19 October 2020

Macro Research

Week 43/2020

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

- **Still Very Bad Corona News:** As we suggested one week ago, something was rotten in many Kingdoms and states in Europe – as in the US – we had to backpedal on our previous more optimistic analysis. The no of Covid-19 cases was growing fast in many countries, and worryingly rapidly from pretty high levels in some – and the acceleration continued everywhere last week (except for Denmark, Norway and Sweden). Hospitals are not yet overwhelmed but the no of patients are increasing rapidly, and to high levels in some cities. The no of Covid-19 related deaths in Europe has quintupled since the summer but still equals 5% the normal no of deaths, it was 70% extra at the peak in March/April. Several countries are re-introducing restrictions, however still local and more targeted than 7 months ago. Even so, the economic impact will probably be visible in Q4. On a positive note, the US the economy has not gone into reverse even if the no of infected has been rather high, and measures were introduced (in July) to curb the outbreak (but the no of cases is increasing rapidly again, there too)
- **The IMF** revised its June global 2020 GDP forecast up by 0.8 pp to -4.4%, and its '21 f'cast down by 0.2 pp to +5.2%. By end of next year, global GDP is estimated to be more than 4.5% below the pre corona close to 3% p.a growth path. The 2020 upward revision is entirely due to a less dire outlook for Developed Markets (+2.3 pp), while Emerging Markets are revised down (-0.2 pp), even if China is lifted by 0.9 pp to +1.9%. India is scaled back 5.8 pp to -10.3%! So before you complain… Two weeks ago, **the OECD** too lifted its 2020 f'cast upwards
- **GDP in China** rose 2.7% q/q, 4.9% y/y in Q3, a tad weaker than expected. However, activity is less than 1pp below the pre corona growth path. September data were significantly stronger than expected, **industrial production** is well above the pre corona trend. **Retail sales** rose sharply but are still the laggard (and now the only one). **Exports and even more imports** are very strong. **Inflation** is slowing, as is **credit growth** – but it remains well above income growth
- No news on the negotiations about another **US fiscal stimulus package,** but some say that a deal should be reached soon, in order to get it implemented before the election. **Manufacturing production** surprised on the downside in Sept (-0.3%) and it is still 7% down vs. Dec. The first regional manufacturing surveys were mixed, the Phil Fed was strong, with orders growing at the 2nd fastest pace ever (data from 1968)! In addition, r**etail sales** were much stronger than expected, the core up well above 1% - and the level is 7% higher than in early 2020!
- **Manufacturing production in the EMU** rose 1% in August but remains 5% below the Dec level. Only Italy (!) is above
- **Norwegian banks** expect subdued demand for credit in Q4 – and weaker than we assumed demand from households and stronger than we forecasted for businesses. No major changes in credit standards were reported, according to Norges Bank's lending survey. Banks in other countries, especially in the US, is tightening sharply. **Homebuilders** report much higher sales and starts are following suit, not surprising given the strong existing home market. The overall **trade balance** is in red as strong domestic demand for goods have lifted imports – and Mainland exports have fallen during the corona crisis
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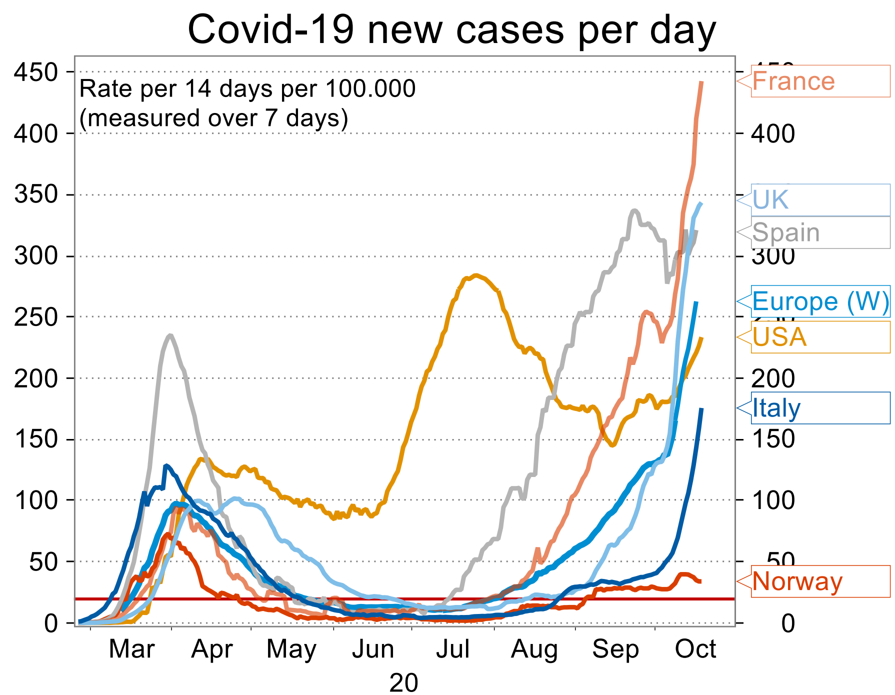
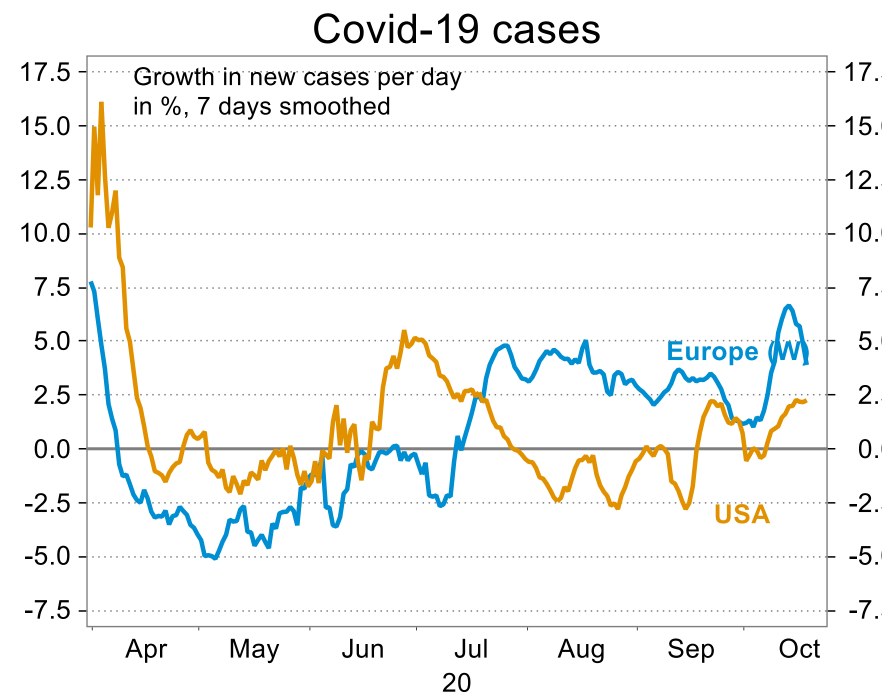
Some pretty worrisome trends in France, UK & partly US. Italy on the way up too

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

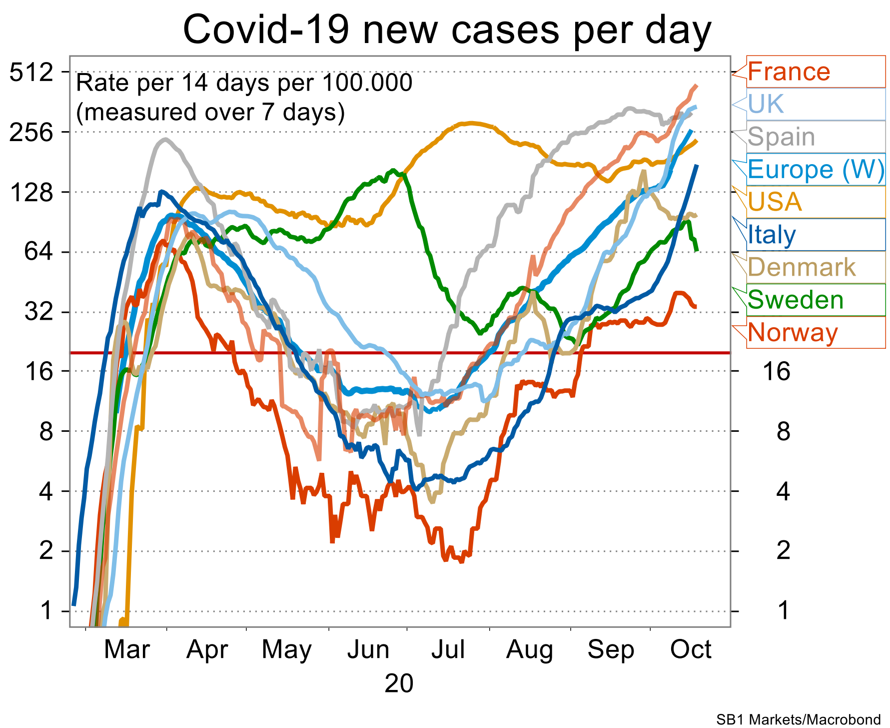




- The number of **new cases in the US** is on the way up again, quite broadly geographically (and just not in Washington DC ☺). The no of hospitalisations and deaths are still kept in check. So far, the economic cost has been limited, as no data signals another downturn
- Following a decline in some 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'

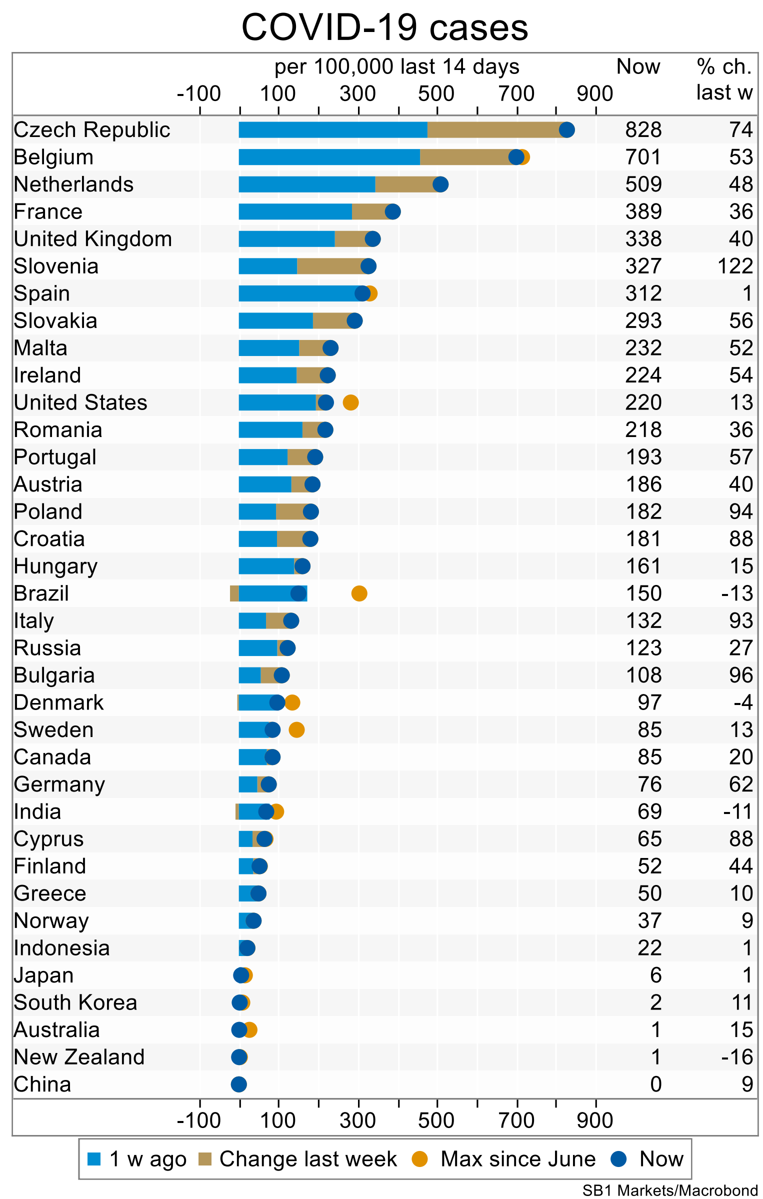


- Given the current trajectory, more countries will introduce new restrictions the coming days & weeks

Not many are heading downwards…

Huge increases in many countries the past two weeks

- The chart to the left seems identical to the similar chart last week but the top range is changed to 900, from 500 – because the Czech Rep has climbed to 828 over 14 days/100' inhabitants, from 451. One week ago…
- 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!
  - » Just Brazil, India and New Zealand are reporting fewer new cases
- Only some few countries are below their local peaks since the June trough – and just Brazil significantly down
- Hospitals in some places of Europe and in the US are reporting a challenging situation
- Several European countries have re-introduced restrictions, no doubt some will once more harm economic activity, especially in parts of the service sector
- The no of deaths is on the way up most places – and rapidly in Europe - but (so far) not to a high level anywhere in the rich part of the world
- <u>So far, we do not see any broad health crisis</u>



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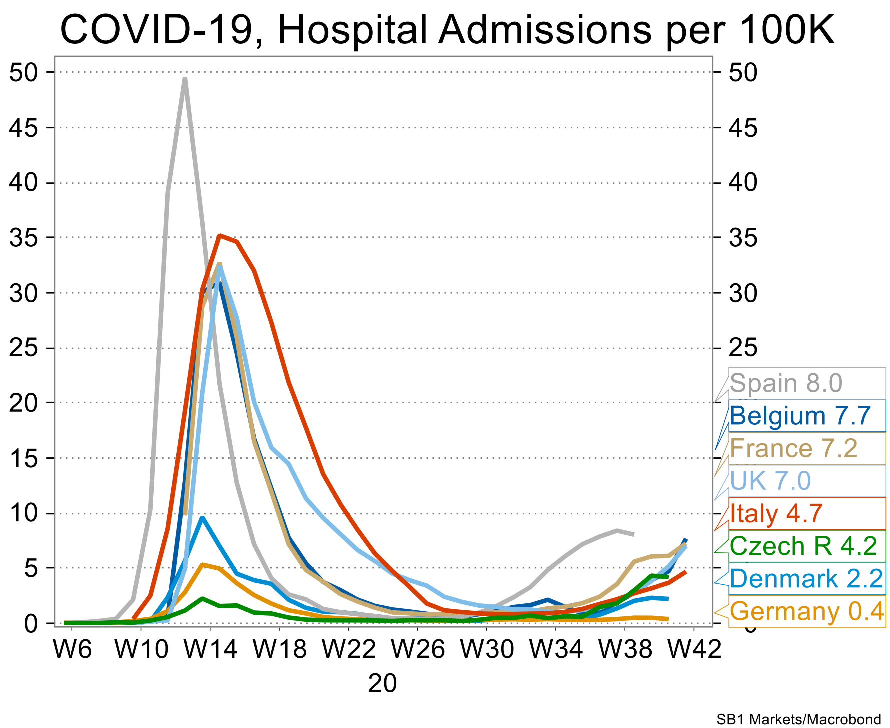
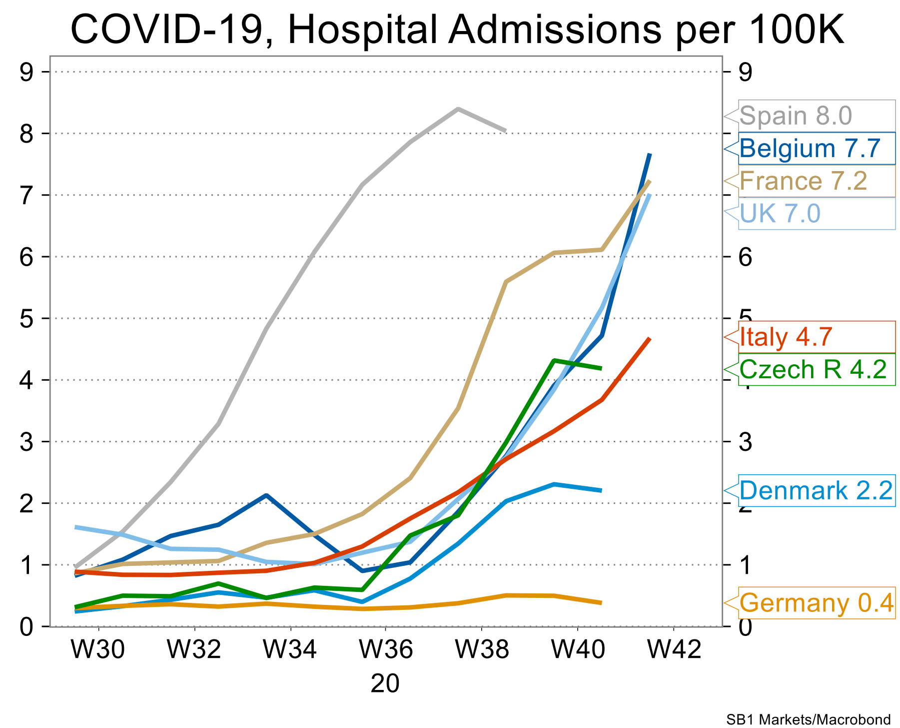
Corona is not a large health problem, at least not yet

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

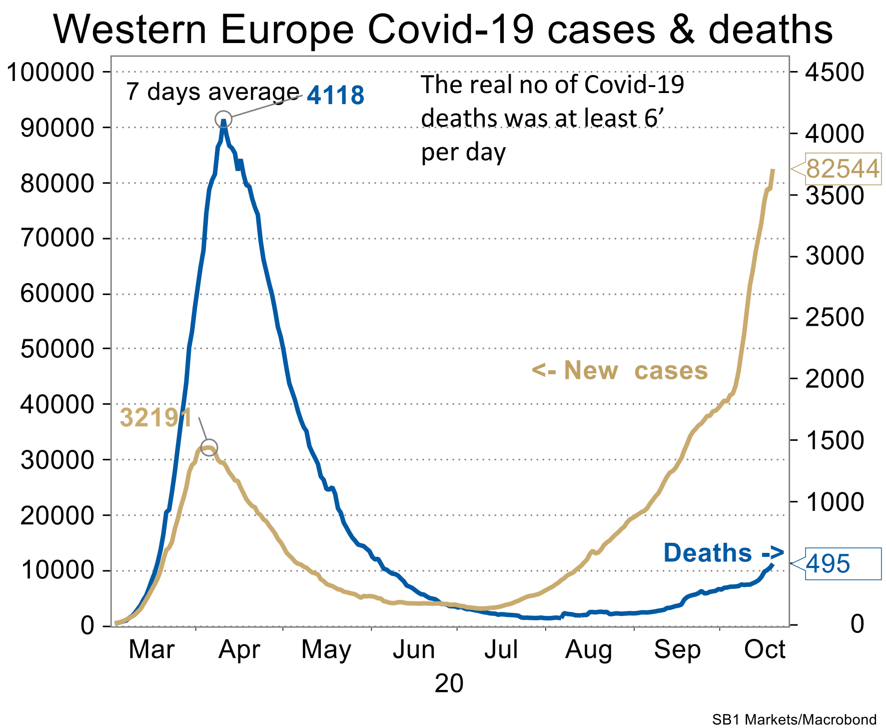




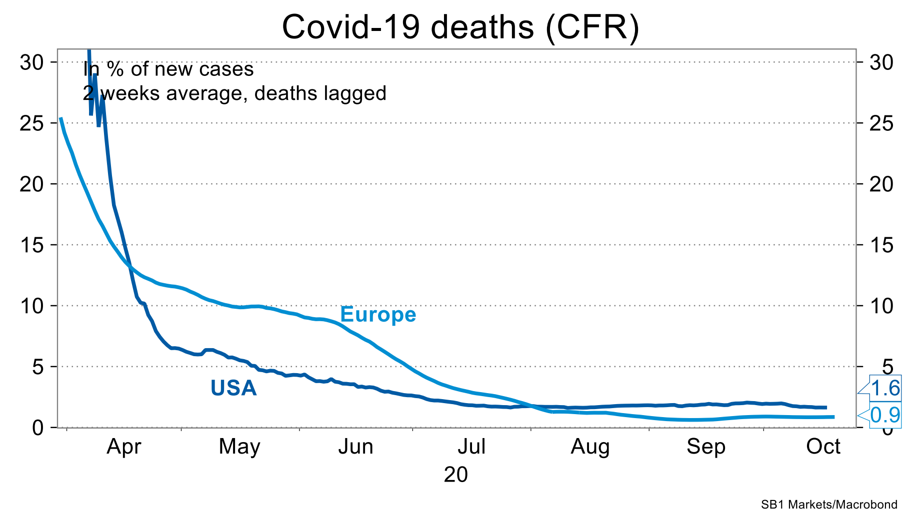
- The last data point may be preliminary.

Europe: Covid deaths still at a low level, some 5% of total deaths

But the number of deaths is climbing again



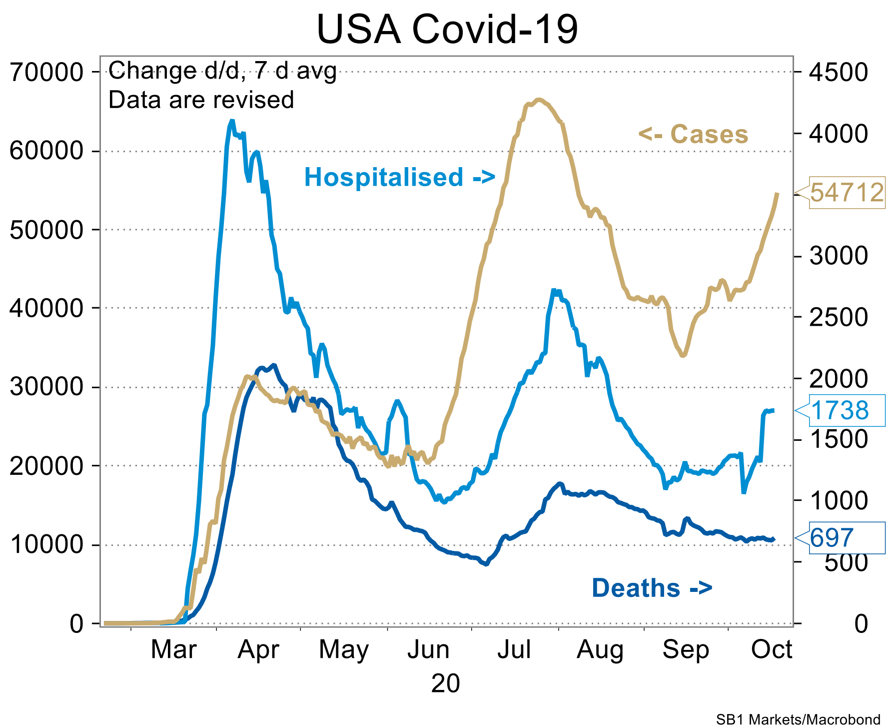
- The number of deaths in Europe is growing at a fast pace but the levels is still low, 500/day, 1/10th of the level in March/April, and equalling 5% of the 9.000 daily deaths in Europe

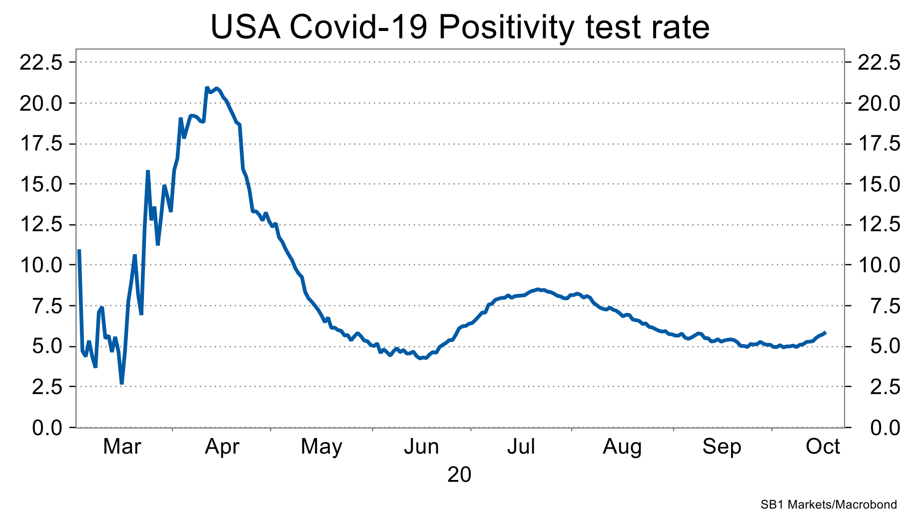


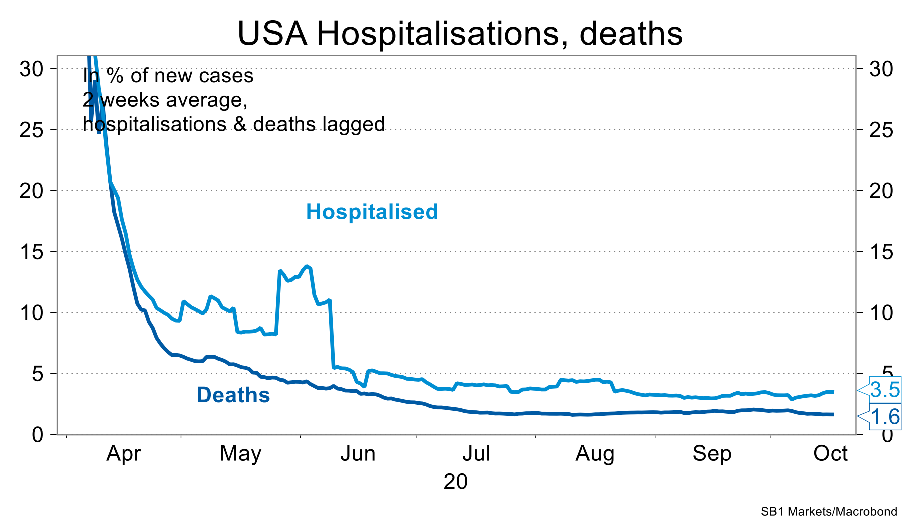
- The death rate (vs. confirmed cases) has stabilised at less than 1% in Europe. In the US it is at 1.6%, probably mostly because the real no of new cases is higher than officially reported (the positivity rate has been far higher in the US than in Europe – but this rate is rapidly climbing in Europe)

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

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



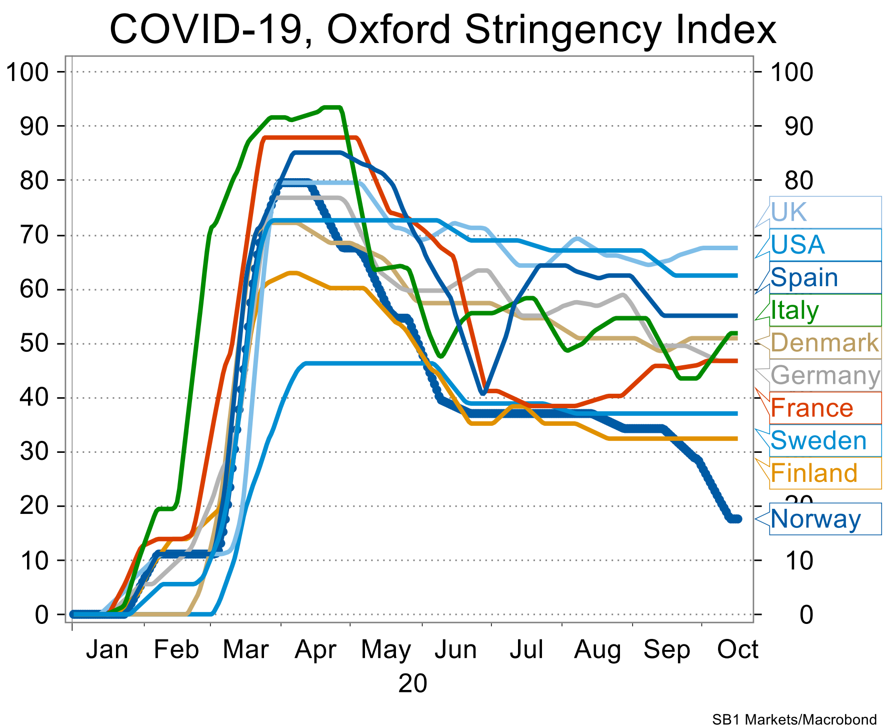




- The hospitalisation rate is far lower than during the early phases of the pandemic but has increased since early Sept
- The death rate (CFR) fell sharply until late July and has flatted out since – at just below 2%. A rather high (but not increasing) positivity test rate at 5% also indicates a higher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

We do not fully trust Oxford's stringency indices but…

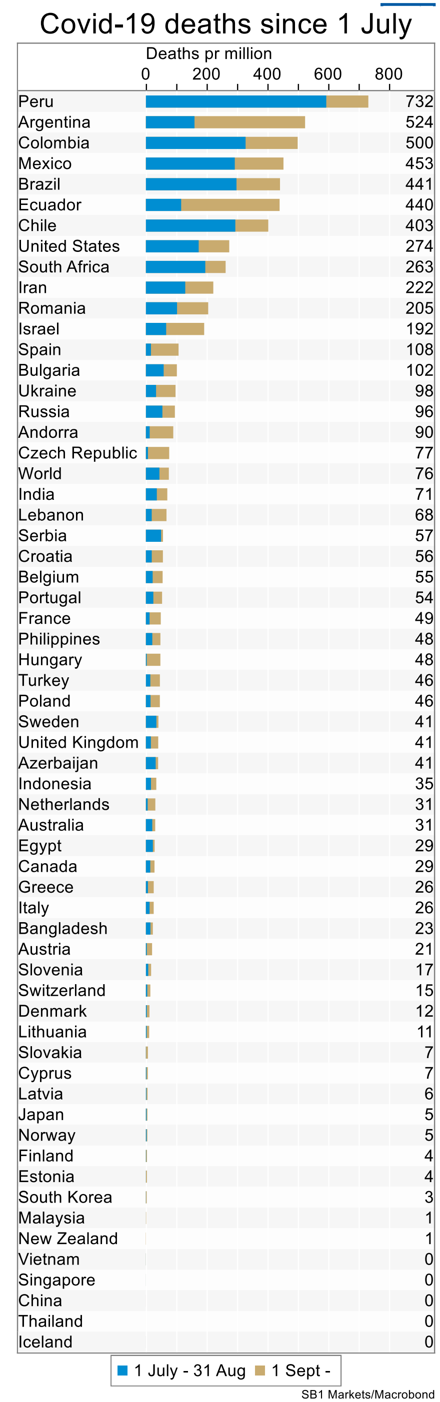
Some countries are tightening Covid restrictions – and Norway is probably at the bottom



The bottom line: Where are people dying – here from 1 July

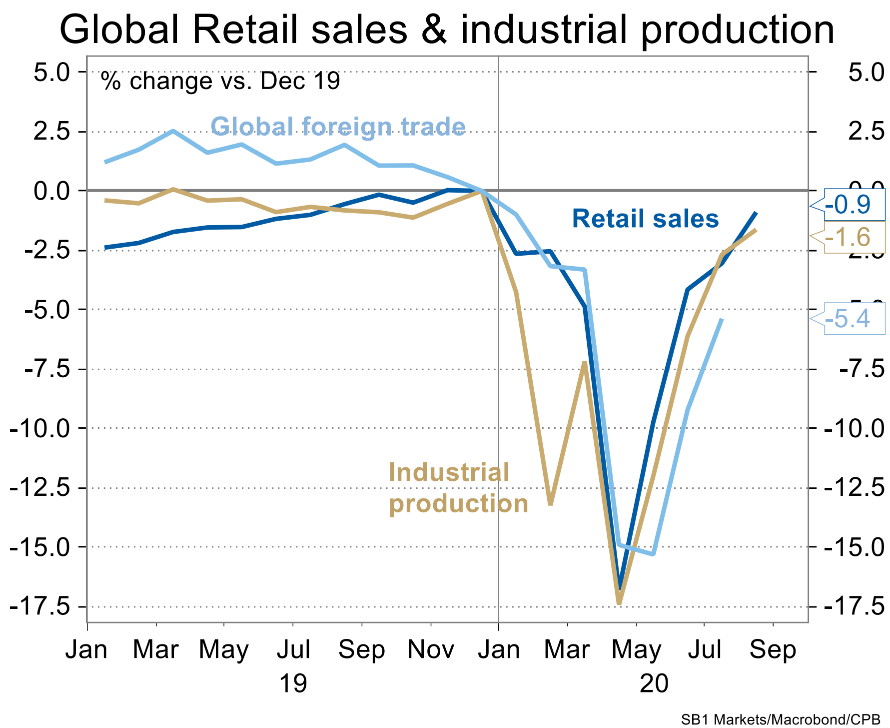
Death data are underreported many places but still the best we have?

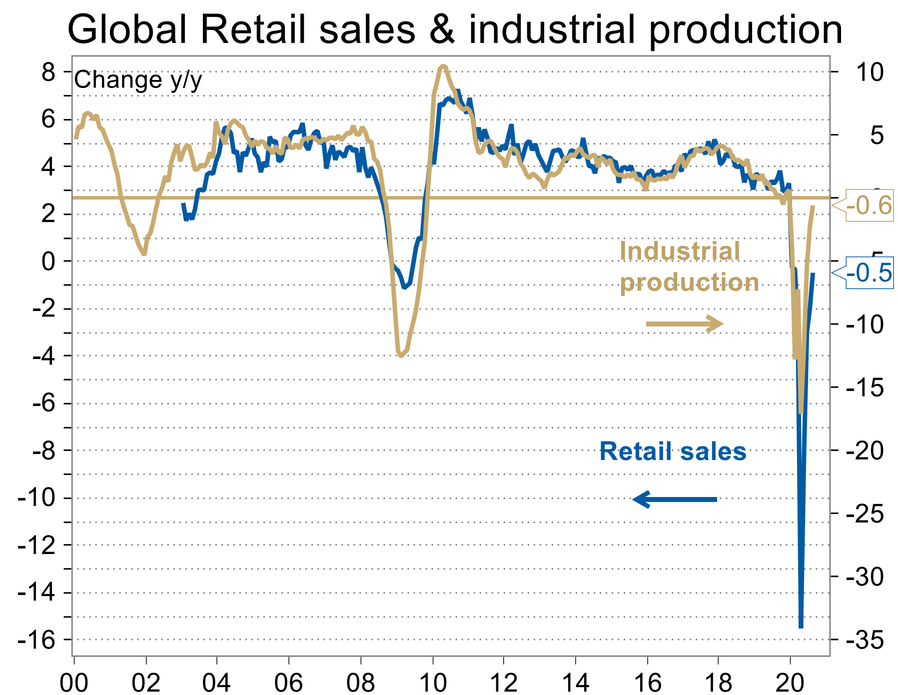
- Lat-Am is reporting the highest death numbers since 1 July with the 7 top positions. Peru is at the top
- US is at the top by far among rich countries, if we start counting at July 1 but is lagging Span and Belgium if we start counting in March – but ahead of UK, Italy, Sweden and France – and all others
- Norway is close to the bottom of the list, together with Finland (and Denmark is not far above, and not Sweden either if we compare the no of deaths since 1 July)



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

Both global retail sales & industrial production further up in August – just some 1% 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, as in July (and 6% in June). Sales are 0.9 % below the pre corona (Dec) level (but above the Jan level). Sales in most DM countries are above the Dec level, China is still below. (Some countries have not yet reported their August data…)
- Industrial production rose approx 1% in August down from 3.6% m/m in July and 7% in June. Production is just 1.6 % below the pre corona level (again, not all countries have reported)
- 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

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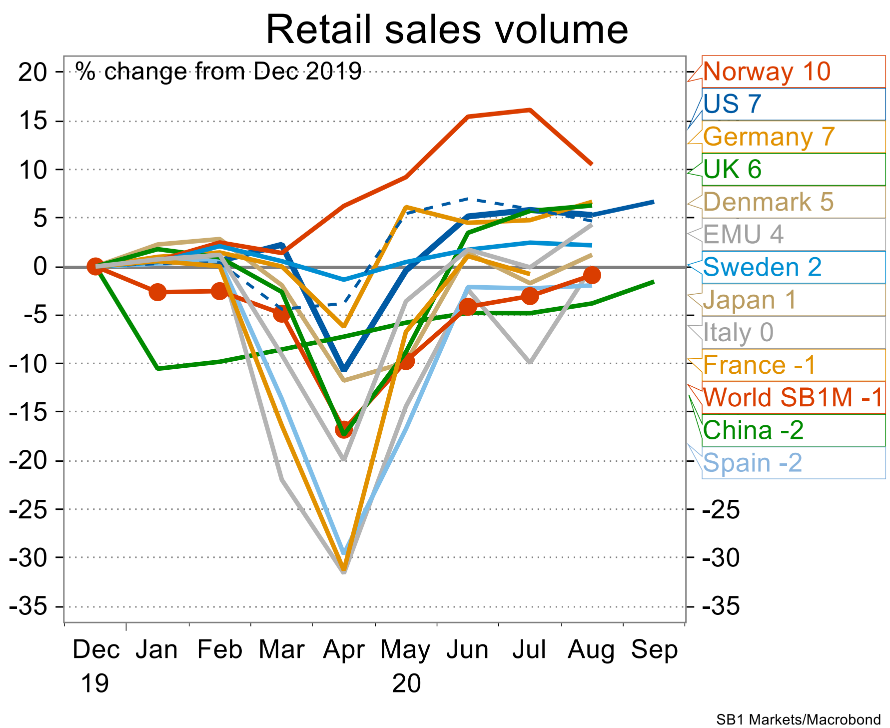
Global retail sales are on the way back to pre corona levels

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



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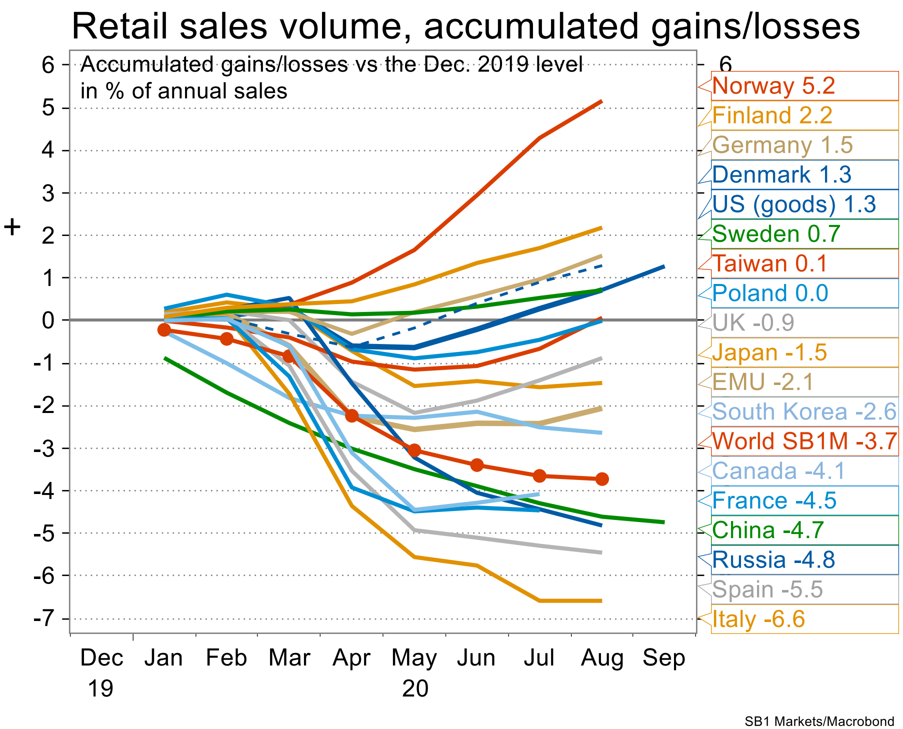
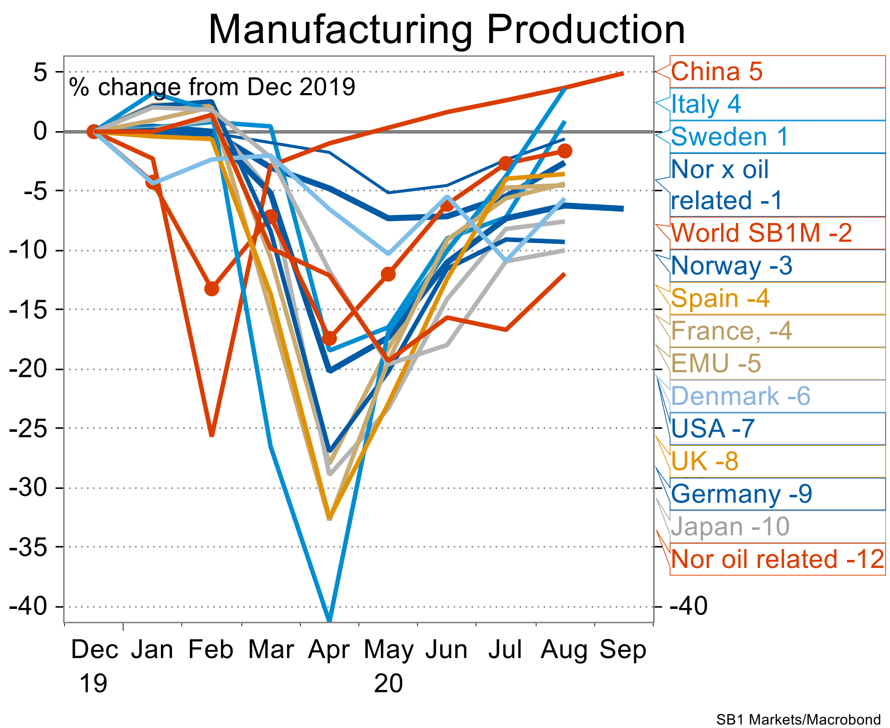
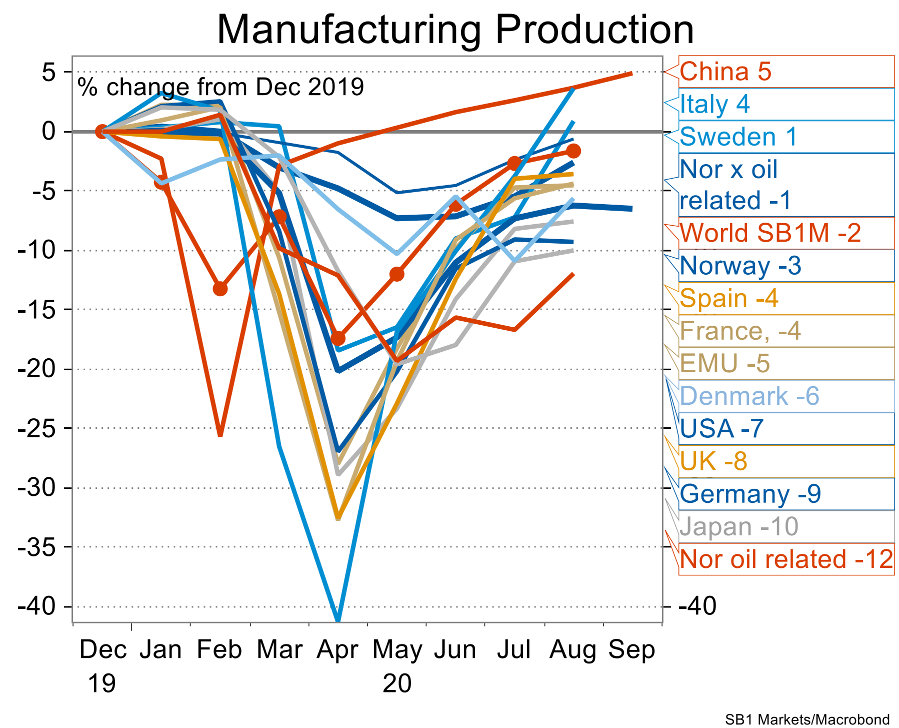


- Global retail sales were 1% below the Dec level in August. Most countries are now reporting higher sales than before corona hit. Even if sales fell sharply in August, Norwegian retail sales are still at the top
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 7% above the pre corona level in August but total sales during the first nine months of 2020 were still 'just' 1.3% above the pre corona level, measured in % of annual sales, due to the losses during the spring
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

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

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

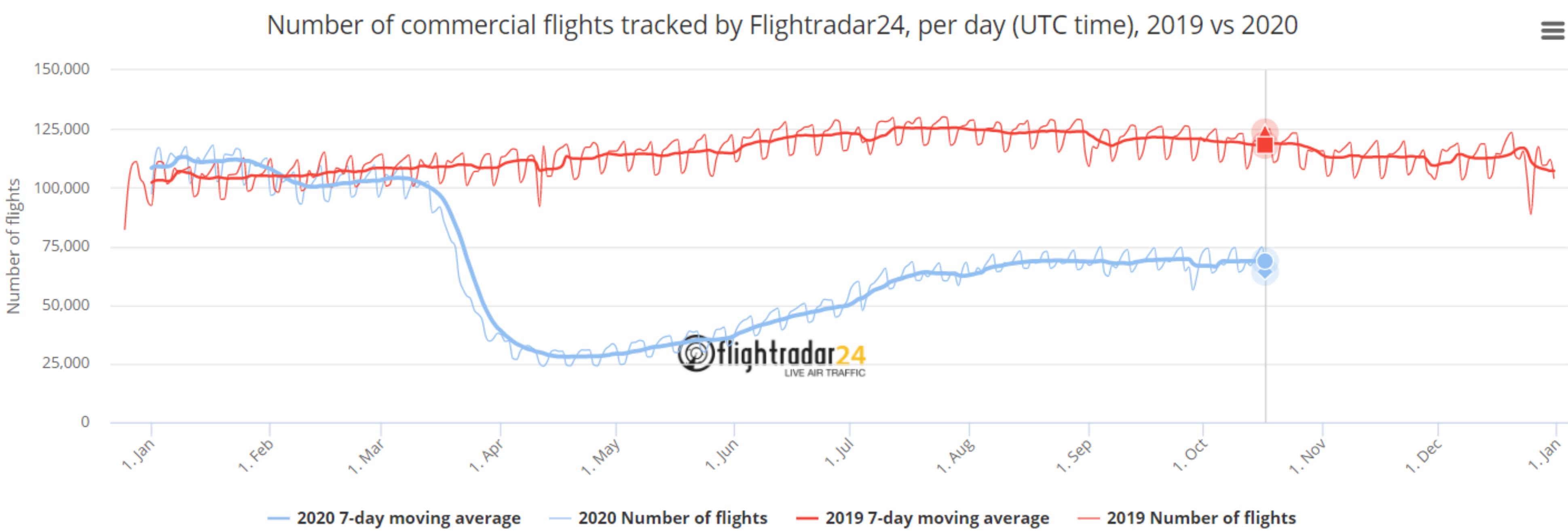




- Manufacturing production was down 1% vs. the Dec level in August, following an approx 1% lift
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 7 % below the pre corona level in Aug. Total production 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

Airlines are still flying rather low

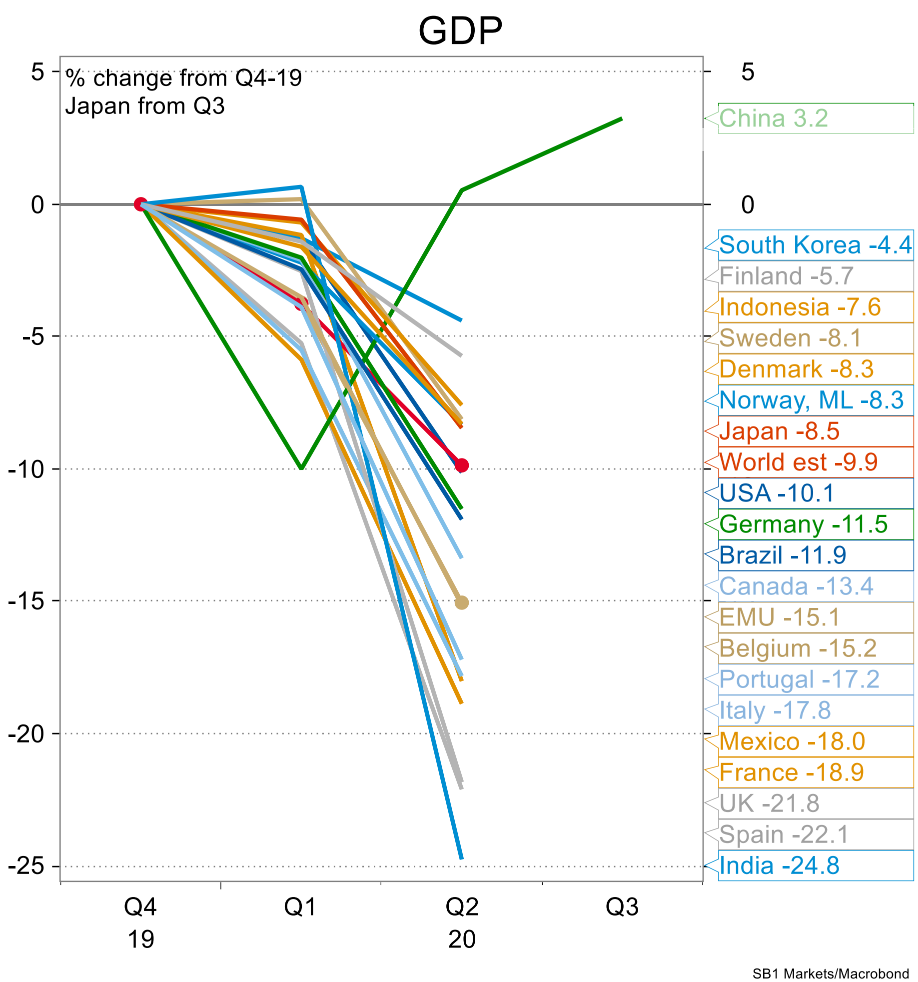
However, the gap may now be closing slowly – but it remains large, down 42% from the 2019 level



- The gap is slowly narrowing – at this time of the year the no of flights normally declines somewhat. Not so now. However, at the current pace the gap will not be closed before long – it has been narrowing by just 1 pp per month since mid August, and it is still at 42%
- The travel industry will most likely not recover before vaccines have been widely distributed (and they work well)

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

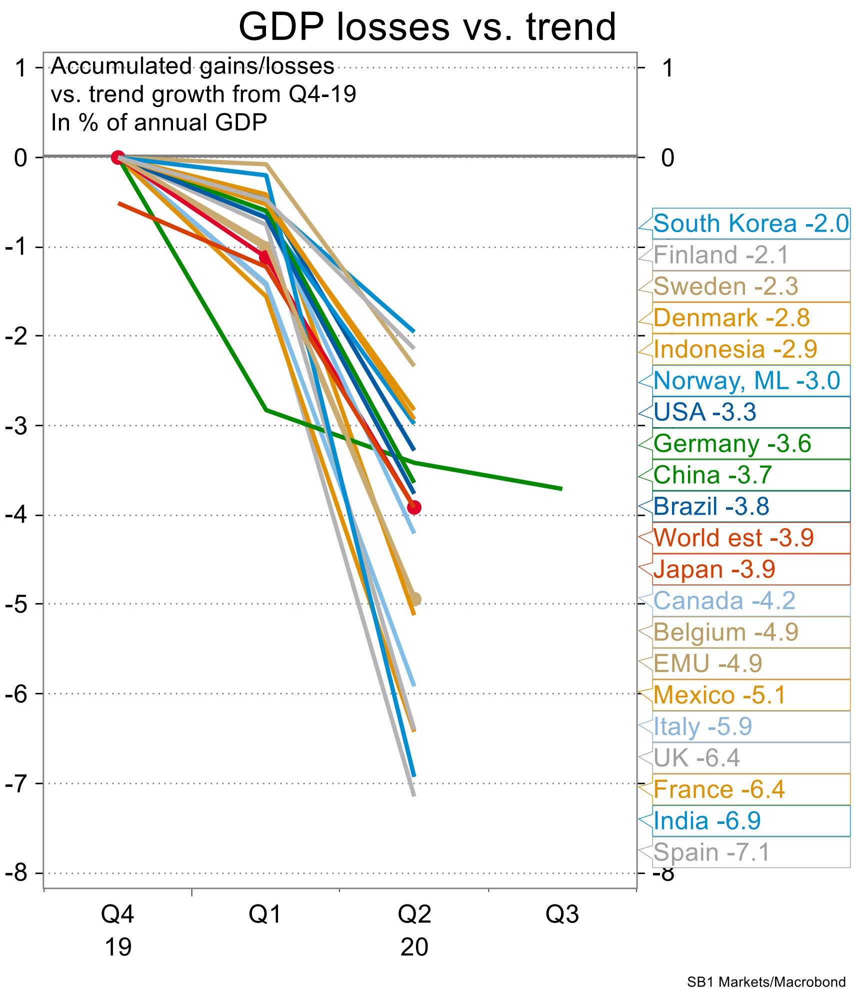
Q3 growth in China was weaker than expected but level is 3.2% above Q4 '19

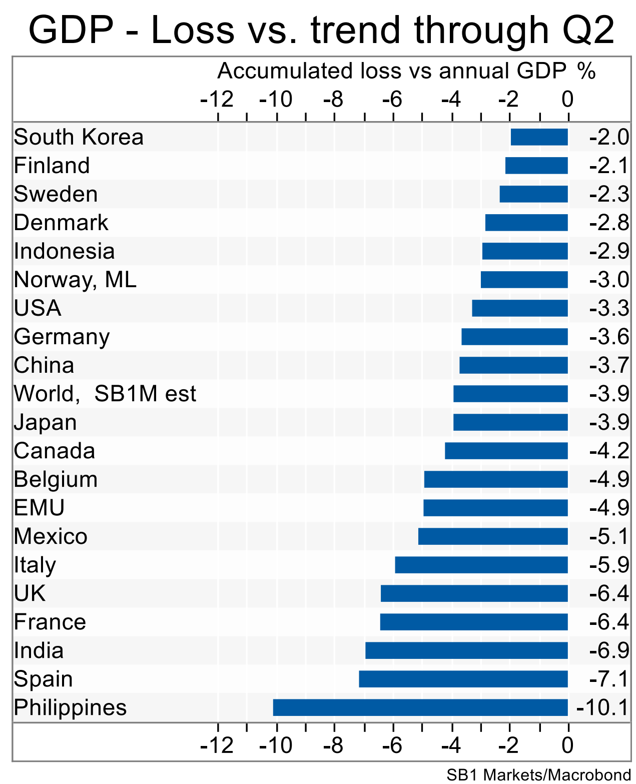


- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, and another 2.7% in q3, bringing the GDP level 3.2% above the Q4 level
- In most (all?) other countries, GDP fell sharply in Q2 – and global GDP probably fell by approx the same 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)
- As production and demand recovered through Q2, we estimate that June was some 4 – 5% below the Q4-19 level
- *Our July global nowcast is for a further expansion in activity, and a 2 – 4% shortfall vs. the pre corona level and 5 – 6% negative output gap (check next page)*

The accumulated losses vs trend growth equalled 4% of global GDP in Q2

… and even if GDP has recovered in China, the drag is still 3.6% (vs the trend growth path)

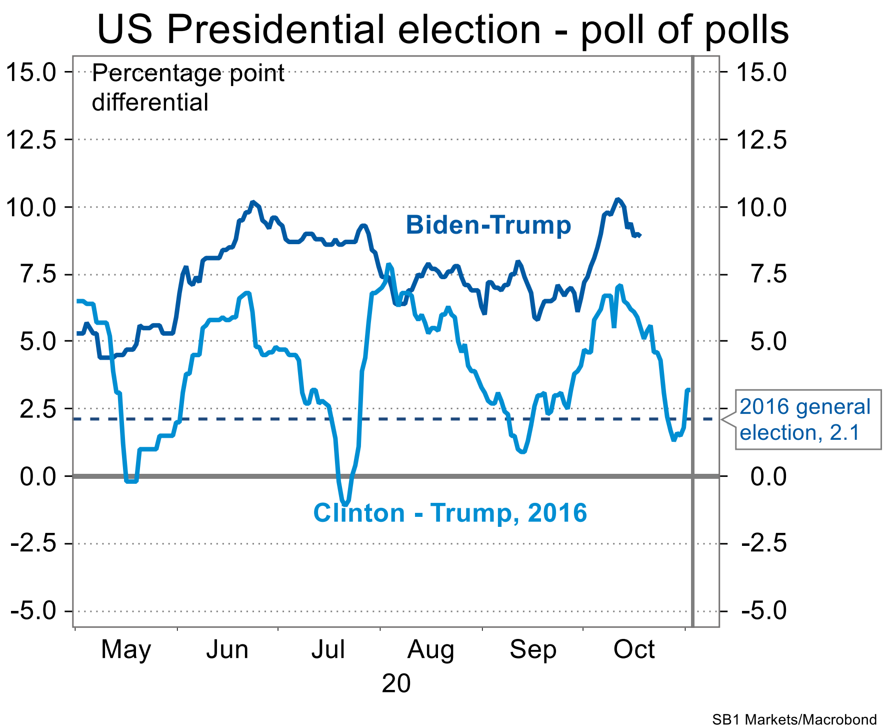


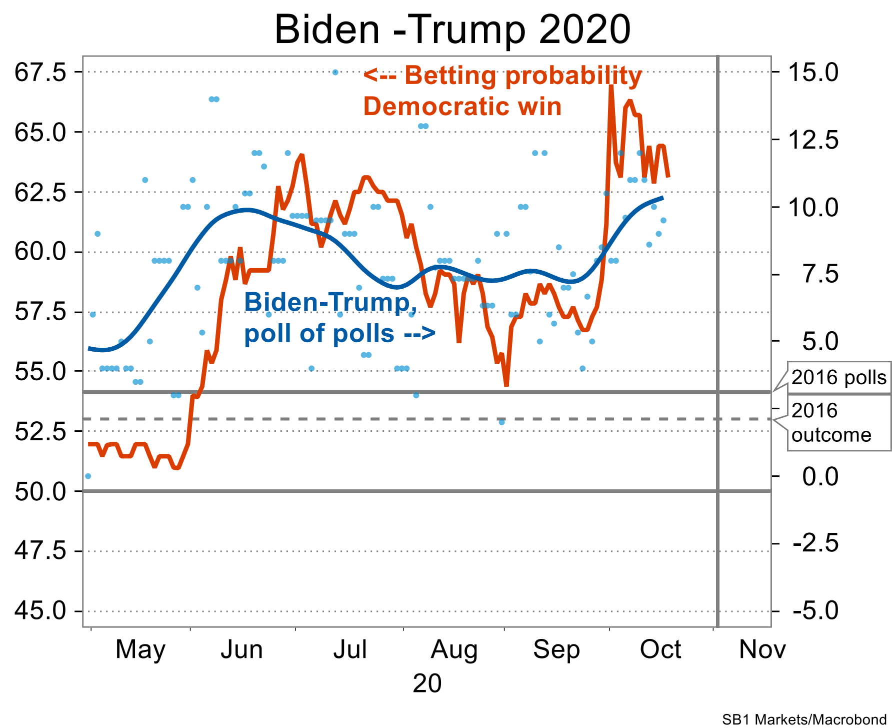


- Q3 for China at the chart above!!

2 weeks to go: Biden is still far ahead of Trump, even if the spread is shrinking

Biden is some 8 - 9 pp ahead of Trump. But earthquakes have happened before





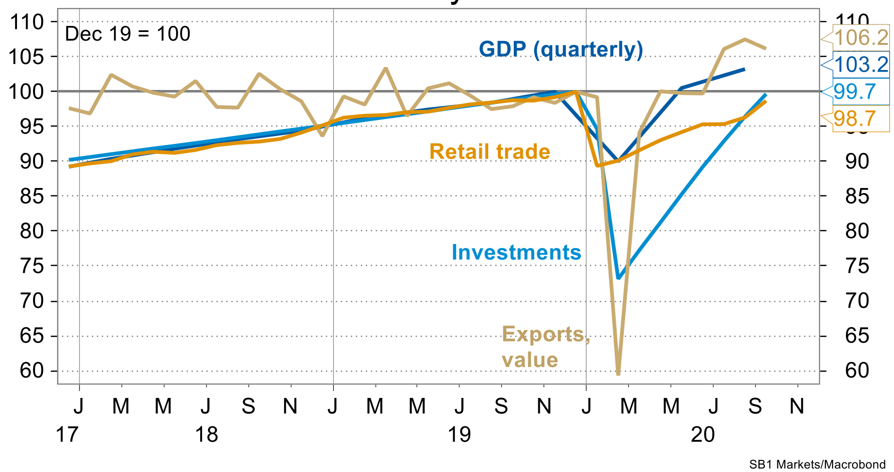
- The punters go for Biden, albeit not by impressive odds, some 63% probability. Should you put some money here??

Sources: RealClearPolitics, PredictIt

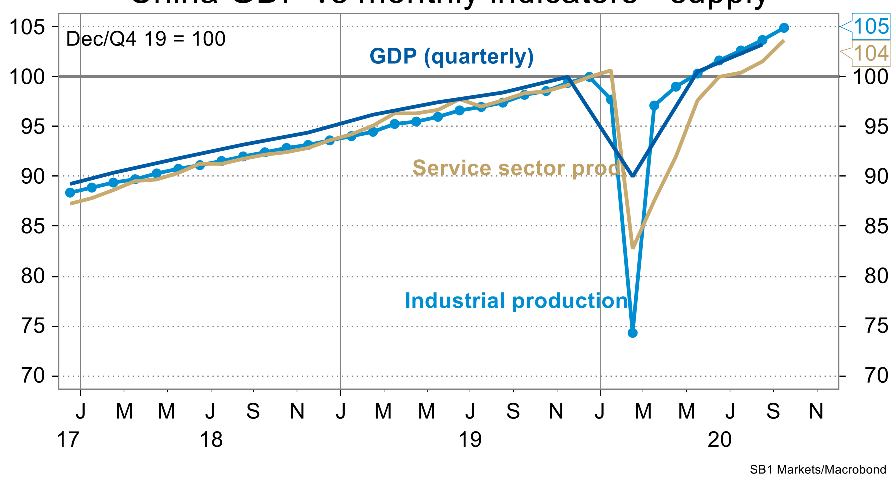
Q3 GDP a tad weaker than expected, Sept monthly data stronger. Gaps are closed

Industrial production well above pre corona trend, as are exports. All others on the way towards trend

China GDP vs monthly indicators - demand



China GDP vs monthly indicators - supply

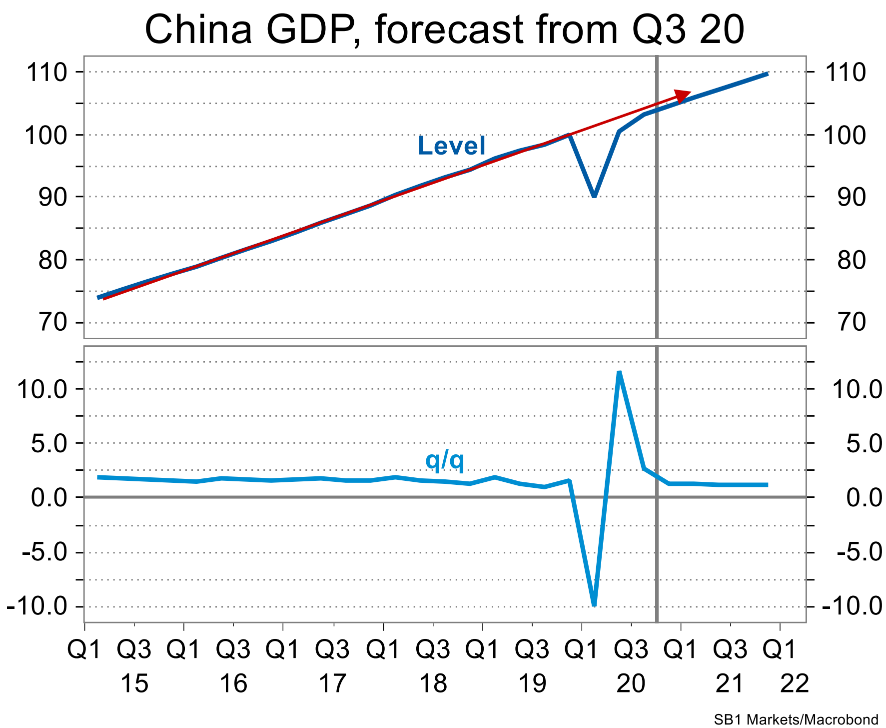


- **GDP** rose 2.7% q/q in Q34 – and by 4.9% y/y, 0.6 pp slower than expected. GDP is up 3% vs. Q4 '19, and is less than 1% below the pre corona growth path – <u>the recovery is more or less completed</u>
- **Industrial production** rose 1.2% m/m in Sept and 6.9% y/y, 1 pp higher than expected. Production has now fully recovered – and more than that
- **Service sector production** increased by 2.1% and is 4% above the Dec 19 level – and just 2% below the old trend path
- **Retail sales** rose 2.5% m/m in volume terms in Sept, the best in almost 13 years – and some 1.7 pp better than expected. Annual rate at -0.7% (our est) <u>and the gap to the pre corona trend path is still wide, at 4.5%.</u> In nominal terms, sales were up 3.5% y/y, expected 1.6%. **CPI inflation** has been slowing, headline down to 1.7% in Sept (and core up just 0.5% y/y) is supportive
- **Investments** rose 3.4% m/m in Sept. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly, now 2% below. The gap will be closed in Oct
- **Credit growth** has slowed somewhat but is still high, at 12% - more than twice the growth rate in nominal GDP y/y in Q3
- **Exports** were strong and **imports** even stronger in September, signalling growth both abroad and at home. Other Asian exports up too

In sum: Gaps are being closed. Retail sales are still below par but all in all, the economy has more or less fully recovered from the corona downturn

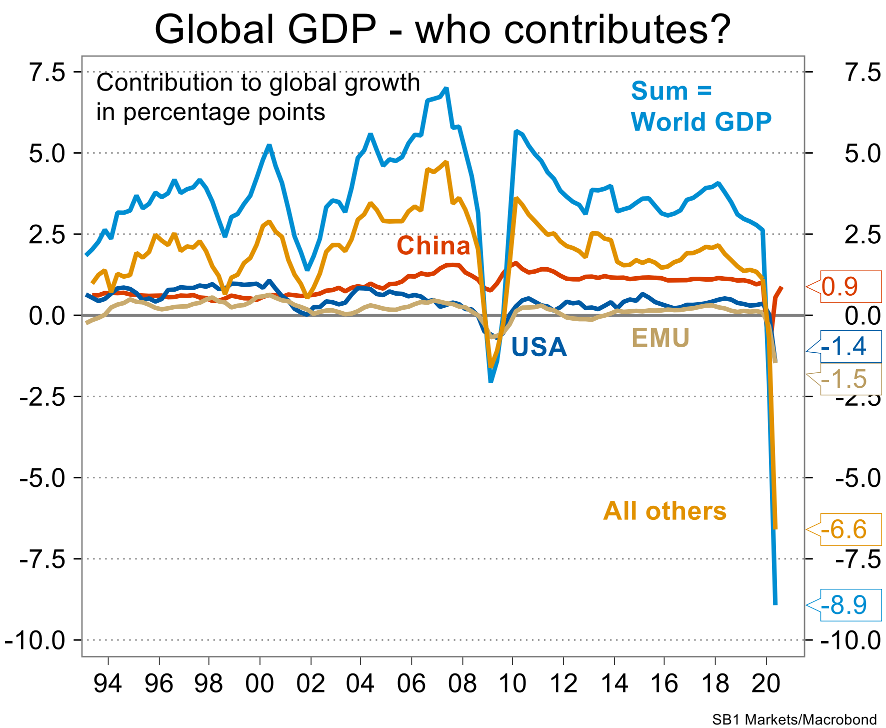
Q3 GDP up 2.7% q/q, up 4.9% y/y, less than 1% below pre corona trend

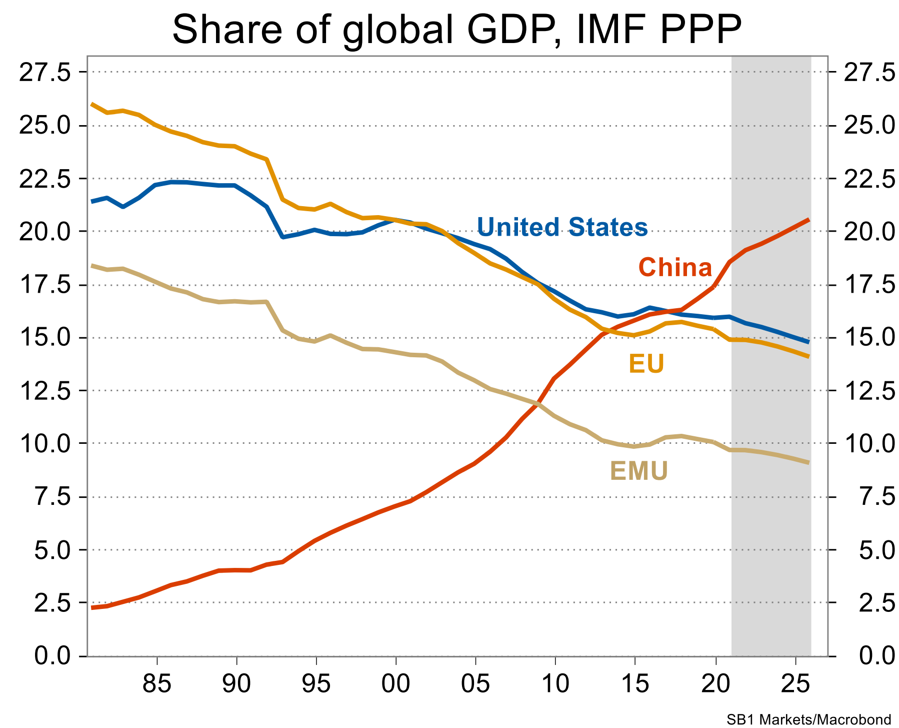
GDP has almost fully recovered to the pre corona trend path – but was 0.6% weaker than expected



- In Q2, GDP grew by 11.7% (not annualised, 57% annualised ☺), 2 pp more than expected
- The annual GDP growth rate was sliding down before corona, but was 6% in Q4 last year. It the gradual decline in growth had continued – and corona had not happened – the annual growth rate would have been some 5.5% by Q3 2020

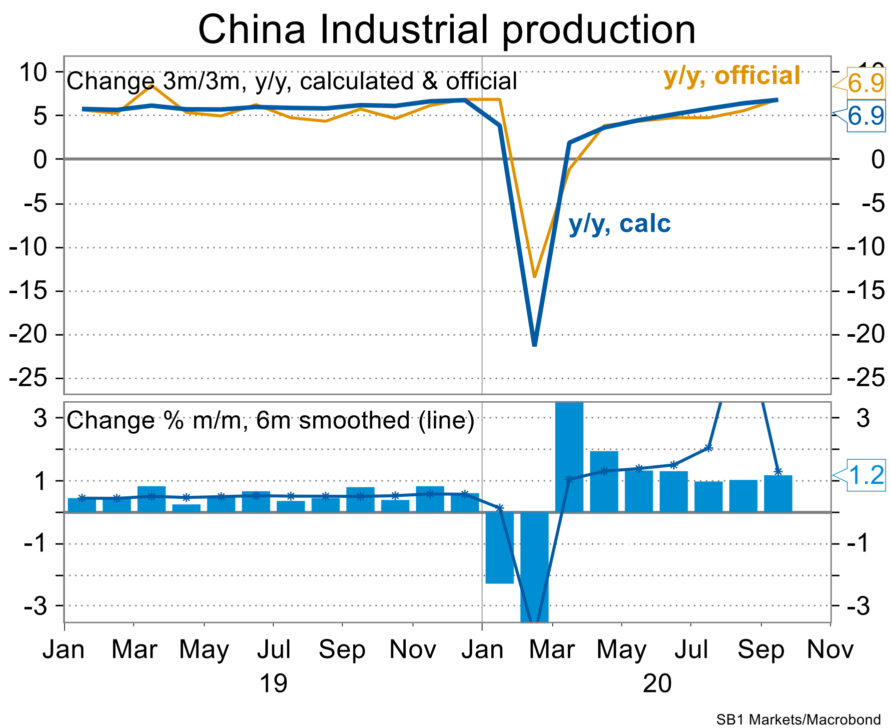
We may blame China for many things. But it is not a drag on the global economy

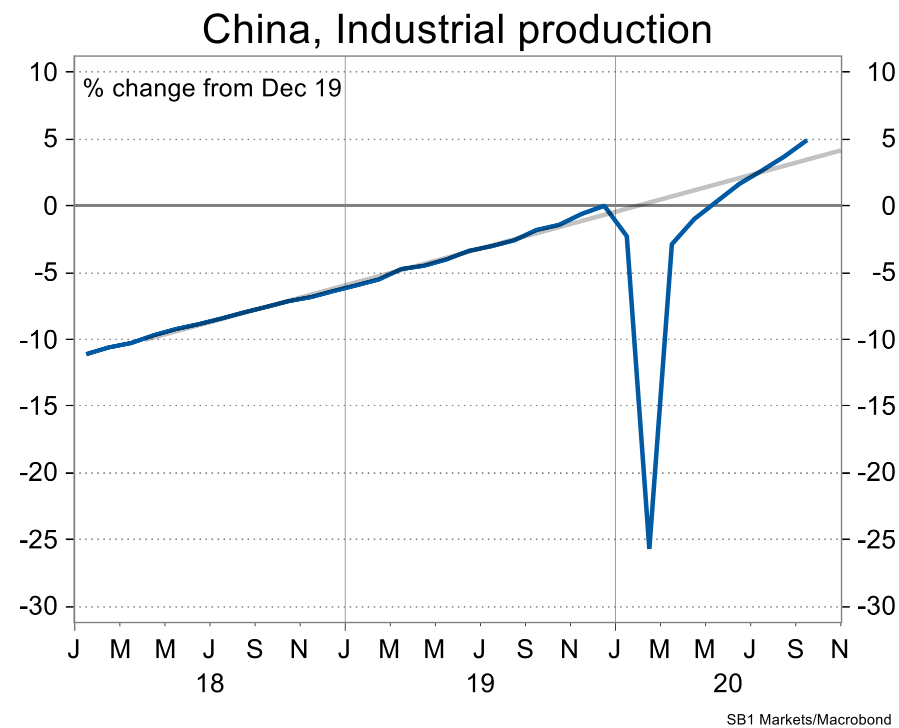




Wow, industrial production clearly above the pre corona trend

Production rose another 1.2% m/m Sept. Annual growth up to 1.3pp to 6.9%, expected at 5.8%





- Production rose 1.2% m/m in Sept, best since June, well above the pre corona norm, at some 0.5% per month.
- Production is 5% above the Dec 19 level and is almost 2% above the pre corona growth path
- The y/y rate climbed 1.3 pp to 6.9% (both the official number and our less volatile calculation), 1 pp better than expected. The monthly growth figures were revised upwards, in sum by 0.9 pp over the year to August, a rather unusual adjustment
- Retail sales are still 4.5% below pre corona trend, investments 4% and growth is slowing, the manufacturing sector needs more final demand to keep growth up (even if exports are now above the pre corona level)

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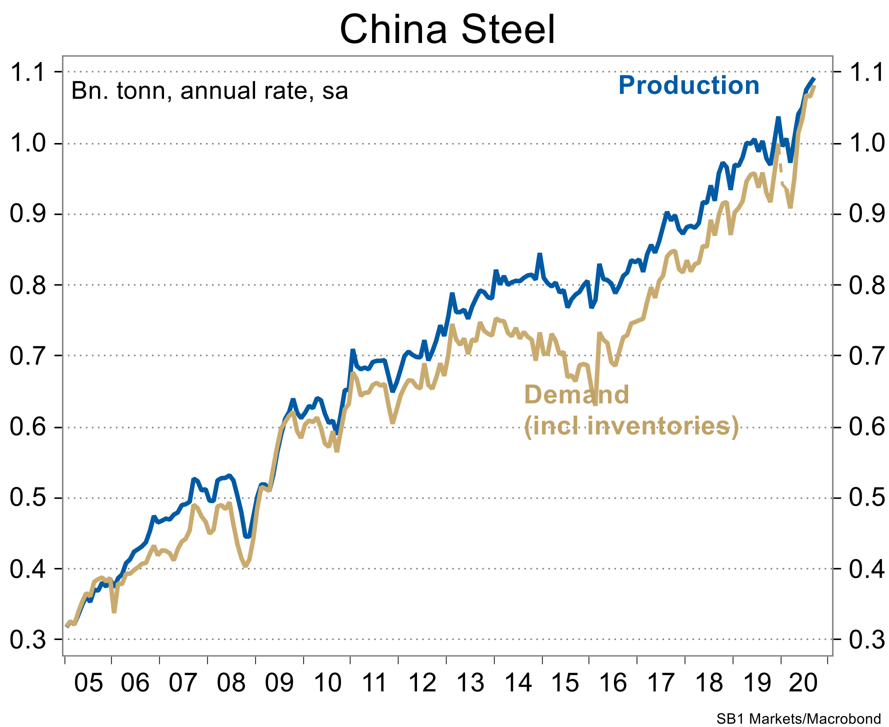
Construction is flattening, steel to follow?

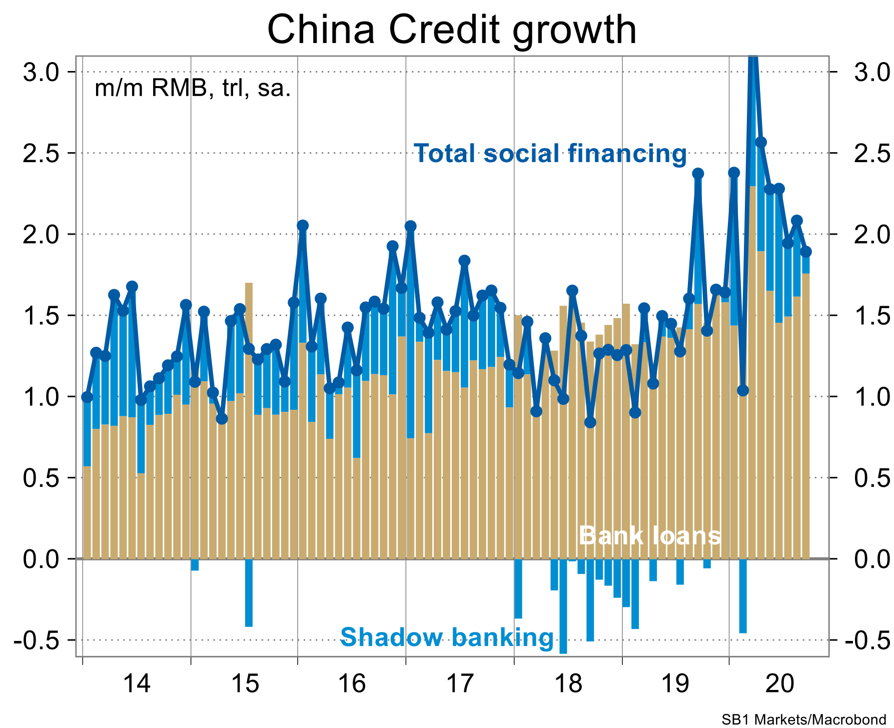
The current steel growth trajectory seems to be on the high side?

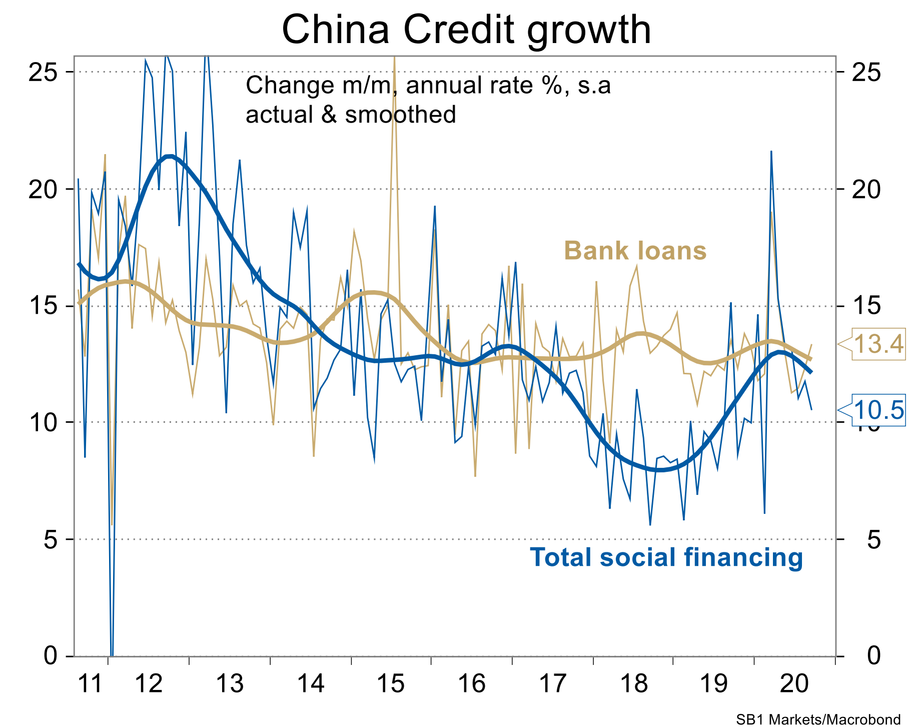


- Demand includes changes in inventories

Credit growth is slowing but is not slow

Credit growth outside banks is slowing, banks are still keeping the flow up

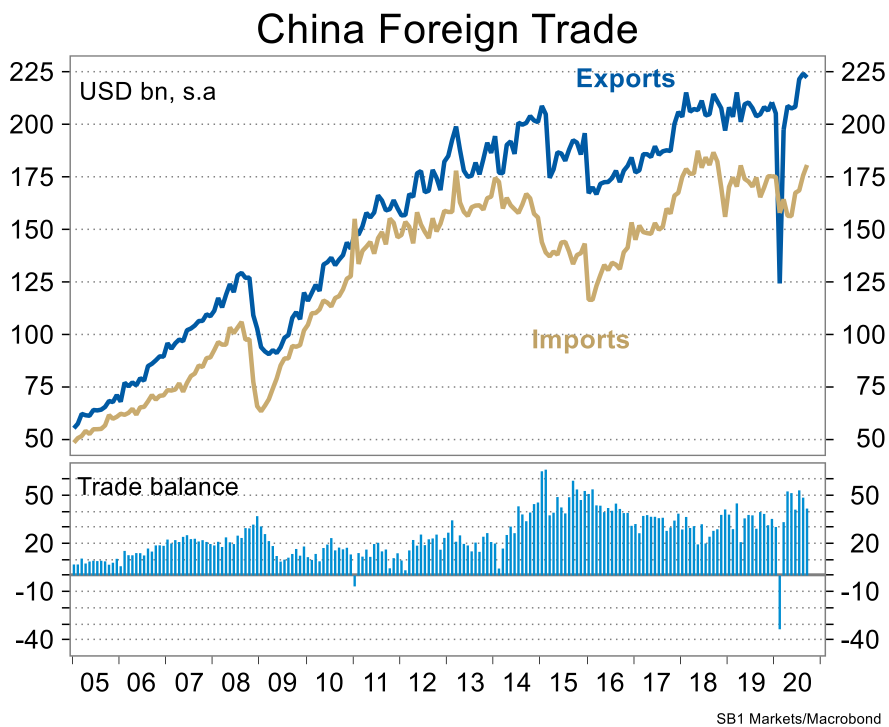




- Total credit growth has been slowing recent months, to some 10.5% (annualised) in September from above 15% during the spring
  - » Total credit rose 2.1 trl RMB (not seasonally adjusted), expected 3 trl. Banks supplied almost all of the increase (based on seasonally adj. data)
  - » Total credit is up 12.1% y/y, well above normal income growth, and the credit/GDP ratio is still increasing
- Following the V-shaped recovery in the economy, the authorities are less eager to boost growth by lifting credit growth again, especially vs. the real estate market. We not do not expect new stimulus measures

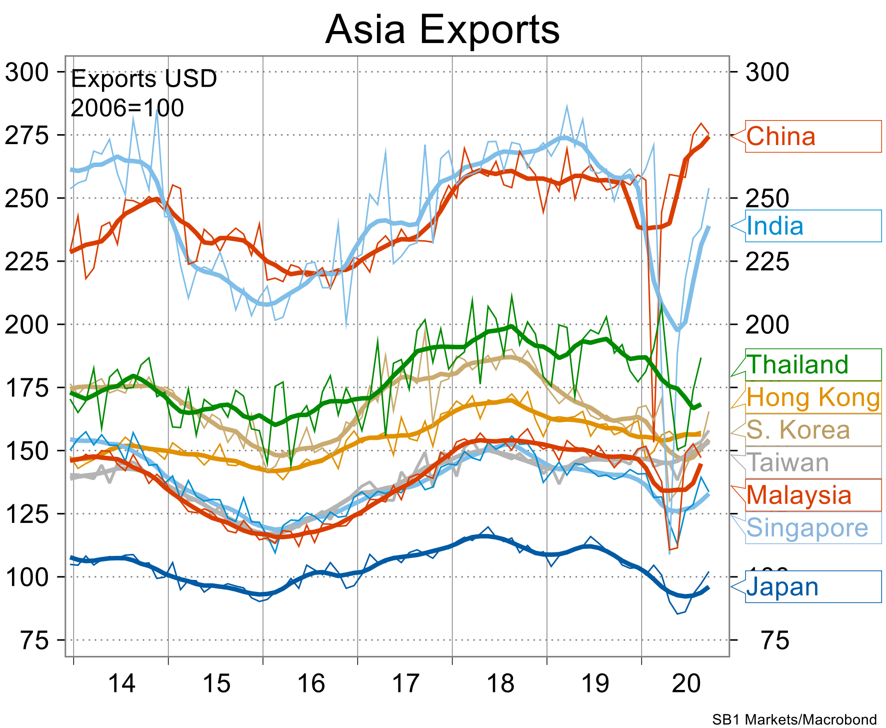
Chinese export, import volumes record high

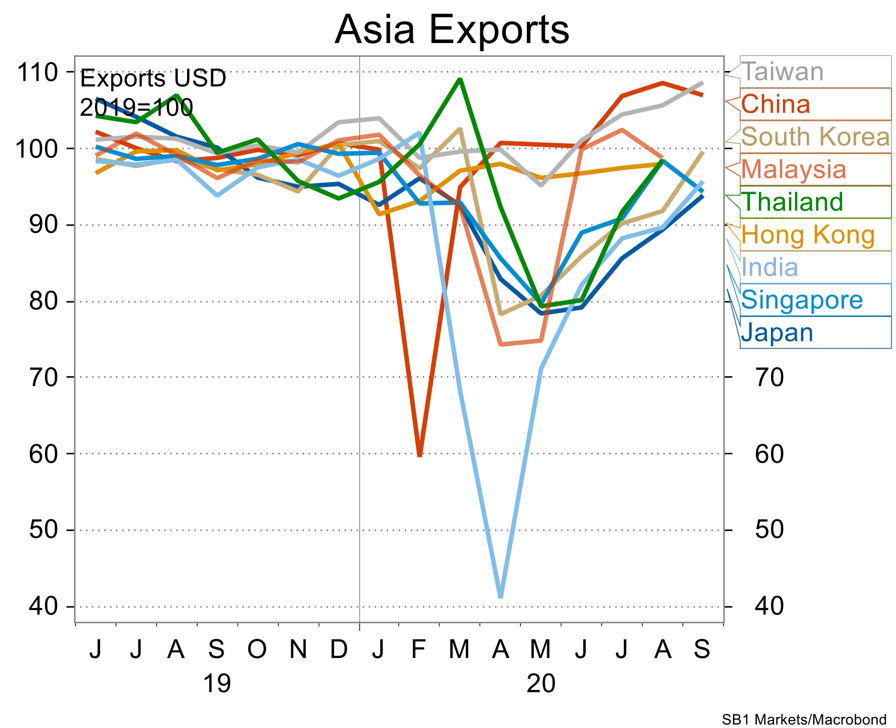
No signs of any collapse domestically or abroad



- Exports grew 10% y/y in September, as expected - and stable at the highest level. In volume terms, (based on our own quite uncertain price assumptions for the 3 last months), export are above the pre corona level – and close to long term trend path
- The surprise was on the import side: Imports grew 13% y/y, *expected unch* (but no more than 3% m/m). Import values are down since 2018 but as import prices have fallen, import volumes were record high in Sept (based on our prices assumptions past 3 m), and far above any reasonable trendline. Domestic demand must be strong
- The trade surplus fell USD 10 bn to 50 bn. The surplus has been higher than normal since March. Still, China is not more running a large current account surplus

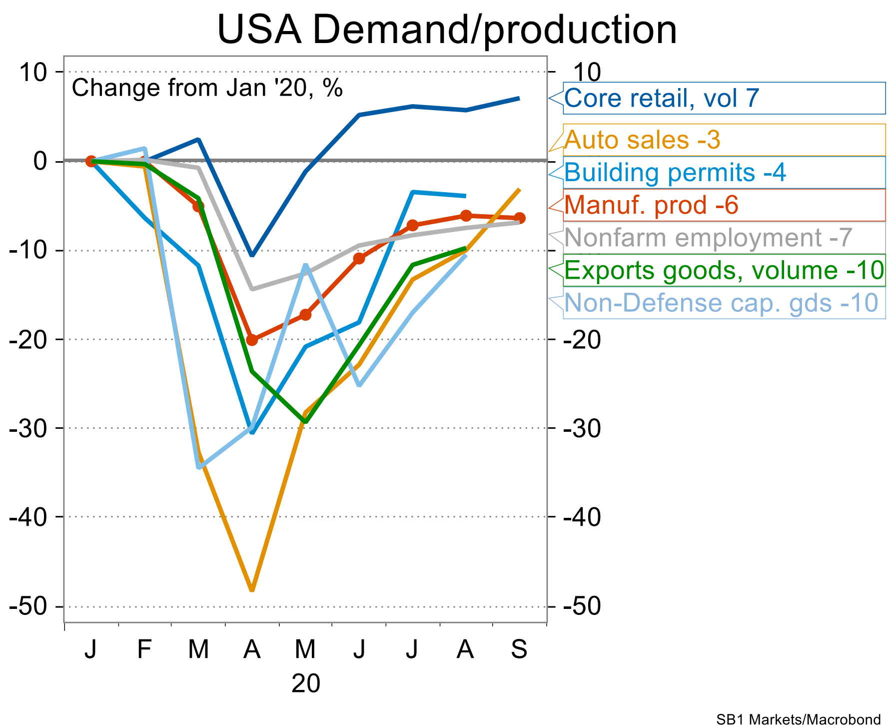
Asian exports are finally recovering quickly, none more than 6% below par





Goods consumption is back; goods production not as exports/investm. still down

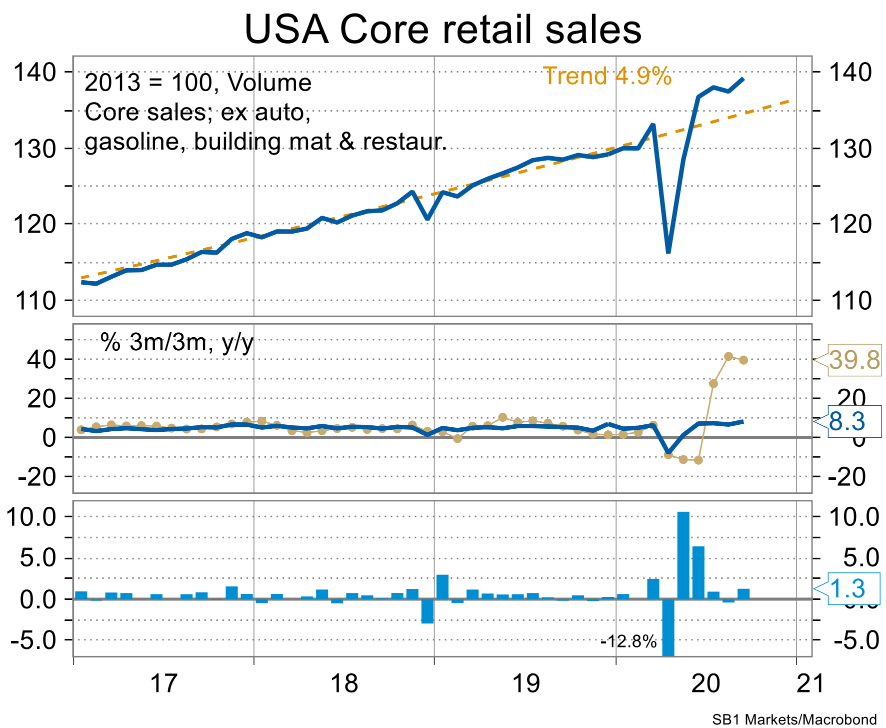
... and services have still a way to go, as have total employment

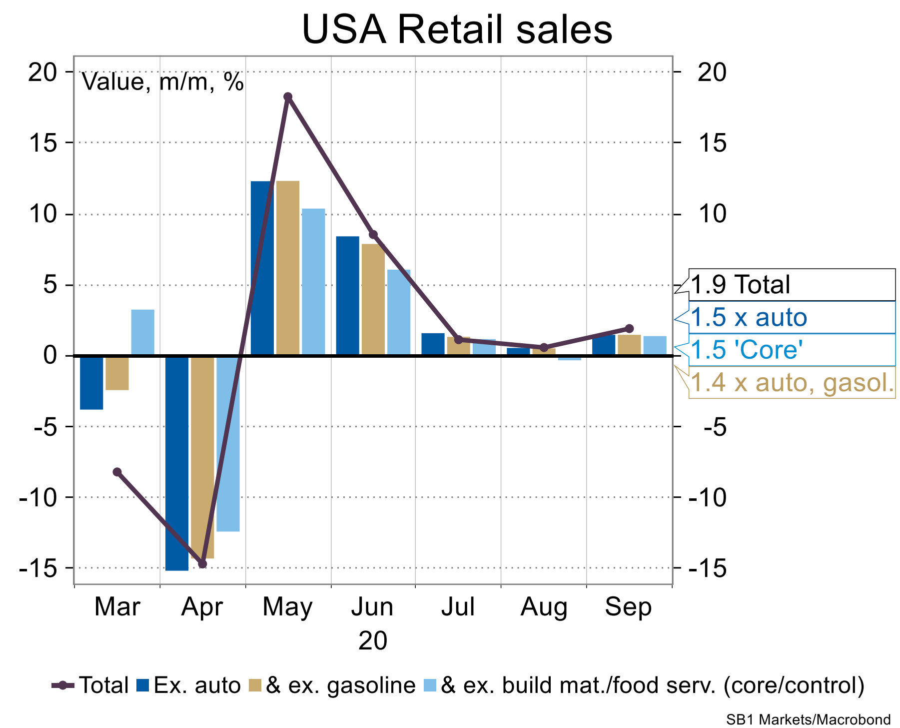


- The US economy is still recovering still not balanced
- Consumption of goods incl. autos) and housing (housing starts even more than permits) has fully recovered
- Exports and investment goods demand is still down 10%, the latter however just due to zero demand for new aircrafts
- Manufacturing production fell in Sept, and is 6% down
- Services are still struggling, restaurants are down 15%
- Employment is down 7%

Retail sales much stronger than expected in September

No corona troubles, at least not here

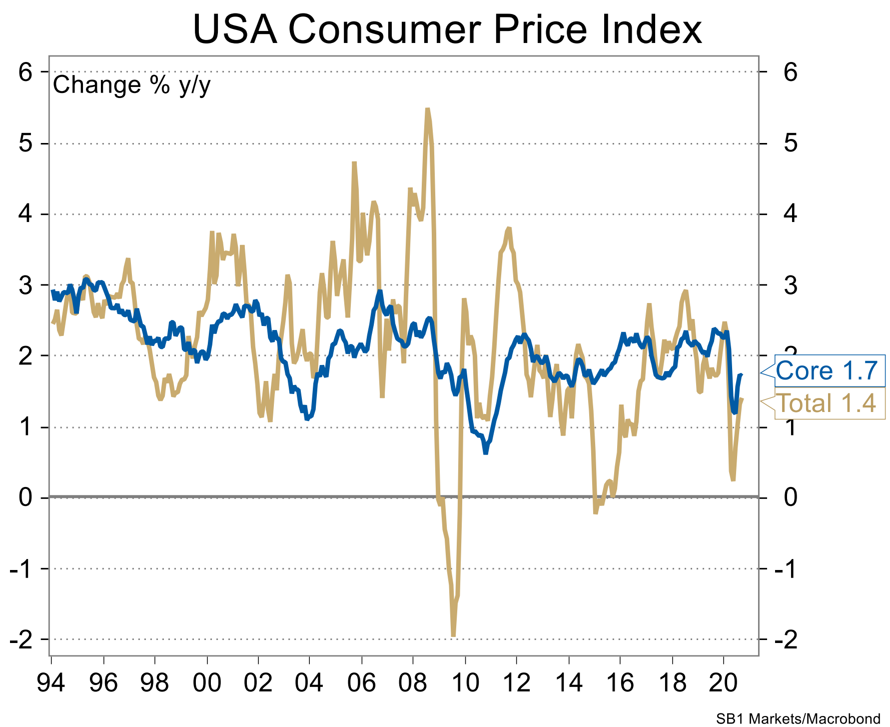


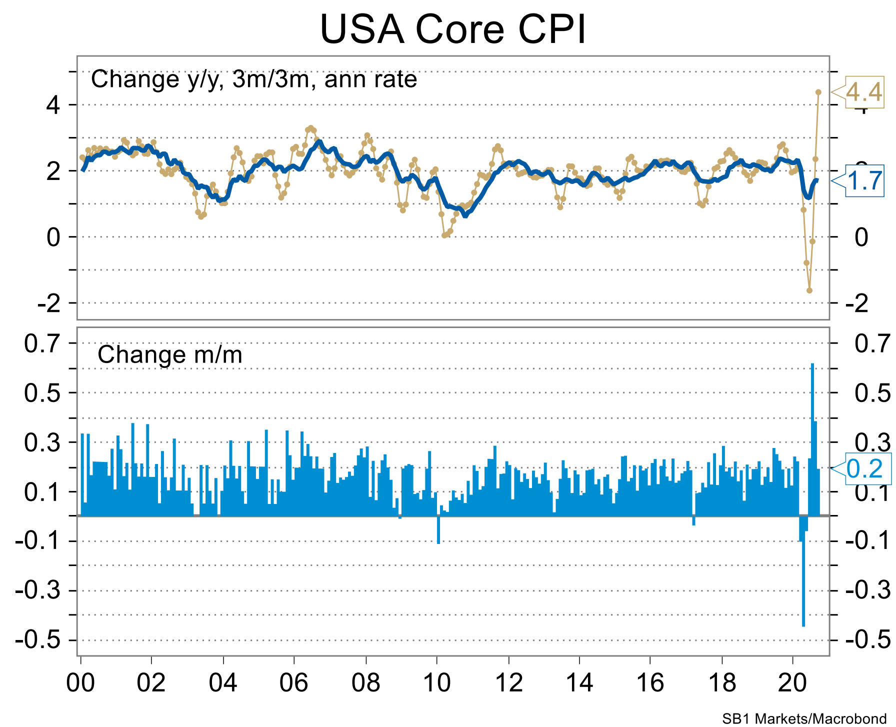


- Total nominal sales rose by 1.9% m/m in September, 1.3 pp better than expected
- Core sales (=control group) up 1.5%, expected +0.1%. We assume 1.3% in real terms, an unusual lift. We revise our Aug volume estimate down by 0.2 pp to -0.3%. Sales are 7% above the pre corona level, are up 8% y/y – and are well above any trend path, of course.
  - In Q3, core sales rose by 40%, in annualised terms
- Restaurants are still struggling, sales are down 15% vs February . Clothing is weak as well, down 12%

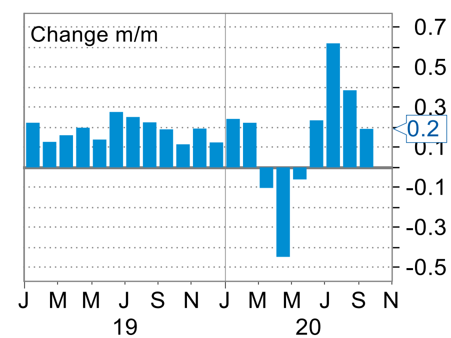
Core CPI prices finally up just a 'normal' 0.2% in Sept, annual rate unch at 1.7%

Prices fell during the first corona months, have accelerated thereafter – but not further in Sept



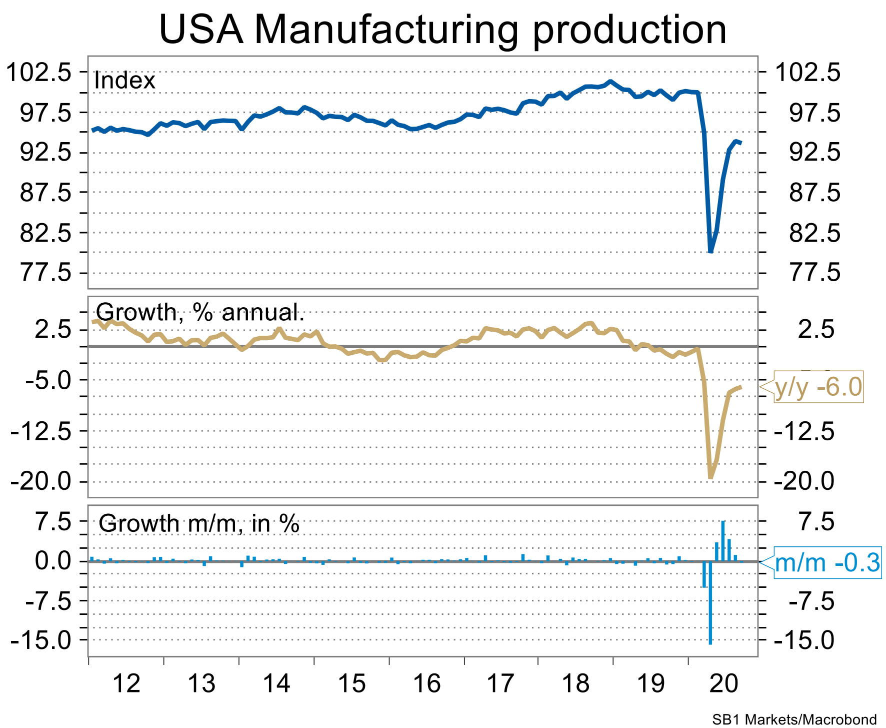


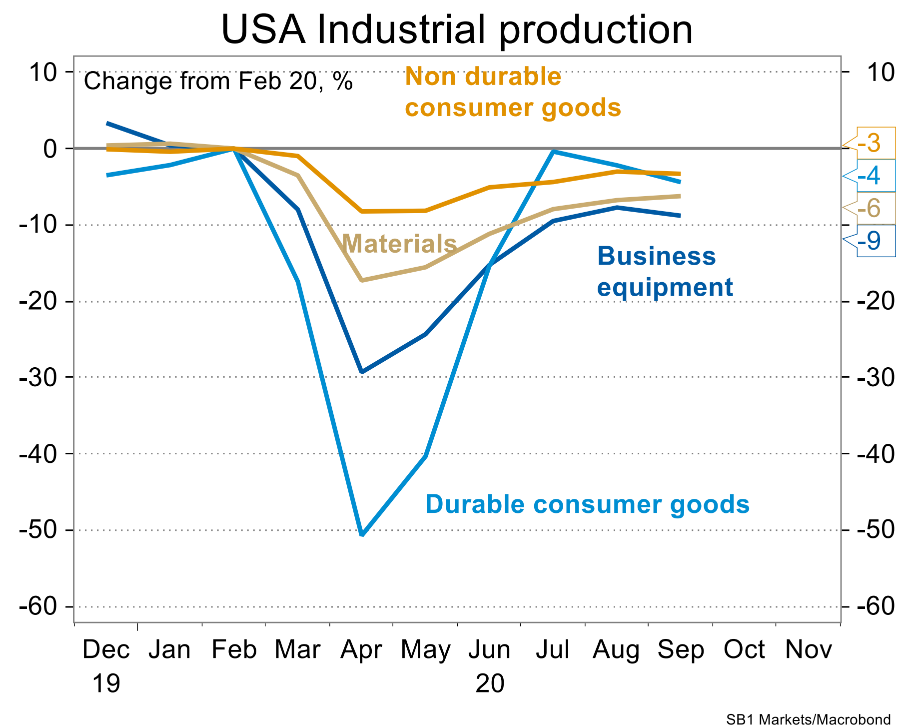
- Core CPI prices rose by 0.2% m/m in Sept, as expected, following the surprising 0.4% jump in August (and 0.6% in July). The 1.7% annual rate is below the 2.4% pre corona level
- Headline CPI is up 1.4% y/y up 0.1 pp from August (and 0.2% in May)
- Used car prices are surging – and explained almost the entire 0.2% lift in prices in Sept, following rapid price increased in July and August too. We assume the upside from here is limited – if anything. If we are right, CPI inflation may slow again



Manufacturing down 0.3% in Sept, broad weakness – remains 6% down from Feb

Production was expected up 0.8%, and it is still 6% below the pre corona level

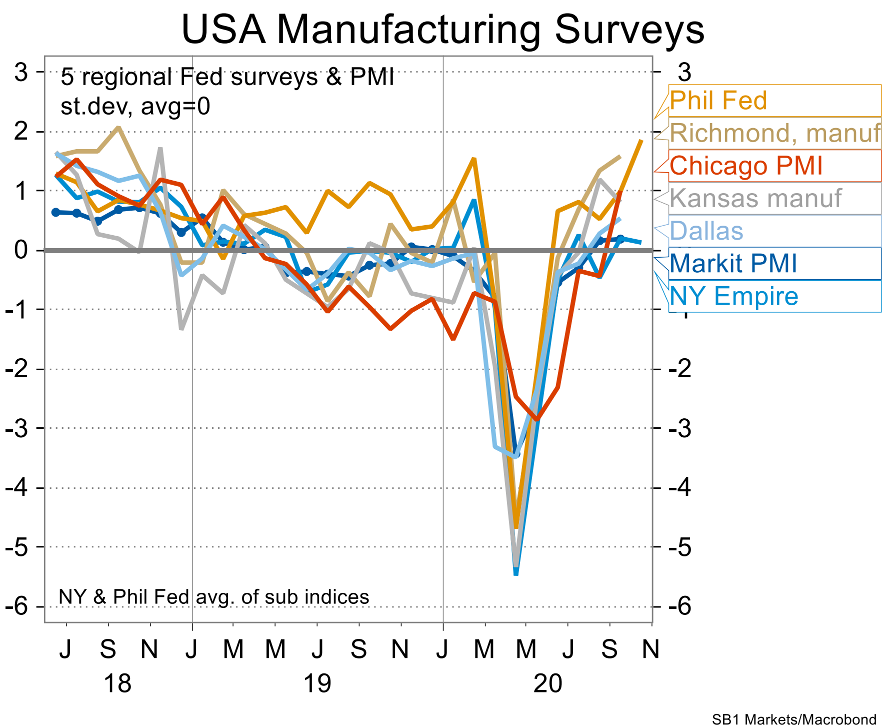


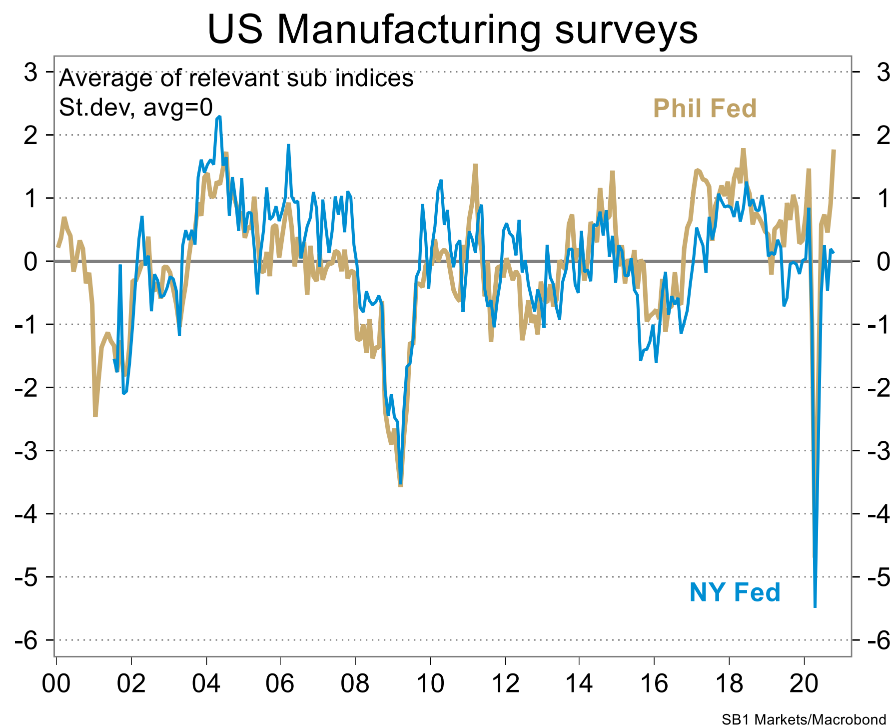


- Manufacturing production surprisingly fell in Sept, and are 6.4% down vs. the Feb. level
- Production of materials rose marginally in Sept but both consumer & investments goods fell
- Total industrial production, including utilities, mines/oil production, fell 0.6% in September, expected up 0.5%
- PMI/ISM and other surveys signal a recovery, but not at a brisk pace, given the continued low production level

Mixed early Oct regional manufact. surveys: Phil Fed sharply up, NY marg down

Taken together, on the strong side: NY Fed at an average level, Phil Fed among the best ever!

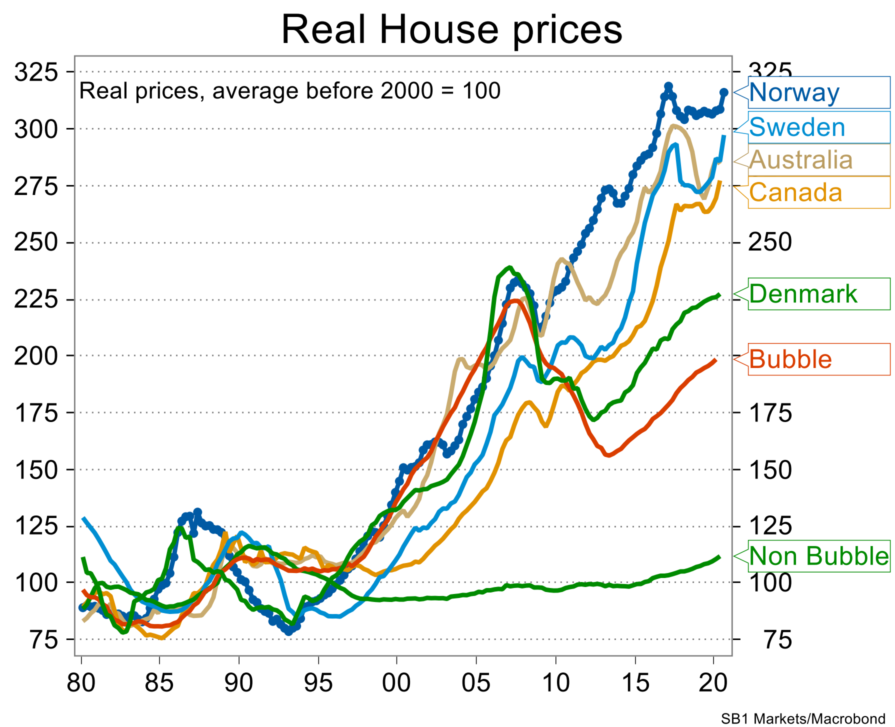


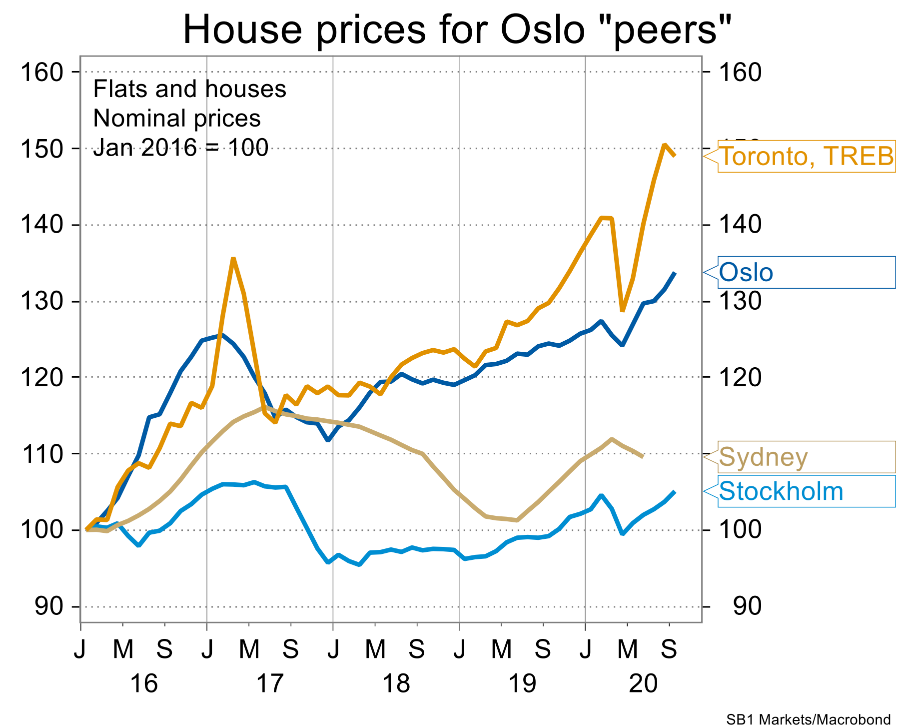


- Philadelphia Fed's survey shot up from , was expected to slide down to 32.3 in October from 15 in Sept, the highest level since February
  - » However, the details were more impressive: ***The new order index rose to 42.6, the 2nd best level ever (data from 1968)***. The average of 'relevant' sub indices was the 5th highest!
- NY Fed's manufacturing survey fell to 10.5 in October from 17 (expected down to 12)
- The gap between these two surveys is remarkable. The Phil Fed survey is slightly better in forecasting the manufacturing ISM. Our model says + 2 p to almost 58!

Here we go again…

Prices are soaring in many countries now – with the 'supercycle' countries in the lead

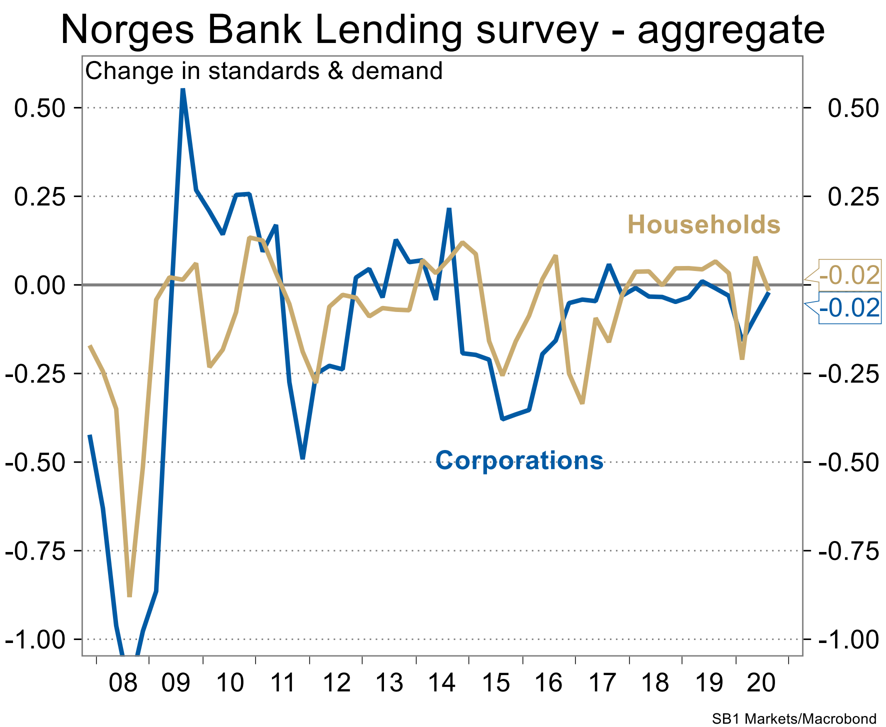


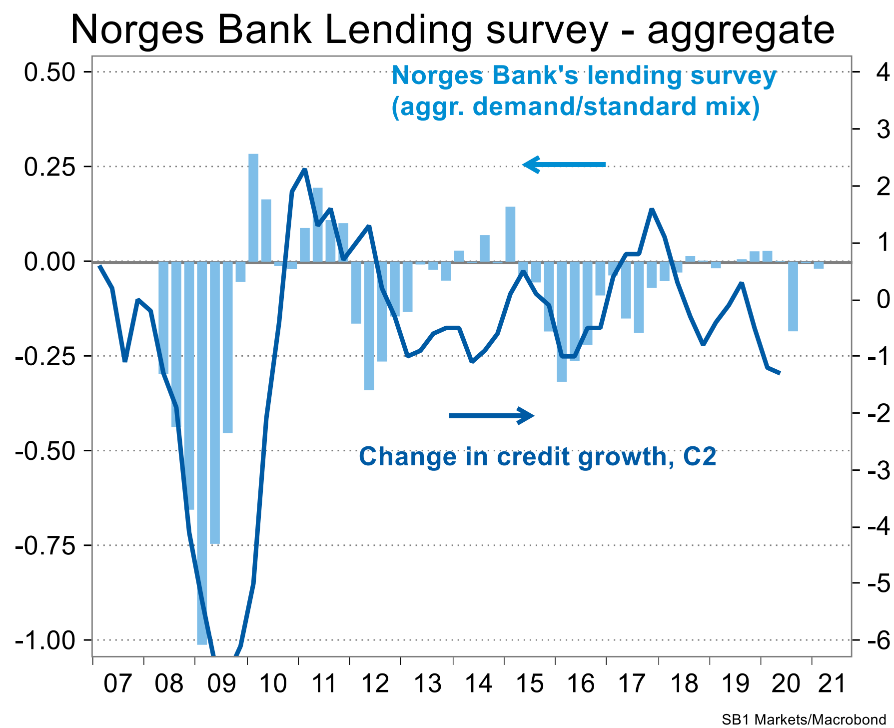


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden

A flattish Q3 bank lending survey – but will banks turn out to be right?

NoBa's Q3/Q4 survey signal lower demand than normal from both households and businesses



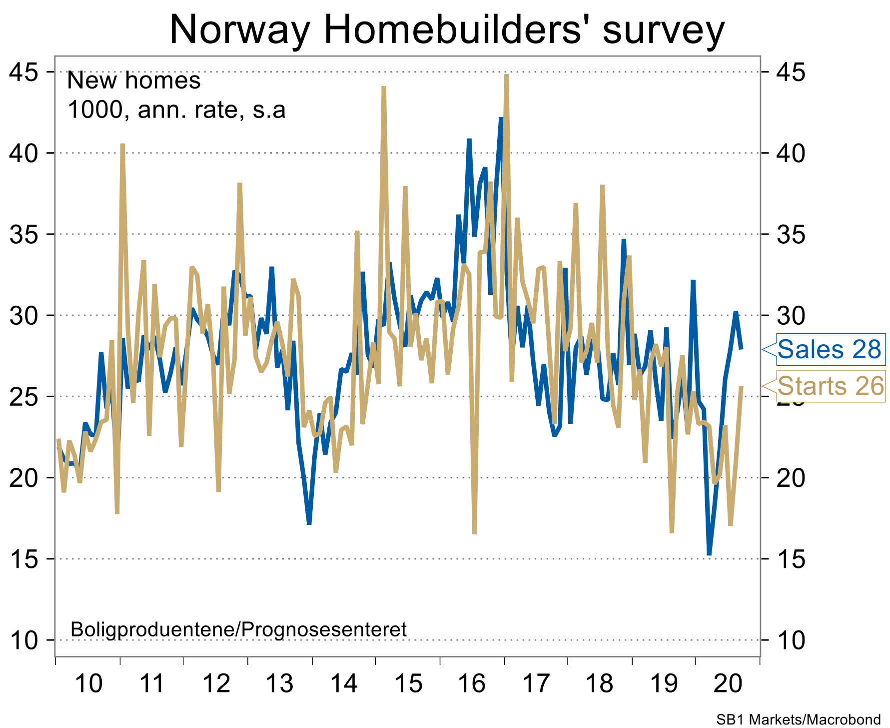


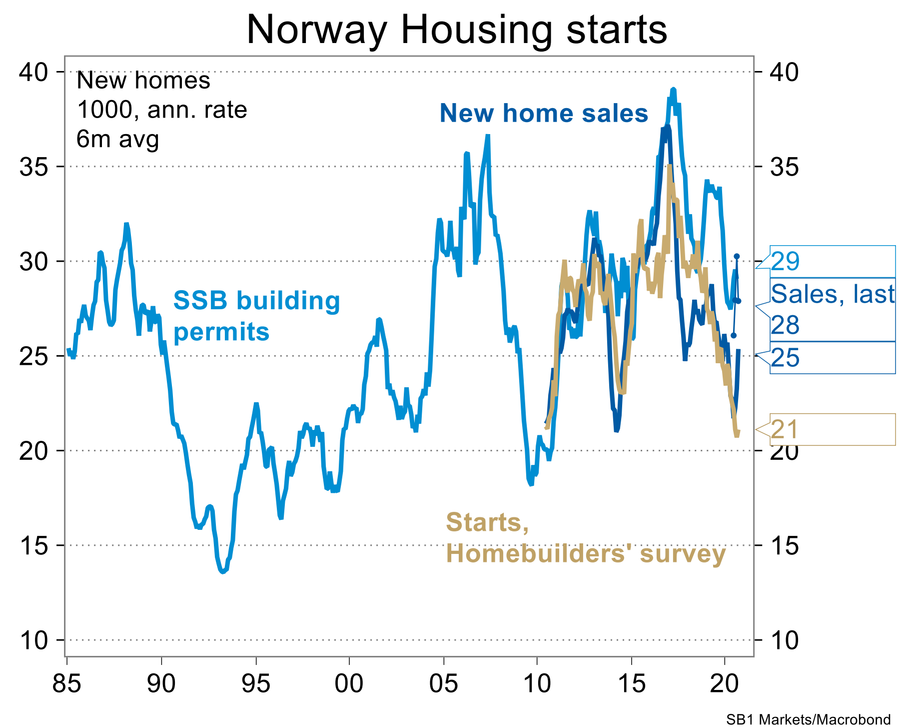
- We expected banks to report stronger demand from households and weaker demand from the business sector
- The only important (and expected) message was an expected tightening of credit standards vs. households as the original mortgage lending regulations were re-established in Q4, following the temporary easing in Q2 and Q3

SpareBank 1 MARKETS

New home sales up, starts are following suit

Sales down 2' to 28' in Sept but is well up from the 15' trough in March. Sales up to 26'





- New homes sales peaked at 35 – 40' in 2016, and trended down to 25' before the corona crisis. During the summer and into the autumn, sales have recovered to above the pre crone level, alongside the strengthening of the existing home market since mid April
- Sales have lagged sales recent months but picked up to 26' in September

The Calendar

October PMIs at the end of the week. US housing, some European surveys + LFS(AKU) unempl here

Time	Count.	Indicator	Period	Forecast	Prior
Monday Oct 19					
16:00	US	NAHB Housing Market Index	Oct	83	83
Tuesday Oct 20					
03:30	CH	New Home Prices MoM	Sep	0.50%	0.56%
14:30	US	Building Permits	Sep	1506k	1470k
14:30	US	Housing Starts	Sep	1455k	1416k
Wednesday Oct 21					
08:00	UK	CPI Core YoY	Sep	1.3%	0.9%
20:00	US	Federal Reserve Beige Book			
Thursday Oct 22					
08:00	NO	Unemployment Rate AKU	Aug	5.1'(5.0)	5.20%
08:00	NO	Industrial Confidence	3Q	(-4)	-10.1
08:45	FR	Business Confidence	Oct	92	92
12:00	UK	CBI Trends Total Orders	Oct	-50	-48
14:30	US	Initial Jobless Claims	Oct-17	865	898k
16:00	EC	Consumer Confidence	Oct A	-15	-13.9
16:00	US	Existing Home Sales	Sep	6.18m	6.00m
Friday Oct 23					
02:30	JN	Manufacturing PMI	Oct P	--	47.7
08:00	UK	Retail Sales Ex Auto Fuel MoM	Sep	0.50%	0.60%
09:15	FR	Services PMI	Oct P	47.0	47.5
09:30	GE	Services PMI	Oct P	49.4	50.6
10:00	EC	Manufacturing PMI	Oct P	53.0	53.7
10:00	EC	Services PMI	Oct P	47.0	48.0
10:00	EC	Composite PMI	Oct P	49.2	50.4
10:30	UK	Manufacturing PMI	Oct P	53	54.1
10:30	UK	Services PMI	Oct P	53.4	56.1
15:45	US	Manufacturing PMI	Oct P	53.5	53.2
15:45	US	Services PMI	Oct P	54.6	54.6

- **Preliminary PMIs**
  - » Barring weak service sector PMIs in the EMU, especially in the South, no doubt due to the escalation of the corona crisis, the September global PMI data strong, signalling a further uptick in growth. The PMIs have not been useful during the corona crises, not in other to figure out the depth in April or the timing or speed of the recovery. Still, we expect the PMI reports to give a better gauge of the growth pace during this autumn – and they will once more turn out to be reliable indicators. In October, the PMIs are expected more or less unchanged vs. September but services in the EMU is expected further down – a fair bet
- **USA**
  - » **Housing data** has been very strong, all over – and prices are surging, even if unemployment is high, just like in many other countries. We to not expect **Fed's beige book** (its verbal regional network) to paint a strong picture of the US economy
- **Norway**
  - » We expect a further lift in **SSB's quarterly manufacturing survey** but that the main index will remain well below an average level (slightly above 0)**.** **LFS (AKU) unemployment** was much lower than we assumed in July (avg June-Aug) but still we expect a further decline in Aug (3 m avg), to 5%

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

Highlights

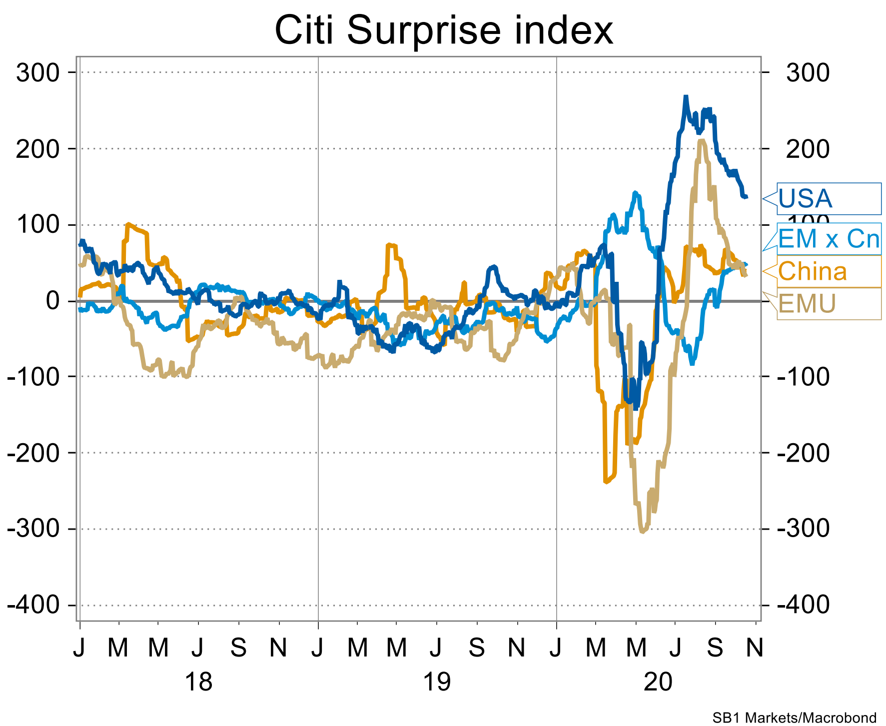
The world around us

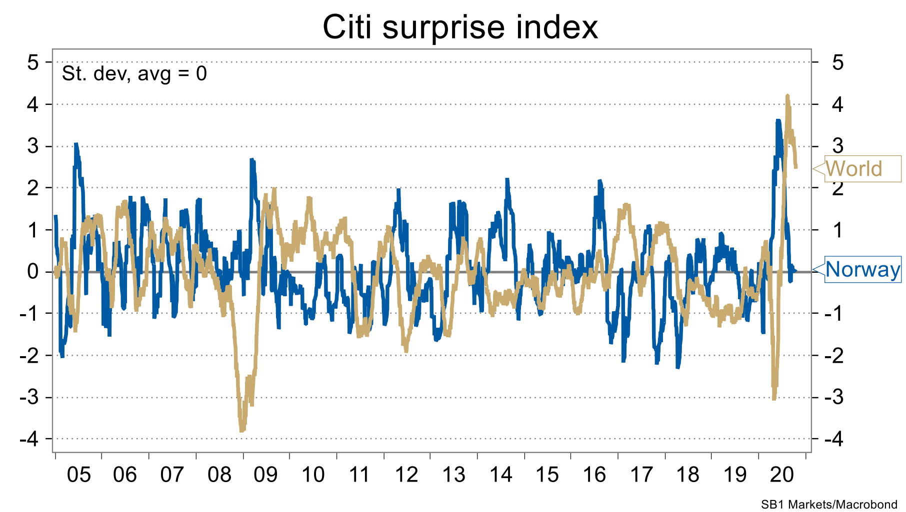
The Norwegian economy

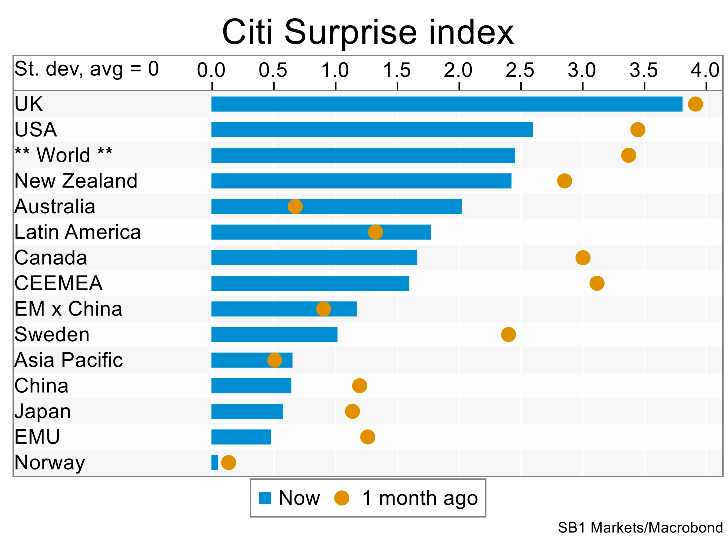
Market charts & comments

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





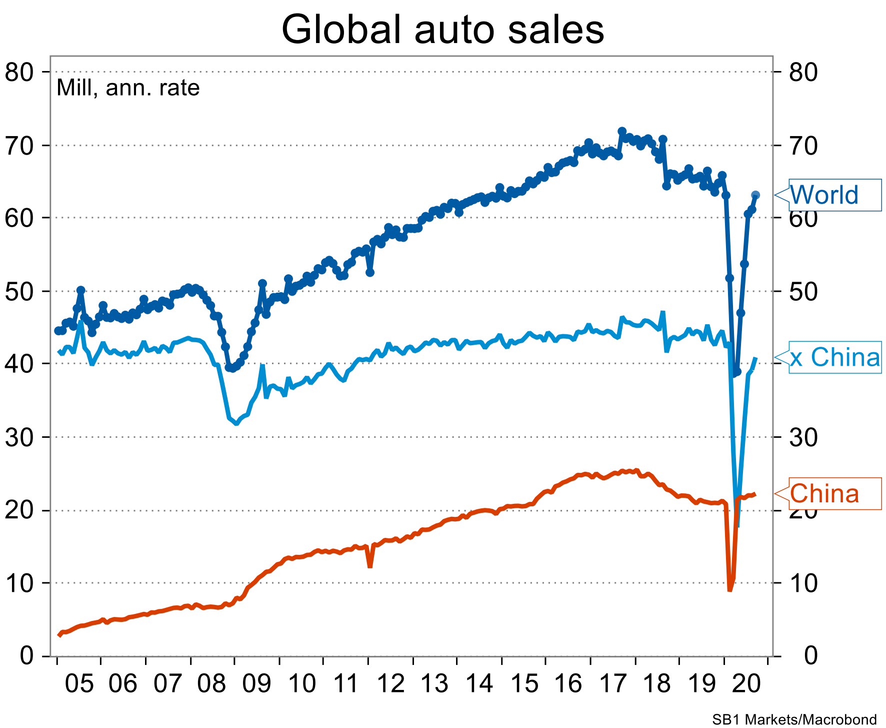


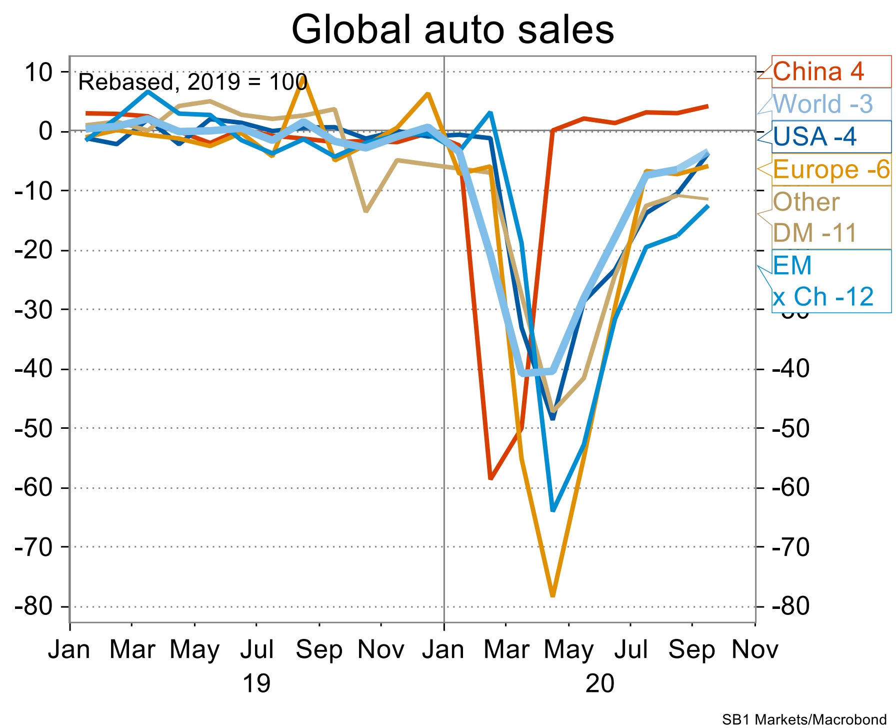
- All major countries/regions are reporting data above expectations, for the first time ever
- The US has been surprising more on the upside than ever before (data from 2003), although less so the past weeks
- EMU sliding down and is much less upbeat than the US. UK at the top!
- China well into positive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

Global auto sales further up in Sept, has fully recovered to pre corona level

Sales rose a tad more than we assume last week, just DM ex US/Europe marginally down, others up

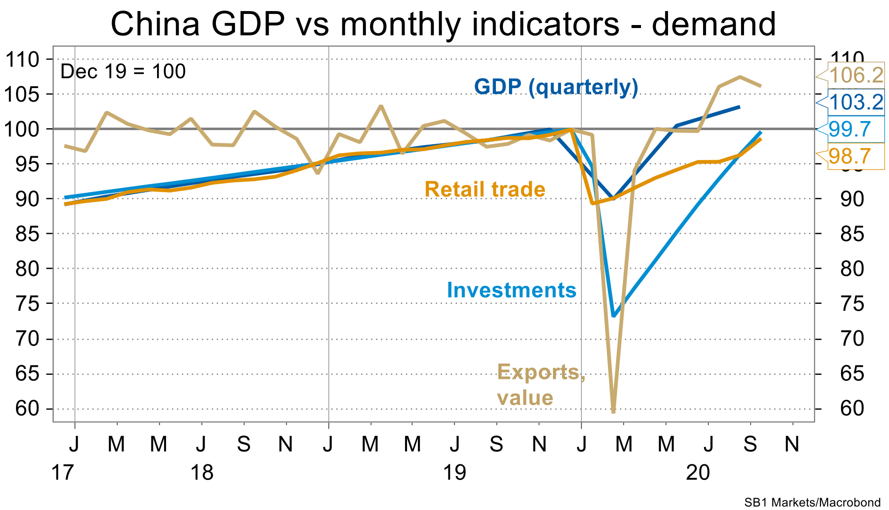


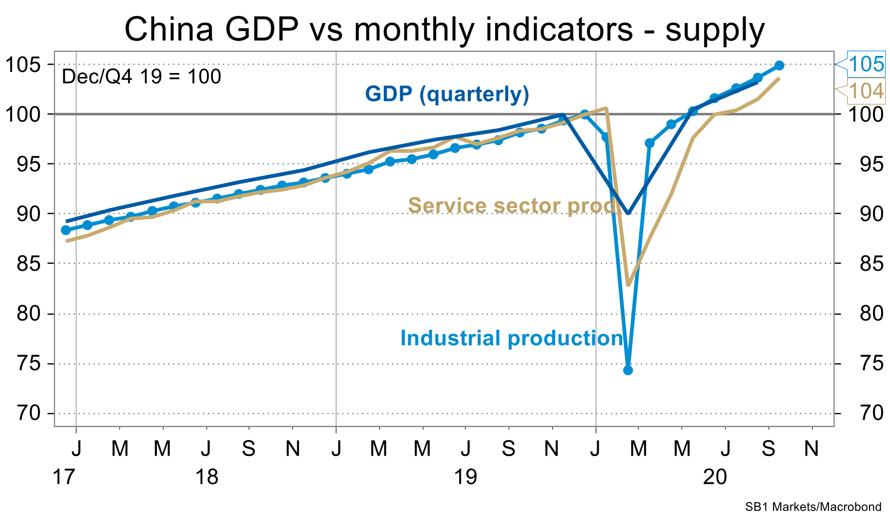


- Global sales rose marginally in September, and the level is 3% below the 2019 avg. (2% higher than we assumed last week). Sales in
  - China rose further in September, and are at the highest level since Feb 2019. However, sales are still well below the late 2017 level, far lower than expected at that time
  - the US rose more than expected, and are now 4% below the 2019 average.
  - Europe rose to 6% 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 fell marginally, and they are 11% below the 2019 level
  - Emerging Markets x China grew broadly but are still 12% below the 2019 avg

Q3 GDP a tad weaker than expected, Sept monthly data stronger. Gaps are closed

Industrial production well above pre corona trend, as are exports. All others on the way towards trend



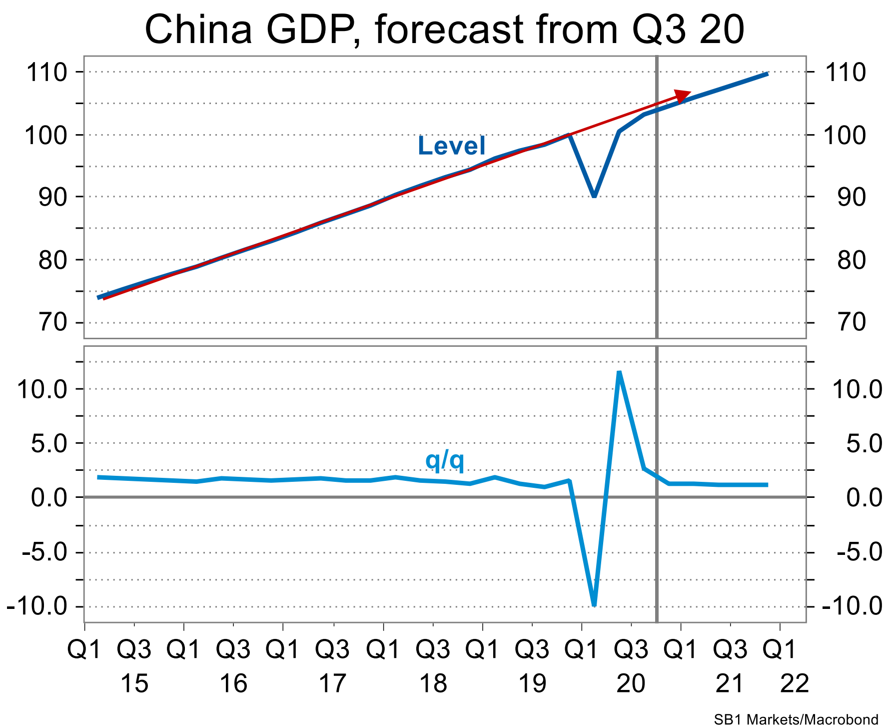


- **GDP** rose 2.7% q/q in Q34 – and by 4.9% y/y, 0.6 pp slower than expected. GDP is up 3% vs. Q4 '19, and is less than 1% below the pre corona growth path – <u>the recovery is more or less completed</u>
- **Industrial production** rose 1.2% m/m in Sept and 6.9% y/y, 1 pp higher than expected. Production has now fully recovered – and more than that
- **Service sector production** increased by 2.1% and is 4% above the Dec 19 level – and just 2% below the old trend path
- **Retail sales** rose 2.5% m/m in volume terms in Sept, the best in almost 13 years – and some 1.7 pp better than expected. Annual rate at -0.7% (our est) <u>and the gap to the pre corona trend path is still wide, at 4.5%.</u> In nominal terms, sales were up 3.5% y/y, expected 1.6%. **CPI inflation** has been slowing, headline down to 1.7% in Sept (and core up just 0.5% y/y) is supportive
- **Investments** rose 3.4% m/m in Sept. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly, now 2% below. The gap will be closed in Oct
- **Credit growth** has slowed somewhat but is still high, at 12% - more than twice the growth rate in nominal GDP y/y in Q3
- **Exports** were strong and **imports** even stronger in September, signalling growth both abroad and at home. Other Asian exports up too

In sum: Gaps are being closed. Retail sales are still below par but all in all, the economy has more or less fully recovered from the corona downturn

Q3 GDP up 2.7% q/q, up 4.9% y/y, less than 1% below pre corona trend

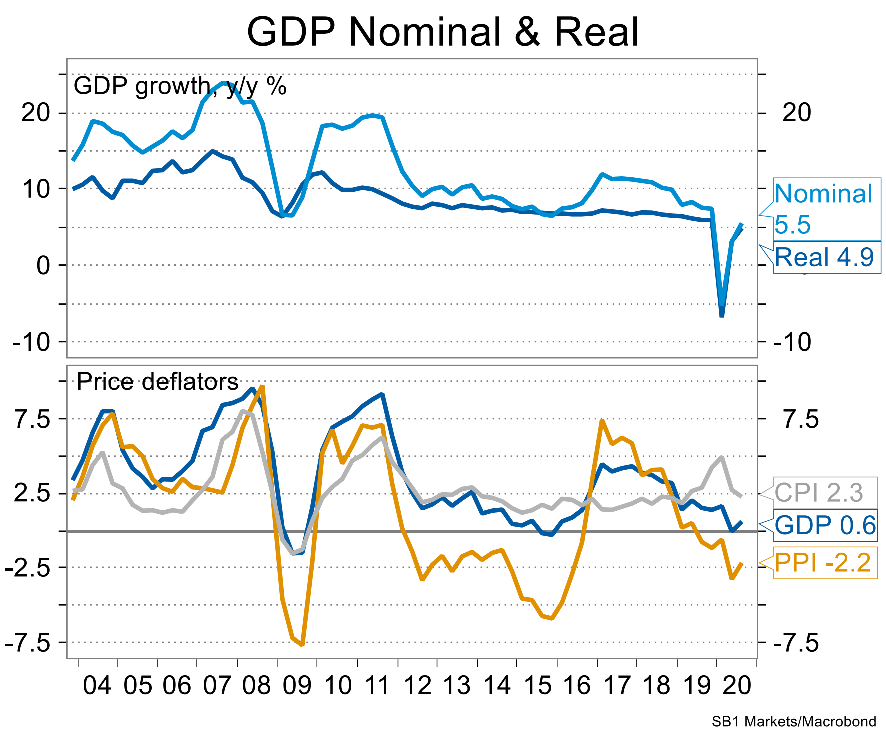
GDP has almost fully recovered to the pre corona trend path – but was 0.6% weaker than expected



- In Q2, GDP grew by 11.7% (not annualised, 57% annualised ☺), 2 pp more than expected
- The annual GDP growth rate was sliding down before corona, but was 6% in Q4 last year. It the gradual decline in growth had continued – and corona had not happened – the annual growth rate would have been some 5.5% by Q3 2020

GDP price deflator marginally up from zero to 0.6%

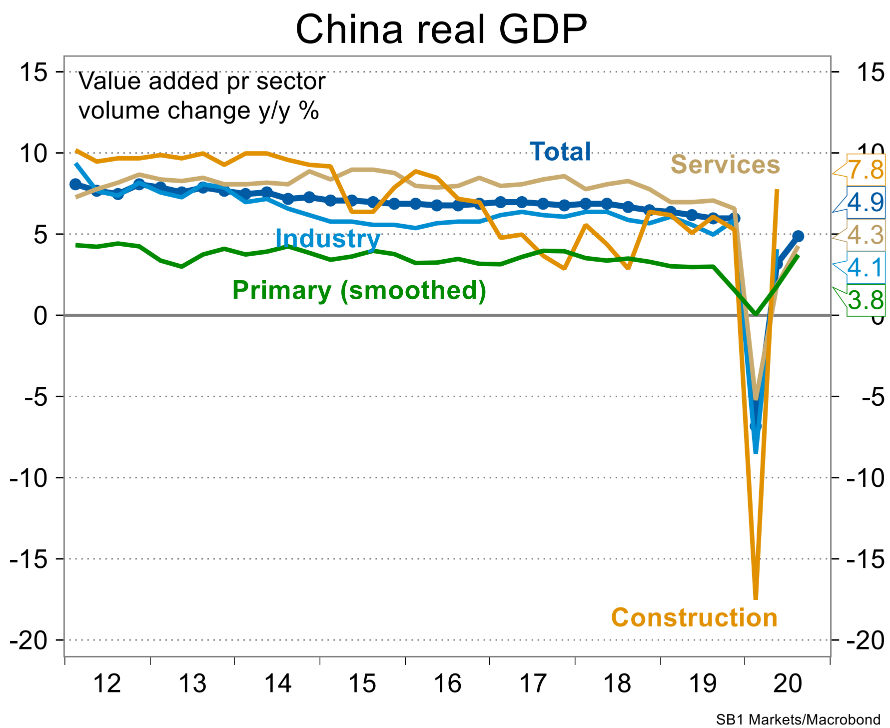
Nominal GDP up by 5.5% y/y

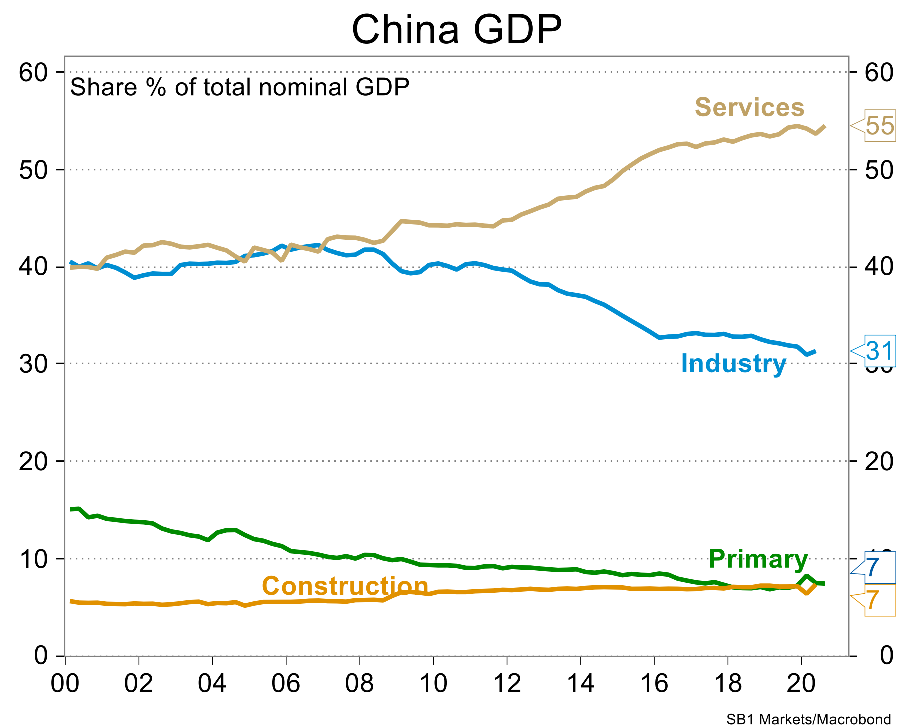


- Manufacturing producer prices (PPI) are down 2.2% y/y, while CPI inflation slowed to 2.3% y/y in Q3 avg (and fell to 1.7% in Sept, see further out in the report)

A broad based recovery, services are on the way up again

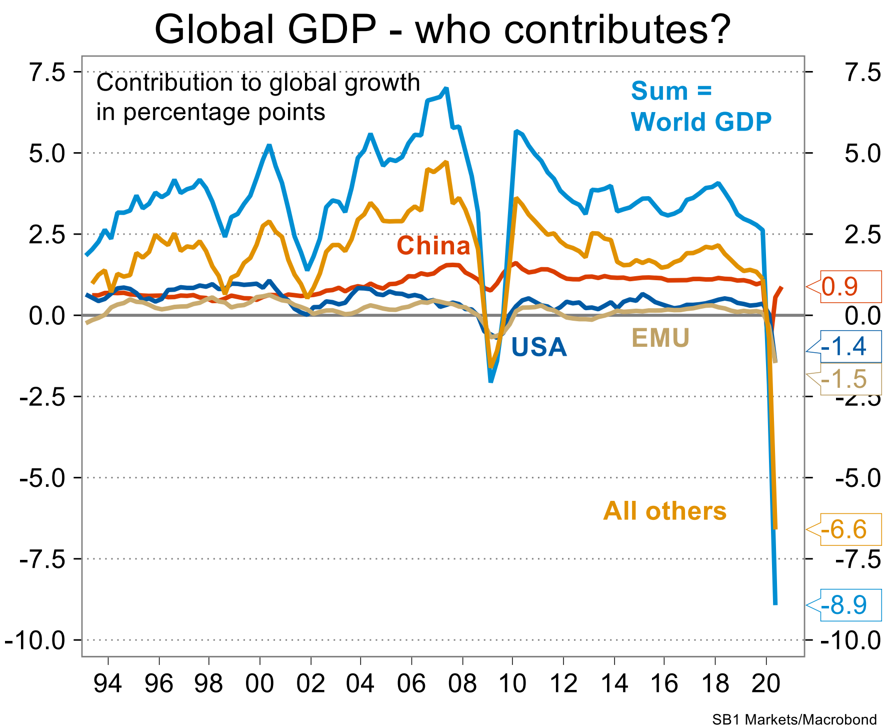
We assume that the steady rise of services as share of GDP will be re-established

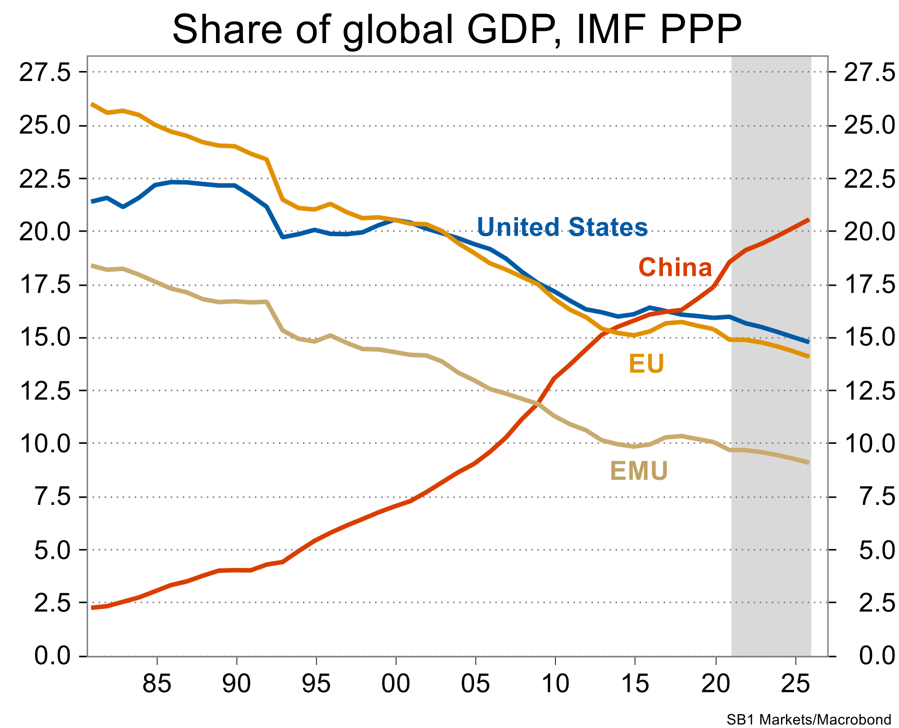




Value added per sector (= sales – cost of purchases from other sectors)

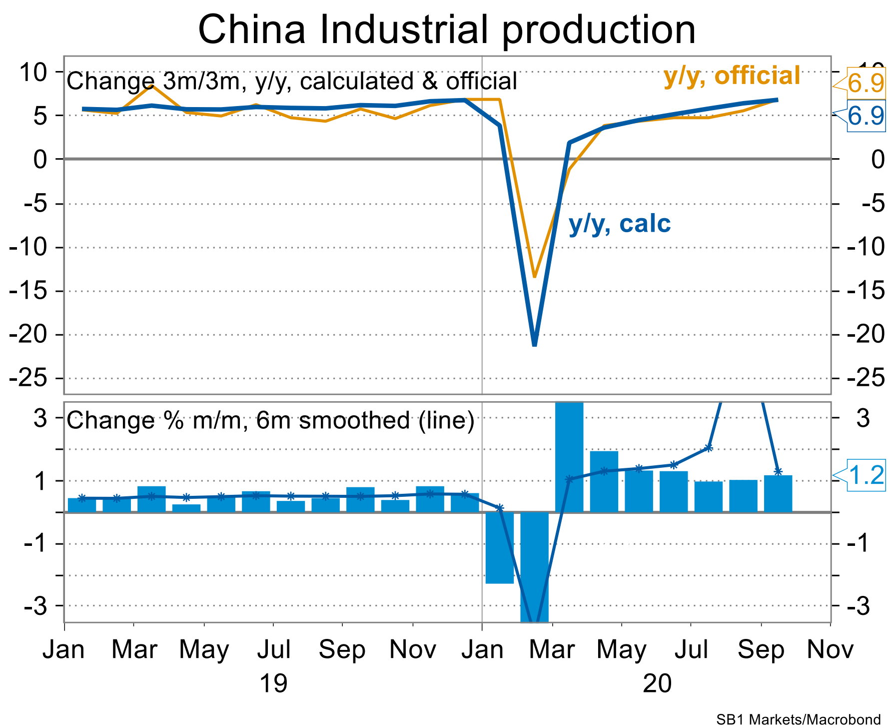
We may blame China for many things. But it is not a drag on the global economy

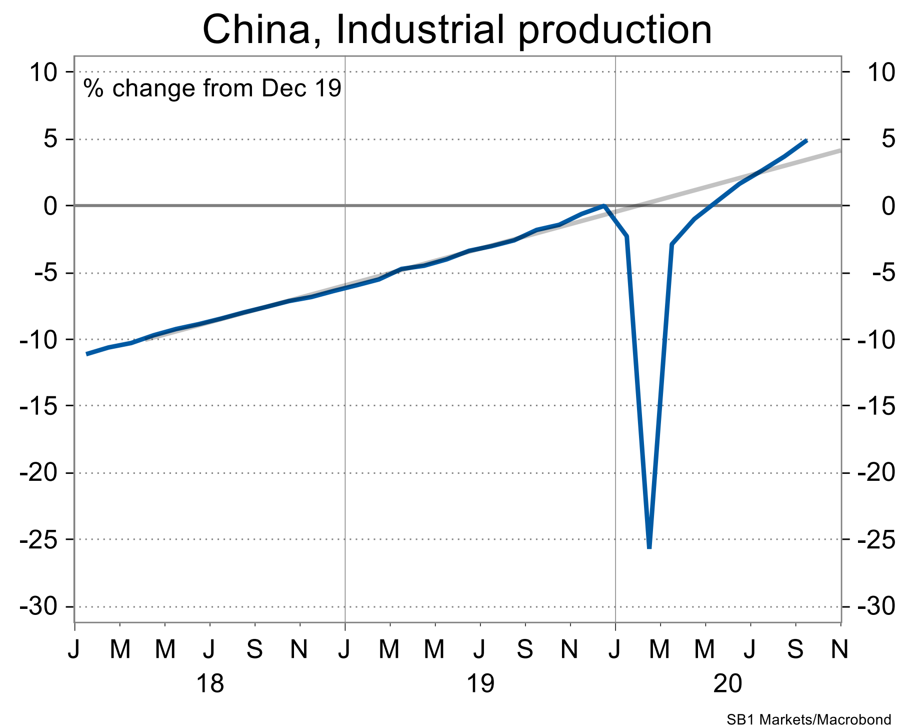




Wow, industrial production clearly above the pre corona trend

Production rose another 1.2% m/m Sept. Annual growth up to 1.3pp to 6.9%, expected at 5.8%

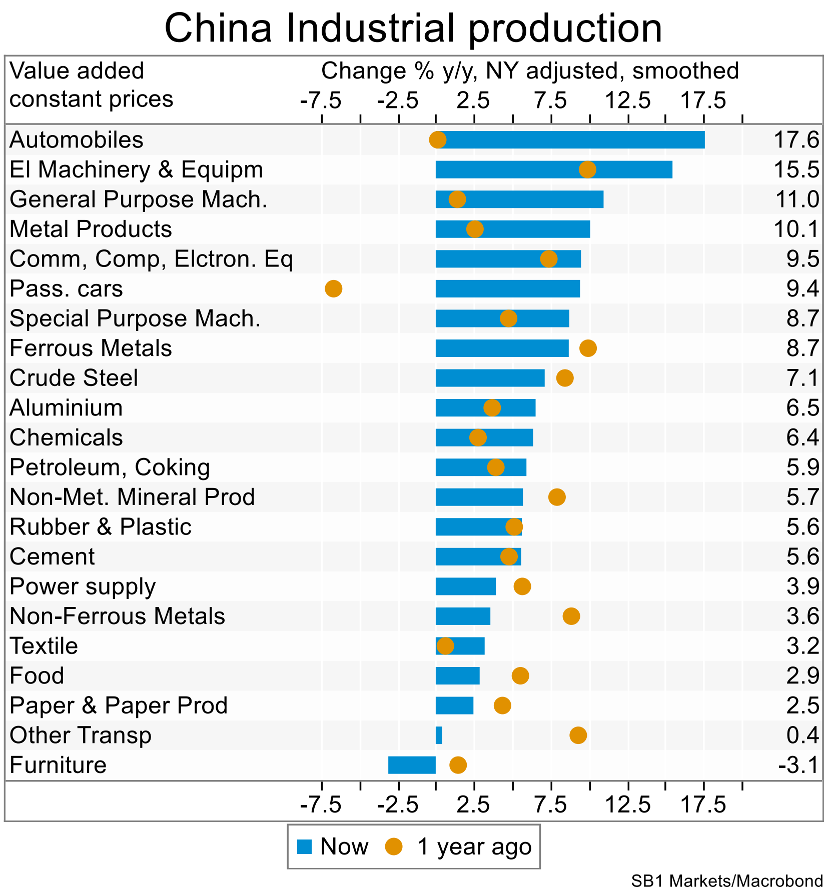




- Production rose 1.2% m/m in Sept, best since June, well above the pre corona norm, at some 0.5% per month.
- Production is 5% above the Dec 19 level and is almost 2% above the pre corona growth path
- The y/y rate climbed 1.3 pp to 6.9% (both the official number and our less volatile calculation), 1 pp better than expected. The monthly growth figures were revised upwards, in sum by 0.9 pp over the year to August, a rather unusual adjustment
- Retail sales are still 4.5% below pre corona trend, investments 4% and growth is slowing, the manufacturing sector needs more final demand to keep growth up (even if exports are now above the pre corona level)

Except furniture, all sectors in black y/y

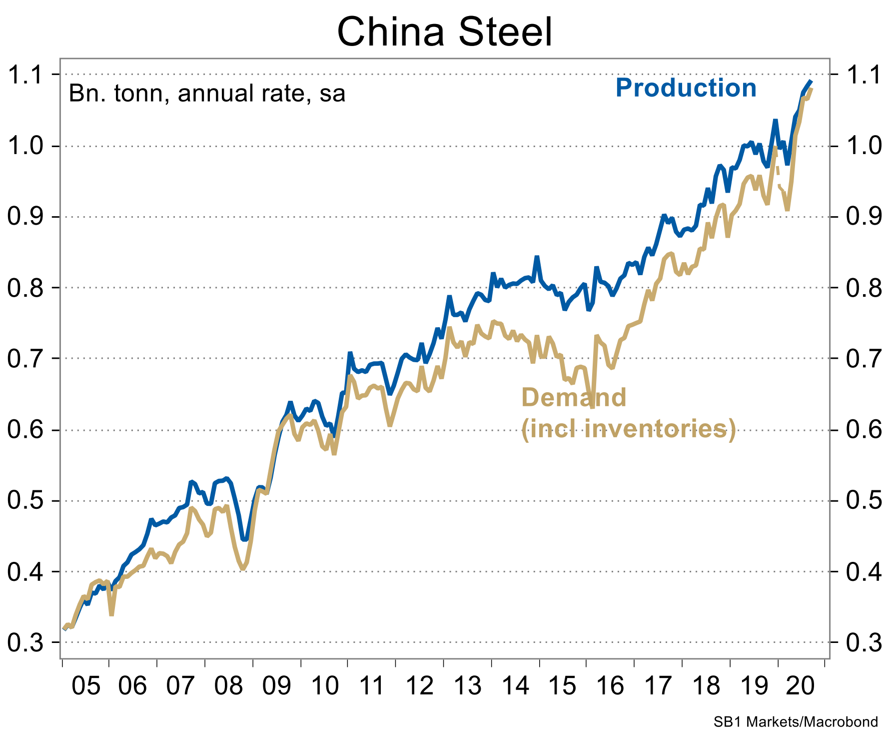
Auto prod sharply up, 18% y/y (cars 10%). Machinery/high tech strong too



- All construction inputs are more or less back to brisk pre corona trends (plate glass a tad below)

Construction is flattening, steel to follow?

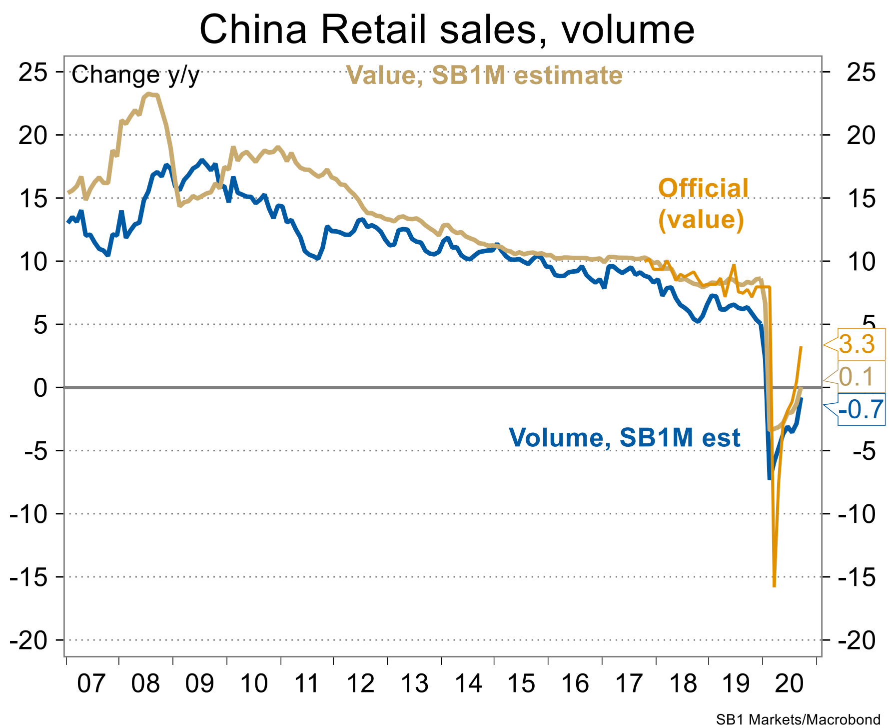
The current steel growth trajectory seems to be on the high side?

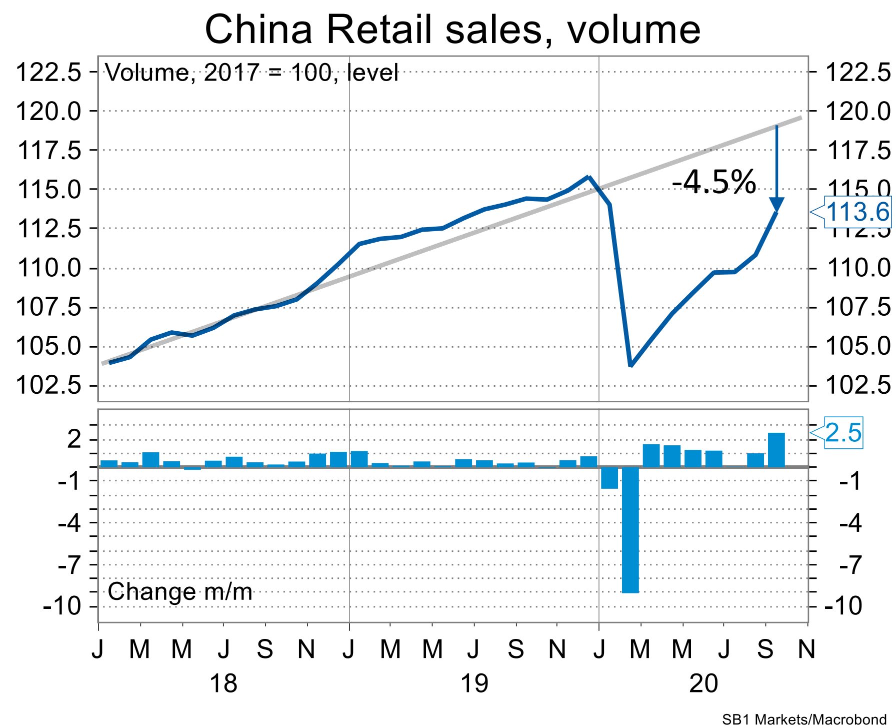


- Demand includes changes in inventories

Retail sales volume up 2.5% m/m in Sept, still 4.5% below pre corona trend

Sales 1,7 pp stronger than expected but is still a soft spot in the Chinese recovery

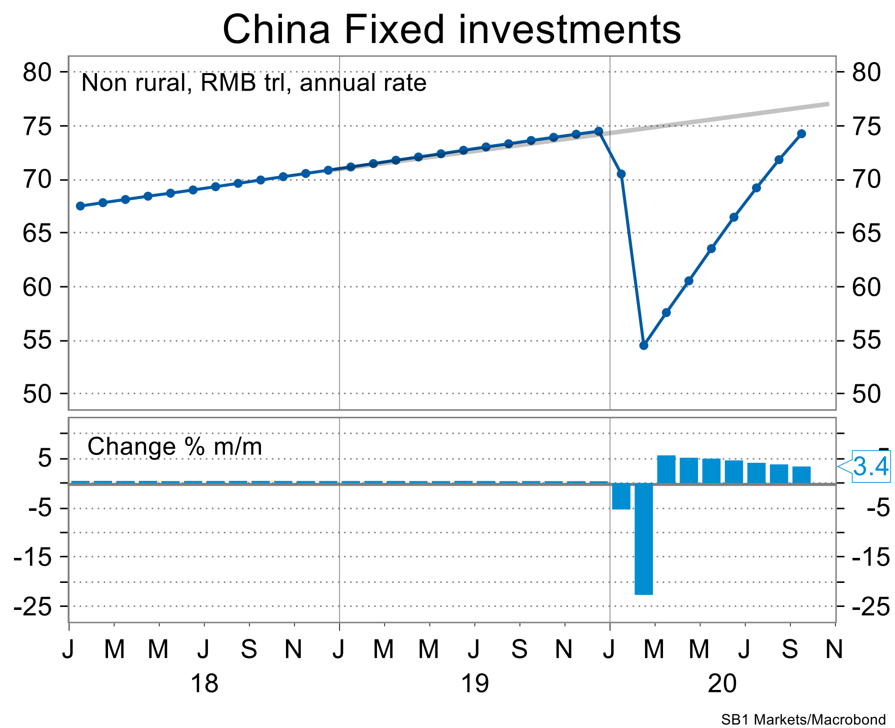




- The 2.5% m/m volume growth rate is rather unusual, it the best in almost 13 years!
- The official annual sales (value) rose 3.3% y/y, well above the expected 1.6%, up from 0.5% in Aug. Our value growth estimate, based on published monthly seasonally adjusted growth rates is at just 0.1% - and our volume estimate is down 0.7% y/y – even after the surprisingly strong recovery in September

Nominal investments up 3.2% in Sept, gap vs. pre corona trend closes in Oct?

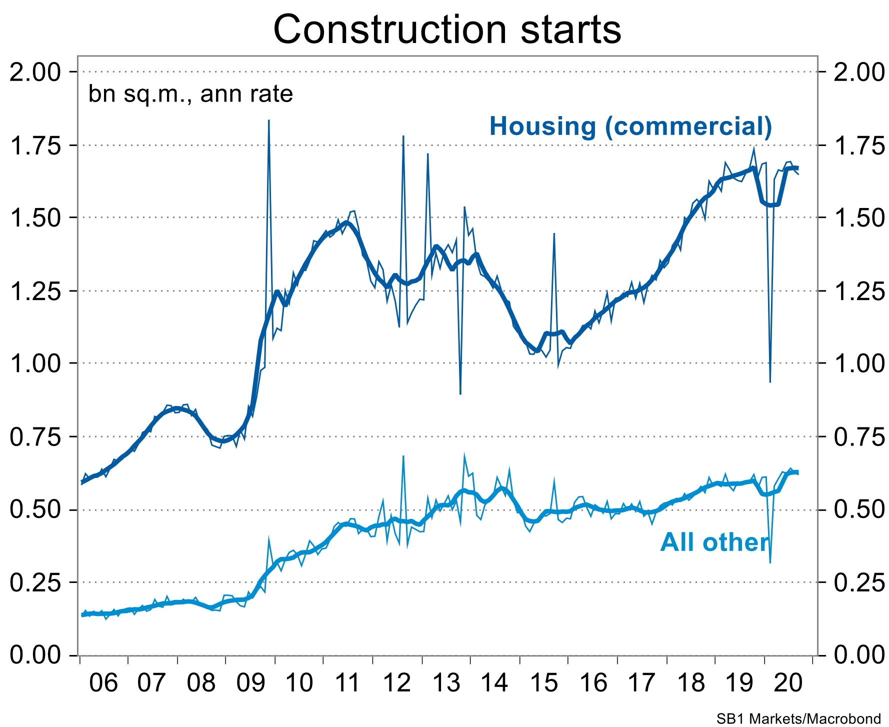
A quite narrow 'V', even if the upward speed is now slowing as level is close to normal again

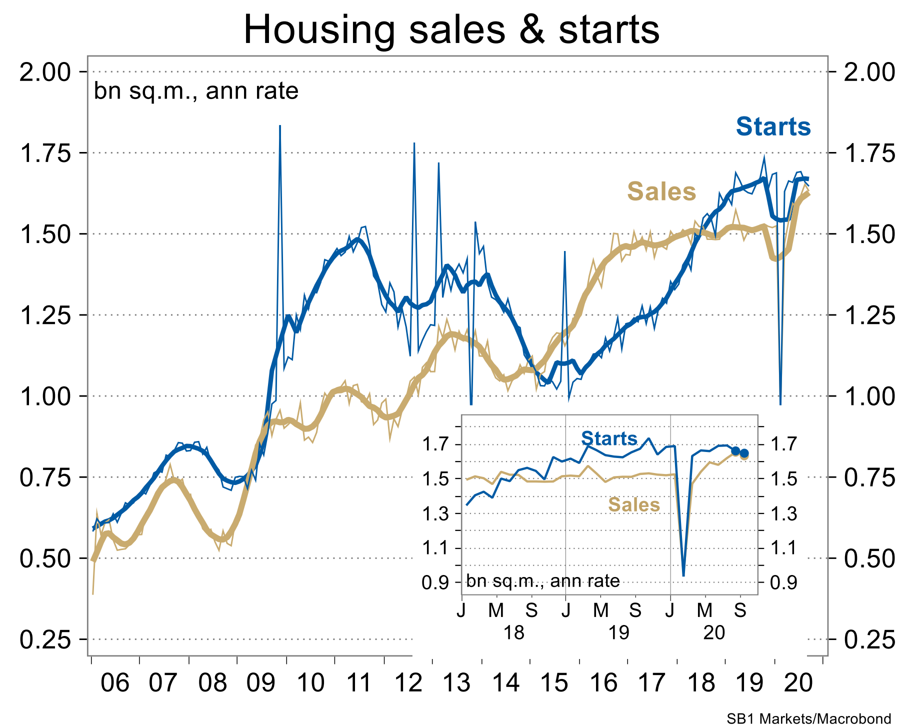


- Measured ytd, investments are up 0,8% in Sept, expected 0.9% - but up from down 0.3% in Aug
- Investments rose by 3.4% m/m (nominal), down from 4.2% in August. Growth has been slowing since peak growth in March (following the 27% decline in Jan+Feb) but remains far above the normal growth rate, at 0.4 -0.5% per month. The level is now on par with the Dec 19 level and just 3% below the pre corona trend. The gap will probably be closed in October
- In real terms, investments are down some 3% y/y (our rather uncertain estimate)

Construction flattens at a high level in September

The downturn lasted 1 month, in February. Both sales, starts marginally down in Sept

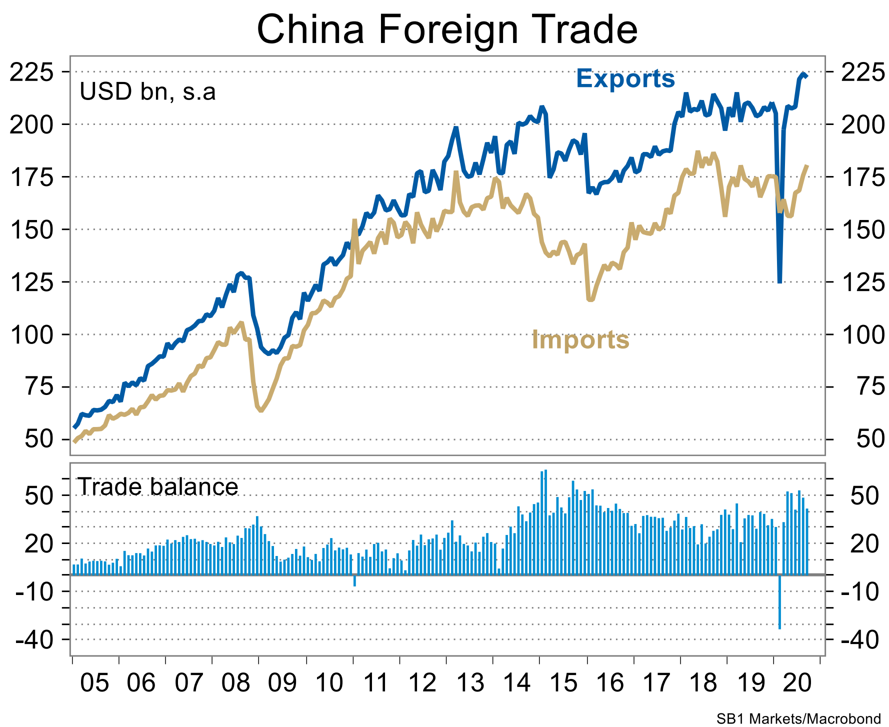




- In fact, just February was a disaster; sales and starts fully recovered in March, peaked in June/July, have slowed marginally in Aug/Sept – probably in line with the authorities priorities (the level of construction is probably high enough)

Chinese export, import volumes record high

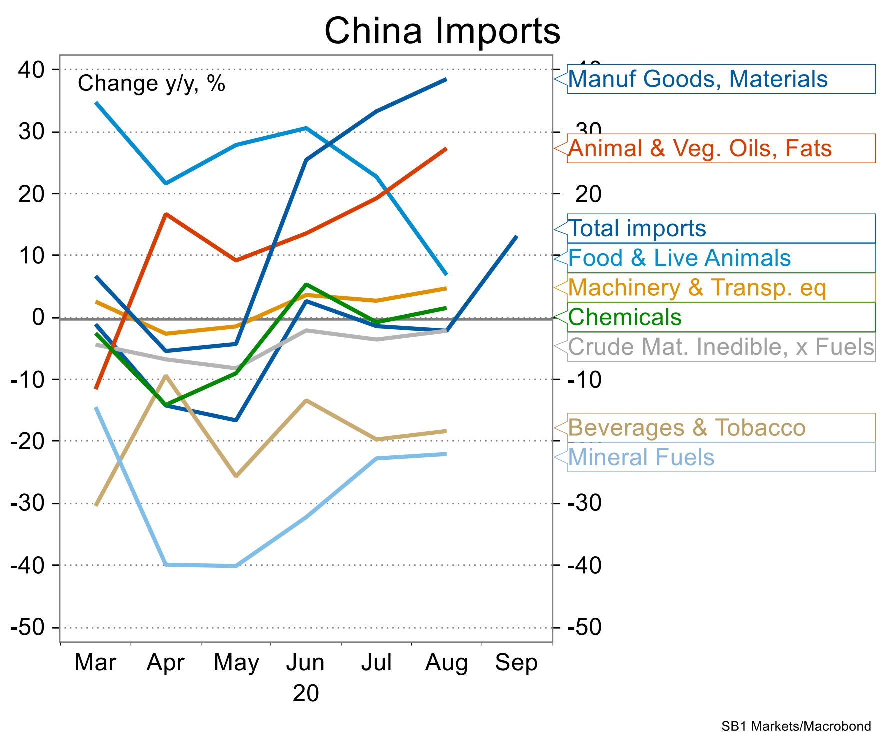
No signs of any collapse domestically or abroad

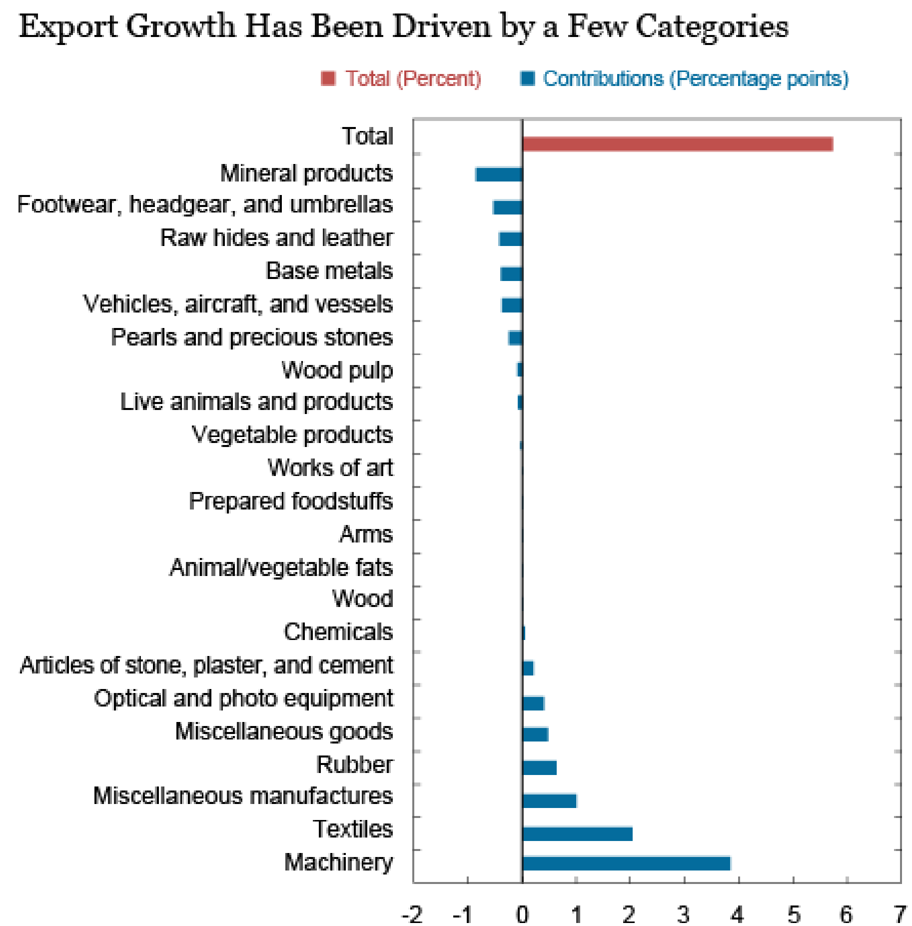


- Exports grew 10% y/y in September, as expected - and stable at the highest level. In volume terms, (based on our own quite uncertain price assumptions for the 3 last months), export are above the pre corona level – and close to long term trend path
- The surprise was on the import side: Imports grew 13% y/y, *expected unch* (but no more than 3% m/m). Import values are down since 2018 but as import prices have fallen, import volumes were record high in Sept (based on our prices assumptions past 3 m), and far above any reasonable trendline. Domestic demand must be strong
- The trade surplus fell USD 10 bn to 50 bn. The surplus has been higher than normal since March. Still, China is not more running a large current account surplus

Total imports up, even if oil imports are down (in value terms)

On the export side: Textiles and machinery (partly masks and ventilators, not kidding)





Source: China General Administration of Customs, via CEIC Data.

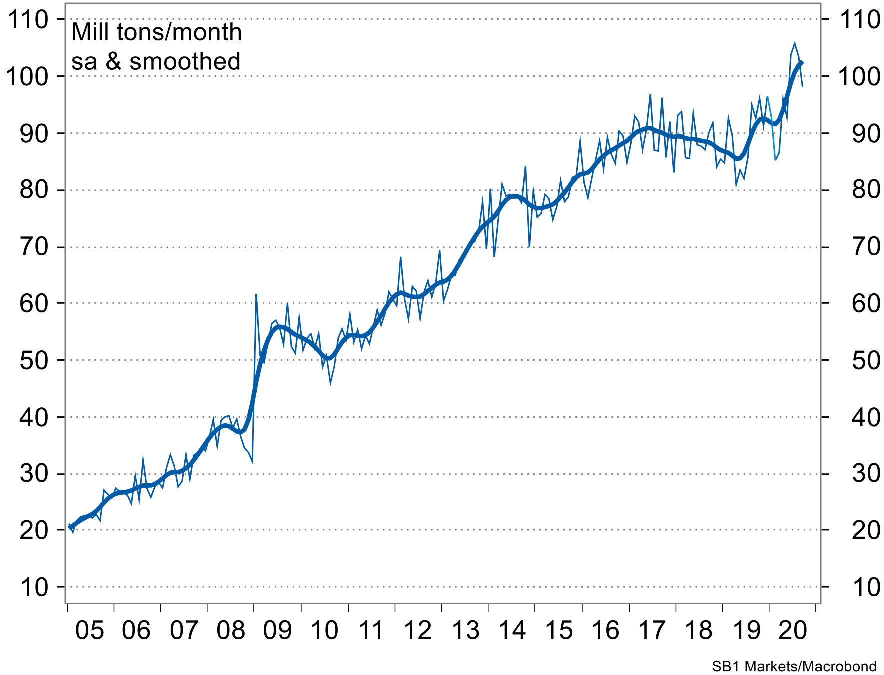
Note: Data are based on major export trade at the harmonized tariff schedule (HTS) two-digit level. Growth is the three-month year-over-year percent change.

Source. WSJ (chart to the right)

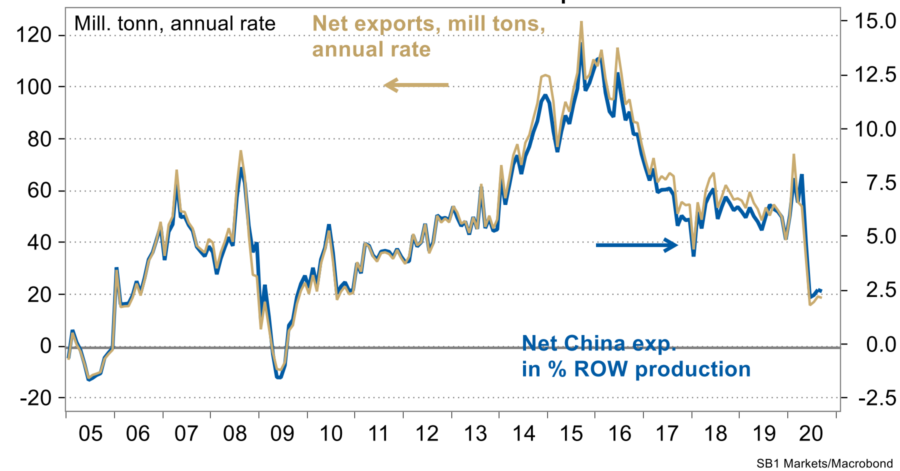
Iron ore imports down in September but level still very high

Domestic steel demand is strong – net exports remains at a low level

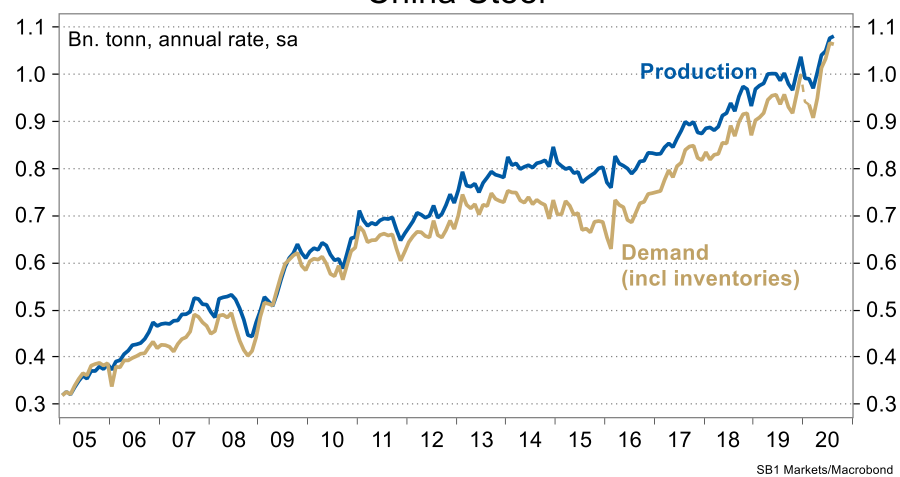
China Iron ore imports



China Net steel exports

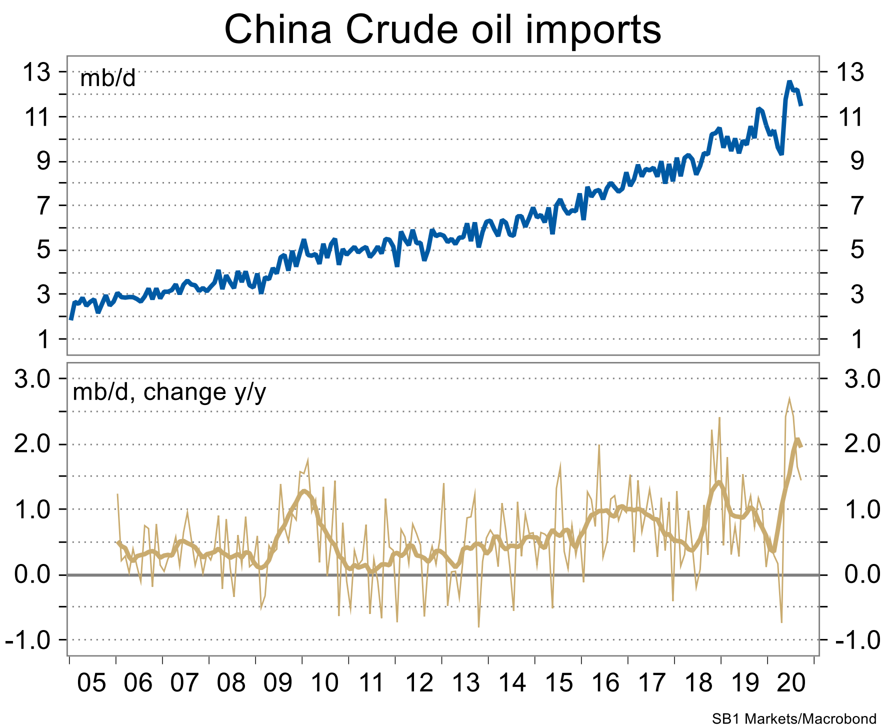


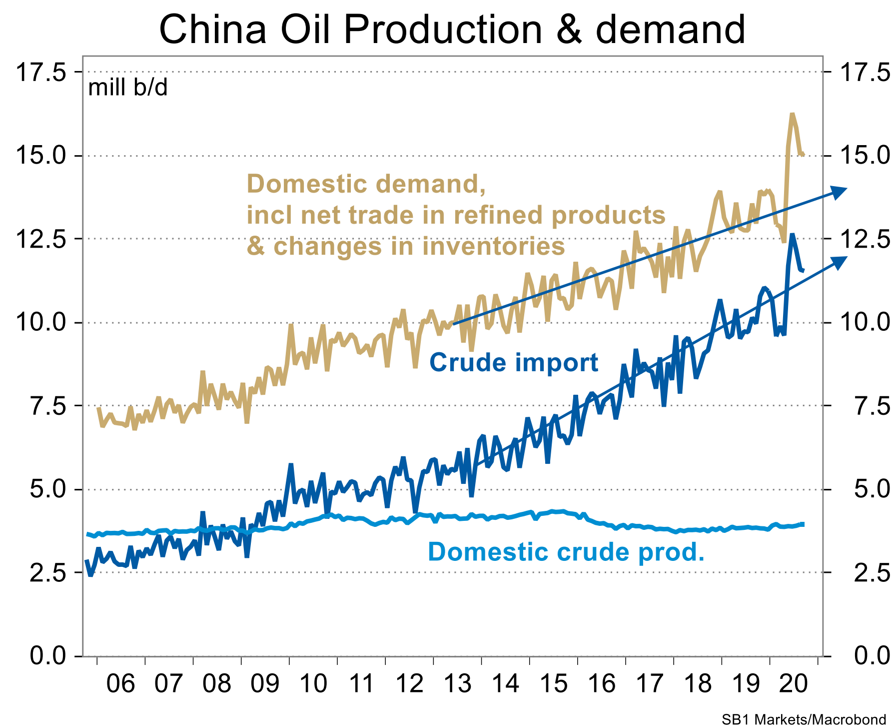
China Steel



Oil imports a tad down but still very high

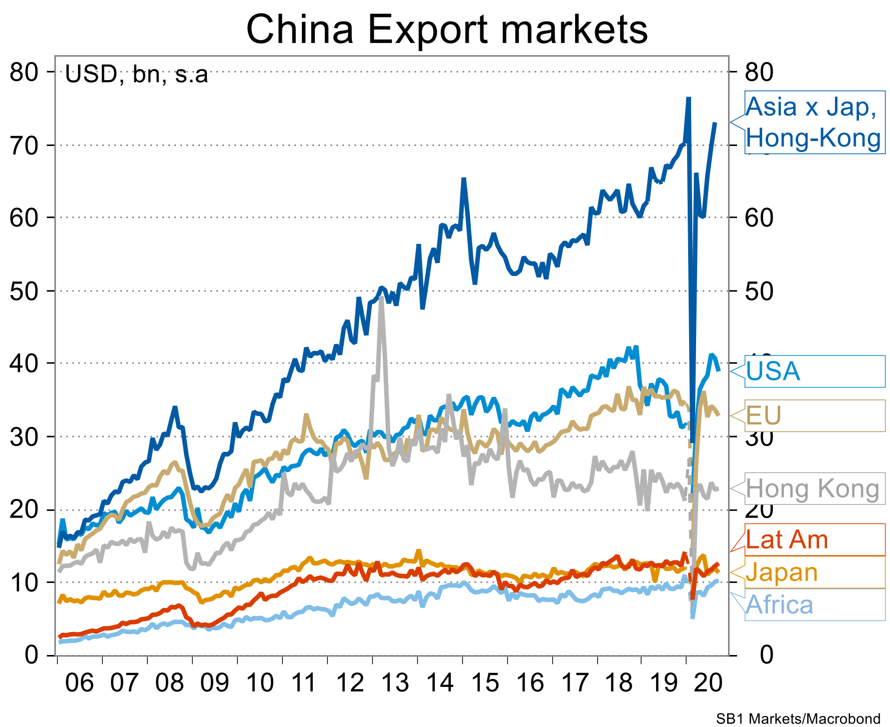
… according to Chinese data. If correct, inventories must be rapidly built up



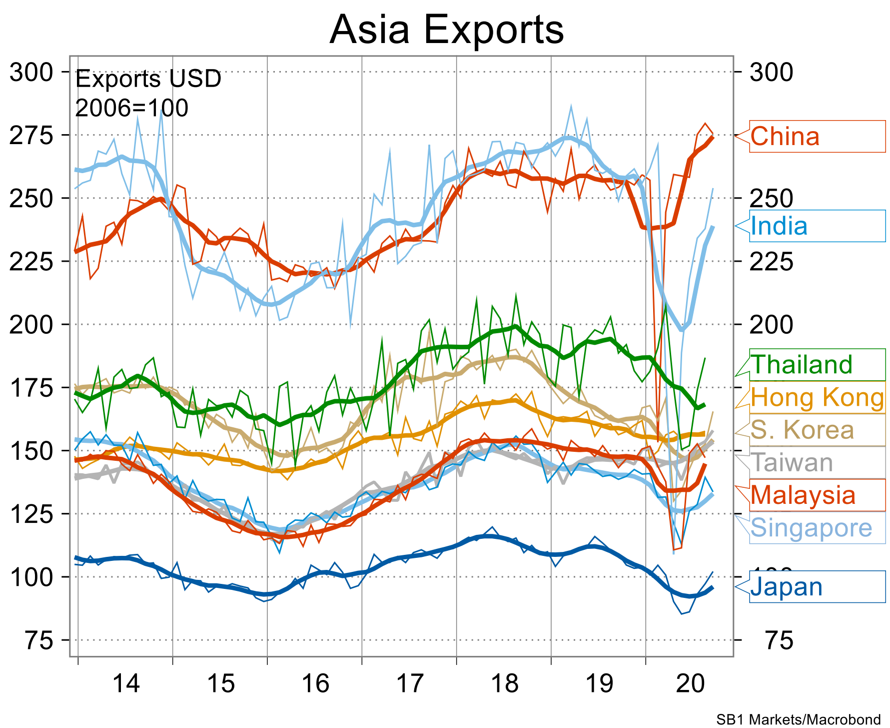


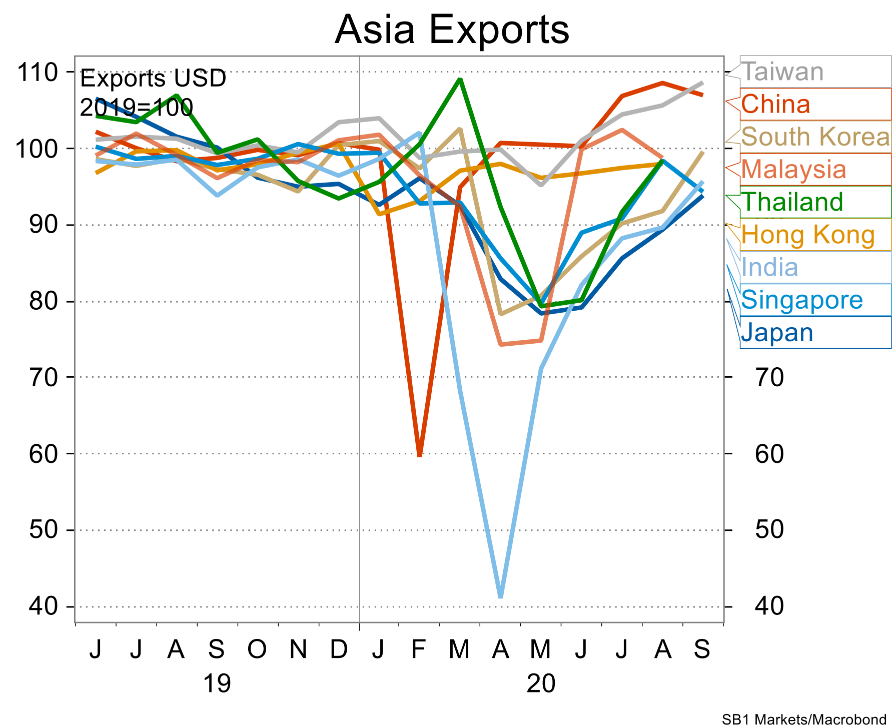
Exports to the US almost back to ATH

Exports to rest of Asia strong too – but weaker to Europe and other regions



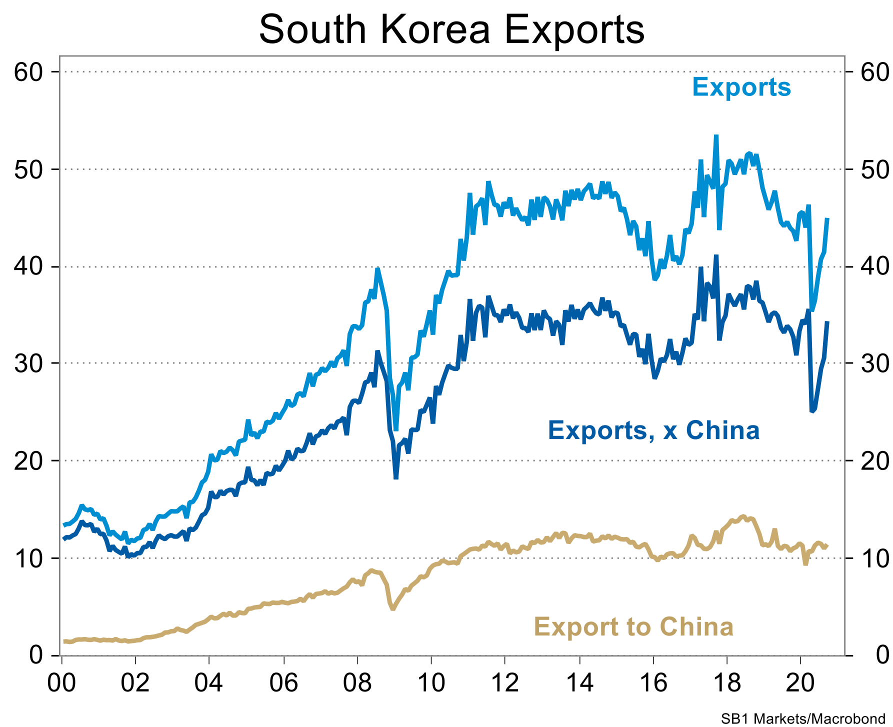
Asian exports are finally recovering quickly, none more than 6% below par





South Korea exports are back!

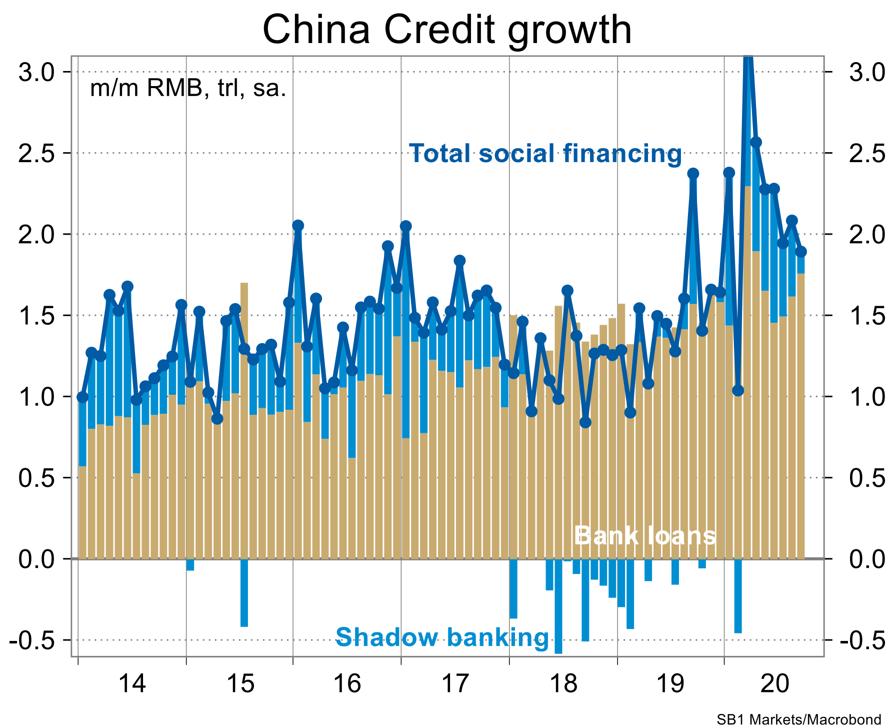
A sharp lift July – Sept, following the spring disaster

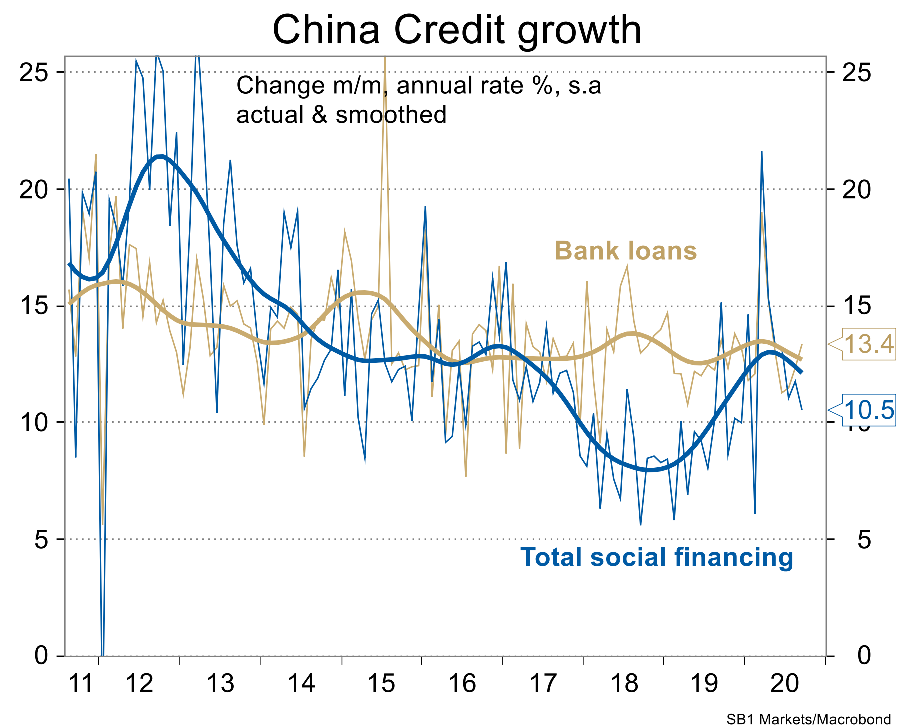


- Korean exports were not impressive before corona hit, the
- Exports to China were not to blame for the setback March - June

Credit growth is slowing but is not slow

Credit growth outside banks is slowing, banks are still keeping the flow up



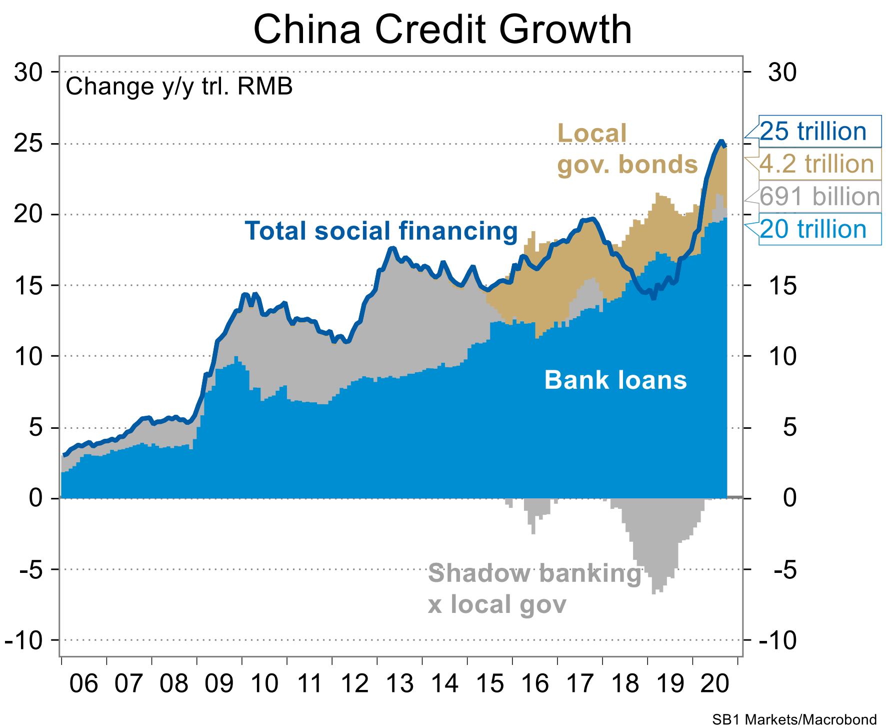


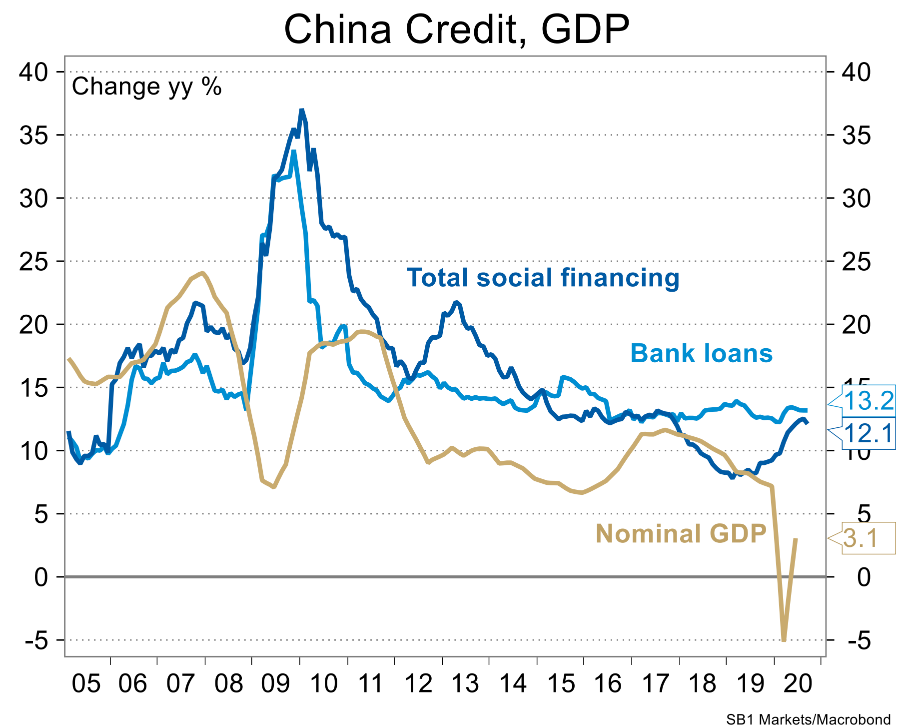
- Total credit growth has been slowing recent months, to some 10.5% (annualised) in September from above 15% during the spring
  - » Total credit rose 2.1 trl RMB (not seasonally adjusted), expected 3 trl. Banks supplied almost all of the increase (based on seasonally adj. data)
  - » Total credit is up 12.1% y/y, well above normal income growth, and the credit/GDP ratio is still increasing
- Following the V-shaped recovery in the economy, the authorities are less eager to boost growth by lifting credit growth again, especially vs. the real estate market. We not do not expect new stimulus measures

SpareBank 1 MARKETS

Credit growth has accelerated over the past year

More bank lending, shadow banking in plus too, from contraction



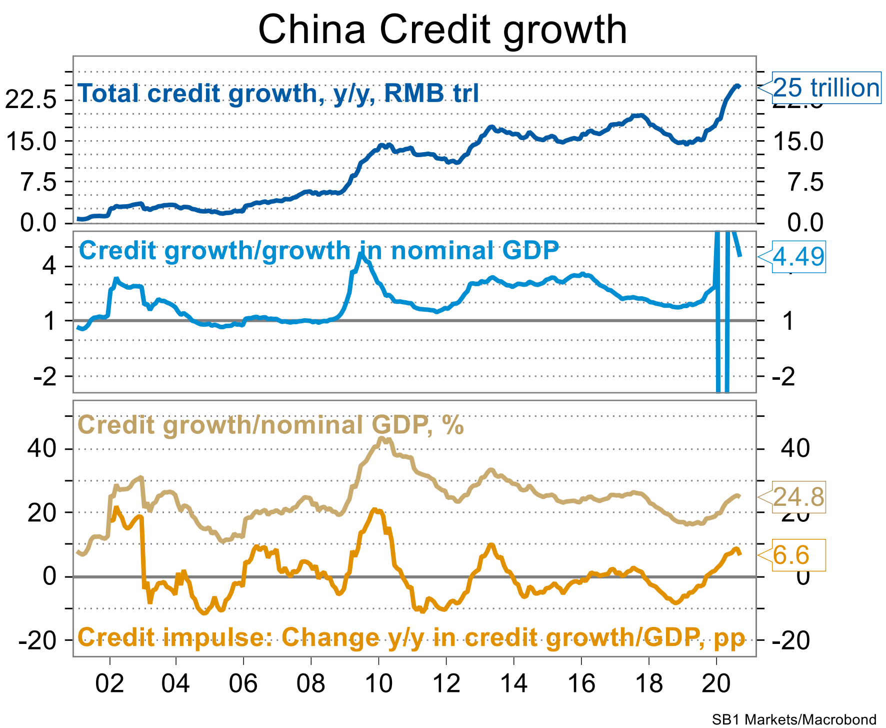


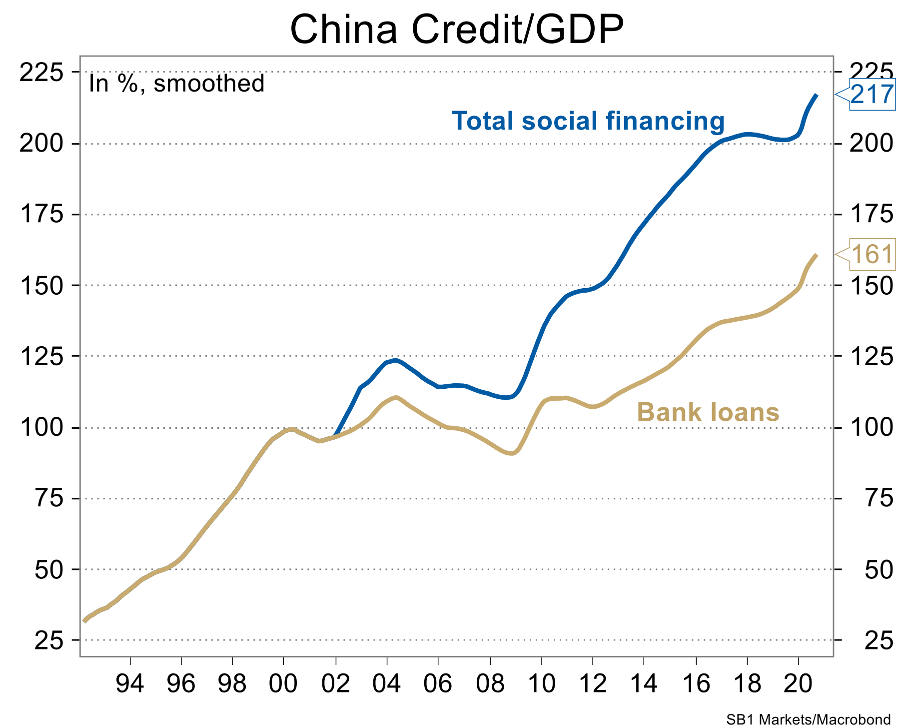
- Over the past year, total credit has expanded by CNY 25 trl, equalling 25% of GDP (even before the Q1 collapse)
- Banks supplied CNY 20 trl of the y/y increase
- Local governments have not yet accelerated their borrowing by much, at least not in the bond market, still up 4.2 bn y/y
- Other credit – via the shadow credit market x local gov bonds is now marginally up y/y, by 0.7 bn
- Total credit growth at 12.1% is higher than growth in nominal GDP even before the corona shock – the debt ratio is increasing

SpareBank 1 MARKETS

The credit impulse has peaked?

Credit growth has been accelerating but has probably peaked

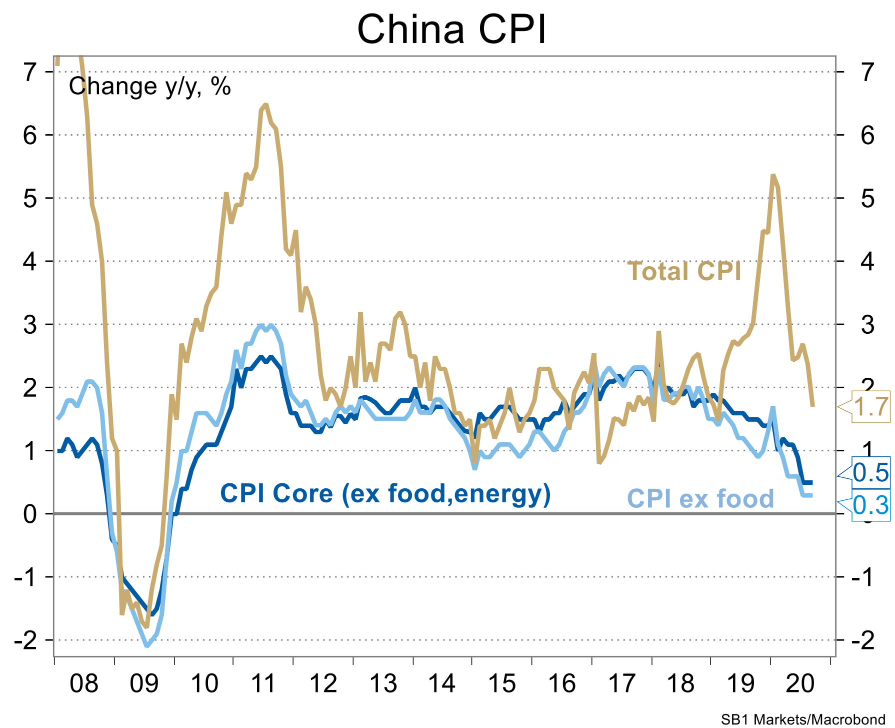


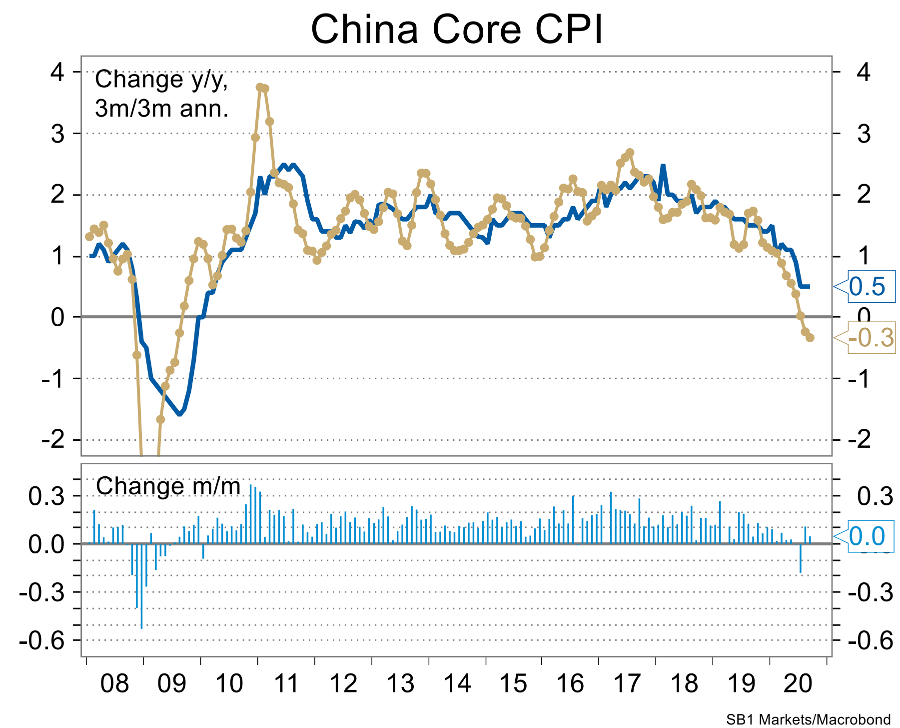


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » The credit impulse has been in the positive territory since late 2019, but may be peaking – credit growth is slowing

Core prices are stalling, up just 0.5% y/y, total inflation down 0.7 pp to 1.7%

Food price inflation is finally slowing sharply, taking headline CPI down (and buying power up)

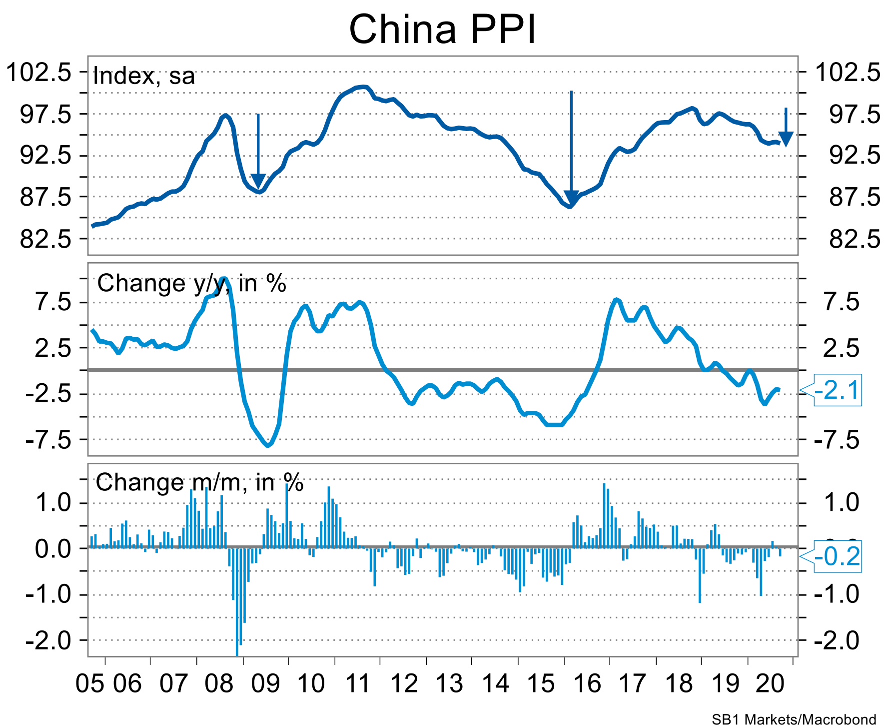


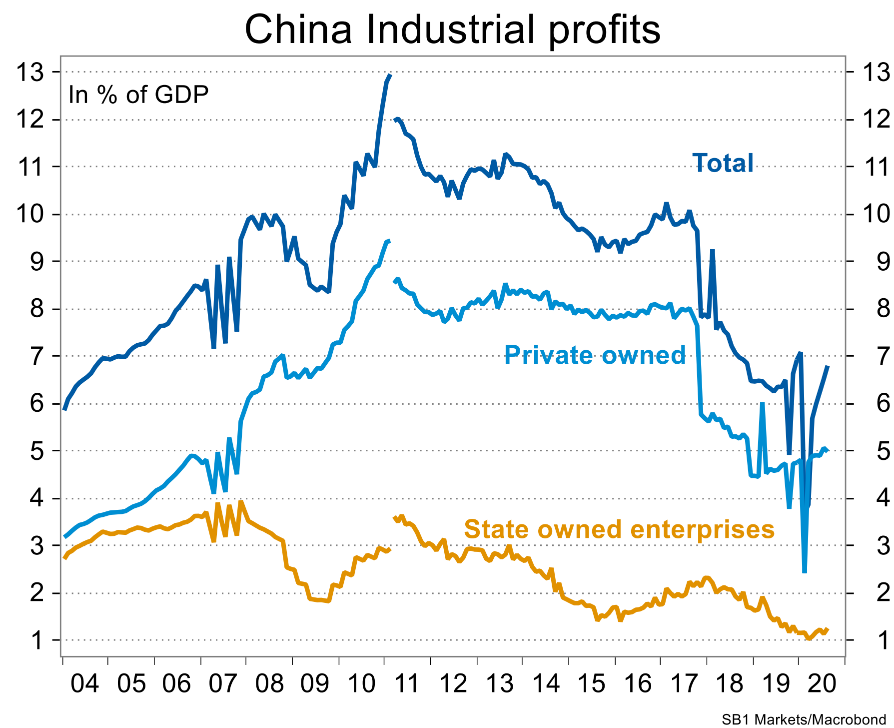


- The corona crisis has no doubt contributed to the decline **core (ex energy, food) inflation** since January. In August, core prices rose marginally and the annual rate was flat at 0.5% in Sept, well below the inflation target at some 3%, far below the actual inflation rate over the previous years
- **Food prices** fell 0.9% m/m in September, and the annual rate came down to 7.9% - it was above 20% when the swine flu pushed pork prices up more than 100%
- **Headline inflation** fell to 1.7% from 2.4%, expected down to 2.0% - and down from above 5% early 2000. Lower inflation support real income growth

Producer prices have flattened, still down y/y. Profits are recovering

PPI down 2.1% y/y in September, up from -3.7% in the spring – and they have stabilised m/m

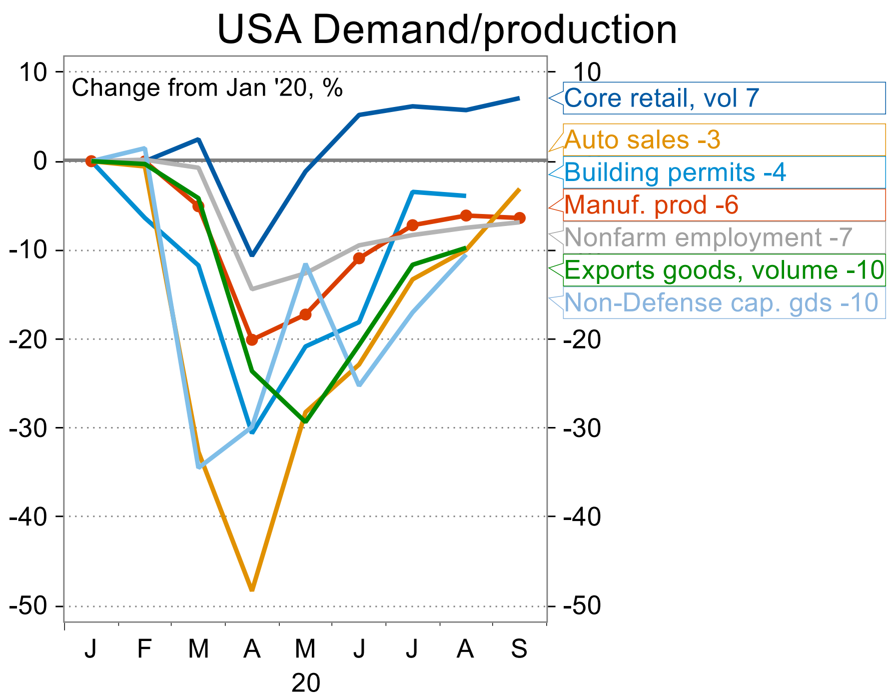




- The PPI peaked in late 2018 but prices have fallen just some 4% since then - and not much further the corona crisis. During previous setbacks, PPI has fallen up to 13% (and never less than 8%)
- Industrial profits in privately owned enterprises fell by 50% in February. Profits rose to a normal level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

Goods consumption is back; goods production not as exports/investm. still down

… and services have still a way to go, as have total employment

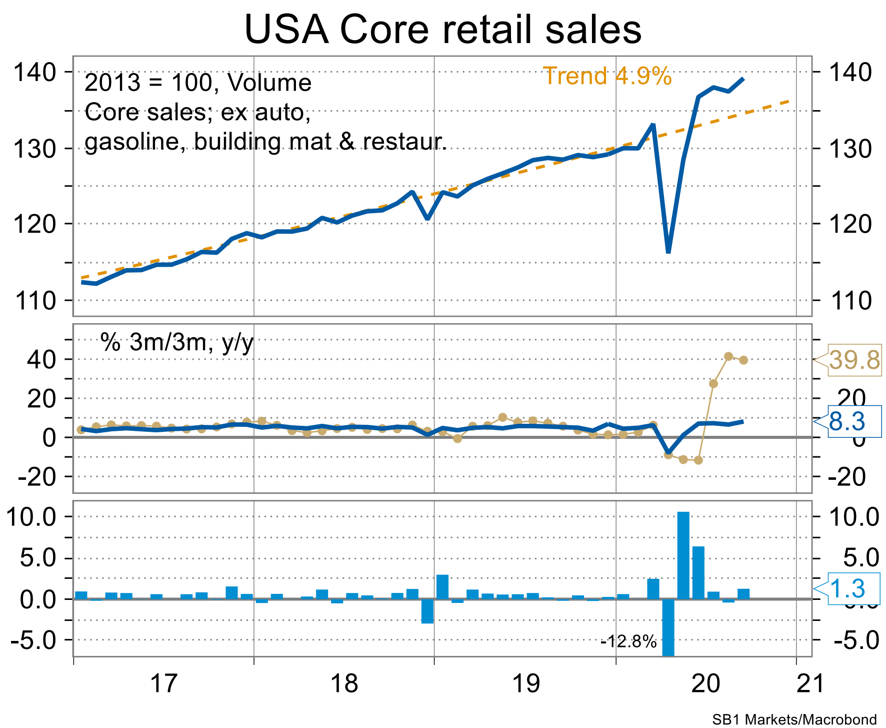


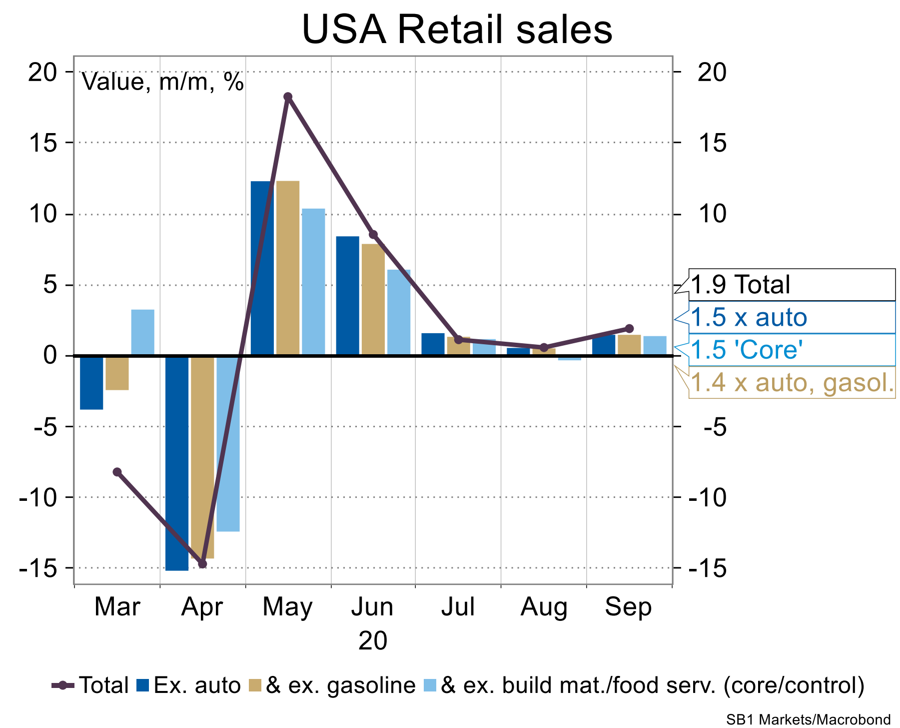
SB1 Markets/Macrobond

- The US economy is still recovering still not balanced
- Consumption of goods incl. autos) and housing (housing starts even more than permits) has fully recovered
- Exports and investment goods demand is still down 10%, the latter however just due to zero demand for new aircrafts
- Manufacturing production fell in Sept, and is 6% down
- Services are still struggling, restaurants are down 15%
- Employment is down 7%

Retail sales much stronger than expected in September

No corona troubles, at least not here

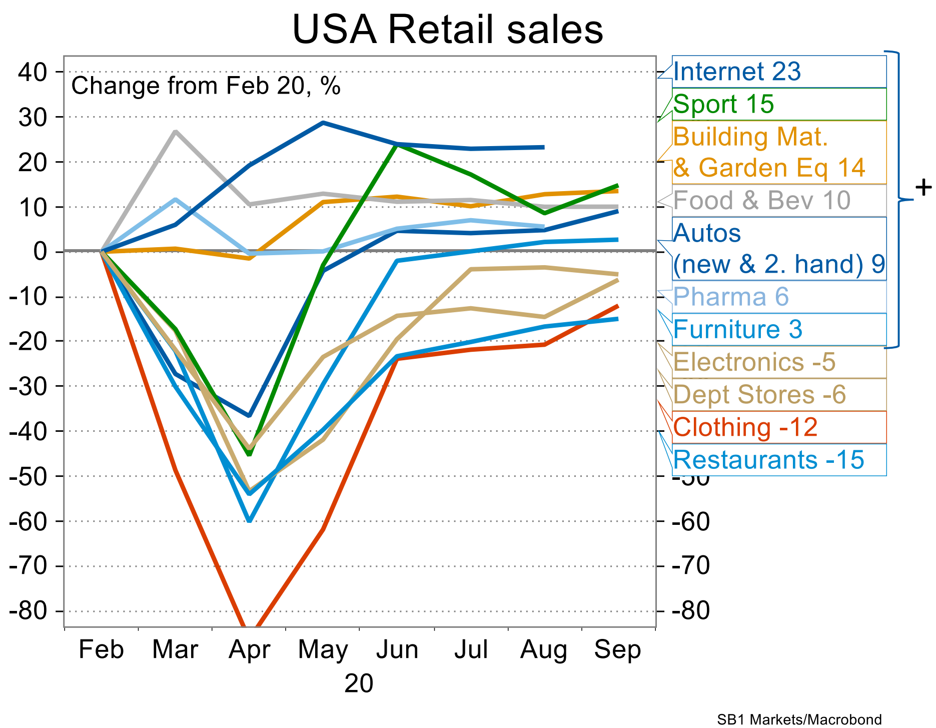




- Total nominal sales rose by 1.9% m/m in September, 1.3 pp better than expected
- Core sales (=control group) up 1.5%, expected +0.1%. We assume 1.3% in real terms, an unusual lift. We revise our Aug volume estimate down by 0.2 pp to -0.3%. Sales are 7% above the pre corona level, are up 8% y/y – and are well above any trend path, of course.
  - In Q3, core sales rose by 40%, in annualised terms
- Restaurants are still struggling, sales are down 15% vs February . Clothing is weak as well, down 12%

Still huge differences between sectors: Sport +15%, restaurants -15%

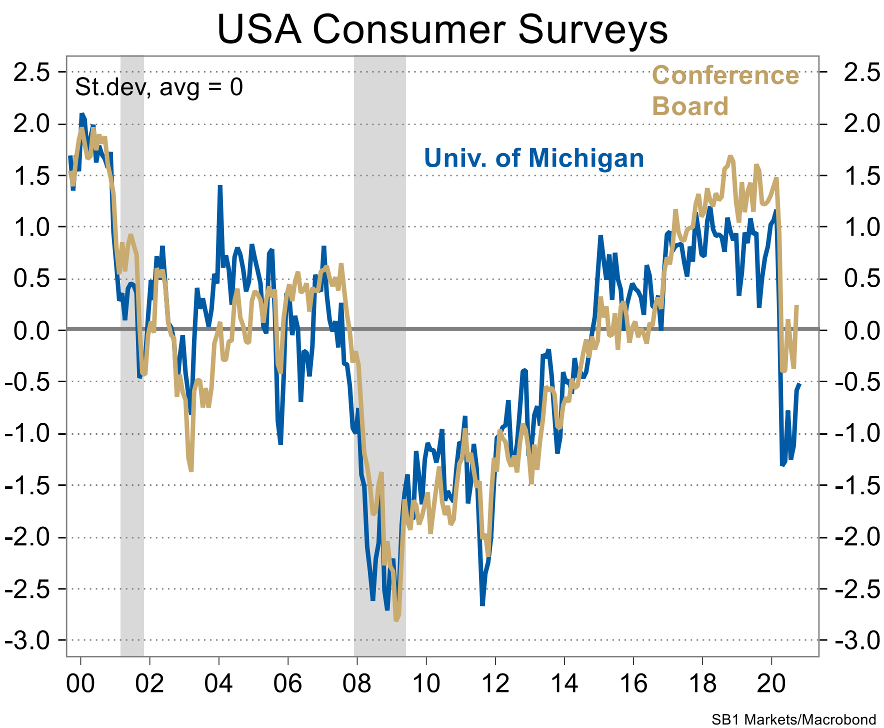
Building materials/garden equipment up 14%, food & beverages +10%! Clothing -12%

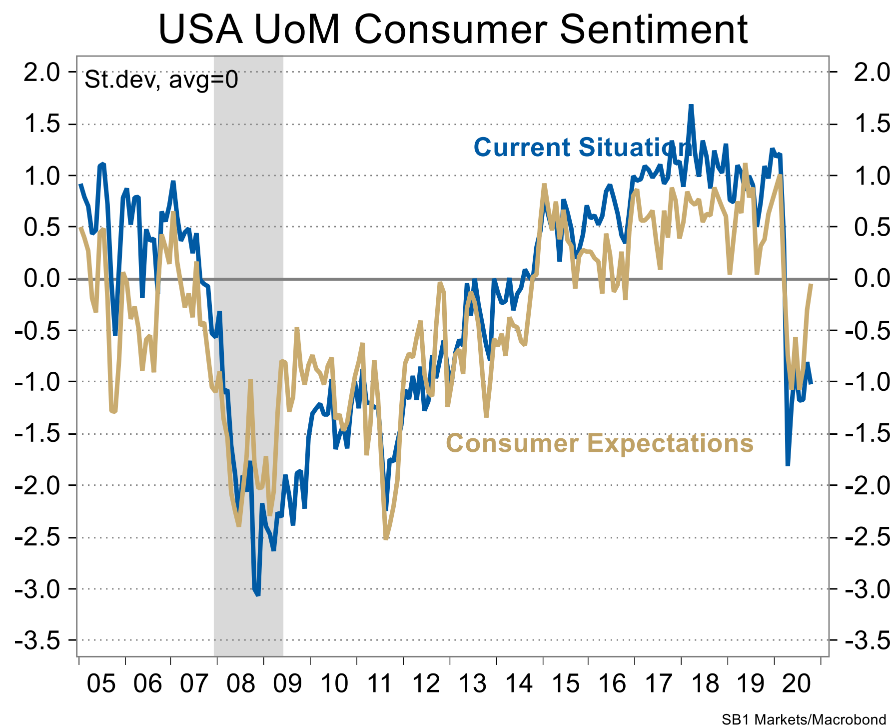


- Americans – as all others – are buying more food in shops and less at restaurants
- Clothing is probably down due to more time spent at home, less outside.
- But why are electronics still so weak?

Univ. of Mich sentiment further up in October, still below par

Expectations sharply up almost to an average level.

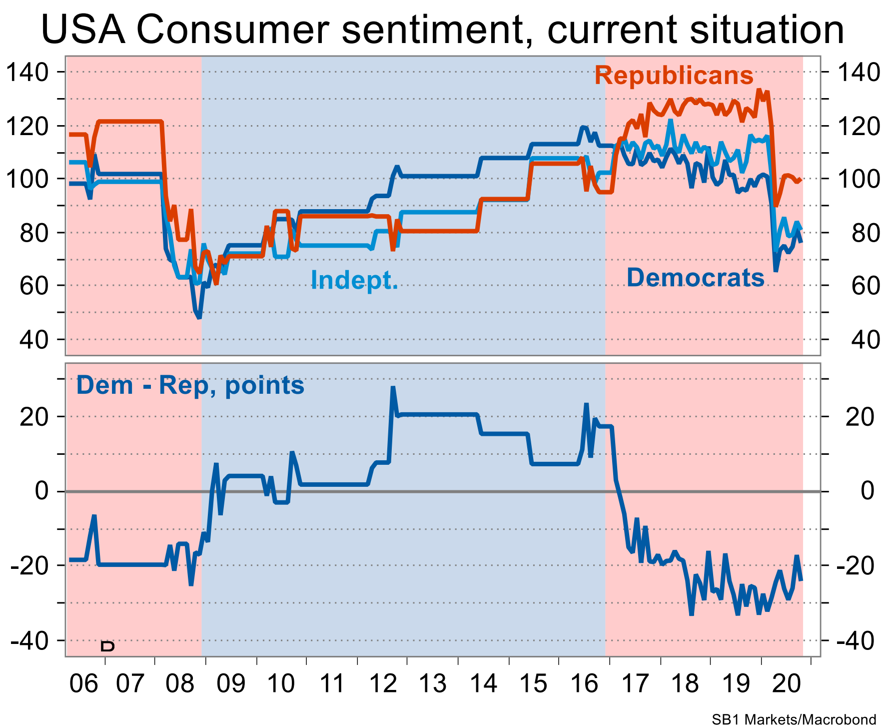




- Households' assessment of the current economic situation fell marginally in October, and remains well below an average level – not that strange. Ahead of corona, the level was well above par (as for expectations)
- Both households' Hard to find any better explanation than the new corona virus crisis in large part of the US and the restrictions that have been reintroduced

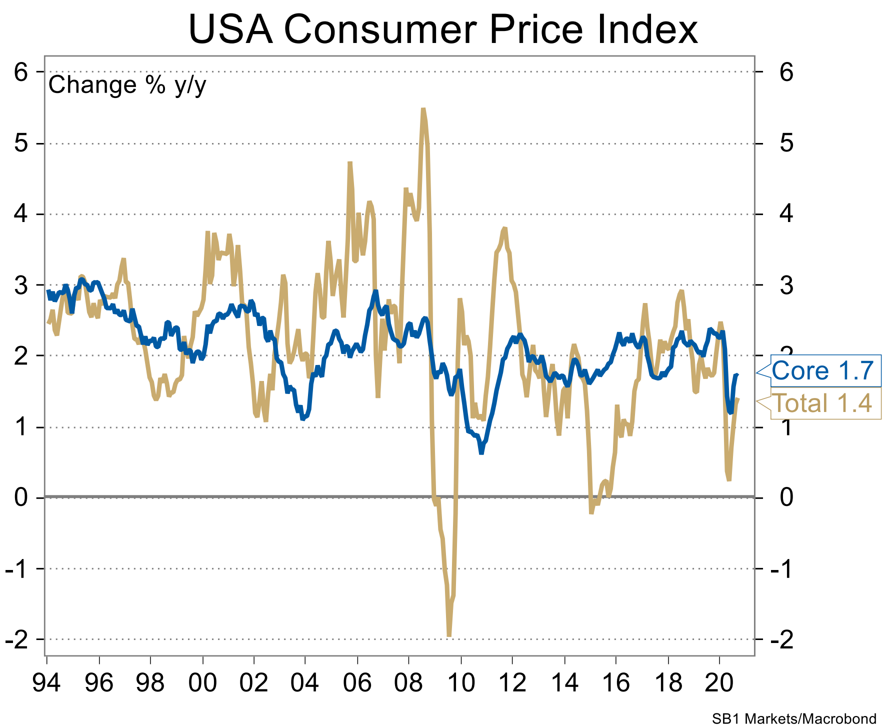
Will the assessment of the current economic situation switch once more?

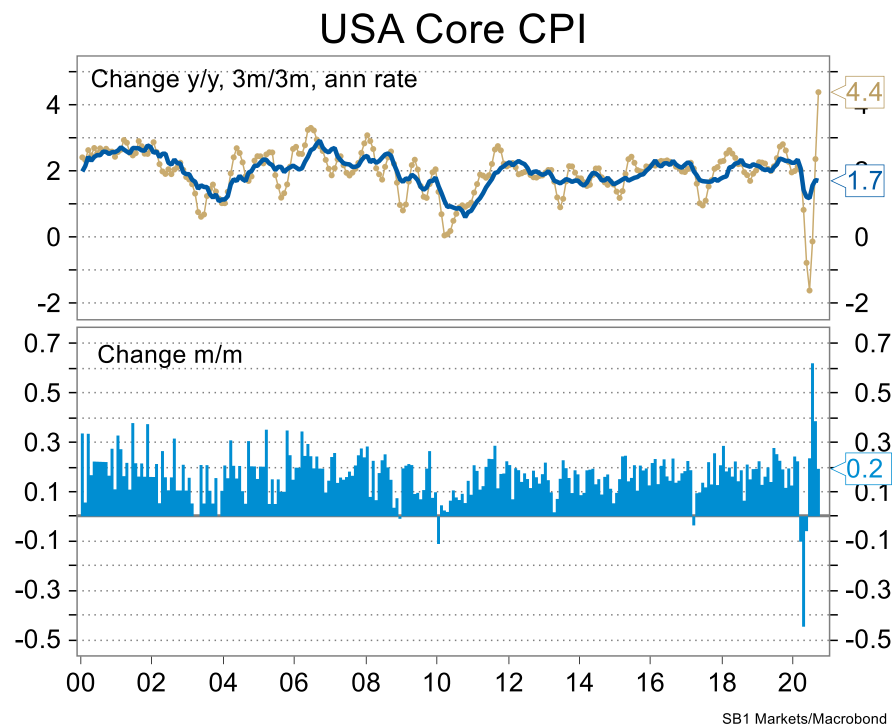
… that is, among the voters? What is the colour of your shades?



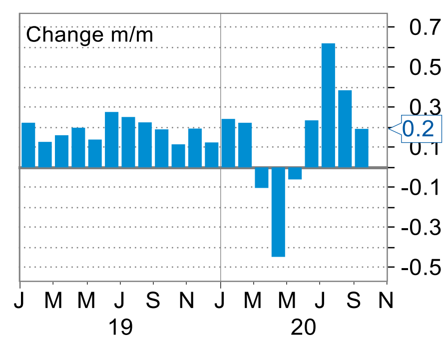
Core CPI prices finally up just a 'normal' 0.2% in Sept, annual rate unch at 1.7%

Prices fell during the first corona months, have accelerated thereafter – but not further in Sept



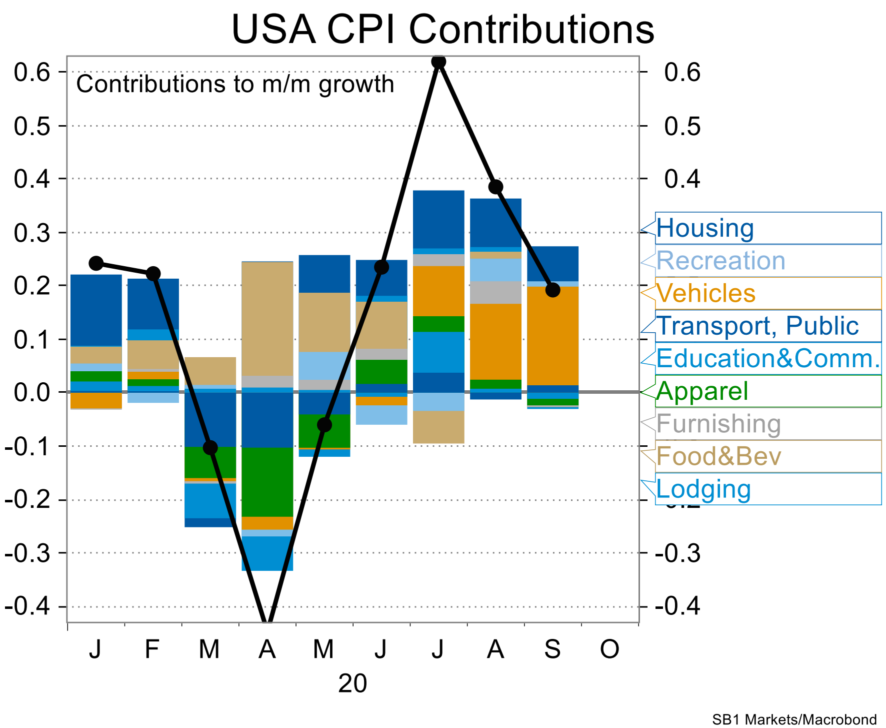


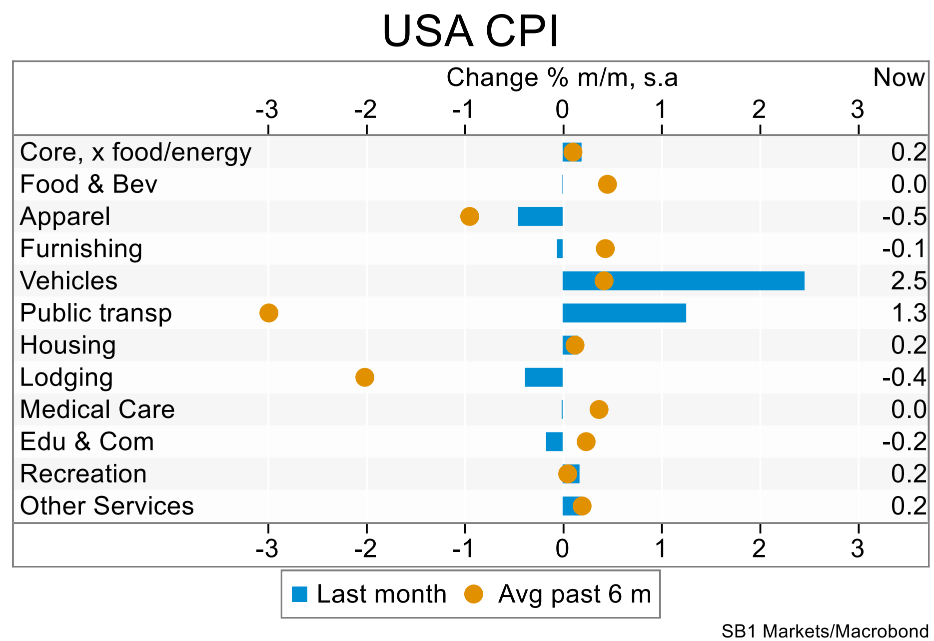
- Core CPI prices rose by 0.2% m/m in Sept, as expected, following the surprising 0.4% jump in August (and 0.6% in July). The 1.7% annual rate is below the 2.4% pre corona level
- Headline CPI is up 1.4% y/y up 0.1 pp from August (and 0.2% in May)
- Used car prices are surging – and explained almost the entire 0.2% lift in prices in Sept, following rapid price increased in July and August too. We assume the upside from here is limited – if anything. If we are right, CPI inflation may slow again



Just vehicle & public trasport prices rose in Sept, many others down

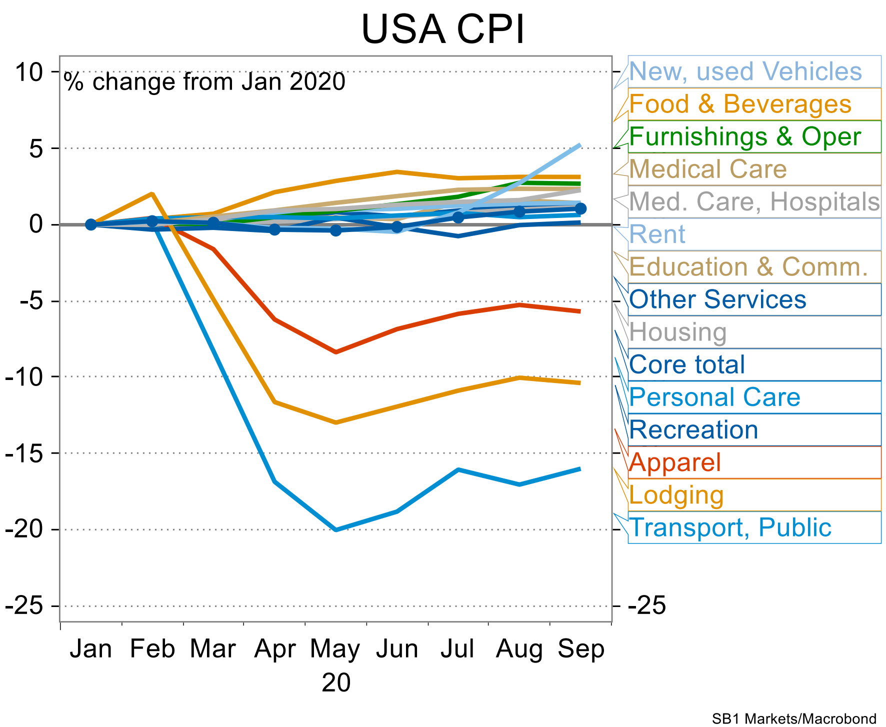
Vehicle prices (new and used) lifted monthly core inflation by almost 0.2 pp in Aug!!

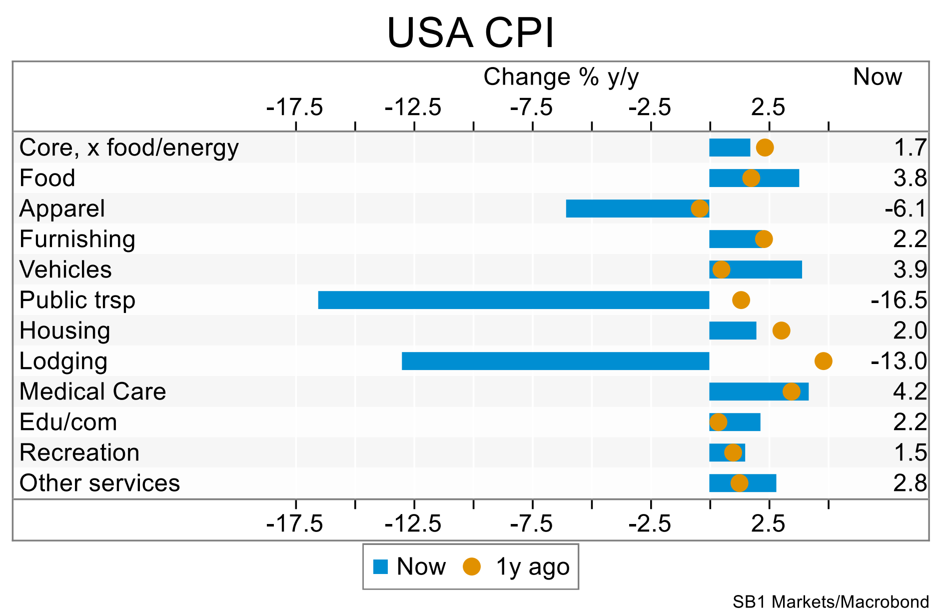




Clothing, hotels and transport (airline tickets) still very cheap

Public transport (airline tickets) and hotels are still far down – but are recovering

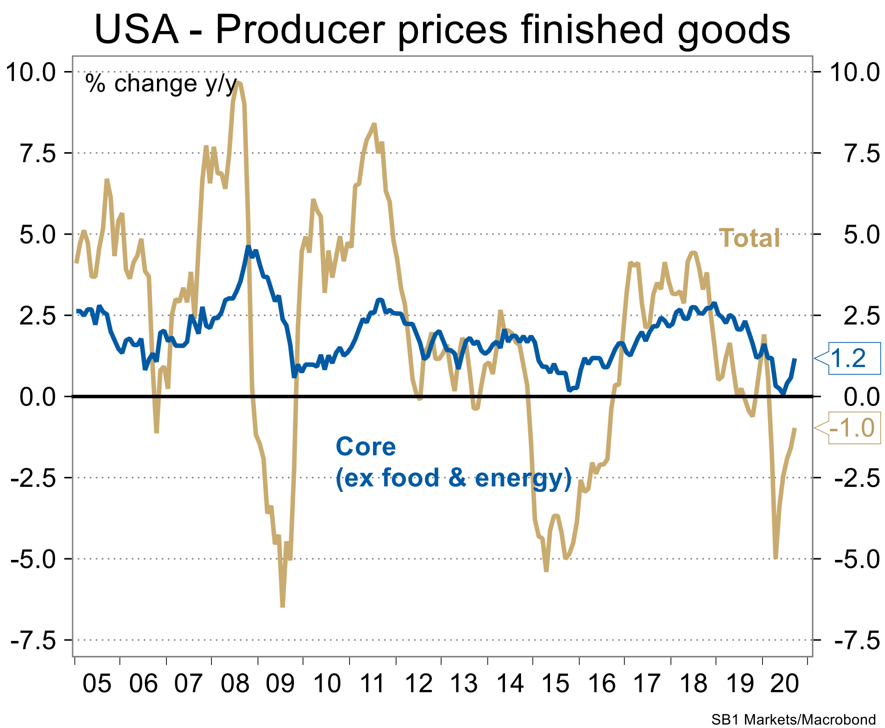


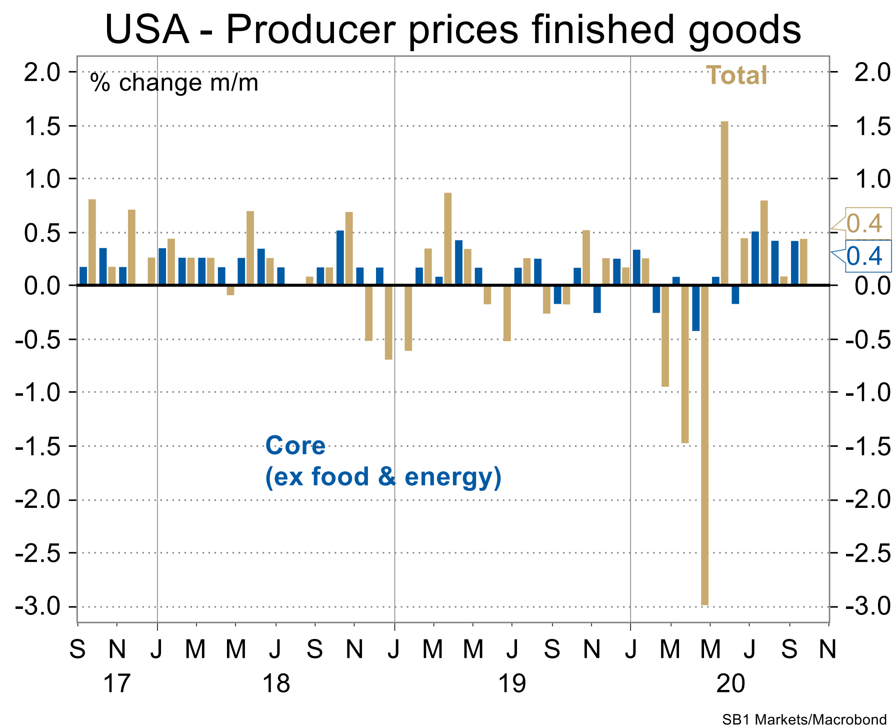


- Just some few components of the CPI contributed to the ‘corona’ setback: Public transport (airline tickets), lodging (hotels), apparel, and partly recreation (parks etc). Other components of the CPI have not slowed
- Food prices are up 3.8% y/y, corona has no doubt boosted demand among households, as in Norway
- Medical care costs are up 4.2%

Core producer price inflation slowly moving upwards, +1.2% y/y (from 0 in June)

Total finished goods prices down 1% y/y – from -5% in April

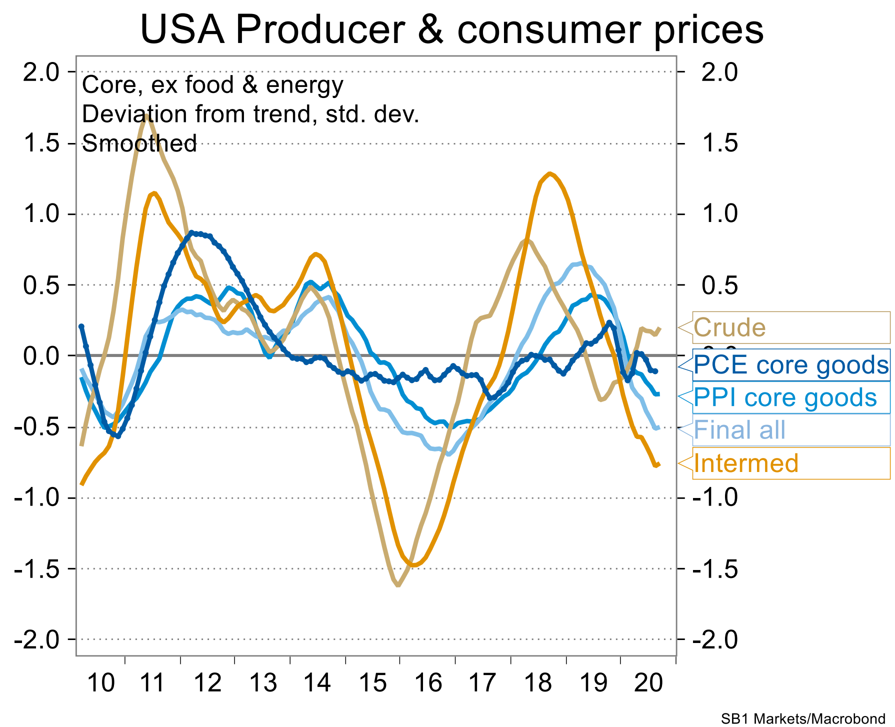


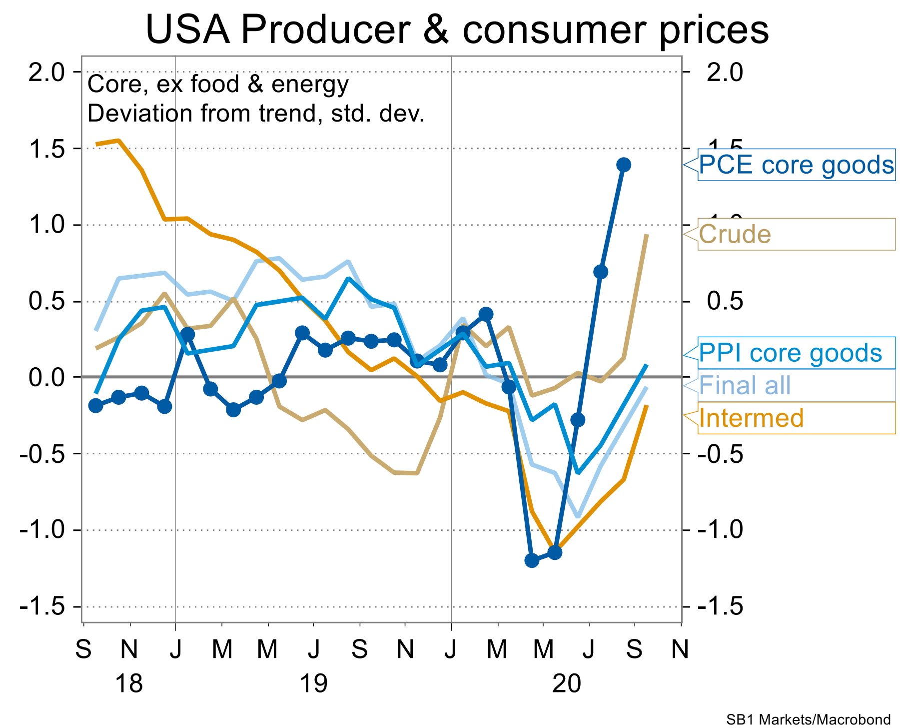


- Core finished goods x food & energy PPI rose by 0.4% m/m in Sept, as in Aug and the annual rate rose to 1.2% from 0.6% in August, to the same level as before the corona crisis
- Headline PPI rose 0.4% m/m too, and the annual rate rise to -1.0%, from -1.6%. Total PPI inflation fell rapidly Feb-April, along with the economic crisis and falling energy prices when the pandemic hit
- Core producer price inflation does not suggest high CPI inflation, but not low inflation either

Producer prices has turned up

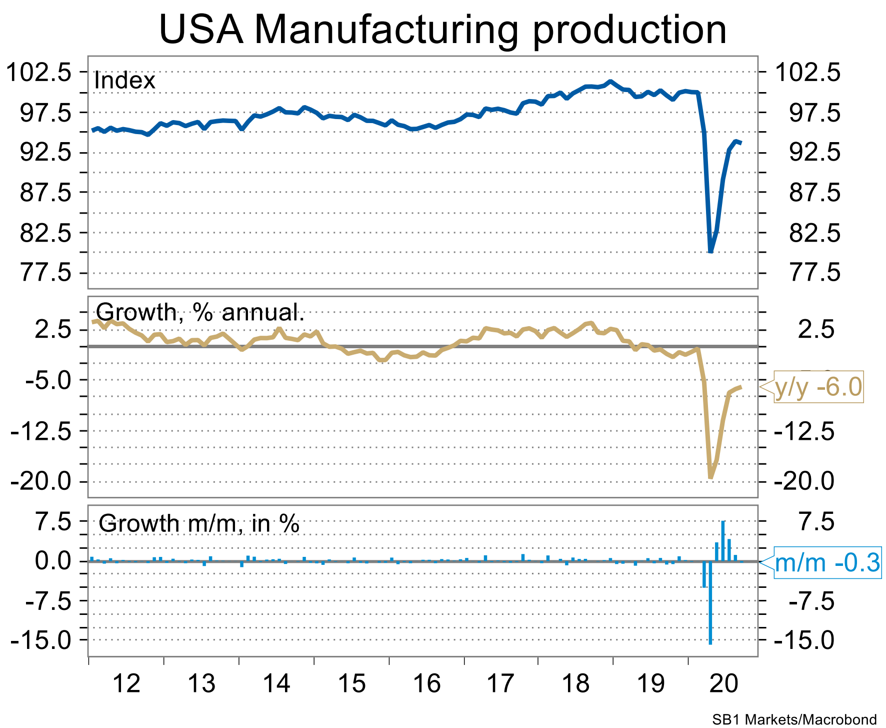
At least, the core PPI does not signal any deflationary pressure

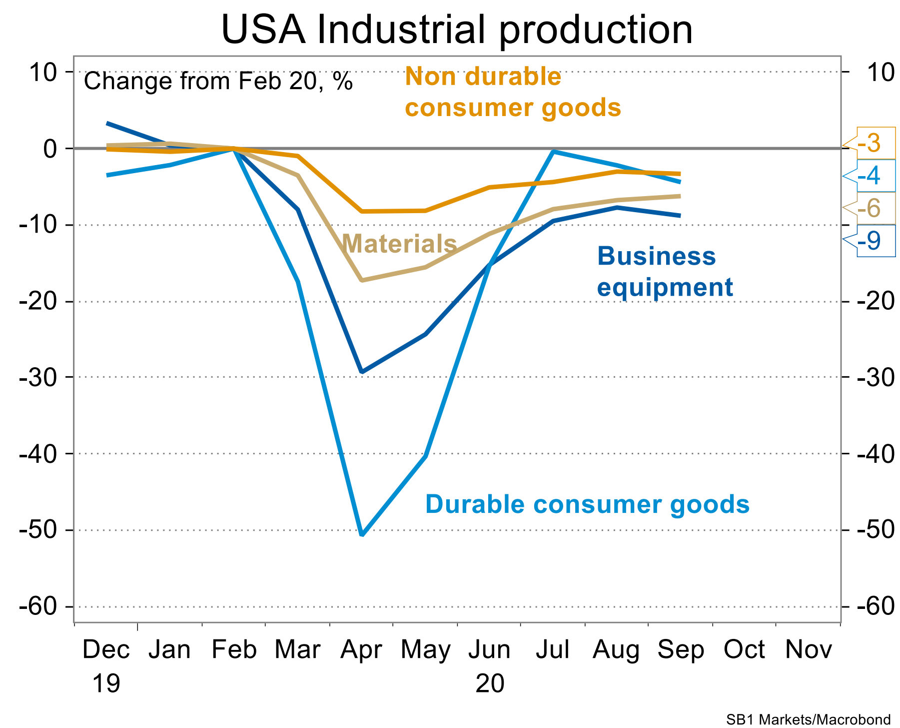




Manufacturing down 0.3% in Sept, broad weakness – remains 6% down from Feb

Production was expected up 0.8%, and it is still 6% below the pre corona level

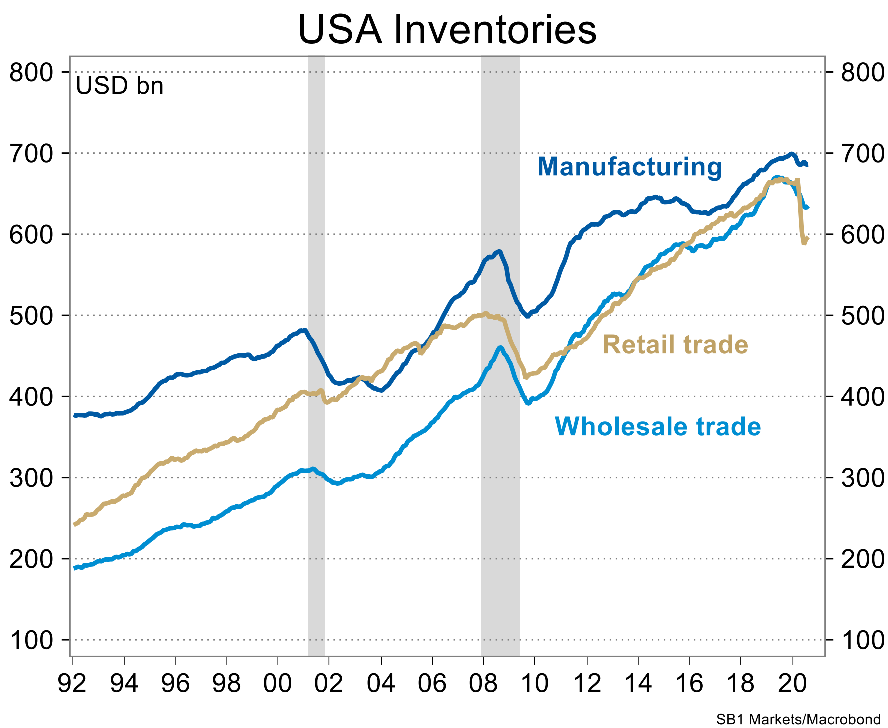


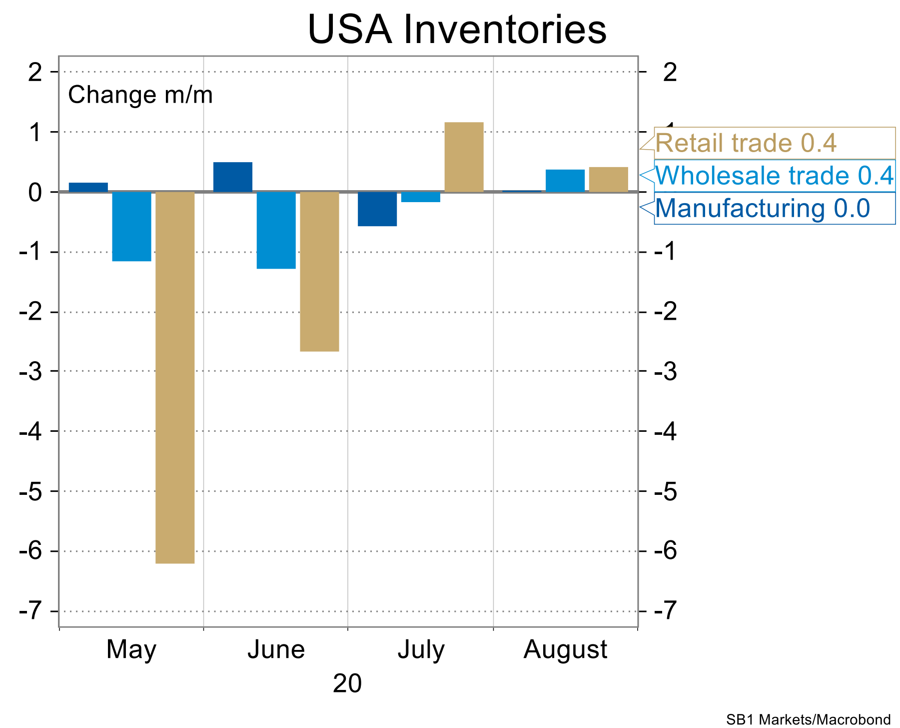


- Manufacturing production surprisingly fell in Sept, and are 6.4% down vs. the Feb. level
- Production of materials rose marginally in Sept but both consumer & investments goods fell
- Total industrial production, including utilities, mines/oil production, fell 0.6% in September, expected up 0.5%
- PMI/ISM and other surveys signal a recovery, but not at a brisk pace, given the continued low production level

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

… if demand does not fall off the cliff, again

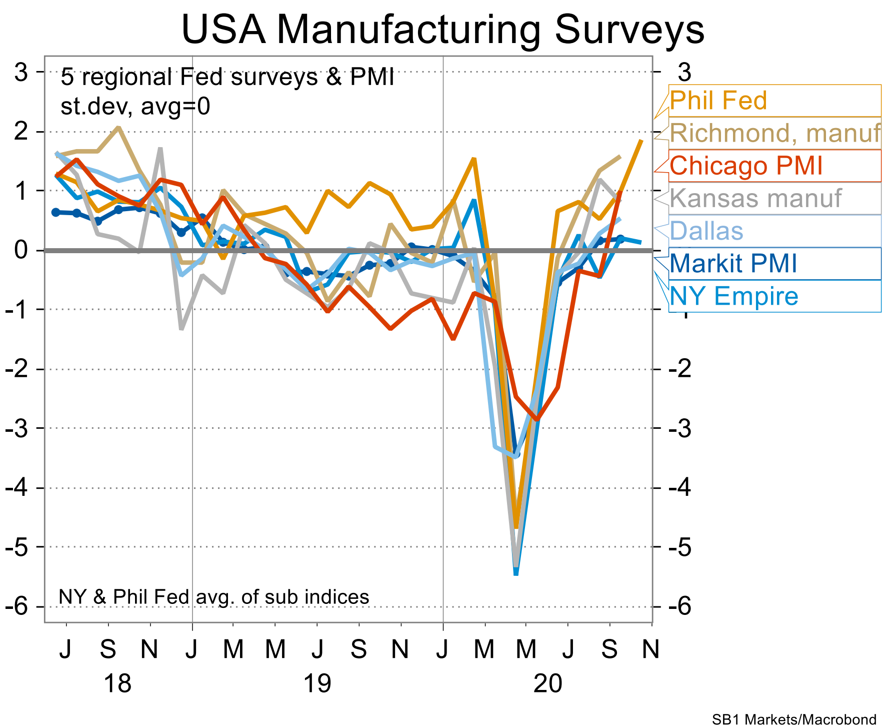


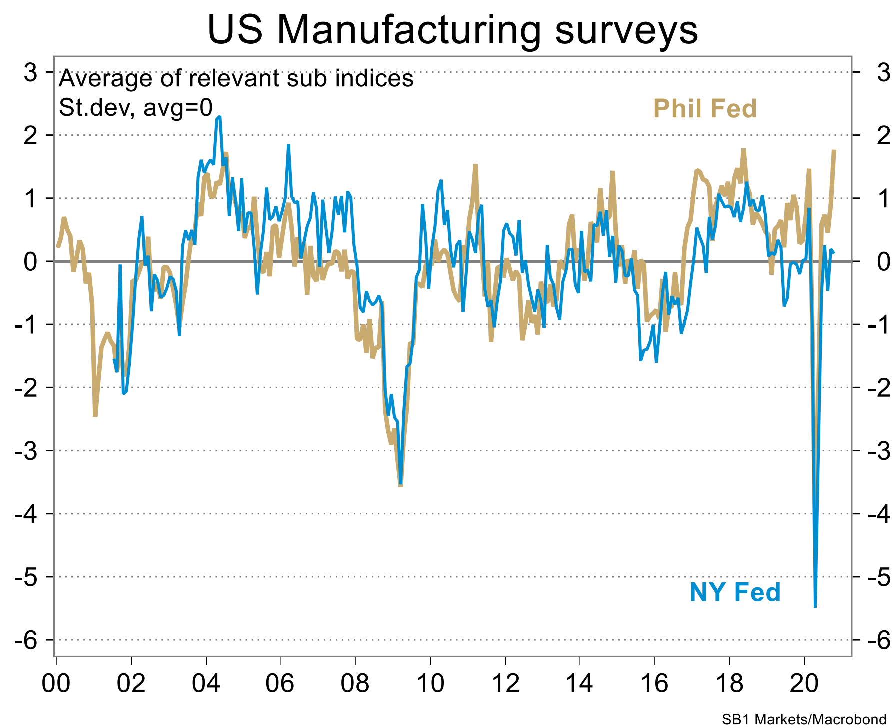


- Retail trade inventories fell sharply in April-June. Inventories rose in July & Aug but both retailers and wholesalers will have re-stock substantially the coming months, perhaps even manufacturers themselves

Mixed early Oct regional manufact. surveys: Phil Fed sharply up, NY marg down

Taken together, on the strong side: NY Fed at an average level, Phil Fed among the best ever!

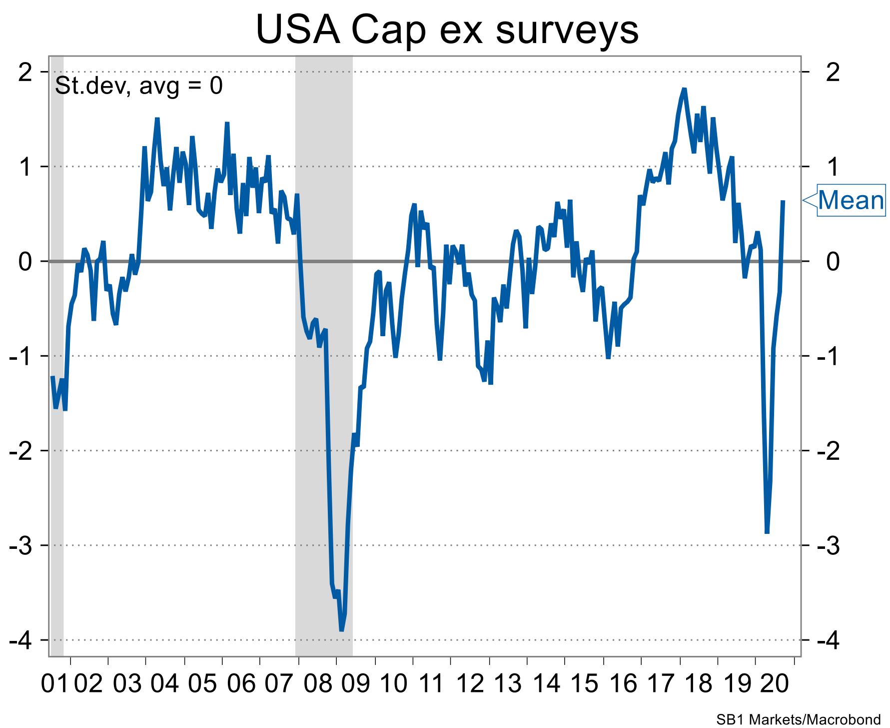


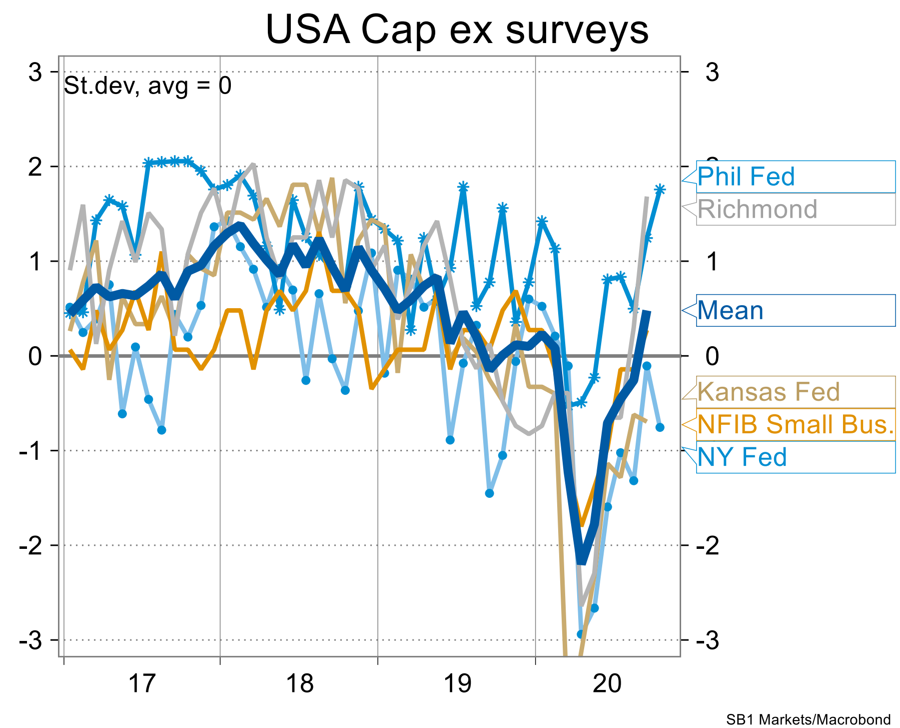


- Philadelphia Fed's survey shot up from , was expected to slide down to 32.3 in October from 15 in Sept, the highest level since February
  - However, the details were more impressive: ***The new order index rose to 42.6, the 2nd best level ever (data from 1968)***. The average of 'relevant' sub indices was the 5th highest!
- NY Fed's manufacturing survey fell to 10.5 in October from 17 (expected down to 12)
- The gap between these two surveys is remarkable. The Phil Fed survey is slightly better in forecasting the manufacturing ISM. Our model says + 2 p to almost 58!

Cap-ex plans in line with the headlines – strong in Philadelphia, not in NY

Manufacturers seem in sum to be ramping up their investment plans

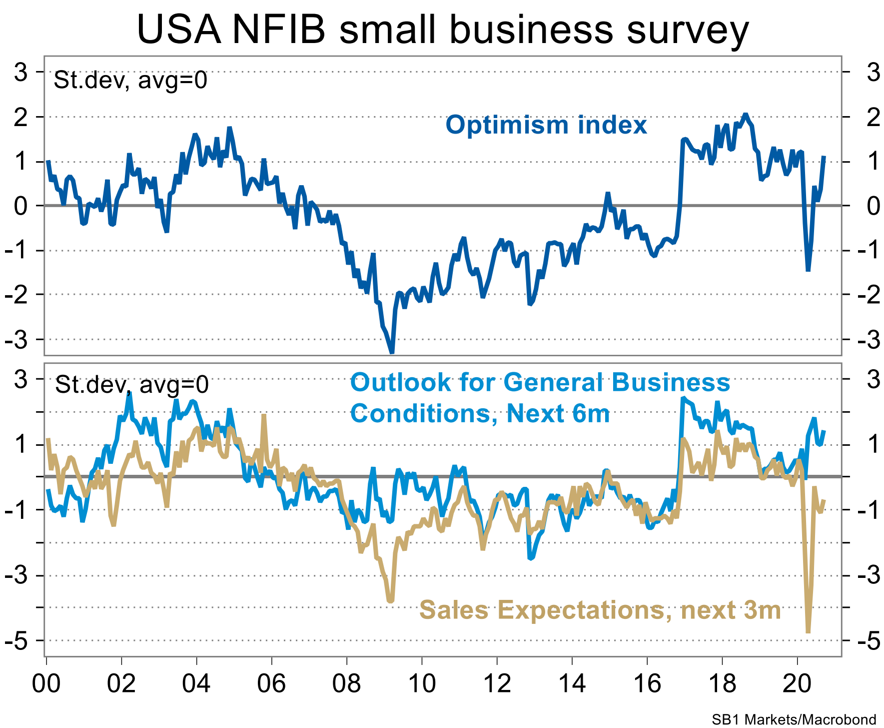


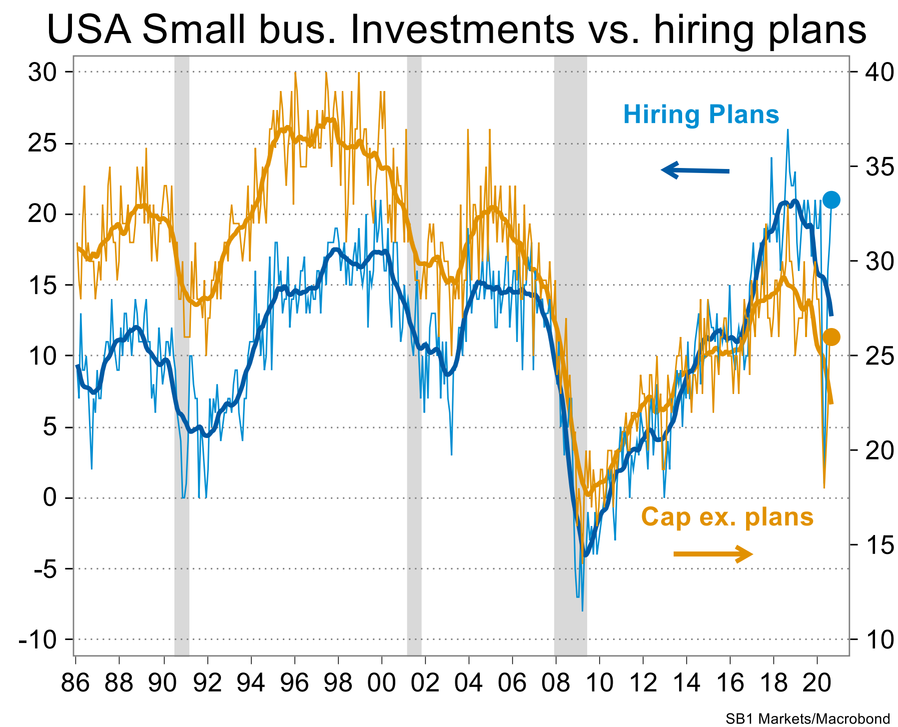


- Investment plans for manufacturers have been mixed recently – and seems to be so in Oct too

Small businesses' optimism further up, level quite high - sales expect. still low

Businesses are reporting higher hiring plans – and more surprisingly – difficulties attracting labour

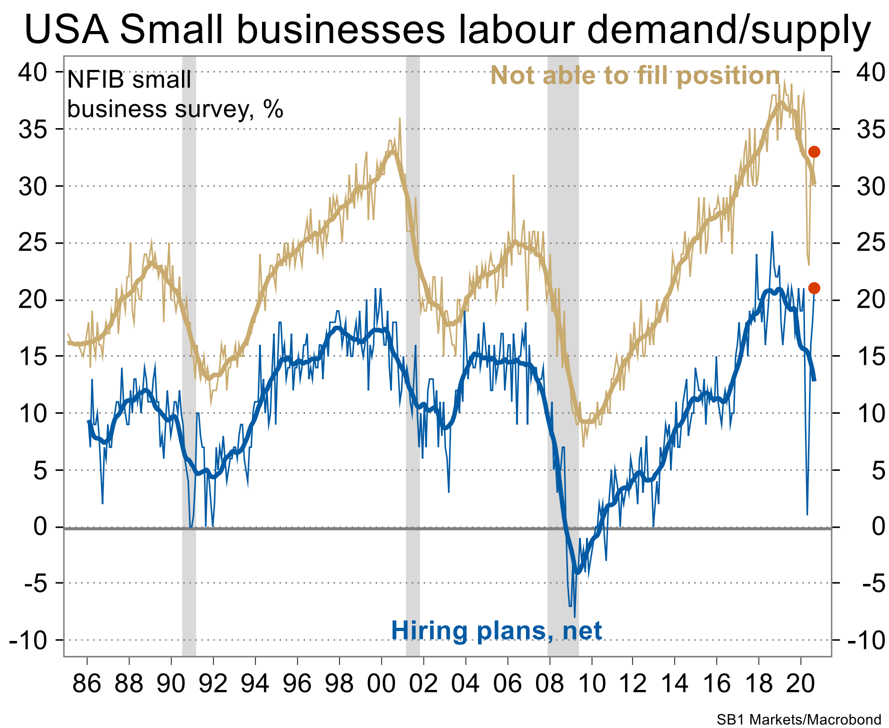


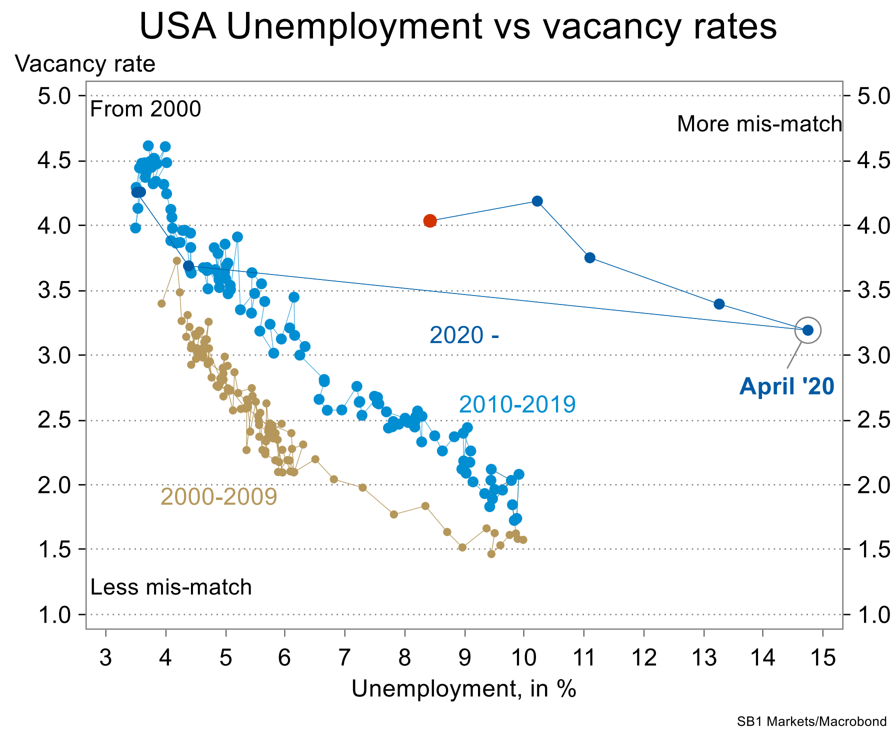


- The **NFIB optimism index** rose further in September, and far more than expected. The level is well above average. **The expectation index**, the outlook for the next 6 months, rose as well. Both indices have been strong through the covid crisis.
  - Sectors: Transportation and services are the most downbeat, construction and manufacturing in the lead
- Businesses slashed their **sales expectations** during the corona downturn, and even if they have recovered, expectations are still below par
- **Investment plans** have almost returned to a normal level, and companies are not signalling substantial cuts in investments (but no growth either)
- **Hiring plans** are back at the pre corona level, a high level. Employment is still 7% below a pre corona level, and it is not strange that hiring plans are pretty aggressive

Small businesses are not able to fill vacant positions

Which is rather remarkable, as the unemployment rate is still high

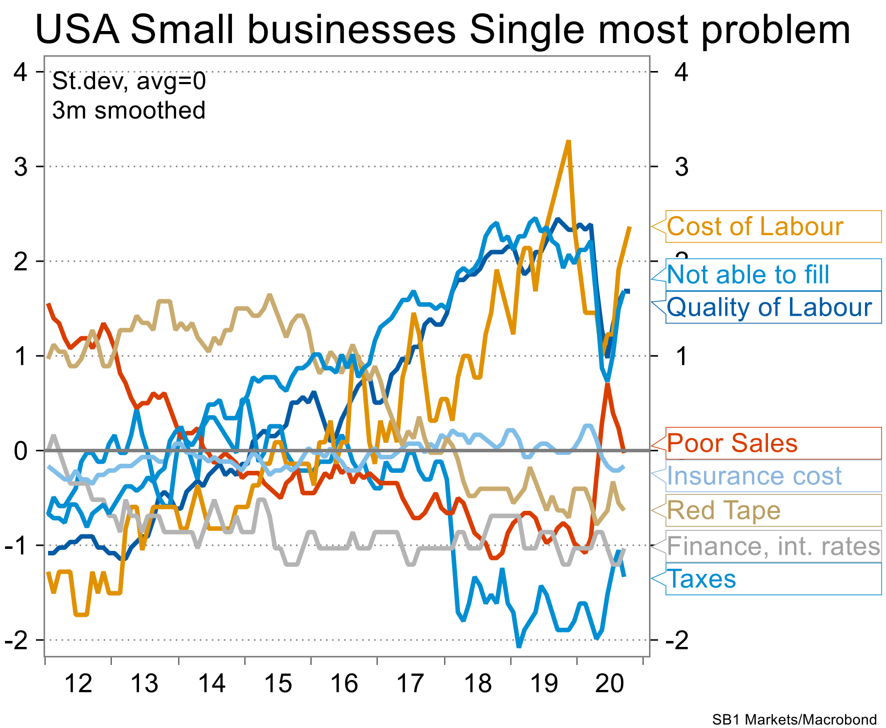


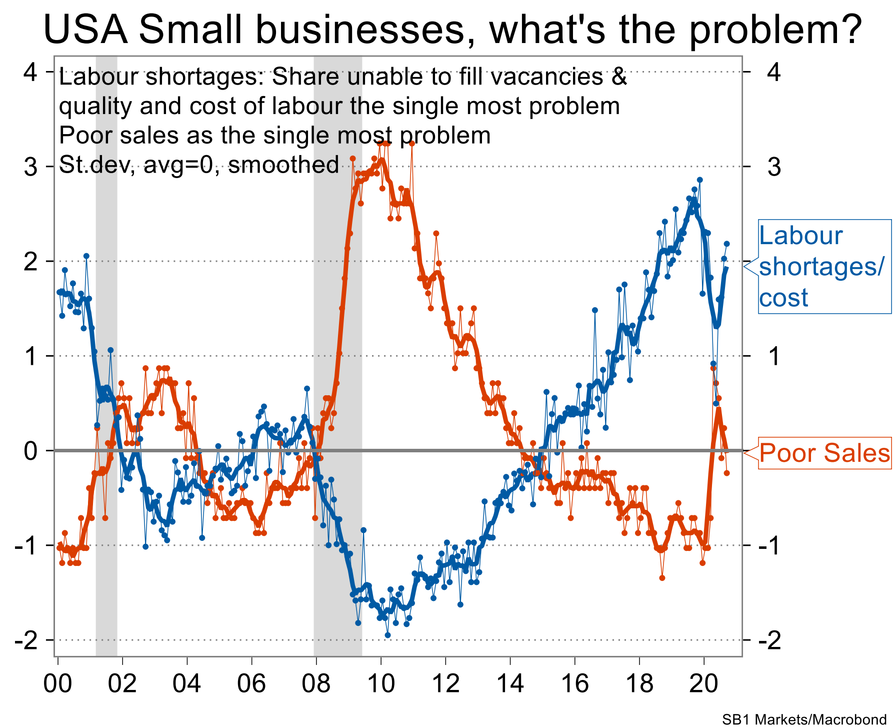


- The number of unfilled vacancies is also high, according up official statistics

Costs, supply and quality of labour still reported as the major problems! Now??

Fewer than normal are stating poor sales as the single most problem. Rather remarkable?

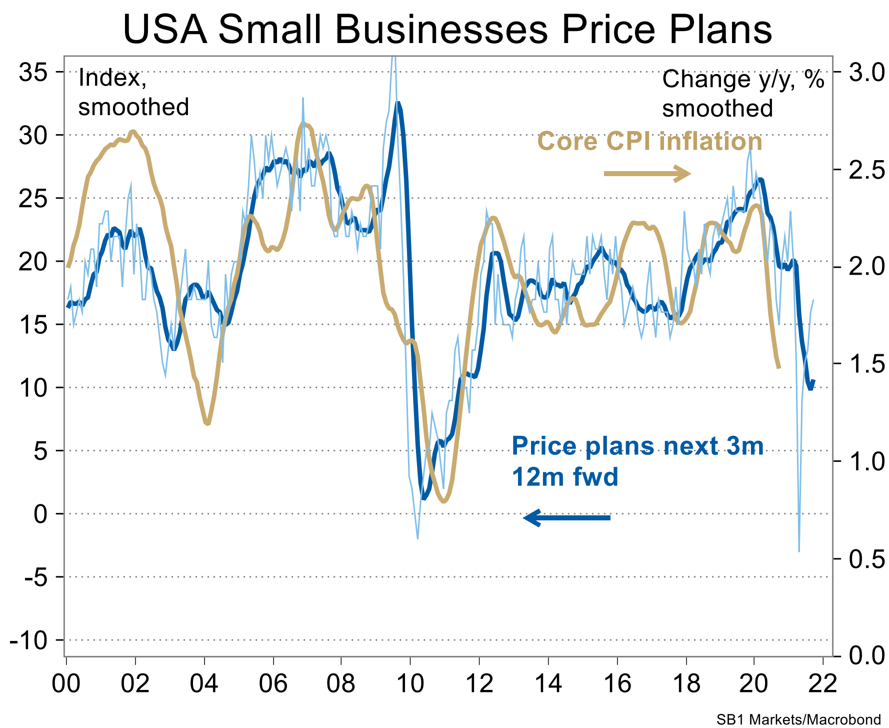


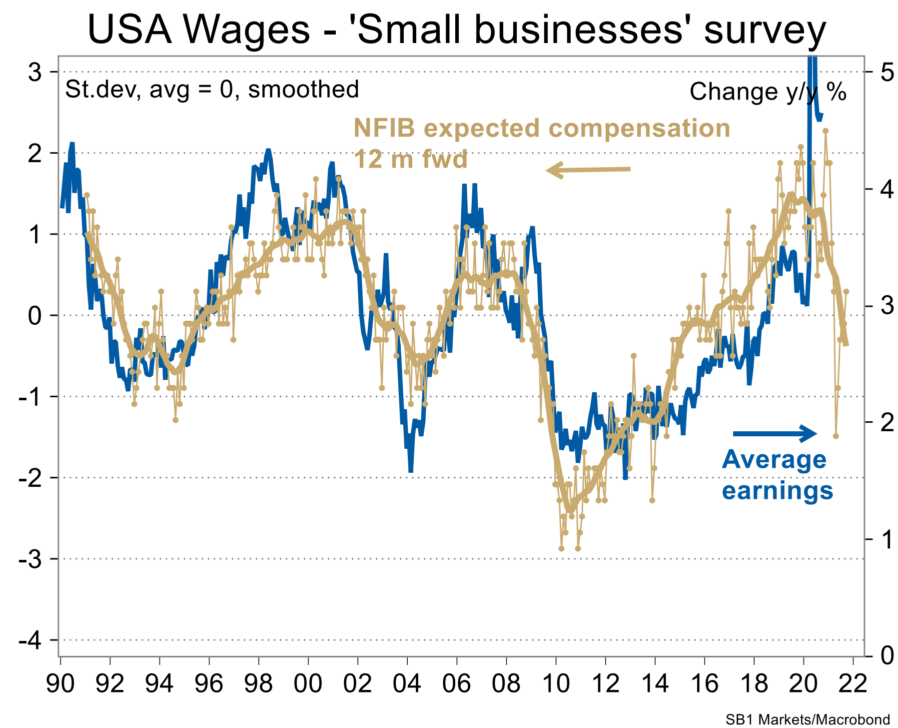


- Unusually few are complaining about finance/interest rates and about taxes
- More businesses have been stating weak sales as the major problem but the level has been surprisingly low, and in September the level is lower than average!
- The share of businesses that have been noting problems with tight labour markets have remained remarkably high during the economic downturn. Both the ability to fill vacancies, cost of labour and quality of labour are still reported as huge problems

Companies assume ‘normal’ price & wage increases – up from below par

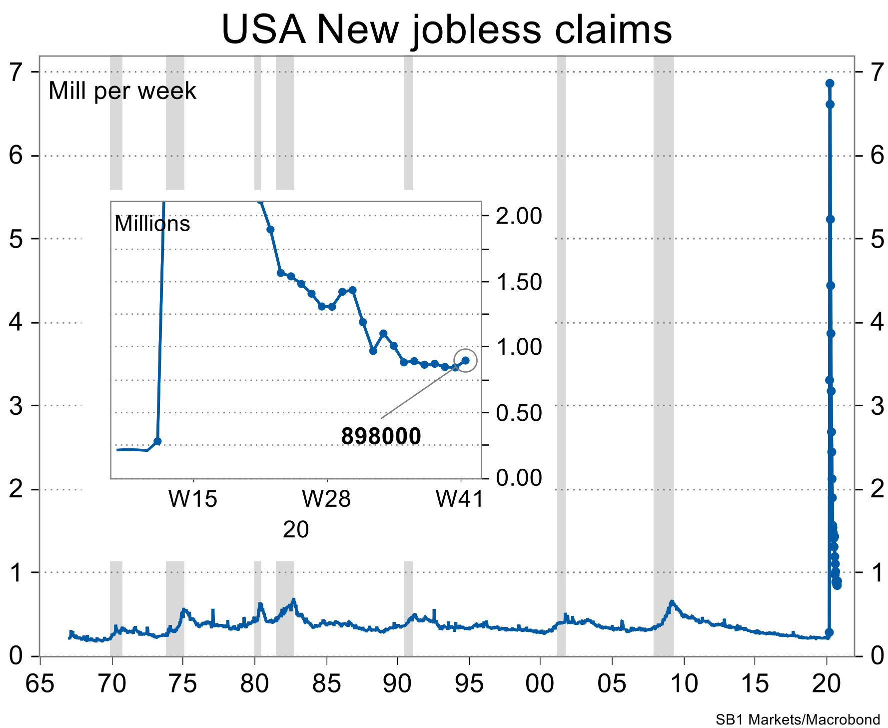
Companies are not signalling high inflation but certainly now deflation

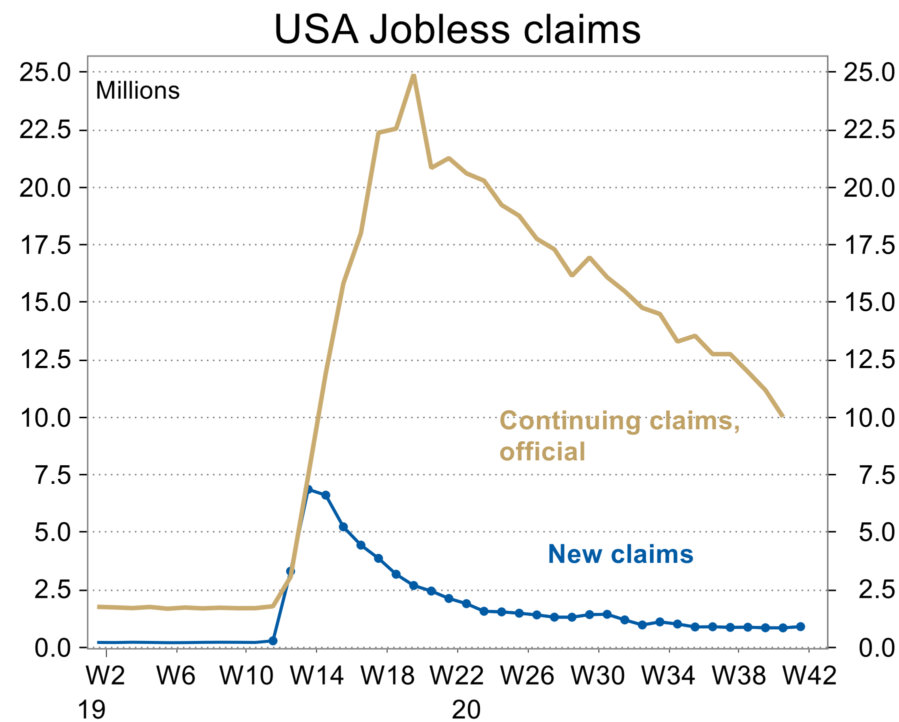




New jobless claims up last week

898' new claims last week, up from 840', breaking the downward trend. But one week is too little…

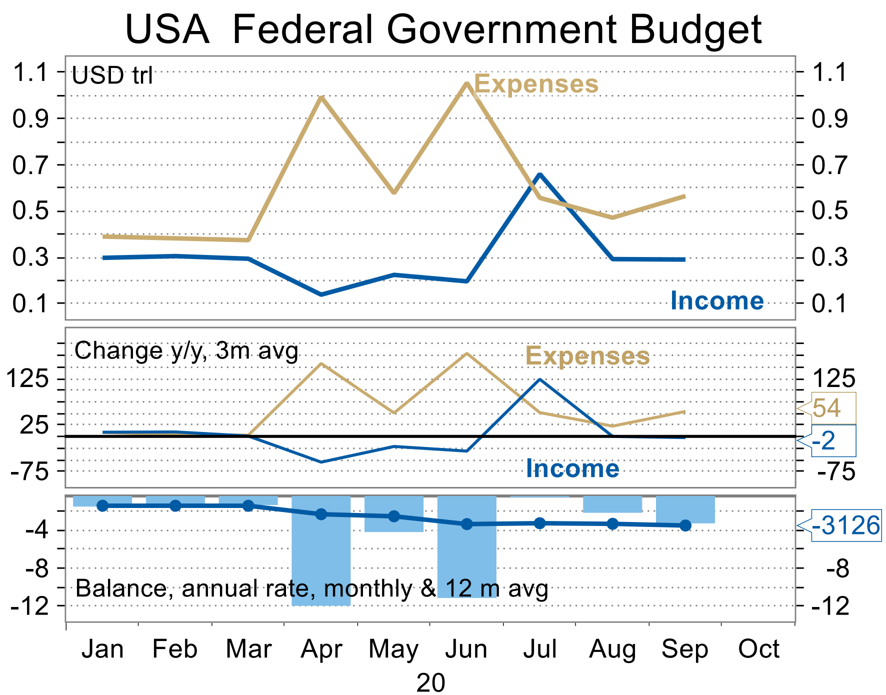


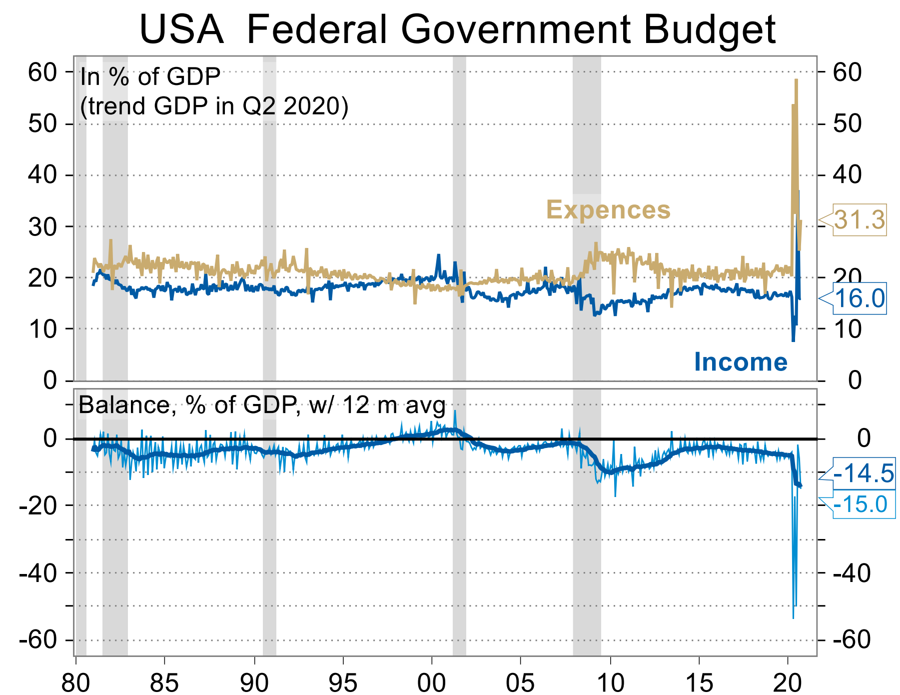


- … say something smart ☺
- The outflow (and inflow) to the ranks of employment is still brisk, confirming heavy turmoil at the labour market as 0.6% of the labour force is still turning up as newly unemployed, *each week*

Federal spending still 50% higher than normal – revenues at a normal level

So far the 12 m total deficit is USD 3.100 bn, 14.5% of GDP

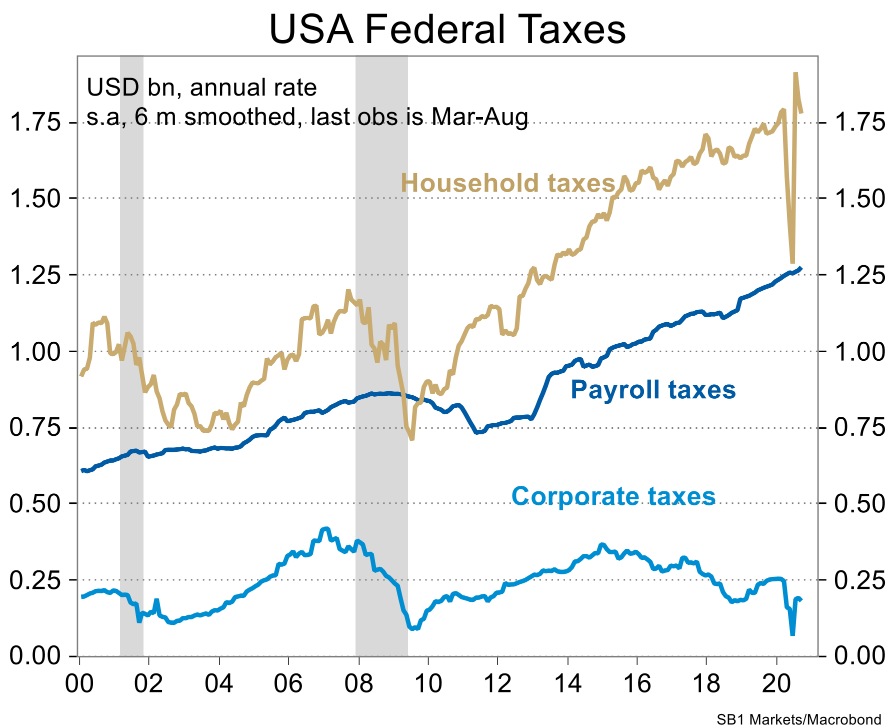


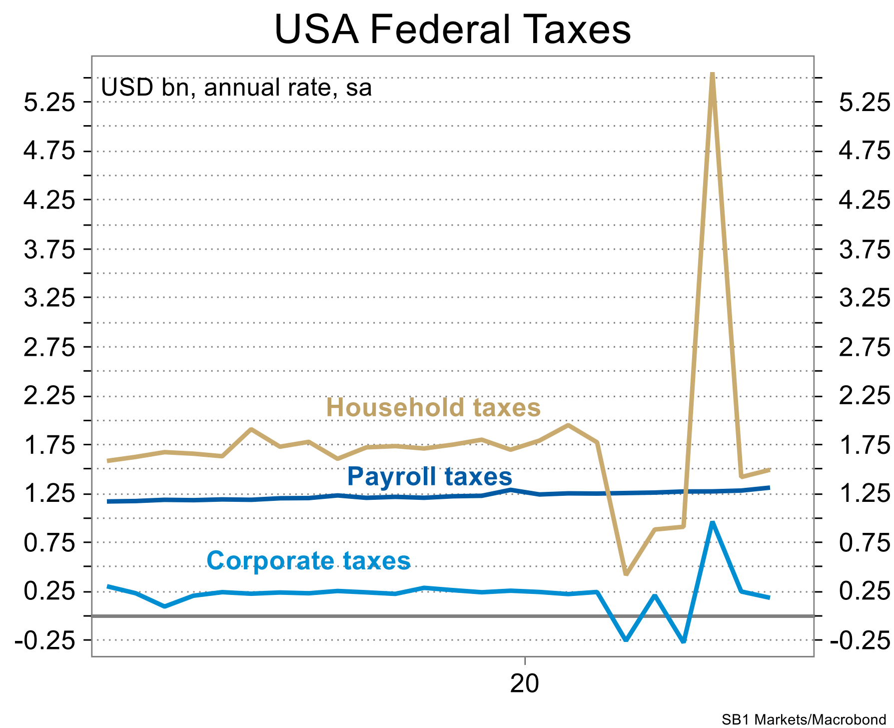


- Federal spending equal more than 30% of GDP, far higher than the 'normal' 20% (we have normalised GDP, not taking into account the 2020 slump when calculating the ratio). Revenues equals 16% GDP – and the gap is of course unprecedented
- It is not possible to know the underlying budget position (the underlying run rate now), as both expenditures and revenues are influenced by corona measures. We assume activity below par will dampen federal revenues, while outlays will not be lower than normal (and most likely higher, even if a compromise on a new stimulus package is not yet reached in Congress)

Huge ups and downs in tax payments, both from households & corporates

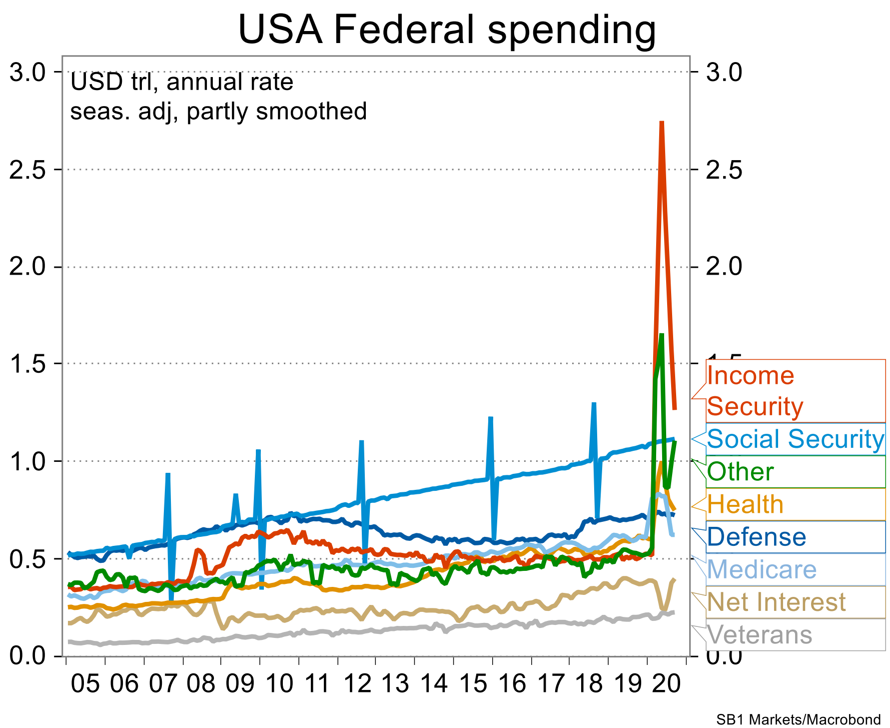
Over the corona period, corporate taxed are cut (by some 30%), household taxes are up

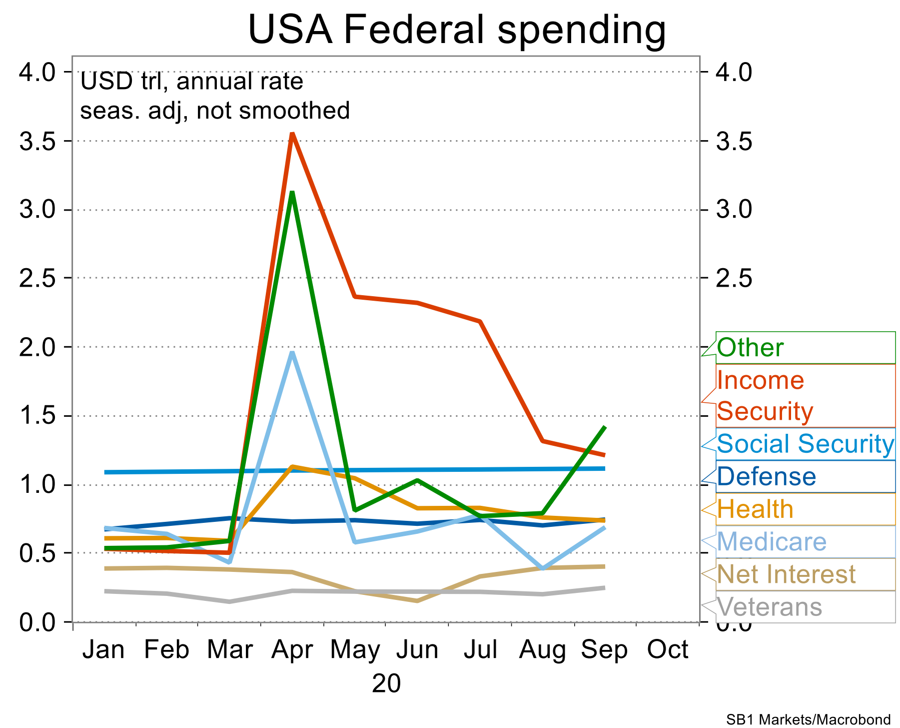




Unemployment benefits and other transfers are scaled back

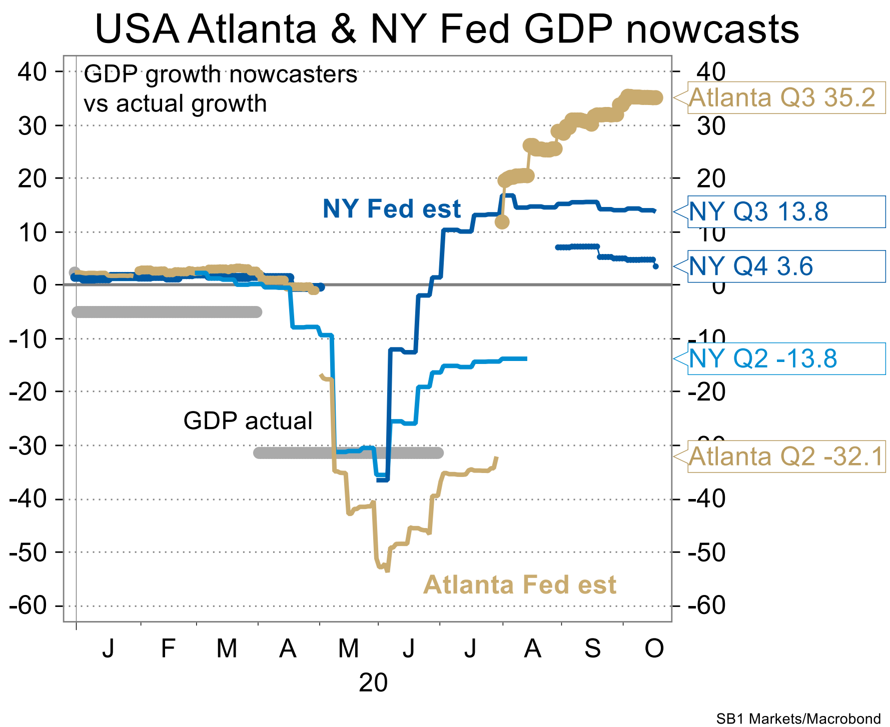
… and the a new support deal is not agreed upon

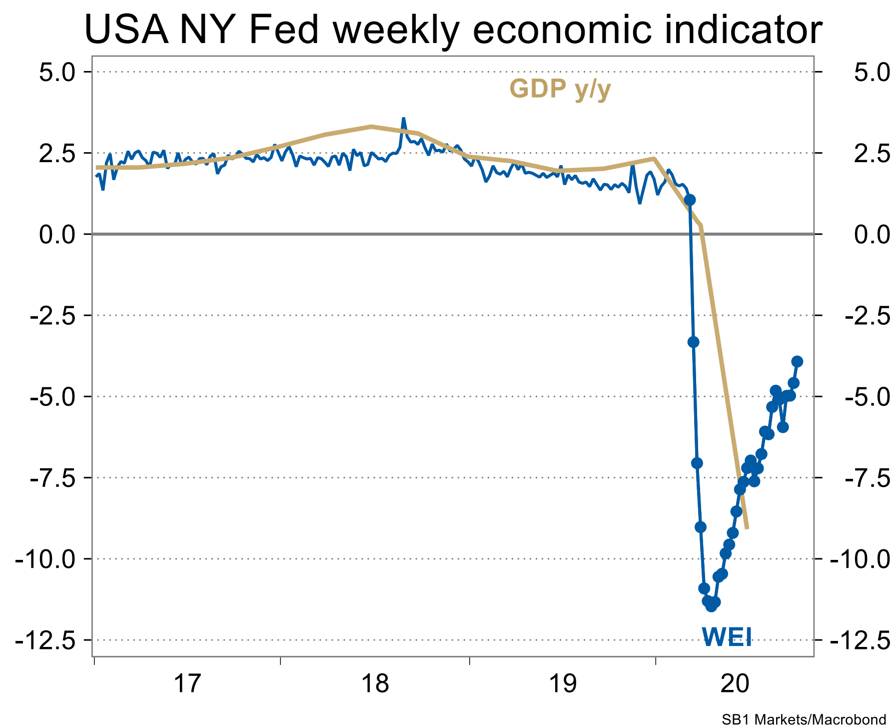




The NY Fed quarterly forcaster is off the mark – Atlanta Fed says GDP grew by 35%

And the latter is probably not that far from the mark

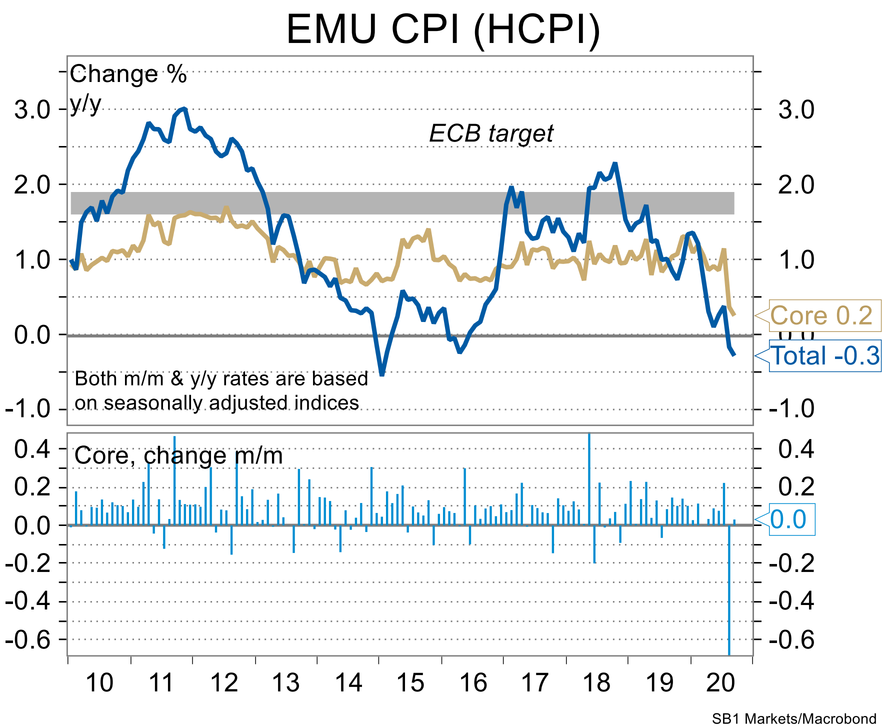


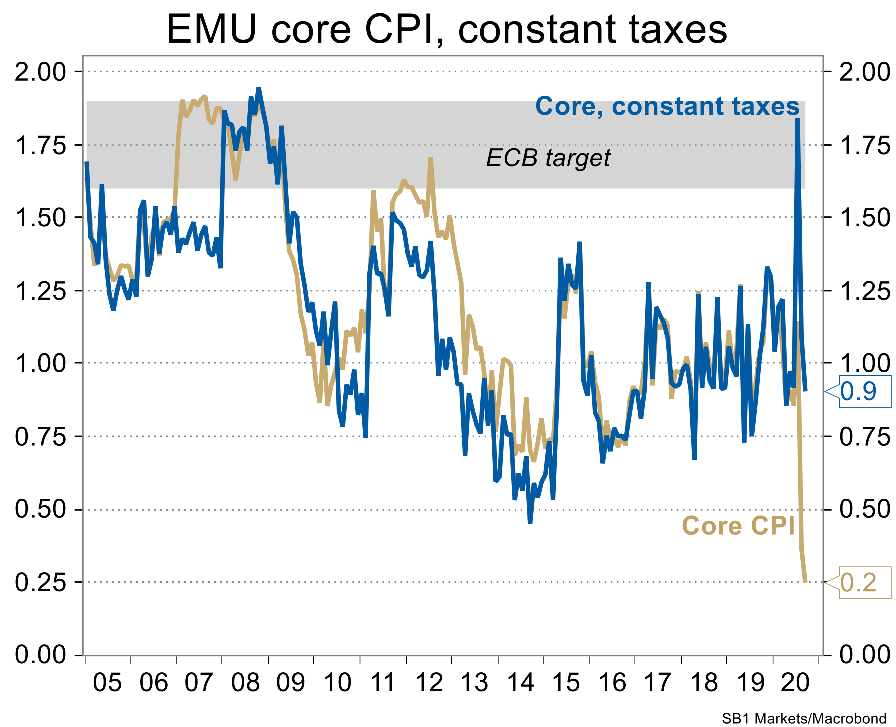


- NY Fed's weekly model signalled some 5% decline y/y in Q3, equalling a 20% growth pace q/q in Q3. We still assume growth will turn out to be somewhat better than that, but probably not as strong as Atlanta Fed's 35% forecast

Core inflation further down to ~~0.3%~~ 0.2% in Sept, total inflation -0.3%

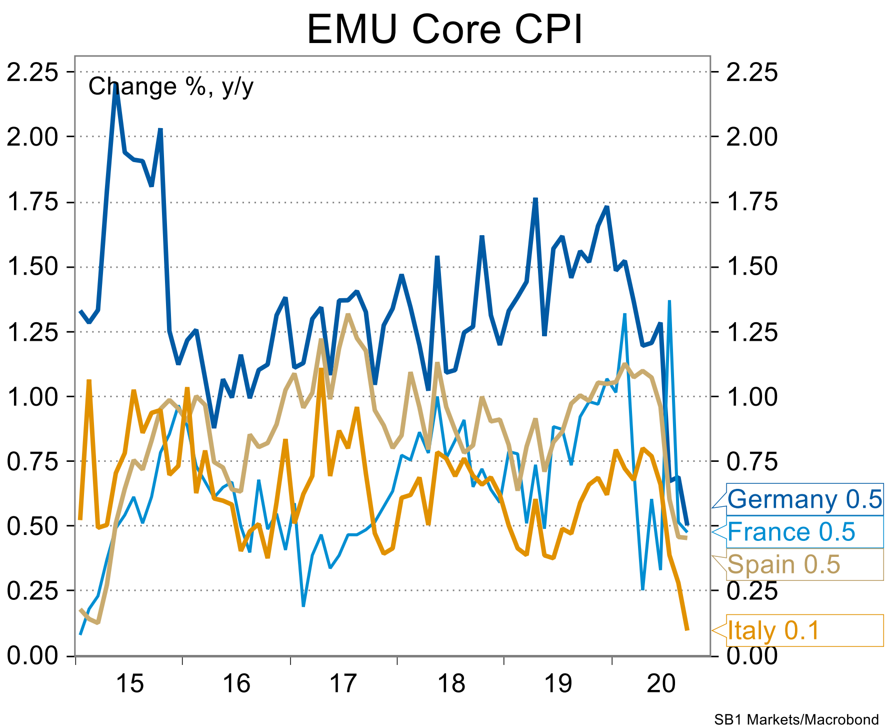
The German VAT cut has lowered EMU inflation by at least 0.7 pp, constant tax HICP at 0.9%

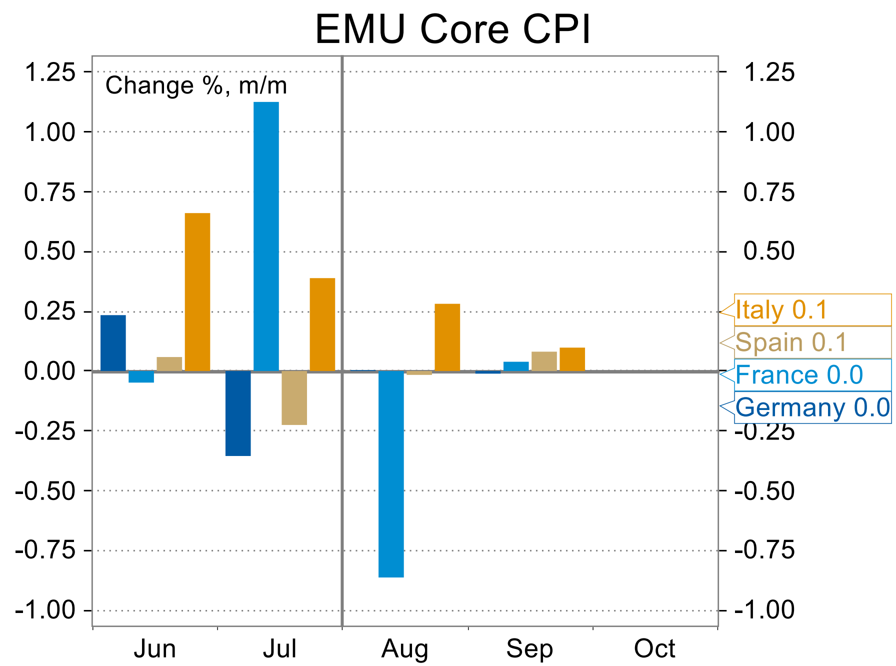




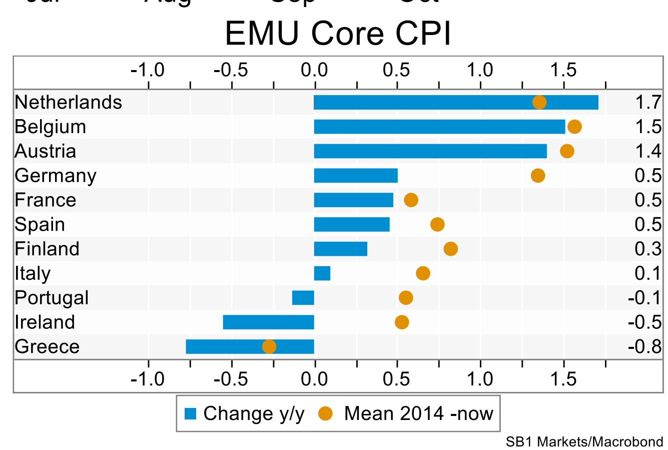
- In September, core prices were flat m/m and the annual rate fell to just 0.2%, even lower than the preliminary 0.3% estimate. Core inflation has fallen in all the major countries. However, the German VAT cut partly explain the slowdown in EMU inflation. The core, constant taxes CPI came in at 0.9% in, thus, explaining 0.7 pp of the decline in core inflation, before taxes
- Energy prices have taken the total CPI down – and the headline HICP was down 0.3% y/y in September. *Good news for European households, and their purchasing power*

Core inflation is low everywhere, Germany and Italy have slowed the most



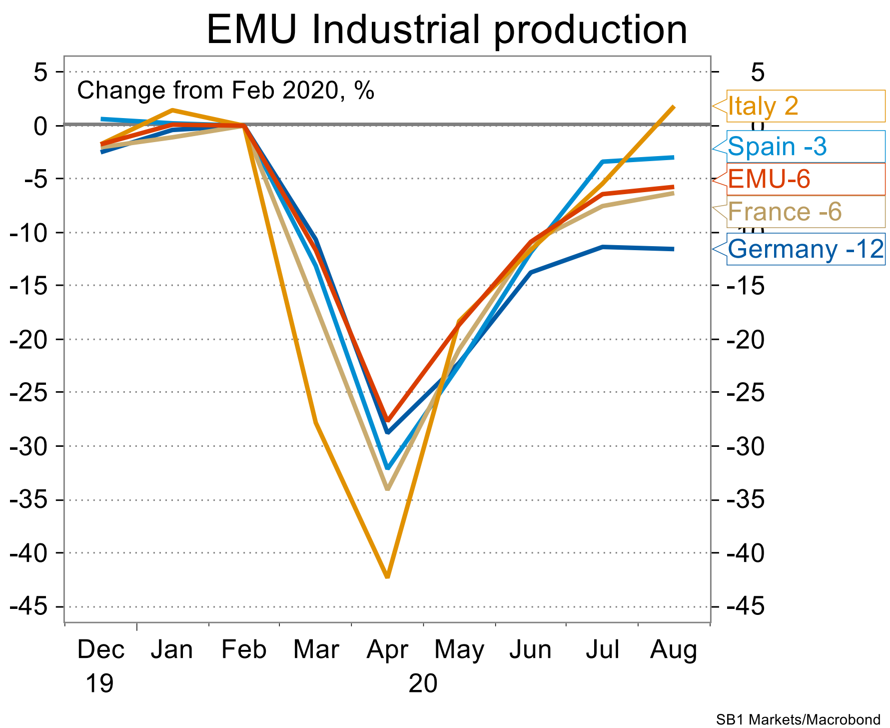


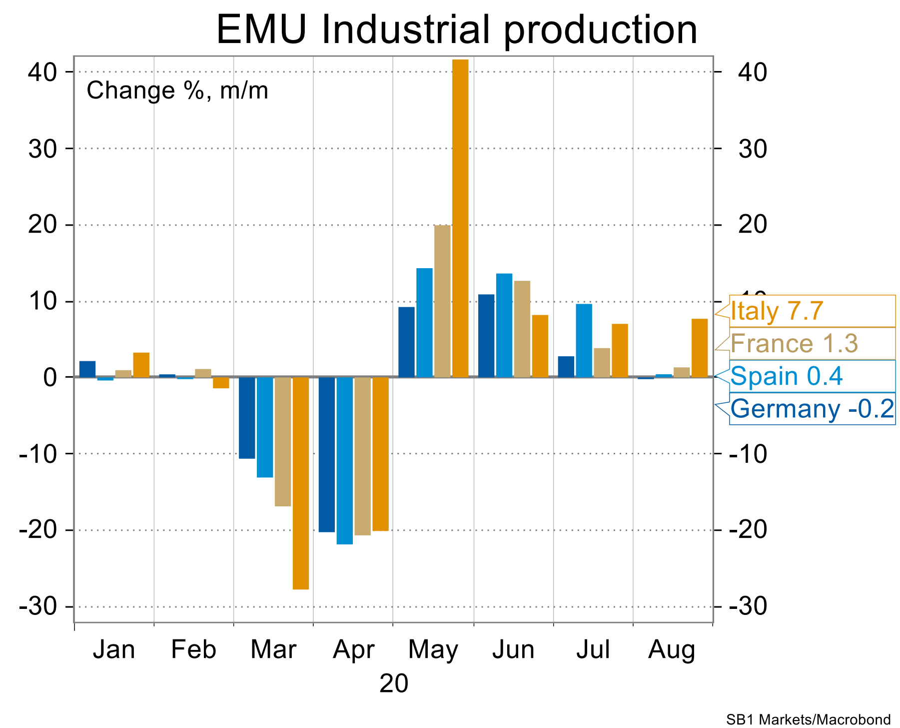
- Greece has fallen into deflation again – and prices are not higher than in 2010 (and core since ’08)



Manufacturing further +1% in Aug, still 6% below Feb. Italy +2, Germany -12%

The 1% lift was as expected, all main countries had reported last week

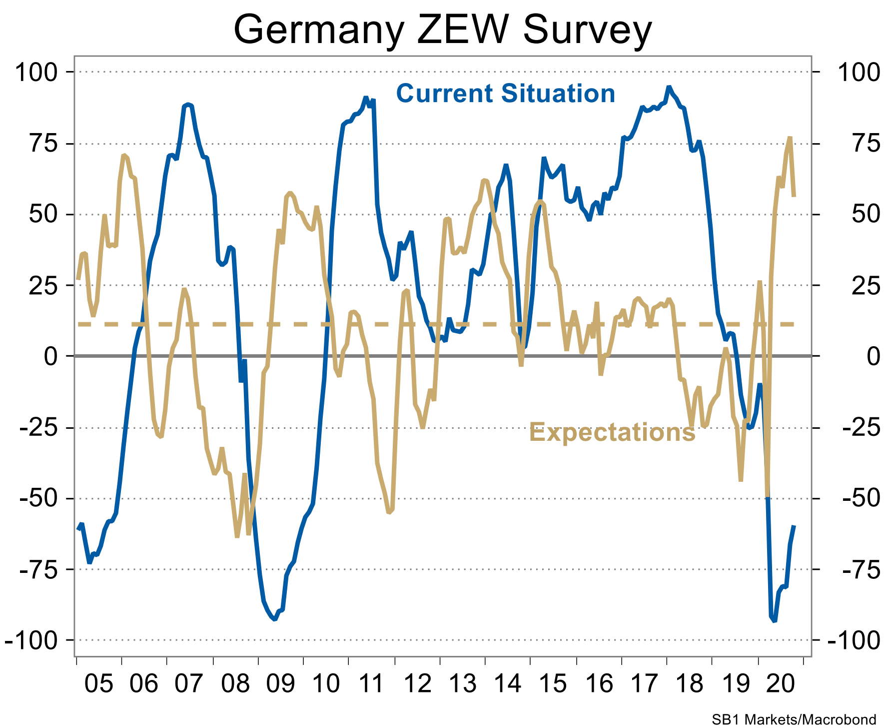


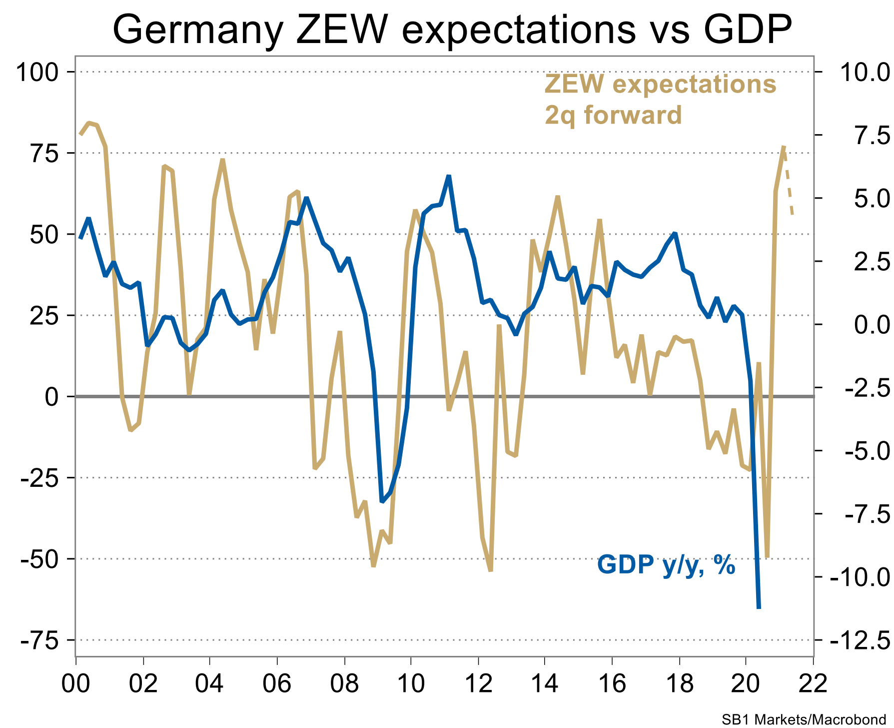


- Italy reported a 7.7% growth m/m in August, and the production level is 2% above the February level
- Germany is still 12% below – but production fell less during the spring, and the accumulated loss vs. the starting level is still lower in Germany than in Italy

ZEW expectations down but still unusually high. The current sit. less worse

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



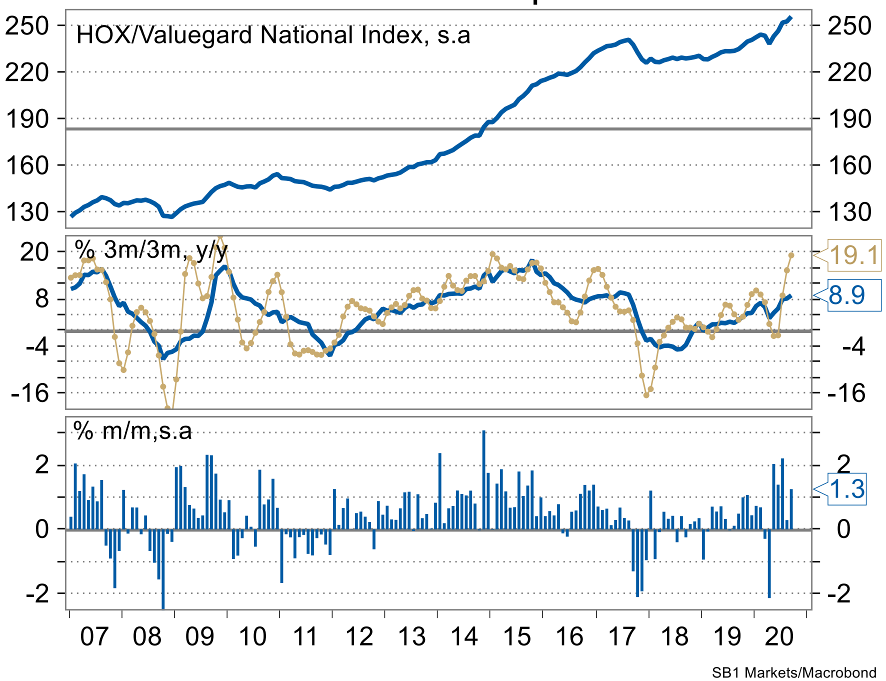


- The ZEW expectation index climbed fell in October, and much more than expected (to 56 from 77, expected 74). The level is still unusually high.
  - » Investors and analysts are just pretty sure that the economy will not remain in the basement (or below) forever. Which is reasonable
  - » We doubt it is smart to translate the ZEW index to a GDP growth rate. Germany will report a negative y/y growth rate in Q3 but an extremely high q/q rate
- The view of the current situation remains very weak – but still better than during the spring

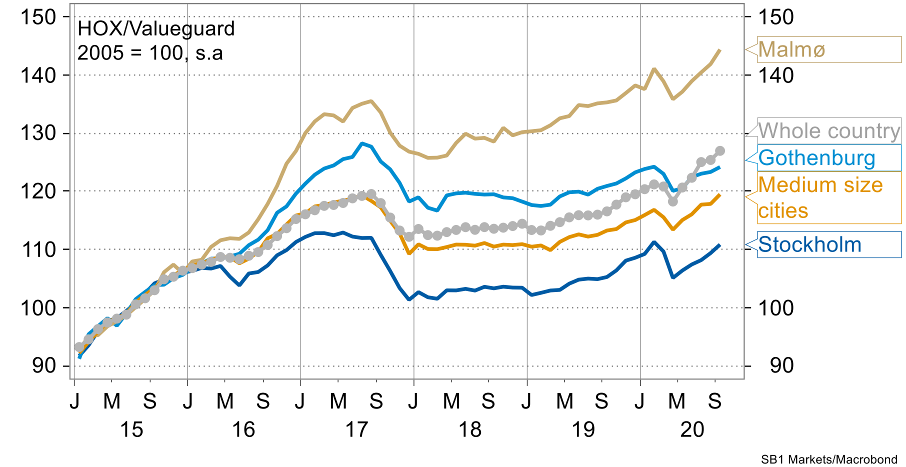
Swedish house prices are surging too

National prices up 1.3% m/m in Sept, prices are more than 3% higher than before corona

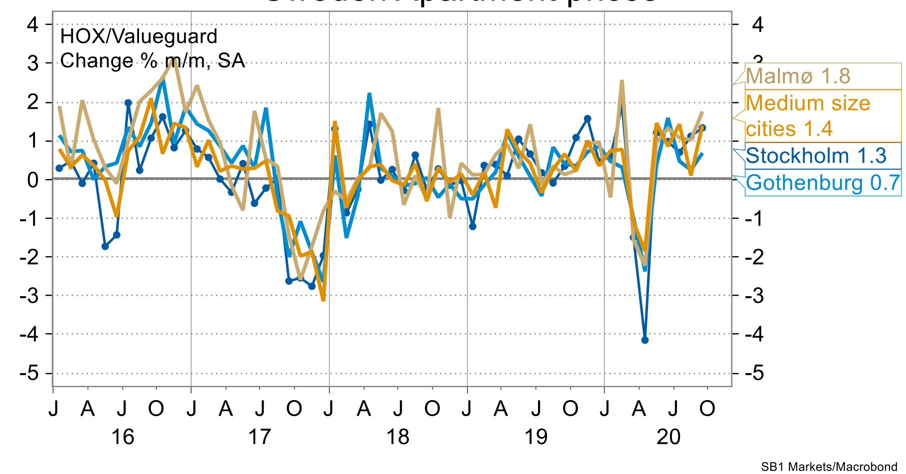
Sweden Home prices



Sweden Apartment prices



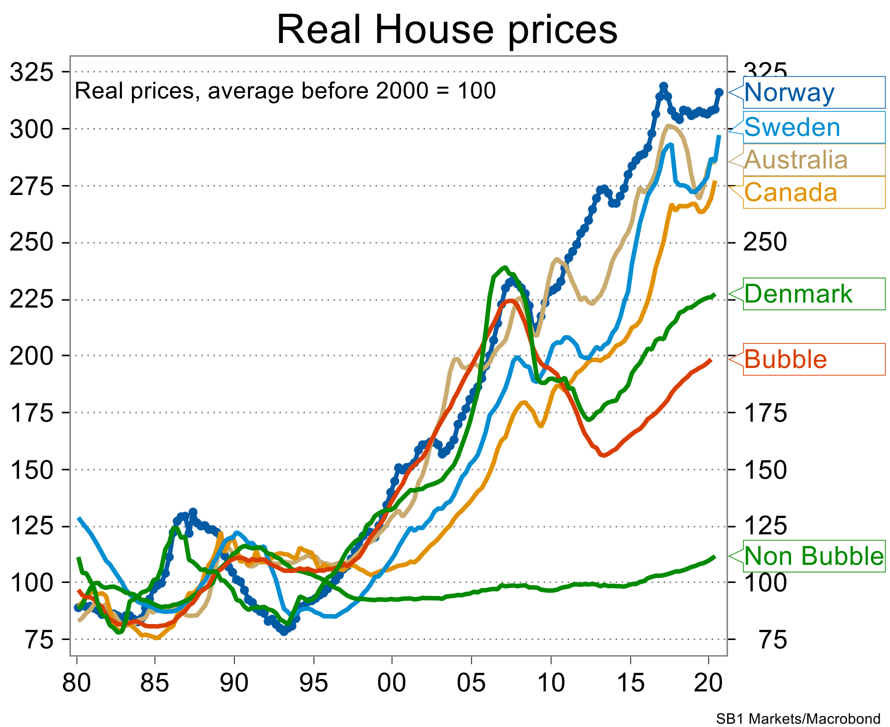
Sweden Apartment prices

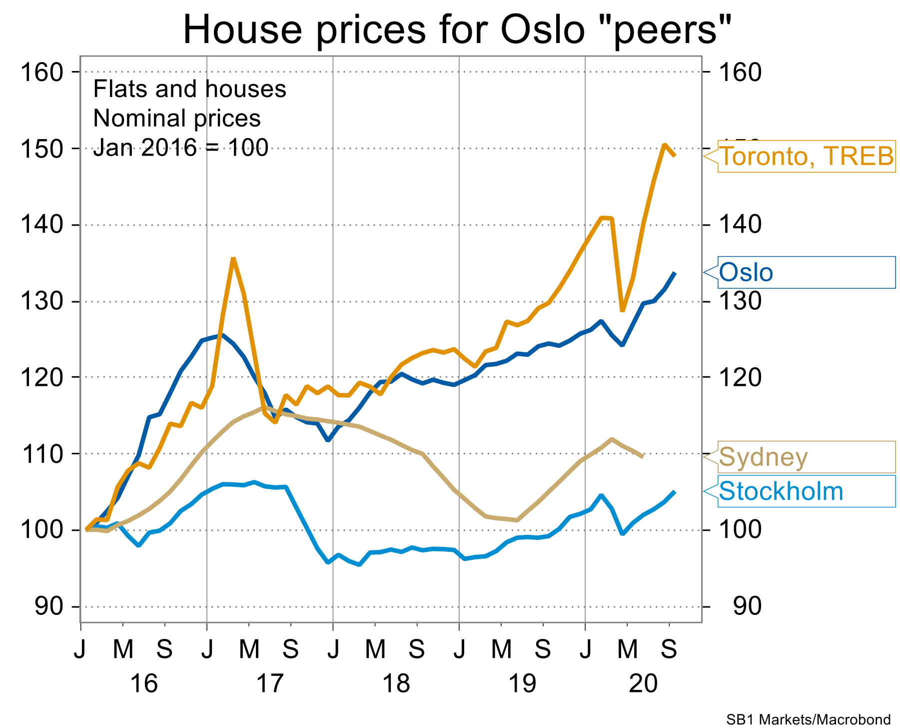


- In total, prices are above the level from before corona. The 3m/3m growth pace is at almost 20%!
- Prices are now increasing in all the major cities. However, in Stockholm and Gothenburg prices are still below the February level. In Malmø as well as in medium sized cities, prices are well above the Feb level

Here we go again…

Prices are soaring in many countries now – with the ‘supercycle’ countries in the lead

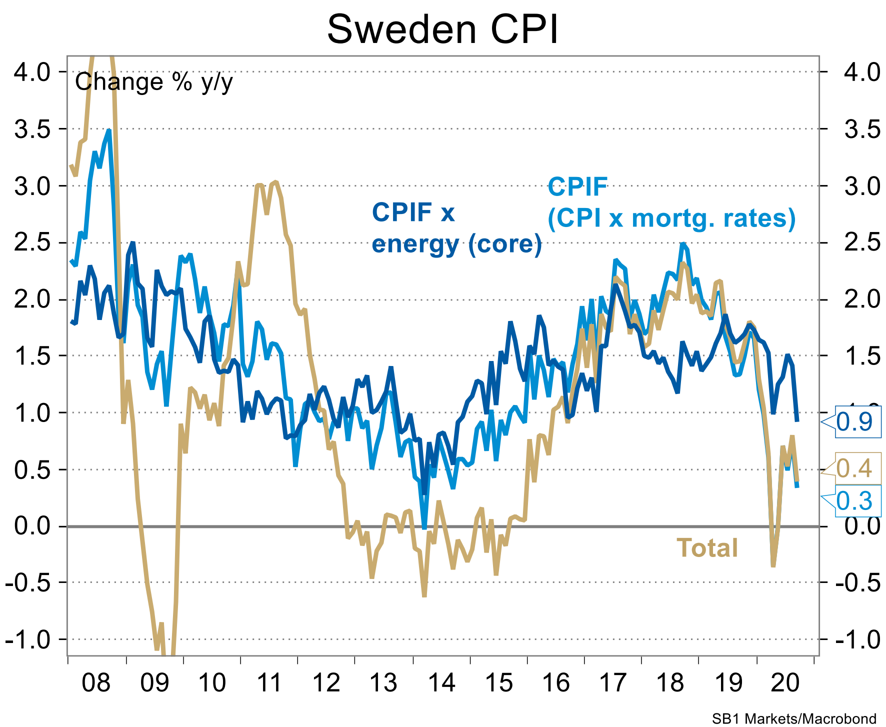


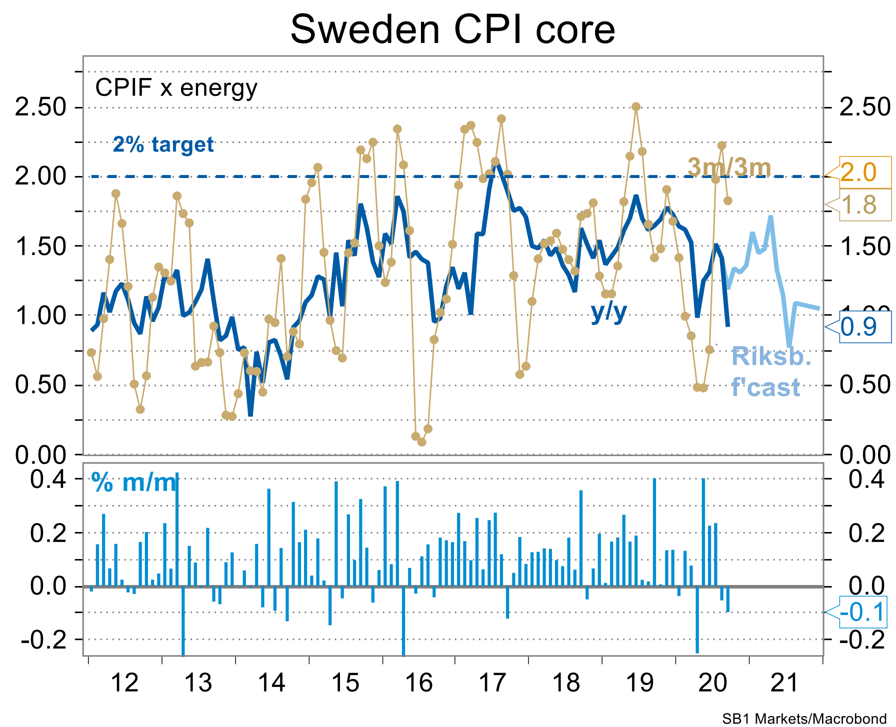


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden

Core inflation down to 0.9% in September

Core CPIF (core, ex energy) inflation is far below the inflation target

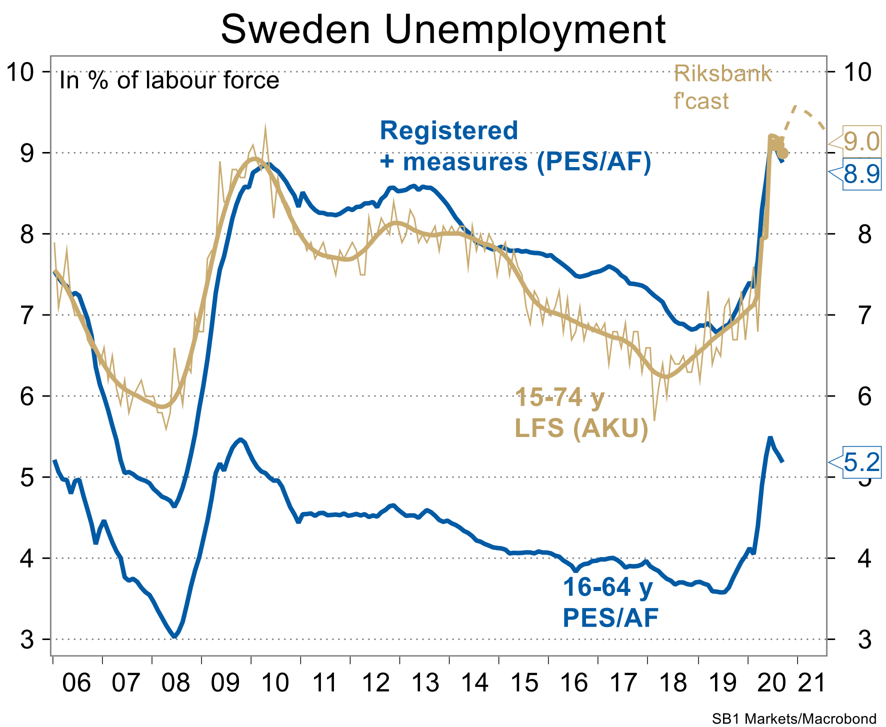


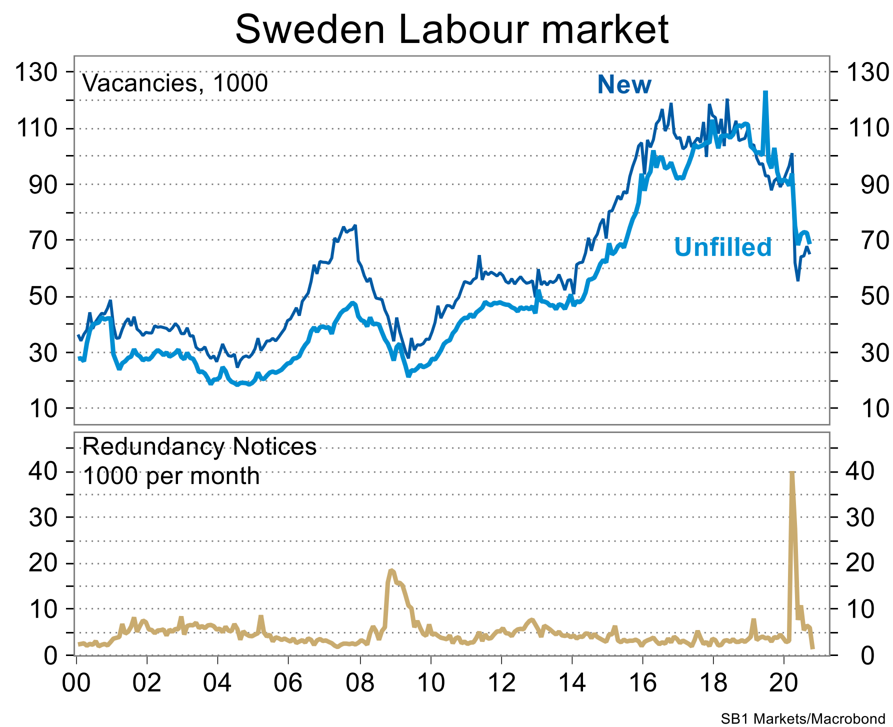


- Several sectors contributed to the decline in the annual growth rate in September. Charter travel prices fell sharply, as in Norway

Unemployment marginally down from peak, employment recovers

Registered open unemployment (+measures) a tad down to 8.9%, LFS to 9.0%

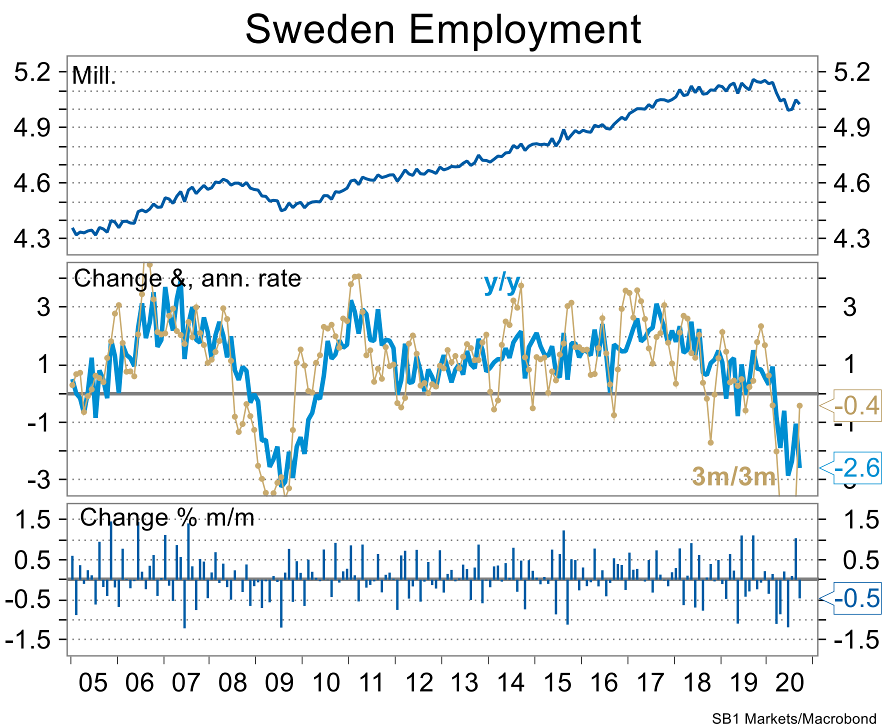


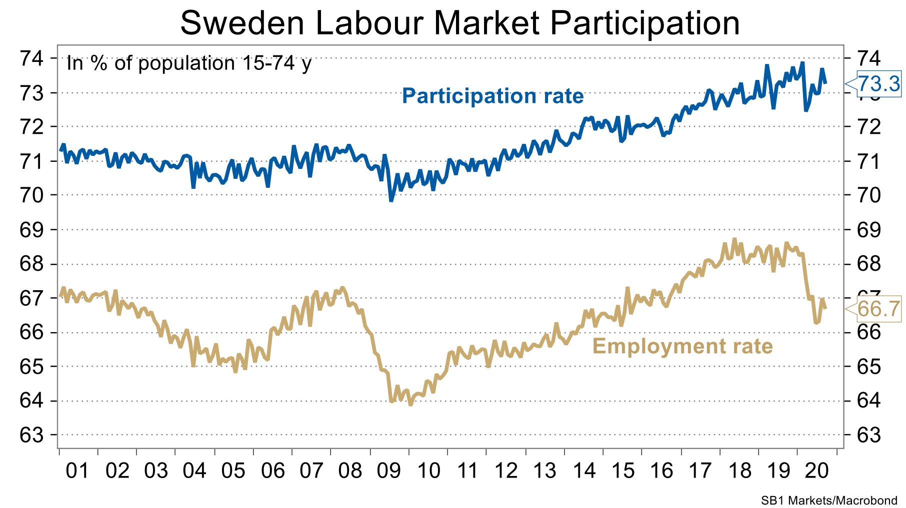


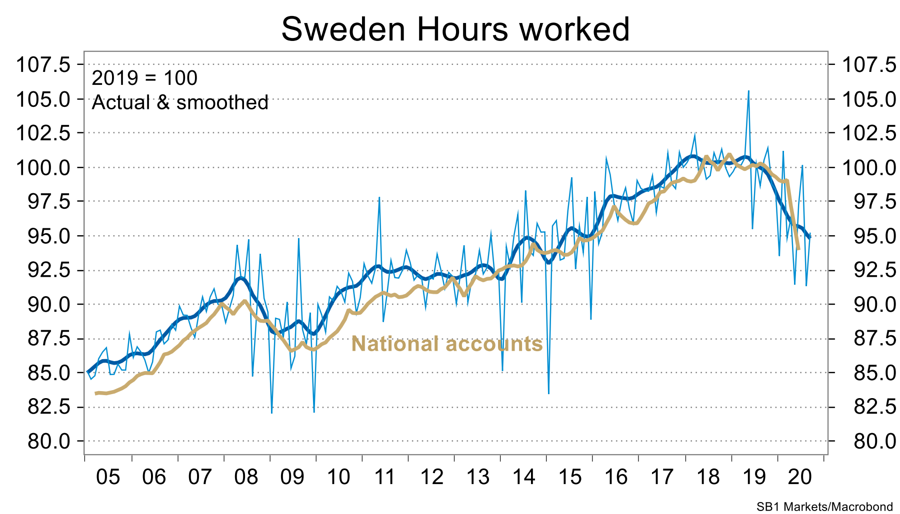
- Sweden has less furlough schemes, and less measures to subsidise employers to keep workers at job, and the unemployment rate is not comparable to other countries (like between most countries these days). Unemployment has anyway peaked and will most likely slide down the coming months as activity returns in more sectors
- Registered unemployment has inched down past two monts, to 8.9% incl. labour market measures in September – still up from 7.3% in February)
- LFS unemployment fell by 0.1 pp to 9.0% in September
- The number of unfilled vacancies has fallen sharply but the level is not very low. Redundancies back to a low level

Employment a tad down in Sept, less the Aug lift

Employment is down 2½% y/y, but hours worked is down some 5% - the real corona toll







SpareBank 1 MARKETS

Highlights

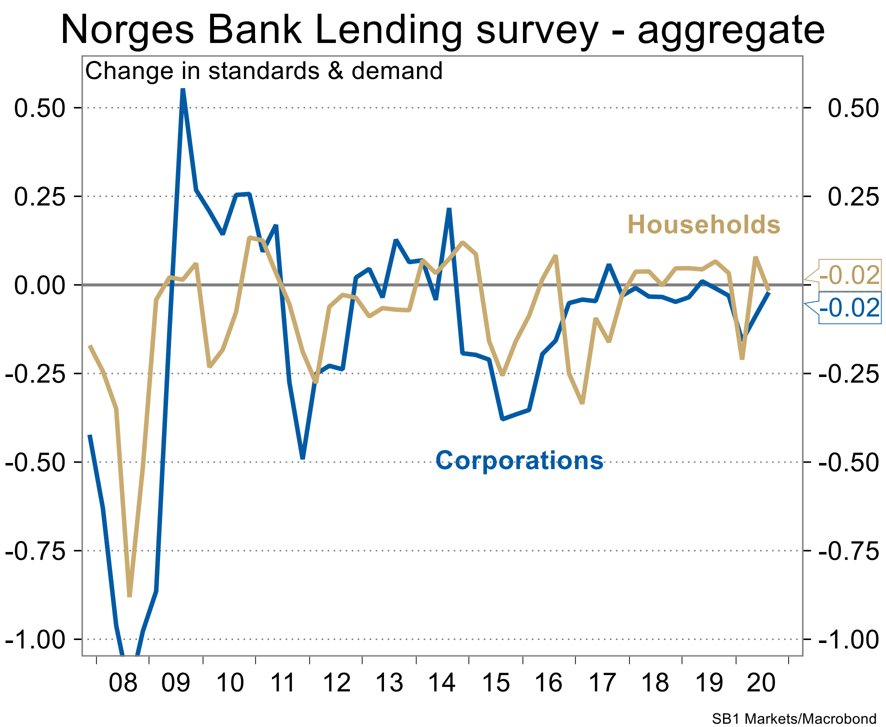
The world around us

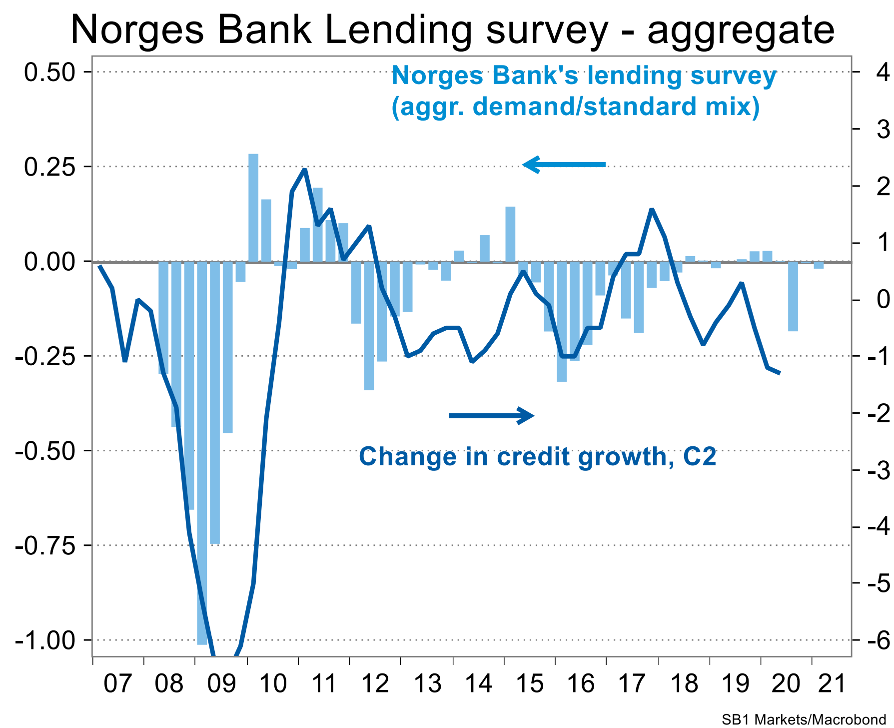
The Norwegian economy

Market charts & comments

A flattish Q3 bank lending survey – but will banks turn out to be right?

NoBa's Q3/Q4 survey signal lower demand than normal from both households and businesses



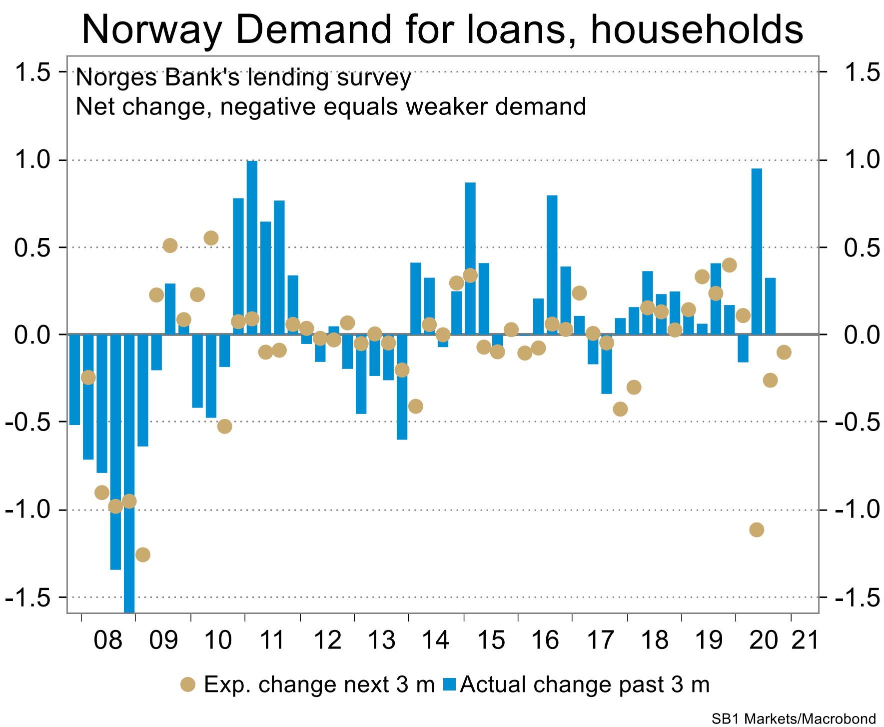


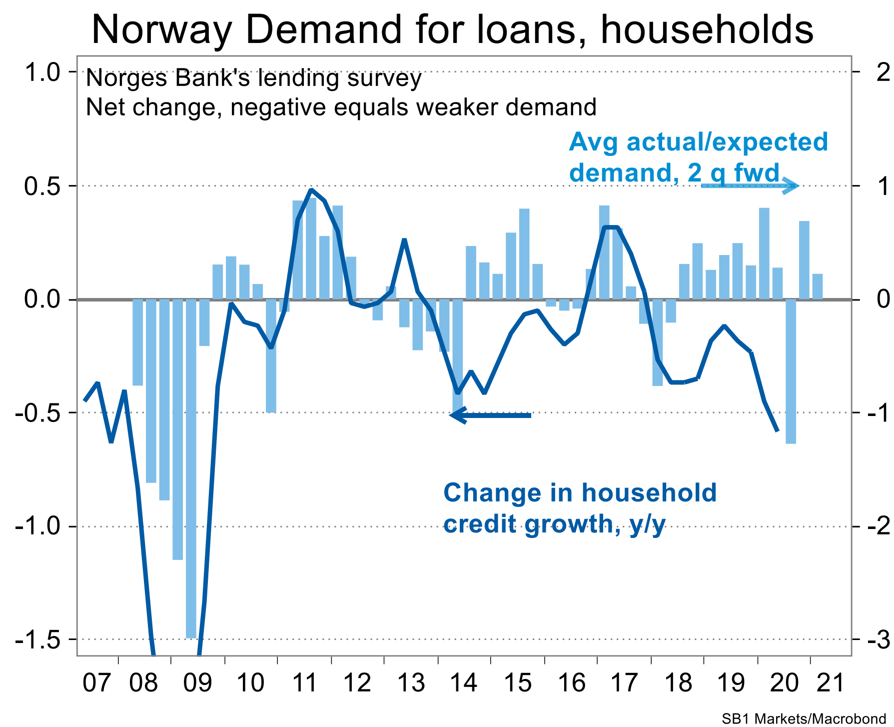
- We expected banks to report stronger demand from households and weaker demand from the business sector
- The only important (and expected) message was an expected tightening of credit standards vs. households as the original mortgage lending regulations were re-established in Q4, following the temporary easing in Q2 and Q3

Data in this section are seasonally adjusted

Banks expect slow growth in household demand for loans in Q4

In Q3, demand was somewhat stronger than normal, even if banks expected a slowdown





- There is not any tight correlation between banks' expectations for household demand for credit or their assessment of actual growth and the realised growth in households credit. In Q2, the banks were totally wrong (as most others)
  - » Still, the lending survey probably tells the sentiment among bankers pretty well
- Banks' are now expecting a modest slowdown in household demand in Q4. *We are not so sure*

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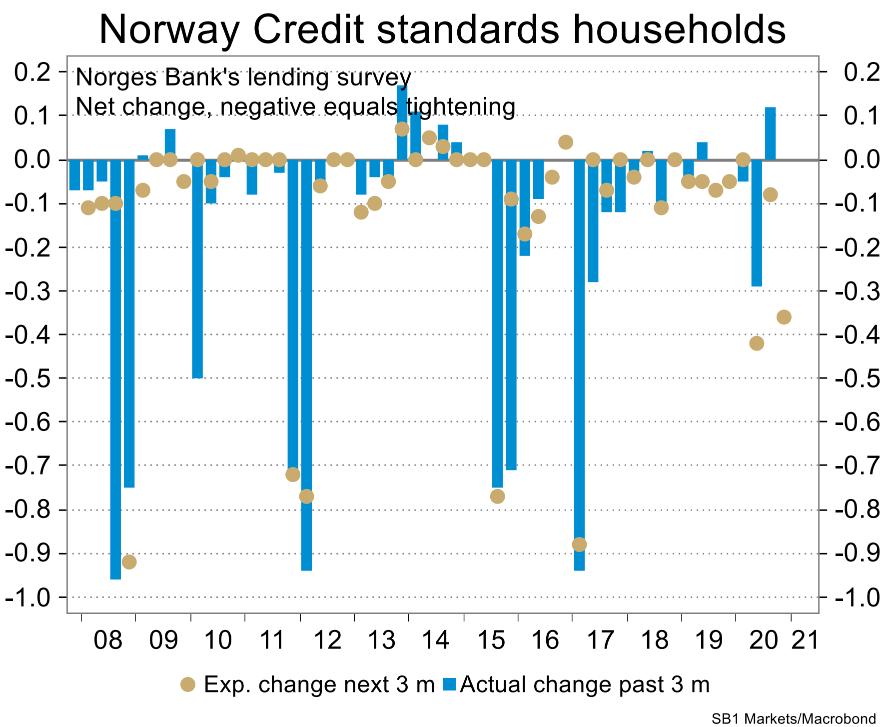
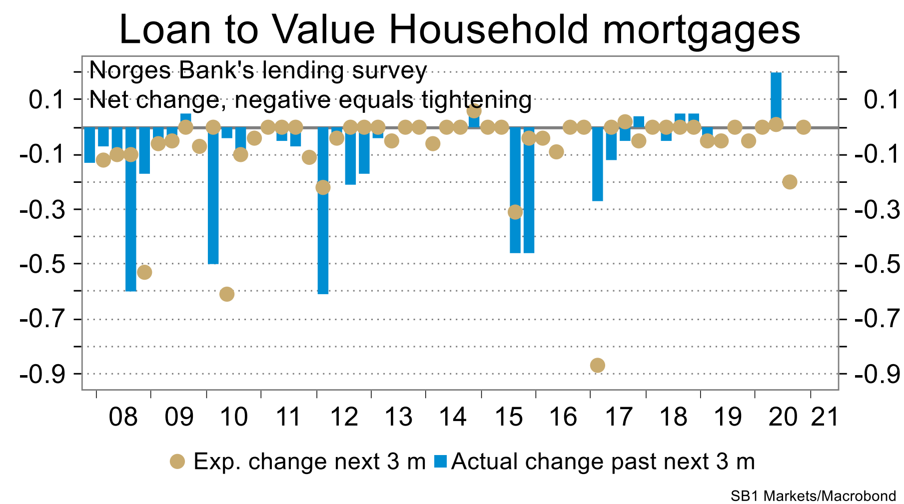
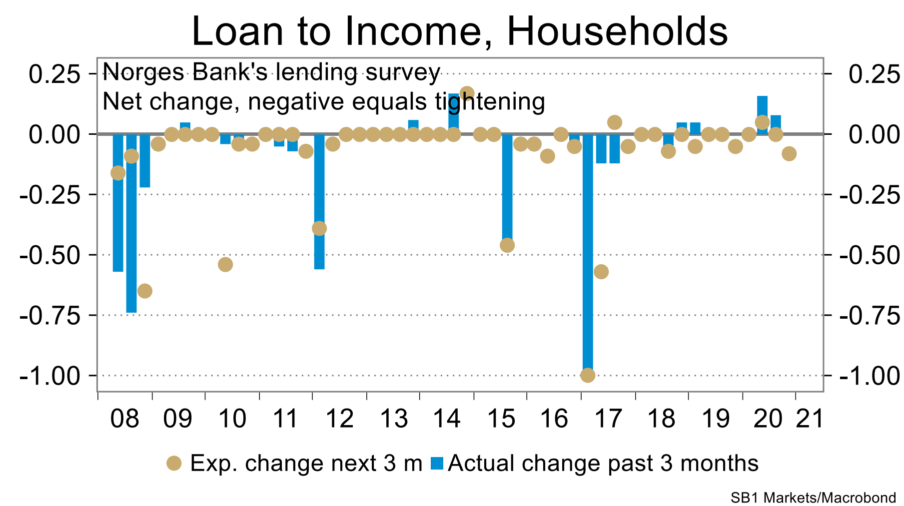
Banks will tightened lending standards in Q4, they say. But LTV and LTI unch…

The aggregate credit standard index signals tightening but no changes in LTV or LTI



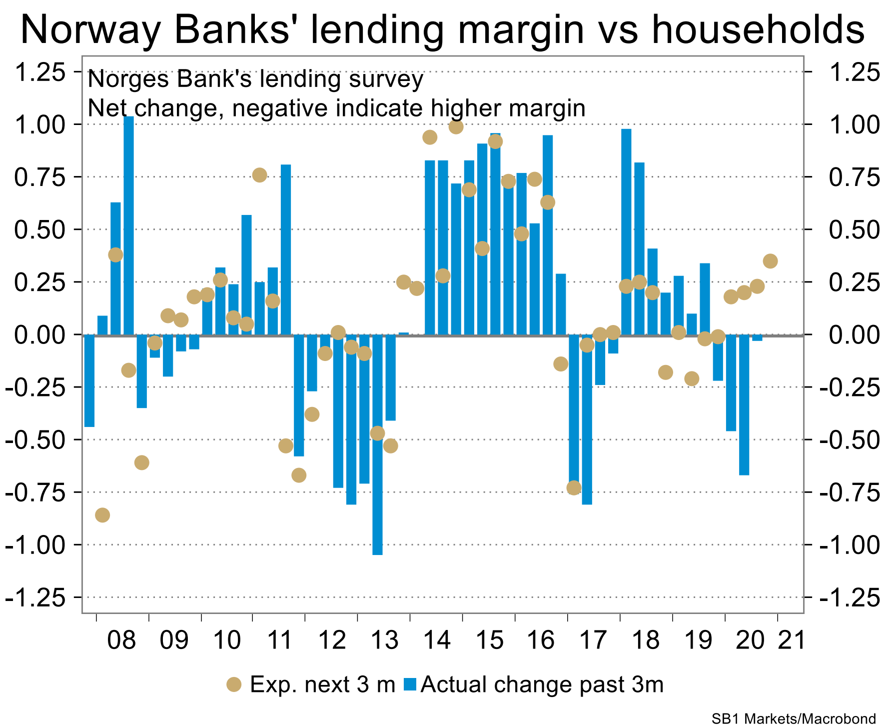


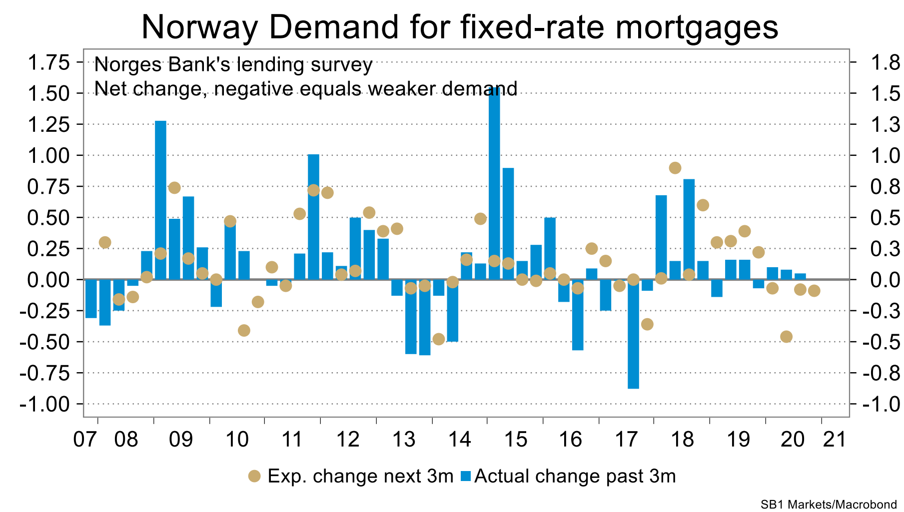


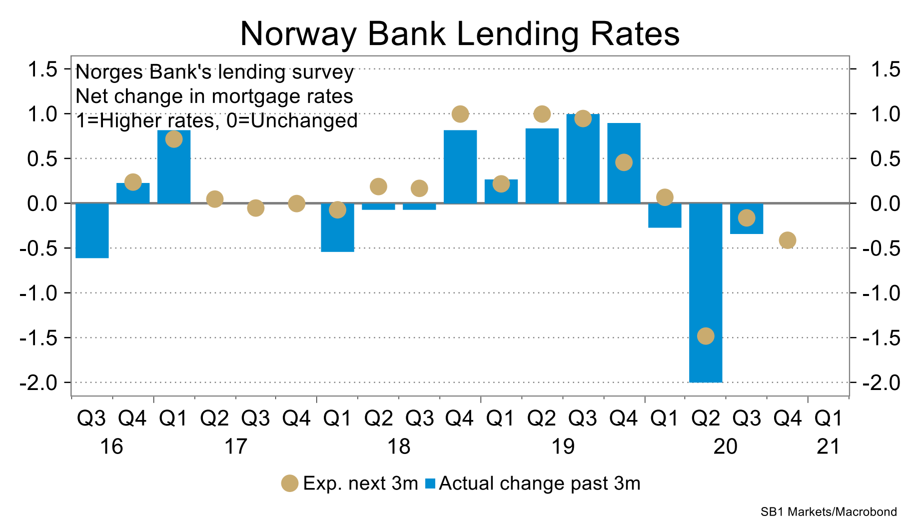
- As the temporary easing in lending standards were skipped in Q4, some tightening seems reasonable (but banks are not planning to tighten neither Loan To Value standards or Loan To Income standards)

Banks expect to cut their mortgage rates, lower lending margins

Margins have been widening the past 4 quarters, the banks report



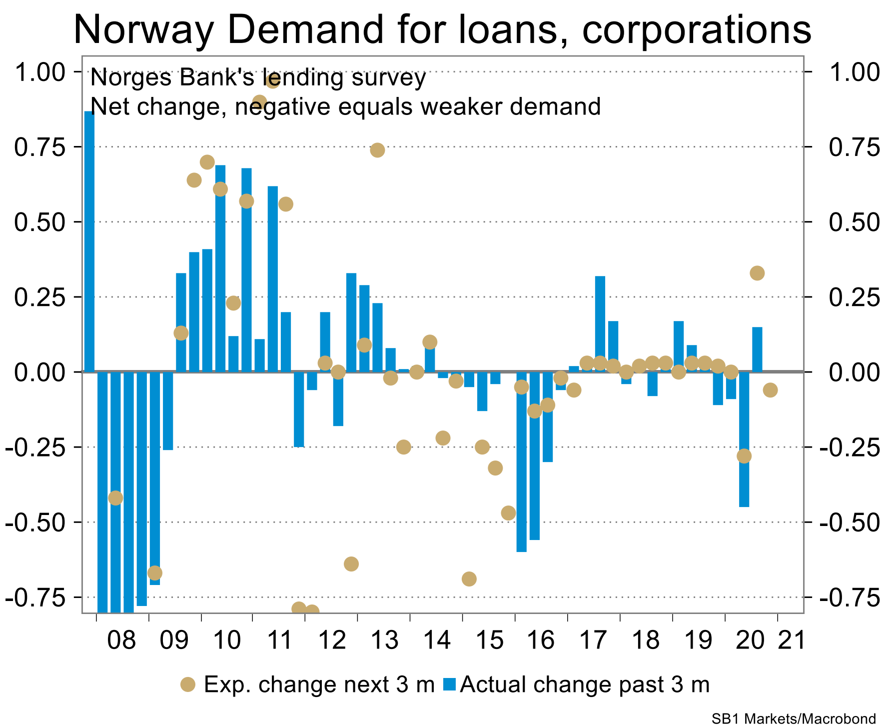


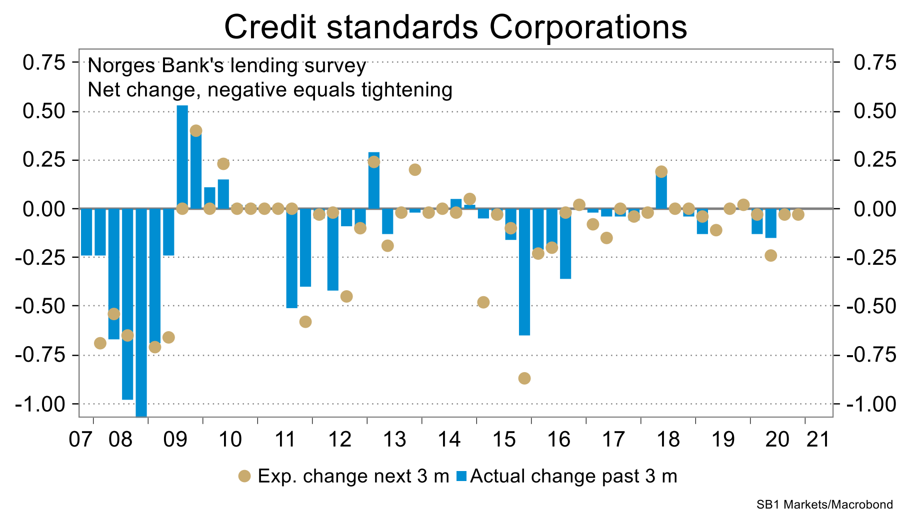


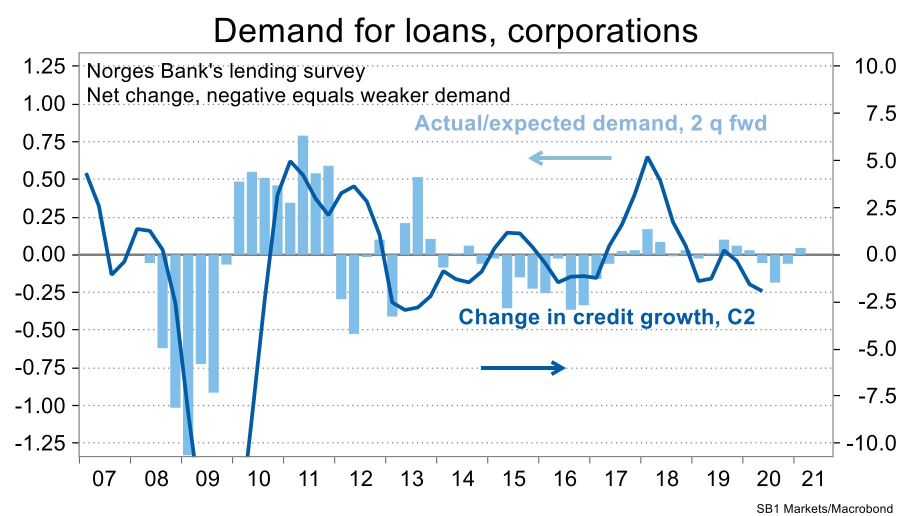
- No demand for fixed-rate mortgages, of course

Banks expect close to normal growth in demand for loans from businesses

Demand rose in Q3, but less than expected. No changes in credit standards







- We expected banks to report a slowdown in loan demand from the business sector – but so far the decline in investments has not reduced demand for credit

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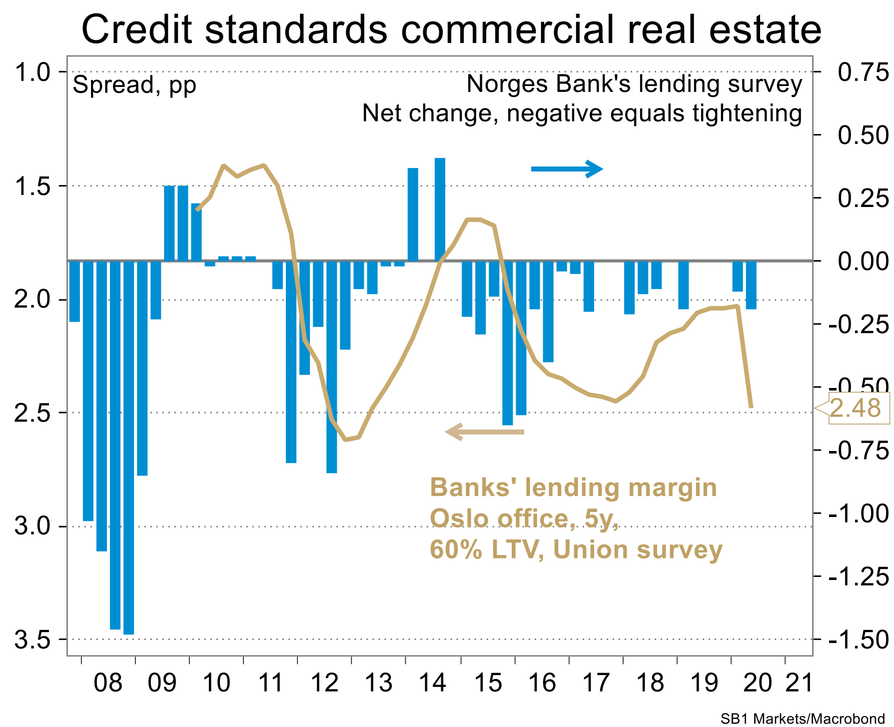
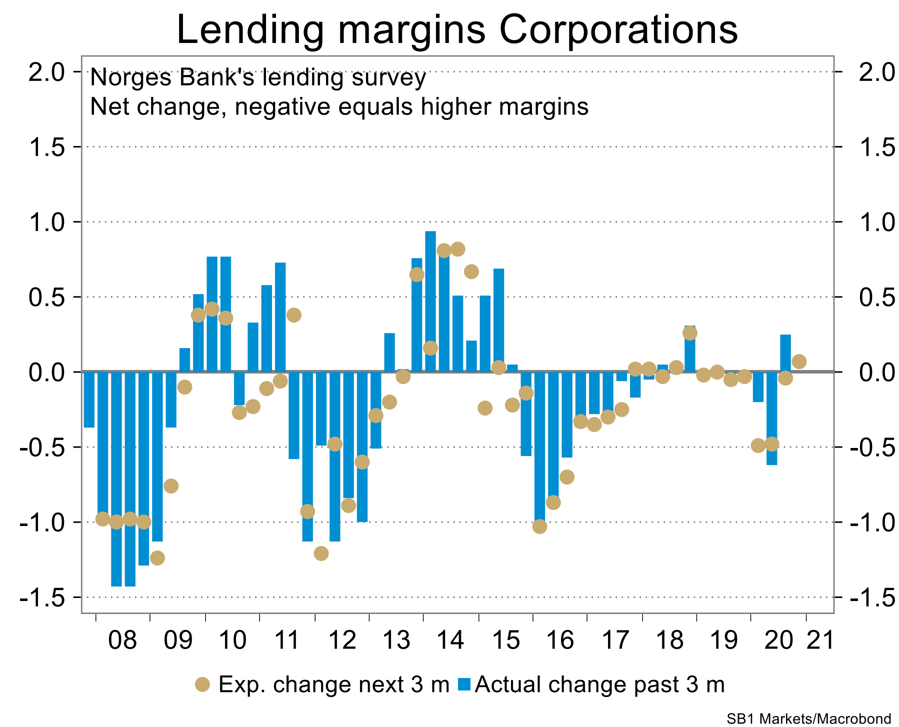
Real estate loan standards are tightened somewhat, margins down

However, banks signal no further margin narrowing in Q3

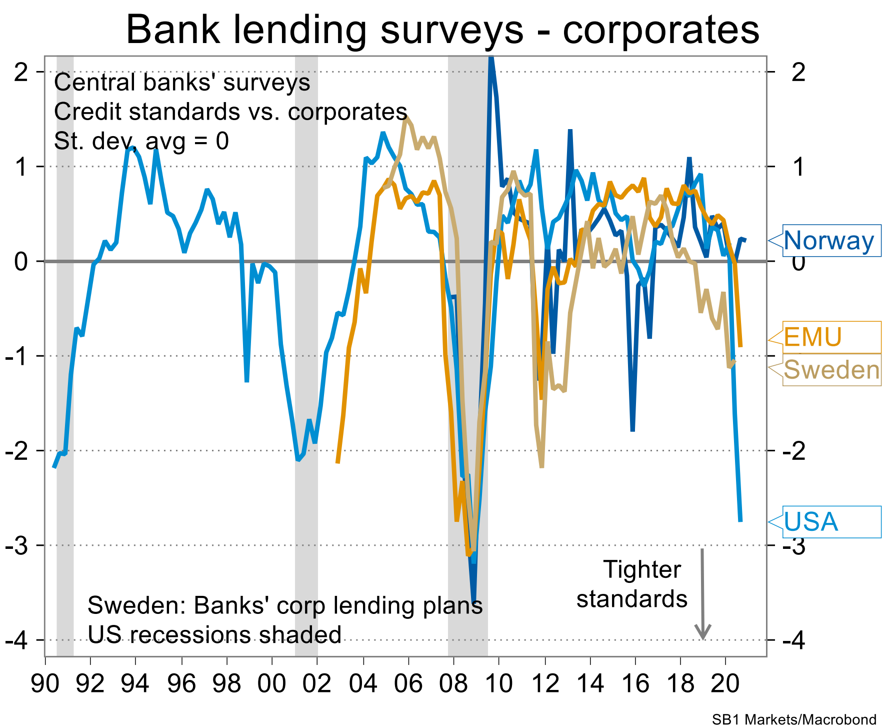


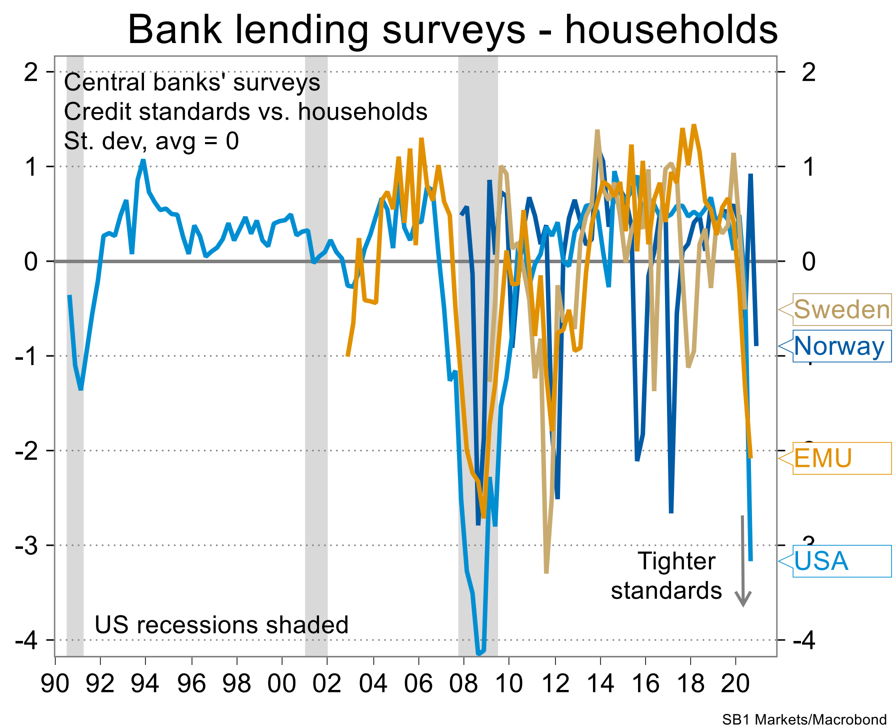


- We expected banks to signal an expected spread narrowing following the an almost 50 bps increase to 2.48% in Q2

Global view: What will banks do now? Tighten, most in the US

Norwegian banks are outliers, at least vs the corporate sector, according to bank surveys

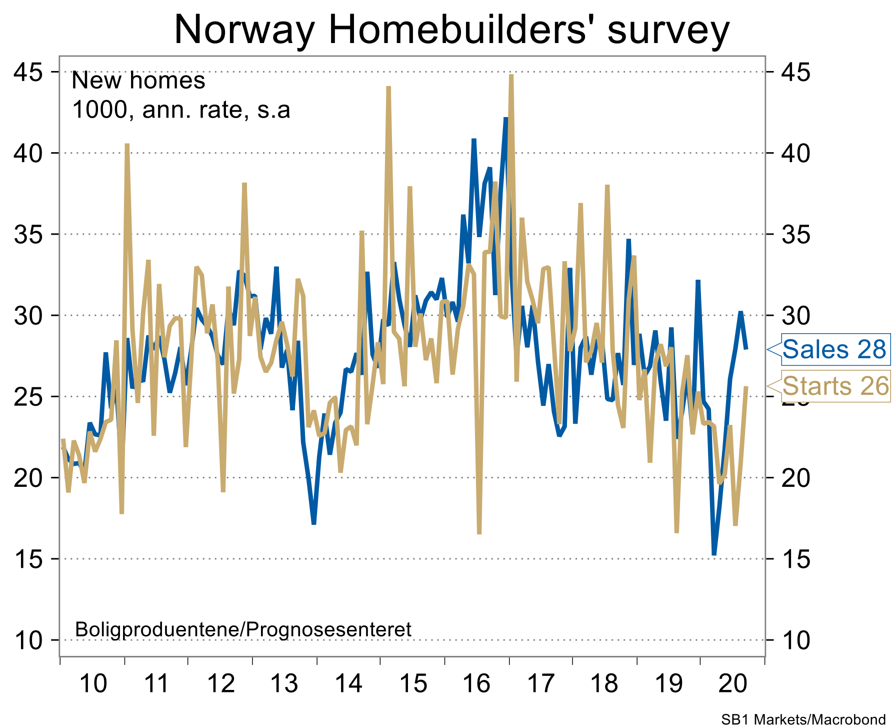


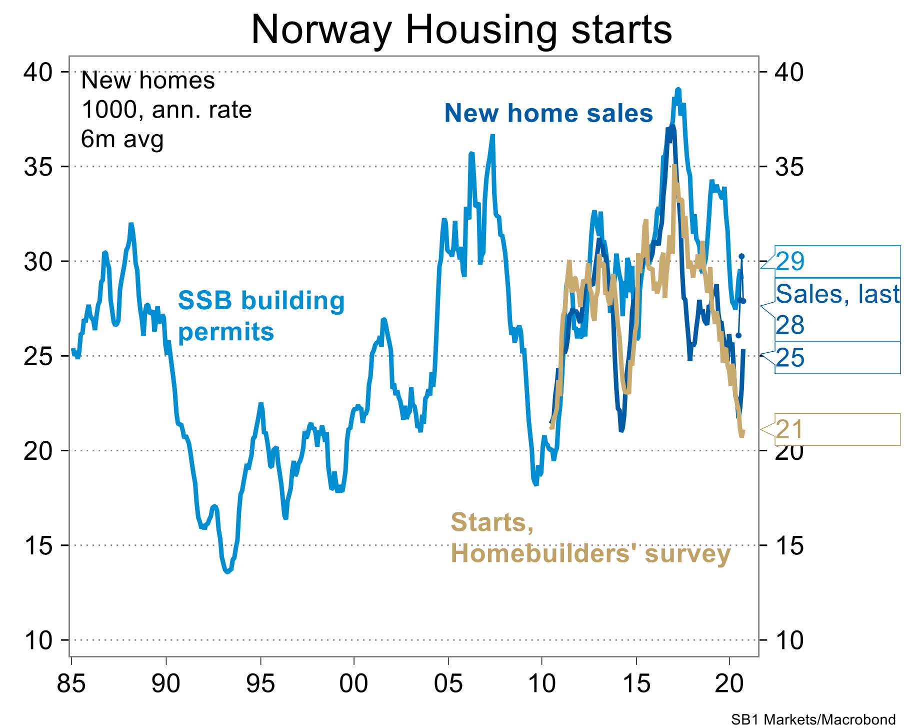


- US banks are signalling a sharp tightening, both vs. households and corporates, not much less than during the financial crisis! That's strange, given the decline in credit spreads at the corporate bond market
- European banks are reporting a significant tightening vs households – and somewhat even towards the corporate sector
- Swedish banks are reporting modest tightening, both vs. households and businesses
- We are not sure that Norwegian banks will tighten standards as much as indicated by the lending survey

New home sales up, starts are following suit

Sales down 2’ to 28’ in Sept but is well up from the 15’ trough in March. Sales up to 26’

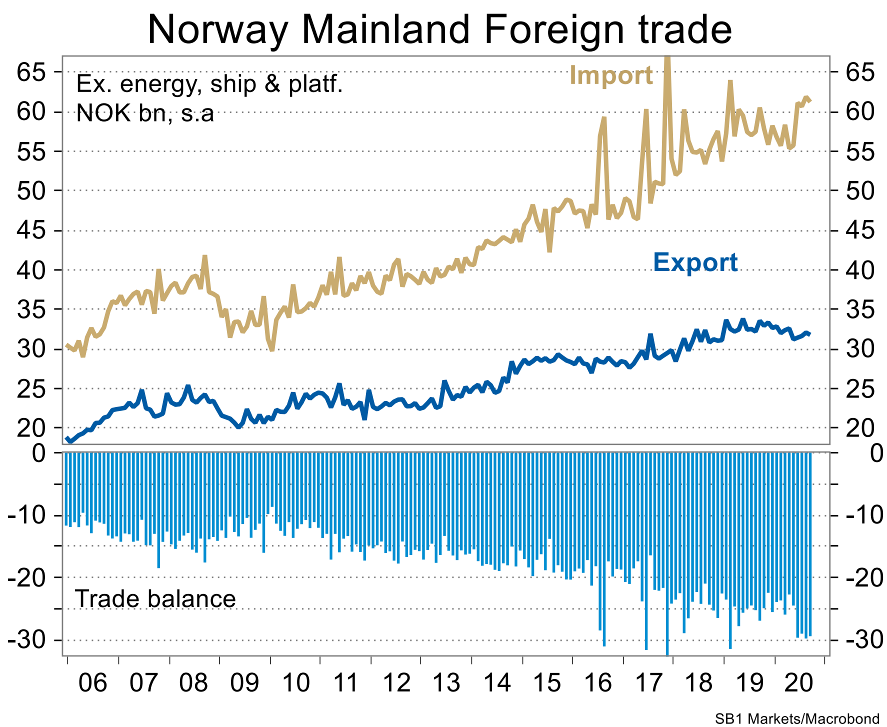


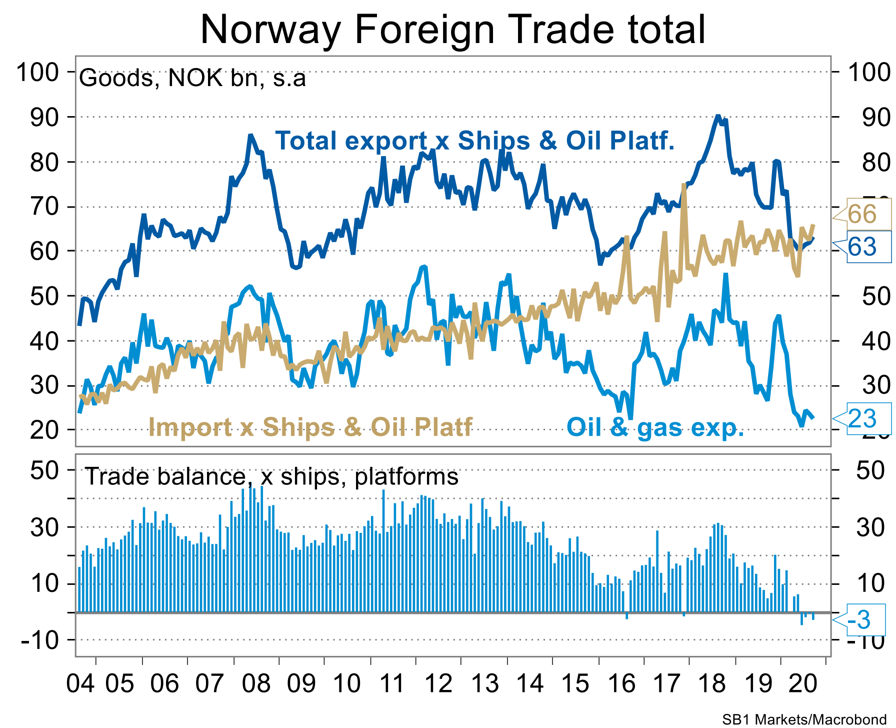


- New homes sales peaked at 35 – 40’ in 2016, and trended down to 25’ before the corona crisis. During the summer and into the autumn, sales have recovered to above the pre crone level, alongside the strengthening of the existing home market since mid April
- Sales have lagged sales recent months but picked up to 26’ in September

The Kingdom in red, reason for worry? Probably not

Mainland exports may have bottom but imports are much stronger, NOK 30 bn in deficit

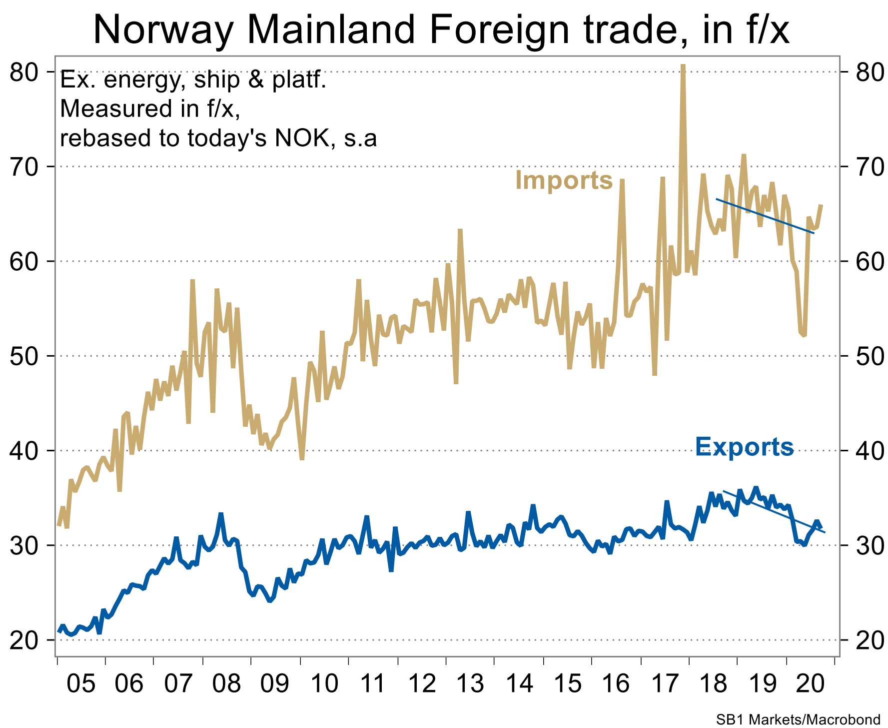


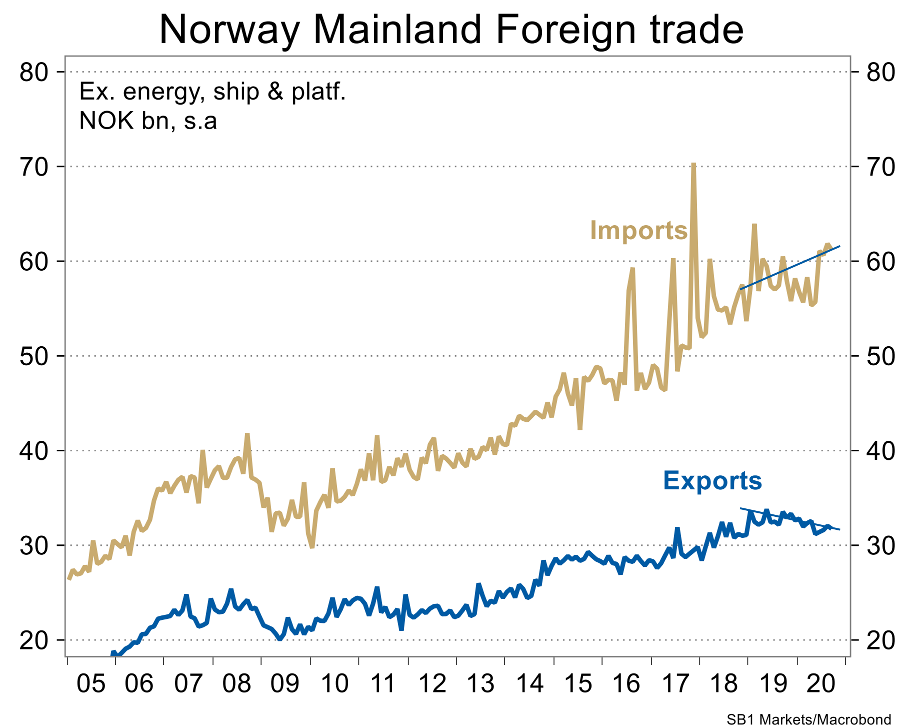


- The Mainland (non energy) trade deficit in goods was close to NOK 30 bn in Sept. Exports have been hurt by the corona crisis (down 5% vs early 2020, measured in f/x, down 8% y/y) while strong demand for goods have kept imports up (up 1.5% vs pre corona, -3% y/y) – and the 'traditional goods' deficit has widened to NOK 23 bn in early 2020 to almost NOK 30, or by 2.5% of Mainland GDP
- At the same time, exports of oil and gas have fallen to NOK 23 bn from 40 bn – and the total trade balance is marginally in red (1 – 3 bn) over the past 4 months

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

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

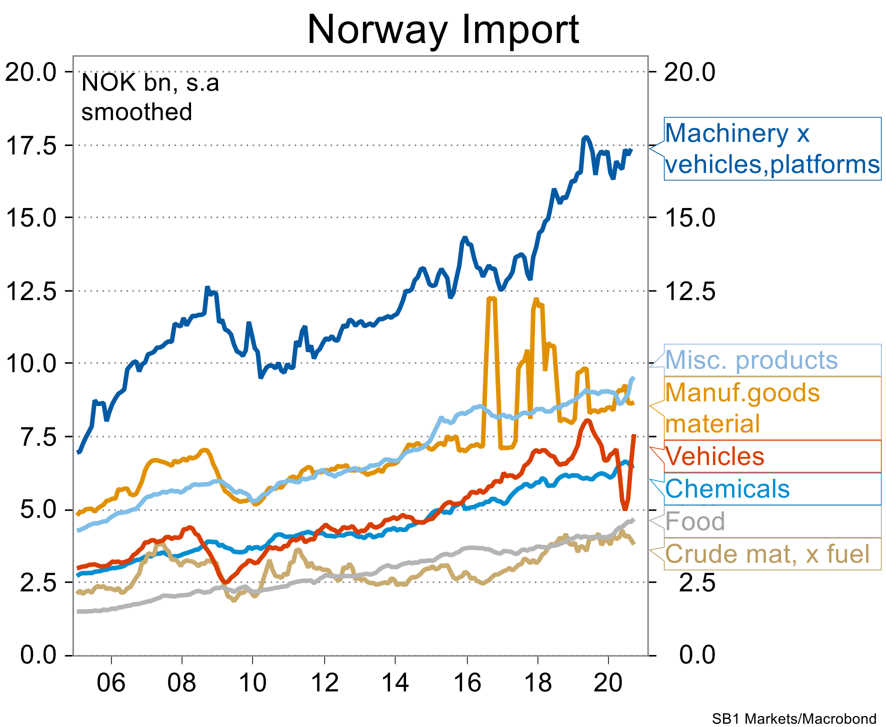


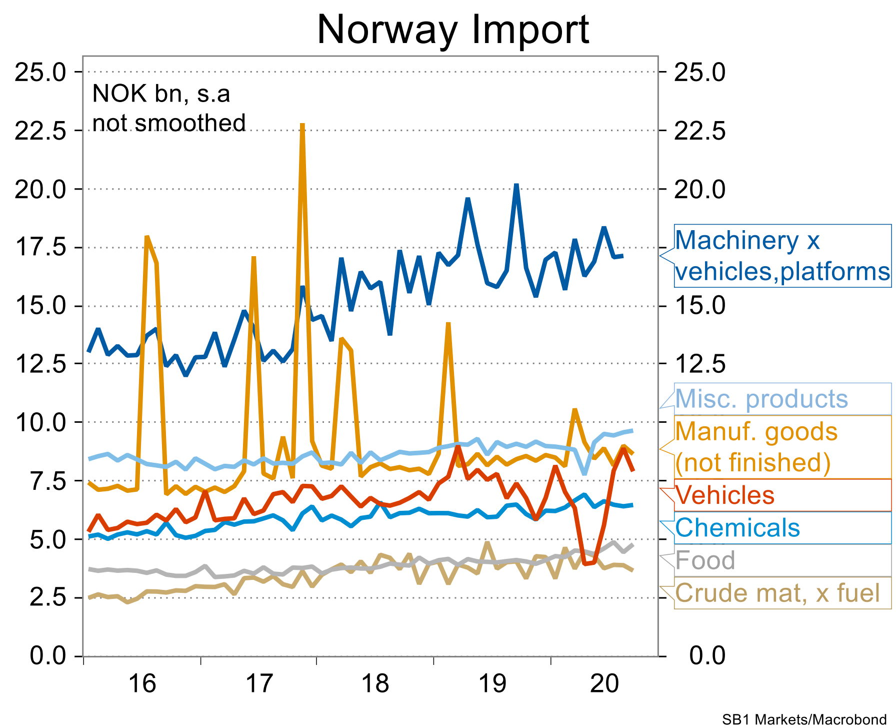


- At the chart to the left, trade values are rebased to today’s NOK I-44 index

Imports of vehicles straight up, machinery heading slowly up

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

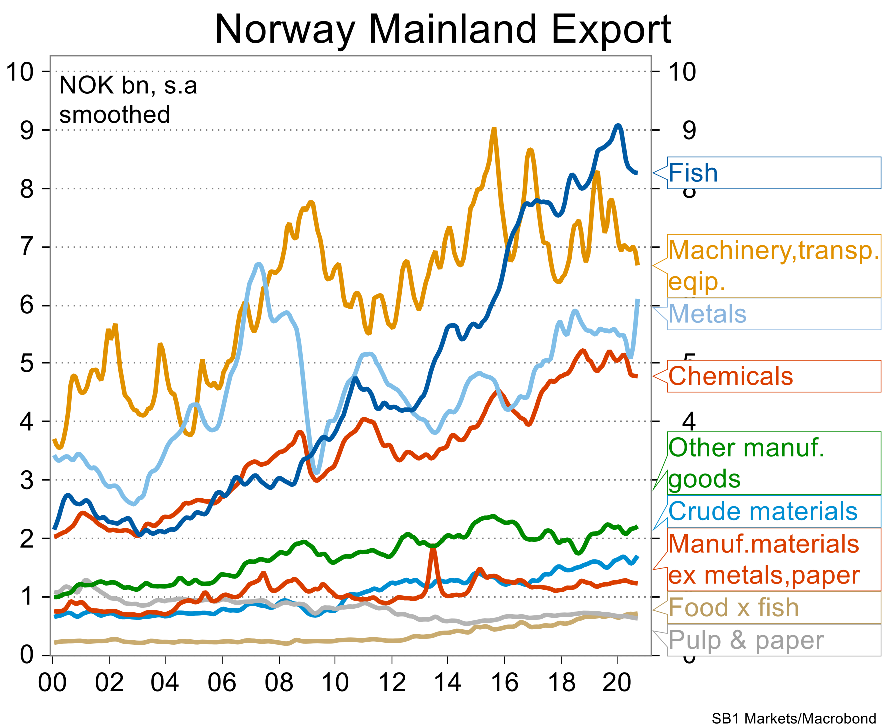


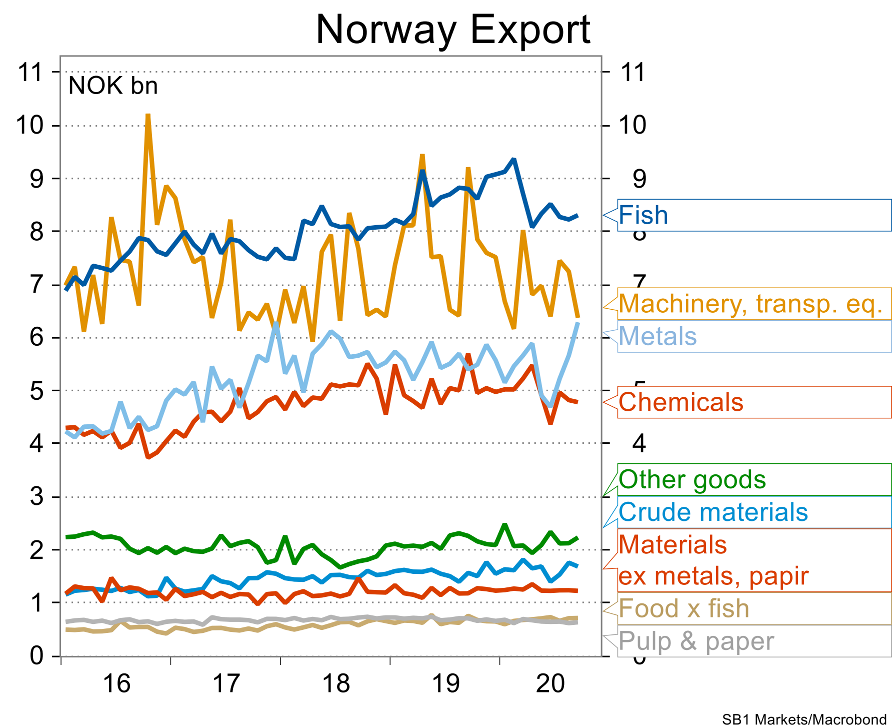


- Import values are somewhat higher than before corona hit in most sectors, just crude materials ex fuel are lagging (but trending slowly up)
- Imports of chemicals, food, and machinery have all increased this year. Machinery imports are still below the 2019 levels. Manufacturing materials more or less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

Exports flat/slightly down in most sectors

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

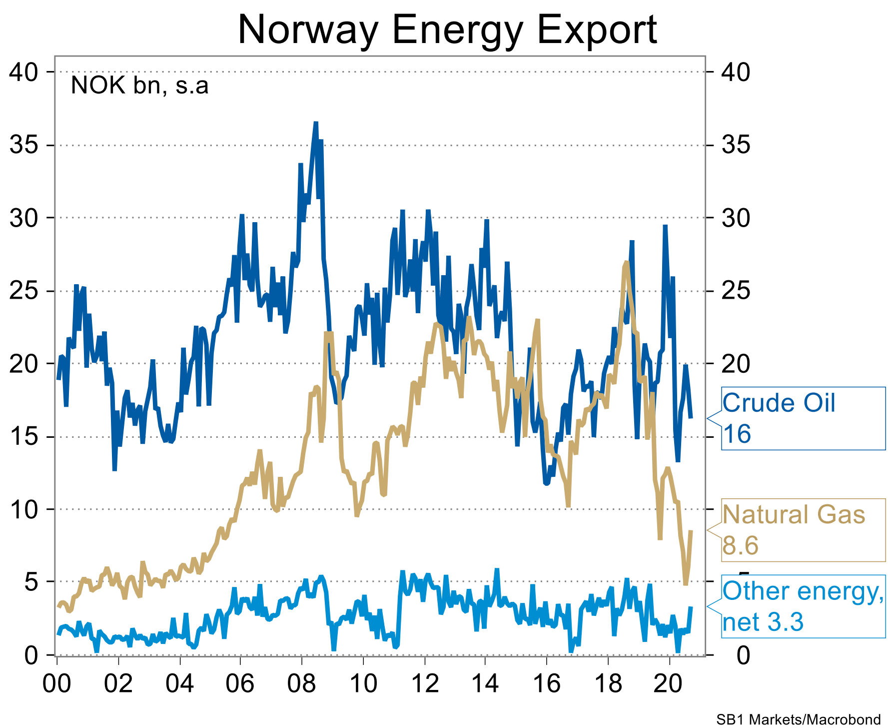


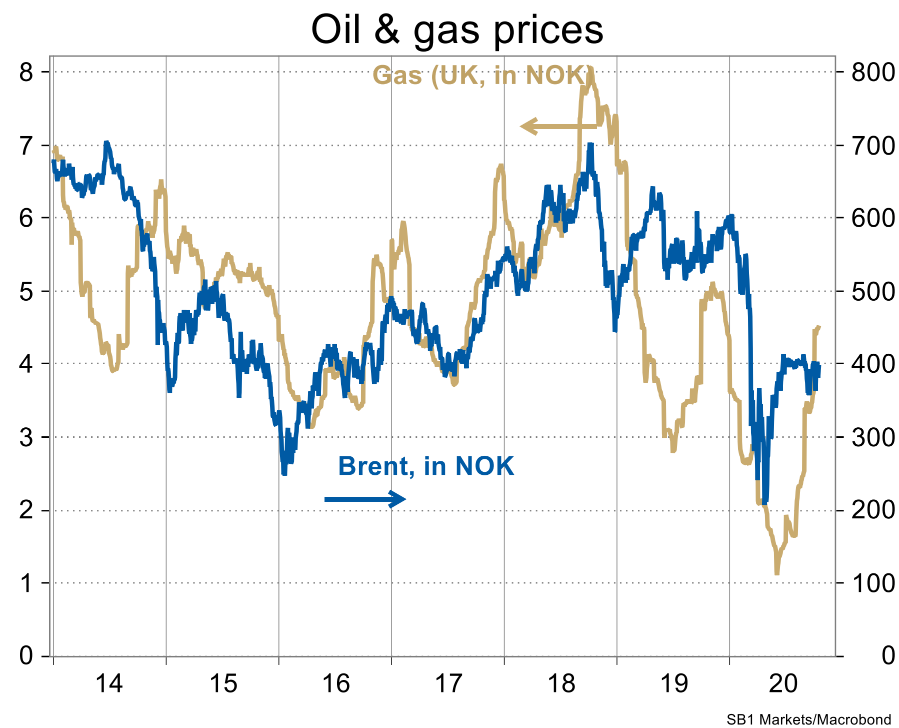


- Fish exports fell in the spring, after soaring the prior years, in value and volume recent years. Exports of fish are still lower than before corona but the level is anyway rather high
- Exports of machinery and transport equipment (of which much is related to oil activities abroad) have been more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

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

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

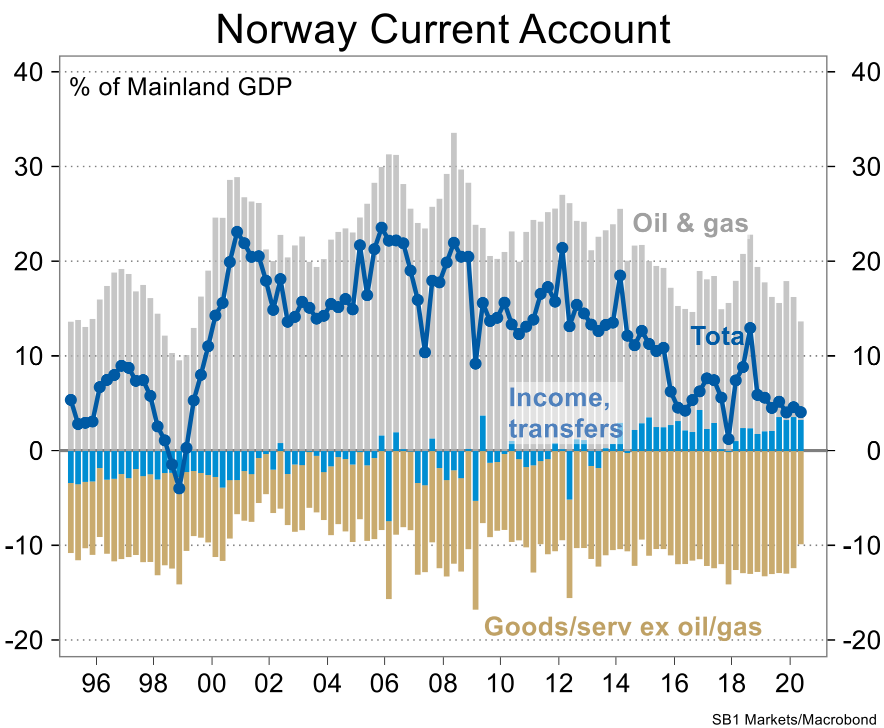




- **Crude oil** exports (in NOK bn) fell rapidly in March and April as the oil price dropped and global demand subsided. Exports have slowly turned up since then, with the oil price. Oil exports are still far lower than before corona, just below 50% of the decline is now reversed
- **Gas** export values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

The current account surplus has fallen – but is still in plus (due to import 'regulations')

The deficit at the trade balance x exports oil & gas is at 10% of GDP, far smaller than before



- How come? Because we are not allowed to spend money abroad these days (household spending abroad is booked as imports, which it is).
  - Excluding the net impact of tourism (foreigners are not coming here either), the 'Mainland' deficit would have been at 12.5% of GDP, not 10%. The total surplus would have fallen to 1.5% from the actual 4%
  - Net income/transfers equals 4% of Mainland GDP. The revenues in the Oil fund quals some 7% of ML GDP. Thus, other sectors record a 3% income deficit, of which foreign aid equals almost ½
- However, the importance of the 14% of GDP in export of oil and gas does not reveal impact of the sector the country's x oil balance, more on that later

Highlights

The world around us

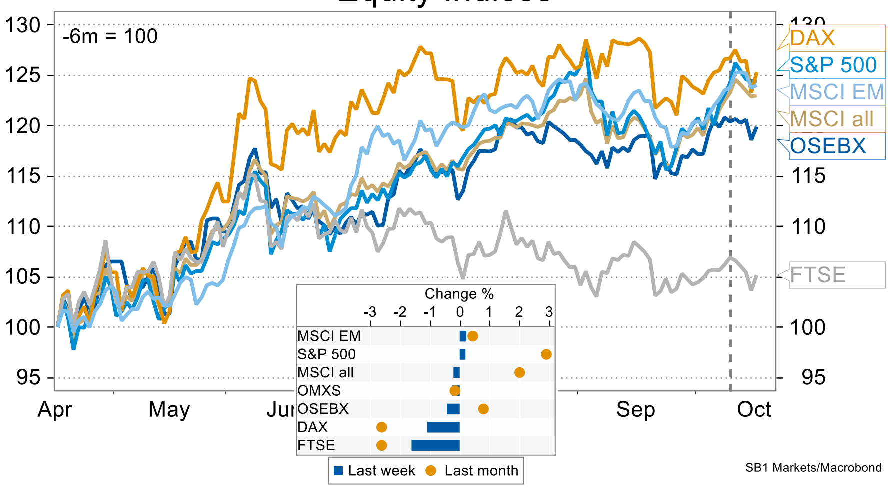
The Norwegian economy

Market charts & comments

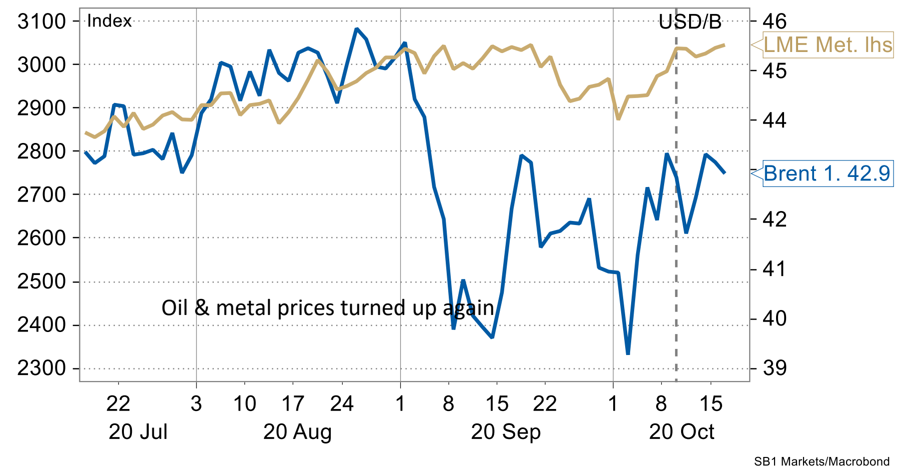
Stock markets mostly marginally down, bond yields down – but oil, metals up

The NOK yielded again, for no good reason

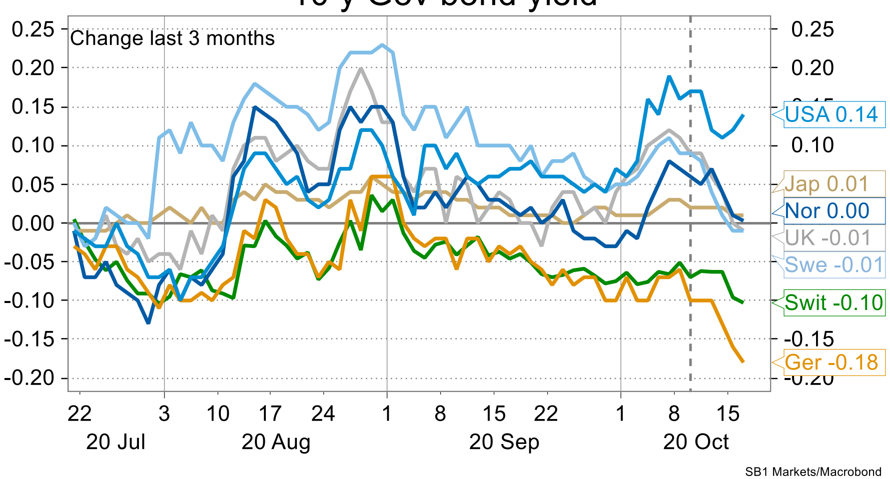
Equity Indices



Oil vs. metals

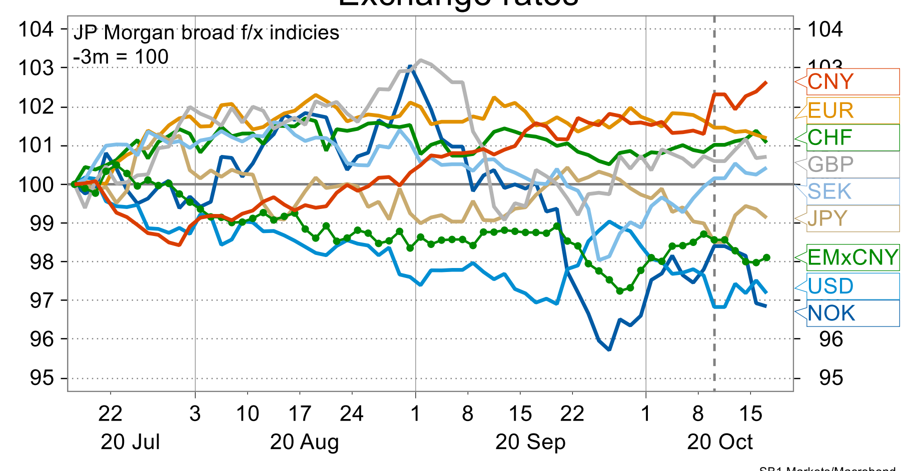


10 y Gov bond yield



Mixed at bond markets, but most yields rose last week

Exchange rates

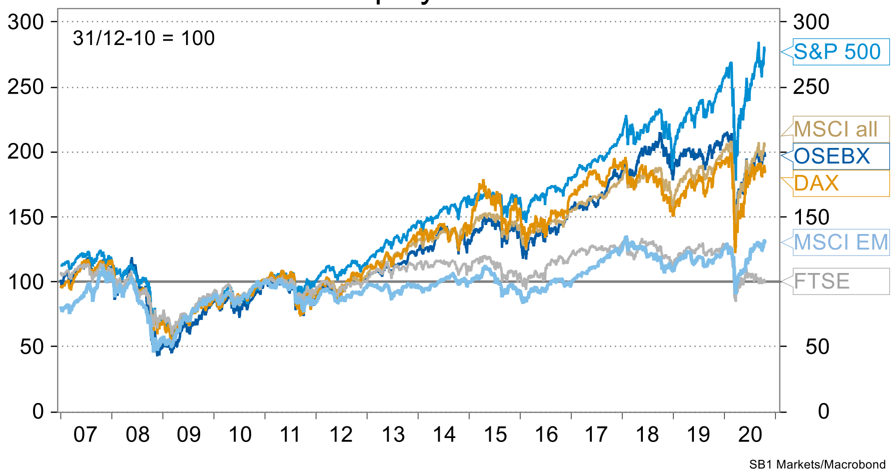


The USD further down again last week, the CNY sharply up

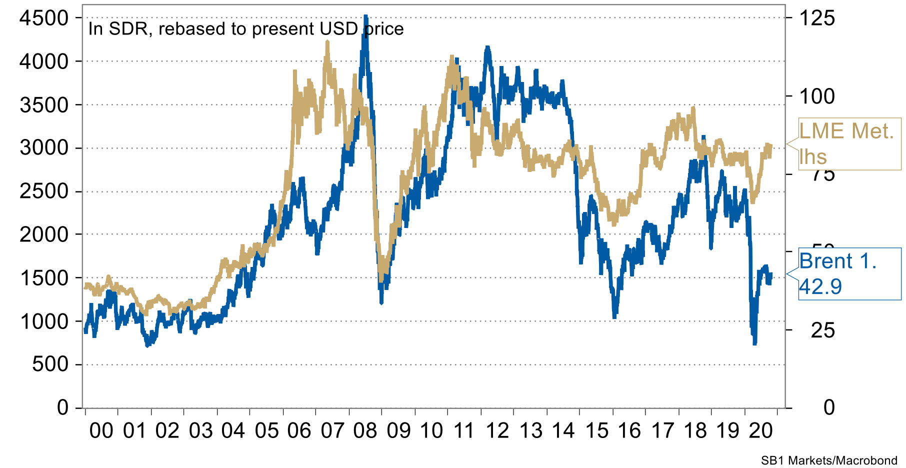
In the long run: Stock markets are looking like a ‘V’ (except the FTSE ‘L’!)

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



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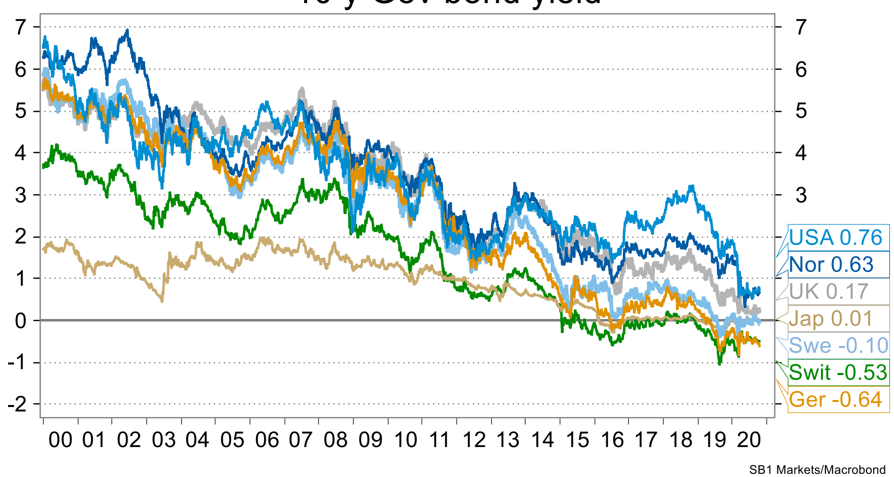
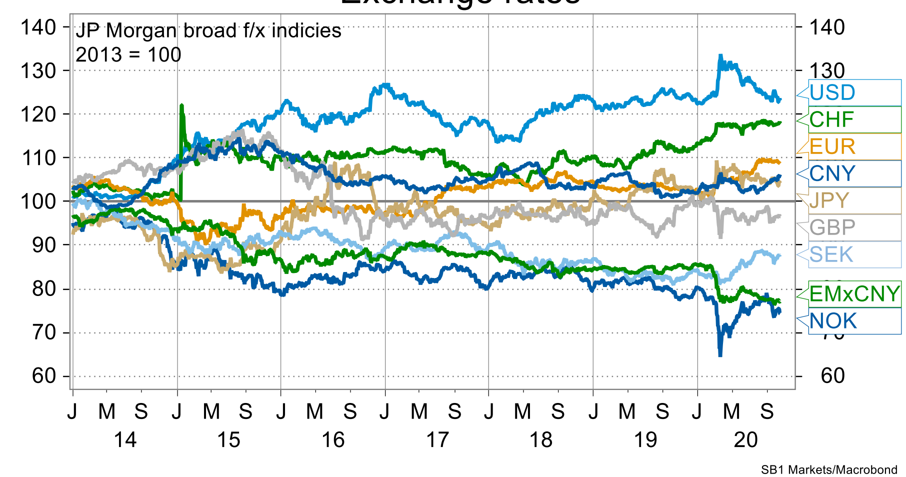


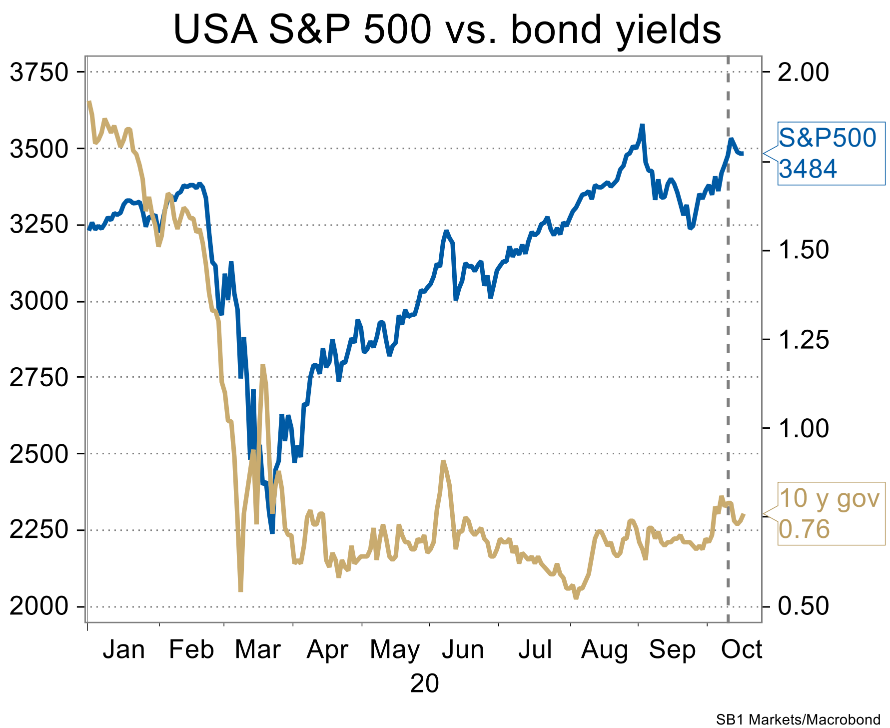
Exchange rates

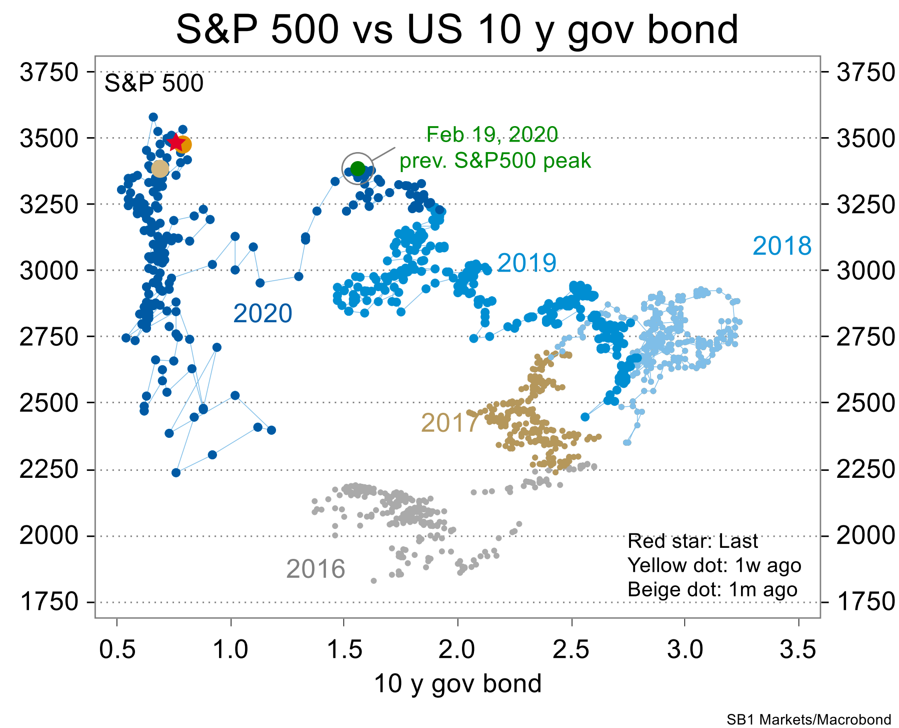


The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices)

S&P 500 down down from close Thursday, still slightly up w/w. Bonds down 3 bps

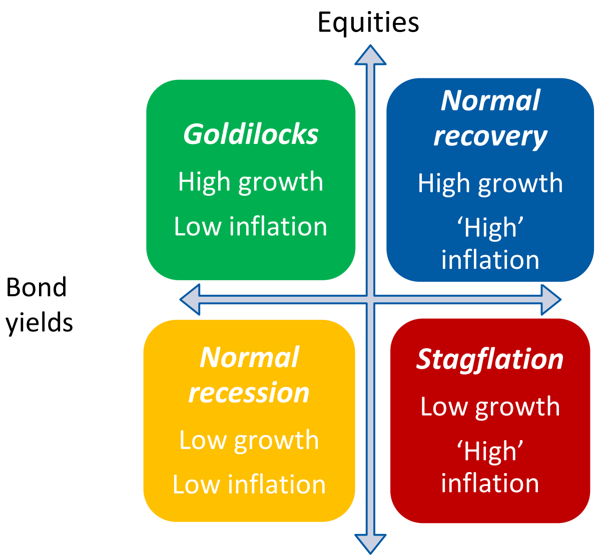
Long gov. bond yields are trending slowly recent weeks – but not further last wee

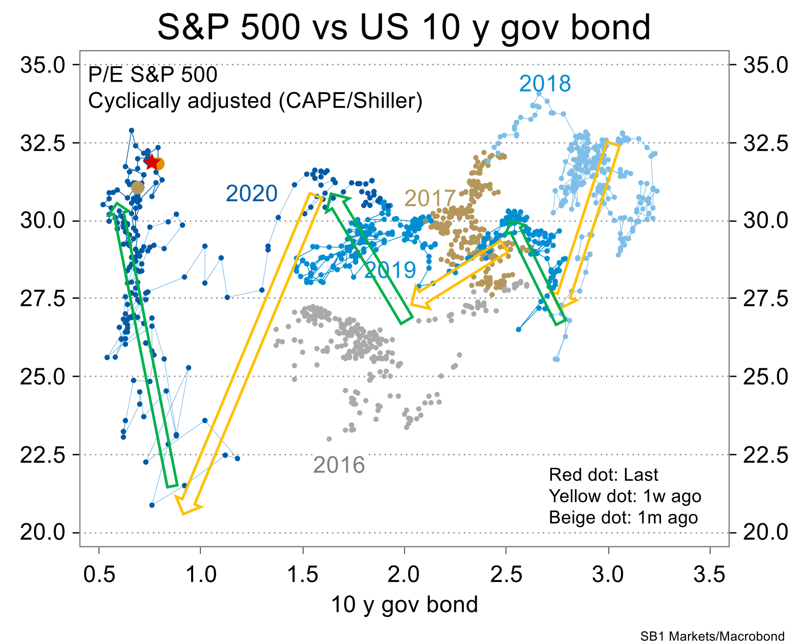




From the ‘Goldilocks corner’, where to go?

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

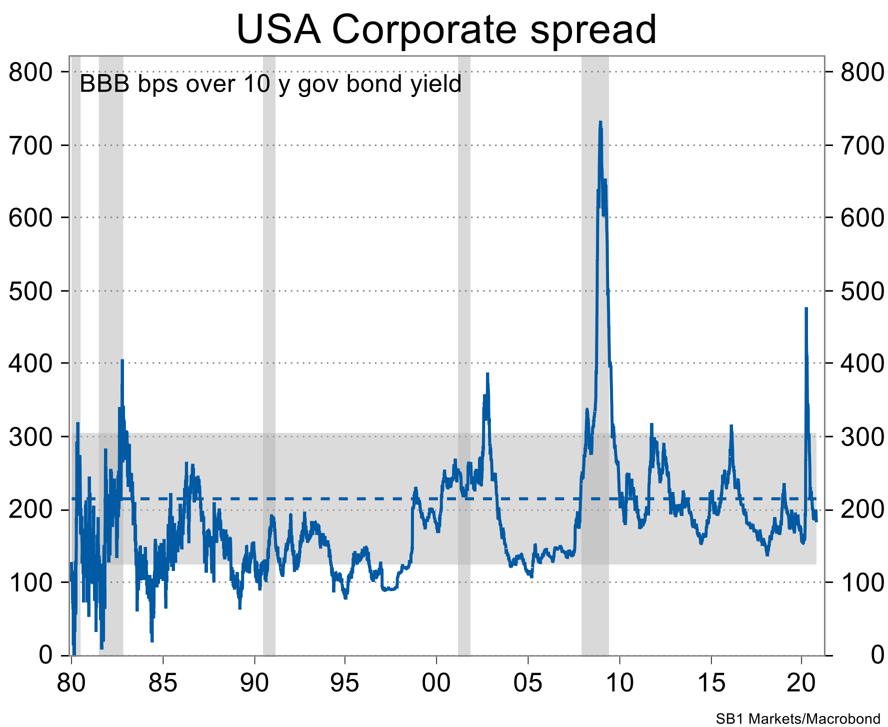


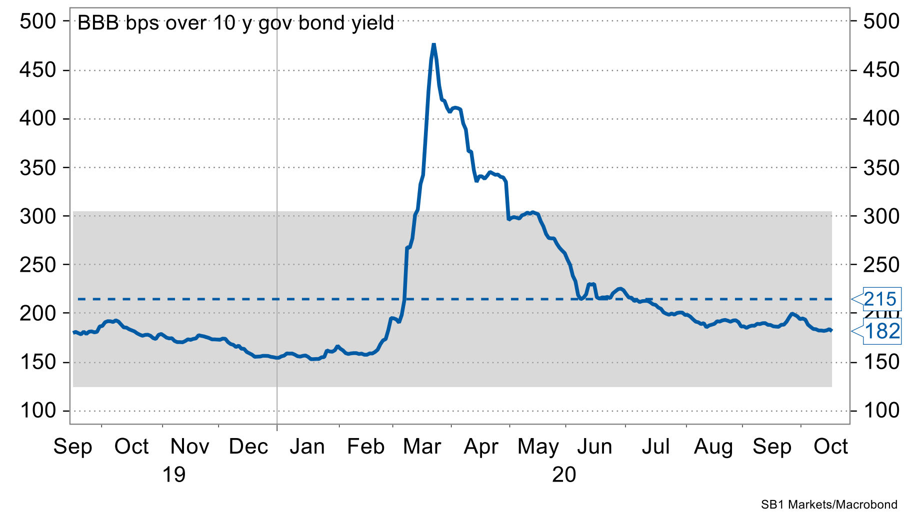


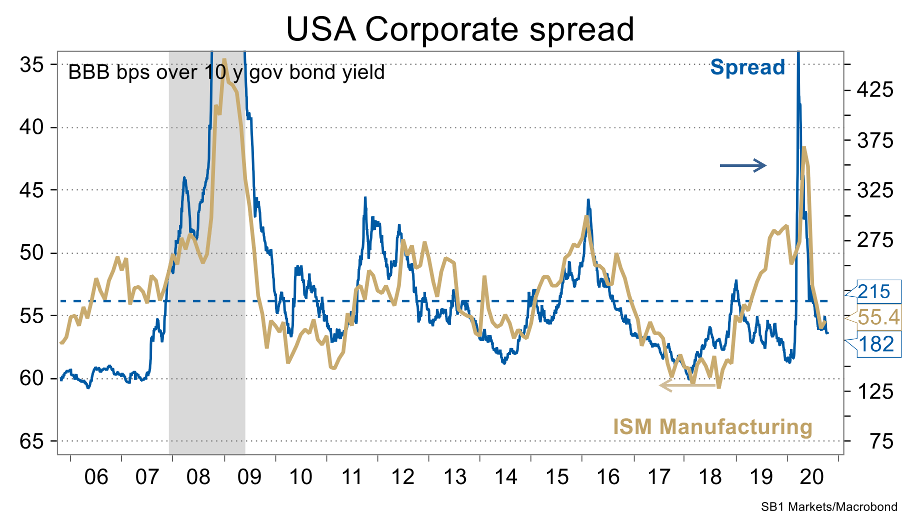
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- Now, the US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and expected to exceed 2% 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 are still sliding down

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

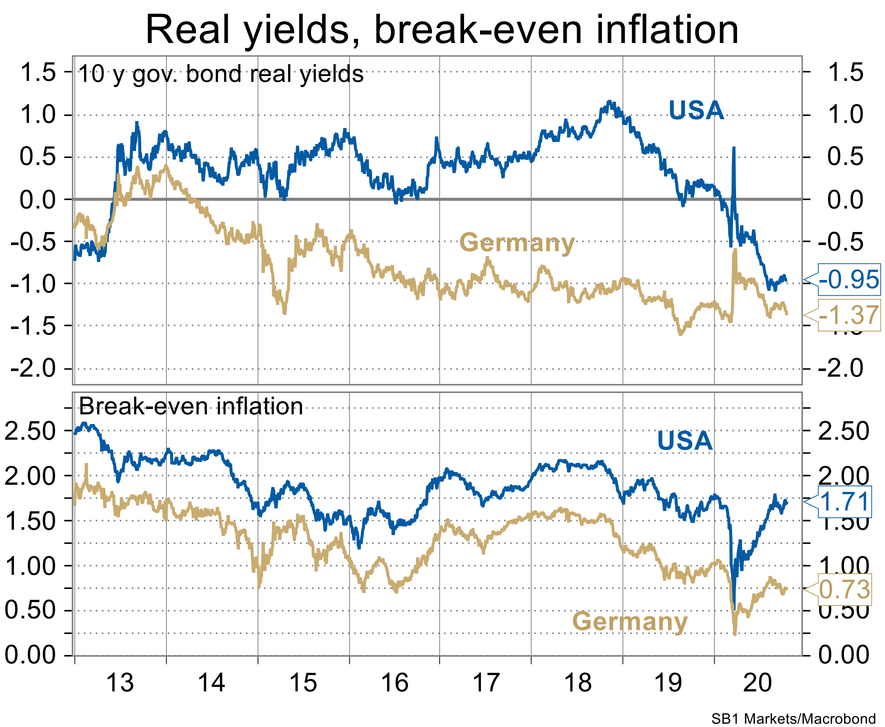


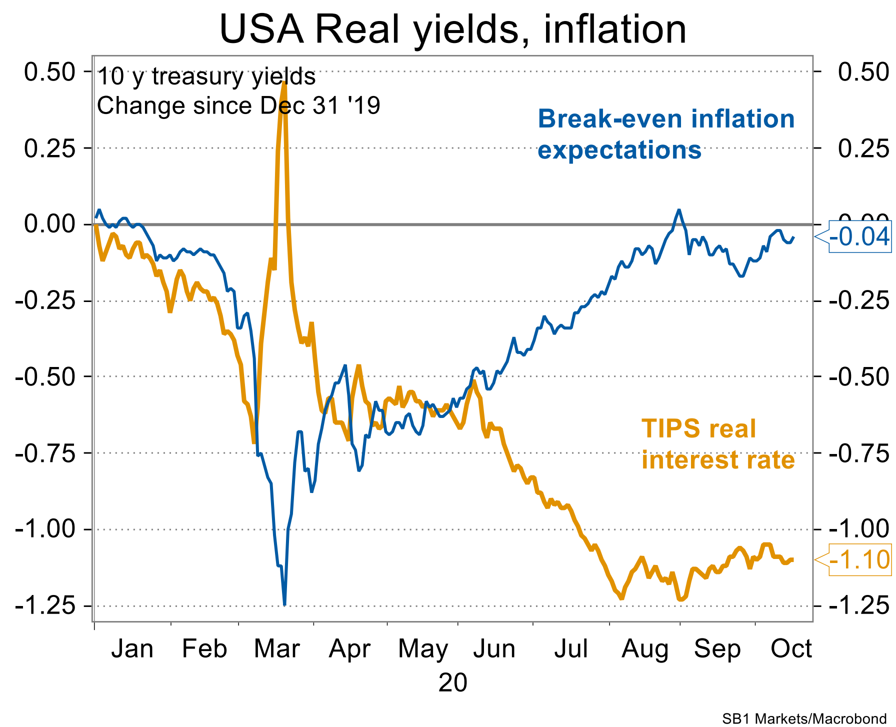




No big changes in the real rate/inflation expectation mix last week

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

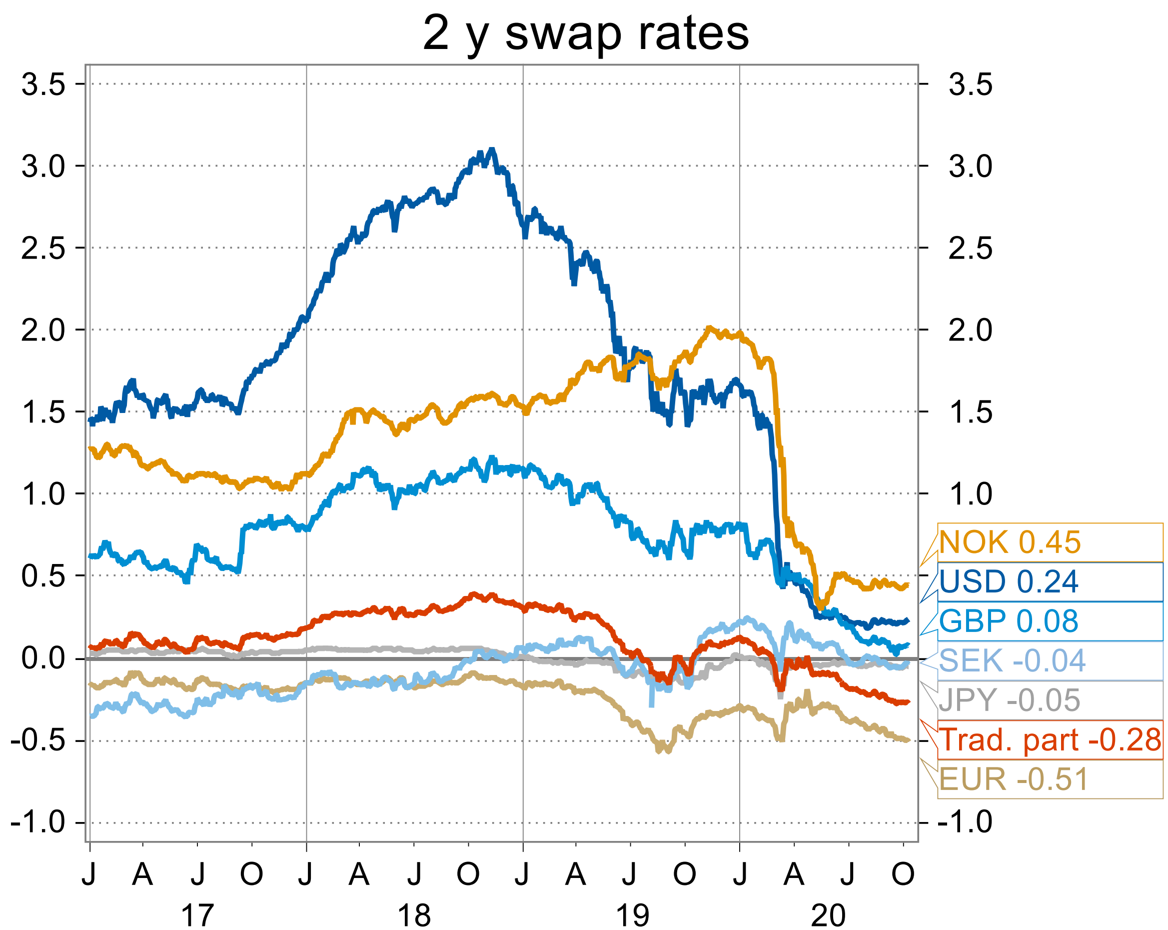




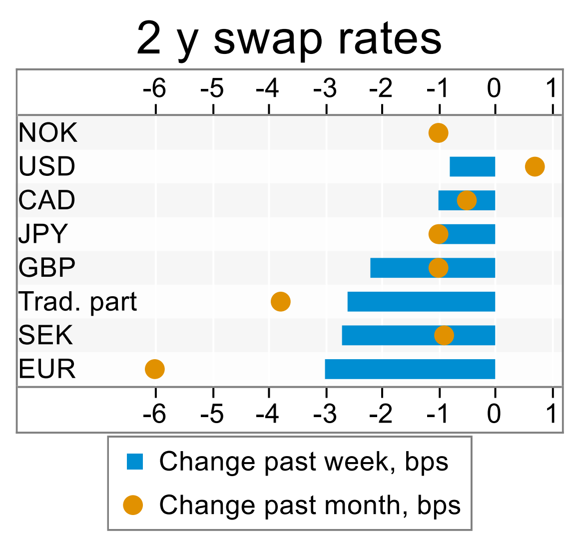
- The US 10 y gov real interest rate (TIPS) was stable over the past week – at 0,95%
  - » Inflation expectations (measured by CPI) up to 1.71%, still well below the PCE deflator target
- The German real rate is extremely low at -1.37% (down 6 bps last week), inflation expectations at 0.73% - the former down last week, the latter up

2 y swap rates slightly down – but not in Norway

EUR has fallen recent weeks/months, partly due to dovish signal from ECB/Lagarde & some corona challenges

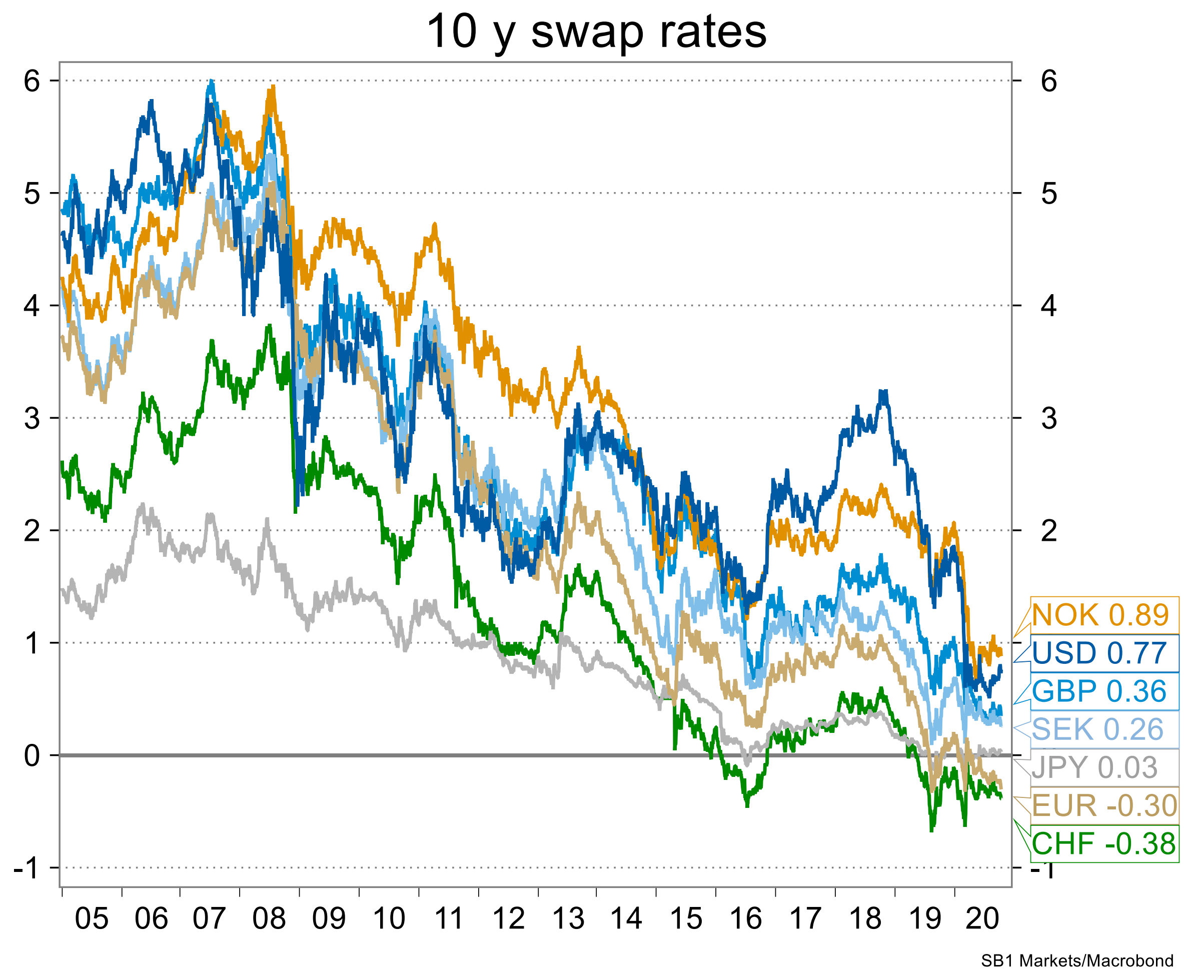


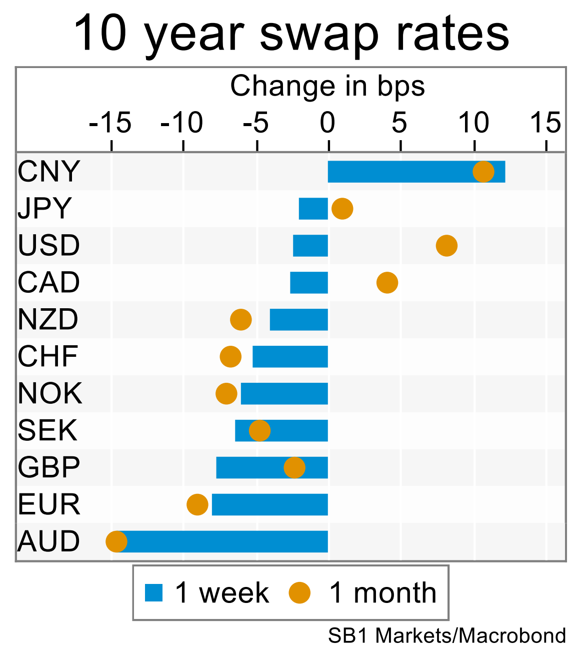
SB1 Markets/Macrobond



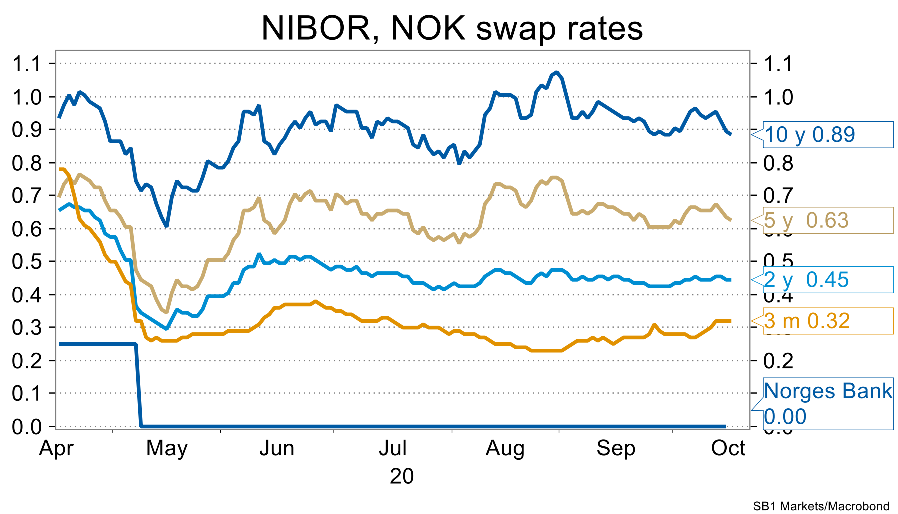
SB1 Markets/Macrobond

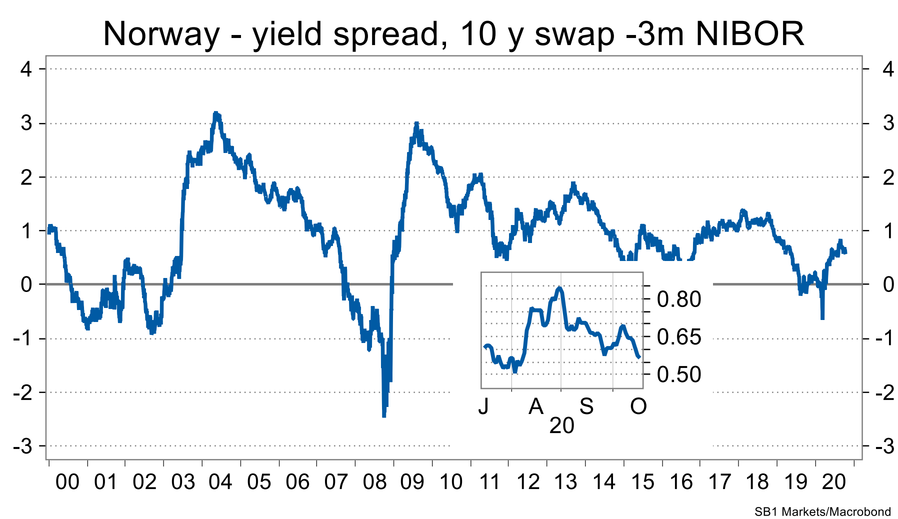
US 10 y swap down 5 bps, after up to +10 the previous week

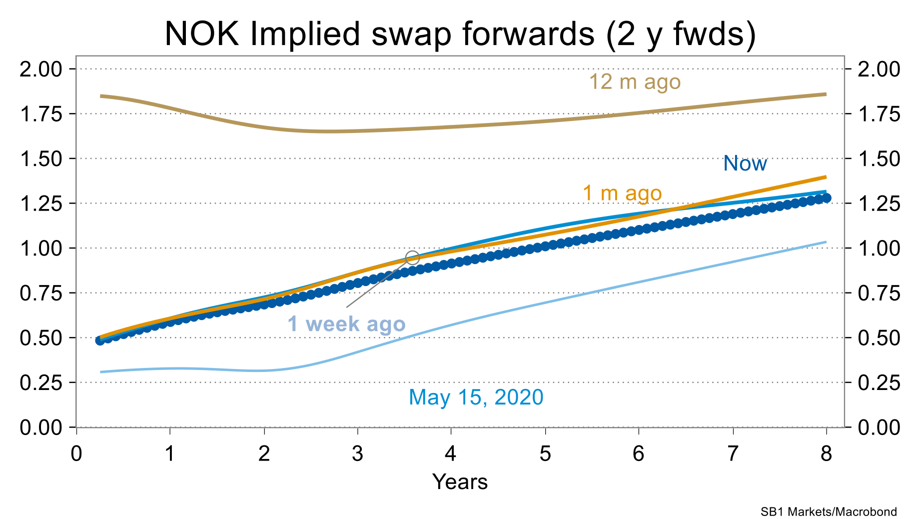




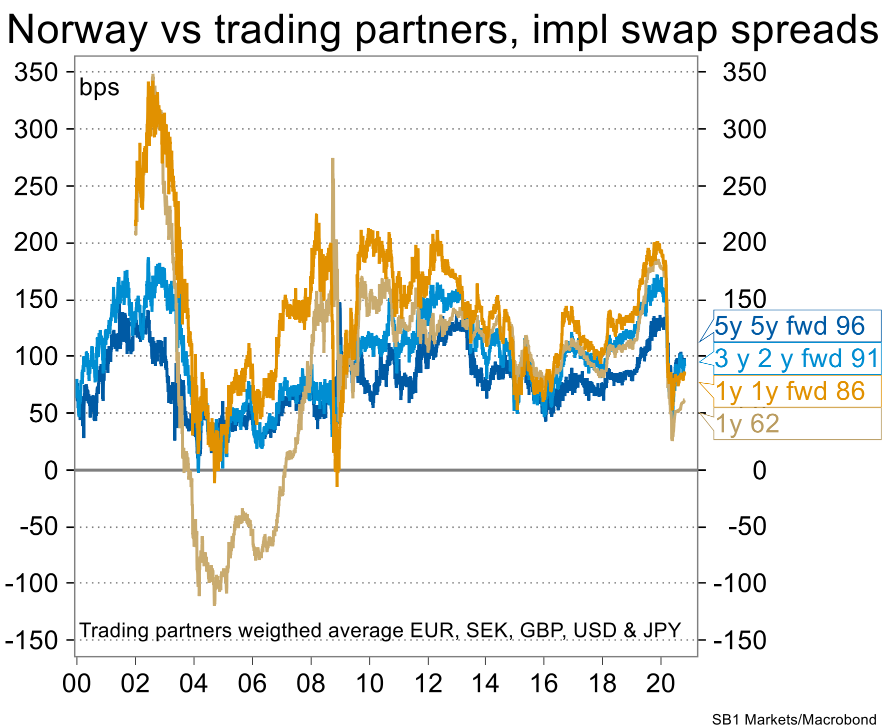
The NOK curve flat in the short end, down up to 5 bps in the long end

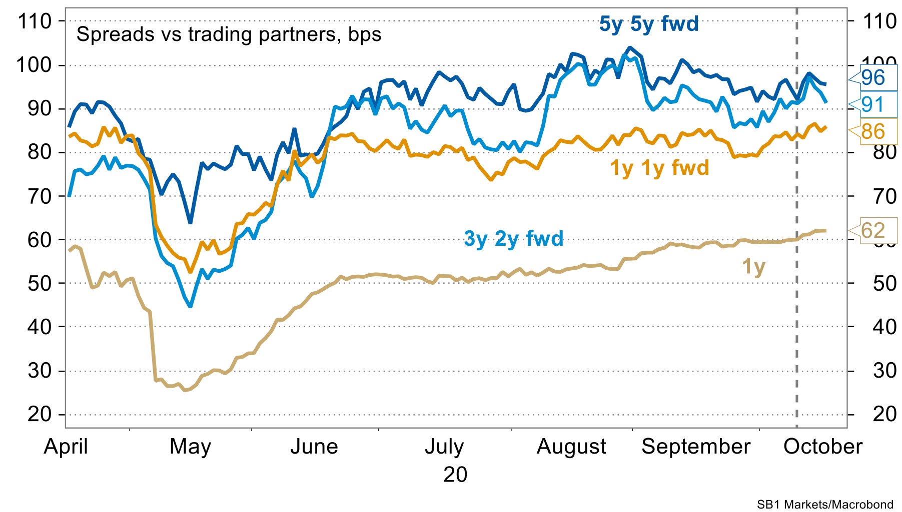


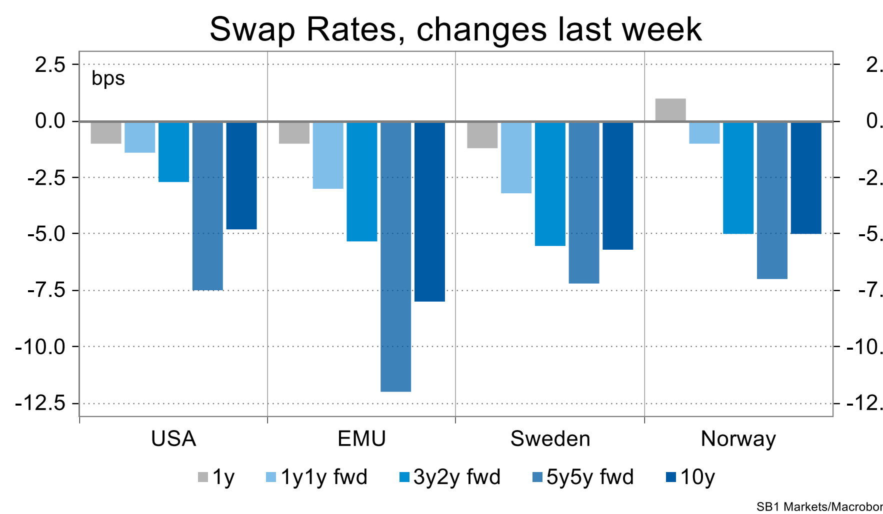




Small changes in swap spreads last week – rates slightly down everywhere



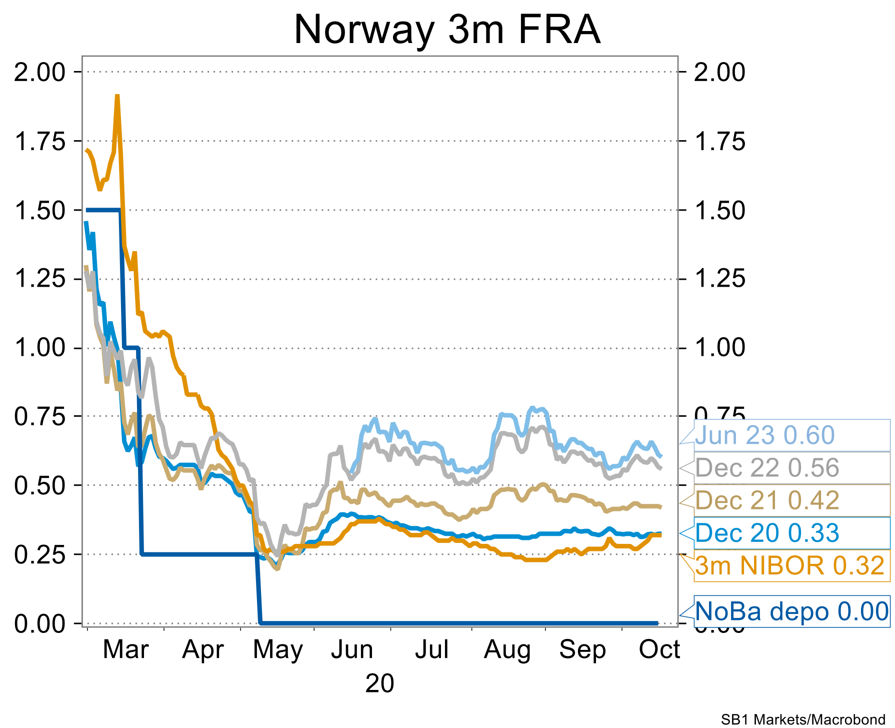


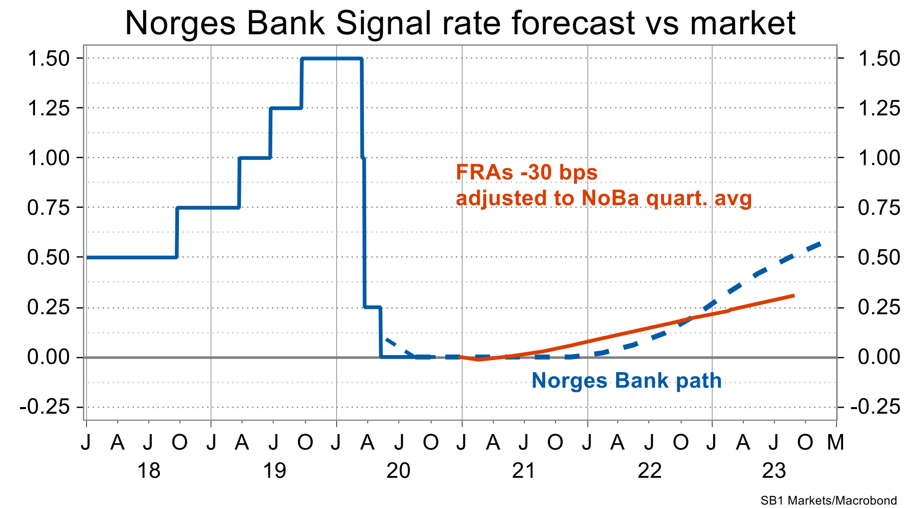


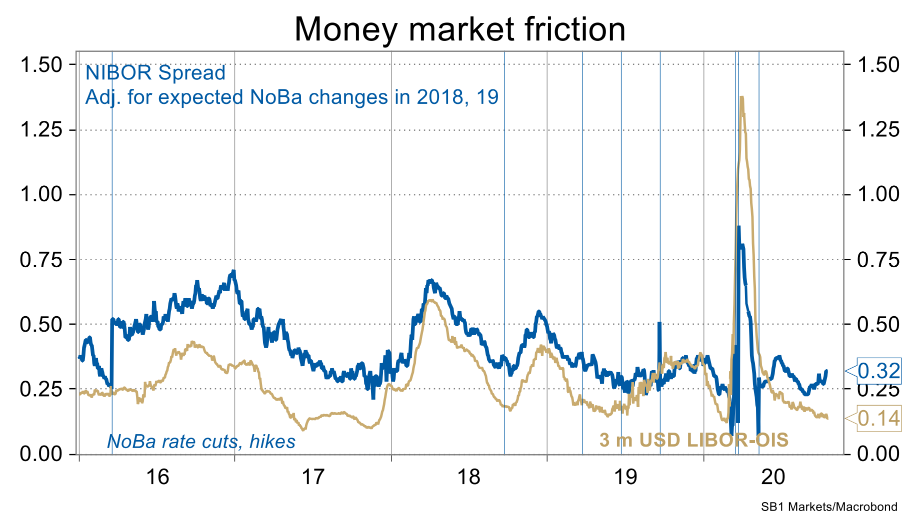
- Spreads vs trading partners have been trending wider since the May local trough but peaked in August, at least in the long end (short end still climbing)
- We are still neutral vs. the spread

NOK FRAs marginally down but the 3 m NIBOR + 3 bps to 0.32%

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



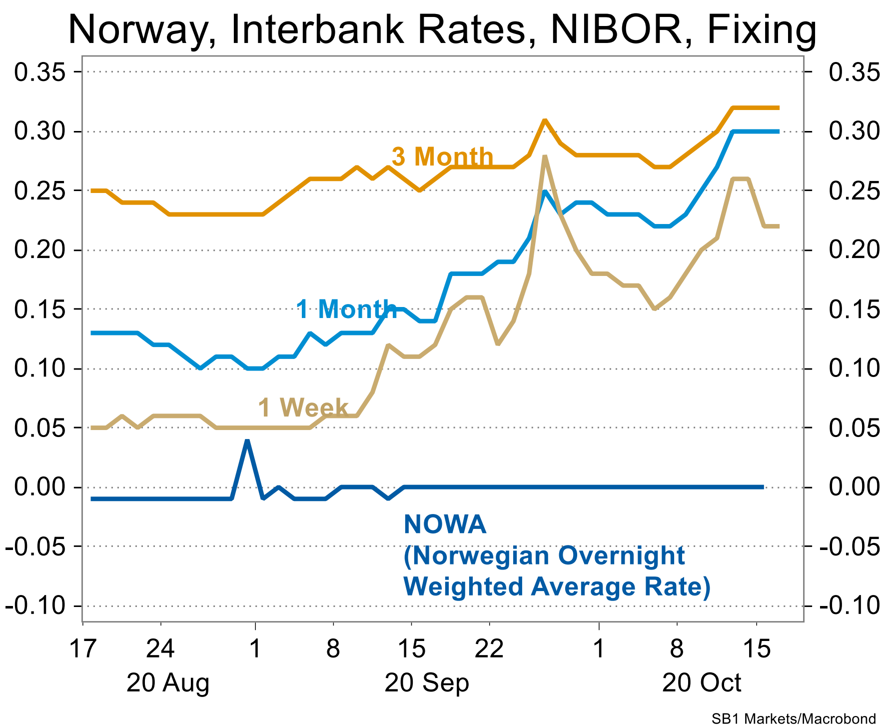




- FRAs fell by up to 3 bps, a little less than they rose the previous week
- There are still some trouble in the very short end of the Norwegian money market, check next page

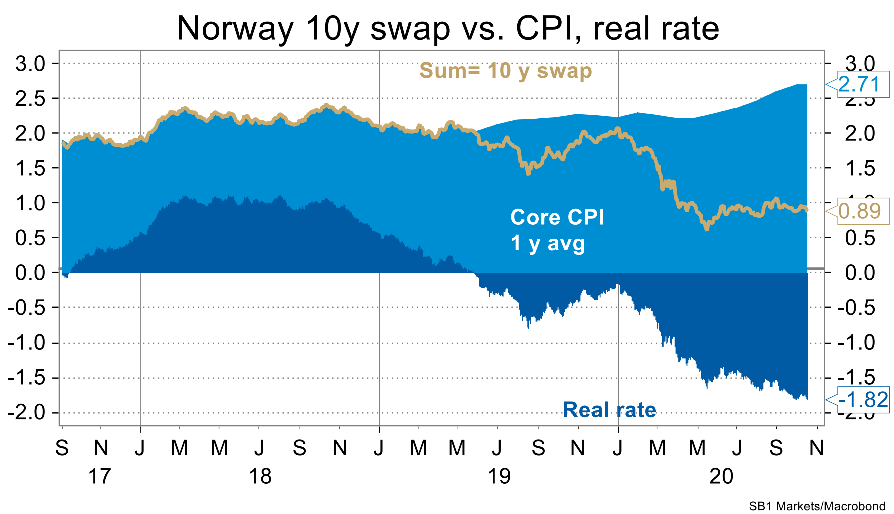
Still friction at the Norwegian money market – rates further up in the short end

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

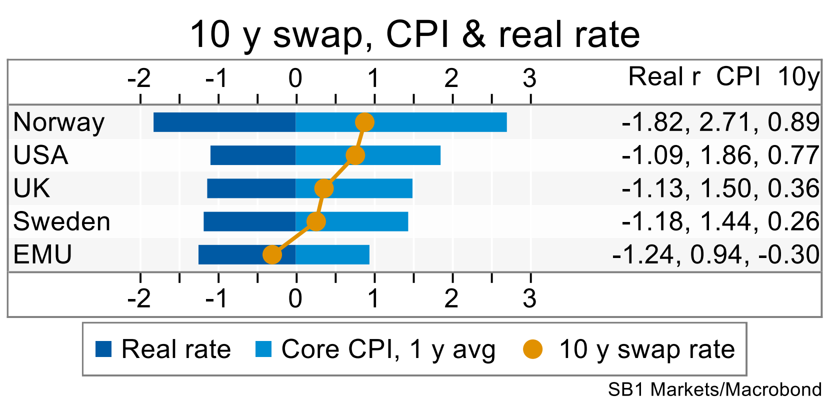


- Banks have not been able/willing to distribute short term liquidity between themselves the past weeks
- Norges Bank has offered both F-loans and deposits at zero penalty (interest rate=NoBa deposit rate at 0.0%)
- Recently, banks have both borrowed and increased their deposits in the central bank
- 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 0.32%, up 3 bps during the week

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 -1.8%, 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)

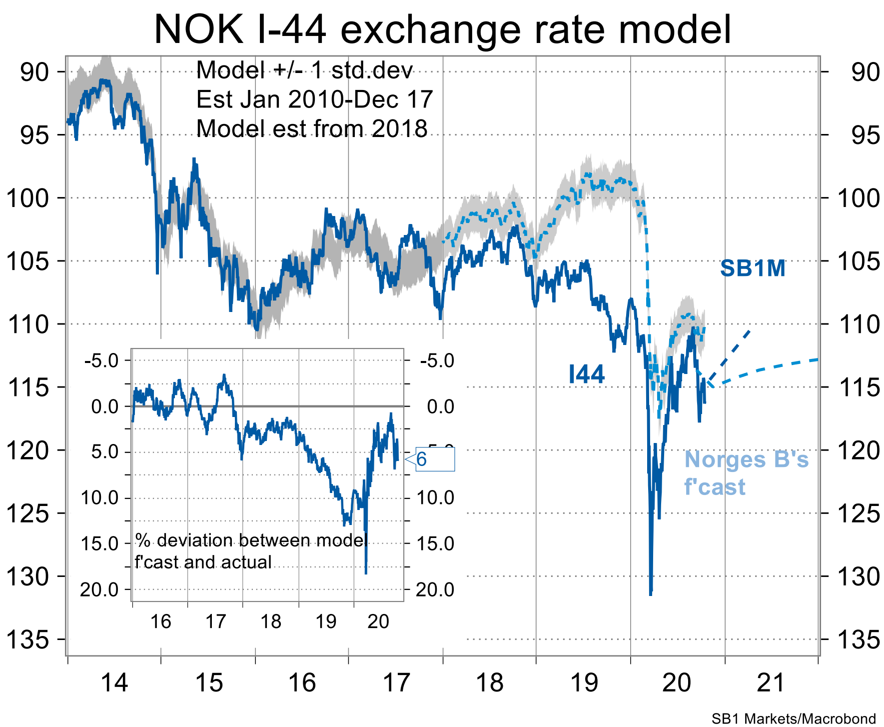


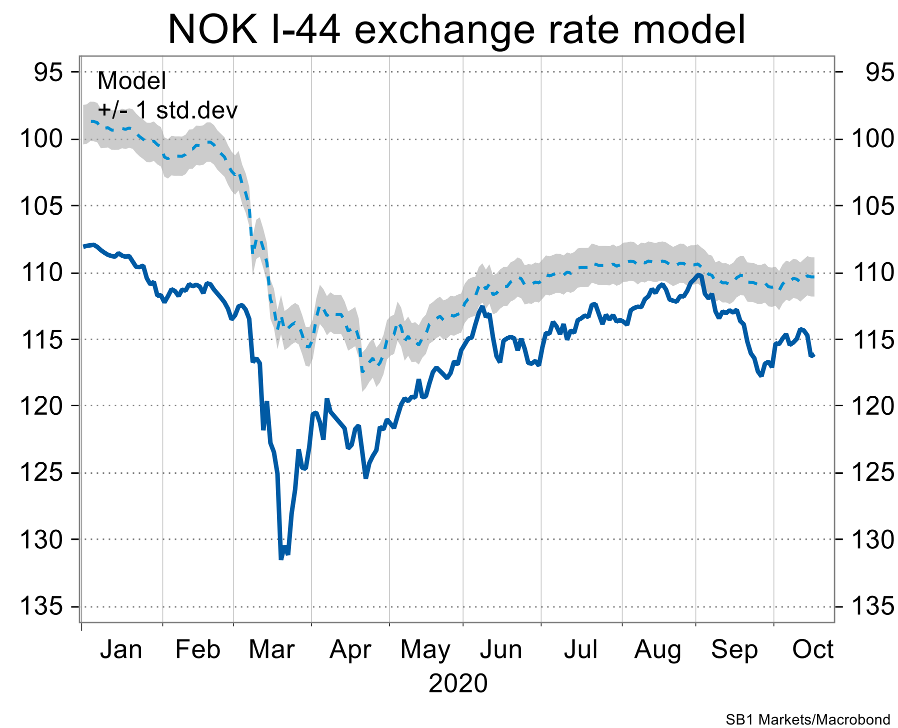
NOK real rates among the lowest, inflation exp. at top

- 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 -1.8% is an outlier, even if the nominal rate is the highest

NOK down 1% last week, without help from nobody

The NOK is 6% below our model forecast again, was close to it in early Sept

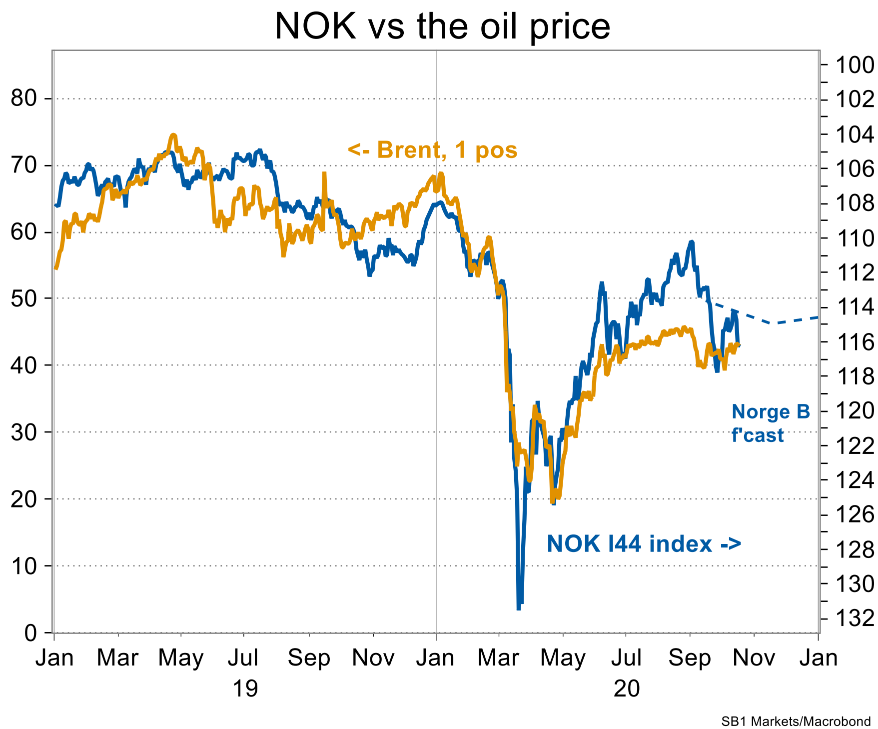


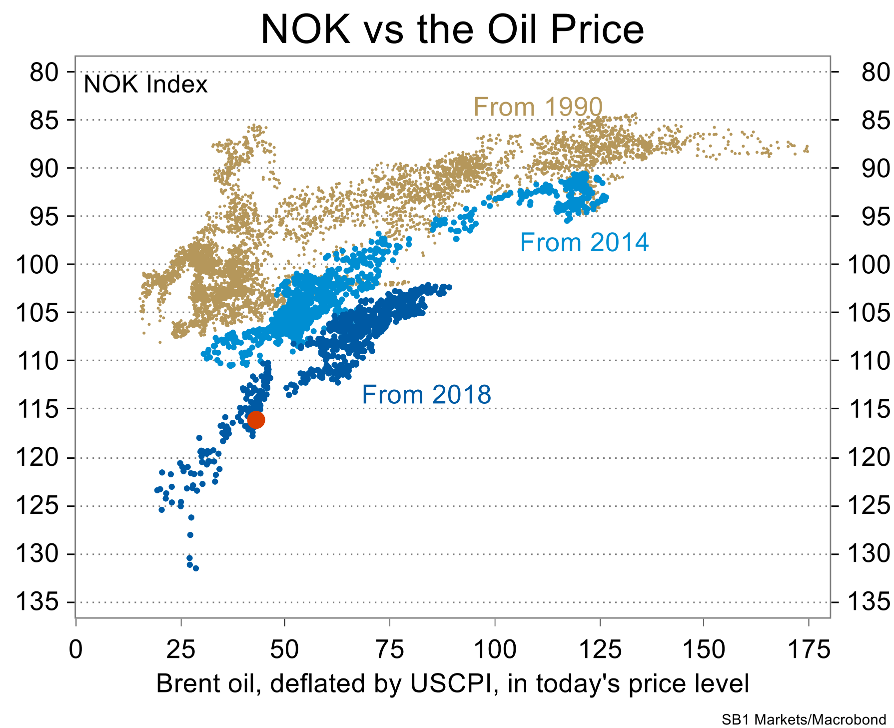


- The gap to the standard, oil price dependent model rose almost 2 pp to6% last week
- Following the decline since early September, we have strengthened our buy NOK recommendation
- The NOK is still ‘too strong’ vs a model based on oil equities but weaker than the other supercycle currencies (AUD, CAD, SEK), we prefer the latter model. NOK is some 5% weaker than estimated by a simple global equity model (given a narrow NOK/MSCI correlation since early 2020)

It’s not the oil price, stupid. The NOK down last week, oil prices not

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





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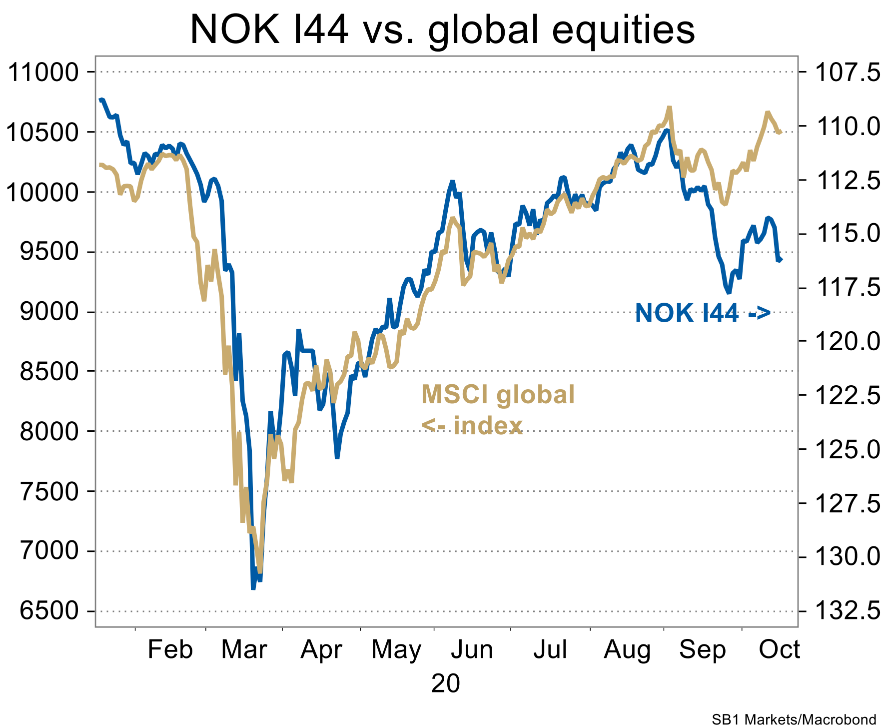
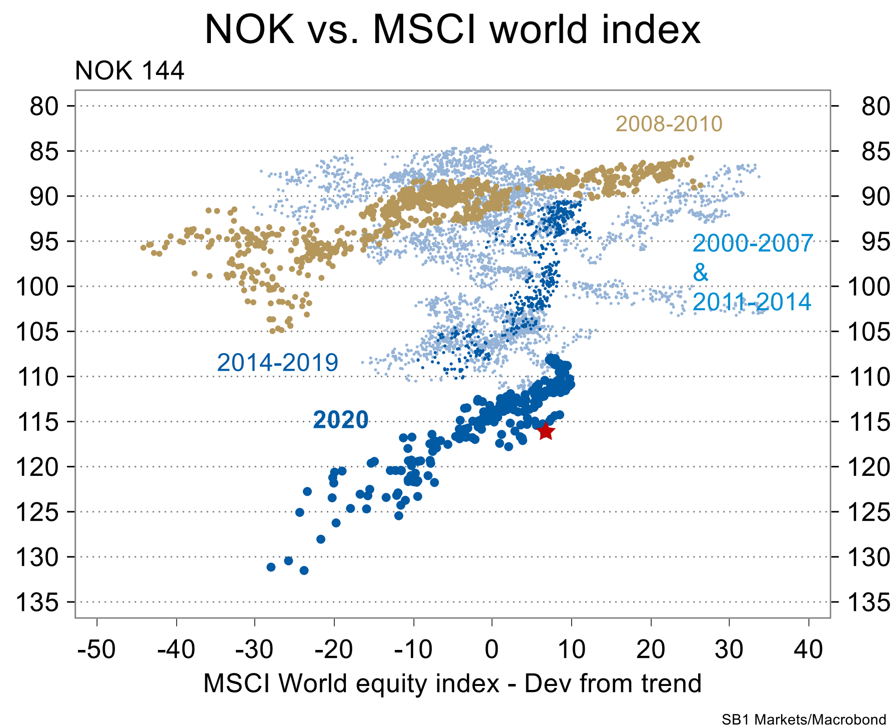
NOK has been very sensitive the stock market – in 2020, that is

The NOK has become weak vs the global stock market since early September

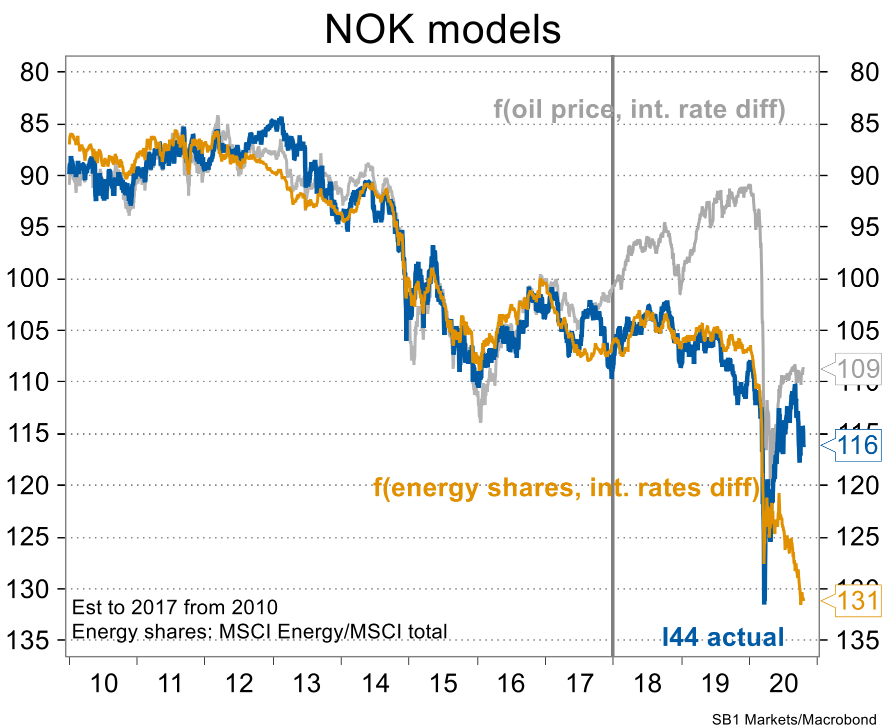


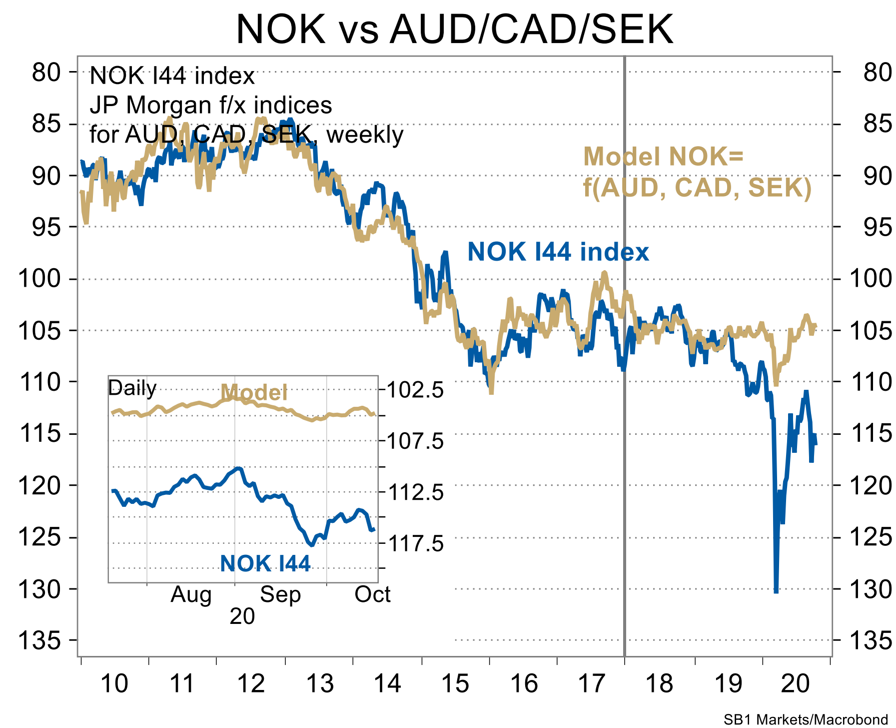


- There has not been any stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with correlation like the one we have seen since early 2020
- We have long argued that global equity prices should be more important 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 'finally (and rather sudden)' come to the same conclusion?
- Now, the NOK is more than 5% weaker than 'normal' vs the stock market – (the gap that built up since early September, based on the link between the NOK and MSCI since Jan 2020)
- NOK has not been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)

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

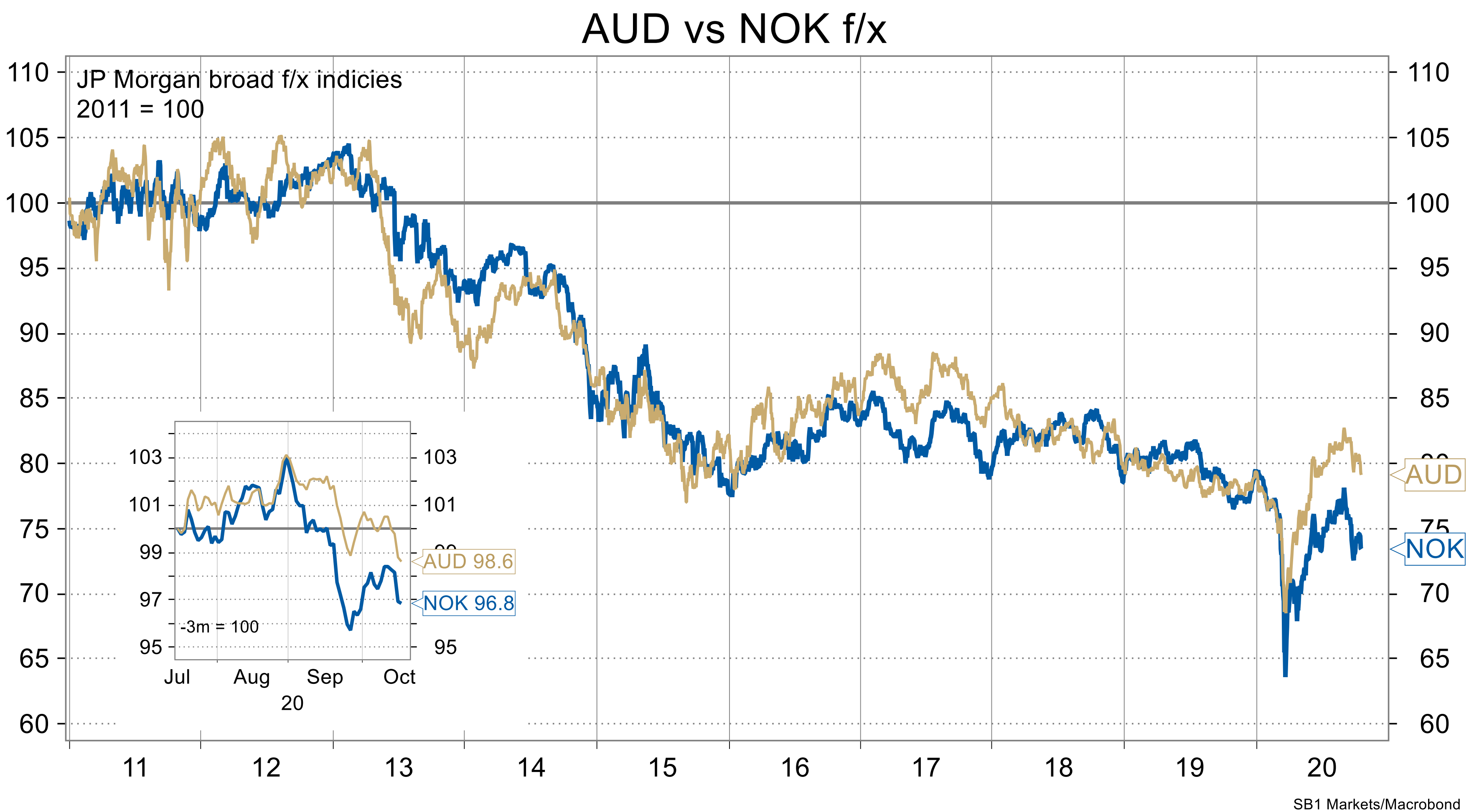




- On the alternative NOK models
  - Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The 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
  - <u>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 10% below our model est. We think this model is more relevant than the oil stock price model</u>

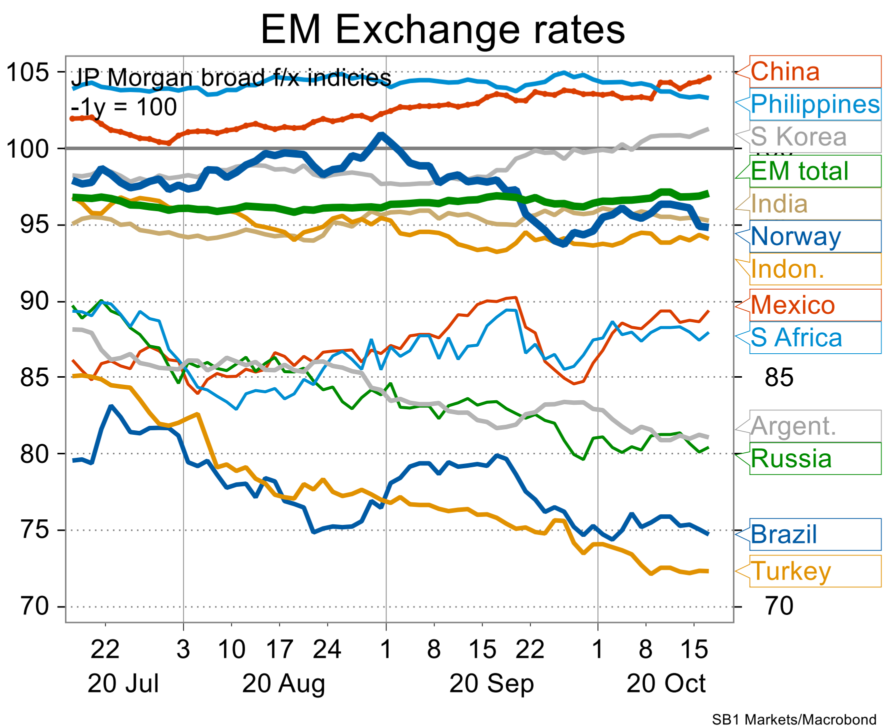
NOK weaker than usual vs the AUD but not much weaker since July (or early Sep)

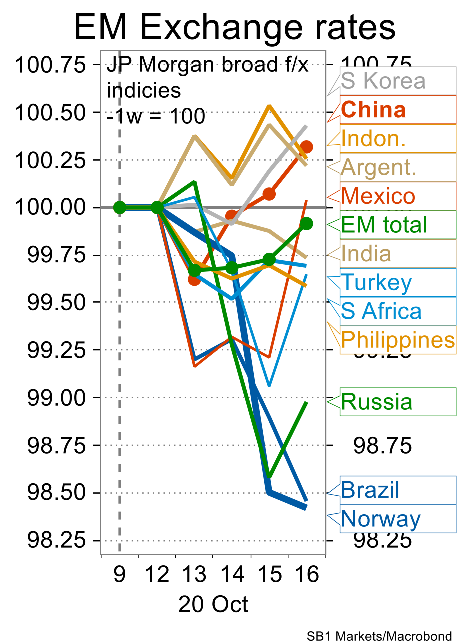
Both down last week

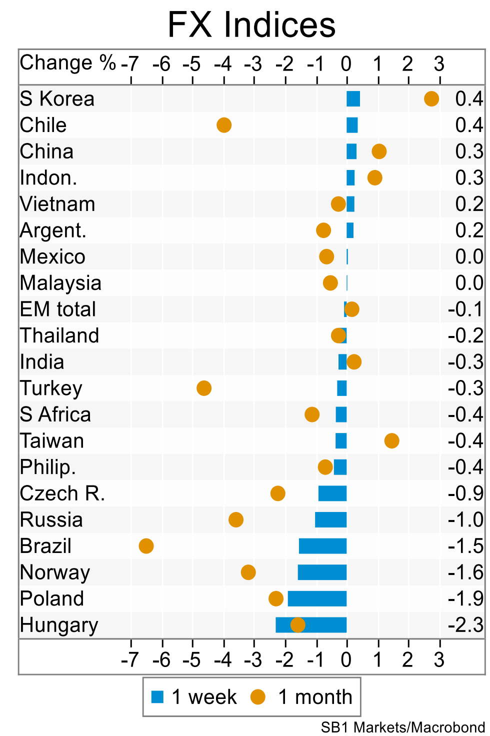


EM currencies mostly down last week (the NOK too)

Still, the Chinese CNY continued upwards - it is up 5% since July







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

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