23 November 2020

Macro Research

Week 48/2020

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

SpareBank 1 Markets
Phone : (+47) 24 14 74 18
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PostBox 1398 Vika, 0114 Oslo

SpareBank 1 MARKETS

Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

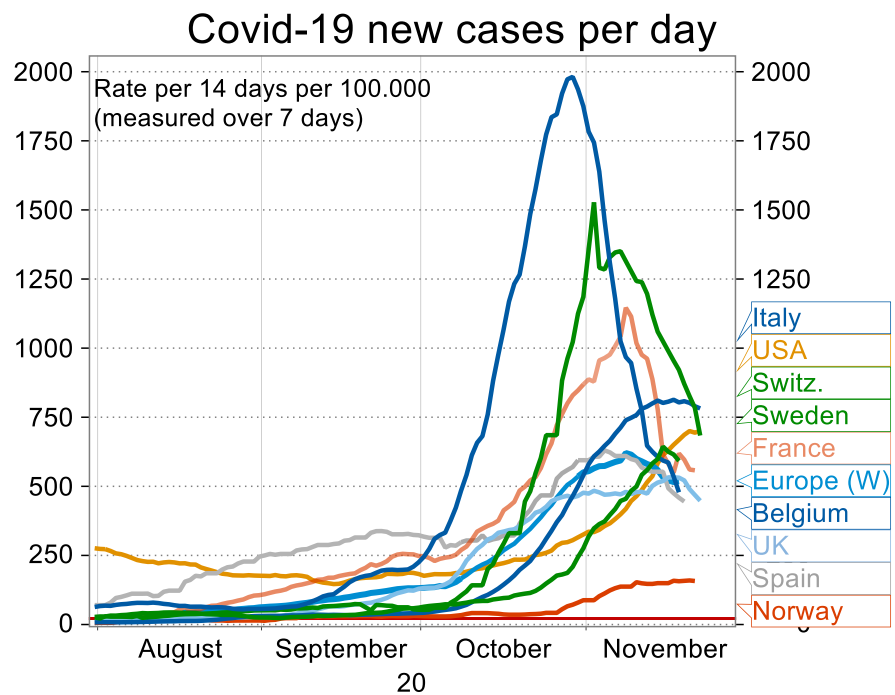
Last week:

- Last week, **Moderna** joined Pfizer/BioNTech in reporting very encouraging preliminary human Covid-19 vaccine trial results. This time without any markets cheering. We 'know' more vaccines will be reported soon – but we also know that vaccines will not arrive in large quantities before well into next year
- **In Europe, the 2nd Covid-19 wave has clearly peaked!** **Belgium** is down 75% in 3 weeks, and even the no of deaths is declining. Most other countries are reporting fewer new cases too – but not **Norway** where at curve has flattened, at best – and **Denmark** and (most likely) **Sweden** is still not on the way down. In Norway, the no of new cases does not pose a health treat (just some 1% of hospital capacity is used for corona patients, and very few a dying due to corona). Even in the **US**, growth in new cases slowed substantially last week. Several states/local governments are imposing restrictions again. Mobility has fallen everywhere in Europe & US
- **In the US, president Trump** has not yet conceded but so far no legal path has yielded any success for him as evidence of wide spread voter/election fraud is not yet provided. Still, the bookmakers offer just a 83% probability for Biden becoming president, as Trump is still fighting. Barring shocking an undisputable evidence of the biggest fraud in US history, a Trump re-election would create serious social turmoil. Most likely, Trump is just positioning himself for the 2024 election, where he can take back the stolen 2020 presidency
- **US retail sales** were weaker than expected in October, but still rose – and is 7% above the pre corona level. **Housing data** are very strong, and prices are surging, up more than 15% y/y (measured by a volatile index though). **Manufacturing production** rose at a brisk pace in Oct but production is still 5% below the February level. The first November **manufacturing surveys** were mixed but in average still strong
- **In EMU, consumer confidence** fell further in November but is still well above the April trough
- **Home prices** are surging in **Sweden** too, up 10% y/y. Stockholm prices finally rose to above the Feb level (others did so months ago)
- **In Norway, growth** was still decent in September, 0.6% as expected. The Mainland GDP is just 2.7% below the Feb level (we assumed 3.3%, the history was revised up). In Q3, GDP rose 5.2%. The 'people oriented' **service sectors** are still struggling, and will be hit again in Nov and Dec. However, just trade, and the public sector operates above the Feb level. Norwegians spend more money in Norway than pre corona, but saves what they used to spend abroad. Foreigners spend nothing here, which takes GDP down by 1.5%, still far less than among the real tourist nations. **Oil investments** are falling rapidly, and even if the Q4 investment survey was better than expected, investments will very likely decline substantially next year too. Companies in **manufacturing and power supply** are reporting lower investments next year too. **Unemployment** is heading up again in November, according to weekly NAV data. **Consumer confidence** fell again in Q4, and is low (especially vs. actual consumption)

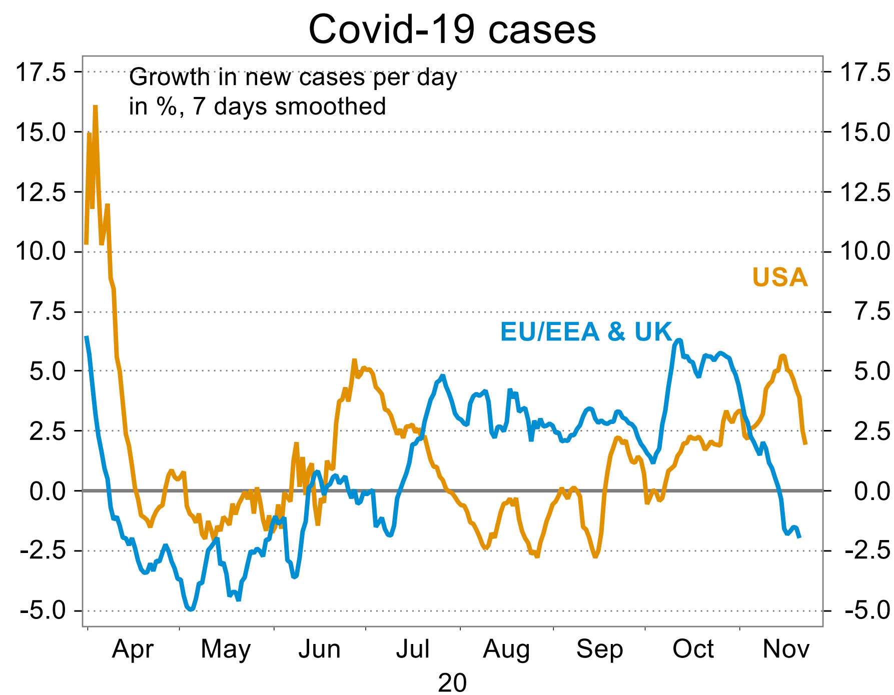
SpareBank 1 MARKETS

Cases have collapsed in Belgium – to 480 from 2.000 in 3 weeks!

The Check R, Switzerl, Austria, Spain, UK & France & others are reporting fewer cases! And US slows!



SB1 Markets/Macrobond

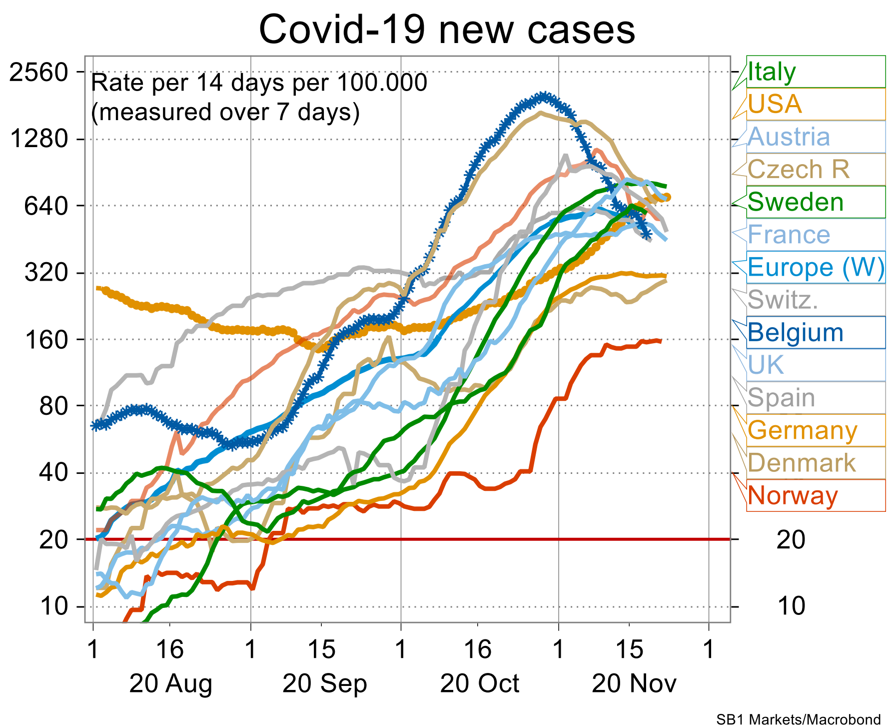


SB1 Markets/Macrobond

- The ‘R’ is well below 1 in many **European countries**, and the number of new cases is falling rapidly – especially in countries that had a high number of new cases. Mobily has declined as restrictions have been imposed- <u>We expect restriction to be eased in many countries well before Christmas</u>
- Growth in new cases in the **US** has slowed substantially during the last week, due to a decline in the Mid-West, that was hardest hit. The positivity rate has fallen too. Some local restrictions have been imposed – and more are announced by the day. Due to restrictions and individual change of behaviour, and mobiliy is declining, albeit not as sharp as in Europe. The no of new cases is record high at 700 (per 100.000 inhabitants, at a 14 pace, here measured over 7 days)
- The number of new cases in **Norway** is has almost flattened, but is not heading down yet. We still expect that to happen quite soon. The no of new cases is still at a low level (150)– which does not pose any treat against public health or the health system (Covid-19 patients equals just some 1% of the hospital beds or ICU capacity). However, as the ‘R’ not yet below 1, restrictions will not be eased anytime soon

Cases have collapsed in Belgium – to 480 from 2.000 in 3 weeks!

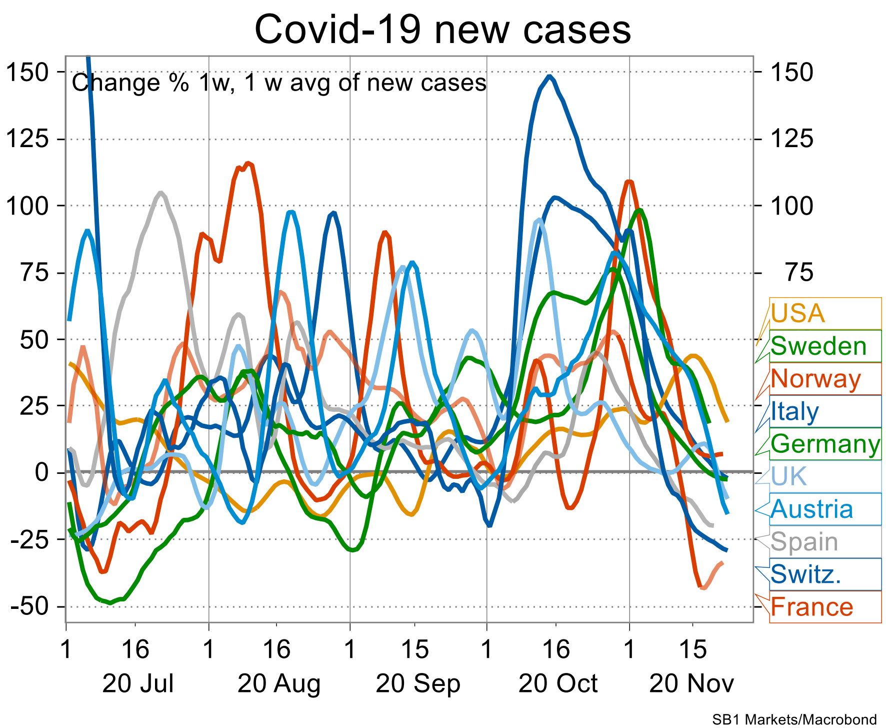
Germy

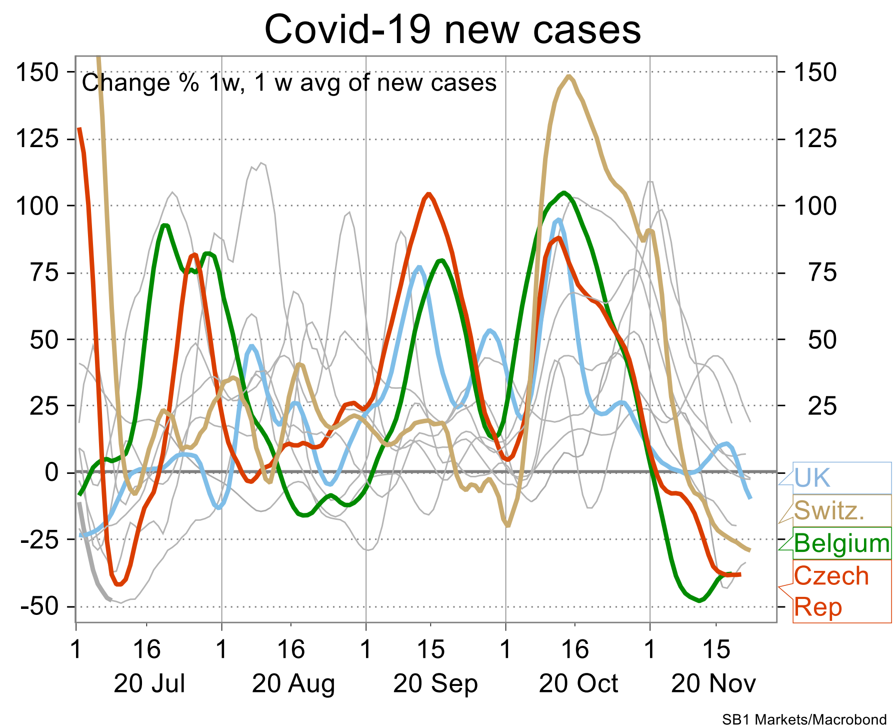


- The no of new cases in Belgium has fallen 75% the past 3 weeks
  - Some of the decline may be due to less testing, but the positivity rate has fallen sharply as well
- The Czech Rep has been on the way down the past 3 weeks too. Countries like Switzerland, France, Austria , UK, Italy and Spain
- Growth in cases in the US clearly slowed last week
- The no of new cases in Sweden may have peaked but data are uncertain, and the test capacity is stretched
- Denmark turned up again last week (the only outlier?)
- Norway is still trending slowly upwards, we expected to see something better last week
  - 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 very low too – and there is not any 'health crisis'

Case growth rates are turning down everywhere, even in the US

UK has turned down again too. And growth rates are negative in many countries





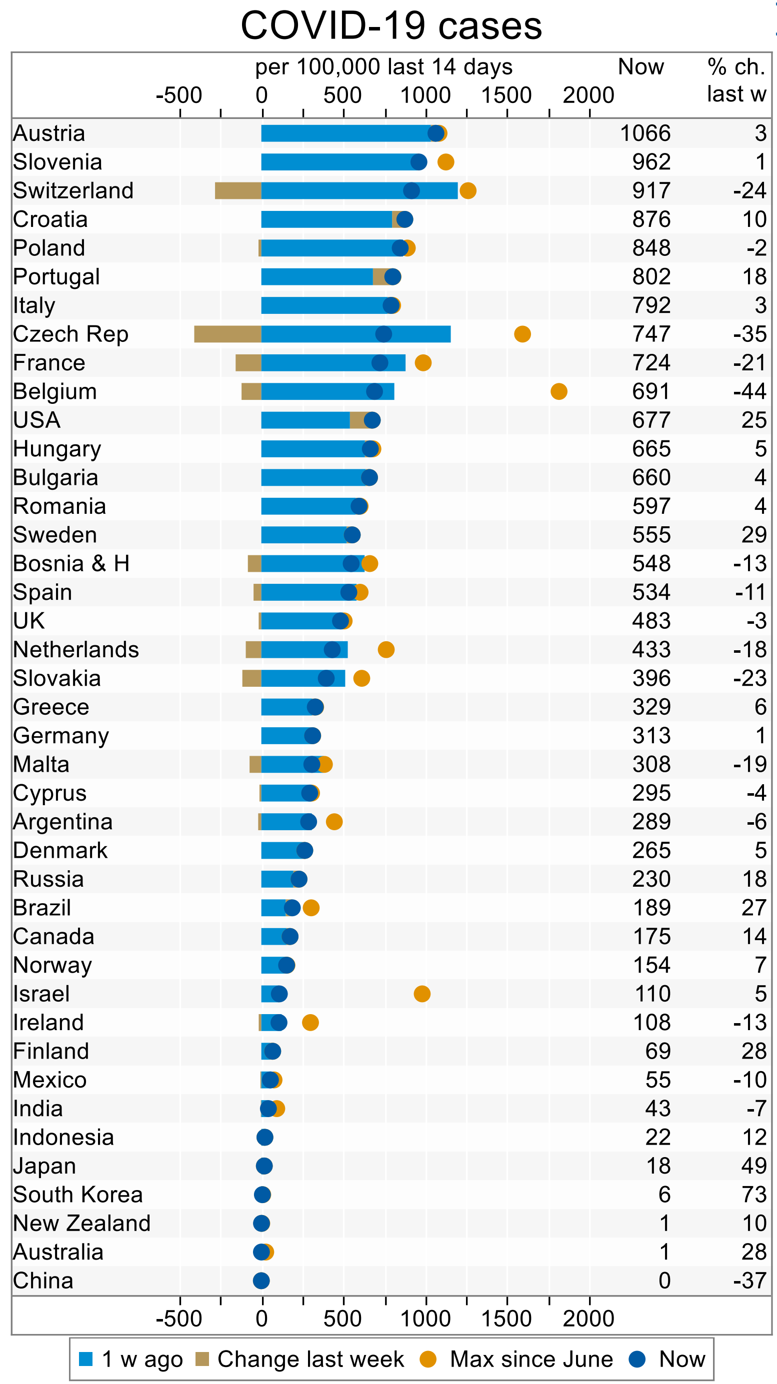
- Check the mobility data some few pages out in the report

The leaders are retreating!

Check the yellow bullets in 'free air', countries that are down from the peak

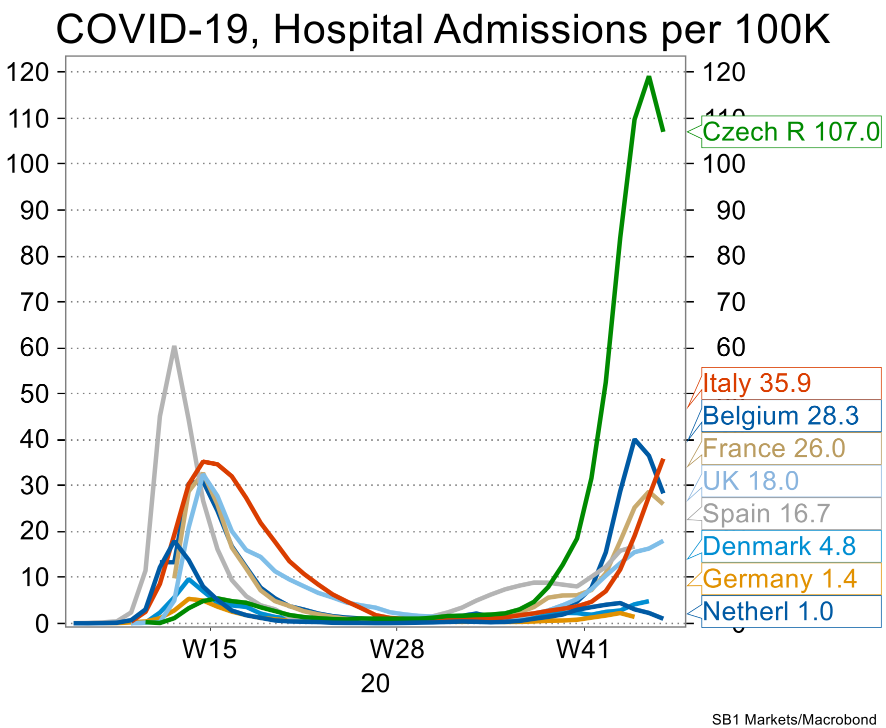
- Lockdowns work everywhere and every time!

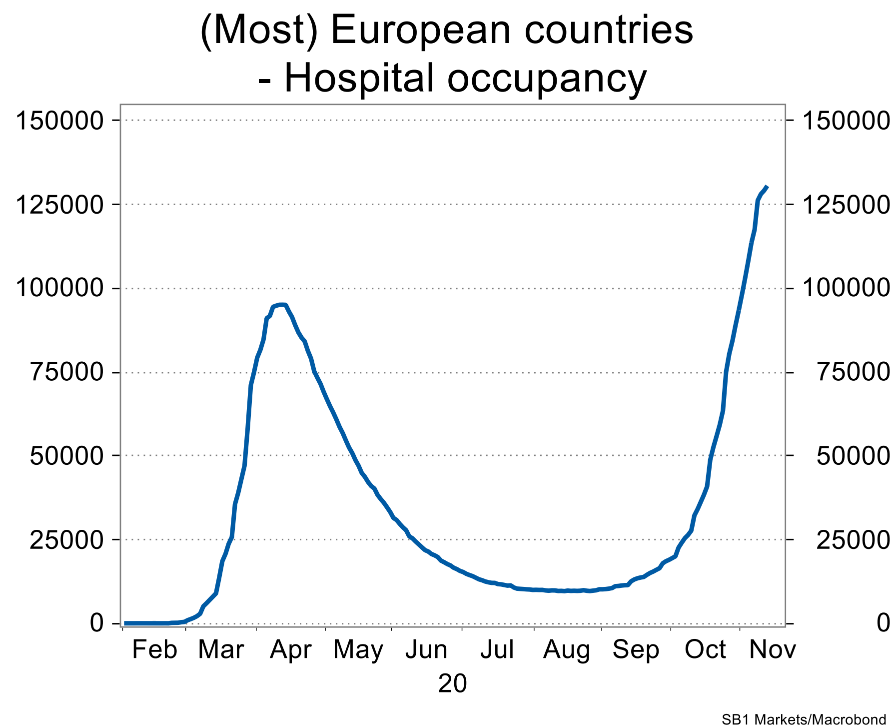
Comment on the data: At the chart at this page and the next, we present accumulated cases over 14 days, and not over 7 days, at a 14 days' pace, like at page 4 - 6. Thus neither level data or growth rates are equal – but the broad patterns are of course the same



Corona became a unbearable health problem, some places

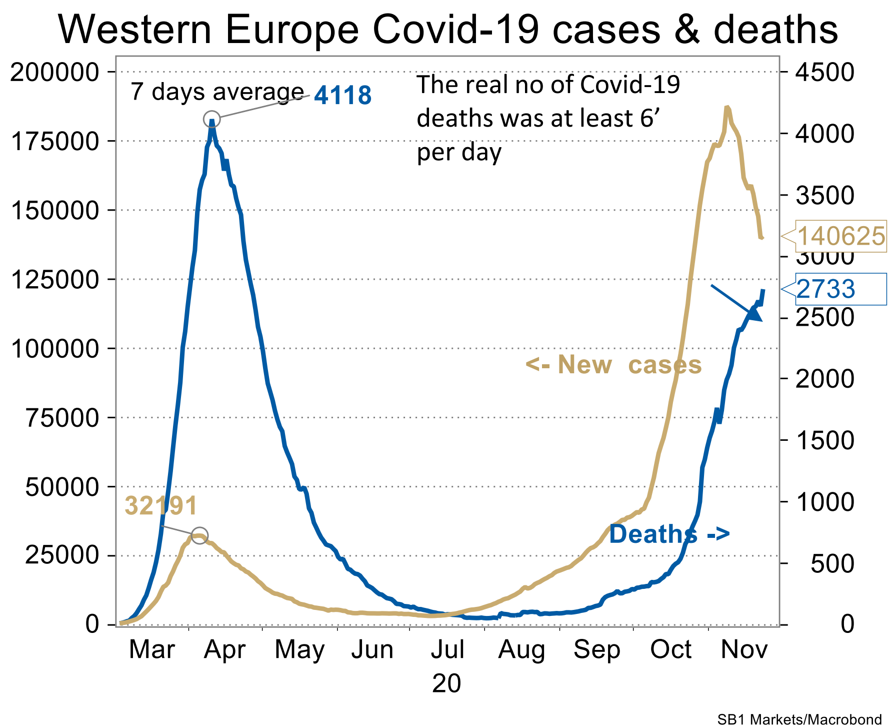
But the 2nd wave has now peaked – and new hospital admissions are on the way down several places



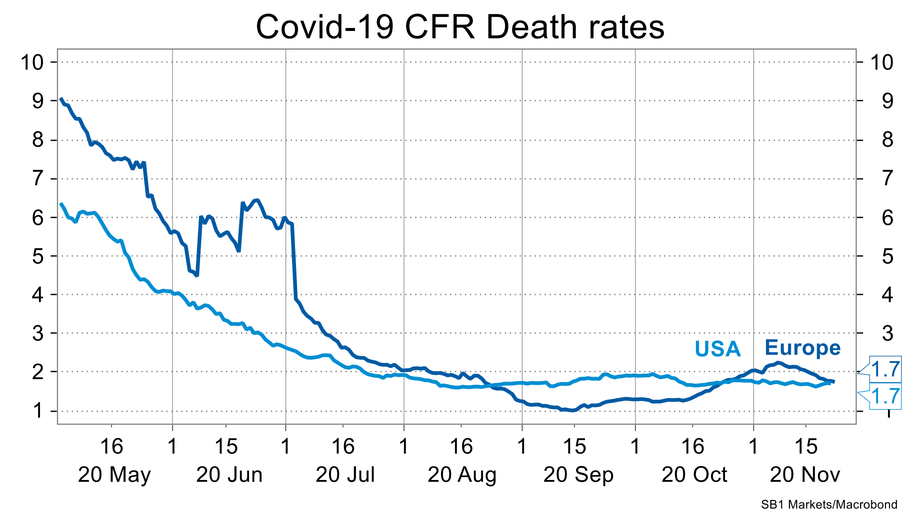


SpareBank 1 MARKETS

Europe: A sharp decline in new cases – deaths soon to follow



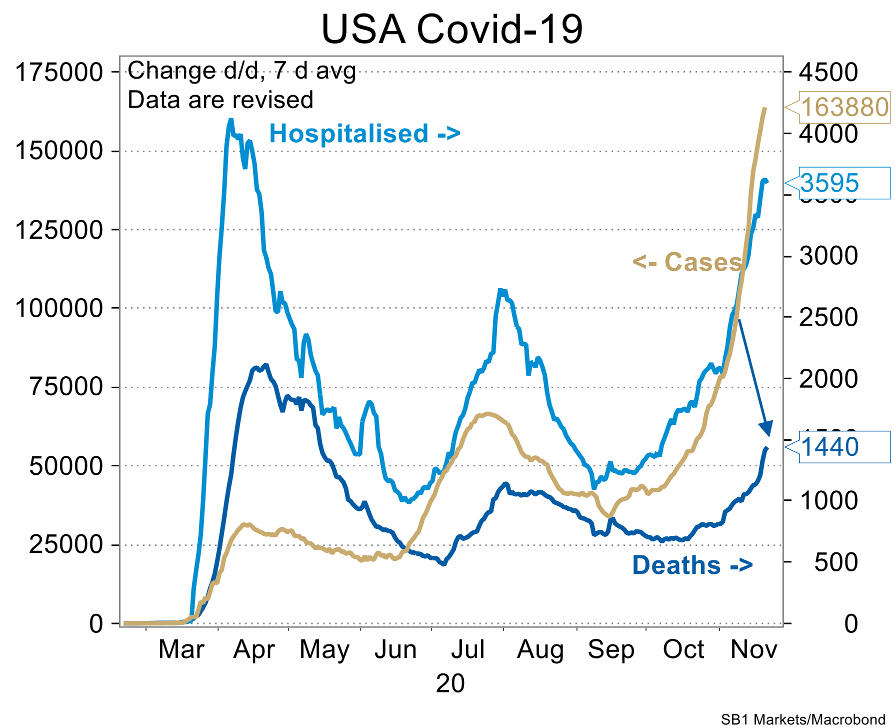
- The number of deaths in Europe is growing at a fast pace, now 2,700 per day, up from below 1,300 tree weeks ago (and less than 100 in August).
- The no of deaths will probably peak this week – as the no of new cases is now falling rapidly

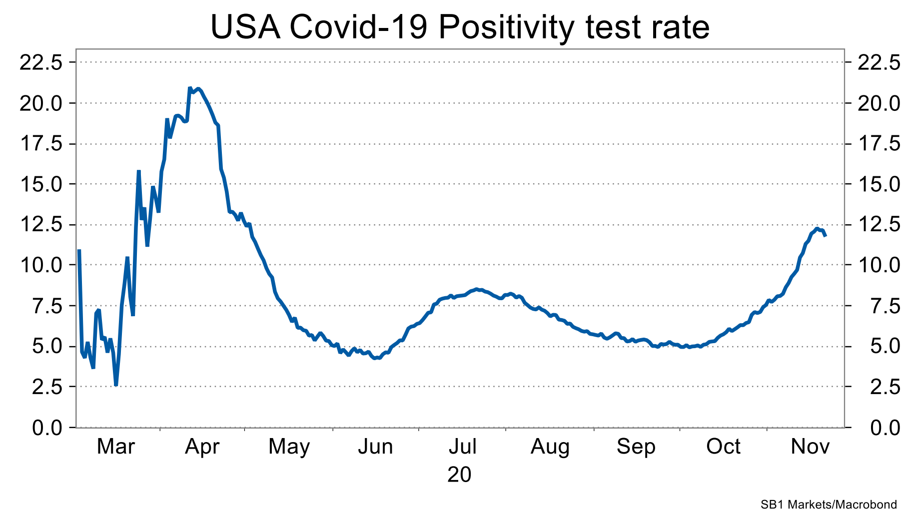


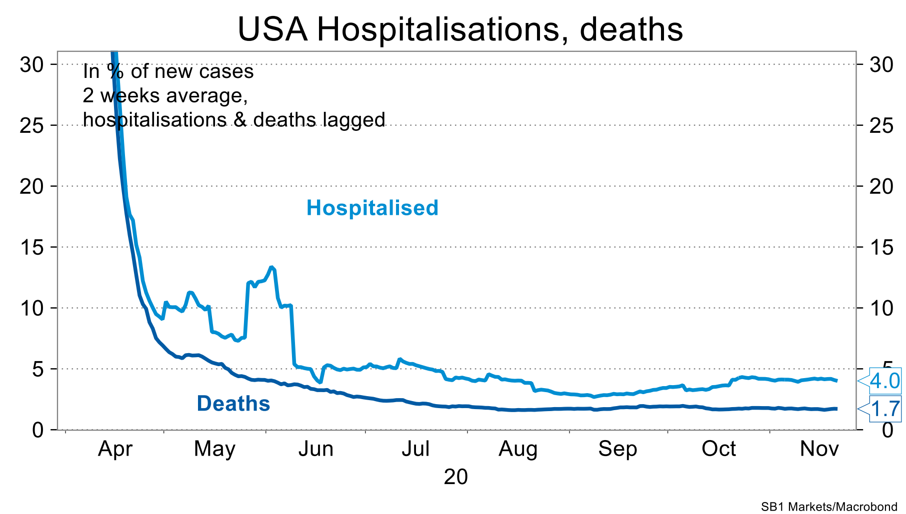
- In Europe, the death rate (deaths vs. confirmed cases 2 – 3 weeks earlier) fell to 1% in Sept but has now increased to above 2%. At the same time, the positivity (test) rate has increased dramatically in all countries (until the past two weeks).
- In the US the death rate is at 1.7%, and it has been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

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



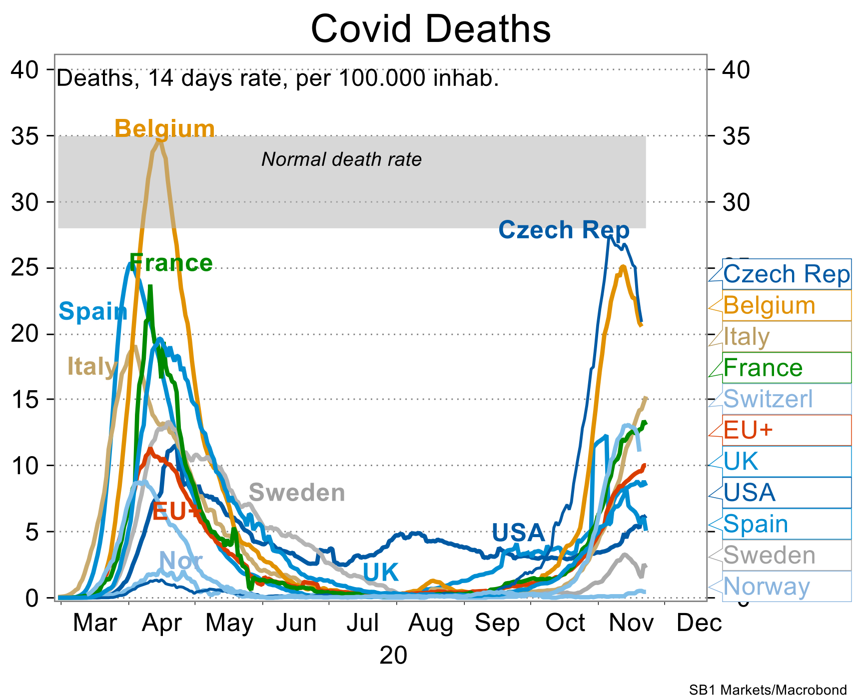




- The hospitalisation rate is lower than during the early phases of the pandemic but will climb further the coming few weeks – and there is still no signs of any slowdown in growth. In one way or another, growth rates WILL slow before Jan 20 – and we doubt vaccine can do it, quantities are not sufficient. 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'~~ 163 per day – and no of deaths will soon approach ~~1,500~~ 2,000 per day, like at the peak in April. And if the no of new cases NOT flattens NOW, even more pain to come…

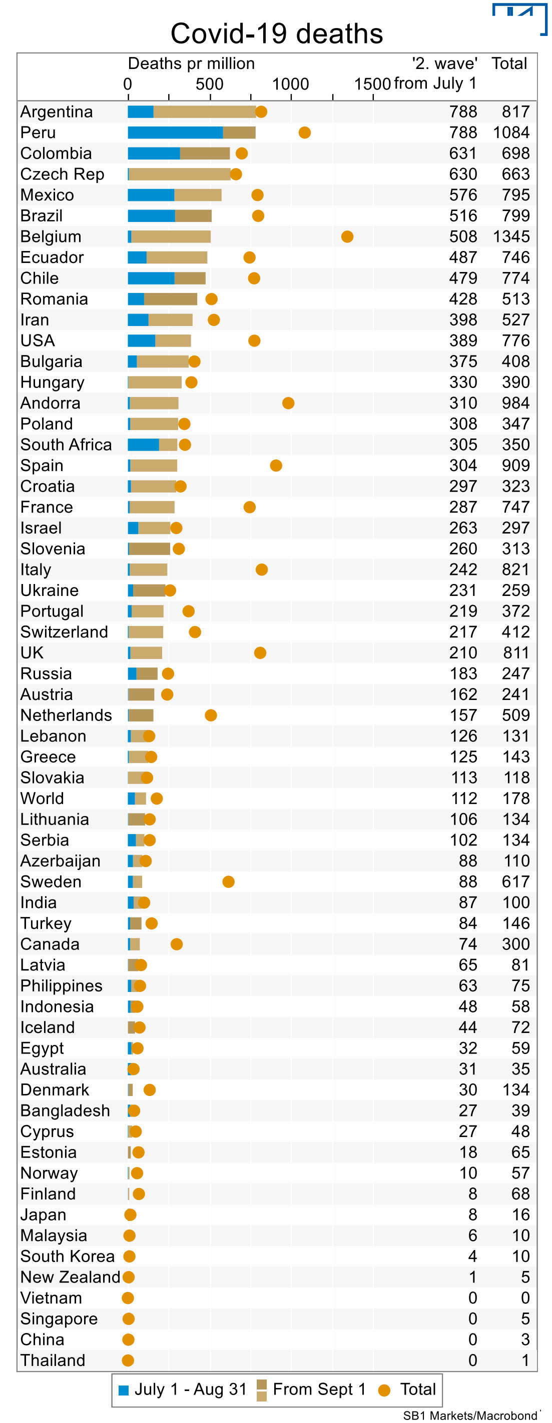
The bottom line: The deaths

Deaths in Czech Rep, Belgium & Spains are falling rapidly!



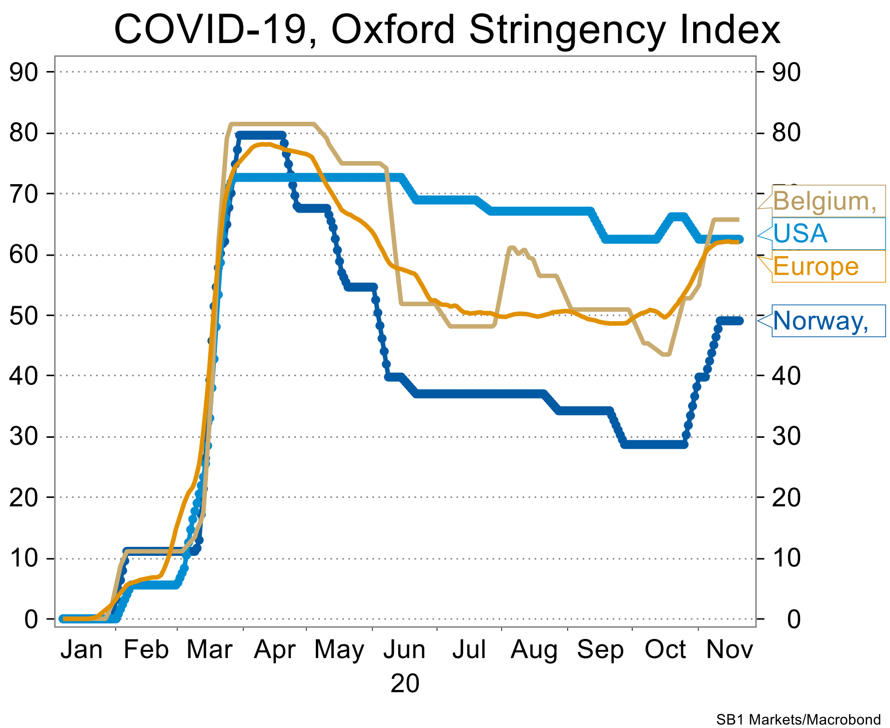
The herd immunity model does not seem to be easy achievable. If the virus is allowed to spread with just light restrictions, the number of infected will rapidly rise to levels that is not manageable for the health system – and the economy will not cope either. Like in the Czech Rep now

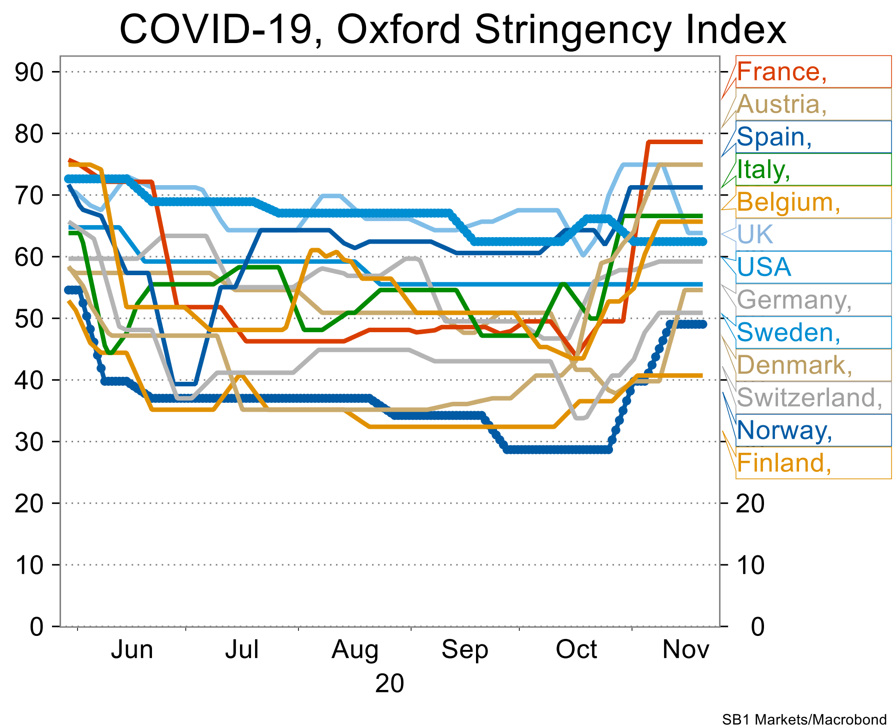
- The peak in deaths the two in 'the lead countries' came 1-2 weeks earlier than we assumed but the downturn follows a substantial decline in new cases. In Belgium the no of hospital admissions has peaked too
- The Czech Rep, Belgium & the US in the lead among rich countries during the 2nd wave, and 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 number of deaths since 1 July)



Restrictions work, new cases are falling in Europe, after some 2 weeks of tight.

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

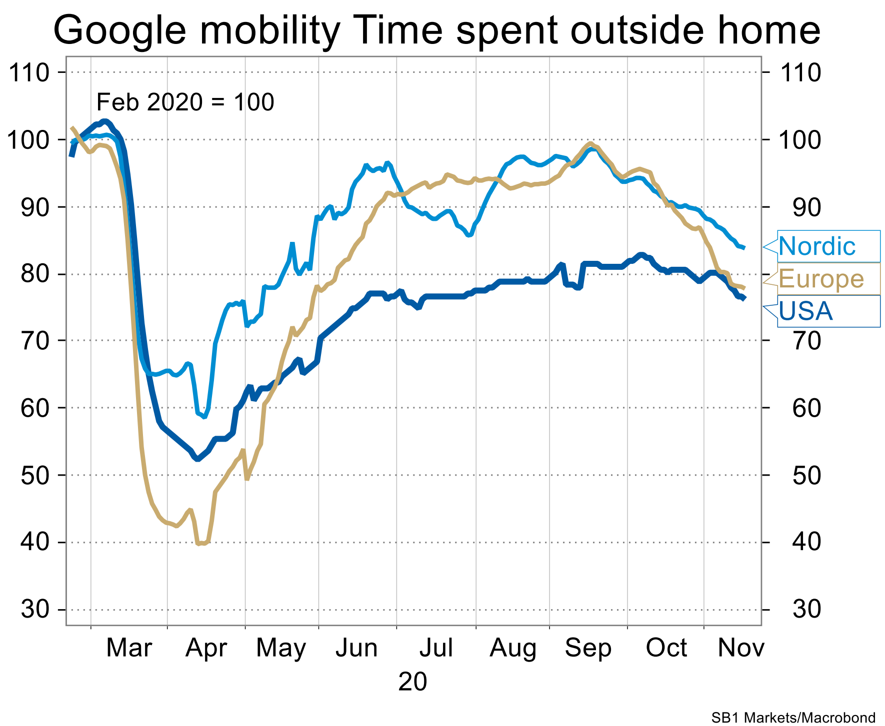


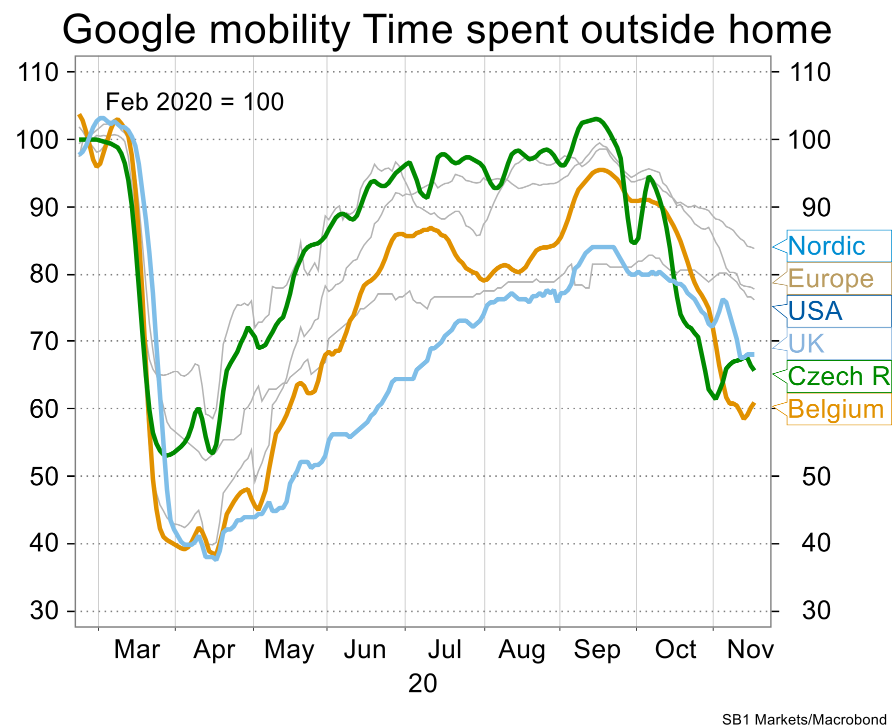


- We are not sure Oxford's stringency indices are correct all the time but the broad picture may still be relevant

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'

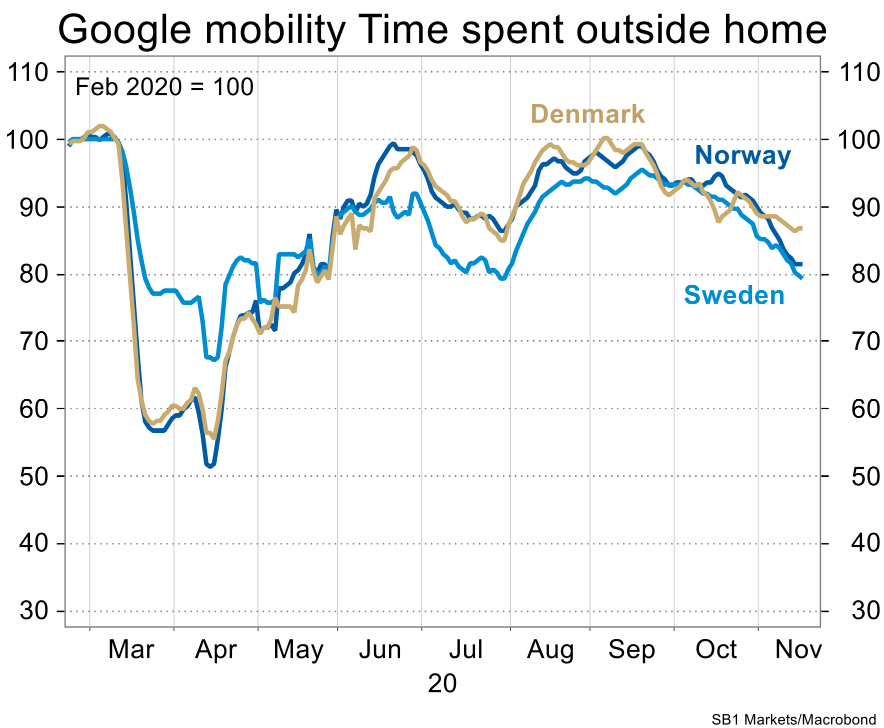


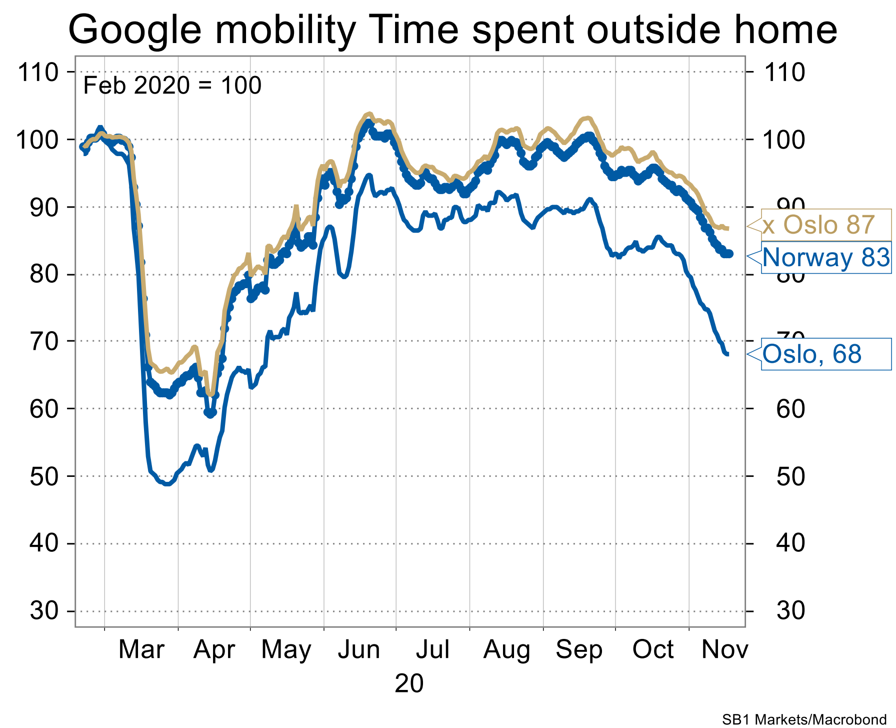


- Mobility (here measured by sum time spent outside home) has fallen sharply in Belgium and even more the Czech Rep – and the no of new Covid cases has fallen in both countries. In UK, the mobility has declined too – and the Covid curve has flattened
- Others will follow suit

Quite similar trends among the Nordics – and within Norway

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

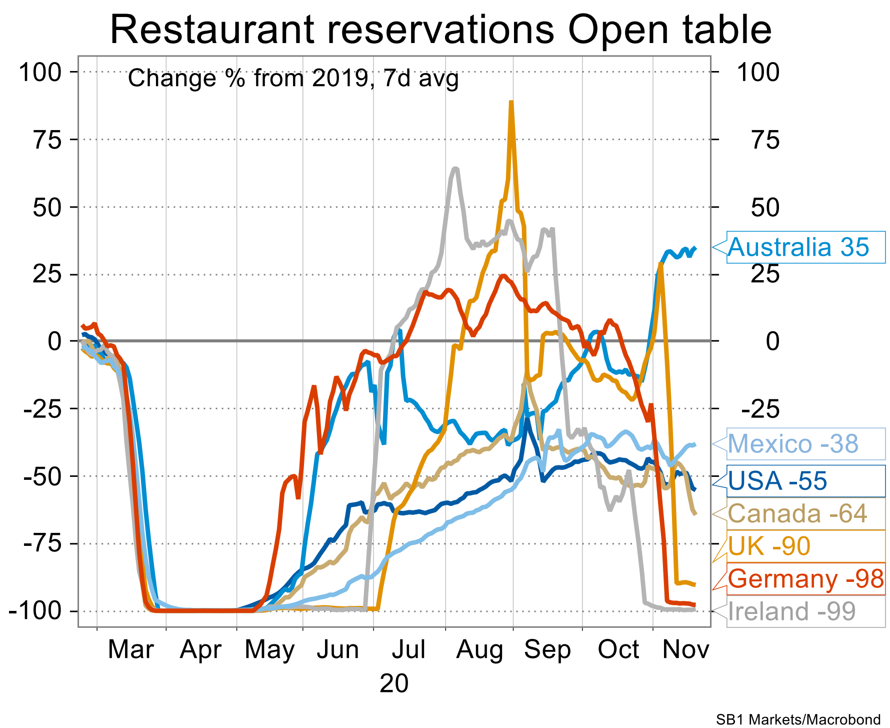


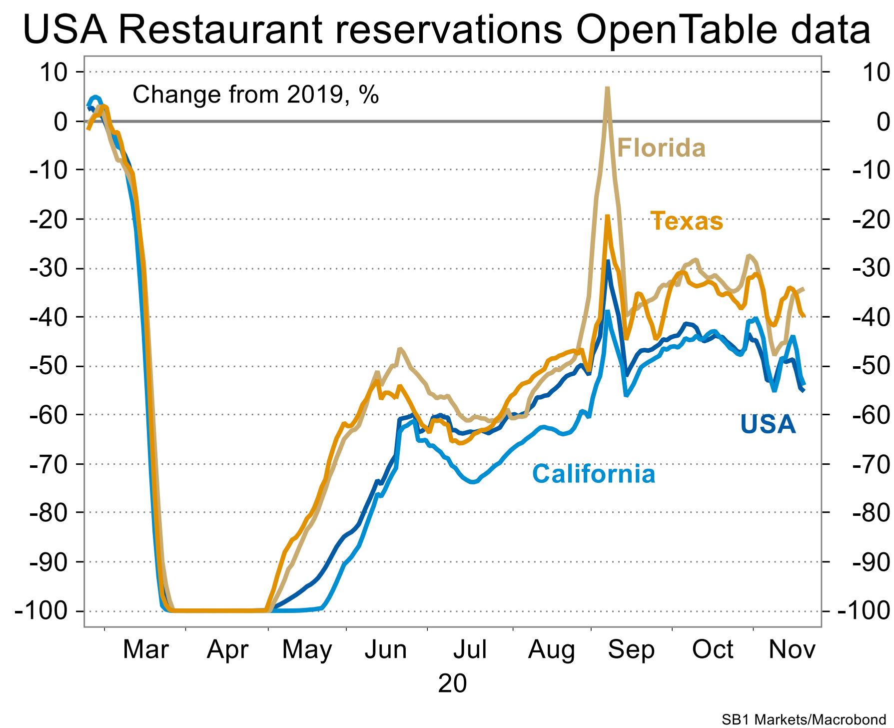


SpareBank 1 MARKETS

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)

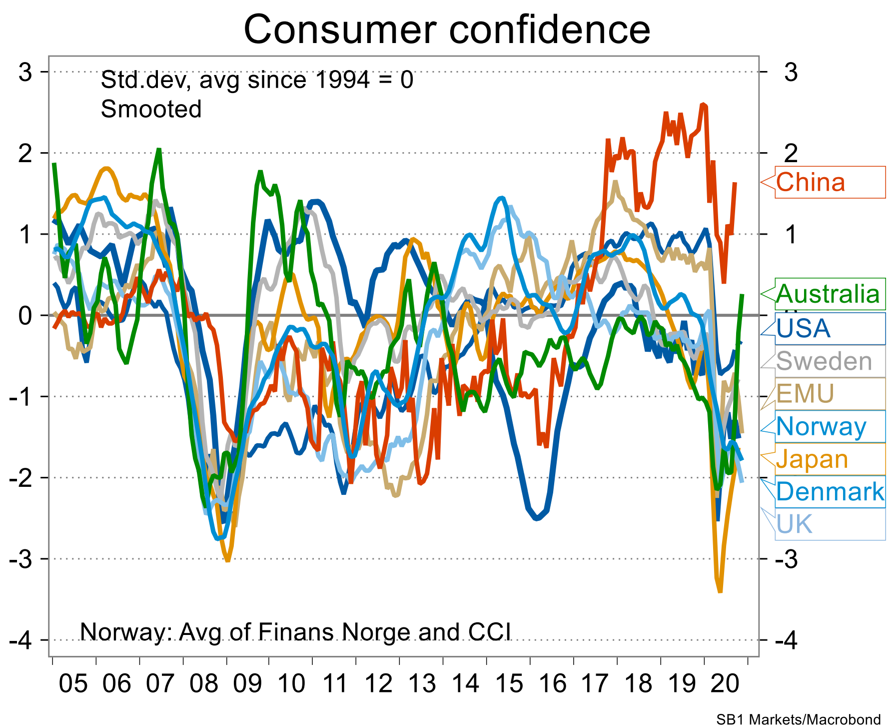


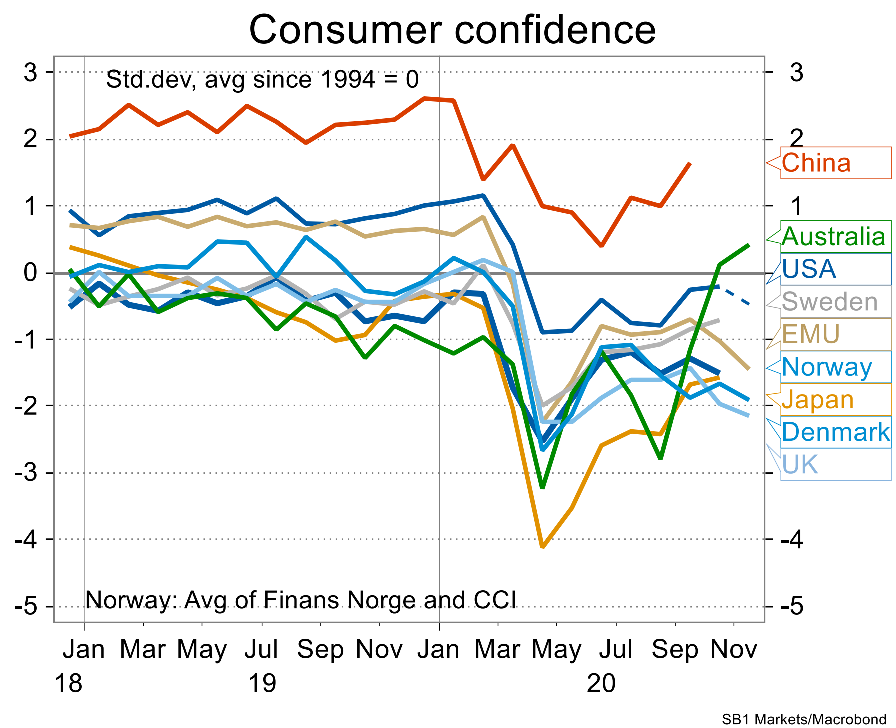


- US is closing slowly down too, now down 55% - both due to public regulations but also people fearing the virus

Consumer confidence down again in Europe, US

Better in China – and Australia

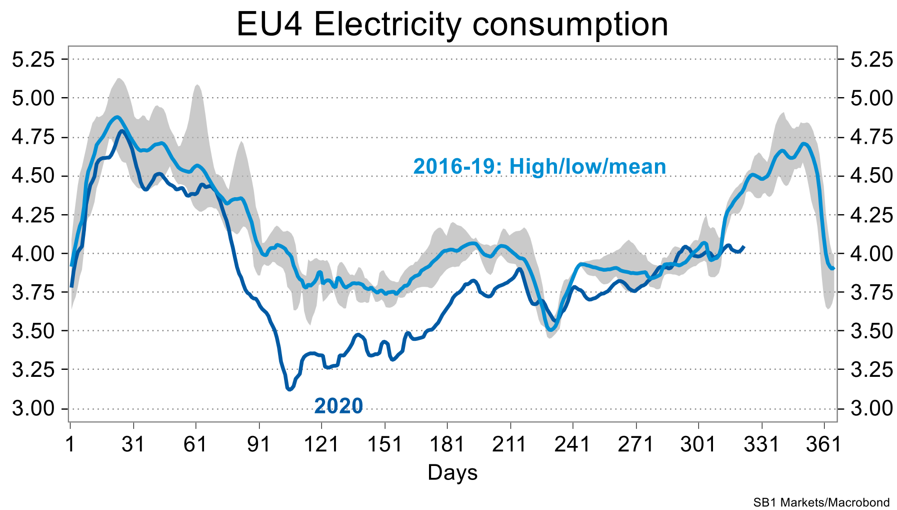


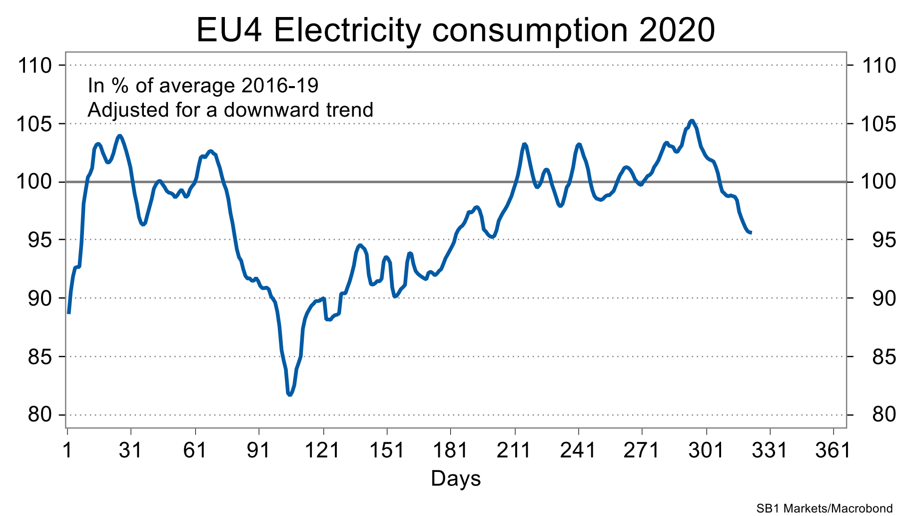


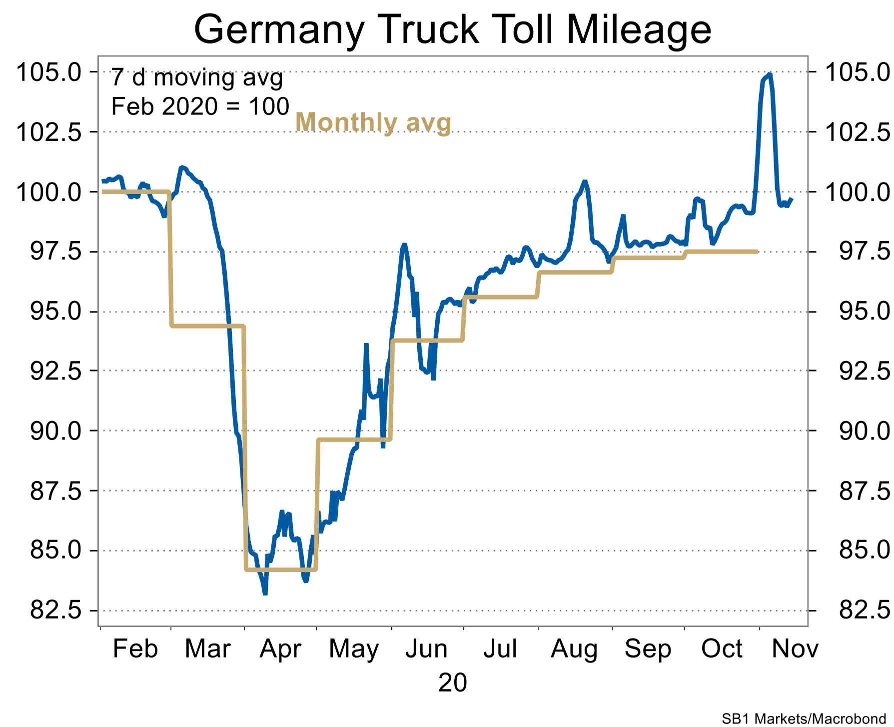
- Are there any common factors among the 'down countries'?

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



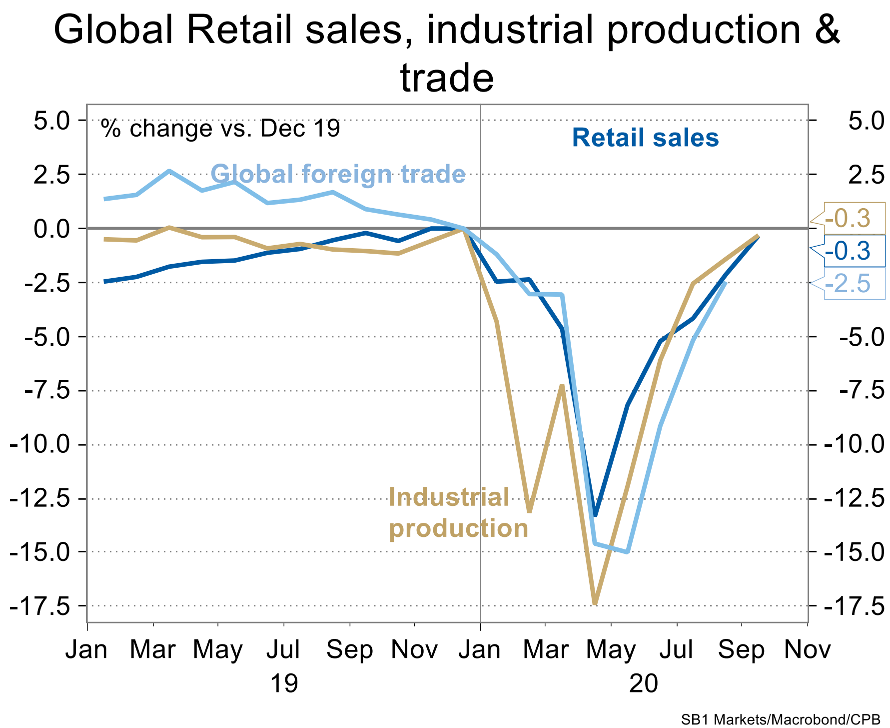


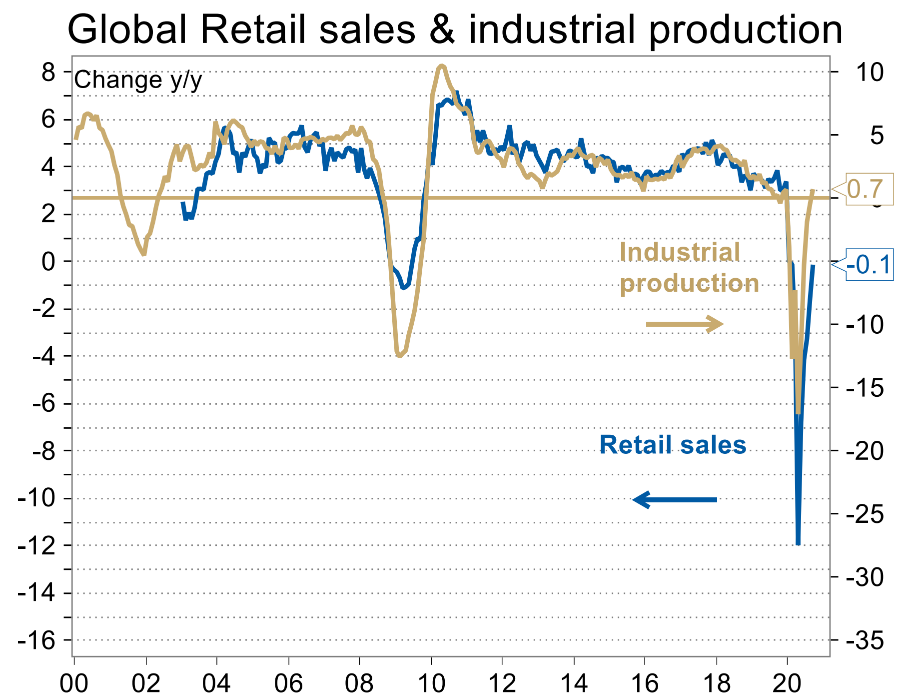


SpareBank 1 MARKETS

Industrial prod, retail sales & global trade up, gaps closed in September

.. And October is likley even better



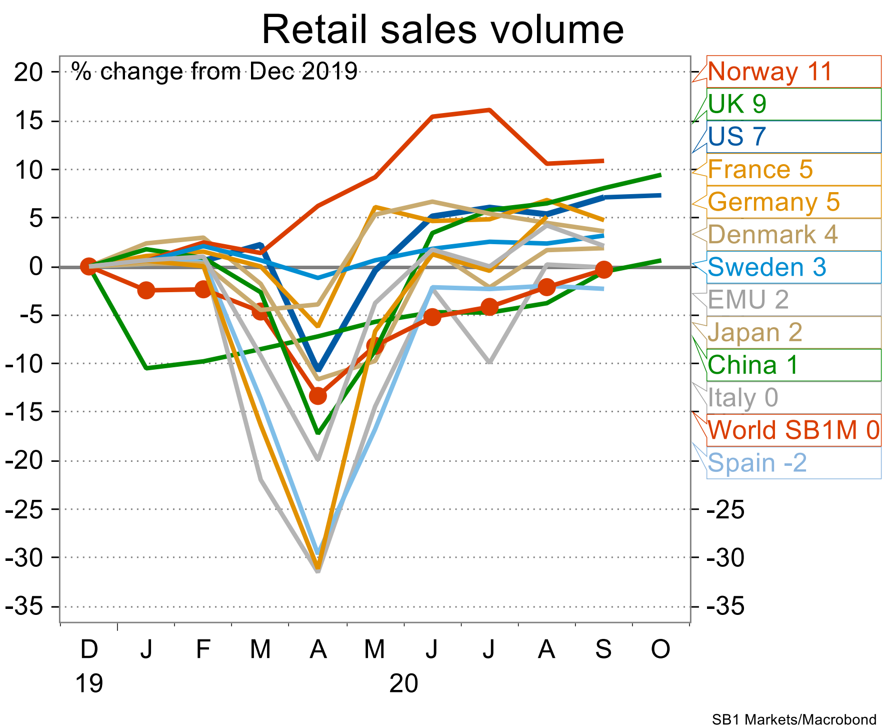


Memo: Keep in mind the different scales at the chart above

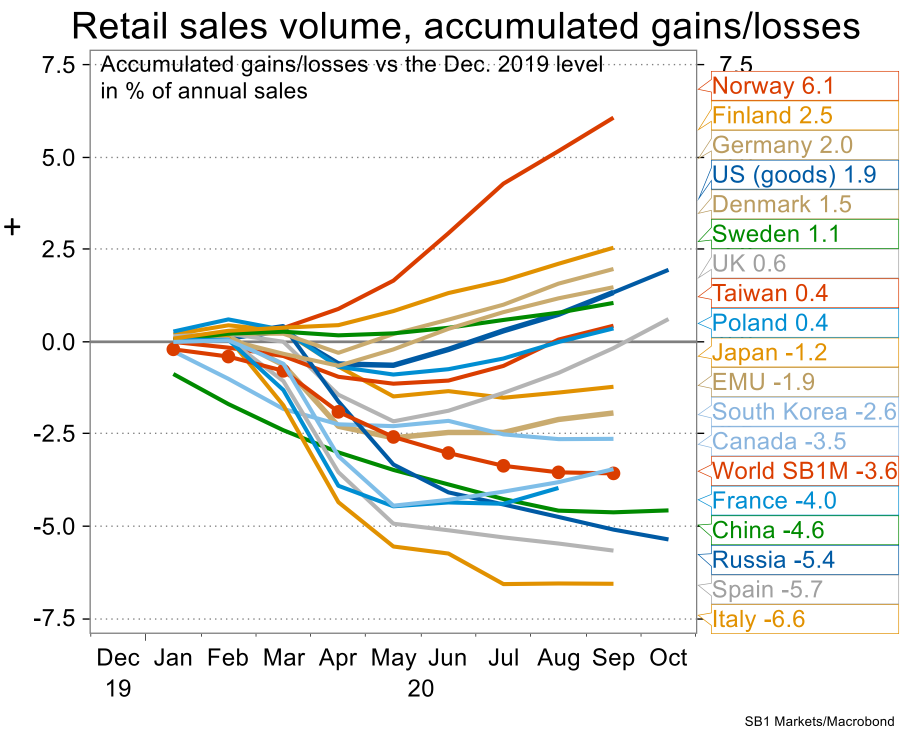
- Some countries have not yet reported but so far we estimete that both retail sales and industrial production was back to the February level in September
- Global foreign trade rose 1.8% in Aug after a 4.4% rise in June, and the level is just 2.5% below the pre corona level. We expect a further uptick 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'



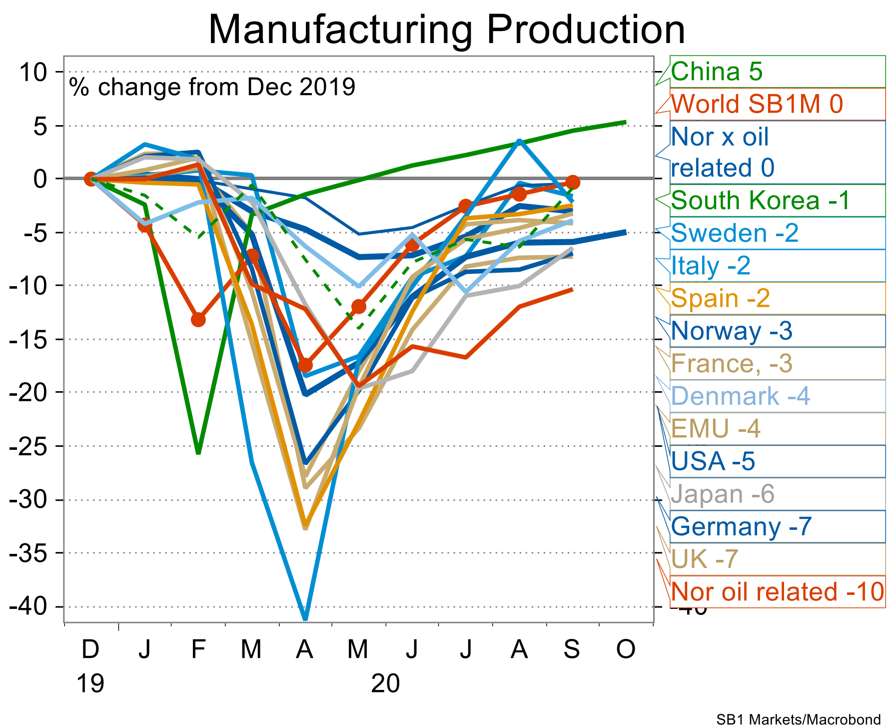
+

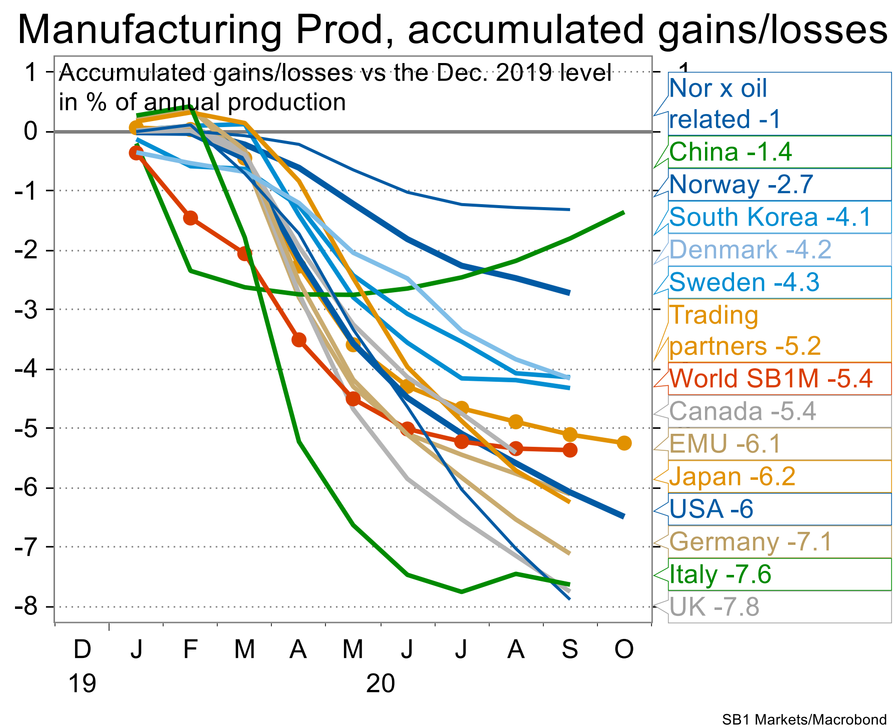


- Global retail sales were 1% below the Dec level in September. Most countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 7% above the pre corona 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
- <u>Consumption of services are not included</u> 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

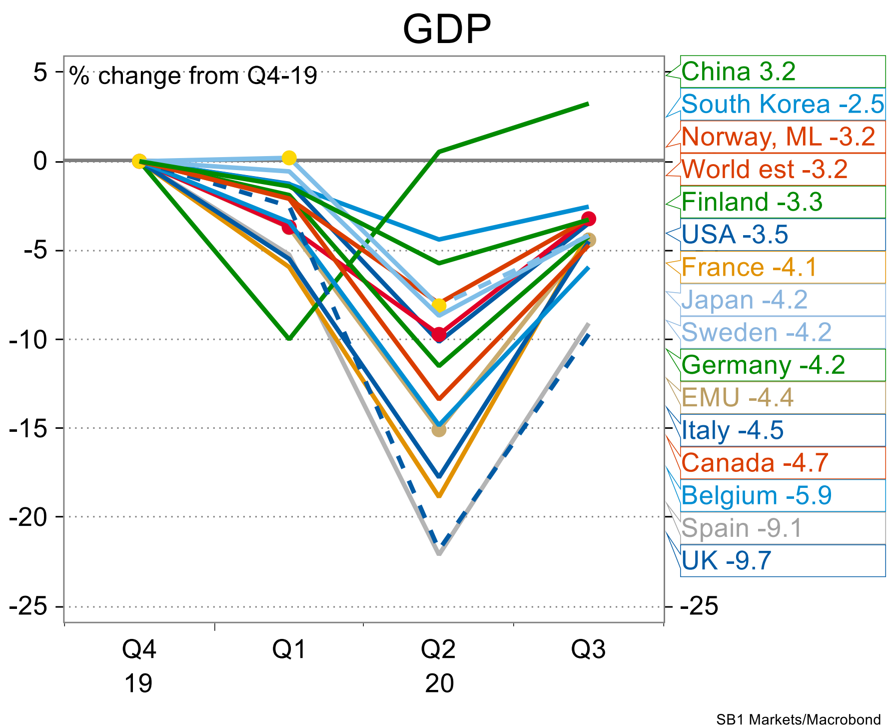




- Global manufacturing production was close to the Dec level in Sept, following an approx 1% lift - even if most developed markets are below the pre corona level
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 5 % below the pre corona level in October. Total production during the first 10 months of 2020 was 6% below the pre corona level, measured in % of annual production. *This illustrates the loss of production during the corona crisis, so far - and the final outcome will be significantly higher*
- Service sector production is not included in these retail sales data – and service consumption(=production) is still way below a normal level

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%

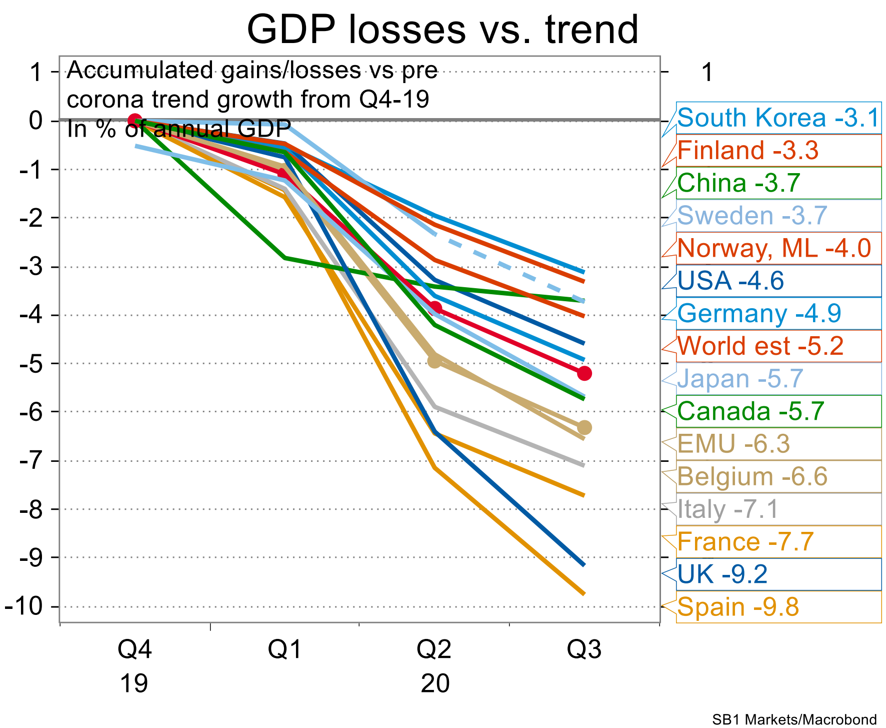


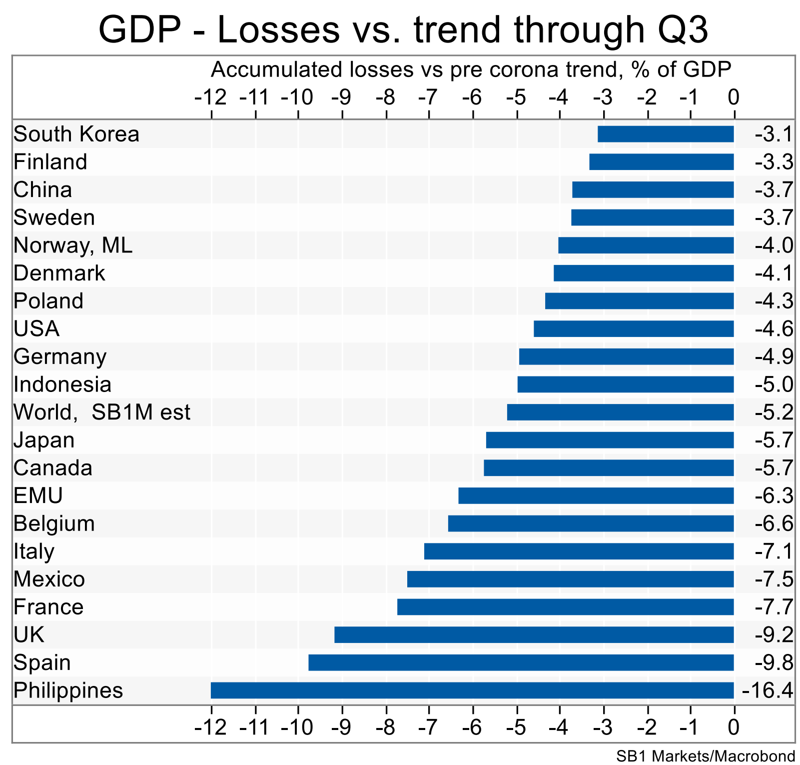
- Given our estimate, global GDP was less than 3% below the Q4-19 level in Q3
  - May countries have not yet reported. EM countries may disappoint us, like India
- Some observations – Q3 vs Q4-20:
  - China 3.2% above Q4
  - USA -3.5%
  - Norway -3.2%
  - Japan is down 3.9% (but 6% vs Q3 19, before the 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

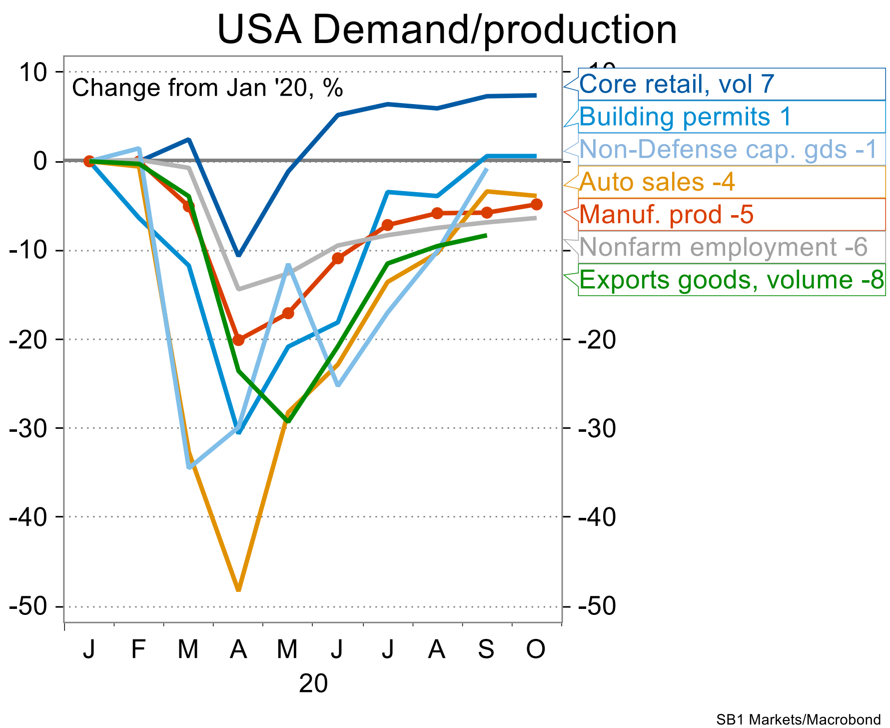
… and even if GDP has recovered in China, the drag is still 3.6% (vs the trend growth path)





The recovery continued in November but at a slower pace

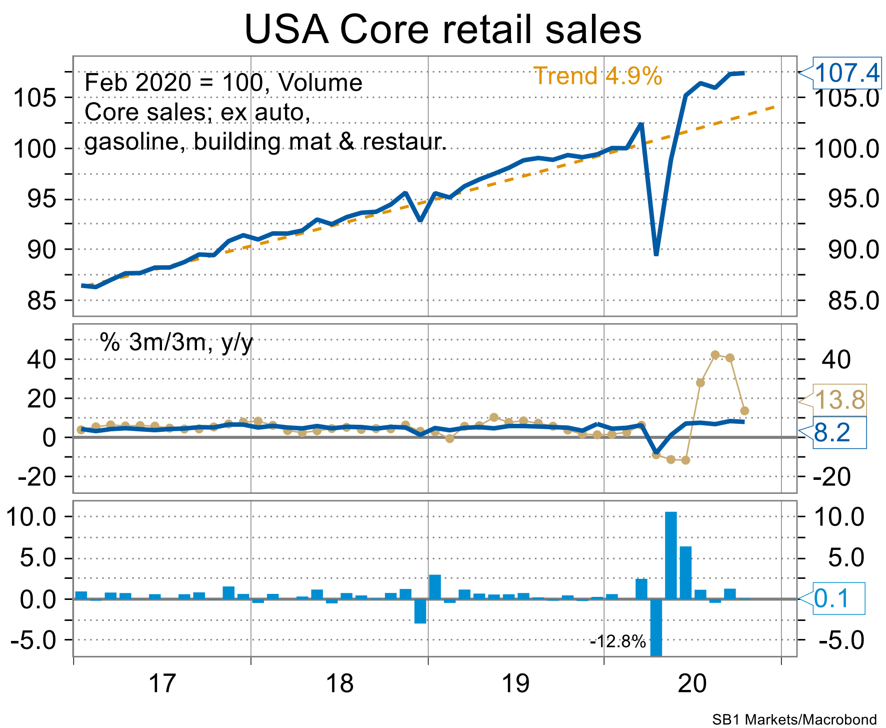
Growth is slowing into Q4, as the re-opening has stalled (and is reversed many places)

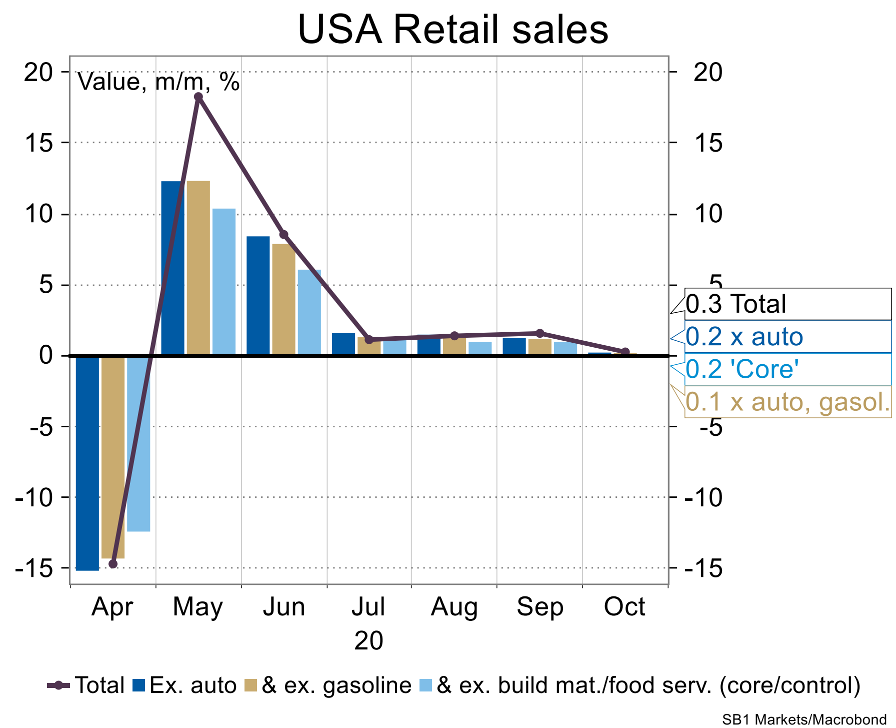


SpareBank 1 MARKETS

Retail sales weaker than expected in October, Sept revised down, still very strong

The 2nd/3rd corona wave may explain the slowdown – but so could the 7.4% above Feb. level!!



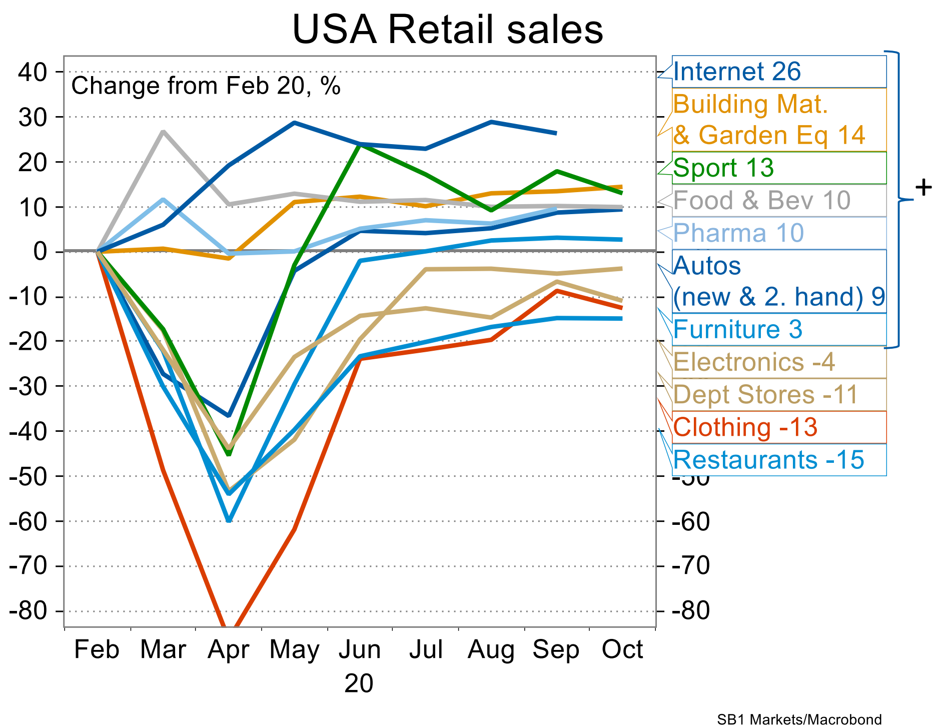


- Total nominal sales rose by 0.3%, expected up 0.5%, and Sept was revised down by 0.7 pp to 1.2%
- Core sales (=control group) inched up 0.2%, 0.3 pp less than expected, we assume 0.2% in volume terms too. Sept was revised down by 0.6 pp to 0.9%. Core sales are 7.5% above the pre corona level in volume terms, and are up 8% y/y – and far well above any trend path too, of course
- Check detail next page, still huge discrepencies

SpareBank 1 MARKETS

Still huge differences between sectors: Restaurants -15%, building mat/garden +14

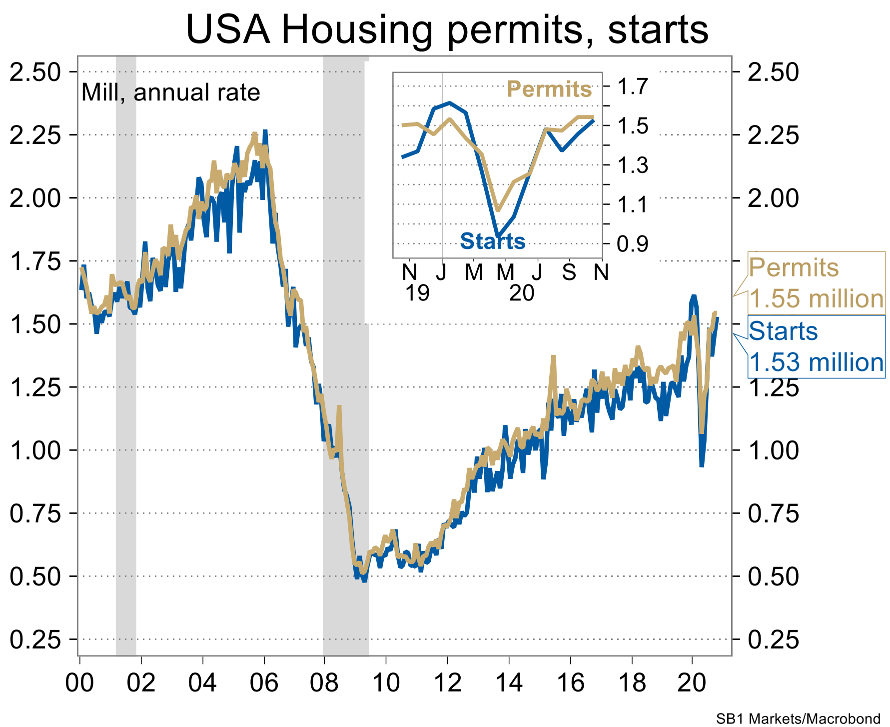
Food & beverages +10%! Sports +13% Clothing -13%. Our spending habits have changed (for a while)

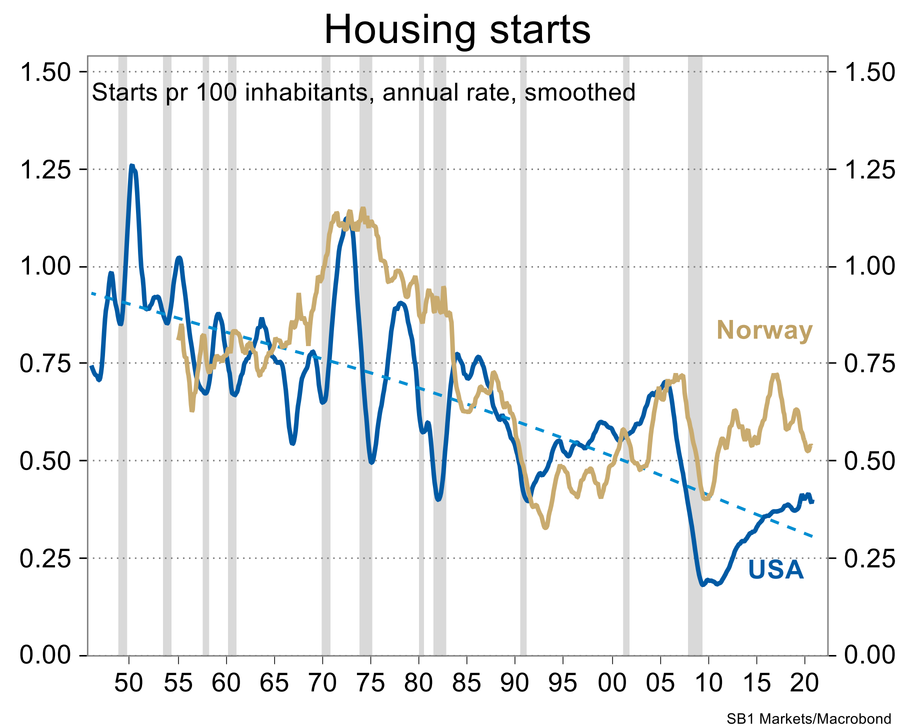


- Americans – as all others – are buying more food in shops and less at restaurants
- Clothing is probably down due to more time spent at home, less outside
- Gyms are partly closed, more sport equipment is bought
- But why are electronics still so weak?

Housing building permits the highest in 13 years in October

Housing starts up too, confirming a very strong housing market



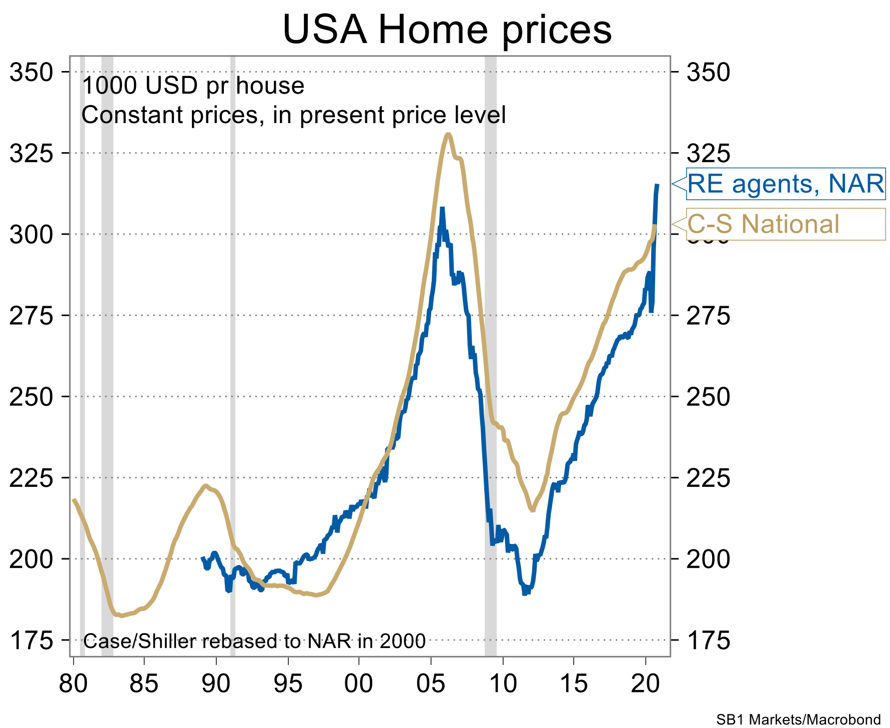


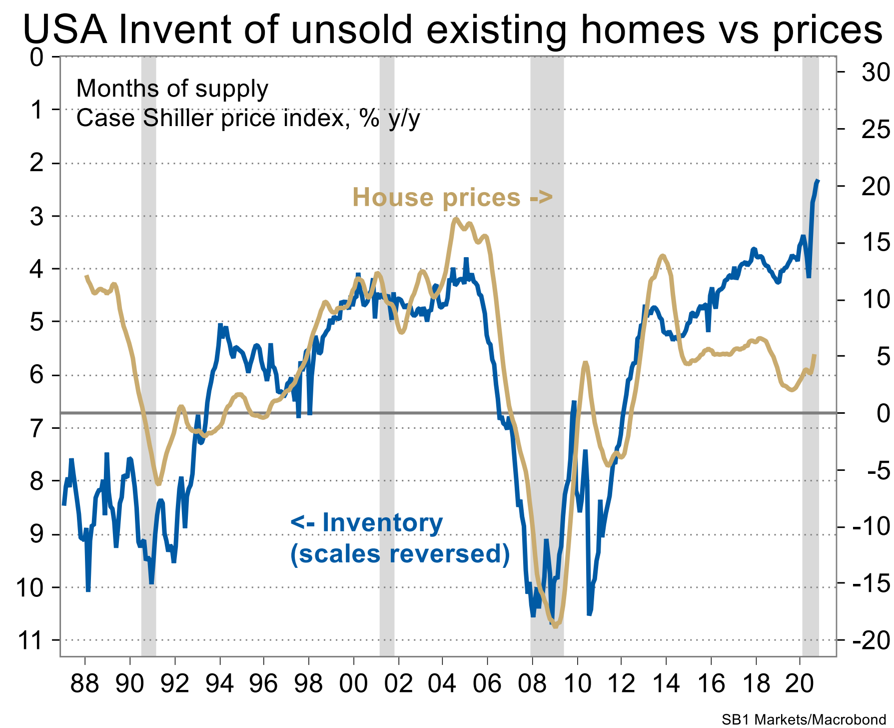
- Permits and starts are up 40 – 60% from the April trough – and are back to well above a ‘normal’ level.
  - » Starts are slightly below the local peak at the end of 2019 but far above the 2019 average – and barring the Dec 19 – Feb 20 local spike, the highest since 2007.
  - » Permits were at the highest level since early 2007
- Housing starts are at a quite low level per capita vs. history, like in all other rich countries, as the ‘country is built’, at least in many cities – and starts have been trending downwards in most countries
  - » However, not in Norway the past 30 years

SpareBank 1 MARKETS

The inventory of unsold existing homes has collapsed – to a record low level

Where are prices then heading?? According to the realtors, prices are up 15% since May & y/y!!

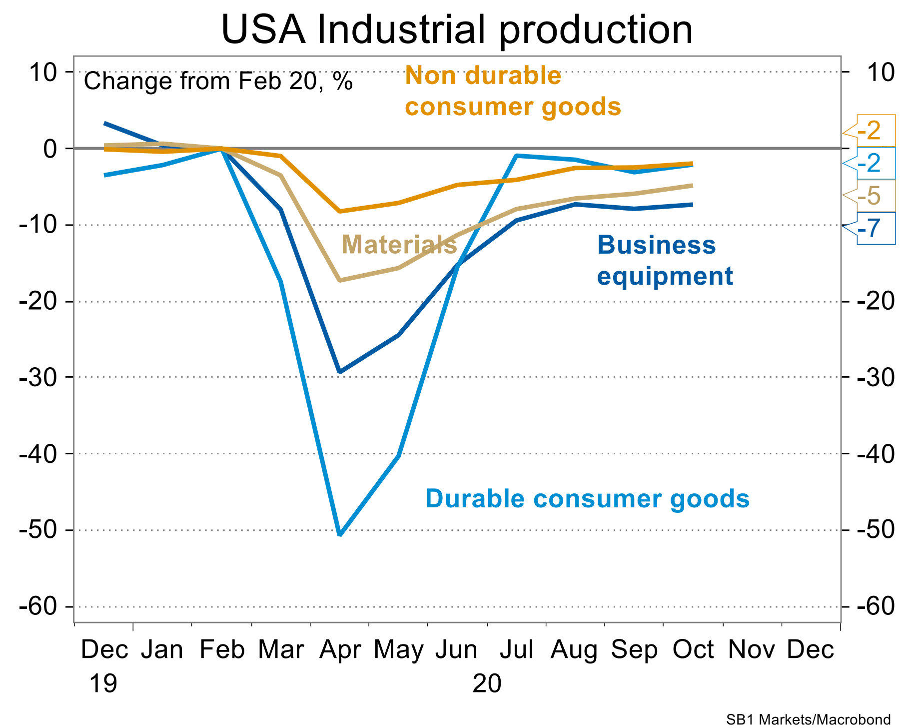




- Check next page for more on home prices

Manufacturing up 1% in October, still 4.8% below February

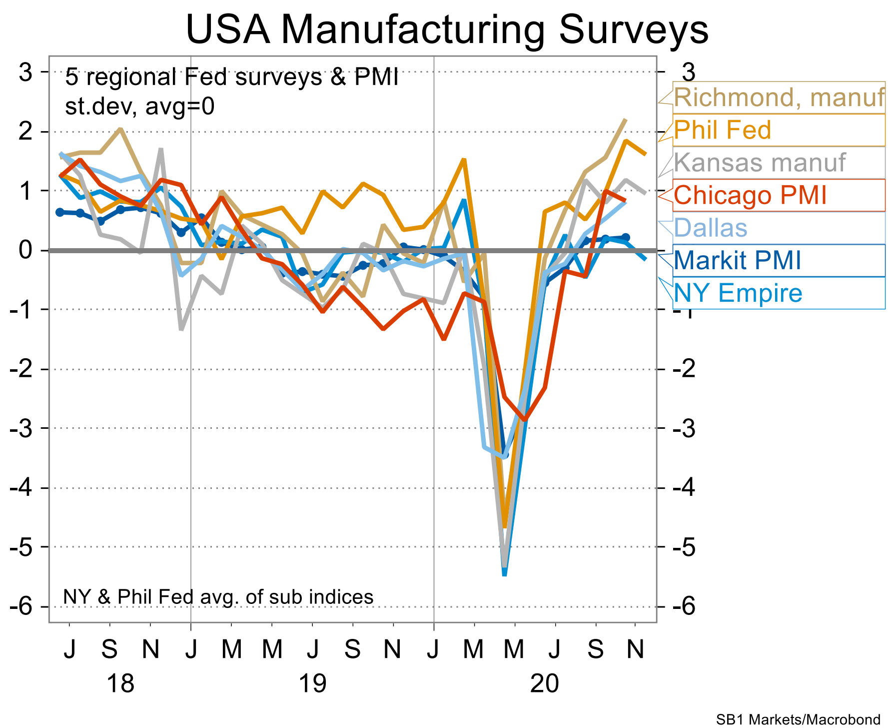
The lift was as expected, and all main sectors contributed

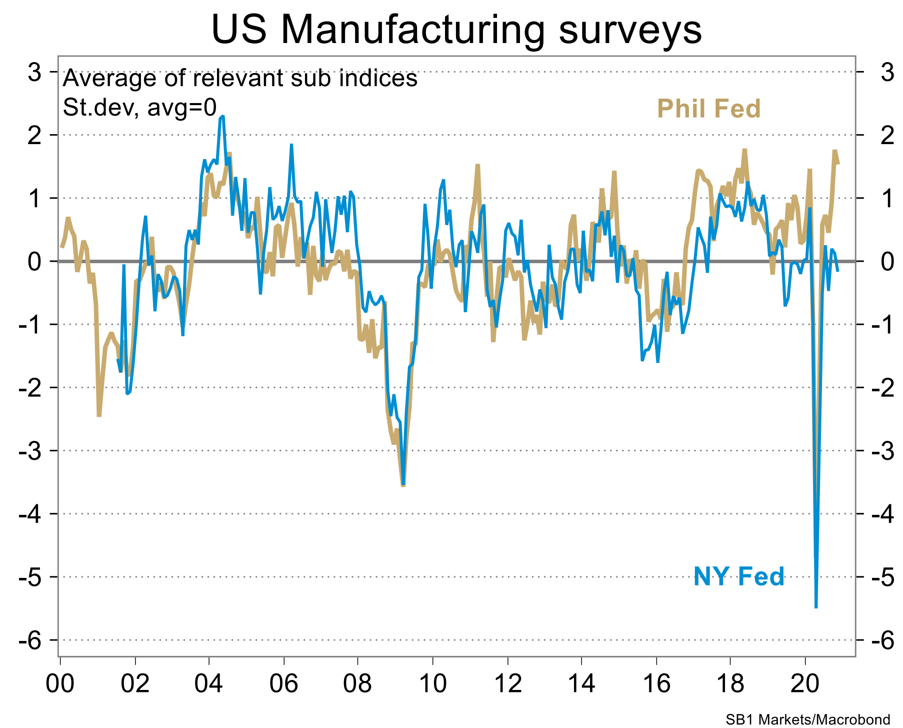


- September was revised to zero, from -0.3%
- Total industrial production, including utilities, mines/oil production, also climbed 1.0% in October, as expected
- PMI/ISM and other surveys signal a recovery, but not at a brisk pace, given the continued low production level

Phil Fed survey, NY & Kansas all down in November, but the levels still strong

Taken together, on the strong side: The 3 surveys still signal a strong manufacturing momentum

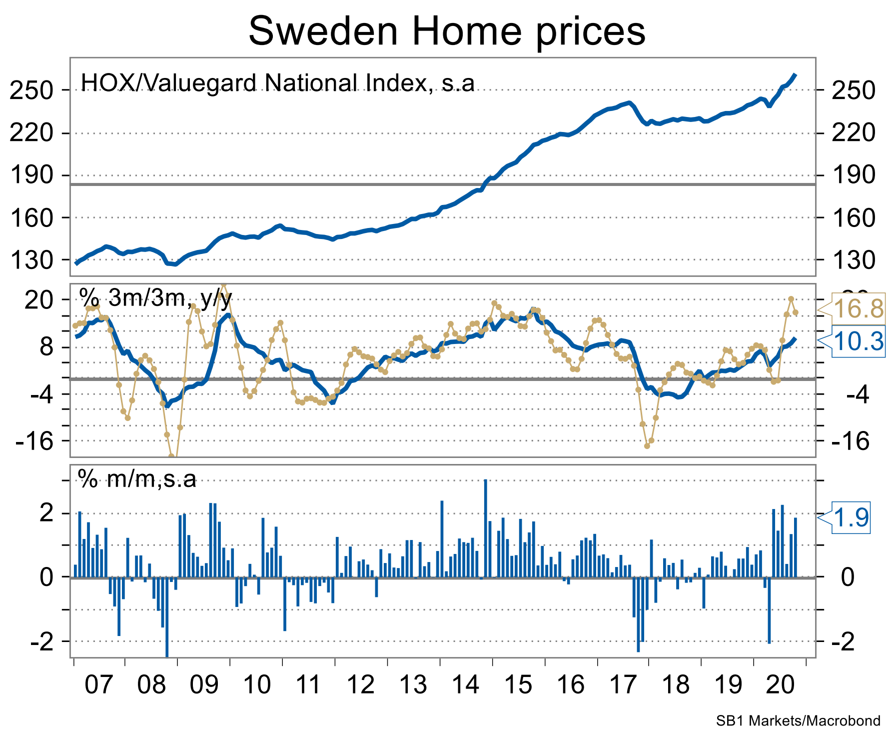


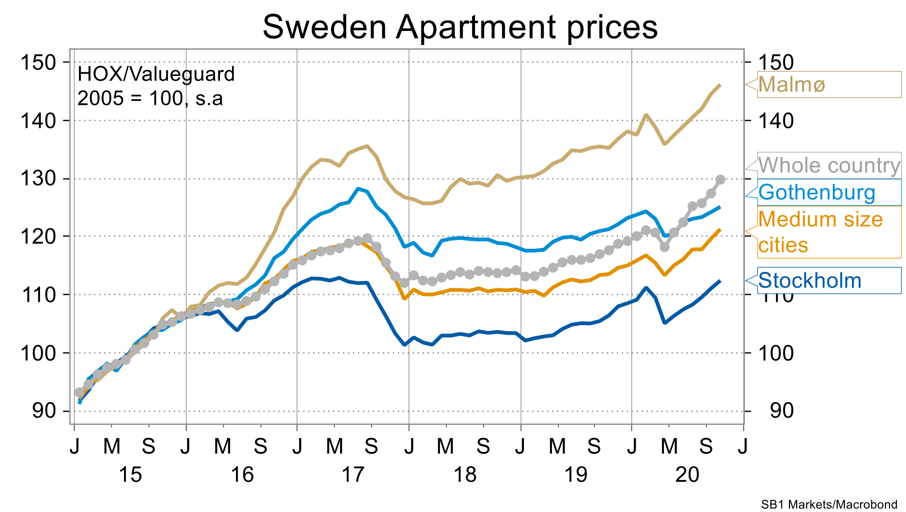


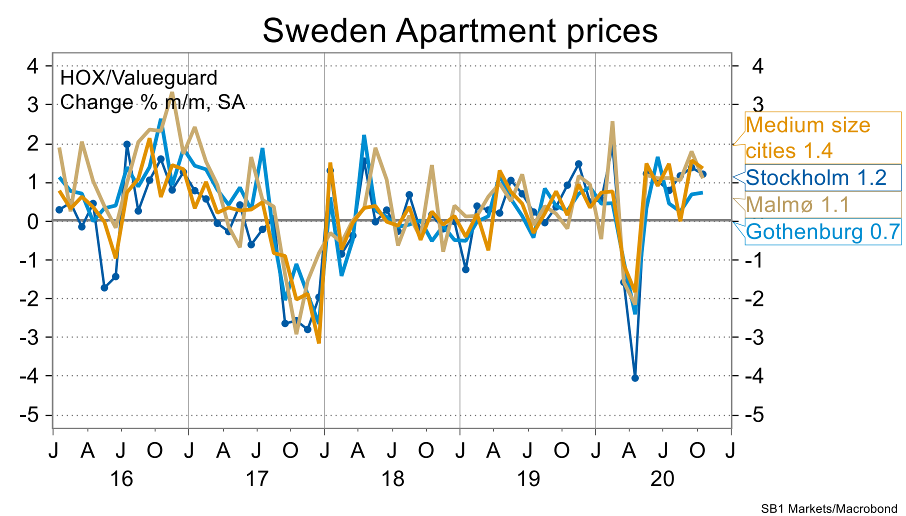
- Philadelphia Fed's survey rose sharply in October, with the 2nd highest order index ever (data from 1968) – and the index fell 3 p to 36 in November (Oct was revised down by
- NY Fed's manufacturing survey fell to 10.5 in October from 17 (expected down to 12)
- The gap between these two surveys is remarkable. The Phil Fed survey is slightly better in forecasting the manufacturing ISM. Our model says + 2 p to almost 58!

Swedish house prices are surging too, up 10% y/y

National prices up 1.9% m/m in Oct, prices are 7% higher than before corona



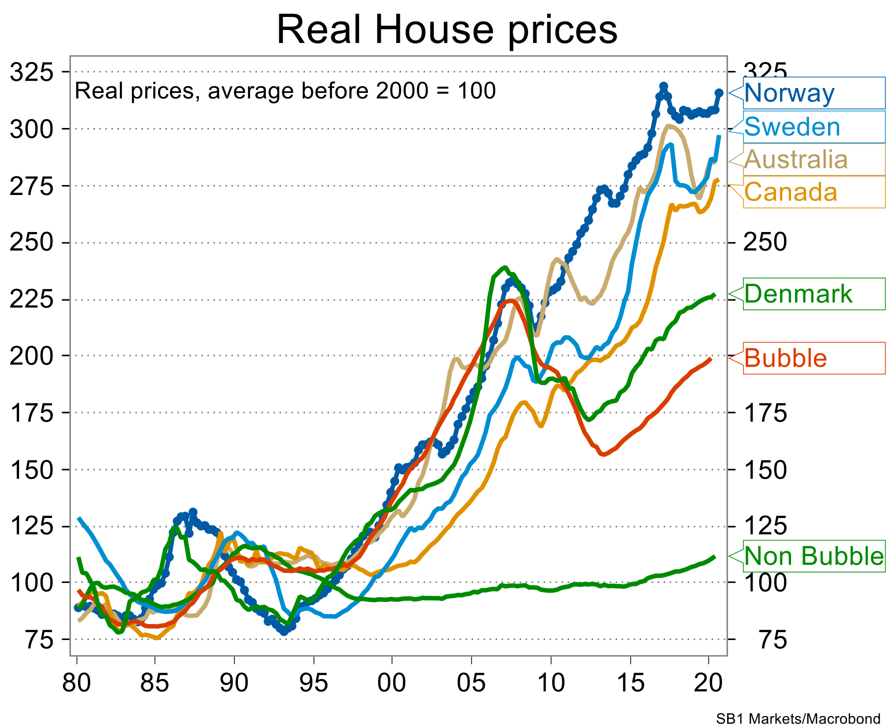


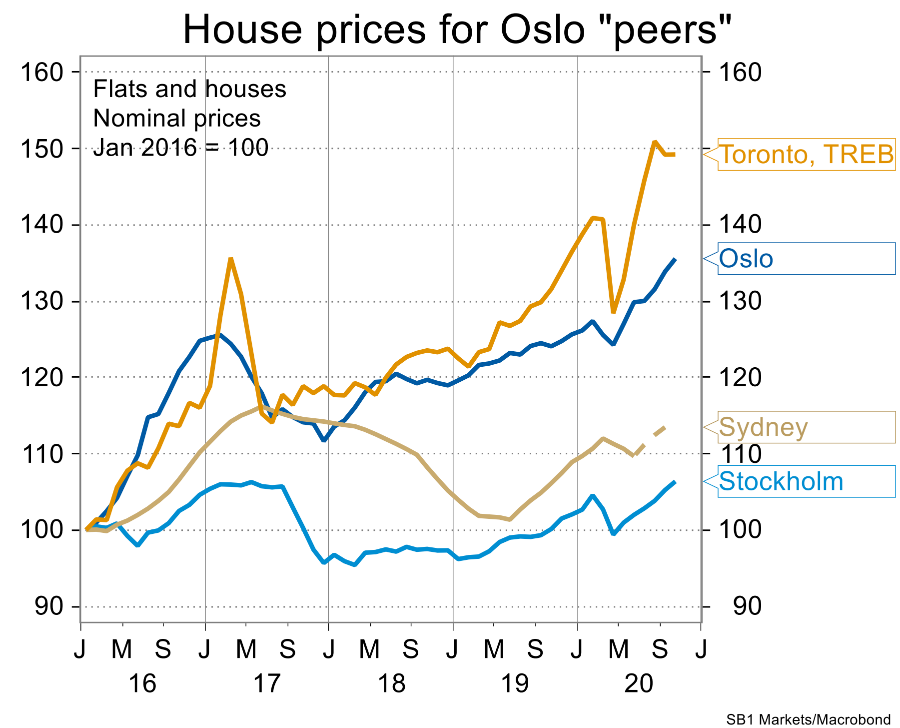


- Underlying price growth is now 15 – 20%, even higher than in Norway
- Prices are now increasing in all the major cities – and finally both Stockholm and Gothenburg prices are above the February level, after being lagging sharply recent months

Here we go again…

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

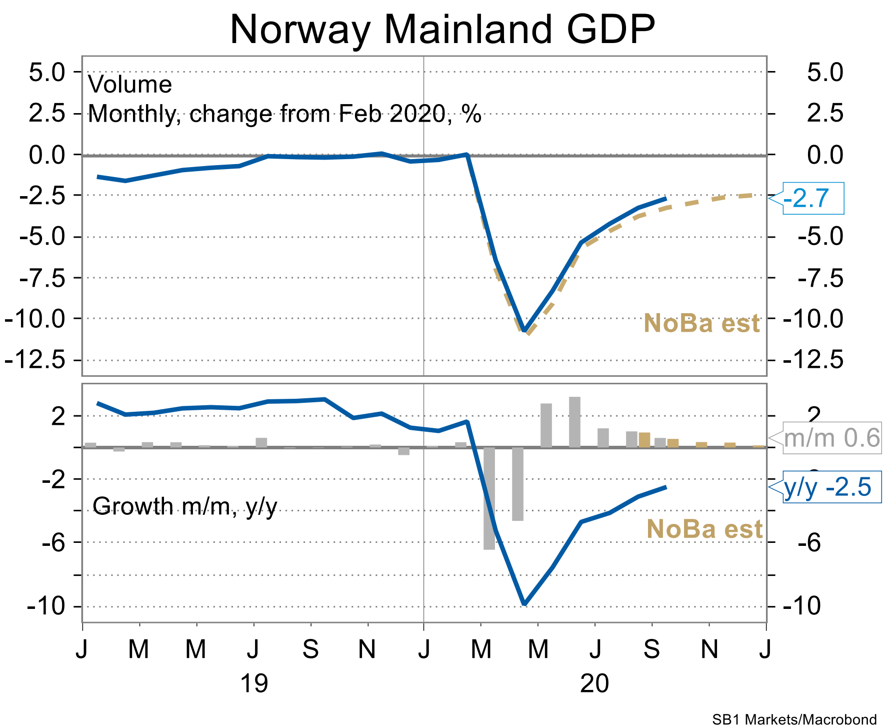




- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden

GDP growth as expected in Sept/Q3, Norwegians' domestic spending keeps up

Mainland GDP rose 0.6% in Sept, -5.2% in Q3. Sept down 2.7% vs. Feb, we expect. -3.3%



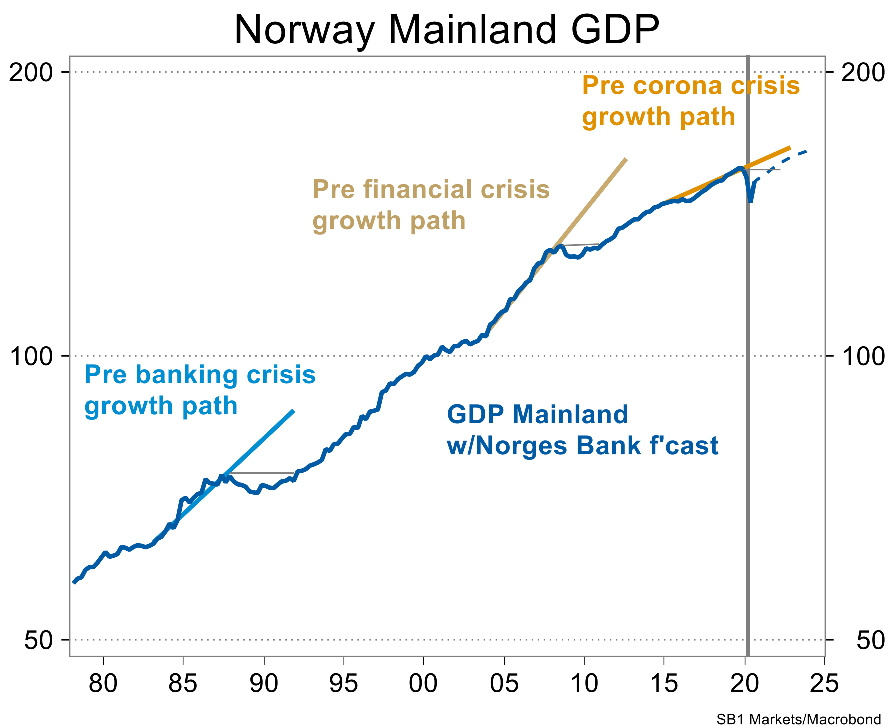
- <u>The outlook: When less corona pains, more economic gains</u>
  - » Goods consumption is not too high but will remain higher than normal until we can spend more on services or abroad
  - » Foreigners' spending in Norway will not recover before the corona virus is beaten down, <u>abroad and in Norway</u>. No quick fix, even if vaccines are under way
  - » Other parts of service sector production will recover as soon as the virus is brought under reasonable control <u>in Norway</u>
  - » Both Mainland business and oil investments are heading down
  - » Exports should be kept up, as long as the global economy not tanks

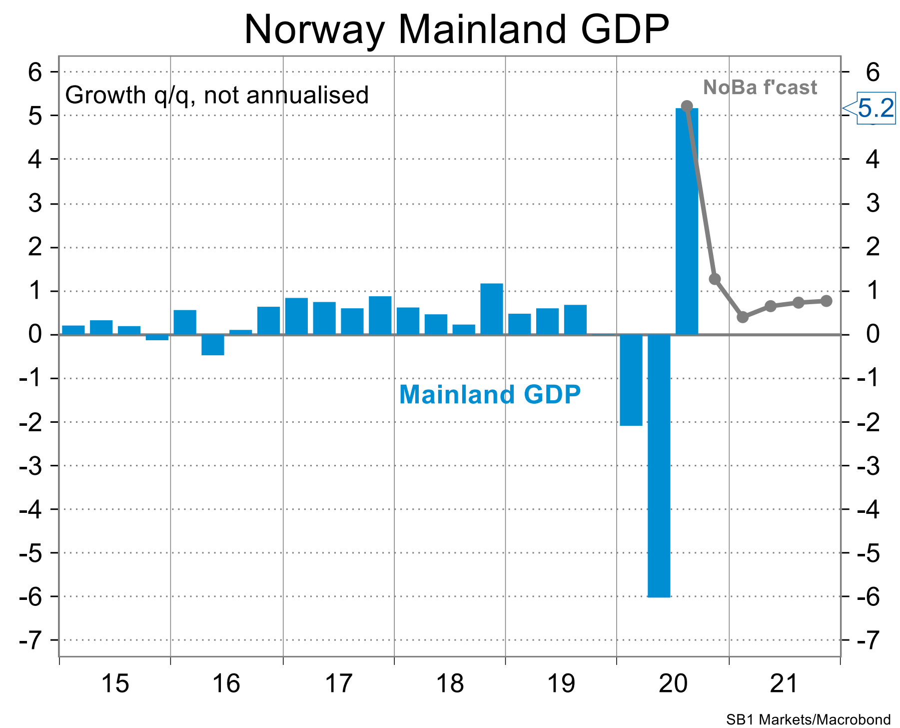
- The recovery continues but growth is gradually slowing. Mainland GDP is 2.7% below the February level, and some 4% vs a 'normal growth path from February (however, GDP had flattened before the virus hit, no growth through H2-19)
  - » **Demand:** Norwegians' spending at home is marginally above the Feb level, as is Government demand. Mainland businesses investm. are unch. vs Feb. Oil investments are declining. Exports x tourism are almost back to the Feb level. Foreigners' spending is subtracting 1.5% from GDP vs. Feb, half of the decline!
  - » **Production:** Trade (retail+) is up vs. Feb, others are still down. Hotels & restaurants, transport, culture/entertainment and business services are at the bottom, down 18 – 25%!
- GDP grew by 0.6% in September, as expected
  - » **Demand:** Mainland business investments surprised on the upside, while both private and government consumption also rose. Inventories contributed on the downside.
  - » **Production:** No big changes m/m
- A marginal upward revision:
  - » The downturn from February was slightly milder than initially estimated, 10.8% vs. 11.2%. The recovery from May to August has been revised up by 0.2% at GDP grew a tad faster in August. Thus, the level in August was 0.6% higher than initially published, and 3.3% below the Feb level vs the previous estimate at 3.9%

SpareBank 1 MARKETS

Mainland GDP up 5.2% in Q3

The steepest quarterly increase ever, following the steepest decline ever – like everywhere

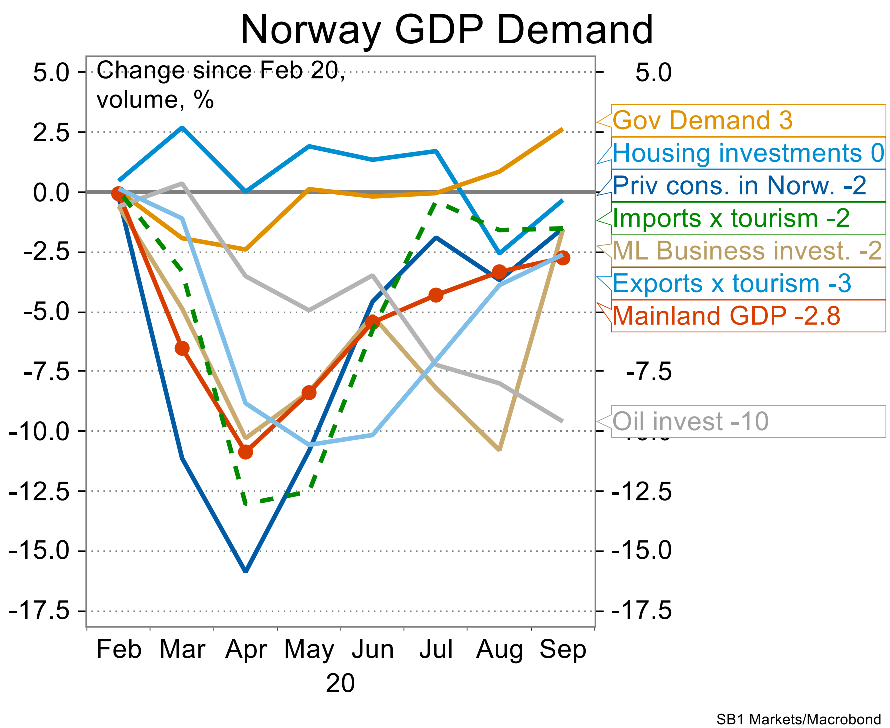


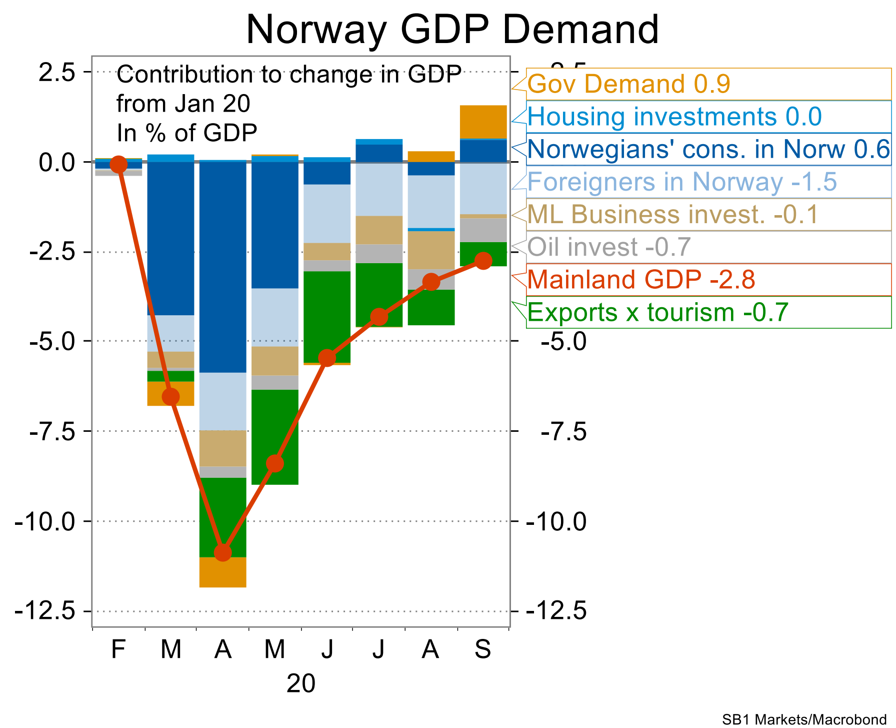


- If the economy recover as Norges Bank expected in September, aggregated losses of activity will not be disastrous, in total GDP. That is particularly the case vs. reasonable (and moderate) growth expectations ahead of the corona crisis compared to reasonable expectations ahead of the two previous Norwegian recessions (late 80'ies Norwegian banking crisis and the 2008-9 Global Financial Crisis).

A monthly view: Volatile – but the drag from foreigners' lack of spending is const.

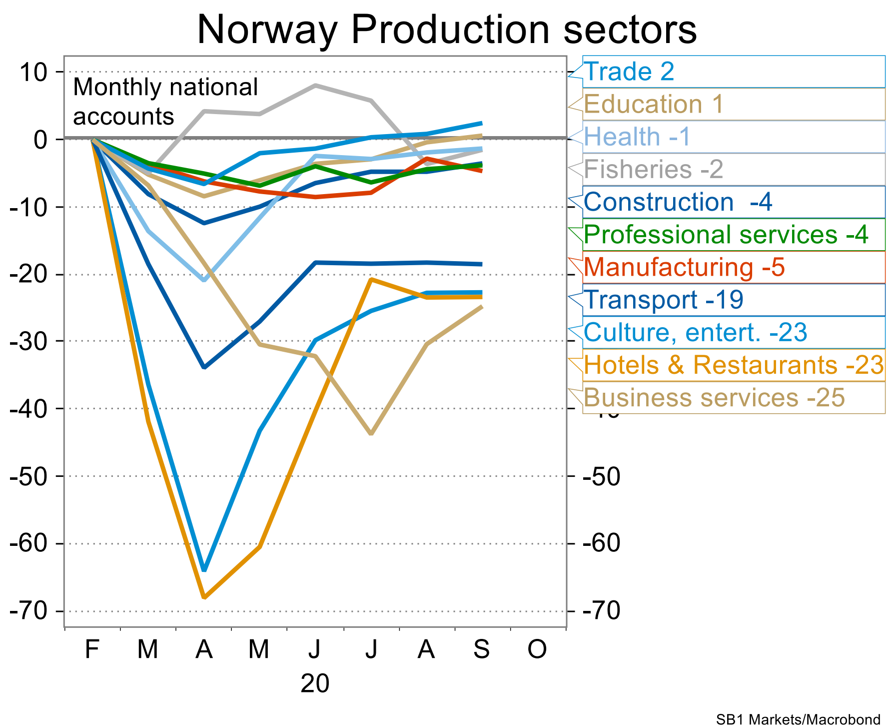
Exports x tourism are gradually recovering





The production side, more details: Peoples' businesses are still down 20 – 25%

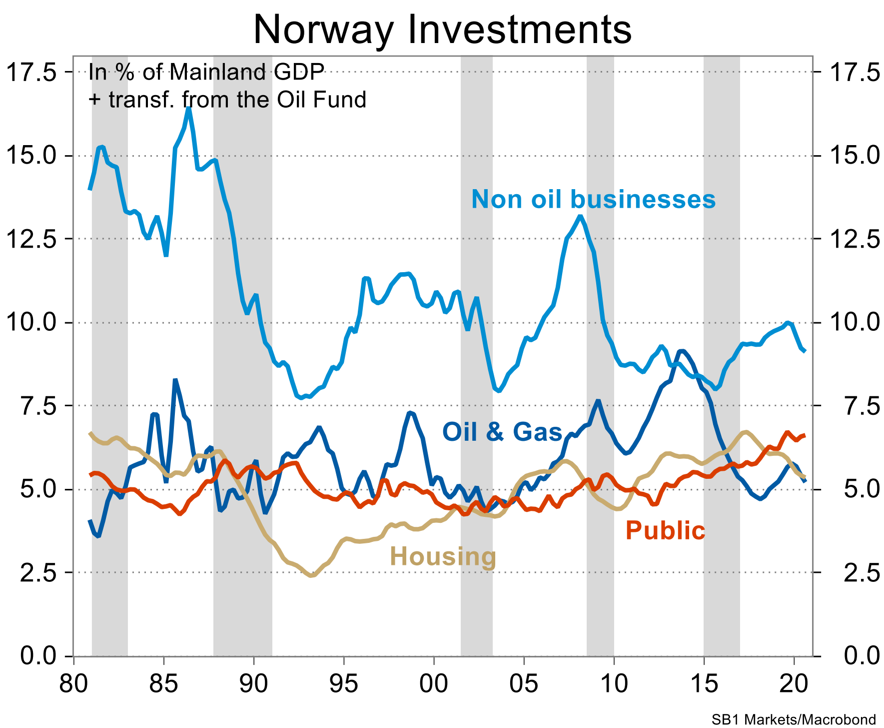
Transport (personal), culture & hotel/restaurants are struggling – and will until the virus is gone



- Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing

The investment cycles: A further slowdown the coming quarters?

Business investments, on and offshore, peaked in Q4-19 – and will continue downwards for a while

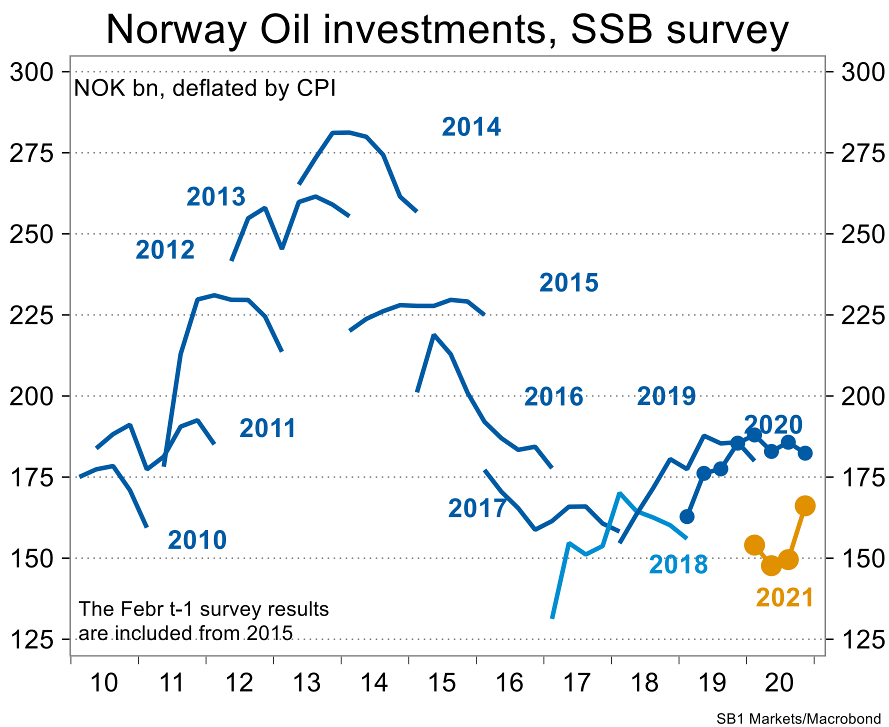


- **Oil investments** will probably decline through most of 2021
- **Mainland businesses** are not at high level but we expect most sectors to cut their investments the coming quarters
- **Government investments** are the highest in decades, vs GDP. Will come down long term, but limited downside short term
- **Housing investments** have been sliding down since 2017 but remains at a rather high level. However, given the recent strength in the 2nd market, and the increase in new home sales we do not expect housing investments to follow business investments down

SpareBank 1 MARKETS

A solid upward revision next year's oil investments, still sharply down

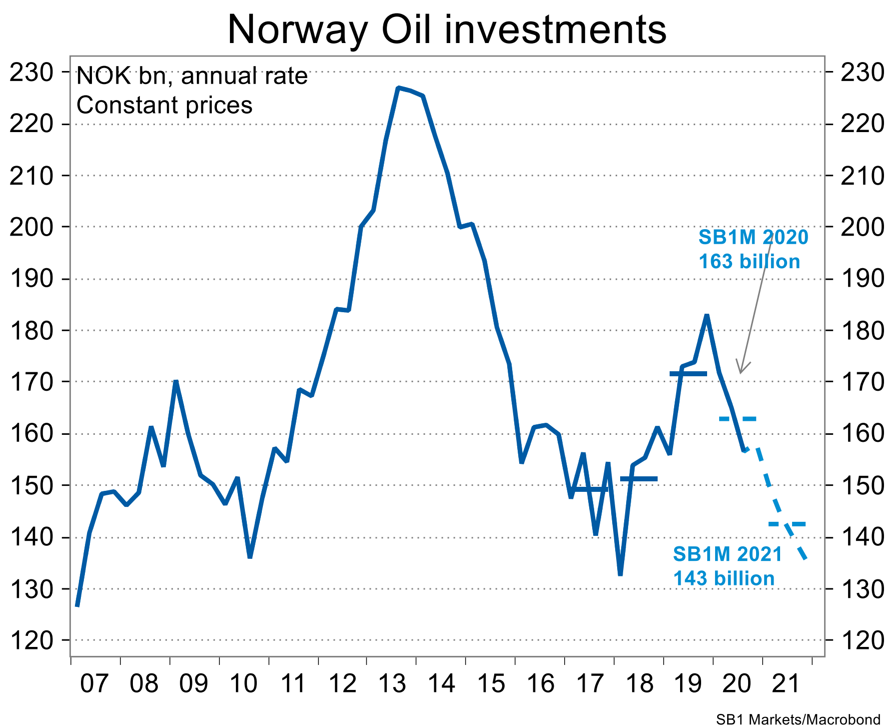
2021 investment forecast lifted by 12% to Nov from Aug, still signalling a 12% volume drop

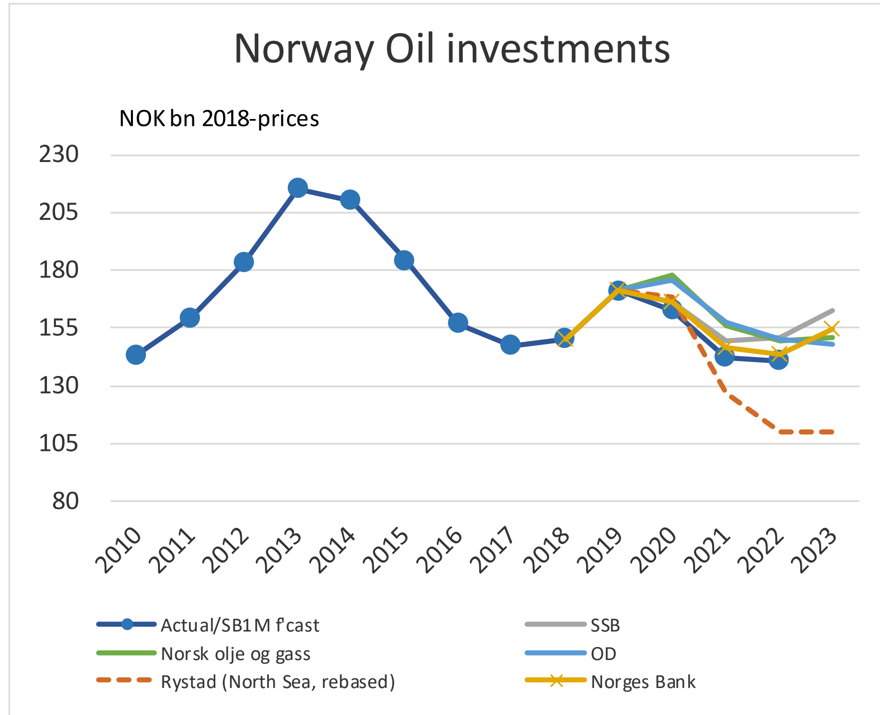


- In SSB's Q4 oil & gas investment survey, companies adjusted their **2020 investment f'cast** down by NOK 2 bn to 184 bn, indicating a 1% increase from 2019, in nominal terms.
  - » Prices have been increasing rapidly, and we assume a 5% decline in volume terms. If so, Q4 volume will be down 14% from the Q4-19 local peak
  - » Norges Bank forecasted -3% 2020 decline in the Sept MRP
- **The 2021 estimate was revised up by** NOK 18 bn to 166 bn, and is now 9% below the 2020 estimate – better than we assumed
  - » Investments in new fields are up by NOK 13 bn (26%), due to cost increases, that are not related to higher expected production, according to SSB. A minor new field was added. Just some minor new projects are expected to be added to the 2021 investment activity
  - » Exploration & concept studies expenses revised up by 5 bn to 25 bn, as companies tries speed up producing plans for development and operation (PDO) that can be delivered before end of 2022 in order to utilise the temporary (favourable) changes in tax system decided in June
  - » We expect a substantial cost inflation next year too. If so, investments will decline by some 13% in volume next year. If the decline is distributed evenly trough 2021, investments in Q4 21 will be down by 15% vs. the Q4-20. In Sept, Norges Bank expected a 12% 2021 decline, and will probably not alter the forecast in the Dec MPR
- **Lower oil investments** will continue be a drag on the Norwegian economy thorough 2021, deducting some 0.5 pp from Mainland GDP growth (adjusted for the import share). The change in the tax regime may lift investments in 2022

2021 better than feared but a crucial growth engine has anyway changed sign

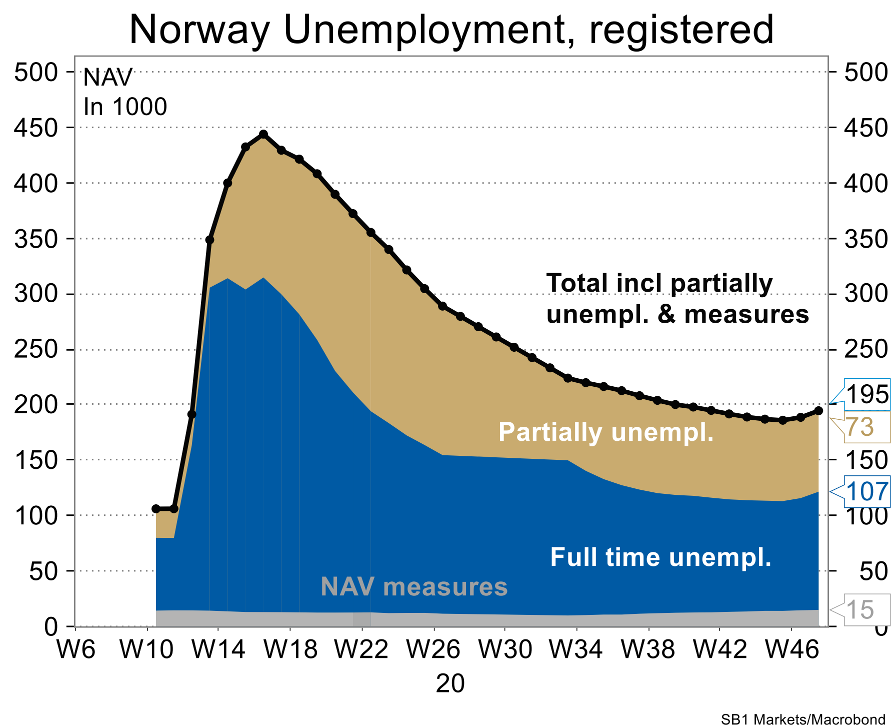
Our forecasts imply another 15% decline through next year

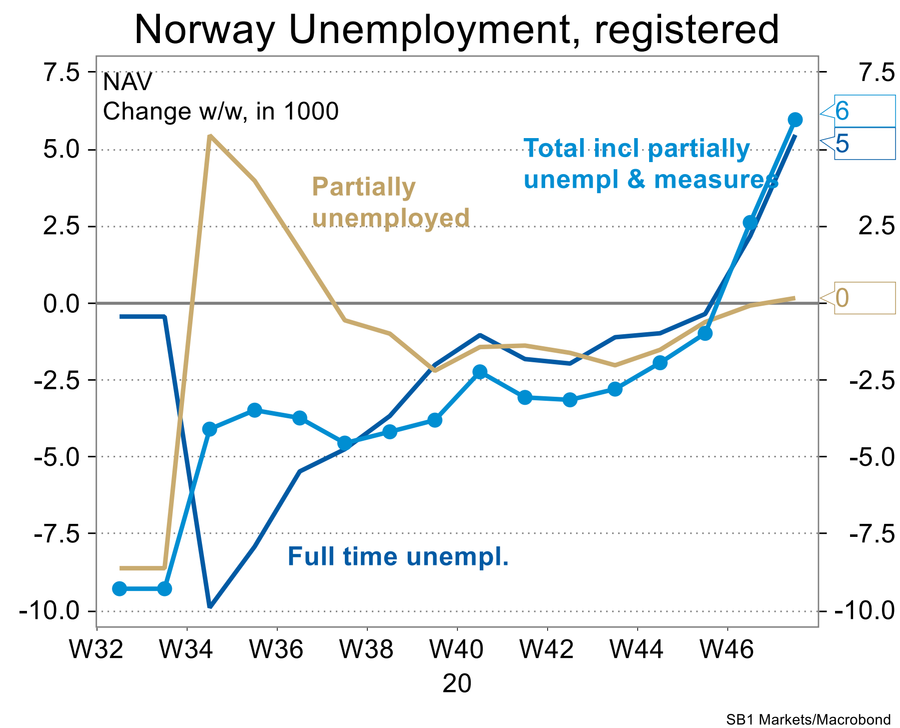




NAV unemployment sharply up in first half of November, corona hits agian

Unemployment up by 9’ during the first two weeks, probably more to come

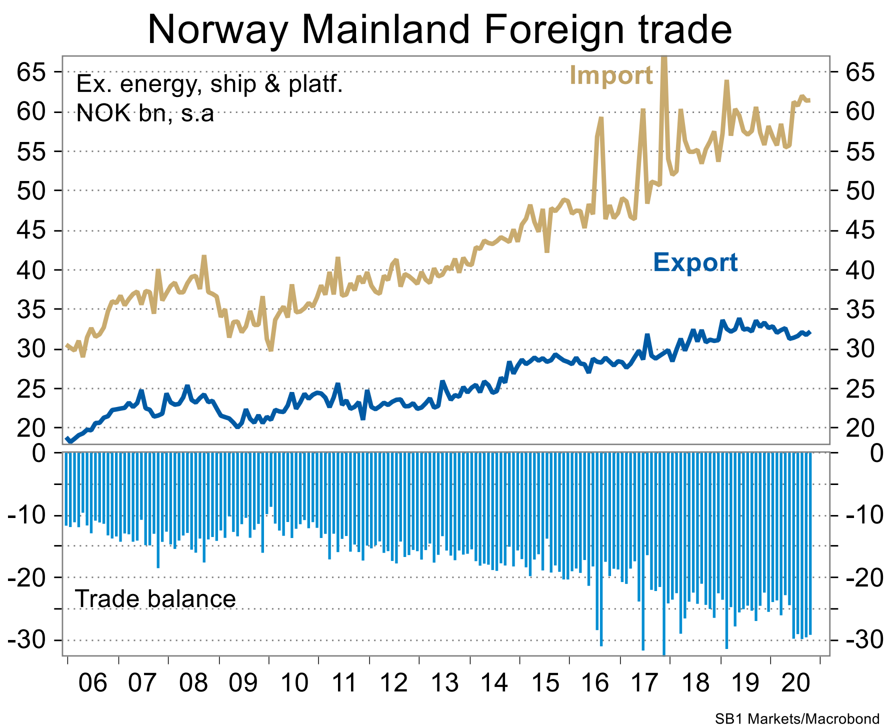


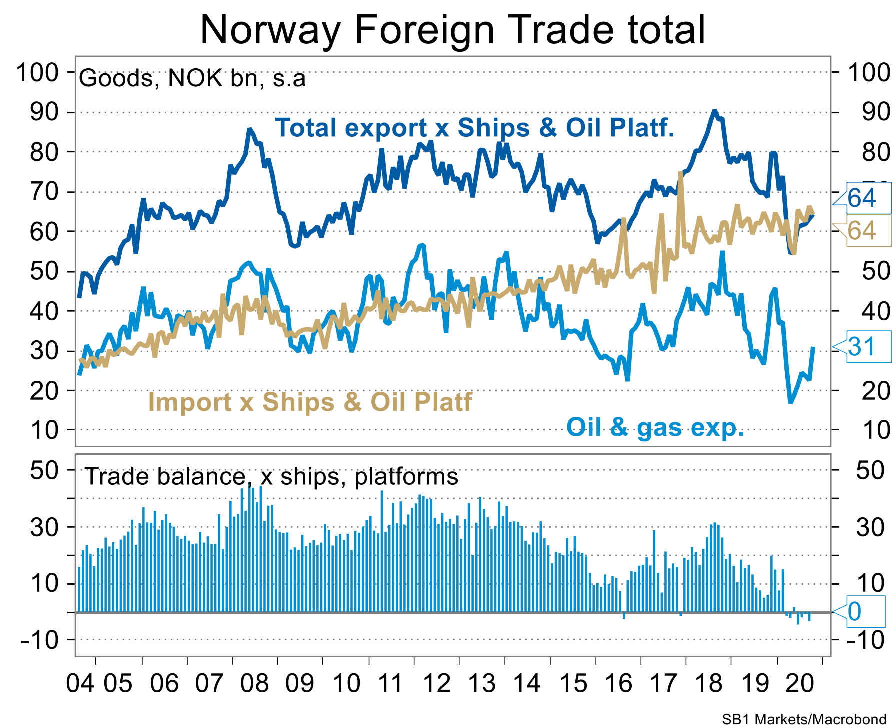


- Total unemployment (including partially unemployed and labour market measures) has declined steadily since April, even at a weekly basis
- The tide have turned, at least unemployment rose slightly in early Norway, very likely due to the new corona outbreak, and the measures taken to contain it. More will come the next weeks

The trade balance in balance

Imports are far above the pre corona level, export has recovered but not fully



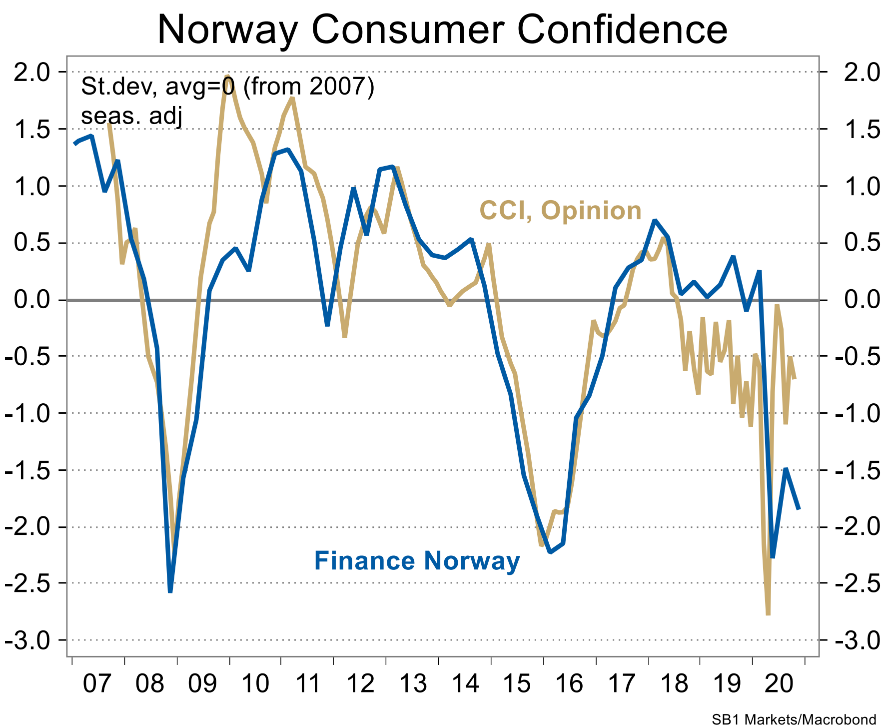


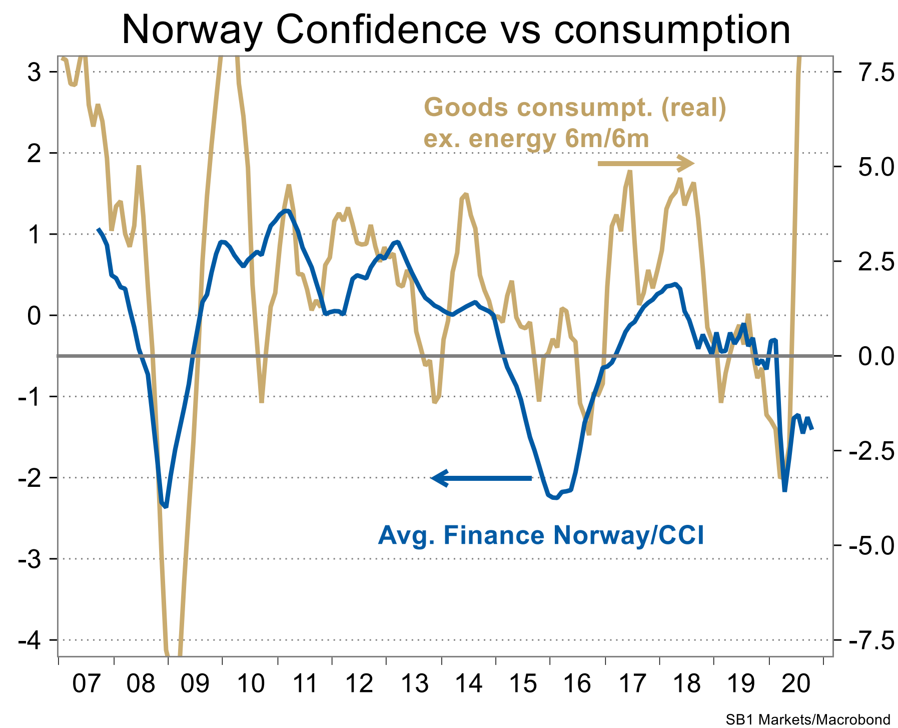
- The Mainland (non energy) trade deficit in goods was close to NOK 30 bn in Sept. Exports have been hurt by the corona crisis (down 5% vs early 2020, measured in f/x, down 8% y/y) while strong demand for goods have kept imports up (up 1.5% vs pre corona, -3% y/y) – and the 'traditional goods' deficit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

SpareBank 1 MARKETS

Consumer confidence still very downbeat

Finans Norges' Q4 survey surprised (us) on the downside, down again





- Finance Norway's quarterly consumer confidence index fell from -1.5 st.dev below par to -1.8 in Q4, surely a quite low level. Given retail sales, auto sales, all housing market indicators, and the rapid decline in the unemployment rate, the setback is surprising. The recent increase in corona cases, and the 'mini' lockdown may explain the drop in Q4 as the good vaccine news came too late to influence the Q4 survey
  - » The CCI from Opinion is far stronger, but also below average, at -0.7 st. dev
- Big item purchases are still out of favour (barring buying a house, of course), as is understandably travel

The Calendar

The first November PMIs, US durable orders, and Norwegian unemploym., retail sales & much more

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 23					
08:00	NO	Housing starts	Oct		
08:00	NO	Population growth	Q3		
10:00	EC	PMI Manufacturing	Nov P	53.3	54.8
10:00	EC	PMI Services	Nov P	42	46.9
10:00	EC	PMI Composite	Nov P	45.6	50
10:30	UK	Markit UK PMI Manufacturing SA	Nov P	50.5	53.7
10:30	UK	Markit/CIPS UK Services PMI	Nov P	42.8	51.4
14:30	US	Chicago Fed Nat Activity Index	Oct	0.27	0.27
15:45	US	Markit US Manufacturing PMI	Nov P	53	53.4
15:45	US	Markit US Services PMI	Nov P	55	56.9
Tuesday Nov 24					
08:45	FR	Business Confidence	Nov	84	90
10:00	GE	IFO Expectations	Nov	93.5	95
15:00	US	S&P CoreLogic CS 20-City MoM SA	Sep	0.65%	0.47%
16:00	US	Conf. Board Consumer Confidence	Nov	97.2	100.9
Wednesday Nov 25					
08:00	NO	Travel survey	Q3		
08:00	NO	Cross Border trade	Q3		
08:00	NO	Unemployment Rate AKU	Sep	5.3%(5.3)	5.3%
14:30	US	Initial Jobless Claims	week	728k	742k
14:30	US	Advance Goods Trade Balance	Oct	-$80.0b	-$79.4b
14:30	US	GDP Annualized QoQ	3Q S	33.1%	33.1%
14:30	US	Cap Goods Orders Nondef Ex Air	Oct P	0.7%	1.0%
16:00	US	Personal Income	Oct	-0.1%	0.9%
16:00	US	Personal Spending	Oct	0.4%	1.4%
16:00	US	PCE Core Deflator YoY	Oct	1.4%	1.5%
16:00	US	U. of Mich. Sentiment	Nov F	77	77
16:00	US	New Home Sales	Oct	973k	959k
20:00	US	FOMC Meeting Minutes			
Thursday Nov 26					
09:00	SW	Economic Tendency Survey	Nov		96.3
09:00	SW	Consumer Confidence	Nov		90
09:30	SW	Riksbank Interest Rate		0.00%	0.00%
Friday Nov 27					
	NO	Consumer Confidence (CCI)	Nov		
08:00	NO	Retail Sales MoM	Oct	0.5% (0.0)	0.3%
08:00	NO	Hotel guest nights	Oct		
09:30	SW	Retail Sales MoM	Oct	0.1%	0.8%
10:00	NO	Unemployment Rate	Nov	4%(4.0)	3.5%
09:30	SW	GDP QoQ	3Q	4.3%	-8.3%
11:00	EC	Economic Confidence	Nov	86	90.9
Monday Nov 30					
00:50	JN	Industrial Production MoM	Oct P		3.9%
00:50	JN	Retail Sales MoM	Oct		-0.1%
02:00	CH	PMI Manufacturing, NBS	Nov		51.4

- **November PMIs (preliminary)**
  - » How much has the '2nd corona wave' dampened activity in Europe? Any signs of slowdown in the US? The first November PMIs will give an hint. In Oct, manufacturing PMIs were strong, especially in the EMU (!), and services reported faster growth most places – except for the setback in the EMU. Last week, Japan reported a small Nov decline, and the PMIs are still below 50
- **USA**
  - » **Durable goods** have surprised on the upside – and investment goods orders are well above the pre corona level! The **GDP update** will reveal more details, like corporate profits. **New home sales** will very likely remain very strong, the housing market is booming!
- **Sweden**
  - » A preliminary **GDP** indicator has already reported lower than initially expected 4.3% growth, details to follow now. **The Riksbank** will probably not rock the boat, even if Sweden feels the corona heat again
- **Norway**
  - » **Unemployment** will be reported both by NAV (Nov) and the LFS (Aug – Oct) and just the NAV data will yield any clues on the impact of the 2nd corona wave. Weekly data signal a significant lift, we expect by 14.000, taking the rate up 0.5 pp to 4% (+0.3 pp to 4.1% seas. adj), still just back to the August level. **Retail sales** 'must' be on a downward trajectory but the level will not come down to a normal level before foreign travel restrictions are lifted. **Travel, hotel, population & housing starts** data will also be published

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

Highlights

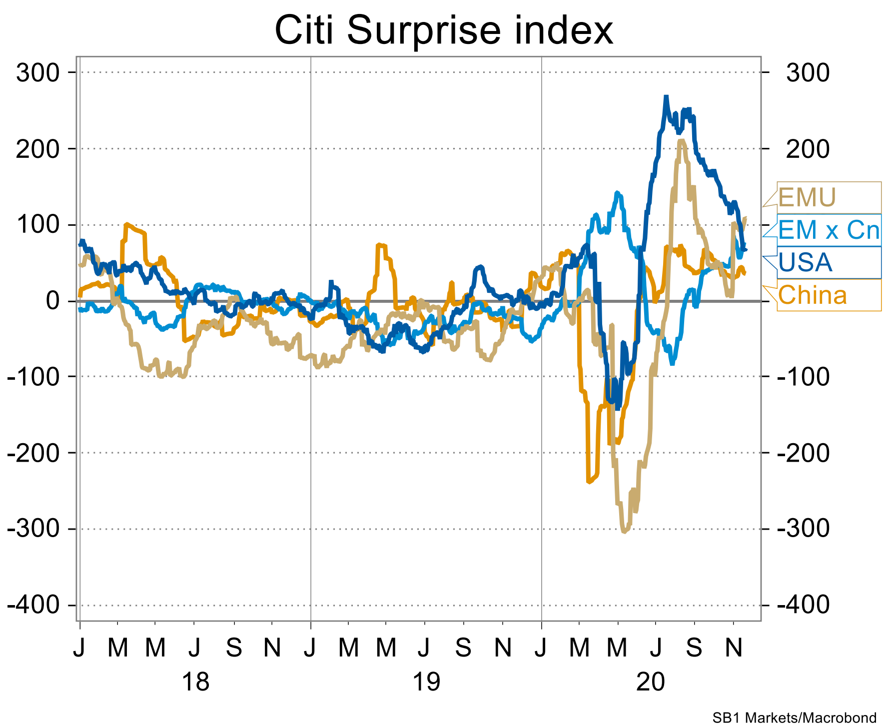
The world around us

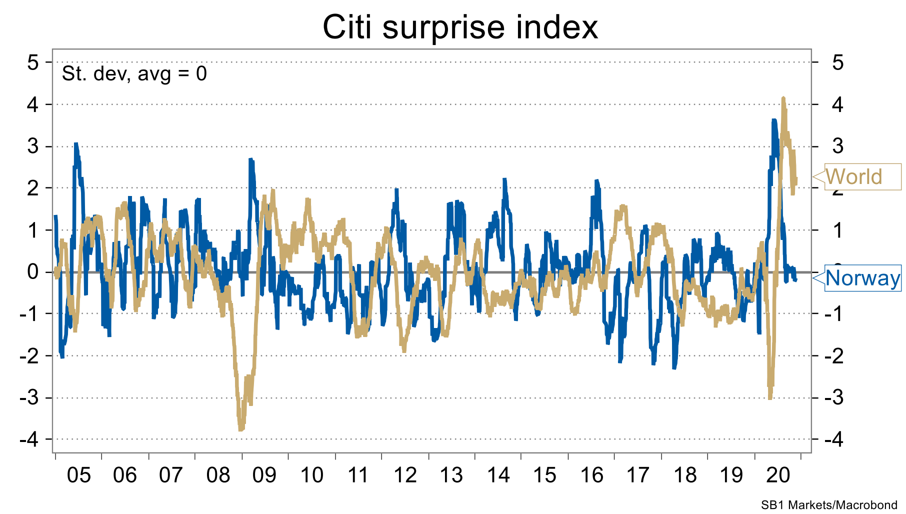
The Norwegian economy

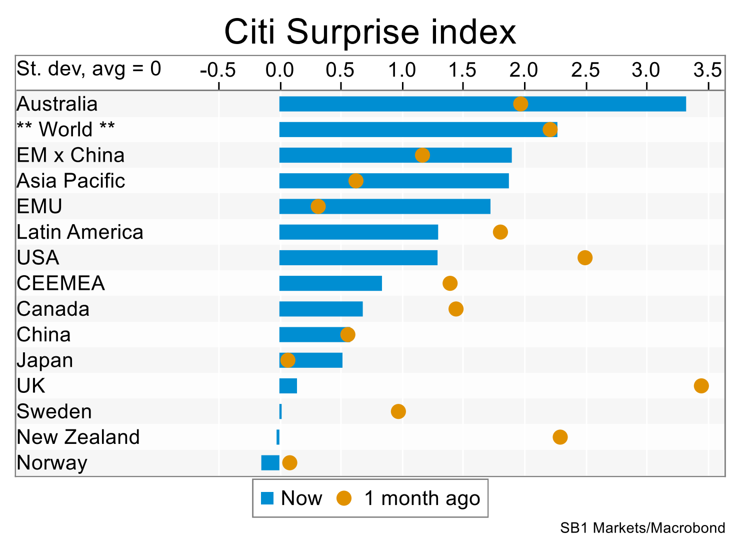
Market charts & comments

Surprises are still on the upside but the US momentum is slowing

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





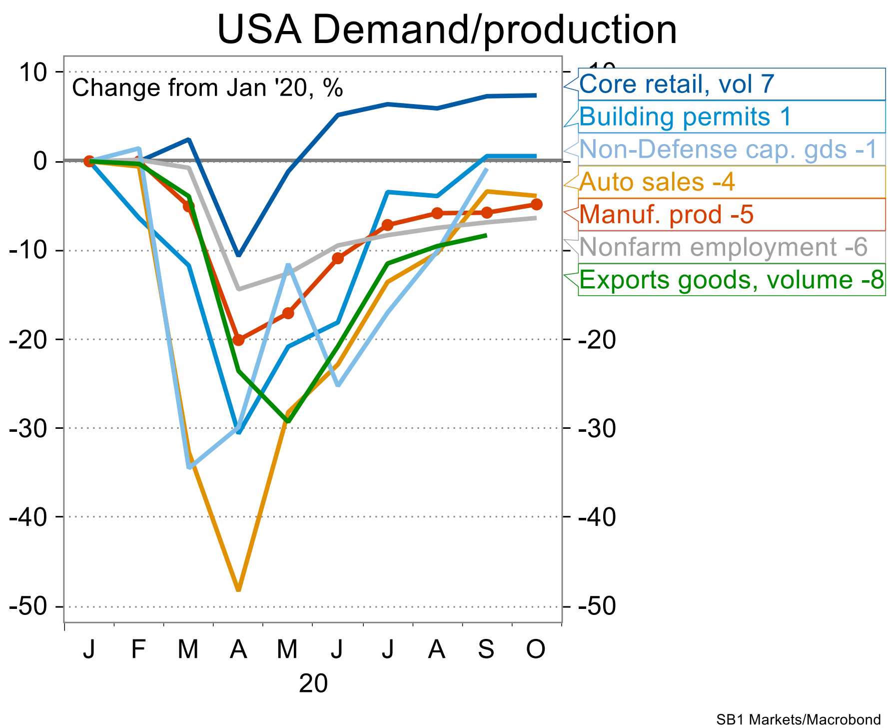


- All major countries/regions are reporting data above expectations, for the first time ever (Norway and New Zealand are not major…)
- The Euro Zone is surprising more on the upside than the US
- The US is still far into positive territory but less so than during the summer
- China clearly into positive 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

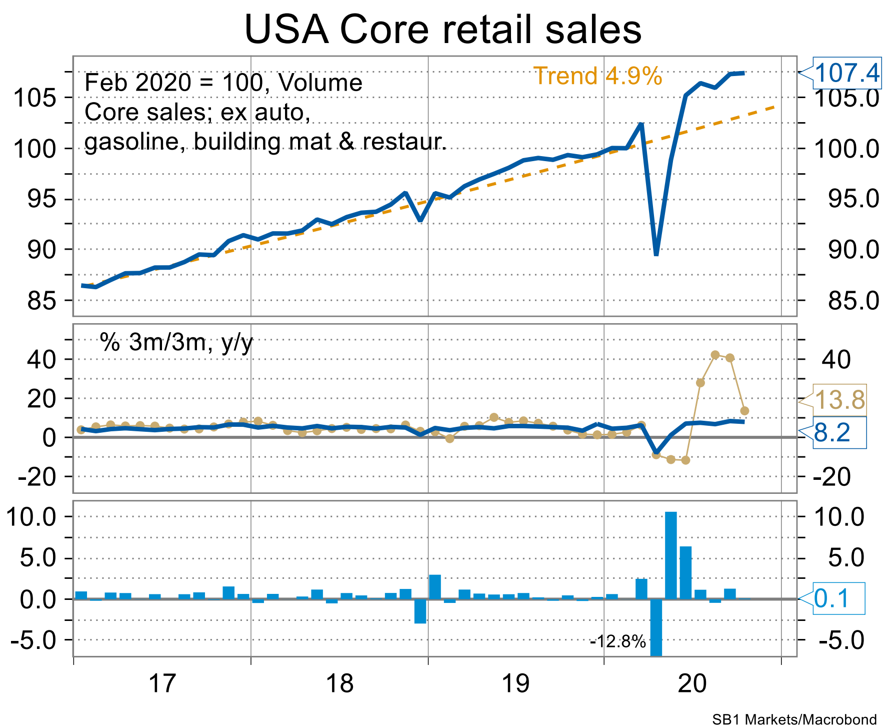
The recovery continued in November but at a slower pace

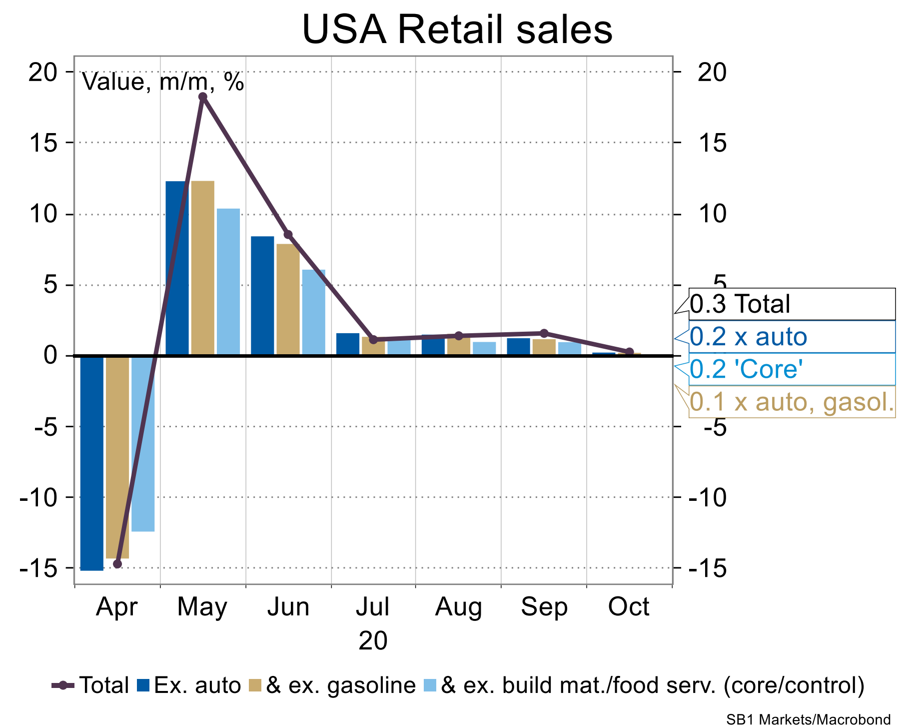
Growth is slowing into Q4, as the re-opening has stalled (and is reversed many places)



Retail sales weaker than expected in October, Sept revised down, still very strong

The 2nd/3rd corona wave may explain the slowdown – but so could the 7.4% above Feb. level!!

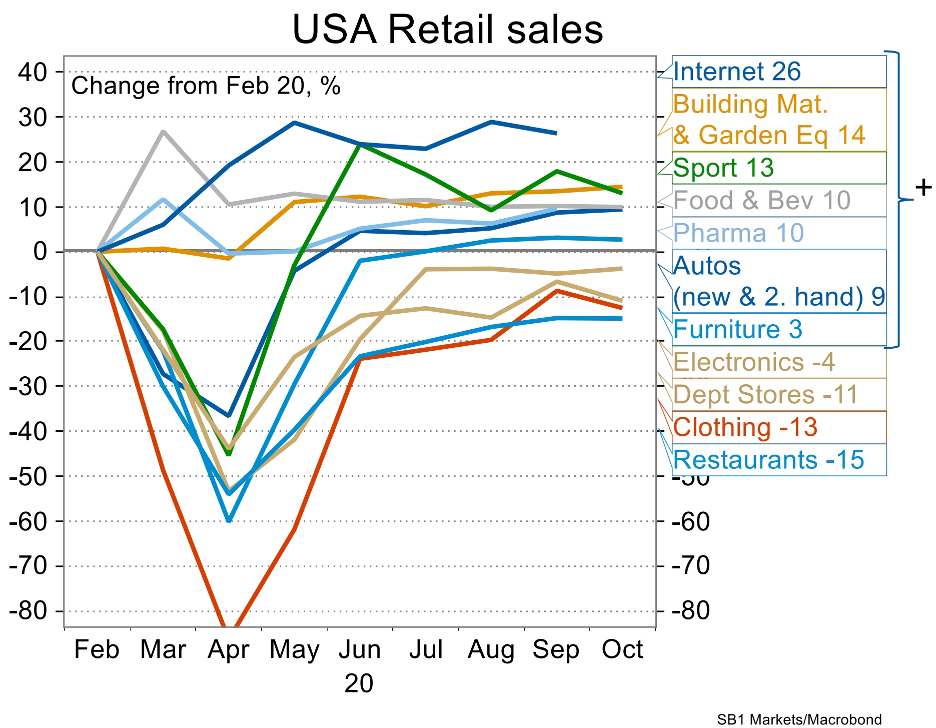




- Total nominal sales rose by 0.3%, expected up 0.5%, and Sept was revised down by 0.7 pp to 1.2%
- Core sales (=control group) inched up 0.2%, 0.3 pp less than expected, we assume 0.2% in volume terms too. Sept was revised down by 0.6 pp to 0.9%. Core sales are 7.5% above the pre corona level in volume terms, and are up 8% y/y – and far well above any trend path too, of course
- Check detail next page, still huge discrepencies

Still huge differences between sectors: Restaurants -15%, building mat/garden +14

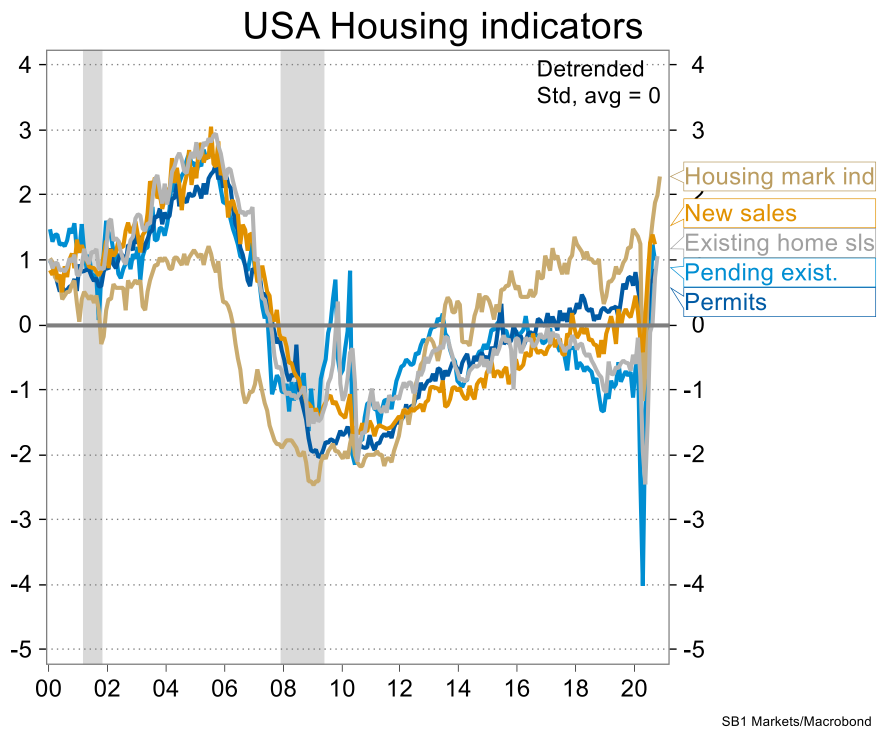
Food & beverages +10%! Sports +13% Clothing -13%. Our spending habits have changed (for a while)

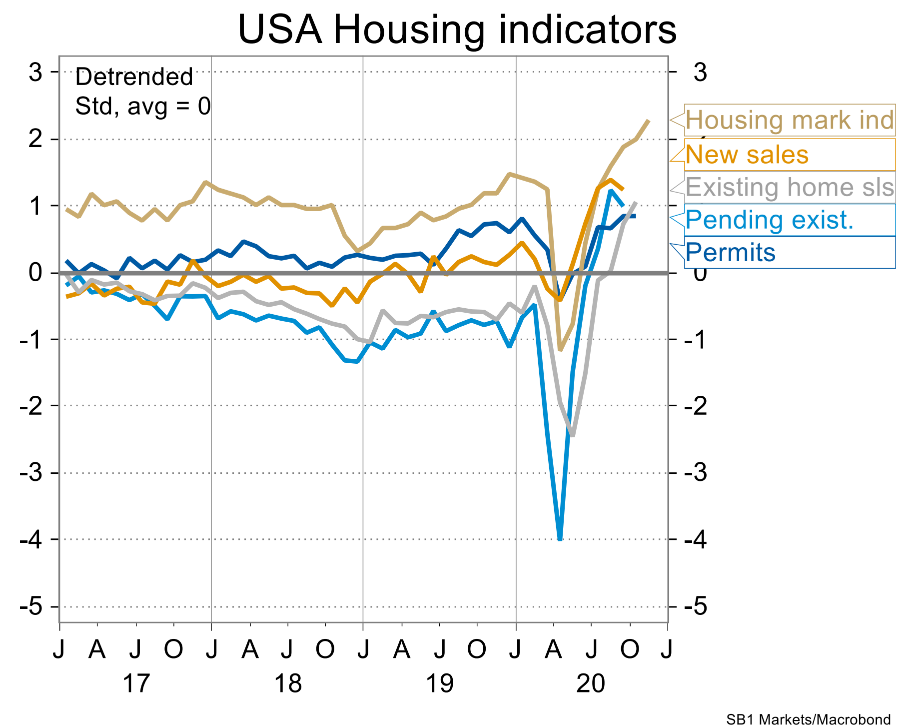


- Americans – as all others – are buying more food in shops and less at restaurants
- Clothing is probably down due to more time spent at home, less outside
- Gyms are partly closed, more sport equipment is bought
- But why are electronics still so weak?

Check the housing market 'V's. It just took 4 – 5 months. Last time: '*Never*'

Starts, home sales & the housing market index all sharply up, boosted by low interest rates

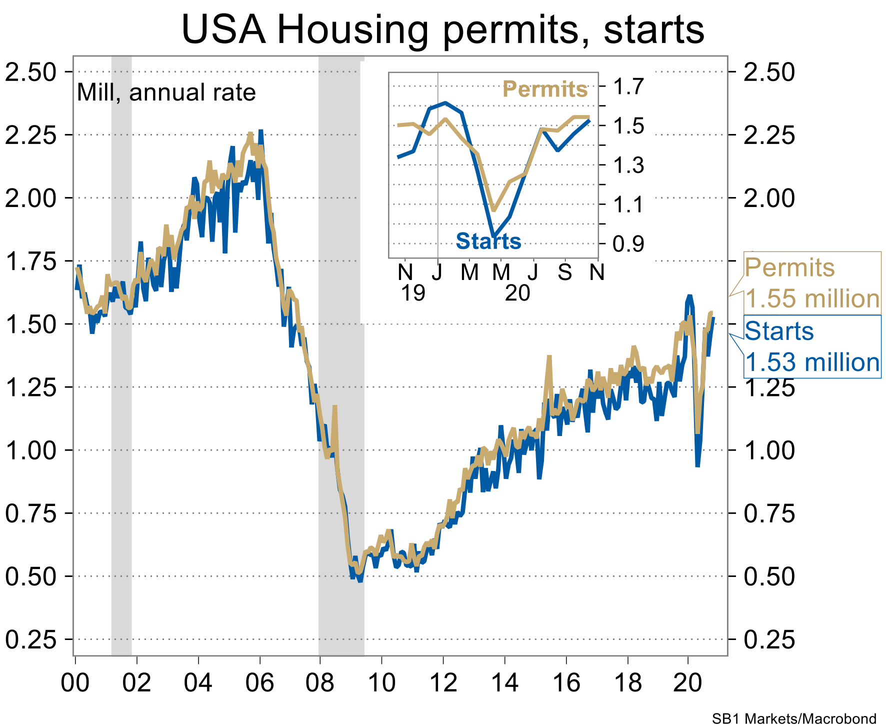


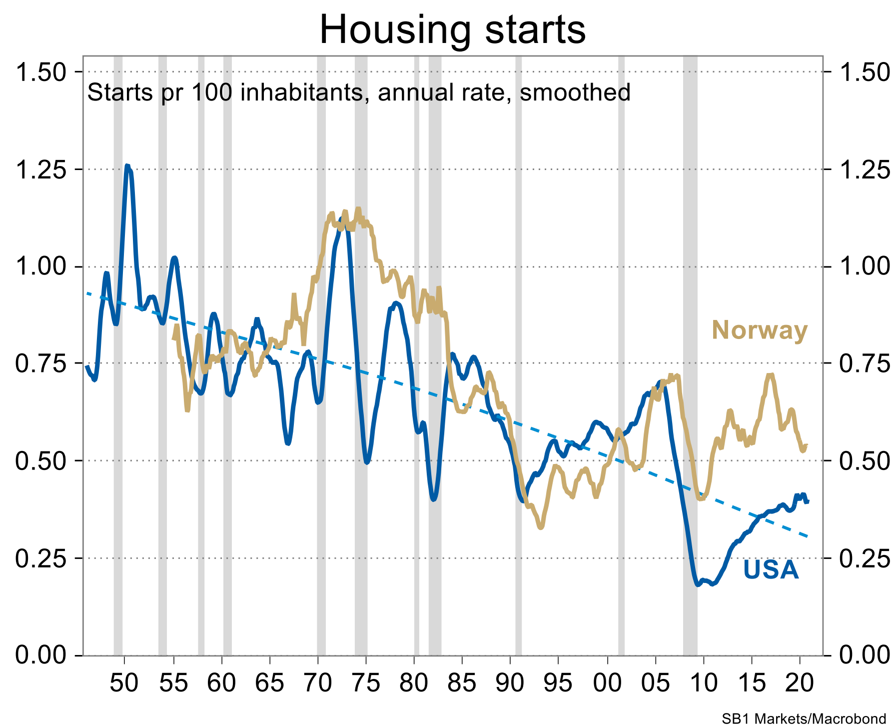


- Compare this 4 – 5 months downturn/recovery to what happened during/after the housing/financial crisis: Housing has not yet come back to the pre corona peaks. It even took some 10 years to come back to an average housing market activity level (barring the Homebuilder's market index)!
  - » BTW: The peak in the housing market was in late 2005/early 2006, and most of the downturn was done when the 'financial crisis' hit 2 – 2 ½ years later

Housing building permits the highest in 13 years in October

Housing starts up too, confirming a very strong housing market

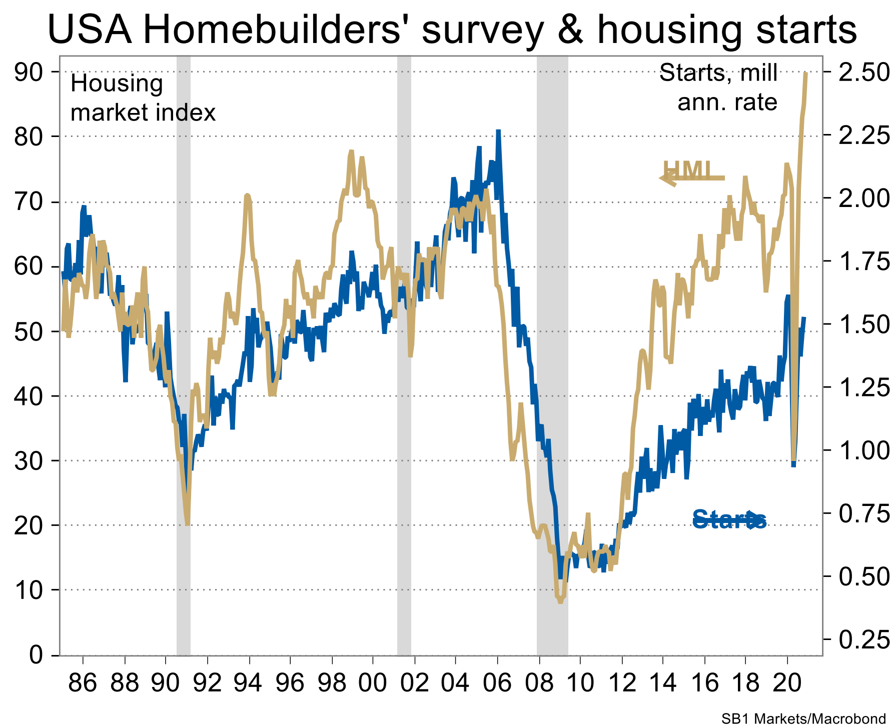


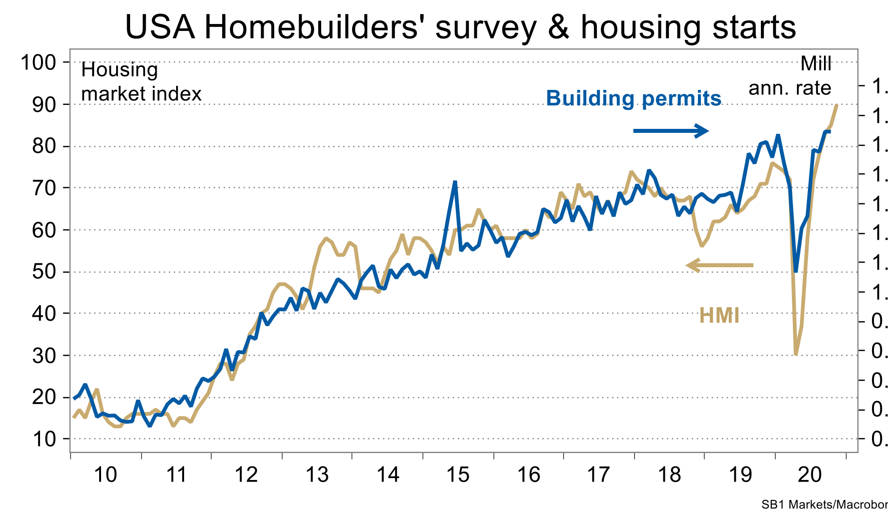


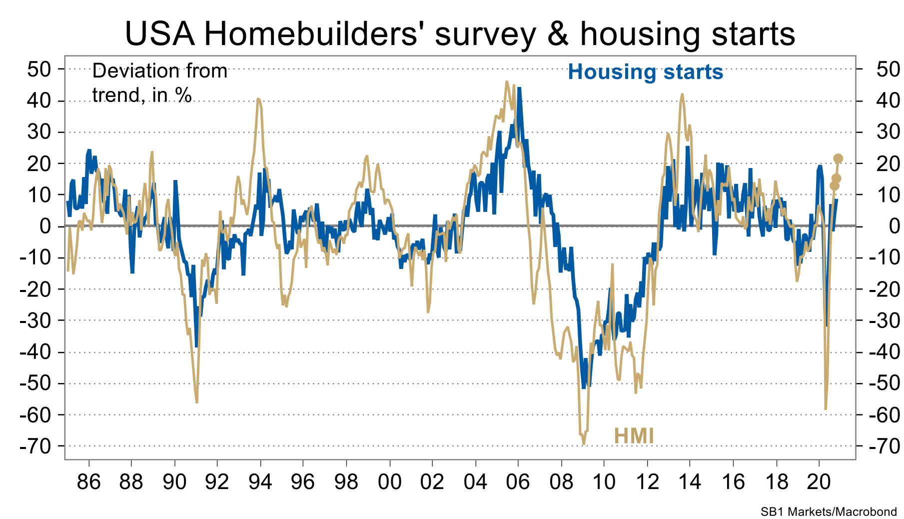
- Permits and starts are up 40 – 60% from the April trough – and are back to well above a 'normal' level.
  - » Starts are slightly below the local peak at the end of 2019 but far above the 2019 average – and barring the Dec 19 – Feb 20 local spike, the highest since 2007.
  - » Permits were at the highest level since early 2007
- Housing starts are at a quite low level per capita vs. history, like in all other rich countries, as the 'country is built', at least in many cities – and starts have been trending downwards in most countries
  - » However, not in Norway the past 30 years

Homebuilders report another ATH Housing Market Index in November

The Housing Market Index does not yield – it is skyrocketing!



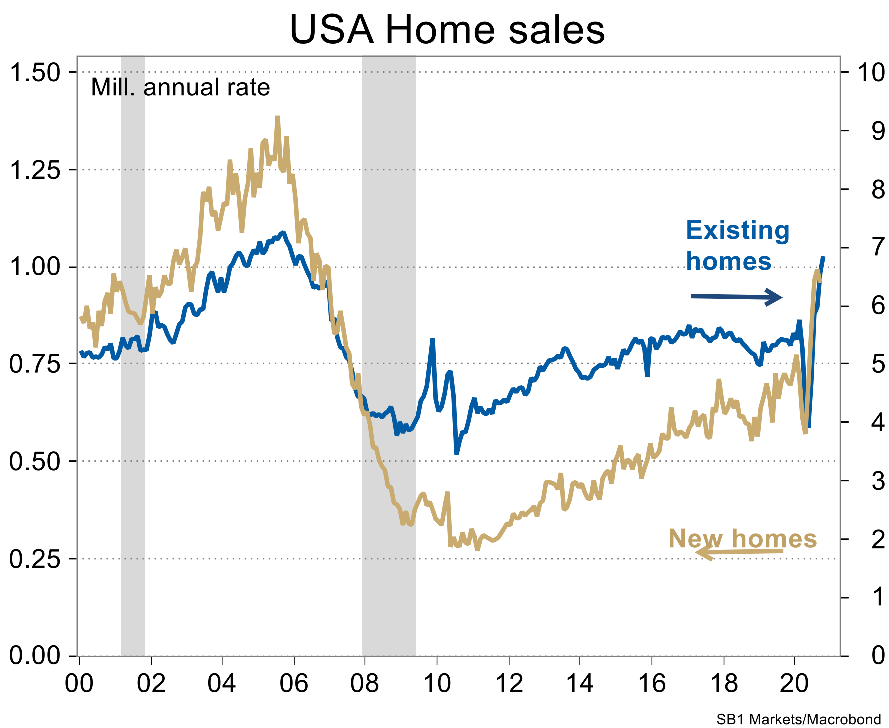


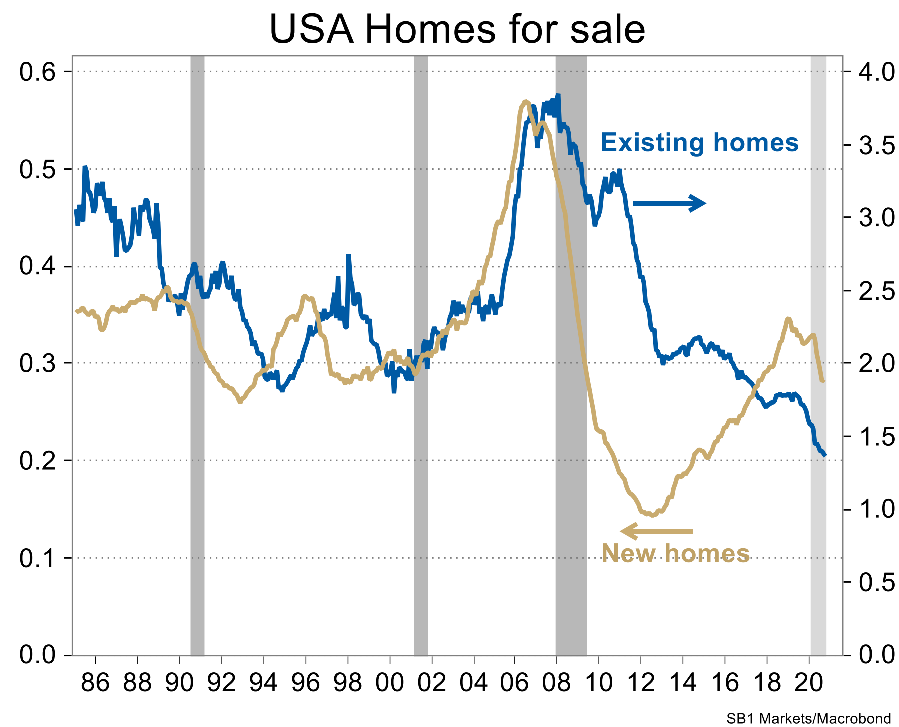


- Builders confidence has never before been higher (index at 90, up from 85 in Oct, expected unch). Both the present sales level and expectations for the next months are upbeat
- The HMI is not an assessment of growth in housing stars nor the 'level' of housing starts vs a long term average. The best fit is vs deviation of starts from a more flexible trend, check the difference between the chart above and the two the right
- The current index signals another lift in housing starts vs the level in September (literally almost more than 10% higher)

Exististing home sales straight up too – to the highest level since Feb 2006

... as are new home sales too, btw. Existing home sales up 4% in Oct, expected down -2%



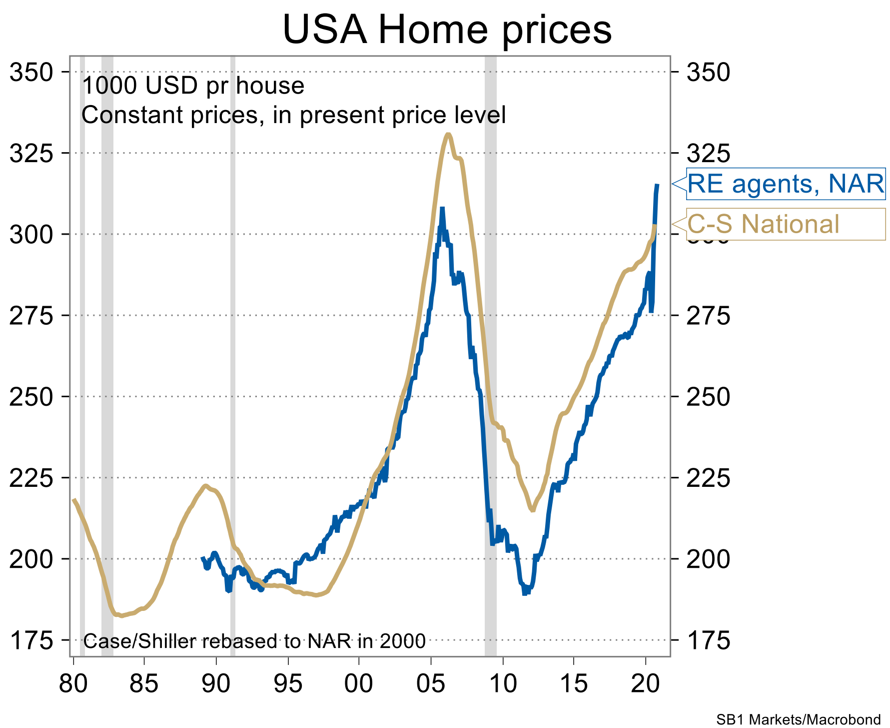


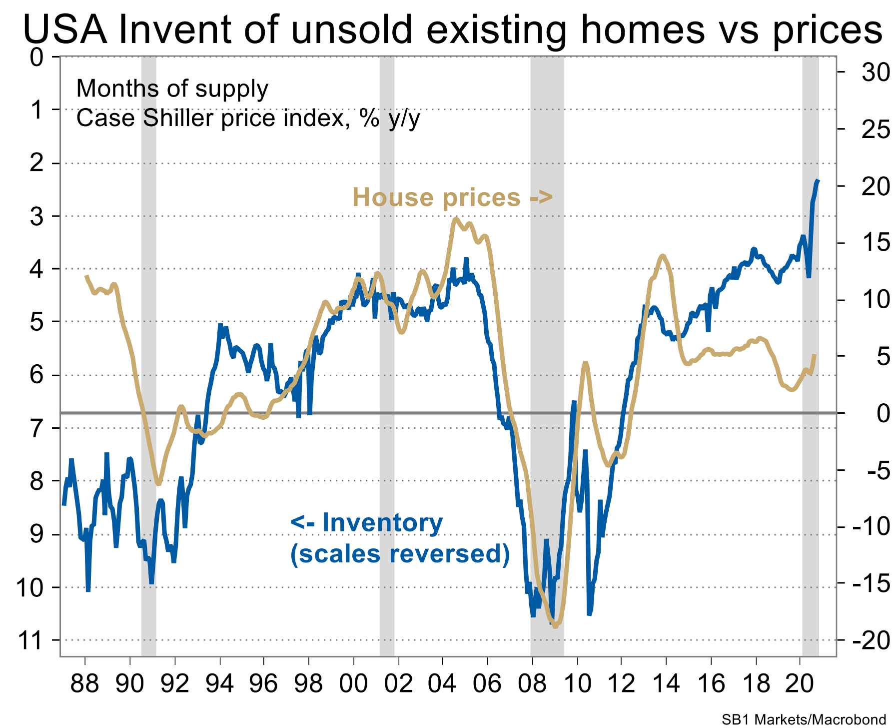
- The inventory of **unsold existing homes** at the market is the lowest on record – data back to 1985
  - » The inventory/sale ratio is the lowest ever too, check next page!
- The number of **new unsold homes** is falling rapidly and the level is low, especially vs. new home sales

SpareBank 1 MARKETS

The inventory of unsold existing homes has collapsed – to a record low level

Where are prices then heading?? According to the realtors, prices are up 15% since May & y/y!!



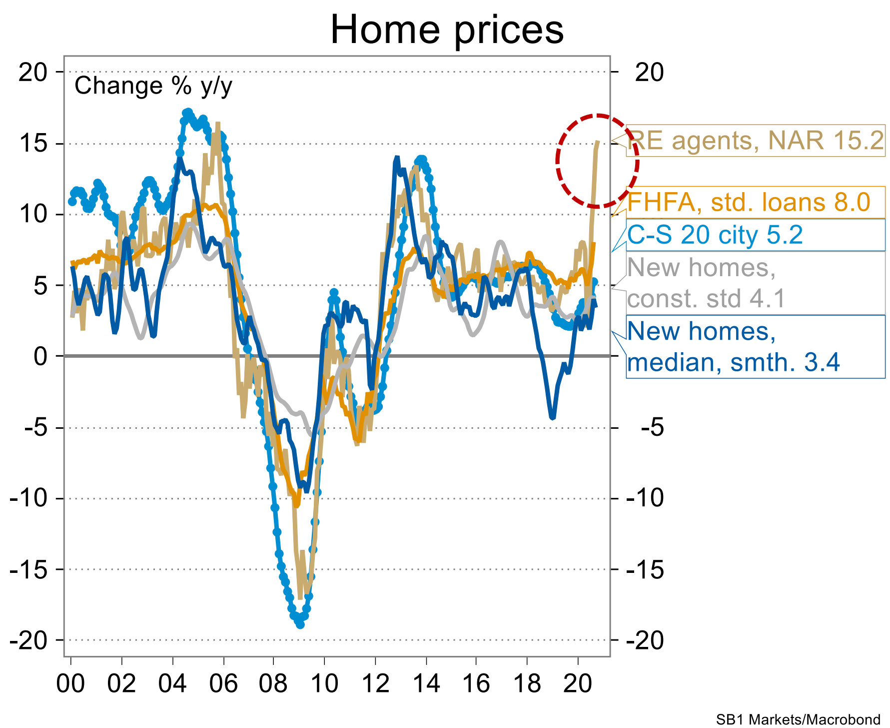


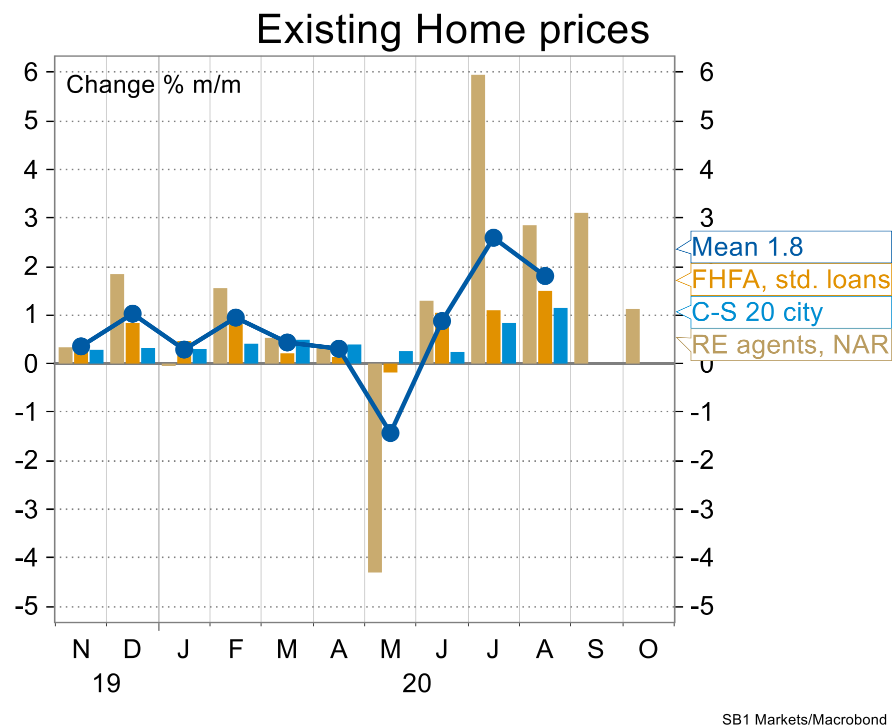
- Check next page for more on home prices

SpareBank 1 MARKETS

House prices through the roof, according to the realtors

Prices rose by ‘just’ in October – but are up 15% y/y, close to the highest ever

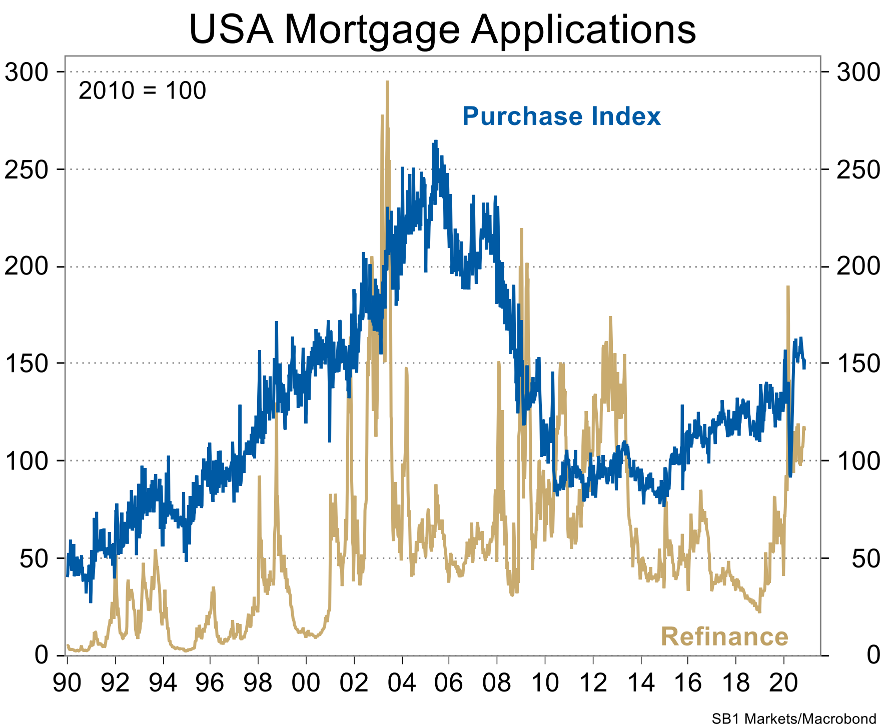


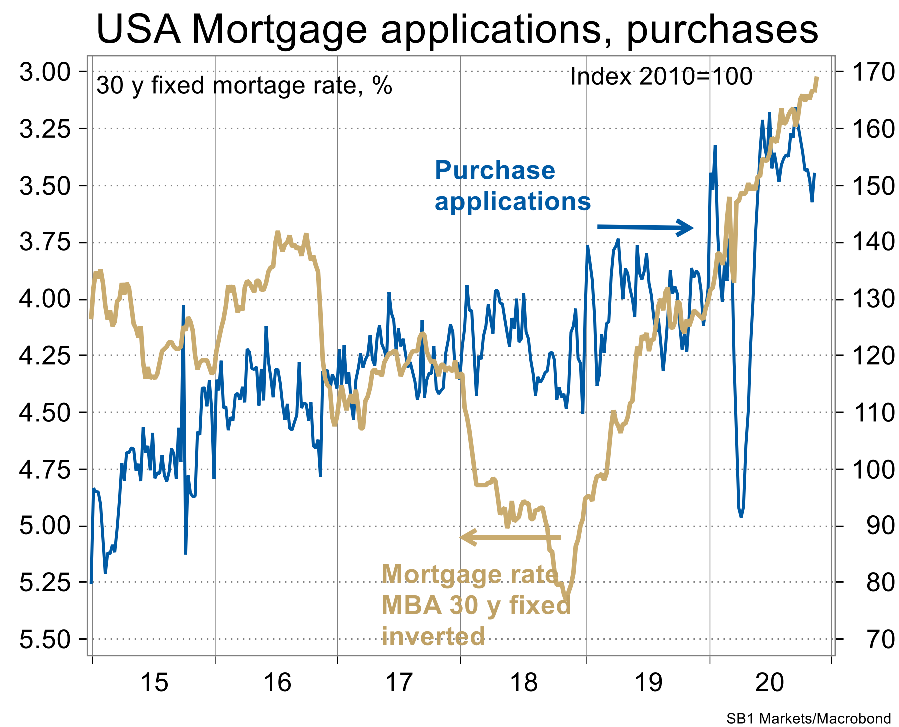


- The realtor’s index is a primitive median ‘raw’ index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) have very likely lifted the median price
- Still, ‘something is very likely going on’ at the housing market. Other – and far more sophisticated indices – have so far reported much more muted developments than the realtor’s index but these indices are reporting significantly higher home prices

Mortgage applications at a high level. As mortgage rates are at a record low level

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

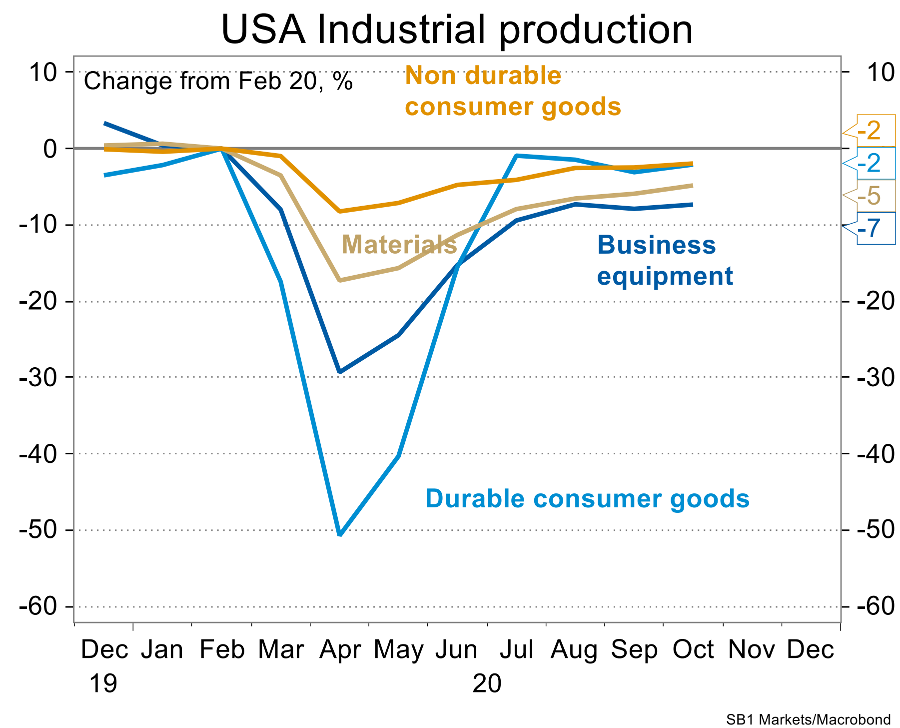




- No doubt, low mortgage rates stimulates demand
- 30 y fixed mortgage rates have fallen to 3.0% from 5.25% late 2018 via almost 4% at the end of 2019. The spread vs. the 30 y gov has fallen by almost 100 bps since March, to 1.44%, which still is just close to average – and the mortgage rate has not climbed, even it the 30 y gov bond yield has
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market. Still, strong demand for new mortgages cannot be a sign of weakness

Manufacturing up 1% in October, still 4.8% below February

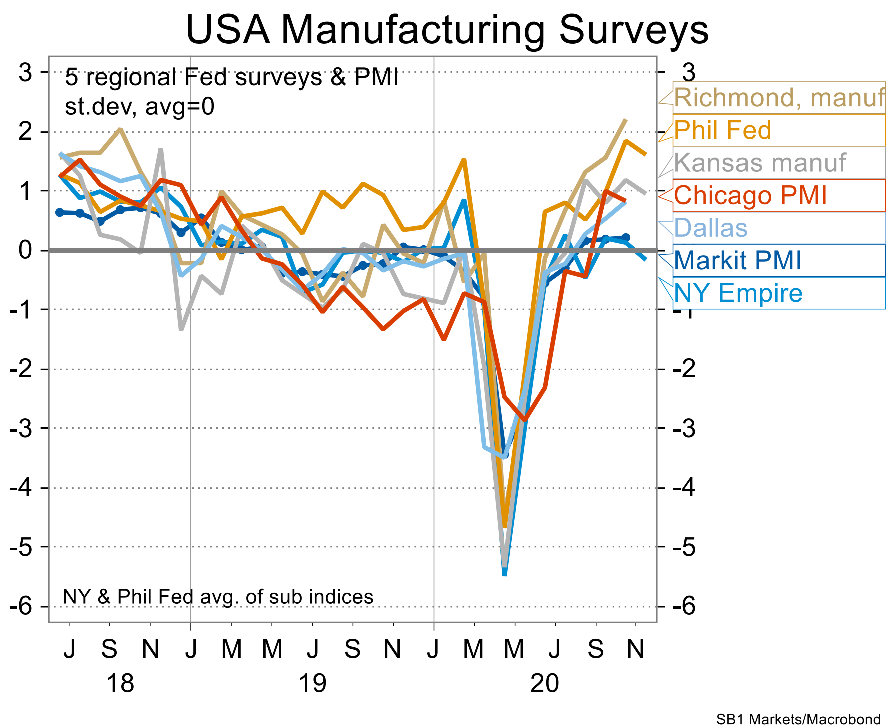
The lift was as expected, and all main sectors contributed

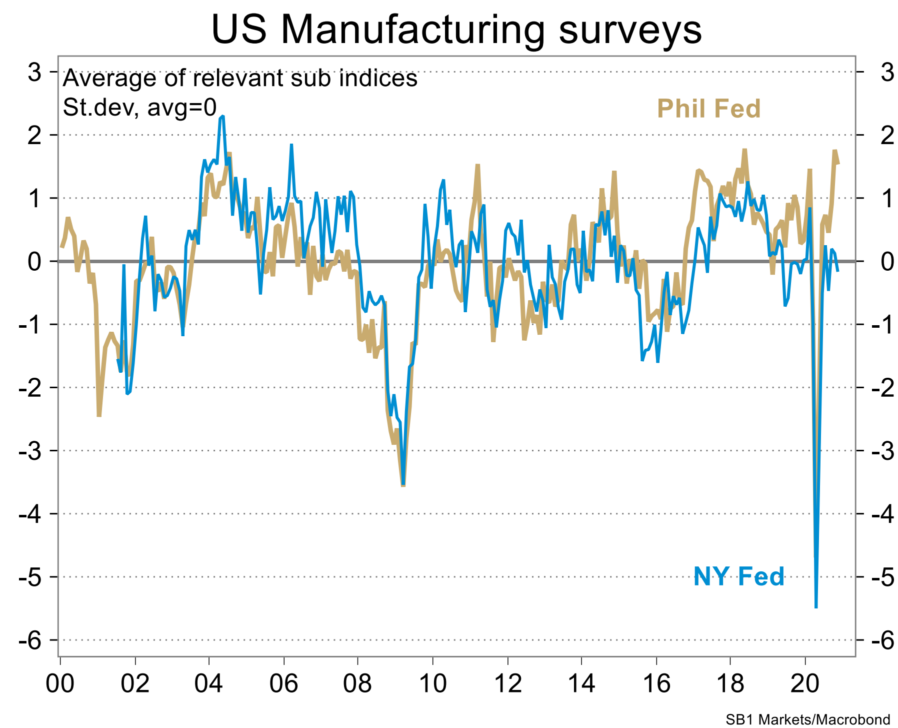


- September was revised to zero, from -0.3%
- Total industrial production, including utilities, mines/oil production, also climbed 1.0% in October, as expected
- PMI/ISM and other surveys signal a recovery, but not at a brisk pace, given the continued low production level

Phil Fed survey, NY & Kansas all down in November, but the levels still strong

Taken together, on the strong side: The 3 surveys still signal a strong manufacturing momentum

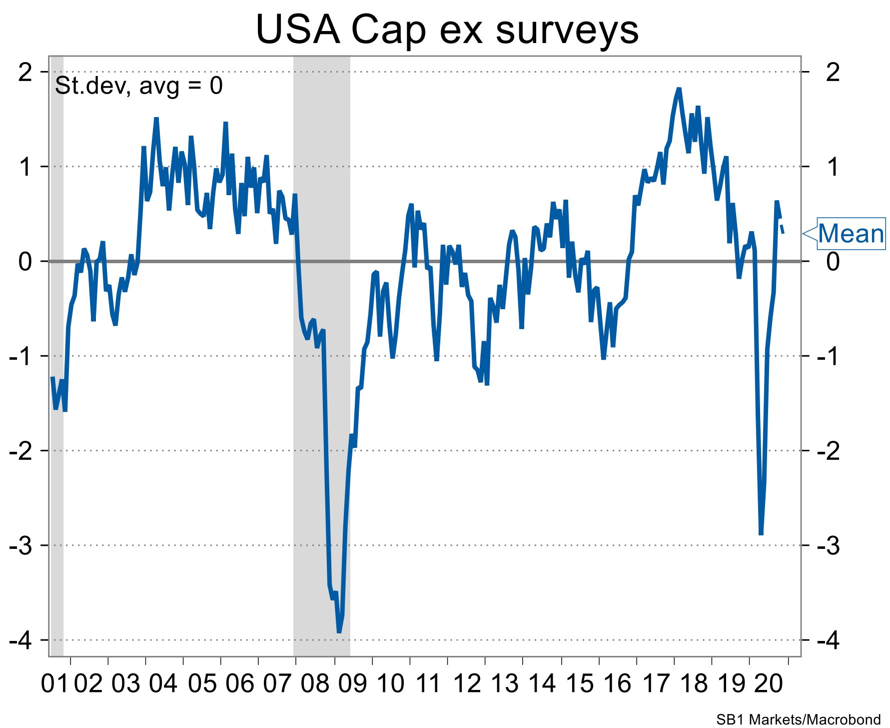


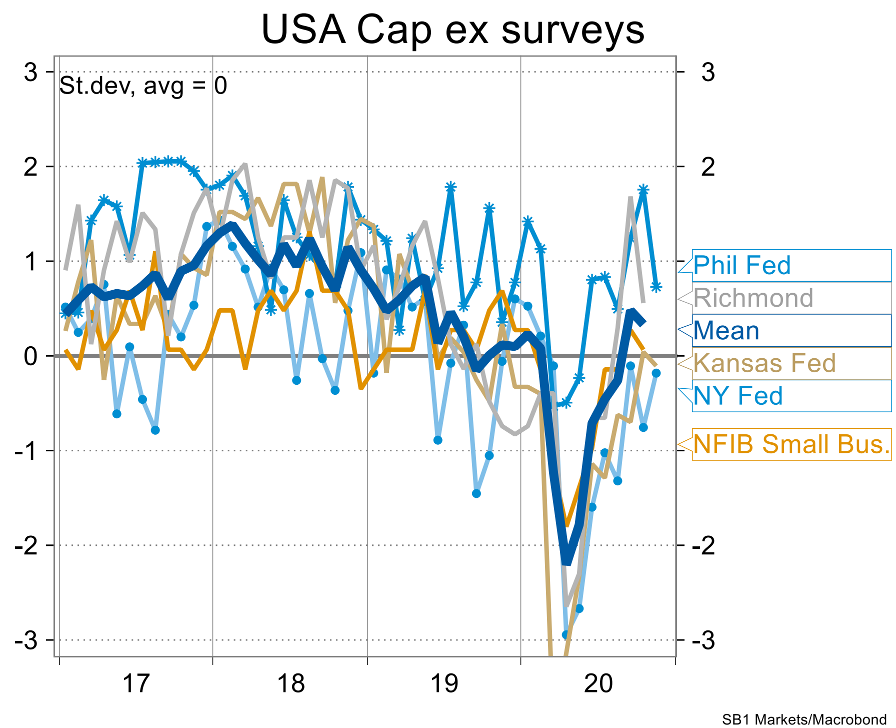


- Philadelphia Fed's survey rose sharply in October, with the 2nd highest order index ever (data from 1968) – and the index fell 3 p to 36 in November (Oct was revised down by
- NY Fed's manufacturing survey fell to 10.5 in October from 17 (expected down to 12)
- The gap between these two surveys is remarkable. The Phil Fed survey is slightly better in forecasting the manufacturing ISM. Our model says + 2 p to almost 58!

Cap-ex plans have strengthened to above average levels

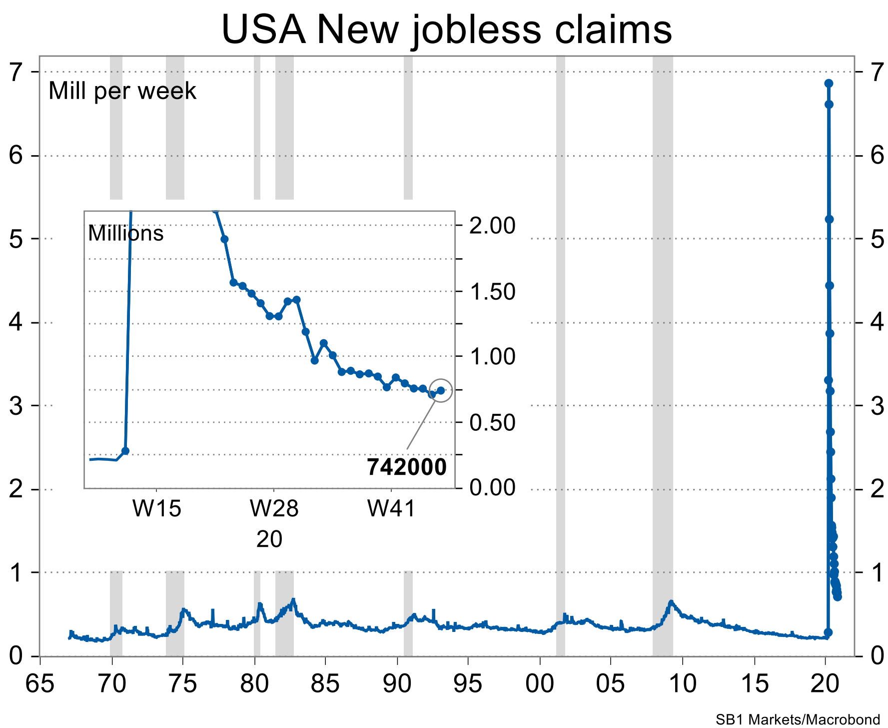
Manufacturers seem to be ramping up their investment plans

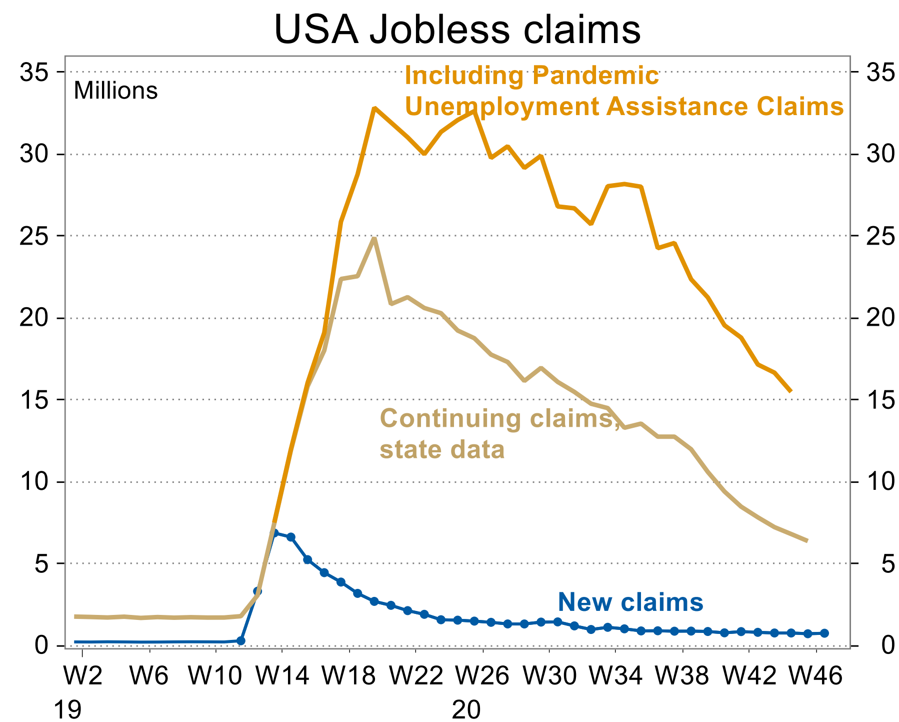




New jobless claims is trending down – but rose by 30' to 742' last week

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

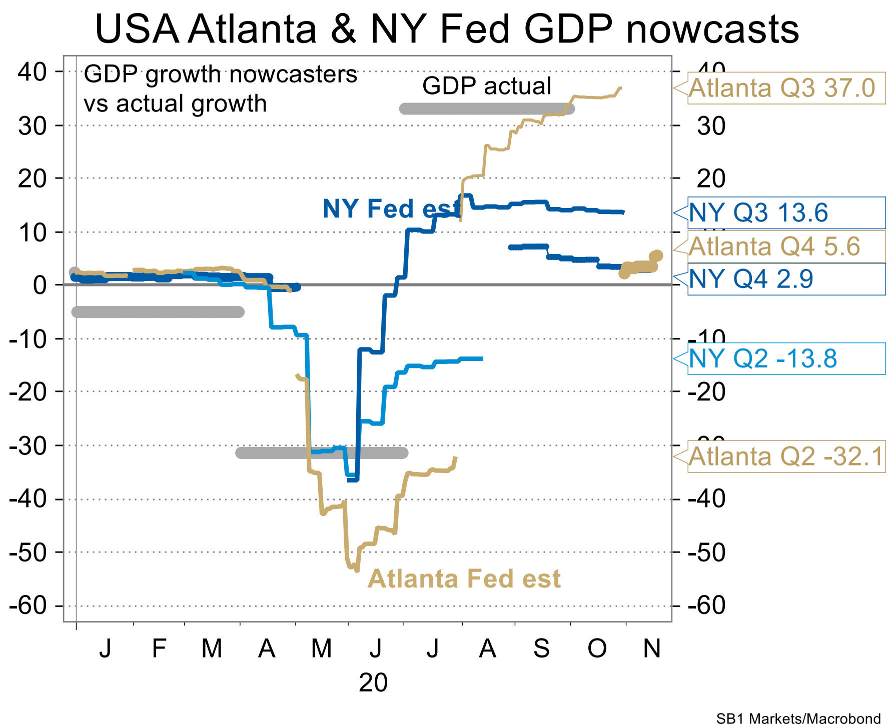


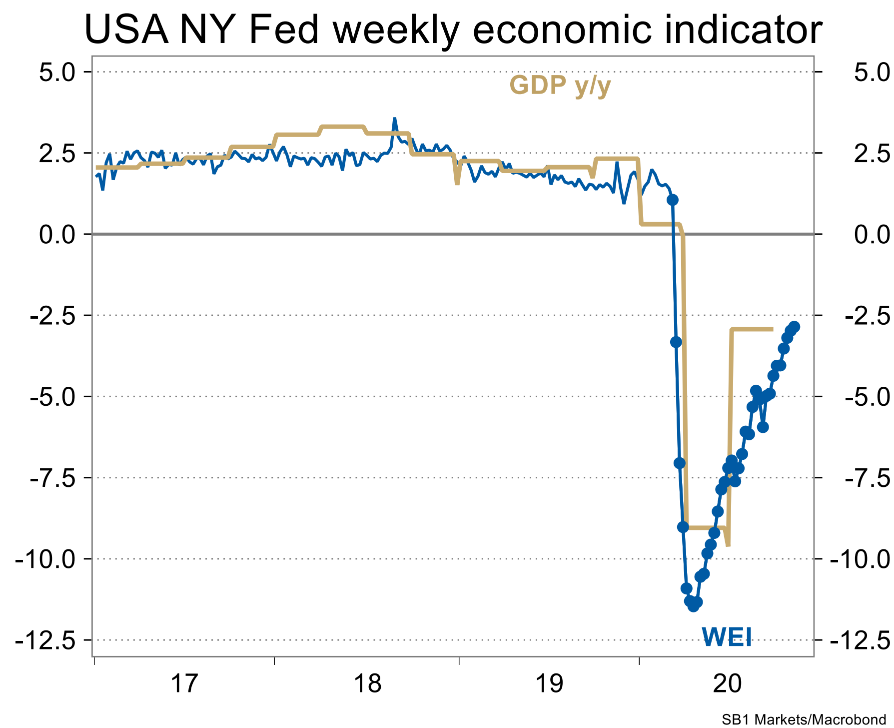


- Even so, the no of persons receiving unemployment benefits – continued claims – is falling rapidly – also if the Pandemic Assistance program is included

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





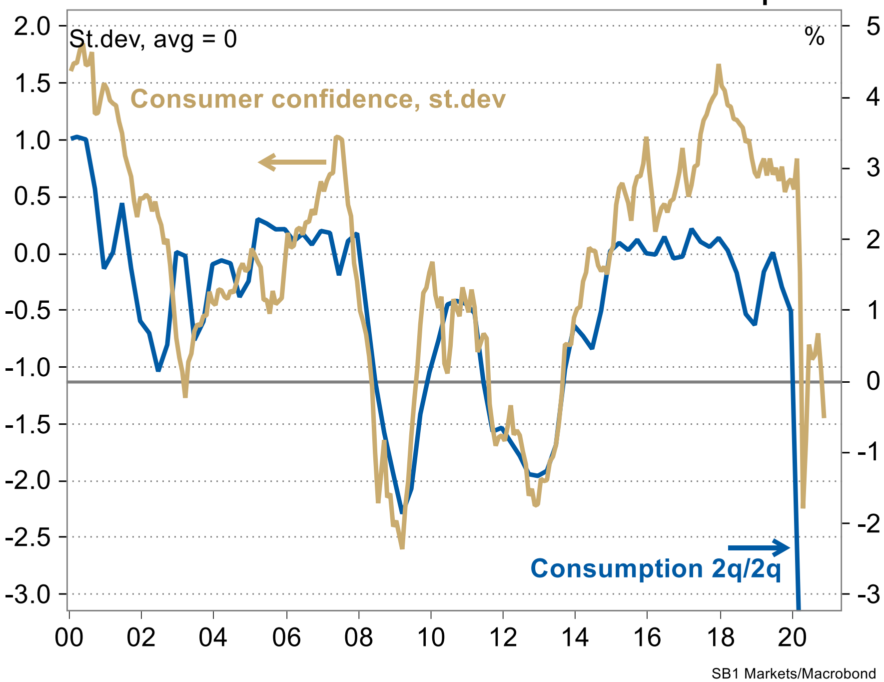
- A growth pace at 3% (annualised) is above a likely 2% trend growth speed. Still, just 0.25 pp of the remaining 5% negative output gap will be closed
- NY Fed's weekly model signal some 2.5% decline y/y (so far) in Q4, and the annual contraction is narrowing. If the WEI should end up 2% down y/y in 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

SpareBank 1 MARKETS

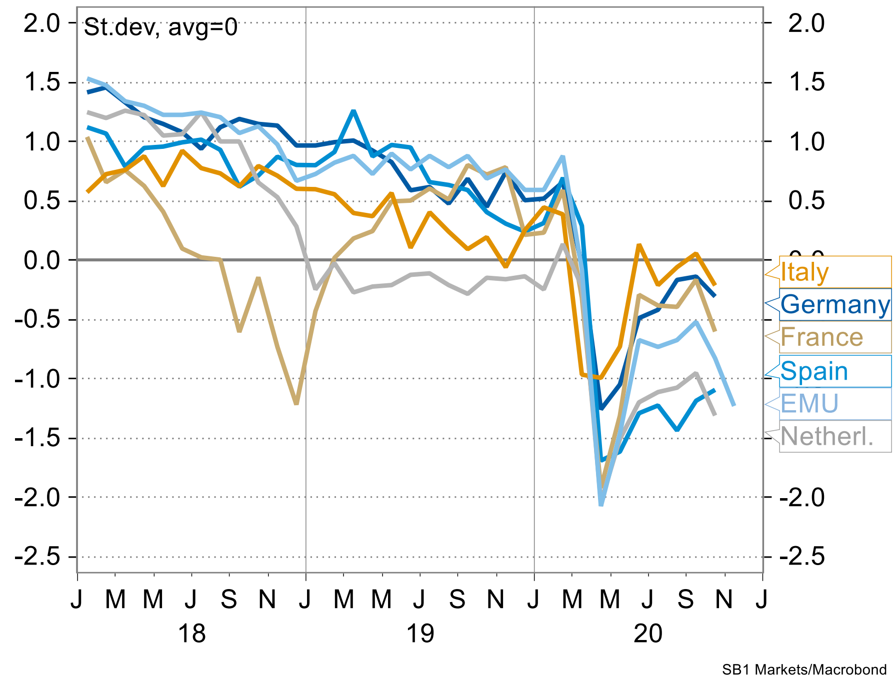
Consumer sentiment hit by corona, again – but less than expected

The confidence index fell by 0.5 st.dev in Nov (after -0.3 in Oct). Level at -1.5 (was -2.2 in Apr)

EMU Consumer confidence vs consumption



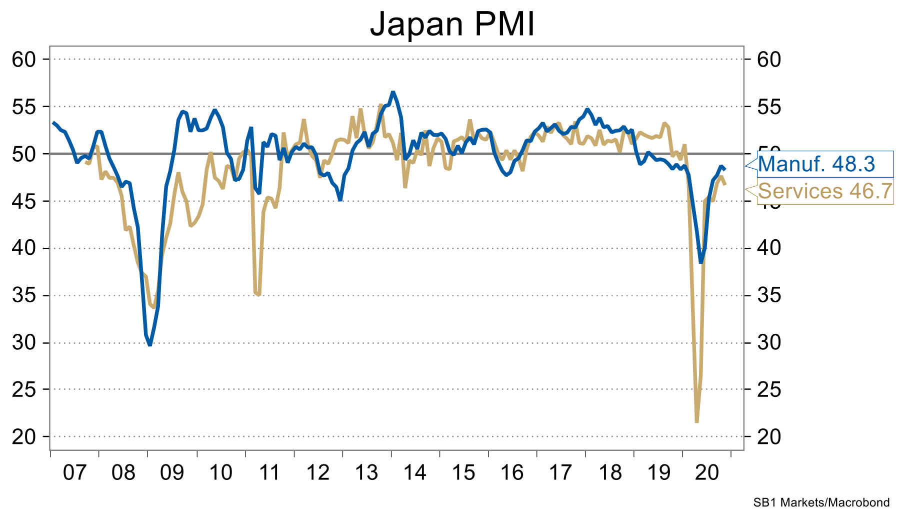
EMU Consumer Confidence

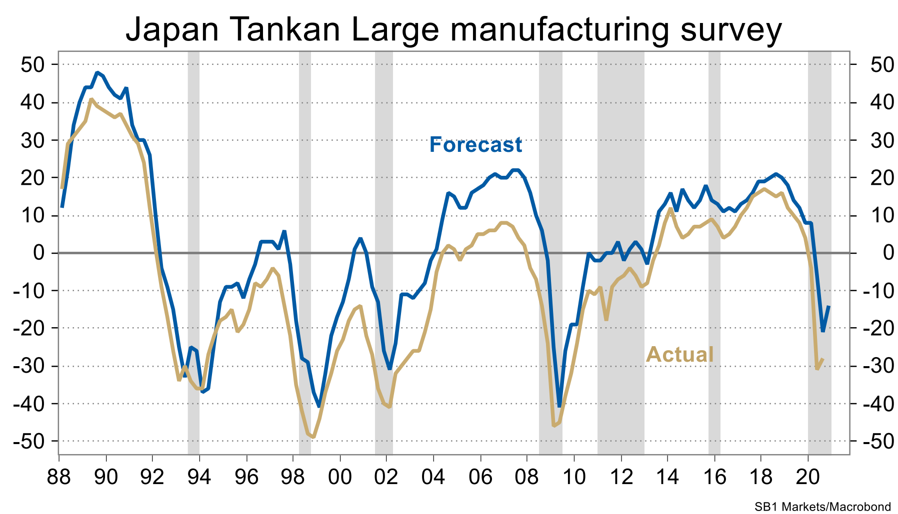


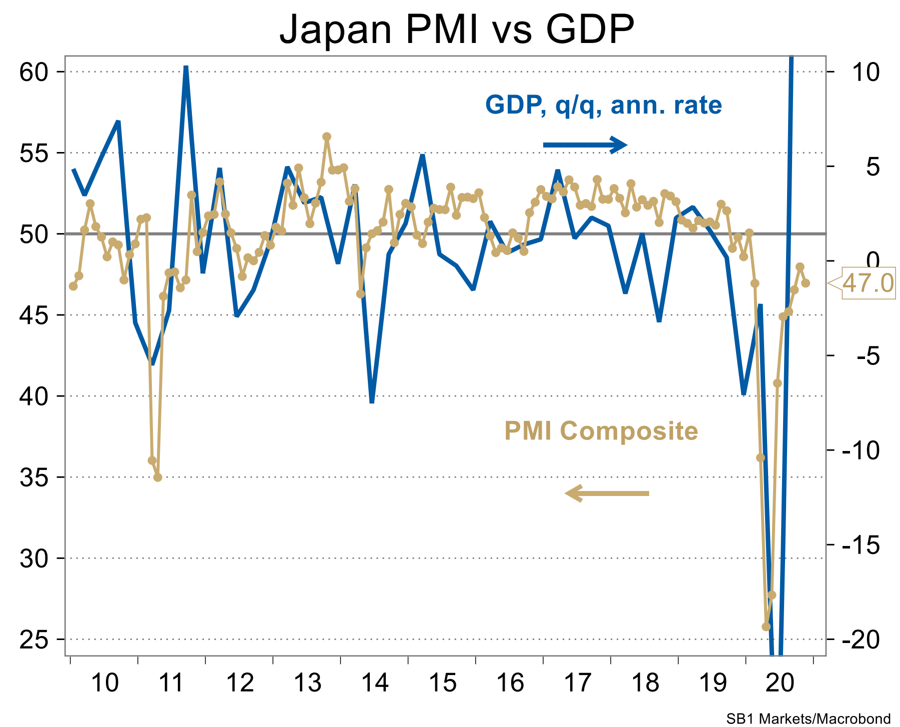
- The Nov setback was slightly smaller than expected
- A confidence at the present level does not signal any collapse i private consumption but no growth either
  - » However, the decline in consumption in Q2 was much more brutal than confidence indicators signalled
- In October, confidence fell everywhere, except for Spain, even if the corona outbreak at that time had det most serious consequences in Spain. No Nov country data yet

Japanese PMIs still below 50 – and fell in November

Both manuf. & services weaker than expected, signal a contraction



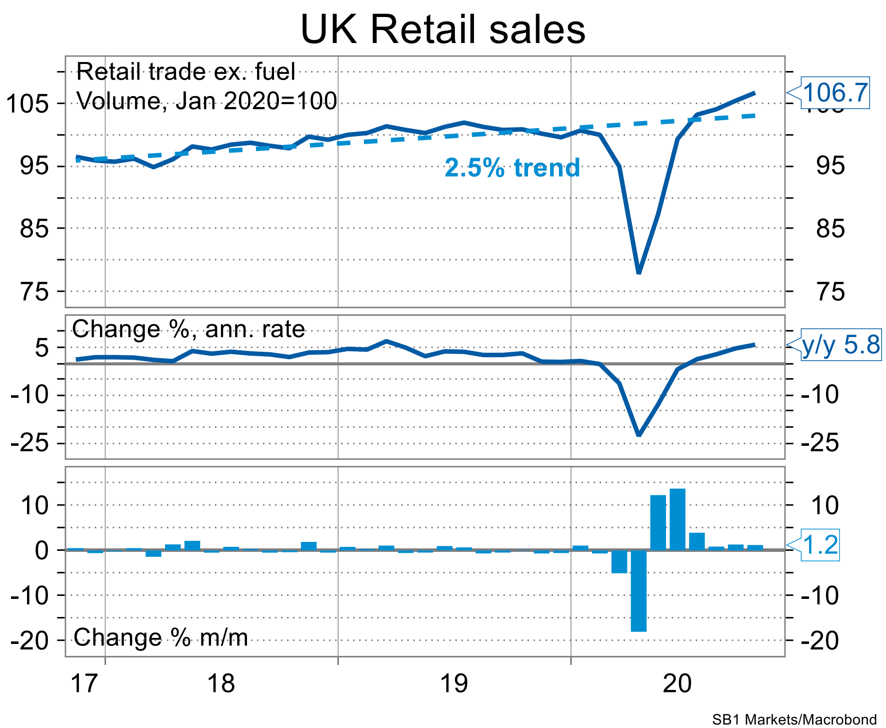


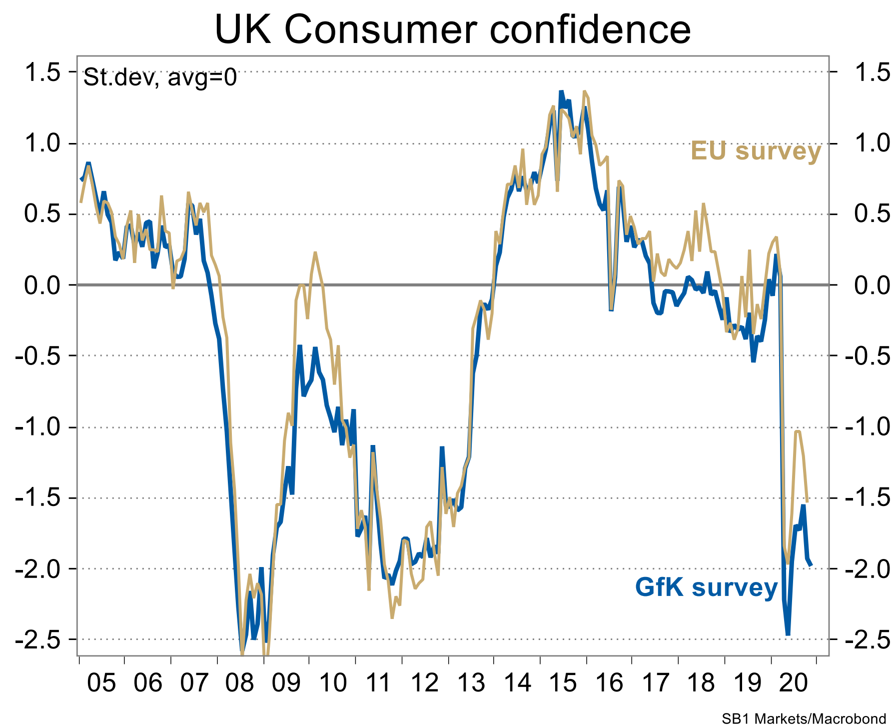


- The PMI – like other surveys – did not report the unprecedented Q3 GDP surge. However, now these surveys most likely are becoming more reliable – and the Nov decline is not good news

Retail sales rose further in Oct, almost 7% above the pre corona level!

Sales up more than 1% in Oct (as in Sept) even if confidence fell again in Oct (and further in Nov)

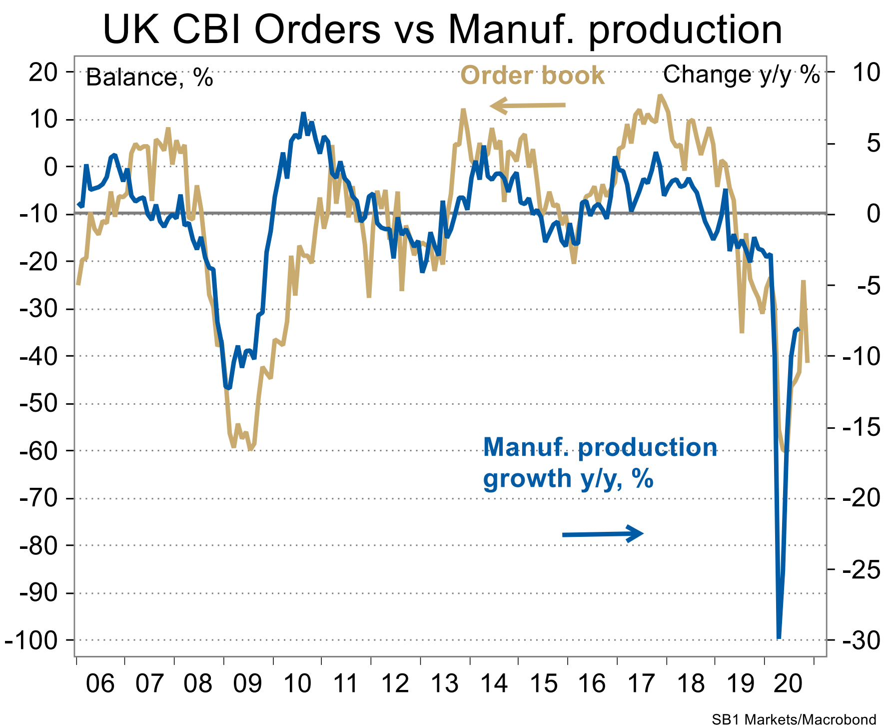


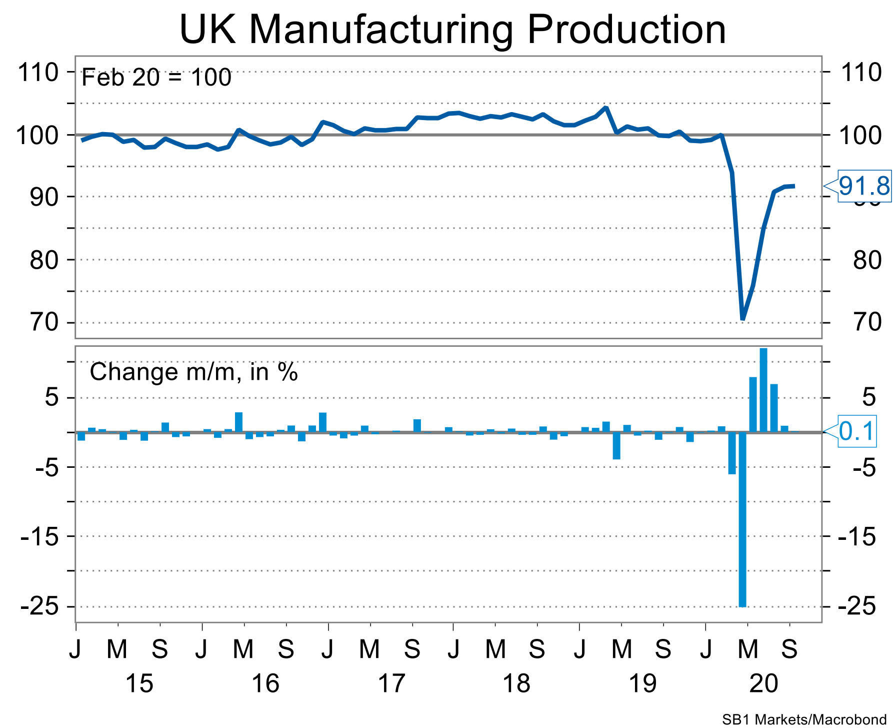


- The new corona restrictions that are imposed will probably hurt services much harder than retail sales – and sales are unlikely to decline as during the spring lockdown
- Consumer confidence has fallen again, from low a level – and is not far above rock bottom levels

CBI manufacturing orders index down again in November

Orders are being reduced rapidly, just marginally slower than during the worst months of the crisis

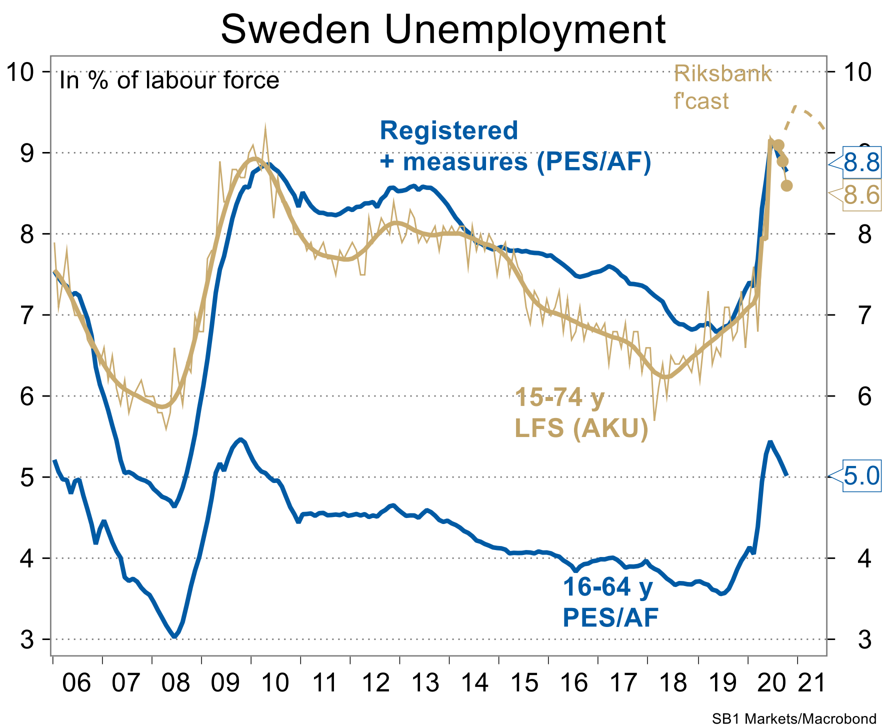


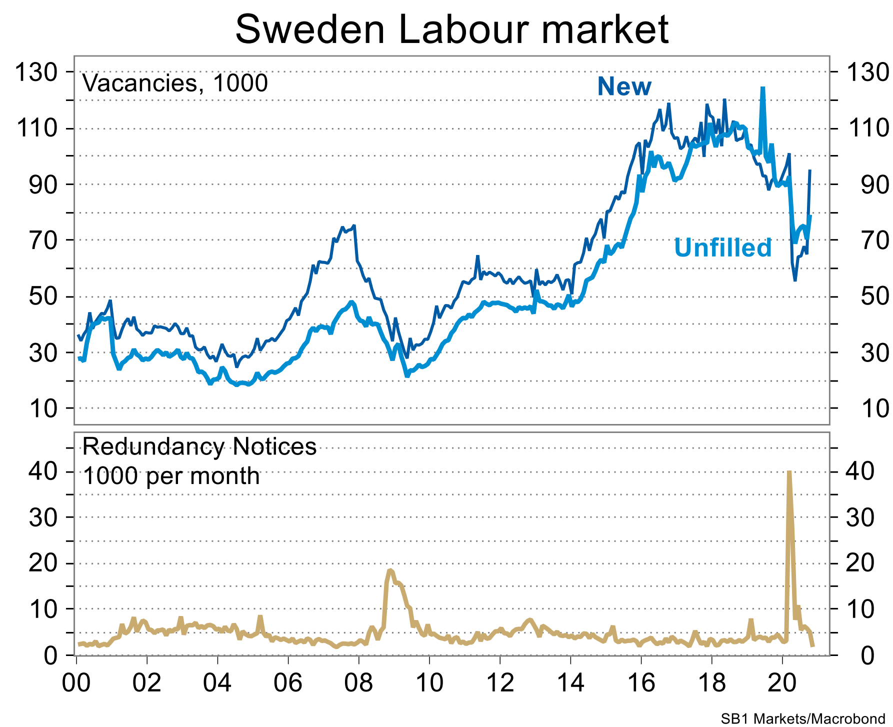


- The CBI order book index bottomed out in May but did not fully recover before the index fell again in November – and the level signal a significant contraction
- Manufacturing production is still 8% below (a low) pre corona level – which is not that much weaker than EMU and US

LFS unemployment down in October, still at 8.6%, employment is heading up

More new vacancies also signals better labour market. However, hours worked are still heading down



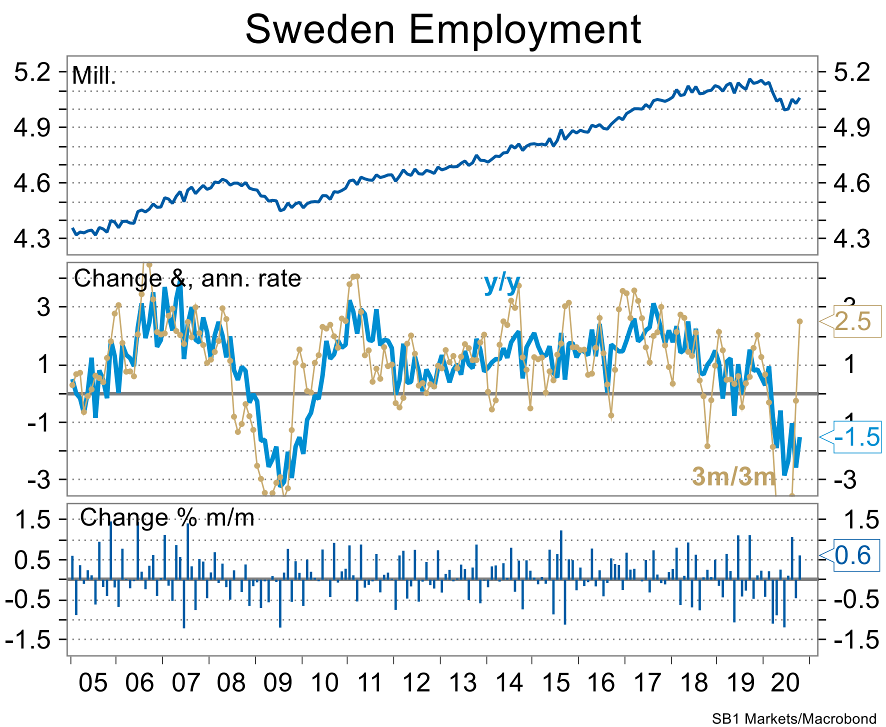


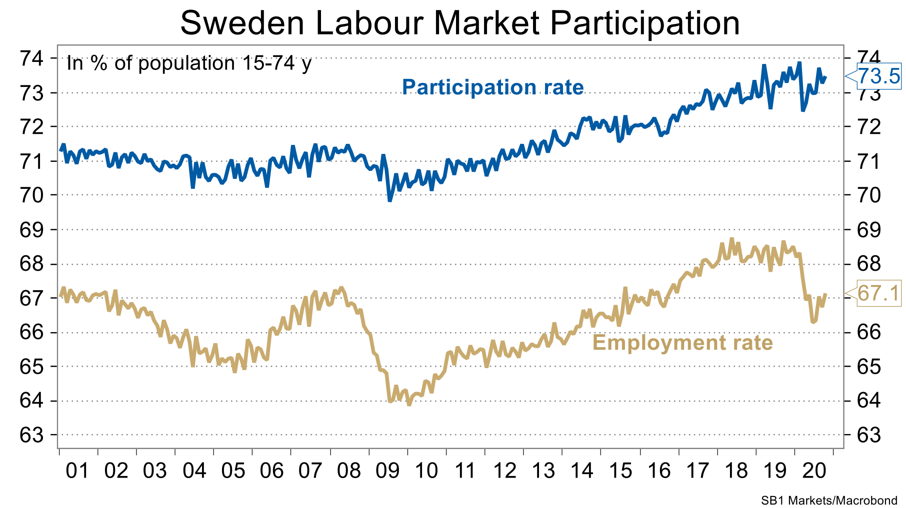
- Sweden has less furlough schemes, and less measures to subsidise employers to keep workers at job in some other countries. Still, employment & unemployment are heavily 'distorted' in Sweden too, and do not reflect the 'real' demand for labour
- LFS unemployment 0.3 pp to 8.6% in Sept – but is still up 1.5 pp from the pre corona level
- Registered unemployment has inched down past 3 months, to 8.8% incl. labour market measures in Oct – still up from 7.3% in February
- The number of new and unfilled vacancies rose sharply in Oct, especially new vacancies – almost back up to the pre corona level.

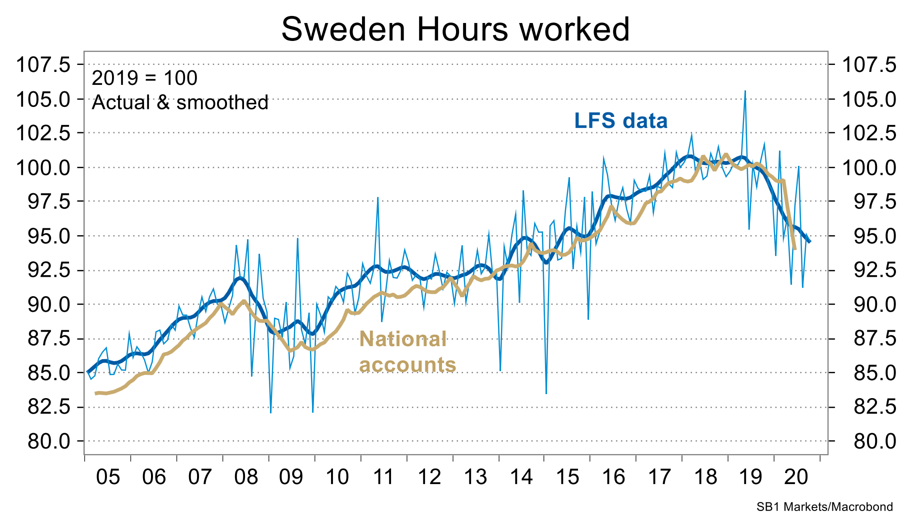
SpareBank 1 MARKETS

Employment has bottomed. Hours worked not, according to the LFS

Employment is down 1½% y/y, but hours worked is down some 5% - the real corona toll

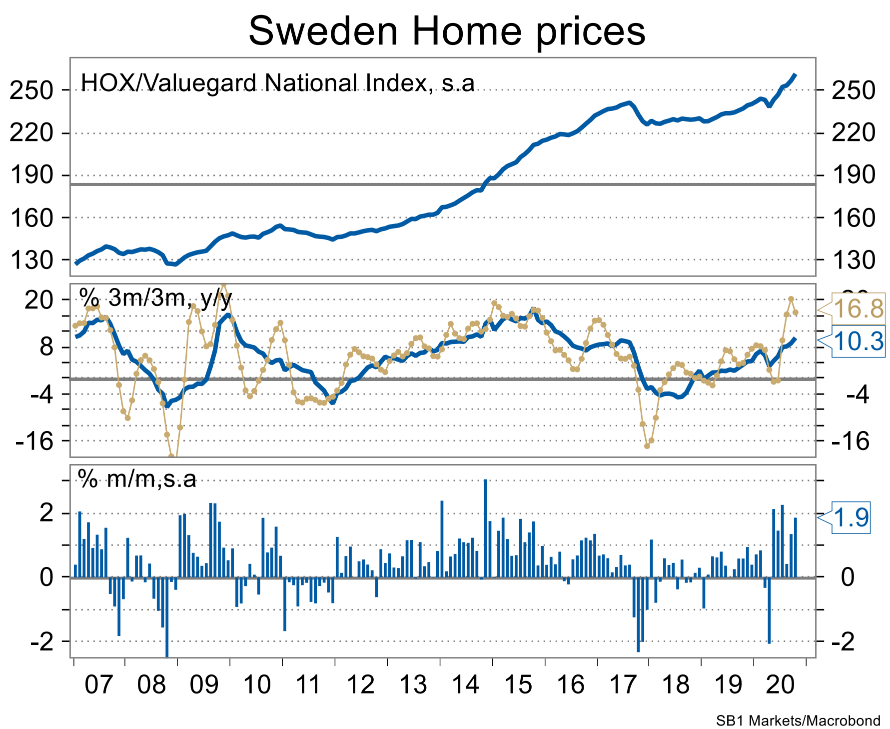


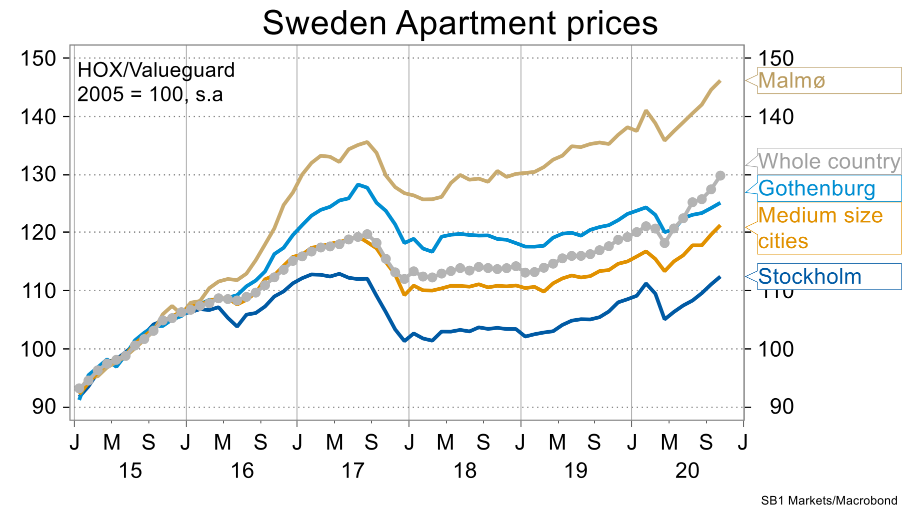


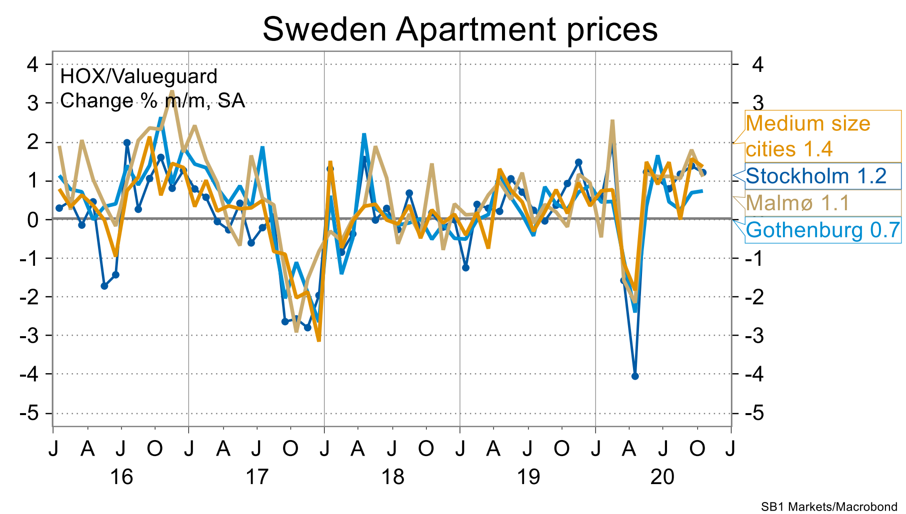


Swedish house prices are surging too, up 10% y/y

National prices up 1.9% m/m in Oct, prices are 7% higher than before corona



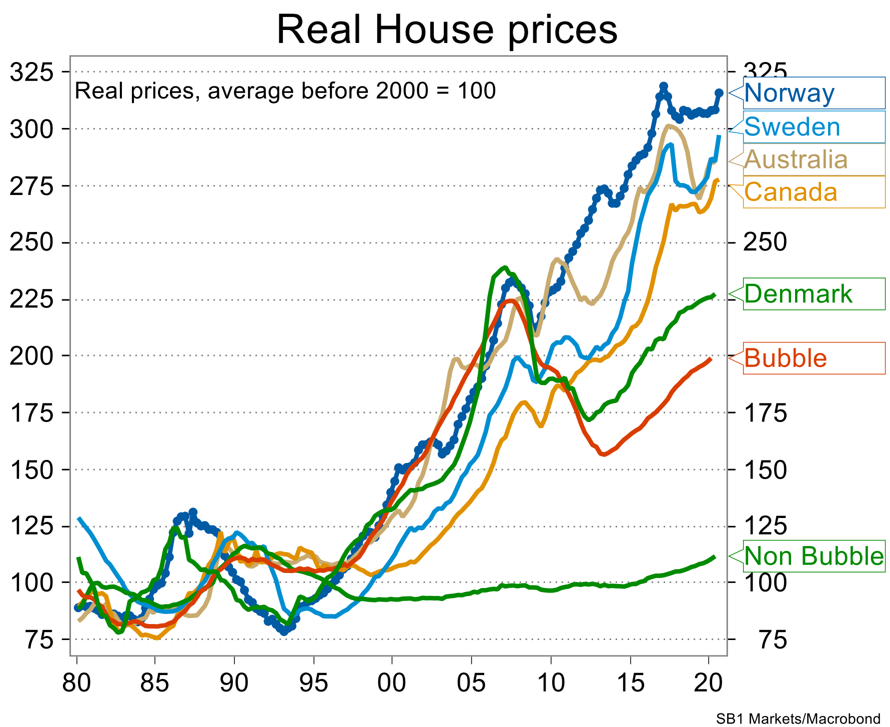


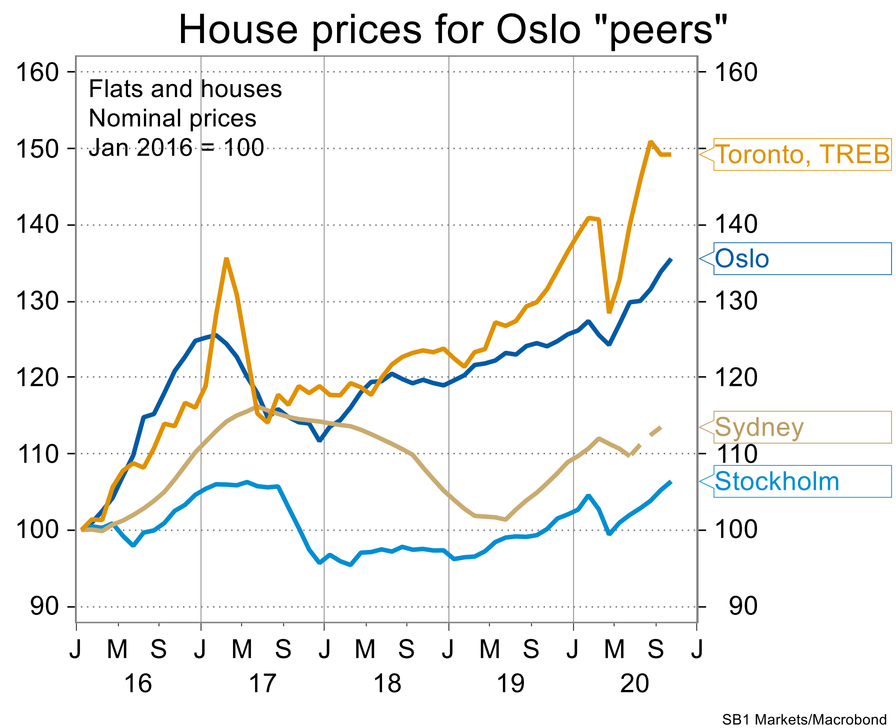


- Underlying price growth is now 15 – 20%, even higher than in Norway
- Prices are now increasing in all the major cities – and finally both Stockholm and Gothenburg prices are above the February level, after being lagging sharply recent months

Here we go again…

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





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

Highlights

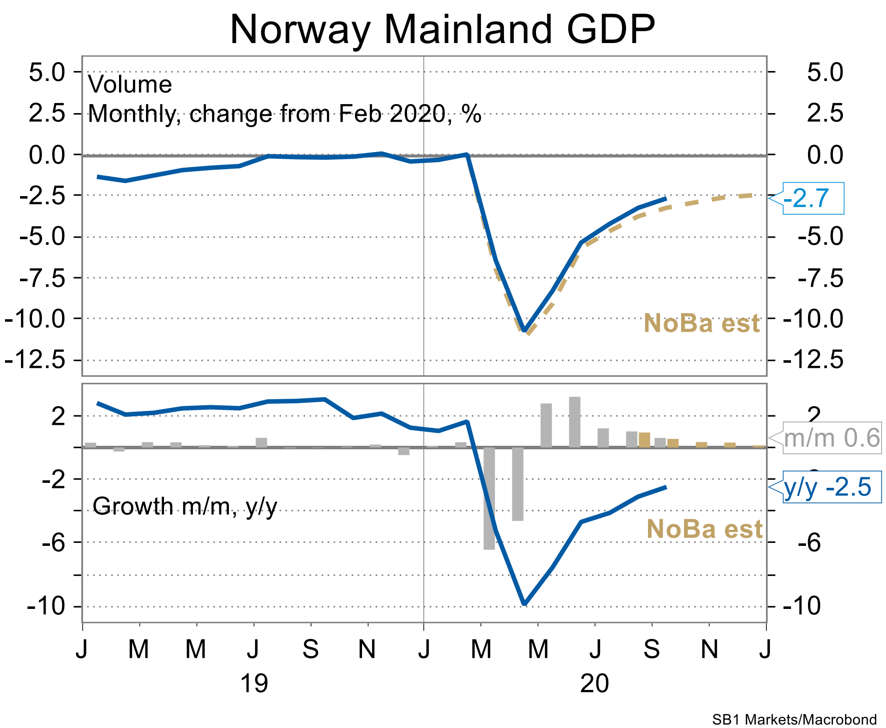
The world around us

The Norwegian economy

Market charts & comments

GDP growth as expected in Sept/Q3, Norwegians' domestic spending keeps up

Mainland GDP rose 0.6% in Sept, -5.2% in Q3. Sept down 2.7% vs. Feb, we expect. -3.3%

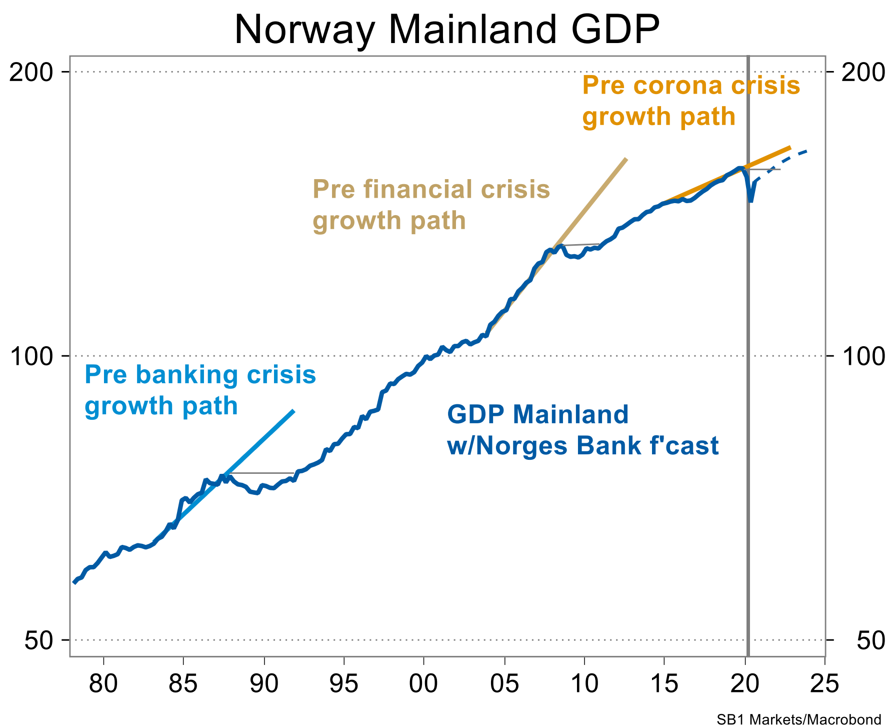


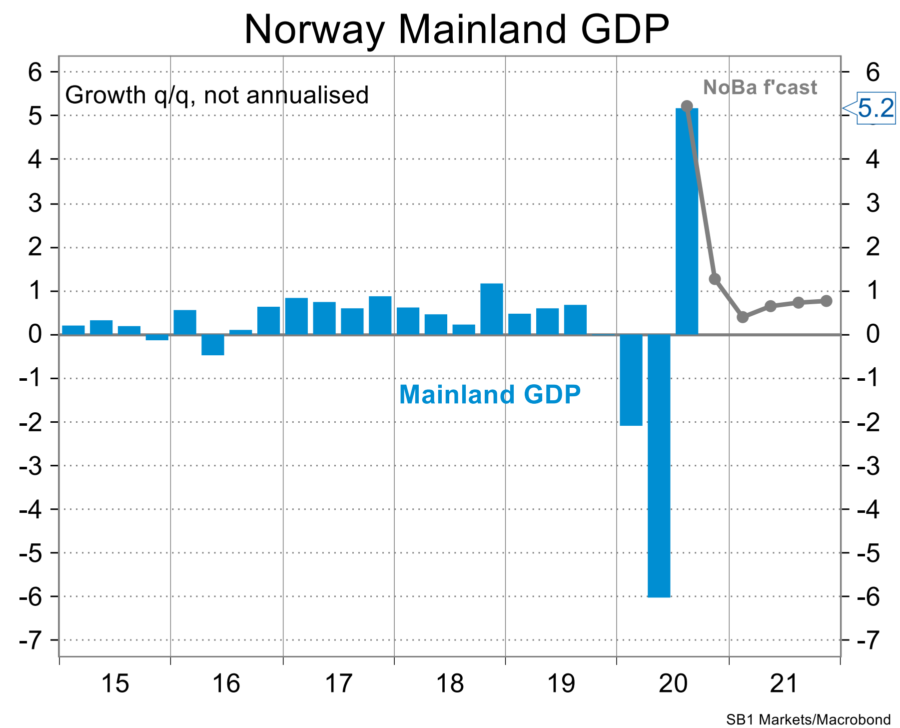
- <u>The outlook: When less corona pains, more economic gains</u>
  - » Goods consumption is not too high but will remain higher than normal until we can spend more on services or abroad
  - » Foreigners' spending in Norway will not recover before the corona virus is beaten down, <u>abroad and in Norway</u>. No quick fix, even if vaccines are under way
  - » Other parts of service sector production will recover as soon as the virus is brought under reasonable control <u>in Norway</u>
  - » Both Mainland business and oil investments are heading down
  - » Exports should be kept up, as long as the global economy not tanks

- The recovery continues but growth is gradually slowing. Mainland GDP is 2.7% below the February level, and some 4% vs a 'normal growth path from February (however, GDP had flattened before the virus hit, no growth through H2-19)
  - » **Demand:** Norwegians' spending at home is marginally above the Feb level, as is Government demand. Mainland businesses investm. are unch. vs Feb. Oil investments are declining. Exports x tourism are almost back to the Feb level. Foreigners' spending is subtracting 1.5% from GDP vs. Feb, half of the decline!
  - » **Production:** Trade (retail+) is up vs. Feb, others are still down. Hotels & restaurants, transport, culture/entertainment and business services are at the bottom, down 18 – 25%!
- GDP grew by 0.6% in September, as expected
  - » **Demand:** Mainland business investments surprised on the upside, while both private and government consumption also rose. Inventories contributed on the downside.
  - » **Production:** No big changes m/m
- A marginal upward revision:
  - » The downturn from February was slightly milder than initially estimated, 10.8% vs. 11.2%. The recovery from May to August has been revised up by 0.2% at GDP grew a tad faster in August. Thus, the level in August was 0.6% higher than initially published, and 3.3% below the Feb level vs the previous estimate at 3.9%

Mainland GDP up 5.2% in Q3

The steepest quarterly increase ever, following the steepest decline ever – like everywhere

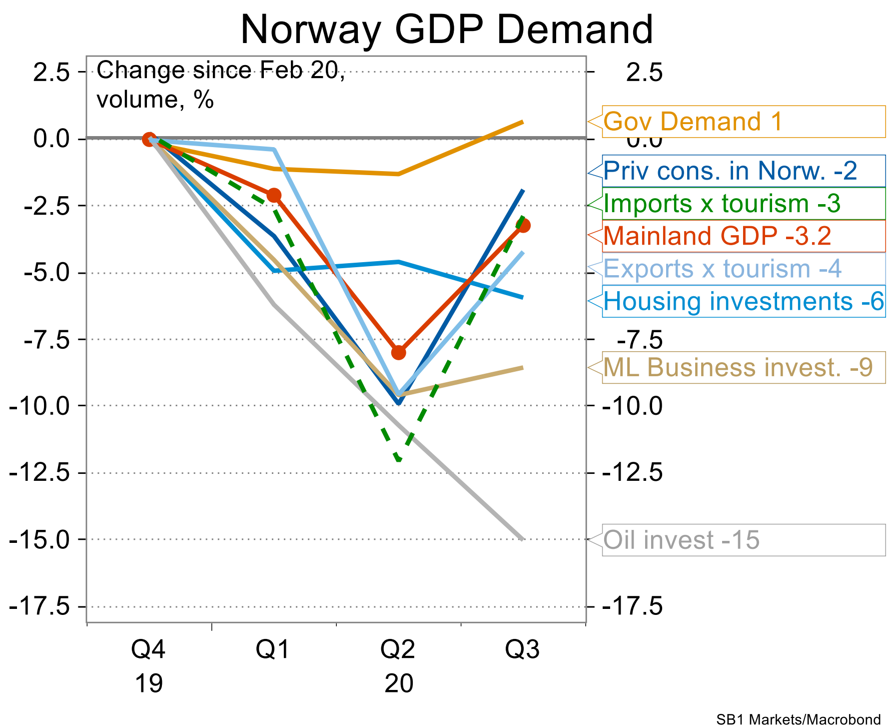


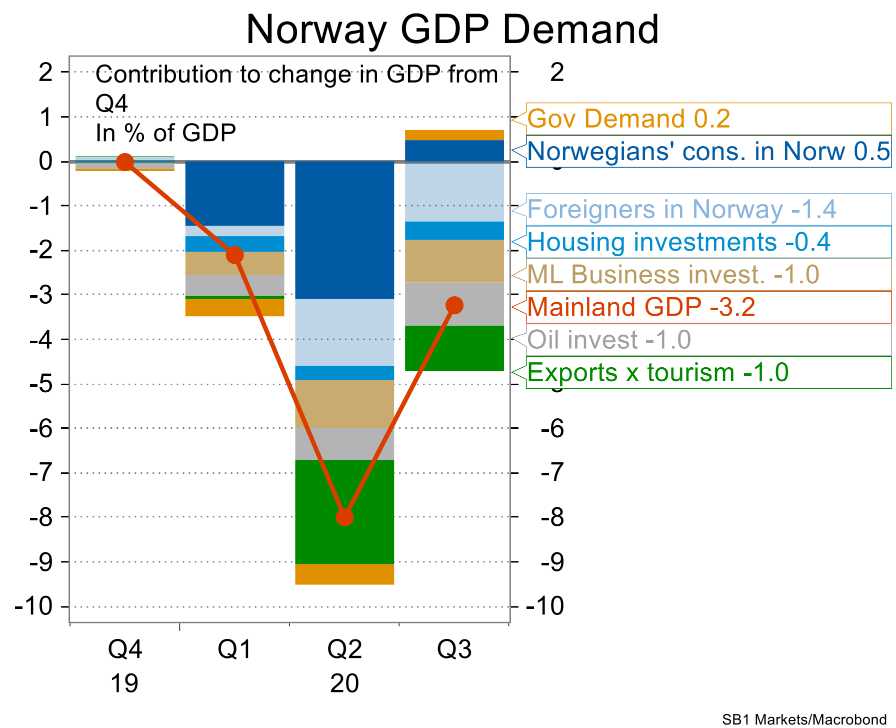


- If the economy recover as Norges Bank expected in September, aggregated losses of activity will not be disastrous, in total GDP. That is particularly the case vs. reasonable (and moderate) growth expectations ahead of the corona crisis compared to reasonable expectations ahead of the two previous Norwegian recessions (late 80'ies Norwegian banking crisis and the 2008-9 Global Financial Crisis).

To Q3 from Q4-19: Norwegians' spend more at home, public spending up too

But that's all on the upside: Foreigners' spending down, like oil & Mainland business investments

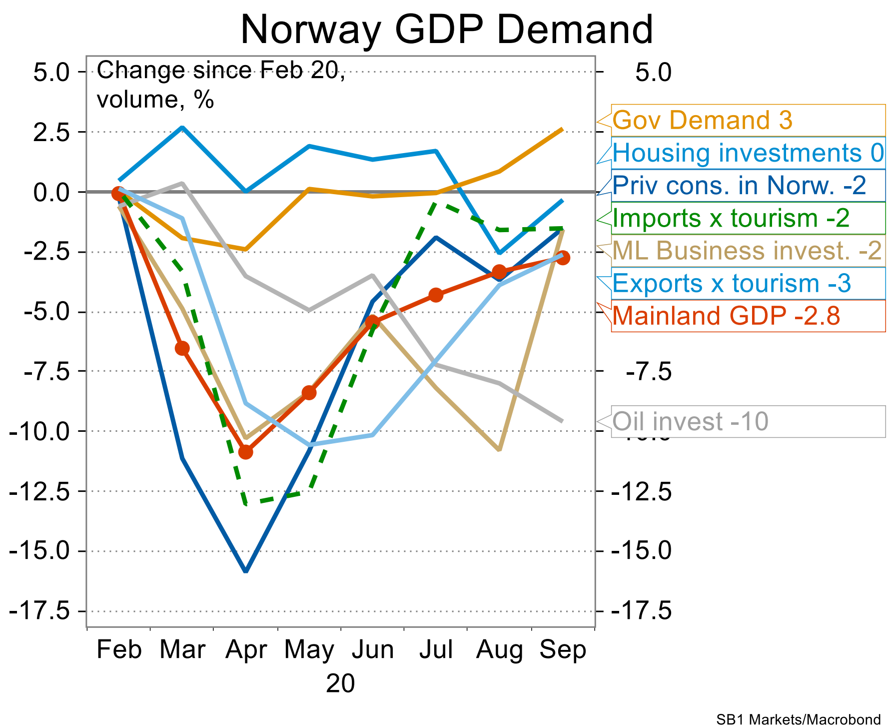


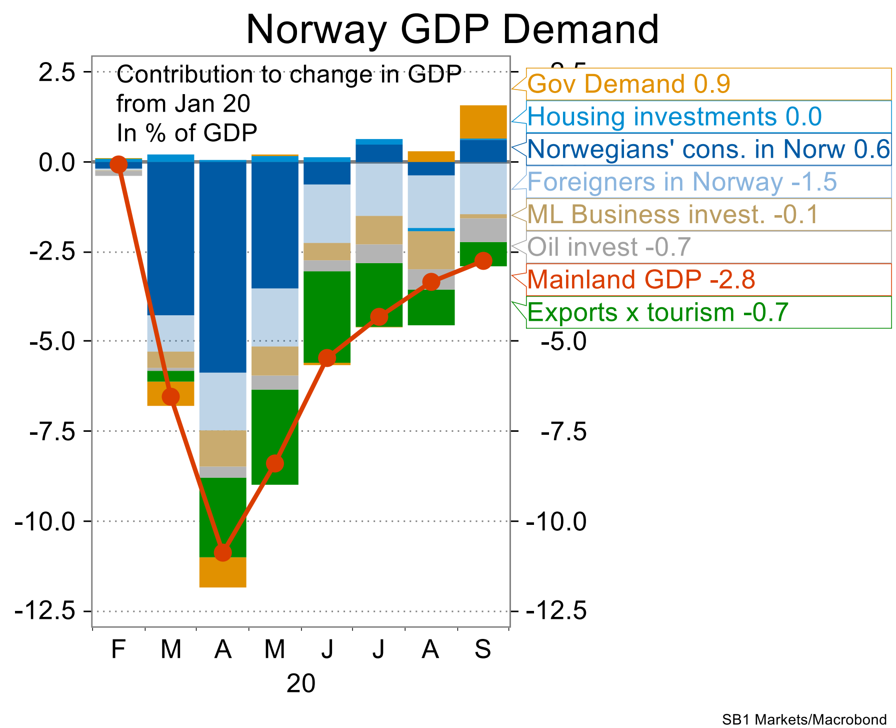


- Exports x tourism are down too

A monthly view: Volatile – but the drag from foreigners' lack of spending is const.

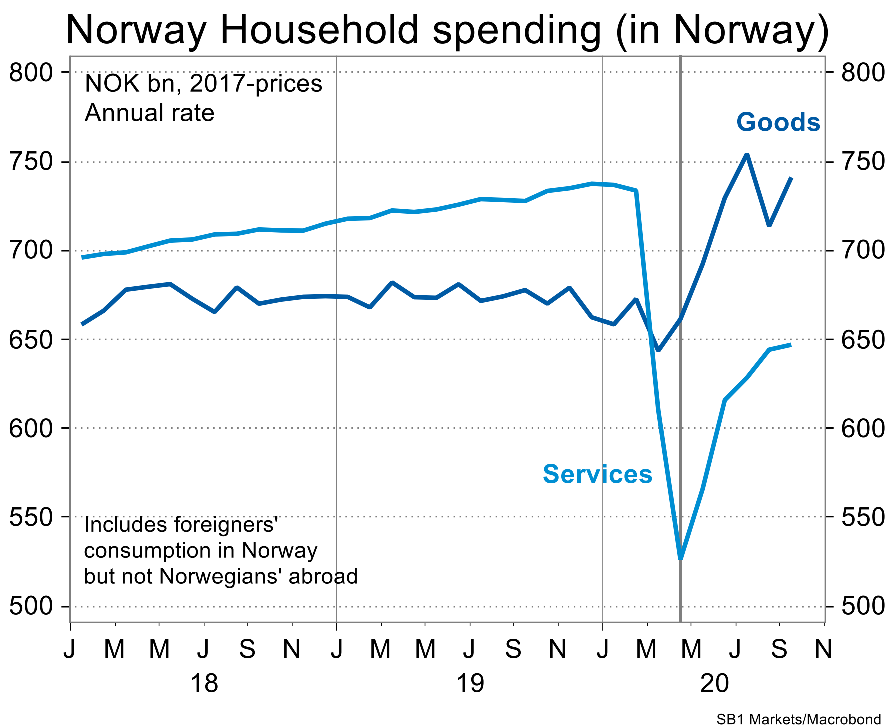
Exports x tourism are gradually recovering





Consumption of goods up 10% from February, services down 12%

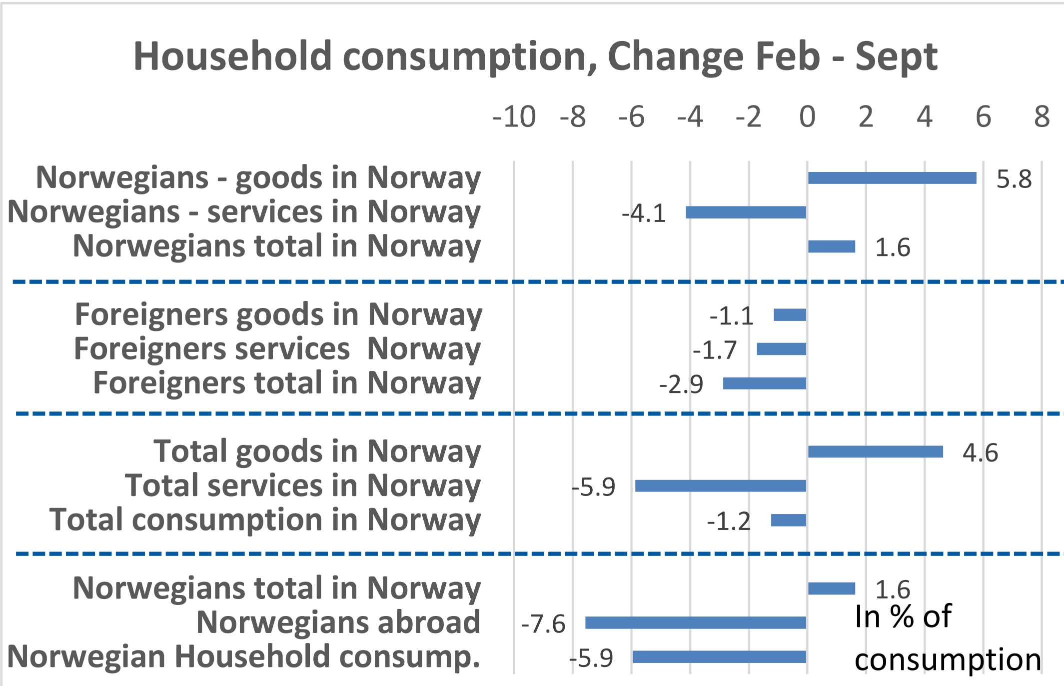
The total is down 1.3% – because foreigners' are not spending anything here these days



- However, Norwegians are spending more in Norway than in February
- Norwegian households have reduced their consumption abroad (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports). Check the next page for details

Norwegians are consuming like normal – in total – in Norway

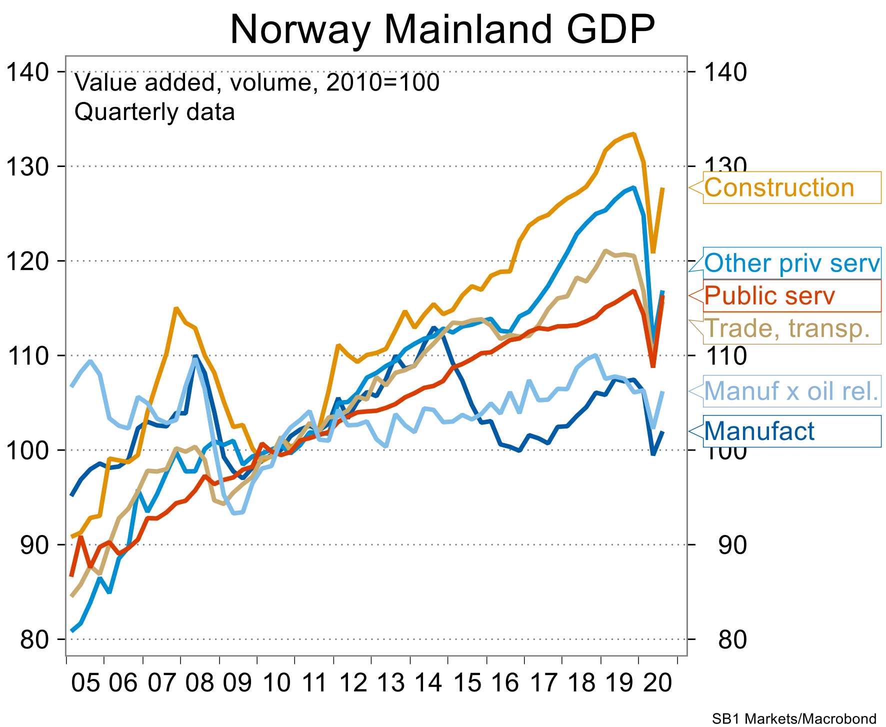
Goods consumption has soared, services cut. And no foreigners are consuming here!

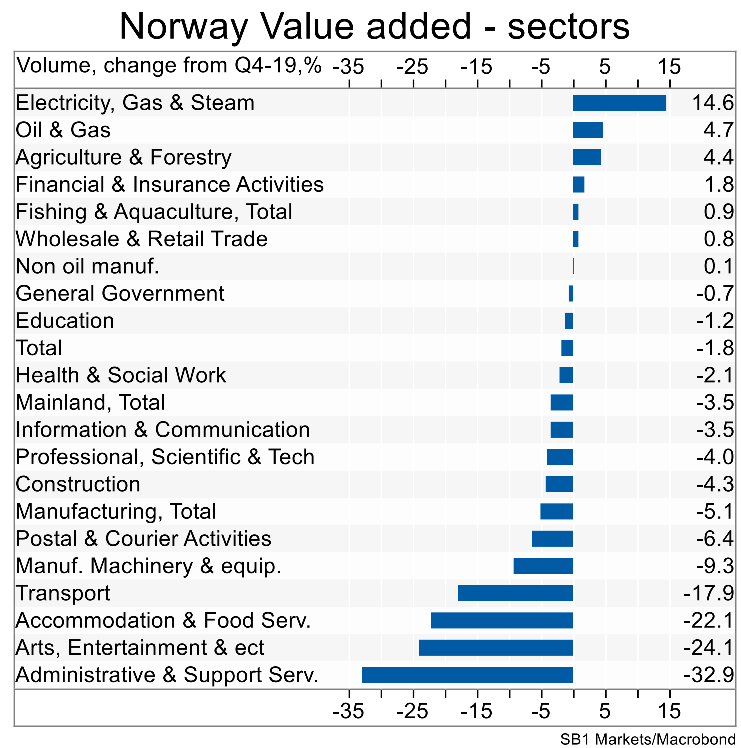


- Norwegian households have reduced their consumption of services in Norway more than they have lifted their consumption of goods – in sum up 1.6% of total household consumption
- Foreigners have cut their spending in Norway equalling 2.9% of *total private consumption*
- Sales of consumption goods are up 4.6%, and services are down 5.9%. The total is down 1.2% - *all in % of total consumption*
- Norwegians have reduced their spending abroad equalling 7.6% of their total consumption – and total Norwegian household consumption is down by 5.9%
  - » Other countries 'have taken 94% of the beating' of the cut in Norwegian's spending (before calculating for import content in consumption
  - » Norwegians have reduced their consumption abroad almost 2.5 x more than foreigners have cut their spending in Norway (because Norwegians are spending 2.5 more abroad than foreigners in Norway)
- No Q3 income & savings data yet but the savings probably fell sharply, still remaining at an elevated level, we assume to 15% from 21%

Production: Most sectors below par in Q3 – service the most, of course

Transport, arts, entertainment, hotels & restaurants at the bottom – down 18 – 24% in Q3

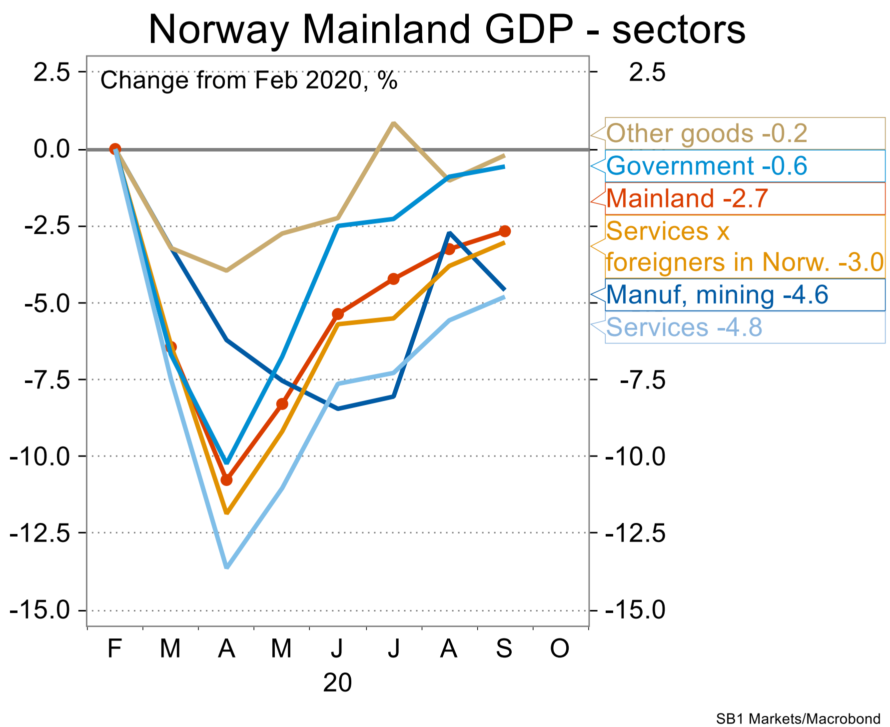


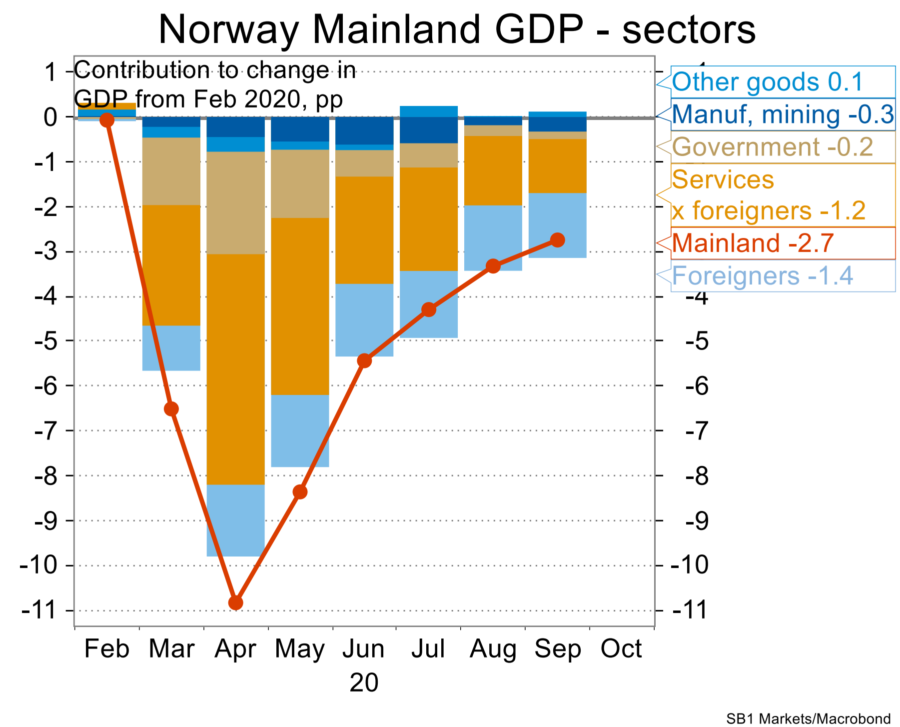


- Administrative & support services (like staffing & travel agencies, cleaning, canteens, leasing etc) are down 33%
- Manufacturing is down 5%, due to the decline in production in oil related industries, others are flat vs. Q4-19
- Construction is weaker than we assumed, 4% down vs. Q4-19

Production – monthly data: Services are recovering, still far below par

Services production is down 4.8% from the pre corona level in Sept, manufacturing & mining -3.2%

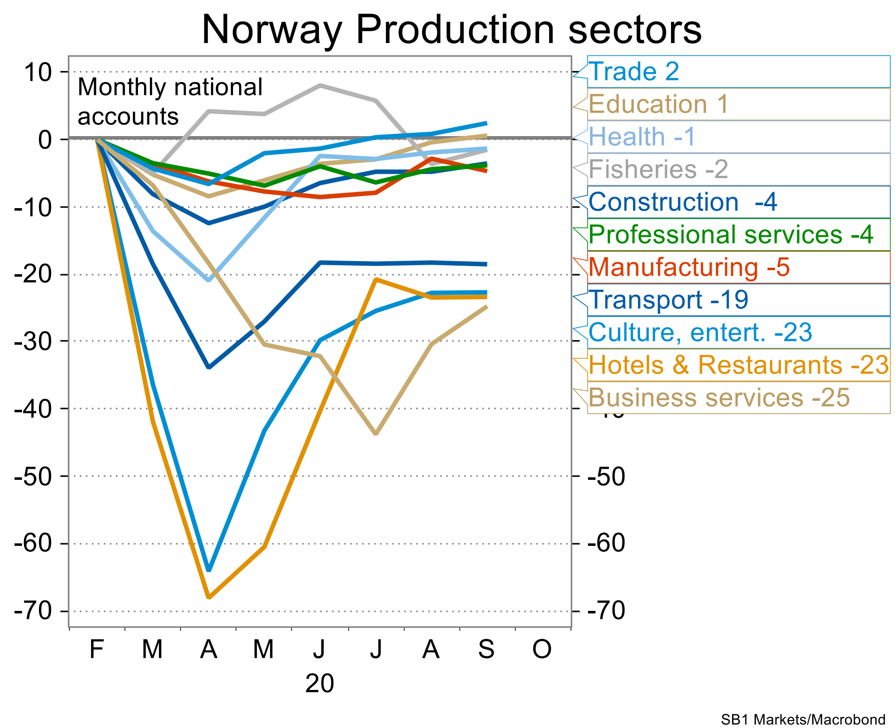




- … following the huge leap in manufacturing production in August (more on the following pages)
- Services ex foreigners’ consumption in Norway is down 3%
- Government production is almost back to the February level
- Production in other goods sectors (primary, construction, electricity) fell in August after reaching the pre corona level in July
- The upside potential for most of the service sector is probably limited as long as the corona virus stays around

The production side, more details: Peoples' businesses are still down 20 – 25%

Transport (personal), culture & hotel/restaurants are struggling – and will until the virus is gone

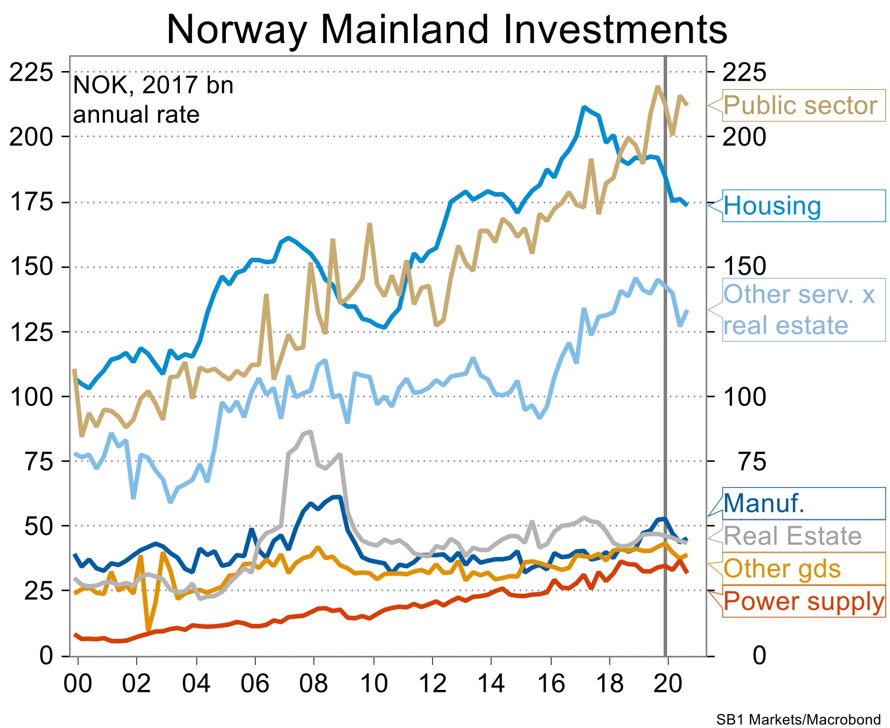


- Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing

SpareBank 1 MARKETS

Mainland business investments a tad up in Q3, most likely on the way down

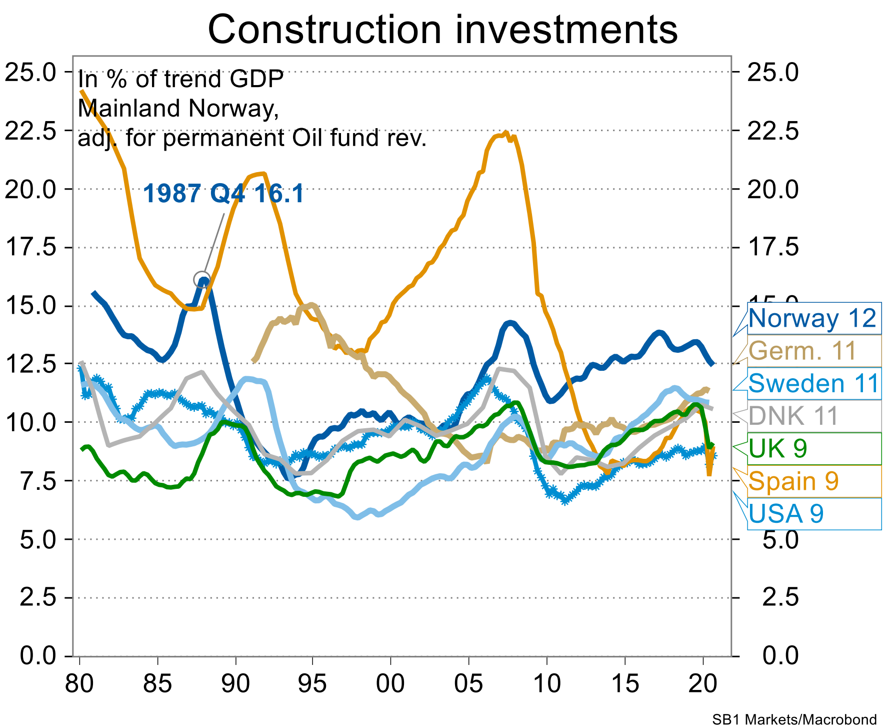
Housing investments are still on the way down, but will recover?

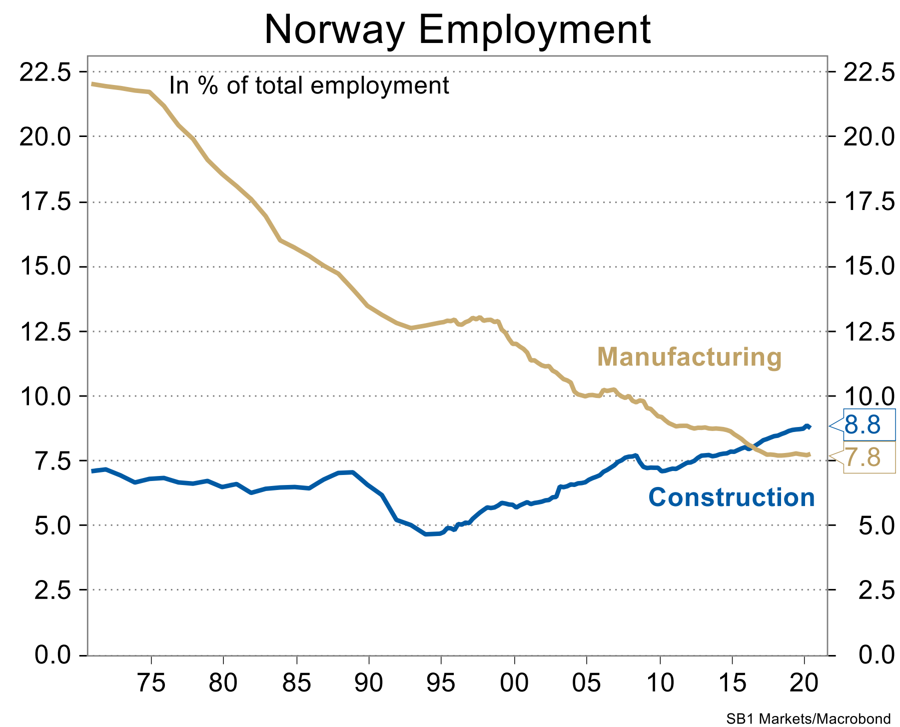


- **Public sector** investments are volatile (F35 fighter imported) but the underlying trend still upwards
- **Housing** investments fell again in Q3 but are probably now bottoming, as the 2nd hand market is strengthening
- Investments in **private services** soared in 2016-2017, then flattened and have fallen in 2020. The level is probably still above a reasonable long term level (or at least not below)
- **Manufacturing** investments rose in Q3 but are on the way down, most likely through most of 2021 (check more here)
- **Real estate** investments are sliding slowly down –and are not at boom level (check 2006/8). The downside is probably not that large
- **Power supply** investments have flattened – and will probably retreat in 2021 (check more here)
- For an analysis of oil sector investments, check here

Construction investments have flattened, are exposed?

We are quite confident: Construction activity is higher than needed, long term

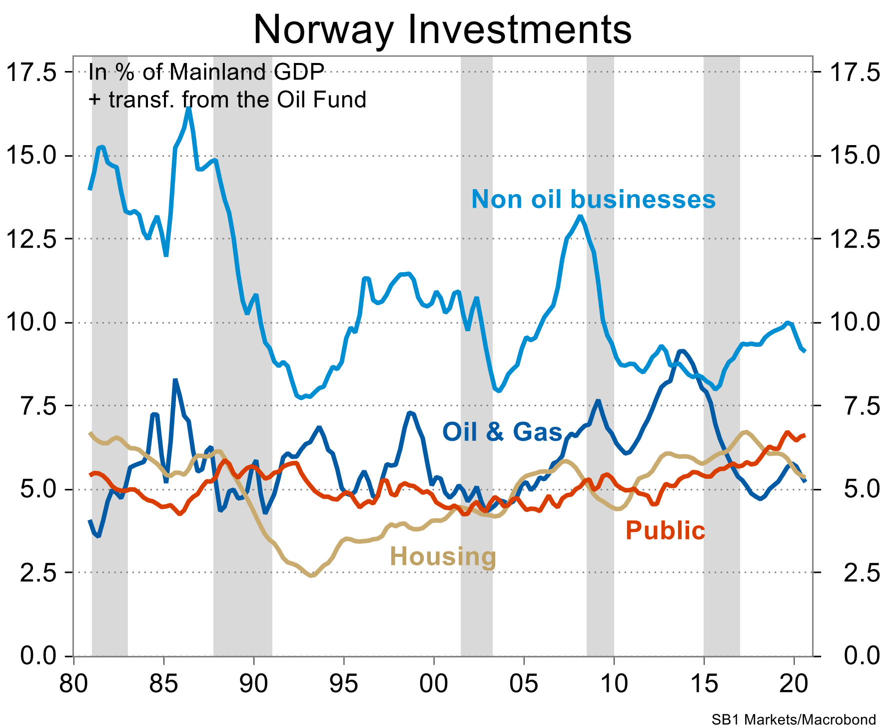




- Construction investments/GDP has flattened but remain at a high level – vs the past 30 y average and vs. other countries
- Construction employment now equals 8.8% of total employment, much higher than anytime before
  - » Construction is larger than manufacturing industries, employment wise, probably for the first time in a civilised country (except Spain and Ireland before the financial crisis)

The investment cycles: A further slowdown the coming quarters?

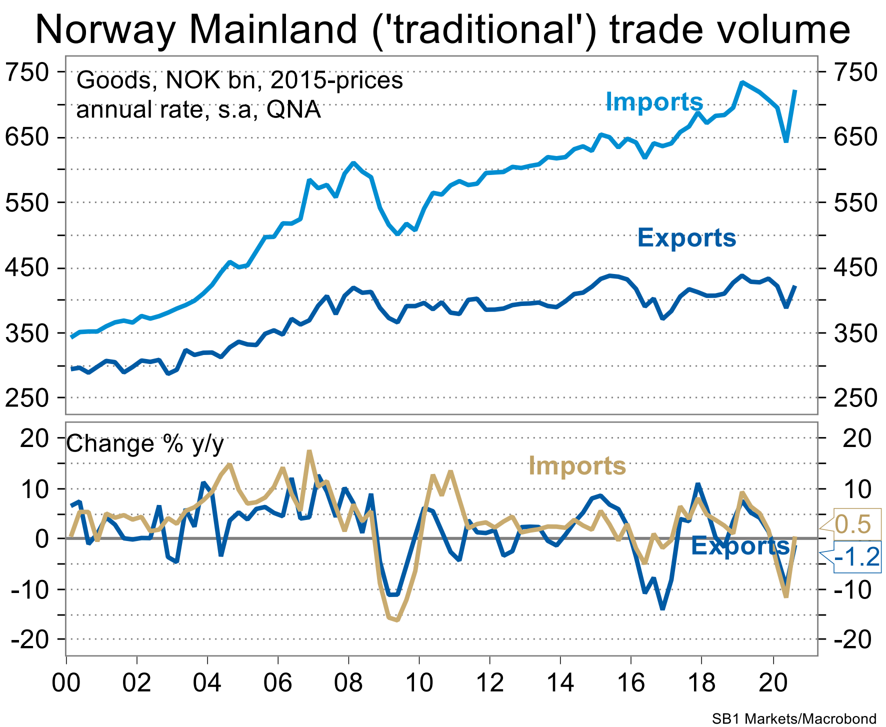
Business investments, on and offshore, peaked in Q4-19 – and will continue downwards for a while

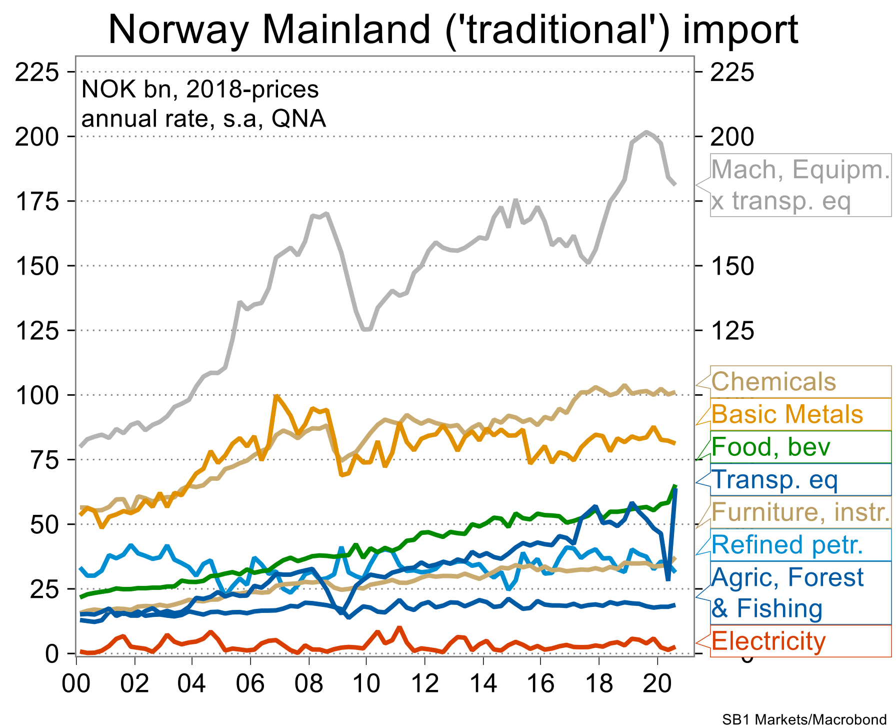


- **Oil investments** will probably decline through most of 2021
- **Mainland businesses** are not at high level but we expect most sectors to cut their investments the coming quarters
- **Government investments** are the highest in decades, vs GDP. Will come down long term, but limited downside short term
- **Housing investments** have been sliding down since 2017 but remains at a rather high level. However, given the recent strength in the 2nd market, and the increase in new home sales we do not expect housing investments to follow business investments down

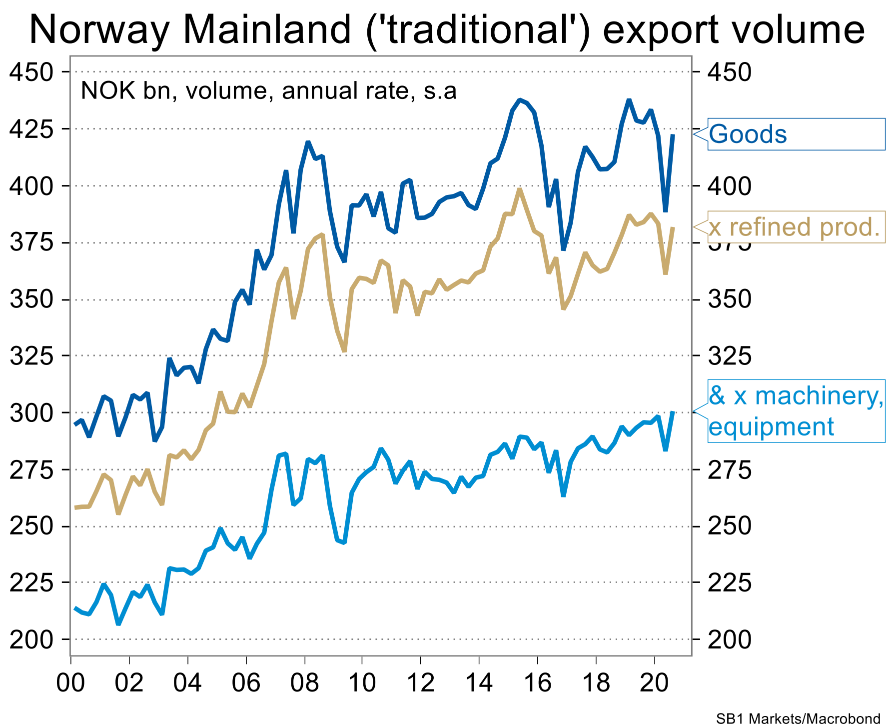
SpareBank 1 MARKETS

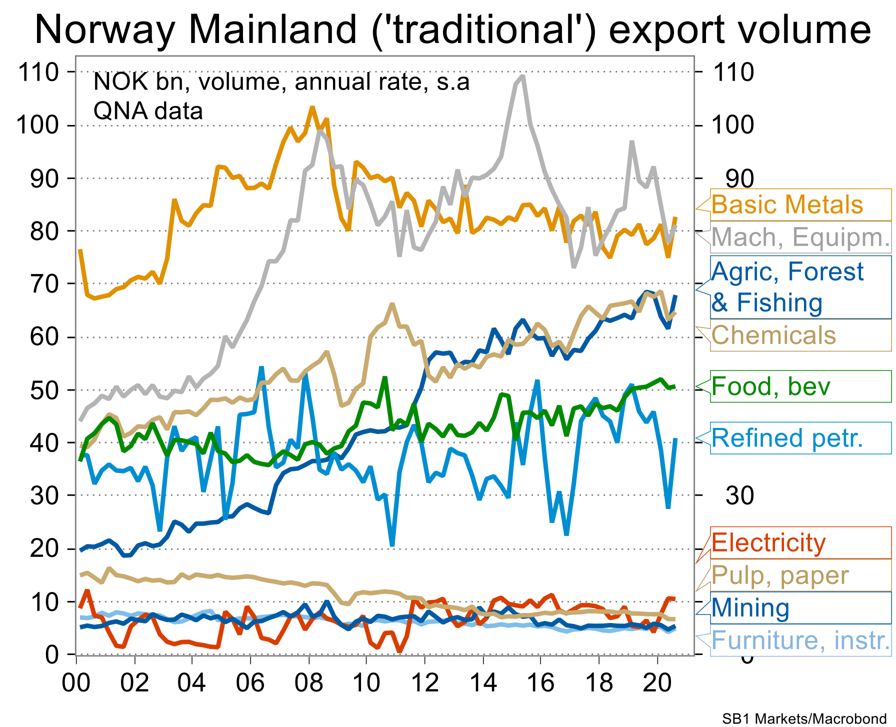
Import of goods back on track, transport equipment (car) the highest ever





Mainland goods exports are recovering, machinery still weak

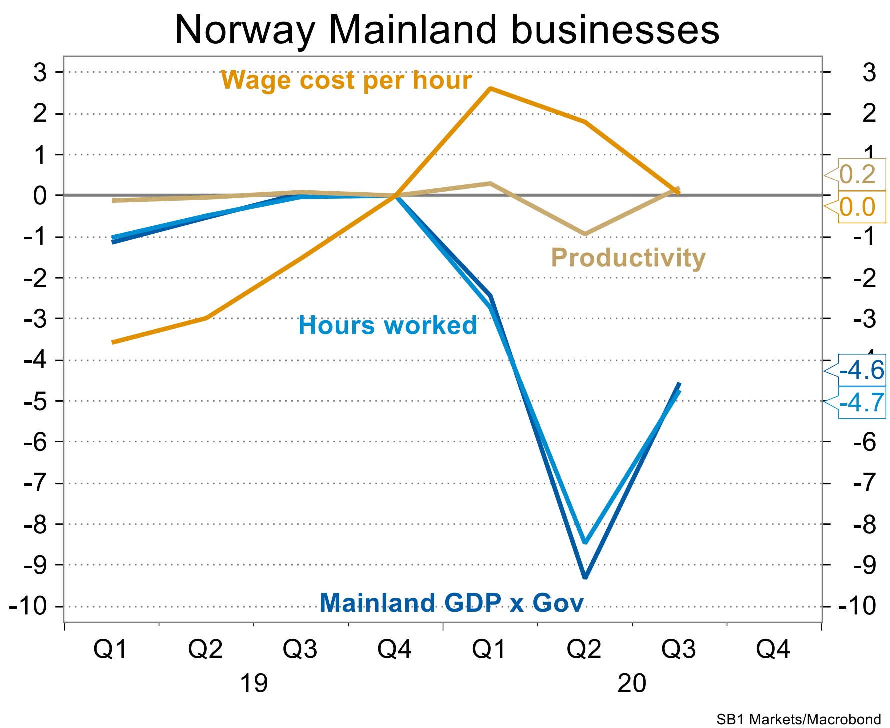


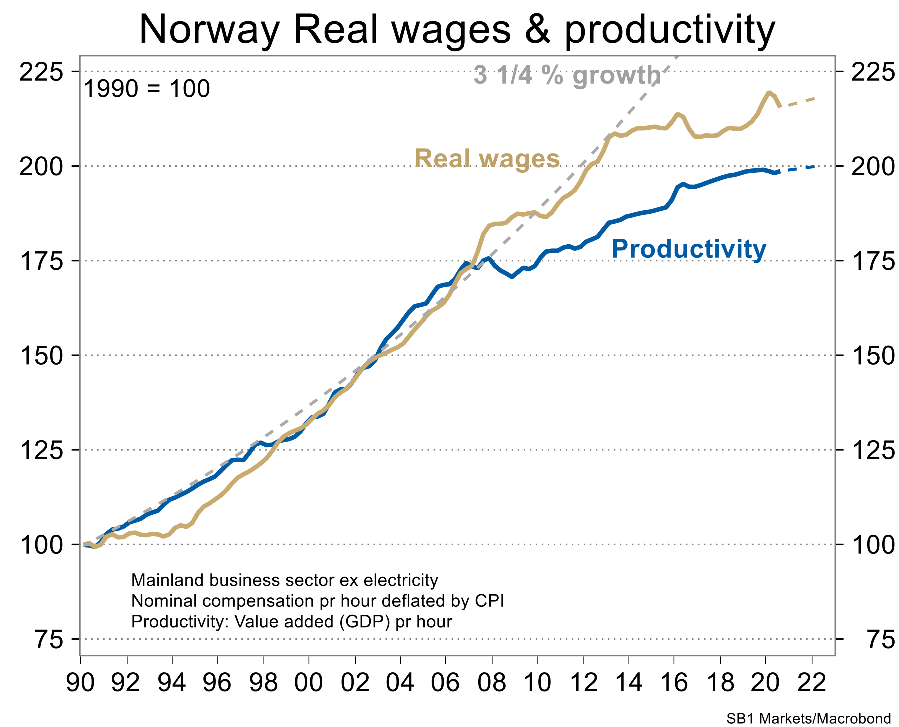


SpareBank 1 MARKETS

Hours track GDP – productivity flat since Q4. Not unlikely

Still, we take these data with a grain of salt – both production, ours worked and average wages



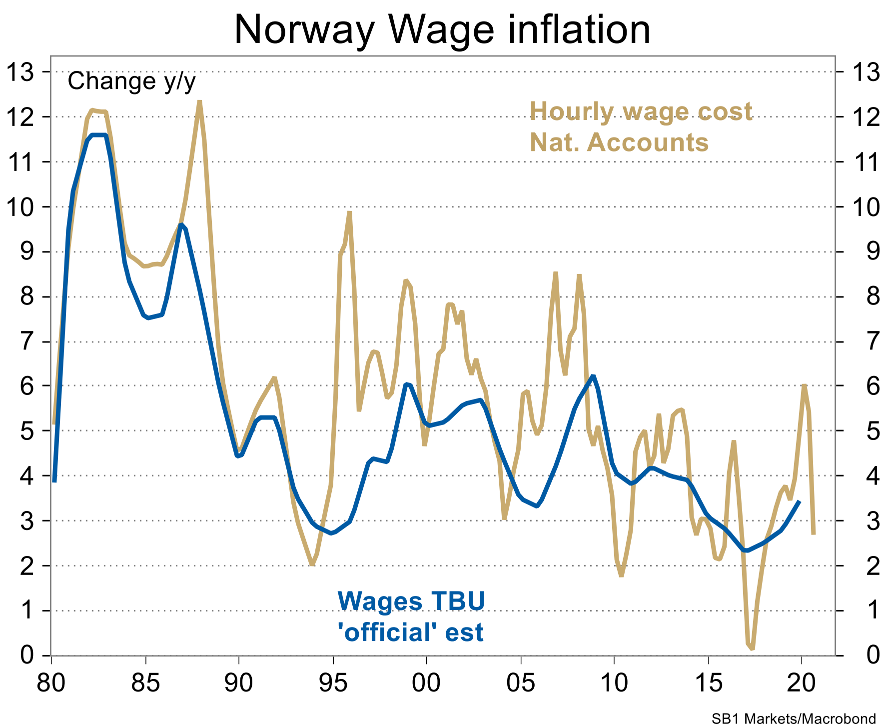


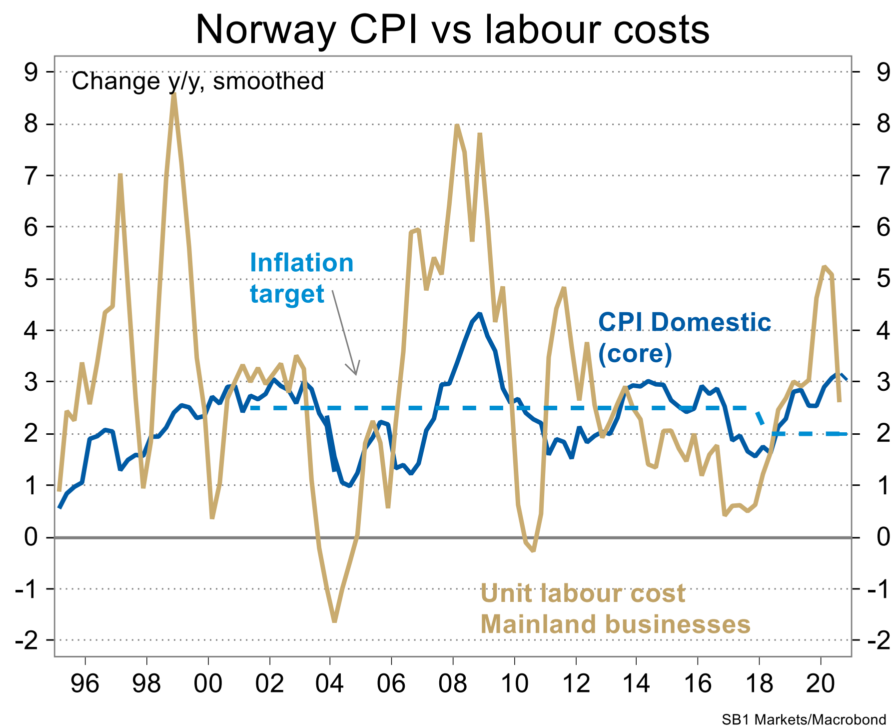
- Changes in **hours worked** in the private sector have been quite equal to changes in production in the business sector
- Thus, **productivity** has been flat since Q1 2019
- The **average hourly wage** rose sharply in Q1, but fell in both Q2 and Q3, according to the National accounts. These data are influenced by government measures, like how the furlough program are booked
- We do not expect **real wages** to show strength the coming quarters. Wage inflation is slowing, and will probably not pick up next year as corporate profits are under pressure. Headline inflation will not slow once more – as electricity prices cannot repeat the trick either (prices are already very low)

SpareBank 1 MARKETS

Labour cost inflation is slowing – but unit costs are still up quite a lot

The corona downturn makes most data uncertain, including these wage & productivity data

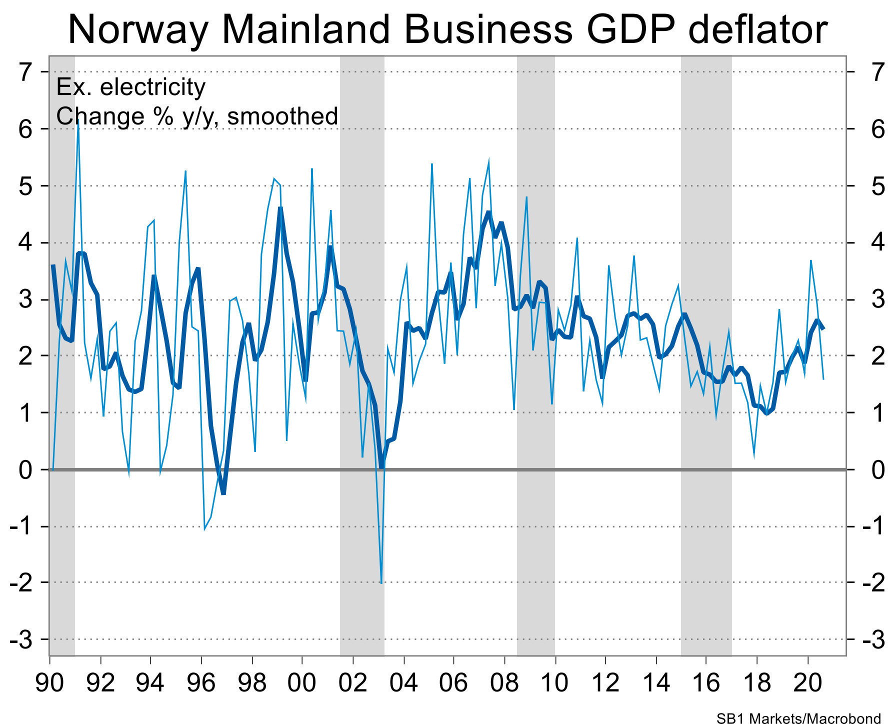


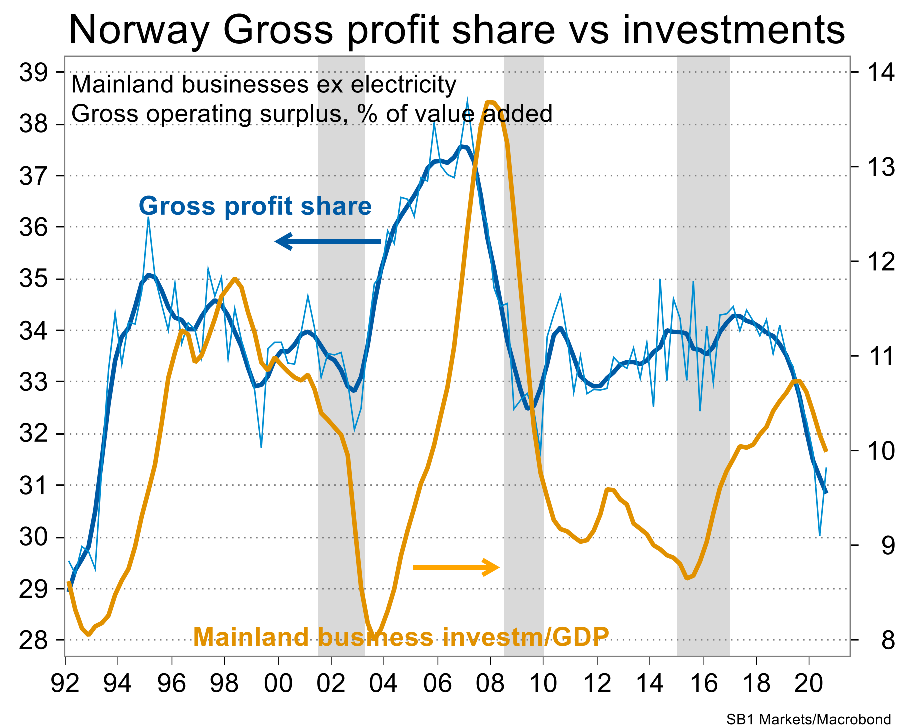


- Quarterly hours worked & payments are always volatile – and there are extra challenges now
- We are confident that underlying wage inflation is slowing – as witnessed by the outcome 2020 wage negotiations

The profit share is under pressure, profit rate up in Q3 but still very low

.. and it was at the lowest level in 30 years, before corona. Usually a prewarning of cut in investments

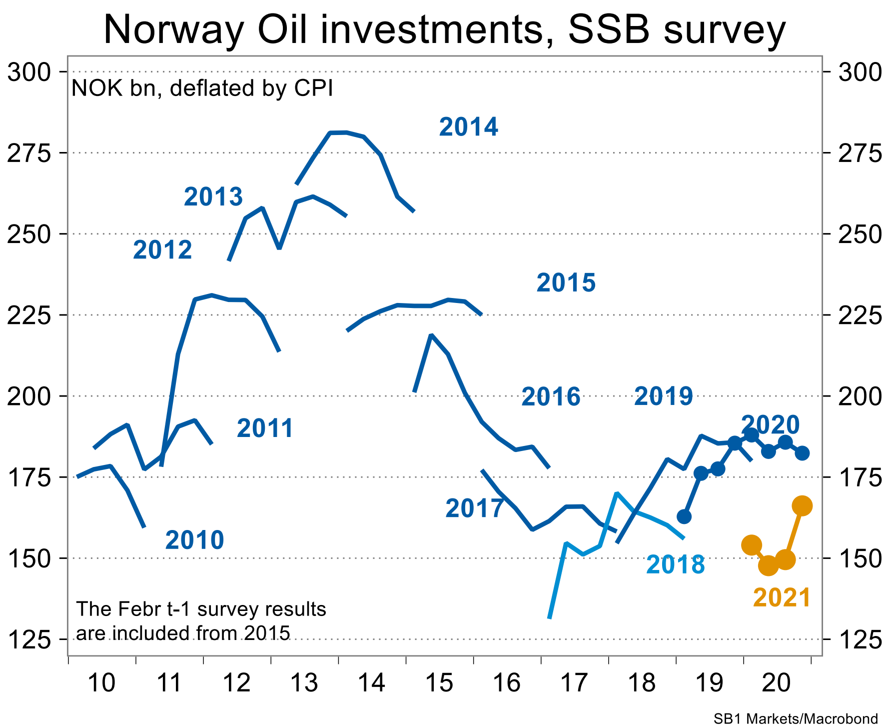




- The Mainland business GDP price deflator (ex the volatile electricity sector) has accelerated the past quarters, but slowed in Q3. Underlying price growth is at 2.5% y/y

A solid upward revision next year's oil investments, still sharply down

2021 investment forecast lifted by 12% to Nov from Aug, still signalling a 12% volume drop

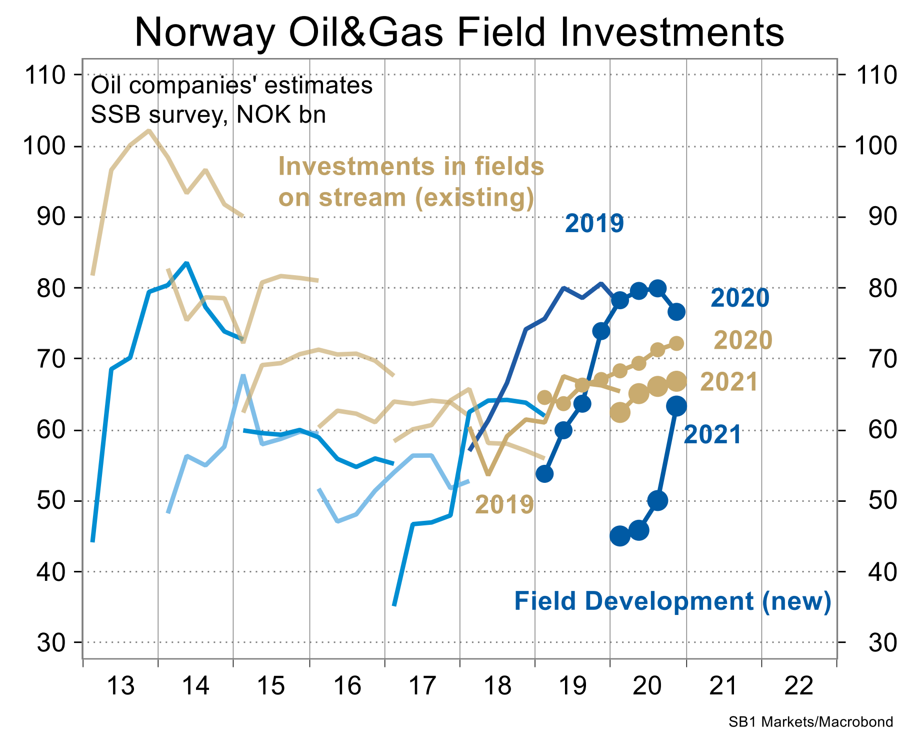


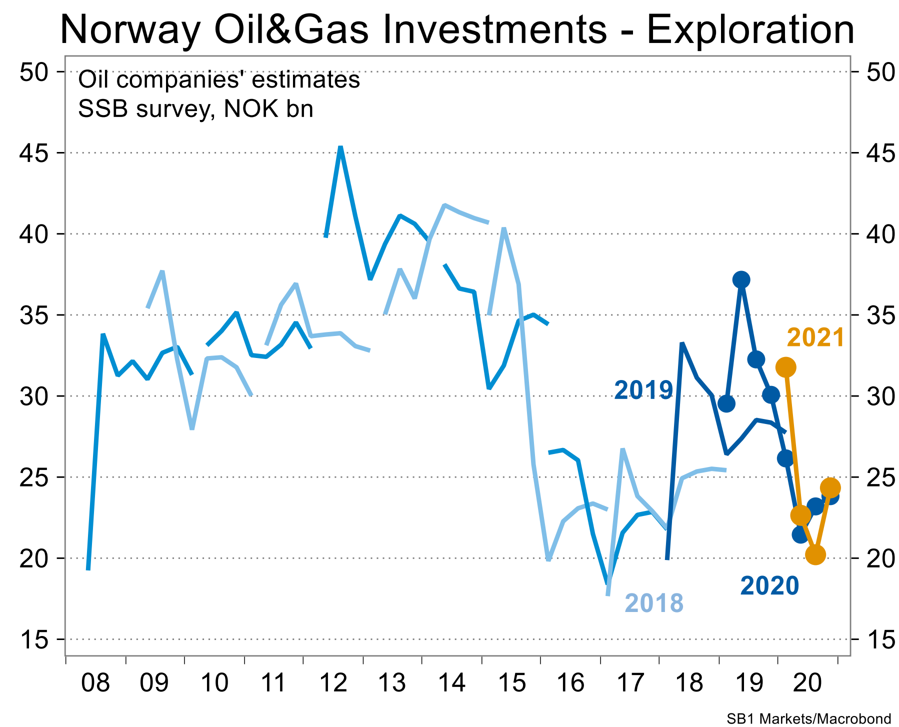
- In SSB's Q4 oil & gas investment survey, companies adjusted their **2020 investment f'cast** down by NOK 2 bn to 184 bn, indicating a 1% increase from 2019, in nominal terms.
  - » Prices have been increasing rapidly, and we assume a 5% decline in volume terms. If so, Q4 volume will be down 14% from the Q4-19 local peak
  - » Norges Bank forecasted -3% 2020 decline in the Sept MRP
- **The 2021 estimate was revised up by** NOK 18 bn to 166 bn, and is now 9% below the 2020 estimate – better than we assumed
  - » Investments in new fields are up by NOK 13 bn (26%), due to cost increases, that are not related to higher expected production, according to SSB. A minor new field was added. Just some minor new projects are expected to be added to the 2021 investment activity
  - » Exploration & concept studies expenses revised up by 5 bn to 25 bn, as companies tries speed up producing plans for development and operation (PDO) that can be delivered before end of 2022 in order to utilise the temporary (favourable) changes in tax system decided in June
  - » We expect a substantial cost inflation next year too. If so, investments will decline by some 13% in volume next year. If the decline is distributed evenly trough 2021, investments in Q4 21 will be down by 15% vs. the Q4-20. In Sept, Norges Bank expected a 12% 2021 decline, and will probably not alter the forecast in the Dec MPR
- **Lower oil investments** will continue be a drag on the Norwegian economy thorough 2021, deducting some 0.5 pp from Mainland GDP growth (adjusted for the import share). The change in the tax regime may lift investments in 2022

SpareBank 1 MARKETS

Field investment estimates sharply – due to higher cost inflation

In addition, exploration & concept studies expenses are revised sharply up too – and up vs 2020



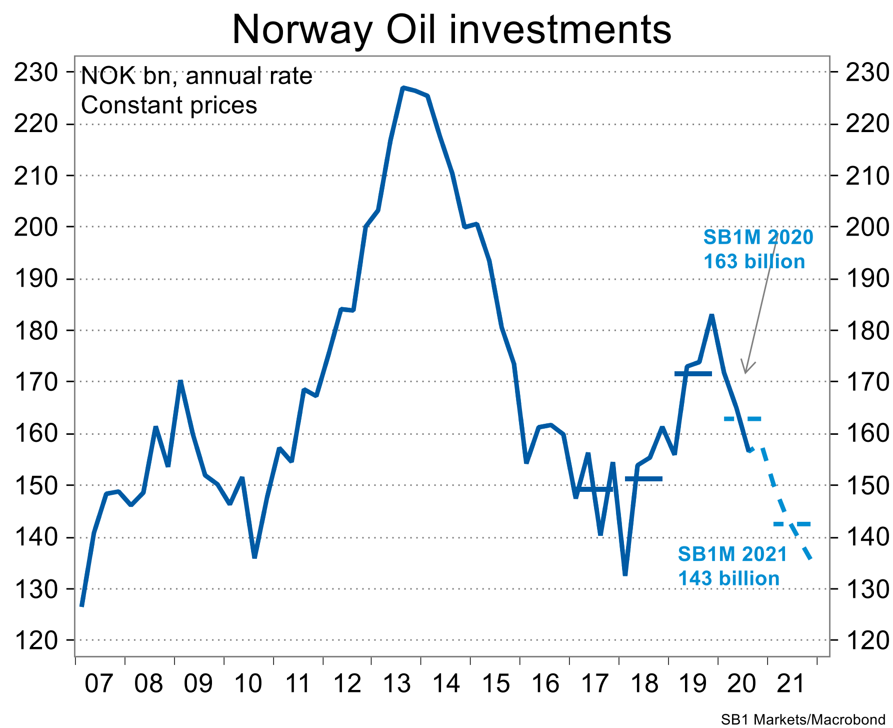


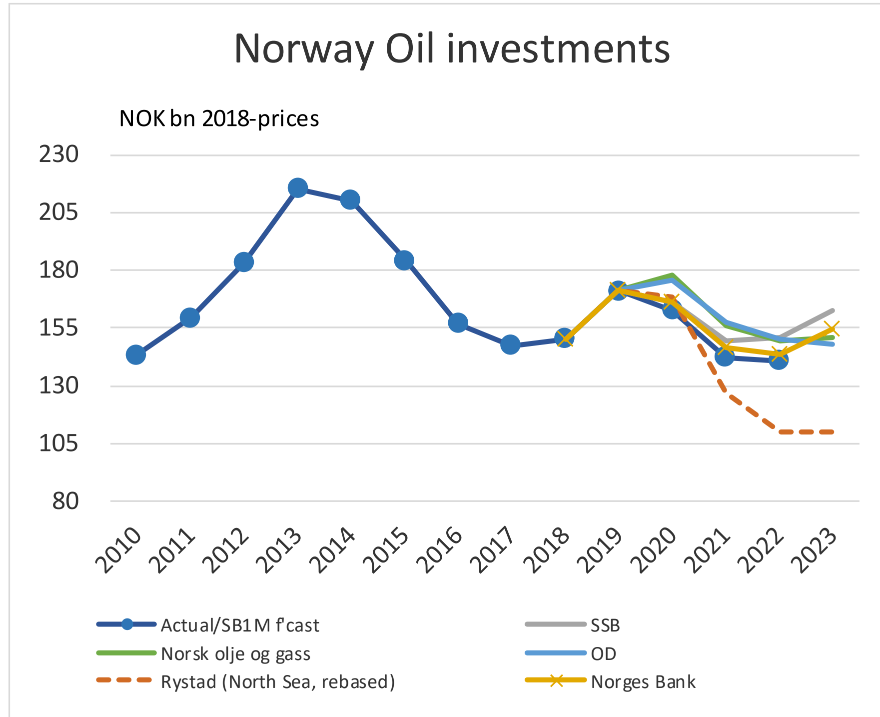
- The main reason for the 26% hike in the estimate for 2021 **investments in new fields** is higher costs, which are not related to plans for increased production. One new PDO (plan for development and operation, 'PUD') was included in the Nov survey. SSB reports that just some minor projects are expected to be added in 2021.
- F'casts for 2021 investments in **existing fields** are in line with the equivalent 2020 forecast, at NOK 67 bn
- The 2021 forecast for **investments in exploration & concept studies** shot up by 20% to NOK 24 bn. Most of the cost increase is related to field evaluation and concept studies. The companies are speeding up planning on most of their existing discovery portfolio in order to be able to deliver Plans for Development and Operation (PDO/'PUD') during 2022 to benefit from the temporary changes in the Norwegian oil tax system. Investment is these fields will be subject to the favourable tax treatment until they are finalised

SpareBank 1 MARKETS

2021 better than feared but a crucial growth engine has anyway changed sign

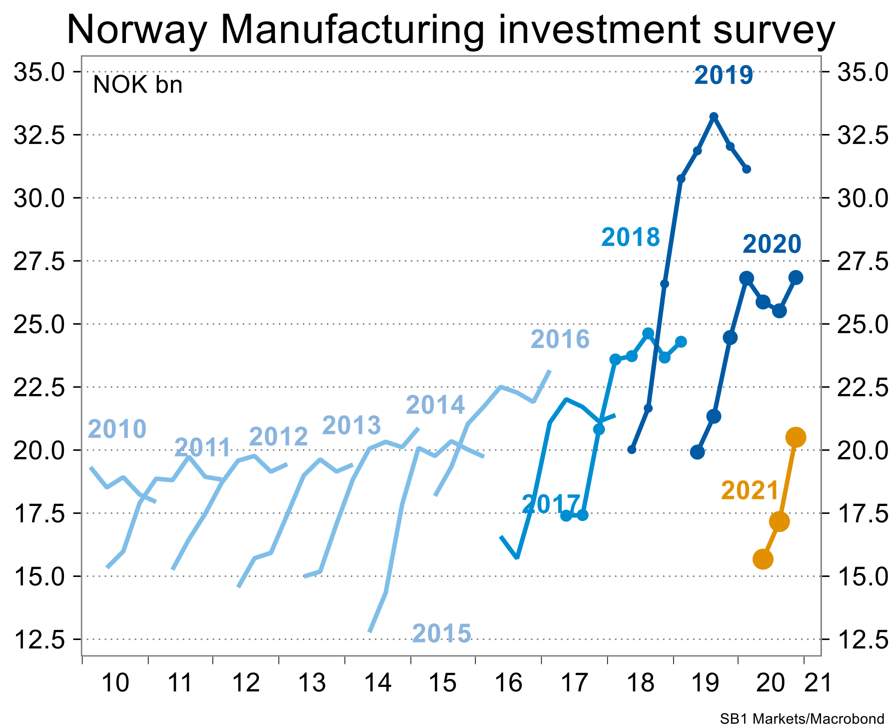
Our forecasts imply another 15% decline through next year

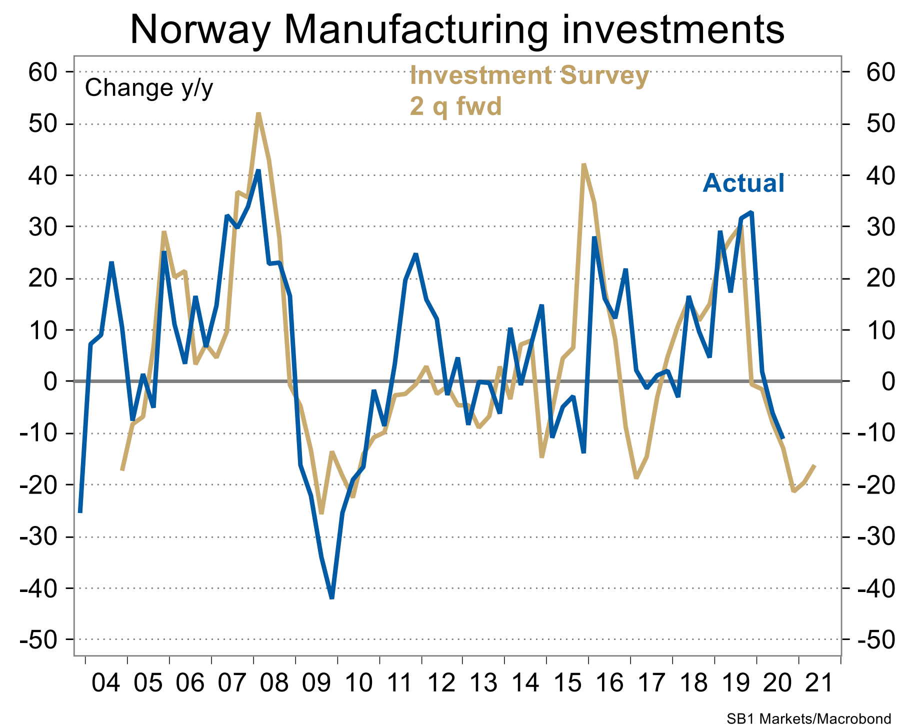




Manufacturing investments down 17% in 2020, another cut by 10 - 15% in 2021

2019 investments were far above a normal level, 2021 will probably be somewhat below



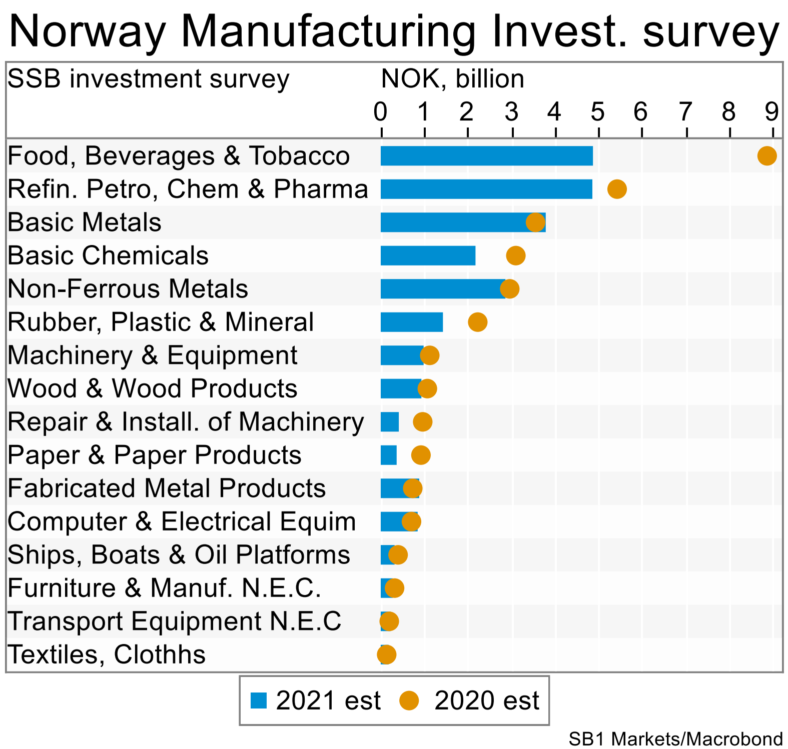


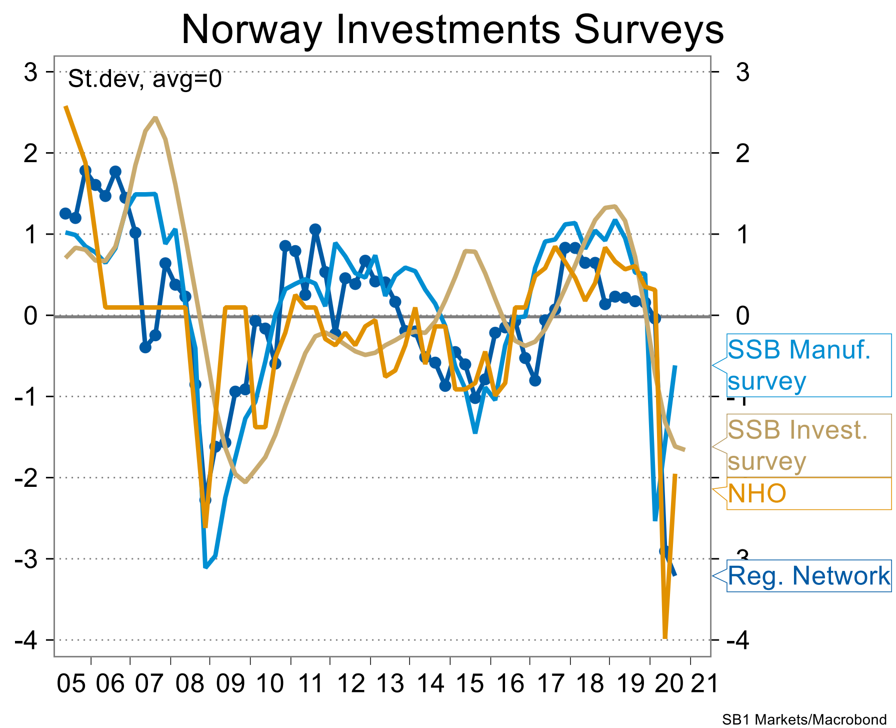
- Manufacturing companies adjusted their 2021 investments up by almost 20% in the Q4 survey, but they are still signalling a 10 – 15% decline vs. 2020, and some 25% vs. actual investments in 2019

SpareBank 1 MARKETS

Lower investments in the food (processing) industry the main culprit in 2021

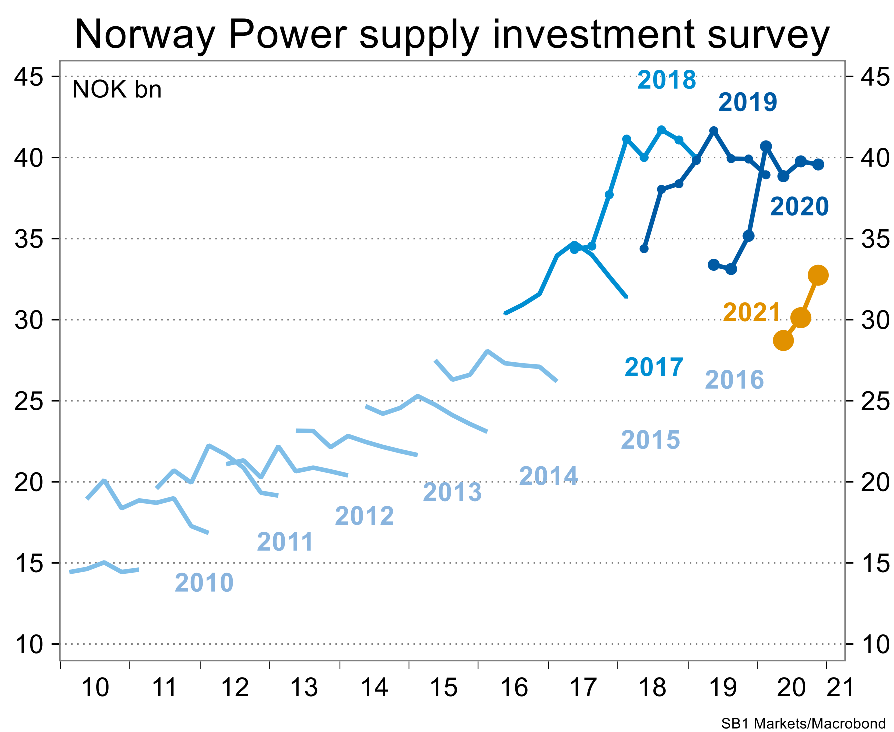
However, no industry is reporting any visible growth next year

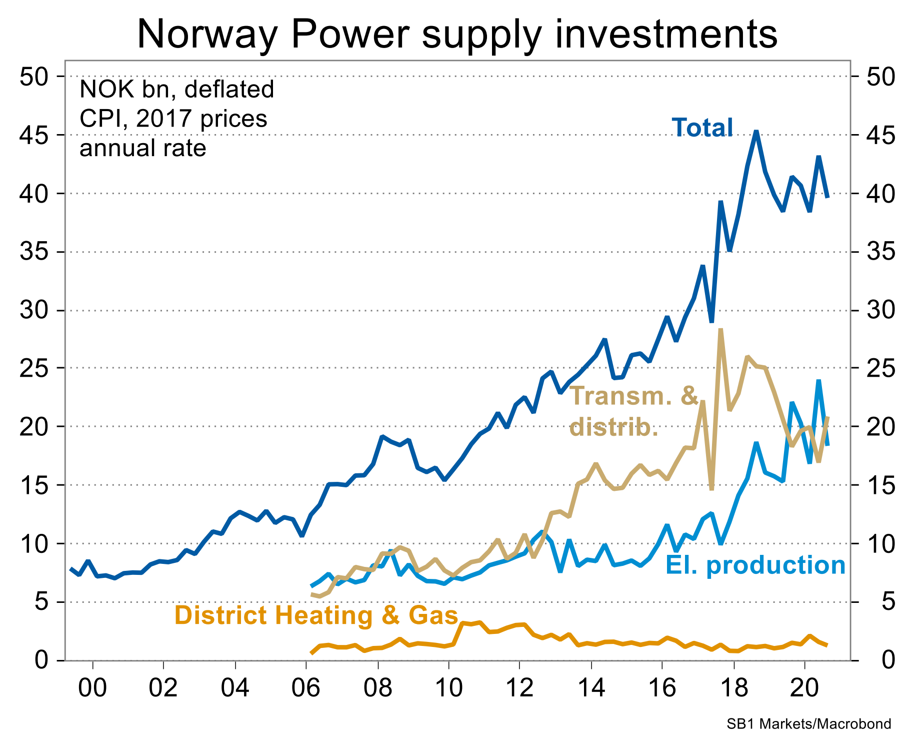




Power supply: Investments have peaked, a measured decline next year

The 2021 forecast is 7% below the equivalent 2020 forecast – a 10% volume decline is likely



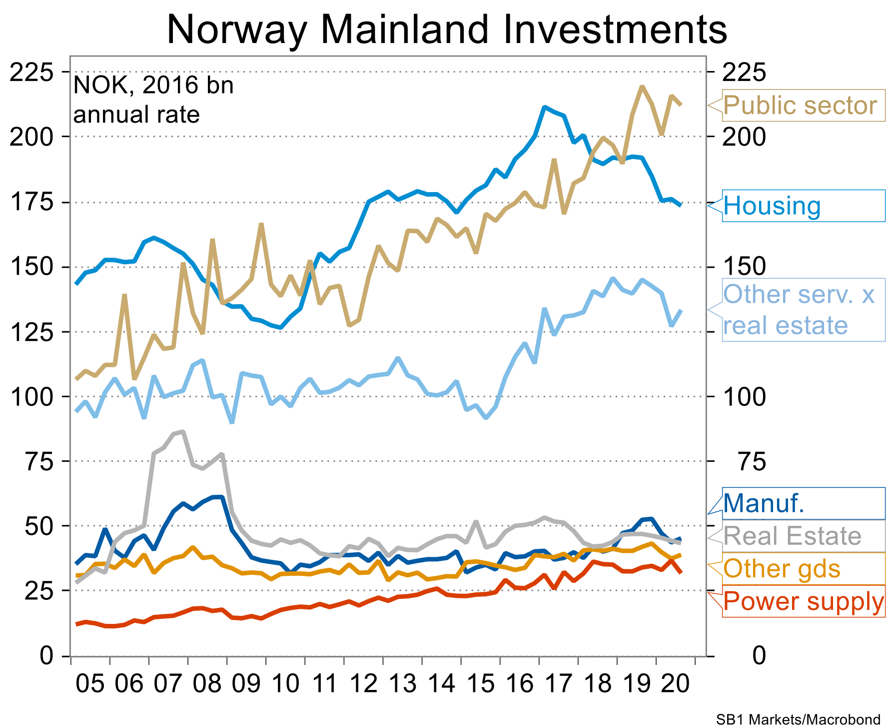


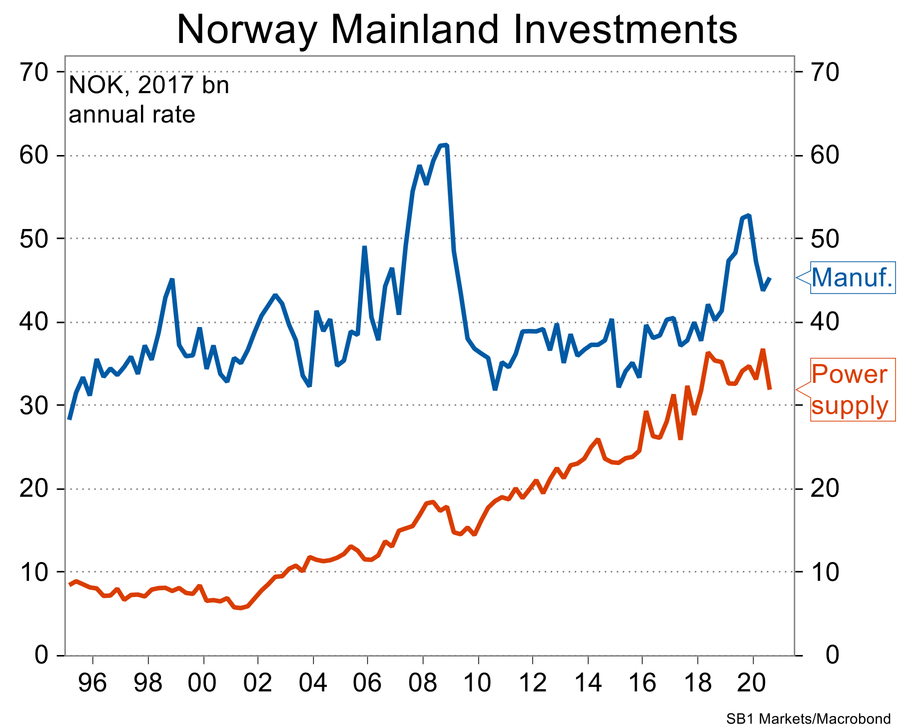
- Power supply (production & distribution) companies revised their 2021 up by 9% but the estimate is still 7% below the 2020 estimate, given in Q4-19. Since 2018, the companies in the sector have revised their investment forecasts in another way than what has been usual – and we expect that to be the case in 2021 as well (wind projects and upgrades may have altered the overall planning profile)
  - » Investments in electricity production are still on the way up, while the total is down due to lower investments in transmission & distribution
- Investments have more than quadrupled in 25 years, by more than 10% p.a in average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades. Investments in transmission and distribution has fallen the most

SpareBank 1 MARKETS

Power supply investments have peaked, manuf. investments peaking now

The each equal 1 - 2% of Mainland GDP and 5 – 8 of total Mainland investments (private/public)



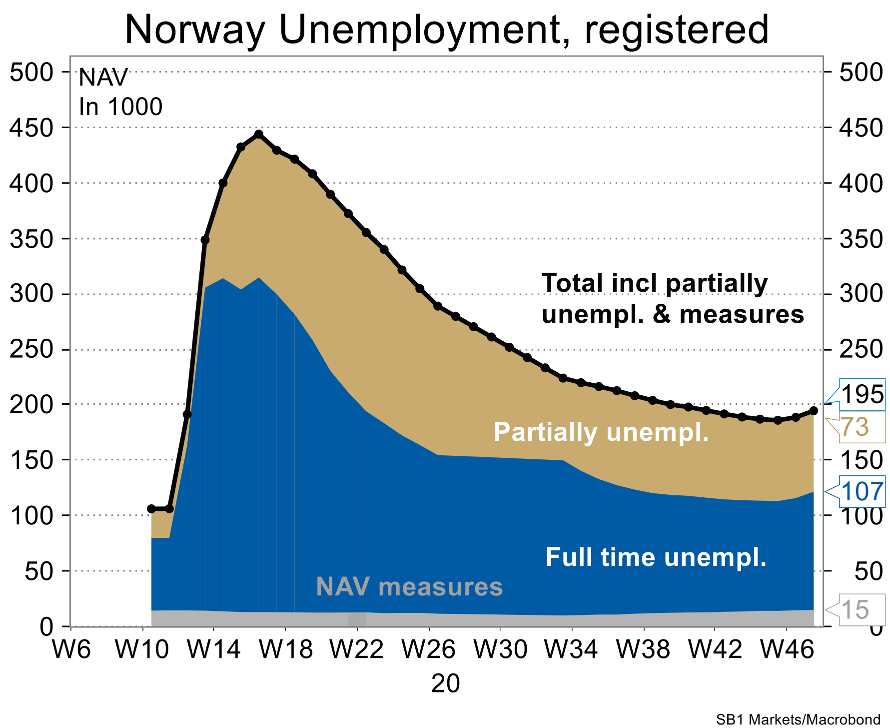


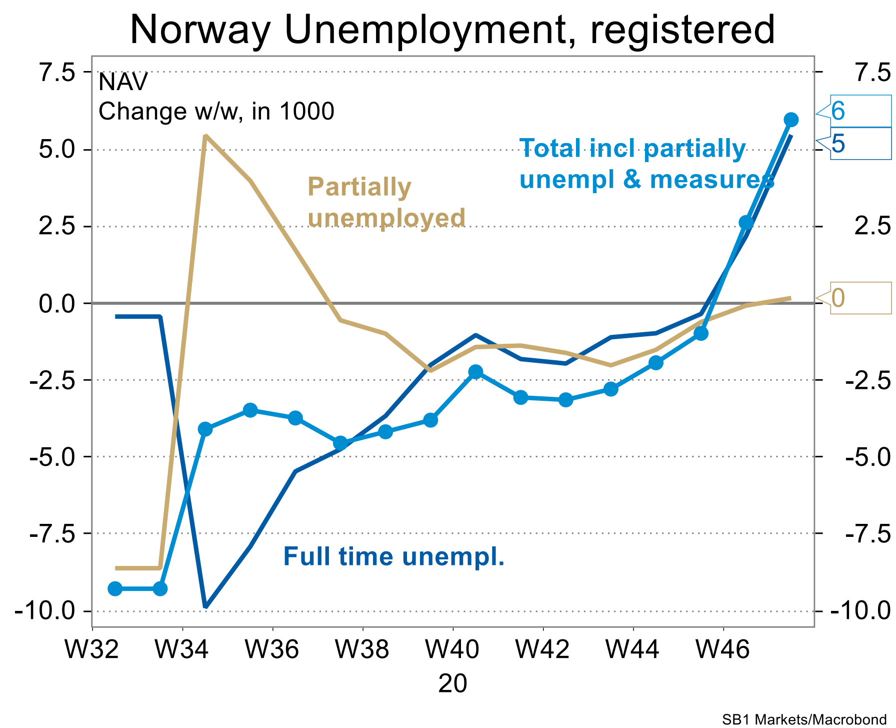
- In volume terms, investments in the manufacturing have accelerated sharply the past two years, but companies are signalling a sharp decline in 2020. Investments in power supply flattened in 2019 and are heading down, at least in 2020
  - » Real estate investments and investments in other private services are the main components in Mainland business investments – and they are still at rather high levels
- The outlook for Mainland investments is not upbeat, given the expected drop in investments in manufacturing and the modest decline power supply - and probably in hotels and other service sectors. The public sector cannot continue to climb for a long time either?

SpareBank 1 MARKETS

NAV unemployment sharply up in first half of November, corona hits agian

Unemployment up by 9’ during the first two weeks, probably more to come

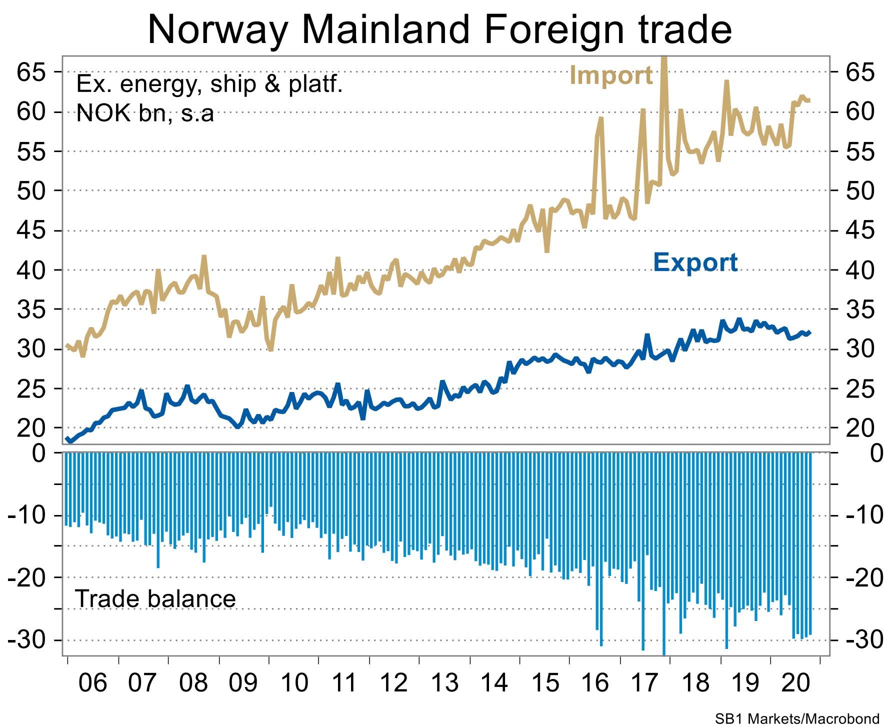


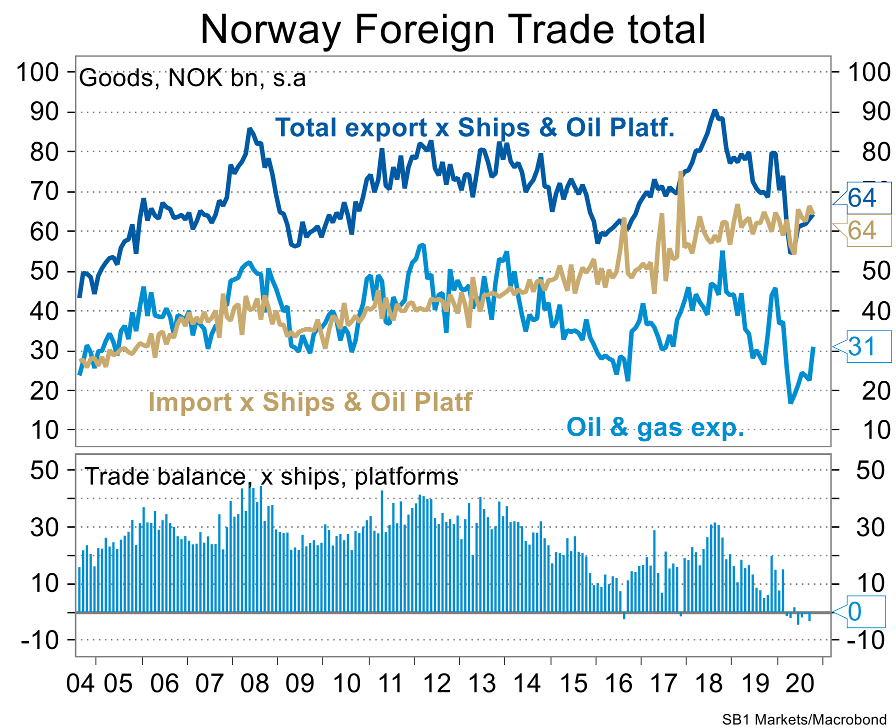


- Total unemployment (including partially unemployed and labour market measures) has declined steadily since April, even at a weekly basis
- The tide have turned, at least unemployment rose slightly in early Norway, very likely due to the new corona outbreak, and the measures taken to contain it. More will come the next weeks

The trade balance in balance

Imports are far above the pre corona level, export has recovered but not fully

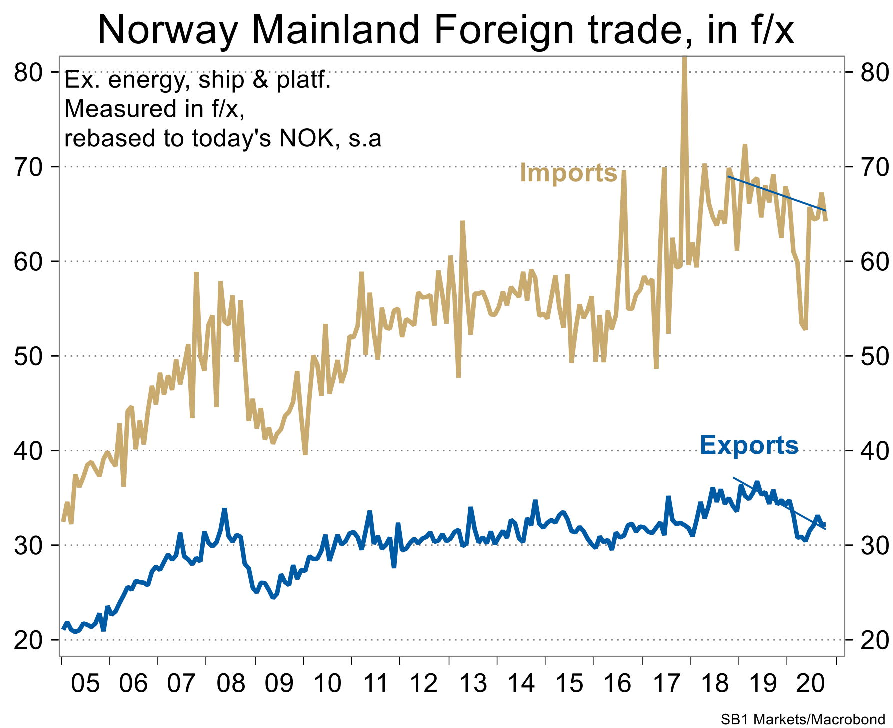


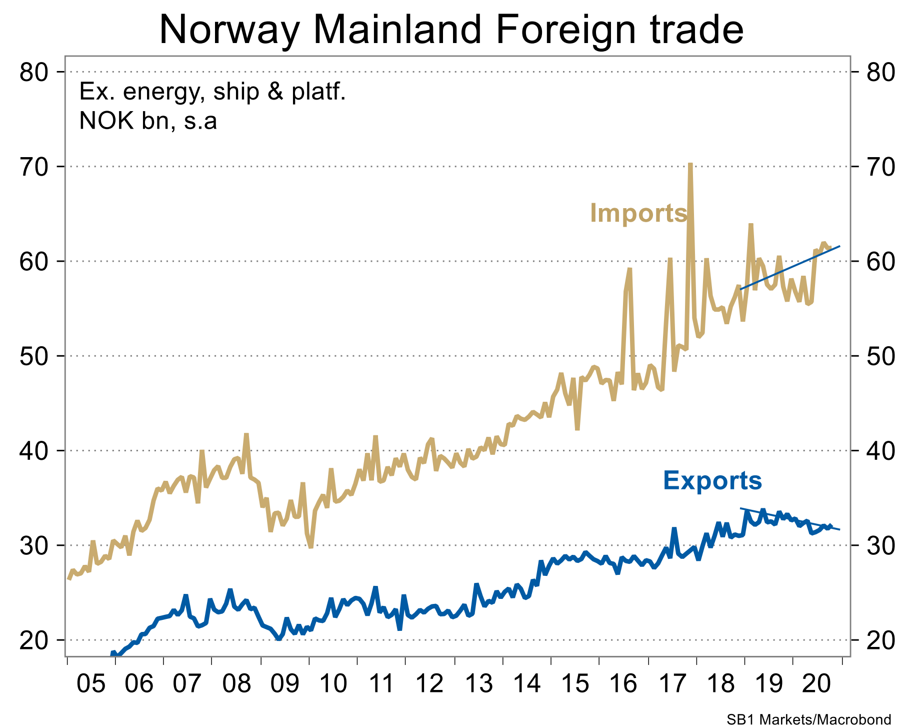


- The Mainland (non energy) trade deficit in goods was close to NOK 30 bn in Sept. Exports have been hurt by the corona crisis (down 5% vs early 2020, measured in f/x, down 8% y/y) while strong demand for goods have kept imports up (up 1.5% vs pre corona, -3% y/y) – and the 'traditional goods' deficit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

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

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

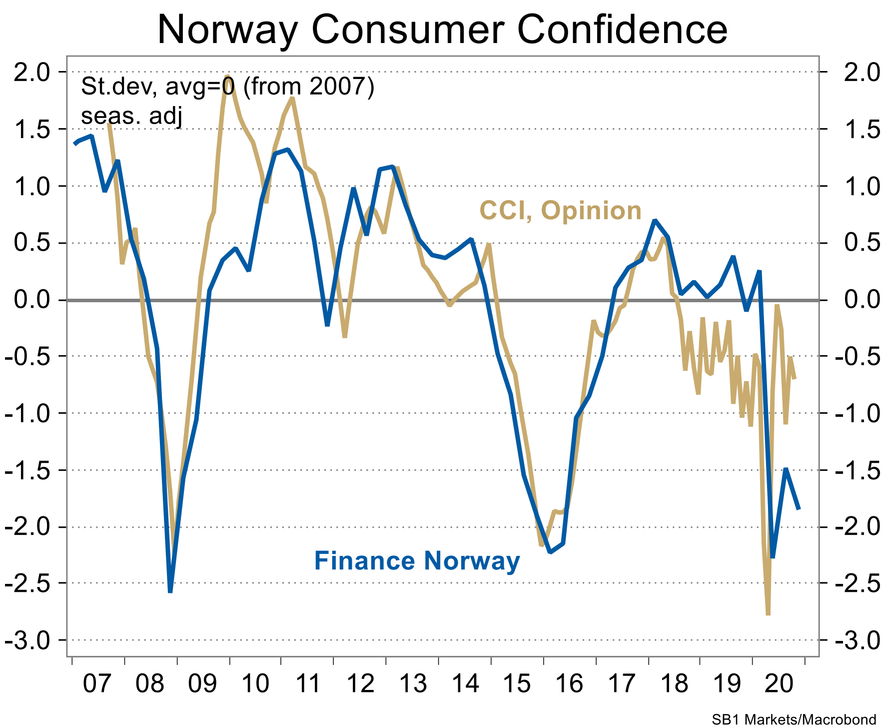


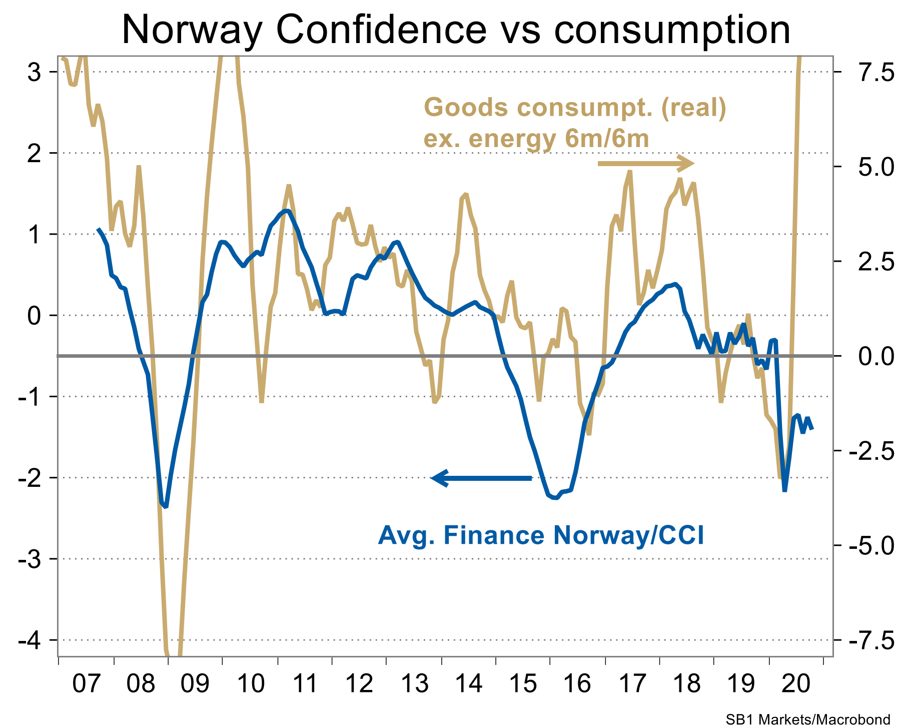


- At the chart to the left, trade values are rebased to today's NOK I-44 index

Consumer confidence still very downbeat

Finans Norges' Q4 survey surprised (us) on the downside, down again



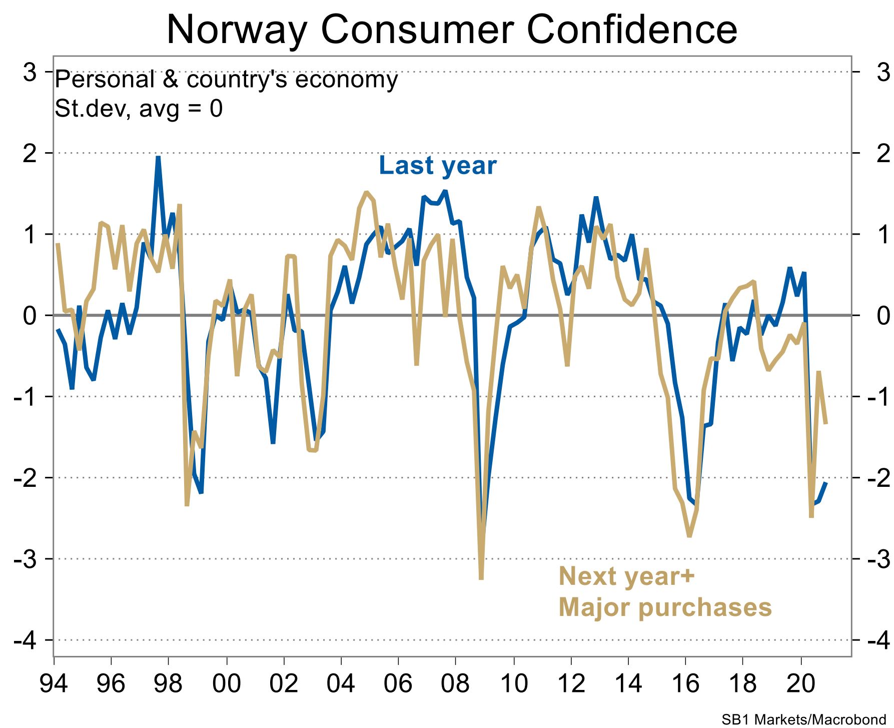


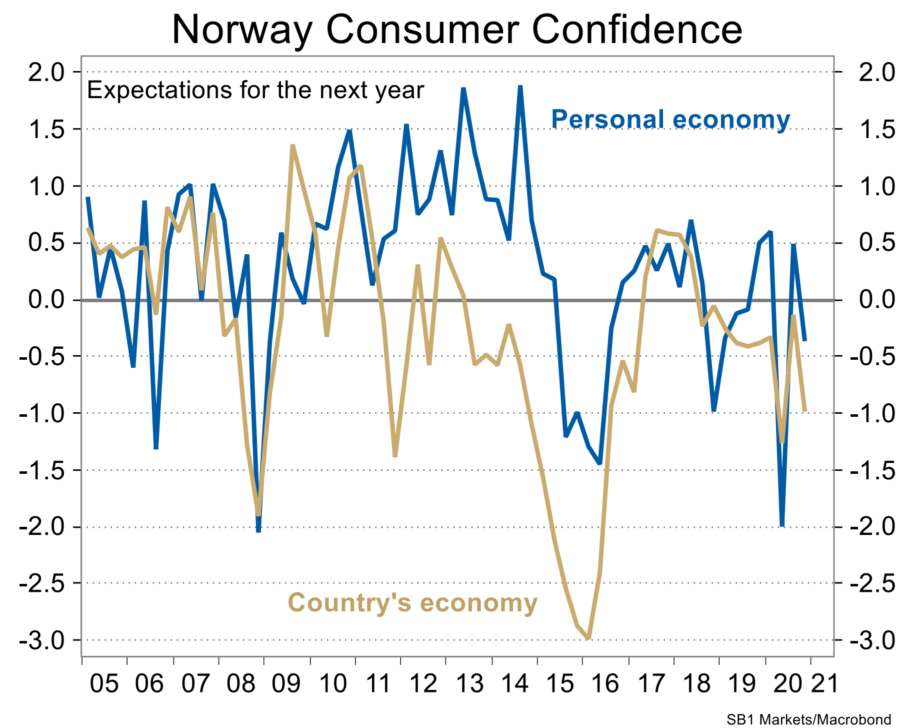
- Finance Norway's quarterly consumer confidence index fell from -1.5 st.dev below par to -1.8 in Q4, surely a quite low level. Given retail sales, auto sales, all housing market indicators, and the rapid decline in the unemployment rate, the setback is surprising. The recent increase in corona cases, and the 'mini' lockdown may explain the drop in Q4 as the good vaccine news came too late to influence the Q4 survey
  - » The CCI from Opinion is far stronger, but also below average, at -0.7 st. dev
- Big item purchases are still out of favour (barring buying a house, of course), as is understandably travel

SpareBank 1 MARKETS

Households assessments of the last year still weak, outlook not upbeat either

The last 4 quarter are rated among the weakest ever, for good reasons

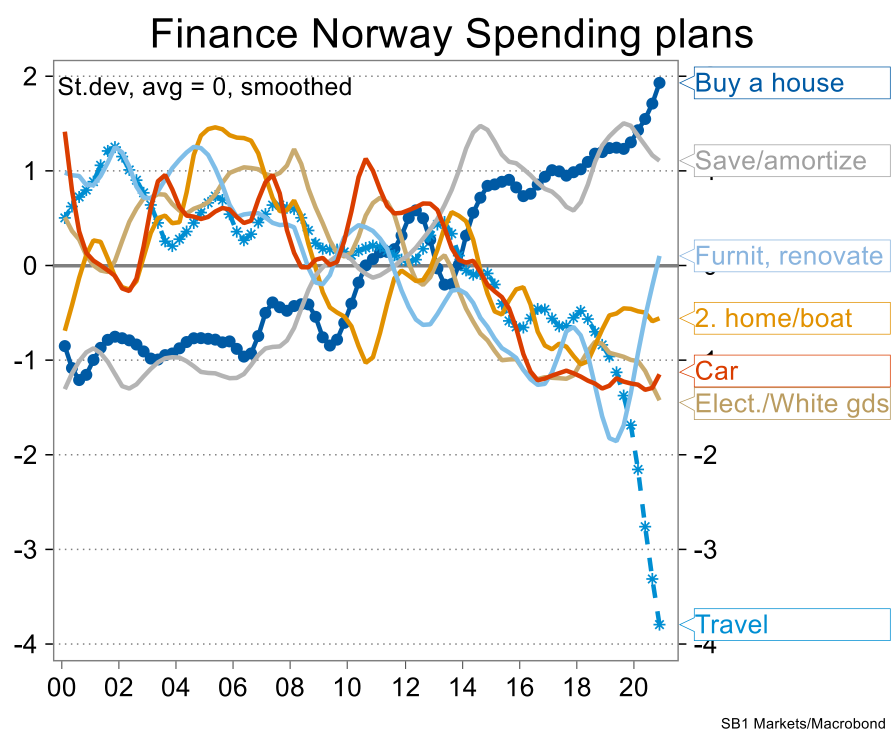


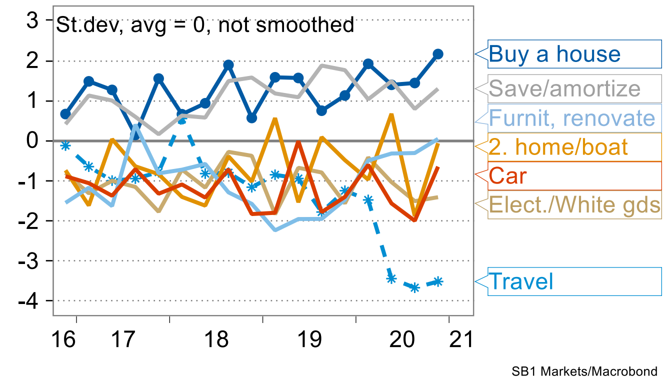


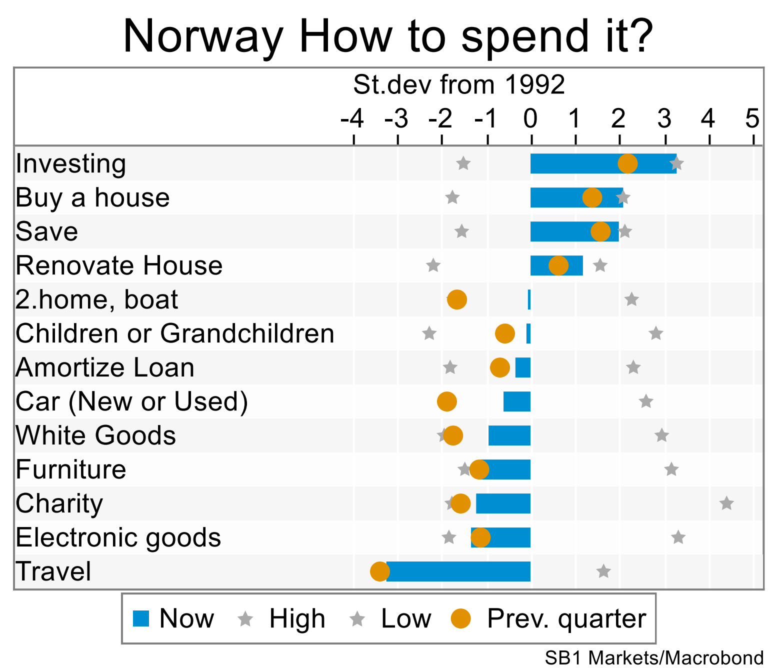
- The **forward looking components** in the index (equally weighted by us) fell again in Q4, and the level is well below average
- Household expect their **personal economy** to be weaker than normal the coming year – as is their assessment of the outlook for the country. Households do not think the timing for buying big ticket items is favourable at all
- There are no recognisable **regional, age or income** differences, as usual
  - » Even during the 'oil crisis', confidence in South/West was just marginally below other regions

House purchase plans up to record high level, travel at the other end

Cars/electronics/white goods are not popular either



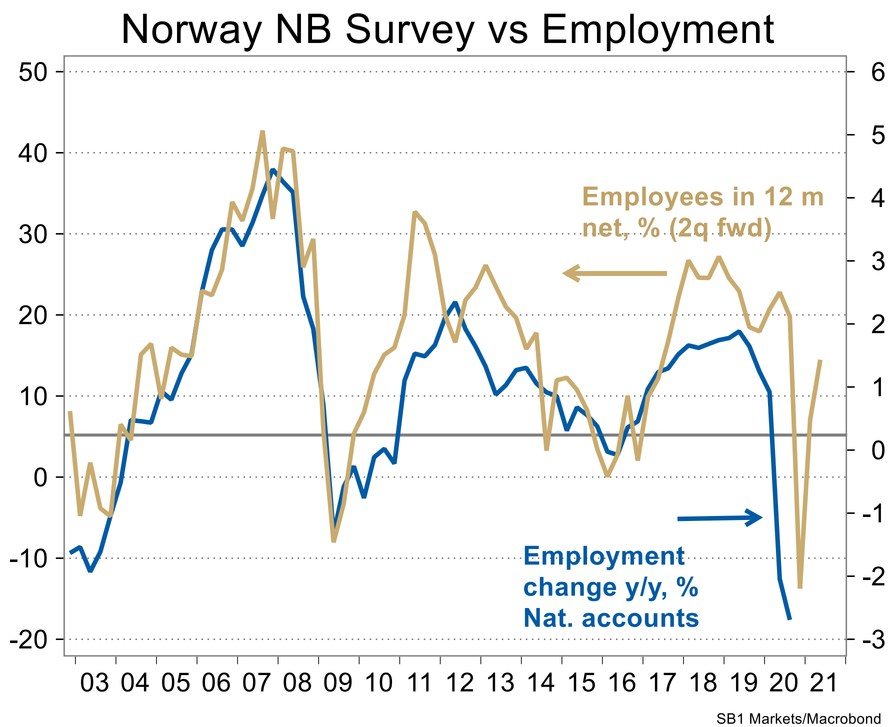


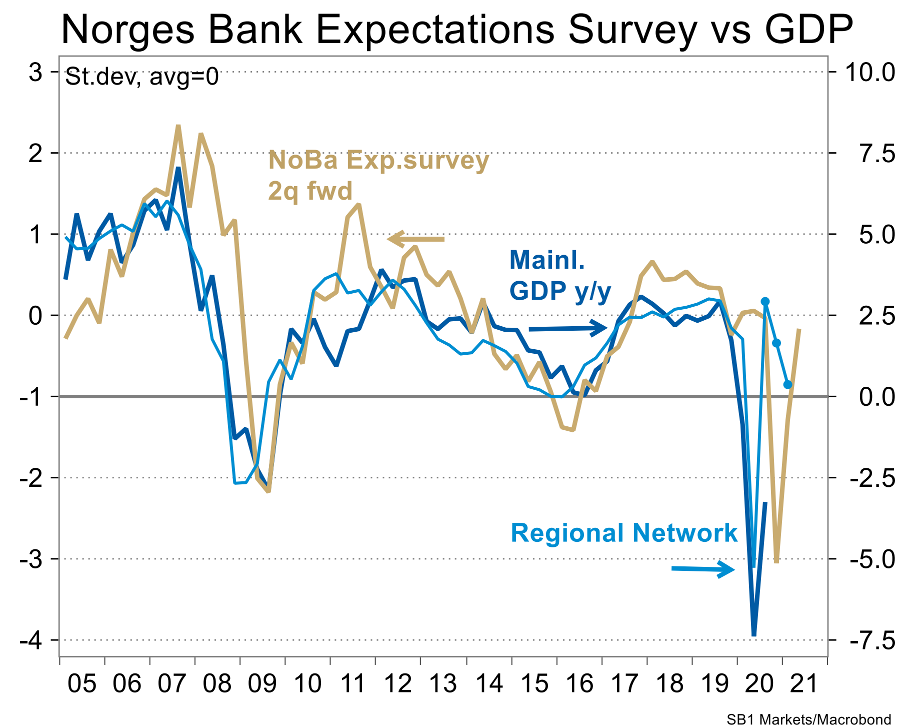


- Demand for 2. homes and boats has been reported very strong, while consumers say they do not plan to buy more of the stuff

NoBa Expectation survey: A 'V' confirmed

But not that impressive – given the depth of the downturn

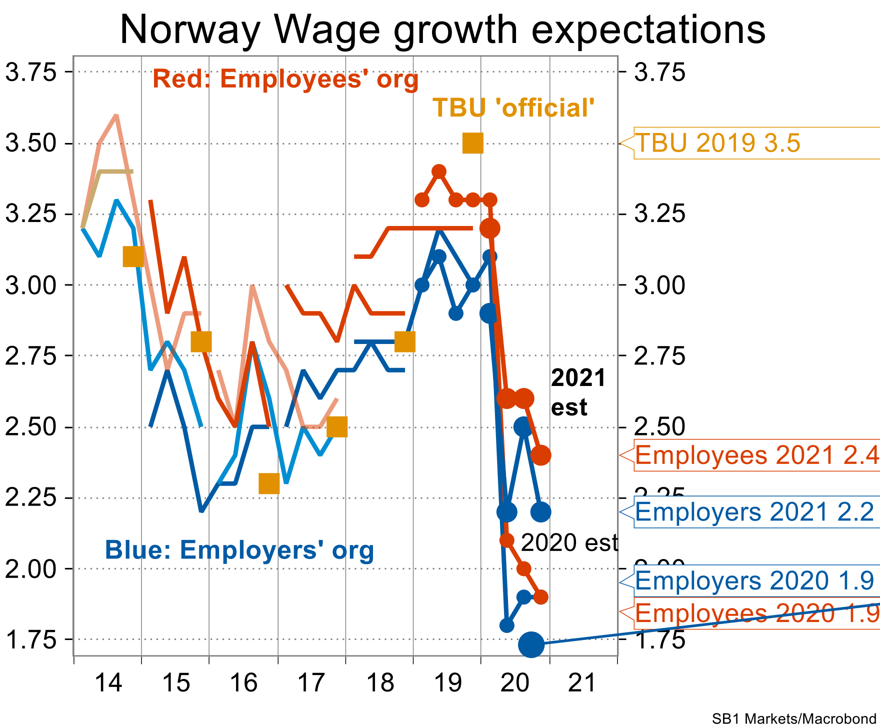




- Companies are expecting moderate growth in employment and profits, even if the starting point is low
  - » We think companies are not able to calibrate their answers because the starting point is so low. Most likely, companies are not reporting expected changes, which they are asked to but rather (at least an element) of an assessment of the expected level. The PMI and many other surveys have been experiencing the same challenges recently
- We expect something much better than 2% growth the coming 12 months, given the starting pint

2021 wage expectations down, will remain low

Economists in employers' organisations moved their expectations up, especially for 2021

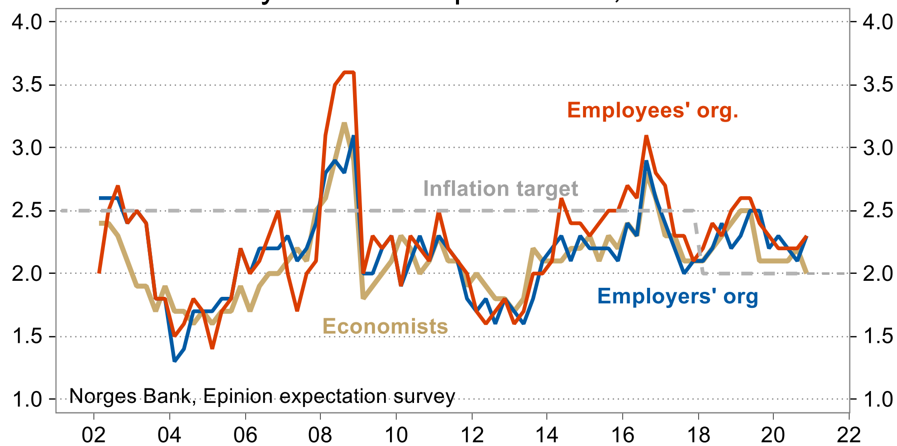


- **2020:** Below 2%
  - Economists in employers' organisations left their forecast unchanged at 1.9%, while economists in trade unions lowered their forecast by 0.1 pp to the same 1.9%.
  - In general, employees' org expects higher wage growth than their peers at the employer side, as one should expect
- **2021:** Employers' economists lowered their forecast by 0.3 pp to 2.2%, while their counterparts in the trade unions cut their forecast by 0.2 pp to 2.4%.
- In the Sept MPR, **Norges Bank** expected 1.9% wage inflation in 2020, and 2.1% in 2021
- <u>Earlier this autumn, a 1.7% wage lift in 2020 was agreed upon</u>, of which 1.2 pp is due to carry-over wage increases during 2019

Inflation expectations unmoved by the corona crisis (and still 'too' high)

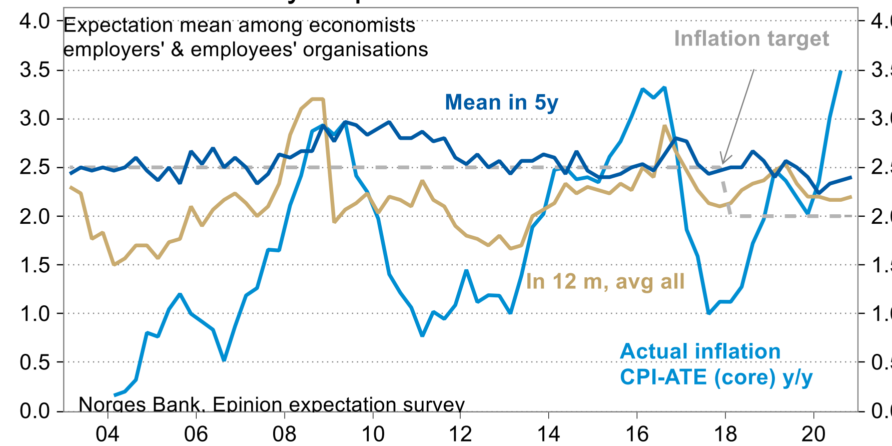
Expectations stable at 2 - 2.5% (the 2% target is recognised just by the economists)

Norway inflation expectations, in 12m



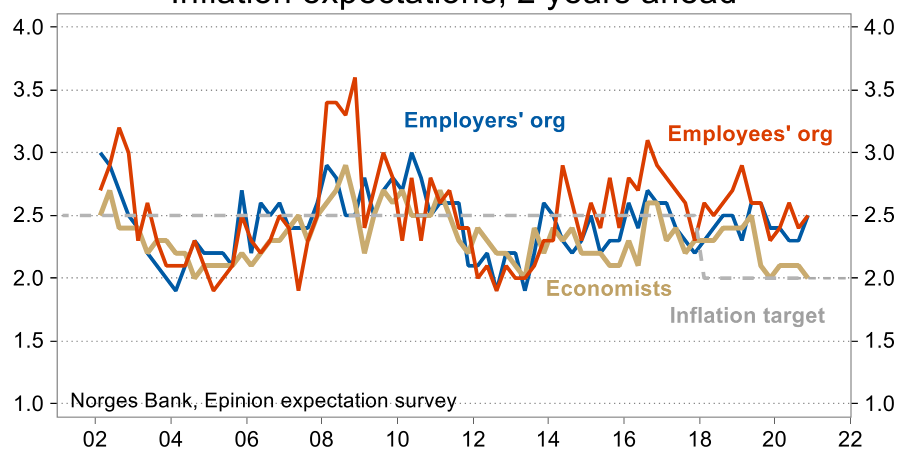
SB1 Markets/Macrobond

Norway Expected vs actual inflation



SB1 Markets/Macrobond

Inflation expectations, 2 years ahead



SB1 Markets/Macrobond

Norway Inflation expectations in 5 y

SB1 Markets/Macrobond

Highlights

The world around us

The Norwegian economy

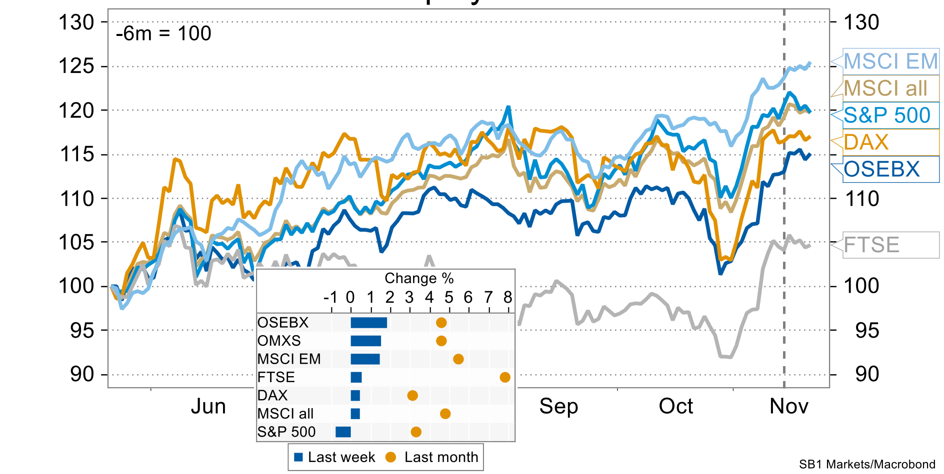
Market charts & comments

SpareBank 1 MARKETS

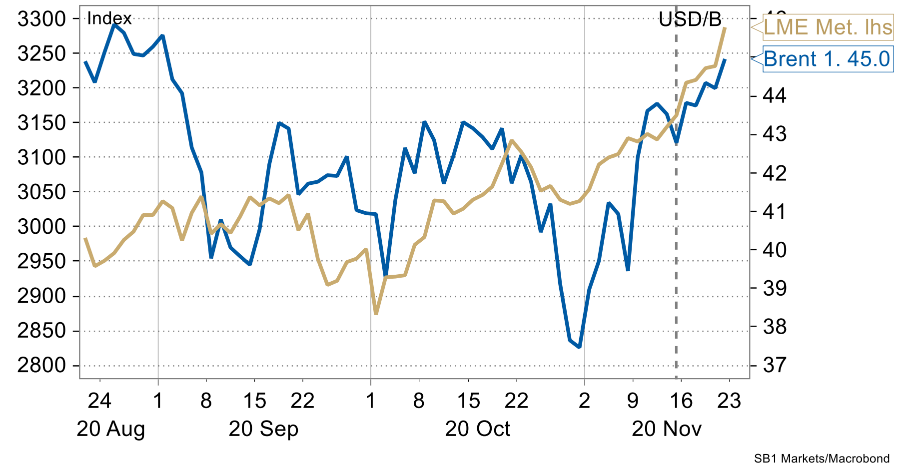
Most stock markets & oil up but most long bond yields down

Metals on the way up too – while the USD is sliding down

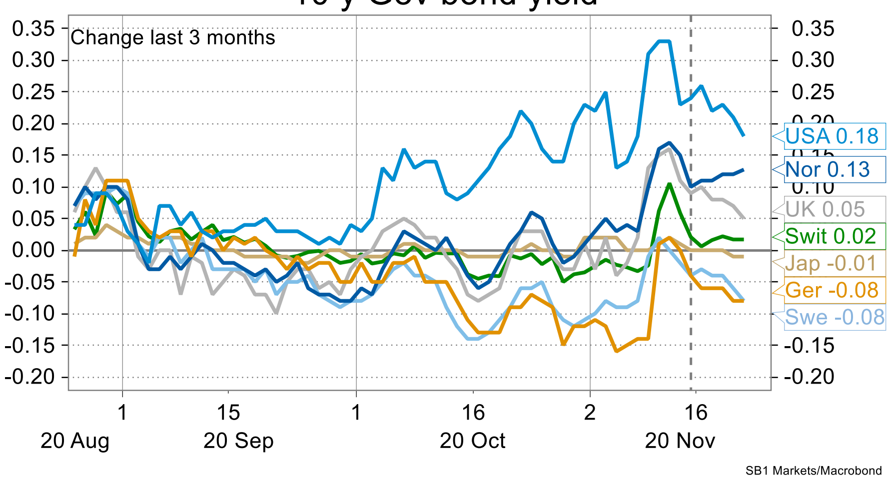
Equity Indices



Oil vs. metals

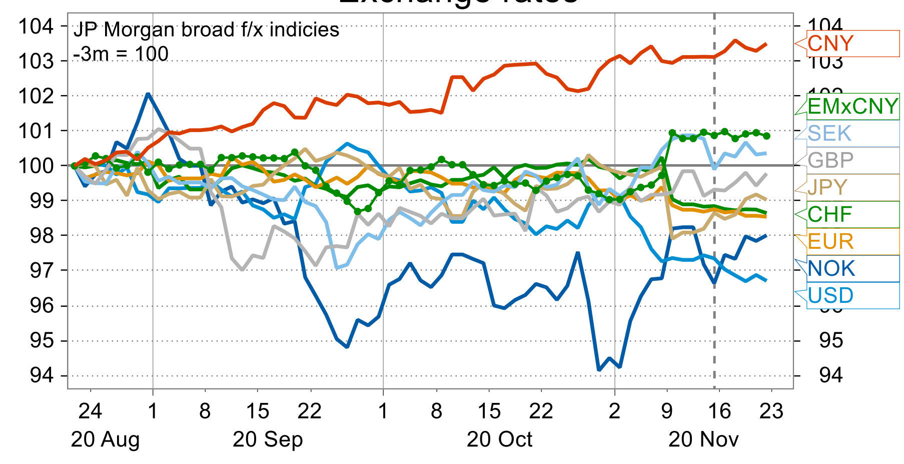


10 y Gov bond yield



Just NOK 10 y gov bond yields rose last week

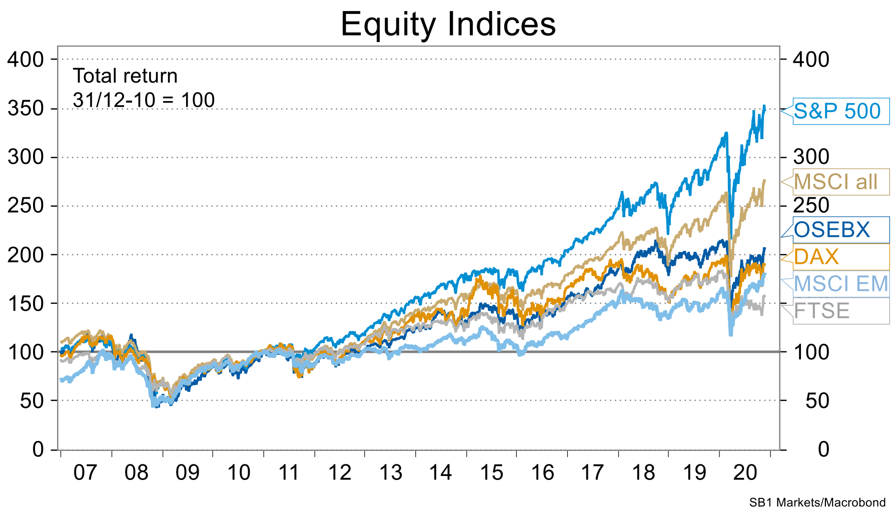
Exchange rates

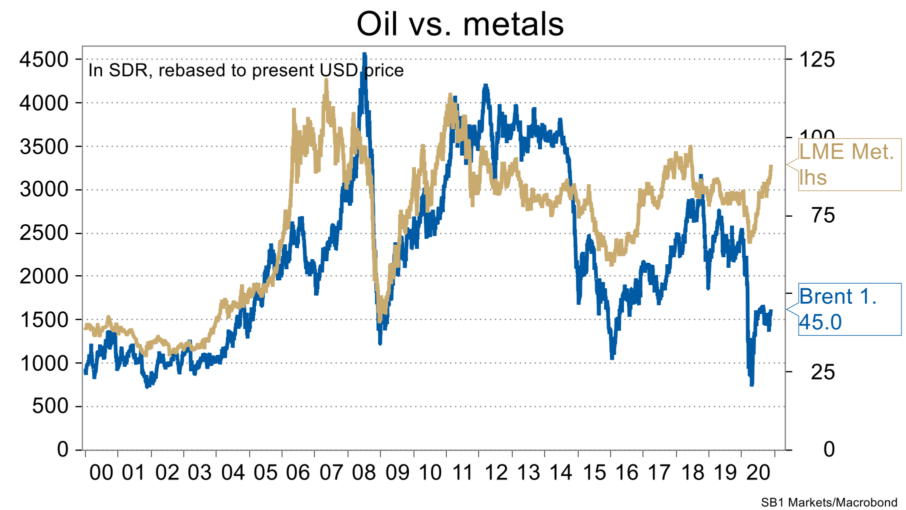


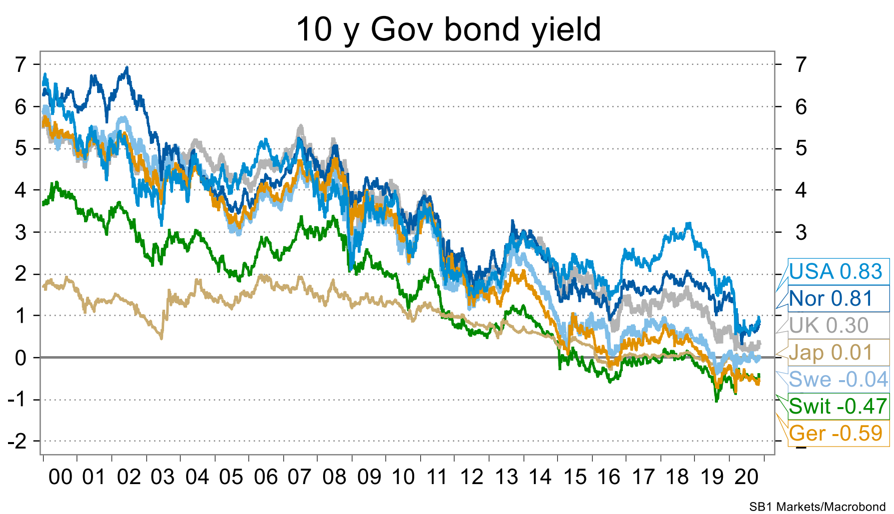
The CNY continues upwards, the USD downwards

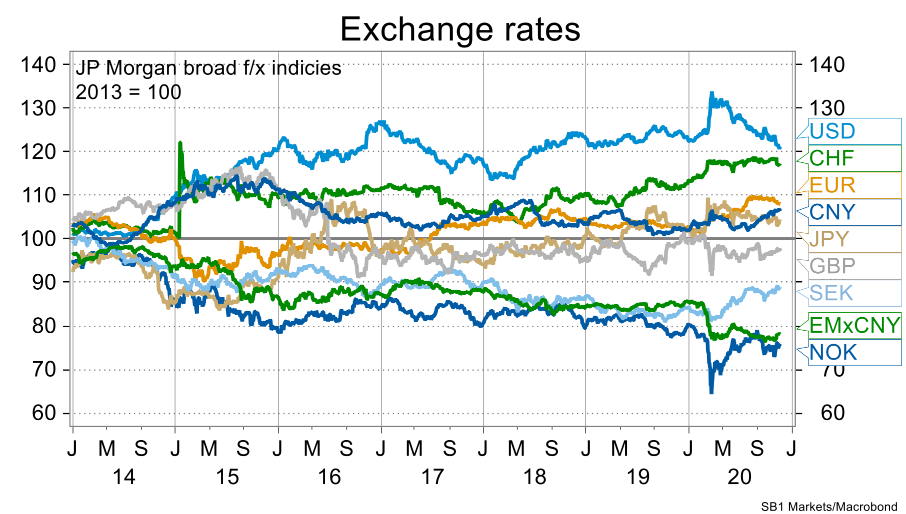
Some turbulence at risk markets, at high altitudes. Bond yields have turned up

Metal prices are well above the level in February, even adjusted for the weaker USD







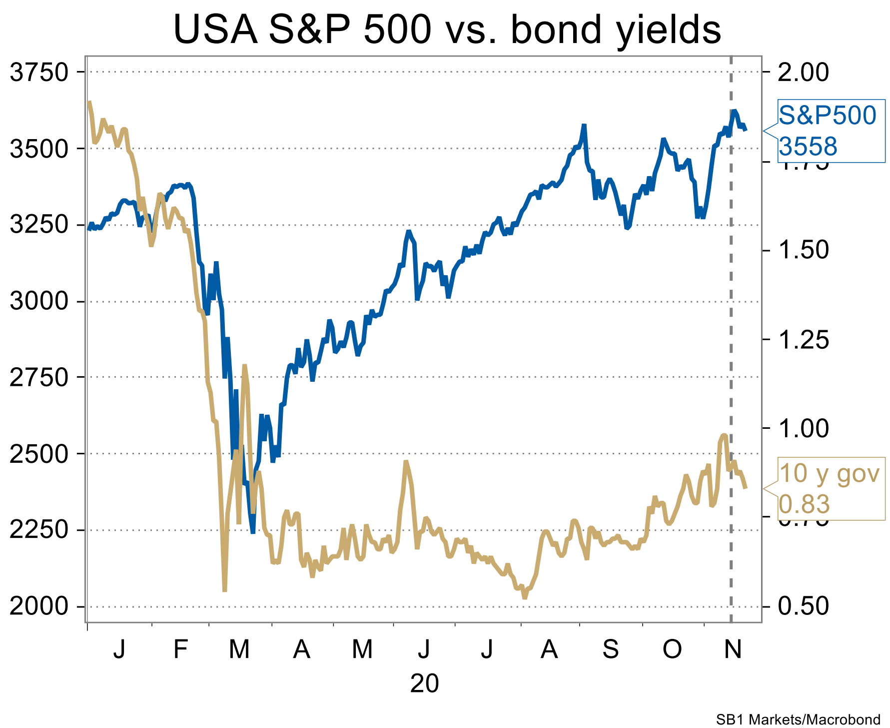


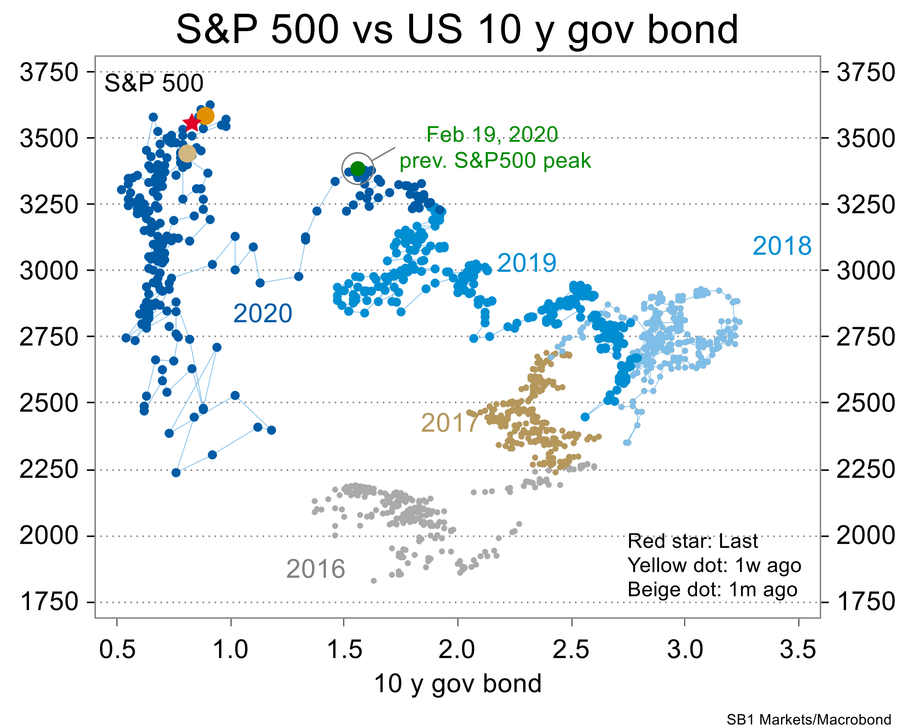
The USD is down but not dramatically – and it is still quite strong (though the weakest since mid 2018 (measured by broad f/x indices). NOK a loser

SpareBank 1 MARKETS

S&P 500 down 0.8% from ATH one week ago, 10 y bond yields down 6 bps

Still, both are probably trending upwards, probably due to less fears of a another setback in 2021

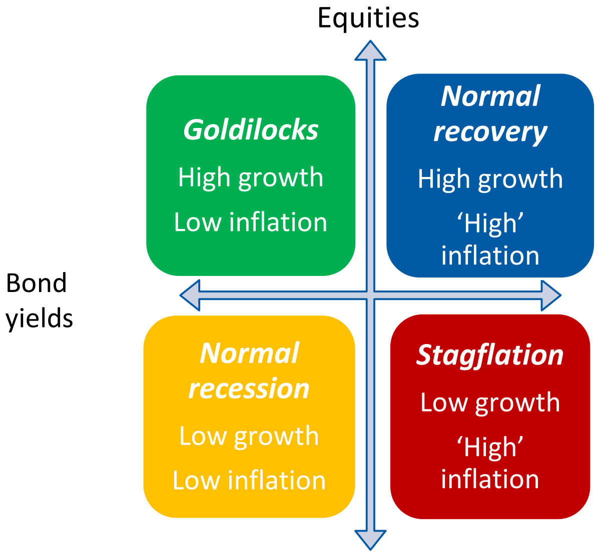


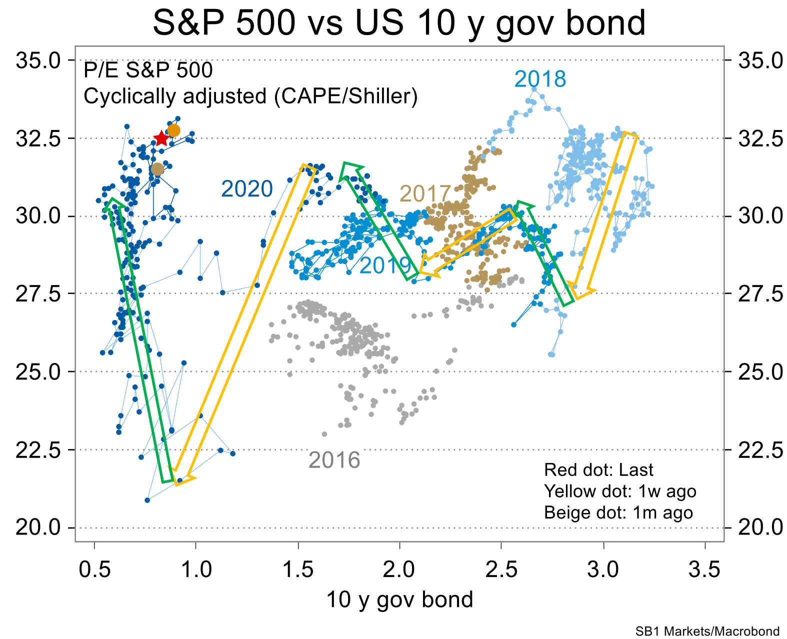


- It will take time before corona vaccines will be broadly available but the tail risk of no vaccine and ‘full lockdowns’ for a prolonged period is sharply reduced

From the ‘Goldilocks corner’, where to go?

Over the past month/week: No clear direction



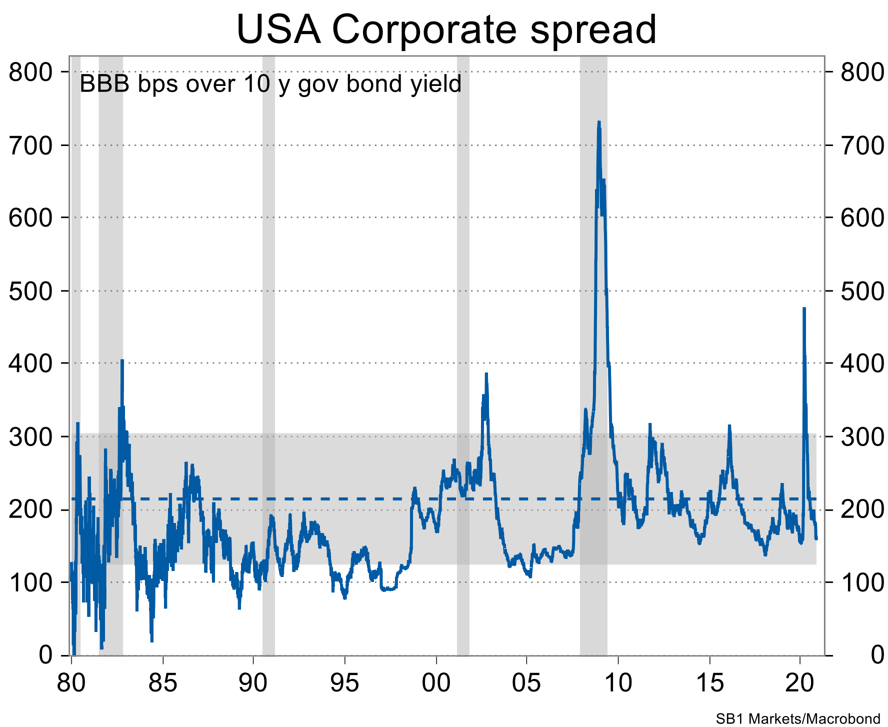


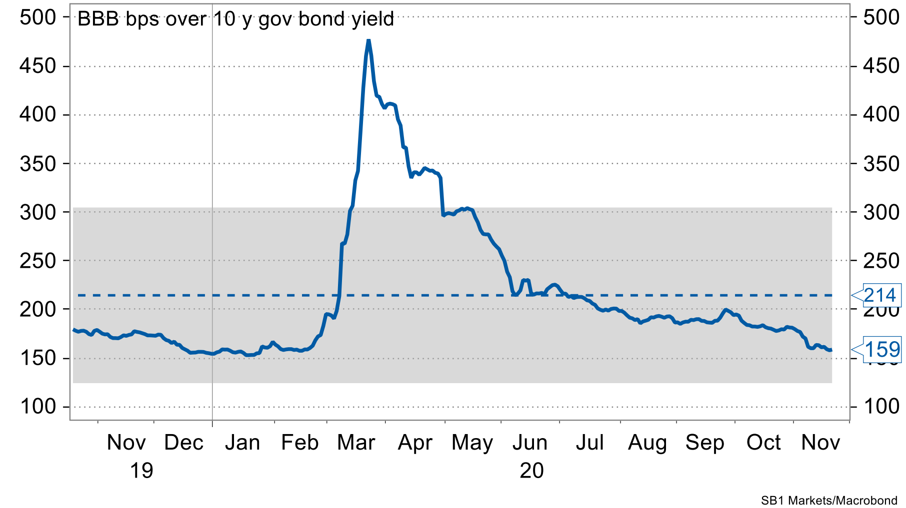
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 2% for 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 here, in the green? Perhaps, for while – but probably not, long term
  - The economy has rebounded rapidly from the corona trough. Any substantial disappointment on corona/vaccine or the growth cycle in general would be challenging for the equity market. Still, the corona hit is most likely behind us, and vaccines are soon here
  - 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 growth was not low vs. CPI inflation or productivity. Profits were under pressure, and investments on the way down. Interest rates had not been too low, even if that is the popular view these days

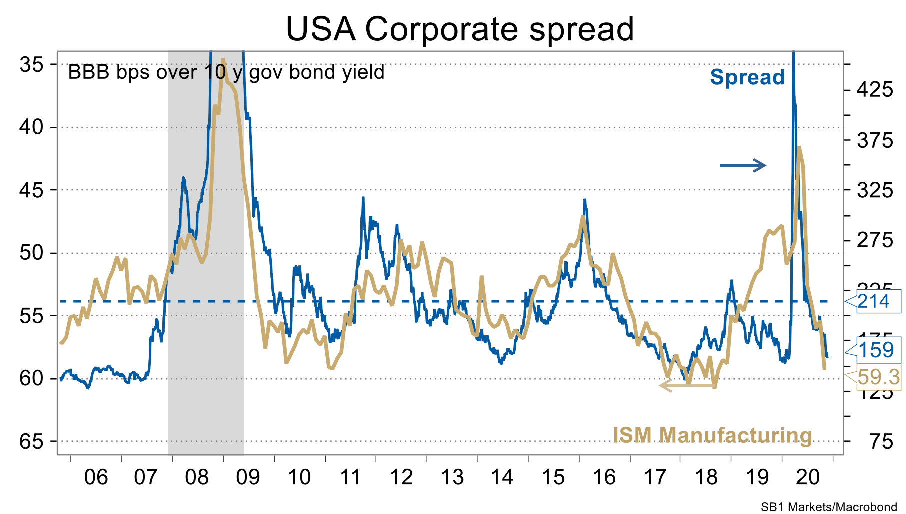
SpareBank 1 MARKETS

Credit spreads are sliding further down, no angst for the loss of a Fed backstop

The US Treasury has decided not to prolong some of Fed's private credit bond programs



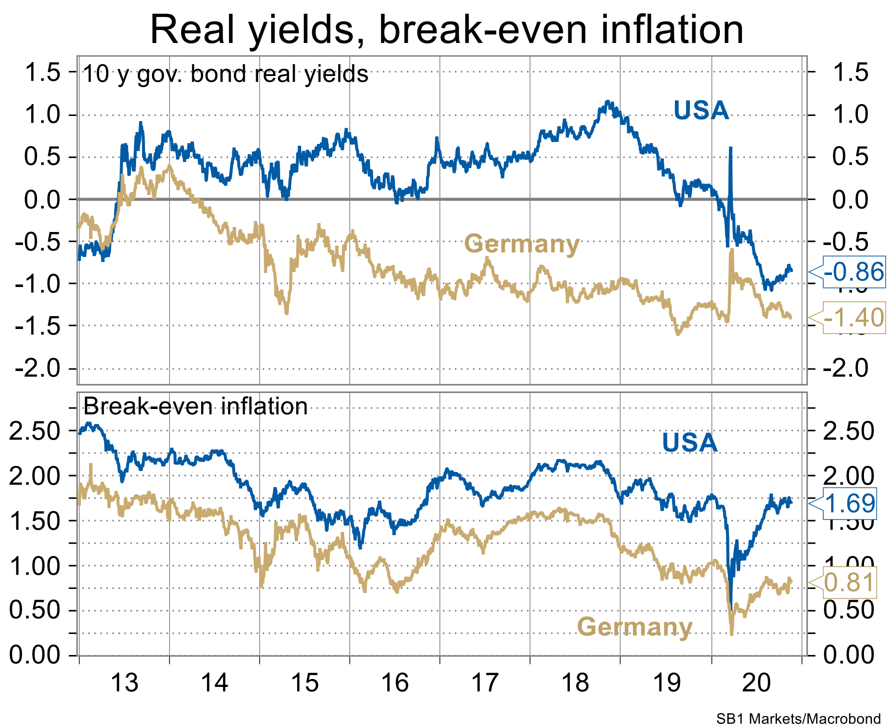


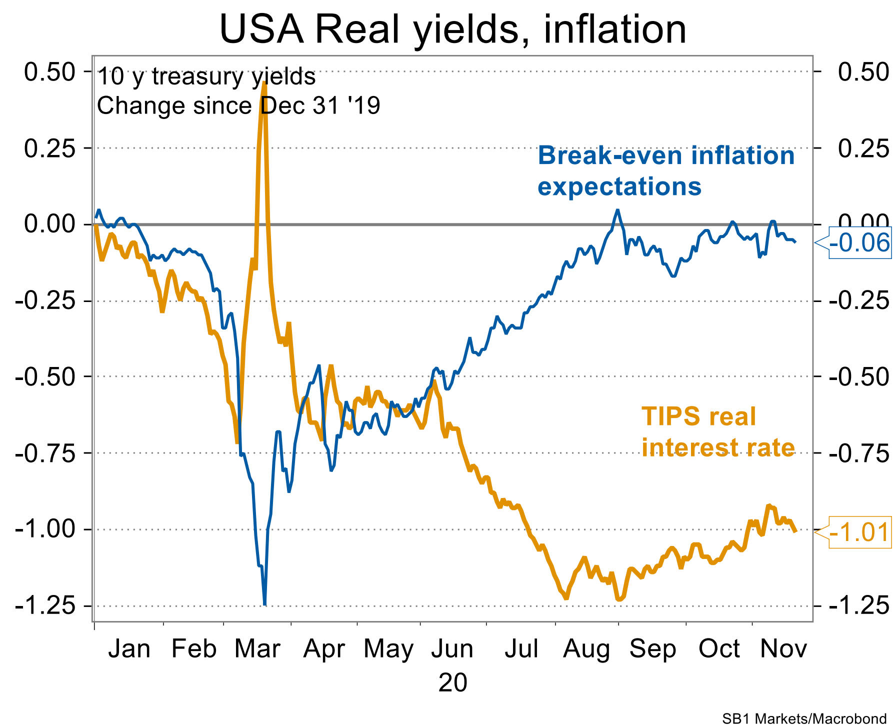


- These programs have hardly been utilised, but could still be looked upon as a lender of last resort, a bazooka that could be used, if needed. The credit market did not take notice when the Treasury announced that the programs would be terminated Dec 31, as planned when they were introduced. Will a Biden government try to get Congress to restore these programs? We doubt – until 'a crisis' emerges
- So far we are miles away: Spreads are well below average levels – and not far above the February local trough

US real rates (TIPS) slightly down last week to -0.86% but is trending up

US inflation expectations are trending flat now at 1.69%

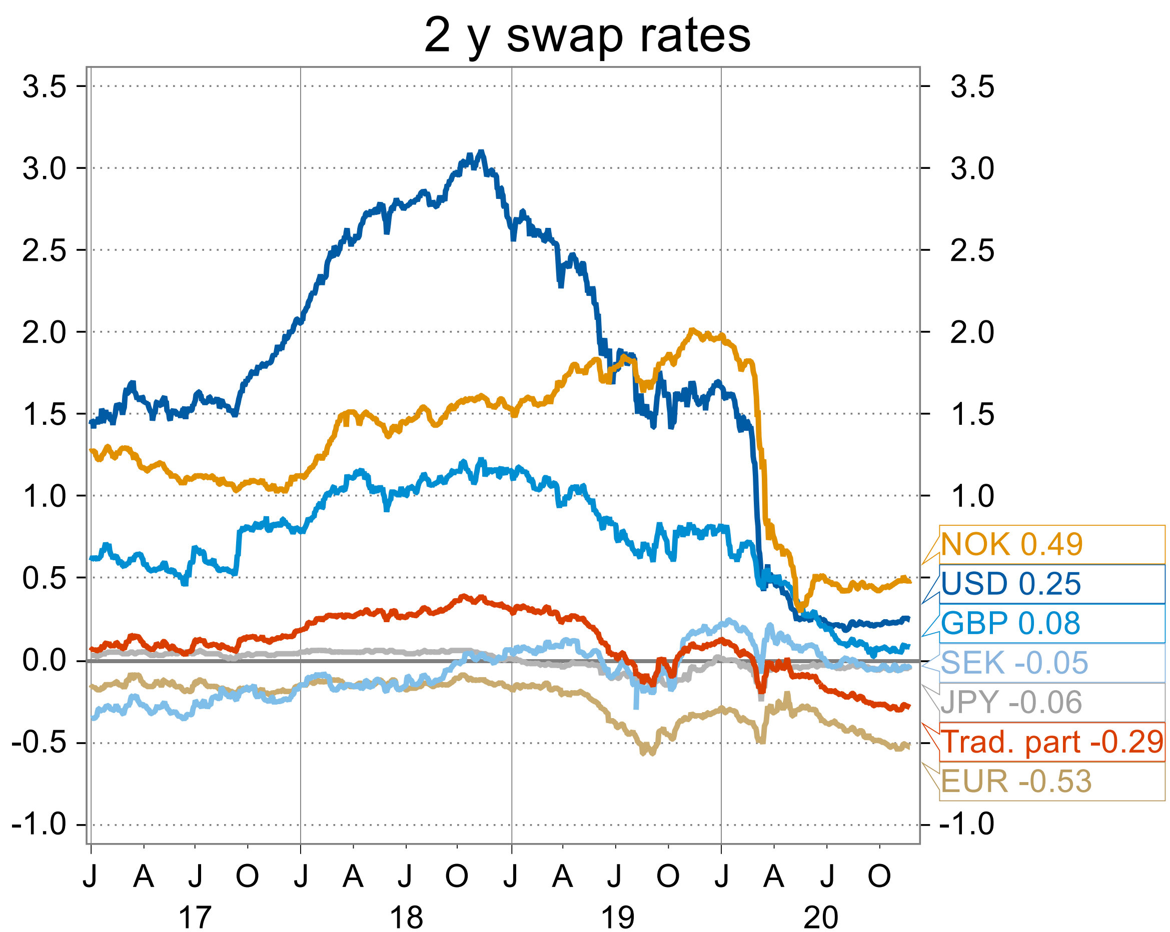




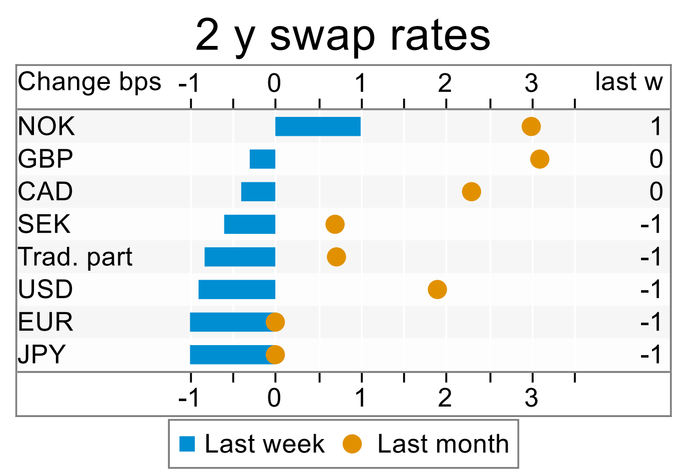
- The German 10y real rate is extremely low at -1.40%, inflation expectations at 0.81%

2 y swap rates slightly up everywhere – except in NOK

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



SB1 Markets/Macrobond

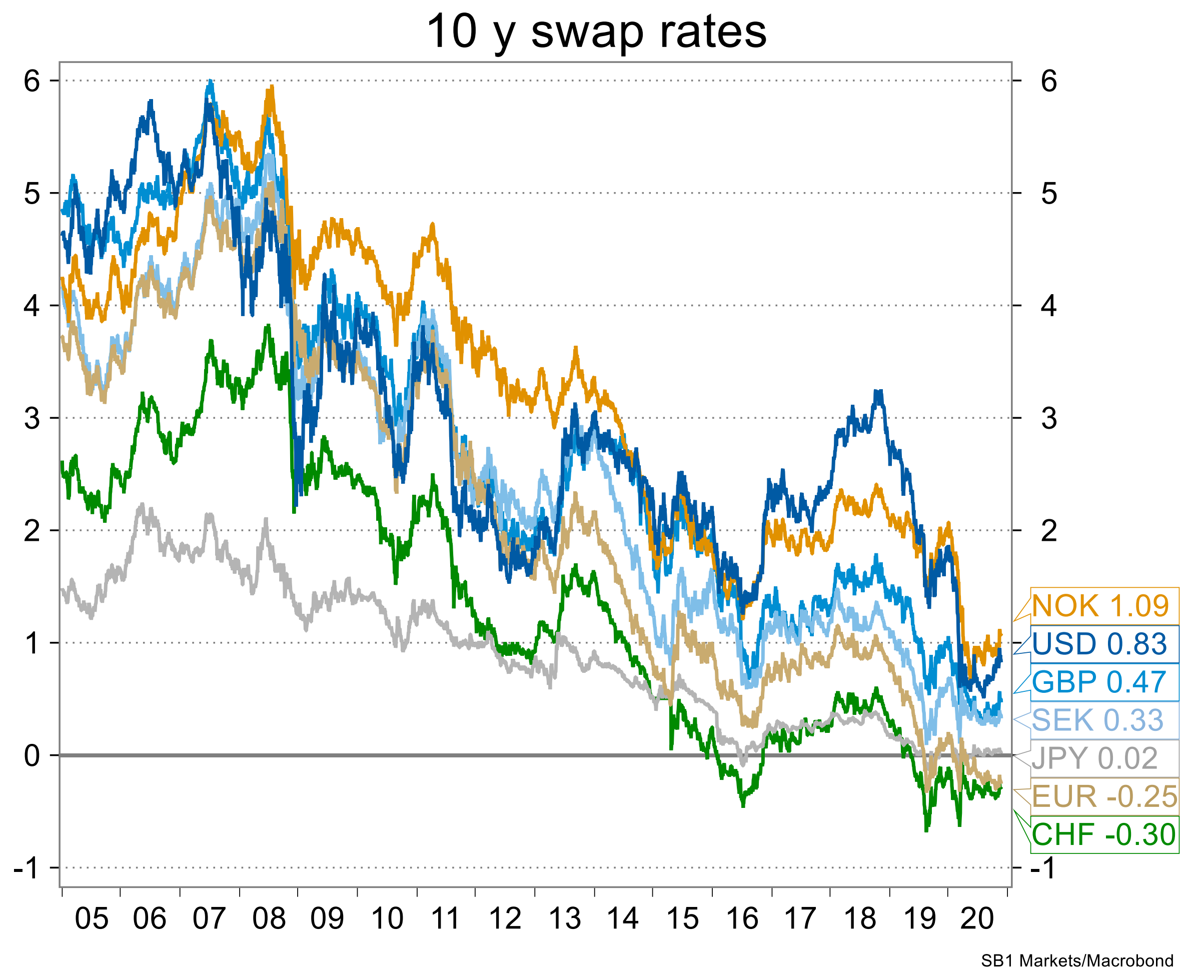


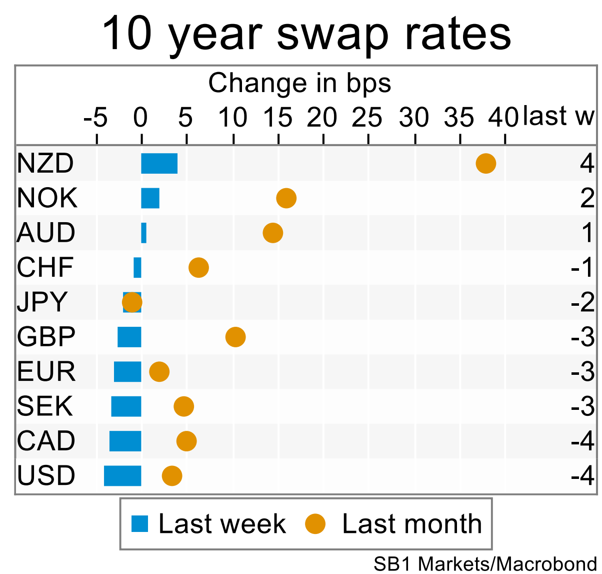
SB1 Markets/Macrobond

SpareBank 1 MARKETS

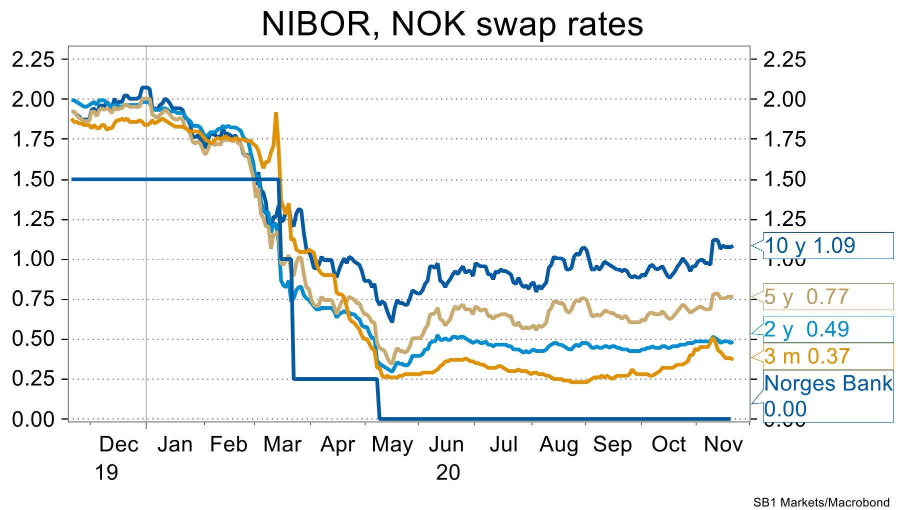
Long swap rates mostly down last week –but several are trending up

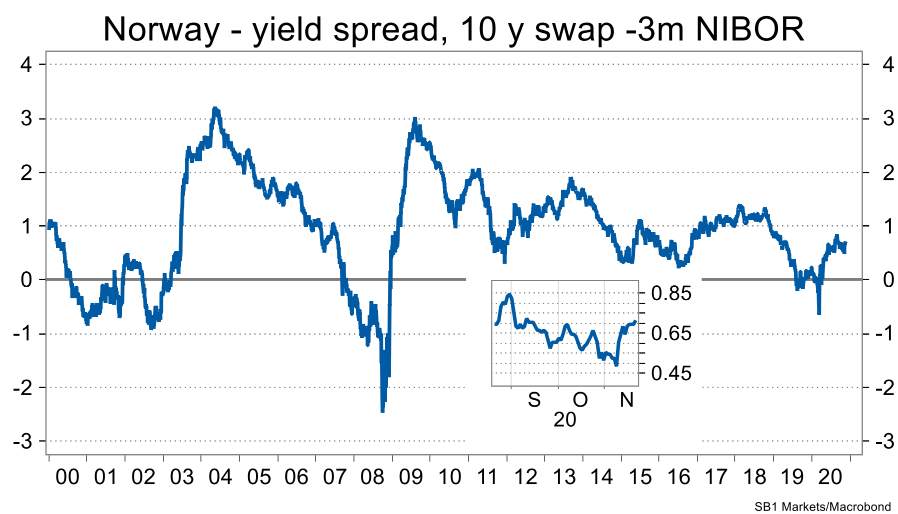
EUR, CHF, JPY and SEK rates close to flat – most other are up from 2020 troughs

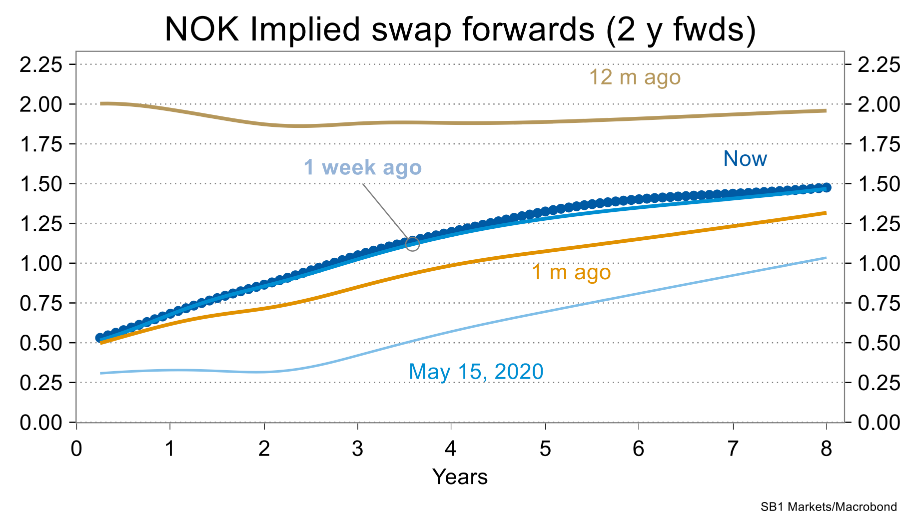




A marginal uptick last week, except in the very short end

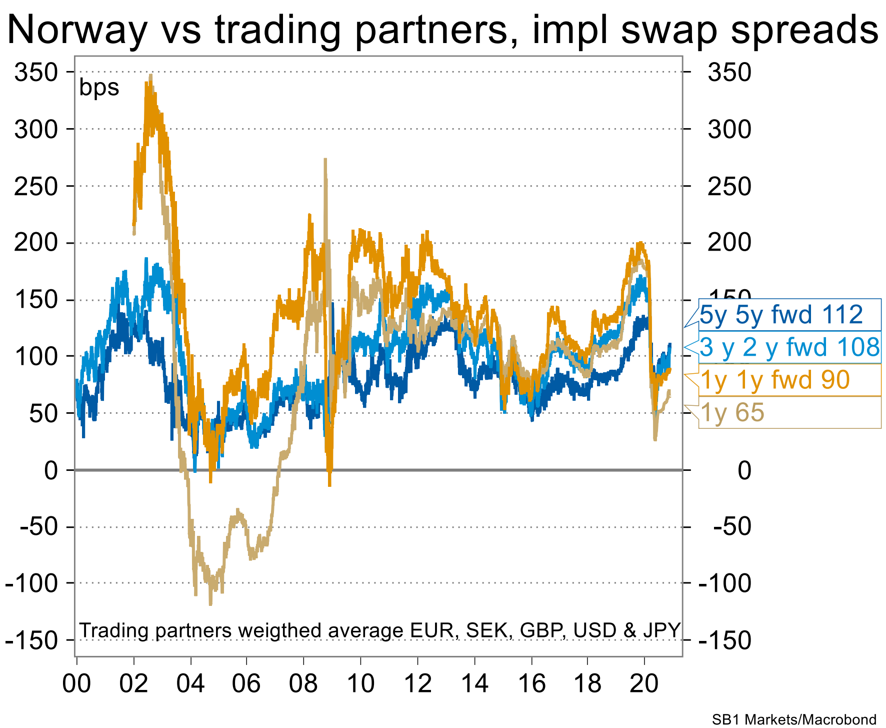


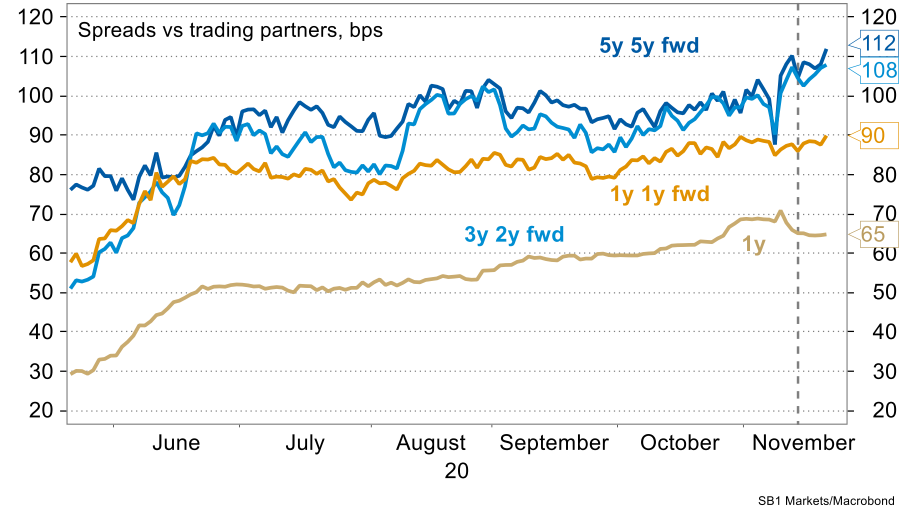


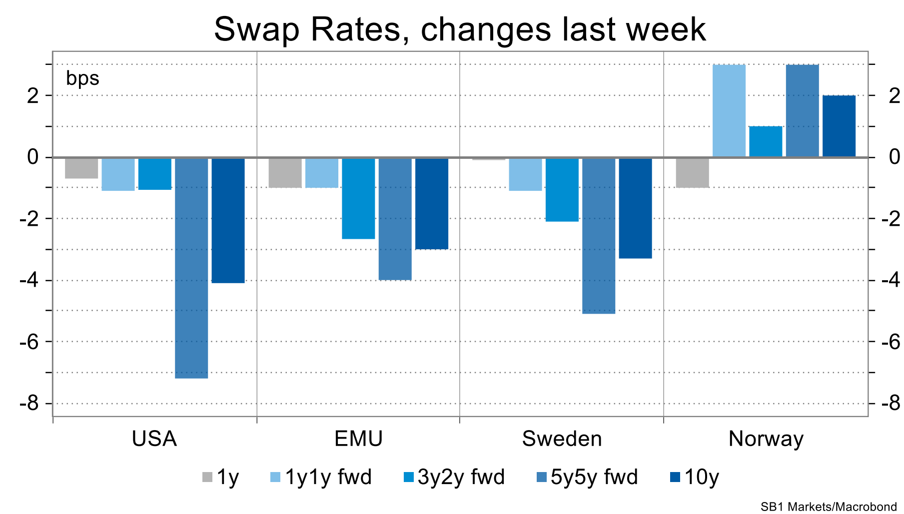


NOK swap rates up, all the others down last week – and spreads rose further

However, rate changes were small – up or down





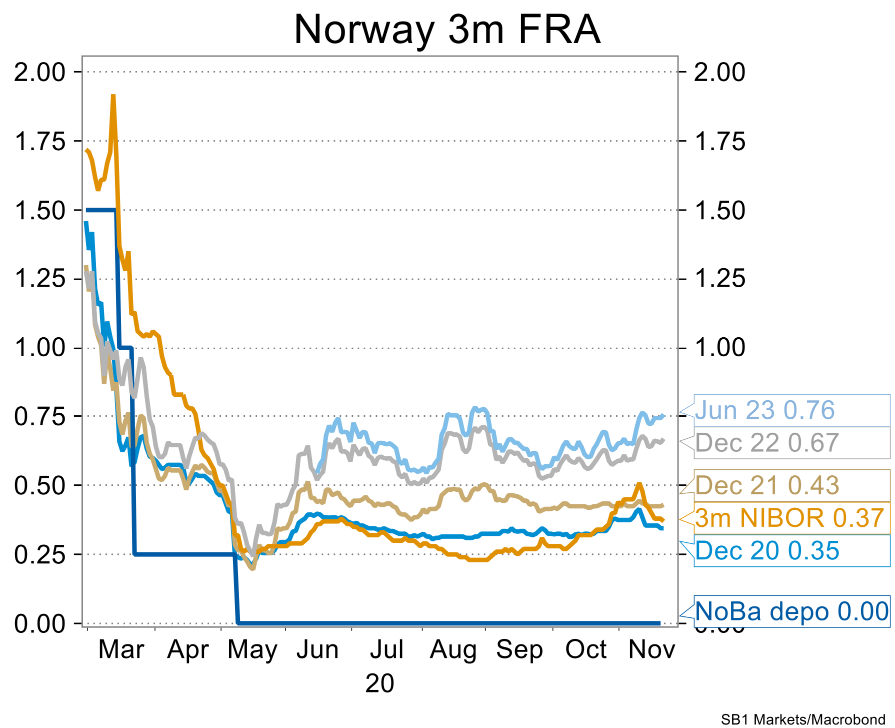


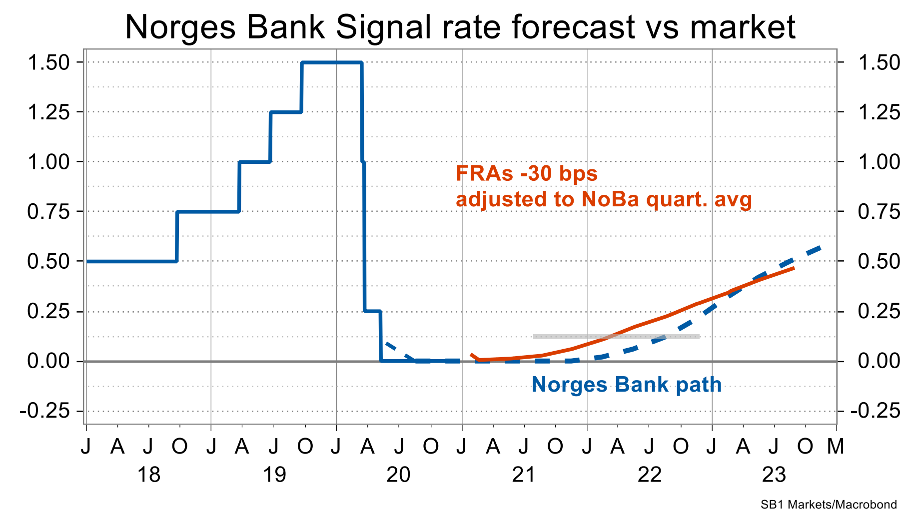
- We are still neutral vs. the spread

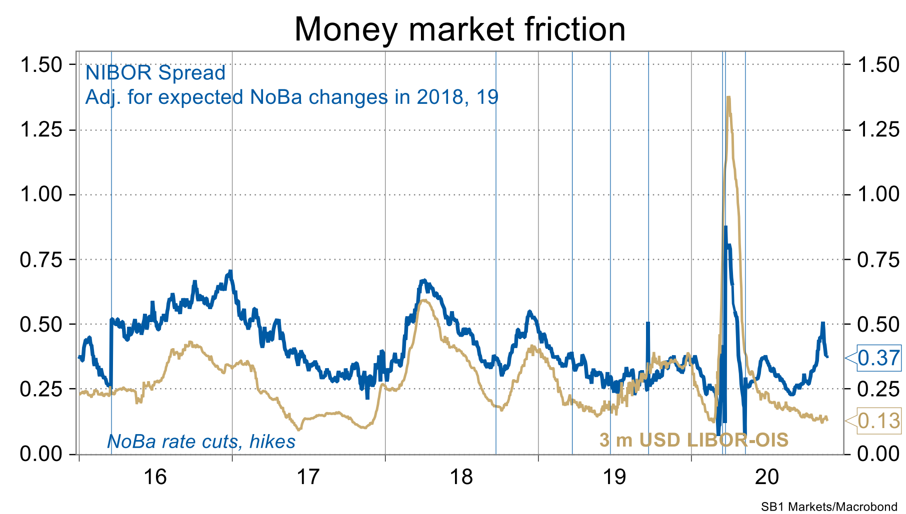
SpareBank 1 MARKETS

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



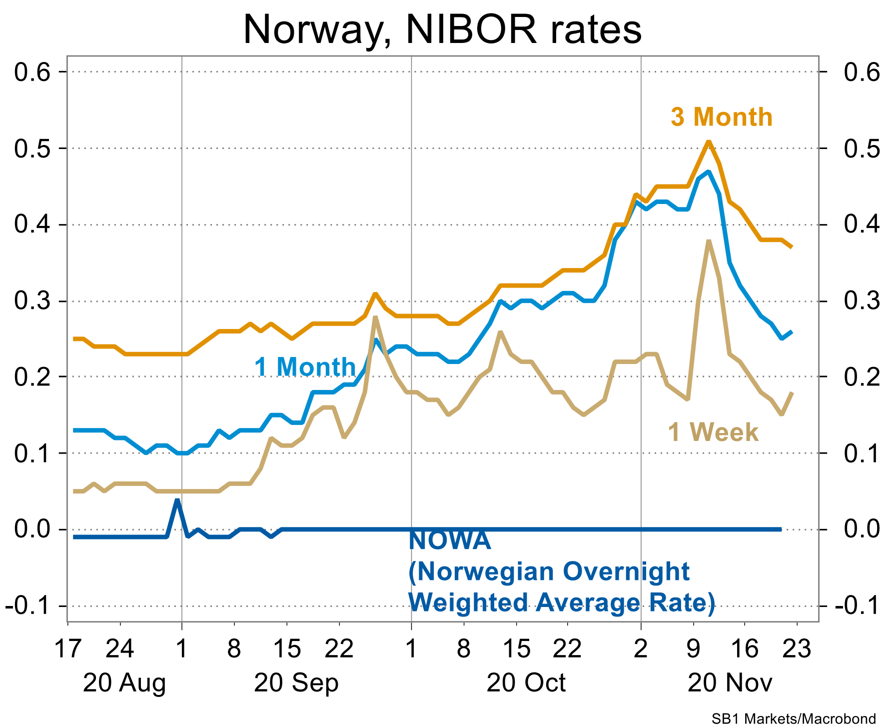




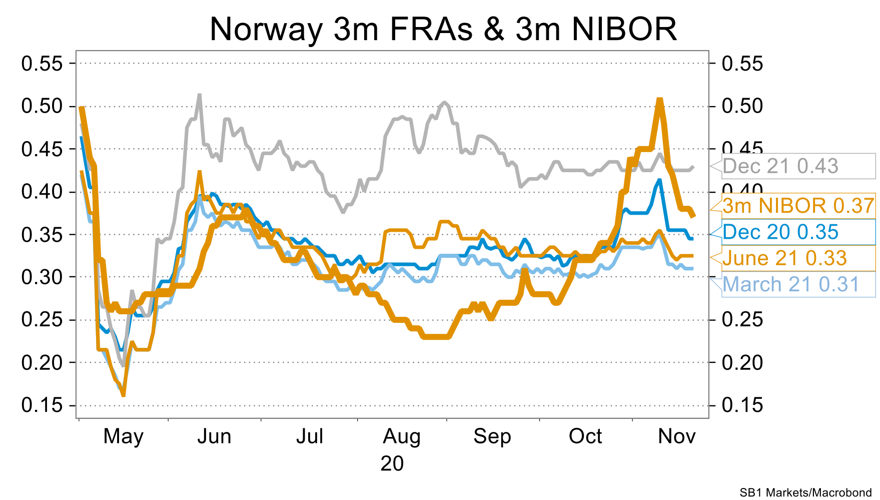
- The sharp increase in the NIBOR- NoBa signal rate spread recent weeks have just been due to liquidity frictions in the short end of the NIBOR curve
- We expect the 3 m NIBOR to decline, just like it is priced into the FRA curve
  - Dec 20 3 m FRAs rose somewhat but never above 0.42%, and it is now 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

NOK short term rates on the way down, still a tad too high?

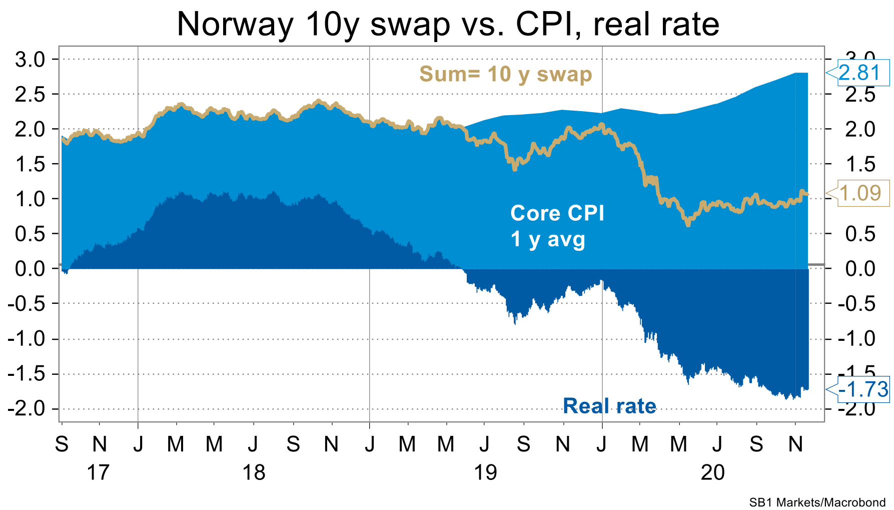
Short term NIBOR rates fell another 5 bps last week – and are down 14 – 21 bps from the peak



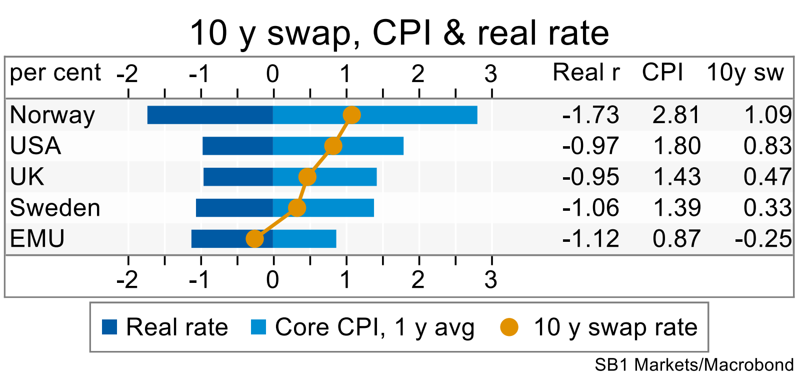
- Bank liquidity has not been well distributed recent weeks, and short term lending rates between banks have increase substantially – but following large uptake of 3 m F-loans, rates are normalising
- Last week, rates fell further – the 3m NIBOR by 5 bps to 0.37%
- We expect – in line with the FRA market – rates to decline further. In the US, the LIBOR spread has fallen to close to record low levels (see the previous page)
  - » The nearest FRA rates rose somewhat as the short NIBOR rates surges, and have now fallen back to where they came from



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



- The 10y NOK swap rate has climbed by almost 50 bps since the bottom in May, to 1.09%
- The real rate, after deducting average inflation over the 2 past years equals -1.7%



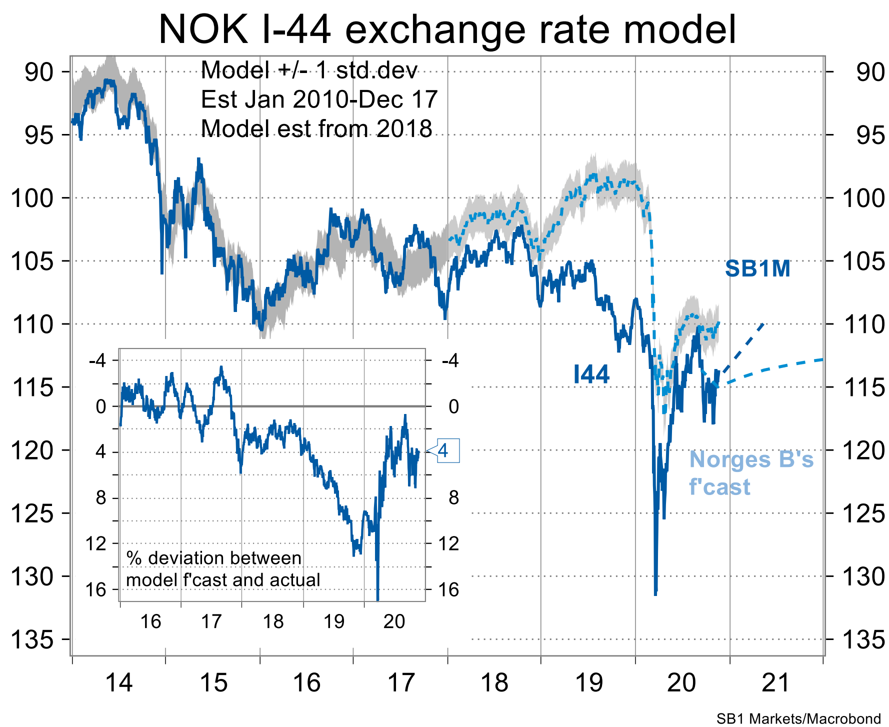
NOK real rates among the lowest, inflation exp. at top

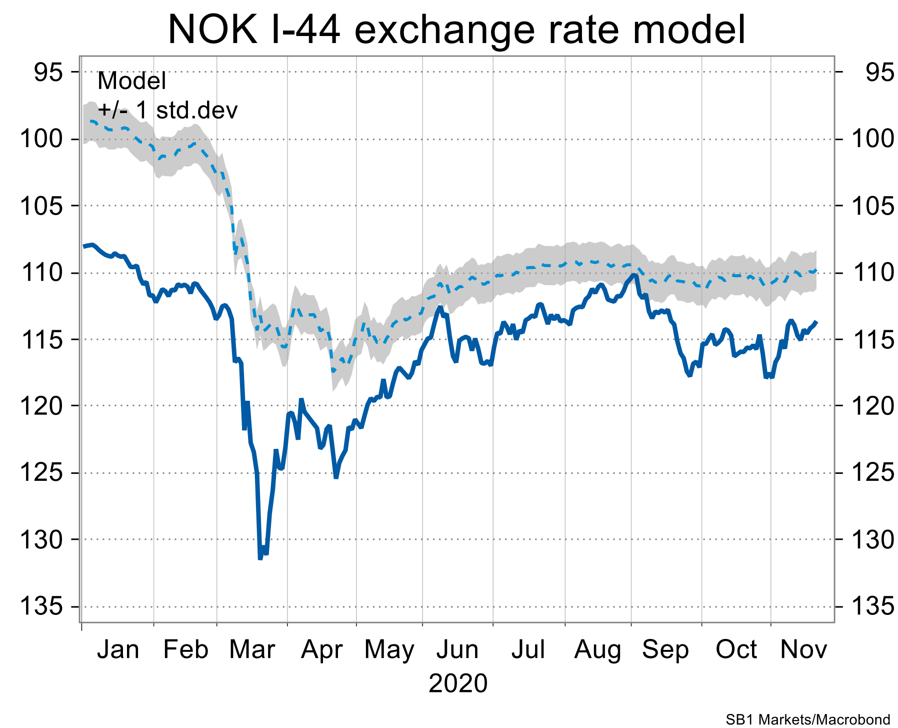
- Inflation among Norway and our main trading partners varies between 0.9 pp to 2.8% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top
  - Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- Real rates are quite similar among our trading partners, at -1.0% to -1.1% measured vs. the 10 y swap rate and inflation over the past two years
- Thus, the Norwegian real rate at -1.7% is an outlier, even if the nominal rate is the highest

SpareBank 1 MARKETS

NOK I44 up 1.2% last week, our model said 0.4%

‘The NOK is still 4% below the model forecast



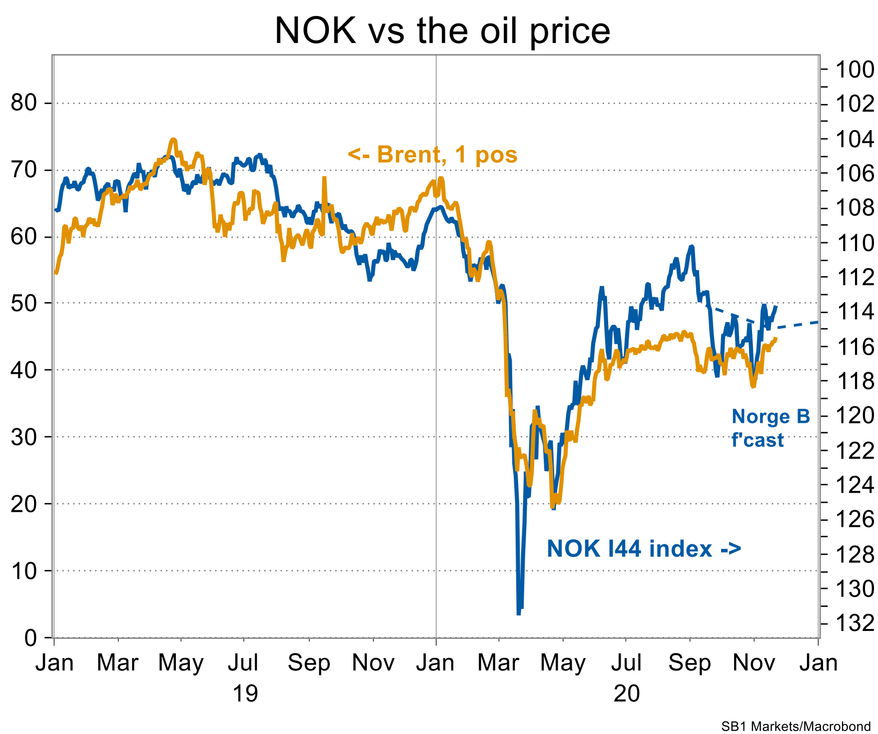


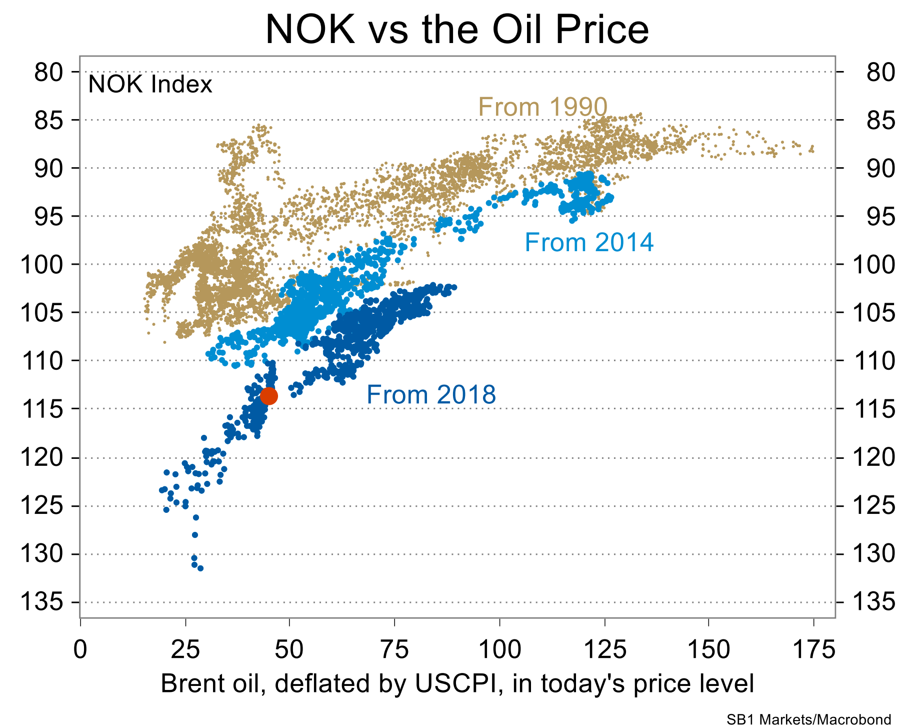
- The NOK is 5% weaker than suggested by our standard model
- The NOK is some 7% ‘below’ the global stock market vs the correlation between them in 2020
- The NOK is 8% weaker than an average of AUD/CAD/SEK, our ‘supercycle peers’
- On the other hand, the NOK is far stronger than oil companies (their equity prices vs the total stock market)

SpareBank 1 MARKETS

The oil price contributed to the NOK appreciation last week

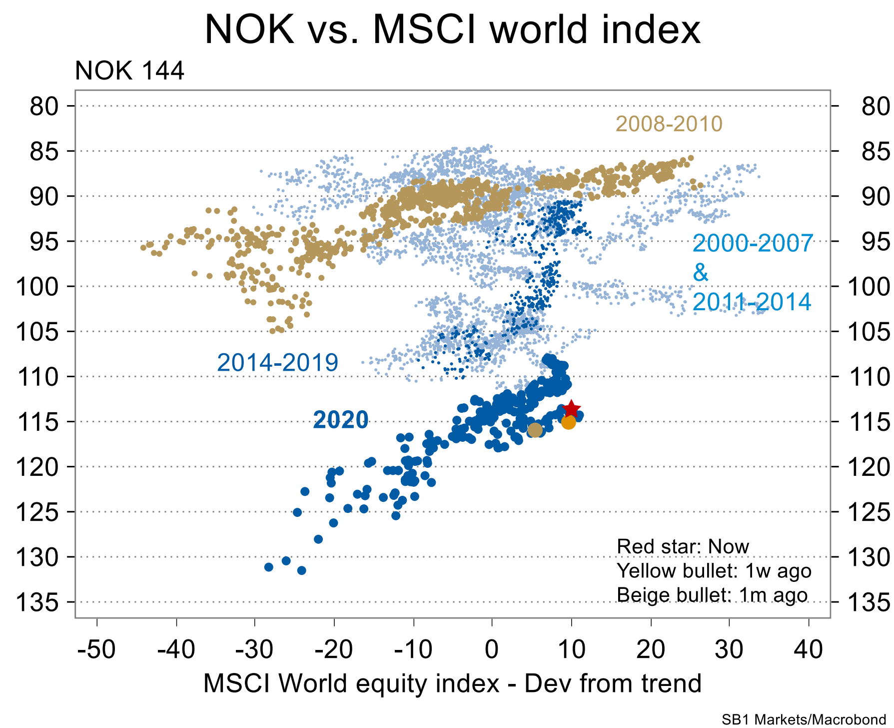
The oil price is still important for the NOK but the correlation has not been impressive since July





NOK down 7% vs global equities since Sept but not further last week

The NOK is still closely correlated to the equity market (here MSCI global)

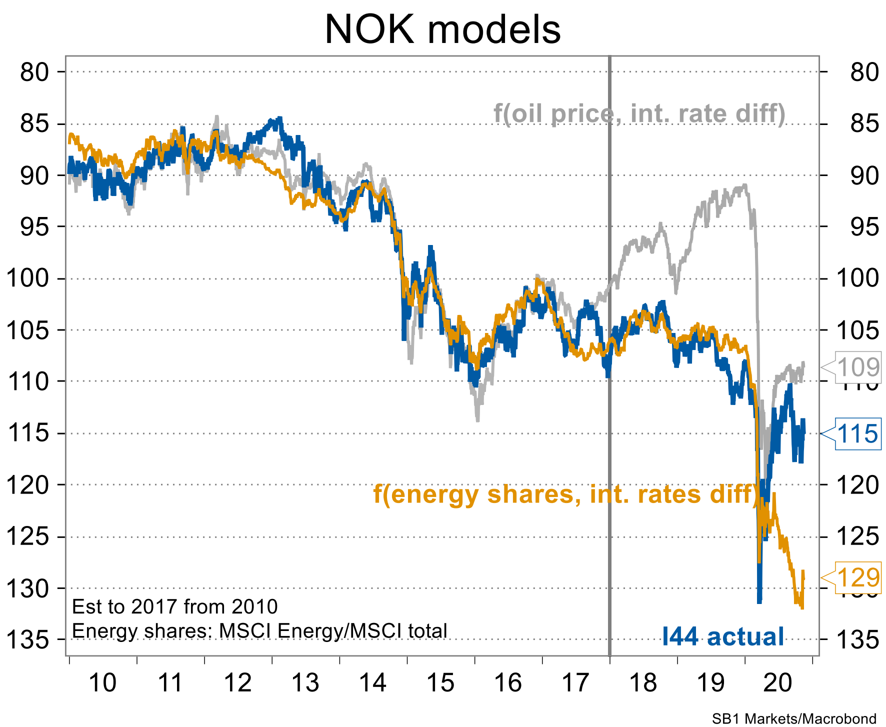


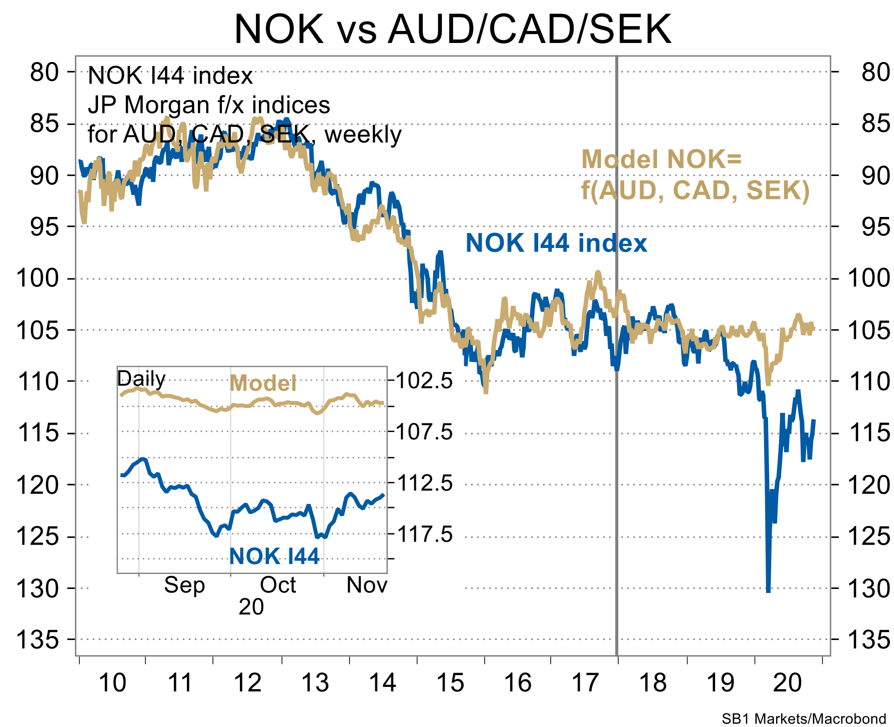
- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with pretty close correlation like the one we have seen since early 2020
- We have long argued that global equity prices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

SpareBank 1 MARKETS

NOK up, and now finally joined by oil companies

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



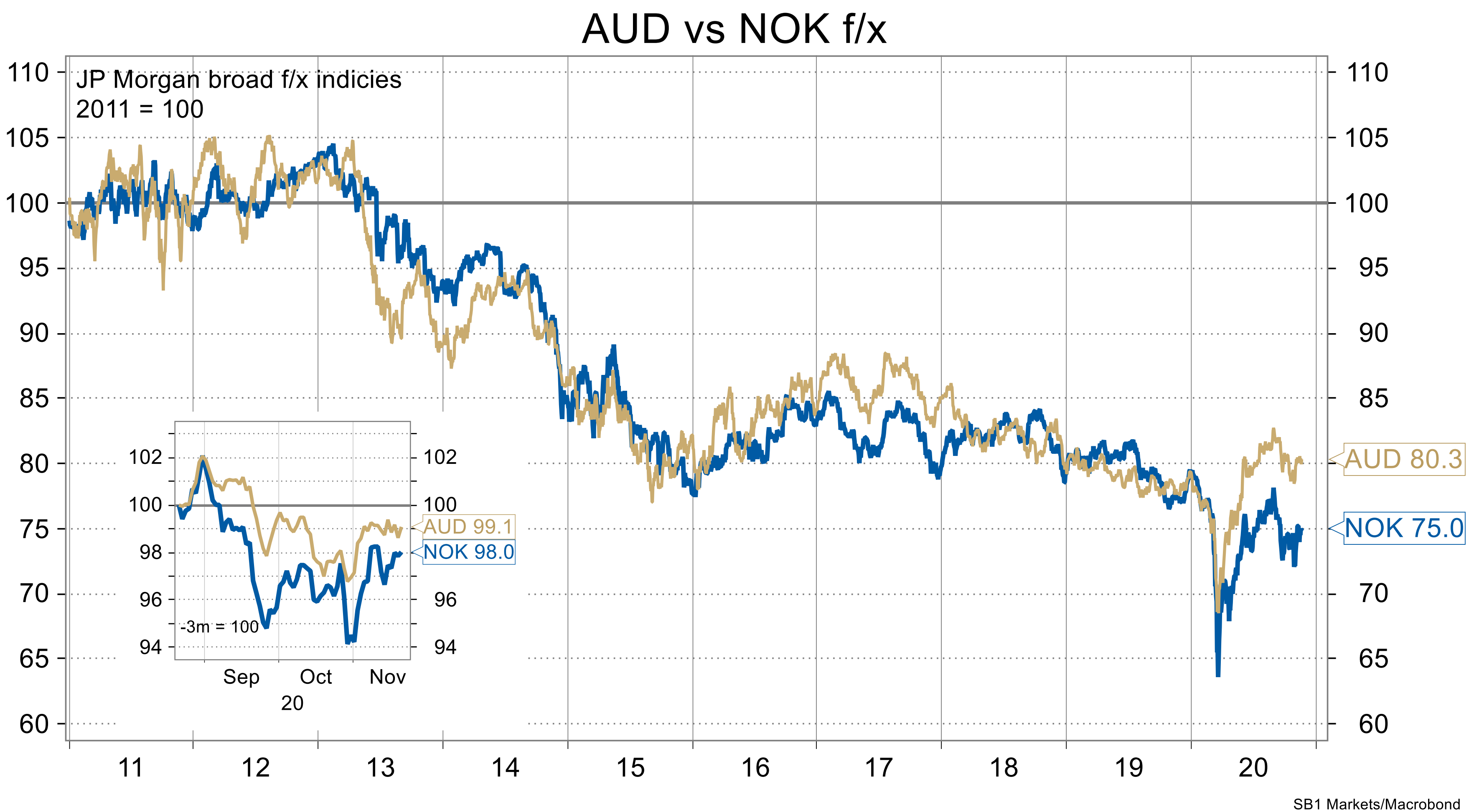


- On the alternative NOK models
  - » Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
  - » Energy shares have been sliding down since June but turned up last week XX. The <u>NOK is far stronger</u> 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 <u>NOK is 8% below</u> our model est. We think this model is more relevant than the oil stock price model

SpareBank 1 MARKETS

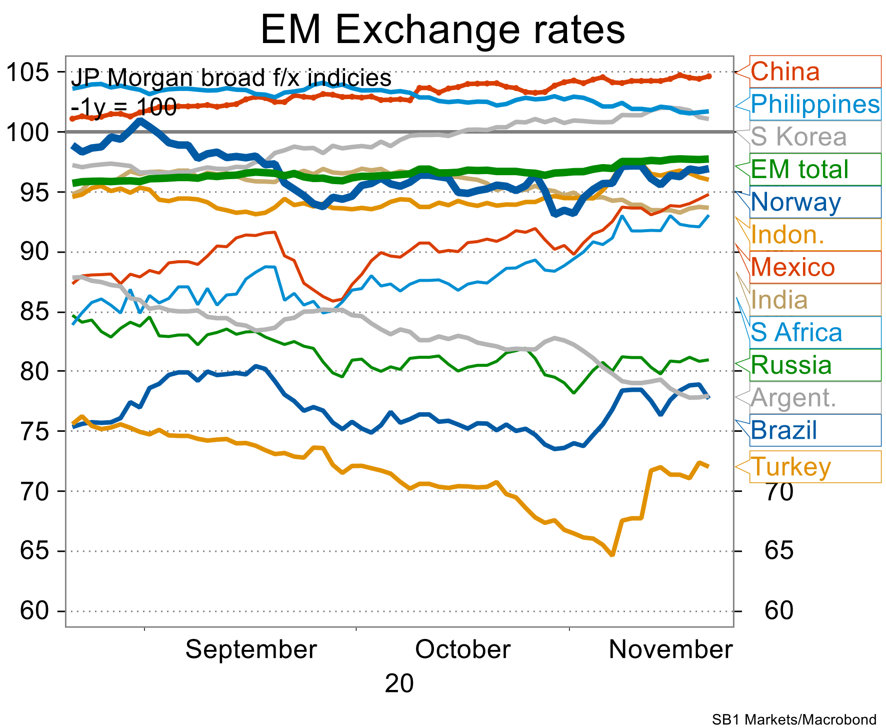
NOK recovers, alongside the AUD, of course – closely in tandem past months

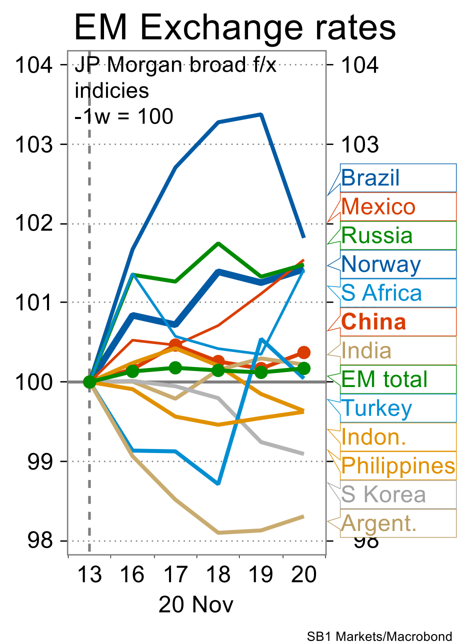
However, the NOK has lost some 7% vs. the AUD (and other supercyclical currencies) since February

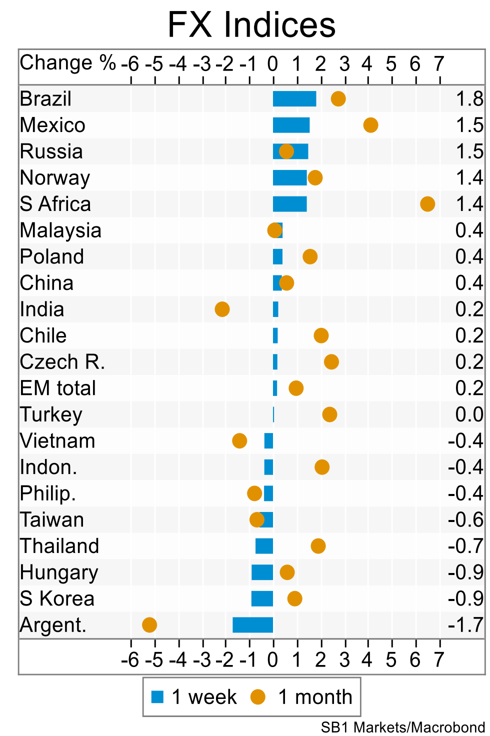


CNY i still trending up, as is the EM average – small changes last week

Argentina the only real dog last week – not than unusual







DISCLAIMER

DISCLAIMER

SpareBank 1 Markets AS (“SB1 Markets”)

This report originates from SB1 Markets’ research department. SB1 Markets is a limited liability company subject to the supervision of The Financial Supervisory Authority of Norway (Finanstilsynet). SB1 Markets complies with the standards issued by the Norwegian Securities Dealers Association (VPFF) and the Norwegian Society of Financial Analysts.

No investment recommendation

Any views and opinions relating to securities mentioned in this report should be interpreted as general market commentary, and not as investment recommendations within the meaning of section 3-10 of the Norwegian Securities Trading Act.

No personal recommendation

The information contained in this publication is general and should not be construed as a personal recommendation within the meaning of the Norwegian Securities Trading Act, section 2-3 (4). It does not provide individually tailored investment advice regarding a particular financial situation, investment experience, risk profile or preferences of the persons who may receive this report. For tailored investment advice regarding stocks mentioned in this publication, please consult our brokerage desk or your individual investment advisor.

Research for the purposes of unbundling

This report is deemed to constitute a minor non-monetary benefit for the purposes of the inducement rules under MiFID II. The report is publicly available on our website (no log-in required).

Conflicts of interest

SB1 Markets, affiliates and staff may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) in any stock mentioned in this publication. To mitigate possible conflicts of interest and counter the abuse of confidential information and insider knowledge, SB1 Markets has set up effective information barriers between divisions in possession of material, non-public information and other divisions of the firm. Our research team is well versed in the handling of confidential information and unpublished research material, contact with other divisions, and restrictions on personal account dealing. The views expressed in this report accurately reflect the analyst’s personal views about the companies and the securities that are subject of the report, and no part of the research analyst’s compensation is related to the specific recommendations or views expressed in this report.

Accuracy of sources

All opinions and statements in this publication are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication and may be subject to change without notice. SB1 Markets has taken all reasonable steps to ensure that the information contained in this report is true and not misleading. Notwithstanding such efforts, we make no guarantee as to its accuracy or completeness.

Risk information

Return on investments is inherently exposed to risks. The value of an investment position may both rise and fall during the investment period. If the return on investments is positive at one time, there is no guarantee that it will remain such in future. In certain cases, losses may exceed the sum of the original investment.

Limitation of liability

Any use of information contained in this report is at your own individual risk. SB1 Markets assumes no liability for any losses caused by relaying on the information contained in this report, including investment decision taken on the basis of this report.

Limitation on distribution

This publication is not intended for, and must not be distributed to, individuals or entities in jurisdictions where such distribution is unlawful.