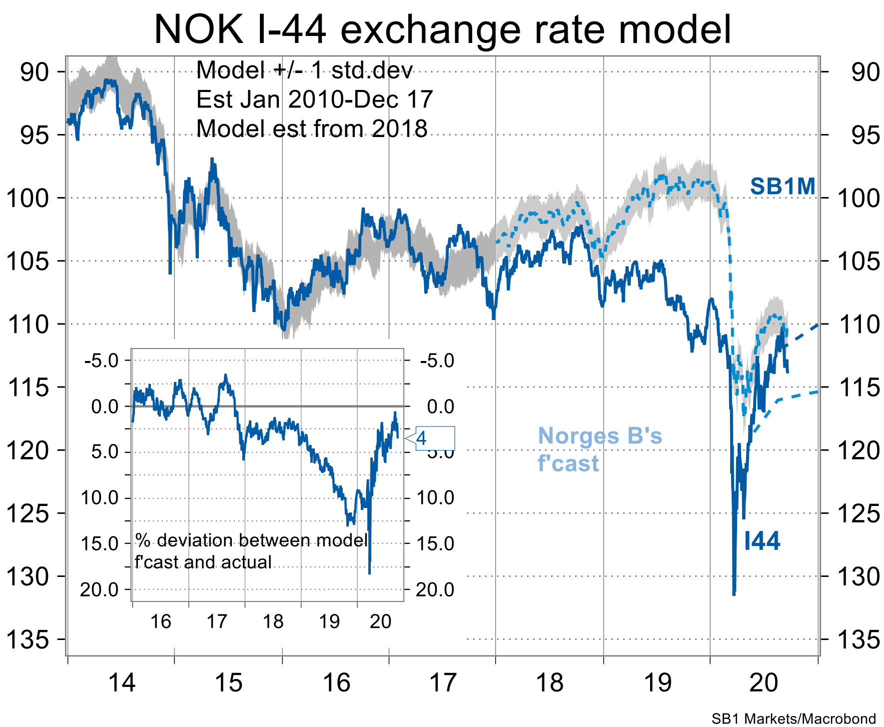


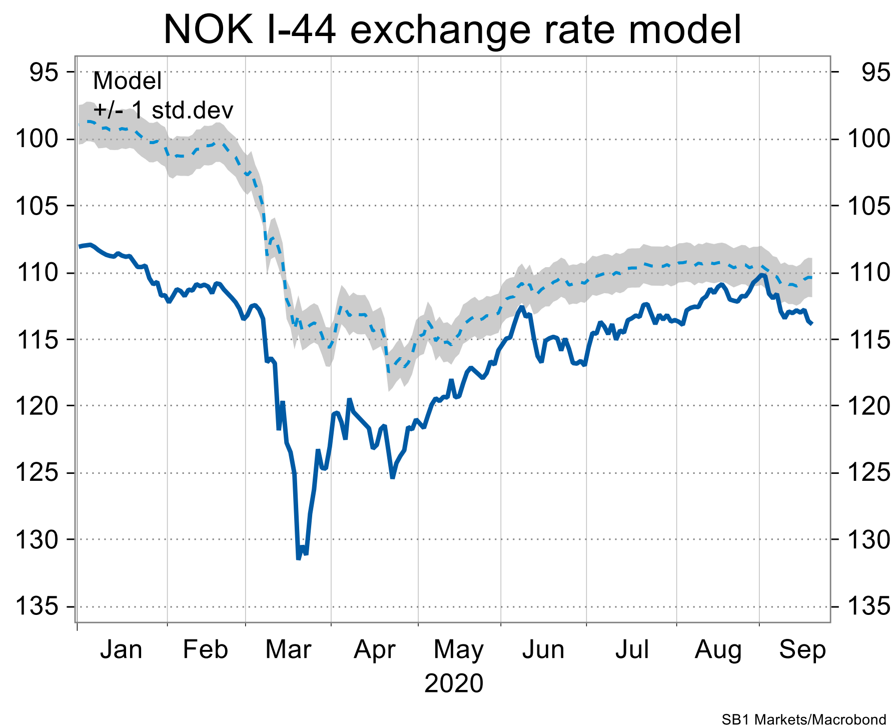
NOK real rates among the lowest, inflation exp. at top

- Inflation among Norway and our main trading partners varies between 1 to 2.6% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top
  - » Other measures of inflation trends, looking backward of forward expectations yields the same result
- Real rates are quite similar among our trading partners, at -1.2% measured vs. the 10 y swap rate. The Norwegian rate at -1.7% is an outlier
- *Thus: Inflation differentials explain most of the differentials in long term swap rates*

NOK down 0.7% last week, the standard model signalled +0.5%

NOK and the oil price moved in opposite directions last week but the gap to the model is still just 4%

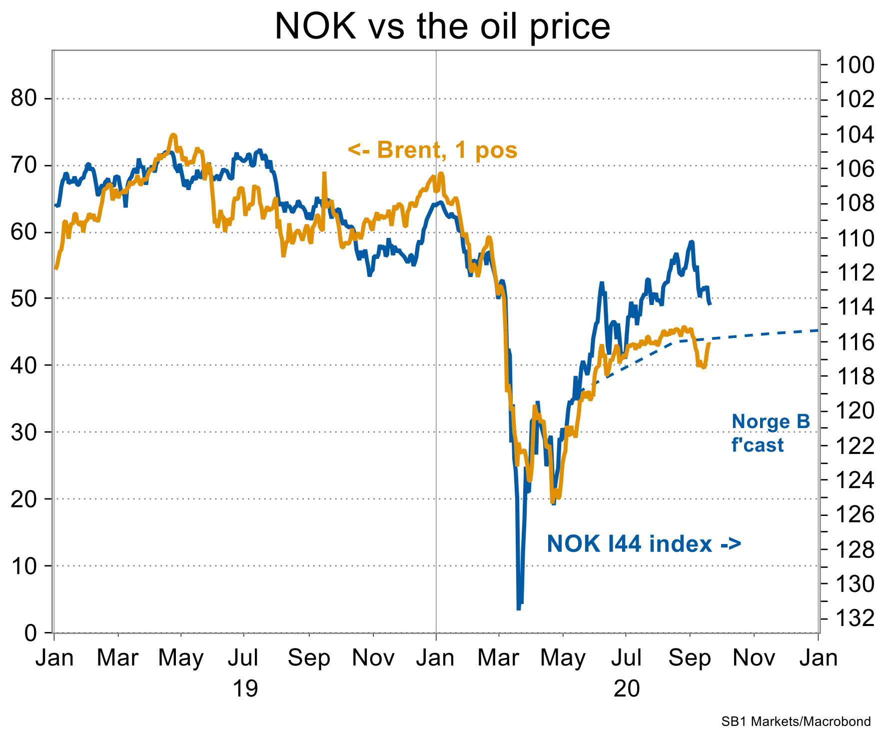


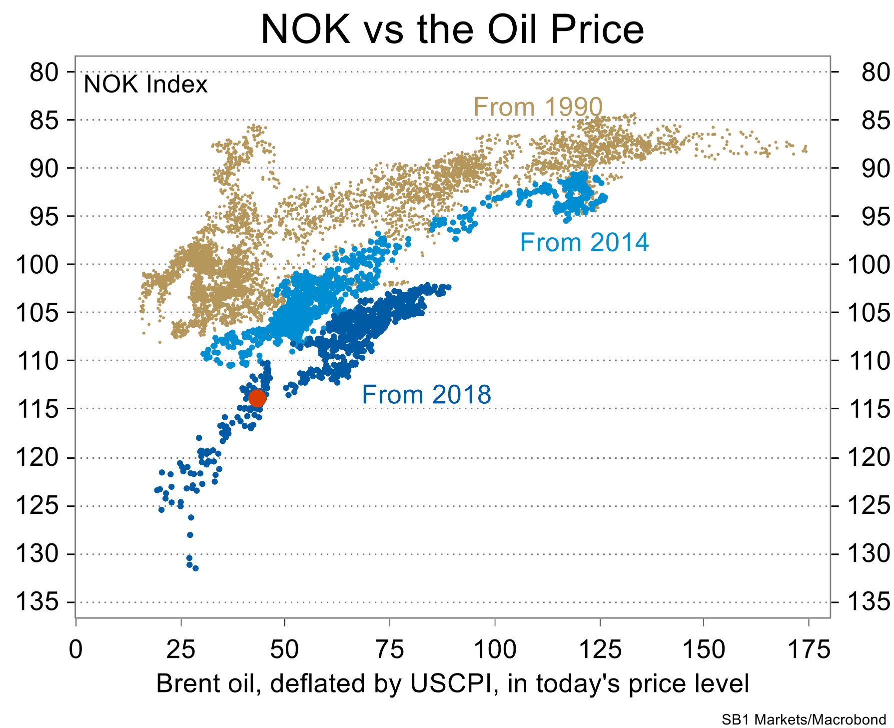


- We still have a NOK buy recommendation but it is not as strong as before!
- The NOK is 'too strong' vs a model based on oil company stock prices but weaker than the other supercycle currencies (AUD, CAD, SEK)

The NOK is still on the strong side vs the oil price given relationship since 2019

NOK separated from the oil price in July

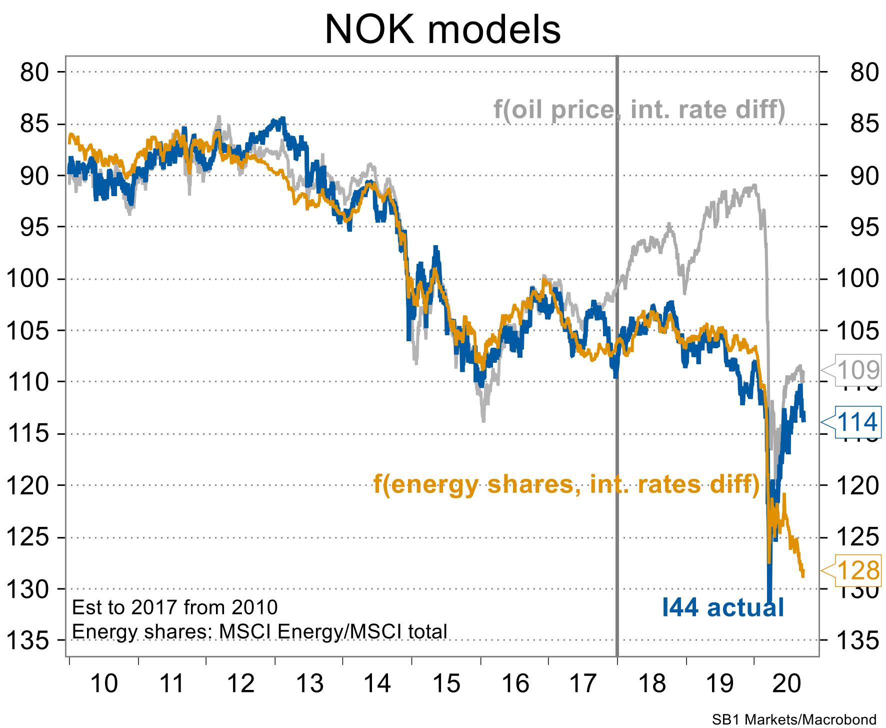


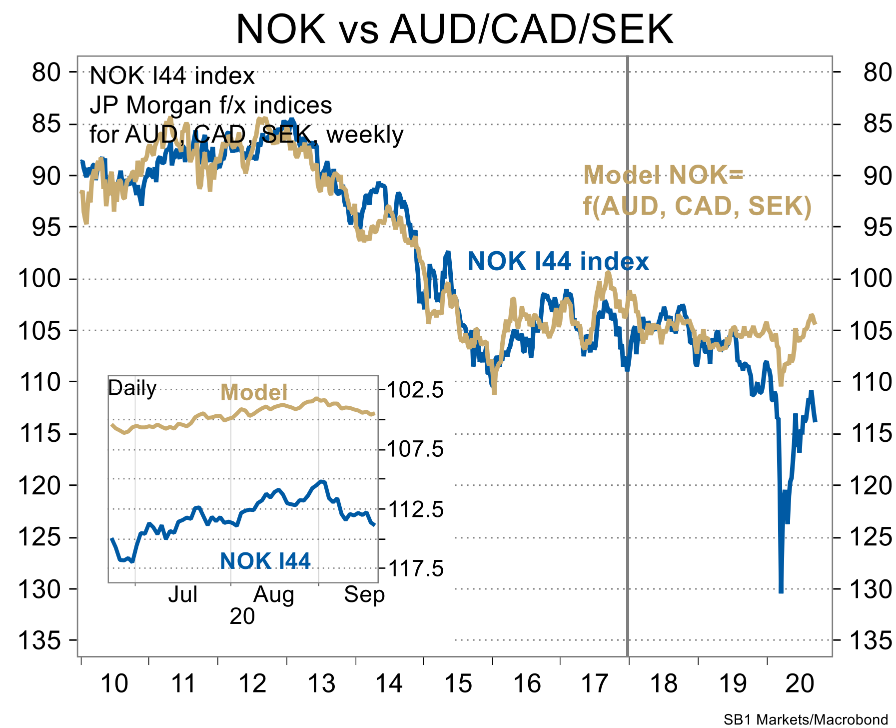


- On the other hand – the NOK is still somewhat weaker vs the oil price than the normal correlation until 2018

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

The NOK 11% 'too strong' vs energy shares, 9% 'too weak' vs a model based on AUD, CAD & SEK

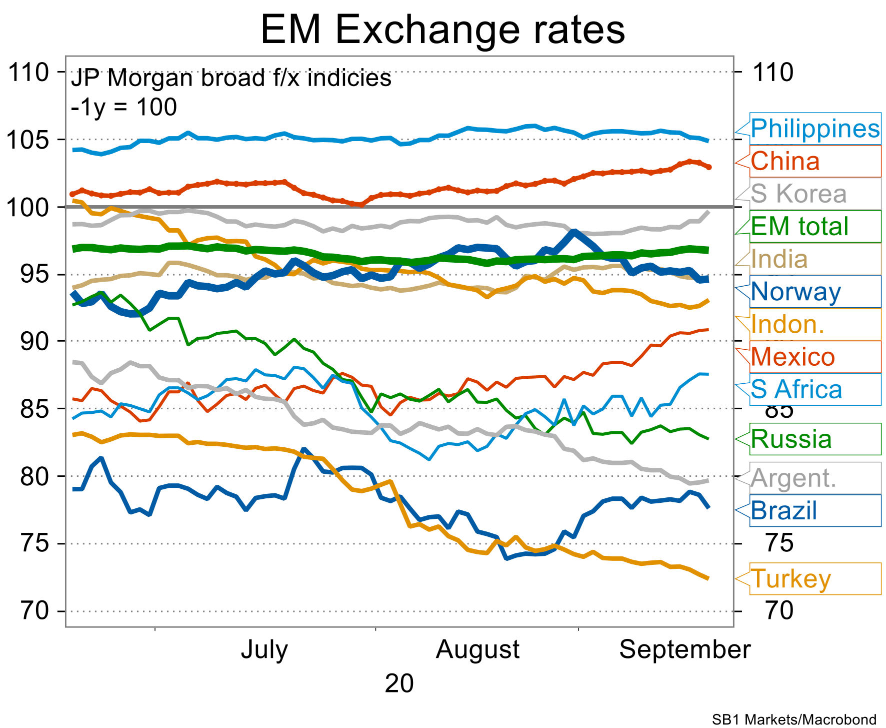


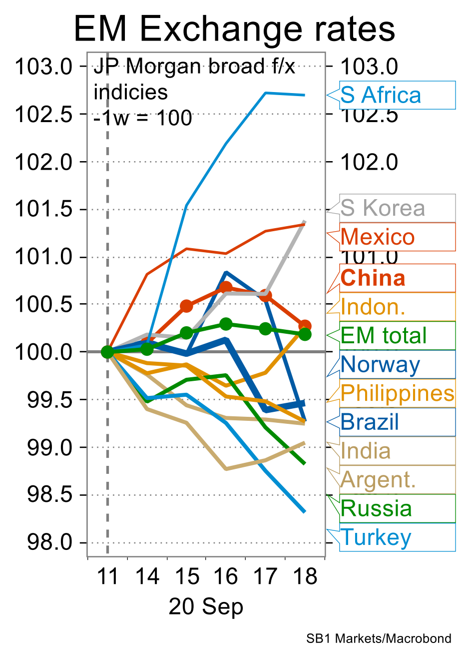


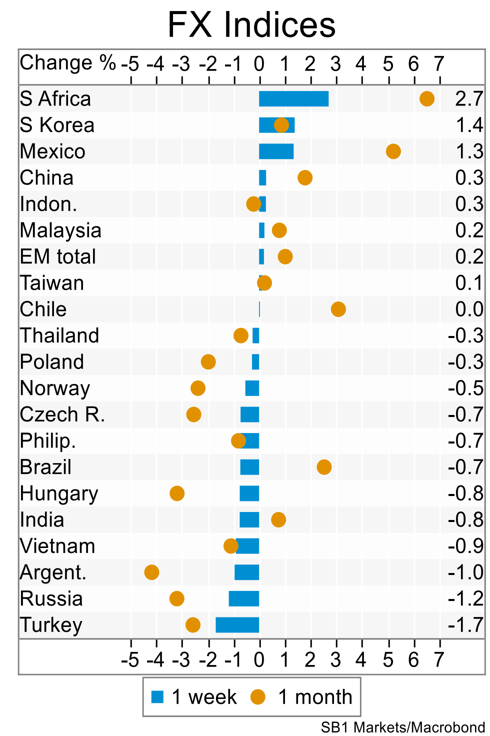
- On the alternative NOK models
  - Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
  - Now, the NOK is 10% 'too strong' vs our oil equity price model (the gap has been shrinking for the past weeks). 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 9% below our AUD/CAD/SEK model forecast. We think the AUD/CAD/SEK model is more relevant than the oil stock price model

EM currencies slightly up last week & month, South Africa recovering

The CNY has been strengthening since July, last week supported by better than expected macro data







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