12 October 2020

Macro Research

Week 42/2020

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

Last week:

- **Really Bad Corona News:** The no of new cases are turning up in the US again, and at fast pace in several European countries, in France, UK, Netherland, Belgium, the Czeck Rep. Spain may have turned the corner, the only positive news? We thought mild restrictions, and some changes in behaviour would be sufficient to get control of the spread if virus in Europe too, as it was in the US from late July to early Sep. **We may have been wrong**, even if the health system is yet far from being overwhelmed in Europe like it was in many countries in March/April. More restrictions may be needed, and consumers may anyway become more cautious. UK is discussing another national lockdown; the first cut GDP by 20%...

- **The global composite** PMI fell just marginally in September as services kept up better than we assumed. The manufacturing index rose sharply. Except for weaker service sector PMIs in the southern Europe, no signs yet of any 2nd corona wave setback in the economy. However, given recent infection data, we are sure that will be the case the coming months…

- **Global auto sales** probably rose marginally in Sept an the level is close to pre corona sales, but 5% below the 2019 avg. (However, we do not yet have any data from China, due to the Golden Week holiday). EMU was on the weak side, most other regions reported better sales. **Norwegian new auto registrations** soared in Sept to the best level in several years, lifted by electric vehicles, of course

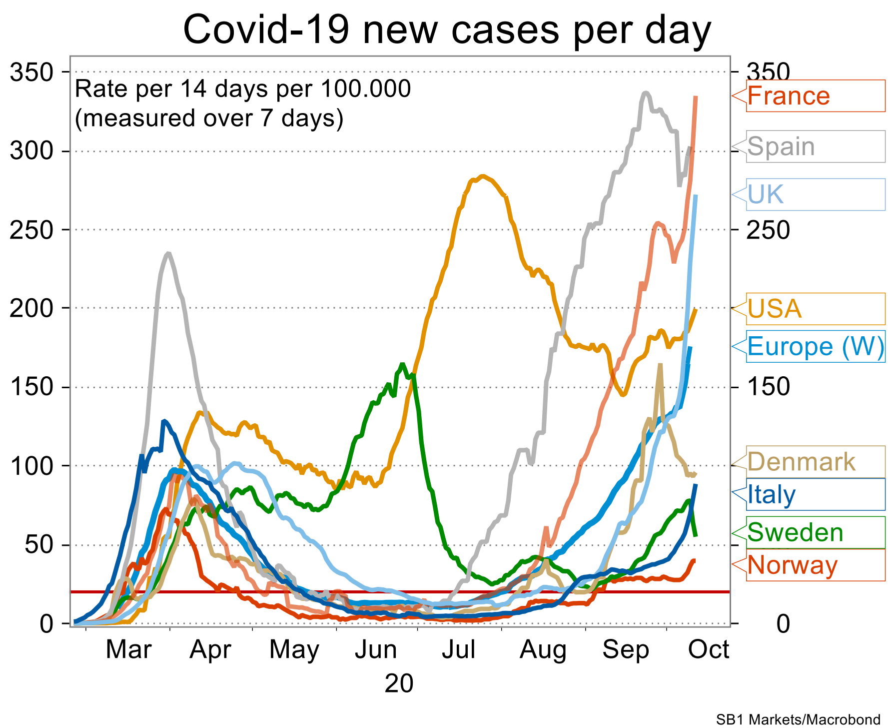
- No news on the negotiations about another **fiscal stimulus package in the US**. The administration the Democratic majority is haggling on a USD 1.8 trl (adim proposal) or USD 2.2. trl (Democratic House majority proposal), and they might come to an agreement – but the Senate Republicans have so far rejected anything above USD 0.3 trl. What a mess. Still a high level of **unfilled vacancies**, especially given the sky high unemployment rate. The **trade deficit** is blowing up, probably a corona impact – reducing Q3 GDP growth

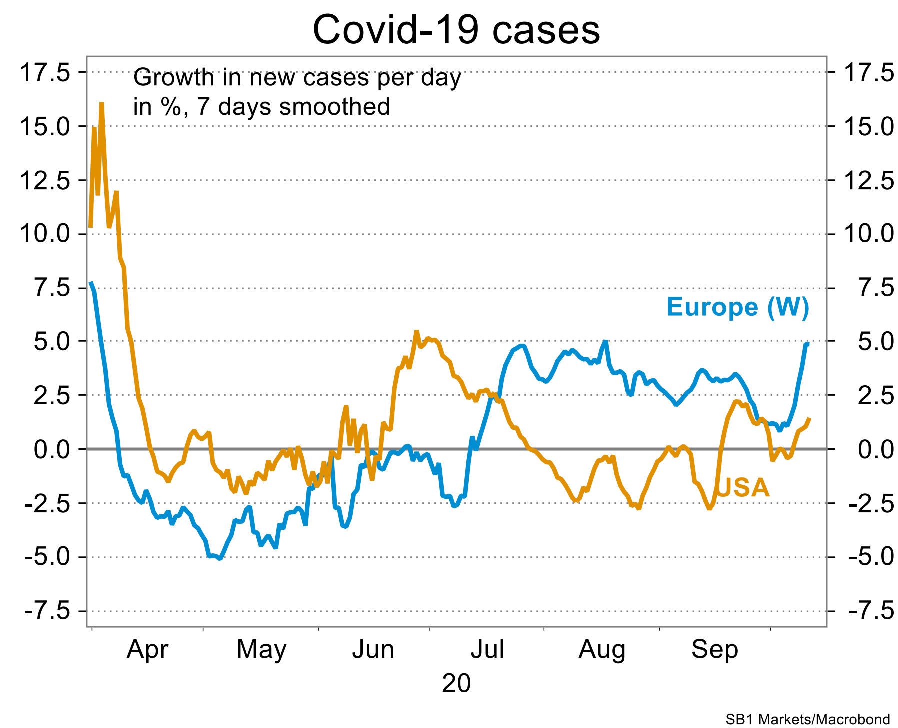
- **Retail sales in the EMU** rose more than 4% m/m in August, and is 4% above the pre corona level while **manufacturing production** probably grew less than 1%, and the shortfall is still some 6%

- The Government plans to return the **long term budget guideline in 2021**, earlier than most expected. However, that's the plan, now. Policy will be decided based on the actual development in the economy, not the present forecast – which is on the optimistic side but not unrealistic. Even if the 2021 budget deficit is cut by 2.9% of GDP, transfers from the Oil fund are still up 1.6% of GDP since 2019. Sure, GDP remain below par (the previous trend path) in 2021 but the increase in transfers over these two years is still 'impressive'. **GDP** rose less than expected in August but is on track for 5% gain in Q3. Services are still lagging. **Manufacturing production** recovered sharply in August. **Core CPI inflation** fell 0.4 pp to 3.3%, mostly due to an unexpected decline in clothing prices. We expect a further decline in inflation over the coming year. **House prices** surged in Sept, up 1.3% m/m, and prices are up 4% from before the corona crisis. The inventory of unsold homes is declining rapidly, low interest rates are doing their job

Some pretty worrisome trends in France, UK & partly US. Italy on the way up too

The worst picture for several weeks. Are more restrictions needed? <u>We may have been wrong!</u>

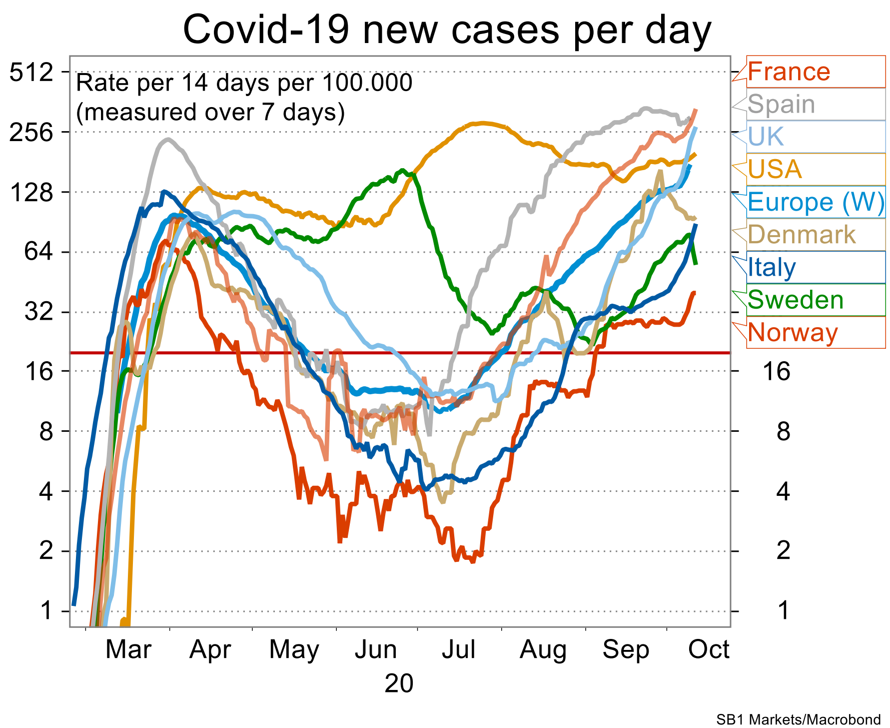




- The number of **new cases in the US** is on the way up again, quite broadly geographically (and just not in Washington DC ☺). The no of hospitalisations and deaths are still kept in check. So far, the economic cost has been limited, as no data signals another downturn
- Following a decline in some countries in Western **Europe** until a week ago, there is now an explosion of new cases in France, UK as in Italy (from a low level), in Belgium and the Netherlands – and in the Czech republic (*check two pages forward*). Sweden is reporting fewer cases, as is Demark (here measured at a 7 days pace). In Norway, the no of cases increased substantially last week
- <u>**We were probably wrong**</u>: We thought light restrictions, and some changes in behaviour (masks, distancing) would be sufficient to turn the R<1 in Europe – like we saw in the US from late July until early September. <u>So far, our optimistic case is far from confirmed</u>

Even Norway on the way up again. But the level i still low

We are all well into the 'red zone'

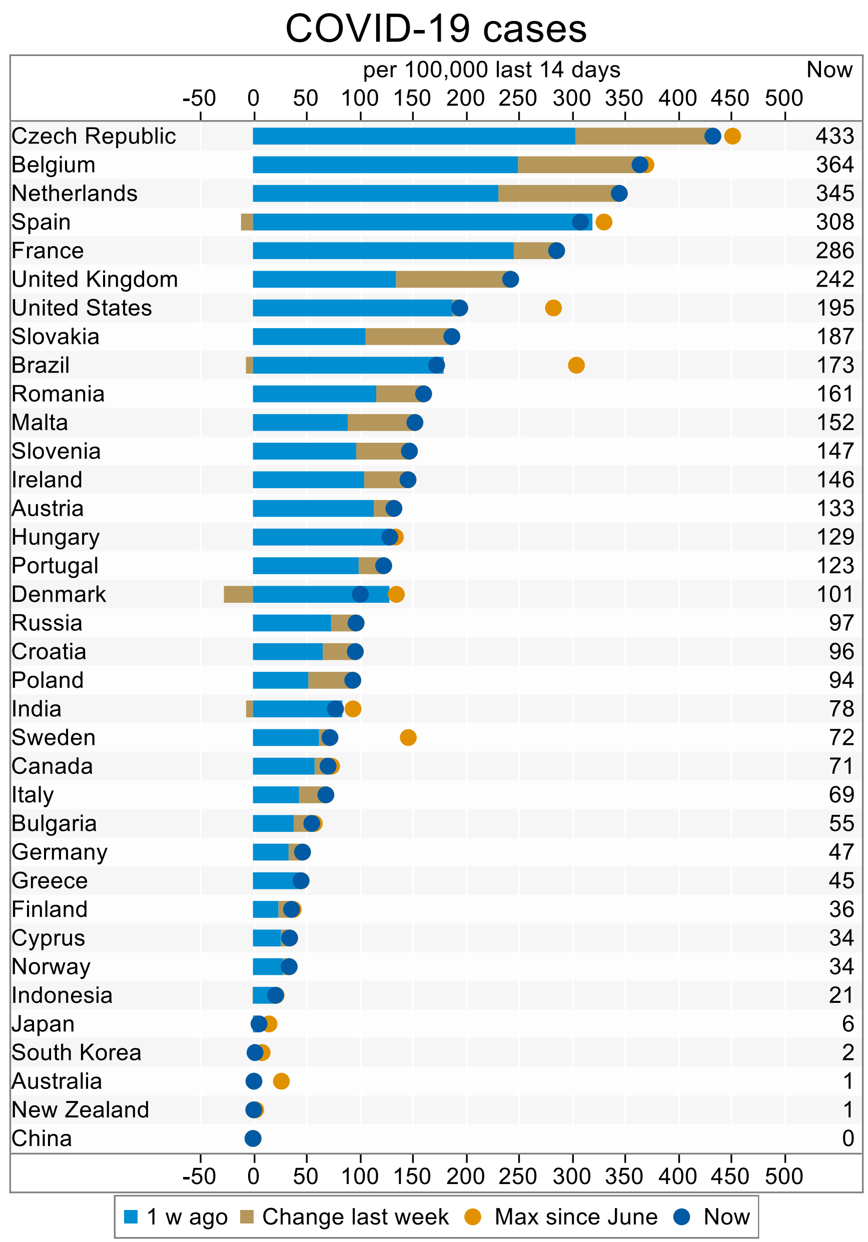


- Given the current trajectory, more countries will introduce new restrictions the coming days & weeks

Not many are heading downwards…

Huge increases in many countries the past two weeks

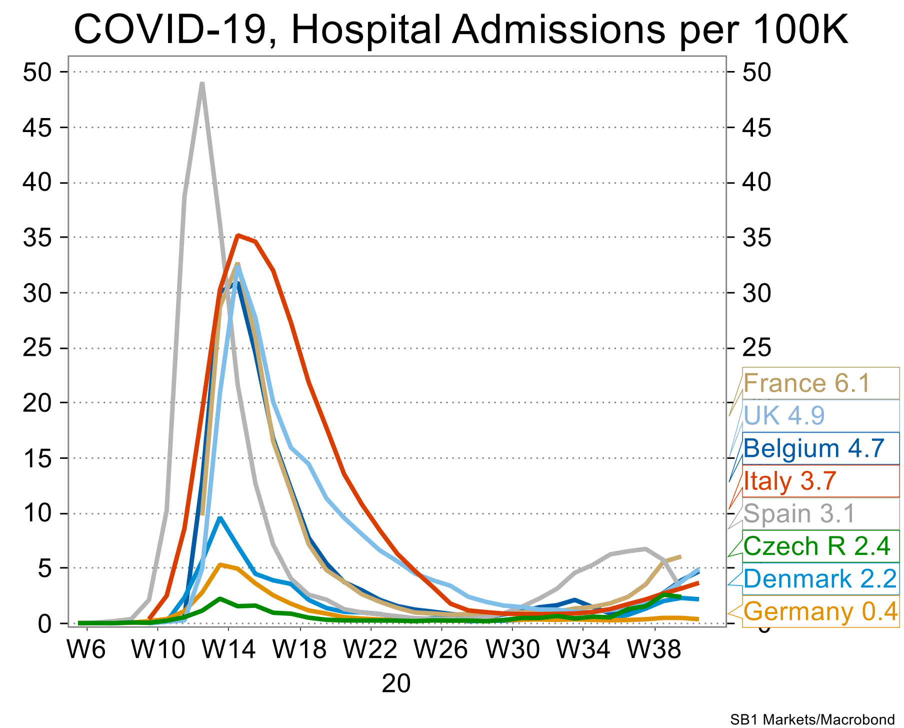
- Almost all countries are reporting more cases, and not primarily due to increased testing but due to an increase in the positivity rate – not a good sign!
- Most countries are at their peak levels, at least since the June trough
- UK is discussing an national lockdown again. The first took the economy down 20%
- Just some few countries are reporting fewer cases recent weeks: Spain, Brazil, India & Denmark
- Spain is delivering the only good news in Europe: The no of new cases are probably on the way down, without national lockdowns. The economy has been somewhat harmed, in the service sector
- The next trigger: Hospitalisations & deaths. Authorities may chose to wait until the health consequences are not too serious. <u>So far, we do not see any health crisis</u>

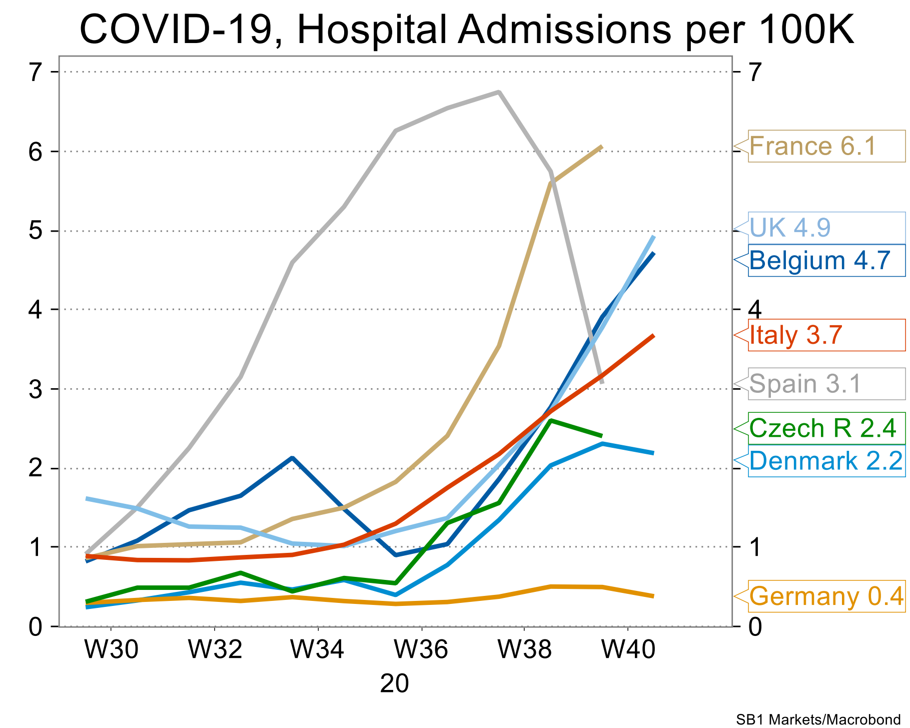


SB1 Markets/Macrobond

Corona is not a large health problem, at least not yet

Still, the number of hospital admissions is on the rise again

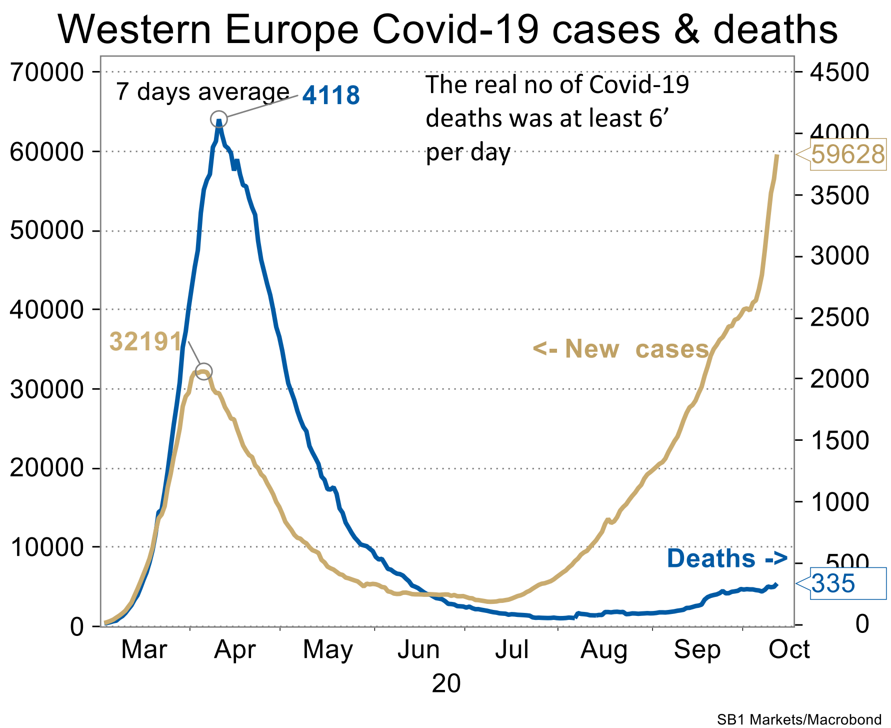


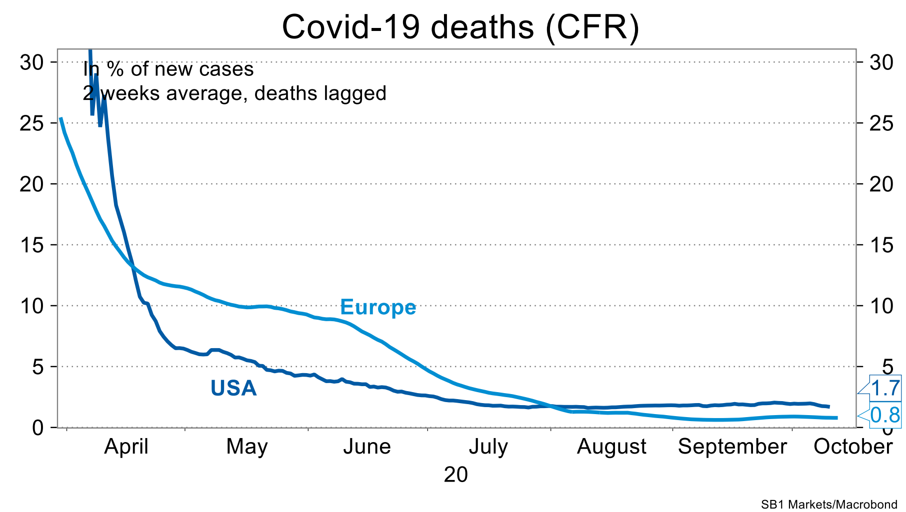


- The last data point may be preliminary. Spain has not reported data since week 39

Europe: Covid deaths still at a low level, some 4% of total deaths

But the number of deaths is climbing again



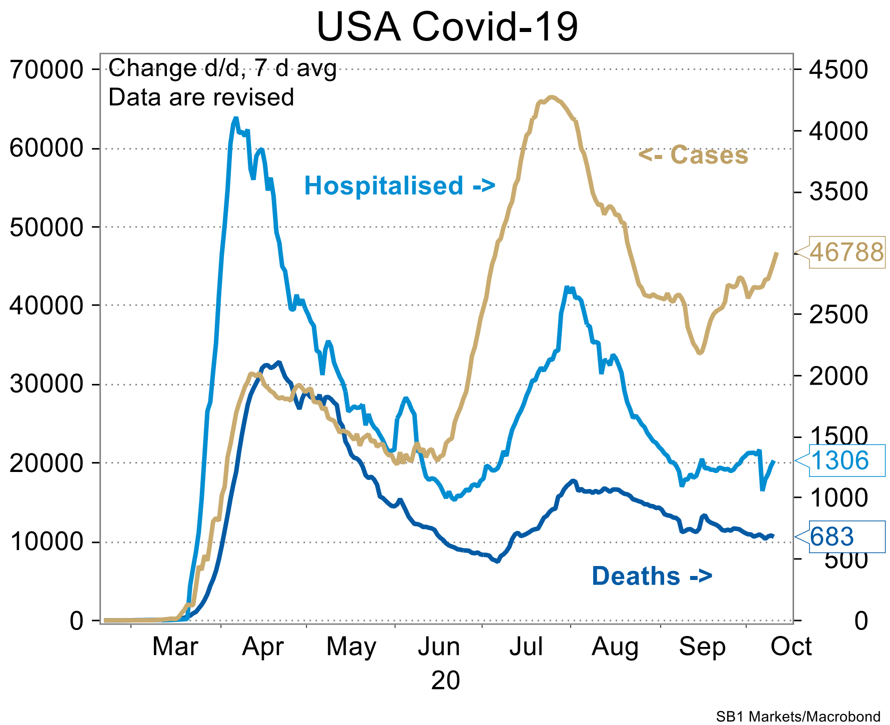


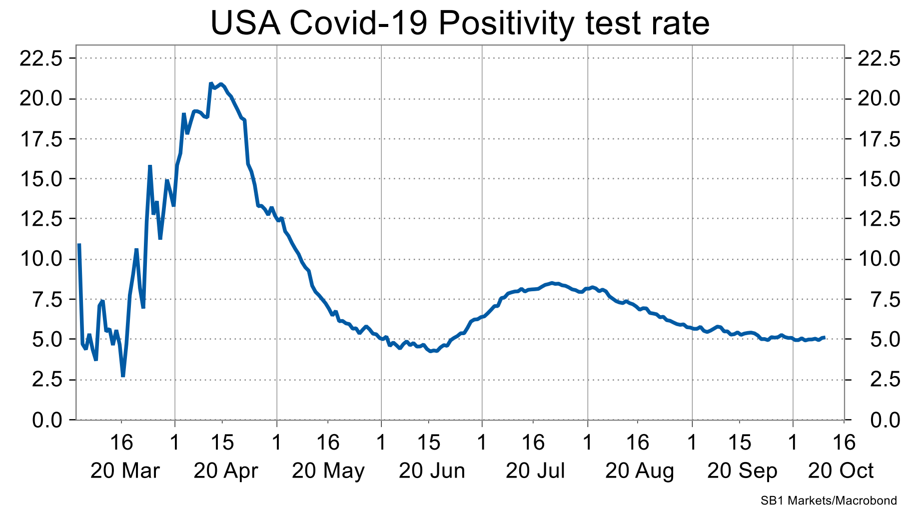
- The number of deaths in Europe increased sharply through most of September. Growth has slowed, but has climbed to more than 300/day, from below 100 in July/August
- Still, Covid-19 deaths equal less than 4% of the daily number of the 9.000 deaths per day in Western Europe. Do not forget: That was not 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)

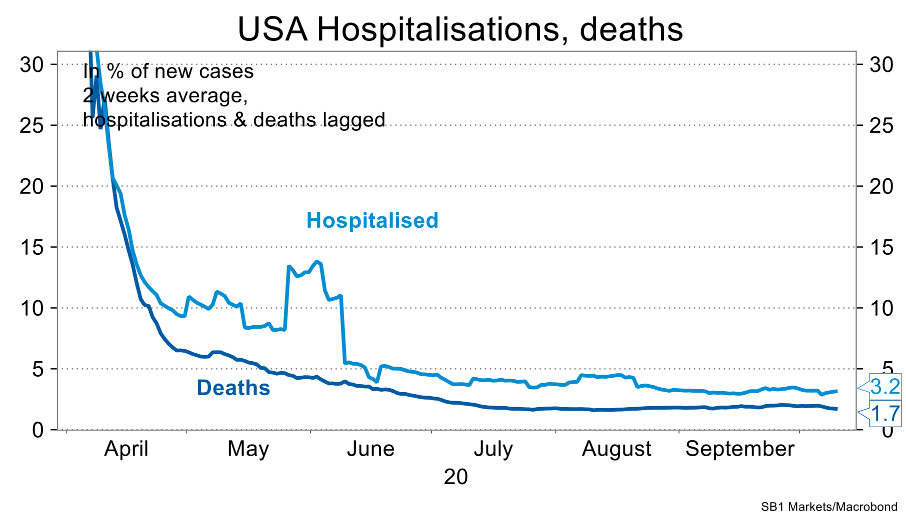
- The death rate (vs. confirmed cases) has stabilised at less than 1% in Europe. In the US it is closer to 1.7%, probably mostly because the real no of new cases is higher than officially reported (the positivity rate has been far higher in the US than in Europe – but this rate is rapidly climbing in Europe
- The number of hospitalisations is a small fraction compared with the levels during the spring

USA: More new cases but hospitals not filled up, not cemeteries either

The no of hospitalised patients is increasing but deaths are declining marginally



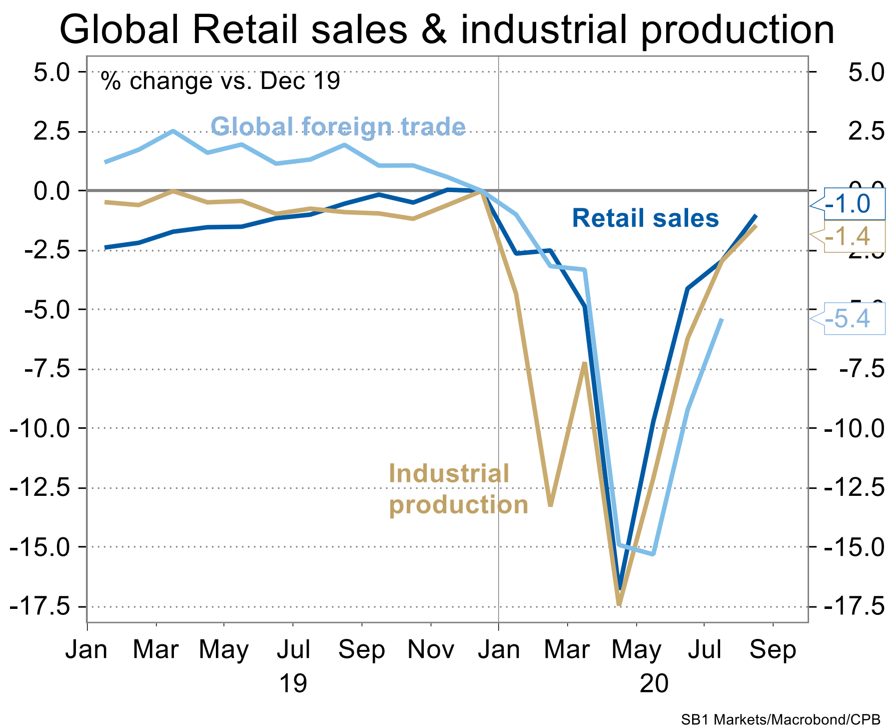


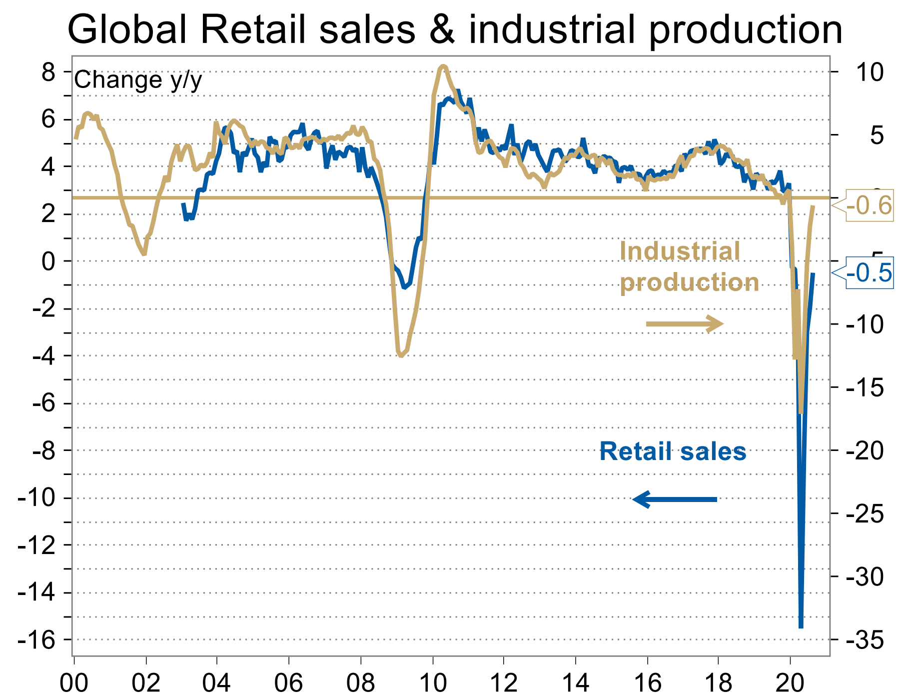


- The hospitalisation rate is far lower than during the early phases of the pandemic but has increased since early Sept
- The death rate (CFR) fell sharply until late July and has flatted out since – at just below 2%. A rather high (but not increasing) positivity test rate at 5% also indicates a higher infection rate than in Europe

Industrial prod, retail sales & global trade up, still below pre corona levels

Both global retail sales & industrial production up some 1.5% in August, both 1.5% below pre corona



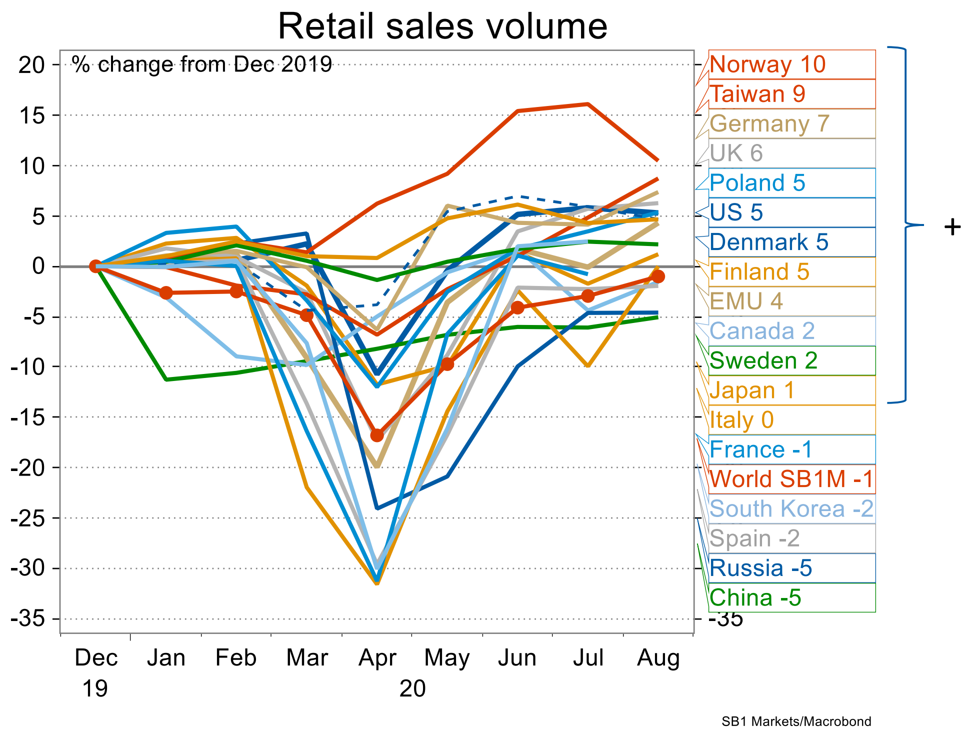


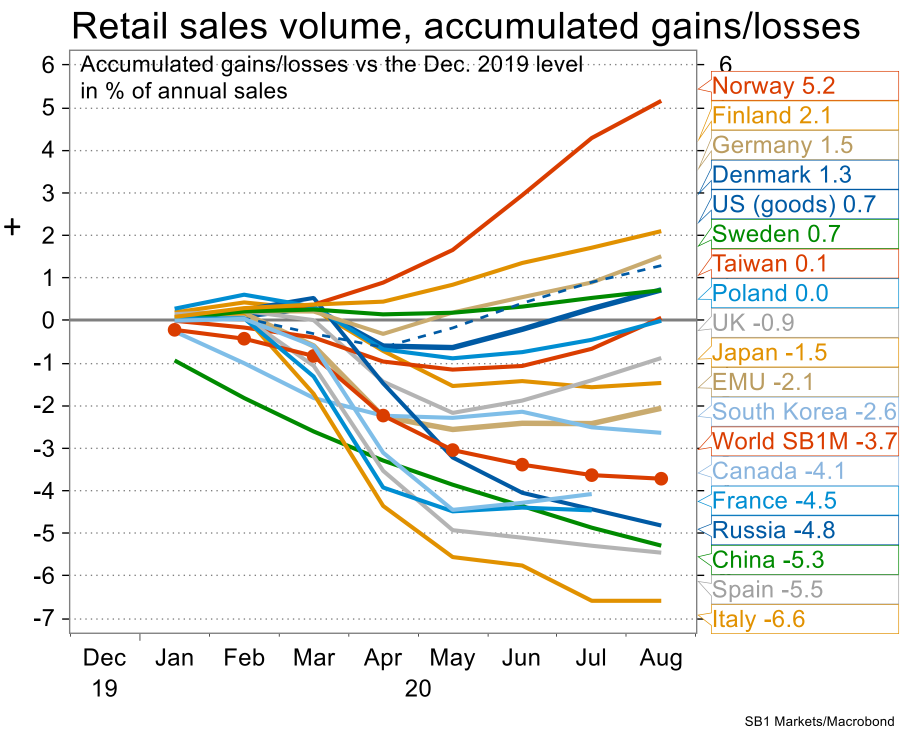
Memo: Keep in mind the different scales at the chart above

- Global retail sales grew by approx 2% m/m in Aug, according to our preliminary estimate, as in July (and 6% in June). Sales are 1.0 % below the pre corona (Dec) level (but on par with Jan/Feb). Sales in many DM countries are above the Dec level, China
- Industrial production rose approx 1.5% in August (again premlim. est) down from 3.6% m/m in July and 7% in June. Production is just 1.4 % below the pre corona level
- Global foreign trade rose 4.2% in July after a 7% rise in June, still 5.4% below the pre corona level. Most likely, global exports rose sharply in August, closing more than half of the remaining gap

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'

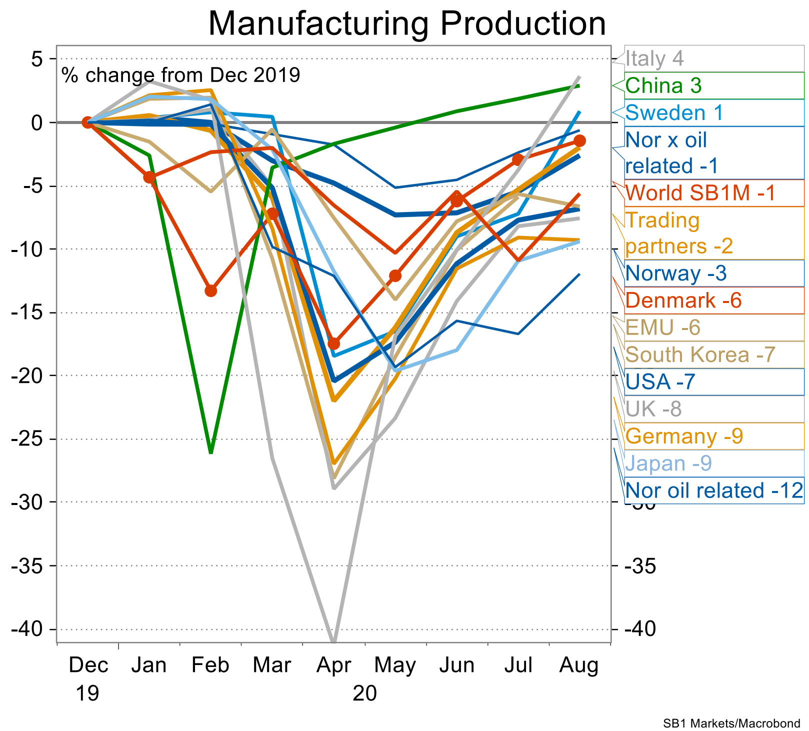


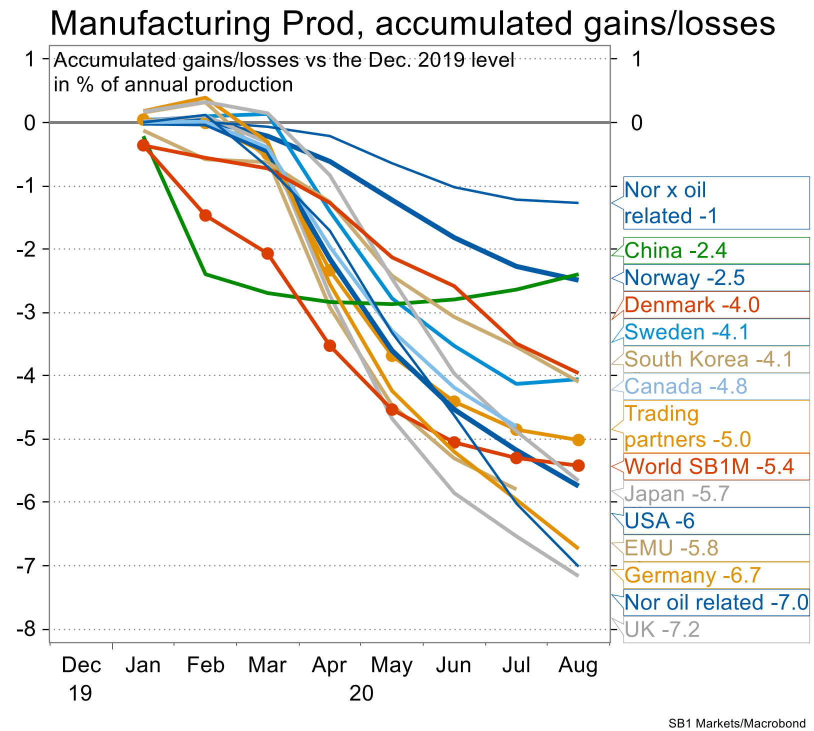


- Global retail sales were 1% below the Dec level in August. Most countries are now reporting higher sales than before corona hit. Even if sales fell sharply in August, Norwegian retail sales are still at the top
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 5% above the pre corona level in August but total sales during the first six months of 2020 were still 'just' 0.7% above the pre corona level, measured in % of annual sales, due to the losses during the spring
- Consumption of services are not included in these retail sales data – and service consumption has fallen sharply, everywhere

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

Production rose further in August, and is now less than 2% below the Dec level





- Manufacturing production was down 1% vs. the Dec level in August, following an approx 1.5% lift. Many countries have not yet reported
- 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(=production) is still way below a normal level

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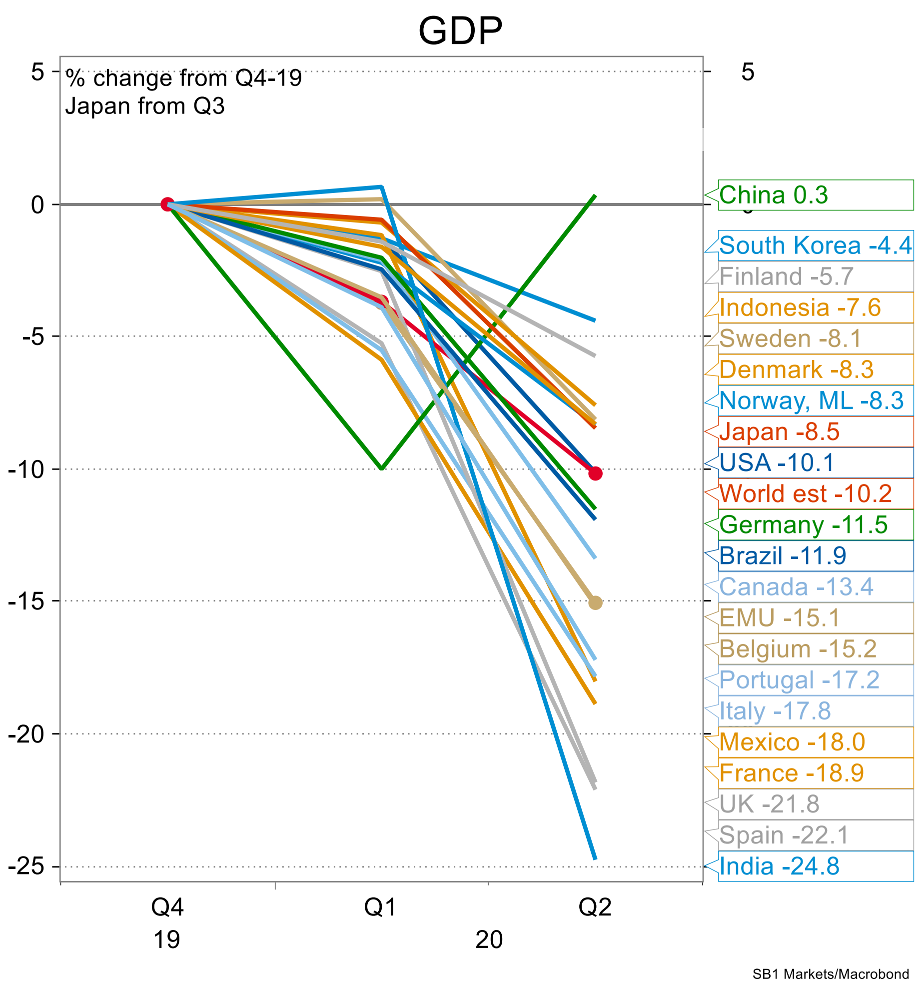
Global GDP down ‘just’ 6.7% in Q2 but down 10% v. Q4

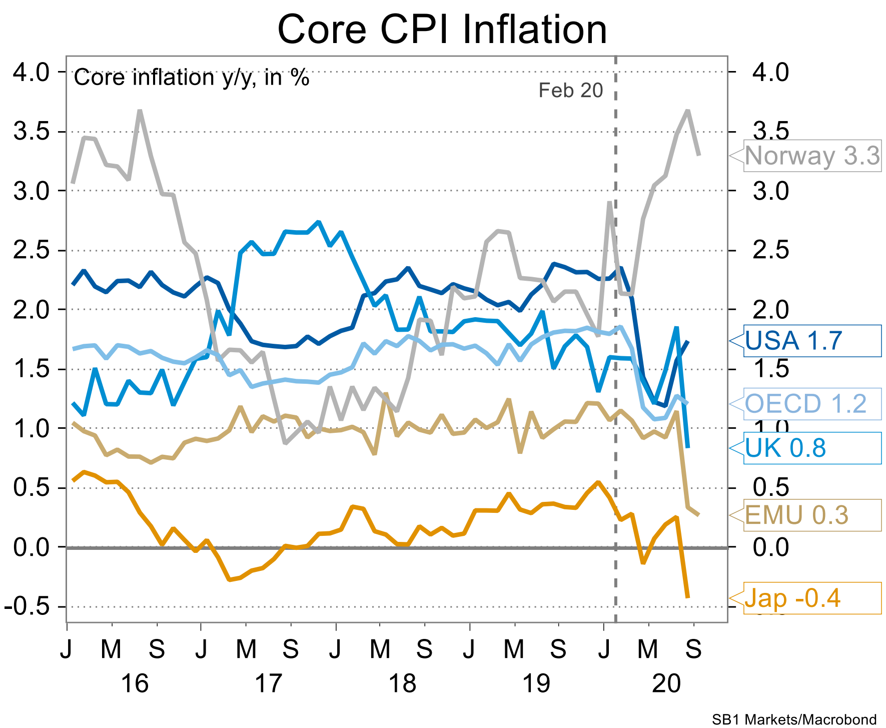
Except China, all countries we follow have reported lower GDP

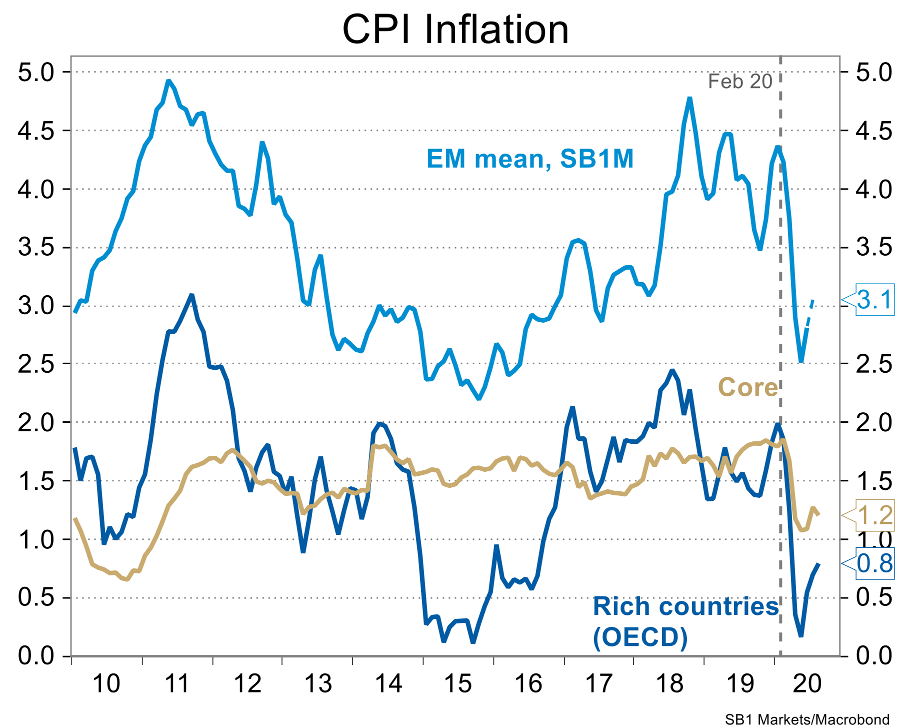


- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, bringing the GDP level up to slightly above the Q4 level
- In most (all?) other countries, GDP fell sharply in Q2 – and global GDP probably fell by approx the same amount as in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

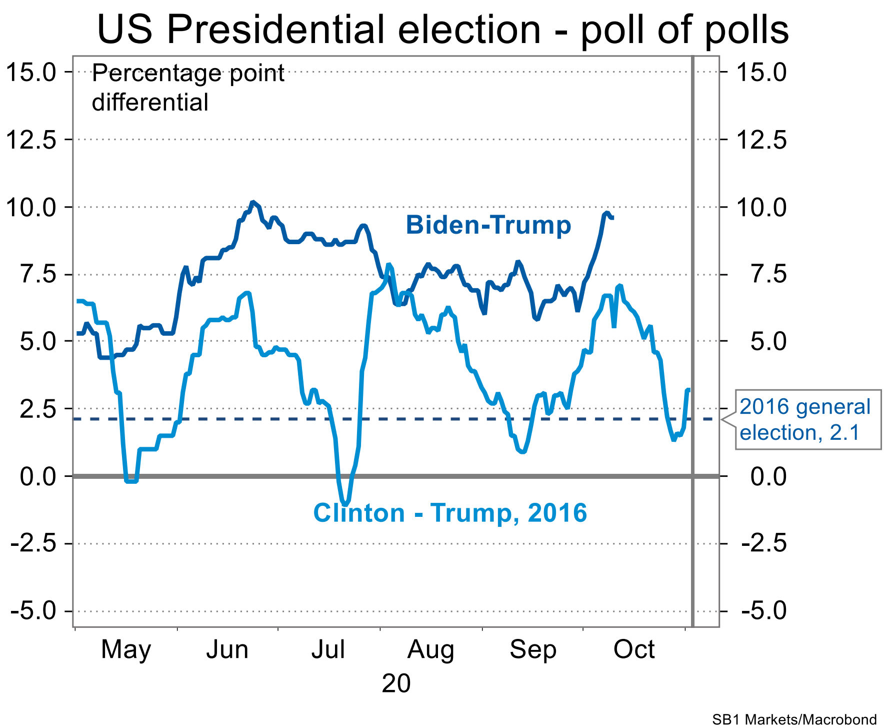


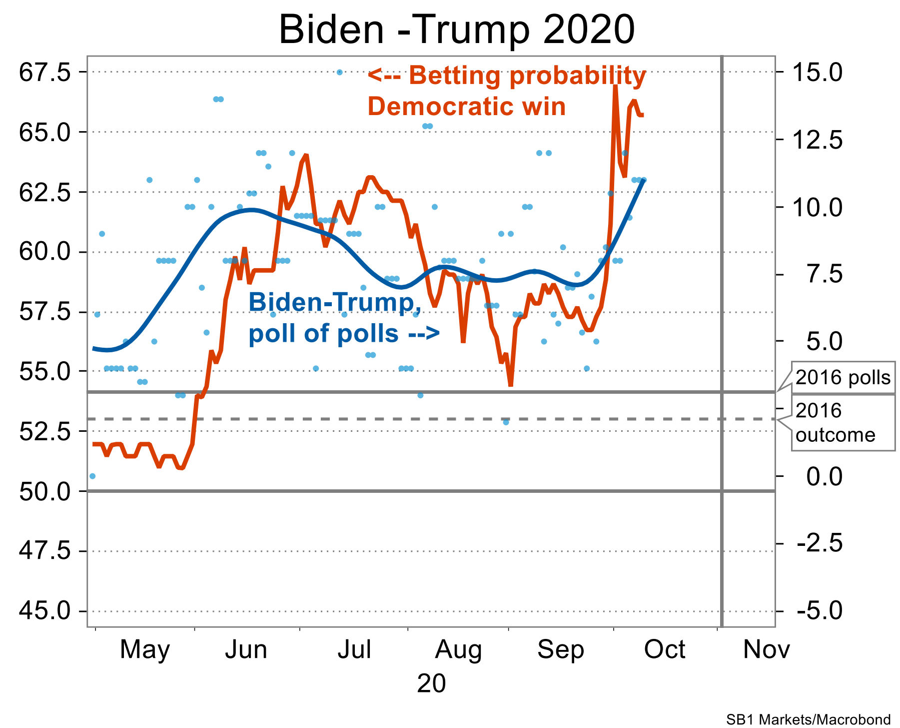


- We expect core inflation to pick up the coming months as demand is recovering most places
- Some country spesifics
  » The decline in EMU core inflation is due to the German VAT cut
  » The decline in Japan core inflation is due to heavy subisides for domestic holiday travel

3 weeks to go: Biden is far ahead of Trump

However, Joe Biden has been far more consistently ahead of Trump then Hilary Clinton ever was



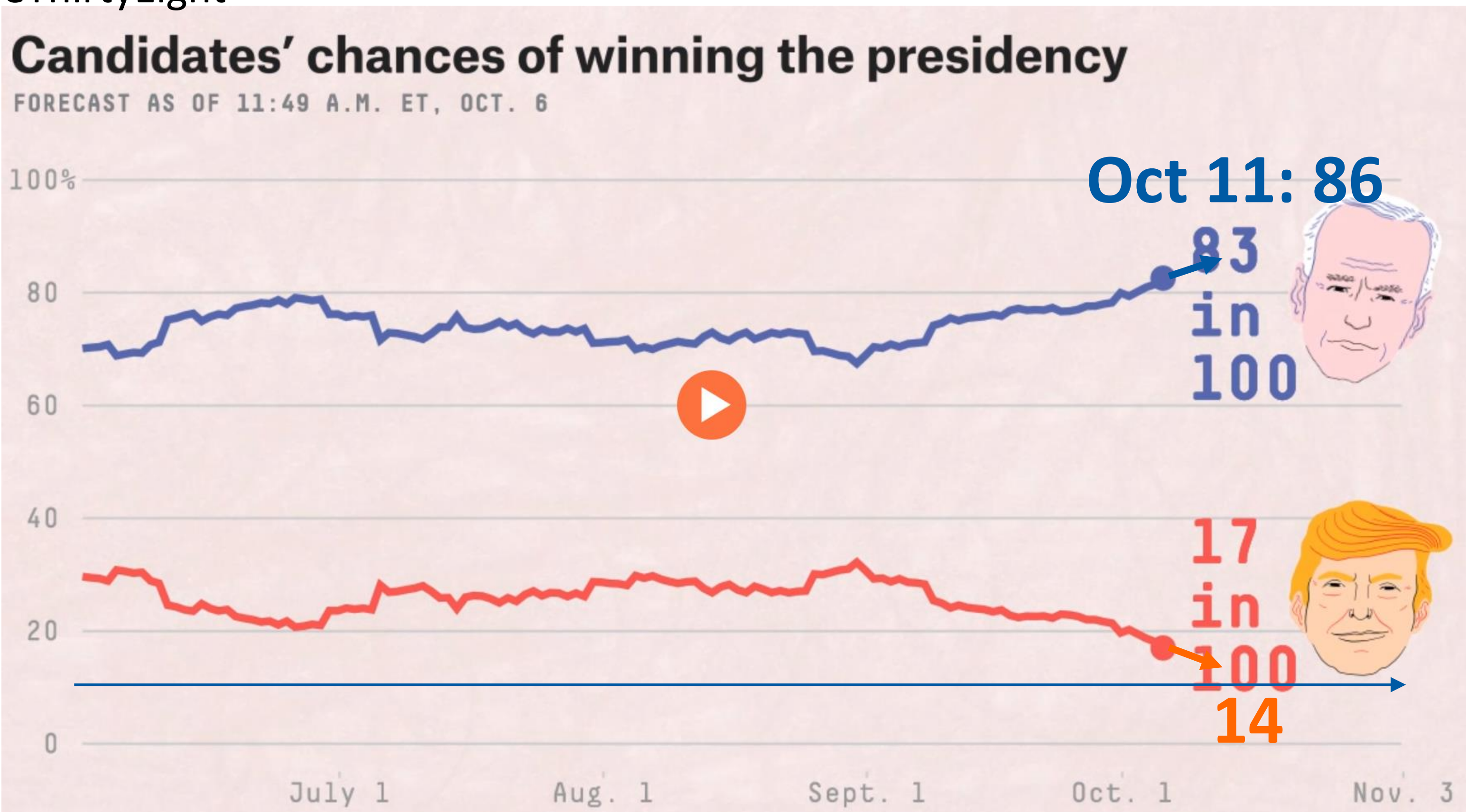


- … and the punters go for Biden, albeit not by impressive odds, some 66% probability – up from 57% before the first debate between Trump and Biden
- Biden is some 9% ahead of Trump in the polls of polls. Some Sunday polls signalled even higher support for Biden (Polls of polls is just updated through Friday)

Sources: RealClearPolitics, PredictIt

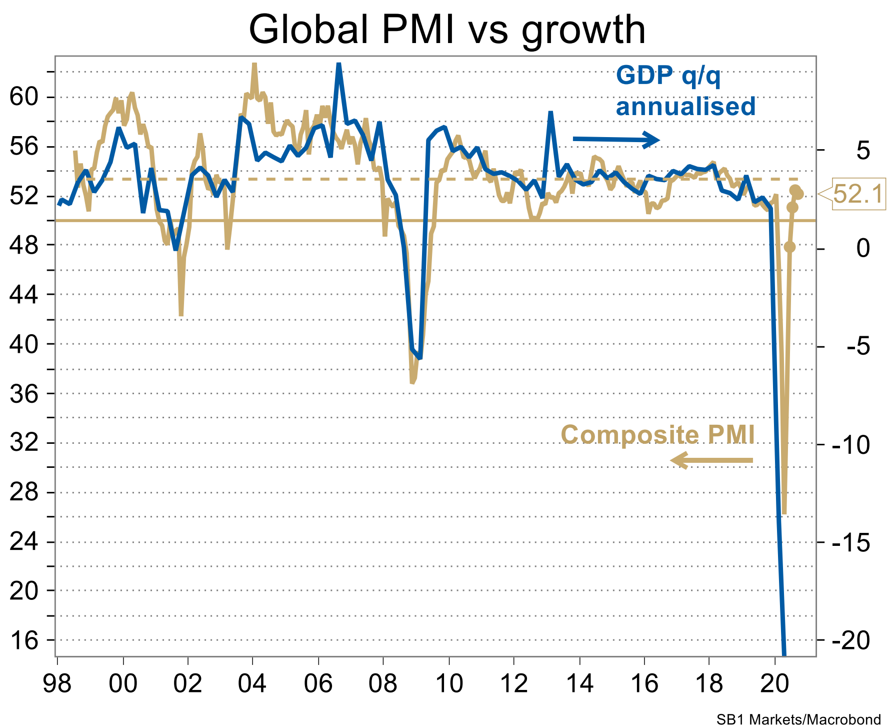
Nate Silvers probability calculation: 86:14

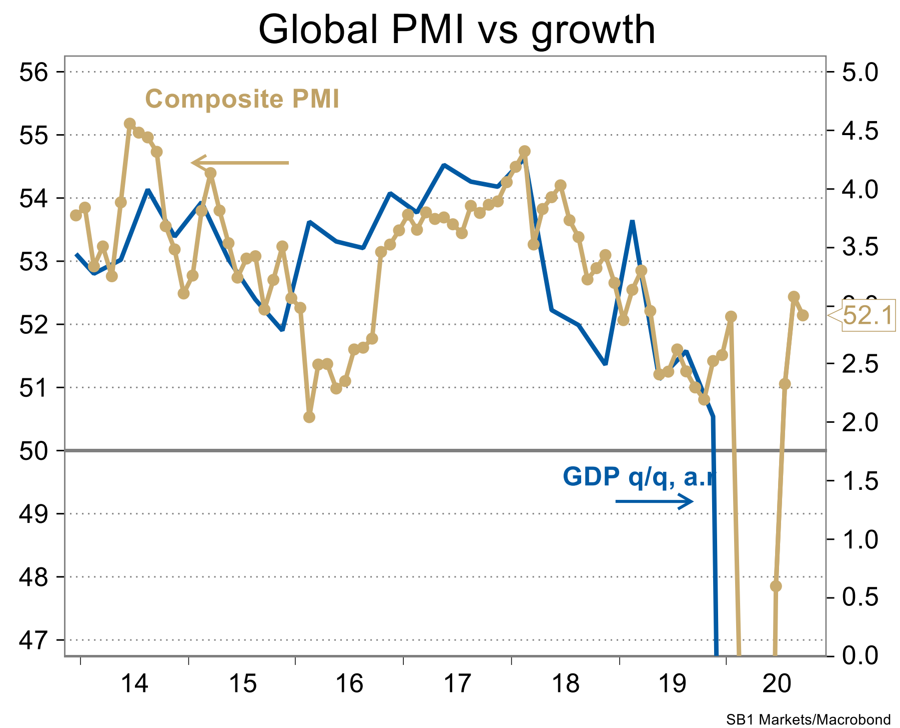
The probability of a Biden victory has increased from 70 in early Sept to 86%, according to FiveThirtyEight



PMIs a tad down in September, but level still OK

PMIs/ISMs do not signal (another) sudden death – but Europe is probably losing some steam

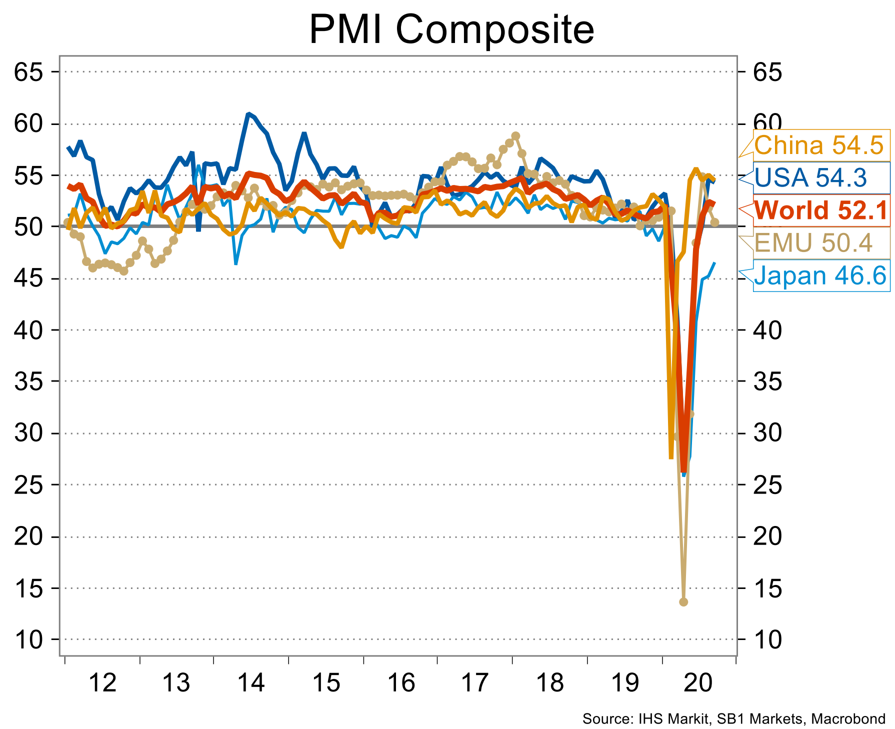


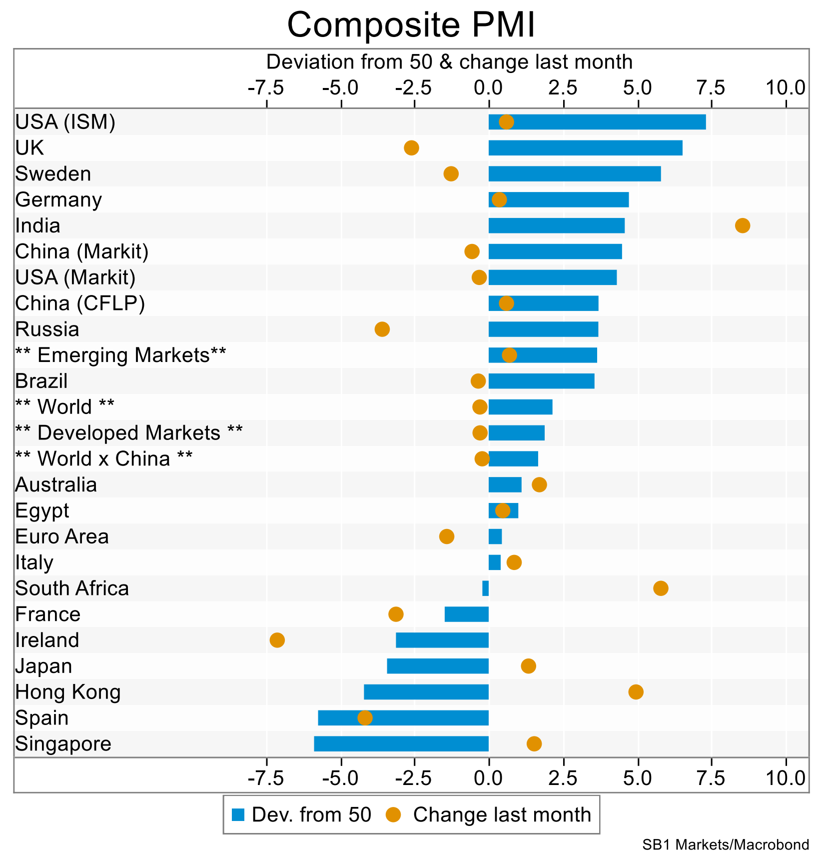


- The global composite PMI fell by 0.3p to 52.1 in September, slightly better than we expected. Formally, the PMI is signalling 3% growth rate. However, the PMIs have been close to useless to calibrate the size of the downturn as well as both the timing and the pace of the recovery. Thus have not put too much emphasis recent months
- Now, we assume the theses surveys will become more relevant again as the changes in activity from month to month – or over the past few months. The September PMIs/ISMs signal a continued recovery but at a moderate pace – and not sufficient to close the gap no a normal level anytime soon in most countrieres

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

12 of 25 countries/regions reported higher composite PMIs in August vs July, 18 above 50

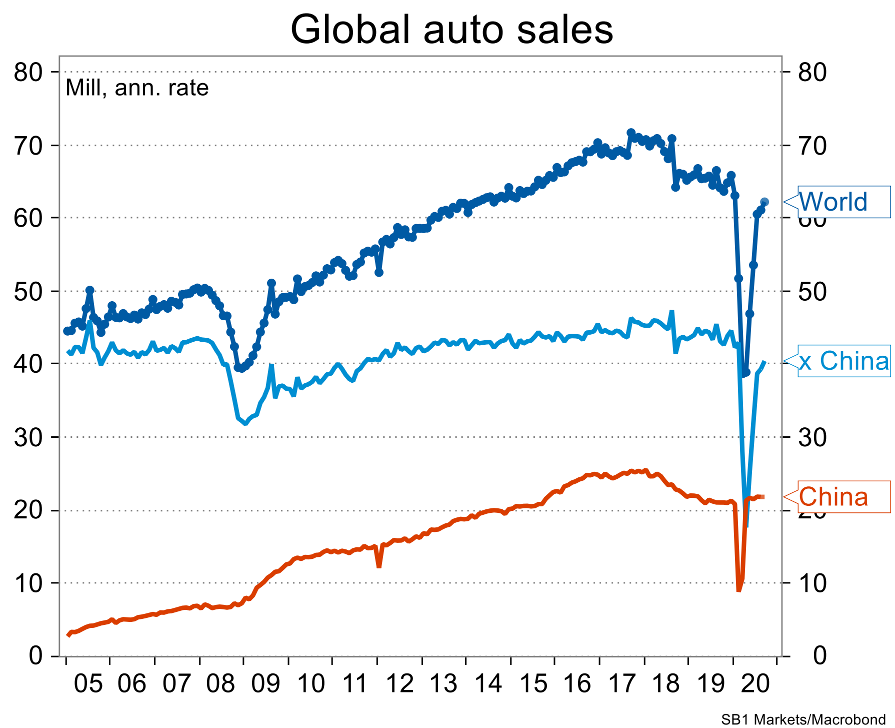


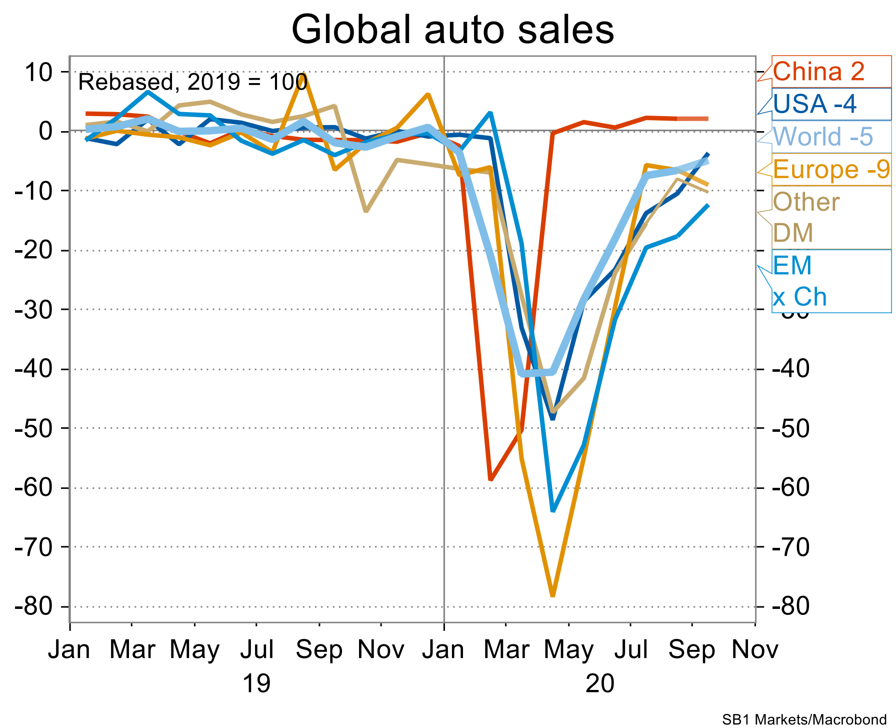


- The US ISMs are at the top (Markit's PMI is some grades lower), UK and Sweden at the podium
- The German PMI is high up too, while France fell below 50, and Spain fell further below the line, most likely due to the 2nd corona wave and renewed problems in the tourism industry
- The Chinese PMIs are well above the 50 line too
- PMIs in Japan, Hong Kong and Singapore are below the 50 line (but all three rose in Sept)

Global auto sales almost back at the (low) pre corona level, down 5% vs 2019 avg

Sales marginally up in September – but data uncertain, China has not reported yet





- *We have assumed Chinese September sales to be stable at the same level as the previous two months*
- IF so, global sales rose marginally in September, and the level is 5% below the 2019 average. Sales in
  - » the US rose more than expected, and are now 4% below the 2019 average.
  - » Europe fell to 9% below the 2019 avg, both EMU, and even more UK contributed (but the EMU is not far below the level just before corona
  - » other DM rose marginally, and they are 10% below the 2019 level
  - » Emerging Markets x China grew but are still 10% below the 2019 avg

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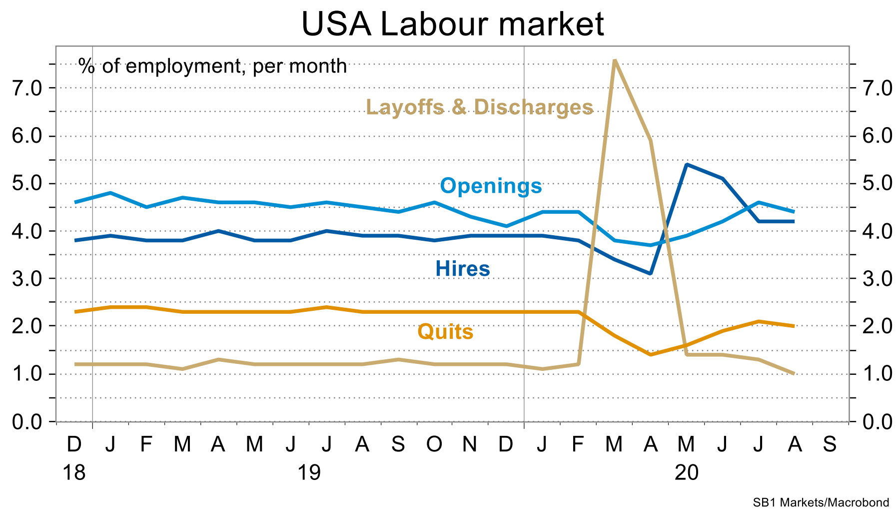
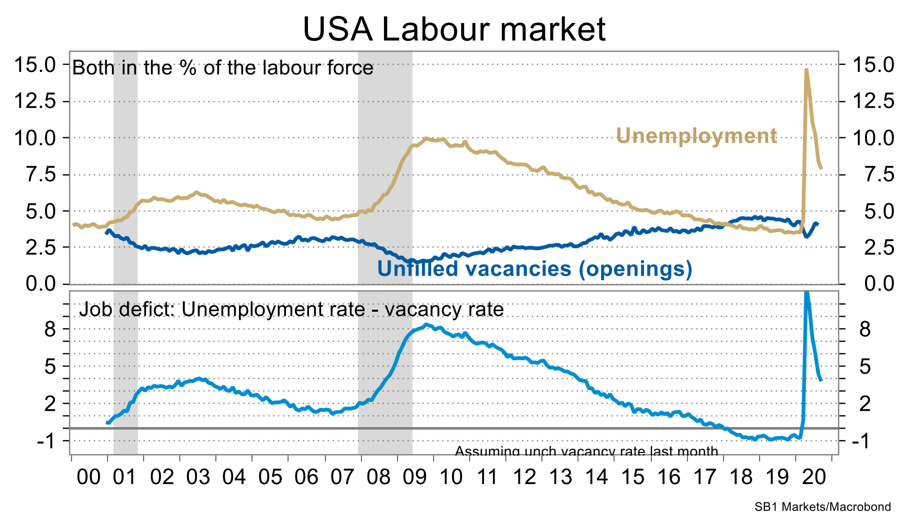
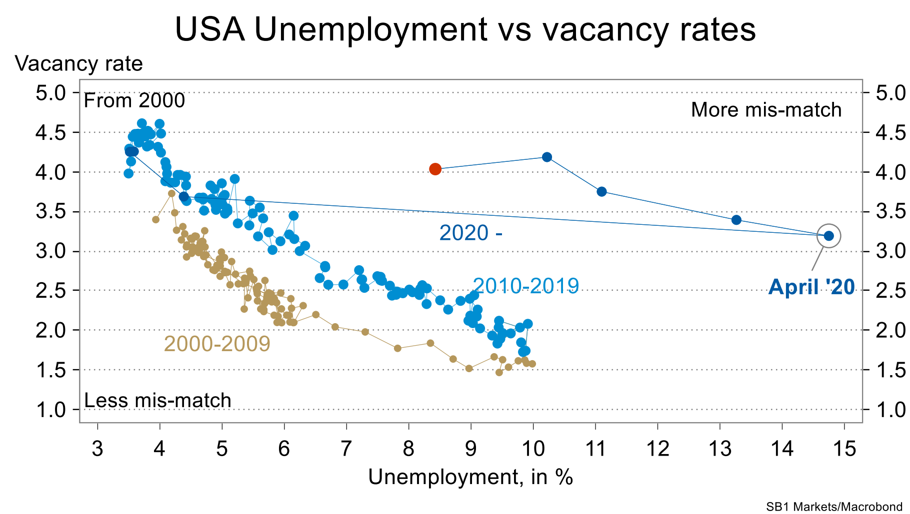
Layoffs down to a normal level, hiring still brisk – and many unfilled openings

The number of unfilled vacancies is at the same level as before corona, rather strange?



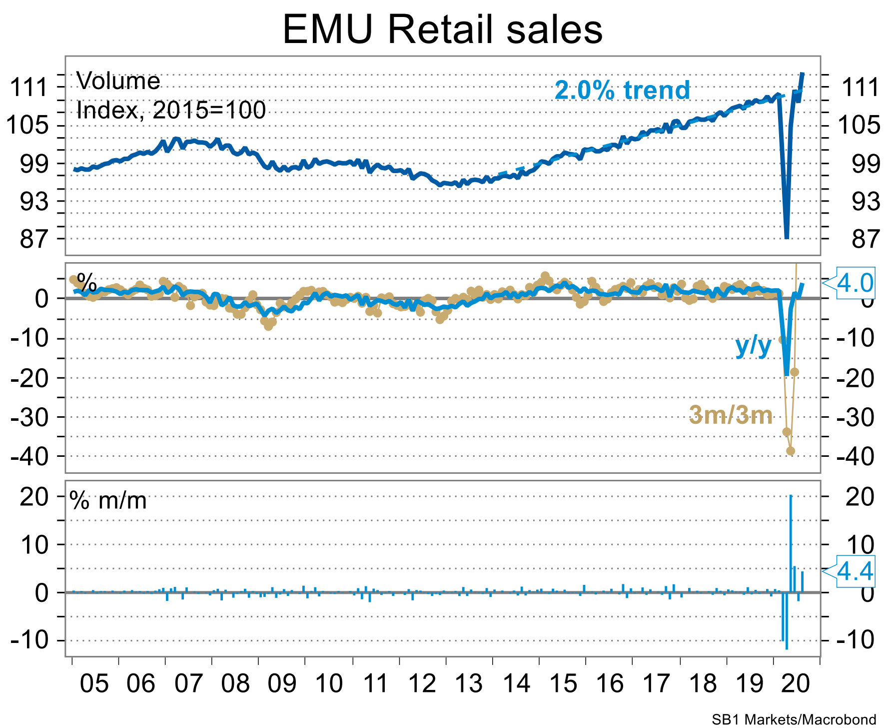
- Why are companies still not able fill their vacancies, even if the unemployment rate is far above a normal level?
  - » More mis-match between the unfilled positions and the unemployed (geography, qualifications)?
  - » More unemployed prefer to remain unemployed due to the >100% compensation rate for a majority of the unemployed?
    - These JOLTS data covers August, where the unemployed lost their USD 600 extra federal support
- This JOLTS unfilled vacancies stats confirm the small business survey, companies are NOT able to fill their vacant positions!

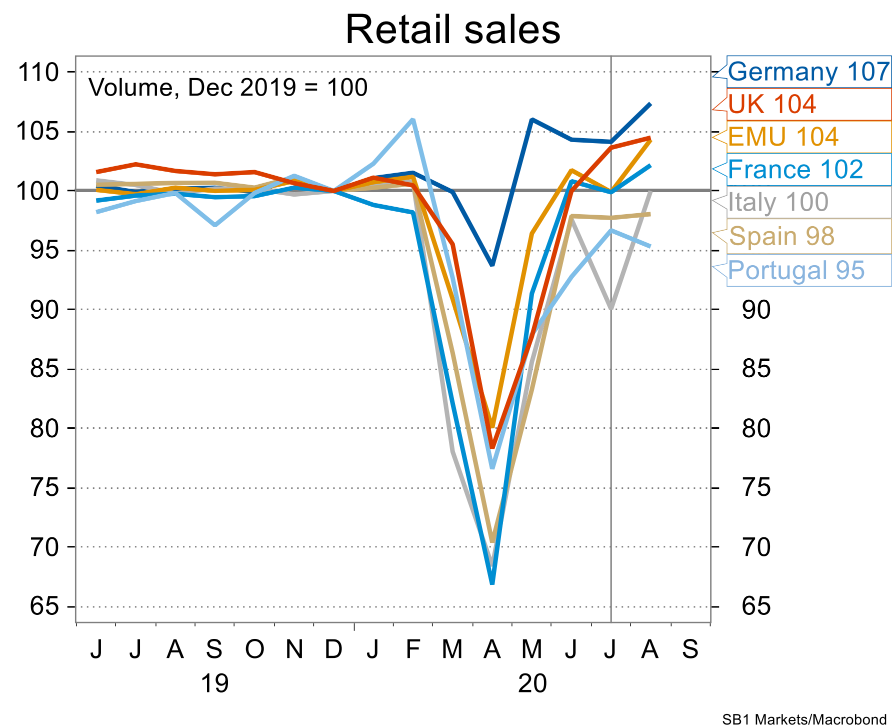




Very strong retail sales in August – up 4.4% to 4% above the February level!

Germany at the top, Italy too a great leap forward in August. Spain just 2% below par, without tourists

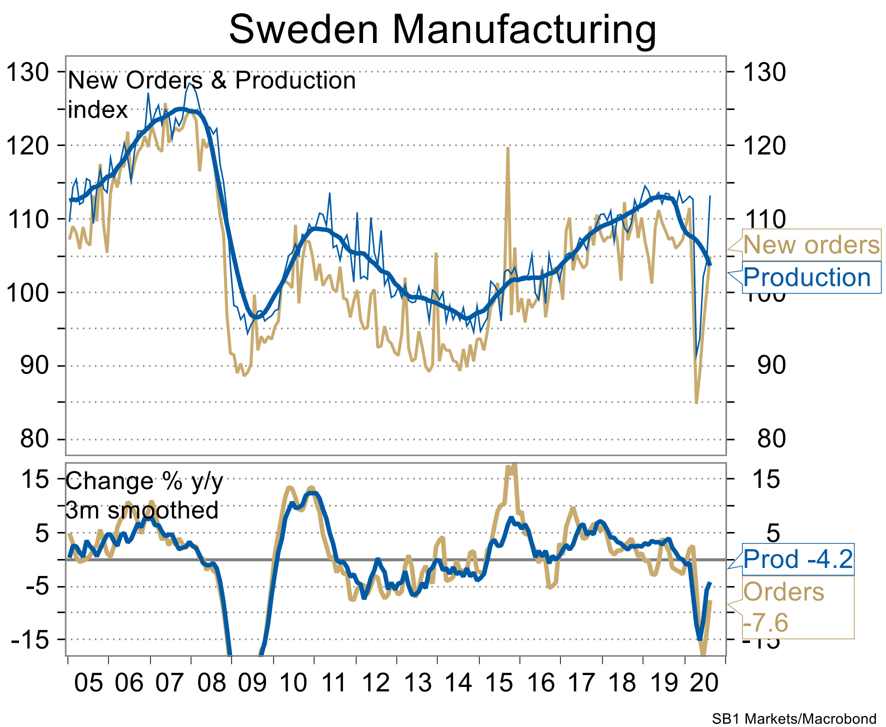


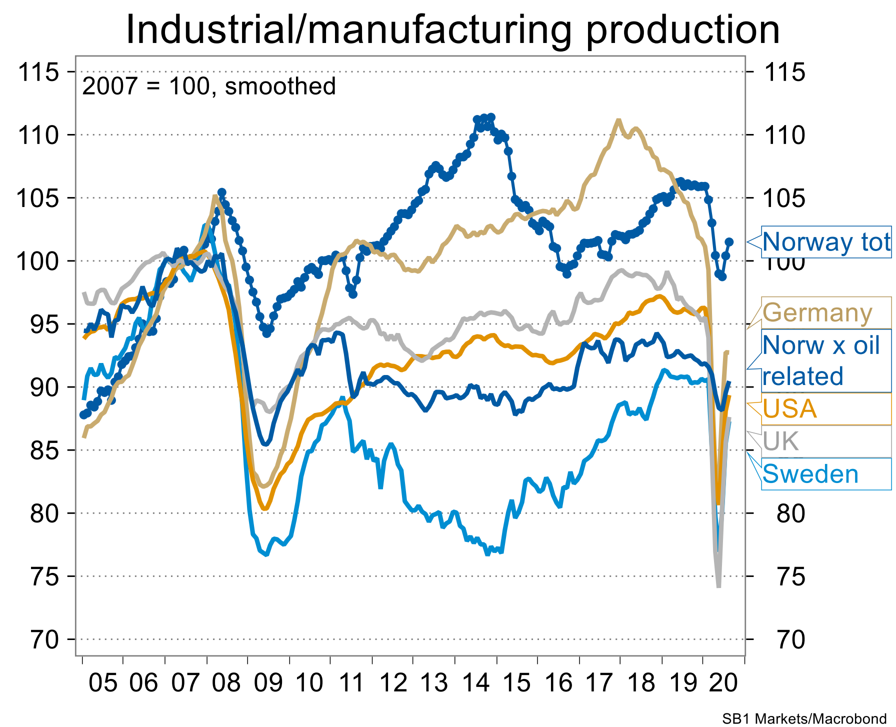


- The hike was much higher than expected, probably due to the 11% lift in sales in Italy – up the same level as the 2019 average
- Gains were substantial in Germany too, up 3.1% - to 7% above the 2019 average
- Sales in Spain were flat in Aug, as in July. The level is 2% below 2019, even if the no of incoming tourists from abroad is much lower than normal
- How much is just temporary pent up demand – and how much is normalisation? Probably a mix of both, consumer confidence has recovered somewhat but remains soft. However, like elsewhere, consumption is transferred from services to goods

Oobs, manufacturing production straight up the Feb level in August, +9% m/m!

Production is up 24% from the April trough – and the recovery is 'done'

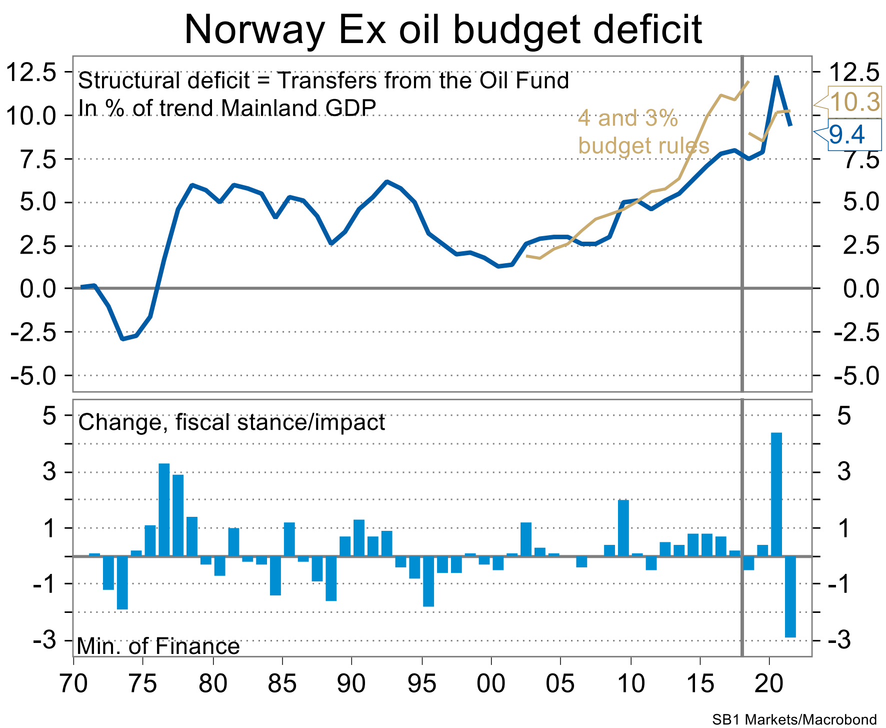




- Both production and orders have increased m/m since May, and production was very strong in August
- The increase in August was broad, and in some sectors 'insane' – but these monthly data have (like in other countries) been extra volatile recent months

The x oil structural deficit sharply down next year. That's the present estimate…

The economy will decide the outcome – policy is still flexible

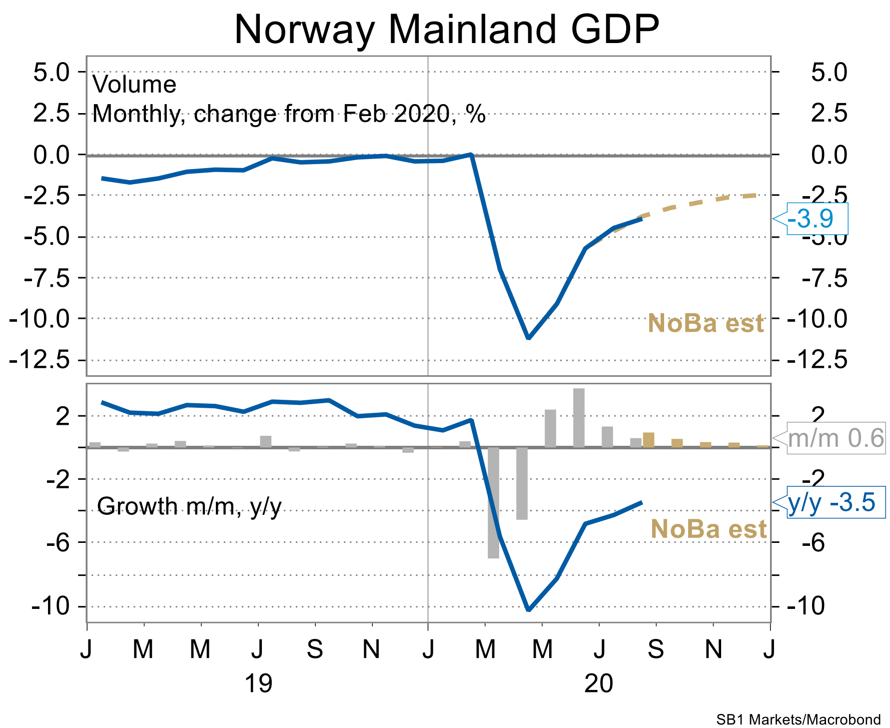


- The Government expects to cut the transfer from the Oil fund by 2.9% of GDP to 9.4%, or equalling 3% of GDP, in line with the long term spending (budget) rule
  - » The estimate of the structural x oil deficit has been reduced by NOK 30 bn (1% of GDP). The deficit is still unprecedent, at NOK 395 bn, or 12% of GDP, up from 7.9% of GDP. The long term budget guideline was at NOK 292 bn (3% expected long term real Oil fund return)
  - » Based on rather optimistic (but not unrealistic) growth assumption, the government expect a cut in the structural deficit to NOK 313 bn, or 9.4% of GDP, in line with the long term spending rule
  - » Central government spending is expected to be cut by almost 5%, following a 10% surge in 2020
  - » Oil revenues are sharply cut, mainly due to the deep cuts in taxes paid by oil companies

- Mainland 2020 GDP is projected down 3.1% (vs. the 4% May estimate), up 4.4% in 2020, on the optimistic side but not totally unrealistic
- The fiscal boost in 2020 at 4.5% is the largest ever, but down from the xx estimate in May. The 2.9% contraction is

GDP growth slowing but still better than we expected in August

Mainland GDP rose 0.6%, we expected a small decline. The level is 3.9% down from February

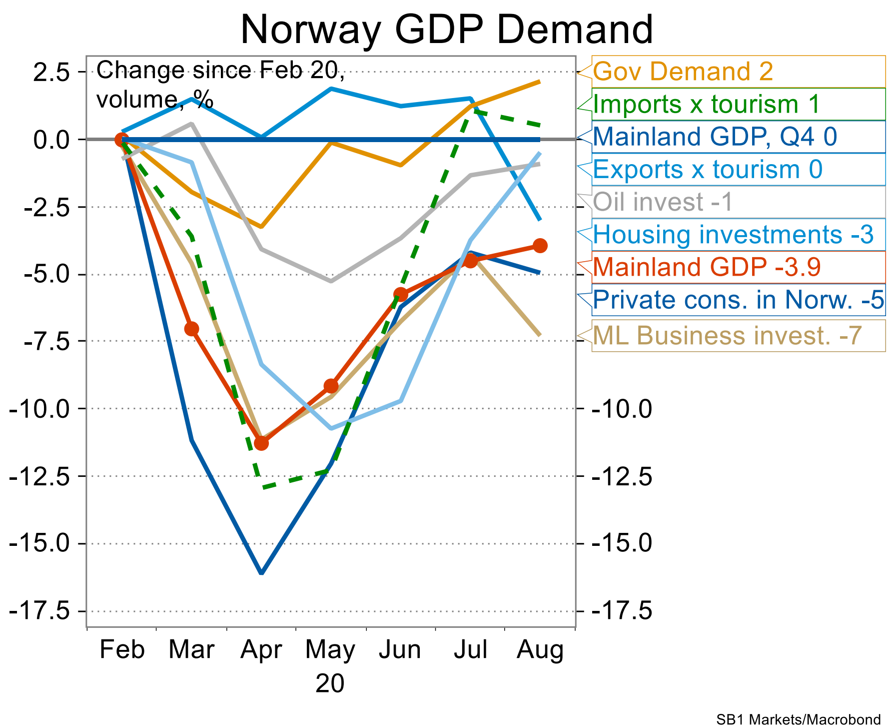


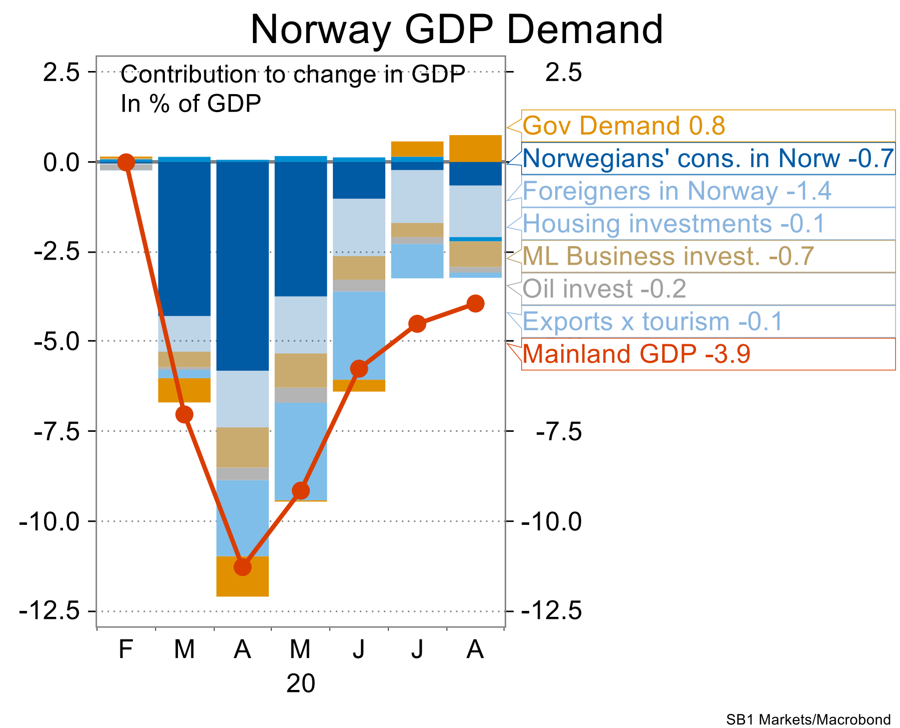
- The consensus estimate was +0.9% (as was NoBa's est), we expected a small decline – but the service sector was stronger than we assume
  - » Mainland GDP is up 8.2% from the bottom in April but still 3.9% lower than the Feb level
  - » If activity remains unchanged in Sept, Q3 GDP will be up 5%
  - » We expect GDP to continue to recover the next months but remain below the pre corona level well into 2020
- Travel, hotels, most cultural activities and partly restaurants will not recover completely until the virus treat fades substantially, either because the virus is becoming less aggressive or a vaccine is widely available (or a cheap and effective treatment)
- And some activities will probably never completely recover, like business travels

- <u>On the demand side:</u>
  - » Most demand components rose in July from June
  - » Private consumption made the largest contribution to growth, for the 3rd month, but is still 8% below the February level (due to lower consumption abroad – while Norwegians' consumption in Norway is close to unch from Feb
  - » Government demand continued to pick up
  - » Business investments rose marginally, as did oil investments. Oil investments have fallen sharply since last year
  - » Exports and imports both increased in July

Foreigners' spending & Mainland business investm. the main drag

.. But exports and government demand have recovered <u>and both at or above pre corona levels</u>!

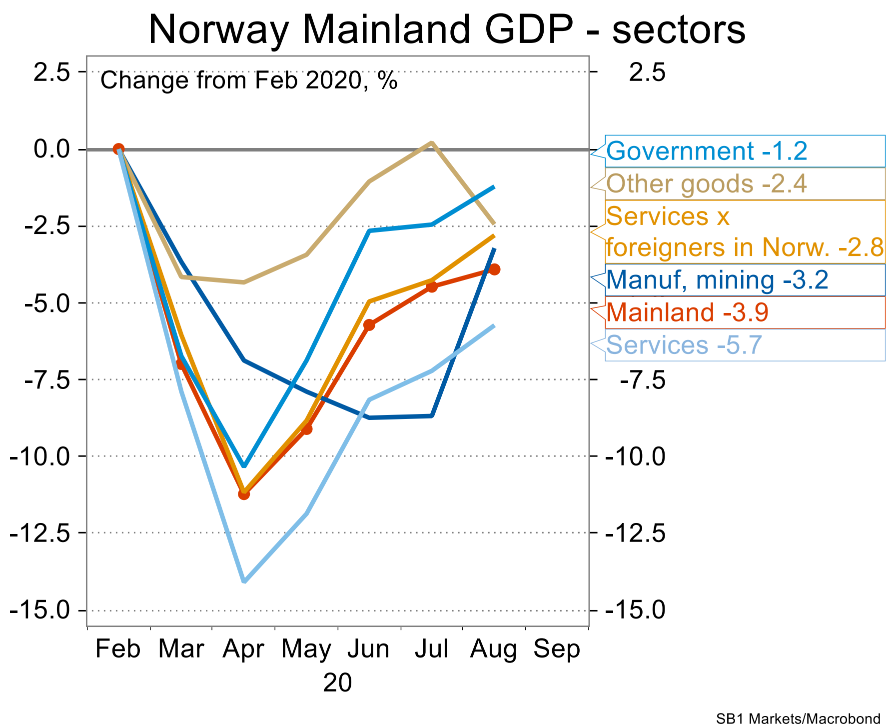


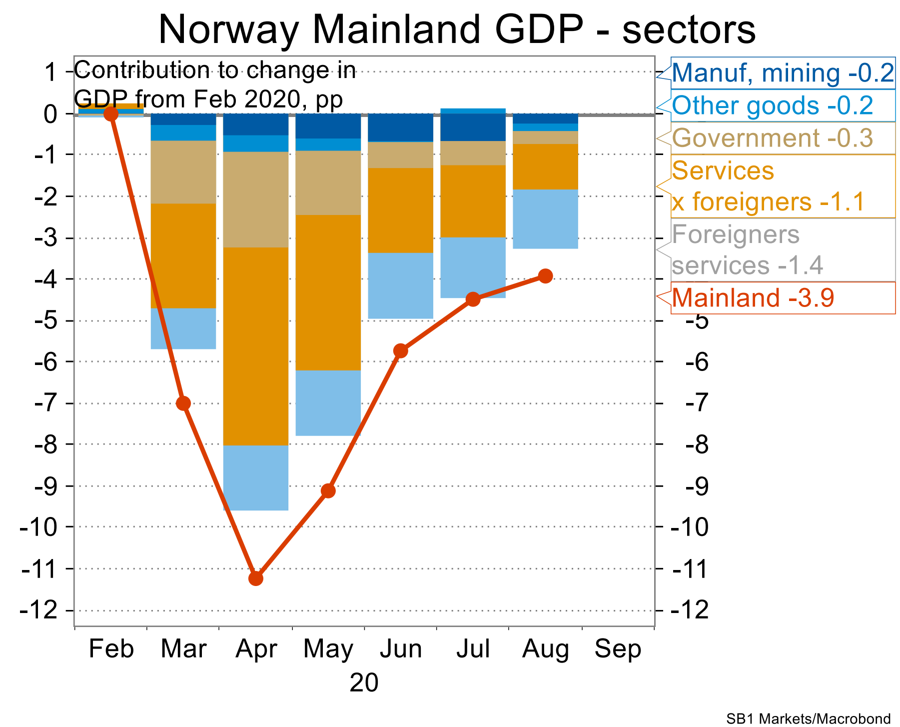


- Private consumption (in Norway, both by Norwegian and foreign consumers), and exports were the main drags on Mainland GDP during the spring
  - » Norwegians' consumption fell in Aug even if service consumption rose as retail sales fell sharply, the net change since Feb equals -0.7 %o of Mainland GDP. Foreigners' consumption in Norway is still close to zero, and has deducted an amount equalling 1.4% of GDP.
  - » Exports has recovered sharply since May, and was almost back the pre corona level in August! (Ex. foreigners' spending in Norway)
- Business investments fell in August, and are down 7% from February
- Government demand is now higher than in February

The production side: Services are recovering, still well below par

Services production is down 5.7% from the pre corona level, manufacturing & mining -3.2%



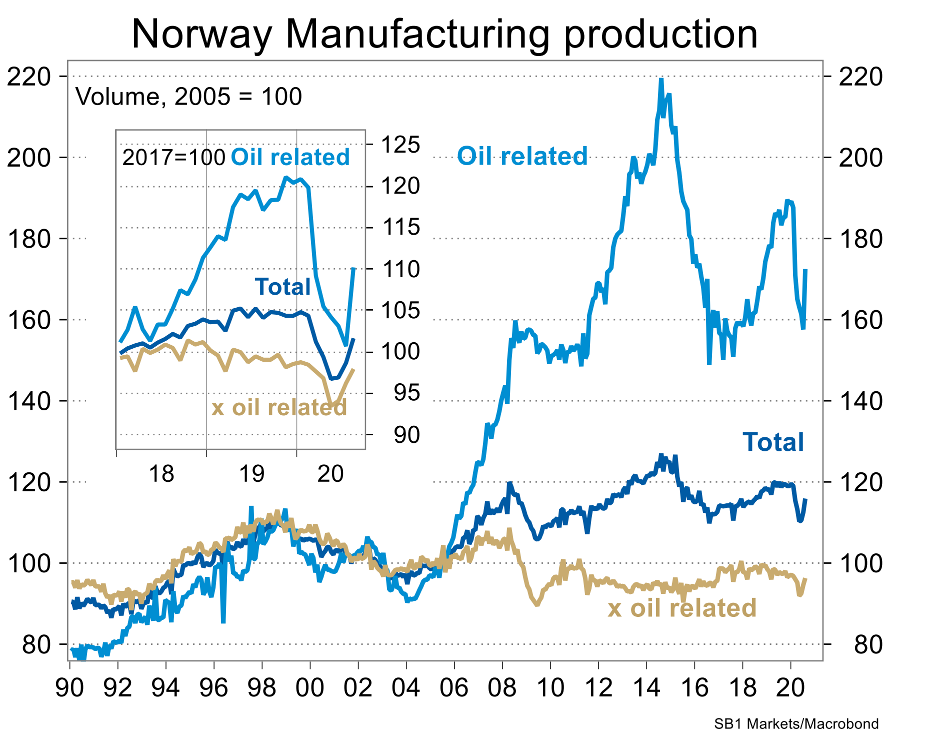


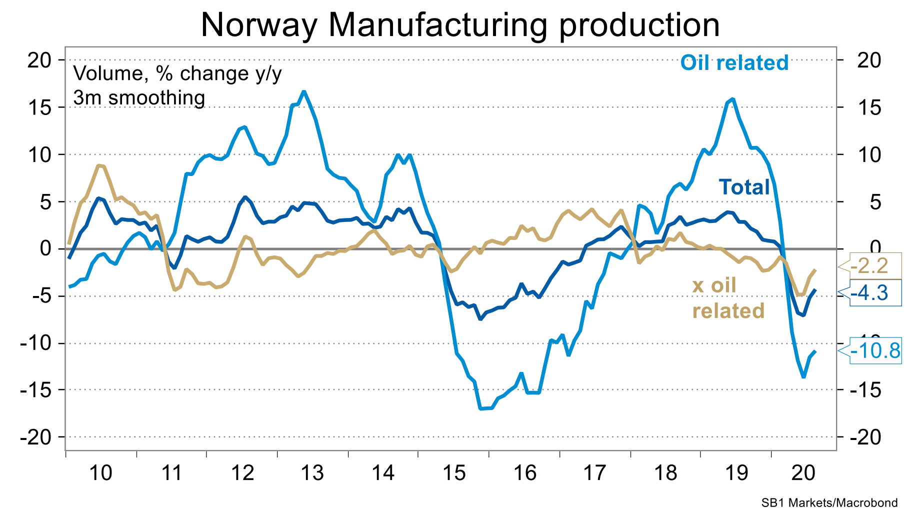
- … following the leap in manufacturing production in August (more on the following pages)
- Services ex foreigners' consumption in Norway is down 2.8%
- Government production is almost back to the February level.
- Production in other goods sectors (primary, construction, electricity) fell in August after reaching the pre corona level in July
- The upside potential for the service sector is probably limited as long as the corona virus stays around

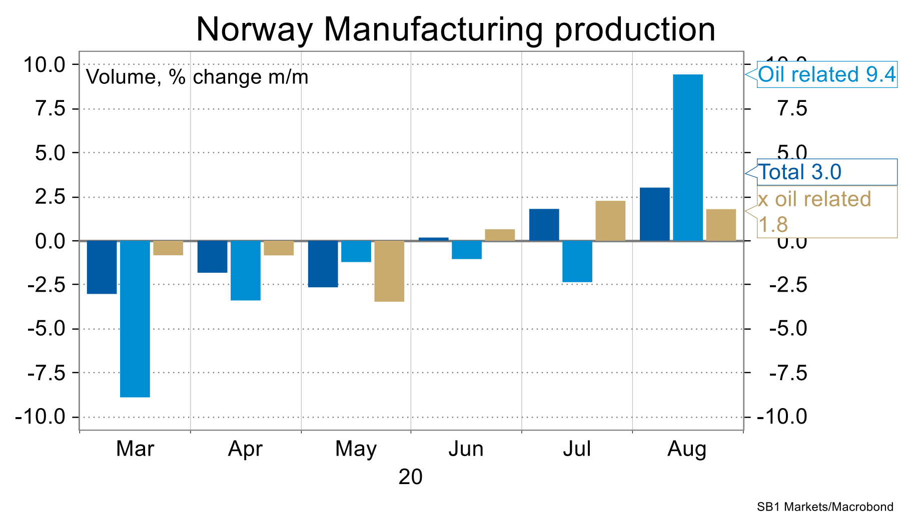
SpareBank 1 MARKETS

Manufacturing up 3% in August, oil related up 9.4%

Even non-oil related prod. up 1.8%. Still overall production flat past 3m/3m – but down 2.5% vs. Feb



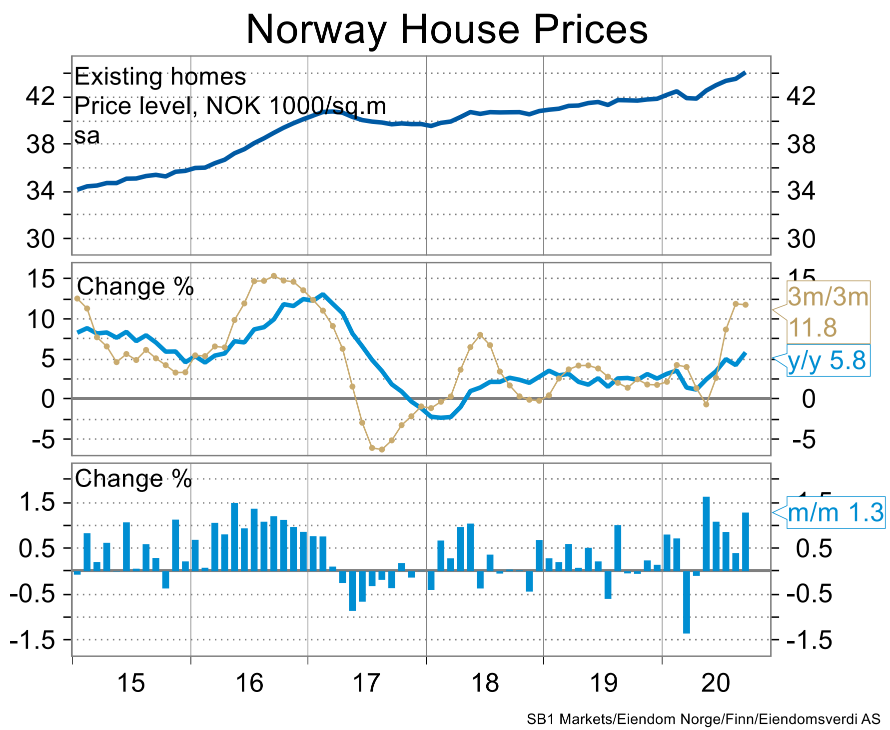


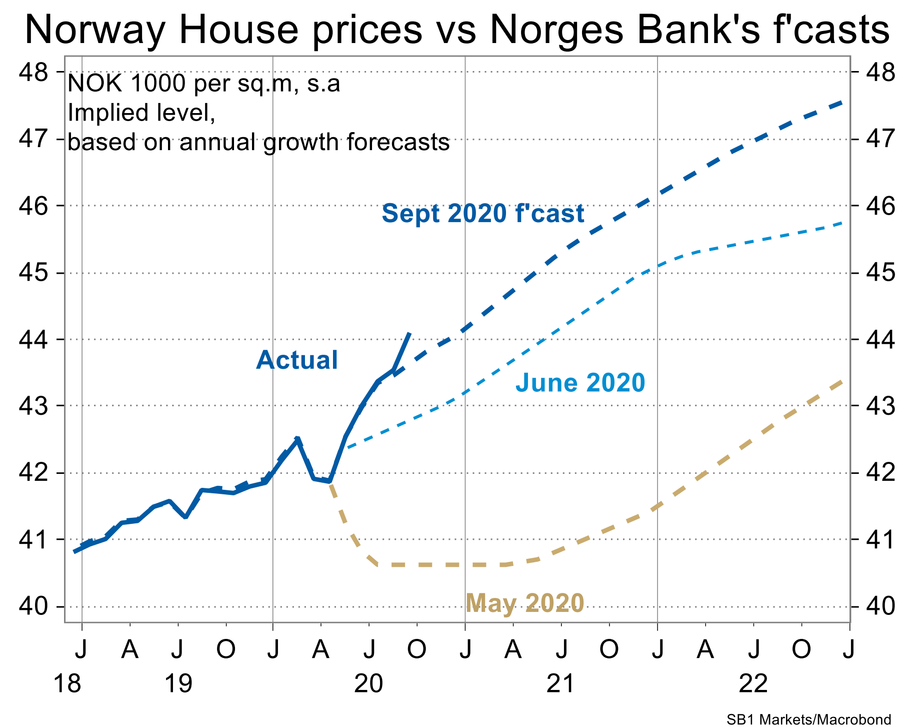


- As we indicated last month, oil related production had fallen more than the decline in oil investments could explain. Well, the close to 10% lift corrected that in one go. Production is still down 8% vs February
- Production in other sectors has increased past 3 months and is not just marginally below the February level. Still, the trend is far from impressive – and the 30% NOK depreciation has not yet boosted these sectors
- Manufacturing production in Norway has fallen far less then in most other countries, check here
- Surveys are mixed, the PMI crossed the 50 line in September while NHO's Q3 survey was not that upbeat

Here we go again: House prices up 1.3% in Sept, annual growth at 5.8%

House price inflation higher than expectations once more; NoBa expected 0.4%, we 0.5%

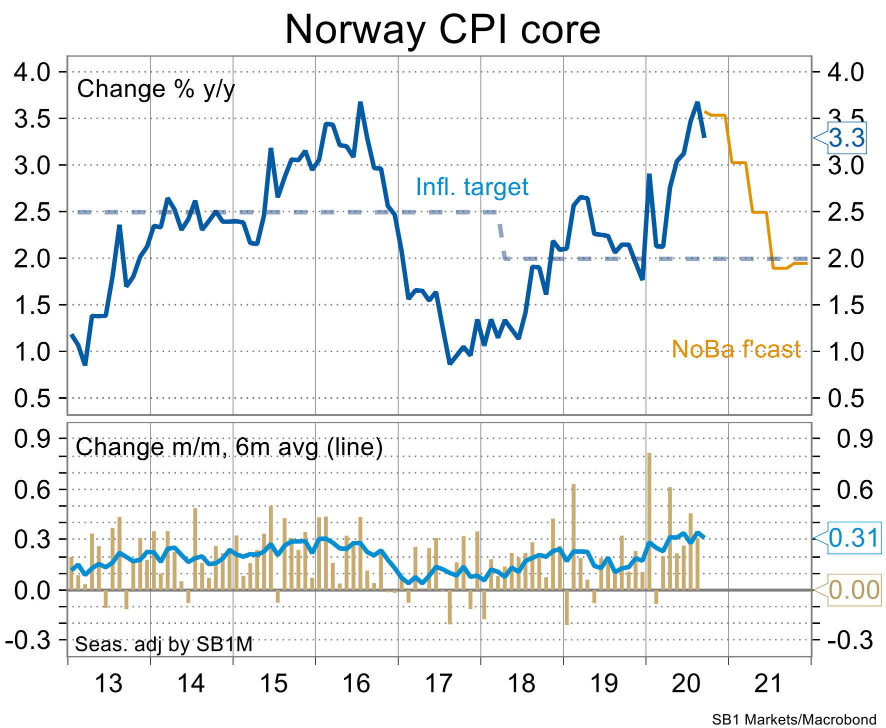


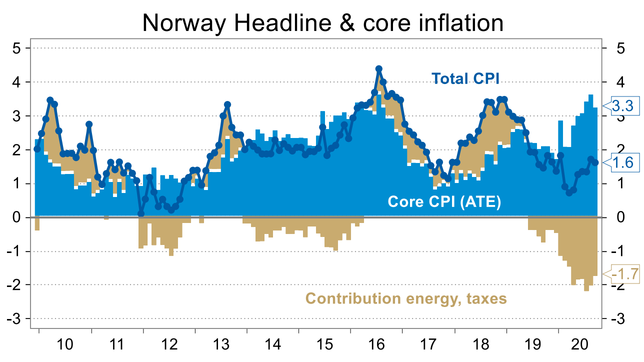


- House prices rose by 1.3% seas. adj Sept, following 0.4% in Aug (rev. slightly up) – and more than expected. The past 3m/3m, prices are up by 12%, annualised. Prices are almost 4% above the Feb level, and are up 5.8% y/y, the highest in 3 years. A 1.2% cut in mortgage rates (to 1.8% in average now, from 3% in Feb), has been more important than uncertainty and rising unemployment
  - » No city reported declining prices. Stavanger and Kristiansand (still) at the bottom of the list (m/m), the costal cities from Ålesund to Tromsø at the top
- The number of transactions kept up at a high level in Sept, at some 10% above the (average) 2019 level. The inventory of unsold homes fell sharply in Sept too, and it is now 25% down from early 2020 and below a normal level, even if more ho0mes are put on the market at fewer are withdrawn!
- **Should the steep price growth continue, Norges Bank will start hiking rates before late 22' (the market expects Q2 2022)**

Core CPI slowed to 3.3% in September, cloth prices fell sharply

We expect inflation to slow the





- CPI-ATE (ex. energy and taxes) inflation fell 0.4 pp to 3.7% y/y in August, we and consensus expected a downtick to 3.6%, the same as the (implied) Norges Bank forecast. The Bank expect a 3.5% inflation rate in Q4
  - » Prices were flat m/m (s.a), we expected at 0.2% lift
  - » Clothing prices fell sharply in September too, we exected unch
  - » Inflation is above 2% for all major sectors, except housing and clothing/footwear & airline ticktes that fell 10% m/m in Sept
  - » Import prices have increased faster than our models indicate, now up 4.6% y/y, bringing core inflation up
- Total inflation slowed just 0.1 pp to 1.6%, we expected 1.8%. Electricity prices fell less than we assumed
- **The price outlook**
  - » Impacts of the corona crisis are mixed
    - A weaker economy suggests low inflation. Wage inflation is no doubt on the way down. However, strong demand for goods, may lead to wider (profit) margins
    - The weak NOK has lifted inflation, however, this impact will soon fade as the NOK has stabilized
    - Energy prices have fallen
  - » Our take is that the overall impact will be a slowdown in inflation. But it may take some months before these changes are reflected in the CPI
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. Wage growth will no doubt slow, which Norges (as we presumed) the Bank emphasised in September

The Calendar

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday Oct 13					
	CH	Exports YoY	Sep	10%	9.5%
08:00	UK	Average Weekly Earnings YoY	Aug	-0.6%	-1.0%
08:00	UK	ILO Unemployment Rate	Aug	4.3%	4.1%
09:30	SW	CPIF Excl. Energy YoY	Sep	1.2%	1.4%
11:00	GE	ZEW Survey Expectations	Oct	72	77.4
12:00	US	NFIB Small Business Optimism	Sep	101	100.2
14:30	US	CPI MoM	Sep	0.2%	0.4%
14:30	US	CPI Ex Food and Energy MoM	Sep	0.2%	0.4%
Wednesday Oct 14					
11:00	EC	Industrial Production MoM	Aug	0.7%	4.1%
14:30	US	PPI Ex Food, Energy, Trade MoM	Sep	0.9%	0.6%
Thursday Oct 15					
03:30	CH	PPI YoY	Sep	-1.8%	-2.0%
03:30	CH	CPI YoY	Sep	2.0%	2.4%
08:00	NO	Trade Balance	Sep		-2.9b
09:30	SW	Unemployment Rate, LFS	Sep	9.10%	9.1%
10:00	NO	Norges Bank Bank Lending Survey	Q3		
14:30	US	Initial Jobless Claims	Oct-10	825k	840'
14:30	US	NY Empire Manufacturing Survey	Oct	12	17
14:30	US	Phil Fed Business Outlook	Oct	14.5	15
Friday Oct 16					
11:00	EC	CPI Core YoY	Sep F		0.20%
14:30	US	Retail Sales Advance MoM	Sep	0.7%	0.6%
14:30	US	Retail Sales Core (Control Group)	Sep	0.1%	-0.1%
15:15	US	Manufacturing Production	Sep	0.8%	1.0%
16:00	US	U. of Mich. Consumer Sentiment	Oct P	80.3	80.4
During the week					
	US	Monthly Budget	Sep	-124b	-200b
	CH	Total Credit CNY	Sep	3000b	3580b
Monday Oct 19					
04:00	CH	GDP QoQ	3Q	3.3%	11.5%
		... YOY	3Q	5.4%	3.2%
04:00	CH	Industrial Production YoY	Sep	5.8%	5.6%
04:00	CH	Retail Sales YoY	Sep	1.9%	0.5%
04:00	CH	Investments YTD YoY	Sep	0.9%	-0.3%

- **China**
  - » **GDP** probably grew at a brisk pace in Q3, albeit far slower than during the rapid recovery in Q2. Q2 GDP was higher than Q4 19, but activity was still 3% below the pre corona 6% trend growth path. Most of the remaining gap will be closed in Q3, but probably not all. Industrial production is back on track but services remain below. **Monthly Sept data** are also released early next Monday, credit & foreign trade data during this week
- **USA**
  - » **Retail sales** were weaker than expected in Aug but the level is still well above the pre corona level (& trend). Sales are expected up again in Sept. **Manufacturing production** was far below the pre corona level in August, by 7%, and the pace of recovering is slowing. However, giving the still strong retail sales, and signs of a sharp recovery in business investments production the outlook is not bad. The two first manufacturing Oct. surveys will be published too. **Inflation** has accelerated visibly recent months, and may soon challenge Fed (and markets') benign view on inflation risk
- **EMU**
  - » **Industrial production** will probably increase less than 1% leaving production 5 below the pre corona level. **CPI inflation** is very low, mostly due to cut the the German VAT but not only
- **Norway**
  - » **Norges Bank's lending survey** will probably confirm brisk demand from households, and we expect banks to revise their assessment of credit demand form the corporate sector downwards. We do not expect any changes in credit standards

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

Highlights

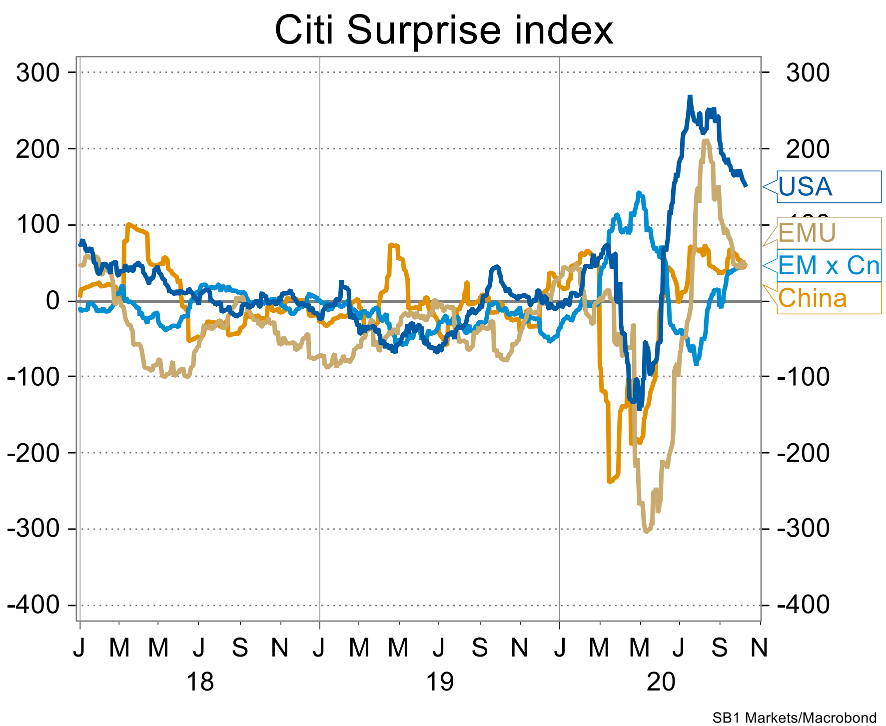
The world around us

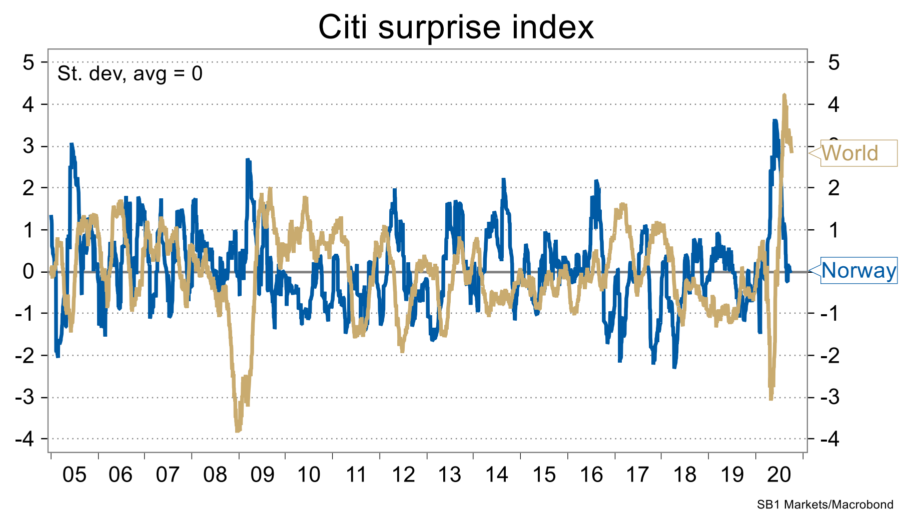
The Norwegian economy

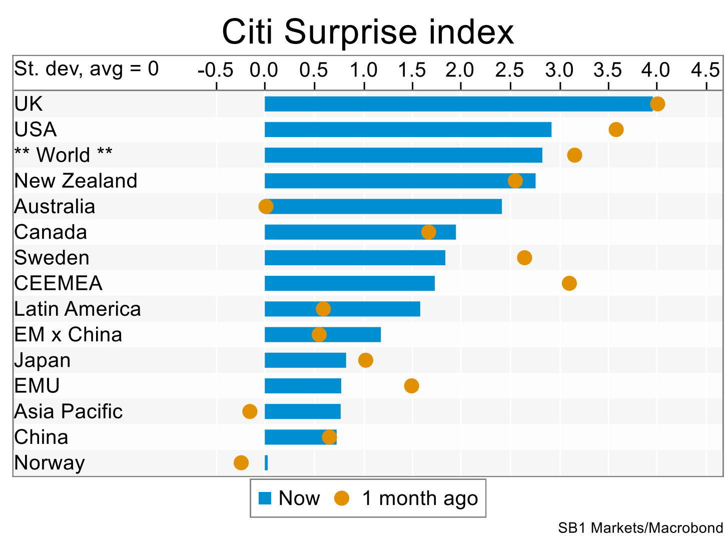
Market charts & comments

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

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





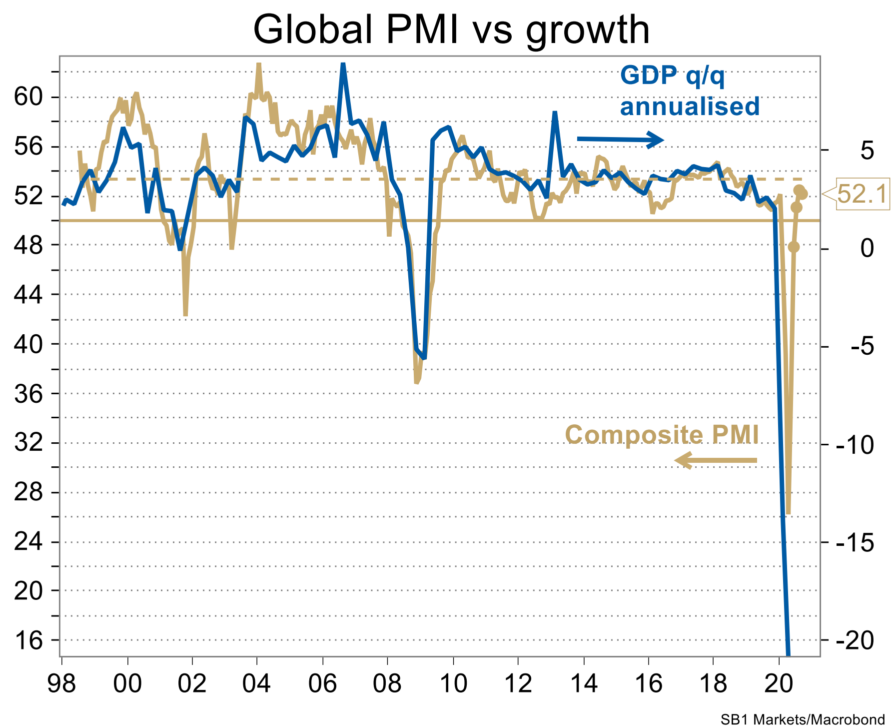


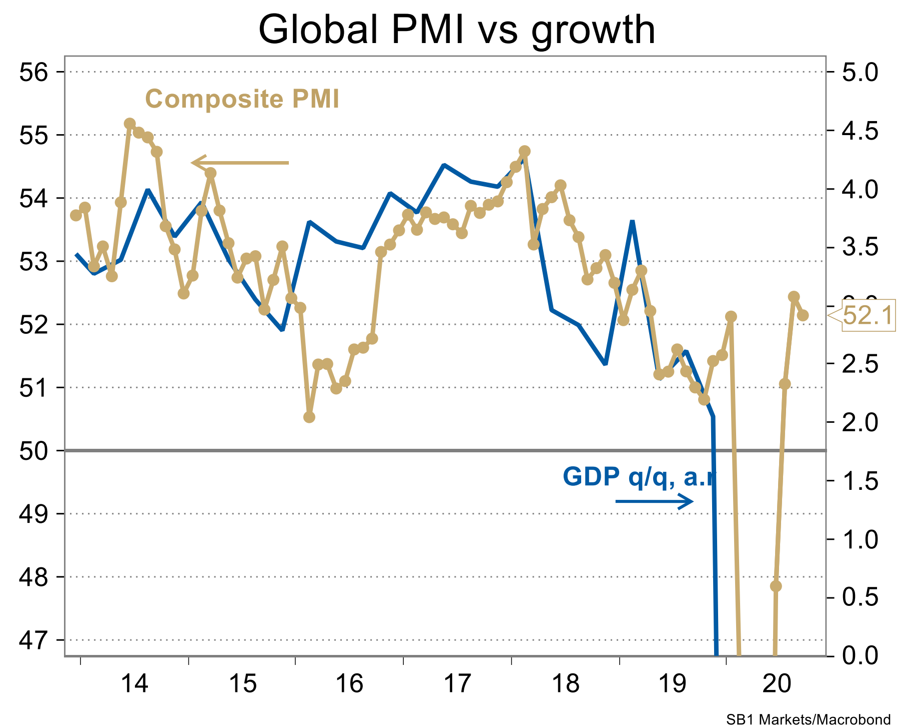
- All major countries/regions are reporting data above expectations, for the first time ever
- The US has been surprising more on the upside than ever before (data from 2003), although a tad less so the past weeks
- EMU sliding down and is much less upbeat than the US. UK at the top
- China well into positive territory
- Other EMs are above an average level. Norway at par, the weakest of all!

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

PMIs a tad down in September, but level still OK

PMIs/ISMs do not signal (another) sudden death – but Europe is probably losing some steam

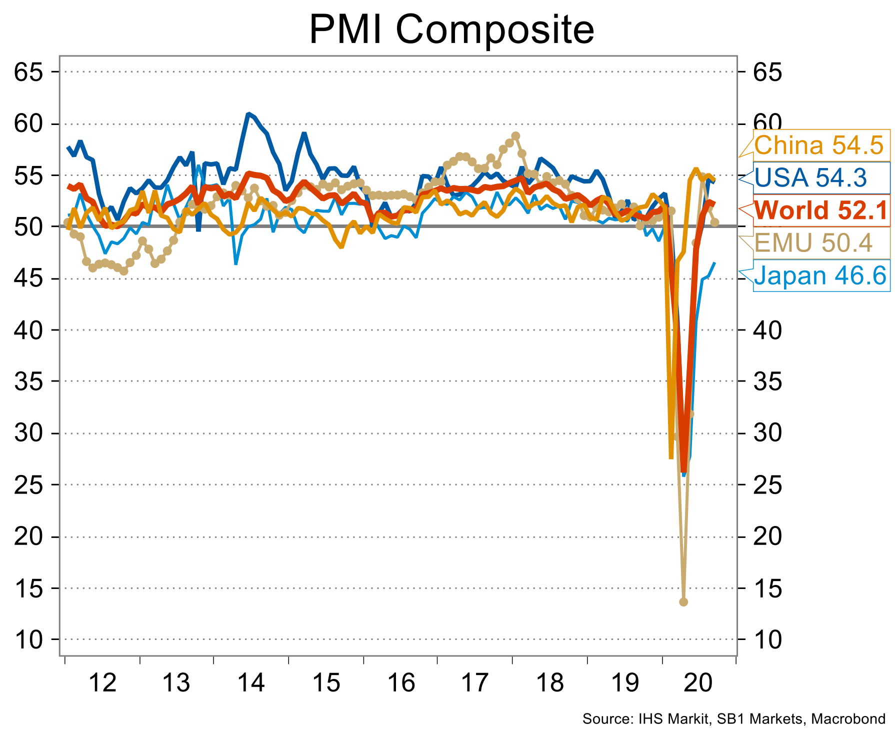


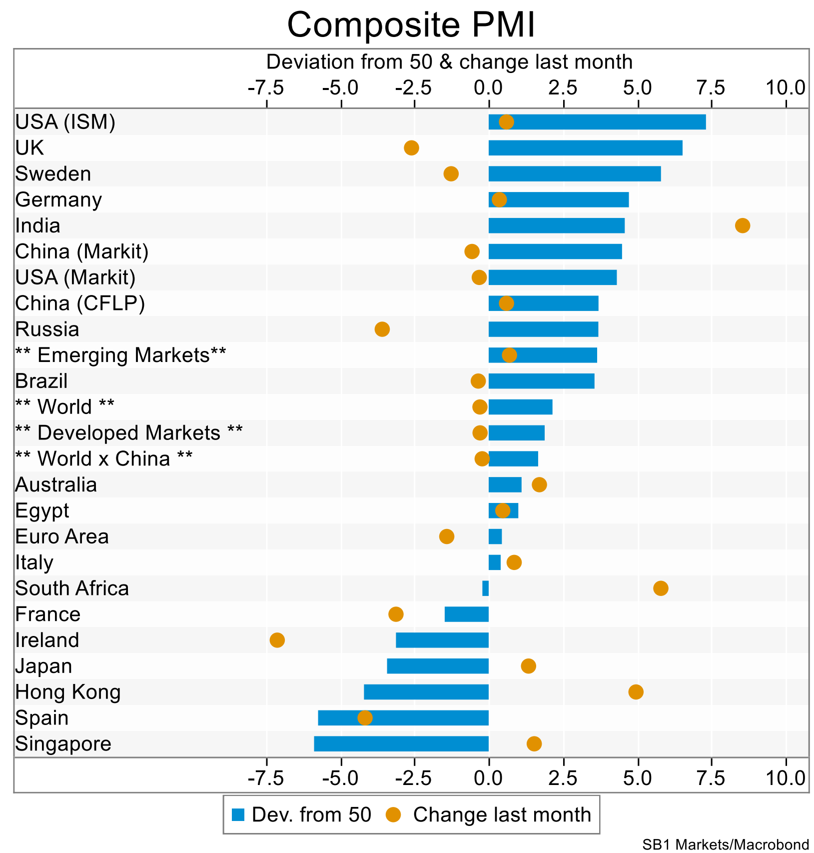


- The global composite PMI fell by 0.3p to 52.1 in September, slightly better than we expected. Formally, the PMI is signalling 3% growth rate. However, the PMIs have been close to useless to calibrate the size of the downturn as well as both the timing and the pace of the recovery. Thus have not put too much emphasis recent months
- Now, we assume the theses surveys will become more relevant again as the changes in activity from month to month – or over the past few months. The September PMIs/ISMs signal a continued recovery but at a moderate pace – and not sufficient to close the gap no a normal level anytime soon in most countrieres

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

12 of 25 countries/regions reported higher composite PMIs in August vs July, 18 above 50

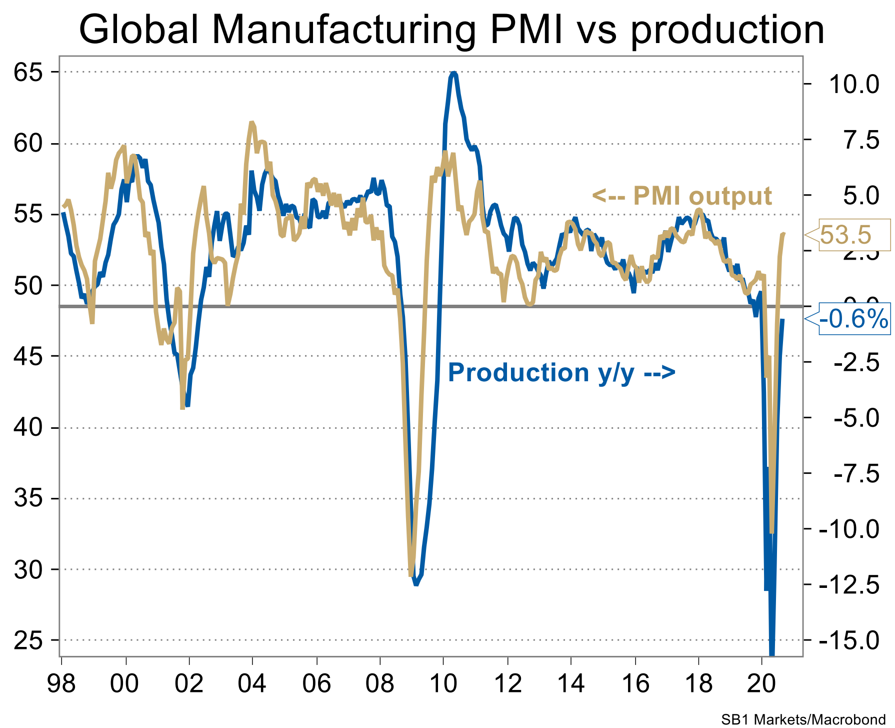


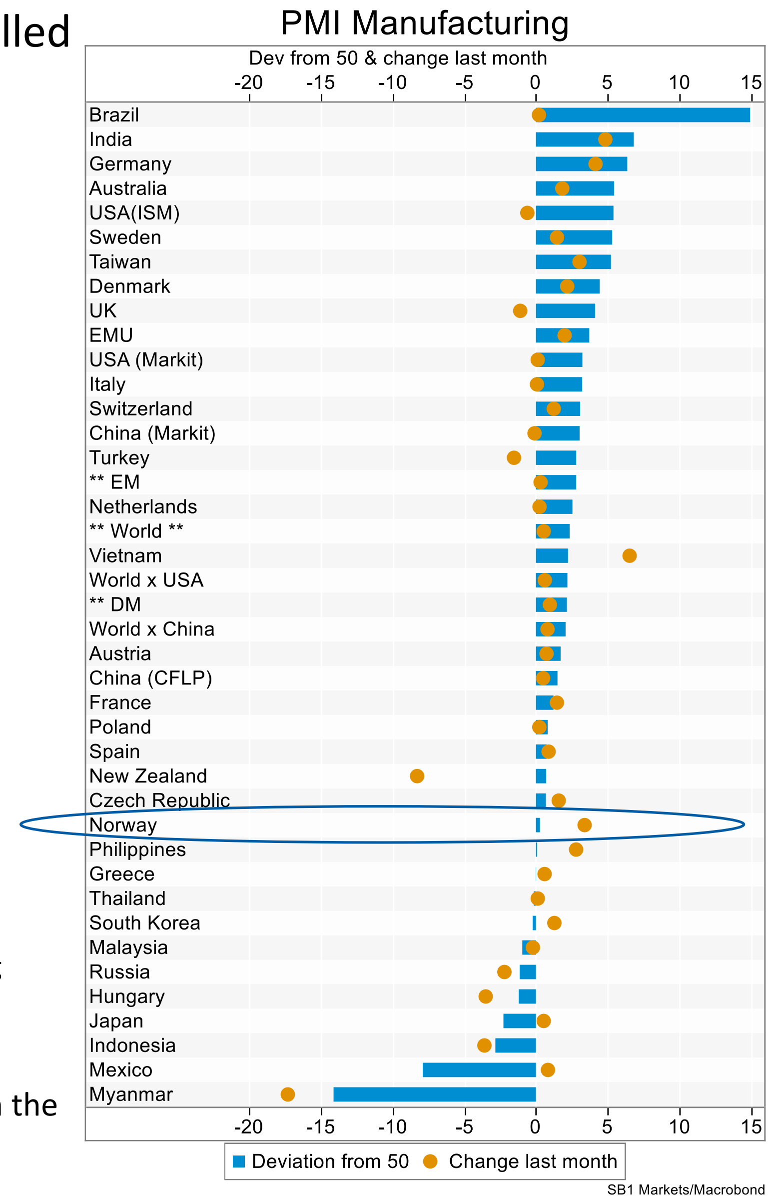


- The US ISMs are at the top (Markit's PMI is some grades lower), UK and Sweden at the podium
- The German PMI is high up too, while France fell below 50, and Spain fell further below the line, most likely due to the 2nd corona wave and renewed problems in the tourism industry
- The Chinese PMIs are well above the 50 line too
- PMIs in Japan, Hong Kong and Singapore are below the 50 line (but all three rose in Sept)

Manufacturing PMI up to 53.5, signalling decent (and needed) growth

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

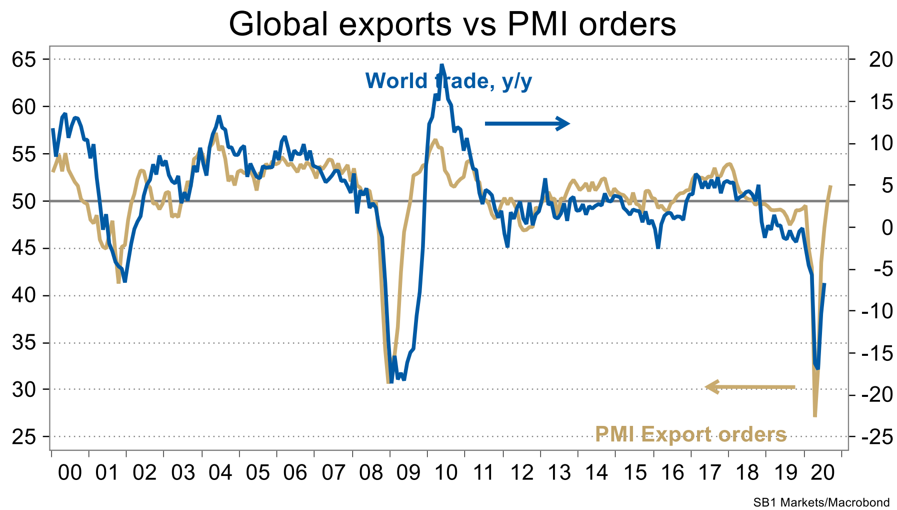


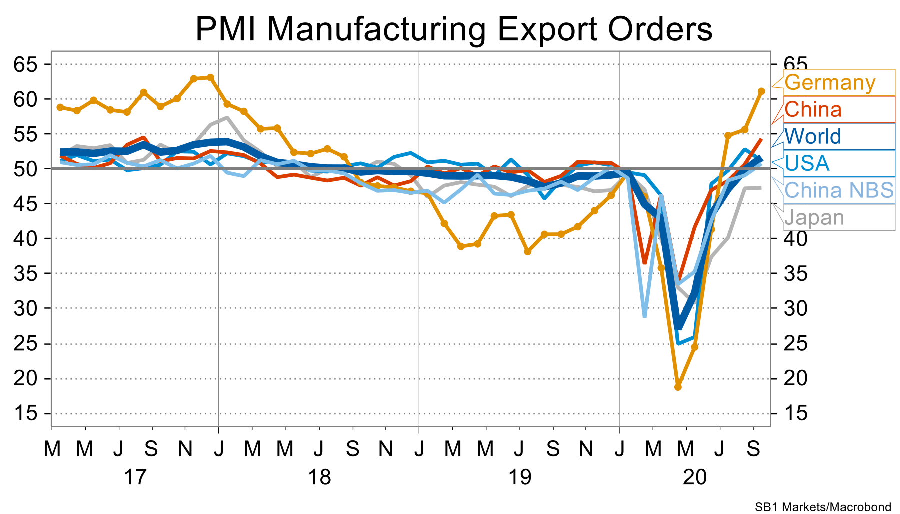


- The global manufacturing PMI rose 1.7 p to 53.5 in Sept
  - » 24 countries/regions reported higher growth, just 8 a decline, a stronger mix than in Aug
  - » A large majority of the countries are reporting PMIs above the 50 line
- Emerging markets have recovered somewhat faster than rich countries (DM), both are reporting positive growth rates – with a large spread within: Brazil in the lead, Mexico almost at the bottom. The Norwegian PMI climbed but remains among the weak (from being the weakest in August)

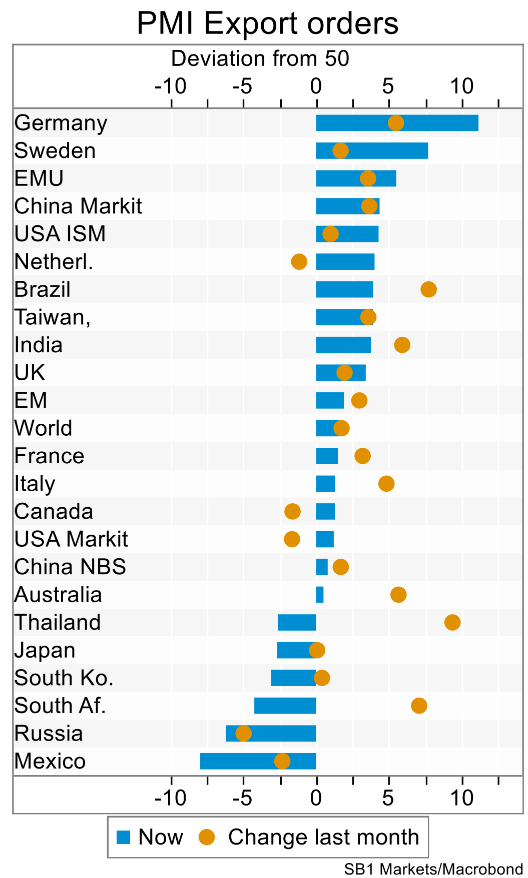
Export orders PMIs further up, now finally in growth territory

Actual exports are sharply up since April/May (but still below the pre corona level)



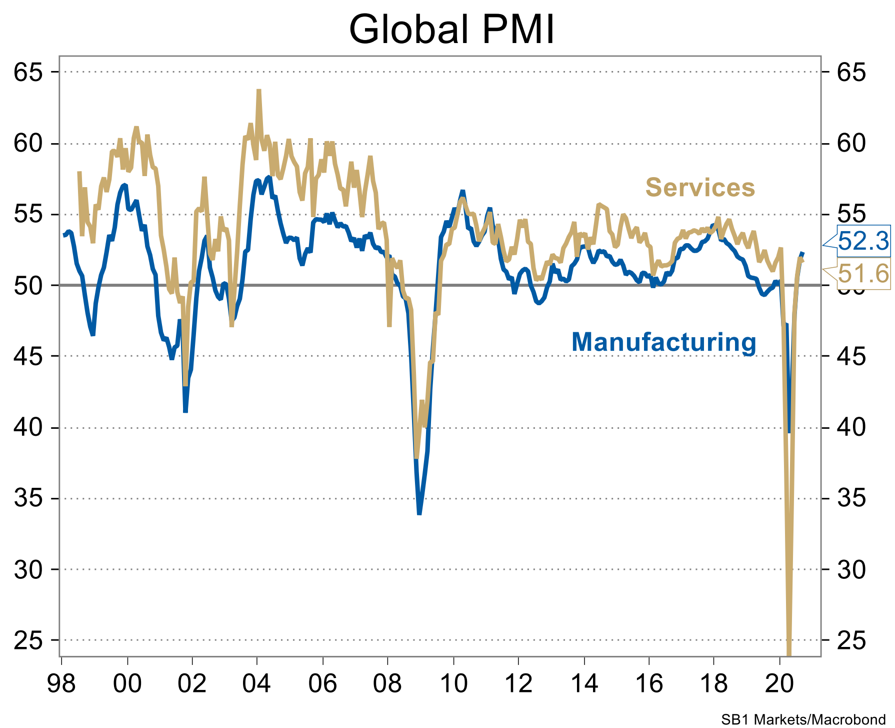


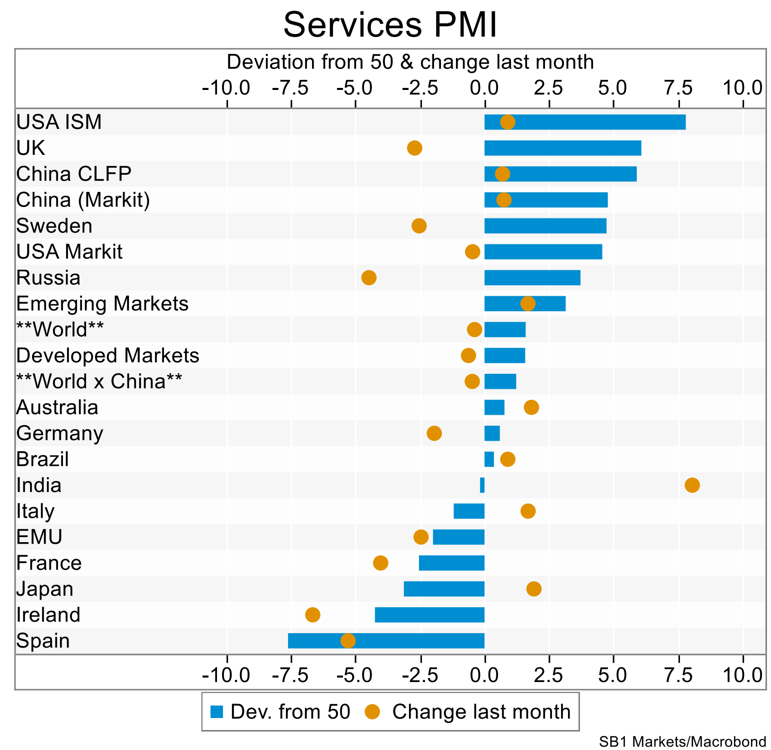
- A majority of countries are reporting growing export orders
- Sweden and Germany are competing for the pole position. Germany was at the bottom in April/May!
  - » 6 countries/regions below the 50 line, 18 above



The service sector PMI better than we assumed (but it's not strong everywhere)

The global service PMI fell 0.4 p in Sept, to 51.6. India, Japan, Italy & Spain at the bottom <50

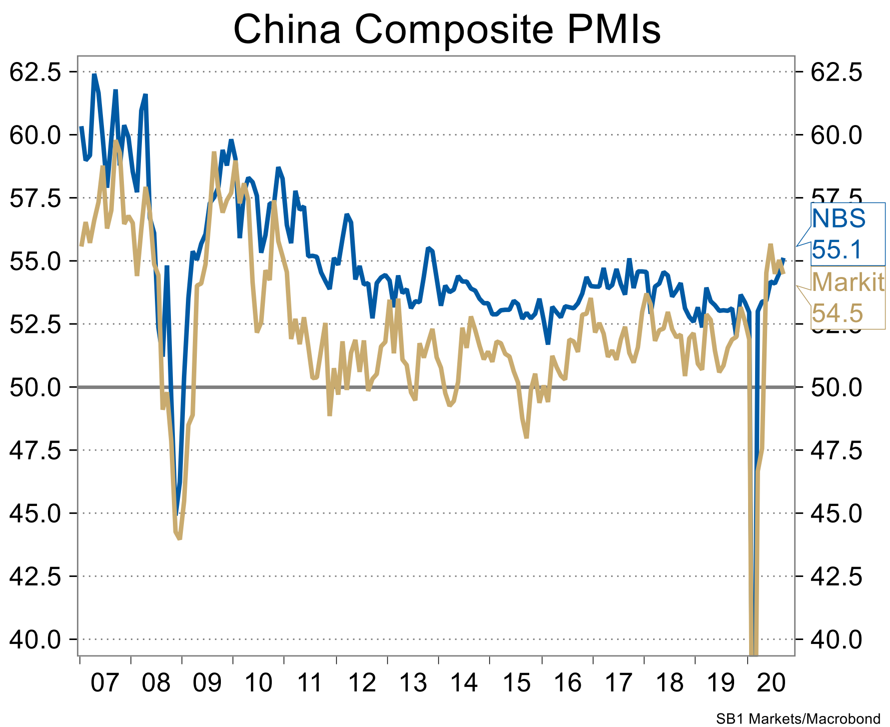


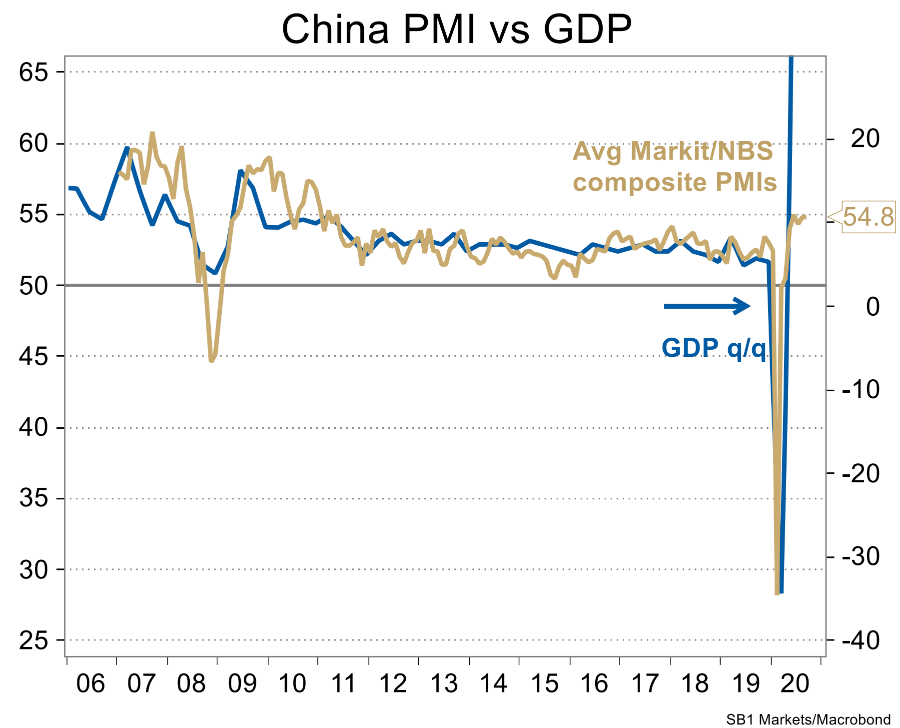


- 11 countries/regions up, 9 down. 6 below the 50 line, 15 above
- UK, Russia, USA and Sweden at the top
- ISM's index marginally up, Markit's marginally down – and both are at OK levels (55-58) - the Covid-19 outbreak has wery likely not harmed the economy by much
- The decline in PMIs in France, Italy and Spain (and to two latter down to below 50) may be due the Covid situation, as tourism no doubt has been harmed

The Chinese PMI in sum stable at decent level in September

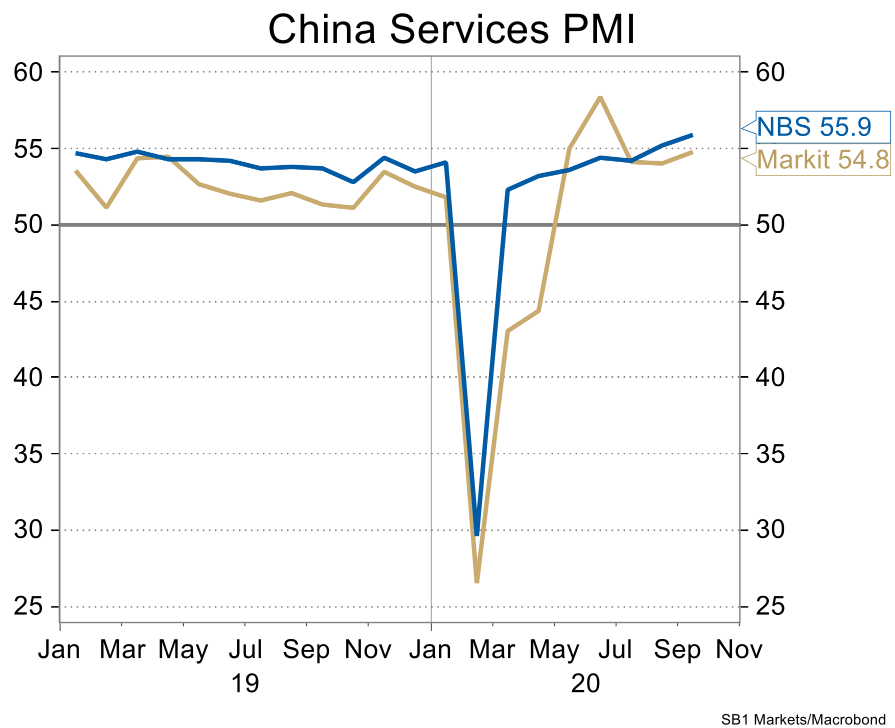
The avg of Markit/NBS surveys flat a 54.8, signaling growth well above trend

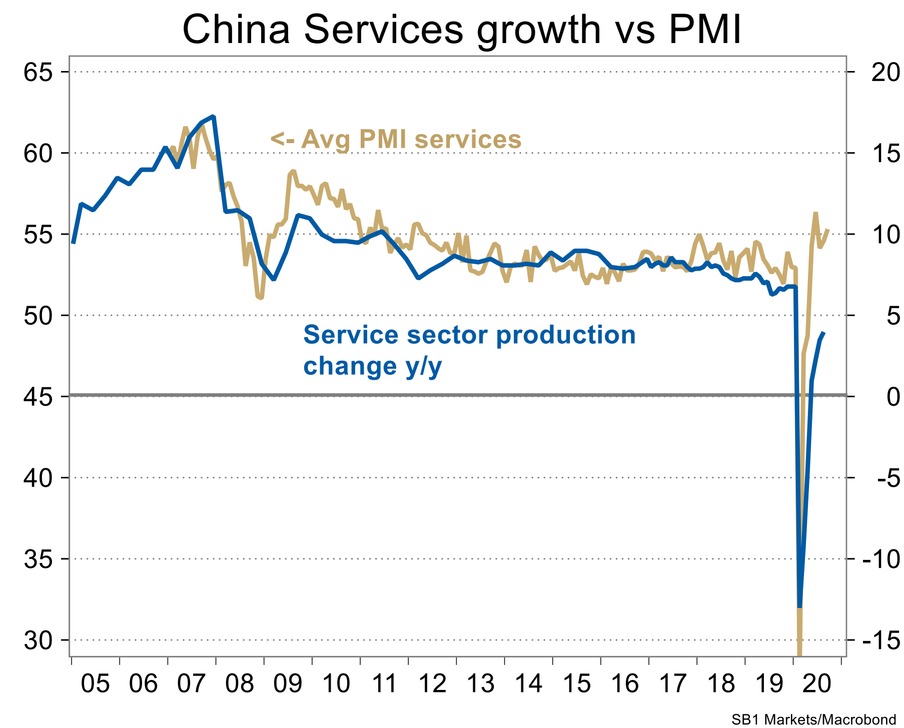




Service sector PMIs signal growth above normal too

… which is needed in order to close the output gap

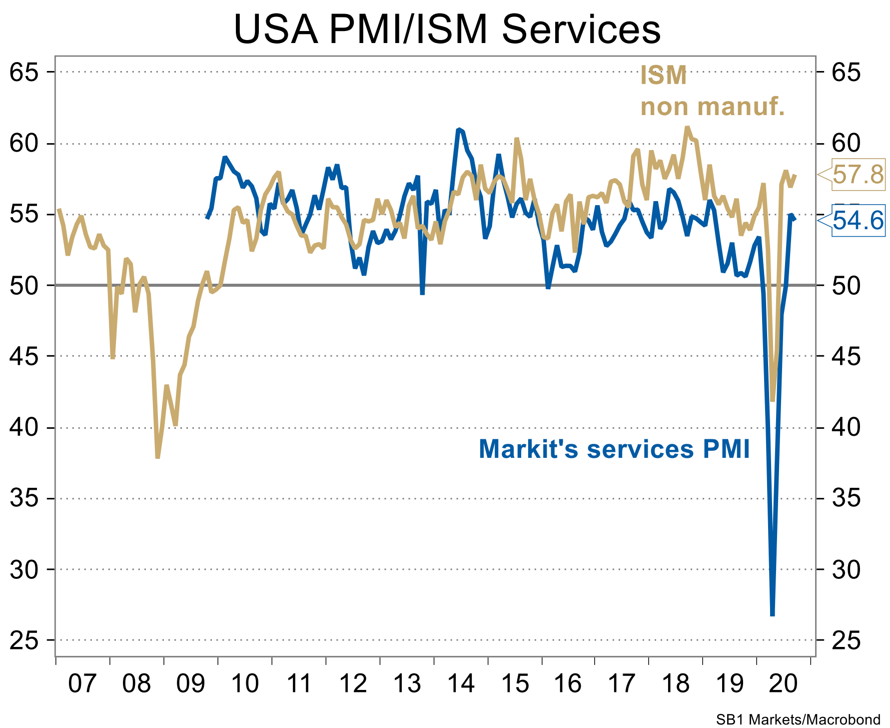


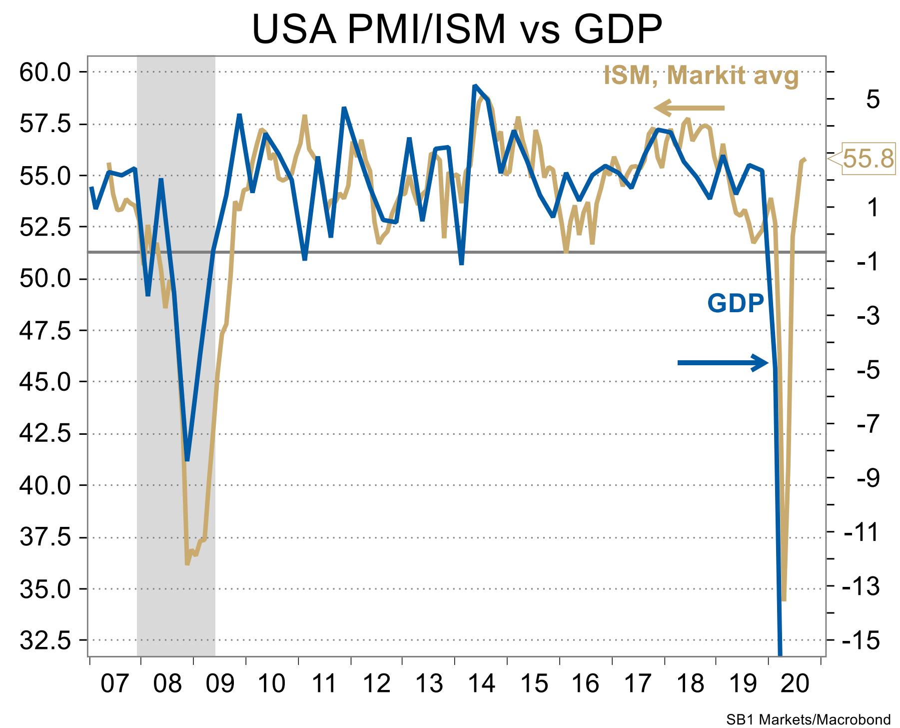


- In September, both service sectors PMI climbed 1.3 to 1-4 p, and the levels (Markit 54.8, NBS 55.9), signal growth well above trend

The ISMs, PMIs are reporting growth well above trend, no Covid-19 shock

The service sector ISM +0.9p tp 57.8, Markit's -0.5p tp 54.6. Grand total, incl. manuf., marg up to 55.8

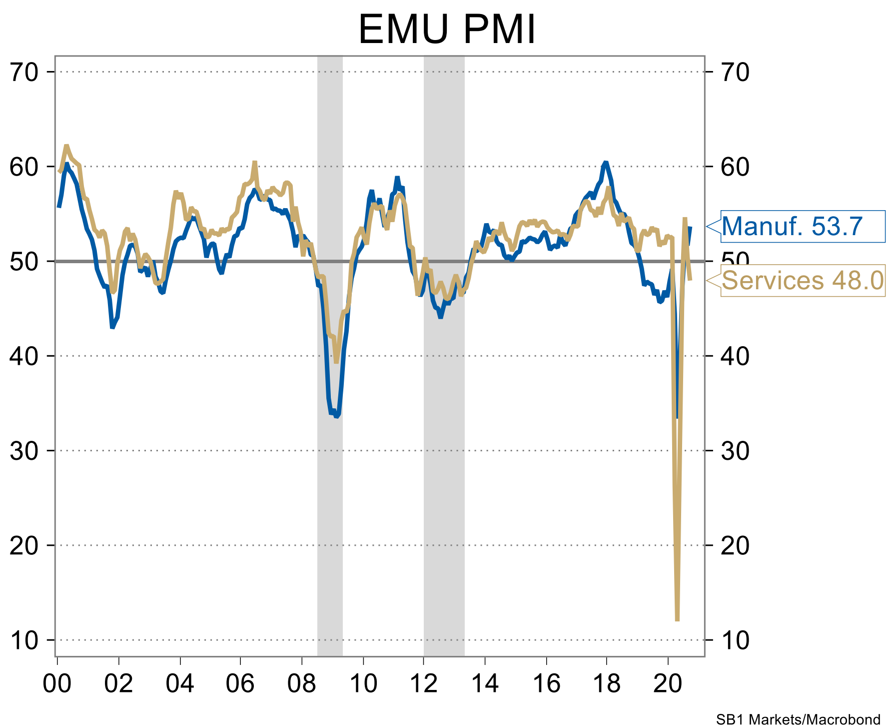


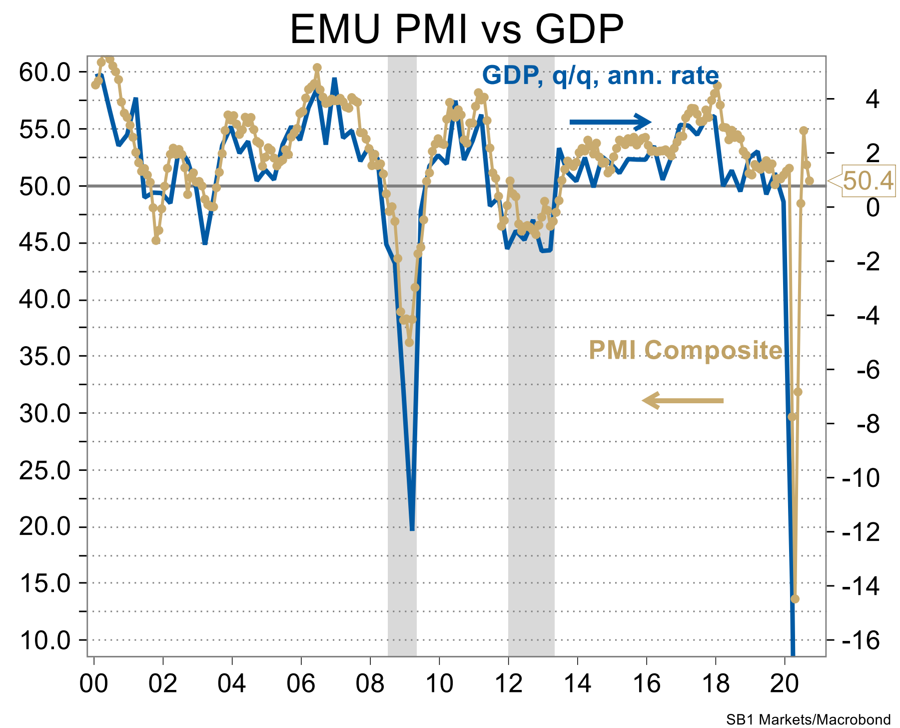


- Both surveys are very likely dramatically underreport growth, following the Q2 collapse. Growth in Q3 could easily reach 20-30% (annualised), not 3%, which the PMI/ISMs are formally signalling

The service sector PMI confirmed down to below 50, manufacturing still strong

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

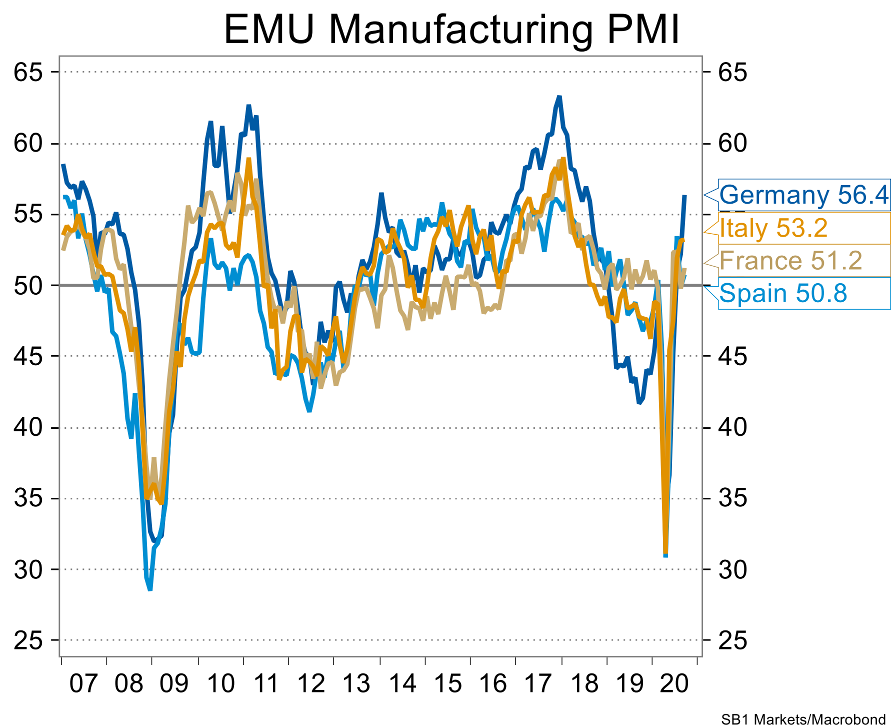


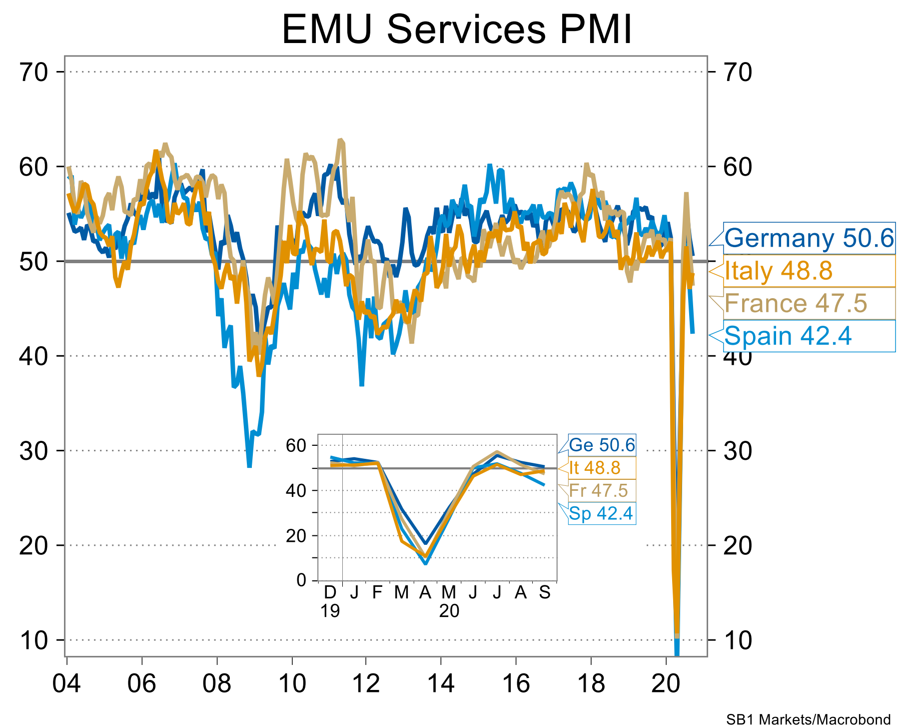


- The PMI respondents are still probably reporting somewhat between growth (which is strong), and the activity level (which is still below par) - and these indices cannot be used to estimate the growth rate now
- Still, det decline in the service sector PMI in August is surely not a signal of strength. Most likely, the new corona outbreaks is having some impact on activity, especially in the tourism sector
- The service sector PMI as well as the composite index was 0.3 – 0.4 p better than the preliminary estimate

Manufacturing PMIs still OK, the service sectors PMIs are sagging

The Spanish service sector PMI down to 42.4, hard to blame others than the corona virus?

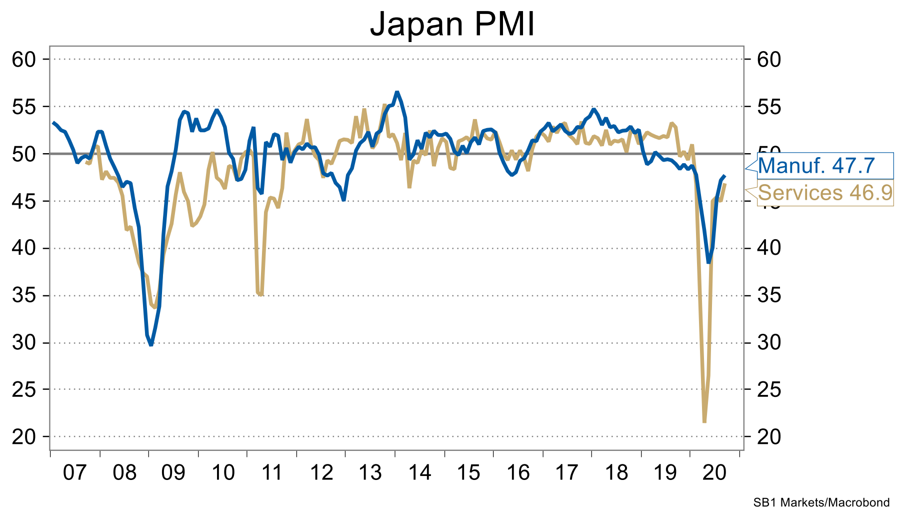


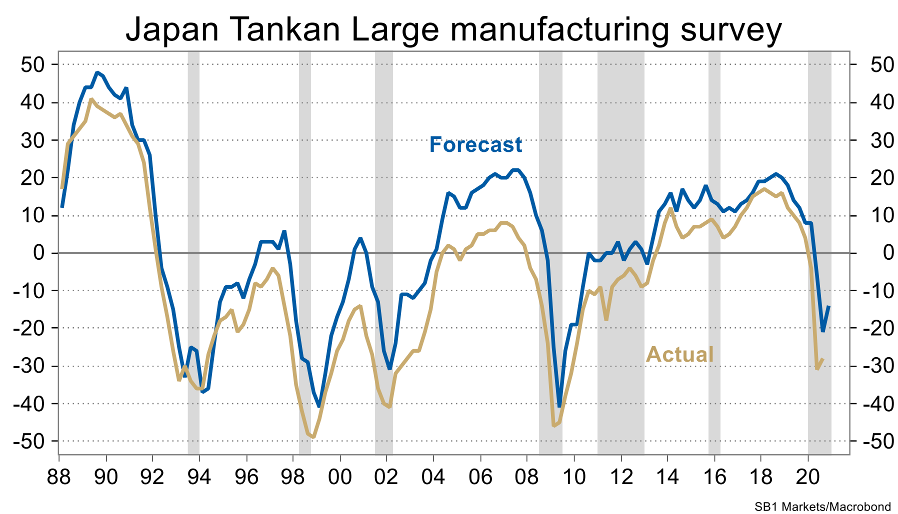


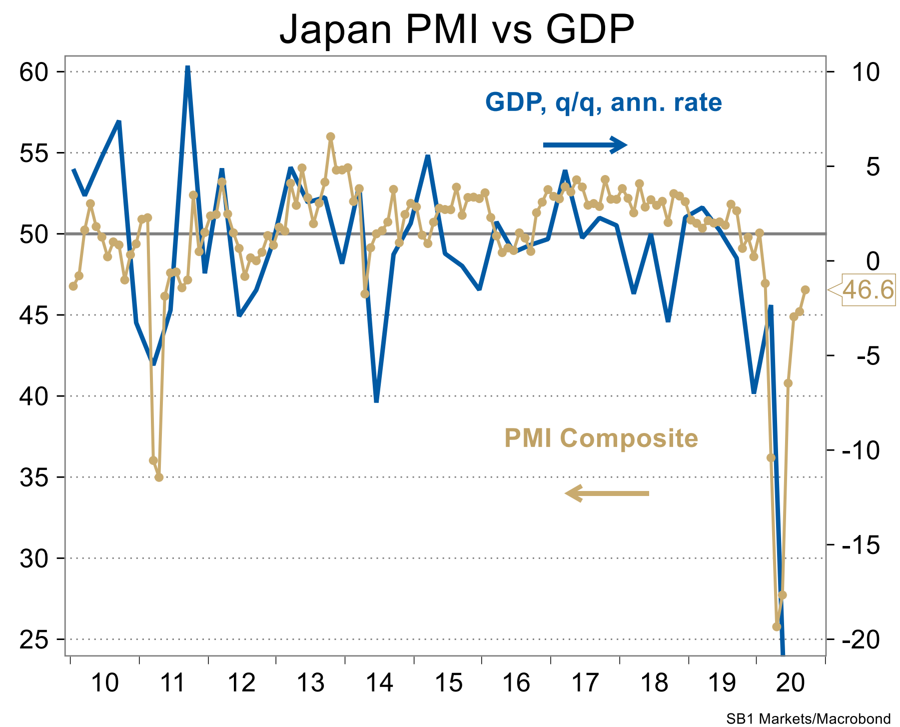
- The service sector PMIs fell to below 50 in France and Italy as well
- Growth no doubt slowed in August/September – in the service sector
- (Retail sales were very strong in August, check here)

Japanese PMIs up but remain soft - are still (formally) signalling GDP contraction

Both manuf & services are well below the 50 line. Other surveys are not upbeat either



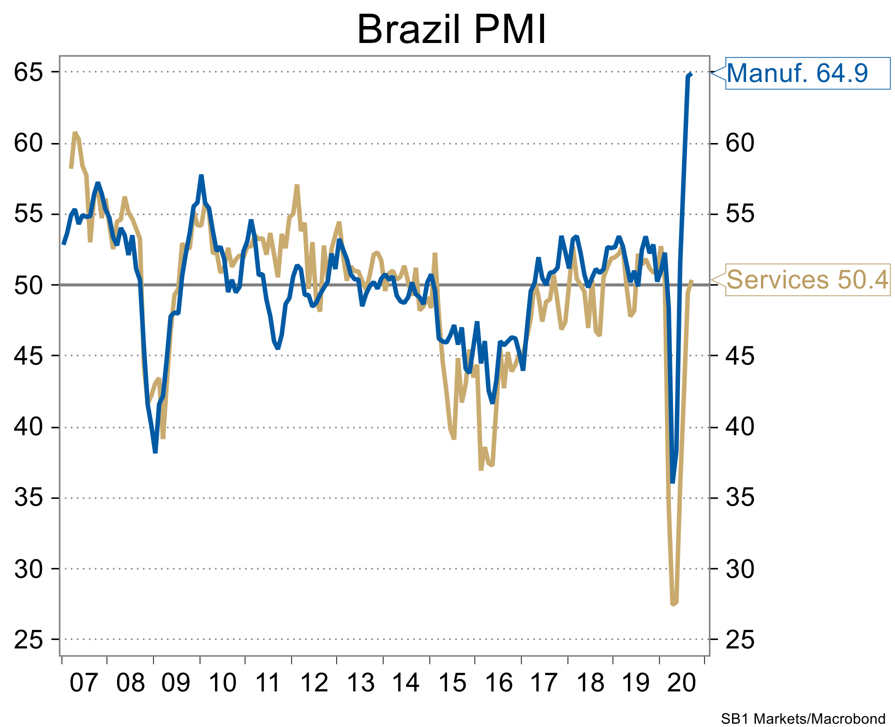


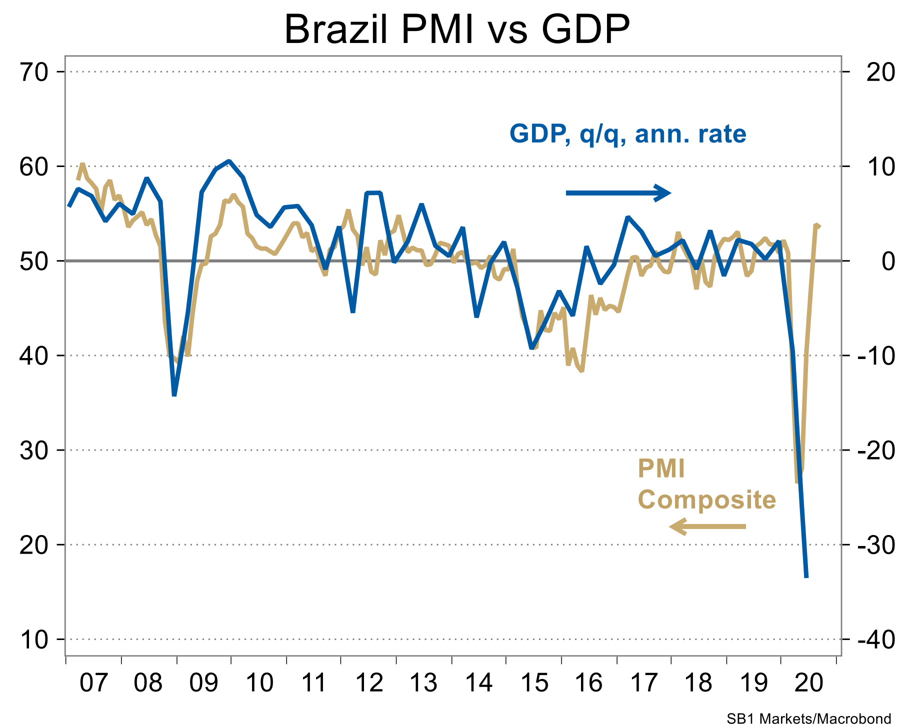


- However, given a sharp lift in manufacturing production and retail sales, as well as a much higher production in service industries in July than in Q2 in avg, sharp GDP recovery in Q3 is very certain – which is not reflected in these surveys

Brazil has turned the corner? Strong recovery in the manufacturing

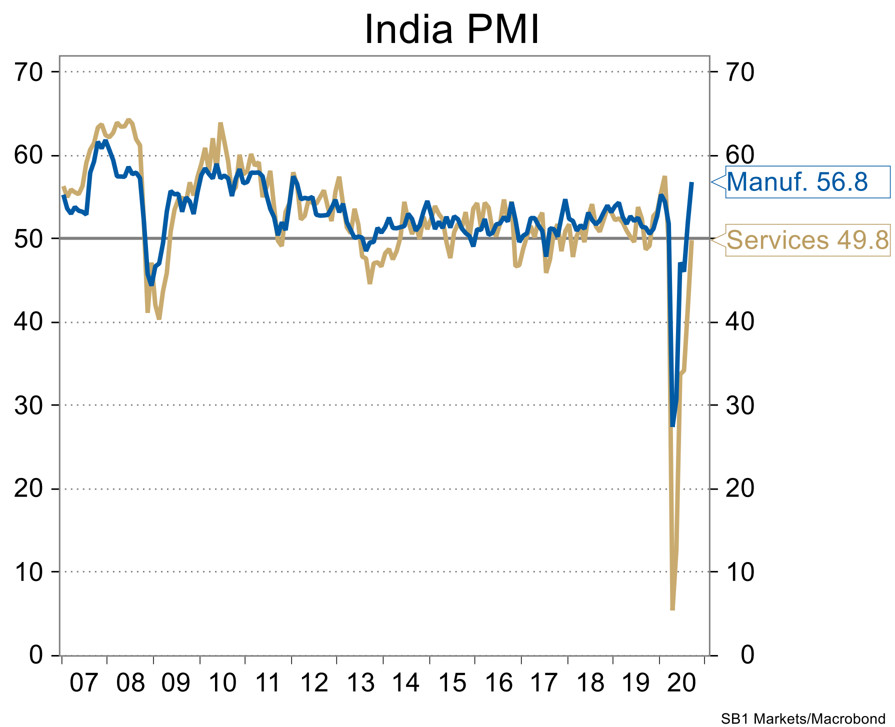
... and no further contraction in the service sector

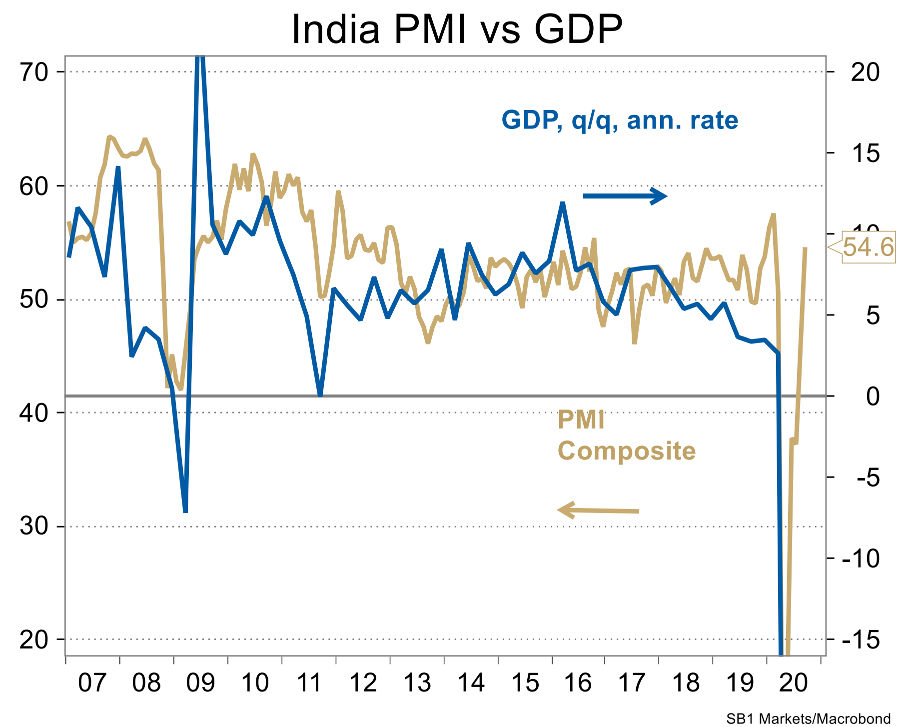




Growth has returned to India

The service sector PMI +8 p to 49.8, manufacturing further up to 56.8, is sum signalling strong growth

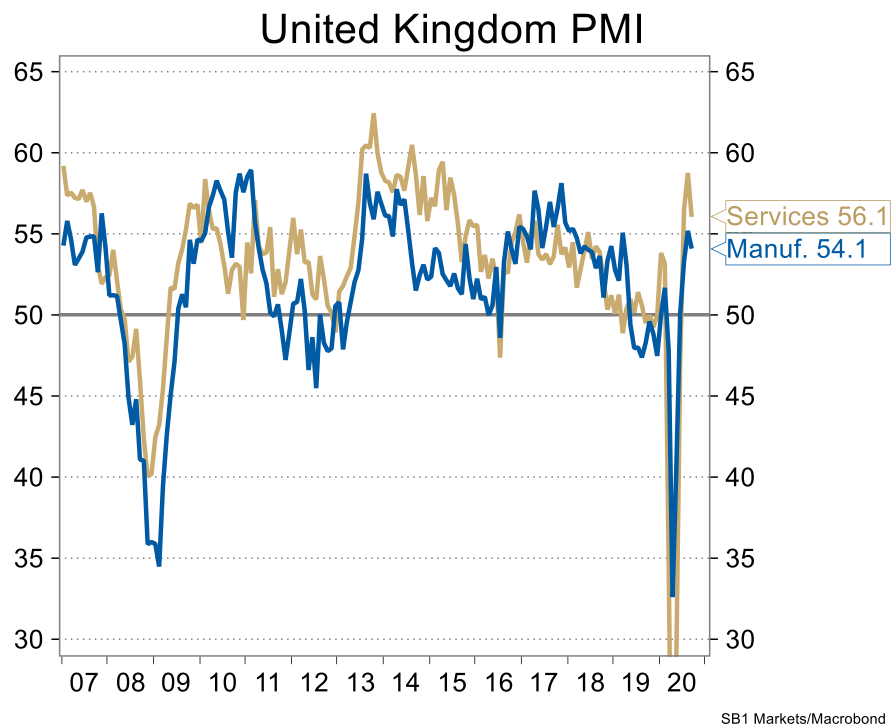


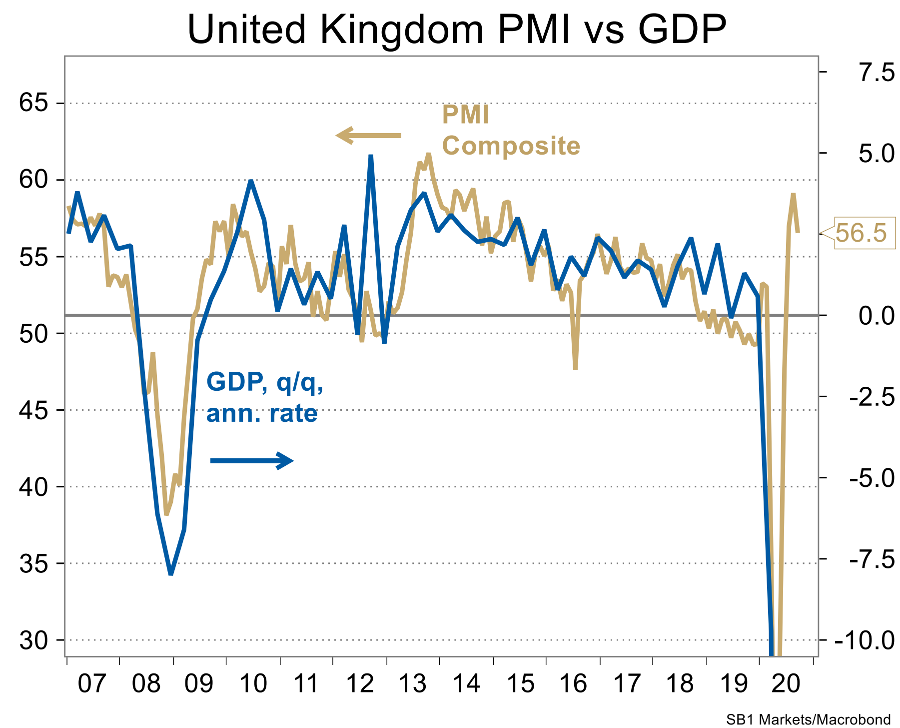


- India reported a dramatic decline in GDP in Q2, by 26% q/q, not annualised (or 70% if you want to have the 'stupid' annualised rate ☺)
- GDP no doubt grew in Q3, even if the PMIs did not recognise that before September

PMIs down in September but the surveys are still signalling strong growth

The composite PMI down 2.6 p to 56.5, still a high level. Covid-19 explains the mild deceleration?

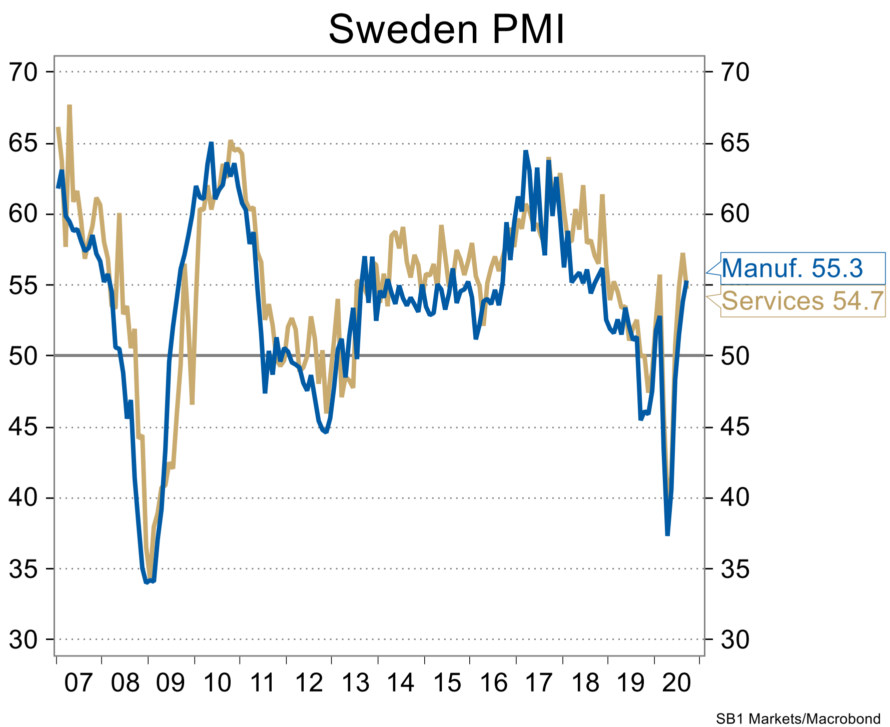


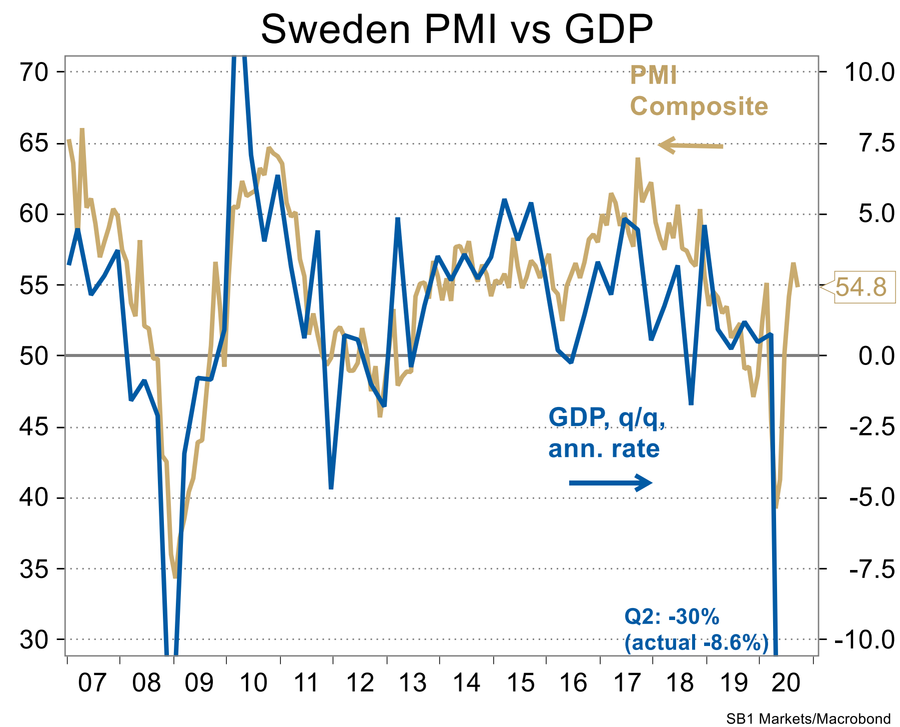


- The current PMI signals a 2 – 3% growth rate. Actual growth will be 20 – 30% (or even higher) in Q3

Sweden is growing again, both manufacturing & services PMI at 55

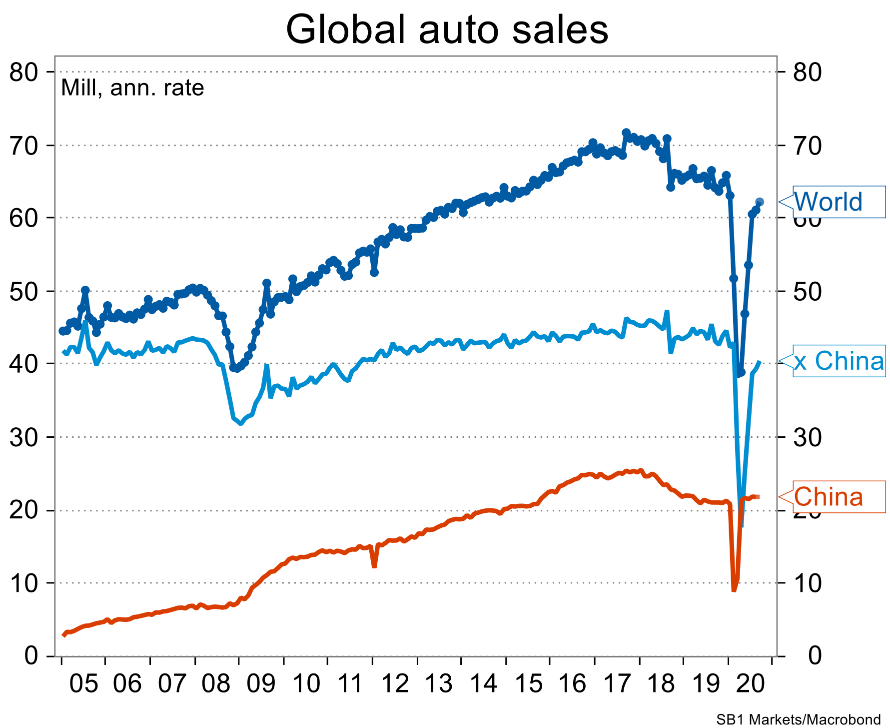
The composite fell slightly in September, still signalling growth in GDP

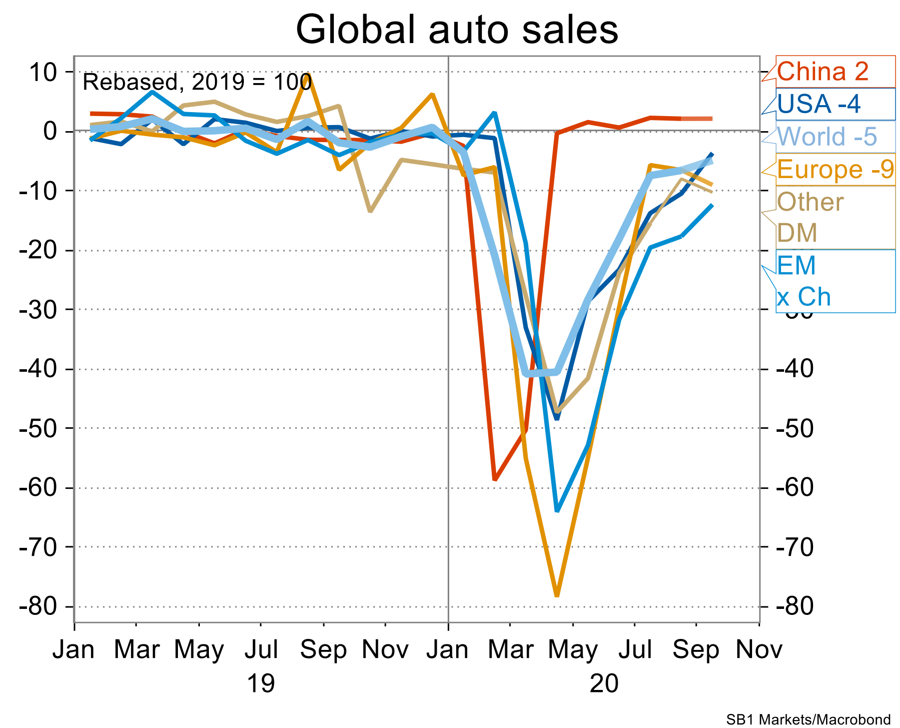




Global auto sales almost back at the (low) pre corona level, down 5% vs 2019 avg

Sales marginally up in September – but data uncertain, China has not reported yet

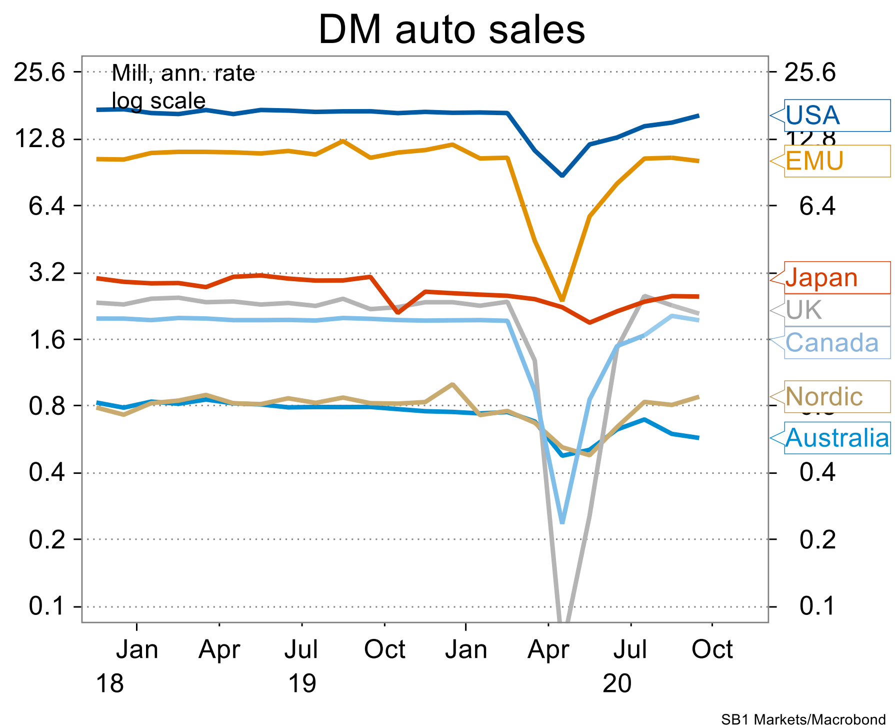


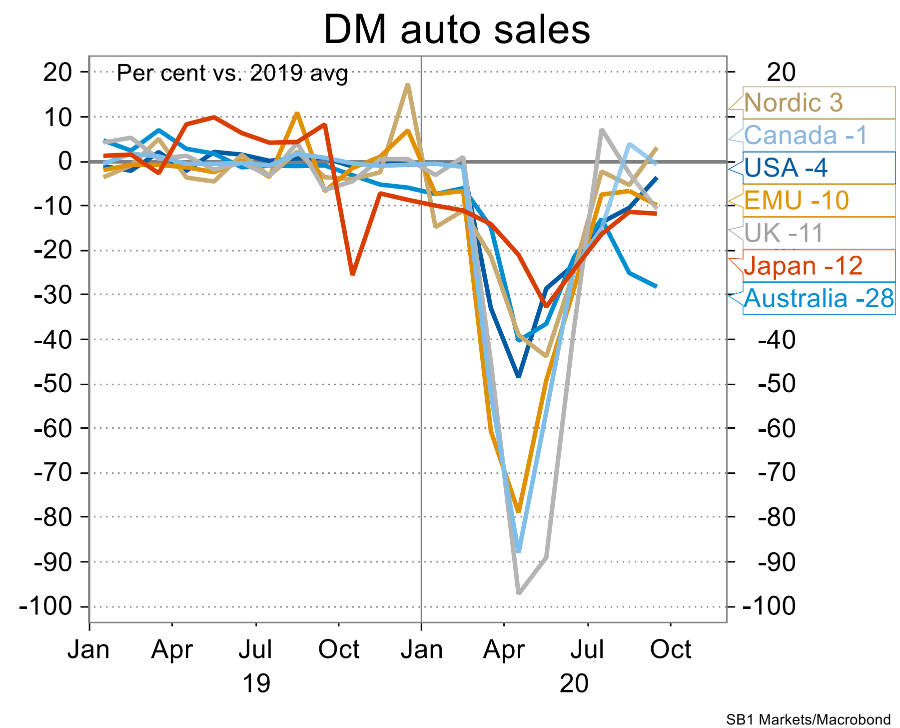


- *We have assumed Chinese September sales to be stable at the same level as the previous two months*
- IF so, global sales rose marginally in September, and the level is 5% below the 2019 average. Sales in
  - » the US rose more than expected, and are now 4% below the 2019 average.
  - » Europe fell to 9% below the 2019 avg, both EMU, and even more UK contributed (but the EMU is not far below the level just before corona
  - » other DM rose marginally, and they are 10% below the 2019 level
  - » Emerging Markets x China grew but are still 10% below the 2019 avg

Sales up to the pre corona levels

Quite stable sales m/m in September

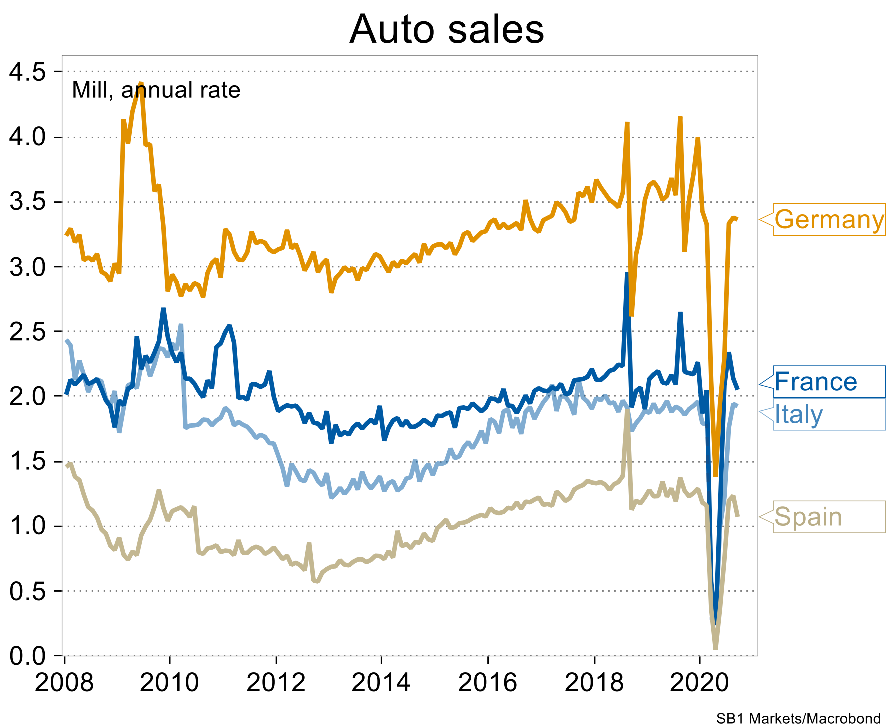


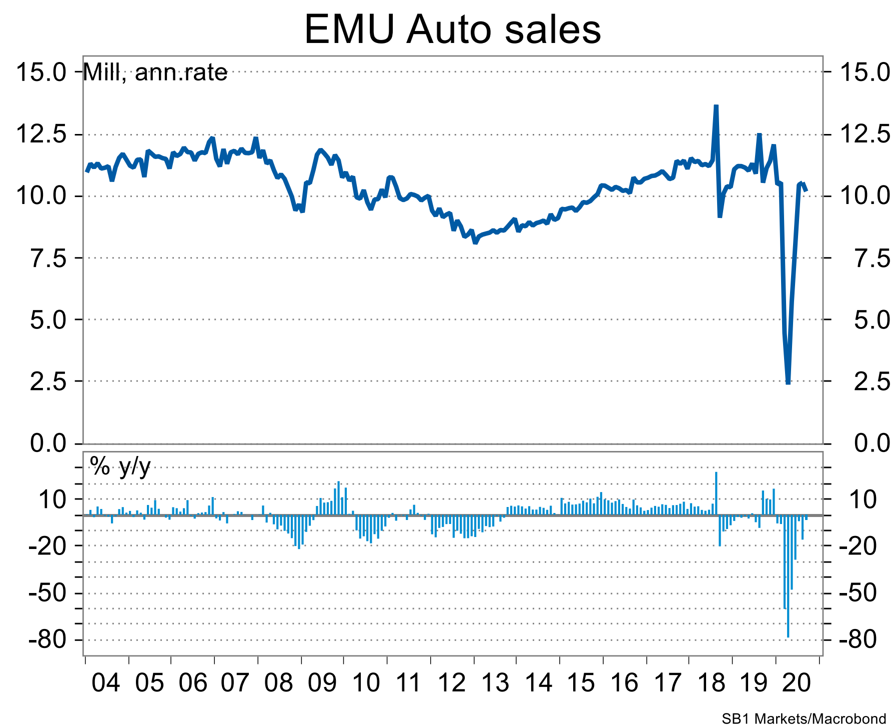


- Sales in the EMU were flat in August, close to a ‘normal’ level (vs 2019). UK sales fell by more than 15%
- Sales in other DMs are still somewhat below par, Australia down 28%, Japan 12%

Auto sales marginally down in September, level 10% down vs 2019

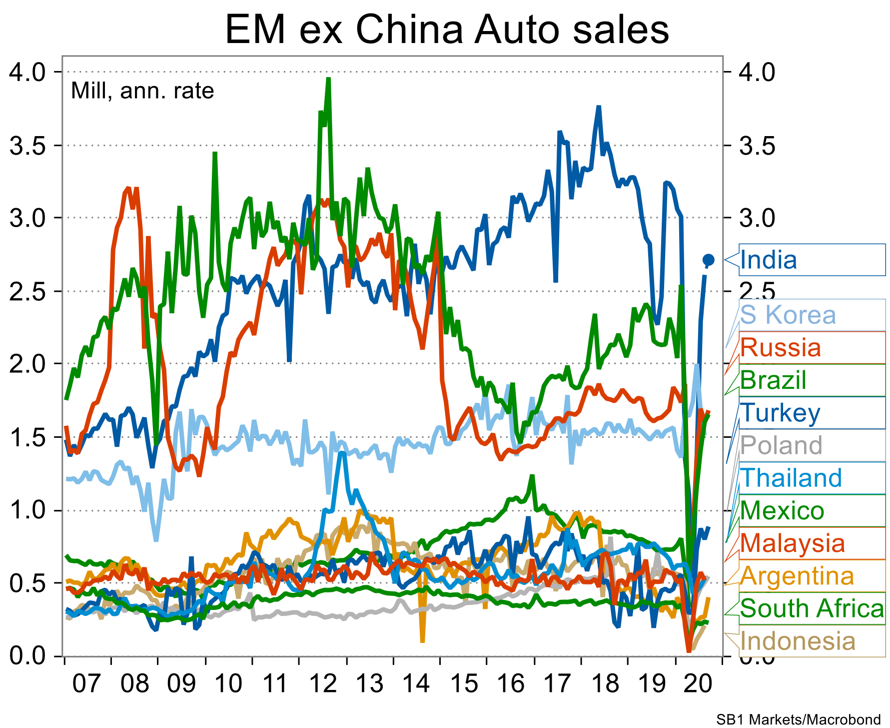
Just Italy has recovered fully, others are below the pre corona level

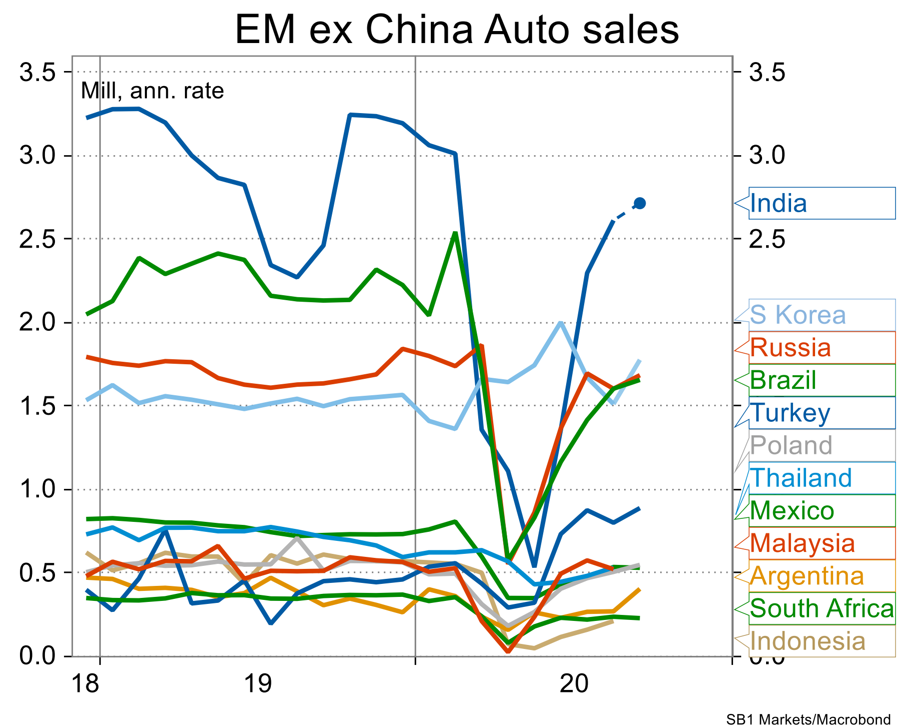




- Sales have been stable at 10.2 – 10.5 mill the past 3 months
- Last year, 11.3 mill autos were sold in Europe, the best year since 2007. From mid 2018 new emission regulations created substantial volatility in sales, and we assumed that the cycle anyway was mature. In Jan/Feb 2020 sales were at some 10.5 mill (annual rate).
- The strong July/Aug sales may reflect pent up demand due to slow sales the previous months, but anyway households cannot be that scared
- No surprise: Production is up too (and will probably have to increase further given these sales figures), check the next page!

A broad recovery in EM x China auto sales



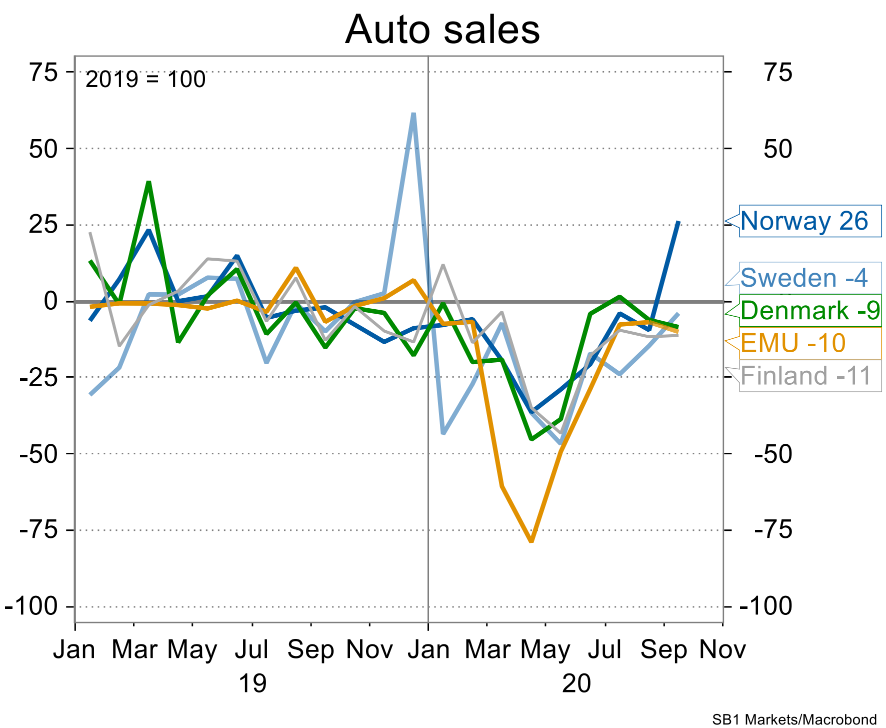


- All EMs are recovering, but most are still below the levels before corona hit. Turkey, South Korea (no Sept data), and Malaysia have recovered at the fastest speed - and are all above the January/Feb 2020 levels. Sales in Brazil are still down 25% vs the pre corona level. Indonesia at the bottom of the league

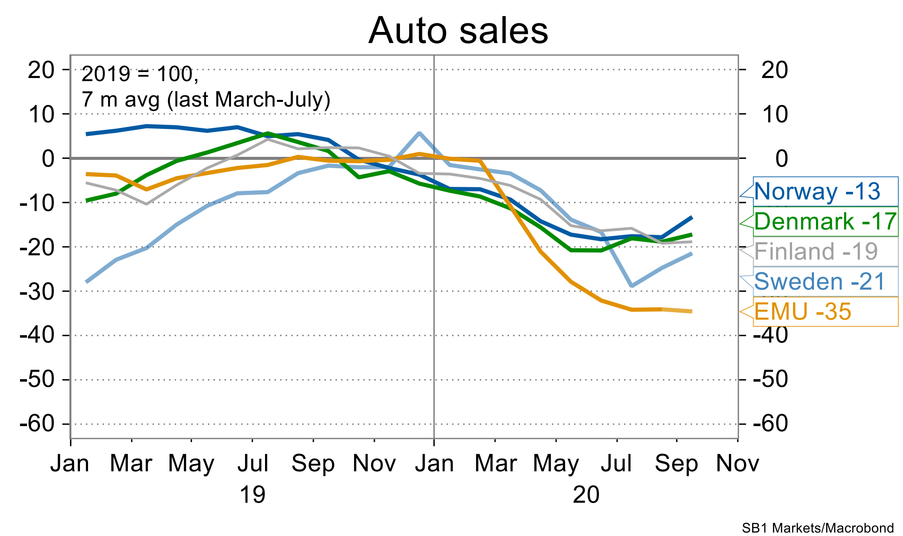
Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

Mixed Nordic Sept sales – Norway and Sweden up

Sales in the Nordics are still below the 2019 avg level – and now outpaced by the Eurozone



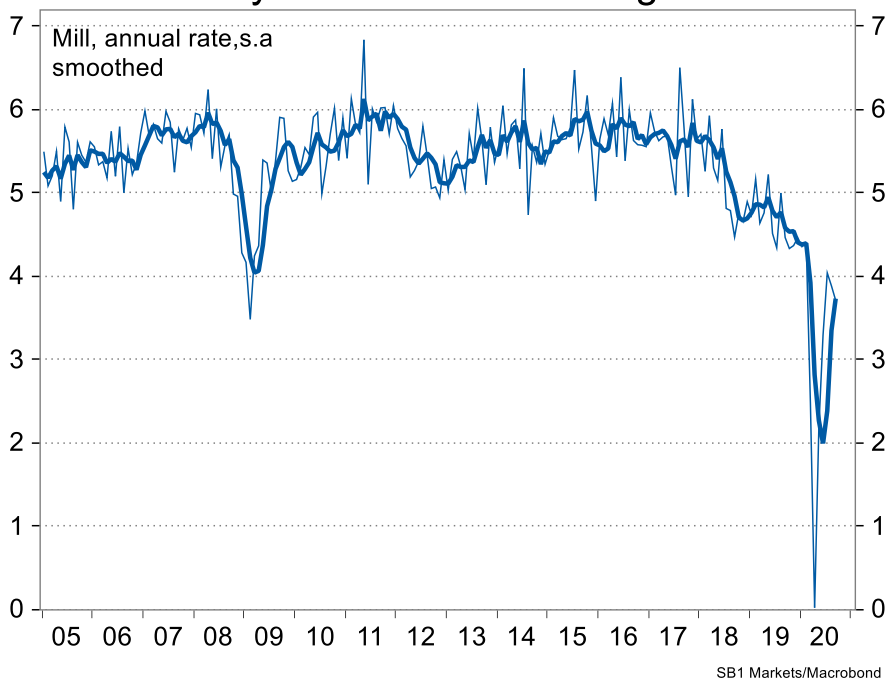
- No major differences between sales in the Nordic region during the 7 corona months sales in the March – Sept period are down 13% - 21 vs. the 2019 average. Sweden at the bottom, Norway at the top, following very strong sales in Sept
  - » EMU sales have recovered too, but the downturn was much deeper and sales are 35% during this period



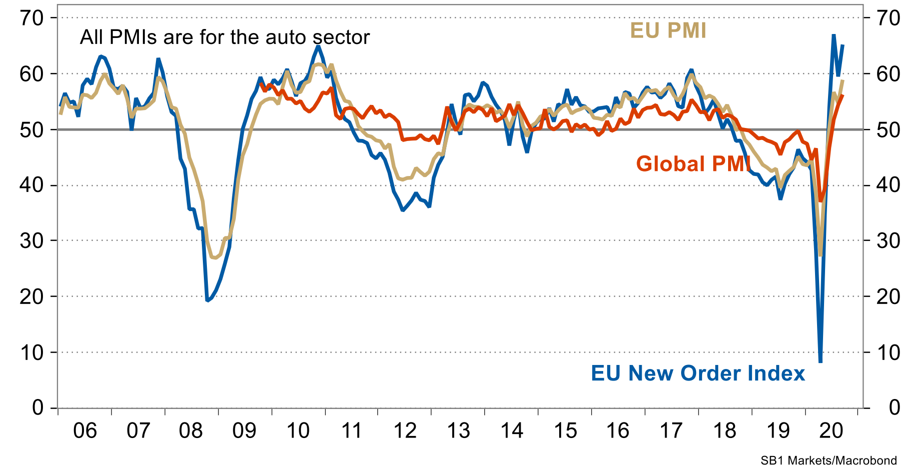
German auto engine still runs at a low speed. European auto PMIs further up

September auto production fell, and remains at low level (-15% pre corona, -33% lower than normal)

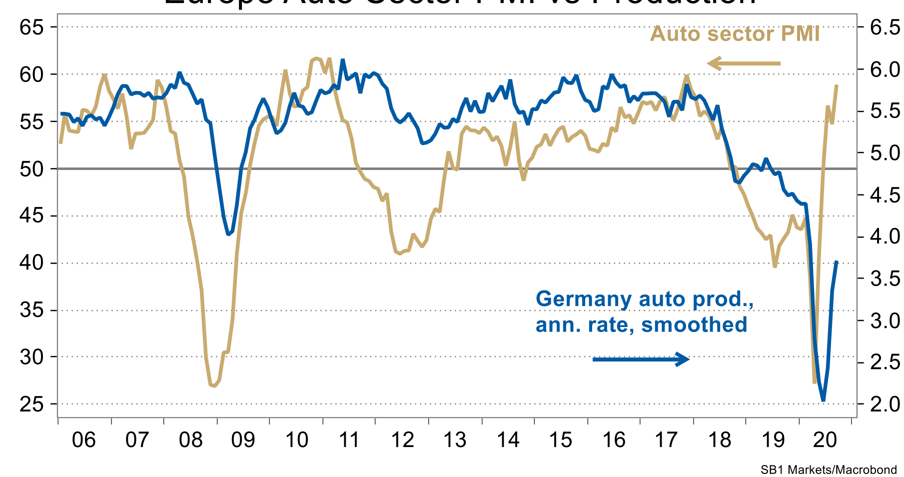
Germany Production Passenger Cars



PMI Auto Sector



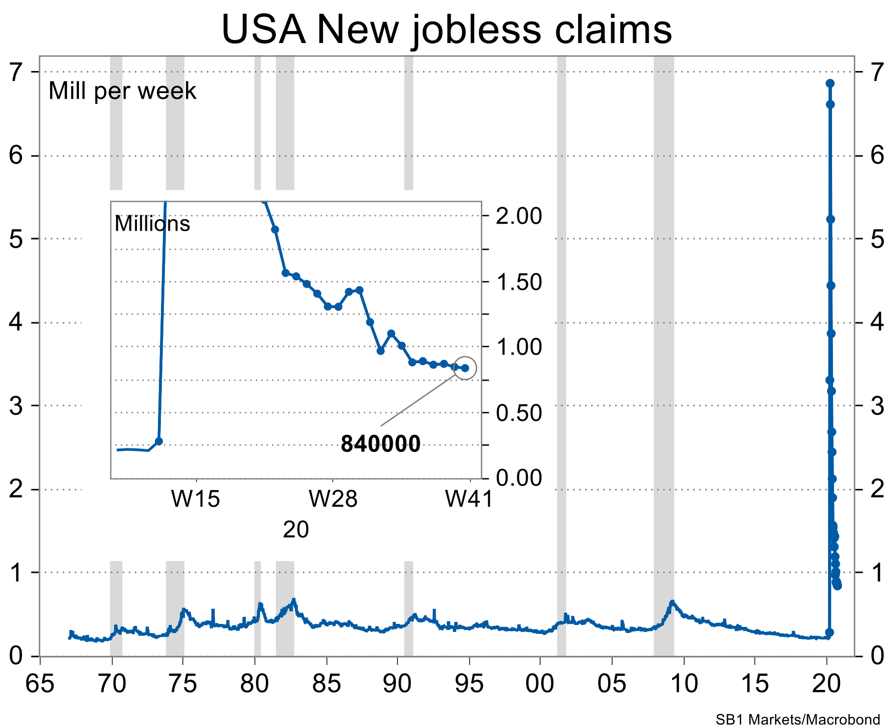
Europe Auto Sector PMI vs Production

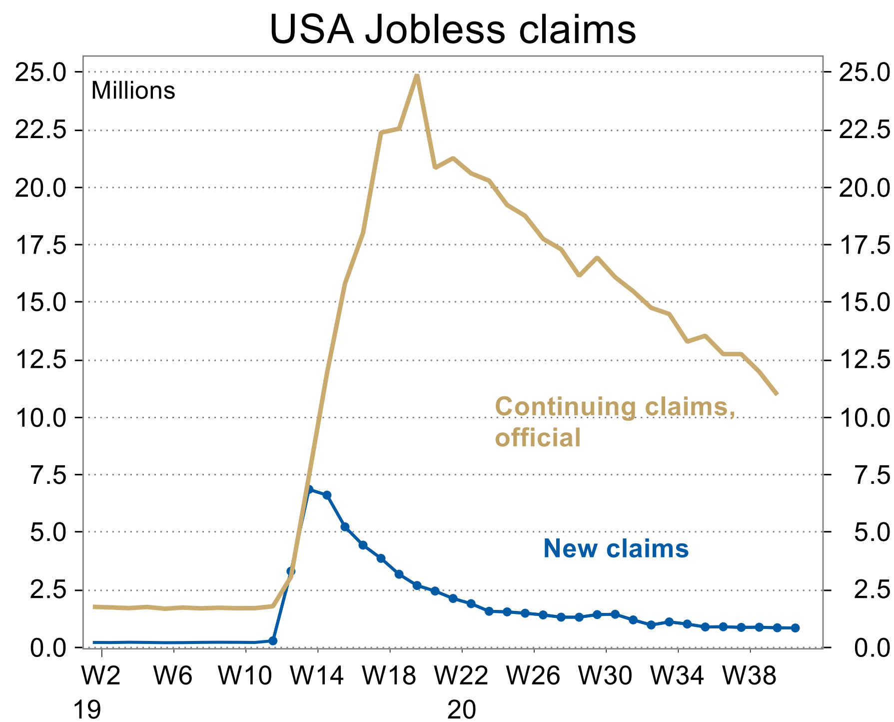


- Production fell to zero in April, during the lockdown, from a 4.4 mill pace in February – which was 1.3 mill below the ‘normal’ level (5.5 – 6 mill/year)
- The European auto sector PMIs are signalling strong growth

Number of new jobless claims is trending down but slowly, the level is still high

840’ new claims last week, down from 849’ – in good times just 200 – 250’ per week

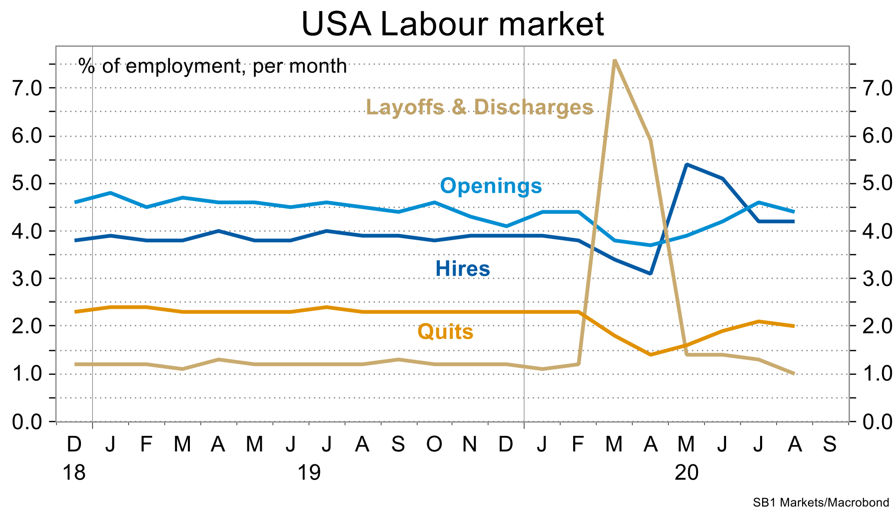




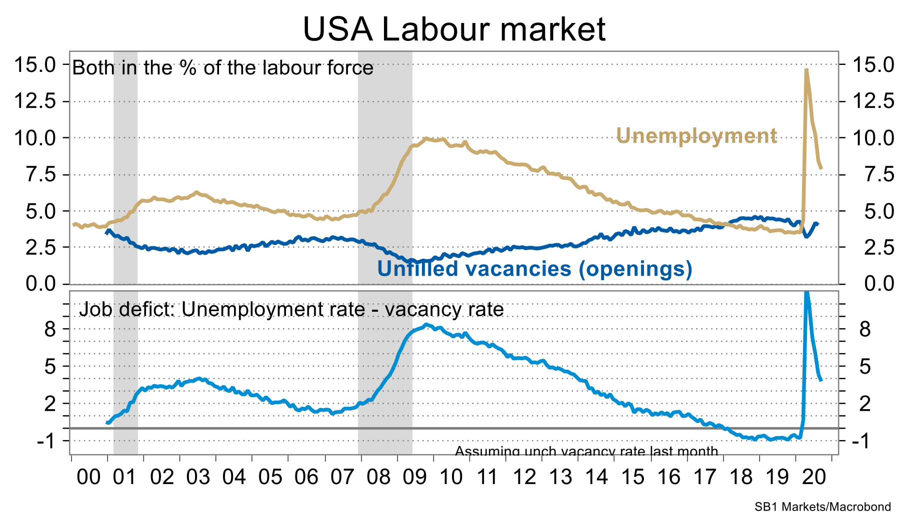
- There is still a rapid turnover at the labour market – 0.5% of the labour force is still turning up as newly unemployed, each week

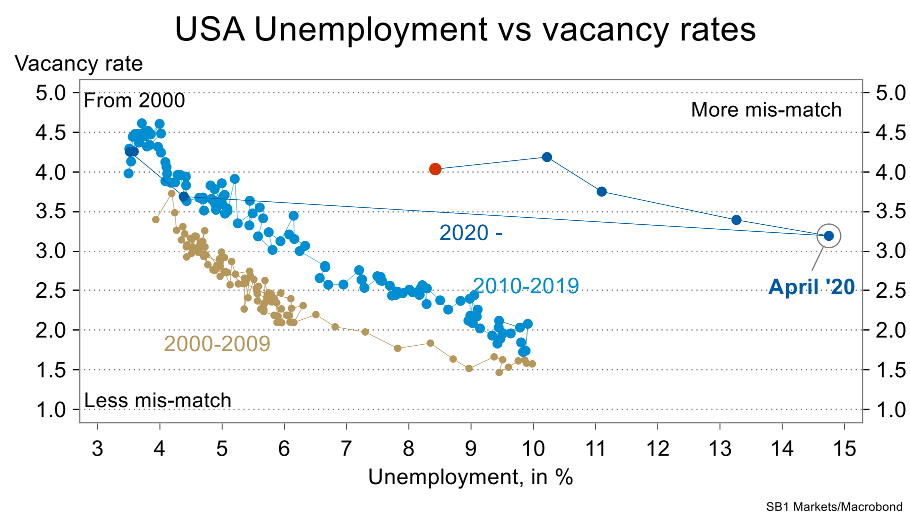
Layoffs down to a normal level, hiring still brisk – and many unfilled openings

The number of unfilled vacancies is at the same level as before corona, rather strange?



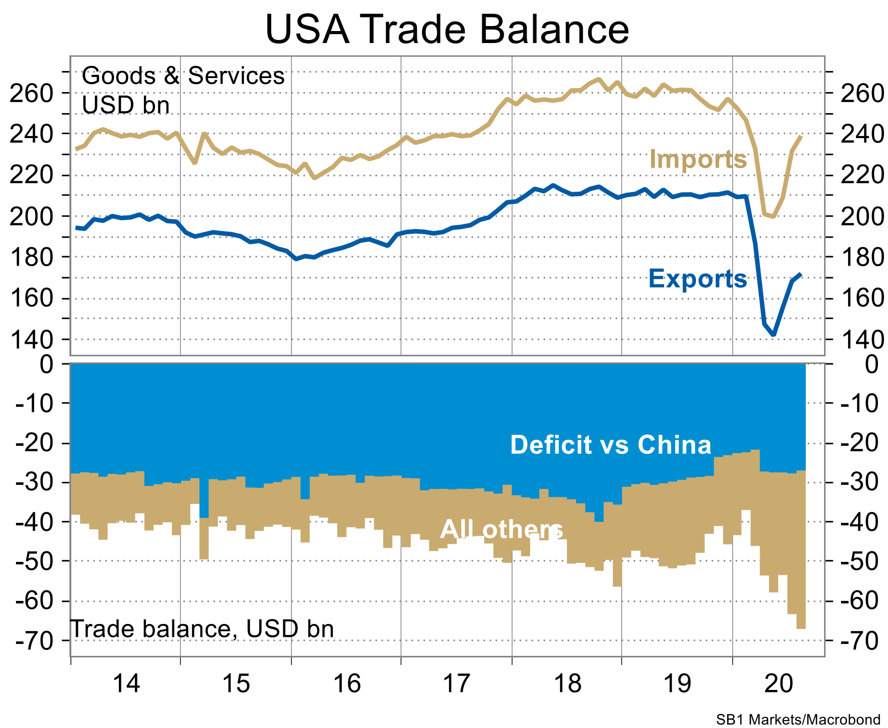
- Why are companies still not able fill their vacancies, even if the unemployment rate is far above a normal level?
  - More mis-match between the unfilled positions and the unemployed (geography, qualifications)?
  - More unemployed prefer to remain unemployed due to the >100% compensation rate for a majority of the unemployed?
    - These JOLTS data covers August, where the unemployed lost their USD 600 extra federal support
- This JOLTS unfilled vacancies stats confirm the small business survey, companies are NOT able to fill their vacant positions!

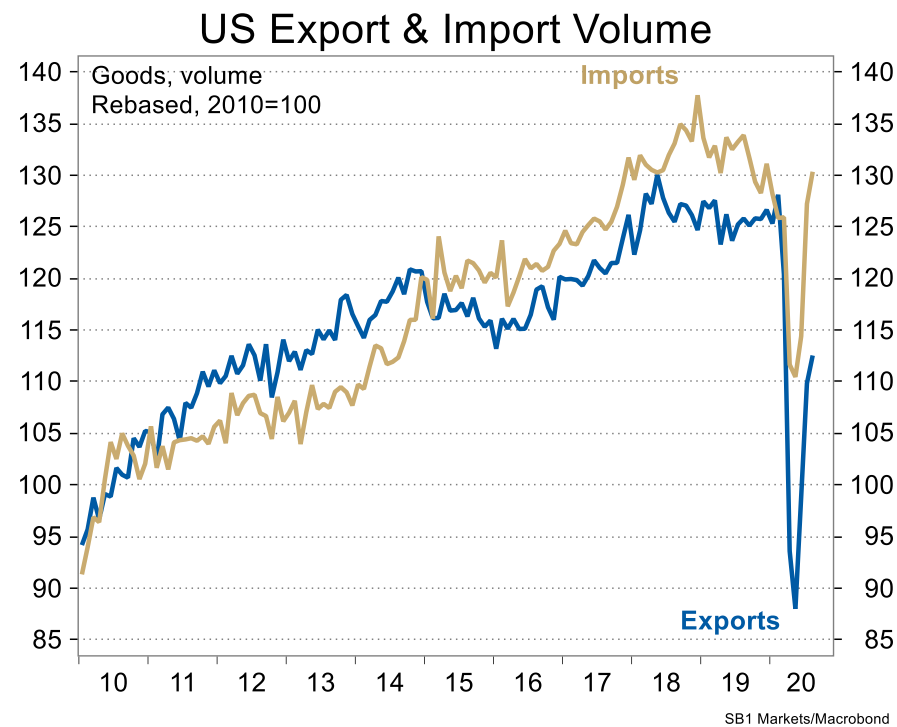




Widest trade deficit since 2008 as exports have been hit hard by corona

Import volumes are above at declining pre corona level, exports still 11% below

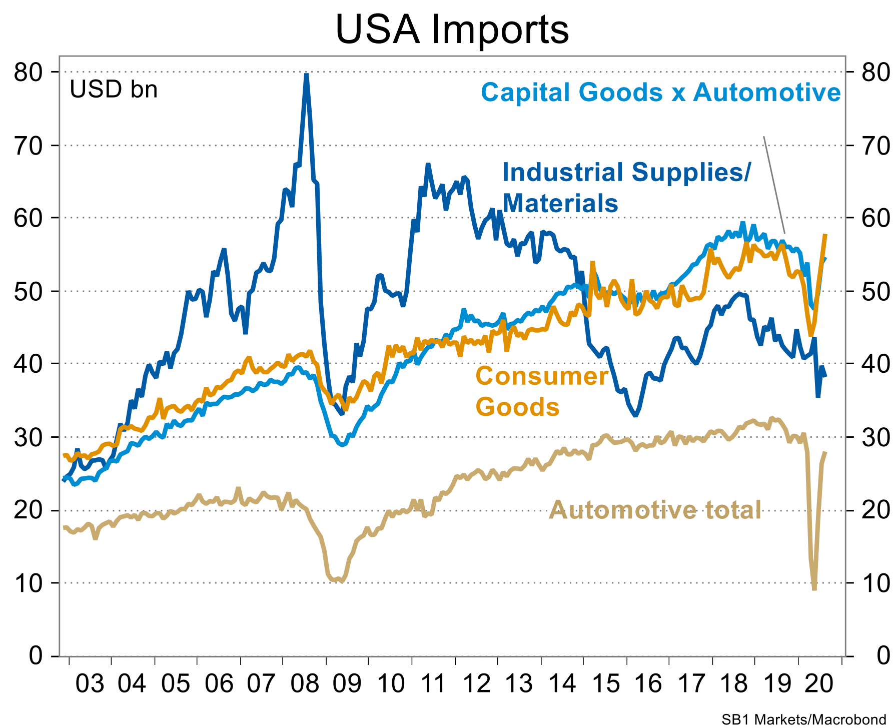


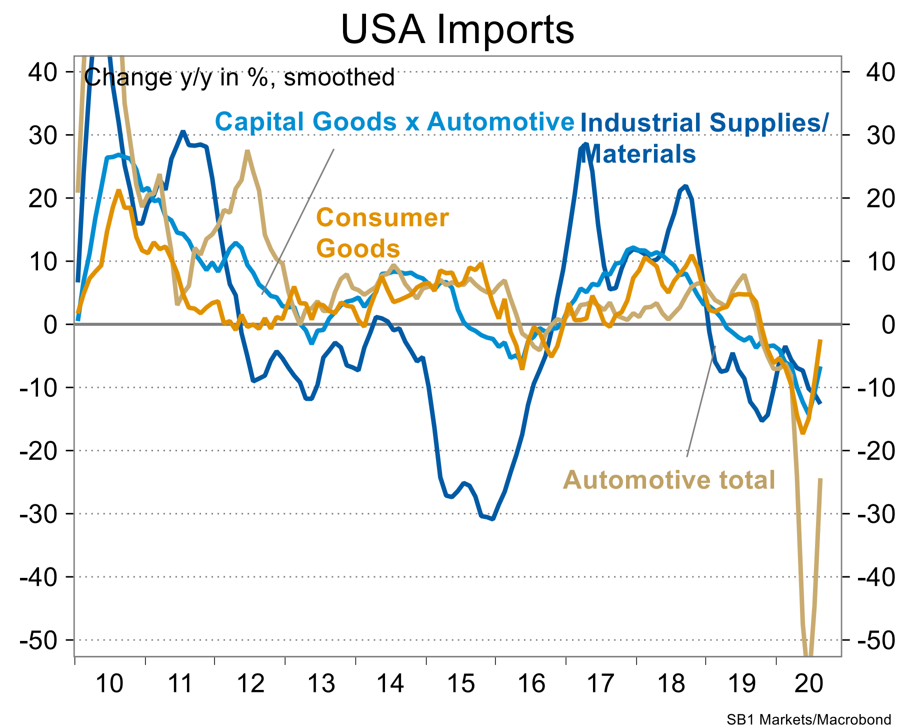


- The overall trade deficit of goods & services rose to 67 bn in August, up from 37 bn in February
  - » Both imports and exports growing at a brisk pace but imports faster than exports and exports are far below the pre corona level
- The deficit vs China is lower than 2- 3 years ago but the deficit vs. others have widened more – but probably mostly due to corona impacts, not a structural worsening
- A wider trade deficit will subtract substantially from growth in Q3

Imports of consumer goods at a record high level, just like consumption of goods

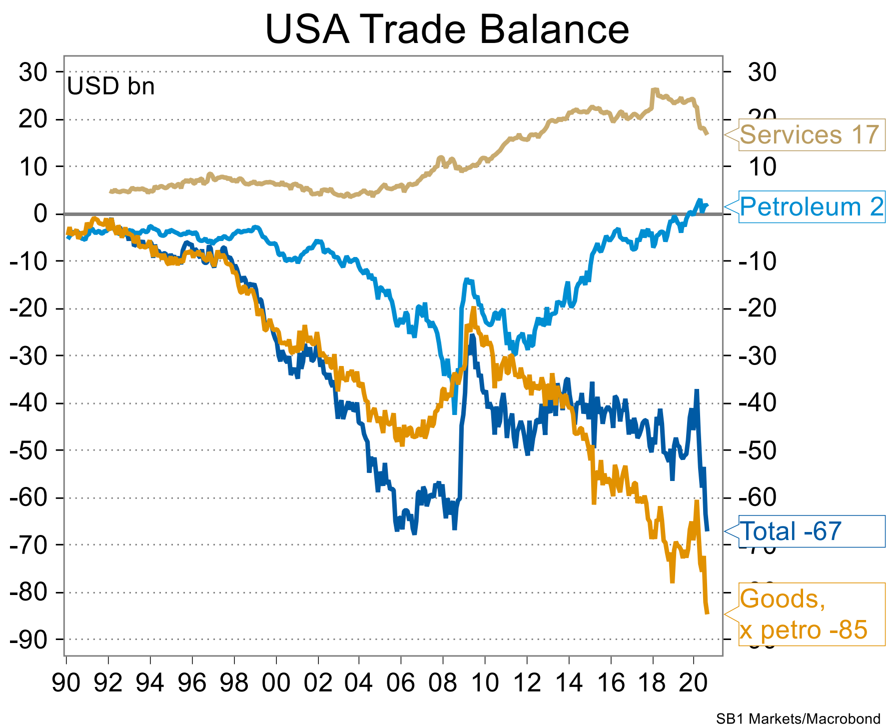
Still a low level of imports for materials

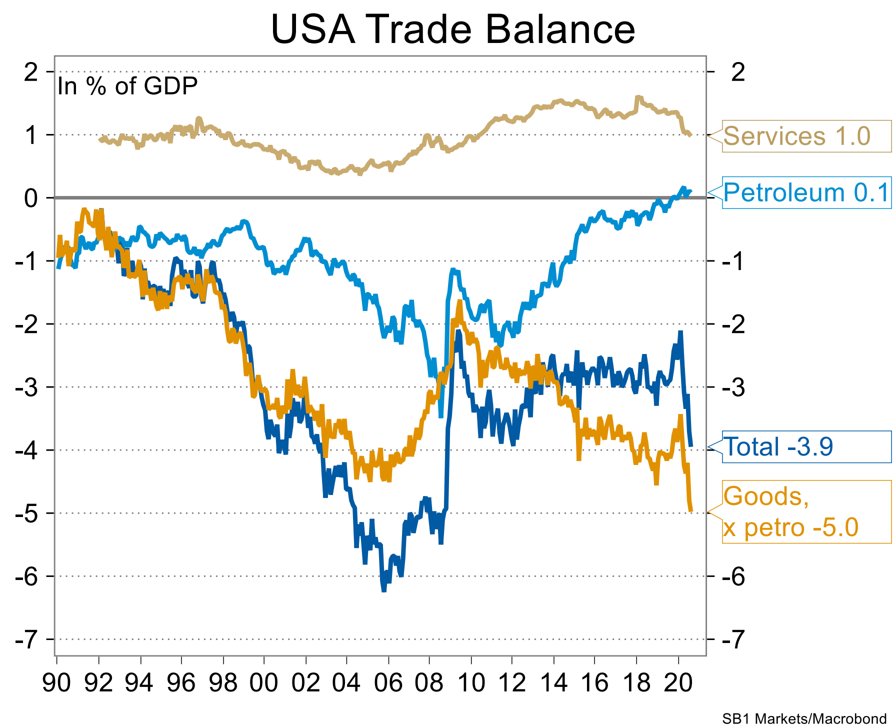




US is no longer running a deficit in petroleum; but other goods deficit at ATH

The goods deficit ex petroleum has widened to 5% of GDP, the surplus is services is falling fast too

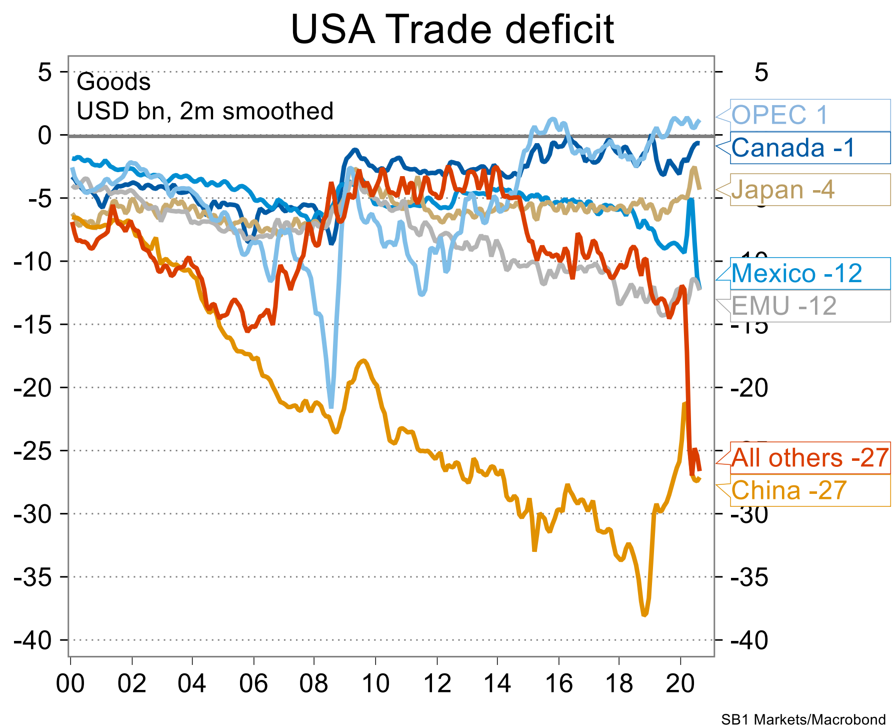


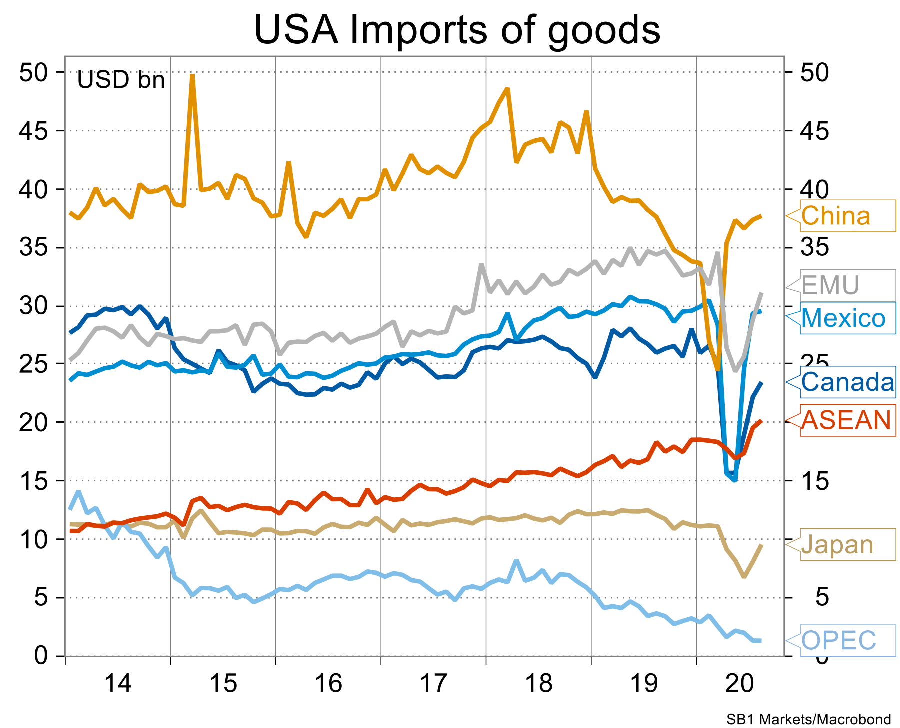


- The goods x petro products deficit dropped to ATL at USD -85 bn in August, or 5% of GDP. Before the corona virus hit, the goods trade deficit was narrowing before corona
- The petroleum trade deficit has turned into a surplus this year, now +2 bn from -30 bn/m in 2012
- The US runs surplus in services at USD 17 bn, equalling 1% of GDP, trending down

Huge disruptions, both on the supply and demand side

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



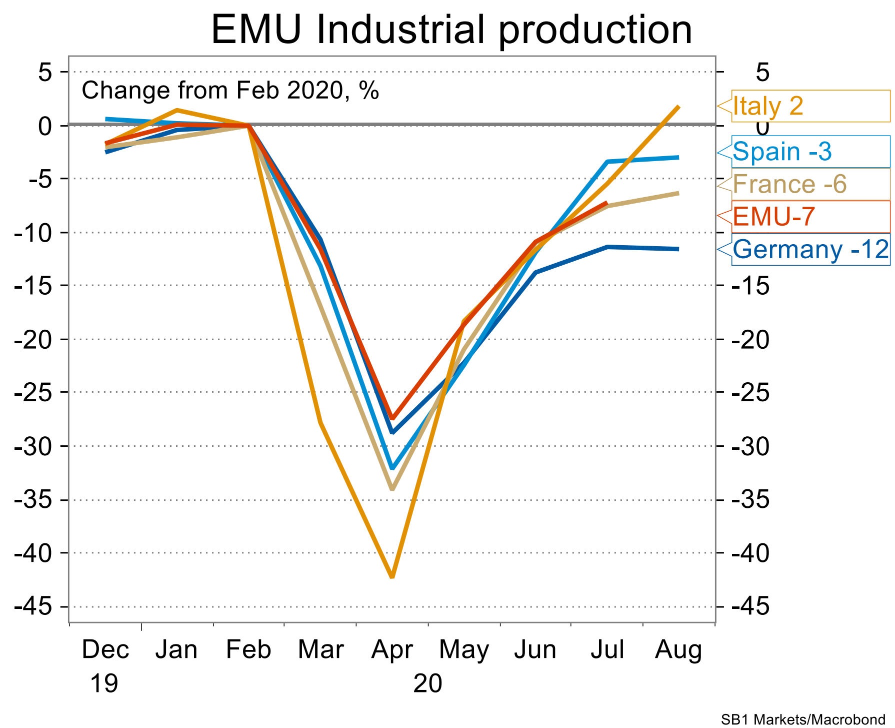


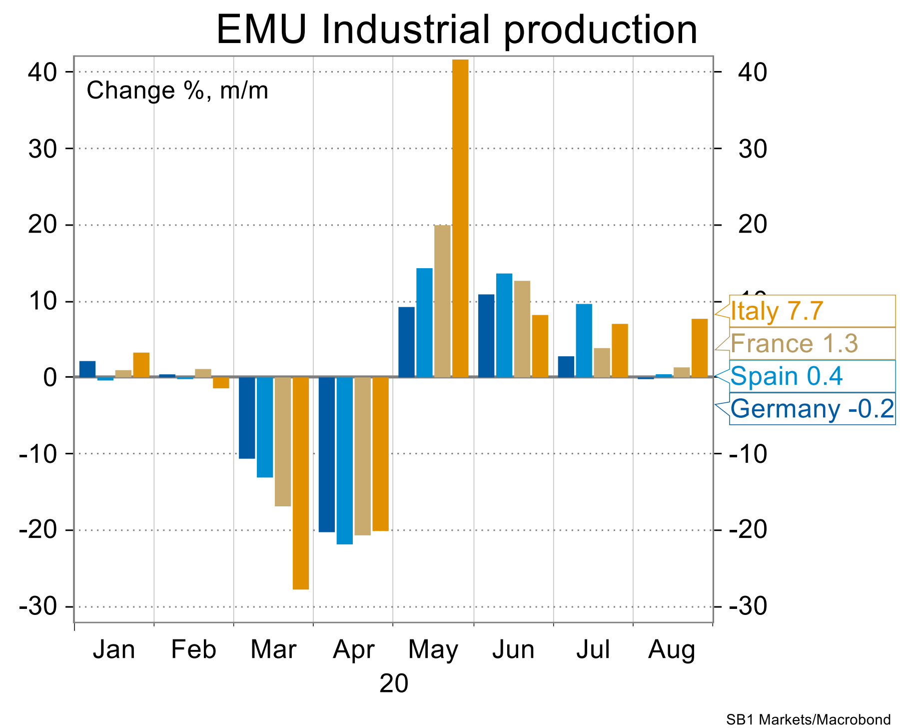
- Imports from China will probably be under pressure given the escalation of all sorts of wars between the US and China

SpareBank 1 MARKETS

Manufacturing further up in August, Italy to above the Feb level. Germany -0.2%

Just small gains in Spain and France, total production probably up less than 1%, to -6% vs. Feb

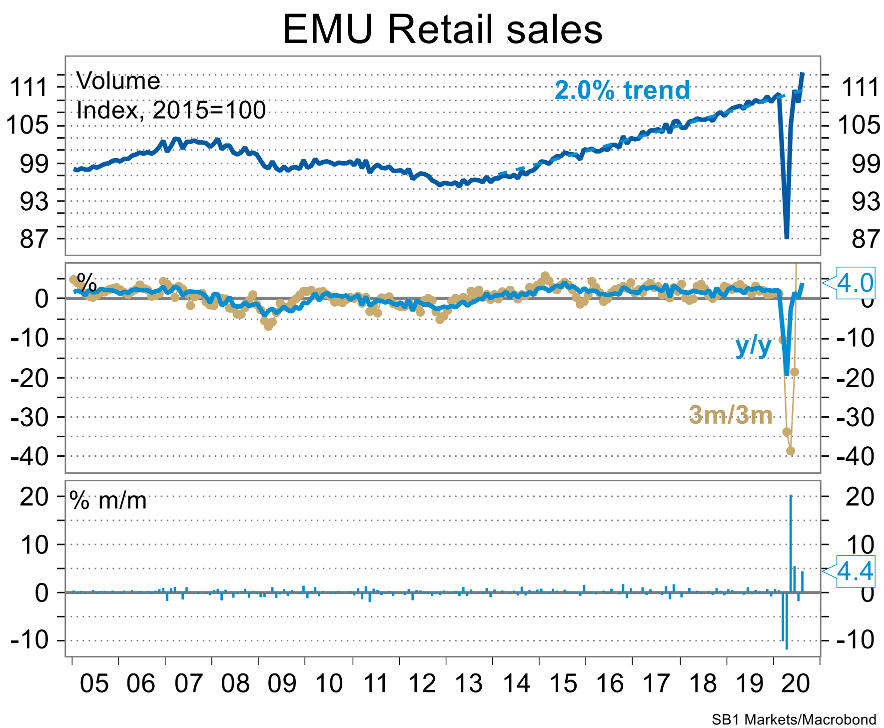


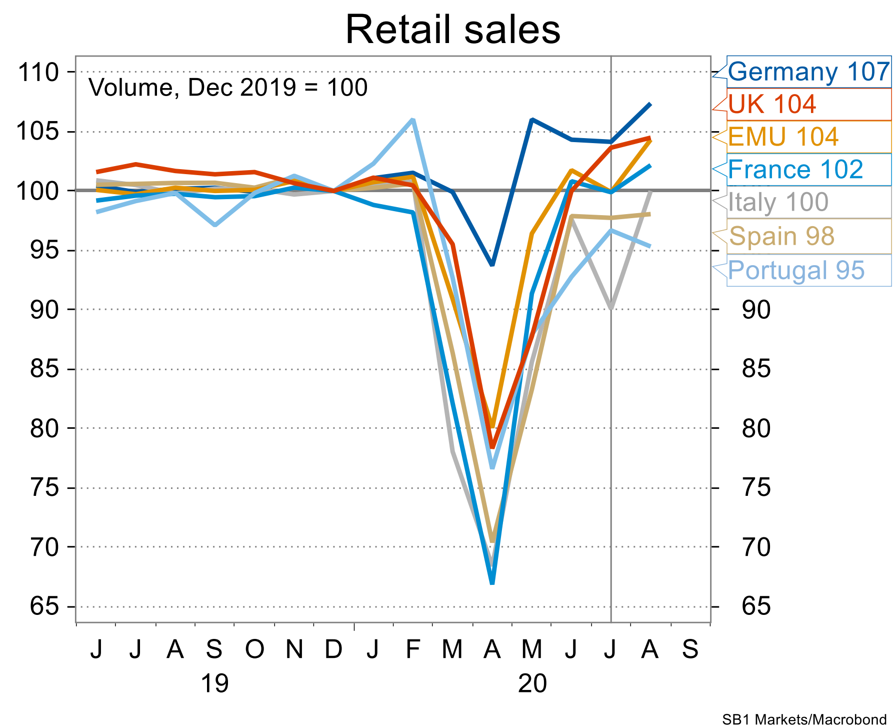


- Italy reported a 7.7% growth m/m in August, and the production level is 2% above the February level
- Germany is still 12% below – but production fell less during the spring, and the accumulated loss vs. the starting level is still lower in Germany than in Italy

Very strong retail sales in August – up 4.4% to 4% above the February level!

Germany at the top, Italy too a great leap forward in August. Spain just 2% below par, without tourists

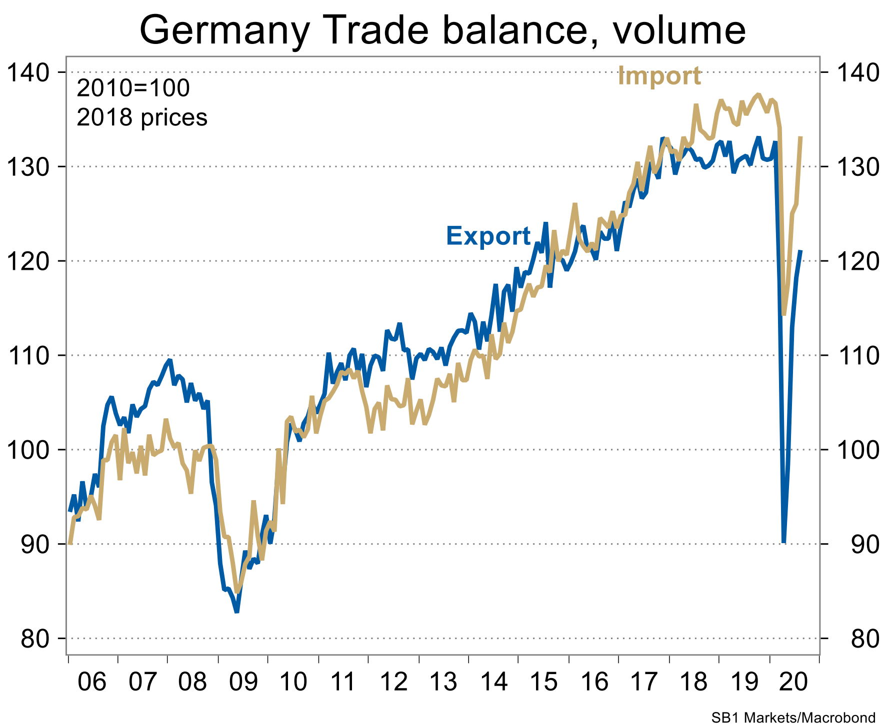


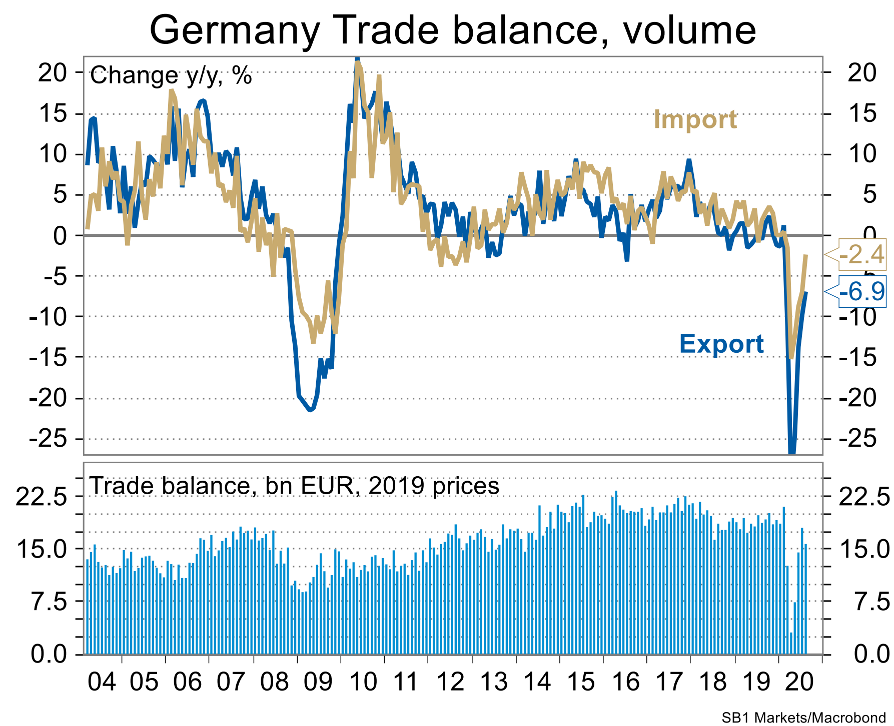


- The hike was much higher than expected, probably due to the 11% lift in sales in Italy – up the same level as the 2019 average
- Gains were substantial in Germany too, up 3.1% - to 7% above the 2019 average
- Sales in Spain were flat in Aug, as in July. The level is 2% below 2019, even if the no of incoming tourists from abroad is much lower than normal
- How much is just temporary pent up demand – and how much is normalisation? Probably a mix of both, consumer confidence has recovered somewhat but remains soft. However, like elsewhere, consumption is transferred from services to goods

German exports further up in August, level still 10% fellow pre corona level

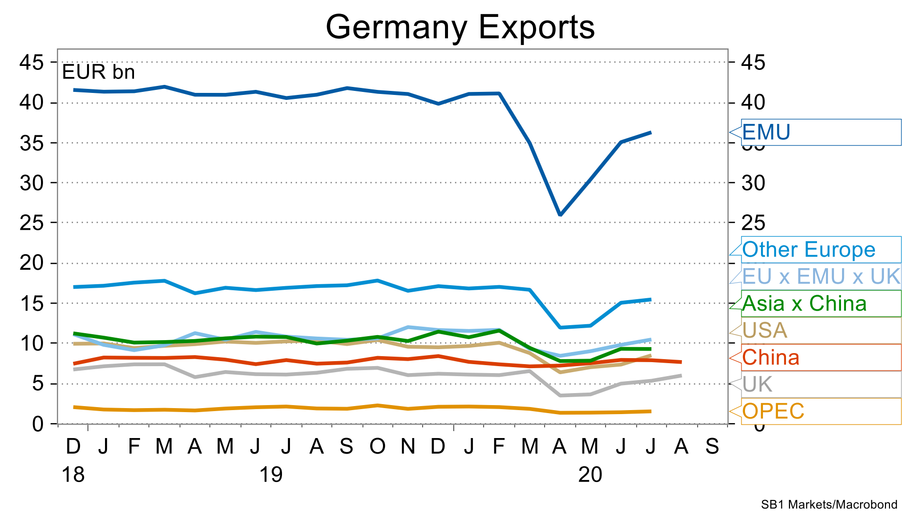
Imports rose too, and are just 2.5% down

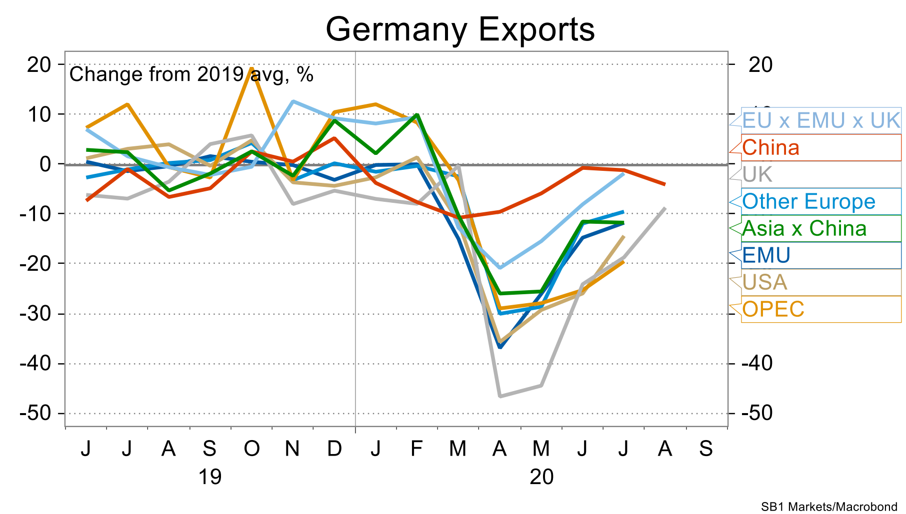




German foreign trade was hit somewhat harder than the world in total

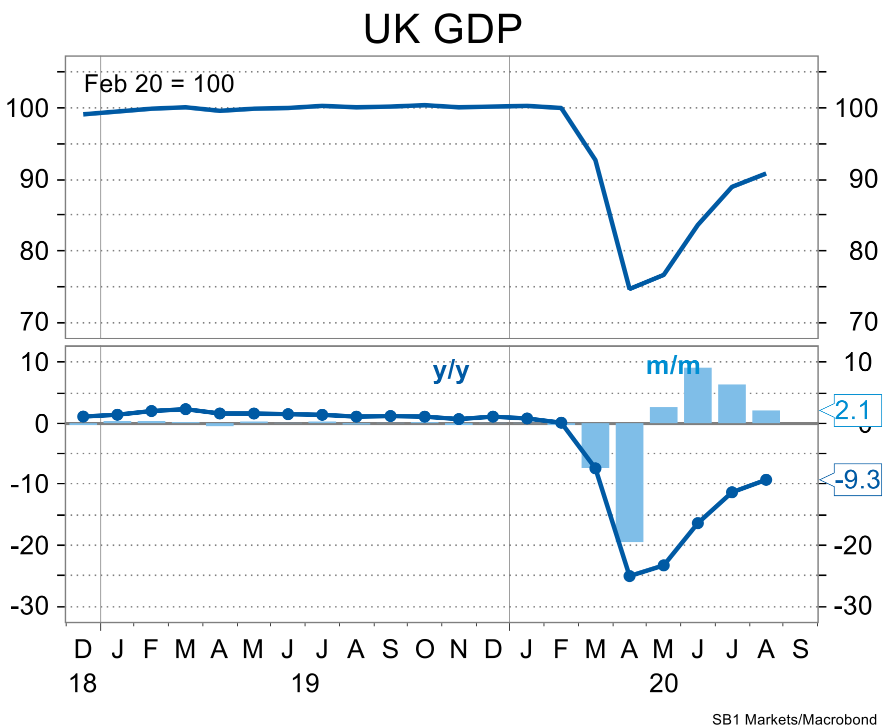
Exports fell in all directions – but are now recovering in all markets

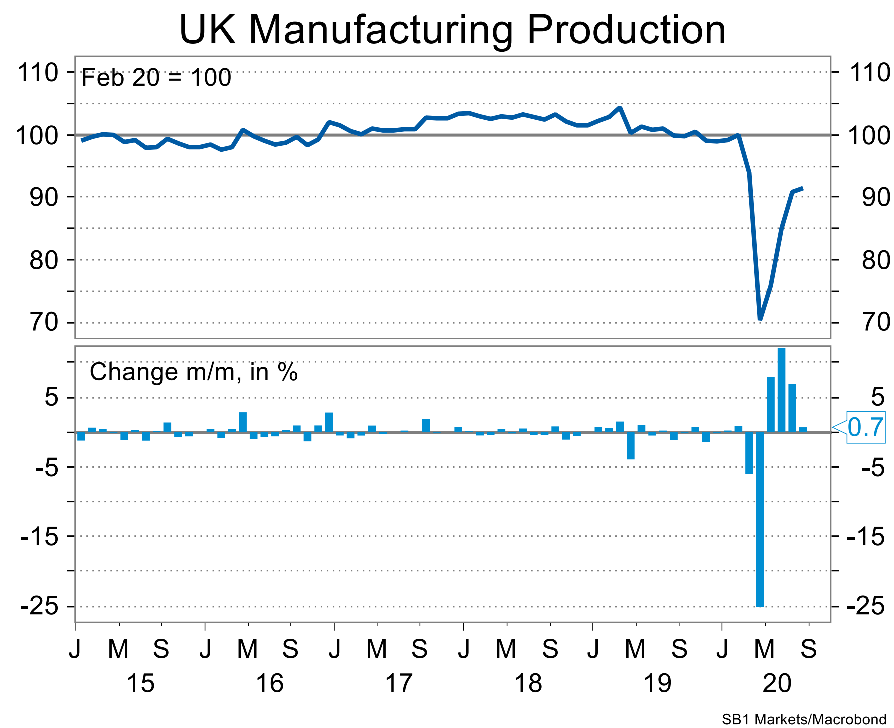




GDP up 'just' 2.2% in August, expected 4%. Level still 9% lower than in Feb

GDP has been recovering since May. Manufacturing production rose 0.7%, is down 8.5% from Feb

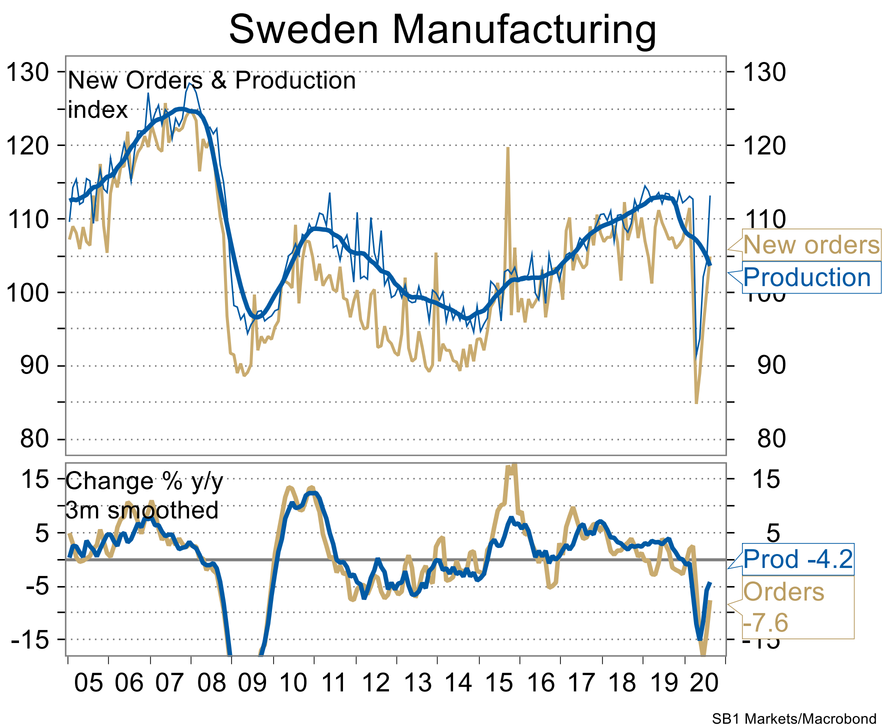


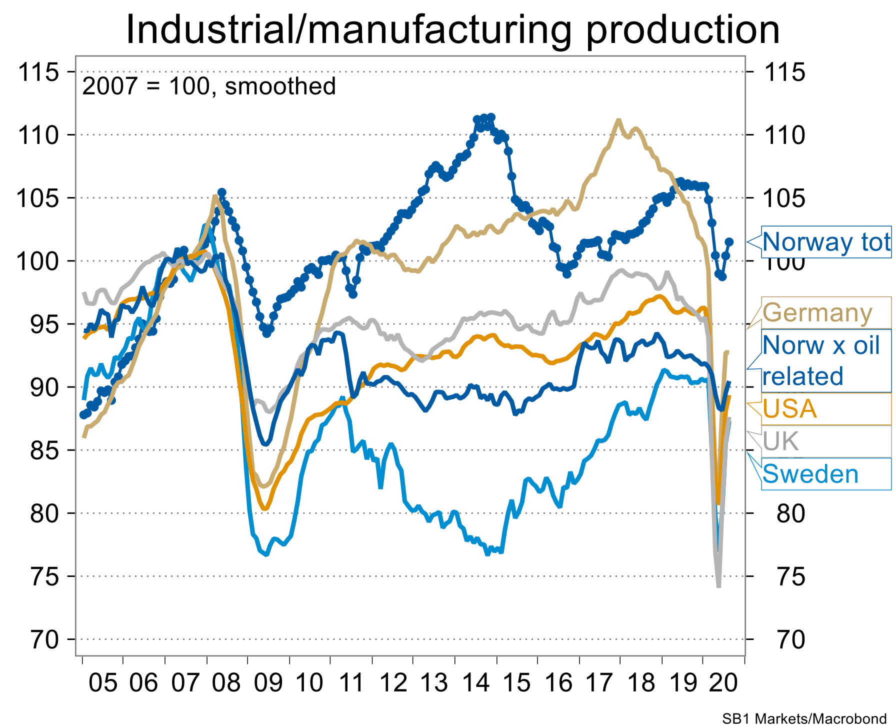


- If GDP flattened at the August level in September, GDP grew by 15% in Q3, following the 20% contraction in Q2 – both not in annualised rates (or 59% down in Q2 and +76% in Q3 if you prefer the annualised figures ☺)

Oobs, manufacturing production straight up the Feb level in August, +9% m/m!

Production is up 24% from the April trough – and the recovery is 'done'





- Both production and orders have increased m/m since May, and production was very strong in August
- The increase in August was broad, and in some sectors 'insane' – but these monthly data have (like in other countries) been extra volatile recent months

Highlights

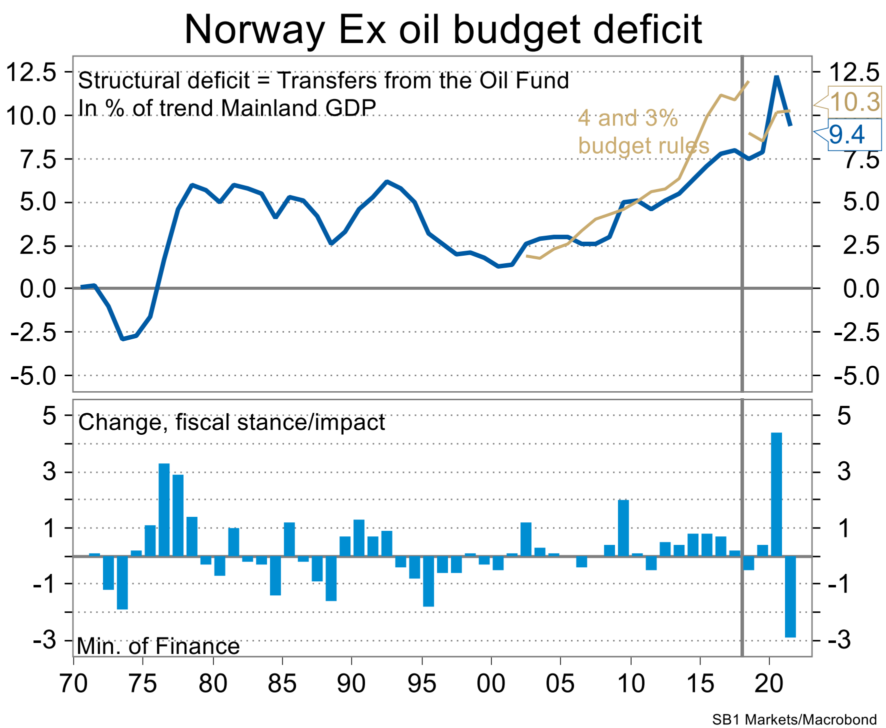
The world around us

The Norwegian economy

Market charts & comments

The x oil structural deficit sharply down next year. That's the present estimate…

The economy will decide the outcome – policy is still flexible

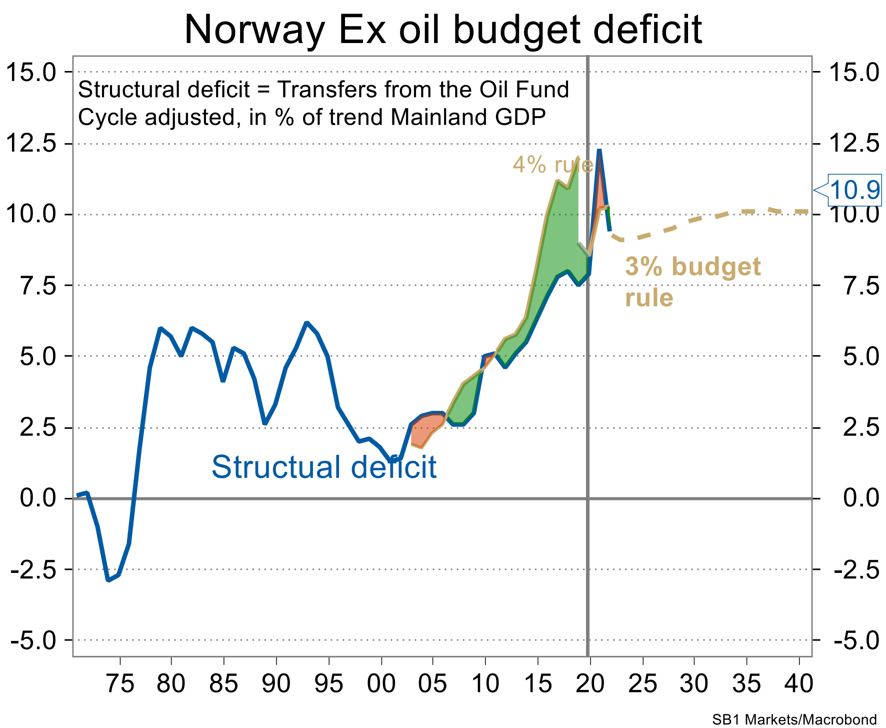


- The Government expects to cut the transfer from the Oil fund by 2.9% of GDP to 9.4%, or equalling 3% of GDP, in line with the long term spending (budget) rule
  - » The estimate of the structural x oil deficit has been reduced by NOK 30 bn (1% of GDP). The deficit is still unprecedent, at NOK 395 bn, or 12% of GDP, up from 7.9% of GDP. The long term budget guideline was at NOK 292 bn (3% expected long term real Oil fund return)
  - » Based on rather optimistic (but not unrealistic) growth assumption, the government expect a cut in the structural deficit to NOK 313 bn, or 9.4% of GDP, in line with the long term spending rule
  - » Central government spending is expected to be cut by almost 5%, following a 10% surge in 2020
  - » Oil revenues are sharply cut, mainly due to the deep cuts in taxes paid by oil companies

- Mainland 2020 GDP is projected down 3.1% (vs. the 4% May estimate), up 4.4% in 2020, on the optimistic side but not totally unrealistic
- The fiscal boost in 2020 at 4.5% is the largest ever, but down from the xx estimate in May. The 2.9% contraction is

Usually, the government has spent less than the budget rule signalled

2020 was an exception, of course

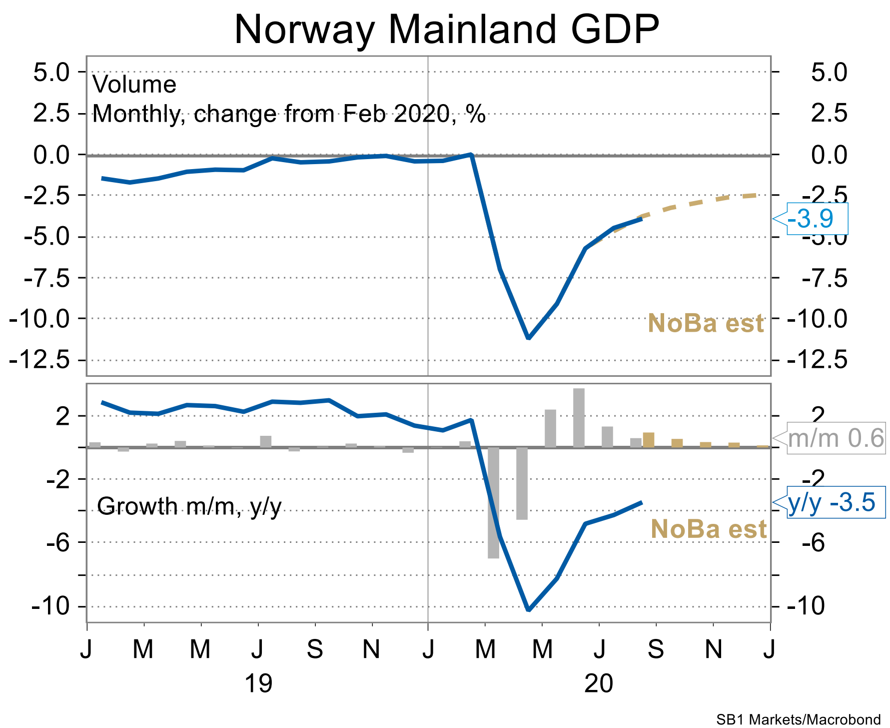


Fiscal indicators NOK bn, per cent	*2019*	RNB20 *2020*	NB21 *2020*	NB21 *2021*
Actual surplus, incl. oil	*277*	*-123*	*-129*	*-44*
Surplus ex. oil	*-228*	*-479*	*-433*	*-371*
Structural surplus ex oil	***-243***	***-420***	***-395***	***-313***
.... change in bn	*-29*	*-206*	*-152*	*81.6*
.. in % of GDP	***-7.8***	***-13.1***	***-12.3***	***-9.4***
... Change (fiscal indicator)	***-0.6***	***-5.9***	***-4.5***	***2.9***
.. in % of Oil Fund value	*2.8*	*4.4*	*4.5*	*3.0*
Spending rule, bn.	*-261*	*-247*	*-292*	*-309*
Deviation from rule, bn.	*18*	*-172*	*-103*	*-4*
Real growth in underlying spending	*1.8*	*12.1*	*10.1*	*-4.6*
Petroleum Fund, bn, ult.	*8243*	*10086*	*10300*	*10542*

Min of Finance, Sparebank 1 Markets

GDP growth slowing but still better than we expected in August

Mainland GDP rose 0.6%, we expected a small decline. The level is 3.9% down from February



- The consensus estimate was +0.9% (as was NoBa's est), we expected a small decline – but the service sector was stronger than we assume
  - » Mainland GDP is up 8.2% from the bottom in April but still 3.9% lower than the Feb level
  - » If activity remains unchanged in Sept, Q3 GDP will be up 5%
  - » We expect GDP to continue to recover the next months but remain below the pre corona level well into 2020
- Travel, hotels, most cultural activities and partly restaurants will not recover completely until the virus treat fades substantially, either because the virus is becoming less aggressive or a vaccine is widely available (or a cheap and effective treatment)
- And some activities will probably never completely recover, like business travels

- <u>On the demand side:</u>
  - » Most demand components rose in July from June
  - » Private consumption made the largest contribution to growth, for the 3rd month, but is still 8% below the February level (due to lower consumption abroad – while Norwegians' consumption in Norway is close to unch from Feb
  - » Government demand continued to pick up
  - » Business investments rose marginally, as did oil investments. Oil investments have fallen sharply since last year
  - » Exports and imports both increased in July

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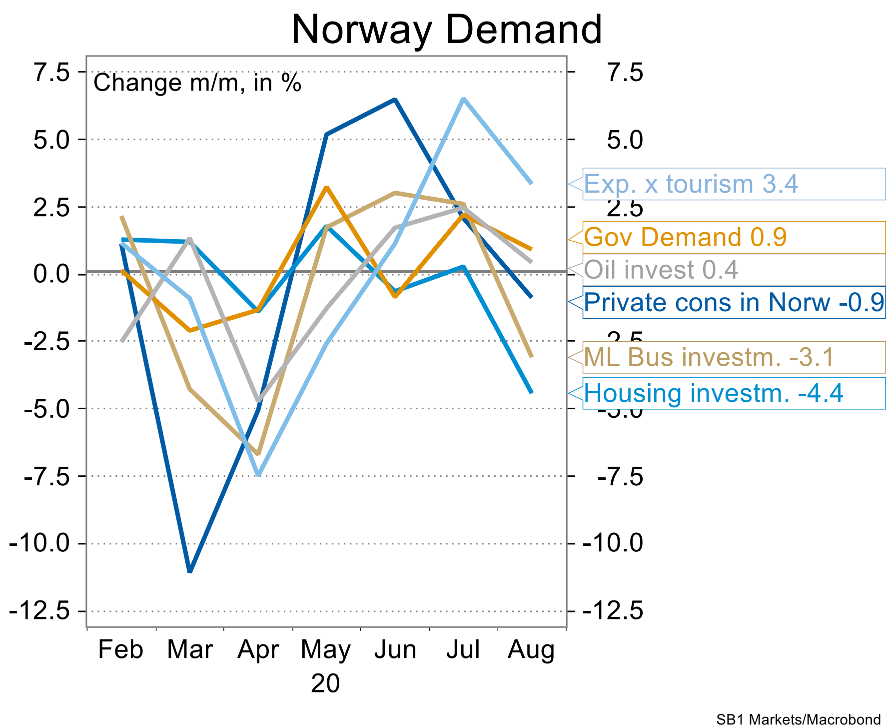
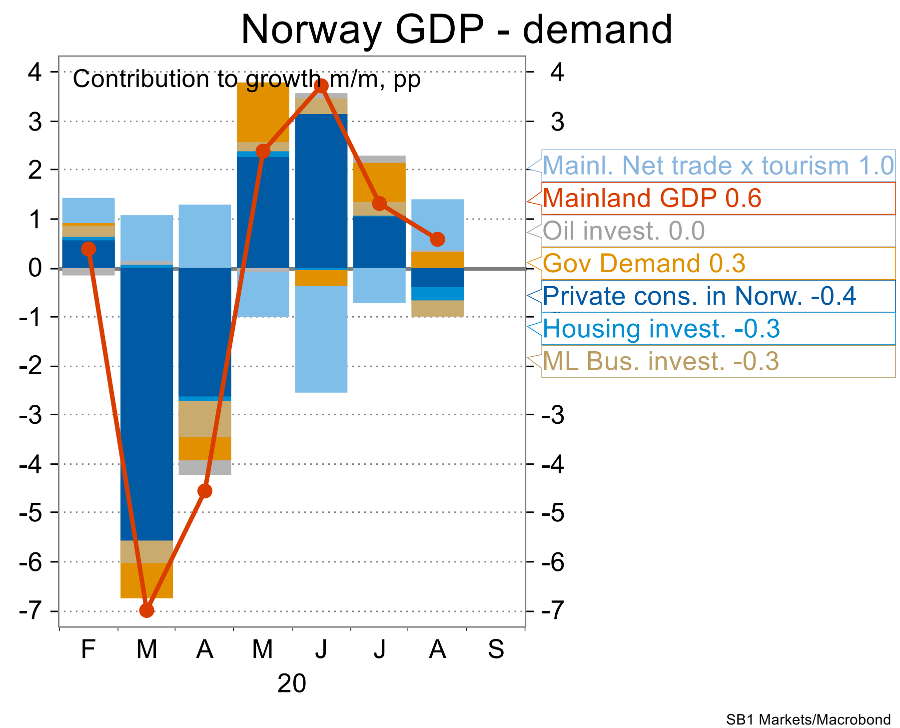
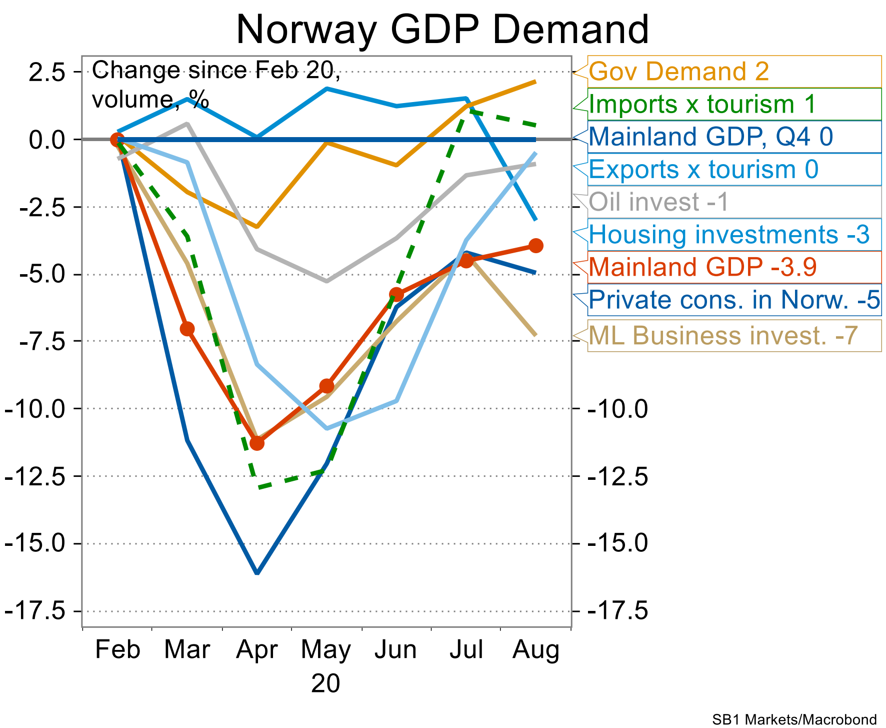
Mainland private demand down in August; exports, government & oil invest, up

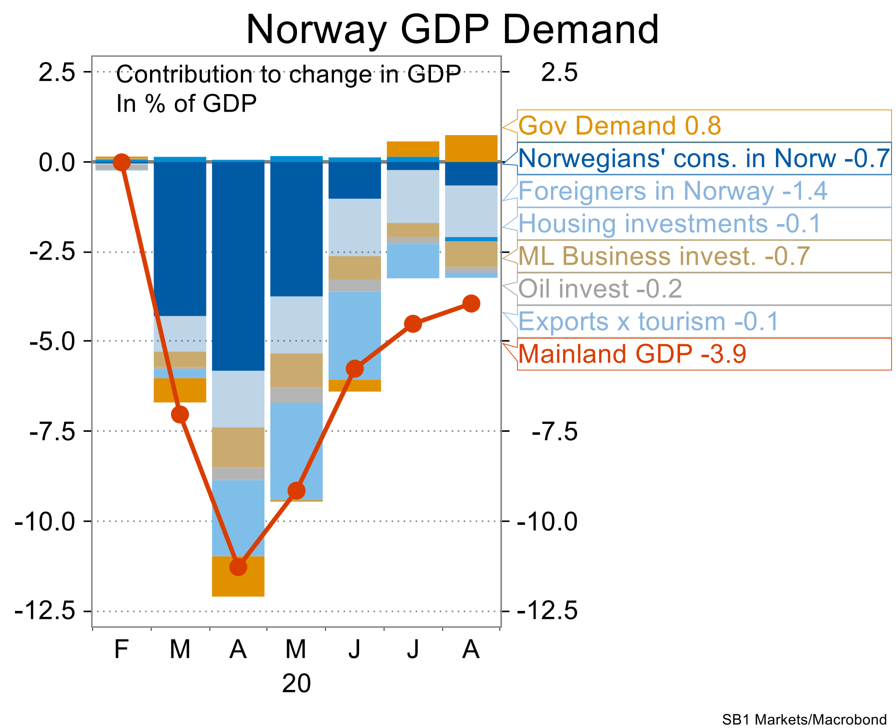




Foreigners’ spending & Mainland business investm. the main drag

.. But exports and government demand have recovered <u>and both at or above pre corona levels</u>!

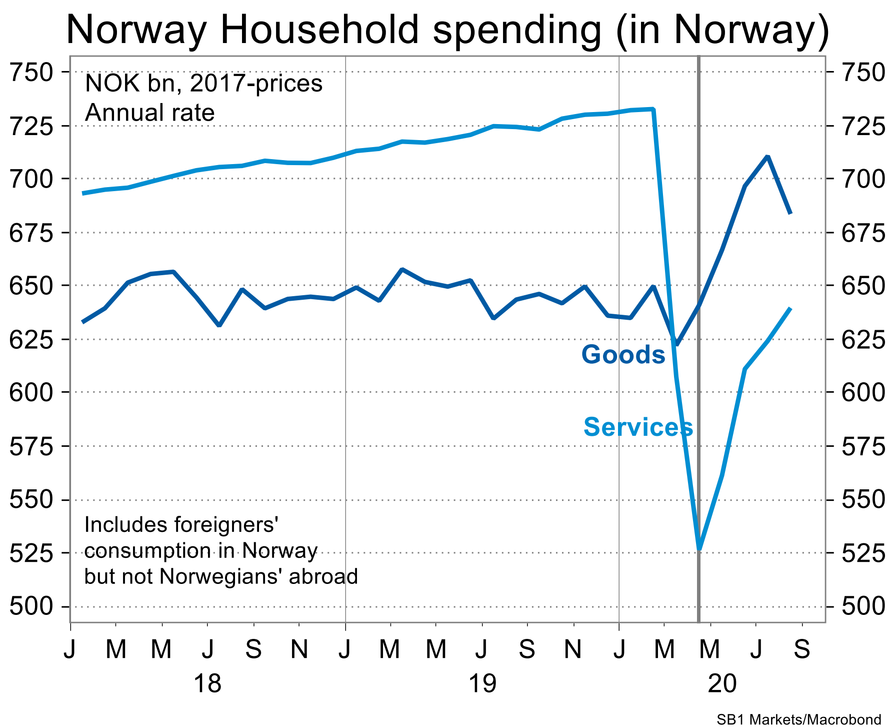




- Private consumption (in Norway, both by Norwegian and foreign consumers), and exports were the main drags on Mainland GDP during the spring
  - Norwegians’ consumption fell in Aug even if service consumption rose as retail sales fell sharply, the net change since Feb equals -0.7 %o of Mainland GDP. Foreigners’ consumption in Norway is still close to zero, and has deducted an amount equalling 1.4% of GDP.
  - Exports has recovered sharply since May, and was almost back the pre corona level in August! (Ex. foreigners’ spending in Norway)
- Business investments fell in August, and are down 7% from February
- Government demand is now higher than in February

Consumption of goods up 9% from February, services down 15%

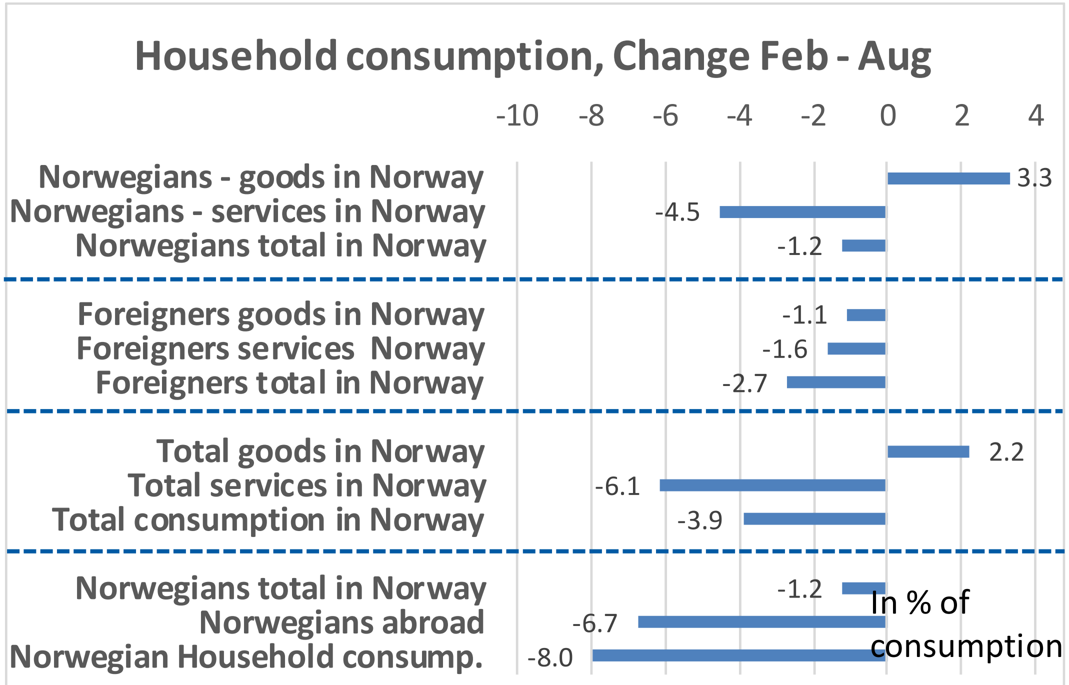
Norwegians' spending abroad 'collapsed', improved in July. Foreigners' are still not spending here



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

Norwegians are consuming almost like normal, in Norway

Goods consumption has been soaring, services cut sharply. And no foreigners are consuming here!



- Norwegian households have reduced their consumption of services in Norway more than they have lifted their consumption of goods – in sum down 1.2% of total household consumption
- Foreigners have cut their spending in Norway equalling 2.7% of *total private consumption*
- Sales of consumption goods are up 4.1%, and services are down 6.9%. The total is down 3.4% - *all in % of total consumption*
- Norwegians have reduced their spending abroad equalling 7.3% of their total consumption – and total Norwegian household consumption is down by 7.8%
  - » Other countries 'have taken 94% of the beating' of the cut in Norwegian's spending (before calculating for import content in consumption
  - » Norwegians have reduced their consumption abroad almost 2.5 x more than foreigners have cut their spending in Norway (because Norwegians are spending 2.5 more abroad than foreigners in Norway)

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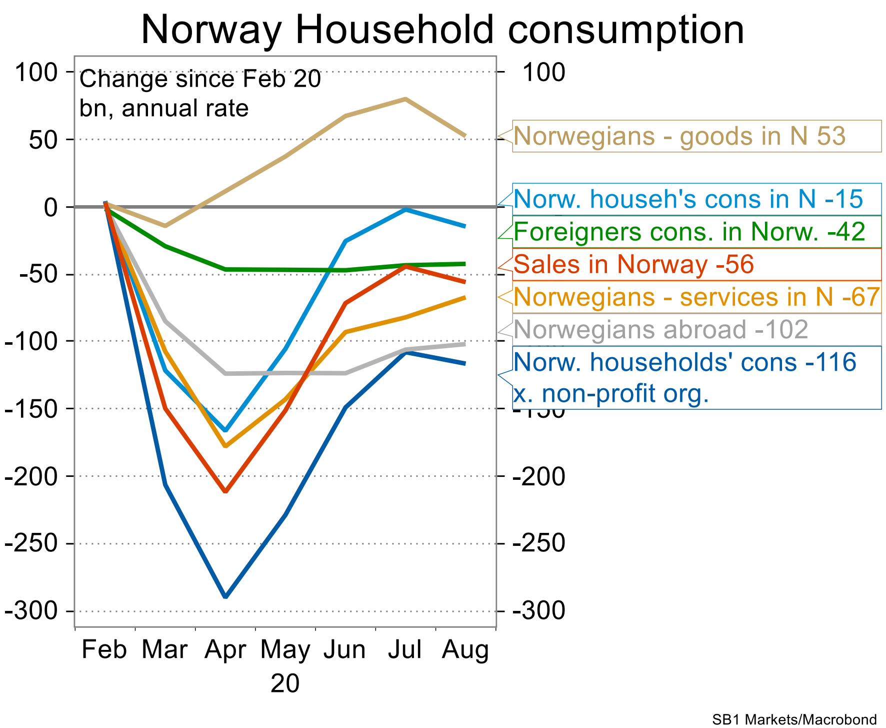
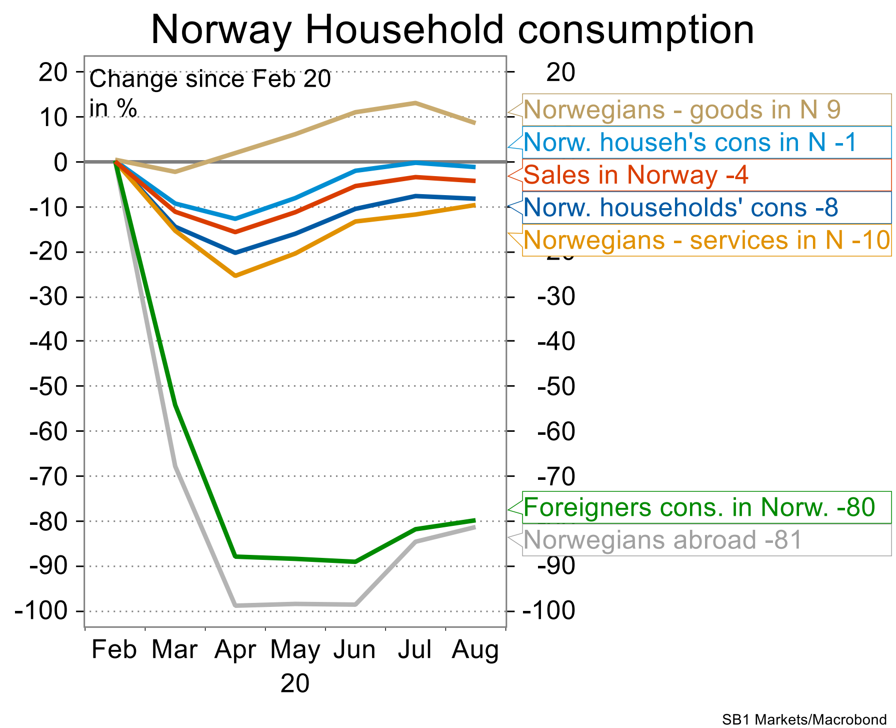
Consumption: Another twist of the numbers

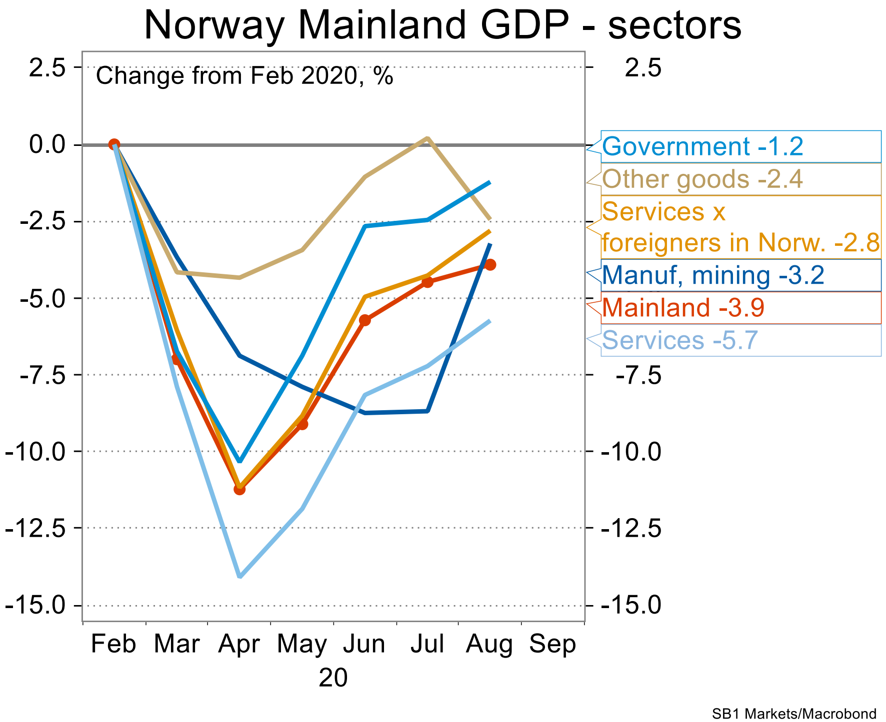
Domestic consumption just marginally down, but sales down due to lack of demand from foreigners

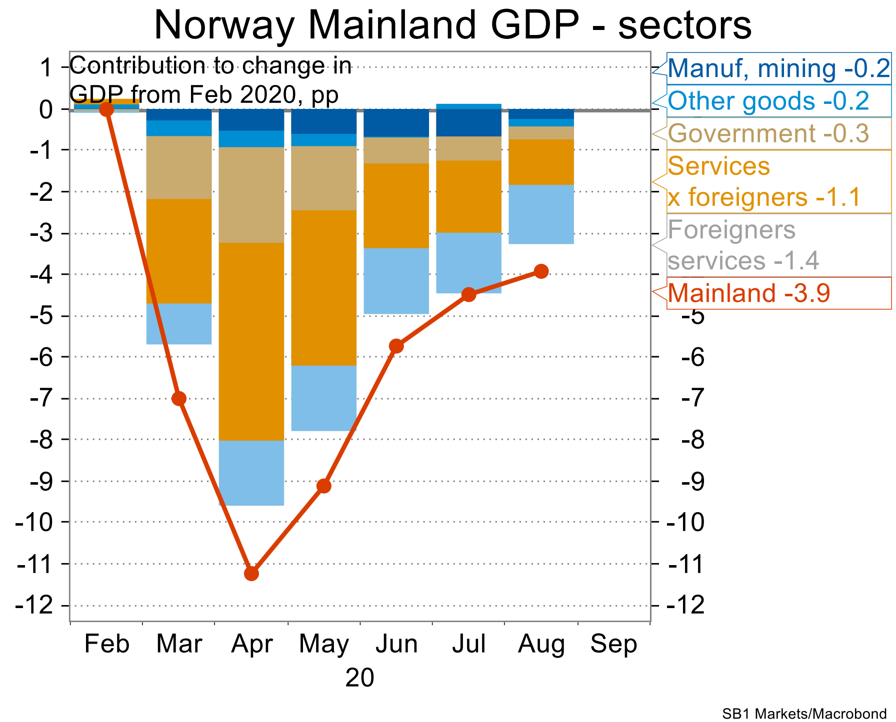




The production side: Services are recovering, still well below par

Services production is down 5.7% from the pre corona level, manufacturing & mining -3.2%

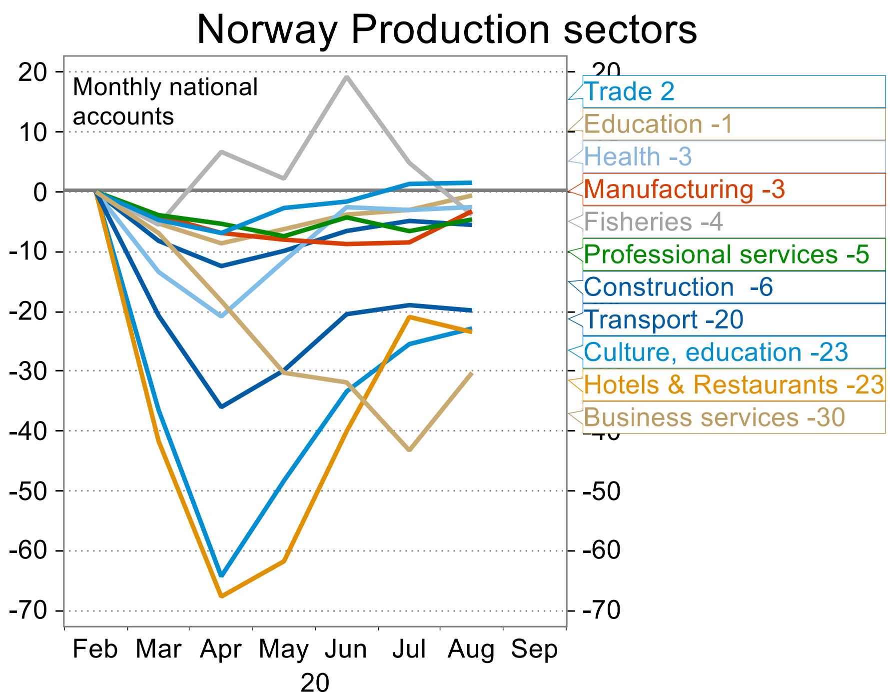




- … following the leap in manufacturing production in August (more on the following pages)
- Services ex foreigners' consumption in Norway is down 2.8%
- Government production is almost back to the February level.
- Production in other goods sectors (primary, construction, electricity) fell in August after reaching the pre corona level in July
- The upside potential for the service sector is probably limited as long as the corona virus stays around

The problems are concentrated: People's business, it just does not work yet

Transport (personal), culture & hotel/restaurants are still down 20 – 23%

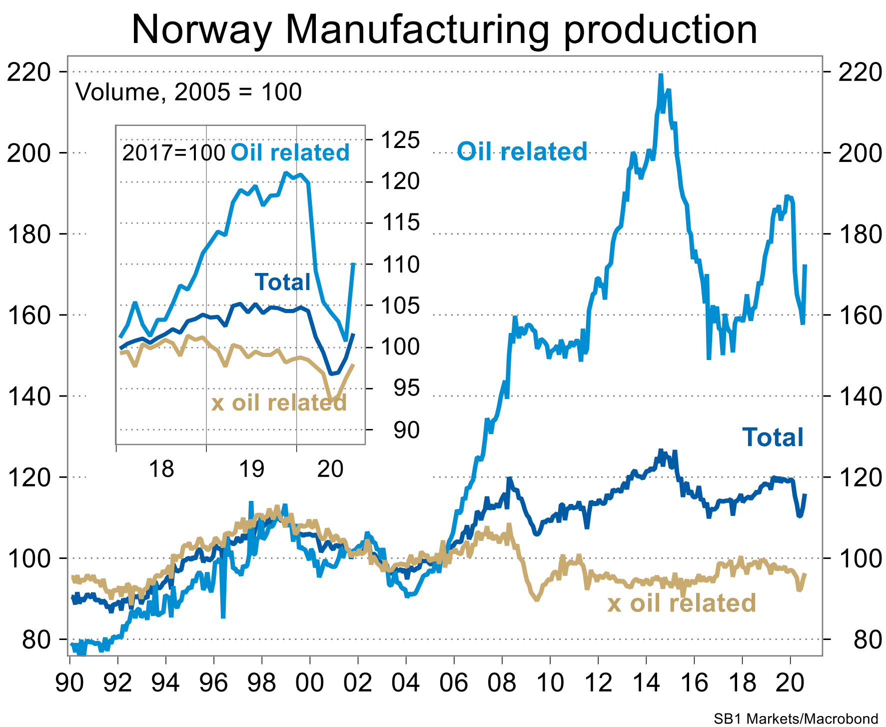


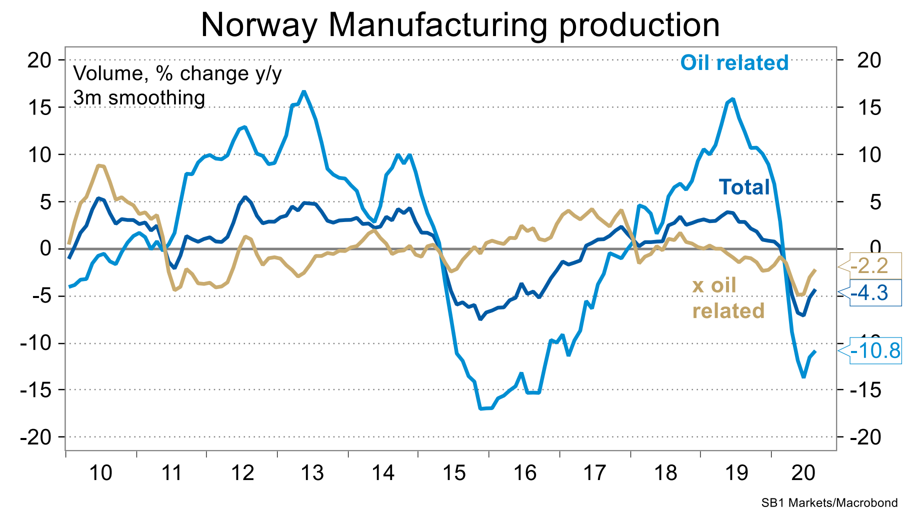
SB1 Markets/Macrobond

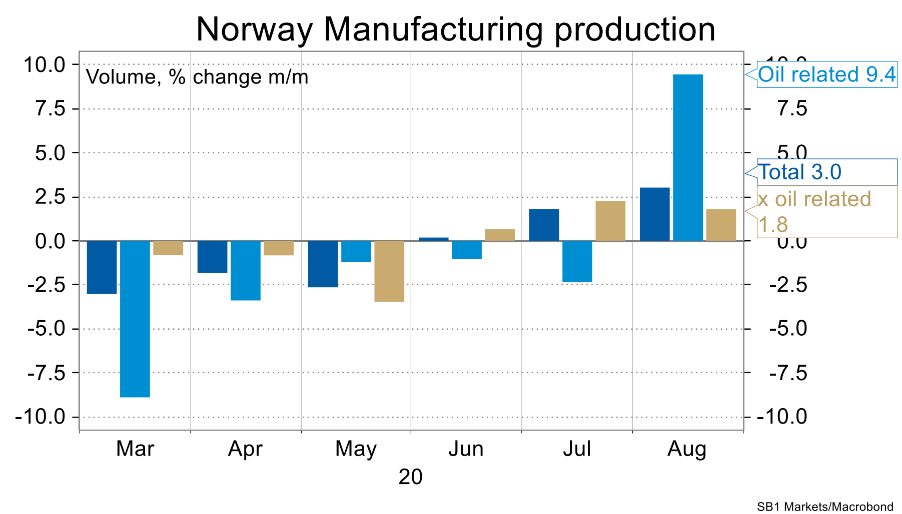
- However, business services are even weaker, down 30%!
  - » What it is? Leasing, temp services, travel agencies, call centres, congresses, property services etc

Manufacturing up 3% in August, oil related up 9.4%

Even non-oil related prod. up 1.8%. Still overall production flat past 3m/3m – but down 2.5% vs. Feb







- As we indicated last month, oil related production had fallen more than the decline in oil investments could explain. Well, the close to 10% lift corrected that in one go. Production is still down 8% vs February
- Production in other sectors has increased past 3 months and is not just marginally below the February level. Still, the trend is far from impressive – and the 30% NOK depreciation has not yet boosted these sectors
- Manufacturing production in Norway has fallen far less then in most other countries, check here
- Surveys are mixed, the PMI crossed the 50 line in September while NHO's Q3 survey was not that upbeat

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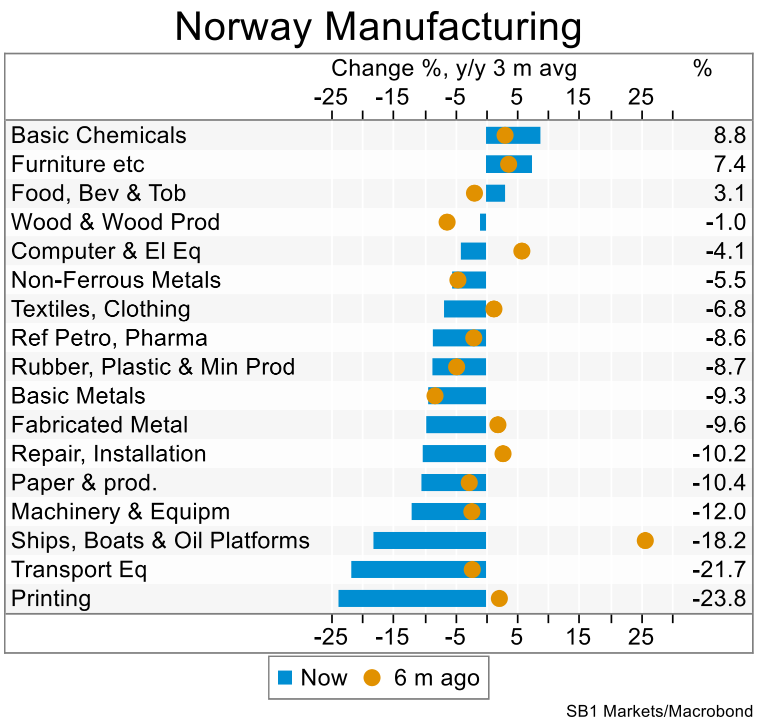
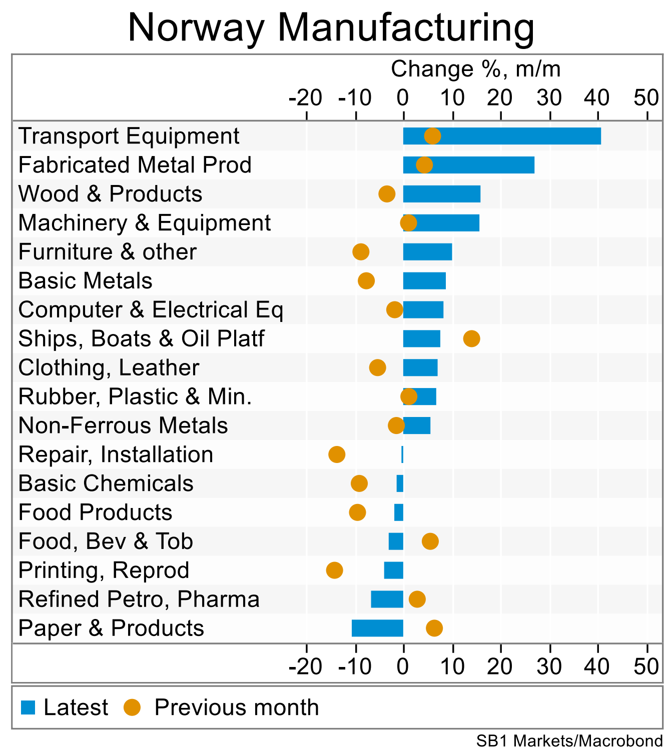
Most sectors up m/m, down y/y. Huge volatility in some sectors

All other sectors are down y/y – but some have been increasing production recent months





- Monthly data have been even more volatile than usual during the corona crisis. Monthly changes in August are all over the place, from -11 to +40%, the latter in transport equipment.

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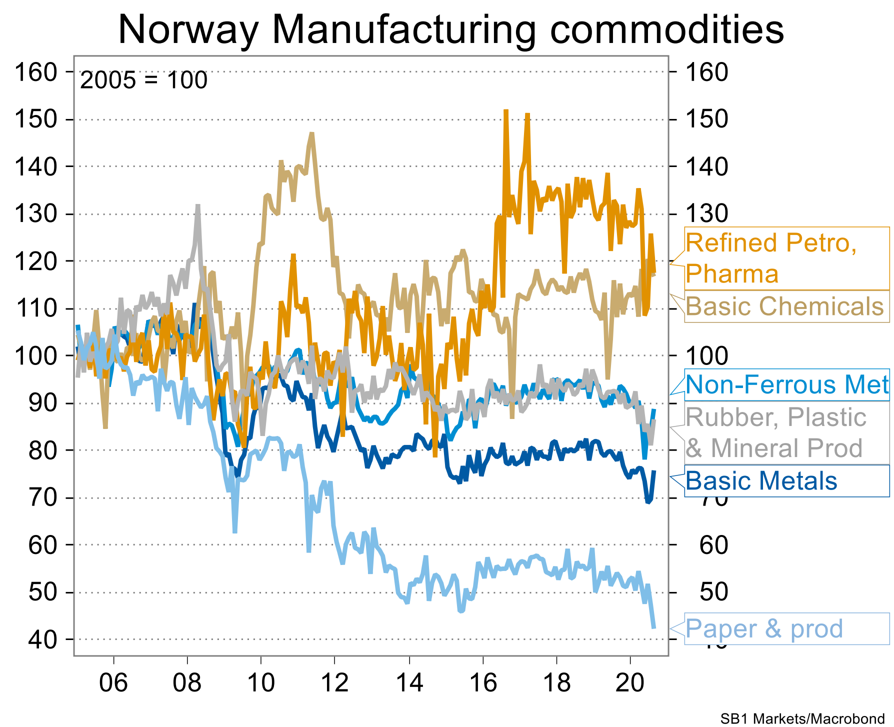
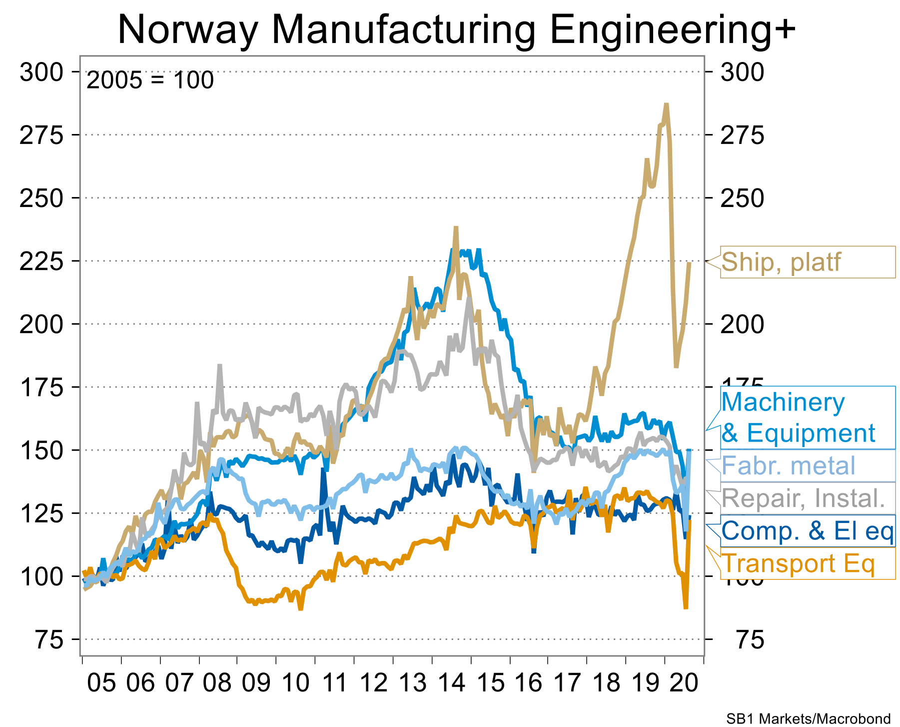
Production in engineering sectors steeply ~~down~~ up

Corona measures, supply chain challenges probably explained parts of the drop during the spring

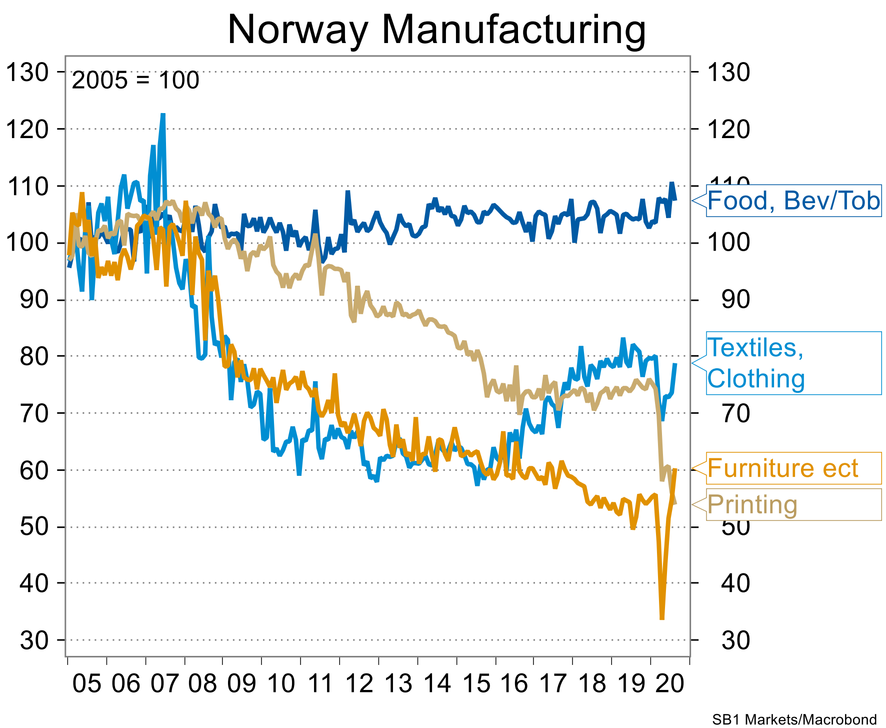




- … and in August production recovered substantially in the engineering sectors, what are heavily dependent on the oil sector. Production in these sectors had fallen much more than the decline in oil investments could explain (see two pages forw.)
- Commodities: Most up in August, none are impressive but basic chemicals are on the way up. Paper

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

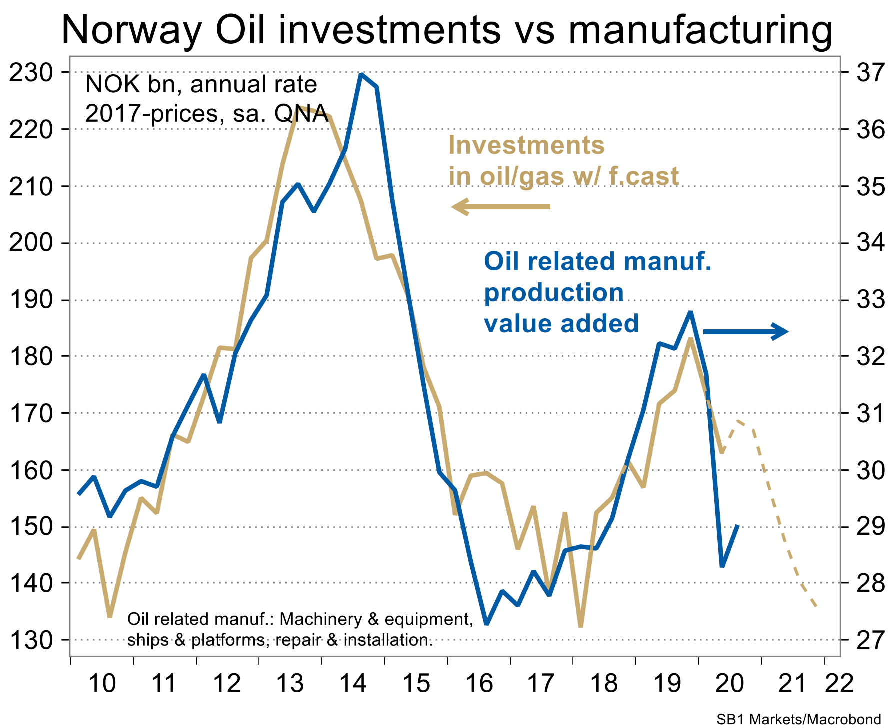
Other domestically oriented sectors down during the spring, has made a come back now

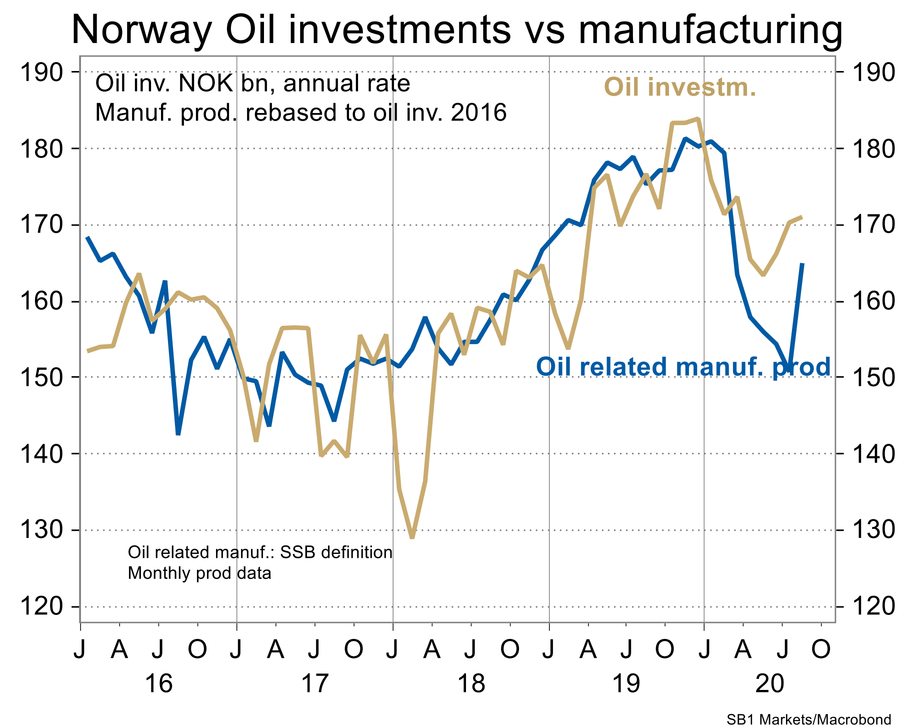


- Except printing. Are we not reading newspapers or books anymore? Or just fewer ads?

Oil related production may still have some upside – until next year, that is

Production recovered sharply in August, but may still be somewhat too low

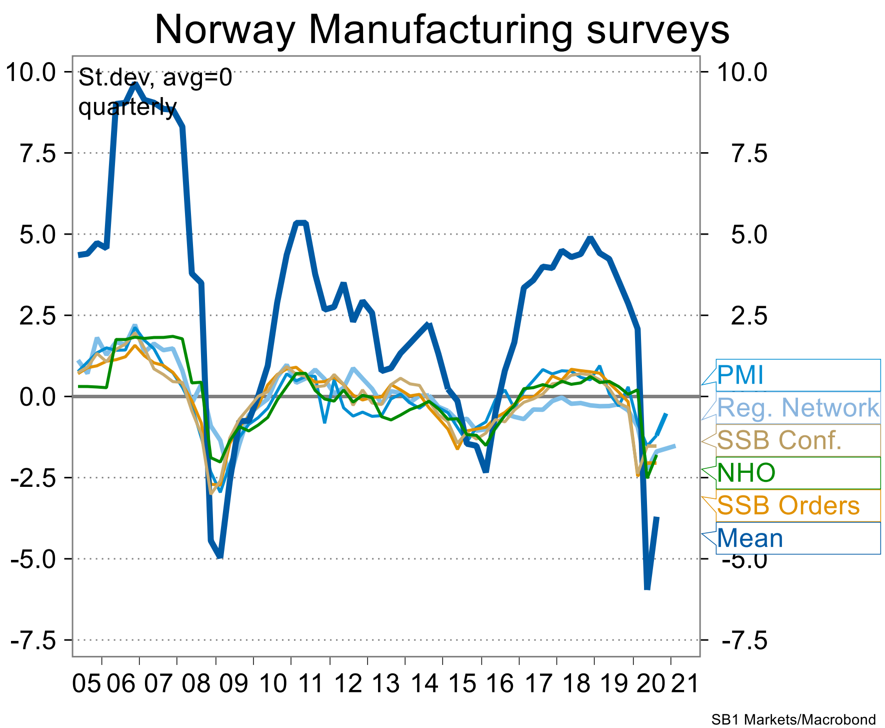


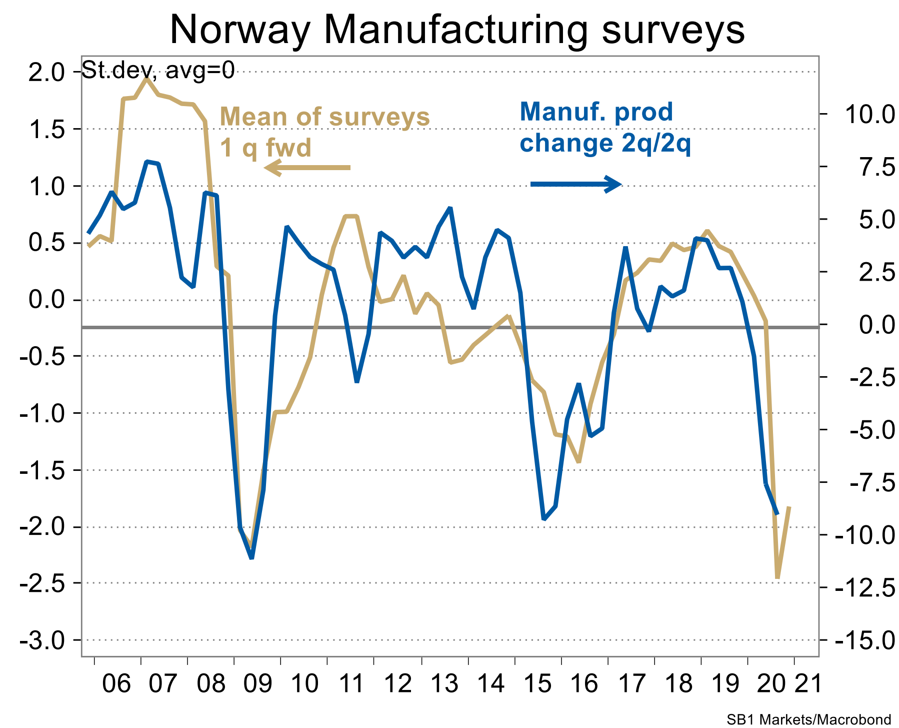


- Both oil sector investments and oil related manufacturing production peaked in Q4 last year, as we forecasted long time ago (before corona hit). Investments are now down some 7% from the peak. We expect a pause in the decline in rest of H2 but at substantial decline next year. The new tax regime may lift the activity somewhat
- Oil related manufacturing production was down 8% in August vs the early 2000 level. Now most of the gap vs. investments may be closed, and the further upside is not that large (even if the Q3 avg still may be low vs. Q3 investments)

Manufacturing surveys are turning up, none are yet suggesting normal growth

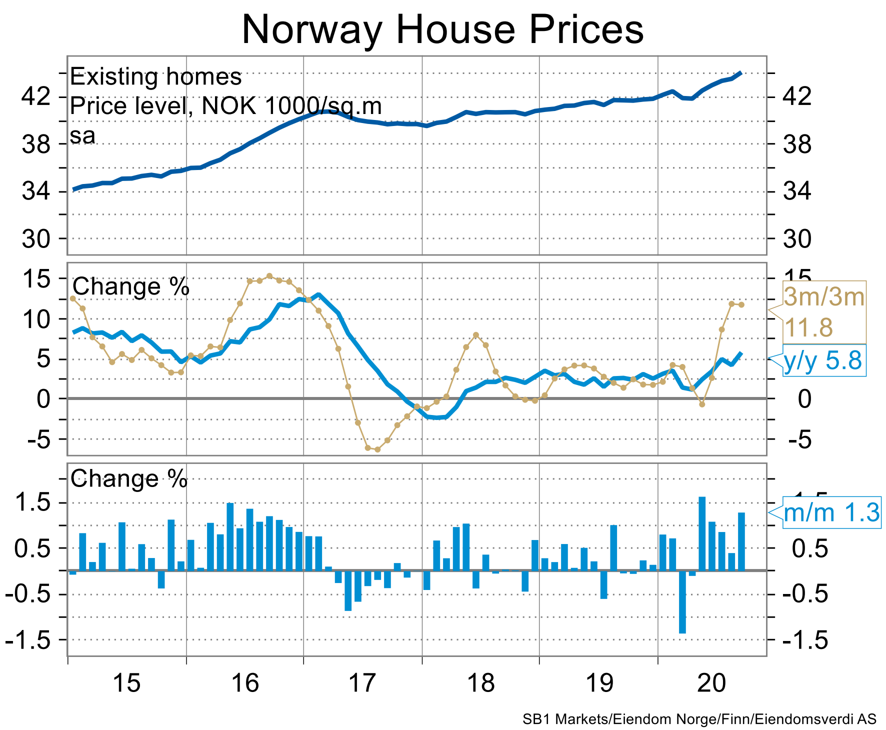
All manuf. surveys fell rapidly and have just partly recovered recent months

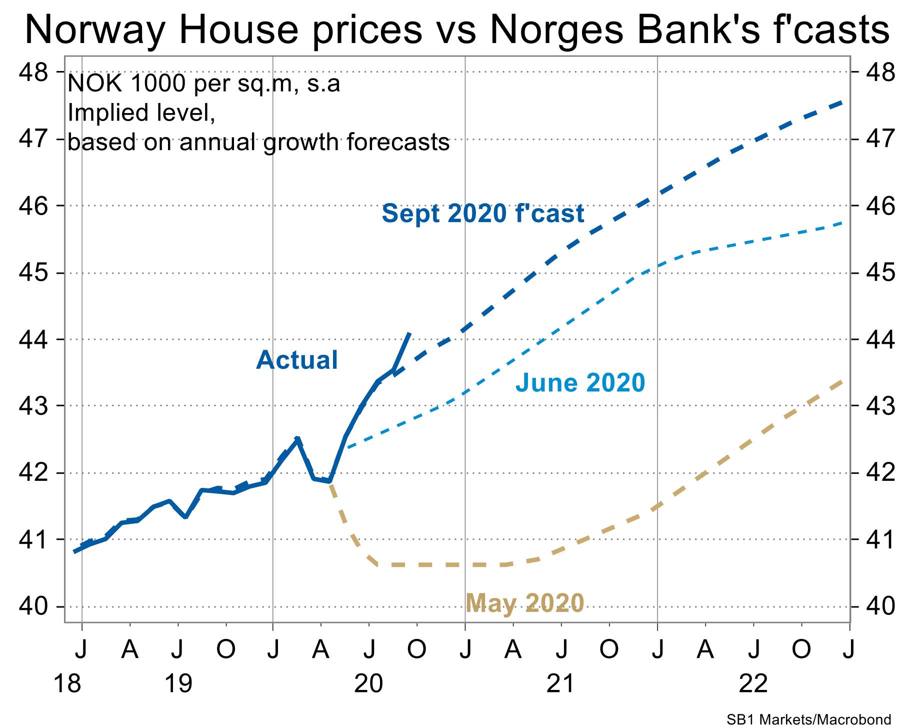




Here we go again: House prices up 1.3% in Sept, annual growth at 5.8%

House price inflation higher than expectations once more; NoBa expected 0.4%, we 0.5%

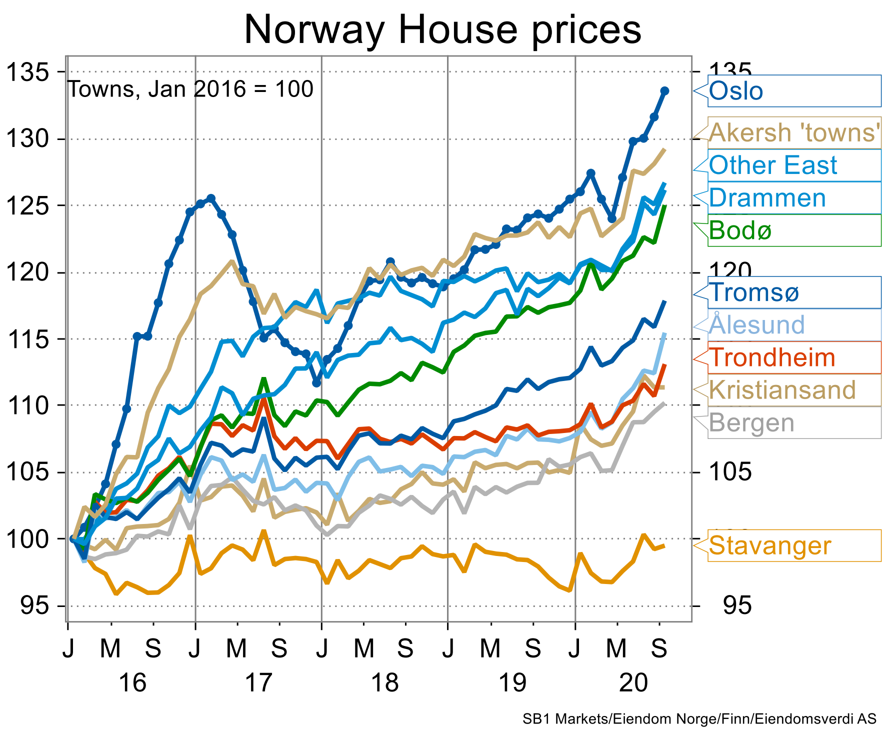


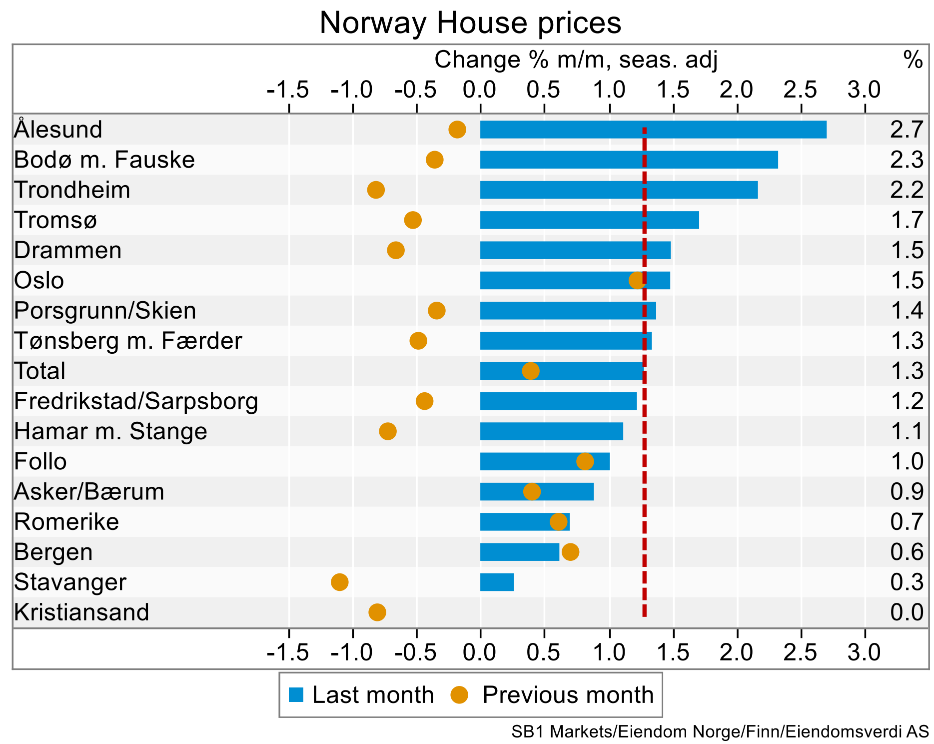


- House prices rose by 1.3% seas. adj Sept, following 0.4% in Aug (rev. slightly up) – and more than expected. The past 3m/3m, prices are up by 12%, annualised. Prices are almost 4% above the Feb level, and are up 5.8% y/y, the highest in 3 years. A 1.2% cut in mortgage rates (to 1.8% in average now, from 3% in Feb), has been more important than uncertainty and rising unemployment
  - » No city reported declining prices. Stavanger and Kristiansand (still) at the bottom of the list (m/m), the costal cities from Ålesund to Tromsø at the top
- The number of transactions kept up at a high level in Sept, at some 10% above the (average) 2019 level. The inventory of unsold homes fell sharply in Sept too, and it is now 25% down from early 2020 and below a normal level, even if more ho0mes are put on the market at fewer are withdrawn!
- **Should the steep price growth continue, Norges Bank will start hiking rates before late 22' (the market expects Q2 2022)**

Prices are increasing everywhere

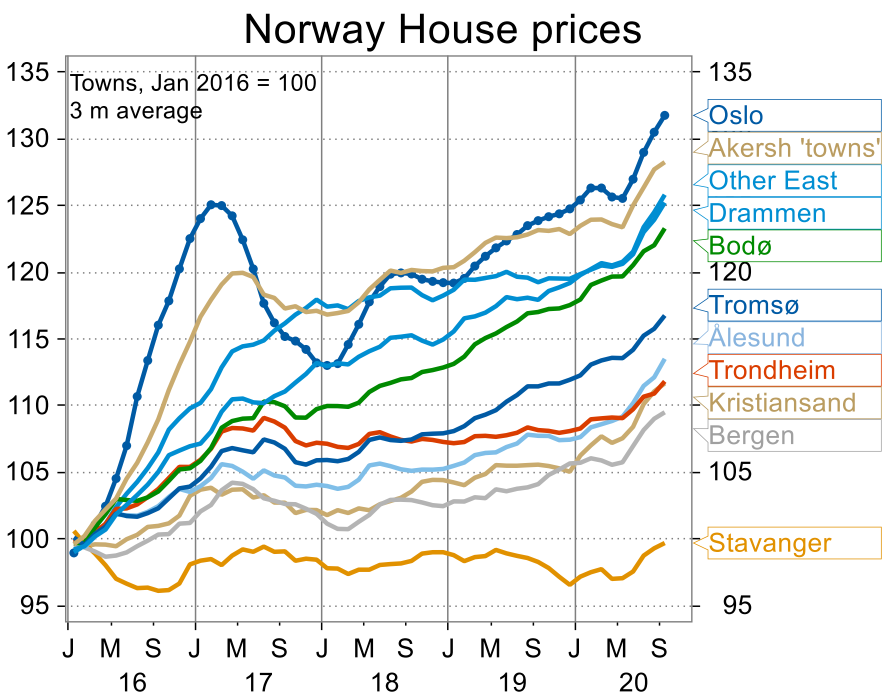
A broad upturn: Prices are above the pre corona levels in all towns, Stavanger the least



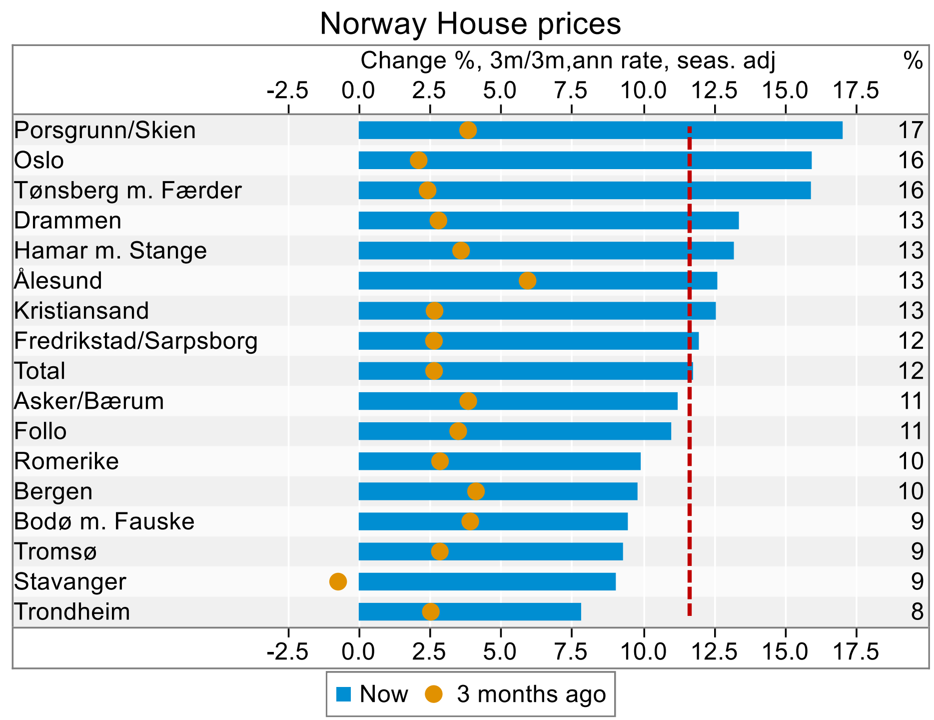


Recent months; measured 3m/m: All up, from zero in April to 12% now!

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



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

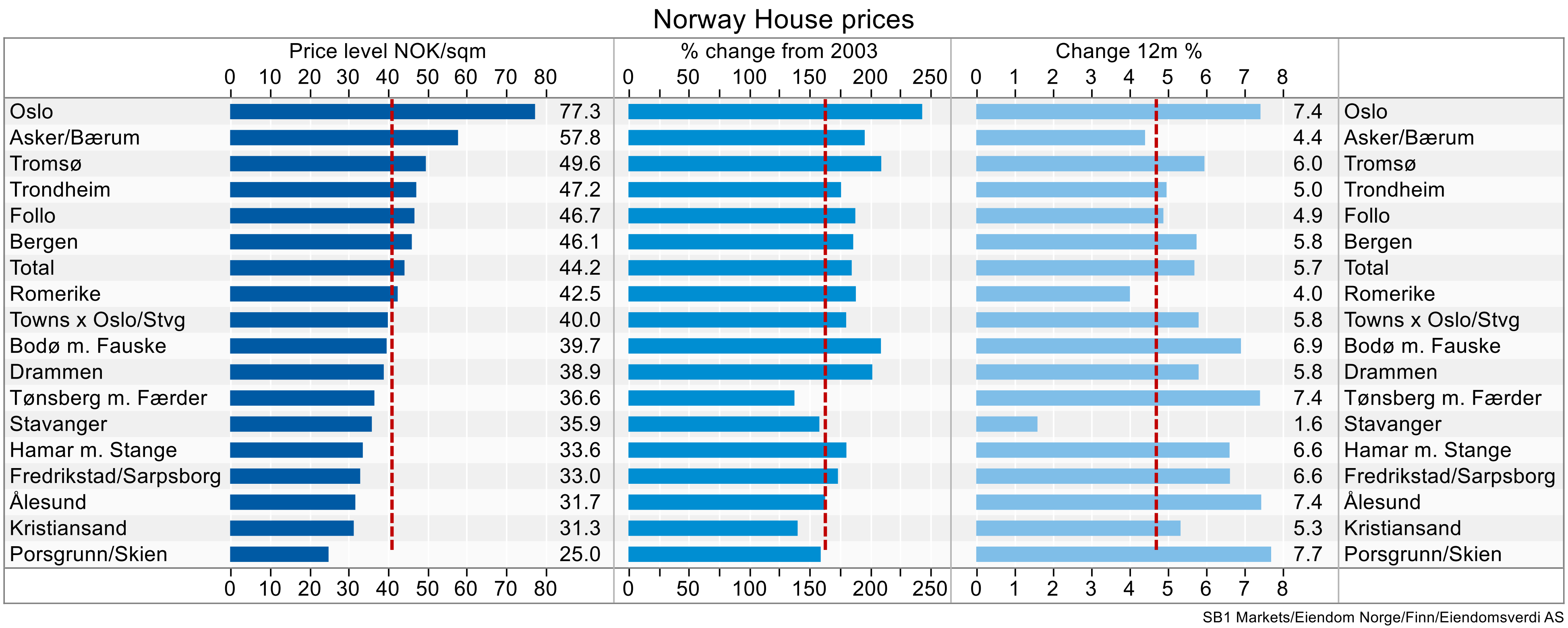


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Stavanger is perhaps best described as flat, recent years, even if prices have climbed since the spring.
- All others are up – with Oslo in the lead vs the early 2016 price level

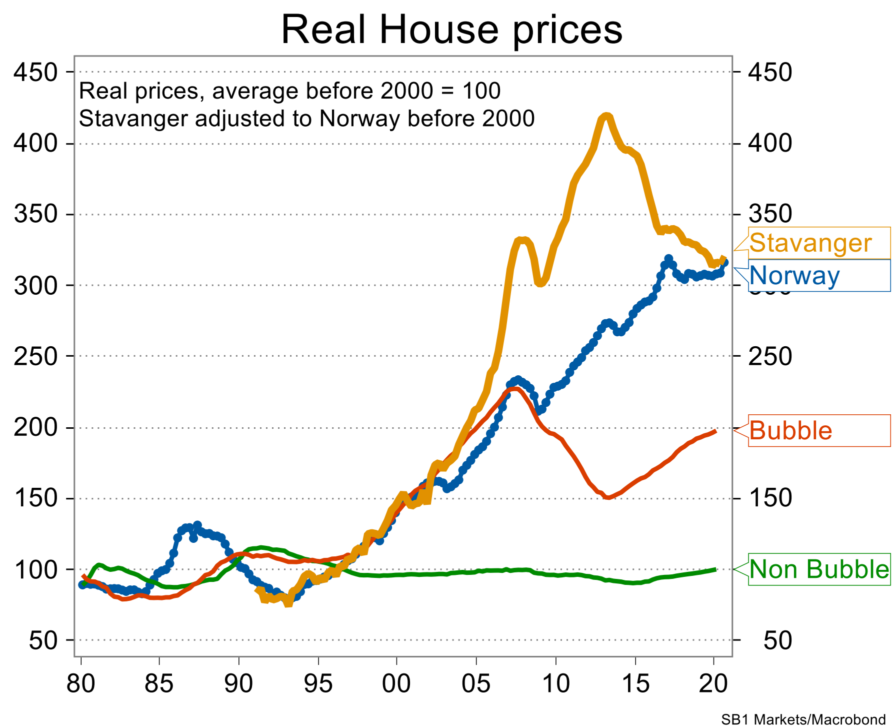
Porsgrunn/Skien in the lead past 12 months, but the level is the lowest

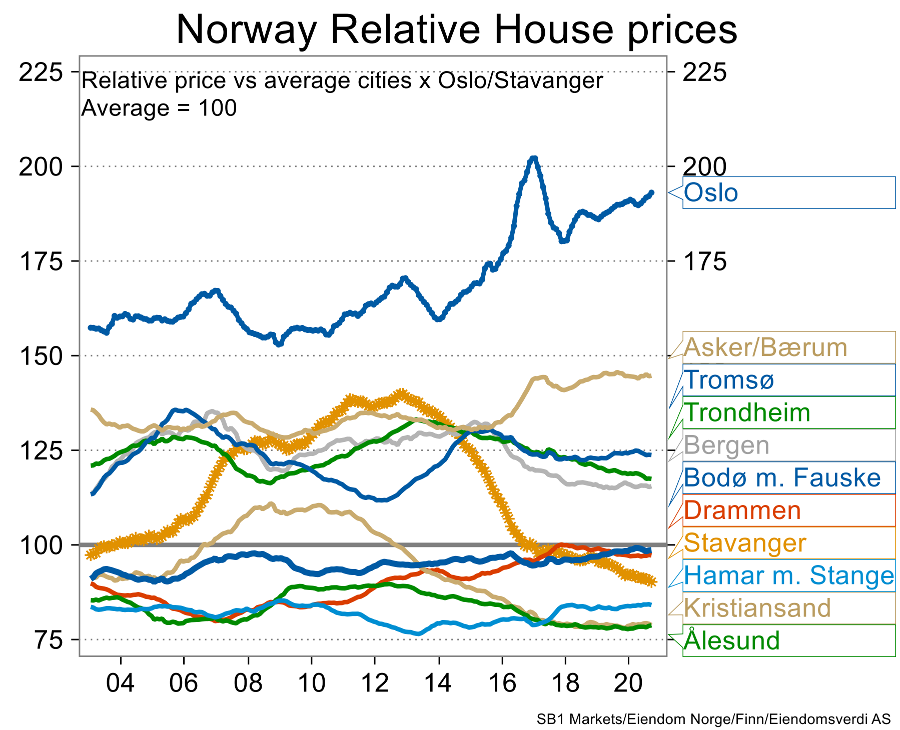
Oslo no 2 y/y, and at the top, level wise



The Stavanger case: Could it happen elsewhere?

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

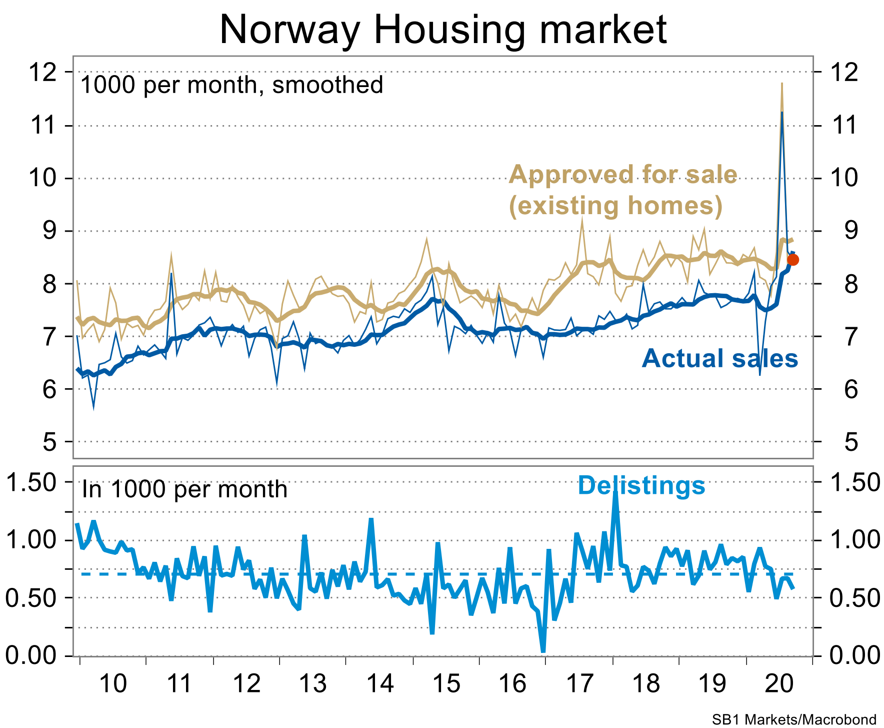


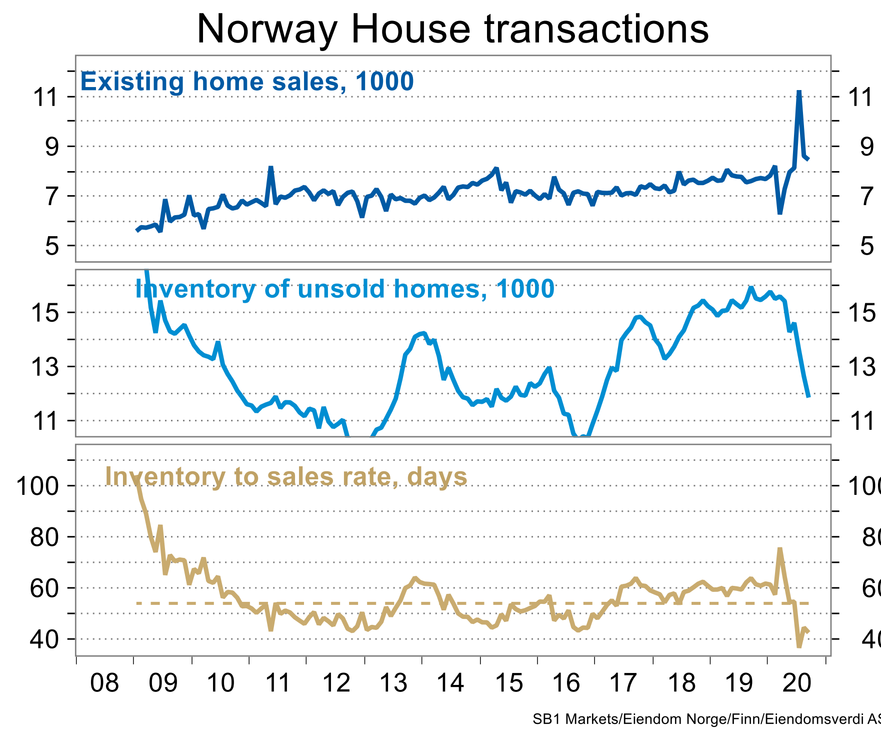


- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

Sales stable at a high level in Sept, +10% from 2019: the inventory is 'collapsing'!

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

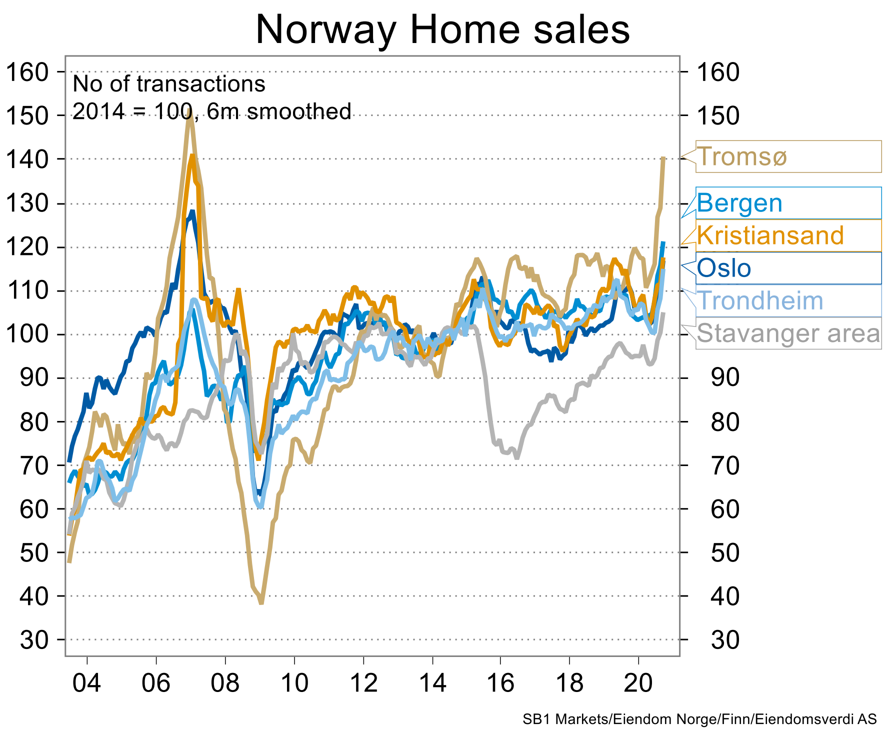


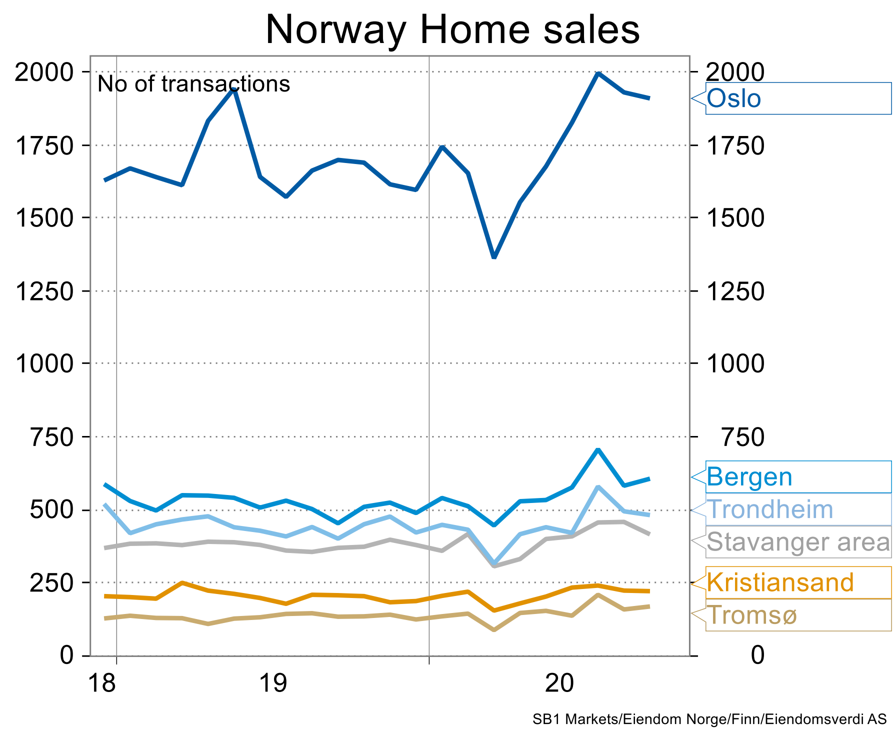


- **The number of transactions** was stable at a high level in September. Sales are up 10% from the 2019 level
- The **supply of new existing homes for sale (approvals)** is back to the February level, after spiking in July
- **The number of delisting** has fallen to below a normal level
- The **inventory of unsold homes** fell sharply in August too, to the lowest level since early 2017– down 25% from before corona hit
- The **inventory/sales ratio** has contracted sharply too, and is close to ATL. The turnover time is now just 41 days vs an avg at 54 days

Transactions up everywhere recent months

Tromsø more steeply up than others, highest level since 2006

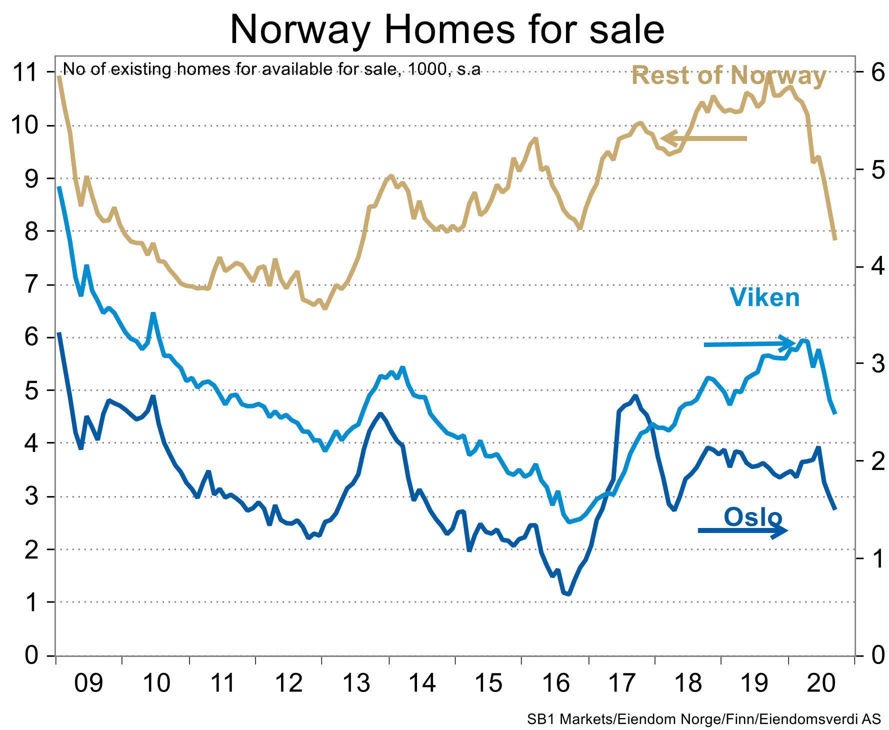


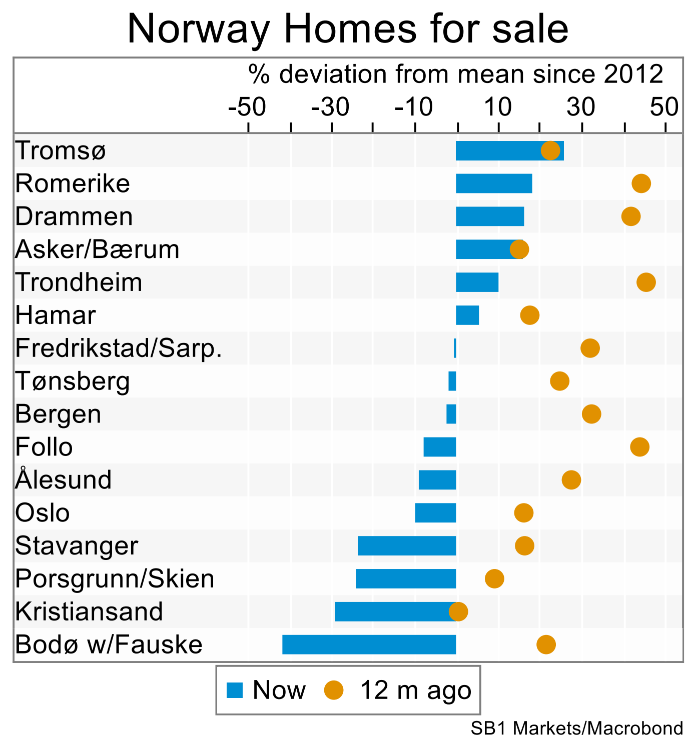


SpareBank 1 MARKETS

The inventory is falling sharply everywhere

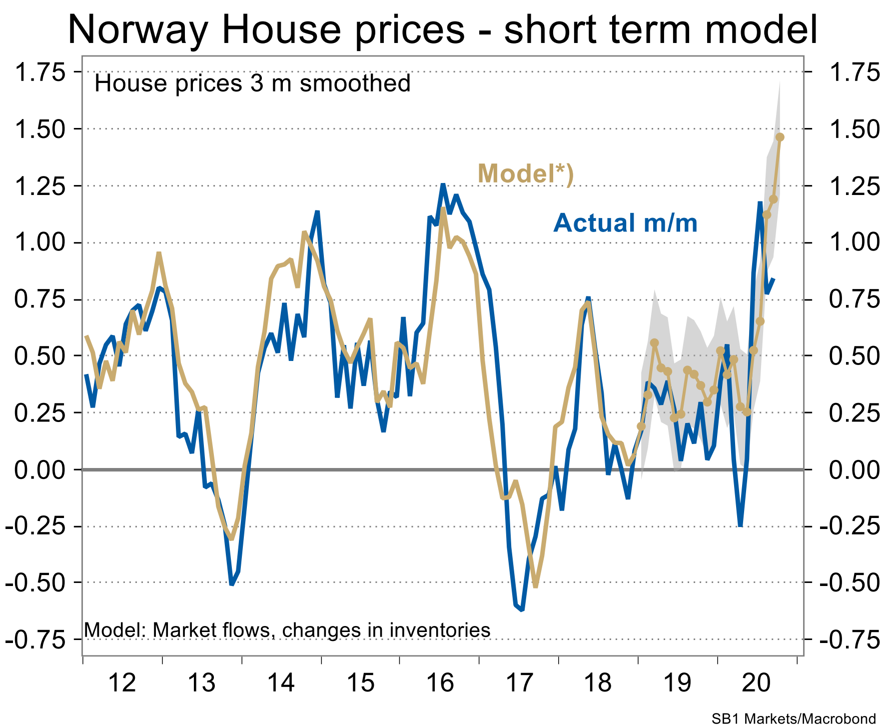
The inventory is approx at an average level in Oslo and Viken but lower than normal in rest of Norway





Short term market flows suggest a price acceleration, even higher than in 2016

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



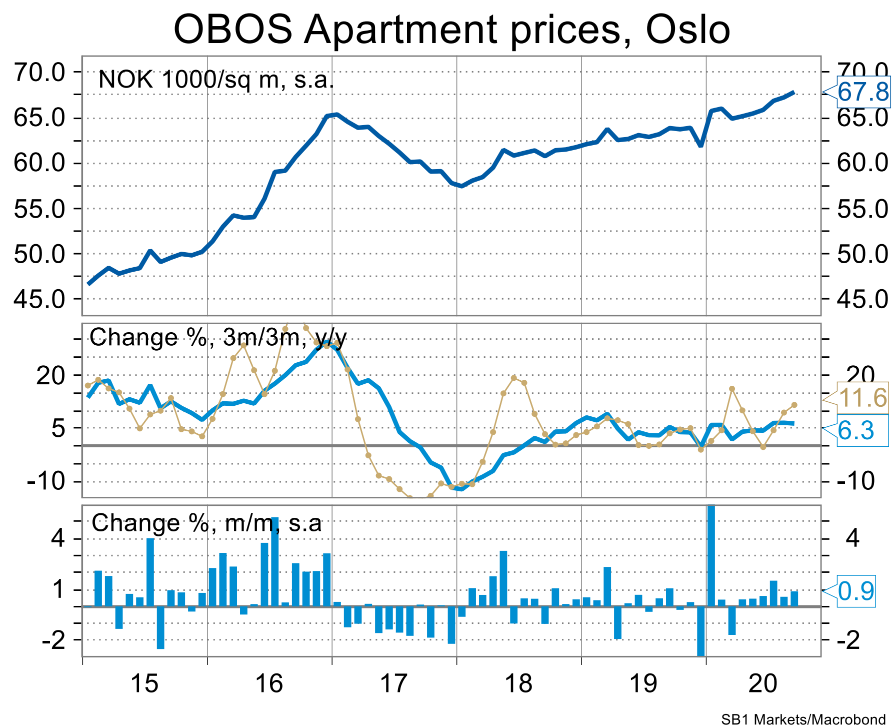
- The supply of new homes for sales and the inventory suggest rapid price growth the coming months, even faster than the past 3 months (avg)!
- The model signals a 20% growth pace
- *This is <u>not</u> a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

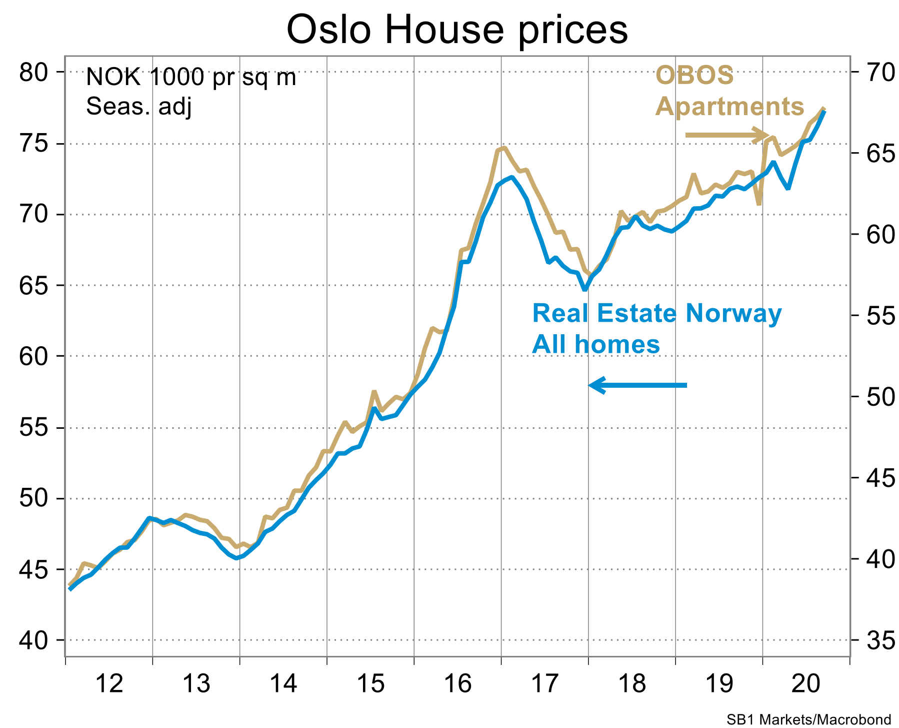
On the policy

- In late March, when the world was expected to fall apart, an easing of the **mortgage regulations** was announced as a temporary measure to support the housing market. <u>Ordinary regulations was reintroduced from October</u>
- Norges Bank cut in the **signal rate to zero** in order to support the Norwegian economy. The main channel is via the housing market, and even with rates at zero, the bank expected house prices to fall sharply in its May mini monetary policy report. In the June MPR, house prices were revised up by almost 10%, and further in the Sept report. In October, prices rose almost 1 pp more than NoBa expected

Oslo OBOS prices confirm the price hike

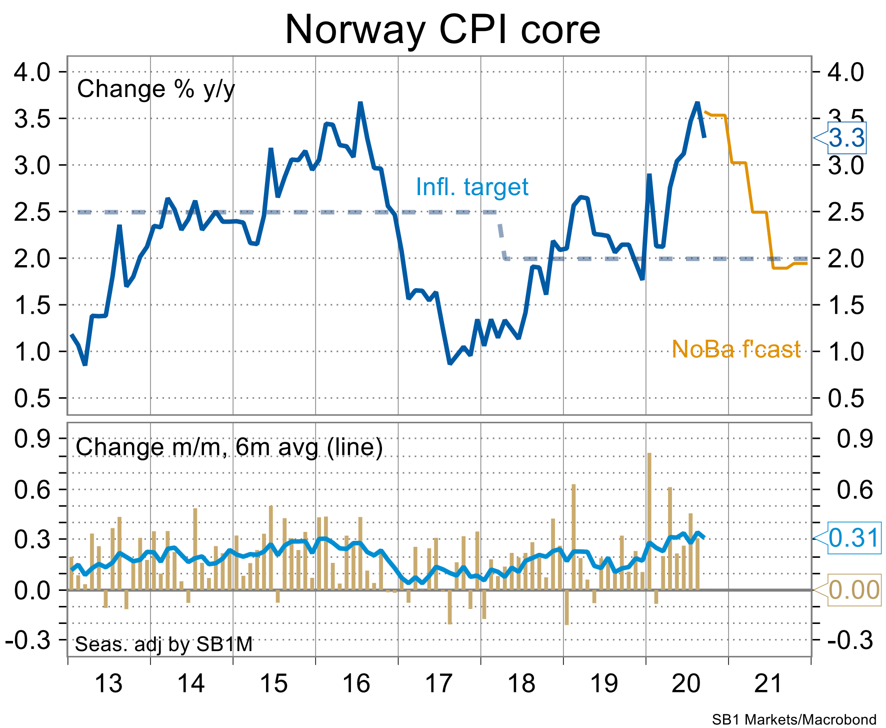
Co-op apartment prices up 0.9% in Sept (seasonally adjusted)

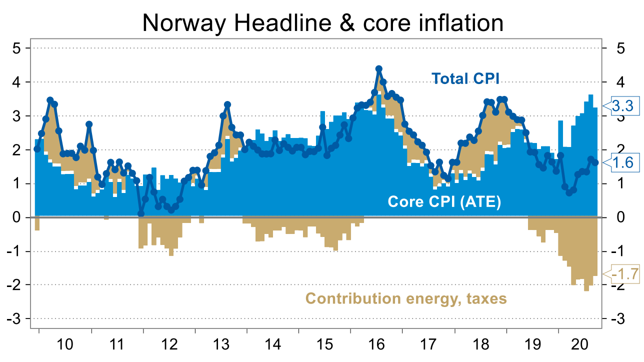




Core CPI slowed to 3.3% in September, cloth prices fell sharply

We expect inflation to slow the





- CPI-ATE (ex. energy and taxes) inflation fell 0.4 pp to 3.7% y/y in August, we and consensus expected a downtick to 3.6%, the same as the (implied) Norges Bank forecast. The Bank expect a 3.5% inflation rate in Q4
  - » Prices were flat m/m (s.a), we expected at 0.2% lift
  - » Clothing prices fell sharply in September too, we exected unch
  - » Inflation is above 2% for all major sectors, except housing and clothing/footwear & airline ticktes that fell 10% m/m in Sept
  - » Import prices have increased faster than our models indicate, now up 4.6% y/y, bringing core inflation up
- Total inflation slowed just 0.1 pp to 1.6%, we expected 1.8%. Electricity prices fell less than we assumed
- **The price outlook**
  - » Impacts of the corona crisis are mixed
    - A weaker economy suggests low inflation. Wage inflation is no doubt on the way down. However, strong demand for goods, may lead to wider (profit) margins
    - The weak NOK has lifted inflation, however, this impact will soon fade as the NOK has stabilized
    - Energy prices have fallen
  - » Our take is that the overall impact will be a slowdown in inflation. But it may take some months before these changes are reflected in the CPI
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. Wage growth will no doubt slow, which Norges (as we presumed) the Bank emphasised in September

Most sectors surprised on the upside in August, just clothing down

Prices are accelerating in many sectors. Food, furnishing and recreation increased the most in Aug

		Change m/m, seas. adj			Change y/y			Contribution, pp		
Sep-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	0.2	0.3	-0.1	4.1	4.1	4.1	0.02	0.51	-0.01
Alcohol, tobacco	3.9	0.1	0.3	-0.2	2.9	2.6	2.9	0.00	0.10	-0.01
Clothing, footwear	4.9	-3.7	0.0	-3.7	0.2	-4.5	-1.0	-0.18	-0.22	-0.18
Housing x. energy	20.1	0.2	0.2	0.0	1.4	1.4	1.3	0.03	0.28	0.00
Furnishing	6.6	0.6	0.3	0.3	10.0	8.1	8.0	0.04	0.53	0.02
Health	3.2	-0.2	0.3	-0.4	1.9	1.6	2.1	-0.01	0.05	-0.01
Transp. ex. gas, airl. tick	12.0	0.1	0.3	-0.2	4.8	5.2	5.3	0.01	0.63	-0.03
Airline tickets	1.2	-2.3	-0.2	-2.1	2.2	-10.0	-4.4	-0.03	-0.11	-0.02
Communication	2.2	0.5	0.3	0.3	4.9	5.7	5.2	0.01	0.13	0.01
Recreation, culture	11.9	0.3	0.0	0.3	4.9	5.1	4.8	0.03	0.61	0.03
Education	0.5	-	-	-	3.5	2.1	3.0		0.01	-0.00
Restaurants, hotels	6.2	0.2	0.2	0.0	2.9	3.8	3.7	0.01	0.24	0.00
Other	8.8	0.2	0.3	-0.1	4.0	4.0	4.2	0.01	0.35	-0.01
CPI-ATE	94	**-0.0**	**0.2**	-0.2	**3.7**	**3.3**	**3.6**			
Norges Bank est.			**0.2**			***3.6***				
Imported	33	-0.5	0.1	-0.6	4.6	3.8	4.4	-0.16	1.25	-0.19
Domestic	61	-0.0	0.2	-0.2	3.7	3.3	3.6	-0.00	2.00	-0.12
Energy, housing	4	5.4	3.0	2.4	-33.4	-25.0	-27.5	0.21	-0.97	0.09
Energy, transport	4	-4.6	2.0	-6.6	-5.0	-8.8	-2.6	-0.16	-0.31	-0.23
CPI Total	101	**0.0**	**0.2**	-0.2	**1.7**	**1.6**	**1.8**	0.00	1.64	-0.22

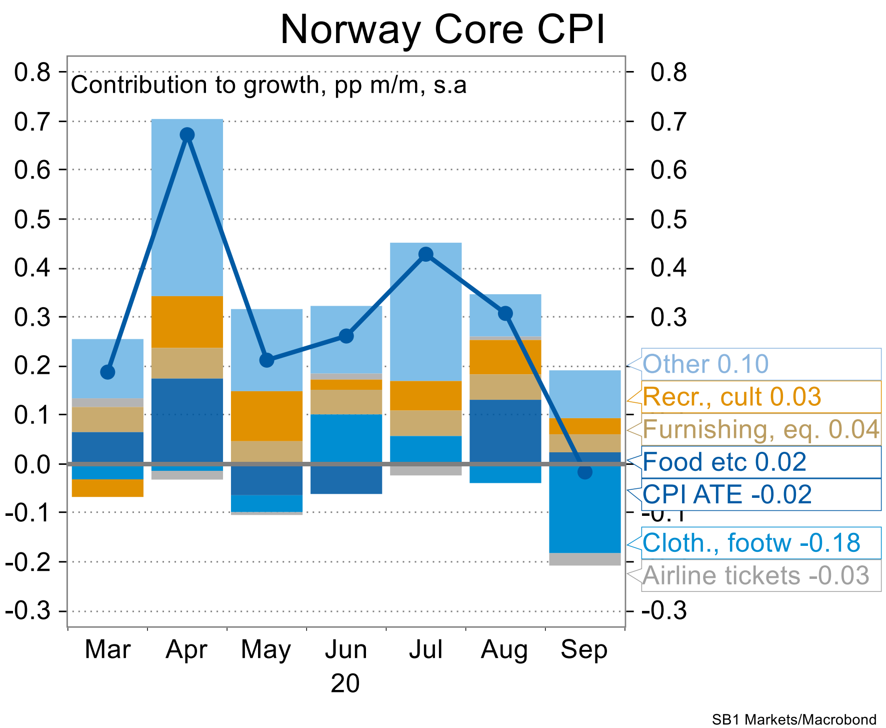
Change m/m based on seasonally adjusted data (calc by SB1M)
Sum of parts does not necessarily add up to totals
Norges Bank m/m s.a. estimate is implied, calc by SB1M

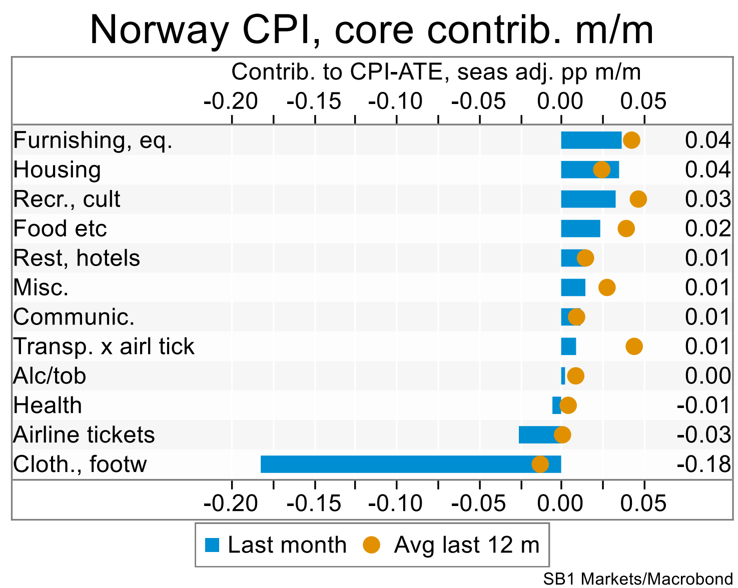
- Food price inflation stable at 4.1% y/y. Demand is no doubt strong
- Clothing prices fell sharply (3.7%) in Sept, as in August (we expected flat!), and prices are down 4.5% y/y
- Furniture prices are up 8% y/y! Demand is up, but the NOK impact will soon fade?
- Car prices are up 5%, rising sharply. NOK impact
- Recreation and culture rose more than expected in Aug, up 5.1% y/y. Demand/NOK impact
- **CPI-ATE up 3.3% y/y, lower than expected, still high**
- Imported prices fell by 0.5% m/m, the annual rate fell 0.8 pp to 3.8% - due to the decline in clothing prices. Will probably slow further as the NOK impact fades
- Electricity prices are down 25% y/y (less than we assumed
- Total inflation down 0.1 pp pp to 1.6%, we expected 1.8

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

Clothing/footware prices fell sharply in Aug, airline tickets became cheaper too

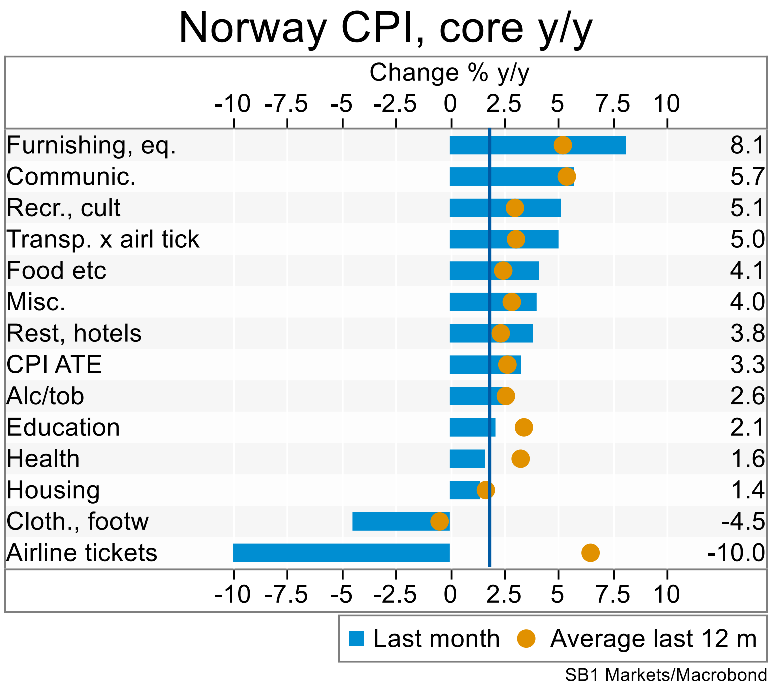
Food, housing (rent), recreation&culture and furniture contributed on the upside

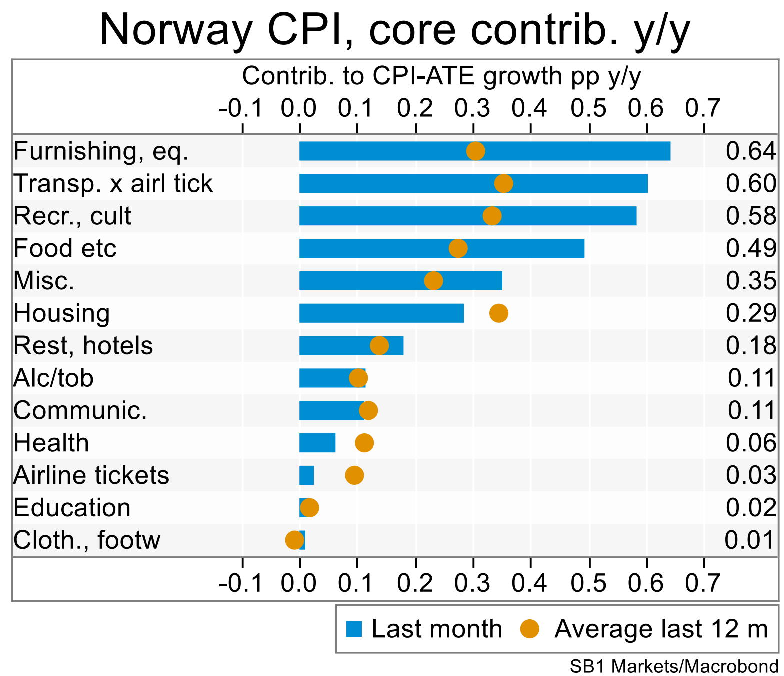




Most sectors report inflation well above 2%,

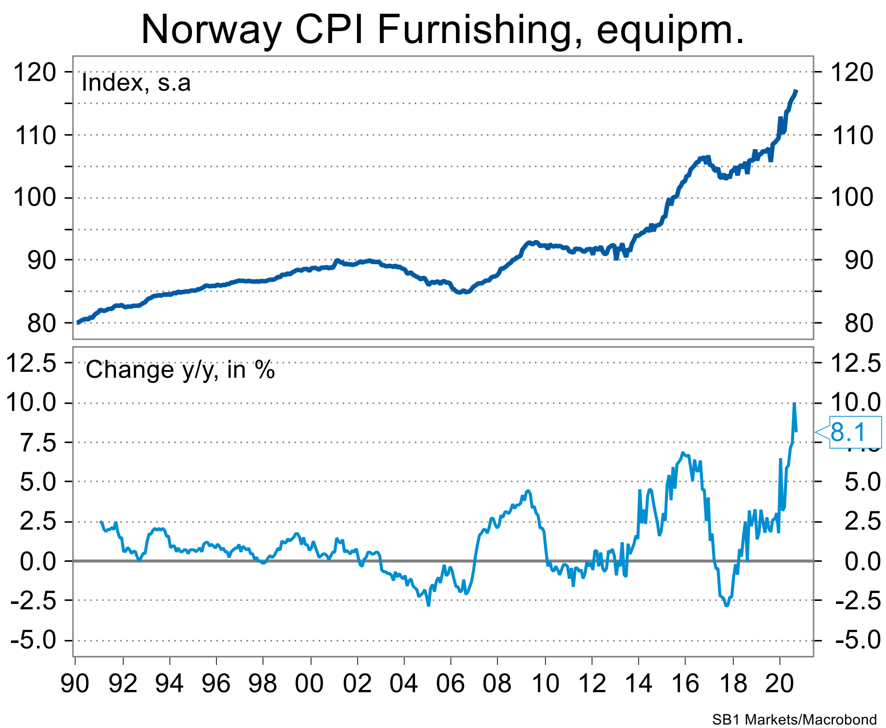
Furnishing prices up 8%! Just clothing & footwear, housing (rent), airline tickets < the 2% infl. target

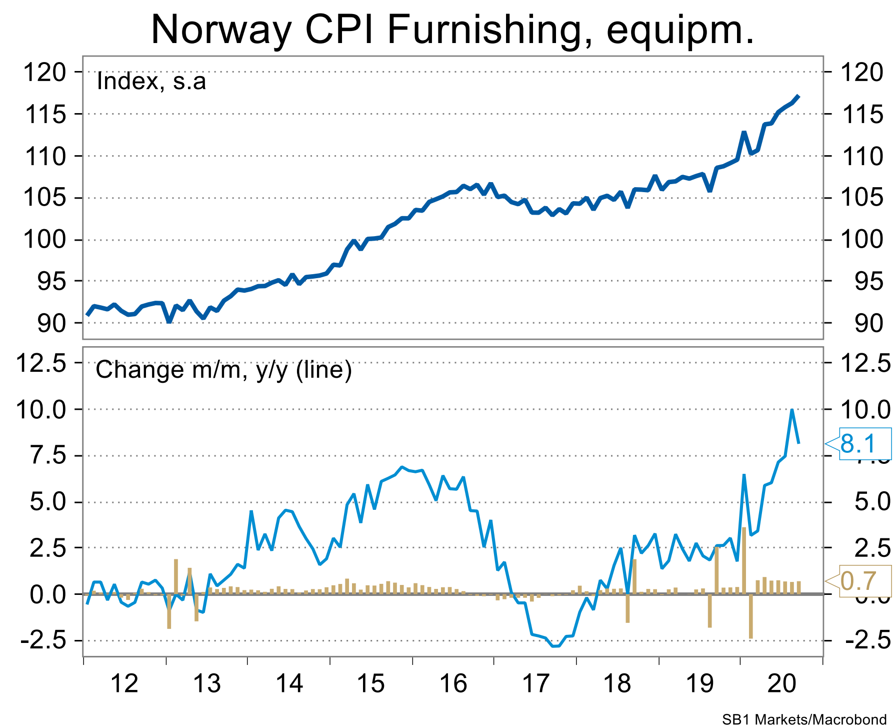




The steepest rise in prices on furnishing & houshold equipment on record

Explanation: A combination of a weak NOK (which has now stabilized) and strong demand

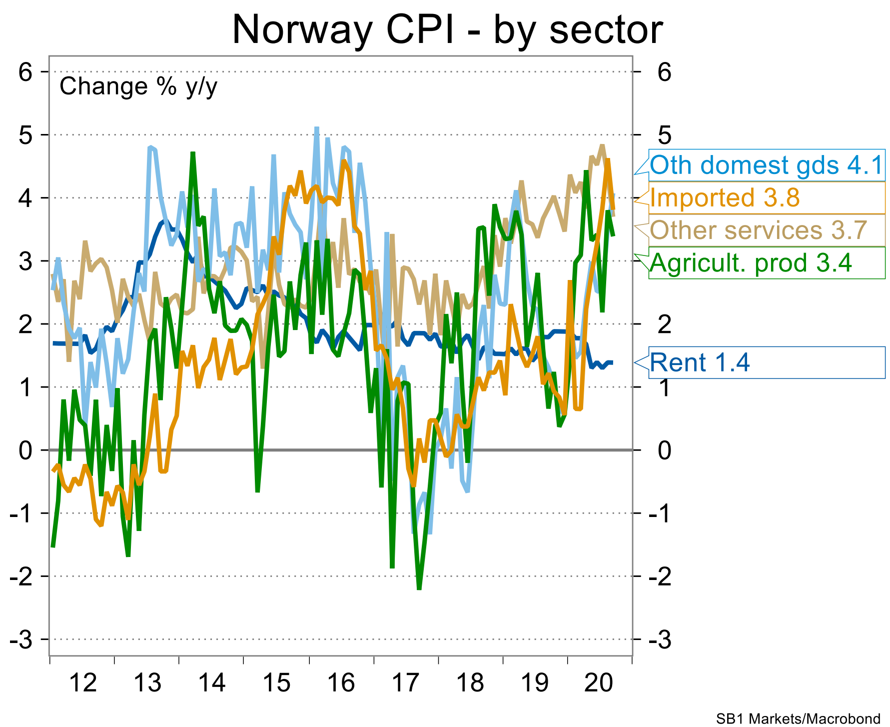


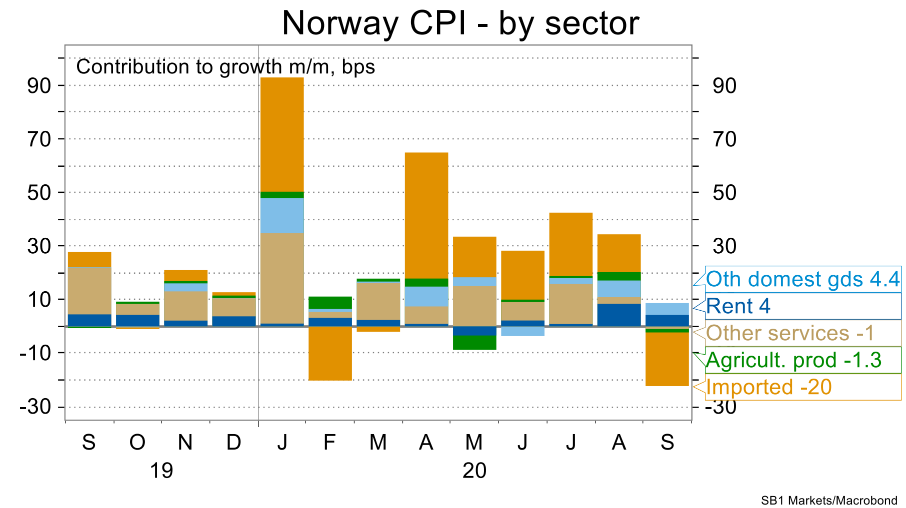


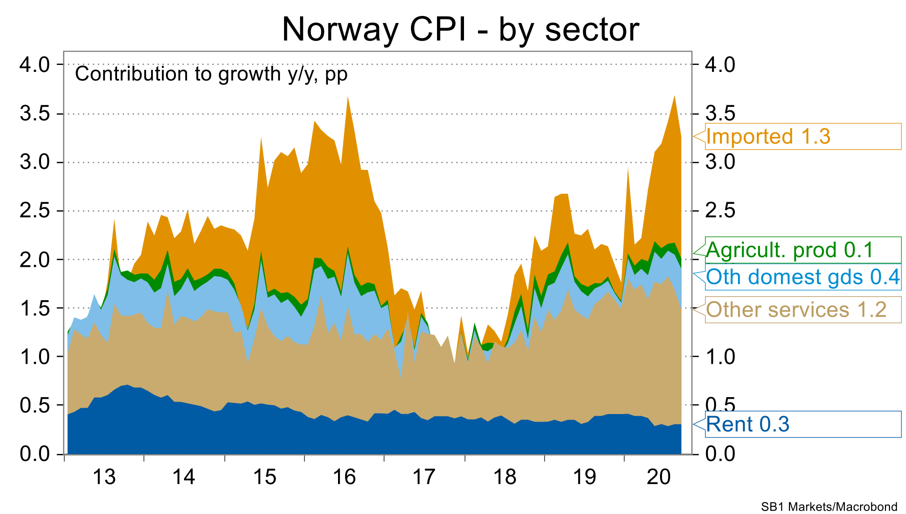
- Prices rose another 0.7% m/m in September – but the annual rate fell almost 2 pp to 8.1%

Imported goods has peaked? Most likely, it has been running high

Prices on imported goods fell in September but are still up 3.8% y/y

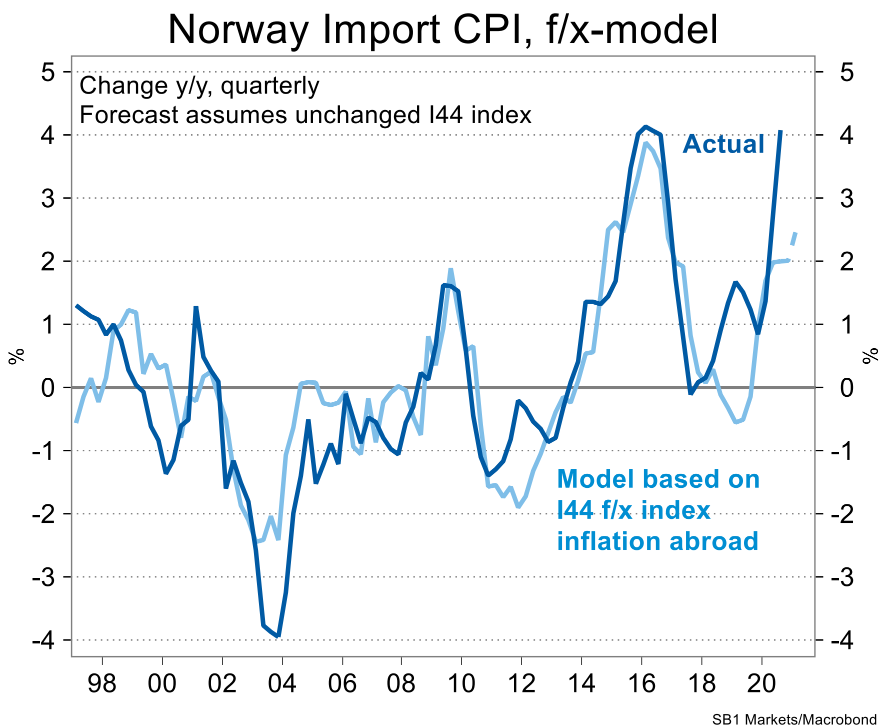


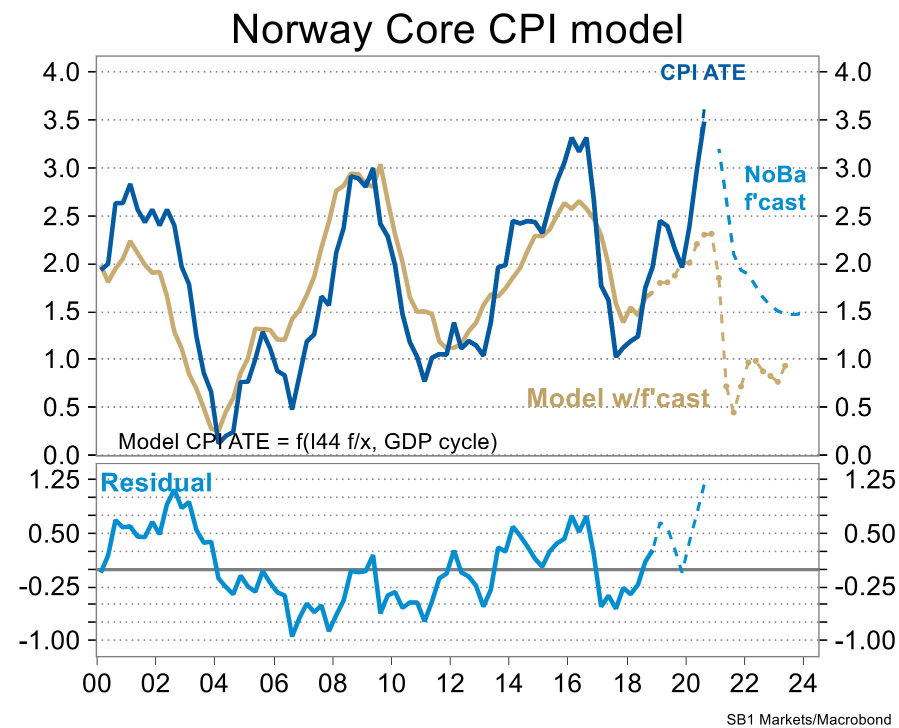




Imported prices: Too much up now? Should come down, soon

Our core CPI model is not calibrated for the present decline in GDP, but the sign is no doubt correct





- The NOK steep depreciation in the winter/early spring is no doubt driving imported inflation up. It usually takes a few months before these impacts are reflected in the CPI. Closed borders due to Covid-19 may have contributed to the lift in import prices too, as have the strong growth in demand for some goods (like sport equipment/furniture).
- Given moderate inflation abroad and a stabilisation of the NOK exchange rate, we expect imported inflation to slow further the coming months – and quarters
- Domestic inflation will be kept in check due to low wage inflation – and total inflation will come down

Highlights

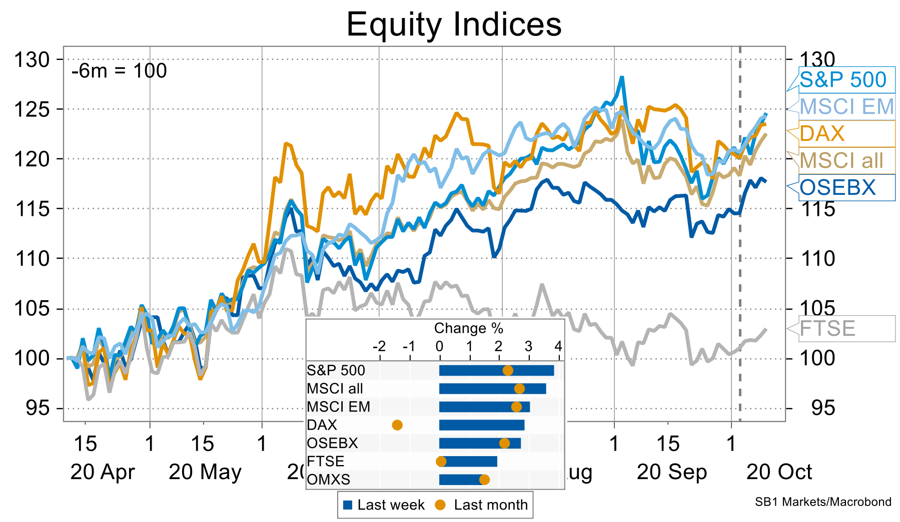
The world around us

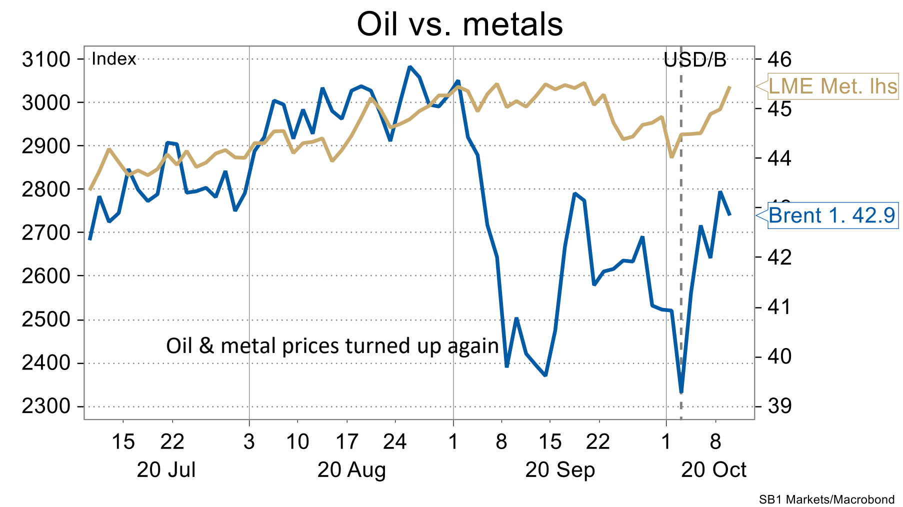
The Norwegian economy

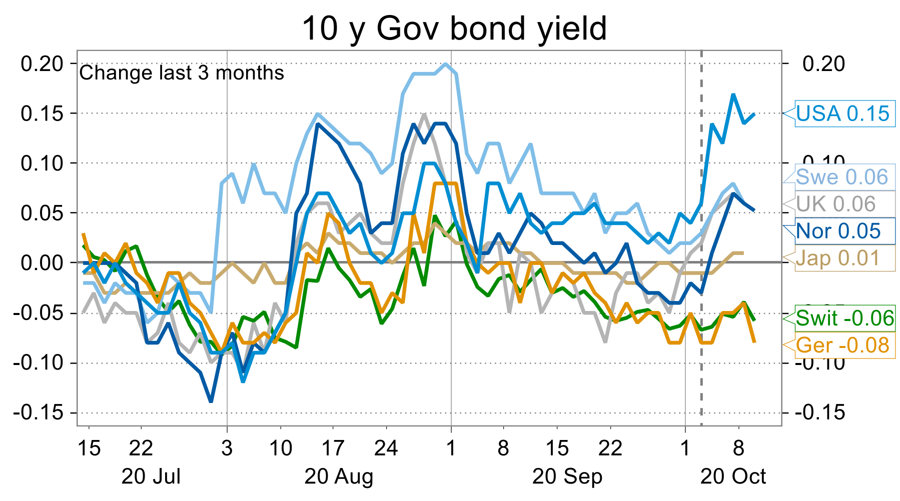
Market charts & comments

Stock markets, commodities, bond yields up – and the USD down

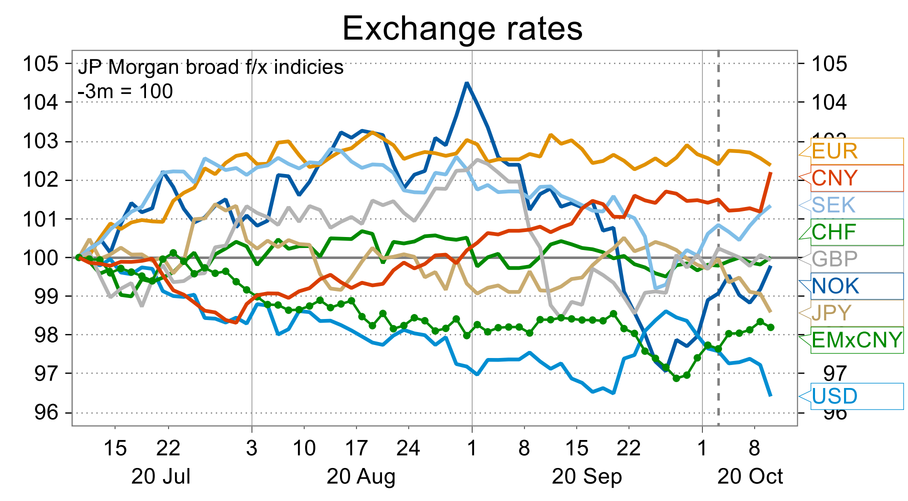
Risk on last week







Mixed at bond markets, but most yields rose last week



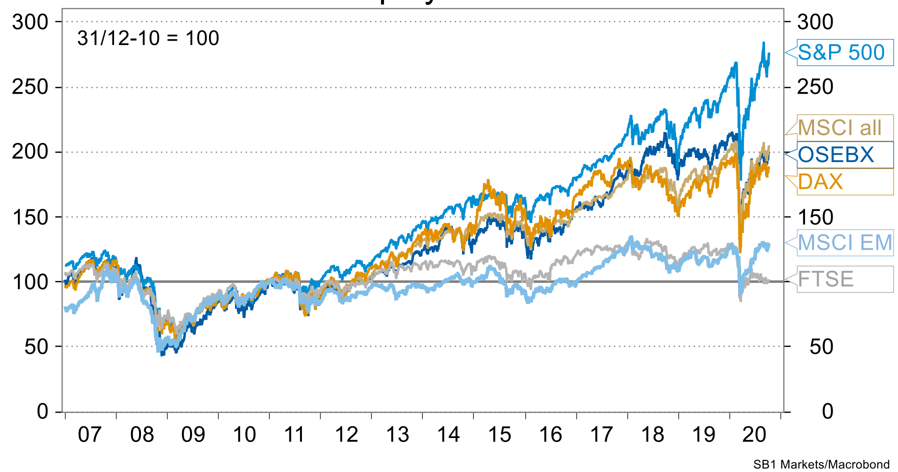
The USD further down again last week, the CNY sharply up

SpareBank 1 MARKETS

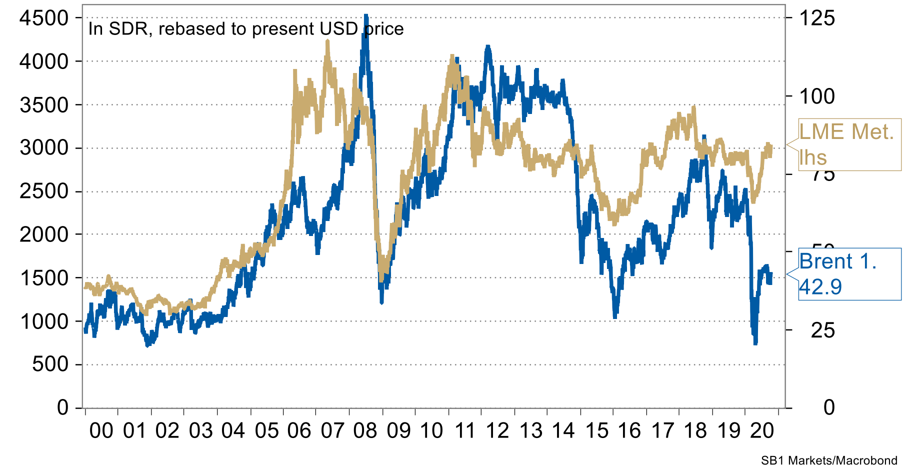
In the long run: Stock markets are looking like a ‘V’ (except the FTSE ‘L’!)

Bond yields are still close to record low everywhere. The USD is on the way down but it’s still strong

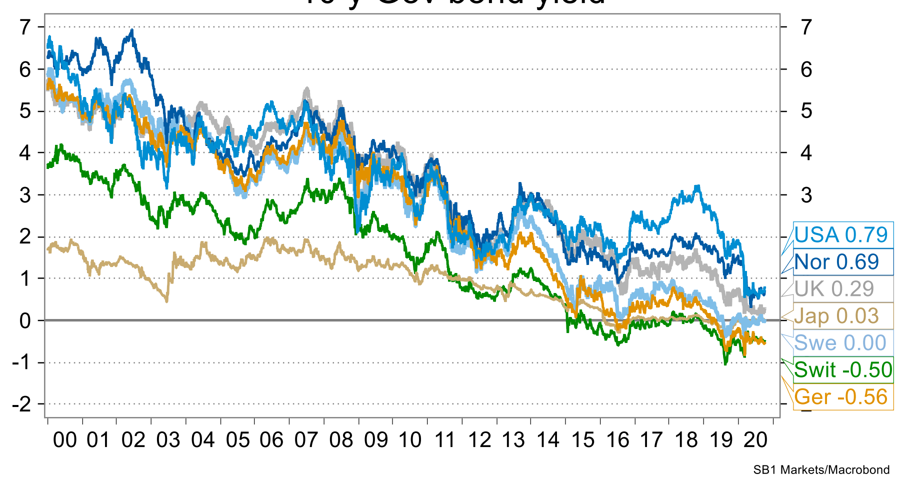
Equity Indices



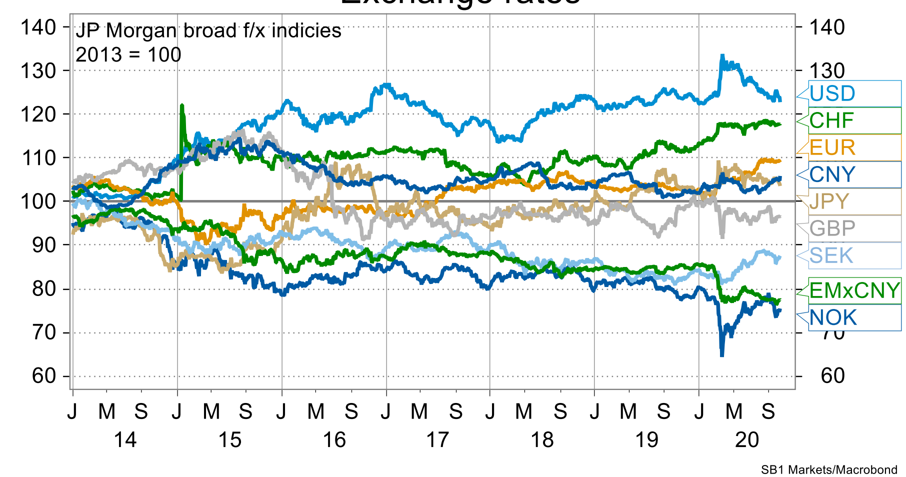
Oil vs. metals



10 y Gov bond yield



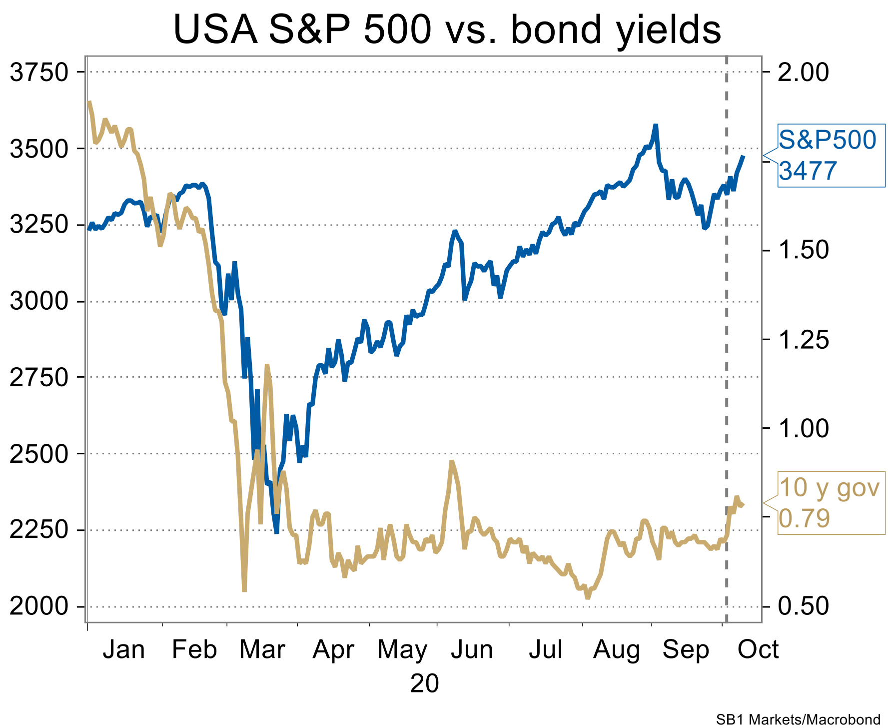
Exchange rates

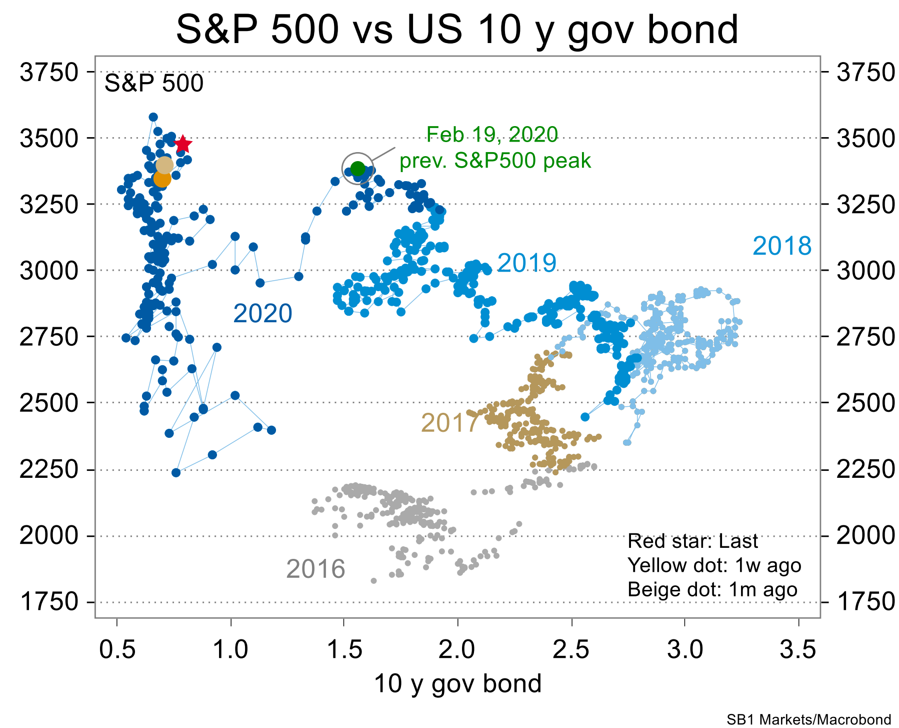


The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices)

S&P up another 3.8%, just 3% up to ATH. 10 y gov bonds up 9 bps to 0.79%

The market is discounting a Democratic president & Congress? And more fiscal stimulus?

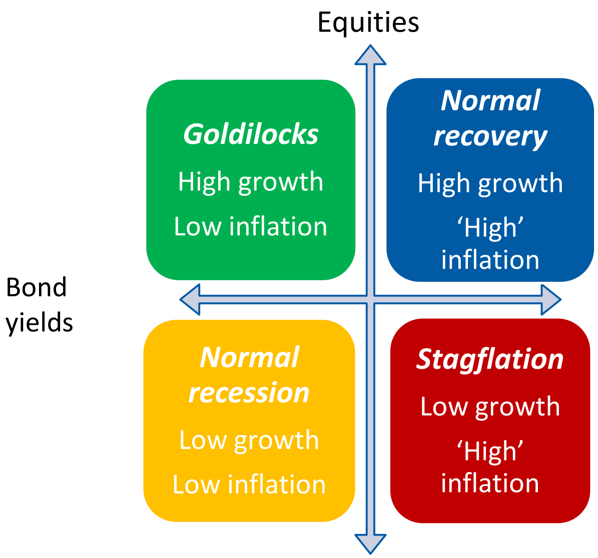


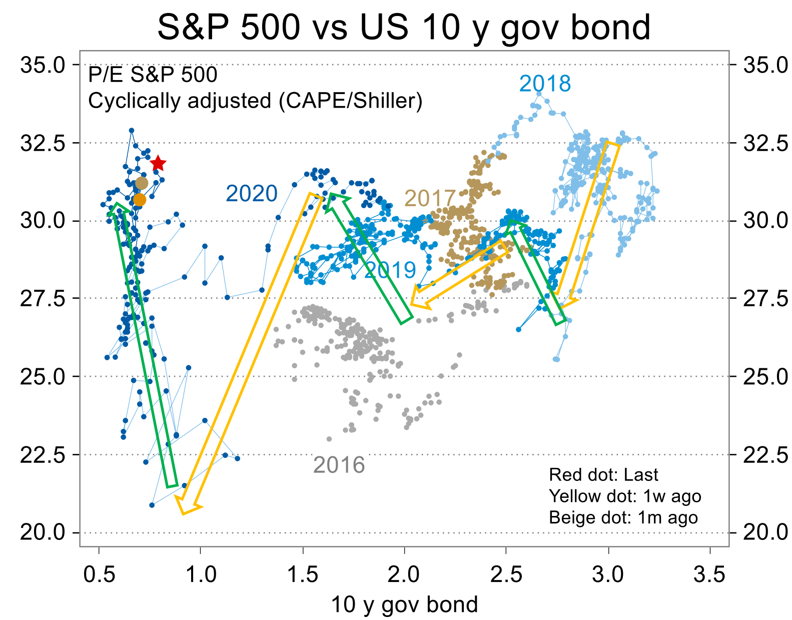


- The 10 y gov bond yield is the highest since early June, when it was higher some few days

From the ‘Goldilocks corner’, where to go?

Over the past month: Towards the ‘recovery’ scenario: The stock market up, yields up



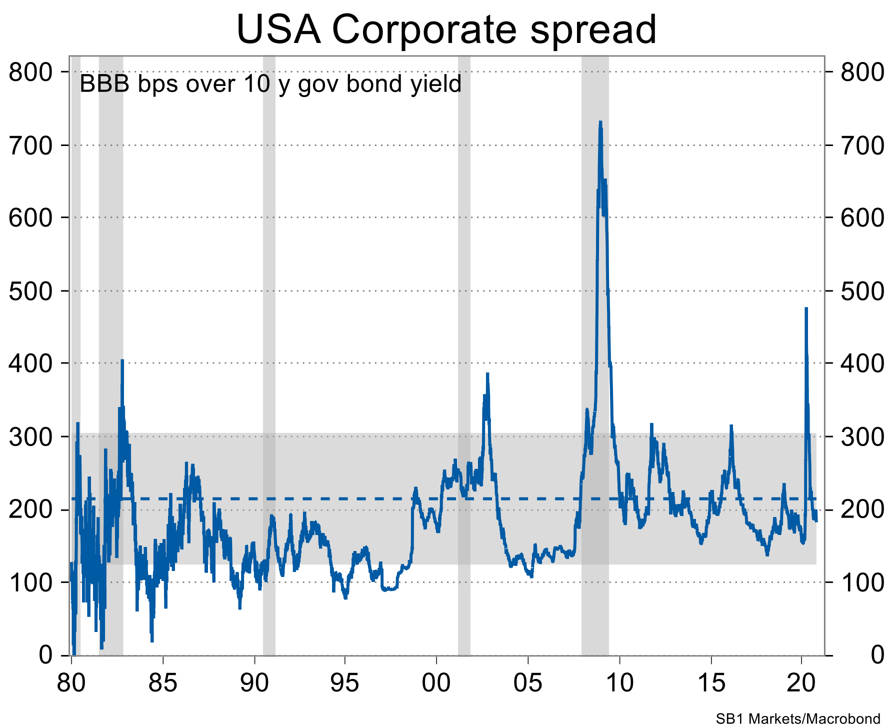


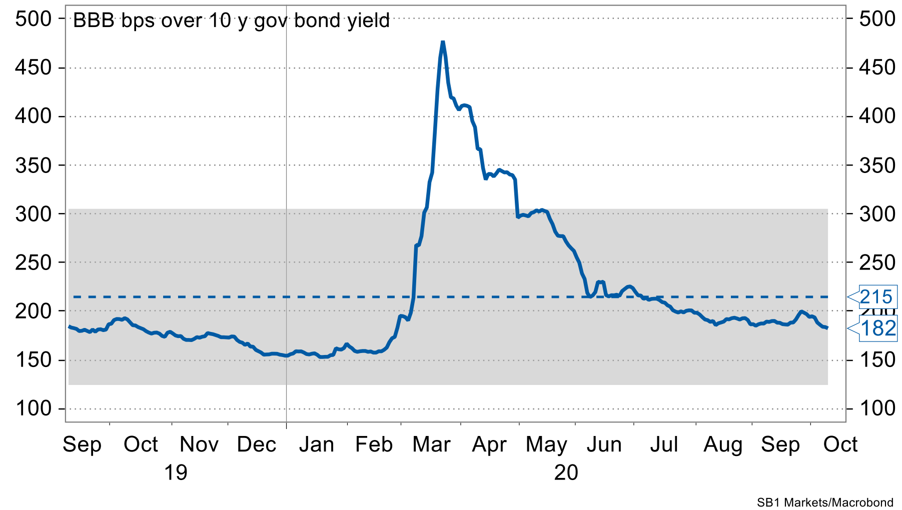
SB1 Markets/Macrobond

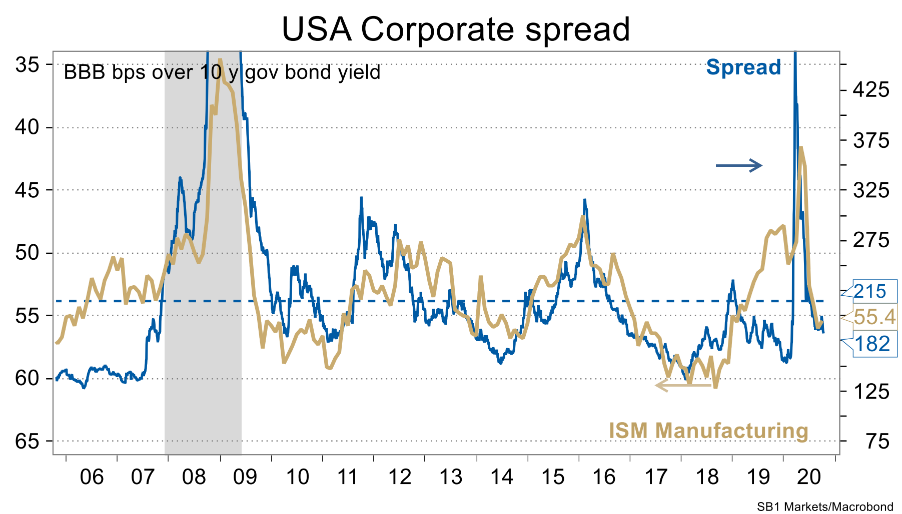
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- Now, the US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and expected to exceed 2% 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, as we have already witnessed the past two weeks
  - » 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 down again after a small lift, at a rather low level

Spreads are well below average levels but above post Financial Crisis levels



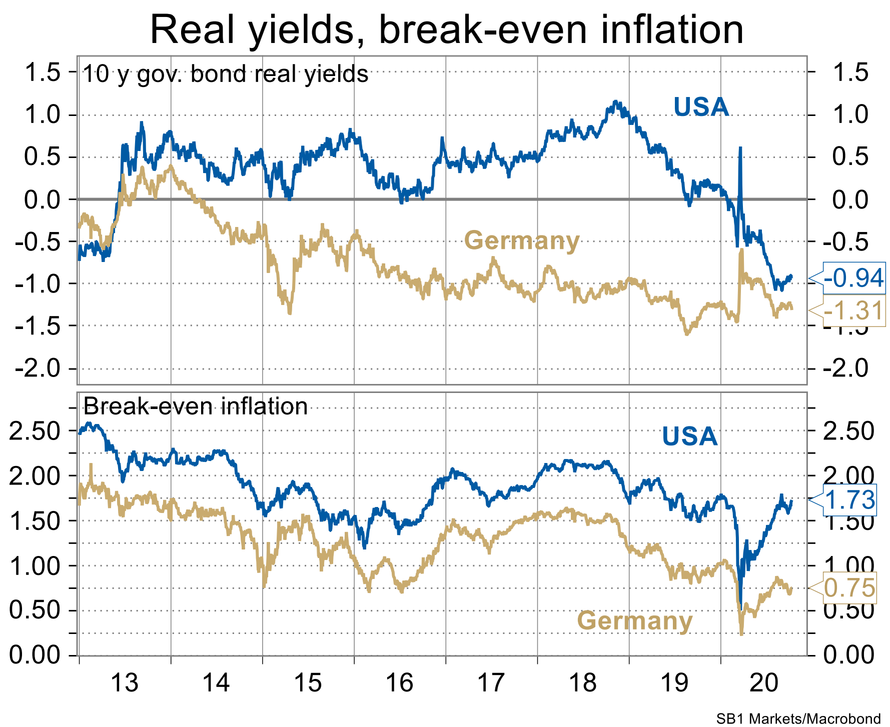


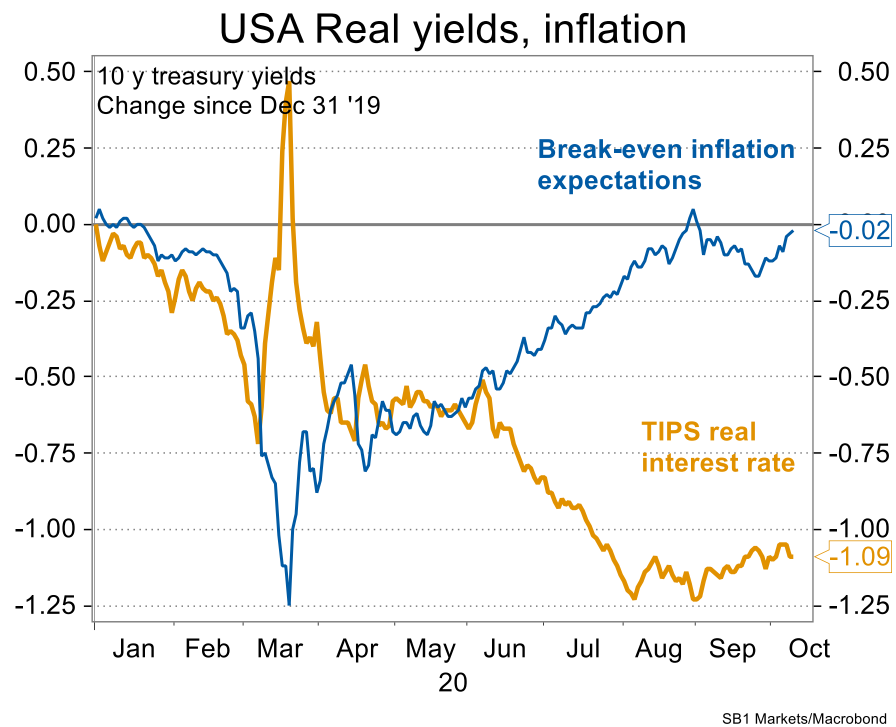


SpareBank 1 MARKETS

USA 10 y real rates up from the deep low, inflation expectations on the way too?

US inflation exp. have recovered somewhat so far in Oct – and real rates are climbing slowly up

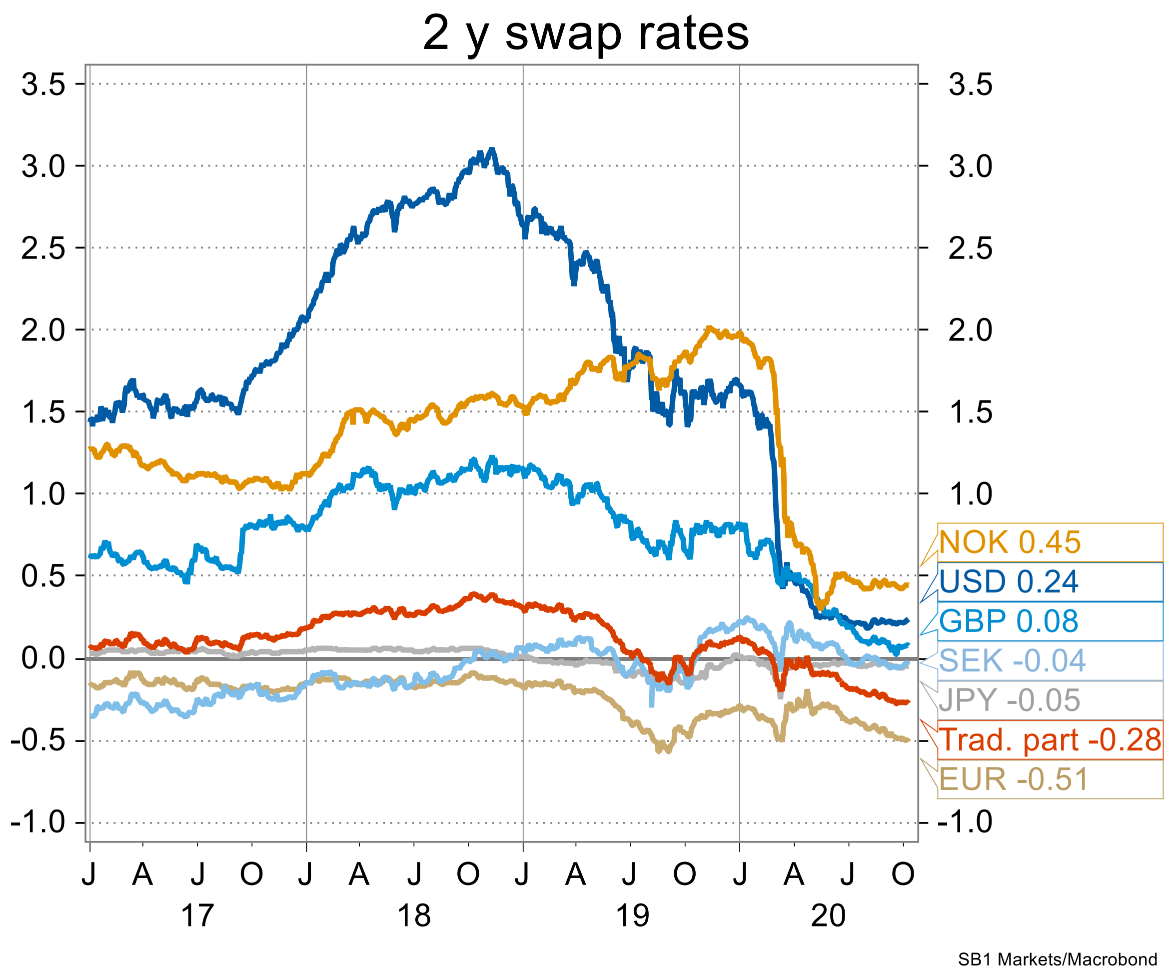


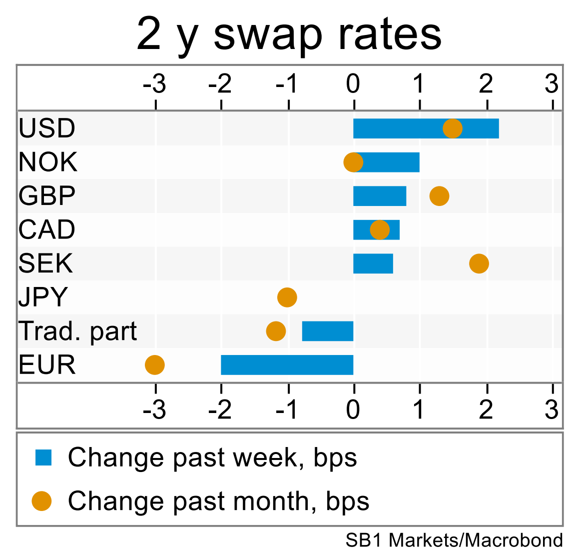


- The US 10 y gov real interest rate (TIPS) was stable over the past week – at 0,94%
  - » Inflation expectations (measured by CPI) up to 1.73%, still well below the PCE deflator target
- The German real rate is extremely low at -1.31%, inflation expectations at 0.75% - the former down last week, the latter up

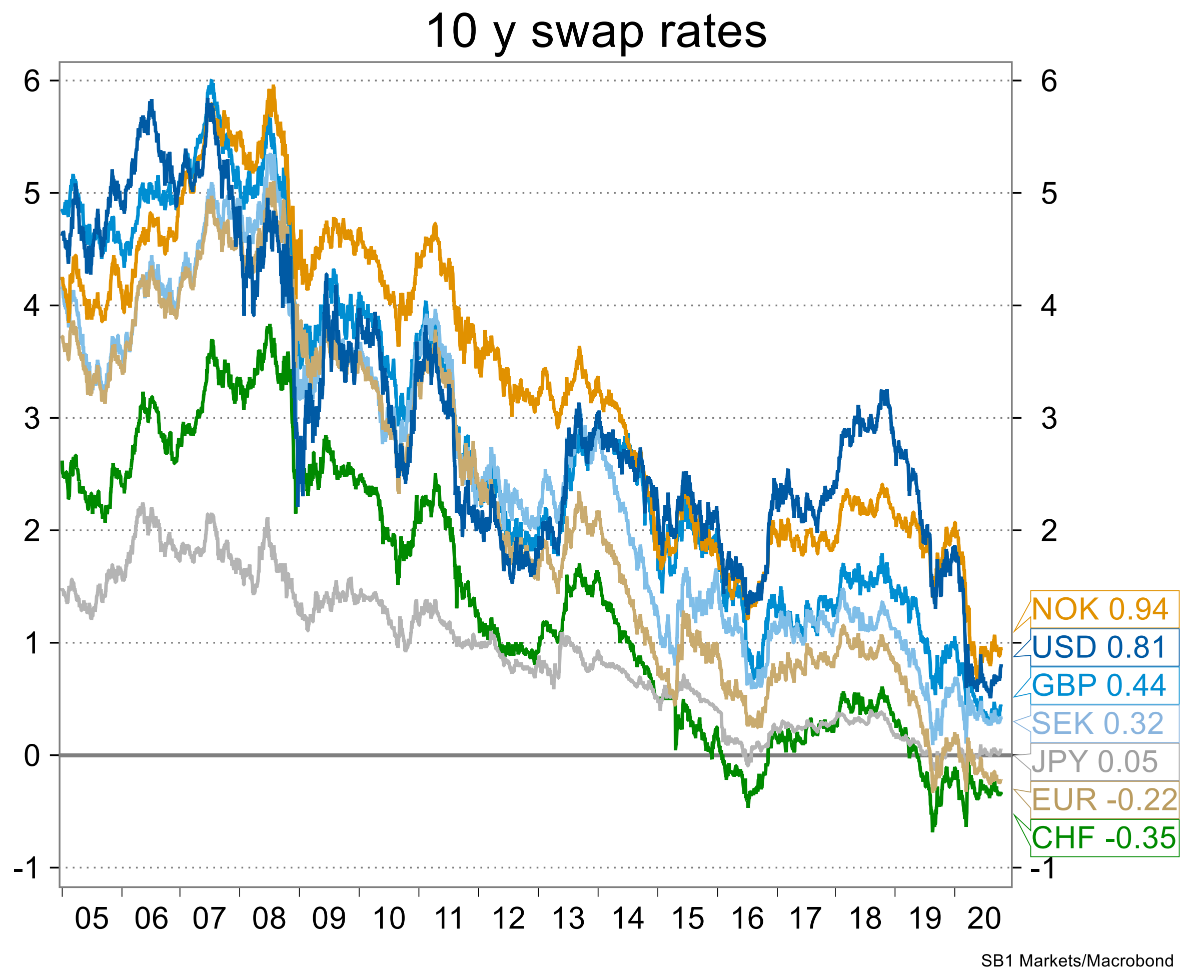
2 y swap rates more or less stable last week – but EUR rates are still sliding down

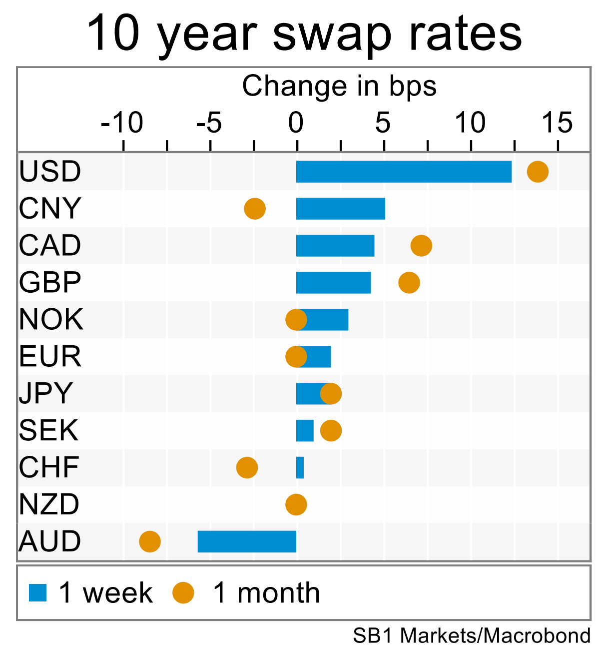
EUR rates down, probably partly due to dovish signal from ECB/Lagarde & some corona challenges



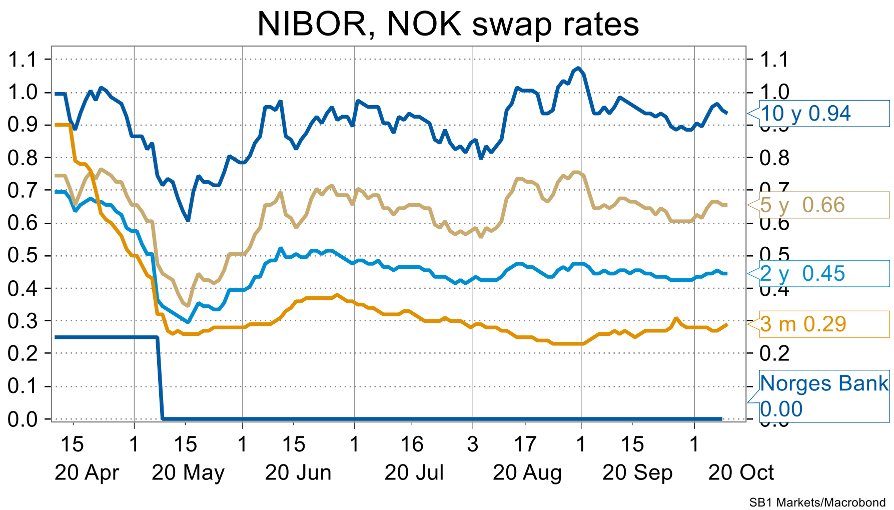


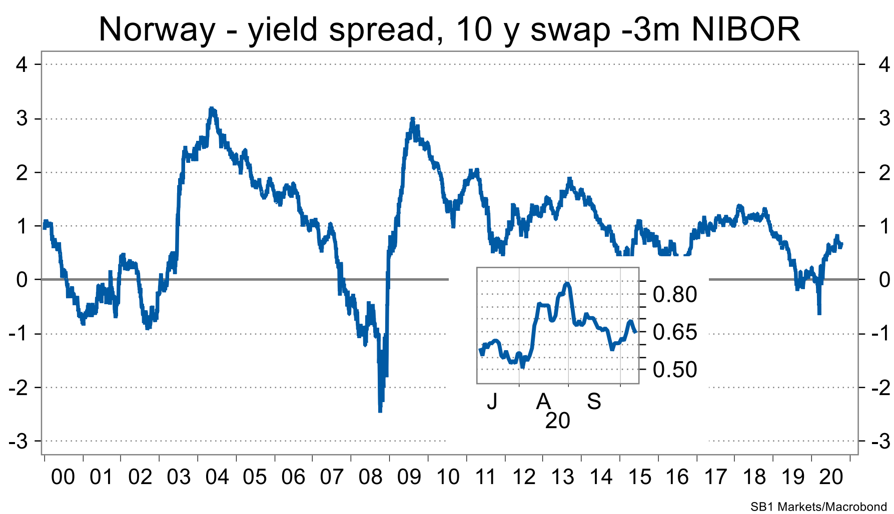
US 10 y swap rates up by more than 10 bps last week – most others up too

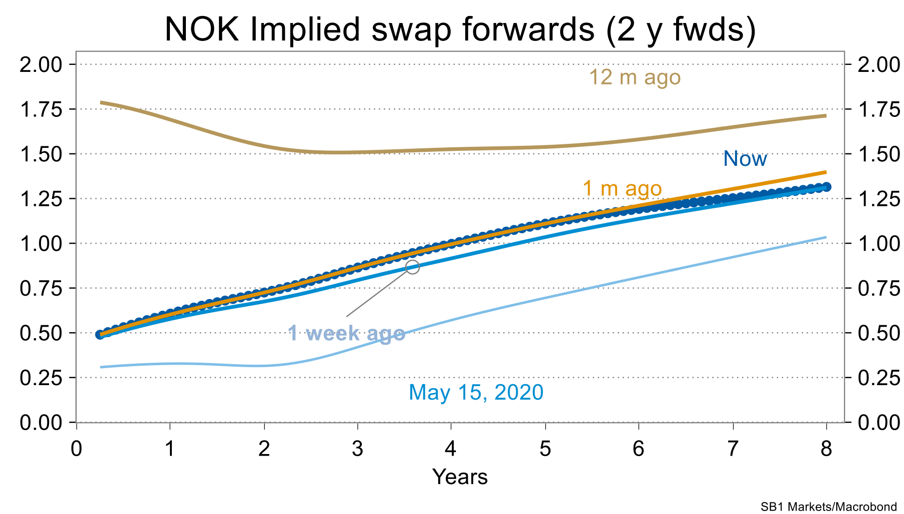




The NOK curve some few bps up – mostly at the mid segment – last week





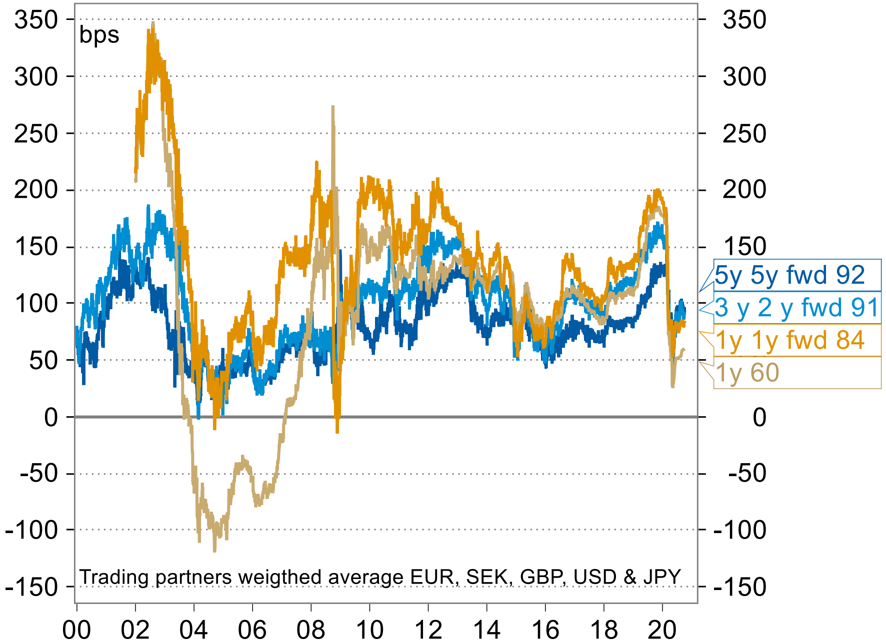


SpareBank 1 MARKETS

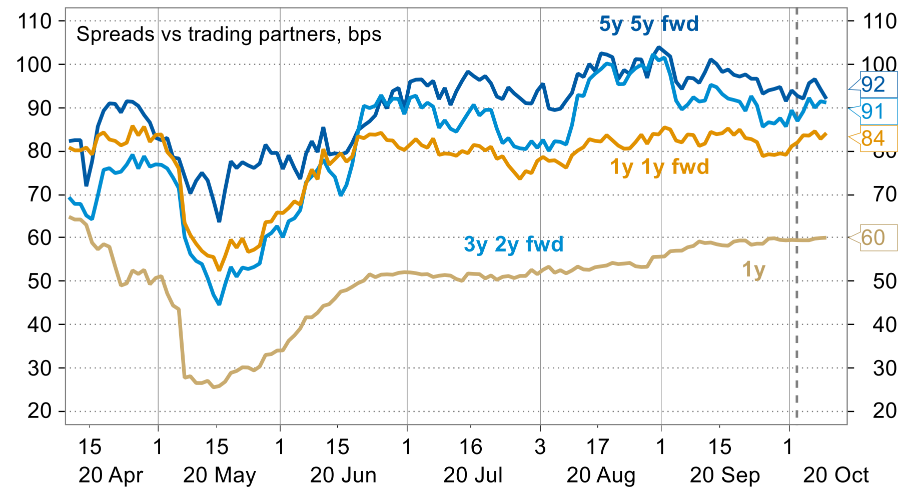
The swap spread vs trading partners marginally up last week

However, spreads at the long end of the curve have been narrowing since early September

Norway vs trading partners, impl swap spreads

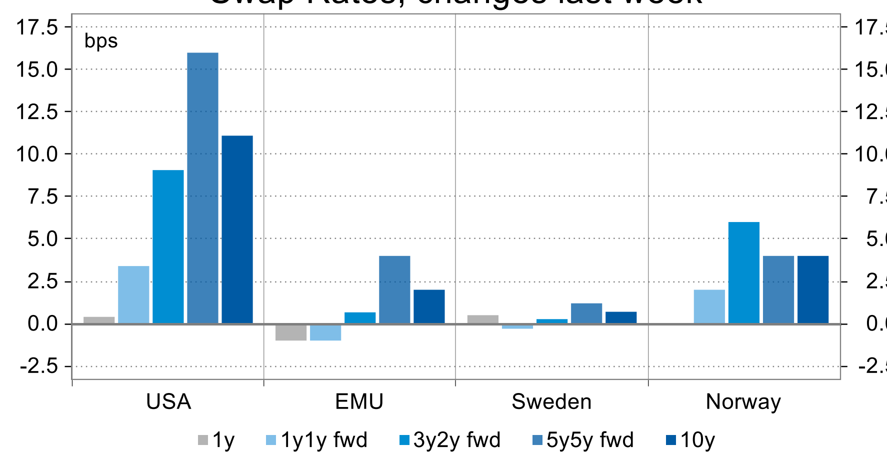


SB1 Markets/Macrobond



SB1 Markets/Macrobond

Swap Rates, changes last week

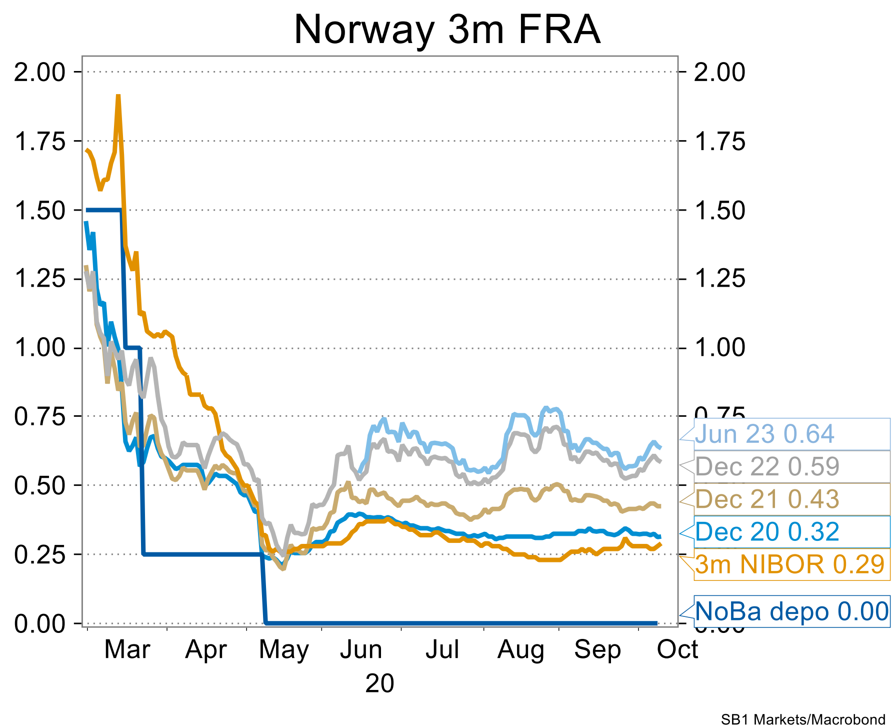


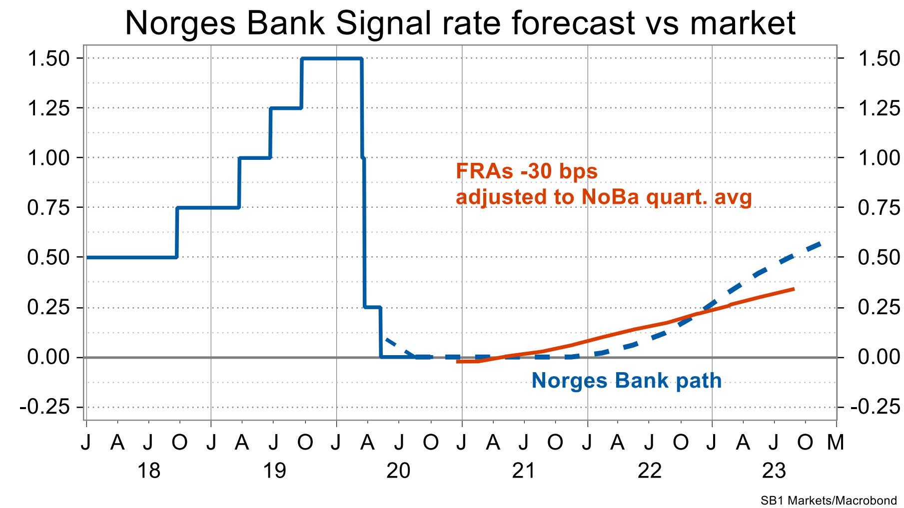
SB1 Markets/Macrobond

- Spreads vs trading partners have been trending wider since the May local trough but peaked in August, at least in the long end (short end still climbing)
- We are still neutral vs. the spread

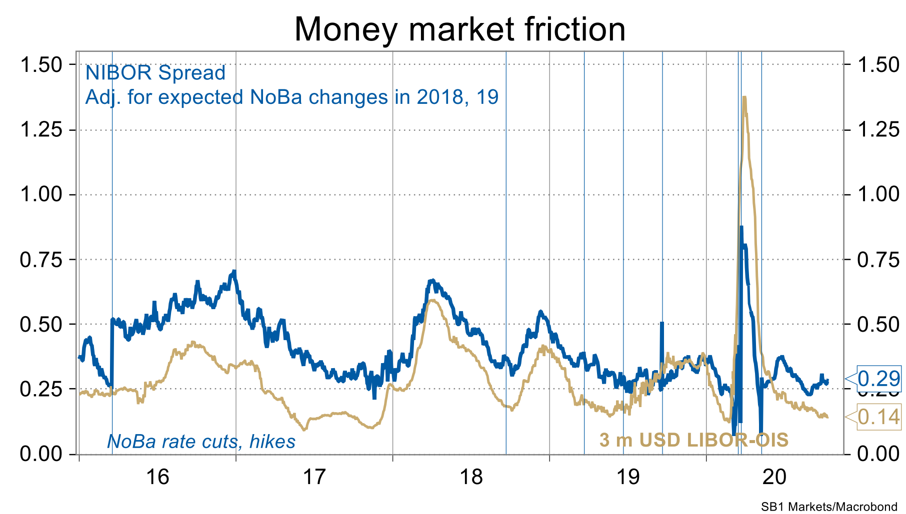
NOK FRAs marginally up last week too, the 3 m NIBOR + 1 bps to 0.29%

The market is probably pricing a NoBa hike in Q1 or Q2 2022 (vs Q3 or Q4 as signalled by NoBa)



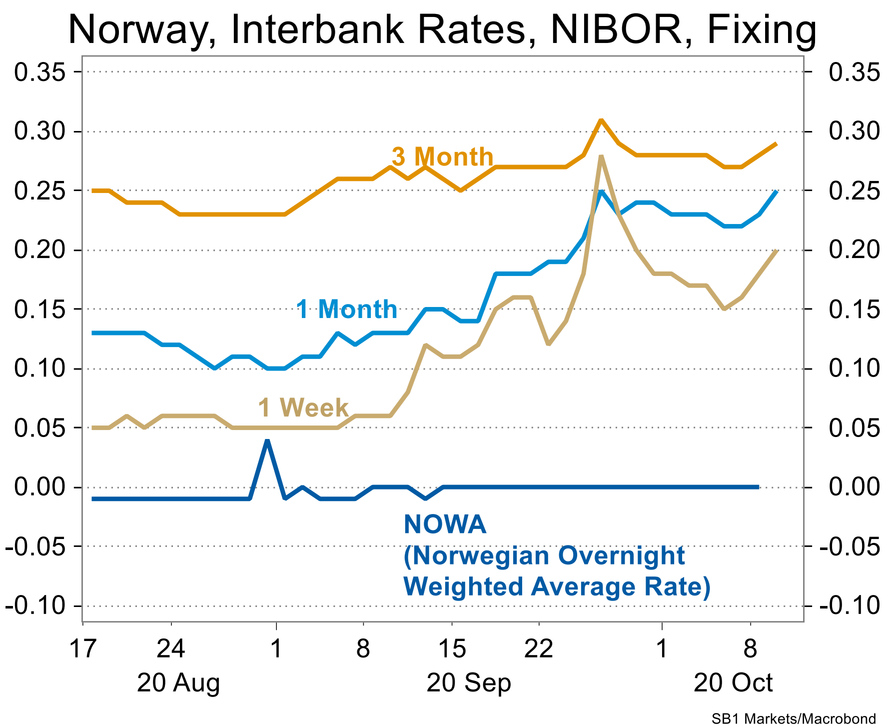


- FRAs inched up 2 – 4 bps, following a similar lift the previous week
- There are still some trouble in the very short end of the Norwegian money market, check next page



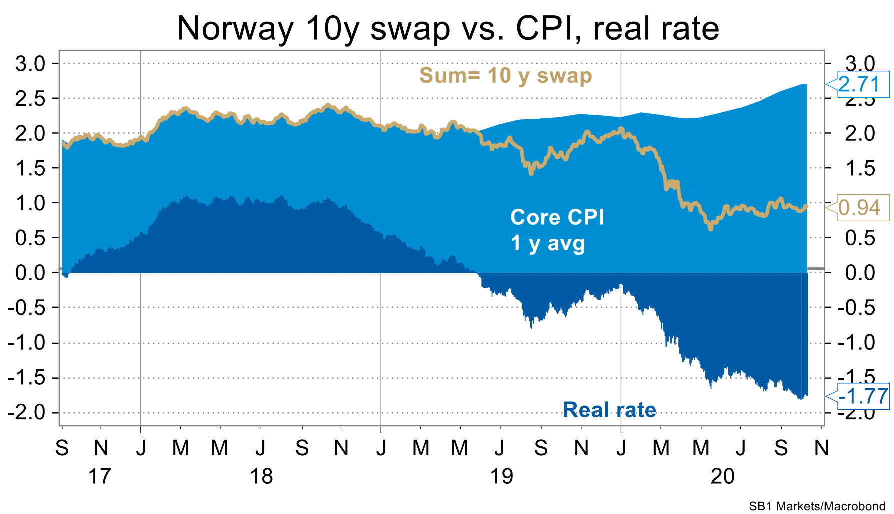
Still some friction at the money market – rates up in the short end

The distribution of liquidity in the money market has been poor past two weeks

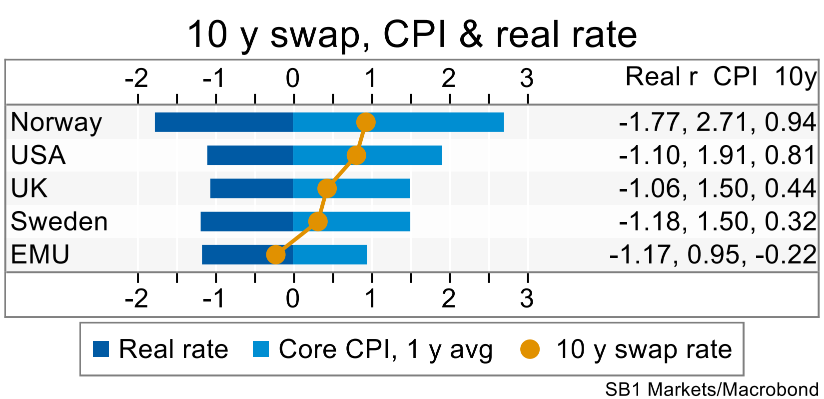


- Banks have not been able/willing to distribute short term liquidity between themselves in the latter part of last week – and some banks parked more money than their quota at Norges Bank and has to pay a 1% penalty (the reserve rate), instead of lending to other banks, and keep their money intact (at a zero % overnight rate)
- Norges Bank has offered both F-loans and deposits at zero penalty (interest rate=NoBa deposit rate at 0.0%)
- Last week, banks both borrowed and increased their deposits in the central bank
- Still, the very short term rates are elevated
- Even so, we assume that Norges Bank will be able to stabilise rates in the very short end of the curve before the turbulence has any impact on lending rates
- The 3 month NIBOR is not particularly high, at 0.29%

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 -1.7%, 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)

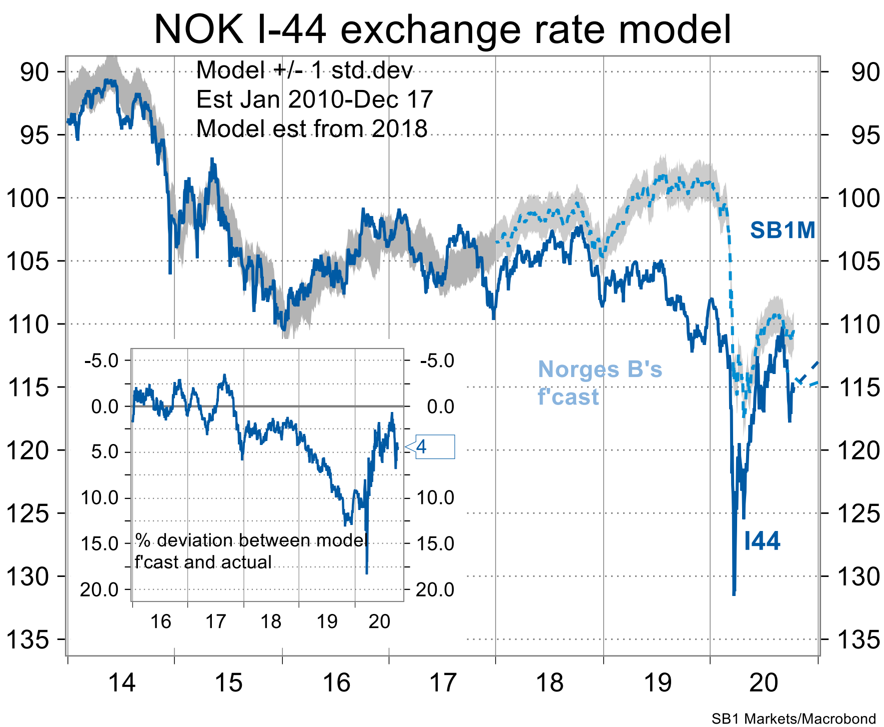


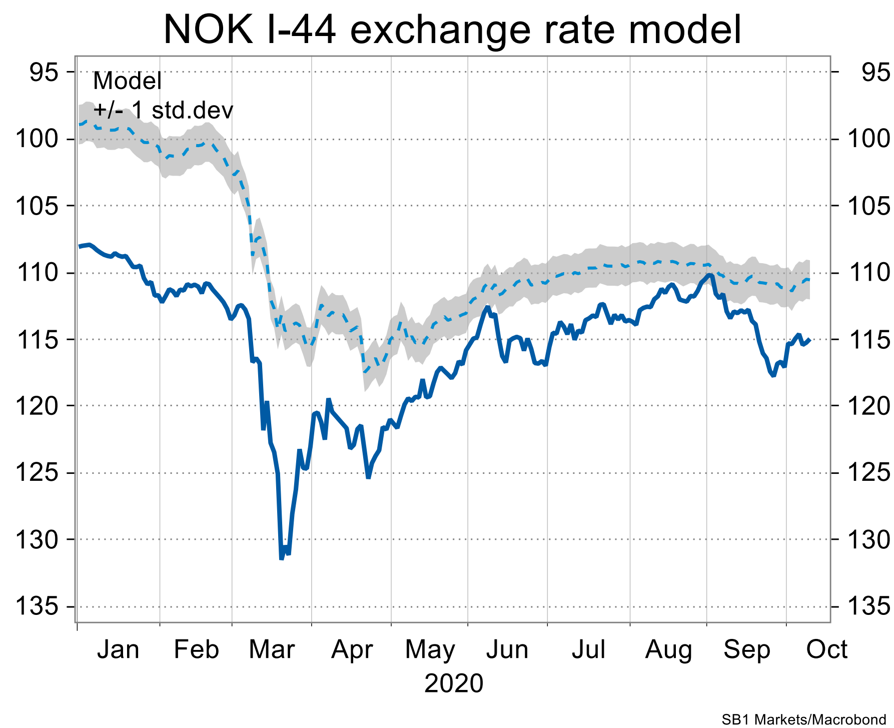
NOK real rates among the lowest, inflation exp. at top

- 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 or including forward expectations yields the same ranking
- Real rates are quite similar among our trading partners, at -1.1% to -1.2% measured vs. the 10 y swap rate and inflation over the past two years. The Norwegian real rate at -1.7% is an outlier, even if the nominal rate is the highest

NOK further up last week but not by munch (0.3%, our ol' model said 0.7%)

The NOK is 4% below our model forecast

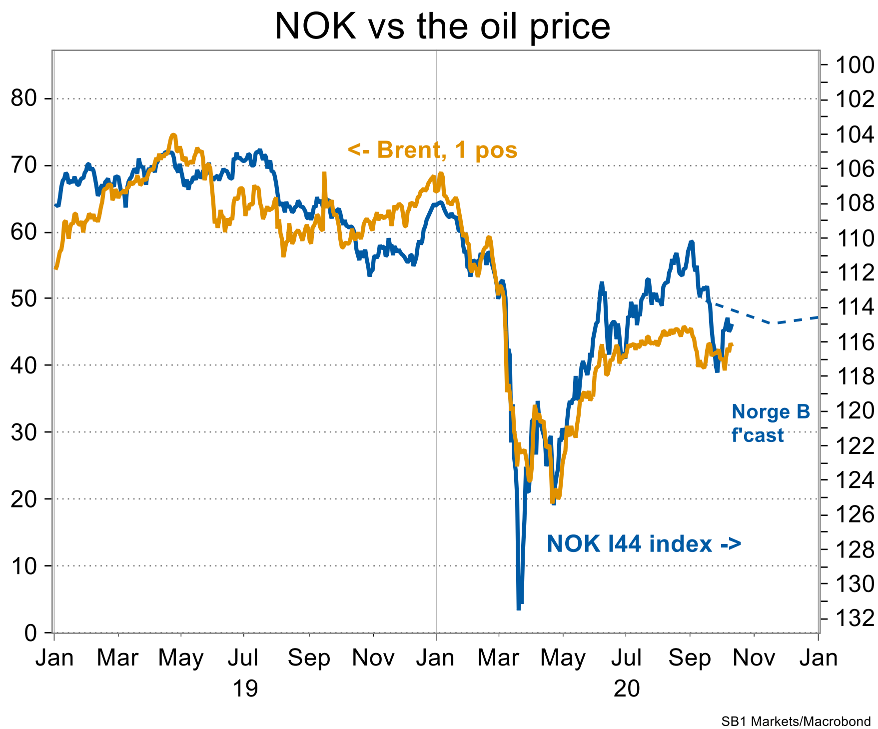


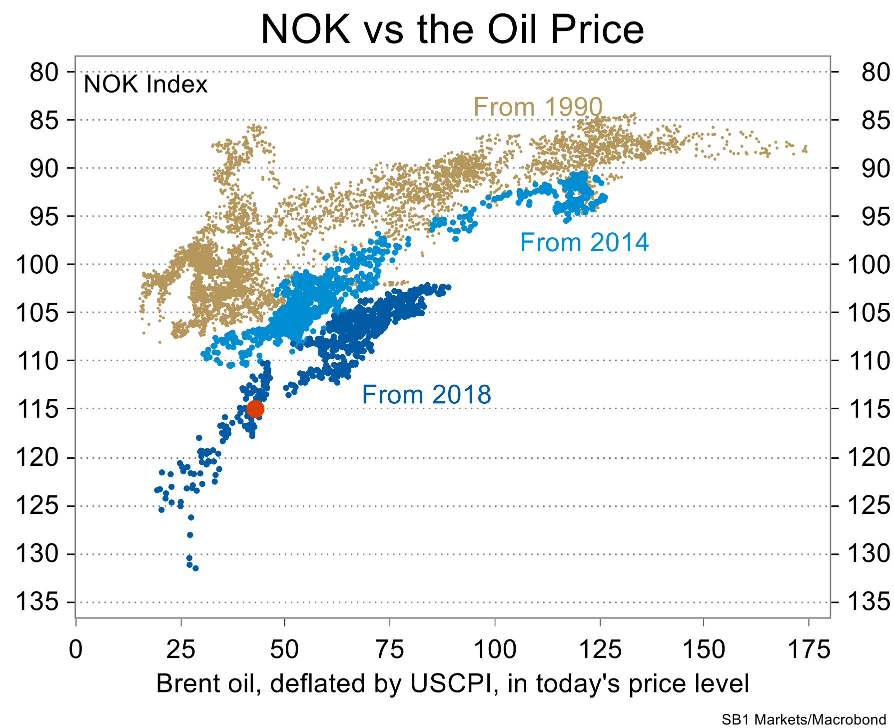


- The gap to the standard, oil price dependent model was unch at 4% last week. A more positive overall market sentiment probably helped the NOK, stock markets picked up)
- Following the decline in most of September, we have strengthened our buy NOK recommendation as the NOK has fallen more than oil companies and our supercyclical currencies
- The NOK is still 'too strong' vs a model based on oil equities but weaker than the other supercycle currencies (AUD, CAD, SEK), we prefer the latter model

It’s not the oil price, stupid

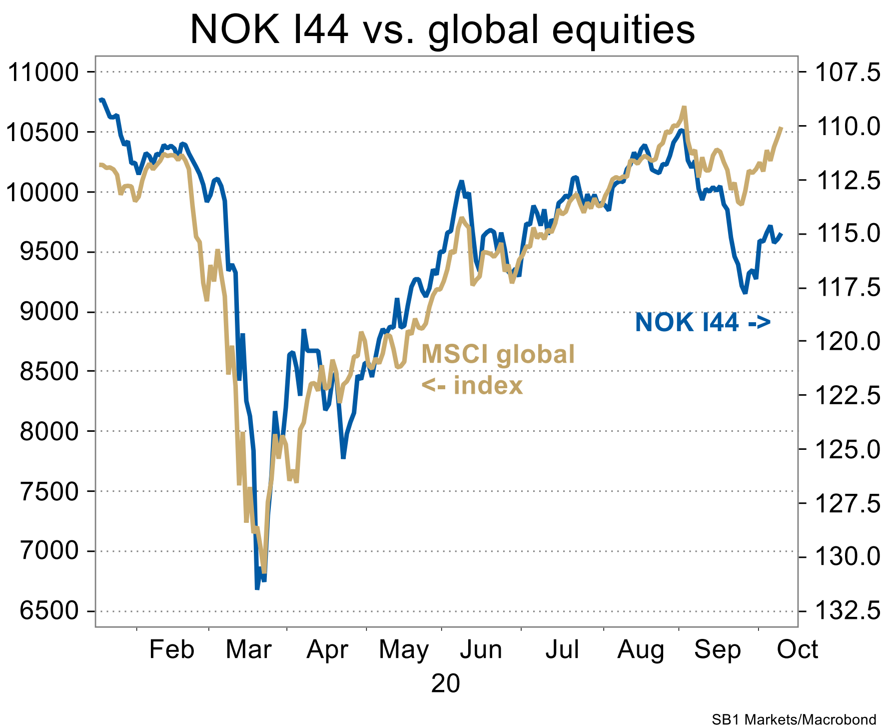
The oil price is still important for the NOK but the correlation has not been impressive since July

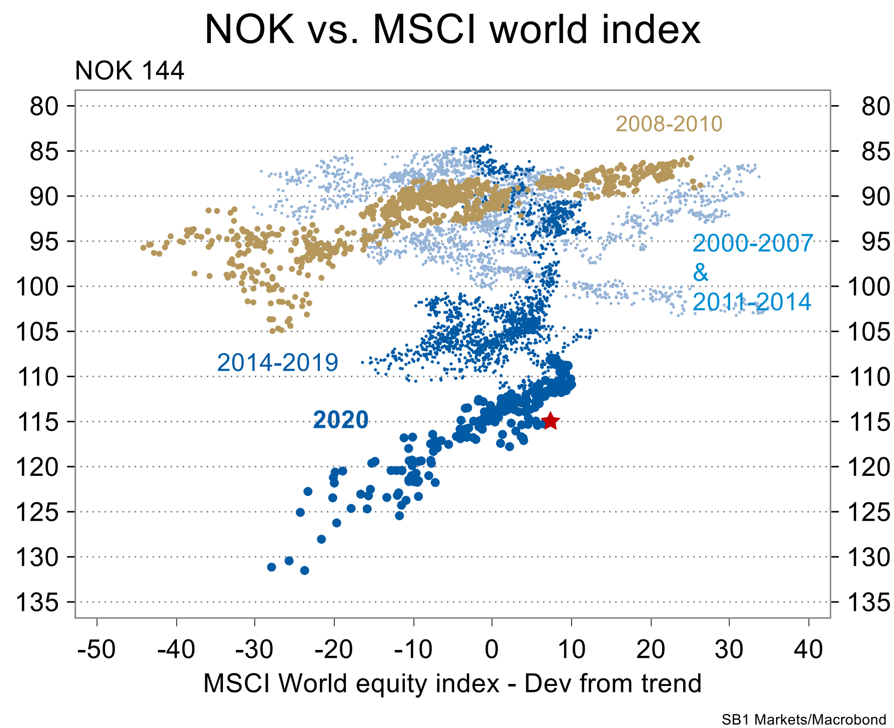




NOK has been very sensitive the stock market – in 2020, that is

The NOK fell ‘more’, and has recovered ‘less’ than the stock market recent weeks

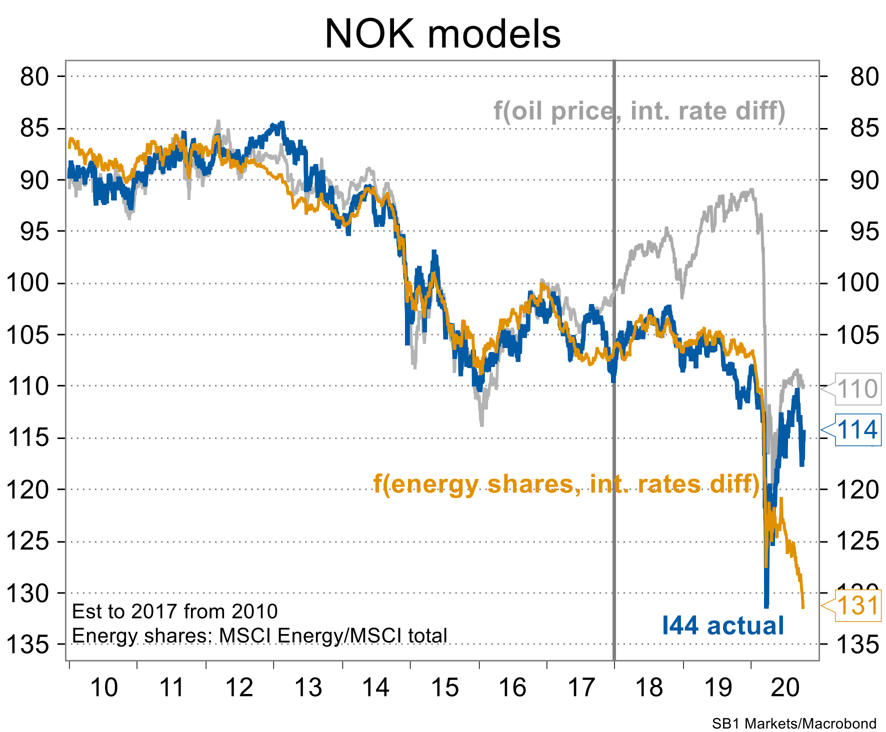


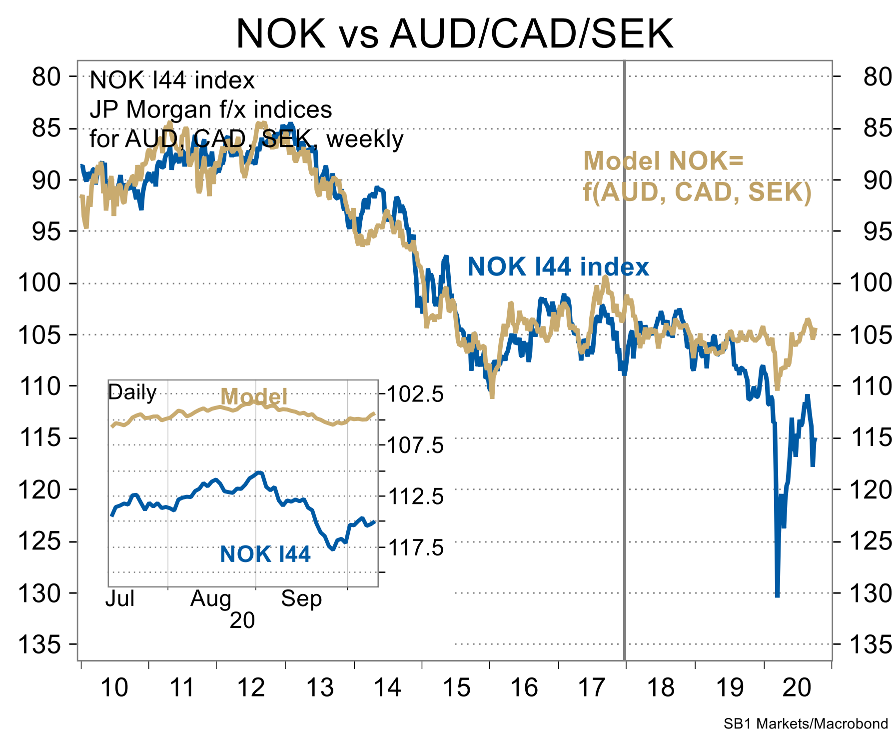


- There has not been any stable correlation between NOK stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index)
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund is larger then the value of the remaining oil & gas reserves. Has the market ‘suddenly’ come to the same conclusion?
- NOK has not been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)
- Now, the NOK is weaker than ‘normal’ vs the stock market as the NOK fell more and recovered less than the stock market since early Sept

Oil companies continued down last week, the NOK not

The NOK much stronger than oil equities (relative to the stock market) but weak vs. our f/x peers





- 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
  - » Energy shares have been sliding down since June, and further last week, when the NOK appreciated. The NOK is 13% stronger than the model estimate – and we recognise that the NOK has said goodbye to the still struggling oil companies
  - » The NOK has fallen more than our AUD/CAD/SEK model forecast the past month, even as all are sensitive to market risk sentiment. The NOK is 9% below our model est. We think this model is more relevant than the oil stock price model

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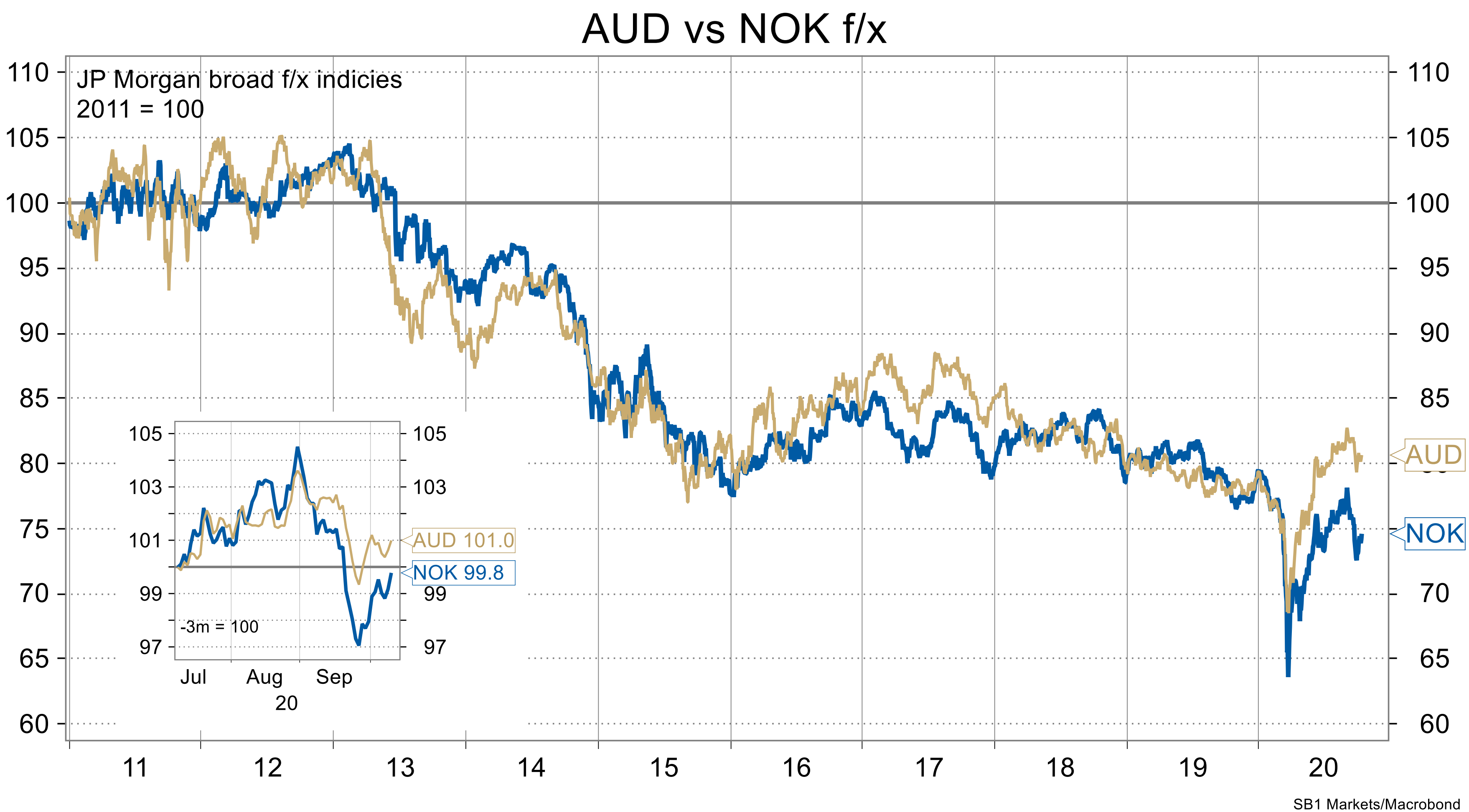
NOK weaker than usual vs the AUD but not much weaker since July (or early Sep)

Both rose further last week – but are still 2 – 4% down from early September



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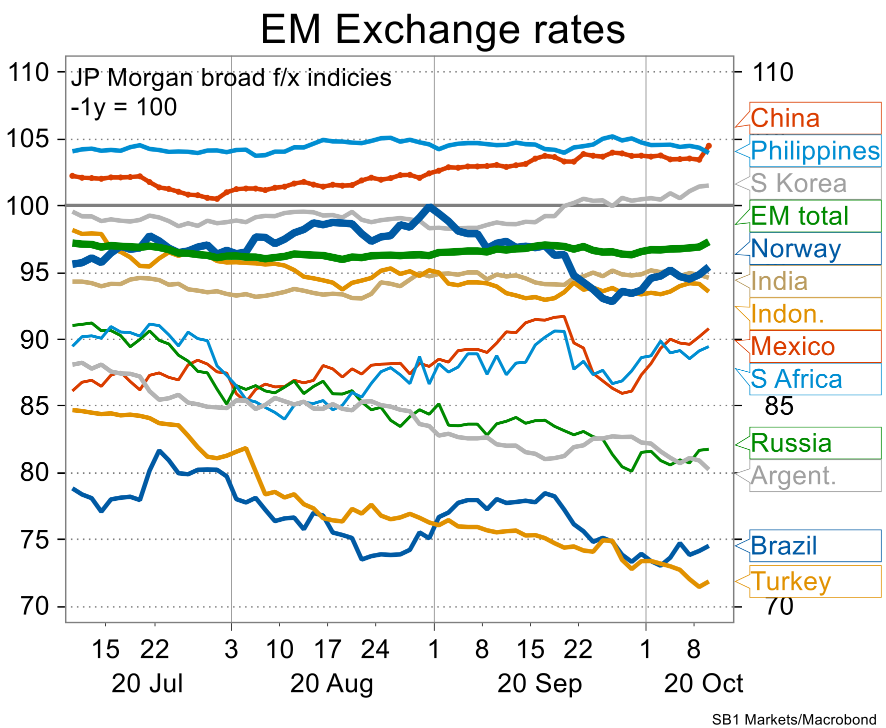
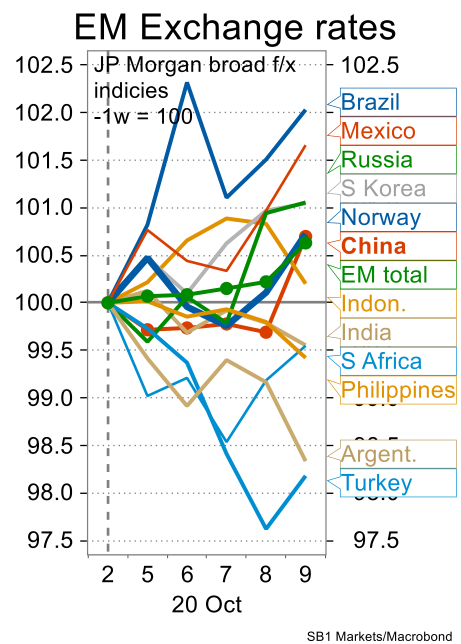
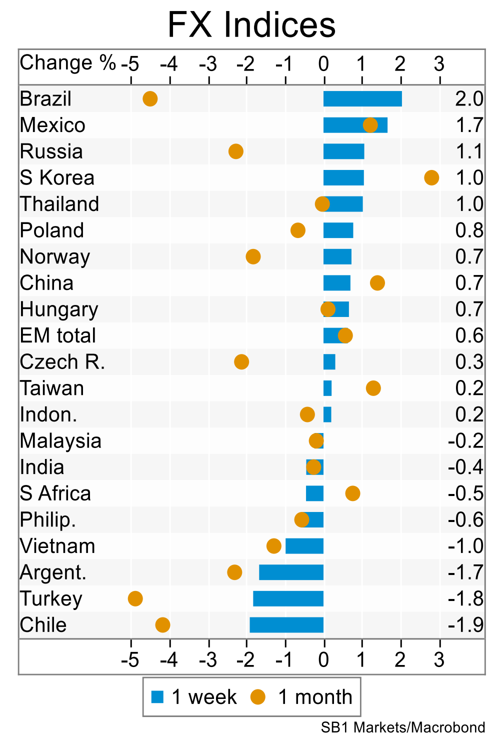
EM currencies further up last week

The Chinese CNY 'sharply' up but most others up too







Most are down y/y, Brazil and Turkey at the bottom

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