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Macro Research

Weekly update 21/2020

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SpareBank 1 MARKETS

Highlights

The world around us

The Norwegian economy

Market charts & comments

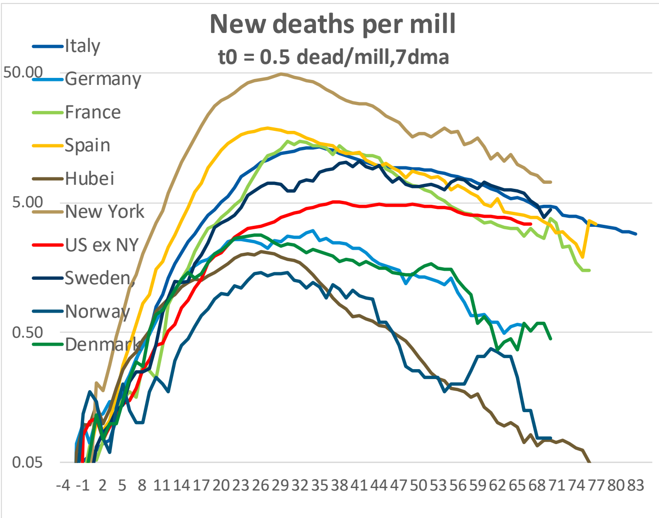
The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

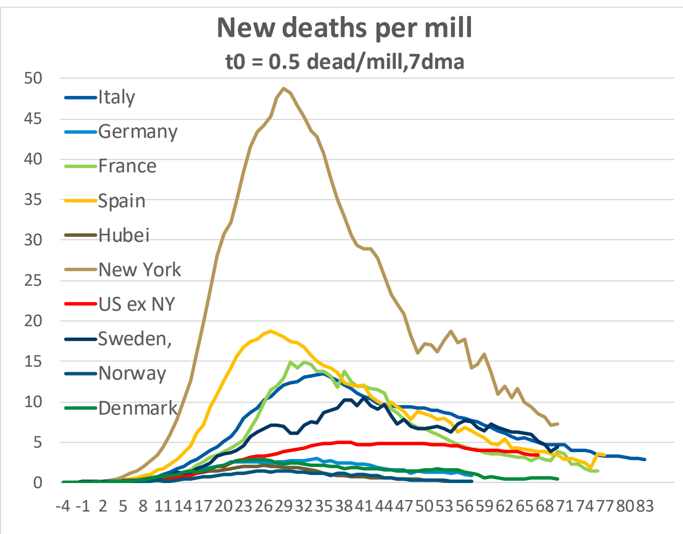
Last week – the main takes

- **Corona restrictions** are being eased almost everywhere, so far without any serious new virus outbreaks – and the arrows are still pointing down (implying an reproduction number 'R' below 1). However, some US states are easing even if cases/deaths are still on the way up (as far at they are measuring cases correctly), and there is still uncertain who much activity may be increased before 'R' becomes too high again. And the pandemic has not peaked in Brazil
- **Tensions between US and China** are no doubt on the way up again, both on trade, technology, and now health and disarmament too. China's new (likely) tightening measures vs. the opposition in Hong Kong are surely not helpful either. While the (non defence related) costs for the US (and other Western countries) associated with a 'total' cold war with an economically isolated Soviet Union were manageable, the cost of a cold war with China, who is tightly integrated in global decision making, the global economy and supply chains, would be incredibly higher
- **The global PMI** probably rose some 7 p to 34 in May, formally signalling a sharp reduction in activity in May, from April, as the index is still far below 50. However, the PMIs/ISMs do usually not recognise the first uptick in production, following downturns. Given many other **short term indicators**, we remain confident activity has moved upwards in most Western countries in May vs. April –as has been the case in China since mid/late February
- **US open unemployment** is still heading upwards even if new jobless claims are slowly declining, now down to 1.6% of the labour force, per week (10 times the normal inflow). Housing data are heavily distorted by the lockdowns but there a few signs of a collapse except for the direct Covid-19 impact. **Fed's Powell** does not signal optimism about the short to medium term outlook, to put it mildly
- **France persuaded Germany** (at least Merkel) to propose an EU pandemic recovery fund equalling almost 5% of EU GDP, funded by common EU borrowing – for the first time. Other Northern countries are sceptical but will they have any choice, given the alternatives? **Consumer confidence** rose slightly in May from a low level in April
- **In Sweden, house** prices fell 0.9% in April but prices fell faster in cities, especially Stockholm –which is down 5.7% from February. **Open unemployment** rose by 'just' 0.7 pp to 5% in April
- **In Norway**, **NAV total unemployment** declined for the 5rd week in row, by 17' equalling 0.6% of the labour force, and it is now down 60' – or 2.5 pp to 13% – from the peak. **Norges Bank's expectations survey** reported record low profit & employment expectations among companies, and a sharp decline in wage inflation expectations, both among employers' and employees' organisations

So far, so good – cases/deaths on the way down almost everywhere in DM

No signs of a 2nd wave anywhere but figures are not ensuring in some US states





Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

- Lockdowns have brought the corona virus reproduction number 'R' down to below 1 everywhere (at least where lockdowns have been reasonable strict). Even in Sweden and in US ex NY (at least in average) the R<1
- Restrictions are eased or will shortly be eased everywhere. So far, we have seen no instances of serious second waves – at least at a country level. Some states in the US are now lifting restrictions even if the number of infections/deaths are increasing
  - » Demark eased restrictions a month ago, and Norway shortly thereafter. Still, the number of infections/deaths are on the way down
- The effectiveness of the testing, tracing and tracking system will partly decide how far restriction can be eased, in addition to adherence to social distancing & hygiene norms etc. So plenty of unknowns
- The next few weeks will bring tons of new information about the impact of easing restrictions

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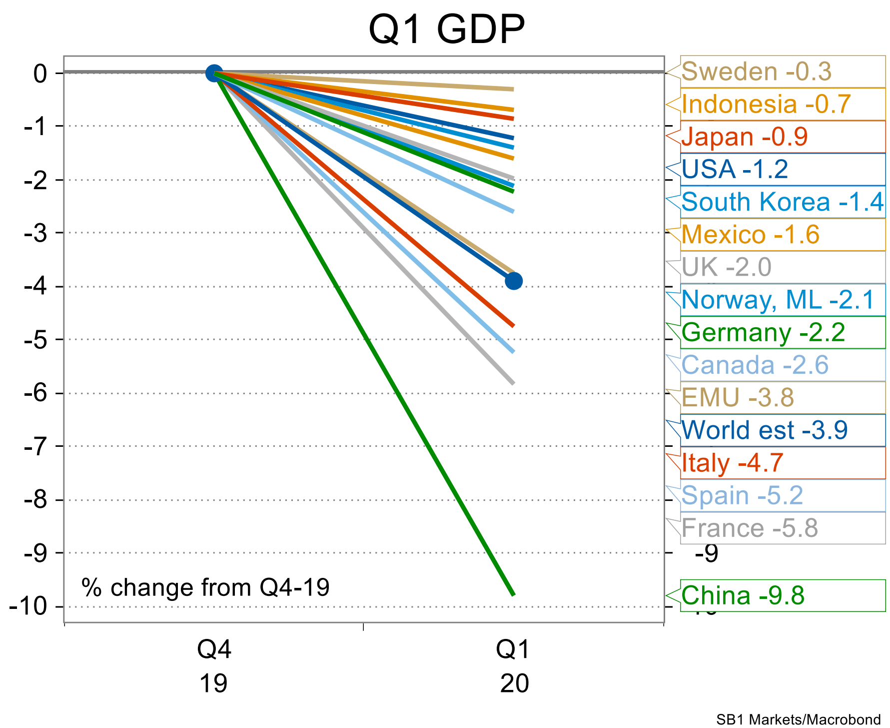
We are getting some numbers – Global GDP down 4% in Q1?

Substantial differences, mostly depending on when the corona virus hit

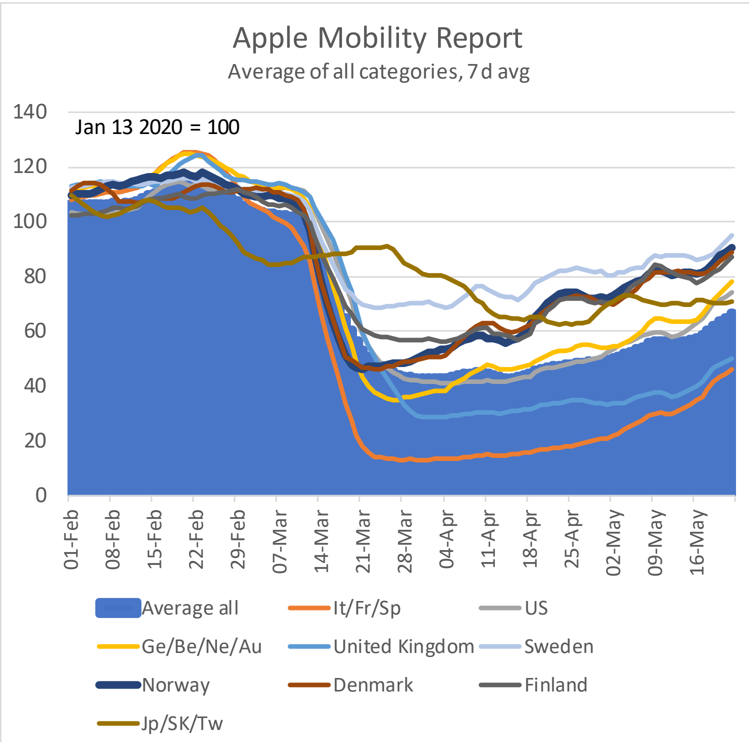


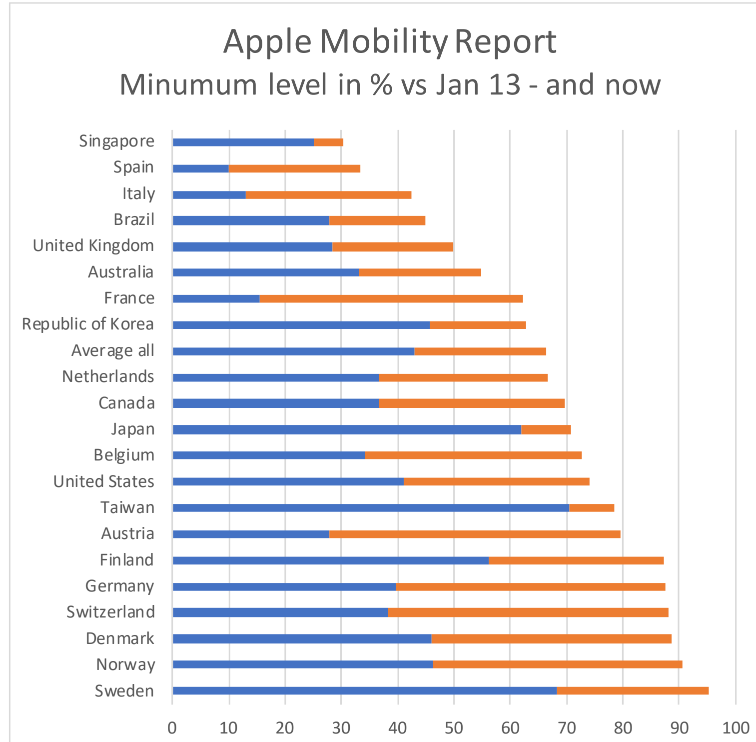
… and when the consequences were taken

- In the US, GDP fell 1.2% in Q1 (*not annualised, like all other figures at this page*), and probably by 13% during the two past weeks of March, yielding a very weak Q2 starting point
- In the EMU, GDP fell 3.8%, and probably by as much as 20% through March – and more than that in France, Italy, and Spain were GDP fell by 4.7 – 5.8% (preliminary figure, more uncertain than normal, of course)
- GDP in Japan fell just 0.9%, though following the 1.8% Q4 VAT increase induced setback
- UK reported a 2% decline
- Norwegian Mainland GDP fell 2.1% in Q1, Sweden reported a 0.3% drop
- South Korea and Mexico have reported less than 2% decline in their Q1 GDPs
- The Chinese GDP fell by almost 10% in Q1, we expect a 4% recovery in Q2, at least
- We still estimate a close to 4% decline in global GDP, of which almost 2 pp due to China alone.
- China should report a positive growth rate in Q2. However, not many other will, and global GDP will contract even more in Q2, we now assume a 6% contraction

We are moving more around, everywhere

Still, mobility is well below normal levels, most places. Northern Europe are closest to normal

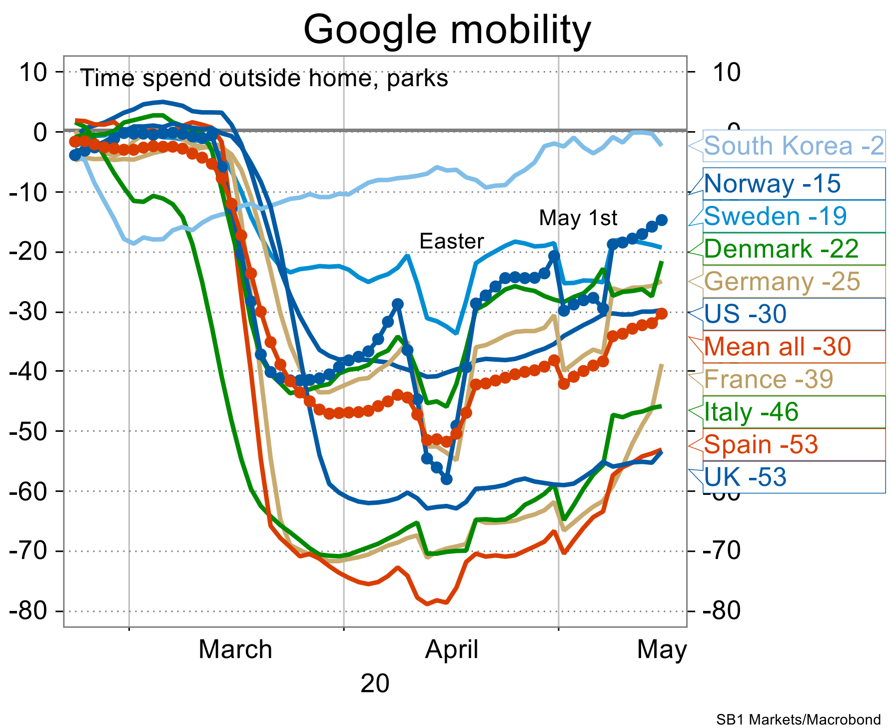


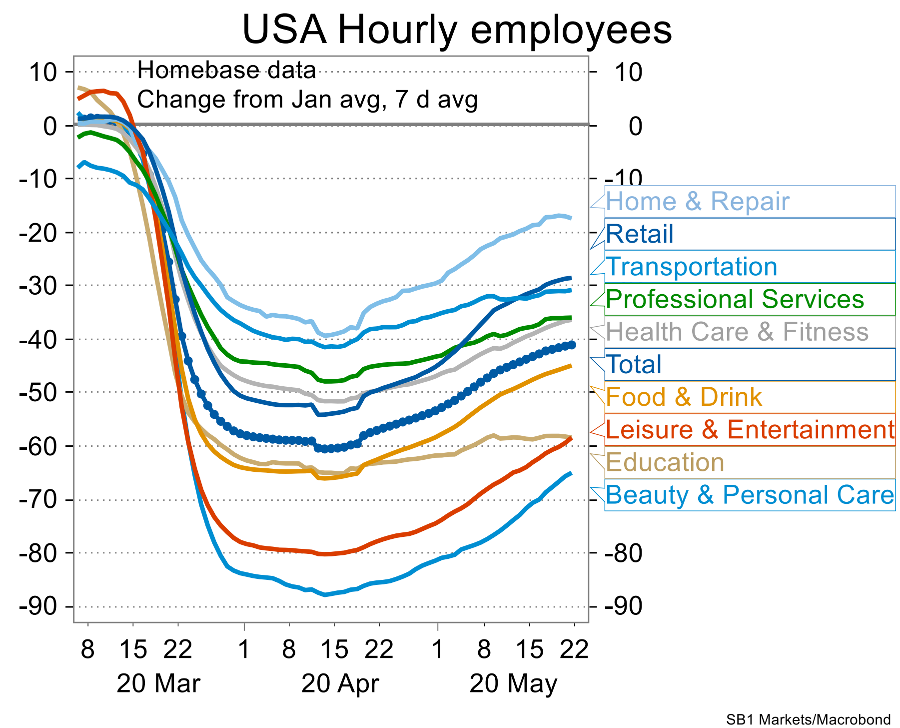


- Map searched in Apple Maps, average of road, walk and public transport searches
- We do not know the seasonality of these data. It may influence the conclusions somewhat

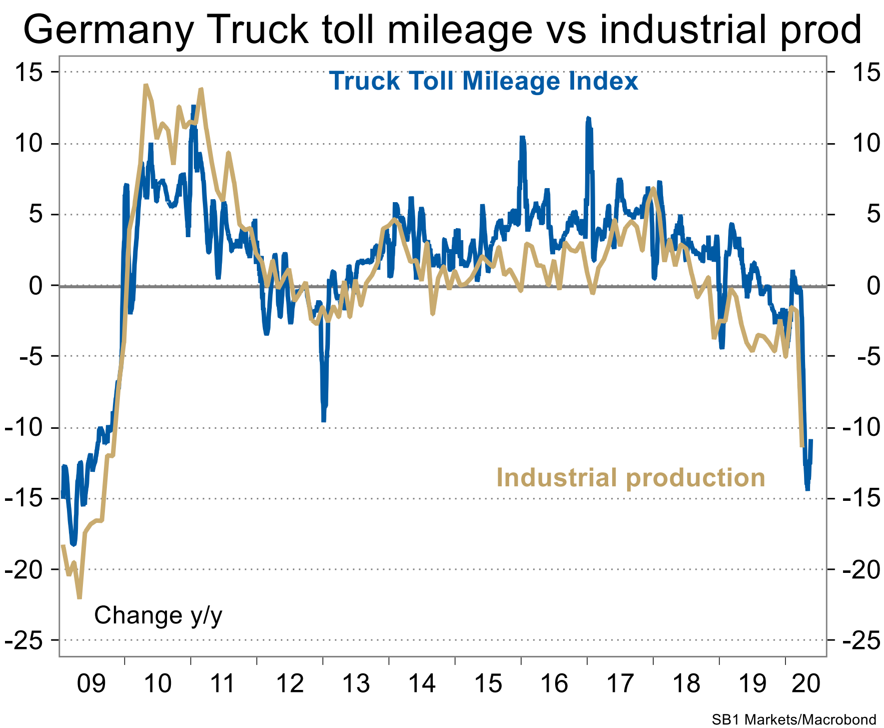
Source: Apple Mobility Report. 7 days averages. Data are not seasonally adjusted, we assume mobility normally increases during the spring in the Northern Hemisphere.

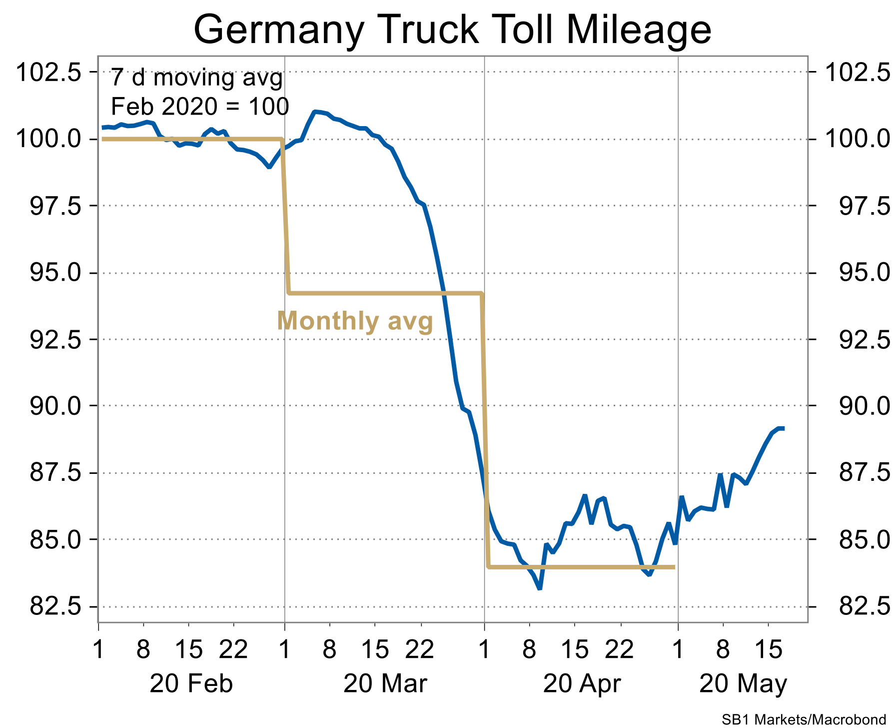
More short term indicators – pointing upwards





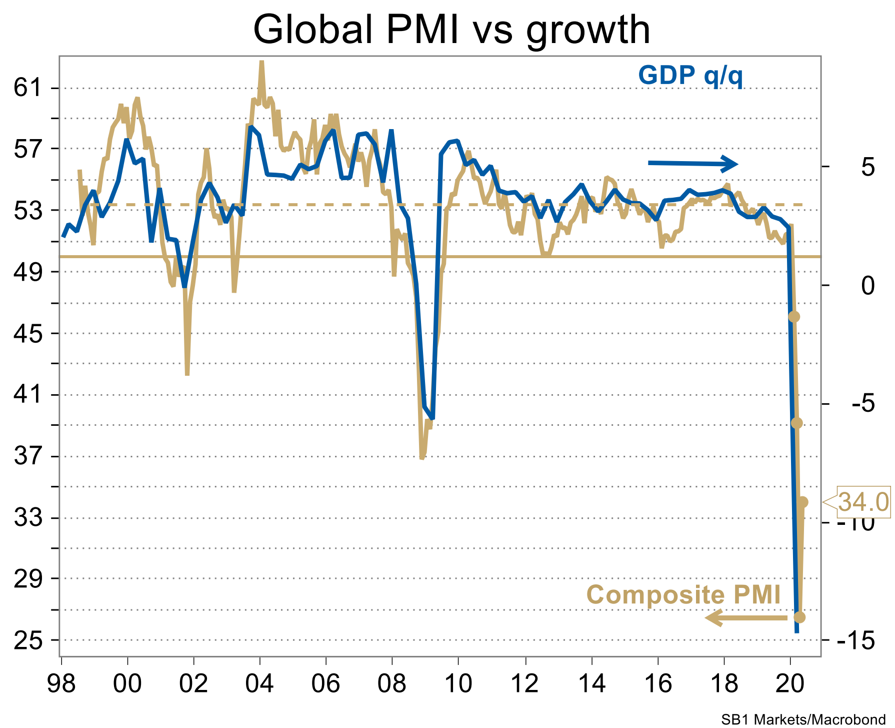
Germany is slowly, but steady on the way up – from a 10 - 15% slump

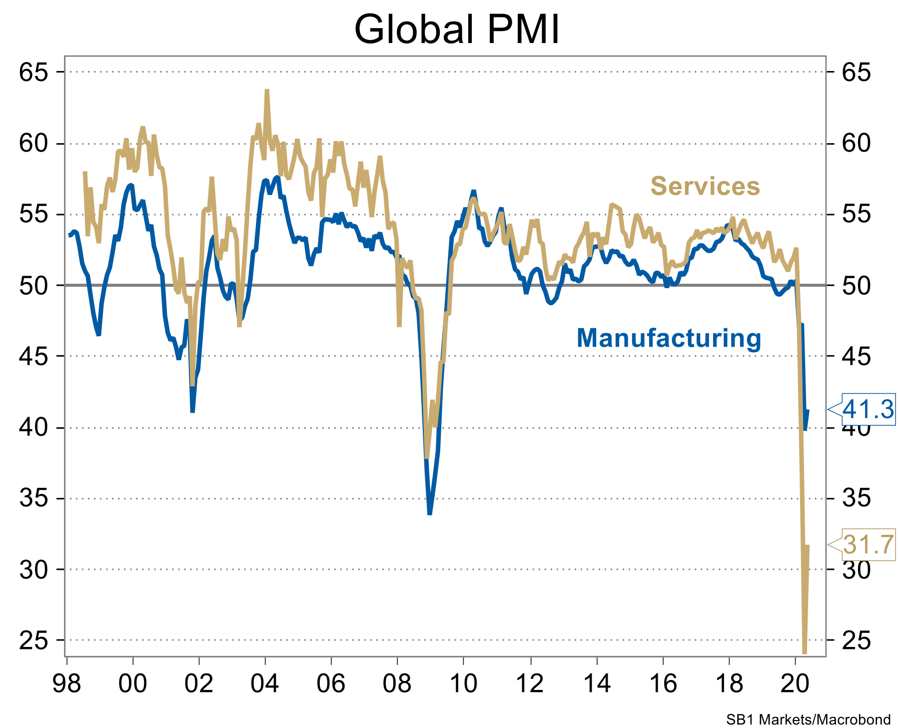




PMIs up in May but are still signalling steep decline in activity in May, formally

PMIs/ISMs describe the cycles well but are not clever in detecting the first recovery month



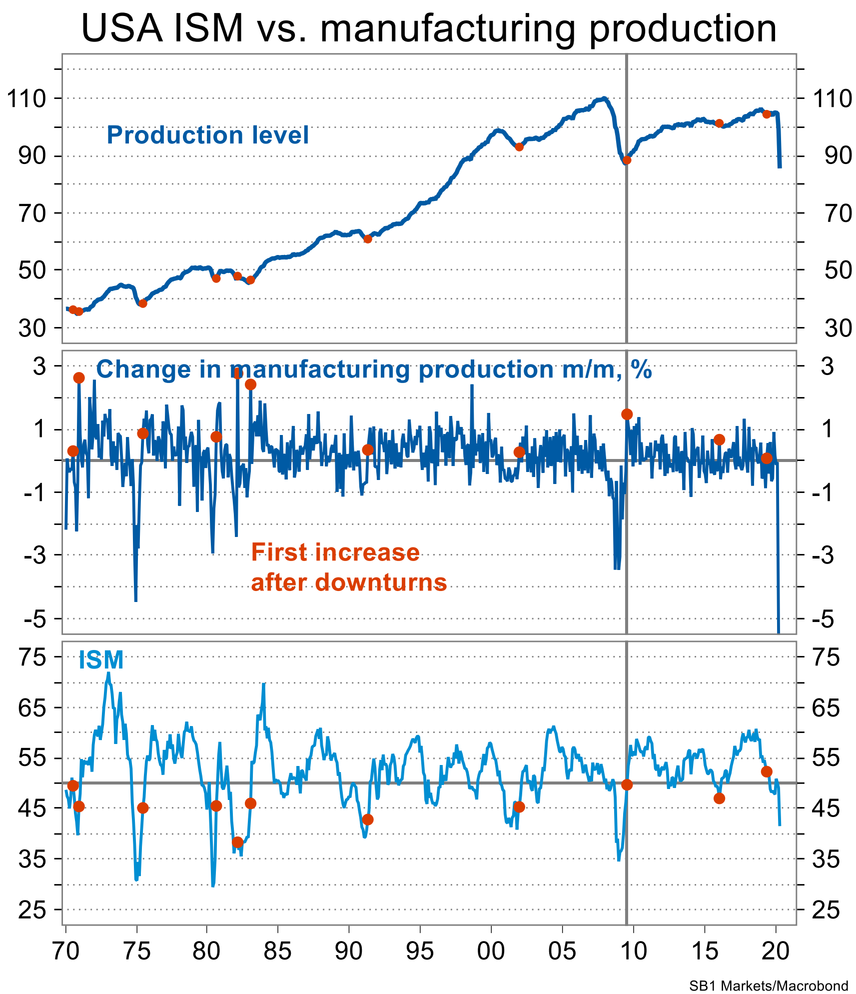


- Global composite PMI rose some 7 points to 34 following the 13 p crash in April. An index level at 34 signals a steep decline in production m/m to May from April. The PMI is a diffusion index, measuring change in activity from month to month . When the index is at 34 there are 32 pp more companies (like 66 vs. 34) that are reporting a decline in activity than growth. Usually, that's associated with a steep decline in production m/m. However, there are two modifications
  - » Companies report the same answer whether the change in small or large, its just up or down. If changes are not evenly distributed, the index will send a wrong signal
  - » More importantly, companies are probably NOT giving a precise answer to the question they are asked: Is May better or worse than April? Rather their answers are influenced by changes over the past months too. So in May, companies are probably referring to what has happened over the previous months too, not just changes m/m i May vs. April. See more next page

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

Normally, the PMIs/ISMs do not spot the first month of a recovery

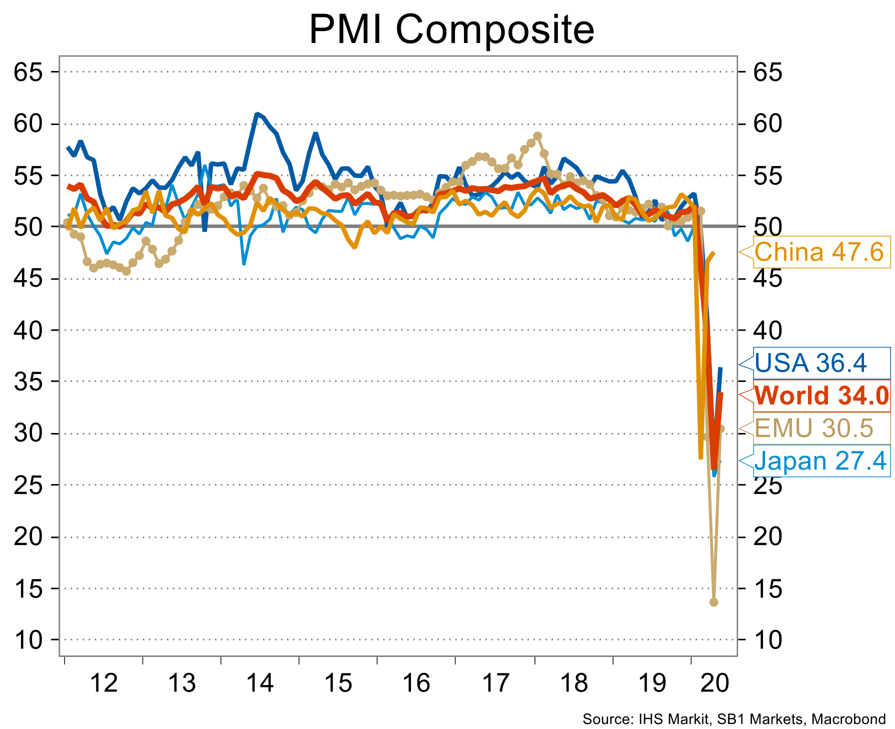
PMIs should climb to above 50 if production grows m/m but they do not

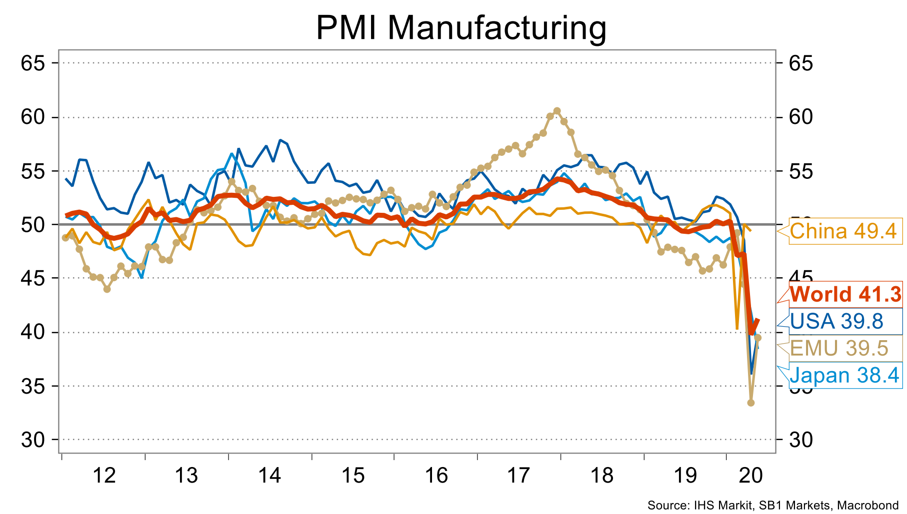


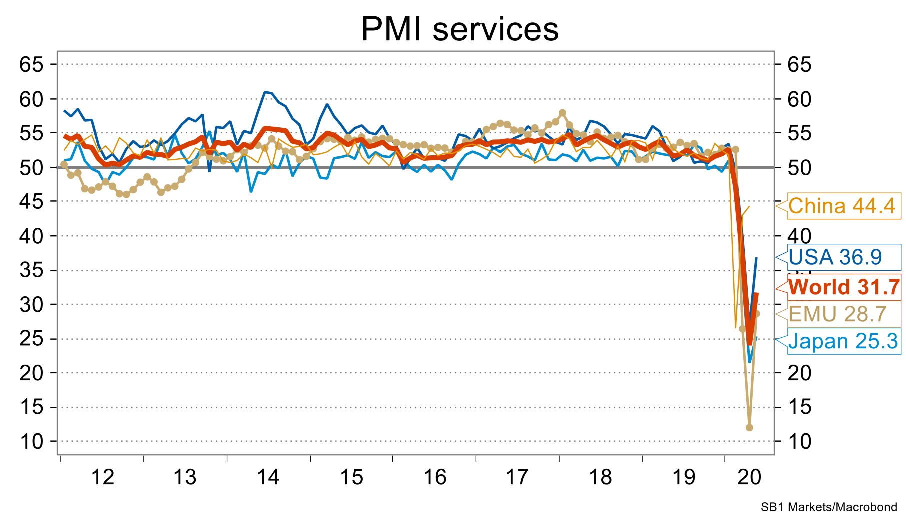
- The ISM (like other PMIs) usually remains below 50 when production increases for the first time after downturns
- Most likely because companies are not answering the survey exact. They are asked about the change in orders, production etc from the previous months but are rather referring to the change in activity previous few months (but not y/y changes and not the activity level vs. a ‘normal’ level)
- Still, the PMIs/ISMs captures the broad cycles very well, and are useful in an analysis of the momentum in the business cycle

Services more up than manufacturing but are still the weakest link

Convergence between the major countries/region in the rich part of the world. Japan at the bottom

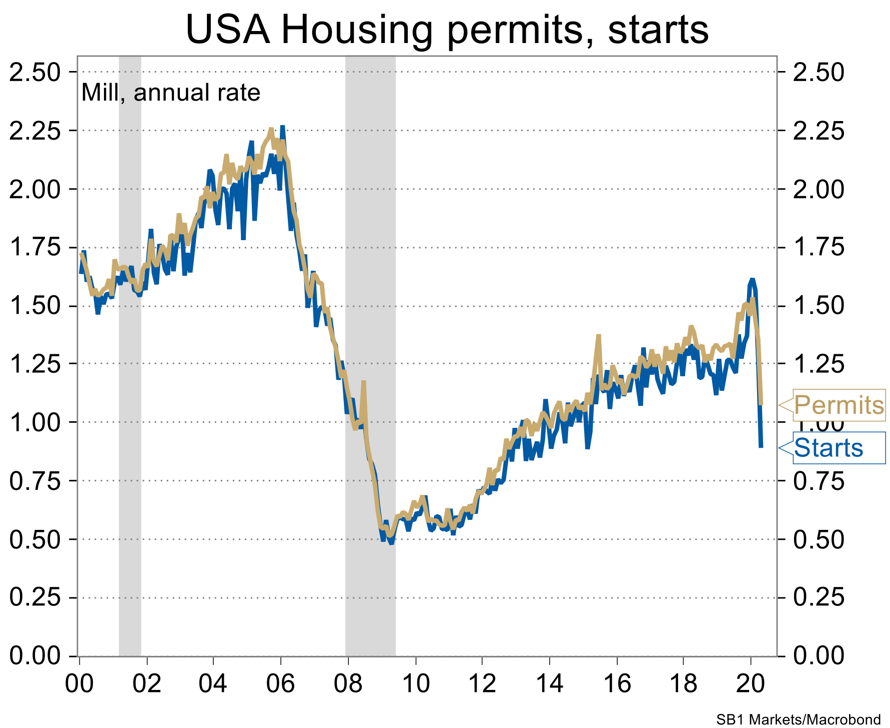


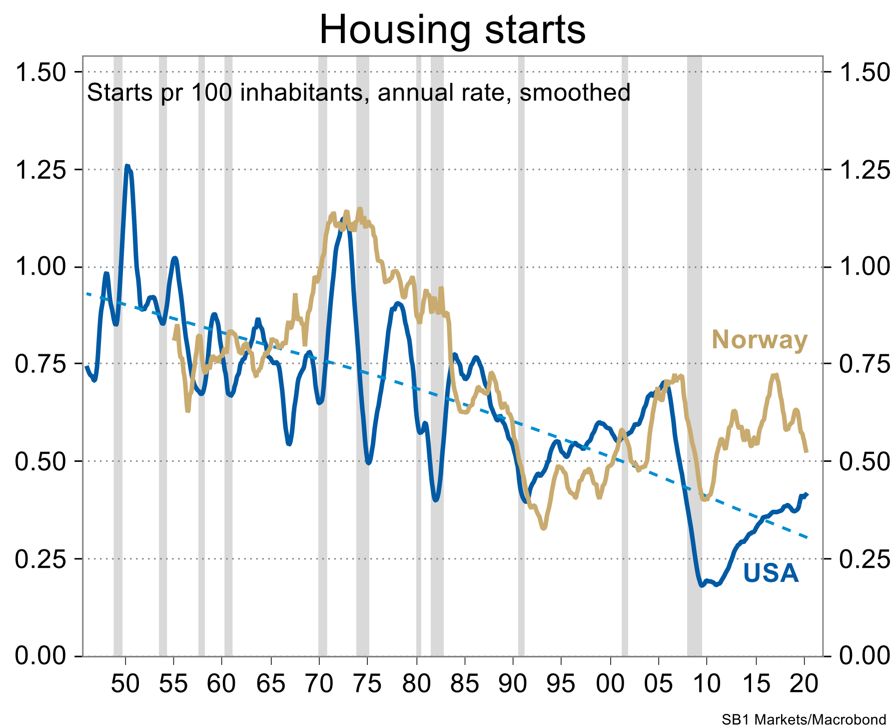




Housing starts down as expected in April, permits less so

Data of course heavily influenced by lockdowns, still uncertain what the ‘real’ trend is

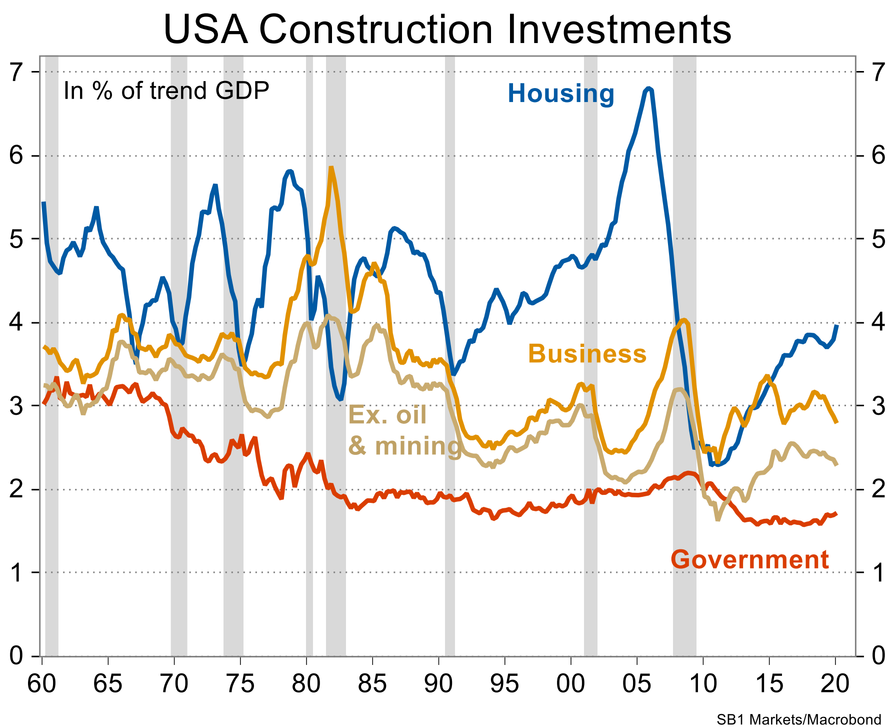




- Housing starts fell by 30% in April, following the 17% decline in March – in sum down 45% from the local peak in January. The decline in April was as expected
- Building permits fell 21%, less than expected – and they are down 30% from January
- These data points are ‘impossible’ to interpret, due to the short term impact of the lockdowns
- Homebuilders do not expect any immediate recovery

If housing crashes, it will not be like last time – it's physically impossible

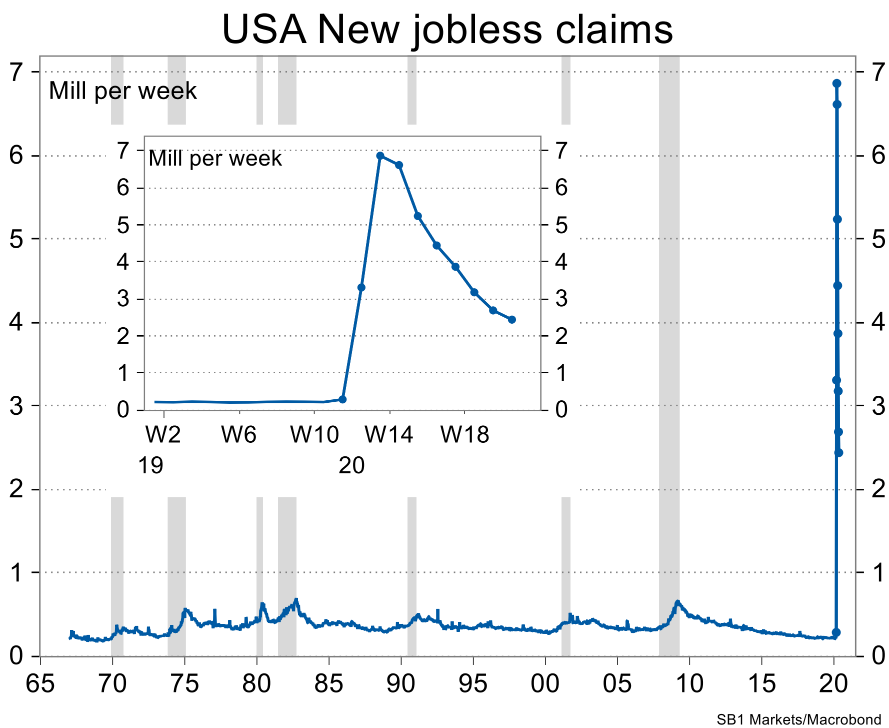
Housing investments are at a much lower level. Business construction investm. not that high either

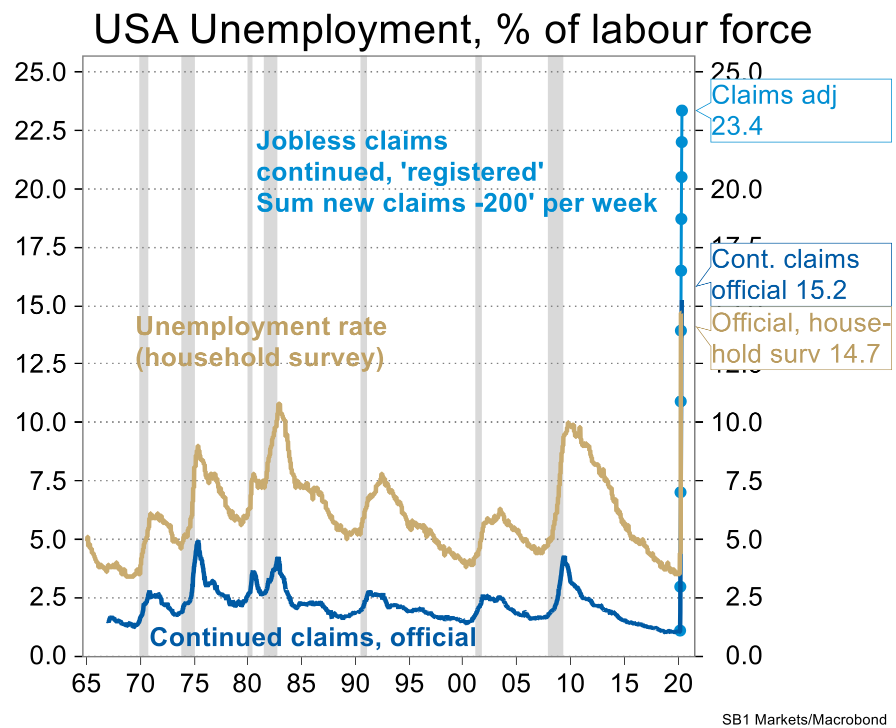


- The housing investment/GDP ratio fell to 3.3% in 2010 from 6.8% in late 2005 – a 4.5 pp drop
- In Q1, housing investments equalled 4% of GDP. We think a 2 pp decline must be a worst-case scenario this time, still down to far below any earlier troughs
  - » The unprecedented decline in housing debt to income ratio supports this view
  - » If you are a worried person, please not check the Norwegian figures (but you can get an idea by looking at the previous page…)
- Business construction investments will no doubt take a hit now, but the downside must be far less than the 1.7 pp vs GDP decline during the GFC, following a boom the preceding years

‘Just’ 2.44 mill new unemployed last week, the sum up 39 mill past 9 weeks

Official claimant count up to 25 mill (15%), real number probably far higher





- The inflow is abating, but still 1.6 % of the labour force is entering the labour market offices each week!
- Continued claims have climbed to 25 mill (15.2%) the previous week. If the weekly inflow is accumulated, the number far higher, equalling 23.4% of the labour force. The ‘truth’ may be somewhat in between, as many applications are not yet processed – and some applicants have returned to a job – or have given up searching for work
- For the lowest paid unemployed, the weekly unemployment benefit compensation at USD 600 is higher than their ordinary wage which of course is not the best incentive to return to a job

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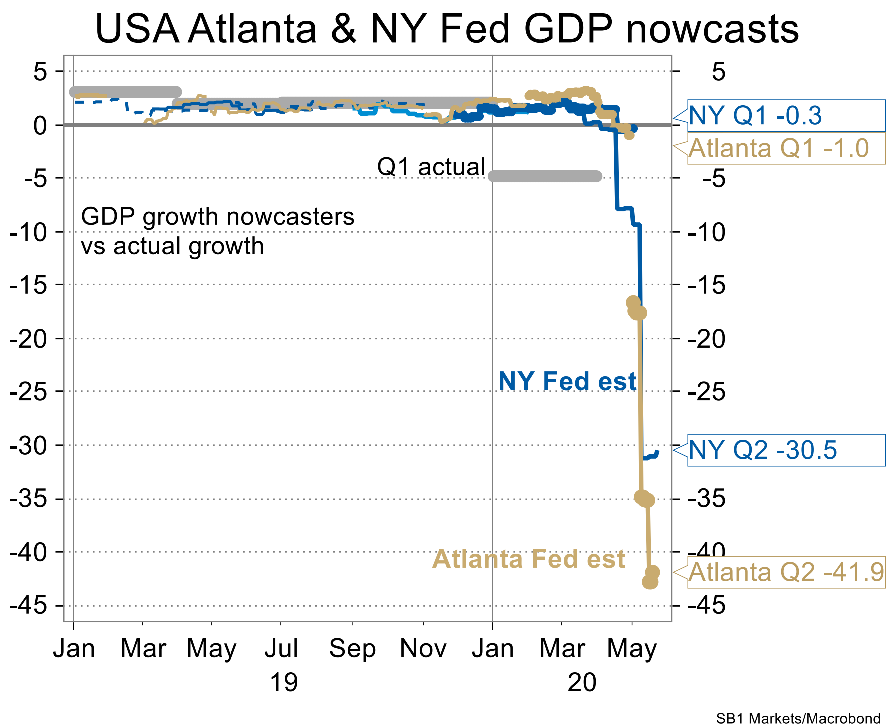
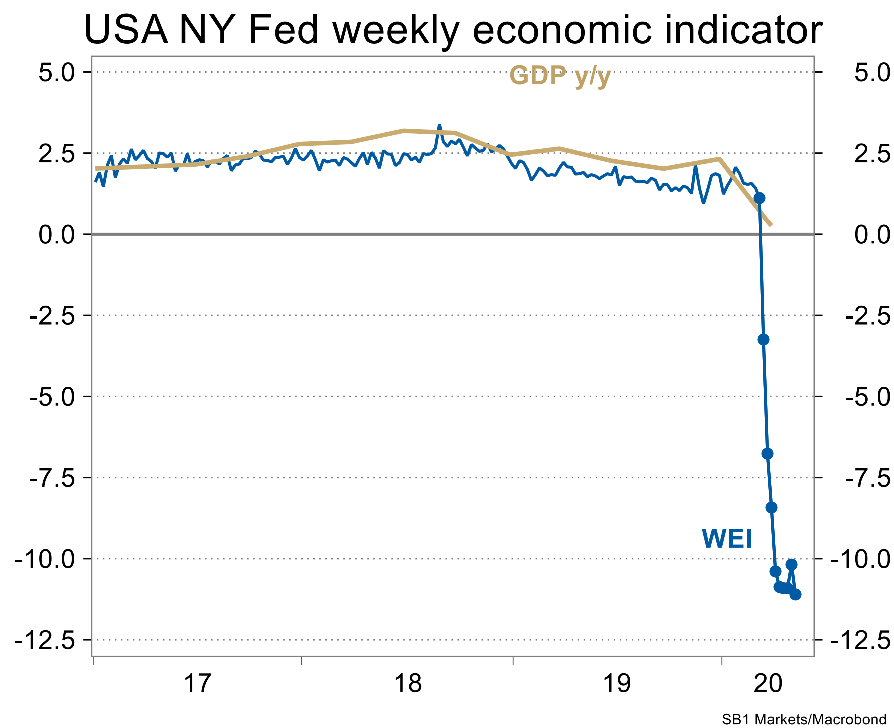
The nowcasters are gradually coming up to speed (or rather down)

GDP is probably down some 12% from the pre corona level

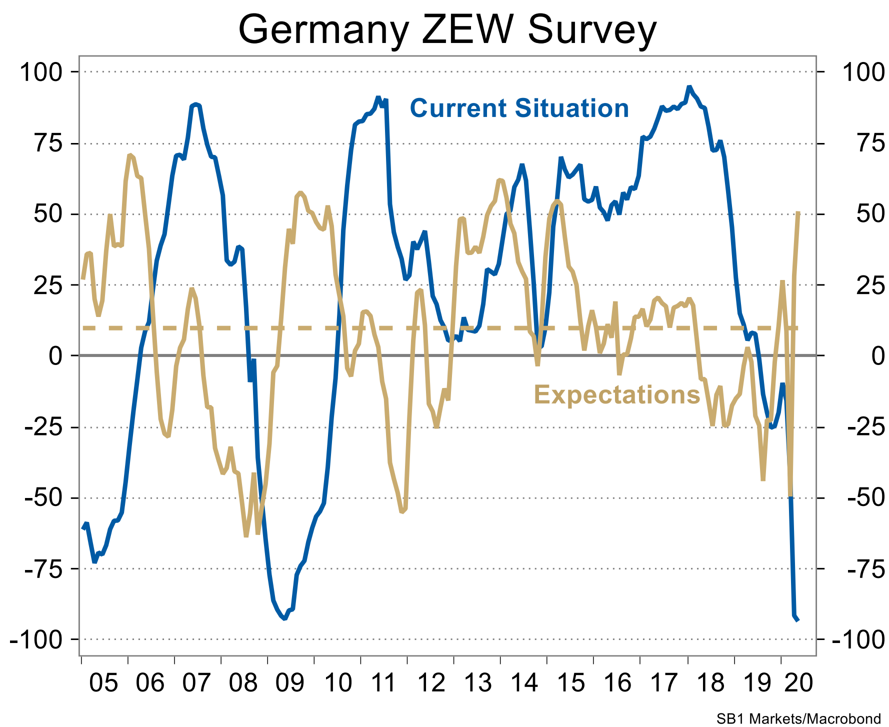


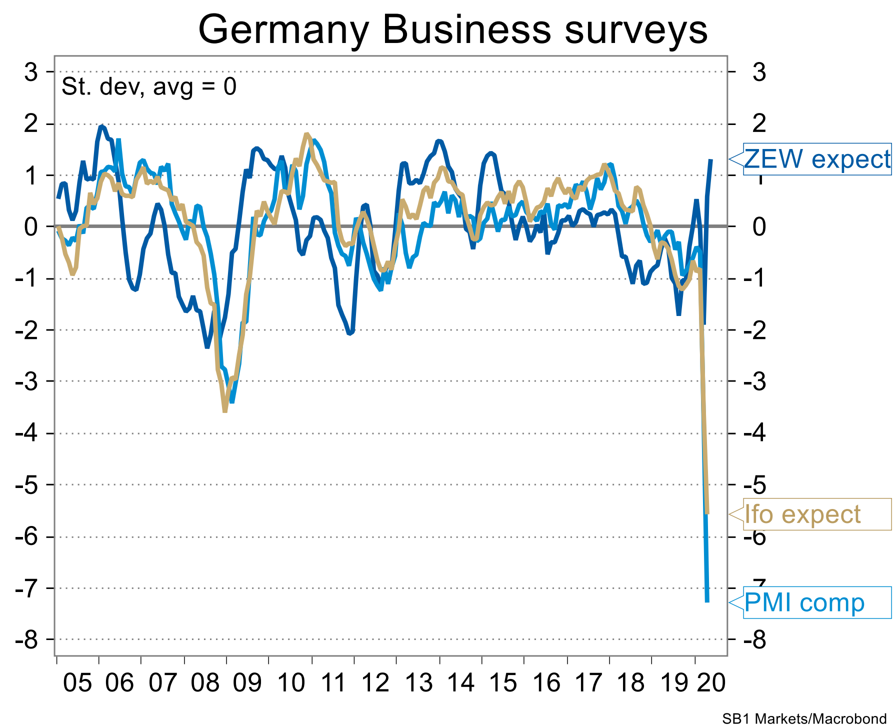


- The NY Fed's weekly economic indicator reports 11% y/y decline. The deceleration has clearly slowed past two weeks (and some 14% vs the pre corona level, as GDP grew through 2019)
- The 'old' nowcasters from NY & Atlanta Fed report a 31 – 43% decline q/q, in annualised terms – equalling a 10 – 13% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 11 – 14% vs the Q4 level

ZEW's future so bright… But it ain't that good today, of course

The expectation component in the ZEW survey rose further in May!

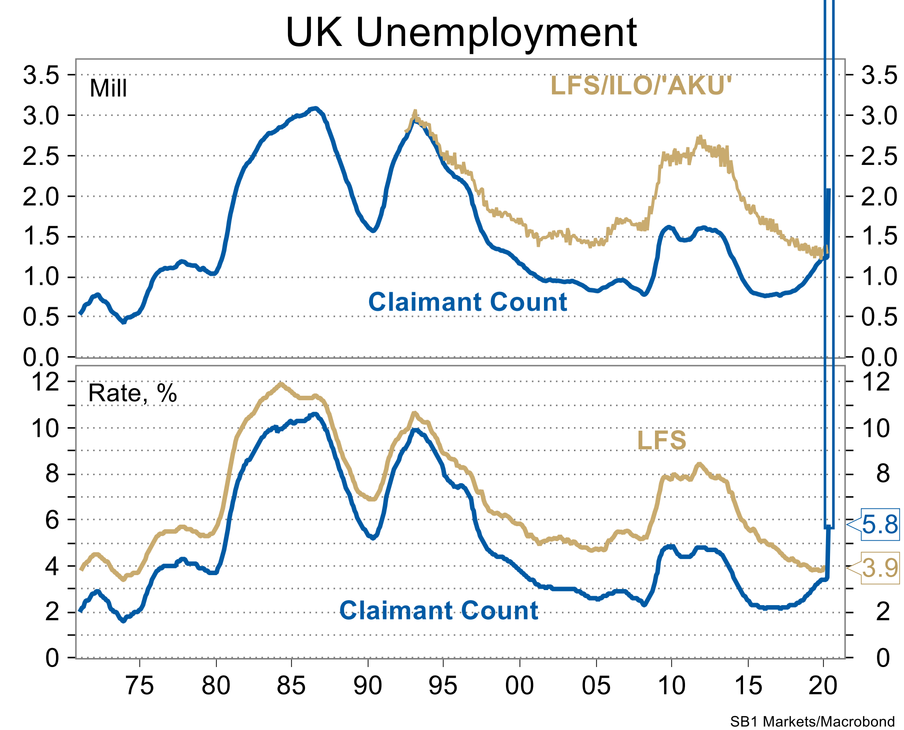


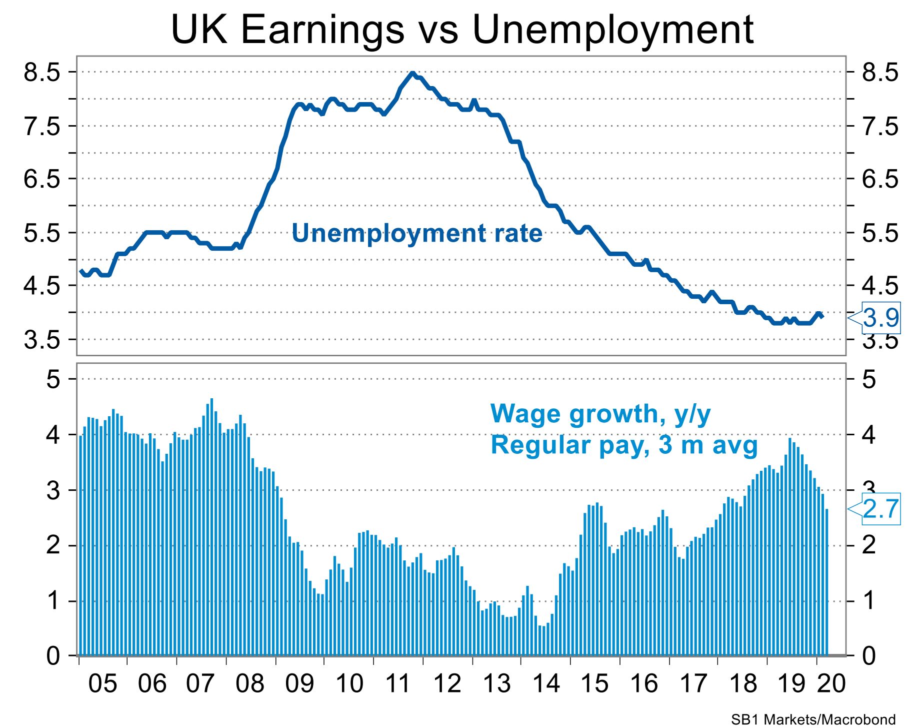


- The current situation is close to the bottom level during the financial crisis – but not worse either
- ZEW is a sentiment survey among economists and investors, and not a business survey, as the PMI and Ifo. Hence, the steep downturn of the index was no surprise. ZEW has been too upbeat vs PMI/Ifo the past couple of months and the correlation to actual economic growth is weaker than vs the two other surveys. We usuall prefer the business surveys, and the April optimism is most likely premature but still, corona is not the end of the world barring really bad news on immunity, medication or vaccines

Unemployment claims up 2.3 pp to 5.8% in April. But the real rate is 33%...

Open umployment rose 0.9 mill to 2.1 mill. But 10 mill. employed are paid by the Government...

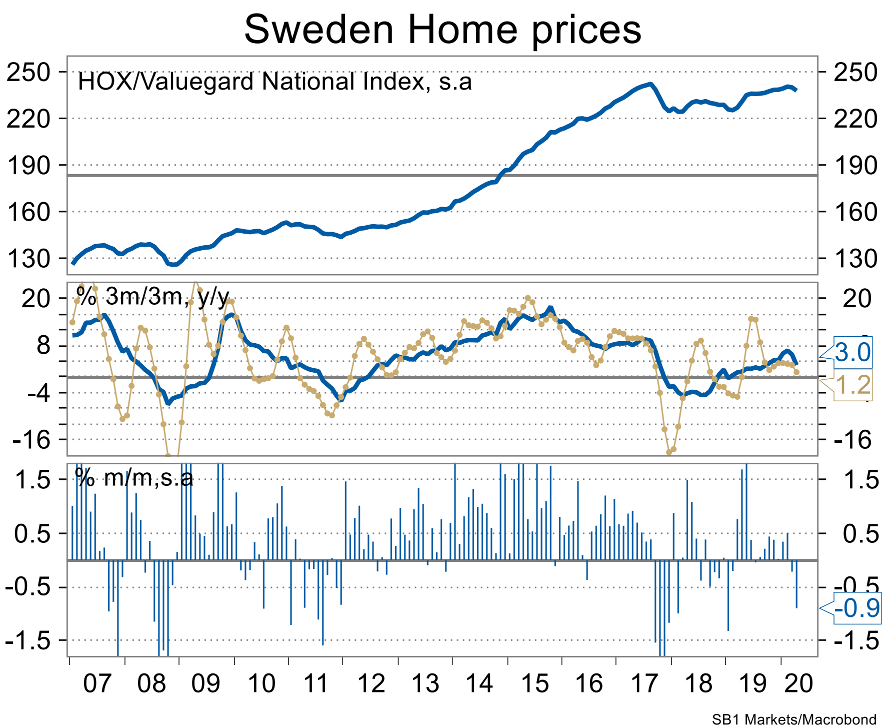


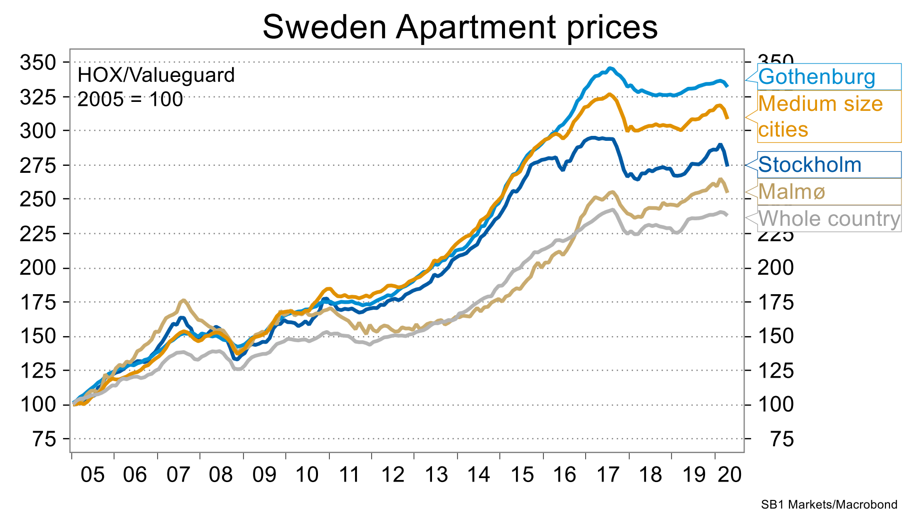


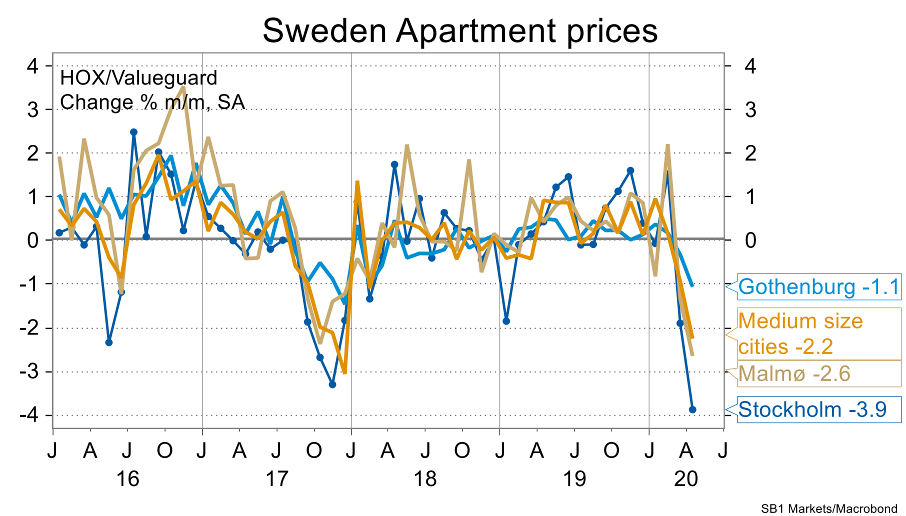
- In UK, the government has subsidied 7.5 employees and 2.5 mill self employed who are furloughed, in sum 10 mill - equalling 29% (!) of the labour force. These furloughed are still counted as employed, and not as employed
- The labour force survey has not yet reported any increase in unemployment at all
- Register data signal a 1.3% decline in employment in April
- Wage inflation is slowing steadily, now down to 2.7%, from the peak at 4%. Growth will not doubt slow further, at least adjusted for the change in the employment mix (the lower paid are losing their jobs more than the others)

House prices fell further in April, sum Mar/Apr -1%. Stockholm down 5.7%!

Covid-19 is no doubt the reason, and interest rates are not cut (from zero, that is)



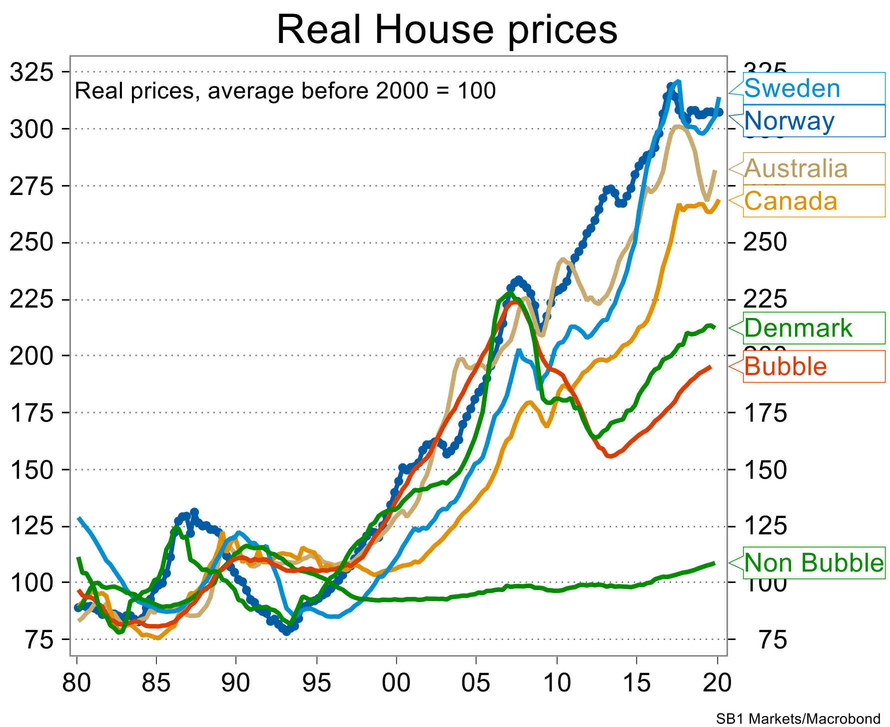


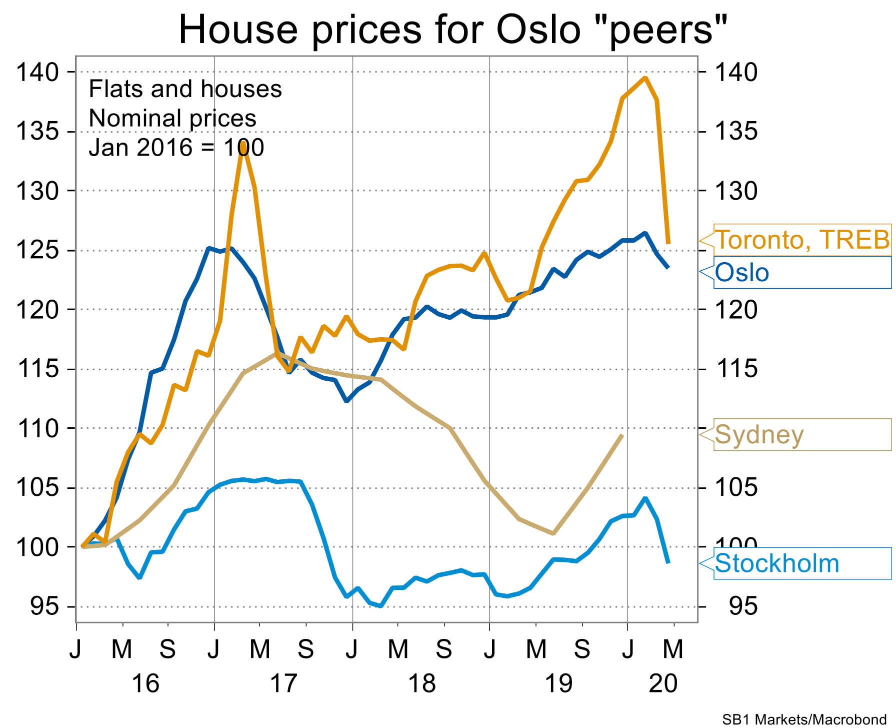


- Prices fell in all the major cities, by 1.1 – 3.9%, while the national average fell by 0.9%
- Following a run until February, Stockholm prices fell 1.9% in March and 3.9% in April, in sum 5.7%, a substantial correction – however just back down to the level last summer
- The nominal price level is marginally above the 2017 peak level, whereas real prices are significantly lower than at that peak. Stockholm prices are 7% down, in nominal terms

Supercycle home prices are not the winners anymore?

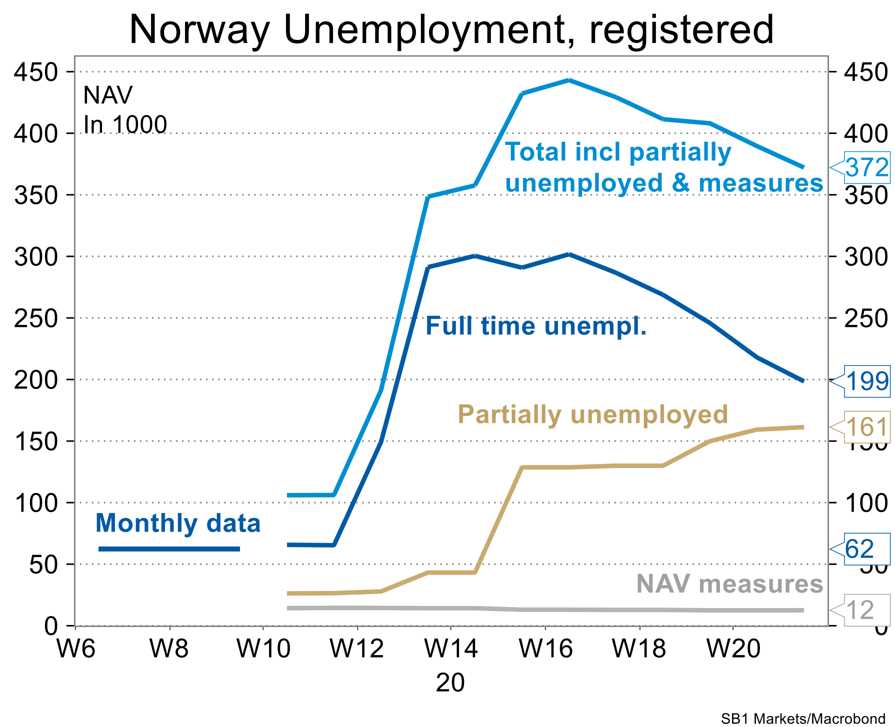
Toronto & Stockholm prices down. Oslo too, but not much (and prices probably rose trough April)

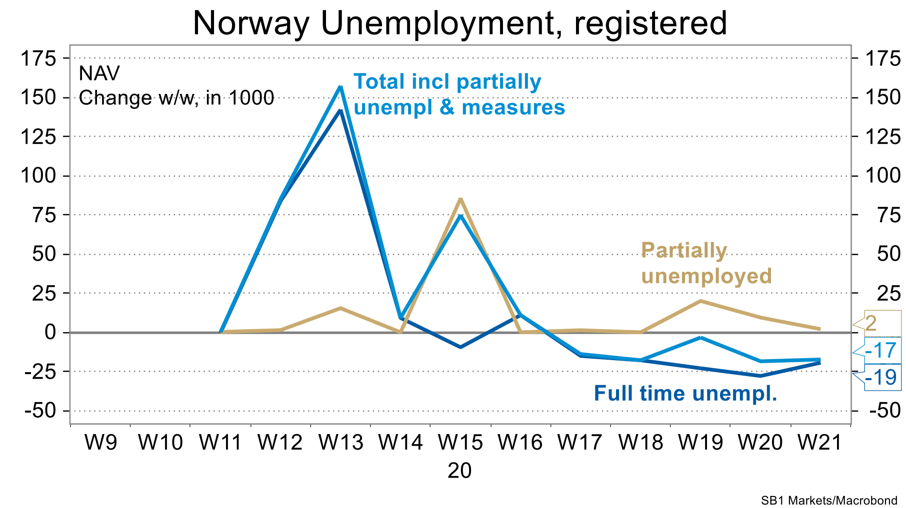


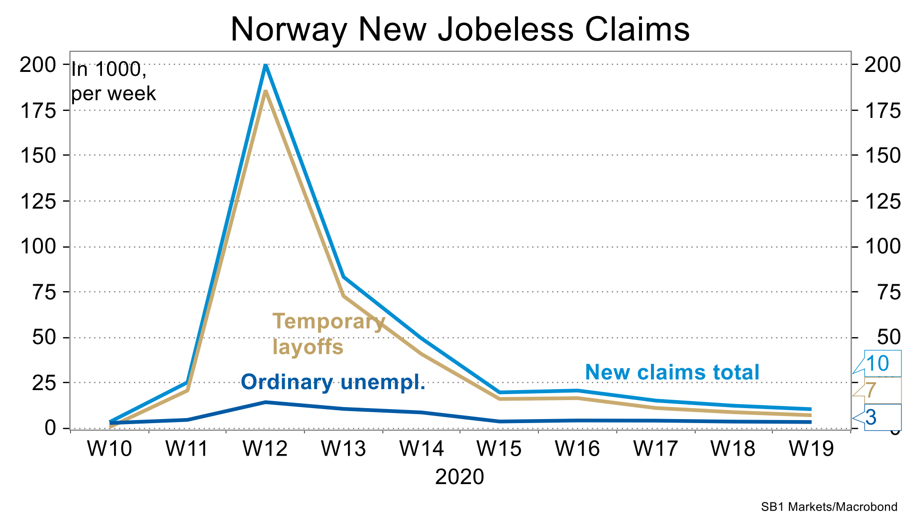


Unemployment is inching steady down as furloughed are reengaged

Down for the 5th week in row, total -71’, equalling 2.5% of the labour force, level still high at 13%



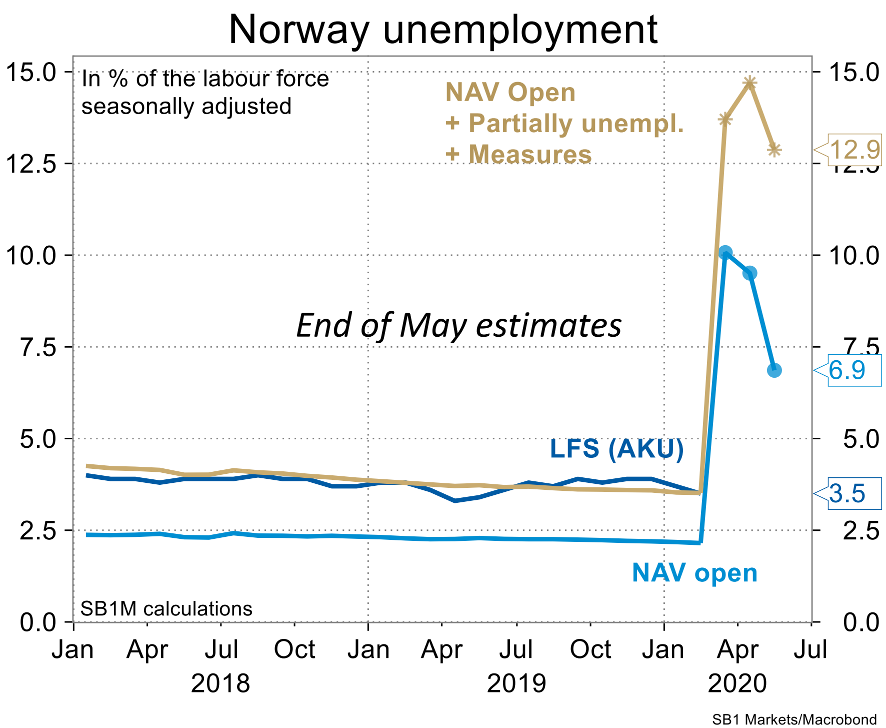


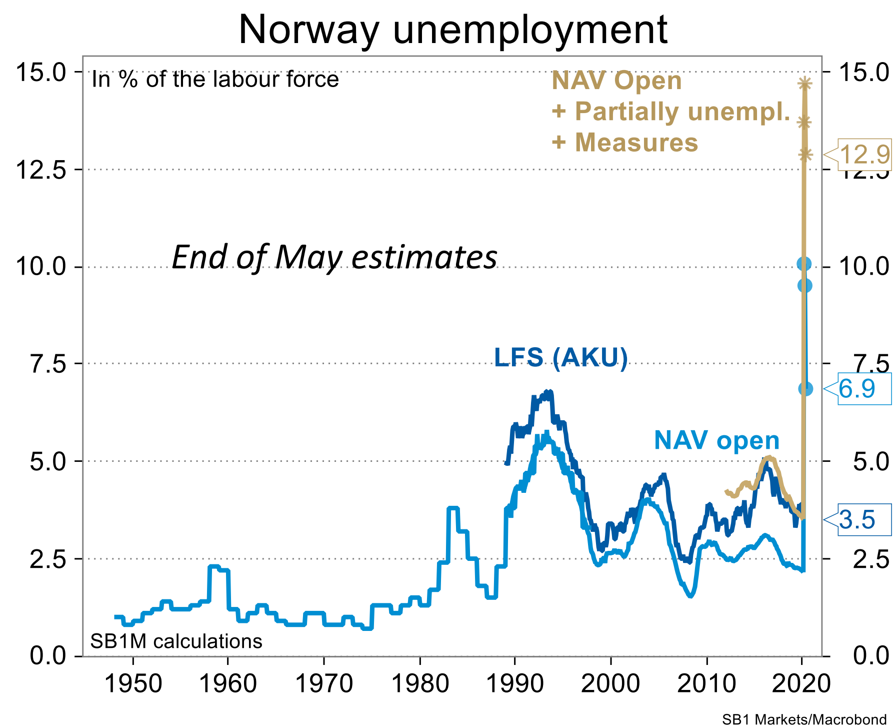


- Full time unemployment fell by 19’ last week, while 2’ more were counted as partially unemployed, as some fully unemployed were reclassified as partially unemployed – net down ’17
  - Over the five past weeks, total unemployment is reduced by 71’
- The inflow of new jobless claims is on the way down too, to some 10’ (7’ new temporary layoffs, 3’ ordinary unemployed, the latter at rather low number).
- Thus, 17+10=27’ persons, or almost 1% of the labour force, was reengaged last week

Unemployment has peaked but is still high

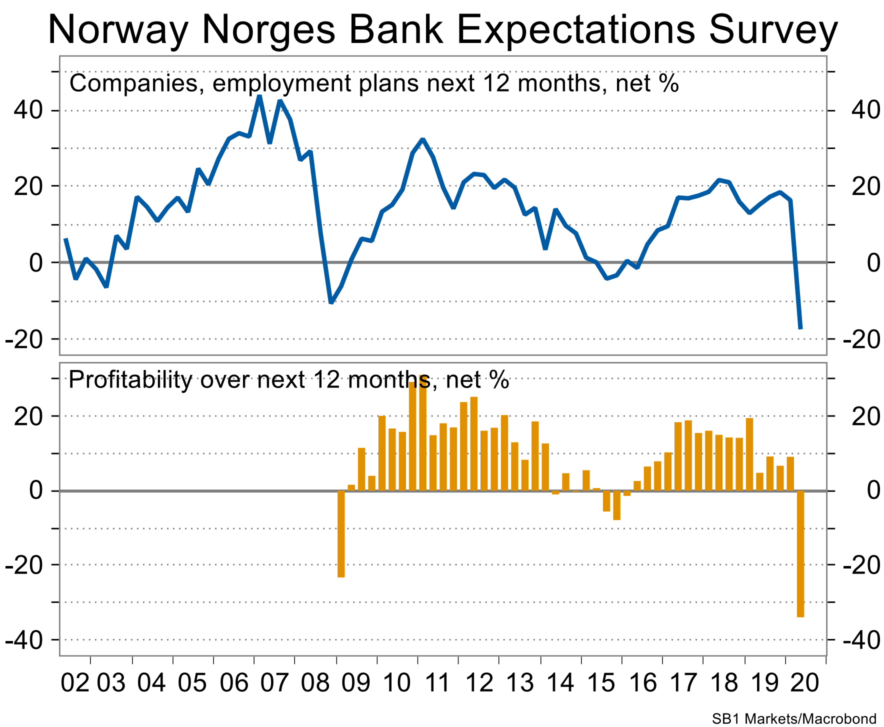
Total unemployment below 13% by the end of May? A reasonable estimate

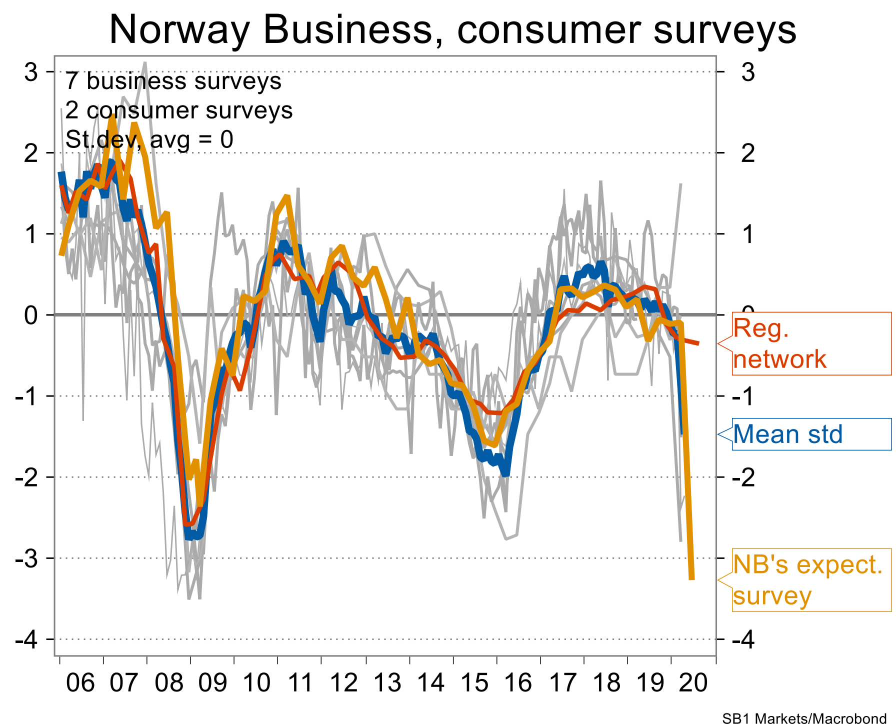




No profits, no employment; a rather gloomy NoBa expectation survey

Both expected profits & employment the weakest ever

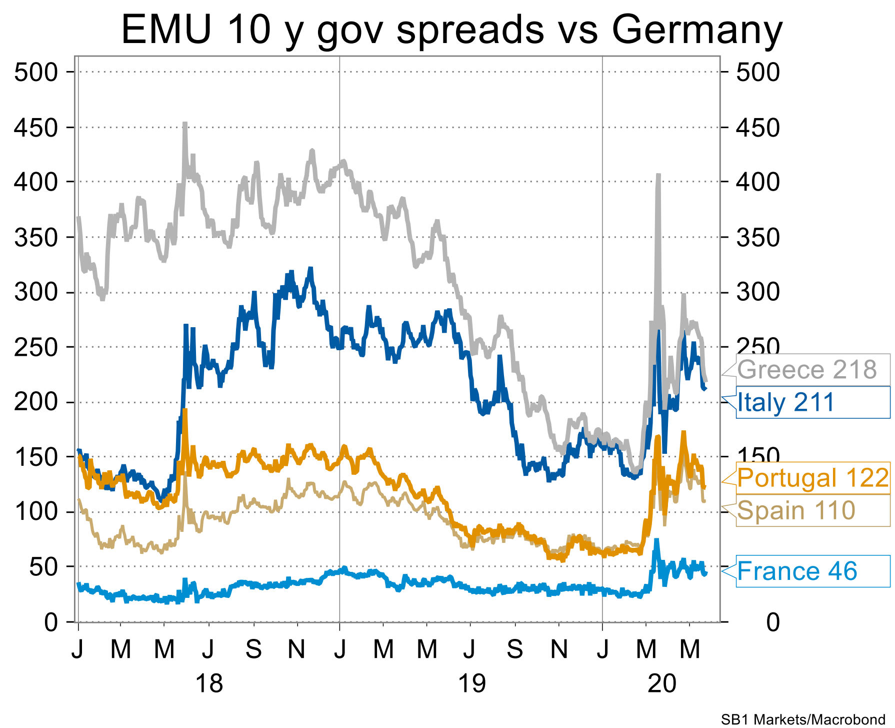


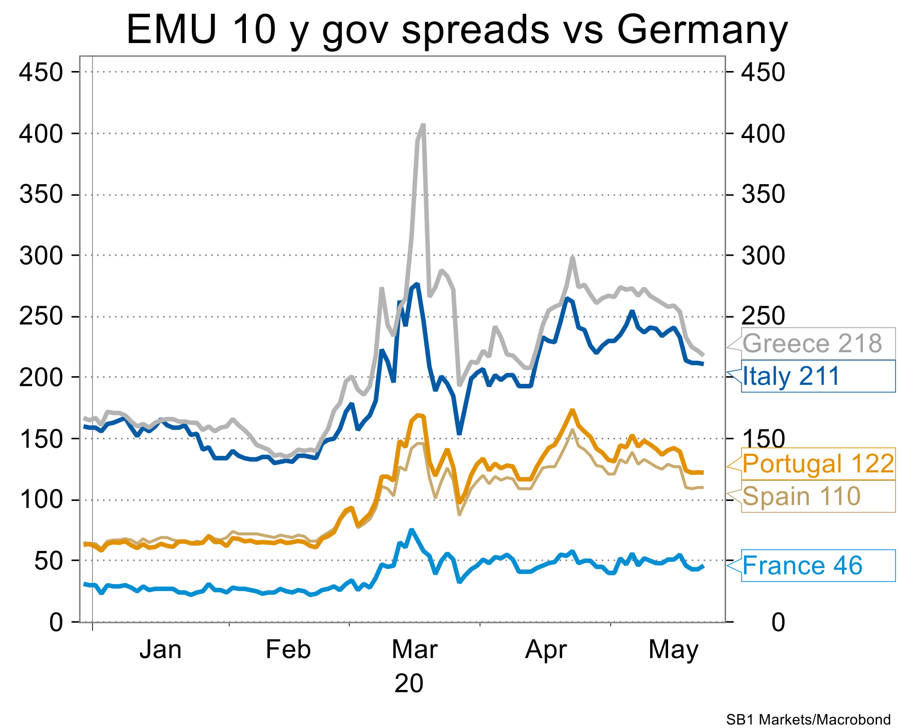


- Norges Bank's expectation survey (not the Bank's Regional Network survey) fell more than ever in Q2, measured by the sum of businesses' employment plans and profitability expectations
  - » This 'composite' index has trended down since mid 2018, as most other Norwegian business surveys but had stabilised around an average level through 2019. That's not the case anymore

Merkel joined Macron and proposed an €500 bn (5% of GDP) EU corona fund

Several Northern countries are hesitant: A mutualised loan will have to be accepted by all members





- If decided, the corona recovery fund will be a brand new EU construction. The fund will be backed by borrowing by the entire EU block – and the debt will be served and repaid by the European Union. This mutual borrowing is an invention
- Some Northern European countries are sceptical: Are their money going to spent in the South? The answer is probably yes. Most likely, in the end they will accept the German/French proposal. The alternative, another deep European crisis is not more attractive
- Government bond spread within the Euro area narrowed but not by very much (partly due to higher German 10 y Bund yields, +8 bps

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The Calendar

In focus: China PMIs (next weekend), US durable orders, Beige book, and a lot of other data

Time	Country	Indicator	Period	Forecast	Prior
Monday May 25					
09:30	SW	Unemployment Rate (LFS)	Apr	7.8%	6.7%
10:00	GE	IFO Expectations	May	75	69.4
Tuesday May 26					
06:30	NO	Consumer Confidence	2Q	(-7)	14.5
08:00	NO	Housing starts	Apr		
08:00	NO	Population growth	Q1		
14:30	US	Chicago Fed Nat Activity Index	Apr		-4.19
15:00	US	S&P CoreLogic CS 20-City MoM SA	Mar	0.30%	0.45%
16:00	US	Conf. Board Consumer Confidence	May	87.7	86.9
16:00	US	New Home Sales	Apr	500k	627k
Wednesday May 27					
	GE	Retail Sales MoM	Apr	--	-4.0%
08:00	NO	Unemployment Rate LFS/AKU	Mar	3.9% (4.0)	3.5%
08:00	NO	Retail Sales MoM	Apr	-0.8% (-8)	-0.9%
20:00	US	Fed's Beige Book			
Thursday May 28					
09:00	SW	Manufacturing Confidence s.a.	May	--	70.5
09:30	SW	Retail Sales MoM	Apr	-2.10%	-1.7%
11:00	EC	Economic Confidence	May	71	67
14:00	GE	CPI YoY	May P	0.60%	0.9%
14:30	US	GDP Annualized QoQ, 1st rev	1Q	-4.8%	-4.8%
14:30	US	Durable Goods Orders	Apr	-18.0%	-14.7%
14:30	US	Cap Goods Orders Nondef Ex Air	Apr	-10.0%	-0.1%
14:30	US	Initial Jobless Claims	May-23	2100K	2438k
16:00	US	Pending Home Sales MoM	Apr	-13.5%	-20.8%
Friday May 29					
01:30	JN	Jobless Rate	Apr	2.70%	2.50%
01:50	JN	Retail Sales MoM	Apr	-6.90%	-4.50%
01:50	JN	Industrial Production MoM	Apr	-5.70%	-3.70%
08:00	NO	Hotel guest nights	Apr		
08:00	NO	Wage sum proxy, private sector	Apr		4.3%
08:00	NO	Credit Indicator Growth YoY	Apr	4.6% (4.6)	4.7%
09:30	SW	Trade Balance	Apr	--	4.1b
09:30	SW	GDP QoQ	1Q	-0.3%	0.2%
10:00	NO	Norges Bank Daily FX Purchases	Jun	--	-2100m
10:00	NO	Unemployment Rate	May	6.8% (6.4)	9.6%
10:00	NO	Opinion May Consumer		(-10)	-13.3
11:00	EC	CPI Core YoY	May P	0.80%	0.90%
14:30	US	Advance Goods Trade Balance	Apr	-$64.2b	-$64.2b
14:30	US	Personal Income	Apr	-6.8%	-2.0%
14:30	US	Personal Spending	Apr	-12.6%	-7.5%
Sunday May 31					
03:00	CH	Manufacturing PMI, NBS	May	51	50.8
Monday June 1					
03:45	CH	Manufacturing PMI, Caixin	May		49.4
15:45	US	Manufacturing PMI	May F	49.8	
16:00	US	Construction Spending MoM	Apr	-7.60%	0.9%
16:00	US	Manufacturing ISM	May	43	41.5

During the week

- **PMI/ISM**
  - » **China** will report most of its May PMI data Sunday and Monday. The recovery in the manufacturing is probably exposed to lack of both domestic and foreign demand. In the US, the **headline ISM** will probably not recover by much in May due to the impact from the delivery times index which boosted the total index in April.
- **US**
  - » **The Beige Book,** Fed's regional survey, will not report many bright spots. Powell signals he is deeply worried for the economy, jobs and banks. **Durable orders** no doubt fell sharply in April, including core investment orders which kept well up in March. **Personal spending** collapsed in April
- **EMU**
  - » **Economic sentiment** probably recovered somewhat in May, as signalled by a small uptick in consumer confidence
- **Sweden**
  - » More data will be available to compare the Swedish economy to others during the Covid-19 setback
- **Norway**
  - » Unemployment is heading down at an encouraging speed but the level is still high, we expect NAV open unemployment to decline to 6.4% in May from 9.6%. We assume retail sales fell sharply in April as food sales normalised and others did not recover. Consumer confidence fell to Q2 from Q1 but recovered somewhat in May. Credit growth probably slowed further in April

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

Our main views

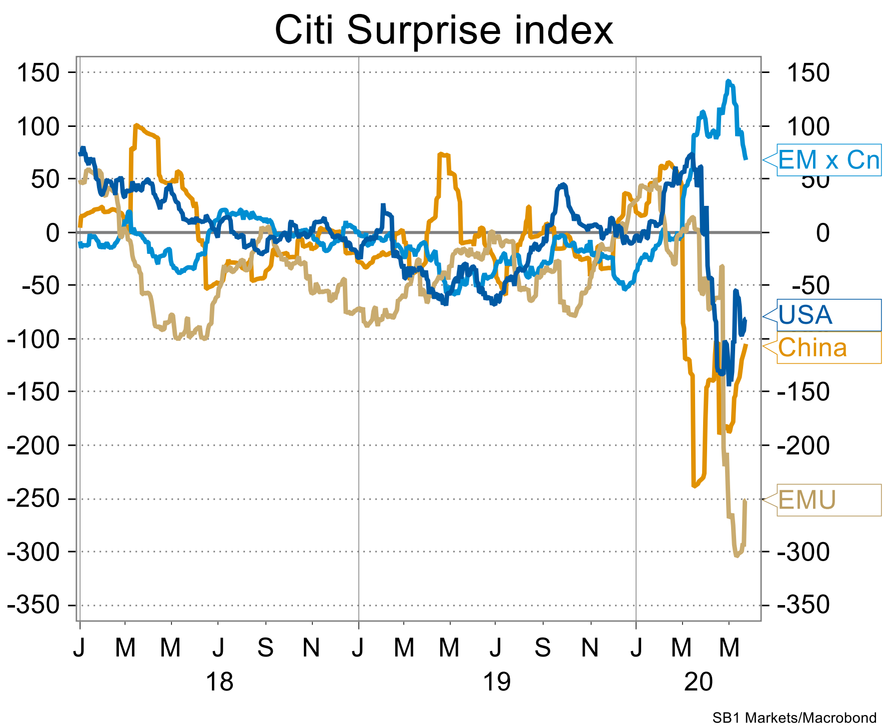
	Main scenario	Recent key data points
Global growth cycle	Before Covid-19 hit, the growth had slowed as the cycle had matured in many ways. The setback in Q1/Q2 due to lockdowns and other measures against the virus attack in Q1/Q2 is unprecedented modern history. The recovery has clearly started in China but the activity level in still well below par. April was most likely the bottom in the rich part of the world, and may EM countries too. We expect a modest recovery in H2 but the uncertainty is still huge, both regarding the virus, further policy responses, and how households and businesses will utilise the room for manoeuvre the virus/authorities may give. Anyway, it will take time to come back to normal (or high) capacity utilisation rates. **Our somewhat optimistic case is a 3% decline in global GDP y/y in 2020 (from +2.8% before corona)**	Global composite PMI recovered some of the April losses in May but the level is still very weak at 34. We assume that the PMIs are a tad slow to recognise a recover, as usual
China	The Covid-19 'killed' the economy in Q1, and activity is just gradually returning to a normal level. Domestic demand is still low, with services as the weak link – and Chinese exports will be hit by the collapse in demand in ROW in April/May. The 2020 annual growth will be closer to -2%, from +6%, even if the activity level increases sharply in H2. Policy risks, both created in the US (trade, technology, 'health' war) and within China itself (like Hong Kong suppression) poses additional treats to growth	Industrial production back at pre corona level but even if both retail sales, investments and service sector production rose in April, all are well below the pre corona path. Credit is flowing faster
USA	The US cycle was mature, before Covid-19 hit. During the lockdowns, activity has collapsed, and GDP will decline by at least 12% to Q2 from Q4. Unemployment has risen sharply, even if companies are encouraged to keep employees at their payrolls. Profits are falling sharply, and now a record high debt level is not an asset for the corporate sector **Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt**	Larger than expected declines in April retail sales & manufacturing production. Still many new jobless claims (1.6% of the labour force, last week)
EMU	Corona has sent the Eurozone into a recession, GDP fell everywhere in Q1 and Q2 will be far worse, in average, especially in the south. Services are hardest hit, especially transport and travel. The policy response is mixed, some countries are doing a lot, others not. We expect a slow recovery in H2, and a substantial negative output gap to remain in 2021	Germany/France suggest a common EU pandemic recovery fund. Several Northern members oppose the idea but some sort of a mutual assistance the to South in now in the cards. Data are still dismal
Norway	Growth has been above trend, and it was slowing before the virus hit. Unemployment has skyrocketed, due to temp layoffs. Oil investments will decline through 2020 and faster than expected before the oil price setback. Mainland business inv. are not low, and will very likely decline substantially. Housing starts are falling, more may come. Growth in households' debt has slowed to below income growth. **Risks, other than corona: Debt, housing. A harsh global setback. We have revised our 2020 growth forecast to -6%**	Unemployment has peaked, and is now falling by 0.6 pp per week. Mainland GDP down 2.1% in Q1. Core inflation up to 2.8%

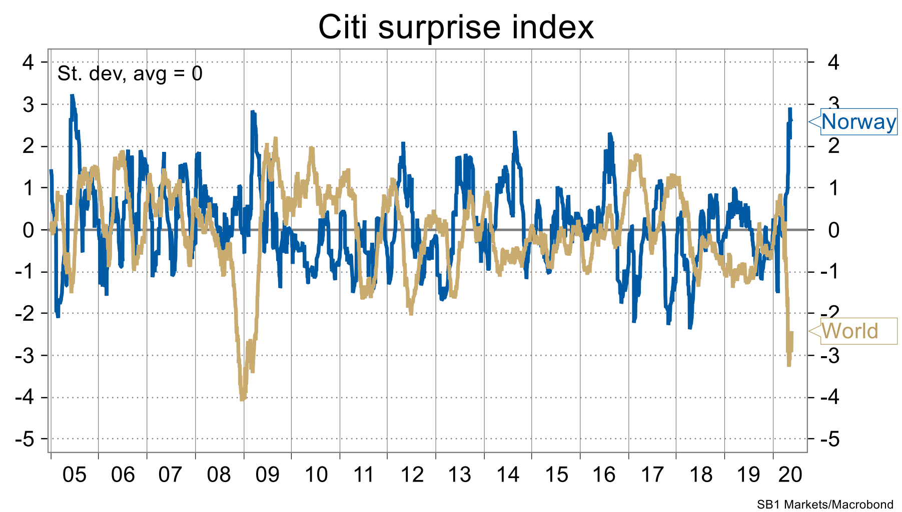
Colour codes: Green=more to go. Yellow=the cycle is maturing, close to peak. Orange=at peak, downside risk. Red=Recession level

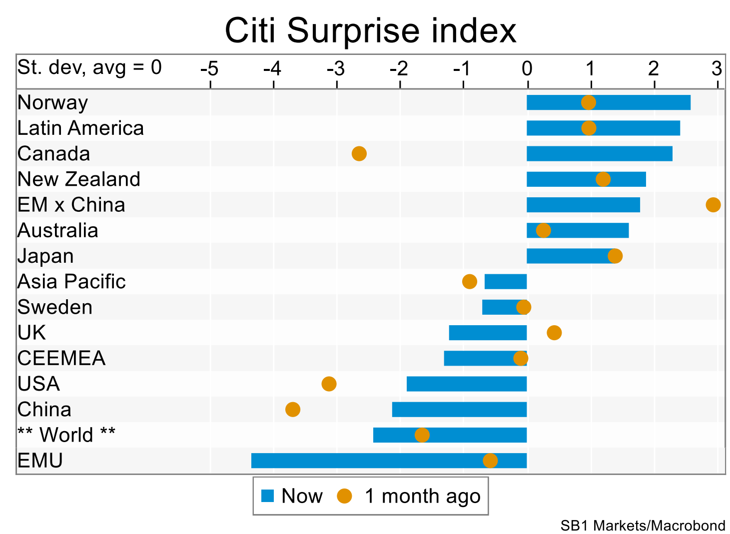
SpareBank 1 MARKETS

Still more surprises on the downside than on the upside

However, the estimates are more guestimates usual. The main point: The downturn is still harsh







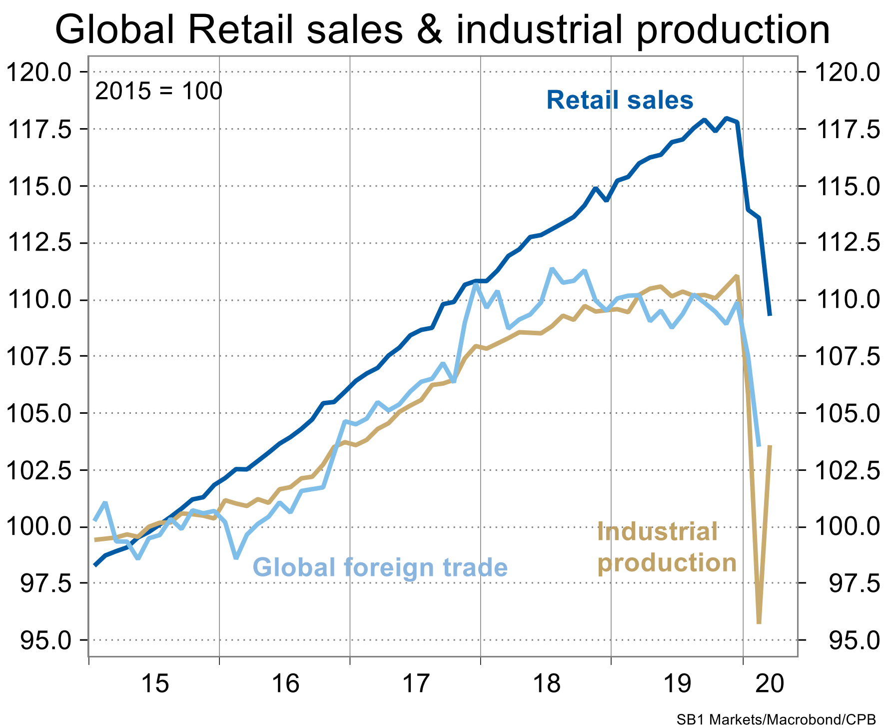
- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- EMU is surprising most on the downside
- Norwegian data are more upbeat vs expectations, <u>for no good reason</u>
- We are not sure why EM x China data have been so much stronger than anticipated

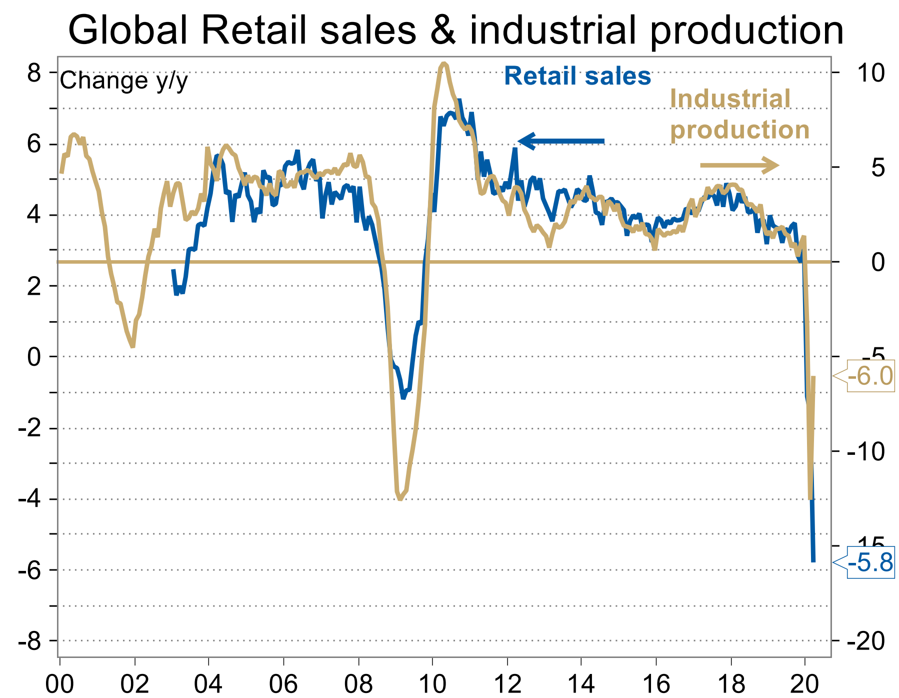
Surprise-indices measure the difference between economists’ expectations and the actual outcome over a 3 month rolling window

SpareBank 1 MARKETS

Activity zigzagging downwards, China is recovering, others not yet

Production rose i March due to a steep increase in China, will decline again in April, due to the West





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

- **Global industrial production** probably fell some 5% in April (not shown at the charts), while retail sales fell even more. China is contributing at the upside, but that's all on that side
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

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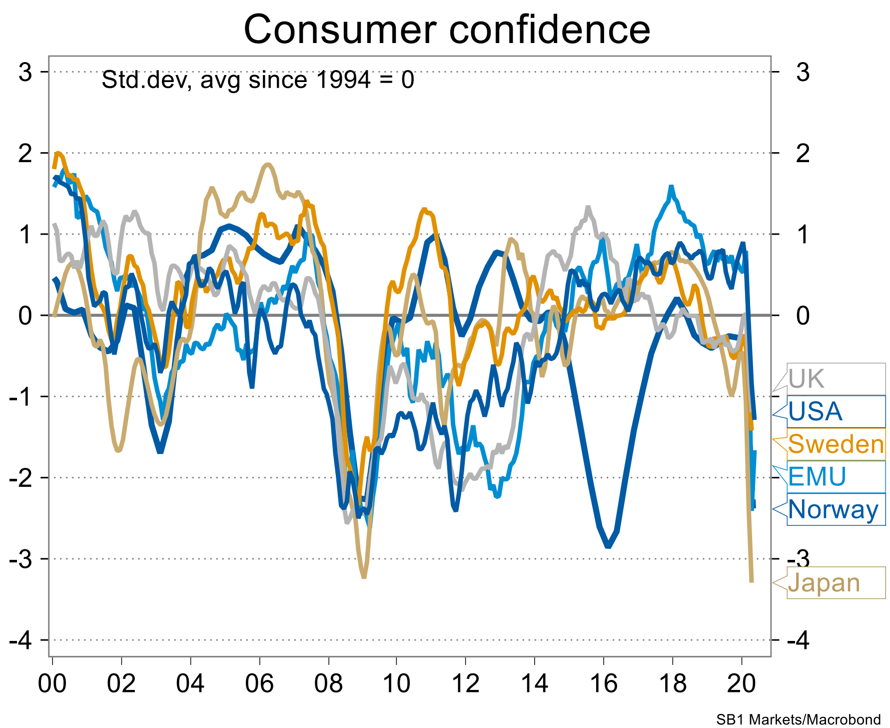
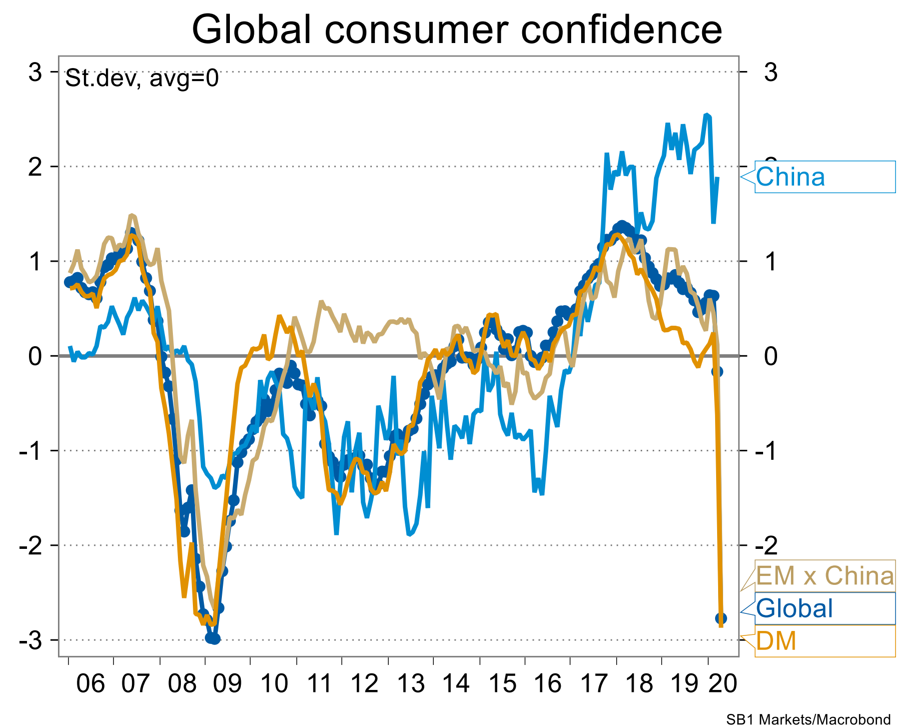
Consumer confidence sharply down everywhere

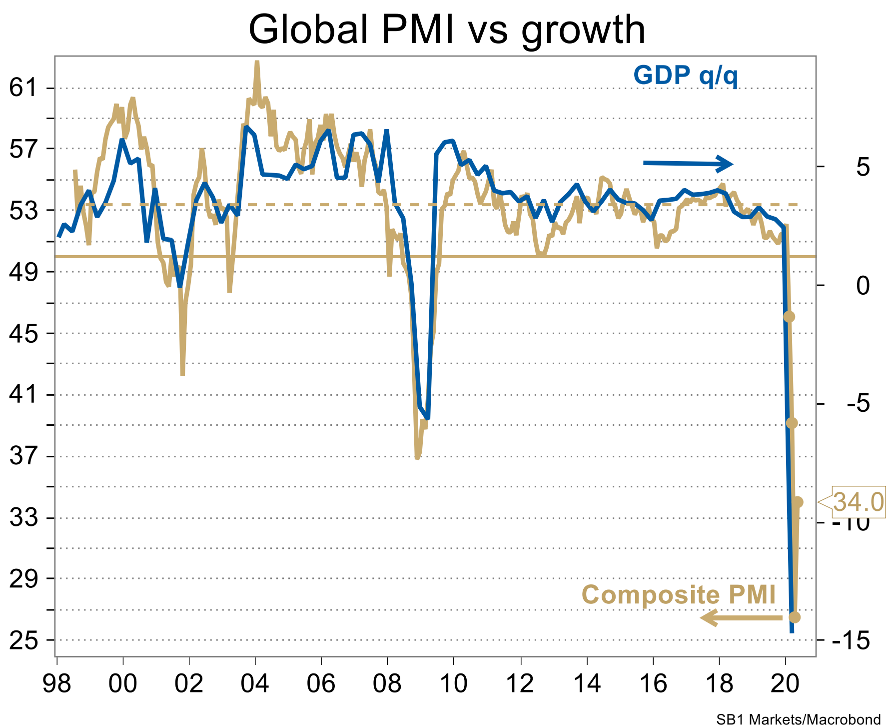
Still data are not disastrous and in average above the 2008 troughs, albeit not in EMU, Norway

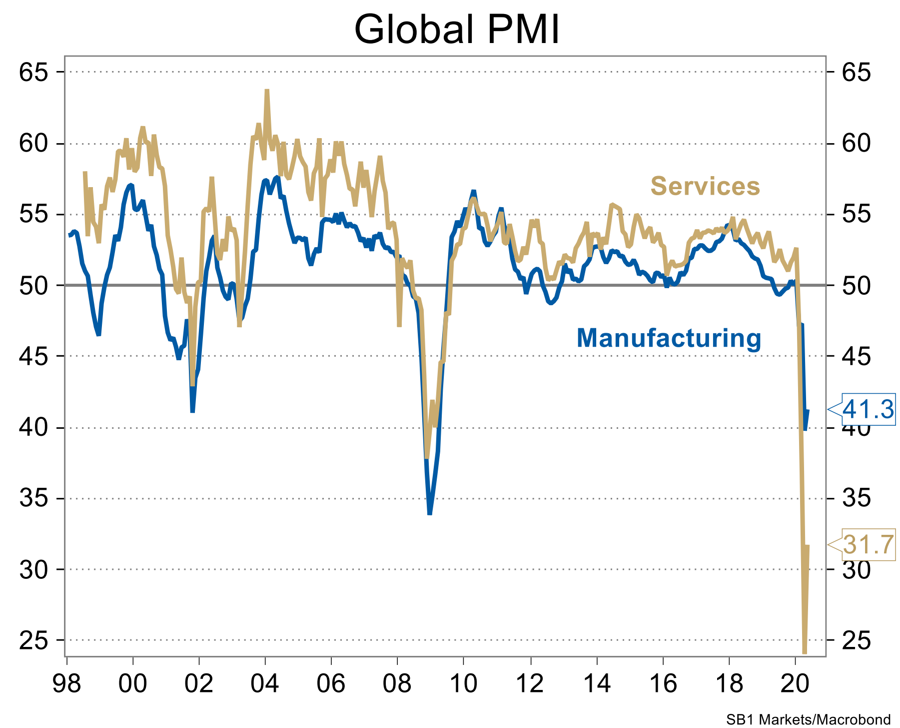




PMIs up in May but are still signalling steep decline in activity in May, formally

PMIs/ISMs describe the cycles well but are not clever in detecting the first recovery month



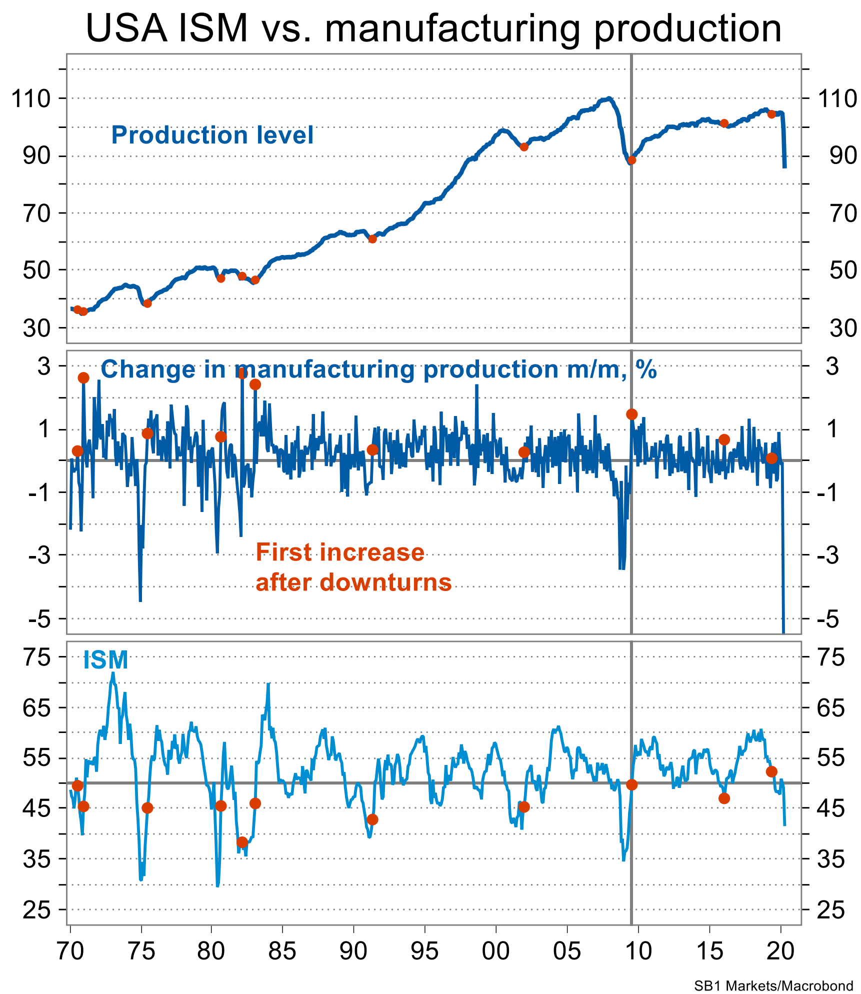


- Global composite PMI rose some 7 points to 34 following the 13 p crash in April. An index level at 34 signals a steep decline in production m/m to May from April. The PMI is a diffusion index, measuring change in activity from month to month . When the index is at 34 there are 32 pp more companies (like 66 vs. 34) that are reporting a decline in activity than growth. Usually, that's associated with a steep decline in production m/m. However, there are two modifications
  - » Companies report the same answer whether the change in small or large, its just up or down. If changes are not evenly distributed, the index will send a wrong signal
  - » More importantly, companies are probably NOT giving a precise answer to the question they are asked: Is May better or worse than April? Rather their answers are influenced by changes over the past months too. So in May, companies are probably referring to what has happened over the previous months too, not just changes m/m i May vs. April. See more next page

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

Normally, the PMIs/ISMs do not spot the first month of a recovery

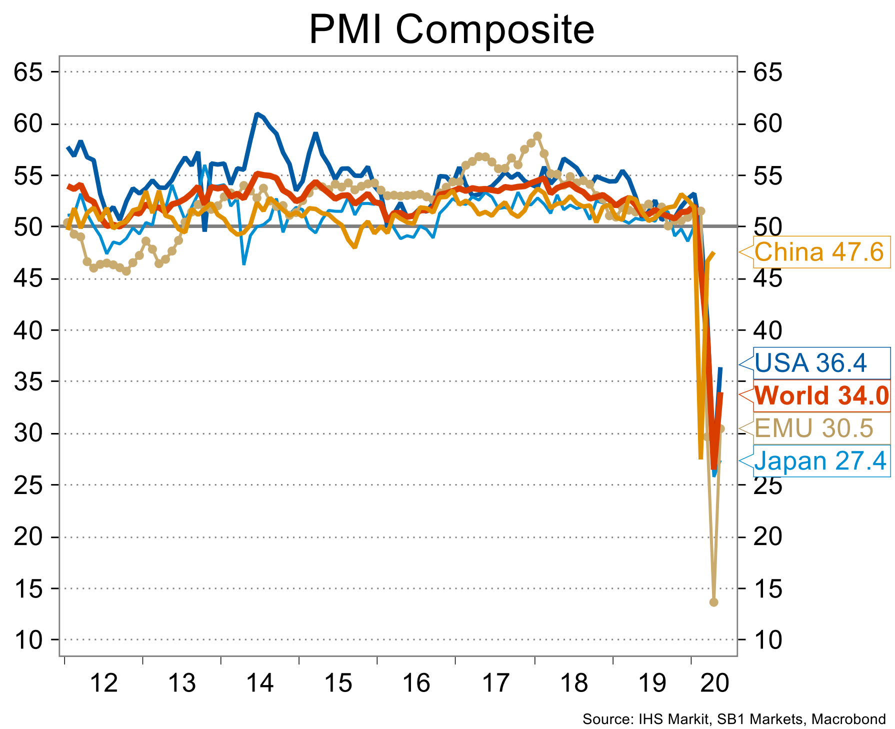
PMIs should climb to above 50 if production grows m/m but they do not

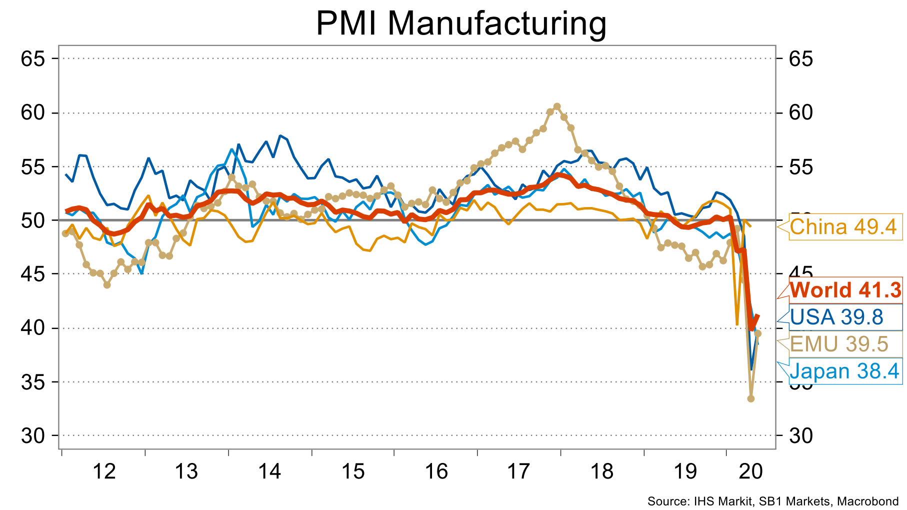


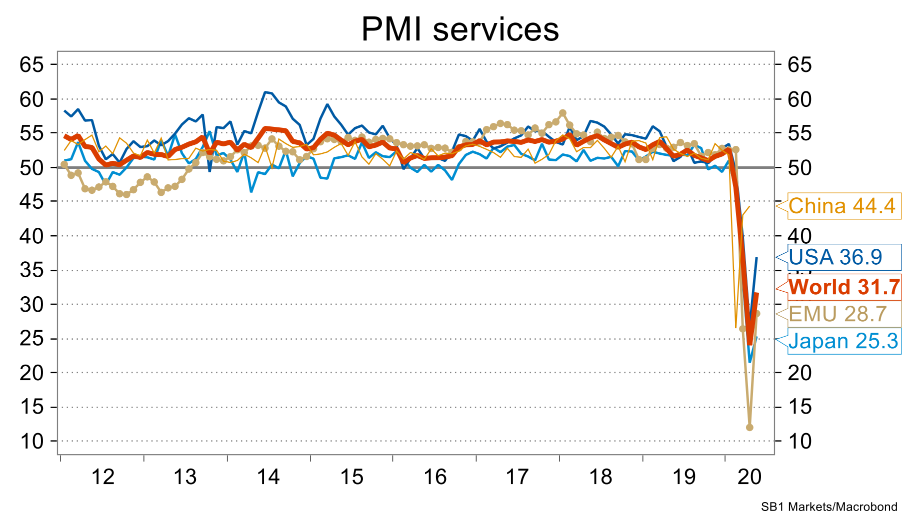
- The ISM (like other PMIs) usually remains below 50 when production increases for the first time after downturns
- Most likely because companies are not answering the survey exact. They are asked about the change in orders, production etc from the previous months but are rather referring to the change in activity previous few months (but not y/y changes and not the activity level vs. a ‘normal’ level)
- Still, the PMIs/ISMs captures the broad cycles very well, and are useful in an analysis of the momentum in the business cycle

Services more up than manufacturing but are still the weakest link

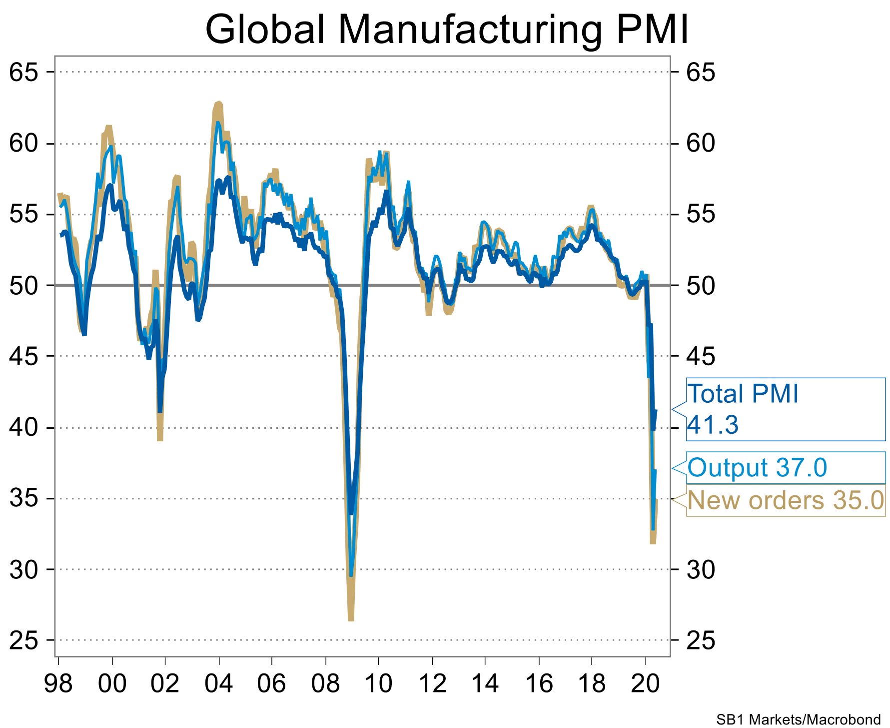
Convergence between the major countries/region in the rich part of the world. Japan at the bottom

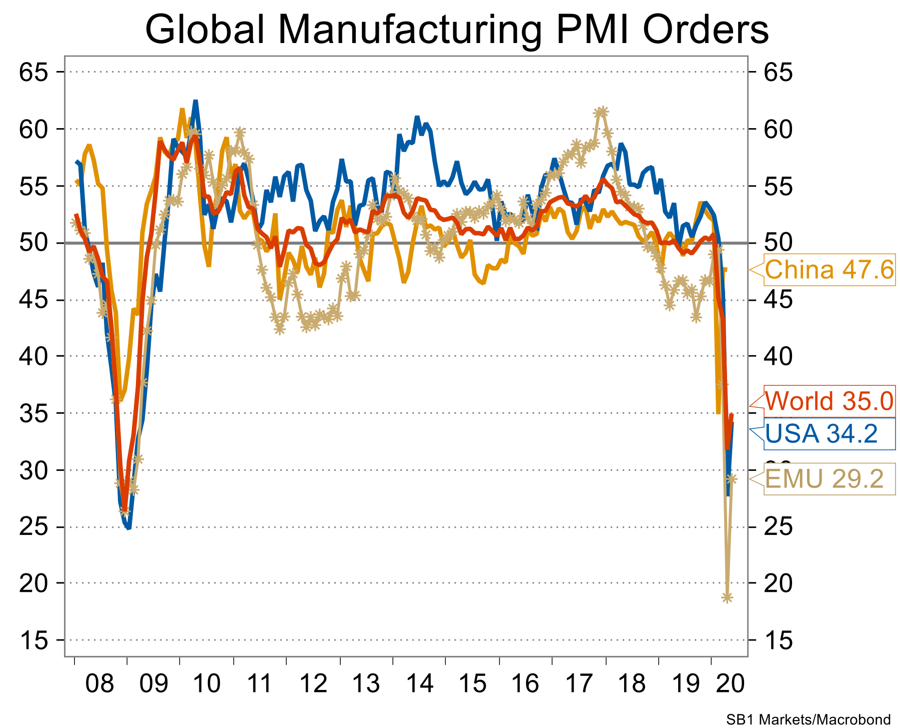






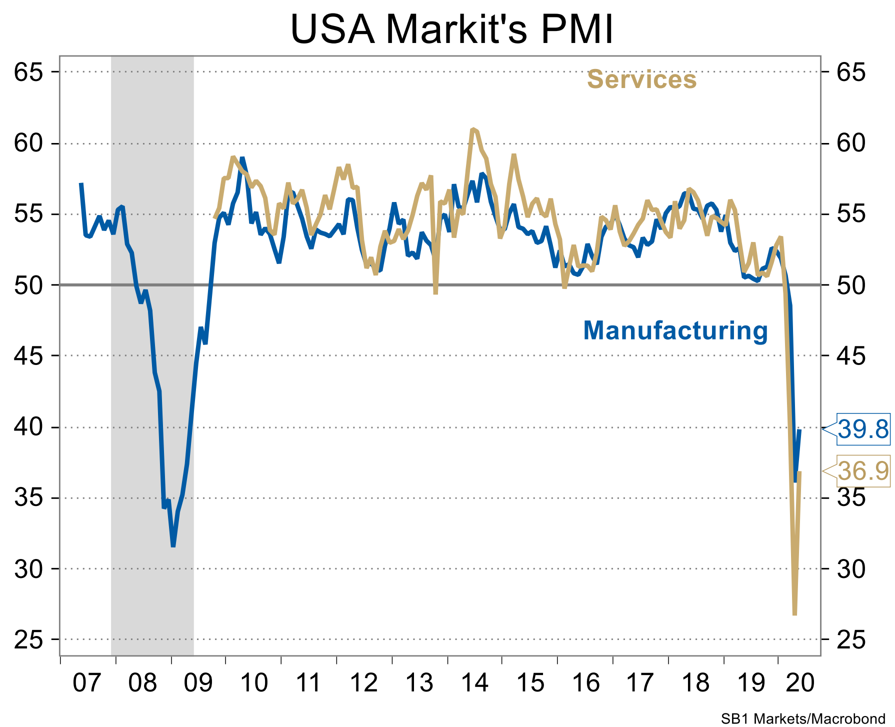
Manufacturing details are weak; orders & output indices far below the headline

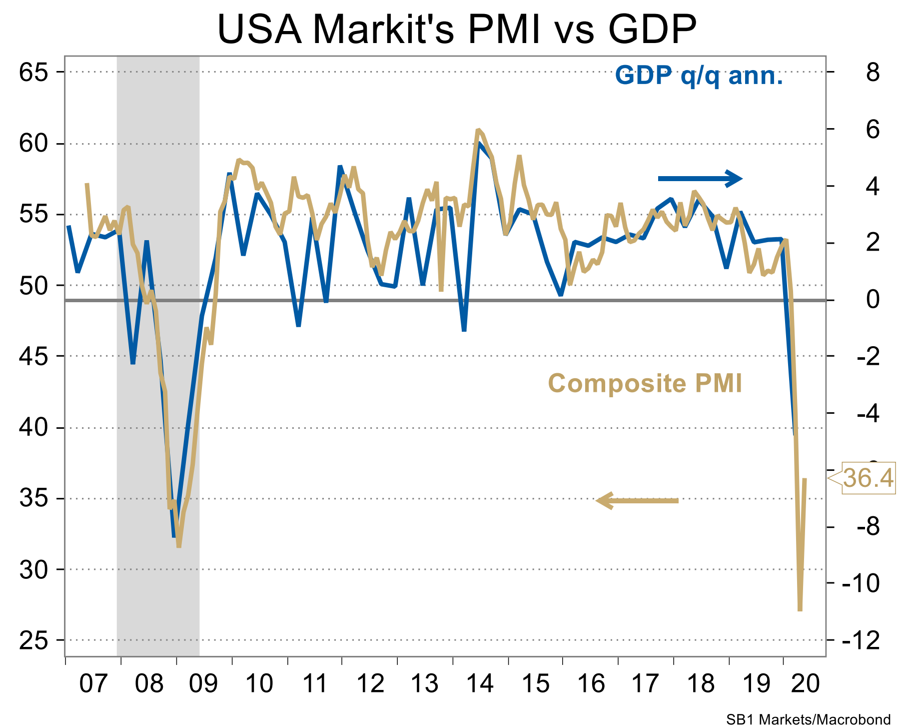




Markit's PMIs up, still very low

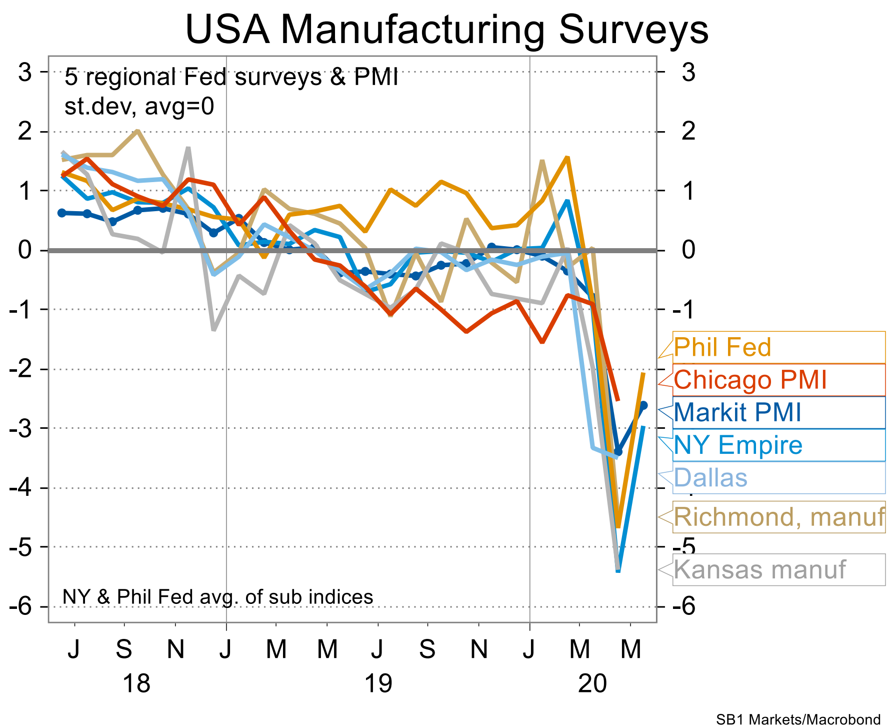
The composite index up 9 p to 36 in May, signalling a(n unlikely) sharp contraction from April

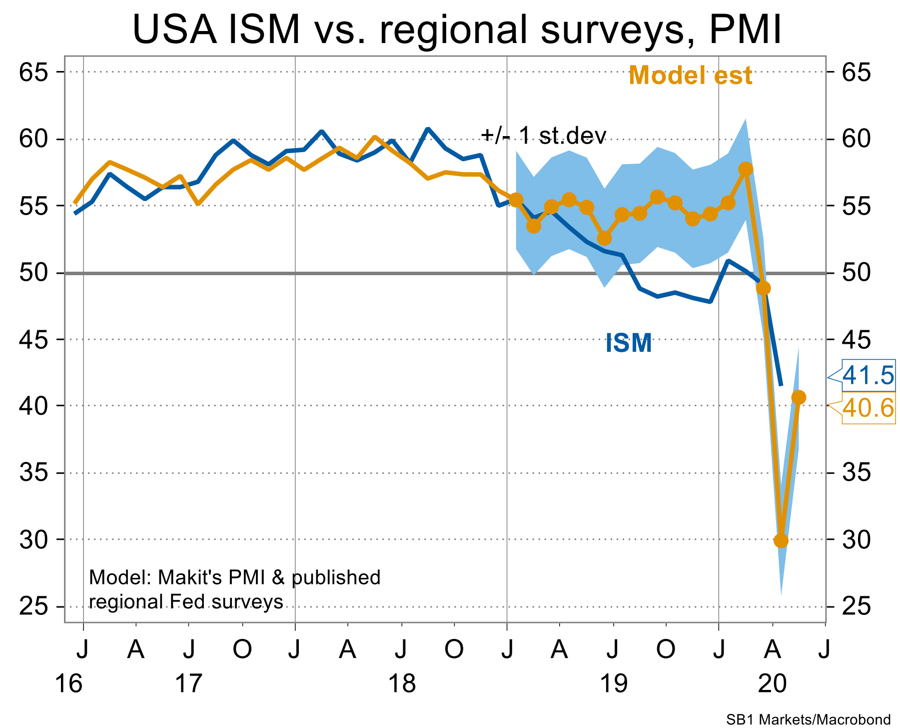




Manufacturing ISM up in May? Perhaps – but it was far too strong in April

Due to the sharp increase in delivery times in April, the ISM total index did not collapse

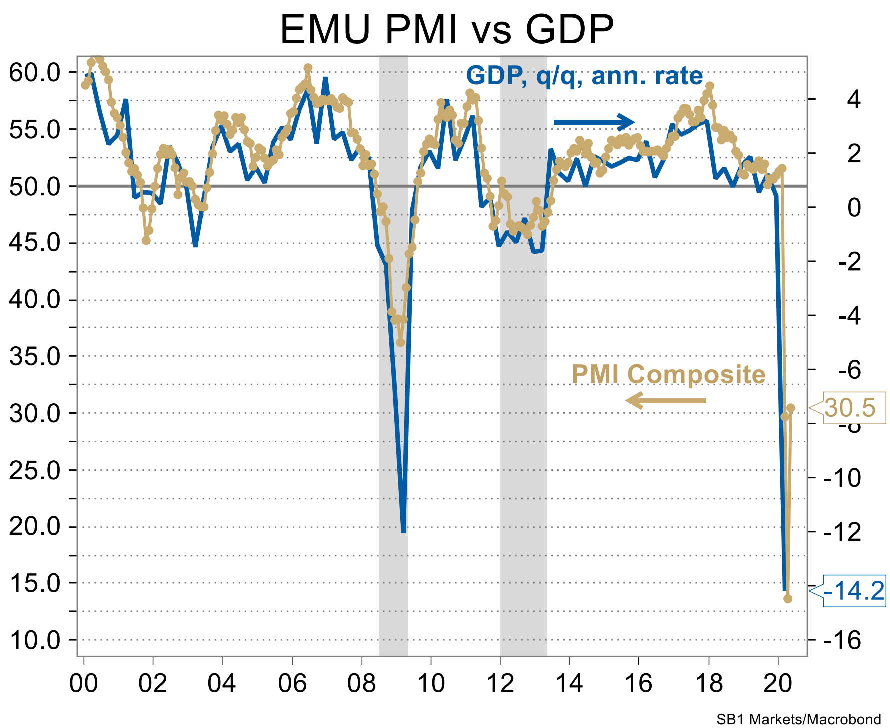


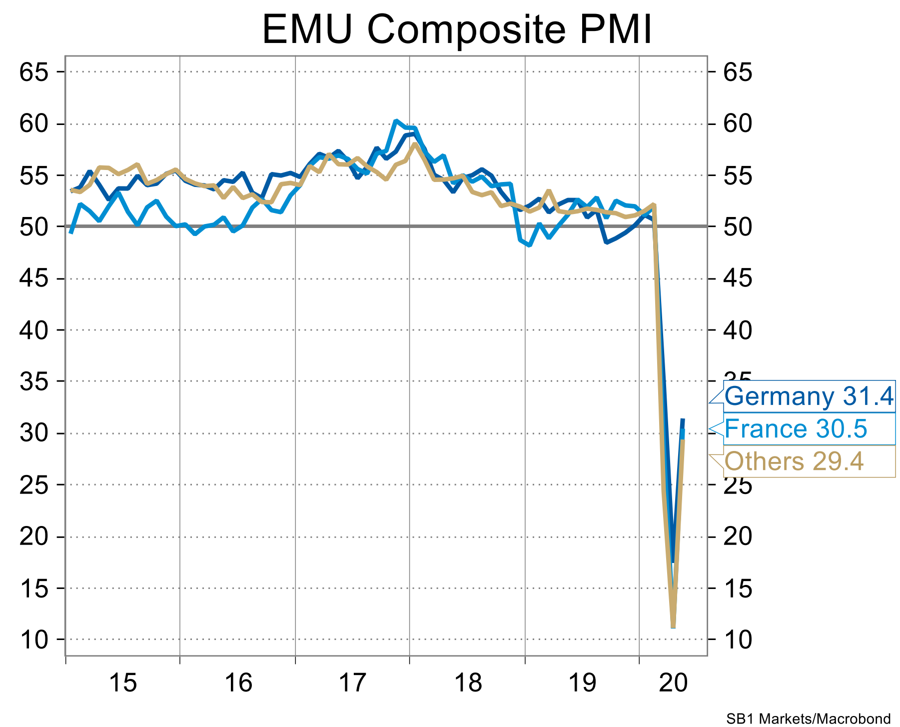


- … even as new orders, production and employment contracted as almost never before
- In May, two regional Fed indices as well as Markit's PMI have recovered but they are not signalling a higher ISM number than in April

Lockdown easings lift PMIs but levels remain (too?) low

The composite PMI rose by 16 p to 30.5. Germany, France & the avg. of the others at the same level

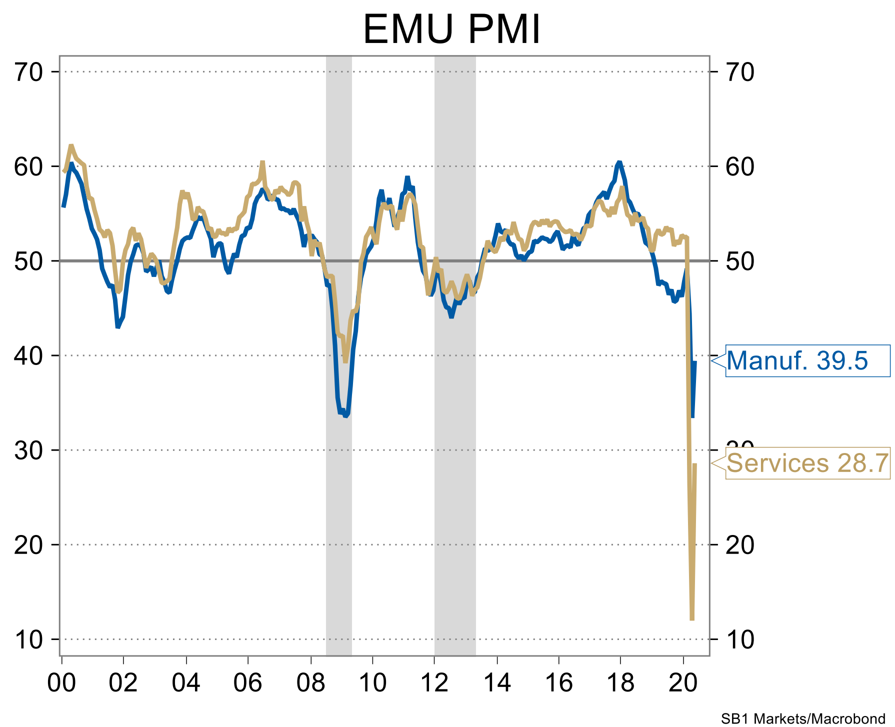


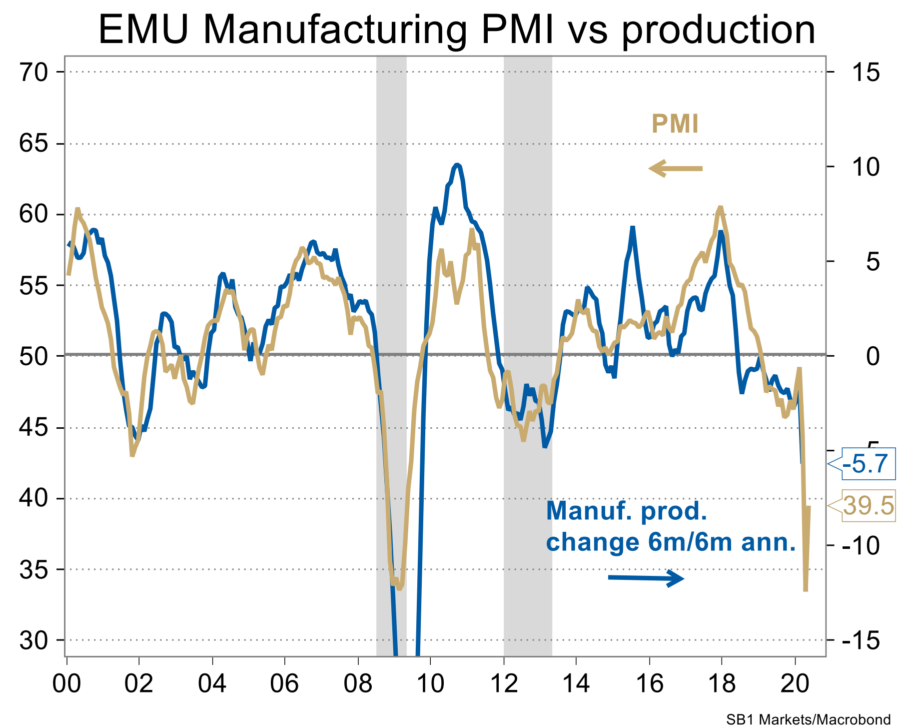


- The PMIs recovered the April losses but the index level in May signals a sharp contraction in activity. Is it really that bad? The PMIs have not been able to detect the exact timing of the recovery here either

An unprecedent collapse in services as businesses are put in lockdown

Manufacturing activity fell much less but the PMI probably masks a steeper decline

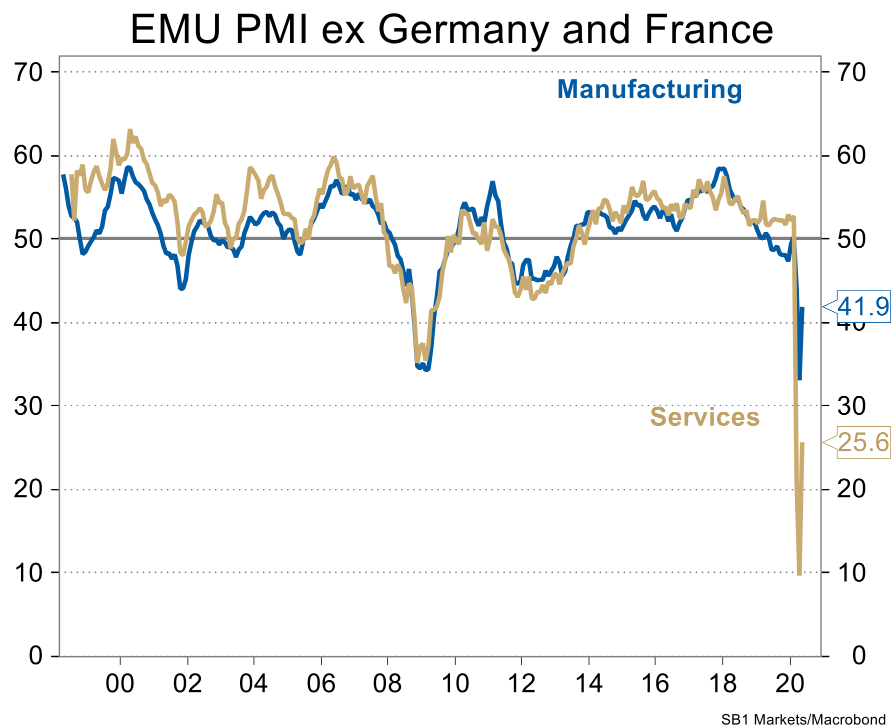


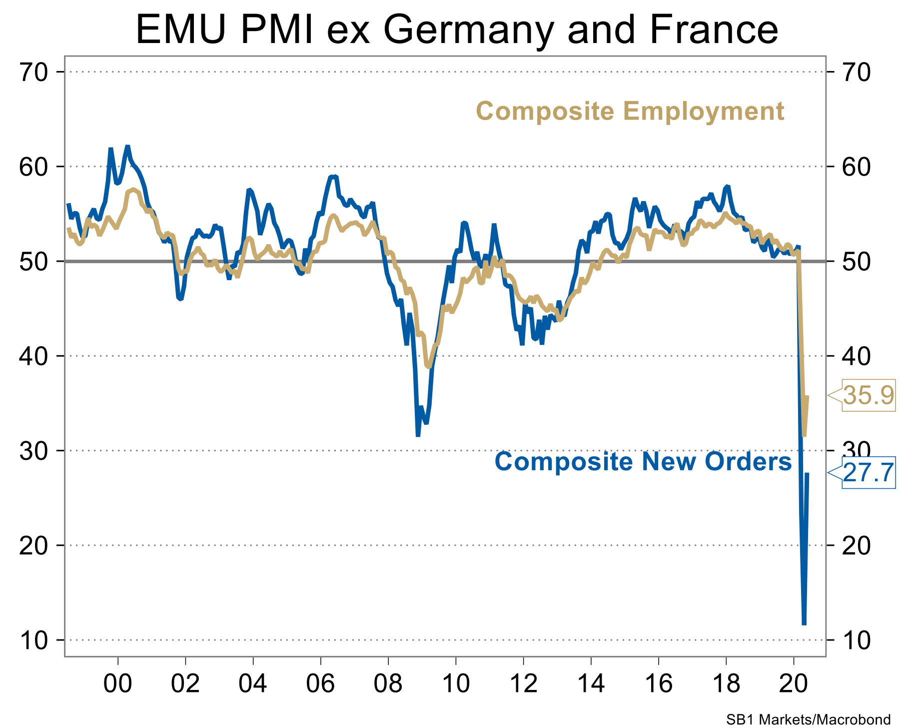


- Services received the largest blow, as tourism, restaurants, events and much more were shut down. In Spain and Italy, the average fell to 9
  - » However, manufacturing activity fell sharply too, the output index fell by 20 p to 17, the lowest level ever (the output index never fell below 30 during the Financial crisis
- The activity level in Europe was extremely low in April. We expect a modest recovery in May as there are more easing of restrictions than tightening (are there any?) and some businesses should report higher activity. If more companies report growth than a further contraction in May, the PMIs should rise to above 50 – at least if companies are answering correct, what's the change in activity from last month – and not vs normal or last year

PMIs up in EMU ex. Germany & France (read Italy & Spain)

The levels are still extremely low, here too

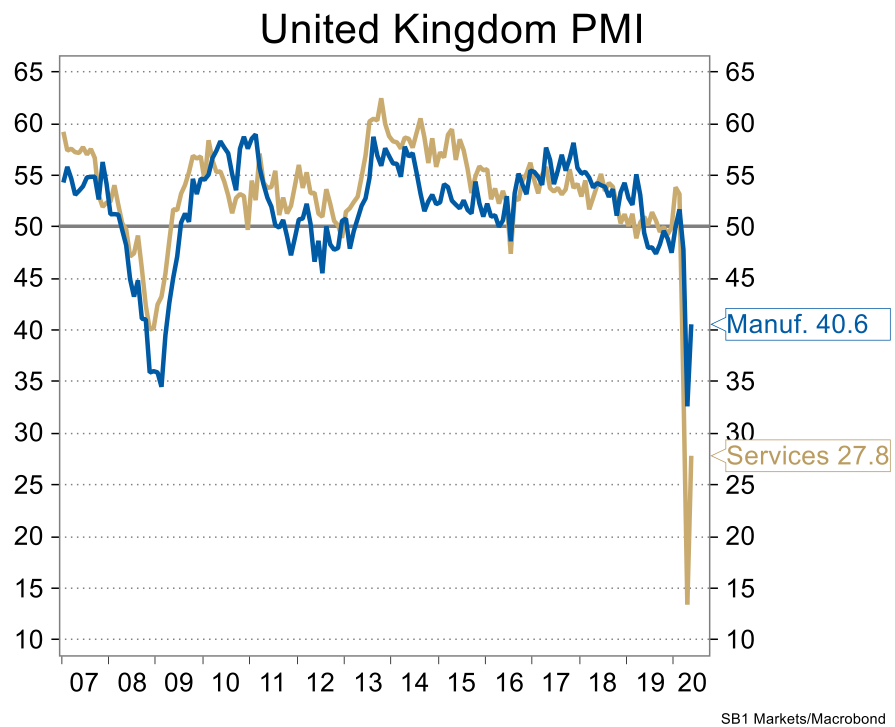


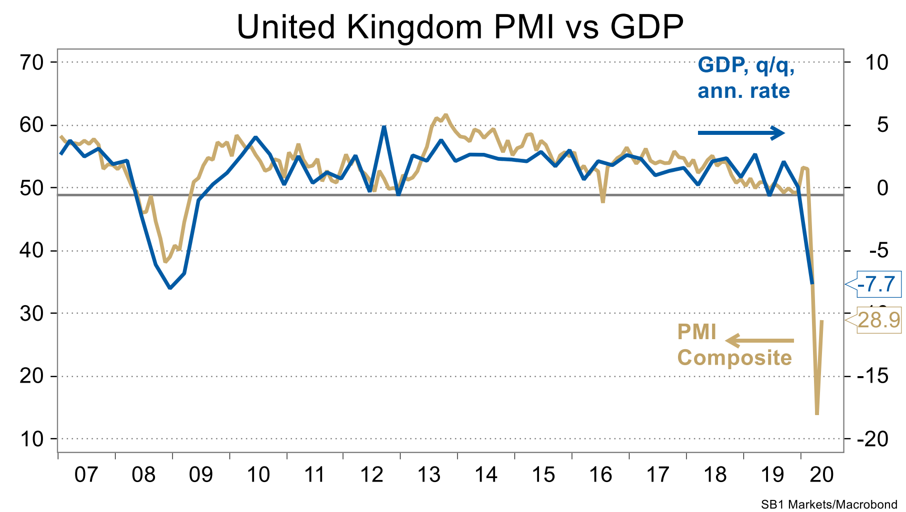


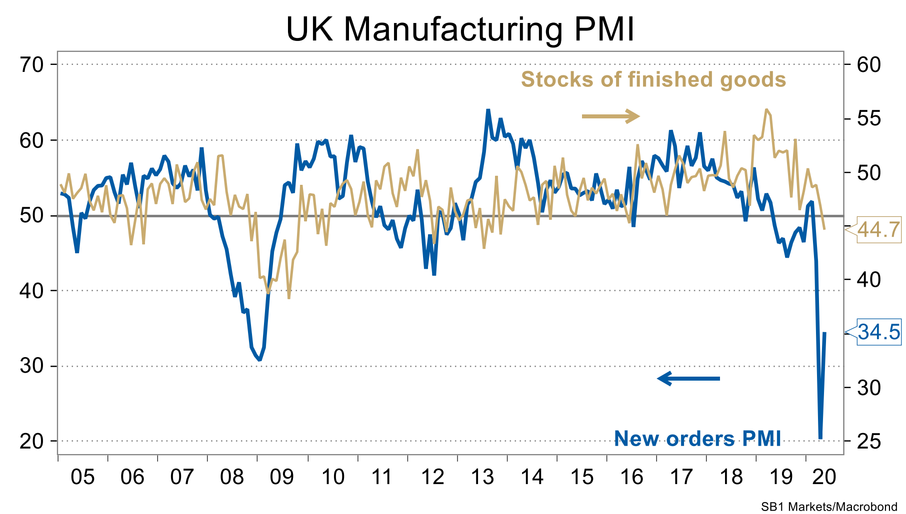
- Preliminary PMIs are only published for total Eurozone, Germany and Spain, and an implicit average of the others

The PMIs up in May, still signalling a sharp contraction in May. We doubt

Both manufacturing PMIs recovered in May but is still (formally) signalling a further contraction

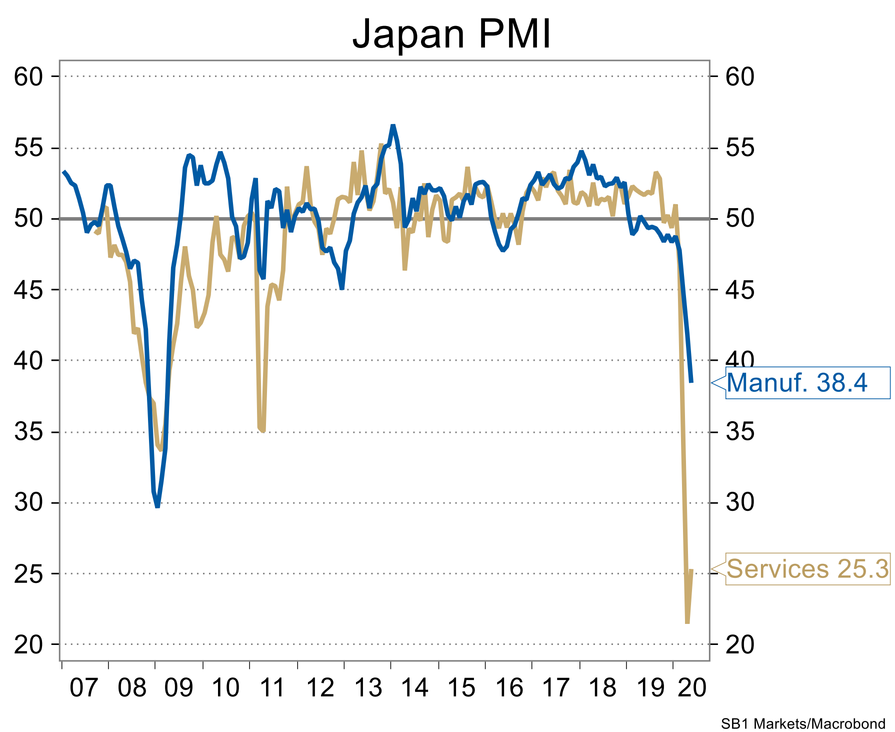


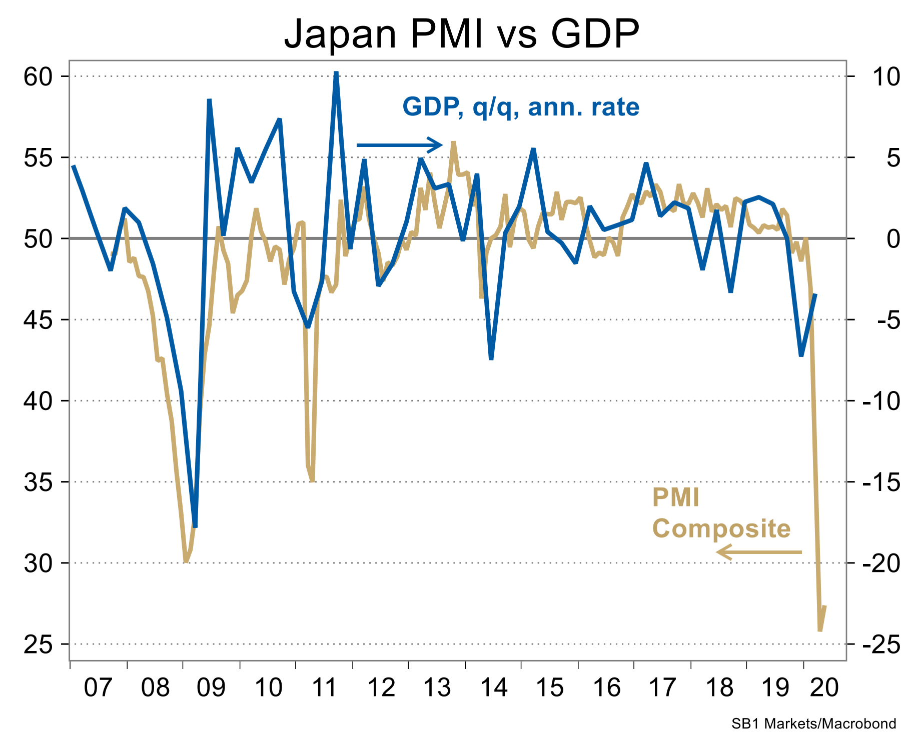




PMI extreme weak in May too

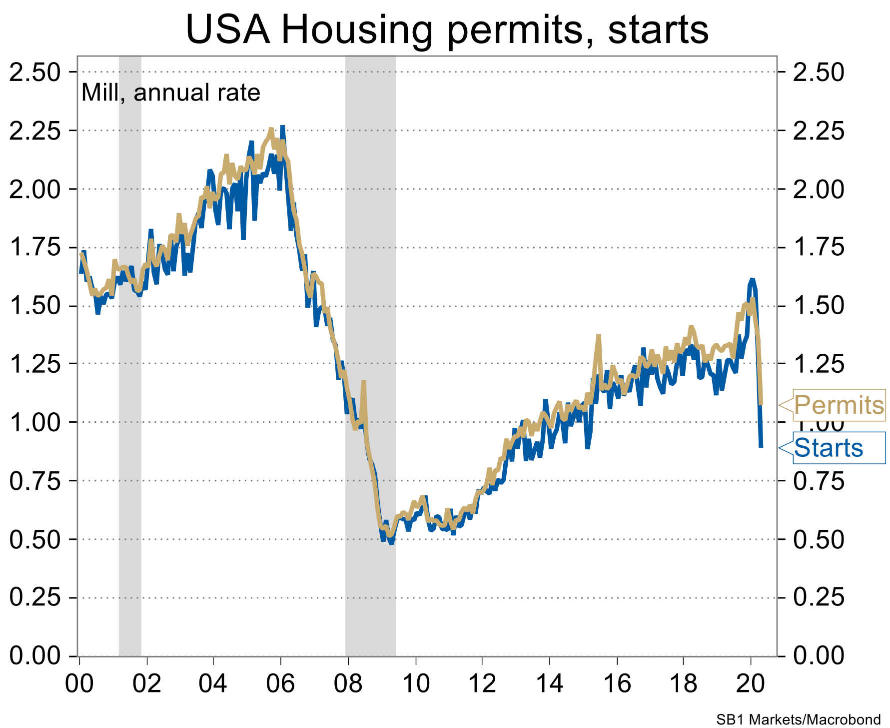
The composite PMI just marginally up, to 23 from 24. Manufacturing further down

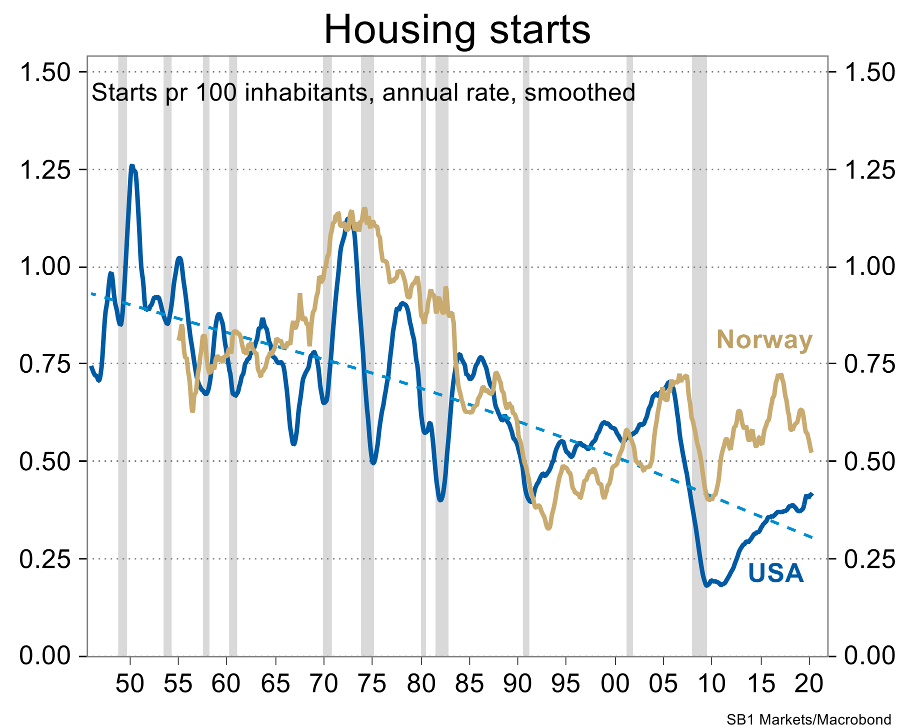




Housing starts down as expected in April, permits less so

Data of course heavily influenced by lockdowns, still uncertain what the 'real' trend is

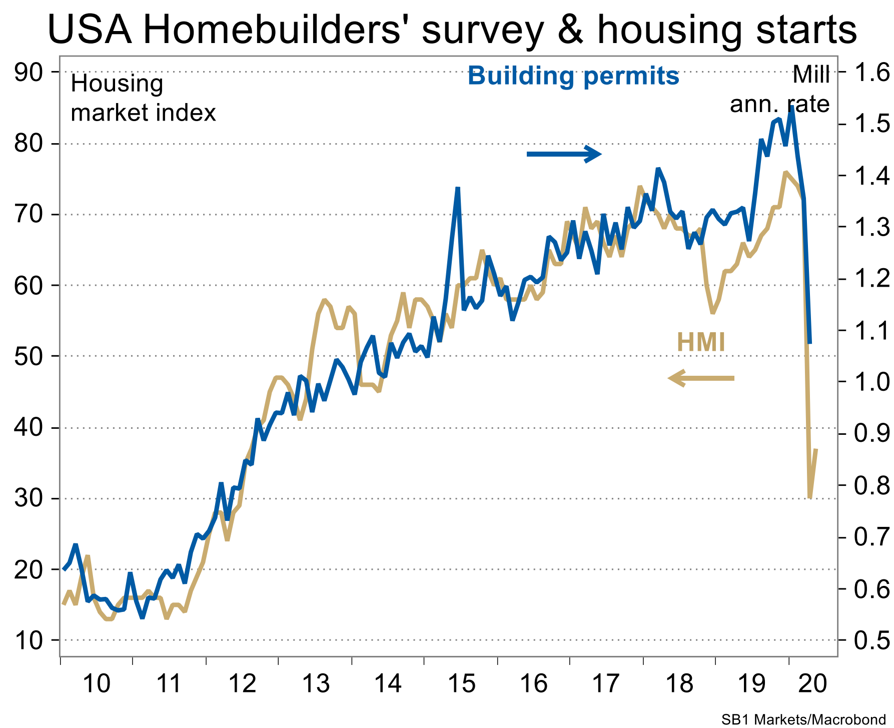


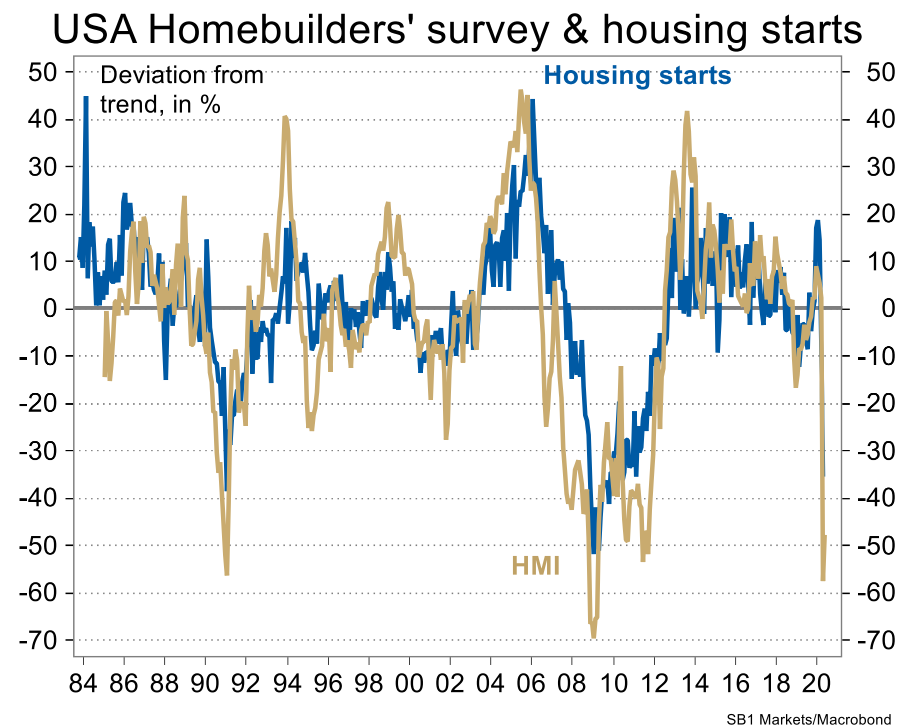


- Housing starts fell by 30% in April, following the 17% decline in March – in sum down 45% from the local peak in January. The decline in April was as expected
- Building permits fell 21%, less than expected – and they are down 30% from January
- These data points are 'impossible' to interpret, due to the short term impact of the lockdowns
- Homebuilders do not expect any immediate recovery

Homebuilders index up in May but still signals a further decline in housing starts

The HMI rose 8 p to 38 in April, as expected. The level signals a 40-50% decline in housing starts



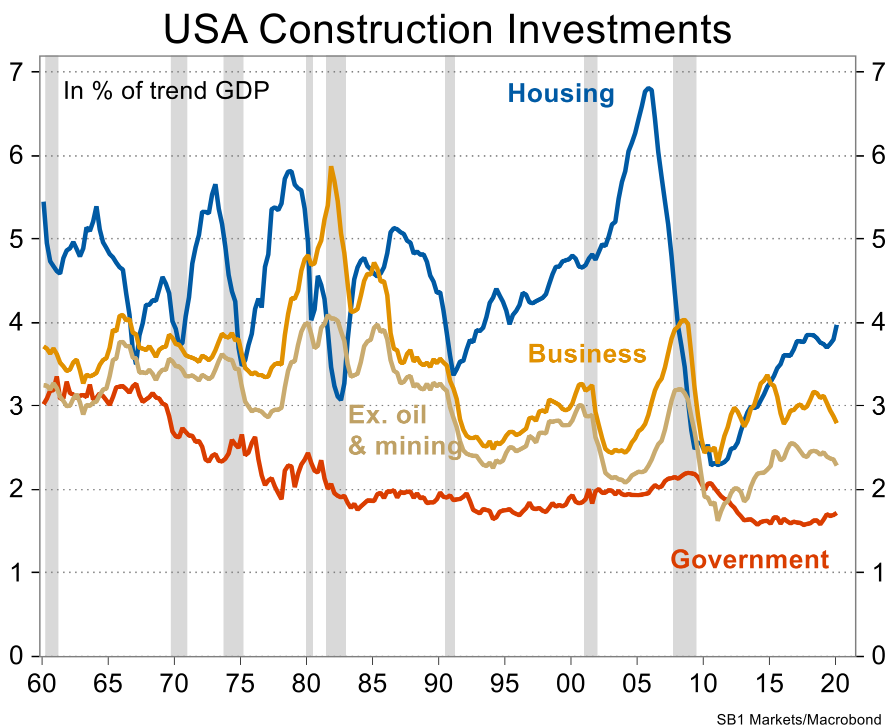


- The housing market index (HMI) peaked in December, and fell more than ever m/m in March, to 30 from 72. The partial recovery to 38 does not indicate higher building activity than reported in April

HMI is a based on a sentiment survey of US homebuilders, in which the respondents rate housing market conditions at the present time and the next six months. The index ranges from 0 to 100. The index is closer correlated to the activity level, than to the growth rate.

If housing crashes, it will not be like last time – it's physically impossible

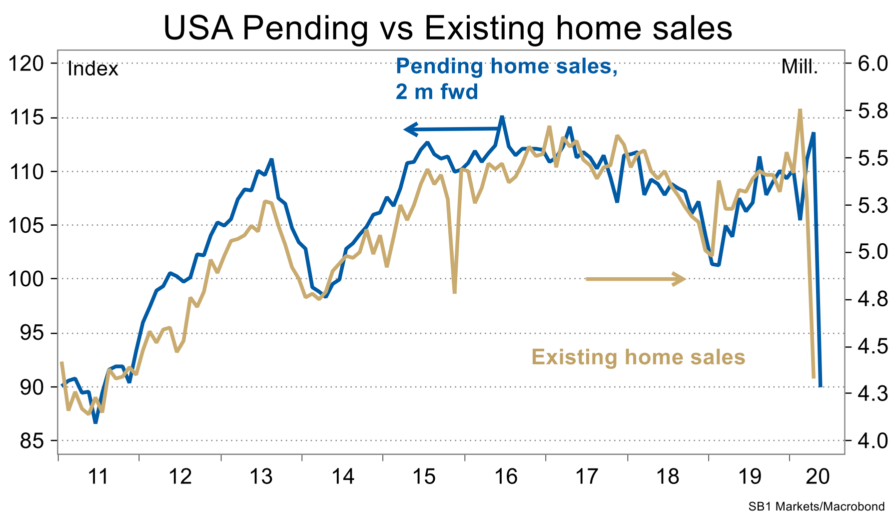
Housing investments are at a much lower level. Business construction investm. not that high either

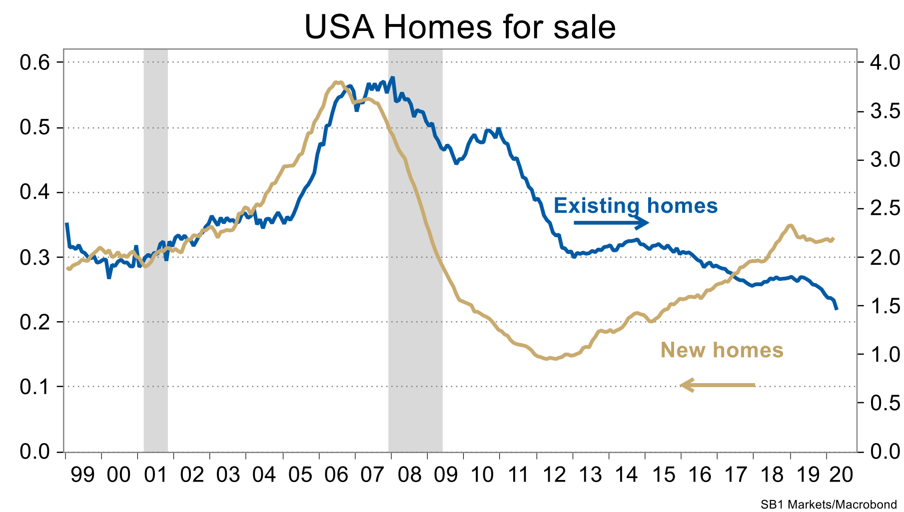


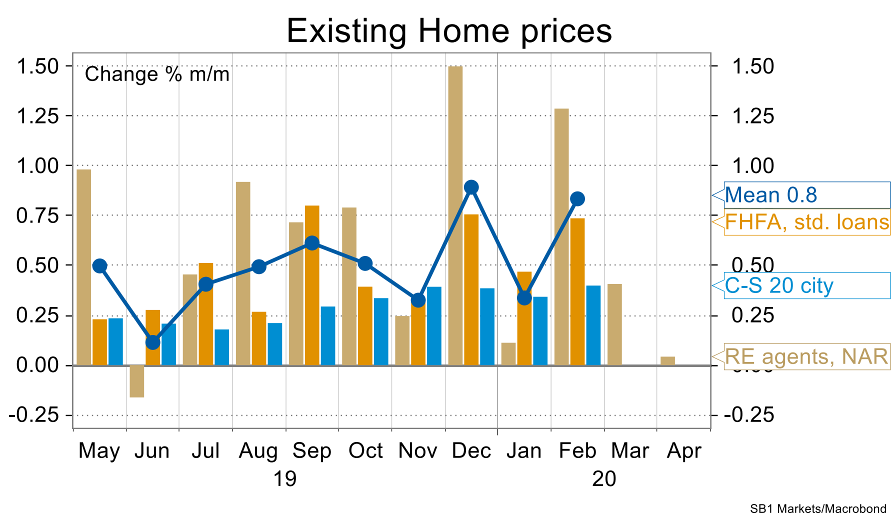
- The housing investment/GDP ratio fell to 3.3% in 2010 from 6.8% in late 2005 – a 4.5 pp drop
- In Q1, housing investments equalled 4% of GDP. We think a 2 pp decline must be a worst-case scenario this time, still down to far below any earlier troughs
  - » The unprecedented decline in housing debt to income ratio supports this view
  - » If you are a worried person, please not check the Norwegian figures (but you can get an idea by looking at the previous page…)
- Business construction investments will no doubt take a hit now, but the downside must be far less than the 1.7 pp vs GDP decline during the GFC, following a boom the preceding years

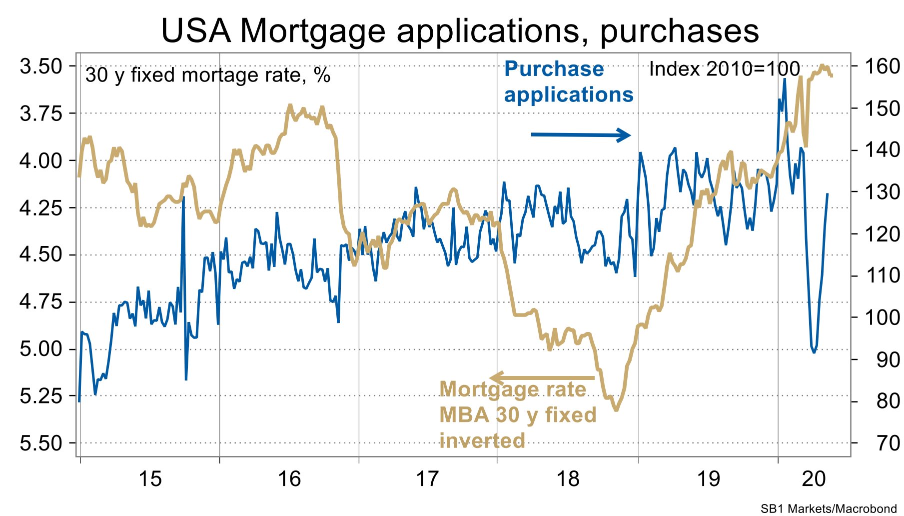
Existing home sales down in April but fewer homes for sale too, prices flat

Of course, fewer homes sales during the lockdown, but not other signs of weakness



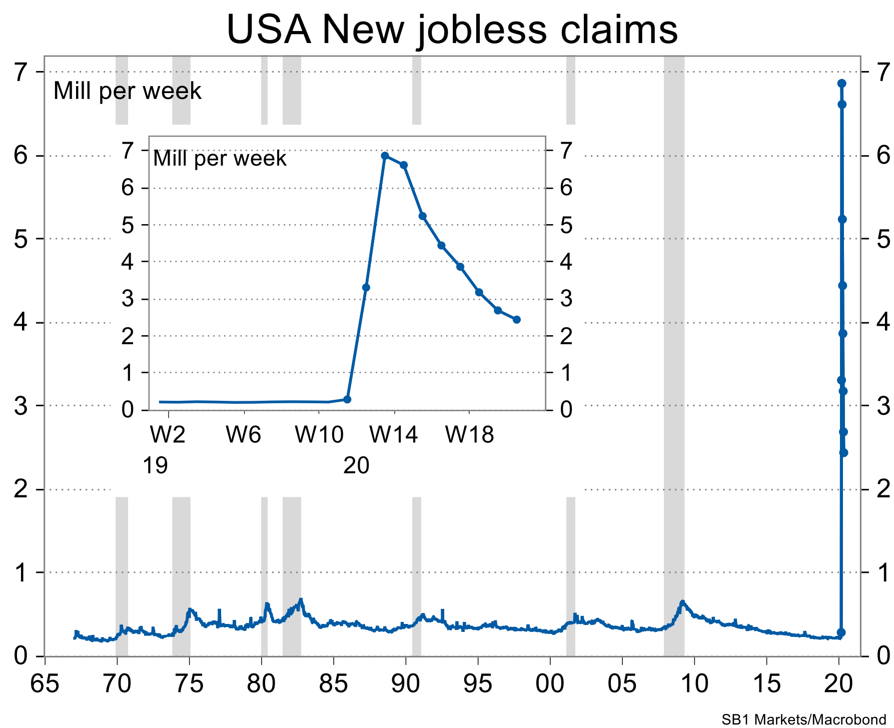


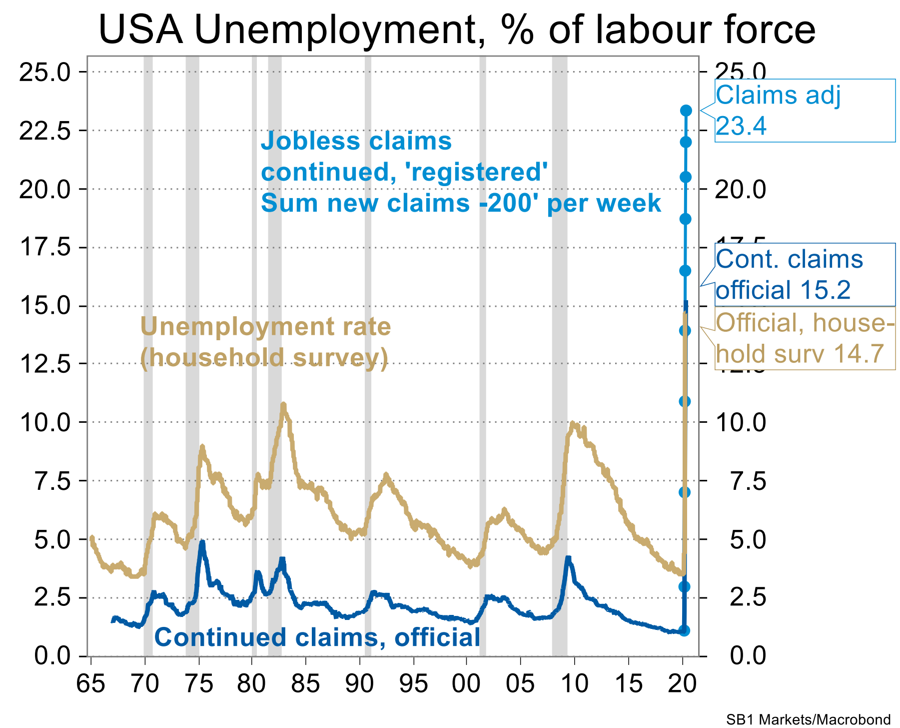




'Just' 2.44 mill new unemployed last week, the sum up 39 mill past 9 weeks

Official claimant count up to 25 mill (15%), real number probably far higher

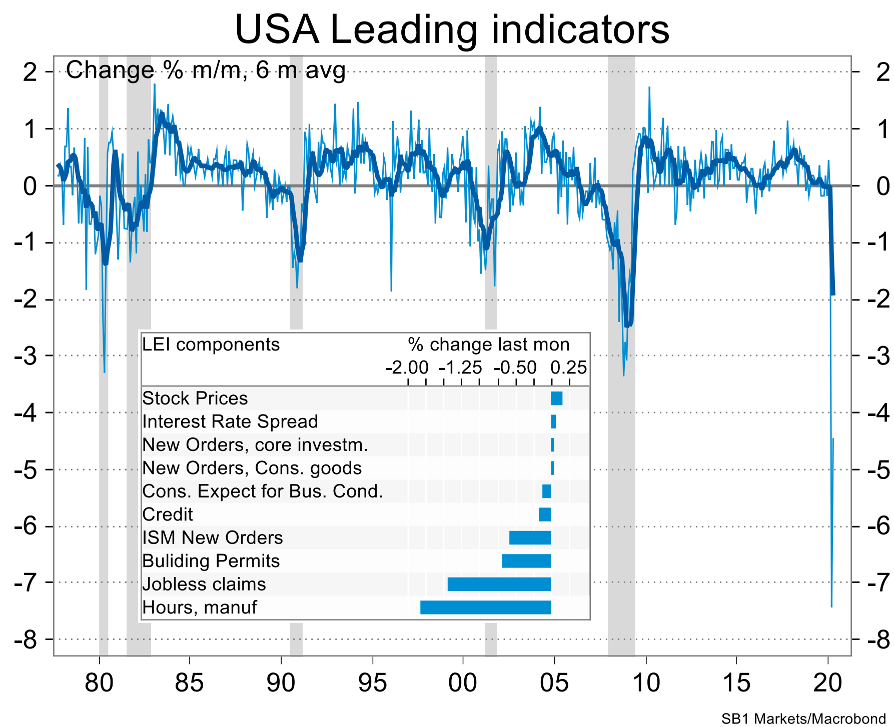


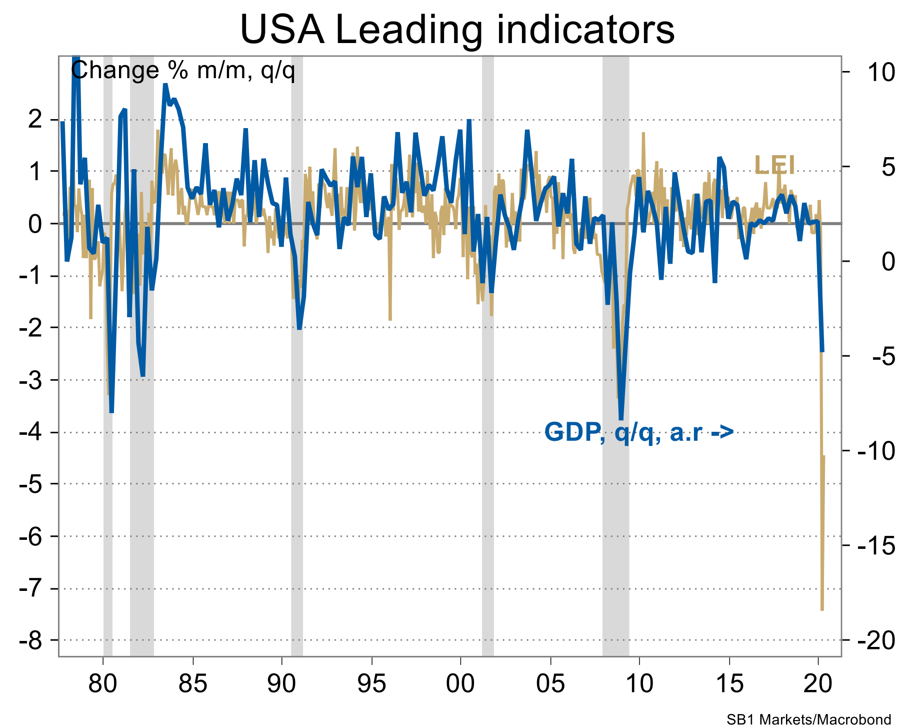


- The inflow is abating, but still 1.6 % of the labour force is entering the labour market offices each week!
- Continued claims have climbed to 25 mill (15.2%) the previous week. If the weekly inflow is accumulated, the number far higher, equalling 23.4% of the labour force. The 'truth' may be somewhat in between, as many applications are not yet processed – and some applicants have returned to a job – or have given up searching for work
- For the lowest paid unemployed, the weekly unemployment benefit compensation at USD 600 is higher than their ordinary wage which of course is not the best incentive to return to a job

Leading indicators up in April, still signalling a 10% GDP decline pace

Jobless claims less of a drag in April but anyway just stock prices materially on the upside

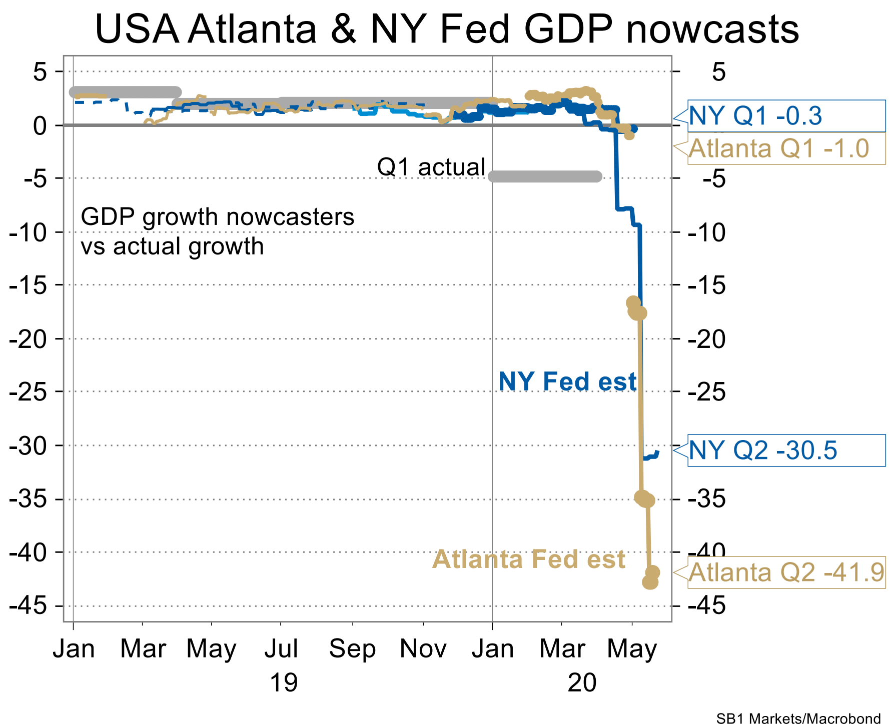


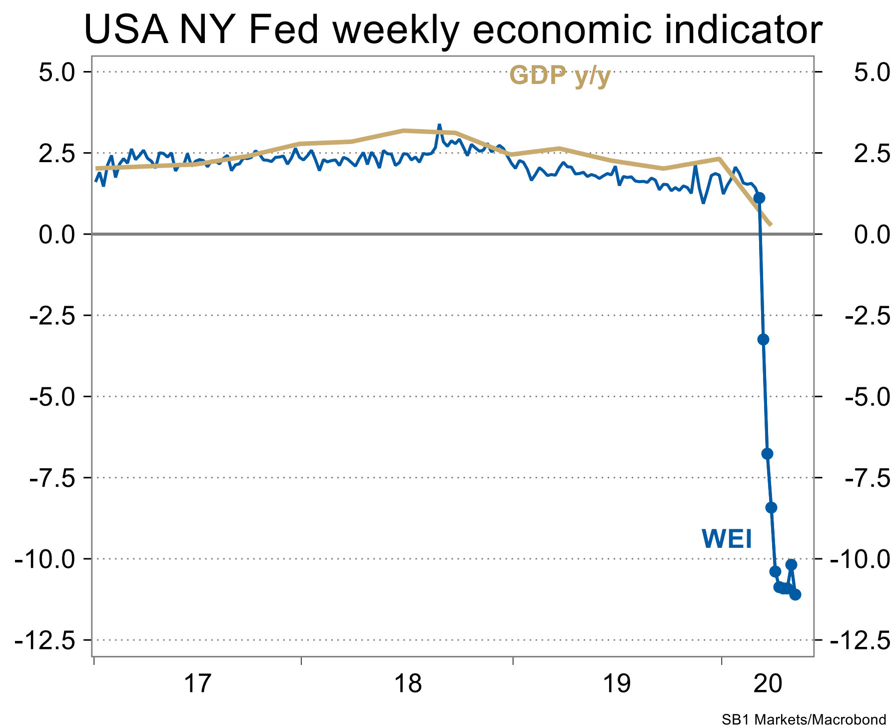


Conference Board's Leading Index (LEI) is a composite index based on ten already published leading indicators that are judged to be leading the overall cycle

The nowcasters are gradually coming up to speed (or rather down)

GDP is probably down some 12% from the pre corona level

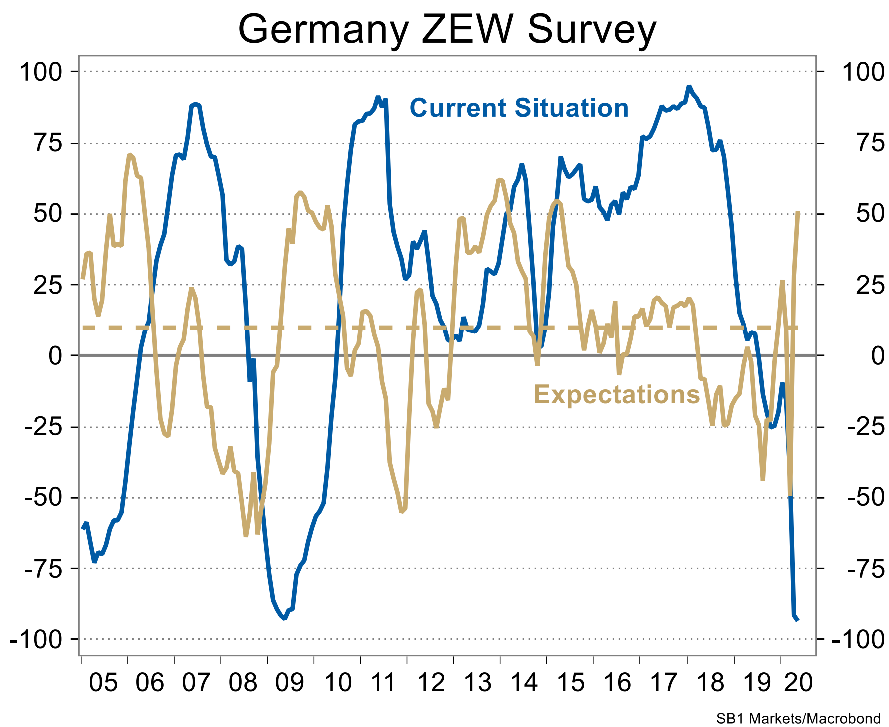


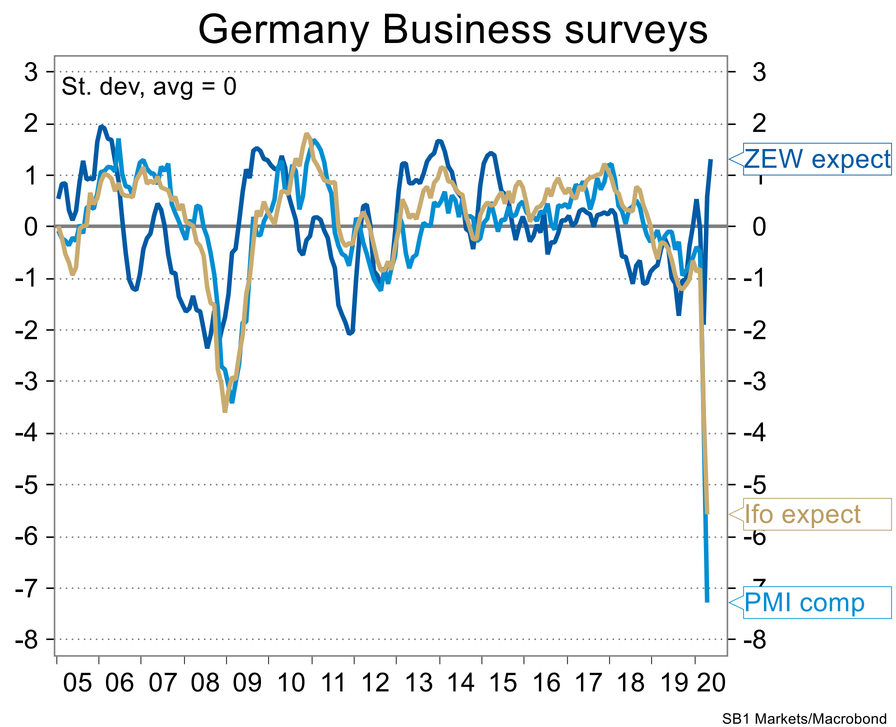


- The NY Fed's weekly economic indicator reports 11% y/y decline. The deceleration has clearly slowed past two weeks (and some 14% vs the pre corona level, as GDP grew through 2019)
- The 'old' nowcasters from NY & Atlanta Fed report a 31 – 43% decline q/q, in annualised terms – equalling a 10 – 13% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 11 – 14% vs the Q4 level

ZEW's future so bright… But it ain't that good today, of course

The expectation component in the ZEW survey rose further in May!



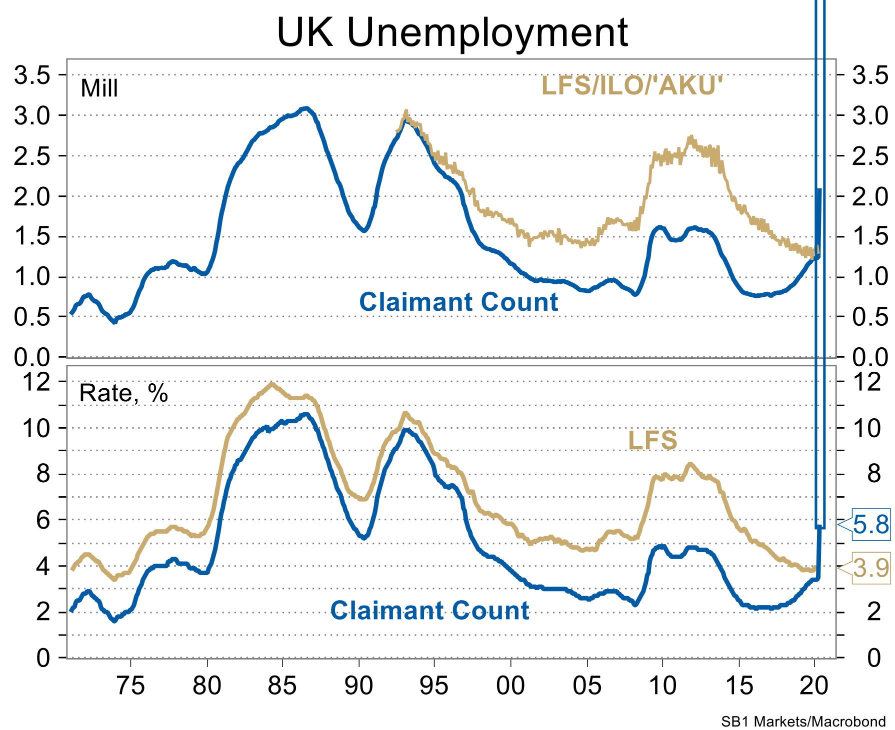


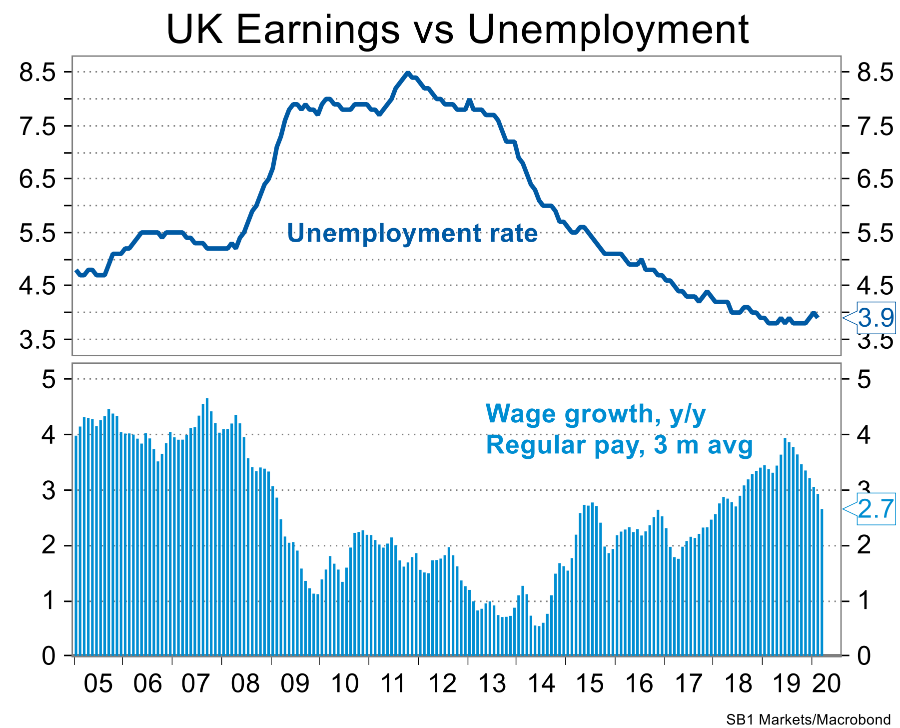
- The current situation is close to the bottom level during the financial crisis – but not worse either
- ZEW is a sentiment survey among economists and investors, and not a business survey, as the PMI and Ifo. Hence, the steep downturn of the index was no surprise. ZEW has been too upbeat vs PMI/Ifo the past couple of months and the correlation to actual economic growth is weaker than vs the two other surveys. We usuall prefer the business surveys, and the April optimism is most likely premature but still, corona is not the end of the world barring really bad news on immunity, medication or vaccines

SpareBank 1 MARKETS

Unemployment claims up 2.3 pp to 5.8% in April. But the real rate is 33%...

Open umployment rose 0.9 mill to 2.1 mill. But 10 mill. employed are paid by the Government...



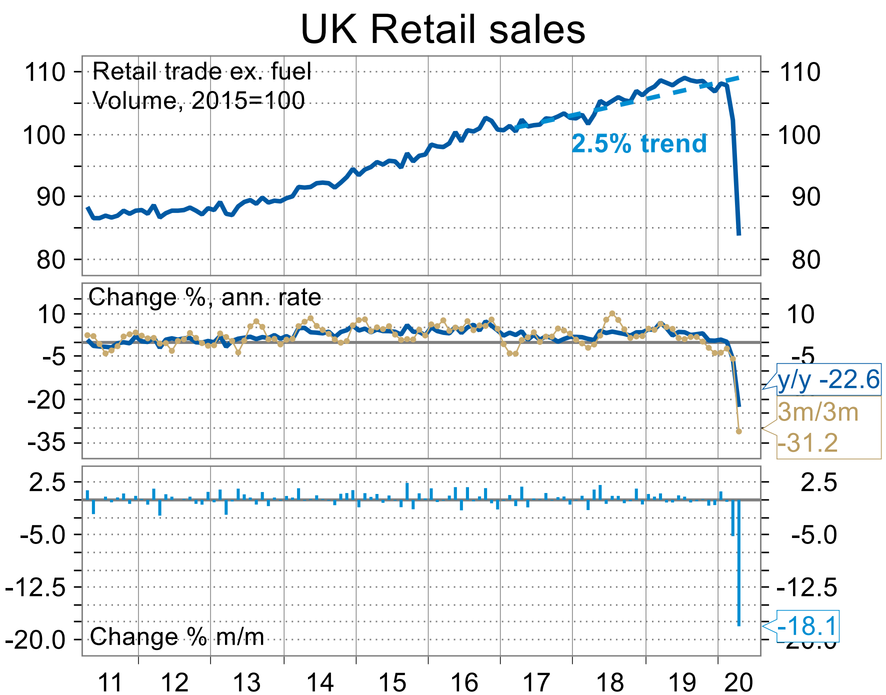


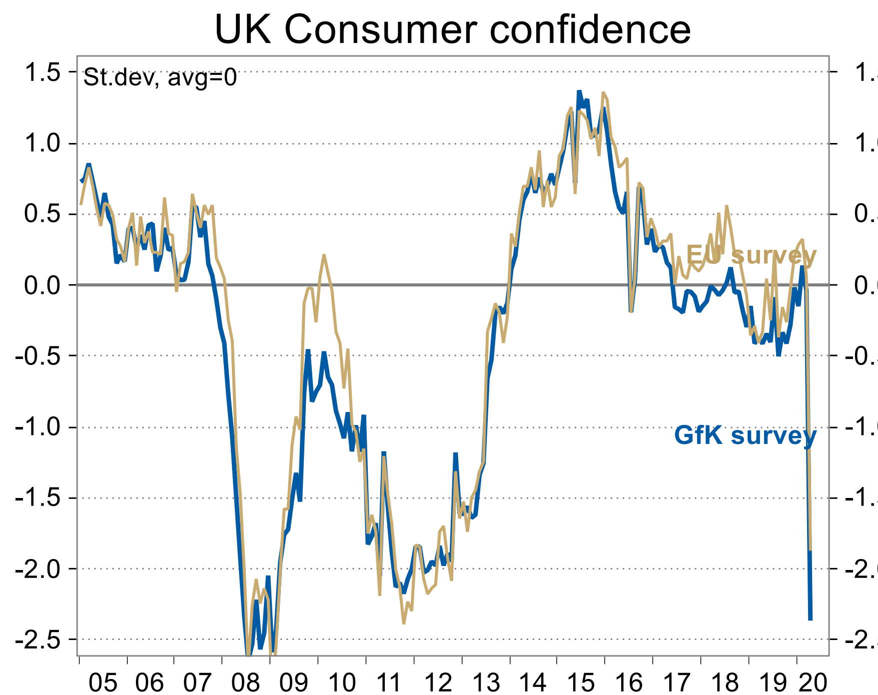
- In UK, the government has subsidied 7.5 employees and 2.5 mill self employed who are furloughed, in sum 10 mill - equalling 29% (!) of the labour force. These furloughed are still counted as employed, and not as employed
- The labour force survey has not yet reported any increase in unemployment at all
- Register data signal a 1.3% decline in employment in April
- Wage inflation is slowing steadily, now down to 2.7%, from the peak at 4%. Growth will not doubt slow further, at least adjusted for the change in the employment mix (the lower paid are losing their jobs more than the others)

SpareBank 1 MARKETS

Retail sales down 18% in April, -22% from Feb

Confidence has fallen sharply, just as in rest of Europe

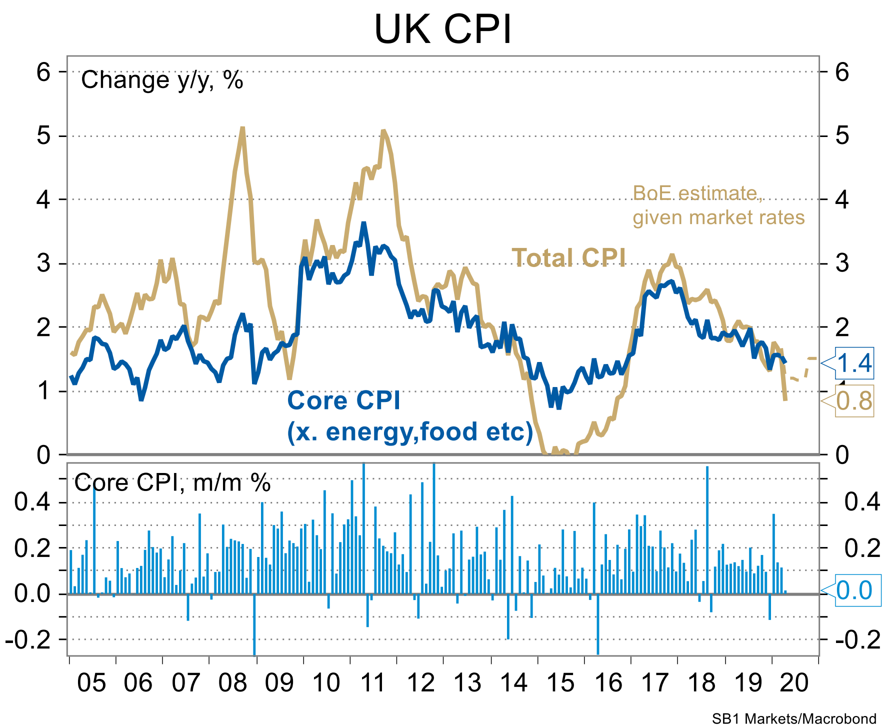


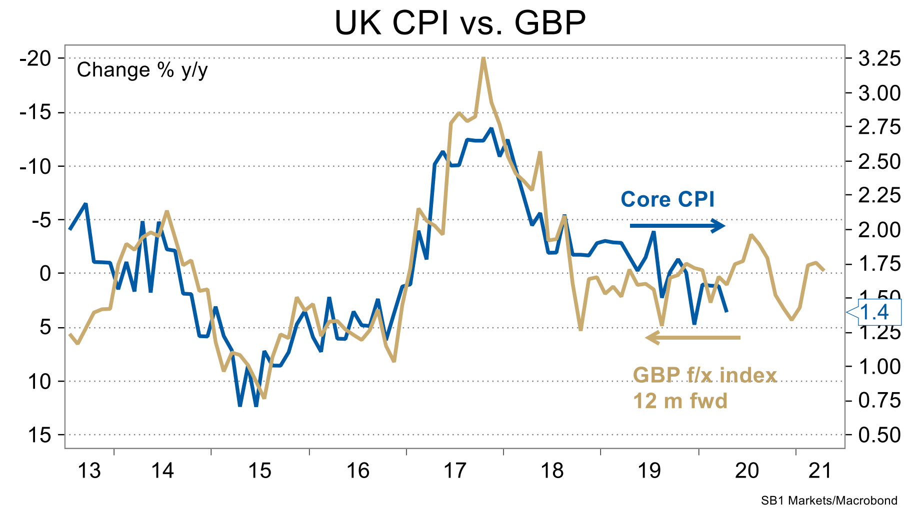


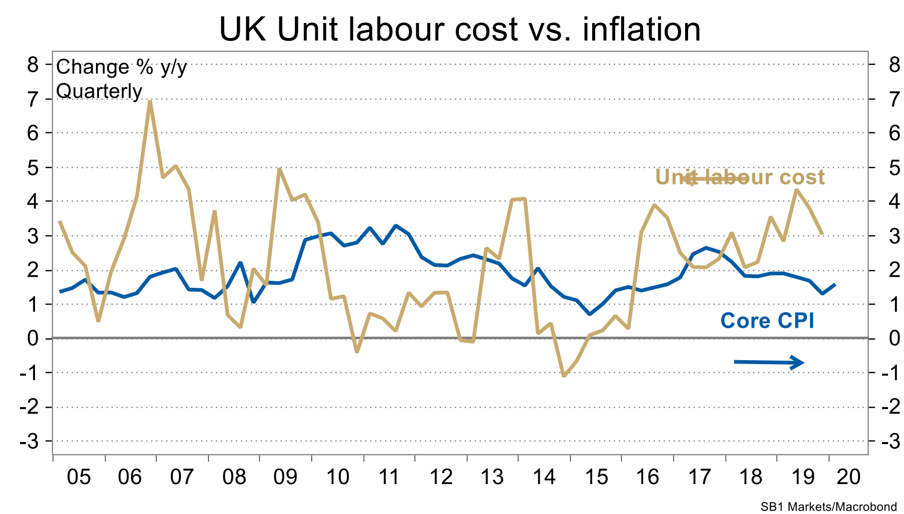
- Food sales are up 8% (as restaurants were closed), while clothing is down almost 60%
- Most likely, sales bottomed in April but the sales level will be very low in May too

Core CPI inflation marginally down to 1.4%, trending down

Core CPI unch m/m in April. Total inflation down to 0.8%, from 1.5%, energy prices came to rescue





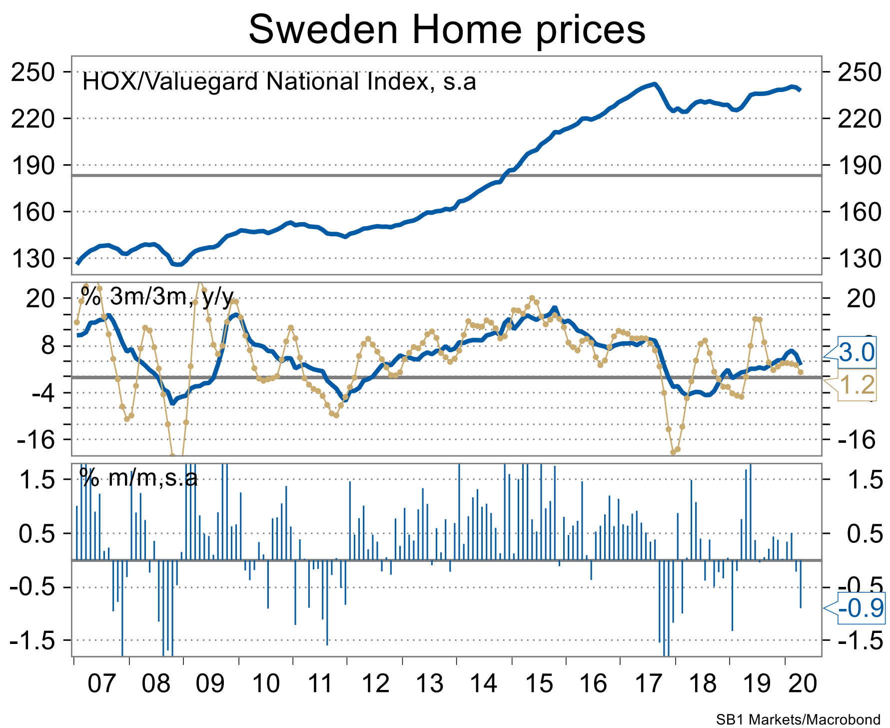


- The ongoing slowdown in the UK economy will pull core inflation down the coming quarters, even if the short term impact is more uncertain with substantial changes in demand patterns

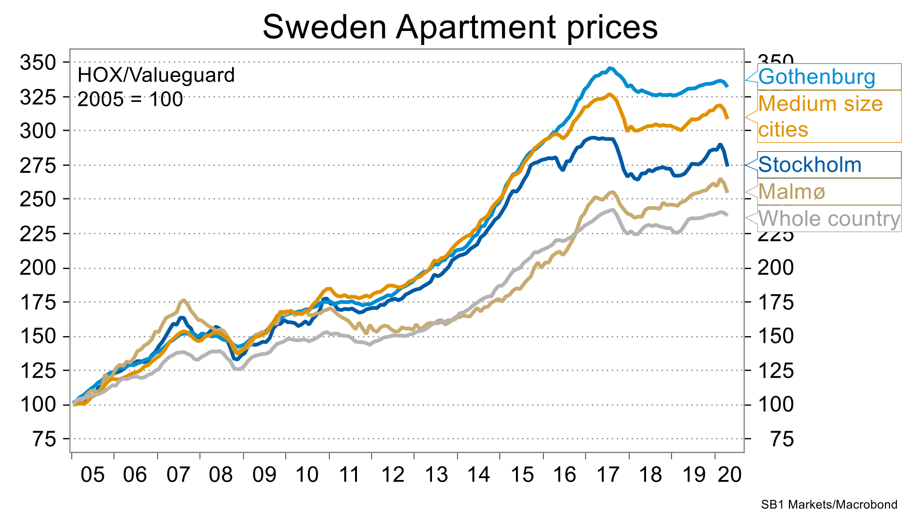
SpareBank 1 MARKETS

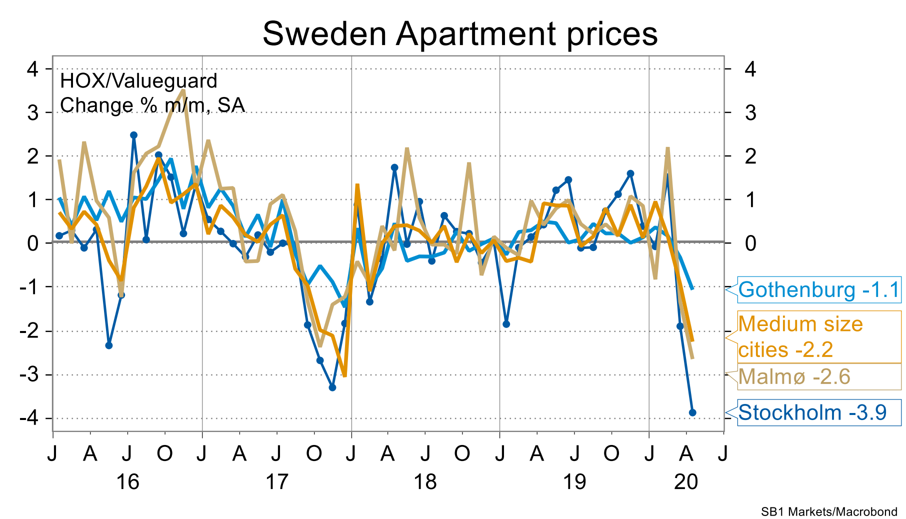
House prices fell further in April, sum Mar/Apr -1%. Stockholm down 5.7%!

Covid-19 is no doubt the reason, and interest rates are not cut (from zero, that is)



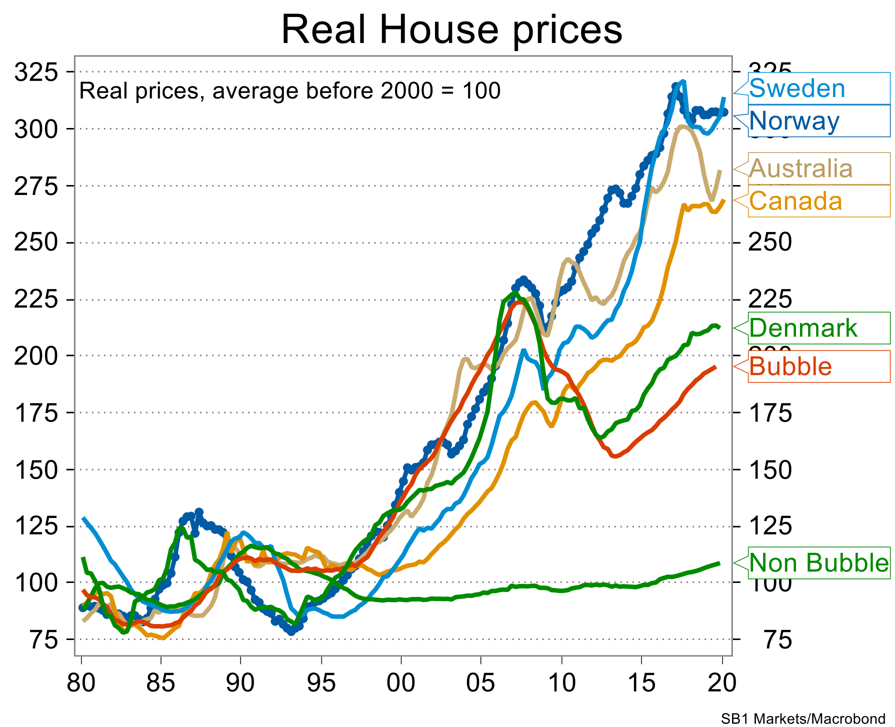
- Prices fell in all the major cities, by 1.1 – 3.9%, while the national average fell by 0.9%
- Following a run until February, Stockholm prices fell 1.9% in March and 3.9% in April, in sum 5.7%, a substantial correction – however just back down to the level last summer
- The nominal price level is marginally above the 2017 peak level, whereas real prices are significantly lower than at that peak. Stockholm prices are 7% down, in nominal terms

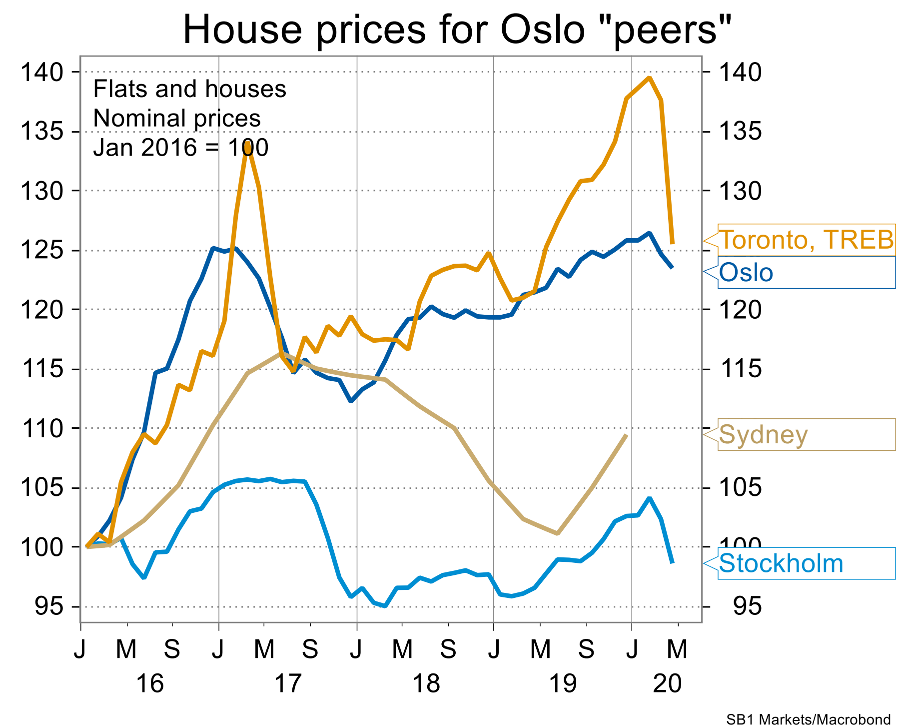




Supercycle home prices are not the winners anymore?

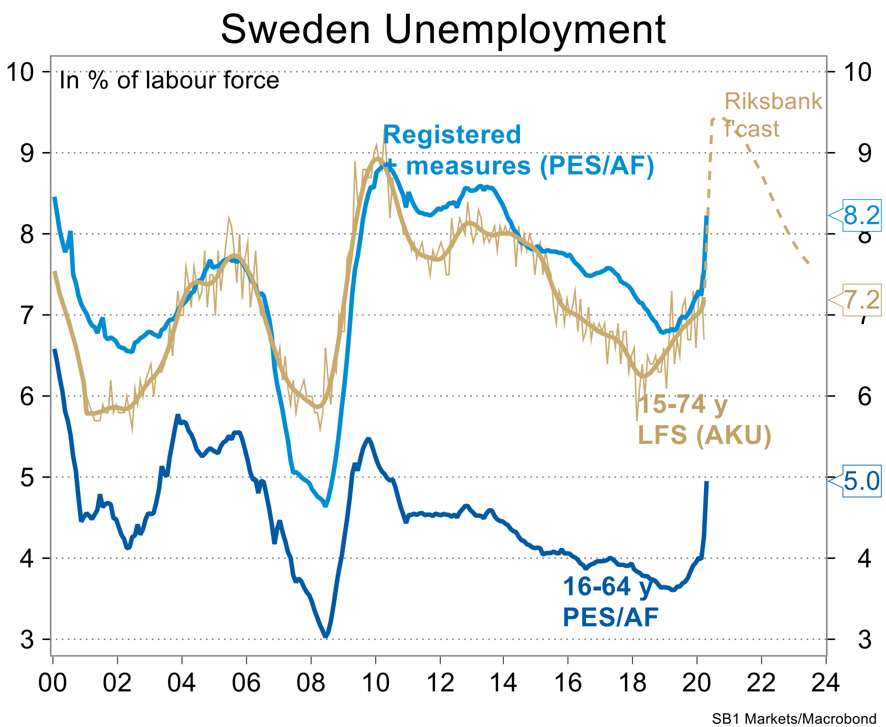
Toronto & Stockholm prices down. Oslo too, but not much (and prices probably rose through April)

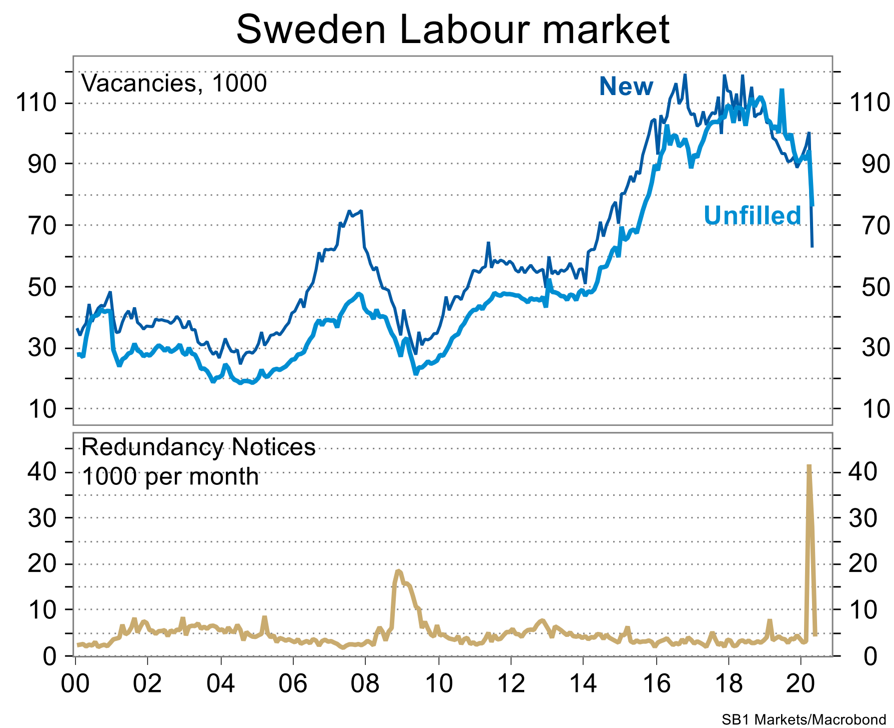




Unemployment up 1 pp to April from February. Fewer but not few new vacancies

Unemployment up 0.7 pp to 5% in April, total unemployment up to 8.2%





- The number of new vacancies fell by more than 35% in April but remained well above previous low levels

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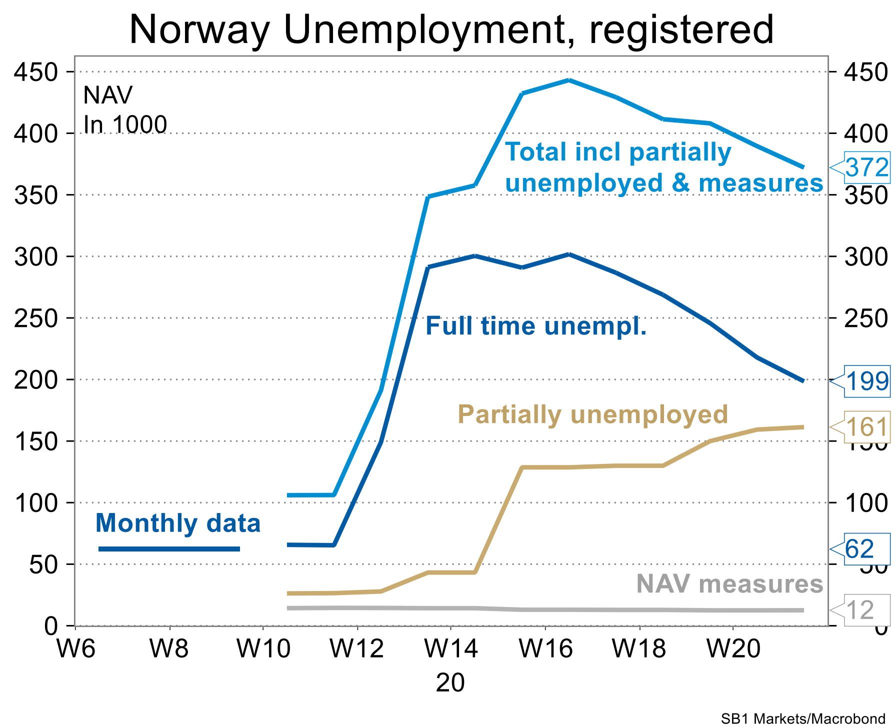
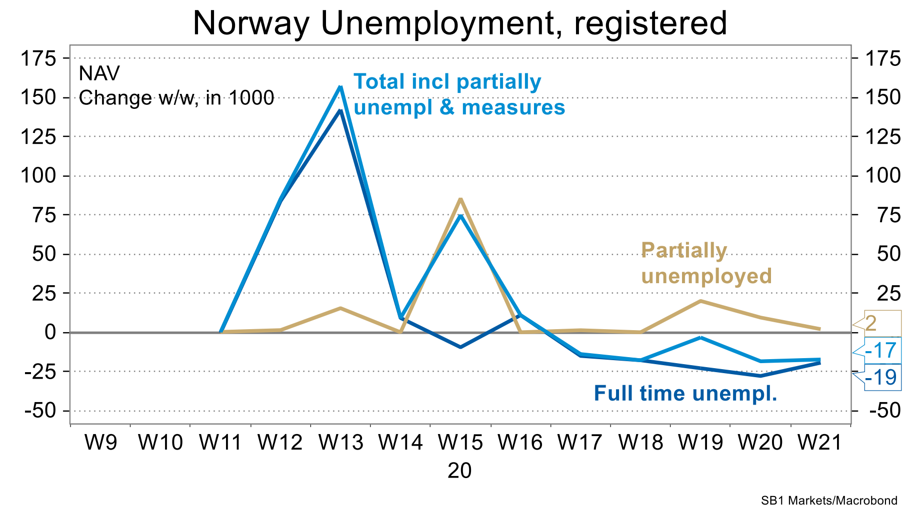
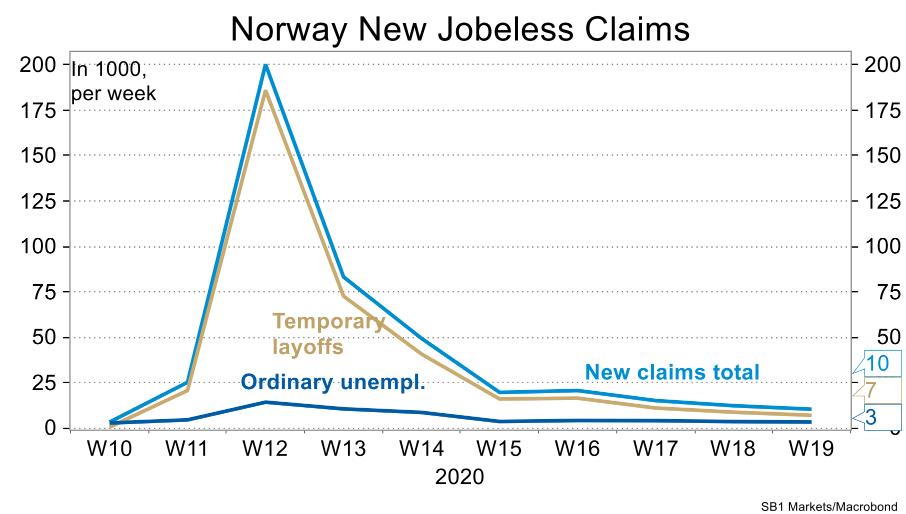
Unemployment is inching steady down as furloughed are reengaged

Down for the 5th week in row, total -71', equalling 2.5% of the labour force, level still high at 13%



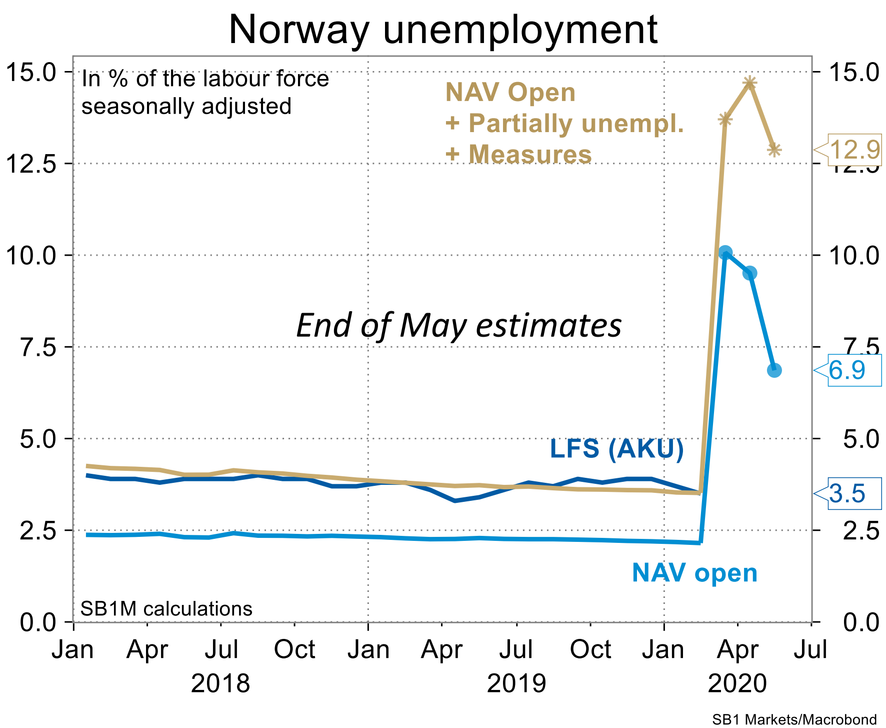


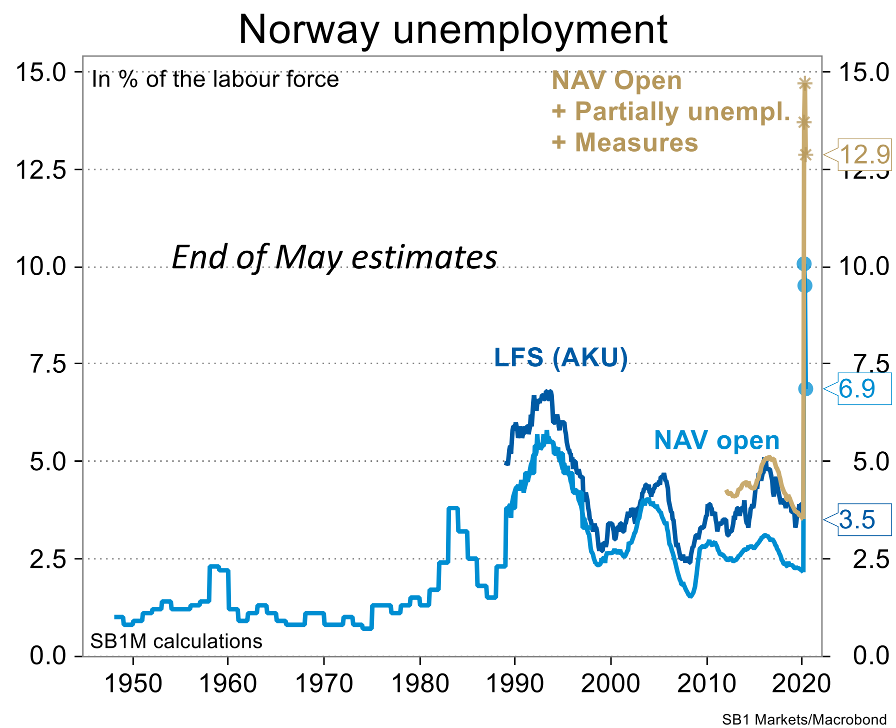


- Full time unemployment fell by 19' last week, while 2' more were counted as partially unemployed, as some fully unemployed were reclassified as partially unemployed – net down '17
  - » Over the five past weeks, total unemployment is reduced by 71'
- The inflow of new jobless claims is on the way down too, to some 10' (7' new temporary layoffs, 3' ordinary unemployed, the latter at rather low number).
- Thus, 17+10=27' persons, or almost 1% of the labour force, was reengaged last week

Unemployment has peaked but is still high

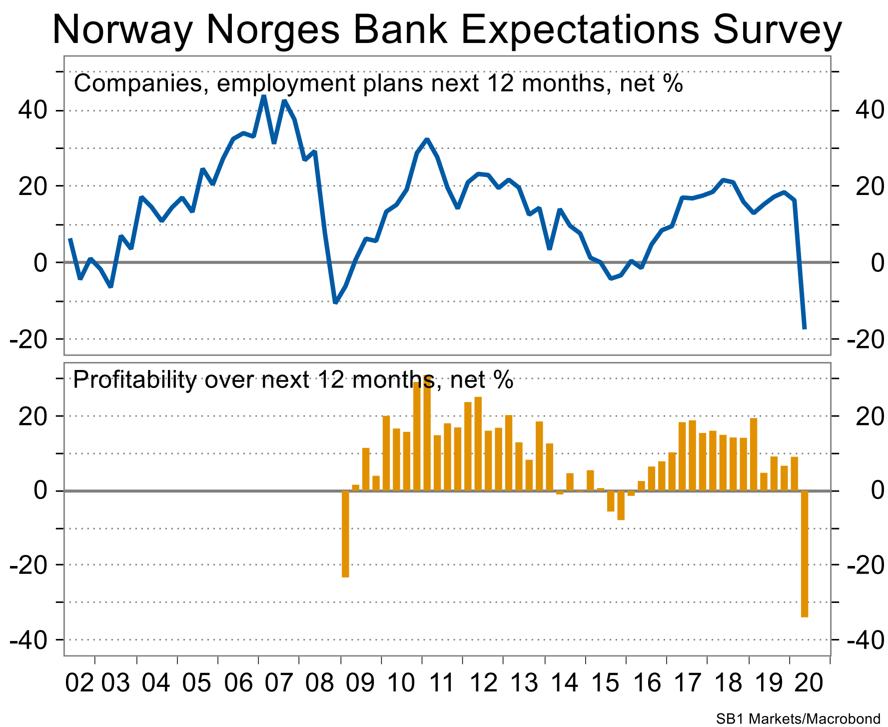
Total unemployment below 13% by the end of May? A reasonable estimate

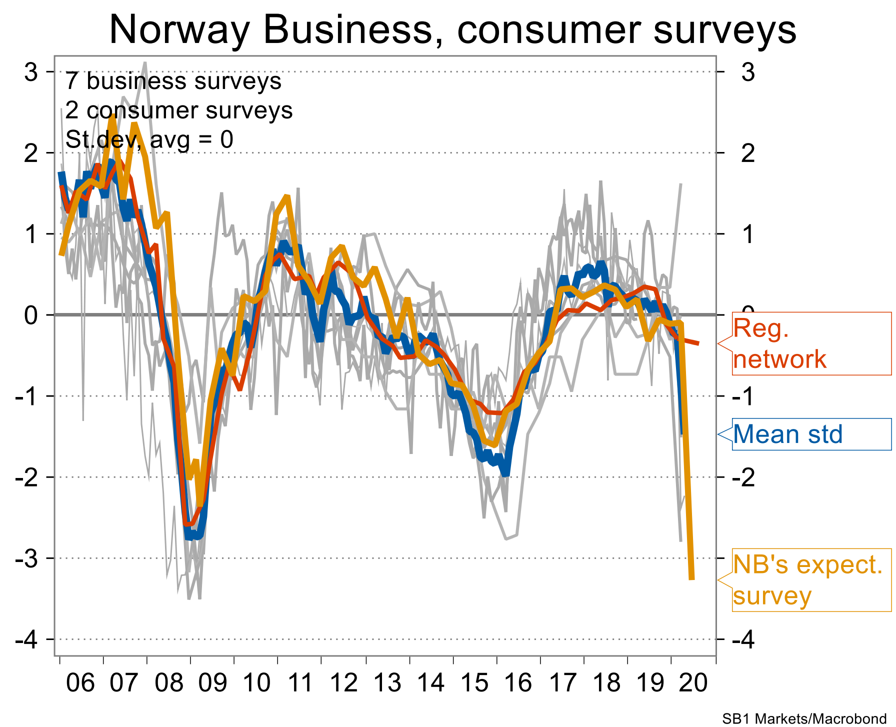




No profits, no employment; a rather gloomy NoBa expectation survey

Both expected profits & employment the weakest ever



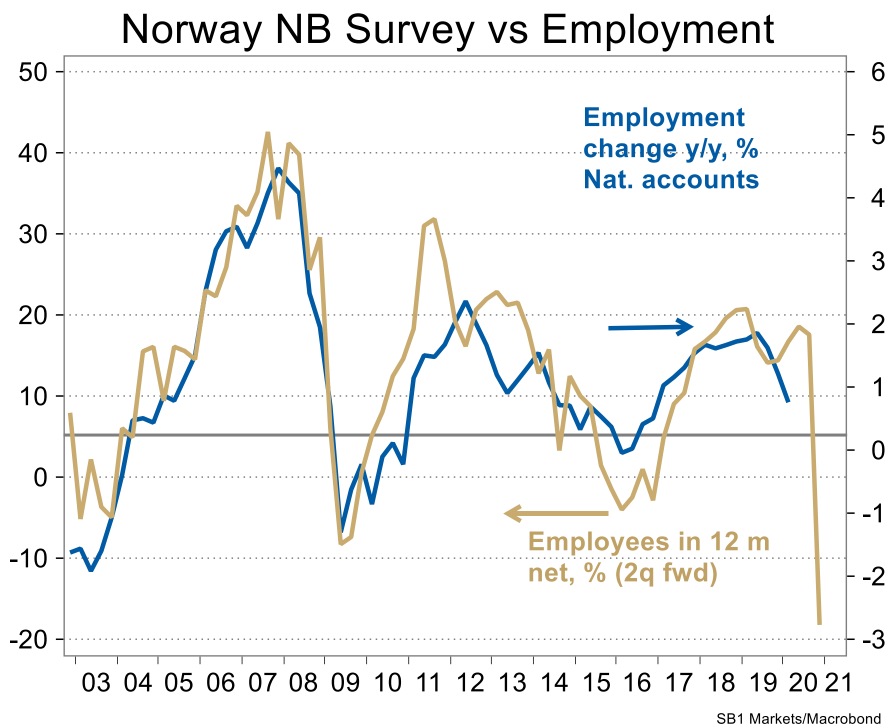


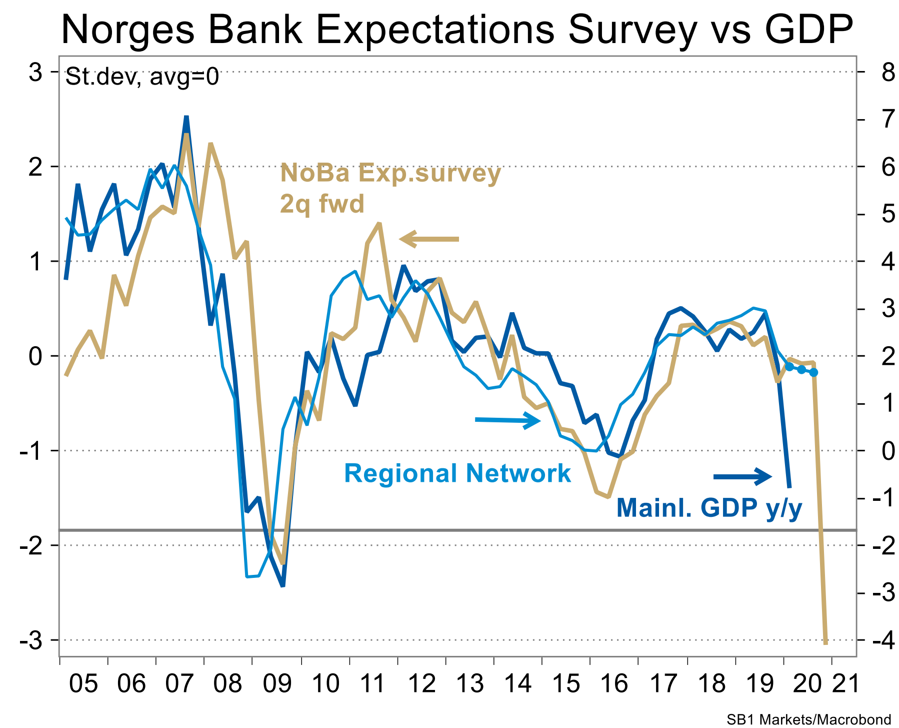
- Norges Bank's expectation survey (not the Bank's Regional Network survey) fell more than ever in Q2, measured by the sum of businesses' employment plans and profitability expectations
  - » This 'composite' index has trended down since mid 2018, as most other Norwegian business surveys but had stabilised around an average level through 2019. That's not the case anymore

SpareBank 1 MARKETS

A 3% drop in employment in 12 months? Or in 6 months?

Employment expectations sharply down, leading actual employment some 6 months

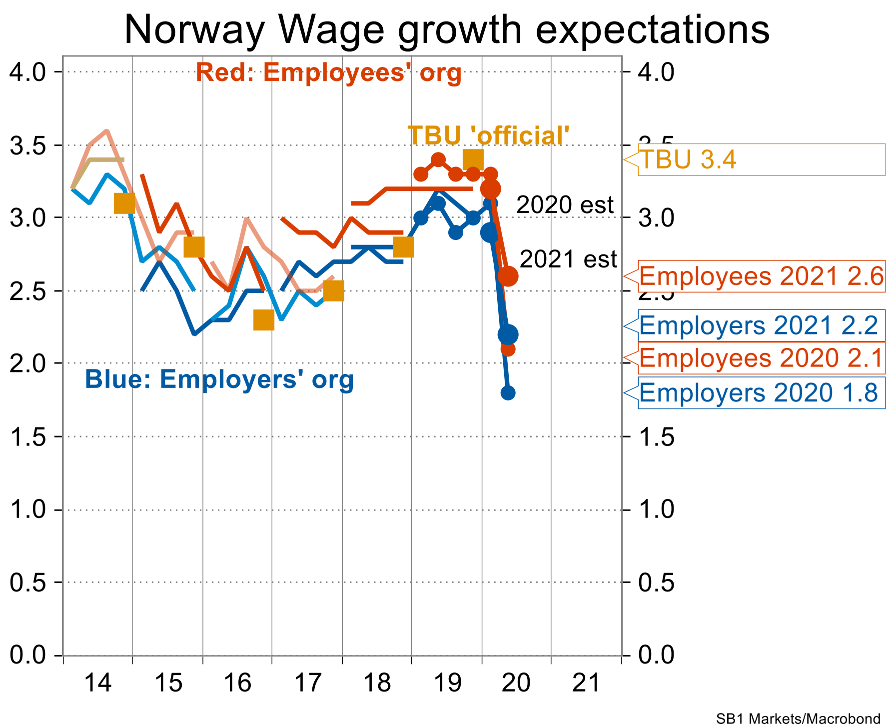




- Most likely, it is not easy for business managers to make any forecast these days (as it is for all others these days…) but at least it is not possible to find any bright spots here
- The 'composite' index signals a 4% GDP contraction. Does not seem too unlikely

2020 wage expectations straight down, for good reasons

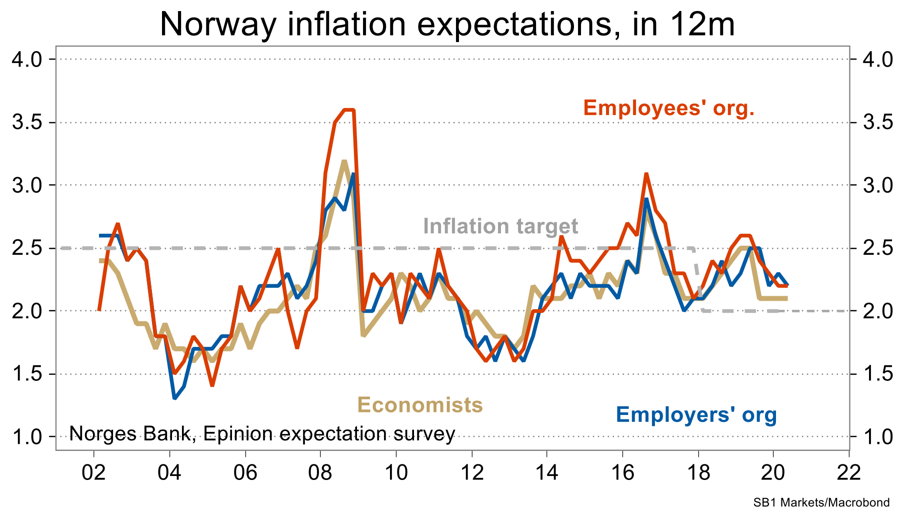
Wage expectations cut by some 1 pp from 3+ to 2%. Empoyers & employees agree upon the change

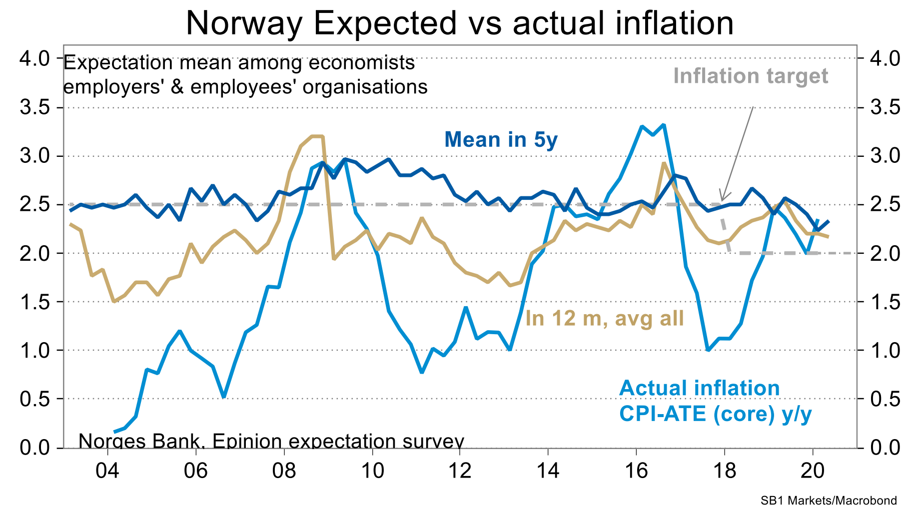


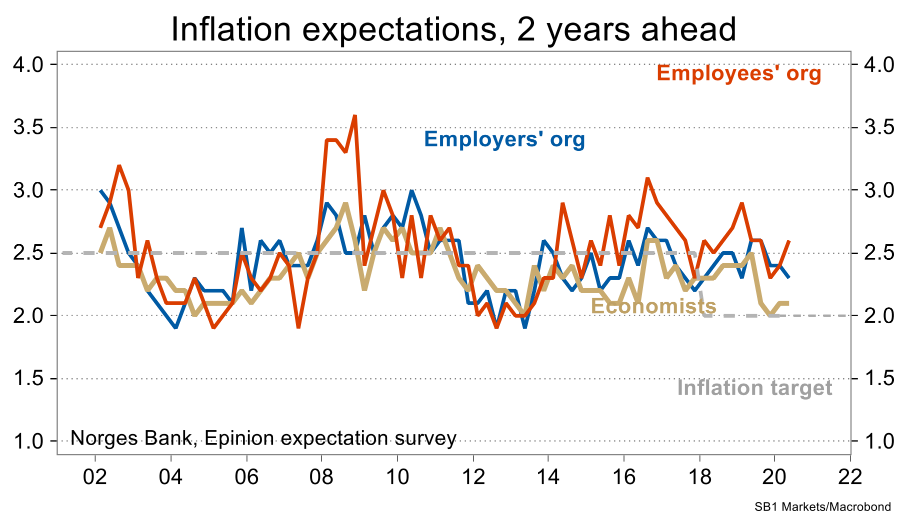
- **2019:** Wages increased by 3.4%, according to the preliminary TBU report
  - » The outcome is well above both economists in both employers' and employees' organisations reported (3.2% and 3% resp.)
- **2020:** More than 1 pp down, to 2.1% for employees' organisations, 1.8% for the employers' org.
  - » In general, employees' org expects higher wage growth than their peers at the employer side, as one should expect
- **2021:** Up to 2.2 – 2.6%, still well below expectations 3 months ago

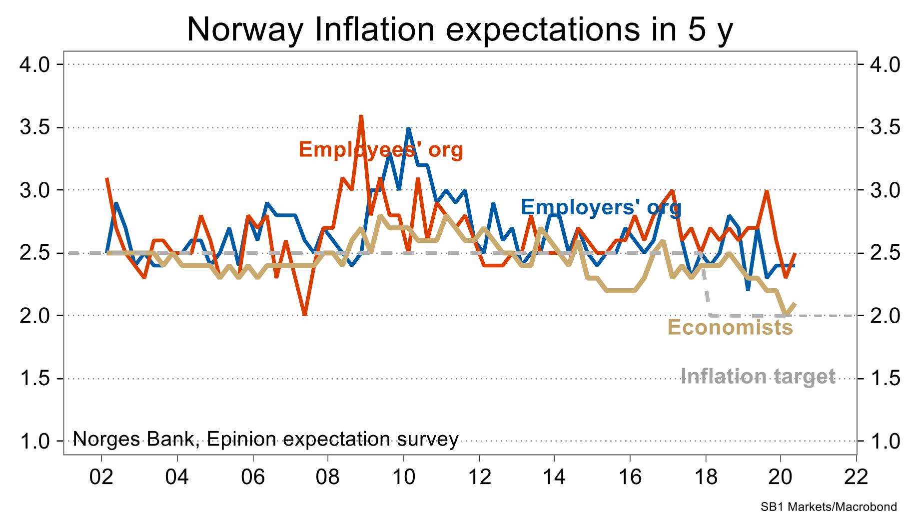
Inflation expectations are unmoved by the corona crisis

Expectations stable at 2 - 2.5%. The lowering of the inflation target in 2018 dampened exp. somewhat









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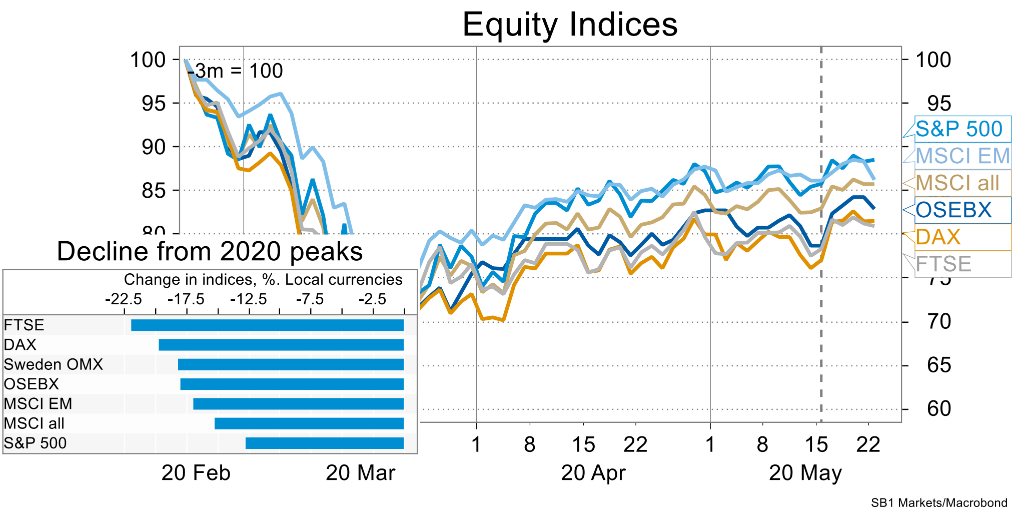
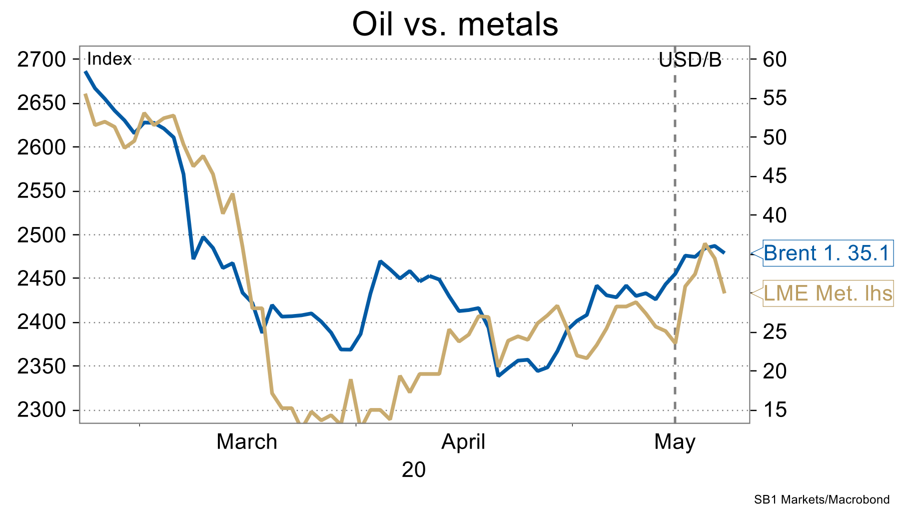
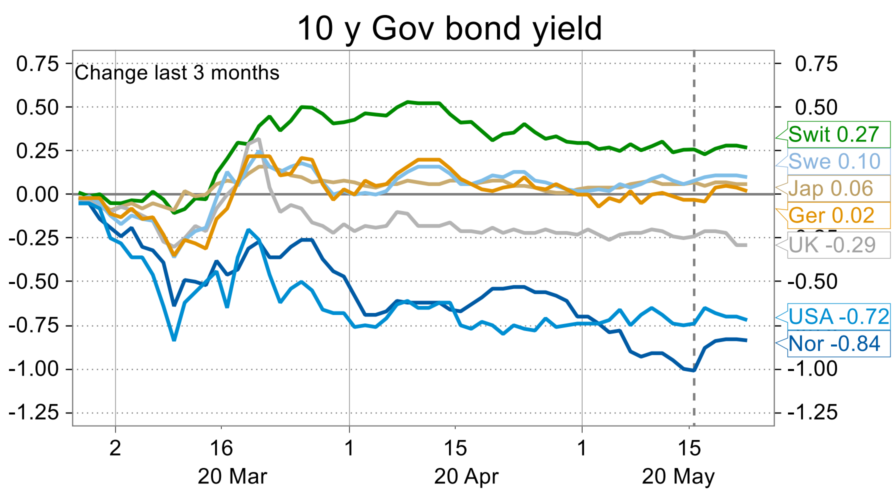
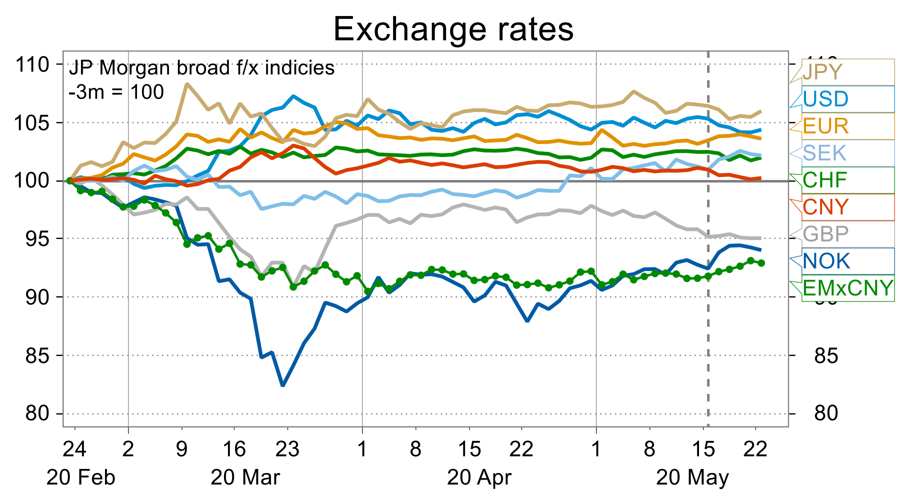
Stock markets up together with bonds, oil & metals + the NOK





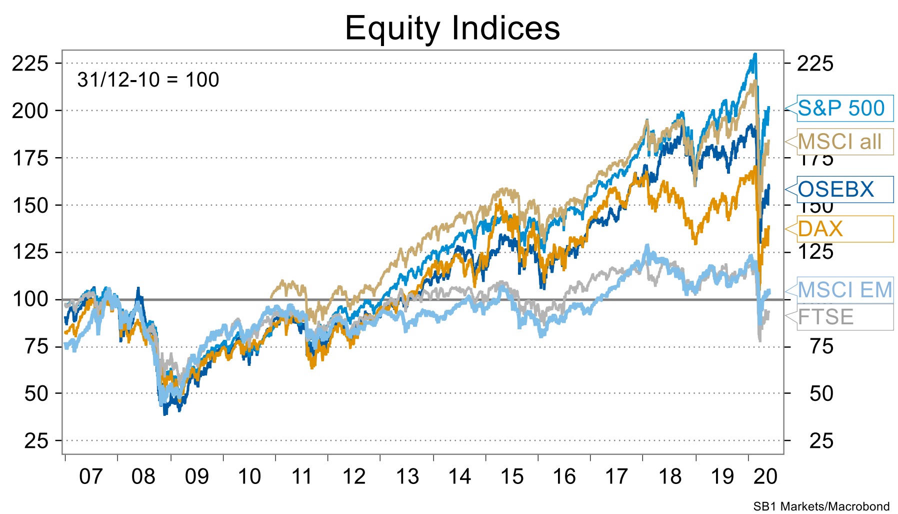


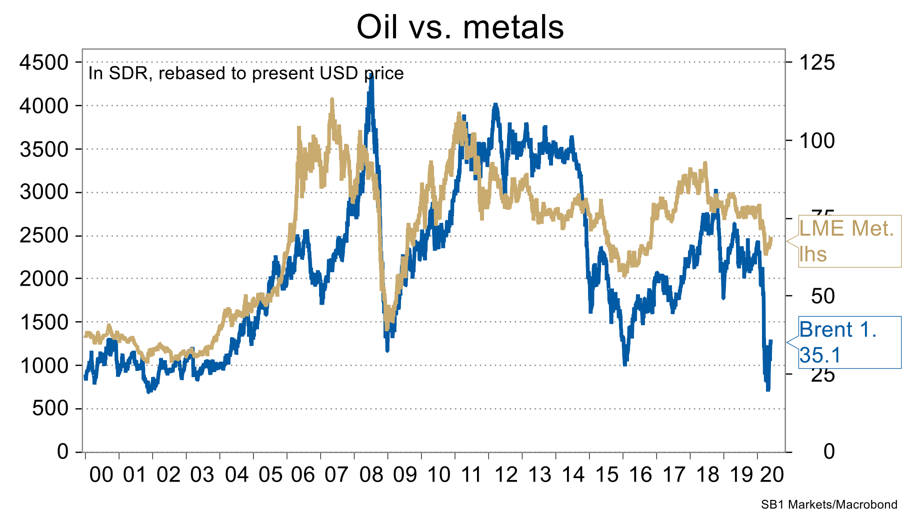


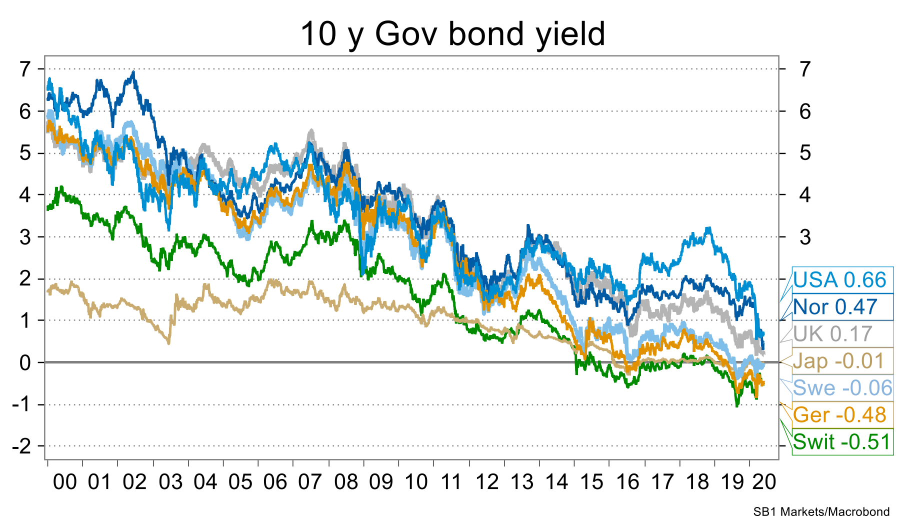
Stable main f/x markets- NOK is finally trending up, the GBP down

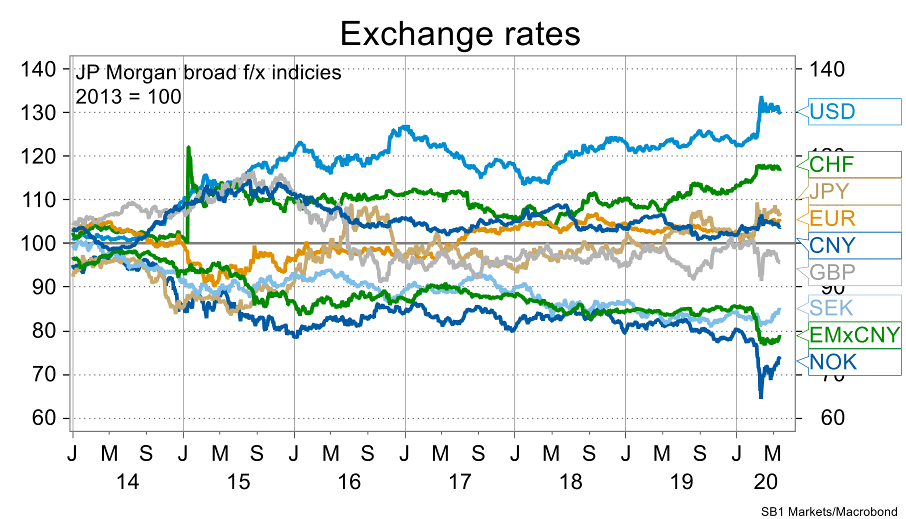
In the long run: Stock markets are looking like a 'V'

… because investors are looking for a 'V'-shaped corona recovery?



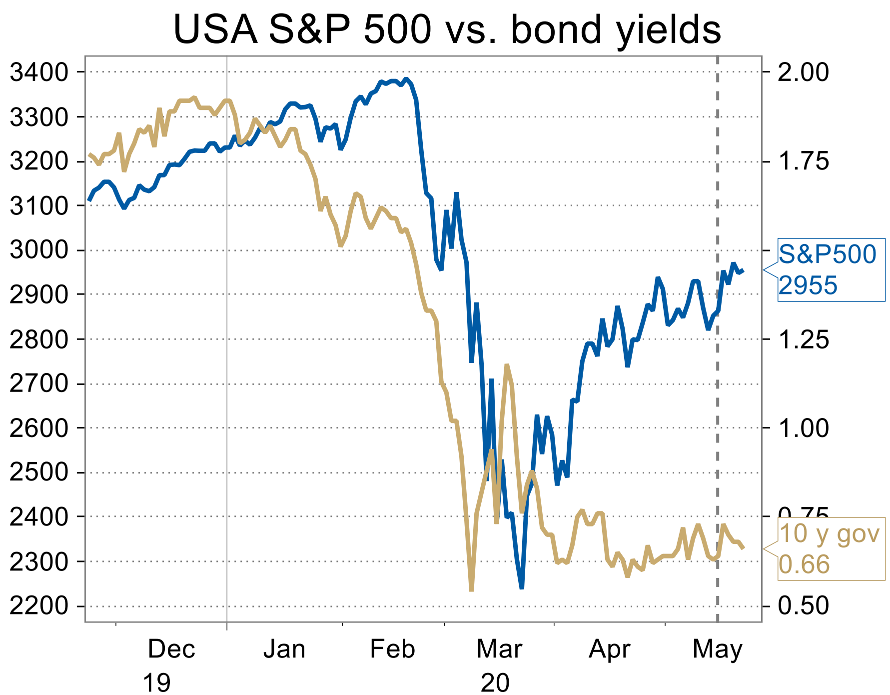




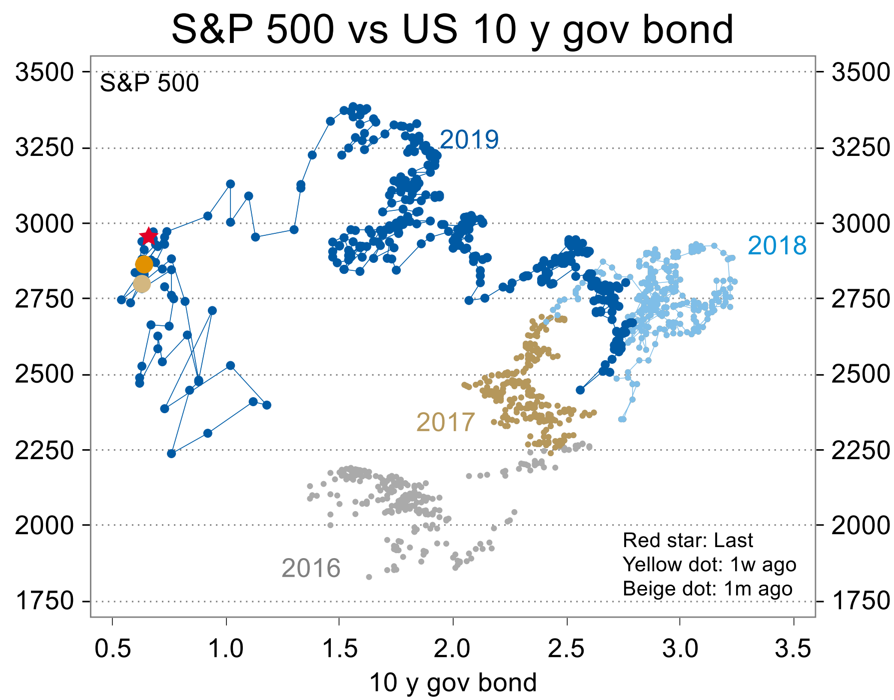


Bond yields 'less' up than equities

Stocks are trending slowly up while bonds are closer to flat. The Fed promises to do whatever…



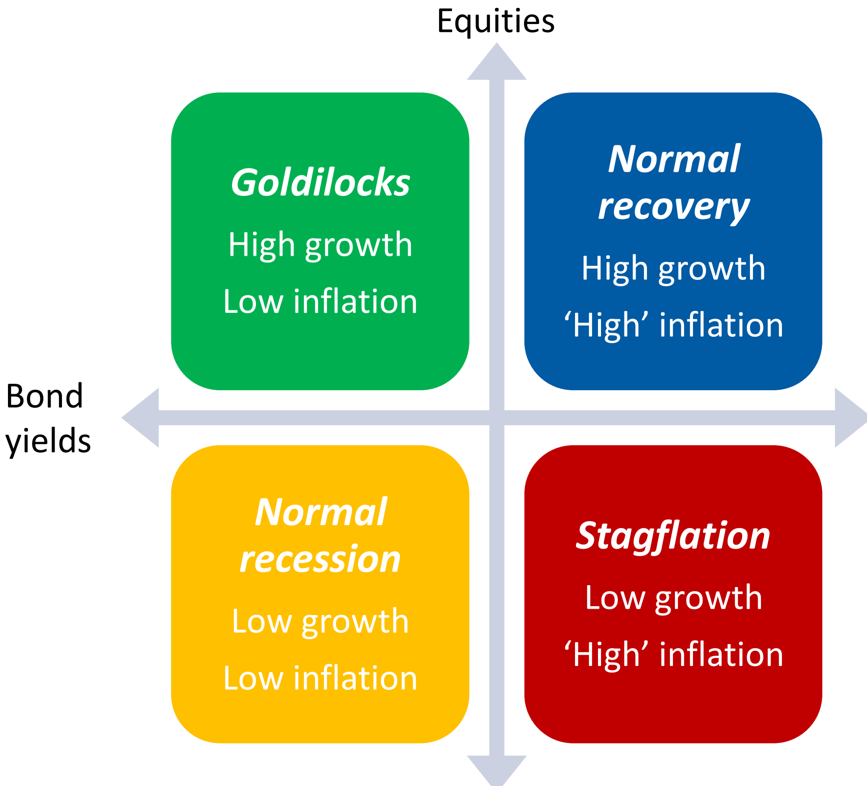
SB1 Markets/Macrobond

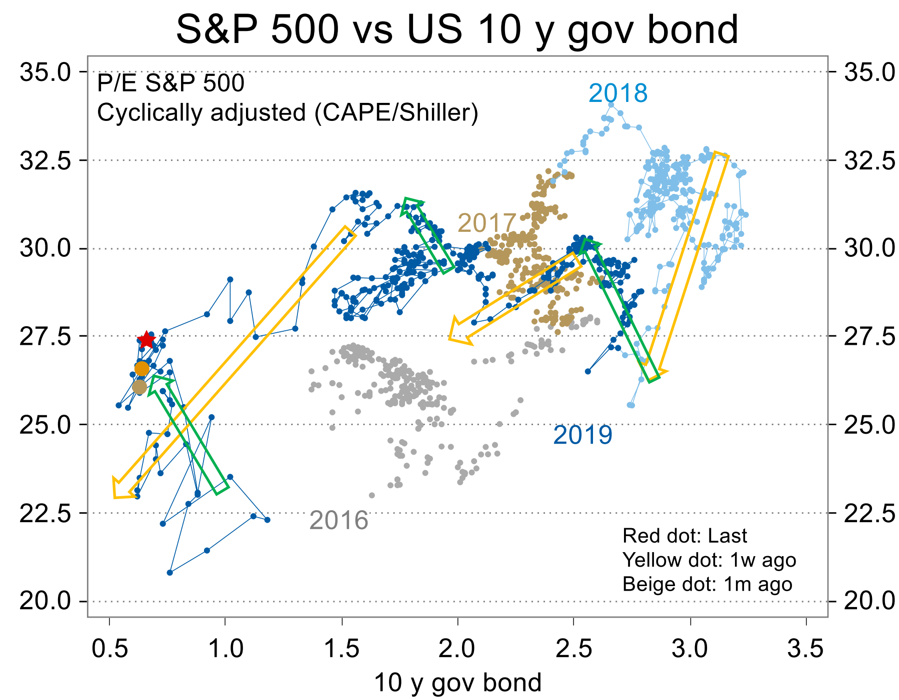


SB1 Markets/Macrobond

No clear direction past month; stocks, bonds quite stable

Economies are opening up, the central banks are pumping hard but risk had priced the good news?



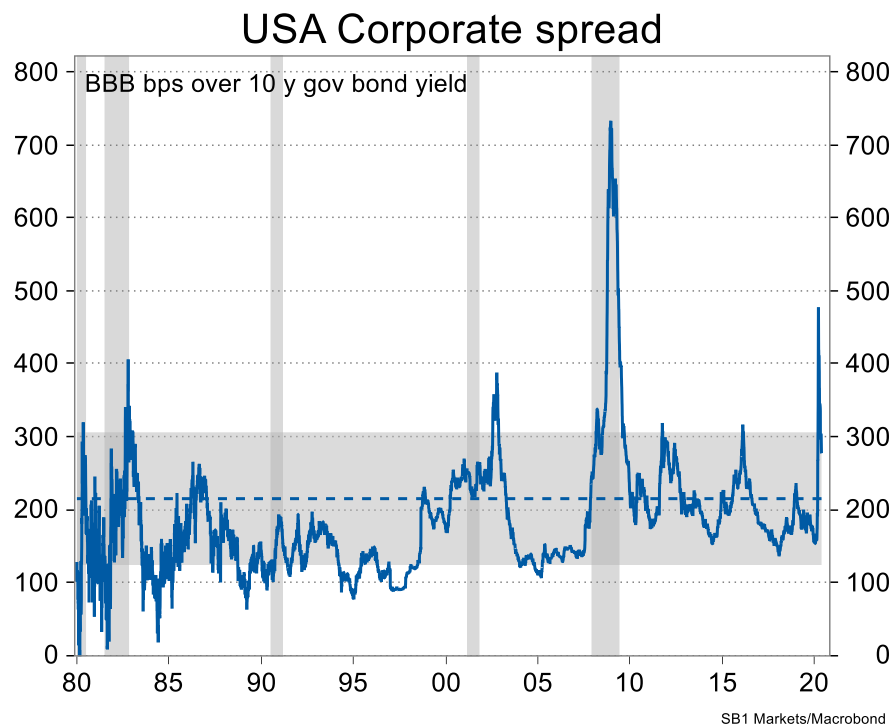


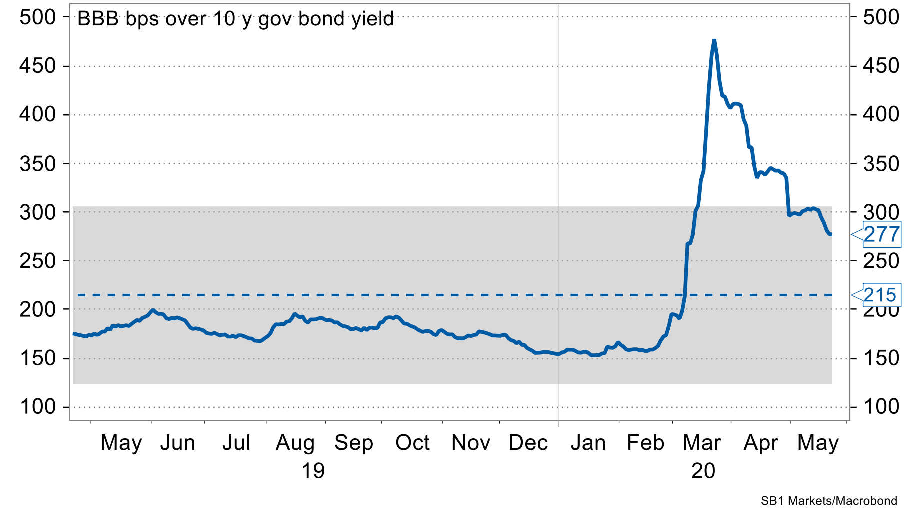
SB1 Markets/Macrobond

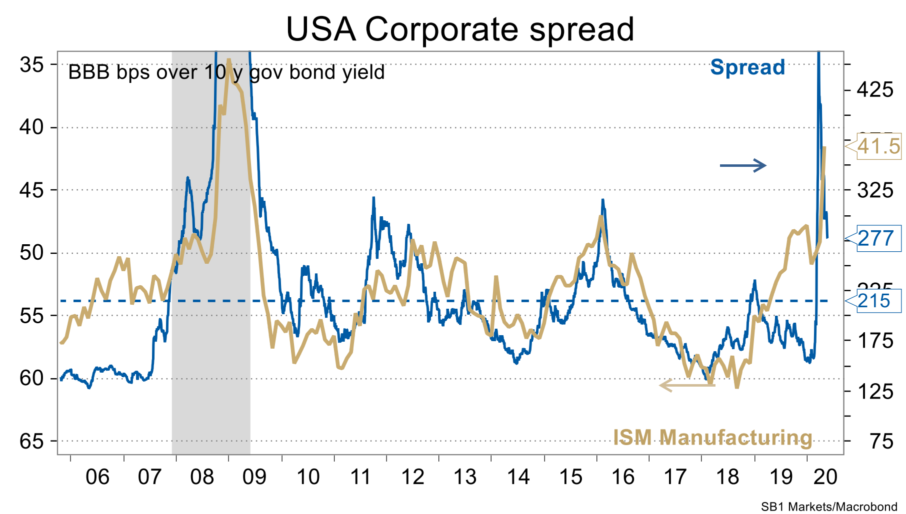
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic spreading and countries have been initiating lockdowns
- The draconic policy measures from Mid March and the decline in corona case/death rates/the opening up hopes have contributed to the change in mood; risk markets strengthened – while yields have been kept low due to enormous QE programs in US but also among other central banks.

Corporate spreads another small leg down

The US BBB spread has fallen by 190 bps, and is ¾ way back to an average level (from the peak)



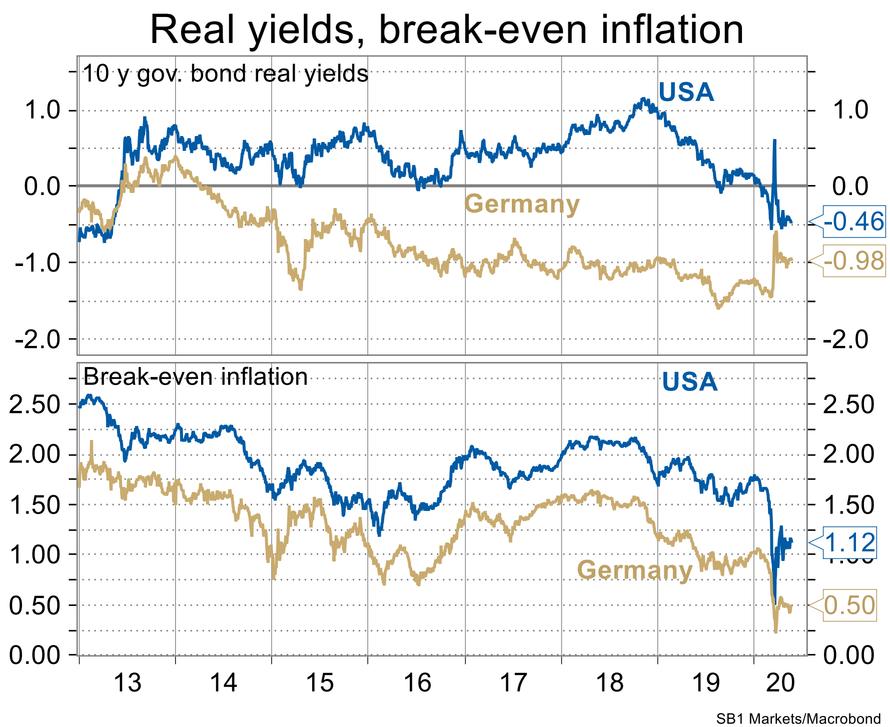


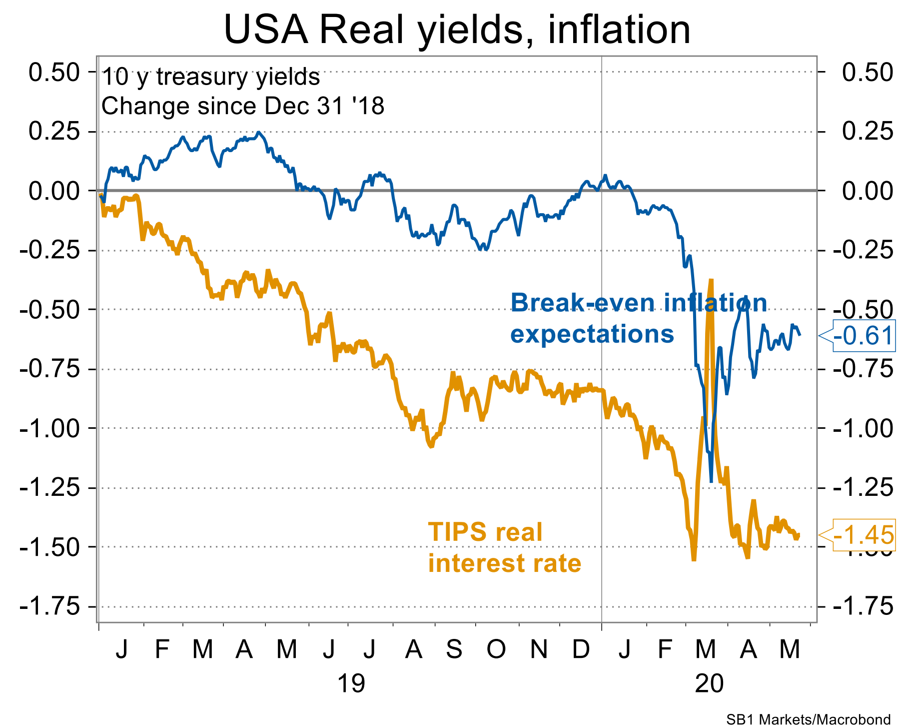


- Is the credit risk just somewhat above an average level??

No inflation on the horizon, even if money are printed

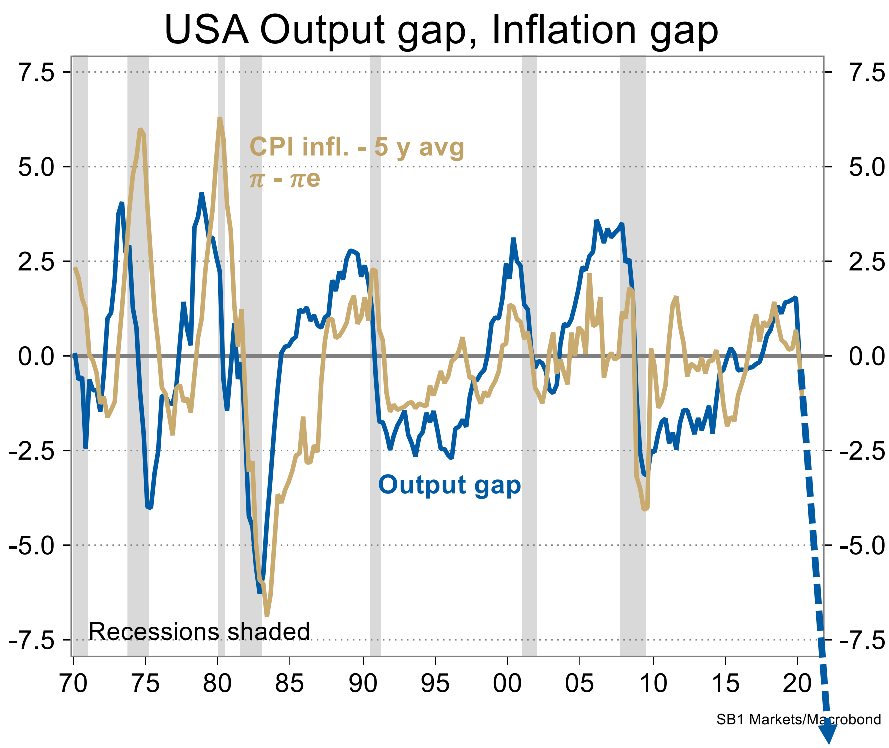
Because the output gap is much more important, at least short to medium term

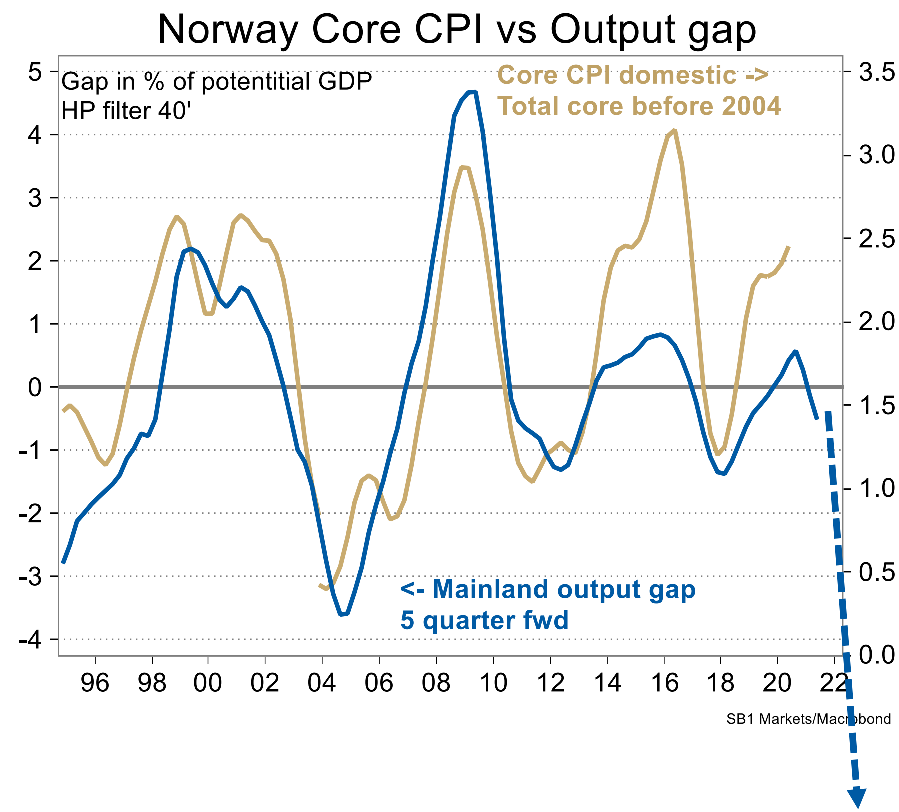




What decides inflation? Not money or debt – but the cycle. Phillips is not dead

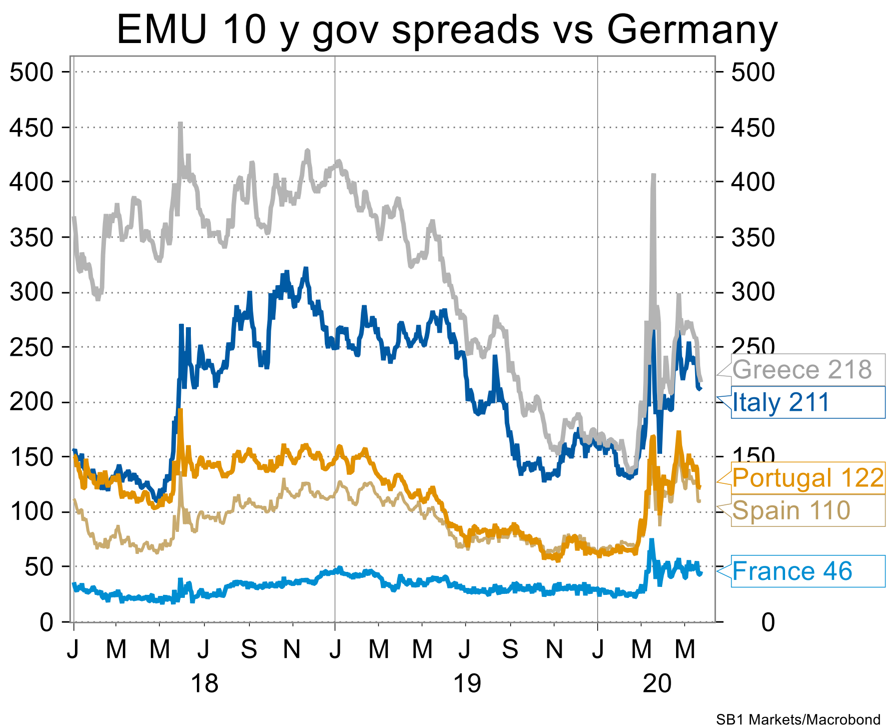
Inflation will not take of when the economy is weak

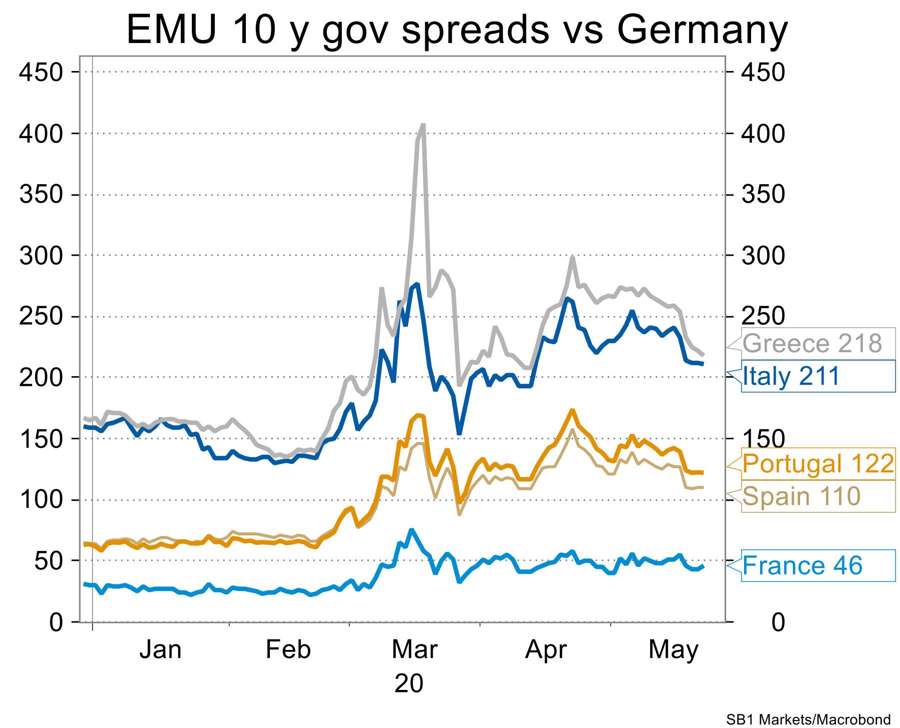




Merkel joined Macron and proposed an €500 bn (5% of GDP) EU corona fund

Several Northern countries are hesitant: A mutualised loan will have to be accepted by all members

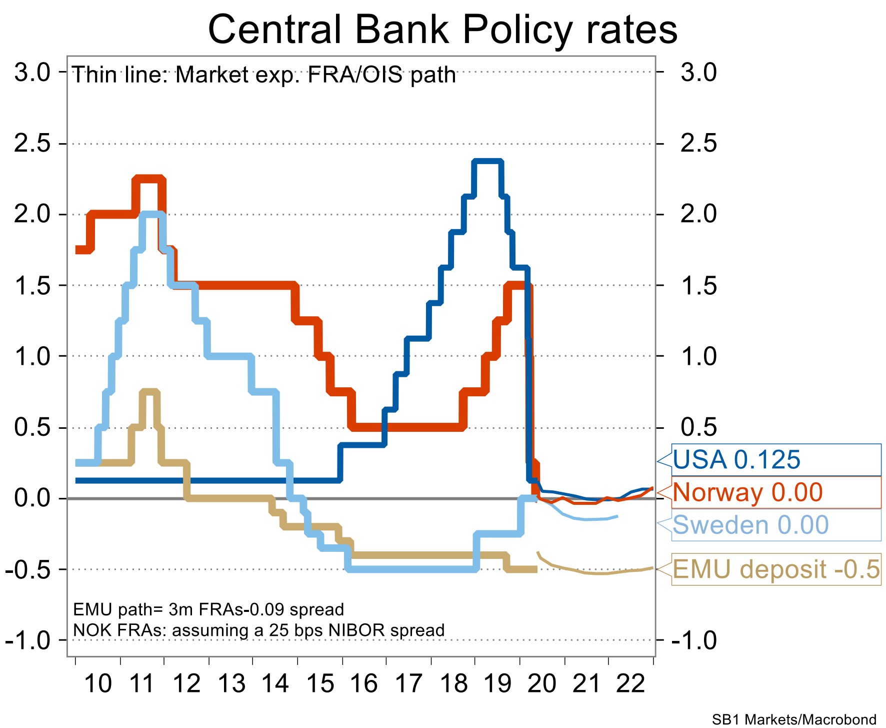


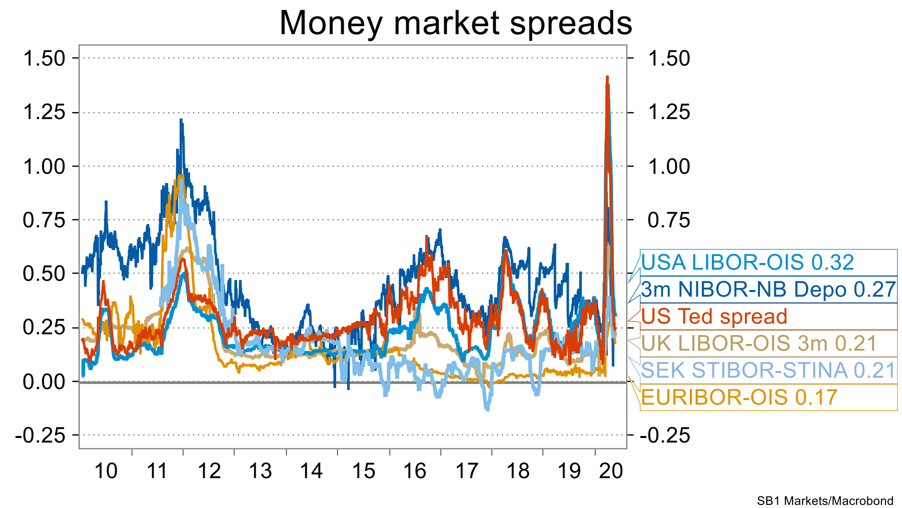


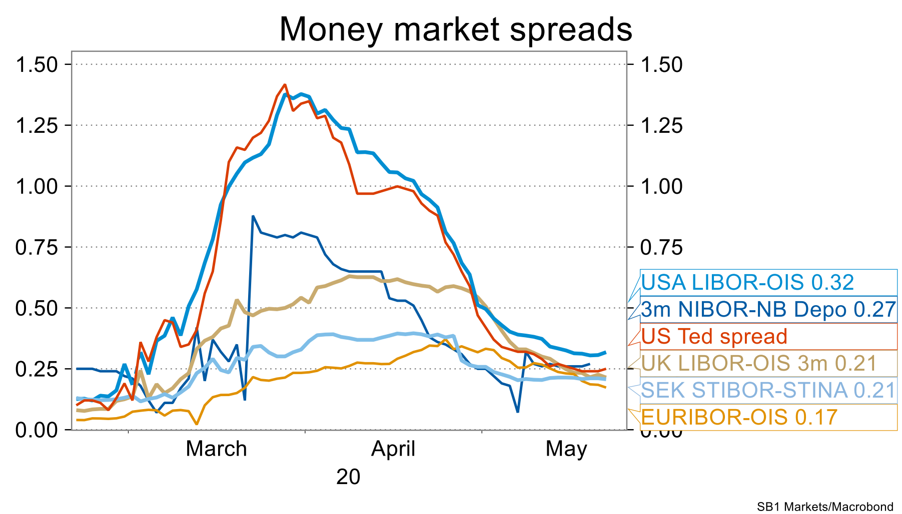
- If decided, the corona recovery fund will be a brand new EU construction. The fund will be backed by borrowing by the entire EU block – and the debt will be served and repaid by the European Union. This mutual borrowing is an invention
- Some Northern European countries are sceptical: Are their money going to spent in the South? The answer is probably yes. Most likely, in the end they will accept the German/French proposal. The alternative, another deep European crisis is not more attractive
- Government bond spread within the Euro area narrowed but not by very much (partly due to higher German 10 y Bund yields, +8 bps

Central bank rates on hold, money market spreads are narrowing

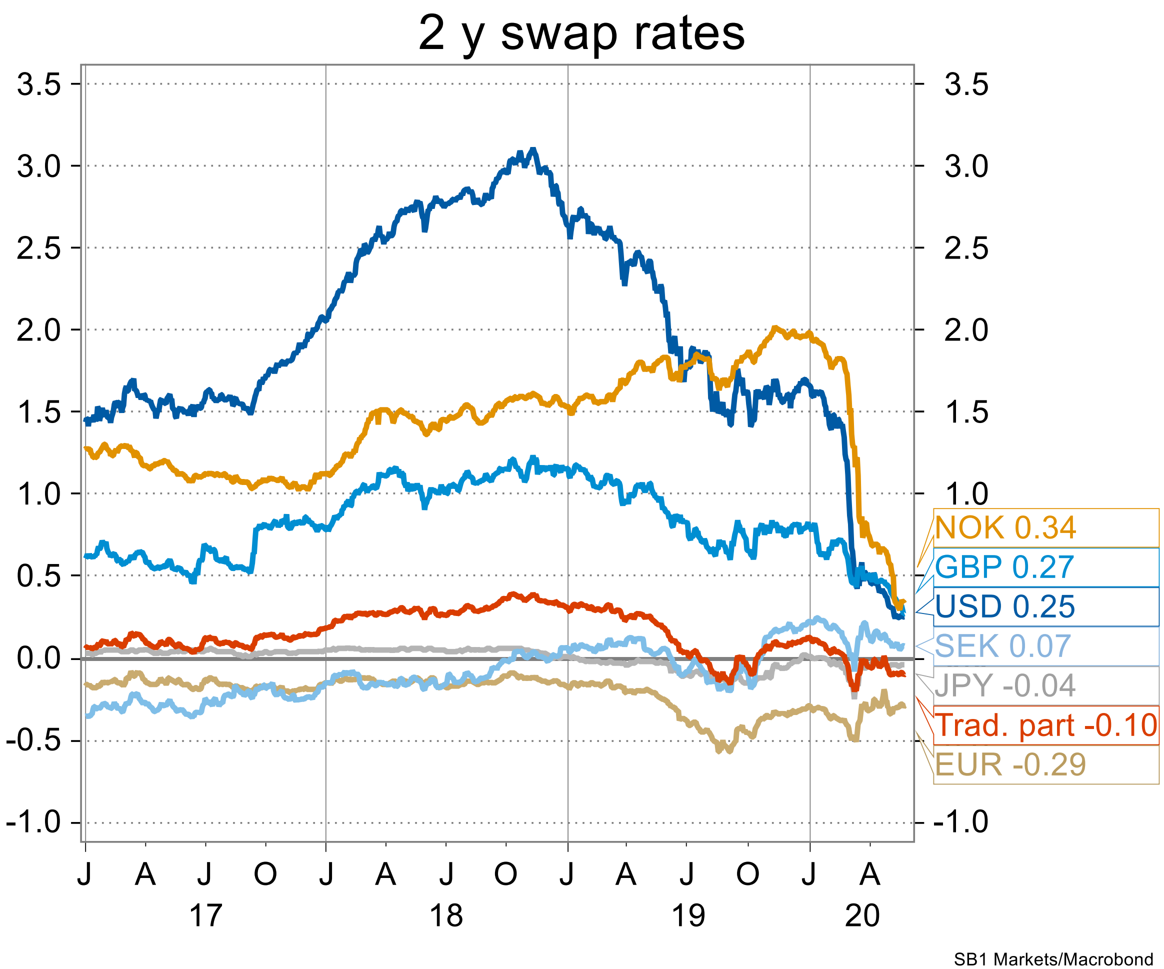
… most in the US and Norway. The NIBOR spread has stabilised at a low level

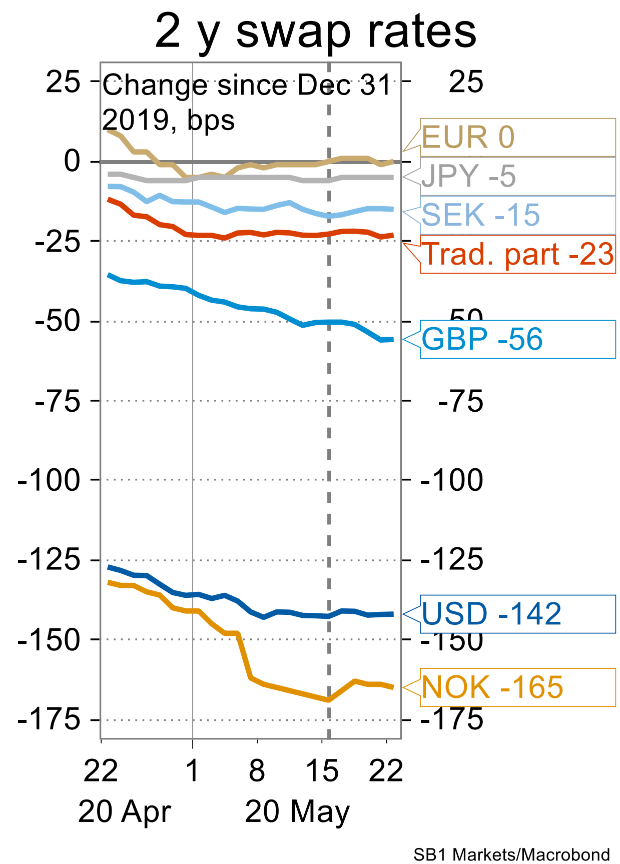




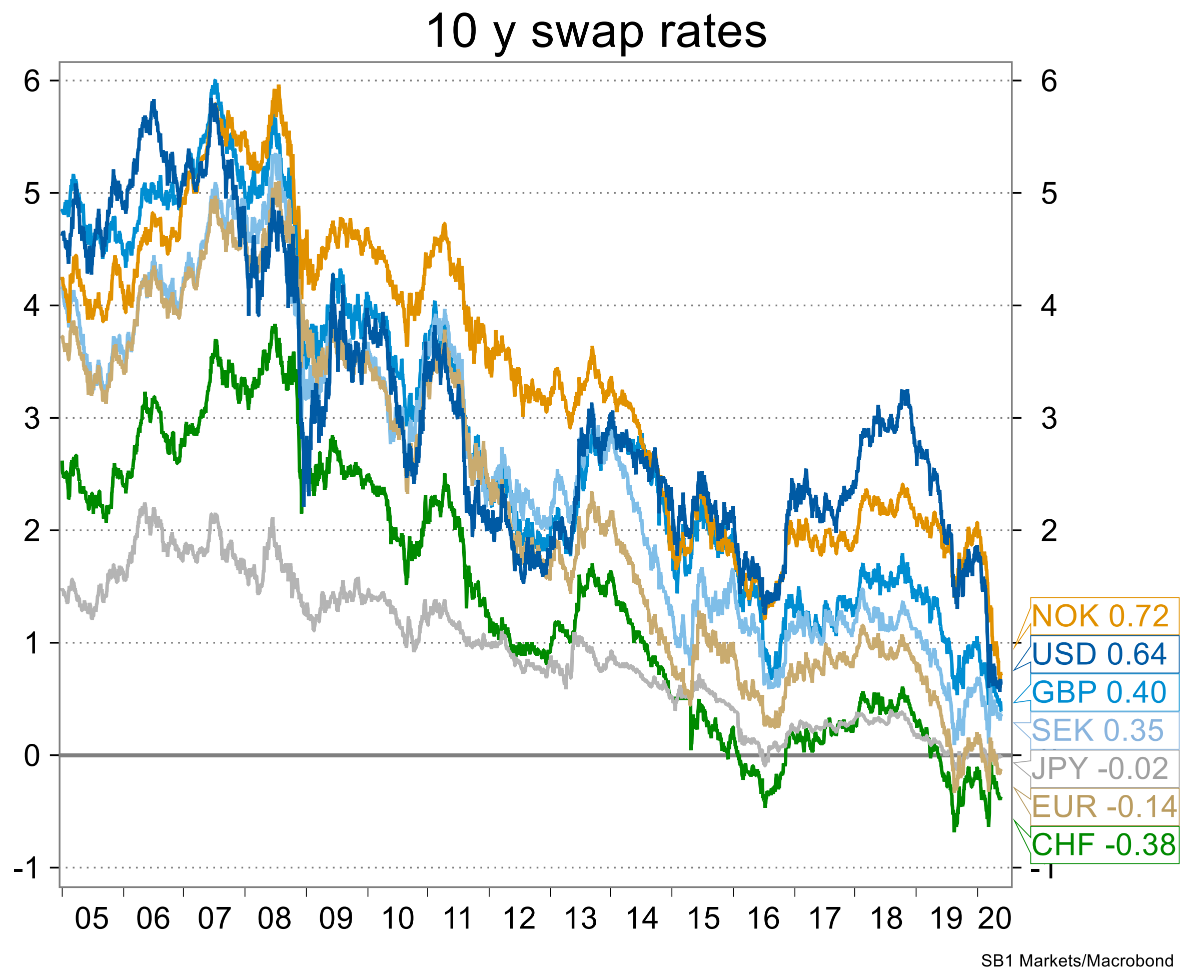


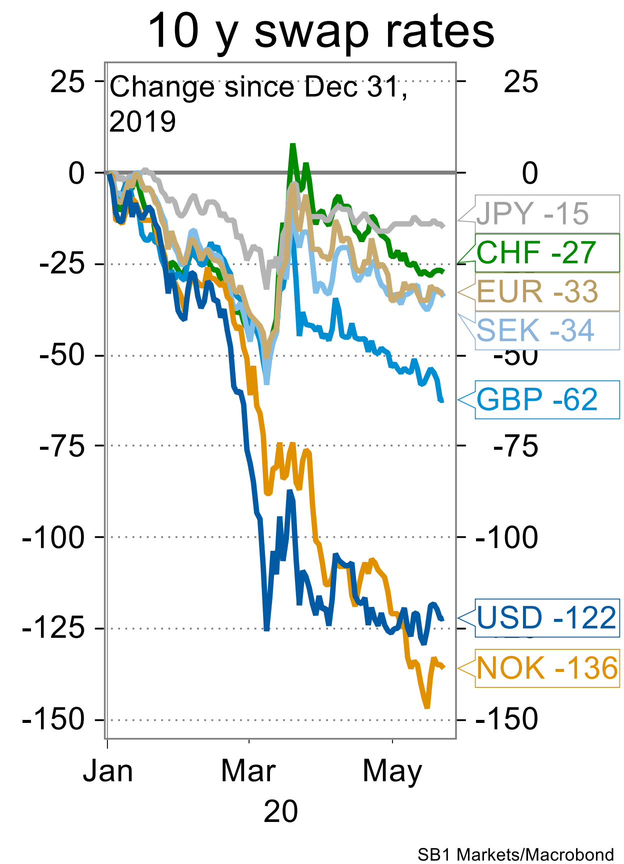
Stable short term rates





UK swaps down, others not

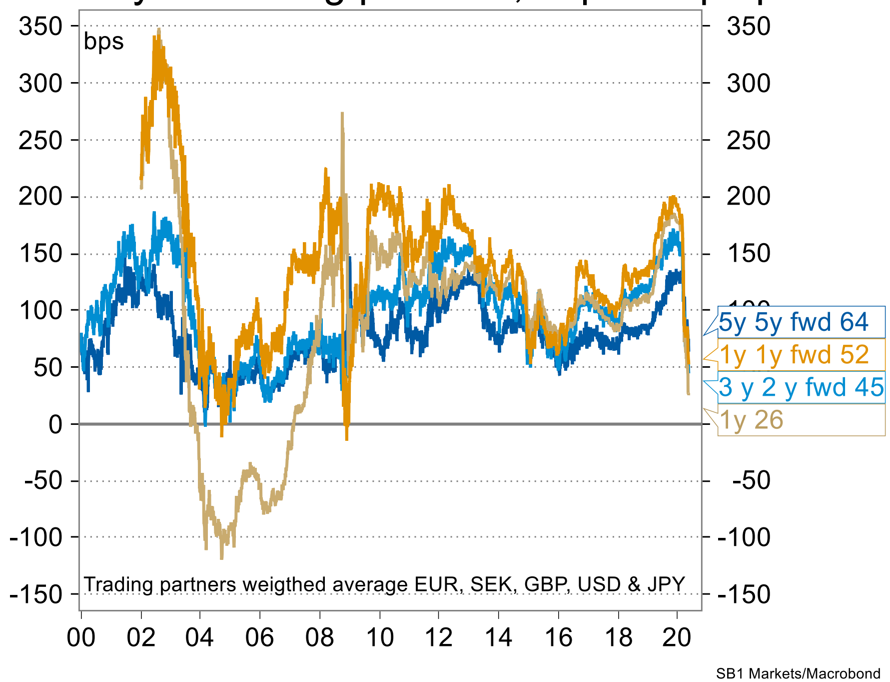


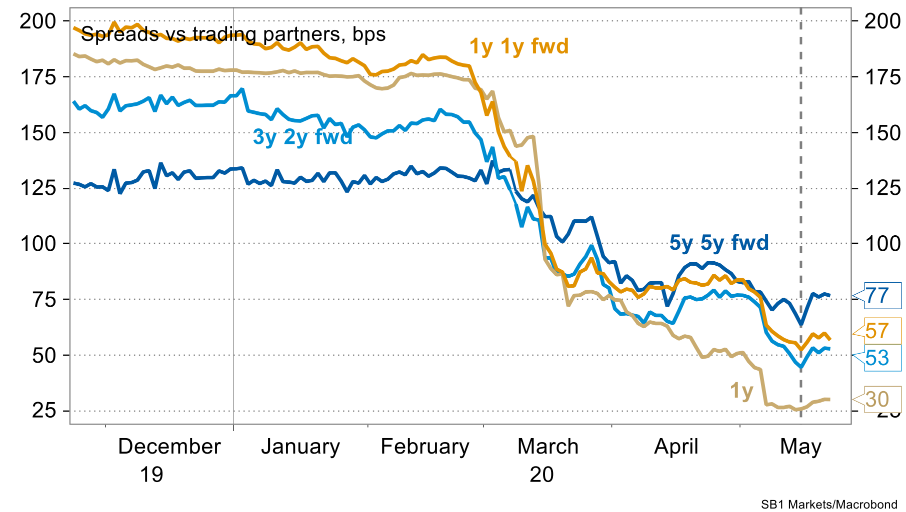


NOK swap rates & spreads vs trading partners up last week – has found its level?

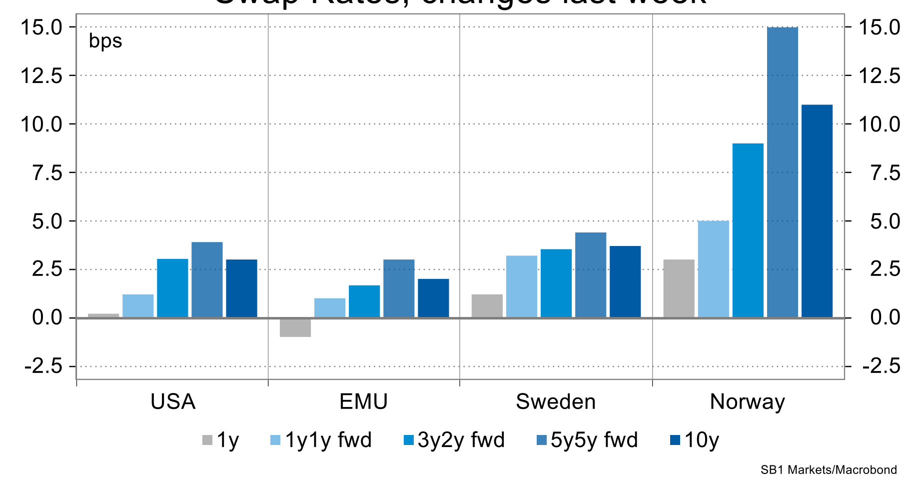
Spreads are still somewhat too wide in the long end but it is not a one way bet anymore

Norway vs trading partners, impl swap spreads





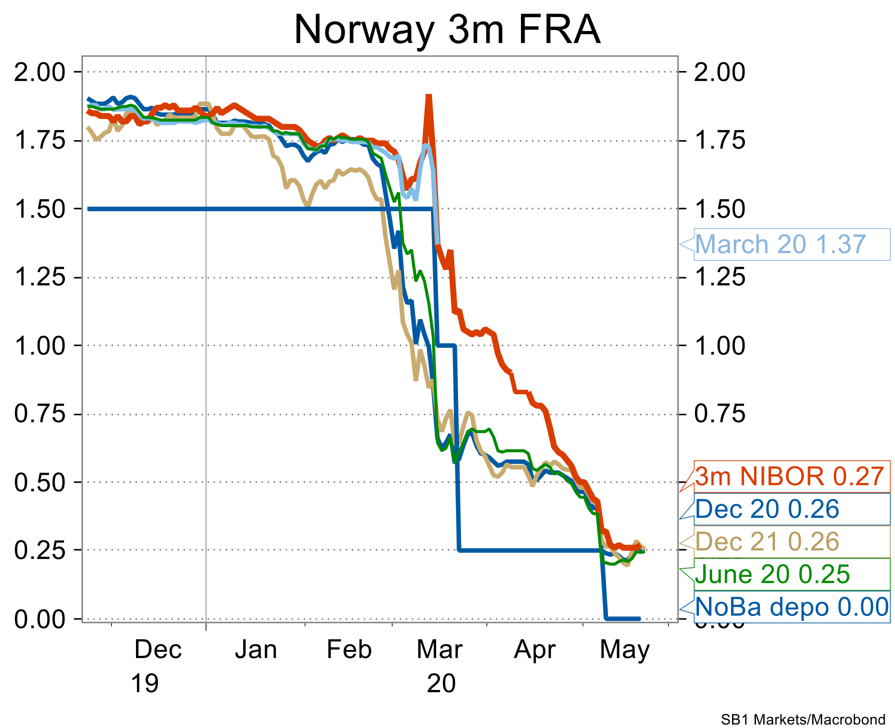
Swap Rates, changes last week

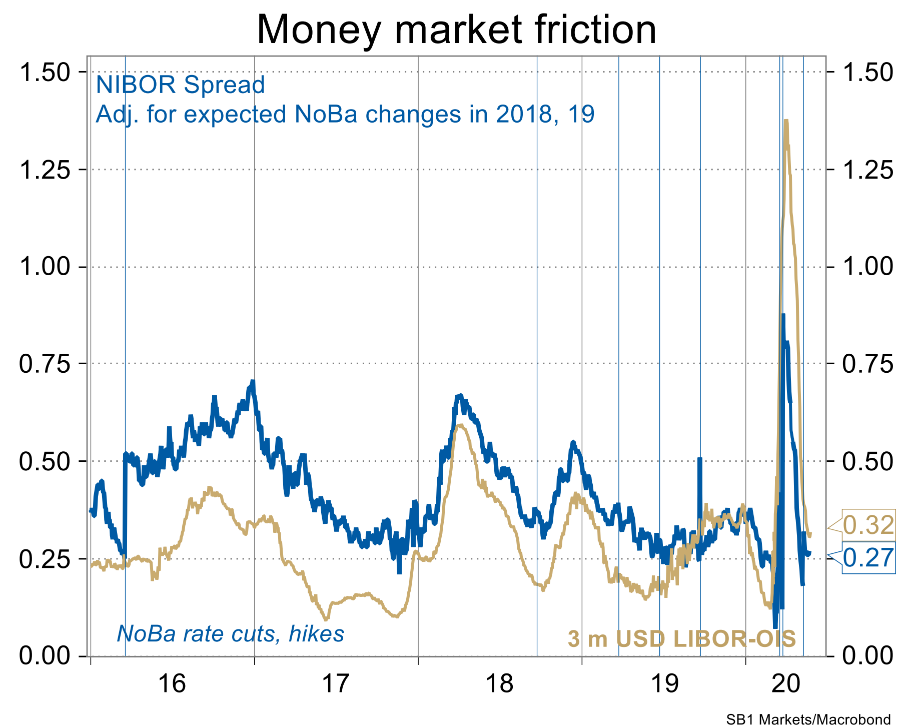


- A steep journey back home. Spreads vs. trading partners have fallen by some 125 bsp since early 2020
- We think the current level is far more correct than where we came from. Still, spreads are not too narrow yet – but the downside is not that large anymore

The very short end of the NOK market: Boring…

The 3 m NIBOR and FRAs have converged, and the curve is completely flat, at 25 -27 bps

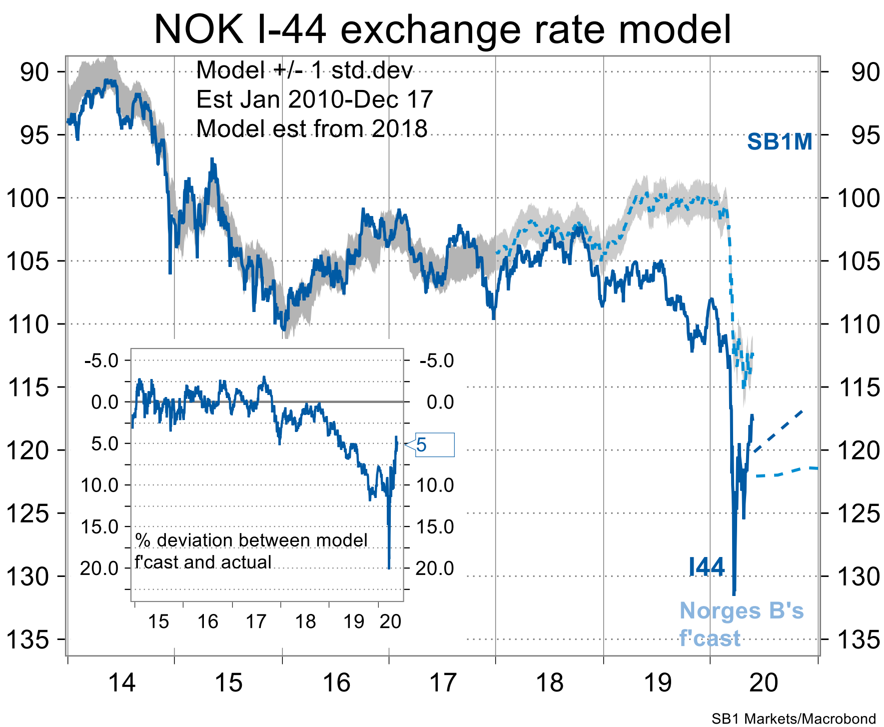


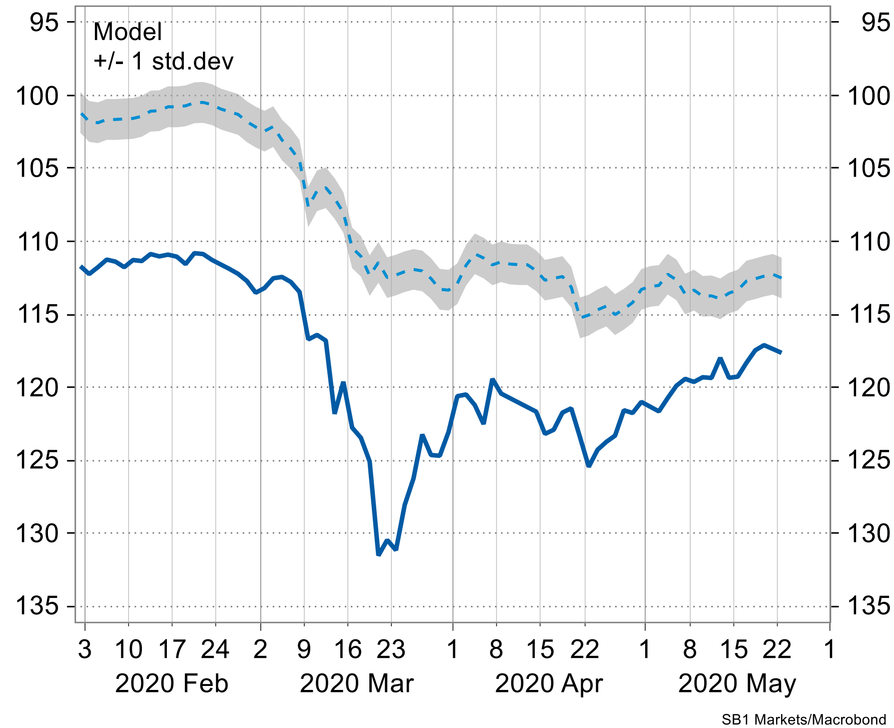


- We do not assume the market is pricing in any change in the NoBa signal rate – it's the NIBOR spread that has stabilised at lower level than normal
- The LIBOR-OIS spread in the US has narrowed too, and could easily narrow further

NOK is drifting upwards, and more than out trad model explains

The gap vs our old model at ‘just’ 5% is the lowest since last spring

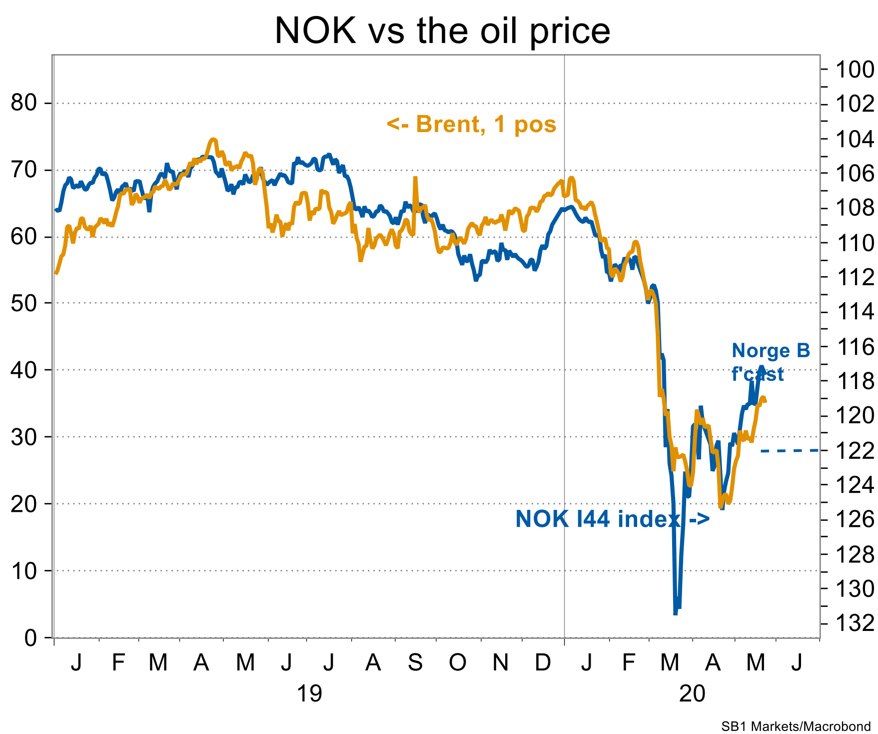


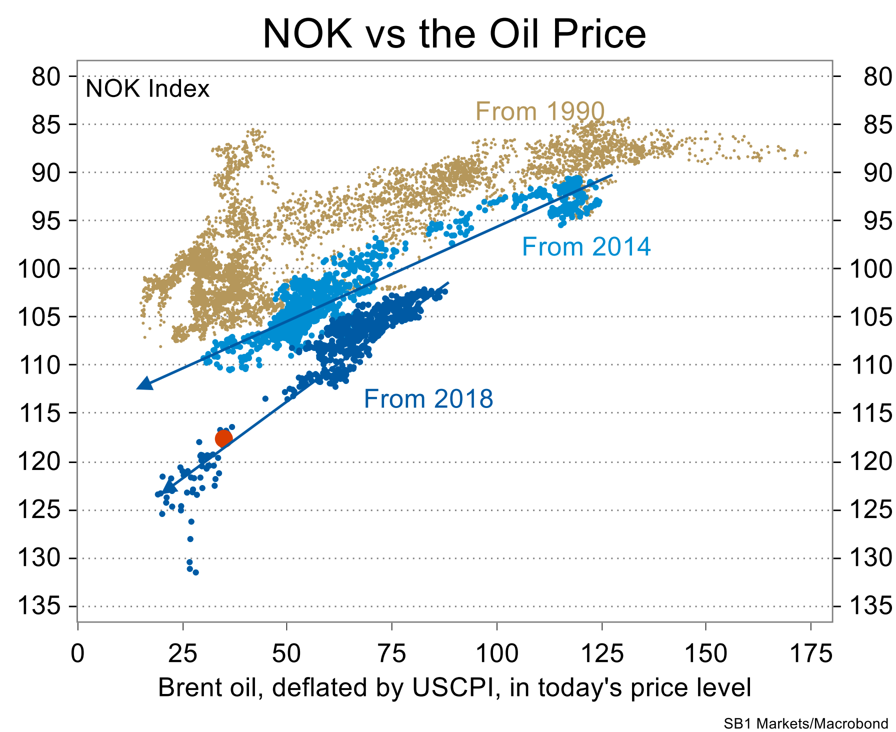


- The Norges Bank cut and a sharp contraction in interest rates spreads did not hurt the NOK!
- Norges Bank is now buying more NOK against f/x from the Oil Fund in order to supply the Government with cash. At the same time, oil companies are buying less NOK to pay their NOK tax bill. The net impact is still positive for the NOK

The NOK is where the oil price is

... vs the short term relationship since 2018

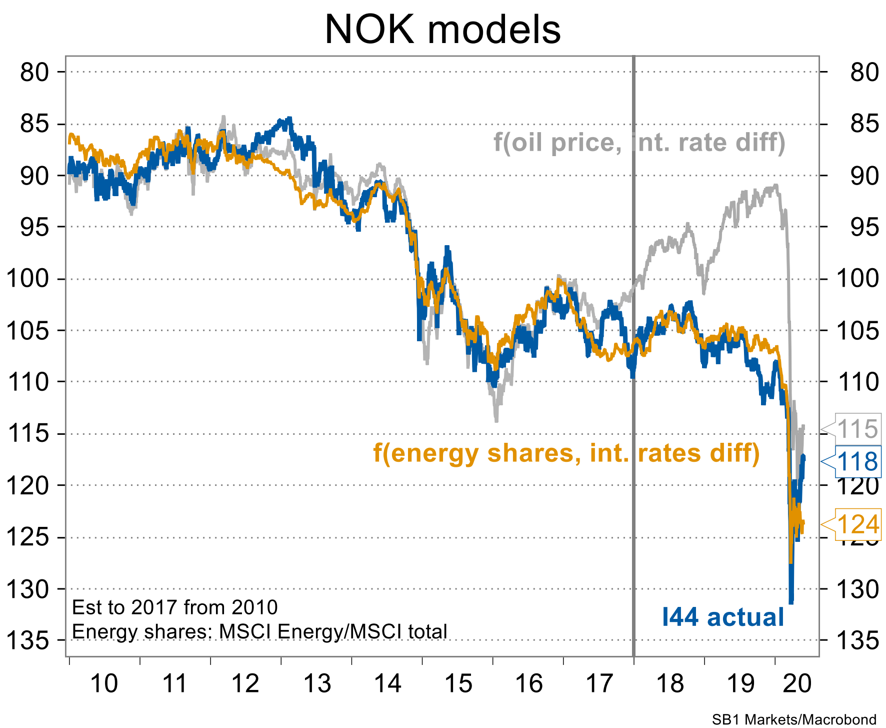


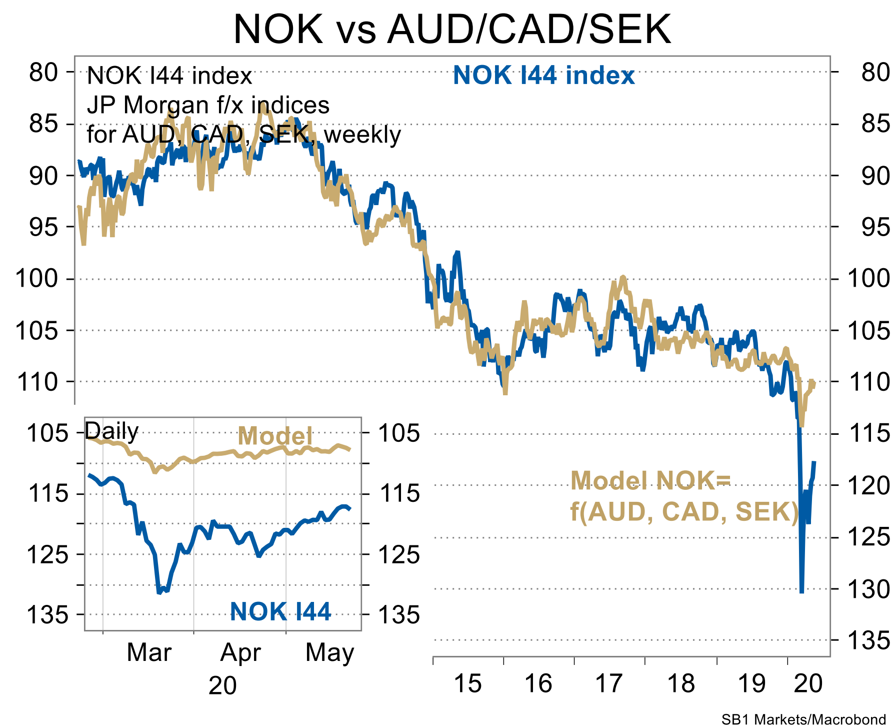


- The NOK has been much weaker vs the oil price than normal the past few years but it is still correlated to the changes in the oil price like it used to be

NOK 'stronger' than oil companies, narrowed the spread to 'supercycle' countries

NOK is more than 8% too weak vs the 'supercycle' model but 5% 'stronger than oil companies'

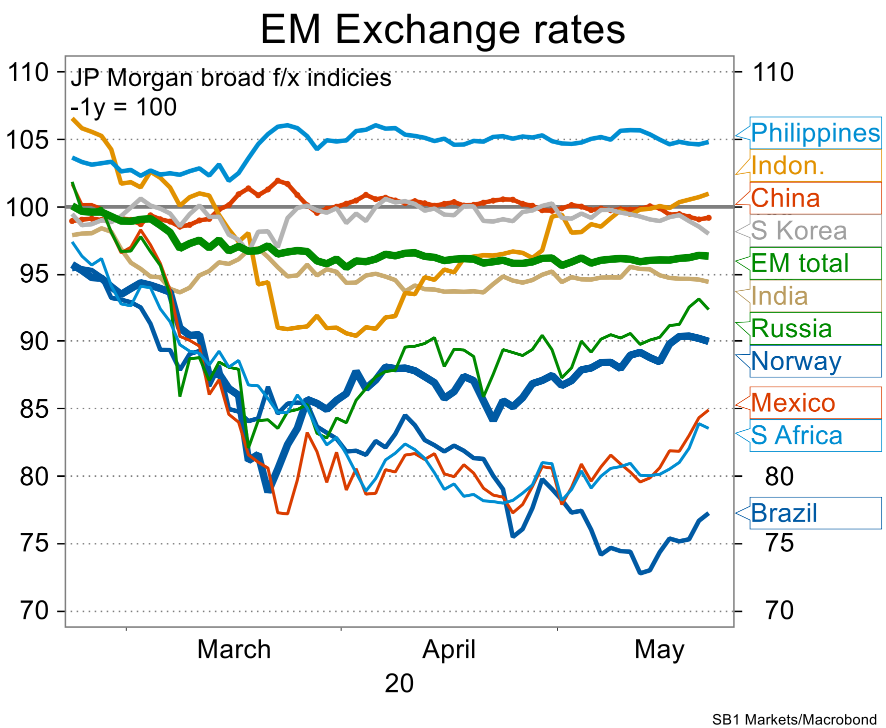


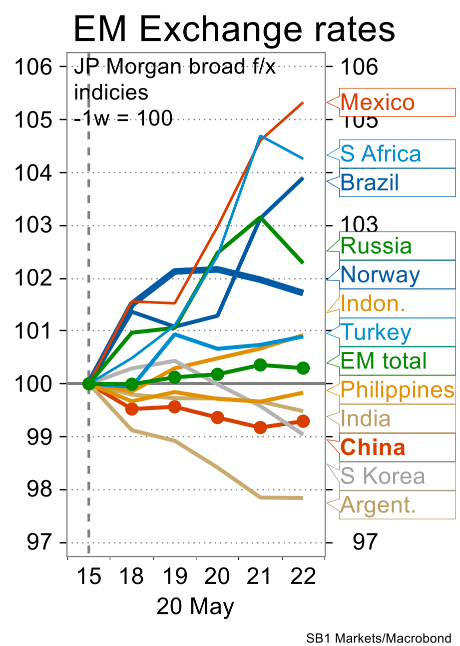


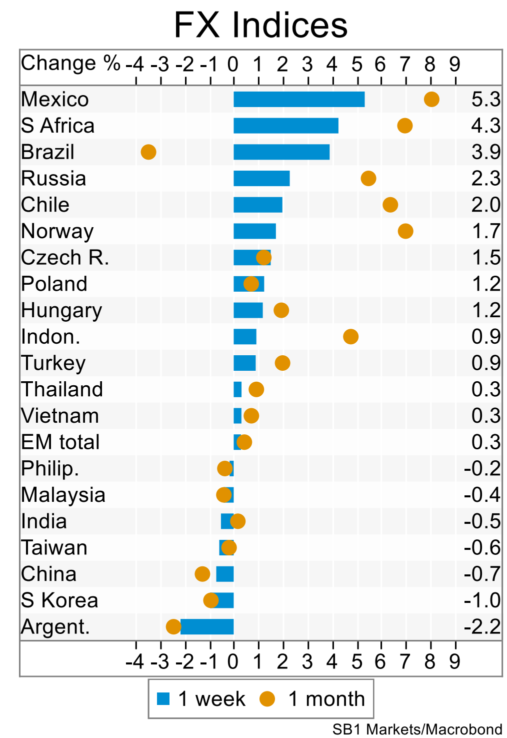
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
- The NOK is now 5% 'too strong' vs the oil price model. Thus, one argument in favour of a stronger NOK is wiped out, if energy stocks prices are not priced too cheap now

The EM f/x universe strengthened last week

The Chinese CNY is sliding down; trade war, health war – and now a new Hong Kong 'war'?







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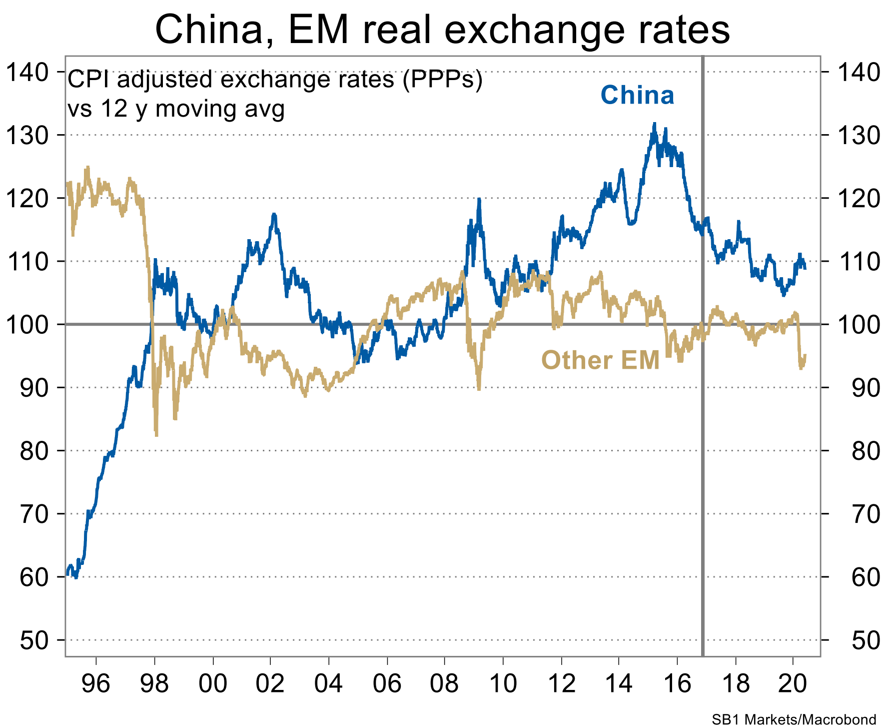
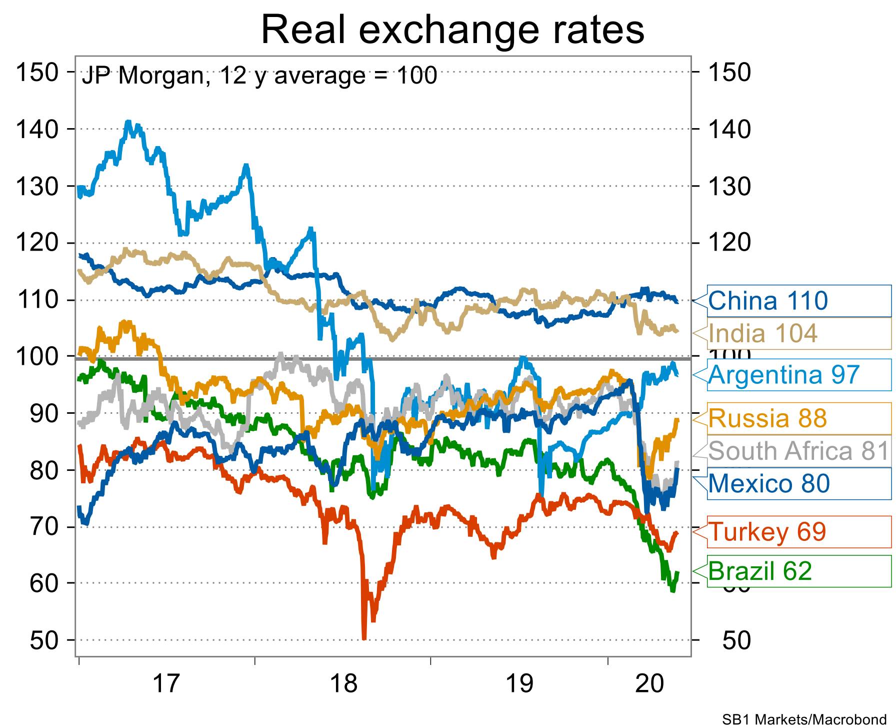
EM currencies are recovering from a not too dramatic depreciation

A 7% drop was not that dramatic, at least not given all stories about reversal of capital inflows





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