30 November 2020

Macro Research

Week 49/2020

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week:

- Last week, **AstraZenica/Oxford** joined the Pfizer and Moderna in reporting encouraging vaccine news – but details in the human trial may be somewhat dubious. AstraZ's vaccine is cheap, can be produced in far larger volumes then the two first applicants', and is easily distributed. More companies are expected to report results the coming weeks/months – and substantial quantities of vaccines will likely be distributed in Q1
- Still almost only **good corona news from Europe**, as the number of cases in most countries is falling sharply. Belgium is down 85% in 4 weeks, France 80% in 3 weeks. Spain, Italy and UK on the way down too – rapidly! Germany, Denmark and Sweden are still borderline cases, albeit with 'low' levels of infection, and some in the South East is not yet brought under control. **Norway** clearly turned down last week, as we expected. In the **US**, testing has fallen 10% during Thanksgiving, but growth in new cases has very likely slowed. Time spent outside home is increasing sharply in Belgium, ahead of any formal lifting of restrictions. Europe in avg is marginally up, US is still trending down
- **The global PMI** probably fell some 0.5 – 1 p in November, due to a steep decline in the **European service sector** – no doubt due to the challenges created by the corona virus and 'lockdowns' – but still neither the PMIs nor national surveys signal a deep double dip in Q4, perhaps less than a 1% setback. The **US PMIs** are at the best level in many years both in manufacturing and services, signalling further growth in Q4, in line with most nowcasters. The first **Chinese PMIs** surprised at the upside, once more. The global PMI signals trend at growth (final data out this week)
- **In the US, president Trump** said he would leave the White House if he lost the electorate, but added that he won the election and that a lot of things would happen before Jan 20. The bookmakers still say just 83/17 in favour of Biden. President-elect Biden has nominated **Janet Yellen**, the former Fed Governor as the new Treasury secretary. Other steady (& boring?) hands are also nominated
- **The 2nd US GDP** revision confirmed a Q3 7.4% growth (33.1% annualised). Corporate profits rose to a record level, supported by huge public support programs, equalling 4% of GDP, or 40% of normal profits – mostly in order to keep employees at work. **Personal consumption** rose in Oct but is still 1.6% below the Feb level. **Income** fell – but remains 4% above the Fed level, as public transfers have increased much more than the marginal decline in market based incomes! The **savings rate** is at 16%! **New homes sales** were higher than expected, and **existing home prices are surging**, as reported by two indices last week. **Durable orders** are back to a pre corona level, even if aircraft orders are still close to zero. Other orders, including **investment orders**, are well above the early 2020 level!
- **GDP in Sweden** rose more than first reported in Q3. The KI survey index rose further in November and signals growth in Q4 too. **The Riksbank** decided to lift the QE target to 14% of GDP from 10% (by end of 2021). The **signal rate** is unchanged at zero.
- **In Norway, NAV unemployment** rose by 8.5' in November, or 0.2 pp to 7.0% all included, included part time unempl, up from 3.5% before corona. (Full time open unemployment rose by 10', or +0.4 pp to 4.0%, up from 2.2% before corona. More furloughed persons in travel, tourism & services explain most of the increase in Nov – for obvious reasons. No drama in other sectors, in contrast to the March/April panic. The **LFS unemployment rate** has stabilised at 5¼ %, while **employment** is increasing – and it is down 'just' some 1.5% y/y. **Retail sales** rose a tad more than expected, and is still 10% above the pre corona level. **Hotel guest nights** are down 40%, Norwegians down -29%, and Norwegian recreational traffic down 20%. 'No' foreigners. **Housing starts** are probably on the way up again, not surprising giving prices in the 2nd hand market

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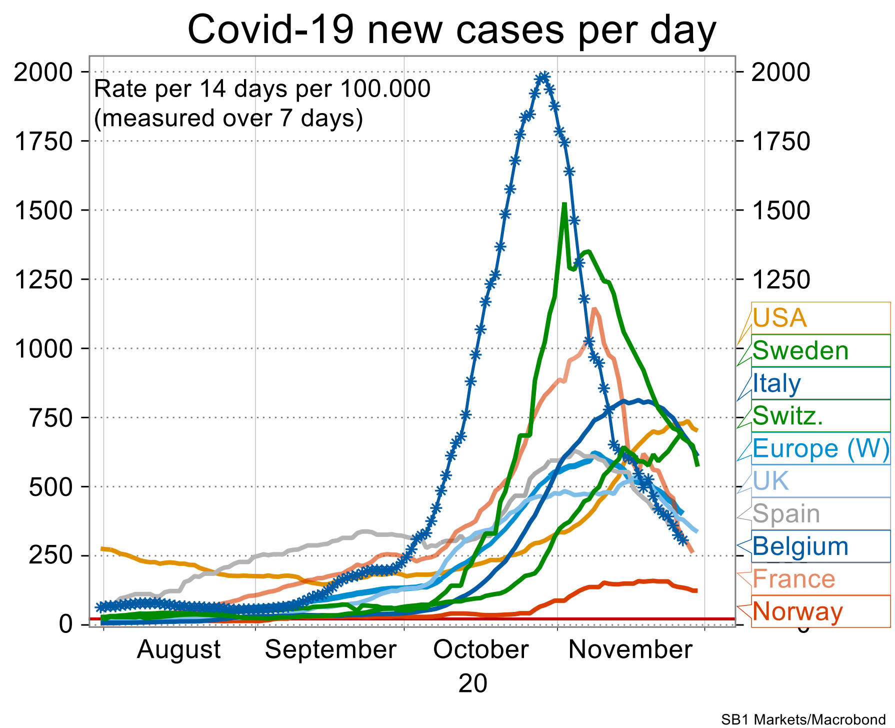
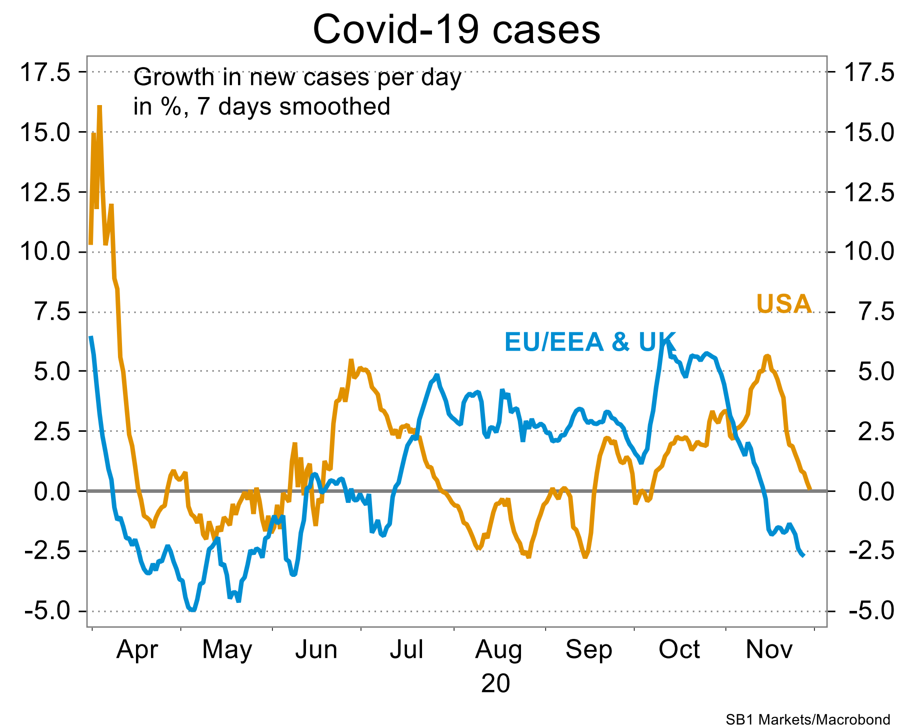
Belgium to 300 from 2.000 in 4 weeks! France at 250 vs. 1150 3 weeks ago ☺

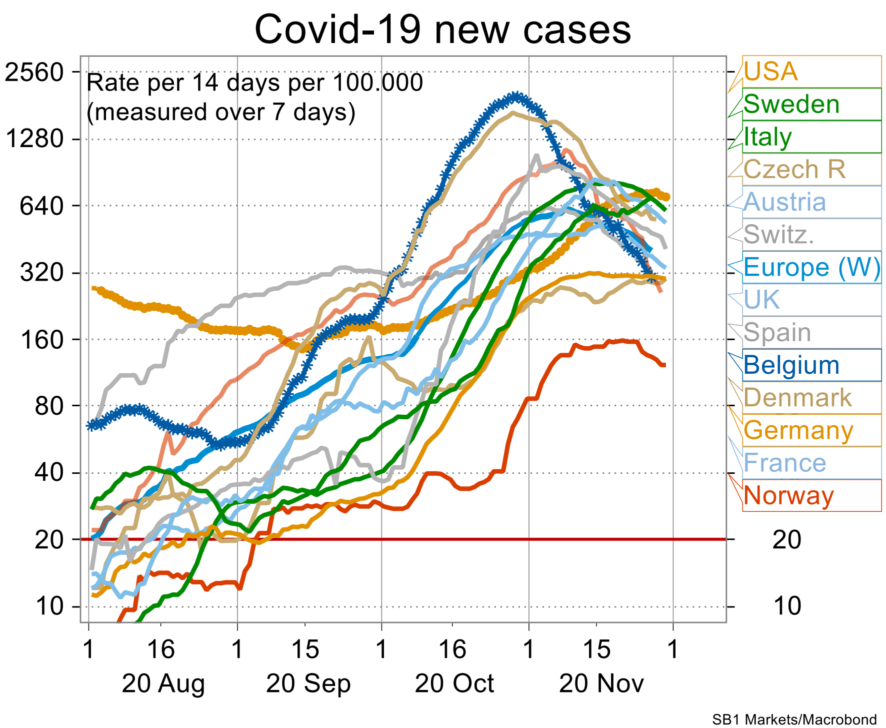
Almost all other European countries are reporting a steep decline. The US is slowing too (but…)





- … Thanksgiving may have disturbed **testing data in the US**, as the no of test have fallen by 10% - and the positivity rate has increased. Still, growth has no doubt been slowing as mobility is reduced – without any national measures – and so far without any serious national economic impact
- In Europe, the 'R' is well below 1 in most 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, as the infection rate has fallen and the economic/social cost are substantial</u>. Germany is a laggard, together with Denmark and Sweden – though both at 'low' levels (300)
- The number of new cases in **Norway is finally turning south, as we have have been expecting the two past weeks.**

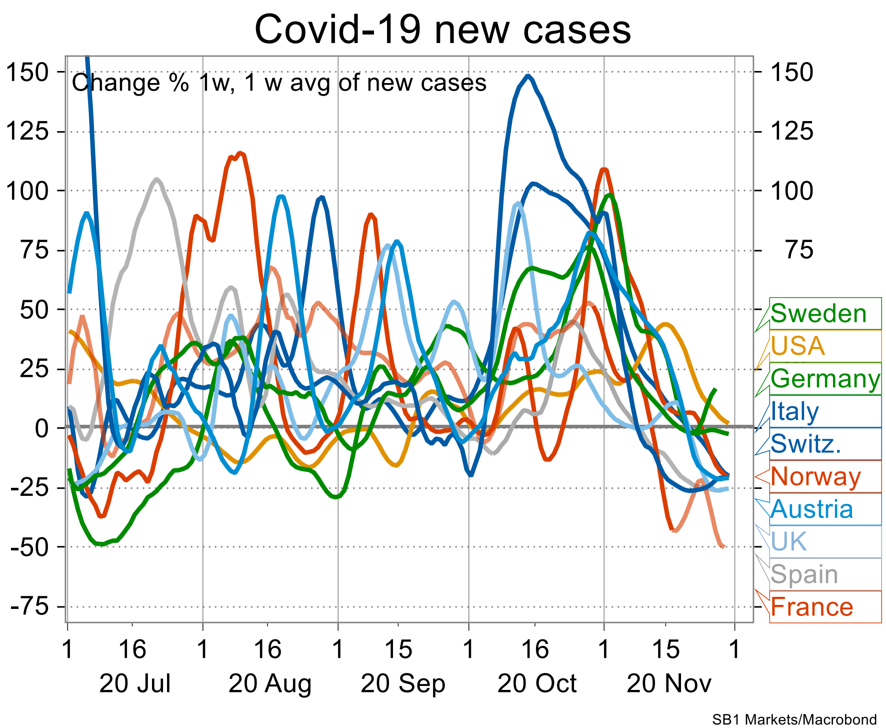
Reduced mobility works – everywhere, always!

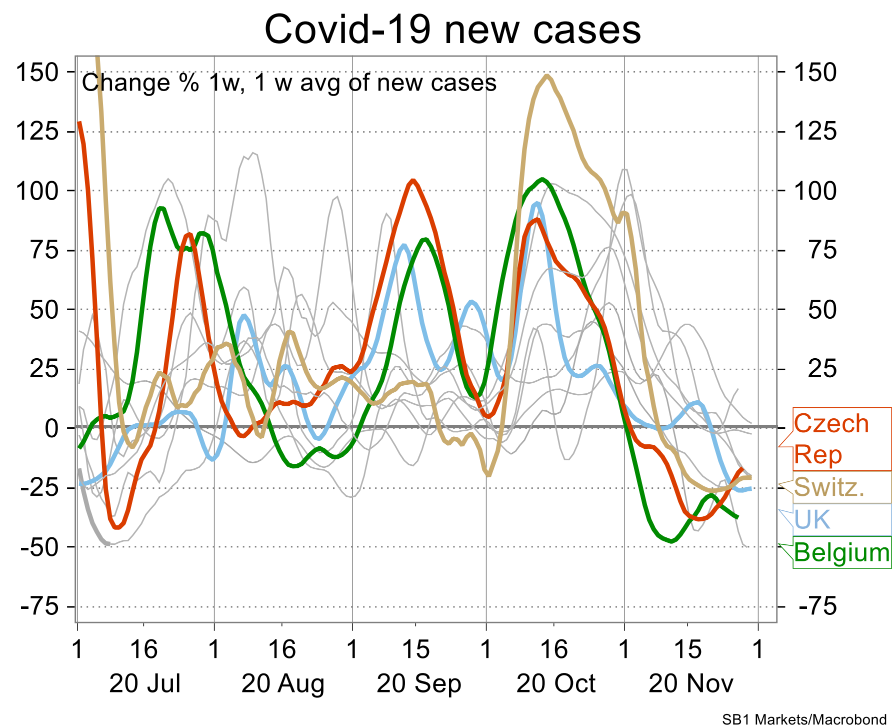


- The number of new cases in Belgium has fallen 85% the past 4 weeks
  - » Some of the decline may be due to less testing, but the positivity rate has fallen sharply as well
- Almost all other European countries are rapidly on the way down
  - » Except some few, like Germany and Denmark – and some in the South East
  - » Most likely, the number of new caese has peaked in Sweden (and death rates are not high)
- Growth in cases in the US clearly slowed further last week but data may have been influenced by Thanksgiving
- Norway turned south last week, well before any health problems turned up.
  - » Just some 1 – 1.5% of the capacity of hospital beds/IUCs are occupied by 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

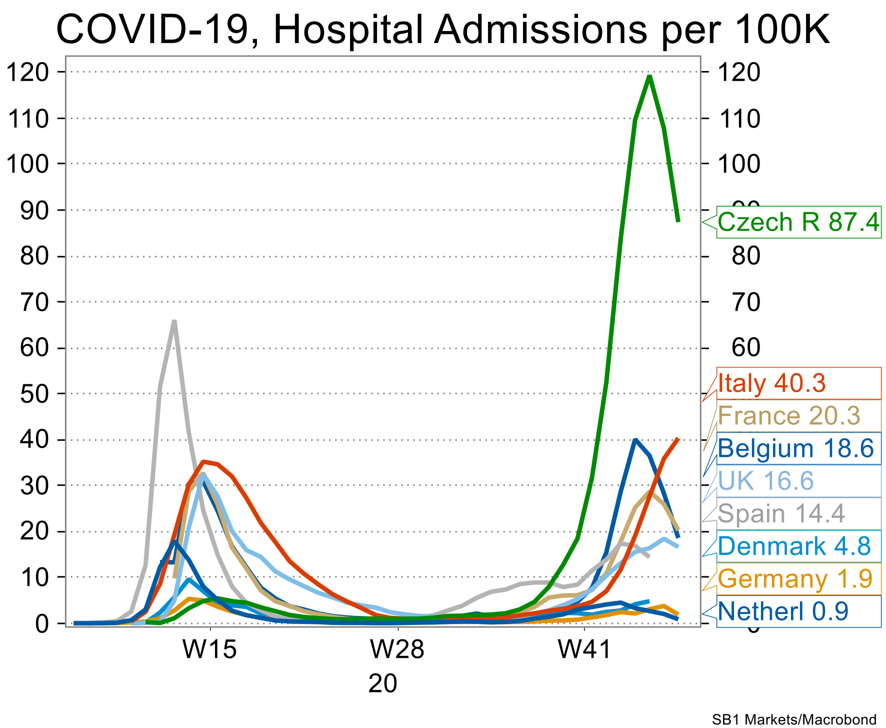


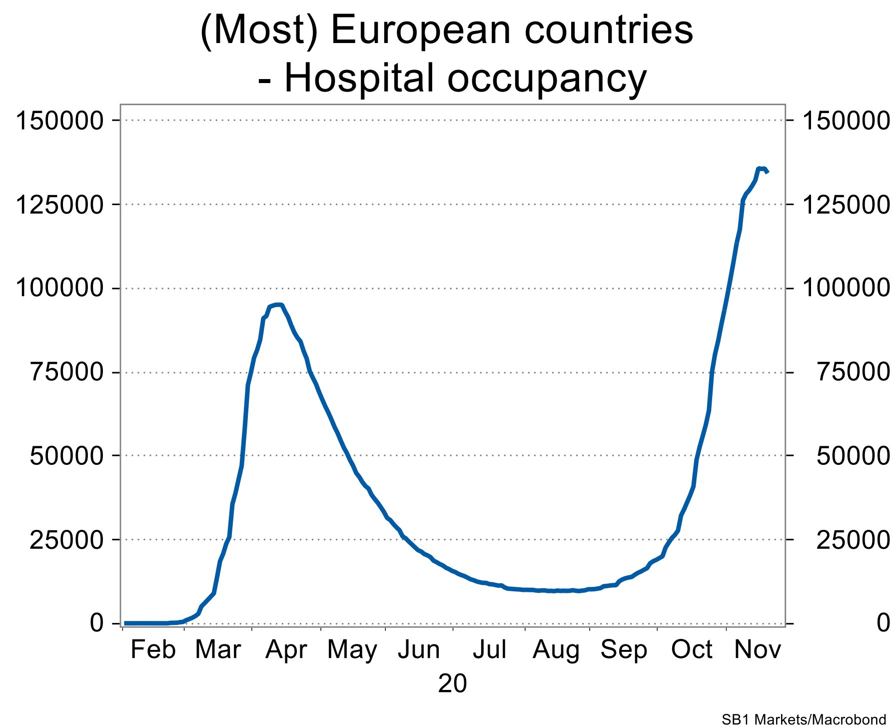


- Check the mobility data some few pages out in the report

Corona became a unbearable health problem, some places

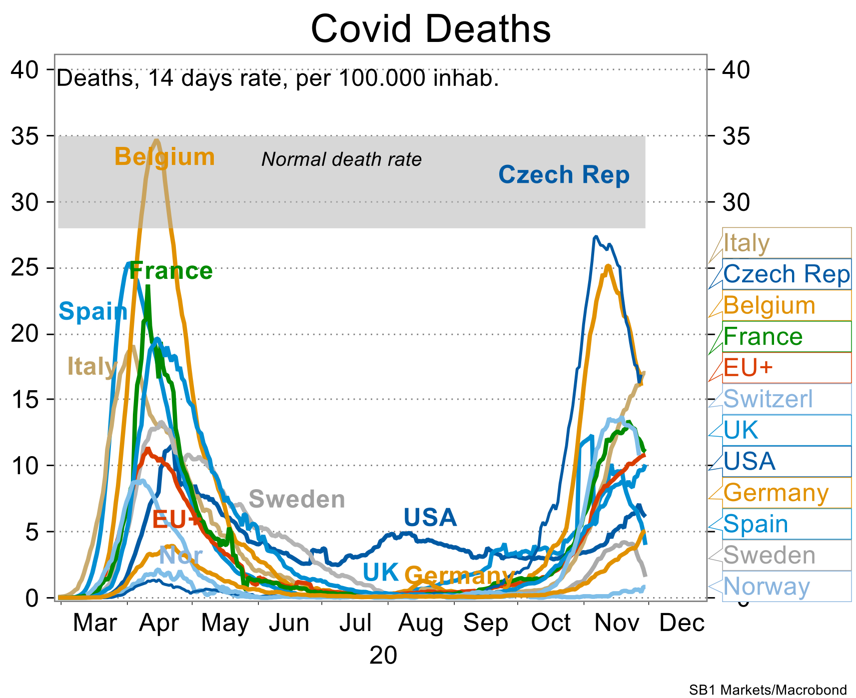
But the 2nd wave has now peaked – and new hospital admissions are on the way down several places

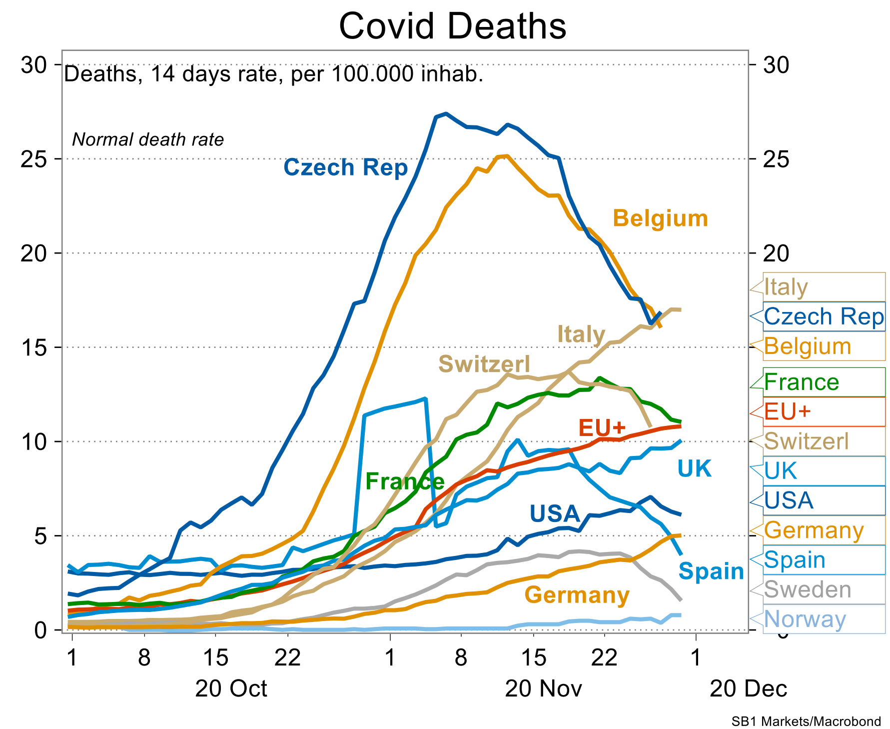




The bottom line: The deaths

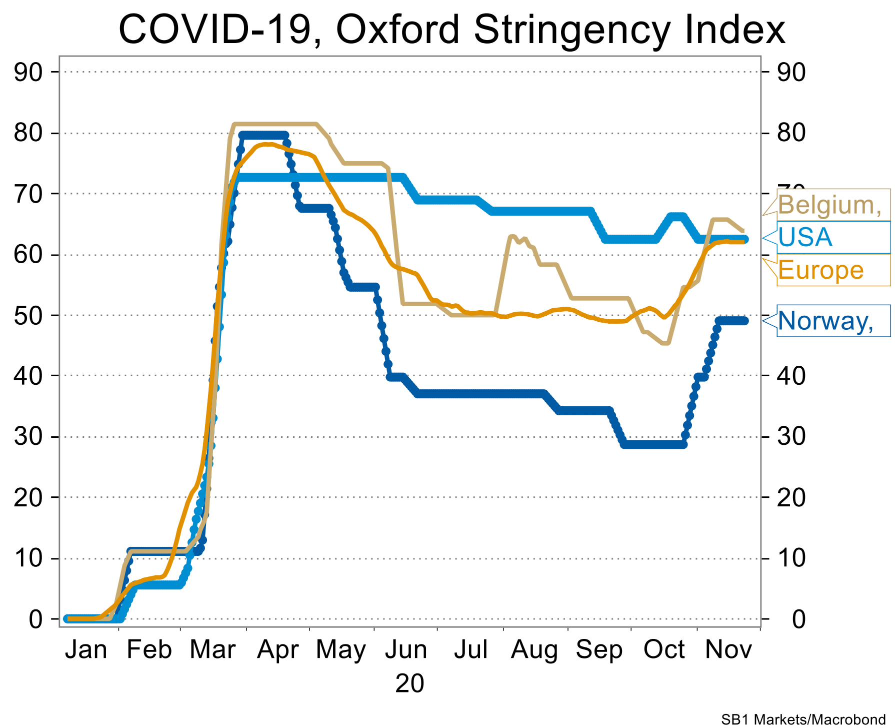
Deaths in Czech Rep, Belgium & Spain are falling rapidly!

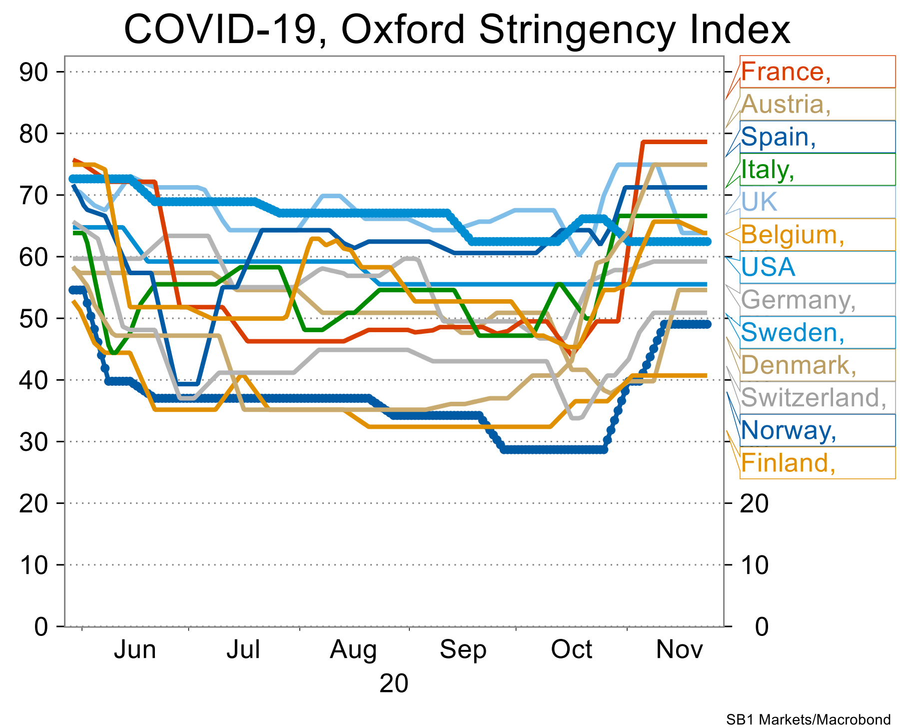
- 



Restrictions work, new cases started to decline Europe, after some 2 weeks

In the US, formal restrictions are not tightened but mobility is reduced

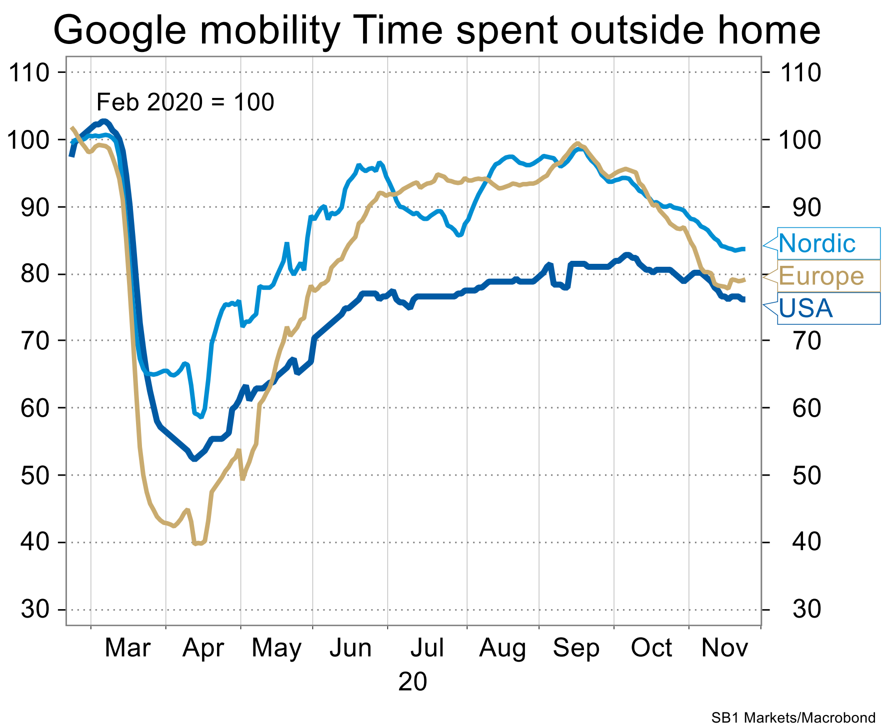


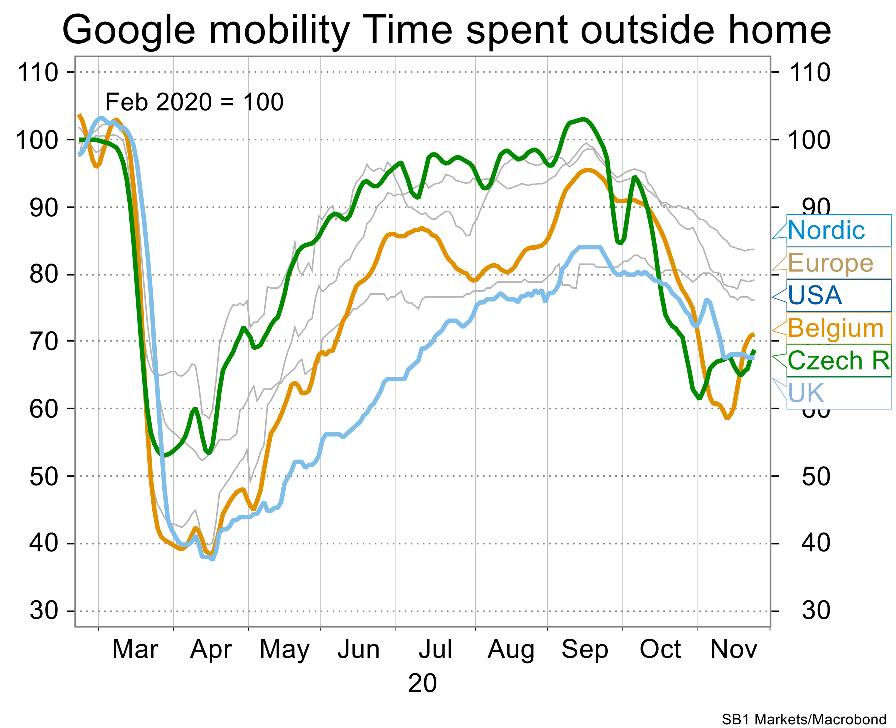


- We are not sure Oxford's stringency indices are correct all the time but the broad picture may still be relevant

Time spent outside home is stabilising where corona is subsiding

Mobility in Belgium is up 20% from the bottom 2 weeks ago, without lifting of formal restrictions





- Mobility in the Czech Rep is on the way up to, so is the average in Europe. People are 'voting by their feets', and life and very likely the economy recovers when battle over the virus is won (if not the final battle yet)
  - » Mobility among the Nordic countries may also have bottomed (perhaps too early for Denmark & Sweden)
- In the US, time spent outside home is still trending down as cases (most likely) are still trending up

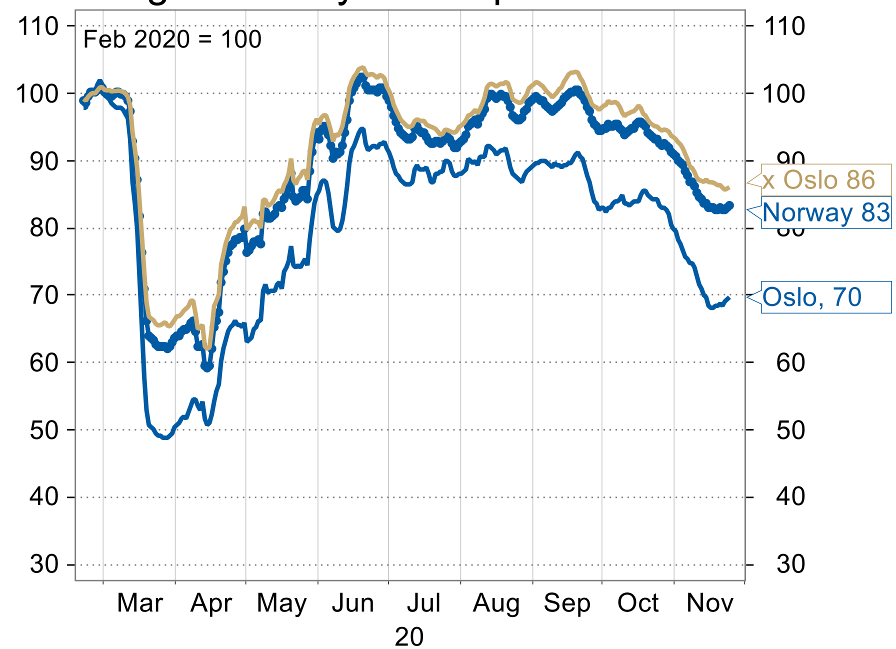
Quite similar trends among the Nordics – and within Norway

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

Google mobility Time spent outside home

SB1 Markets/Macrobond

Google mobility Time spent outside home



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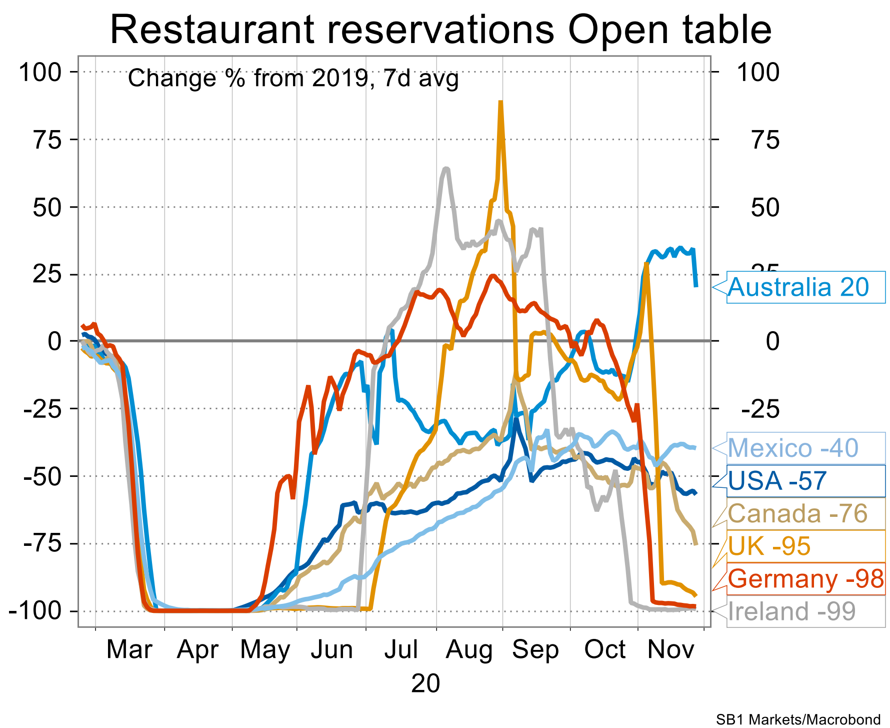
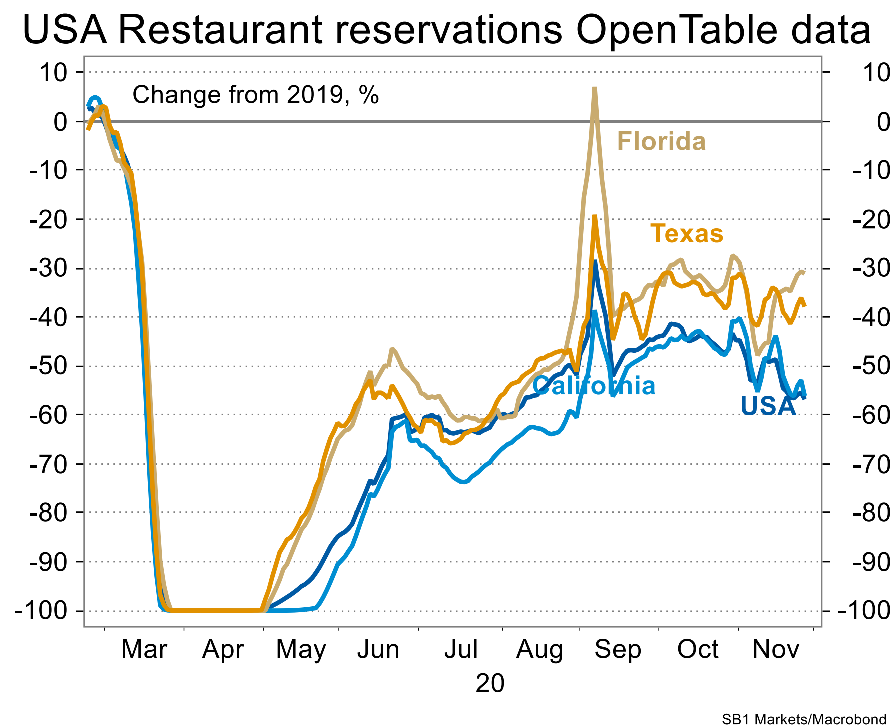
European restaurants have closed completely down again – not so elsewhere

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

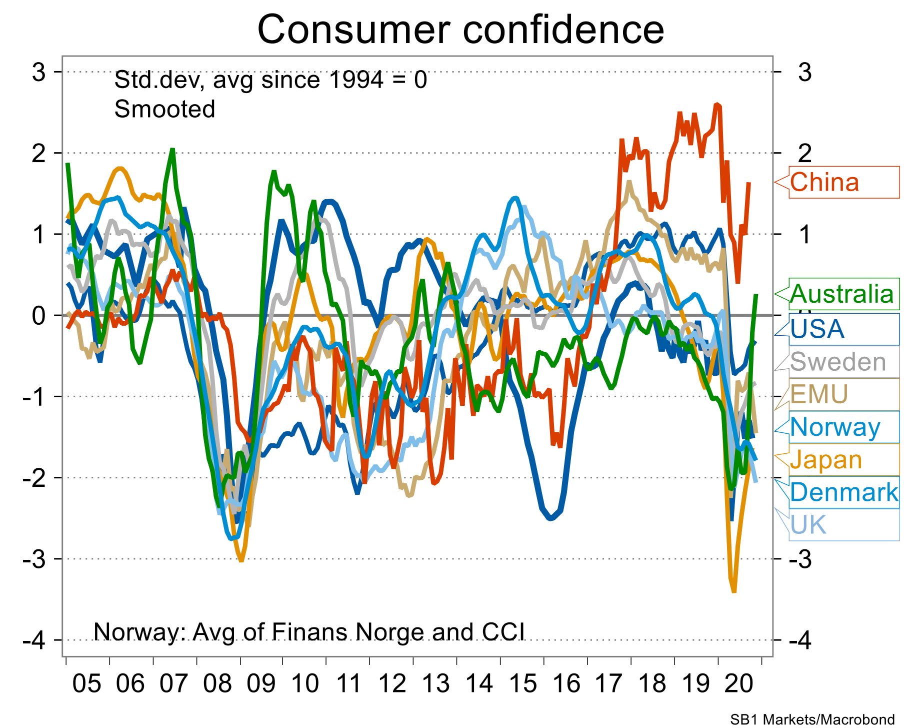


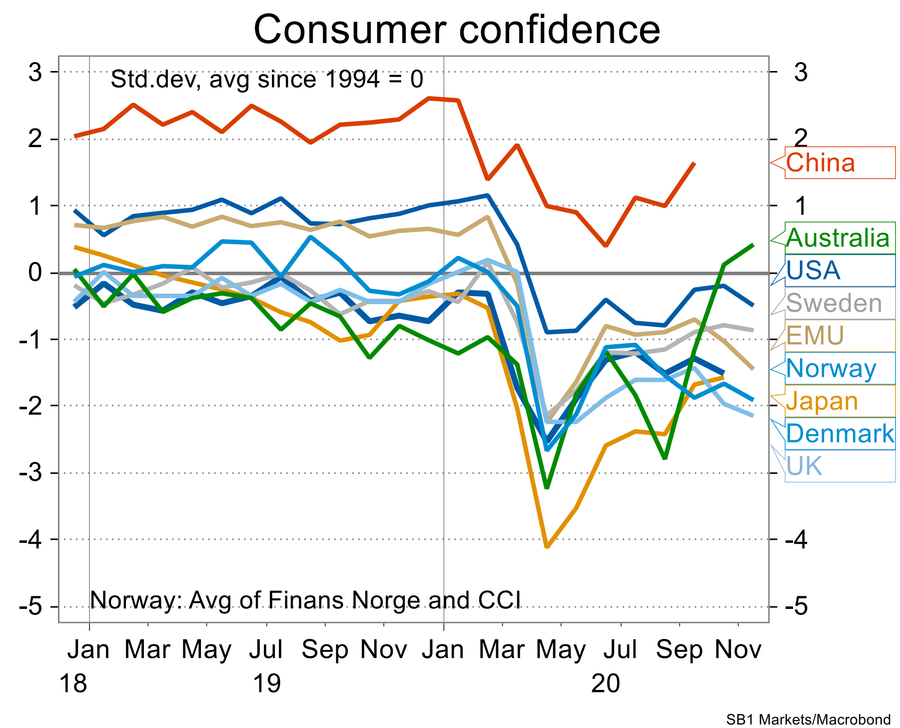


- US is closing slowly down too, now down 57% vs last year - both due to public regulations but also people fearing the virus

Consumer confidence down again in Europe, US – and below par everyhere

Better in China – and Australia

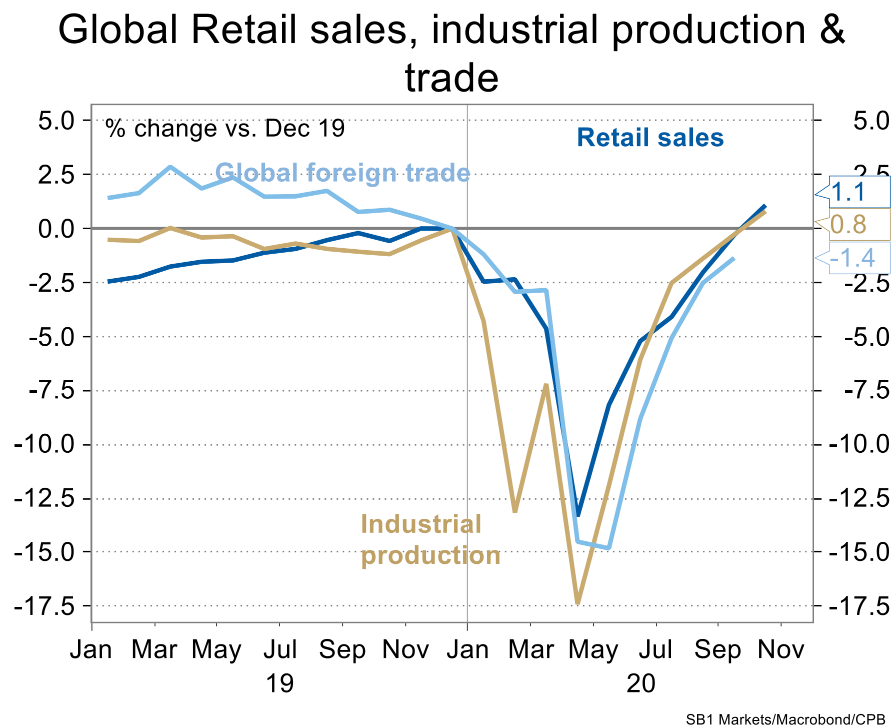


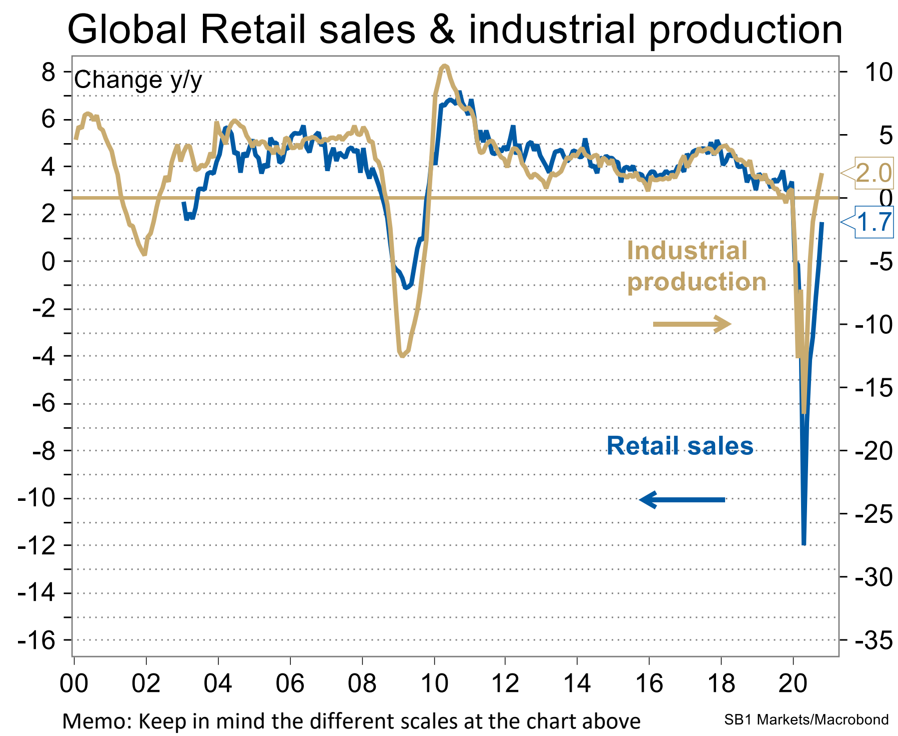


- Are there any common factors among the ‘down countries’?

Industrial prod, retail sales up in October, gaps have probably closed

Foreign trade rose in September – and very likely in October – and the gap is almost closed

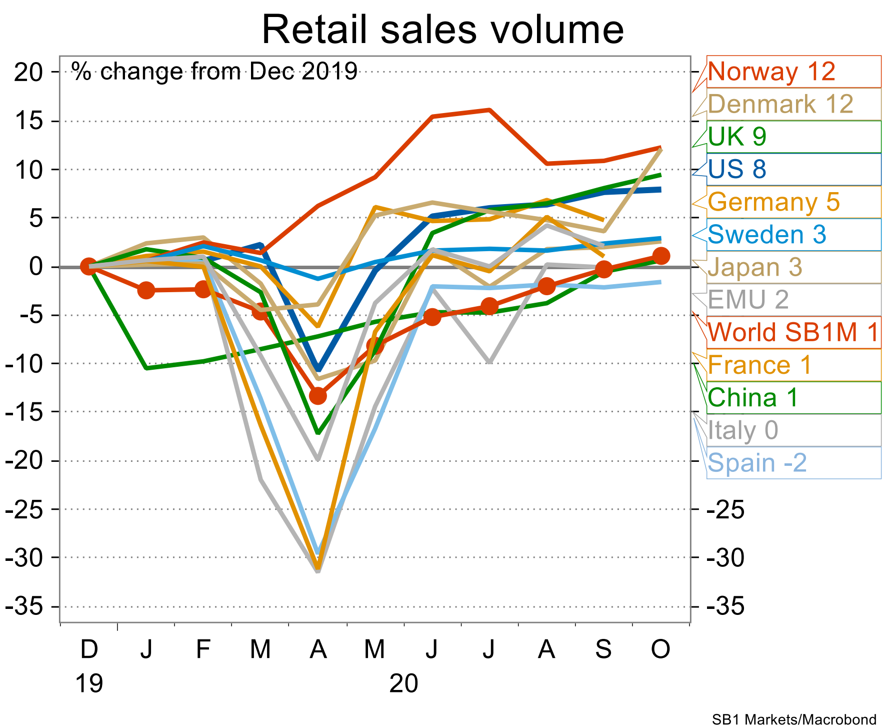




- Retail sales are 1.1% above the Dec level, and manufacturing production 0.8% above, according to our preliminary Oct estimates – and even more up y/y. *Several countries have not yet reported their October data*
- Global foreign trade rose 1% in September, and the level is just 1.4% below Dec last year. The gap will be closed in October or November?

Global retail sales probably above the Dec-level in October

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



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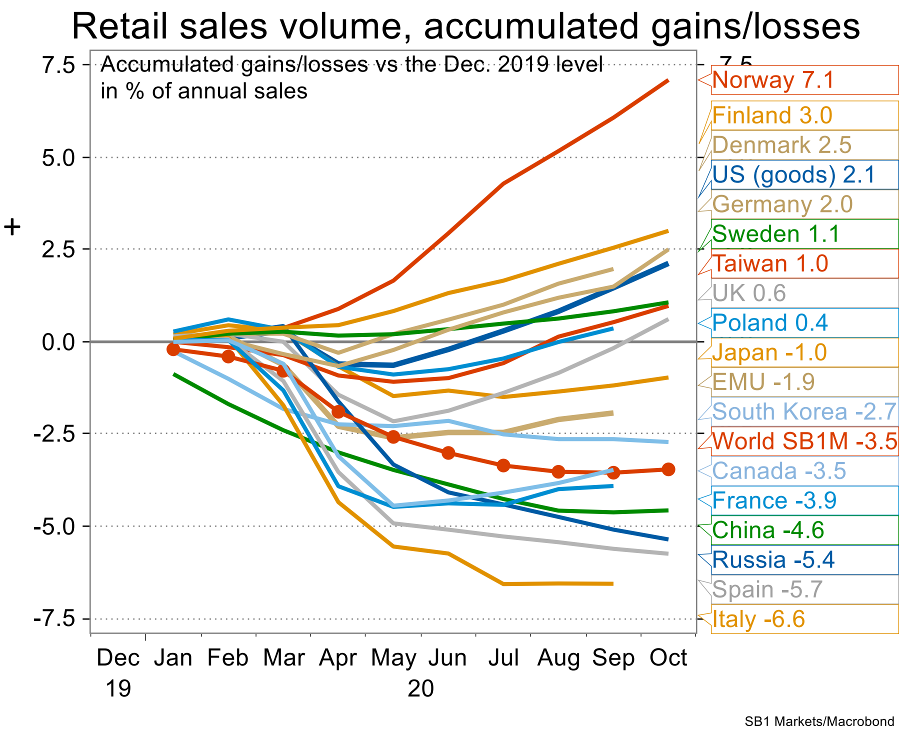
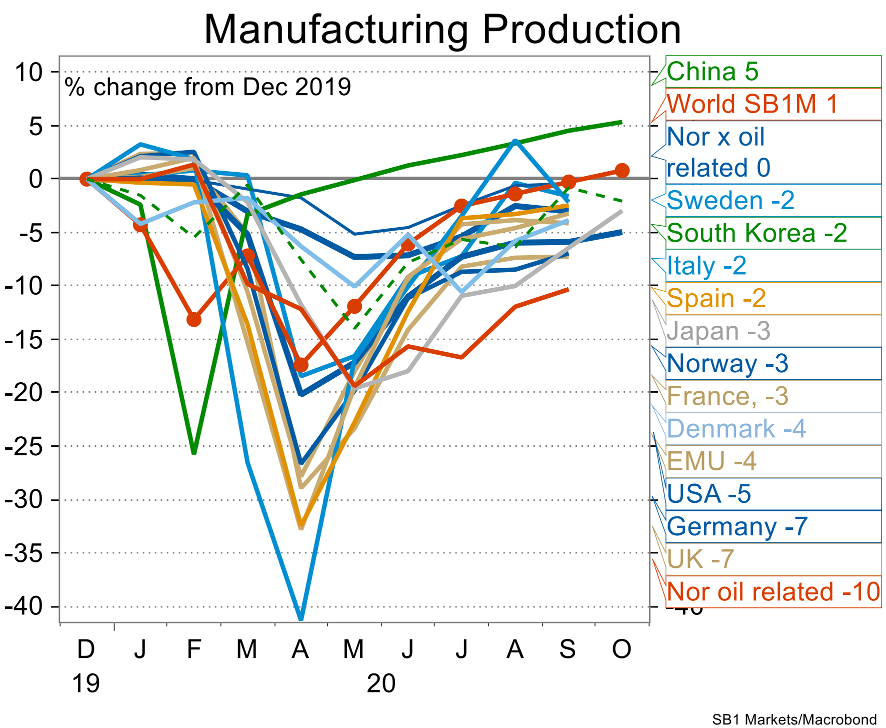
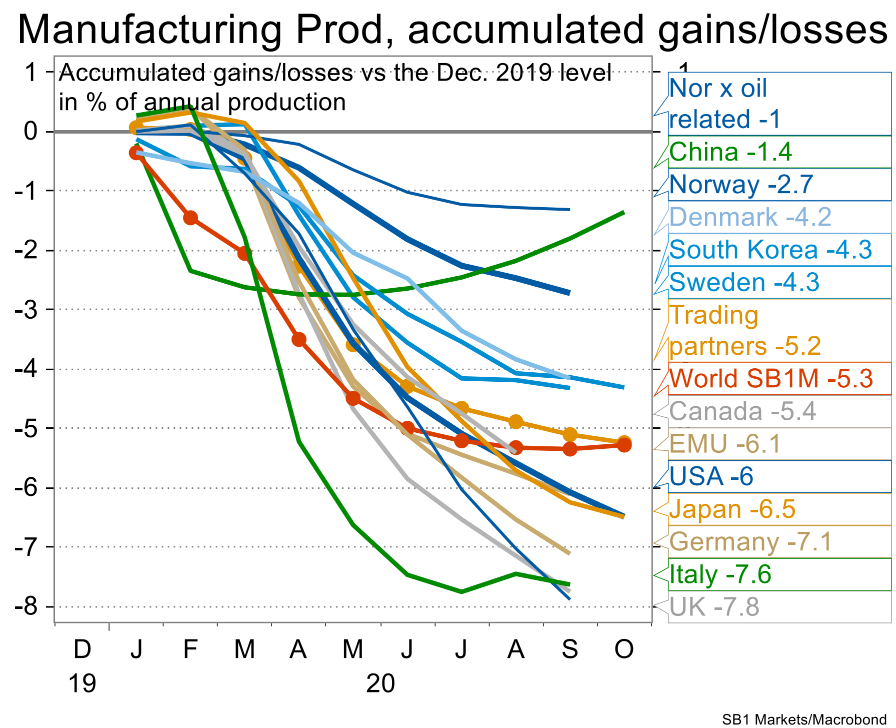


- A preliminary estimate: Global retail sales were 1% above the Dec-19 level. The estimate is still uncertain has many countries have not yet reported. Most countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 8% above the pre corona level in Oct but total sales during the first 10 months of 2020 were still 'just' 2.1% above the pre corona level, measured in % of annual sales, due to the losses during the spring
- Consumption of services are not included in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production probably above the Dec-19 level in October

Production most likely rose further in October

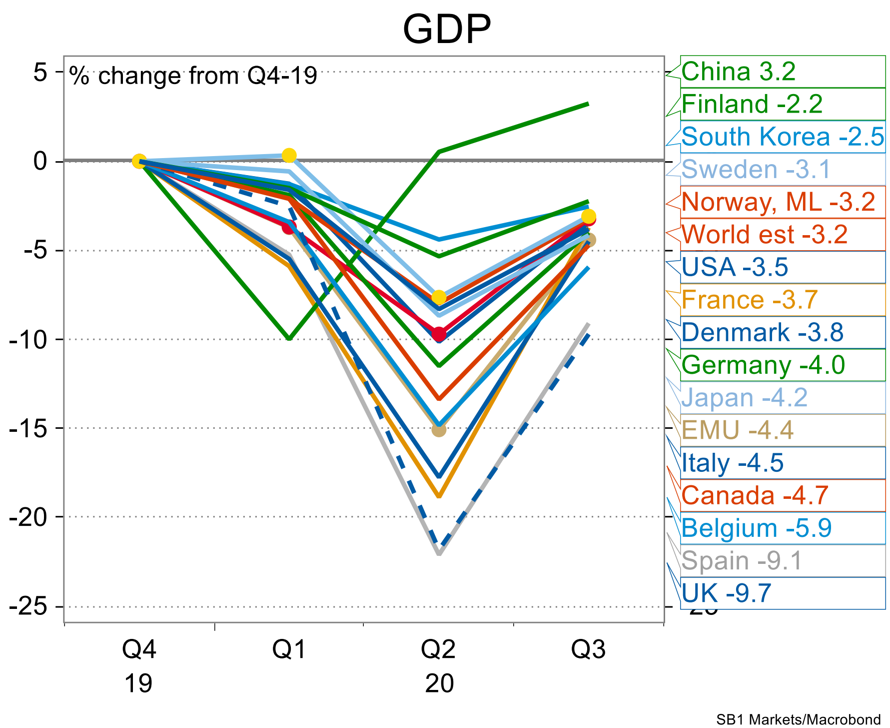




- A preliminary estimate: Global manufacturing production was 1% above the Dec-19 level in October
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 5 % below the pre corona level in October. Total production during the first 10 months of 2020 was 6% below the pre corona level, <u>measured in % of annual production</u>. *This illustrates the loss of production during the corona crisis, <u>so far</u> - and the final outcome will be significantly higher*
- <u>Service sector production is not included</u> 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%

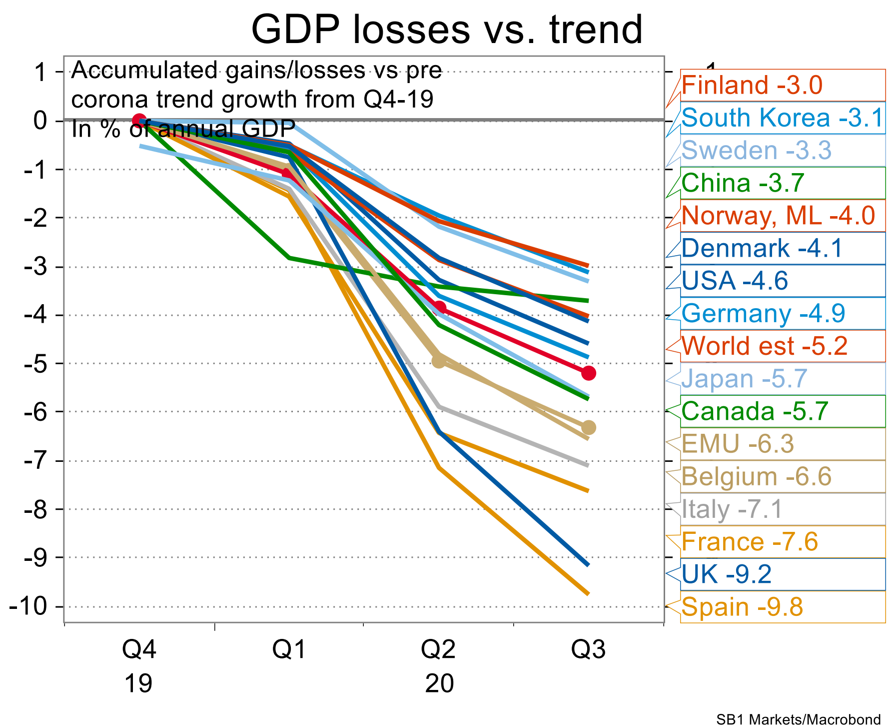


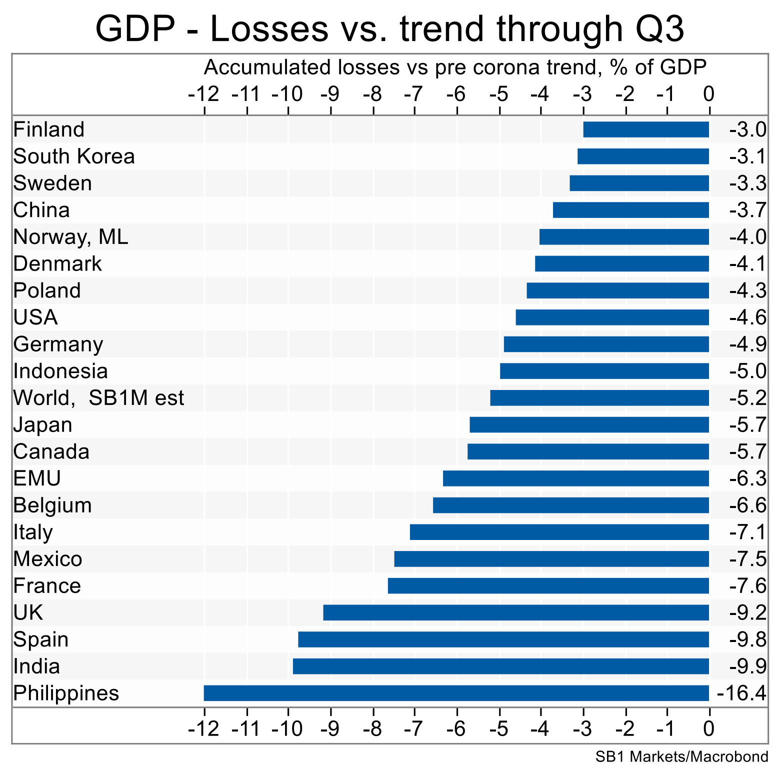
- Given our estimate, global GDP was less than 3% below the Q4-19 level in Q3
  - » May countries have not yet reported. EM countries may disappoint us, like India
- Some observations – Q3 vs Q4-20:
  - » China 3.2% above Q4
  - » Japan is down 3.9% (but 6% vs Q3 19, before the VAT hike tanked the economy (once more))
  - » USA -3.5%
  - » EMU -4.3%, of which Spain -9%, France -4.1%
  - » UK down 9.6% (our forecast)
  - » Sweden -3.1% (and Finland just -2.2%, best in the rich mans' class). Denmark -3.8%
  - » Norway -3.2%

Norway & UK: SB1 Forecasts

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

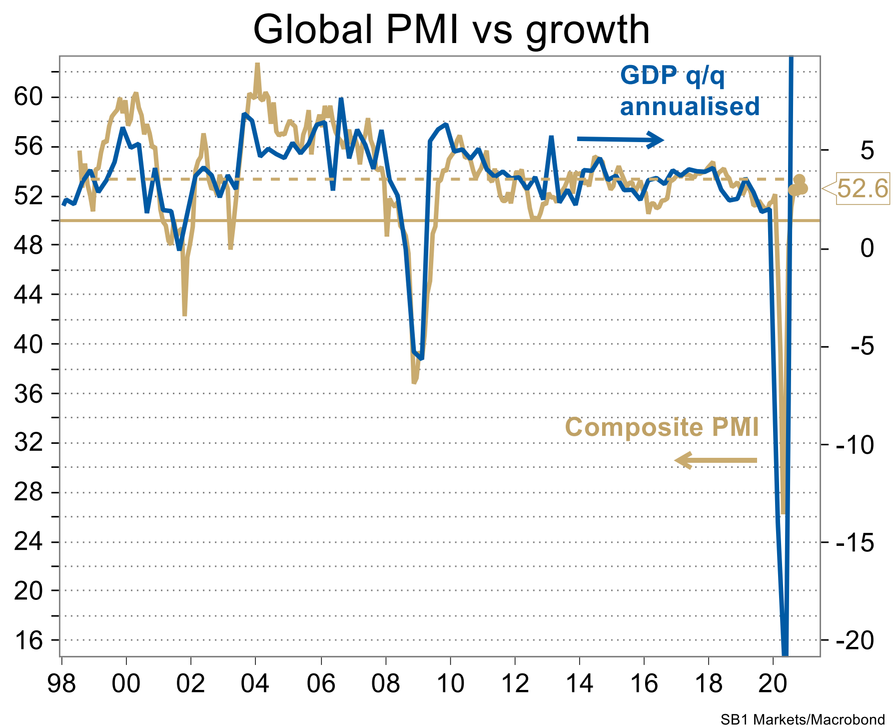
… and even if GDP has recovered in China, the drag is still 3.6% (vs the trend growth path)

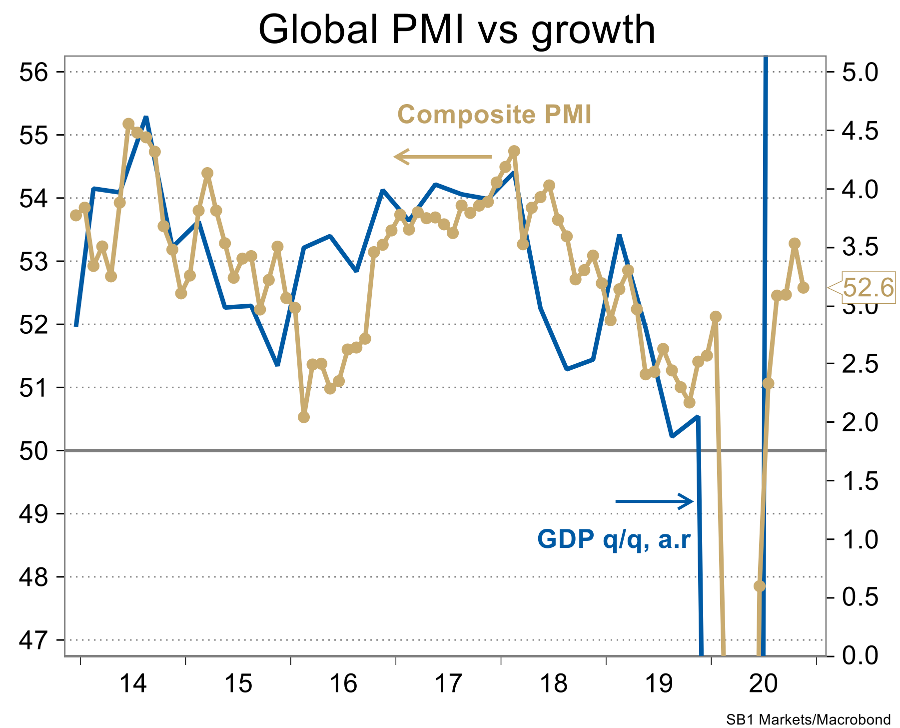




The global composite PMI down in November, due to European services

We estimate a 0.5 – 0.9 p decline in the comp. PMI 52.6 (centre est), still above the Aug/Sept level





- The manufacturing PMI rose further (but orders softened), even if manufacturers in the EMU reported lower growth- but above trend). The global service sector PMI fell 1 p due to a 5.6p decline in both the EMU & UK service indices. In the US, the service sector PMI rose further, in spite of the surge in Covid-19 cases and reduced mobility – and the composite US PMI is the strongest since 2015!
- The November PMIs signal a continued recovery in the global economy in Q4 but probably not above trend due to a moderate downturn in Europe
  - The PMIs have been close to useless in order to calibrate the size of the downturn as well as both the timing and the pace of growth during the recovery since may. W now assume that these (and other) surveys will become more relevant again as changes in activity from month to month – or over the past few months are becoming more normal.

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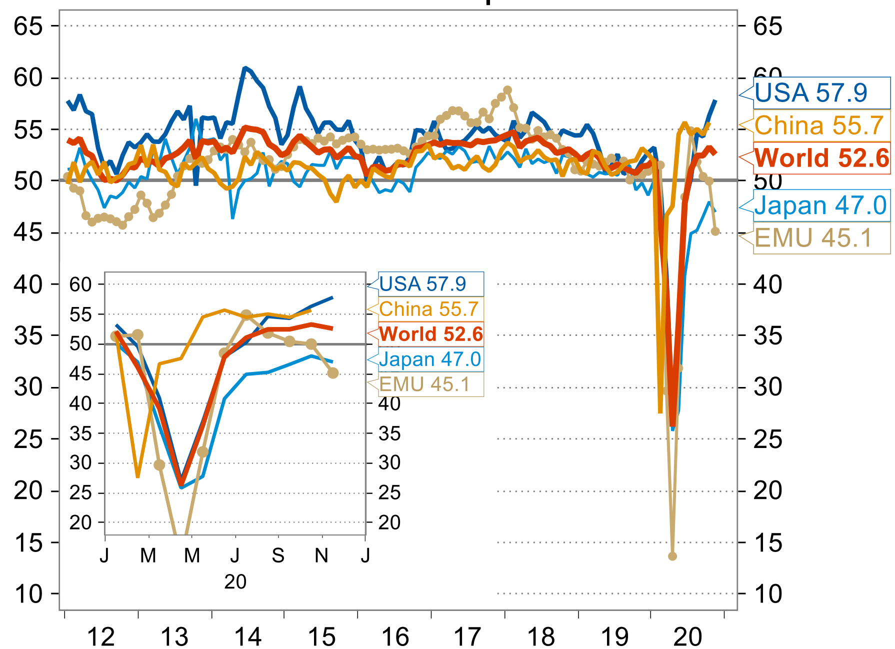
The US PMI up to the best level since 2015 – the EMU PMI sharply down

The lockdowns in Europe are highly visible – but just a 'mild' downturn so far signalled

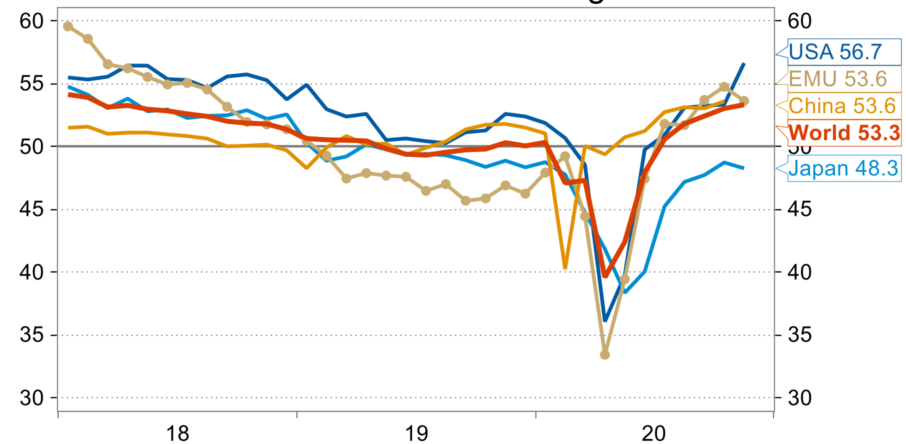
PMI Composite



Source: IHS Markit, SB1 Markets, Macrobond

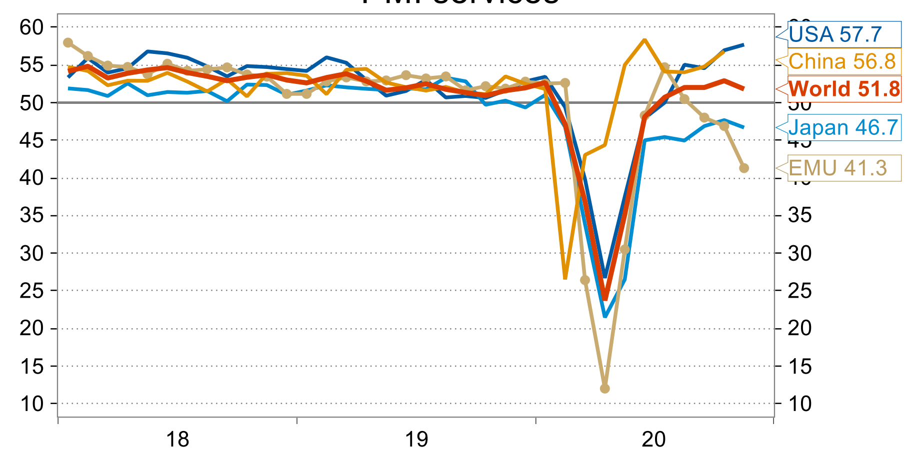
- In the EMU, the service PMI fell 5.6 p to 41.3, explaining most of the 5 p drop in the composite index down to 45.1 – signalling a 2% annualised pace of decline in GDP (-0.5% q/q)
- The US composite PMI rose sharply, to 57.9, best in 5y, as both manuf & services reported higher growth in Nov!!
- Japan sags, and the UK service sector PMI fell just as much as in the EMU

PMI Manufacturing



Source: IHS Markit, SB1 Markets, Macrobond

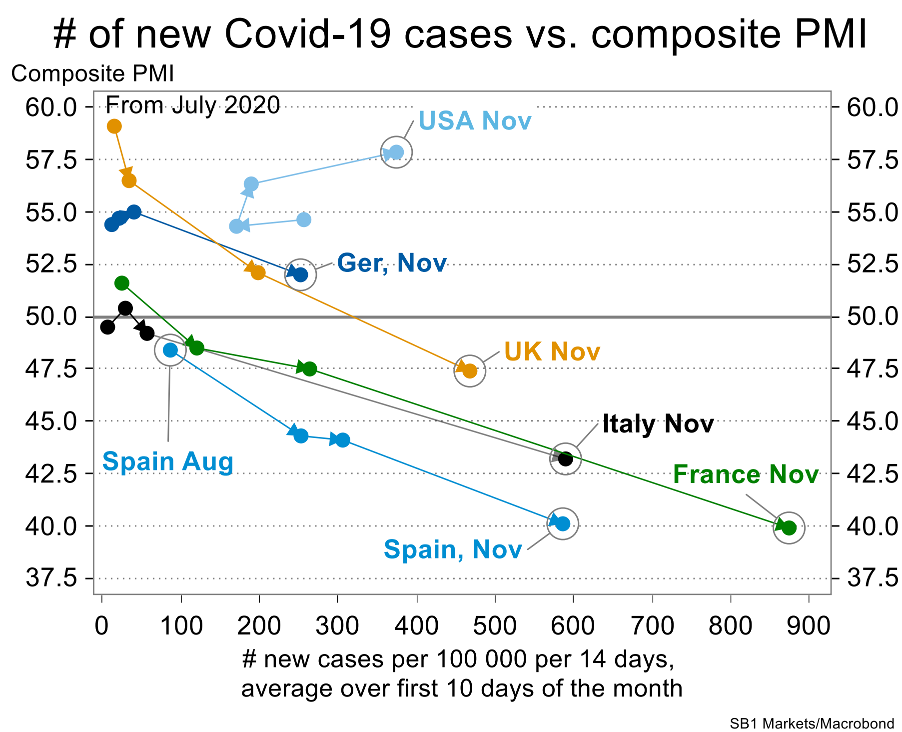
PMI services



SB1 Markets/Macrobond

US still not hurt by the 2nd corona wave – Europe is

Restrictions have been tightening in Europe, not much the US



- Mobility has fallen more sharply in Europe than in the US

- *The Spain and Italy November PMIs are our estimates, with upside potential for Spain, downside risk for Italy*

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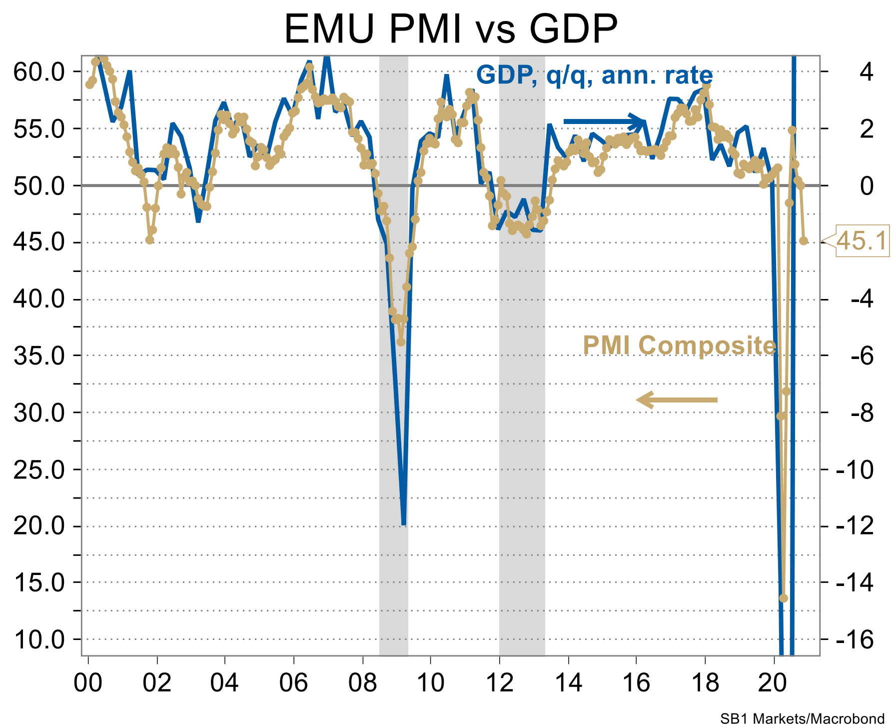
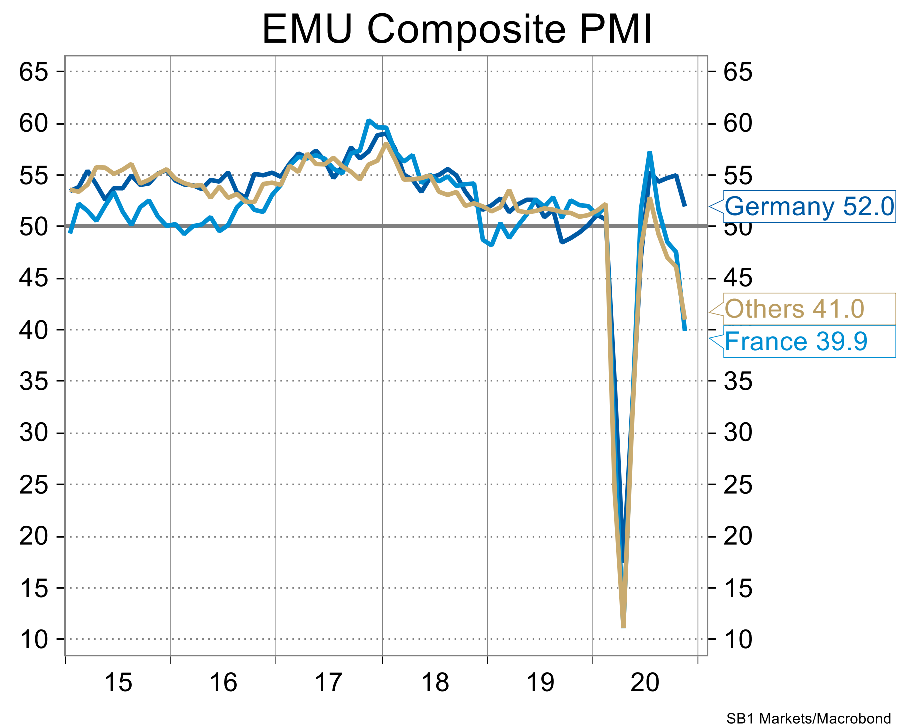
Composite PMI sharply down in Nov, but no full scale disaster (at least not yet)

The PMI signals a 2% pace pace of decline in GDP, like in 2012 or <u>0.5% per quarter</u>

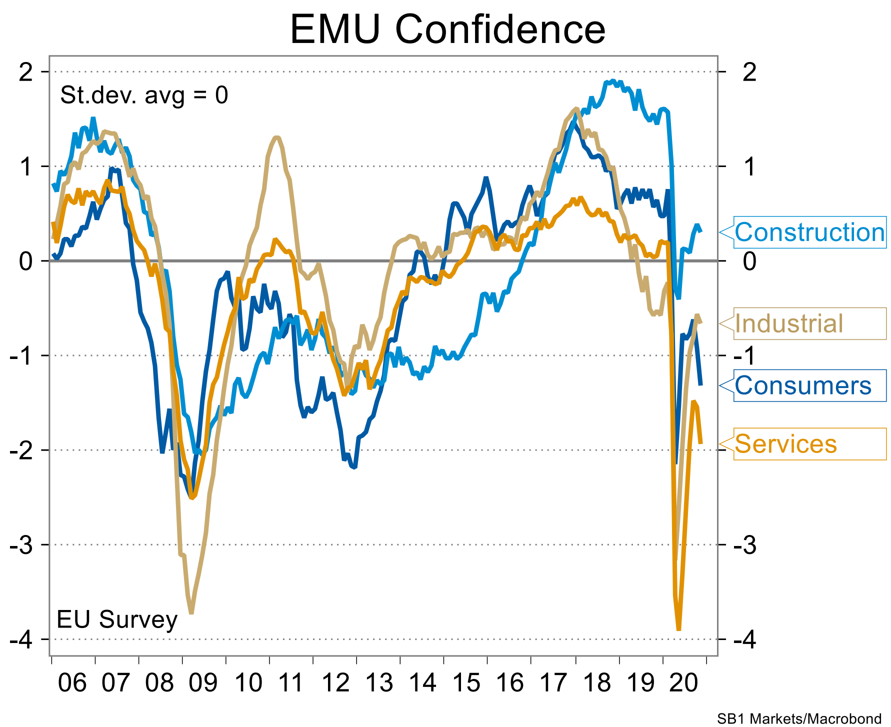


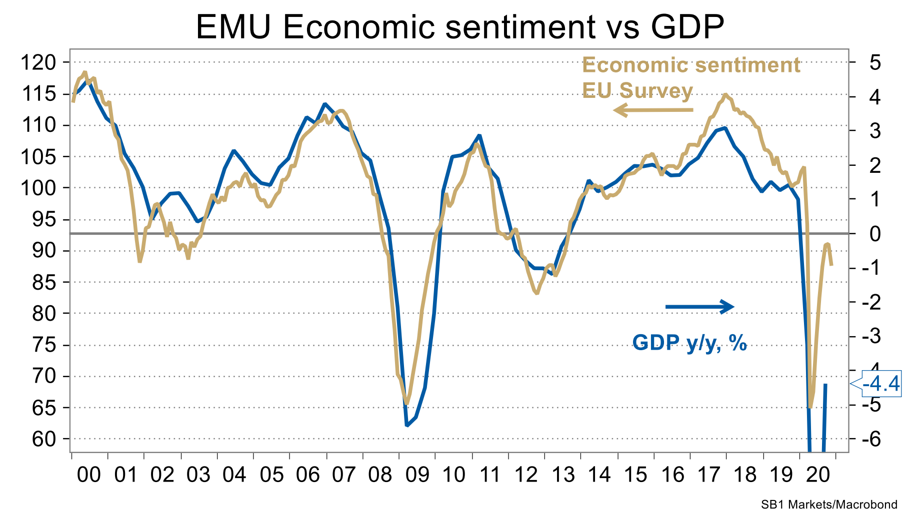


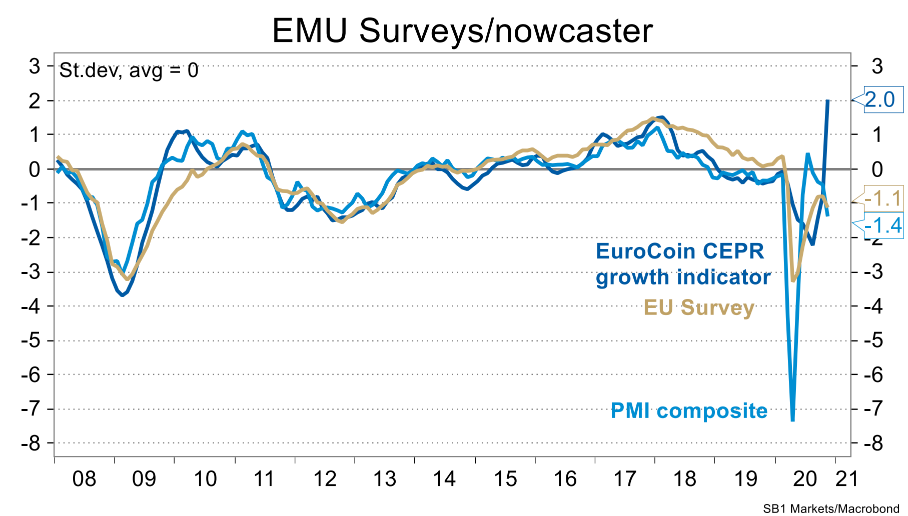
- The preliminary composite PMI fell almost 5 p to 45.1 in November, 0.5 p more than expected (a remarkable precise consensus est.)
  - » The level signals a 2% pace of decline in GDP, or 0.5% per quarter, the same speed of decline as during the Euro crisis in 2012
  - » How much will GDP decline now? As the number of new corona cases is 'collapsing' in Europe, restrictions should be eased in a not too distant future, most likely during December. If so, the Q4 setback should be significantly less than the 3-4% (9 – 17% annualised) decline many are referring to now – the PMIs formally say -0.5%. A disclaimer: Should the PMI decline further, the relation to the decline in GDP is not linear, check 2008/9 and the spring this year – and the setback could become more serious if the PMIs declines by even small amounts from here
- Germany is still in pluss, but France – and the average of Italy and Spain – is at 40 – 41, signalling GDP contraction here

EU economic sentiment marginally down in November, a minor contraction sign.

The survey signals a 0.5 – 1% rate of contraction – or 0.1 – 0.25% per quarter, less than the PMI



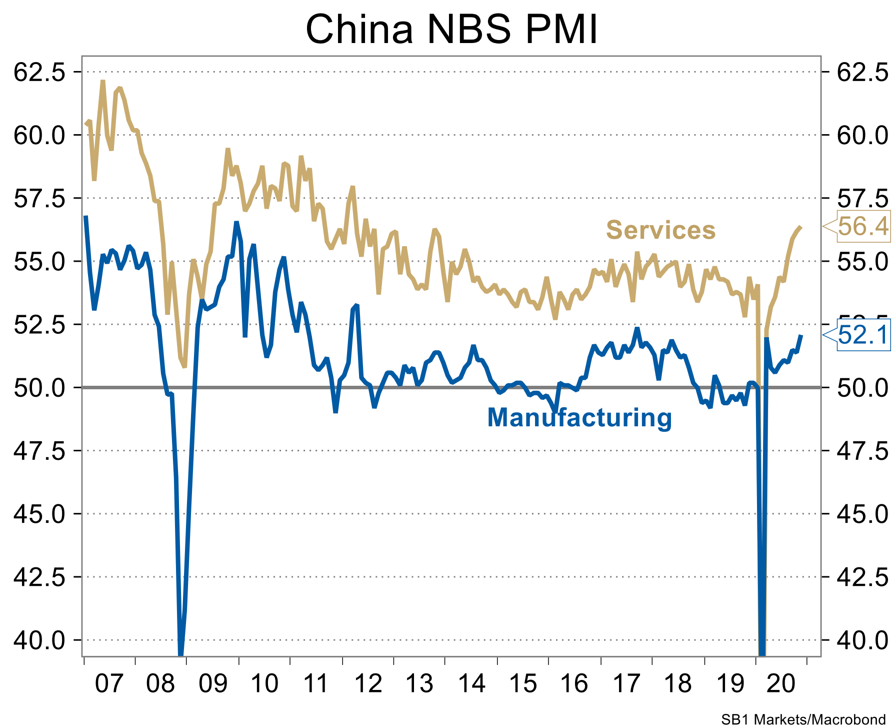


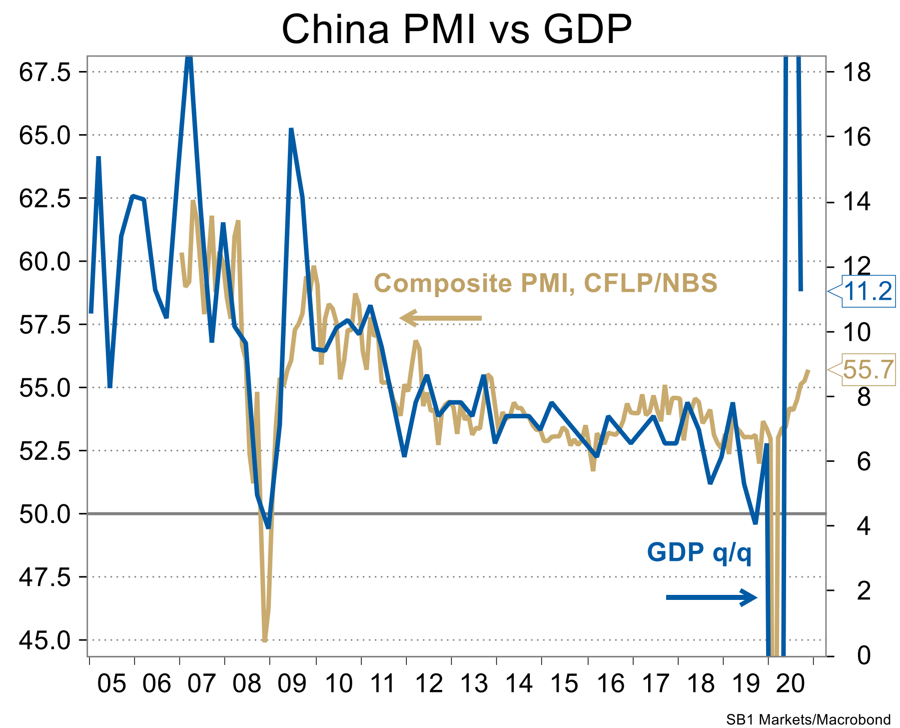


- The confidence survey fell marginally in Nov, and less than expected. The largest negative contribution came from the household survey – and from services. However, both construction and industrial sentiment fell as well
- The total sentiment is 1.1 st.dev below an average level, signalling a moderate decline in GDP – at some 0.1 – 0.25% per quarter – even less than the message the Nov PMI sent

The NBS Chinese composite PMI further up in November

The manufacturing PMI up 0.7 p to 52.1, expected +0.1 p. Services +0.2 p to 56.4, exp. -0.2 p

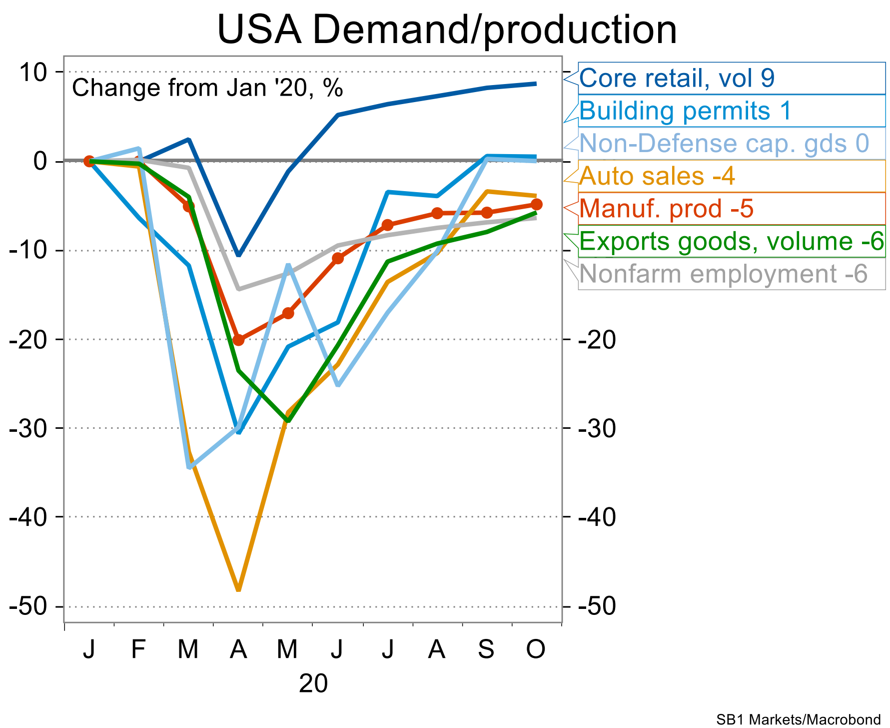




- Both indices signals growth well above trend – as do the composite index, which is at the highest level since 2012
- Activity in the manufacturing sector is <u>above</u> the pre corona trend path, and services <u>closed the gap</u> in October

The recovery continued in October but at a somewhat slower pace

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

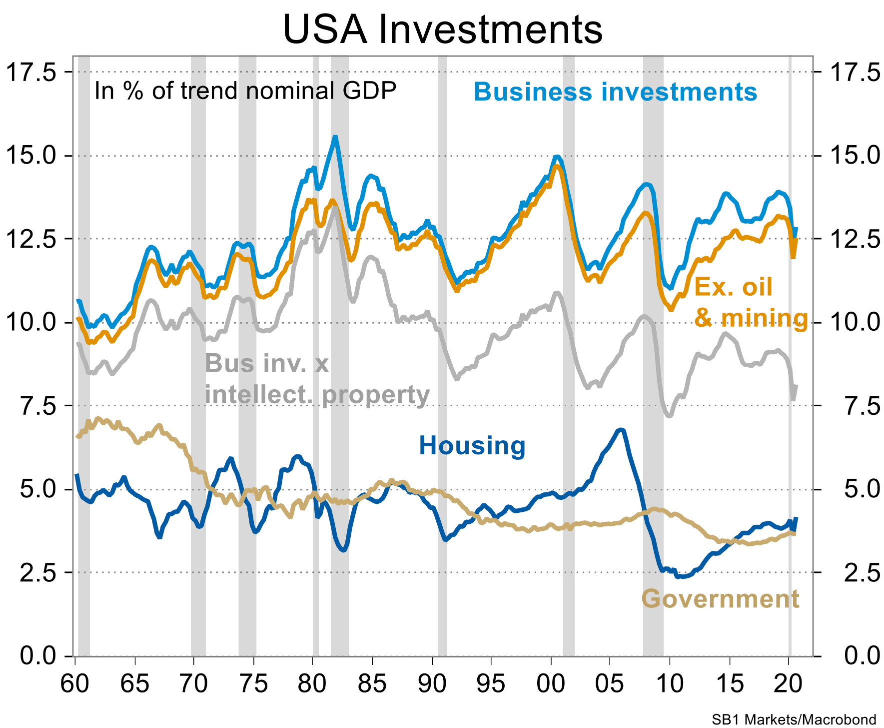


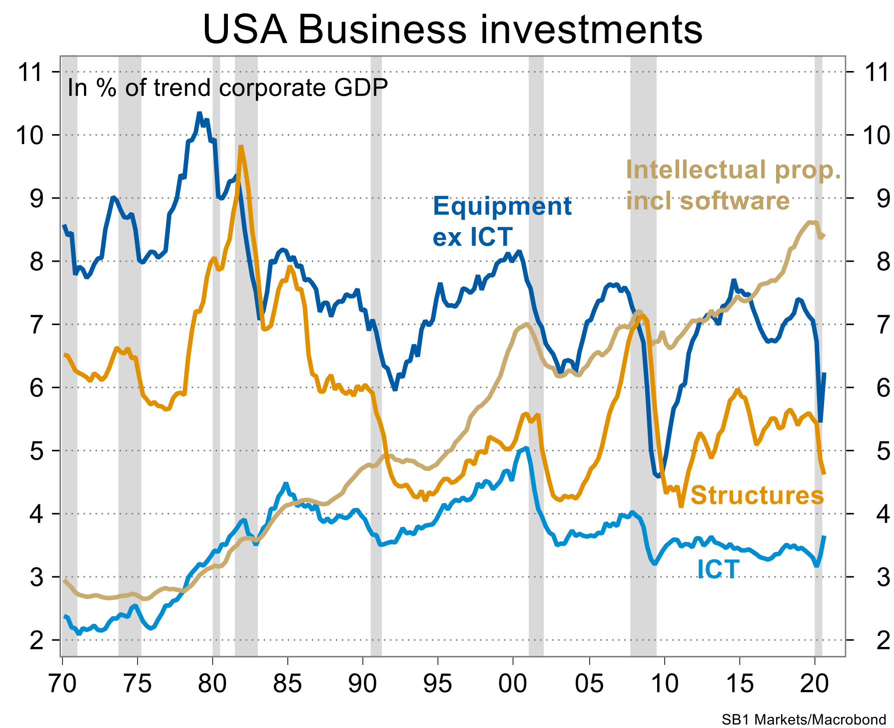
- Still, almost all indicators pointed upwards in October – and surveys signal further growth in November

Investment cycles: Business investments peaked in Q2 2019, still not low

Investments rose 5% (not annualised) in Q3, ITC equipment really strong (not surprising)

Investments are measured in % of trend nominal GDP, in order to illustrate the size of changes in investment activity

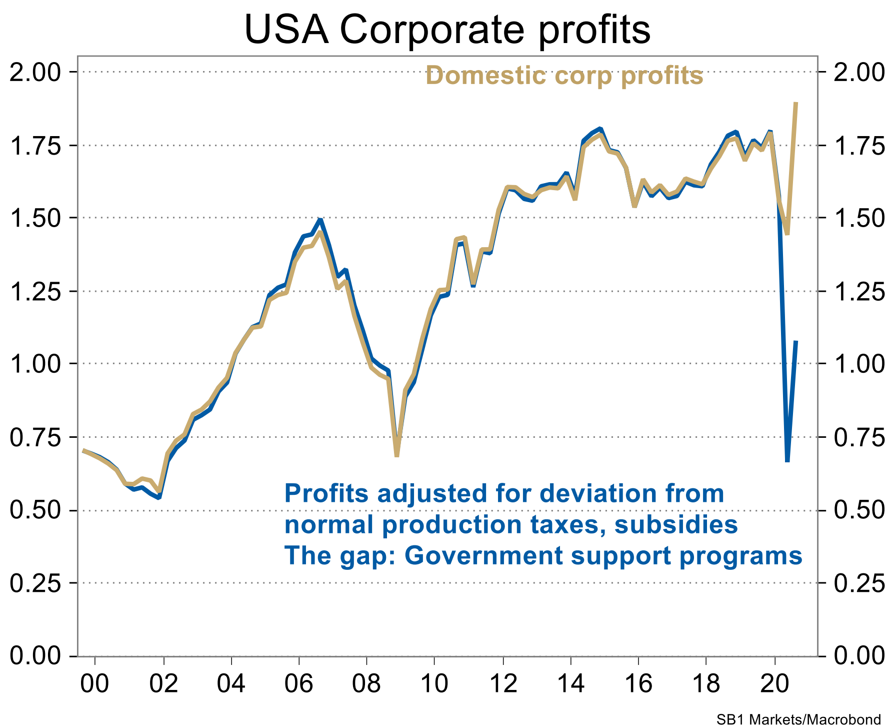


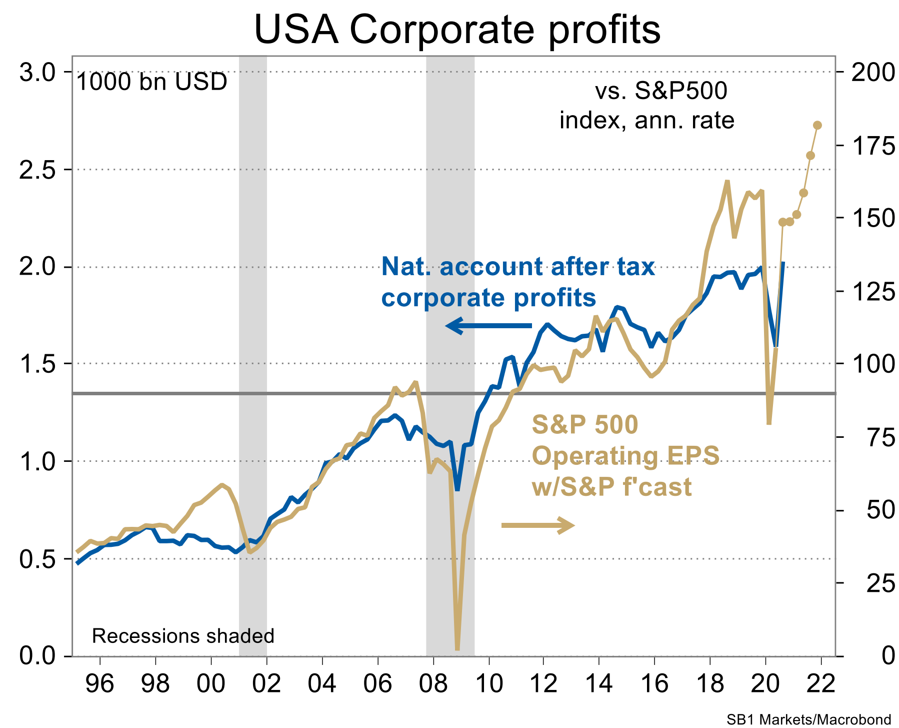


- Business investments are down 4.7% from before corona, a far smaller decline than during/after normal recessions. We doubt the corona induced lift in ICT investments is permanent, the level is now rather high, due to home offices etc. However, equipment ex ITC is most likely below a normal level, and more than ICT is above trend. IP/software investments fell in Q2 and rose somewhat in Q3The trend is impressive, check the graph to the right
- Housing investments rose in Q3, and we have more to go in Q4. We think housing investments now are above a long term, declining level vs GDP
- Government investment as share of GDP has been increasing the past year but the level is still low – probably too low

Corporate profits sharply up in Q3, to a record high level! Thank you, Uncle Sam

Government covered corporate bills equalling 4% of GDP, or 40% of (normal) profits!

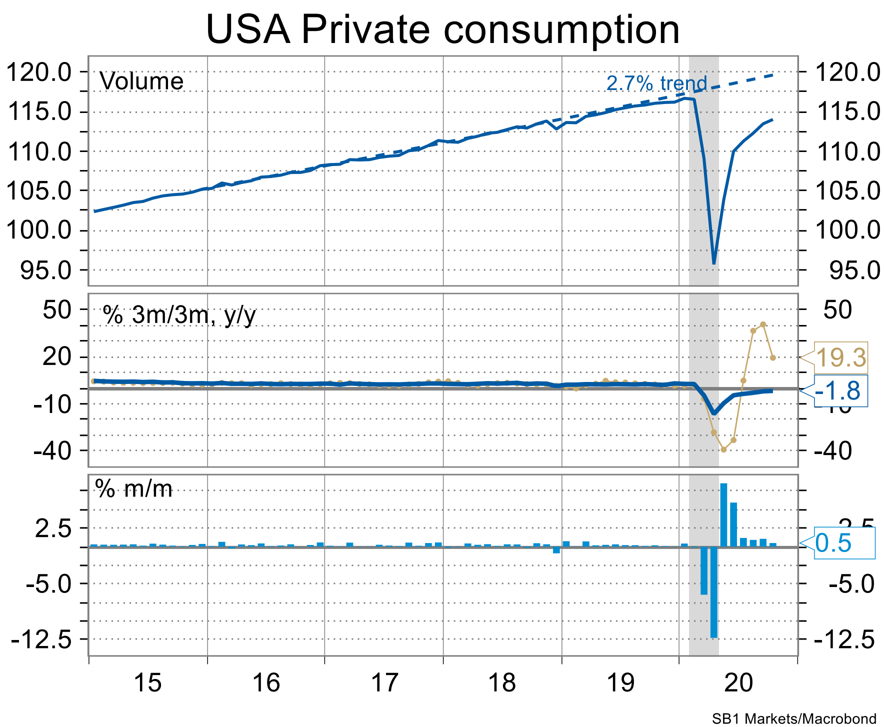


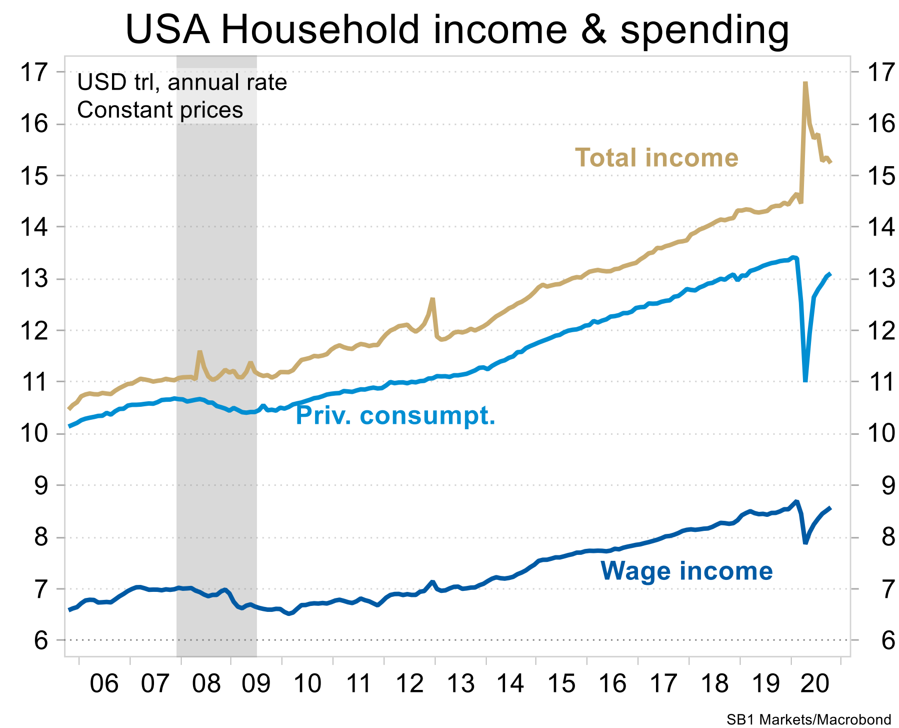


- The Government Paycheck Protection Program was the main contributor but a lot of other subsides also lifted profits sharply
  - » Total domestic profits rose to USD 1.9 trl (annual rate)– to the highest ever, from 1.4 trl in Q2 (we expected somewhat more but total revenues were lower than we estimated, and wage costs higher than previously reported)
  - » Excluding the deviation from normal 'production taxes and subsidies' profits rose to 1.1 trl from 0.66 trl – still 40% below the 'normal' profit level at 1.8 trl!
  - » Most of the PPP support has been directed towards small companies, other programs have also supported larger corporations
- Companies cannot apply for new PPP loans (ended Oct 12), but loans already given can be written down over the coming 2 – 5 years, given specific conditions. Most likely, most of the loans are already forgiven (which supported corporate profits big time in Q2 and Q3). A new small business support program may be include in an eventual new stimulus bill. Still, most likely, most of the profits must from now on be generated the 'normal' way

Consumption up 0.5% in Oct. Transfers cut, still very high total household income

Personal income fell by 0.8% - but is still up 4% from Feb! The savings rate at 14% from 7% in Feb!

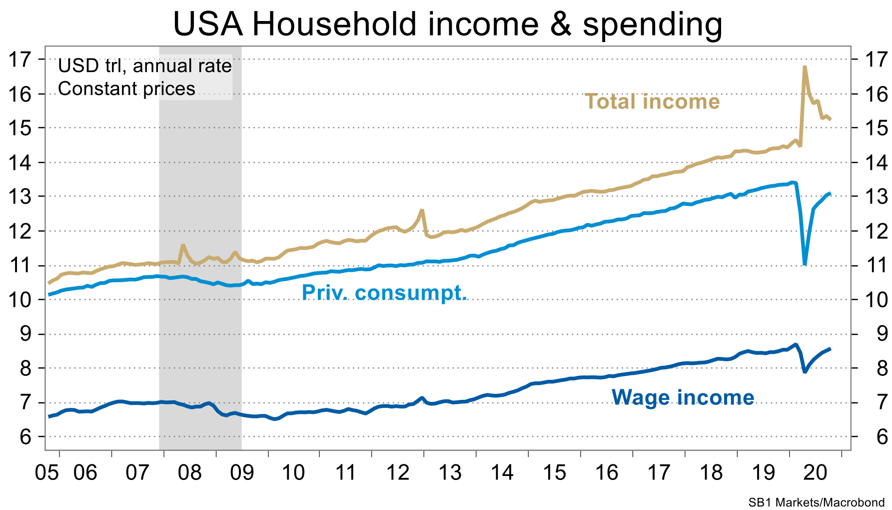


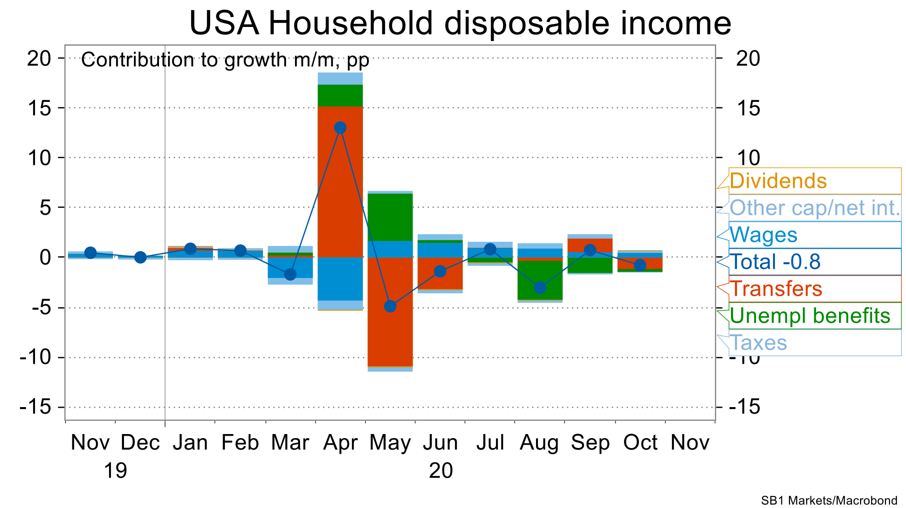


- Private consumption is still on the way up, but growth is slowing; +0.5% in volume terms in Oct, 0.3 pp more than expected. Consumption is now just 1.6% below the pre corona level – but 4% below the pre corona trend. The pickup in consumption is uneven, most services are still lagging, while goods are strong
- Personal income fell by 0.5%, 0.4 pp more than expected. Even so, the level 4% higher vs. the pre corona level – as government transfers still are more than market income has fallen! (Details 2 page fwd)

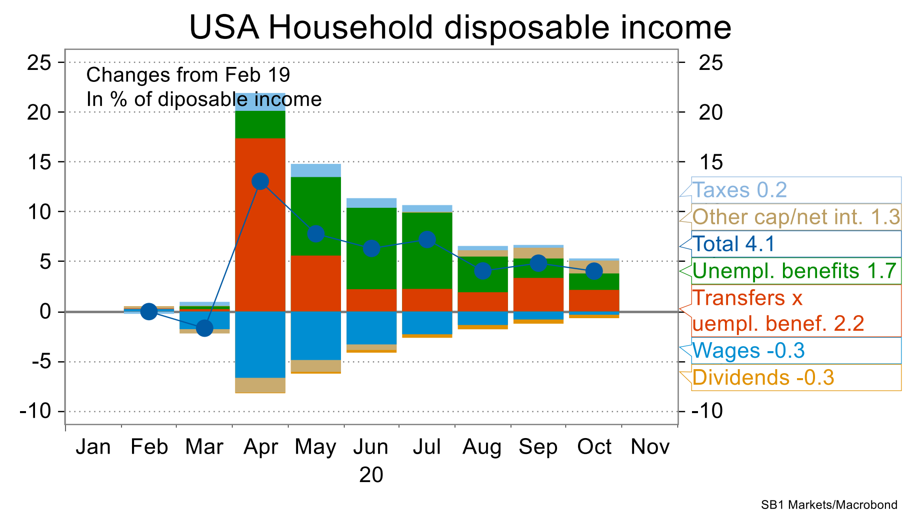
Income down from the spring peak, but still way above a normal level

Households have – in average – been heavily overcompensated for the loss of market based income



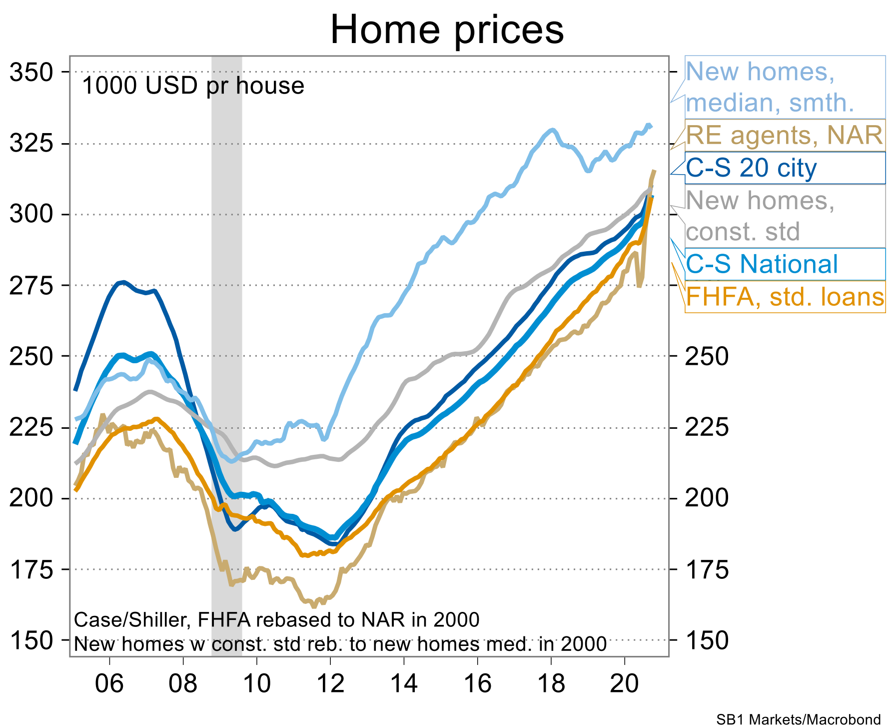


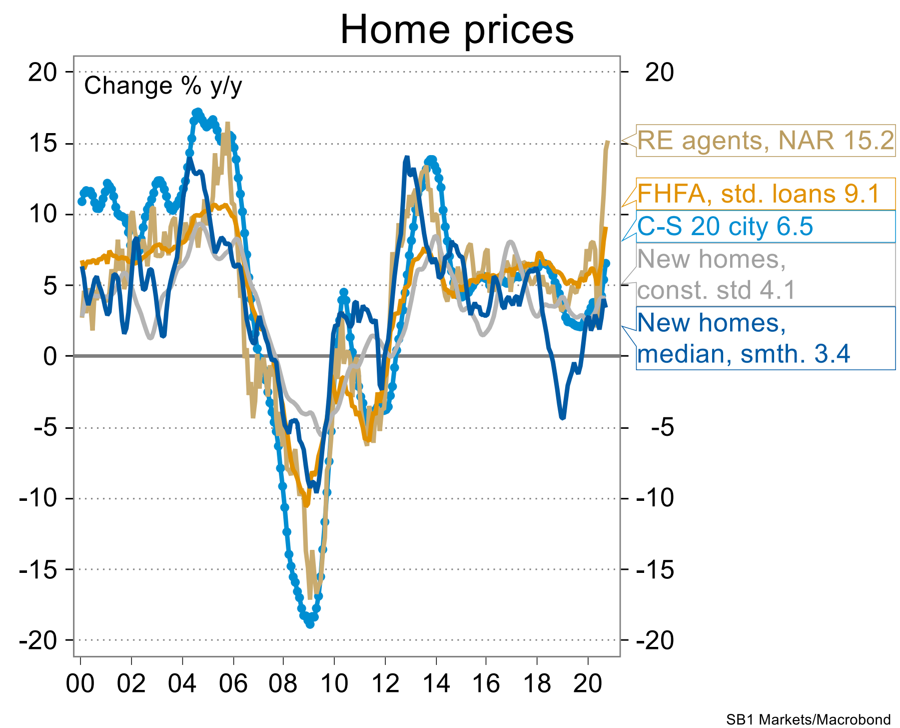
- Household income fell by 0.8% m/m in Oct, due lower government transfers, both unemployment benefits and other transfers
- Since before corona: Households have – in aggregate – been <u>overcompensated, big time by government support</u>
- Overall household income is still <u>up</u> 4% from February 2020
  - » Wage income is down by just 0.3%, measure as % of disposable income, a small amount compared to the decline in employment
  - » Unemployment benefits are up equalling 1.7% of disp income
  - » Other transfers are up equalling 2.2% of disp income. At the peak in April, transfers equalled 17% of the Feb-20 monthly income!
  - » <u>Government transfers have in sum been much larger than the decline in wages and other market based income</u>
- Unemployment benefits were reduced in August and after Christmas many unemployed will lose their benefits, the payment period is not prolonged



Something is going on, house prices are moving fast upwards

As mortgage rates are record low

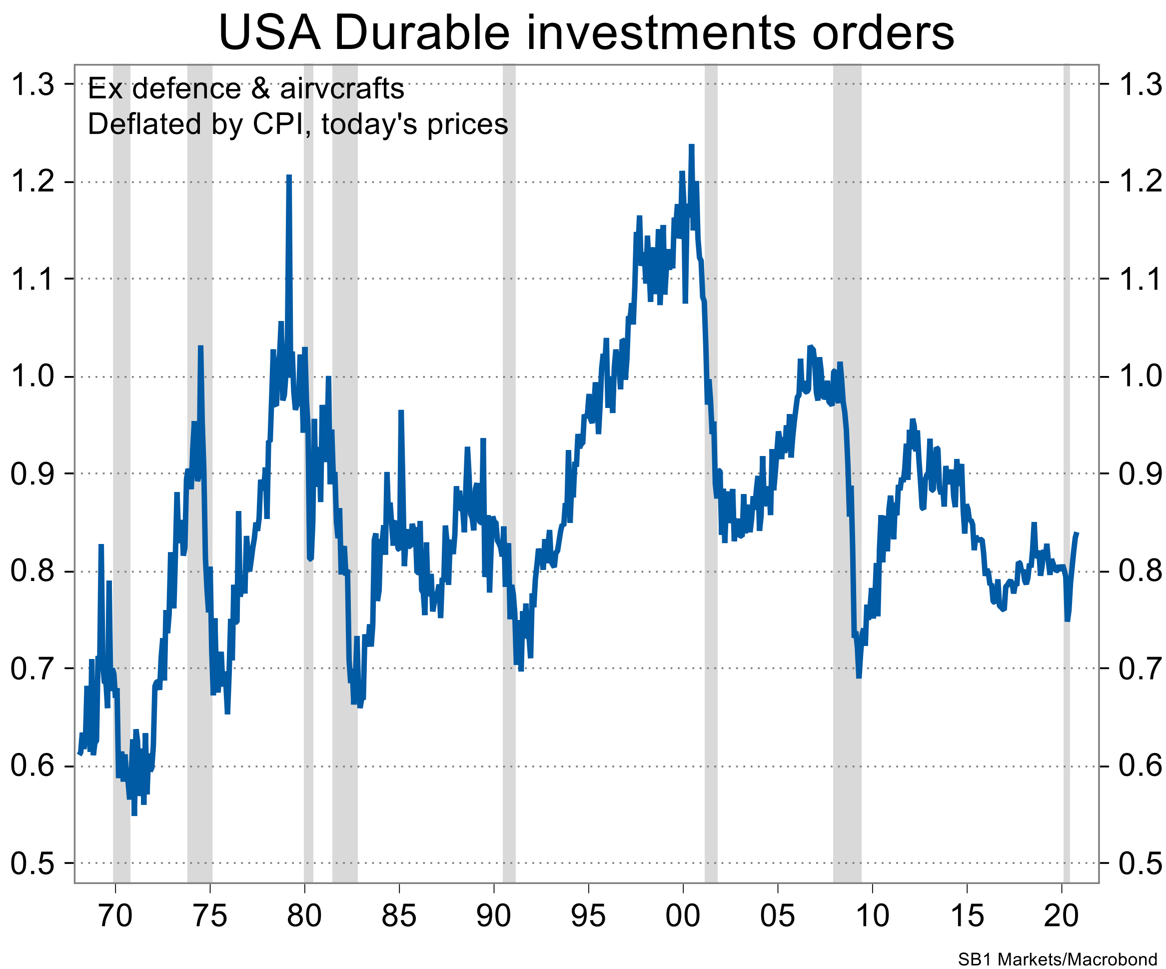




- The realtor's index is a primitive median 'raw' index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) have very likely lifted the median price
- Still, 'something is very likely going on' at the housing market. Other – and the more sophisticated indices are reporting annual inflation at 6.6 – 9%. New home prices are on the way up too, but not faster

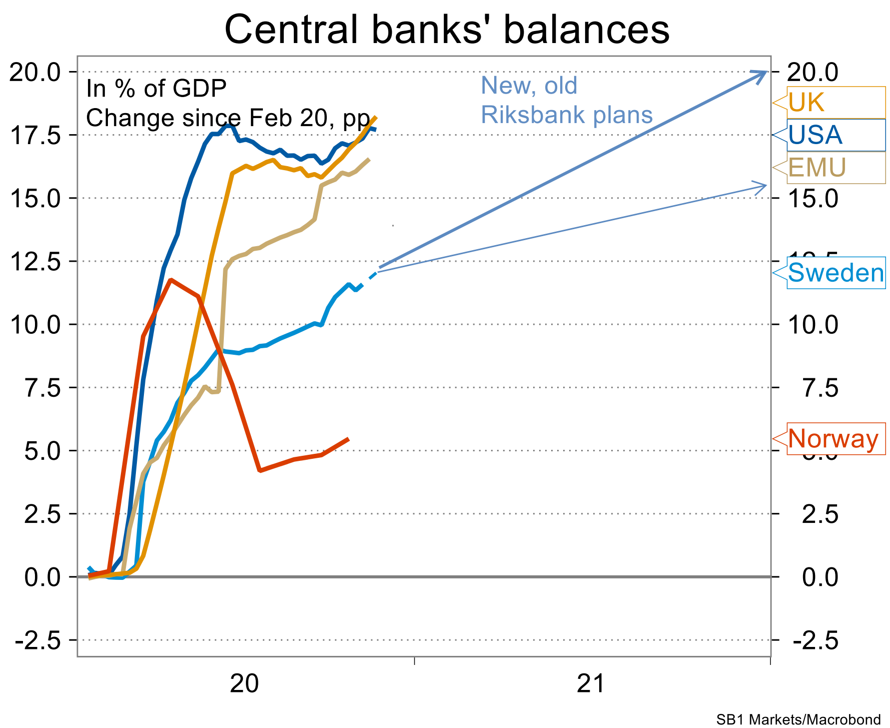
Investment orders: A shallowest & shortest downturn, ever

Can you spot if anything happened around 2020??



Riksbank wants to do more QE; +SEK 200 to 700 bn (+4 pp to 14% of GDP

An aggressive, dovish central bank – who don't want to be blamed if something goes wrong…



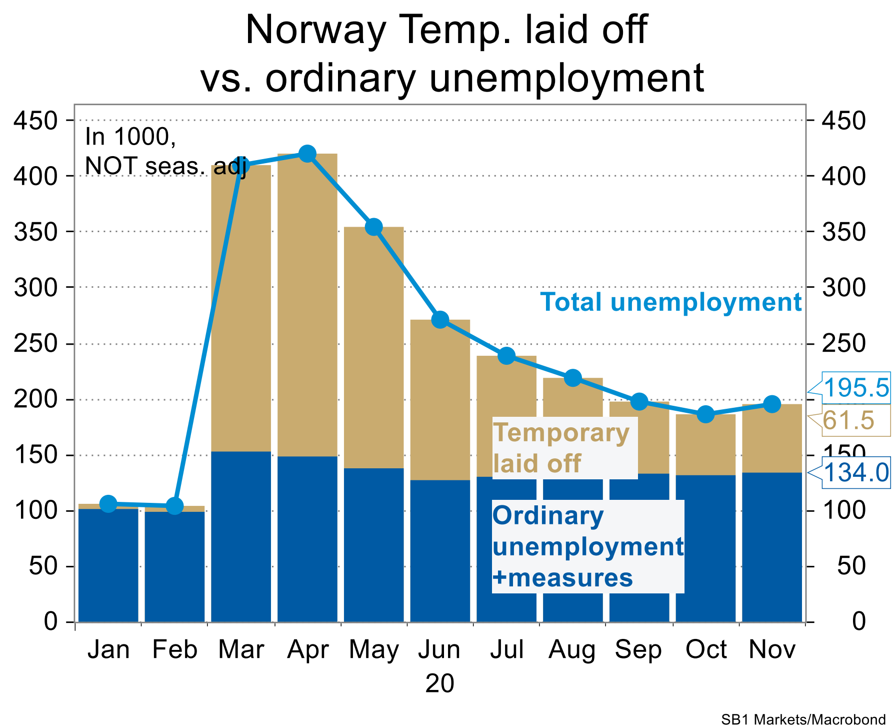
- The US Fed, ECB & BoE has been more aggressive than the Riksbank
- All the other banks plan to continue their QE programs – and will end up higher than the Rix now signals

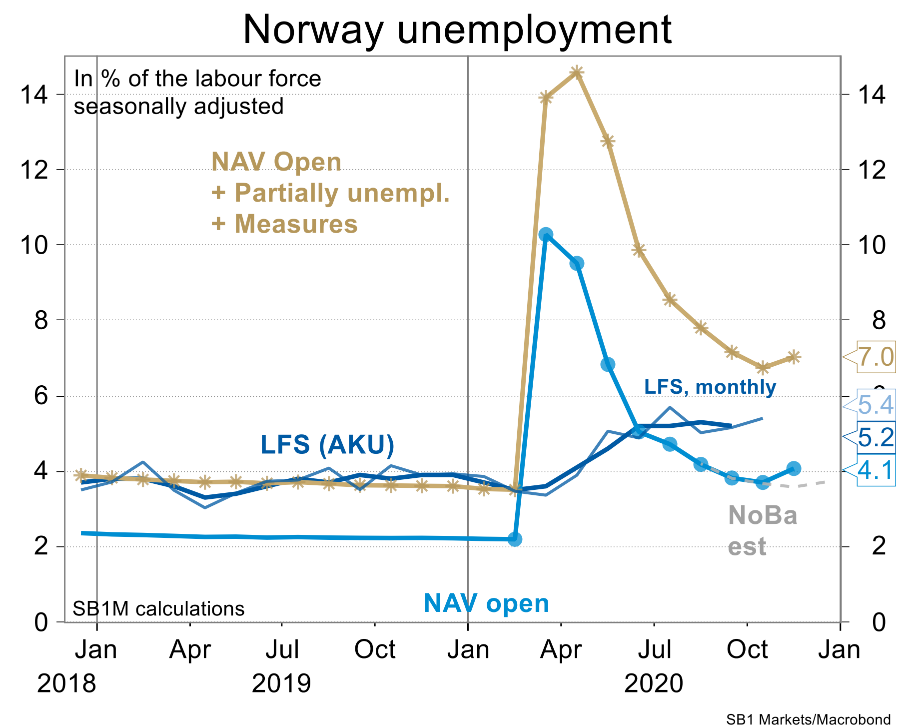
- The Riksbank kept the **signal rate unchanged at zero**, as expected – and it's expected to stay there for a long as the Bank can see (till the end of 2023) – as the bank signalled in
- The Bank lifted the **target QE level to SEK 700 bn from 500 bn** by the end of 2021, implying a doubling of the pace vs the current plan – in order *'to give further support in an uncertain time, improve the conditions for a recovery, and to help inflation rise towards the target'*
- The Bank emphasises that it '*is making it clear that comprehensive monetary policy will be available* ***as long as it is needed***'
- The Bank expects the 2nd corona wave, and tighter restrictions to lead to **a new downturn in the Swedish economy**
  - » The 2020 GDP forecast is cut by 0.4 pp to -4.0%, and the 2021 forecast is cut 0.9 pp to just 2.6% - a substantial cut
  - » The unemployment rate will increase from 8.4% in 2020 (revised down 0.2 pp) to 9.4% next year (+0.2 pp)
  - » Inflation will remain well below the 2% target 'forever'
- **The Riksbank remains dovish, and takes out another insurance, as the new corona challenges may push the Swedish economy down again**

SpareBank 1 MARKETS

NAV unemployment +10’ in Nov, +0.3 pp. Travel/restaurants/hotels hit again

Weeky data had suggested a somewhat steeper increase. More to come in Dec, but no ‘2nd wave’

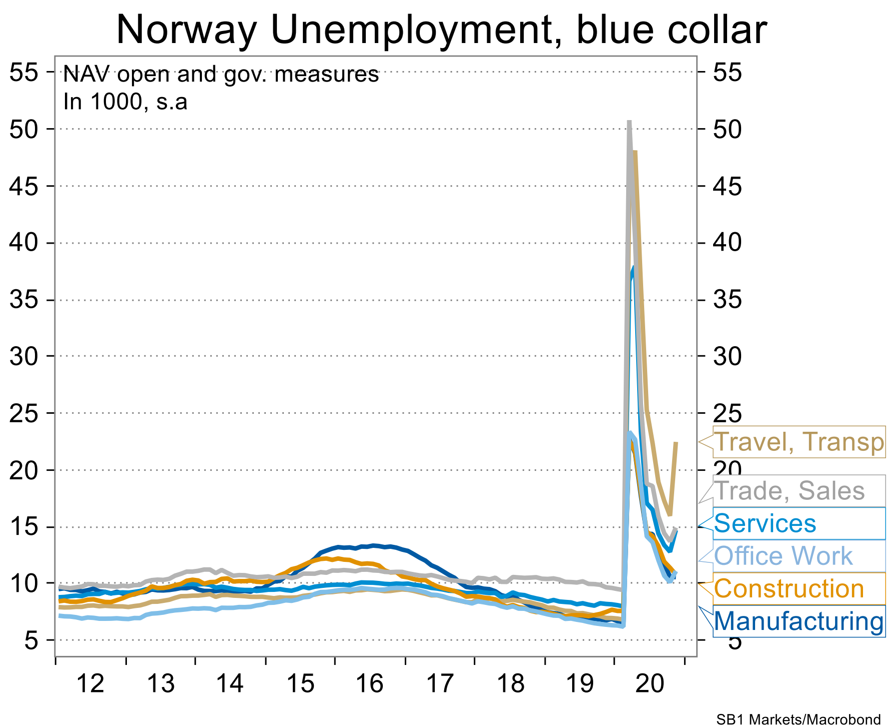


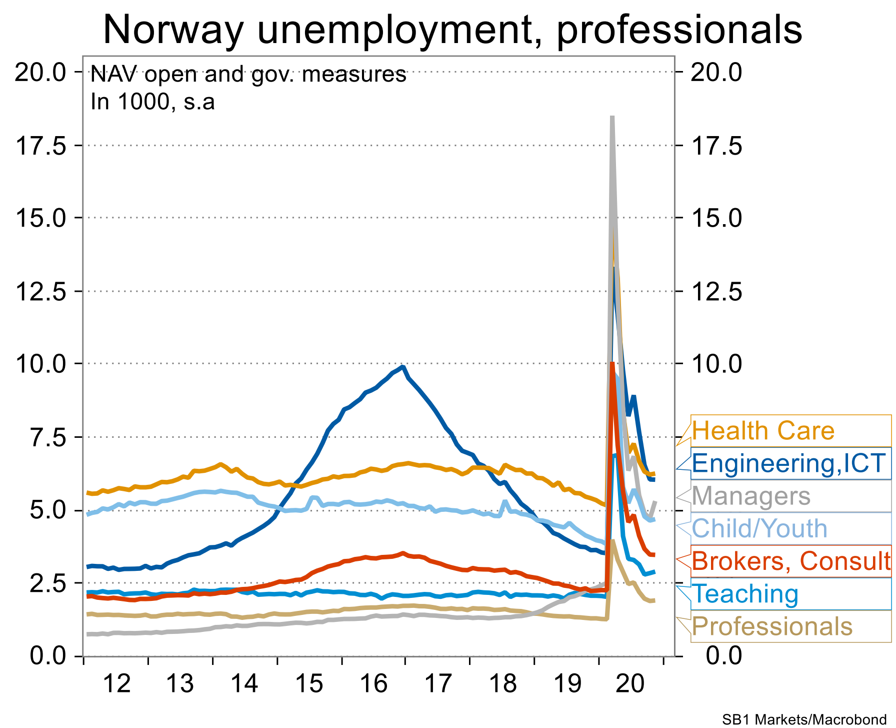


- Open ‘full time’ unemployment measured at NAV, which includes furloughed workers rose by 10.5’ through November (we expected 1’ more) to 115’. Including labour market measures, unemployment grew by 10’ to 127, or to 4.5% of the labour force (+0.3 pp)
  - Including part time unemployment, the grand total rose by 8.5’ to 199’ or 7% of the labour force, up 0.2 pp from October. Before corona: 3.5%
  - Almost all of the increase was due to a lift in the number of furloughed workers, +7’ – and almost all of them in restaurants/hotels
- The LFS (AKU) reported a decline to 5.2% in September (3 m avg). These data have been lagging NAV figures as furloughed workers have not been counted as unemployed before staying 3 months at the dole

Unemployment up in travel/transp./services in November – 'nothing' elsewhere

The impact of the 2nd 'lockdown' is concentrated among some few sectors



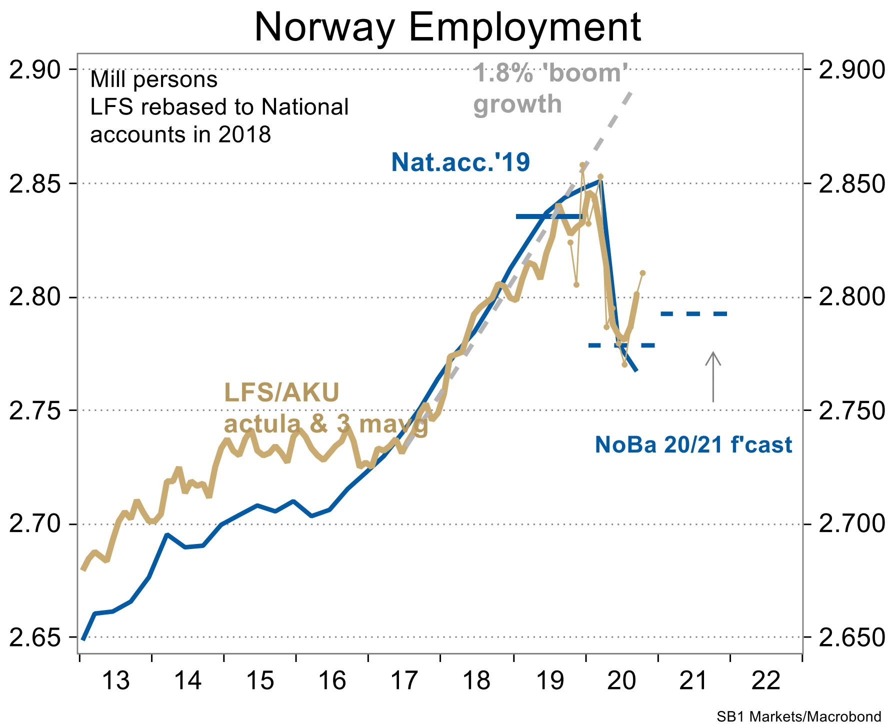


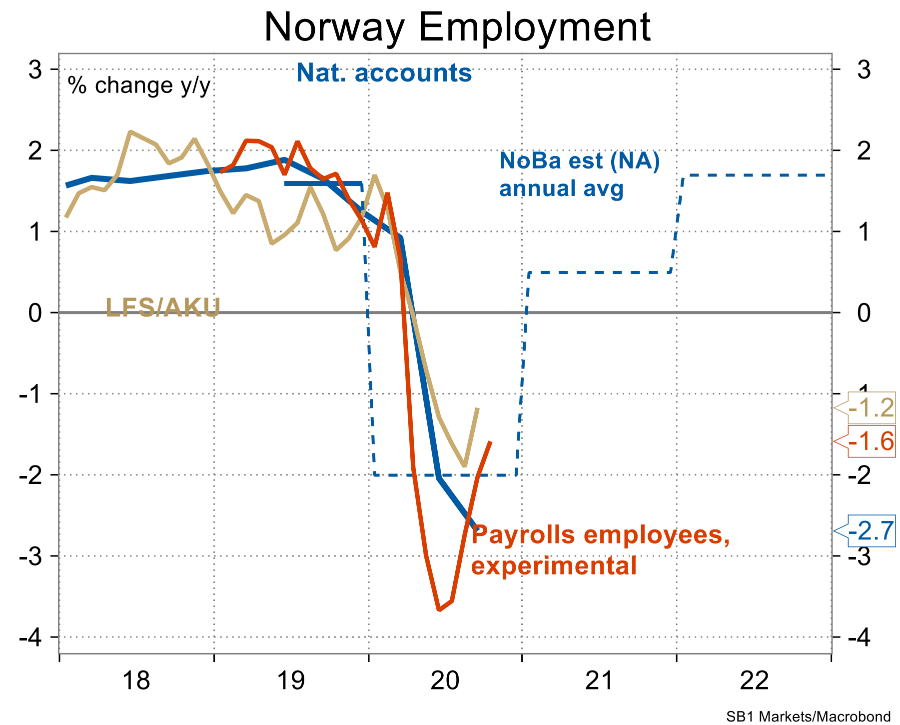
- We expect more to come in these 'people' oriented occupations in December but limited compared to the sharp lift during the spring
- We deem the risk for wide-spread increases in unemployment in other sectors due to the 2nd wave – like we saw during March & April 'panic' – to be non-existent
  - » In fact, unemployment among several occupancies fell further in November

SpareBank 1 MARKETS

Employment is on the way up again – even it National acc. reported a Q3 decline

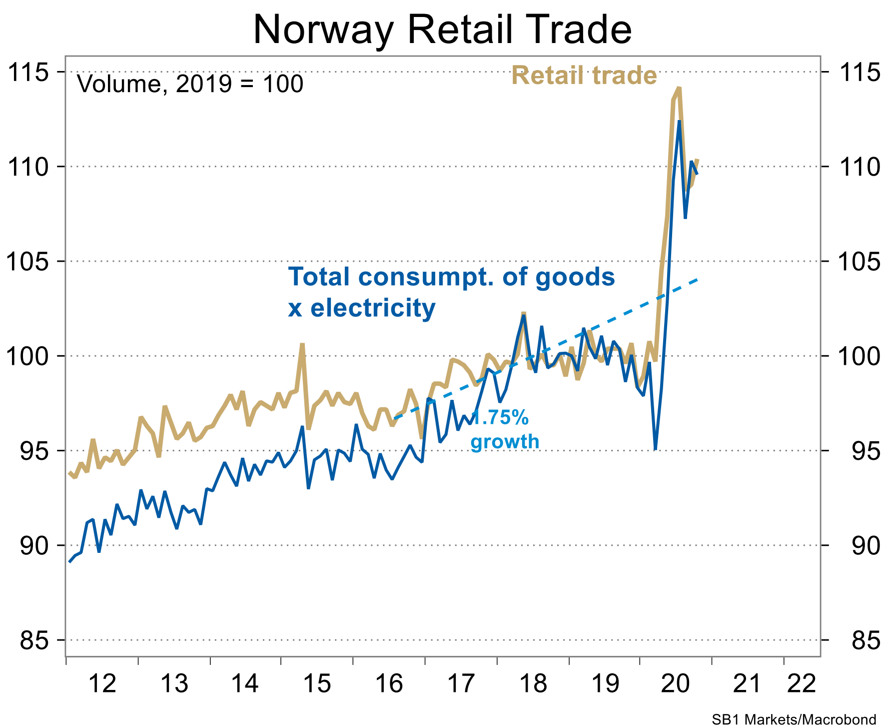
The LFS is reporting a 0.3% increase from June to Sept (both 3 m avgs), now down 1.4% vs Feb peak

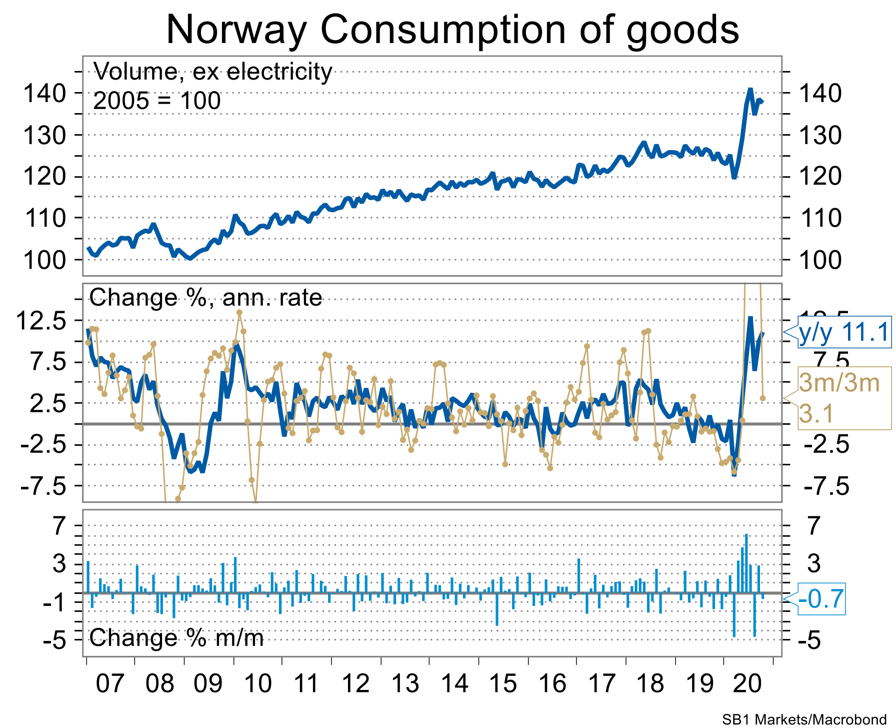




Retail sales further up in Oct, 10% above par

Still not possible to spend money abroad, limited possibilities to enjoy services at home

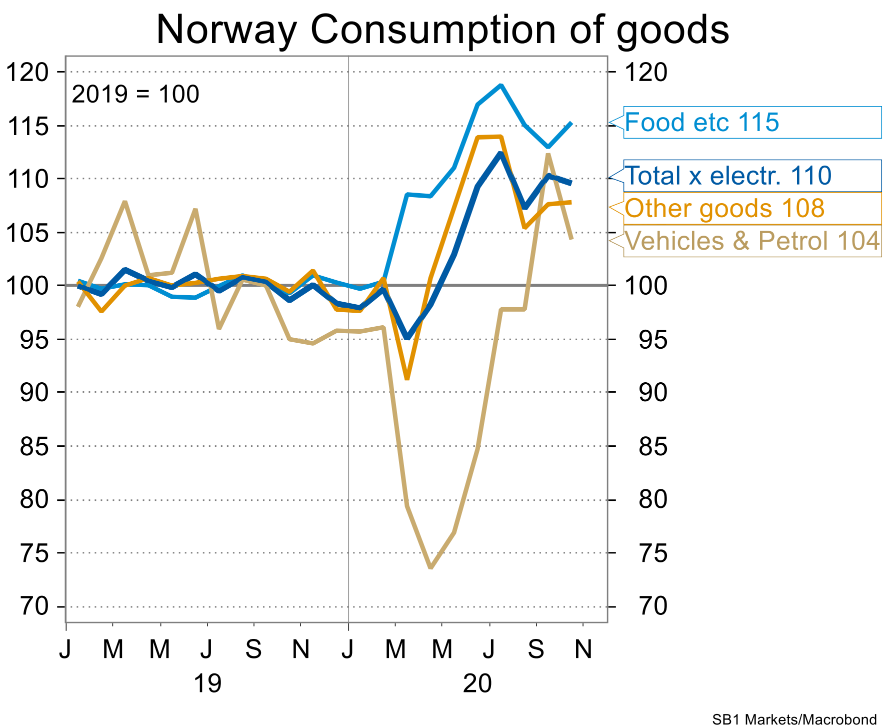


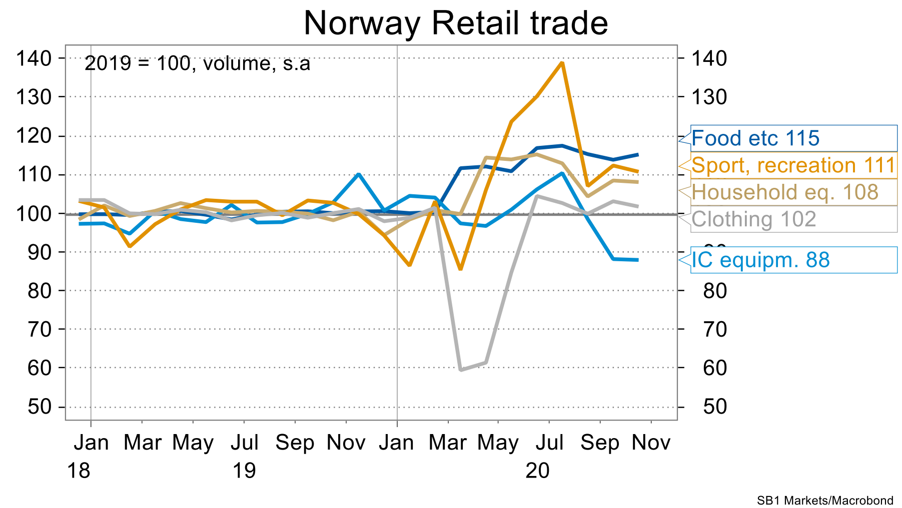


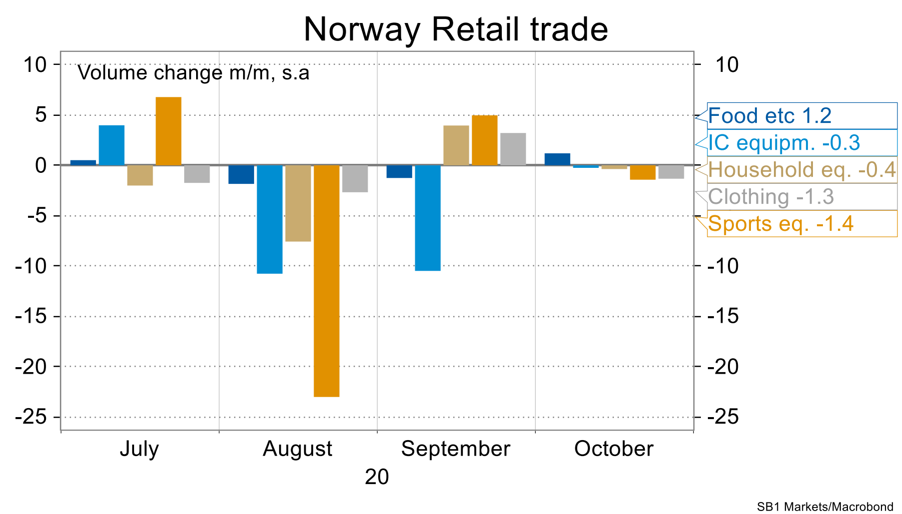
- Retail sales rose by 1.2% m/m in Oct, expected up 0.5% (we had 0.0%). The level is 10% above the pre corona level – with most branched contributing on the upside
- Total consumption of goods fell 0.7%, following the 2.9% hike in September. Consumption has flatted over the past 3 months – at a high level
- We expect a gradual decline in retail sales the coming months/quarters, even if some sectors will blossom as long as borders are more or less closed, and we cannot go shopping in Sweden or spend time (and money) abroad
- Service consumption is of course far below a pre corona level, no data included in these retail sales data. Sept. data will be out Nov 12

Food +14%, other goods +8%

Food sales remain high and will remain high until borders (and restaurants) are opened



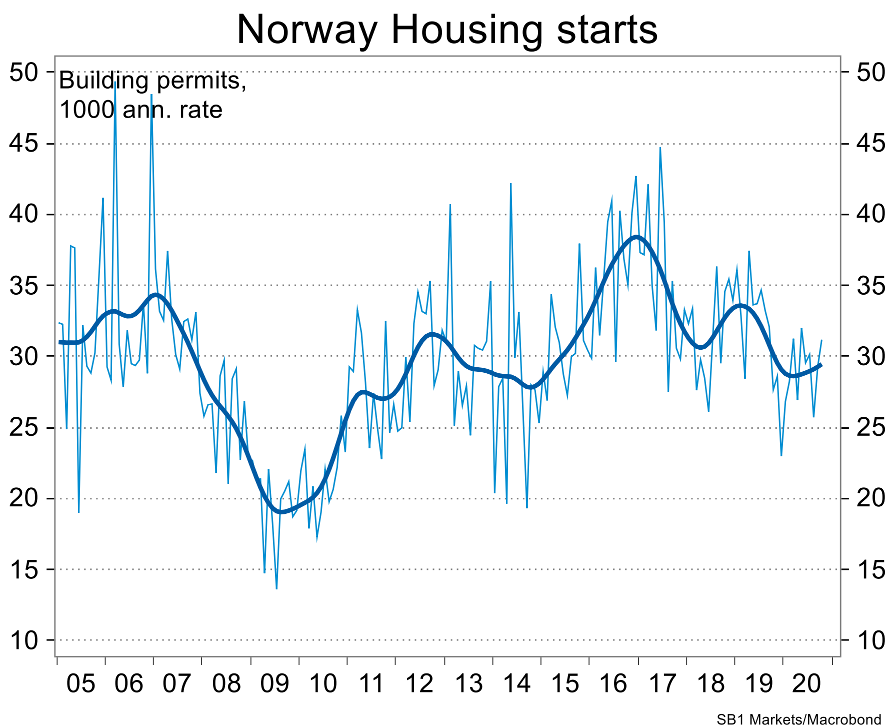


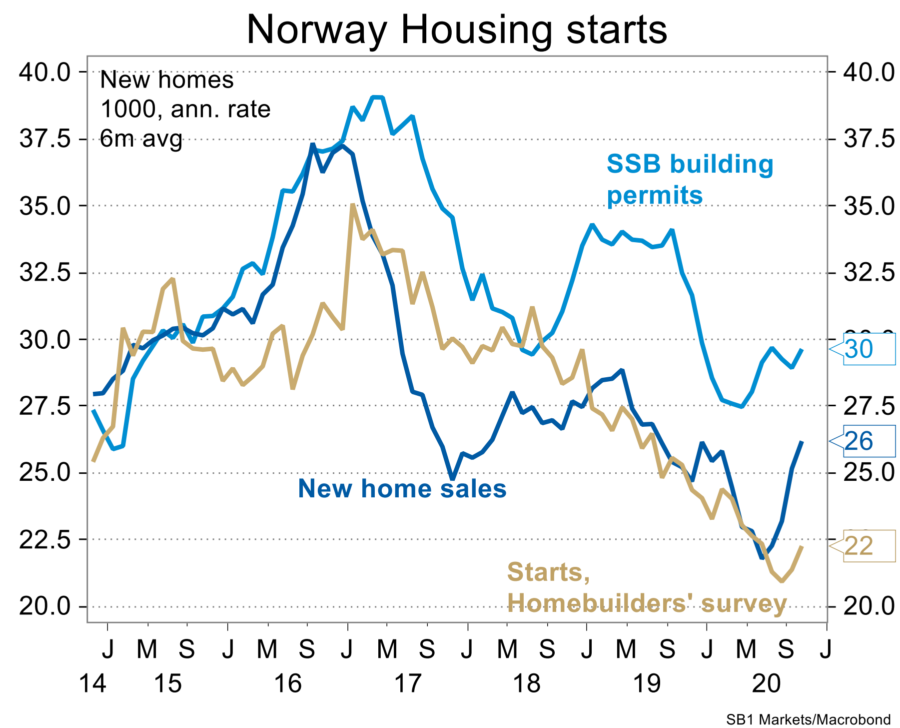


- Sales of sport equipment, information & communication technologies and household equipment are all still above the levels from February. Clothing recovered well in the spring/summer and are back at a ‘normal' level

Housing starts are turning up? Give the 2nd hand market, they should

Sales are back, according to the Homebuilders' survey



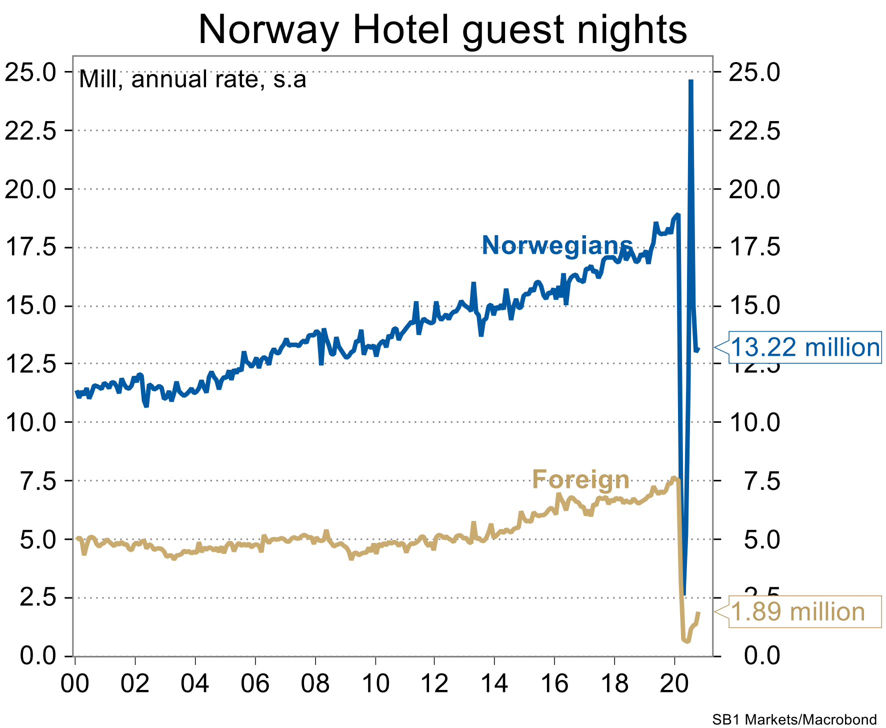


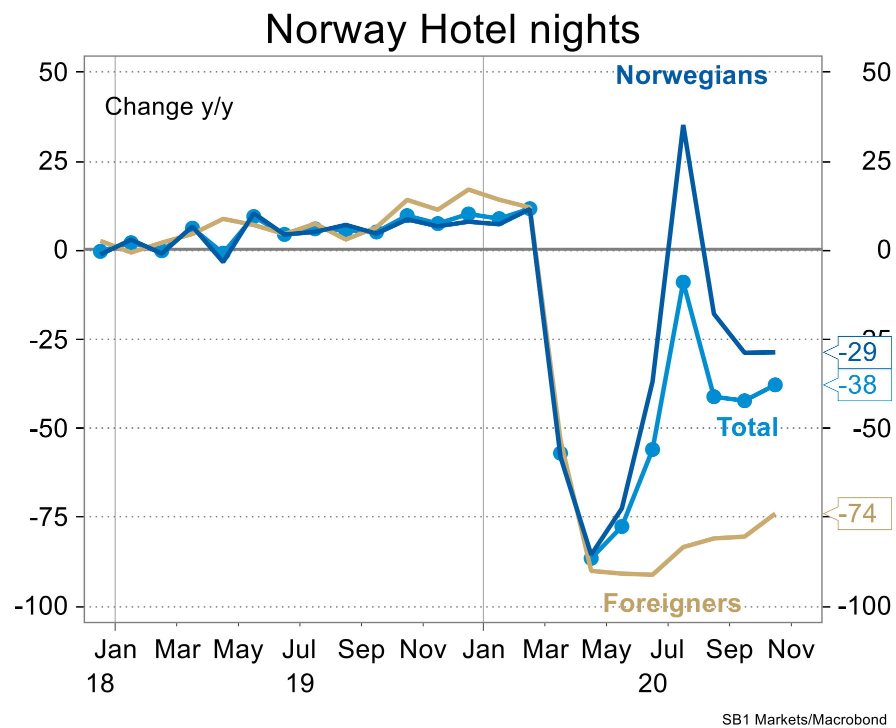
- Housing start have probably turned up – and rose to 31' in Oct from 29' in Sept
- Homebuilders have reported an uptick in new home sales - but so far not to above the pre corona rather moderate level. Lately, they have reported higher actual starts too (but the 6 m avg is still at a low level)

SpareBank 1 MARKETS

Hotel guest nights almost 40% in October

The good news: Domestic guest nights are down 'just' 30% (hope data are correct)

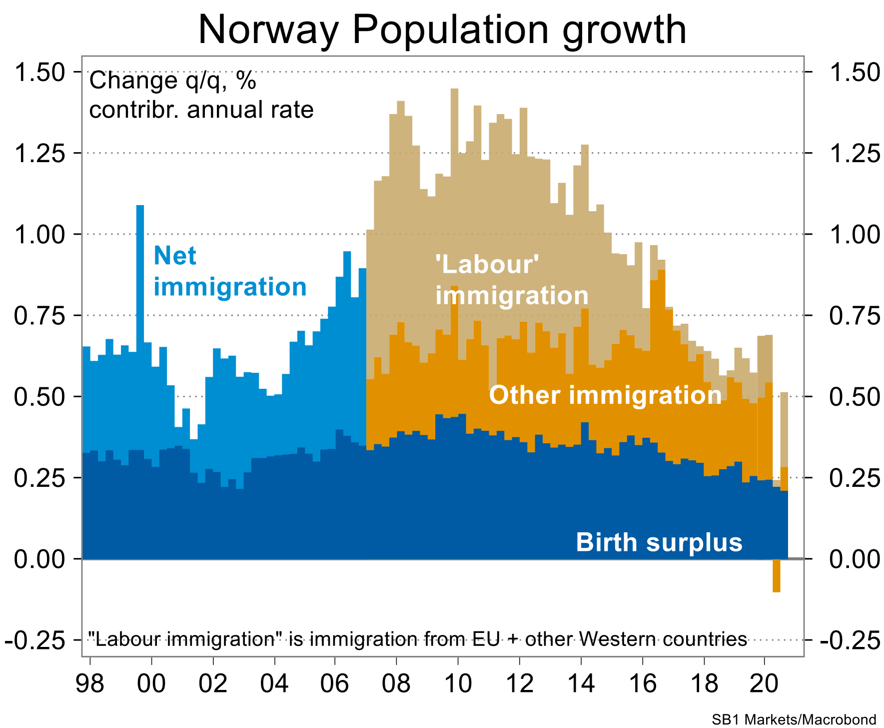


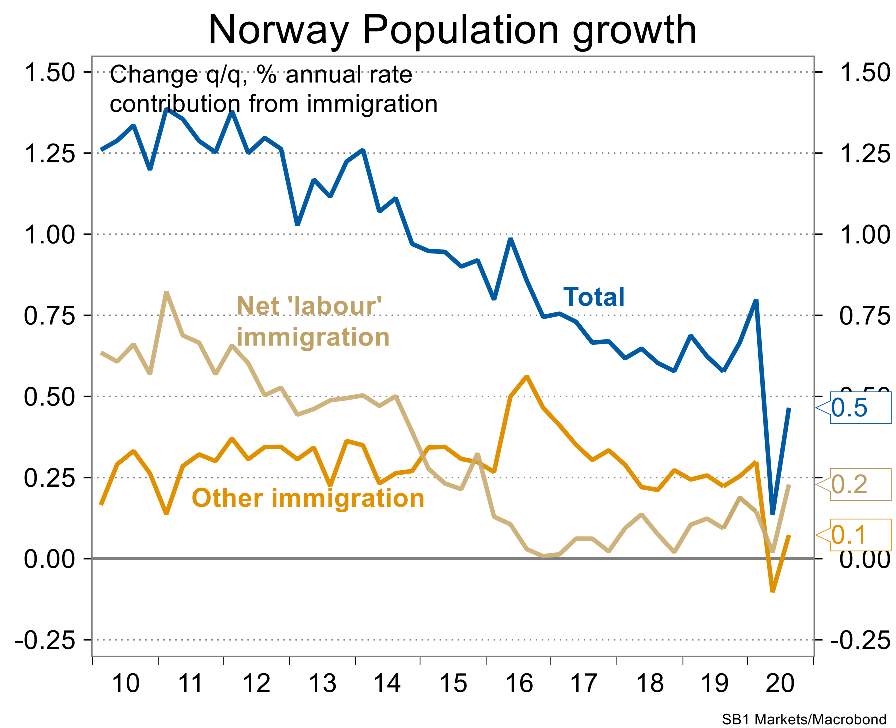


- Just July had been anything close to normal for Norwegian hotels since February. Hotels cannot return to anything like normal activity before corona is brought under control, both in Norway and abroad

Some net labour immigration in Q3 – but (Q2+Q3)/2 still low

The corona crisis has of course reduced global mobility – and will do so in Q4 too





- Total population grew by just 28’ persons over the past 4 quarters, the slowest growth in 15 years – equalling 0.5%. The two past quarters have been special, for obvious reasons, and we cannot draw any implications from this experience
  - » Immigration from abroad fell to below zero in Q2 and recovered somewhat in Q3. The average of the two past quarters is low
- Before corona: Employment growth was slowing, quite steady – from 1.3% in 2011 to half of that level last year
  - » The birth surplus is declining steadily
  - » Labour immigration, defined as immigration from Western countries, including central eastern Europe fell sharply 2010 – ’16, and recovered some of the decline during 2018/19 but is still adding just some 0.1 pp to population growth – it used to be between 0.5 and 0.7 pp
  - » Non-Western immigration has been stable the past 10 years, barring the ‘Syrian’ surge in 2015/16 and the corona «closure»

The Calendar

More PMIs/ISMs, auto sales, US payrolls & Beige book. Credit growth & savings in Norway

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 30					
08:00	NO	Credit Indicator Growth YoY	Oct	(4.5)	4.6%
14:00	GE	CPI YoY	Nov P	-0.1%	-0.2%
16:00	US	Pending Home Sales MoM	Oct	1.0%	-2.2%
Tuesday Dec 1					
00:30	JN	Jobless Rate	Oct	3.1%	3.0%
02:45	CH	PMI Manufacturing Markit	Nov	53.5	53.6
08:30	SW	PMI Manufacturing	Nov		58.2
10:00	NO	NAV unemployment	week		
10:00	NO	PMI Manufacturing	Nov		53.4
10:00	EC	PMI Manufacturing	Nov F	53.6	53.6
11:00	EC	OECD Economic Outlook			
11:00	EC	CPI Core YoY	Nov P	0.2%	0.2%
15:45	US	PMI Manufacturing, Markit	Nov F		56.7
16:00	US	ISM Manufacturing	Nov	57.6	59.3
16:00	US	Construction Spending MoM	Oct	0.8%	0.3%
17:00	WO	PMI Manufacturing	Nov	53.3	53.0
	US	Total Vehicle Sales	Nov	16.10m	16.21m
Wednesday Dec 2					
08:00	GE	Retail Sales MoM	Oct	1.10%	-2.20%
08:00	NO	Current Account Balance	3Q		20.5b
08:00	NO	Household savings rate	3Q	15	21.3
11:00	EC	Unemployment Rate	Oct	8.4%	8.3%
14:15	US	ADP Employment Change	Nov	500k	365k
20:00	US	Fed's Beige Book			
Thursday Dec 3					
02:45	CH	PMI Services, Markit	Nov	56.4	56.8
08:30	SW	PMI Services	Nov		55.0
10:00	EC	PMI Services	Nov F	41.3	41.3
10:00	EC	PMI Composite	Nov F	45.1	45.1
11:00	EC	Retail Sales MoM	Oct	0.5%	-2.0%
13:30	US	Challenger Job Cuts YoY	Nov		60.40%
14:30	US	Initial Jobless Claims			778k
15:45	US	PMI Services, Markit	Nov F	57.5	57.7
16:00	US	ISM Services	Nov	56	56.6
17:00	WO	PMI Services	Nov	51.9	52.9
17:00	WO	PMI Composite	Nov	52.6	53.2
Friday Dec 4					
08:00	GE	Factory Orders MoM	Oct	1.00%	0.50%
14:30	US	Nonfarm Payrolls MOM	Nov	500k	638k
14:30	US	Unemployment Rate	Nov	6.80%	6.90%
14:30	US	Average Hourly Earnings MoM	Nov	0.1%	0.1%
14:30	US	Trade Balance	Oct	-$64.8b	-$63.9b

- **November PMIs/ISM**
  - » **The global composite PMI** very likely fell, due to a sharp setback in European services. The global manufacturing index probably rose, while the service index fell. The global composite index should report growth close to trend. Europe may have a moderate double dip, but not the rest of the world. In US, the ISM may decline, but it will remain at a robust level
- **Global auto sales**
  - » **We expect** mixed in sales in November, in sum we expect them up – but China and several other EM countries will not report data this week
- **USA**
  - » **Nonfarm payrolls** is expected up 0.5 mill, far above a normal growth pace but far too slow the close the 10 mill gap anytime soon. Unemployment is expected further down
  - » Fed's Beige Book should report continued growth but as for the employment data – not sufficient to bring the economy back on track
- **EMU**
  - » **Retail sales**
- **Norway**
  - » **Credit growth** is probably slowing, due to lower demand from the business sector, while households are still eager to borrow
  - » **The household savings rate** will 'collapse' in Q3, as consumption rose buy almost 10%

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

Highlights

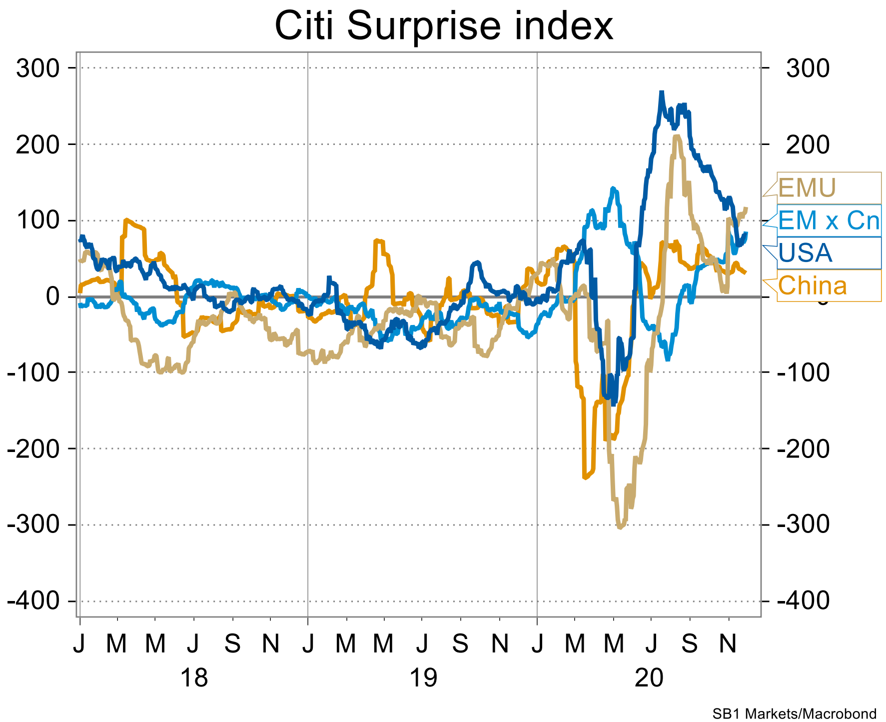
The world around us

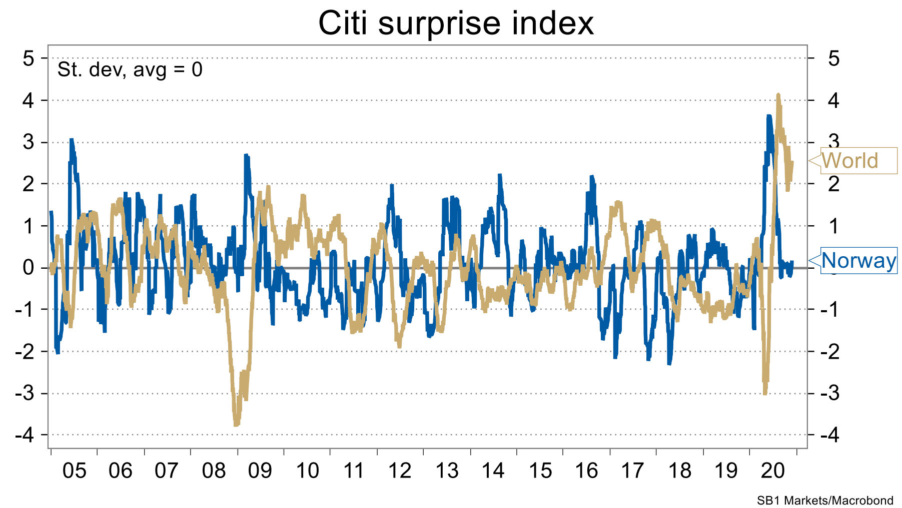
The Norwegian economy

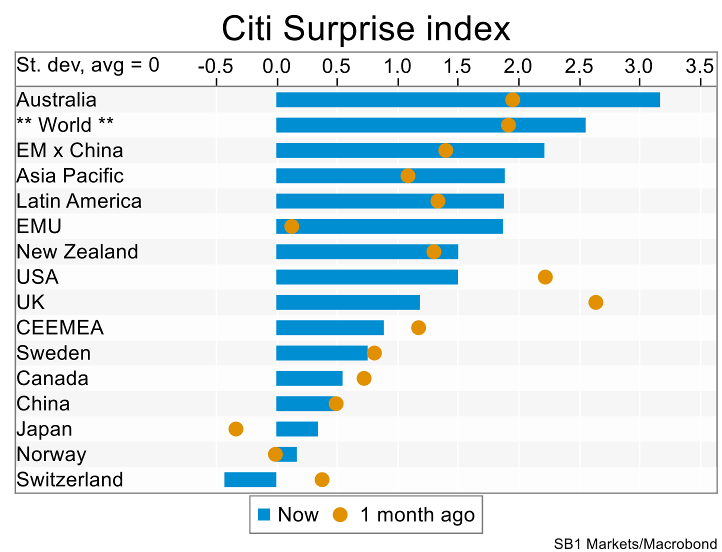
Market charts & comments

Surprises are still on the upside – and somewhat more last week

All major countries/regions x Switzerland are reporting data above expectations





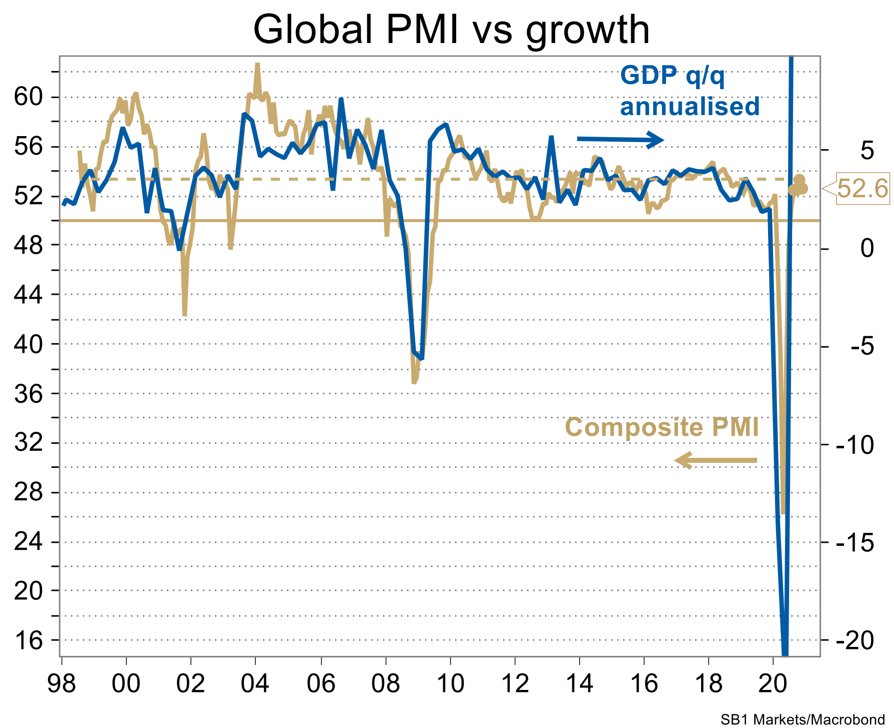


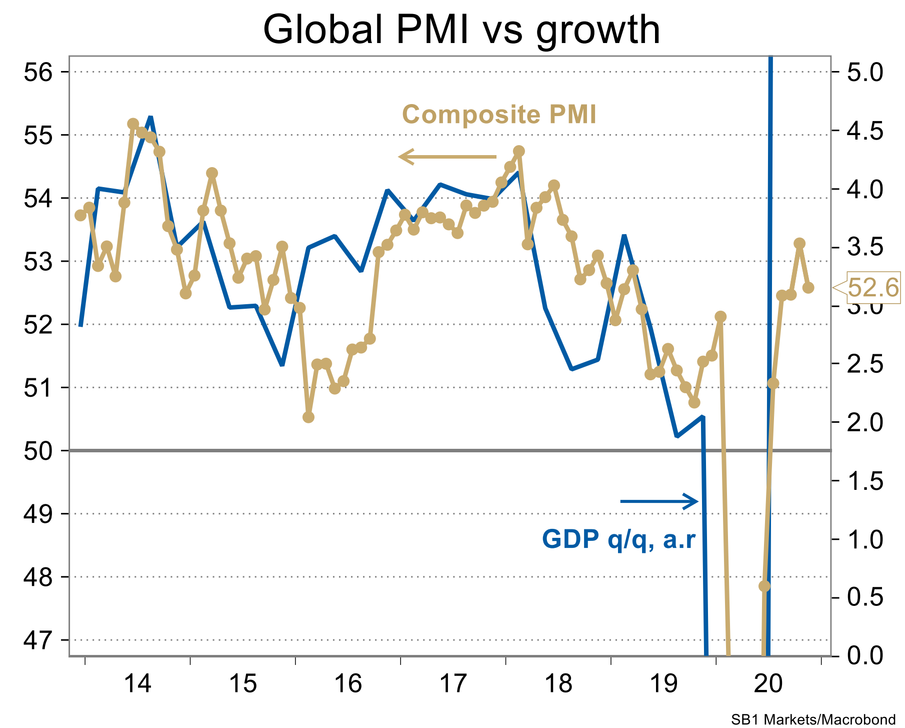
- All major countries/regions are reporting data above expectations, for the first time ever
- The Euro Zone is surprising more on the upside than the US
- The US is still far into positive territory but less so than during the summer – but a tad better last week
- China clearly into positive territory
- Other EMs are well above their average level too
- Norway and Switzerland at the bottom, but just the latter below par!

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

The global composite PMI down in November, due to European services

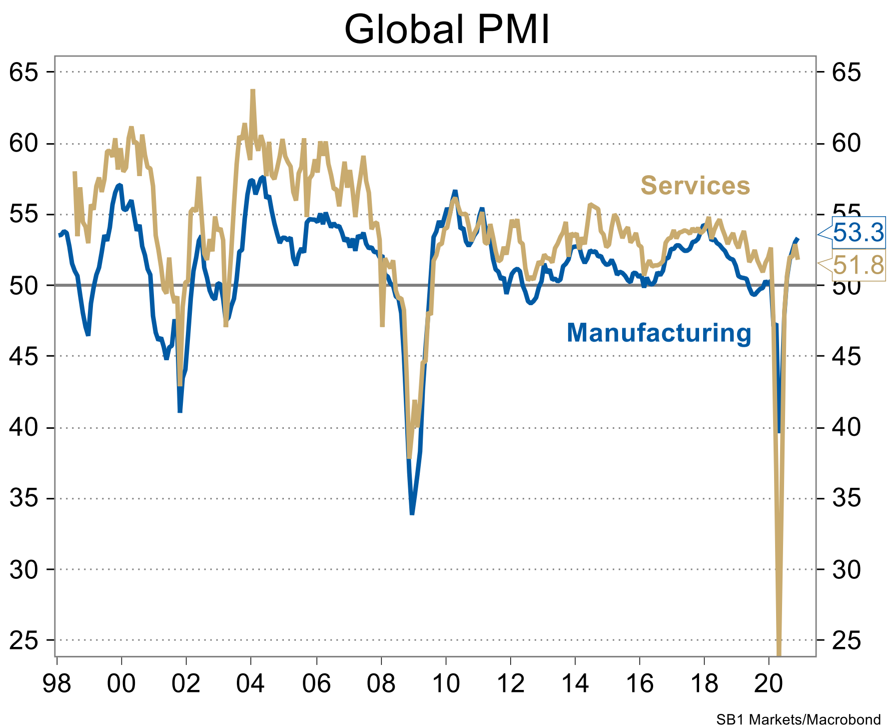
We estimate a 0.5 – 0.9 p decline in the comp. PMI 52.6 (centre est), still above the Aug/Sept level

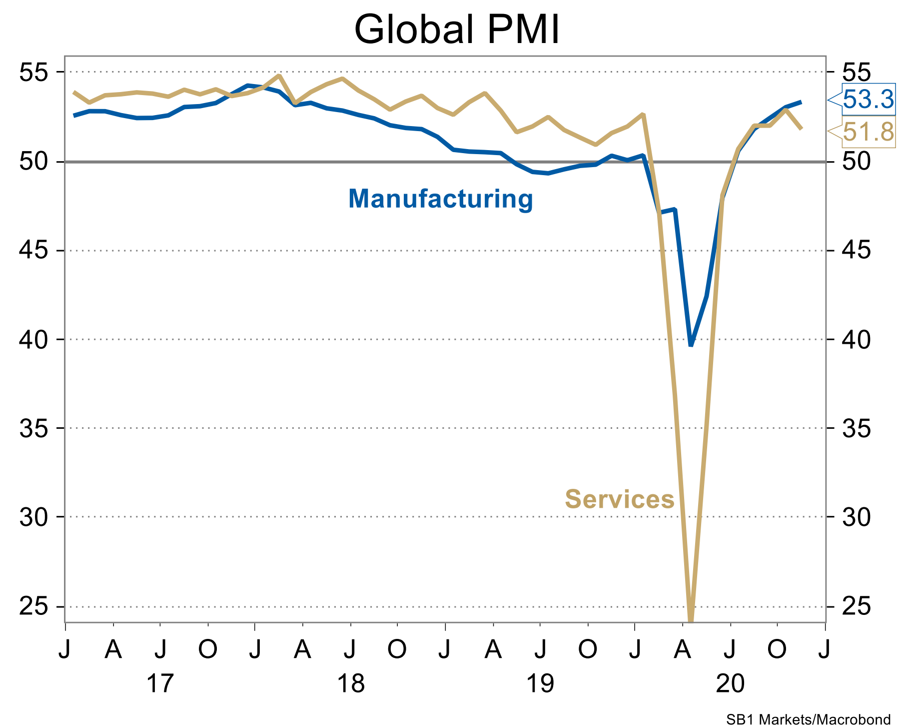




- The manufacturing PMI rose further (but orders softened), even if manufacturers in the EMU reported lower growth- but above trend). The global service sector PMI fell 1 p due to a 5.6p decline in both the EMU & UK service indices. In the US, the service sector PMI rose further, in spite of the surge in Covid-19 cases and reduced mobility – and the composite US PMI is the strongest since 2015!
- The November PMIs signal a continued recovery in the global economy in Q4 but probably not above trend due to a moderate downturn in Europe
  - » The PMIs have been close to useless in order to calibrate the size of the downturn as well as both the timing and the pace of growth during the recovery since may. W now assume that these (and other) surveys will become more relevant again as changes in activity from month to month – or over the past few months are becoming more normal.

Services down, manufacturing further up in November

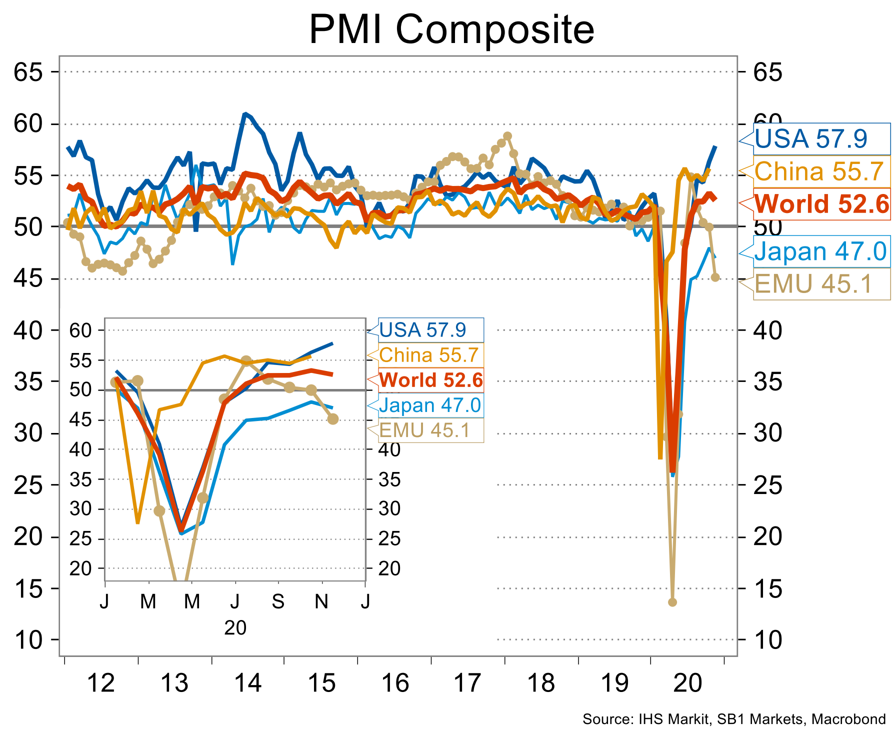


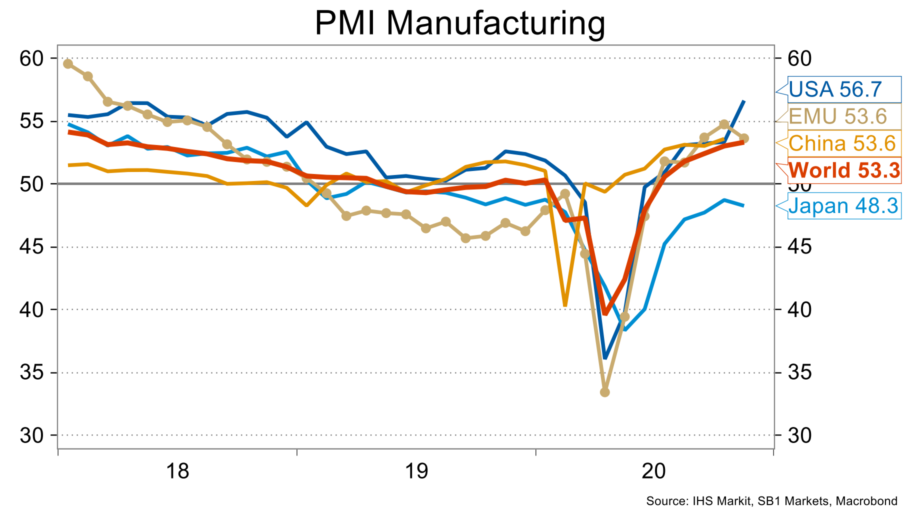


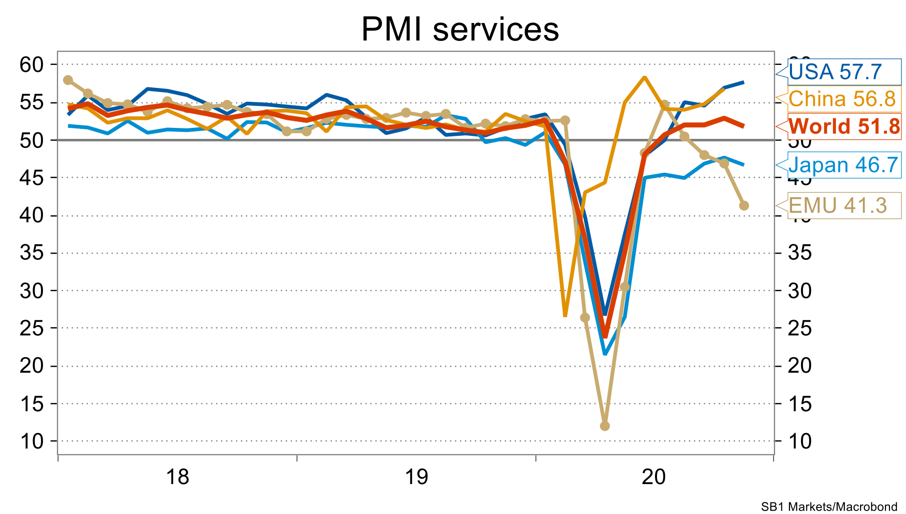
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

The US PMI up to the best level since 2015 – the EMU PMI sharply down

The lockdowns in Europe are highly visible – but just a ‘mild’ downturn so far signalled



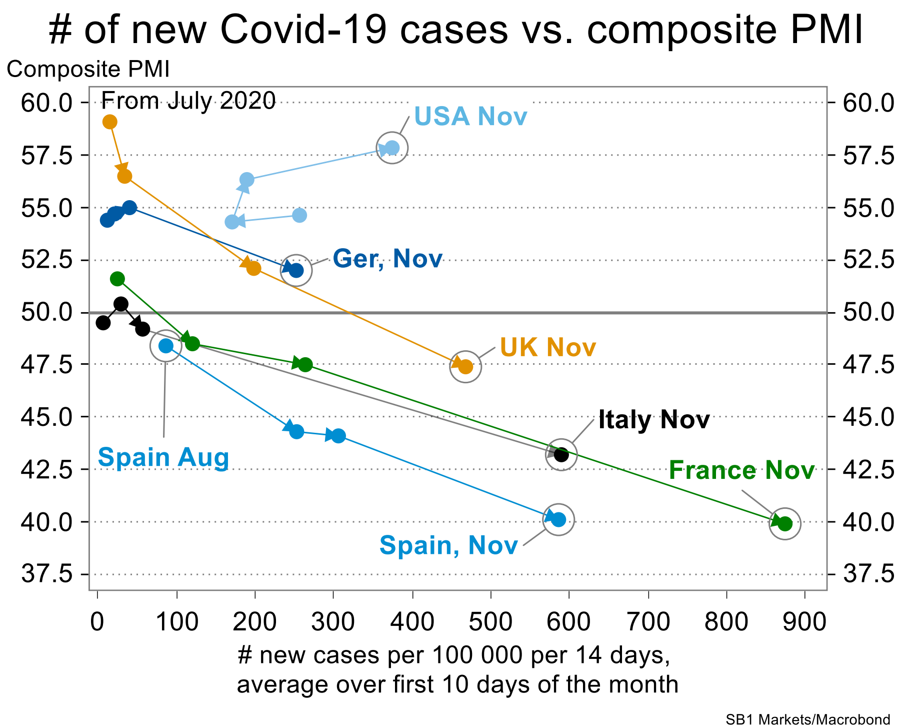




- In the EMU, the service PMI fell 5.6 p to 41.3, explaining most of the 5 p drop in the composite index down to 45.1 – signalling a 2% annualised pace of decline in GDP (-0.5% q/q)
- The US composite PMI rose sharply, to 57.9, best in 5y, as both manuf & services reported higher growth in Nov!!
- Japan sags, and the UK service sector PMI fell just as much as in the EMU

US still not hurt by the 2nd corona wave – Europe is

Restrictions have been tightening in Europe, not much the US

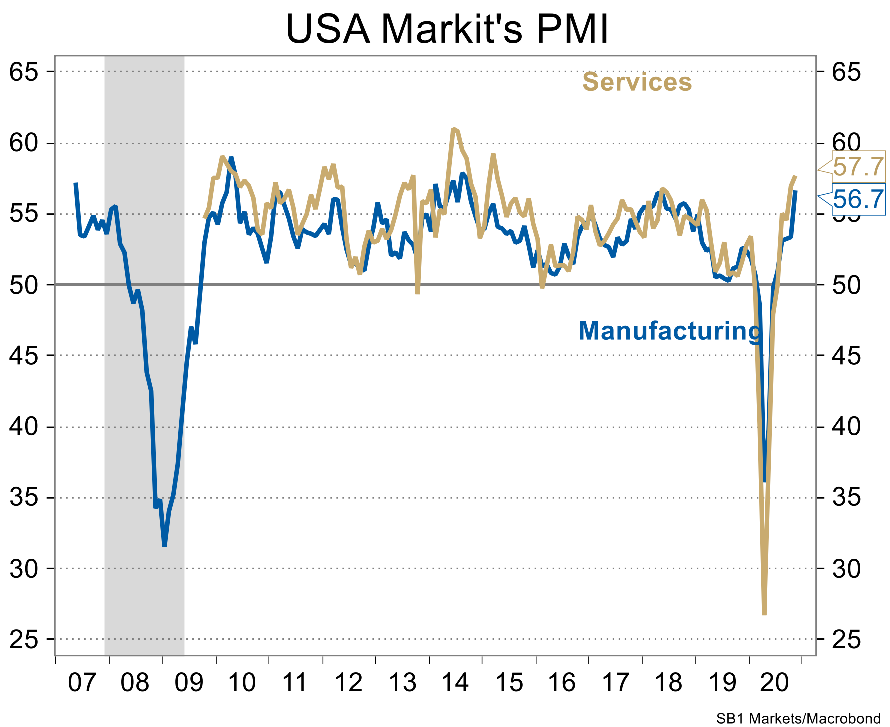


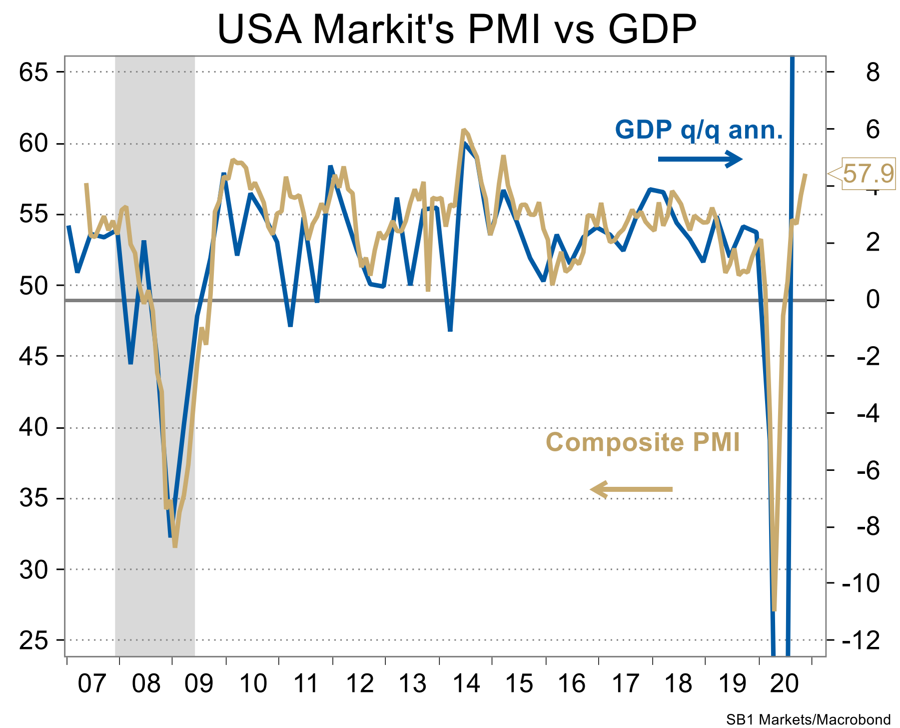
- Mobility has fallen more sharply in Europe than in the US

- *The Spain and Italy November PMIs are our estimates, with upside potential for Spain, downside risk for Italy*

Strong Nov PMIs, no sign of any 2nd corona wave slowdown. 4% Q4 GDP growth?

Both manufacturing & services at the best level since 2014/15!



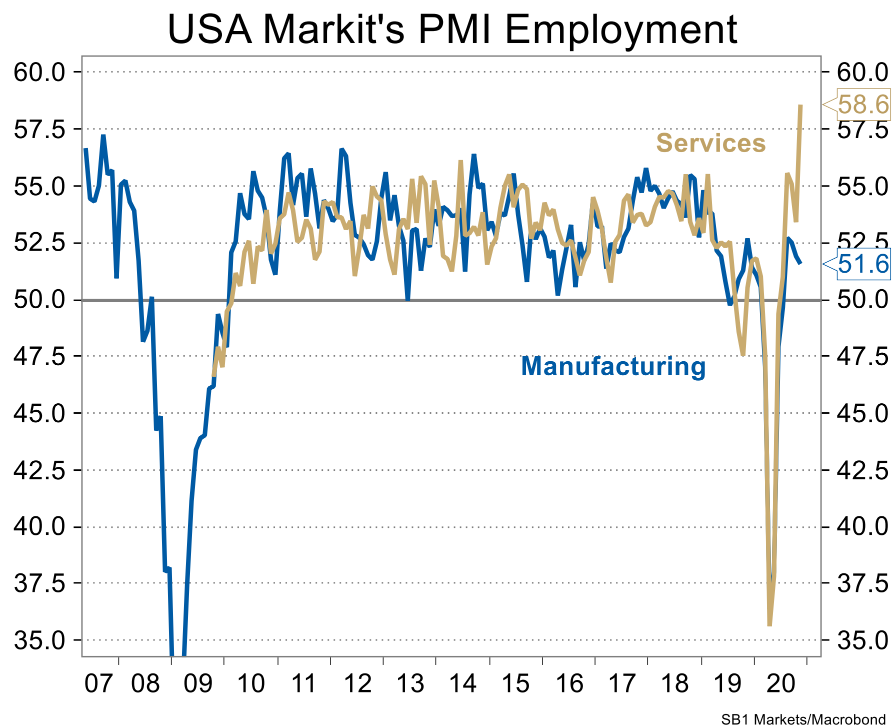


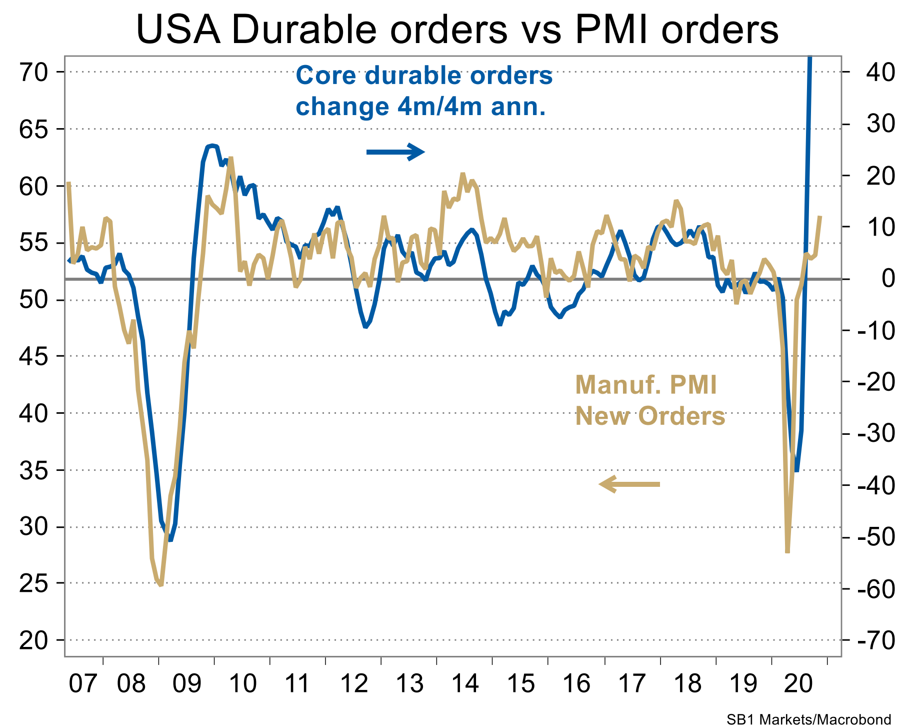
- The composite PMI rose 1.5 p to 57.7 – an unusual strong print – amid the steep increase in Covid-19 cases, some state/local restrictions, and somewhat less time spent outside the home. The index level was expected down by the same amount, to 55.0!
- The PMIs (or the ISMs or order surveys) were not able to detect the strong Q3 recovery. They signalled 2 - 3% growth, it turned out to be 33% (annualised rates)

SpareBank 1 MARKETS

Services are EMPLOYING again, they say, a huge lift in the empl. sub index

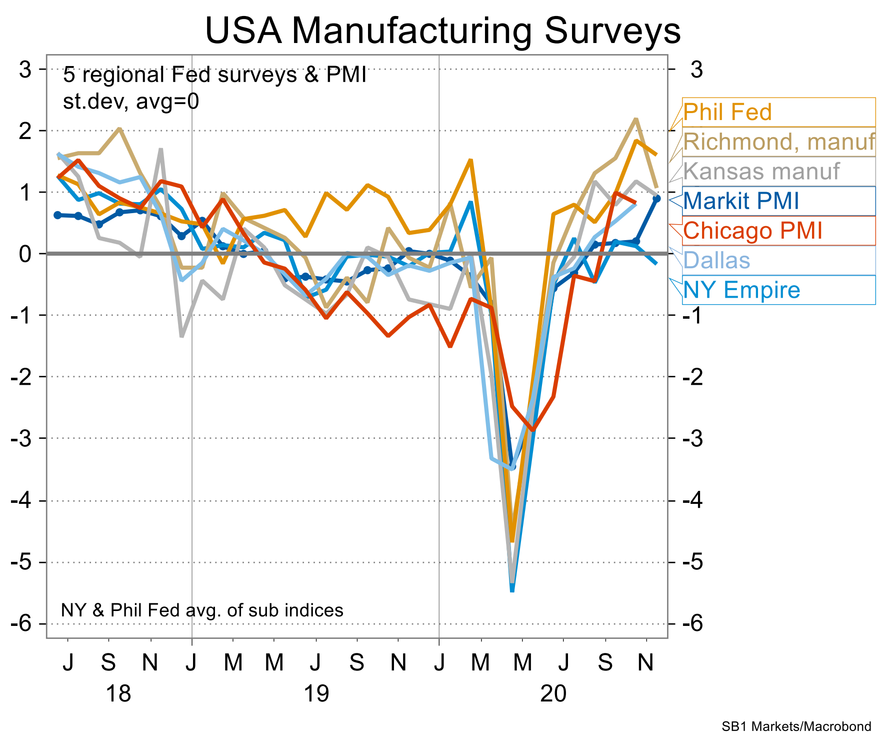
In manufacturing orders are reported sharply up in November

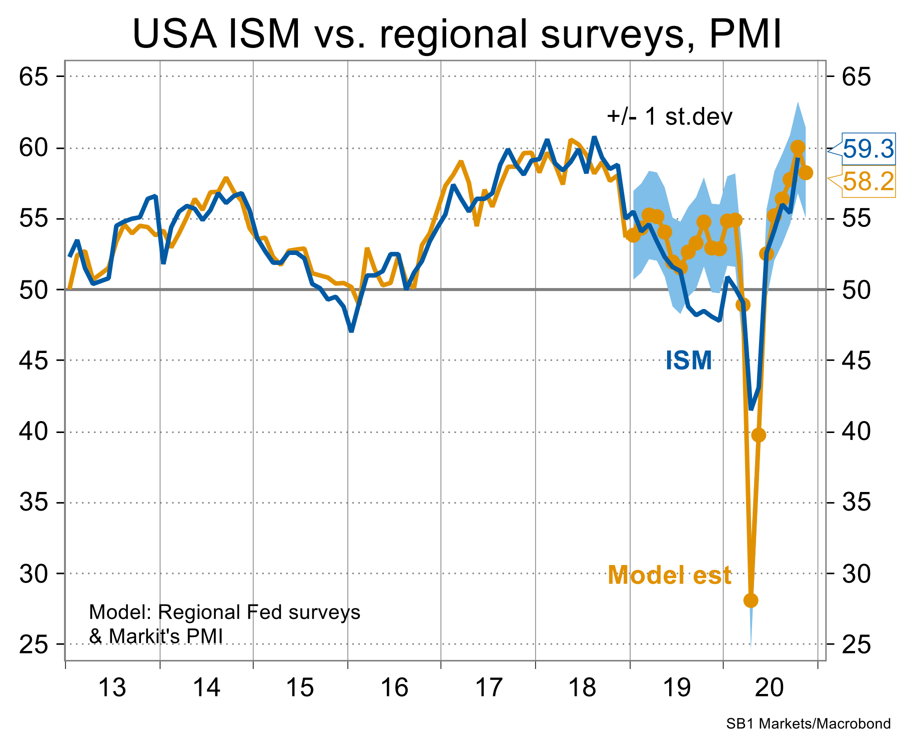




Regional surveys more down than the PMI up: The manuf. ISM down in Nov?

4 regional Fed surveys down, just NY Empire below average. ISM down 1 – 2 points, still very strong?





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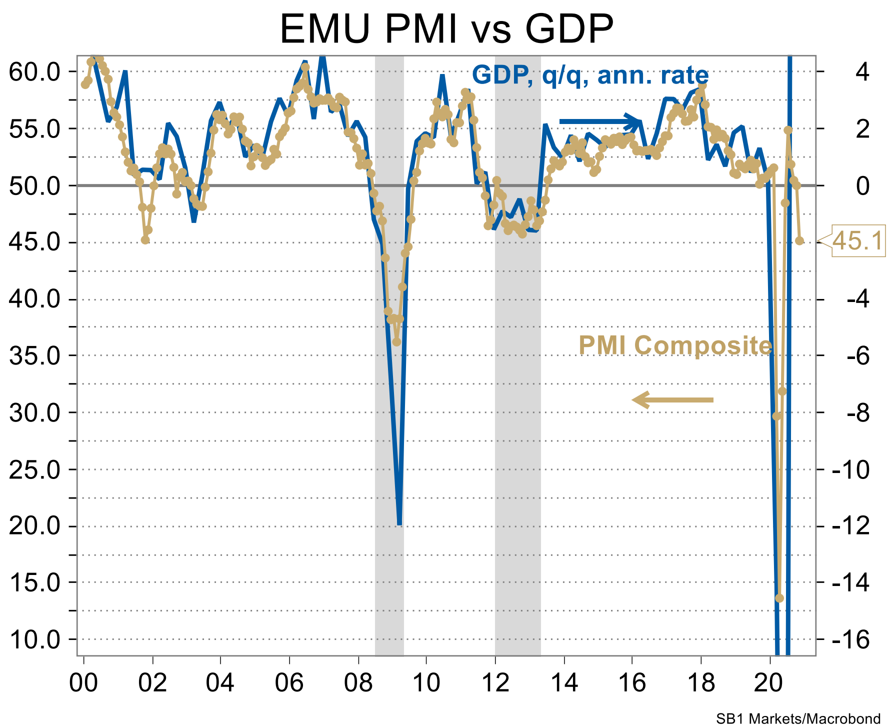
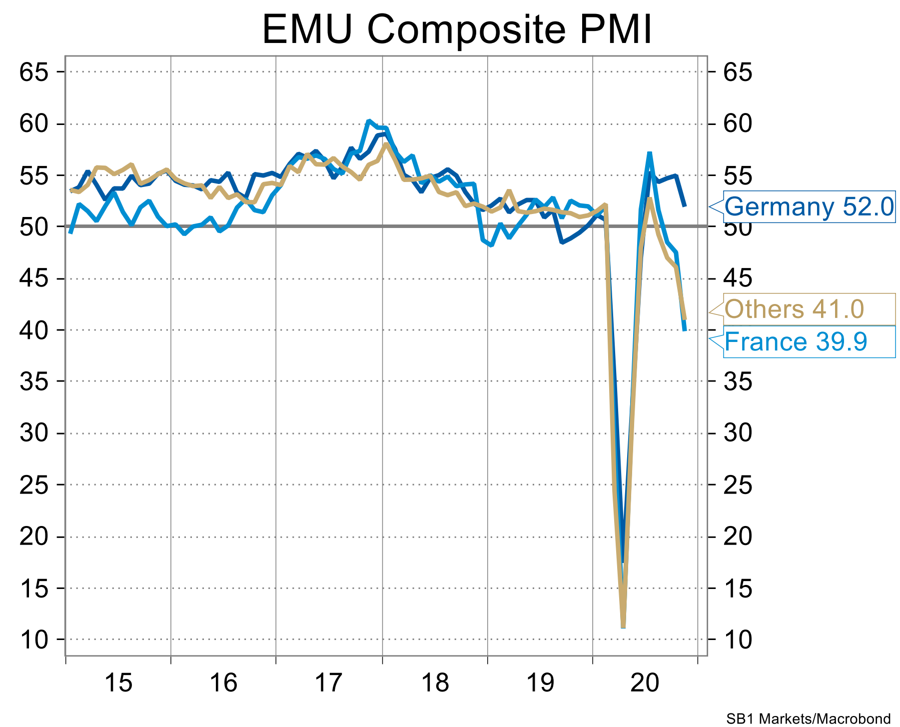
Composite PMI sharply down in Nov, but no full scale disaster (at least not yet)

The PMI signals a 2% pace pace of decline in GDP, like in 2012 or <u>0.5% per quarter</u>





- The preliminary composite PMI fell almost 5 p to 45.1 in November, 0.5 p more than expected (a remarkable precise consensus est.)
  - » The level signals a 2% pace of decline in GDP, or 0.5% per quarter, the same speed of decline as during the Euro crisis in 2012
  - » How much will GDP decline now? As the number of new corona cases is 'collapsing' in Europe, restrictions should be eased in a not too distant future, most likely during December. If so, the Q4 setback should be significantly less than the 3-4% (9 – 17% annualised) decline many are referring to now – the PMIs formally say -0.5%. A disclaimer: Should the PMI decline further, the relation to the decline in GDP is not linear, check 2008/9 and the spring this year – and the setback could become more serious if the PMIs declines by even small amounts from here
- Germany is still in pluss, but France – and the average of Italy and Spain – is at 40 – 41, signalling GDP contraction here

The EU, Ifo and INSEE surveys are reported together with the EMU PMIs in this 'PMI' section

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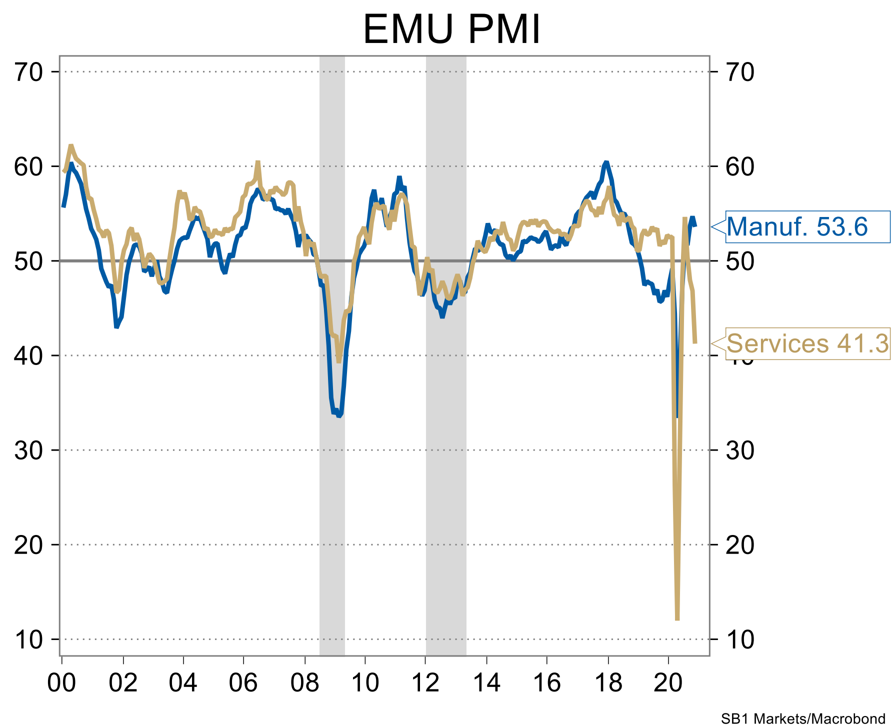
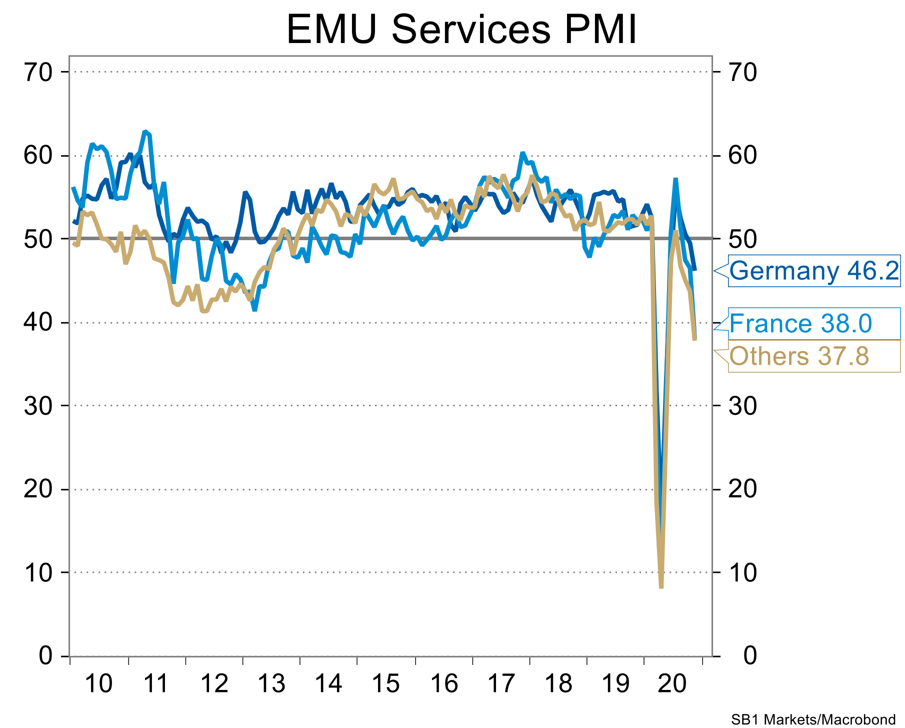
Services back in contraction mode, new corona restrictions to blame

The manufacturing recovery is gaining speed but services reported a decline in activity, again





- Services PMI fell to 47.6 from 50.5, the second month of decline. Activity is most likely hurt by the second wave of corona cases which started in the summer, and more restrictions imposed in many countries. The services decline was broad, the implicit average of other countries than Germany and France (read Italy and Spain) is having the most trouble
- The manufacturing PMI rose more than expected, to 53.7. Still, the current level does formally not imply any impressive recovery given the 6-7% gap to a pre corona production level. Total Eurozone PMI pushed up by Germany, PMI up 4.4 p to 56.6 in Sept

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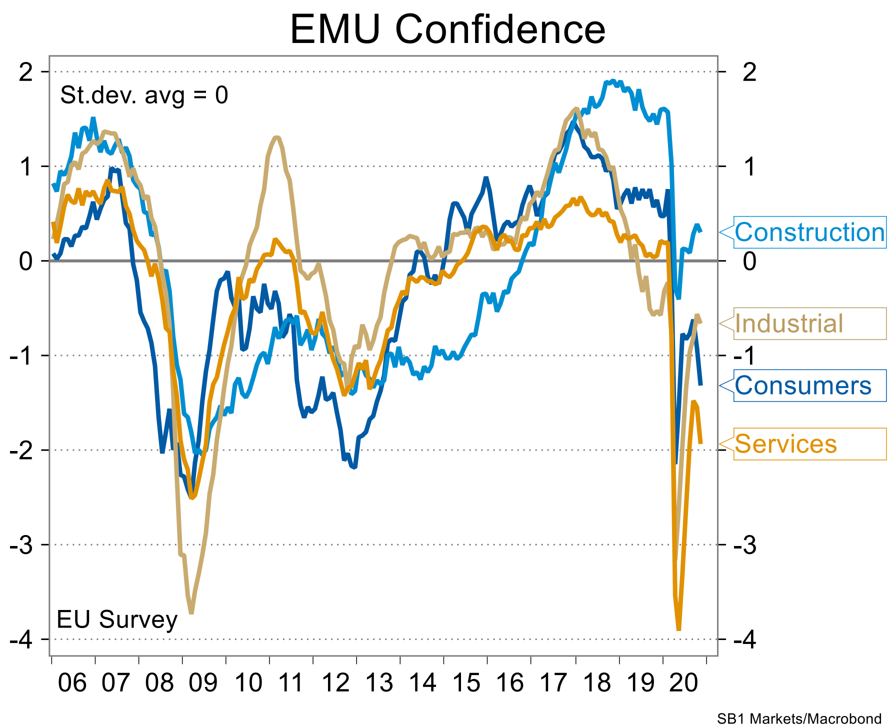
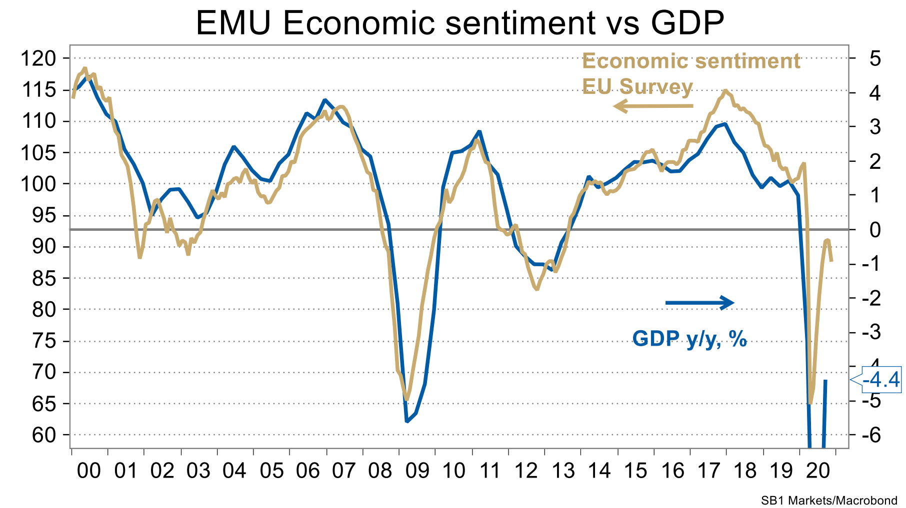
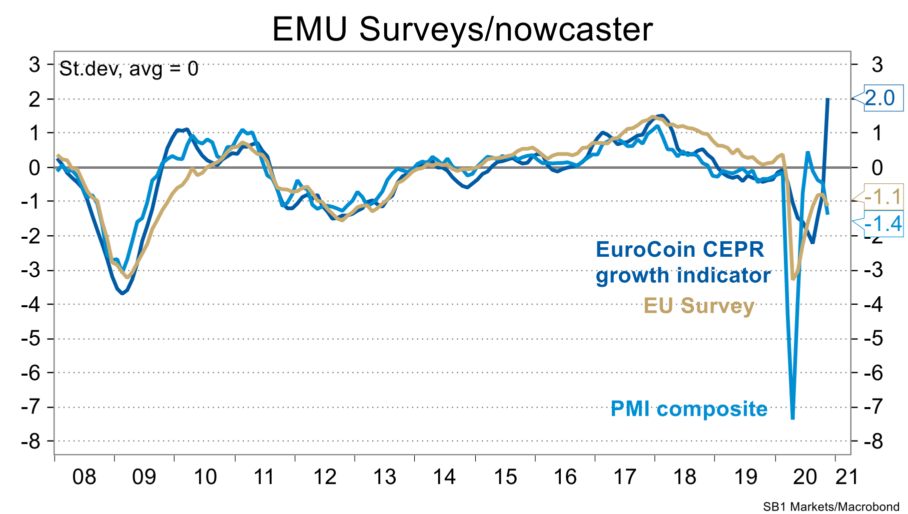
EU economic sentiment marginally down in November, a minor contraction sign.

The survey signals a 0.5 – 1% rate of contraction – or 0.1 – 0.25% per quarter, less than the PMI



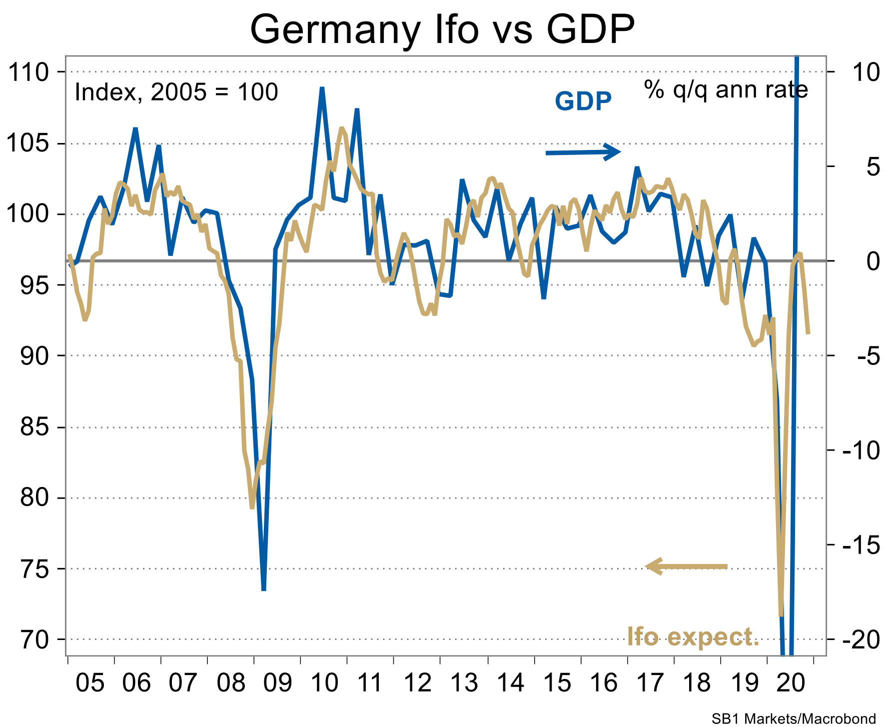




- The confidence survey fell marginally in Nov, and less than expected. The largest negative contribution came from the household survey – and from services. However, both construction and industrial sentiment fell as well
- The total sentiment is 1.1 st.dev below an average level, signalling a moderate decline in GDP – at some 0.1 – 0.25% per quarter – even less than the message the Nov PMI sent

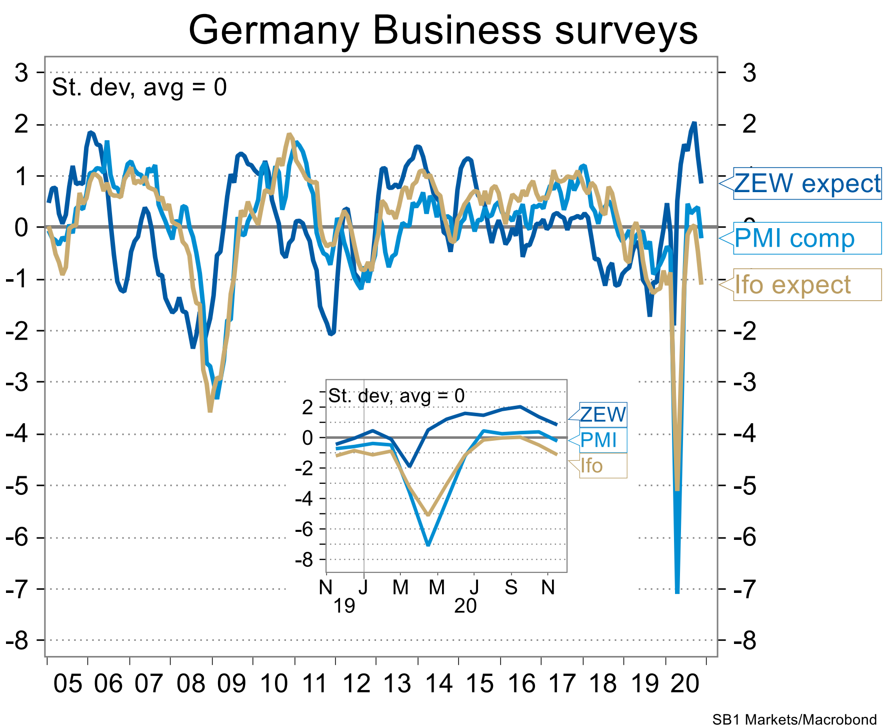
Ifo signals 1% GDP drop in Q4, a tad weaker than the PMI

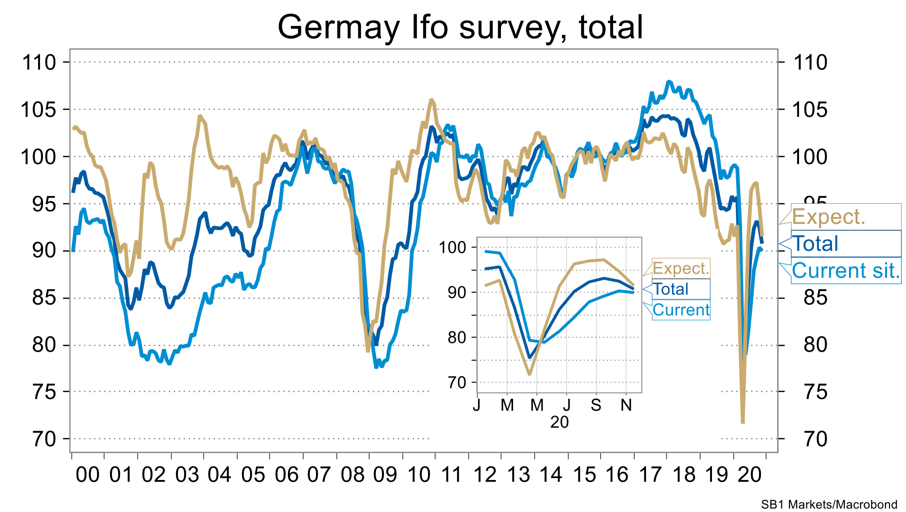
The Ifo index did not match the Q2 setback nor the Q3 recovery but should capture the Q4 drop?

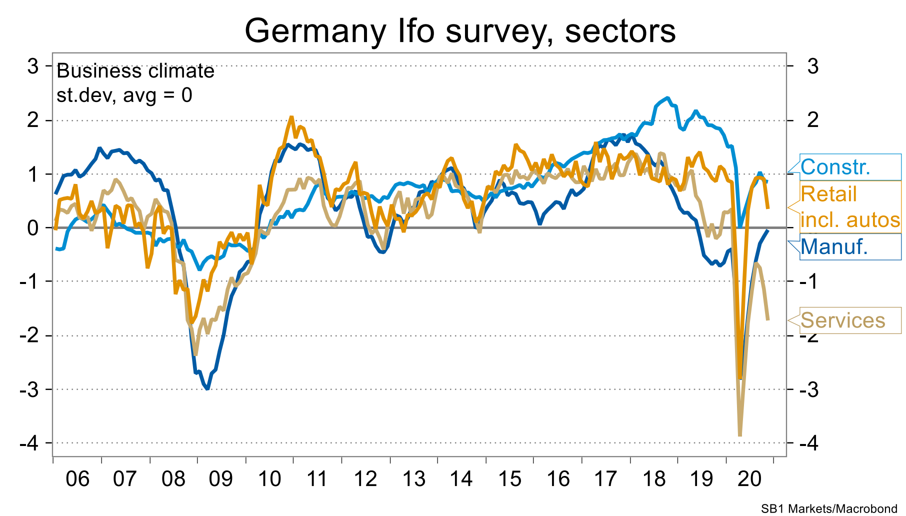


Ifo expectations further down in November, just manufacturing on the way up

Other surveys tell the same story. Ifo signals a 1% decline in Q4 GDP







- Overall **expectations** in Ifo's business survey fell 2.7 p to 95 (from an avg level down to -0.4 st.dev, not dramatic), 1.6 p weaker than expected. The assessment of the current situation rose further
- **Retail and construction** is reporting rapid growth, and both were close to unch in Oct. The **manufacturing** index rose further, and is approaching an average level. The **services** index fell visibly – no doubt due to corona challenges
- The preliminary composite PMI was unch. in October, while expectations in the ZEW survey among investors and analysts fall – but remained very strong

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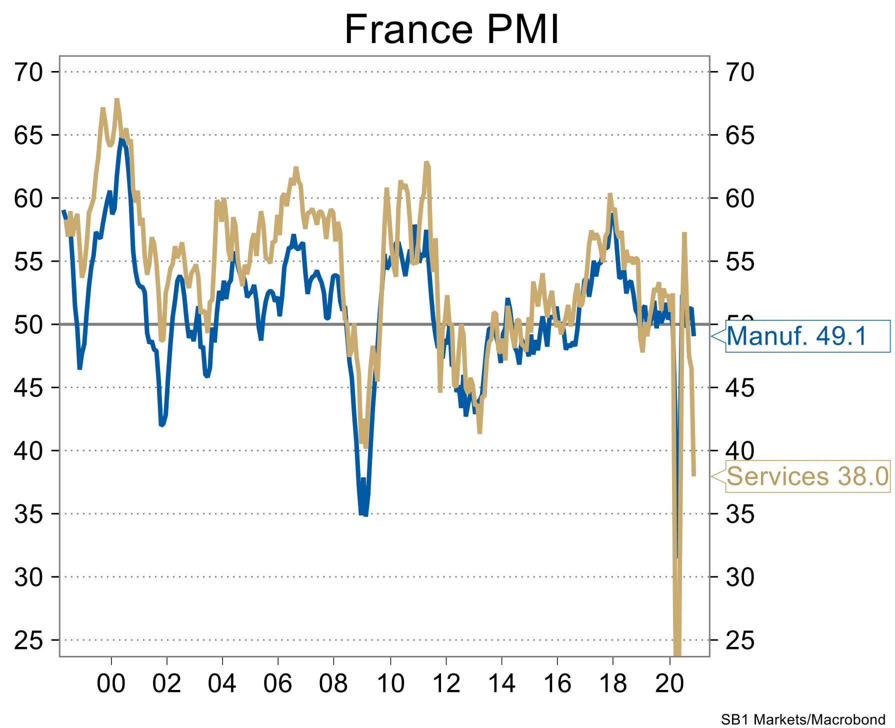
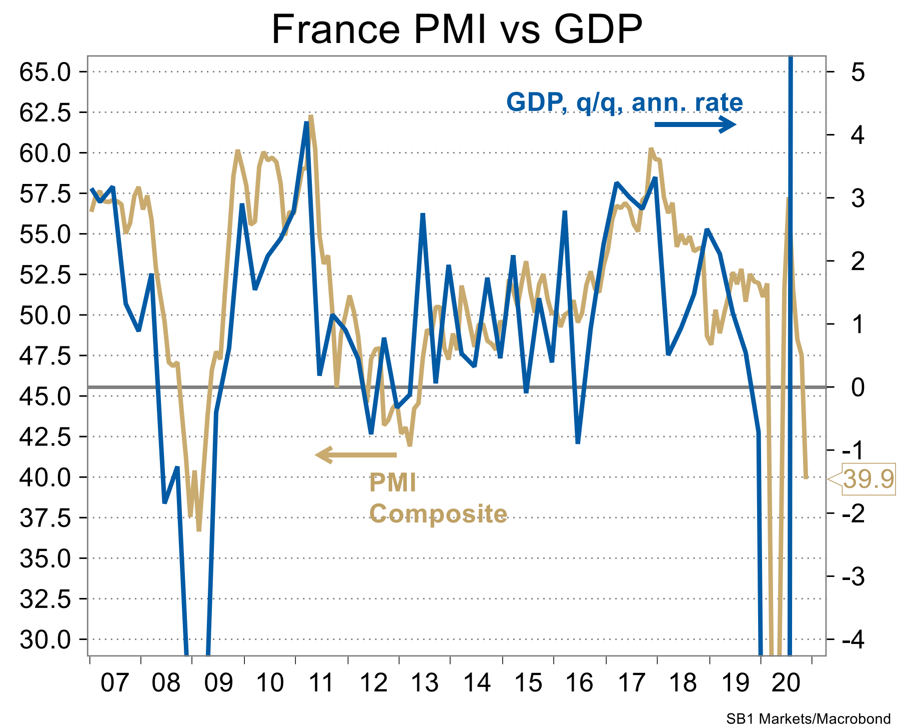
France: The November PMI signals a ‘moderate’ Q4 GDP contraction, some -1.5%

The service sector PMI dragged the composite PMI down 7.5 p to 39.9

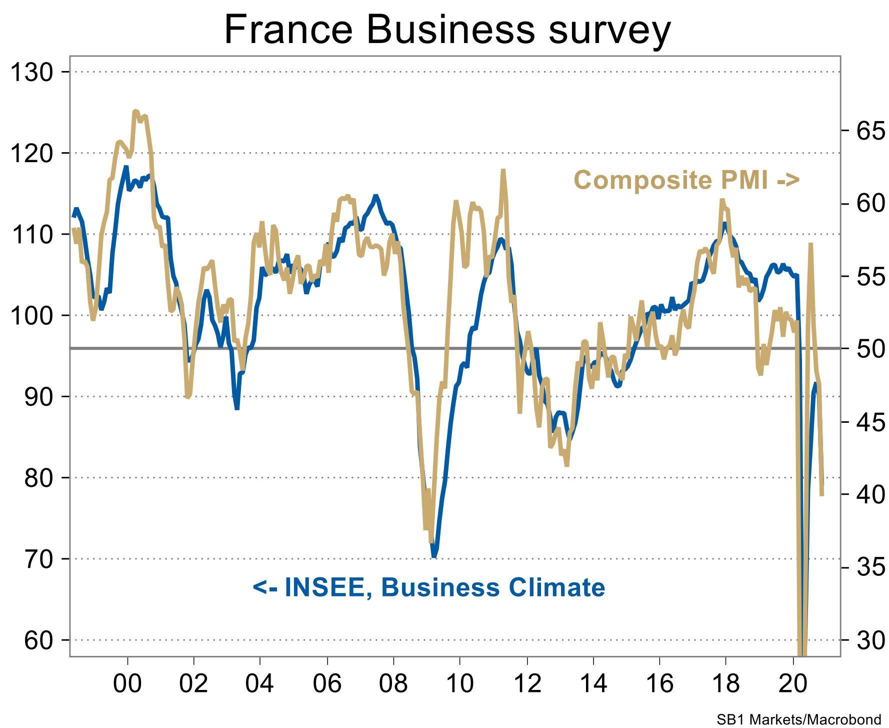


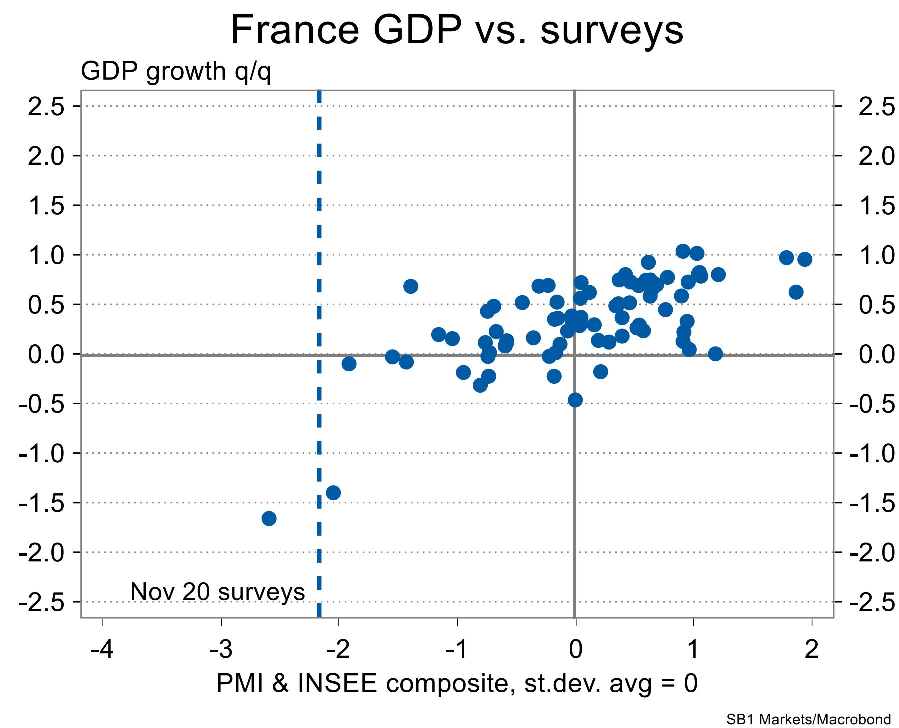


- Businesses in the service industry reported the sharpest contraction in activity on record (1998), as the PMI tumbled 23.5 p. The level at 29 is far weaker than during the financial crisis and miles below consensus’ f’cast
- Manufacturing PMI fell rapidly too, down 6.9 p from February. Still, the level at 42.9 is above both the financial crisis and the euro crisis levels
- Composite PMI at 30.2 suggests a GDP decline at some 4%

France: A x-check with the INSEE survey. Both are down in Nov, quite equally

… a 0.5 – 1.5% decline in Q4 GDP is signalled – a double dip but at a disaster either

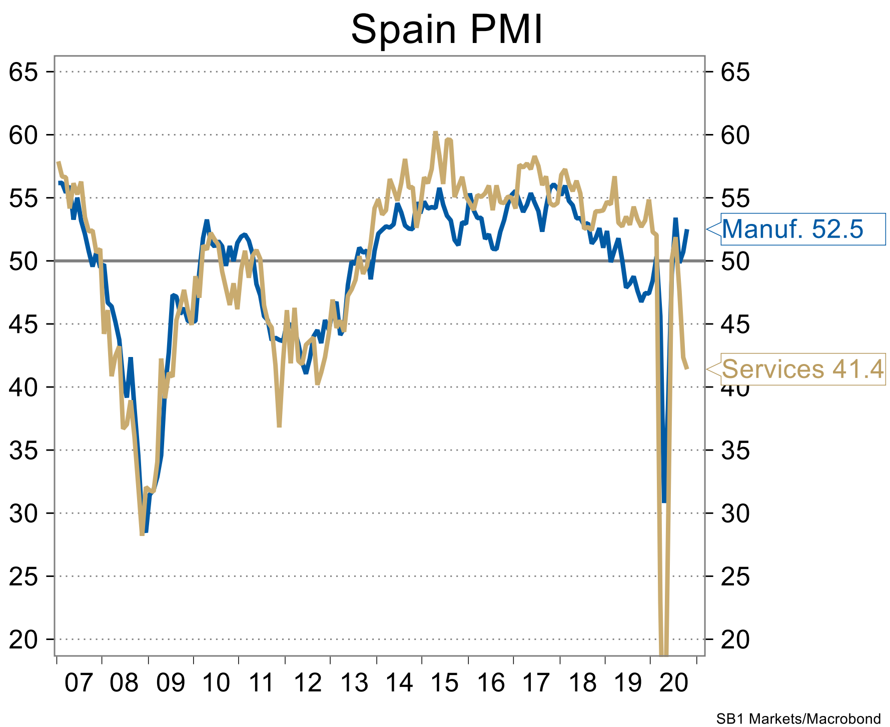


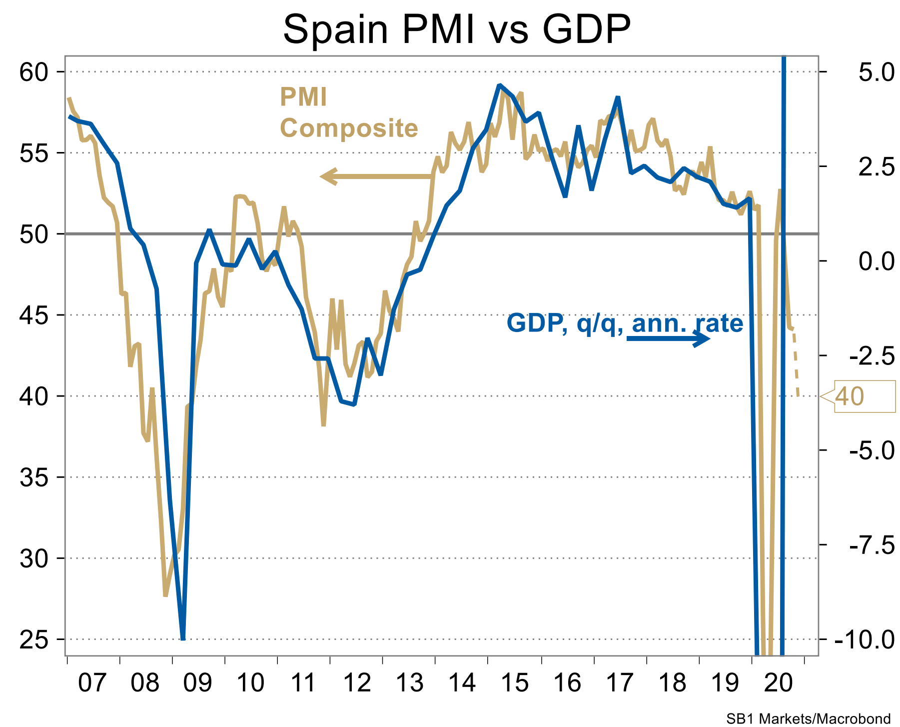


- If we compare these surveys to actual annual growth rates, a 2% decline y/y is signalled.
- That seems far too optimistic, given that Q3 was 3.7% below the Q4-19 level (actual annual growth will be far lower than -2%)

Spain – an illustration: Bad but not anything comparable to Q2

The (assumed) PMI may signal a 3% pace of decline in Q4– still less than 1% (not annualised)





- During the spring, the PMI fell to below 10, now we are probably close to 40. That sigals a 3% pace of decline in Q4, or less than 1% q/q. That's of course bad news, but not a full blown disaster even if the level in Q3 was among the weakest in world (-9% vs. Q4 last year
- We don't yet have the Spanish Nov PMIs – we have just used our guestimate:
  - We assume a 4 p decline in the Spanish PMI to 40. An average of Spain and Italy is down 5 p, but we assume that the Italian PMI fell more as Spain was several weeks ahead of Italy into – and now out oft - the 2nd corona outbreak, and because the Italian PMI was much stronger in Oct than its Spanish rival

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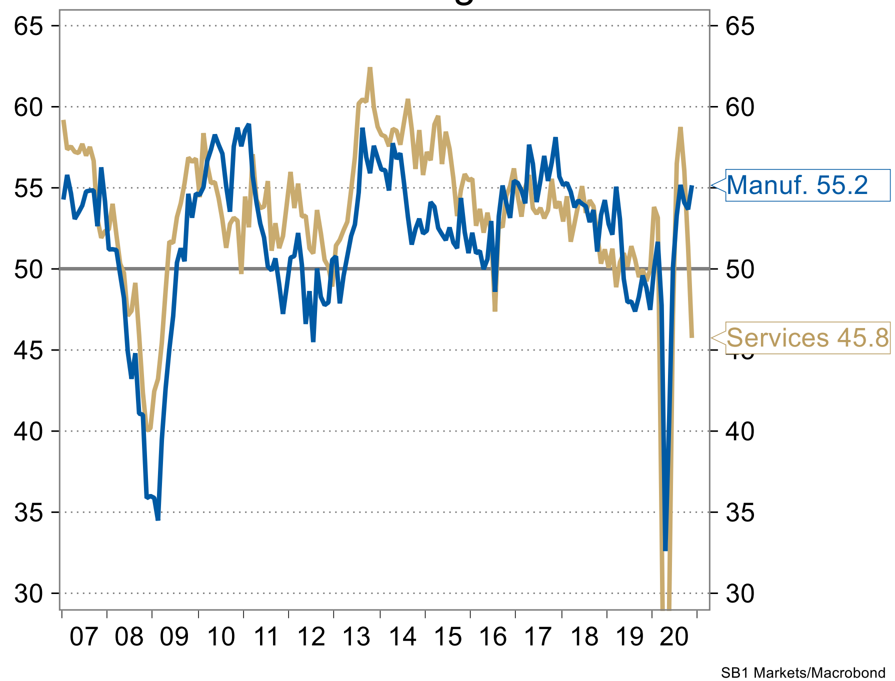
The composite PMI down to 47.4 as services are reporting a mild GDP setback

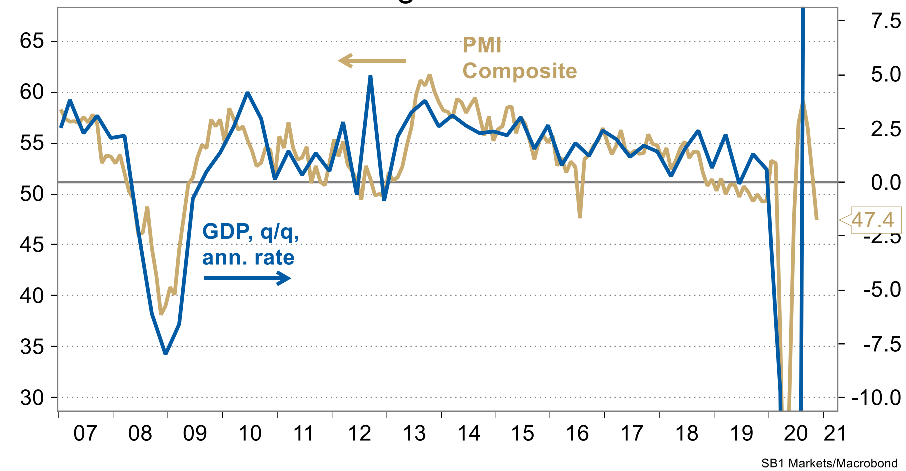
The service sector PMI down to 45.8 – manufacturing up to 55.2. A GDP decline at some 0.5%?

United Kingdom PMI

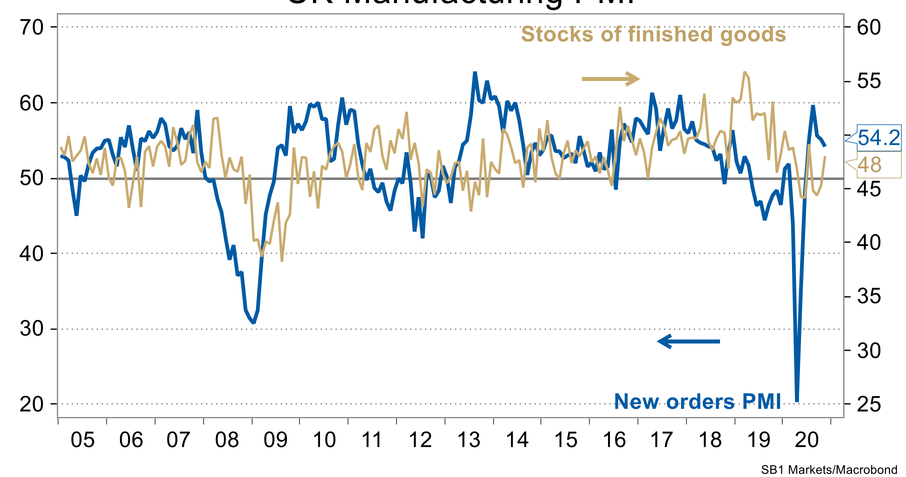


- The composite PMI signals a 1.5 – 2% GDP contraction in Q4, at an annualised pace – some 0.5% actual

United Kingdom PMI vs GDP

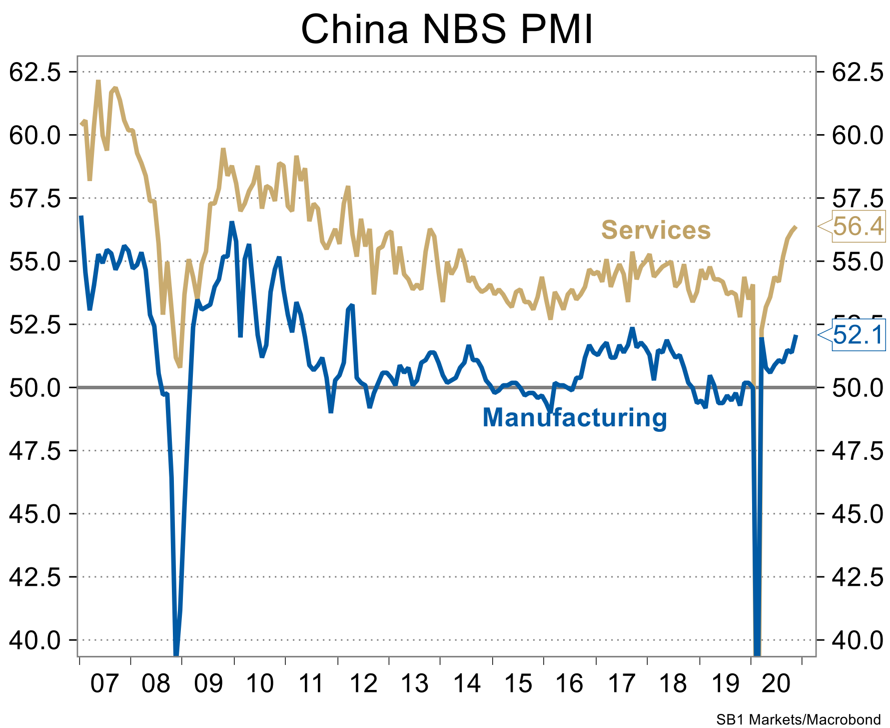


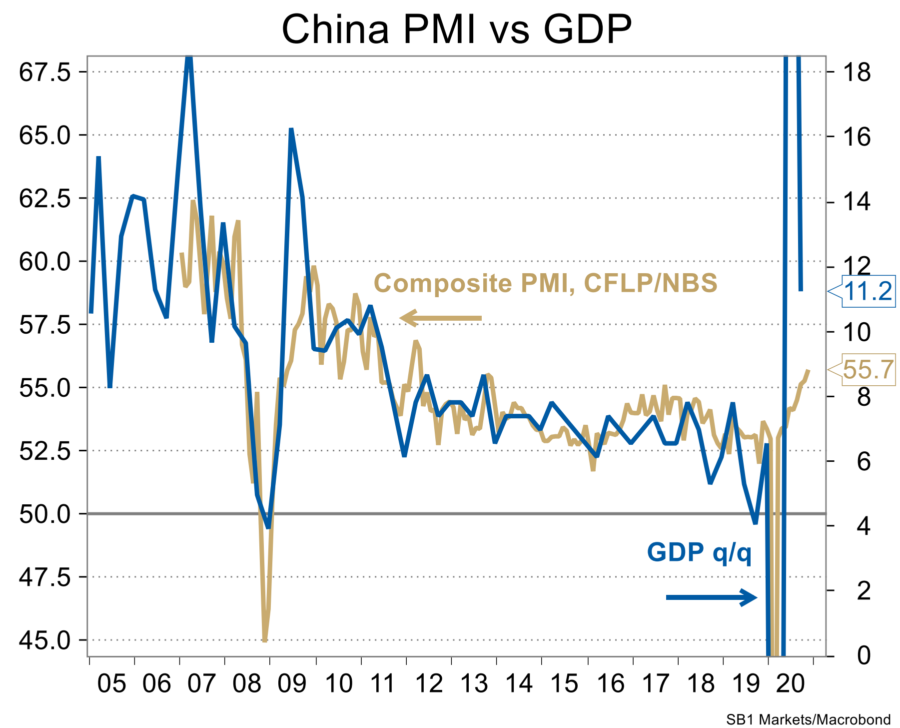
UK Manufacturing PMI



The NBS Chinese composite PMI further up in November

The manufacturing PMI up 0.7 p to 52.1, expected +0.1 p. Services +0.2 p to 56.4, exp. -0.2 p

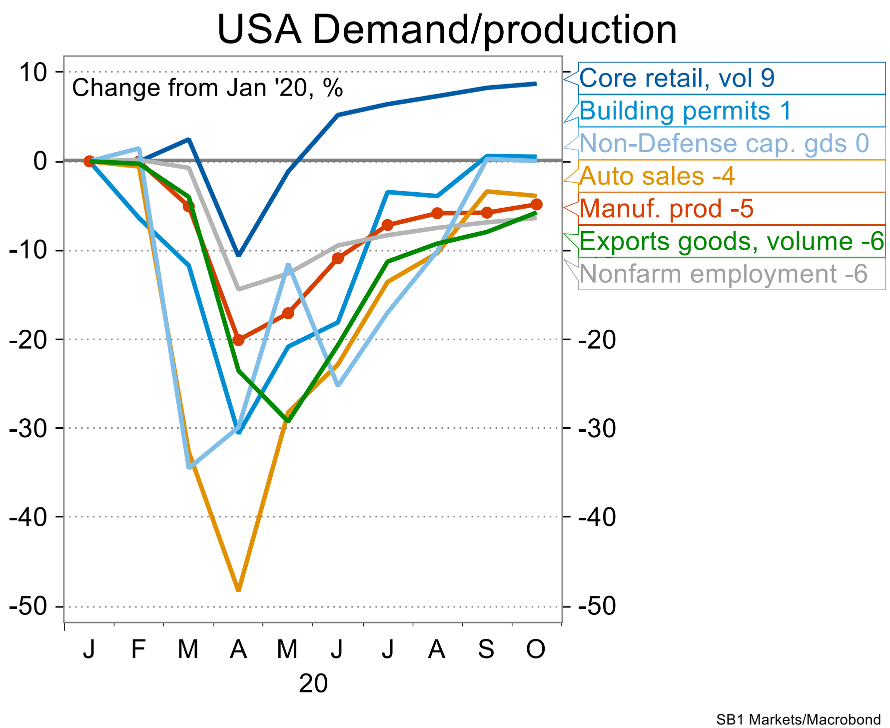




- Both indices signals growth well above trend – as do the composite index, which is at the highest level since 2012
- Activity in the manufacturing sector is <u>above</u> the pre corona trend path, and services <u>closed the gap</u> in October

The recovery continued in October but at a somewhat slower pace

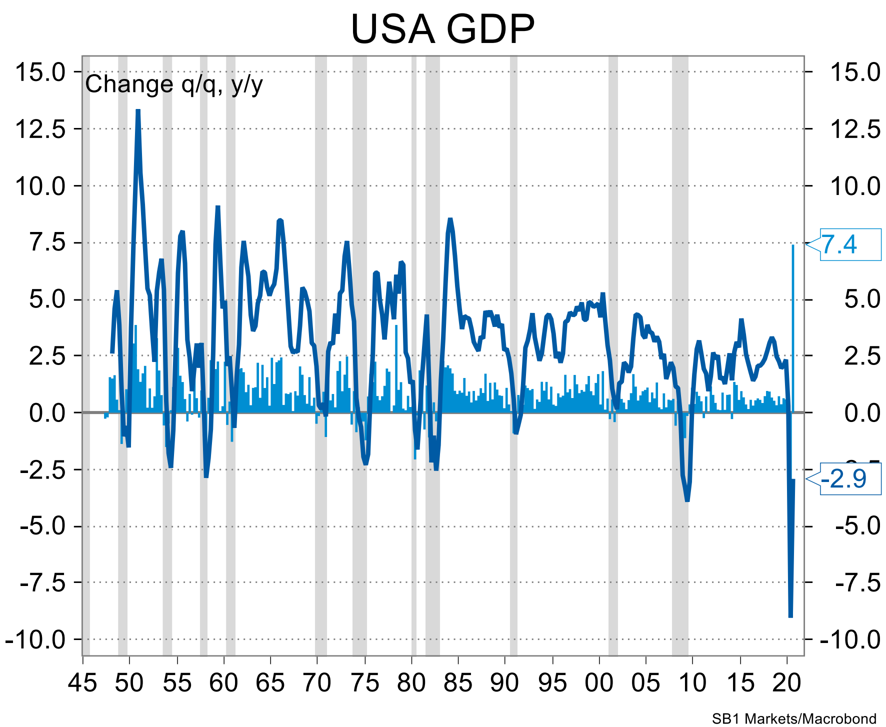
Growth is slowing into Q4, as the re-opening has stalled (and is reversed some places)

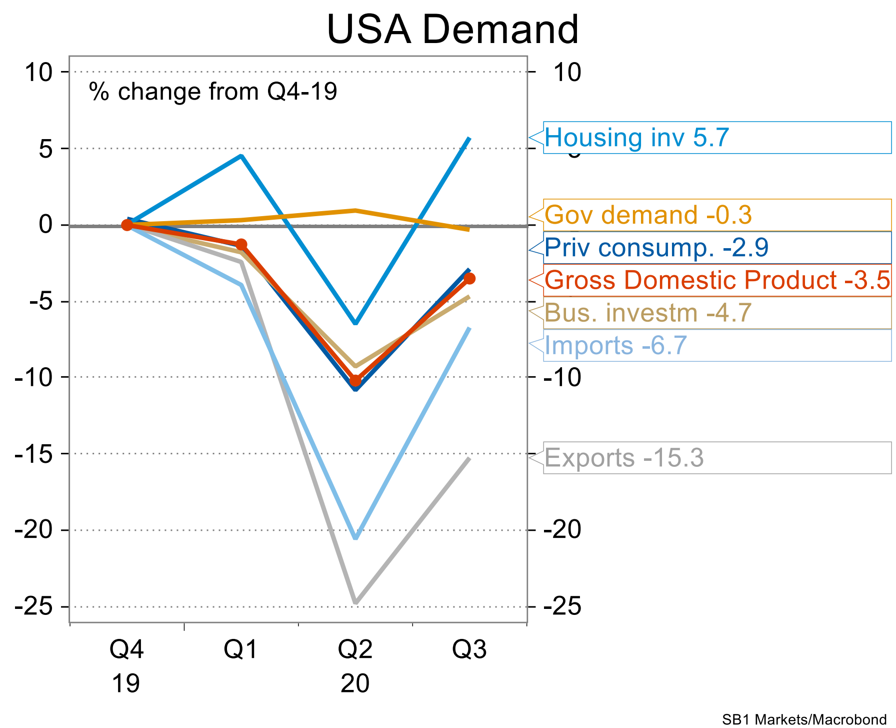


- Still, almost all indicators pointed upwards in October – and surveys signal further growth in November

Just minor revisions to Q3 GDP, GDP up 33.1% (7.4% not annualised)

All demand components up, consumption & business investments contributed the most





- No change in the headline GDP growth rate q/q or y/y. GDP is down 2.9% y/y, and by 3.5% down from Q4
  - Small changes in demand components: IP investments substantially stronger, imports were higher
- Housing investments are up from Q4, other components are down – exports were still down 15.3% in Q3 (but is on the way up)
- The revisions since the first estimate have been remarkable small, given the turmoil in the economy in Q2 and Q3
  - The Q3 growth rate was the highest ever, following the largest decline ever in Q2, of course

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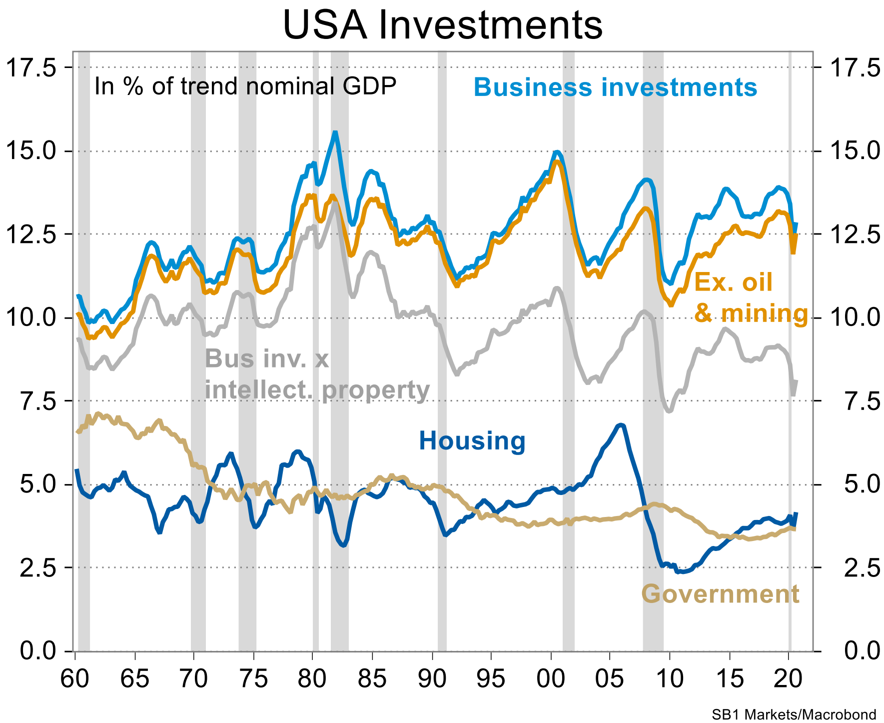
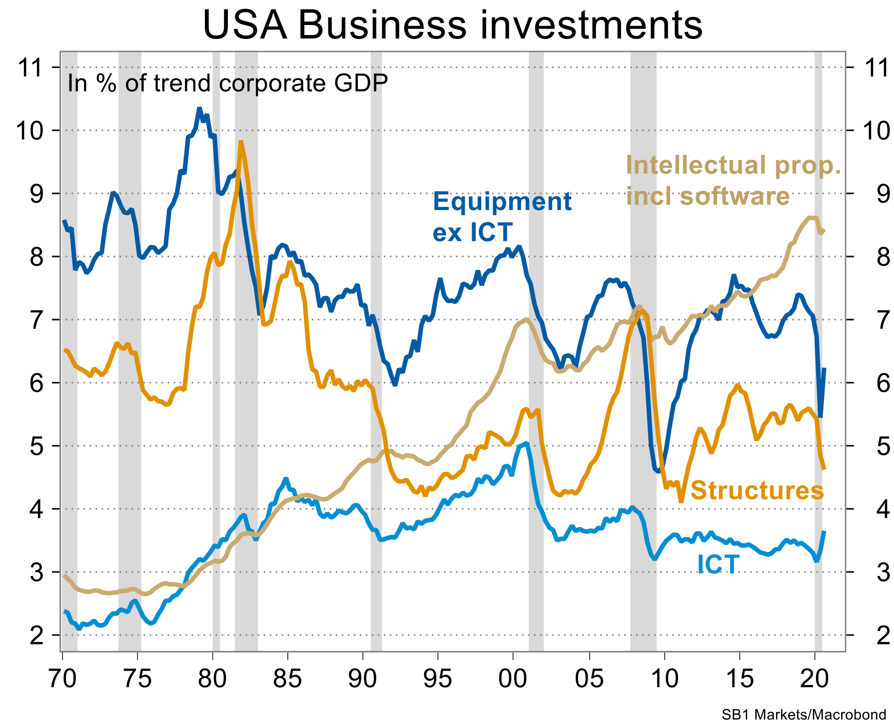
Investment cycles: Business investments peaked in Q2 2019, still not low

Investments rose 5% (not annualised) in Q3, ITC equipment really strong (not surprising)

Investments are measured in % of trend nominal GDP, in order to illustrate the size of changes in investment activity

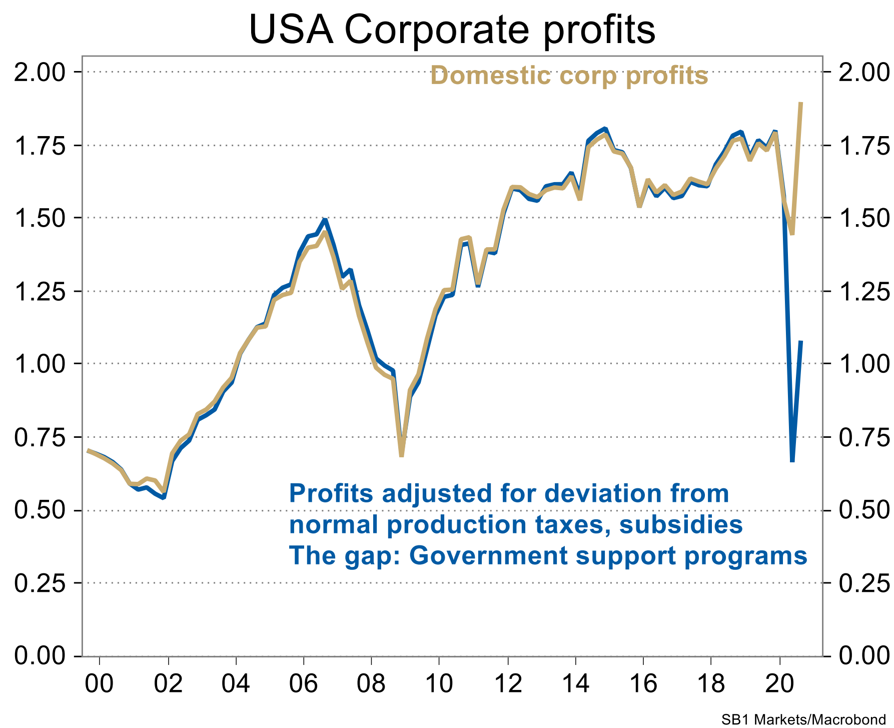


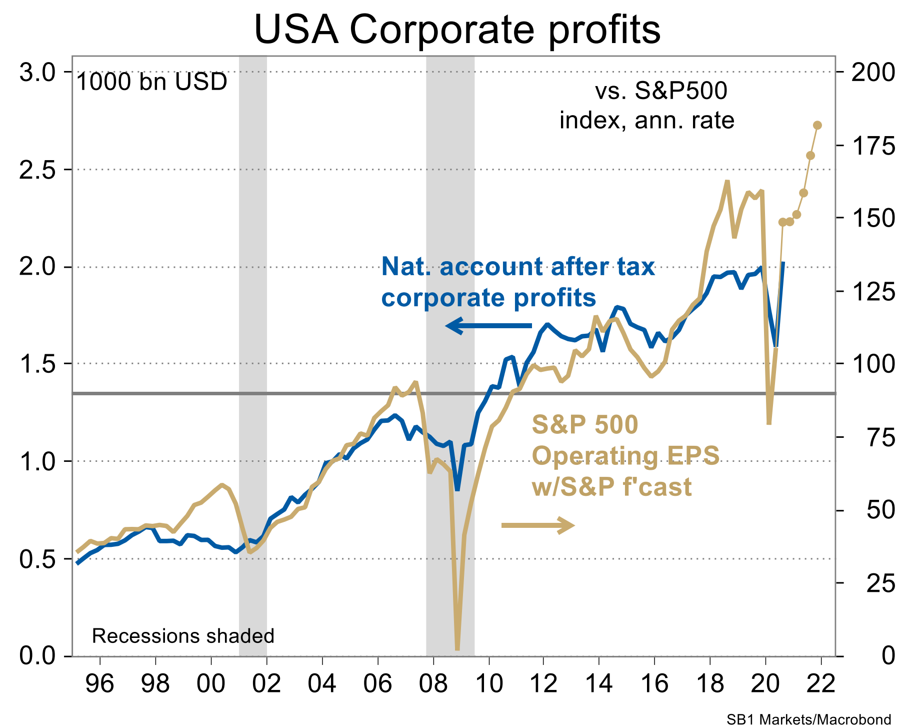


- Business investments are down 4.7% from before corona, a far smaller decline than during/after normal recessions. We doubt the corona induced lift in ICT investments is permanent, the level is now rather high, due to home offices etc. However, equipment ex ITC is most likely below a normal level, and more than ICT is above trend. IP/software investments fell in Q2 and rose somewhat in Q3The trend is impressive, check the graph to the right
- Housing investments rose in Q3, and we have more to go in Q4. We think housing investments now are above a long term, declining level vs GDP
- Government investment as share of GDP has been increasing the past year but the level is still low – probably too low

Corporate profits sharply up in Q3, to a record high level! Thank you, Uncle Sam

Government covered corporate bills equalling 4% of GDP, or 40% of (normal) profits!

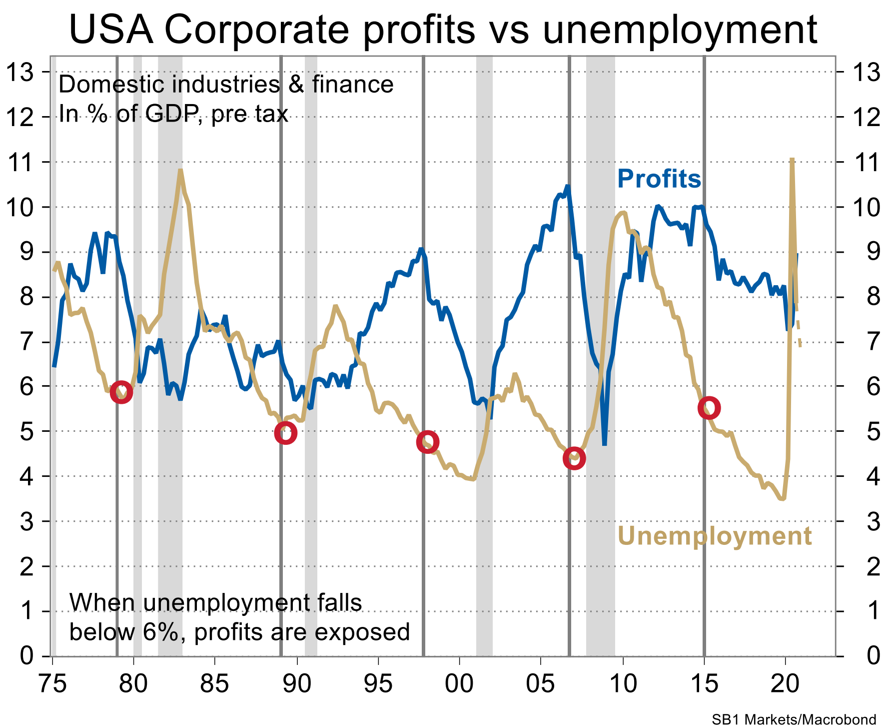


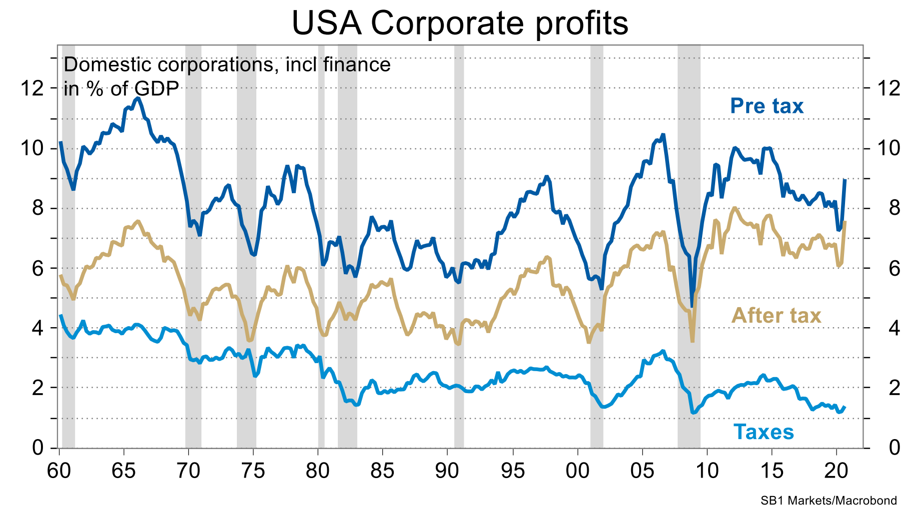


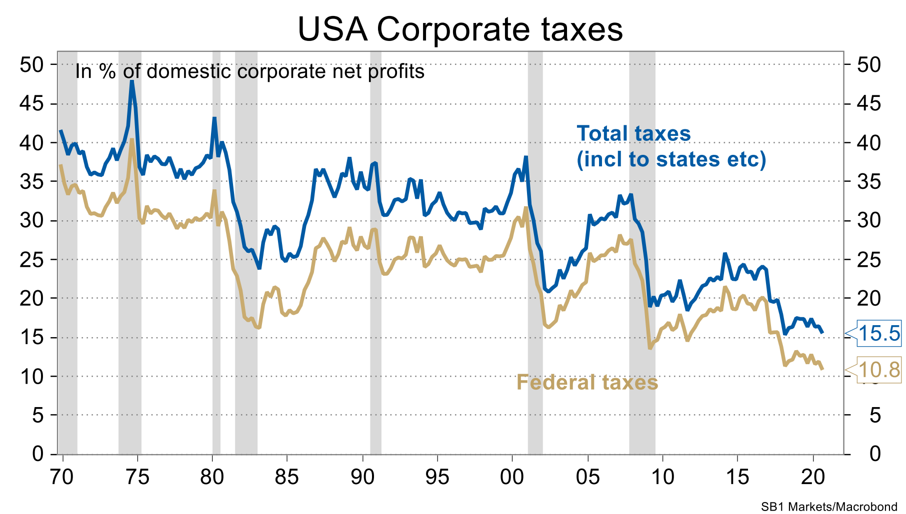
- The Government Paycheck Protection Program was the main contributor but a lot of other subsides also lifted profits sharply
  - » Total domestic profits rose to USD 1.9 trl (annual rate)– to the highest ever, from 1.4 trl in Q2 (we expected somewhat more but total revenues were lower than we estimated, and wage costs higher than previously reported)
  - » Excluding the deviation from normal 'production taxes and subsidies' profits rose to 1.1 trl from 0.66 trl – still 40% below the 'normal' profit level at 1.8 trl!
  - » Most of the PPP support has been directed towards small companies, other programs have also supported larger corporations
- Companies cannot apply for new PPP loans (ended Oct 12), but loans already given can be written down over the coming 2 – 5 years, given specific conditions. Most likely, most of the loans are already forgiven (which supported corporate profits big time in Q2 and Q3). A new small business support program may be include in an eventual new stimulus bill. Still, most likely, most of the profits must from now on be generated the 'normal' way

Profits were under pressure ahead of corona – as usual when unemploym. falls

.. And now profits will be under pressure until the economy recovers from corona?





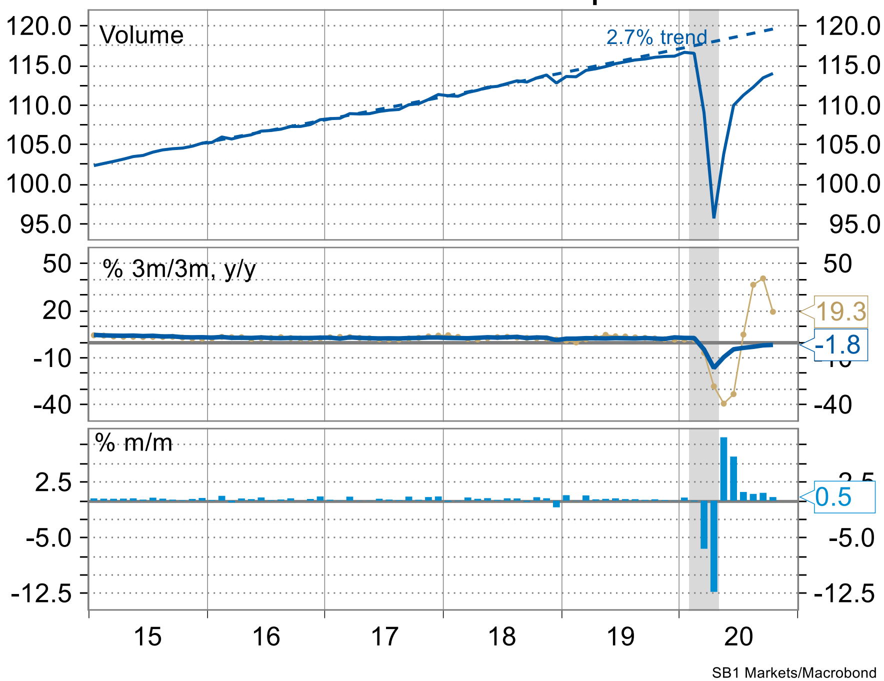


- If Democrats do not win the two Senate seats in Georgia Jan 5, the Republicans will remain in power in the Senate. If so, a partial reversal of 'Trump's' tax cuts seems unlikely. The effective tax rate has fallen since 2000, and the last decline was to the cut in the corporate tax rate in 2018

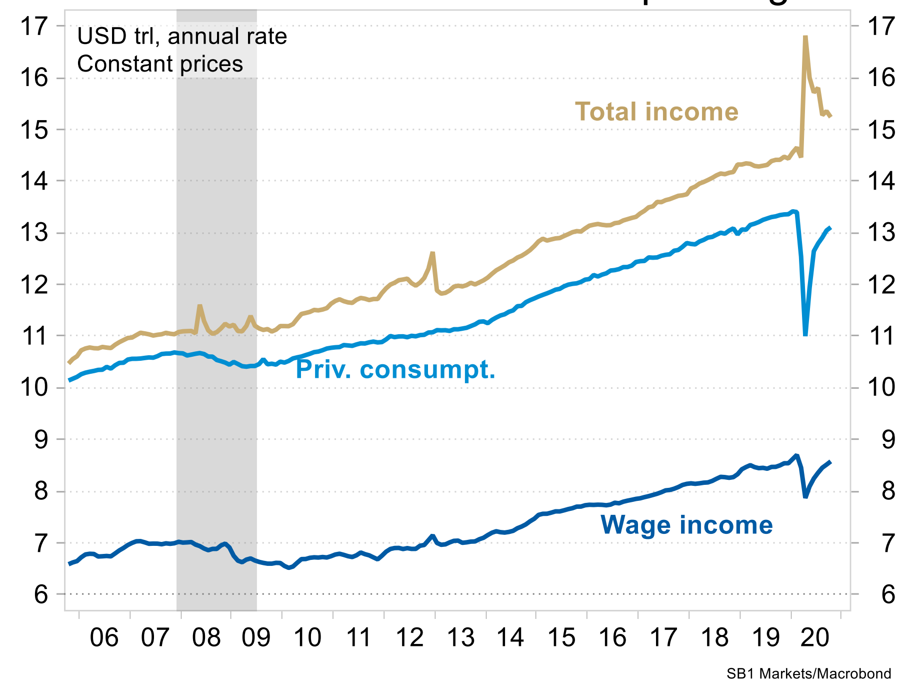
Consumption up 0.5% in Oct. Transfers cut, still very high total household income

Personal income fell by 0.8% - but is still up 4% from Feb! The savings rate at 14% from 7% in Feb!

USA Private consumption

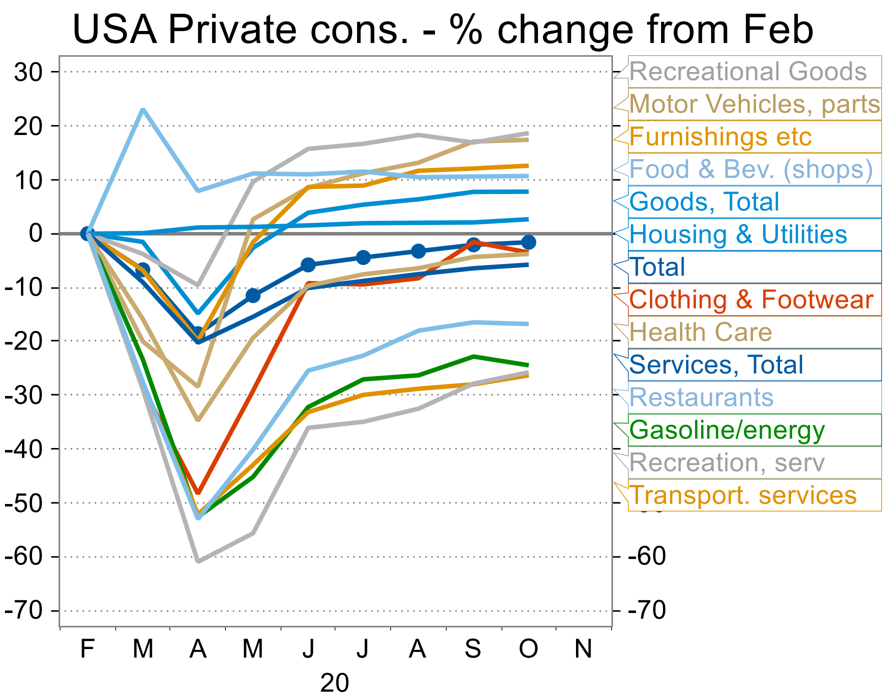


USA Household income & spending

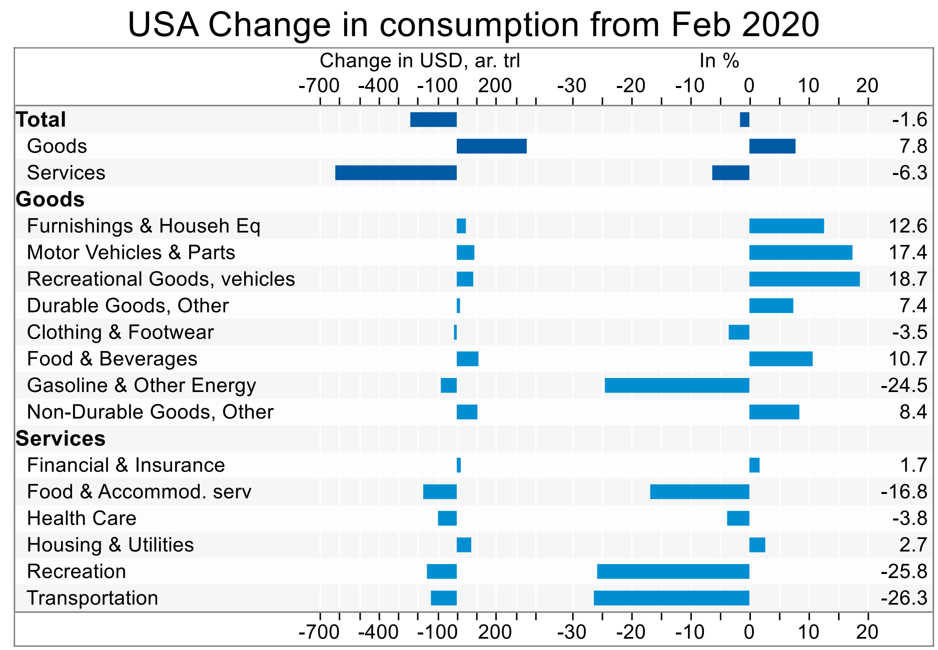


- Private consumption is still on the way up, but growth is slowing; +0.5% in volume terms in Oct, 0.3 pp more than expected. Consumption is now just 1.6% below the pre corona level – but 4% below the pre corona trend. The pickup in consumption is uneven, most services are still lagging, while goods are strong
- Personal income fell by 0.5%, 0.4 pp more than expected. Even so, the level 4% higher vs. the pre corona level – as government transfers still are more than market income has fallen! (Details 2 page fwd)

The recovery in services have almost stalled, at a very low level



SB1 Markets/Macrobond

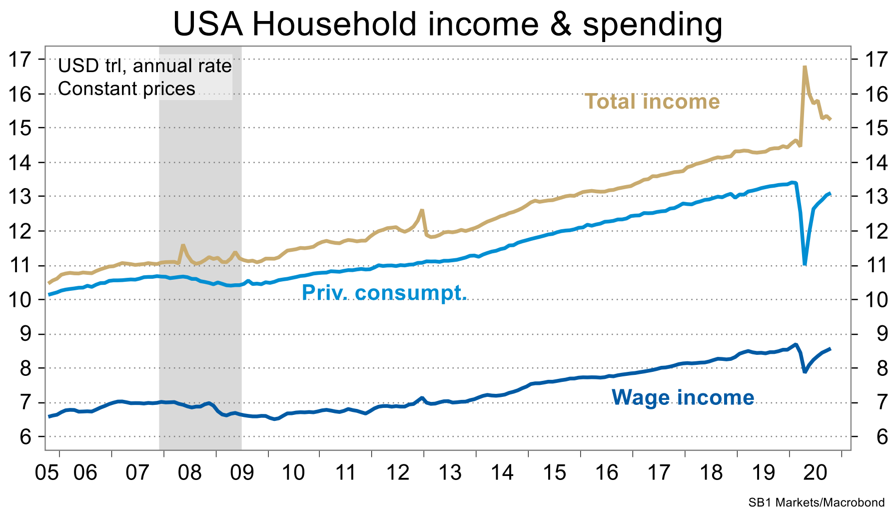


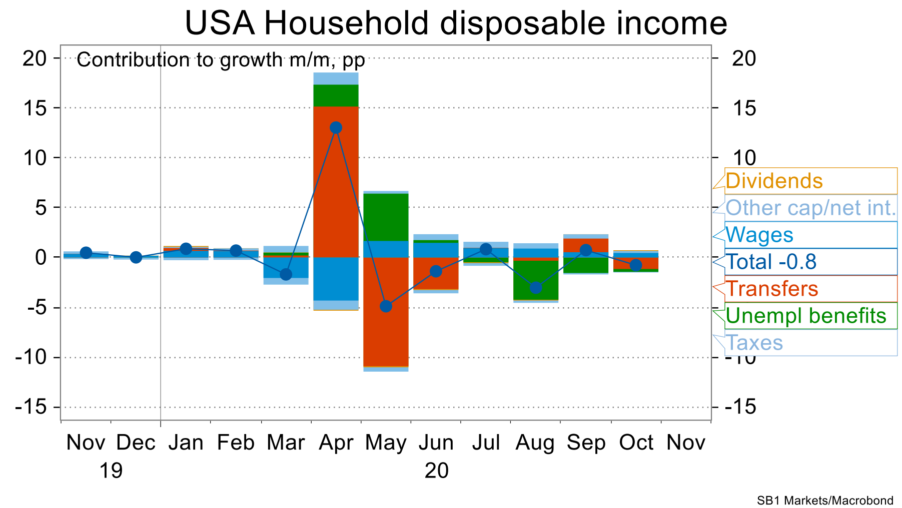
SB1 Markets/Macrobond

- Consumption of goods is 7.8% <u>above</u> the Feb level, driven by food & beverages (at home), autos (2nd hand), recreational vehicles (!), while gasoline is sharply down – all in value terms
- Consumption of services is down 6.3% due to a 15 – 24% shortfall in restaurants/hotels, recreational services, transport – of course dramatic for these industries (and their employees)

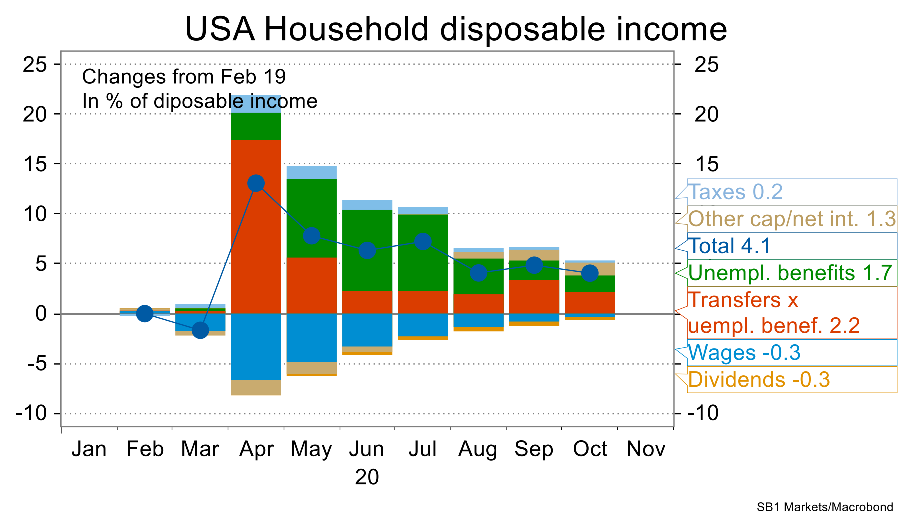
Income down from the spring peak, but still way above a normal level

Households have – in average – been heavily overcompensated for the loss of market based income

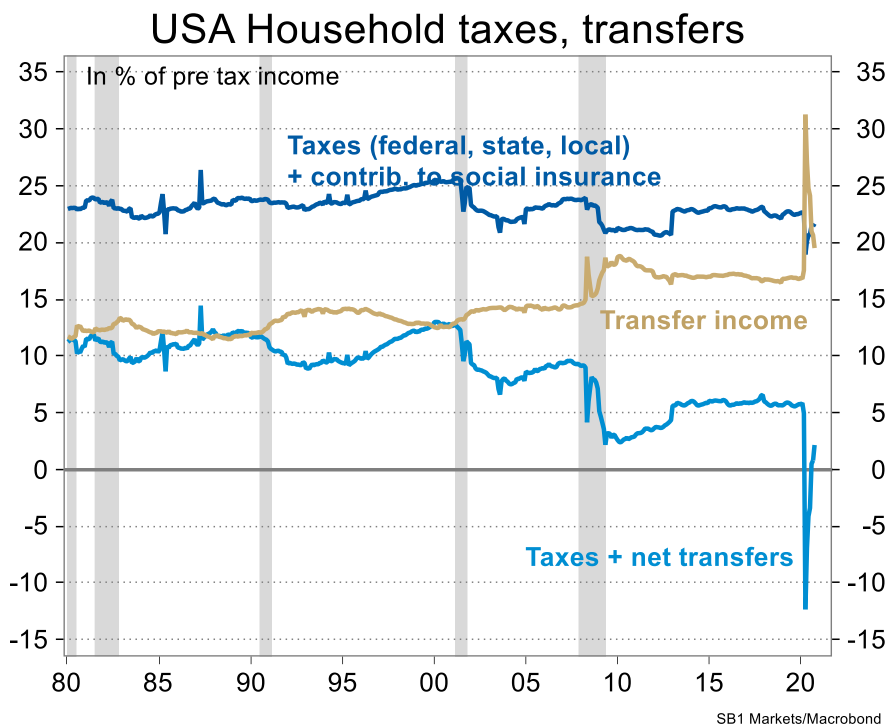


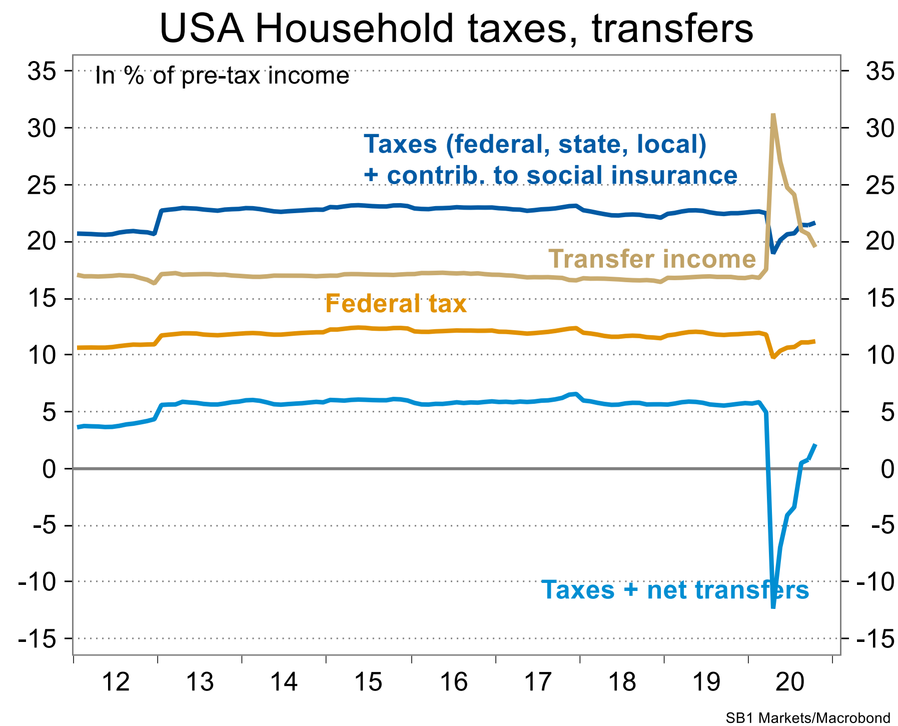


- Household income fell by 0.8% m/m in Oct, due lower government transfers, both unemployment benefits and other transfers
- Since before corona: Households have – in aggregate – been overcompensated, big time by government support
- Overall household income is still up 4% from February 2020
  - » Wage income is down by just 0.3%, measure as % of disposable income, a small amount compared to the decline in employment
  - » Unemployment benefits are up equalling 1.7% of disp income
  - » Other transfers are up equalling 2.2% of disp income. At the peak in April, transfers equalled 17% of the Feb-20 monthly income!
  - » Government transfers have in sum been much larger than the decline in wages and other market based income
- Unemployment benefits were reduced in August and after Christmas many unemployed will lose their benefits, the payment period is not prolonged



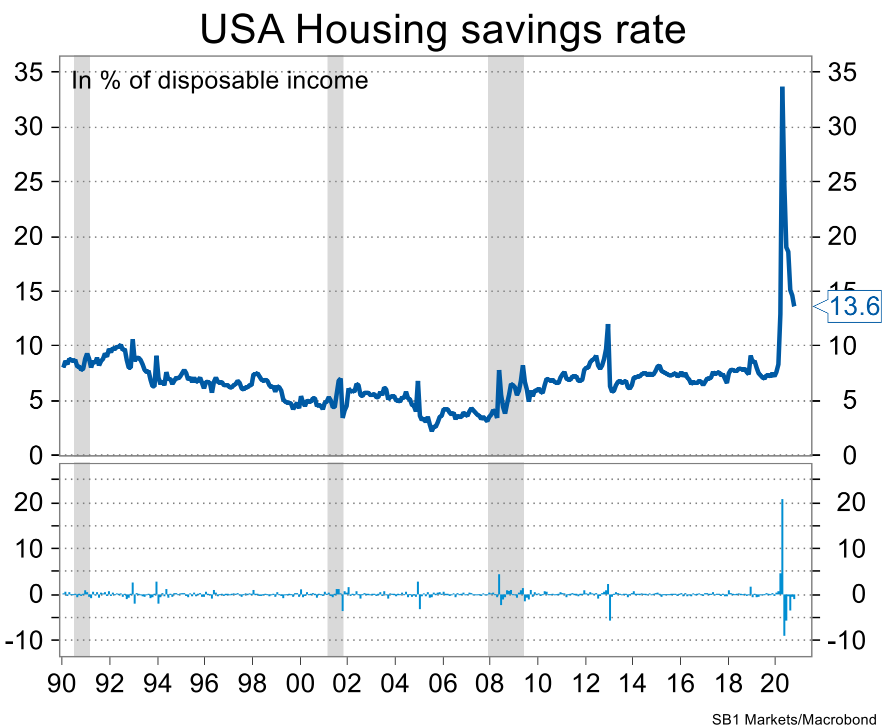
Transfers down after a steep rise, taxes slightly up

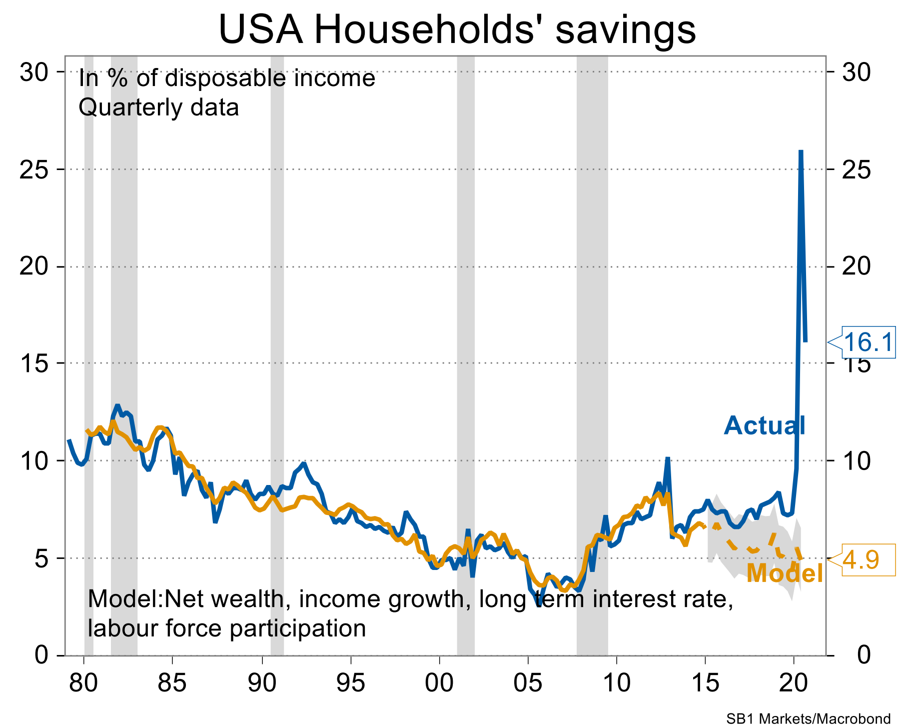




Households savings still at 14%, 'transfers are saved'

Spending down due to lack of spending opportunities (recreation etc), income up due to gov. support

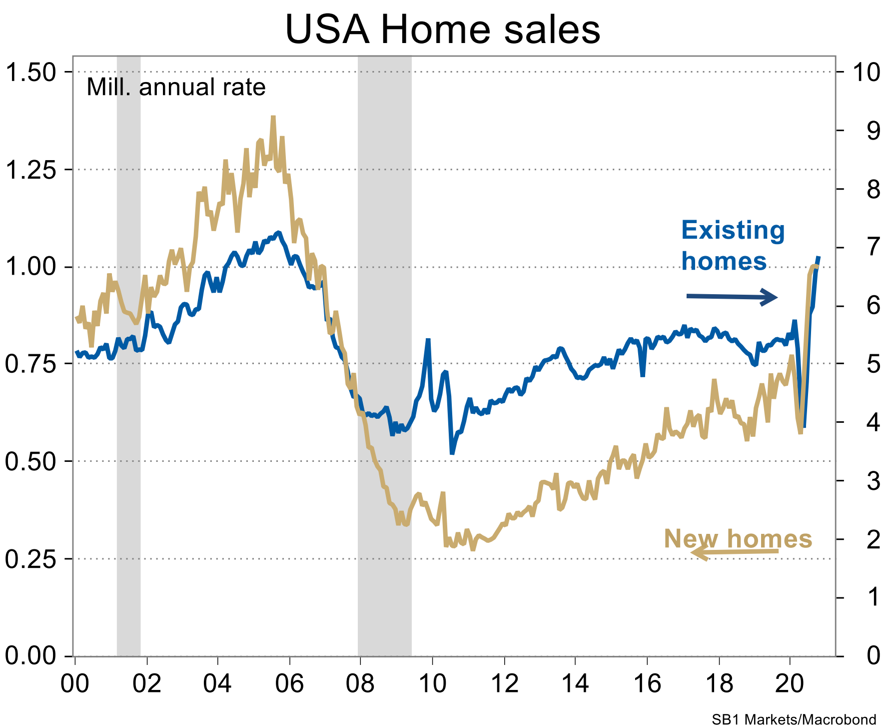


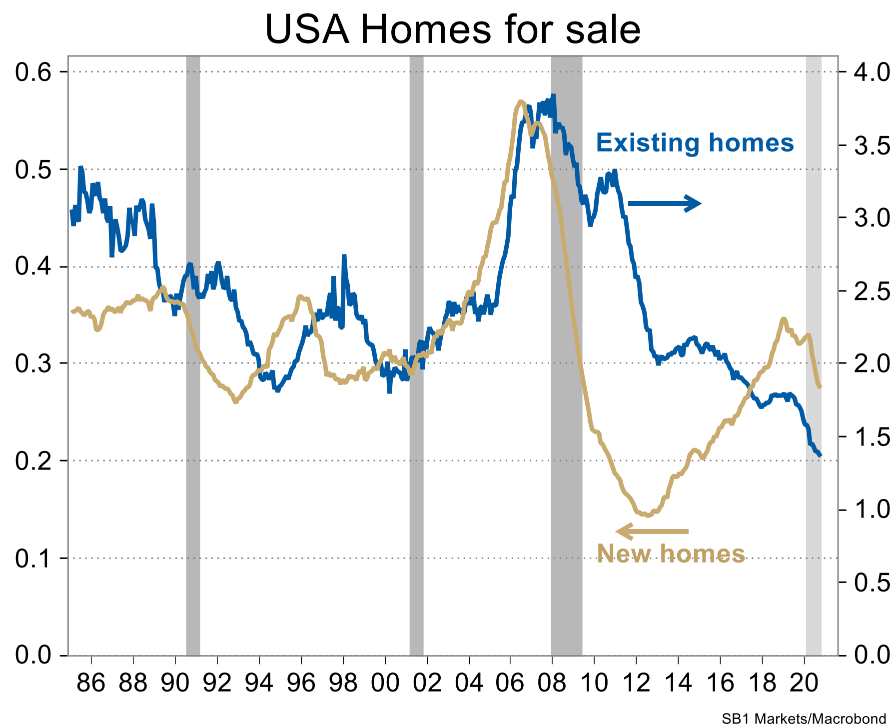


- The savings rate equaled 15.8% in Q3 in average
- The income support increases the probability for a full recovery in spending (or even an overshooting) as soon as the services side of the economy one day fully opens up. Regrettably, it won't happen anytime soon

New home sales better than expected in October, best since 2006

Housing demand is extremely strong – and prices are soaring

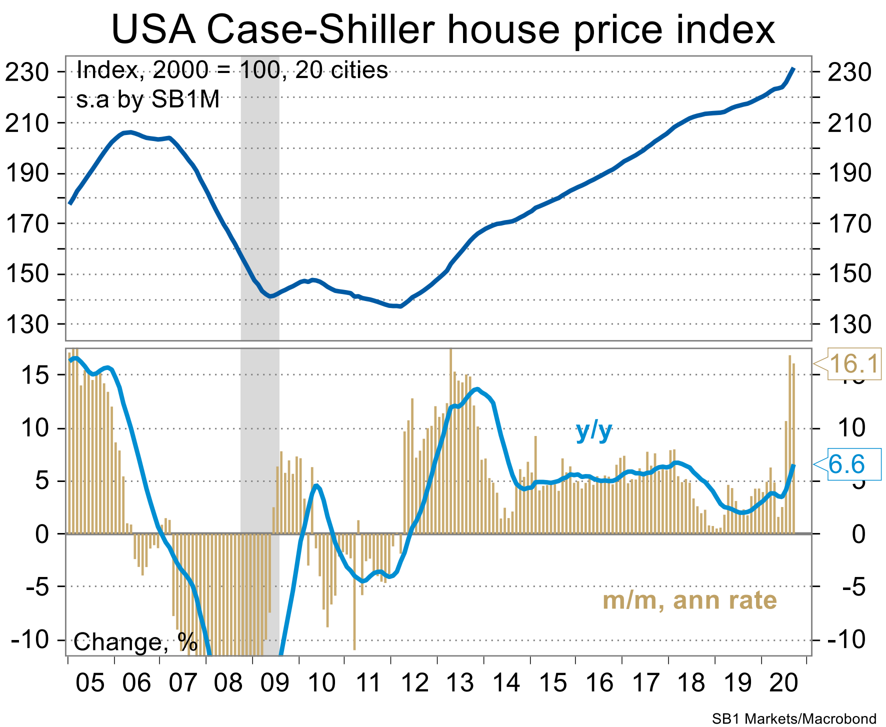


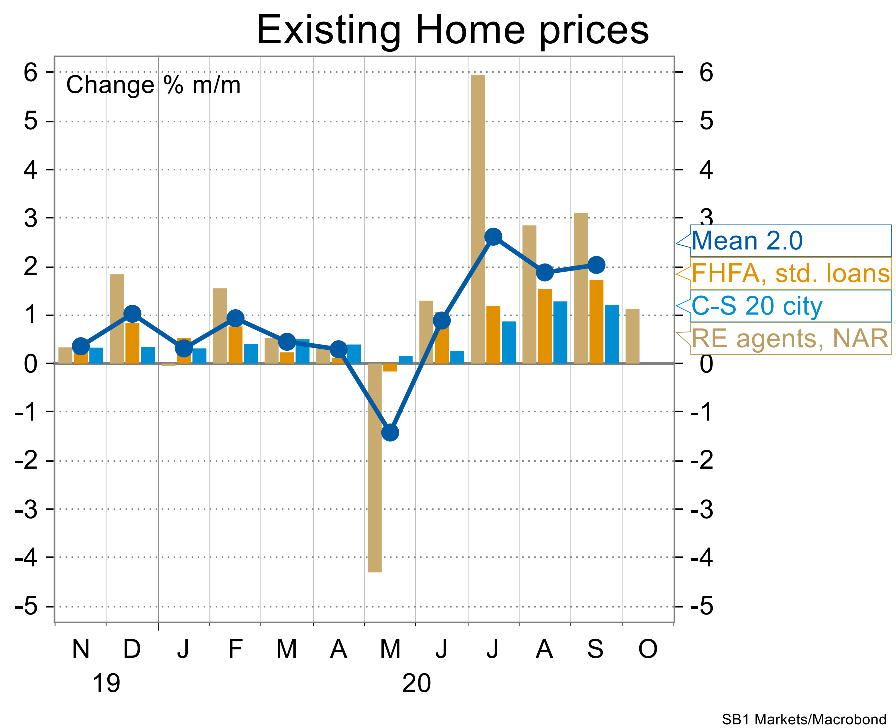


- New home sales was expected up to 973' in Oct from 959' in Sept. The outcome: Down to 990, from upward revised 1,002' . The lift in both new and existing home sales is impressive, levels are far above pre corona levels!
- The number of **new unsold homes** is falling rapidly and the level is low, especially vs. new home sales
- 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
- During the buildup of the housing bubble up to early 2006, both new and existing home inventories rose sharply, in fact all the way from 2001 – and sharply from 2004/2005. **We are clearly not there now, even if prices are skyrocketing!**

Now it's 'official': Shiller joins, house prices are soaring!

C-S prices rose 16% m/m (a.r) in Sept, and Aug rev up to 17%, from 12. All indices sharply up

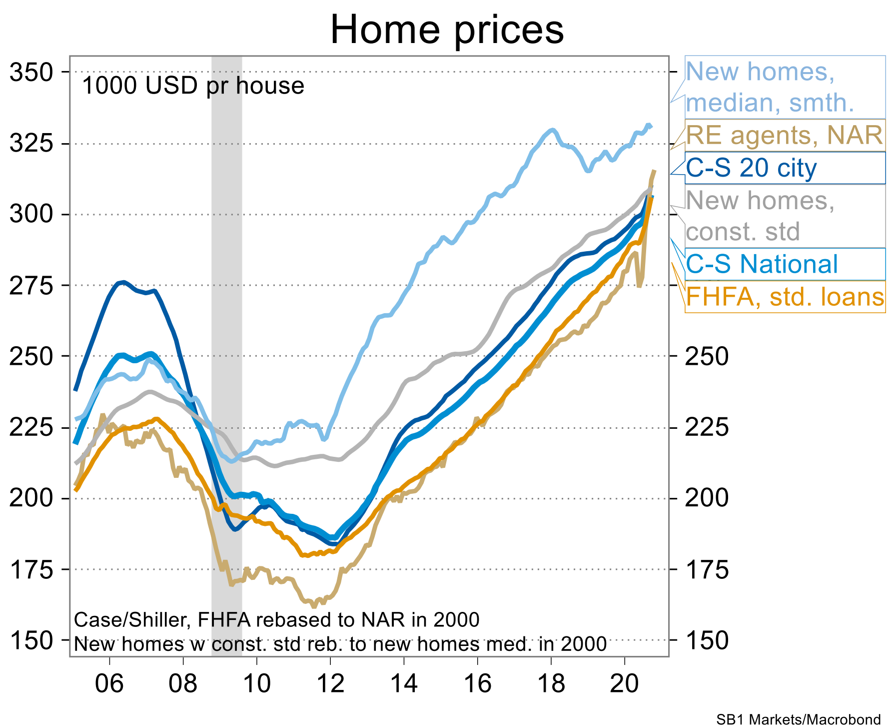


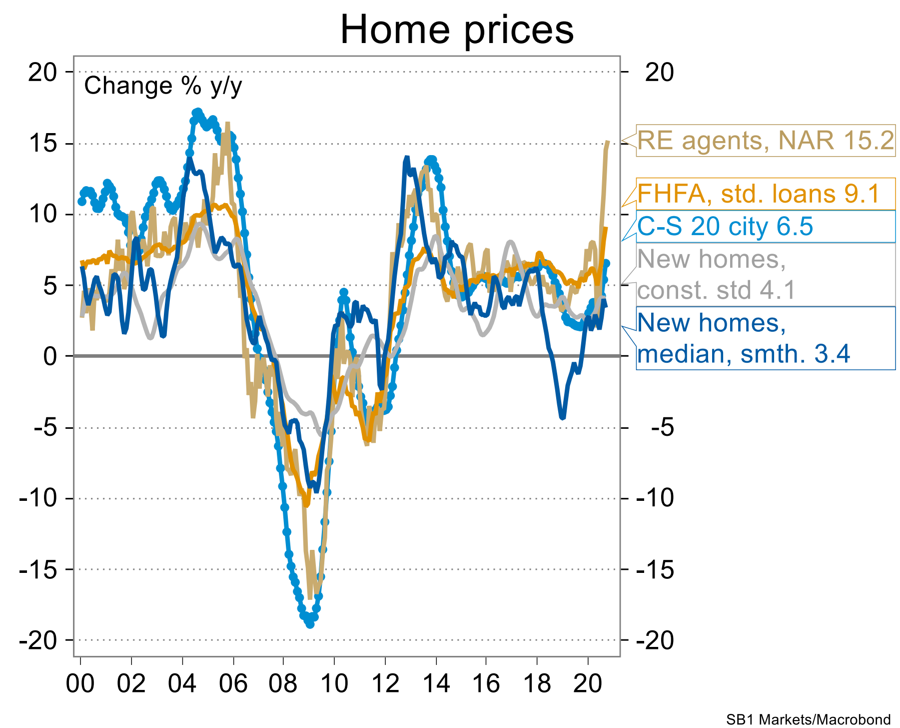


- Case/Shiller's price index rose 1.3% m/m in Sept, like in August (revised from 1.0%), among the two best months on record. Annual price inflation rose to 6.6%, from 5.2% - strangely enough expected just up to 5.3% (forecasts were far too low last month too)
- Other price indices are also reporting a sharp increases in prices from July onwards. Check the annual growth rates next page

Something is going on, house prices are moving fast upwards

As mortgage rates are record low

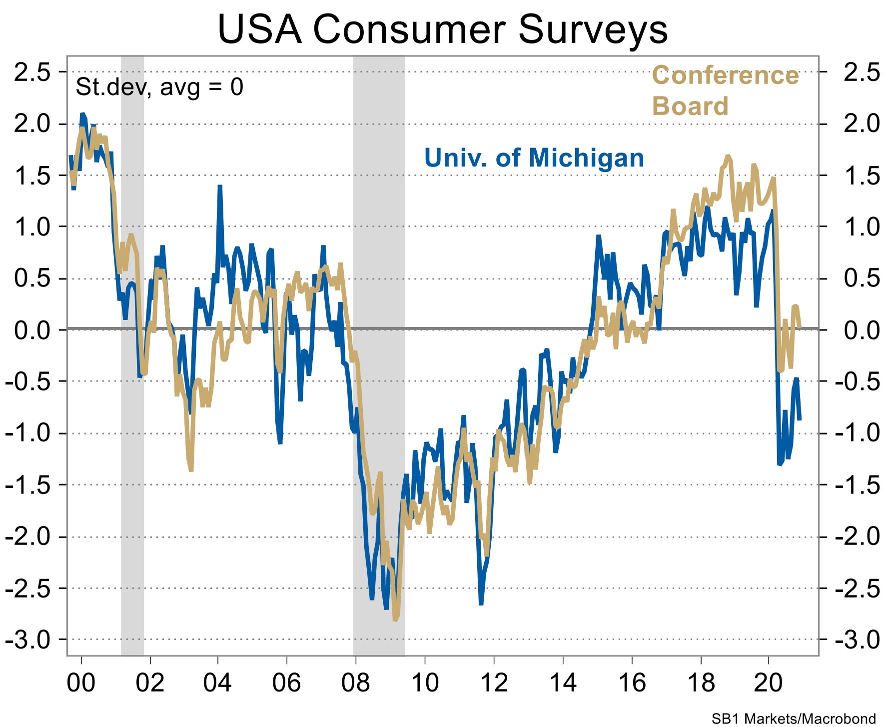


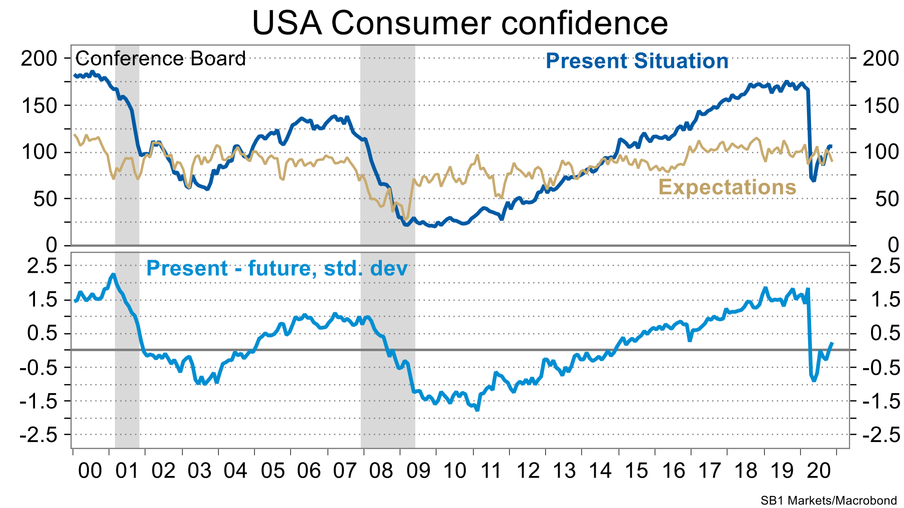


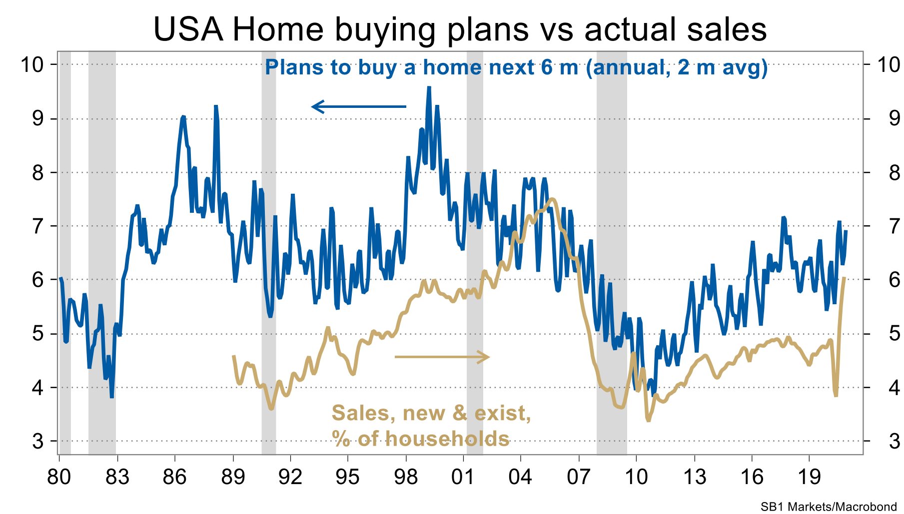
- The realtor's index is a primitive median 'raw' index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) have very likely lifted the median price
- Still, 'something is very likely going on' at the housing market. Other – and the more sophisticated indices are reporting annual inflation at 6.6 – 9%. New home prices are on the way up too, but not faster

Consumer confidence & sentiment down in Nov, in average below par

Conference Board’s confidence at an average level, UM sentiment 0.8 st.dev below par



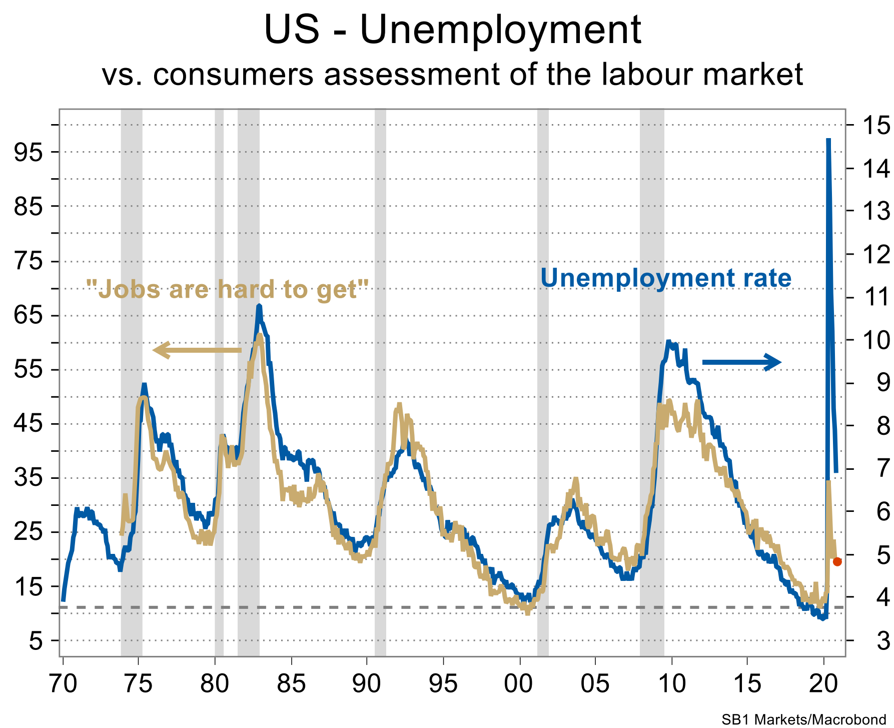


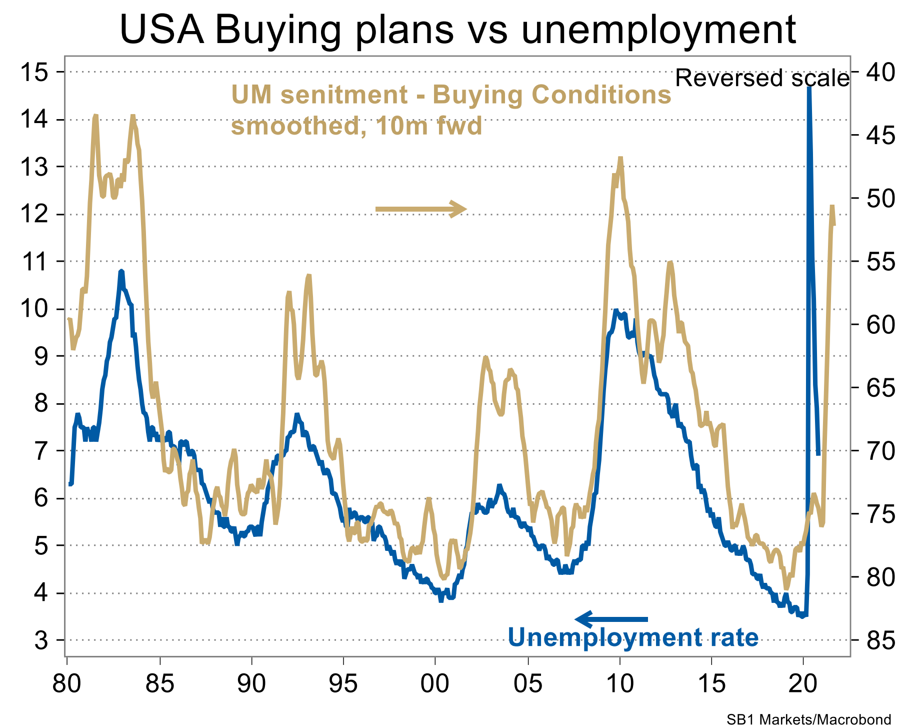


- Given the situation in the US economy & society is perhaps surprising the households’ economic confidence is at average level, at least as measured by Conference Boards survey. Univ. of Mich is still reporting weaker than normal consumer sentiment
- Households’ expectations fell a tad, according to Conf. Board. House buying plans are very upbeat, and jobs are not at all hard to get

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

They report conditions as if the unemployment is 5%, not 7%, the gap has never been larger

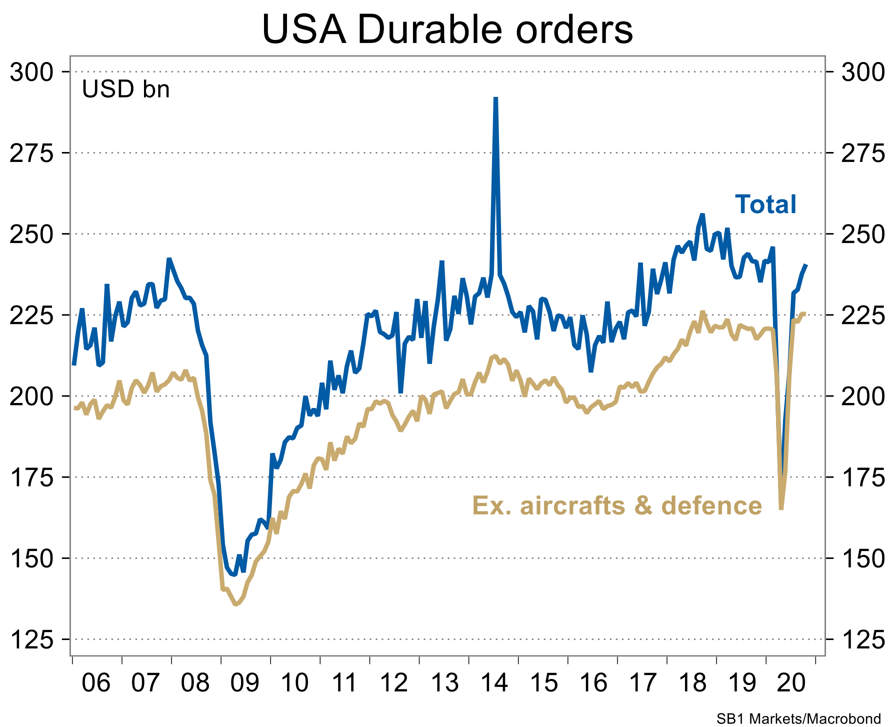


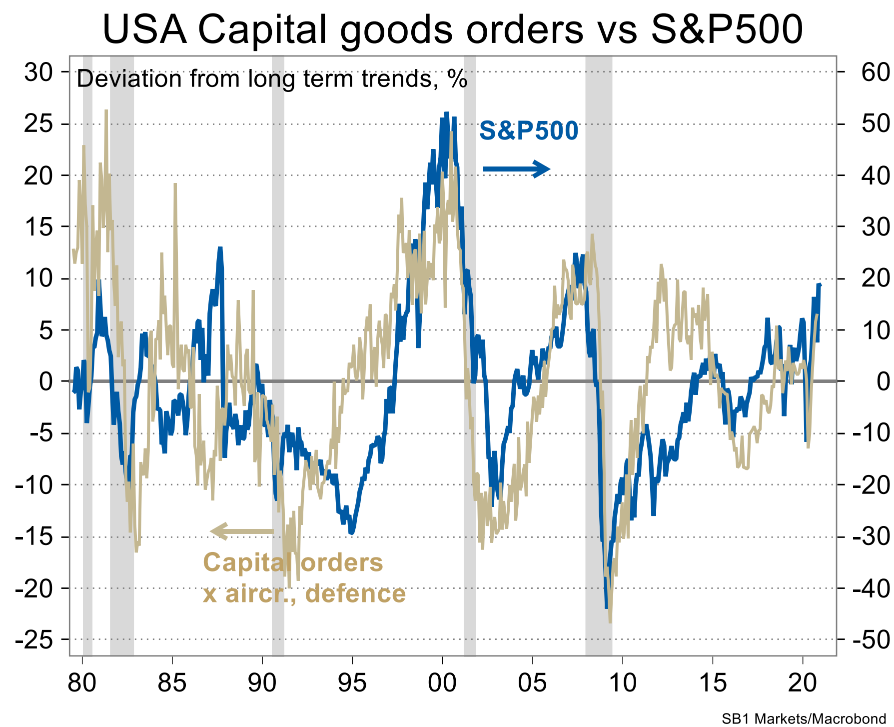


- The 'jobs are hard to get' index from Conference Board has come down to a well below average level
- On the other hand: The measure of buying conditions from UoM has been weakening since mid-2018. This index is usually quite closely correlated to the unemployment rate, leading in average by 10-12 months (with a lower correlation than the jobs assessment)

Core durable orders flat in Oct, ex aircrafts well above pre corona level!

A narrow 'V' shape for core orders, +2.3% from early 2020! Even the grand total is back!

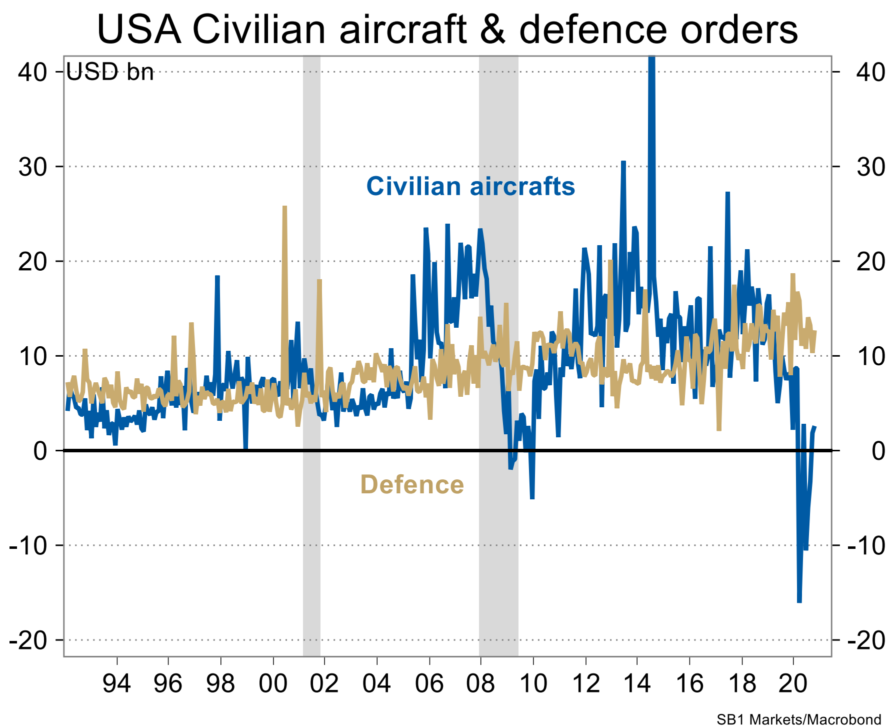


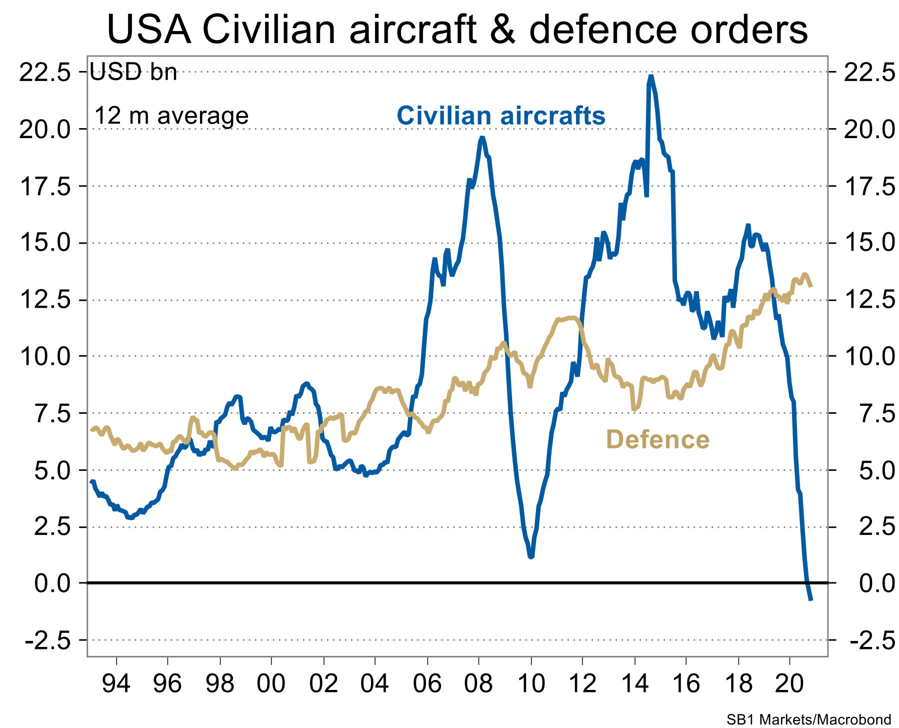


- **Core durable orders** were flat in Oct, expected up some 0.5%. Orders are up 36% from April – and up 2% vs the level in early 2020
- **Total orders** inched up 1.3%, expected 0.8%, and are now back to the level pre corona (barring the hike in February). The difference to core orders is due lack of orders for new civil aircrafts – but even these orders have probably bottomed
- **Core investment goods orders** rose another 0.7% in Oct, suggesting a continued recovery in business investments in Q4. <u>The level is 5% above the level in early 2020!</u> *Check the 'long' history 3 pages forward*

Boeing orders have been hit hard, now finally back in (net) plus

Net aircraft orders have been negative since March, barring a small plus in May

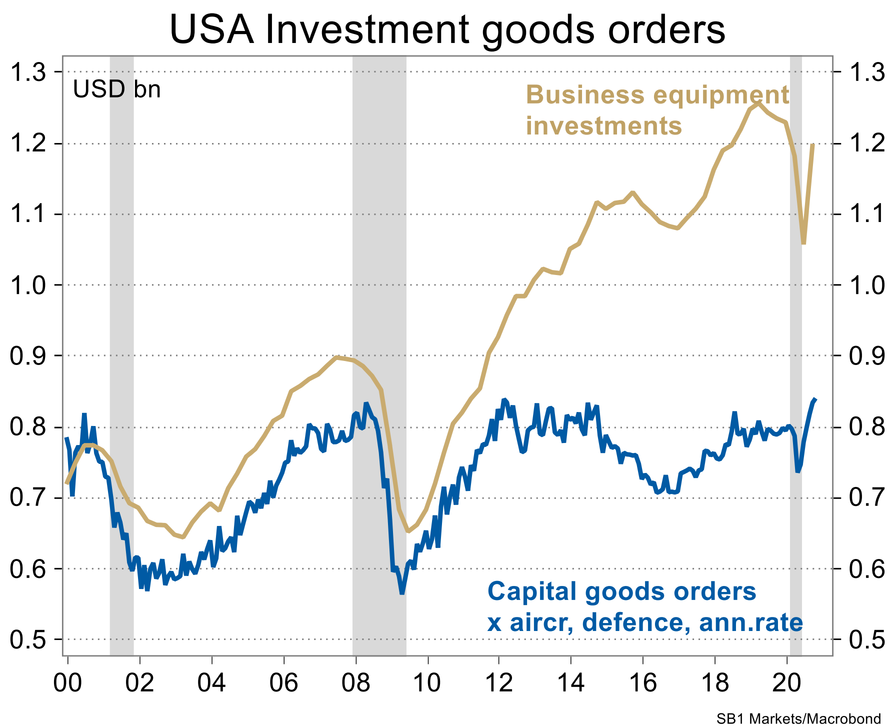


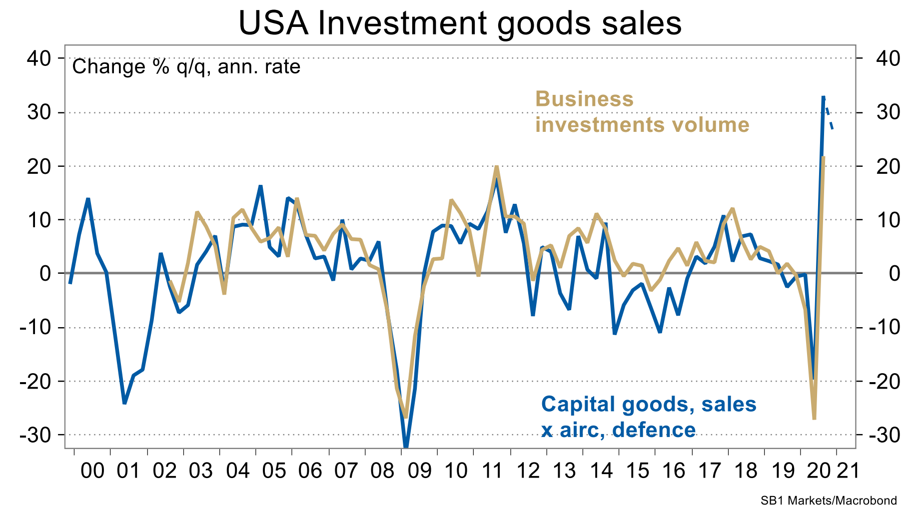


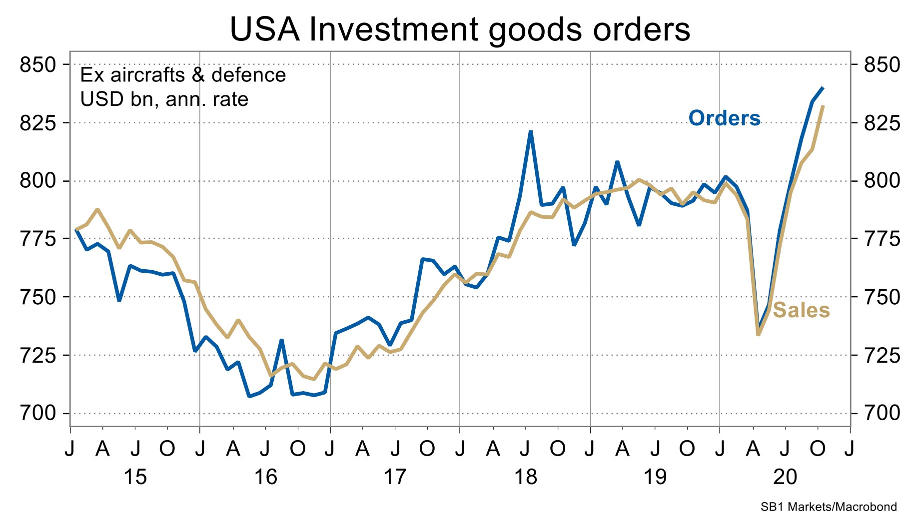
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 40 bn net cancellations to August from March are unprecedented

Core capital goods orders & sales rose further in Sept, 3% above pre corona level

Core orders rose 1% in Sept, to the highest level in 6 years. Did you expect that back in, say, April?



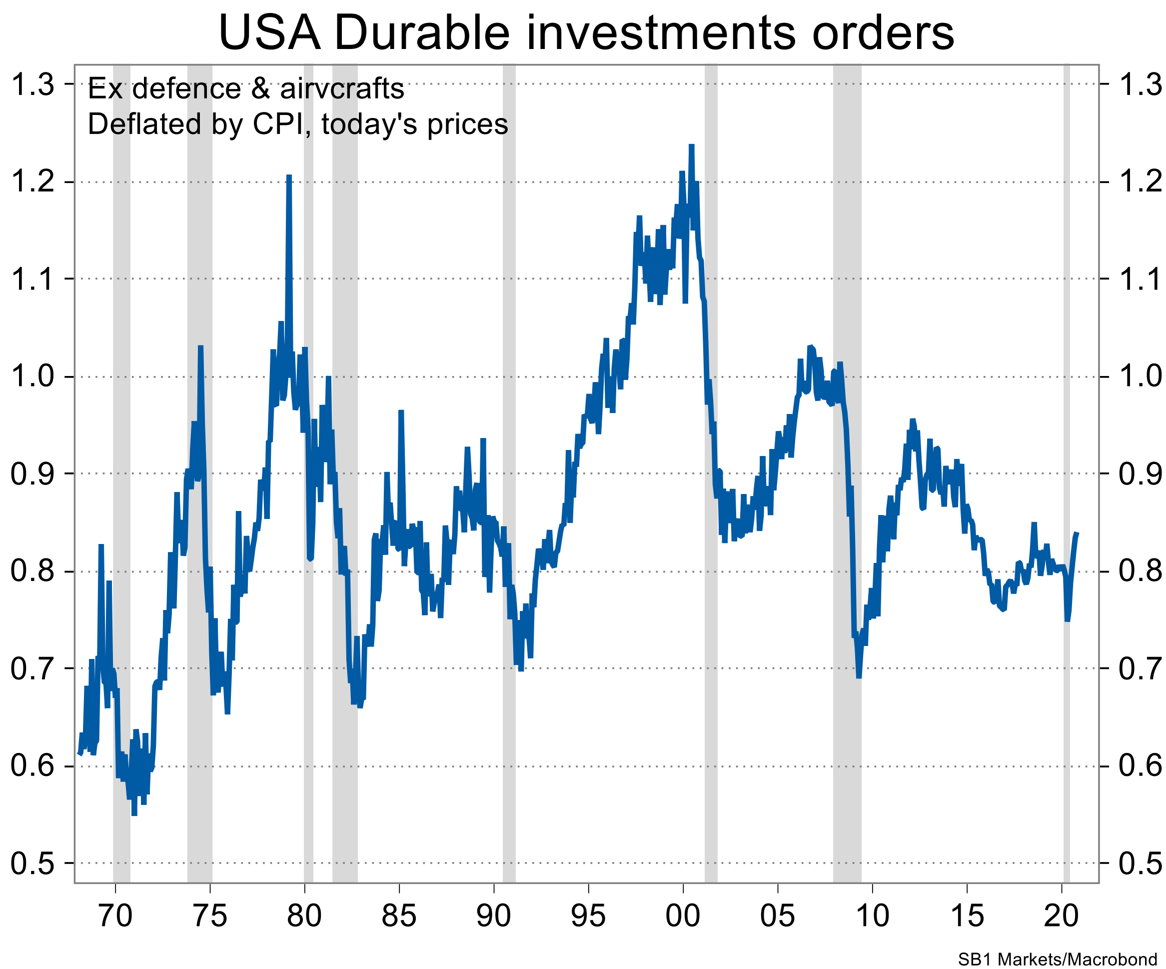




- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
  - » Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more. And then 1- 2 years to recover
- Business survey signal a recovery, but not a sharp one. However, the survey levels may be too low, like the PMIs/ISM have been vs actual production

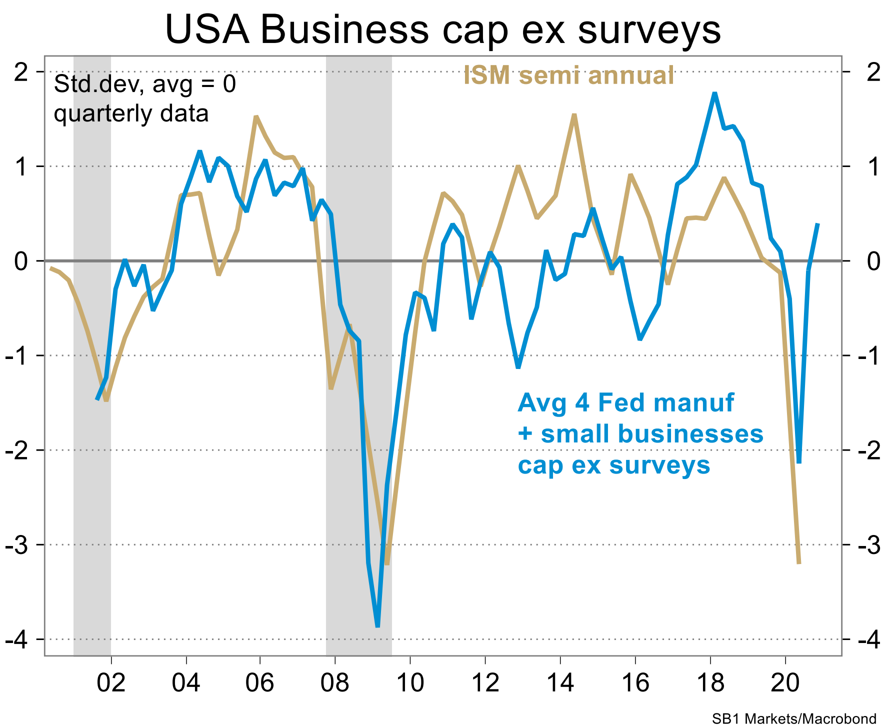
Investment orders: A shallowest & shortest downturn, ever

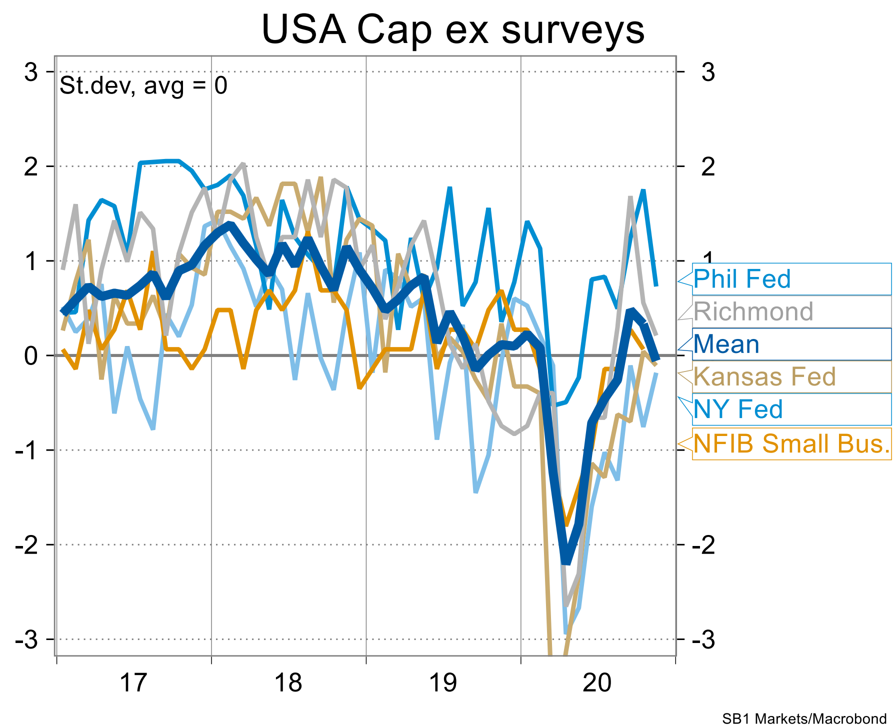
Can you spot if anything happened around 2020??



Business were planning aggressive investment cuts. No more.

Businesses are planning to increase investments – however not yet at any impressive pace



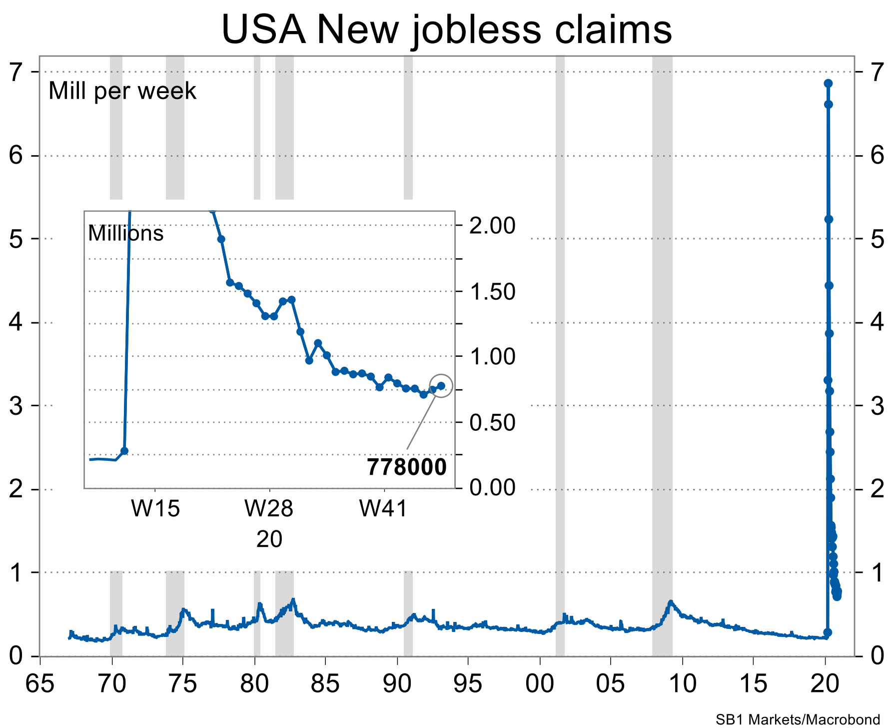


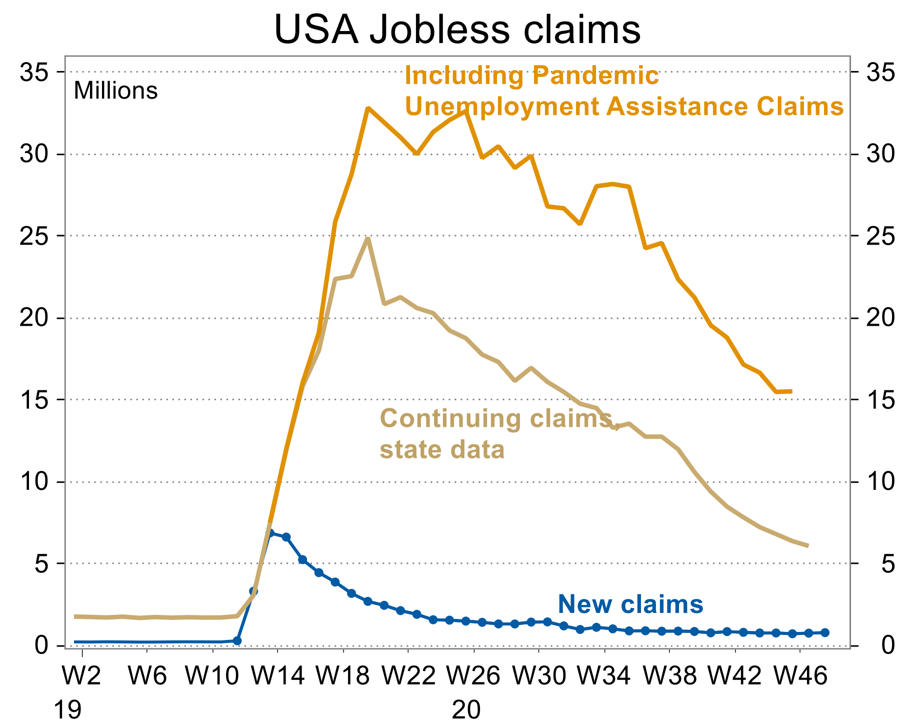
- Investment plans have been nudged up in all the regional surveys, and even if most fell in November, the level is on average, signalling a normal growth in business investments
- The ISM semi annual survey is from Q2, the other surveys from Oct/Nov

SpareBank 1 MARKETS

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

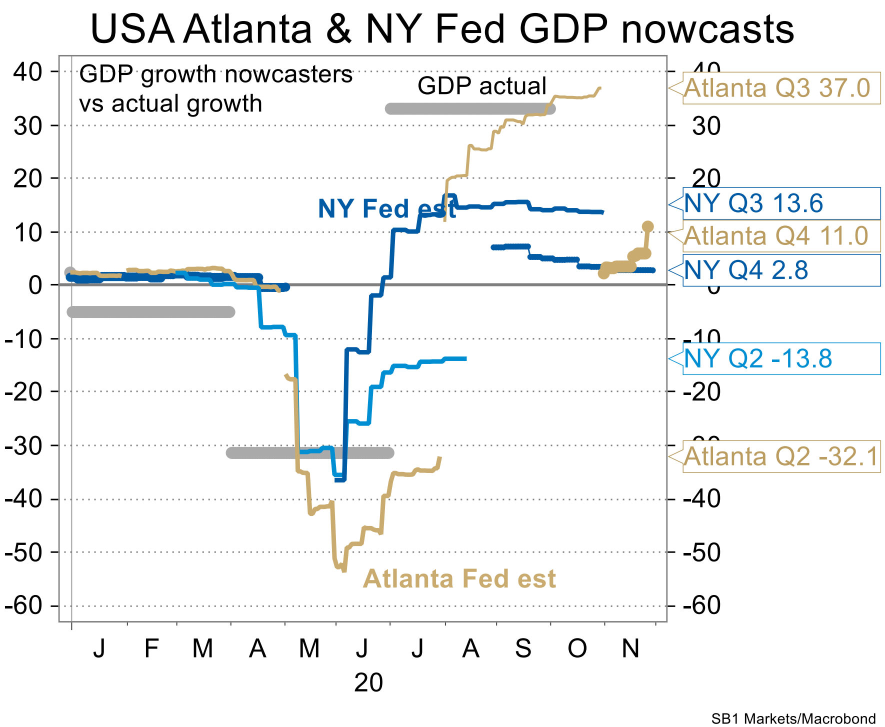


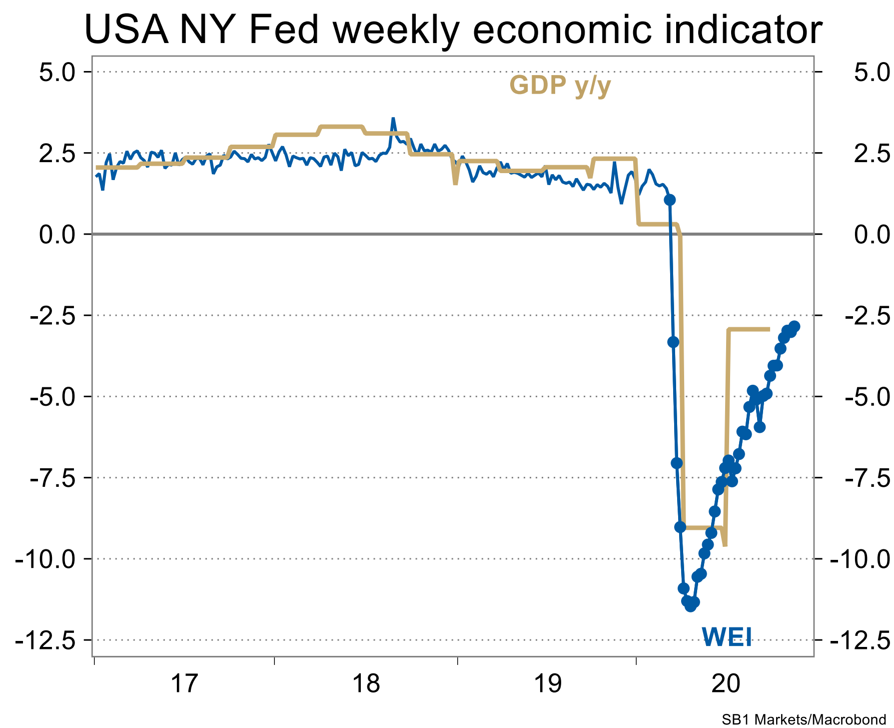


- Even so, the no of persons receiving unemployment benefits – continued claims – is falling rapidly – also if the Pandemic Assistance program is included

Nowcaster reports are a mixed, as usual. The best one, Atlanta is signalling +11%

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

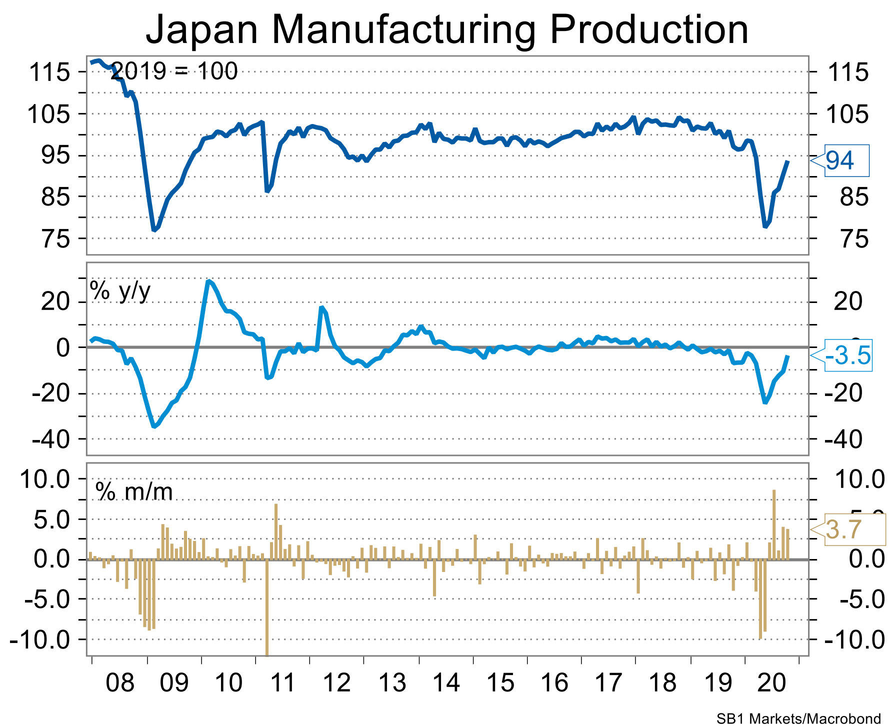


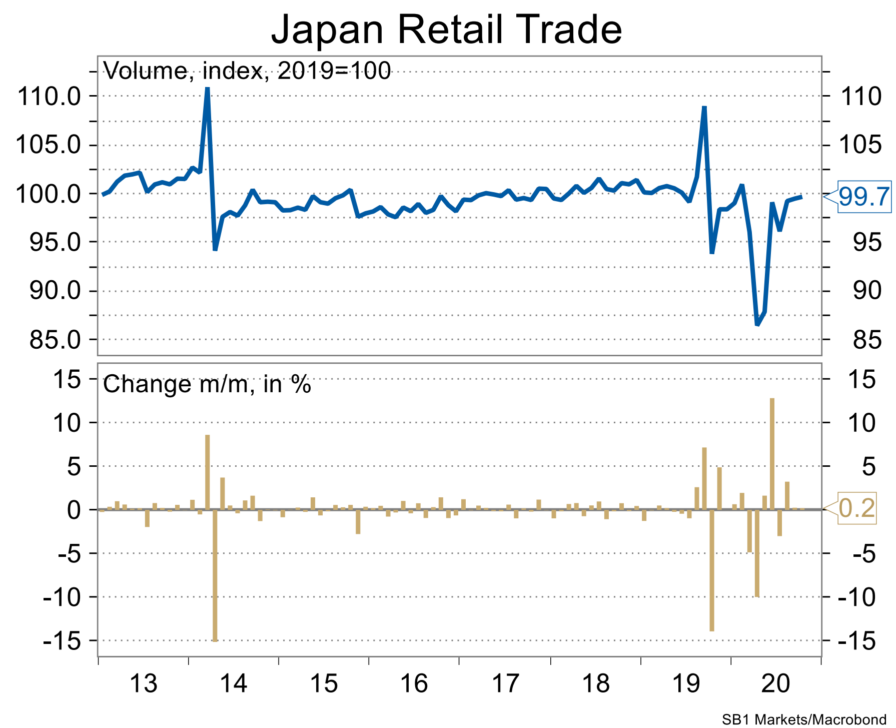


- NY Fed's traditional forecasters signals just 2.8% growth in Q4. This model has been completely useless recent quarters
- NY Fed's weekly model signal some 2.8% decline y/y (so far) in Q4, and the annual contraction is narrowing. If the WEI should end up 2.5% down y/y in Q4 (avg), that would imply a 4% (annualised) q/q growth. However, the WEI is not that precise

Manufacturing production recovers, retail sales at a 'normal' level

Manuf. prod up 3.7% in Oct, still 4% below the Feb level. However, retail sales almost on par

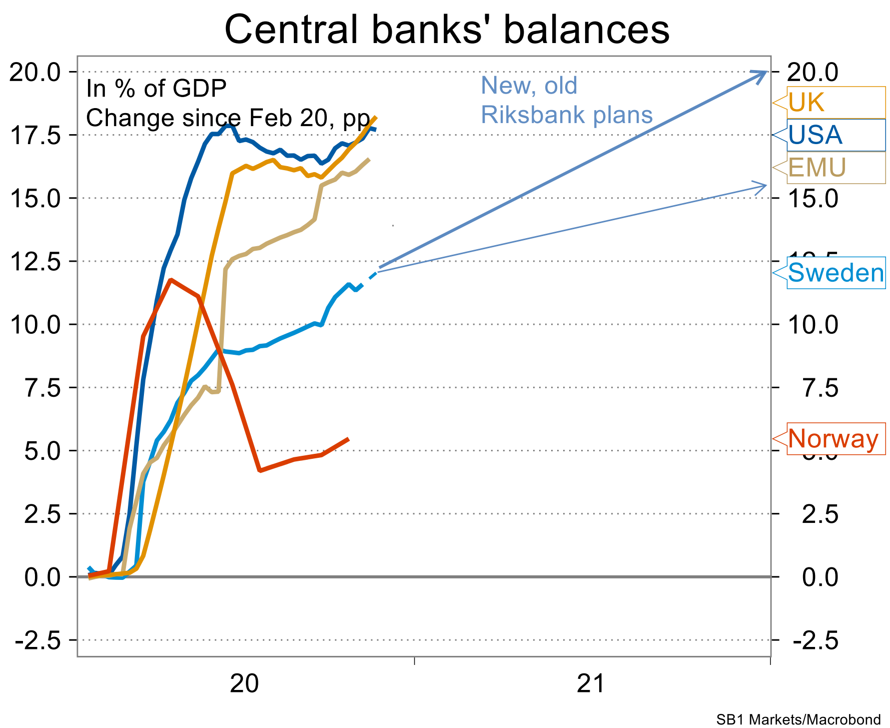




- **Manufacturing production** rose 3.7% m/m in Oct, expected up 2.2%, and production is up 21% from the bottom in May and just 6% below the average 2019 level, and -4% vs. Feb. The PMI and other surveys are still at low levels, formally signalling a decline in activity, which has not been the case since May, growth has been record high
- **Retail sales** rose just 0.2% in Oct, a tad less than expected (but Sept was revised equally upwards). Sales are almost back to the 2019 average but not above, like on most other rich countries. Sales have been very volatile before/after the VAT hike last October

Riksbank wants to do more QE; +SEK 200 to 700 bn (+4 pp to 14% of GDP

An aggressive, dovish central bank – who don't want to be blamed if something goes wrong…

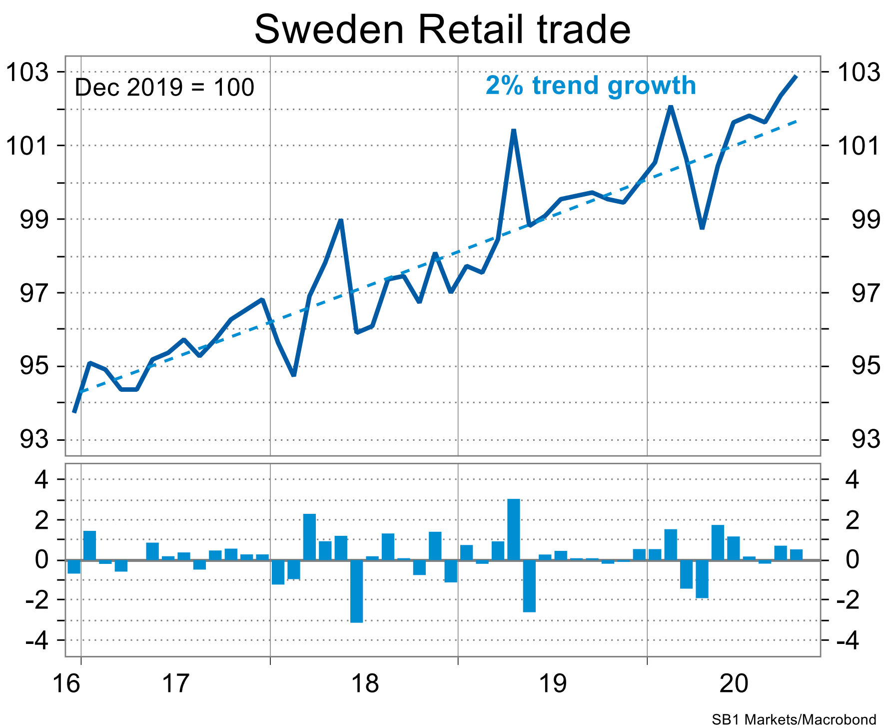


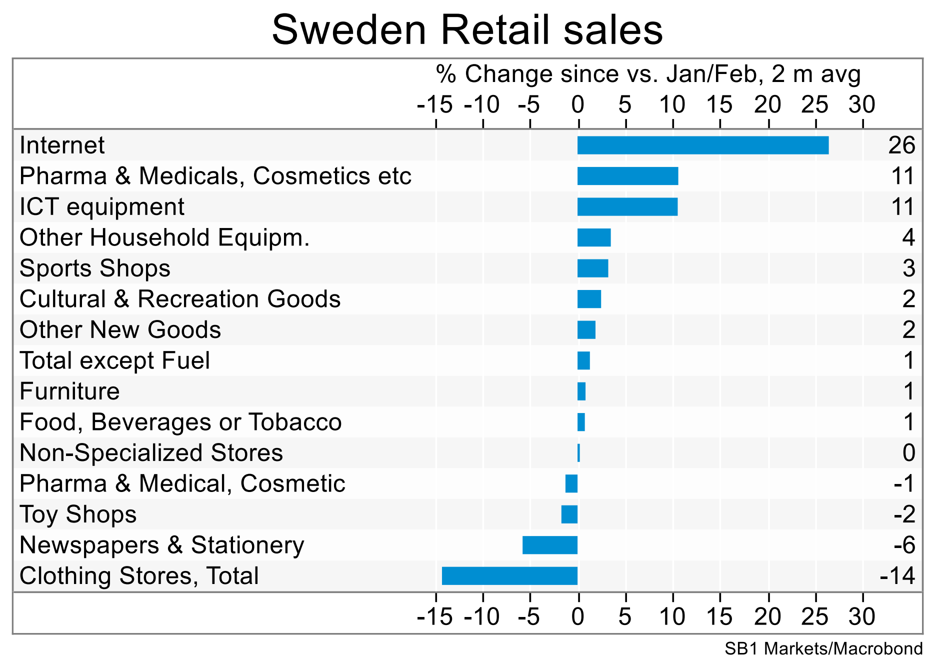
- The US Fed, ECB & BoE has been more aggressive than the Riksbank
- All the other banks plan to continue their QE programs – and will end up higher than the Rix now signals

- The Riksbank kept the **signal rate unchanged at zero**, as expected – and it's expected to stay there for a long as the Bank can see (till the end of 2023) – as the bank signalled in
- The Bank lifted the **target QE level to SEK 700 bn from 500 bn** by the end of 2021, implying a doubling of the pace vs the current plan – in order *'to give further support in an uncertain time, improve the conditions for a recovery, and to help inflation rise towards the target'*
- The Bank emphasises that it '*is making it clear that comprehensive monetary policy will be available* ***as long as it is needed***'
- The Bank expects the 2nd corona wave, and tighter restrictions to lead to **a new downturn in the Swedish economy**
  - The 2020 GDP forecast is cut by 0.4 pp to -4.0%, and the 2021 forecast is cut 0.9 pp to just 2.6% - a substantial cut
  - The unemployment rate will increase from 8.4% in 2020 (revised down 0.2 pp) to 9.4% next year (+0.2 pp)
  - Inflation will remain well below the 2% target 'forever'
- **The Riksbank remains dovish, and takes out another insurance, as the new corona challenges may push the Swedish economy down again**

Retail sales further up in Oct - but up 'just' 3% up since Dec

A rather muted increase compared to most other countries – but still a decent lift



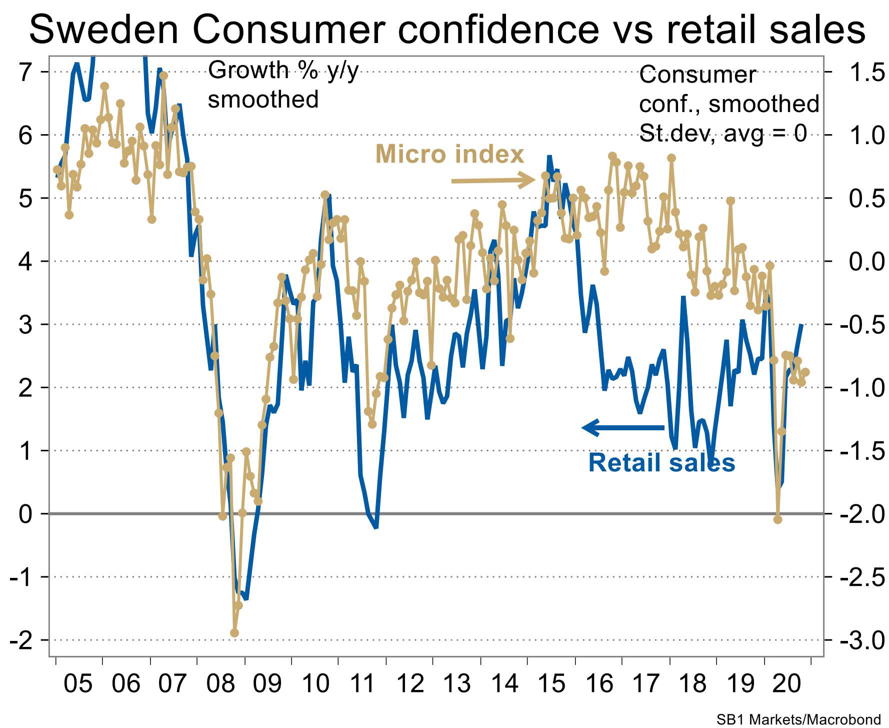


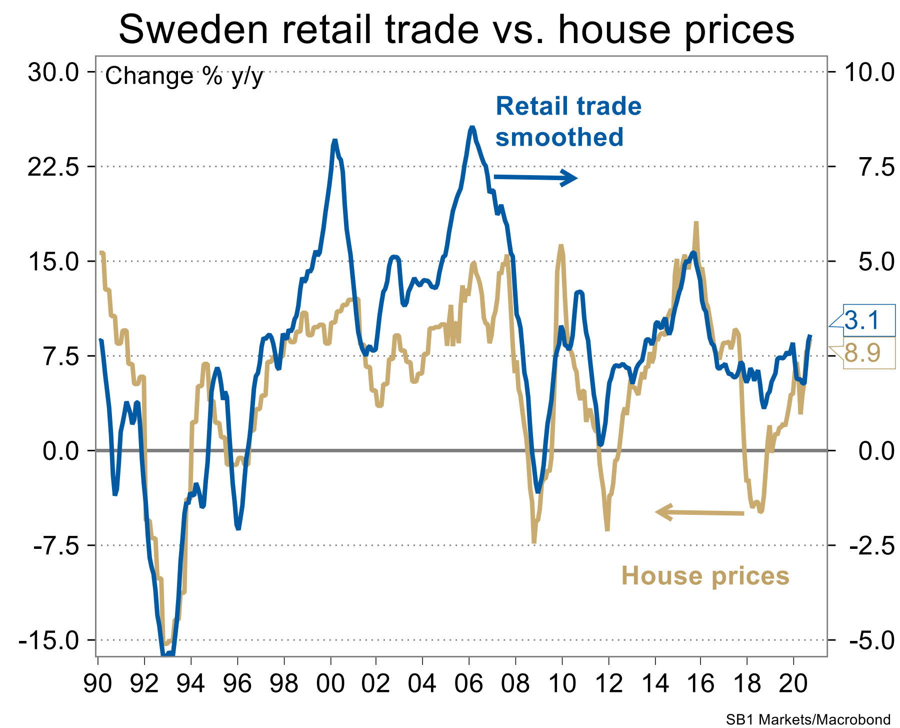
- Huge sectoral differences, though not as wild as in Norway. Clothing is still down 16 % vs Jan/Feb. Sports up 5%
- Service consumption is sharply down, but less than in Norway

SpareBank 1 MARKETS

Consumer confidence marginally up in Nov, level below par

Retail sales have recovered and the housing market is booming – but consumers are not upbeat

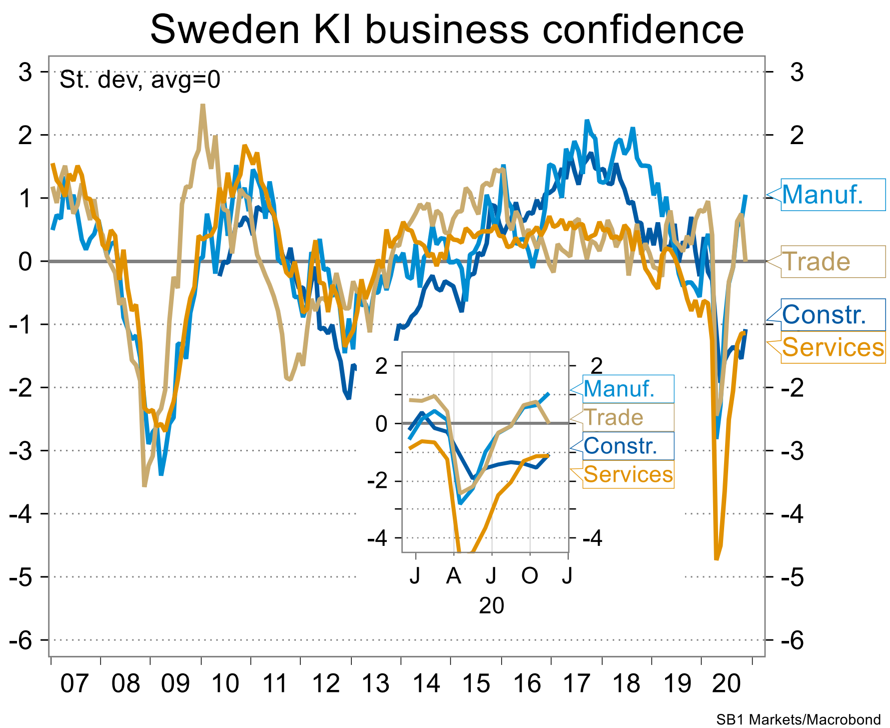


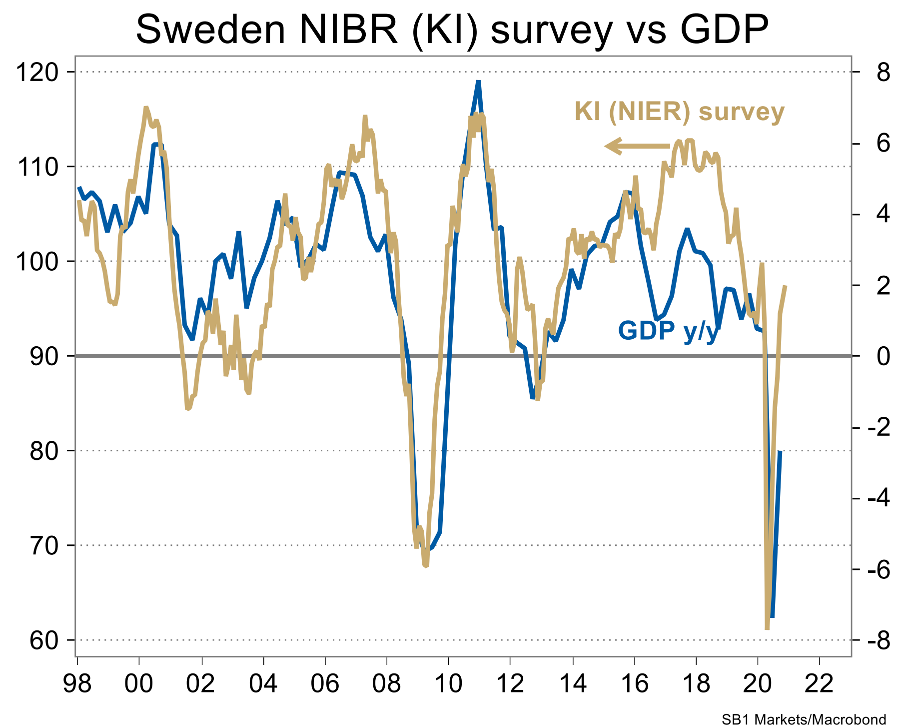


- … like in most other countries

KI business survey further up in November – signalling a continued recovery

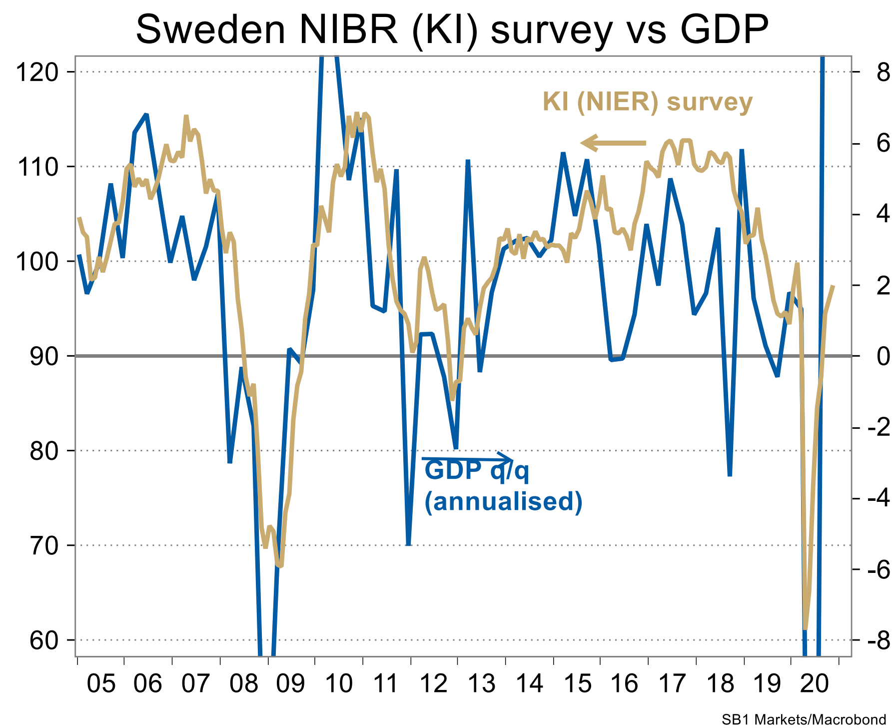
Just trade reporting weaker activity – construction and services below par, manufacturing well above





- The composite index signalled a 2% growth GDP growth in Q4, if the survey is translated into y/y growth rates – and (as it should – also vs. quarterly growth rates, *check next page*
  - » The survey was useless in calibrating the Q2 meltdown and the Q3 take off – not surprising during this 'out of life' experience. Now, we assume that this surveys will be as useful as they used to be
- Services are still reporting a weak sentiment, but not a further decline . Construction not upbeat either, in spite the housing market upturn – but the index rose in again in November
- Trade and manufacturing have both fully recovered – these sectors are at least reporting normal growth

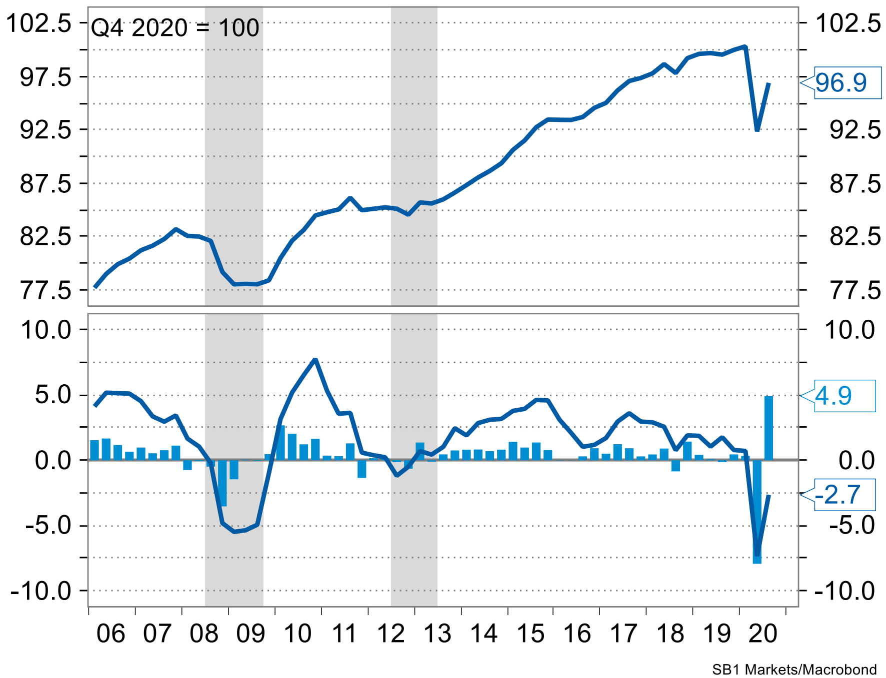
A continued recovery, says the KI survey, in November



Q3 GDP a tad better then first reported, down 3.1% vs Q4-19

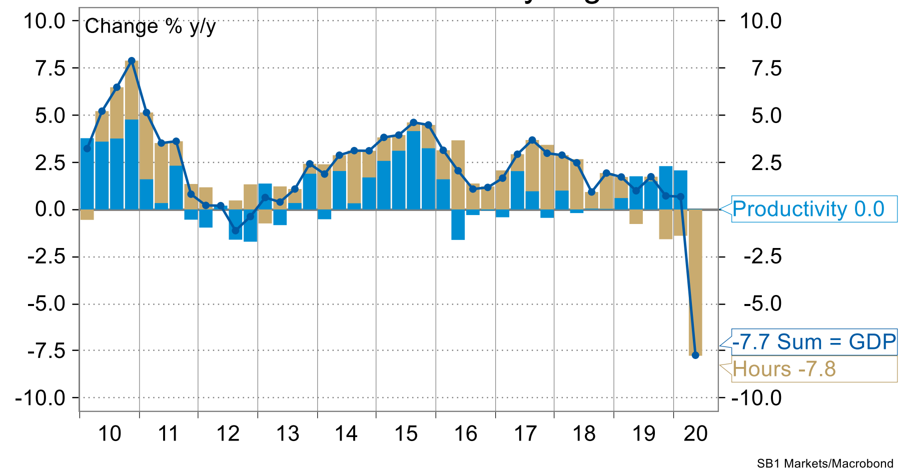
GDP grew 4.9% in Q4, vs the preliminary 4.2% estimate. A broad demand recovery

Sweden GDP

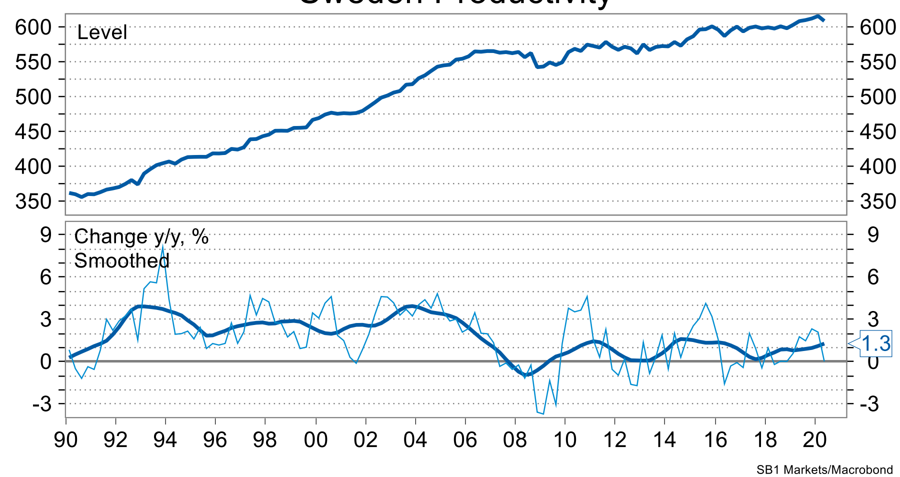


- GDP is down 2.7% y/y

Sweden Productivity & growth

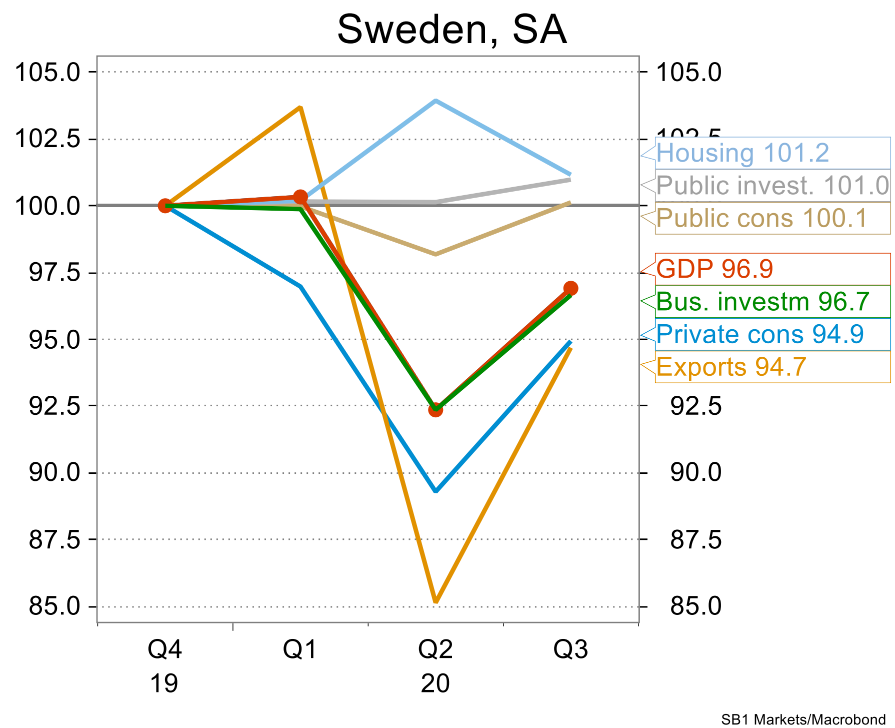


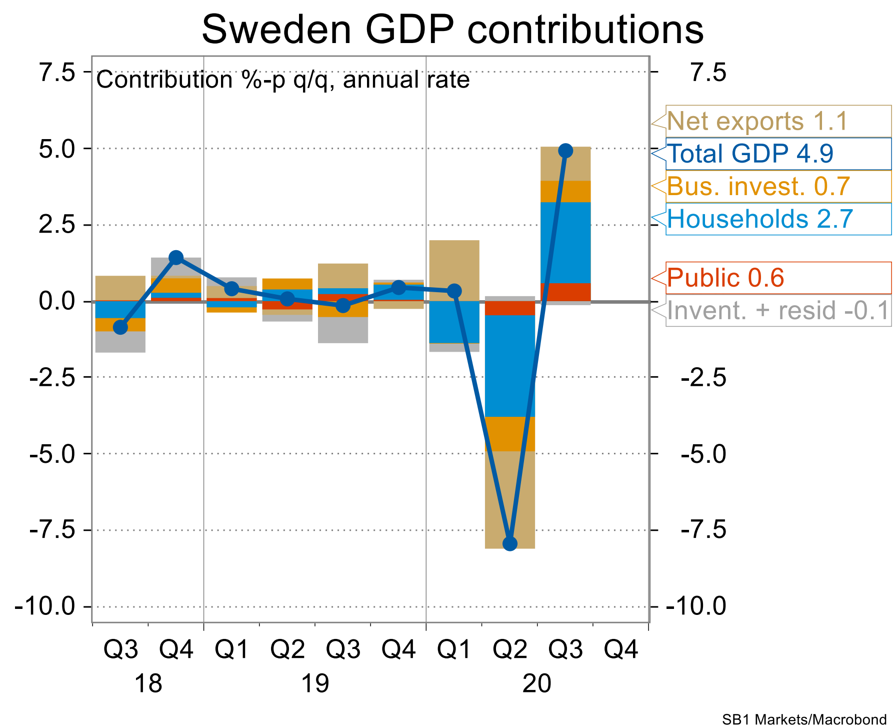
Sweden Productivity



Household demand recovered – as did business investments & exports

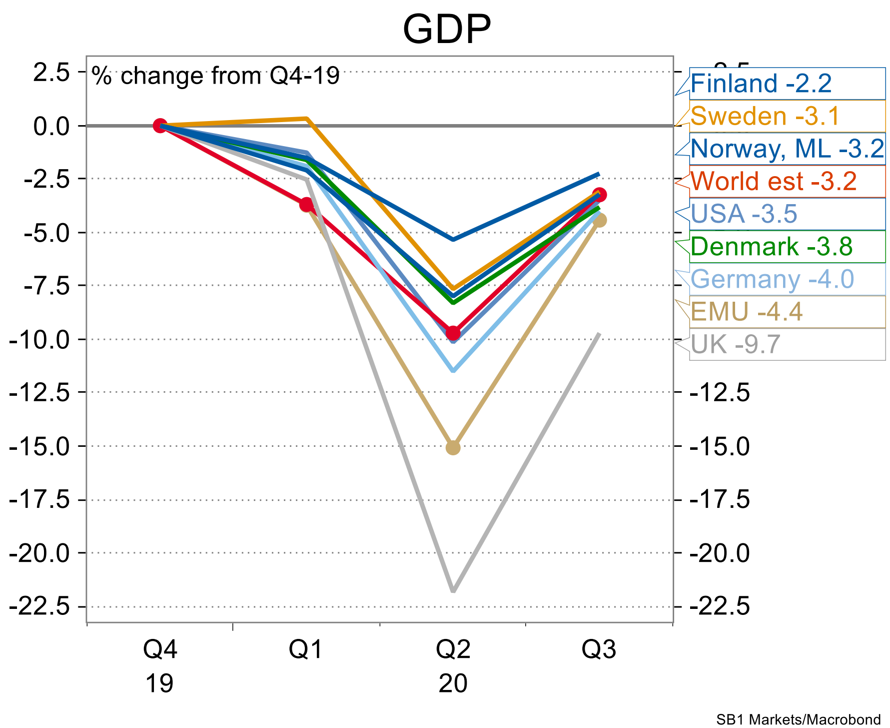
Public demand came back too

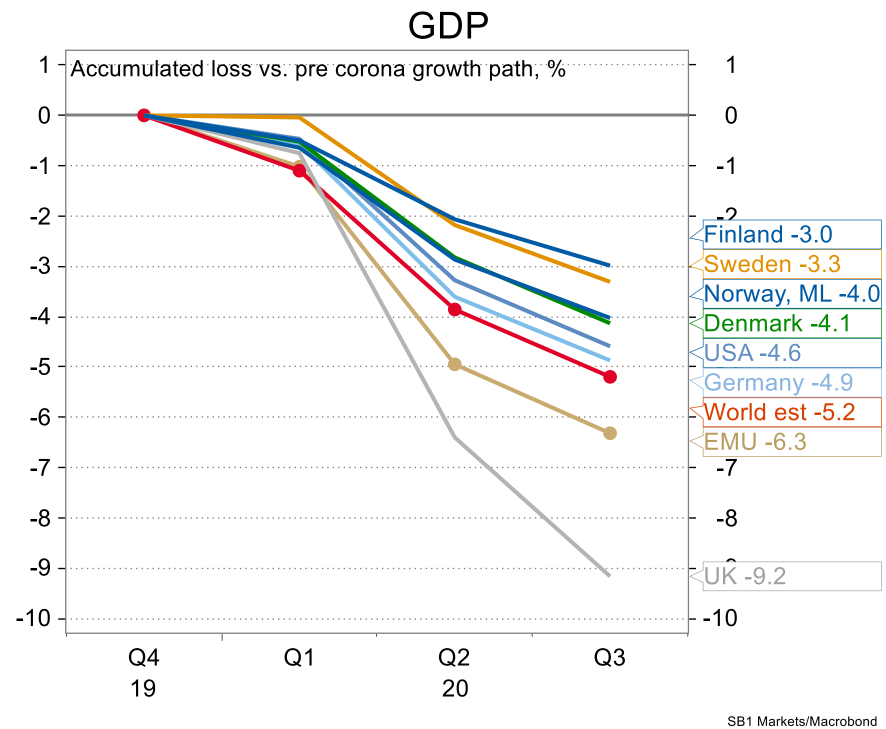




Not that important differences between the Nordics

Finland at the top, Denmark at the bottom. Sweden and Norway in the middle





- The total loss of activity has been somewhat smaller in Sweden vs. Norway and Sweden but here too, Finland is at the top!
- The Nordics have reported the smallest losses among rich countries

Highlights

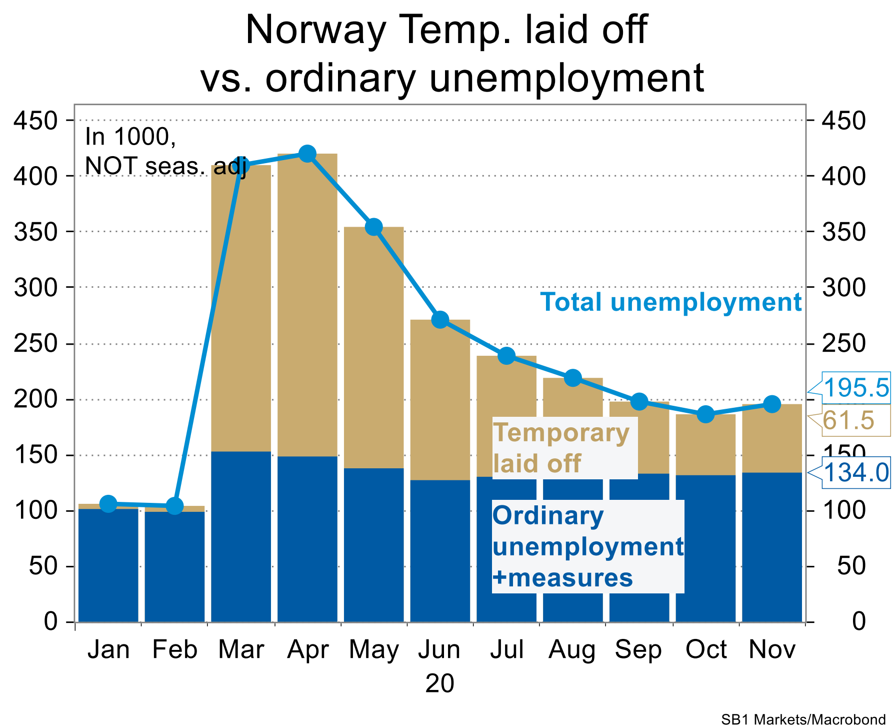
The world around us

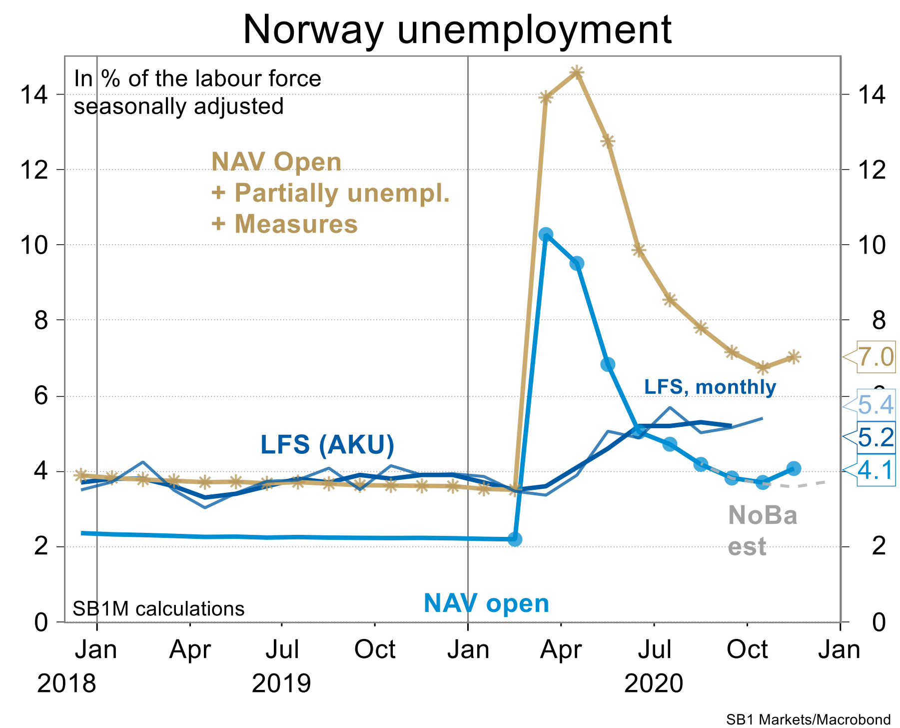
The Norwegian economy

Market charts & comments

NAV unemployment +10' in Nov, +0.3 pp. Travel/restaurants/hotels hit again

Weeky data had suggested a somewhat steeper increase. More to come in Dec, but no '2nd wave'

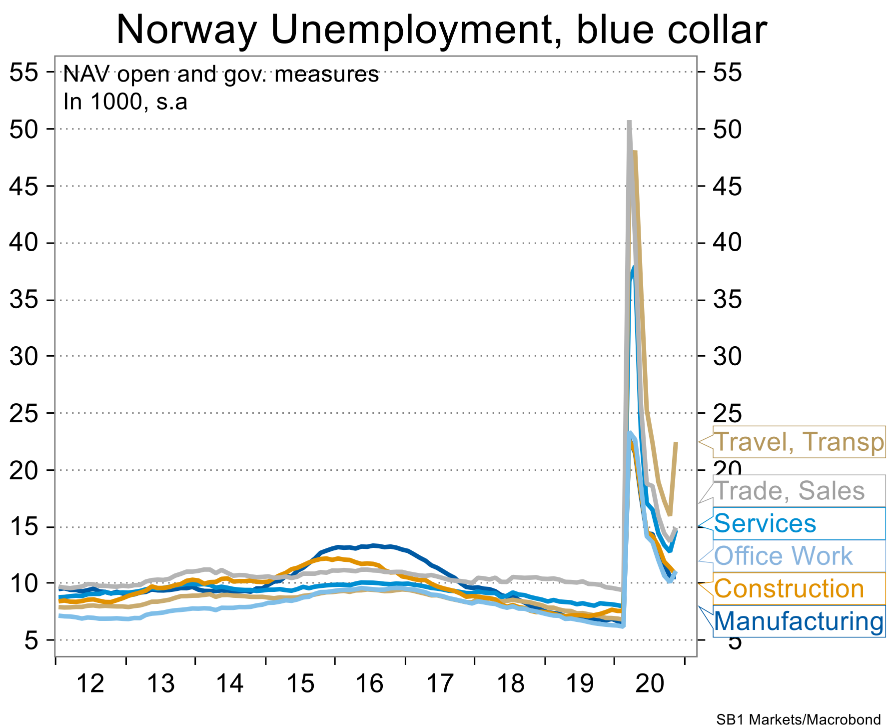


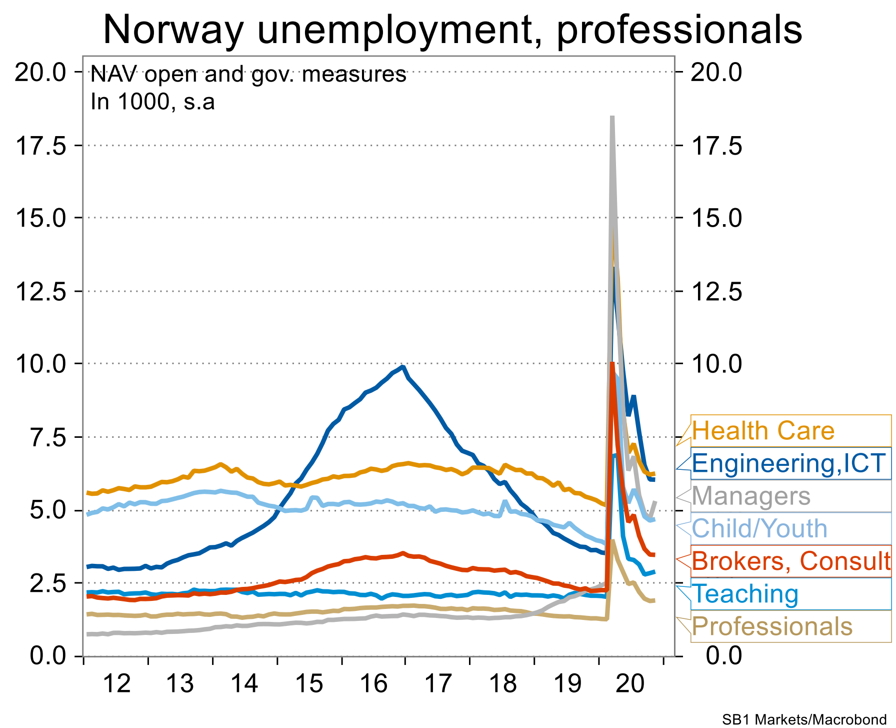


- Open 'full time' unemployment measured at NAV, which includes furloughed workers rose by 10.5' through November (we expected 1' more) to 115'. Including labour market measures, unemployment grew by 10' to 127, or to 4.5% of the labour force (+0.3 pp)
  - Including part time unemployment, the grand total rose by 8.5' to 199' or 7% of the labour force, up 0.2 pp from October. Before corona: 3.5%
  - Almost all of the increase was due to a lift in the number of furloughed workers, +7' – and almost all of them in restaurants/hotels
- The LFS (AKU) reported a decline to 5.2% in September (3 m avg). These data have been lagging NAV figures as furloughed workers have not been counted as unemployed before staying 3 months at the dole

Unemployment up in travel/transp./services in November – 'nothing' elsewhere

The impact of the 2nd 'lockdown' is concentrated among some few sectors

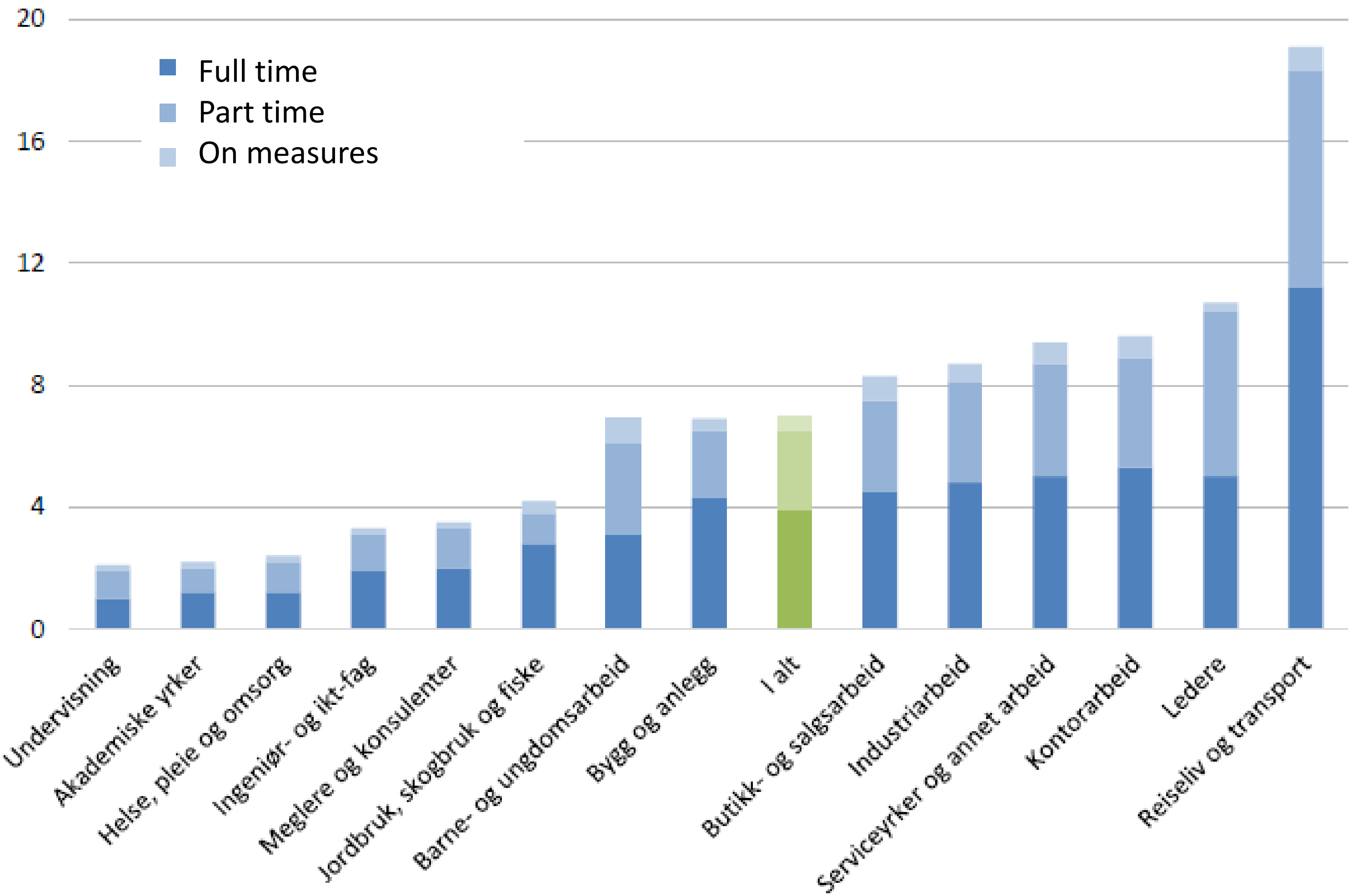




- We expect more to come in these 'people' oriented occupations in December but limited compared to the sharp lift during the spring
- We deem the risk for wide-spread increases in unemployment in other sectors due to the 2nd wave – like we saw during March & April 'panic' – to be non-existent
  - » In fact, unemployment among several occupancies fell further in November

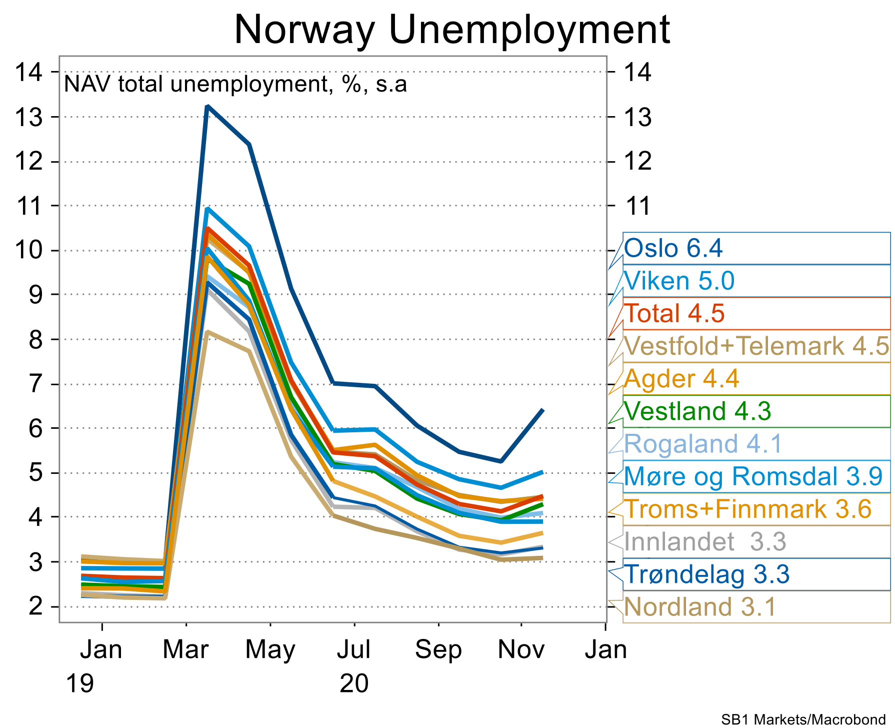
Travel & transport: Almost 20% are unemployed

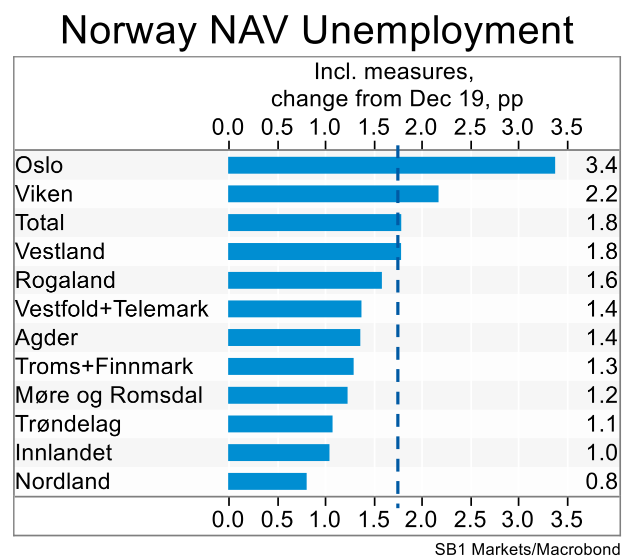
Trade & manufacturing >8%



Oslo hardest hit, again: Most up in November, and has the highest unempl. level

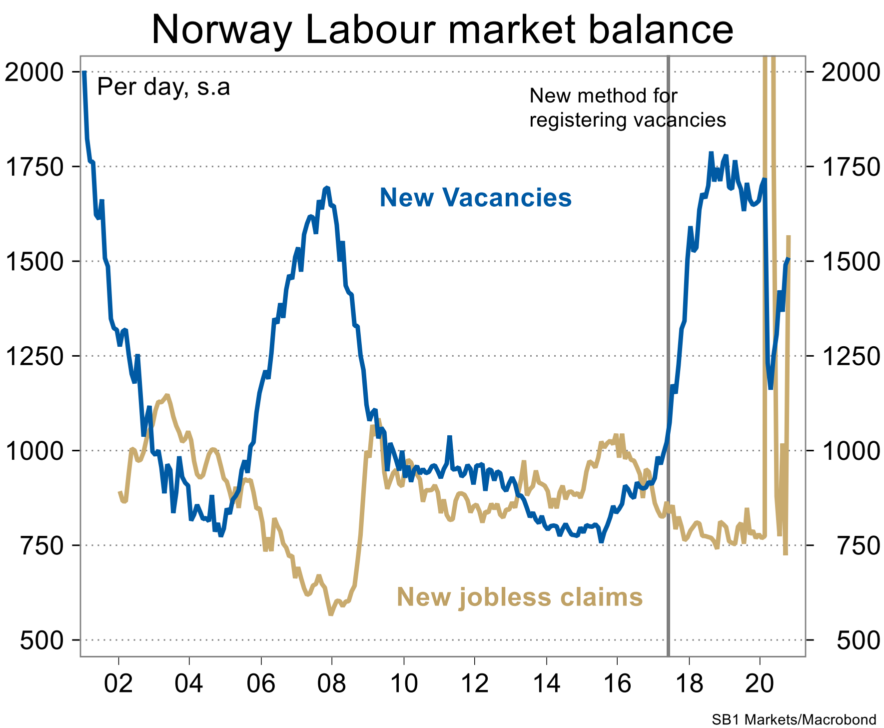
Viken at no 2. Innlandet, Trøndelag + the North at the bottom!

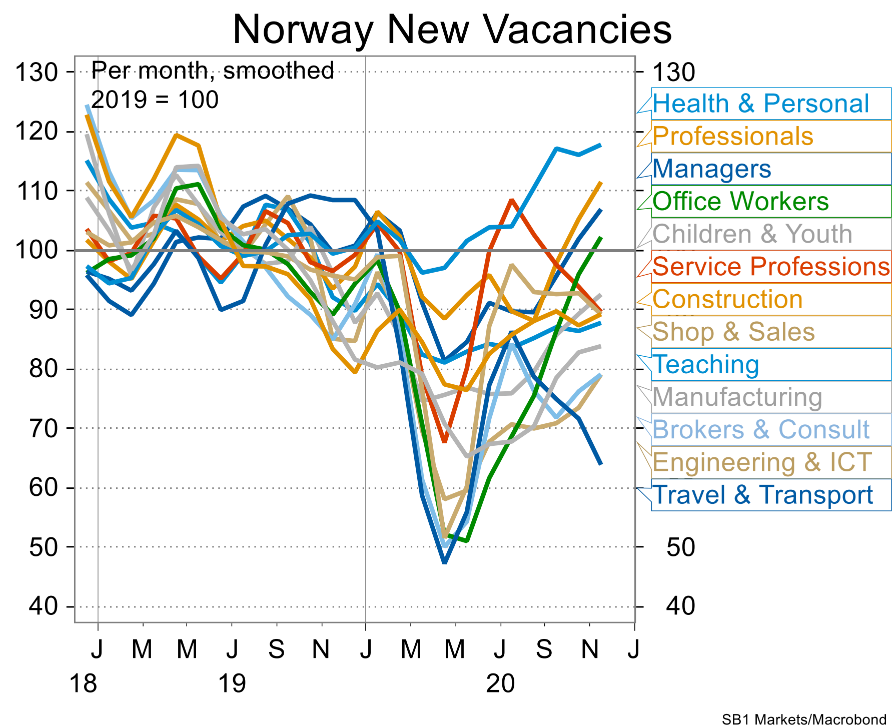




More new vacancies in November – and not far below a normal level

The ‘2nd wave’ has not reduced demand for labour in other sectors than travel/transp & services

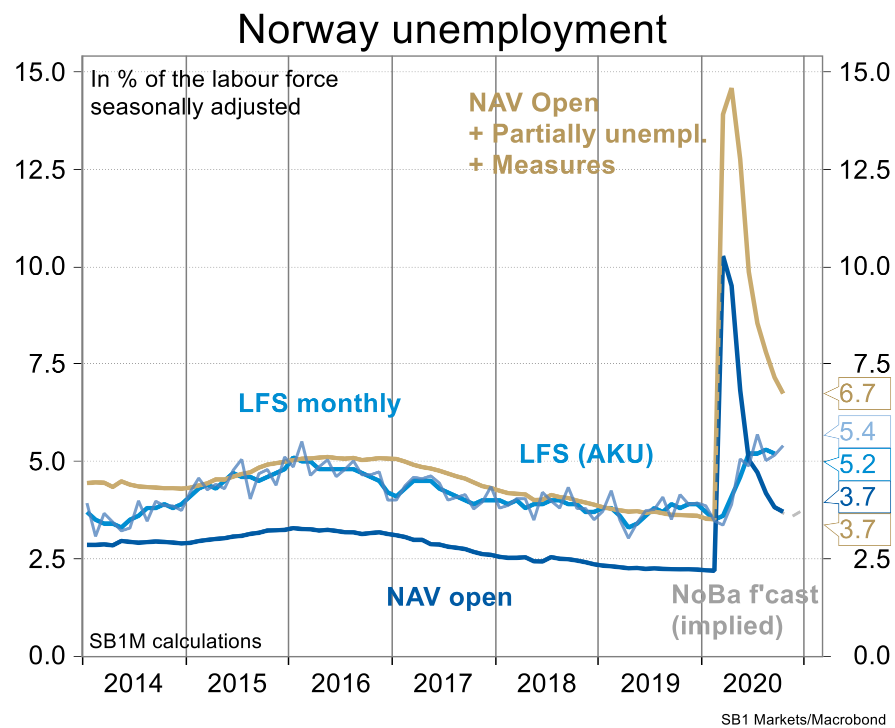


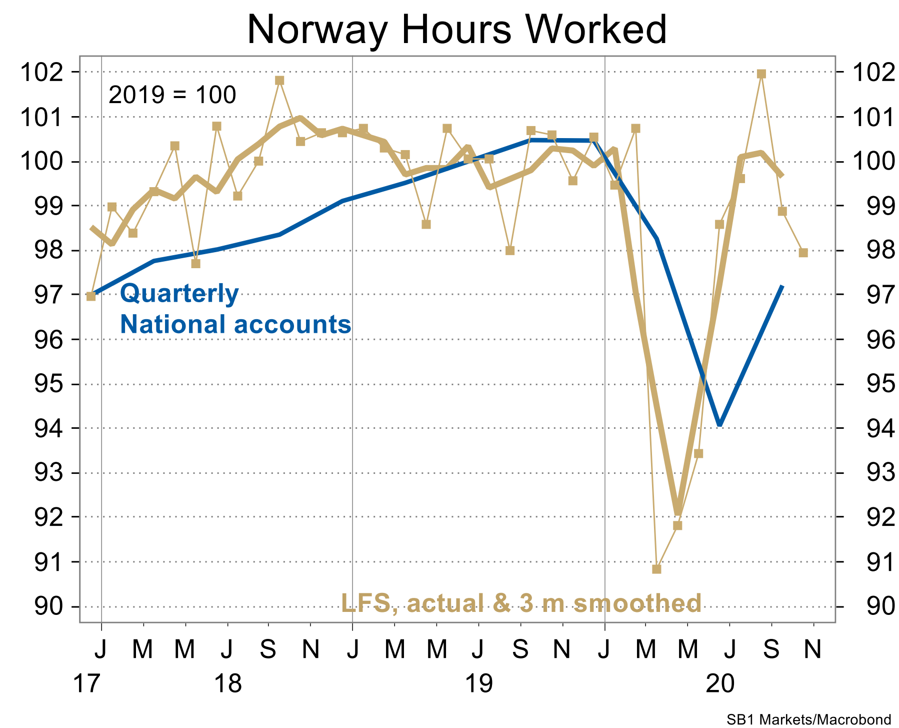


- New jobless claims rose form a approx 750/day in October, on par with the level before corona – to more than 1.500/d in November – and the unemployment rate rose

LFS (AKU) unemployment has stabilised at 5¼% - employment on the way up

Unempl. up 1.5pp vs. pre corona, employment -1.5%. Persons at work & hours worked in sum unch!

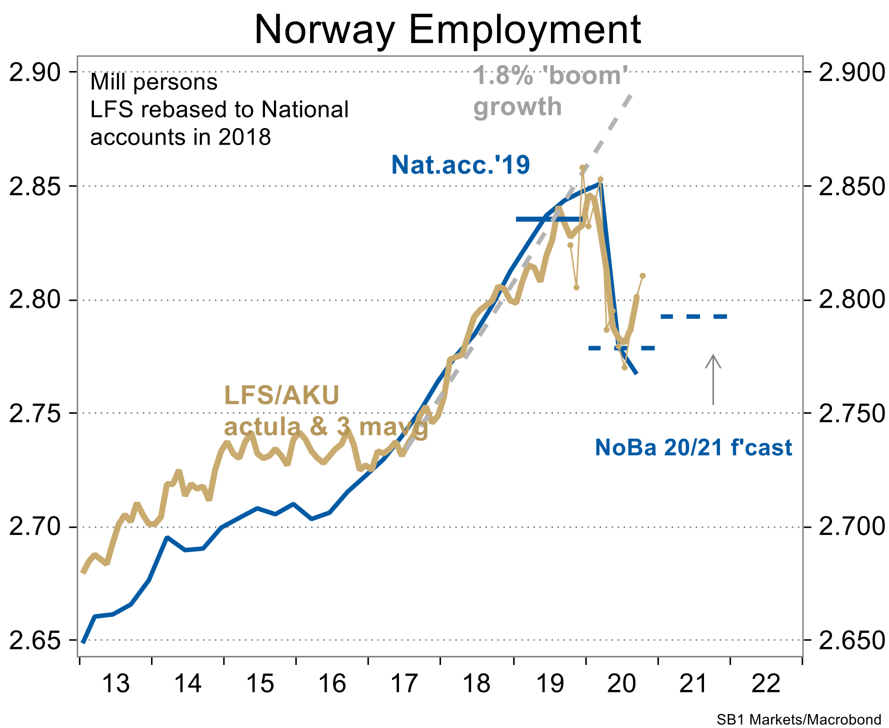


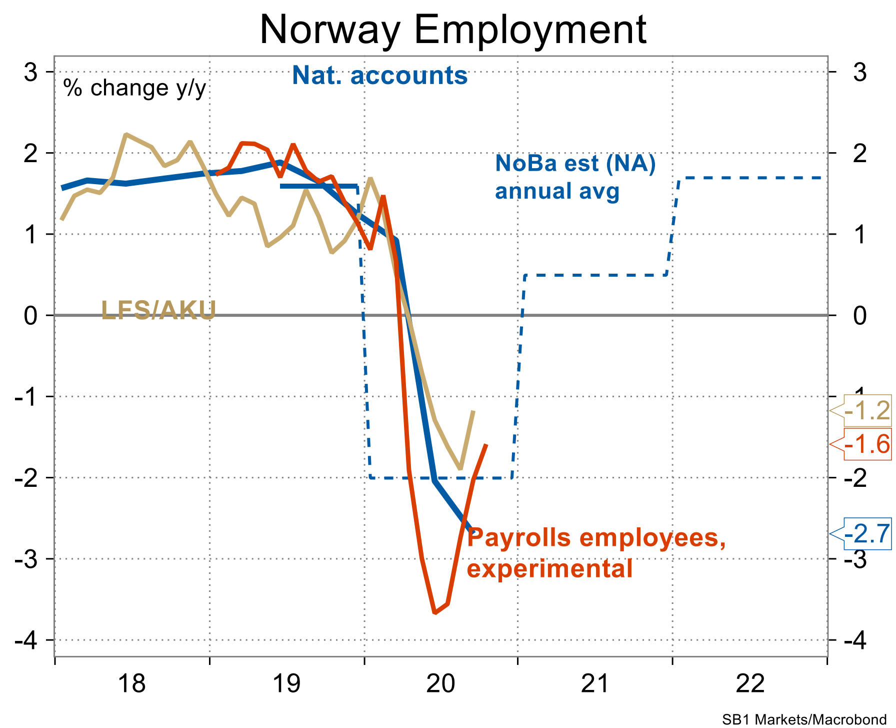


- The 3m smoothed **LFS unemployment** rate fell to 5.2% in Sept (Aug-Oct), from Aug – but was stable vs. the previous (not overlapping) 3m period in June. An unchanged rate was expected. Unemployment has flattened at just above 5% since the summer – up from 3.7% BC
- **LFS employment** has climbed recent months and is now down approx 1.5% vs. Feb. However, the **no of employed at work** has been higher than in February the 3 past months, and h**ours worked** is just marginally below the Feb level, following a surge through Q2. The new (experimental) monthly pay roll (employee) stats reported a 1.6% decline y/y in October
- **Furlough schemes** and other adjustments to the corona crises may have distorted these data – and may do so the coming months as well as more employees are being furloughed again

Employment is on the way up again – even it National acc. reported a Q3 decline

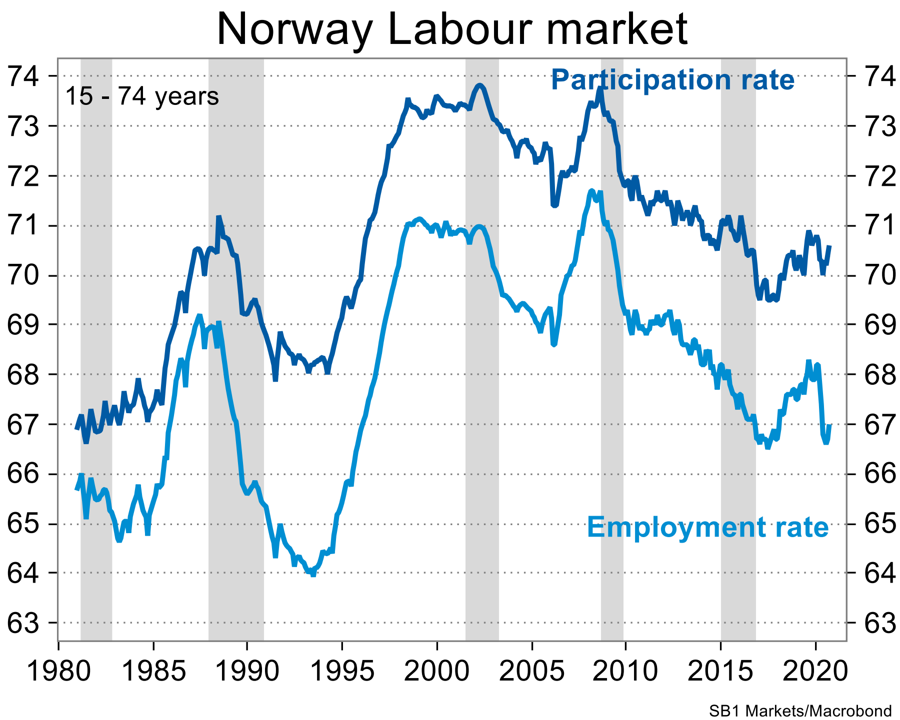
The LFS is reporting a 0.3% increase from June to Sept (both 3 m avgs), now down 1.4% vs Feb peak

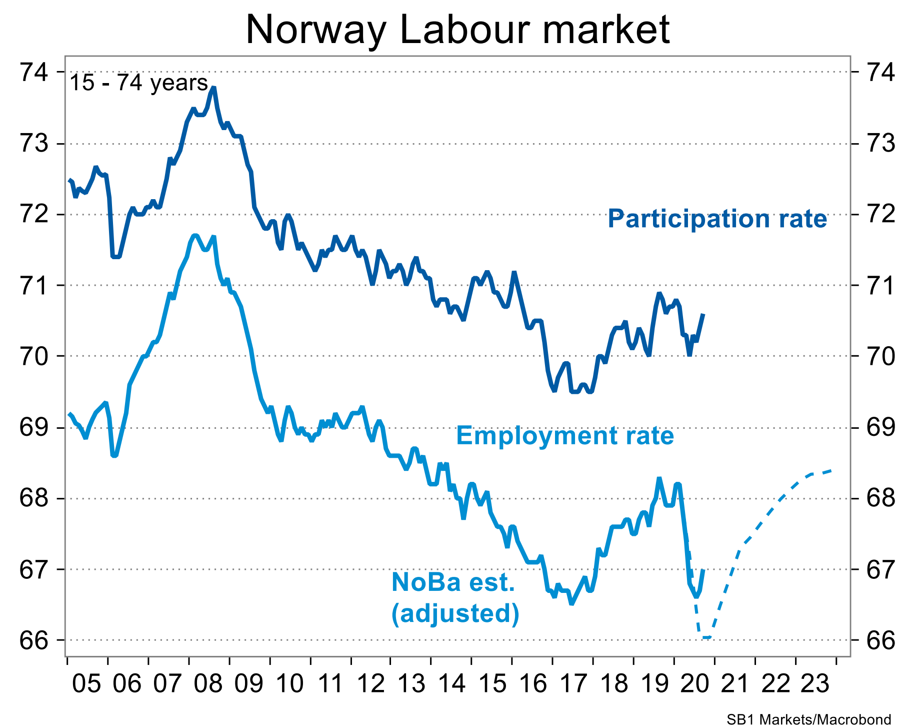




The employment rate has turned up, still low. Participation has almost recovered

.. Still, the employment rate higher than during the bottom of the 'oil crisis' in 2017

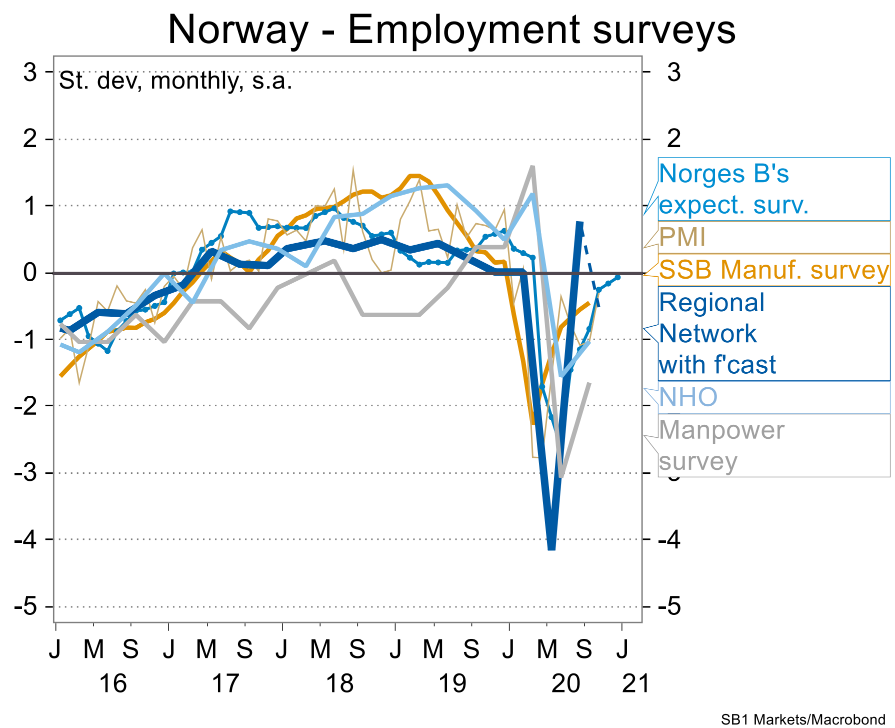


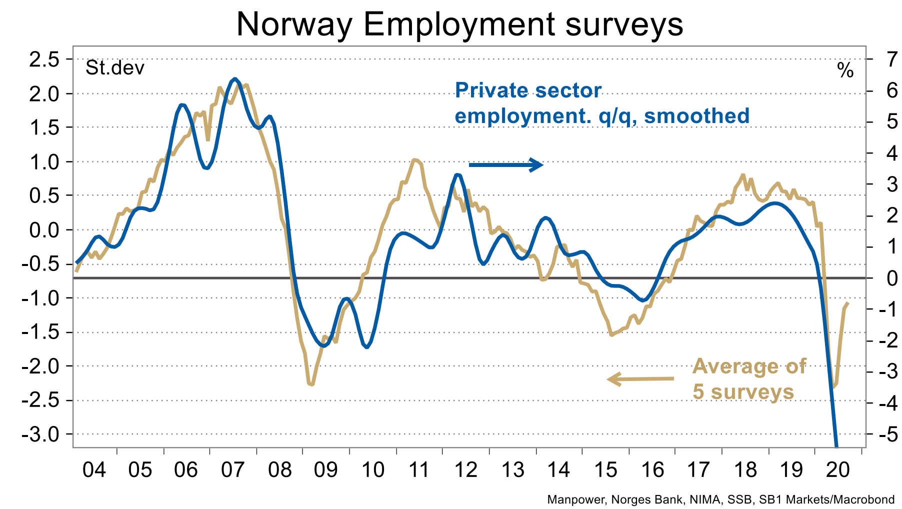


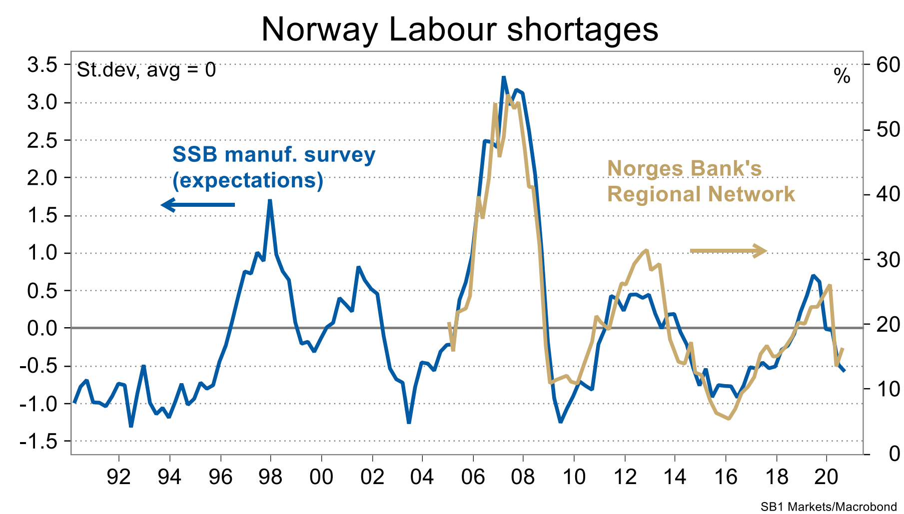
- The employment rate has fallen by 1.2 pp since Feb (which was a local peak, 1.0 pp if we flatten the curve at the start of 2020).
- The participation rate has fallen by just 0.2 pp since Feb
- In the September MPR, Norges Bank revised its 2020 employment forecast slightly down but 2021 was revised up by more. The Bank expects the employment rate to return close to the pre corona levels by late 2022 – and do not plan to lift its signal rate before that. The NoBa unemployment rate is calculated via National account data, not the LFS, and data are not directly comparable

None of the employment surveys signal a brisk recovery

NoBa's Regional Network expects slower employment growth the coming 6 months





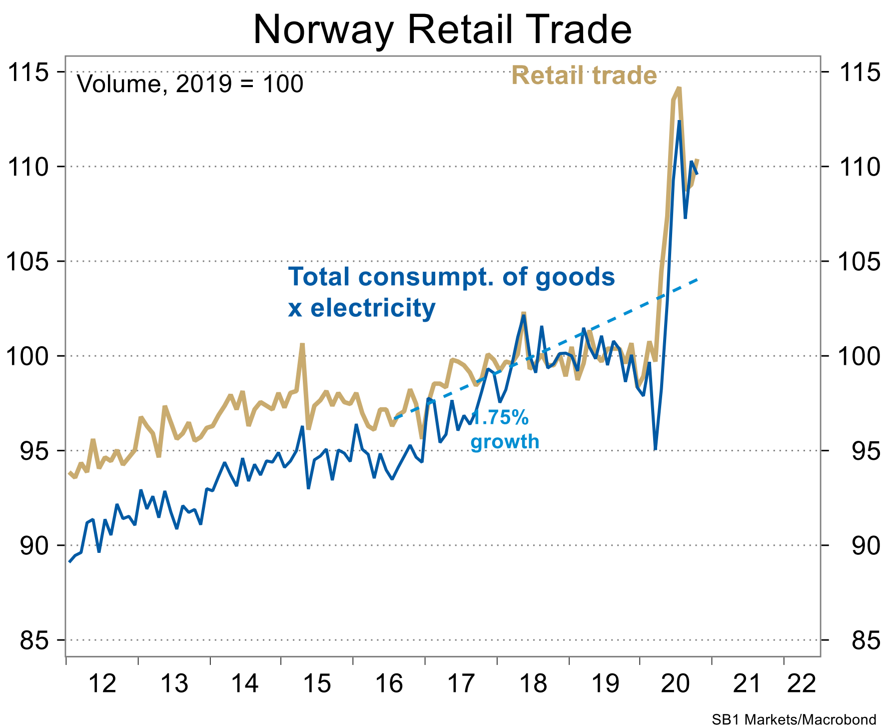


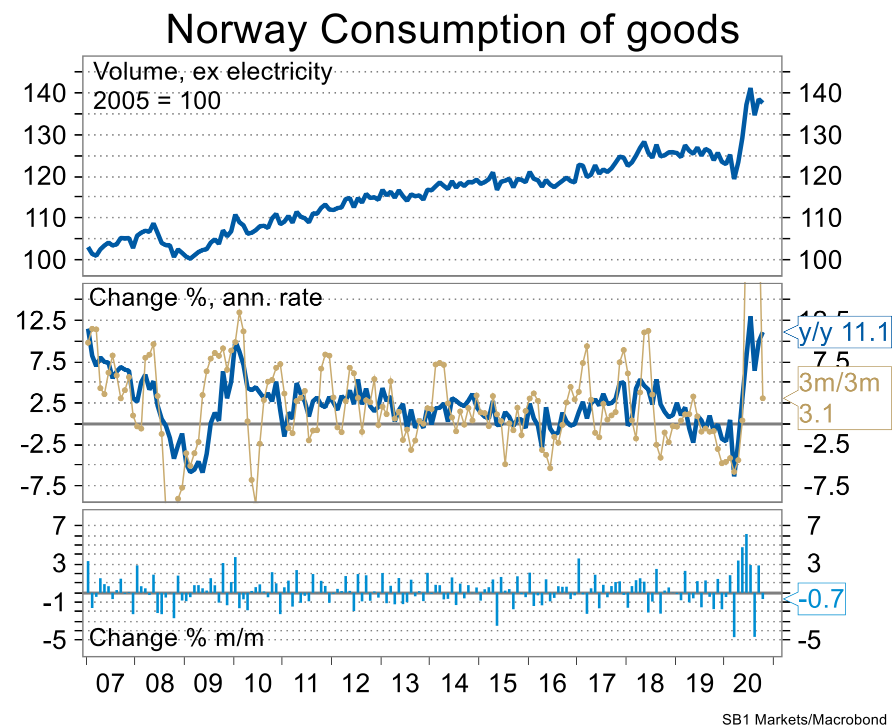
- All employment surveys have turned up, however, the levels are still low for most of them
- Norges Bank's Q3 Regional Network reported a modest recovery in May-July (following a much steeper drop) and expects slower growth the next months

SpareBank 1 MARKETS

Retail sales further up in Oct, 10% above par

Still not possible to spend money abroad, limited possibilities to enjoy services at home

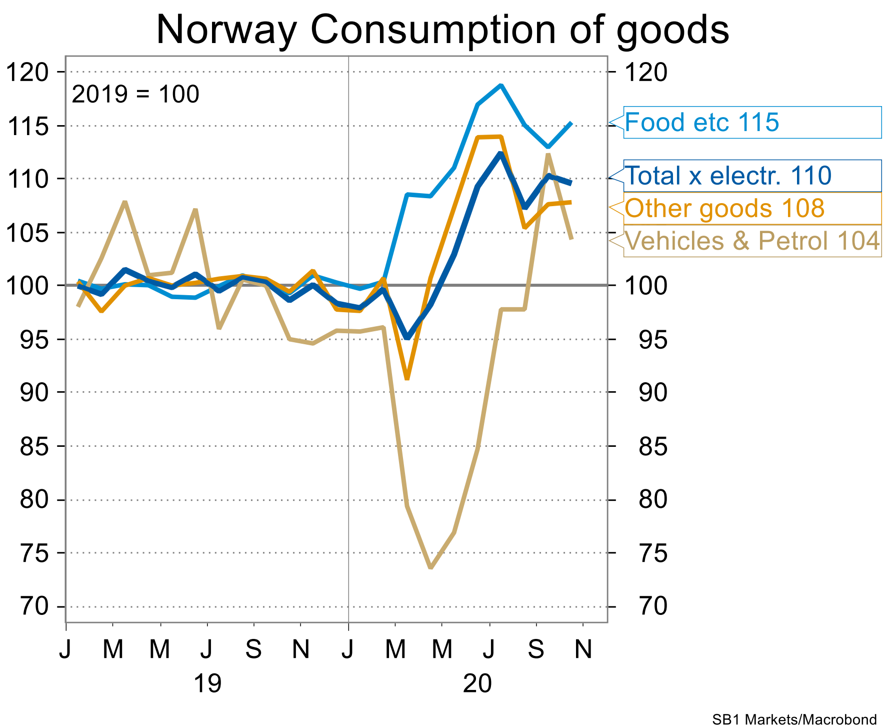


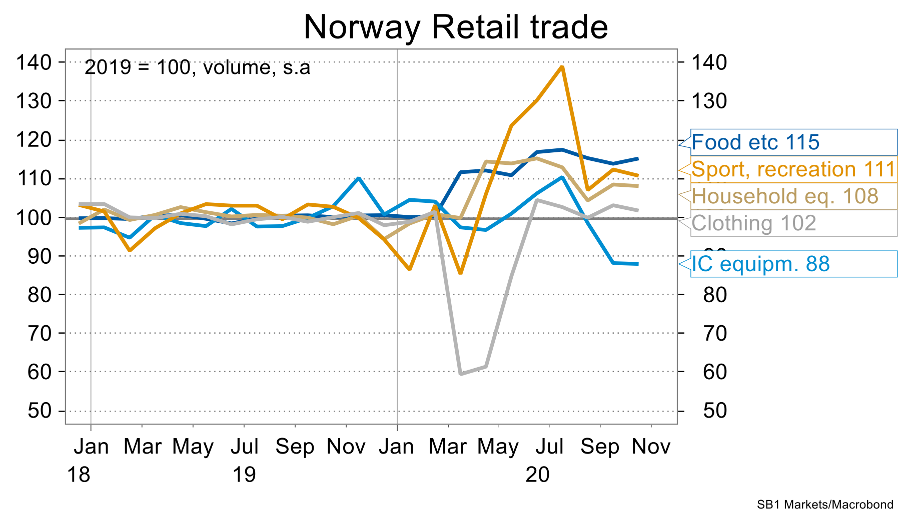


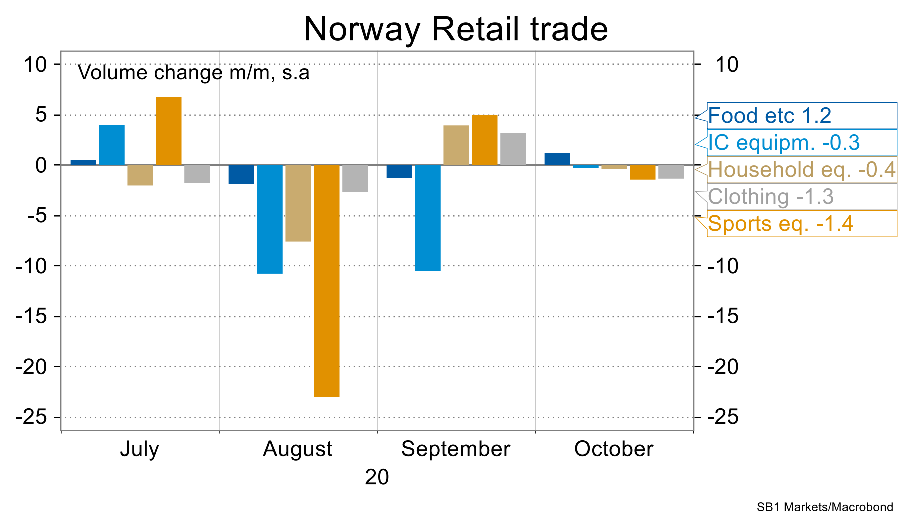
- Retail sales rose by 1.2% m/m in Oct, expected up 0.5% (we had 0.0%). The level is 10% above the pre corona level – with most branched contributing on the upside
- Total consumption of goods fell 0.7%, following the 2.9% hike in September. Consumption has flatted over the past 3 months – at a high level
- We expect a gradual decline in retail sales the coming months/quarters, even if some sectors will blossom as long as borders are more or less closed, and we cannot go shopping in Sweden or spend time (and money) abroad
- Service consumption is of course far below a pre corona level, no data included in these retail sales data. Sept. data will be out Nov 12

Food +14%, other goods +8%

Food sales remain high and will remain high until borders (and restaurants) are opened





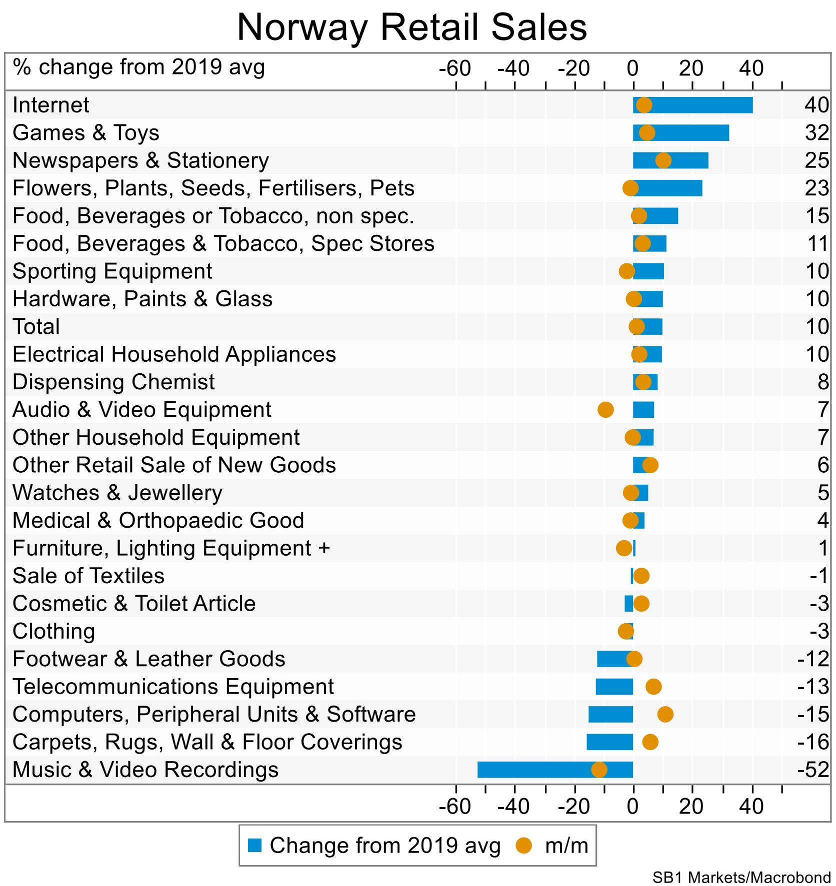


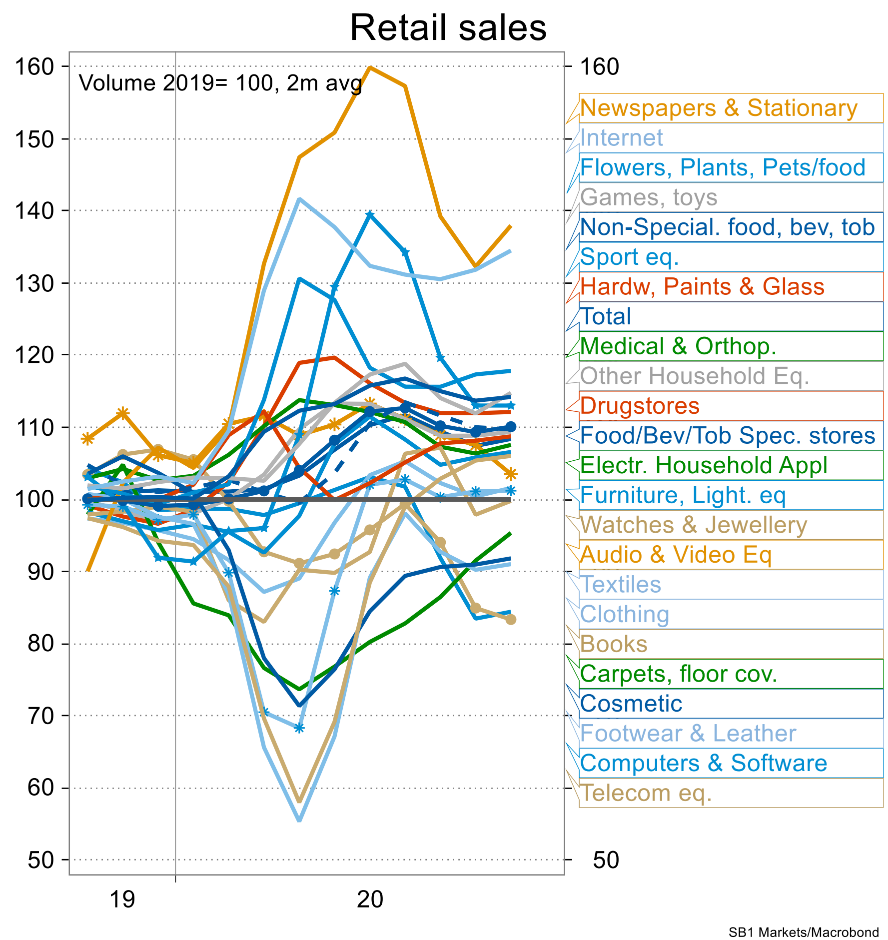
- Sales of sport equipment, information & communication technologies and household equipment are all still above the levels from February. Clothing recovered well in the spring/summer and are back at a 'normal' level

SpareBank 1 MARKETS

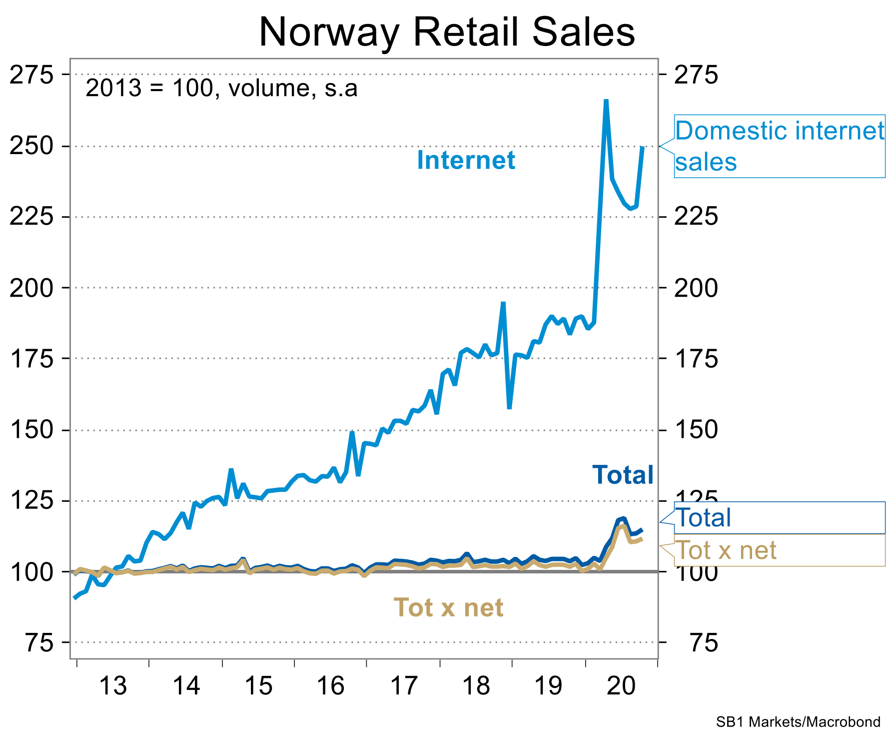
Some wild months – the broad trend is towards 'normal'

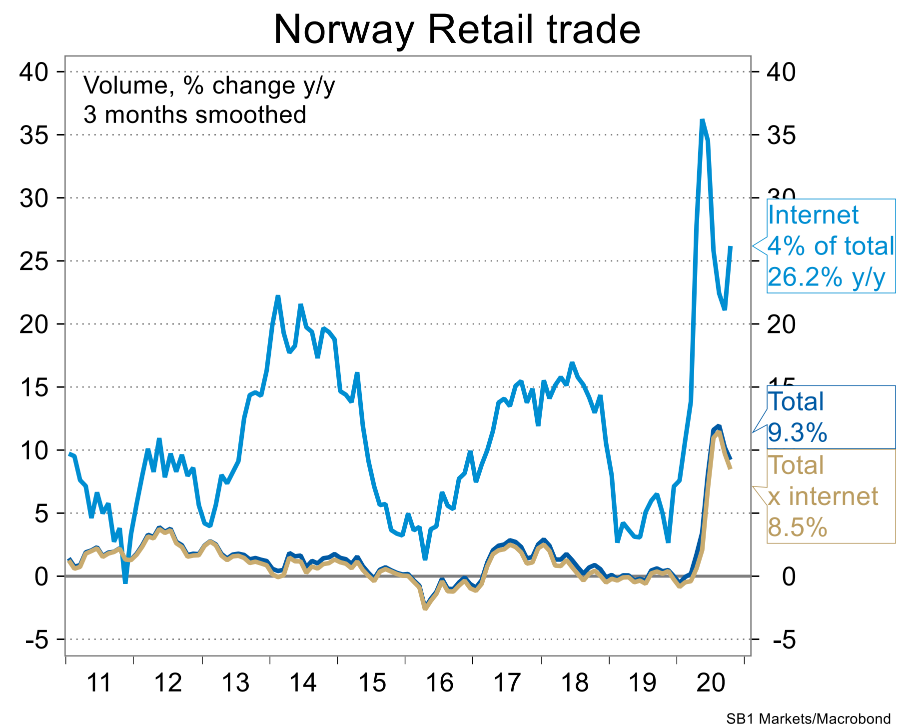
With some exceptions: Telecom equipment remains a loser





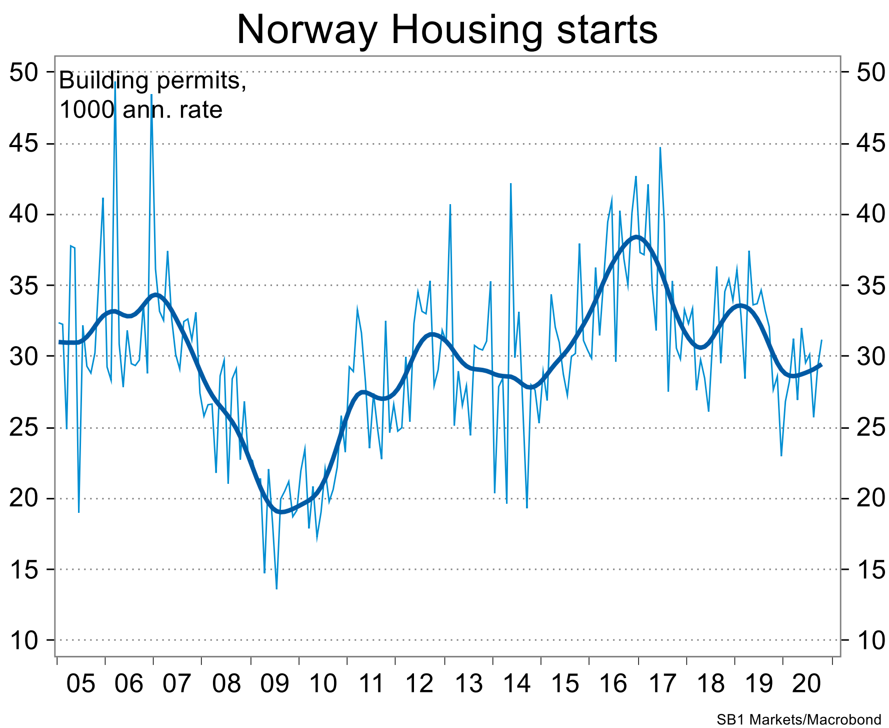
Internet sales (domestic) up 26% - but that's just >1% of total sales

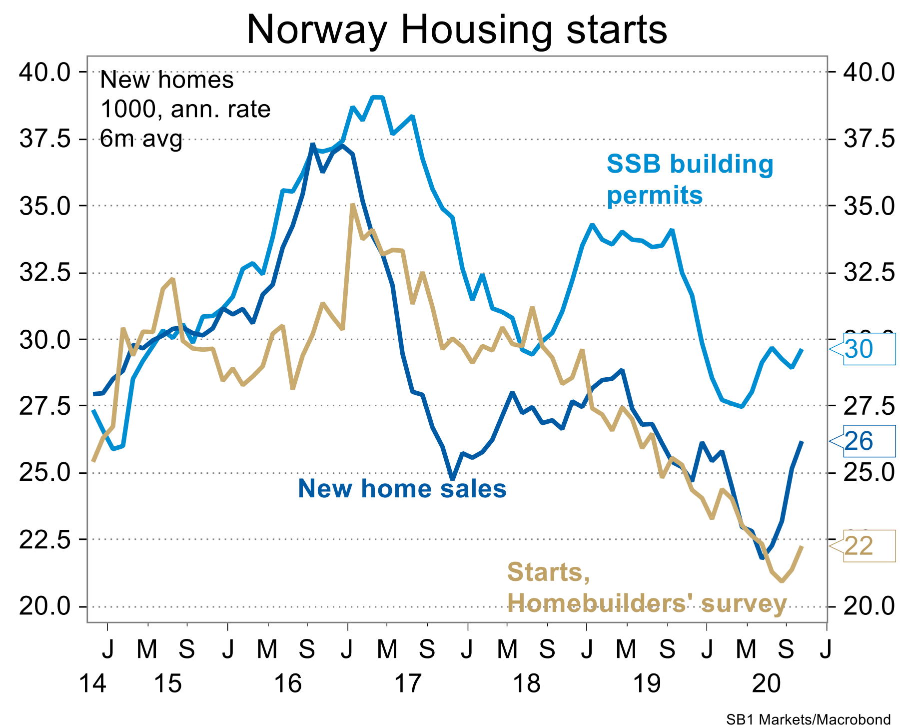




Housing starts are turning up? Give the 2nd hand market, they should

Sales are back, according to the Homebuilders' survey



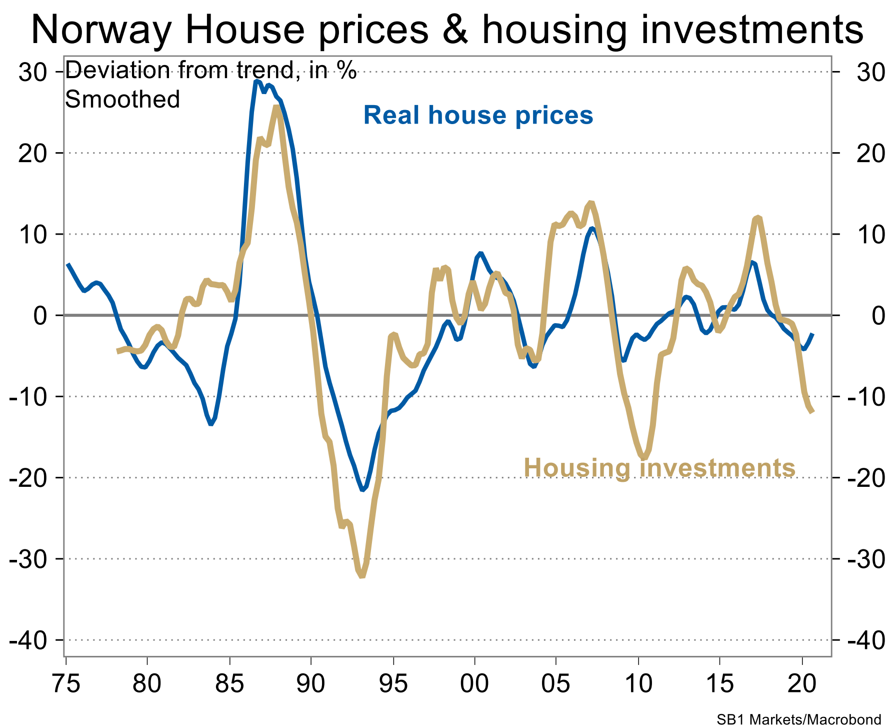


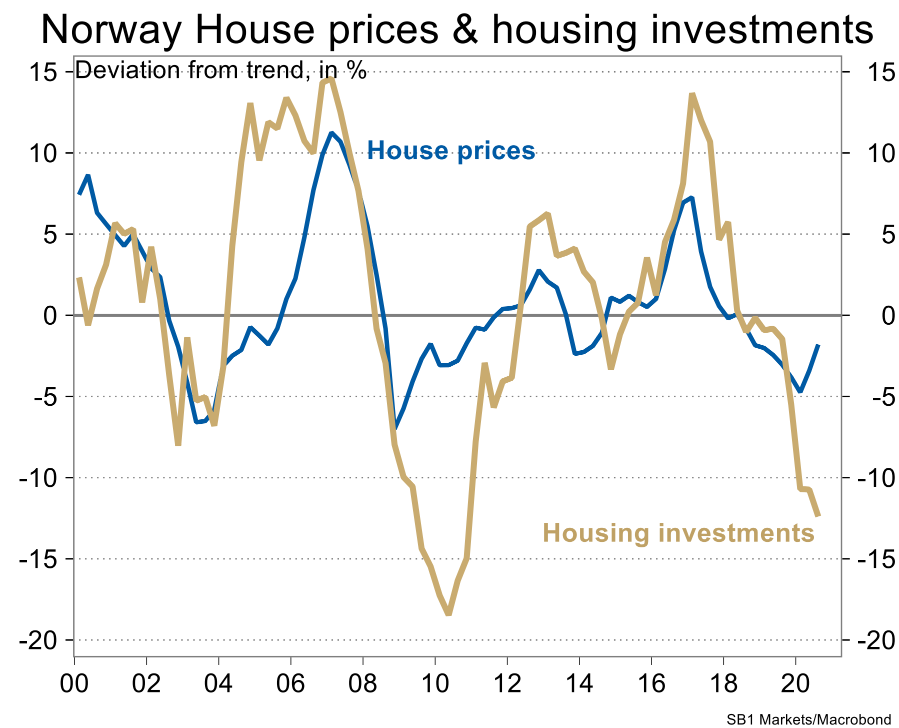
- Housing start have probably turned up – and rose to 31' in Oct from 29' in Sept
- Homebuilders have reported an uptick in new home sales - but so far not to above the pre corona rather moderate level. Lately, they have reported higher actual starts too (but the 6 m avg is still at a low level)

SpareBank 1 MARKETS

Housing starts/investments in tandem with house prices, no surprise

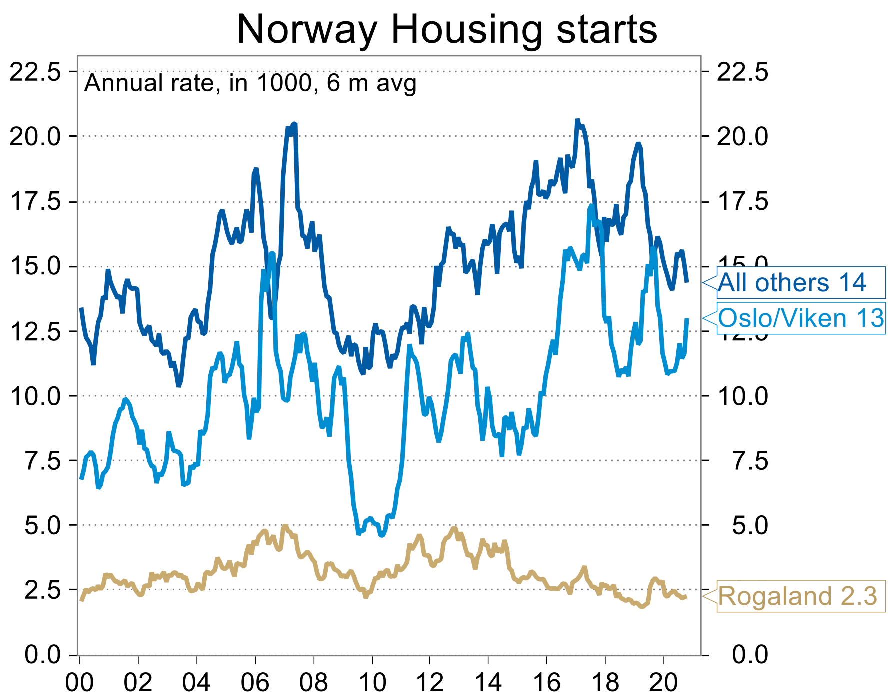
And now prices are turning sharply up, following slower price growth than ‘normal’ since early ‘17



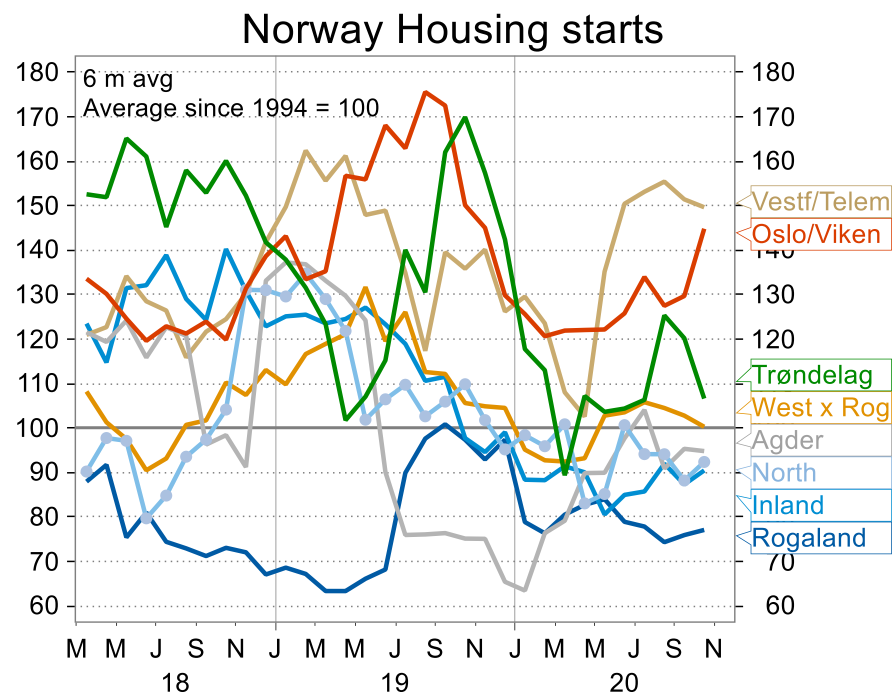


Starts are picking up speed in Oslo/Viken – lower than normal only in Rogaland

Starts are strong in Vestfold/Telemark too



SB1 Markets/Macrobond

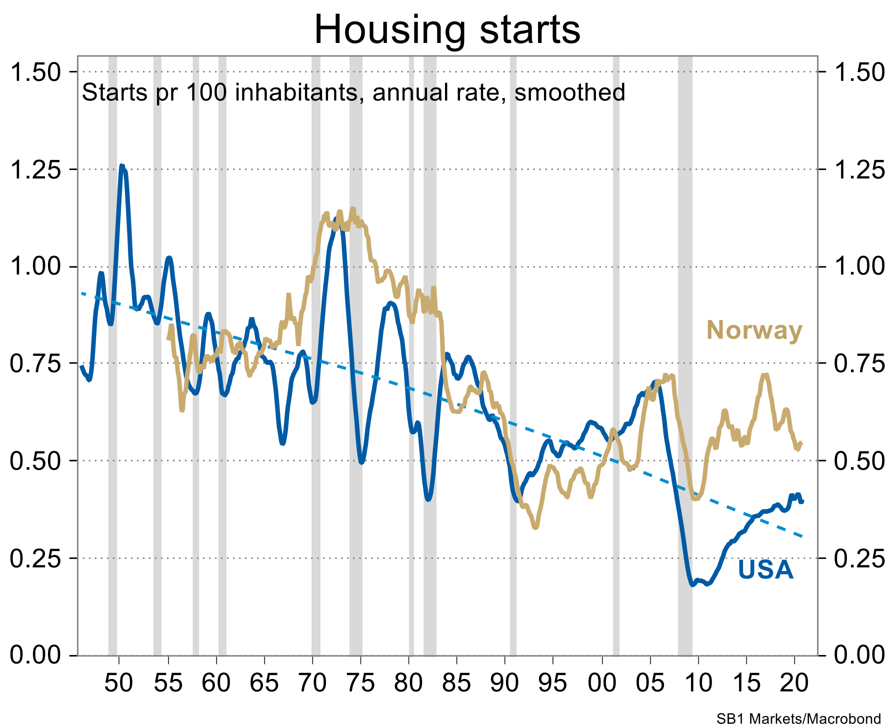


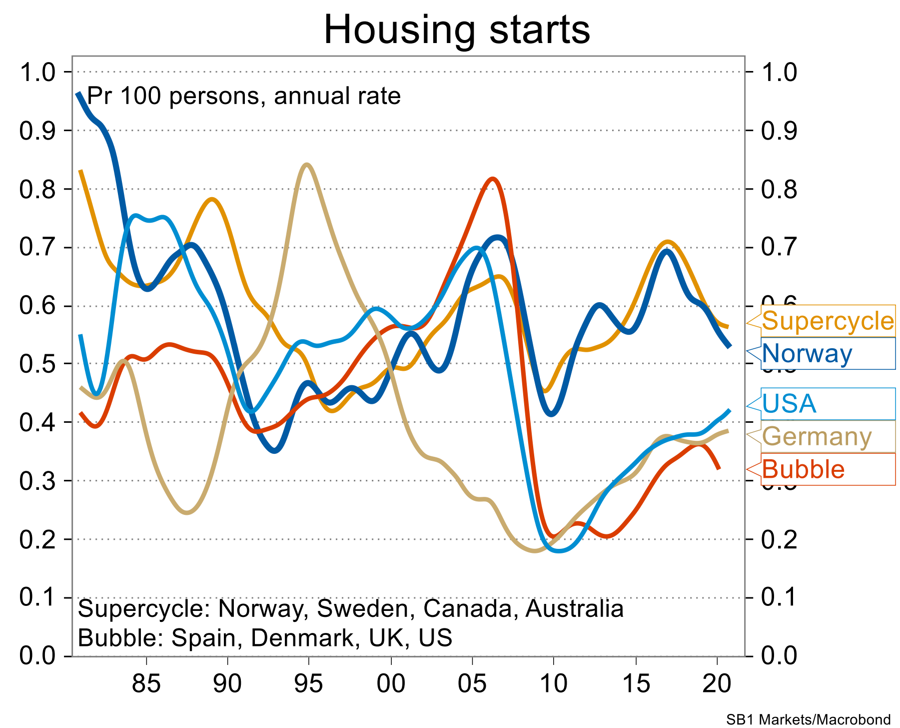
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Home building in Norway has been very high vs. other countries

Norwegian housing starts are in line with other 'supercycles' and still higher than in other DM

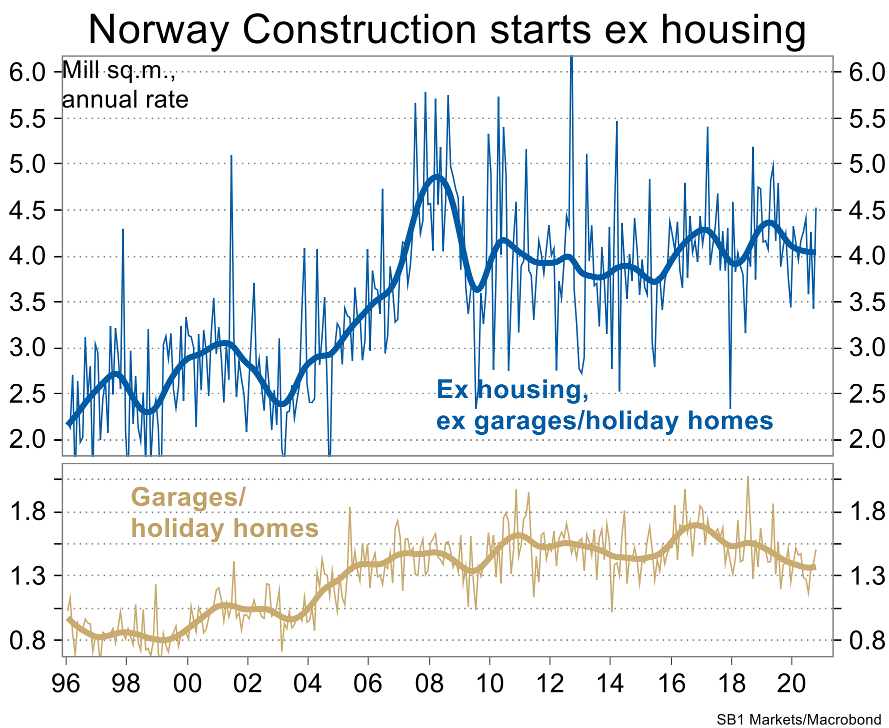


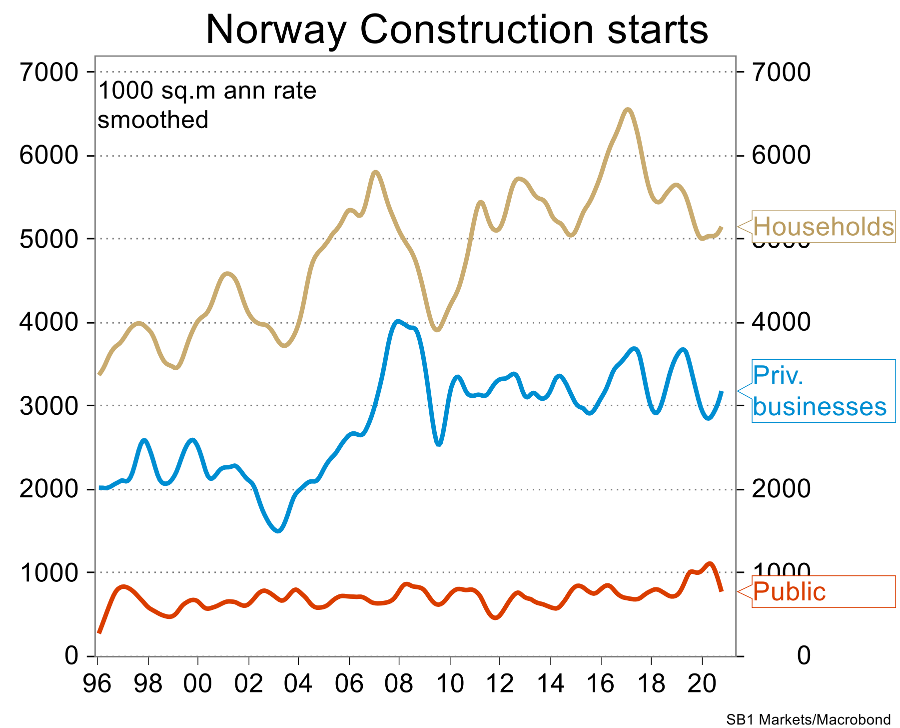


- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been quite closely correlated the past decades. Starts are falling in Australia, Sweden and Norway, and more modestly in Canada
- House prices and debt inflation are higher and rental yields are lower in these supercycle countries than other DMs. Because interest rates have been too low for a long time, as they were cut to more or less the same level as in countries that actually needed a strong monetary stimulus after 2008?

Construction ex. housing slowdown halts – short term trend flattish

Business construction down from 2018 peak and garages/2nd homes/cabins are trending down

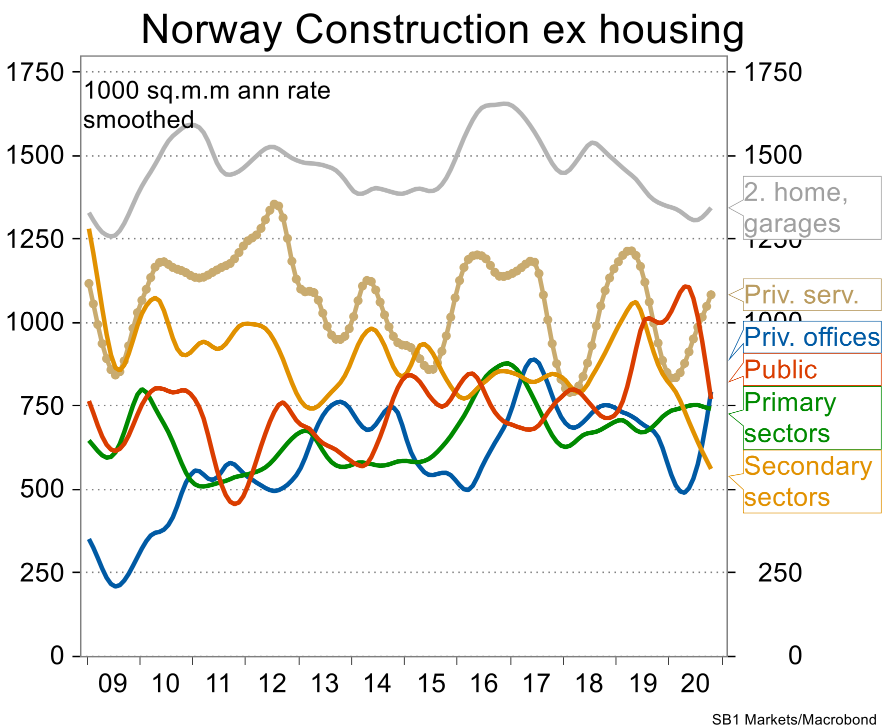


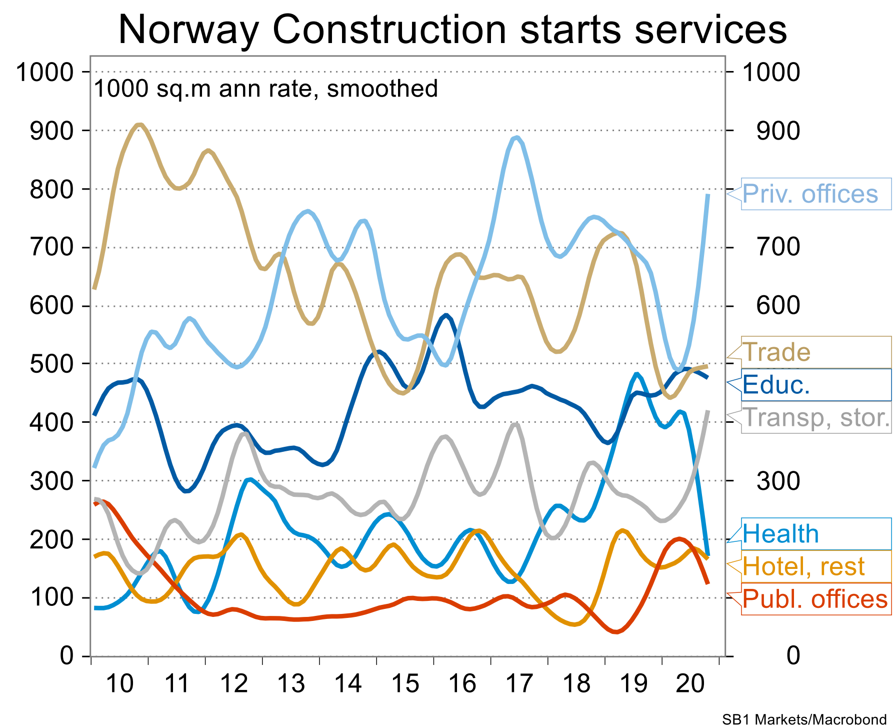


- Construction ex housing, garages/cabins turned down last year but has stabilised in 2020. Quite remarkable?
- Construction starts of cabins/garages are heading down and the level is the lowest since 2015. Not exactly what you would believe if you just read newspapers
- Public sector construction starts is heading up, partly due to the new hospital in Stavanger – but is not slowing

Volatile details: Private offices sharply up, trade still slow, health down

Manufacturing new construction has fallen sharply recent months. 2nd home/garages trend down

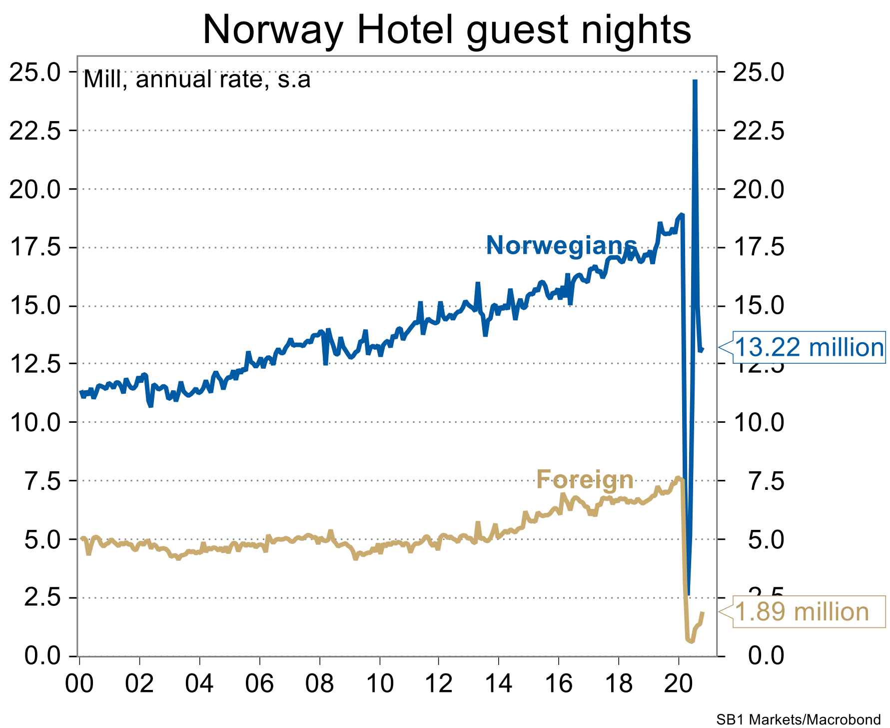


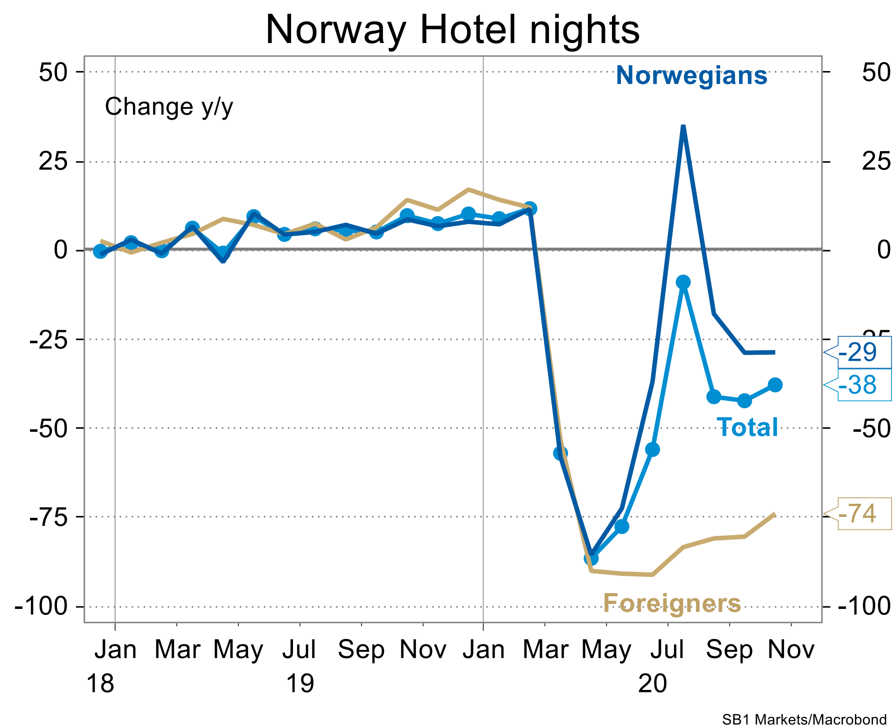


Public on the chart to the left: Construction starts in public administration, education and health

Hotel guest nights almost 40% in October

The good news: Domestic guest nights are down 'just' 30% (hope data are correct)

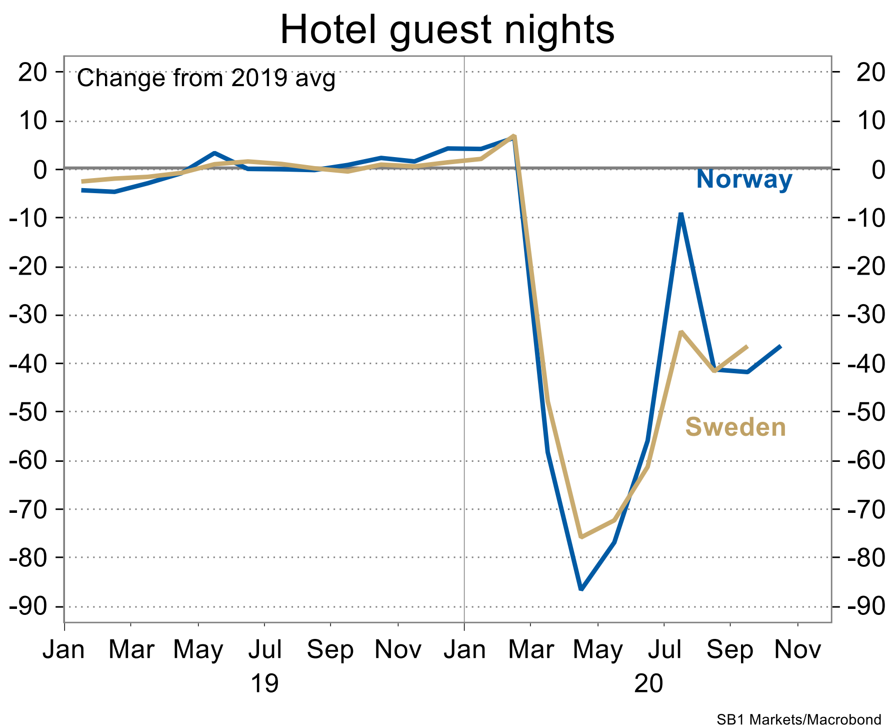




- Just July had been anything close to normal for Norwegian hotels since February. Hotels cannot return to anything like normal activity before corona is brought under control, both in Norway and abroad

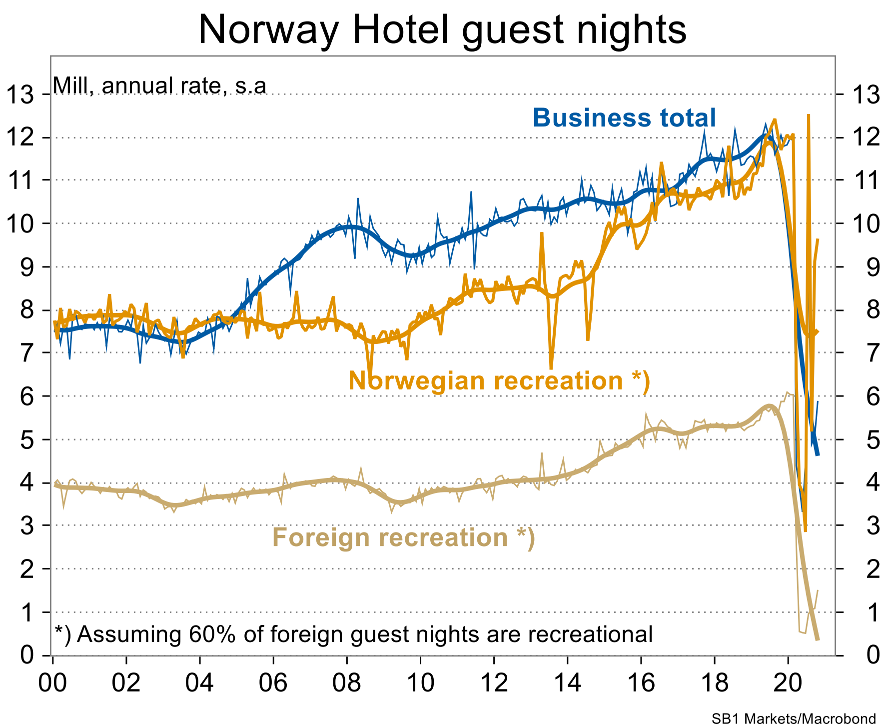
Don’t blame the ‘lockdowns’. Blame the virus

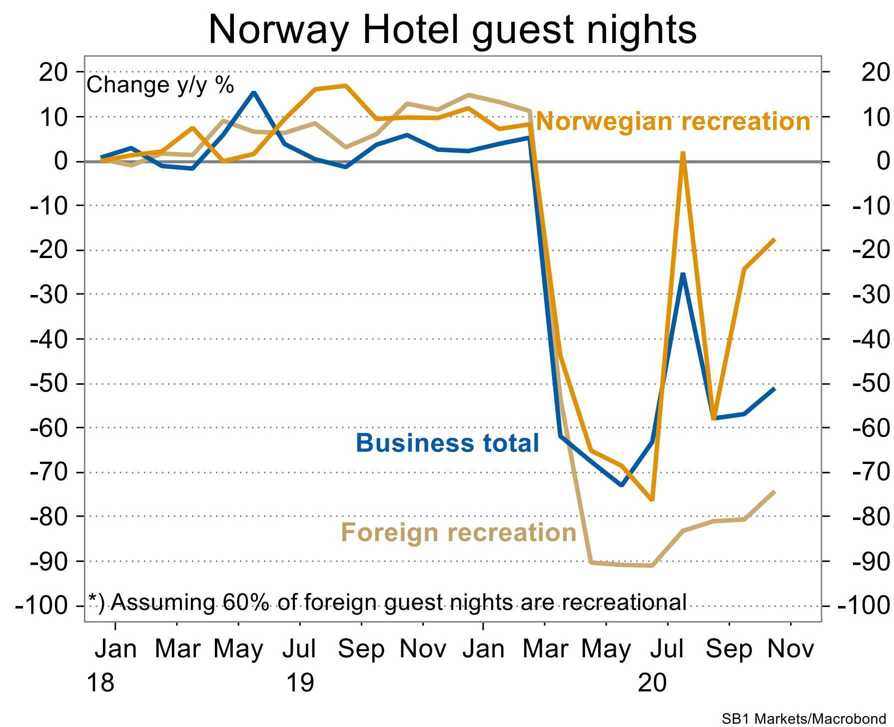
Spot the difference between Norway & Sweden (and we could added other European countries)



- Of course, both Sweden and Norway are approx equally hit by loss of foreign guests but domestic traffic is equally down both places as well, even if the official Covid-19 policy response has diverged sharply

Business hotel nights are down 50%, domestic recreation just some 20%

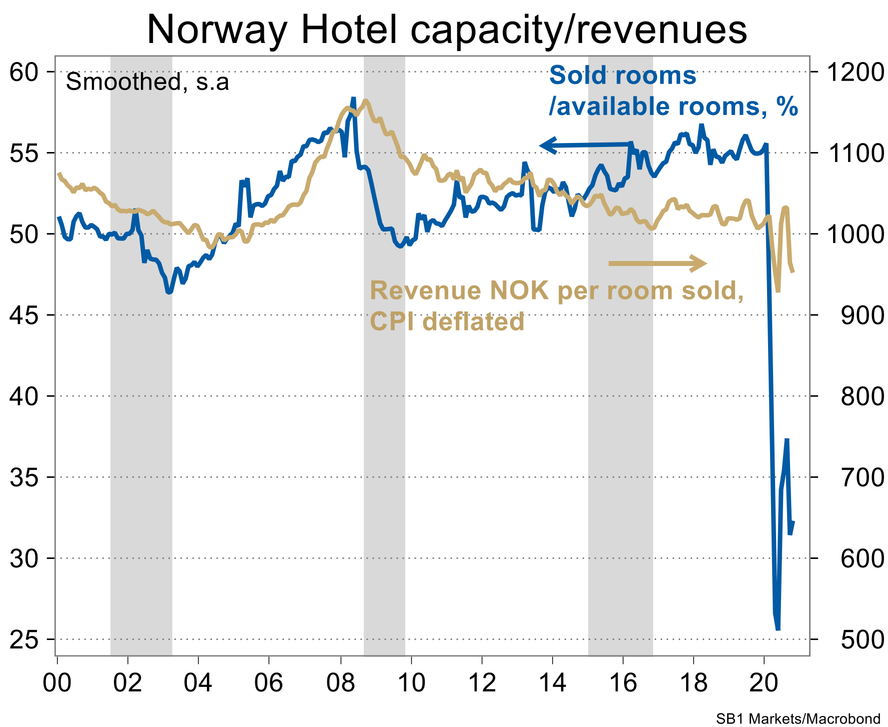


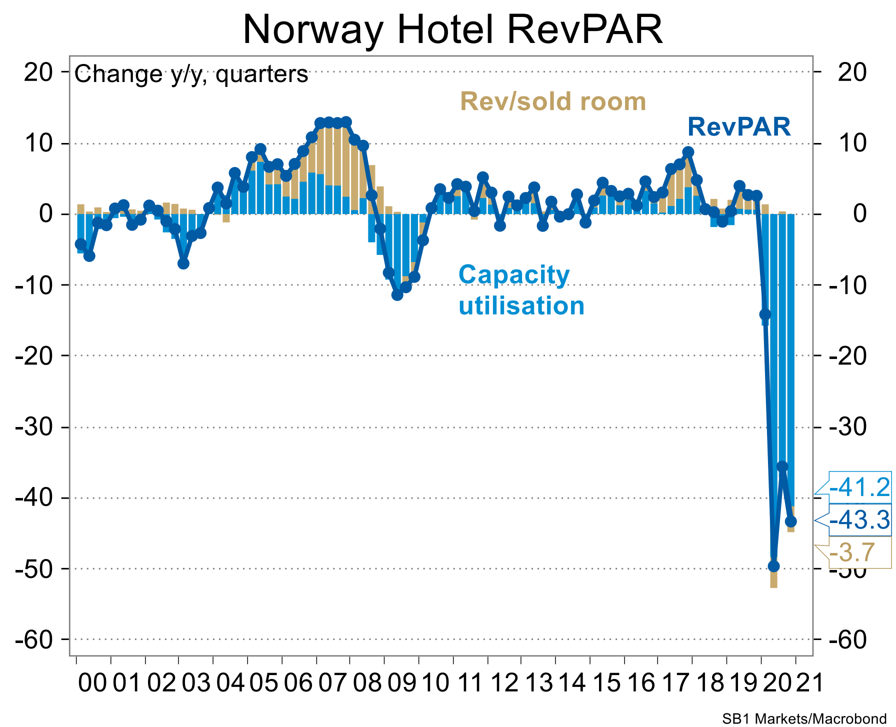


- Domestic recreational traffic is rather strong? Just down 20% vs. normal (based on heroic assumptions, see below)
- Business hotel guest nights are down 50% y/y but 60% from just before corona

Capacity utilisation down to 30%, room prices somewhat down too

Room prices have kept up quite well – at least given the low rate of capacity utilisation

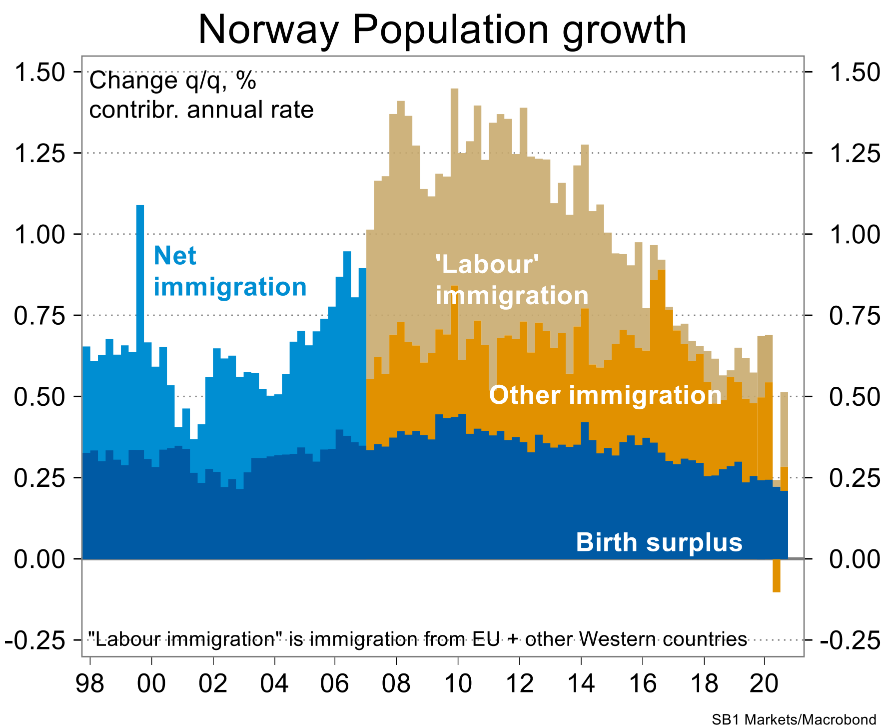


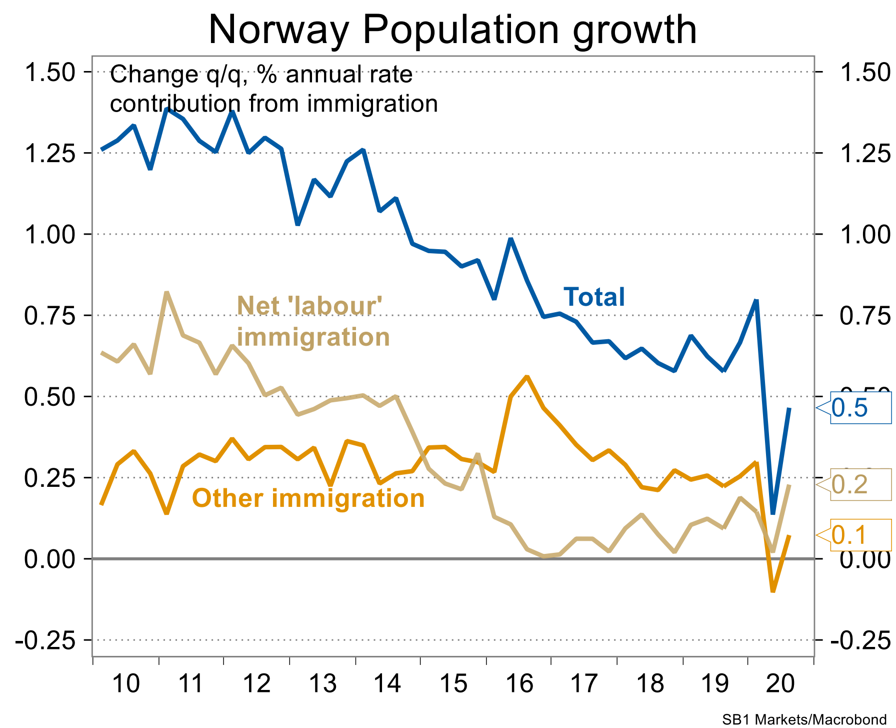


*RevPAR: Revenue Per Available Room = Avg room price pr sold room * rooms sold/available rooms*

Some net labour immigration in Q3 – but (Q2+Q3)/2 still low

The corona crisis has of course reduced global mobility – and will do so in Q4 too

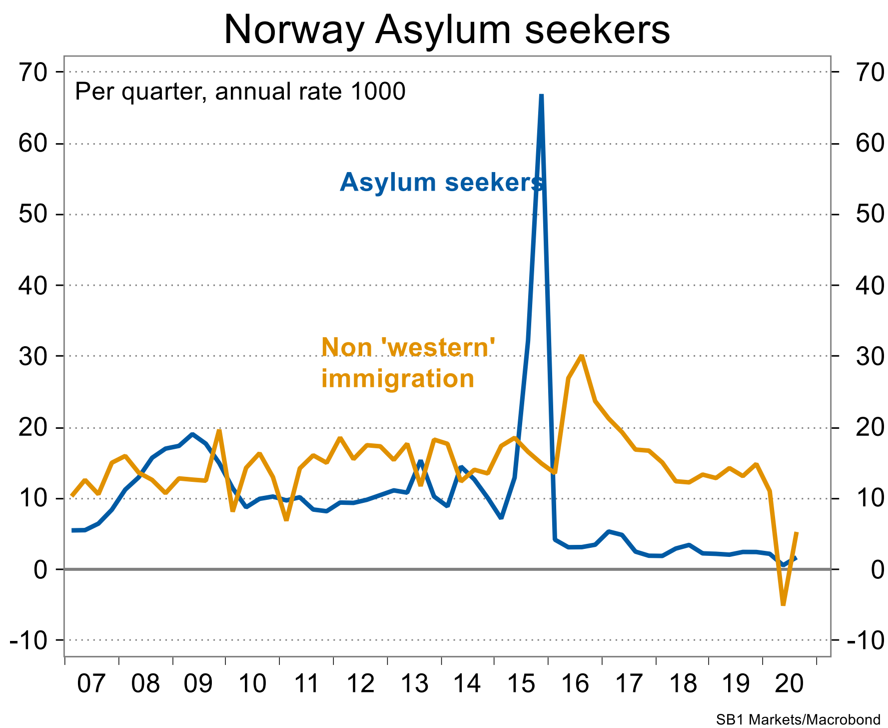


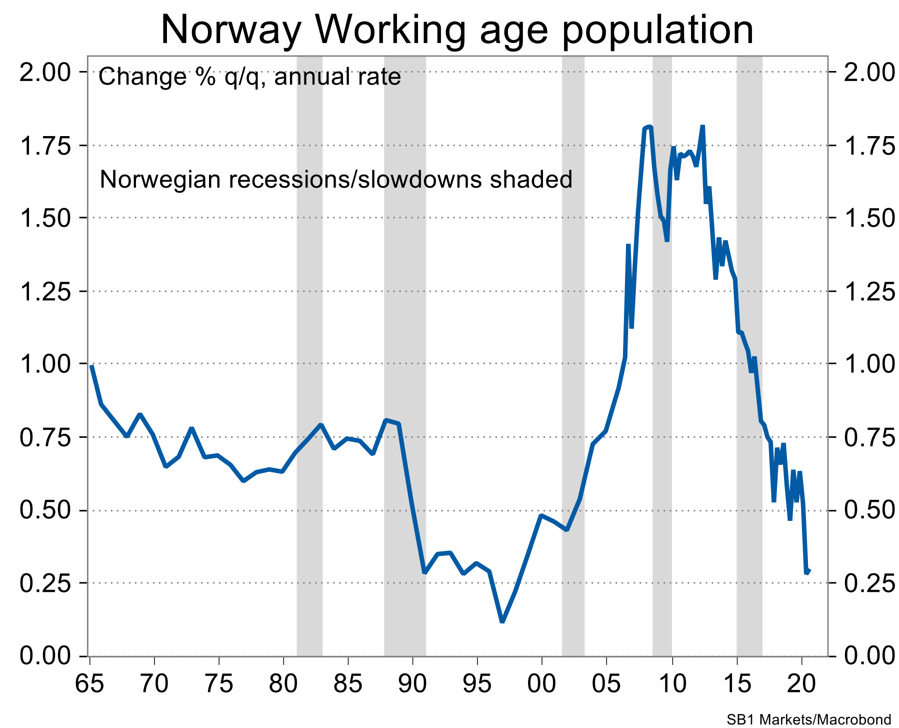


- Total population grew by just 28' persons over the past 4 quarters, the slowest growth in 15 years – equalling 0.5%. The two past quarters have been special, for obvious reasons, and we cannot draw any implications from this experience
  - » Immigration from abroad fell to below zero in Q2 and recovered somewhat in Q3. The average of the two past quarters is low
- Before corona: Employment growth was slowing, quite steady – from 1.3% in 2011 to half of that level last year
  - » The birth surplus is declining steadily
  - » Labour immigration, defined as immigration from Western countries, including central eastern Europe fell sharply 2010 – '16, and recovered some of the decline during 2018/19 but is still adding just some 0.1 pp to population growth – it used to be between 0.5 and 0.7 pp
  - » Non-Western immigration has been stable the past 10 years, barring the 'Syrian' surge in 2015/16 and the corona «closure»

Working age population grows has fallen to the lowest level in 25 years

Until corona, non-western immigration was a stable, normal level pre corona

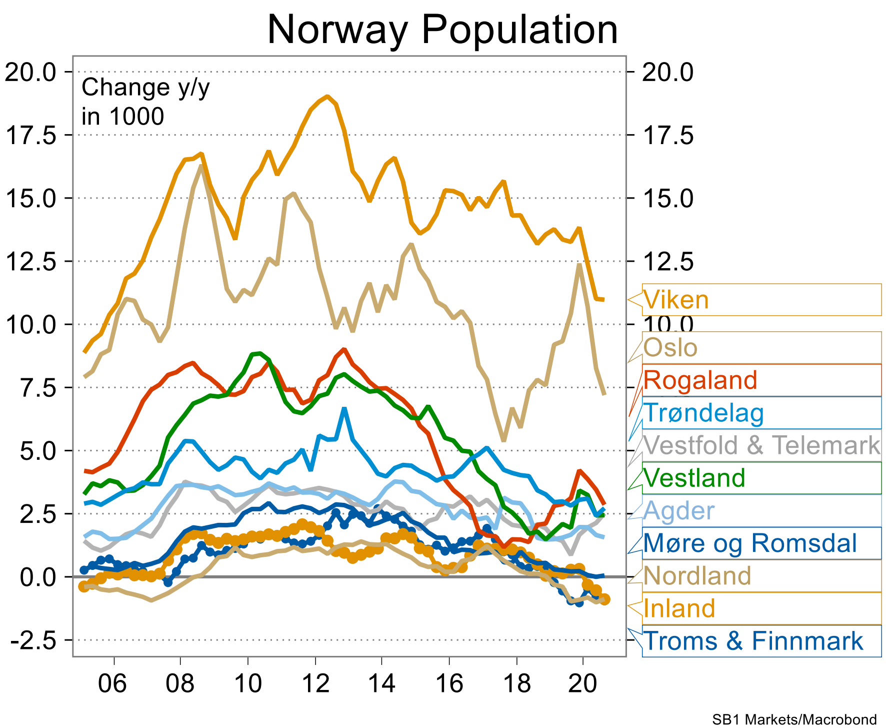


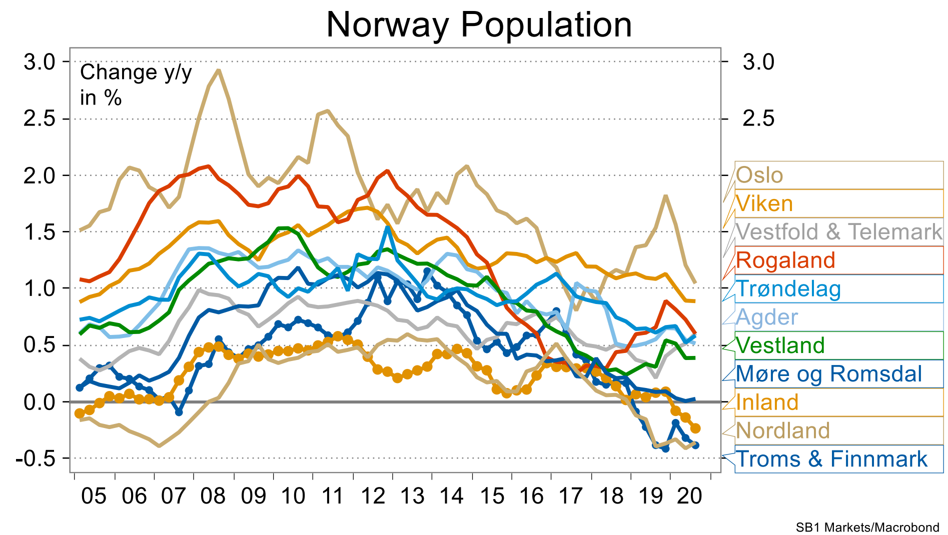


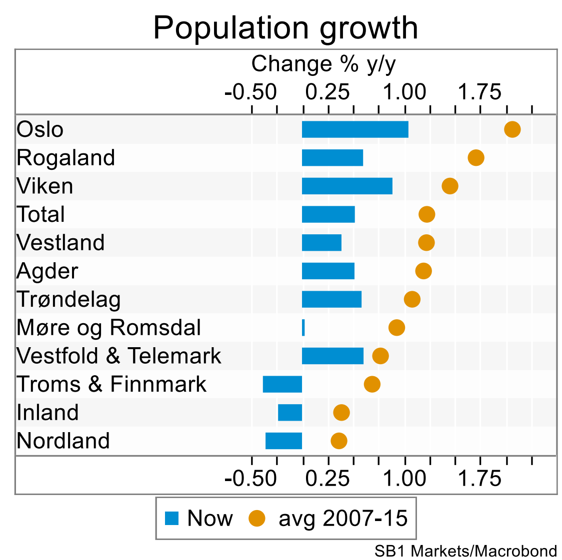
- Growth in non-western immigration fell back to ‘normal’ before corona, following the ‘Syrian’ surge in 2016. During the corona quarters, non-western immigration fell to the lowest level ‘ever’
  - » The inflow of asylum seekers have stabilised at a low level, well below ½ of the ‘normal’ level before 2015 – and it fell to almost zero in Q2/Q3
- Growth in the working age population is at 0.3%, down from above 0.5% before corona – and from 1.75% back in 2012

Barring corona slowdown, still strong pop. growth in Oslo. Slowdown elsewhere

.. And population is falling again the North and in the Innland





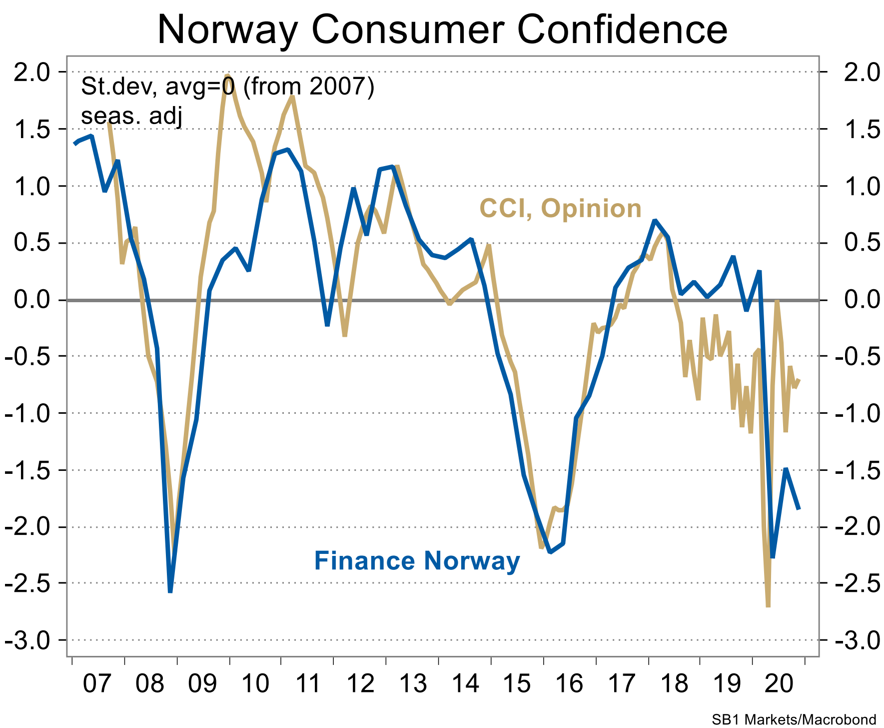


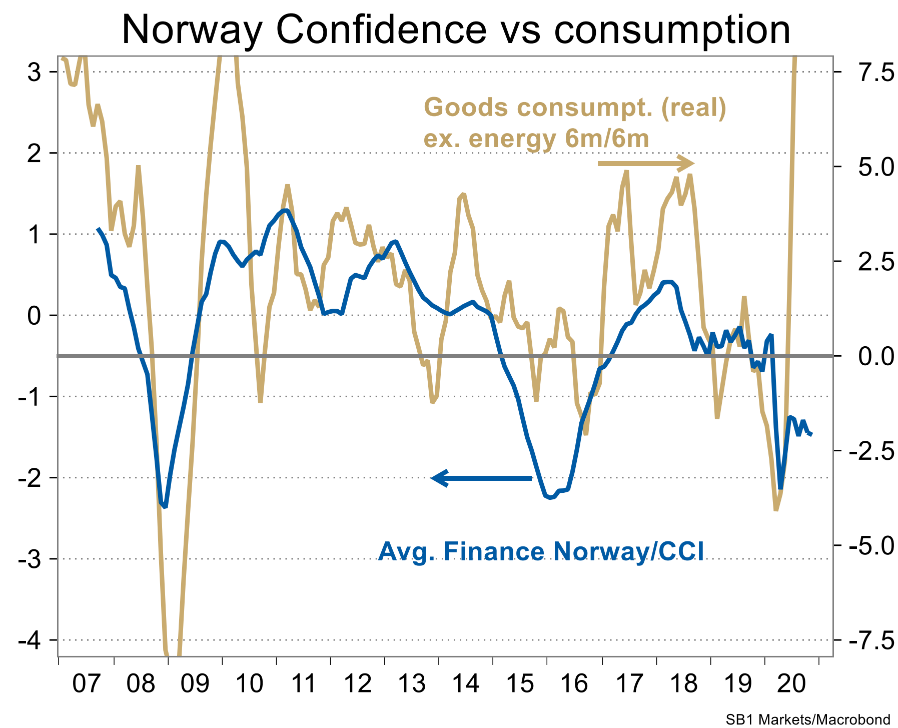
- To 2018 from 2012/13, population growth slowed in most regions, barring Akershus (now included in Viken). Since then, growth in Oslo has recovered, and Rogaland is slowly gaining pace, but still far below the pre-2013 growth rates
- Population growth has cooled substantially in all other regions, to below 2010-15 levels. Due to accelerated domestic out-migration, population is falling rapidly in the 3 northern counties, as well in the Innland county

These figures are not adjusted for a change in popul. stats in Q4-19

Opinion consumer confidence marginally up in Nov, far stronger than Finans N's

Consumer confidence marginally up in Nov, still (just) 0.7 st.dev below par





- The Consumer Confidence Index CCI from Opinion rose to -3.6 in Nov from -3.7 in October (not seas. adj). The level is below average – but in line with the level before corona!
- Finance Norway's quarterly consumer confidence index surprised us at the downside in Q4, the level is 1.8 st.dev below par, while confidence was at an average level before corona
- Retail sales and the housing market indicate positive households, but the activity in the service sector is far below par, as is unemployment – and the overall mood does not seem to be upbeat? So who is right, Opinion or Finans Norge??

Highlights

The world around us

The Norwegian economy

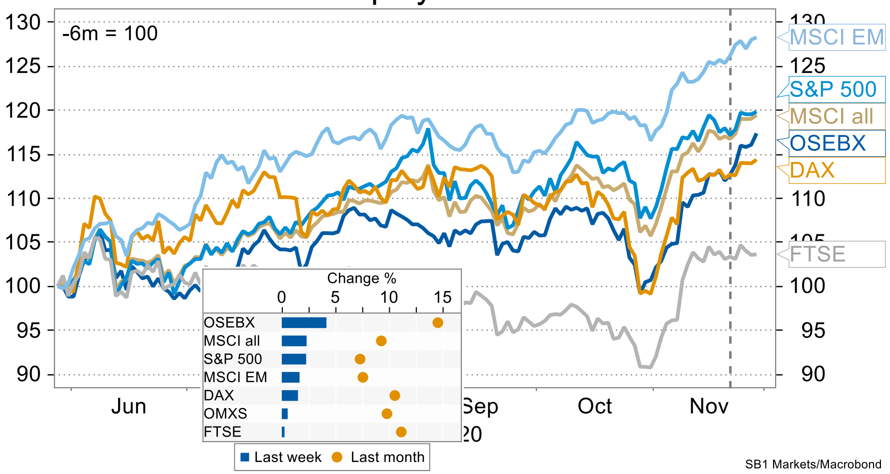
Market charts & comments

SpareBank 1 MARKETS

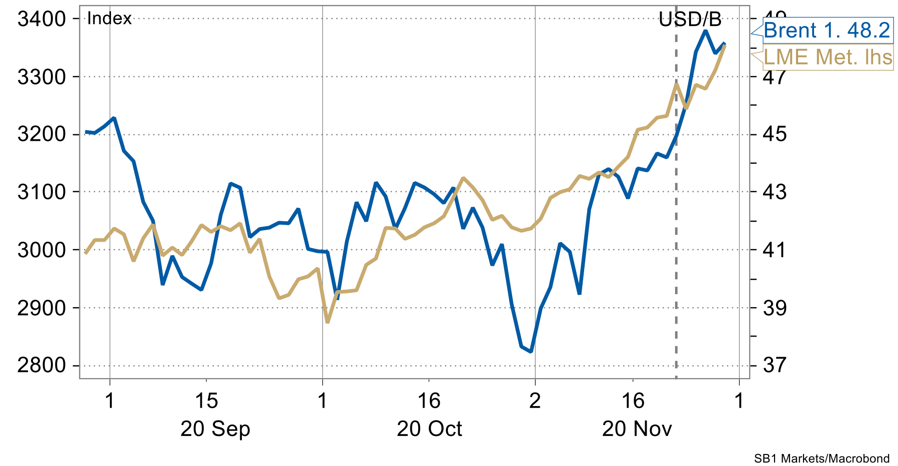
What a month for equities! If no catastrophe today, the best month in decades!

Metals, oil on the way up too (and the OK) – while the USD is sliding down. Bond yields a tad up in avg

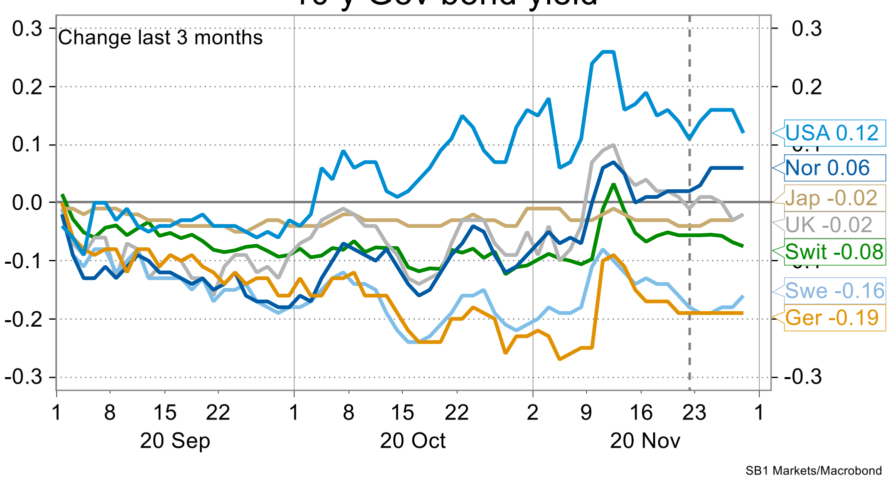
Equity Indices



Oil vs. metals

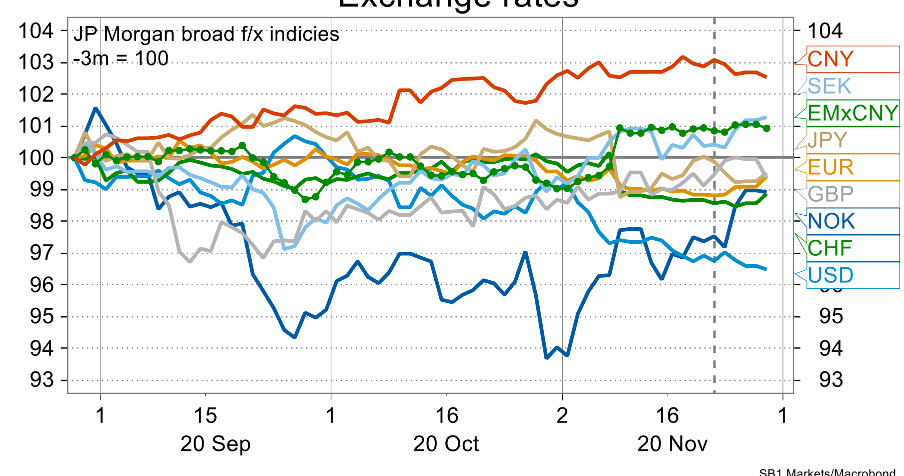


10 y Gov bond yield



Just NOK 10 y gov bond yields rose last week

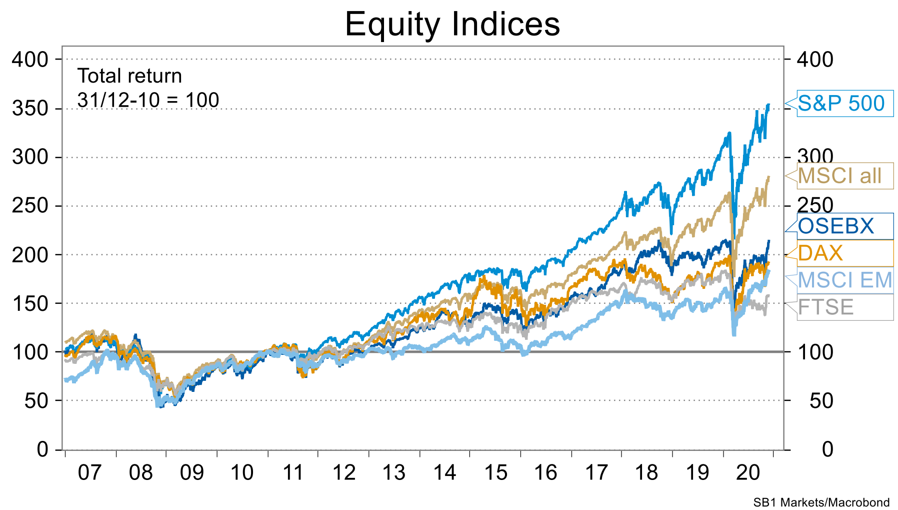
Exchange rates

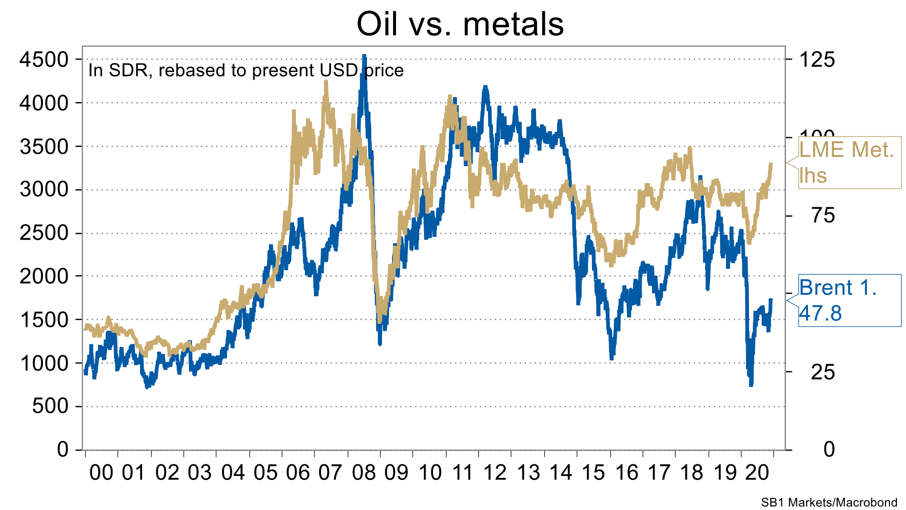


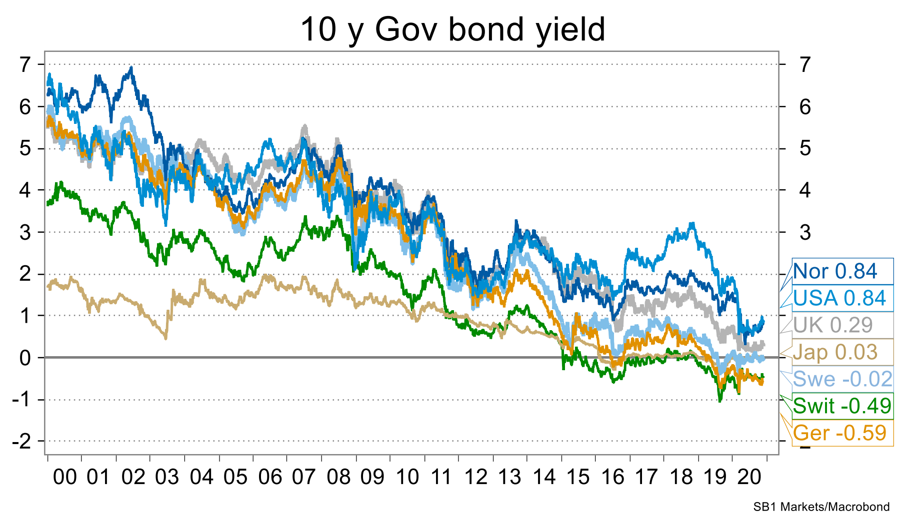
The CNY continues upwards, the USD downwards

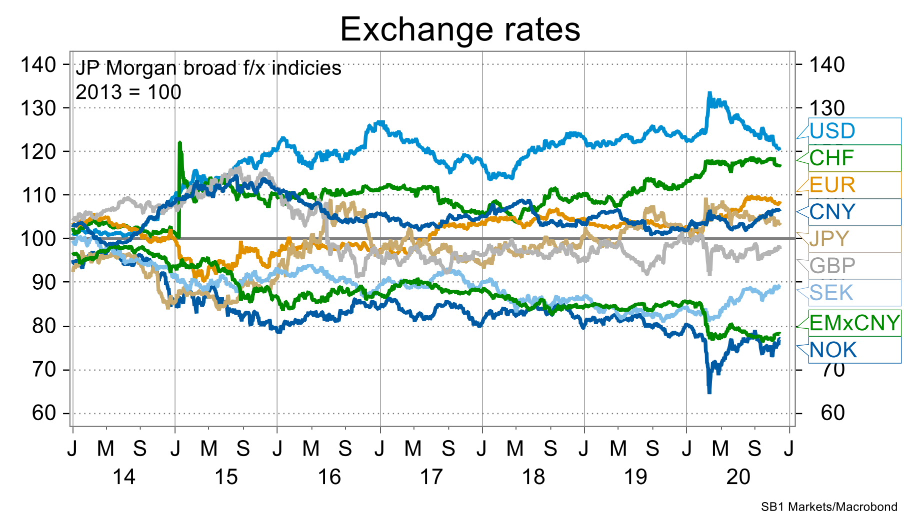
The sky is so bright, I gotta wear shades

The Virus created a 'V' in the economy and now the Virus is around the corner





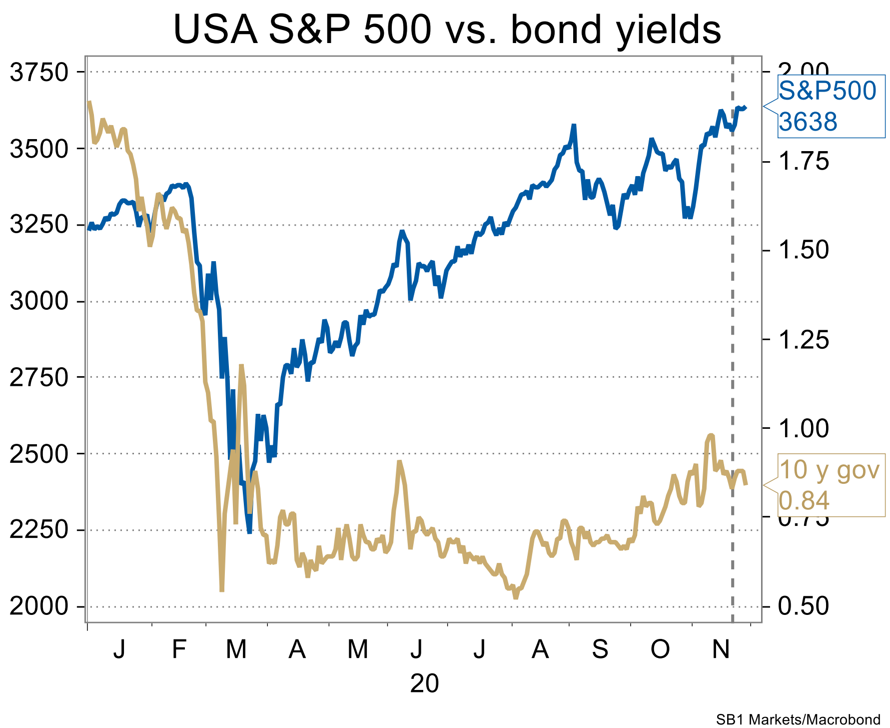


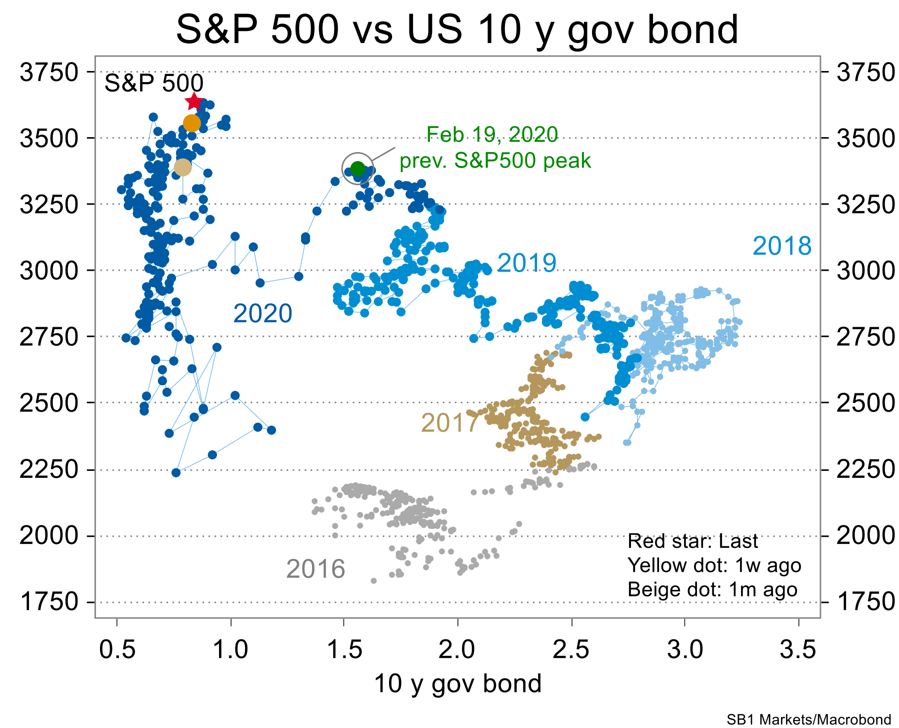


The USD is down but not dramatically – and it is still quite strong (though the weakest since mid 2018 (measured by broad f/x indices). NOK still a loser

S&P 500 2.7% to ATH, Dow Jones was above 30’. The 10 y bond yield just up 1 bp

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

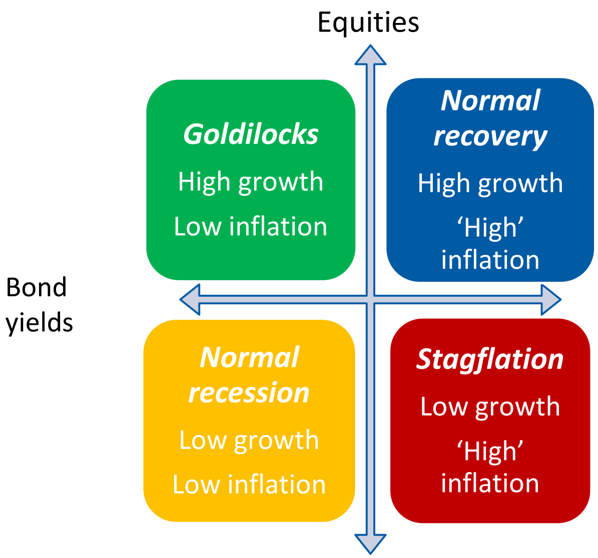


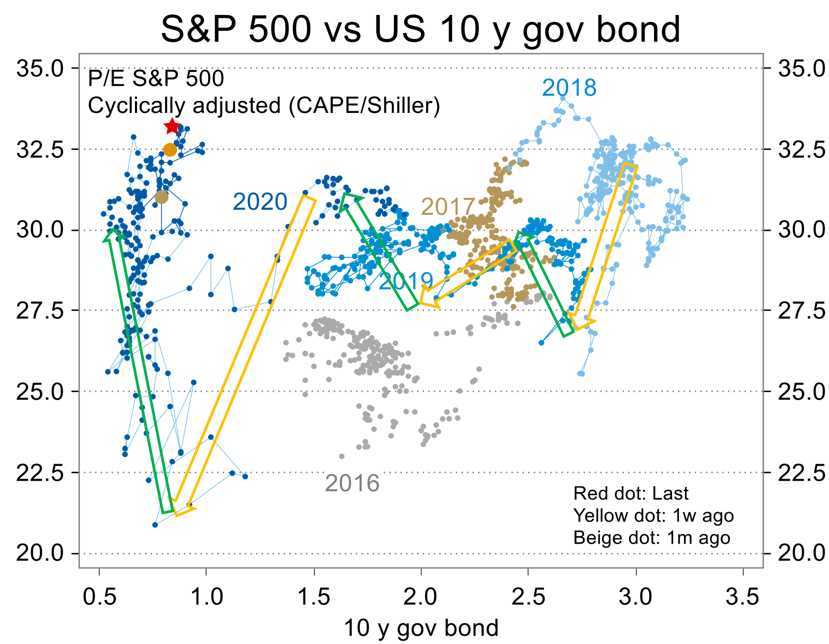


- Party, party! Vaccines are coming (even if AstraZ may have made some dubious shortcuts), the US will very likely have a peaceful transition to a new president, most economic data are strong. So don’t worry…

From the 'Goldilocks corner', where to go?

Over the past month/week: No clear direction





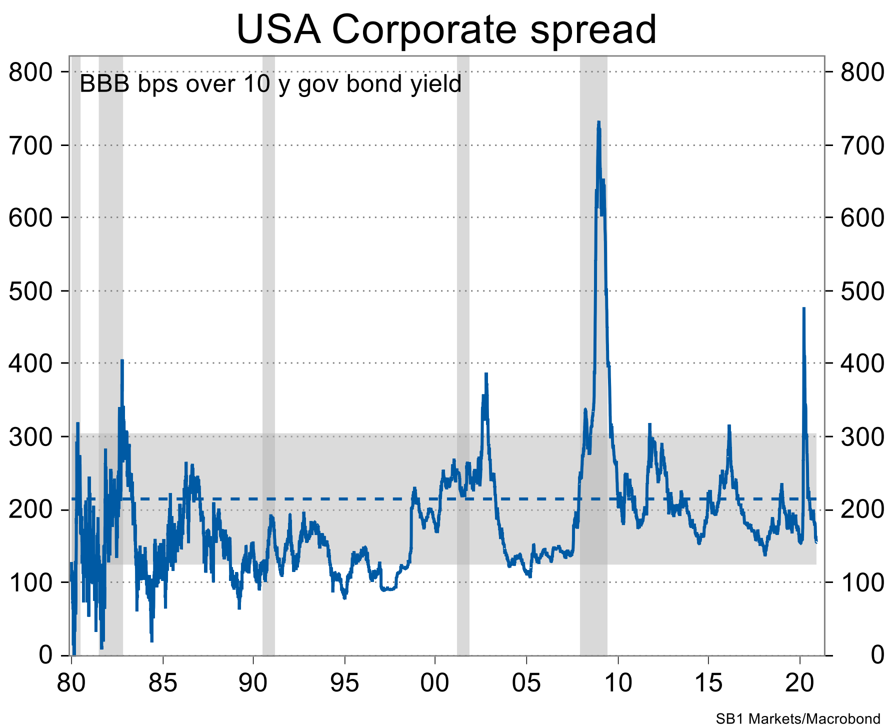
SB1 Markets/Macrobond

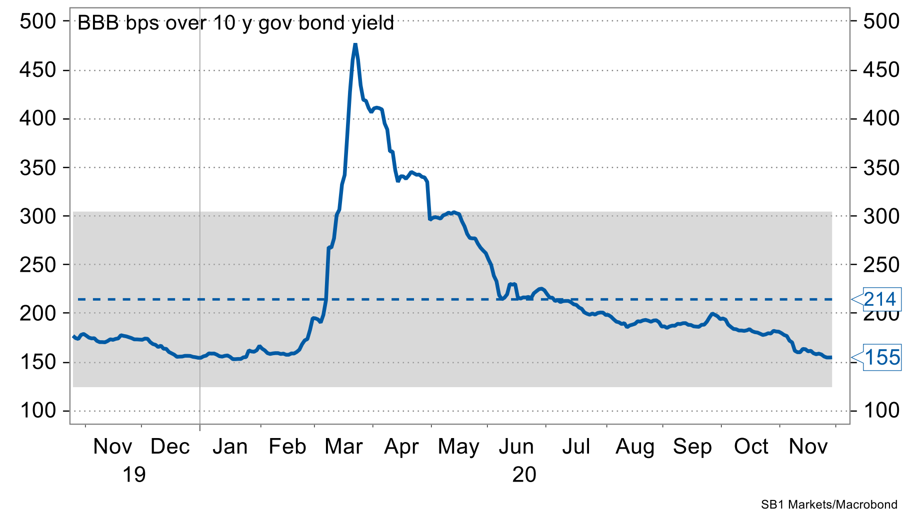
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 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? <u>Perhaps, for while – but probably not, long term</u>
  - » The economy has rebounded rapidly from the corona trough. Any substantial disappointment on corona/vaccine or the growth cycle in general would be challenging for the equity market. 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. <u>Interest rates had not been too low, even if that is the popular view these days</u>

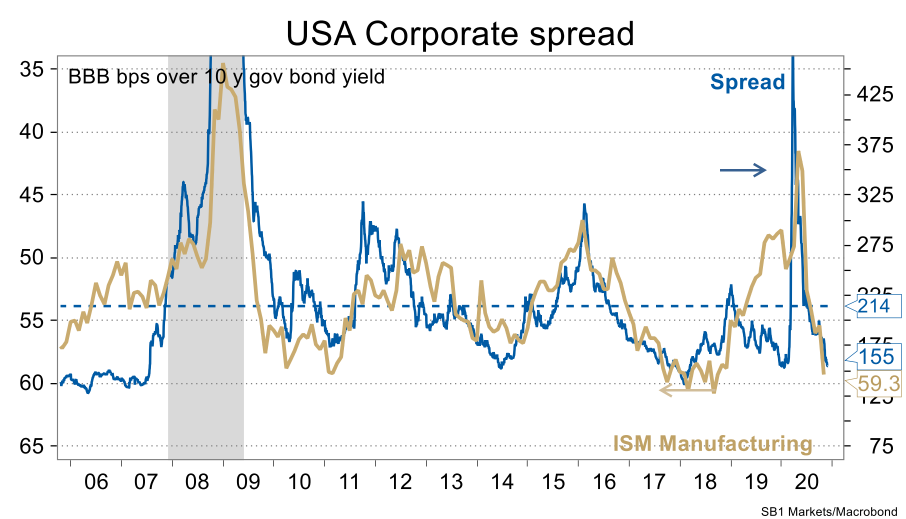
SpareBank 1 MARKETS

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



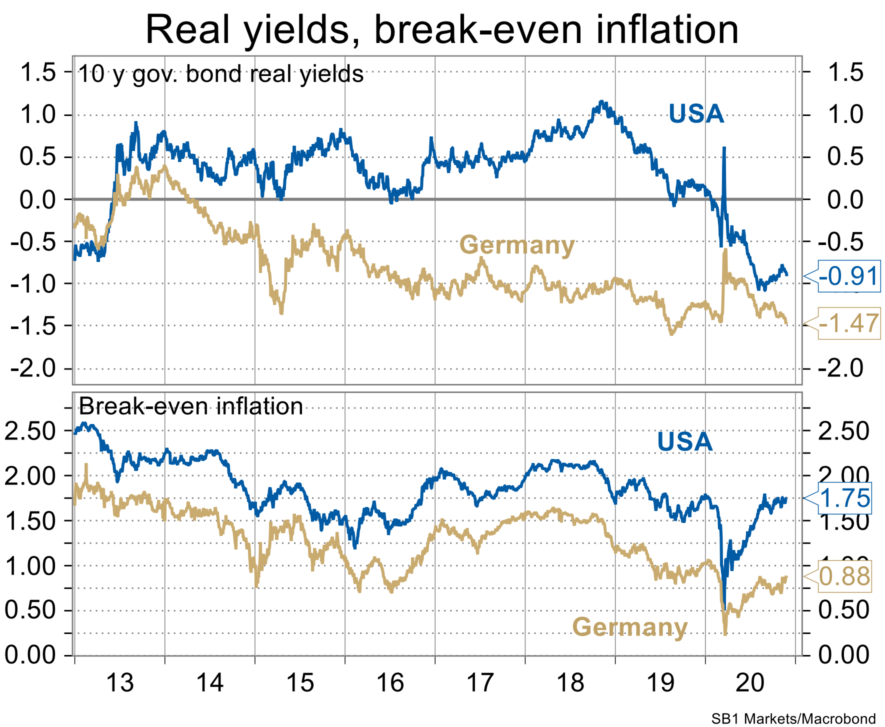


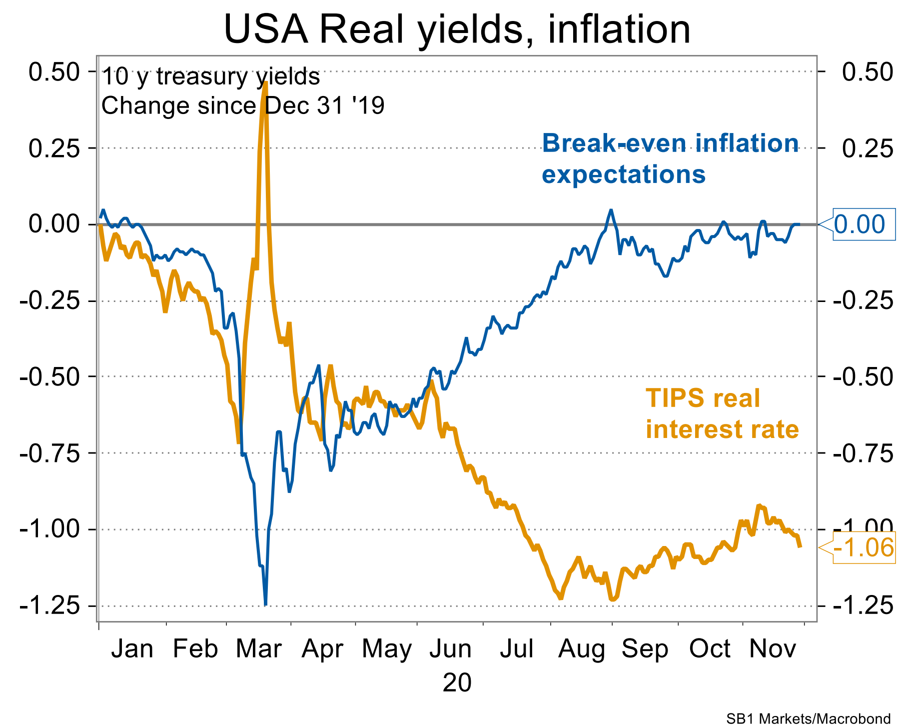


- These programs have hardly been utilised, but could still be looked upon as a lender of last resort, a bazooka that could be used, if needed. The credit market did not take notice when the Treasury announced that the programs would be terminated Dec 31, as planned when they were introduced. Will a 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 are declining again, now at -0.91%

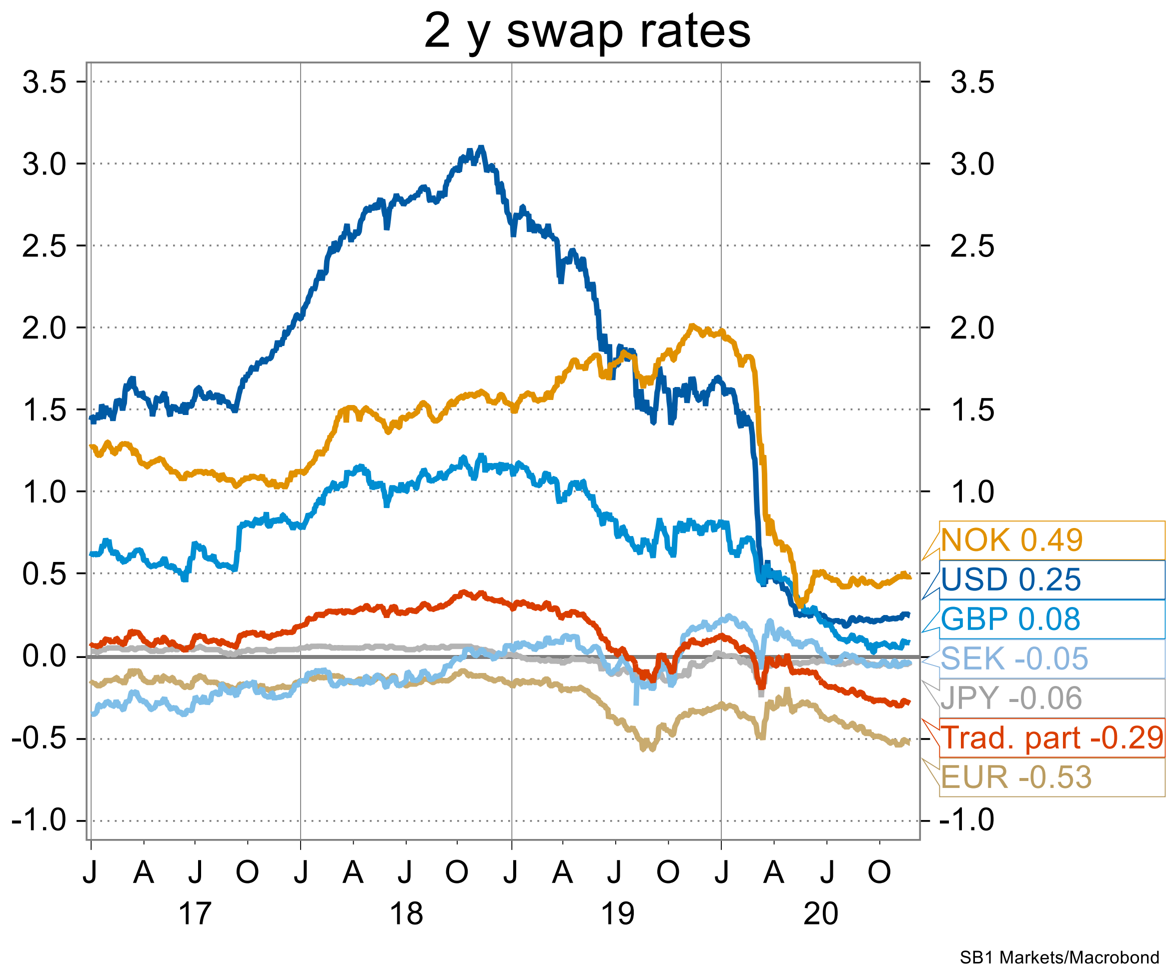
US inflation expectations are trending up to 1.75%

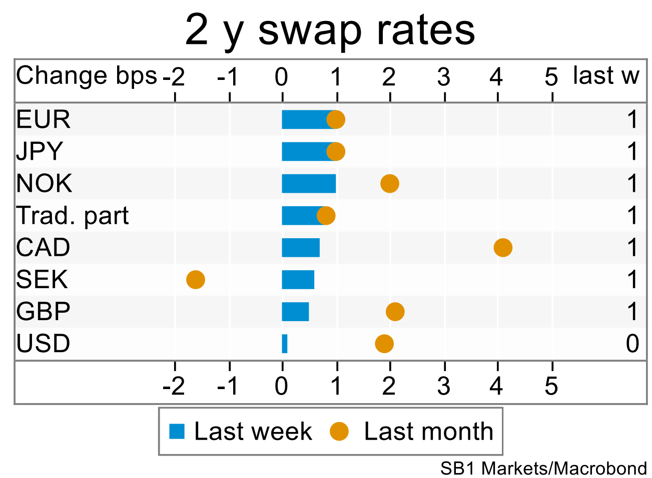




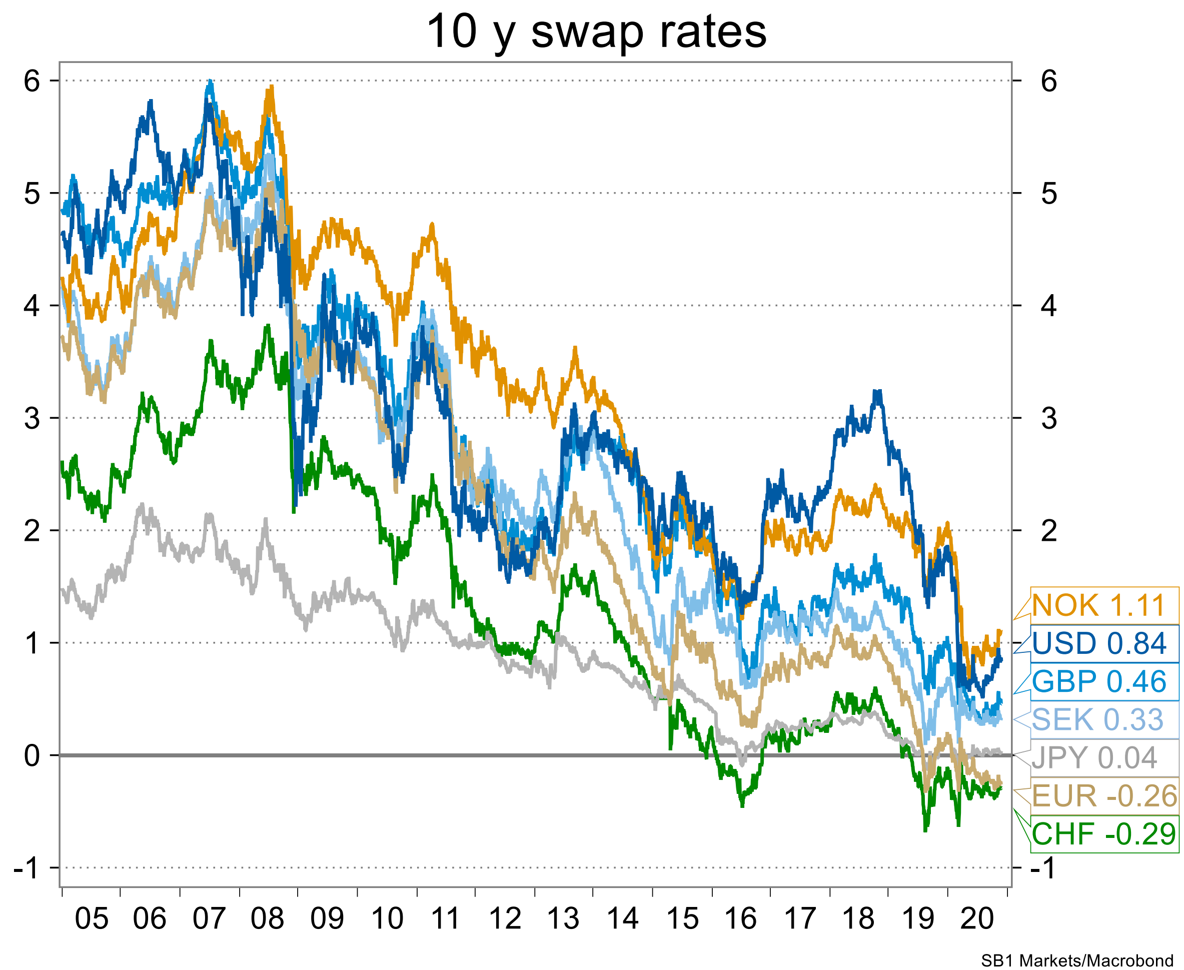
- The German 10y real rate fell further last week a -1.47% an extremely low level, inflation expectations up to 0.88% last week

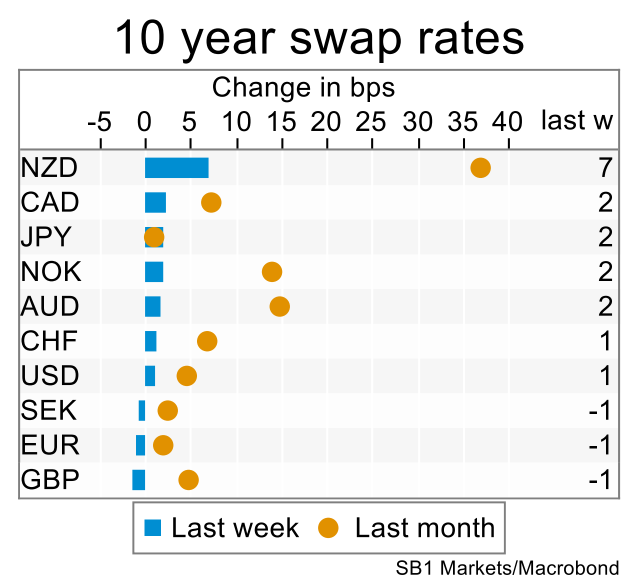
2 y swap rates slightly up everywhere



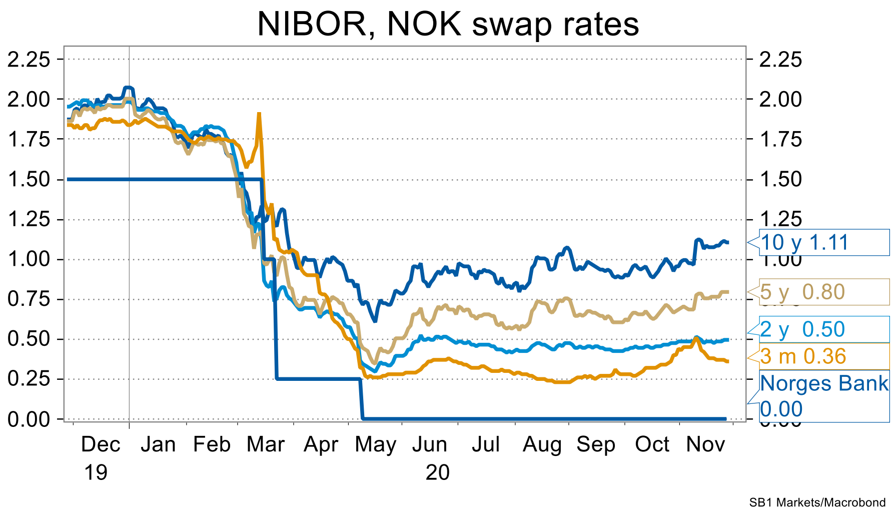


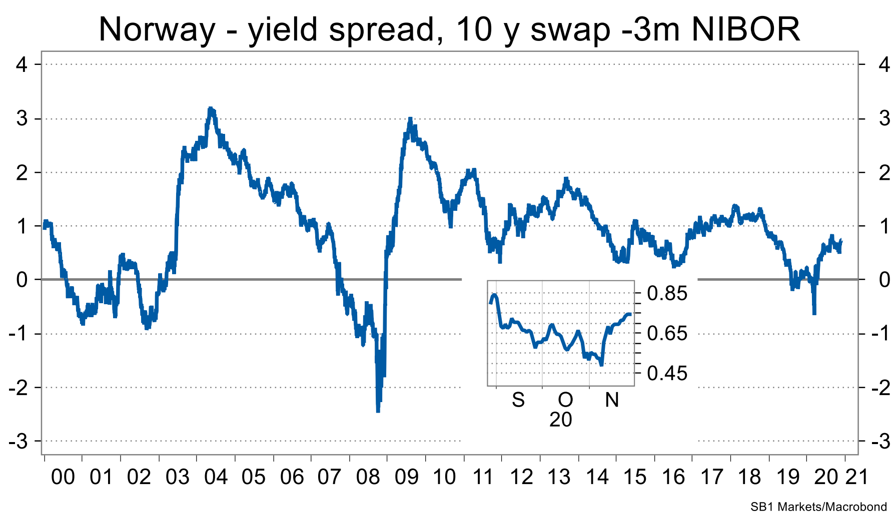
Long swap rates mixed last week, down in Europe (ex NOK), up elsewehere

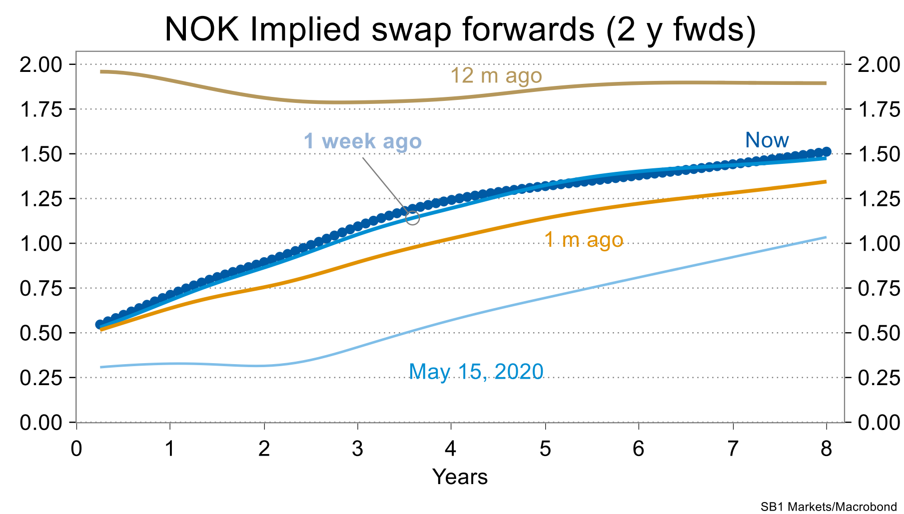




A marginal uptick last week, except in the very short end

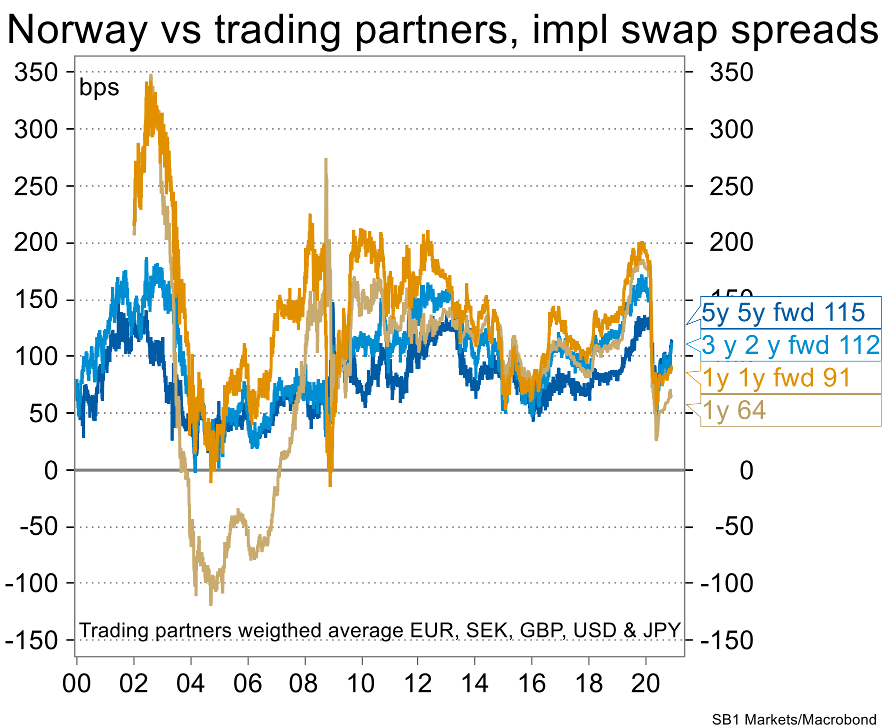


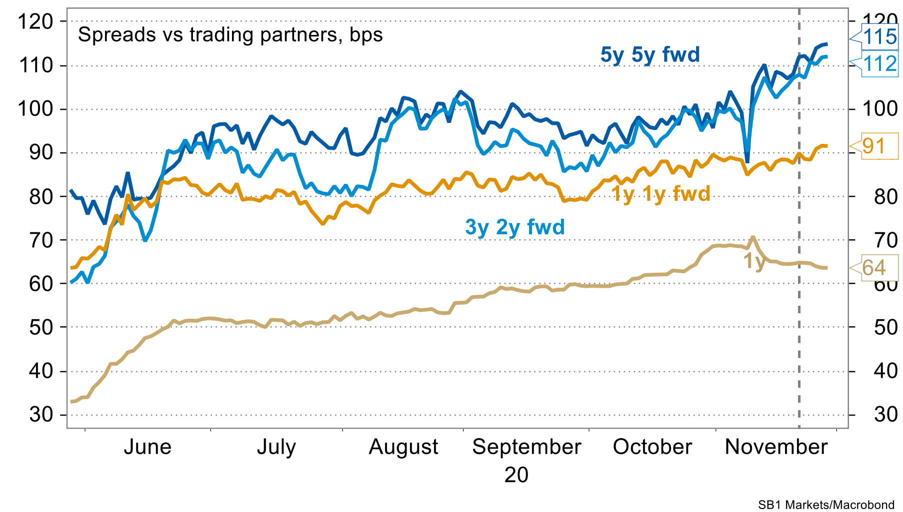


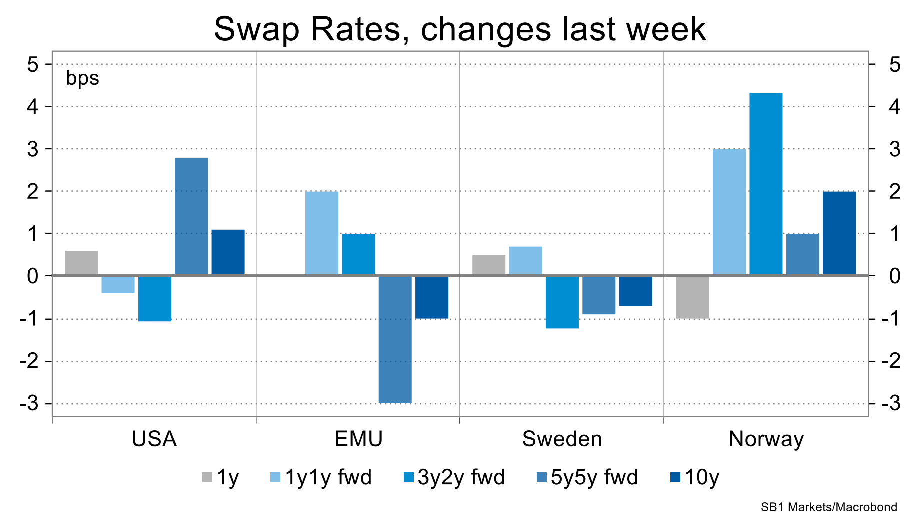


NOK swap rates up, without any international support

However, the upward move is still moderate





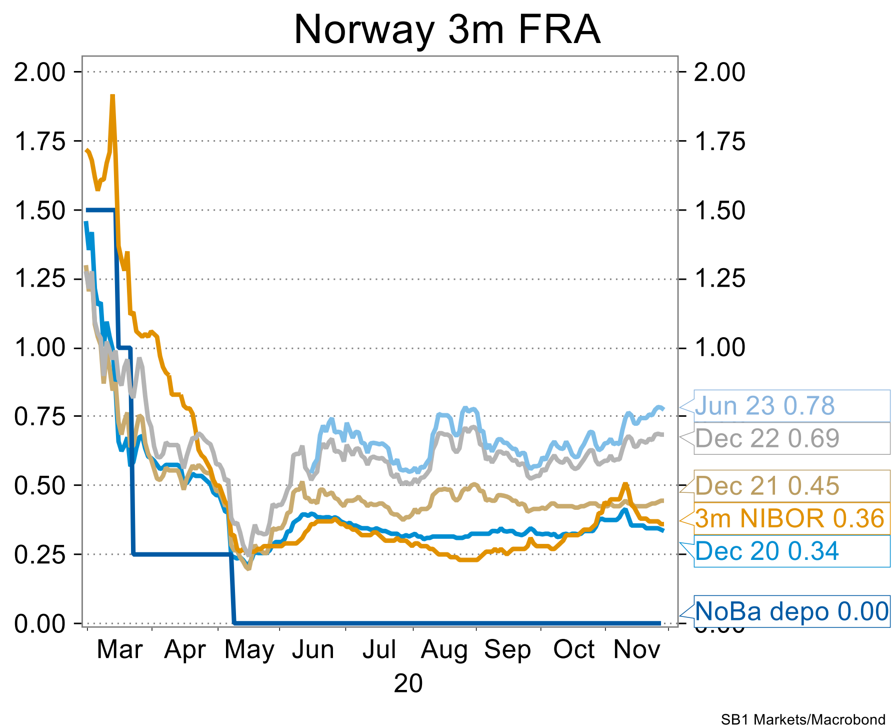


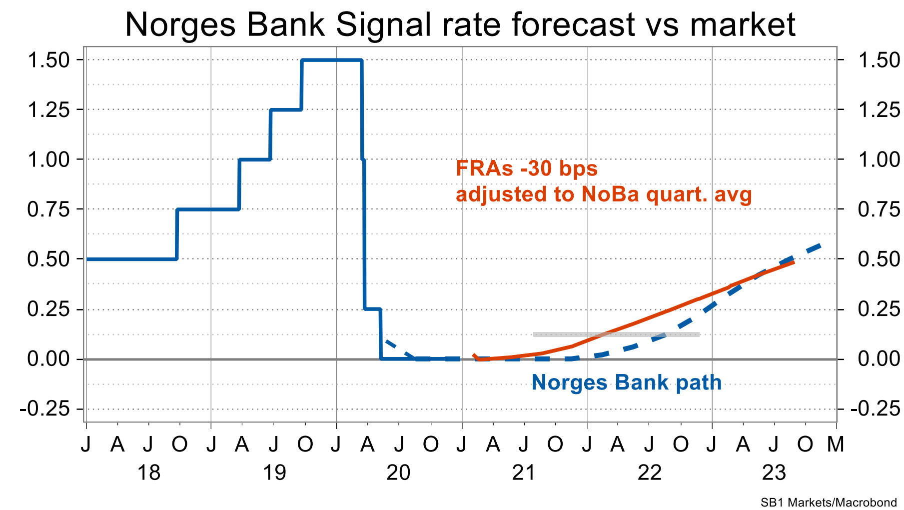
- We are still neutral vs. the spread

SpareBank 1 MARKETS

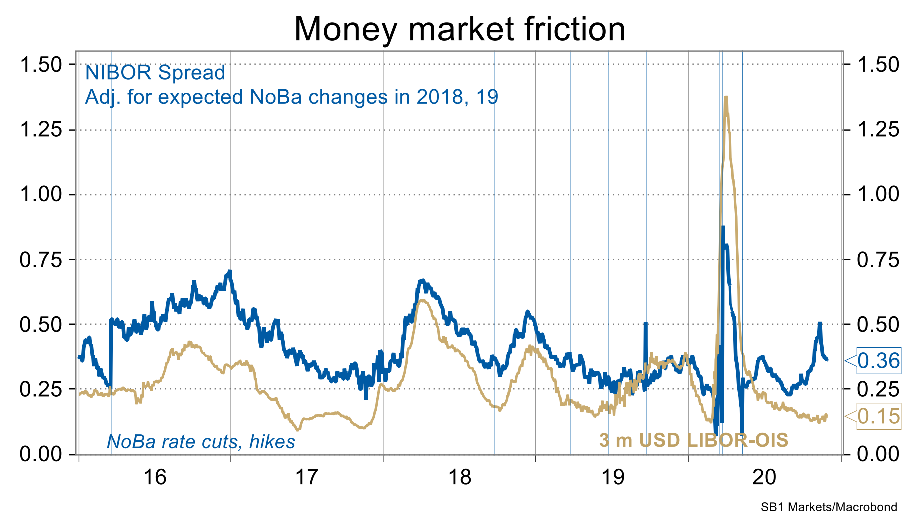
The FRA curve is steepening, is soon pricing in a late 2021 NoBa hike

Longer dated FRAs up almost 25 bps since late September



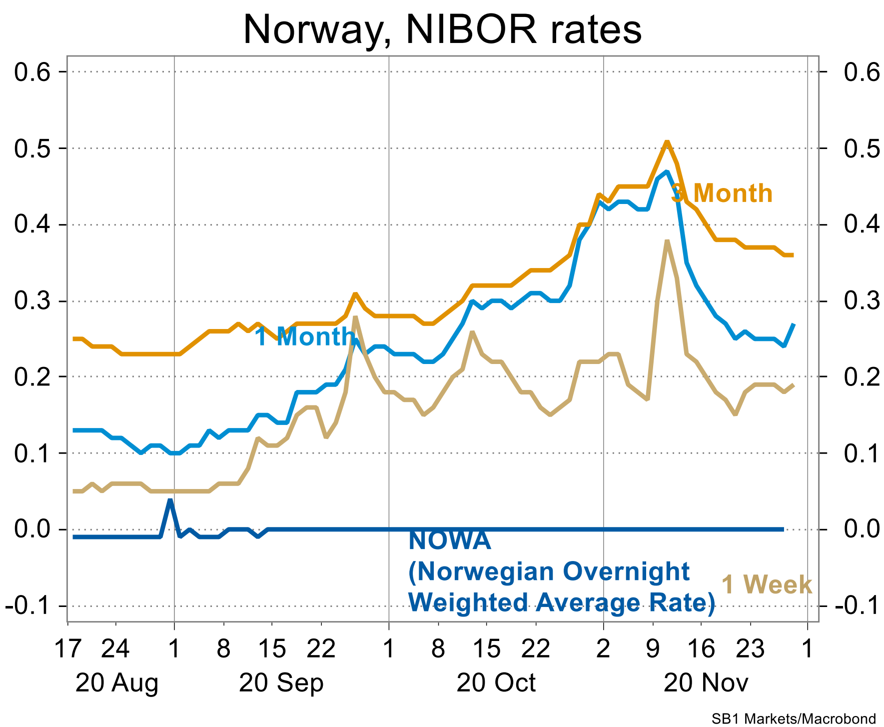


- The sharp increase in the NIBOR-NoBa signal rate spread recent weeks have just been due to liquidity frictions in the short end of the NIBOR curve (see more next page)

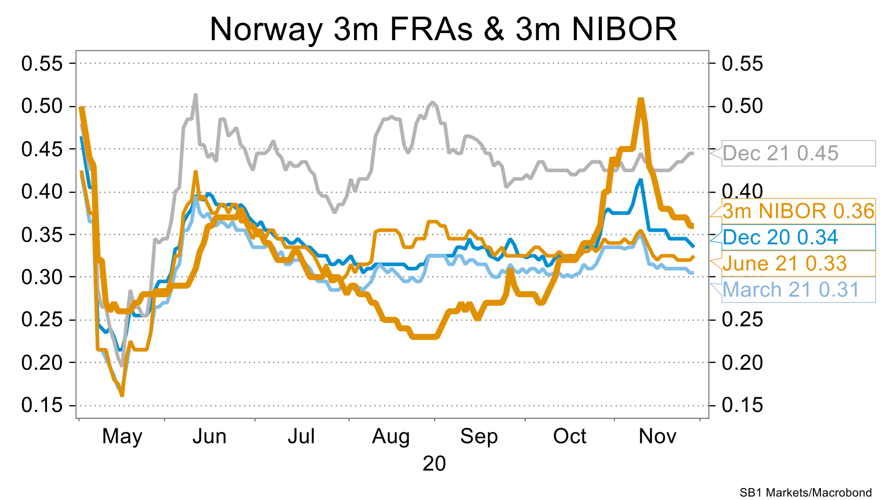


NOK short term rates on the way down, still a tad too high?

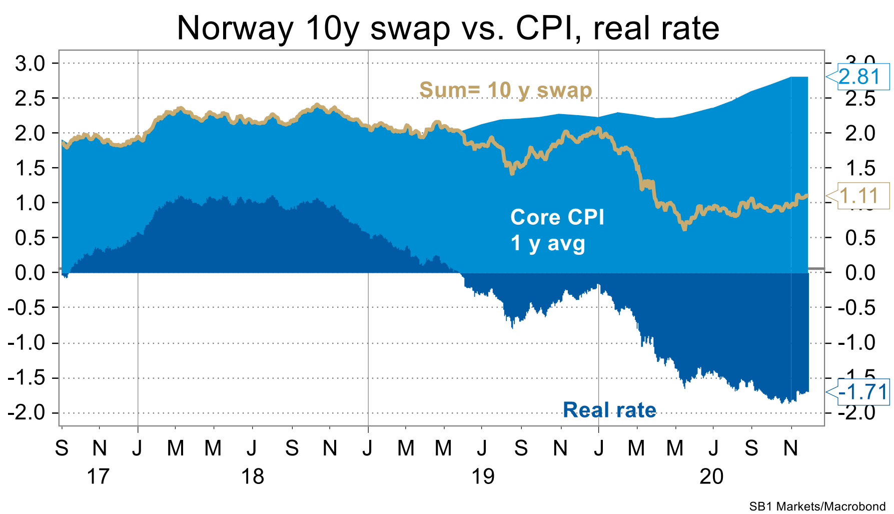
The 3 m NIBOR fell by just 1 bp last week, to 0.36%



- 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 1 bps to 0.36%. At the top, it was at 0.51%
- 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 surged, and have now fallen back to where they came from

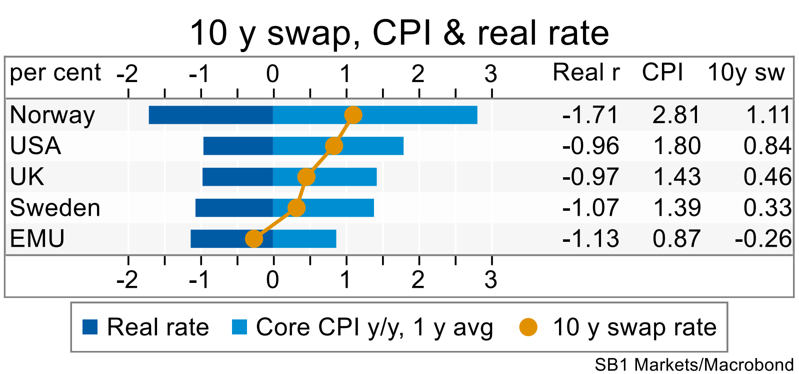


Negative (actual) real interest rates everywhere – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The 10y NOK swap rate has climbed by almost 50 bps since the bottom in May, to 1.11%
- The real rate, after deducting average inflation over the 2 past years equals -1.7%

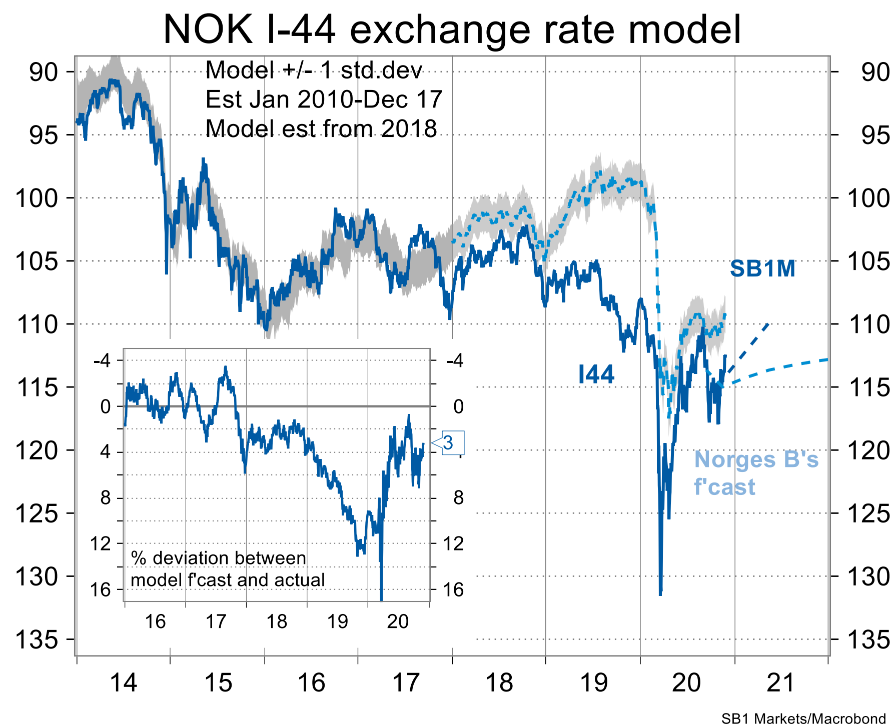


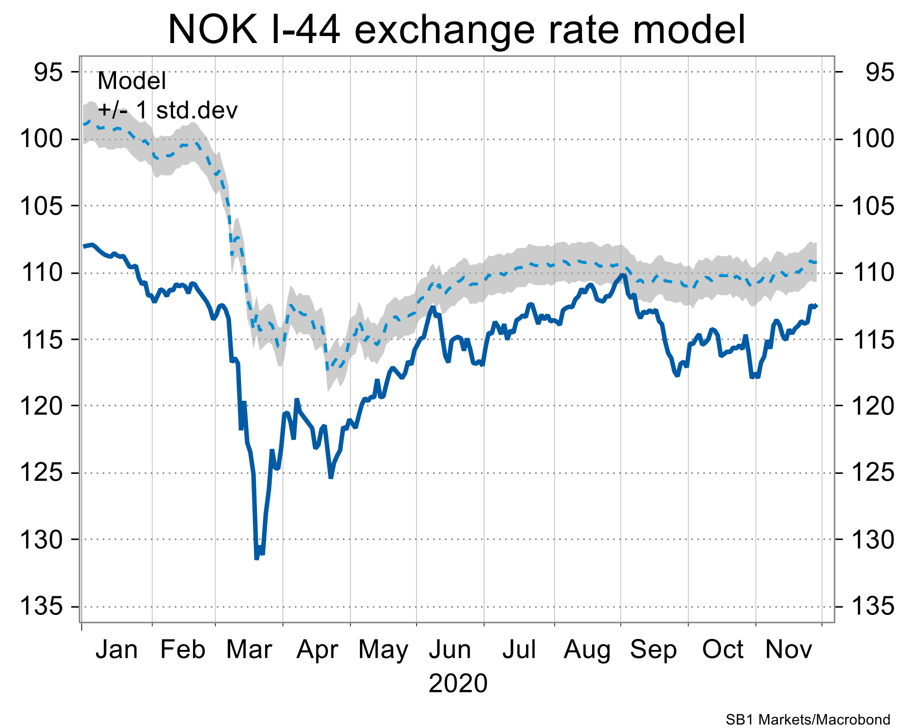
NOK real rates among the lowest, as inflation is at the top

- 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, by far
  - » 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

NOK I44 up 1.1% last week, our model said 0.5%

And now, the NOK is just 3% below the model forecast

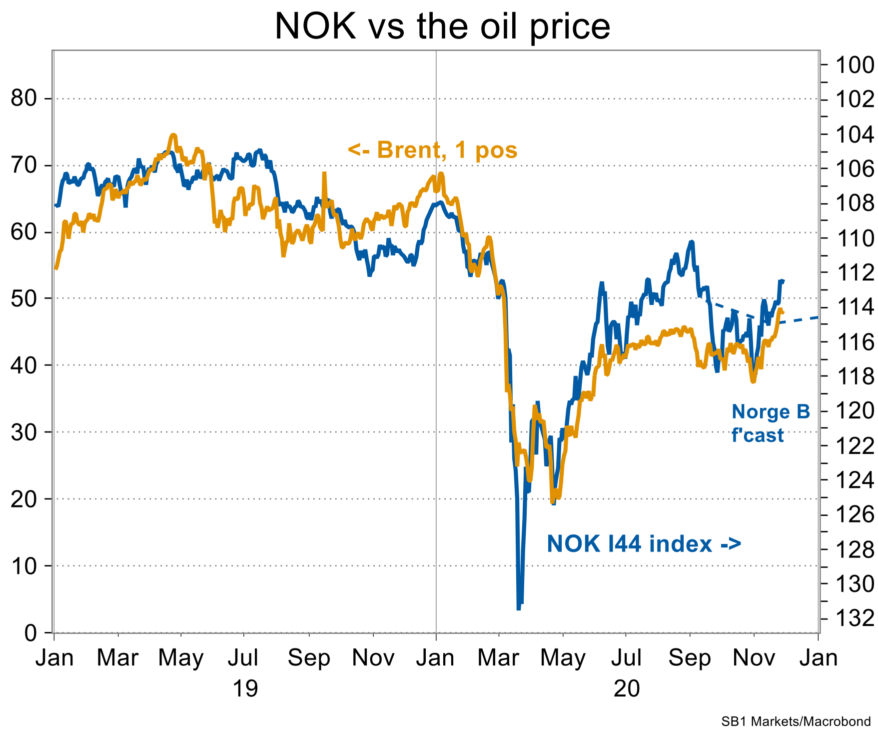


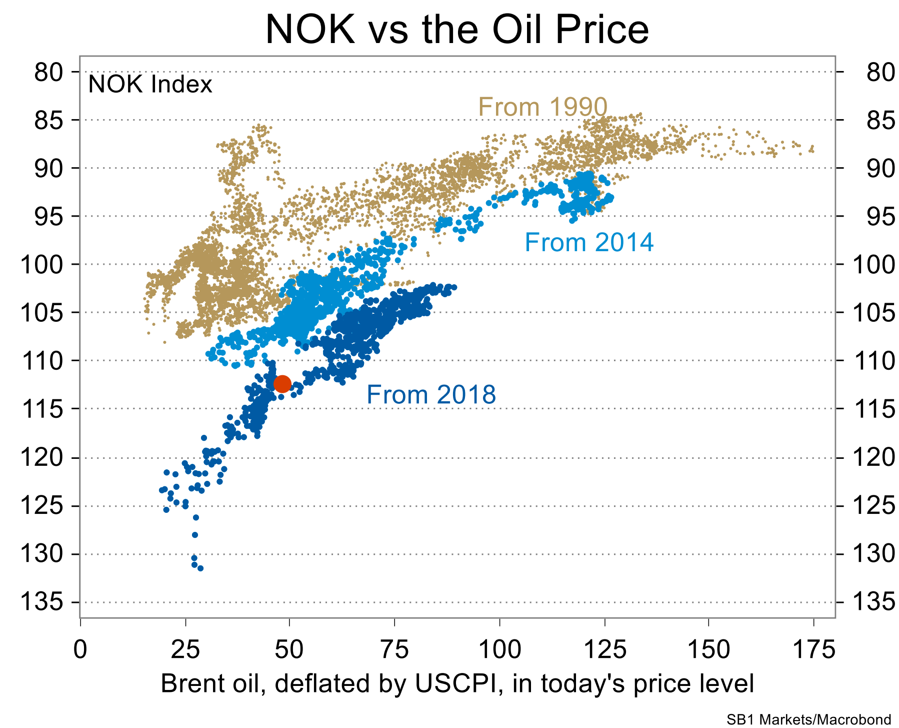


- The NOK is 3% weaker than suggested by our standard model
- The NOK is some 5% ‘below’ the global stock market vs the correlation between them in 2020
- The NOK is 8% weaker than an average of AUD/CAD/SEK, our ‘supercycle peers’
- On the other hand, the NOK is far stronger than oil companies (their equity prices vs the total stock market)

The oil price contributed to the NOK appreciation last week too!

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

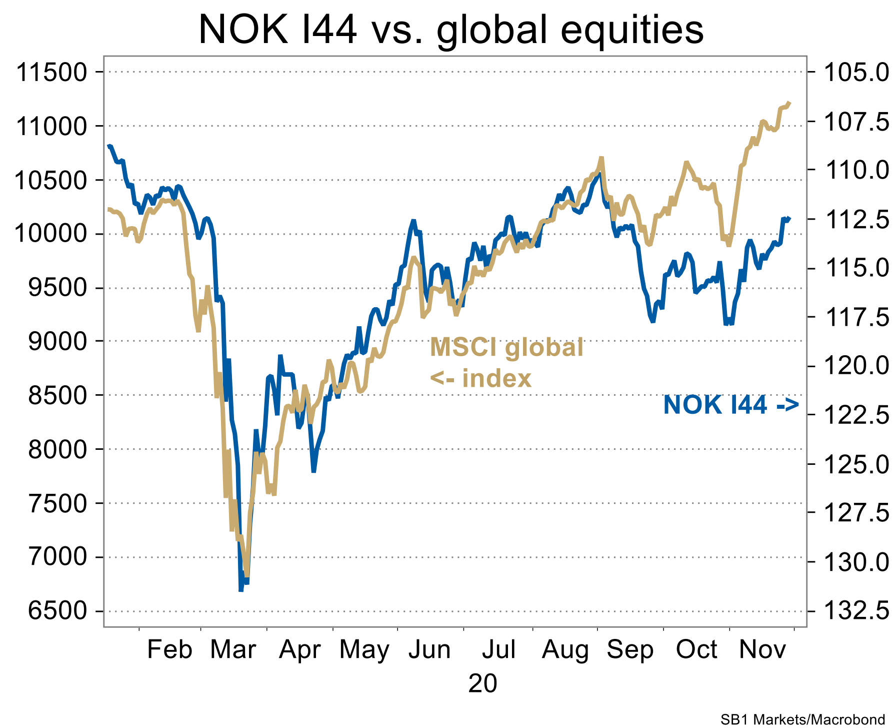


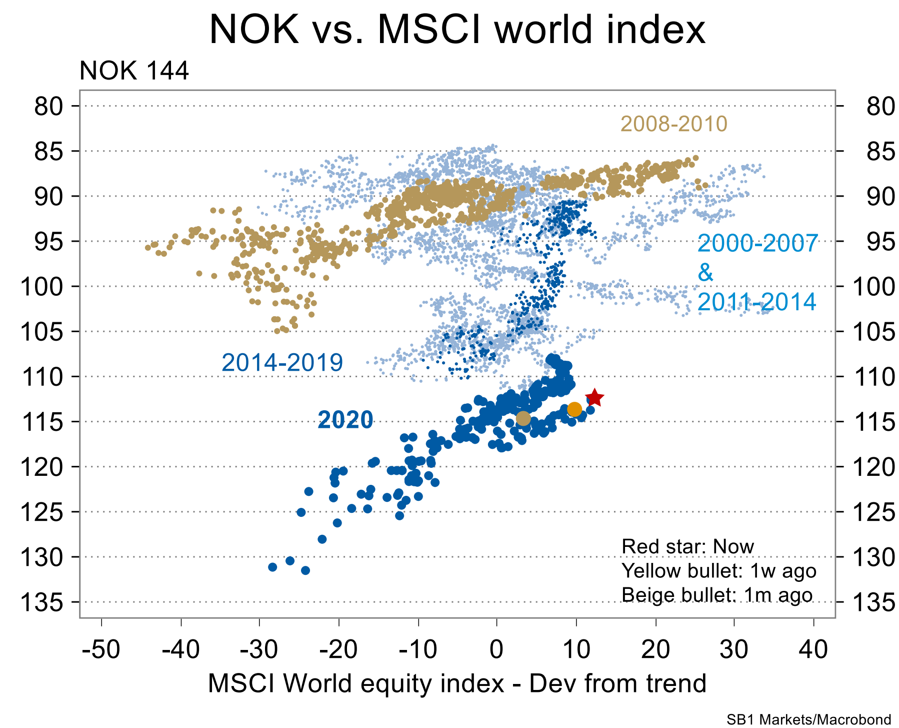


SpareBank 1 MARKETS

NOK followed equities up last week, still down 5% vs the '2020 relationship'

The NOK has been very closely correlated to the global stock market in 2020



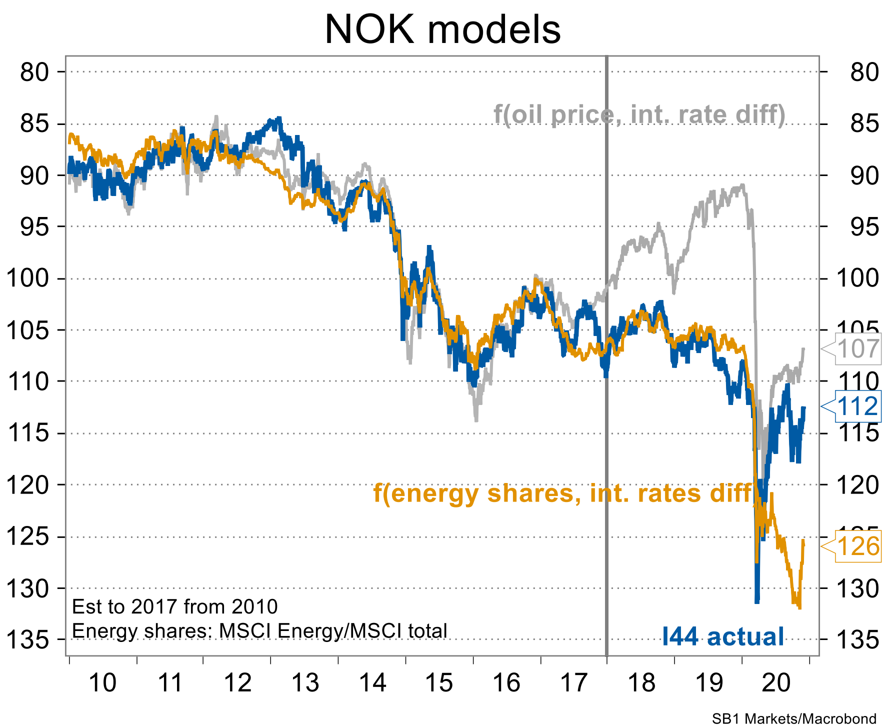


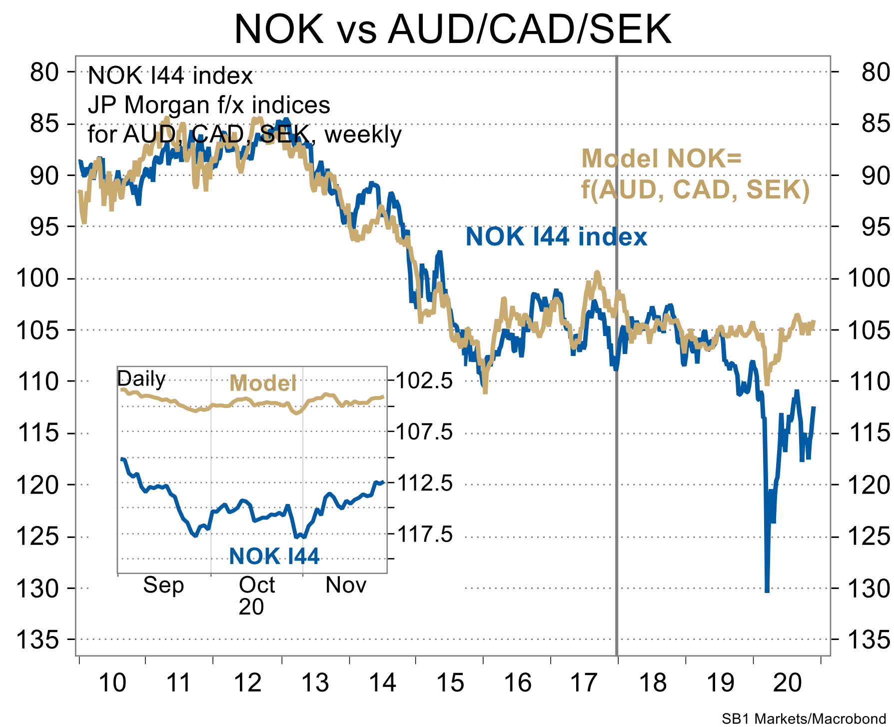
- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with pretty close correlation like the one we have seen since early 2020
  - » NOK has not been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)
- 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 are larger then the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt
- Now, the NOK is 5% weaker than 'normal' vs the stock market – (the gap that built up since early September, based on the link between the NOK and MSCI since Jan 2020)

SpareBank 1 MARKETS

NOK up, and now finally joined by oil companies

Energy shares have recovered sharply, still ‘weak’ vs the NOK

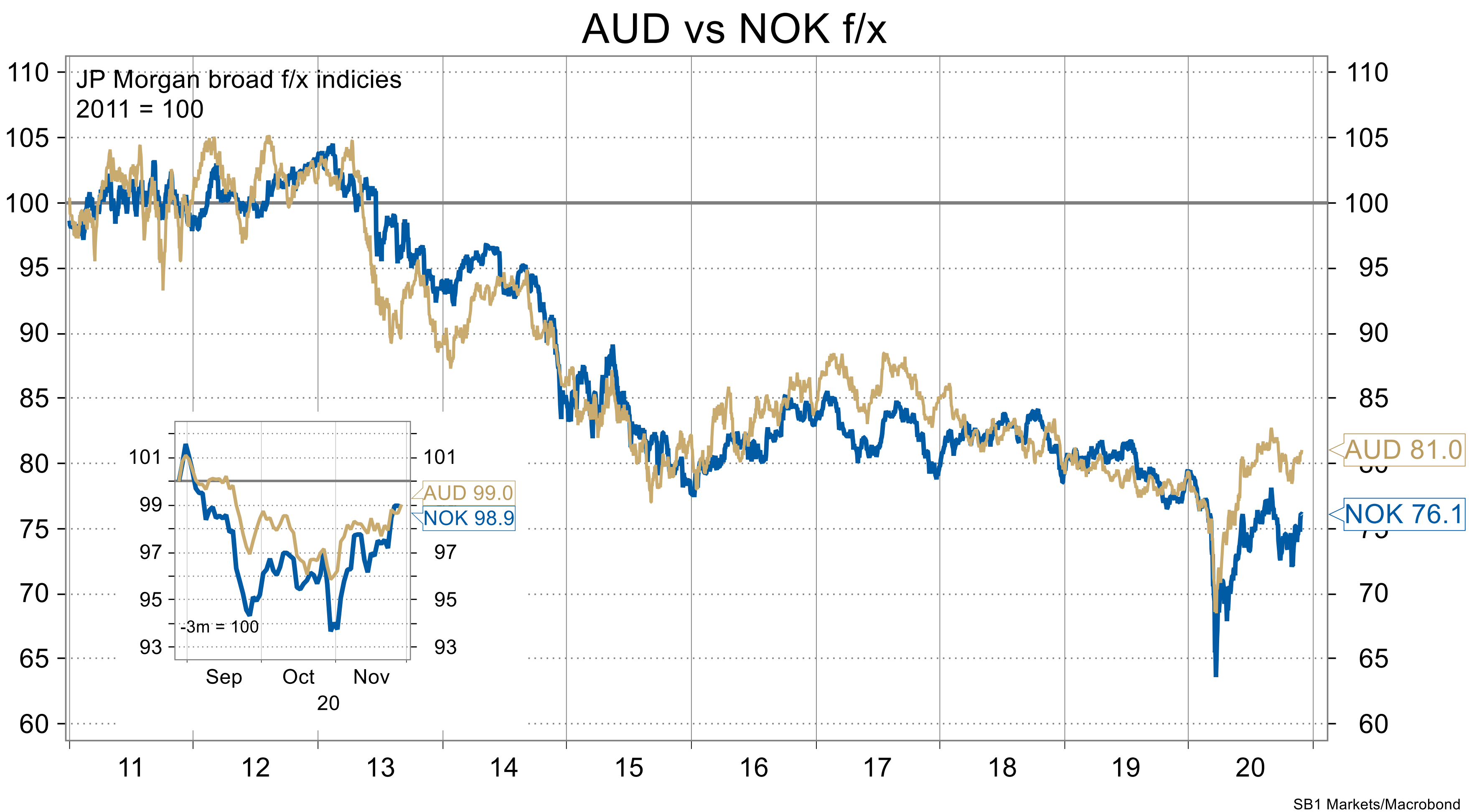




- On the alternative NOK models
  - » Our NOK model based on pricing of oil companies (oil shares/total market) has ‘explained’ the NOK much better than our traditional model since 2017, as have our ‘super-cycle’ peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
  - » Energy shares have been sliding down since June but have turned up two past weeks. The NOK is still far stronger than the oil equity model estimate – and we recognise that the NOK has said goodbye to the still struggling oil companies
  - » The NOK has fallen more than our AUD/CAD/SEK model forecast the past month and last week, even as all are sensitive to market risk sentiment. The NOK is 8% below our model est. We think this model is more relevant than the oil stock price model

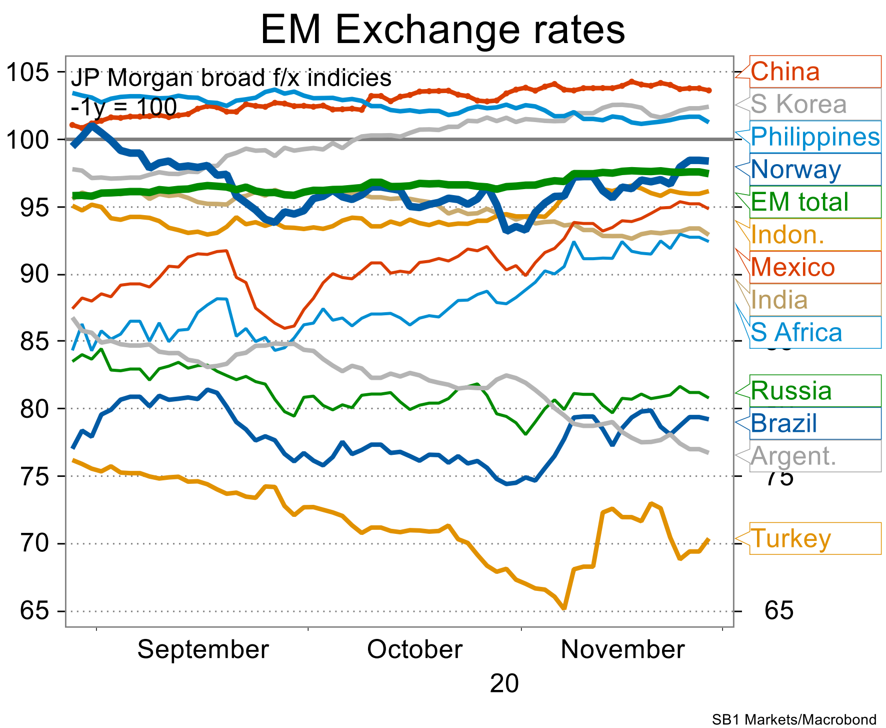
NOK recovers, alongside the AUD, of course – closely in tandem past months

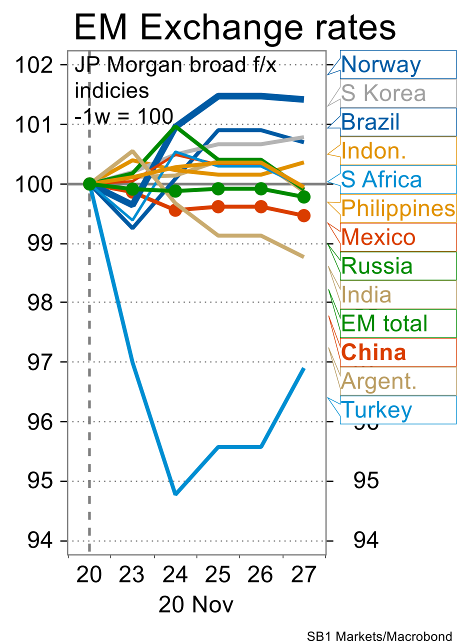
However, the NOK has lost some 6% vs. the AUD (and other supercyclical currencies) since February

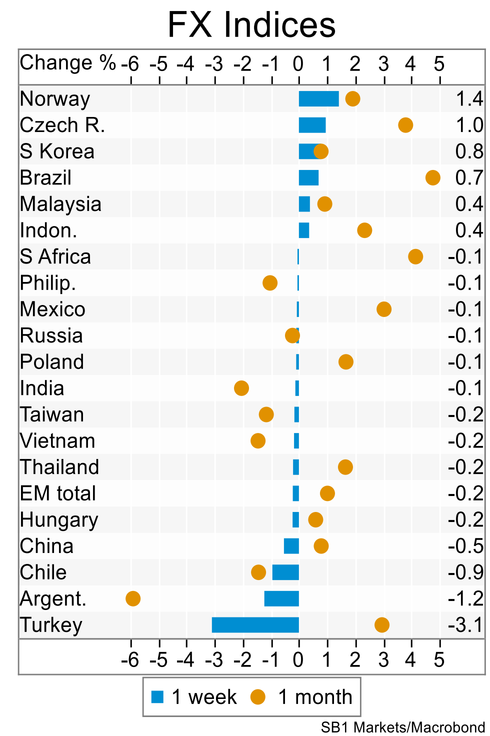


The CNY has flattened, following a steady appreciation

Turkey is still not out of the woods. Others more up than down







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