14 December 2020

Macro Weekly

Week 51/2020

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.nov

Tina Norden
Phone : (+47) 24 13 37 48
Mobile : (+47) 93 22 62 24
E-mail : tina.norden@sb1markets.no

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

Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

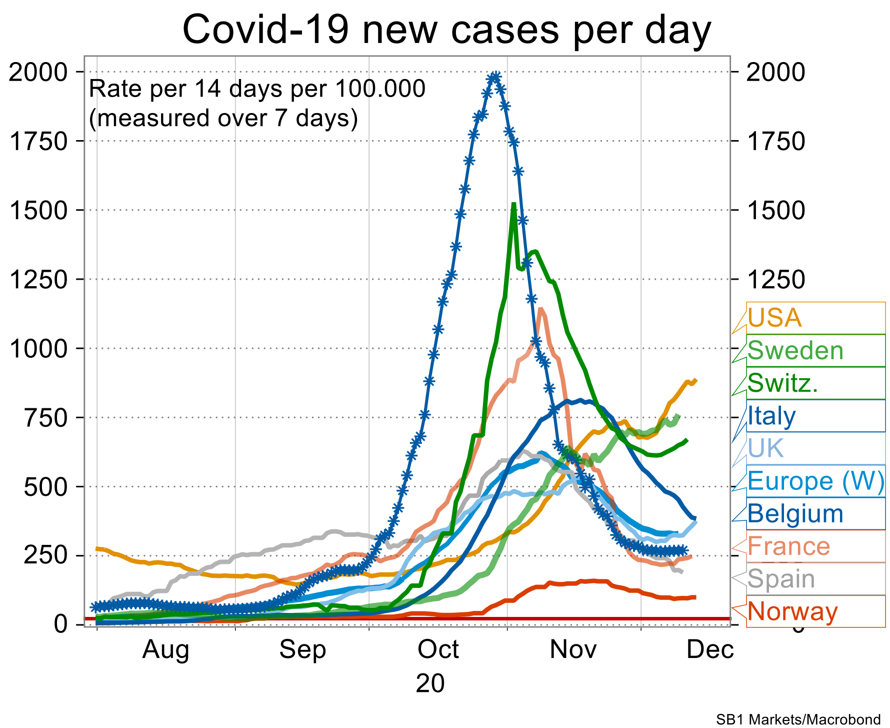
Last week:

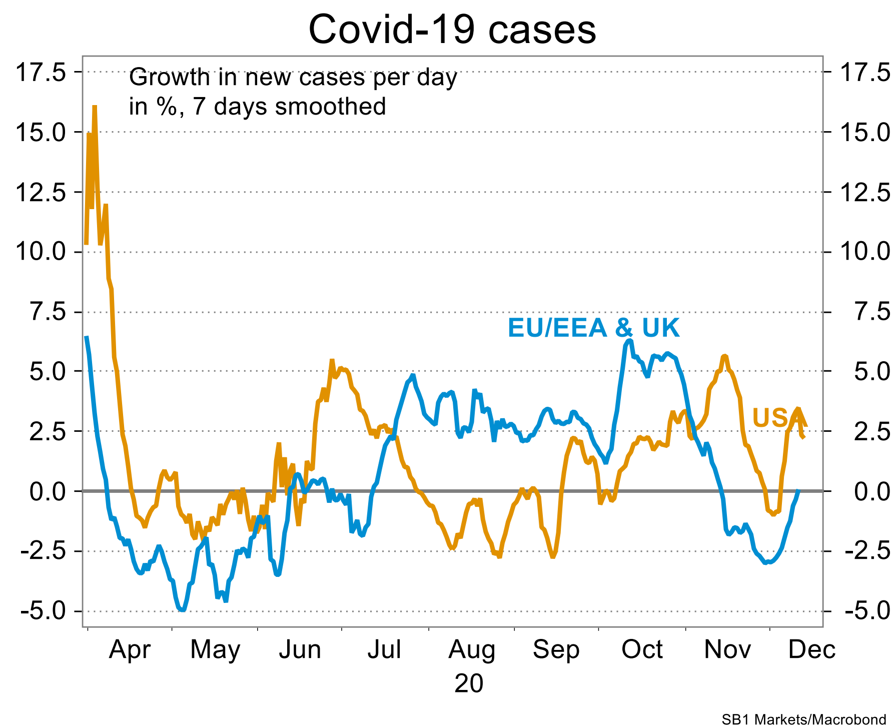
- **It won't back down:** In Europe, Germany, Sweden, Denmark, Switzerland, UK, and perhaps even Norway are reporting more covid-19 cases, as is of course USA. Germany and Denmark have announced new restrictions, and quite harsh ones in Germany – more social distancing is unavoidable. In Norway, the infection level is very low, just over 1% of beds/incubators are occupied with corona patients. That's not the case in large parts of the US, in some places in Germany – and in Stockholm. Still, in most other European countries the no. of new cases is on the way down, and the stress on the hospital system is easing. People already spend more time outside home in many countries – and too much already, some places.
- **Vaccination** has started in UK and Canada, and the US is now following suit, all are using the Pfizer/Moderna vaccine. Mixed news on other vaccines, as an Australian project had to start all over again. Still many other projects are in phase 3 trial – and several more will most likely succeed
- **Global auto sales** fell 2% in November, and are 3% below the 2019 average level. Sales fell in the US (8% below '19 avg) and in Europe (-12%), due to a sharp drop in sales in France. Auto sales were flat in other rich countries and climbed further in both China and in other Emerging Markets
- **Chinese credit growth** slowed further in November but it has just fallen down to a 9% pace, in line with underlying nominal GDP growth. **Total CPI** turned negative in Dec, due to falling pork prices as the impacts of the pig flu is abating. Pork prices are still very high, and will decline substantially the coming months too. However, core CPI (x food, energy) is at just 0.5%. Real household incomes are boosted!
- **US** Democrats lifted the **Univ. of Michigan consumer sentiment** index to a better level than expected – still 0.5 st.dev below avg, and 1.5 std.dev below the pre-corona level. **Small businesses** became a tad less optimistic in Nov (but nothing comparable in size to the lift when Trump was elected president 4 y ago. They plant to invest & hire – but are not able to fill vacant positions. Businesses are expecting higher price & wage inflation and just an average no. of companies are complaining about weak sales. **Actual CPI** inflation a tad higher than expected, still just at 1.6%
- **The ECB 'recalibrated'** its QE policy measures, as expected (or even more). The PEPP (pandemic emerging bond buying program) was extended by EUR 500 bn (5% of GDP), and by 9 months to March 2022, and will reinvest principal payments until 2023. Ordinary asset purchases will continue. In sum the balance sheet may increase by almost 15% of GDP until March 2022. In addition banks can borrow even more at negative rate. The policy rate was kept unchanged at -0.5%. **Industrial production** rose sharply in many countries in Oct.
- **UK/Brexit: They are far apart but will go an extra mile!** Boris Johnson & Ursula vs Leyen did not reach an agreement Tuesday night, and yesterday they agreed to continue the Brexit negotiations, probably until Dec 31. And then they can agree to continue trade, as if nothing has happened?? If they don't reach any agreement, 'some' logistic challenges will appear – but we doubt they will last 'forever'. **GDP in UK** slowed to 0.4% in Nov, and will probably turn negative in November, due to the lockdown
- In **Norway**, Norges Bank's **regional network** survey reported a subdued sentiment regarding both the current situation (growth over the past 3/3 months), and their 6-month outlook. The Network estimates 3m/3m growth at 0.3%, whereas actual reported GDP growth was16% annualised. No growth is expected the next 6 months. We doubt Norges Bank will base it's forecast on this Network report. On a more positive note, the **NAV unemployment rate** kept trickling down last week, and declined by some 1000 persons leaving the rate at 3.8%. The **GDP growth** for Oct also clocked in above expectations at 1.2% (exp. 0.4%. 0.3 pp due to fisheries), and the Sept growth was revised up 0.1 pp to 0.7%. Mainland GDP now just 1.5% below Feb. level. **Core CPI** surprised on the downside at 2.9% y/y in November – consensus was 3.4% (as was NoBa's f'cast)

SpareBank 1 MARKETS

New European challenges – and a further rise in new cases/deaths in the US

Some European countries are reporting more cases again, no further decline in EU/UK in total

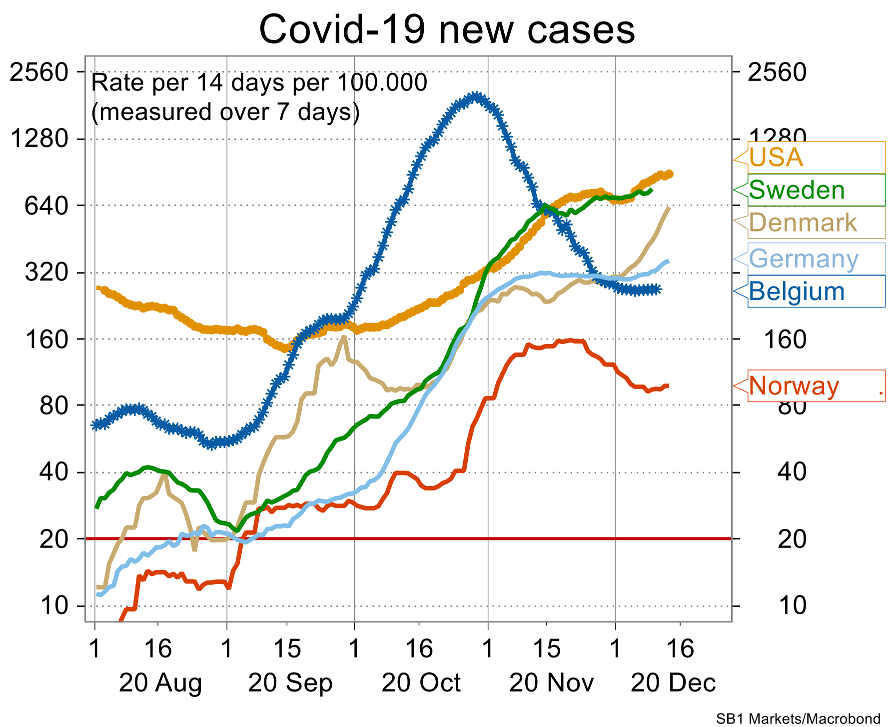




- Mixed fortunes: France and UK is heading up again, Belgium has flattened - all still at reasonable low levels. Italy & Spain still on the way down. Sweden, Denmark, and Germany are on the way up, especially Denmark (check next page)
- In the successful European countries, people spend more time outside the home again (but some probably more than they can, over time, like in France). Others will have walk back home, again. More restrictions were decided last week
- US is reporting more cases but growth may be slowing
- The number of new cases in **Norway has turned marginally up, check next page**

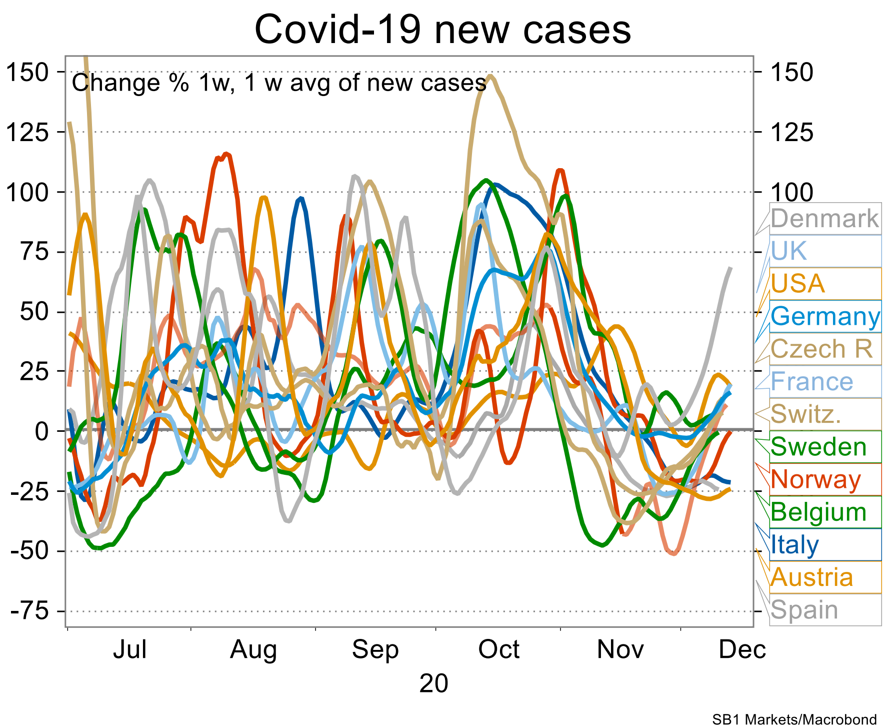
Not everyone is headed in the right direction. Look to Denmark

The US, Sweden, Denmark, and Germany are struggling. And Norway??



- The number of new cases in Belgium has fallen almost 90% the past 4 weeks
  - » Some of the decline may be due to less testing, but the positivity rate has fallen sharply as well
  - » Several other countries have succeeded too
- However, a full take off in new cases in Denmark – and new measures are implemented, hopefully before hospitals are overwhelmed
- Germany is accelerating too, but slowly. Still, a rather strict lockdown is decided until early January
- In Sweden, the no cases is still drifting upwards
- Growth in cases in the US may be slowing somewhat, but the 'R' is clearly above 1, and the positivity rate is increasing
- The no of cases in Norway stabilised the previous week, and last week the no of cases rose marginally – following a substantial decline from late November
  - » Just some 1 – 1.5% of the capacity of hospital beds/IUCs are occupied by corona patients. The corona death numbers are very low too – and there is not any 'health crisis'
  - » However, the recent uptick signals that further easing of restrictions is not immanent

Another turn upwards?



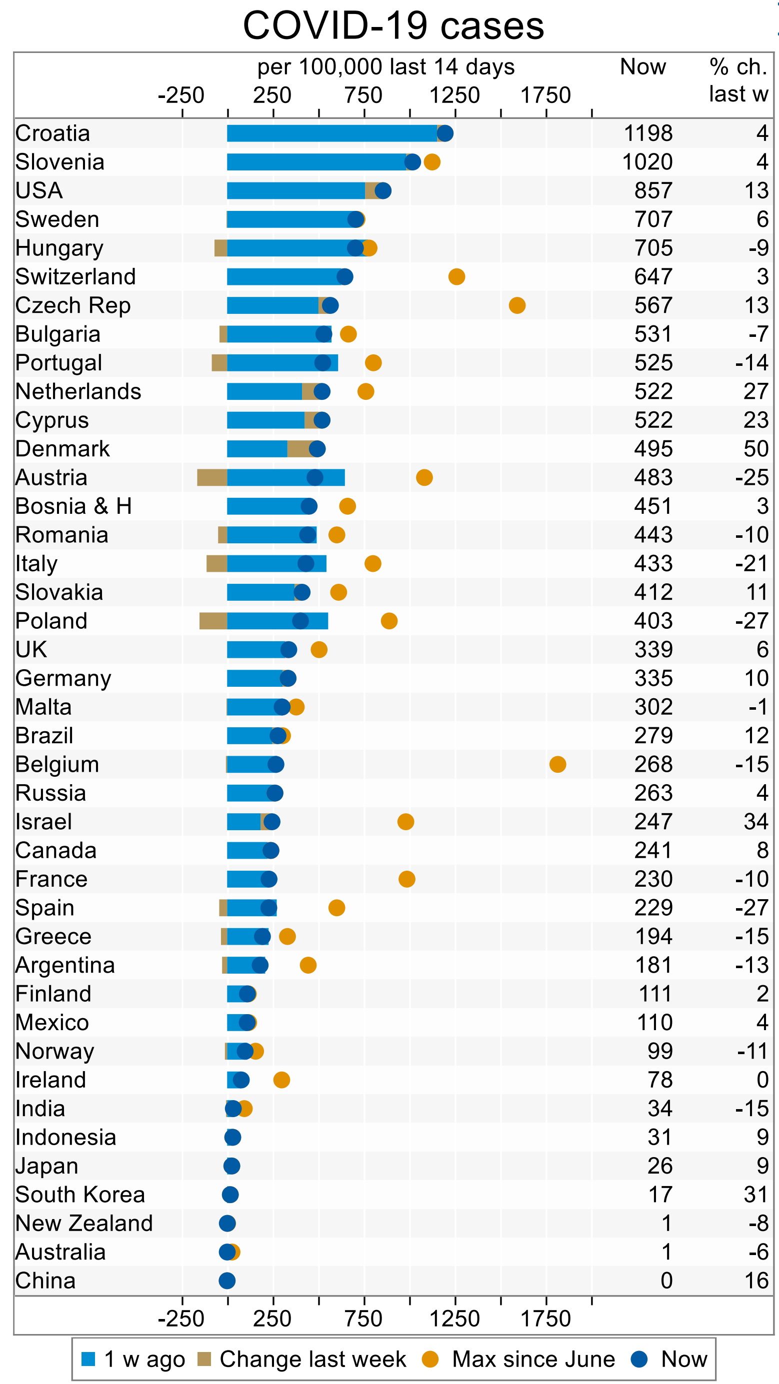
Covid-19

The big picture: Still many on the way up

… and the level is rather high many places

- Croatia, Slovenia, US and Sweden at the top, and none of them are on the way down.
- Denmark is reporting the highest growth rate, Netherlands is rapidly on the way up too
- Many other European countries are improving– and Belgium has fallen from the top at 2000 down to below 300 (over 14 days, below 250 last week)
- The level of new cases is still low in Germany, and growth is not high – but the authorities decided tough measures last week
- Lockdowns work everywhere and every time!

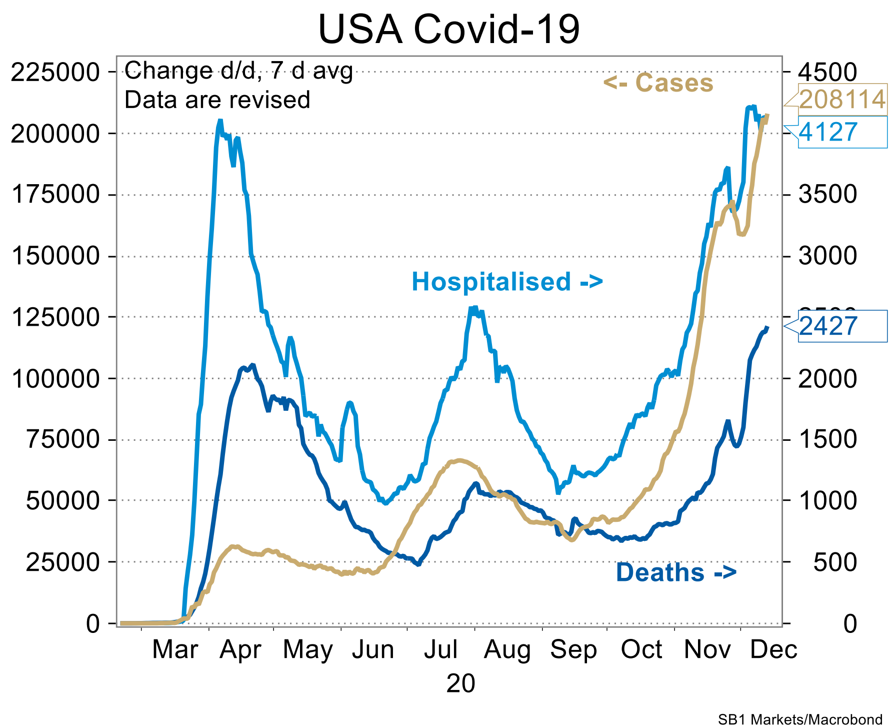
Comment on the data: At the chart at this page and the next, we present accumulated cases over 14 days, and not over 7 days, at a 14 days' pace, like at page 4 - 6. Thus neither level data or growth rates are equal – but the broad patterns are of course the same

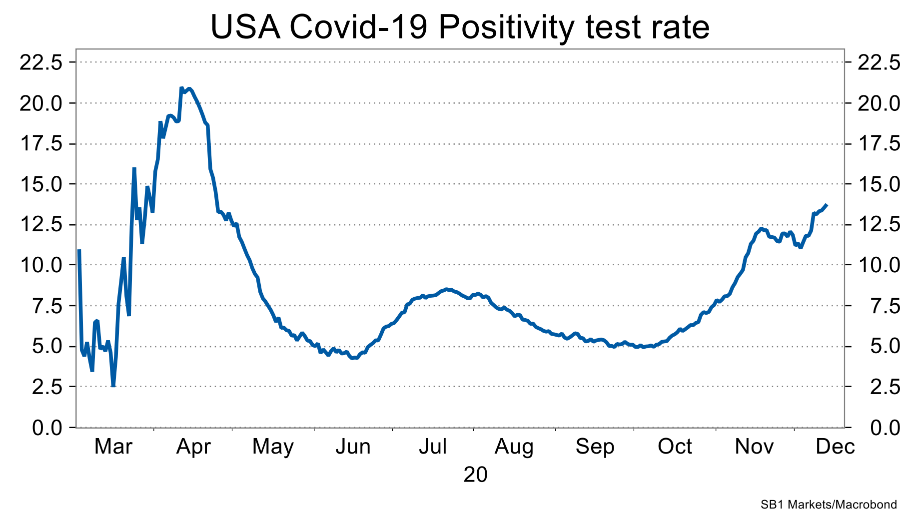


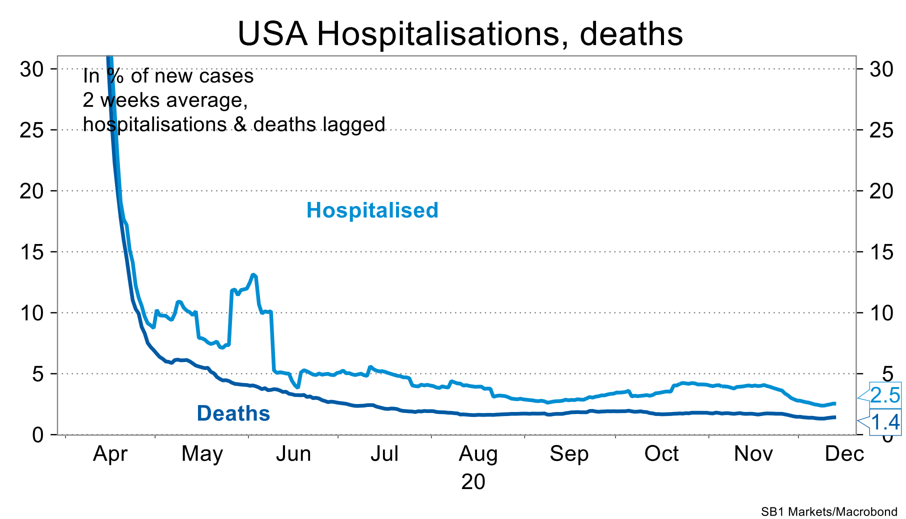
SB1 Markets/Macrobond

USA: Here we go again. Some vaccines are badly needed. But it will take time…

More of everything last week – and this week the no. of deaths will rise to ATH too…





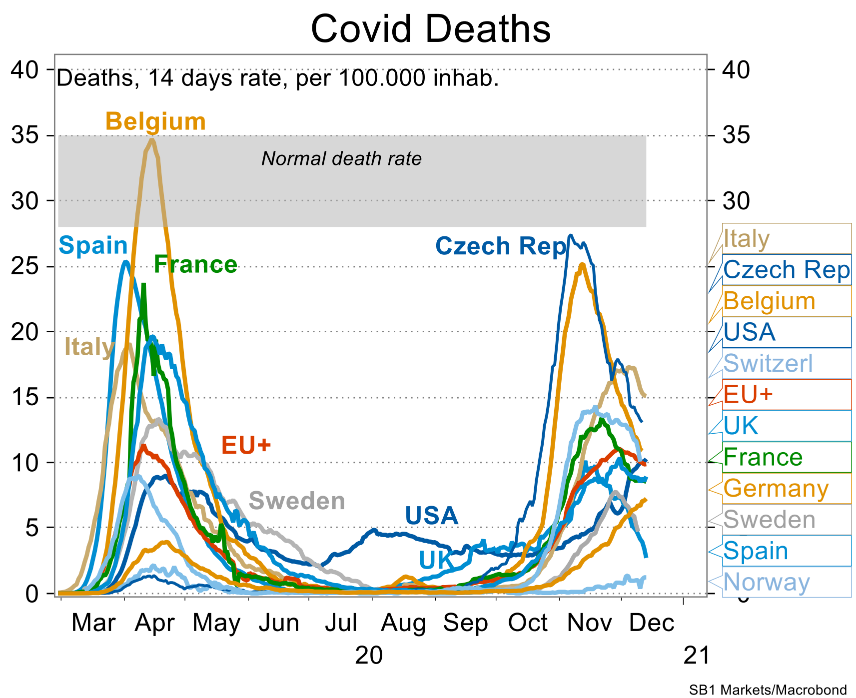


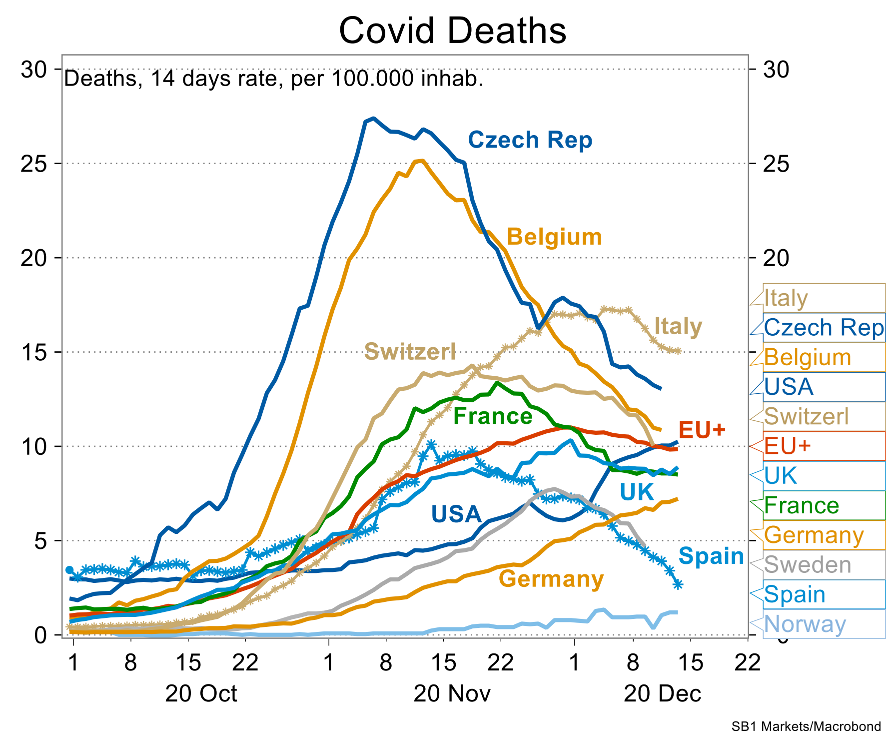
Some good news

- The positivity test rate is increasing sharply
- The hospitalisation rate has declined somewhat, as has the death rate (CFR)

The bottom line: The deaths

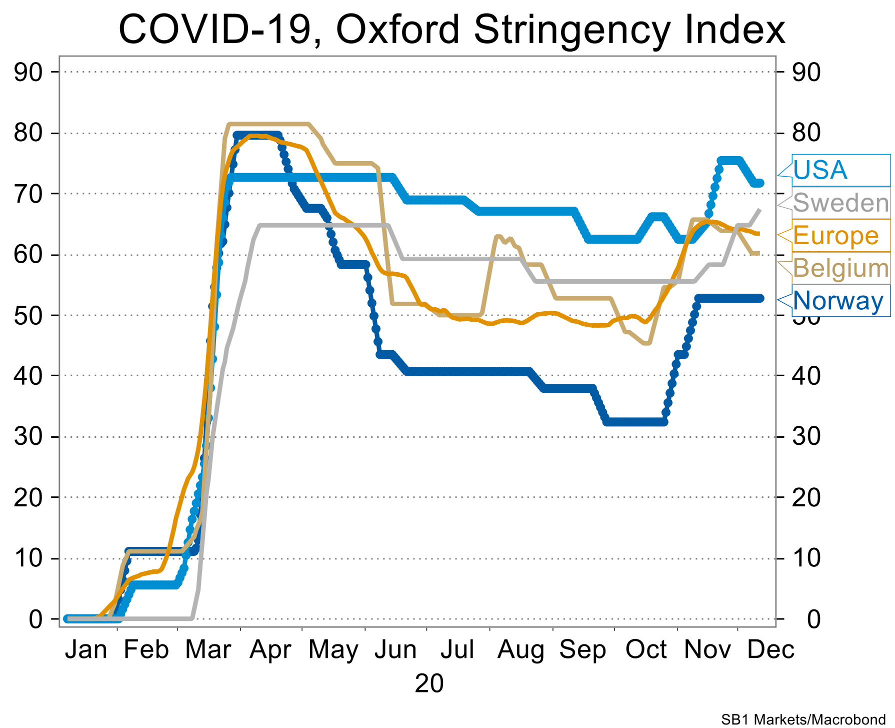
Germany, US on the way up. UK, France is flatting. Belgium, Spain, Sweden further on the way down

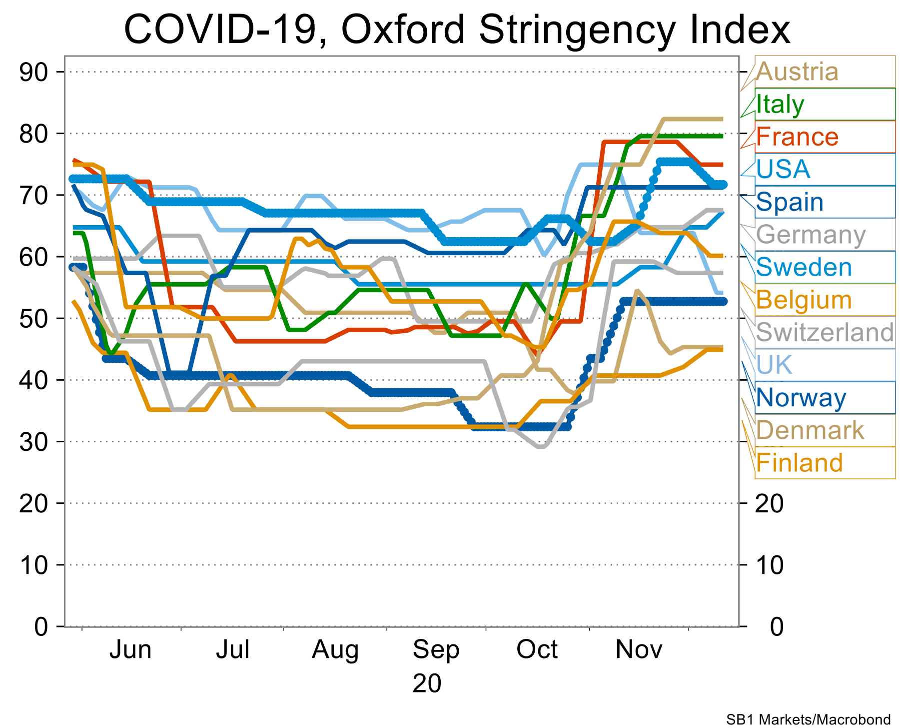
- 



Some tightening in the US, some European restrictions are eased

France, UK, Belgium, Denmark & Sweden have all eased marginally, according to Univ. of Oxford



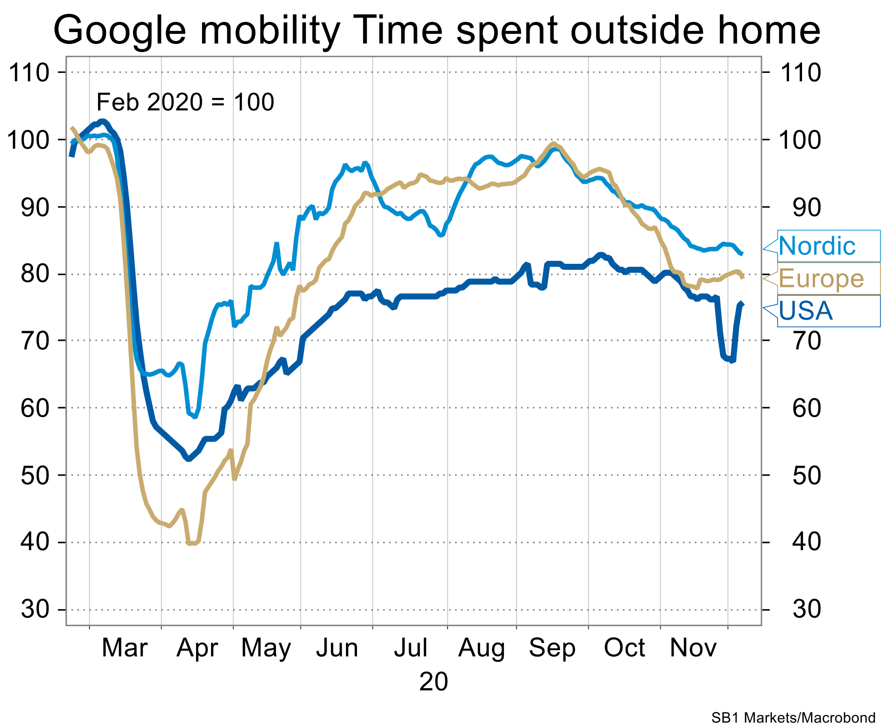


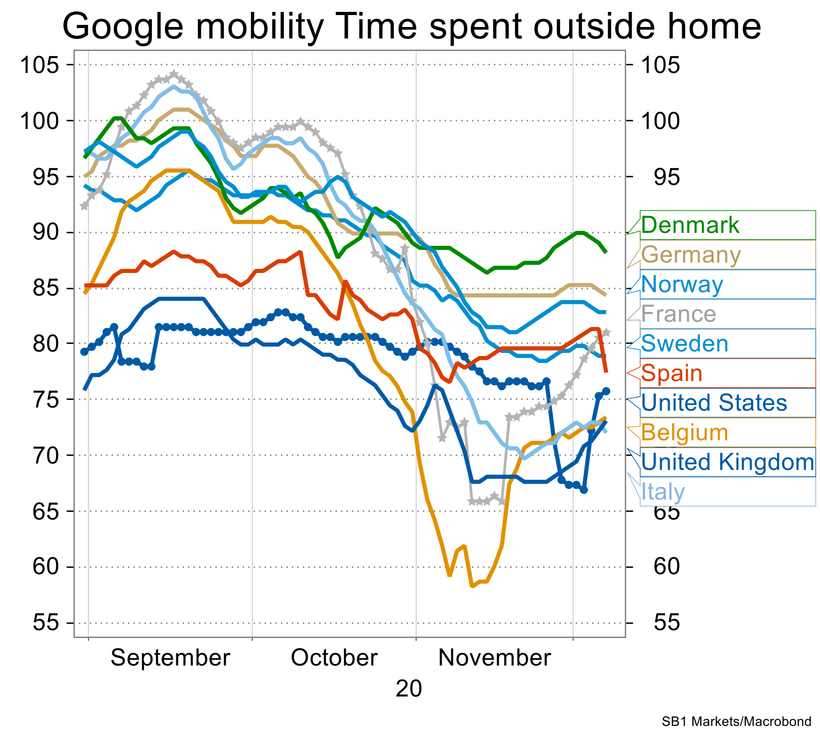
- Last week, both Denmark & Germany tightened restrictions substantially – not yet reflected in Oxford's indices
- Spain should soon ease restrictions, given the steep decline in cases & deaths
- We are not sure Oxford's stringency indices are correct all the time but the broad picture may still be relevant

SpareBank 1 MARKETS

Some still spend too much time outside home

However, where the virus is retreating, people walk out of their homes, like in France & Belgium

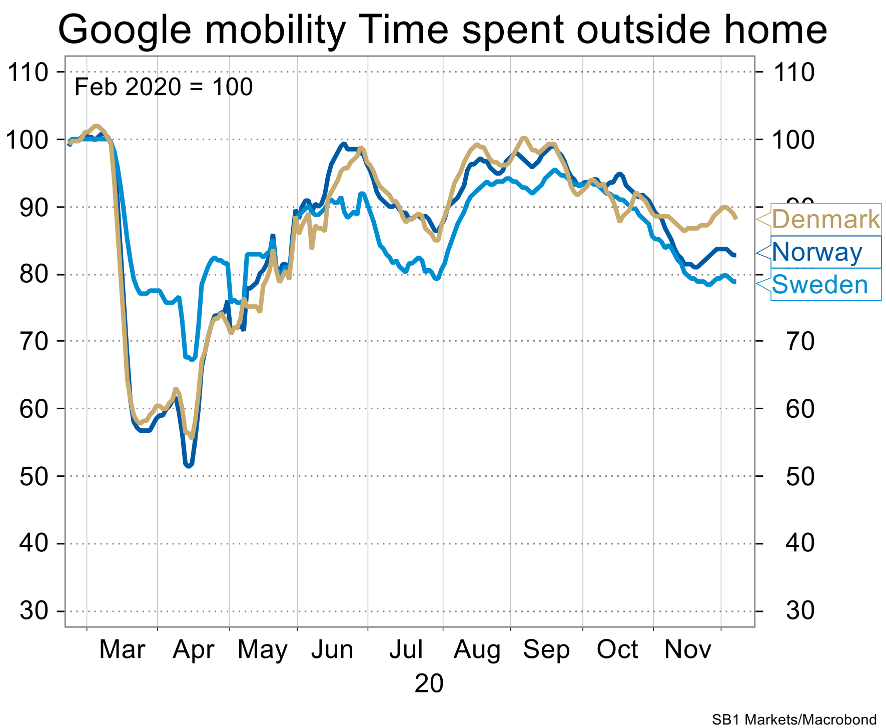


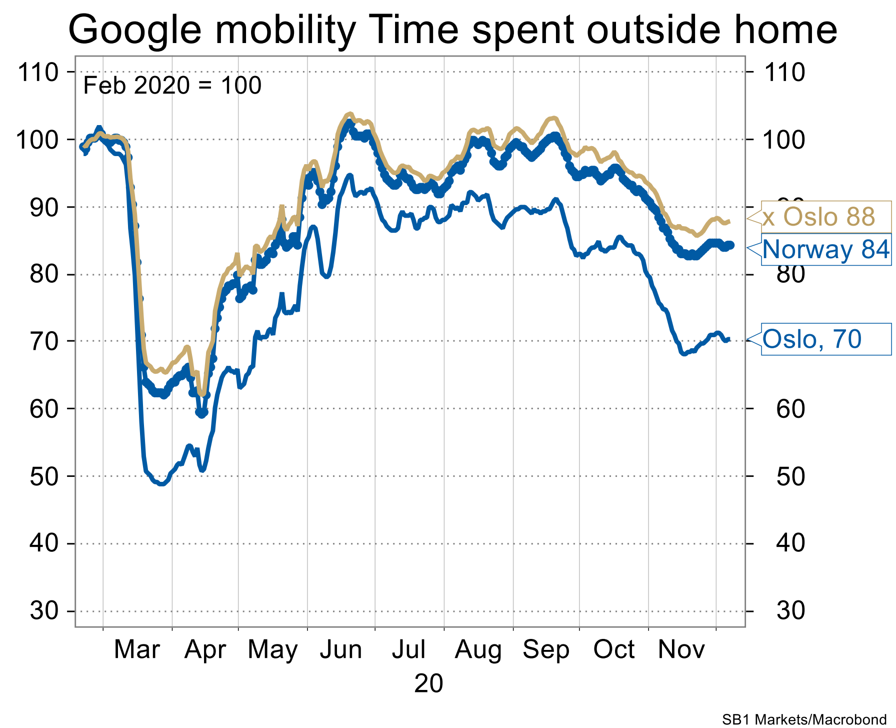


- Several countries have to increase social distancing in order to stabilise/bring down the no of infections – like Denmark, Germany & Sweden
- There the 2nd wave is fought back, time spent outside the home is increasing sharply. In some countries probably too much, like in France – as the no of new cases is increasing again. The same goes for the UK, even if restrictions are eased here
- In the US, time spent outside home is still trending down as new corona cases are still trending up (Thanksgiving week not relevant)

The Danes have to return to home, news are 'exploding'

Over the past 3 weeks, more time is spent outside home – with some serious consequences

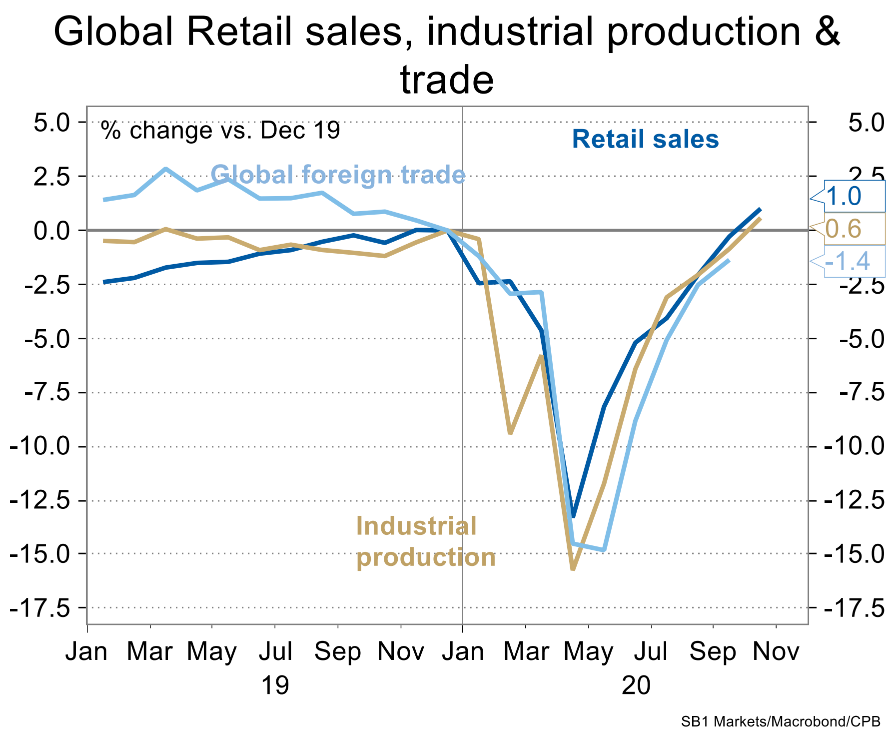


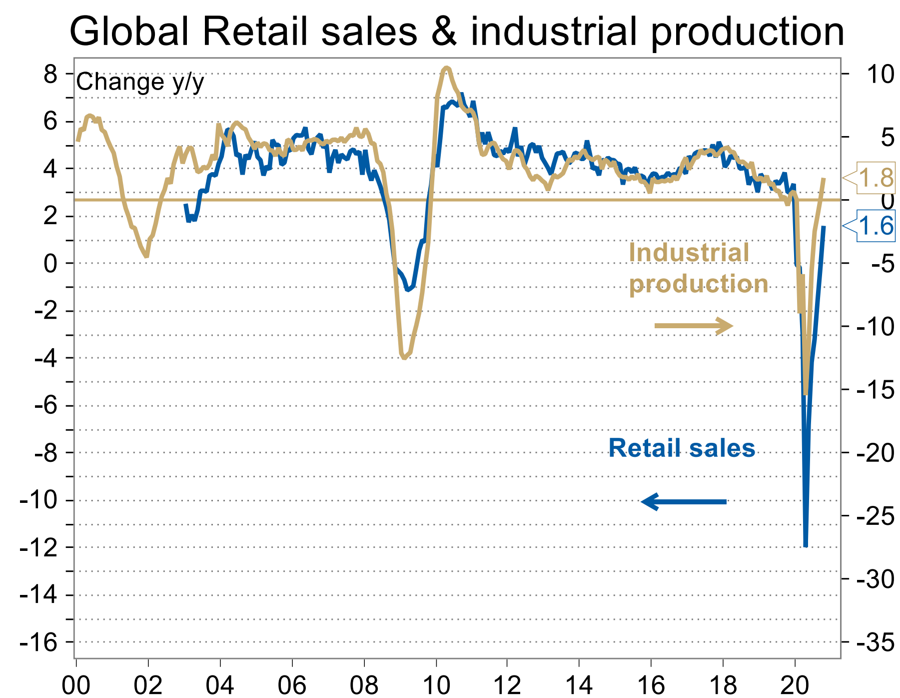


- Sweden has not brought the 'R' below 1 either – and hospitals in the Stockholm region have 'some challenges'
- Over the past two weeks, the 'R' has climbed to 1 – as time spent outside home has risen somewhat too

Industrial prod, retail sales up in October, gaps are closed!

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



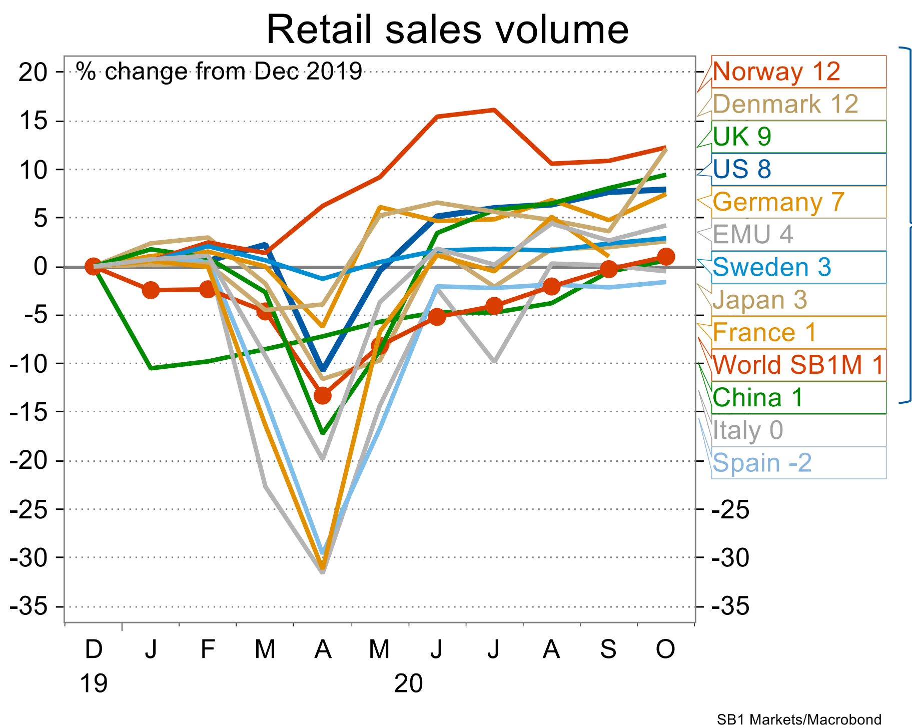


Memo: Keep in mind the different scales at the chart above

- Retail sales are 1% above the Dec level, and manufacturing production almost just as much, according to our Oct estimates – and even more up y/y
- 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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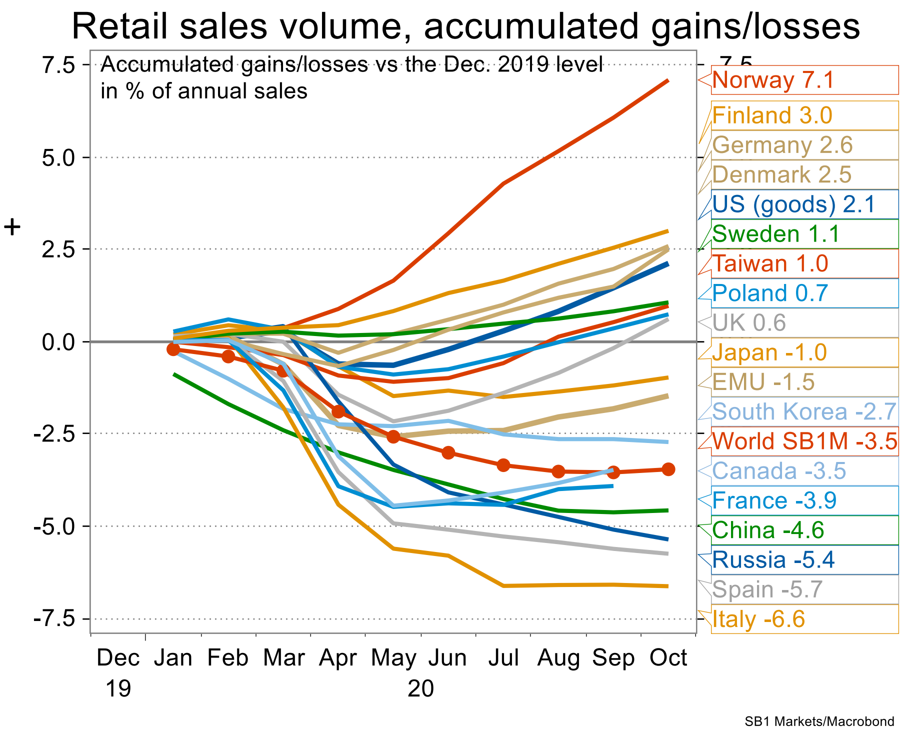
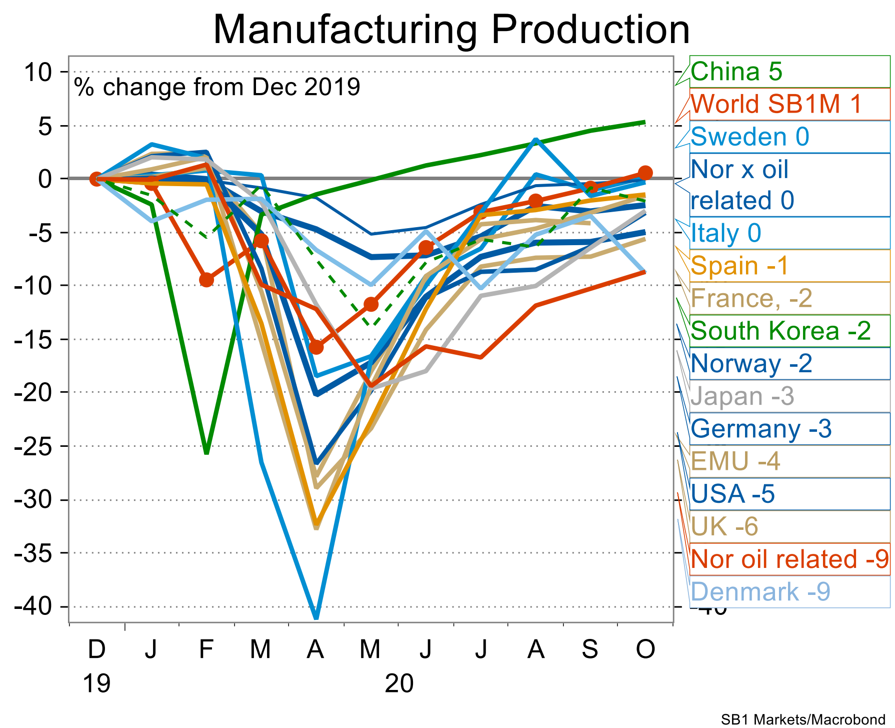
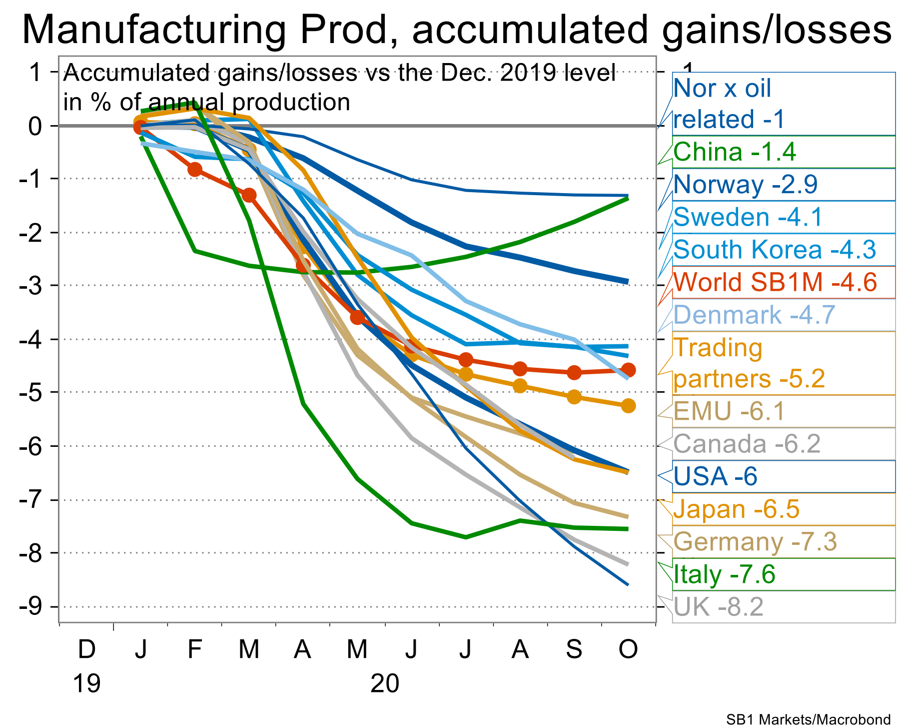


- In November, global retail sales were 1% above the Dec-19 level. The estimate is still uncertain has some countries have not yet reported. Most rich countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in the 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
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production above the Dec-19 level in October

Production rose sharply in October too

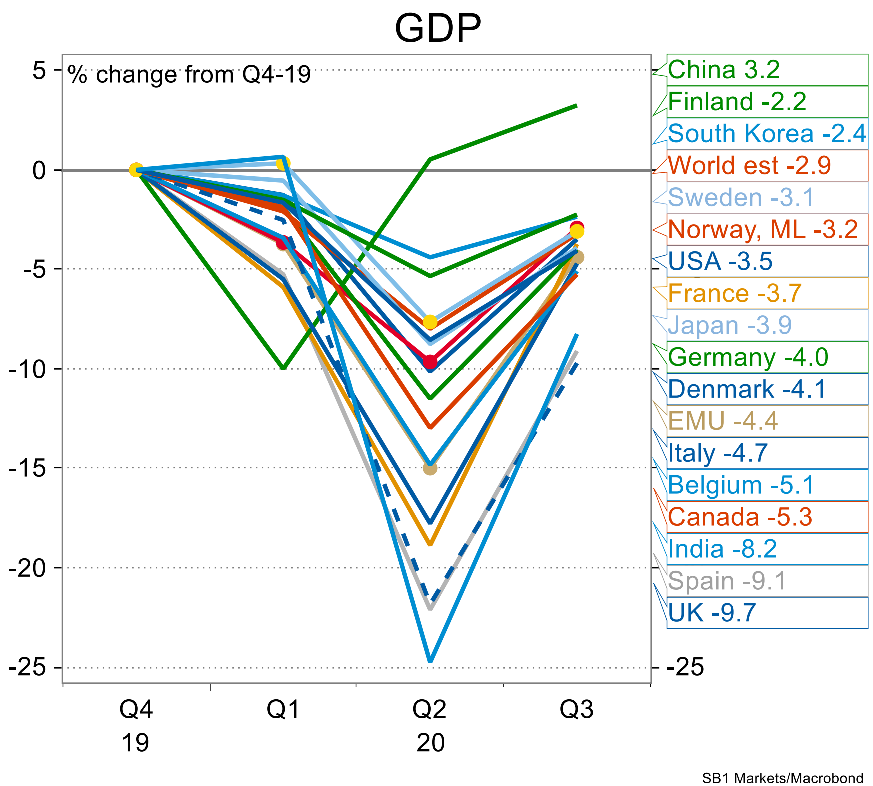




- Global manufacturing production was marginally above the Dec-19 level in October
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 5 % below the pre-corona level in October. Total production during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

Global GDP up almost 8 % in Q3 – and 'just' 3% below Q4-19 level

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



- Some observations – Q3 vs Q4-20:
  - » China 3.2% above Q4
  - » India still down 9.2%, even after a 22% recovery in Q3 (124% annualised ☺)
  - » Japan is down 3.9% (but 6% vs Q3 19, before the VAT hike tanked the economy (once more))
  - » USA -3.5%
  - » EMU -4.4%, 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 (Mainland) -3.2%

Norway & UK: SB1 Forecasts

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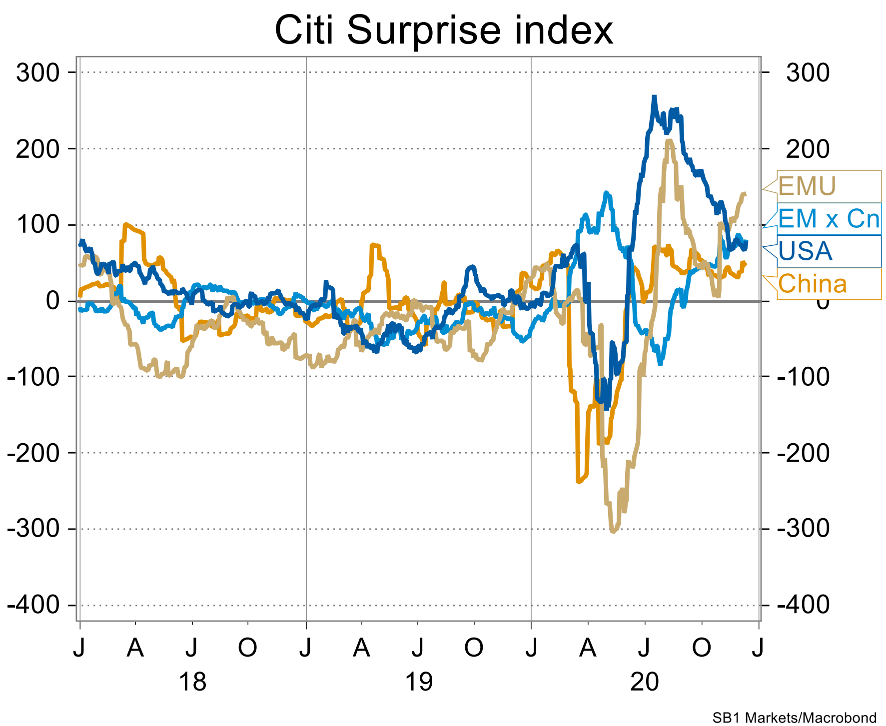
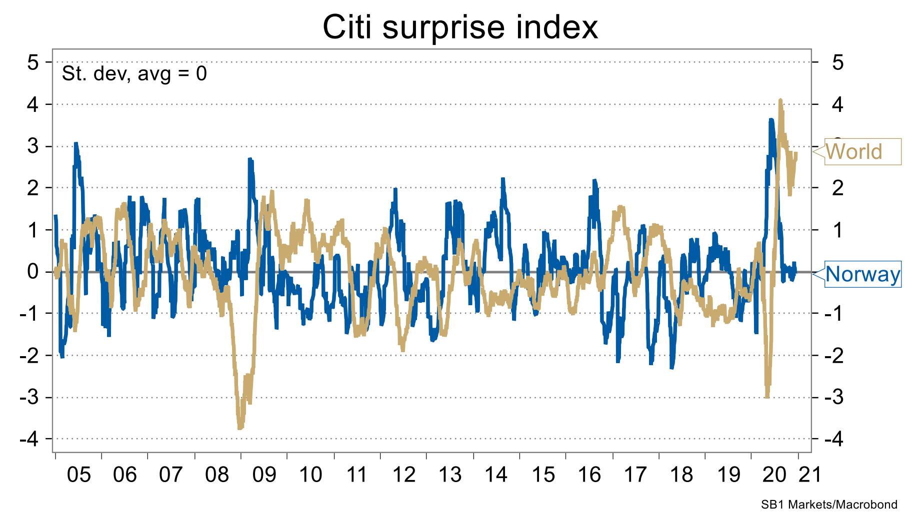
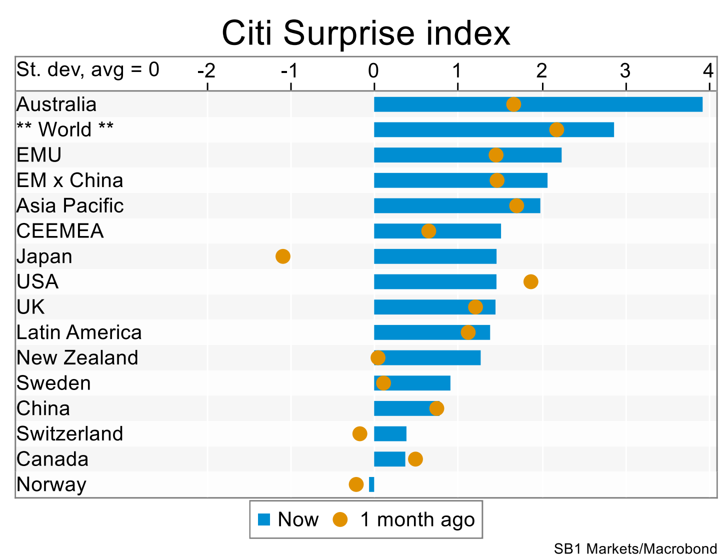
Surprises are still on the upside – and somewhat more last week too

European data are surprising sharply on the upside. Except Norway, that is







- 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 well into positive territory, as is China
- Other EMs are well above their average level too
- Norway, Canada and Switzerland at the bottom

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

The Calendar

A long, 'yellow' pre Christmas calendar: PMIs, China Nov. data, US ind/retail/housing. Norge Bank

Time	Count.	Indicator	Period	Forecast	Prior
Monday Dec 14					
11:00	EC	Industrial Production SA MoM	Oct	2.0%	-0.4%
Tuesday Dec 15					
03:00	CH	Industrial Production YoY	Nov	7.0%	6.9%
03:00	CH	Retail Sales YoY	Nov	5.0%	4.3%
03:00	CH	Fixed Assets Ex Rural YTD YoY	Nov	2.6%	1.8%
08:00	NO	Trade Balance	Nov		2.7b
08:00	UK	Claimant Count Rate	Nov		7.3%
14:30	US	Empire Manufacturing	Dec	6.9	6.3
15:15	US	Industrial Production MoM	Nov	0.30%	1.10%
Wednesday Dec 16					
01:30	JN	PMI Manufacturing	Dec P	--	49
08:00	UK	CPI Core YoY	Nov	1.4%	1.5%
09:15	FR	PMI Manufacturing	Dec P	49.6	49.6
09:30	GE	PMI Manufacturing	Dec P	56	57.8
10:00	EC	PMI Manufacturing	Dec P	53	53.8
10:00	EC	PMI Services	Dec P	41	41.7
10:00	EC	PMI Composite	Dec P	45.5	45.3
10:30	UK	PMI Manufacturing	Dec P	54.8	55.6
10:30	UK	PMI Services	Dec P	50.4	47.6
11:00	EC	Labour Costs YoY	3Q	--	4.20%
14:30	US	Retail Sales Advance MoM	Nov	-0.2%	0.3%
15:45	US	PMI Manufacturing	Dec P	55.8	56.7
15:45	US	PMI Services	Dec P	55	58.4
15:45	US	PMI Composite	Dec P		58.6
16:00	US	NAHB Housing Market Index	Dec	88	90
20:00	US	FOMC Rate Decision (Lower Bound)	Dec-16	0.00%	0.00%
Thursday Dec 17					
06:00	SW	Home-Price Index			
08:45	FR	Business Confidence	Dec	81	79
09:30	SW	LFS Unemployment Rate SA	Nov	8.8%	8.6%
10:00	NO	Deposit Rates	Dec-17	0.0%	0.0%
11:00	EC	CPI Core YoY	Nov F	0.2%	0.2%
13:00	UK	Bank of England Bank Rate	Dec-17	0.1%	0.1%
14:30	US	Building Permits	Nov	1558k	1545k
14:30	US	Housing Starts	Nov	1533k	1530k
14:30	US	Philadelphia Fed Manuf. Index	Dec	20	26.3
14:30	US	Initial Jobless Claims	Dec-12	823k	853k
Friday Dec 18					
08:00	UK	Retail Sales MoM	Nov	-4.2%	1.2%
10:00	GE	IFO Expectations	Dec	92.5	91.5
10:00	NO	NAV Unemployment Rate	Dec	(3.8%)	3.9%

- **Preliminary Dec PMIs**
  - **European services** were the weak link in the global PMI data set in November, however far better than during the spring lockdowns. We doubt the situation worsened much in France/Italy/Spain but Germany is still on the slippery slope. The **UK PMIs** are exposed too. Some signals from **US services**? At least a growth slowdown? We expect our global PMI estimate to turn south vs. Nov, but not by much
- **USA**
  - **Industrial production** is still heading up. **Regional manufacturing** surveys fell on avg in Nov, a mixed result is expected for Dec. **Retail sales** slowed in Oct, and is expected down in Nov – and it's probably due to corona challenges. **Housing** is booming, and doubt the party is over
- **EMU**
  - **Industrial production** climbed rapidly in October, as witnessed by country data already published. Some **national business surveys** (Ifo, INSEE) will complement the PMI surveys
- **UK/Brexit: They will go an extra mile… And check retail sales at Friday!**
- **Norway**
  - **Norges Bank** will keep the signal rate at zero, but will the long end of the interest rate path be nudged up? We think the bank should and – on balance – we think the bank will, pushing the first hike at least one quarter closer, to Q2/Q3 2022. An even earlier rate hike is already priced into the FRA curve, and Statistics Norway forecasted a hike next summer. *See more next two pages*
  - We expect the **NAV unemployment** rate will decline (seasonally adjusted at least)

Source: Bloomberg. SB1M est. in brackets. Key data points are highlighted, **the most important in bold**

Norges Bank preview: To jump into it now or wait and see?

Or make a compromise: Lift the H2 '22 path up by 10 bps, signalling a hike in Q2/3-22?

Mixed corona news

÷ **The 2nd corona wave** hits everywhere, Norway included. Will slow or take GDP down in Nov/Dec. Illustrates the corona downside risk

\+ **The vaccines are coming**! Statistics Norway expects vaccines to work, and that Norges Bank will start hiking in June/August 2021, not in Q3/Q4 2022. That's our position too, but Norges Bank will not signal such an abrupt shift in one go, now (even is such upward revisions in the interest rate path has taken place several times before!)

The 'traditional' data/observations

\+ **'Official' global growth** forecasts from the IMF and the OECD have been nudged upwards

\+ **Mainland GDP** growth has been higher than previously reported/NoBa expectation. October GDP was 1.5% higher than the Bank expected in Sept, though partly due to fisheries. ÷ And the Nov/Dec outlook is weaker than assumed in Sept

÷ **Unemployment** rose in Nov, and even if it probably fell in Dec, it is marginally above NoBa's Sept f'cast

÷ **The regional network** reported growth way below actual growth the last 3 months, and expected close to a flat GDP the coming 6 m, far below NoBa's 2% growth f'cast

÷ **Nov inflation** was substantially lower than NoBa expected, but still far above target

\+ **Near term oil prices** are up USD 7/b vs. Sept oil price curve (=NoBa assumption). However, longer dated contracts are down (after the 36th month's contract). In sum neutral?

\+ **House prices** are increasing substantially faster than NoBa assumed. **Household credit** growth is in line with the Bank's f'cast. **Corporate credit** growth is substantially better

÷ **Fiscal policy** will be tighter than Norge Bank assumed in September, even if the budget is weakened by the Storting during the autumn

÷ **Interest rates**: 2 y trading partners' swap rates are down 5 bps since Sept 18 while NOK 2y swaps are up 7 bps

\+ **The FRA curve**: Has steepened since the Sept meeting, the first hike is discounted in late Q4 '21, early Q1 '22. The Dec 22 contract is up 10 bps

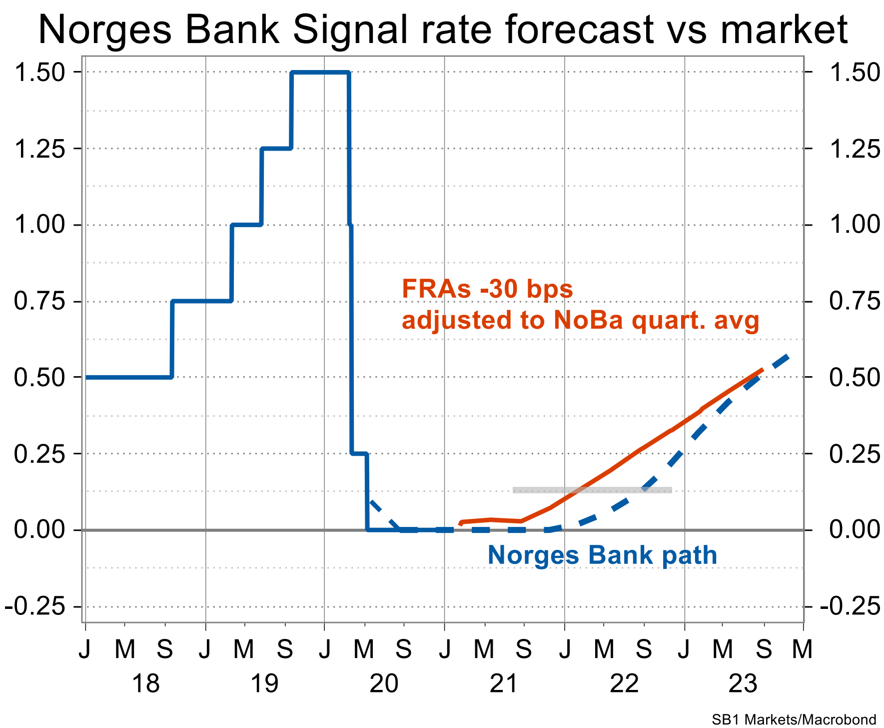
÷ **The NOK** is 1.5% above NoBa's Sept forecast

○ **The NIBOR spread**: Widened sharply in Oct/into Nov – but has more or less normalised the recent weeks, remains 5 bps above NoBa's Sept f'cast but market FRAs signal a further decline - neutral

\+ **Other financial markets**: Stock markets sharply up, credit spreads sharply down – abroad as in Norway

Norges Bank preview: To jump into it now or wait and see?

Or make a compromise: Lift the H2 '22 path up by 10 bps, signalling a hike in Q2/3-22?



- **So what?**
  - » **The growth outlook:** We do not think NoBa will yield to the downbeat Regional Network assessments. Q4 growth will be taken down, but thereafter the bank will revise the growth path upwards, at least from Q2, motivated by a more positive vaccine outlook than in Sept, and a brighter global growth outlook
  - » **The signal rate is deep into negative territory**, and the housing market – the most important transmission mechanism – has responded vigorously. We think NoBa is motivated to signal that IF the economy recovers faster then earlier expected, rates will be lifted well before Q4 22
  - » **How to communicate that, now?** First, put emphasis on the upside risk for interest rates. In addition, lift the 2022 interest rate path upwards by up to 10 bps, signalling that the first hike will be moved forward to Q2-Q3, from Q3-Q4. An alternative: Lift the path some basis points more, signalling a hike in H1 2022

Highlights

The world around us

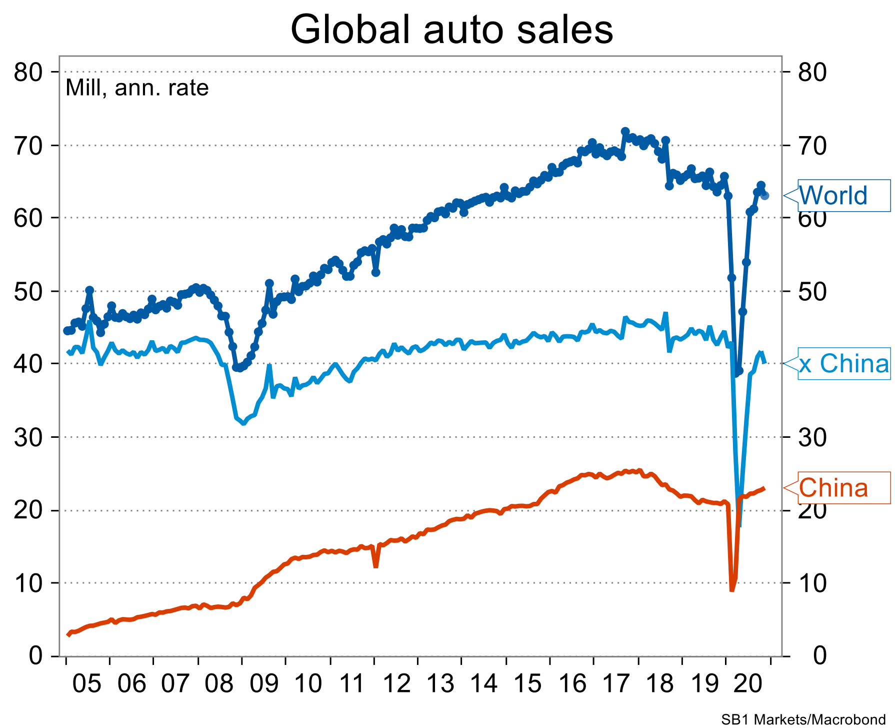
The Norwegian economy

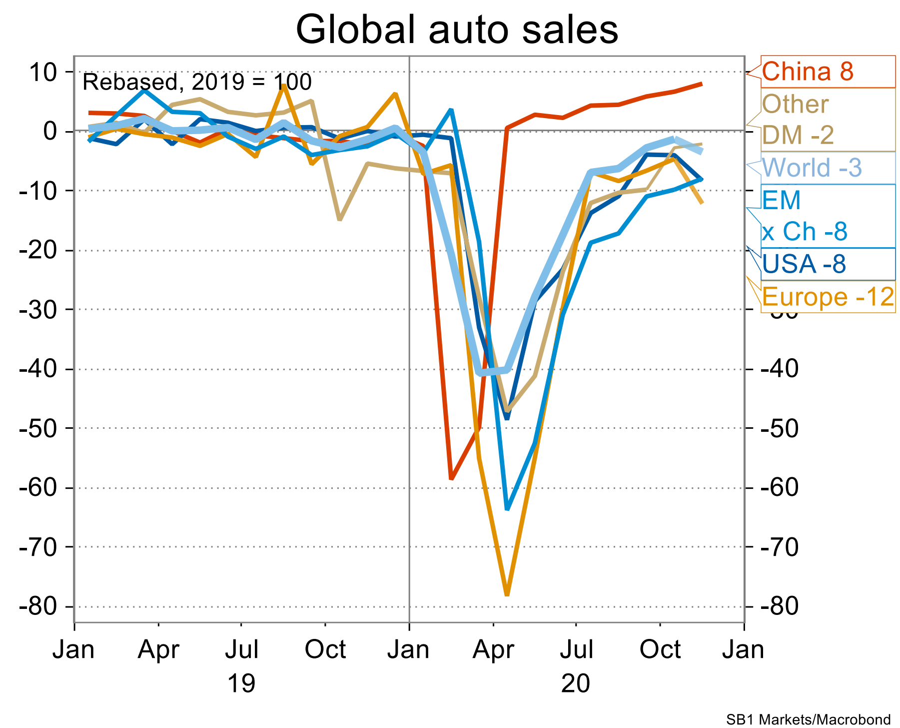
Market charts & comments

SpareBank 1 MARKETS

Global auto sales down 2% in November – EU more down than the US. Covid-19?

Global sales 3% below the 2019 average. China +8%, the rest of the world appox -8%

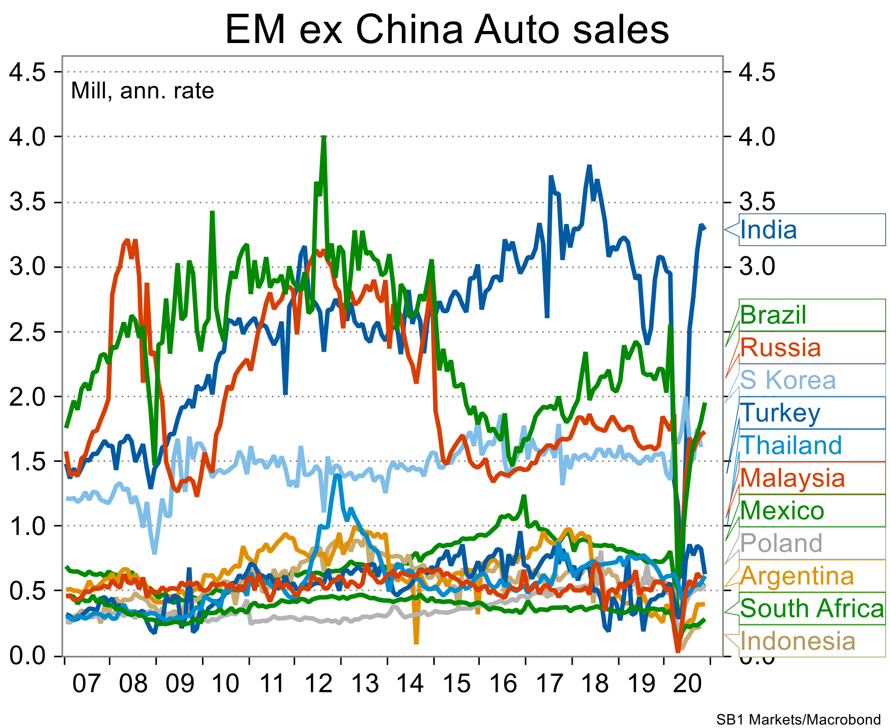


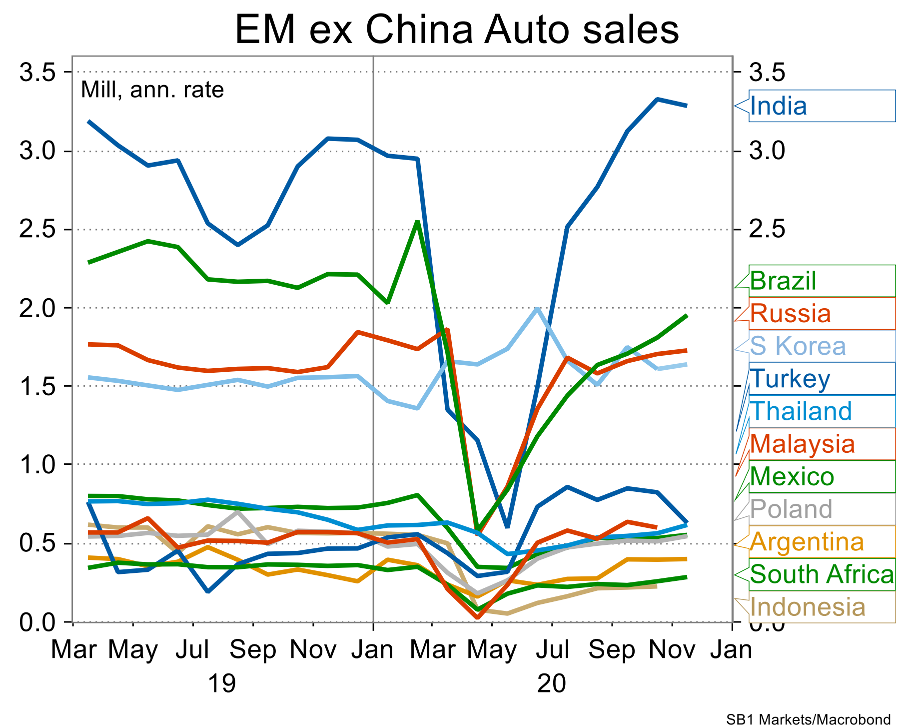


- The decline in sales in US and EU (UK included here) is very likely due to Covid-19 & Covid-19 restrictions. Sales in other DM rose slightly in November
- Auto sales in Europe fell by 7%, to 12% below the 2019 average, as both France & UK reported 25 – 30% decline in November. German sales rose marginally
- Chinese sales rose further by 1%, and are 8% above the 2019 average level
- Auto sales in other Emerging Markets rose further, and at now 8% below the 2019 level

EM x China auto sales have recovered, India down 1.2% in Nov, but still strong

In sum, sales are still 8% below 2019 level but trends are up everywhere



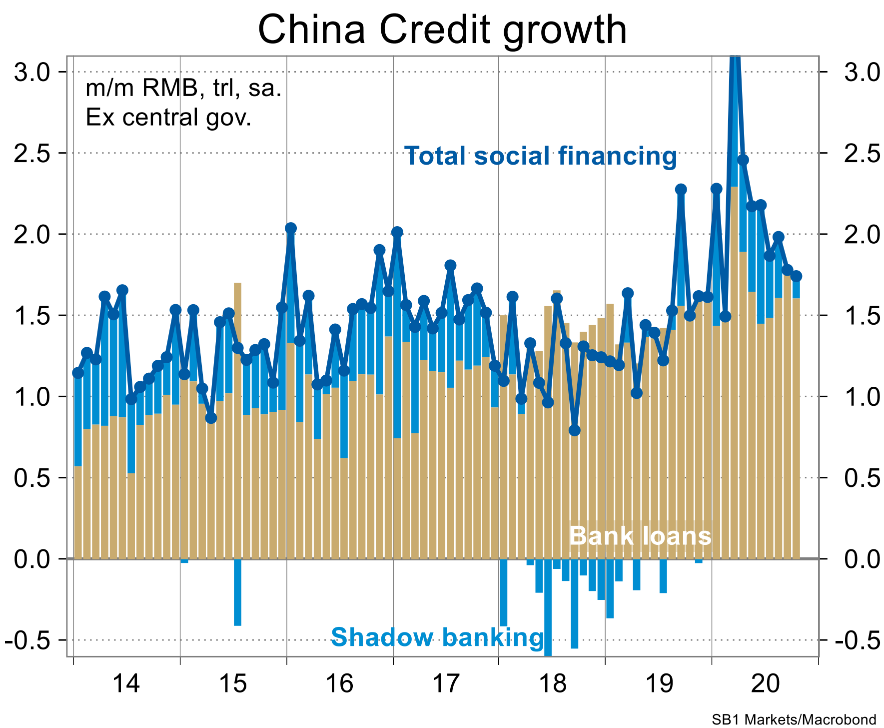


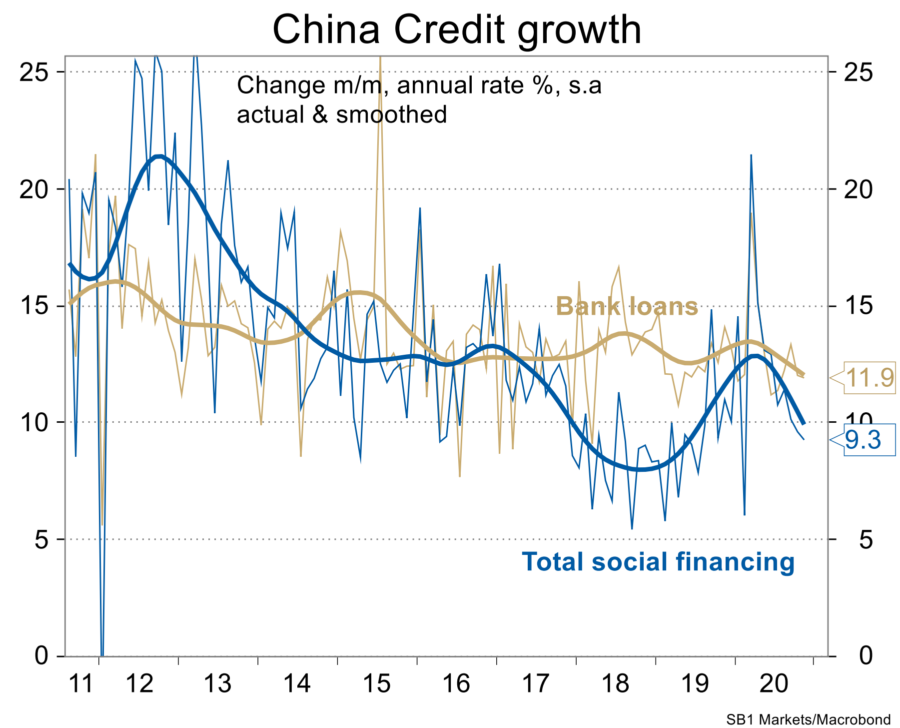
- Sales in India tapered off a bit in November, but remain at a high level. Brazil is trending up but are still 20% below sales last year. Russia is almost on par – and South Korea is above!
  - Turkey is this year's winner – and Indonesia the big loser

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

Credit growth is slowing further but no reason for panic

Growth in shadow banking lending has slowed to a trickle – as bank credit growth in easing too

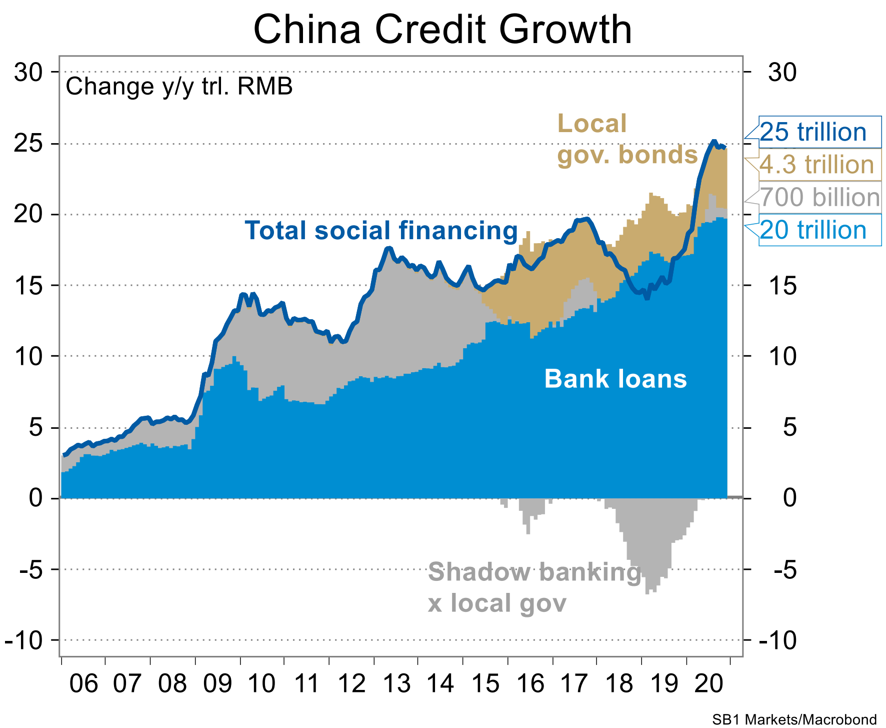


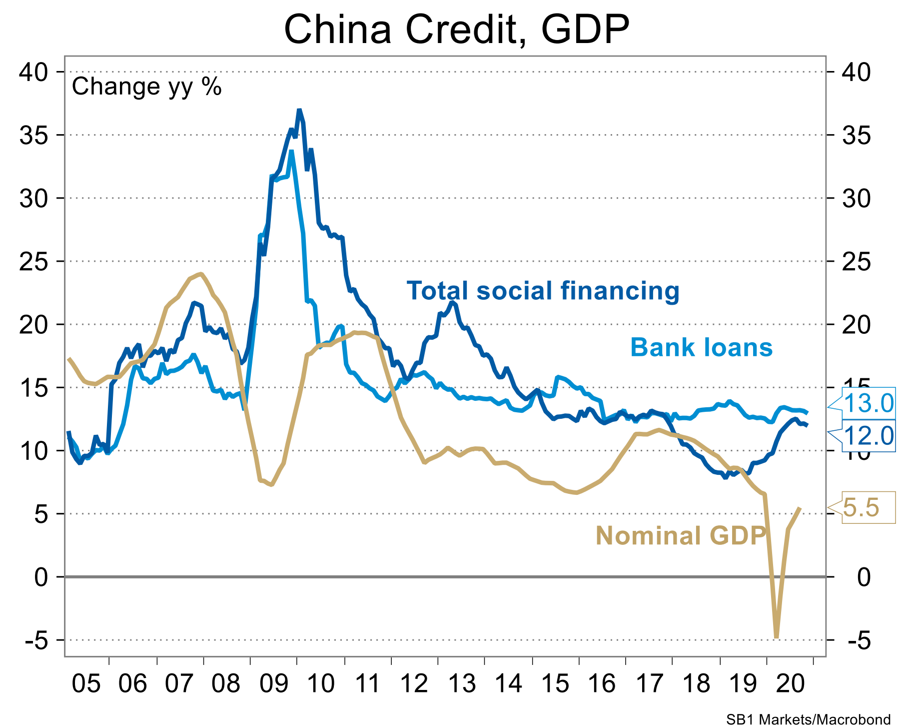


- Total credit growth has been slowing recent months, to some 9% (smoothed annualised) in Nov, from above 15% during the spring. A 9% growth rate is probably close to trend growth in nominal GDP (or just slightly above)
  - » Total credit rose by RMB 2.1 trl (not seasonally adjusted, ex central government bonds but including local governments), somewhat above expectations. Bank loans grew by 1.4 trl, as expected. Seasonally adjusted total credit rose by 1.7 trl, of which almost everything through the banking system
  - » Total credit is still up 14% y/y, above normal income growth – but this high figure is just due to the rapid credit expansion in H1, when authorities opened up the gates to support the economy after the corona crisis
  - » Now, the authorities are – understandingly – trying to calm credit markets down. They no doubt acknowledge that the debt/GDP ratio already is dangerously high

Credit growth curve shows signs of flattening

... but growth is still not low



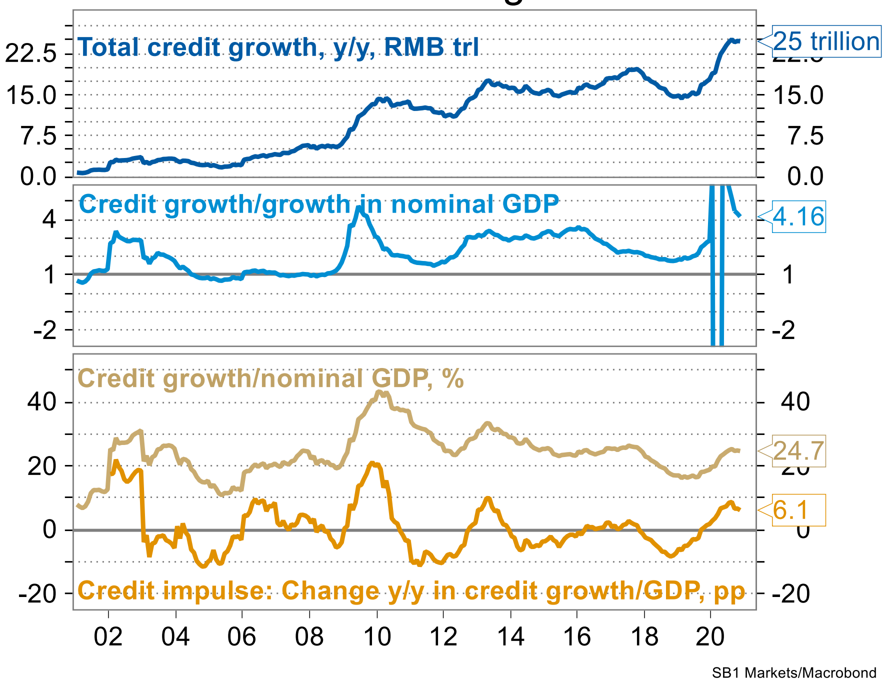


- Over the past year, total credit has expanded by CNY 25 trl, equalling 25% of GDP (even before the Q1 collapse)
- Banks supplied CNY 20 trl of the y/y increase
- Local governments have not yet accelerated their borrowing by much, at least not in the bond market, still up 4.3 bn y/y
- Other credit – via the shadow credit market x local gov bonds is now marginally up y/y, by 0.7 bn
- Total credit growth at 12% is higher than growth in nominal GDP even before the corona shock (but the growth rate now is lower)

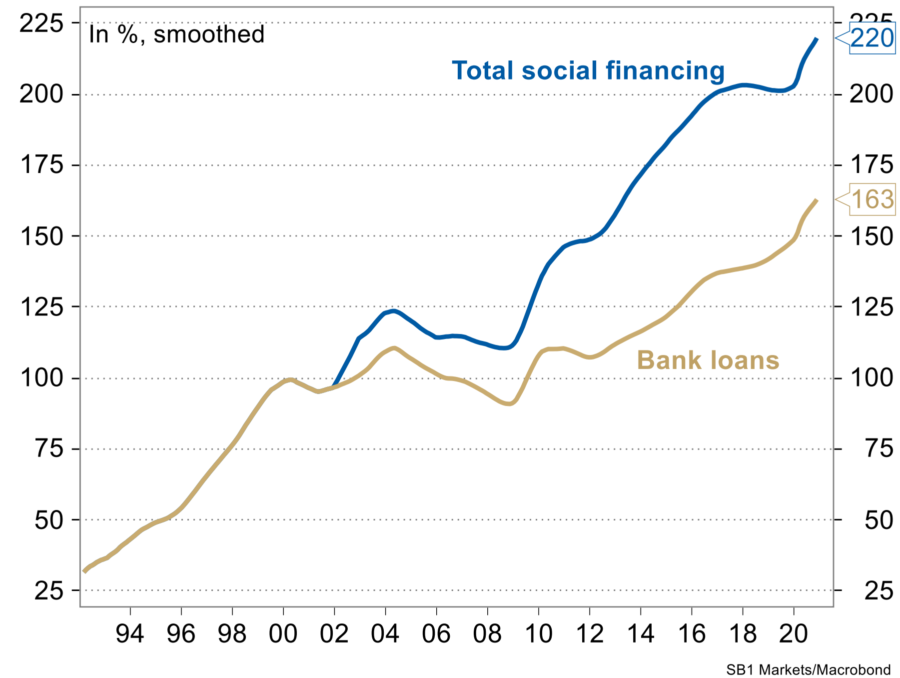
The credit impulse has peaked?

It should, given the incredible high debt/GDP ratio

China Credit growth



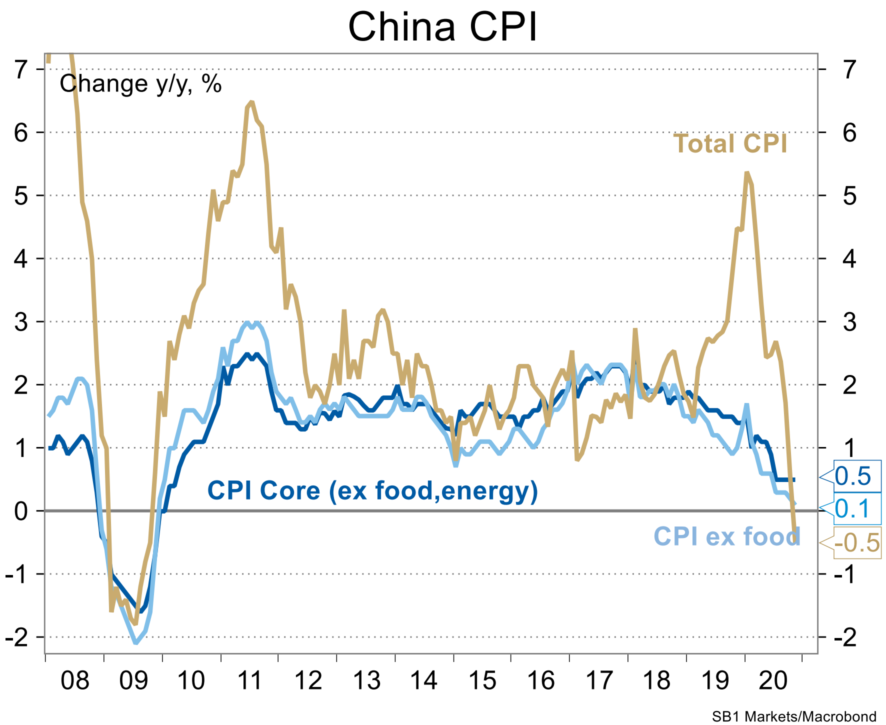
China Credit/GDP

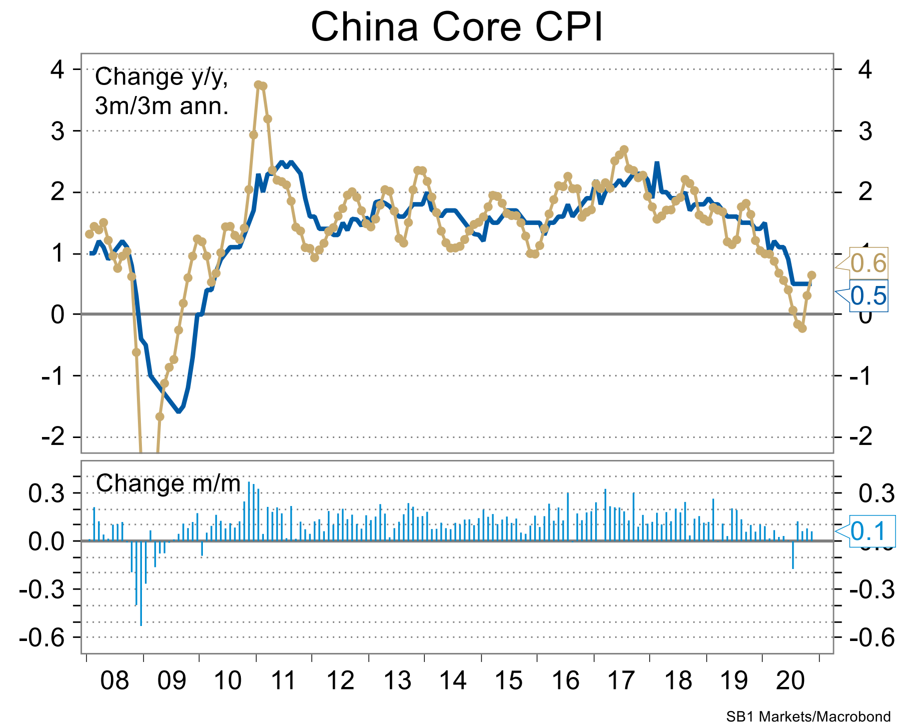


- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » The credit impulse has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

What inflation? China has fallen in deflationary territory! Due to pork prices!

Falling food prices (read: pork prices) took the headline CPI down to 0.5% (boosting buying power)



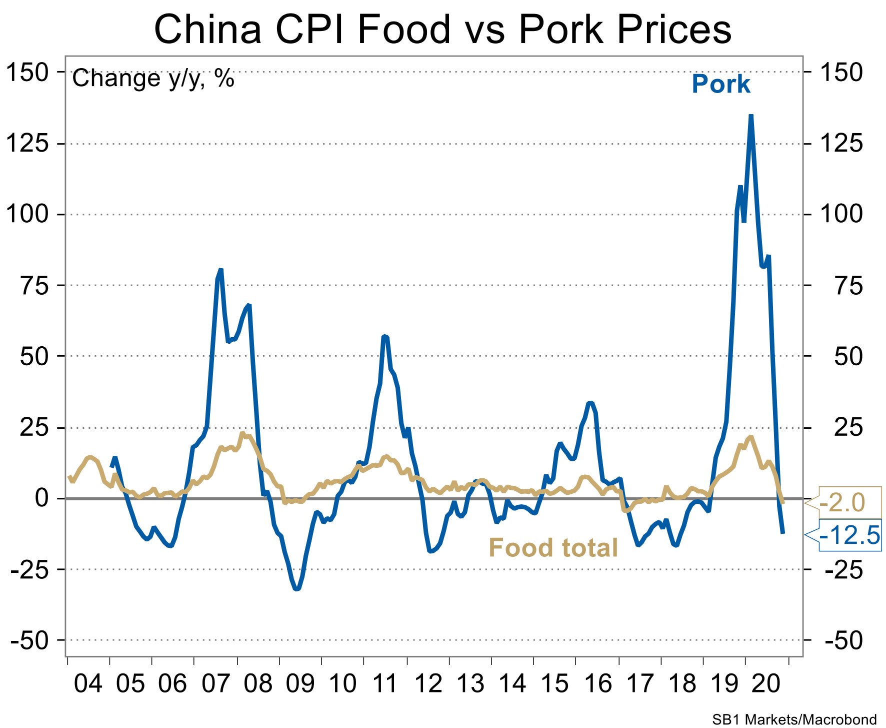


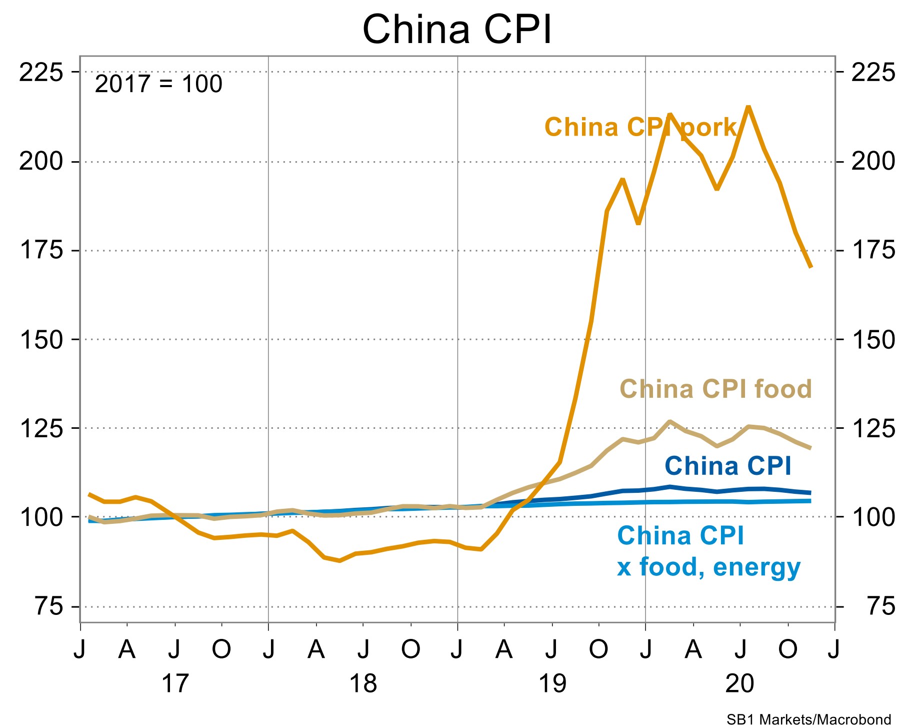
- **Total annual CPI** growth has fallen from above 5% in early 2020 to -0.5% in November!
- **However, CPI inflation ex food** is just at 0.1% - due to falling energy prices. The 'real core is up 0.5% - but even that is a very low number (the lowest since early 2010
- **Food prices** fell 1.6% m/m in November, and the annual rate came down to -0.7%. Food price inflation was above 20% when the swine flu pushed pork prices up more than 100%. Now pork prices are heading down
- **Headline inflation** fell to -0.5% from 0.5% (exp 0.0%). Lower inflation support real income growth

SpareBank 1 MARKETS

Pork prices down 6.5% m/m – but still 45% to go??

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

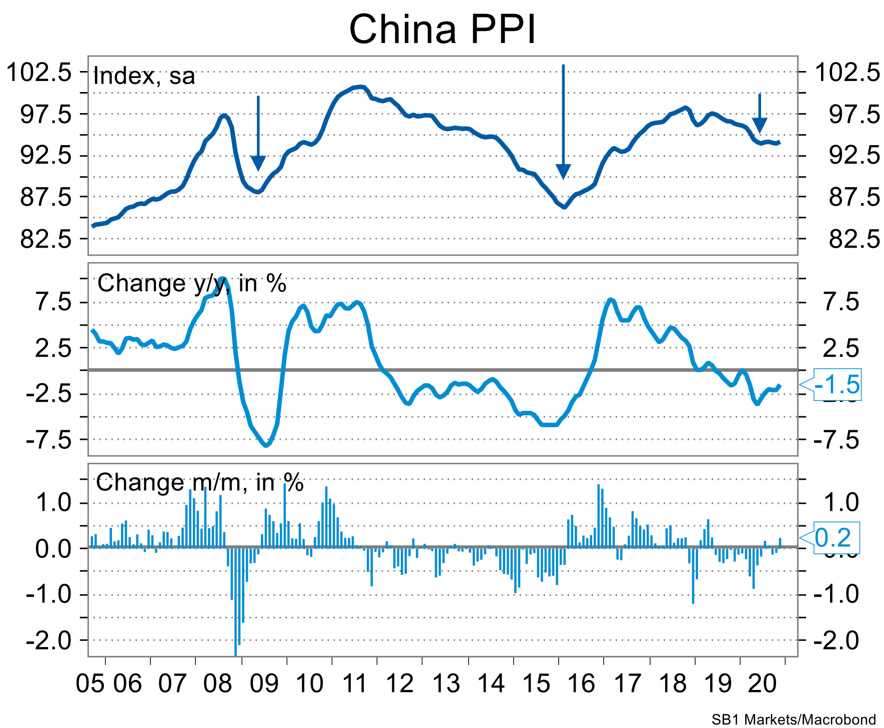


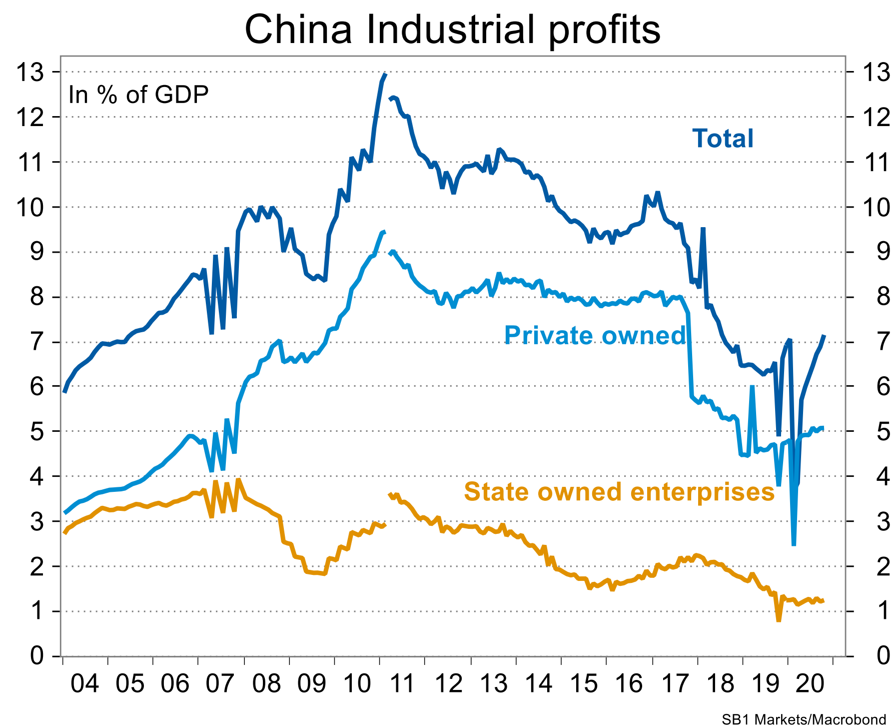


SpareBank 1 MARKETS

Producer prices up 0.2% m/m in Nov, still down y/y. Profits are recovering

PPI down 1.5% y/y in Nov, up from -3.7% in the spring

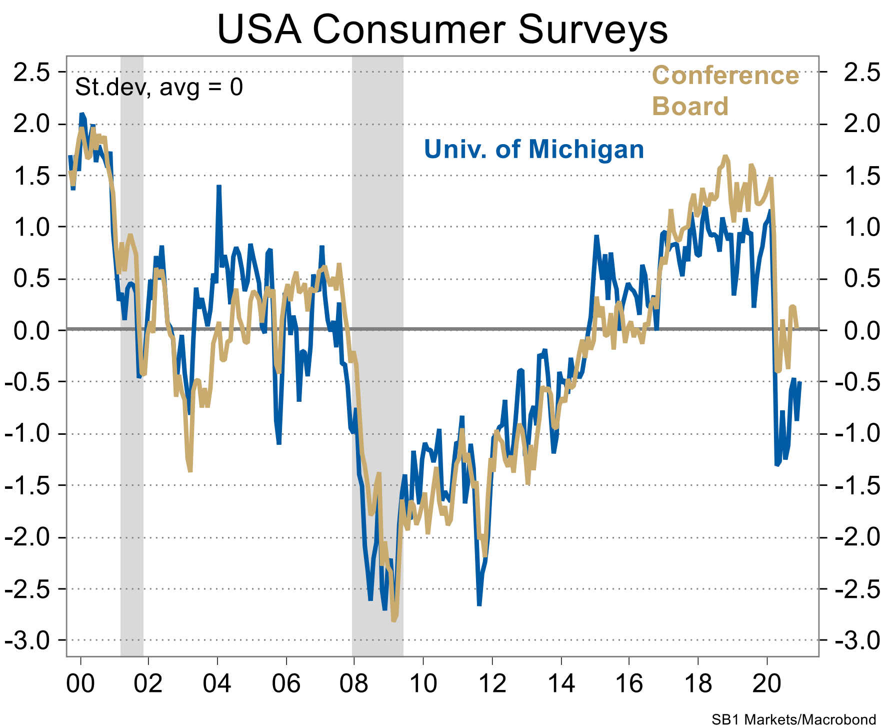


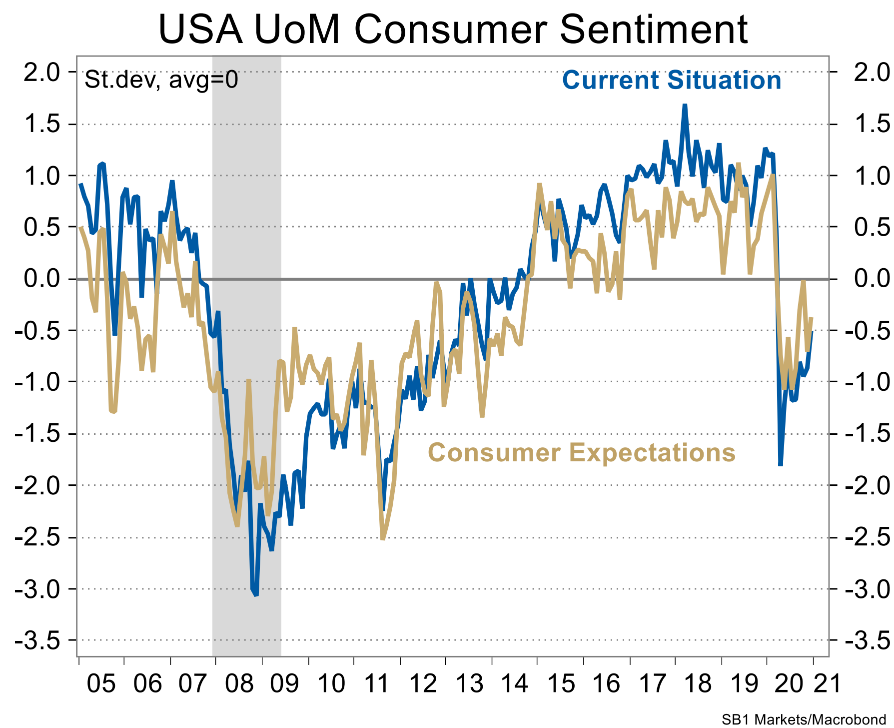


- The PPI peaked in late 2018 but prices have fallen just some 4% since then - and not much further the corona crisis. During previous setbacks, PPI has fallen up to 13% (and never less than 8%)
- Industrial profits in privately owned enterprises fell by 50% in February. Profits rose to a normal level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

Univ. of Mich sentiment reversed the Nov drop in Dec (due to the Democrats)

Both the assessment of the current situation and expectations rose, both still well below par

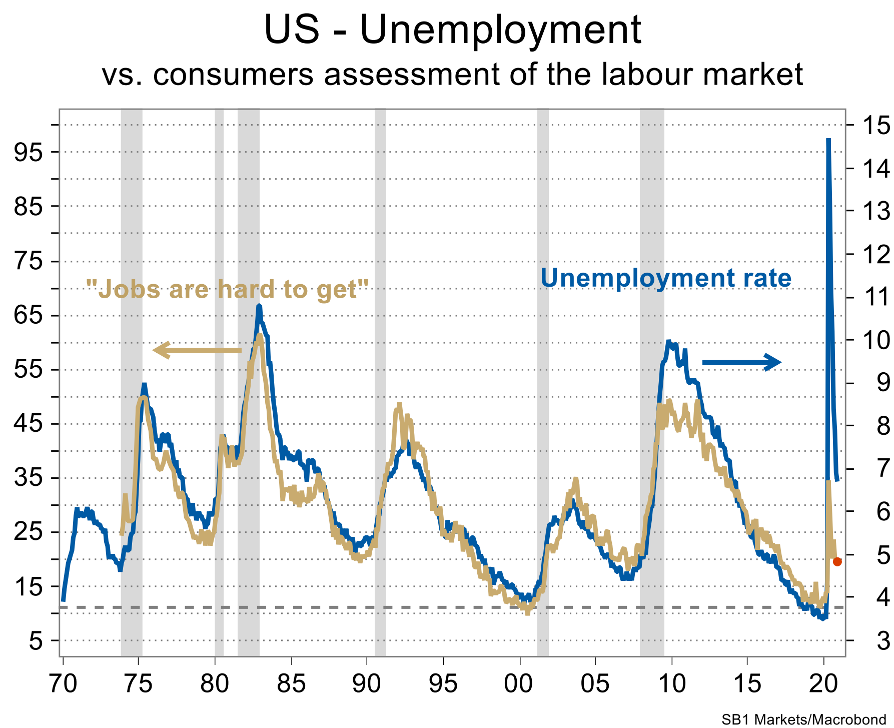


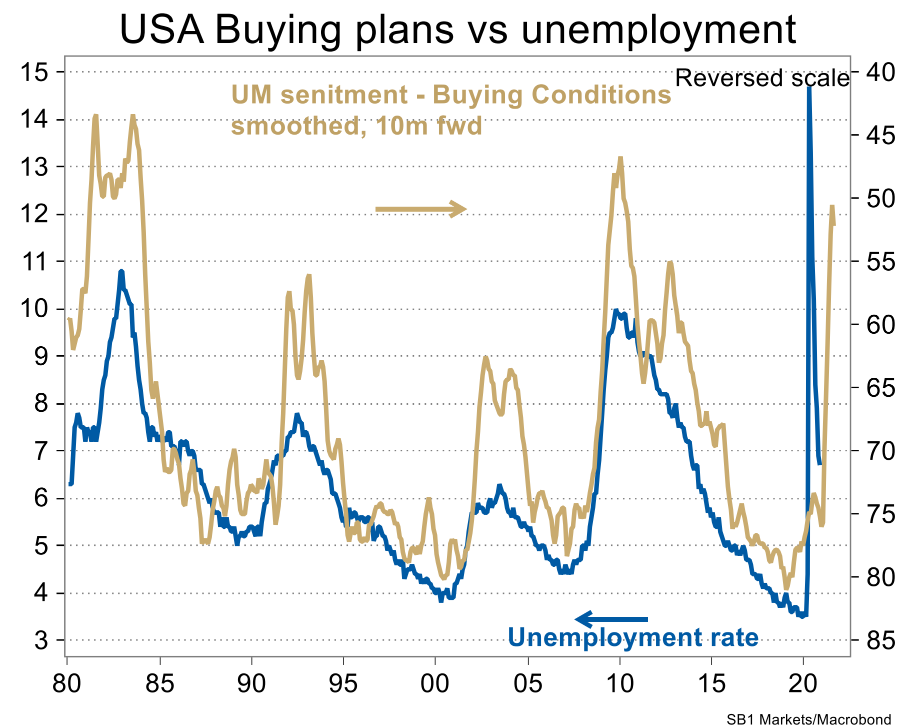


- The 2nd / 3rd corona wave has not killed sentiment in the US, December was on par with October, and well above levels during the spring/summer. On the other hand: The good vaccine news over the previous month has not lifted the mood that much
  - » UM's survey is 0.5 standard dev. below average, equally distributed between current situation assessment and expectations
  - » Conference Board's consumer confidence was at an average level in November
- Democrats think the current situation has become clearly better in December – and their expectations surges – as Republican voters expectations fell sharply. The same happened 4 years ago, with the opposite sign, of course
  - »

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

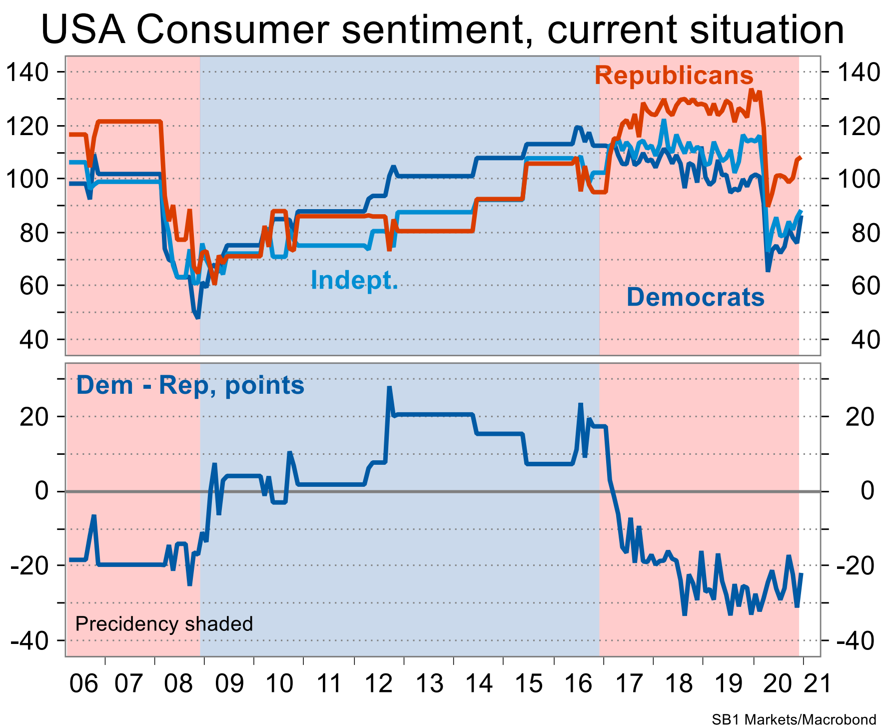


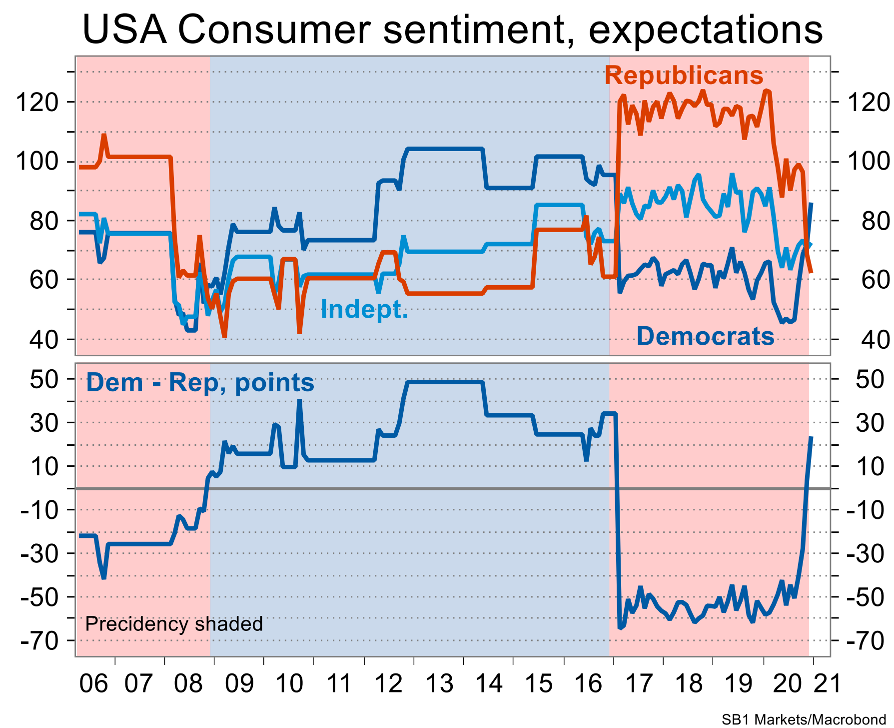


- The 'jobs are hard to get' index from Conference Board has come down to a well below average level
- On the other hand: The measure of buying conditions from UoM are at very low level (the scale is reversed at the chart to the right) – usually not a good sign

Expectations suddenly turned around, party wice

It was just a minor change in the assessment of the current situation, Democrats still negative

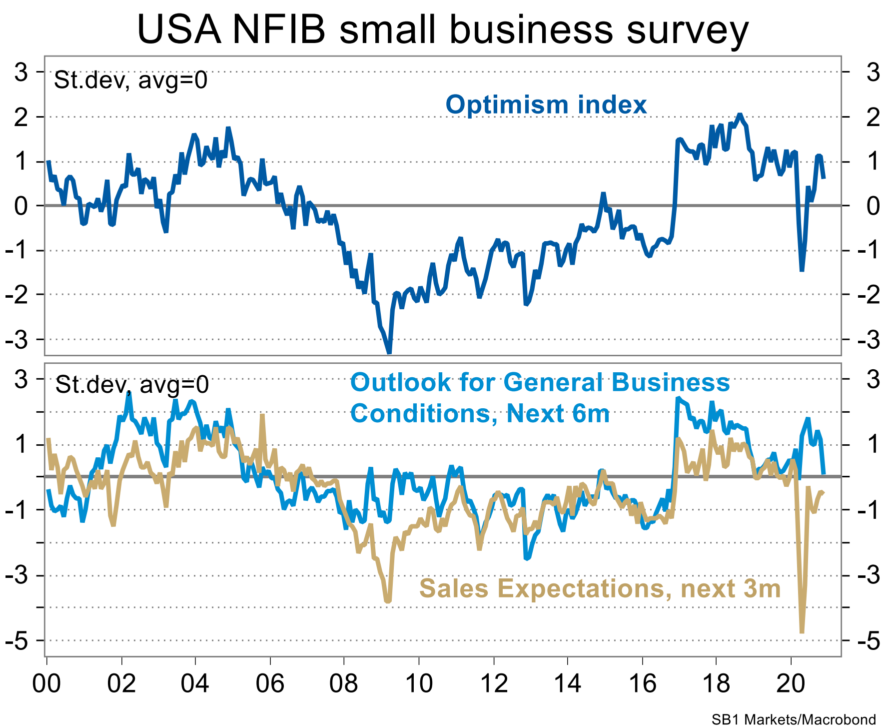


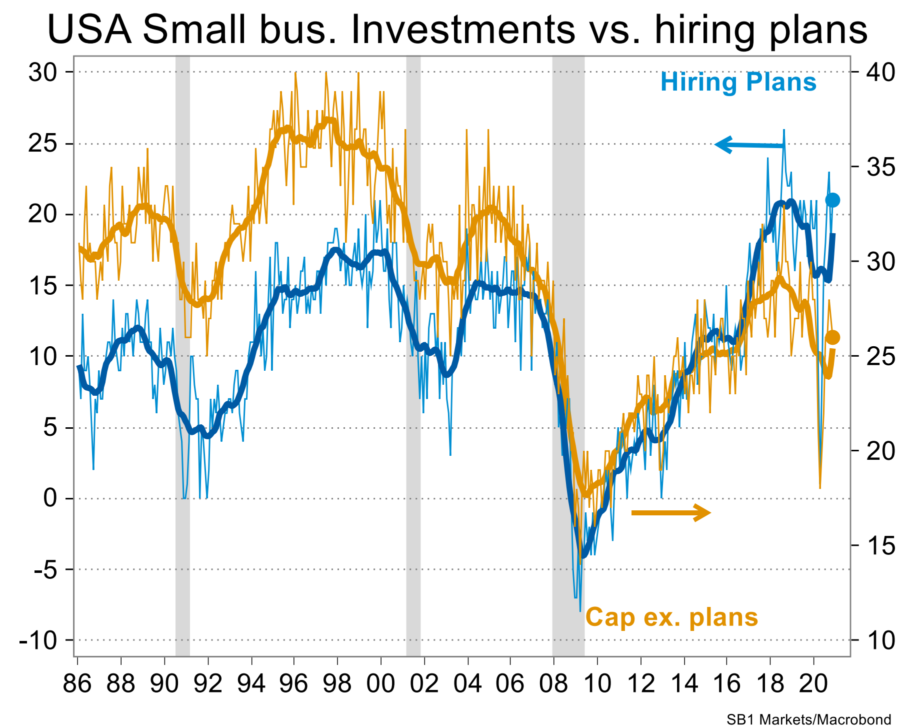


- But the future became brighter during November! (For Democrats, that is)

Small businesses' optimism deteriorated somewhat, capex underway

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



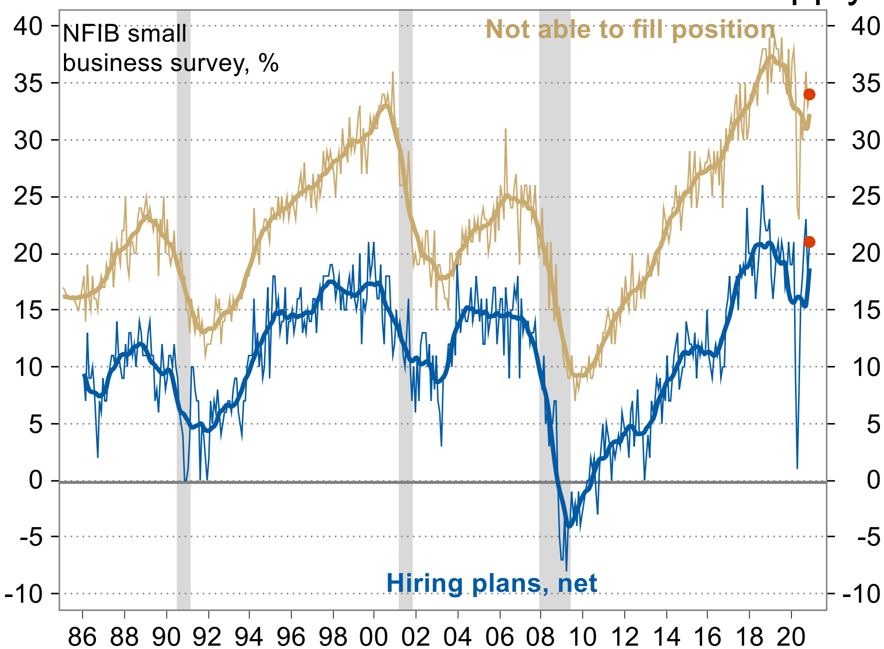


- The **NFIB optimism index** fell to 101.4 in Nov from 104. The level is still well above average. **The expectation index**, the outlook for the next 6 months, fell for the 2nd month – now at an average level
  - Sectors: Transportation and services are the most downbeat, construction and manufacturing in the lead
- Businesses slashed their **sales expectations** during the corona downturn, and even if they have recovered, expectations are still below par
- **Investment plans** have almost returned to a normal level, and companies are not signalling substantial cuts in investments (but no growth either)
- **Hiring plans** are back at the pre-corona level, a high level. Employment is still 7% below a pre-corona level, and it is not strange that hiring plans are pretty aggressive

Small businesses are not able to fill vacant positions

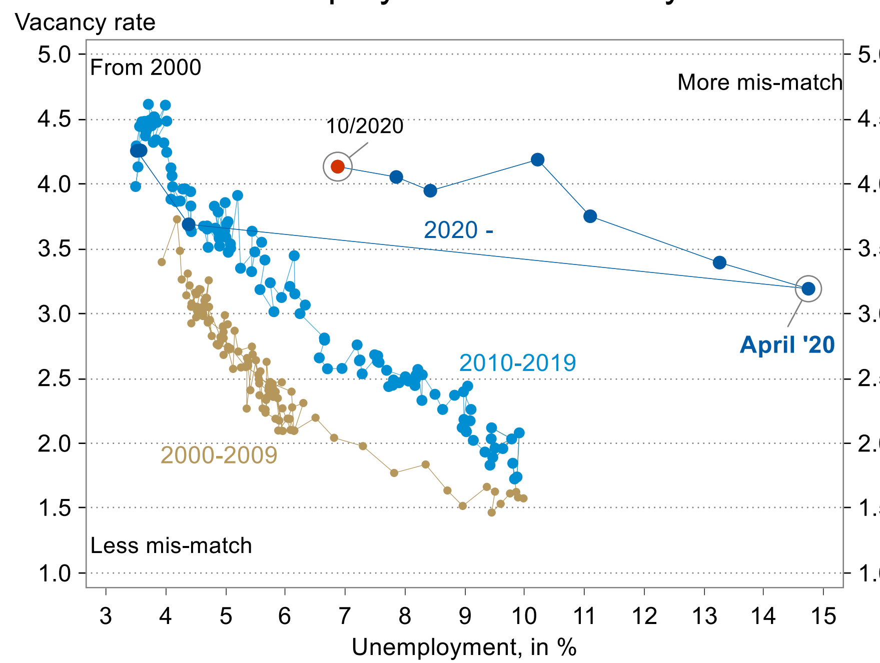
Which is rather remarkable, as the unemployment rate is still high. Corona to blame?

USA Small businesses labour demand/supply



SB1 Markets/Macrobond

USA Unemployment vs vacancy rates

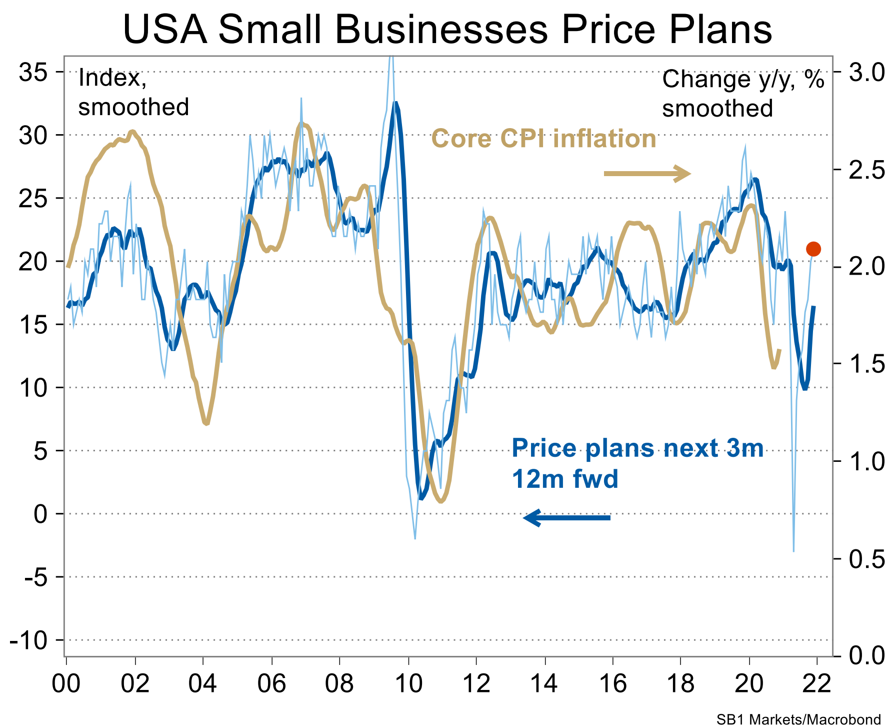


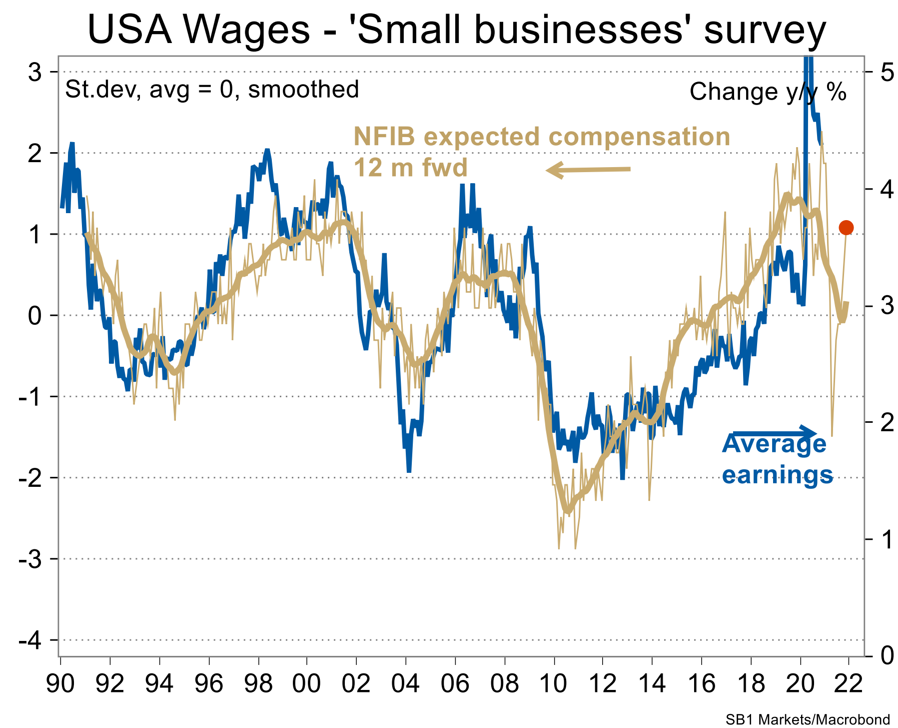
SB1 Markets/Macrobond

- The number of unfilled vacancies is also high, according to official statistics, *more next page*
- *Lack of transport, stay at home orders, closed schools - all due to the corona crisis - may explain that companies are not able to fill vacancies*

Companies assume higher price & wage increases – up from below par

Companies are not signalling runaway inflation but certainly <u>not</u> low inflation!

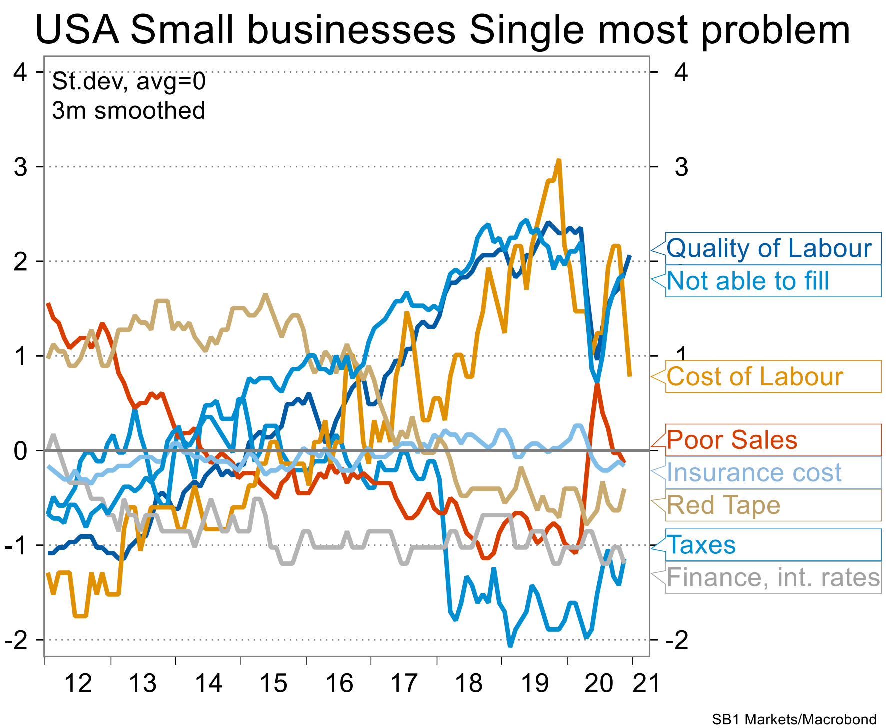


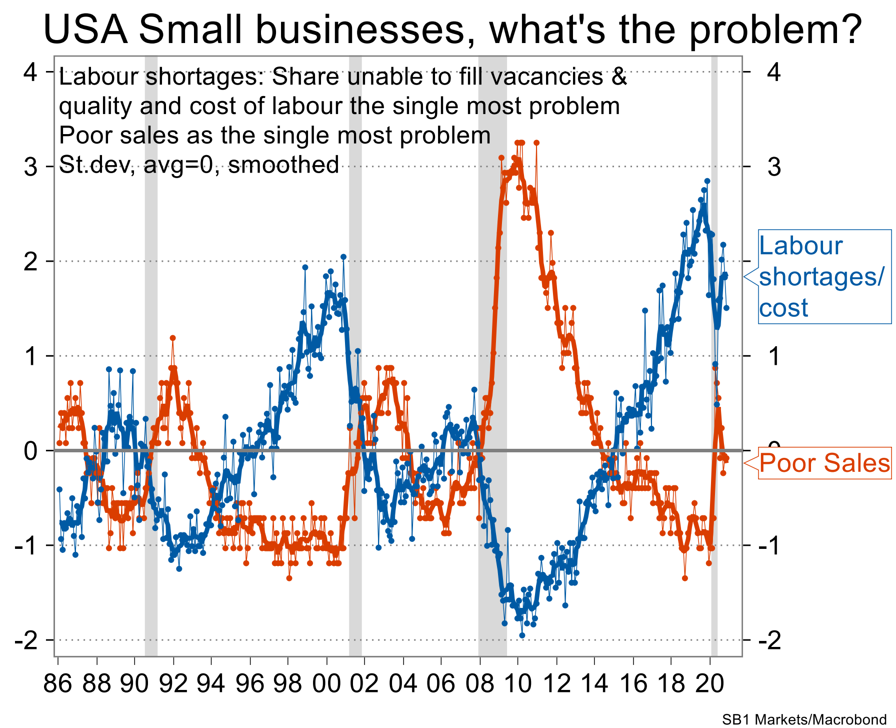


- Wage inflation expectations rose to well above a normal level in November
- Inflation expectations are also well above the average level the past 10 years

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

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

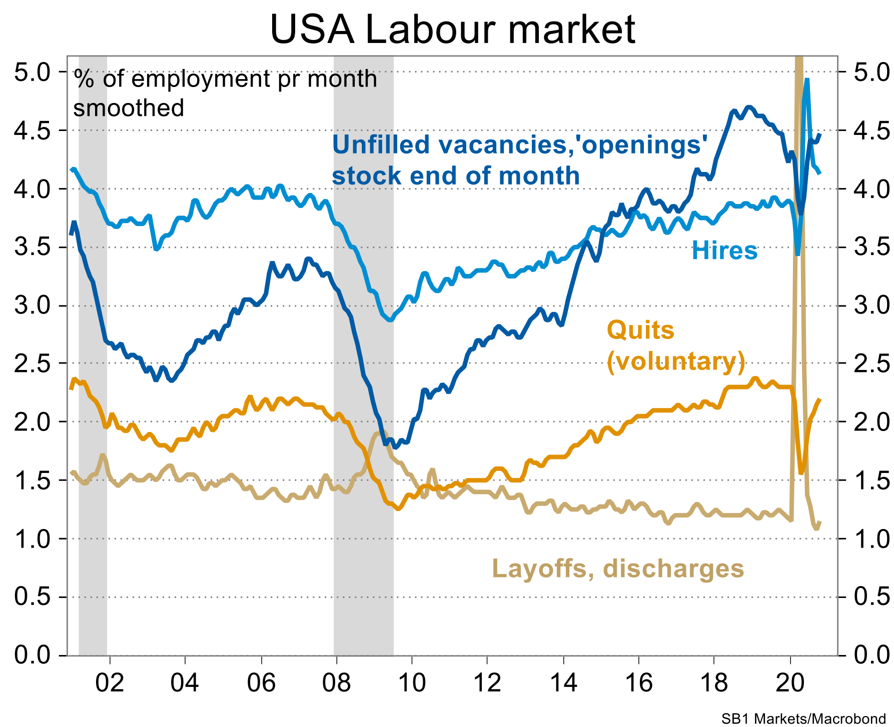


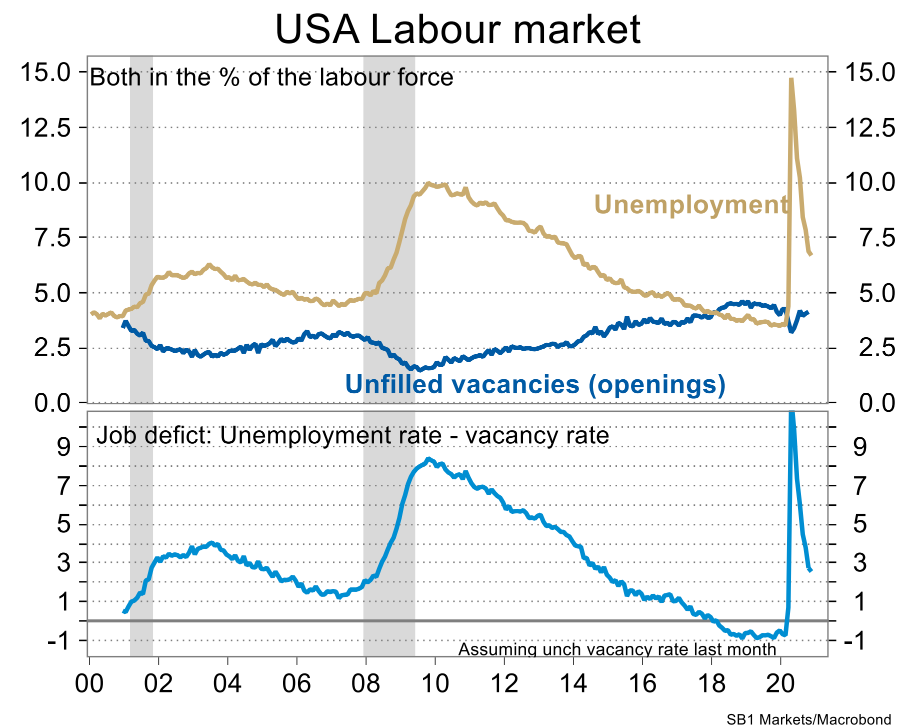


- More businesses have been stating weak sales as the major problem during the pandemic, but the level has been surprisingly low, and in November the level was below average!
- The share of businesses that have been noting problems with tight labour markets remained at a remarkably high level at the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

Hiring still brisk (but not even brisker), more unfilled positions

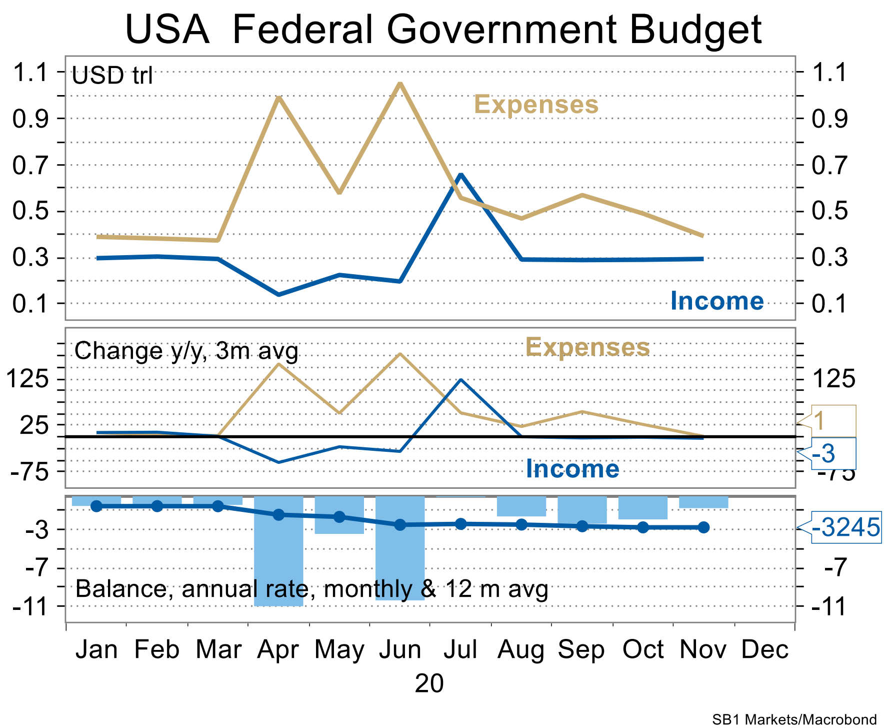
.. And more voluntary quits, few layoffs. The labour market is strengthening

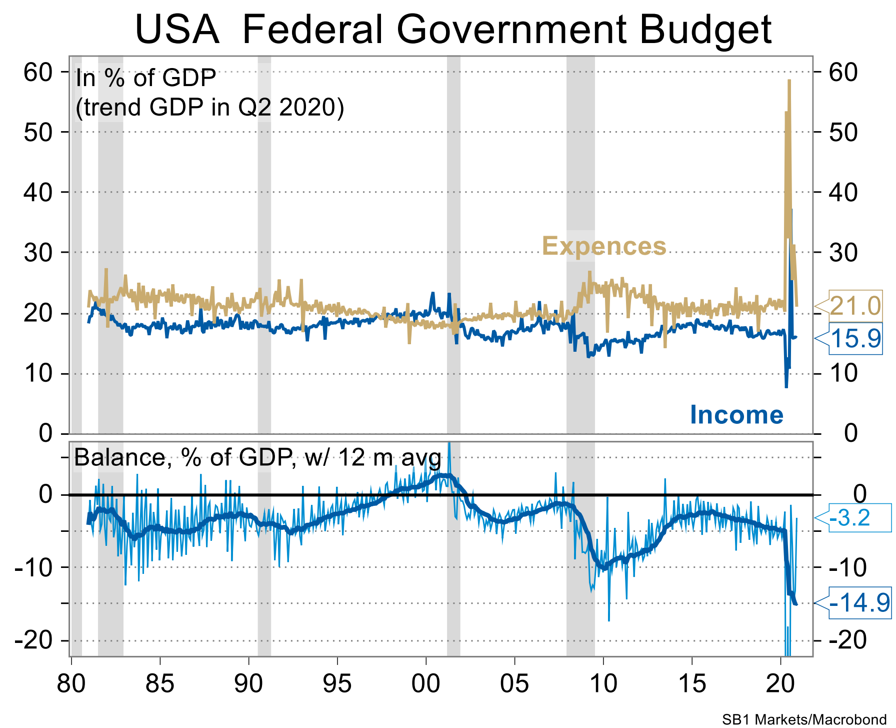




Federal spending has almost fallen back to a normal level, revenues too

Still, over the past 12 m total deficit is above USD 3.2 bn, 16% of GDP

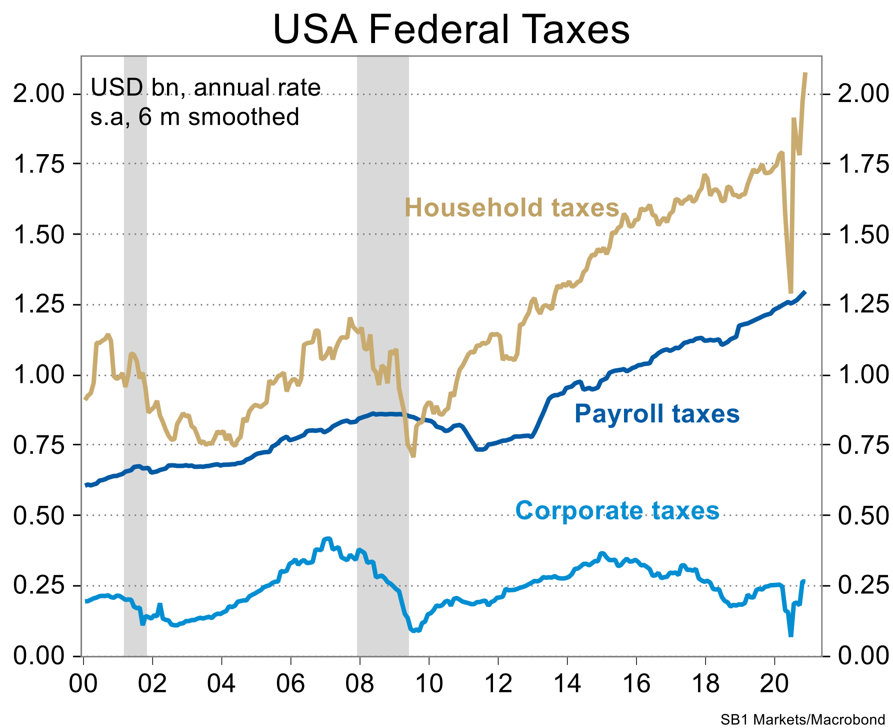


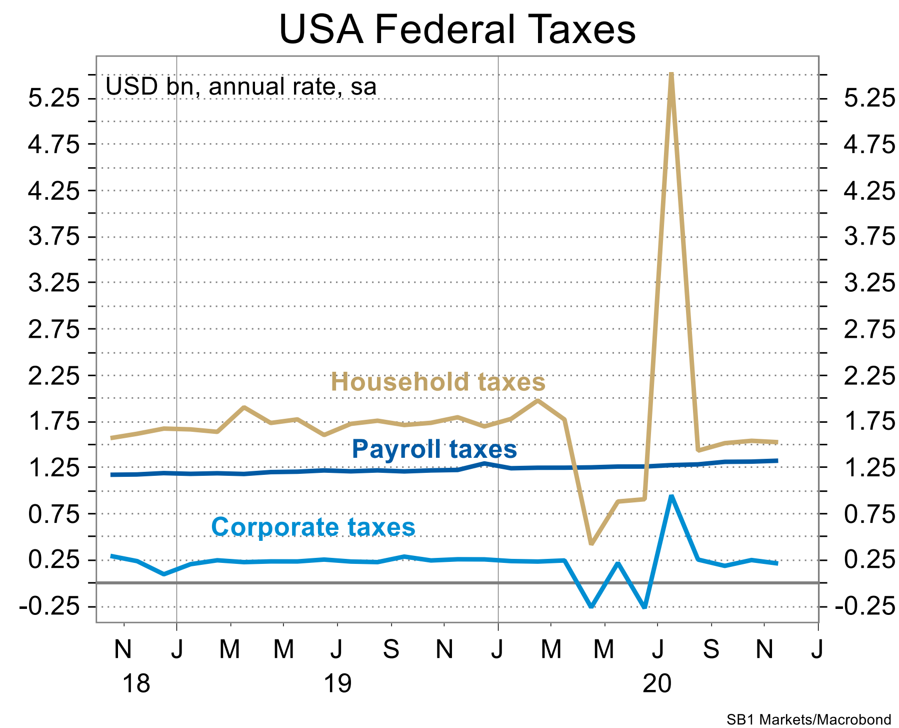


- Federal spending exploded during the spring but has now fallen back to a normal level, equalling 21% of GDP
- Federal revenues at 16% for GDP is also a normal fraction
- Another fiscal stimulus package is heavily debated in Congress, but no decision taken yet. They have a few more days to reach a deal, Congress members leave Washington by the end of this week

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

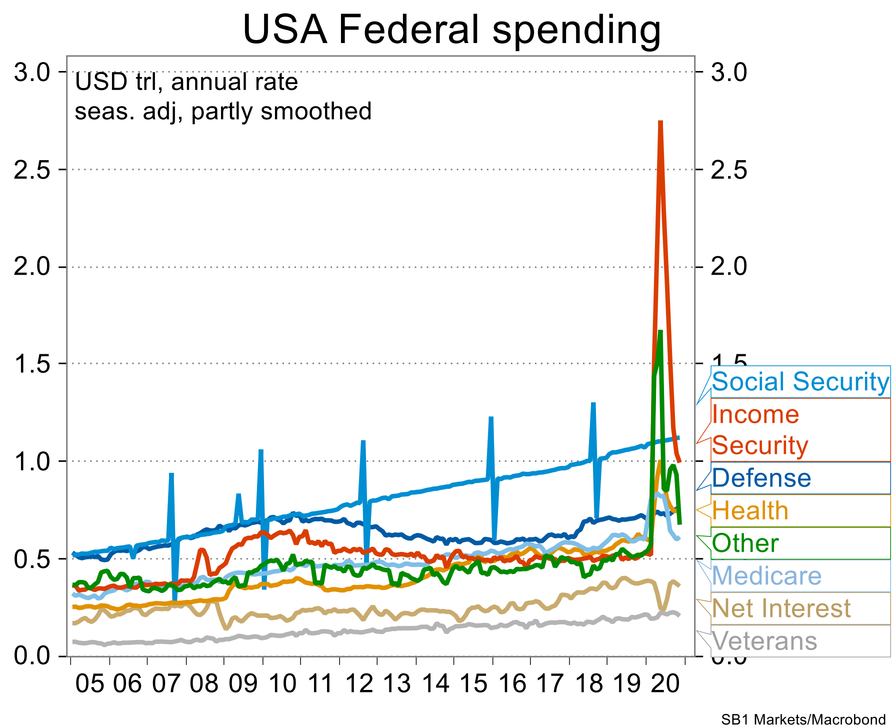
Both now more or less back to a pre-corona level

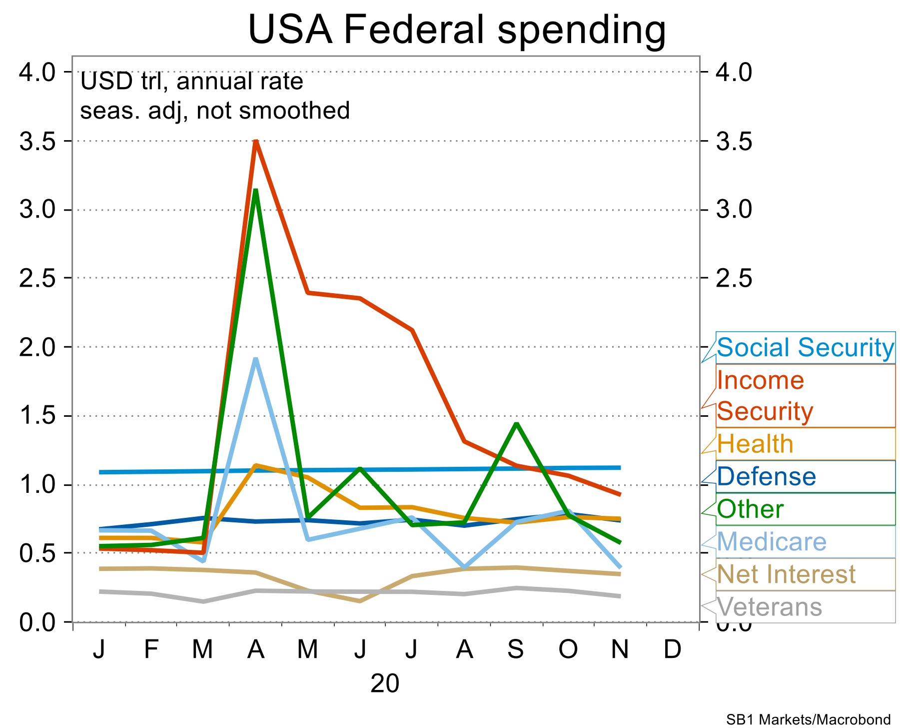




Unemployment benefits and other transfers are scaled back, still far above norm.

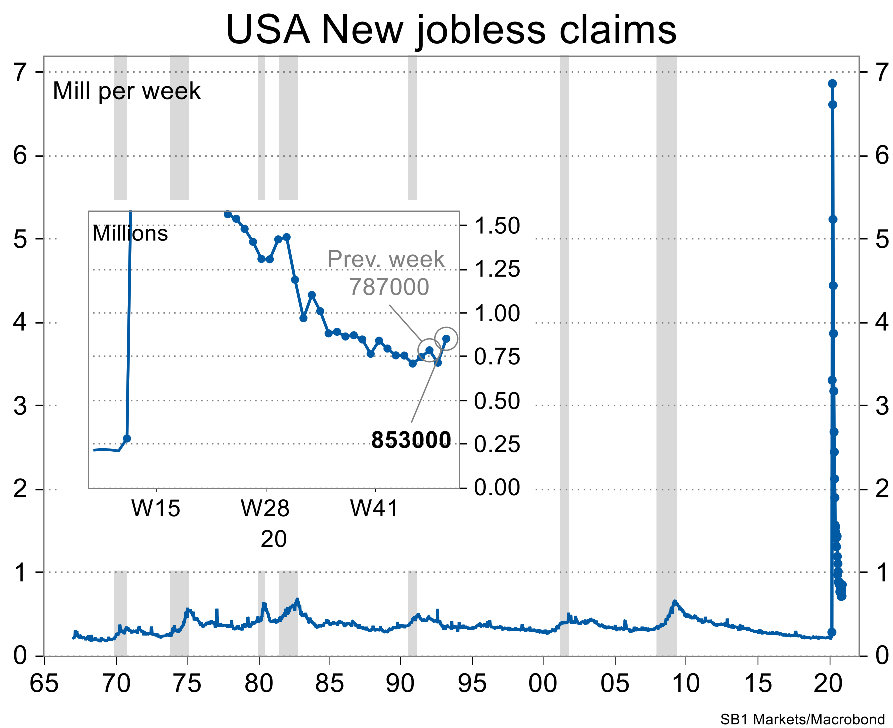
… A new support deal is not yet agreed upon – and transfers will probably decline further

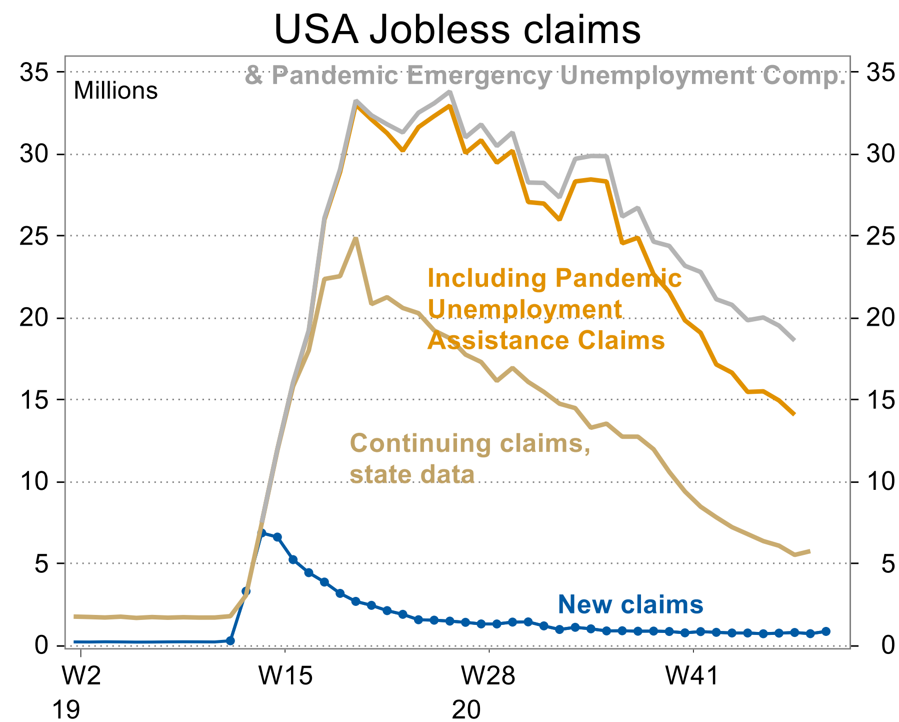




An unexp. hike in new jobless claims last week. Post Thanksgiving or corona?

The trend has been down but the no of new claims have climbed over the past 4 weeks

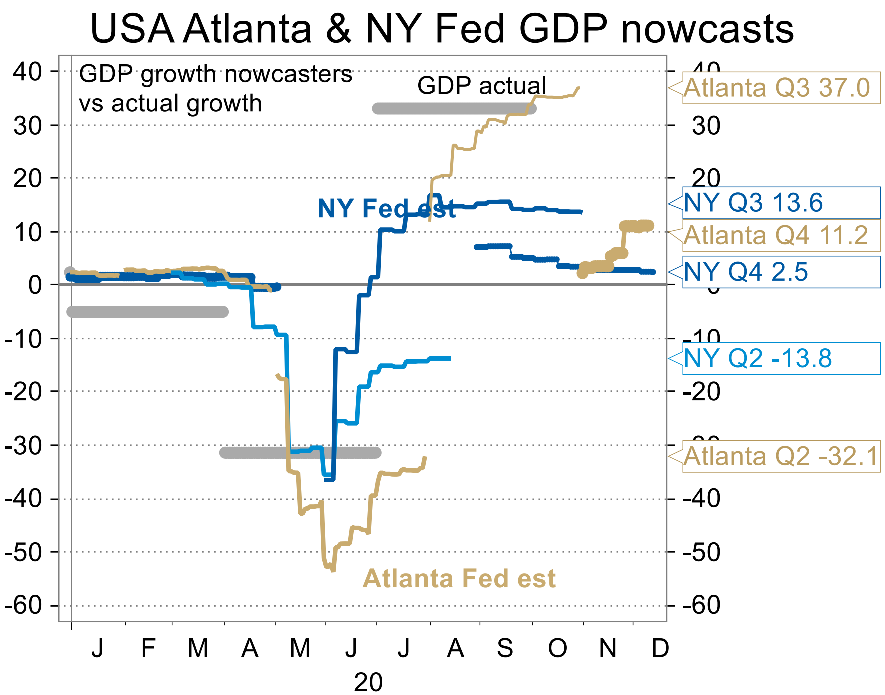


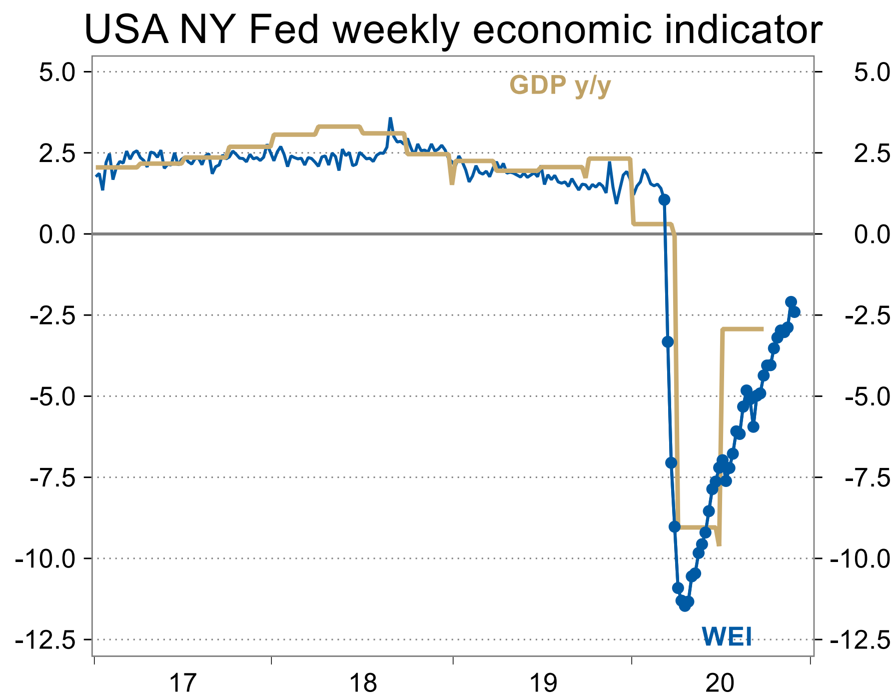


- The no. of new claims rose by 66', the highest level in more than 2 months. It might partly be due to 'too few' new claims in the Thanksgiving week (it's hard to adjust for), and more the next week. But most likely, the economy is slowing, as tighter Covid-19 restrictions are imposed in several states
- If the Congress in not able to make a stimulus package decision this week, the Federal Pandemic unemployment programs will be rolled back and some millions unemployed will lose their unemployment benefits

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

NY Fed: 2.5%. However, this nowcaster has not been even close to the ball during the corona crisis

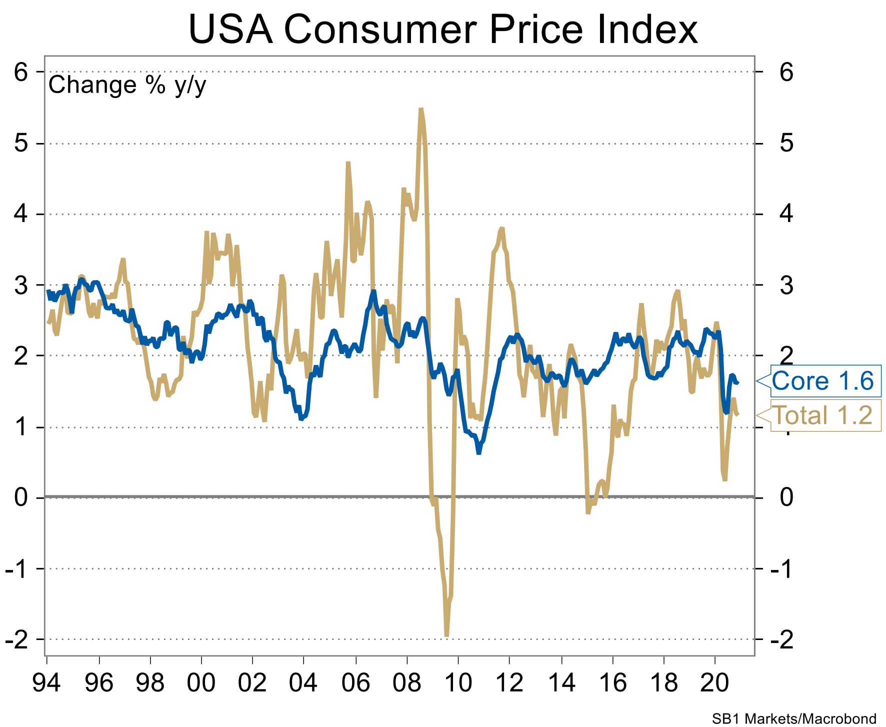


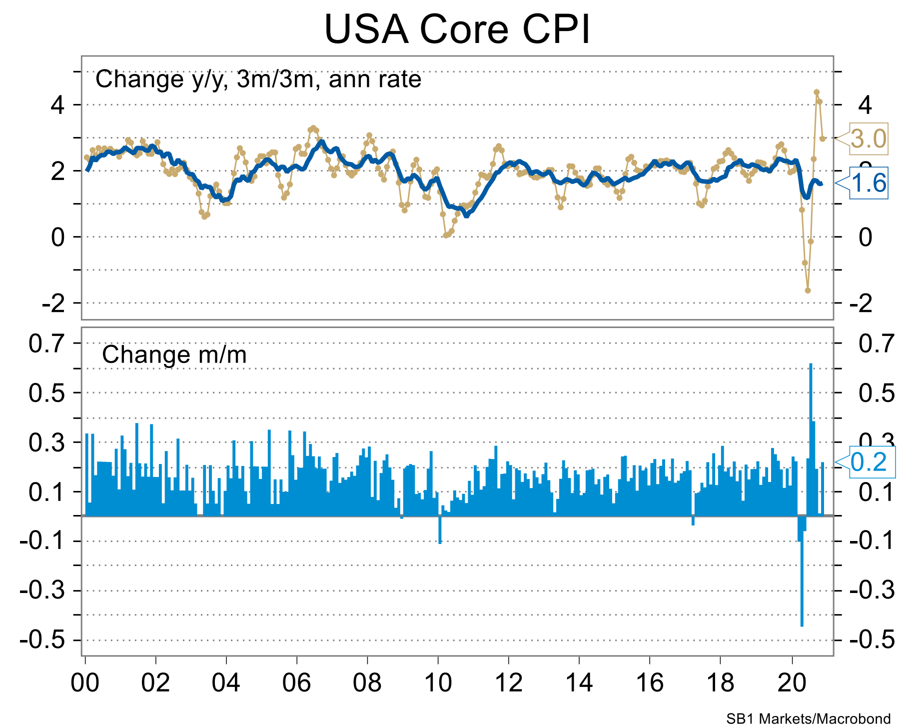


- That is, this is the old newcaster from NY Fed. We'll give it one more chance, before we eventually drop it.
- NY Fed's new <u>weekly</u> model signal some 2.9% decline y/y (so far) in Q4, and the annual contraction is narrowing. If that's the final answer, it would imply a 2.5% (annualised) q/q growth

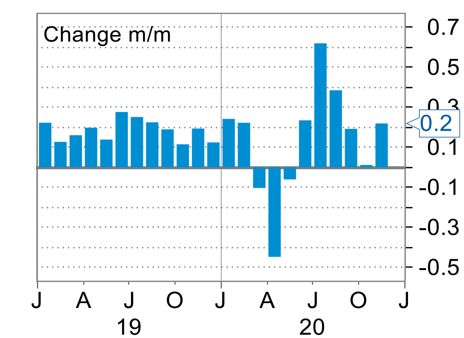
Core CPI prices up 0.2% m/m; slightly above expectations

Prices fell during the first corona months, have accelerated thereafter



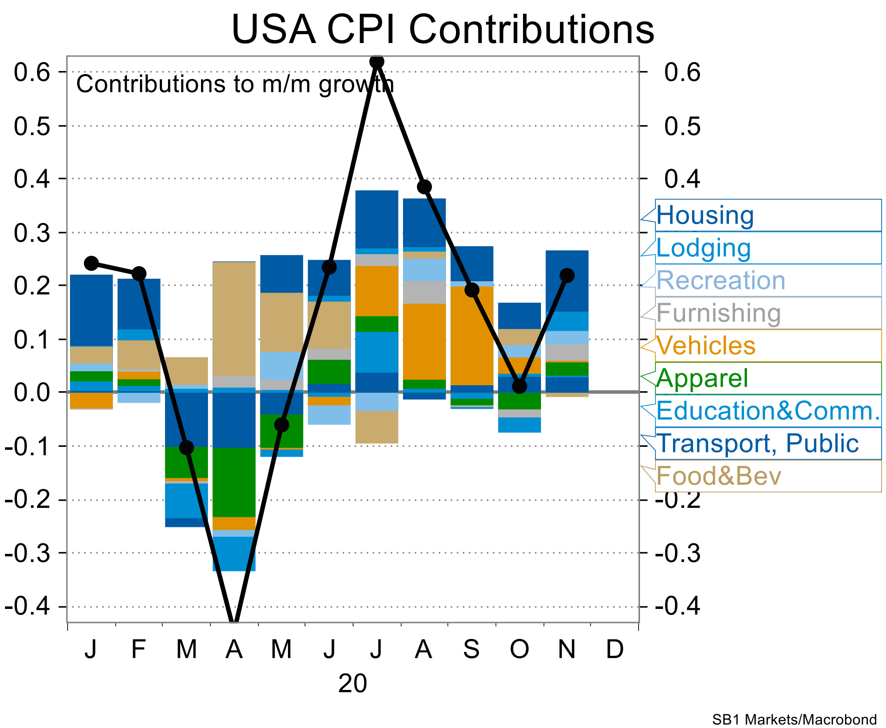


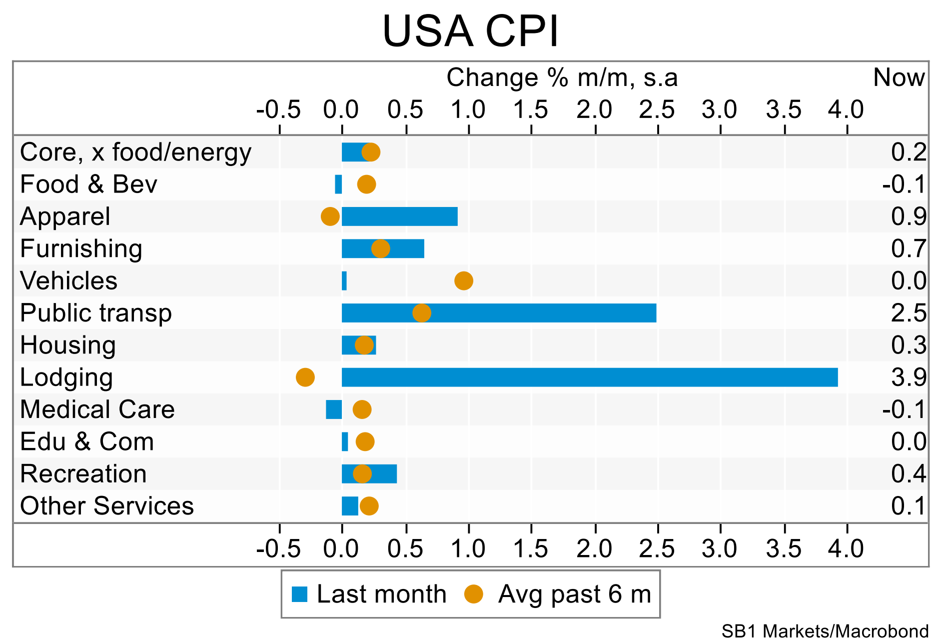
- Core CPI prices were up 0.2% in Nov, expected +0.1%, following 5 months where price rose by 0.1 – 0.6% . Still, the 1.6% annual rate is well below the 2.4% pre-corona level
- Headline CPI is up 1.6% y/y; unch from Oct
- Lodging away from home and public transport. increased sharply in Nov
- The decline in CPI inflation ‘confirms’ a dovish Fed stance – which will be confirmed in Dec



Lodging prices rose 3.9% in November – but are still low vs. pre corona

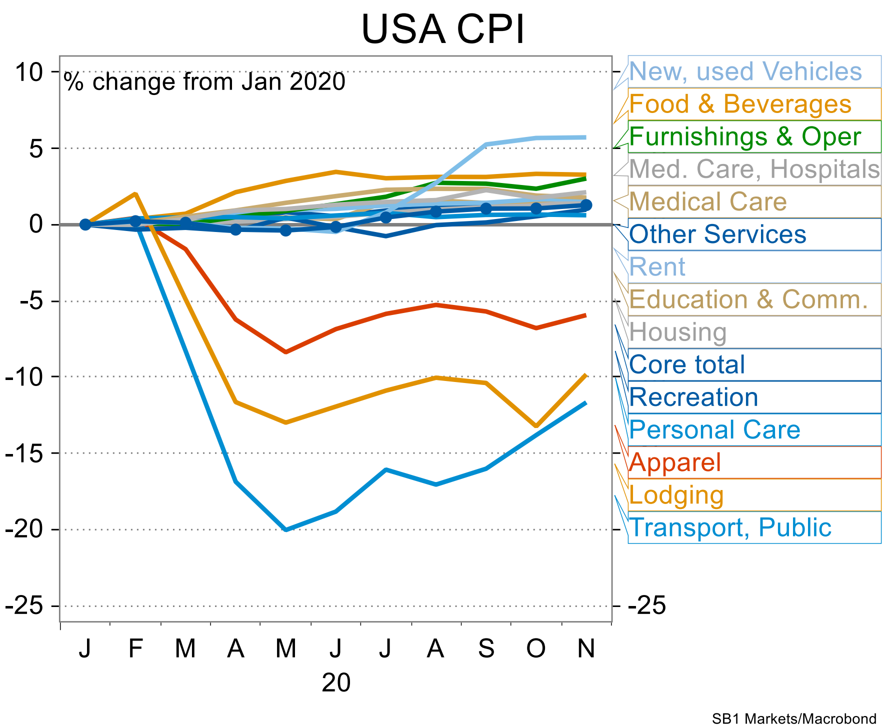
Airline tickets up too – smaller price changes in other sectors

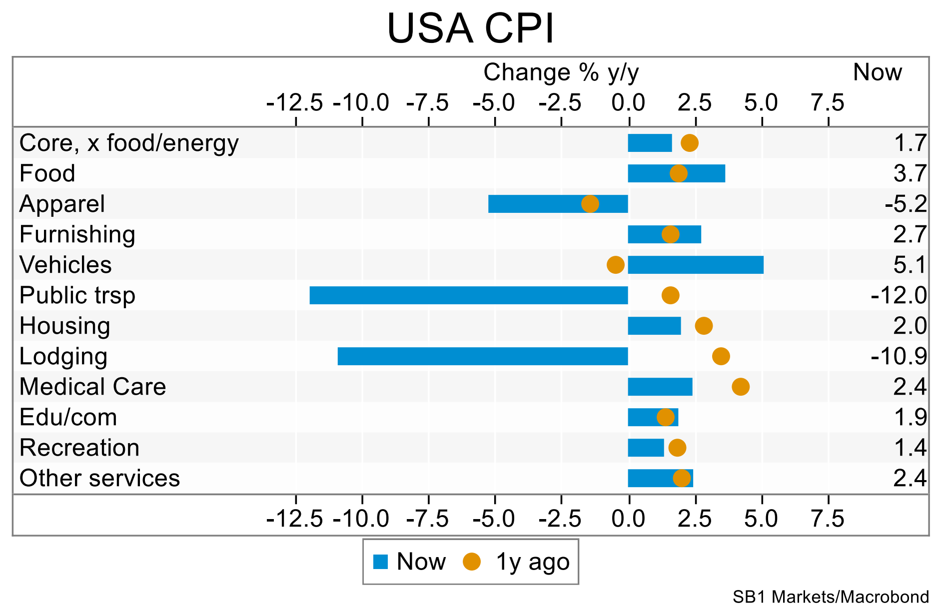




Clothing, hotels and transport (airline tickets) still very cheap

Public transport -12% (airline tickets) and hotels -10.9% are still far down – but are recovering

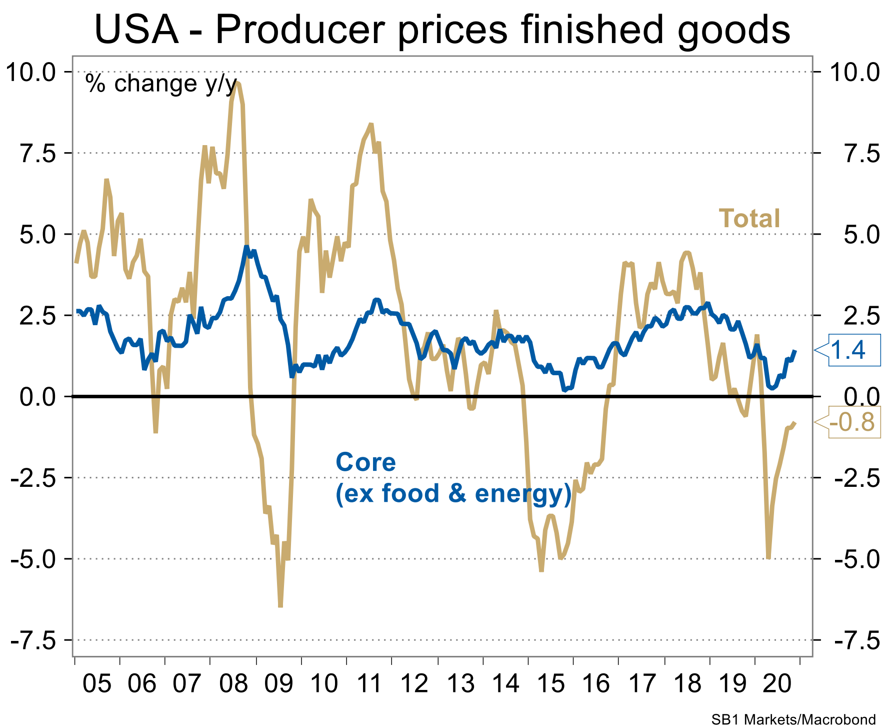


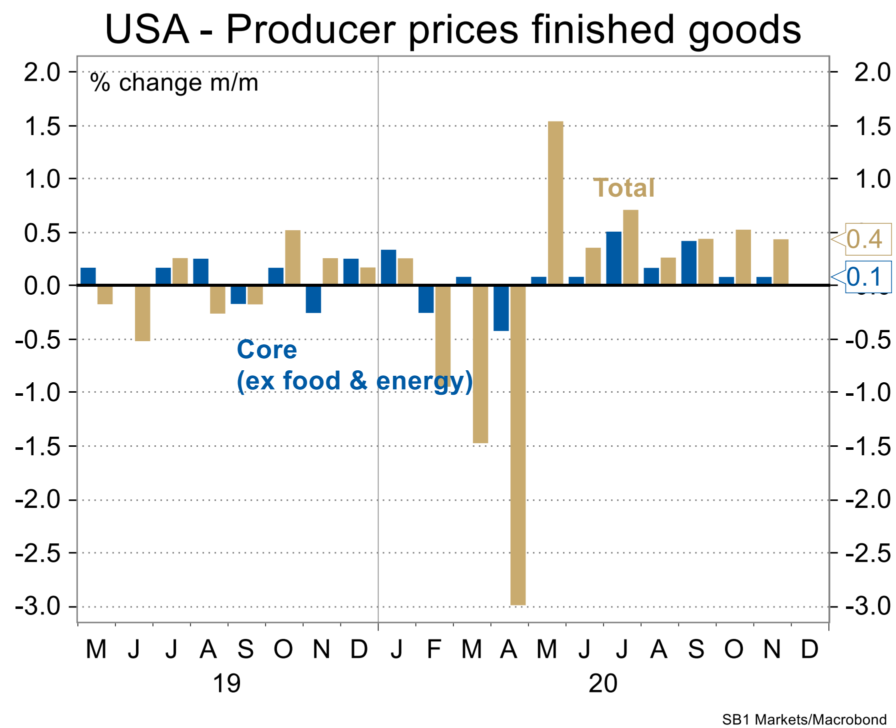


- Just some few components of the CPI contributed to the 'corona' setback: Public transport (airline tickets), lodging (hotels), apparel, and partly recreation (cinemas, parks etc). Most other components of the CPI have not slowed
- Food prices are up 3.7% y/y, corona has no doubt boosted demand among households (as in Norway)
- Medical care costs are up just 2.4%

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

Core goods up 0.1% m/m, up 1.4% y/y. Total finished goods prices down 0.8% y/y – from -5% in April

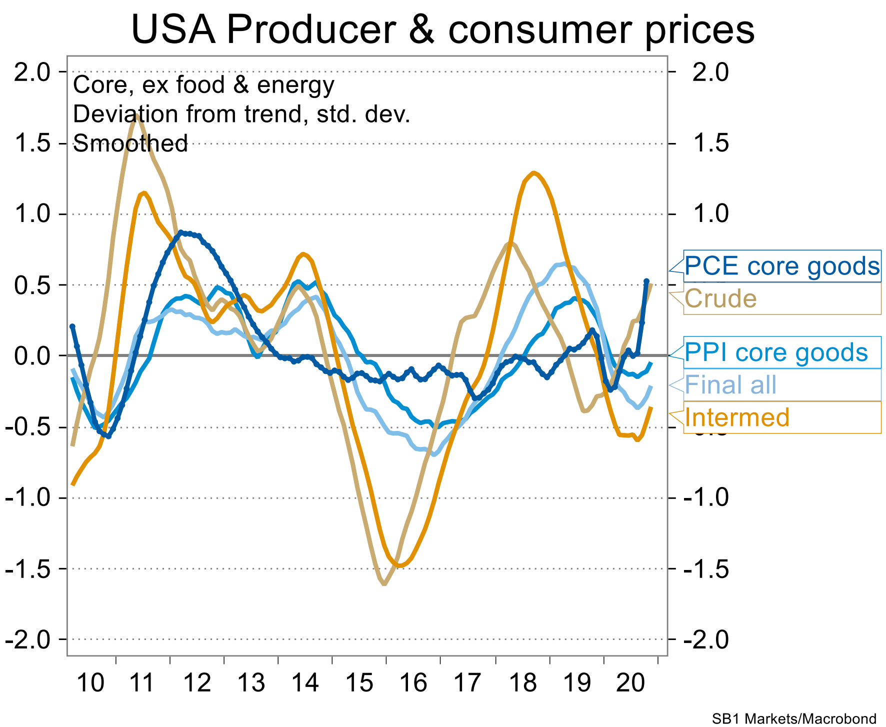


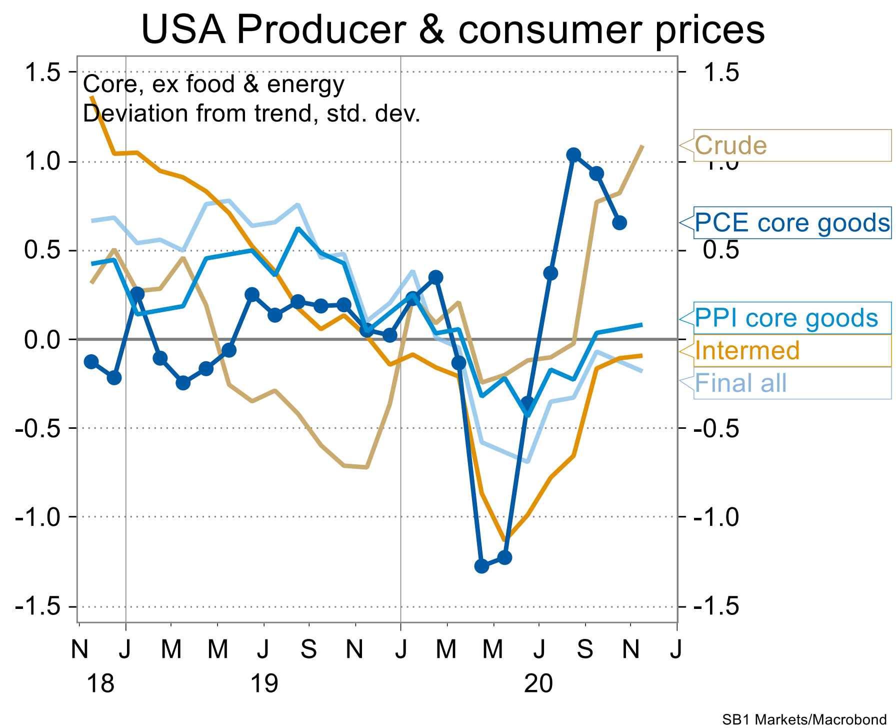


- Core finished goods x food & energy PPI rose by 0.1% m/m in Nov, as in October
- Core producer price inflation does not suggest high CPI inflation, but not low inflation either
- Headline PPI rose 0.4% m/m, due to higher food & energy prices. The annual rate is still -0.8%

Producer prices have turned up

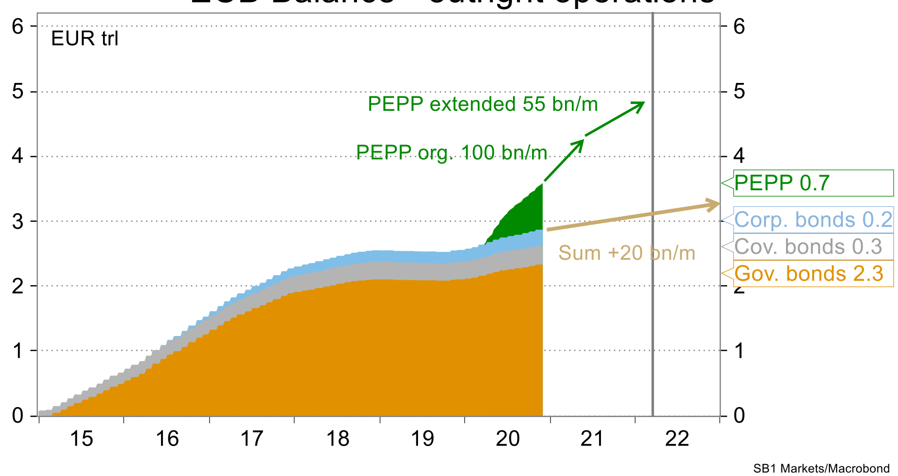
At least, the core PPI does not signal any deflationary pressure

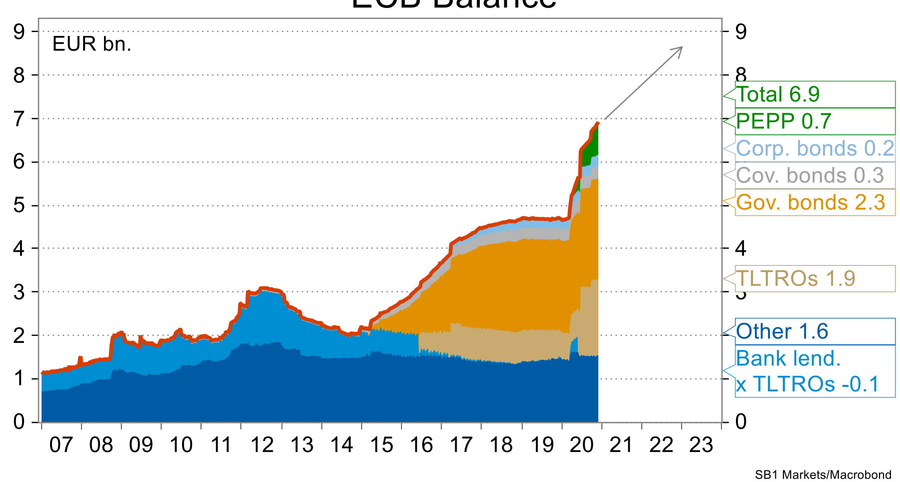




ECB ‘recalibrated’ the QE programs, at least as much as expected

The ECB will buy more, for longer. Banks will also be able to borrow even more, at negative rates



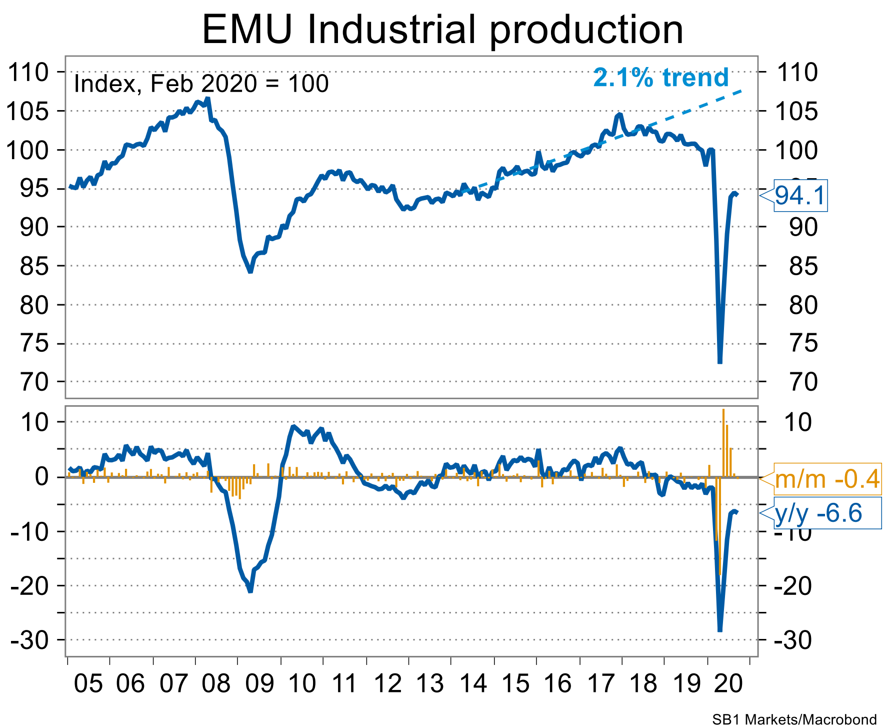


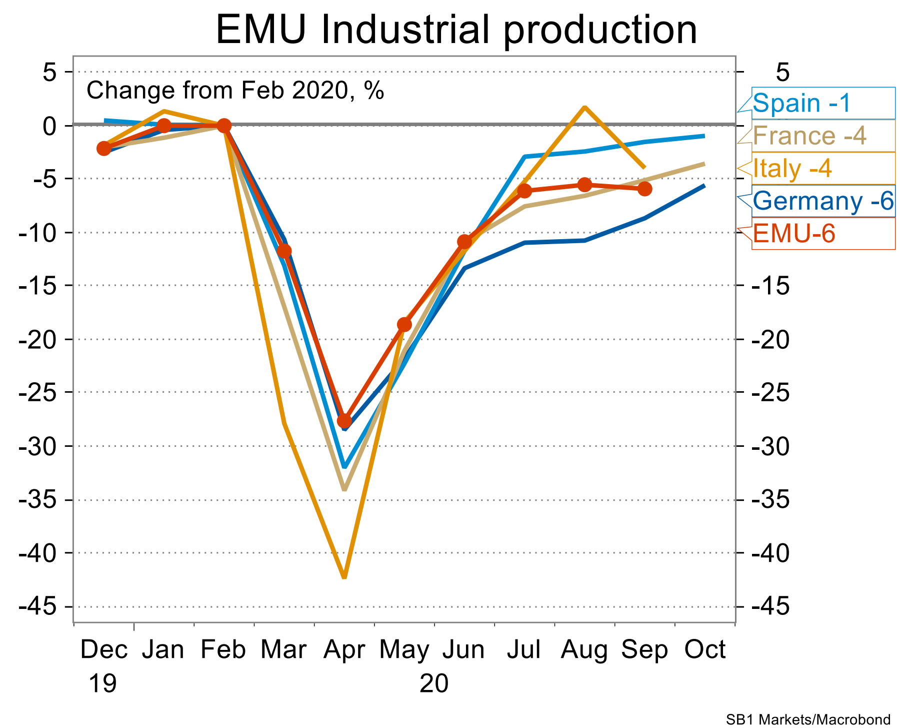
- **The QE program was extended by EUR 500 bn**
  - » PEPP was initiated at 1.35 trillion, with 600 bn left to spend before the meeting – now EUR 1.1 trl is left
    - Original timeframe was June 2021 – new timeframe March 2022
    - ECB had planned to buy government bonds equalling 100 bn/m until June, now the bank can keep buying 55 bn/m from June next year to March 2022
    - The ECB will reinvest principal pmnts until end of 2023, to keep the holding of bonds up
  - » At the same time, the ECB stated that the total asset purchase programme (APP, where PEPP is not included) will continue at 20bn/mo for as long as necessary – and will not end shortly before the signal rate will be hiked – when growth is robust and inflation is on the way up
  - » In essence, it is yield curve control – at least close too?
- **More & longer TLTRO III and a new PELTRO ☺**
  - » Extended programme of favourable borrowing until June 2022 from June 2021
  - » Increased the amount of eligible loans to 55% from 50%
  - » Added 4 shorter operations (PELTRO) with a shorter maturity (1 yr) in 2021 – same rate as TLTRO III
  - » Remember, at negative rates it is not just favourable borrowing, it is financing of banks – will this lessen banks’ financing in the bond market?
- The ECB’s balance sheet will expand significantly due to this programs. At the lower chart, we have not indicated any specific extra amount for loans to banks (TLTRO/PELTRO(

SpareBank 1 MARKETS

Manufacturing production further in Oct – some 2%?

Germany, France & Spain (and Netherlands) all far better than expected, Germany +3.4%





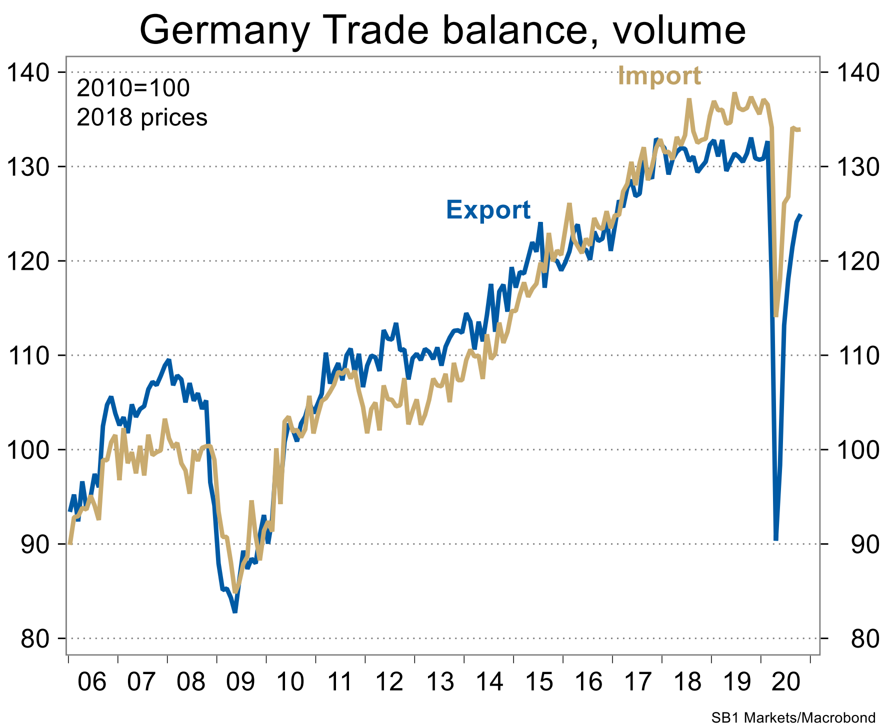
- Germany production is still 6% below the Feb level – weaker than other big 4
- Italy has not reported but the downside is probably limited at production fell sharply in September
- The EMU aggregate will be reported this week (estimates not in the charts)

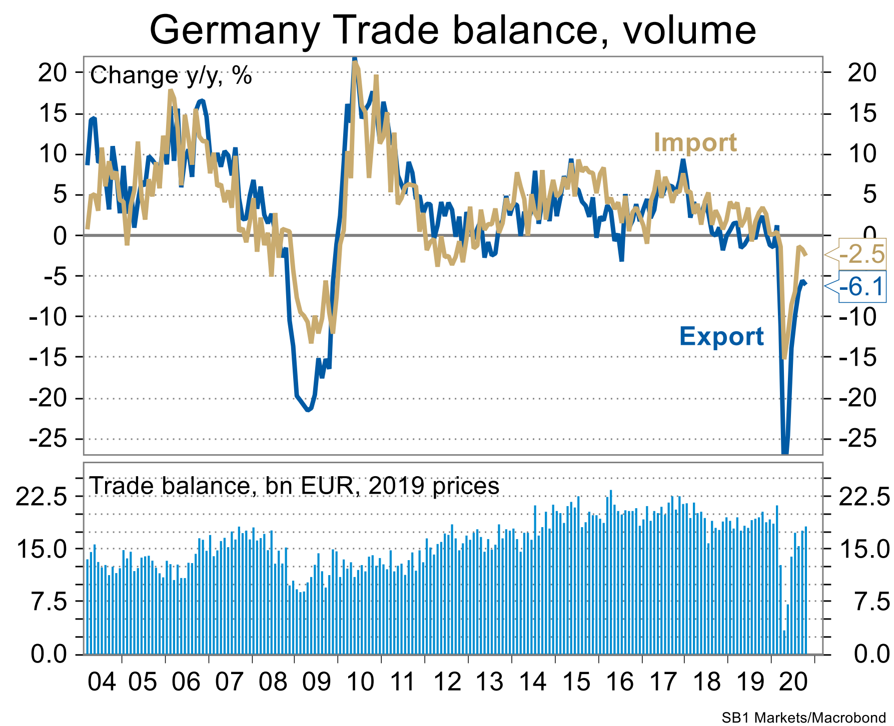
German orders up pre-corona level in October

Both orders & production rose by approx 3%. Production is still 5-6% below early 2020 level

Import volumes 5% down, exports 7% down vs. Feb 2020 levels

Imports flattened in Sept/Oct, while exports rose further, from a much lower level

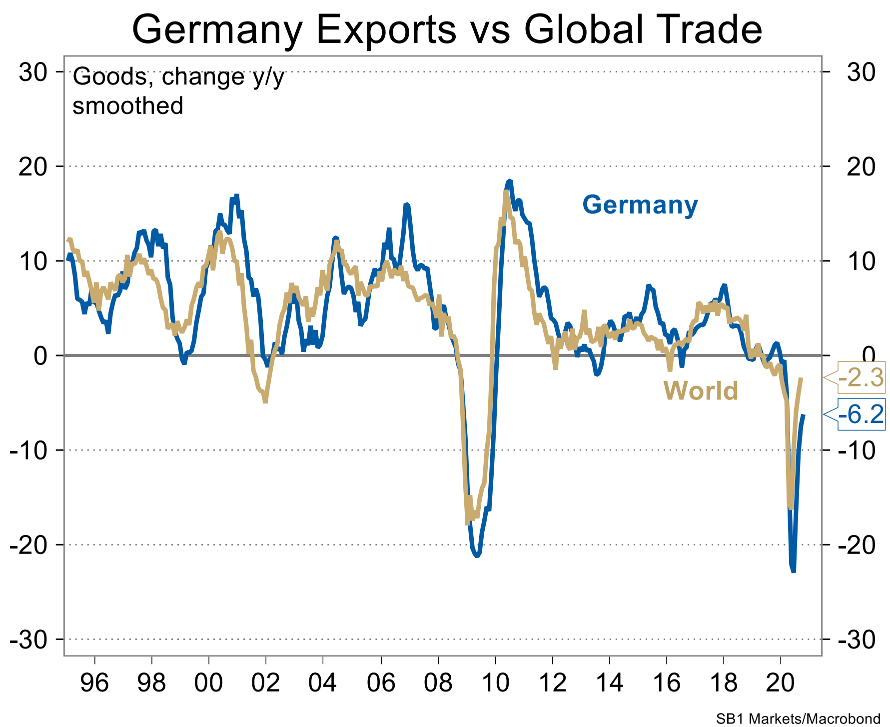


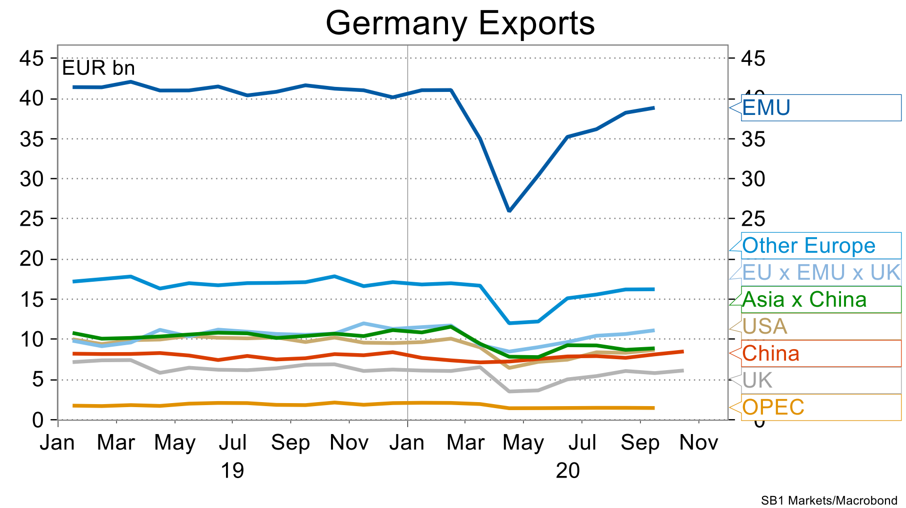


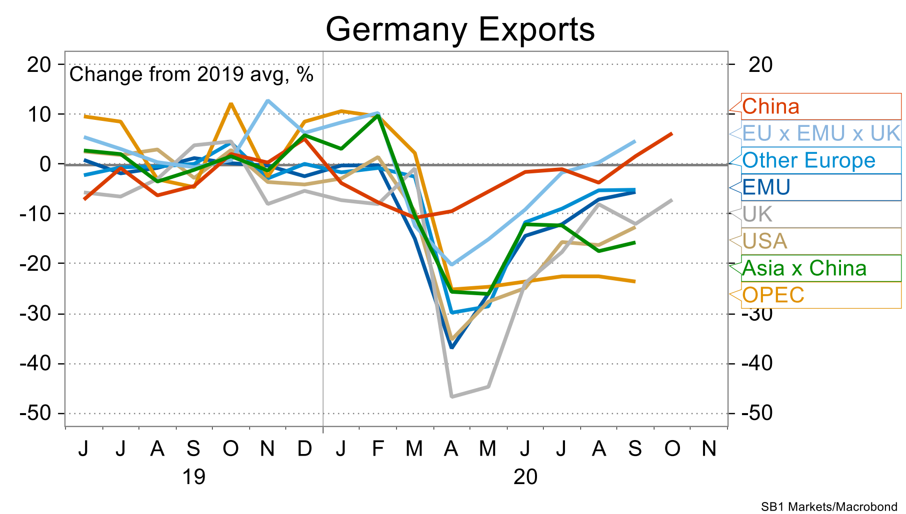
- Export volumes rose 0.8% m/m in October, imports up 0.3%
- The German trade surplus shrank rapidly during the corona crisis in the spring, to the lowest levels in 20 years. Since August, the surplus has been almost at a normal – and very high – level

German foreign trade was hit harder than the world in total – and still is

Exports fell in all directions – but exports to most markets are now recovering

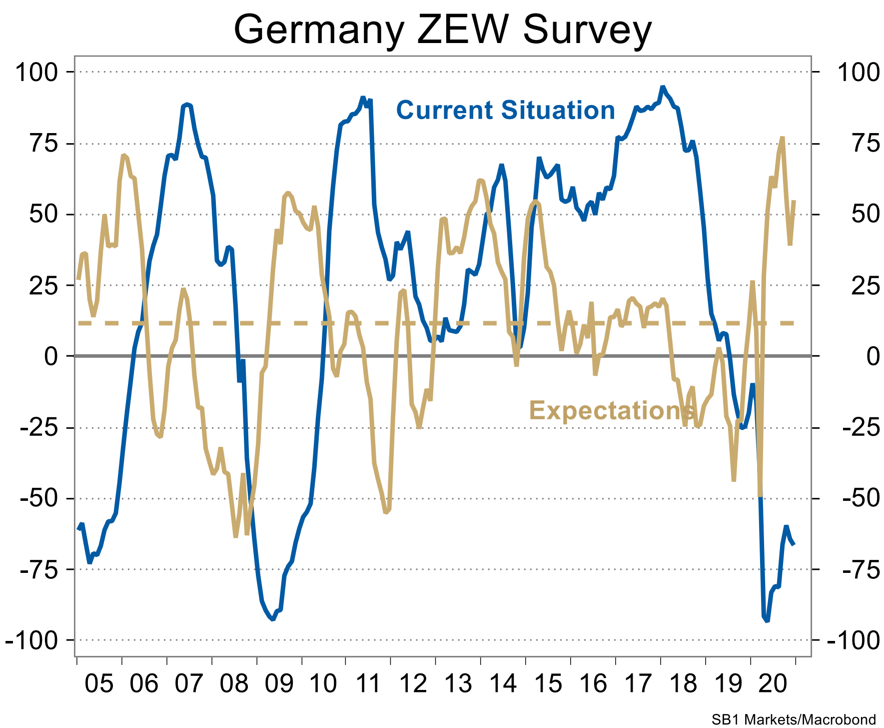


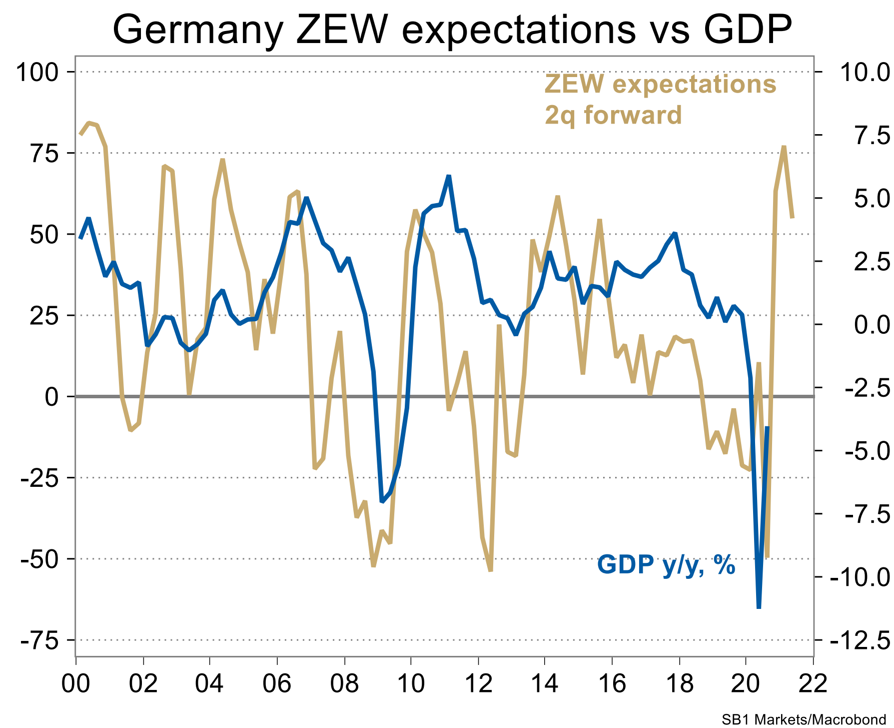




Positive sentiment in Germany as the market awaits vaccination

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

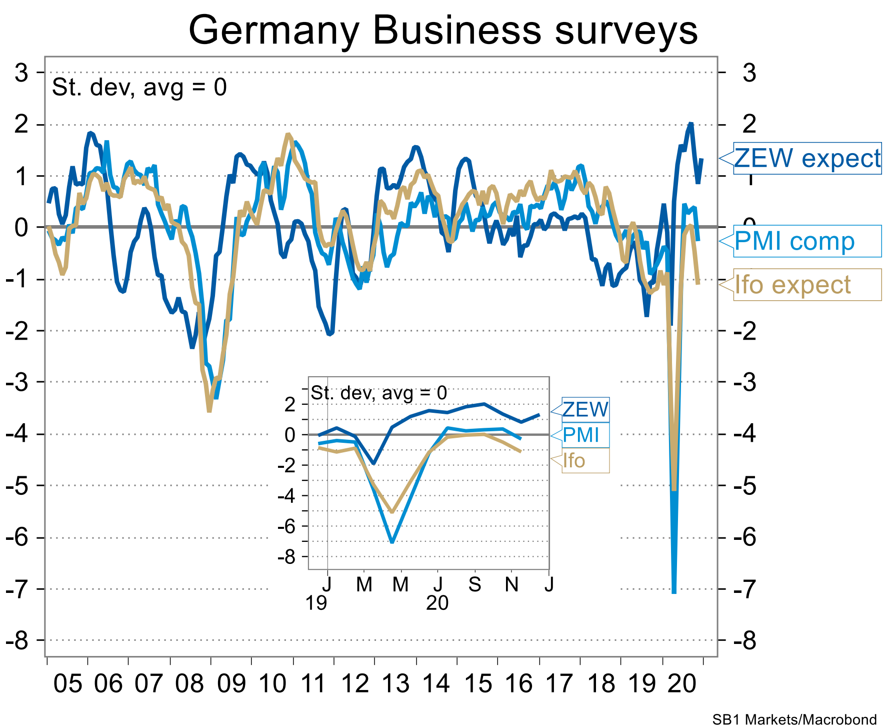




- After falling in October and November, German ZEW expectation index climbed 16 points in December – and more than expected. However, the assessment current situation is still gloomy and deteriorated vs Nov
- The current situation index nosedived during the spring, down to same record low level as during the Financial Crisis. The index has recovered somewhat but is still far below a normal level – as is the overall capacity utilisation in the German economy
- The expectation index signals growth way above trend – expectations of recovery post vaccination?

ZEW investor/analysts' expectations are well above reports from businesses

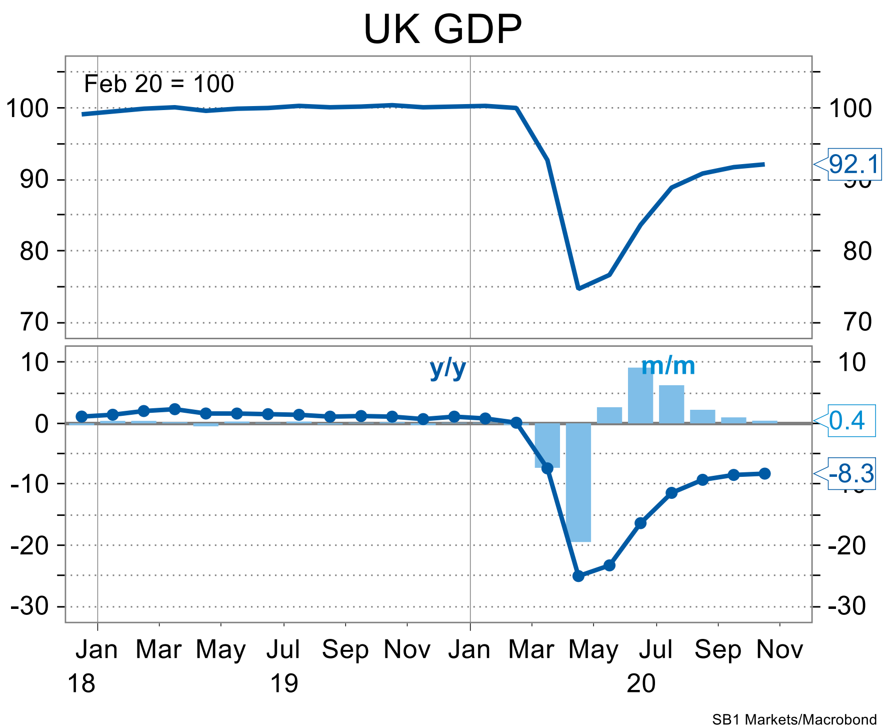
However, often the ZEW is right, it's leading

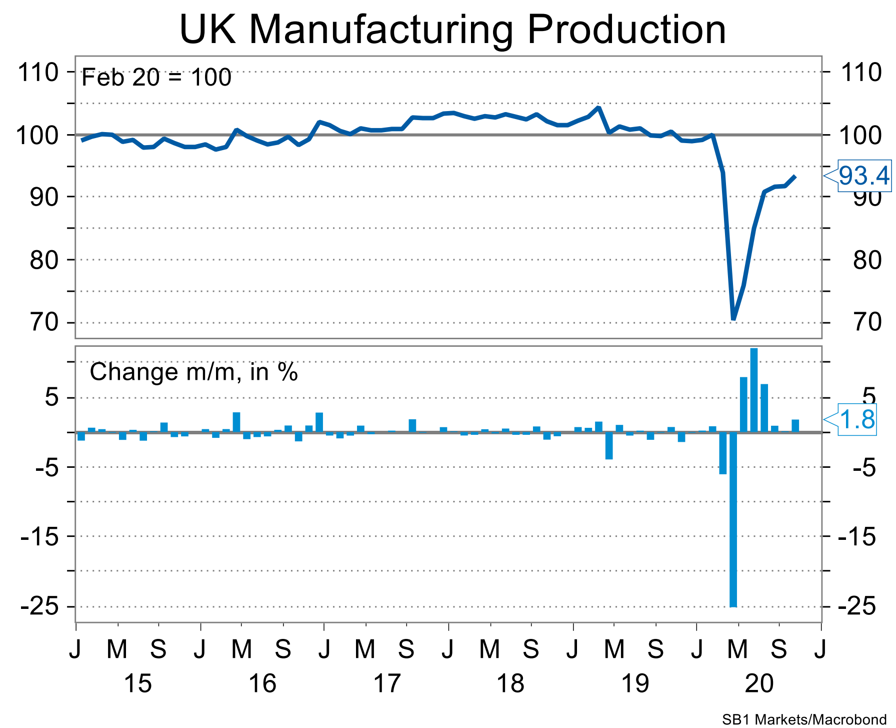


- The ZEW expectation survey (which is a survey among economists and investors, not a survey among businesses) is the most upbeat
- Both the PMI and Ifo surveys worsened in November, following a rise of coronavirus cases and new restrictions to combat the virus. Most likely, December and January will not be any better in Germany, given last weeks decision to tighten restrictions further

GDP up 0.4% in October, as expected. Level still 8% lower than in Feb

The sick man of Europe, together with Spain. And that's before the 2nd lockdown – and Brexit

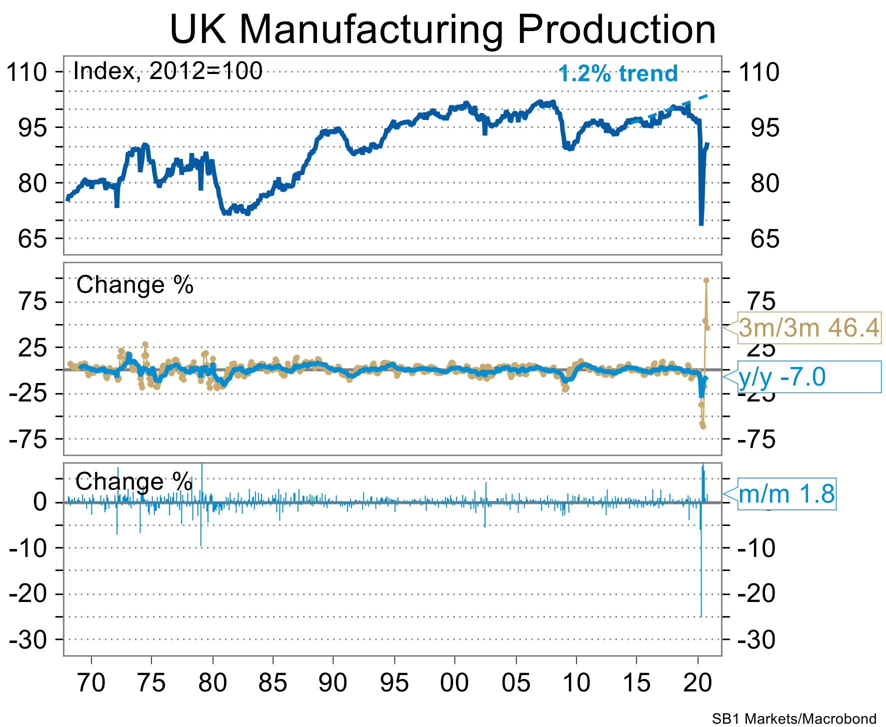


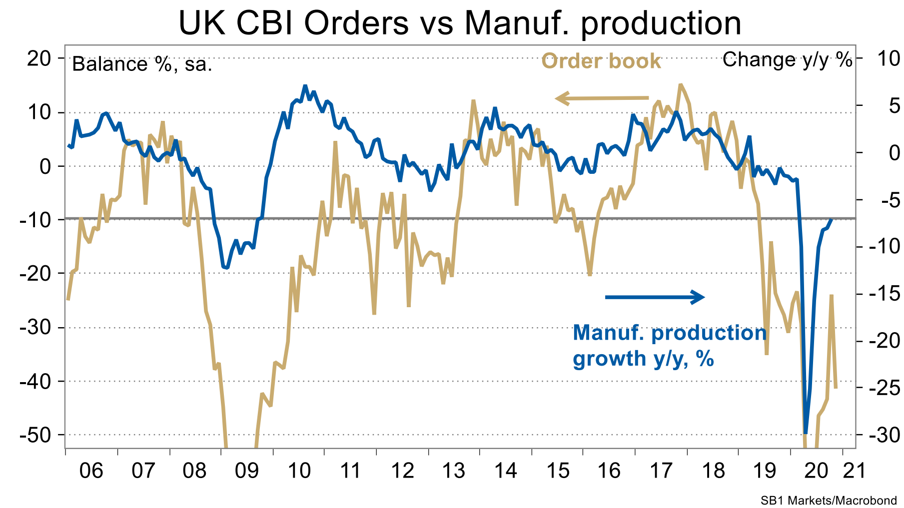


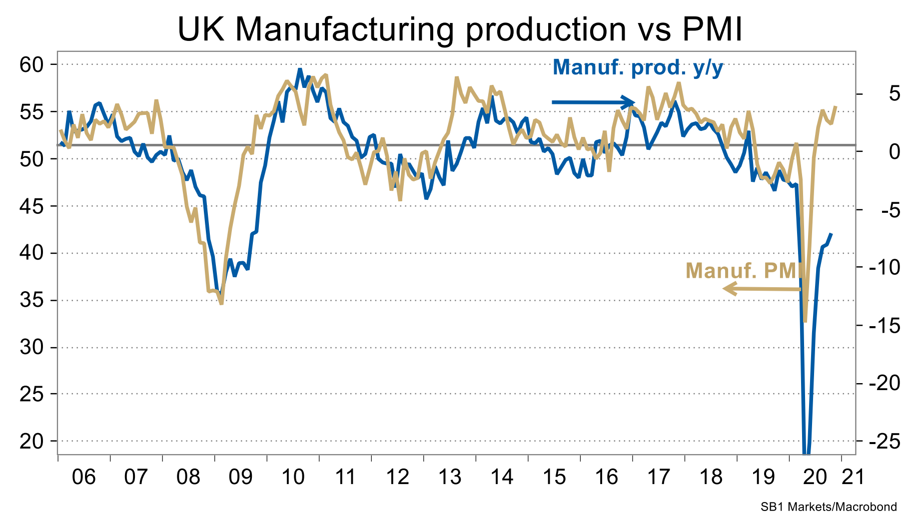
- Manufacturing production rose 1.8% in October – and more than expected - but is still down 6.6% from Feb

SpareBank 1 MARKETS

Manufacturing indicators mixed: The PMI still strong, the CBI order book not

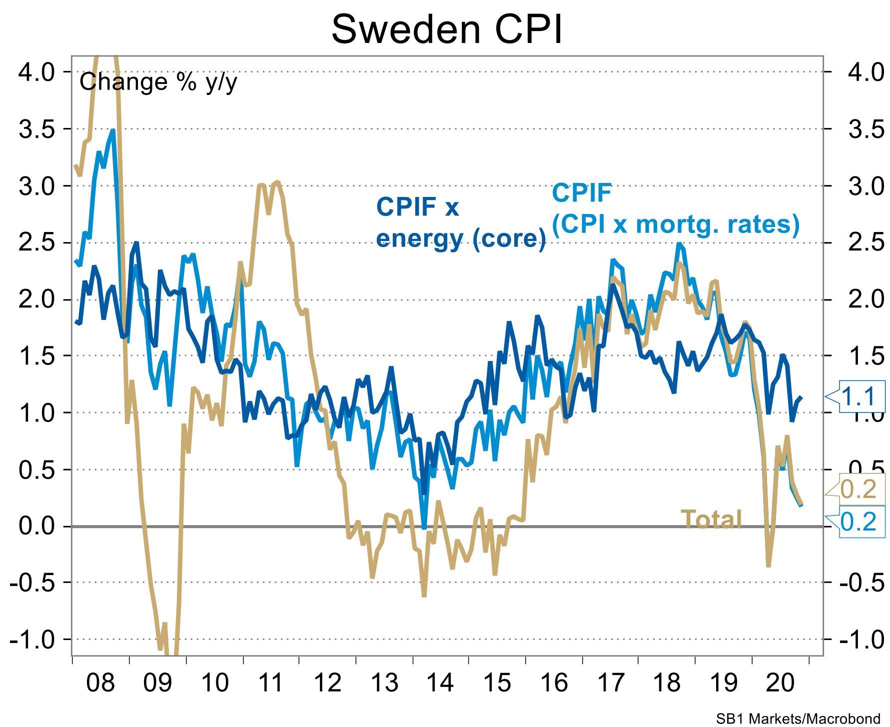


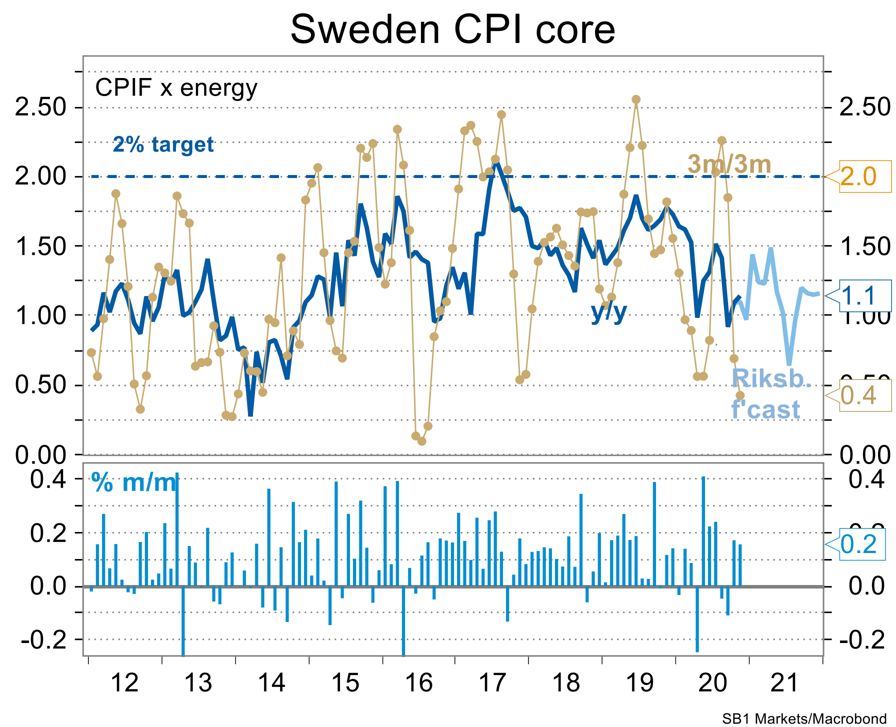




Core inflation unch in Nov, still low at 1.1%. Headline down to 0.2%

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

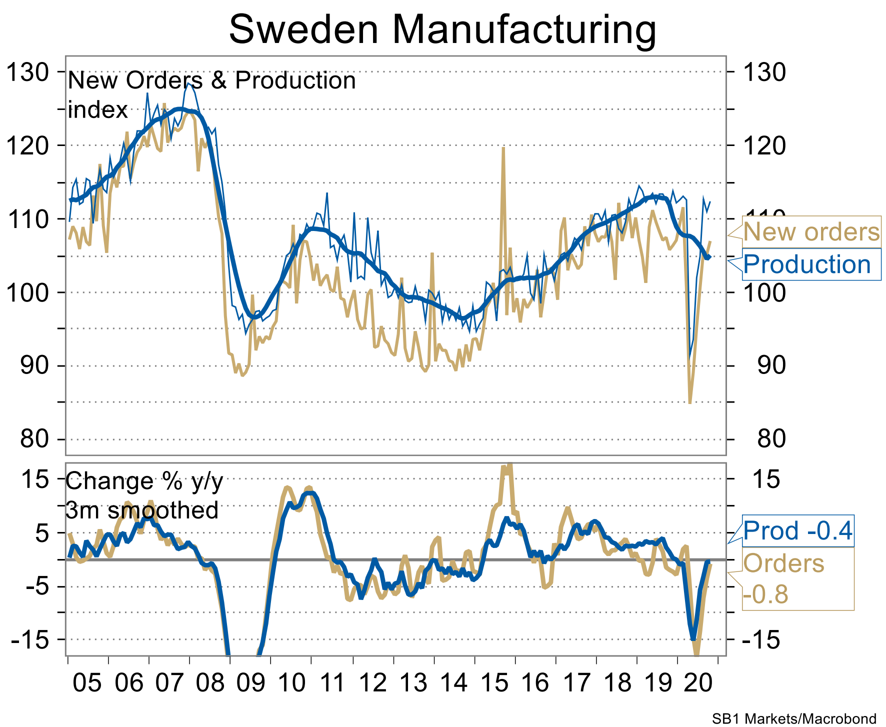


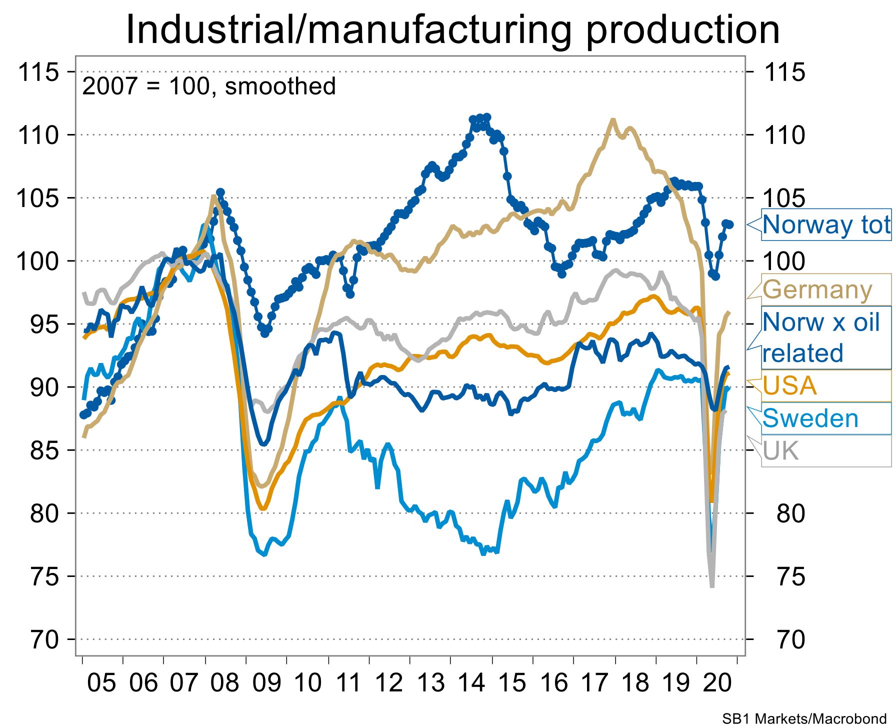


- Several sectors contributed to the decline in the annual growth rate in November, particularly housing and transportation

Industrial production up 1.8%, orders 2% in October

Production is up 23% from the April trough – and the recovery is 'done'





- Both production and orders have increased m/m since May, and production had recovered by August!
- New orders are more or less back to a normal level too

Highlights

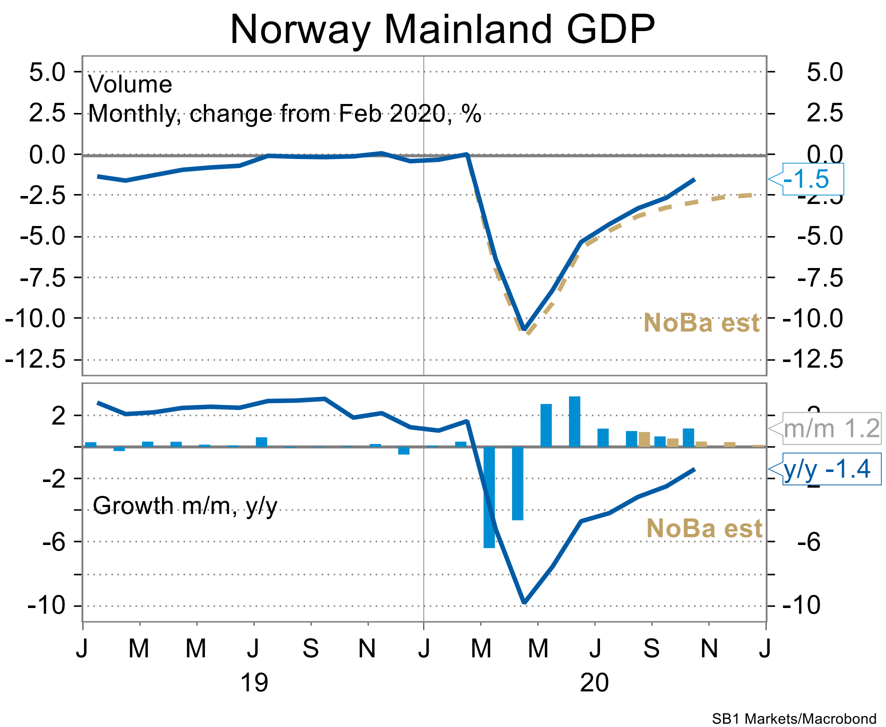
The world around us

The Norwegian economy

Market charts & comments

Stronger than exp. GDP growth in Oct. (but new lockdowns implemented in Nov)

Mainland GDP rose 1.2% in Oct., down 1.5% vs. Feb, consensus 0.4%. (Fisheries contrib. 0.3 pp)

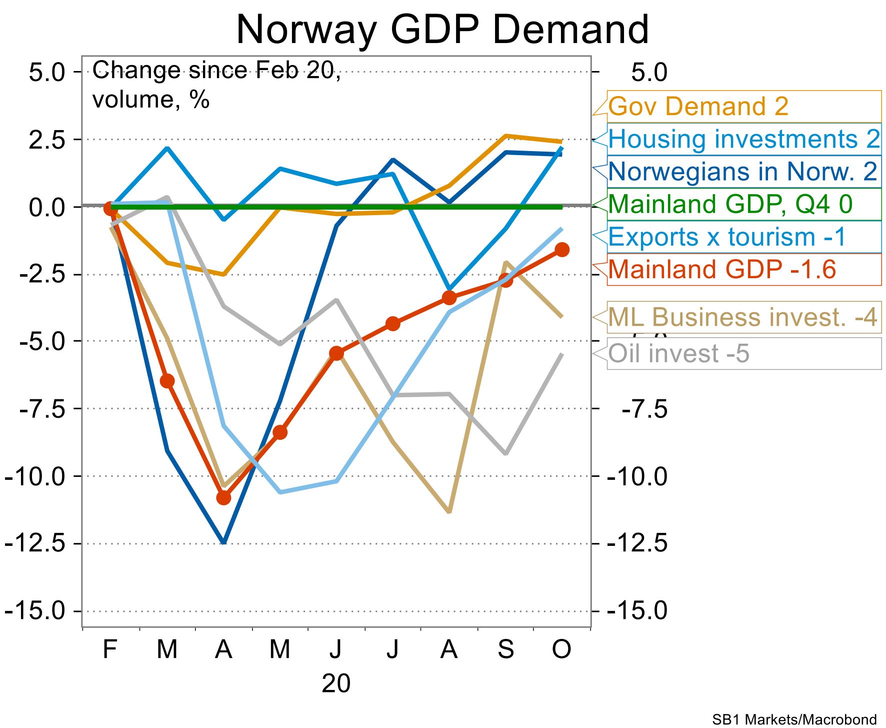


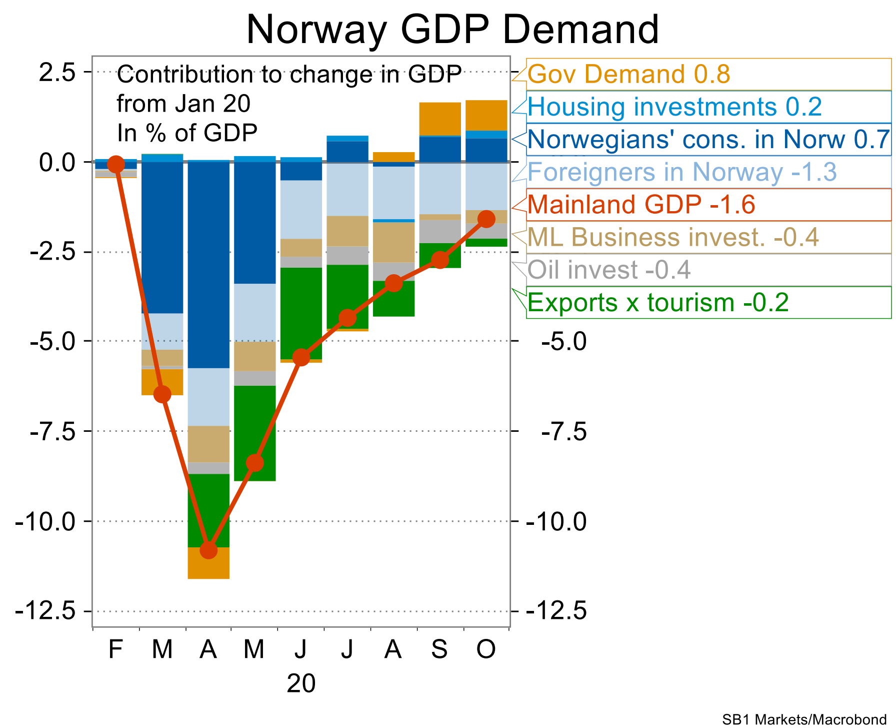
- The outlook: When less corona pains, more economic gains xxx
  - » Goods consumption will remain higher than normal until we can spend more on services or abroad
  - » Foreigners' spending in Norway will not recover before the coronavirus is beaten down, abroad and in Norway. No quick fix, even if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

- GDP grew by 1.2% in October, while cons. was 0.45%! Heavily driven by a 20% increase in fishery (+21% m/m), growth ex fishery still above exp. at 0.9%
  - » **Demand:** Mainland businesses investm. were down 1.5% in Oct, while oil investments were up 10% in Oct, but latter number is volatile. Private consumption slightly down driven by a fall in the consumption of goods, whereas government consumption rose 0.9%.
  - » **Production:** Besides fisheries, no big changes m/m
- The recovery continues, but growth is gradually slowing, even if Oct was stronger than expected. Mainland GDP is 1.5% below the February level, and 2-5 – 3% vs a 'normal growth path from February (however, GDP had flattened before the virus hit, no growth through H2-19). October GDP was 1.5% higher than NoBa assumed in Sept (with just July data onboard)
  - » **Demand:** Norwegians' spending at home is 2% above the Feb level, the same as Government demand. Mainland businesses investm. are down 4% vs Feb, while Oil investments are down 5%. Exports x tourism are almost back to the Feb level. Foreigners' spending is subtracting 1.3% from GDP vs. Feb, explains most of the decline in GDP!
  - » **Production:** Trade (retail+) and education is up vs. Feb, others are still down. Hotels & restaurants, transport, culture/entertainment and business services are at the bottom, down 17 – 22%!
- **Upward revision:**
  - » Growth in GDP for September has been revised up to 0.7% from 0.6%

Demand mostly up – but the drag from foreigners' lack of spending is const.

Norwegians' consumption at home still strong - Exports x tourism continue the recovery

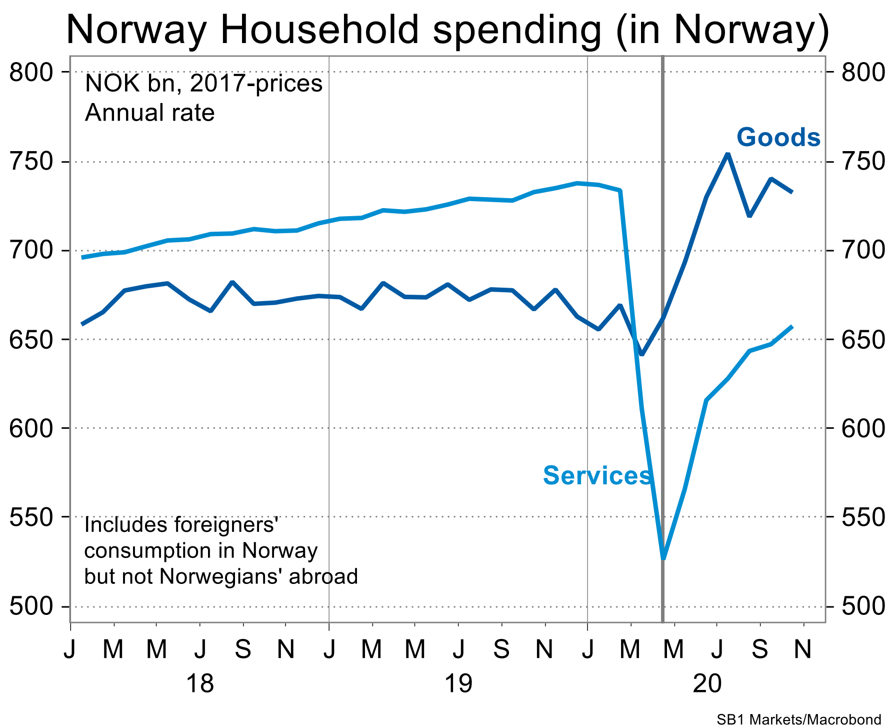


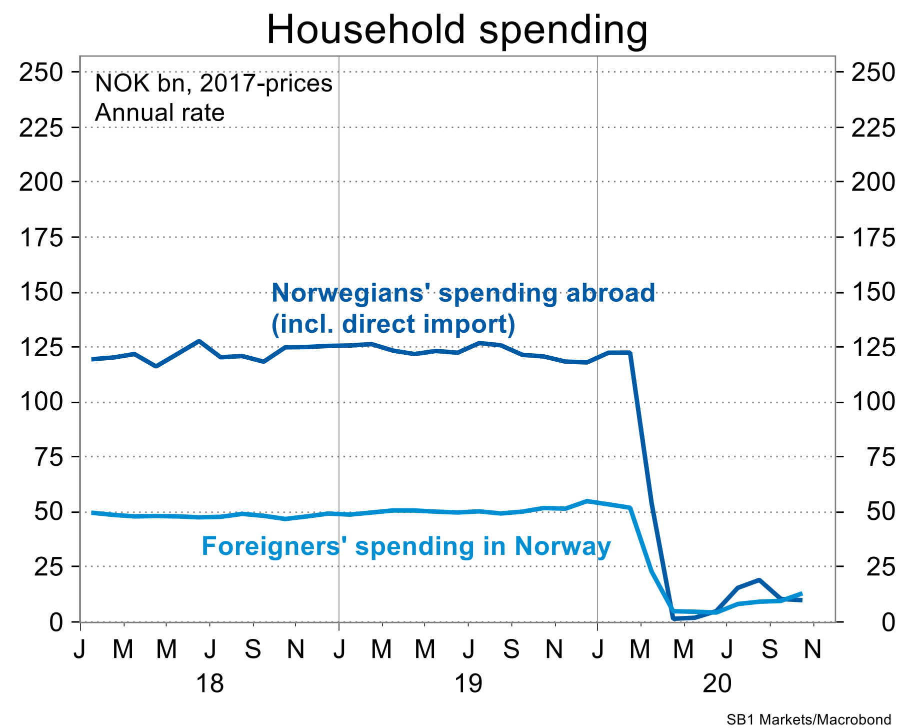


SpareBank 1 MARKETS

Consumption of goods up 9% from February, services down 10%

The total is down 6% – because foreigners' are not spending anything here these days

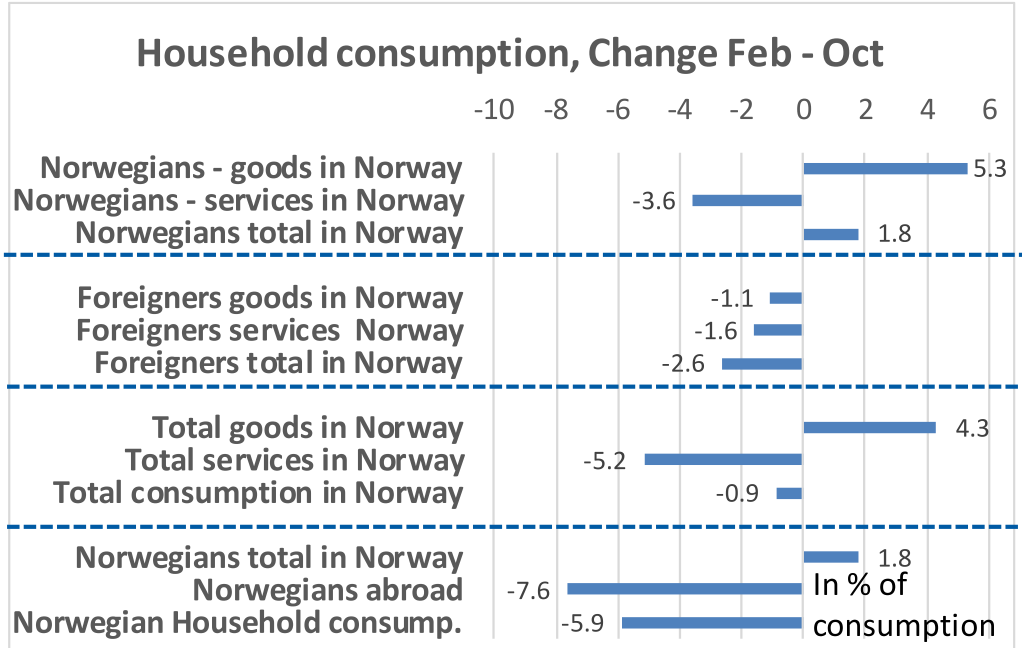




- Consumption of services has increased 6 months in a row. However, we expect a minor setback in Nov/Dec due to new coronavirus restrictions
- However, Norwegians are spending more in Norway than in February
- Norwegian households have reduced their consumption abroad (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports). Check the next page for details

Norwegians are consuming like normal – in total – in Norway

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

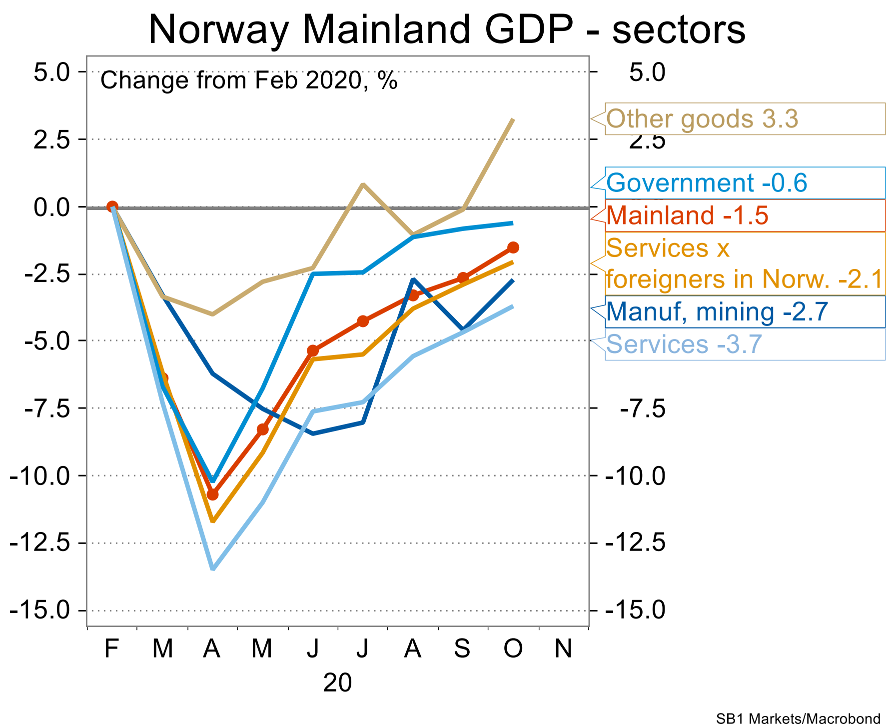


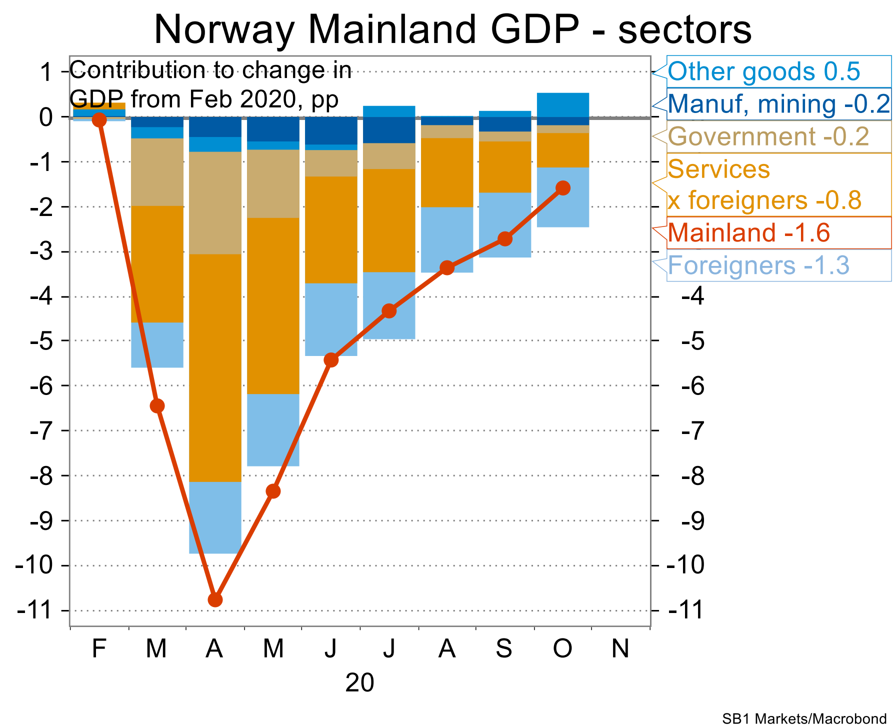
- Norwegian households have increased their consumption of goods in Norway more than they have cut their consumption of services – in sum up 1.8% of total household consumption
- Foreigners have cut their spending in Norway equalling 2.6% of *total private consumption*
- Sales of consumption goods are up 4.3%, and services are down 5.2%. The total is down 0.9% - *all in % of total consumption*
- Norwegians have reduced their spending abroad equalling 7.6% of their total consumption – and total Norwegian household consumption is down by 5.9%
  - » Other countries 'have taken 125% of the beating' of the cut in Norwegian's spending (before calculating for import content in consumption)
  - » Norwegians have reduced their consumption abroad by 2.5 x more than foreigners have cut their spending in Norway (because Norwegians are spending 2.5 more abroad than foreigners in Norway ☺)
- Savings rate fell to 13% in Q3 from 21% in Q2 – still high vs a normal rate of 5%-9%

SpareBank 1 MARKETS

Production: Services are recovering, still far below par – and will decline in Nov/D

Services production is down 3.7% from the pre-corona level, manufacturing & mining -2.7%



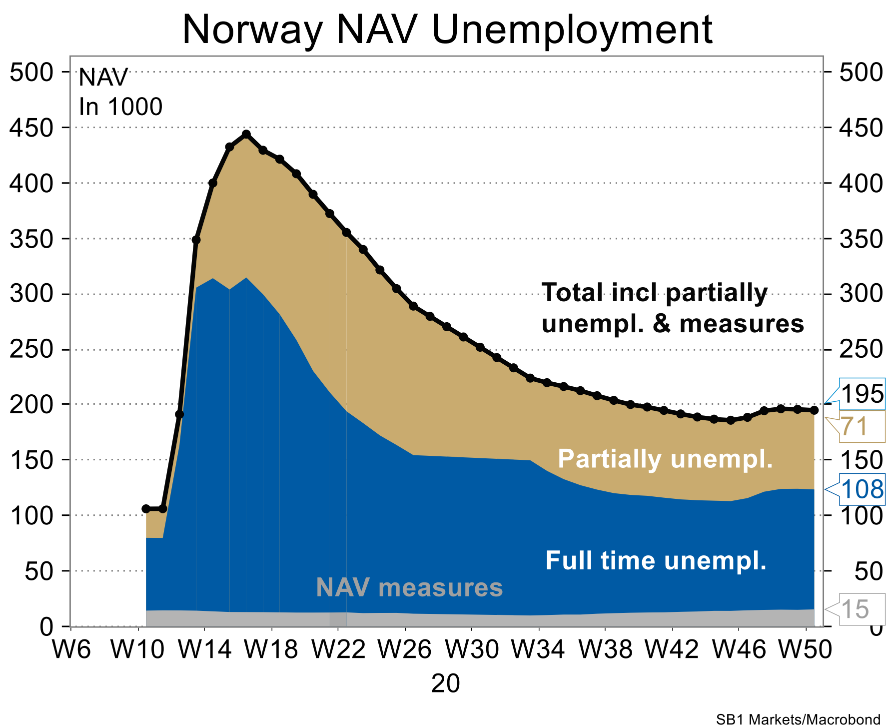


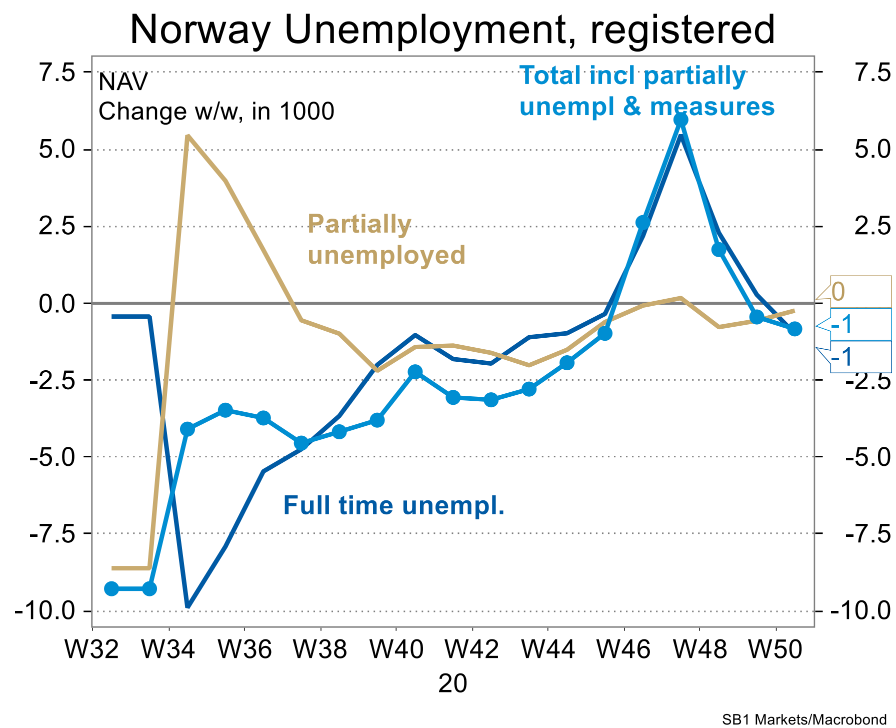
- Services ex foreigners' consumption in Norway is down 2% - while lack of demand from foreigners deducts 1.3% from Mainland GDP (not adjusted for imports, but the import share is low). The new corona restrictions will very likely reduce demand and production in some sectors in November and December
- Government production is almost back to the February level
- Production in other goods sectors (primary, construction, electricity) rose sharply in October, mostly due to a (temporary) lift in traditional fisheries
- The upside potential for most of the service sector is probably limited as long as the coronavirus stays around

SpareBank 1 MARKETS

NAV unemployment has flattened already – in fact, it is falling

No of Total unemployment marginally down the two previous weeks

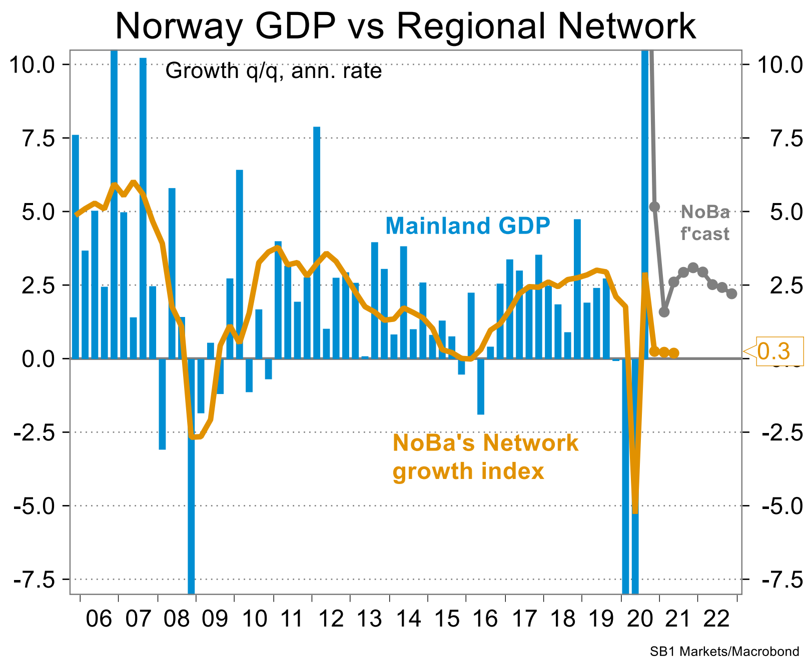




- Total unemployment (including partially unemployed and labour market measures) fell by 1' persons last week, following a decline of some few hundred the previous weeks
  - » This decline comes after an increase of approx 10' persons through the first three weeks of November
- Usually, unemployment increases some 1.5' due to seasonal factors in December (vs. the Nov seasonal factors). Thus, the recent decline in actual unemployment may indicate a 'visible' decline in seasonally adjusted unemployment in December
- The recent decline confirms our view that the increase in unemployment due to the '2nd corona wave' will be nothing compared to the March/April 'panic' surge

Norges Bank's Network (overly!) pessimistic on growth outlook

The Network underestimates activity the past 3 months too: 0.3% vs. 16%... Expects no H1-21 growth

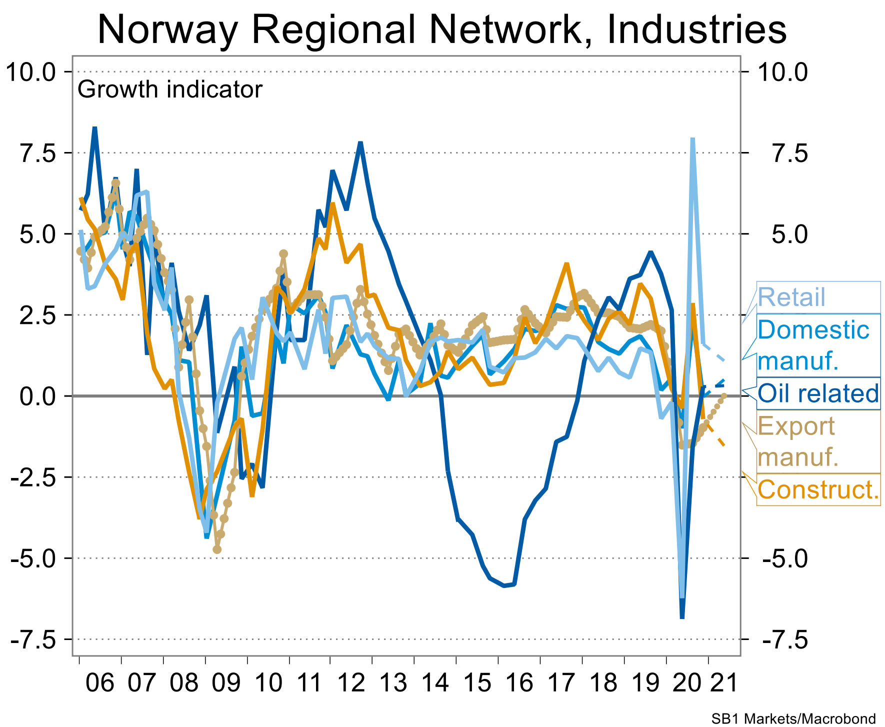


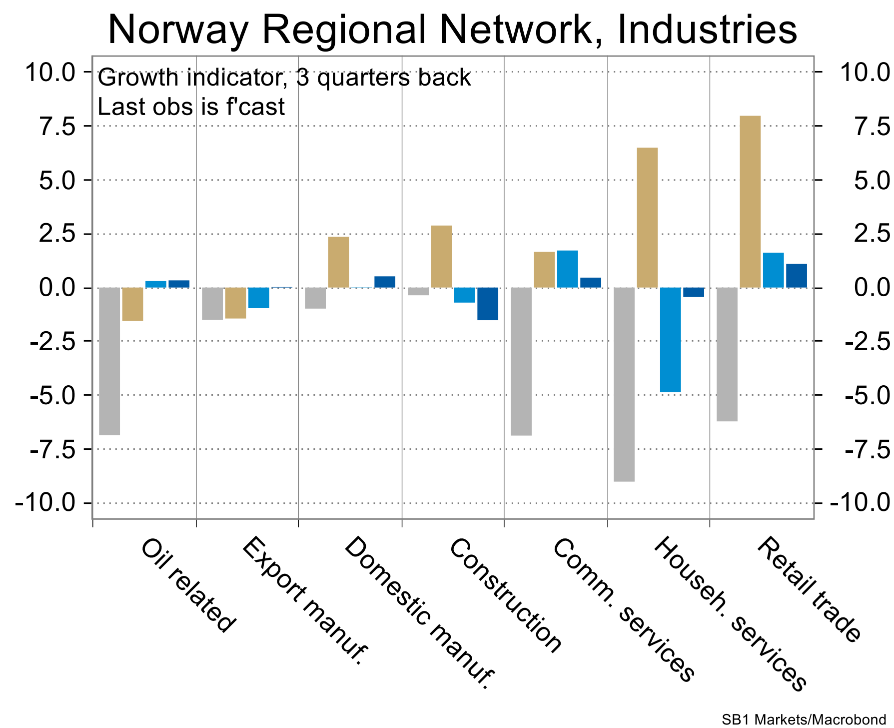
- **Implications**
  - » Norges Bank will probably draw the same conclusion as we do: <u>This network is close to useless – except for assesing the present mood among the respondents</u>
  - » Still, we have lowered the likelihood for Norges Bank to signal a steeper interest rate path to almost zero, partly due to the report. The Bank can afford to wait and see how the virus/vaccines and the economy develops in H1 before sending a signal
    - ▪ A more aggressive policy stance from both the Riksbank and the ECB also makes it somewhat 'complicated' for Norges Bank to signal an earlier 'take off'

- **Activity the past 3 months**
  - » If we take the survey results literally, activity rose by <u>0.3%</u> in Aug-Oct, annualised vs the May-July level. Actual Mainland GDP rose by <u>16%</u> (annualised). <u>Thus the Network is reporting close to useless data on what we are pretty sure what has actually happened over the past months</u>
- **Expectations for the coming 6 months**
  - » The Network expect at 0.2% growth pace the next 6 months, which is close to zero (equals 0.05% per quarter, not annualised). We expected companies to forecast a 3% growth pace, somewhat above trend growth. In Sept, Norges Bank expected a 2% growth pace to May '21 from Nov. <u>Should we put any weight on the Network's assessment of the next 6 months? Probably not</u>.
  - » The Network might of course be right – that we will not be able to keep the virus in reasonable check in H1 without draconian measures. A rather unlikely scenario, we think.
    - ▪ Vaccine news may have come too late (the survey was conducted during the last week in Oct and the two first week in Nov).
    - ▪ No sector is reporting normal growth. Construction is expected a decline, so do household services. Retailers expect a further growth, probably too optimistic. Manufacturing & oil services are close to neutral
    - ▪ Even if the growth outlook is muted indeed, companies revised their investment plans upwards – but the avg is still negative

No sector expect normal growth – and construction, household. services down

Oil services are reporting (slow) growth again. Retailers too optimistic?

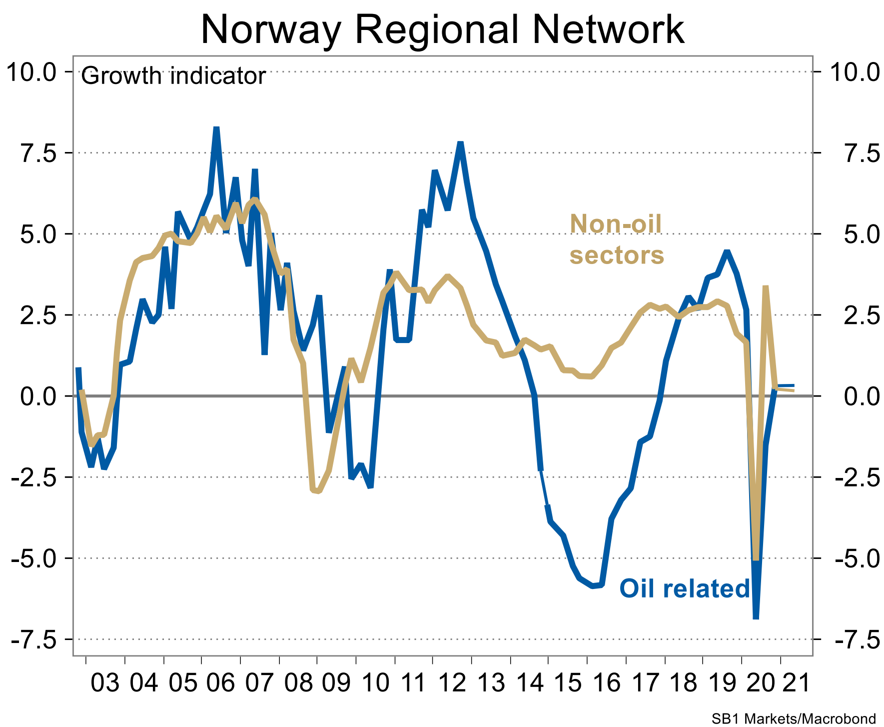


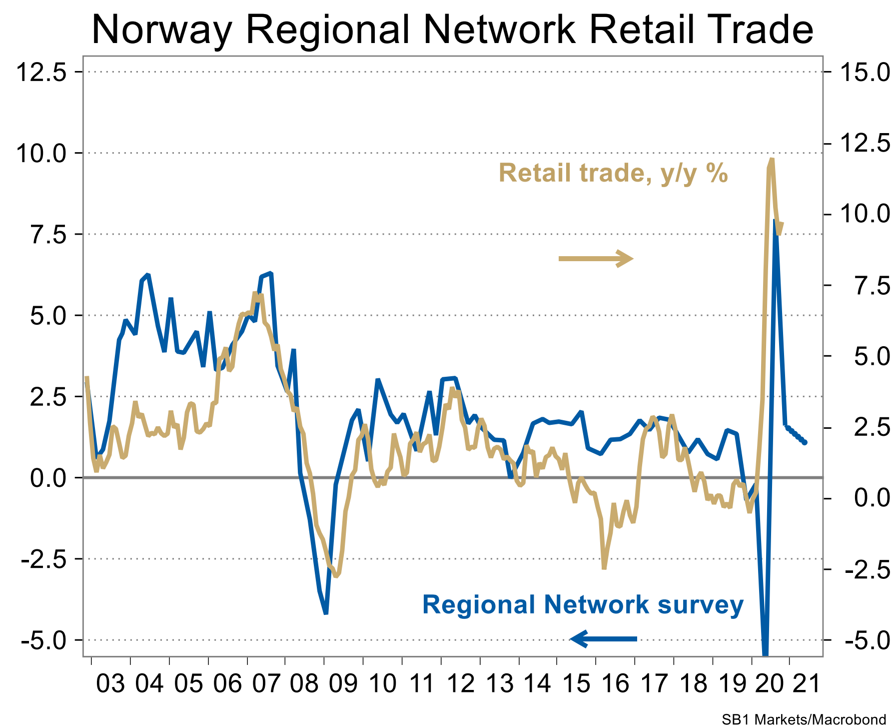


- The short retail boom is soon over – but retailers do not expect any decline. Household services are looking slightly down, most likely influenced the early November corona restrictions
- Construction is expecting a significant decline in activity in H1, following a small decline past 3 months too
- Export related manufacturing has stabilised. Domestically oriented manufacturers expect a modest growth
- Commercial services are expecting marginal growth, and less than over the previous 6 months

Oil related businesses are projecting marginal growth! Better than we assumed

Non-oil related sectors expect just subdued growth in H1, weaker than we assumed

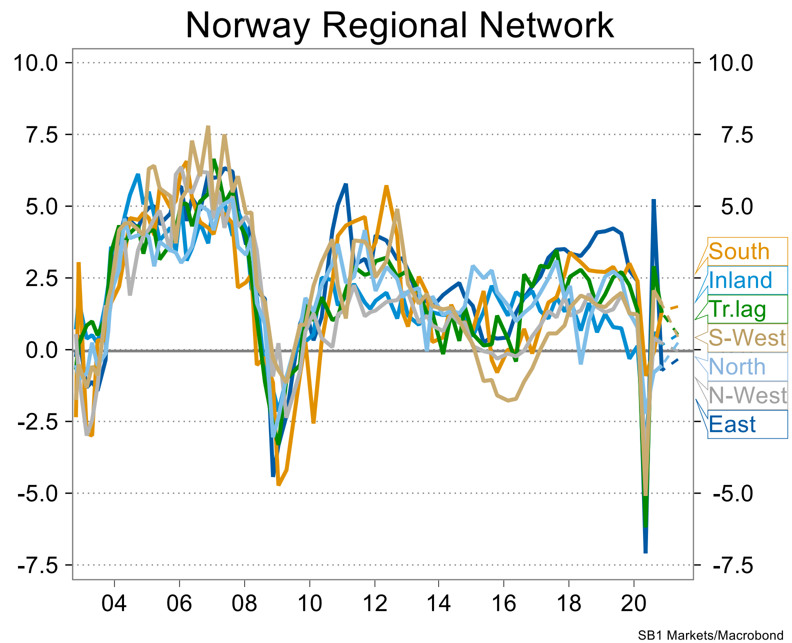


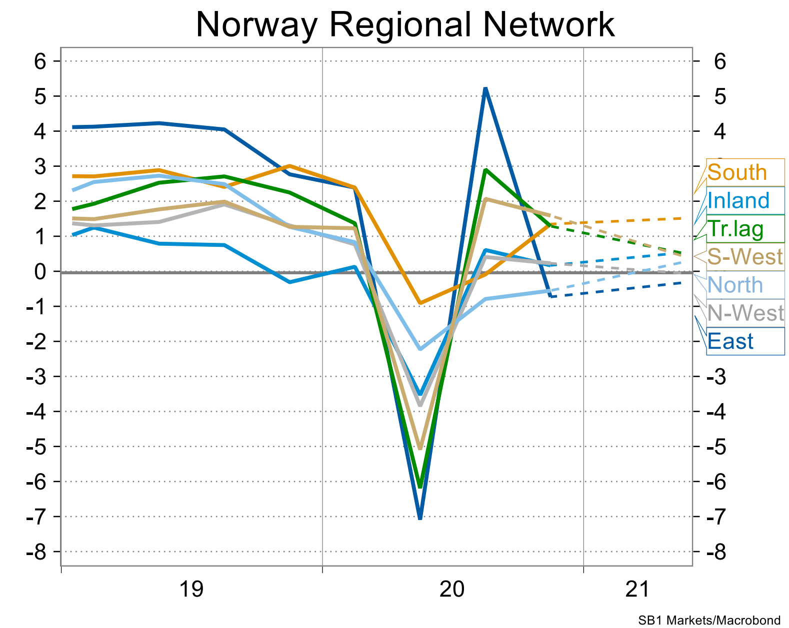


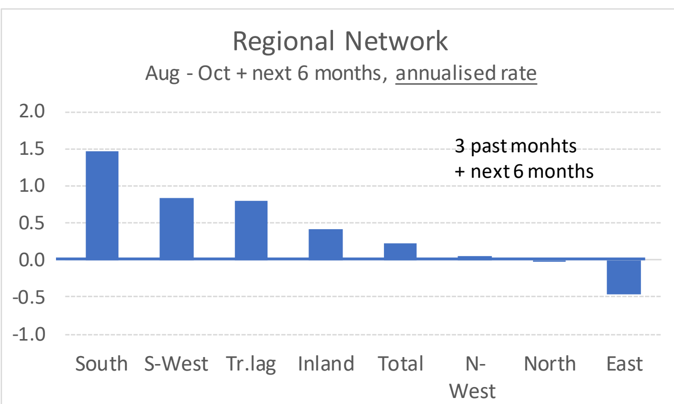
- The rapid increase in retail trade this spring/summer could not possibly last. We find the Network forecast to be rather optimistic, as it expects growth the next 6 months too – we expect a decline

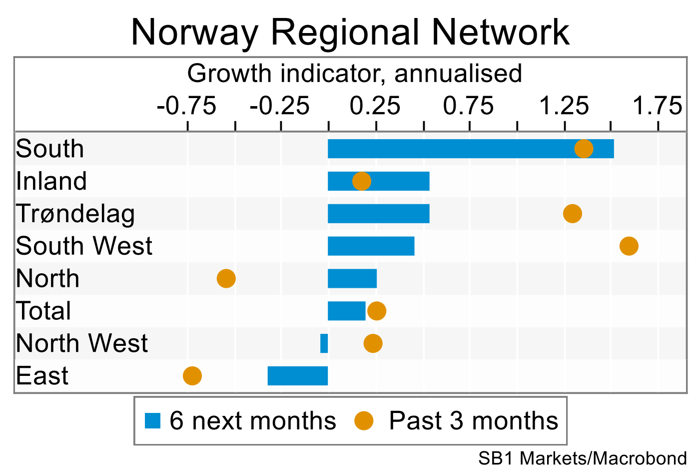
Regions: South in the lead, East is lagging – both past 3 & next 6 months

Most regions are expecting growth next 6 months (except East, North West) but just slow growth



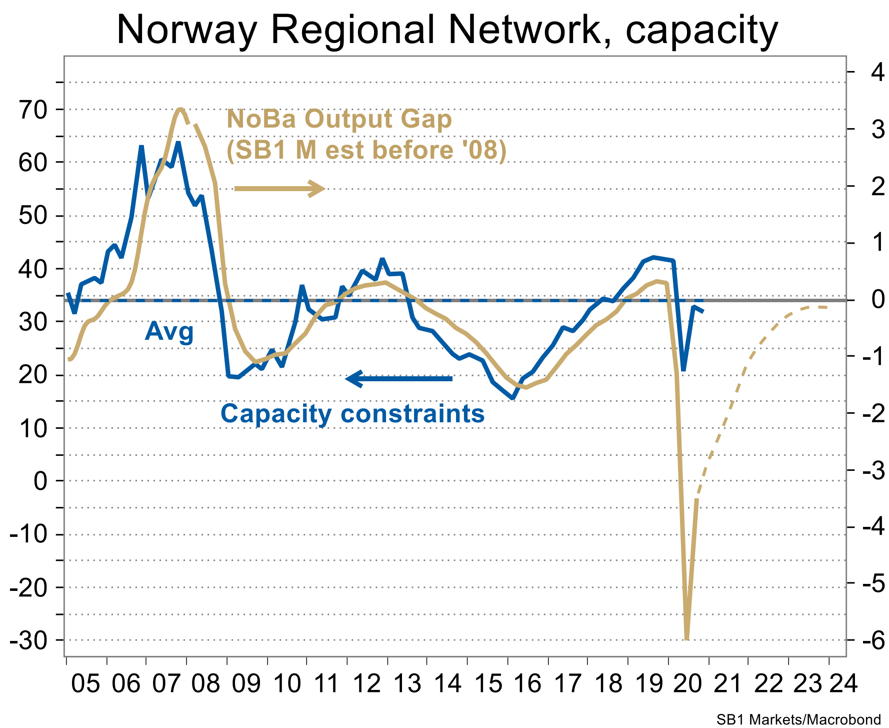


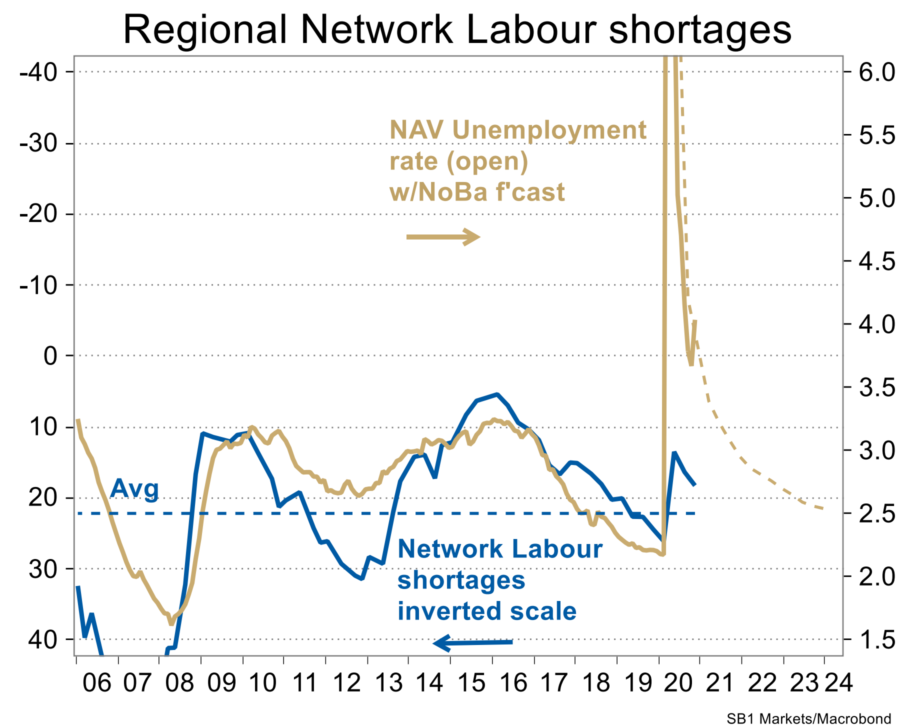




Capacity utilisation is reported to have stabilised at an average level. Really?

All other economic indicators suggest a reduced but still substantial negative output gap

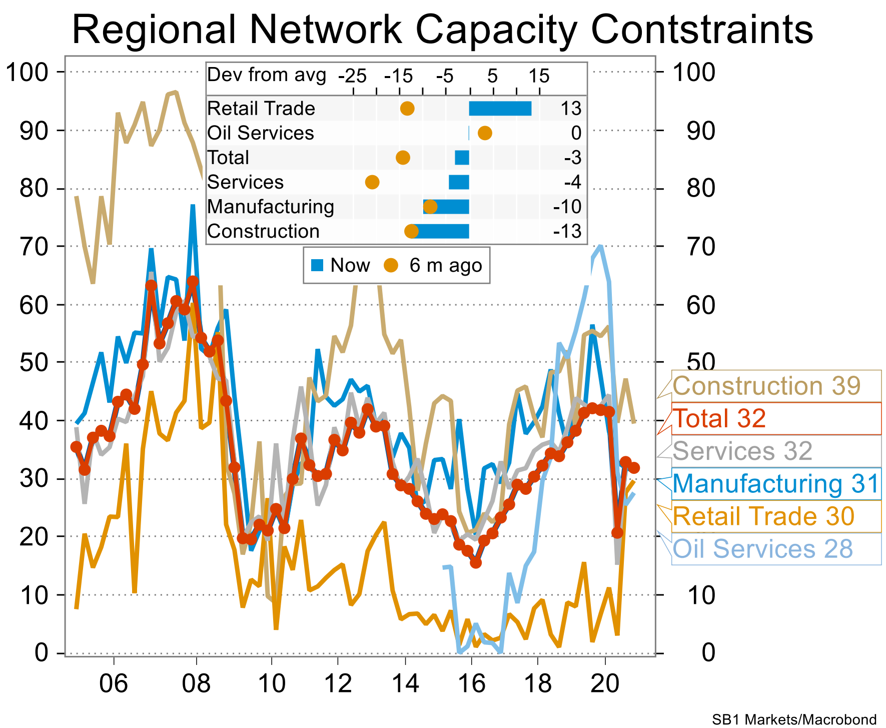


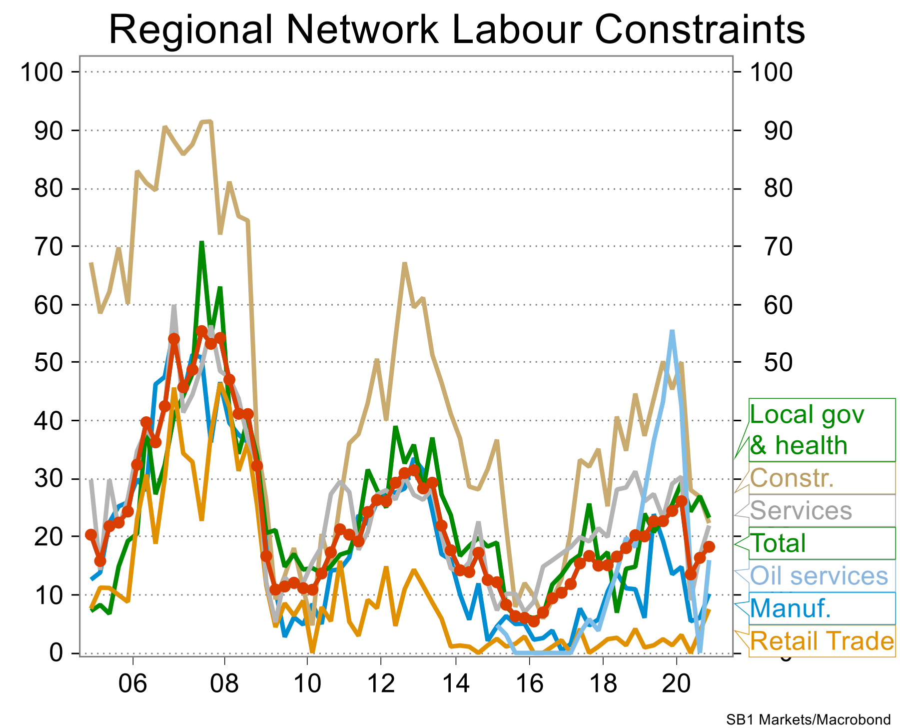


- We think a broad range of economic statistics and Norges Bank's output gap estimate is a better gauge of activity level in the Norwegian economy (even if the level in Q4 will be above NoBa's forecast)
- Labour supply shortages of course have eased this year, but remarkably little given the surge in unemployment. An irrelevant data point – or have businesses really experienced more labour shortages during the current crisis than in 2015? We doubt so. <u>However, companies are now reporting increasing labour shortages again, as if the unemployment was far below the current official rate</u>

Small changes in reported capacity utilisation, retail trade remains at 10+ y high

Construction and local gov report substantial labour shortages – even services

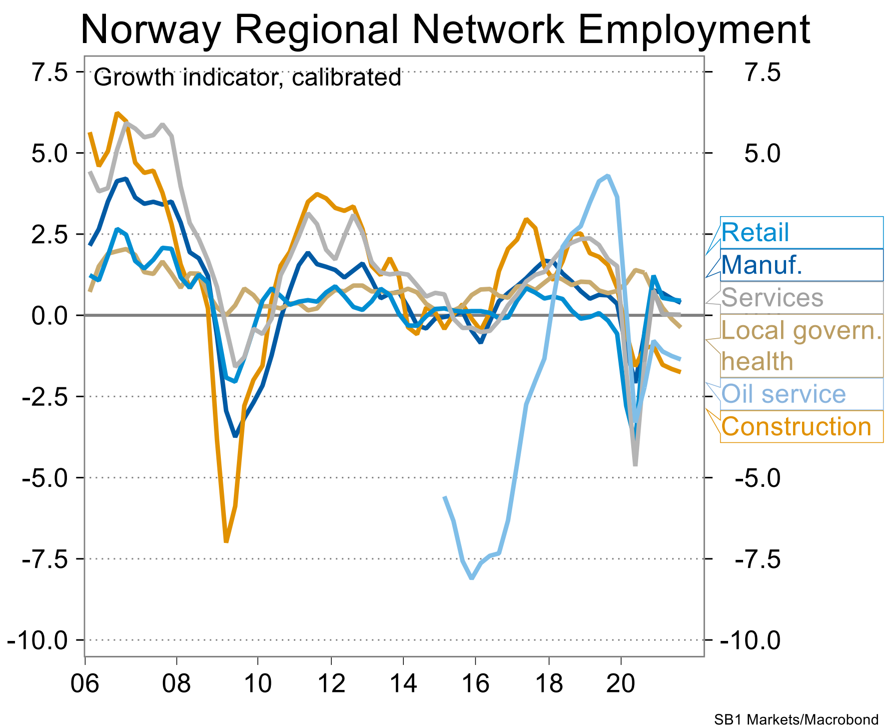


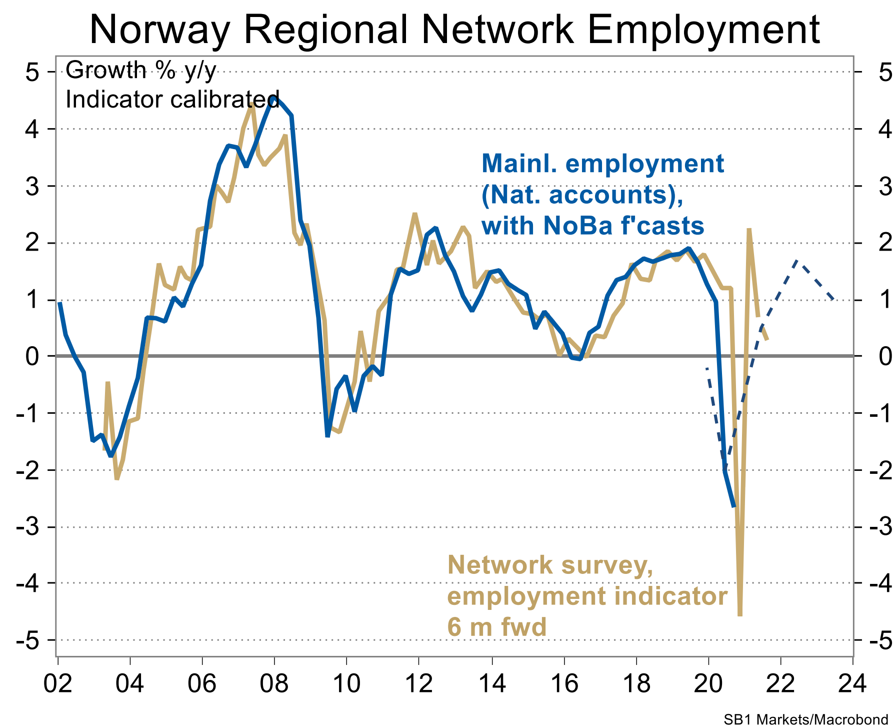


- Overall capacity utilisation fell marginally the past 3 months, according to the network, and 3pp fewer companies than normal are reporting capacity. More companies are reporting increasing labour shortages, but the level is still on the low side
- Retail trade is reporting higher capacity utilisation, and 10 pp more companies than normal are reporting capacity constraints (still just 30%). The sector does not have any problems attracting labour
- Manufacturing industries are reporting capacity utilisation well below a normal level (-10%) and limited problems attracting labour
- Oil related industries are operating at a low capacity utilisation (data just from 2016)
- The construction sector operates far below par, but more companies than in any other sector still reports capacity challenges, 39% of the total. Labour shortages have fallen sharply since the start of the year but remain high vs other sectors.
- Services are reporting more labour shortages again, somewhat surprising, given a still capacity utilisation level (but the sector is very broad, of course)

A modest employment recovery

The Network report 0.8% employment growth past 3 months, far less than 'real' actual growth





- The Network expects just a marginal employment growth during H1
- The NoBa forecast at the chart to the right is annual averages

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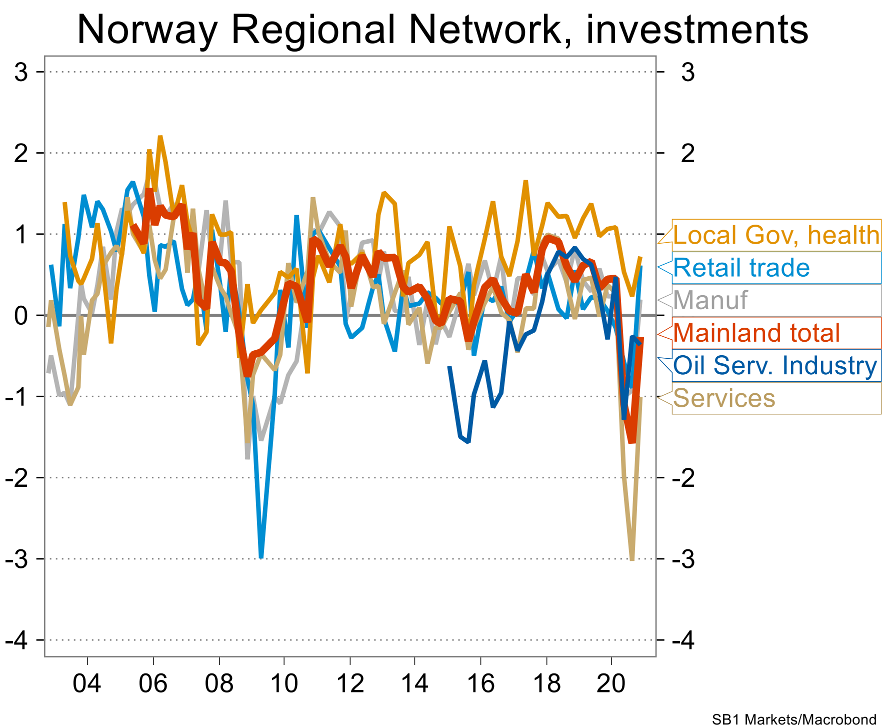
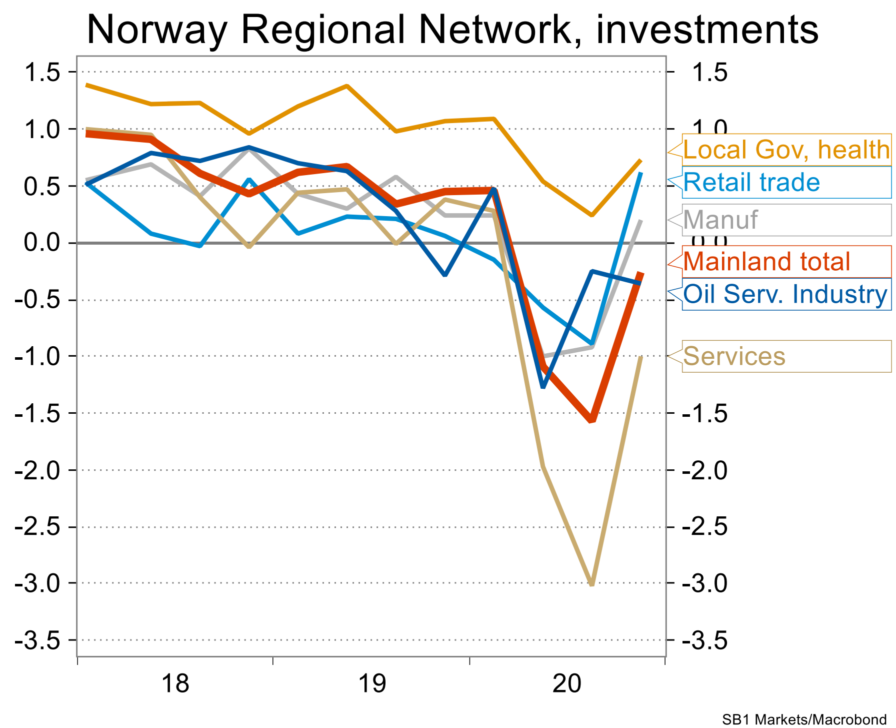
The Network signals a far lesser drag on Mainland investments, our f'cast rev up!

'Just' services are planning deep investments cuts (albeit less than in Q2 & Q3)

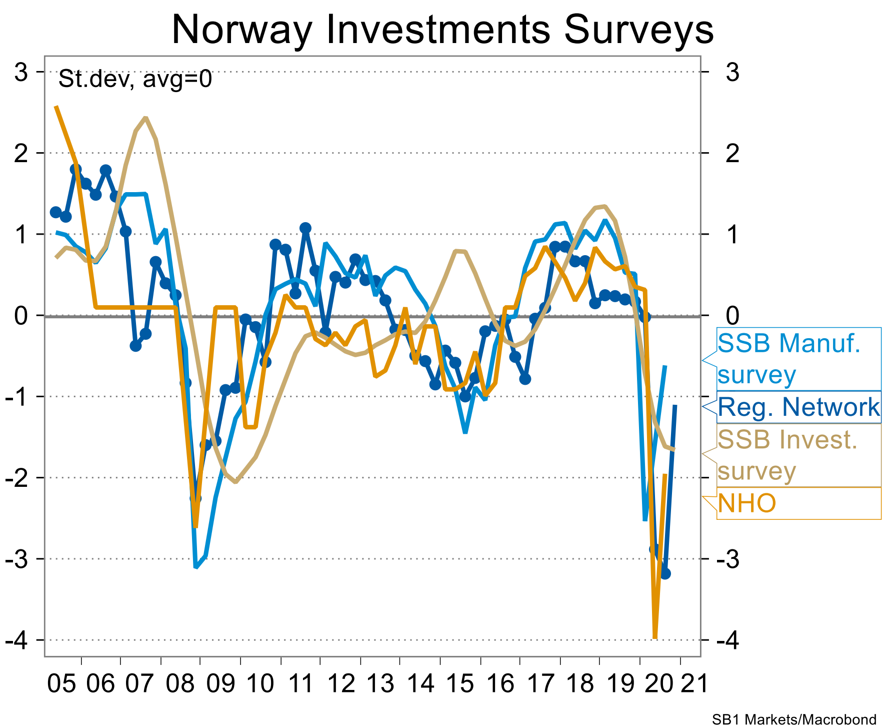


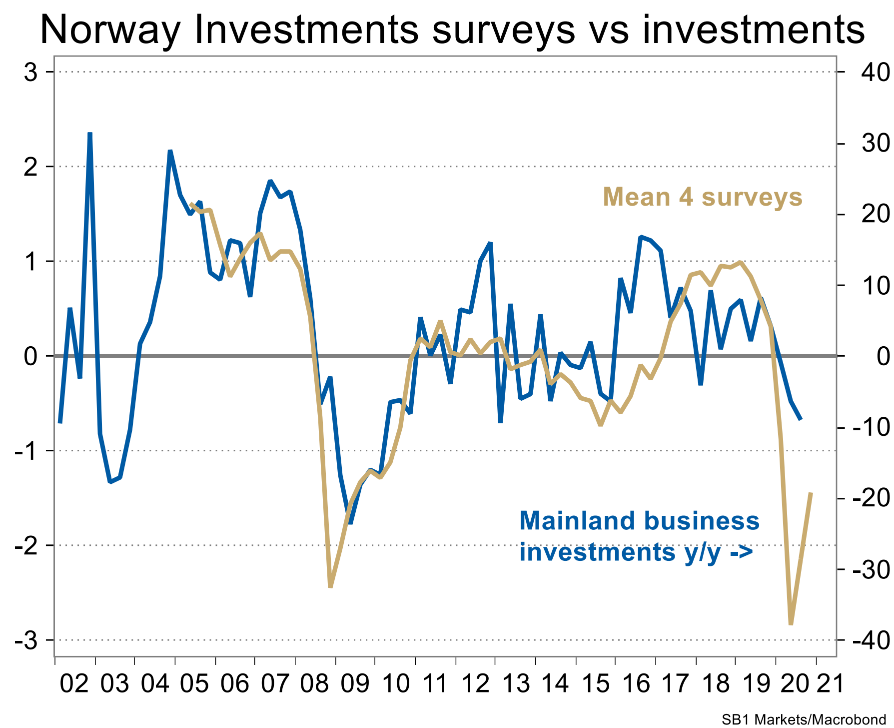


- Services, which represents almost 50% of Mainland non-residential investments, are still signalling cap-ex cuts. Hotels, restaurants & transport are placed in this group
- Oil services (not oil companies!) (9% of total) plan cuts too, but much less than 6 months ago. Manufacturers (12%) and retail trade (7%) have revised their investments plans upward – and are now signalling growth. Not that surprising for retail trade – but manufacturing was more optimistic than we assume!
- **<u>We are now revising our investment forcasts upward – especially since companies were less optimistic on their own investments, even if they do not expect any economic recovery in H1</u>**

Other investm. surveys tell the same story: Surveys better but not yet strong

Surveys are in average signalling a 20% drop in Mainland business investments. Not totally unlikely

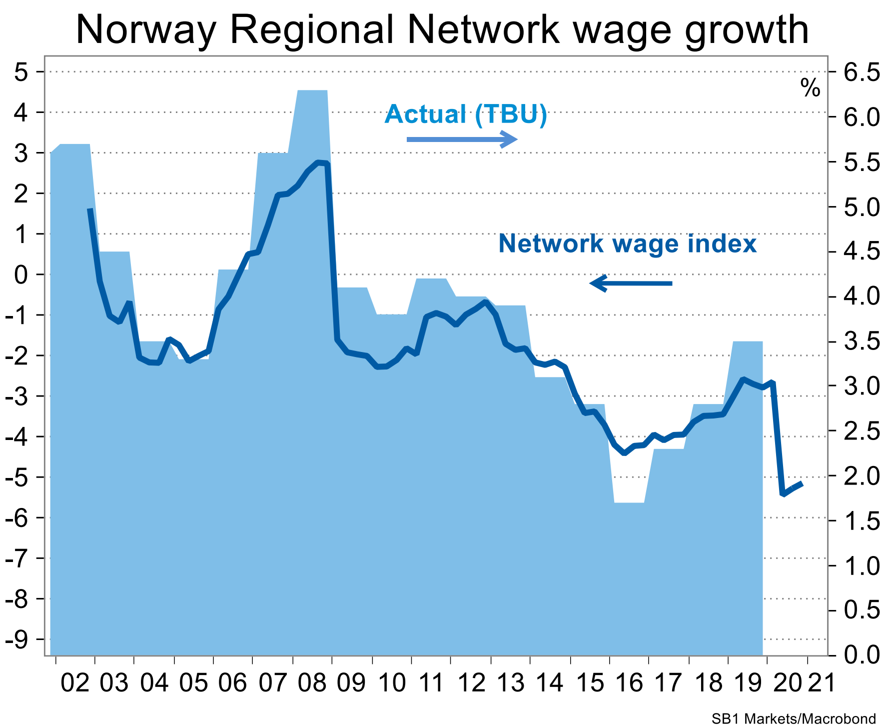


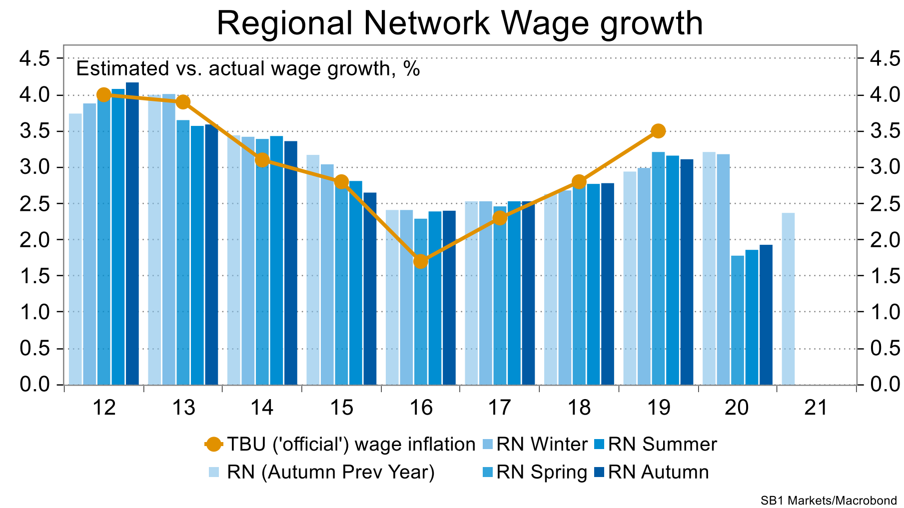


- … but probably on the downside – but they are already down 10% y/y

The Network expects 2.4% wage growth next year, up from 1.9% in 2020

…. Even if companies do not expect any growth recovery in H1. At bit strange?





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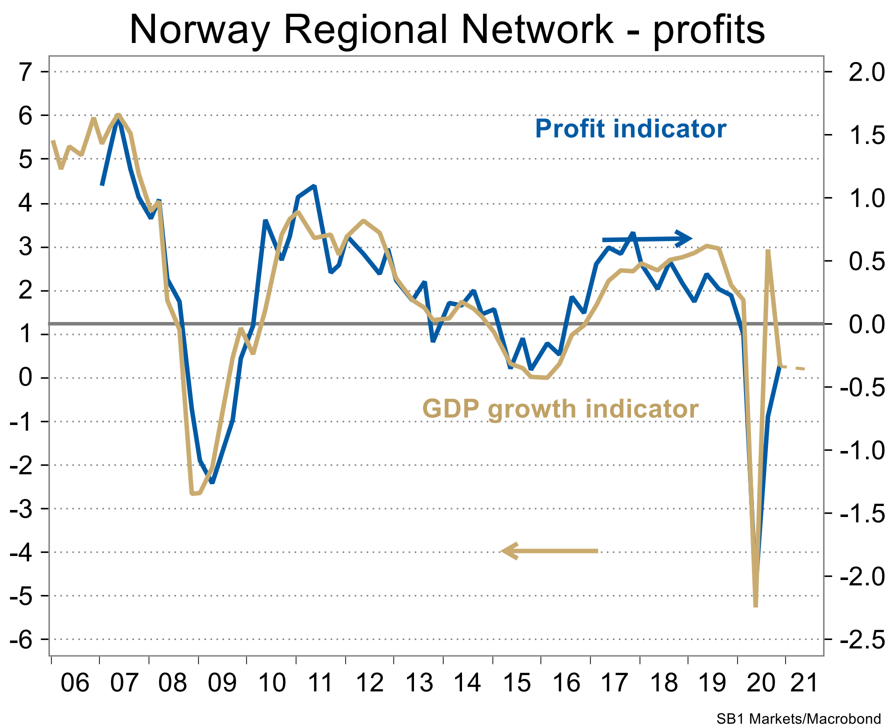
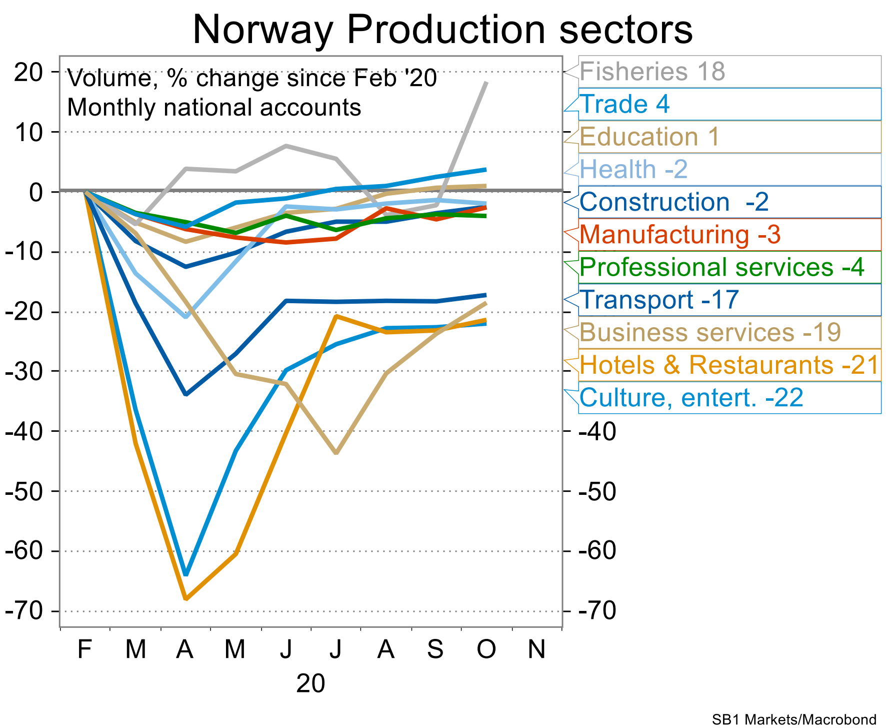
Businesses are expecting a further – but now moderate decline in profits

Not surprising, given their growth outlook



The production side, more details: Peoples' businesses are still down 17 – 22%

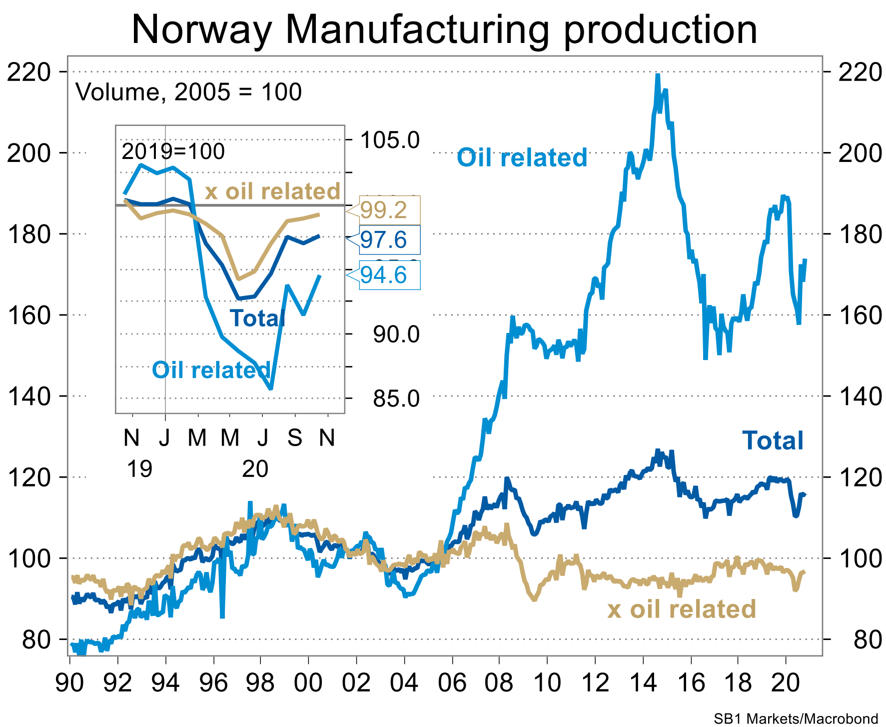
Transport (personal), culture & hotel/restaurants are struggling – and will until the virus is gone

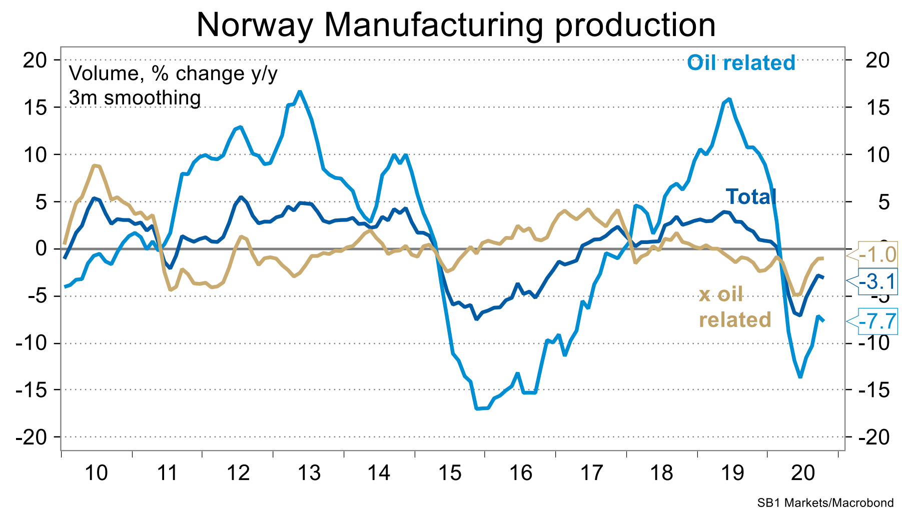


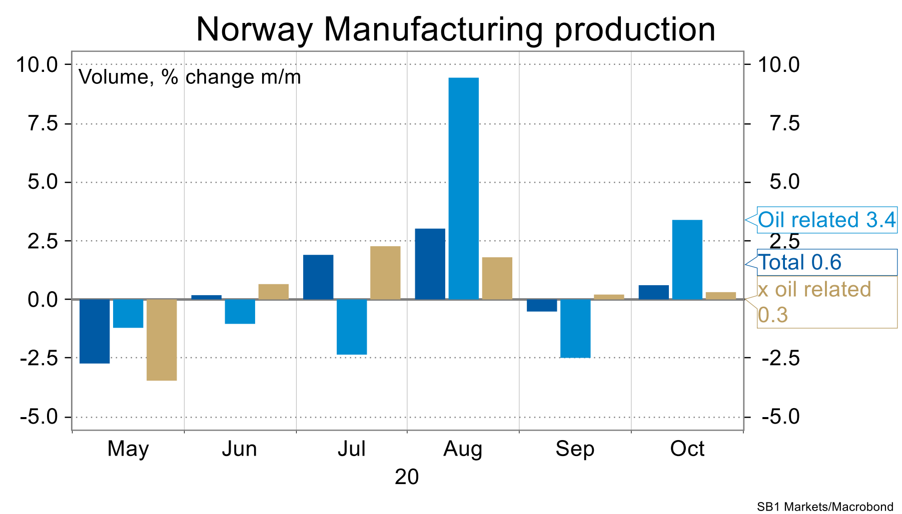
- Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing
- Trade is above but most other sectors are still operating below par
- Fisheries (traditional) had a strong October, the catch rose 20% - and lifted Mainland GDP by 0.3% (of the total growth at 0.3%)

Manufacturing production up 0.6% in October, down 3.1% y/y

An impressive recovery in oil related industries – and others are back to a pre corona level



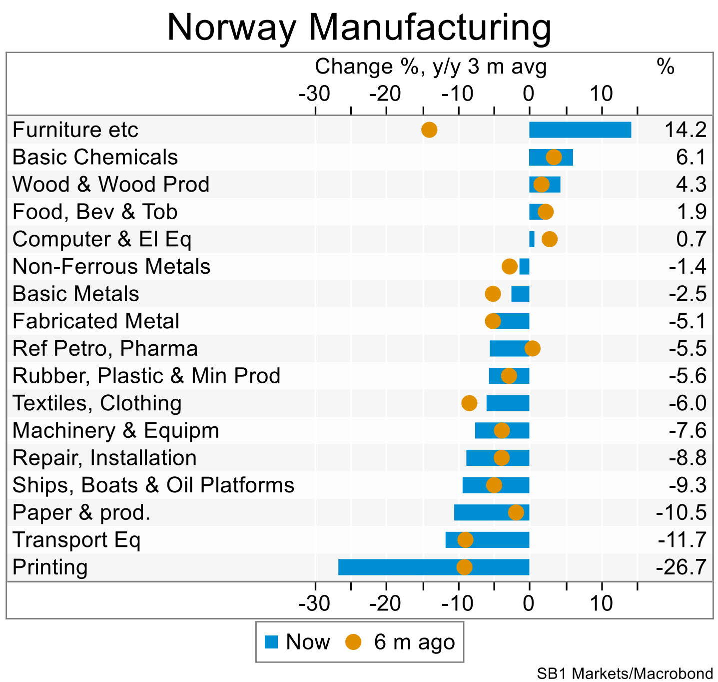


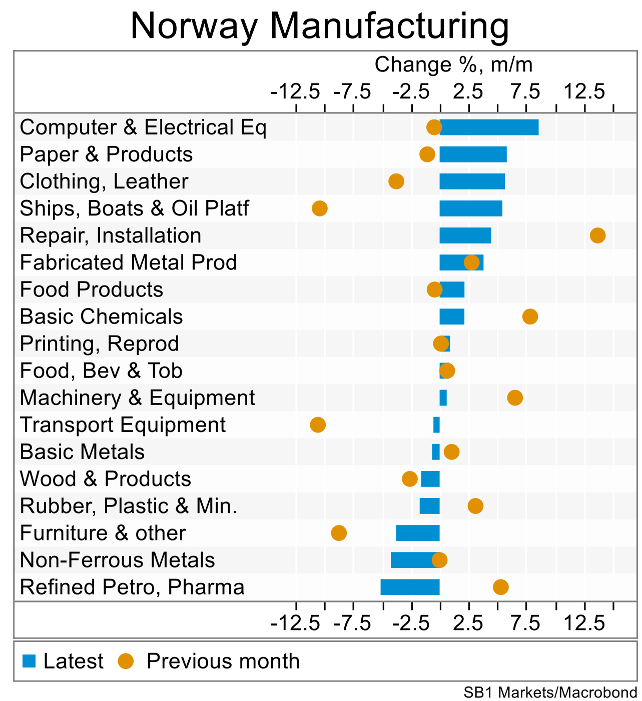


- After a 0.5% dip in Sept, production rose by 0.6% in Oct.
- Oil related production rose 3.4%, other +0.3%. Oil related is still some 8% below the level in early 2019. Other sectors are back to a normal level
- Manufacturing production in Norway has fallen less than in most other rich countries, check here
- Surveys are mixed, the Regional Network signals no growth, while both the PMI and SSB's survey signals close to normal growth. NHOs survey is a laggard, signalling falling production

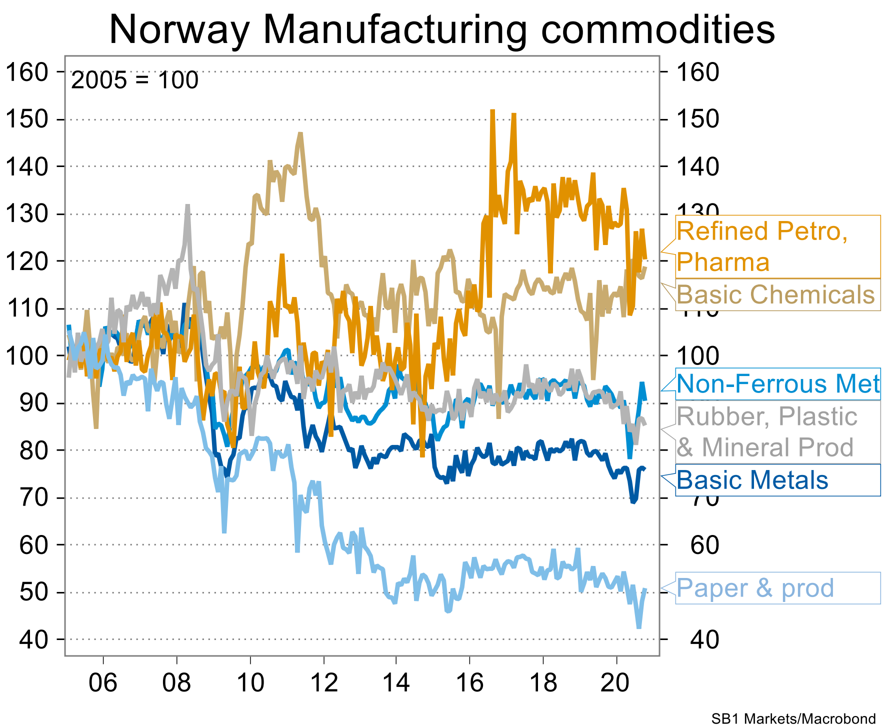
Mixed between sectors m/m, most still down y/y

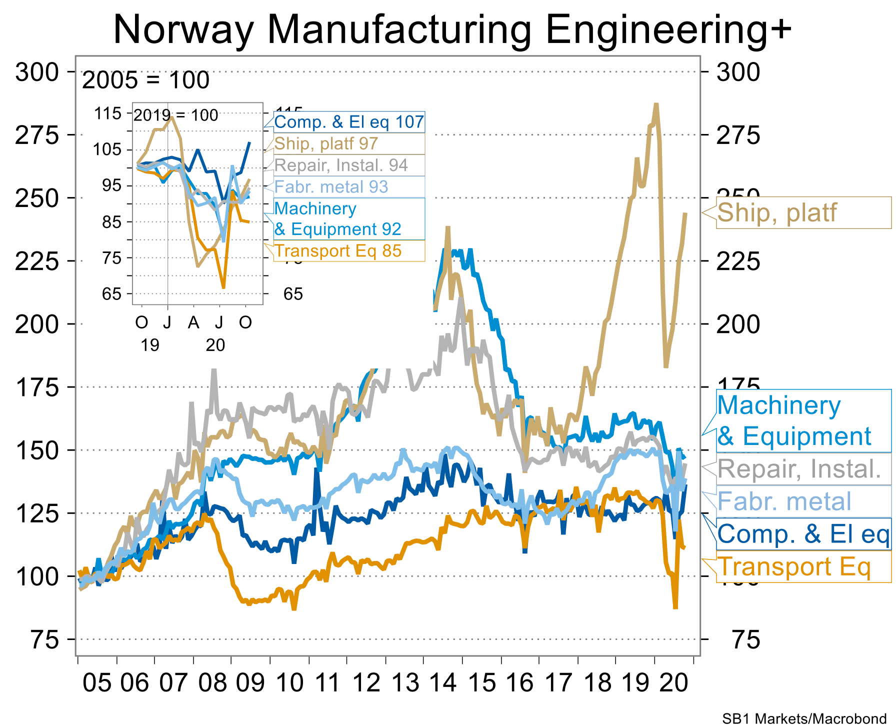
But most up m/m





Engineering (and oil related) industries are recovering, still below peak





- Production of ships & platforms was incredible strong in 2018/19, and have recovered sharply since the summer, following a 30%+ decline during H1. The level is once more impressive
  - » Corona measures, supply chain challenges probably explained parts of the drop during the spring
- Commodities have all recovered from the spring through

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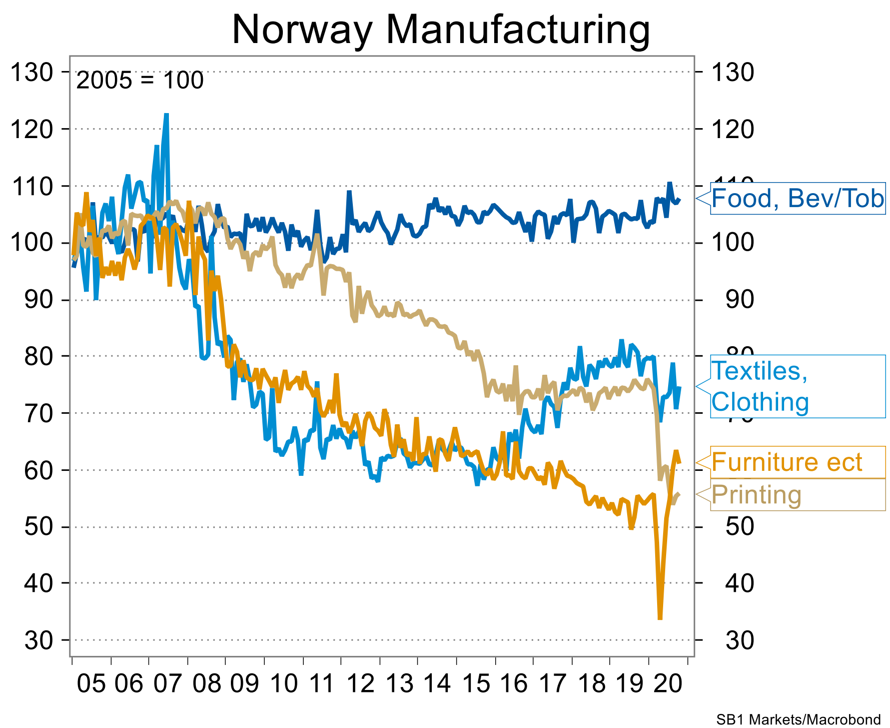
We still need food (and more than usual, as we buy/eat less abroad)

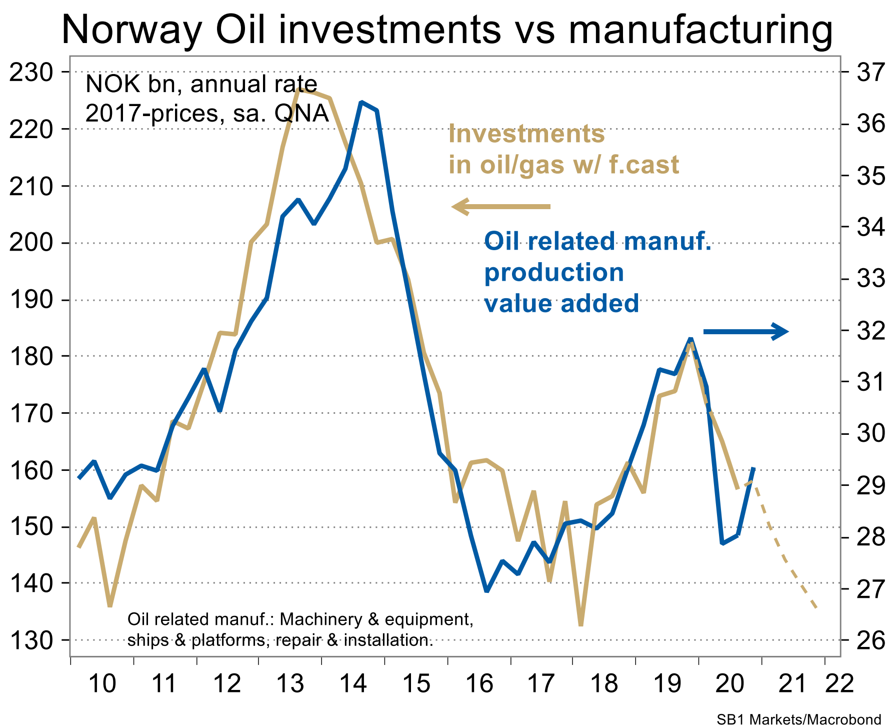
Other domestically oriented sectors down during the spring, has made a comeback now

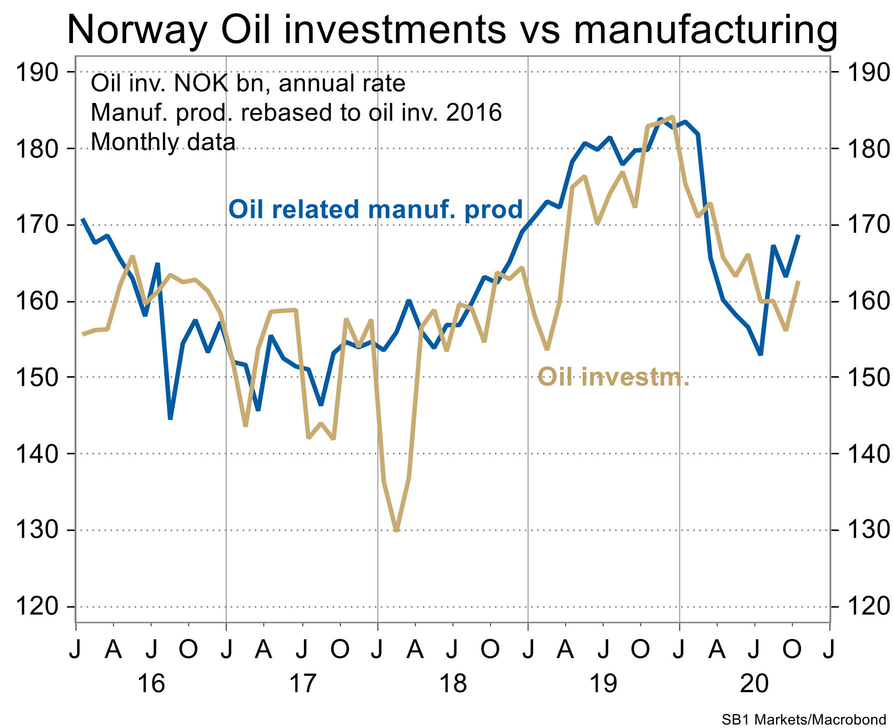


- Except printing. Are we not reading newspapers or books anymore? Or just fewer ads?
- Furniture made a comeback – as domestic (and foreign) demand has surged during the corona crisis

No more upside for oil related manufacturing production?

Production has recovered 15% since the summer – where production was 'too' low

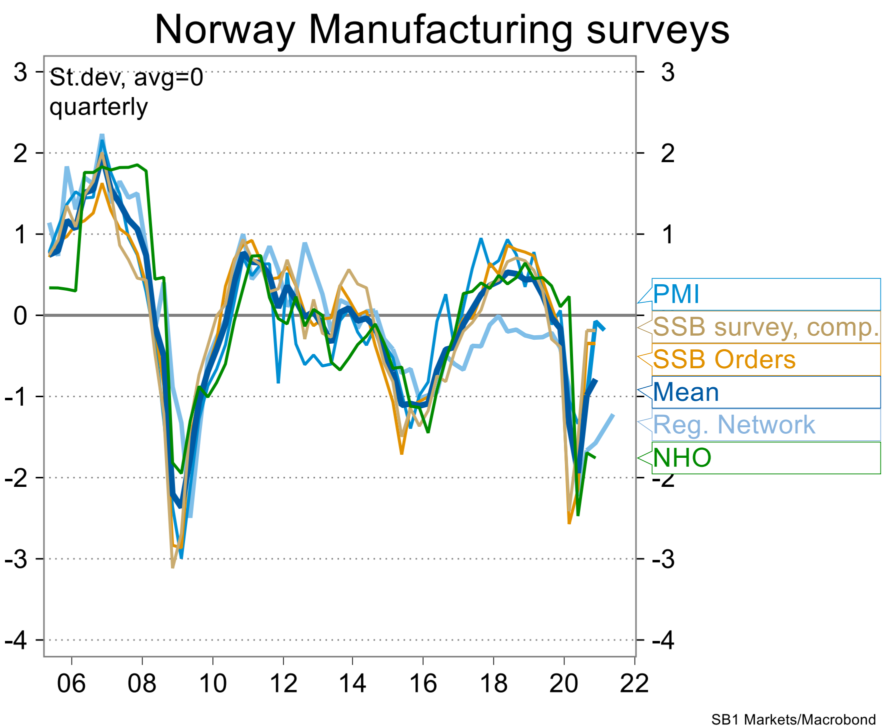


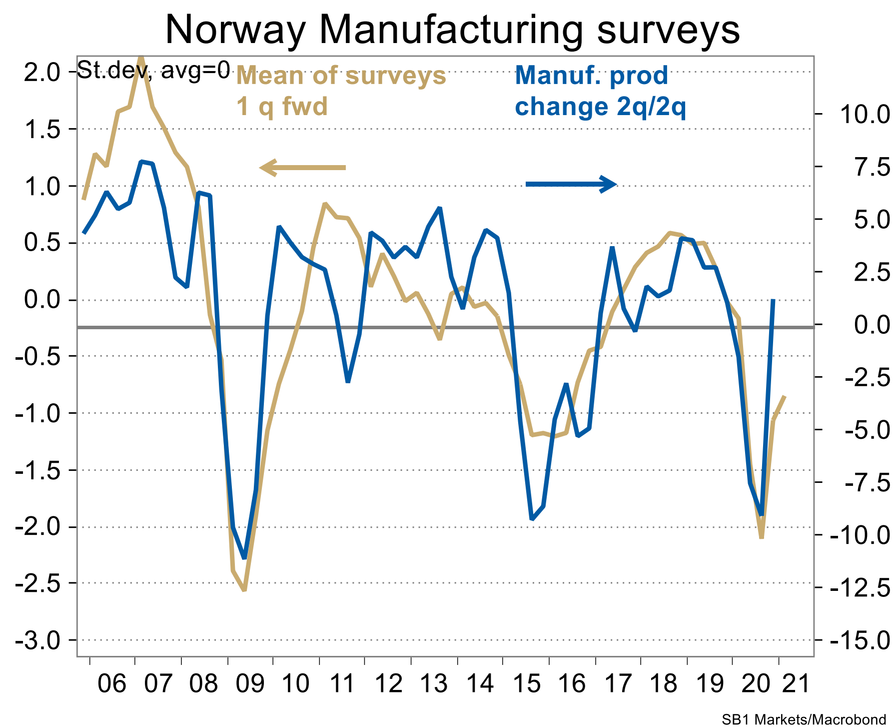


- Oil investments are down 11% from Q4, and we expect another downturn next year. However, the recent lift in oil prices has reduced the downside risk – and we may have to revise our forecast upwards
- Even so, given the recovery since the summer, we think the outlook for oil related manufacturing production is rather muted – and reported in Norges Bank's Regional Network

Manufacturing surveys are turning up, the average is still (too?) weak

The avg is still signalling a steep decline in production – but some surveys have recovered well

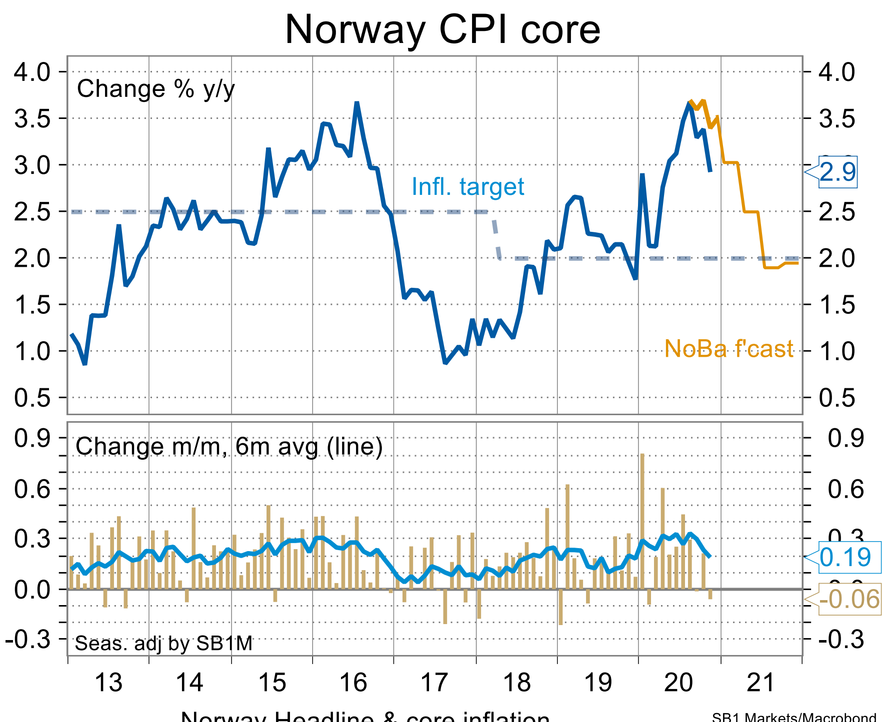


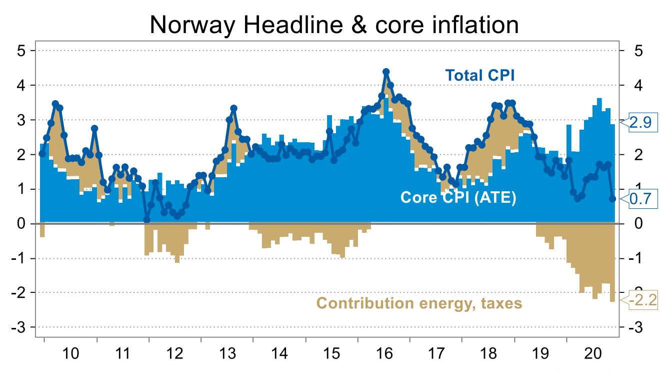


- Both SSBs quarterly manufacturing survey and the PMI is signalling close to normal growth in manufacturing production – and production is on the way up

Core CPI surprised on the downside down 0.5 pp to 2.9% y/y in November

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





- CPI-ATE (ex. energy and taxes) inflation declined 0.4 pp to 2.9% November, far below consensus and our forecast (3.3 & 3.4%. Norges Bank expected 3.4 (Sept MPR f'cast)
  - Prices declined 0.1% m/m (s.a) (SSB reports -0.4%)
  - Prices grew less (or fell more) than we expected for almost all components (which is rather unusual)
  - Airline ticket prices (Wizz?) and food prices contributed most on the downside vs our forecast
  - Inflation is below 2% for housing and clothing/footwear & airline tickets – all others are still above
  - Import price inflation is falling sharply – as we have been expecting for a while – but more than we assumed in November
- Total inflation declined 1 pp (!) to 0.7%, expected unch. Both electricity & gasoline prices fell much more than we assumed
- **The price outlook**
  - We expect inflation to slow the coming quarters as the NOK gas stabilised and wage inflation will remain muted. Demand for good will have to decline from a very high level, while the 'beaten down services' will not have any pricing power anytime soon, even if demand should pick up steam
  - Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. It's all about the Covid-19 impact on the real economy. When the war on corona is won, we think the housing market will become more important for Norges Bank than actual inflation

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A sea of red: We have never been overestimating so many sectors in one month?

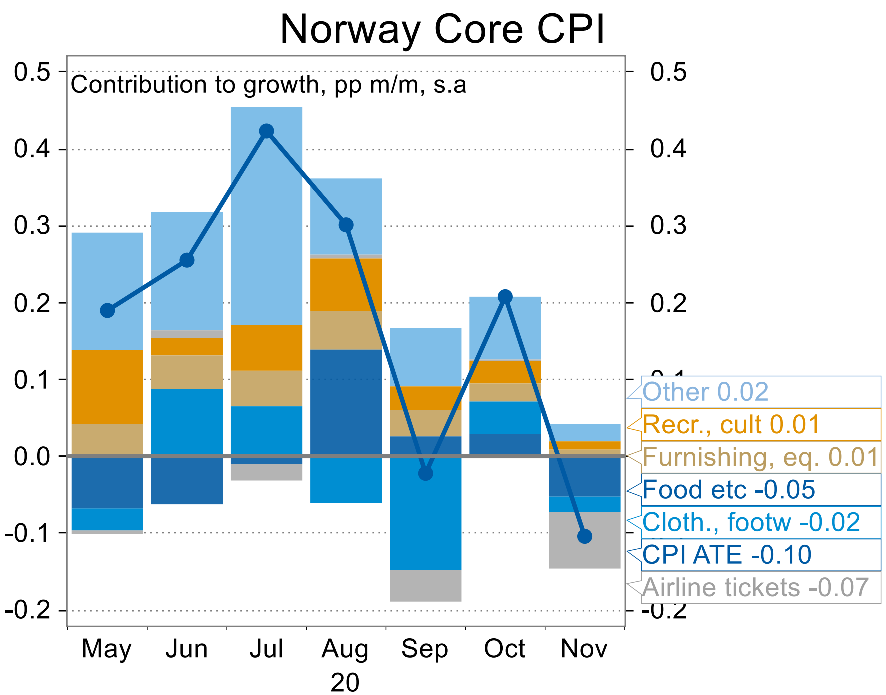
Prices rose less than we assumed in November – food & airline tickets contributed the most

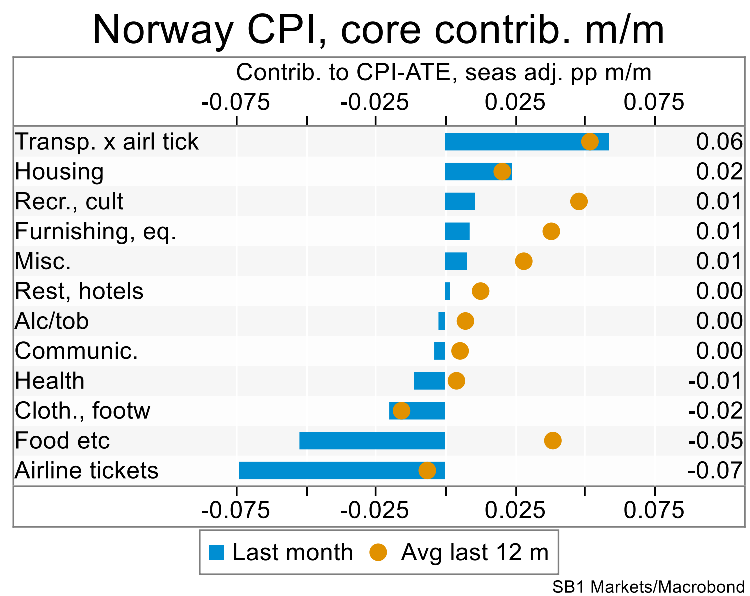
		Change m/m, seas. adj			Change y/y			Contribution, pp		
Nov-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	-0.4	0.2	-0.6	4.6	3.8	4.7	-0.05	0.47	-0.08
Alcohol, tobacco	3.9	-0.1	0.2	-0.3	2.6	2.1	2.6	-0.00	0.08	-0.01
Clothing, footwear	4.9	-0.4	0.3	-0.7	-3.7	-3.8	-3.0	-0.02	-0.19	-0.03
Housing x. energy	20.1	0.1	0.2	-0.0	1.2	1.2	1.2	0.02	0.24	-0.01
Furnishing	6.6	0.1	0.4	-0.3	9.4	7.1	9.4	0.01	0.46	-0.02
Health	3.2	-0.3	0.2	-0.5	2.0	1.4	2.1	-0.01	0.05	-0.02
Transp. ex. gas, airl. tick	12.0	0.4	0.3	0.1	5.2	5.1	4.9	0.05	0.62	0.02
Airline tickets	1.2	-6.5	0.2	-6.7	-1.9	-10.7	-0.0	-0.08	-0.12	-0.08
Communication	2.2	-0.2	0.3	-0.4	3.3	2.9	3.4	-0.00	0.07	-0.01
Recreation, culture	11.9	0.1	0.3	-0.2	5.2	4.6	4.8	0.01	0.54	-0.02
Education	0.5	-	-	-	2.1	2.1	2.1		0.01	0.00
Restaurants, hotels	6.2	0.0	0.2	-0.2	2.7	2.5	2.8	0.00	0.15	-0.01
Other	8.8	0.1	0.3	-0.2	4.2	4.0	4.1	0.01	0.35	-0.01
CPI-ATE	94	**-0.1**	**0.2**	-0.3	**3.4**	**2.9**	**3.4**			
Norges Bank est.			**0.2**			*3.4*				
Imported	33	-0.6	0.2	-0.8	4.1	3.2	4.2	-0.20	1.05	-0.27
Domestic	61	-0.1	0.2	-0.3	3.4	2.9	3.4	-0.05	1.78	-0.18
Energy, housing	4	-11.2	-2.5	-8.7	-24.1	-34.6	-29.3	-0.43	-1.34	-0.34
Energy, transport	4	-4.8	-0.5	-4.3	-8.1	-14.8	-11.0	-0.17	-0.52	-0.15
CPI Total	101	**-0.9**	**0.2**	-1.1	**1.7**	**0.7**	**1.7**	-0.90	0.73	-1.10
Change m/m based on seasonally adjusted data (calc by SB1M)										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

- Food price inflation down to 3.8%, well below our f'cast. Several subsectors contributed
- Clothing/footwear prices fell again, taking the annual growth down
- Furniture/hardware/equipment prices are up 'just' 7.1 y/y – we expected far more! Demand is still strong, but the NOK impact will soon fade?
- Car prices are up 4.6%
- Airline ticket prices are all over the place, now down, probably due to Wizz entering the market
- Recreation and culture rose more than expected in Aug, up 5.1% y/y. Demand/NOK impact
- **CPI-ATE up just 2.9% y/y, far below expectations**
- Prices on imported goods fell by 0.8% m/m and the annual rate by 0.9 pp to 3.2%. Will probably slow further as the NOK impact fades
- Domestically produced goods & services fell too, and the annual rate fell by 0.5 pp to 2.9%, still a high number!
- Electricity prices fell much more than we expected – as did gasoline prices
- … and the headline inflation nosedived 1 pp to 0.7%!

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

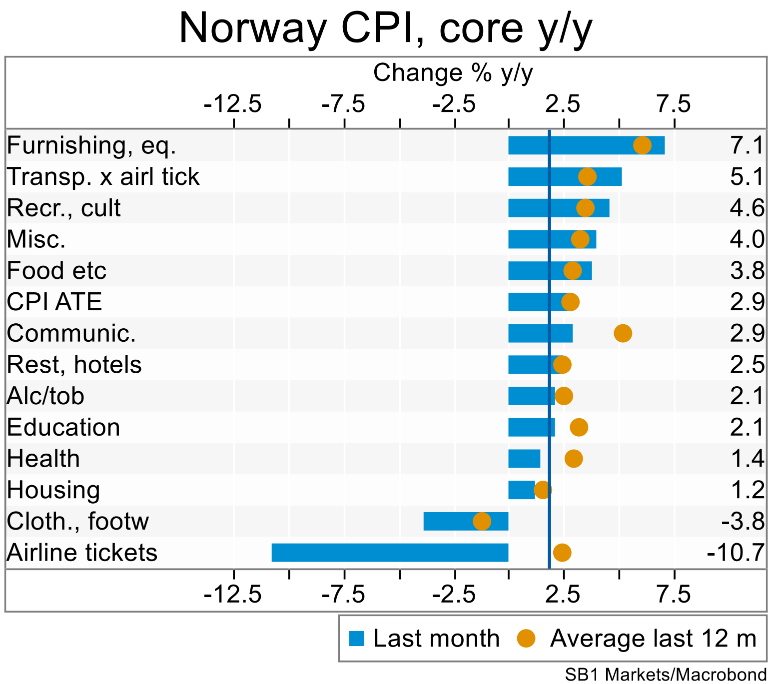
Airline tickets and food prices contributed on the downside m/m in November

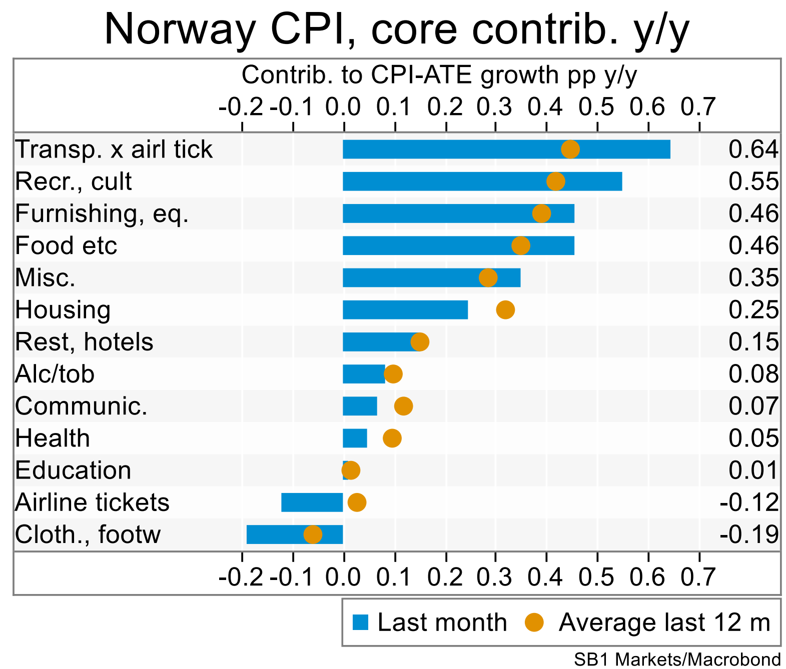




Most sectors report inflation above 2%

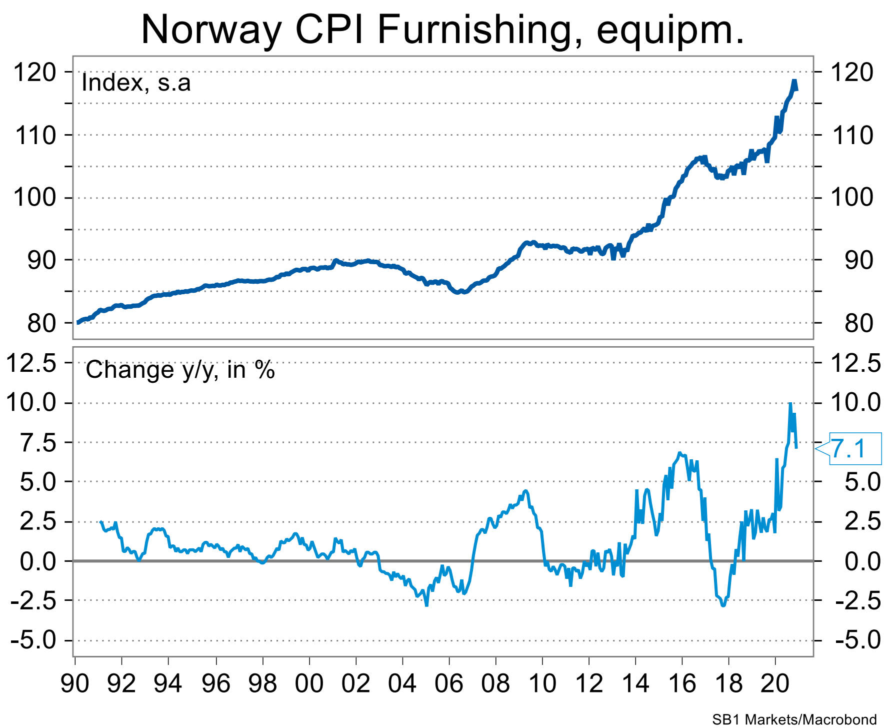
Just clothing & footwear, housing (rent), health, and airline tickets < the 2% infl. target

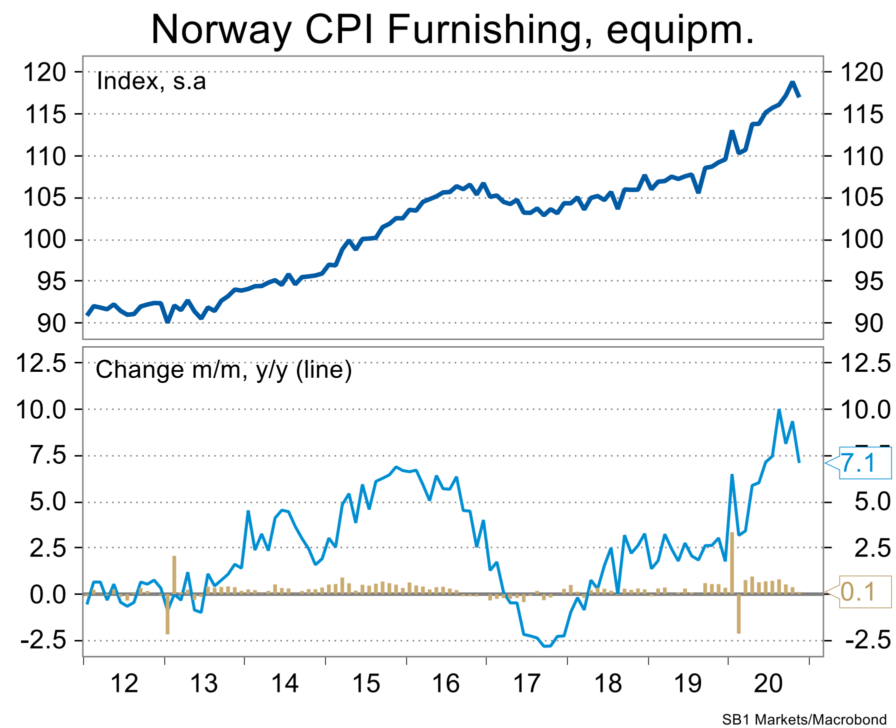




Furnishing price inflation is finally slowing!

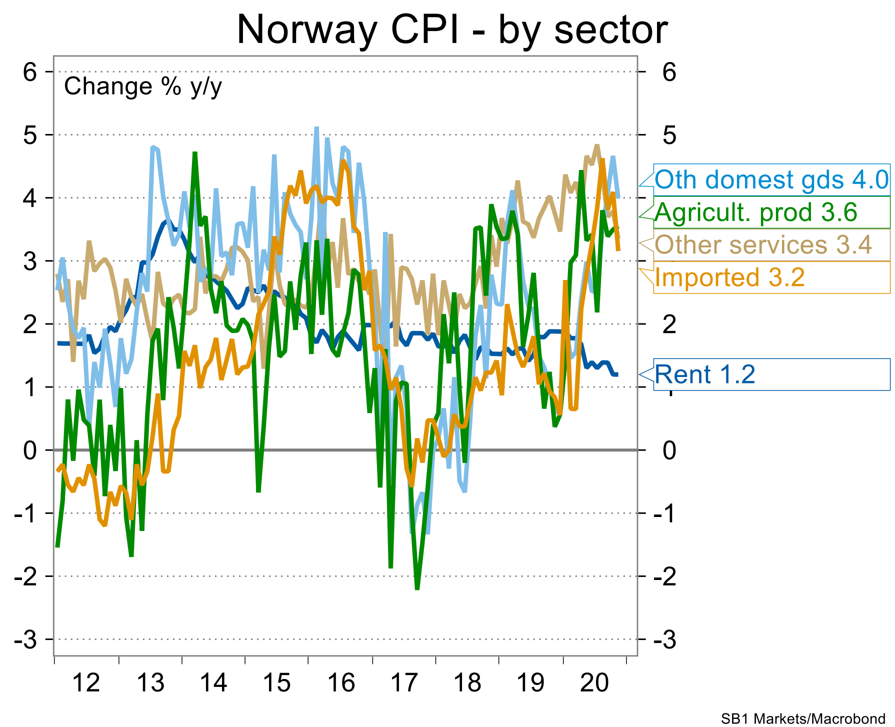
Prices are still up 7.1% y/y, down from 10% 3 months ago. Will decline further

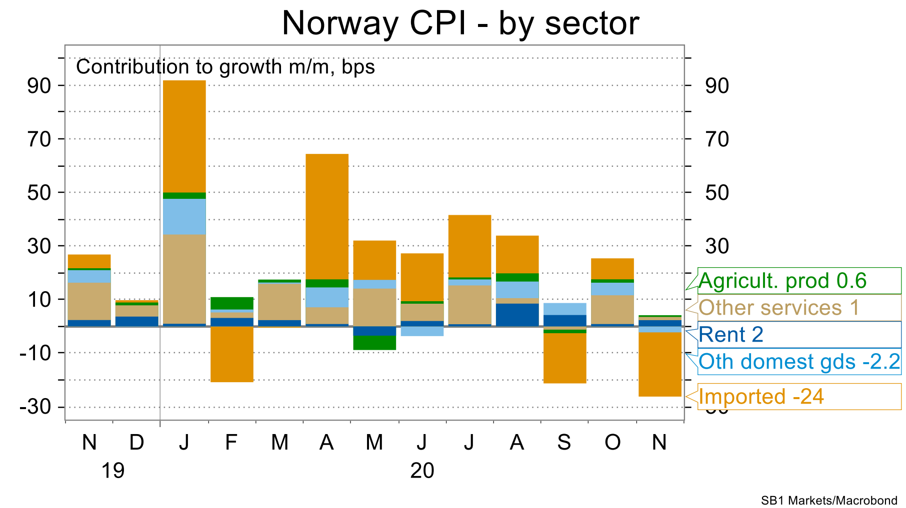


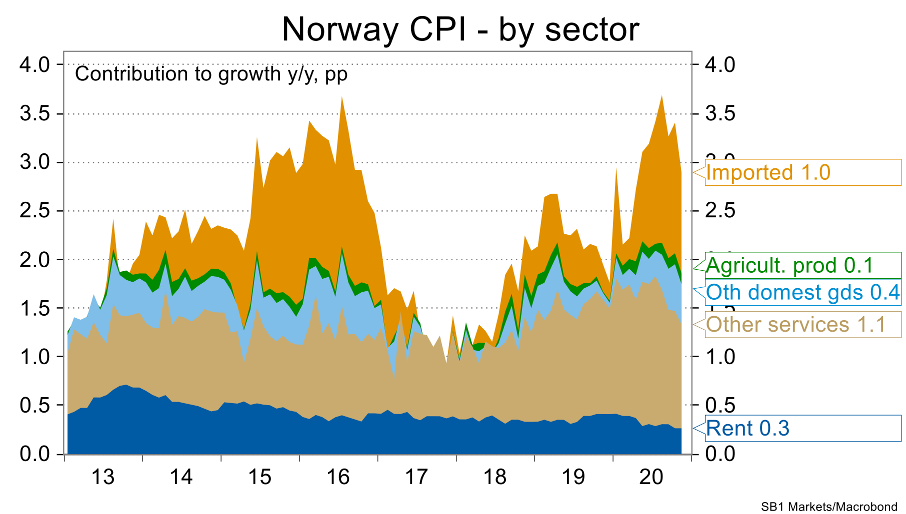


Imported goods inflation have peaked? Most likely, it has been running high

Imported goods contributed sharply on the downside in November



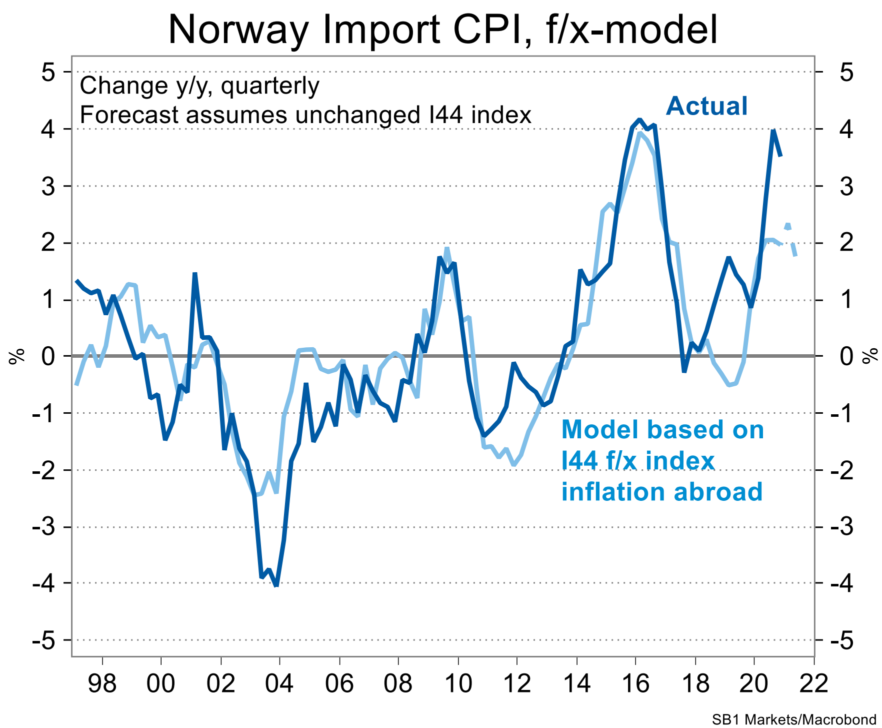


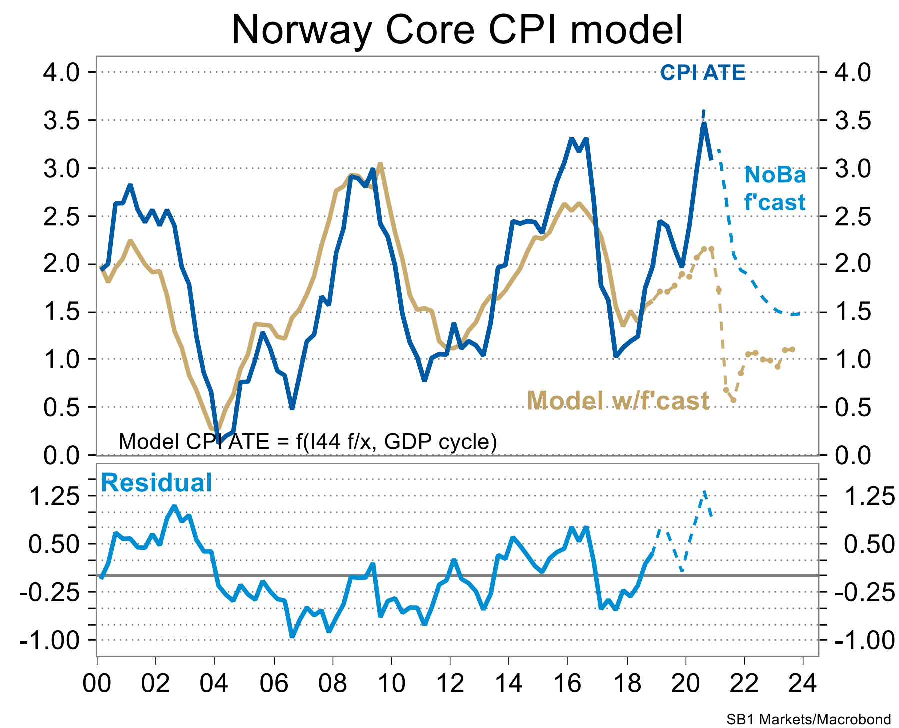


- Imported goods are still up 3.2% y/y - tough down from 4.7% some few months ago

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

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





- The NOK steep depreciation in early 2020 has no doubt been driving **imported inflation** up. It usually takes a few months before these impacts are reflected in the CPI. Closed borders/supply chain challenges due to Covid-19 may have contributed to the lift in import prices too, and more importantly: <u>the strong growth in demand for some goods</u> (like sport equipment/furniture)
  - » Still, given moderate inflation abroad and a stabilisation of the NOK exchange rate, we expect imported inflation to slow the coming months – and quarters
- Domestic inflation will be kept in check due to low wage inflation – and total inflation will come down, as signalled by our **total core CPI** model (to the right)

Highlights

The world around us

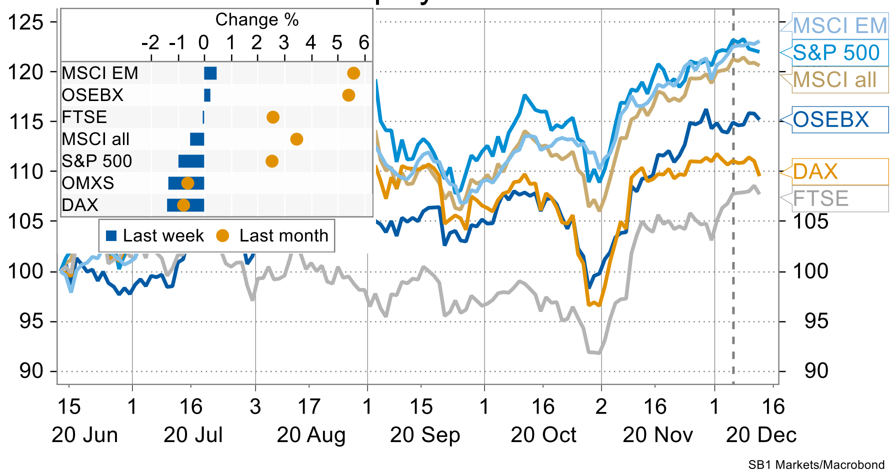
The Norwegian economy

Market charts & comments

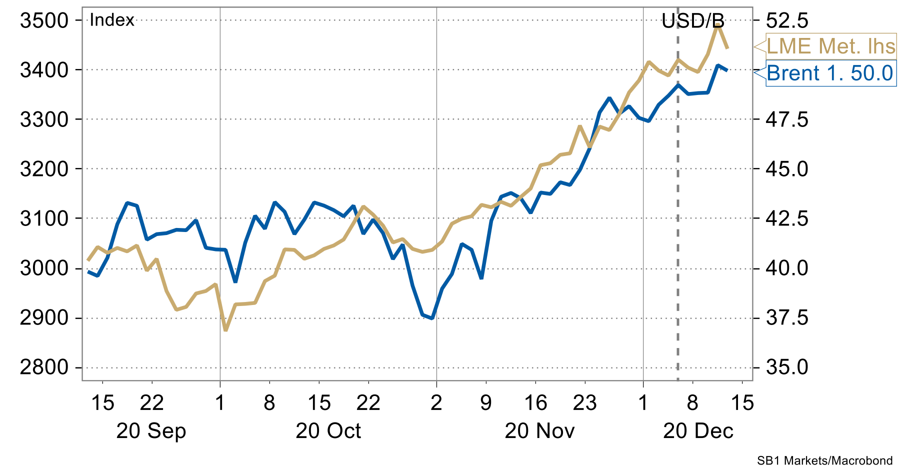
A pause: Equities down, yields down – but oil/raw materials up

A US attack on Facebook, mostly negative corona news, vaccines approved but other vac news mixed

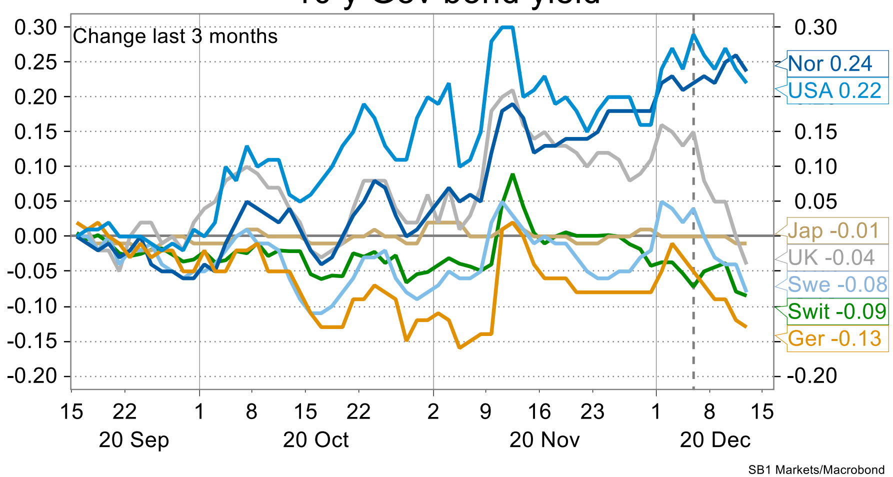
Equity Indices



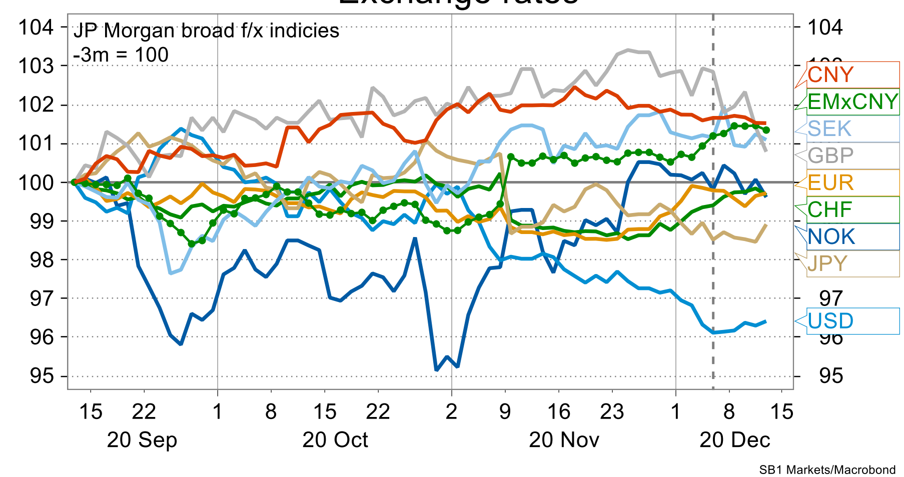
Oil vs. metals



10 y Gov bond yield

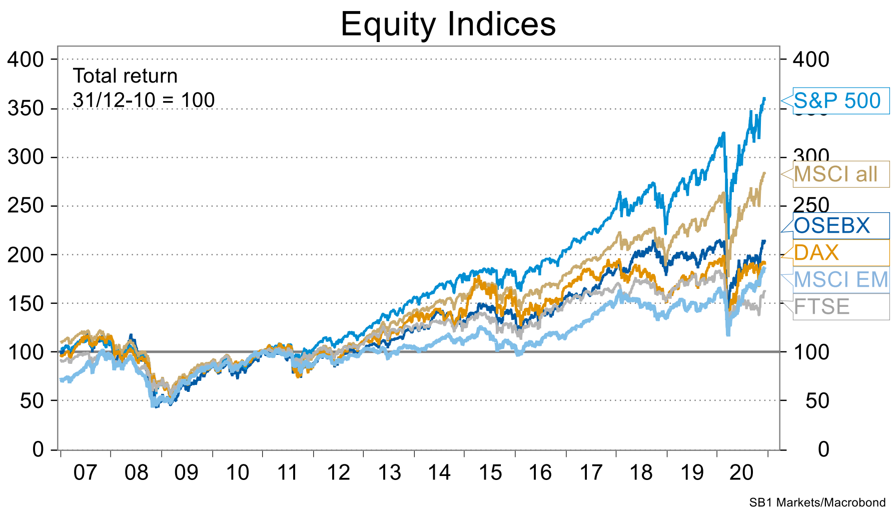


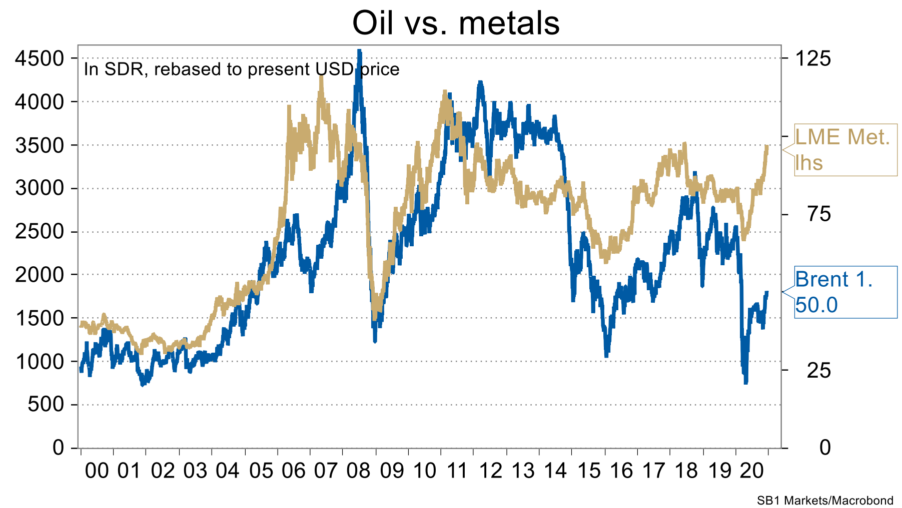
Exchange rates

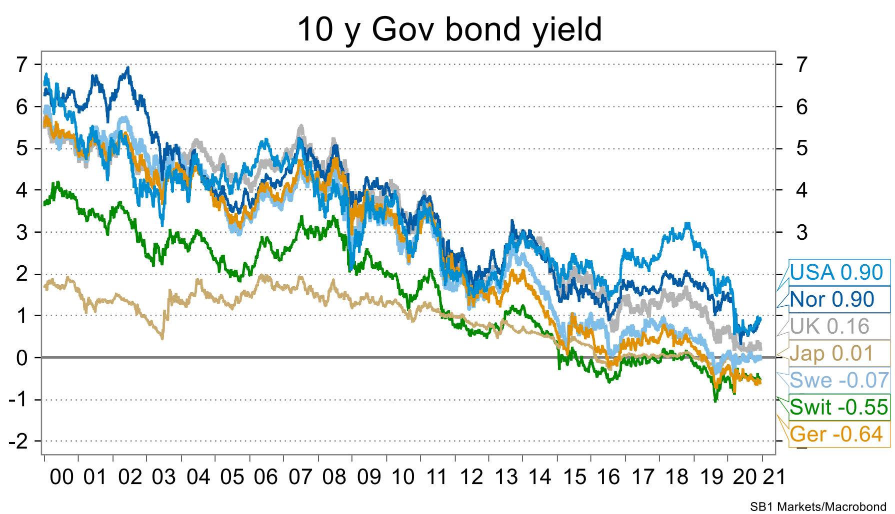


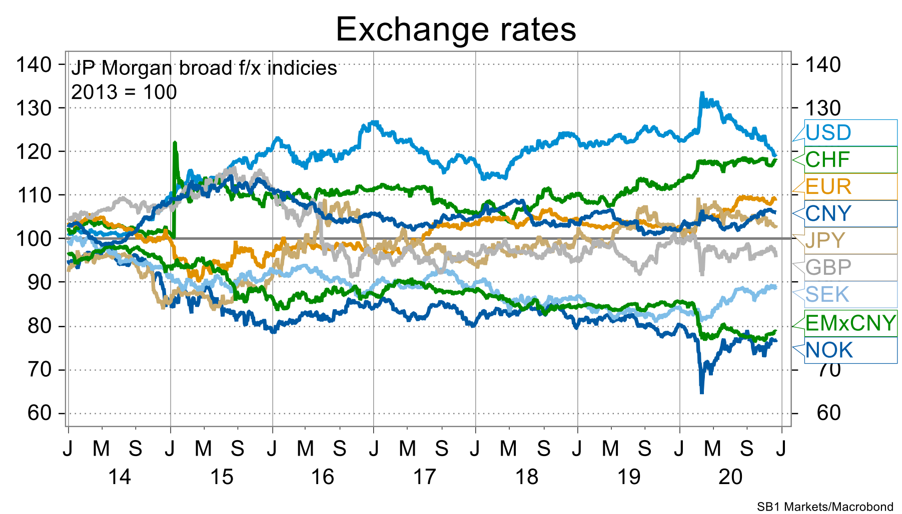
The big picture: Growth optimism everywhere. Even in some bond markets

USD is sliding down, less need for a 'safe' haven



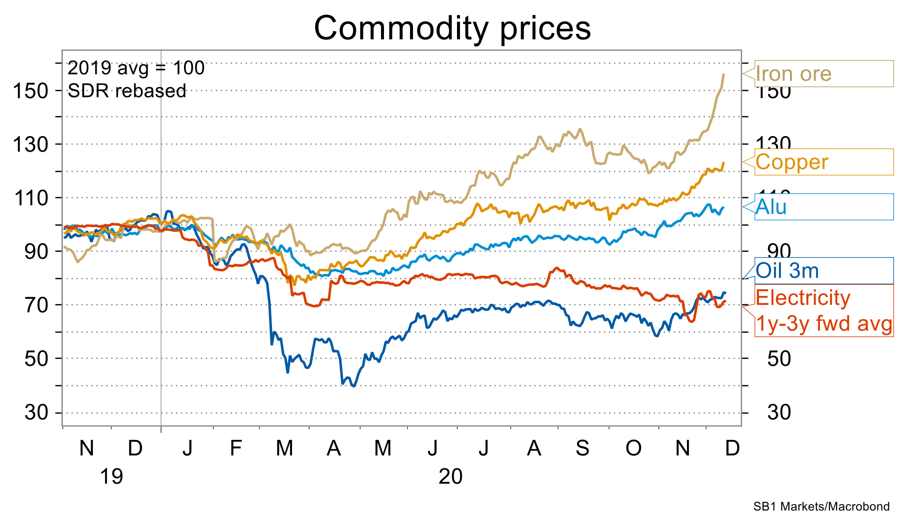


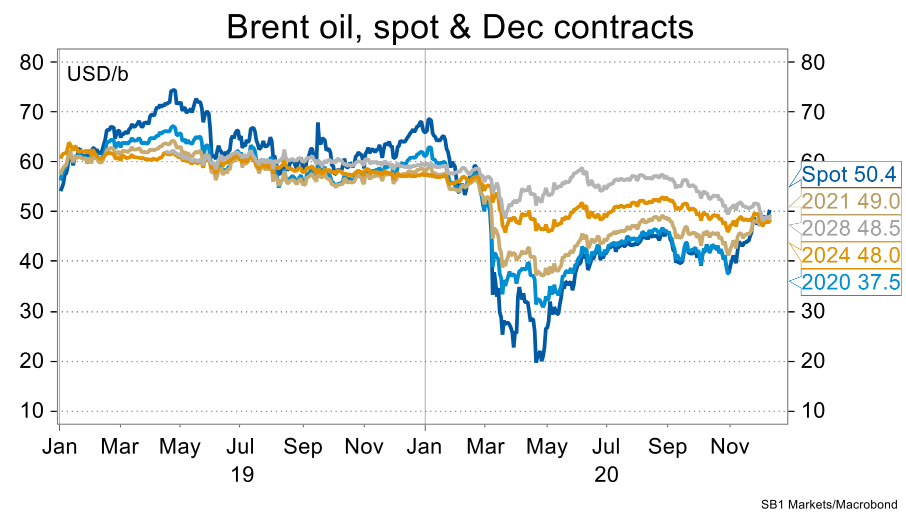


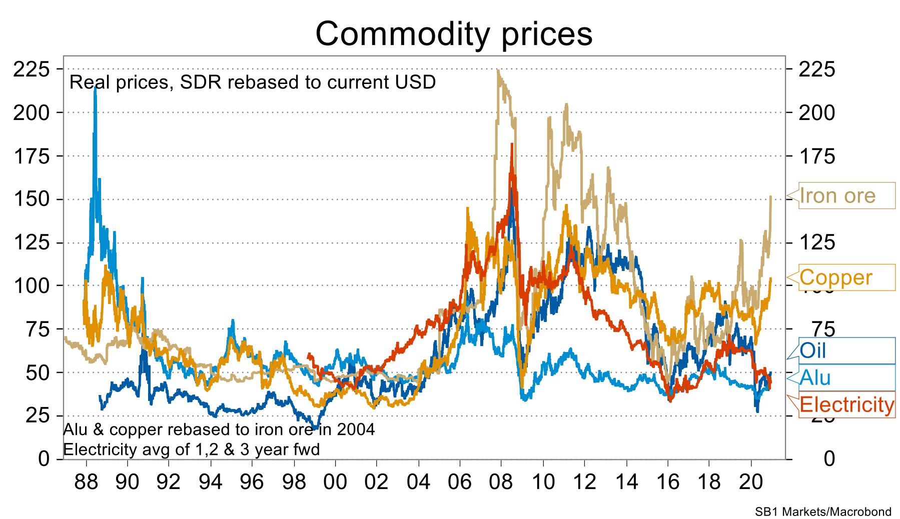


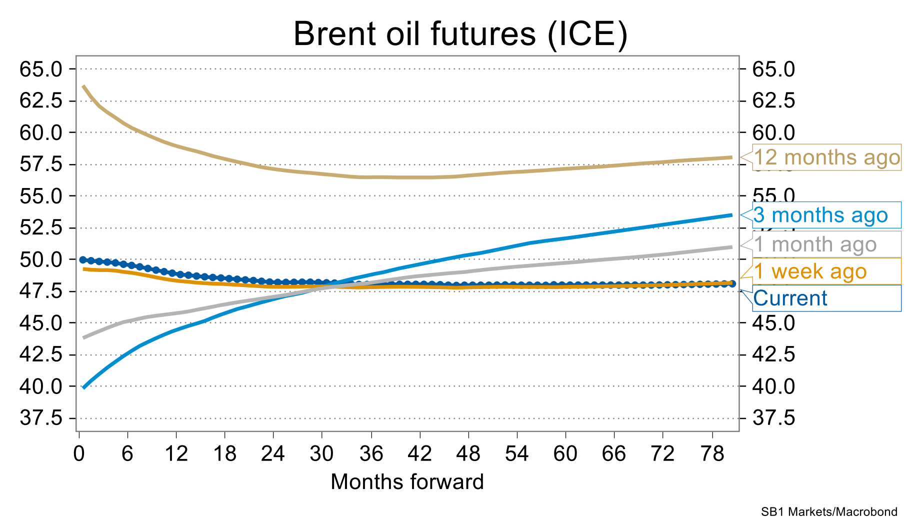
The USD is down but not dramatically – and it is still quite strong (though the weakest since mid 2018 (measured by broad f/x indices). NOK still a loser

Oil curve in backwardation - recovery in raw materials continues





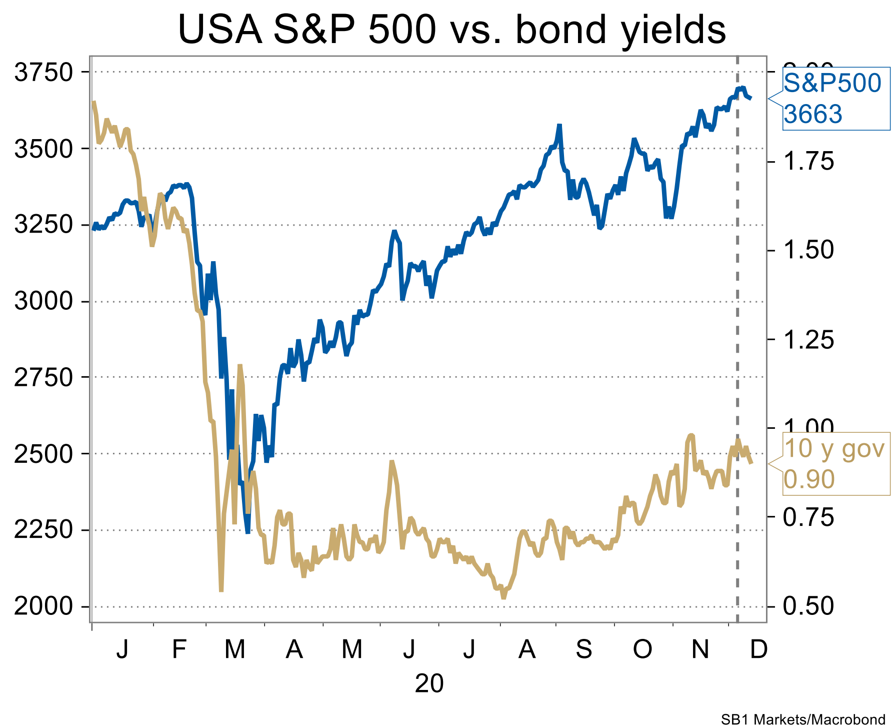


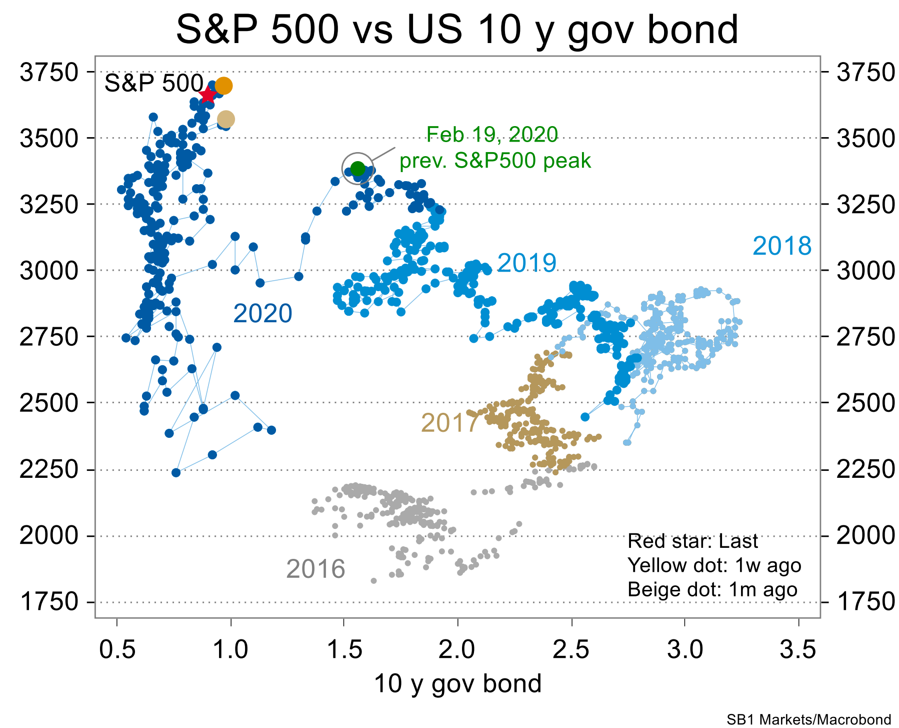


SpareBank 1 MARKETS

S&P 500 1% down, 10 y bond yields down 7 bps

Facebook attacked by US authorities, mixed vaccine news

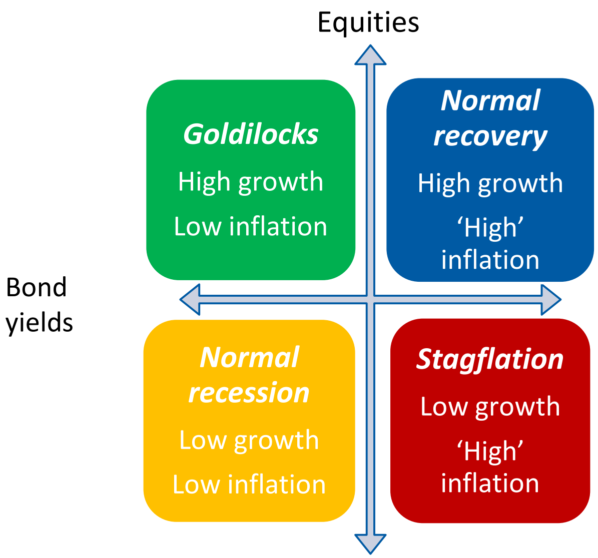




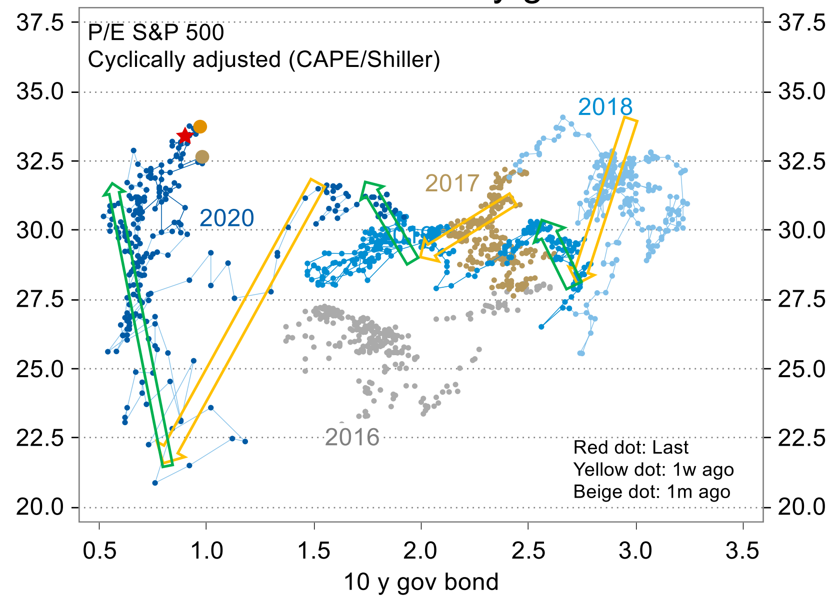
SpareBank 1 MARKETS

A long term view: From the 'Goldilocks corner', where to go?

Over the past month/week: Small changes – equites have been trending up, yields not



S&P 500 vs US 10 y gov bond

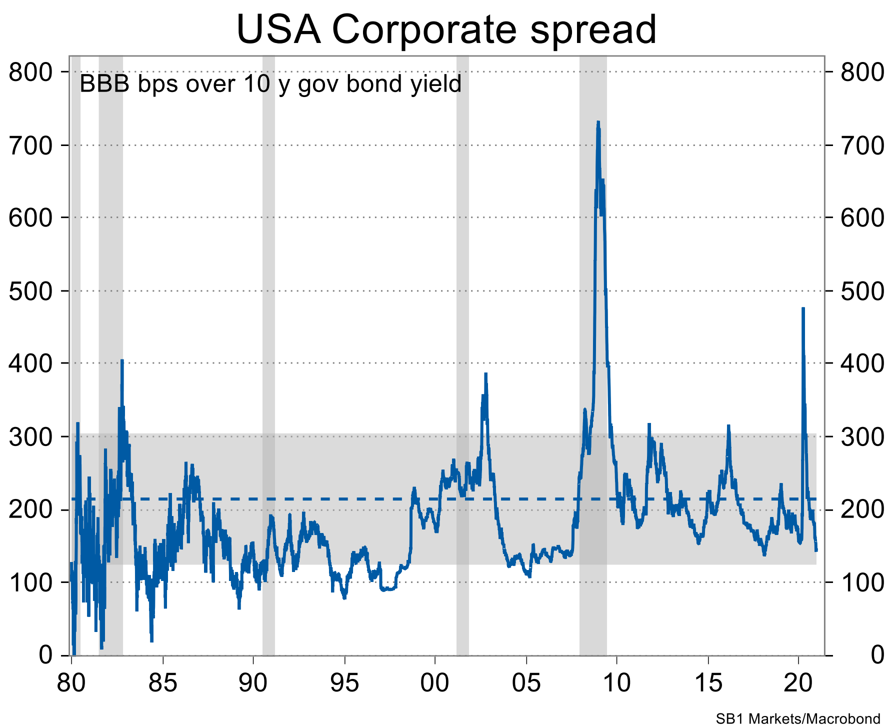


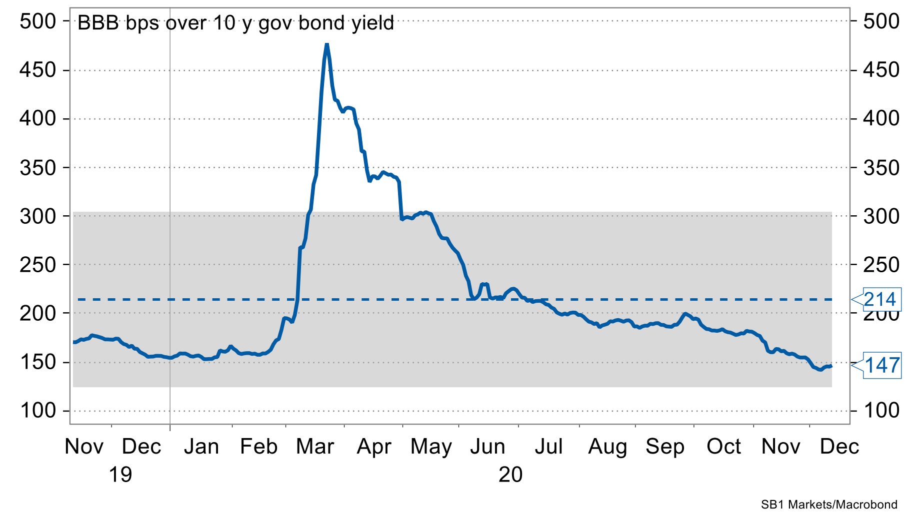
SB1 Markets/Macrobond

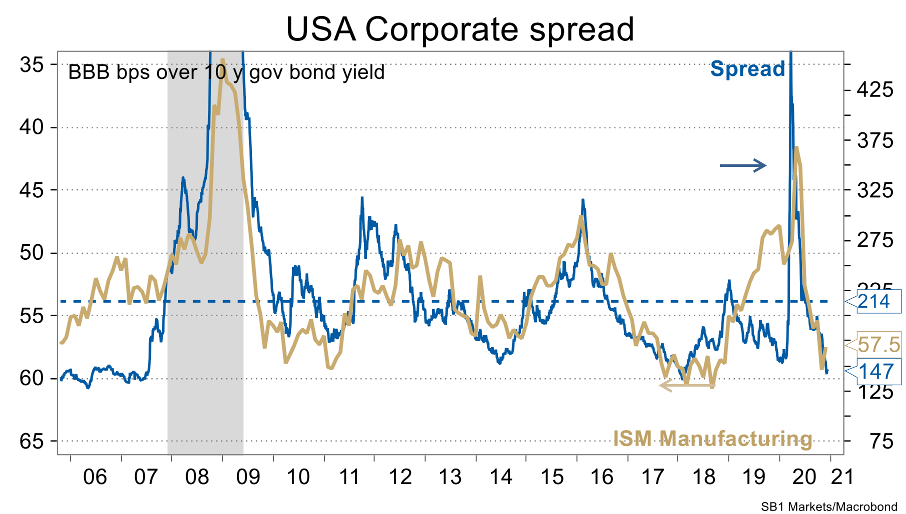
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 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

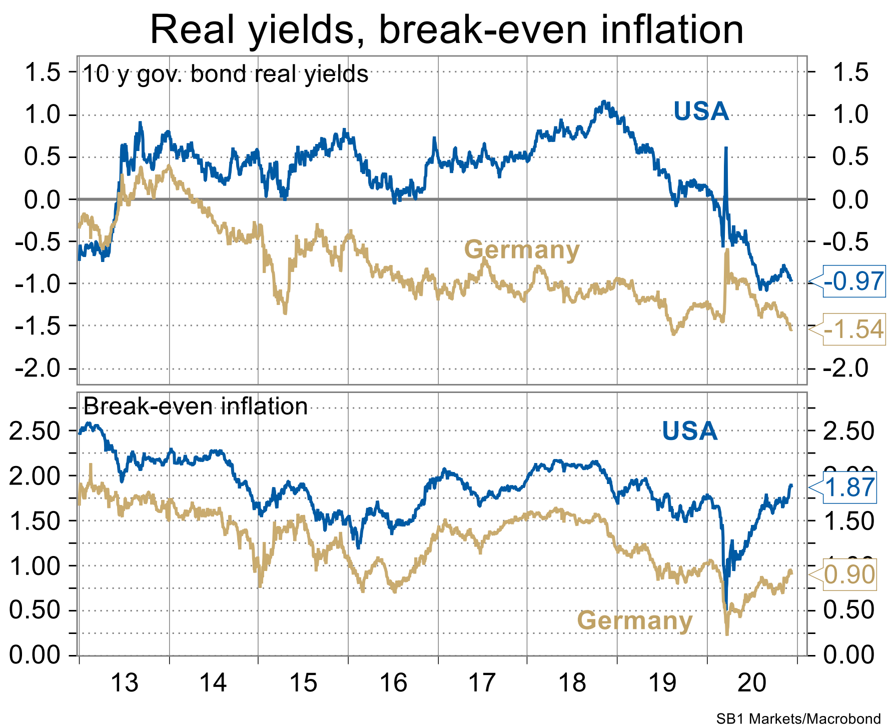
Credit spreads stabilised, at low levels

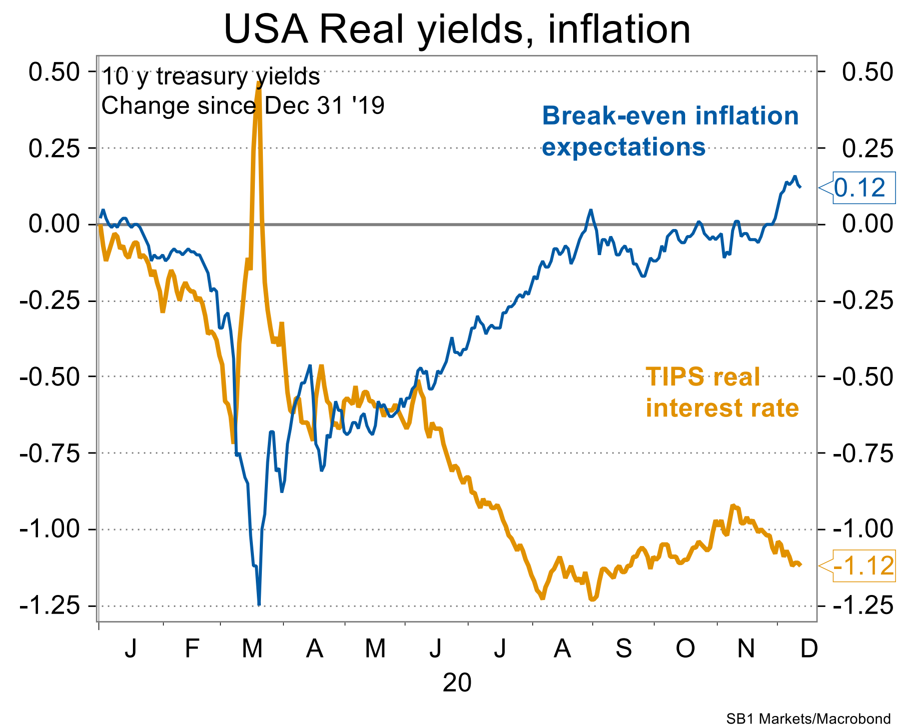






A pause last week – inflation expectations did not climb further

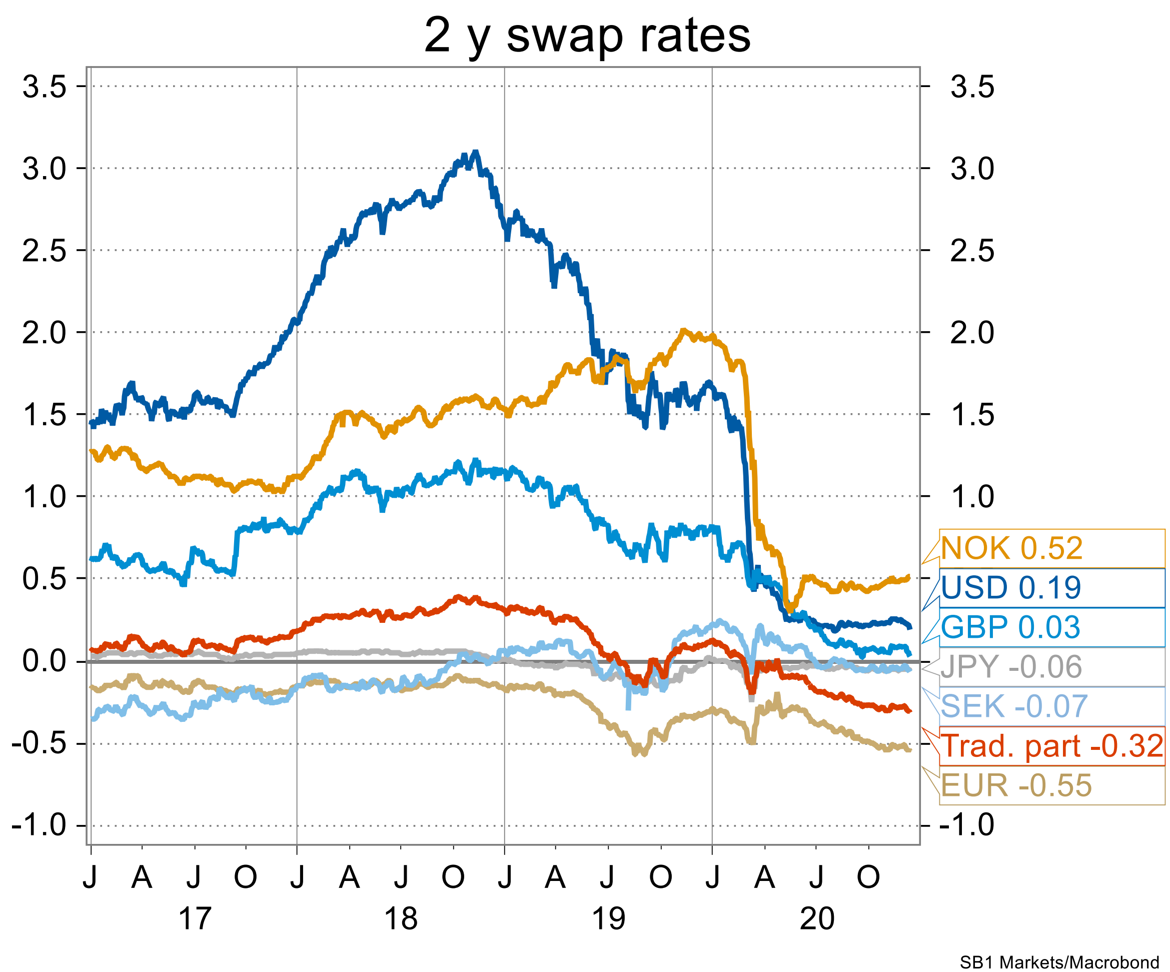


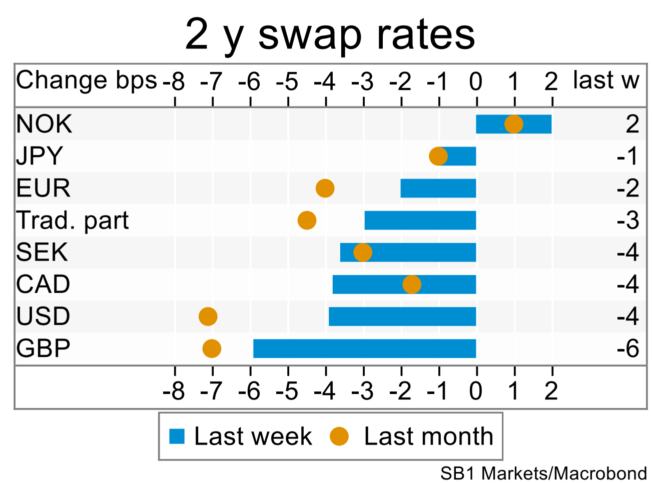


- US 10 y -7 bps (following +13 bps the previous week)
  - » Inflation expectations down 2 bps 1.879%, higher than before corona
  - » The TIPS real rate down 5 bps to -0.97% - and it is 70 bps below the (low) pre-corona level
- Germany 10y -8 bps (after +3 the previous week)
  - » Inflation expectations down 6 bps to 0.90% last week
  - » Real rate down 6 bps -1.54%, close to ATL

SpareBank 1 MARKETS

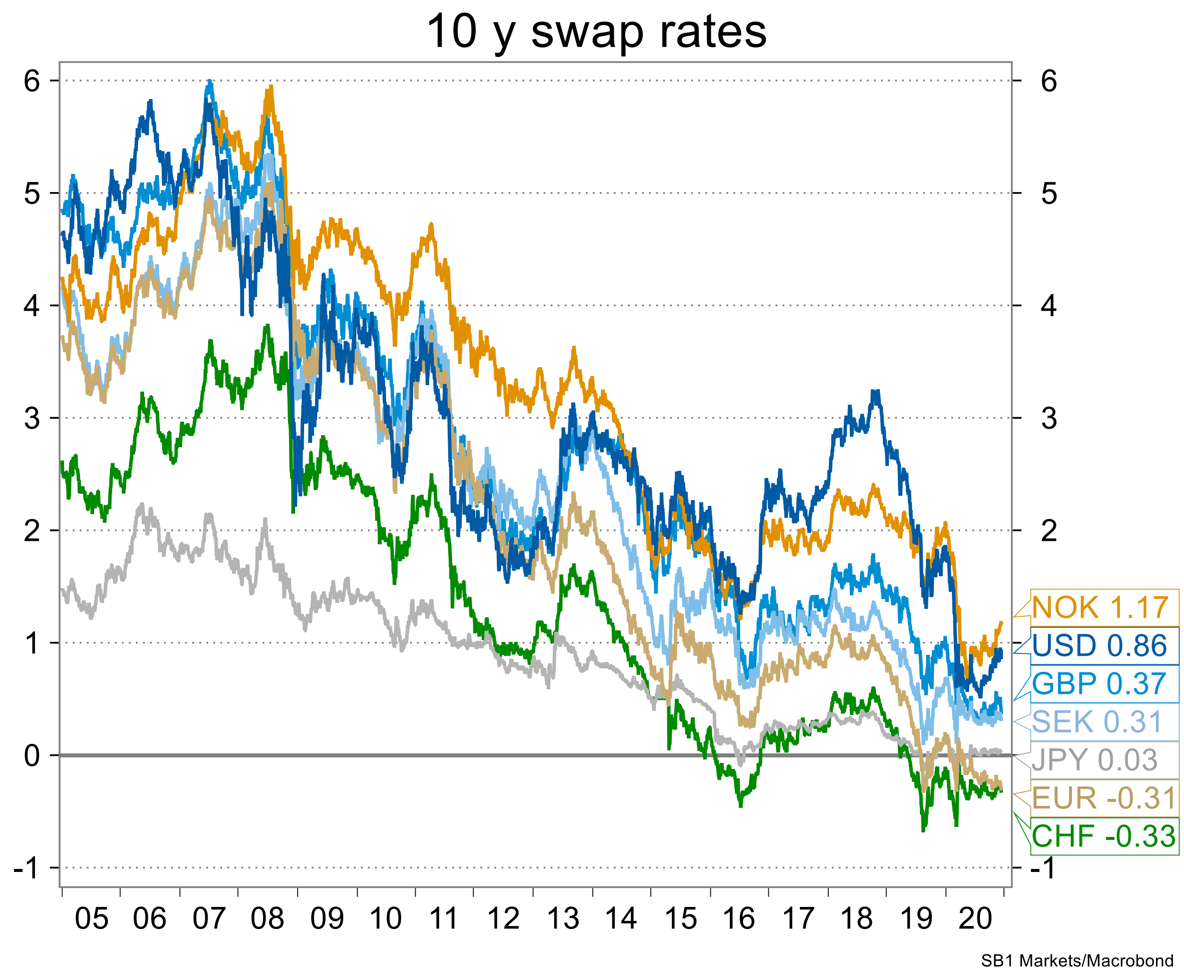
Short term swap rates down everywhere – but in Norway

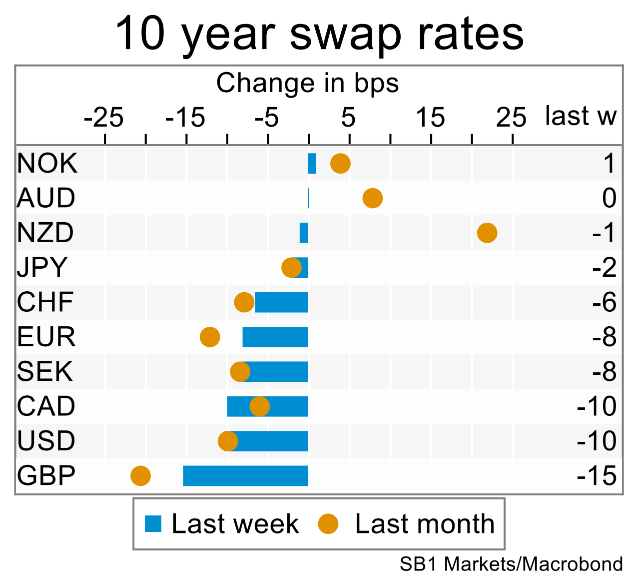




Long swap down almost everywhere – most in the GBP, due to hard Brexit fears?

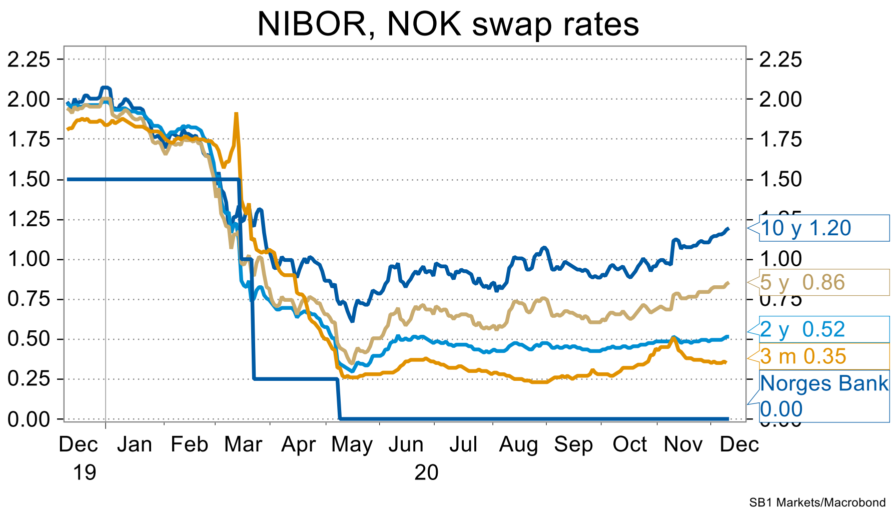
NOK swap rates the one and only on the upside last week

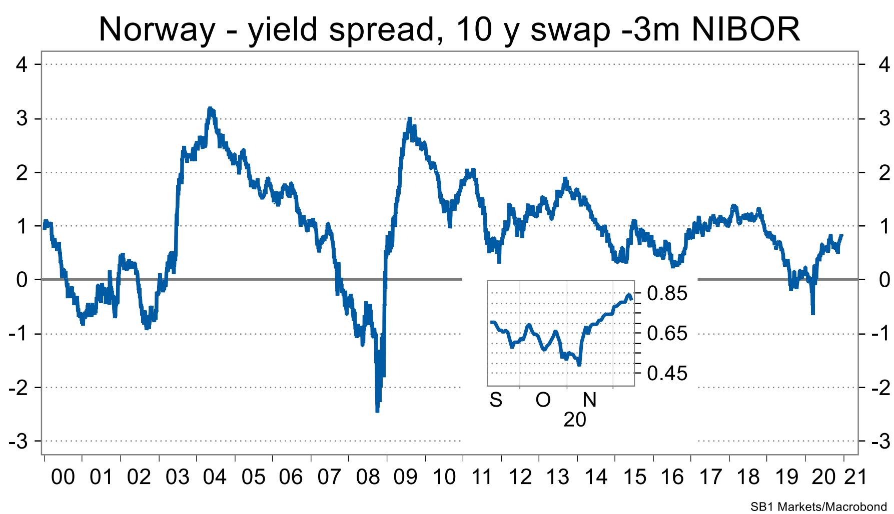


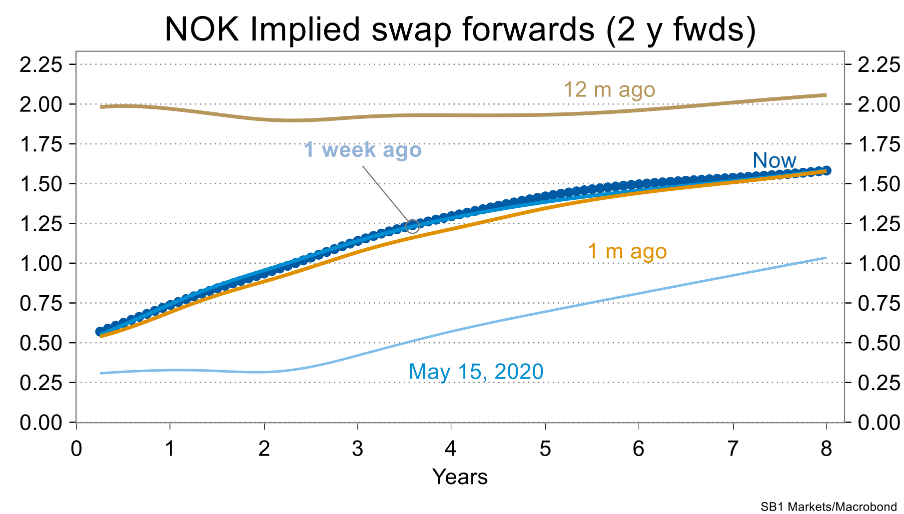


Another (small) uptick last week

The 10 y swap rate has almost doubled vs the May trough – still at low level

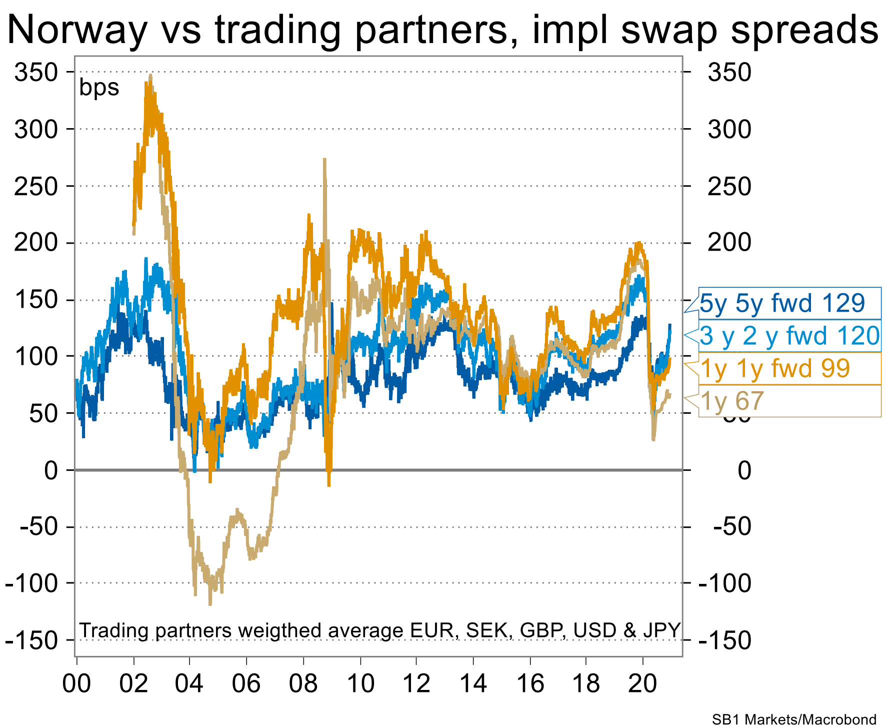


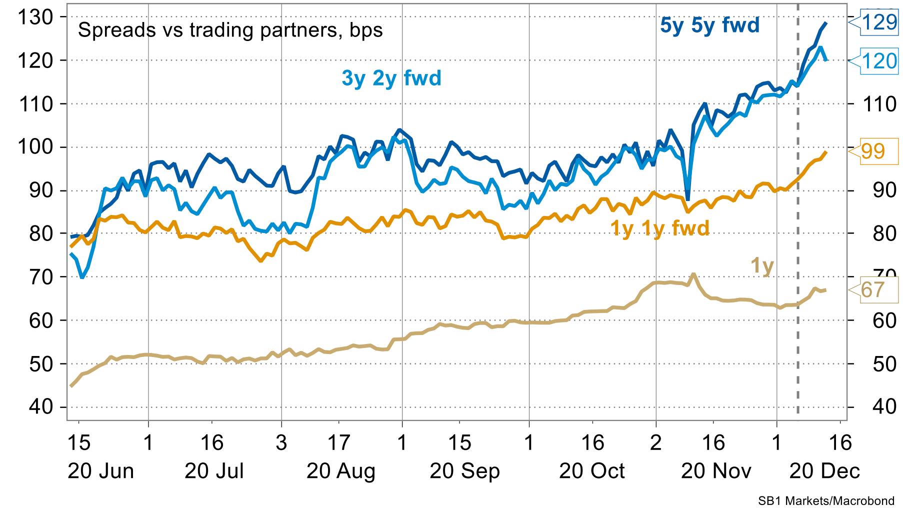


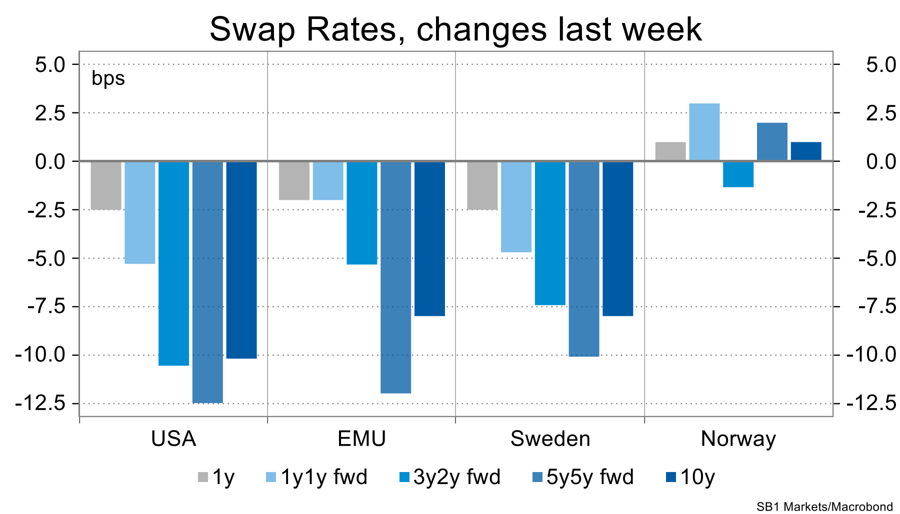


NOK swap rates marginally up, 'all' others down

Spreads have widened since the summer – and further last week



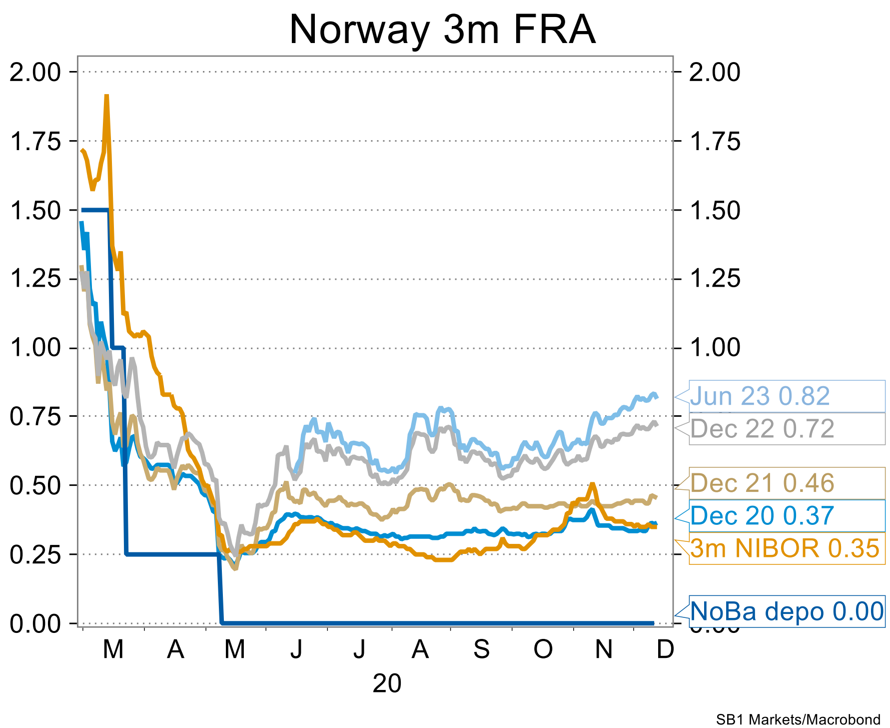


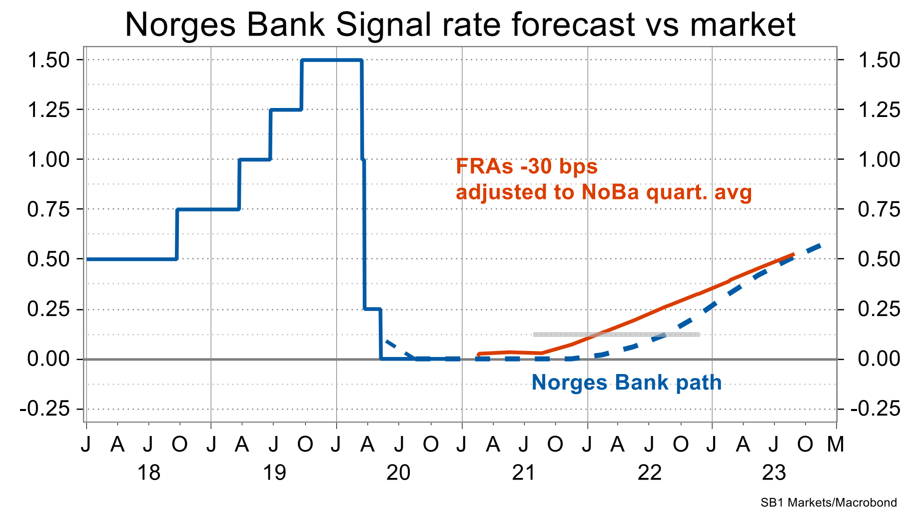


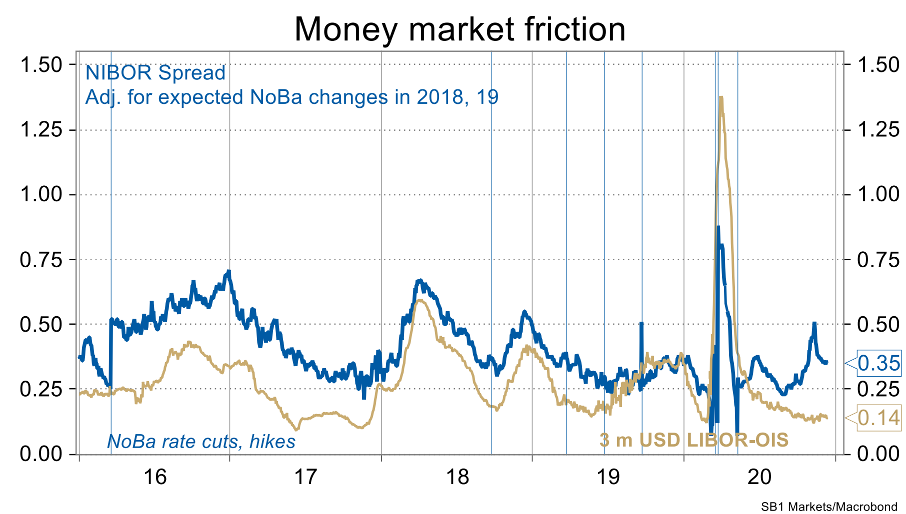
- We are still neutral vs. the spread

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

Longer dated FRAs are up 25 bps since late September. Last week near term FRAs climbed, others not



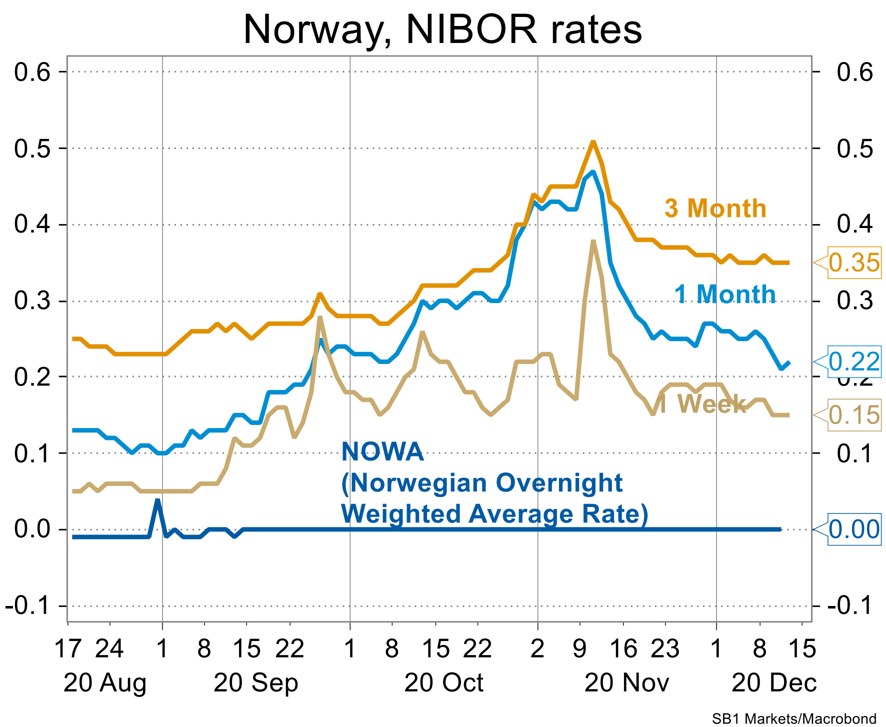




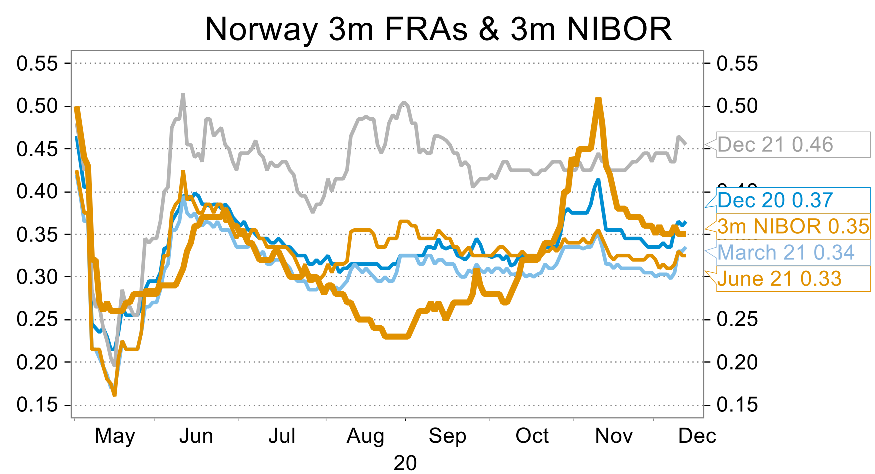
- Last week even the Dec 20 and March & June 21 contracts climbed some few basis points. As the contracts further out did follow suit, we are uncertain how to interpret the small gain – liquidity or interest rate expectations. The latter could influence the March and June contracts but not the Dec contract – and longer dated FRAs should have responded as well
- The 3m NIBOR has stabilised at 35 bp, following the hike to above 50 in early November from 30 bps in late September – due to liquidity frictions at the Norwegian Money market. The US OIS spread have until recently been sliding down – and is now at a low level. (More on the NOK market next page)

NOK short term rates on the way down, have almost normalised?

The 3 m NIBOR has stabilised at 35 bps, the shorter rates are still sliding down

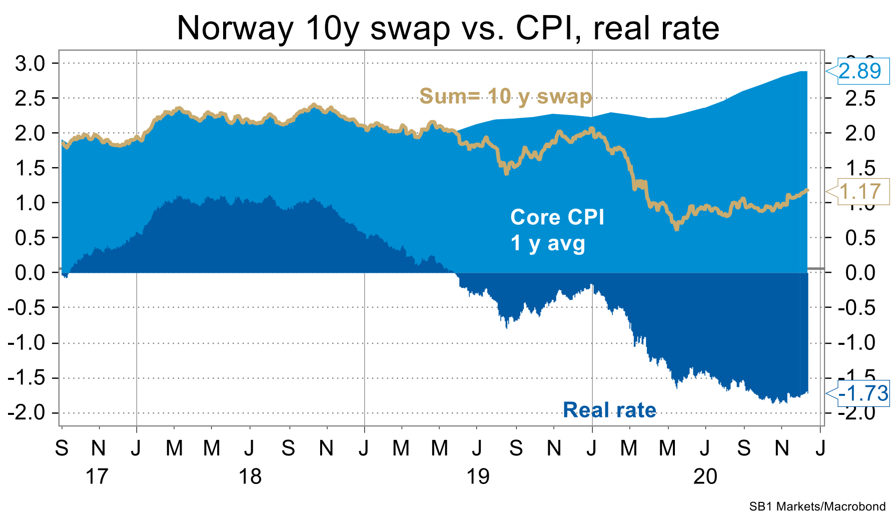


- We assume that market rates will stabilise at the present or perhaps somewhat lower level



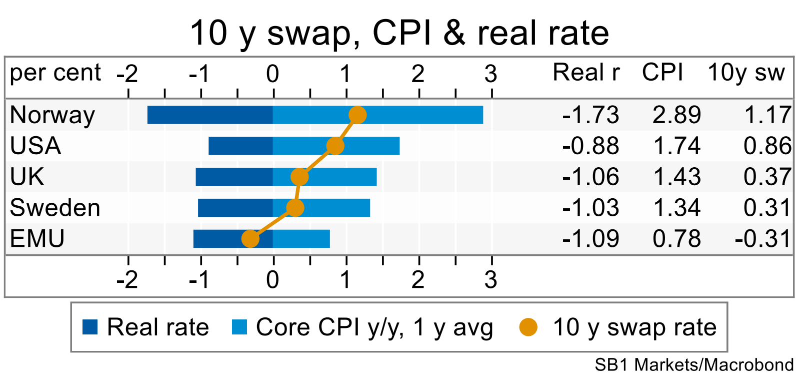
SpareBank 1 MARKETS

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 1.17%
- The real rate, after deducting average inflation over the 2 past years equals -1.73%

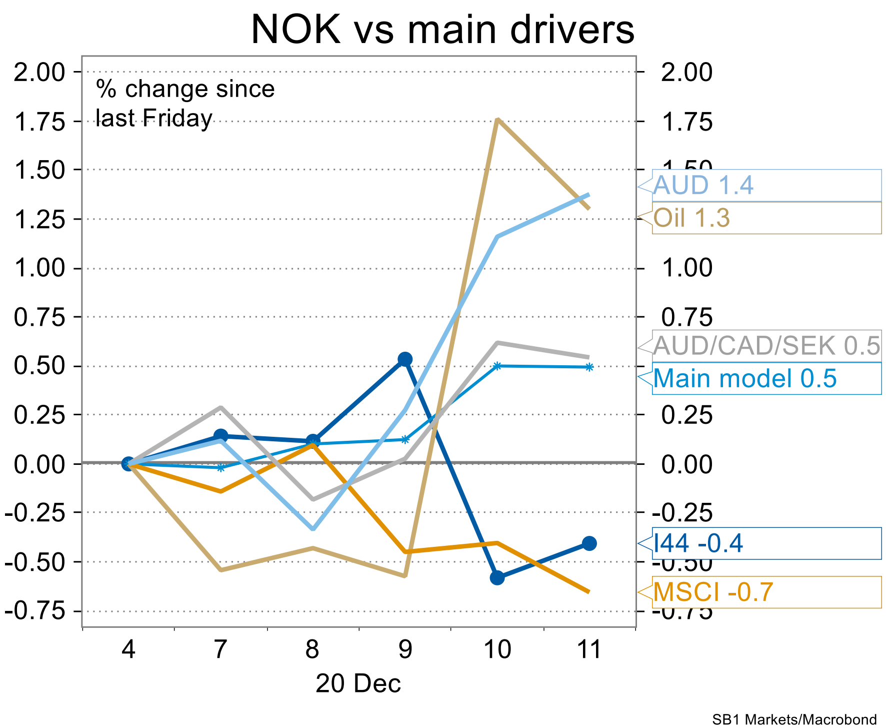


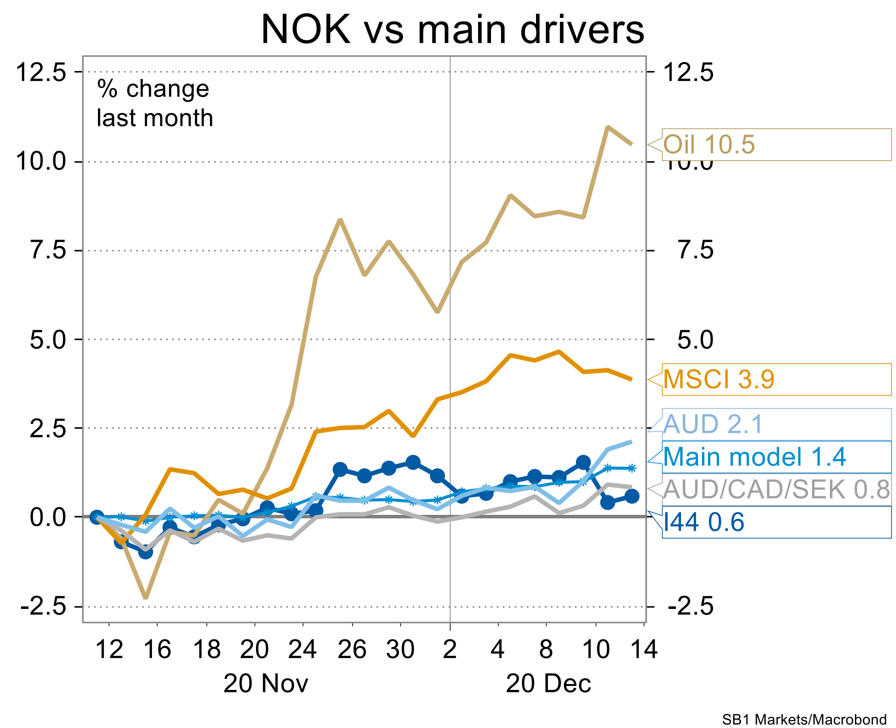
NOK real rates among the lowest, as inflation is at the top

- Inflation among Norway and our main trading partners varies between 0.8 pp to 2.9% (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 -0.9% to -1.1% measured vs. the 10 y swap rate and inflation over the past two years
- Thus, the Norwegian real rate at -1.7% is an outlier, even if the nominal rate is the highest

NOK down last week – together with the global stock market

The other usual suspects signalled a stronger NOK



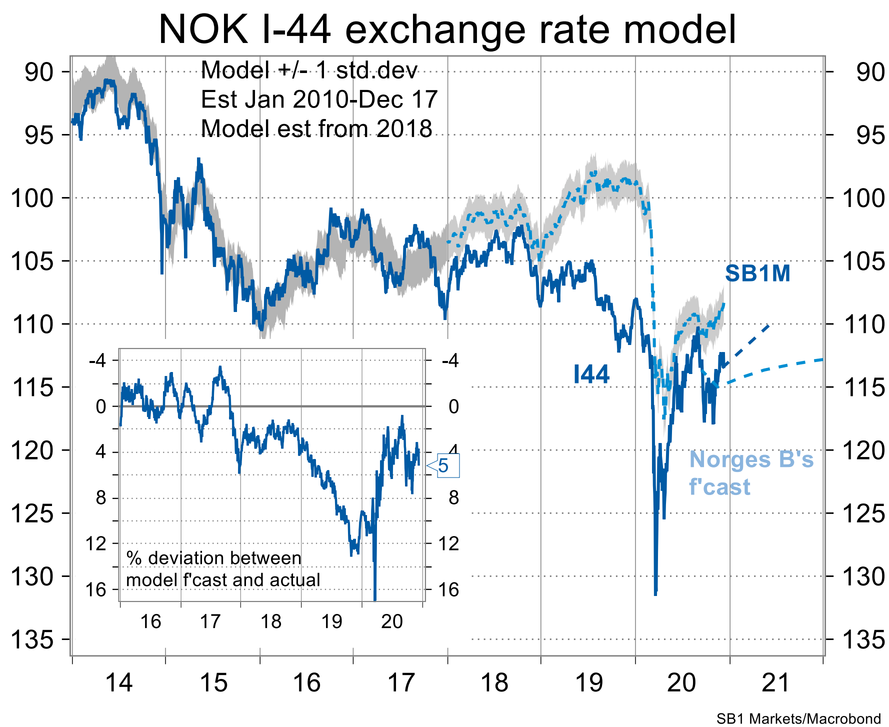


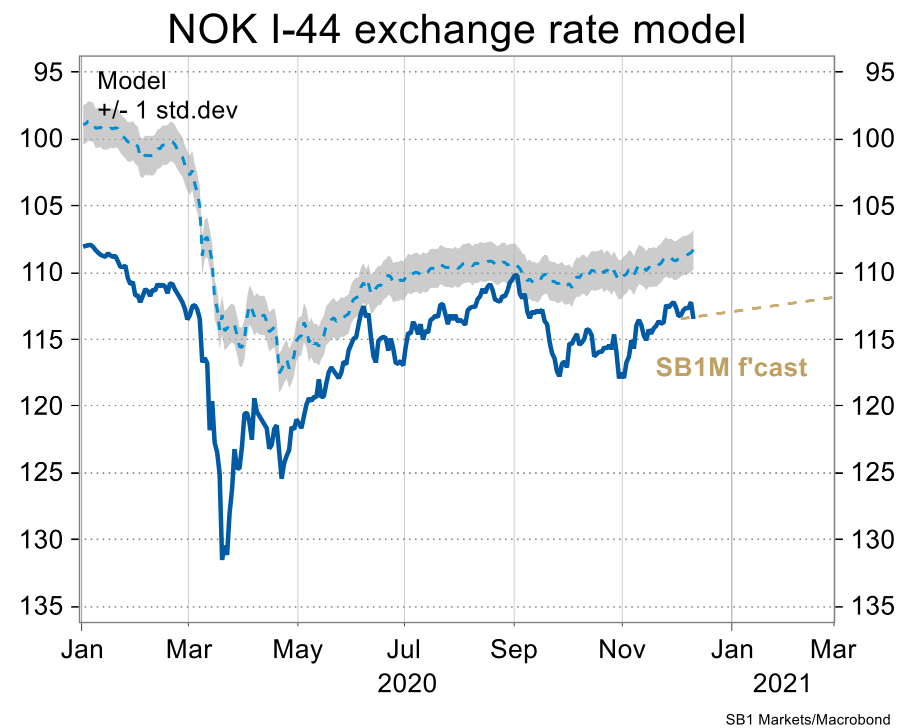
- The NOK is 4% weaker than suggested by our standard model
- The NOK is some 6% 'below' the global stock market vs the correlation between the two in 2020
- The NOK is 10% weaker than an average of AUD/CAD/SEK, our 'supercycle peers'
- On the other hand, the NOK is far (10%) stronger than oil companies (their equity prices vs the total stock market, even after the impressive energy sector recovery recent weeks)

SpareBank 1 MARKETS

NOK I44 down 0.4% last week, our model said +0.5%, supported by the oil price

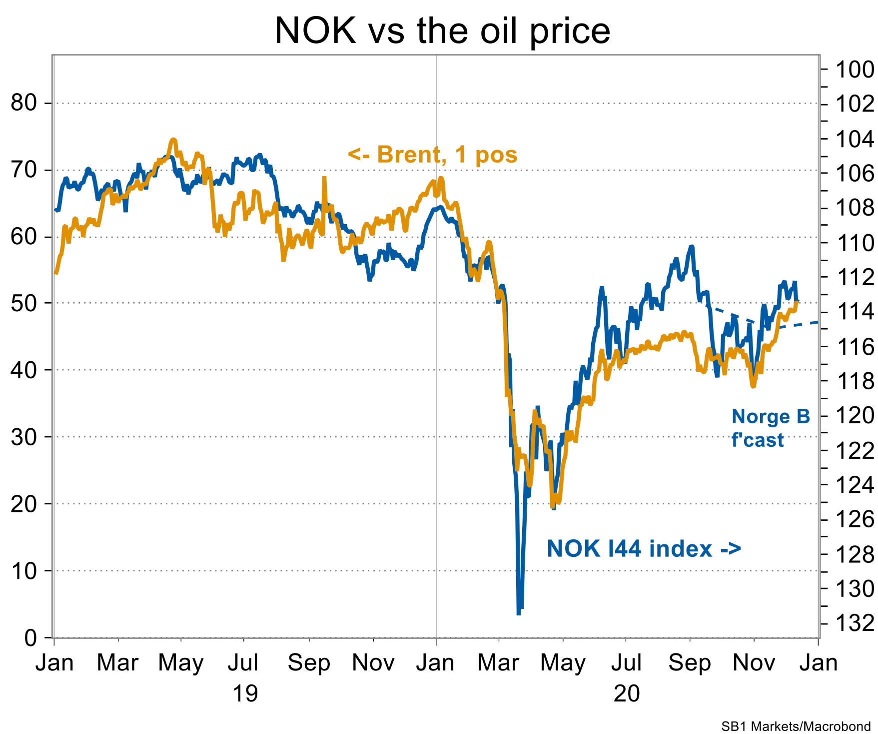
The NOK is 5% below the model forecast

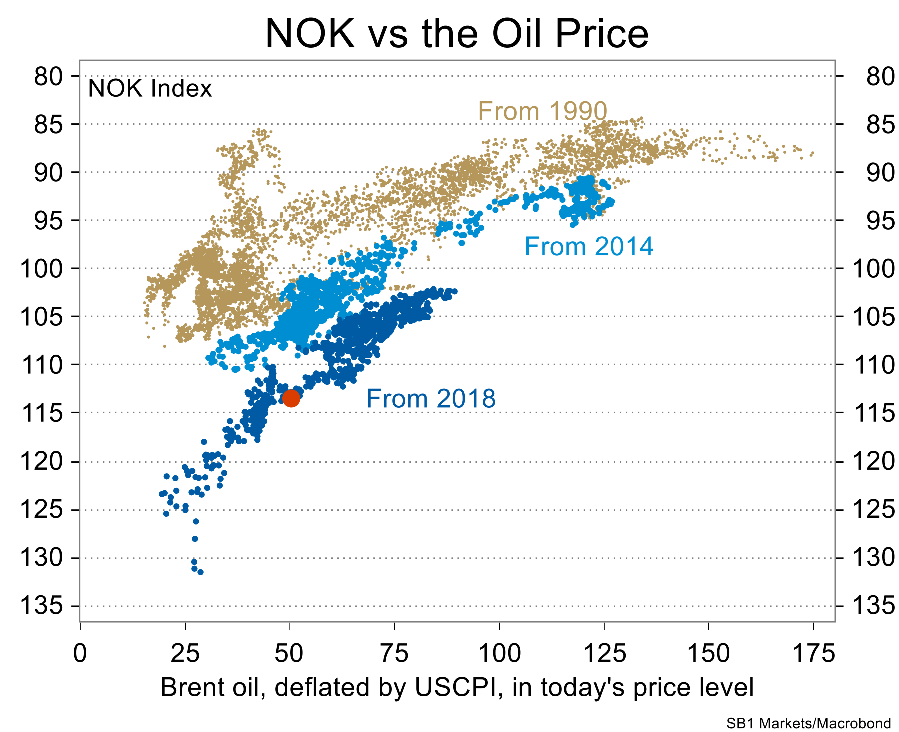




An oil price above 50 was not sufficient to keep the NOK up

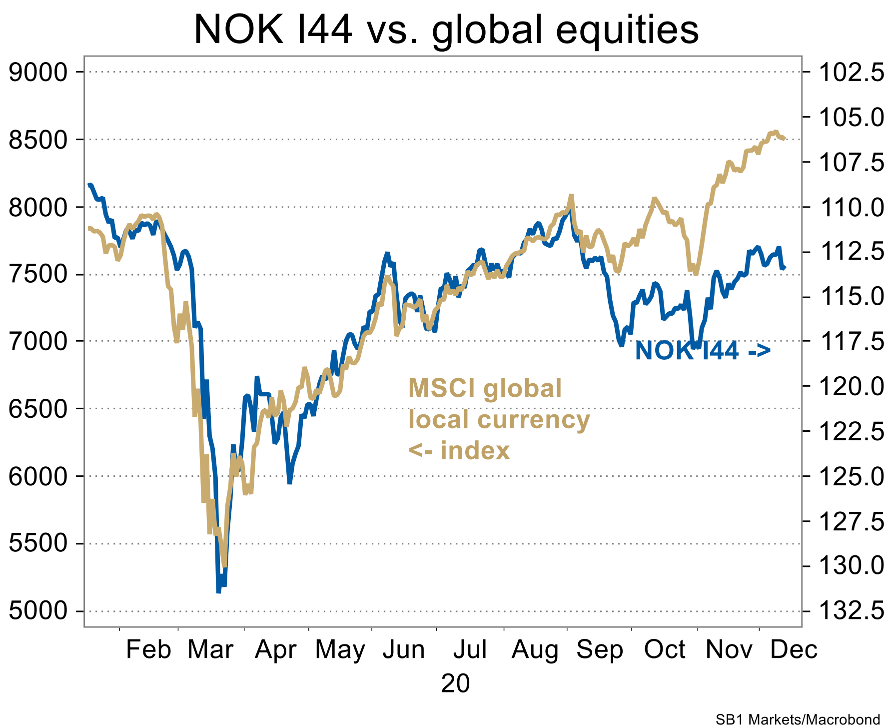
The oil price is still important for the NOK but the correlation has not been impressive since July

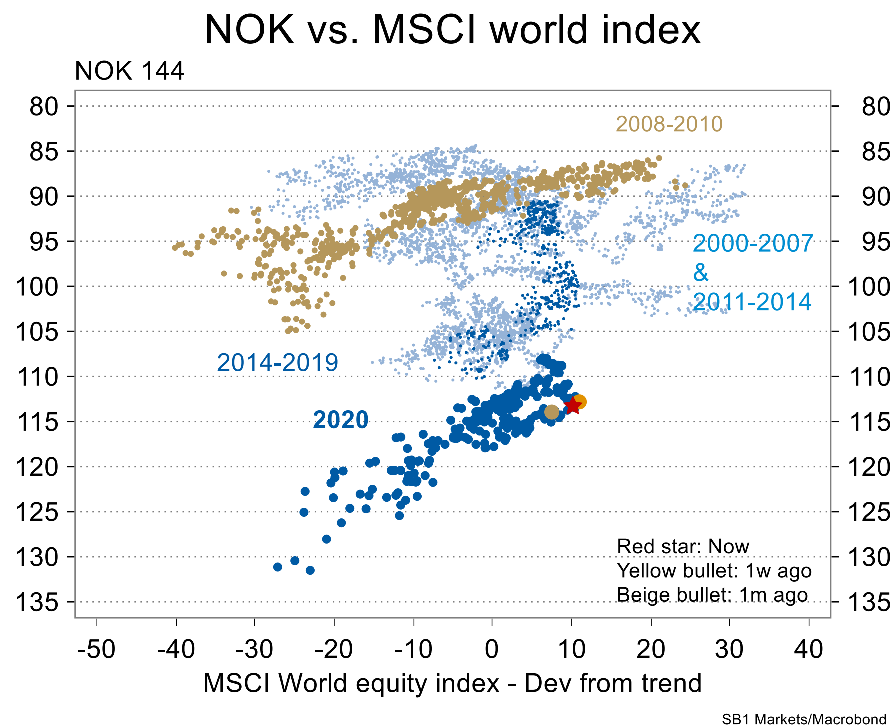




NOK & global equities down – and the NOK is 6% down vs the '2020 relationship'

The NOK has been closely correlated to the global stock market in 2020 but has lost ground since Sept



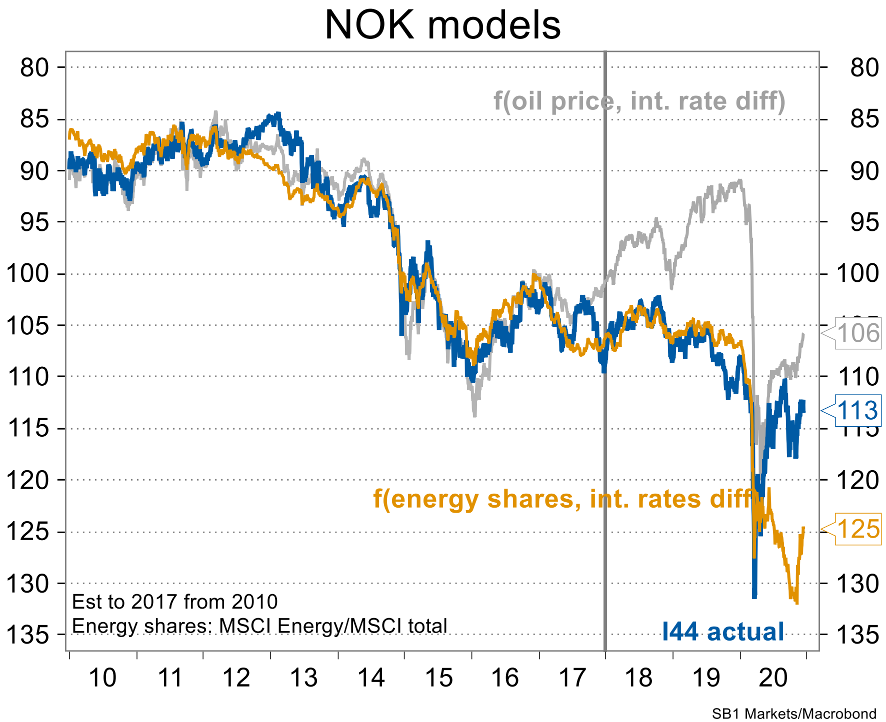


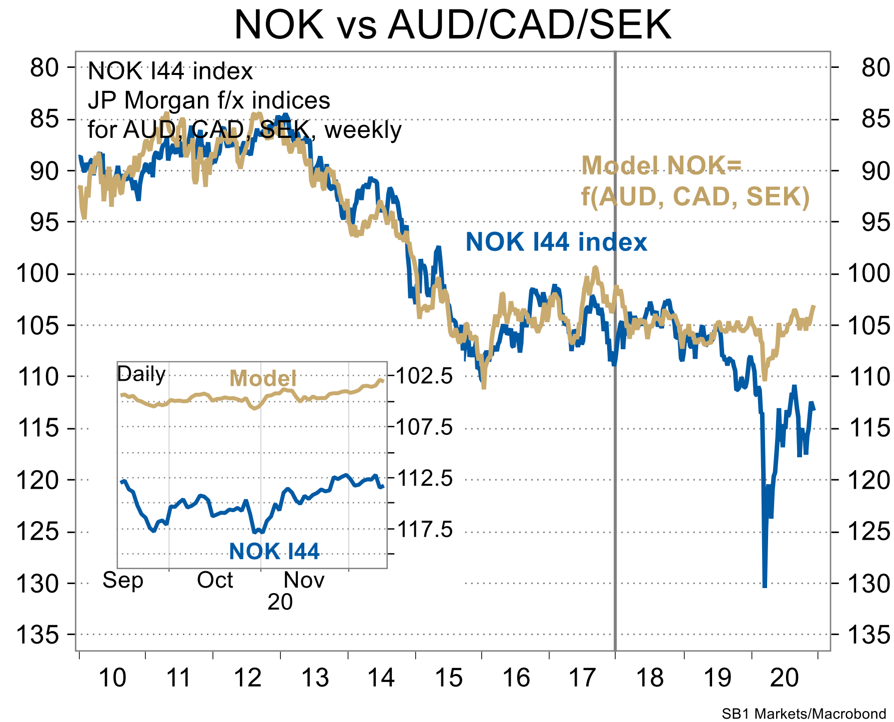
- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with pretty close correlation like we have seen since early 2020
  - » NOK has not been correlated to OSE/MSCI (which 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? Doubtful
- Now, the NOK is 6% 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 down last week – energy shares, other supercyclical currencies not

Energy shares have recovered sharply, still 'weak' vs the NOK

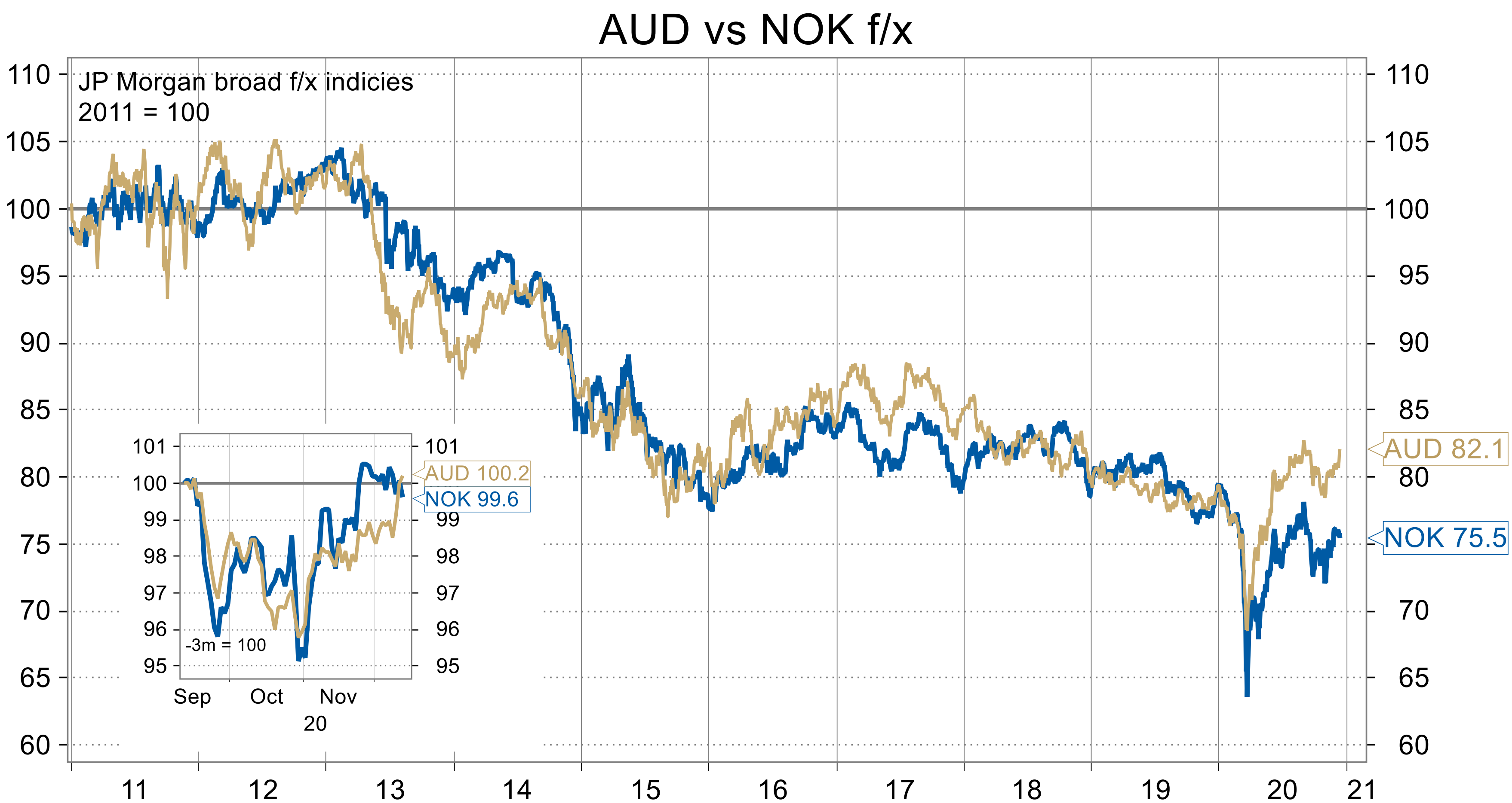




- On the alternative NOK models
  - Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The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

NOK down, AUD up – and the gap widened further

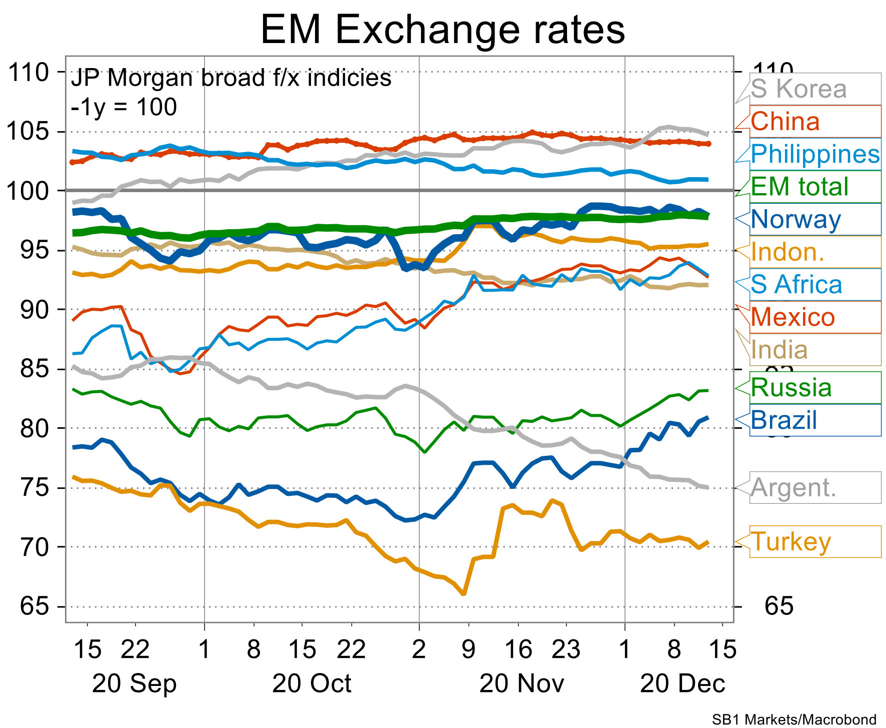
The NOK has lost 8% (+2 pp last week) vs. the AUD since Feb

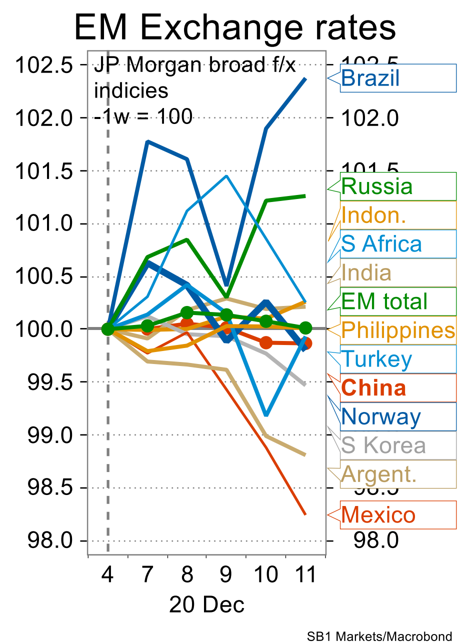


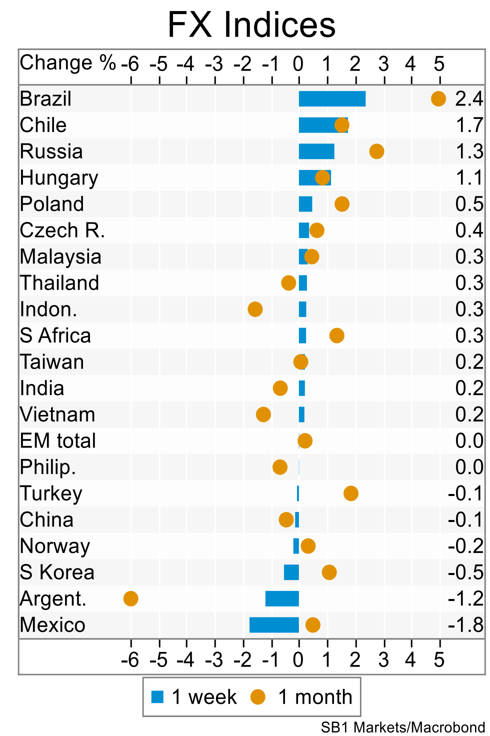
SB1 Markets/Macrobond

The CNY slowly down again, the Argentina peso at record low levels

Turkey is still not out of the woods. Others mixed, the Brazilian real & the RUB are recovering







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