16 November 2020

Macro Research

Week 47/2020

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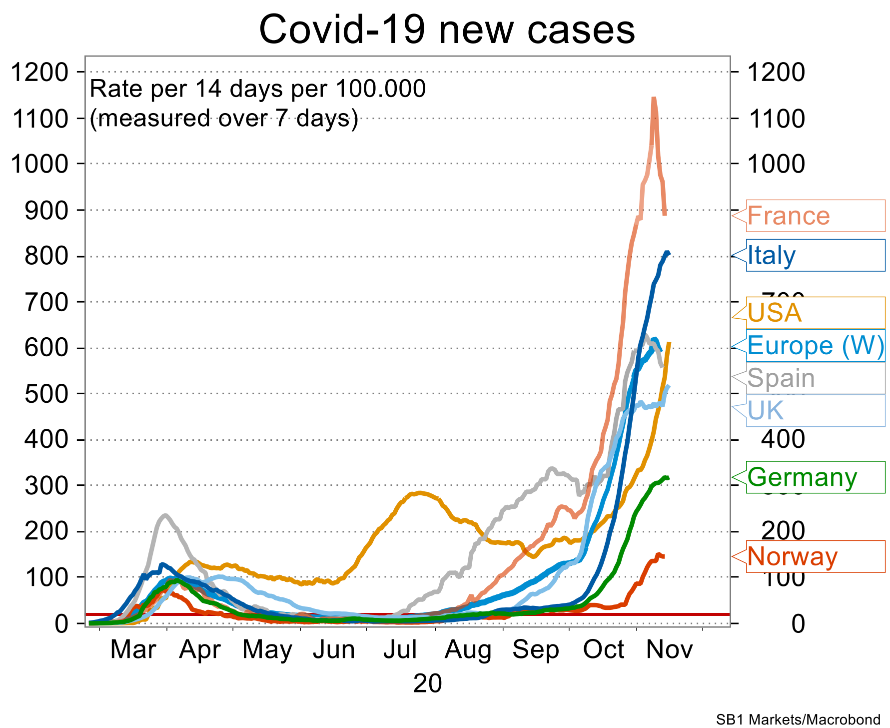
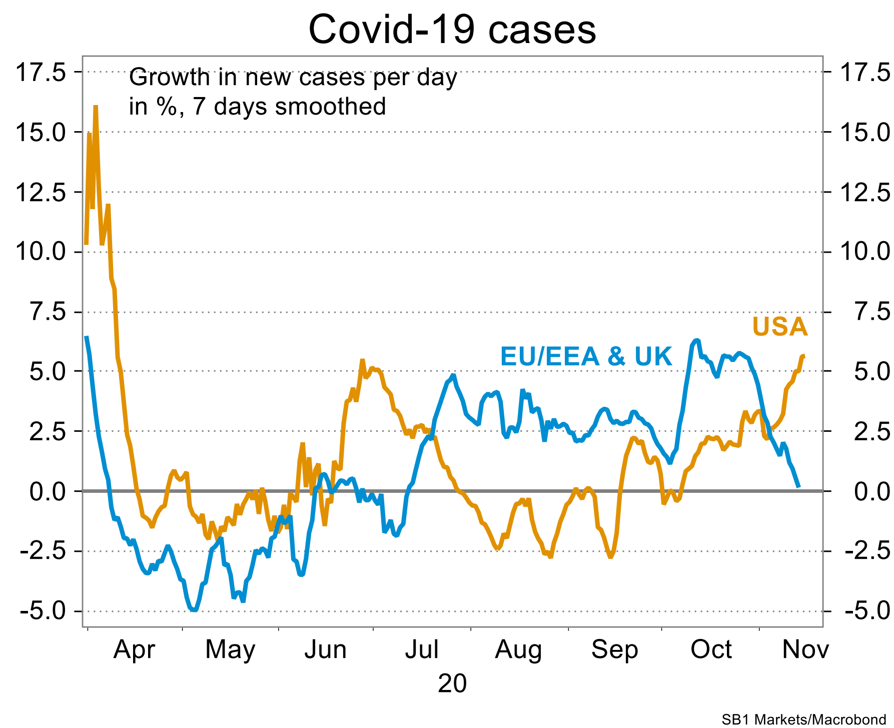
Last week:

- The **Pfizer/BioNTech vaccine** news was nor that surprising (perhaps barring the 90% protection rate), and we expect more companies to report positive results the coming weeks, both utilising the same technology, as well as other platforms. Still, it was an important news, as the tail risk of 'no effective vaccine' was significantly reduced. The vaccine is not yet approved by the FDA, and the speed of rollout is uncertain. Some 20 – 50 mill may be available immediately (2 doses per person) and some 100 millions the coming months, distributed in both Europe and the US (and probably elsewhere). However, if several other vaccines pass the hurdle too the coming weeks/months, we assume exposed groups in rich countries will be covered during Q1/Q2, as productions is well underway for several of these vaccines. After that, the rest of us could line up for a shot
- **In Europe, the 2nd Covid-19 wave has probably peaked**. The no of new cases is falling in Belgium, the Czech R, Switzerland, France and is flattening in several countries, **even perhaps in Norway**. Restrictions are working, always! Among rich countries, just the **US is accelerating** – and rapidly. Something WILL give there, well before Jan 20 – and well before any vaccine is widely available. States – and people – will take action when hospitals are overwhelmed
- **15 East Asian countries**, China, Japan & Australia included, signed the **RCAP** (Regional Comprehensive Economic Partnership), the largest free trade area in the world, covering more than 1/4th of the world economy. China filled the void when Trump scrapped the TPP 4 years ago.
- **In the US, president Trump** has not yet conceded, and he is still tweeting that he won the election/or that the election was rigged. Just some few leading Republicans have officially acknowledged that Trump lost the election, and that Biden will become the next president. Even so, few are worried that a peaceful transition in the end will not take place
- **The Chinese economy** grew well above trend in October too, data in sum better than expected and the activity level is back on the pre corona trend. Industrial & service sector production and investments stronger than expected, retail sales somewhat lower but (in real terms, our est) sharply up in Oct. too. CPI inflation has collapsed. Credit growth is slowing as authorities do not want a further debt funded expansion
- **US CPI inflation** was a tad lower than expected, and remains below the inflation target**. The unfilled vacancy rate** is still very high (and SMEs are reporting that they an **unable to fill positions**). **UM consumer sentiment** fell markedly in early Nov (as Democrats became more worried)
- **In EMU, industrial production** surprisingly fell in September, due to a sharp decrease in Italy, following the August hike there. Production remains 4% below the pre corona level (vs 7 % in the US).
- **In Norway,** the government proposed a 0.5% of GDP **corona support program** to compensate businesses, households (unemployed) and local governments for the 2nd corona wave. Last week, **NAV unemployment** rose slightly, the first increase since the spring. We expect more to come the next week due to restrictions/weak demand, especially in the restaurant sector. **CPI core inflation** accelerated 0.1 p to 3.4%, as expected, headline up to 1.7%. We assume inflation is on the way down, both due to a stable NOK and low wage inflation. **Homebuilder's** reported a decline in new home sales in October but the short term trend is upwards – and as the 2nd home market is red hot, new home construction should pick up speed

The curves are bending in Europe, and some have turned south

Restrictions are working this time as well, of course – and will not be needed forever

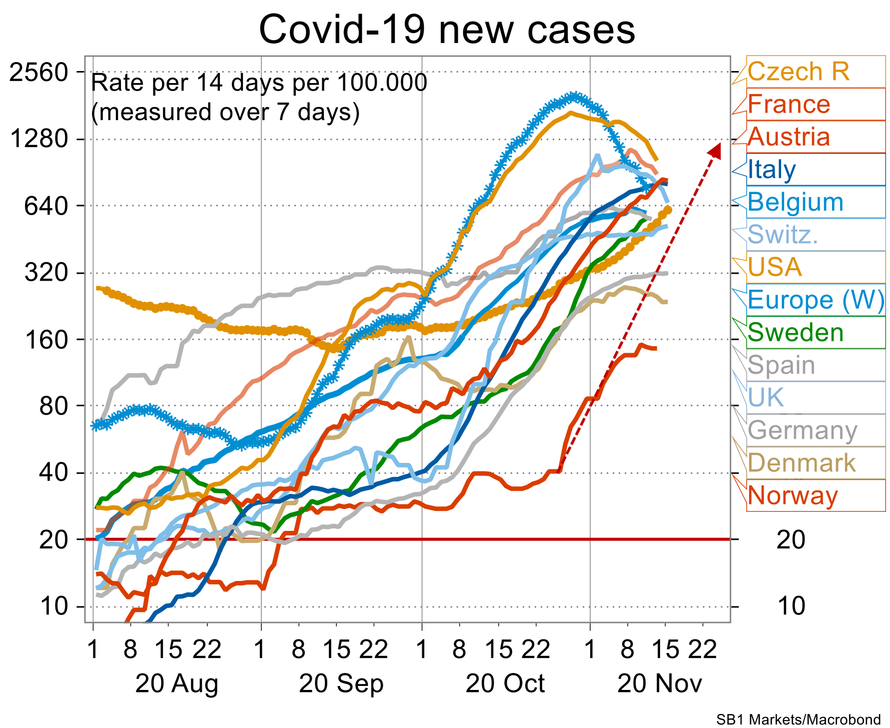




- The goods news from **Europe** is the growth is slowing almost everywhere, and that the no of cases in falling in rapidly in Belgium and in the Czech Republic, as in Switzerland (see next page) and likely in Spain and in France. In the UK, the no of new daily cases has flattened, at least until a couple of days ago. Hospital occupancy is increasing everywhere, and is already disturbingly high in some countries, as are no of daily deaths – and they will continue upwards the next two weeks, if the no of new cases in Europe stabilises now.
- Growth in number of **new cases in the US** is accelerating sharply, quite broadly geographically. The number of hospitalisations is on the way up, and more deaths are following. So far, the economic cost has been limited, as no data signals another downturn. However, the curve WILL bend here, whatever the current federal administration does before Jan 20 next year. The doubling time is just 13 days.
- **Norway** has been reporting the highest growth rates in Europe, but now growth has very likely slowed here too

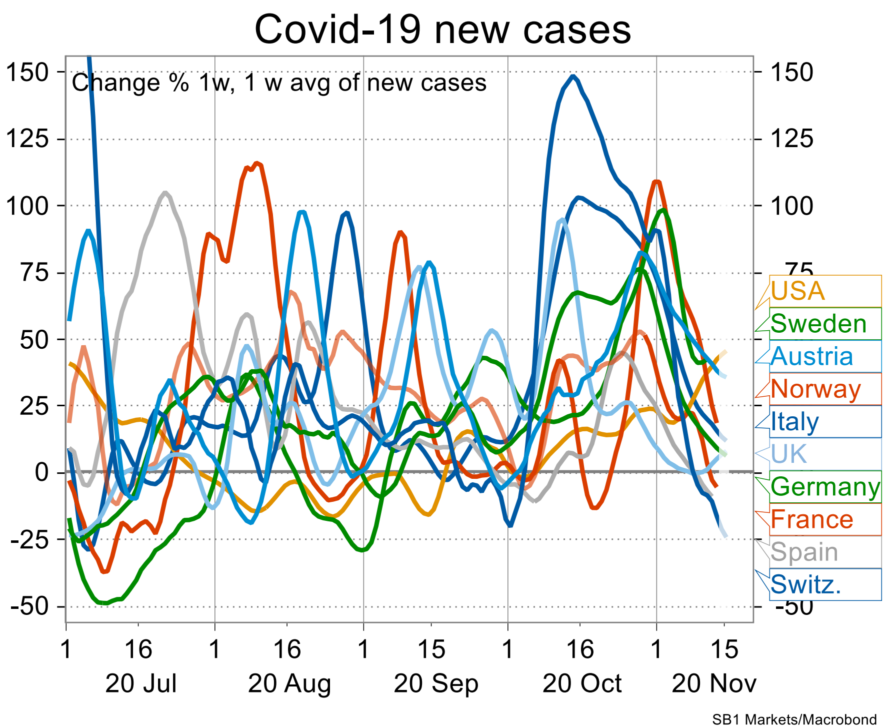
France, Belgium, the Czech R, Switz., Denm are reporting a decline in new cases

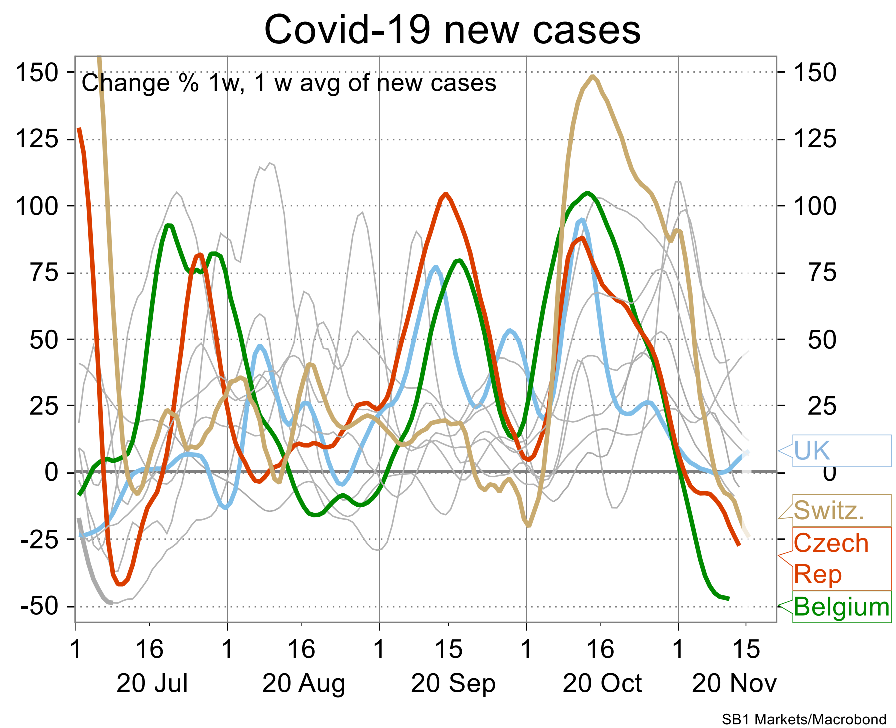
Now, just the US is accelerating – and something will give, well before any vaccine arrives (and well before Jan 20…)



- The no of new cases in Belgium has more than halved over the past two weeks
  - » Some of the decline is probably due to less testing, but the positivity rate has fallen sharply as well
- The Czech Rep is on the way down to, as is Switzerland
- Most likely, France has peaked too
- Denmark is clearly on the way down
- Spain has flattened, as have the UK (at least until the past few days), and Germany
- Elsewhere, growth is slowing, like in Italy & Sweden
- Norway may have flattened already but we need a couple of more days to make the call
  - » The level of contagion in Norway is still very low, with just some 1 – 1.5% of the capacity of hospital beds/IUCs utilised for corona patient. The corona death numbers are close to zero
  - » The next couple of weeks, hospitalisations & deaths will increase further but there is no 'health crisis' at all
  - » However, if behaviour had not been changes, that would have not been the case in early December, check the arrow – and the scale

Case growth rates are volatile but they are now heading down all over Europe





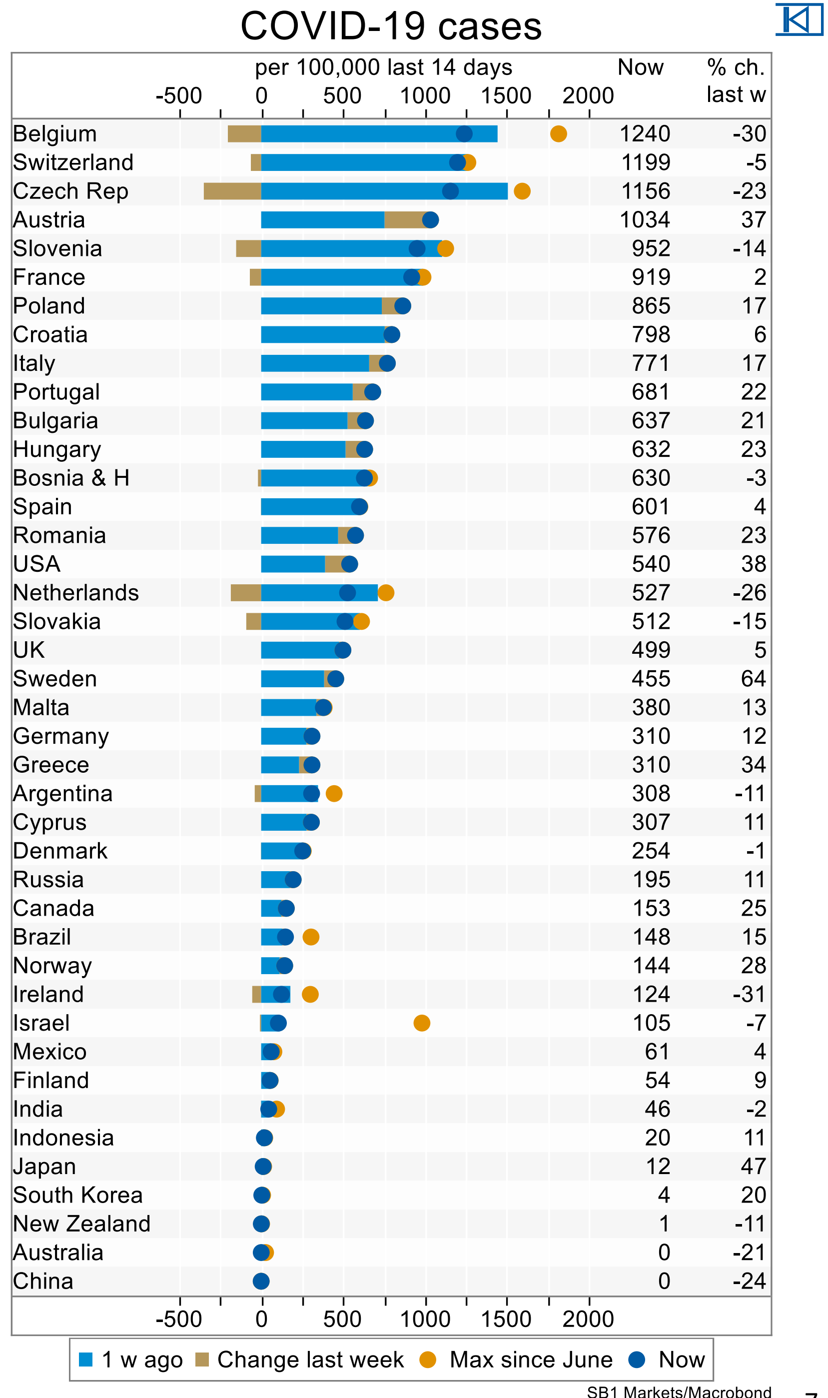
- Check the mobility data some few pages out in the report

The leaders are retreating!

More countries are reporting fewer cases

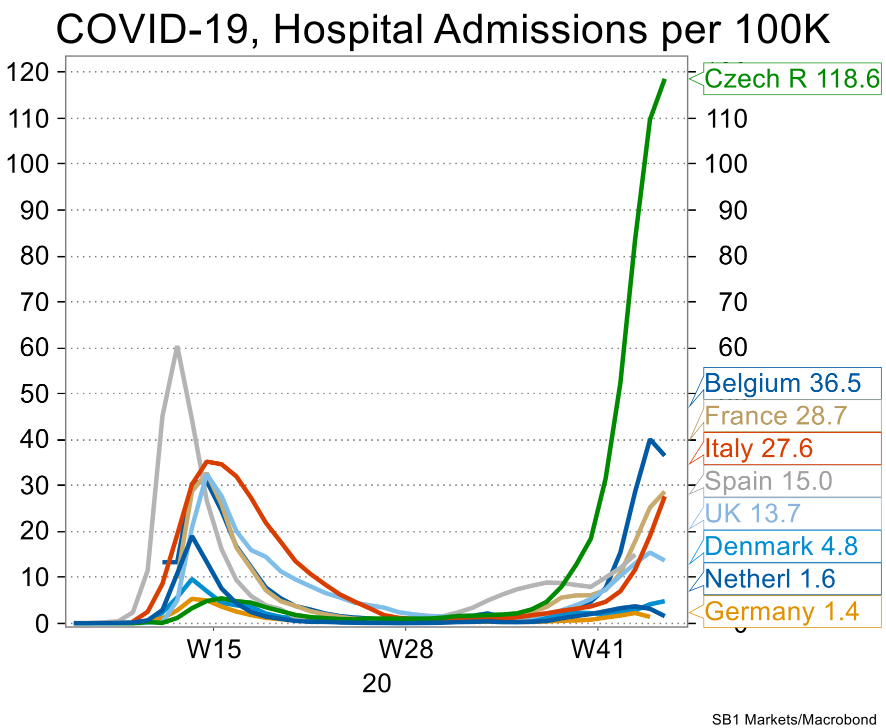
- Lockdowns work everywhere and every time – there is no doubt

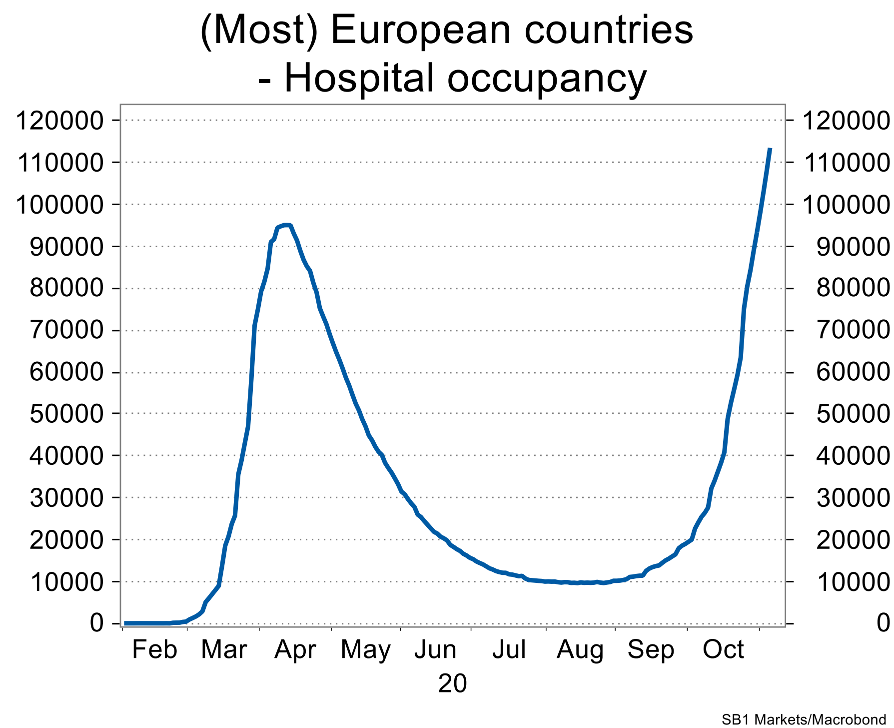
- *Comment on the data: At the chart at this page and the next, we present accumulated cases over 14 days, and not over 7 days, at a 14 days' pace, like at page 4 - 6. Thus neither level data or growth rates are equal – but the broad patterns are of course the same*



Corona is becoming a huge health problem, at least some places

The number of hospital admissions is on the rise again. The Czech Rep. has a huge challenge

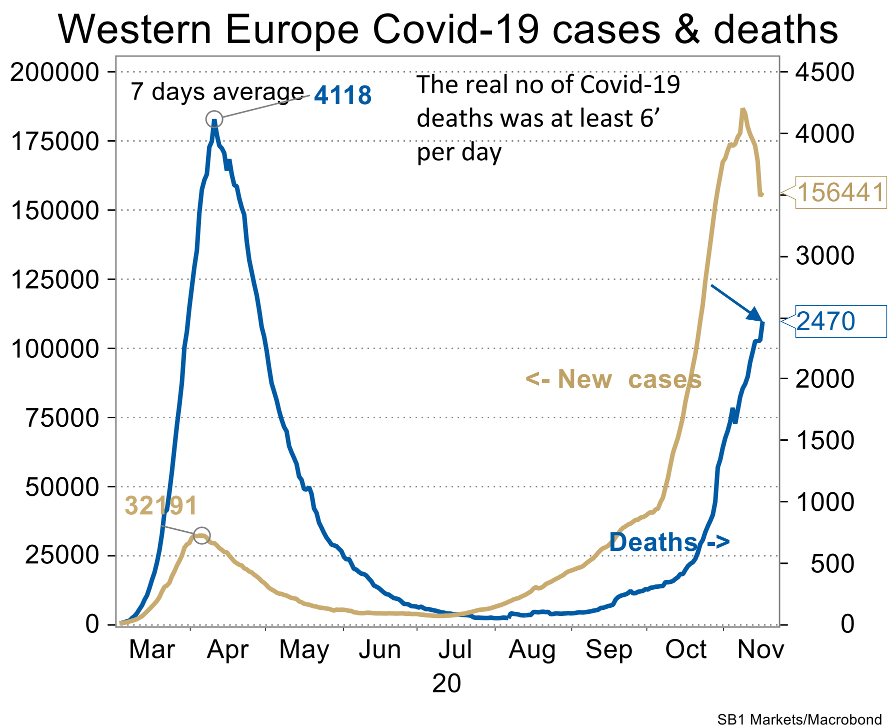




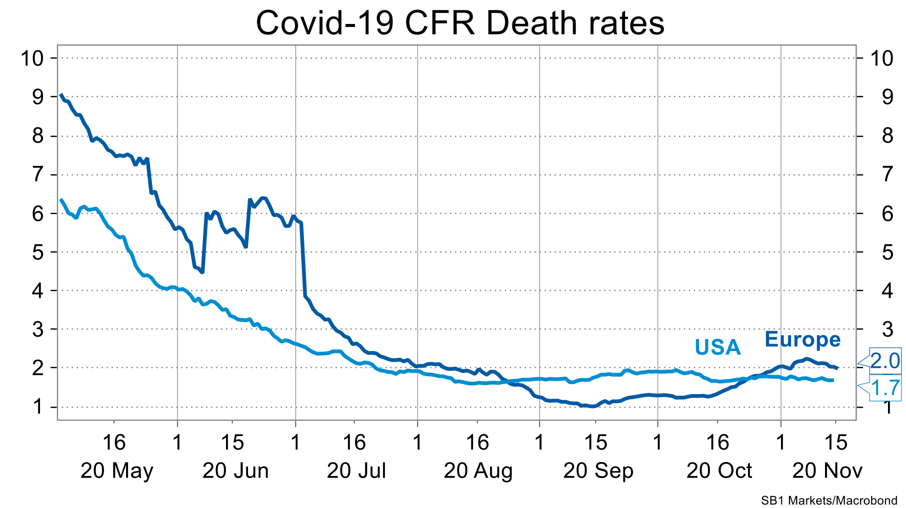
- There are now more patients at European hospitals than in March/April
- The last data points are preliminary – and they are lagging.

Europe: The number of deaths rapidly in the way up, will rise further

… but the upside is not that large anymore as the no of cases very likely has peaked



- The number of deaths in Europe is growing at a fast pace, now 2,400 per day, up from below 1,300 two weeks ago (and less than 100 in August).
- Given the sharp increase in new cases past 3 weeks, the number of deaths will increase further but probably not up to the same level as in March/April (when real numbers were clearly higher)



- In Europe, the death rate (deaths vs. confirmed cases 2 – 3 weeks earlier) fell to 1% in Sept but has now increased to above 2%. At the same time, the positivity (test) rate has increased dramatically in all countries (until the past two weeks).
- In the US the death rate is at 1.7%, and it has been more or less stable since August

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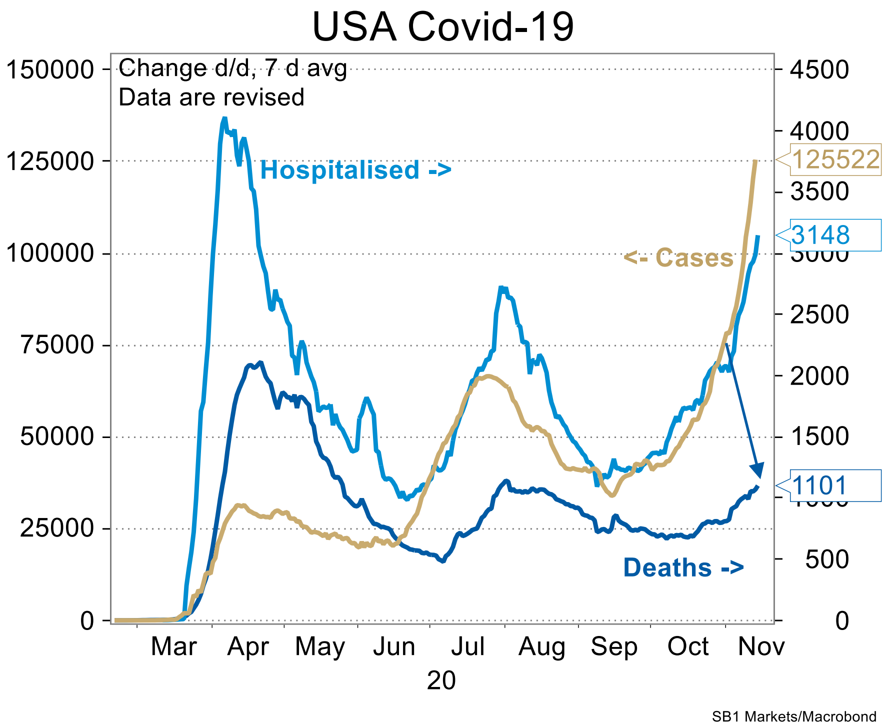
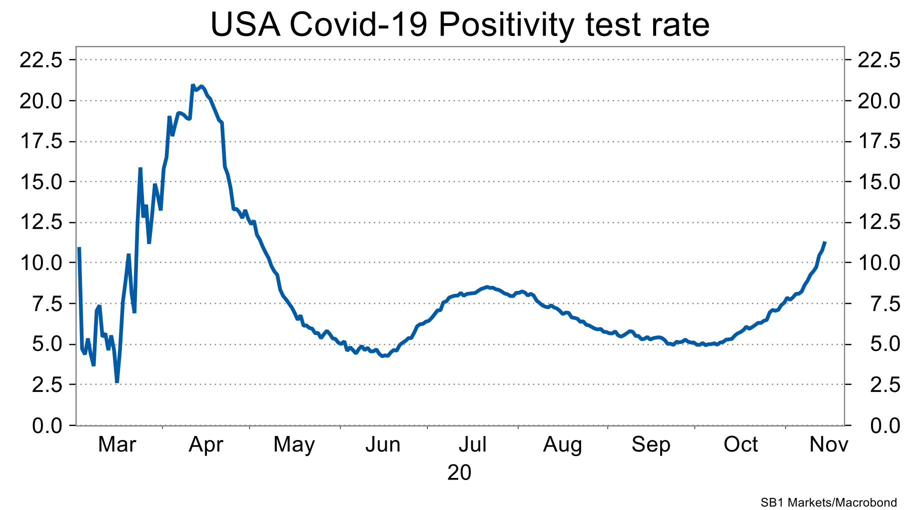
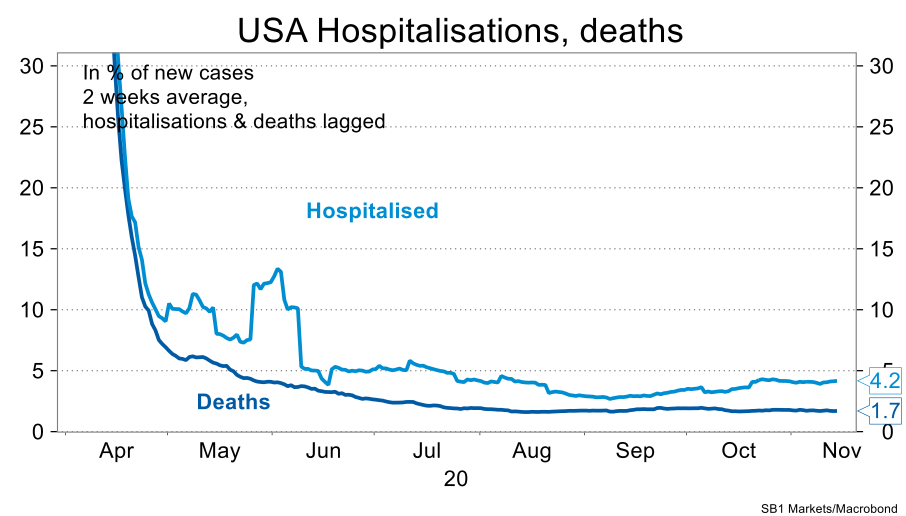
Remarkably, in the US the Covid did not disappear Nov 4 as some said it would

Deaths up to 1100/d, will double the next 2-3 weeks – because cases have, and the CFR is flat



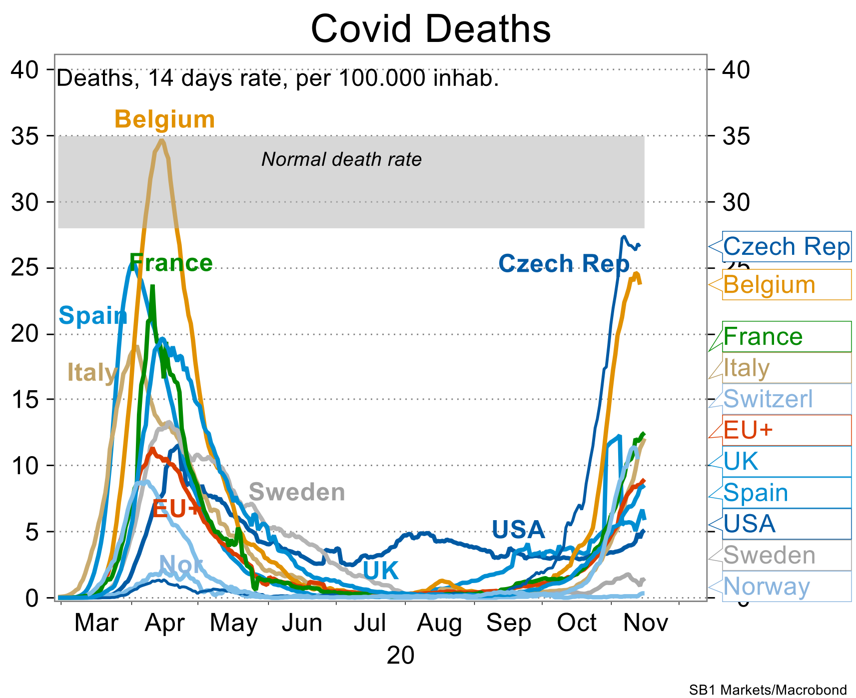




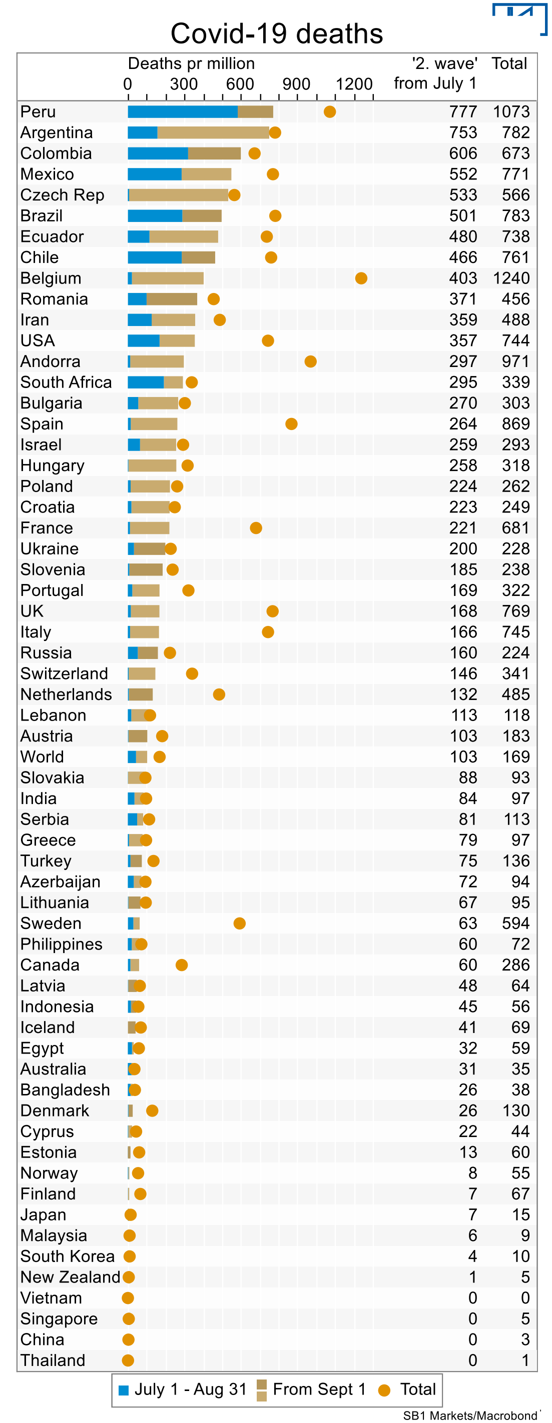
- The hospitalisation rate is lower than during the early phases of the pandemic but will climb further the coming few weeks – and there is still no signs of any slowdown in growth. In one way or another, growth rates WILL slow before Jan 20 – and we doubt vaccine can do it, quantities are not sufficient. So, who steps forward??
- **The death rate (CFR)** fell sharply until late July but has flatted out since – at just below 2% of new cases. The number of new cases is now at ~~90’~~ 125’ per day – and no of deaths will soon approach ~~1,500~~ 2,000er day, like at the peak in April. And if the no of new cases NOT flattens NOW, even more pain to come…

The bottom line: The deaths

Both the Czech Rep & Belgium may 'already' have peaked!



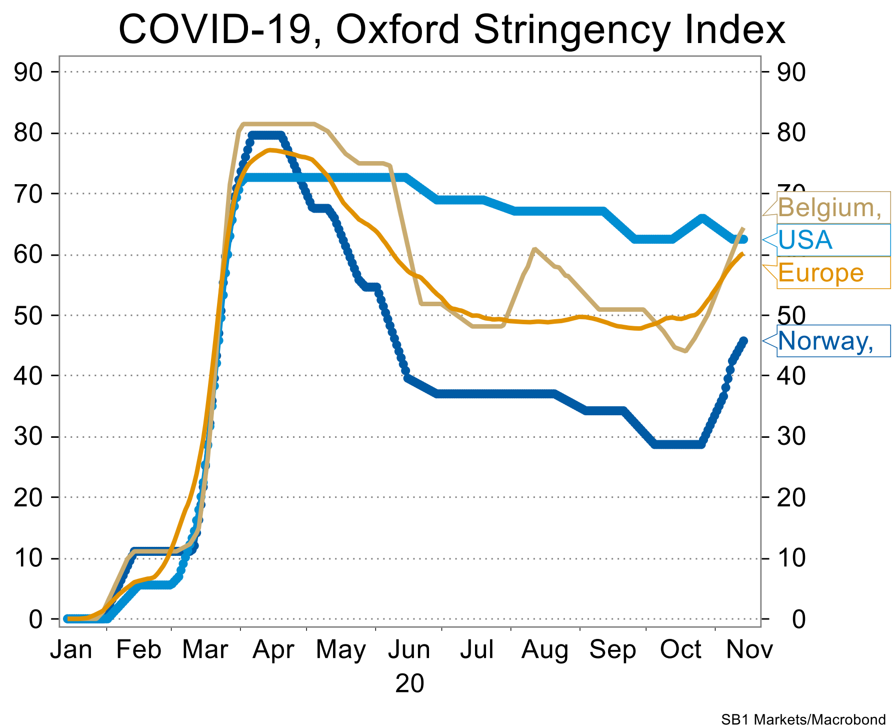
The herd immunity model does not seem to be easy achievable. If the virus is allowed to spread with just light restrictions, the number of infected will rapidly rise to levels that is not manageable for the health system – and the economy will not cope either. Like in the Czech Rep now

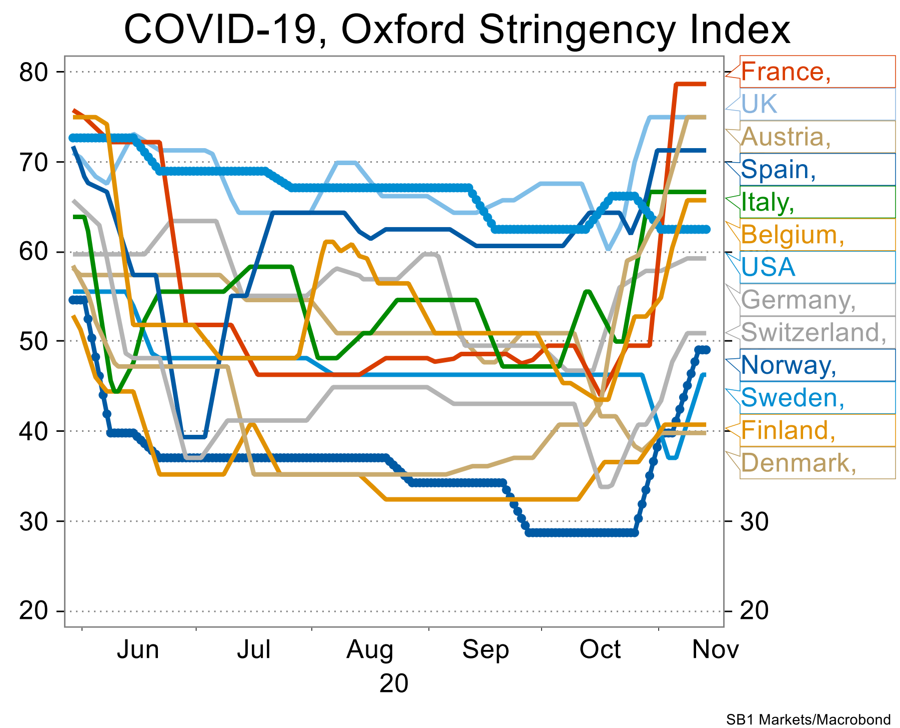


- The peak in deaths the two in 'the lead countries' came 1-2 weeks earlier than we assumed but the flattening follows a substantial decline in new cases. In Belgium the no of hospital admissions has peaked too
- The Czech Rep, Belgium & the US in the lead among rich countries during the 2nd wave, and Belgium is at the top globally during the whole pandemic, so far
- Lat-Am has reported the highest death numbers since 1 July with the 6 of the top 7 positions!
- 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)

Restrictions work, cases have peaked in Europe, after some 2 weeks of tight.

In the US, restrictions are still being eased – and the result is clear…





- We are not sure Oxford's stringency indices are correct all the time (like that Denmark and Sweden have been easing restrictions recently) the broad picture may be correct

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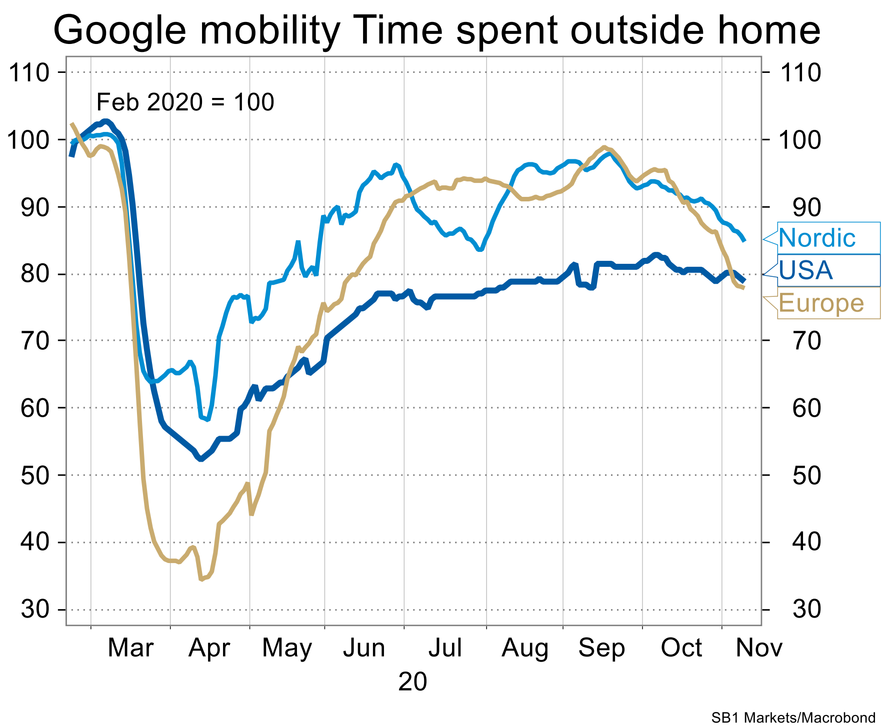
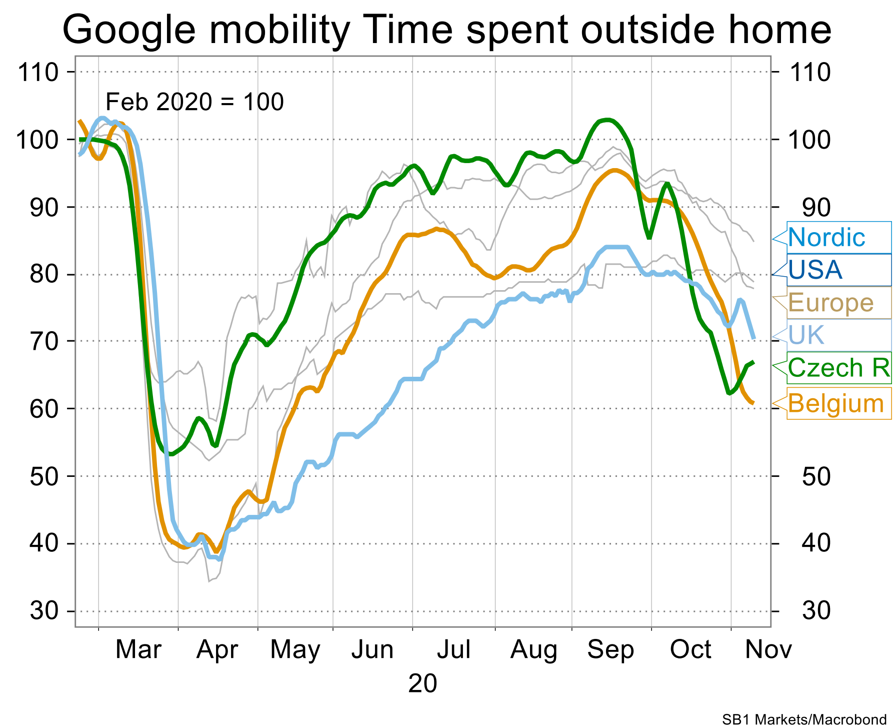
Time spent outside home is declining again – no doubt due to Covid-19

The case curve has flattened in the UK, and is heading down in Belgium, Czech R., without 'full stop'

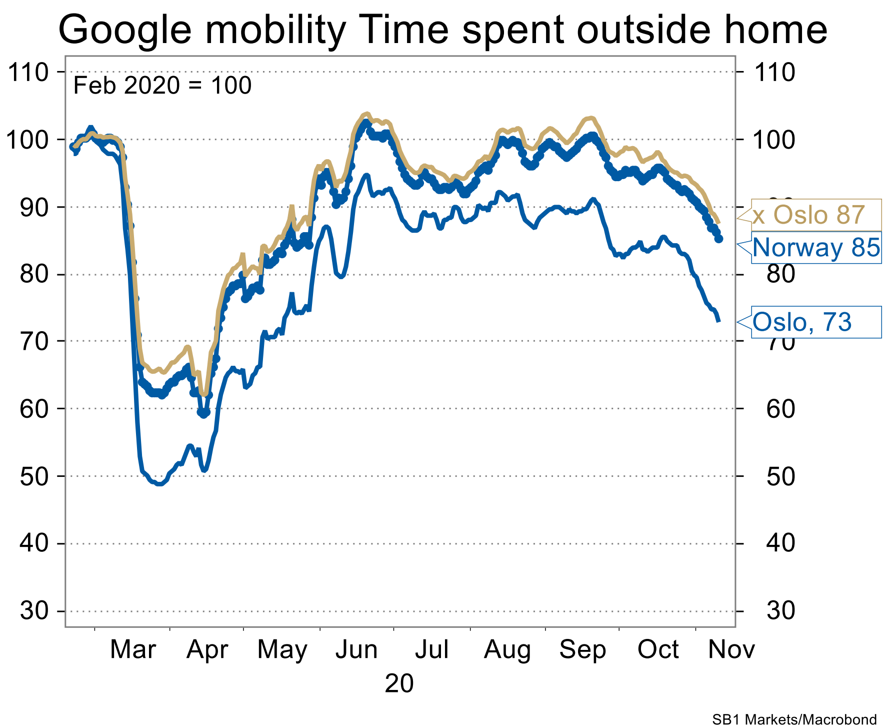




- Mobility (here measured by sum time spent outside home) has fallen sharply in Belgium and even more the Czech Rep – and the no of new Covid cases has fallen in both countries. In UK, the mobility has declined too – and the Covid curve has flattened
- Others will follow suit

Norwegians are staying more at home too – but not like in March/April

... and the current social distancing & mask usage may have pushed the 'R' down to 1



- .. And we suspect the 'R' soon will fall below 1

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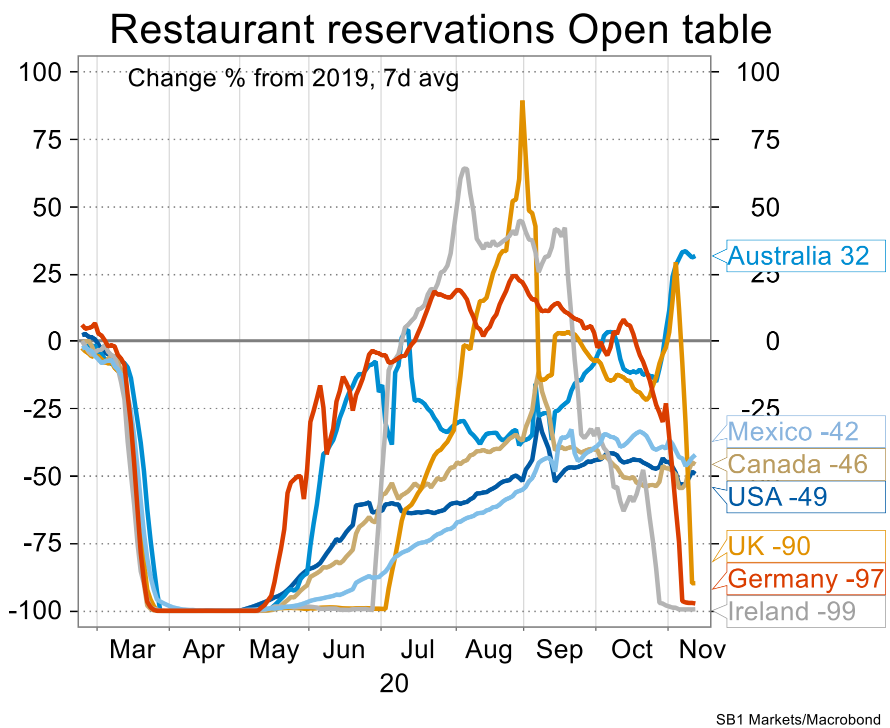
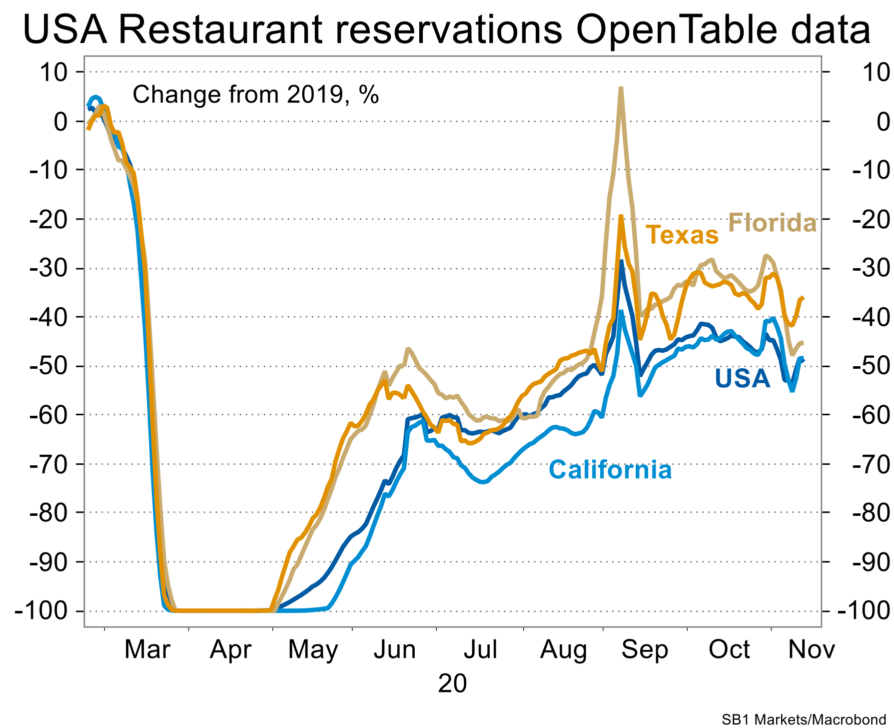
European restaurants have closed completely down again – not so elsewhere

If you want to have a safe meal out, go to Australia (but it is probably rather crowed most places)





- US is down 50% - and is heading down again – but nothing vs. the lockdowns in Europe

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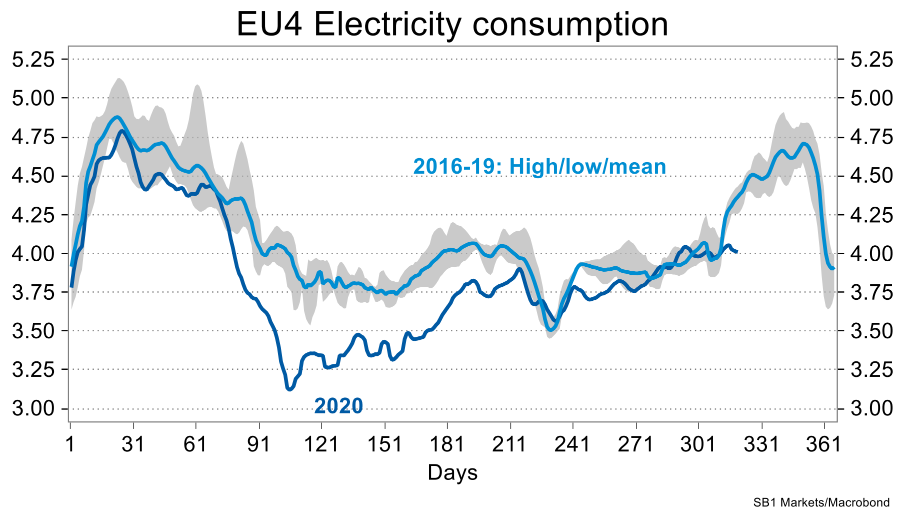
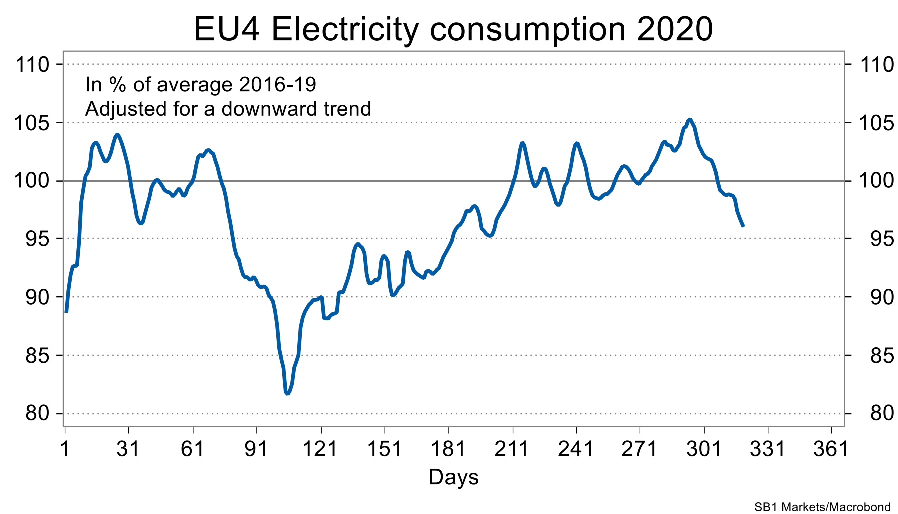
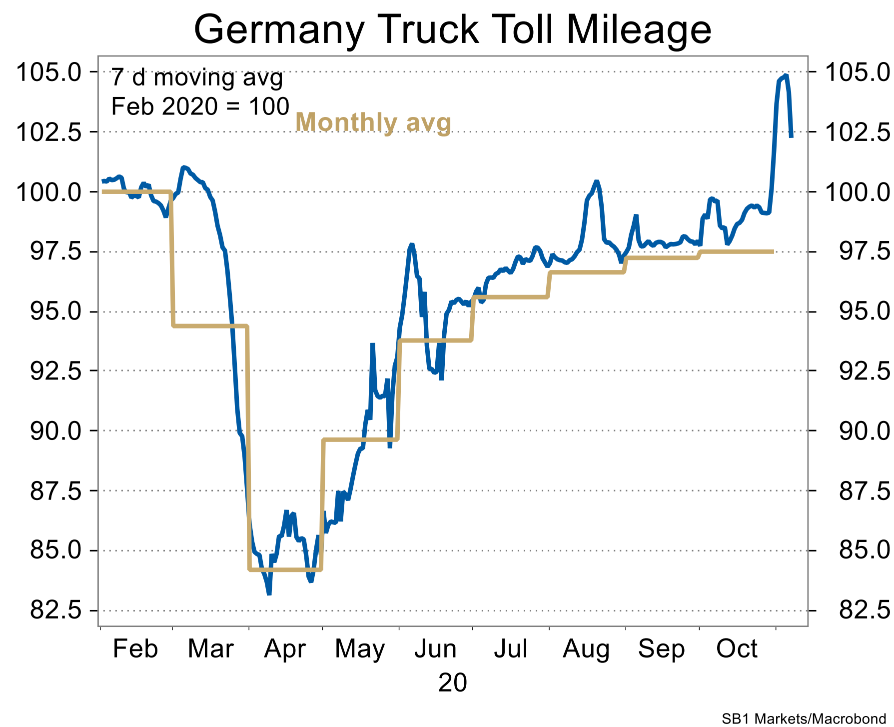
No signs of a slowdown in the 'good' sectors, heavy truck activity in Germany

Electricity consumption has not increased as normal probably due to warm weather

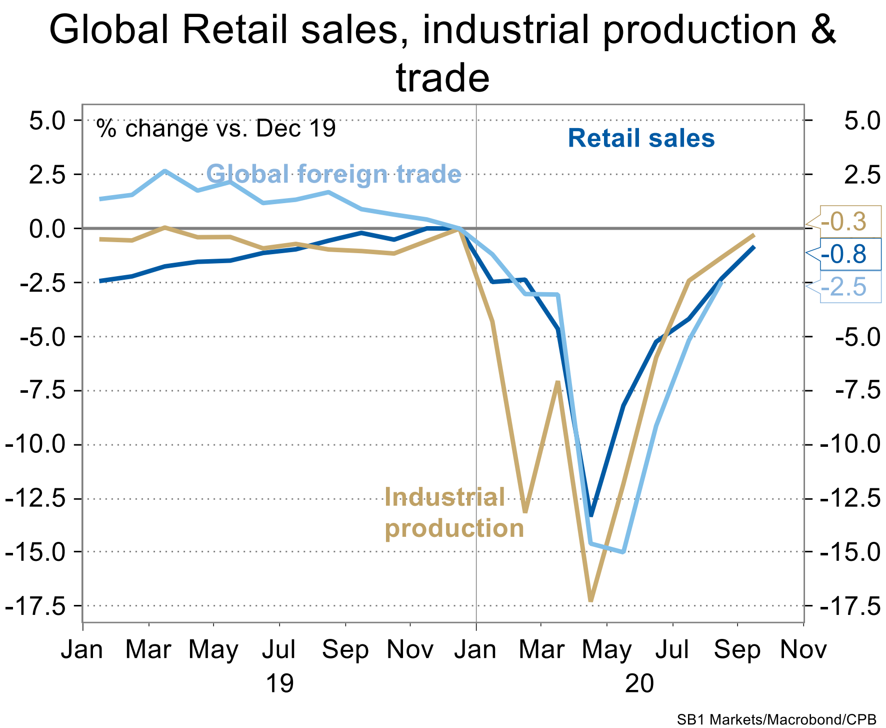


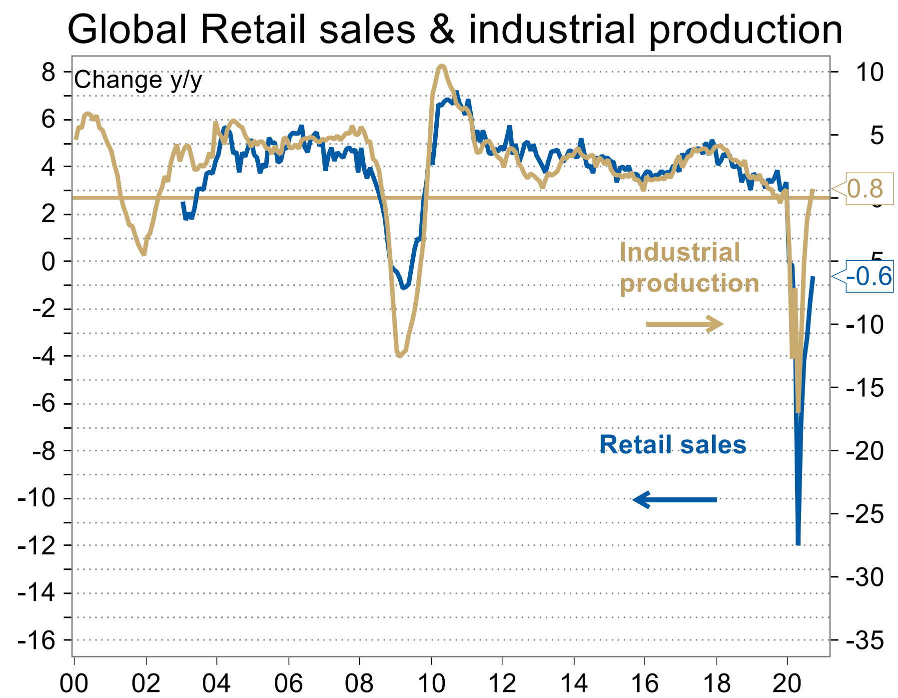




Industrial prod, retail sales & global trade up, gaps are closing

Activity flat to 1% below the pre corona level



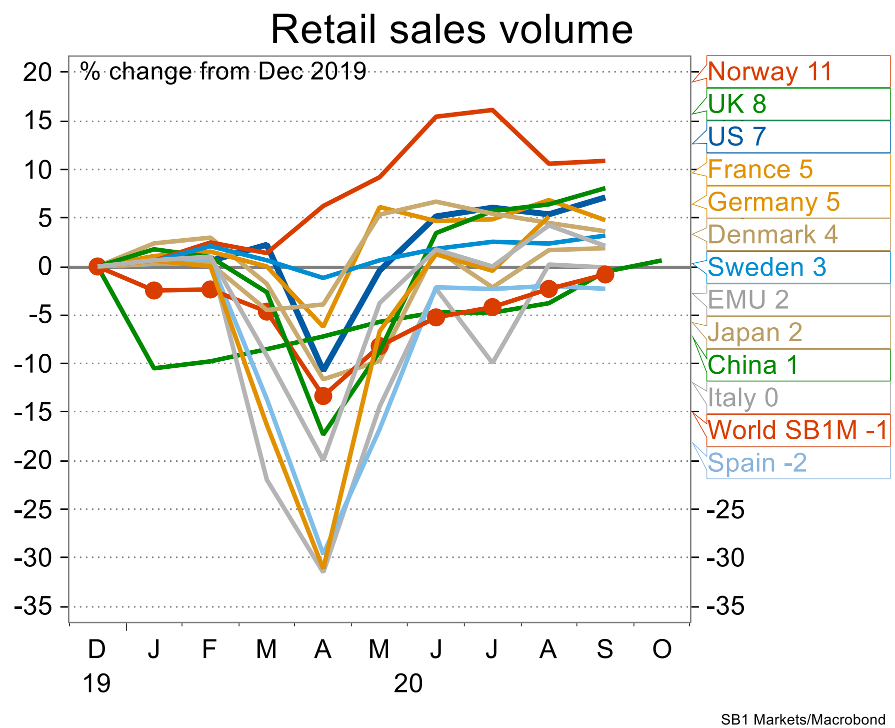


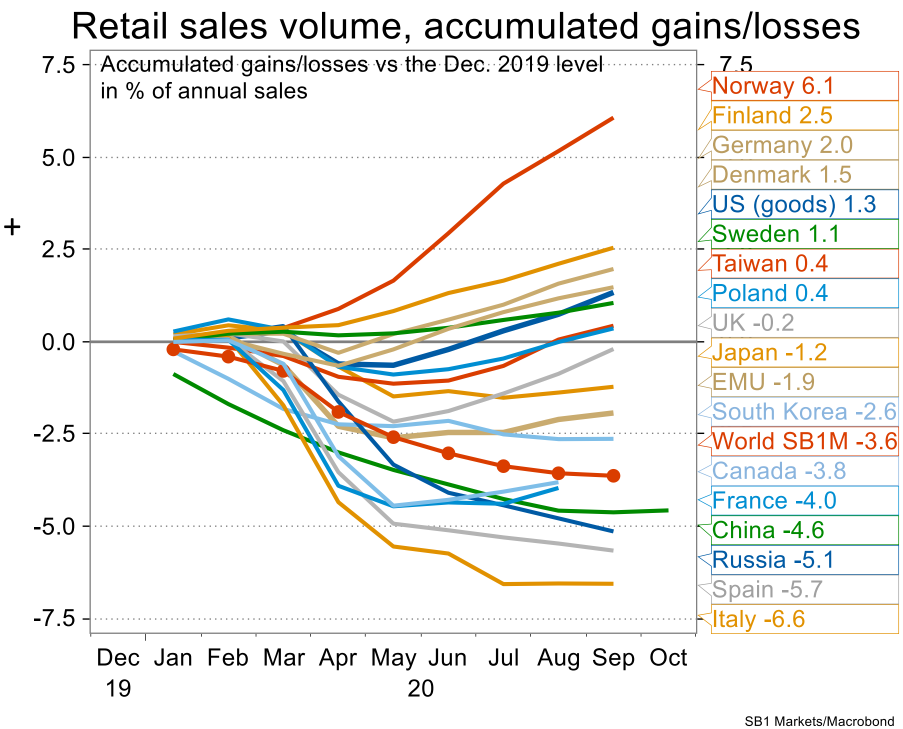
Memo: Keep in mind the different scales at the chart above

- Global retail sales grew by approx 1.5% m/m in Sept, down from 2% in August. Sales are less than 1% below the pre corona (Dec) level (but above the Jan level). *The estimate is still uncertain, since many countries have not yet reported, even not the previous months*
- Industrial production also rose approx 1% in Sept. Production is just marginally below the pre corona level
- Global foreign trade rose 1.8% in Aug after a 4.4% rise in June, and the level is just 2.5% below the pre corona level. We expect a further uptick in trade in Sept

Global retail sales almost back to the Dec level

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

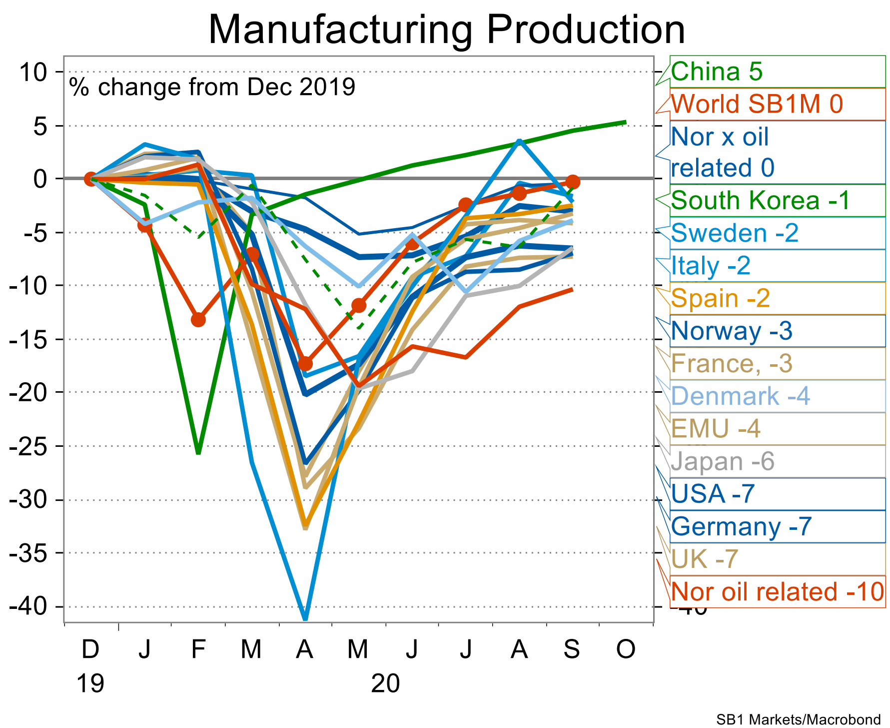


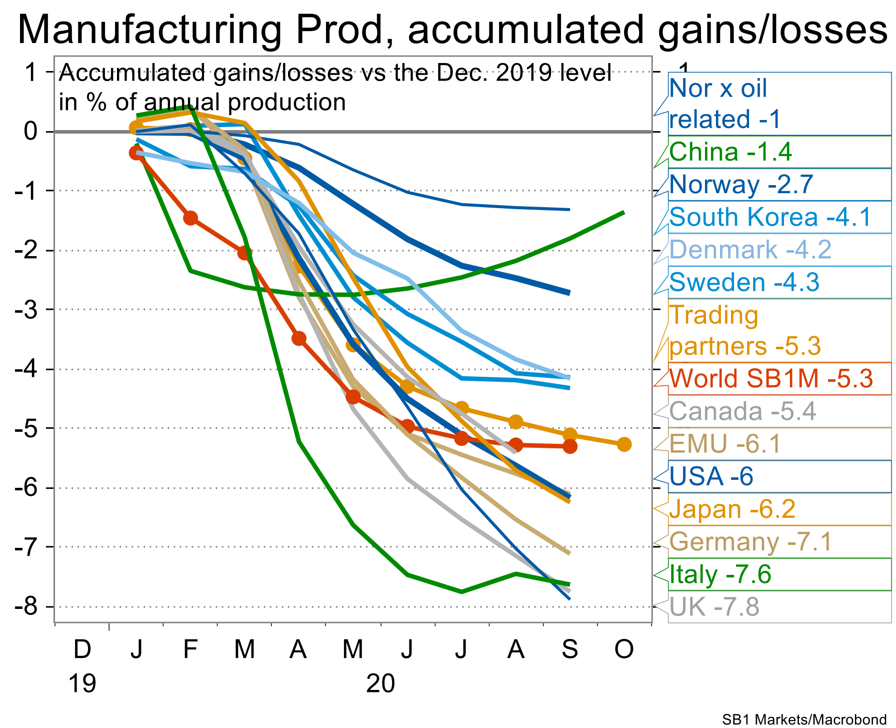


- Global retail sales were 1% below the Dec level in September. Most countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 7% above the pre corona level in Sept 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
- Consumption of services are not included in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production back too but >5% of 2020 'is lost'

Production rose further in September, and is now even with the level in December





- Global manufacturing production was close to the Dec level in Sept, following an approx 1% lift - even if most developed markets are below the pre corona level
- 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 Sept. Total production during the first 9 months of 2020 was 6% below the pre corona level, <u>measured in % of annual production</u>. *This illustrates the loss of production during the corona crisis, <u>so far</u>*
- <u>Service sector production is not included</u> in these retail sales data – and service consumption(=production) is still way below a normal level

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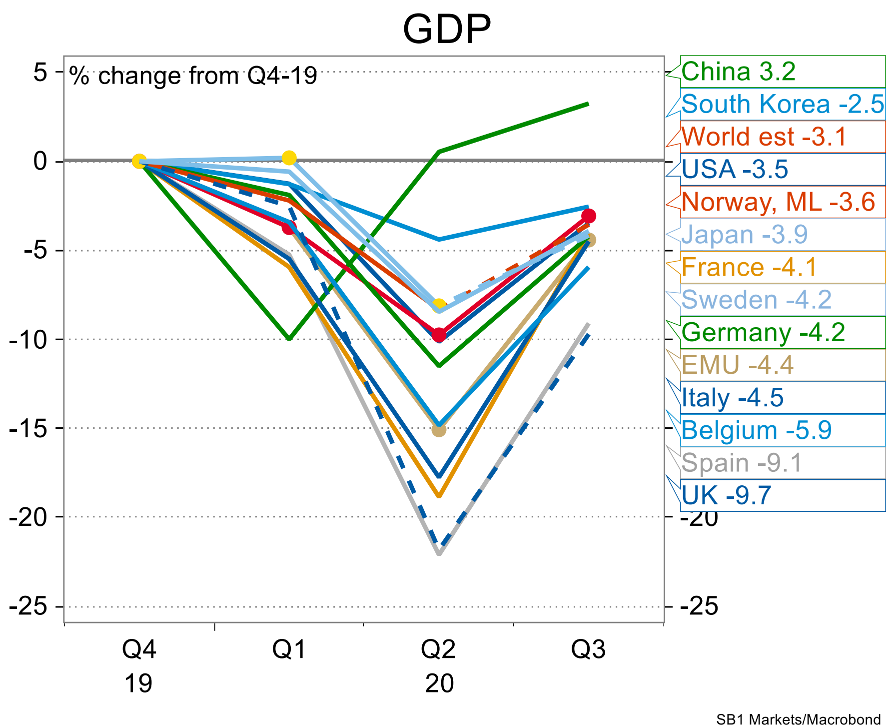
Global GDP up almost 8 % in Q3? Our very preliminary estimate says so

EMU/UK in the lead growth wise in Q3, from very low levels, up 13 – 16% q/q. US up 7.4%

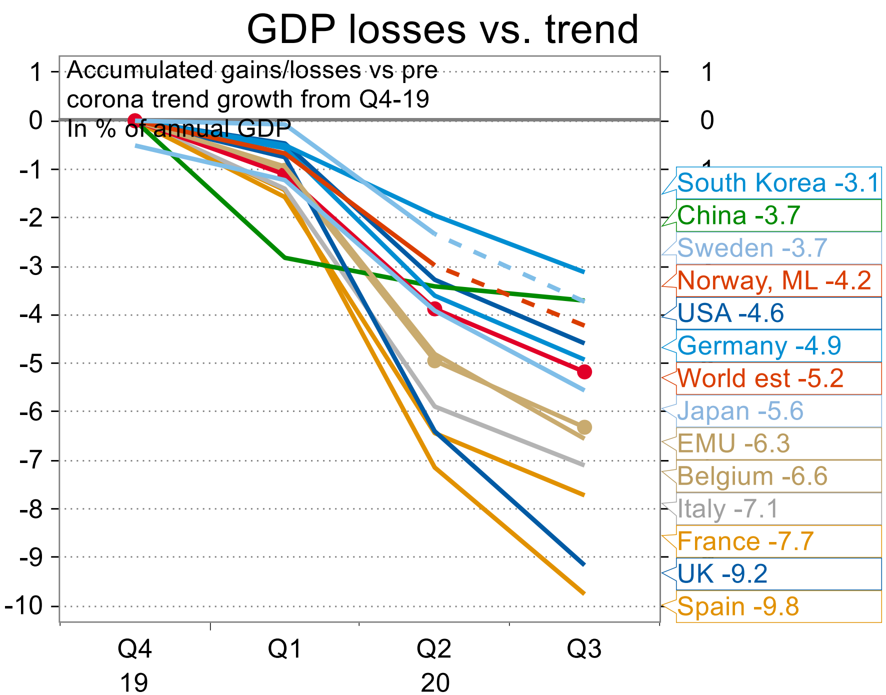


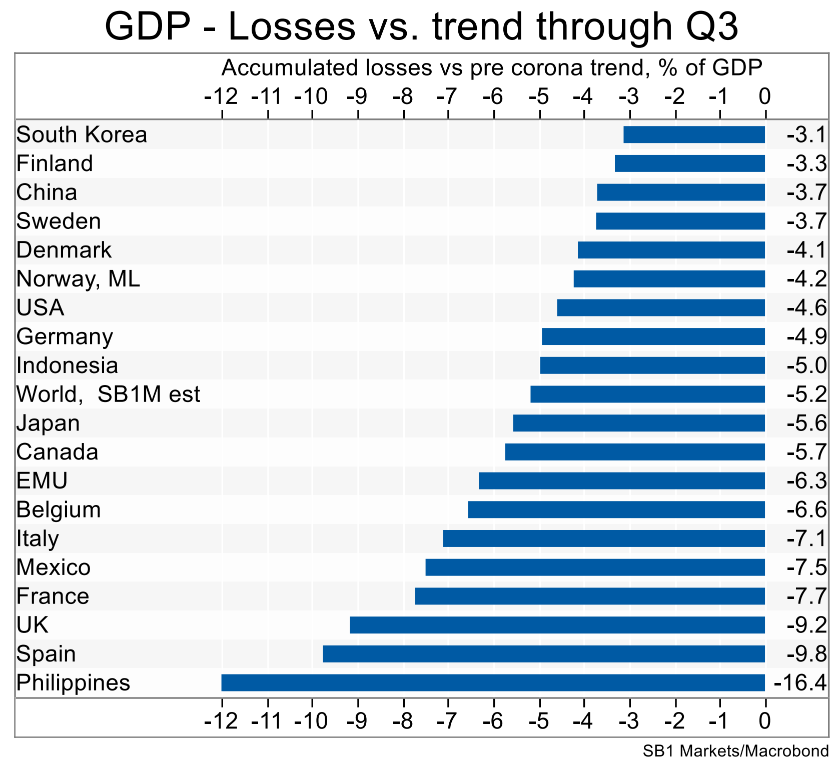
- Given our estimate, global GDP was less than 3% below the Q4-19 level in Q3
  - Most countries have not yet reported. EM may disappoint us, like India
- Some observations – Q3 vs Q4-20:
  - China 3.2% above Q4
  - USA -3.5%
  - Norway -3.6% (our forecast)
  - Japan is down 3.9% (but 6% vs Q3 19, before the VAT hike tanked the economy (once more))
  - Sweden -4.2%
  - EMU -4.3%, of which Spain -9%, France -4.1%
  - UK down 9.6% (our forecast)

Norway & UK: SB1 Forecasts

The accumulated losses vs trend growth equalled 5% of global GDP in Q3

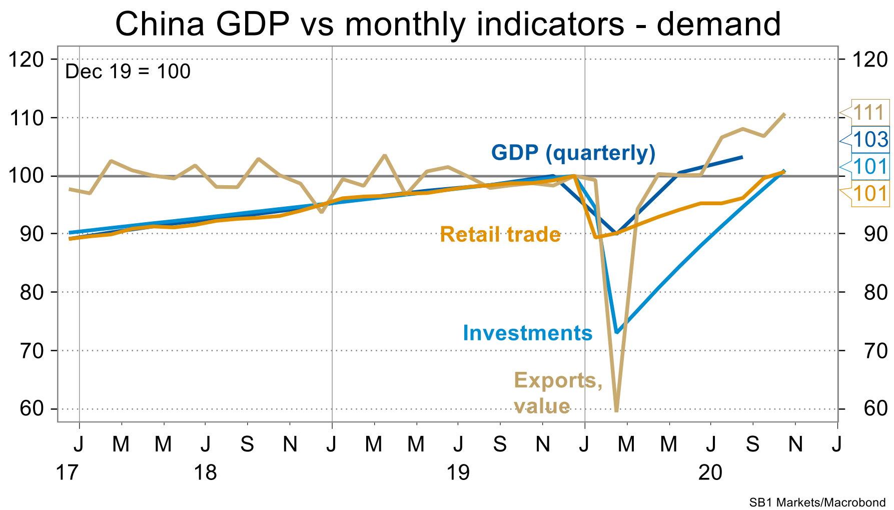
... and even if GDP has recovered in China, the drag is still 3.6% (vs the trend growth path)

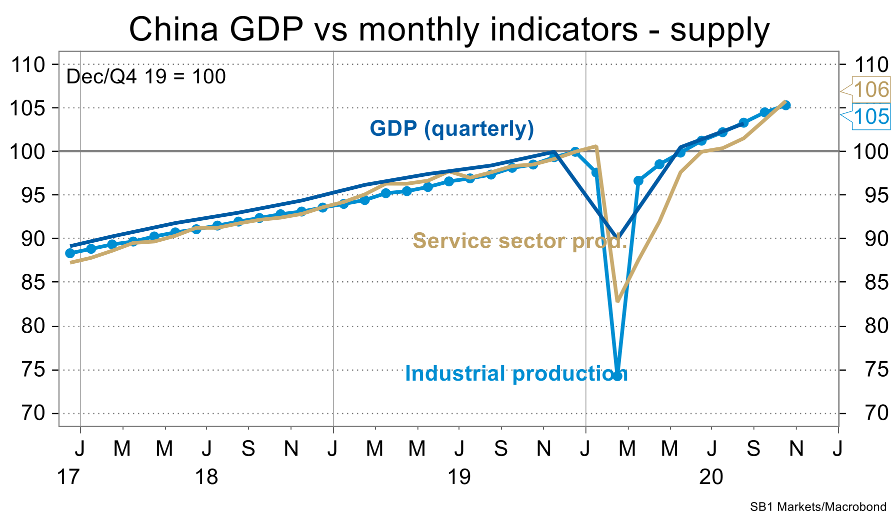




October data confirm the recovery – growth above trend, gaps are closing

Industrial & service sector production, exports above/at pre corona trend; retail sales, investm. below



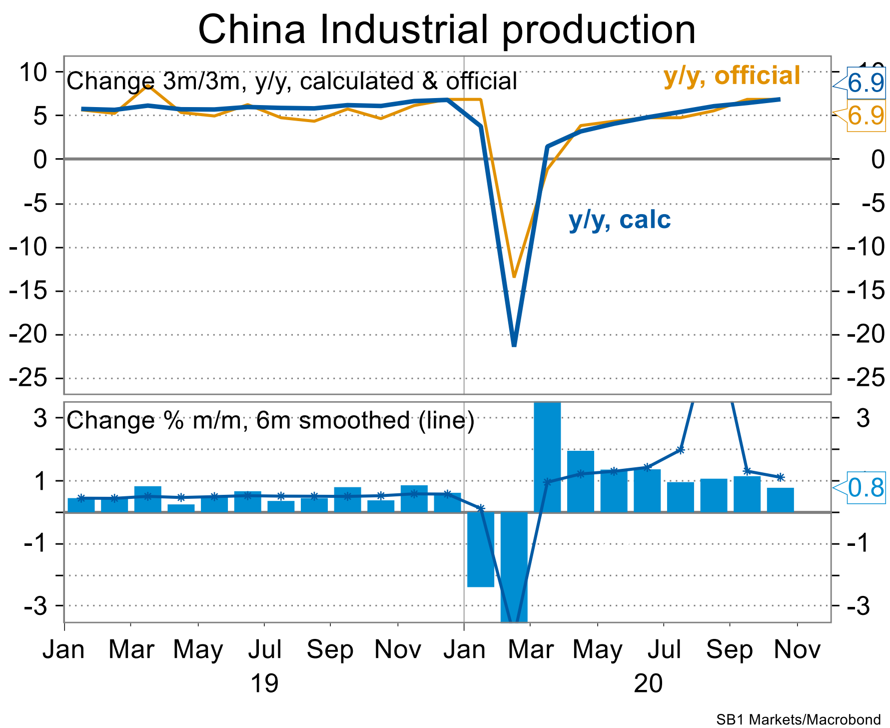


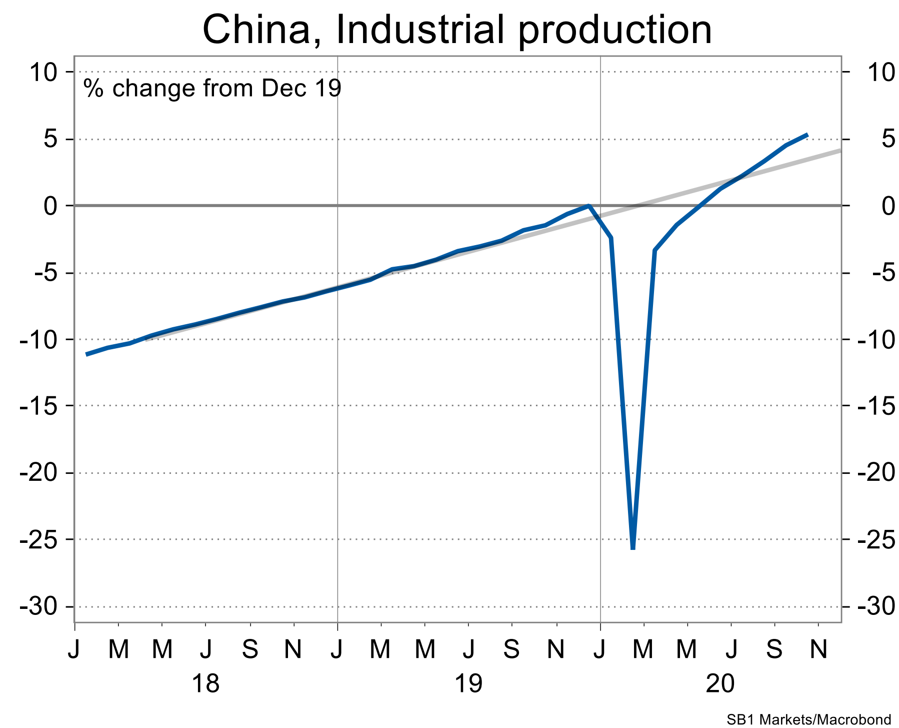
- **Industrial production** rose 0.8% m/m in Oct and 6.9% y/y, 0.2pp better than expected. Production is now above the pre corona trend path. Growth will now most likely slow
- **Service sector production** grew by 2.1% in Oct, as in Sept. Activity is 6% above the Dec 19 level – and 'finally' at the old trend path
- **Retail sales** rose 1.1% m/m in volume terms in Oct. Annual nominal growth rose to 4.3%, 0.4 – 0.7 pp lower than expected. The gap to the pre corona trend path is still wide, at 3.7%. **CPI inflation** is falling sharply – now down to 0.5% (from above 5% at the peak) as pork prices are heading down. Supportive for household demand, of course
- **Investments** rose 3.2% m/m in Oct. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly, now at 1% below. The gap will be closed in Nov
- **Credit growth** has slowed somewhat but is still high, at 12% - still well above nominal GDP y/y
- **Both exports** and **imports** were strong in Oct, signalling growth both abroad and at home. Other Asian exports are on the way 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

Industrial production up 0.8% in October, level 2% above the pre corona trend

Production rose another 0.8% m/m Oct, and the activity level har fully recovered

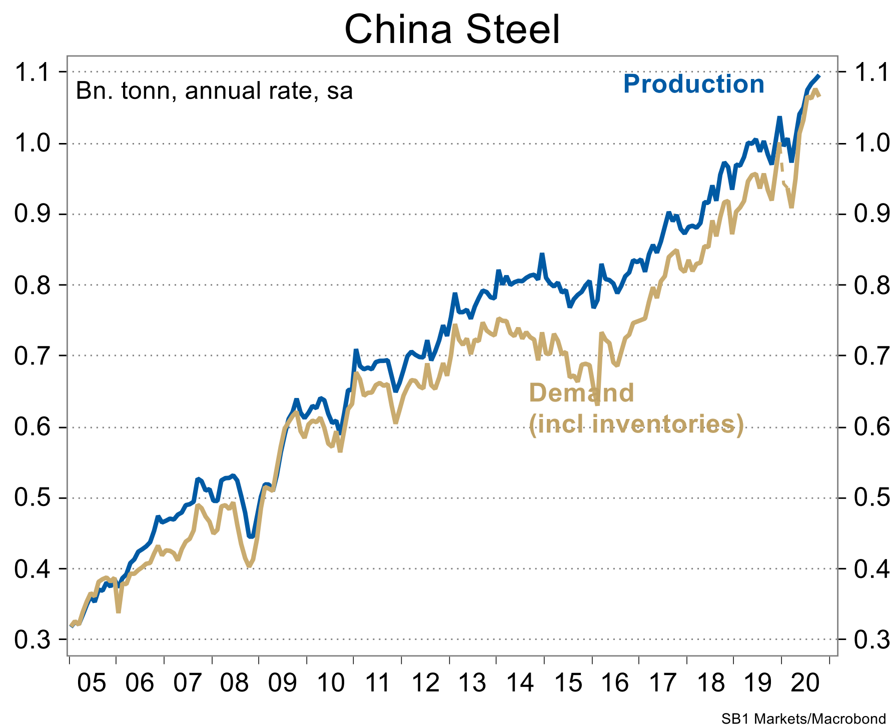




- Production is 5% above the Dec 19 level and 2% above the pre corona growth path
- The official y/y rate was stable at 6.9%, 0.2 – 0.4 pp better than expected
- As the production level is above the pre corona growth path we do not expect industrial production to keep growing faster than trend growth, at some 0.5% per month. Both supply and demand may be limiting factors
  - » Retail sales are still almost 4% below pre corona trend, investments 1% below. Net exports (and probably inventories) are supporting growth in production but domestic demand is probably to low to sustain the current production level. However, both retail sales and investments are still growing faster than trend, gradually closing the gap to a 'normal' production level

Construction record strong but is not expanding that fast anymore

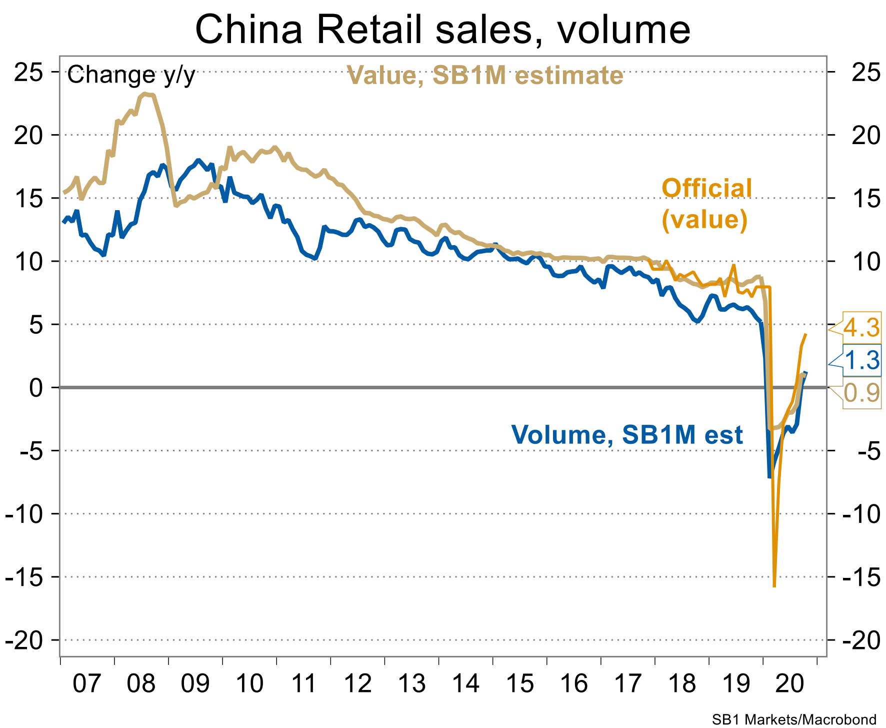
The current steel growth trajectory seems to be on the high side?

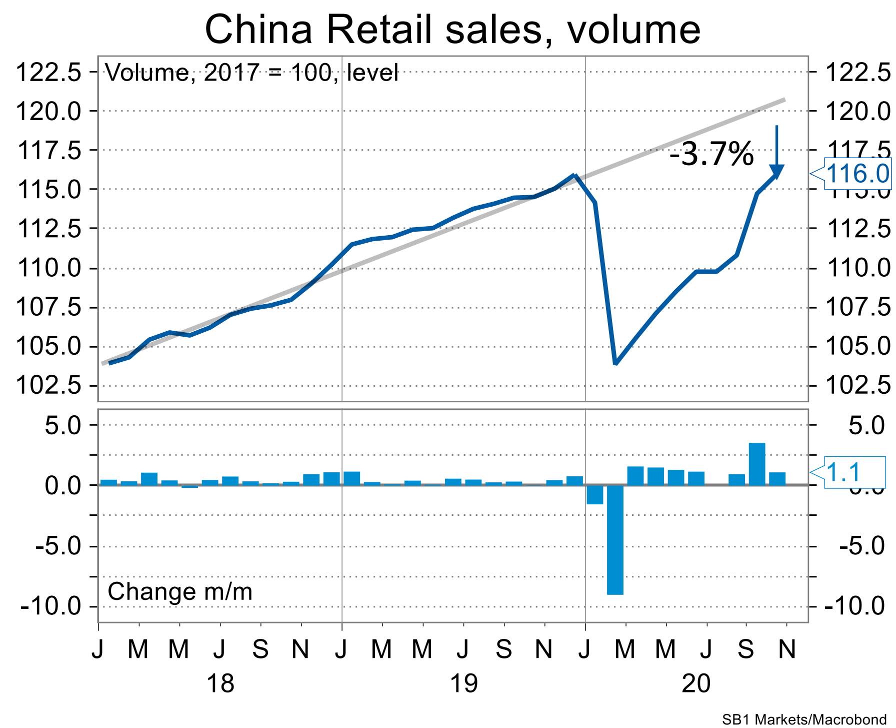


- Demand includes changes in inventories

Retail sales volume up 1.1% m/m in Oct, @ Dec '19 level, but 4.5% below PC path

Sales marginally weaker than expected but still up 4.3% y/y

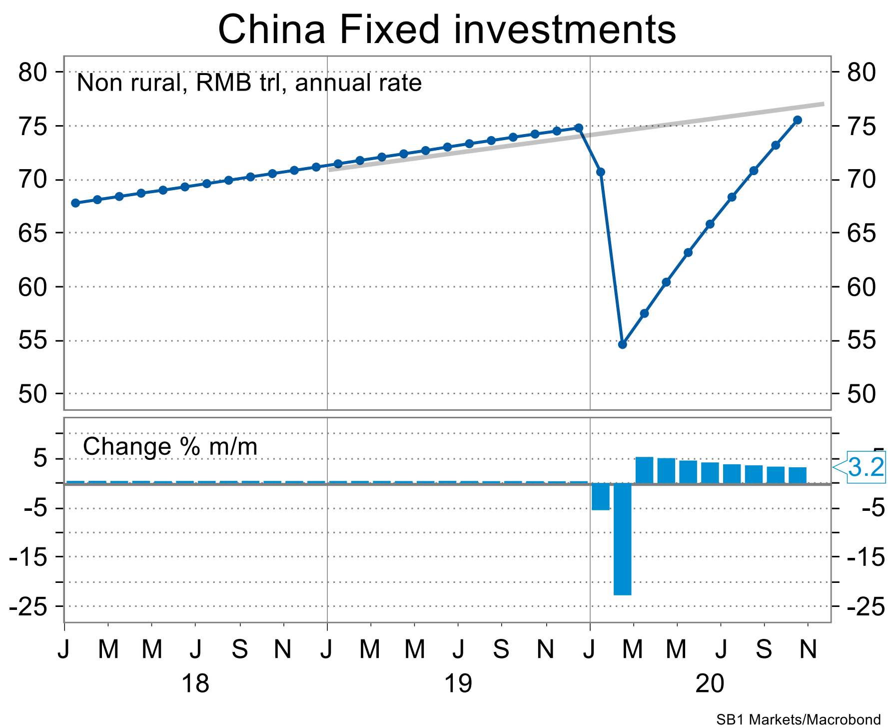




- Sale volumes grew 3% in September, an unusual lift. The 1.1% October growth is much higher than normal too
- The official annual sales (value) rose 4.3% y/y, below the 4.7 - 5.0% expected increase. Our value growth estimate, based on published monthly seasonally adjusted growth rates is up just 0.1% - and our volume estimate is up 1.3% y/y (the retail sales price index was down 0.3%)

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

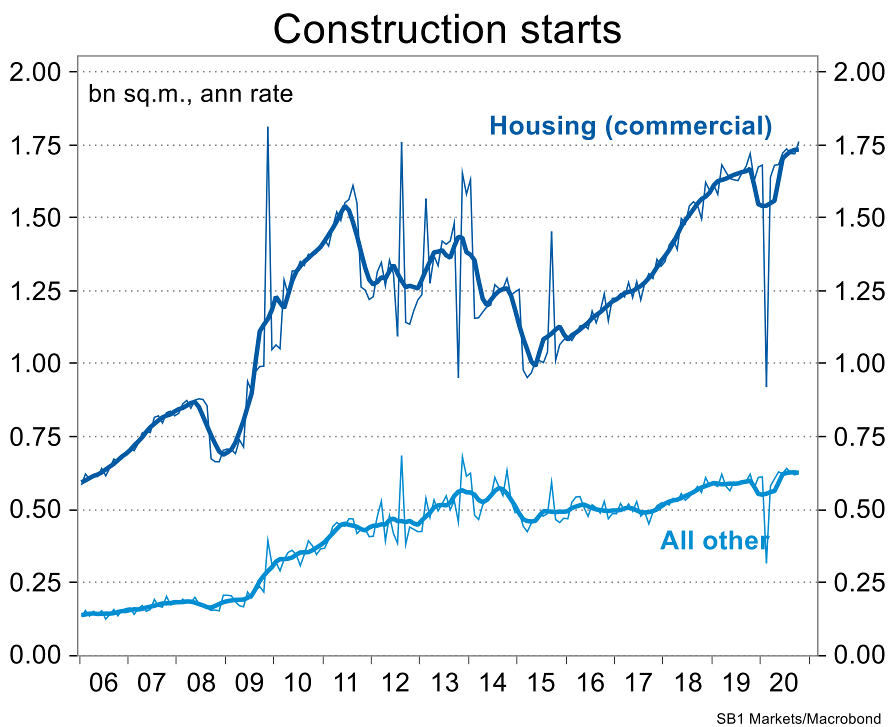
A quite narrow 'V', even if the upward speed is now slowing as level is close to normal again

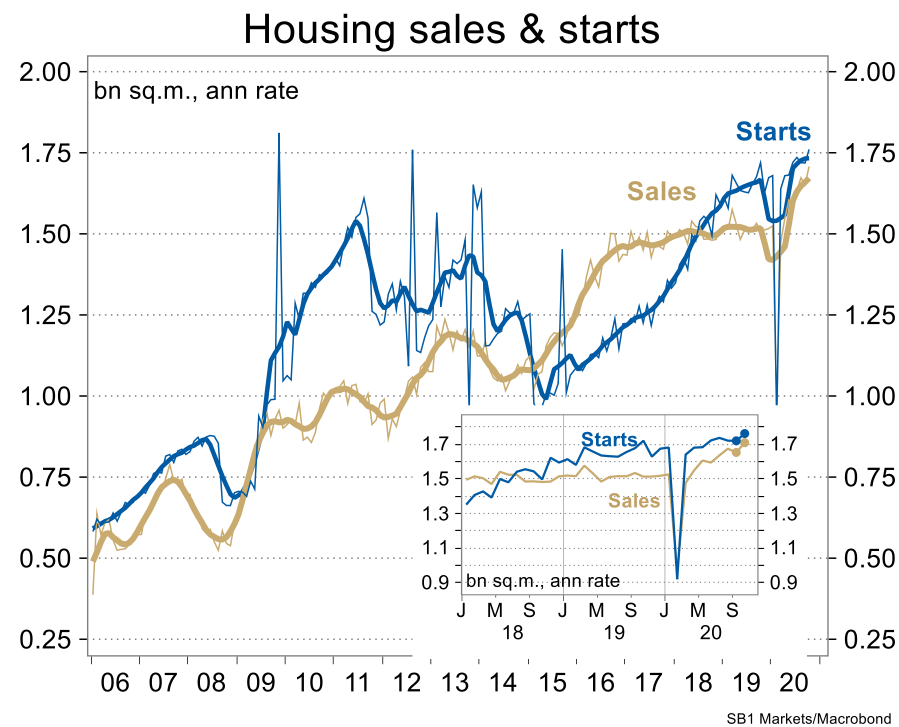


- Measured ytd, investments are <u>up</u> 1.8% in Oct, expected 1.6% - and up from 0.8% in Sept
- Investments rose by 3.2% m/m (nominal), down from 3.4% in Sept. Growth has been slowing since peak growth in March (following the 27% decline in Jan+Feb) but remains far above the normal growth rate, at 0.4 -0.5% per month. The level is now above the Dec 19 level and just 1% below the pre corona trend. The gap will probably be closed in November
- In real terms, investments are down some 3% y/y (our rather uncertain estimate)

Construction still on the way up, very strong in October

Starts the 3rd highest ever in Oct, sales the highest EVER!

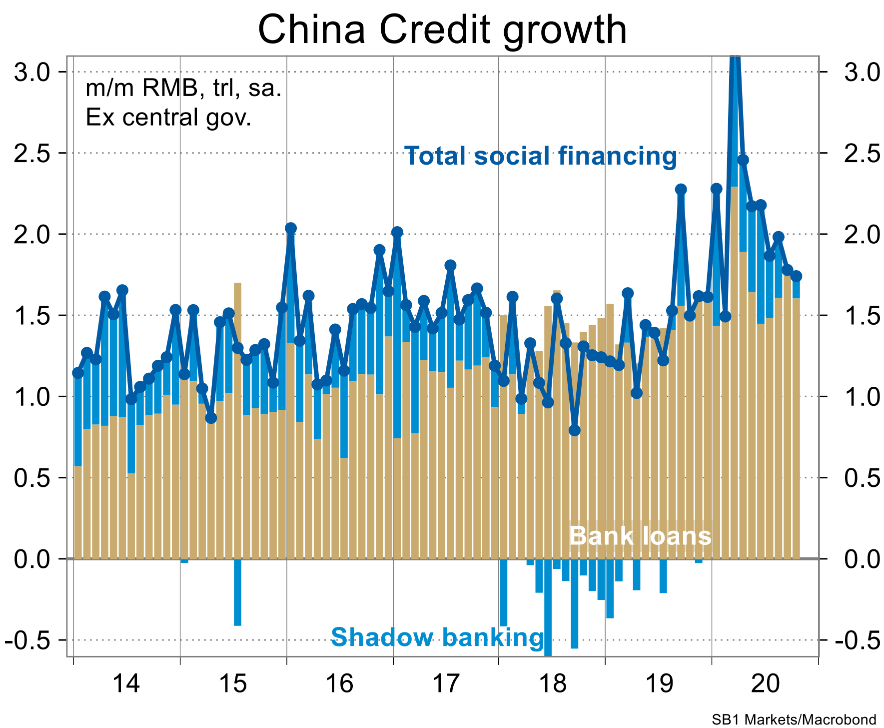


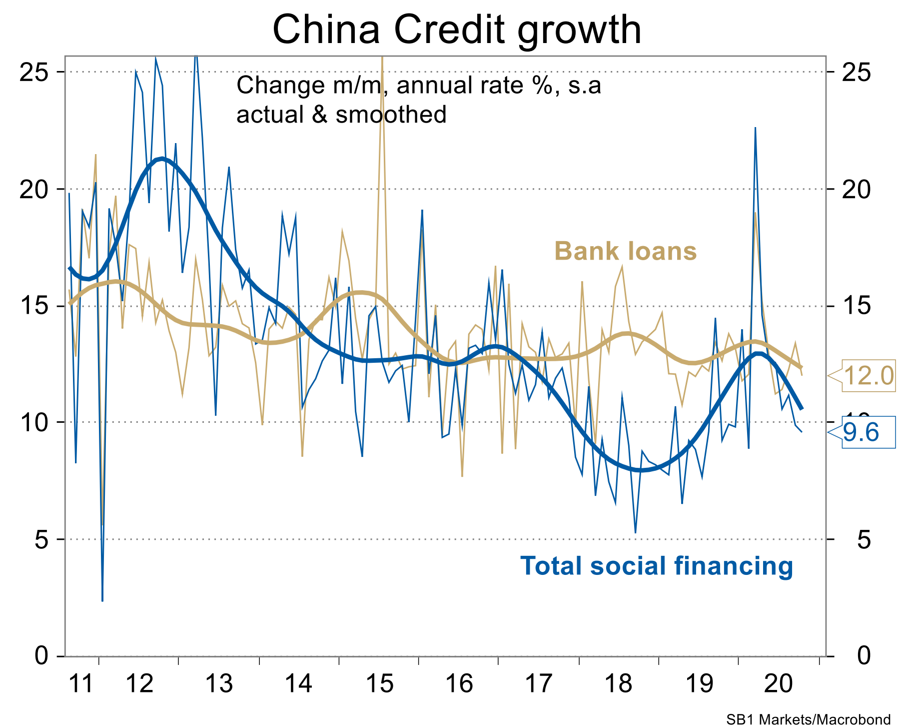


- In fact, just February was a disaster; sales and starts fully recovered in March, peaked in June/July, have slowed marginally in Aug/Sept – probably in line with the authorities priorities (the level of construction is probably high enough)

Credit growth is slowing but remains above

Credit growth outside banks slows, and banks may be slowing too

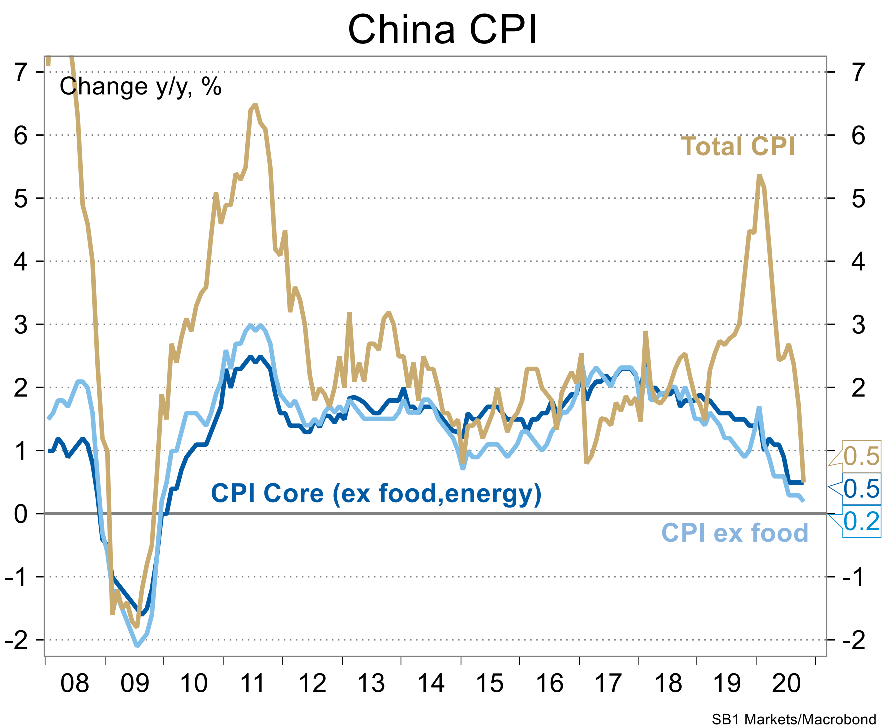


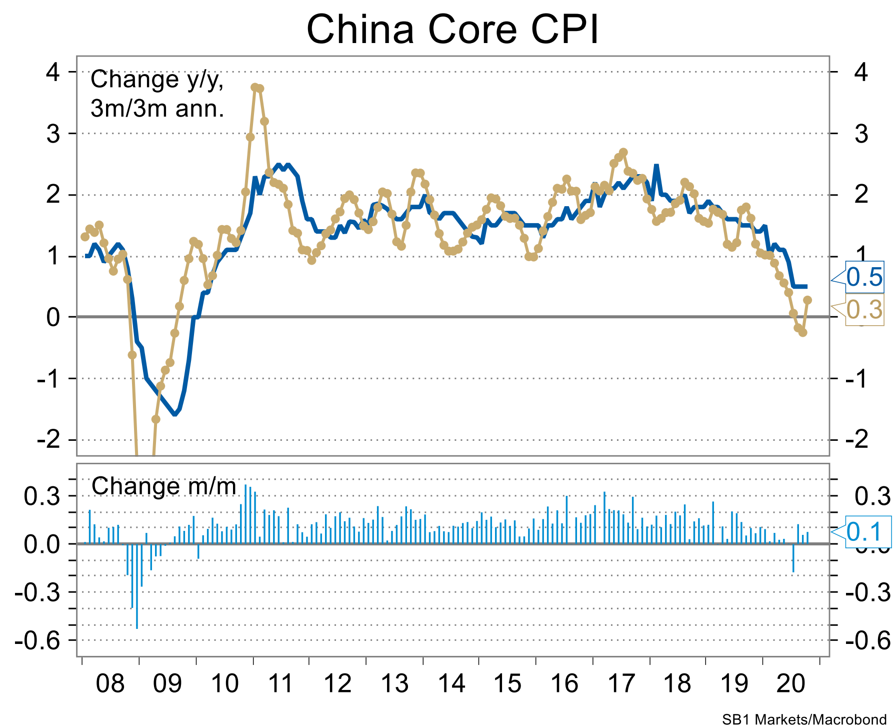


- Total credit growth has been slowing recent months, to some 9.6% (annualised) in Oct, from above 15% during the spring
  - » Total credit rose just RMB 0.6 trl (not seasonally adjusted, ex central government bonds but including local governments). Banks supplied almost all of the increase (based on seasonally adj. data). Bank loans rose by RMB 0.7 trl, expected 1.9 trl (but credit growth is usually slow in October, during the golden week)
  - » Total credit is up 12.2% y/y, above normal income growth, underlying well below 10%
- Following the V-shaped economic recovery, the authorities will not boost growth by lifting credit growth again, especially vs. the real estate market, and some tighten measures are announced

Wow, total inflation down to Mother Earth, no more (swine) flu

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

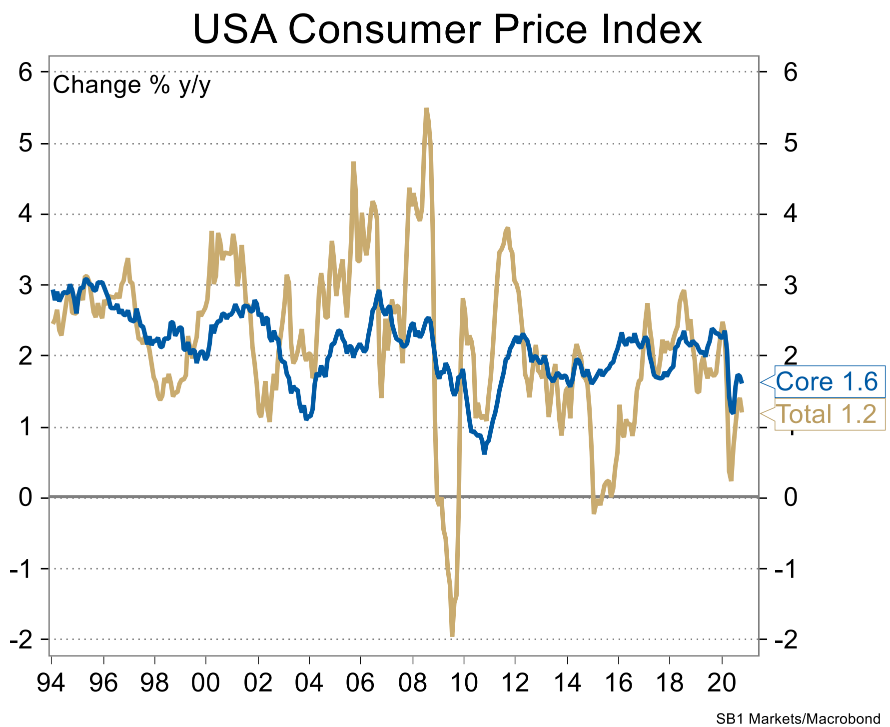


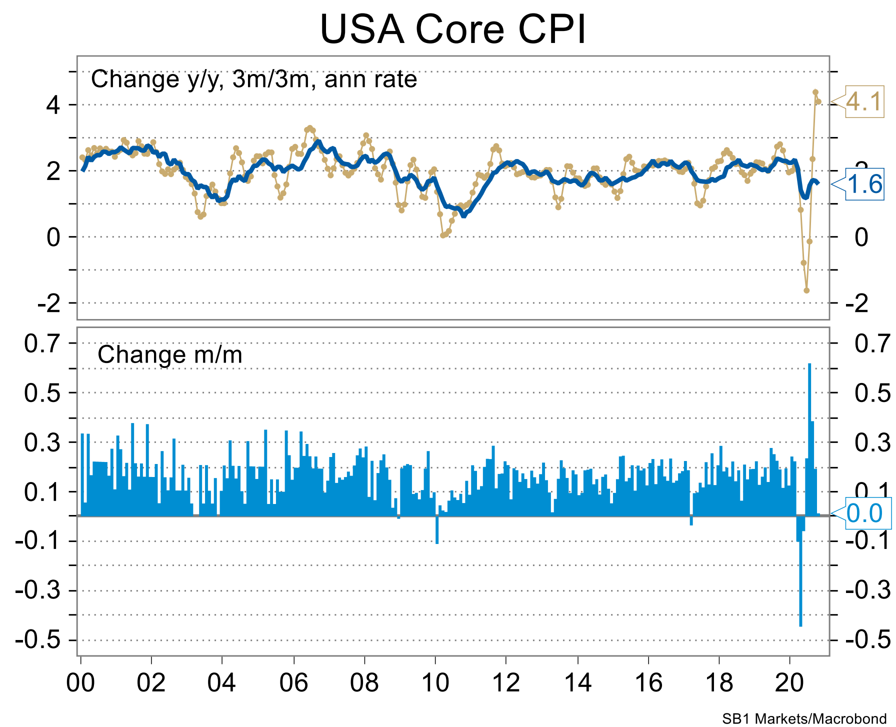


- **Total annual CPI** growth has fallen from above 5% in early 2020 to 0.5% in October, of which from 1.7% in Sept, expected down to 0.7% - as food price inflation have fallen to almost zero, from +20%
- **CPI inflation ex food** is down at 0.2%, and 0.5% if energy is removed too
- **Food prices** fell 0.9% m/m in September, and the annual rate came down to 2.2%. Food price inflation was above 20% when the swine flu pushed pork prices up more than 100%. Now pork prices are heading down
- **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

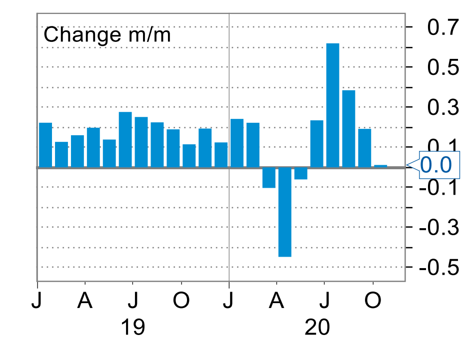
Core CPI prices flat m/m in Oct, annual rate down 0.1p to 1.6%

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



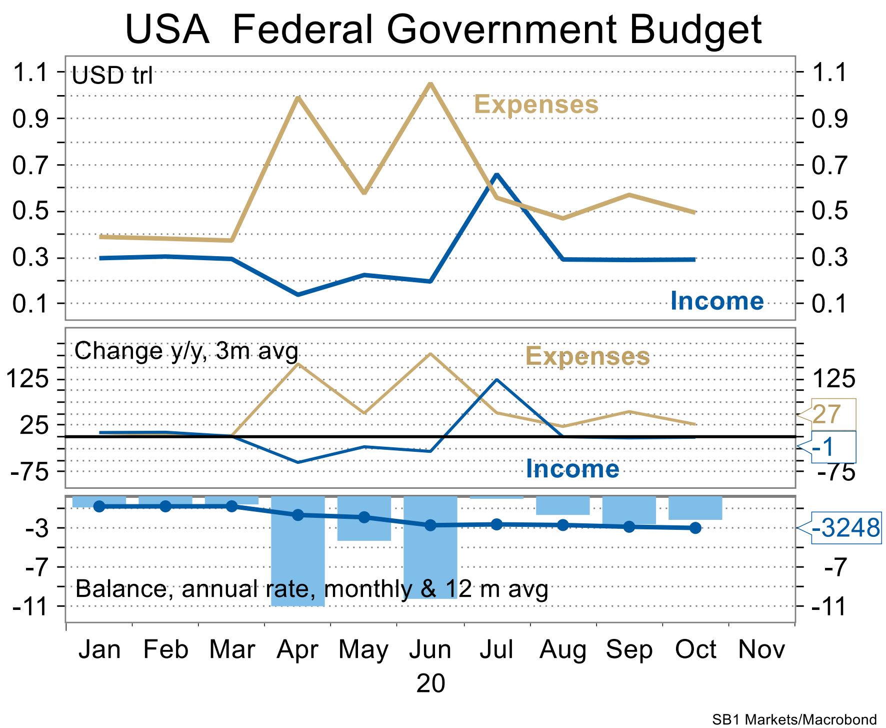


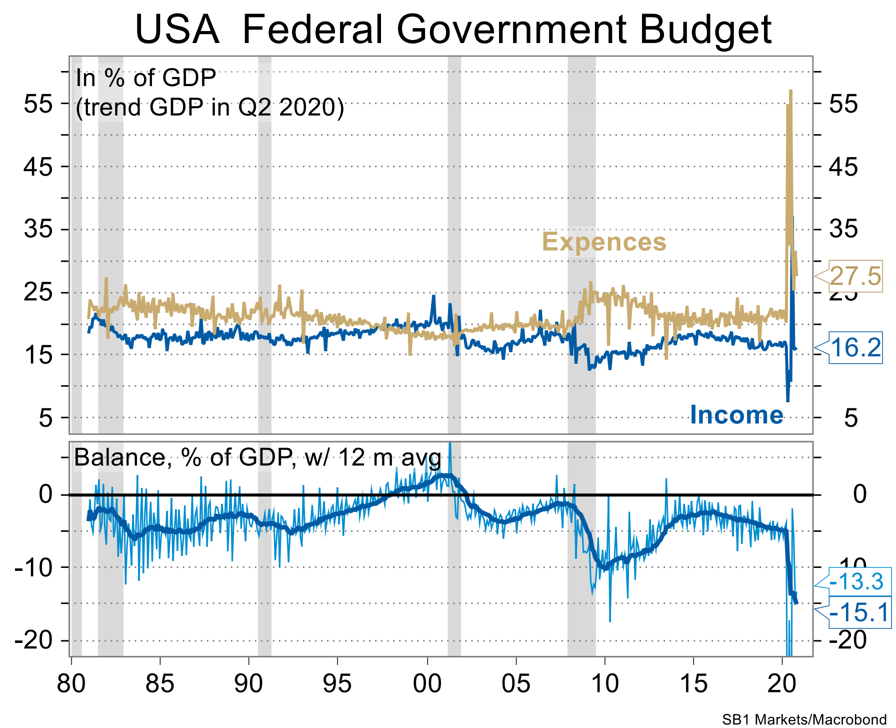
- Core CPI prices were flat in Oct, expected +0.1%, following 4 months where price rose by 0.2 – 0.6% . Still, the 1.6% annual rate is well below the 2.4% pre corona level
- Headline CPI is up 1.2% y/y down 0.2 pp from Sept
- Airline ticket prices rose in Oct, lodging became cheaper – other changes were small
- The decline in CPI inflation 'confirms' a dovish Fed stance – which will be confirmed in Dec



Federal spending still 30% higher than normal – revenues at a normal level

So far the 12 m total deficit is USD 3.200 bn, 15.1% of GDP

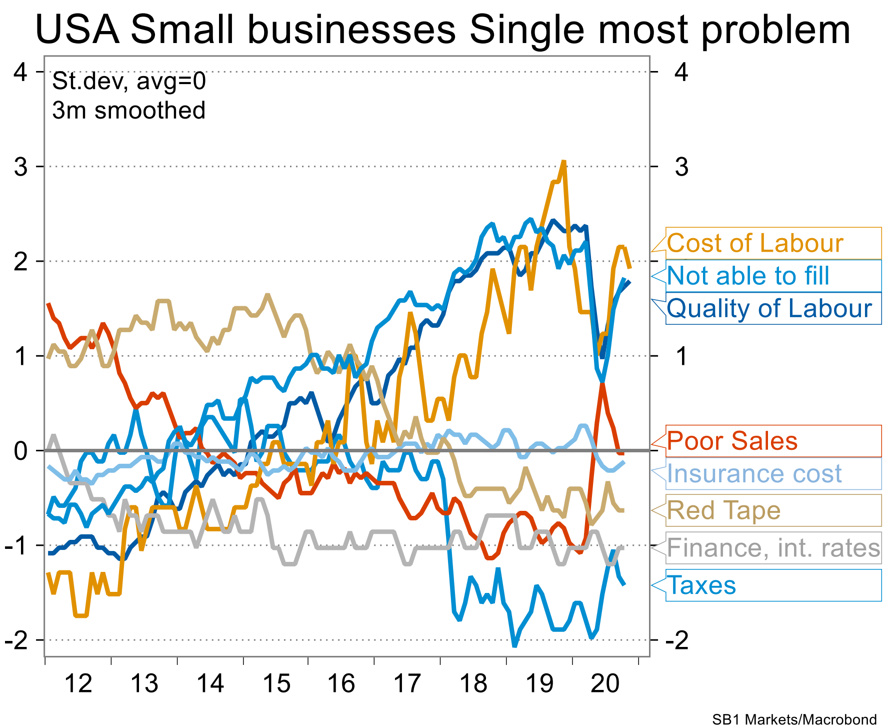


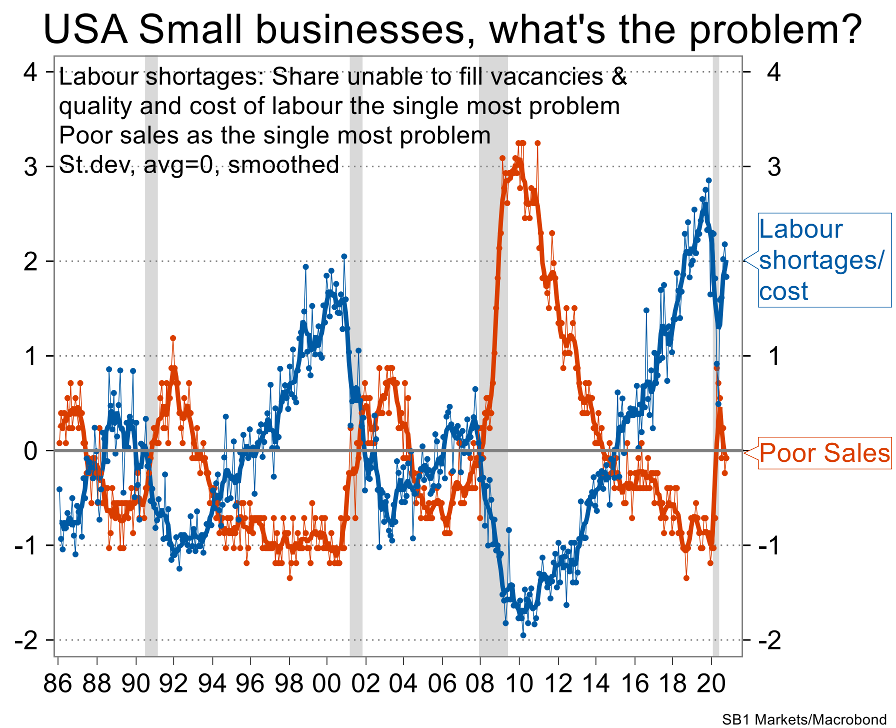


- Federal spending equal almost 30% of GDP, far higher than the 'normal' 21-22% (*we have normalised GDP, not taking into account the 2020 slump when calculating the ratio*). Revenues equals 16% GDP – and the gap is of course unprecedented
- It is not possible to know the underlying budget position (the 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)

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?



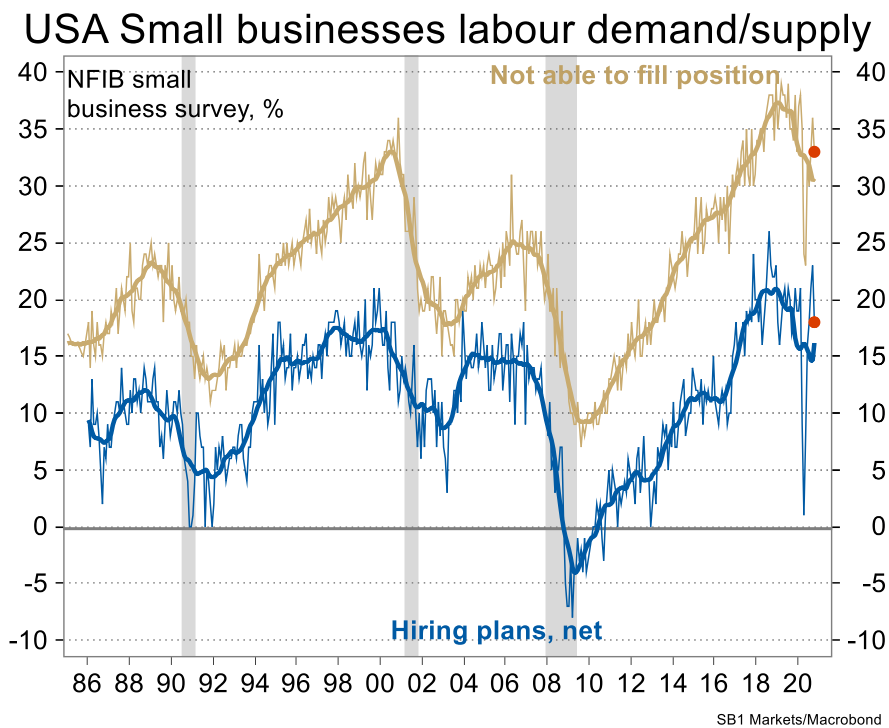


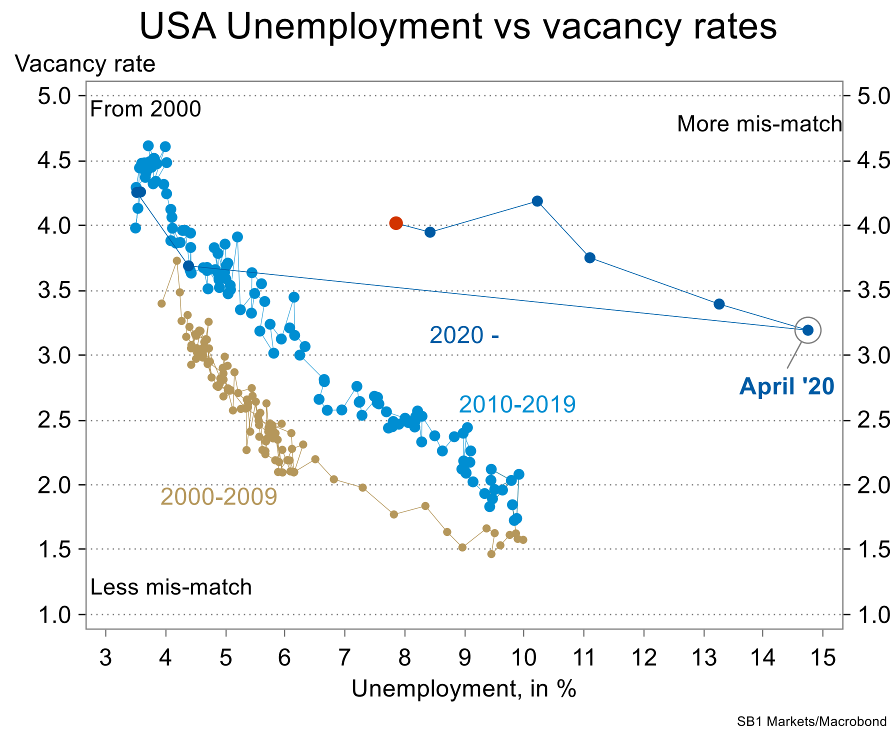
- More businesses have been stating weak sales as the major problem during the pandemic, but the level has been surprisingly low, and in October the level was at average!
- The share of businesses that have been noting problems with tight labour markets remained at a remarkably high level at the trough of the economic downturn – and now the level is not far below the highest level ever.
  - » Both the ability to fill vacancies, cost of labour and quality of labour are still reported as huge problems
- Unusually few companies are complaining about finance/interest rates and about taxes

SpareBank 1 MARKETS

Small businesses are not able to fill vacant positions

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



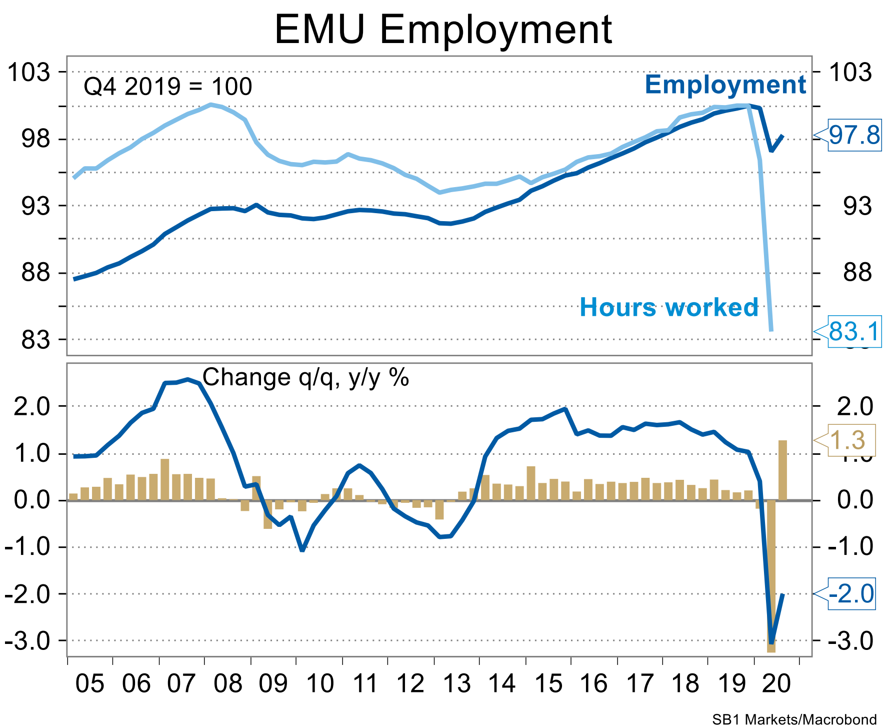


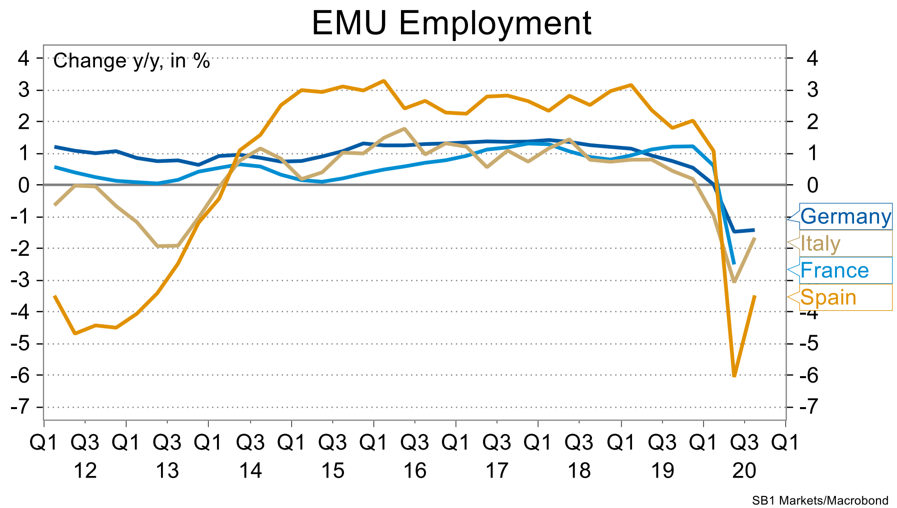
- The number of unfilled vacancies is also high, according to official statistics – *more next page*

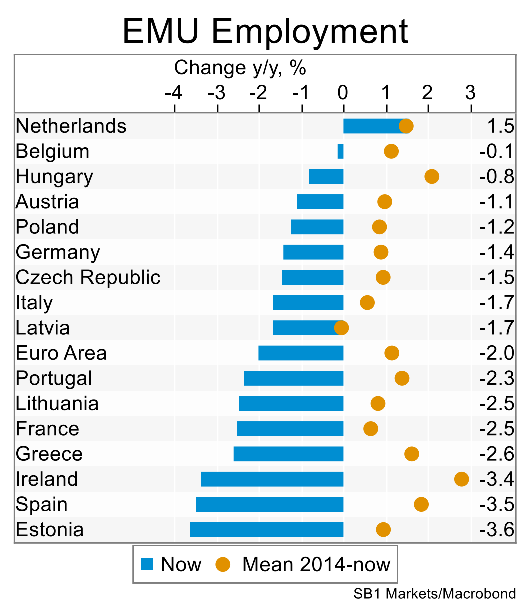
SpareBank 1 MARKETS

Employment recovered in Q3, just down 2.8% from Q4-19. Officially

Furlough and employment subsidy schemes are ‘disturbing’ employment data



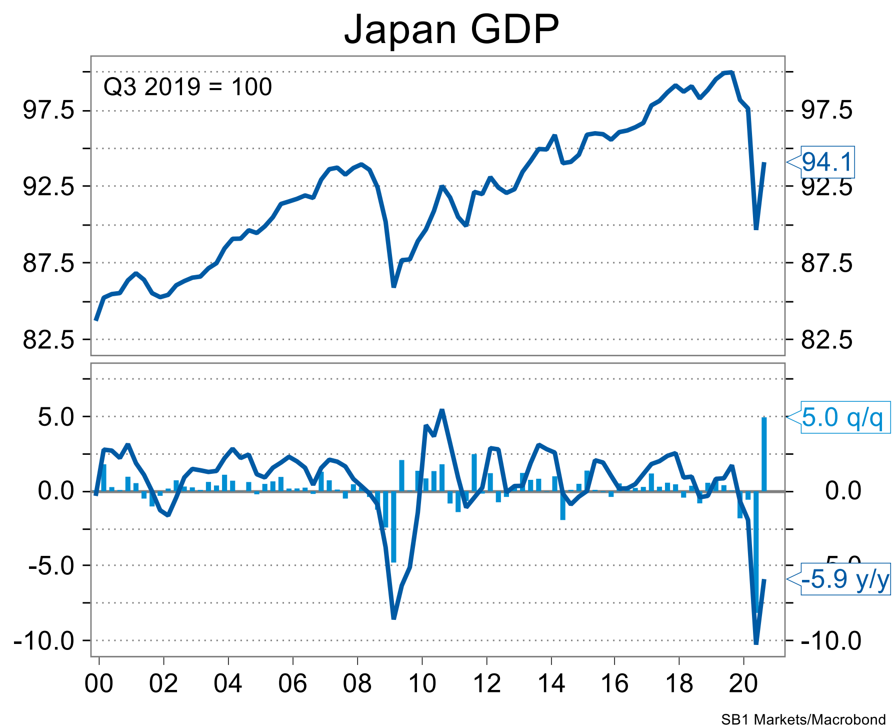


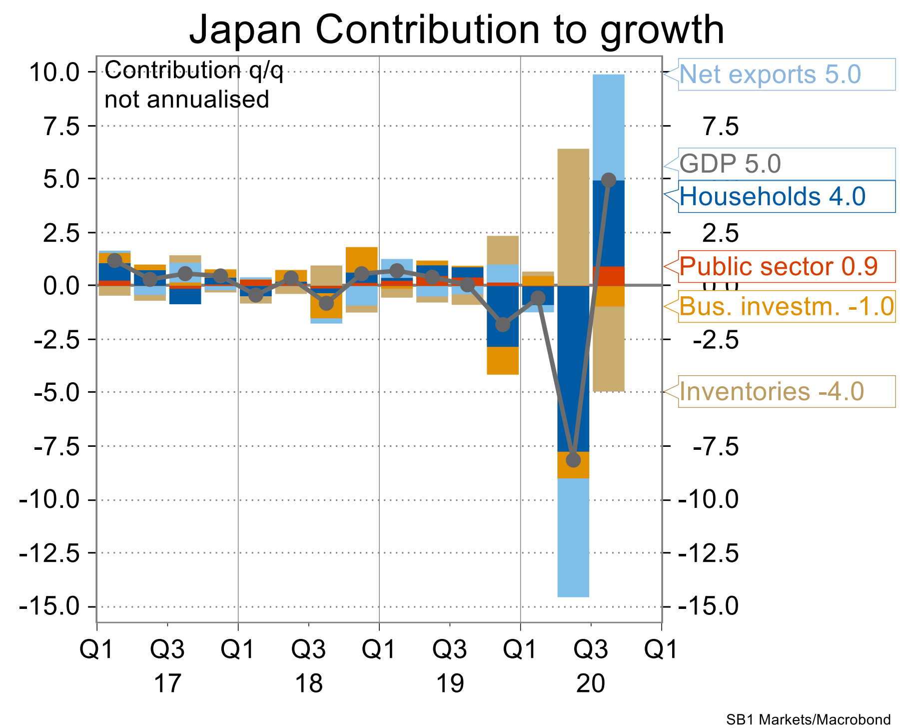


- Employment fell by 3.3% in Q2, and recovered by 1.3% in Q3
  - » The real employment level is well below these official employment stats (which are collected in a standard, correct way but still do not reflect the real employment situation)
- Hours worked fell by 17% in Q2 (not annualised) vs. the 3% decline in the no of unemployed. No data for Q3 hours worked but a huge lift is guaranteed

A Q3 recovery but just a partial one. GDP still down 6% vs Q3 19 (pre VAT, Covid)

GDP rose by 5% following the 8% drop in Q3, marginally better than expected

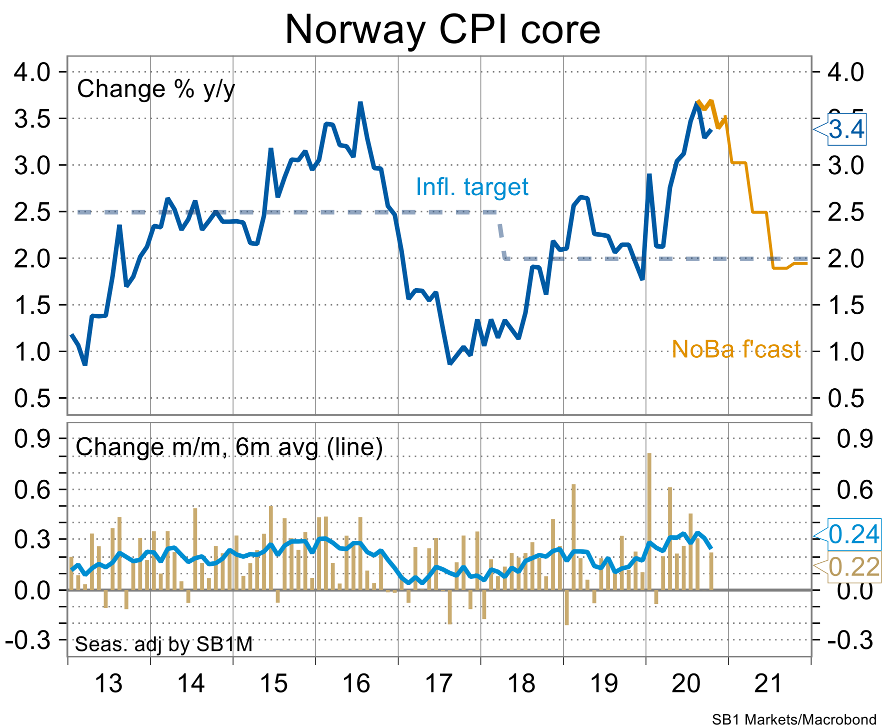


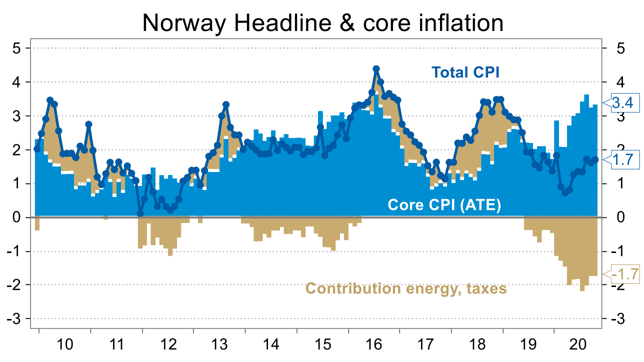


- Household consumption & net exports the main driver down in Q2 and up in Q3

Core CPI up 0.1 pp to 3.4% y/y in October, as expected – will slow

The annual rate peaked at 3.7% in August; a stabilised NOK & low wage growth will dampen inflation

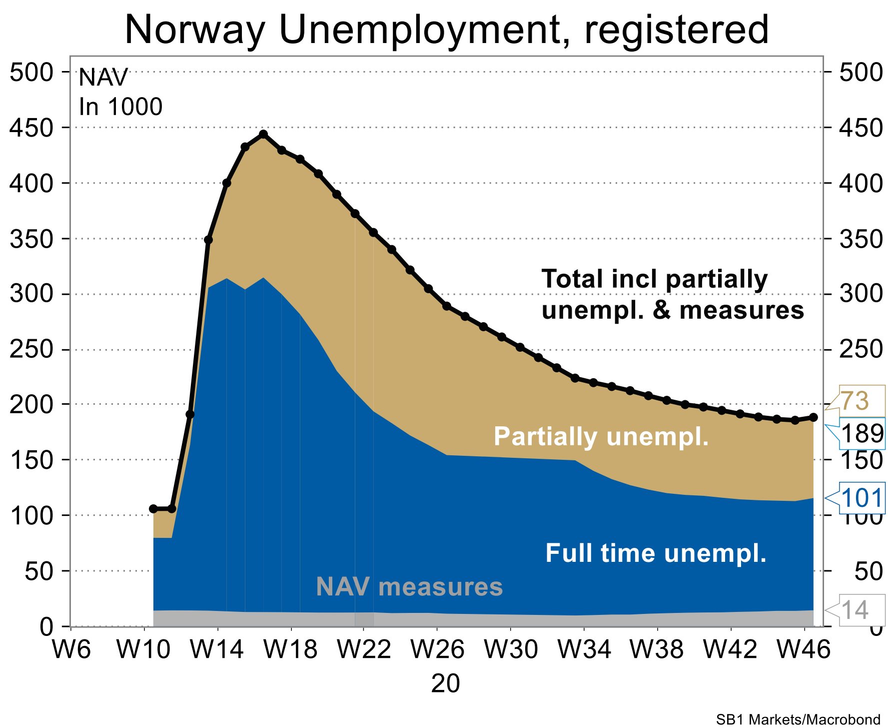


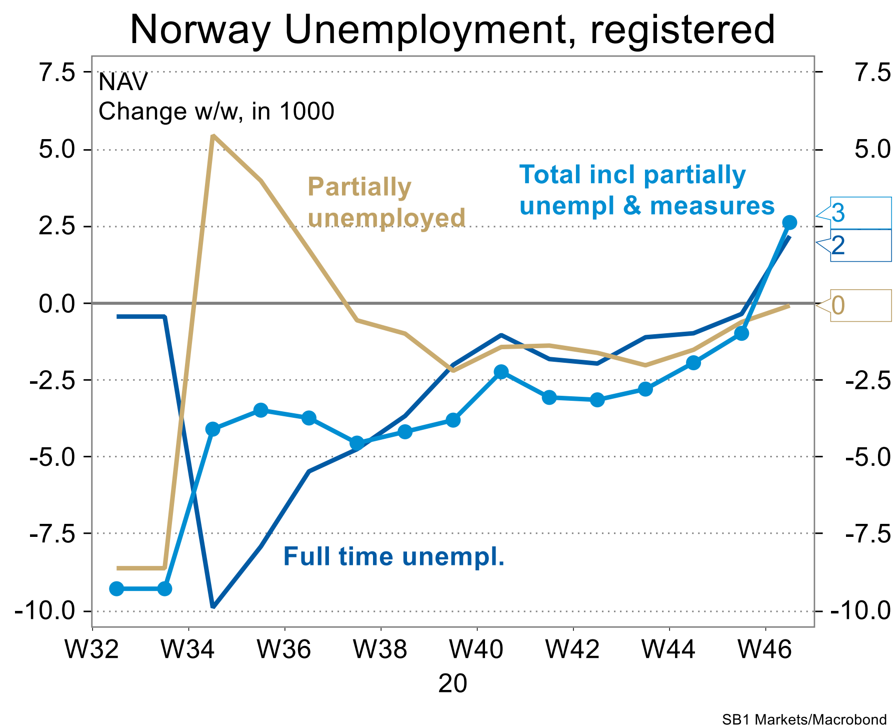


- CPI-ATE (ex. energy and taxes) inflation accelerated 0.1 pp to 3.4% in October, in line with consensus (and our) forecast. Norges Bank expected 3.7b (Sept MPR f'cast) but assumes a drop to 3.4% in November
  - » Prices rose 0.2% m/m (s.a)
  - » No big changes m/m for any sector
  - » Inflation is above 2% for all major sectors, except housing and clothing/footwear & airline tickets
  - » Import prices have increased faster than our models indicate, now up 4.1% y/y, bringing core inflation up
- Total inflation accelerated 0.1 p to 1.7% as we expected. Electricity prices fell less than we assumed
- **The price outlook**
  - » Impacts of the corona crisis are mixed
    - ▪ A negative output gap suggests low inflation. Wage inflation is no doubt on the way down. However, the gap is negative not due to lack of demand (which is the usual reason) but due to supply side setback in corona exposed service sectors. The impact on inflation is then more through the wage/cost side – and wage inflation has come sharply down!
    - ▪ The weak NOK has lifted inflation, however, this impact will soon fade as the NOK has stabilized
    - ▪ Energy prices have fallen, will very likely increase from here (at least electricity)
  - » Our take is that the overall impact will be a slowdown in inflation, mostly due to NOK and wages, not the lack of demand. But it may take some months before these changes are reflected in the CPI
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. Wage growth will no doubt slow, which Norges Bank emphasised in September

NAV unemployment up in early November

Full time unemployment up by 2' in the first week in November, the first weekly lift since April

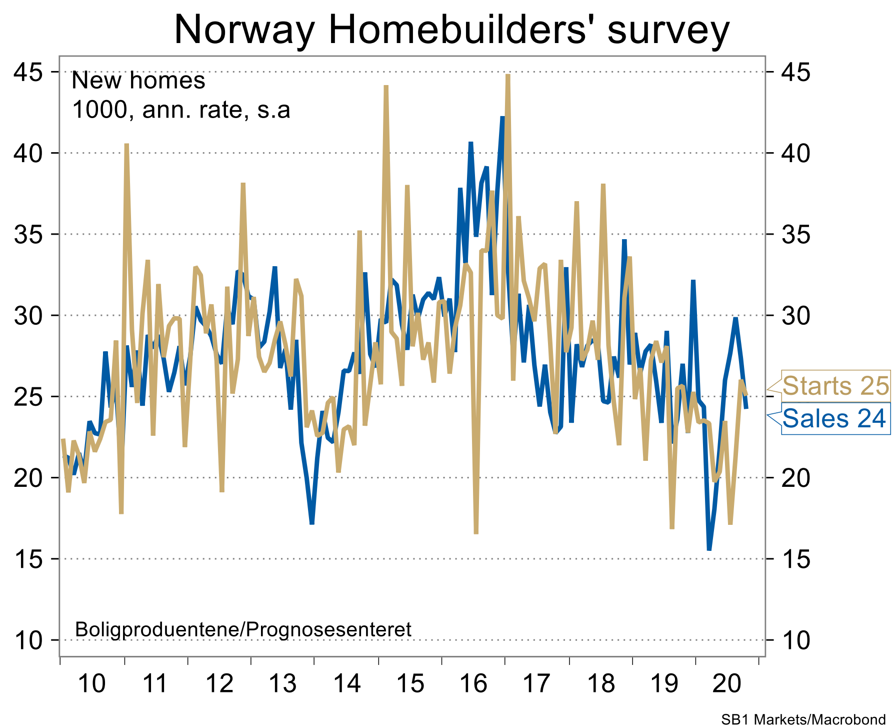


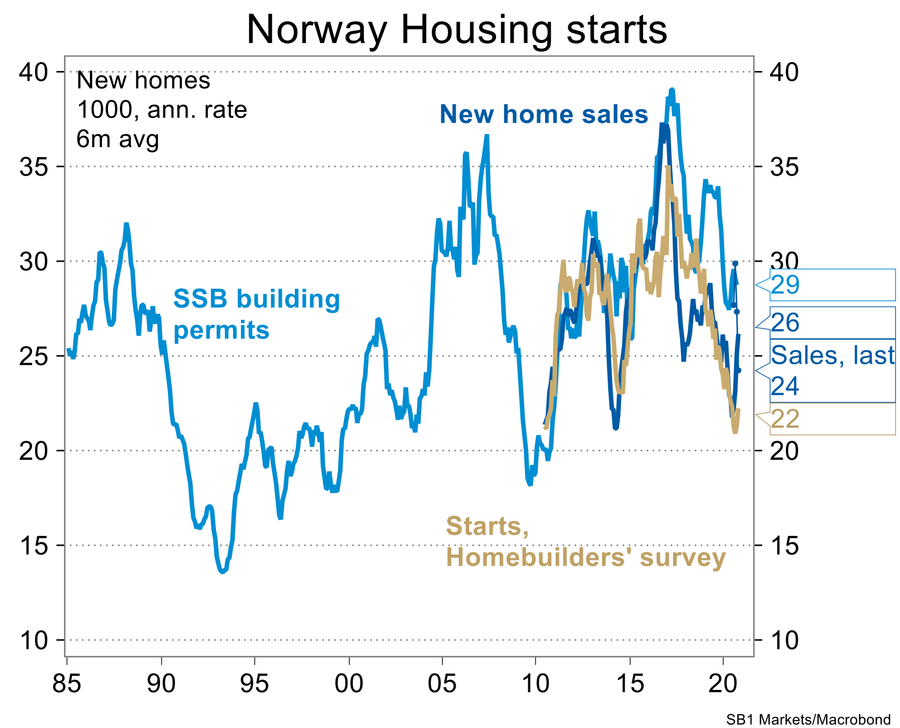


- Total unemployment (including partially unemployed and labour market measures) has declined steadily since April, even at a weekly basis. The tide may have turned, at least unemployment rose slightly in early Norway, very likely due to the new corona outbreak. We expect more to come

New home sales down in October – but are anyway back to a pre corona level

Starts are also back, according to the Homebuilders' survey





- New home sales down 4' to 24' in Oct but is well up from the 15' trough in March. Starts down 1' to 25'
- 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 he pre crone level, alongside the strengthening of the existing home market since mid April
- We assume the strong existing home market will encourage new home sales & starts the coming months

The Calendar

US retail sales, industrial production & surveys. Norwegian GDP, oil investments

Monday Nov 16					
08:00	NO	Trade Balance	Oct		-8.0b
14:30	US	Empire Manufacturing	Nov	14	10.5
Tuesday Nov 17					
08:00	NO	GDP Mainland QoQ	3Q	5.2% (5.2)	-6.3%
08:00	NO	GDP Mainland MoM	Sep	0.6% (0.6)	0.6%
08:00	NO	Consumption of goods	Sep		
14:30	US	Retail Sales Advance MoM	Oct	0.5%	1.9%
14:30	US	Retail Sales Control Group	Oct	0.5%	1.4%
15:15	US	Industrial Production MoM	Oct	1.0%	-0.6%
16:00	US	NAHB Housing Market Index	Nov	85	85
Wednesday Nov 18					
06:00	SW	Home-Price Index	Oct		
08:00	UK	CPI Core YoY	Oct	1.3%	1.3%
11:00	EC	CPI Core YoY	Oct F	0.2%	0.2%
14:30	US	Building Permits	Oct	1568k	1553k
14:30	US	Housing Starts	Oct	1458k	1415k
Thursday Nov 19					
08:00	NO	Investm. survey, oil&gas, '21, YOY	Q4	-14%	-16%
08:00	NO	Investm. survey, manuf. & power s	Q4		
09:00	EC	ECB's Lagarde in European Parliam.			
09:30	SW	Unemployment Rate SA	Oct	9.0%	9.0%
09:30	SW	Total No. of Employees YoY	3Q		-1.9%
10:00	NO	Norges Bank 4Q Expectations Survey			
12:00	UK	CBI Trends Total Orders	Nov	-40	-34
14:30	US	Initial Jobless Claims	week	715k	709k
14:30	US	Philadelphia Fed Business Outlook	Nov	22	32.3
16:00	US	Leading Index	Oct	0.7%	0.7%
16:00	US	Existing Home Sales	Oct	6.44m	6.54m
Friday Nov 20					
00:30	JN	Natl CPI YoY	Oct	-0.4%	0.0%
01:30	JN	PMI Manufacturing	Nov P		48.7
08:00	UK	Retail Sales Ex Auto Fuel MoM	Oct	0.0%	1.6%
16:00	EC	Consumer Confidence	Nov A	-17.9	-15.5

- **USA**
  - » **A flush of real activity data**, retail sales, housing starts, and industrial production plus the two first November manufacturing surveys will most likely confirm a continued recovery, with growth above trend – at least in October. The ‘3rd‘ corona wave may create some headwind, if not in November, then in December
- **EMU**
  - » No important data releases announced
- **Norway**
  - » **GDP** probably grew further in September and the gap to a normal activity level will be reduced but is still substantial as parts of the service sector operates far below a normal capacity utilisation. Q3 GDP should grow 5% from Q2
  - » We expect **oil companies to revise their 2021 investment plans** marginally upwards in the Q4 survey. Manufacturing industries and the power supply sector are planning substantial investment cuts too
  - » **Norges Bank’s expectation survey** (not its Regional Network) will confirm low wage growth expectations and the activity signals will probably be muted too

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

Highlights

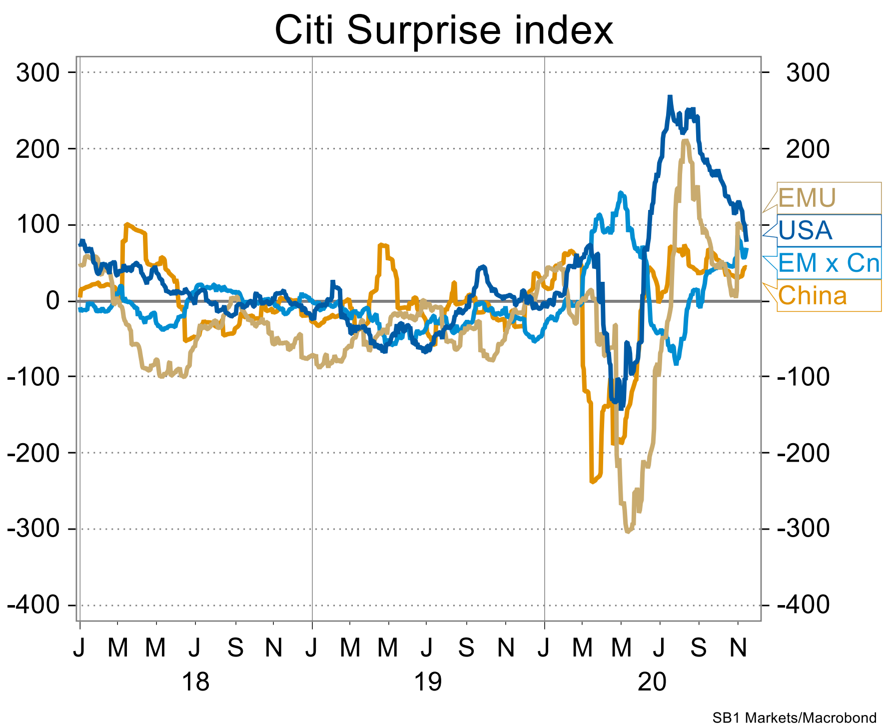
The world around us

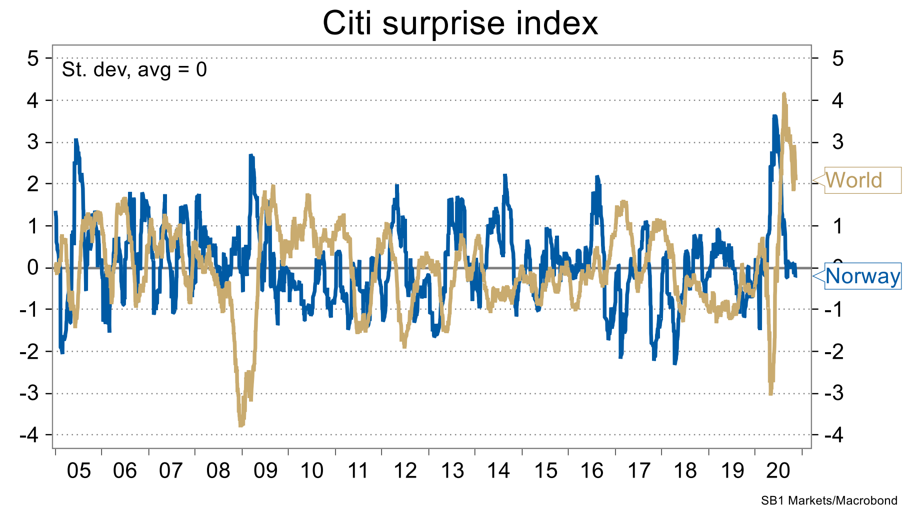
The Norwegian economy

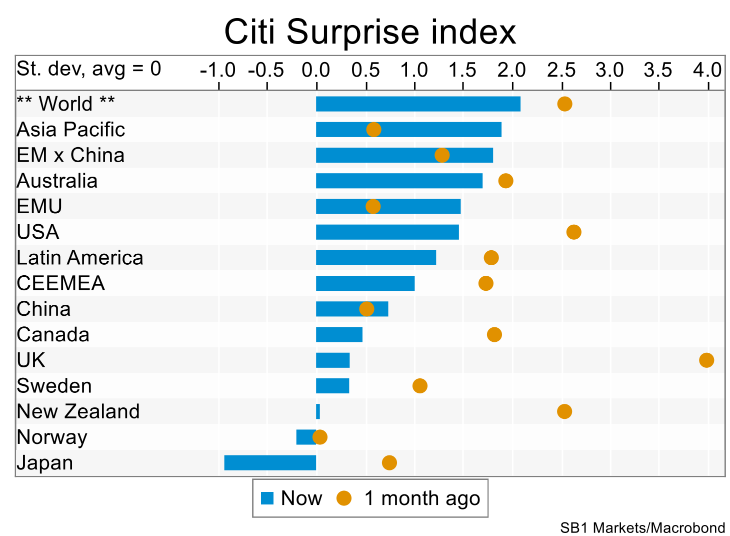
Market charts & comments

Surprises are still on the upside

Just Japan and Norway are not delivering better economic data than expected





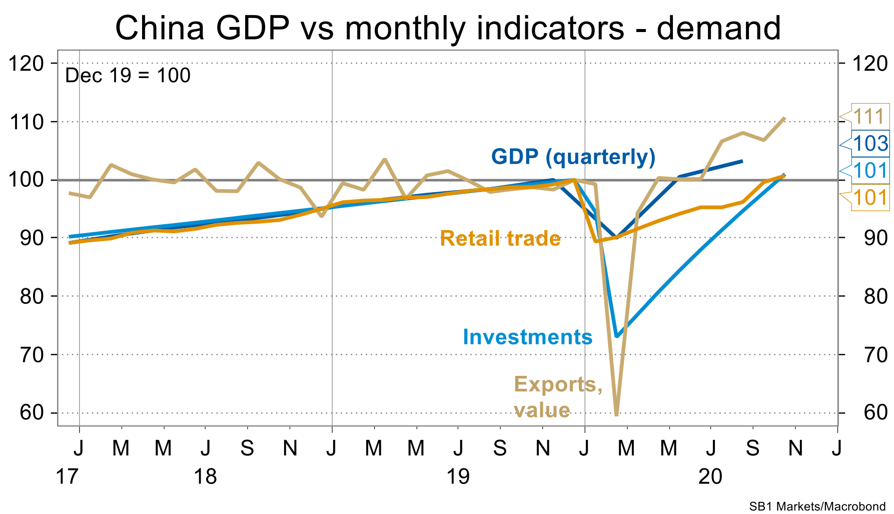


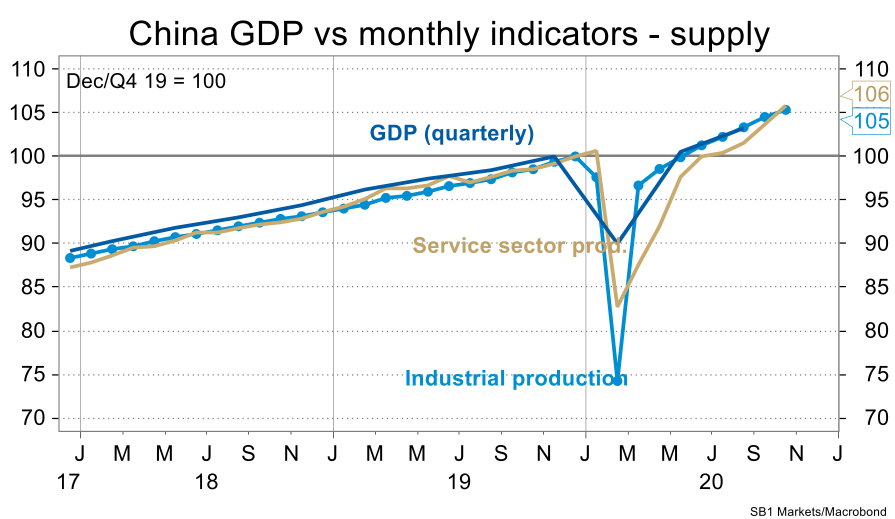
- All major countries/regions (barring Norway and Japan) are reporting data above expectations, for the first time ever
- The Euro Zone is surprising more on the upside than the US
- The US is still far into positive territory but less so than during the summer
- China clearly into positive territory
- Other EMs are above an average level too

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

October data confirm the recovery – growth above trend, gaps are closing

Industrial & service sector production, exports above/at pre corona trend; retail sales, investm. below



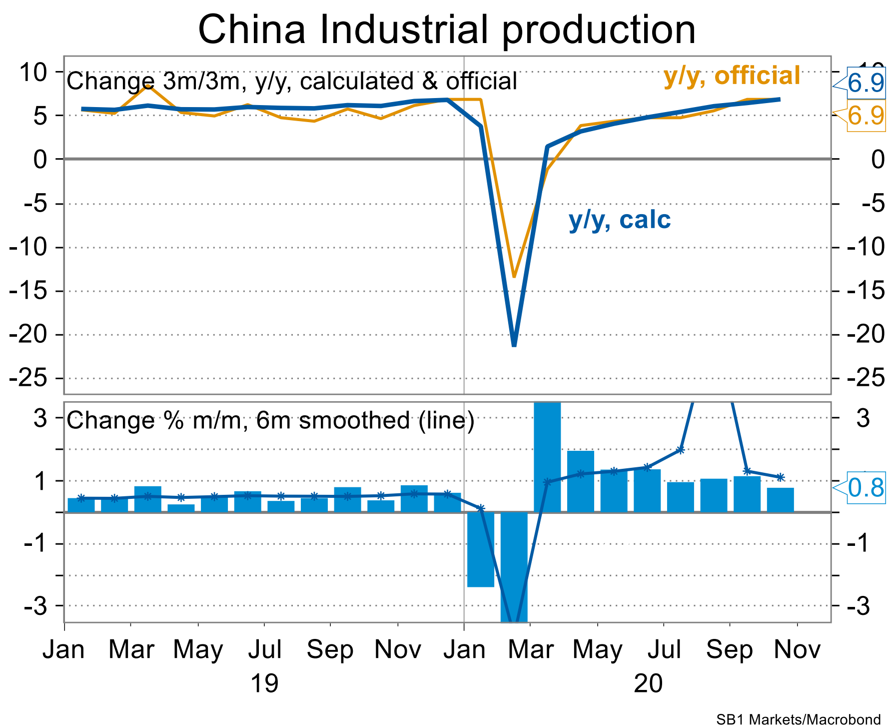


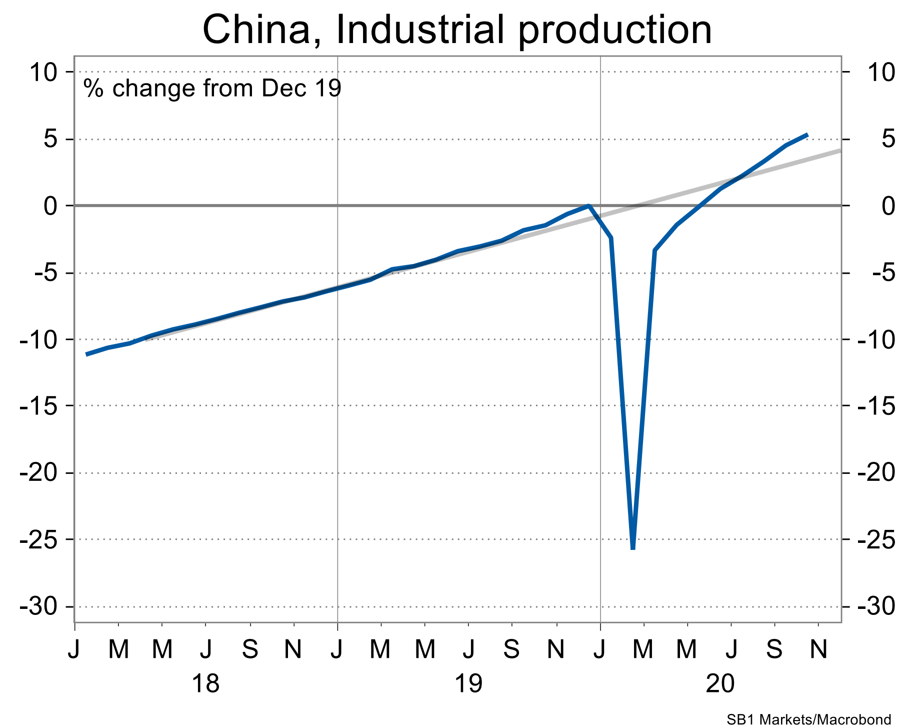
- **Industrial production** rose 0.8% m/m in Oct and 6.9% y/y, 0.2pp better than expected. Production is now above the pre corona trend path. Growth will now most likely slow
- **Service sector production** grew by 2.1% in Oct, as in Sept. Activity is 6% above the Dec 19 level – and 'finally' at the old trend path
- **Retail sales** rose 1.1% m/m in volume terms in Oct. Annual nominal growth rose to 4.3%, 0.4 – 0.7 pp lower than expected. The gap to the pre corona trend path is still wide, at 3.7%. **CPI inflation** is falling sharply – now down to 0.5% (from above 5% at the peak) as pork prices are heading down. Supportive for household demand, of course
- **Investments** rose 3.2% m/m in Oct. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly, now at 1% below. The gap will be closed in Nov
- **Credit growth** has slowed somewhat but is still high, at 12% - still well above nominal GDP y/y
- **Both exports** and **imports** were strong in Oct, signalling growth both abroad and at home. Other Asian exports are on the way 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

Industrial production up 0.8% in October, level 2% above the pre corona trend

Production rose another 0.8% m/m Oct, and the activity level har fully recovered

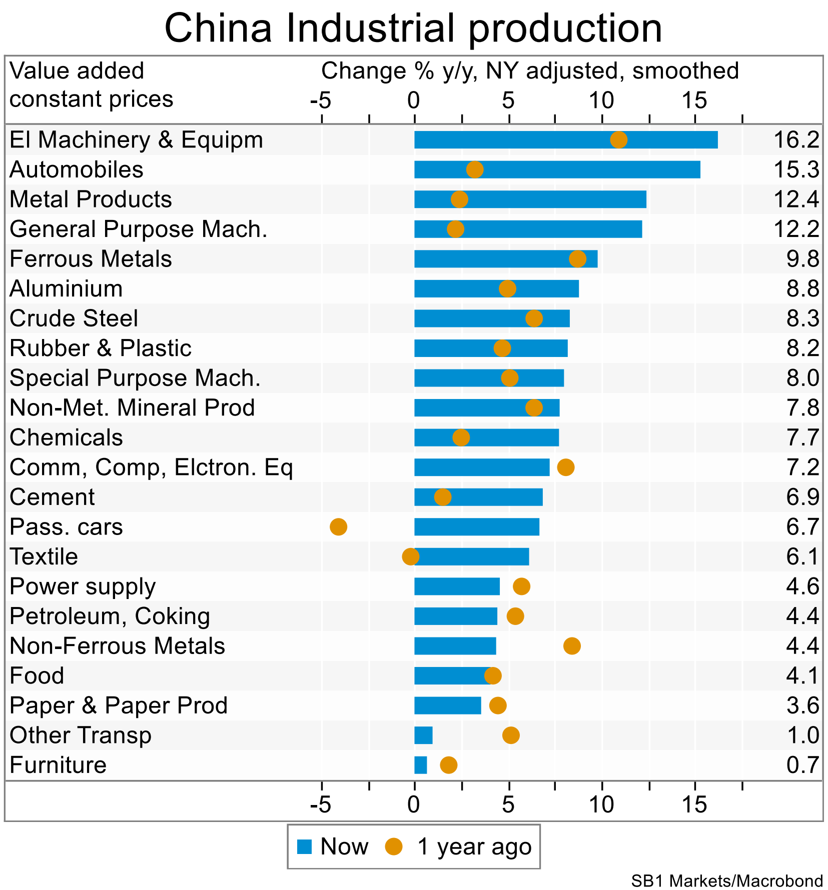




- Production is 5% above the Dec 19 level and 2% above the pre corona growth path
- The official y/y rate was stable at 6.9%, 0.2 – 0.4 pp better than expected
- As the production level is above the pre corona growth path we do not expect industrial production to keep growing faster than trend growth, at some 0.5% per month. Both supply and demand may be limiting factors
  - » Retail sales are still almost 4% below pre corona trend, investments 1% below. Net exports (and probably inventories) are supporting growth in production but domestic demand is probably to low to sustain the current production level. However, both retail sales and investments are still growing faster than trend, gradually closing the gap to a 'normal' production level

All sectors back in black!

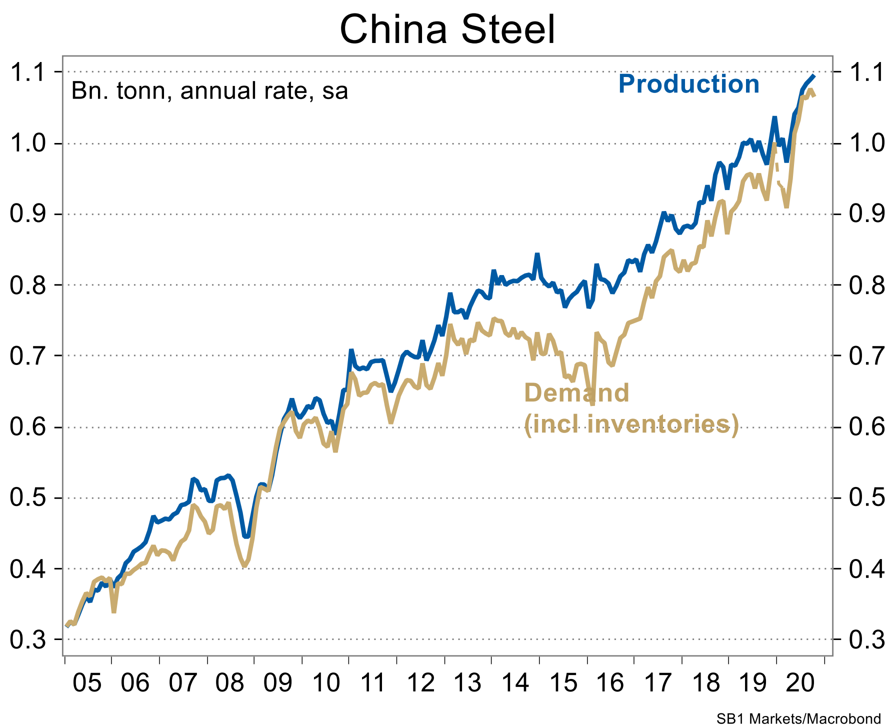
… at least measured y/y



- All construction inputs are back at brisk pre corona **growth paths** (plate glass a tad below)

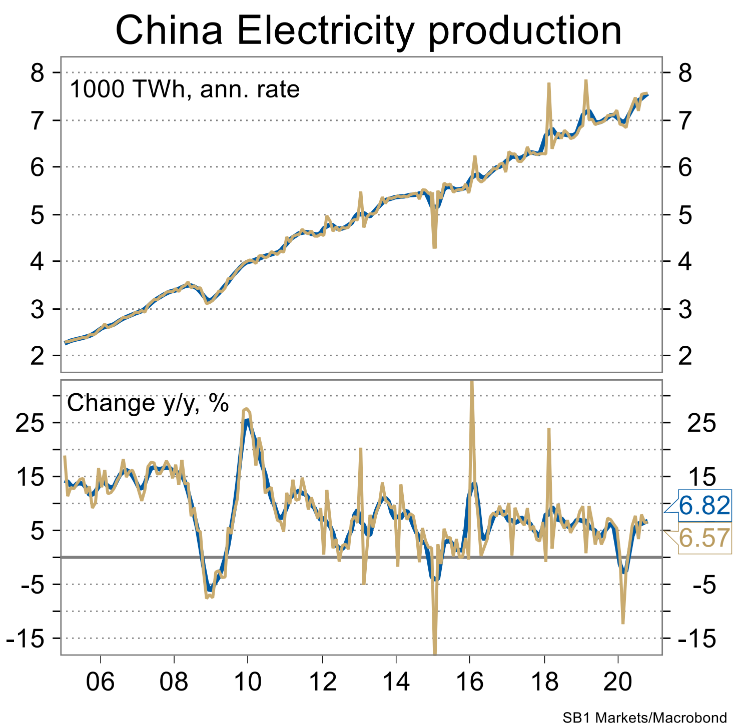
Construction record strong but is not expanding that fast anymore

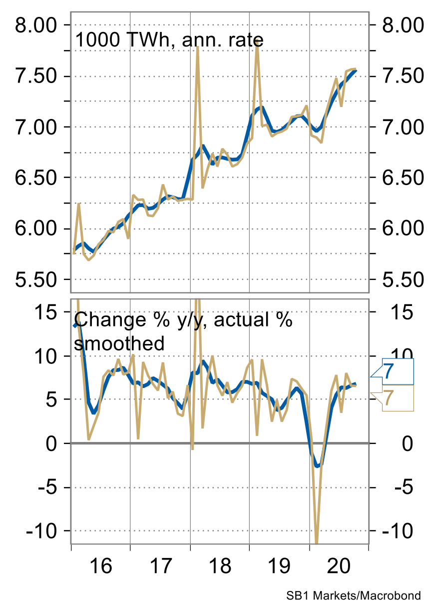
The current steel growth trajectory seems to be on the high side?

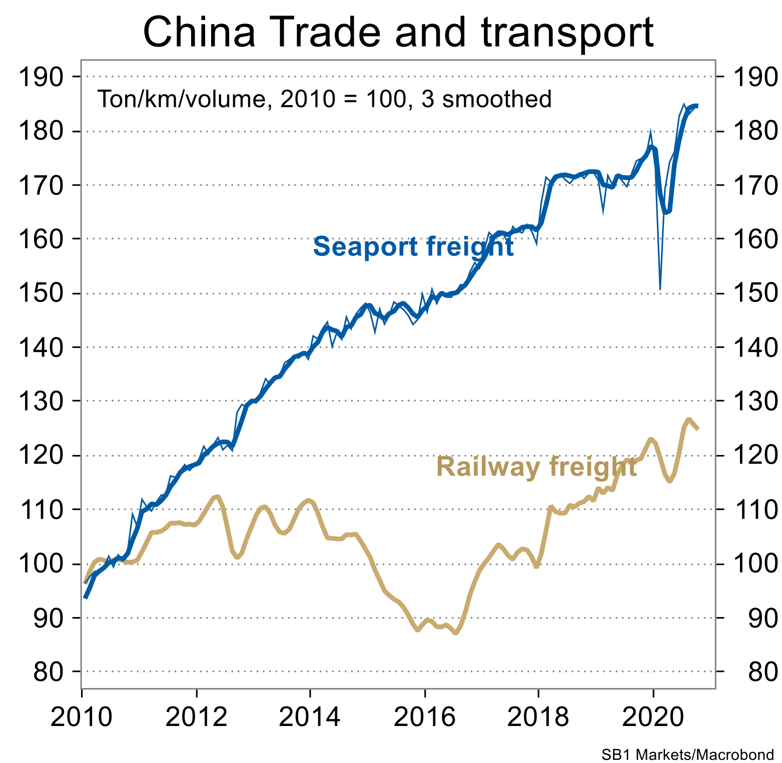


- Demand includes changes in inventories

Electricity production more than back on track too, transport activities as well



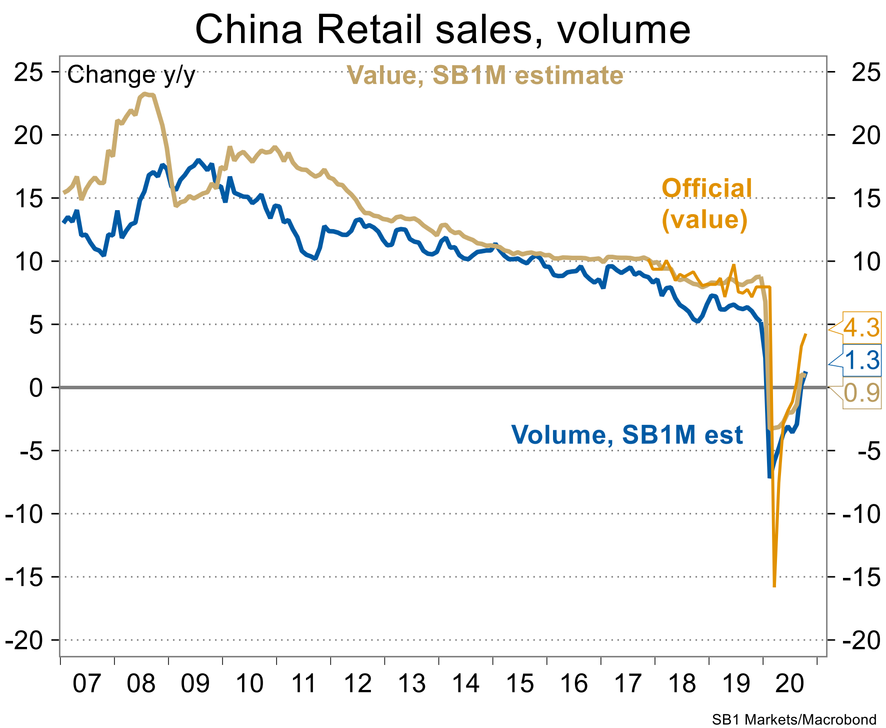


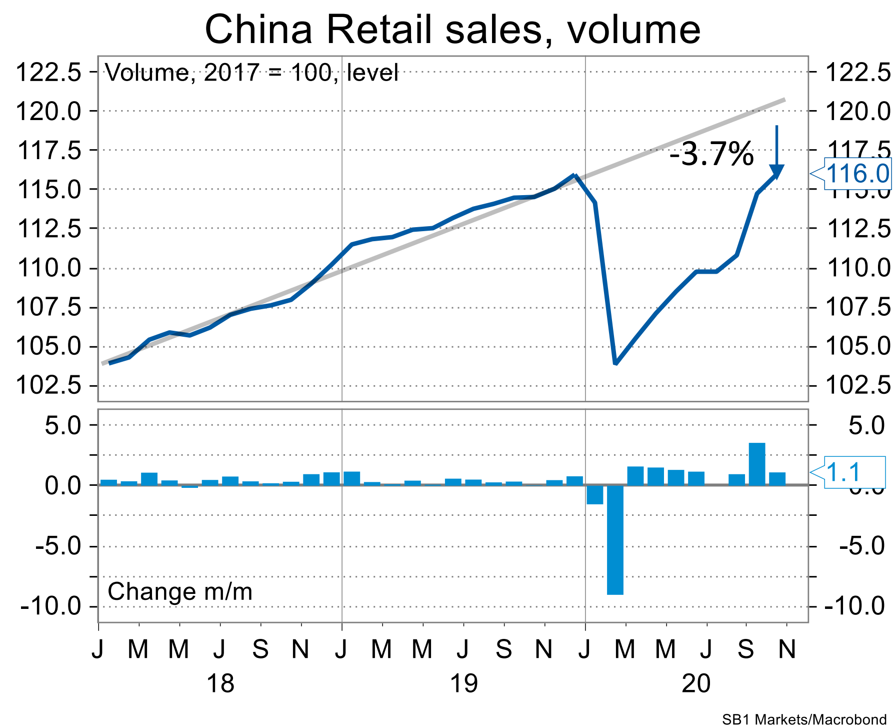


- Transport activity (goods - seaports & railway) has recovered sharply recent months, following a setback earlier in 2020

Retail sales volume up 1.1% m/m in Oct, @ Dec ’19 level, but 4.5% below PC path

Sales marginally weaker than expected but still up 4.3% y/y

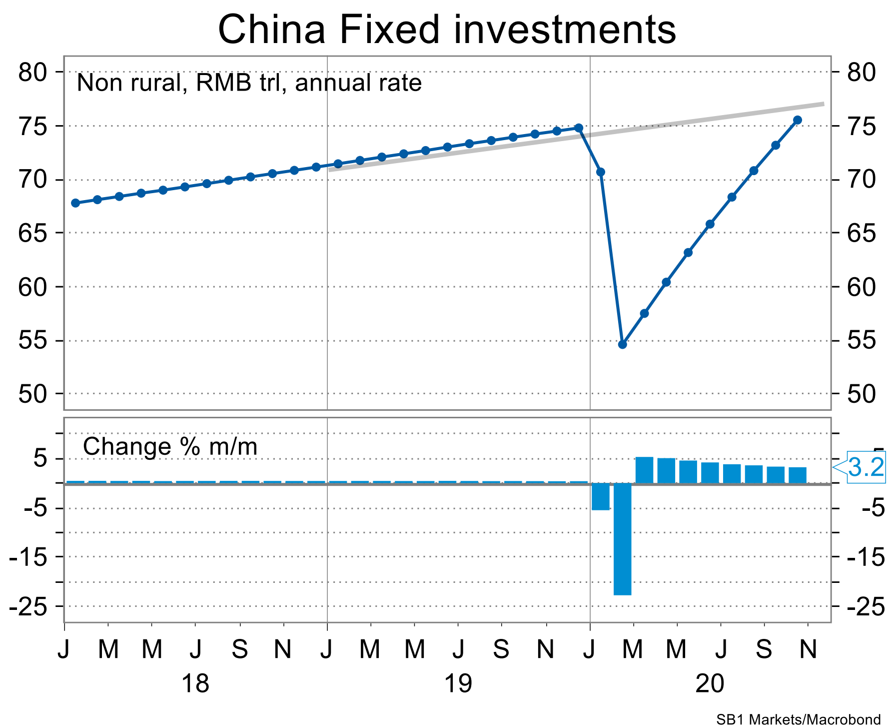




- Sale volumes grew 3% in September, an unusual lift. The 1.1% October growth is much higher than normal too
- The official annual sales (value) rose 4.3% y/y, below the 4.7 - 5.0% expected increase. Our value growth estimate, based on published monthly seasonally adjusted growth rates is up just 0.1% - and our volume estimate is up 1.3% y/y (the retail sales price index was down 0.3%)

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

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

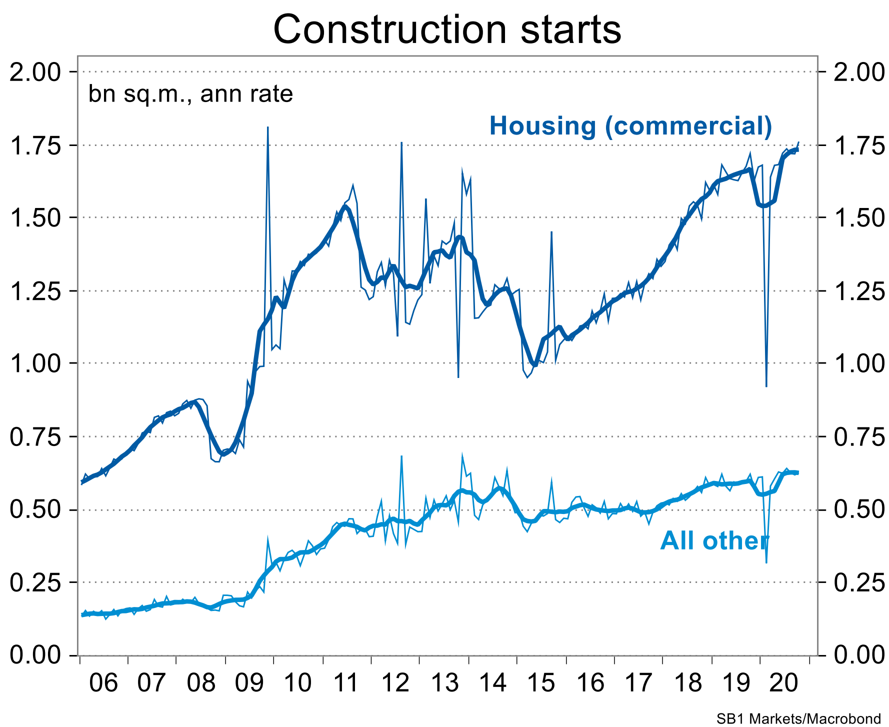


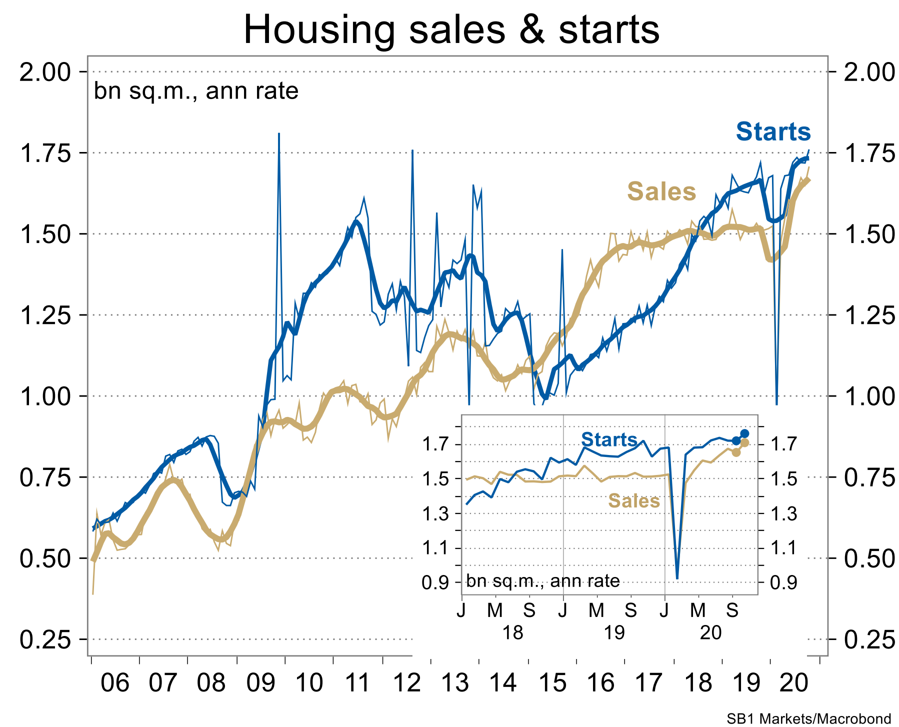
- Measured ytd, investments are up 1.8% in Oct, expected 1.6% - and up from 0.8% in Sept
- Investments rose by 3.2% m/m (nominal), down from 3.4% in Sept. Growth has been slowing since peak growth in March (following the 27% decline in Jan+Feb) but remains far above the normal growth rate, at 0.4 -0.5% per month. The level is now above the Dec 19 level and just 1% below the pre corona trend. The gap will probably be closed in November
- In real terms, investments are down some 3% y/y (our rather uncertain estimate)

SpareBank 1 MARKETS

Construction still on the way up, very strong in October

Starts the 3rd highest ever in Oct, sales the highest EVER!

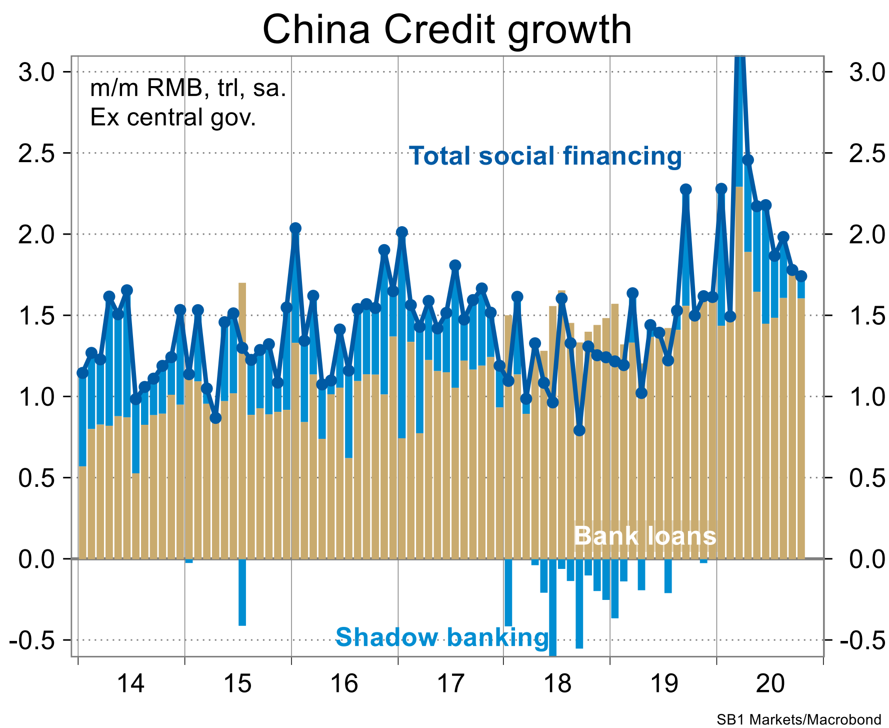


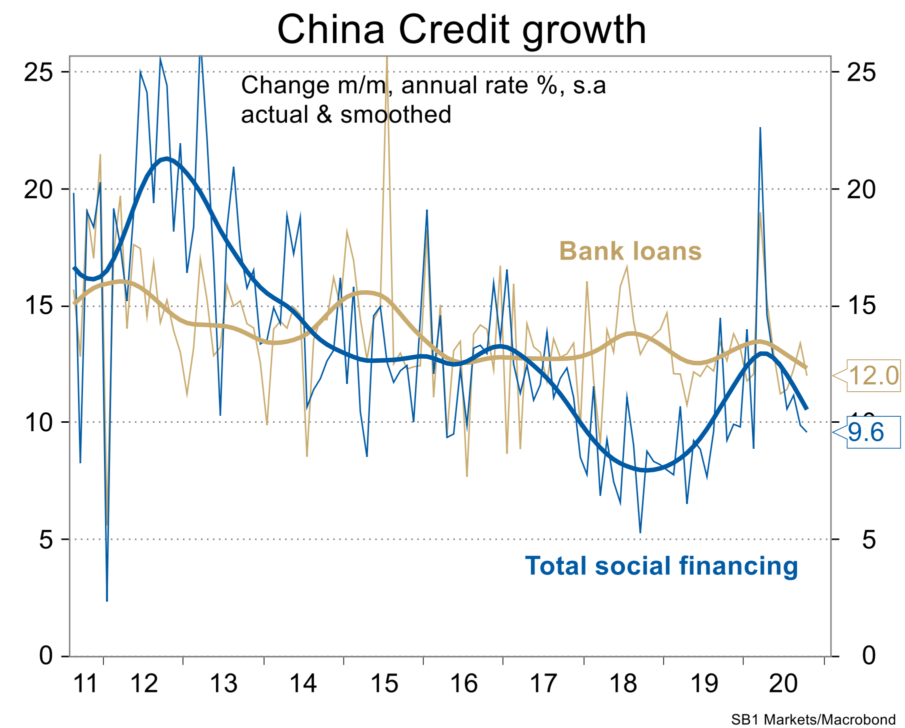


- In fact, just February was a disaster; sales and starts fully recovered in March, peaked in June/July, have slowed marginally in Aug/Sept – probably in line with the authorities priorities (the level of construction is probably high enough)

Credit growth is slowing but remains above

Credit growth outside banks slows, and banks may be slowing too

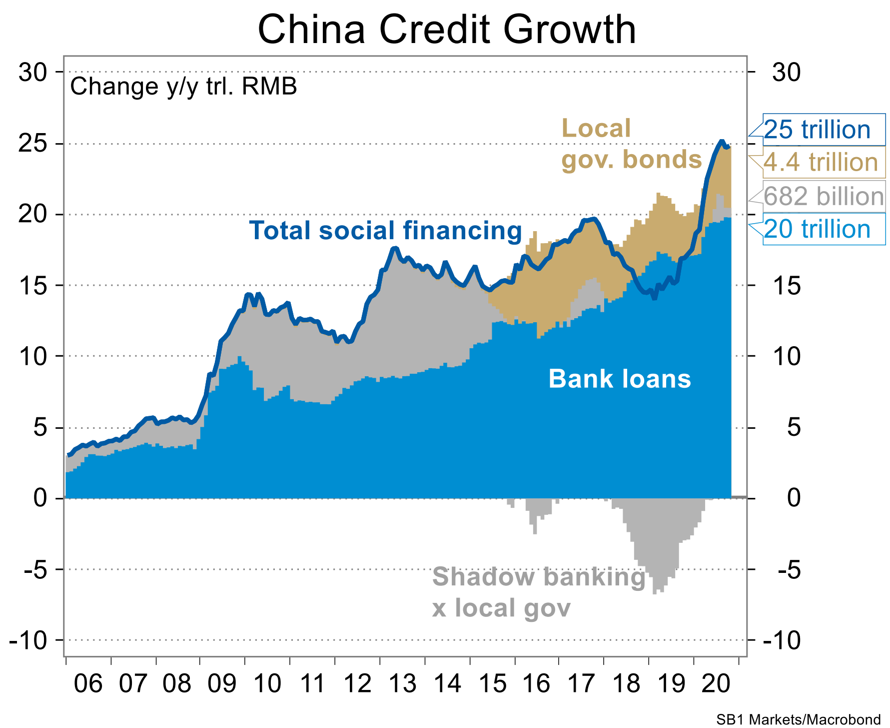


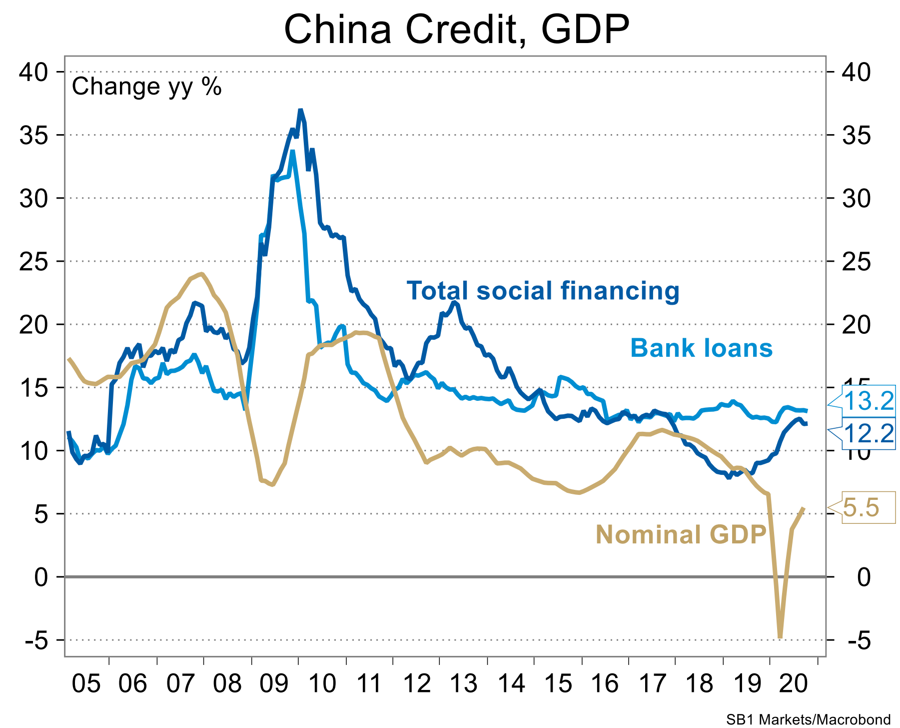


- Total credit growth has been slowing recent months, to some 9.6% (annualised) in Oct, from above 15% during the spring
  - » Total credit rose just RMB 0.6 trl (not seasonally adjusted, ex central government bonds but including local governments). Banks supplied almost all of the increase (based on seasonally adj. data). Bank loans rose by RMB 0.7 trl, expected 1.9 trl (but credit growth is usually slow in October, during the golden week)
  - » Total credit is up 12.2% y/y, above normal income growth, underlying well below 10%
- Following the V-shaped economic recovery, the authorities will not boost growth by lifting credit growth again, especially vs. the real estate market, and some tighten measures are announced

Over the past year: Credit growth has accelerated

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

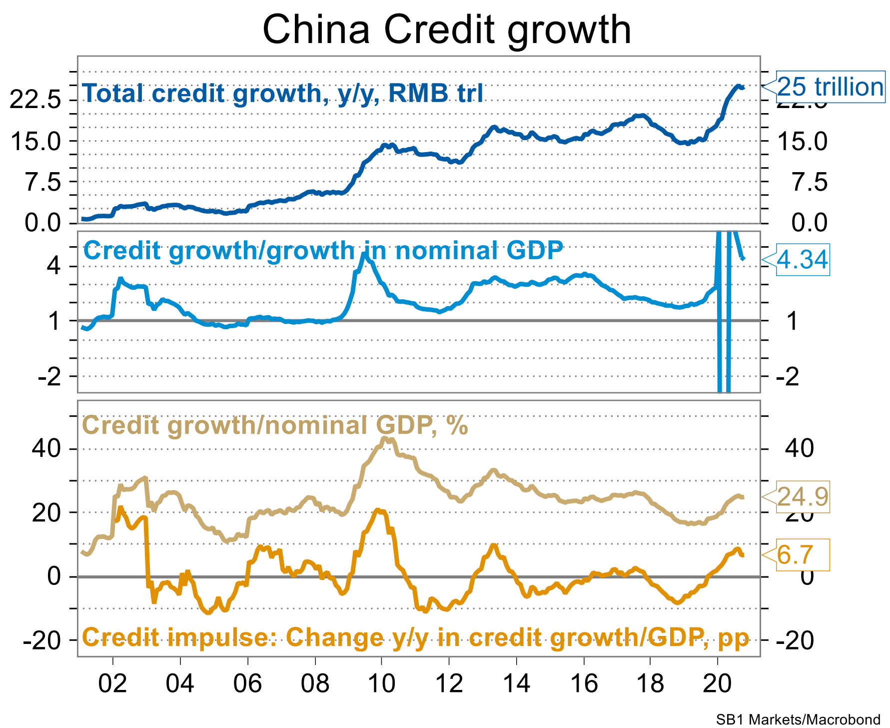


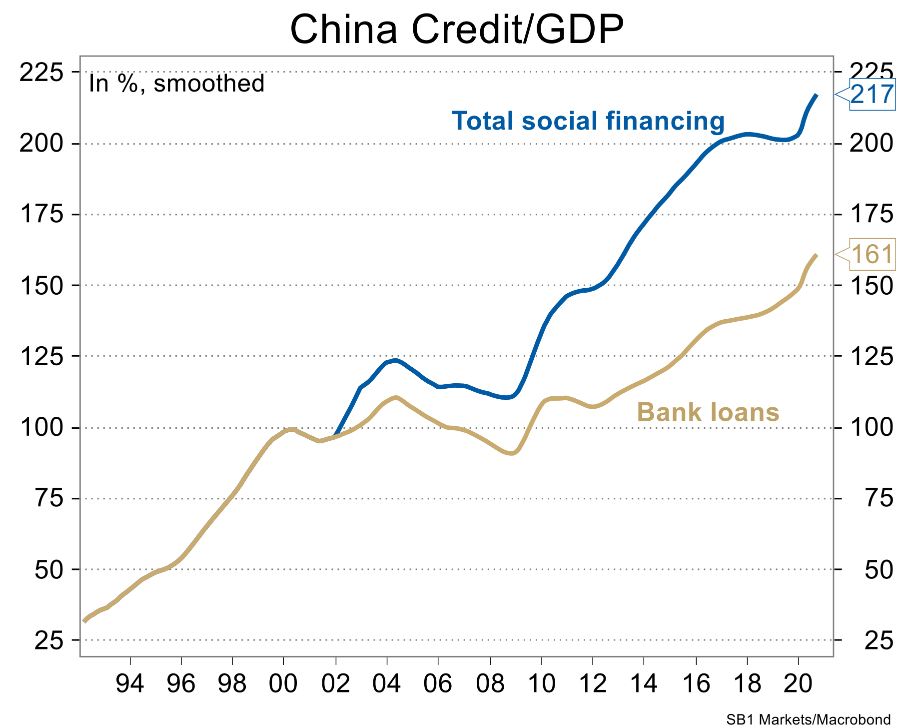


- Over the past year, total credit has expanded by CNY 25 trl, equalling 25% of GDP (even before the Q1 collapse)
- Banks supplied CNY 20 trl of the y/y increase
- Local governments have not yet accelerated their borrowing by much, at least not in the bond market, still up 4.4 bn y/y
- Other credit – via the shadow credit market x local gov bonds is now marginally up y/y, by 0.7 bn
- Total credit growth at 12.2% is higher than growth in nominal GDP even before the corona shock – the debt ratio is increasing

The credit impulse has peaked?

Credit growth has been accelerating but has peaked

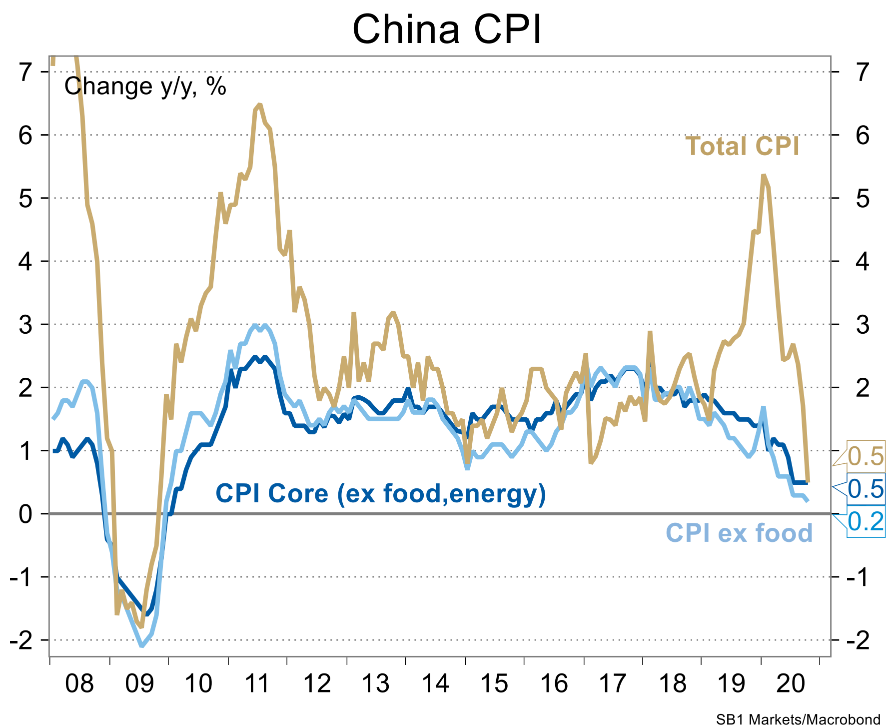


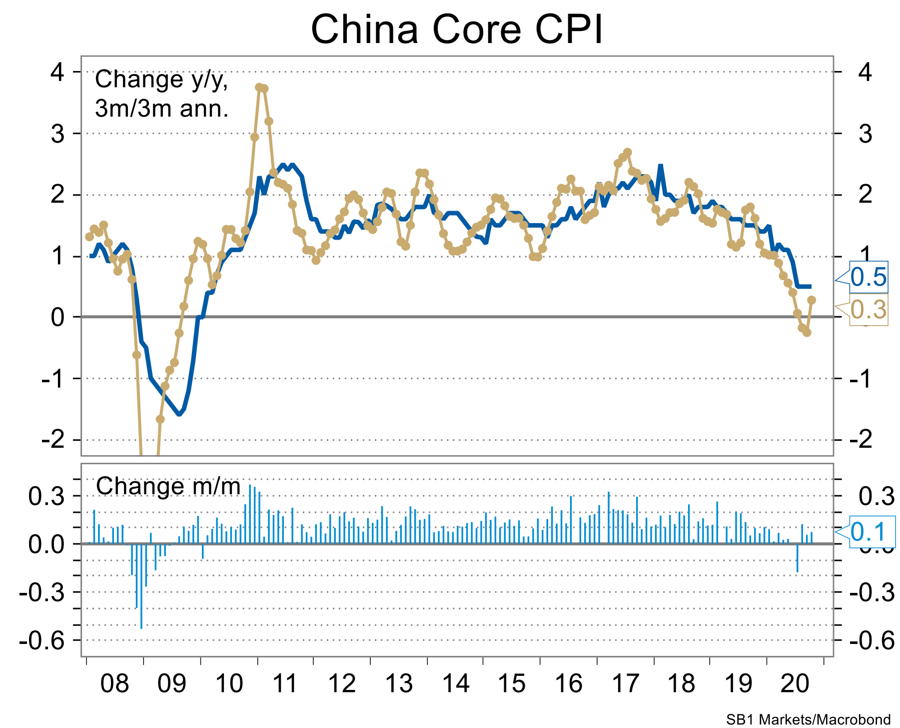


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » The credit impulse has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

Wow, total inflation down to Mother Earth, no more (swine) flu

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

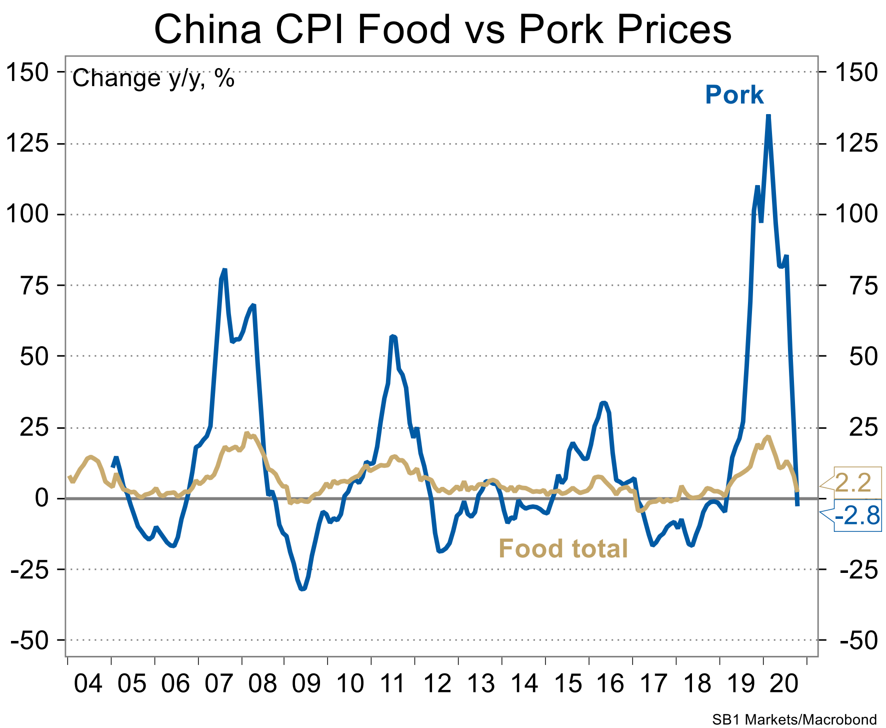


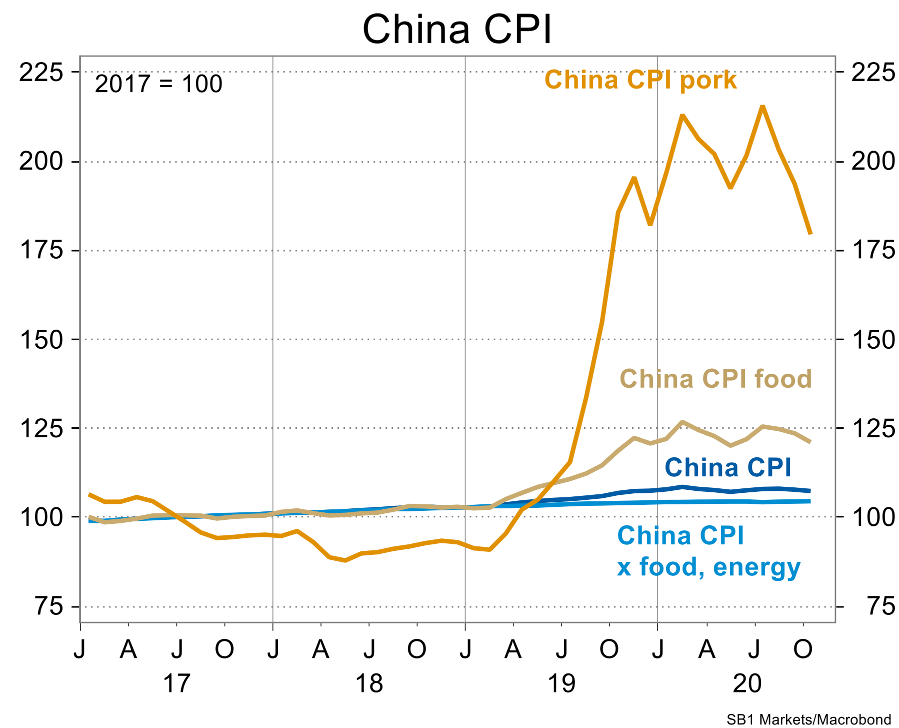


- **Total annual CPI** growth has fallen from above 5% in early 2020 to 0.5% in October, of which from 1.7% in Sept, expected down to 0.7% - as food price inflation have fallen to almost zero, from +20%
- **CPI inflation ex food** is down at 0.2%, and 0.5% if energy is removed too
- **Food prices** fell 0.9% m/m in September, and the annual rate came down to 2.2%. Food price inflation was above 20% when the swine flu pushed pork prices up more than 100%. Now pork prices are heading down
- **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

Pork prices will most likely normalise (decline substantially, that is)

… taking both overall food prices, and the total price level down, perhaps by as much as 1 – 2%

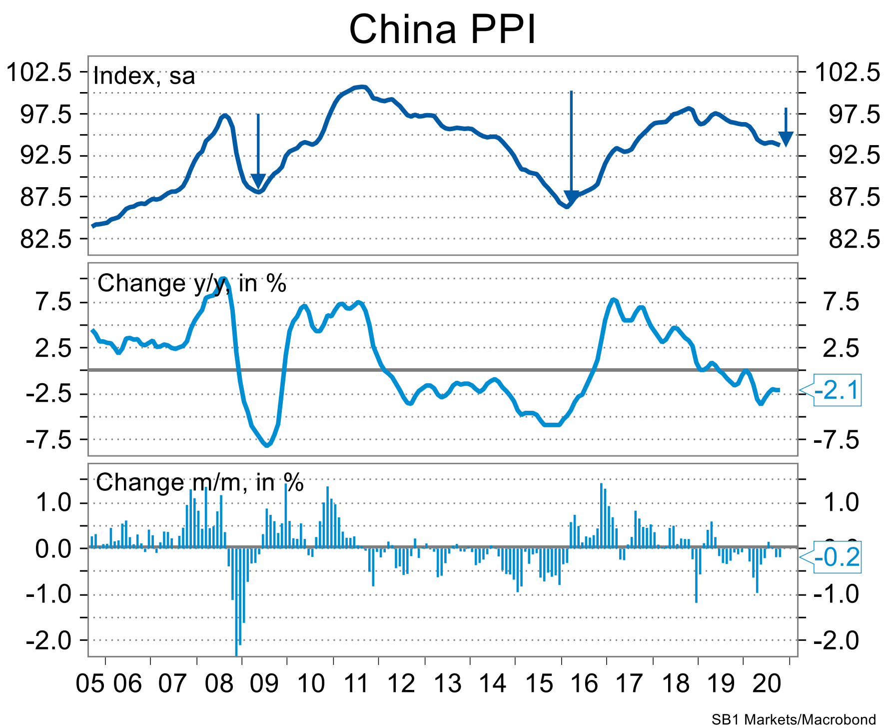


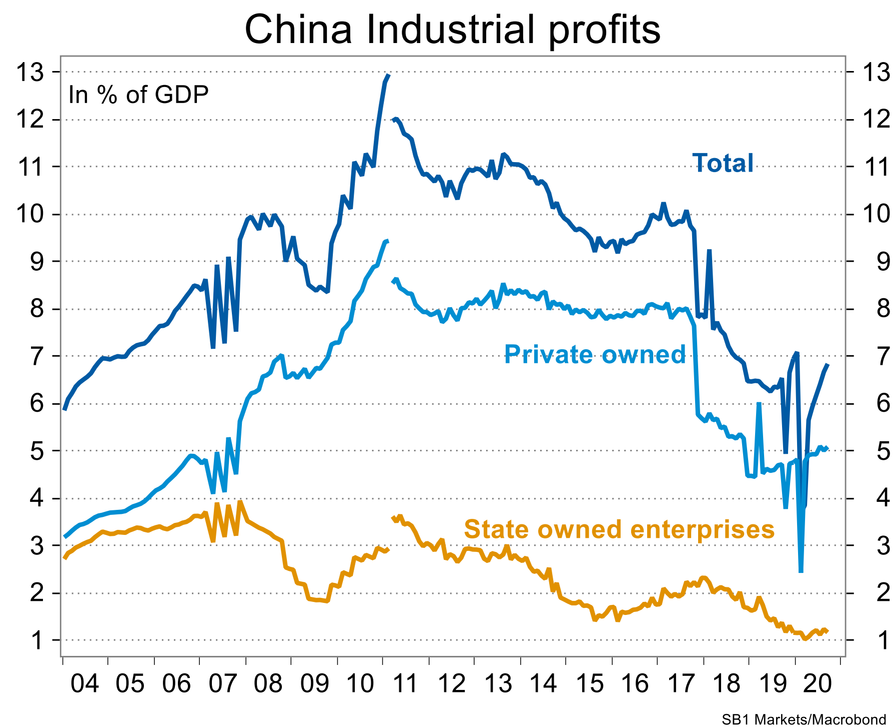


SpareBank 1 MARKETS

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

PPI down 2.1% y/y in Oct, up from -3.7% in the spring – but is still declining marginally m/m

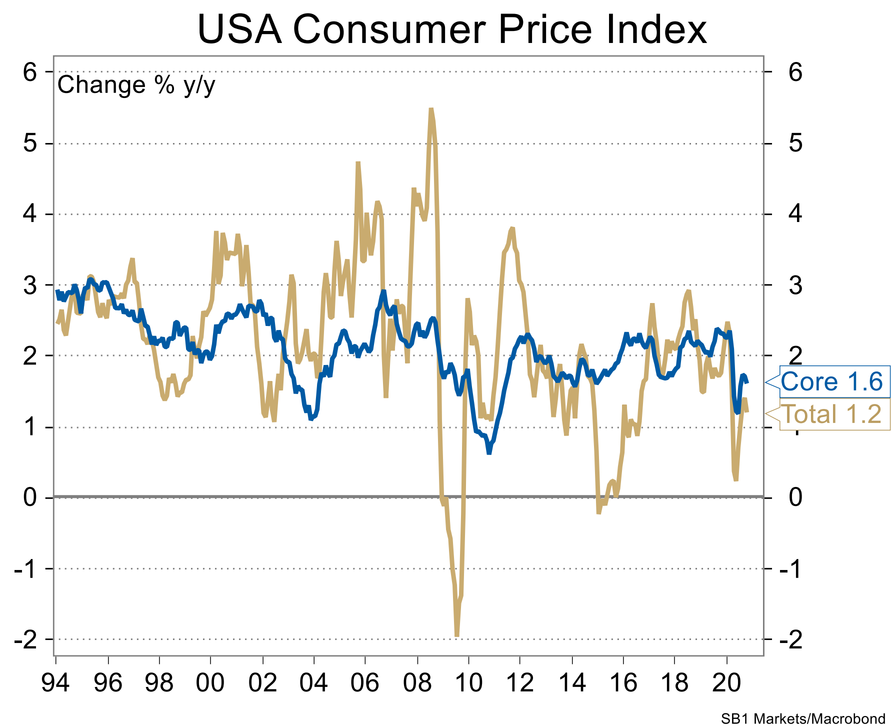


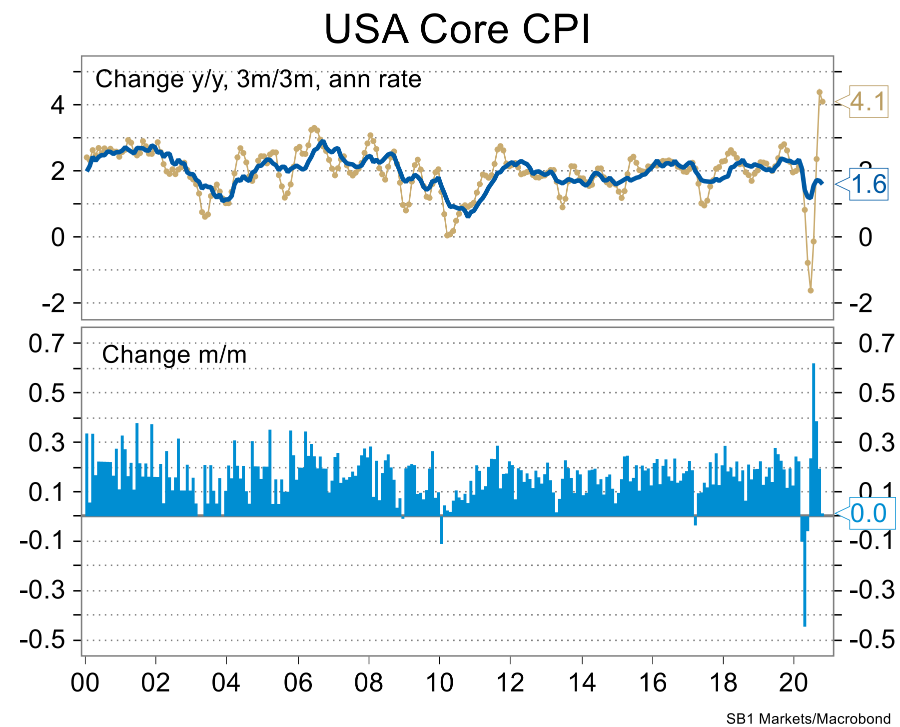


- The PPI peaked in late 2018 but prices have fallen just some 4% since then - and not much further the corona crisis. During previous setbacks, PPI has fallen up to 13% (and never less than 8%)
- Industrial profits in privately owned enterprises fell by 50% in February. Profits rose to a normal level 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 have fallen from 2% in 2018 to just above 1% now – but is not falling further

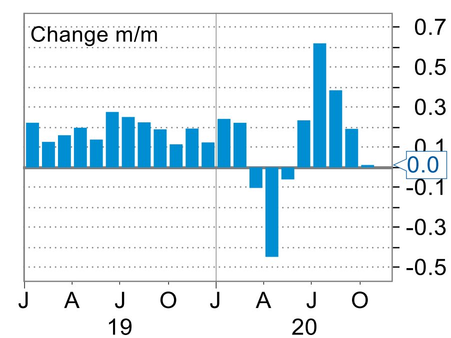
Core CPI prices flat m/m in Oct, annual rate down 0.1p to 1.6%

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

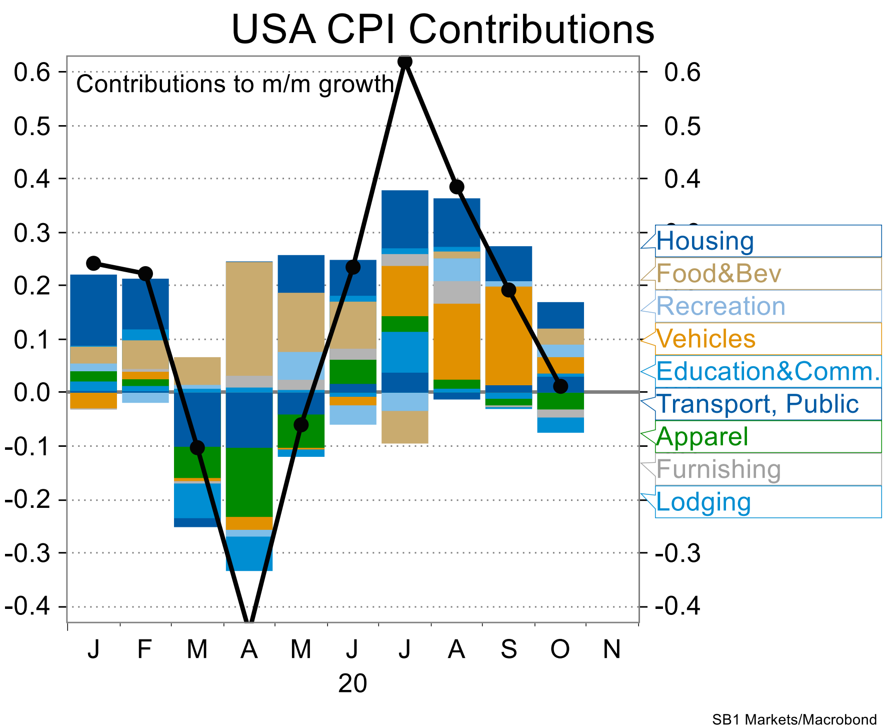


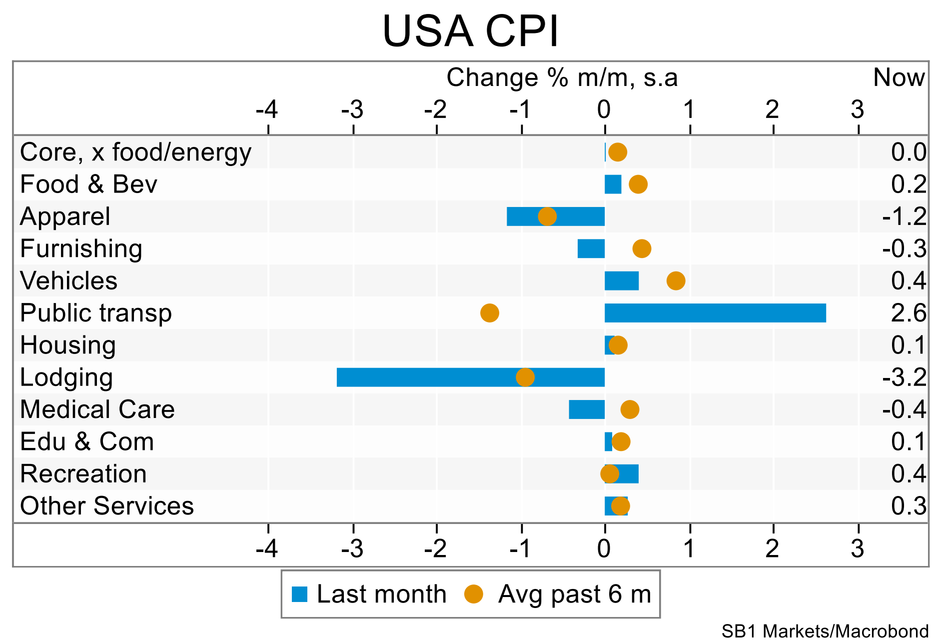


- Core CPI prices were flat in Oct, expected +0.1%, following 4 months where price rose by 0.2 – 0.6% . Still, the 1.6% annual rate is well below the 2.4% pre corona level
- Headline CPI is up 1.2% y/y down 0.2 pp from Sept
- Airline ticket prices rose in Oct, lodging became cheaper – other changes were small
- The decline in CPI inflation 'confirms' a dovish Fed stance – which will be confirmed in Dec



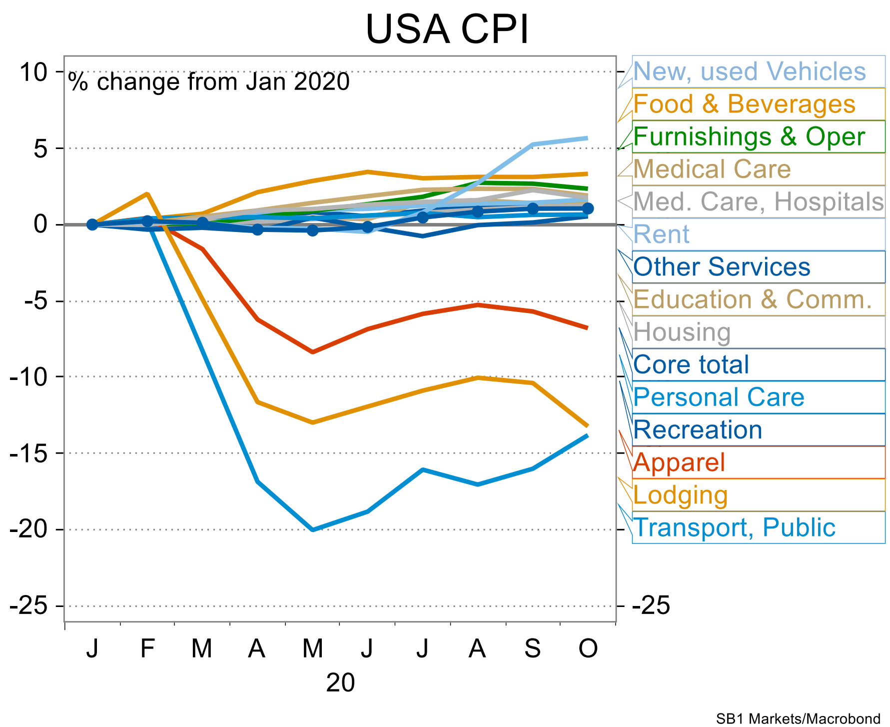
No devils in the details in the Oct CPI

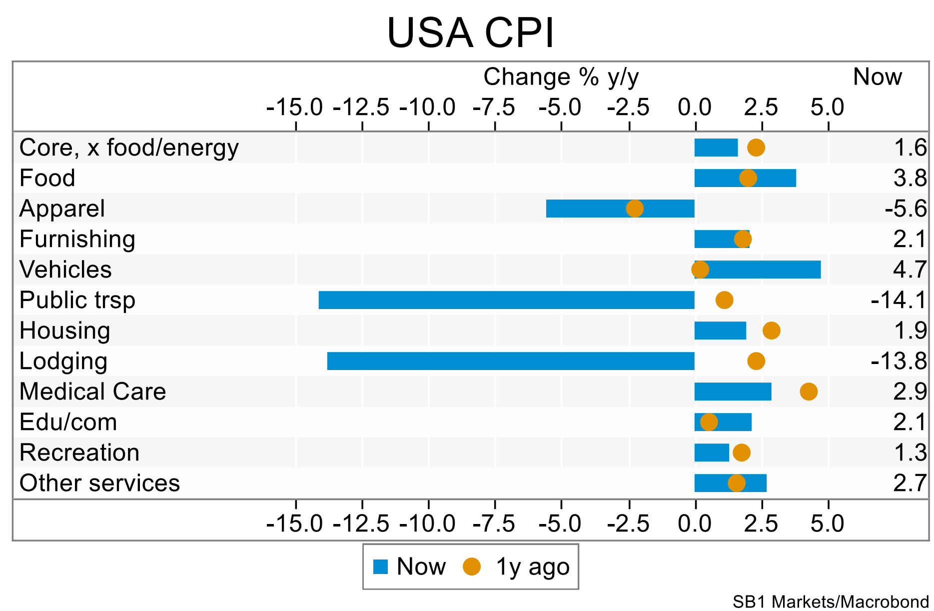




Clothing, hotels and transport (airline tickets) still very cheap

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

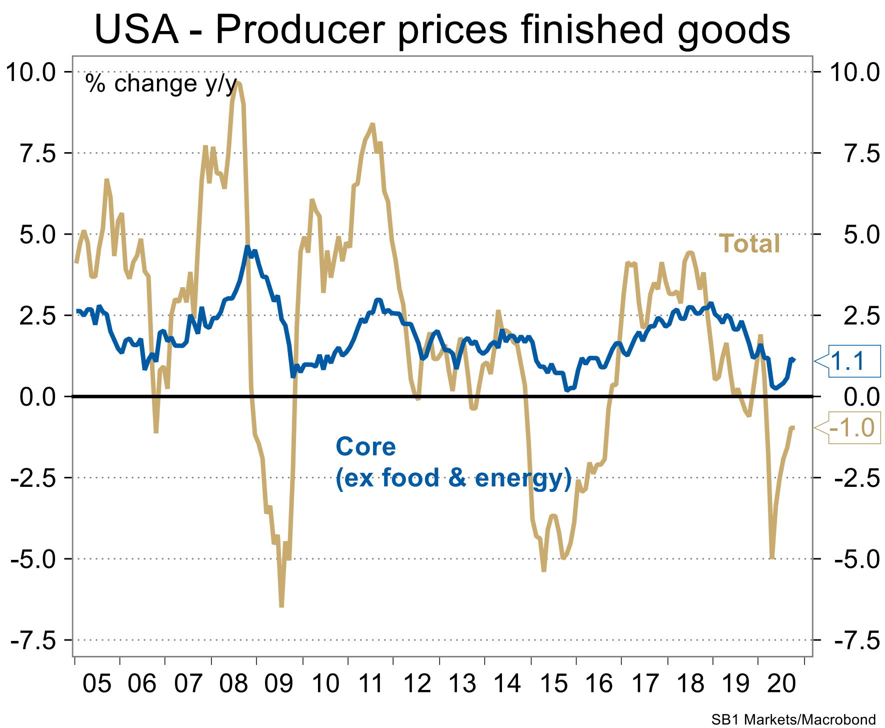


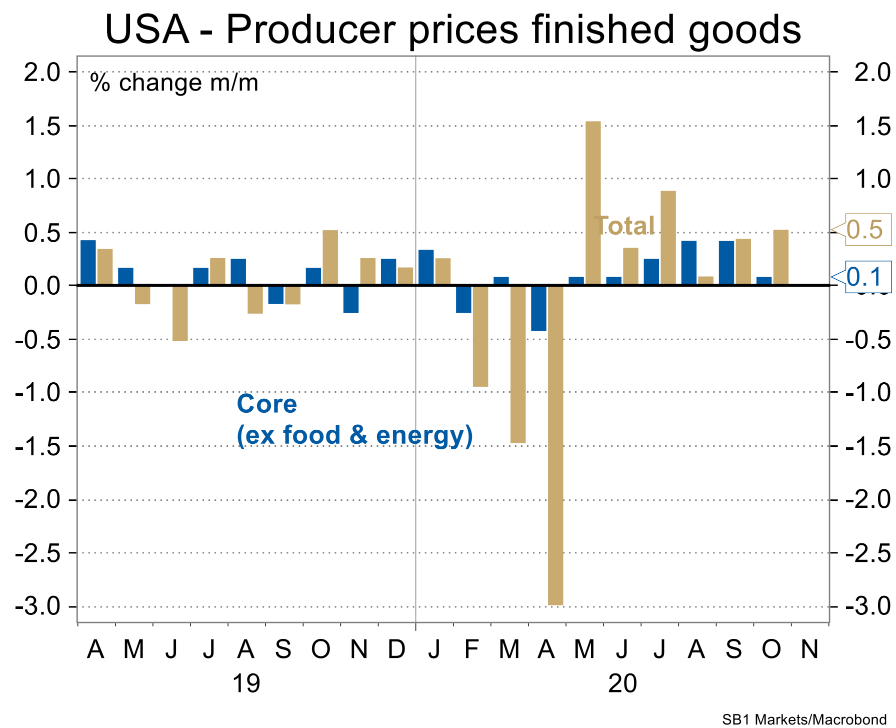


- Just some few components of the CPI contributed to the 'corona' setback: Public transport (airline tickets), lodging (hotels), apparel, and partly recreation (parks etc). Other components of the CPI have not slowed
- Food prices are up 3.8% y/y, corona has no doubt boosted demand among households,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

Core producer price inflation slowly moving upwards but not further in October

Core goods up 0.1% m/m, up 1.1% y/y. Total finished goods prices down 1% y/y – from -5% in April

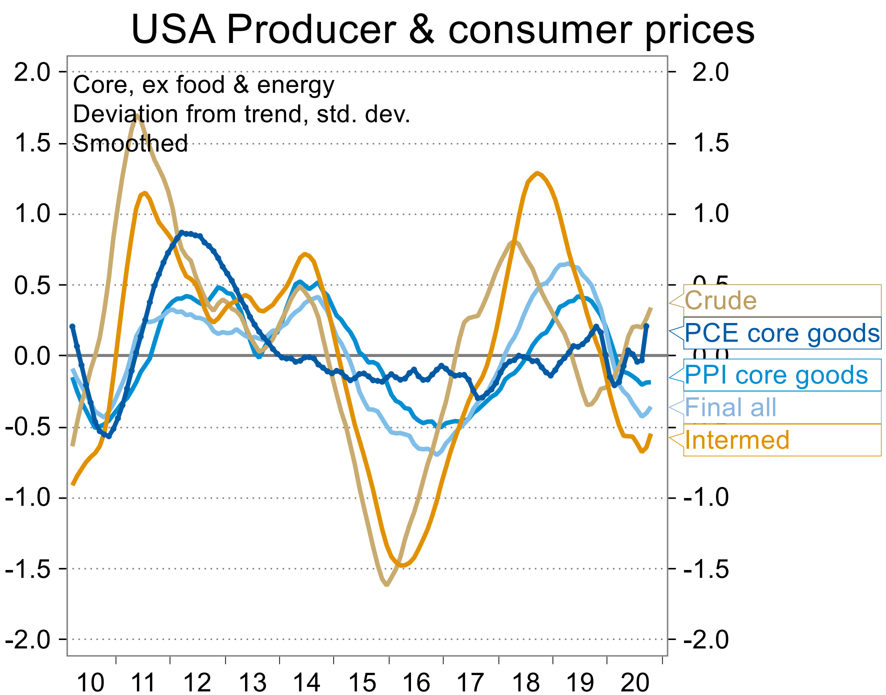




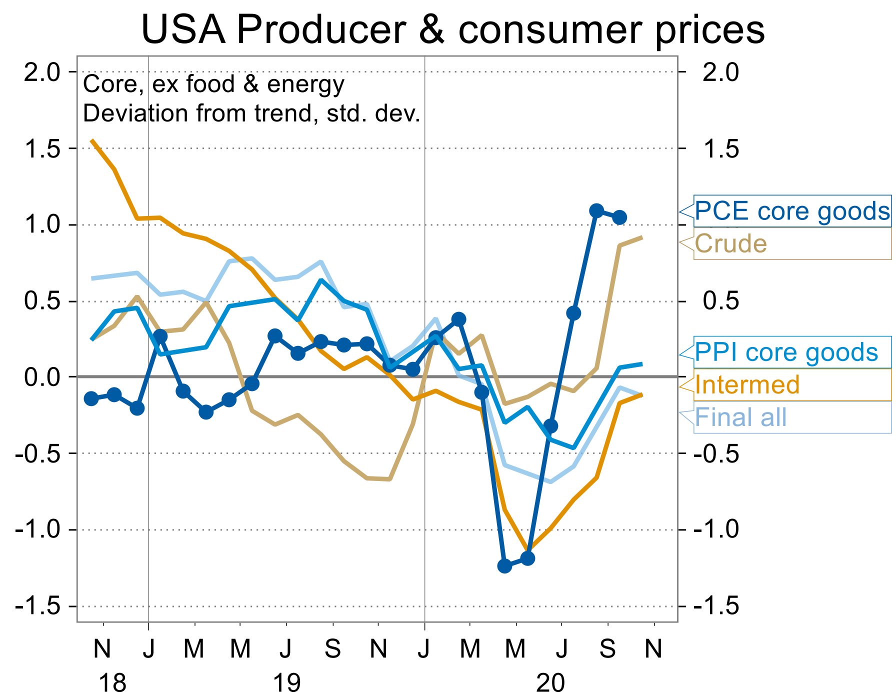
- Core finished goods x food & energy PPI rose by 0.1% m/m in Oct the slowest pace since June
- Core producer price inflation does not suggest high CPI inflation, but not low inflation either
- Headline PPI rose 0.5% m/m, due to higher food prices (energy prices fell slightly). The annual rate is still -1.0%

Producer prices has turned up

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



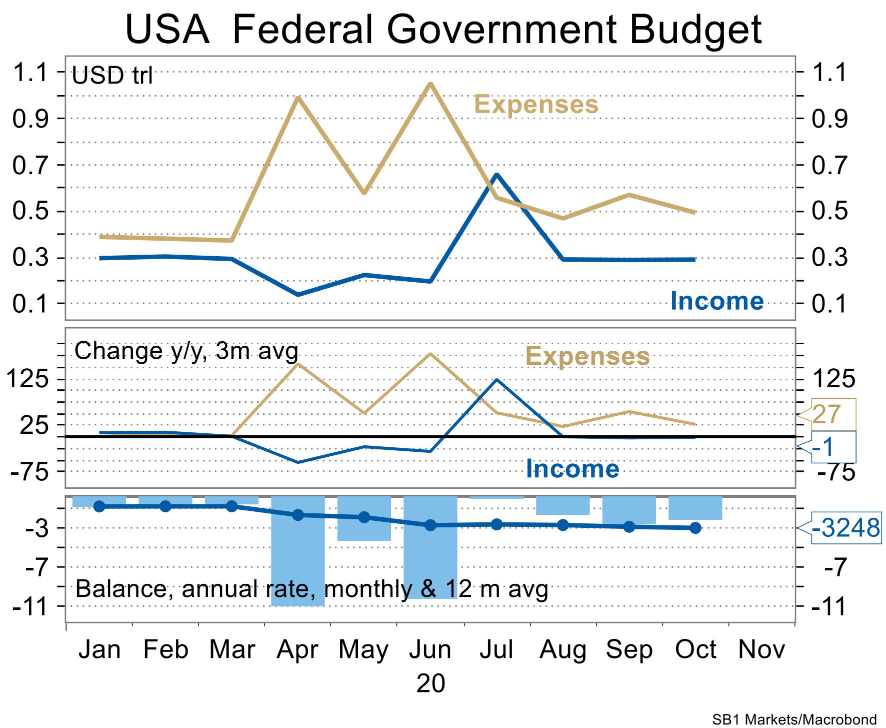
SB1 Markets/Macrobond

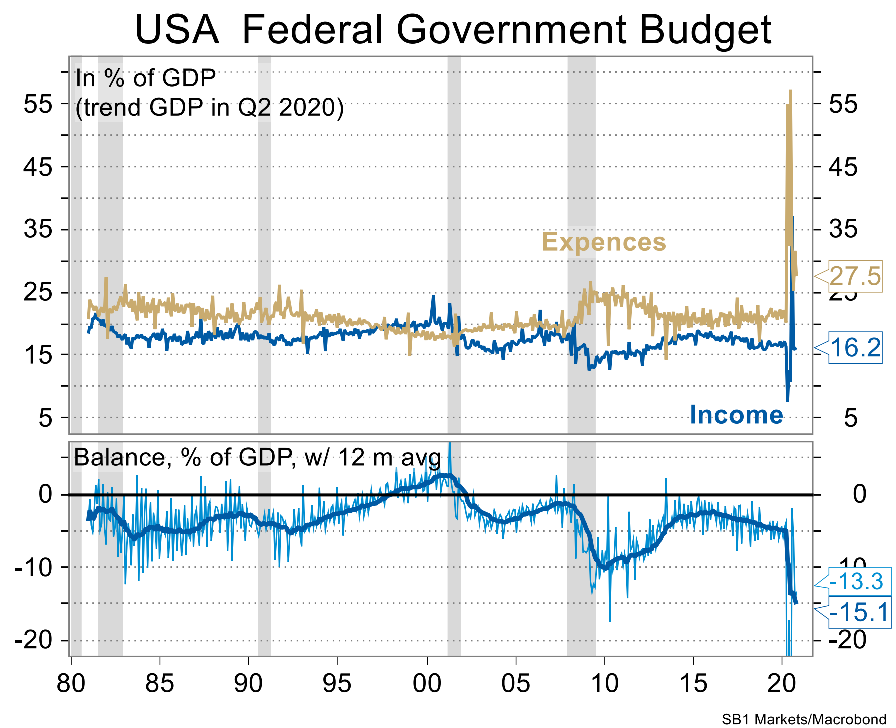


SB1 Markets/Macrobond

Federal spending still 30% higher than normal – revenues at a normal level

So far the 12 m total deficit is USD 3.200 bn, 15.1% of GDP

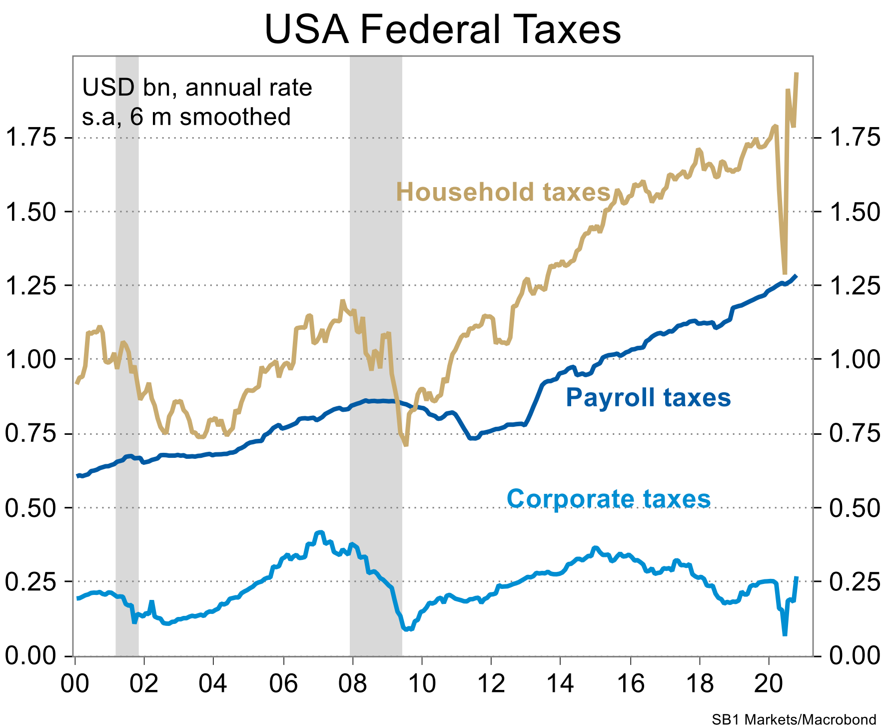


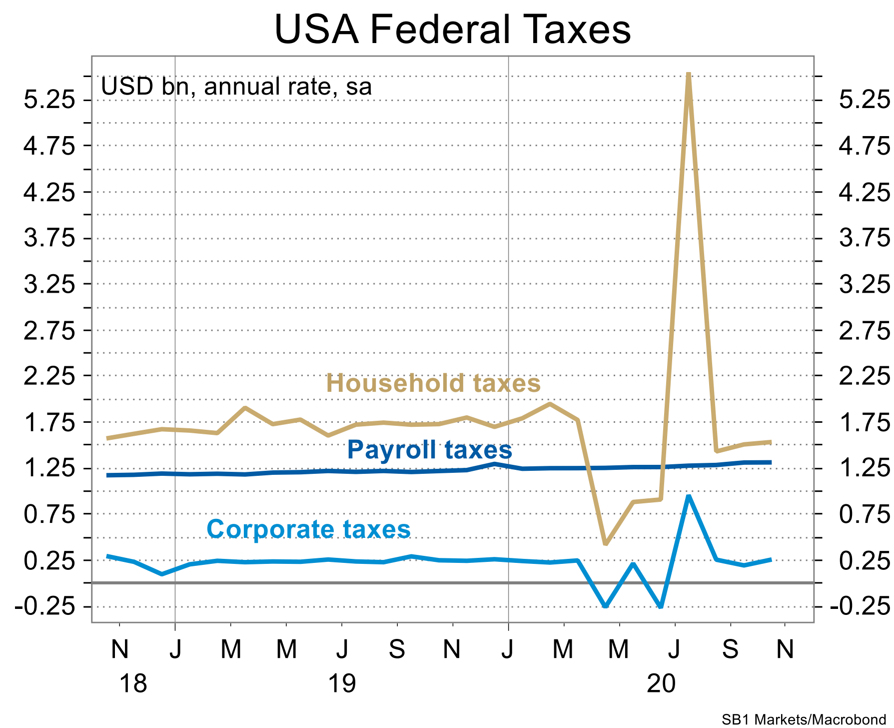


- Federal spending equal almost 30% of GDP, far higher than the 'normal' 21-22% (*we have normalised GDP, not taking into account the 2020 slump when calculating the ratio*). Revenues equals 16% GDP – and the gap is of course unprecedented
- It is not possible to know the underlying budget position (the 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 by households & corporates

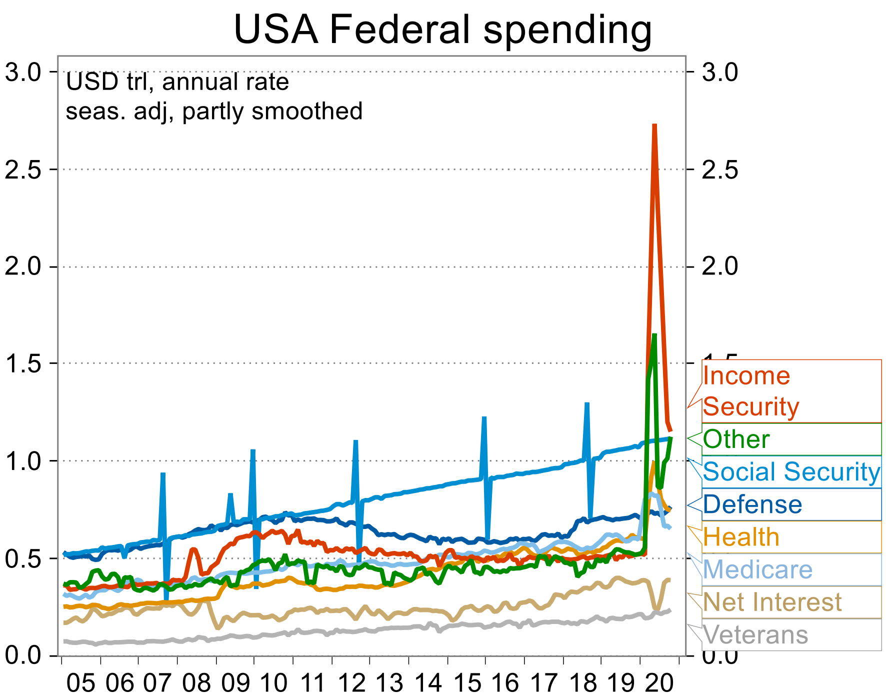
Both now more or less back to a pre corona level



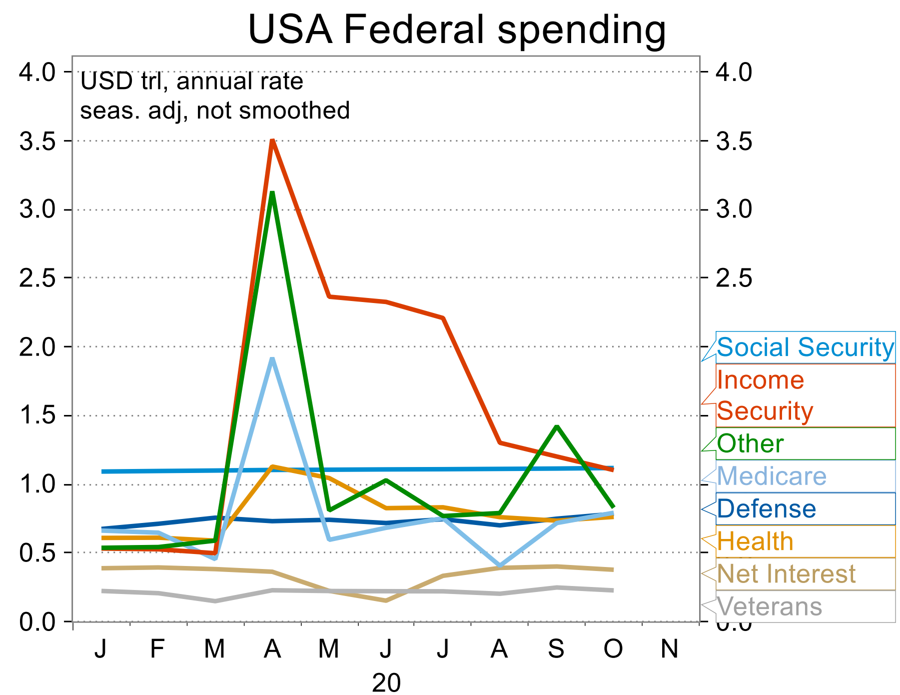


Unemployment benefits and other transfers are scaled back, still far above norm.

… A new support deal is not yet agreed upon – and transfers will probably decline further



SB1 Markets/Macrobond

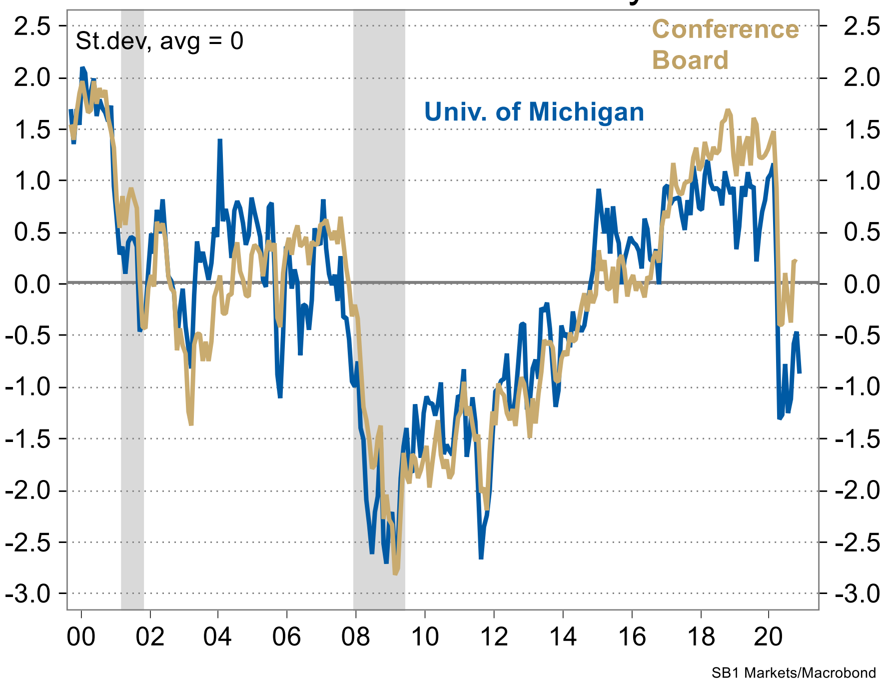


SB1 Markets/Macrobond

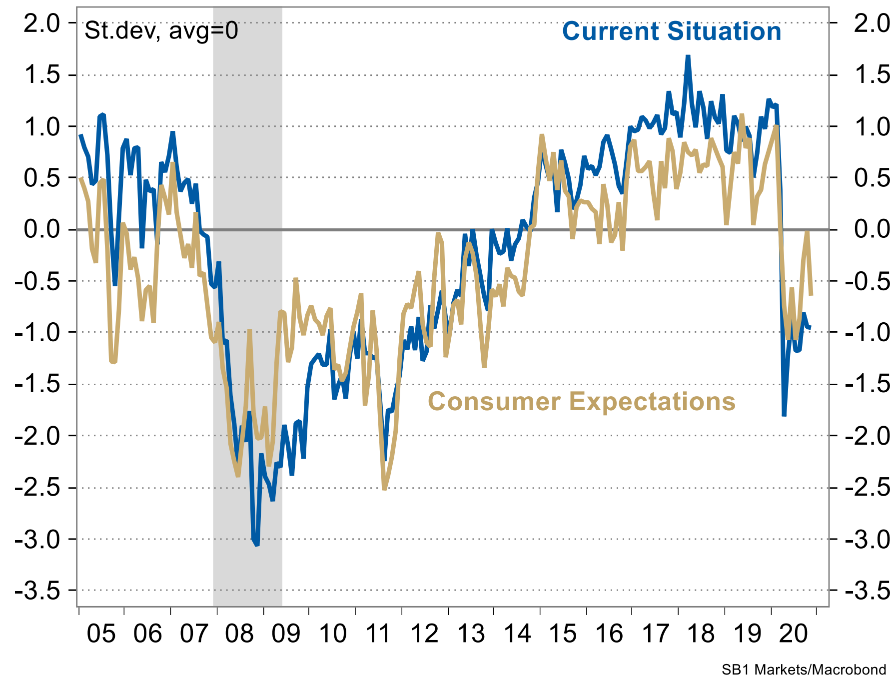
Univ. of Michigan sentiment down in early Nov, among Democrats

Index down 4.2p to 77.0 or down 0.3 to -0.8 st.dev. Diminished expectations explained all of the decl.

USA Consumer Surveys



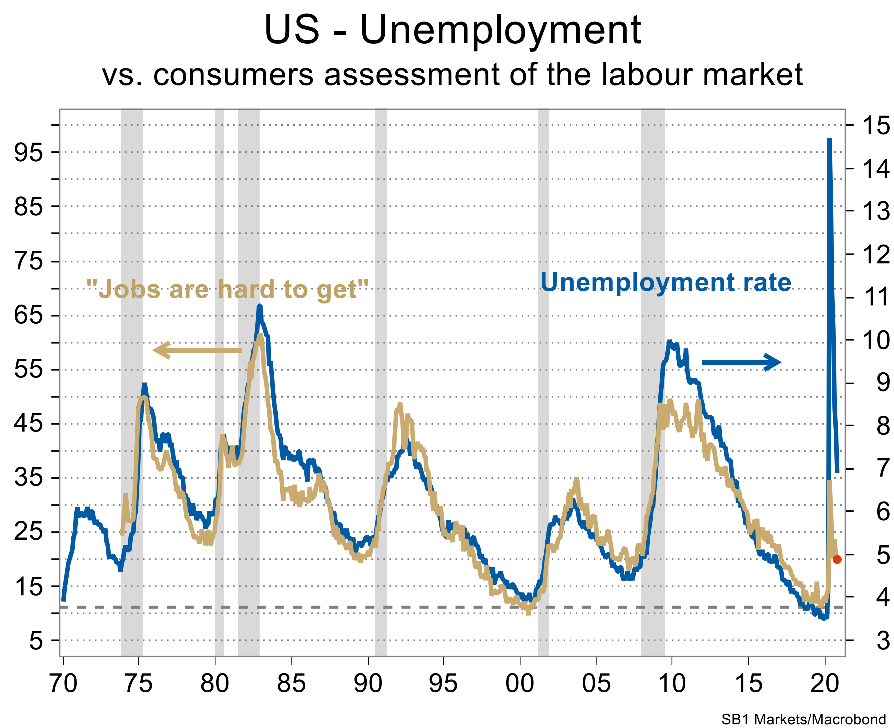
USA UoM Consumer Sentiment

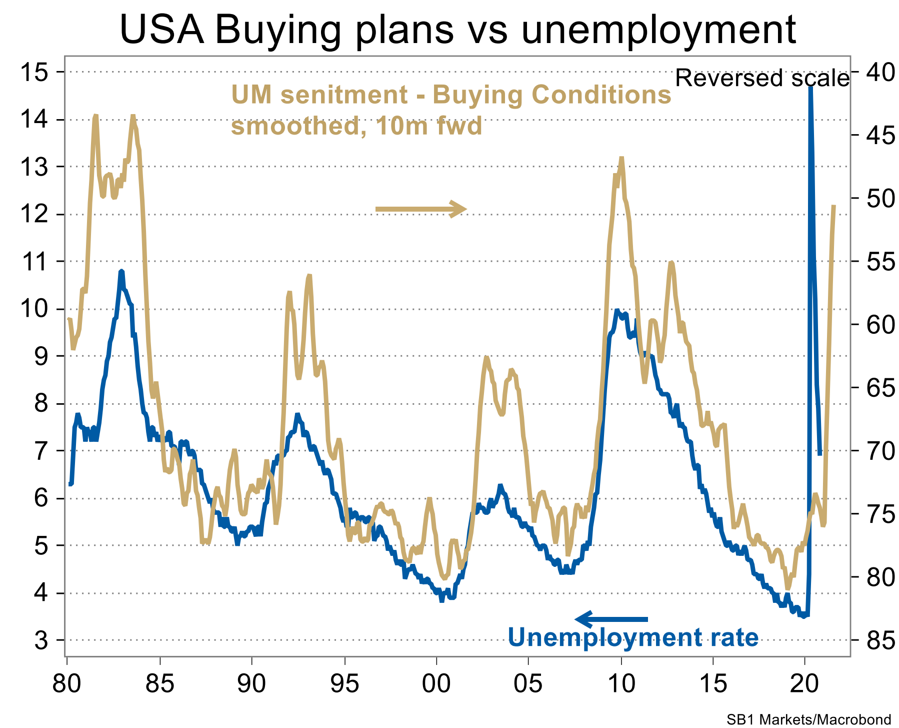


- The respondents assessment of the **current situation** fell just marginally
- In the UM survey the sentiment is clearly below an average level.
  Conference Board's survey report a close to average confidence level (no Nov data yet)

The labour market is not far from prefect, according to the households

… as if the unemployment was 5%, not 6.9%, the gap has never been larger

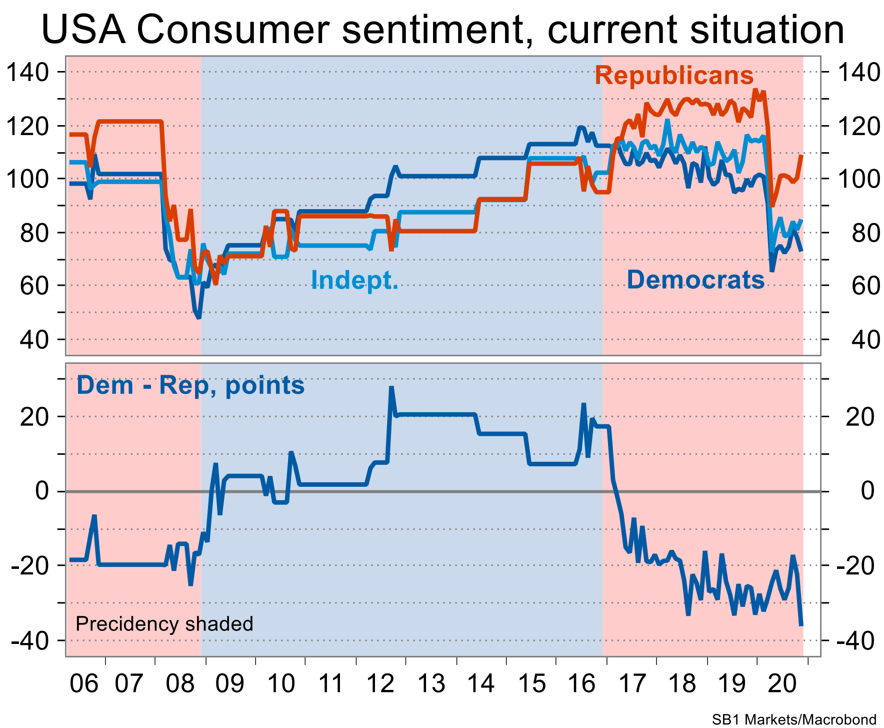




- The ‘**jobs are hard to get**’ index from Conference Board has come down to a well below average level
- On the other hand: The measure of **buying conditions** from UoM has been weakening since mid-2018. This index is usually quite correlated to the unemployment rate, leading in average by 10-12 months (though with a lower correlation vs unemployment than the jobs assessment index). The chart above is surely not encouraging, households think timing is very bad for buying big items

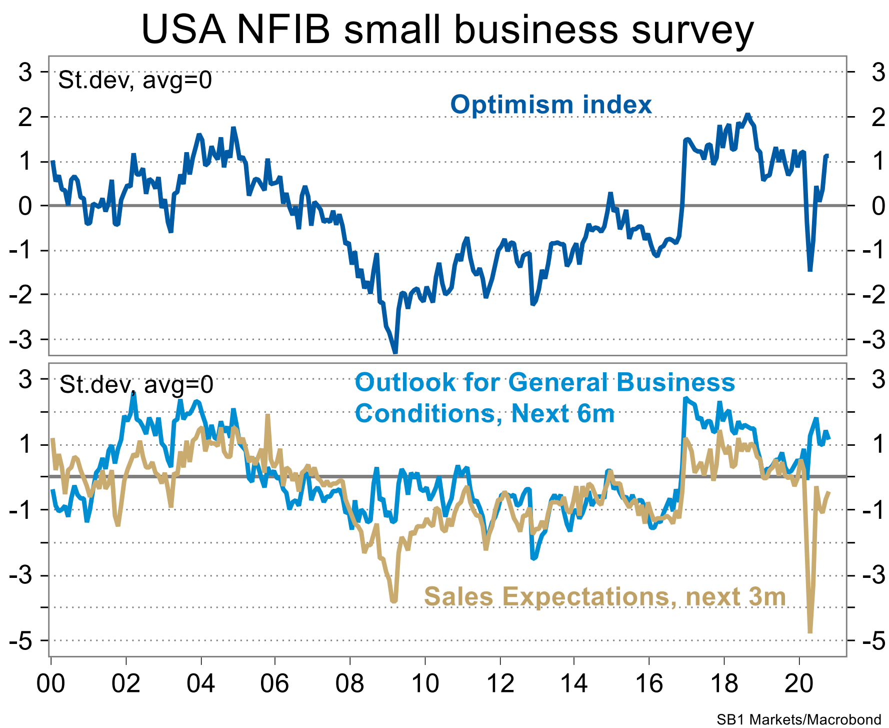
Will the assessment of the current economic situation switch once more?

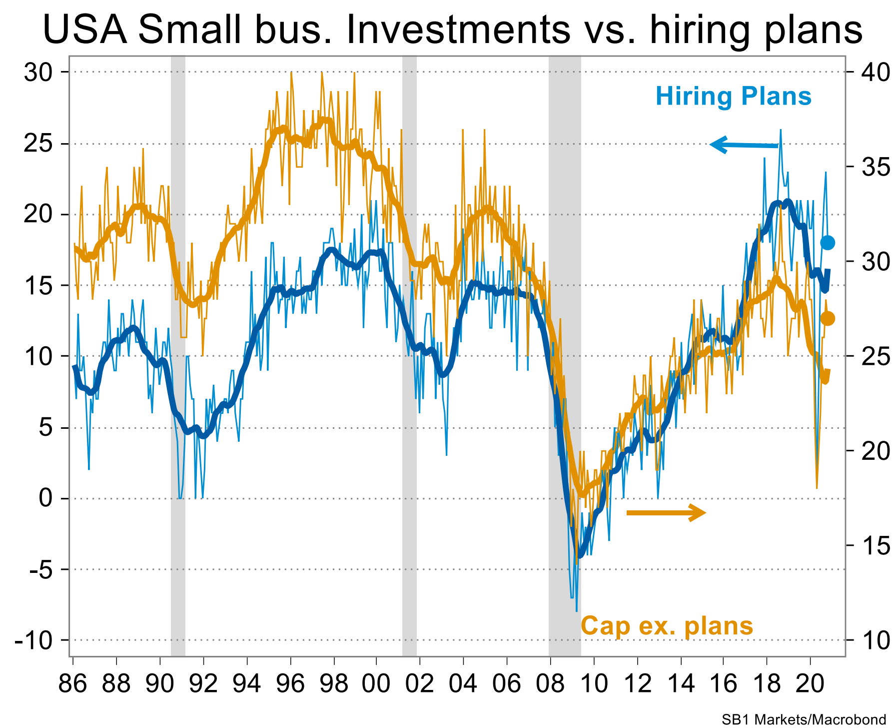
… that is, between different voters – if Biden moves into the White House, that is. If not…



Small businesses' optimism stable at a decent level, capex underway

Businesses are reporting ambitious hiring plans – but also difficulties attracting labour (again)

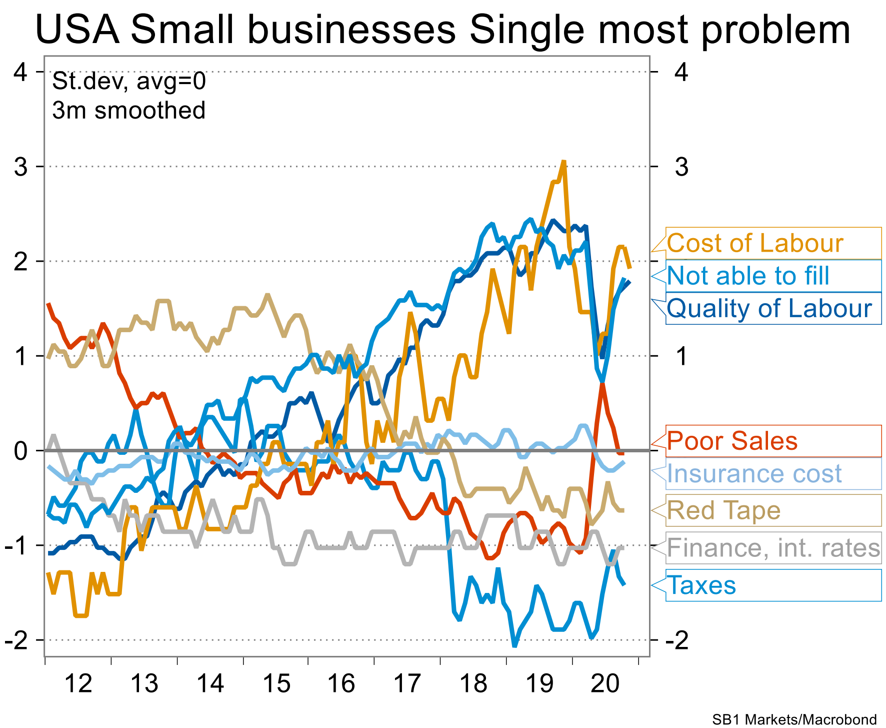


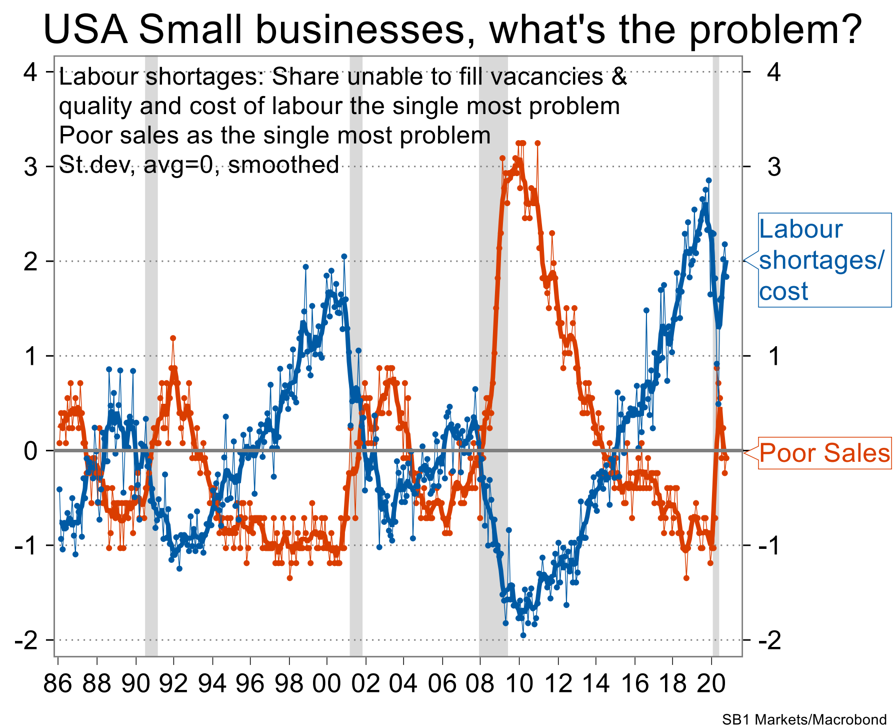


- The **NFIB optimism index** flat in October, as expected. The level is well above average. **The expectation index**, the outlook for the next 6 months, fell marginally – but is also well above an average level – and has been strong through the covid crisis.
  - » Sectors: Transportation and services 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

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?



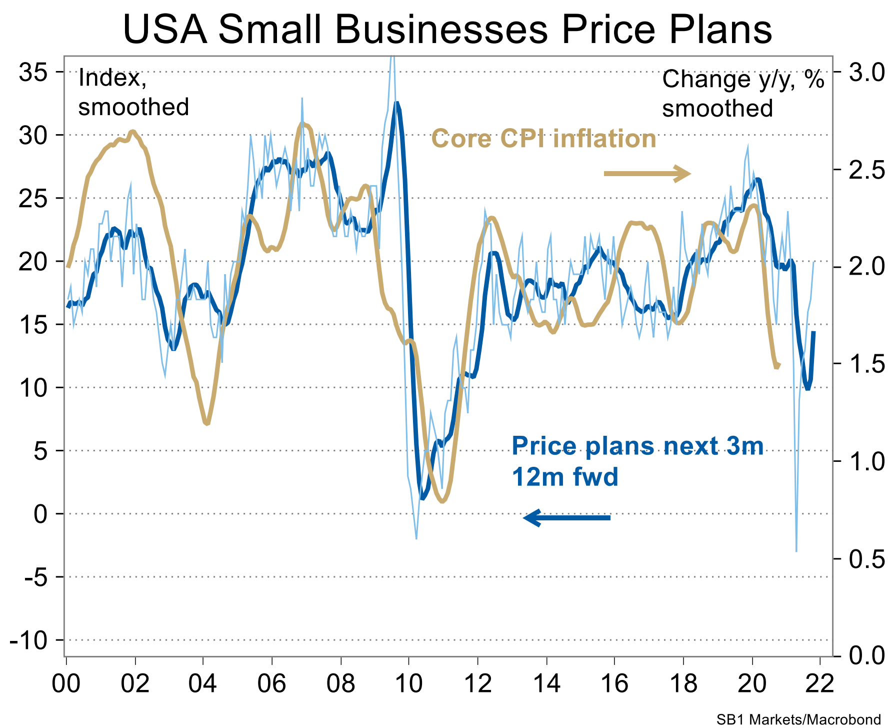


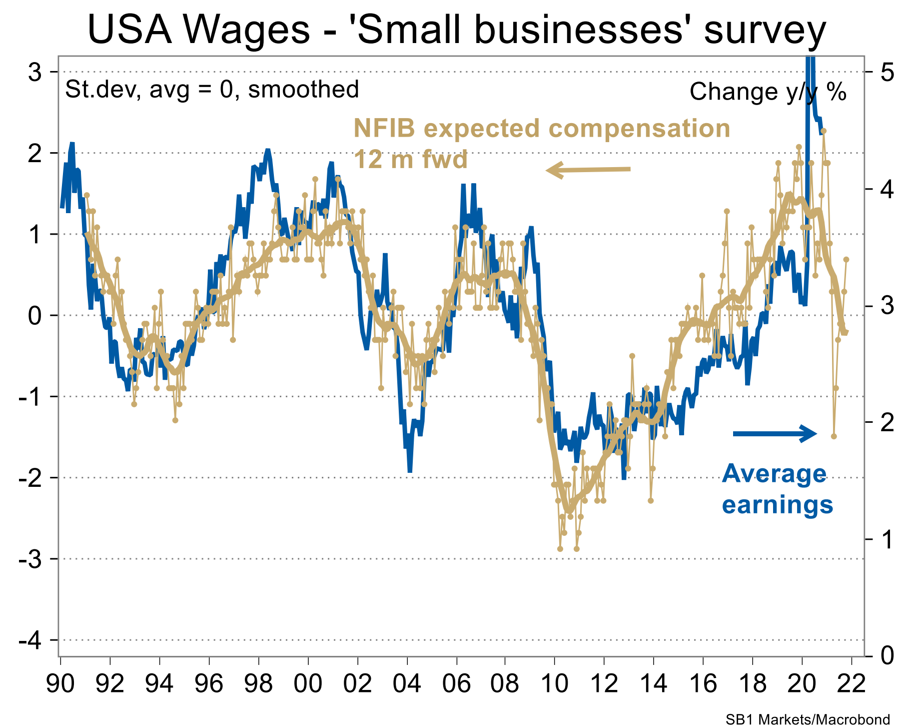
- More businesses have been stating weak sales as the major problem during the pandemic, but the level has been surprisingly low, and in October the level was at average!
- The share of businesses that have been noting problems with tight labour markets remained at a remarkably high level at the trough of the economic downturn – and now the level is not far below the highest level ever.
  - » Both the ability to fill vacancies, cost of labour and quality of labour are still reported as huge problems
- Unusually few companies are complaining about finance/interest rates and about taxes

SpareBank 1 MARKETS

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

Companies are not signalling runaway inflation but certainly not low inflation!

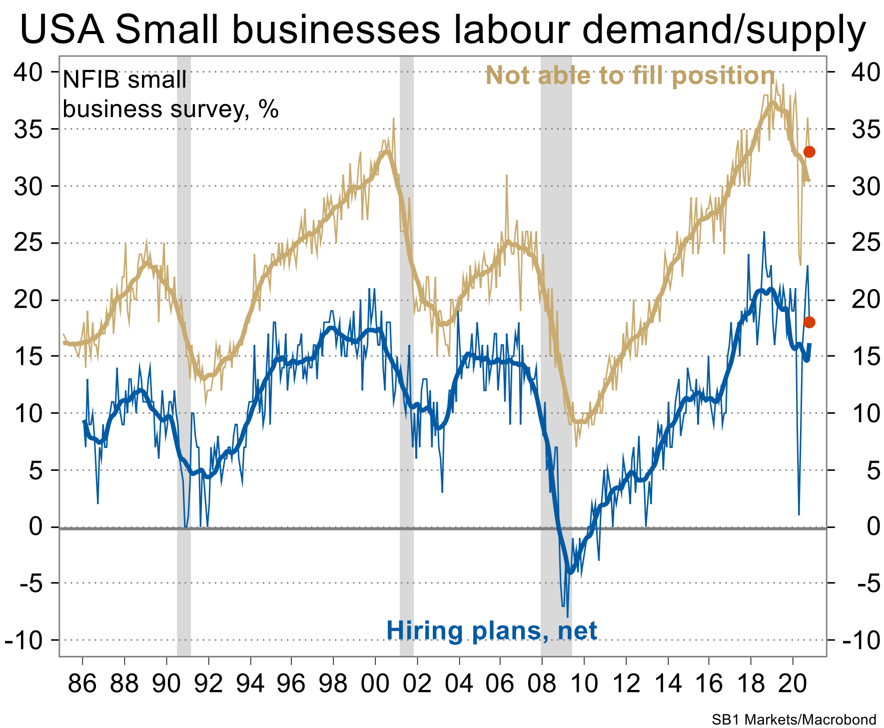


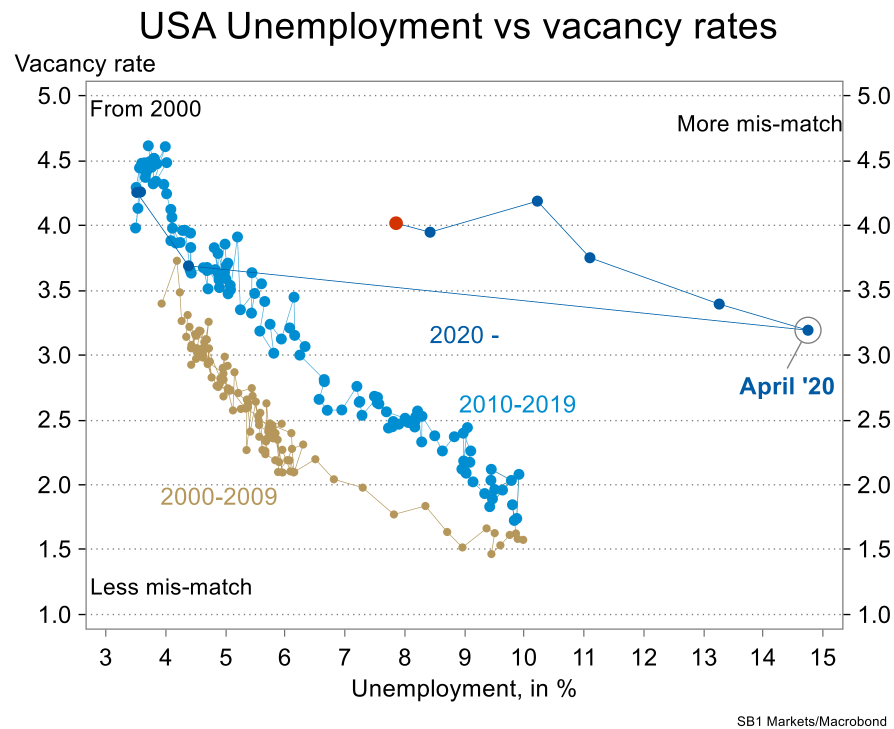


- Wage inflation is expected at an above average level, according to the SMEs

Small businesses are not able to fill vacant positions

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

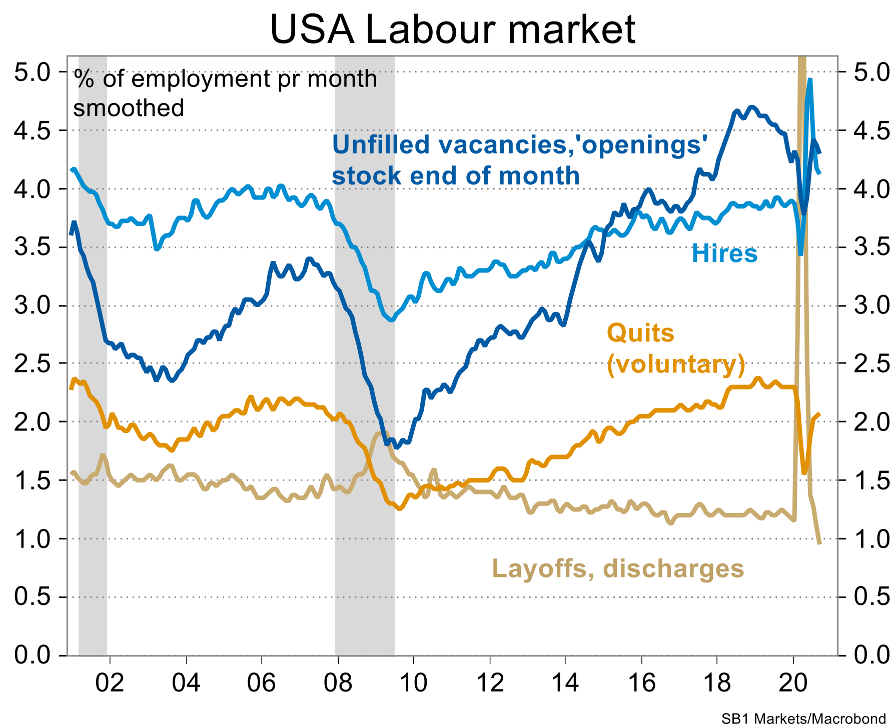


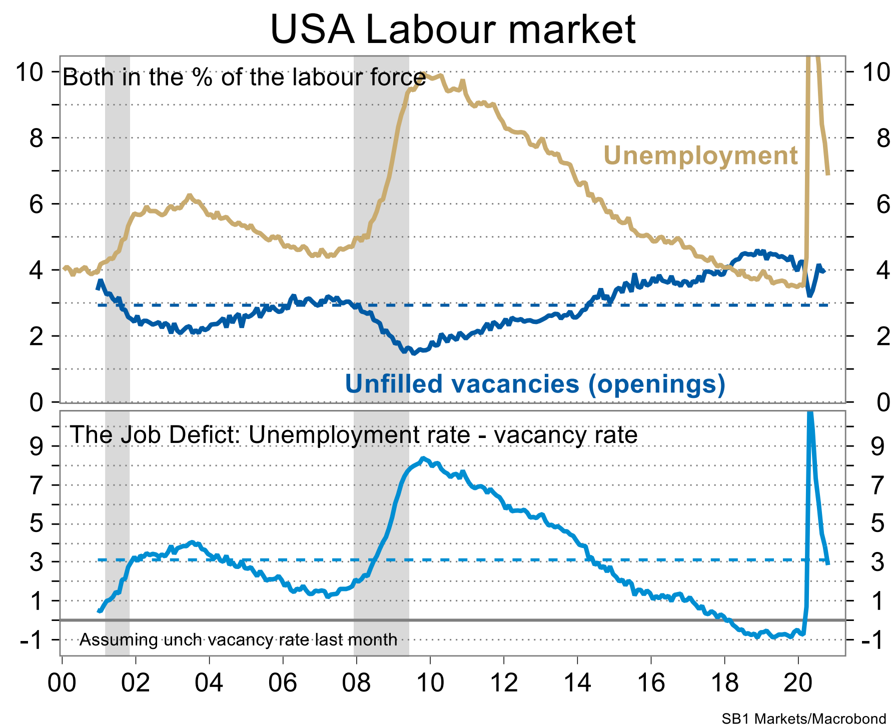


- The number of unfilled vacancies is also high, according to official statistics – *more next page*

Record few layoffs in September, brisk hiring - and a lot of vacant positions!

The number of unfilled vacancies is lower than before corona but at a far above average level!

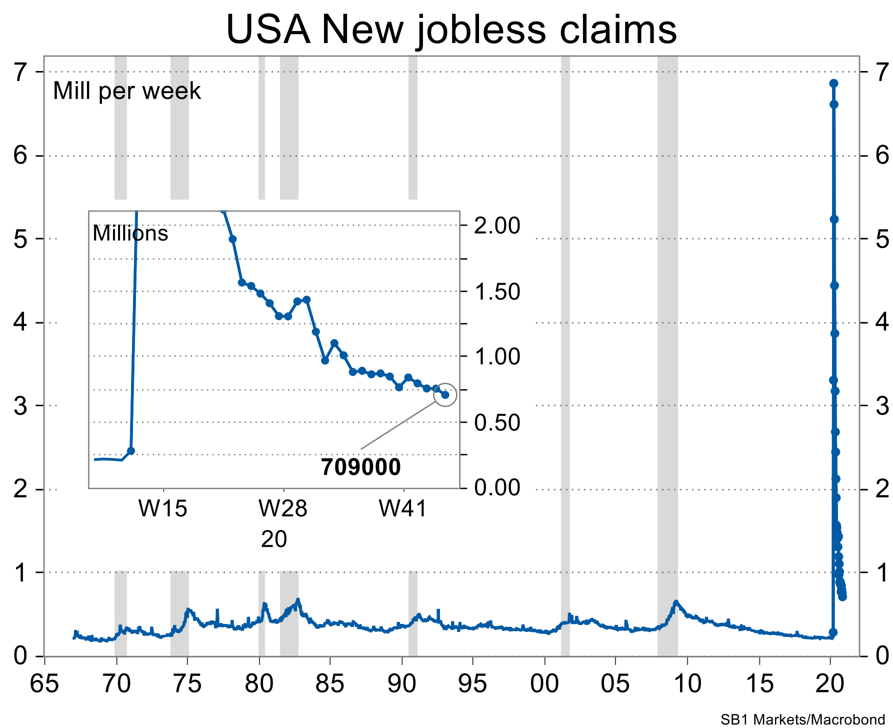


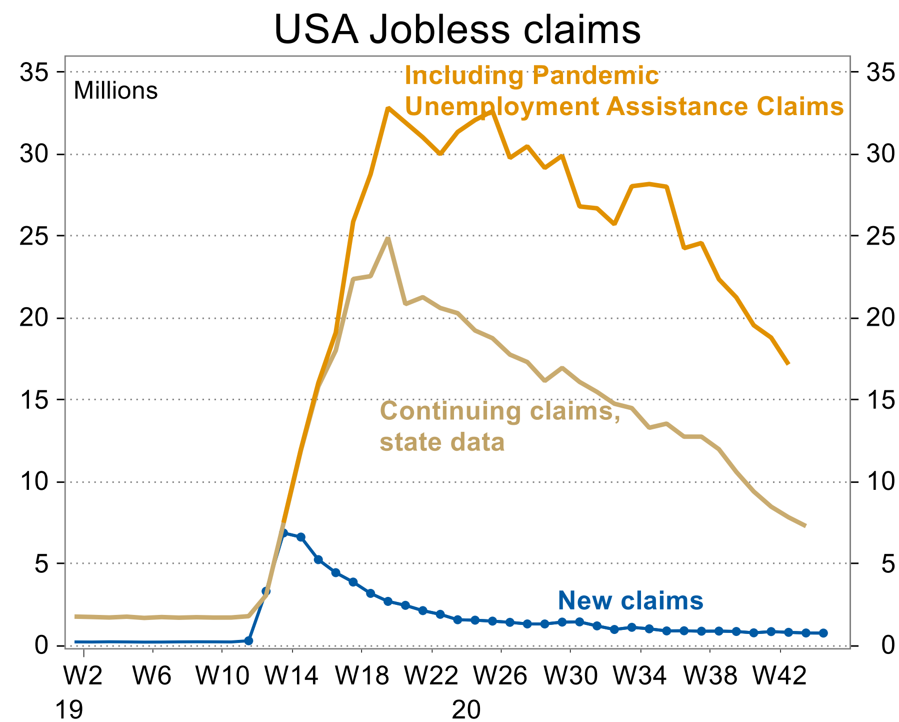


- Quite many are leaving their jobs too, not normal in hard times

New jobless claims is trending down, ‘just’ 709’ last week, down from 759’ last w

The trend is clearly down but not that fast and 0.4% of the labour force applies for claims each week

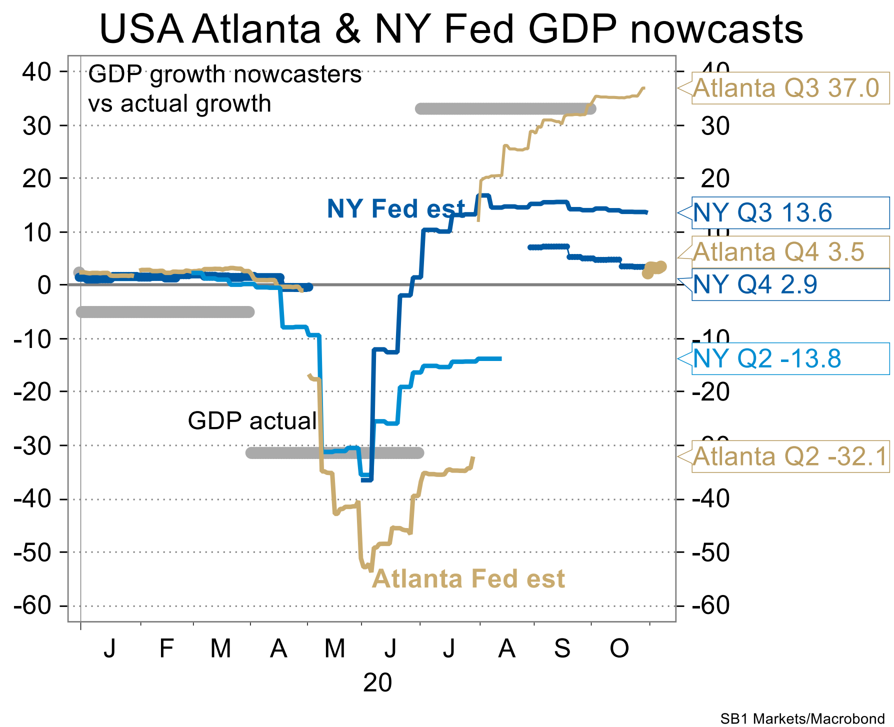


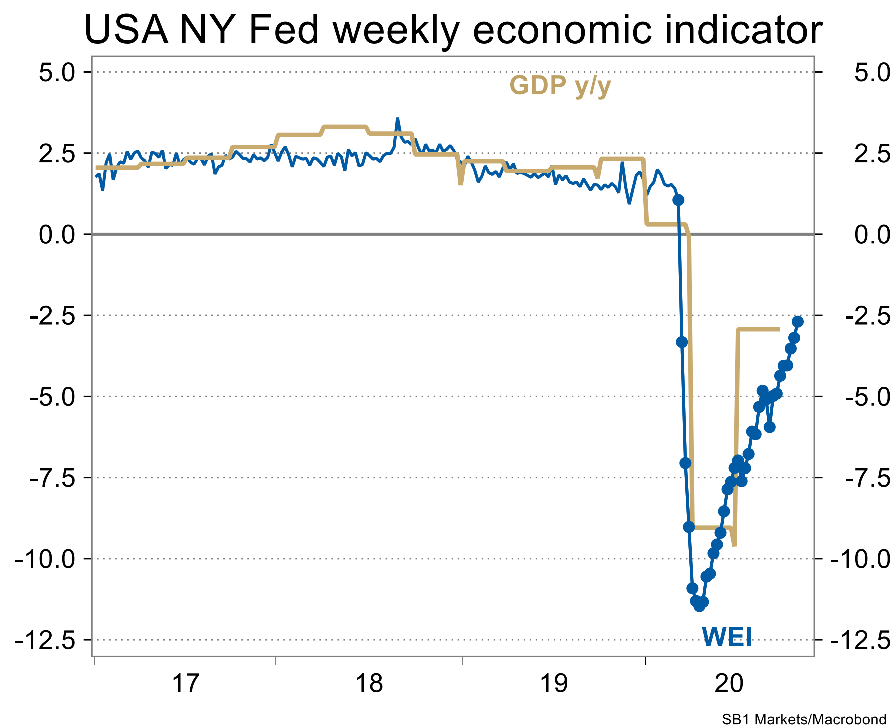


- Even so, the no of persons receiving unemployment benefits – continued claims – is falling rapidly – also if the Pandemic Assistance program is included

Nowcasters are reporting some 3% Q4 growth. That's not enough to close gaps

GDP was 3.5% down to Q3 from Q4 – the activity level is still some 5% below trend

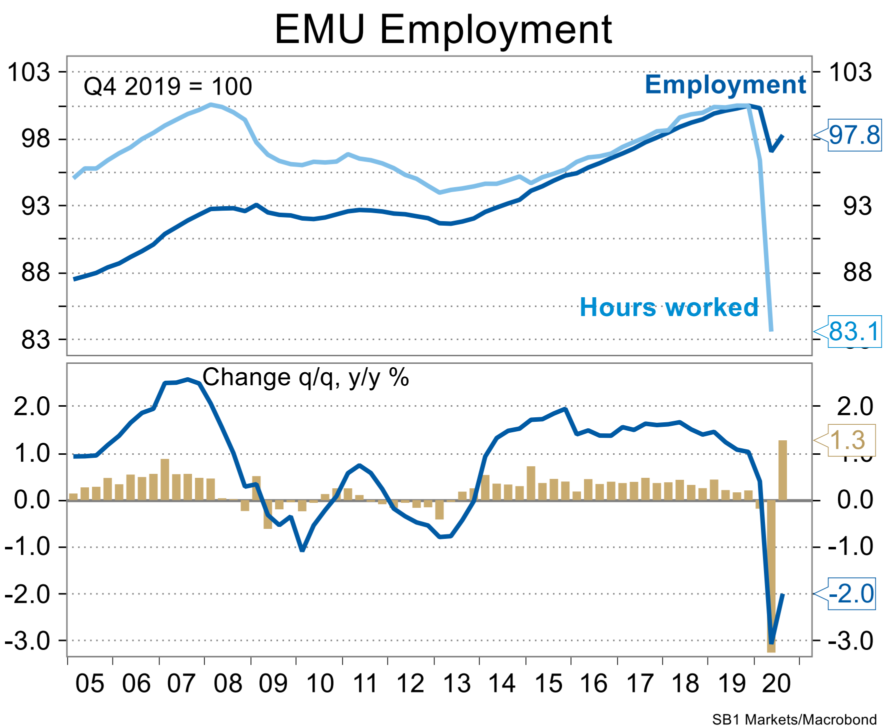


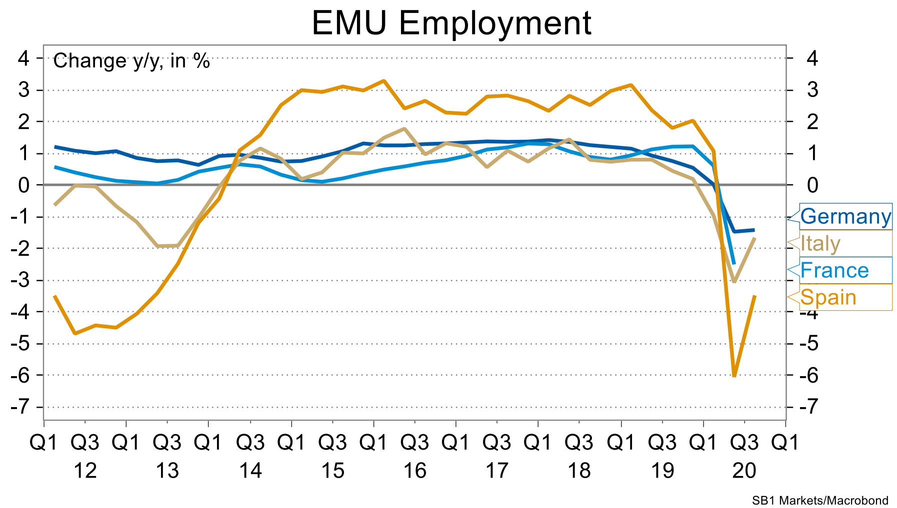


- A growth pace at 3% (annualised) is above a likely 2% trend growth speed. Still, just 0.25 pp of the remaining 5% negative output gap will be closed
- NY Fed's weekly model signal some 2.5% decline y/y (so far) in Q4, and the annual contraction is narrowing. If the WEI should end up 2% down y/y in Q4 (avg), that would imply a 1.5% growth pace in Q4 (not annualised or 6% at and annualised pace). However, the WEI is not that precise

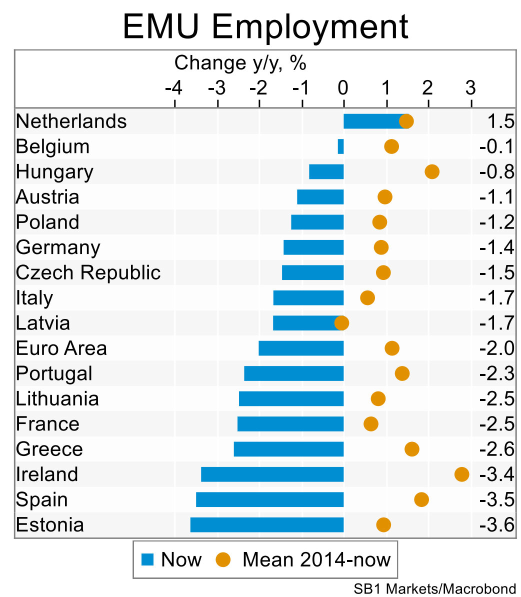
Employment recovered in Q3, just down 2.8% from Q4-19. Officially

Furlough and employment subsidy schemes are ‘disturbing’ employment data



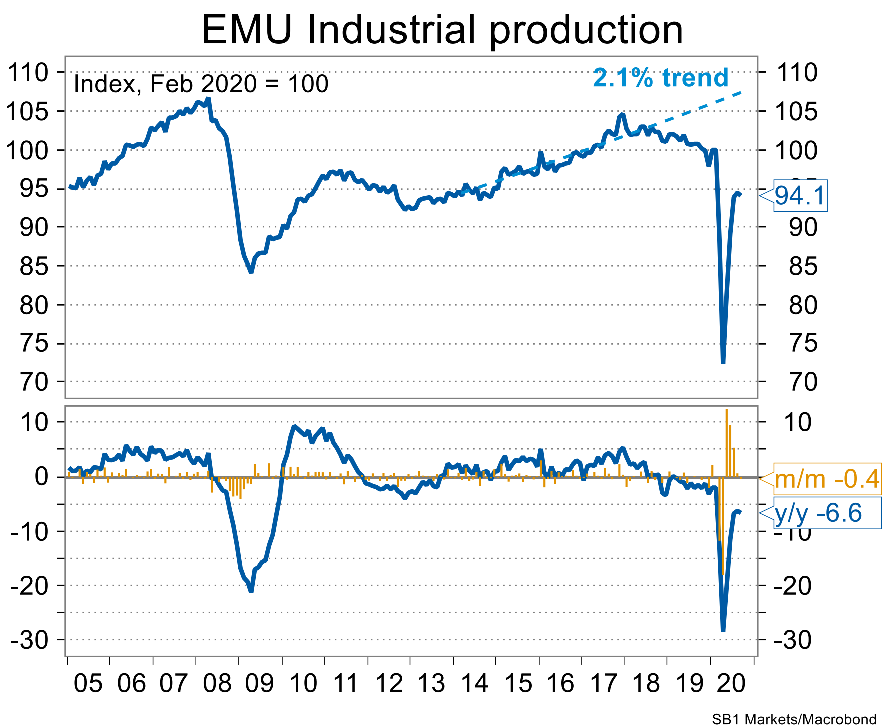


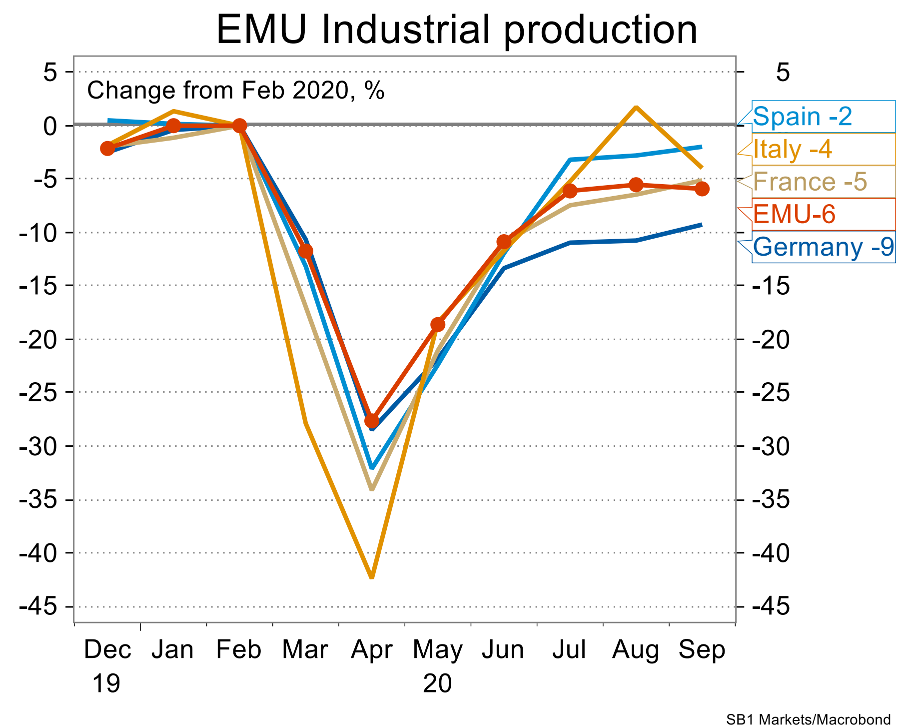
- Employment fell by 3.3% in Q2, and recovered by 1.3% in Q3
  - » The real employment level is well below these official employment stats (which are collected in a standard, correct way but still do not reflect the real employment situation)
- Hours worked fell by 17% in Q2 (not annualised) vs. the 3% decline in the no of unemployed. No data for Q3 hours worked but a huge lift is guaranteed



Manufacturing production down 0.4% in Sept - 6% below par

Italian production surprised in the downside, following the huge lift in August

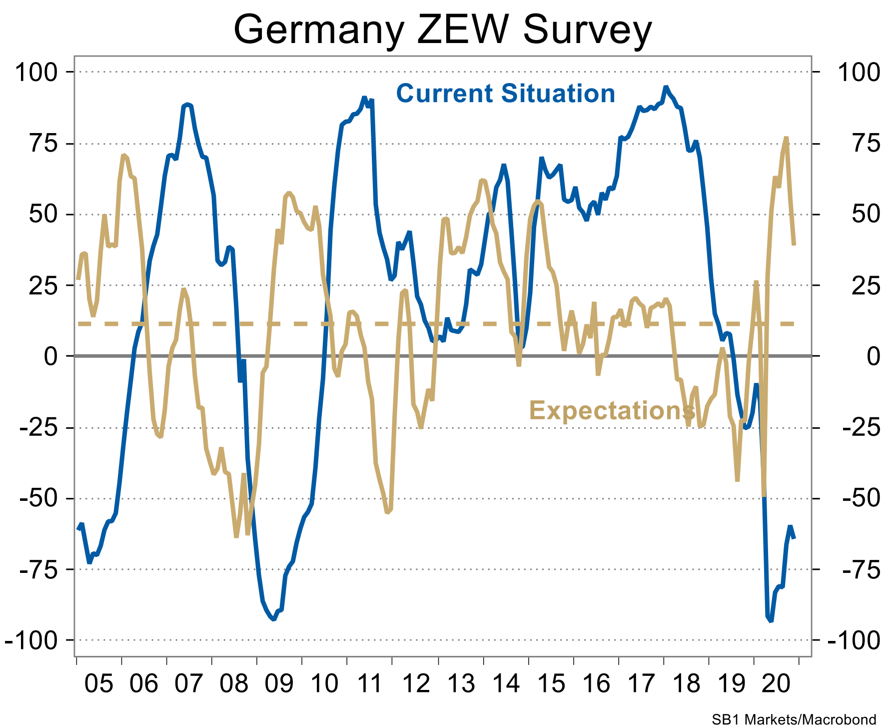




- Industrial production was on the way down ahead of the corona crisis, almost down 5% from the peak in early 2018

ZEW expectations further down in Nov but still well above an average level

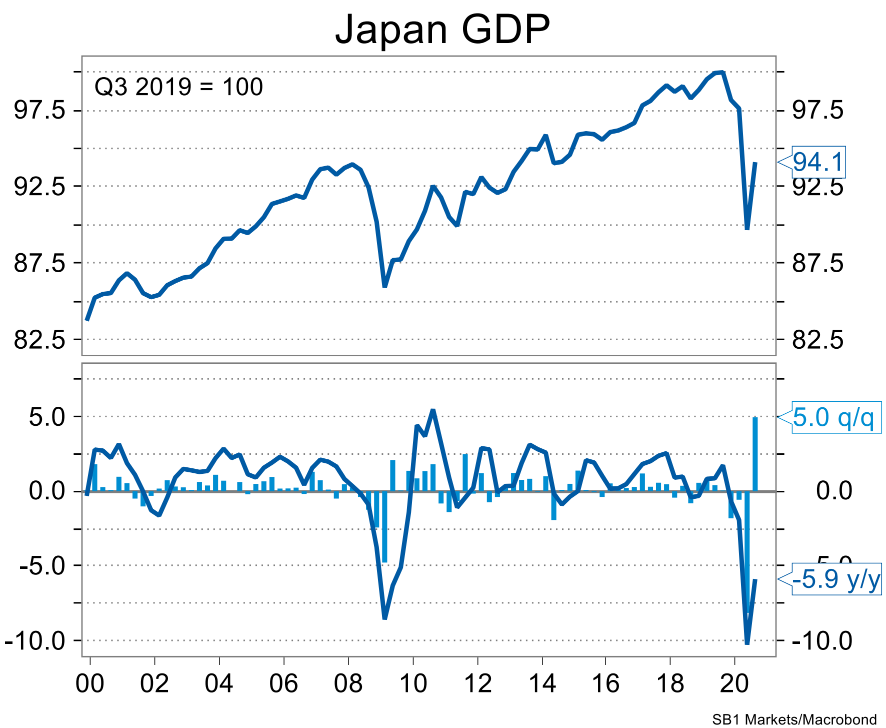
The current situation is still pretty dismal, according to analysts & investors

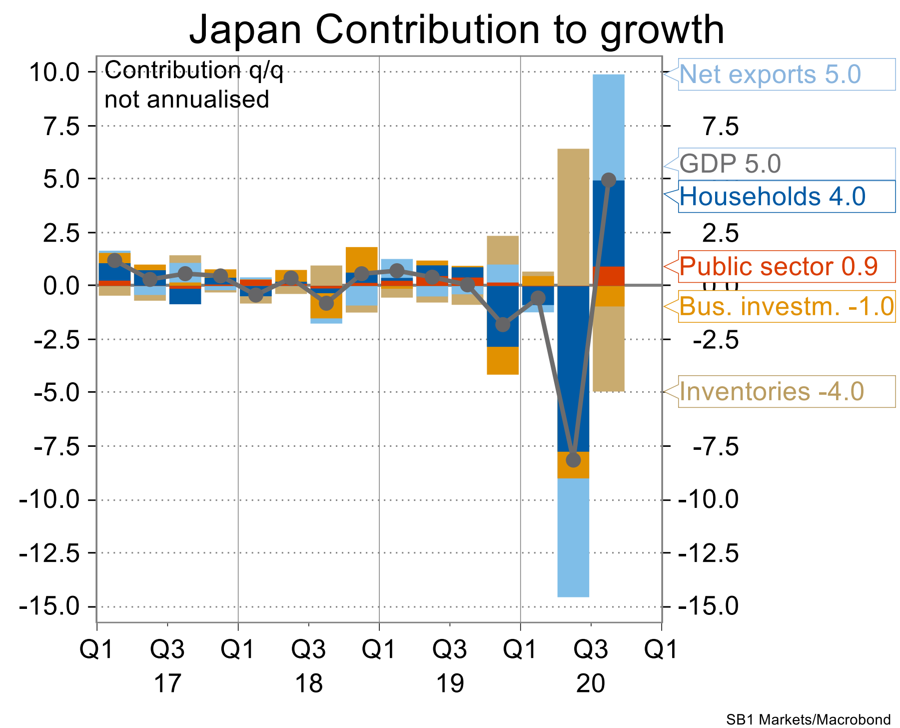


- The German ZEW expectation index climbed until in September, but fell sharply in October and further in November but the outlook is far from disastrous at least vs the current situation (which is not the best, if course)
- The current situation index nosedived during the spring, down to same record low level as during the Financial Crisis. The index has recovered somewhat but is still far below a normal level – as is the overall capacity utilisation in the German economy
- The expectation index signals growth way above trend

A Q3 recovery but just a partial one. GDP still down 6% vs Q3 19 (pre VAT, Covid)

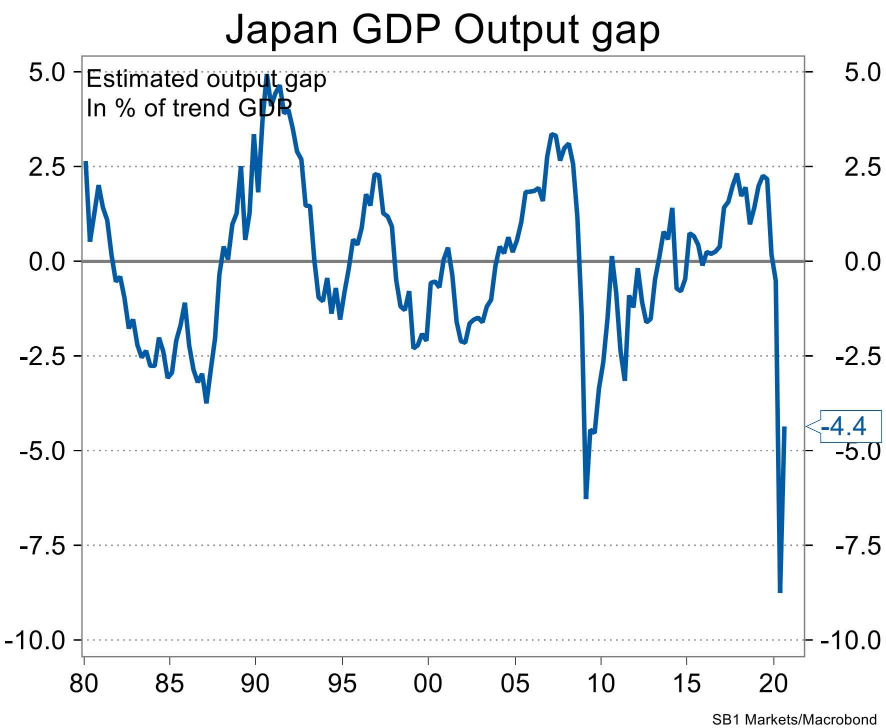
GDP rose by 5% following the 8% drop in Q3, marginally better than expected

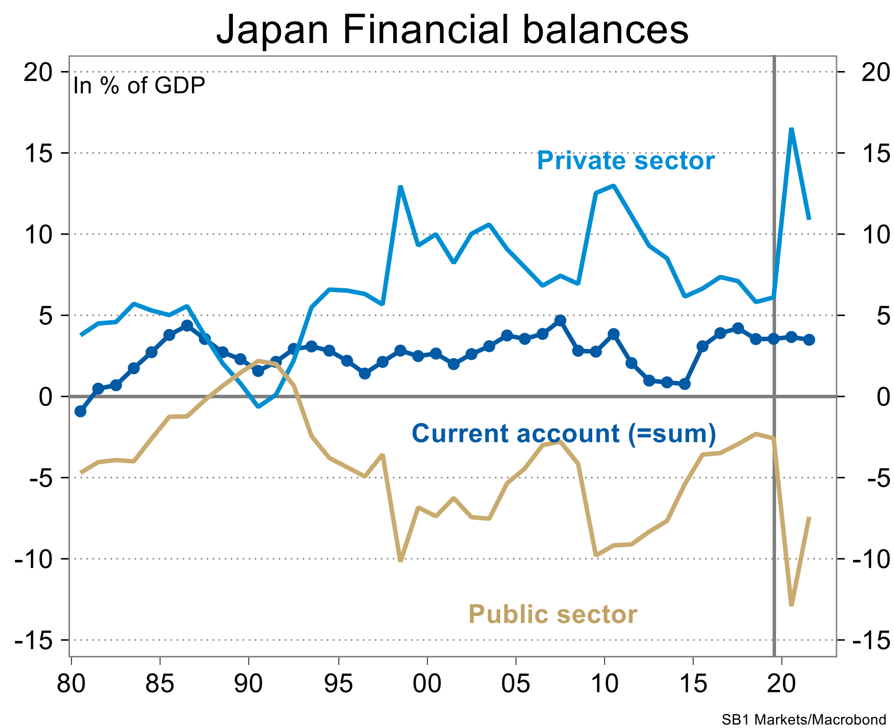




- Household consumption & net exports the main driver down in Q2 and up in Q3

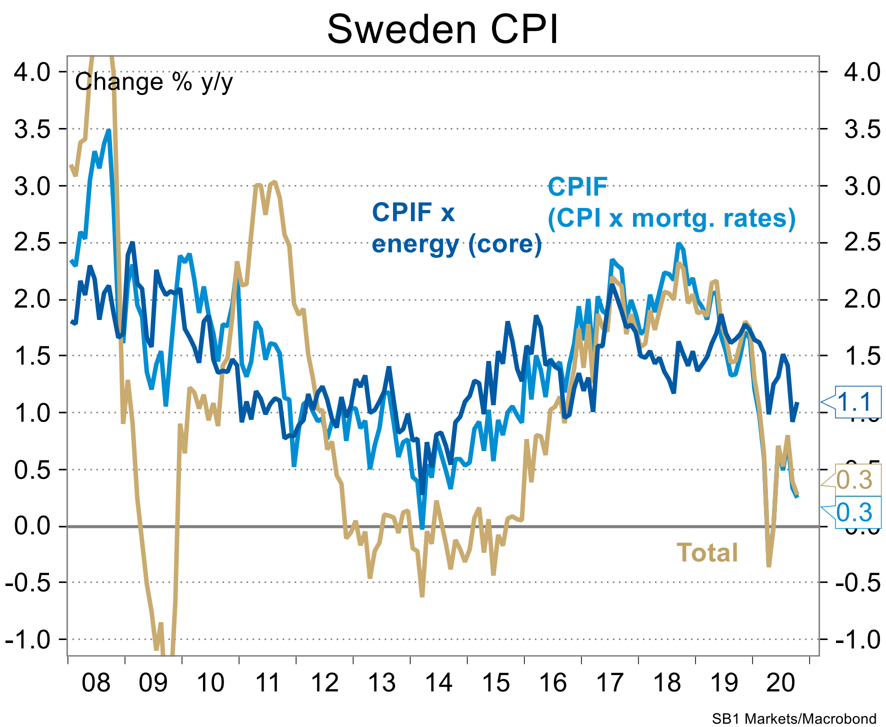
A deep downturn – a long way to get back to the pre corona growth path

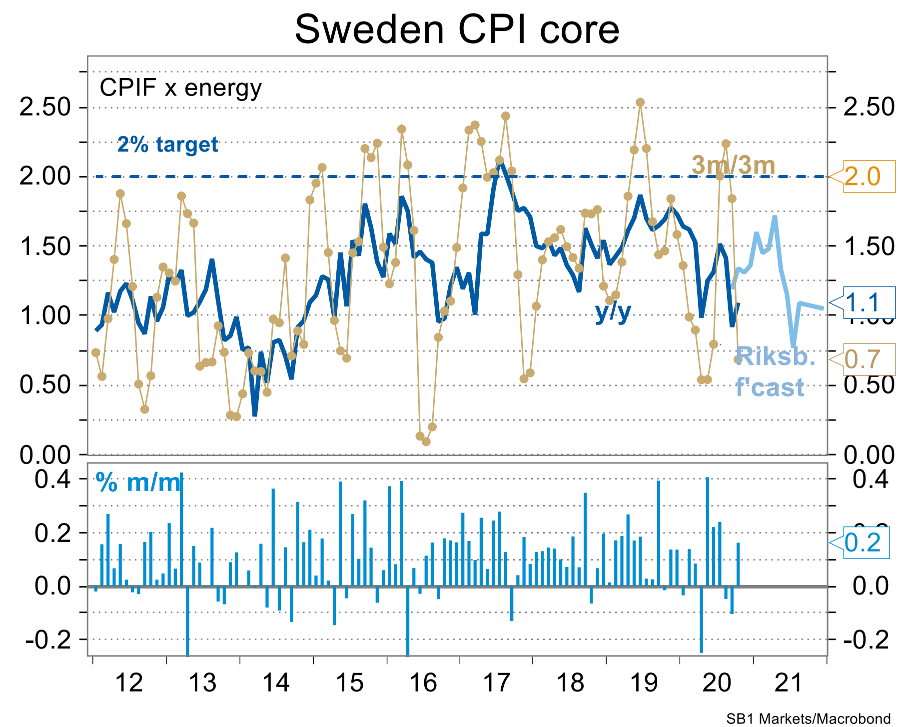




Core inflation up 0.2 pp in Oct, still low at 1.1%. Headline down to 0.3%

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

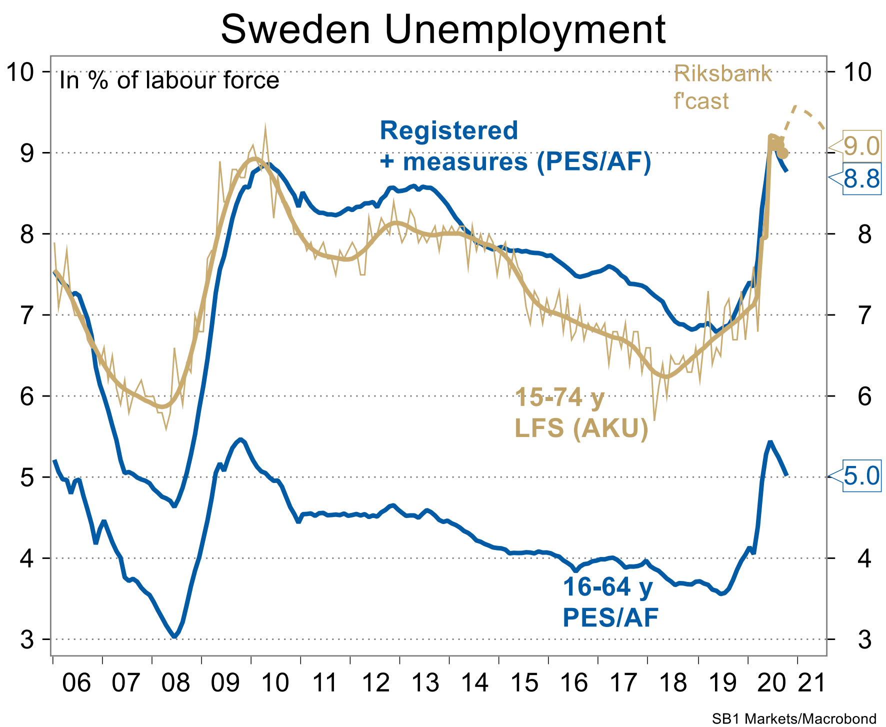


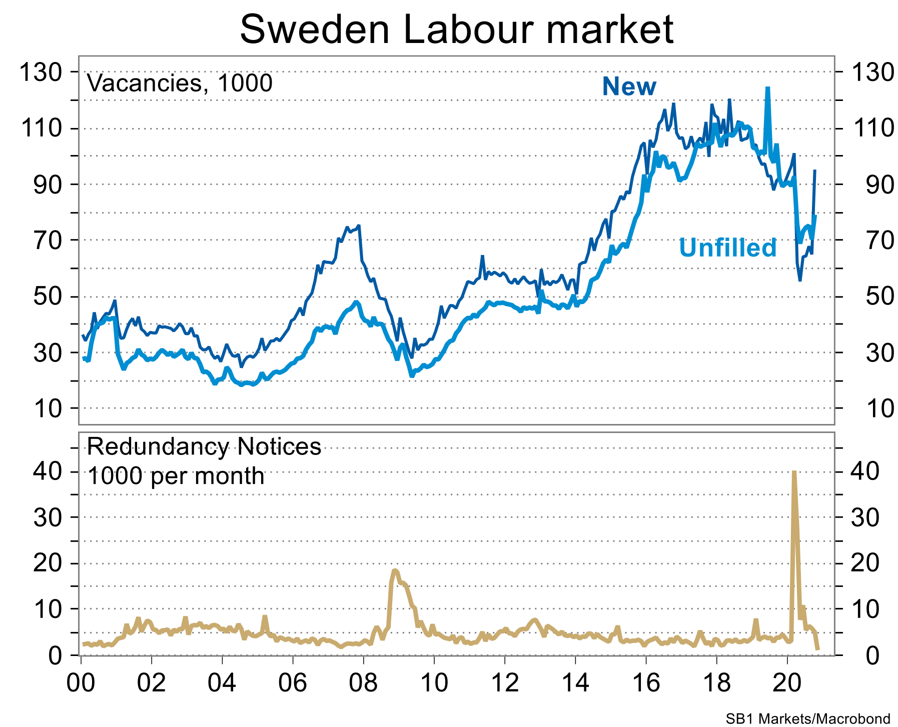


- Several sectors contributed to the decline in the annual growth rate in September. Charter travel prices fell sharply, as in Norway

Unemployment marginally down from peak, employment recovers

Registered open unemployment (+measures) a tad down to 8.8%, LFS at 9.0%

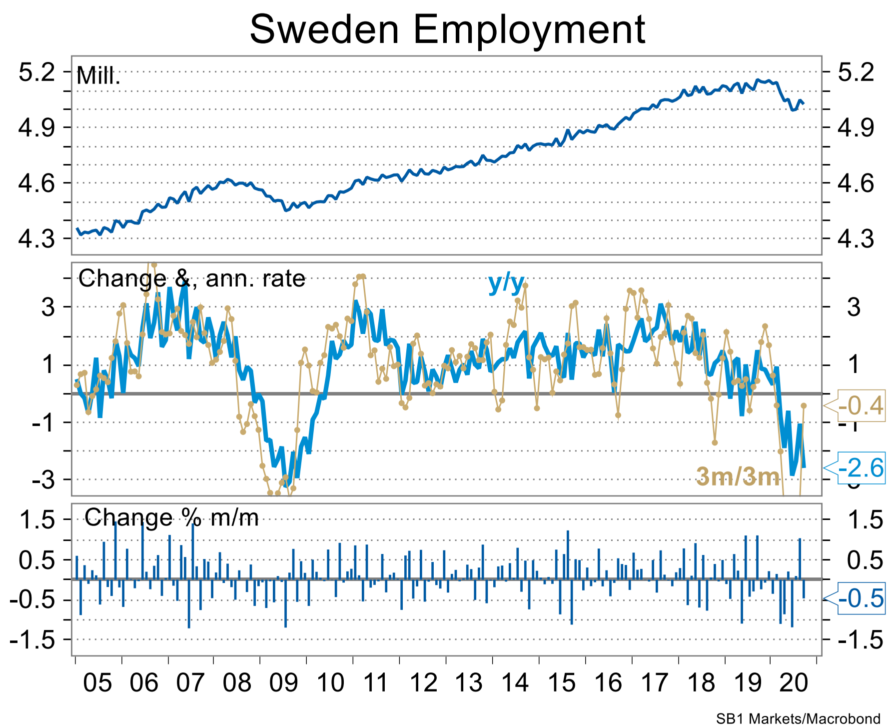


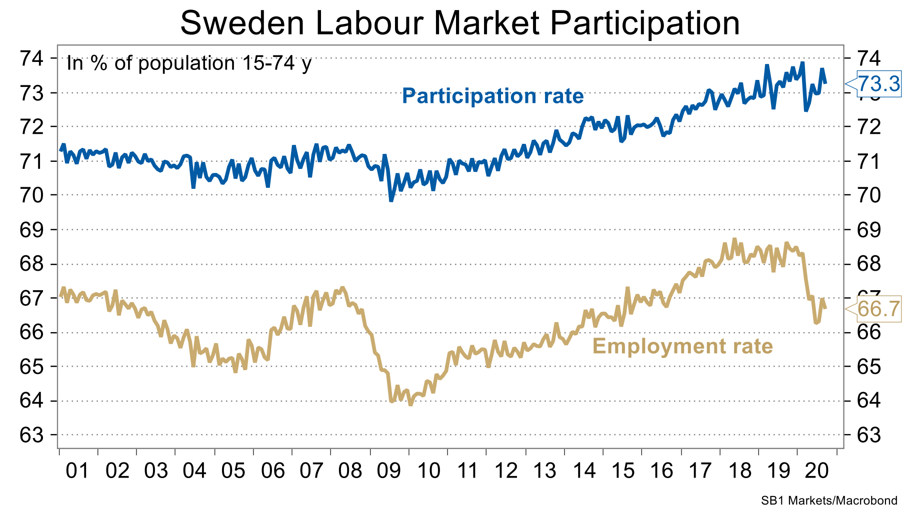


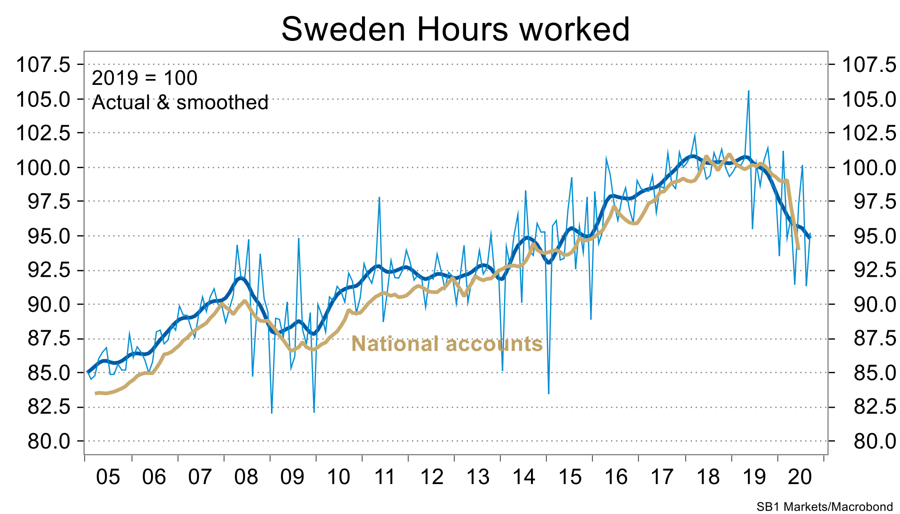
- Sweden has less furlough schemes, and less measures to subsidise employers to keep workers at job in some other countries. Still, employment & unemployment are heavily 'distorted in Sweden too, and do not reflect the 'real' demand for labour
- Registered unemployment has inched down past 3 months, to 8.8% incl. labour market measures in Oct – still up from 7.3% in February
- LFS unemployment flat at 9.0% in Sept
- The number of new and unfilled vacancies rose sharply in Oct, especially new vacancies – almost back up to the pre corona 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







Highlights

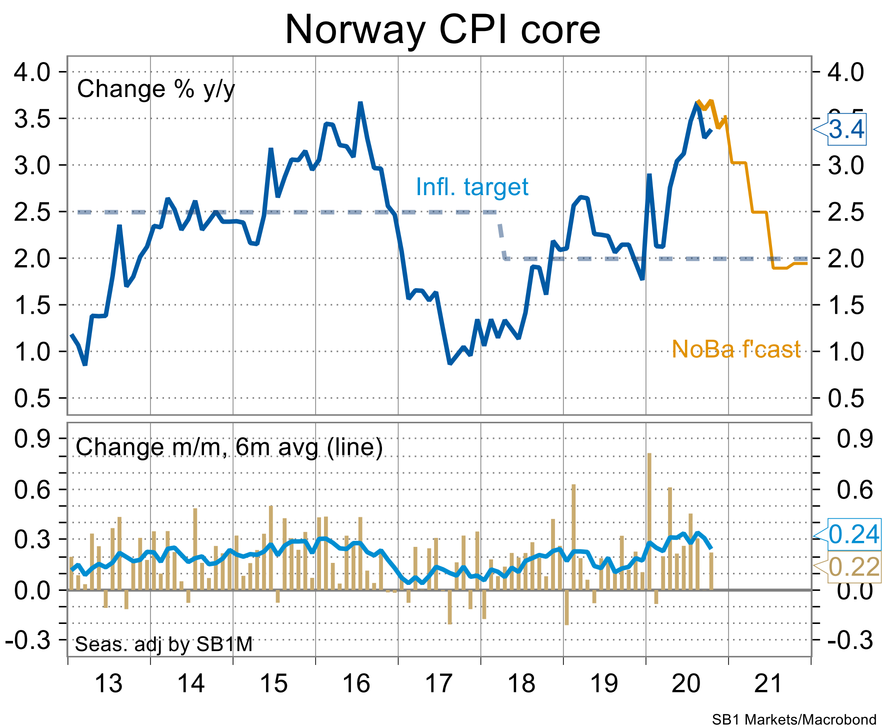
The world around us

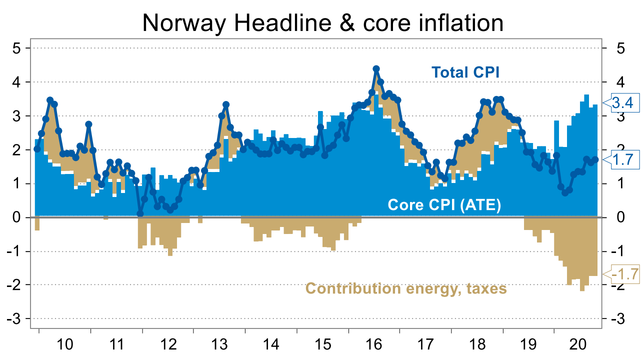
The Norwegian economy

Market charts & comments

Core CPI up 0.1 pp to 3.4% y/y in October, as expected – will slow

The annual rate peaked at 3.7% in August; a stabilised NOK & low wage growth will dampen inflation





- CPI-ATE (ex. energy and taxes) inflation accelerated 0.1 pp to 3.4% in October, in line with consensus (and our) forecast. Norges Bank expected 3.7b (Sept MPR f'cast) but assumes a drop to 3.4% in November
  - » Prices rose 0.2% m/m (s.a)
  - » No big changes m/m for any sector
  - » Inflation is above 2% for all major sectors, except housing and clothing/footwear & airline tickets
  - » Import prices have increased faster than our models indicate, now up 4.1% y/y, bringing core inflation up
- Total inflation accelerated 0.1 p to 1.7% as we expected. Electricity prices fell less than we assumed
- **The price outlook**
  - » Impacts of the corona crisis are mixed
    - ▪ A negative output gap suggests low inflation. Wage inflation is no doubt on the way down. However, the gap is negative not due to lack of demand (which is the usual reason) but due to supply side setback in corona exposed service sectors. The impact on inflation is then more through the wage/cost side – and wage inflation has come sharply down!
    - ▪ The weak NOK has lifted inflation, however, this impact will soon fade as the NOK has stabilized
    - ▪ Energy prices have fallen, will very likely increase from here (at least electricity)
  - » Our take is that the overall impact will be a slowdown in inflation, mostly due to NOK and wages, not the lack of demand. But it may take some months before these changes are reflected in the CPI
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. Wage growth will no doubt slow, which Norges Bank emphasised in September

SpareBank 1 MARKETS

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

		Change m/m, seas. adj			Change y/y			Contribution, pp		
Oct-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	0.2	0.1	0.1	4.1	4.6	4.5	0.03	0.57	0.02
Alcohol, tobacco	3.9	0.2	0.2	0.0	2.6	2.6	2.5	0.01	0.10	0.00
Clothing, footwear	4.9	0.9	1.0	-0.1	-4.5	-3.7	-3.6	0.04	-0.18	-0.00
Housing x. energy	20.1	0.0	0.2	-0.1	1.4	1.2	1.4	0.00	0.24	-0.03
Furnishing	6.6	0.6	0.5	0.1	8.1	9.4	8.1	0.04	0.61	0.01
Health	3.2	0.3	0.3	0.1	1.6	2.0	1.8	0.01	0.06	0.00
Transp. ex. gas, airl. tick	12.0	0.3	0.3	0.1	5.2	5.2	4.8	0.04	0.62	0.01
Airline tickets	1.2	-0.6	0.0	-0.6	-10.0	-1.9	2.0	-0.01	-0.02	-0.01
Communication	2.2	0.2	0.3	-0.1	5.7	3.3	3.2	0.00	0.07	-0.00
Recreation, culture	11.9	0.2	0.2	0.0	5.1	5.2	5.3	0.03	0.61	0.01
Education	0.5	-	-	-	2.1	2.1	2.1		0.01	0.00
Restaurants, hotels	6.2	0.2	0.2	-0.0	3.8	2.7	2.8	0.01	0.17	-0.00
Other	8.8	0.4	0.3	0.1	4.0	4.2	3.9	0.03	0.37	0.01
CPI-ATE	94	**0.2**	**0.2**	0.0	**3.3**	**3.4**	**3.4**			
Norges Bank est.			**0.5**			***3.7***				
Imported	33	0.3	0.4	-0.1	3.8	4.1	4.2	0.09	1.36	-0.04
Domestic	61	0.2	0.2	0.0	3.3	3.4	3.4	0.14	2.05	0.00
Energy, housing	4	3.3	-2.0	5.3	-25.0	-24.1	-30.2	0.13	-0.93	0.21
Energy, transport	4	0.4	0.5	-0.1	-8.8	-8.1	-8.0	0.02	-0.29	-0.00
CPI Total	101	**0.3**	**0.2**	0.0	**1.6**	**1.7**	**1.7**	0.27	1.69	0.04

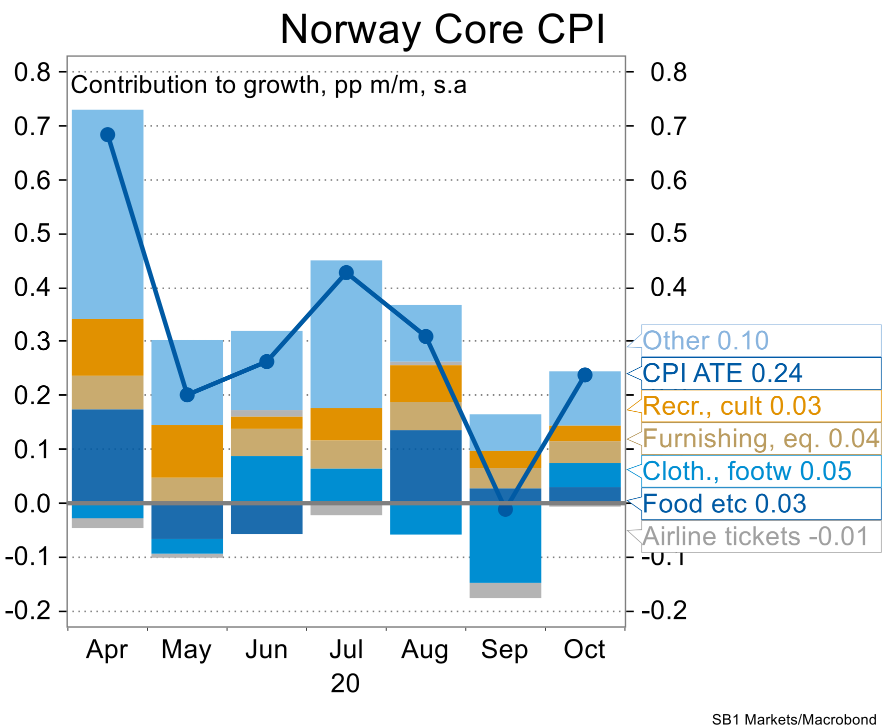
Change m/m based on seasonally adjusted data (calc by SB1M)
Sum of parts does not necessarily add up to totals
Norges Bank m/m s.a. estimate is implied, calc by SB1M

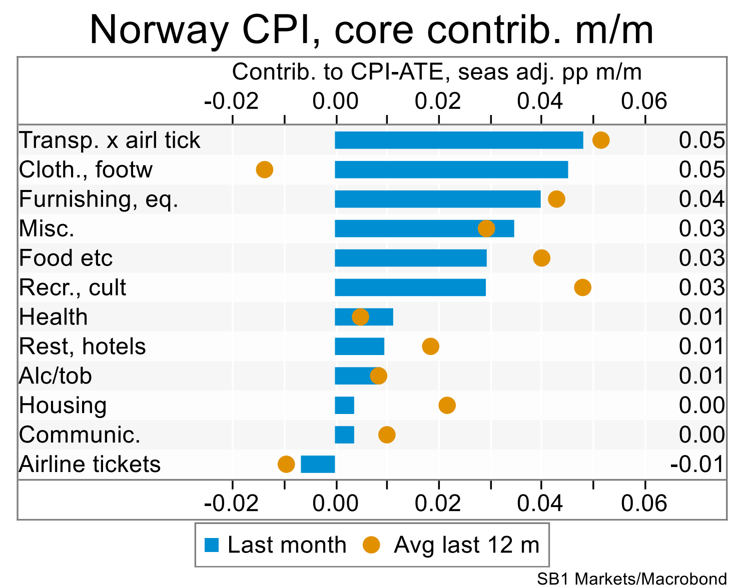
- Food price inflation up to 4.6% y/y. Demand is no doubt strong - and import prices are up
- Clothing/footwear prices are down 3.7% y/y
- Furniture/hardware/equipment prices are up 9.4% y/y! Demand is up, but the NOK impact will soon fade?
- Car prices are up 4.7%
- Airline ticket prices are all over the place
- Recreation and culture rose more than expected in Aug, up 5.1% y/y. Demand/NOK impact
- **CPI-ATE up 3.4% y/y, as expected, still high**
- Imported rose 0.4% m/m, the annual rate up to 4.1%. Will probably slow further as the NOK impact fades
- Electricity prices are down 24% y/y (less than we assumed
- Total inflation up 0.1 pp pp to 1.7%, as we expected

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

Just airline tickets cheaper in October, all other main groups up

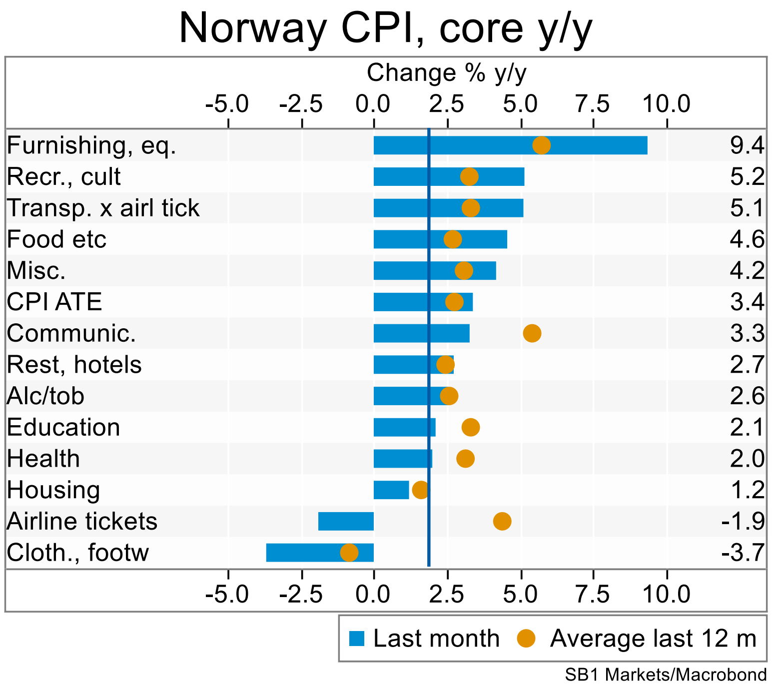
Food, housing (rents), recreation & culture and furniture contributed on the upside

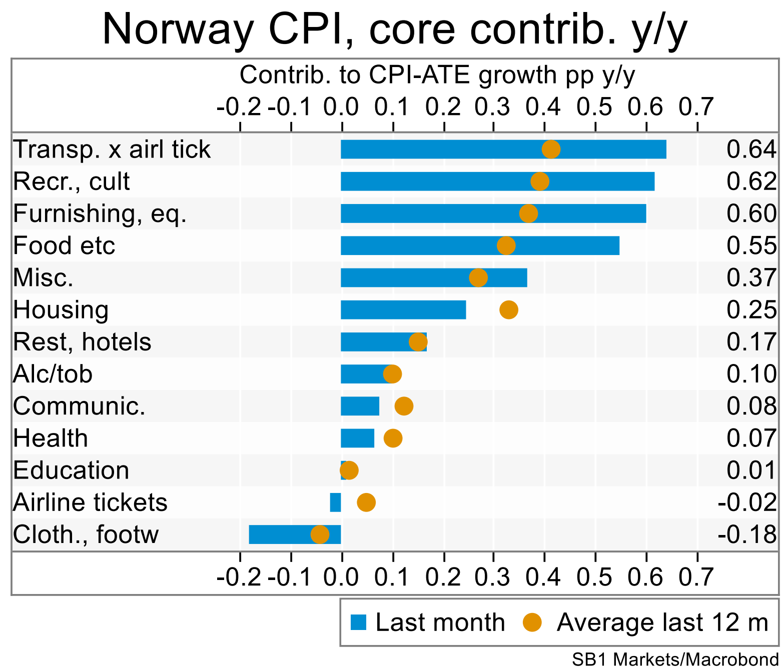




Most sectors report inflation well above 2%

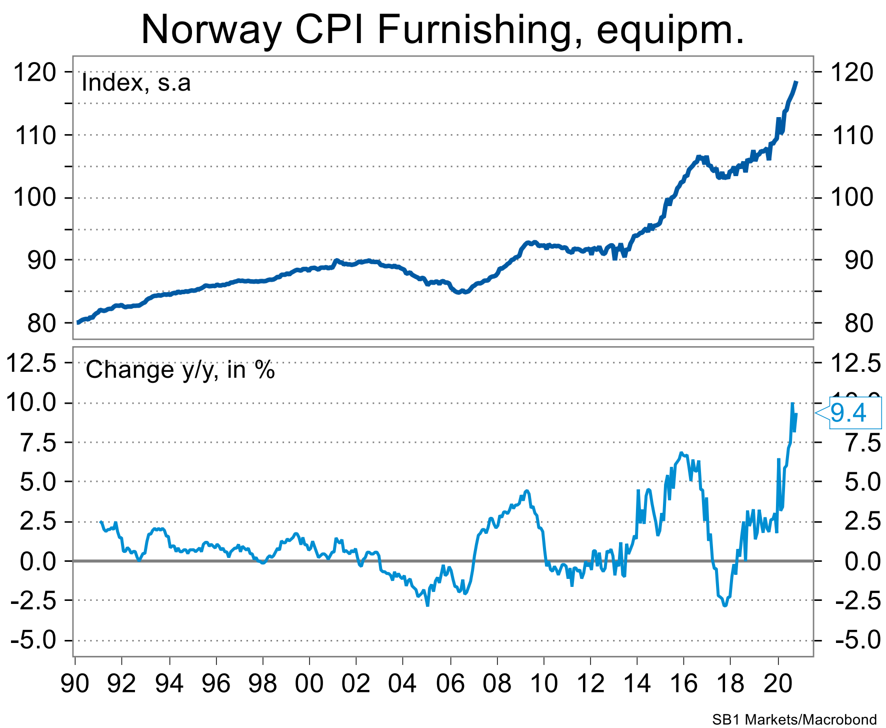
Furnishing prices up 9.4%! Just clothing & footwear, housing (rent), airline tickets < the 2% infl. target

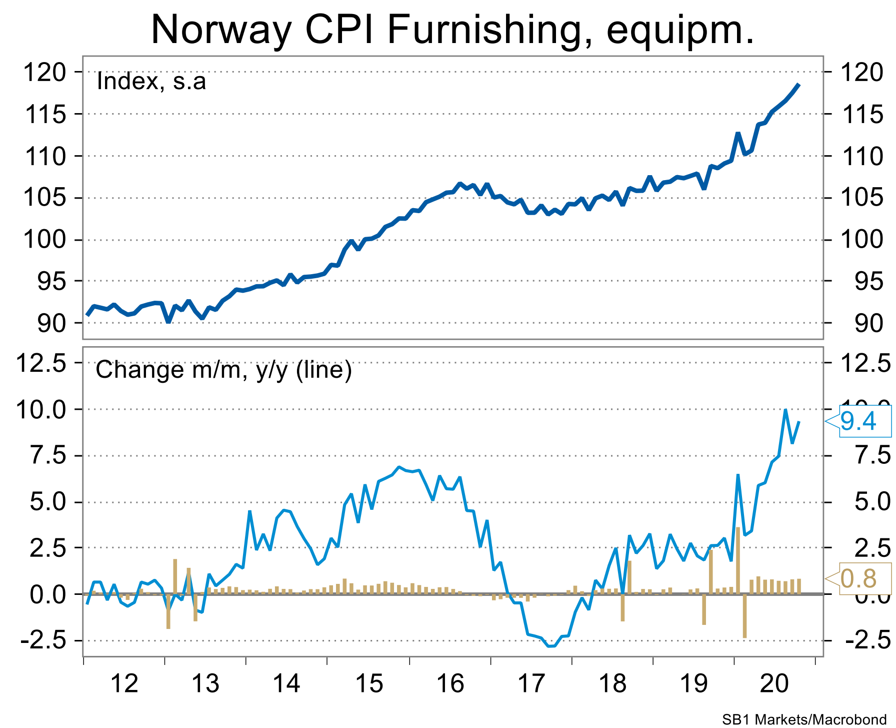




The steepest rise in furnishing & household equipment price on record

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

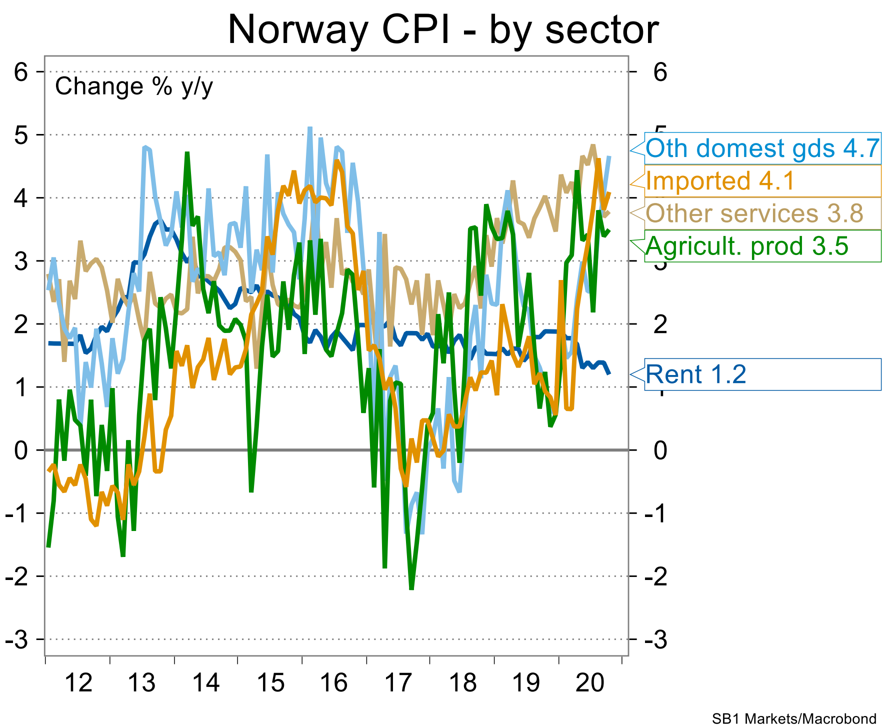


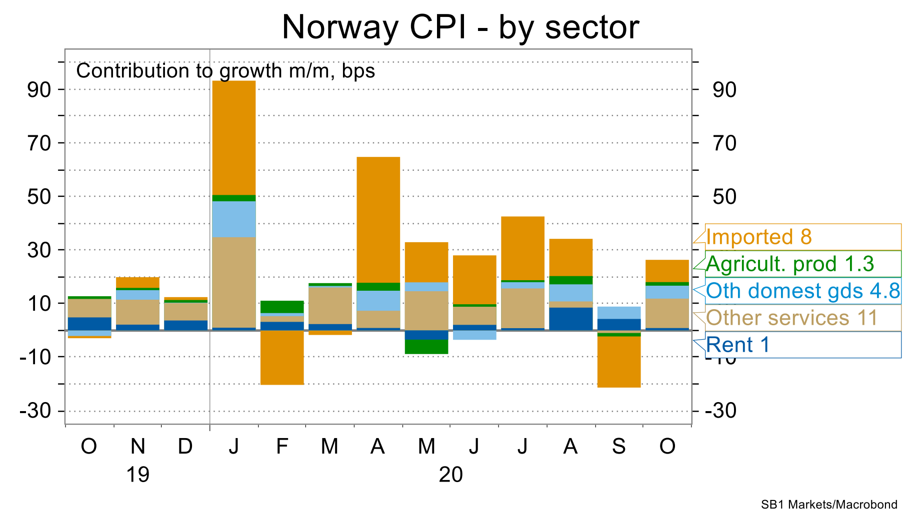


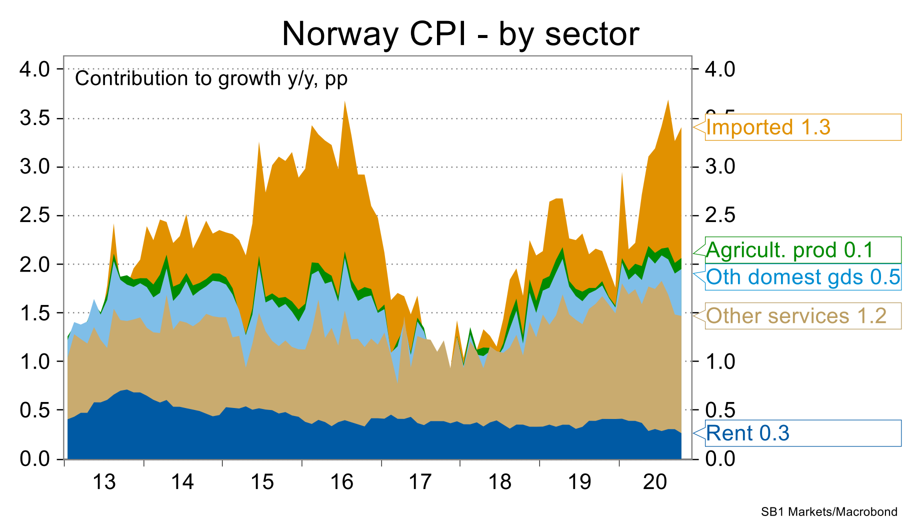
- Prices rose another 0.8% m/m in October – and the annual rate is 9,4%!

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

Imported goods are up 4.1% y/y

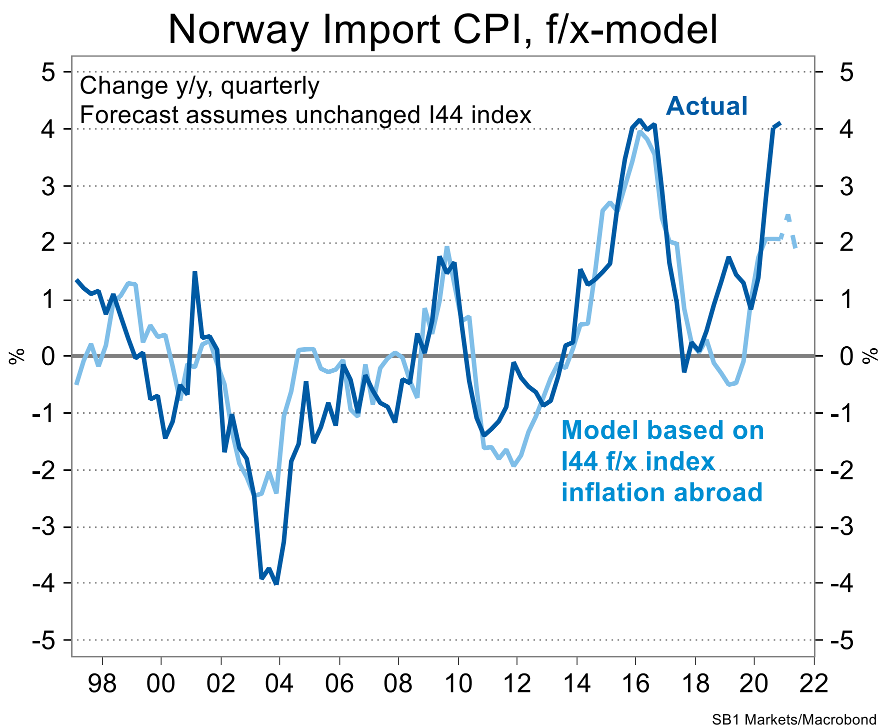


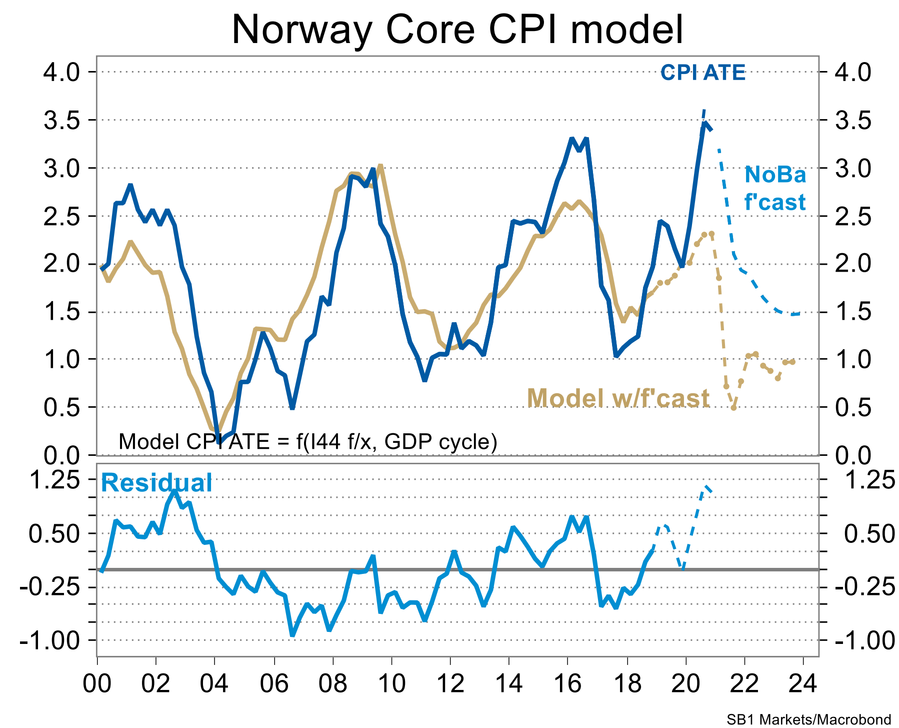




Prices on imported goods: Too much up now? Should come down, soon

Our total core CPI model is not calibrated for a huge decline in GDP, but the sign is probably correct

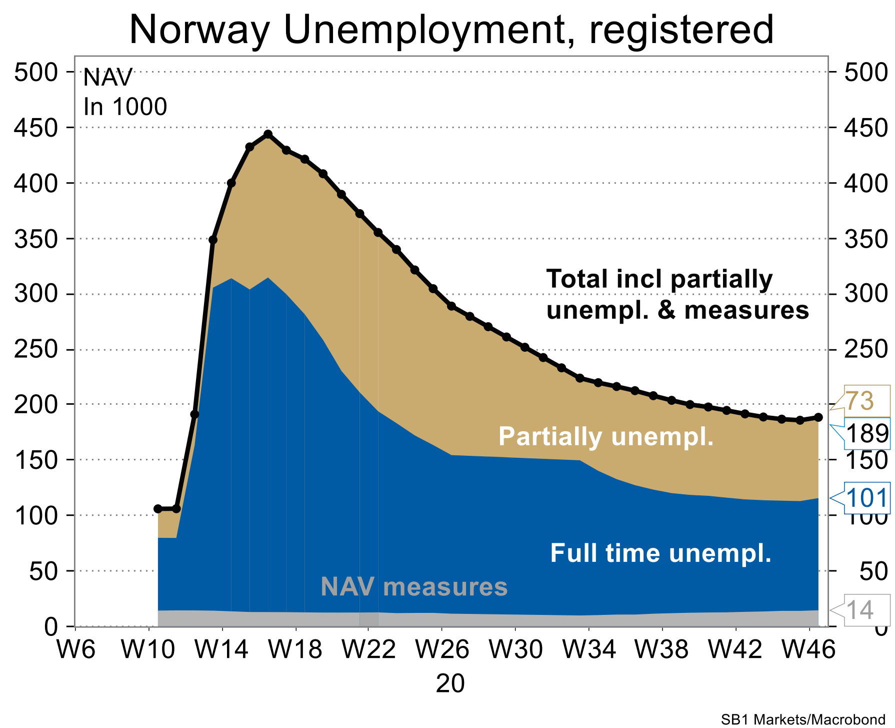


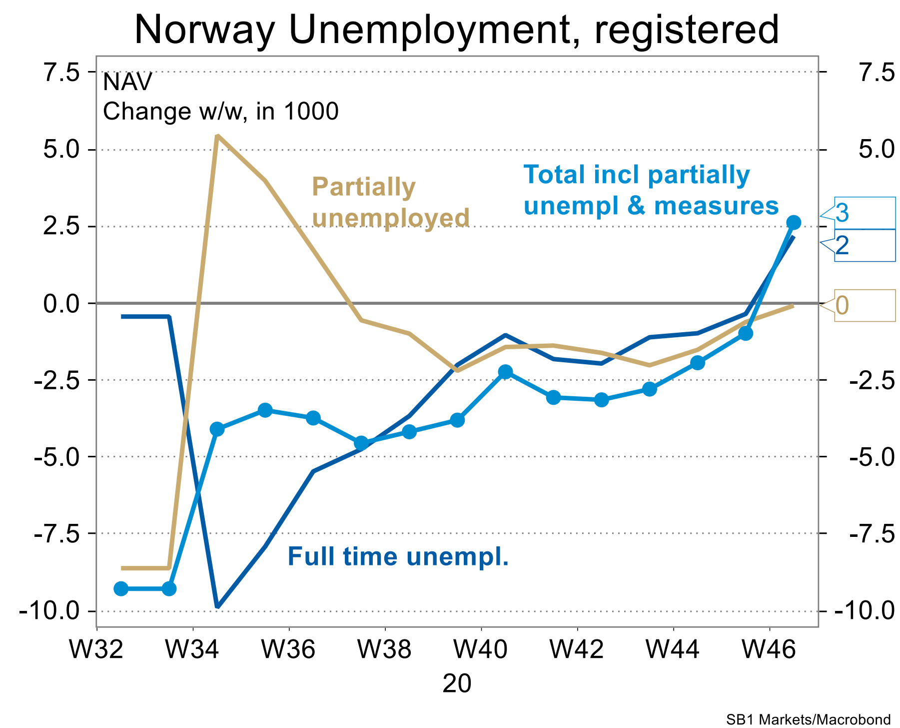


- The NOK steep depreciation in the winter/early spring has no doubt been driving **imported inflation** up recently. It usually takes a few months before these impacts are reflected in the CPI. Closed borders/supply chain challenges due to Covid-19 may have contributed to the lift in import prices too,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

NAV unemployment up in early November

Full time unemployment up by 2' in the first week in November, the first weekly lift since April

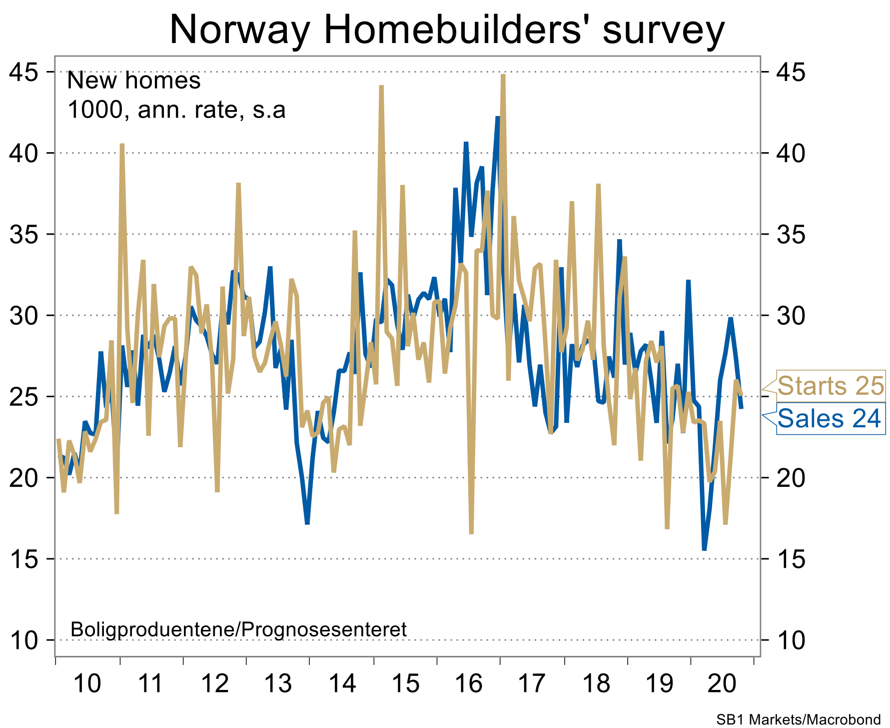


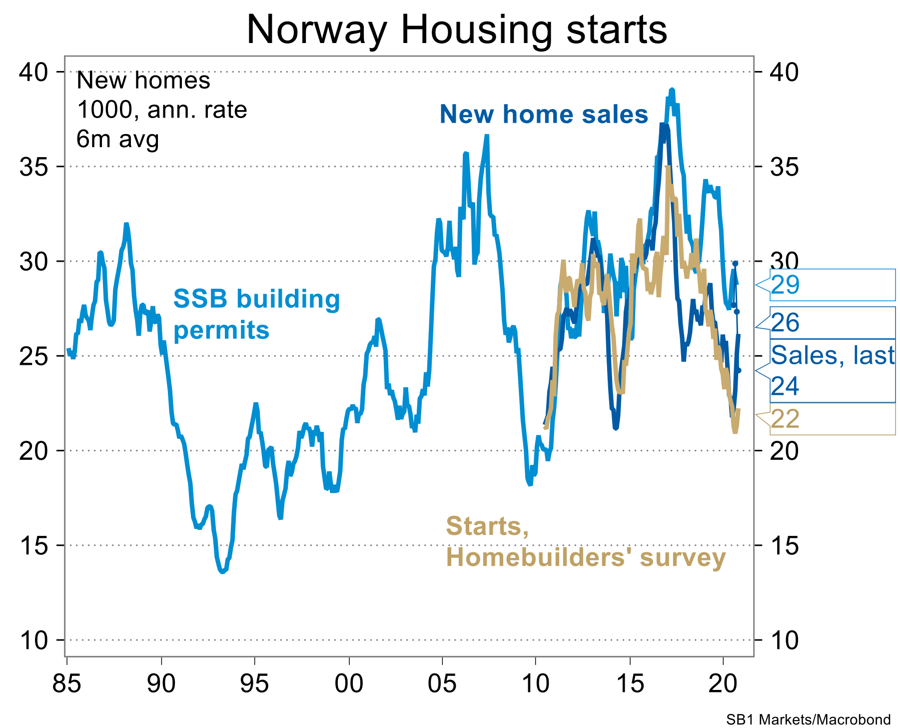


- Total unemployment (including partially unemployed and labour market measures) has declined steadily since April, even at a weekly basis. The tide may have turned, at least unemployment rose slightly in early Norway, very likely due to the new corona outbreak. We expect more to come

New home sales down in October – but are anyway back to a pre corona level

Starts are also back, according to the Homebuilders' survey





- New home sales down 4' to 24' in Oct but is well up from the 15' trough in March. Starts down 1' to 25'
- 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 he pre crone level, alongside the strengthening of the existing home market since mid April
- We assume the strong existing home market will encourage new home sales & starts the coming months

Highlights

The world around us

The Norwegian economy

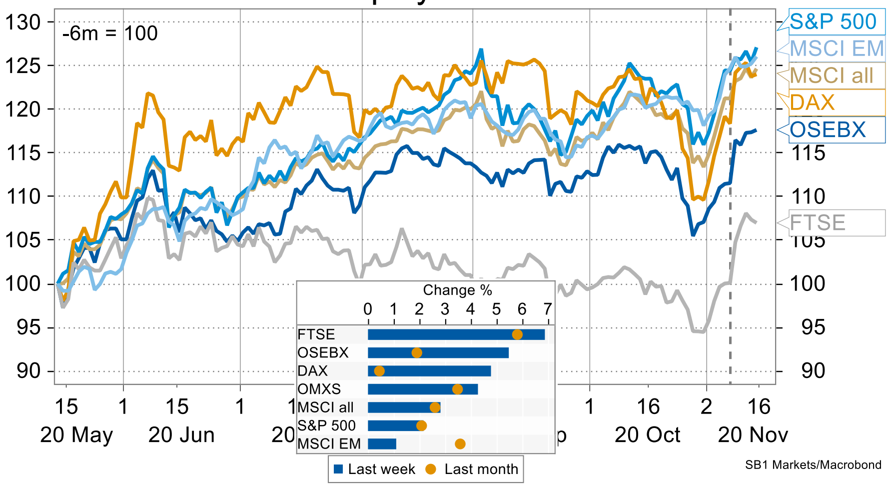
Market charts & comments

SpareBank 1 MARKETS

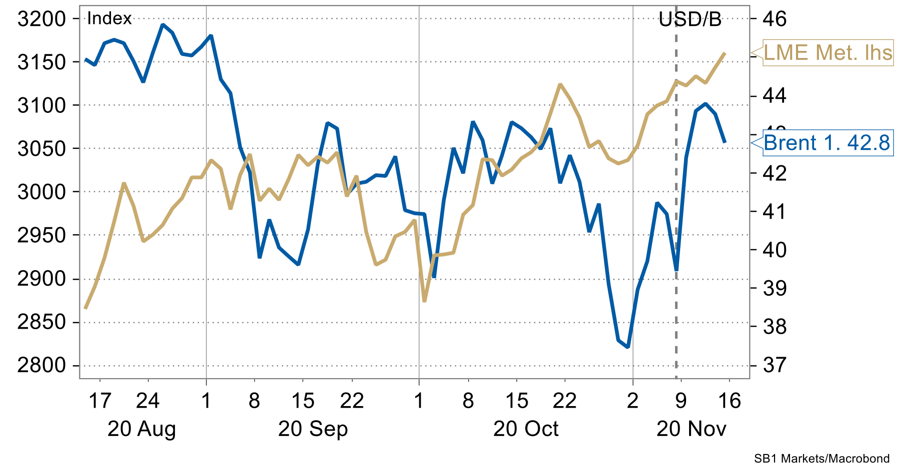
Two strong weeks at stock markets. Bond yields up too, Europe in the lead

The oil price enjoyed the vaccine ride (a reasonable response)

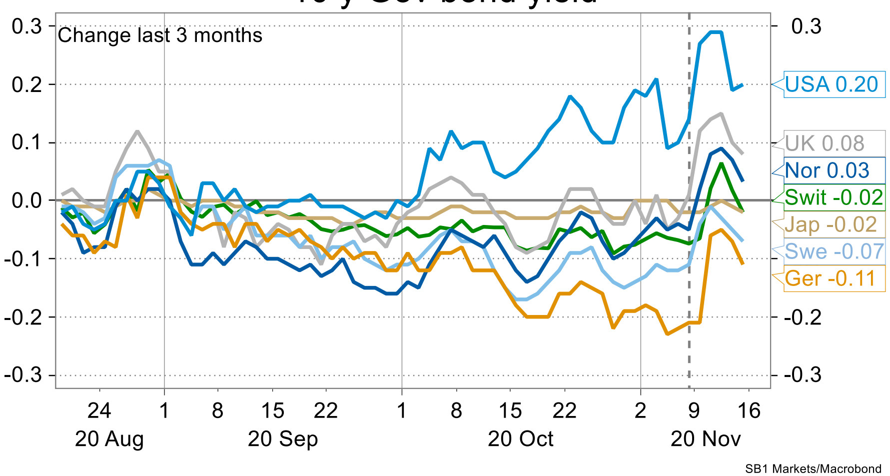
Equity Indices



Oil vs. metals

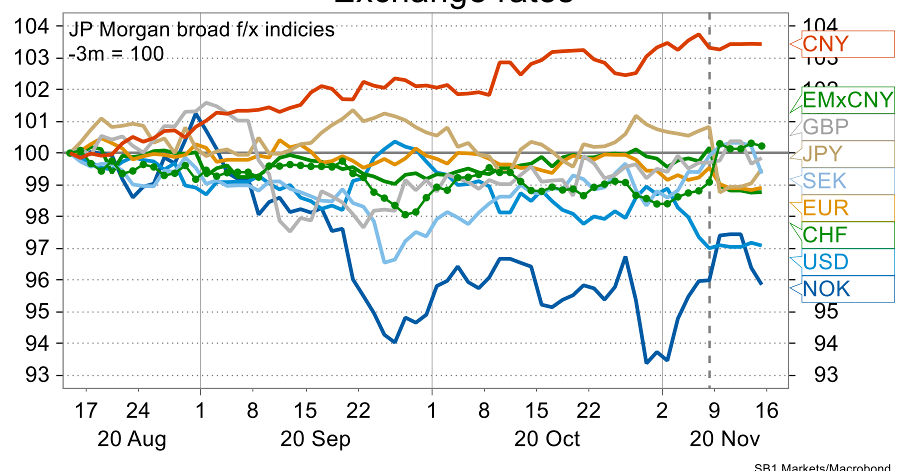


10 y Gov bond yield



Yields volatile last week, all ended up

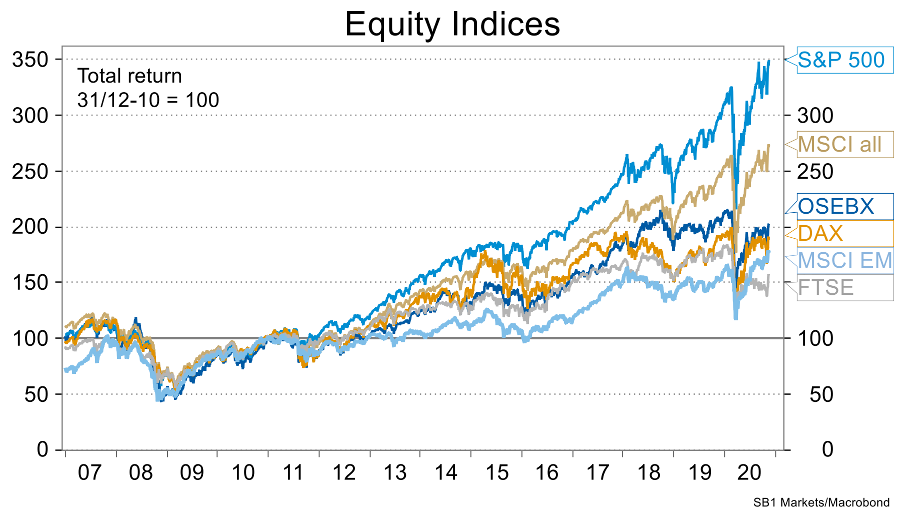
Exchange rates

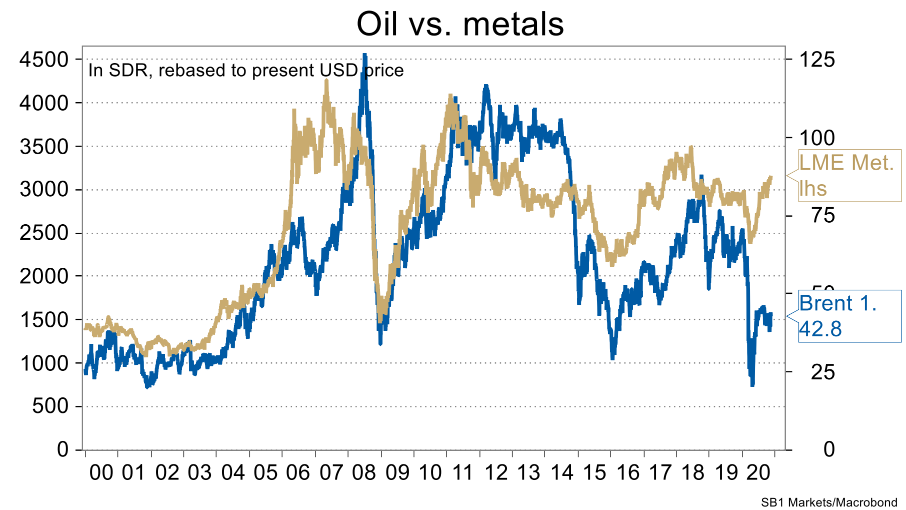


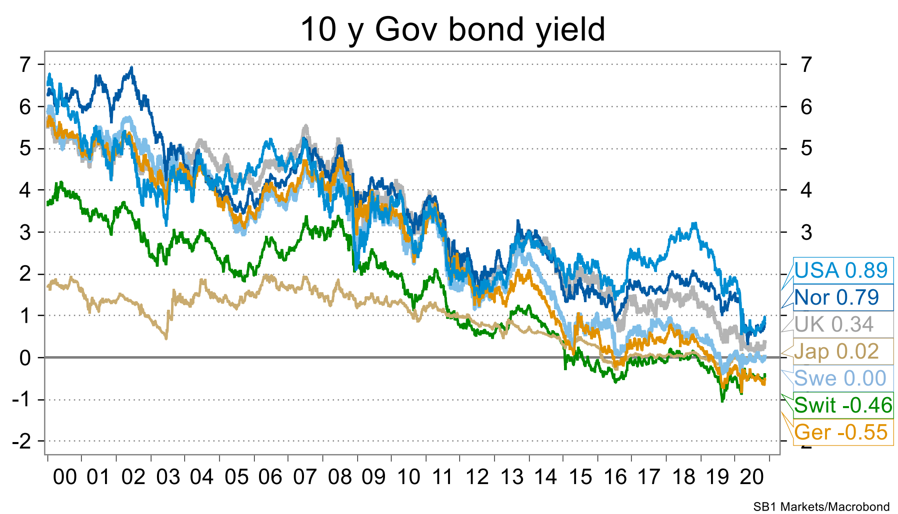
EM x CNY sharply up, due to a policy shift in Turkey

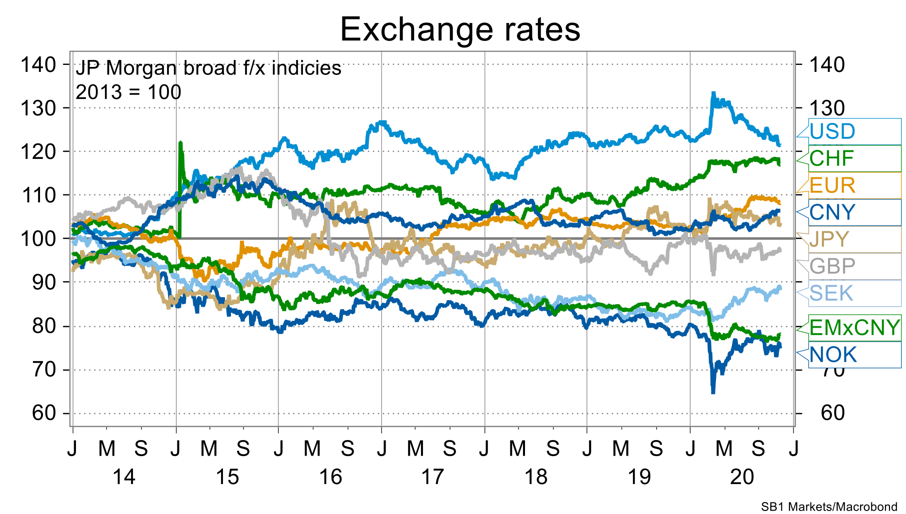
Some turbulence at risk markets, at high altitudes. Bond yields has turned up

… some places. The USD is still sliding. The oil price is still sagging vs metal prices.





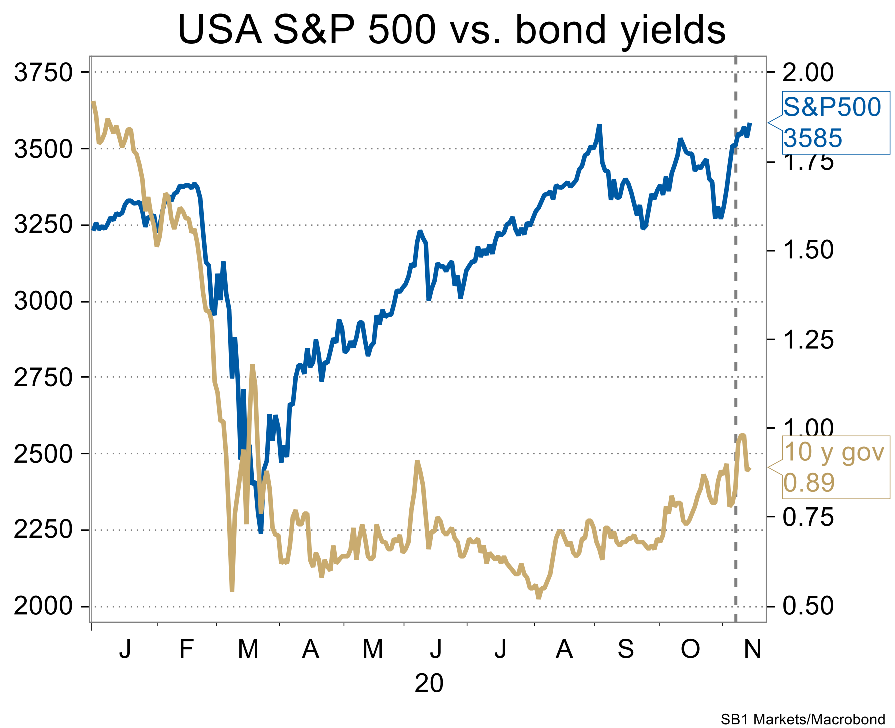


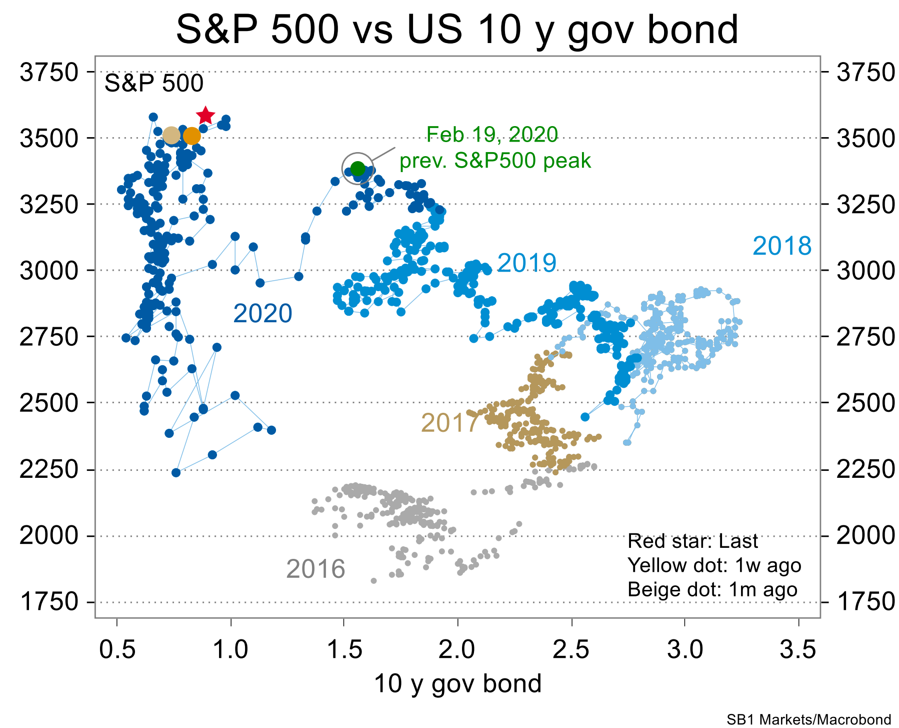


The USD is down but not dramatically – and it is still quite strong (though the weakest since early 2019 (measured by broad f/x indices). NOK a loser

S&P 500 up 'just' 2.2%, and closed at ATH Friday. 10y gov up 6p to 0.89%

Both are trending upwards, as the fear for a 2021 economic setback fades

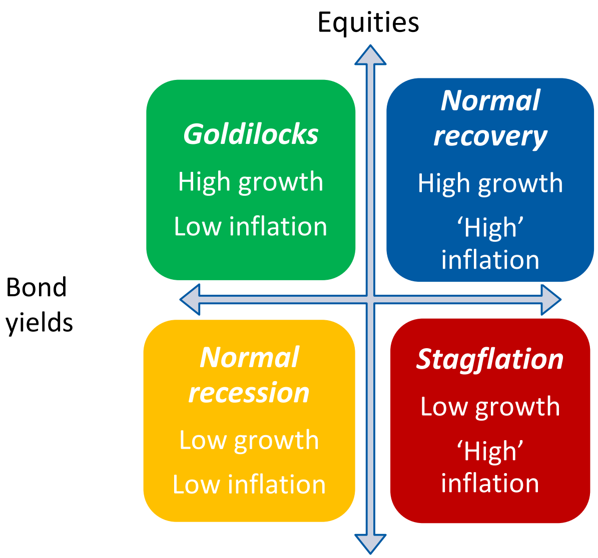


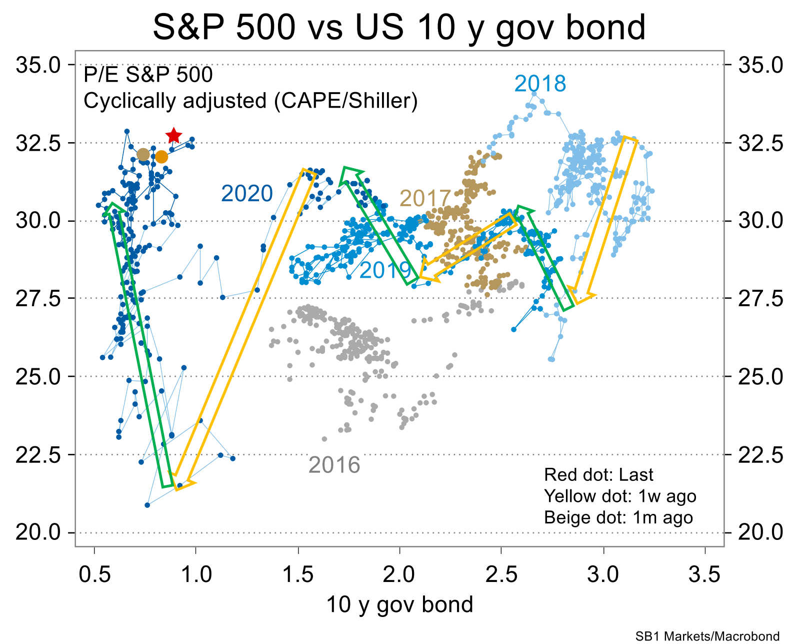


- The 10y bond yield is trending upwards – from the trough at 0.52%. Yields peaked at 0.98% but retreated 9 bps at Thursday/Friday
- The stock market is up almost 10% since before the election – due to the outcome (very likely a split government with a Rep. Senate), better corona news from Europe (but certainly not from the US), and of course the Pfizer/BioNTech vaccine news last Monday

From the 'Goldilocks corner', where to go?

Over the past month: The 'wrong' direction: Equities down, bond yields up – but a reversal past two weeks!





- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> 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 a late stage of a cycle), that would also make it possible for the Fed to push employment higher and profits margins lower (which the market will not discount before it is too late?)
- Will we stay up there, in the green? <u>Perhaps, for while – but probably not, long term</u>
  - » 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. Still, the corona his is most likely behind us, and vaccines are underway
  - » The Fed will not yield from its new strategy anytime soon. However, (higher than expected) actual wage or price inflation numbers or just a rapid decline in the unemployment rate 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. <u>Interest rates had not been too low, even if that is the popular view these days</u>

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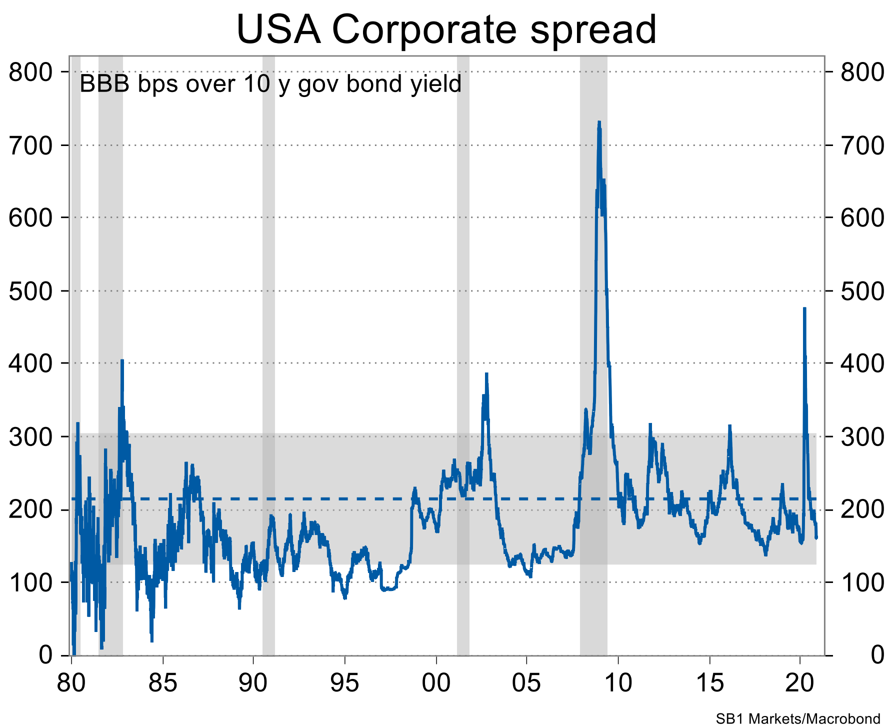
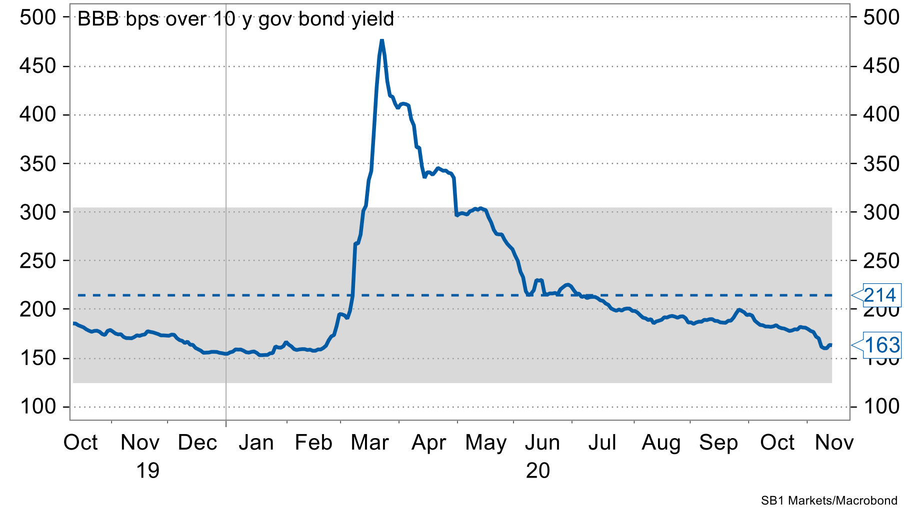
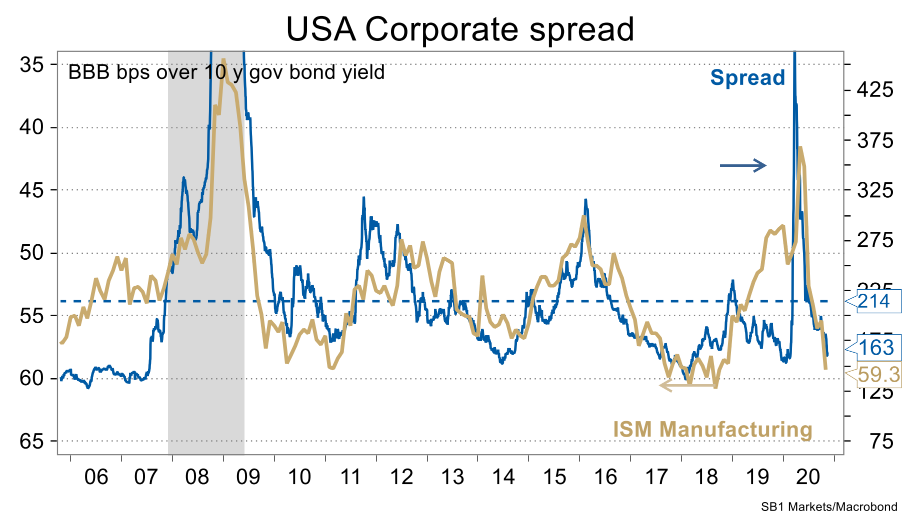
Credit spreads sharply down last week, finally down to Feb levels!

Spreads are well below average levels

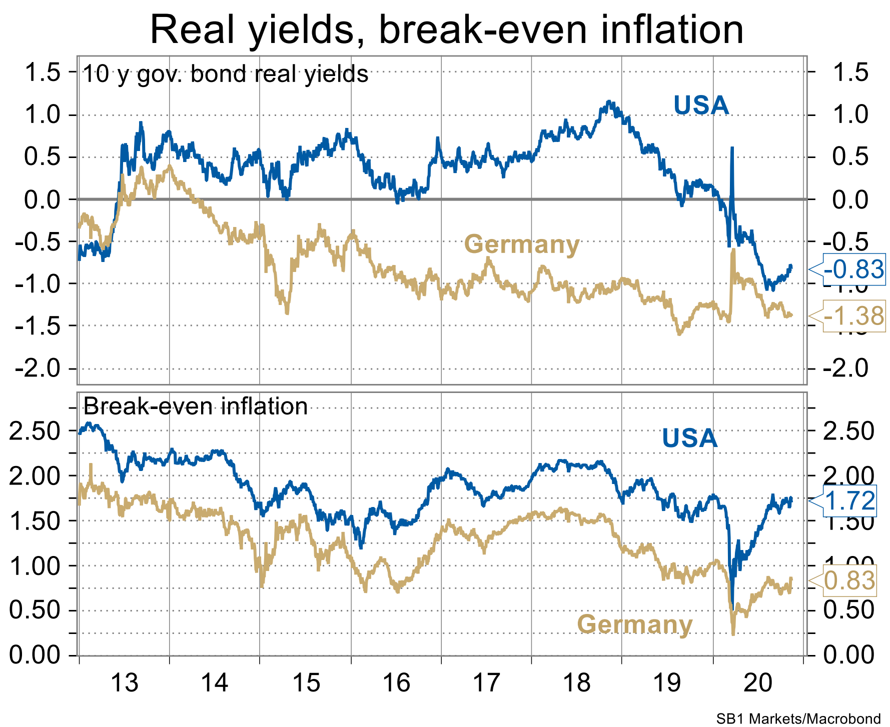


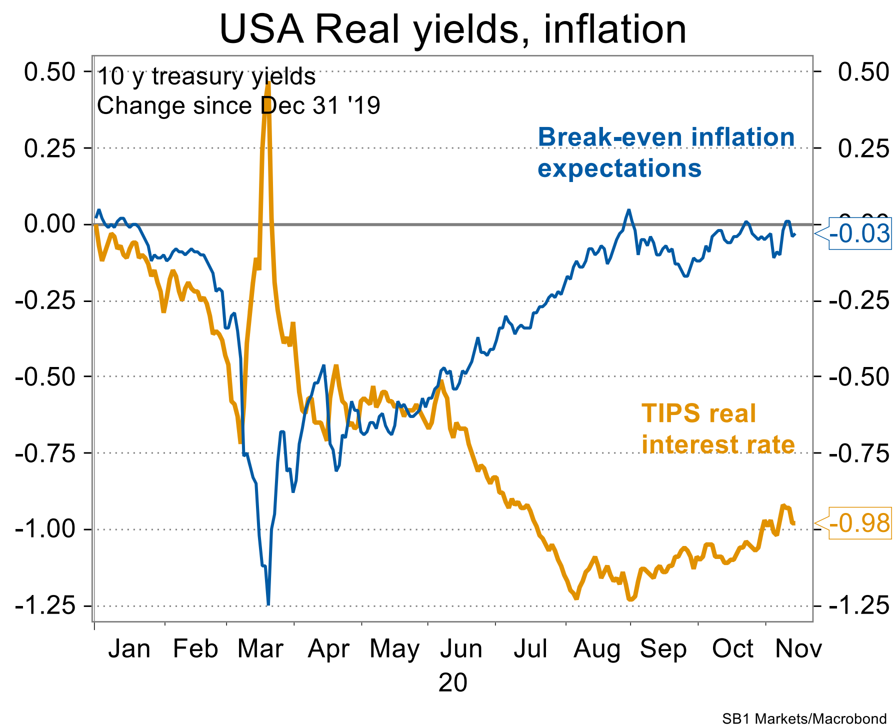




US real rates (TIPS) are trending up but NOT further last week, 10y now at -0.83

US inflation expectations are trending flat but slightly up last week, 10y now at 1.7%

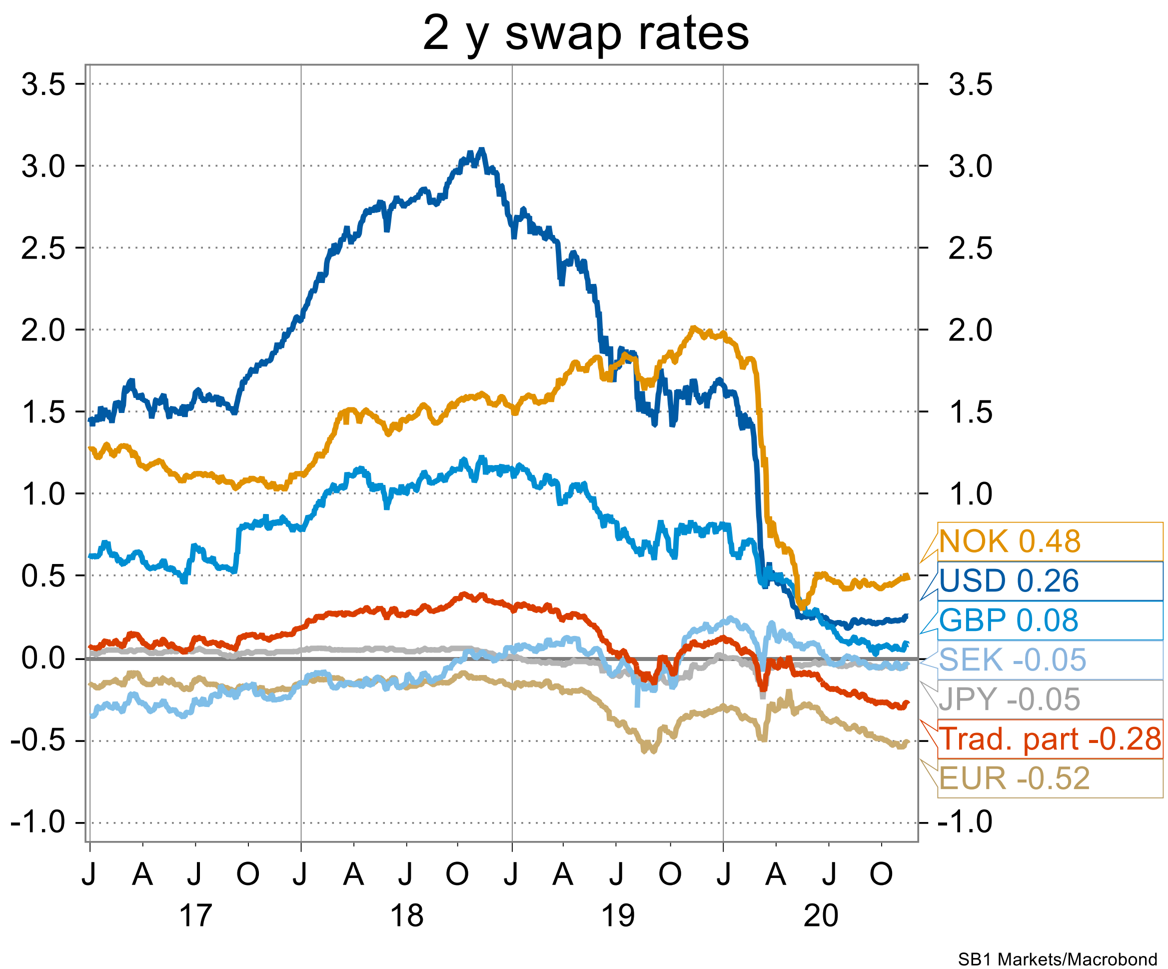


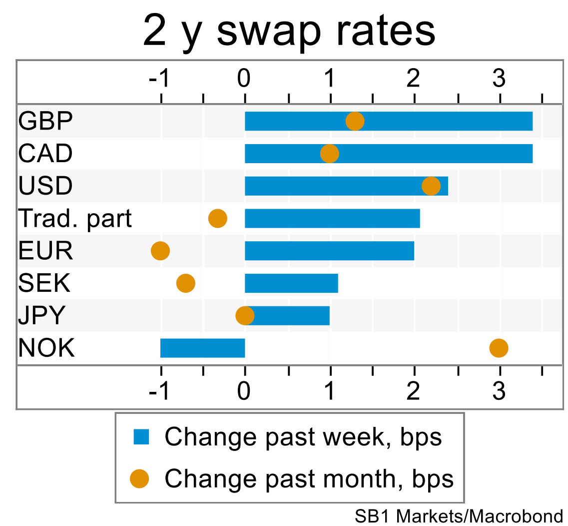


- The German 10y real rate is extremely low at -1.38, inflation expectations up more than to bps to 0.83%, still a very low number

2 y swap rates slightly up everywhere – except in NOK

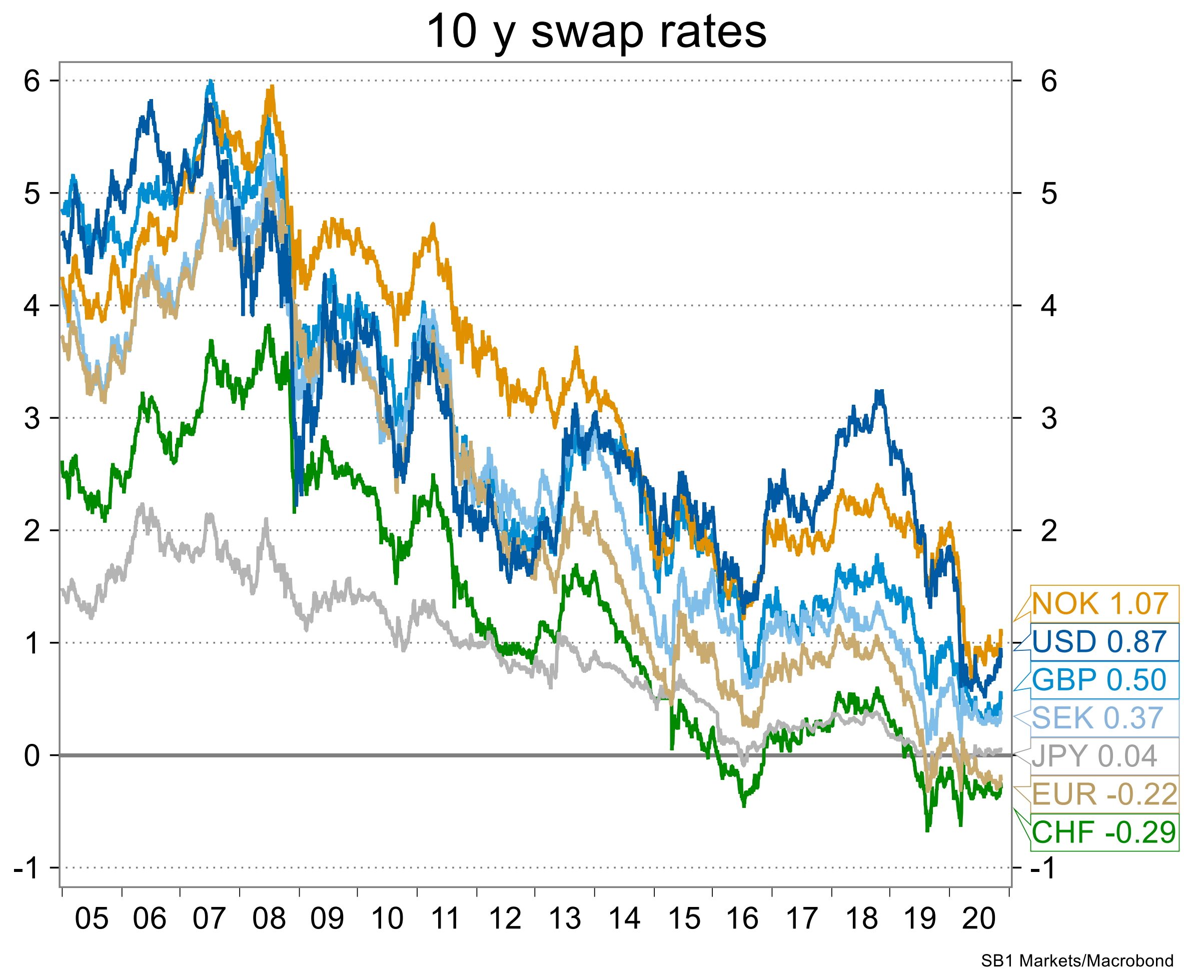
… as liquidity frictions in the very short end of the NIBOR curve eased

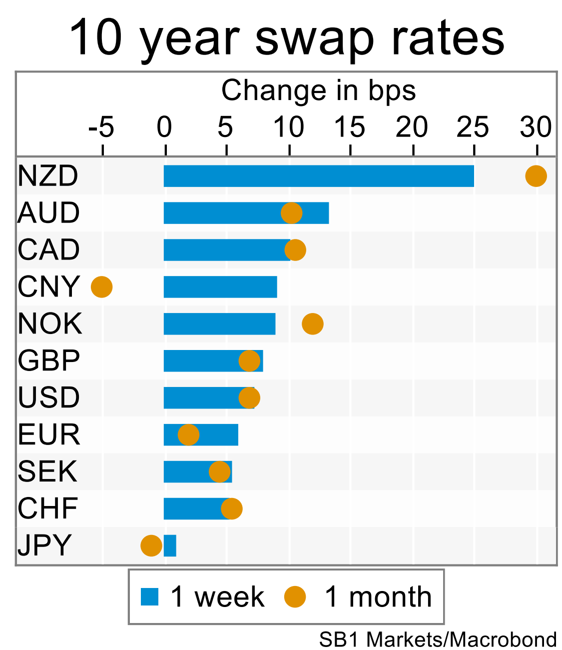




The long end of the curve was not vaccinated from a virus vaccine

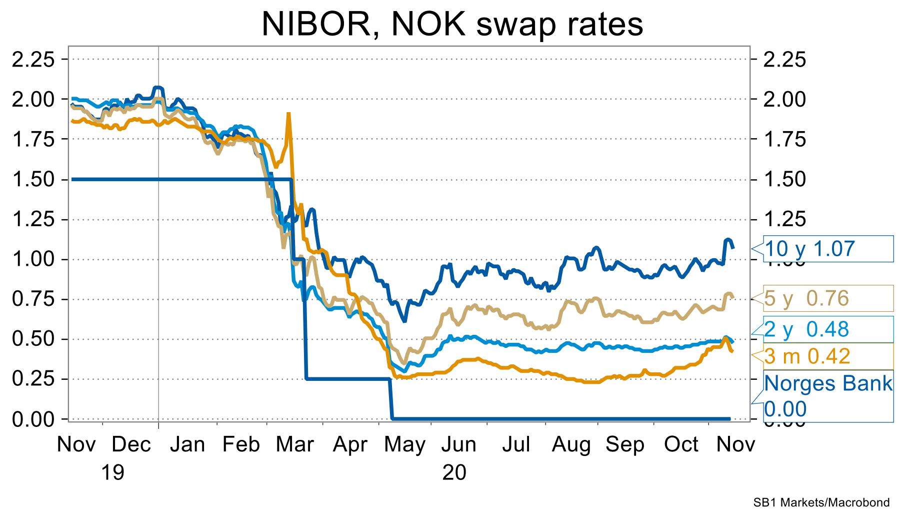
Rates up everywhere following the good corona vaccine news – even if it was not *that* surprising

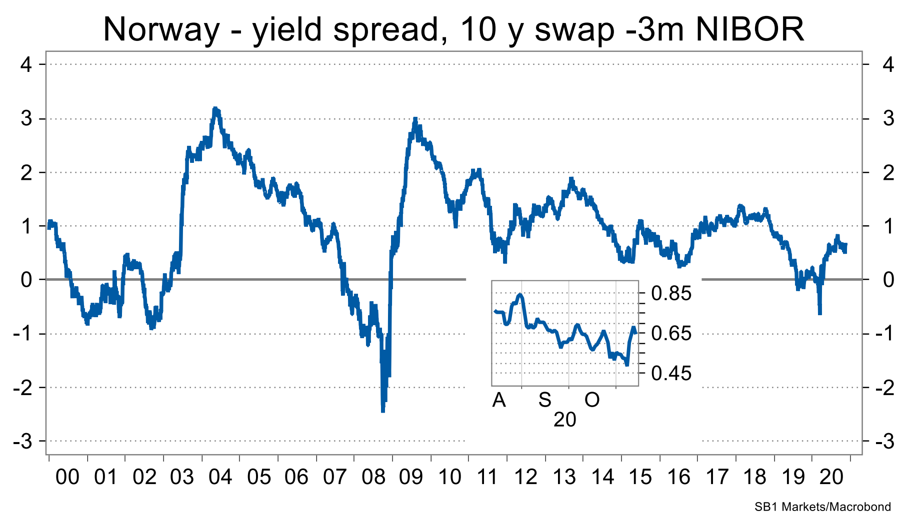


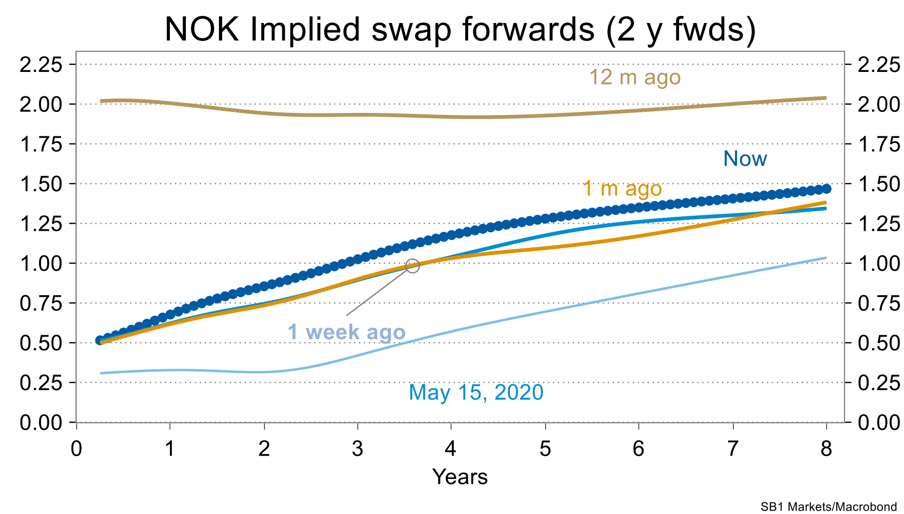


Another tick up, except at the short end of the curve

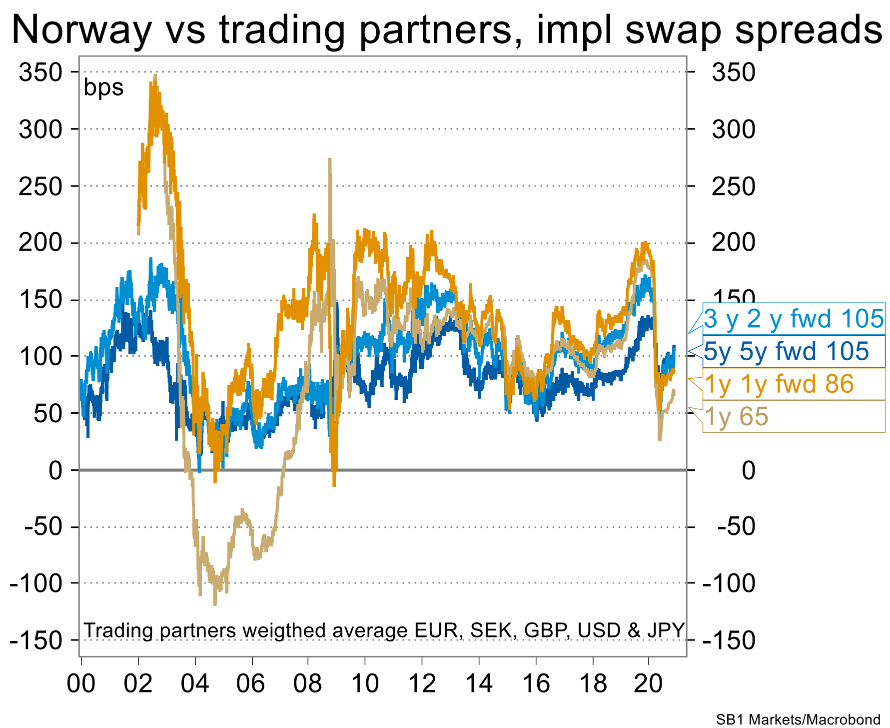
Good vaccine new was probably the main driver last week

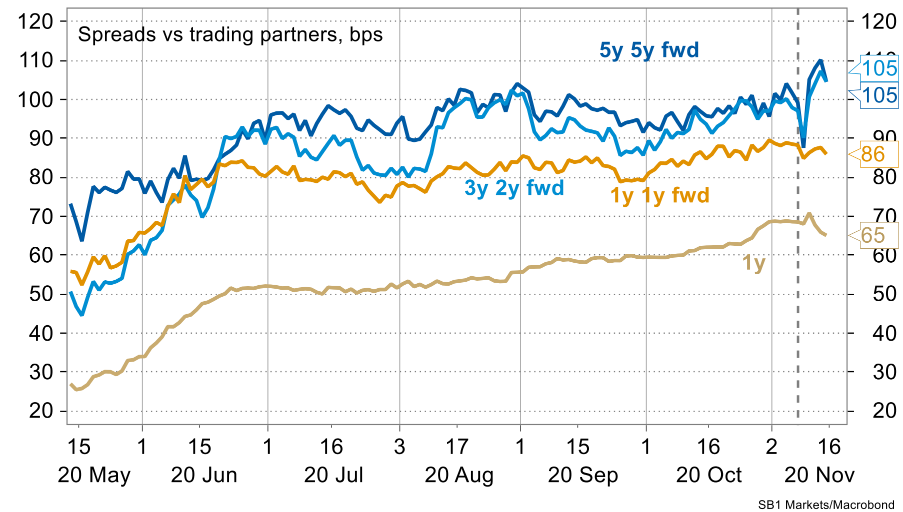


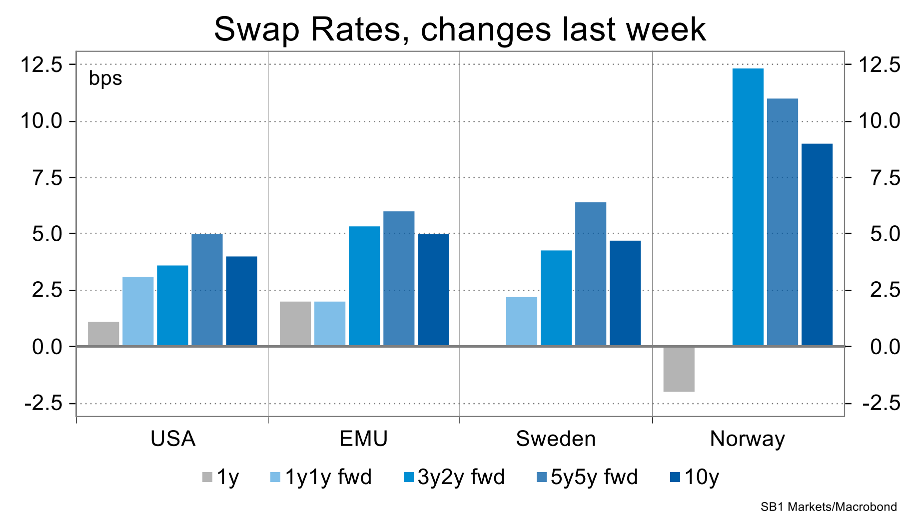




Spreads vs trading partners out from 2y outwards



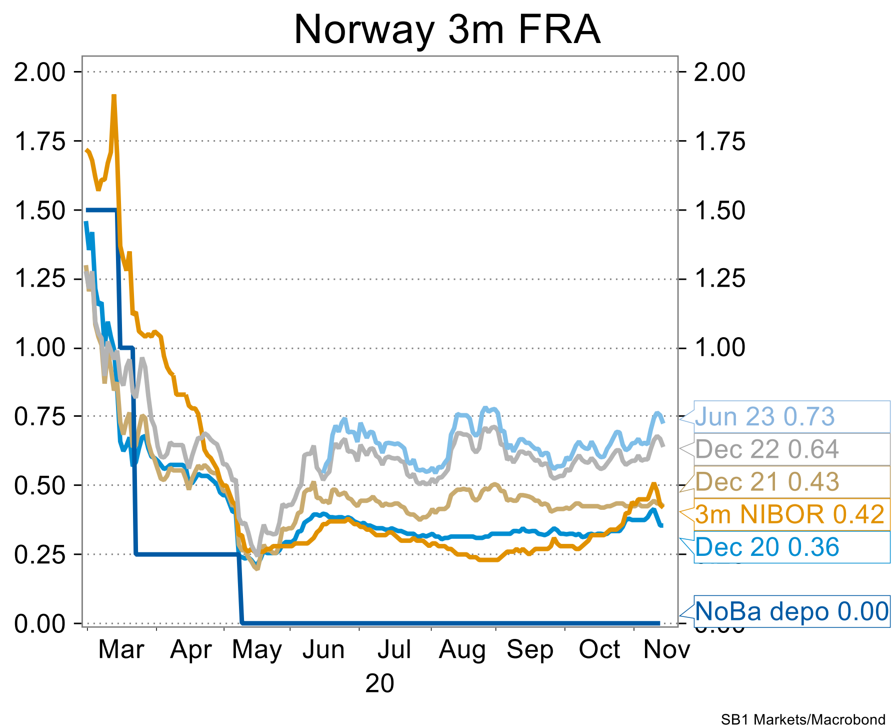




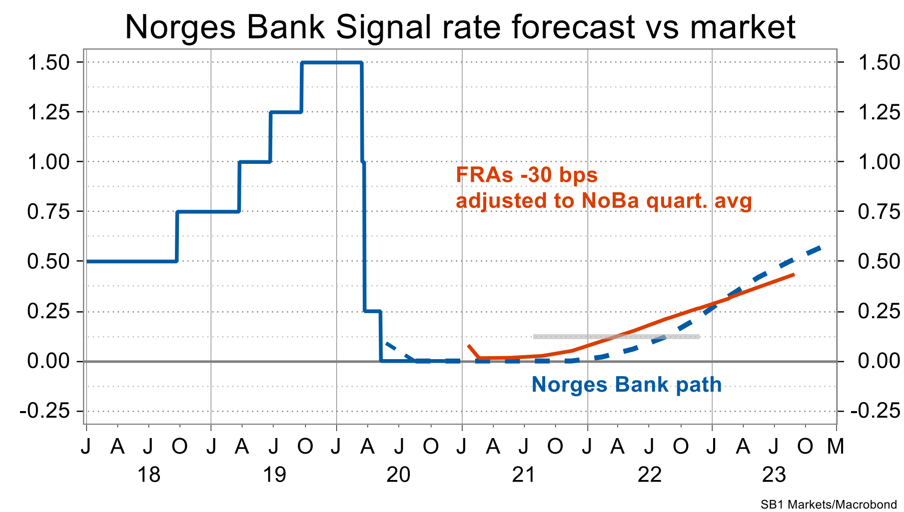
- We are still neutral vs. the spread

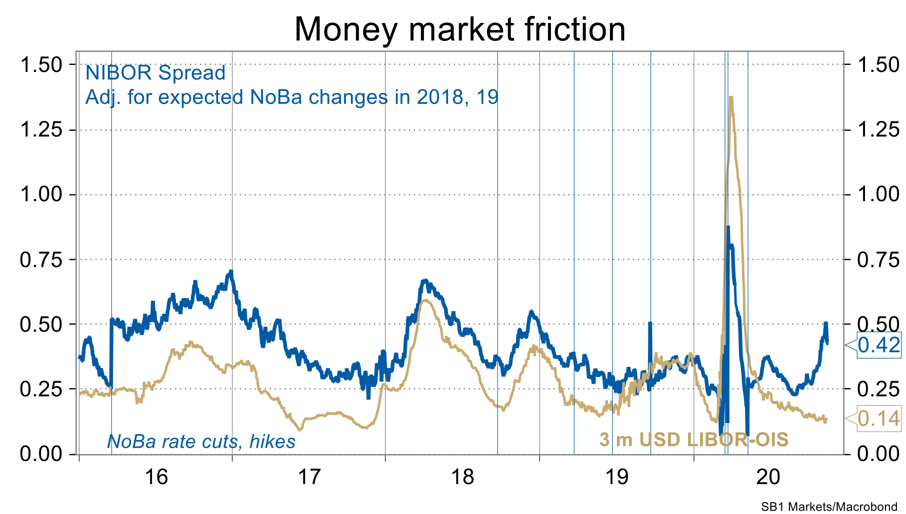
A steeper FRA curve, the very short end down, longer dated FRAs up by up to 8 bps

The 3 m NIBOR fell 9 p to 0.42% - but is still lofty vs. the signal rate



- The sharp increase in the NIBOR- NoBa signal rate spread recent weeks have just been due to liquidity frictions in the short end of the NIBOR curve
- We expect the 3 m NIBOR to decline, just like it is priced into the FRA curve
  - » Dec 20 3 m FRAs rose somewhat but never above 0.42%, and it is now down to 0.36%, signalling no more than normal end-of-year premium in that contract
  - » The Mar 21 3m FRA was at the 'worst' up by 5 bps to 0.35%, and is now back at 0.32%. No drama at all





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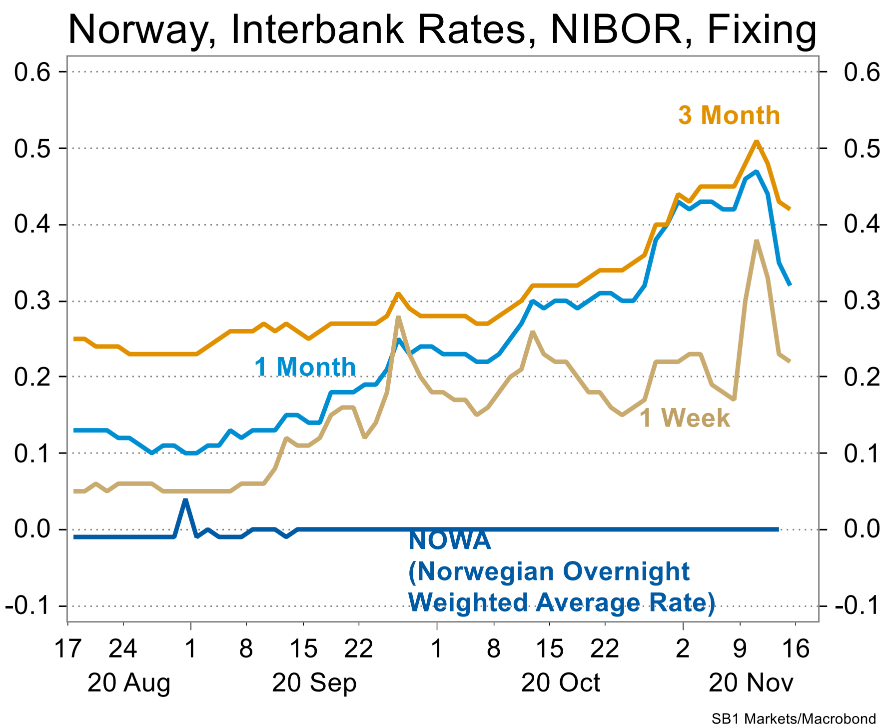
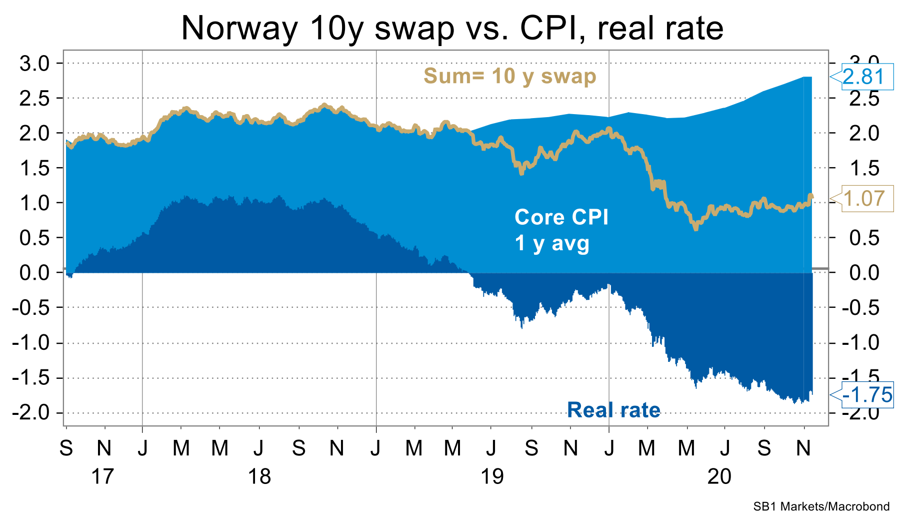
NOK short term rates on the way down, still probably 'too high'

Short term NIBOR rates down by 10 - 15 bps

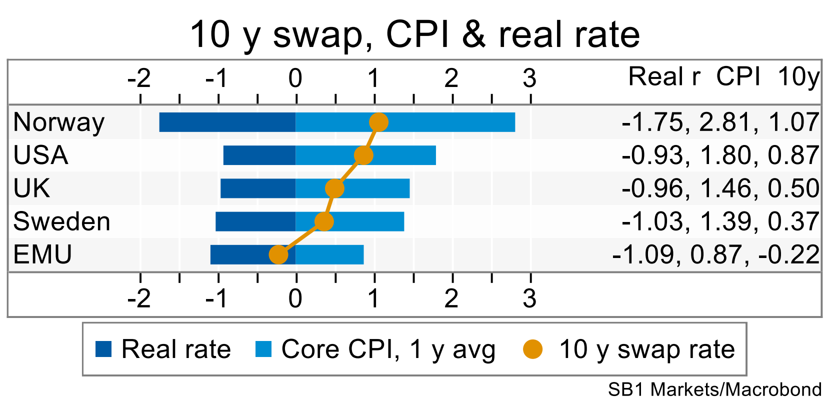


- Bank liquidity has not been well distributed recent weeks, and short term lending rates between banks have increase substantially
- Last week, rates fell sharply – the 3m NIBOR by 9 bps to 0.42% - and shorter rate by even more
- Norges Bank has been very active offering both F-loans and deposits at zero penalty (interest rate=NoBa deposit rate at 0.0%)
- Now banks have increased their borrowing just not overnight but also for up to 3 months, an the latter by a decent amount last week – which may explain the decrease in NIBOR rates

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



- The 10y NOK swap rate has climbed by 45 bps since the bottom in May, to 1.07% at Friday – up 10 bps last week
- The real rate, after deducting average inflation over the 2 past years equals -1.75%

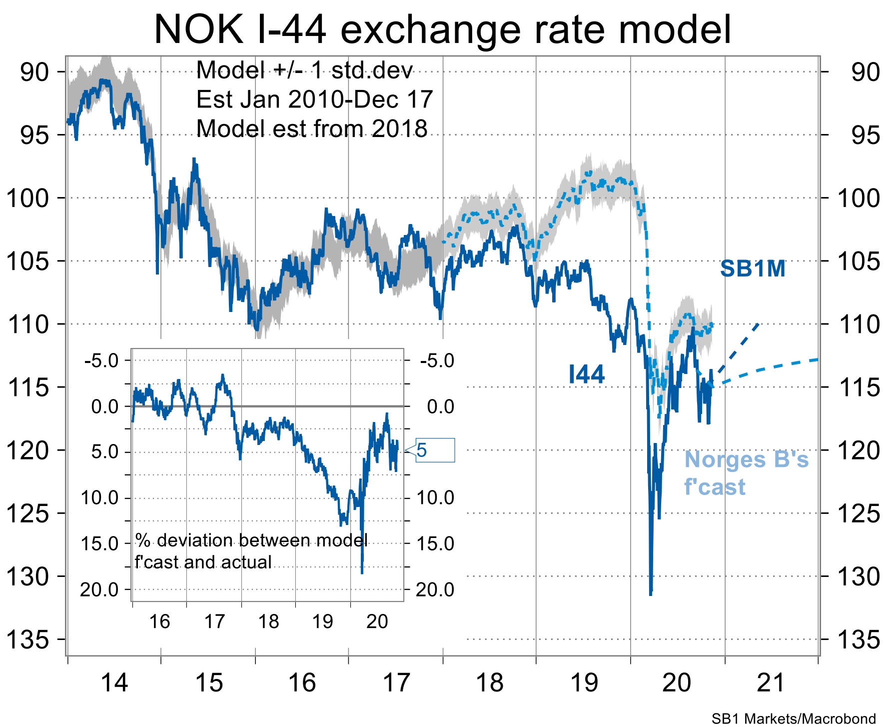


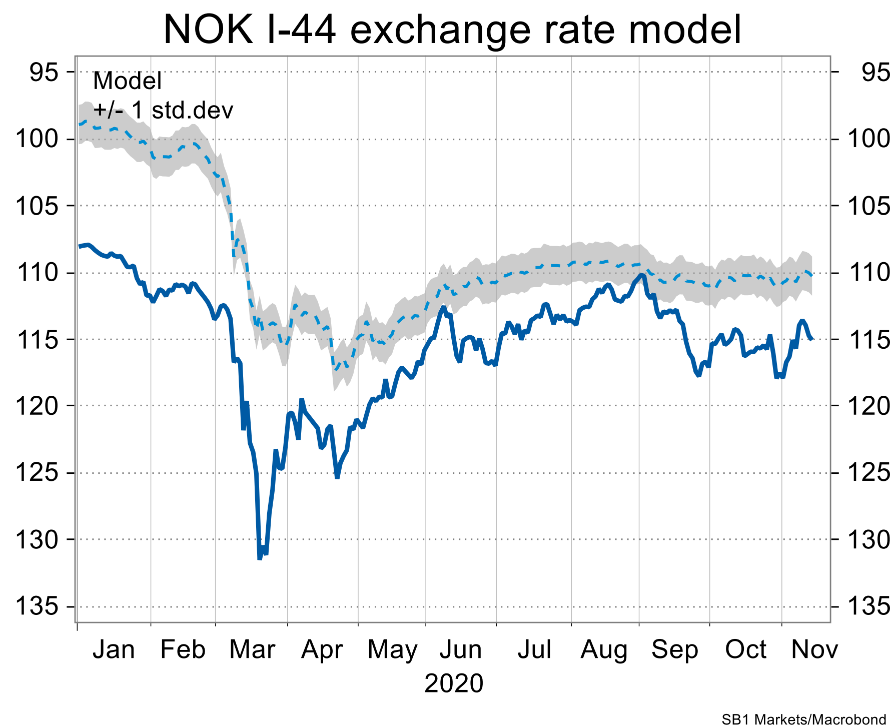
NOK real rates among the lowest, inflation exp. at top

- Inflation among Norway and our main trading partners varies between 0.9 pp to 2.8% (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 -0.9% to -1.1% measured vs. the 10 y swap rate and inflation over the past two years
- Thus, the Norwegian real rate at -1.8% is an outlier, even if the nominal rate is the highest

NOK I44 up 0.5% last week, as our good ol' model suggested

'The NOK is still 5% below the model forecast

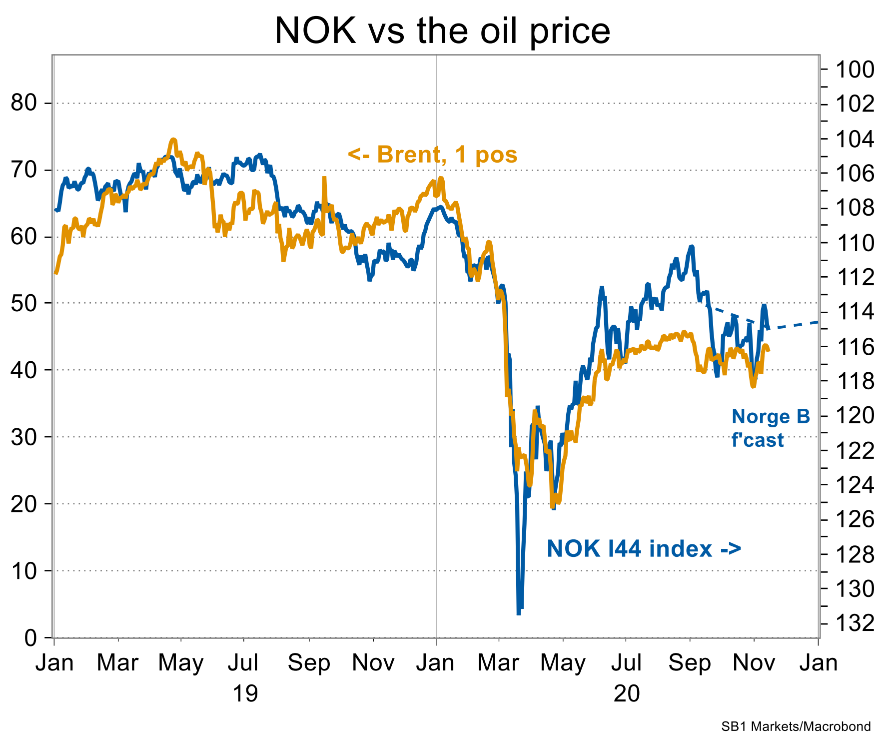


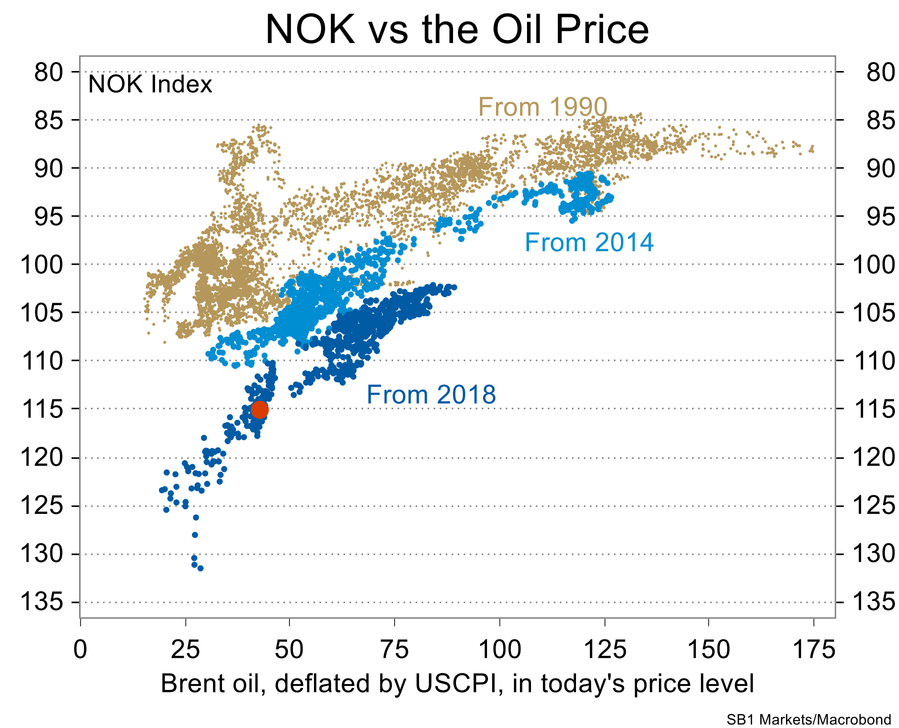


- The NOK is 5% weaker than suggested by our standard model
- The NOK is some 7% 'below' the global stock market vs the correlation between them in 2020
- The NOK is 10% weaker than an average of AUD/CAD/SEK, our 'supercycle peers'
- On the other hand, the NOK is far stronger than oil companies (their equity prices vs the total stock market)

The oil price contributed to the NOK appreciation last week

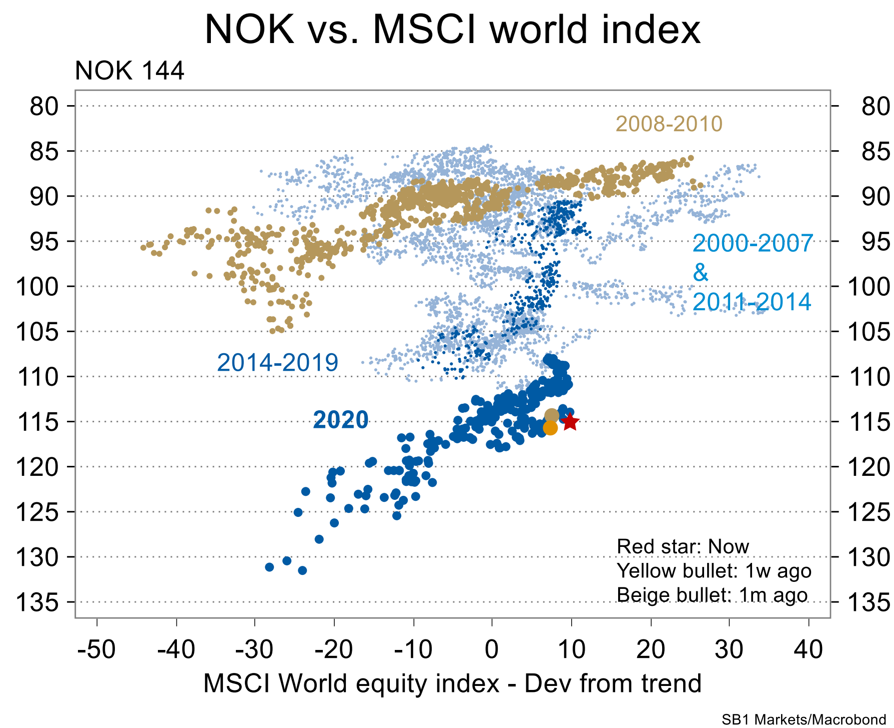
The oil price is still important for the NOK but the correlation has not been impressive since July





NOK appreciated 'less' than the global stock market rose

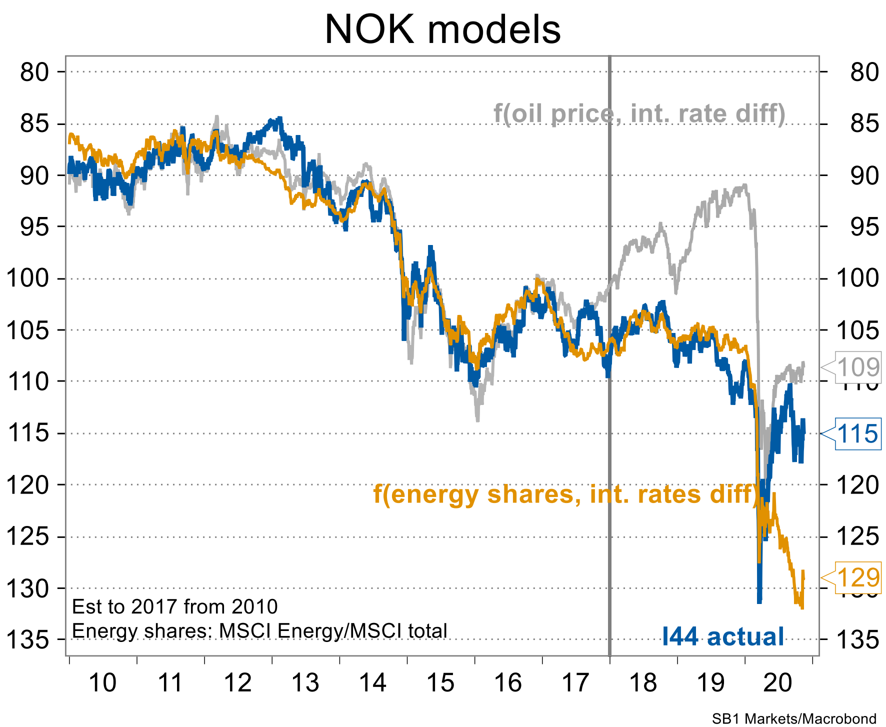
The NOK is still closely correlated to the equity market (here MSCI global) but has fallen behind now

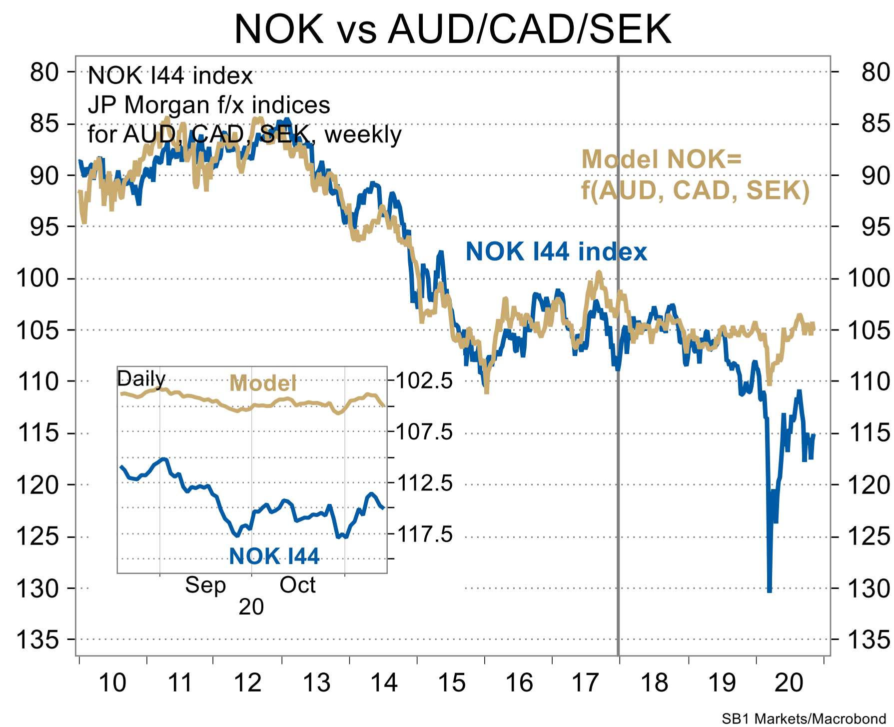


- There has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with correlation like the one we have seen since early 2020
- We have long argued that global equity prices should be more important 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 7% 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

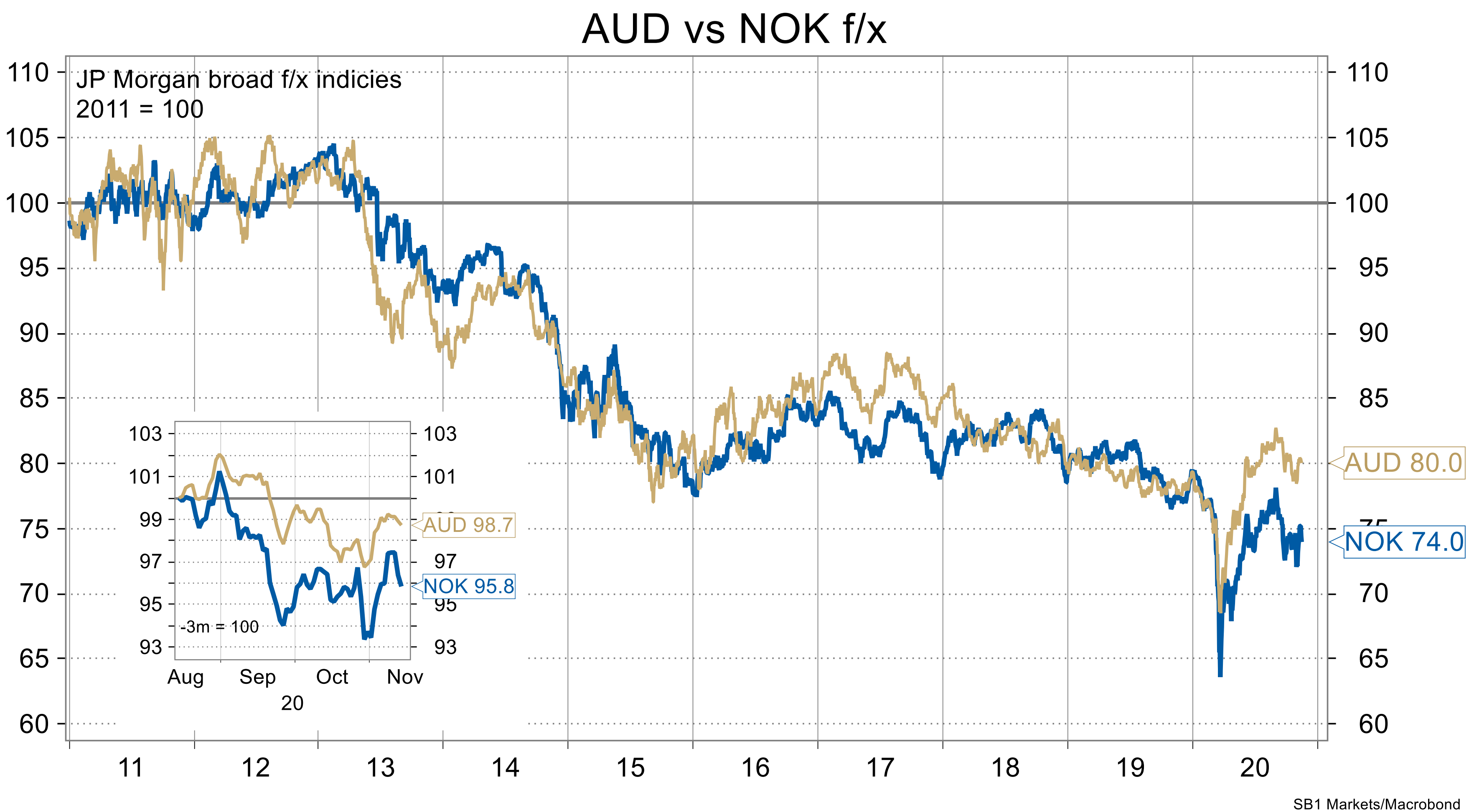




- On the alternative NOK models
  - » Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. 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 far stronger than the oil equity model estimate – and we recognise that the NOK has said goodbye to the still struggling oil companies
  - » The NOK has fallen more than our AUD/CAD/SEK model forecast the past month and last week, 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

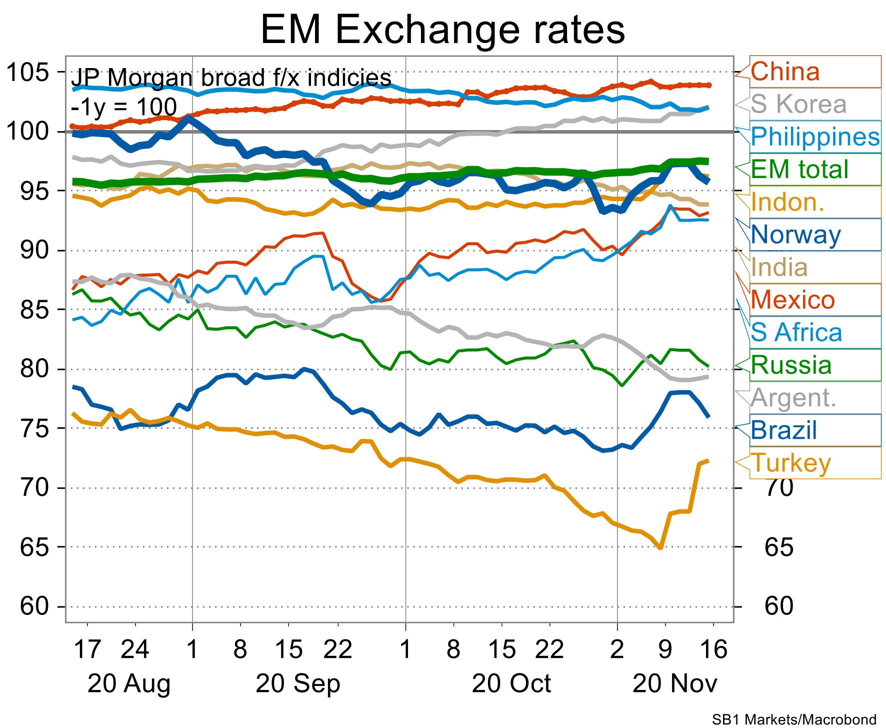
NOK recover, alongside the AUD, of course – quite in tandem past months

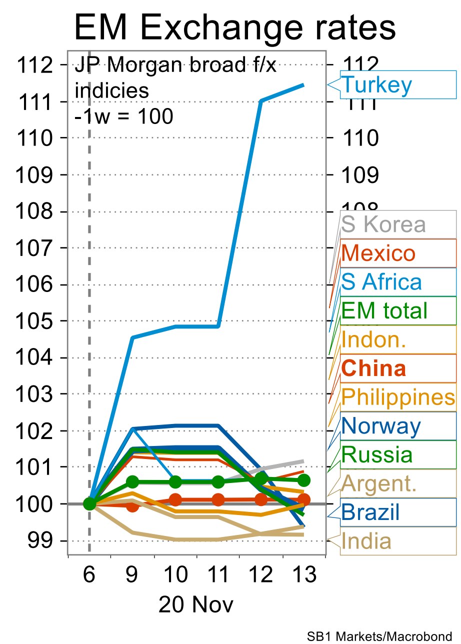
However, the NOK has lost some 8% vs. the AUD (and other supercyclical currencies) since February

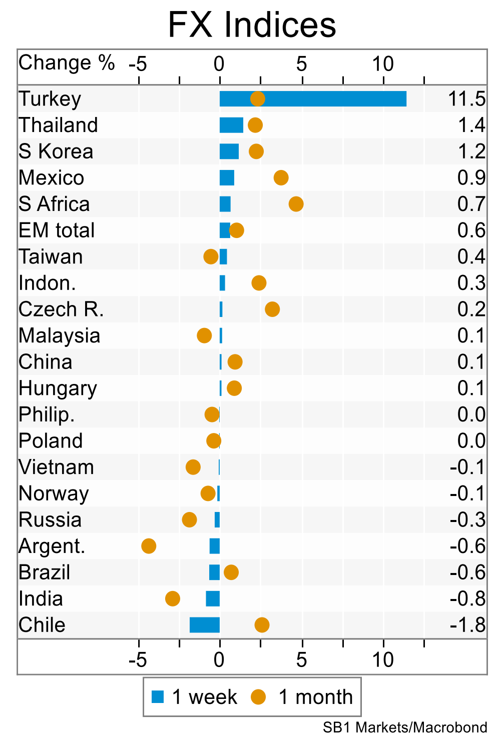


Turkey recovered some of the huge f/x losses, Erdogan accepted the unavoidable

Erdogan finally appointed a new central bank governor, and his son-in-law lost his Minister of Fin posi







- The lira rose 11.5% (back to the late Sept level) as markets expect that the new Central Bank governor soon will hike rates in order to prevent a total f/x meltdown & hyperinflation in Turkey.
  - » When Erdogan appointed a new central bank governor with a mandate to stabilise the economy, the Minister of Finance, his son-in-low, announced 'he' had decided to leave his position. Guess that was appreciated by market participants too
- What else in the EM f/x universe? Some more up than down. The CNY flat, following a modest appreciation the recent weeks

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