18 January 2020

Macro Weekly

Week 3/2021

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

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 00
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PO Box 1398 Vika, 0114 Oslo

Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week 1: Good coronavirus news & more US fiscal initiatives

- **Tight lockdowns** are able to combat even the mutated virus. Last week, the no of new cases fell sharply in both **UK and Ireland**. The cost is high though, as mobility has been cut sharply down, very likely hurting the economy. However, as hospital occupancy rose sharply, these countries had no choice. The no new cases fell even faster in the **Czech Rep**, where hospitals are 'crushed' (the occupancy rates equals more than 3.600 patients. In Norway, we have 158…), and the no of deaths is very high. This is also the case in the UK – and will soon be in Ireland too. In **Denmark**, the no of new cases will have come down by 75% from the peak 4 weeks ago this week. Other countries in Europe are reporting fewer cases, **Norway** included. In the US, the no of cases may have flattened (but not for the first time…)
- No major vaccine news, but **Pfizer** is slowing its Belgium production for some weeks to be able to boost production from March. 'Some' old and very sick Norwegian nursing home patients have died after receiving the Pfizer jab, suggesting that the really old and ill should not receive the covid-19 vaccine. Johnson & Johnson's vaccine seems to be on track, and Oxford/AstraZenica will probably be authorised by the end of January. **The pace of vaccinations** has gained pace in both US and even more then UK, and they are ahead of other European countries (though both are well behind Israel). We still assume that distribution will be far smoother the coming weeks/months – this is not an impossible logistical challenge!
- The challenge remains: The vaccines will not arrive fast enough to curb the 3rd wave, now, in early 2021. Without social distancing (and more economic pain), an unacceptable explosion in new cases & hospitalisations, especially if the mutated virus takes the lead in more countries (which it probably will). However, the outlook from some time in Q2 or at least in Q3 is far better, given the rapid ramp up of vaccine production. In addition, the death rate (CFR, at least from the virus…) will soon decline as the old'ies are getting vaccinated the coming weeks (but hospitals will still have a problem if too many 'normal' people are infected, as 'normal' people also are becoming hospitalised)
- **President elect Biden proposed a huge 2021 fiscal stimulus package**, USD 1.900 bn (9% of GDP), in addition to the USD 900 bn (4% of GDP). The total stimulus seems to be far higher than the US economy needs now, as lack of demand is not the problem, it's the coronavirus that keeps parts of the economy in check until it is brought under control. It is still unclear how much of the proposal Biden and the Democrats can get through the Senate (60 of 100 votes are needed to stop a filibuster, or Biden can utilise his one shot per year budget reconciliation procedure, where a simple Senate majority is sufficient).

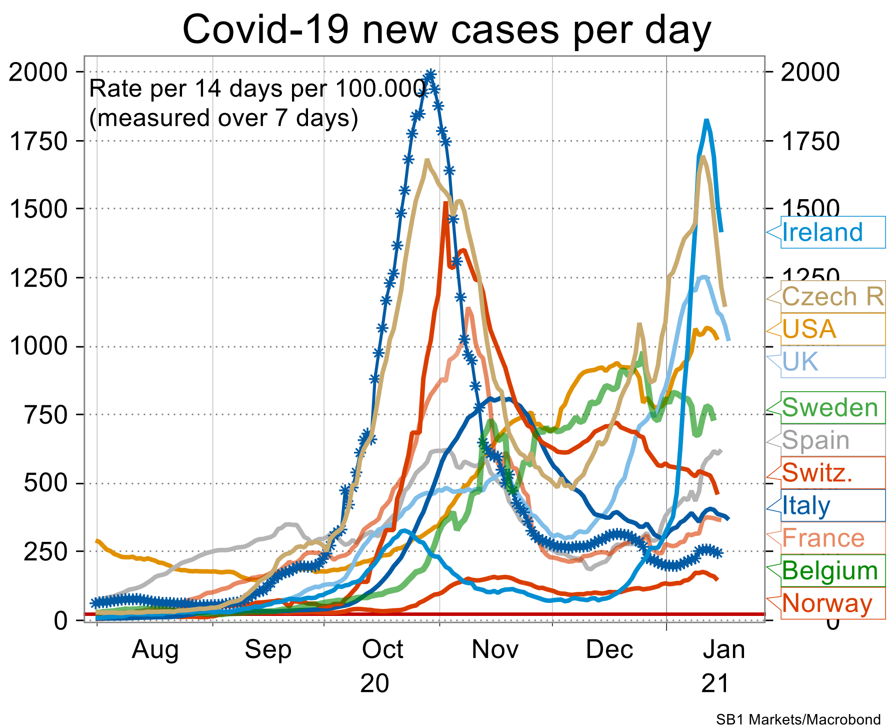
Last week 2: The economy

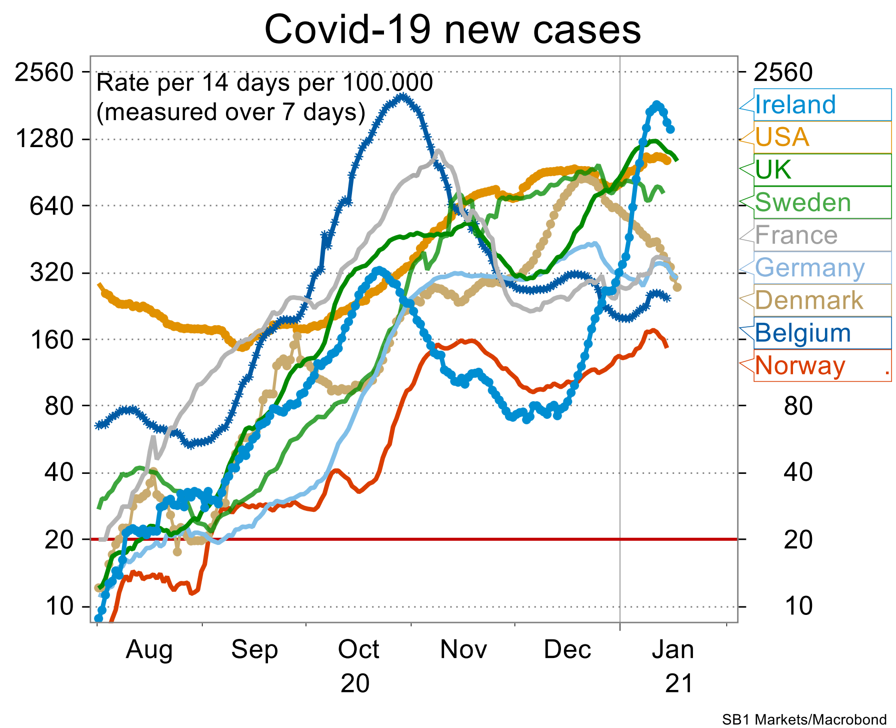
- **China's GDP** grew faster than expected in Q4, and is up 6.5% y/y, a higher growth rate than through 2019, as GDP expanded by 2.6% (11% annualised) in Q4 (and Q3 was revised up) ! **Industrial production** also surprised on the upside, while **retail sales** and **investments** were slightly lower, and **housing starts** were revised down. The overall picture is that the economy has fully recovered from the corona hit in Q1. **Credit growth** is clearly slowing, but not abruptly, and probably in line with the authorities preferences. **Exports** remained strong in December, far above any reasonable pre-corona trend lines. **Imports** are not weak either – and the trade surplus is at some 4% of GDP
- **US retail sales** fell sharply in December, and not just due to restaurants/bars – core goods were down 2%, no doubt due the coronavirus challenges. In addition, Nov was revised down. Still, core goods consumption remains 6% above the Feb level, in volume terms. **Manufacturing production** rose more than expected, and is now 3% below the Feb level, while the first Jan manuf. survey was close to unch, signalling continued growth. **Core CPI** is up just 1.3% y/y, but early stage **producer prices** are on the way up
- **EMU industrial production** rose by 2.5% out of the blue in Nov (manuf. +3.3%), but just due to a (tax related?) 50%+ hike in 'production' in the Irish manufacturing sector. Ex Ireland, EMU production was up +0.2%, marginally below the expected 0.3%
- **UK GDP** contracted 2.6% in Nov, no doubt corona related – and the level remain almost 9% below the pre-corona level
- **Norwegian Mainland GDP** fell by 0.9% in Nov, expected down 1.6%. Fishing & aquaculture and electricity production fell sharply, in sum deducting 0.8 pp from the headline, leaving just -0.1% for the rest of the economy (SSB says -0.4%), even if hotels/restaurants reported a 27% decline (a - 0.4 pp drag). Other sectors reported continued growth. ML GDP is down 2.4% vs. the Feb level. **Core CPI** is up 3% y/y, slightly less than expected – still far above the 2% price target

SpareBank 1 MARKETS

One week makes a lot of difference (as usual these days…)

The VERY good news: It is possibe to turn down the virus, even if it has mutated! But it is expensive…





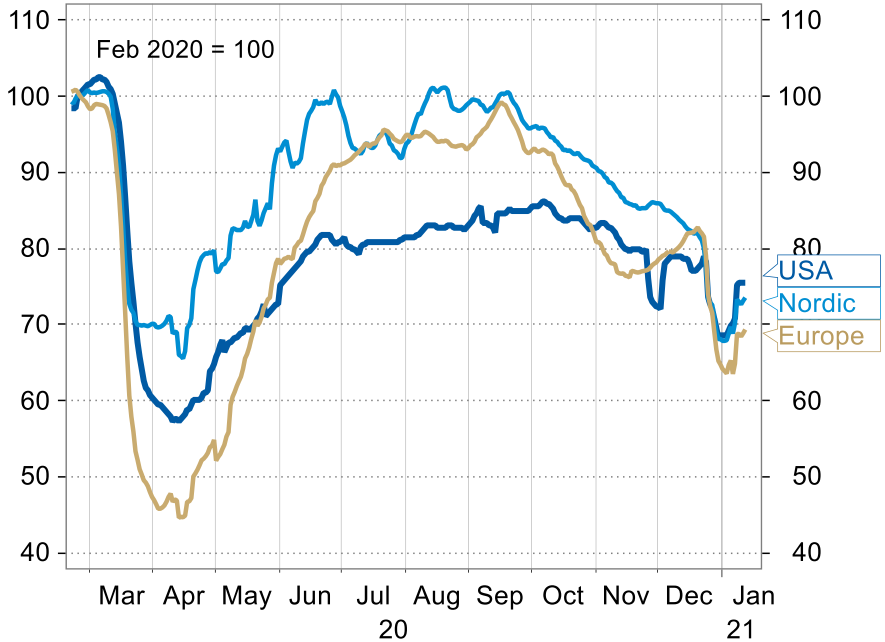
- One week ago, the no of cases was rapidly increasing in several countries, with **Ireland and the Czech Rep at the top**. Last week, no of new covid infections fell sharply in several countries, including in Ireland and the CR. In **UK** the no of cases fell by 20% - and it may have flattened in the US, as in several European countries follow an increase, probably due to the festive season.
- **Denmark** is reporting a sharp decline in new cases, and during this week a 75% reduction from the peak is possible. The no of new cases is declining in Norway too, and the level is low
- **Thus restrictions work**, even vs. the mutant virus, like in Ireland and in the UK.
  However, really tough lockdowns are needed, check the next page

SpareBank 1 MARKETS

Mobility up after the holidays but most countries sharply down vs Xmas levels

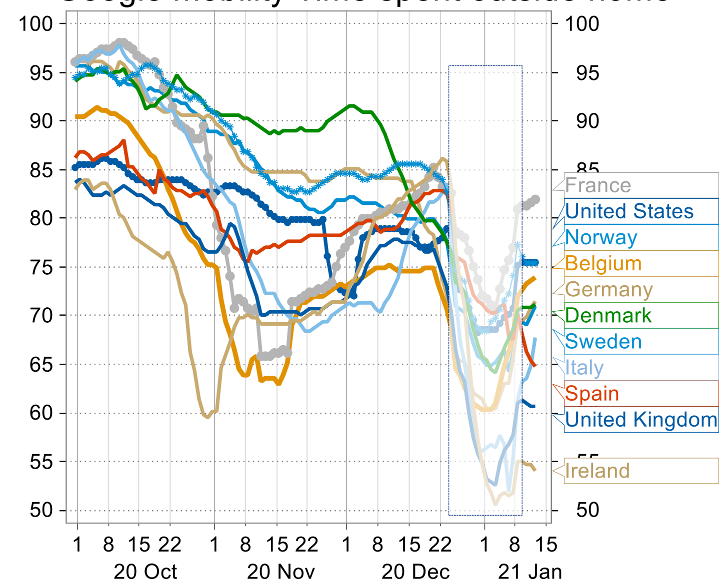
Signals a weak January most places. Just US, France & Belgium close to mid Dec mobility levels

Google mobility Time spent outside home



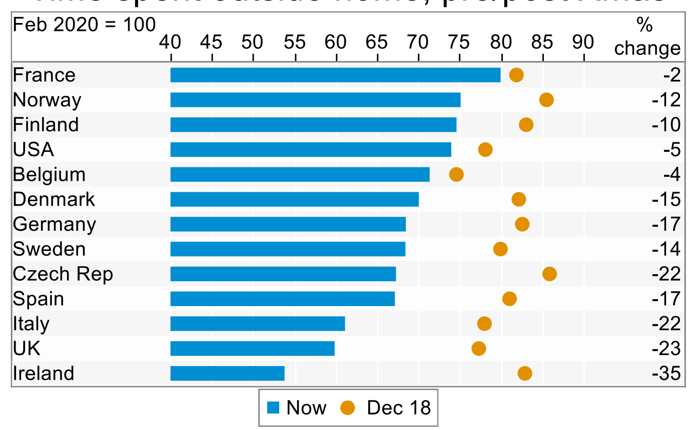
SB1 Markets/Macrobond

Google mobility Time spent outside home



SB1 Markets/Macrobond

Time spent outside home, pre/post Xmas



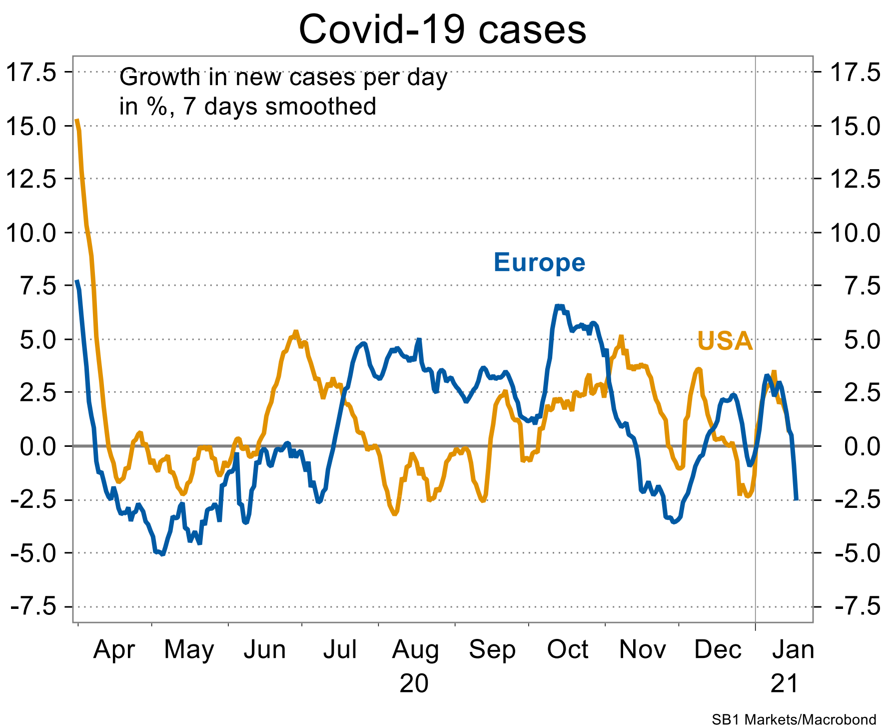
SB1 Markets/Macrobond

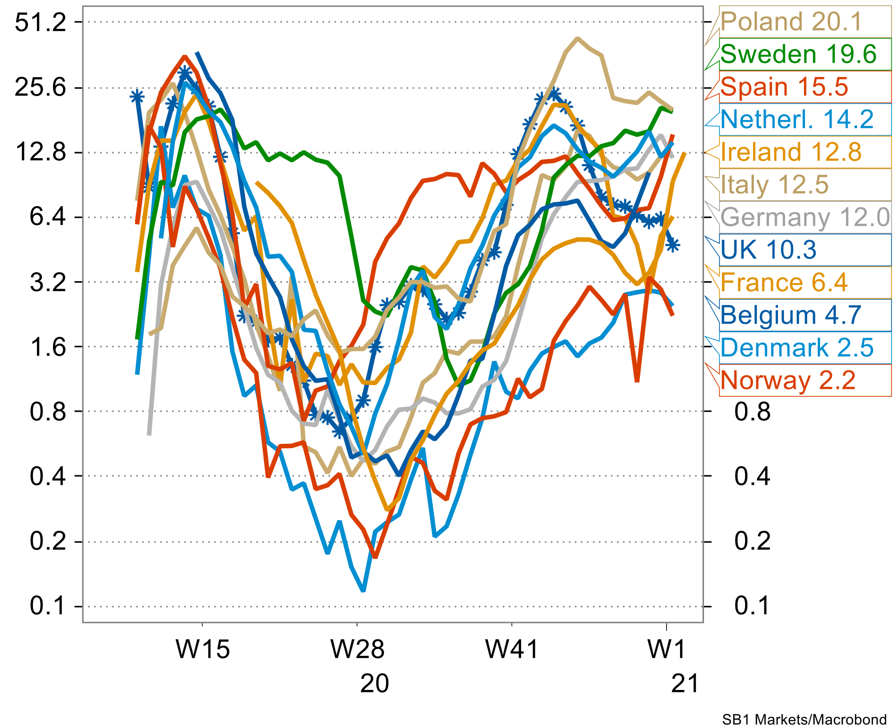
- Lockdowns/restrictions have been decided in several countries over the past weeks
- **In the UK**, time spent outside home is down 23% (not percentage points) – and mobility is down more than 40% vs. a 'normal' level (Feb 2020)
- **In Ireland**, -35% vs pre Xmas, and the level is now down 45% vs. 'normal'

SpareBank 1 MARKETS

Aggregate growth in new cases slowed – or turned negative

However, there is not a consistent decline in positivity rates (which are reported with a lag)

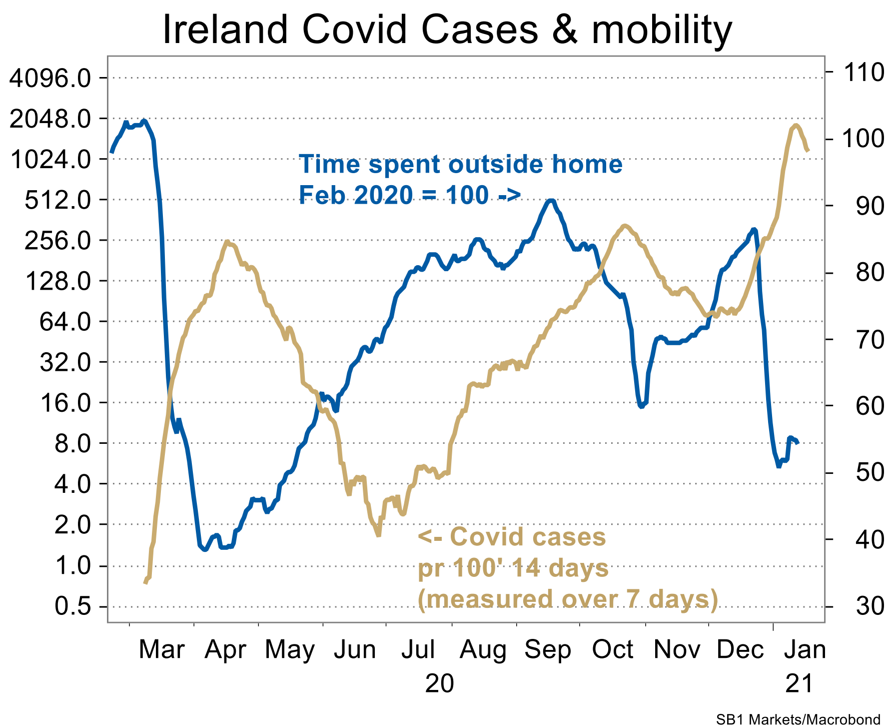


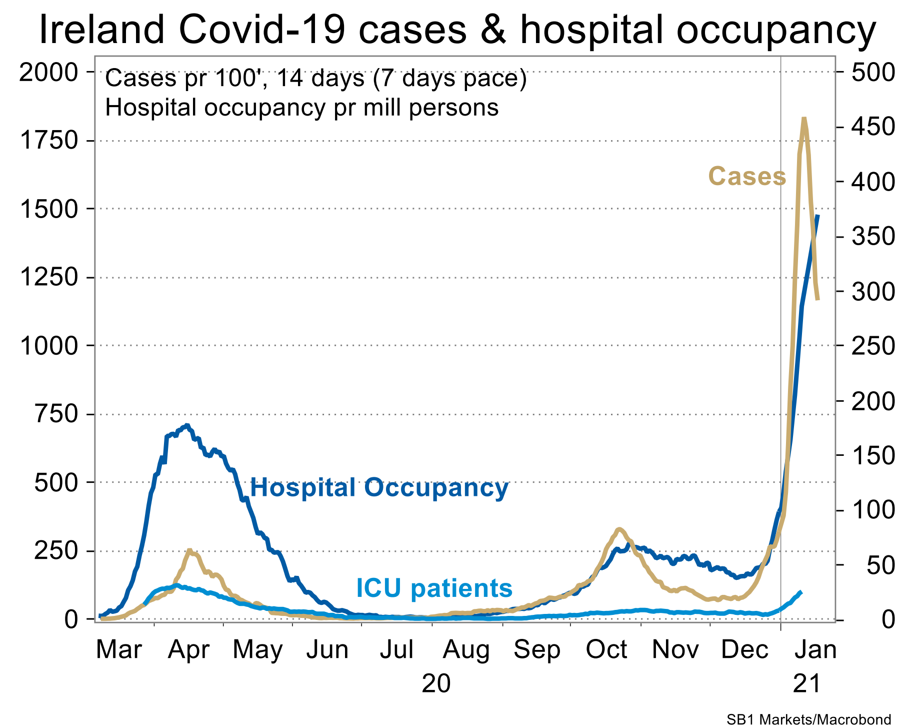


- Ireland reported a higher positivity rate last week too, most others are stabilising

Even a mutant can be beaten down; Irish cases down 1/3 last week!

However, a rather drastic lockdown was needed – tighter than in other countries

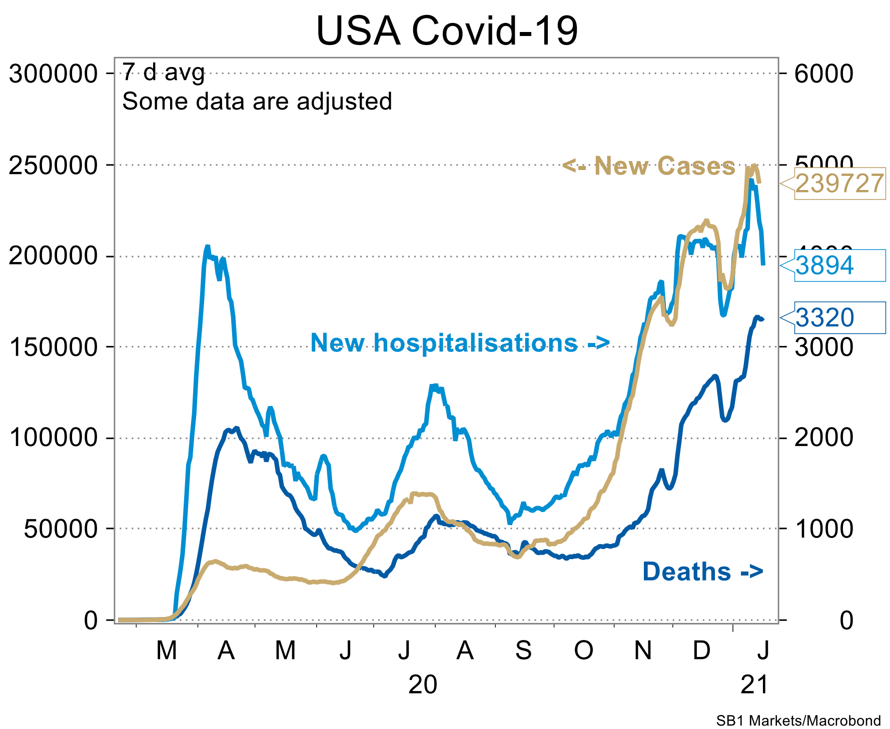


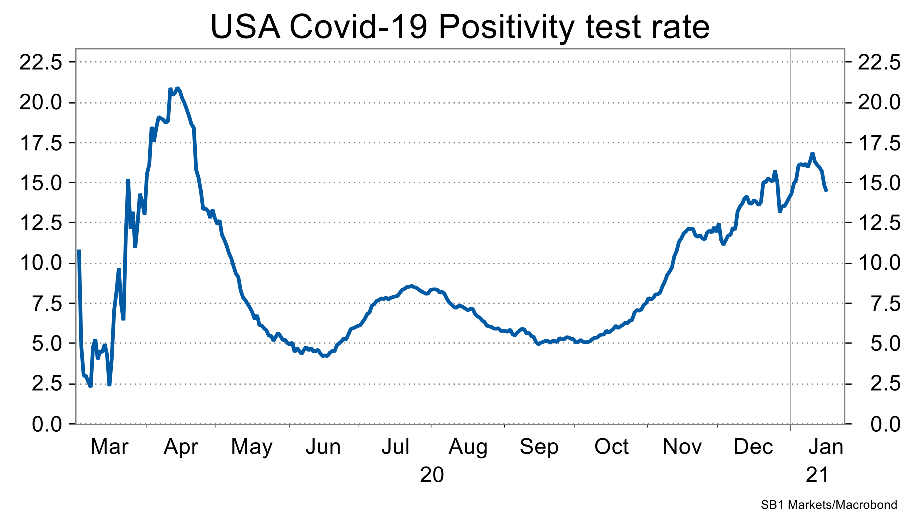


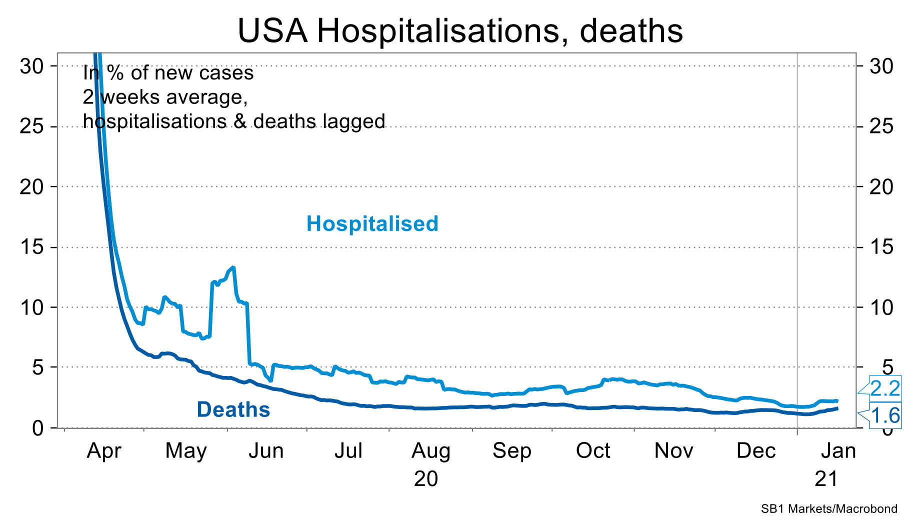
- Cases exploded from mid Dec until one week ago, with an ‘R’ at up to 2.5x, and 2.6x per week, 70x per month. The mutated virus and eased restrictions in Dec created a dreadful mix. However following a tightening of restrictions, the no. of new cases turned south one week ago – and has now fallen by 30%, signalling an ‘R’ at 0.75
- The no. of hospitalised has increased to 1,900 patients, 15% of total bed capacity (The Irish population 5 mill…), and there are almost no more ICU beds available

USA: Another peak – local or final?? We have seen small cycles lately

Still a long way to go before the vaccines will come to rescue



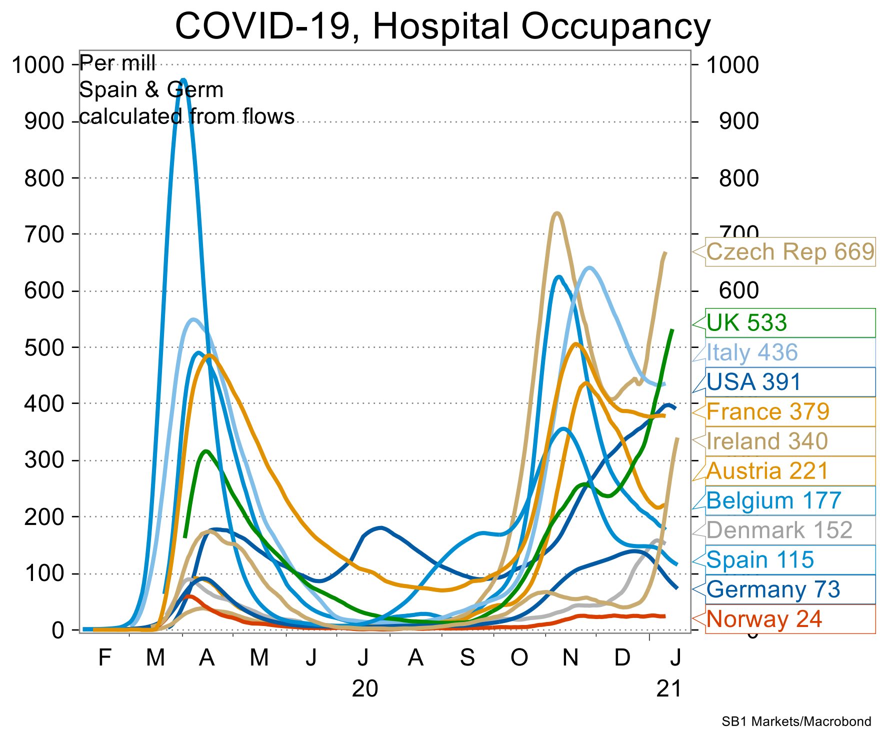


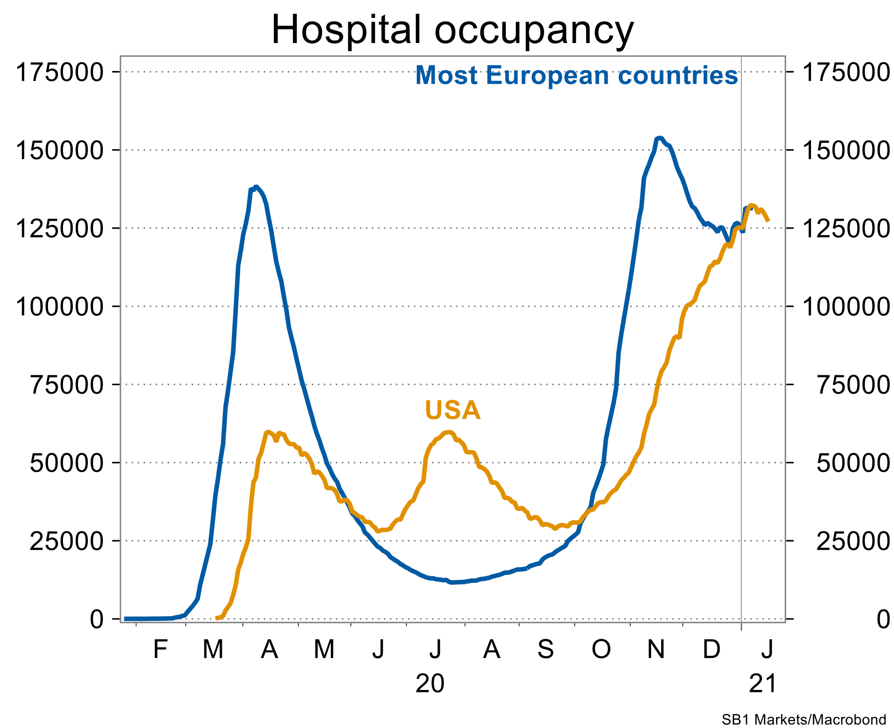


- The positivity test rate has fallen somewhat, a good sign
- The hospitalisation and death rates are quite stable

Some countries are still filling up their hospital beds

.. While others are reporting few covid-19 patients



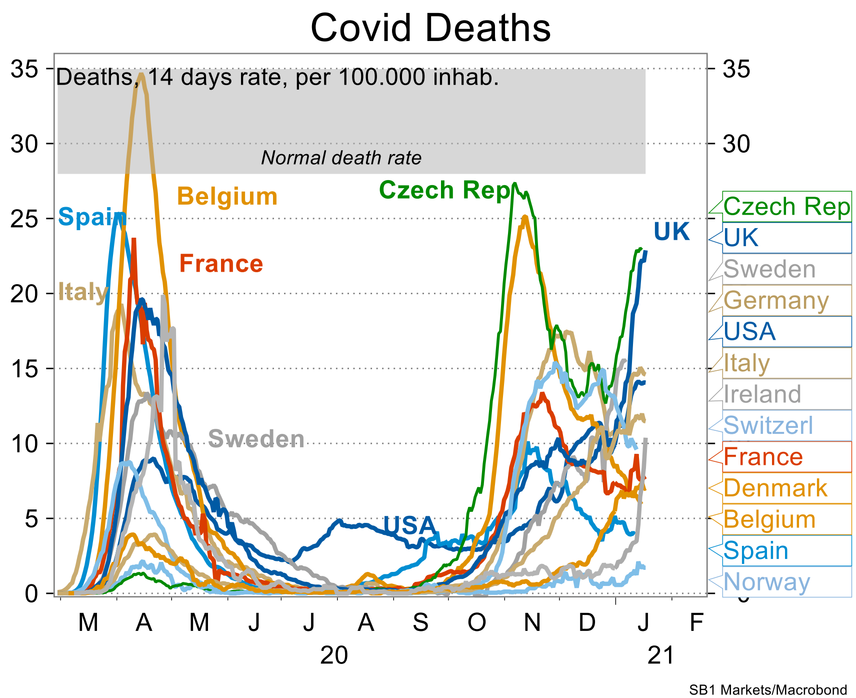


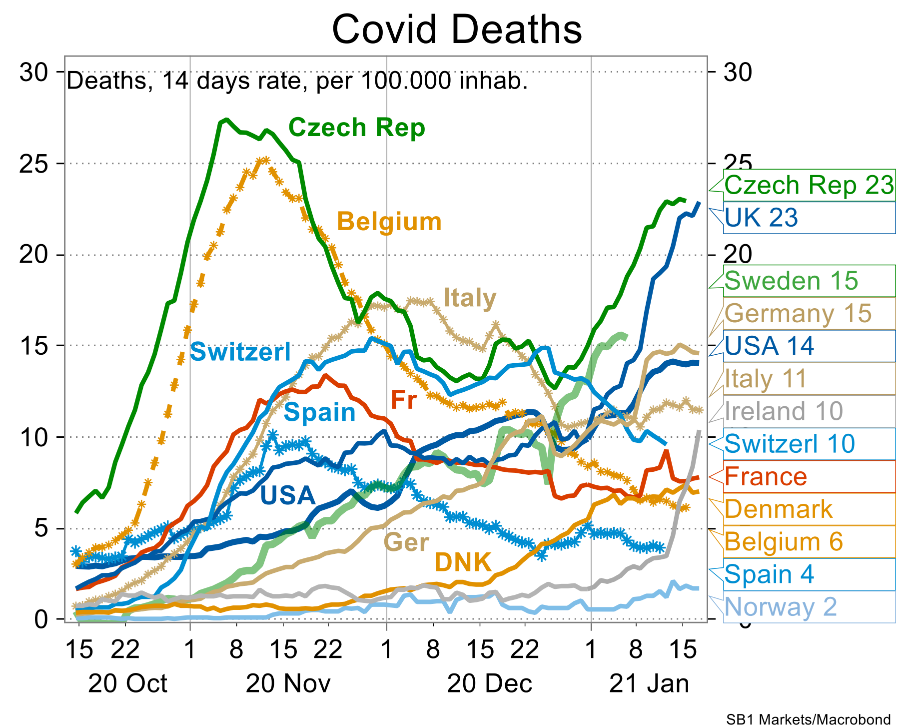
- The Czech Rep is really struggling again, and the situation is critical in the UK
- In several countries, hospital occupancy is on the way down
  - » Denmark is probably peaking now

SpareBank 1 MARKETS

The deaths: UK & Czech R on the top, Ireland rapidly on the way up

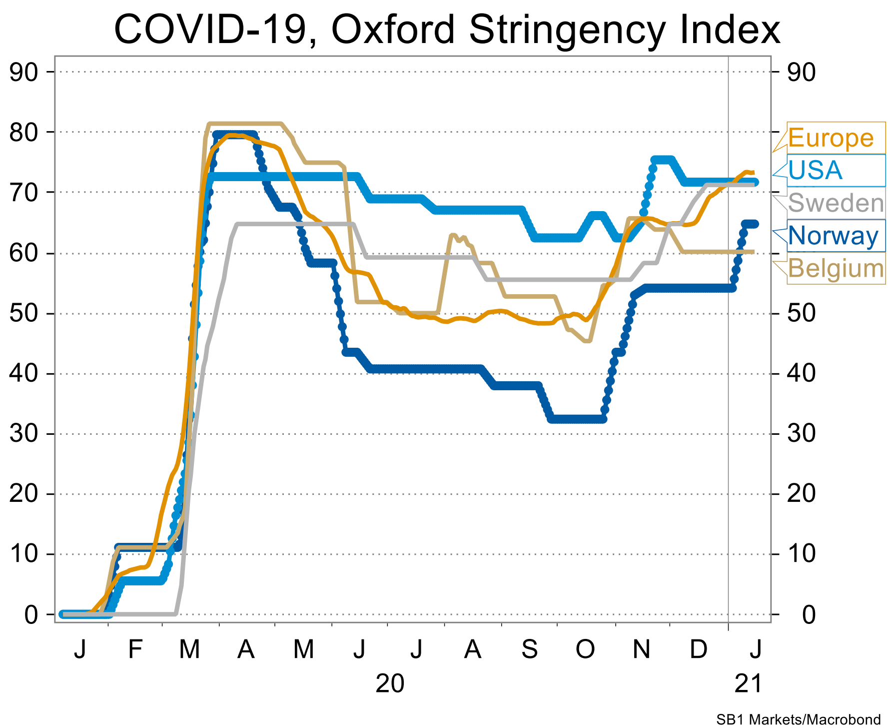
… has not peaked yet. Sweden is also reporting (lagged) a high death toll

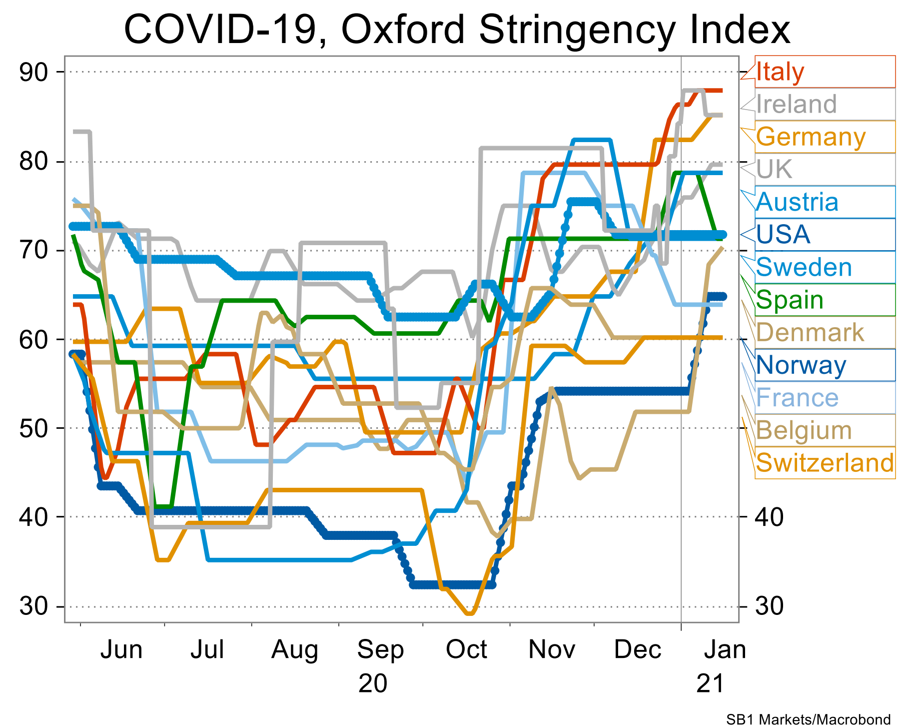




- The no. of deaths in Ireland will probably rise sharply from the present level, as it takes time to succumb to this disease
- The Czech Rep is heading sharply up again too, but may be flattening now
- Deaths in Denmark and Germany has flattened, and should decline the coming two weeks

The stringency index is drifting upwards in Europe – and some more to come

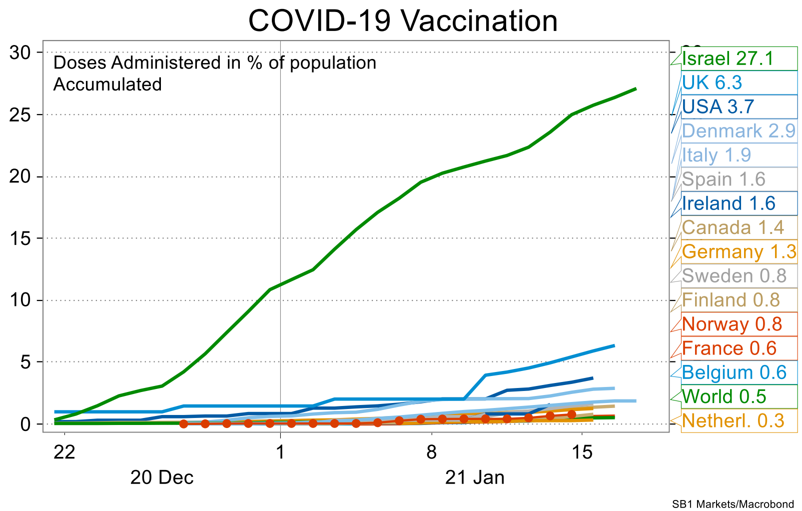


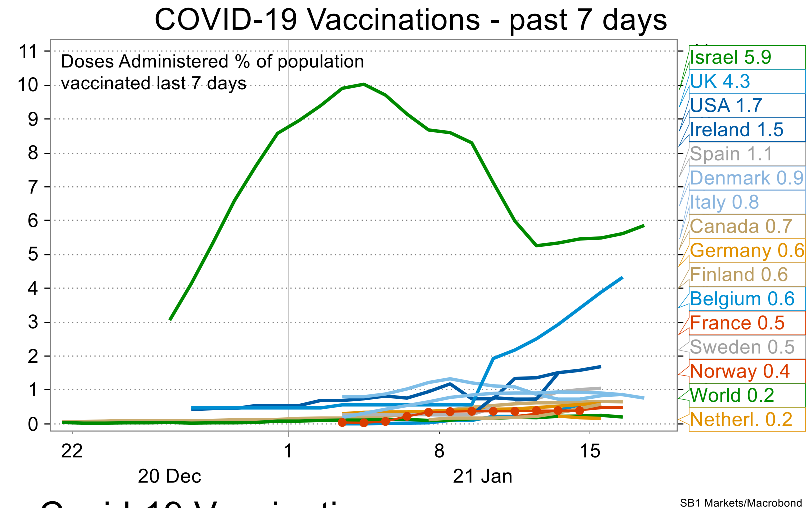


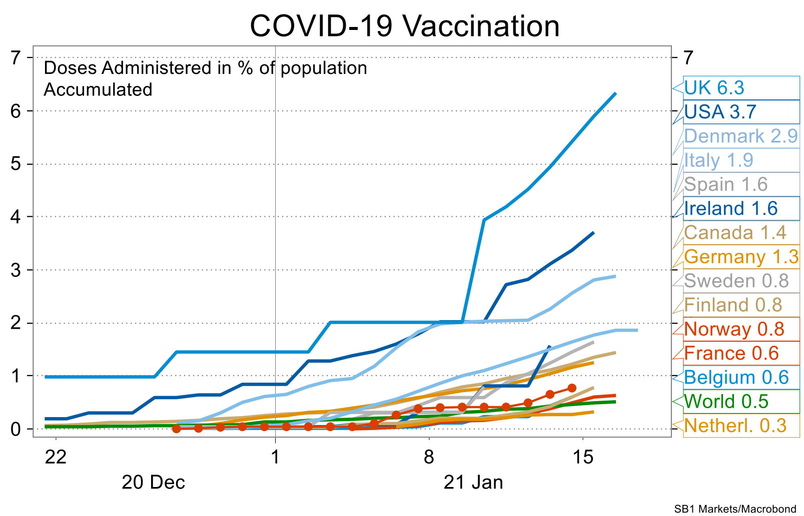
- Spain should soon ease restrictions, given the steep decline in cases & deaths. France has already lifted some measures. UK, Germany, Switzerland, Finland and Denmark have all tightened somewhat during December
- We are not sure Oxford's stringency indices are correct all the time but the broad picture may still be relevant

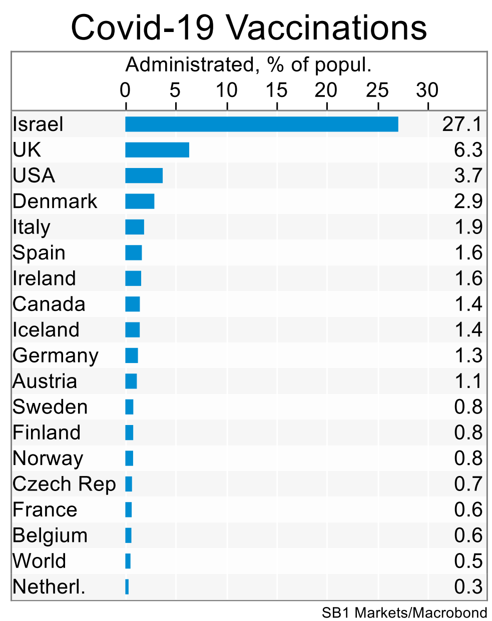
Vaccinations: UK & US in the lead (if Israel is excluded)

Israel expects to reach herd immunity by end of Q1. Others need more time, it seems like









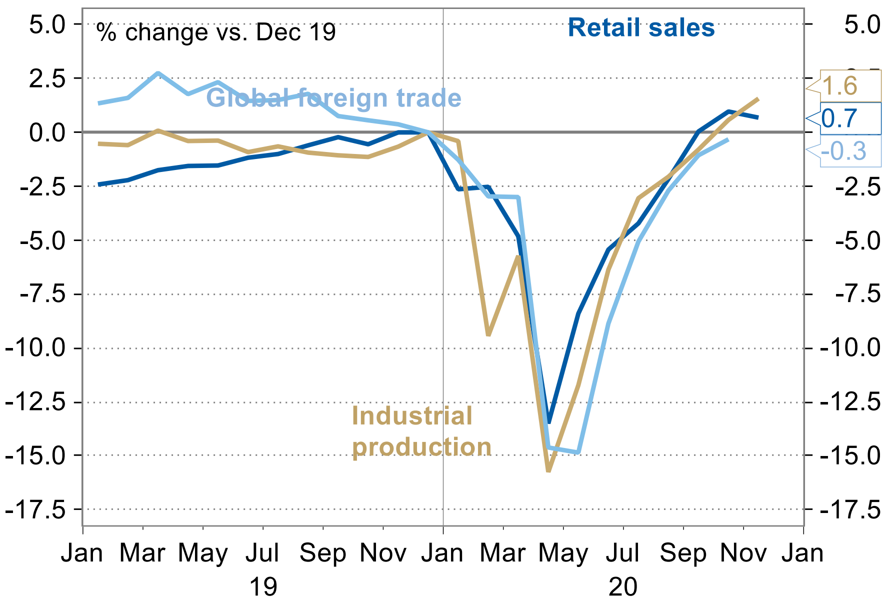
- Oxford/AstraZeneca and Johnson & Johnson will eventually provide much larger quantities. Others may follow
- We doubt distribution will become an impossible challenge, as most countries are used to distribute large quantities of vaccines
  - » Complicated priority systems create problems now, but hopefully not for too long

Sources: Our World in Data/Macrobond

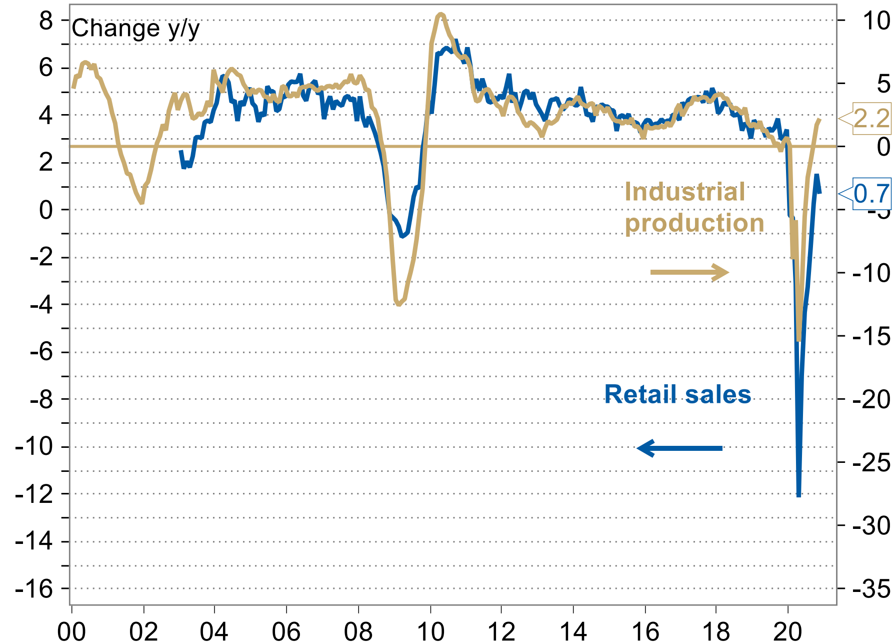
SpareBank 1 MARKETS

Industrial prod. further up in Nov, retail sales down due the EMU drop

Foreign trade rose in October – and the trade gap to the pre-corona levels is almost closed too



SB1 Markets/Macrobond/CPB



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

SB1 Markets/Macrobond

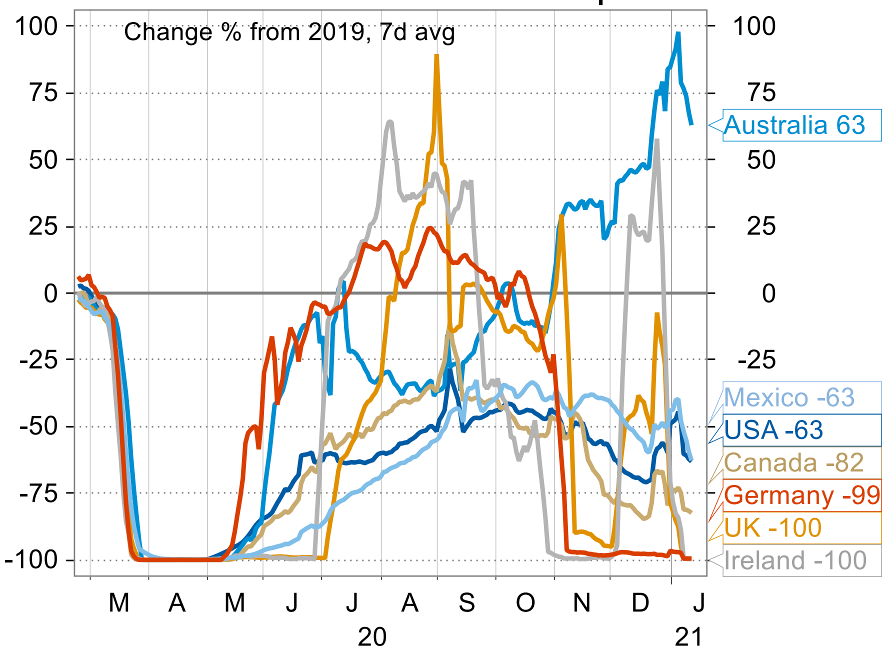
- **Retail sales** fell by 0.3% due to a larger than expected (6.2% vs. 3.8%) decline in retail sales in EMU (Belgium & France down 16 – 18%). Global sales are still above the pre-corona level
- **Manufacturing production** probably climbed 1% - and is 1.6% above the pre-corona level, according to our preliminary estimates (Some crazy Irish production figures explain 0.3 pp of the global lift in Nov)
- **Global foreign trade** rose 0.8% in October, and the level is just 0.3% below the Dec-19 level – the gap is closed

SpareBank 1 MARKETS

Restaurant open only in Australia. Full closure in Ireland, UK & Germany

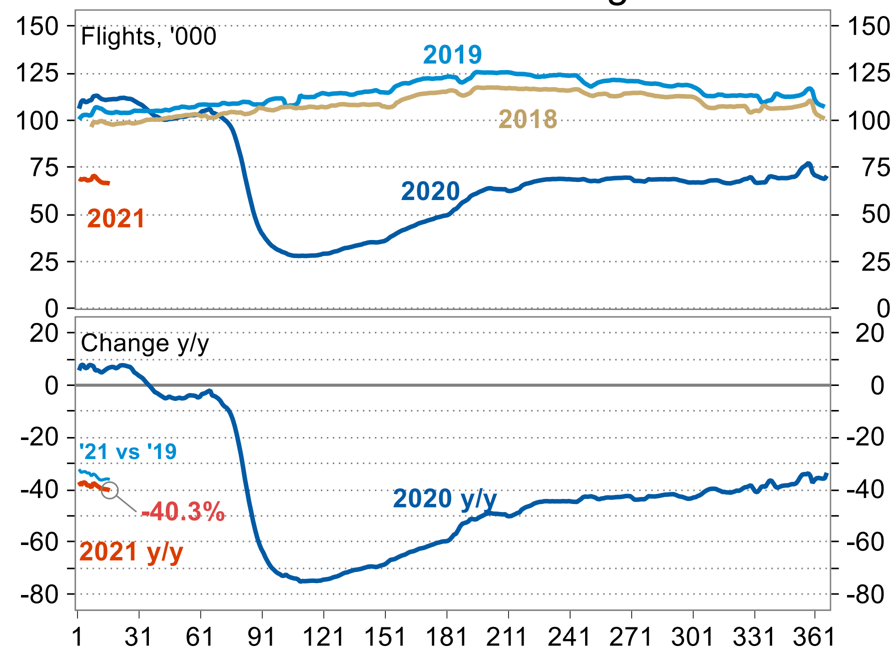
Commercial airline traffic still down 40% vs the early 2020 level

Restaurant reservations Open table



SB1 Markets/Macrobond

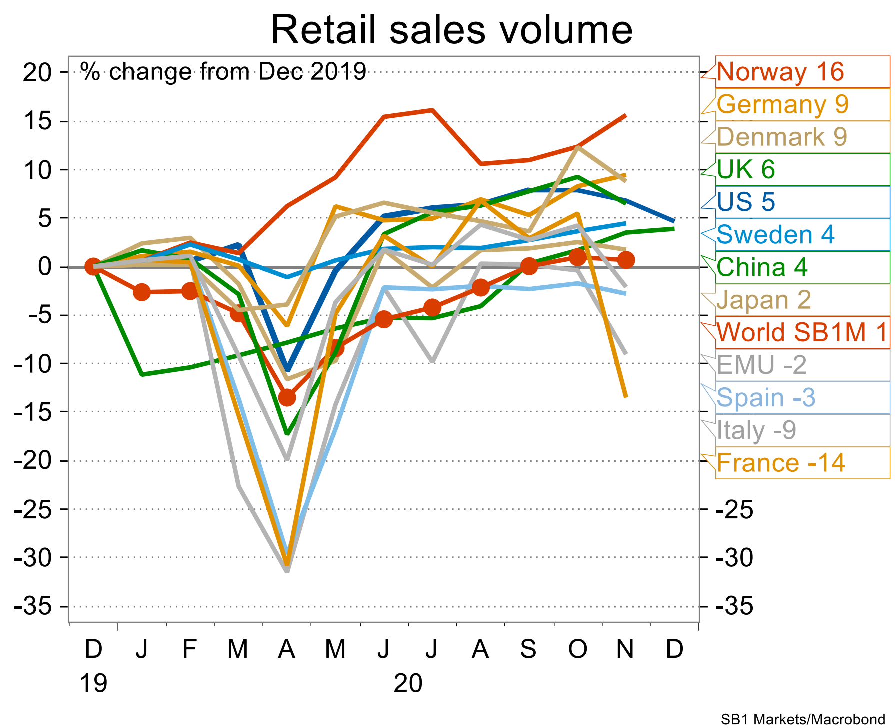
World Commercial flights



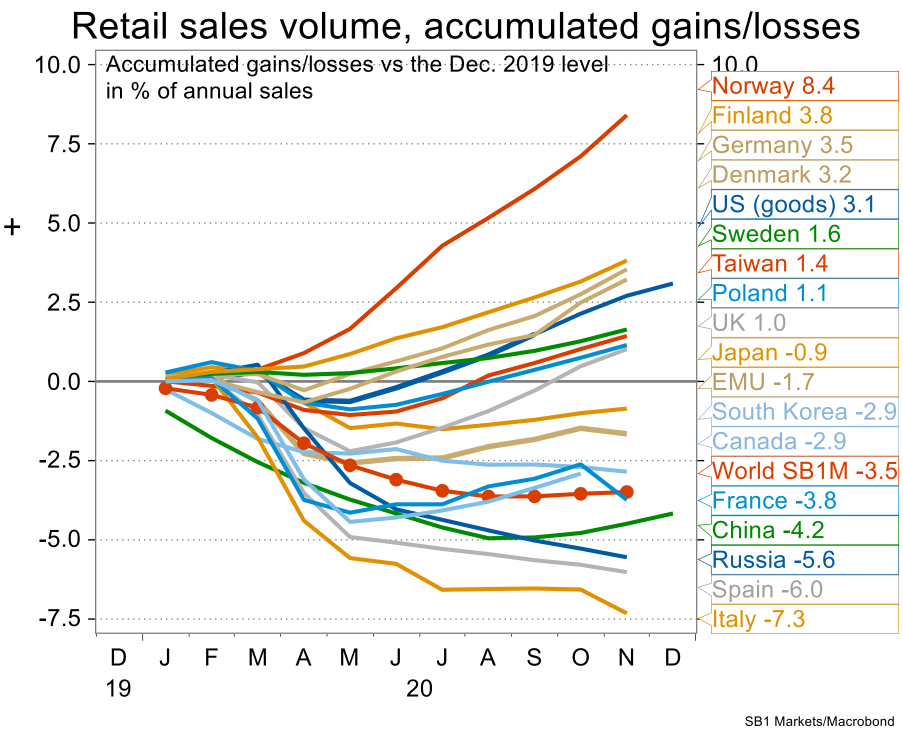
Flightradar24 SB1 Markets/Macrobond

Global retail sales above the Dec-19-level in Nov in most rich countries

But not in the EMU – due to the 2nd corona wave drop in Fra/It/Belg. Others to follow in Dec?



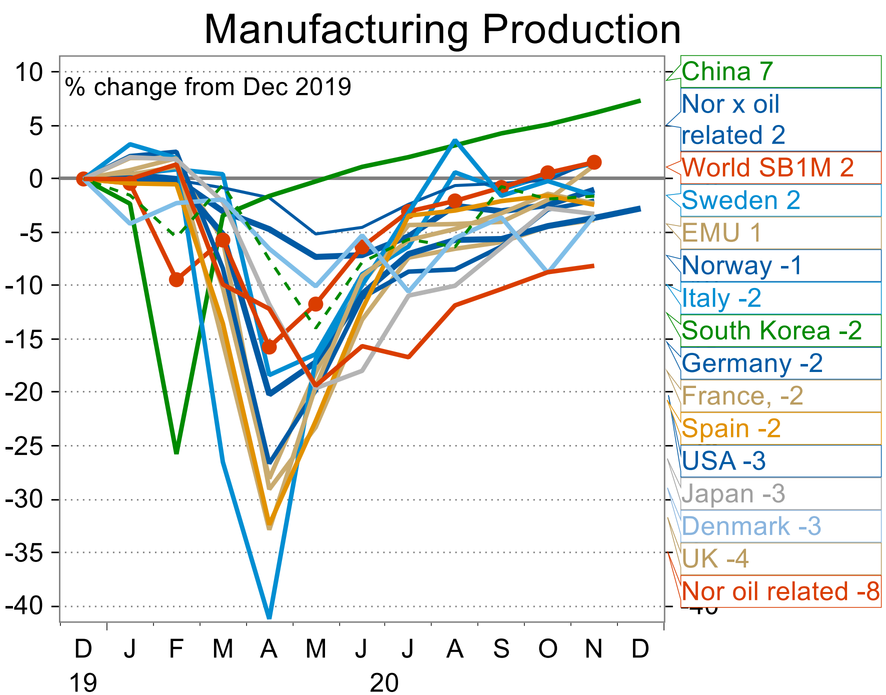
+

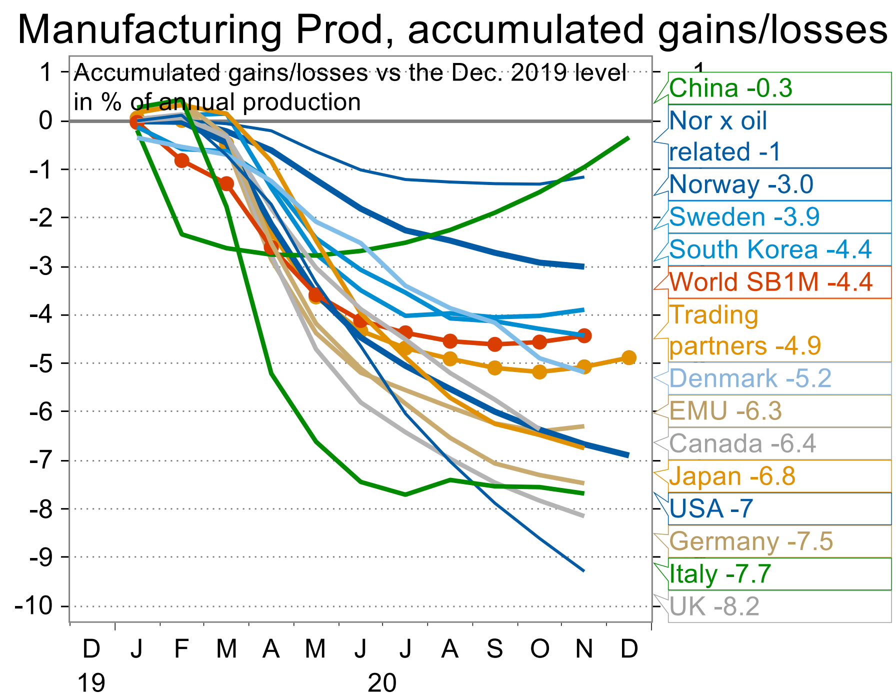


- Norway is in the lead – and has been during the whole corona crisis. Crisis, what crisis??
- US sales fell in both Nov & Dec but is still well above the pre corona level
- Consumption of services is not included in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production above the Dec-19 level in November

Production rose at the same pace as during the previous two months – a brisk growth pace into Q4

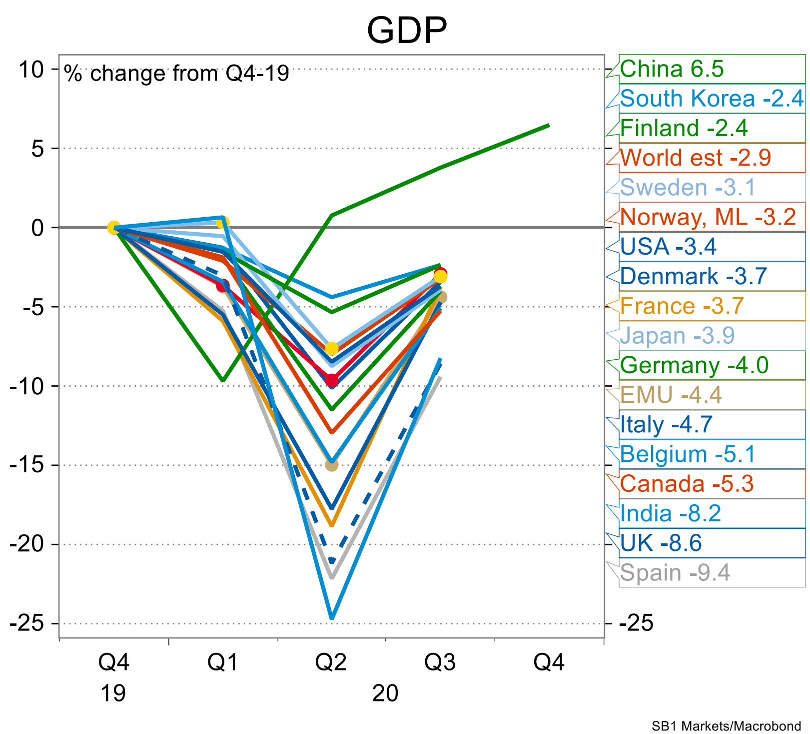


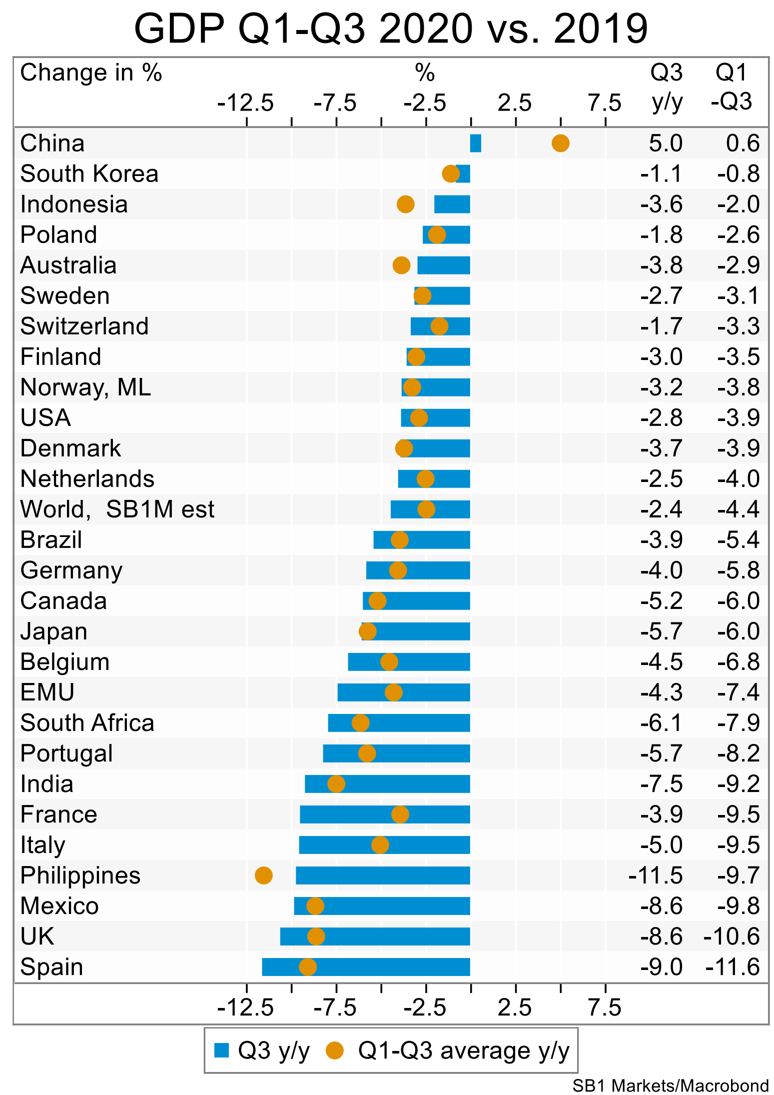


- Service sector production is not included in these retail sales data – and service consumption(=production) is still way below a normal level

Global Q3 GDP ‘just’ 3% below Q4-19 level

The total loss over the first 3 quarters equals 4.4% y/y. US down 3.9%, EMU 7.4%



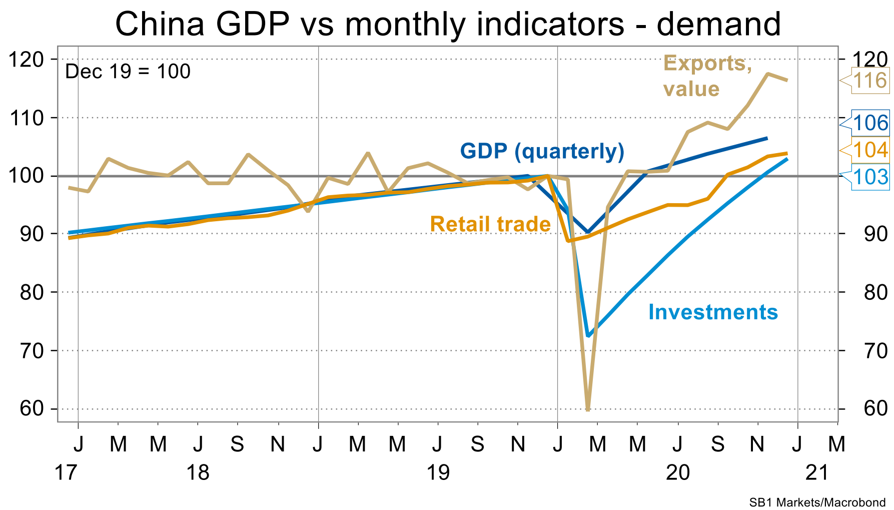


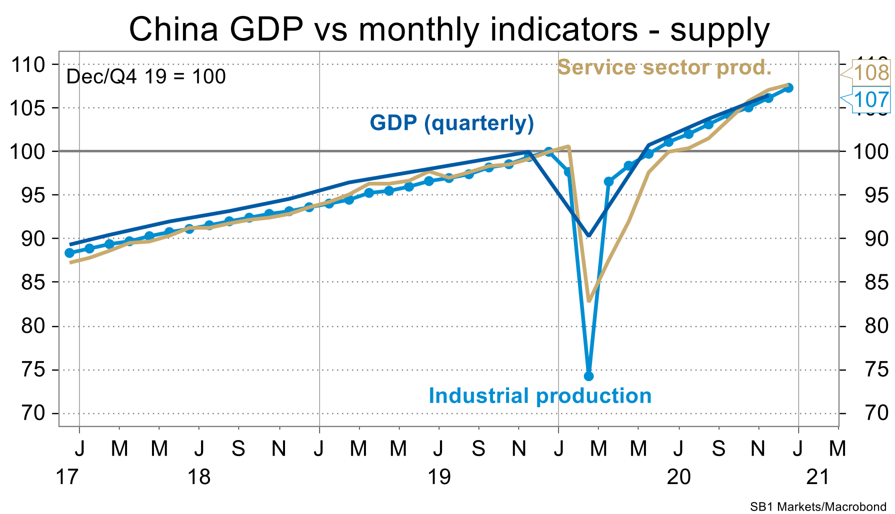
- Some observations – Q3 vs Q4-19:
  - » China was 3.8% above Q4-19 (and up 6.5% in Q4-20). Others were down in Q3
  - » India still down 8.2%, even after a 22% recovery in Q3 (124% annualised ☺)
  - » Japan is down 3.9% (but 6% vs Q3 19, before the VAT hike tanked the economy in Q4)
  - » USA -3.4%
  - » EMU -4.4%, of which Spain -9.4%, France -3.7%
  - » UK down 8.6%
  - » Sweden -3.1% (and Finland just -2.4%, best in the rich mans’ class). Denmark -3.7%
  - » Norway (Mainland) -3.2%

SpareBank 1 MARKETS

Q4 GDP stronger than expected, up 6.5% y/y

Industrial production well above pre-corona trend, as are exports. All others on the way towards trend



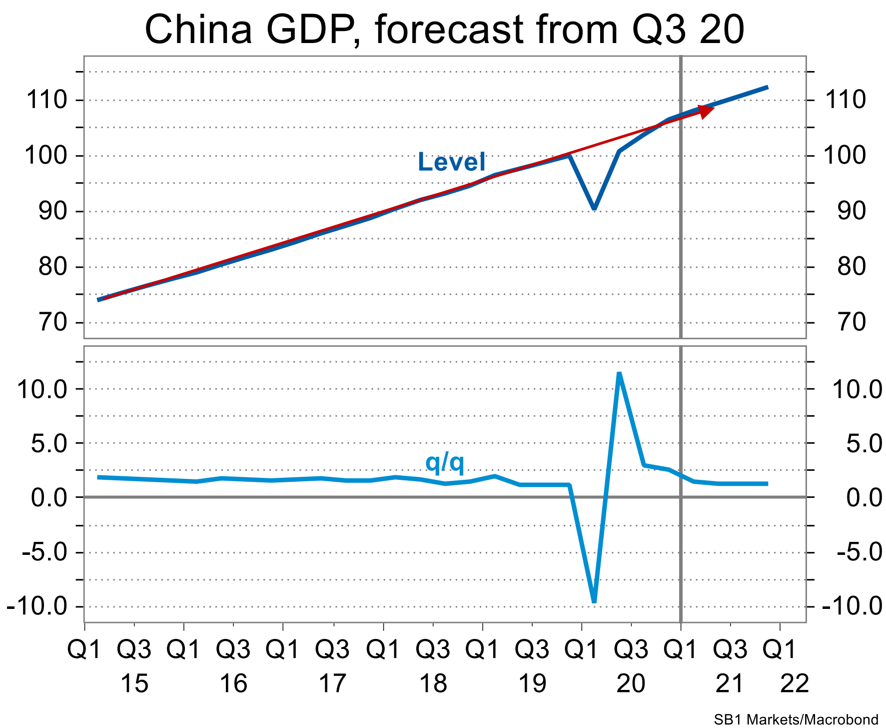


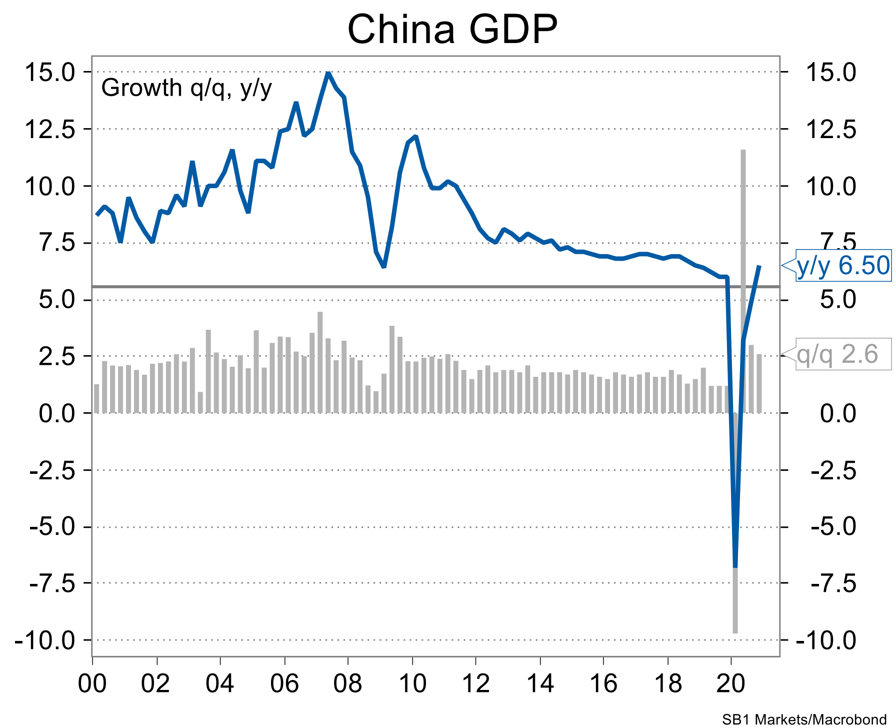
- **GDP** rose 2.6% q/q in Q4 (0.1 slower than expected) – and by 6.5% y/y (0.3 pp faster than expected), as Q3 growth was revised up by 0.3 pp. GDP grew faster trough 2020 than through the previous year even if the annual growth rate was just 2.3%
- **Industrial production** rose 1.1% m/m in Dec and 7.3% y/y, the latter 0.4 pp better than expected. Production is well above the pre-corona trend path. Growth will now most likely slow
- **Service sector production** grew by 0.6% in Dec, slower than the prev. 3 months. Activity is 8% above the Dec 19 level – and 'finally' at the old trend path
- **Retail sales** rose 0.5% m/m in volume terms in Dec, down from 1.6%. Annual nominal growth fell by 0.5 pp to 4.6%, expected up to 5.5%. The gap to the pre-corona trend path is now just 1%! **CPI inflation** is falling sharply, and prices are up just 0.2% y/y (from above +5% at the peak) as pork prices are heading down. Supportive for real household demand, of course. **Producer prices** were finally up y/y in Dec
- **Investments** rose 2.3% m/m in Dec. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly
- **Credit growth** is slowing, and underlying growth has fallen to some 8% (from 13) and it is now close an underlying nominal GDP growth
- **Exports** fell marginally in Dec but the level is 16% up vs early 2020, signalling growth abroad, and imports are at a decent trend path, signalling – growth at home too. Other Asian exports are on the way up, including South Korea

In sum: Gaps are closed. The economy has fully recovered from the corona downturn. So it is possible ☺

Q4 GDP up 6.5% y/y, and the level is above the pre-corna trend!

The annual rate was 0.3 pp higher than expected, even if the q/q rate at 2.6% was 0.1 pp lower ☺

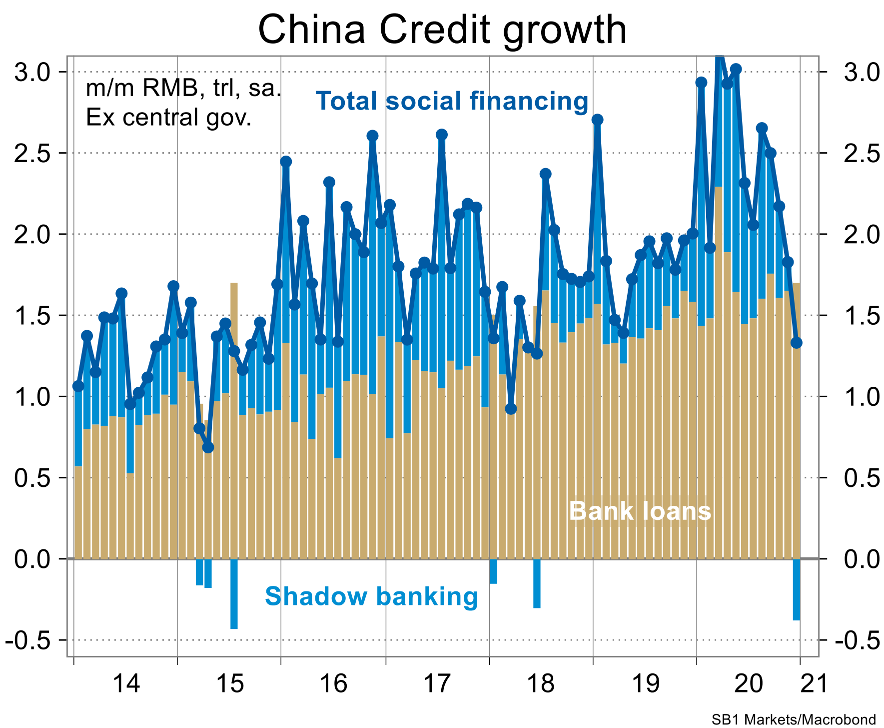


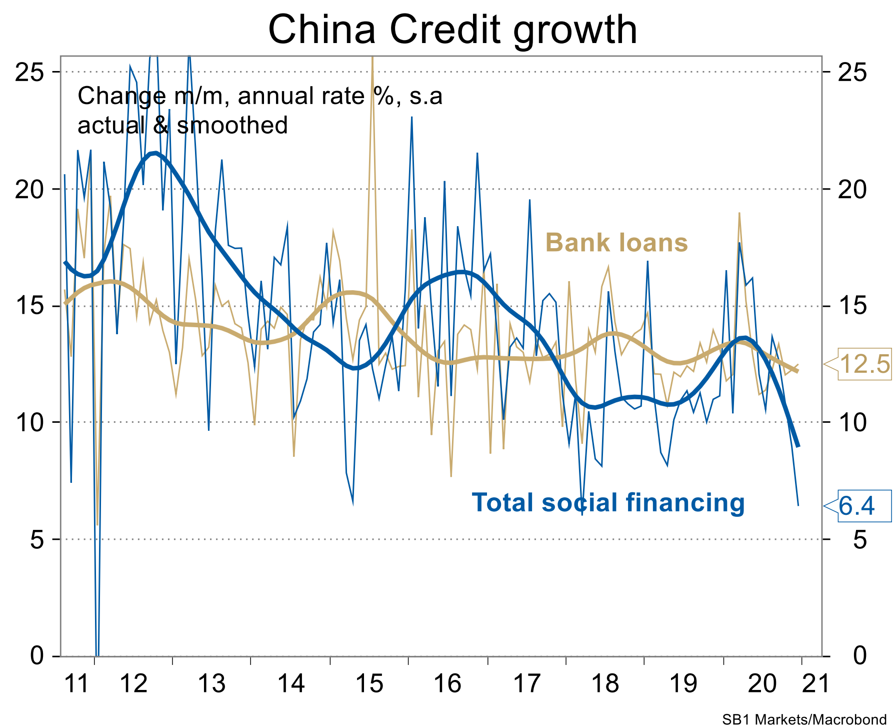


- A 2.6% q/q rate equals a 11% annualised growth rate, following the 3.0% q/q growth in Q3 (revised up by 0.3 pp)
- The annual GDP growth rate was sliding down before corona, to 6% in Q4 last year. If the gradual decline in growth had continued – and corona had not happened – the annual growth rate would have been some 5.5% by Q4 2020. The actual rate at 6.5% is clearly above the pre-corona trend – and might partly be to due some pent up demand/production – or perhaps due to an 'overstimulated' economy
- For the record: GDP rose by just 2.3% in 2020

Credit growth is slowing further but no reason for panic

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

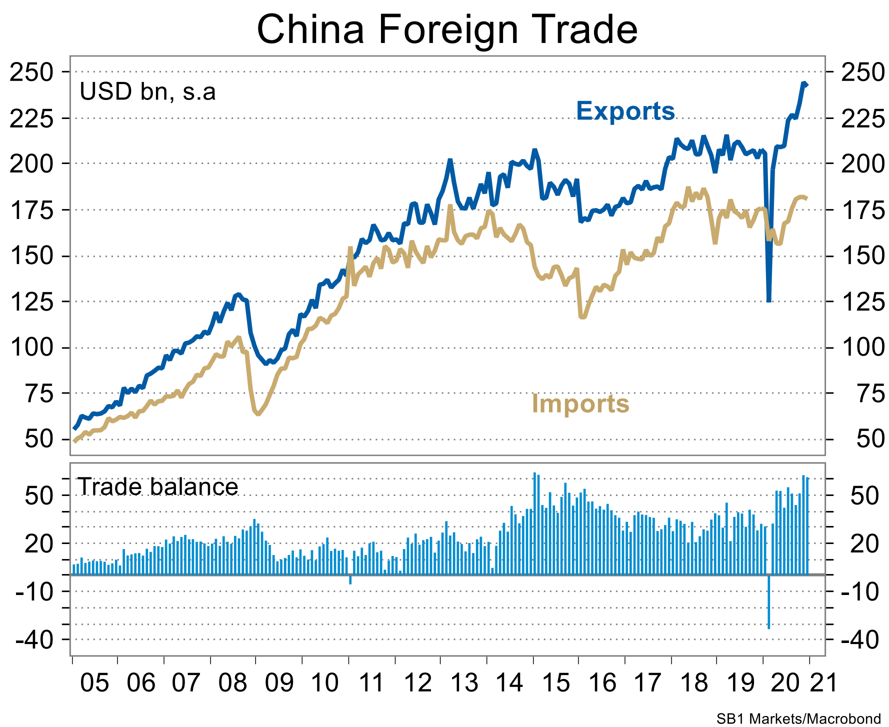




- In Dec credit grew at a 6.4% rate (m/m, annualised). Smoothed, the underlying rate may be some 8%, down from 13% during the spring (and >15% during some months). A 8% growth rate is probably close to trend growth in nominal GDP
  - » Total credit rose by RMB 0.8 trl (not seasonally adjusted, *total social financing* ex central government bonds but including local governments, and ex. corporate equities), well below expectations. Bank loans grew by 0.95 trl, 25% less than expected. Seasonally adjusted total credit rose by 1.8 trl, of which almost everything through the ordinary banking system
- Total credit is still up 12.6% 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 trying to calm credit markets down. They no doubt acknowledge that the debt/GDP ratio already is dangerously high

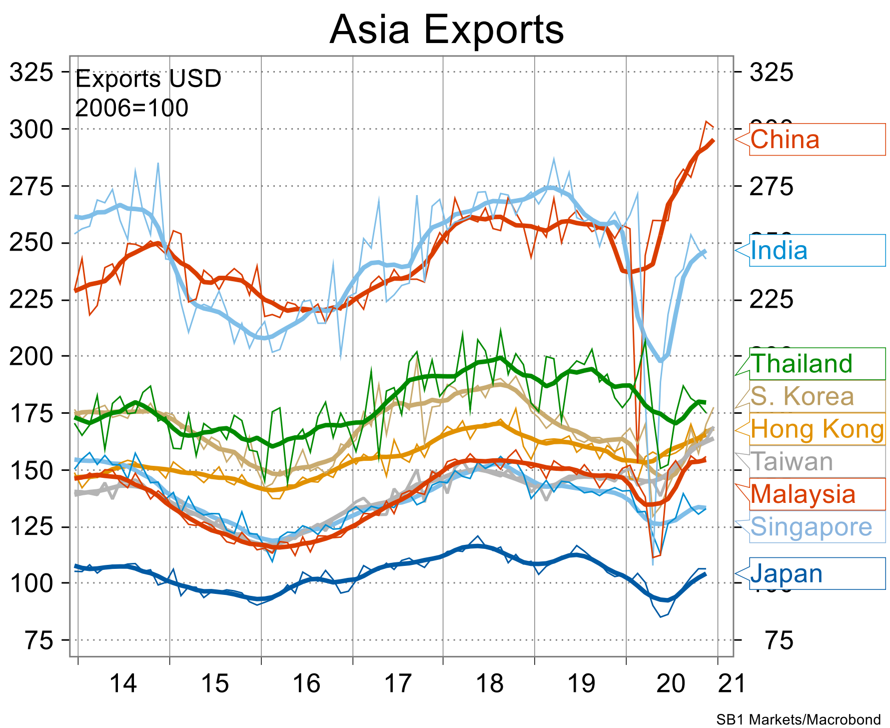
Exports flat at ATH in Dec, up 18% y/y. Imports flat too, at a decent volume trend

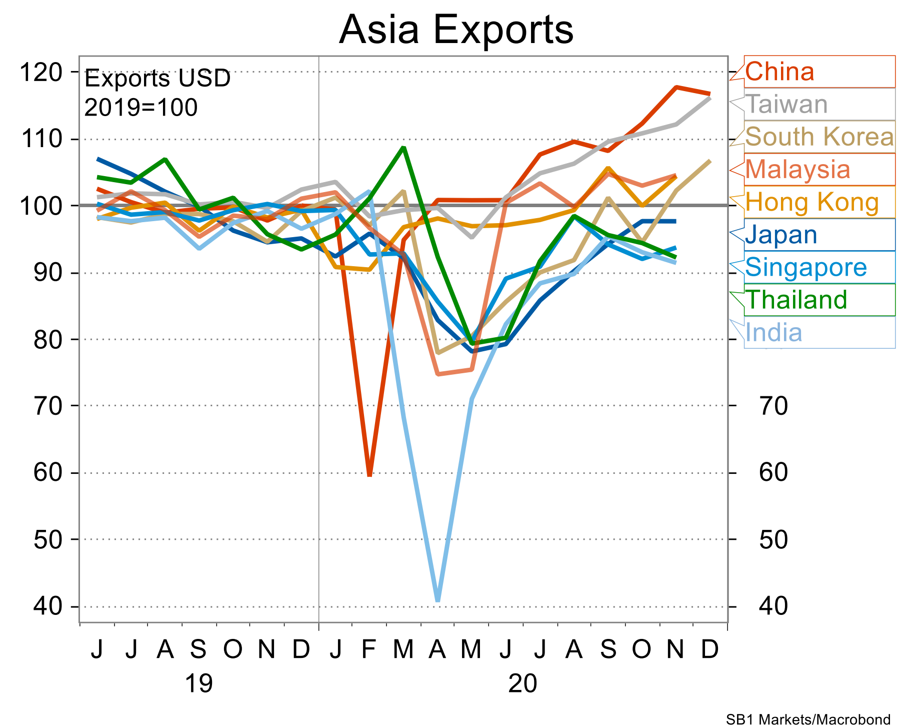
No signs of any slowdown in the global or the Chinese economy



- **Exports** was close to unch m/m in Dec but grew 18% y/y in USD terms, expected up 15%, vs. 21% in Nov. In **volume terms** export are up 12% y/y (based on price assumptions for the 2 last months). More important, export volumes are 10 – 15% above any reasonable trendline you can draw! Chinese exports are the highest ever – and the highest for any country at any time, of course – which have has been the norm for some years – and probably will be 'forever' – whatever 'containment' policy the US may undertake
- **Imports** were up 4.7% y/y, close to expectations , and flat m/m. In **volume terms** (our price assumptions last 2 m), imports are up 2% y/y, and close to a reasonable trendline. Domestic demand is OK
- The **trade surplus** was unch at USD 60 bn in Dec (s.a, the actual surplus up to USD 75 bn from 68, expected 53), close to the early 2015 ATH. The surplus has been higher than normal since March. China is still running a **deficit in services** (but it is narrowing, less Chinese travelled abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks - in % of GDP, that is

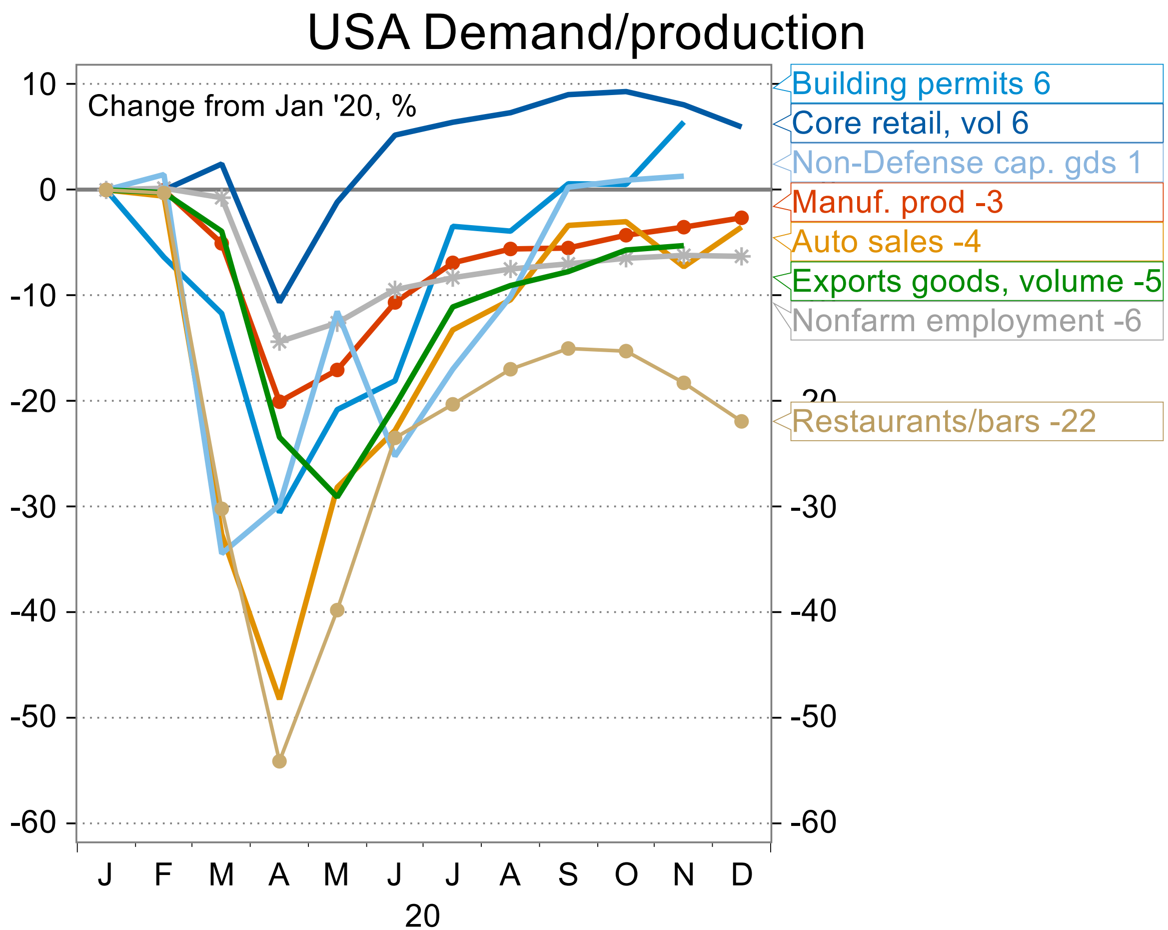
Asian exports have more or less recovered; some above, some below 2019 levels





The recovery has slowed but its not dead

The 2nd /3rd coronavirus wave is no doubt slowing the US economy

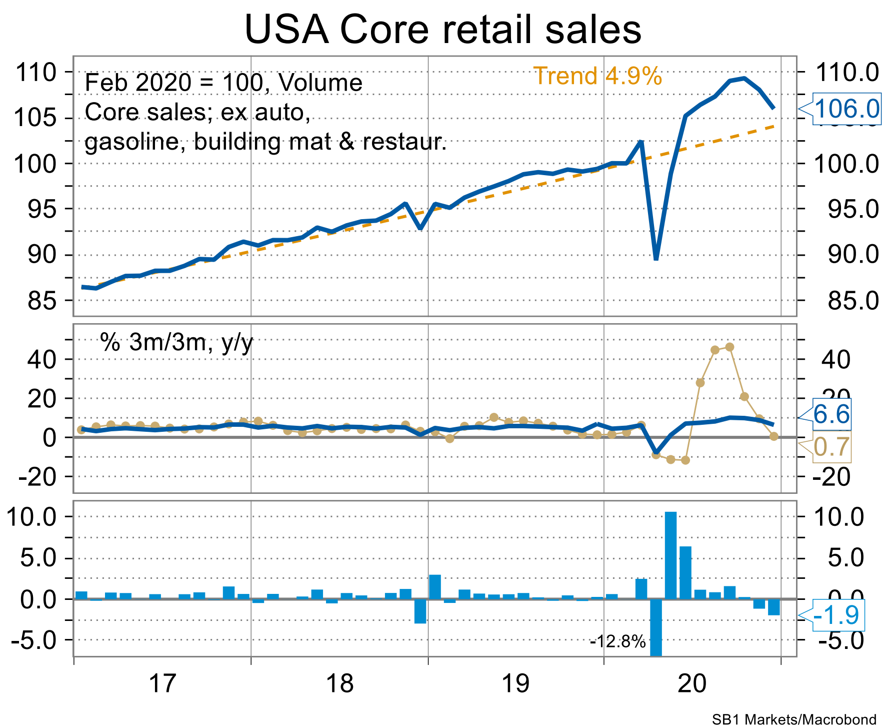


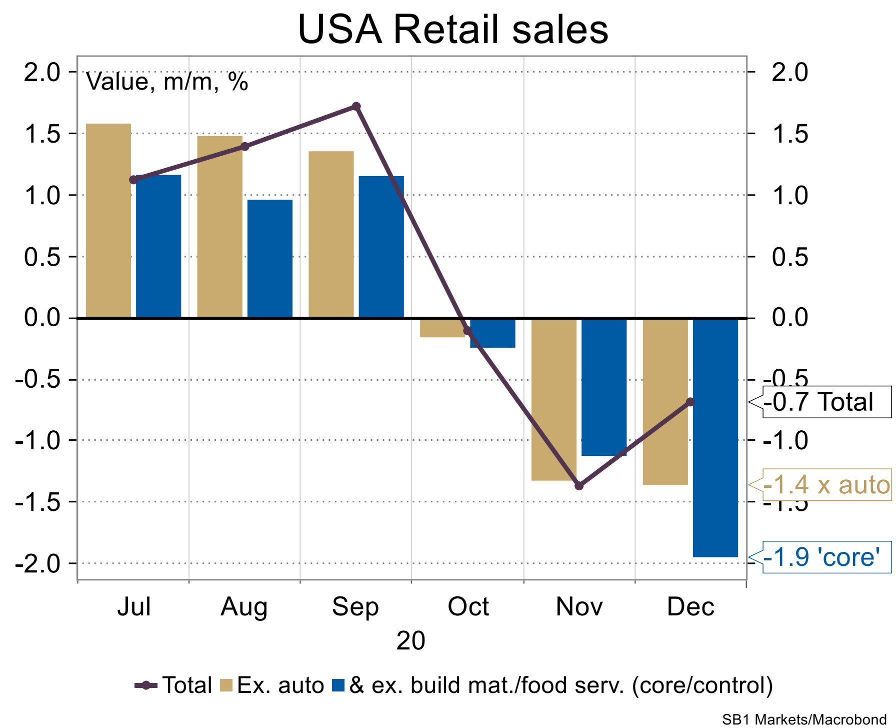
SB1 Markets/Macrobond

- **Retail sales** fell in both Nov & Dec but remains at 6% above the pre-corona level. Auto sales have not fully recovered
- **Building permits** are at the same level
- **Investment orders** are on par, even included 'zero' aircraft orders
- **Exports** remain below par but is still on the way up
- **Restaurant sales** are down 22% (in value terms). Airline traffic is down even more
- **Employment** fell in December, due to a sharp contraction in employment in the hotel/restaurant sector

Retail sales fell further in Dec, and Nov revised down, in sum 2.8% below expect.

The 2nd/3rd corona wave, lack of jobless stimulus probably to blame. Core sales still up 6% vs Feb

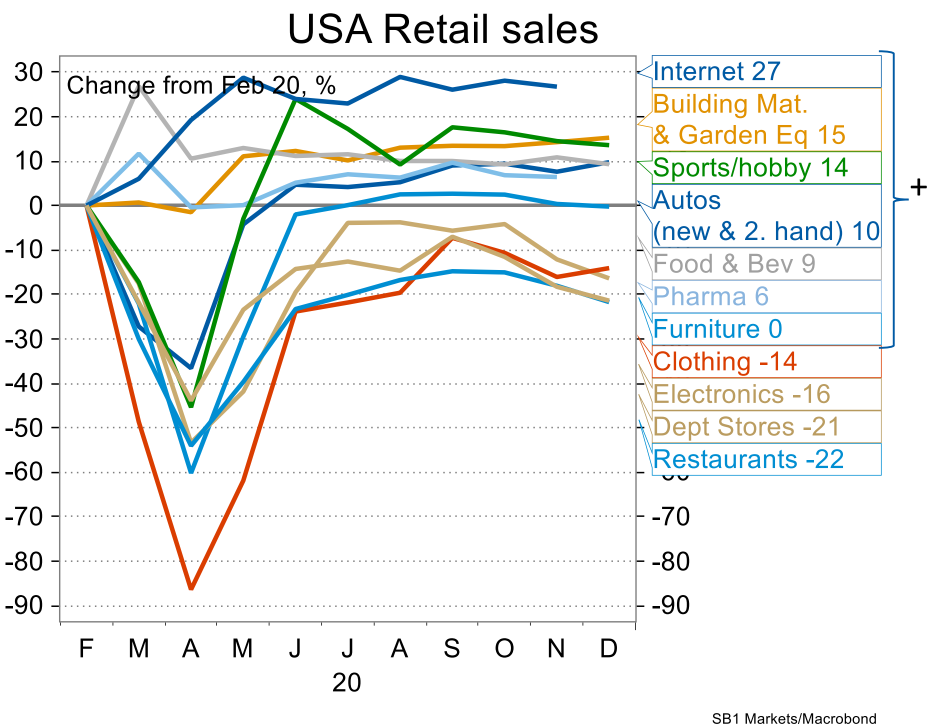


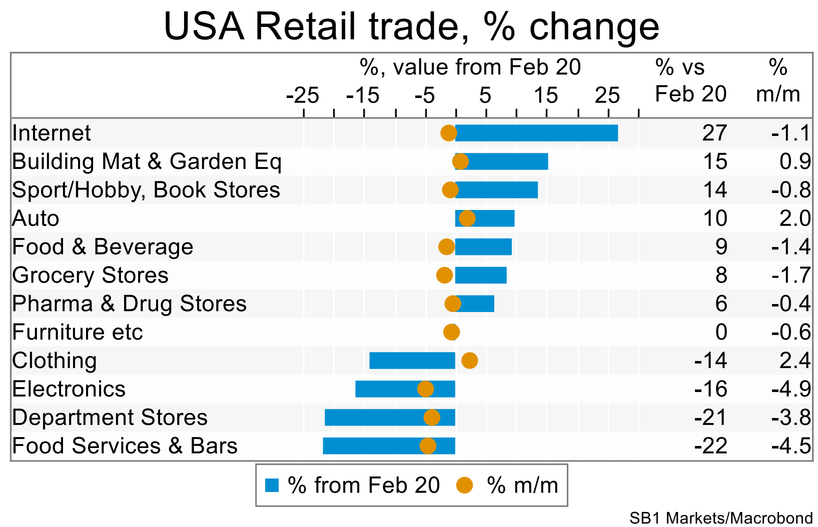


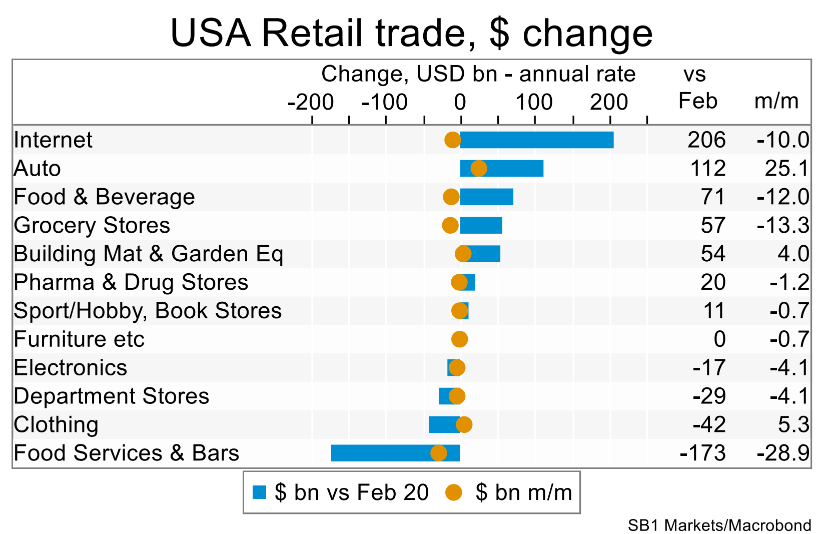
- **Total nominal sales** declined by 0.7%, expected unch, and Nov was revised down by 0.3 pp to -1.4%
- **Core sales of goods**(=control group, excludes auto, gasoline, building materials & restaurants) fell by 1.9%, expected up 0.2%. In addition, Nov was revised down by 0.6 pp to -1.1%. In total, core sales were 2.7% weaker than assumed, an unusual large deviation, signalling a weak Q4 consumption, as service consumption is even harder hit by the corona outbreak
  - » Core sales are still 6% above the Feb level – and up 6.6 % y/y. At one stage, the level has to come down (like in most other rich countries)
- Check details next page, still huge discrepancies between sectors

Still huge differences between sectors: Restaurants -22%, Internet +28%

Food & bev +9%! Sports etc. +14% Clothing -14%. Our spending habits have changed (for a while)







December

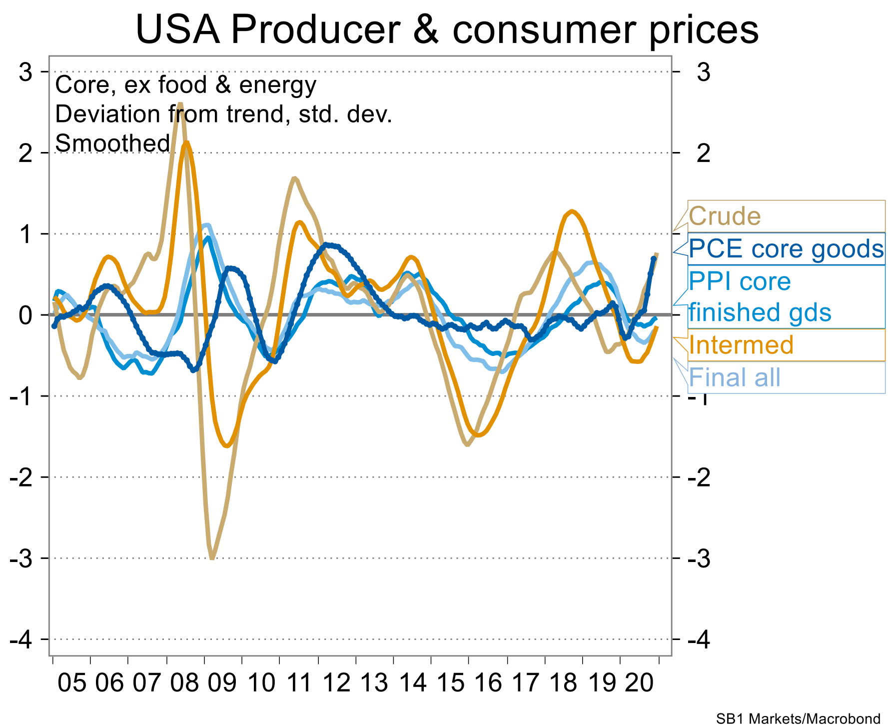
- 9 out of 12 sectors reported a decline, just auto, building mat & clothing up

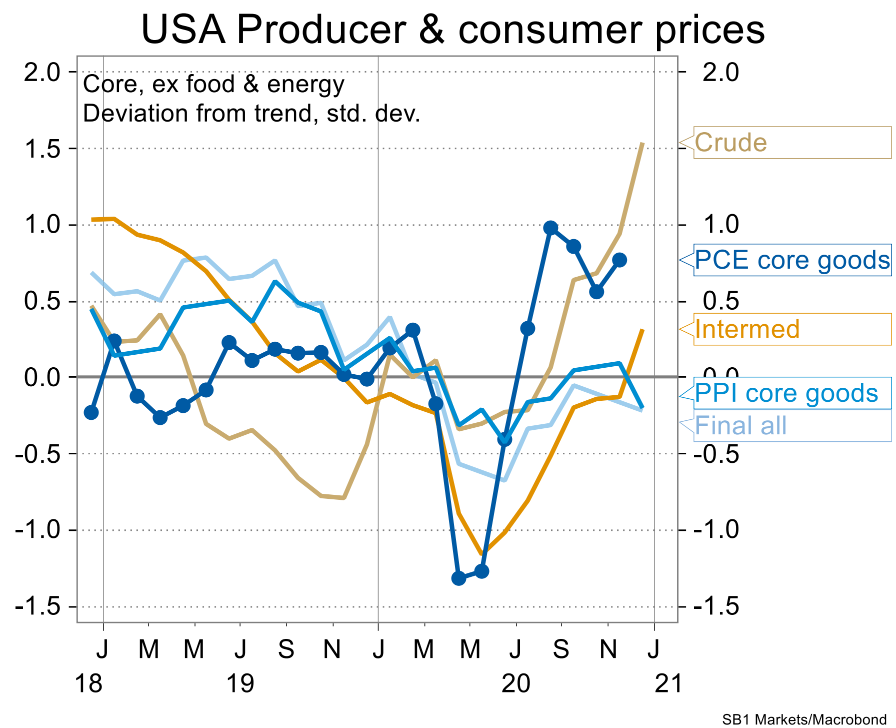
Since pre corona

- Internet has taken a substantial market share, to well above 10% (and probably way above !
- Clothing is probably down due to more time spent at home, less outside
- Gyms are partly closed, more sport equipment is bought
- But why are electronics still so weak?

Something is brewing? Producer prices have turned up, and sharply for crude gds

Intermediate goods prices are on the way up too – confirming business surveys

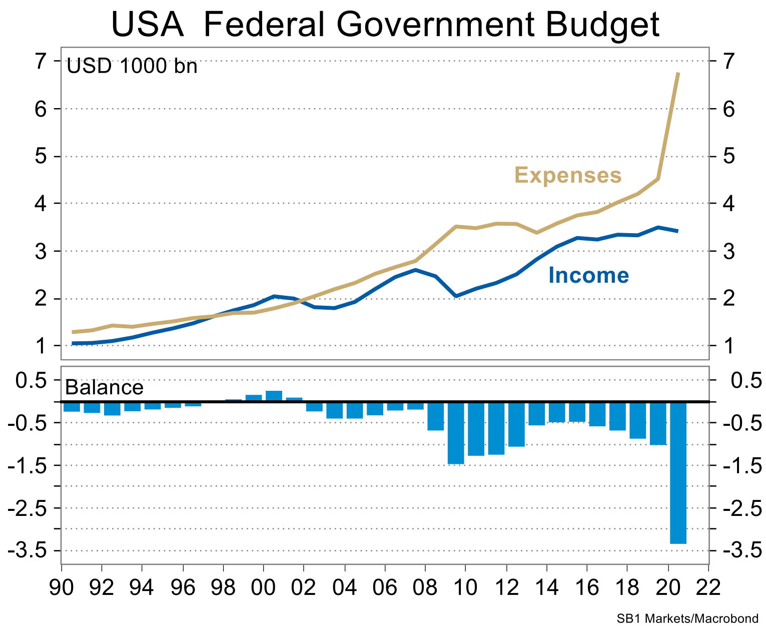




- Prices are on the way up, as are delivery times – and production is increasing rapidly. Hmm…
- However, consumer prices are rising faster than indicated by finished goods prices. Thus, short term, probably not that much more price pressure from producer prices. Looking forward however, the steep rise in crude prices and now followed by intermediate goods prices are signalling higher consumer price inflation (crude goods are leading consumer prices by 12 months, intermediate goods by 4 months)

A USD 900 bn (4% of GDP) 2021 fiscal stimulus was decided

Biden proposes an extra USD 1,900 bn (9% of GDP)

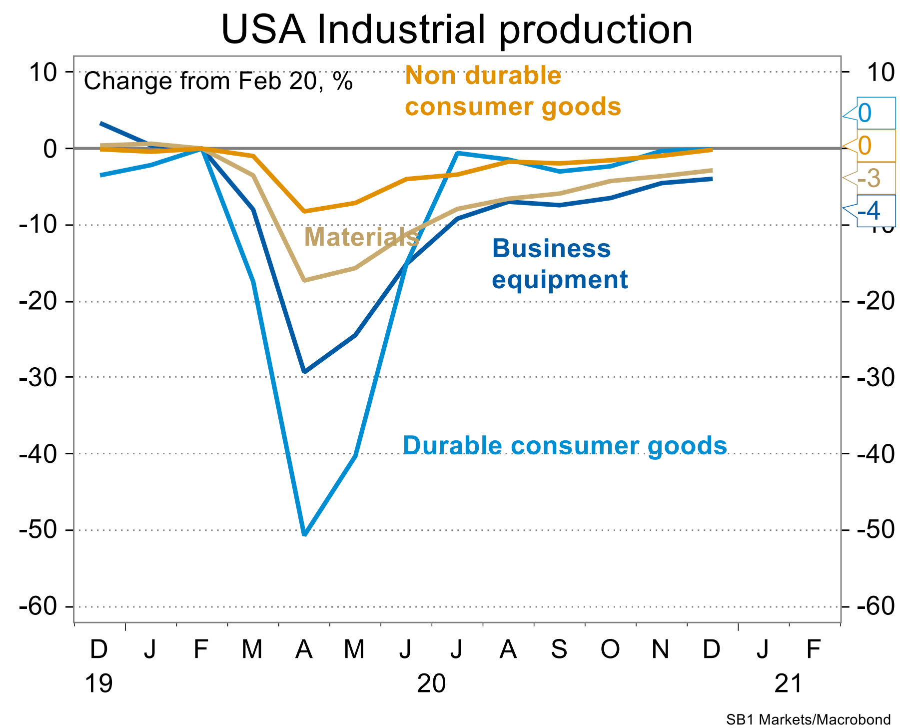


- Last year, federal expenditures rose by 2,300 bn, or 50% y/y, equalling 10% GDP
- Revenues fell marginally, due to lower corporate tax payments
- The deficit rose by USD 1,350 bn to 3,350 bn, or 16% of GDP, a new ATH

- Just before year end, Trump finally accepted the **USD 900 bn stimulus package (4% of GDP) decided by the Congress**, including a USD 600/person cash transfer (for those with annual income <75').
  - » Trump & the Democrats wanted USD 2000/person cash support
- Last week, Biden outlined an **additional USD 1,900 bn (9% of GDP)** fiscal stimulus program
  - » The proposal included an additional USD 1,400/person cash transfer (the total cost for the 600 + 1,400 will be some 670 bn (3% of GDP)
  - » Support to state and local governments (US 350 bn), extension of jobless benefits (USD 400/week, 350 bn), education (170 bn), coronavirus vaccination (160 bn), child tax credit expansion (160 bn) and other policy changes (250 bn)
  - » In addition other proposals, like a doubling of the lowest possible minimum wage to USD 15 from 7.25!
- **The total stimulus equalling 13% of GDP seems to be far larger than needed**, given that households (in average) has saved a large part of the previous cash support, and GDP is now just some 3% below the Q419 level. US is not experiencing lack of income or demand, but rather a virus problem, with parts of the service sector unable to produce as normal, creating huge challenges for businesses/employees.
- **Can Biden get it through Congress**?
  - » Usually, the Senate minority can 'filibuster' (debate forever), and a 60/40 vote is needed to end the talk show, Then, a compromise has to be made – and this time without all of the proposals in the 1,900 package, some are guessing at some USD 1,000, still a huge amount
  - » However, a budget reconciliation procedure exempts some legislation on taxes and spending from the filibuster – and Biden might get his dollars (reconciliation can however possible just once per year. His other proposals, like the minimum wage and all laws (and budget decisions that have more than 10 y impact on the deficit) can still be filibustered by the Republicans
- **Who will pay?**
  - » Biden's huge spending plan does not include any funding proposals. However a substantial reversal of Trumps 2018 **corporate tax** cuts, a clean up of favourable **capital/partner taxes**, and **higher taxes 'on the rich'** seem very likely – and can be decided by the Democratic Senate, without a filibuster

Manufacturing up 0.9% in Dec, exp. 0.5%. Remains 2.6% below pre-corona level

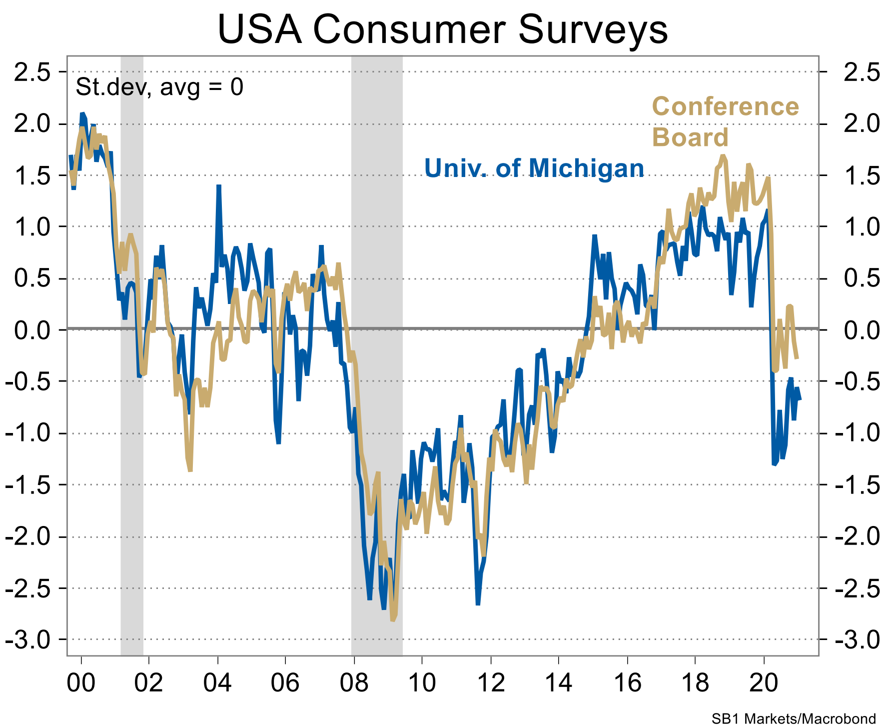
The trend is still upwards – but the setback in retail sales will probably dampen growth somewhat

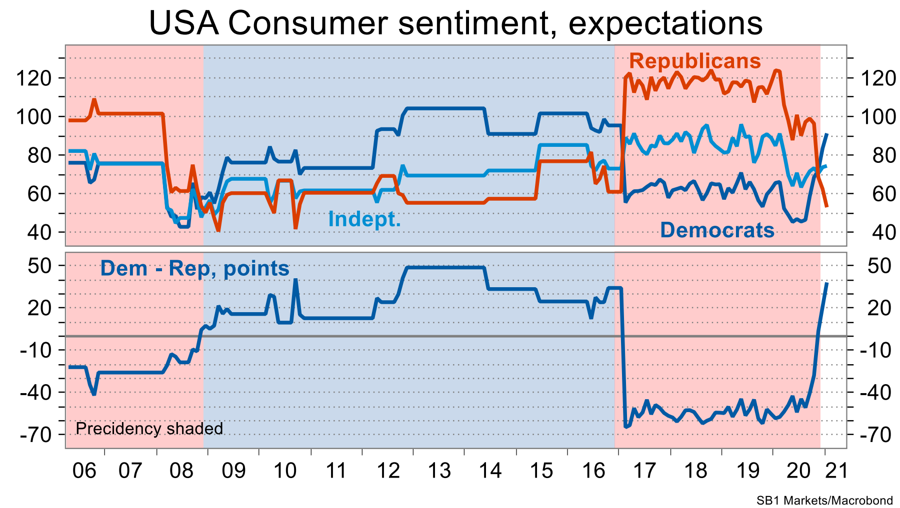


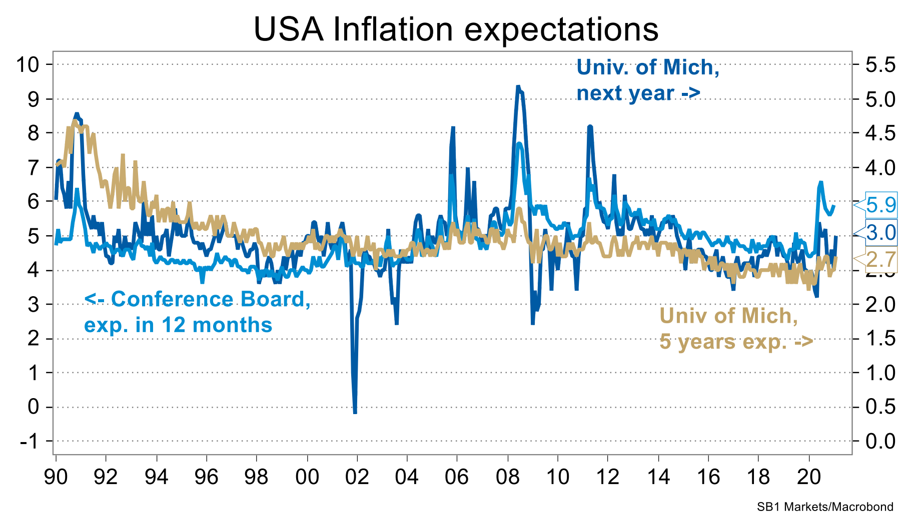
- Growth in production has not been that strong in recent months, compared to the initial hike during the summer. However, production will probably increase some 10-11% in Q4 (q/q annulised)
- Production rose in all main categories in December
- Total industrial production, including utilities, mines/oil production, rose 1.6 % in December, expected up 0.5%, as oil and electricity production rose
- PMI/ISM and other surveys signal a further recovery - even an extraordinarily strong one, according to the ISM

Univ of Mich consumer sentiment marginally down in January

Level somewhat below par. The virus probably to blame, and some sore losers, happy winners?



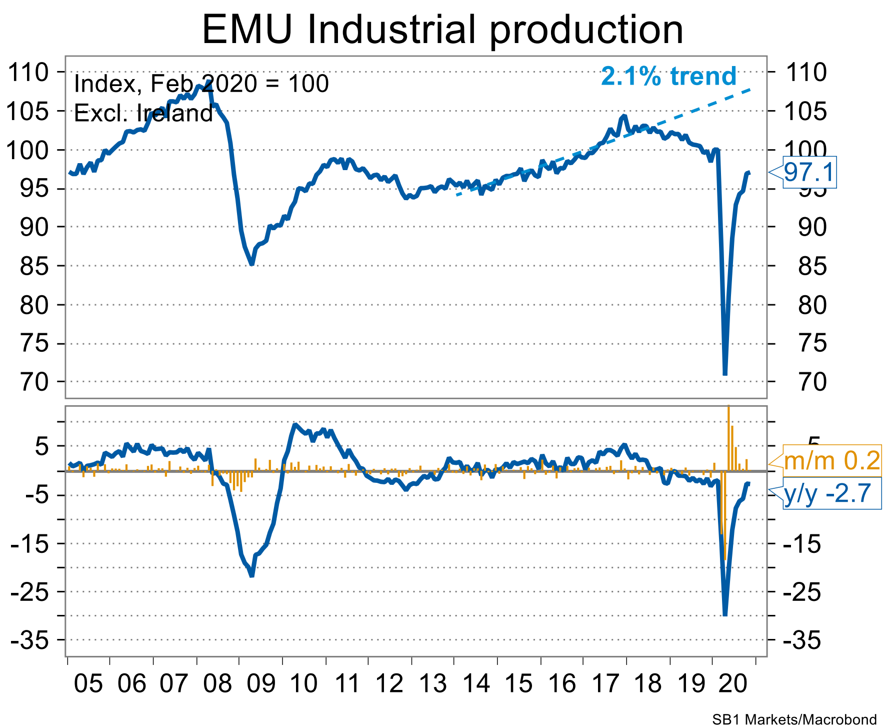


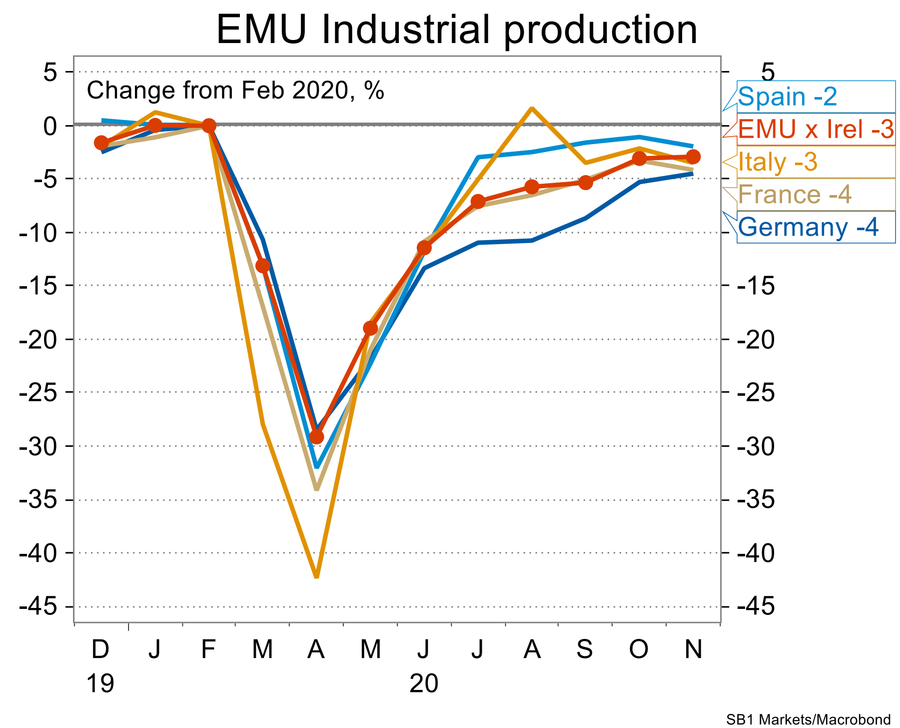


- The consumer sentiment survey reported a small decline, and slightly more than expected
- Both households' assessment of the **current situation** and **expectations** fell marginally
- **Democrats** have become much more optimistic since Oct, the same cannot be said for **Republicans**. Just as 4 years ago, then with an opposite sign, of course
- **Inflation expectations have not taken off, but they are on the way up**

(Irish) Manufacturing production surprised on the upside in November

Production up 2.5% m/m, expected 0.3% – because Ireland shot up 53%... EMU x Irel. +0.2%

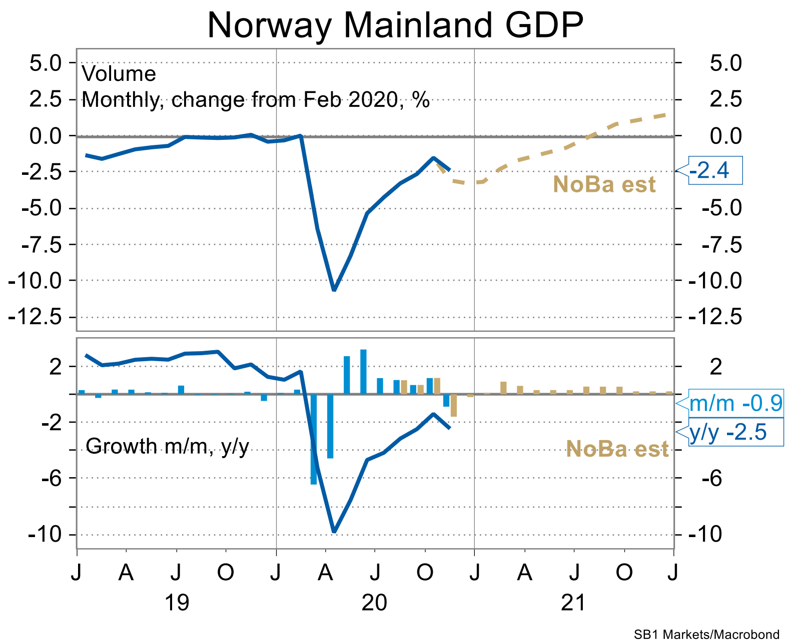




- Production increased in Germany, while France, Italy and Spain were all slightly down
  - » Production in Ireland was up almost 53% m/m – due to booking of (we assume) tax motivated transactions within the Irish "Modern" manufacturing sector, contract producers in Ireland within chemicals/pharma & computers etc (including software), operating of behalf of large global (American) IT/software companies. We have adjusted EU production data for these irrelevant wild Irish data. (The same problem is turns up even in Euro Area GDP data, especially – and clearly visible – for business investments)
- EMU (x Ireland) manufacturing production is now 3% below the Feb '20 level.
  - » Production is down -1% incl. Ireland – as production in Ireland was far above a normal level in Nov

GDP down 0.9% in Nov, but fisheries & electr. prod contributed -0.8 pp

Sure, the new corona restrictions cut back hot/rest/travel but other sectors grew further

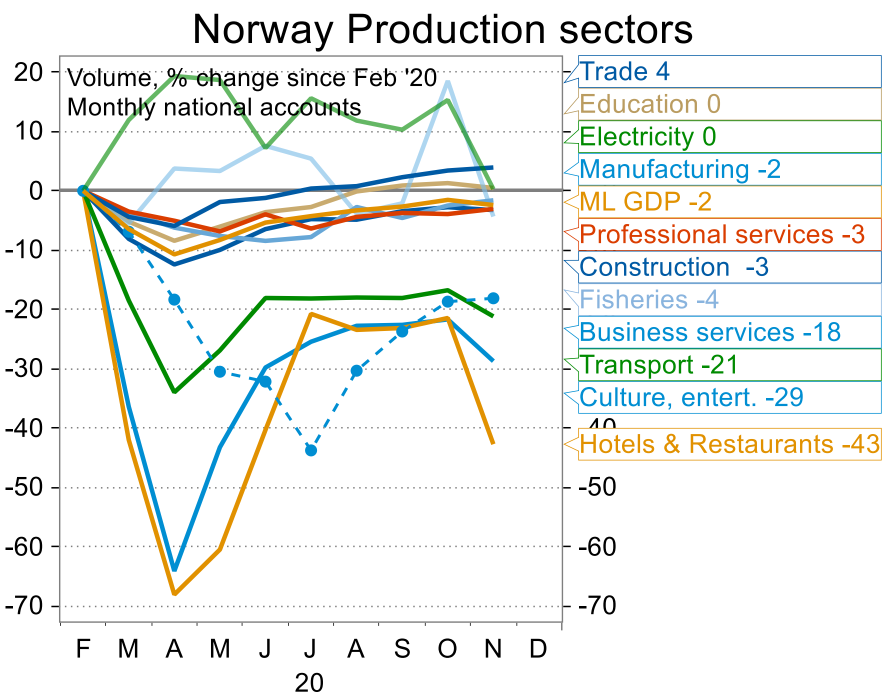


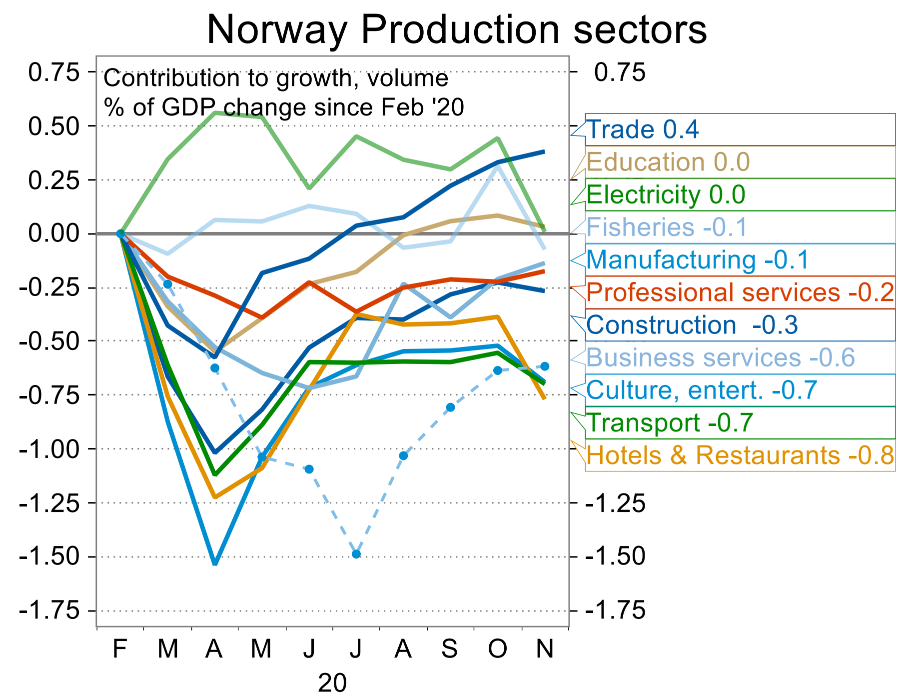
- **GDP declined by 0.9% in November**, consensus was at -1.6%, in line with NoBa's est, while we had pencilled just -0.5% (but we had 'forgotten' the decline in electricity production…)
  - » **Demand:** Household services down (as from the supply side), but off- and onshore business investments fell, as did exports
  - » **Production**: A 20% decline in **fishing & aquaculture** cut 0.4 pp from ML GDP (ocean fisheries to blame, after a similar surge in Oct). **Electricity prod** fell by 13%, also deducting 0.4 pp. Ex these two volatile elements, 'core' GDP fell by just 0.1% - even if activity in **hotels & restaurants** fell by 27% (a -0.4 pp contribution, and **culture/transport** fell as well. (SSB reported -0.4% ex fish & electricity)
- **Mainland GDP is 2.4% down vs the February level**. If GDP remains unch in Dec (as NoBa assumed in mid Dec), Q3 is still up 1.3% in Q3, and GDP fell by 3.4% in 2020. Big picture:
  - » **Demand:** Norwegians are spending more in Norway than in early 2020, as consumption of goods have increased more than services have declined. Spending abroad has fallen by 95% (equalling 8% of disp income), and the money are saved. Housing investments are up. Mainland business investments have fallen by 6%, as are oil sector investments. Exports ex petroleum (and tourism) are down 3%
  - » **Production:** Trade (retail+) and education is up vs. Feb, others are still down. Hotels & restaurants are down 43%, transport, culture/ entertainment and business services are down 18 – 29%

- <u>**The outlook: A full scale recovery as soon as we are vaccinated**</u>
  - » **Goods consumption** will remain higher than normal until we can spend more both on domestic services and abroad
  - » **Foreigners' spending** in Norway will not recover before the coronavirus is beaten down, <u>abroad and in Norway</u>. No quick fix, even if vaccines are under way
  - » **Demand for services x foreigners** will recover briskly as soon as the virus is brought under reasonable control <u>in Norway</u>
  - » Both **Mainland and oil investments** are heading down but recent surveys are better – and taxes are cut and the oil price is not low anymore
  - » **Exports** will be kept up, as long as demand for goods abroad
  - » **We expect the output gap to be closed earlier than Norges Bank expects (Q2-22), and that rates will be hiked in H2, possibly already in Q3 in 2021**

The production side: Peoples' businesses down in Nov but serious just in hot/rest

Transport & culture down too, due to covid restrictions. Fisheries contributed -0.3 pp!



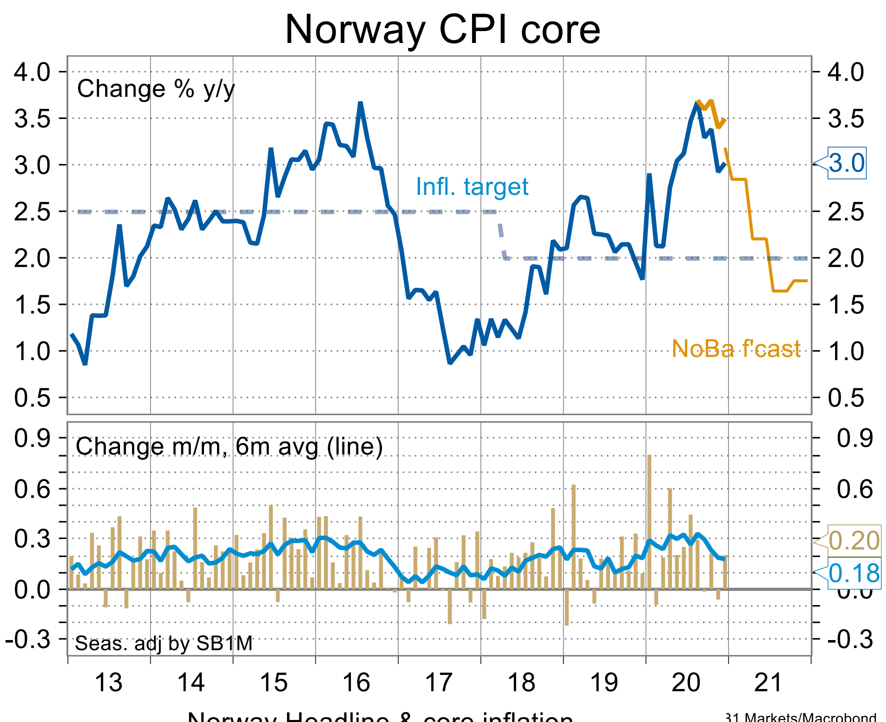


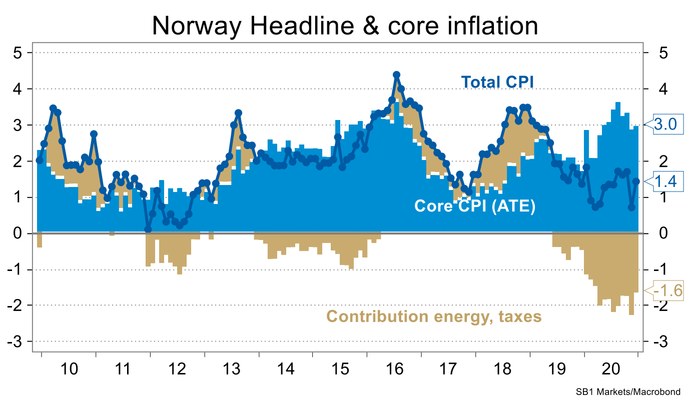
- The decline in **hotels & restaurants** at 27% m/m is dramatic for the sector, of course, and activity is 43% below a normal level. However, during March & April, activity fell by 70%. The 27% Nov setback cut Mainland GDP by 0.4 pp
- Production fell in **culture & transport** too, but 'just' by 9% and 5% resp., far less than during the spring. Still, the sector is down 30%
- Activity in **fisheries & aquaculture** fell 20% (due to ocean fisheries) from the high level in October, contributing to a 0.4 pp decline in Mainland GDP. Electricity production fell 13%, also contributing to 0.4 pp decline in GDP
- Thus, according to our calculations, the 'underlying" GDP fell by just 0.1%. SSB reported -0.4% x fish & electricty
- Several sectors reported growth: **Health, manufacturing, trade, professional & business services**

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

Core inflation slightly lower than consensus and Norges Bank's estimate

Non-event with regards to NoBa's monetary policy outlook – virus impact more important



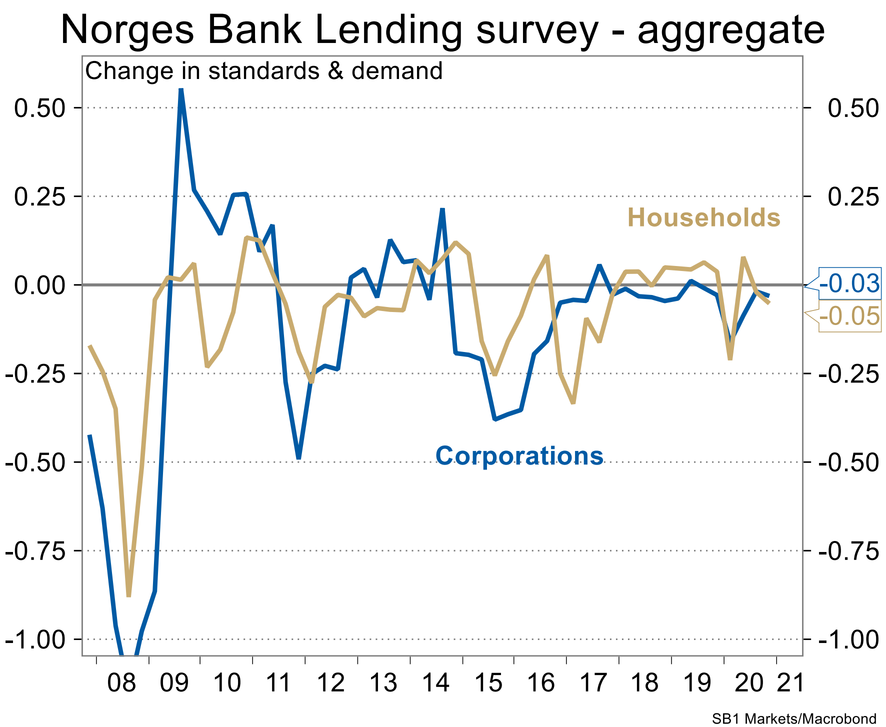


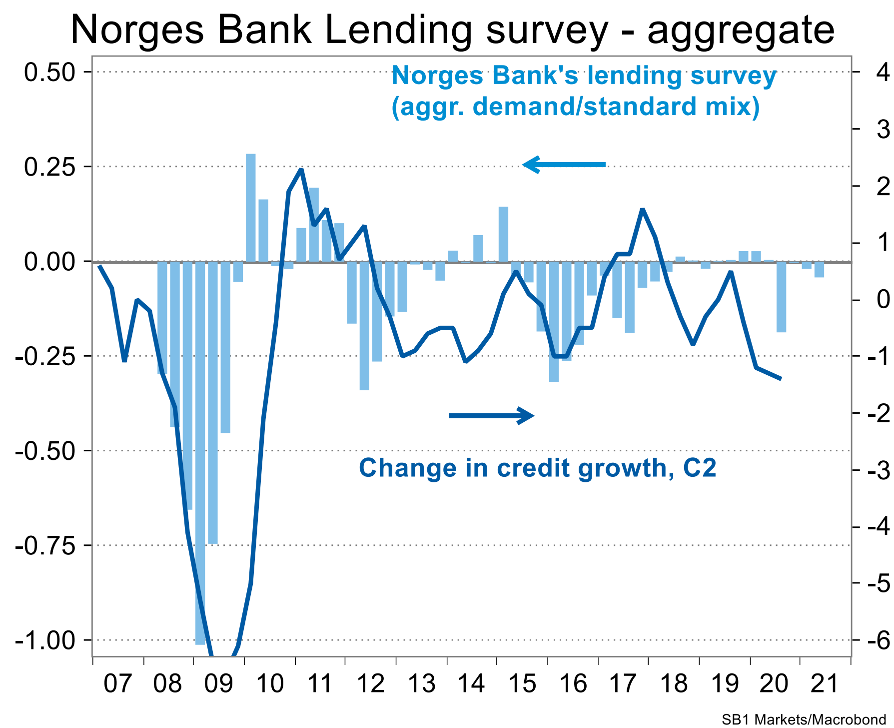
- CPI-ATE (ex. energy and taxes) inflation rose 0.1 pp to 3.1% in December, slightly below consensus and our forecast (3.1%). Norges Bank expected 3.3% (Dec MPR f'cast)
  - » Prices rose 0.2% m/m (s.a)
  - » Food price inflation was weaker than we expected
  - » Inflation is below 2% for housing, health, clothing and airline tickets – all others are still above
  - » Import price inflation is up again m/m – will probably recede as NOK effect fades
- Total inflation was up 0.7 pp to 1.4%%, more than we expected as electricity prices rose more m/m than we assumed. They are still down 21% y/y
- **The price outlook**
  - » We expect inflation to slow the coming quarters as the NOK effect stabilises and wage inflation remains muted. Demand for goods will have to decline from a very high level, while the 'beaten down services' will not have 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

SpareBank 1 MARKETS

Another flattish bank lending survey – but will banks turn out to be right?

NoBa's Q4/Q1 survey signal close to normal demand for loans, no change in lending standards

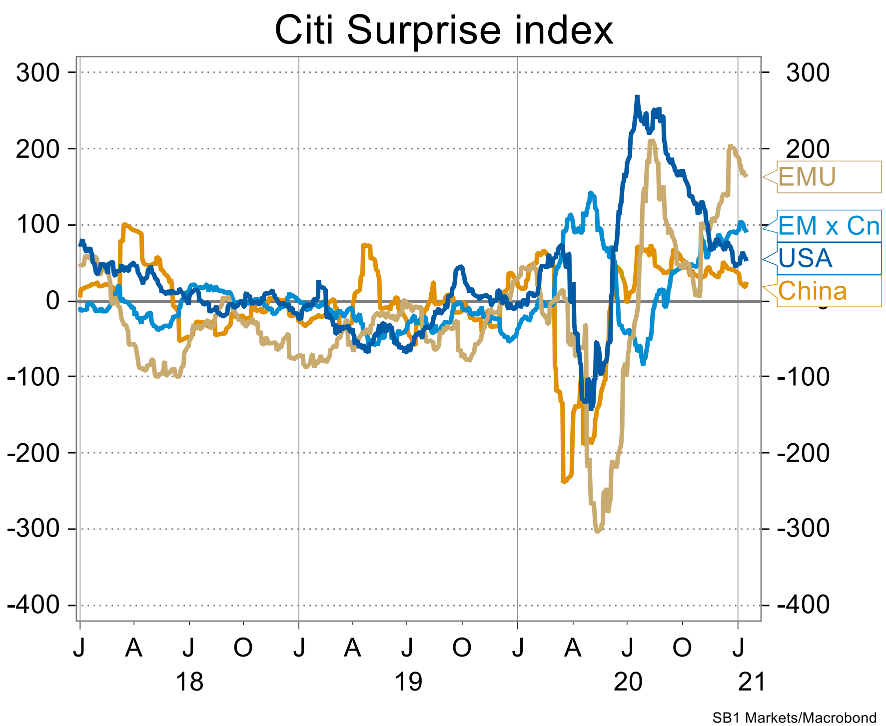


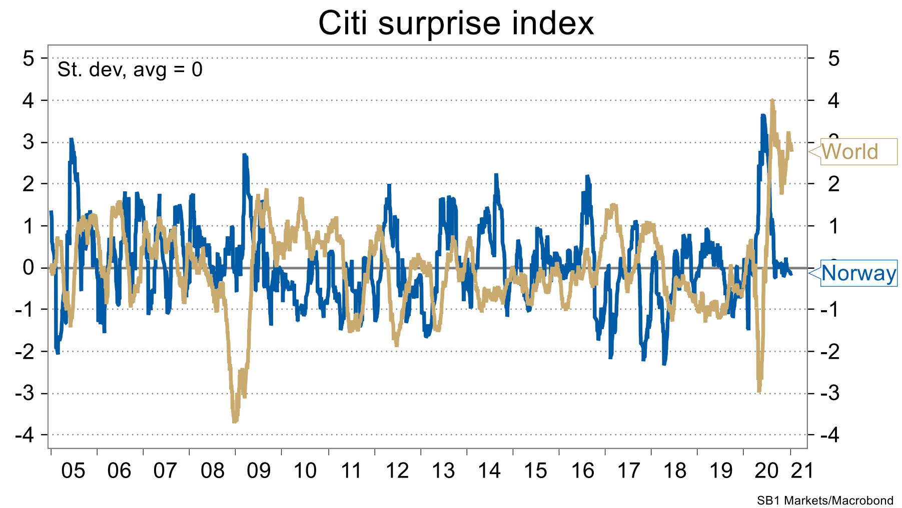


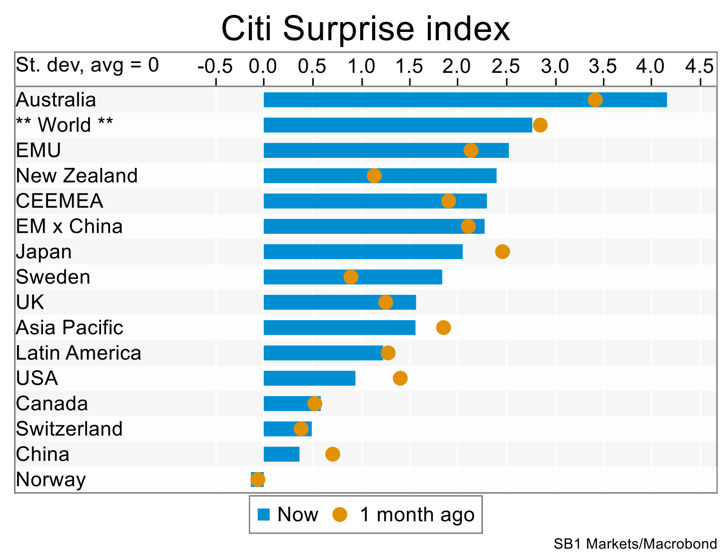
- We expected banks to report stronger demand from households and weaker demand from the business sector

Surprises are still on the upside – but not more

EMU is still surprising big time at the upside







- **All major countries/regions** are reporting data above expectations, for the first time ever
- The **Euro Zone** has been delivering strong data recent weeks
- The **US** is still well into positive territory
- **China** has moderated lately
- **Other EMs** are well above their average level too
- **Norway, Canada and Switzerland** at the bottom, with China, but just Norway below an average level. And BTW, **Australia** at the top

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

The Calendar

The first Jan PMIs, US housing data, ECB, Norges Bank

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 18					
		No news			
Tuesday Jan 19					
11:00	GE	ZEW Survey Expectations	Jan	59.4	55.0
Wednesday Jan 20					
06:00	SW	House prices, HOX, YOY			10.2%
08:00	UK	CPI Core YoY	Dec	1.3%	1.1%
11:00	EC	CPI Core YoY	Dec F	0.2%	0.2%
16:00	US	NAHB Housing Market Index	Jan	86	86
Thursday Jan 21					
08:00	NO	Industrial Confidence	4Q	(4.5)	1.7
08:00	NO	Housing Starts	Dec		31k
08:45	FR	Business Confidence	Jan	92	91
10:00	NO	New Home Sales, Homebuilders	Dec		28k
10:00	**NO**	**Deposit Rates**	**Jan-21**	**0.0%**	**0.0%**
13:45	**EC**	**ECB Deposit Facility Rate**	**Jan-21**	**-0.5%**	**-0.5%**
14:30	**US**	**Building Permits**	**Dec**	**1603k**	**1639k**
14:30	US	Housing Starts	Dec	1560k	1547k
14:30	US	Philadelphia Fed Business Outlook	Jan	11.3	11.1
14:30	US	Initial Jobless Claims	Jan-16	923k	965k
16:00	EC	Consumer Confidence	Jan A	-15	-13.9
Friday Jan 22					
00:30	JN	CPI YoY	Dec	-1.3%	-0.9%
01:30	JN	PMI Manufacturing	Jan P		50
08:00	UK	Retail Sales Inc Auto Fuel MoM	Dec	1.0%	-3.8%
09:15	FR	PMI Manufacturing	Jan P	50.5	51.1
09:30	GE	PMI Manufacturing	Jan P	57.2	58.3
10:00	**EC**	**PMI Manufacturing**	**Jan P**	**54.5**	**55.2**
10:00	**EC**	**PMI Services**	**Jan P**	**44.5**	**46.4**
10:00	EC	Markit Eurozone Composite PMI	Jan P	47.6	49.1
10:30	UK	PMI Manufacturing	Jan P	53.3	57.5
10:30	UK	Markit/CIPS UK Services PMI	Jan P	45.5	49.4
15:45	**US**	**PMI Manufacturing**	**Jan P**	**56.5**	**57.1**
15:45	**US**	**PMI Services**	**Jan P**	**53.4**	**54.8**
16:00	US	Existing Home Sales	Dec	6.55m	6.69m

- **January PMIs**
  - In Dec, **EMU** surprised on the upside, big time, signalling that Q4 was not a disaster – but weak retail sales data still indicating a coronavirus driven setback. January is expected a tad weaker than December but with manufacturing still well into positive territory. In the **US**, the ISMs were stronger than Markit's PMI – but a lower PMI is expected in Jan, obviously due to the 3rd wave. The **UK** PMIs are expected down, more due to corona than Brexit, we assume
- **USA**
  - **The housing market** has been very strong and we doubt it will slow down now. The increase in market rates have not yet influenced mortgage rates, as mortgage spreads have fallen even faster – pushing mortgage rates further down. **The homebuilders' survey, housing permits & starts and existing homes sales** (with prices) are reported this week. New jobless claims soared last week, what now?
  - Hopefully, the Wednesday **inauguration** of Biden will go smooth, and Trump will leave town
- **EMU**
  - **The ECB** will probably not signal any policy changes
- **UK**
  - **Retail sale** fell almost 4% in Nov, and a small Dec uptick is expected. If that materialise, a substantial downside risk for Jan, due to the last, harsh lockdown
- **Norway**
  - **Norges Bank** will not signal any changes at its 'routine' between MPR meeting
  - We expect a further increase in **SSBs quarterly manufacturing survey**
  - Homebuilders will report **new home sales & starts**, SSB housing starts (and other construction starts)

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

Highlights

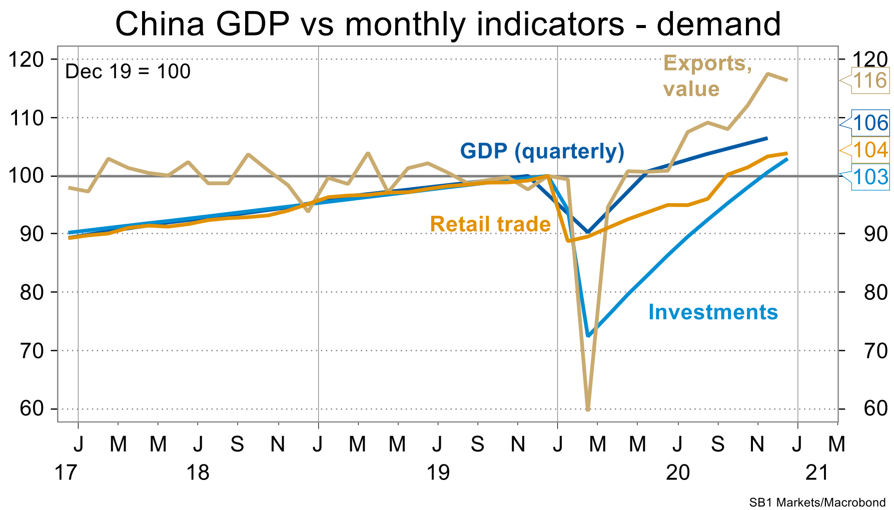
The world around us

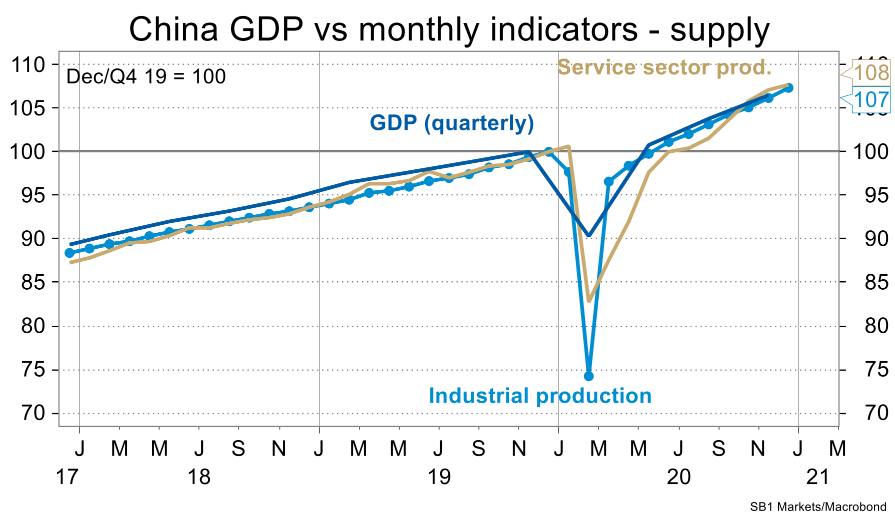
The Norwegian economy

Market charts & comments

Q4 GDP stronger than expected, up 6.5% y/y

Industrial production well above pre-corona trend, as are exports. All others on the way towards trend



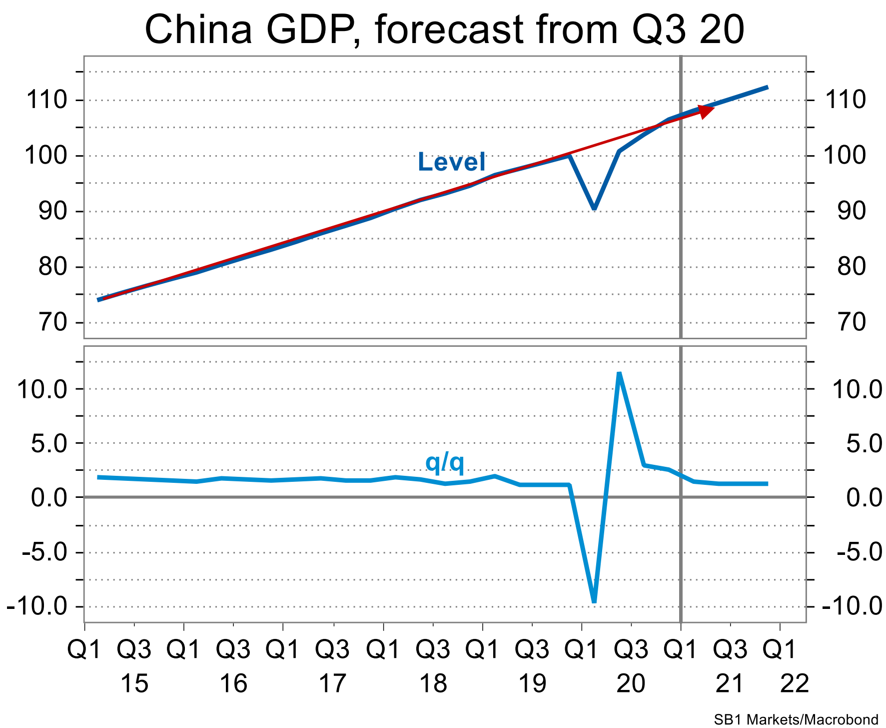


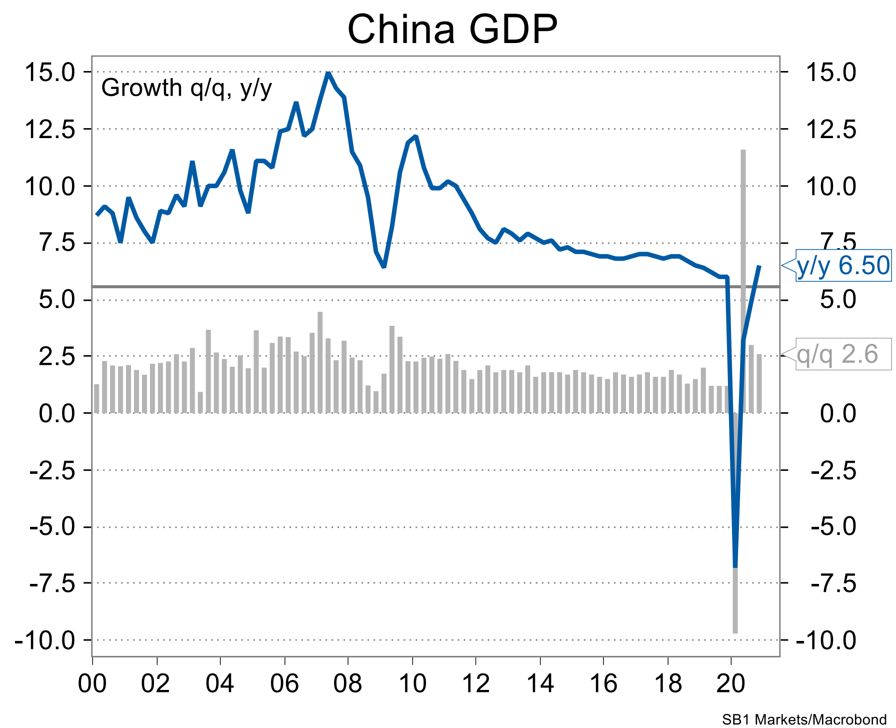
- **GDP** rose 2.6% q/q in Q4 (0.1 slower than expected) – and by 6.5% y/y (0.3 pp faster than expected), as Q3 growth was revised up by 0.3 pp. GDP grew faster trough 2020 than through the previous year even if the annual growth rate was just 2.3%
- **Industrial production** rose 1.1% m/m in Dec and 7.3% y/y, the latter 0.4 pp better than expected. Production is well above the pre-corona trend path. Growth will now most likely slow
- **Service sector production** grew by 0.6% in Dec, slower than the prev. 3 months. Activity is 8% above the Dec 19 level – and 'finally' at the old trend path
- **Retail sales** rose 0.5% m/m in volume terms in Dec, down from 1.6%. Annual nominal growth fell by 0.5 pp to 4.6%, expected up to 5.5%. The gap to the pre-corona trend path is now just 1%! **CPI inflation** is falling sharply, and prices are up just 0.2% y/y (from above +5% at the peak) as pork prices are heading down. Supportive for real household demand, of course. **Producer prices** were finally up y/y in Dec
- **Investments** rose 2.3% m/m in Dec. Growth is slowing modestly, which is natural as the gap vs the pre corona trend is closing rapidly
- **Credit growth** is slowing, and underlying growth has fallen to some 8% (from 13) and it is now close an underlying nominal GDP growth
- **Exports** fell marginally in Dec but the level is 16% up vs early 2020, signalling growth abroad, and imports are at a decent trend path, signalling – growth at home too. Other Asian exports are on the way up, including South Korea

In sum: Gaps are closed. The economy has fully recovered from the corona downturn. So it is possible ☺

Q4 GDP up 6.5% y/y, and the level is above the pre-corna trend!

The annual rate was 0.3 pp higher than expected, even if the q/q rate at 2.6% was 0.1 pp lower ☺





- A 2.6% q/q rate equals a 11% annualised growth rate, following the 3.0% q/q growth in Q3 (revised up by 0.3 pp)
- The annual GDP growth rate was sliding down before corona, to 6% in Q4 last year. If the gradual decline in growth had continued – and corona had not happened – the annual growth rate would have been some 5.5% by Q4 2020. The actual rate at 6.5% is clearly above the pre-corona trend – and might partly be to due some pent up demand/production – or perhaps due to an 'overstimulated' economy
- For the record: GDP rose by just 2.3% in 2020

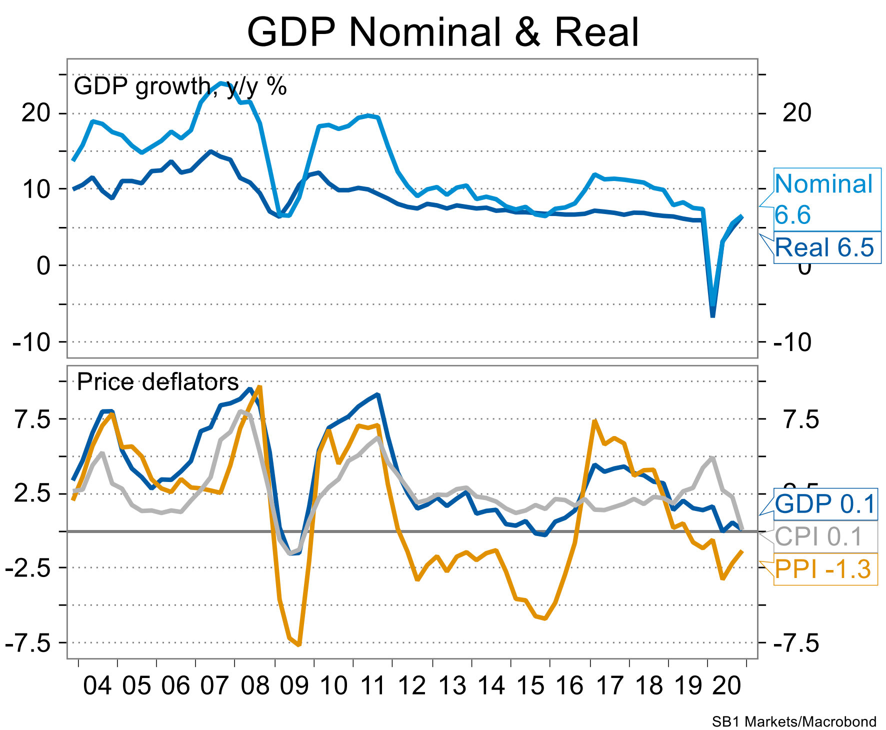
2020: GDP rose by 2.3%. Not many will report a better figure!

For your record, it still was a good year:

In 2020, faced with grave and complex environment both at home and abroad and the huge impact of the epidemic in particular, under the strong leadership of the Central Committee of the Communist Party of China with Comrade Xi Jinping as the core, all regions and departments adhered to the general working guideline of making progress while maintaining stability, coordinated the work of epidemic prevention and control and economic and social development, took solid steps to stabilize employment, finance, foreign trade, foreign investment, domestic investment and market expectations (six areas), and fully safeguard residential employment, people's livelihood, market entities, food and energy security, stability of industrial and supply chains and operations at grassroots levels (six fronts). As a result, the national economy recovered steadily, employment and living standards were ensured forcefully, and the main goals and tasks of economic and social development were accomplished better than expectation

GDP price deflator down to almost zero y/y

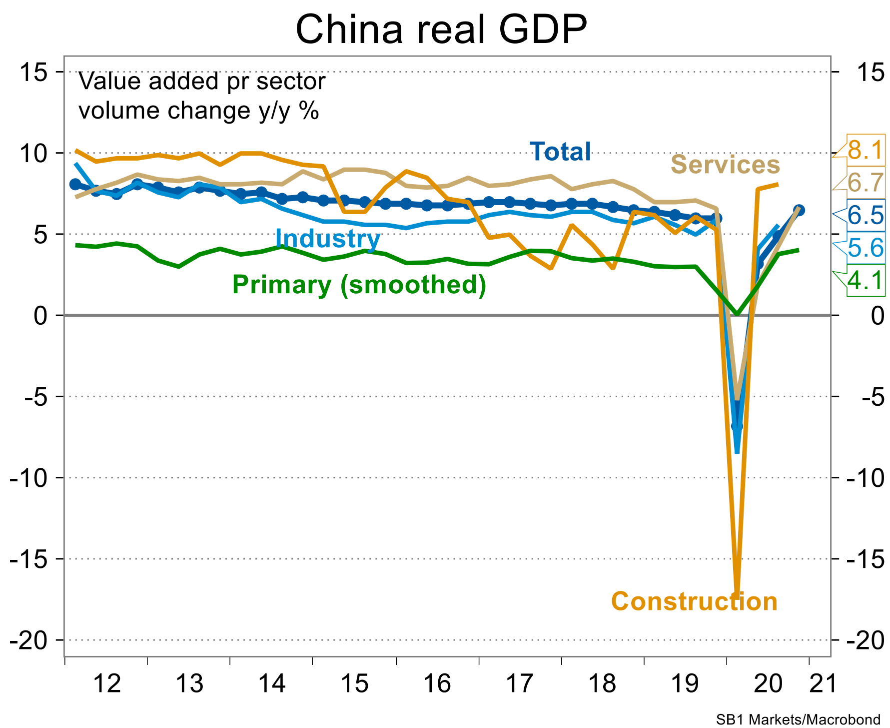
Nominal GDP up by 6.6% y/y, just 0.1 pp higher than the volume growth rate

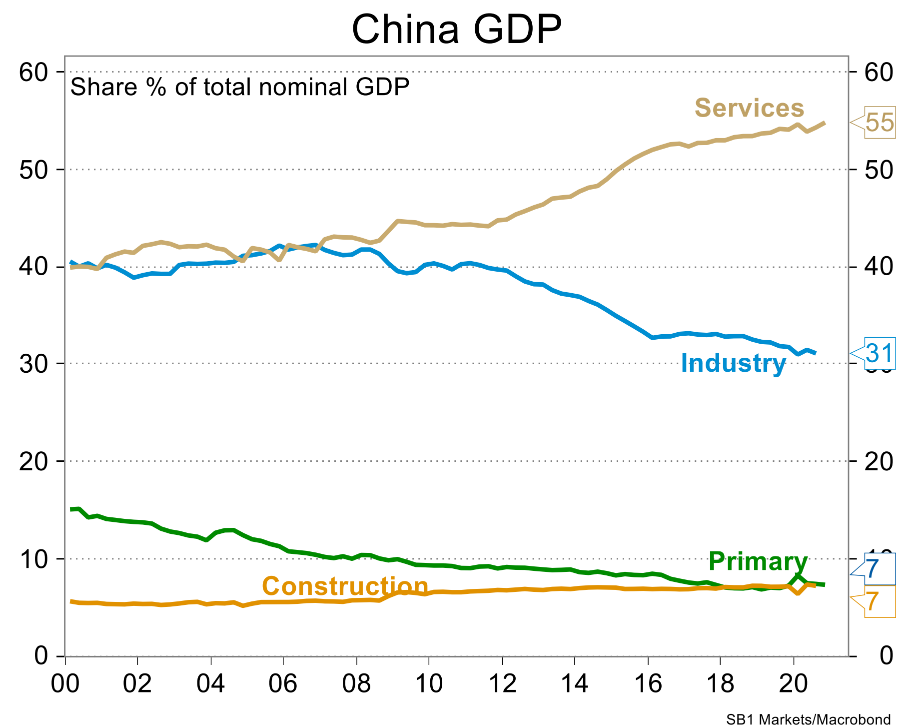


- Manufacturing producer prices (PPI) are down 1.3% y/y (Q4 avg), while CPI inflation slowed to 0.1% y/y

A broad based recovery, services are on the way up again

We assume that the steady rise of services as share of GDP is not re-established



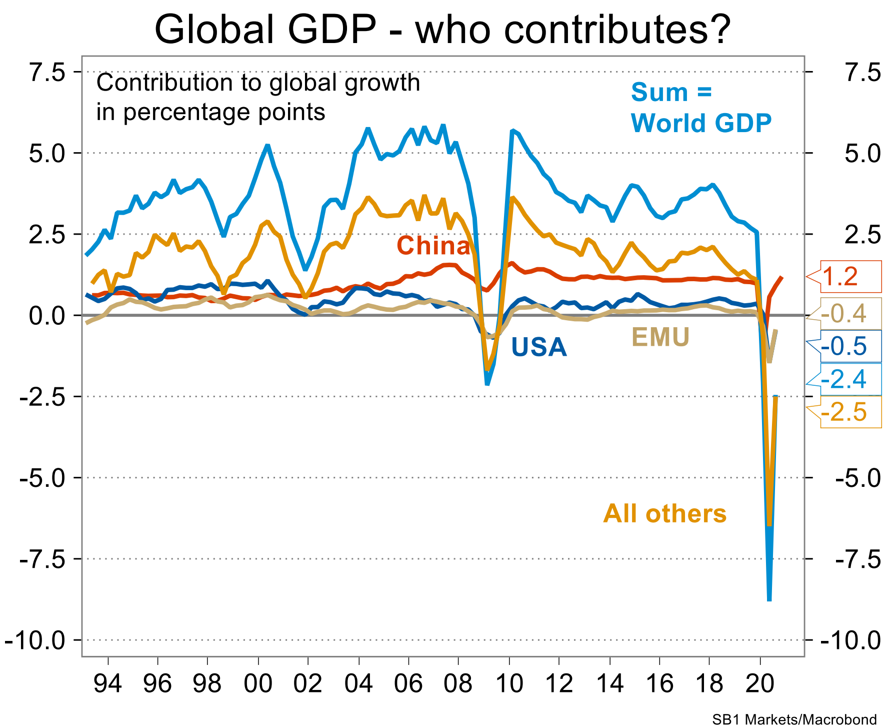


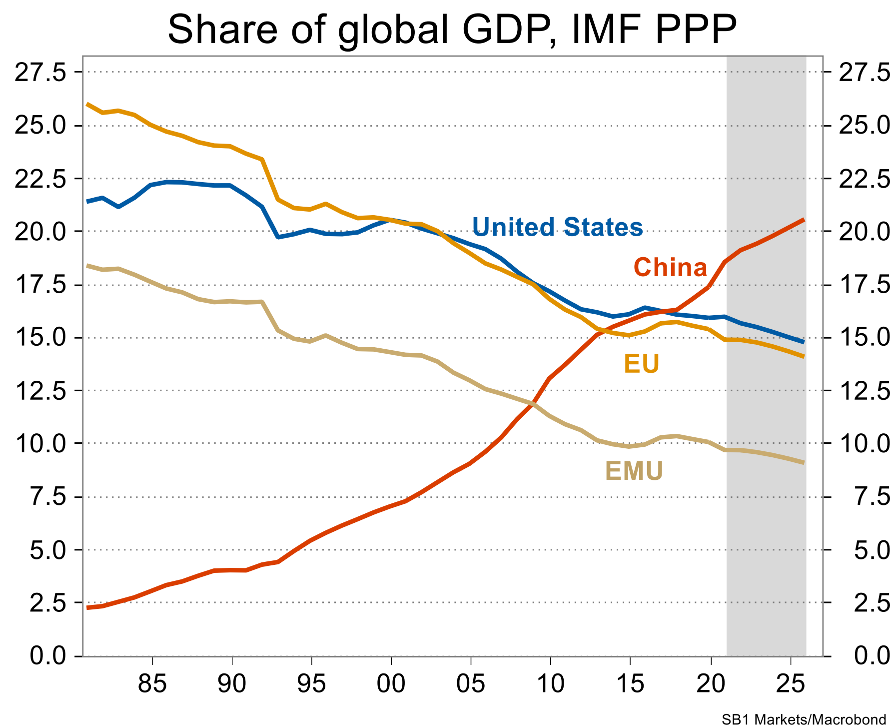
- Not all sectors have reported Q4 y/y growth rates

Value added per sector (= sales – cost of purchases from other sectors)

SpareBank 1 MARKETS

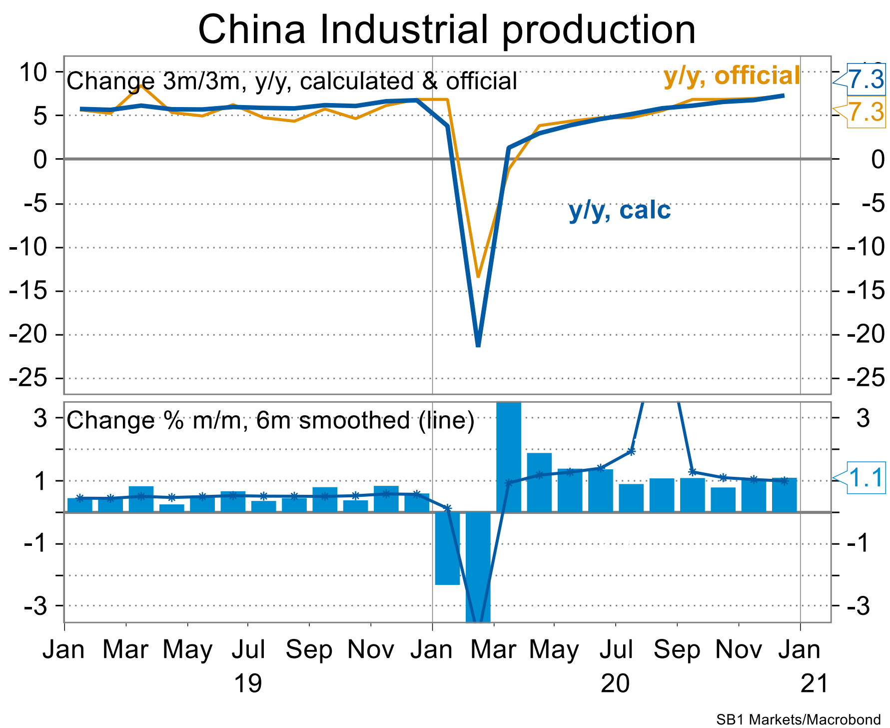
We may blame China for many things. But it is not a drag on the global economy

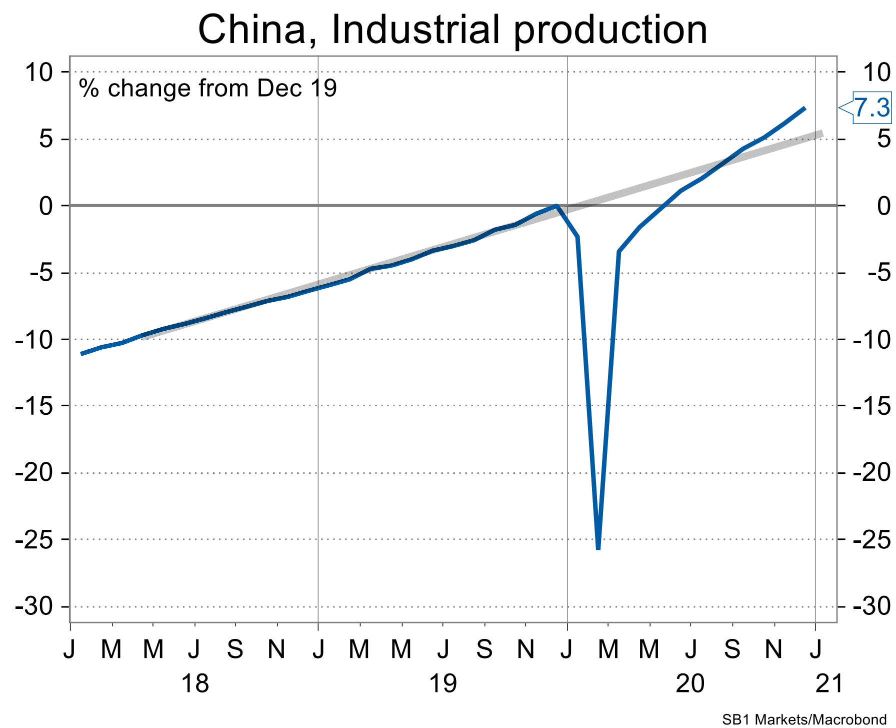




Industrial production up 1.1% in Dec , level 2.5% above the pre-corona trend

Annual growth at 7.3%, 0.4 pp better than expected. Growth is higher than trough 2019

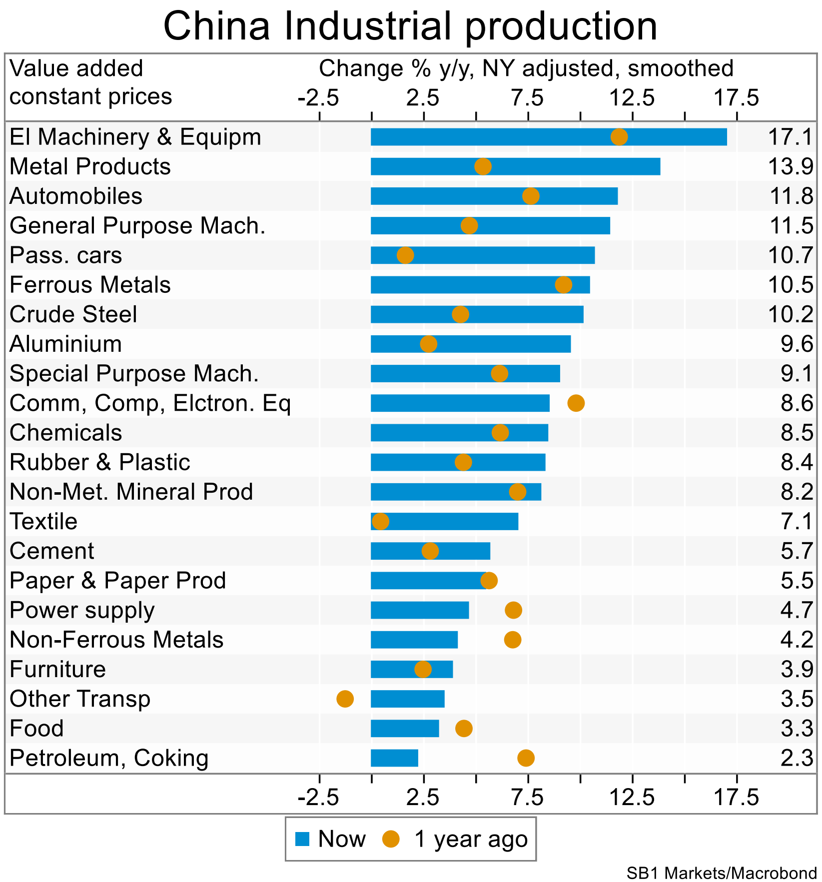




- Production is 7.3% above the Dec 19 level and some 2.5% above a reasonable pre-corona growth path. Growth has been higher from Dec-19 to Dec-20, than over the previous 12 months!
  - » Both the official and our calculated y/y growth accelerated 0.3 pp to 7.3%
- As the production level is above the pre-corona growth path we do not expect industrial production to keep growing faster than trend growth, at some 0.5% per month. Both supply and demand may be limiting factors

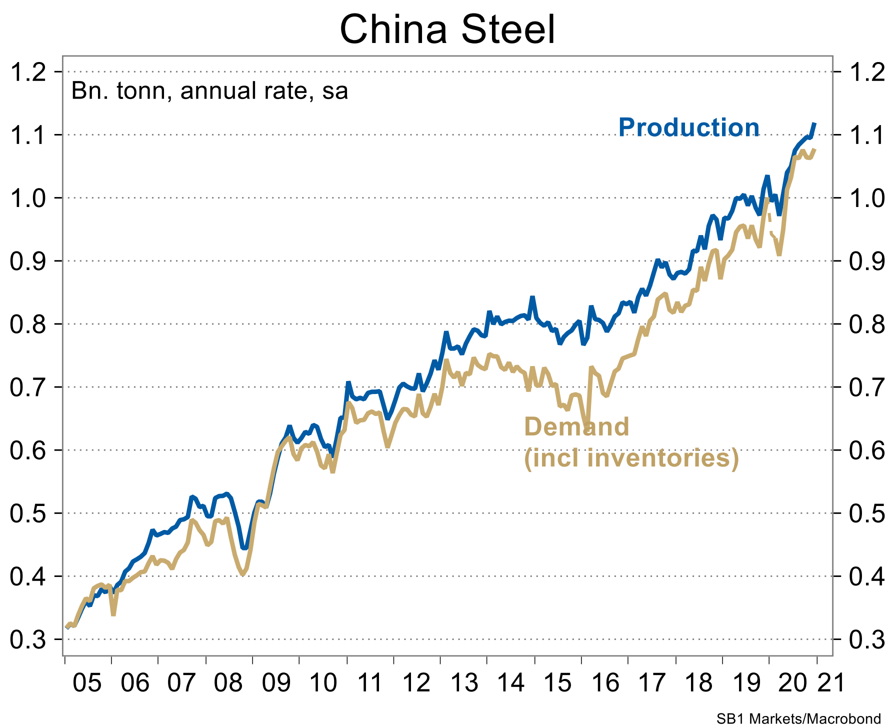
All sectors back in black!

… at least measured y/y



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

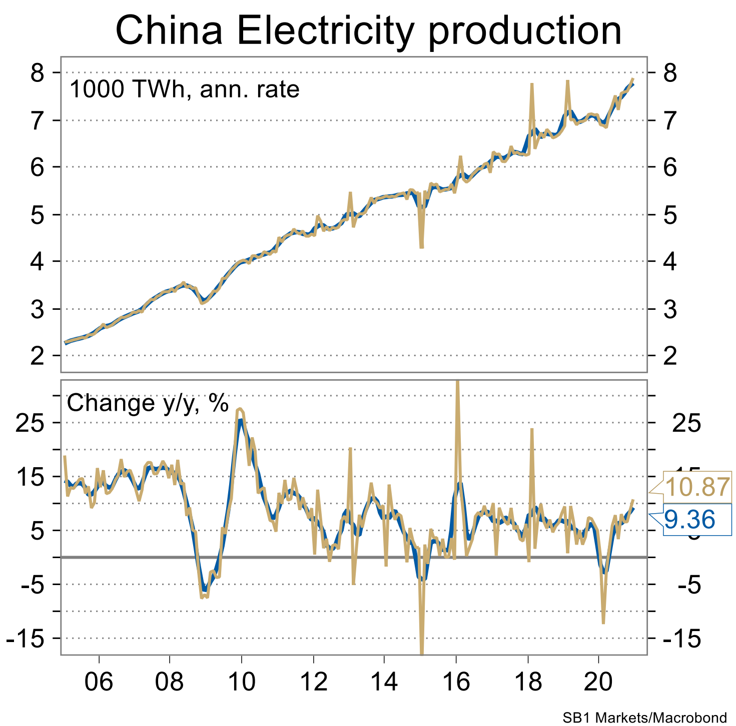
Construction record strong but is not expanding that fast anymore

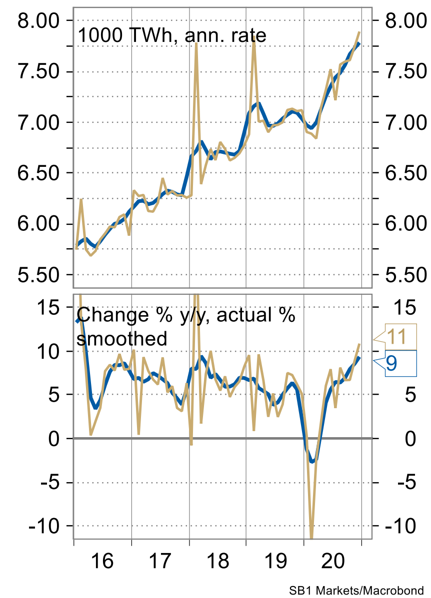


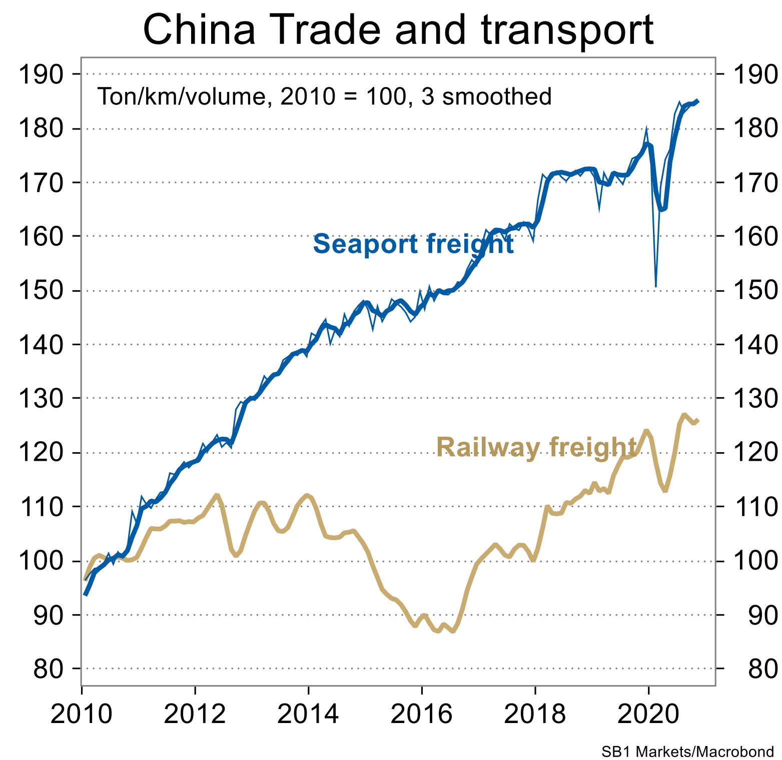
- Steel demand has increased by 17% since the spring the and is back on (or above) the strong growth trend since 2017
  - » Domestic demand includes changes in inventories

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

Electricity production up 11% y/y in December!



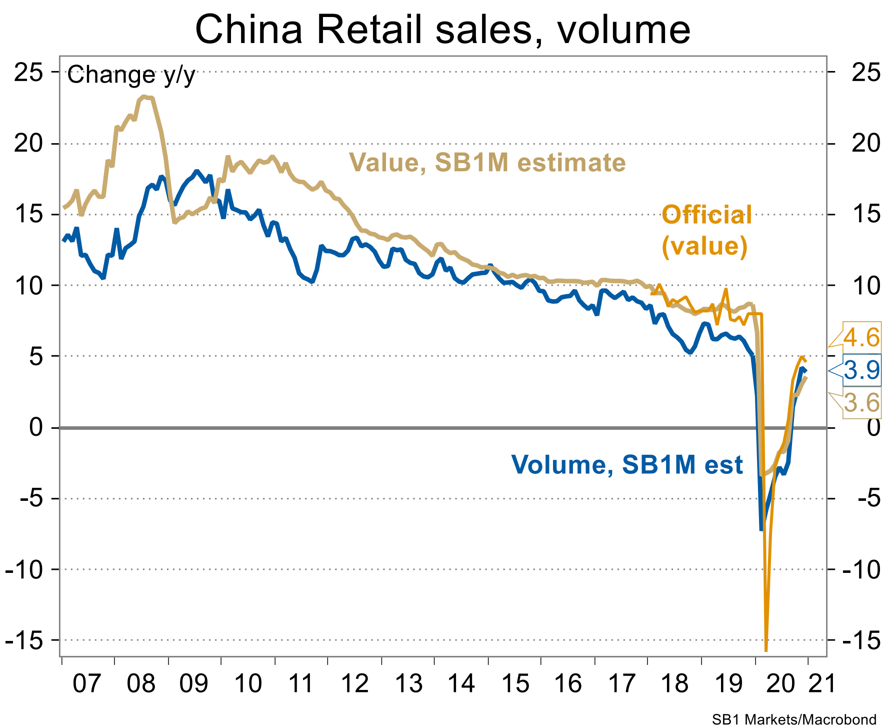


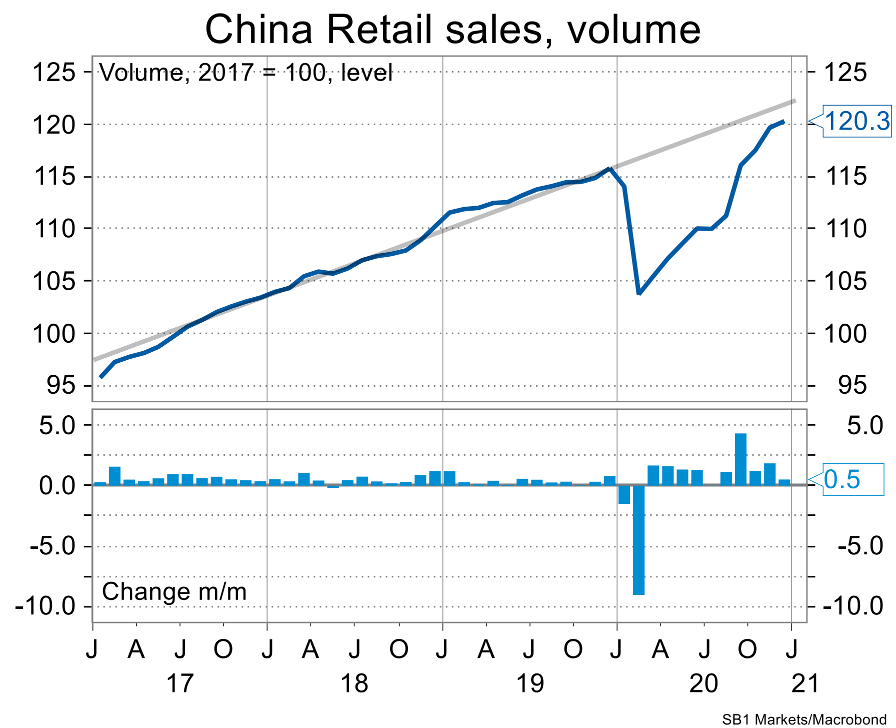


- Transport activity (goods - seaports & railway) has recovered too, both at ATHs

Retail sales volume up 0.5% m/m in Dec – marginally below pre-corona trend

Sales up just 4.6% y/y, expected 5,5%, from 5% in Nov. Sales volumes down 1.2% in 2020

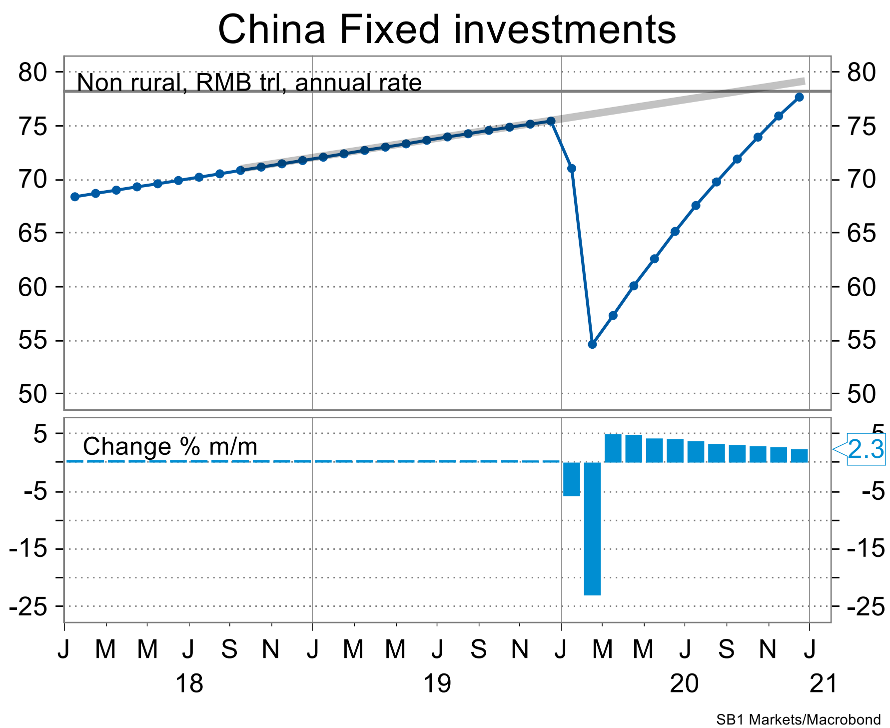




- Sale volumes grew further in Dec, but just by 0.5%, in volume terms, even if inflation was moderate vs 1.6% in Nov. Sales are some 1.5% below the pre-corona trend. It is not unsurprising that m/m growth slows as the sales level is back on track
- The official annual sales (value) rose 4.5% y/y, 1 pp lower than expected. Our value growth estimate, based on published monthly seasonally adjusted growth rates is up 3.9%% - and our volume estimate is up 3.6% y/y (both revised somewhat down). The retail sales price index was down 0.3% due to the decline in pork prices. This illustrates the positive impact of the decline the overall consumer price level in China, which is supporting volume growth in demand

Nominal investments up 2.3% m/m in Dec, is 3% up y/y

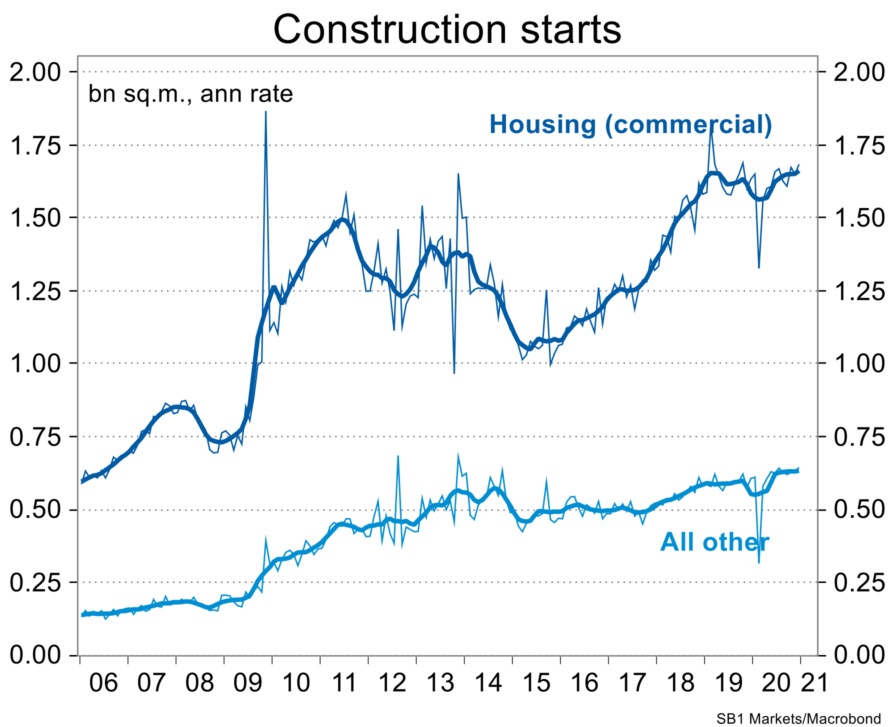
Another sharp Chinese 'V' – even if investments fell 8.8% last year

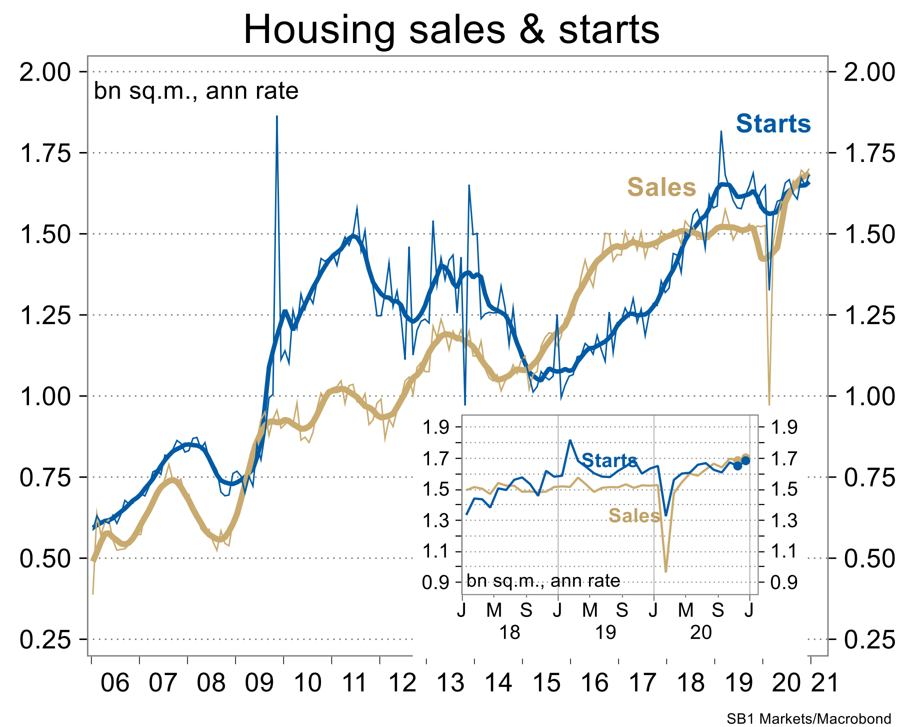


- Measured ytd, investments are up 2.9% in Dec, expected 3.2% - and up from 2.6% in Nov
  - » We think expectations were unrealistic, as they implied very strong growth m/m in Dec
- Investments rose by 2.3% m/m (nominal), down from 2.8% in Nov. Growth has been slowing since peak growth in March (following the 27% decline in Jan+Feb) but remains far above the normal growth rate, at 0.4 -0.5% per month. The level is now up 3% y/y (and from before corona), and not far below the pre-corona trend
- In real terms, investments are up approx by the same amount as in nominal terms (due to lack of an updated investment price index, we utilise a mix of a producer price index, and a GDP deflator)

Construction activity further up in Dec but growth has slowed (and revised down)

Both home sales and starts rose m/m in December, sales are record high (and starts too, almost)



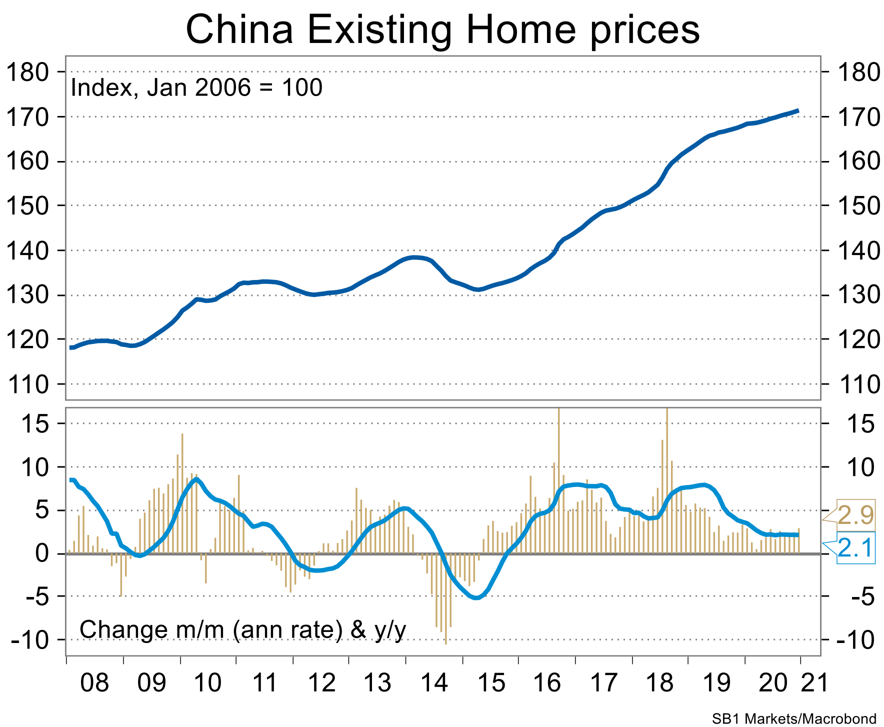


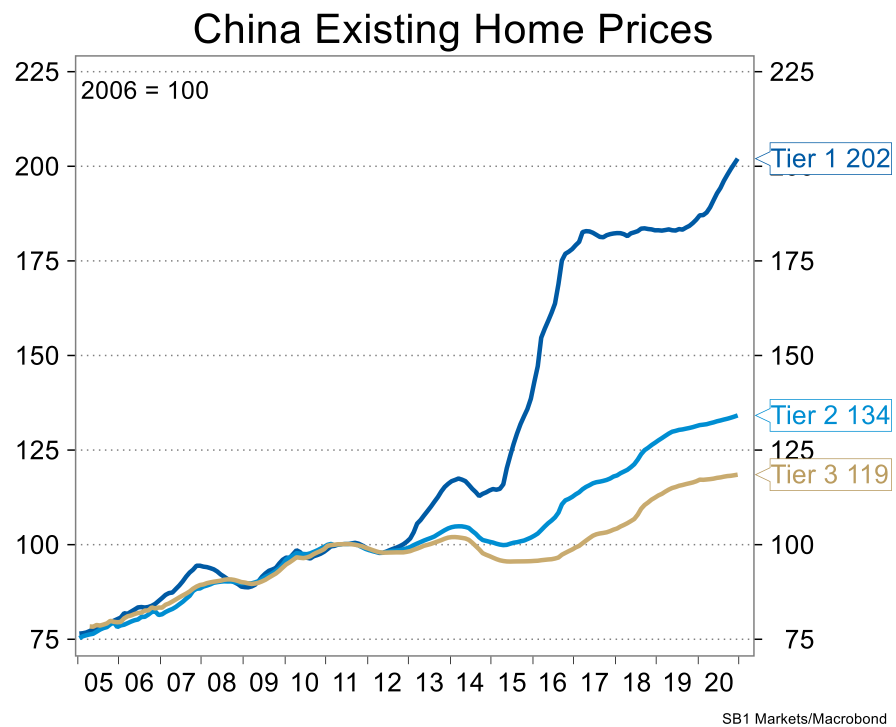
- 2020 construction data were somewhat revised, the downturn in February was not that deep, and the recovery thereafter not that brisk. Housing starts at the end of 2020 was revised down by almost 6%, and the Dec level in 2% above the pre-corona level – November was originally reported 12% up (and is now report flat, also because early 2020 level was revised up!). The trend over the past two years is now quite flat
- Non-residential construction has flattened at a record-high level
- Still, the total construction level is at a record high level!

SpareBank 1 MARKETS

House price inflation is modest but prices are accelerating in the biggest cities

Steady inflation the past 6 months, prices up 2.9% m/m in Dec (annualised), up 2.1% y/y



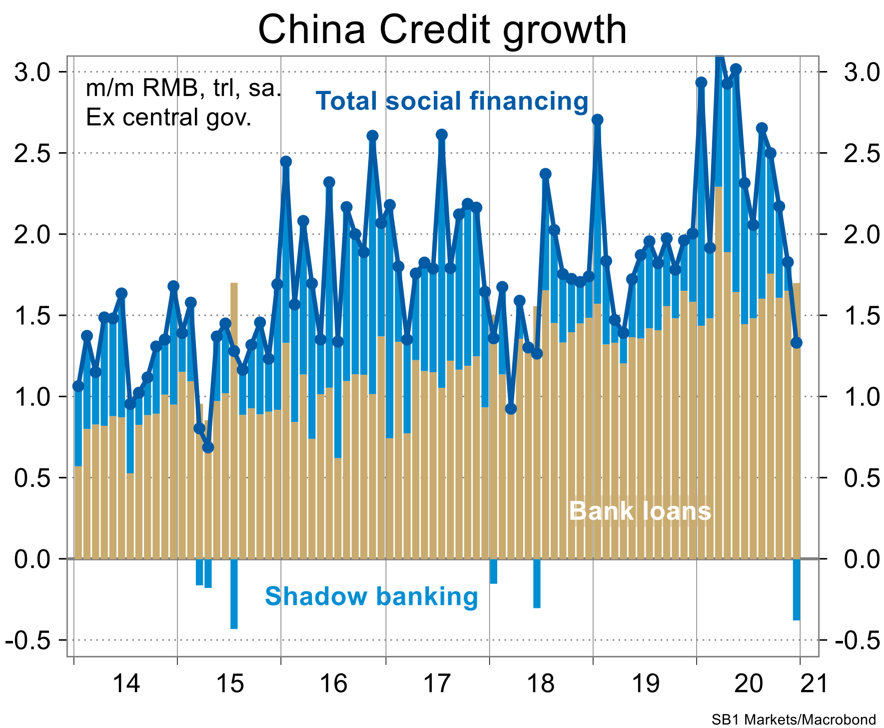


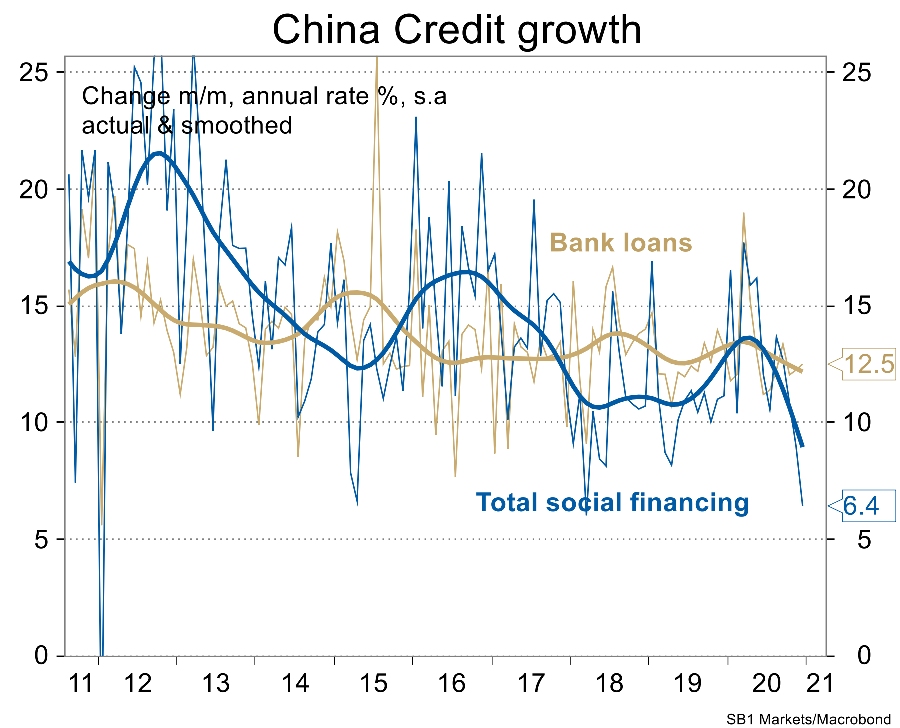
- Price inflation gradually slowed since mid 2018, when credit was tightened, but has been stable the past months (as credit growth), following a slowdown towards zero in March, probably due to the corona outbreak/restrictions
- The 4 largest cities (Tier 1, Beijing, Shanghai, Guangzhou, and Shenzhen) are reporting a much higher existing home prices

SpareBank 1 MARKETS

Credit growth is slowing further but no reason for panic

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

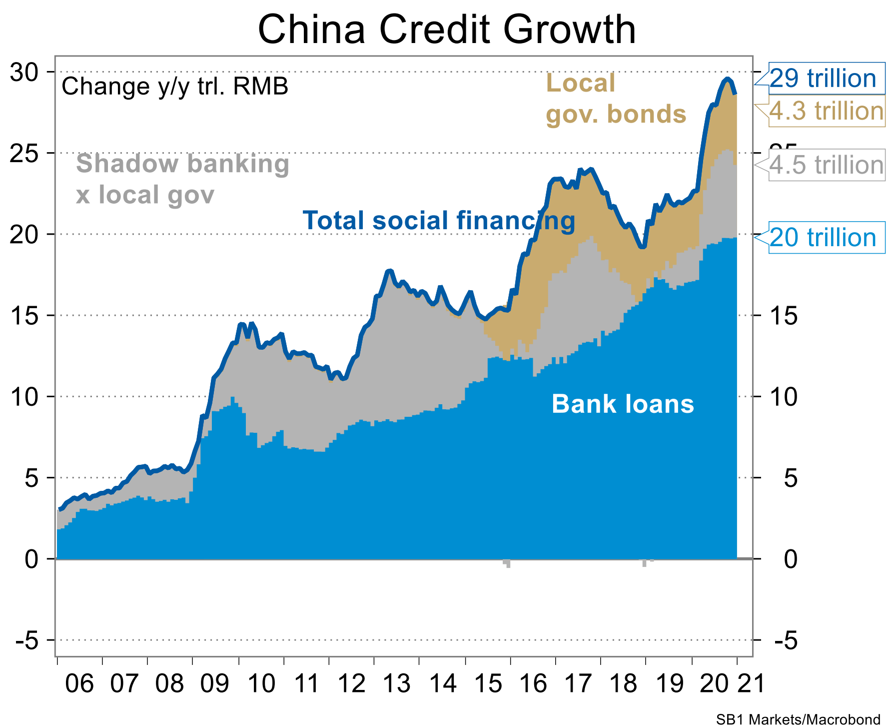


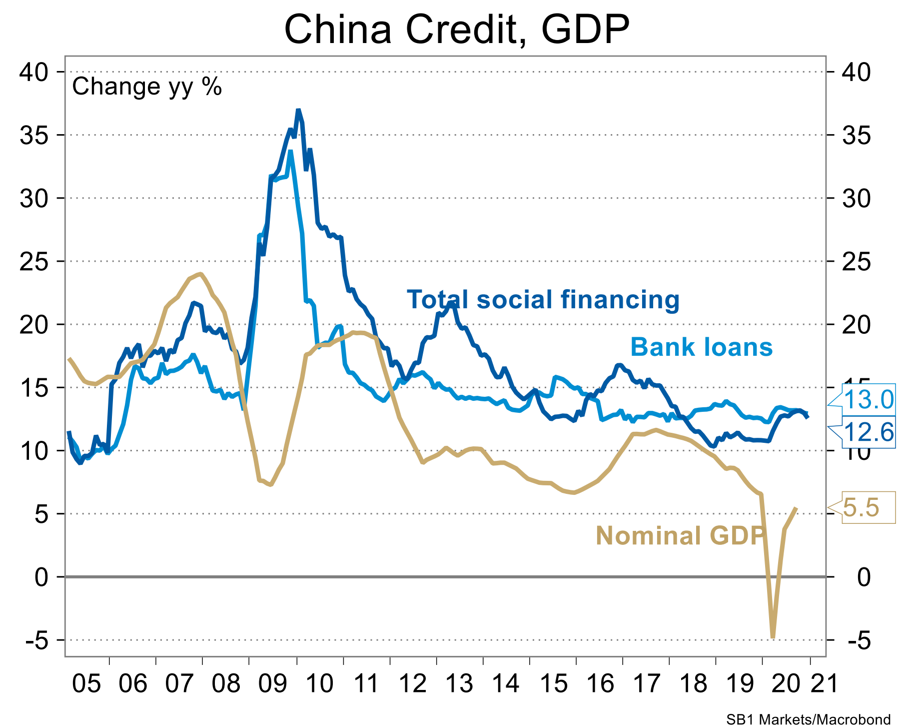


- In Dec credit grew at a 6.4% rate (m/m, annualised). Smoothed, the underlying rate may be some 8%, down from 13% during the spring (and >15% during some months). A 8% growth rate is probably close to trend growth in nominal GDP
  - » Total credit rose by RMB 0.8 trl (not seasonally adjusted, *total social financing* ex central government bonds but including local governments, and ex. corporate equities), well below expectations. Bank loans grew by 0.95 trl, 25% less than expected. Seasonally adjusted total credit rose by 1.8 trl, of which almost everything through the ordinary banking system
- Total credit is still up 12.6% 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 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



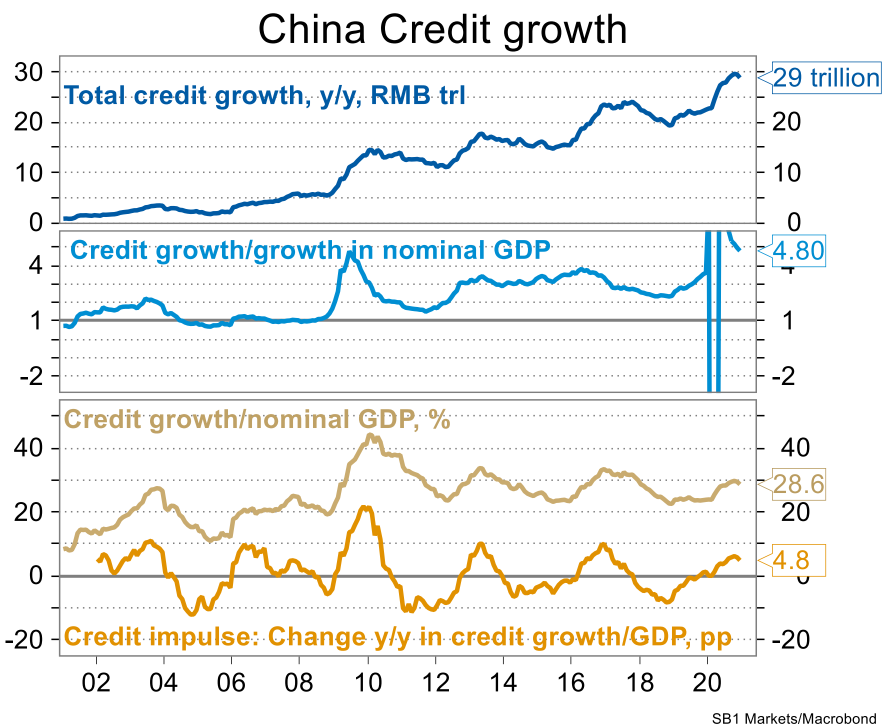


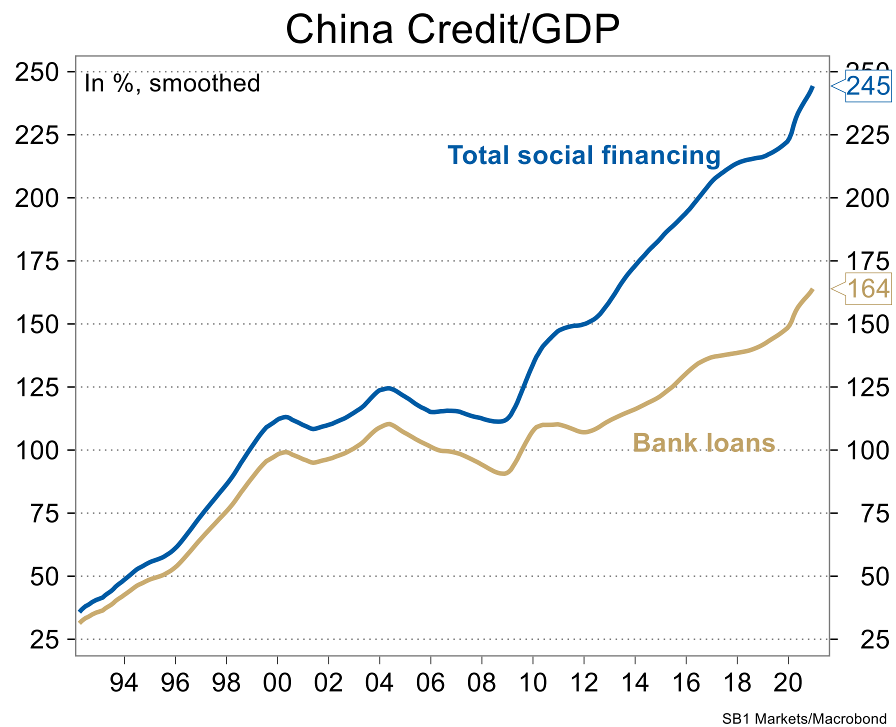
- Over the past year, total credit has expanded by CNY 29 trl, equalling 25% of GDP (even before the Q1 collapse)
- Banks supplied CNY 20 trl of the y/y increase
- Local governments have not yet accelerated their borrowing by much, at least not in the bond market, still up 4.3 bn y/y
- Other credit – via the shadow credit market x local gov bonds is still up
- Total credit growth at 12% is higher than growth in nominal GDP even before the corona shock (but the underlying growth rate now is lower)

SpareBank 1 MARKETS

The credit impulse has peaked?

It should, given the incredible high debt/GDP ratio

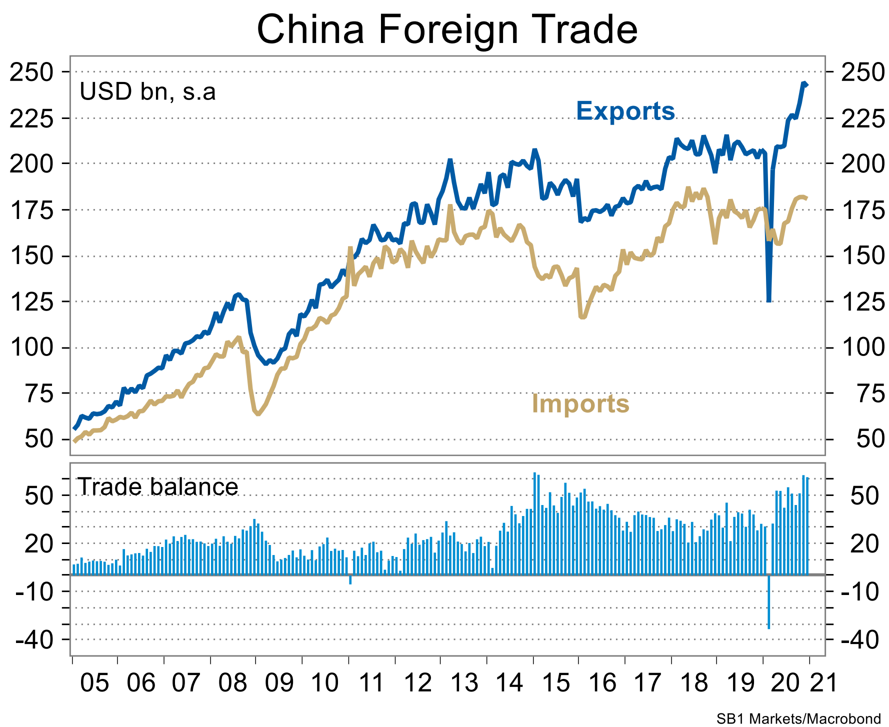




- A positive credit impulse implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
  - » The credit impulse has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

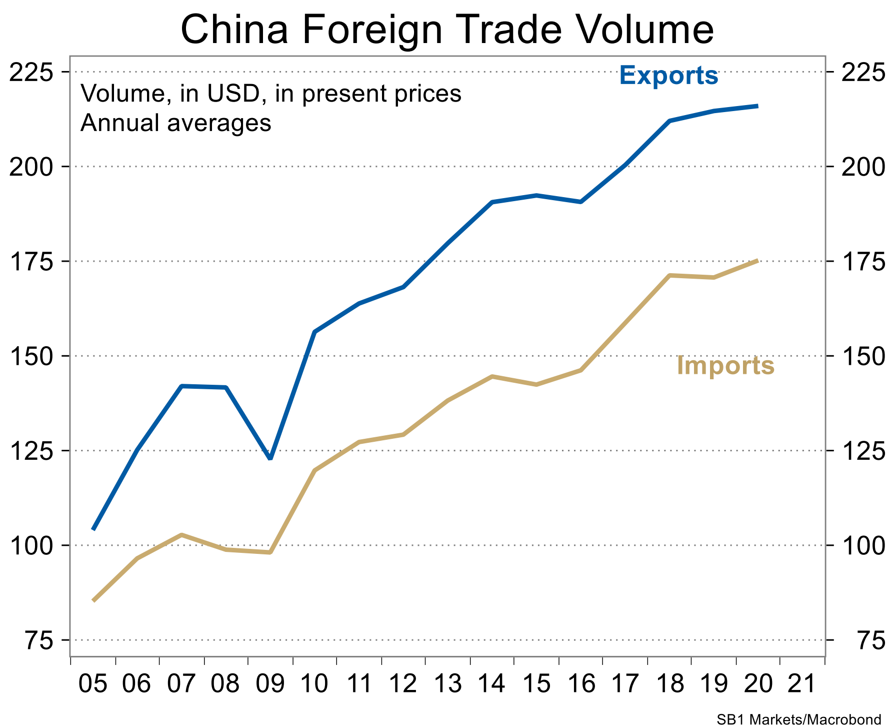
Exports flat at ATH in Dec, up 18% y/y. Imports flat too, at a decent volume trend

No signs of any slowdown in the global or the Chinese economy



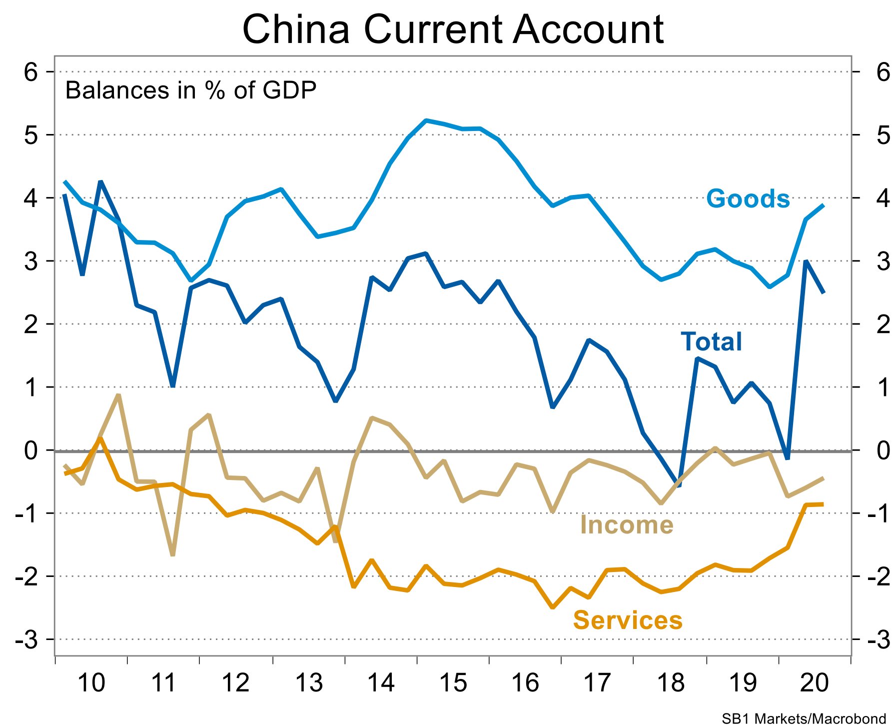
- **Exports** was close to unch m/m in Dec but grew 18% y/y in USD terms, expected up 15%, vs. 21% in Nov. In **volume terms** export are up 12% y/y (based on price assumptions for the 2 last months). More important, <u>export volumes are 10 – 15% above any reasonable trendline</u> you can draw! Chinese exports are the highest ever – and the highest for any country at any time, of course – which have has been the norm for some years – and probably will be 'forever' – whatever 'containment' policy the US may undertake
- **Imports** were up 4.7% y/y, close to expectations , and flat m/m. In **volume terms** (our price assumptions last 2 m), imports are up 2% y/y, and close to a reasonable trendline. <u>Domestic demand is OK</u>
- The **trade surplus** was unch at USD 60 bn in Dec (s.a, the actual surplus up to USD 75 bn from 68, expected 53), close to the early 2015 ATH. The surplus has been higher than normal since March. China is still running a **deficit in services** (but it is narrowing, less Chinese travelled abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks - in % of GDP, that is

In the year of corona: Both export & import volumes up in Q4 & 2020



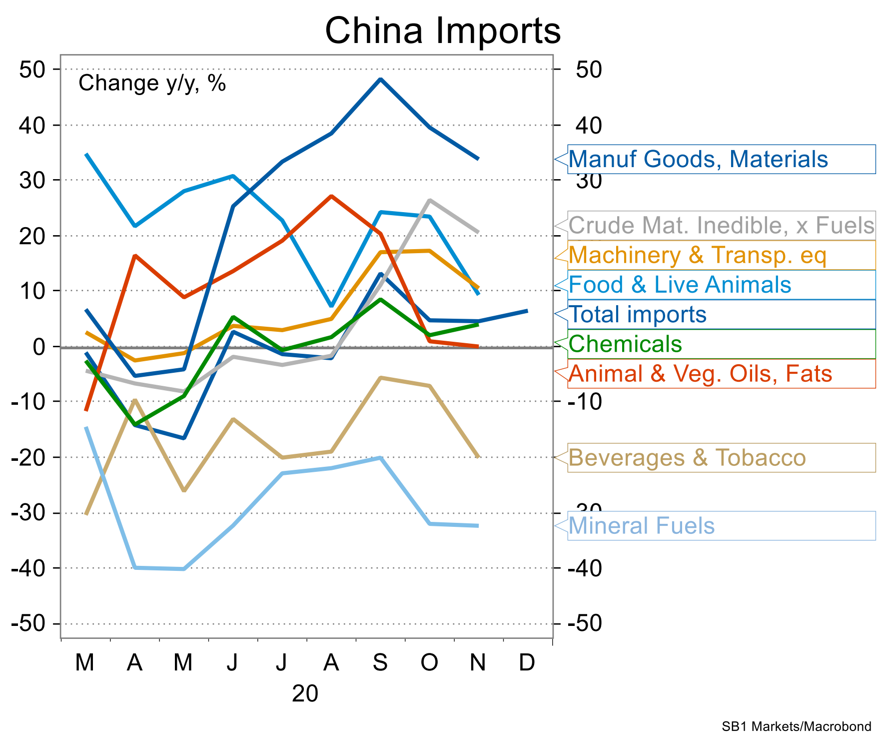
China runs a 'modest' surplus at the current account – just 2 - 3% of GDP

The C/A surplus was above 10% of GDP in 2007 – but close to zero in 2018



- The trade surplus in goods is now at 4% of GDP
- In services, China runs a 1% deficit, down from -2% in 2015 – 2019 – but from zero 10 years ago. For the time being, the Chinese do not travel abroad
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

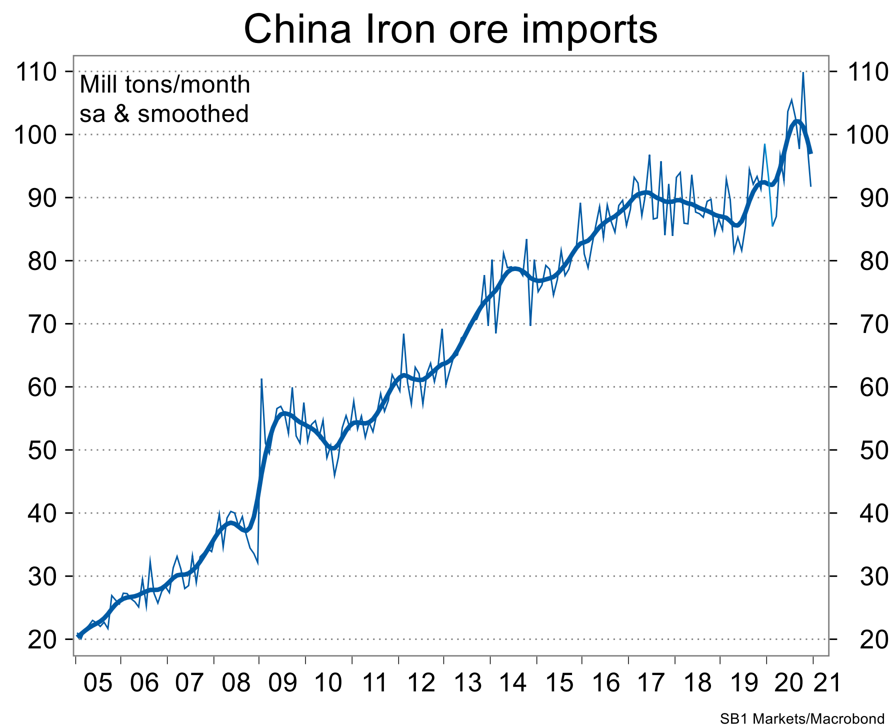
Total imports up, even if oil imports are down (in value terms)

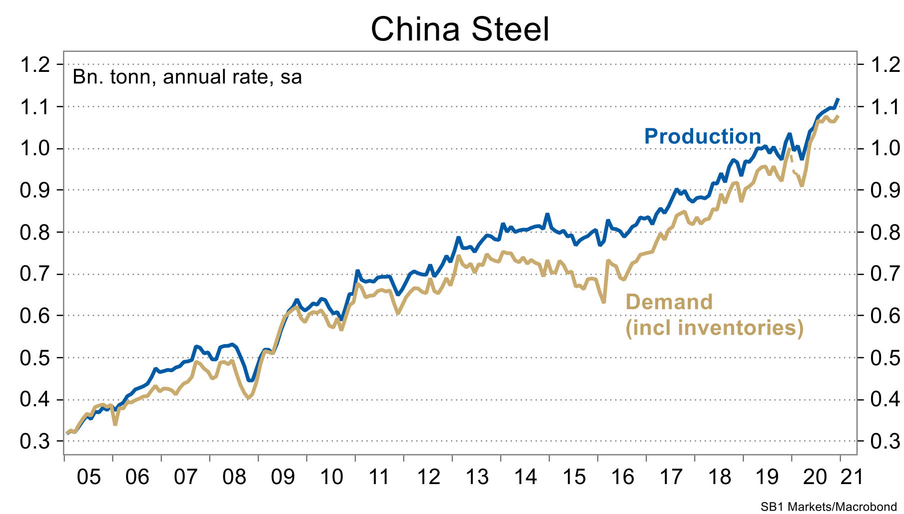


Source. WSJ (chart to the right)

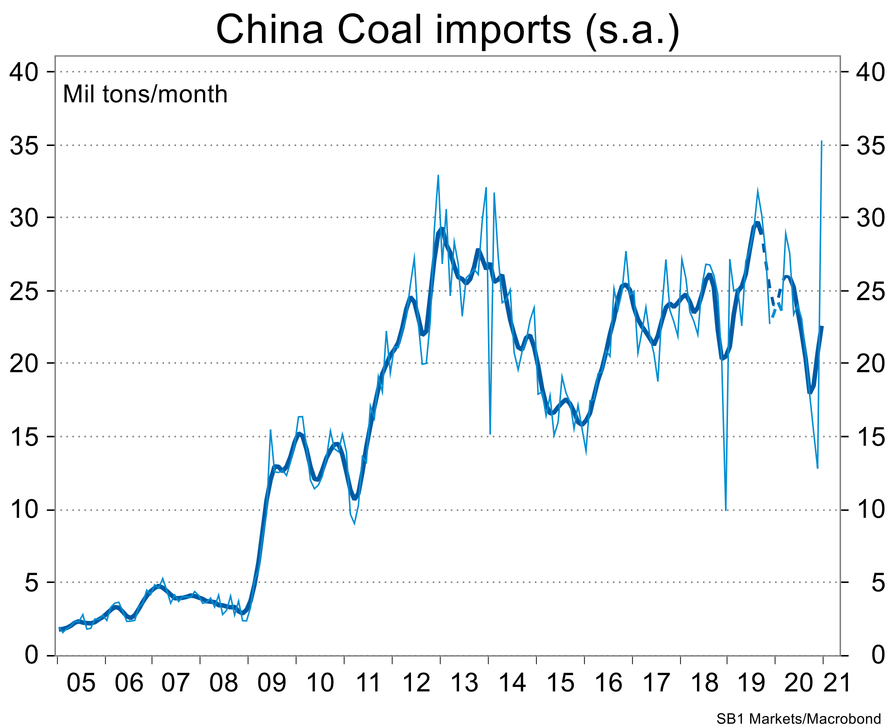
Iron ore imports further down in Dec but still at a decent level

Steel production, domestic demand and net exports up too



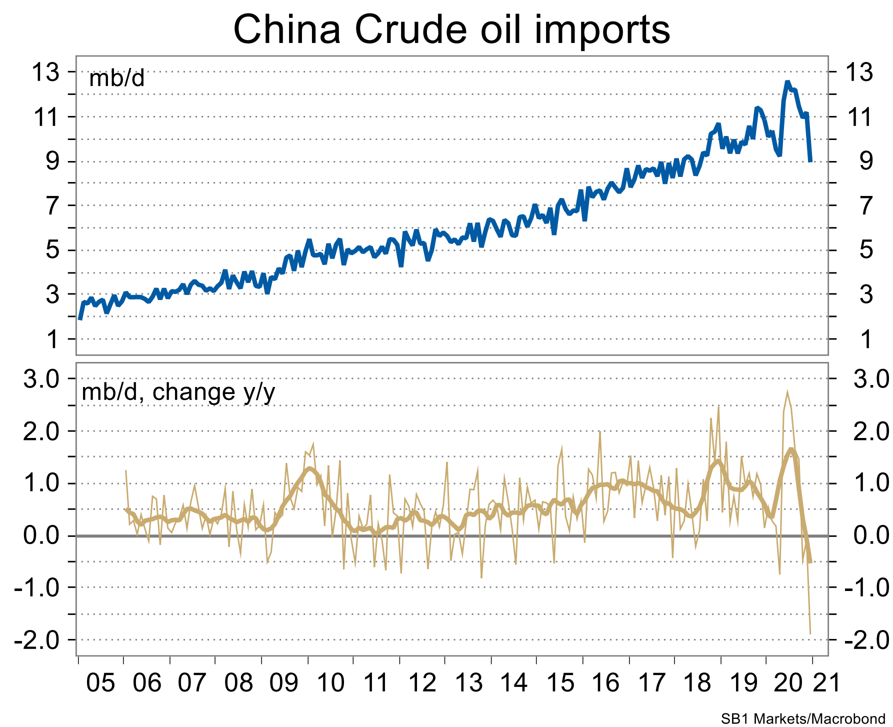


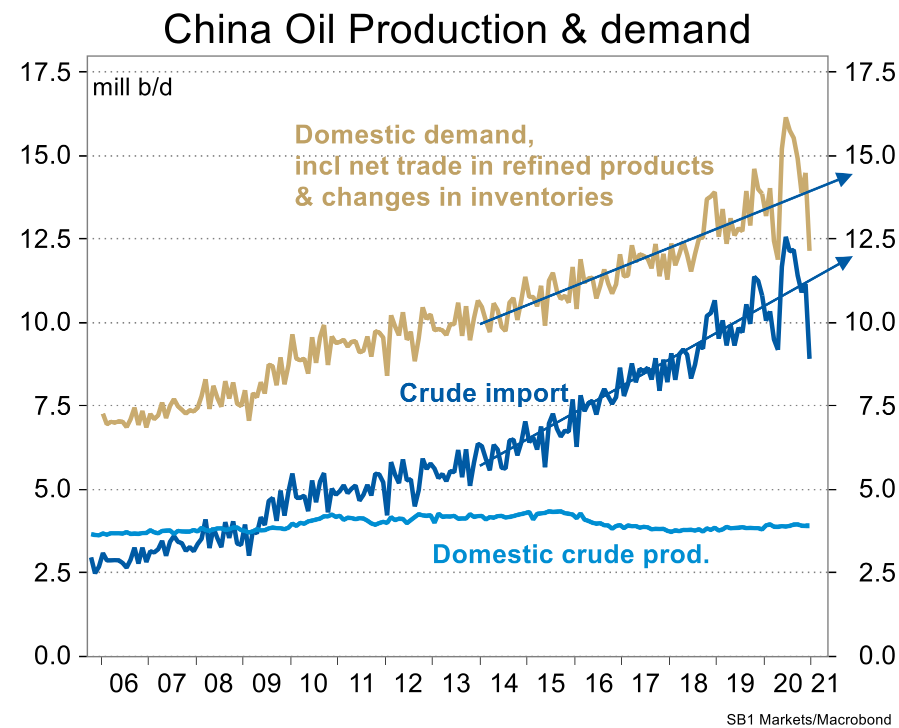
Coal imports up in Dec, but recent months are on the weak side



Oil imports sharply down in Dec, probably an outlier

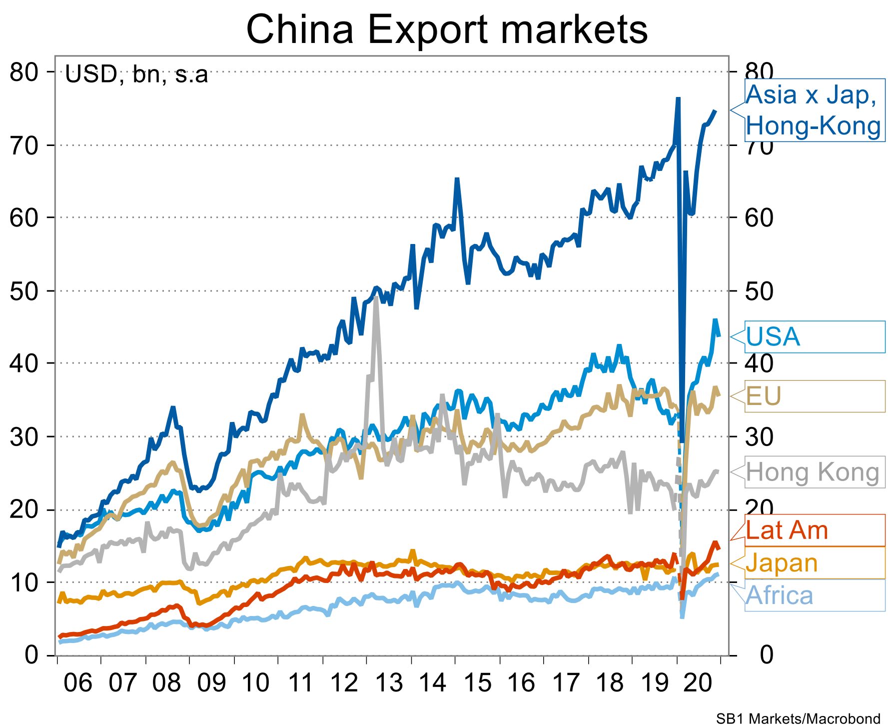
2 mill/b down vs. Dec-19, -18%. Until Dec, a strong trend – and it will very likely prevail



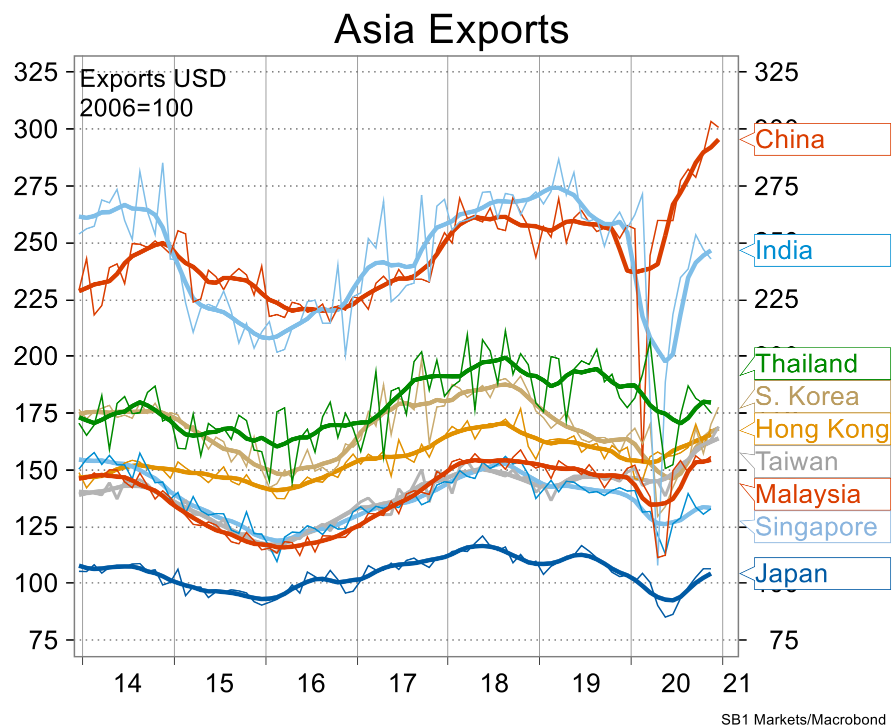


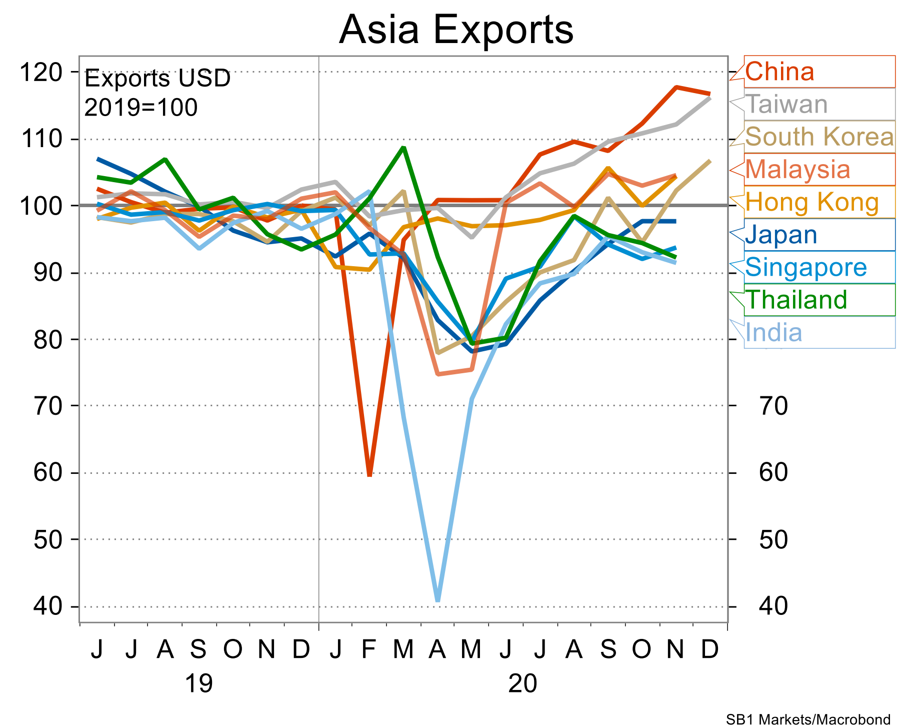
Chines exports to 'all countries' up – and a giant leap in exports the US in Nov/D

Exports to other countries in Asia strong too – and even exports to the EU up in November



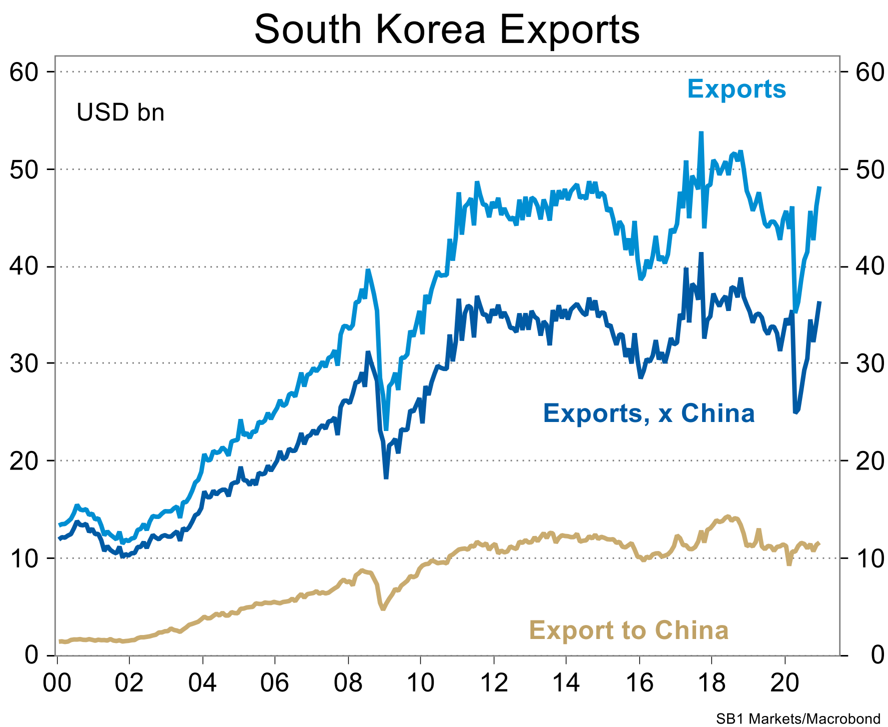
Asian exports have more or less recovered; some above, some below 2019 levels





South Korea exports sharply up in December, best since 2018

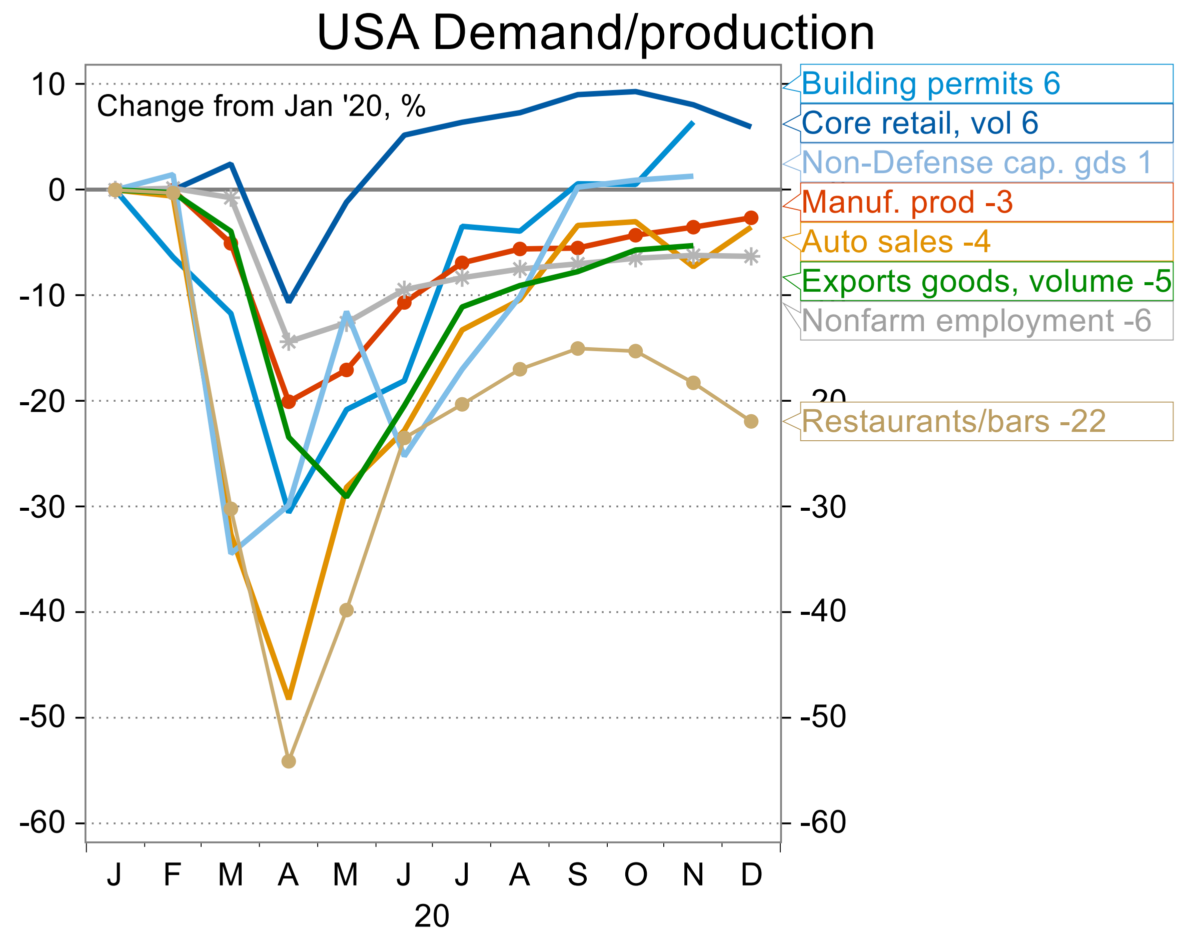
Exports are well above the pre-corona level



- Korean exports were not impressive before the corona hit – exports to China as well to the rest of the world had fallen substantially. Total exports are not up in value since 2011 (not to China either)
- Exports to China were not to blame for the setback March - June

The recovery has slowed but its not dead

The 2nd /3rd coronavirus wave is no doubt slowing the US economy

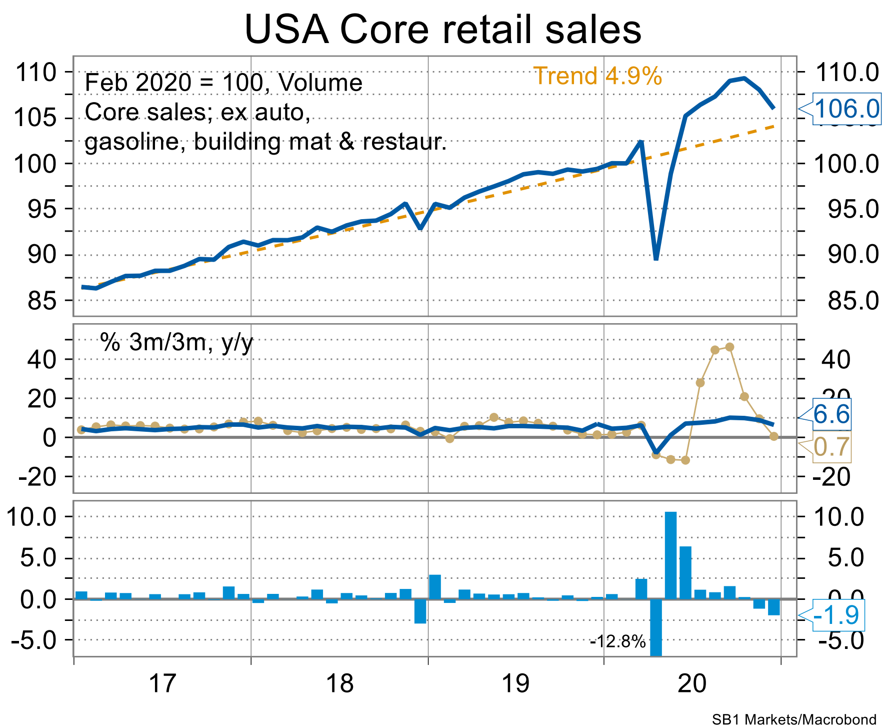


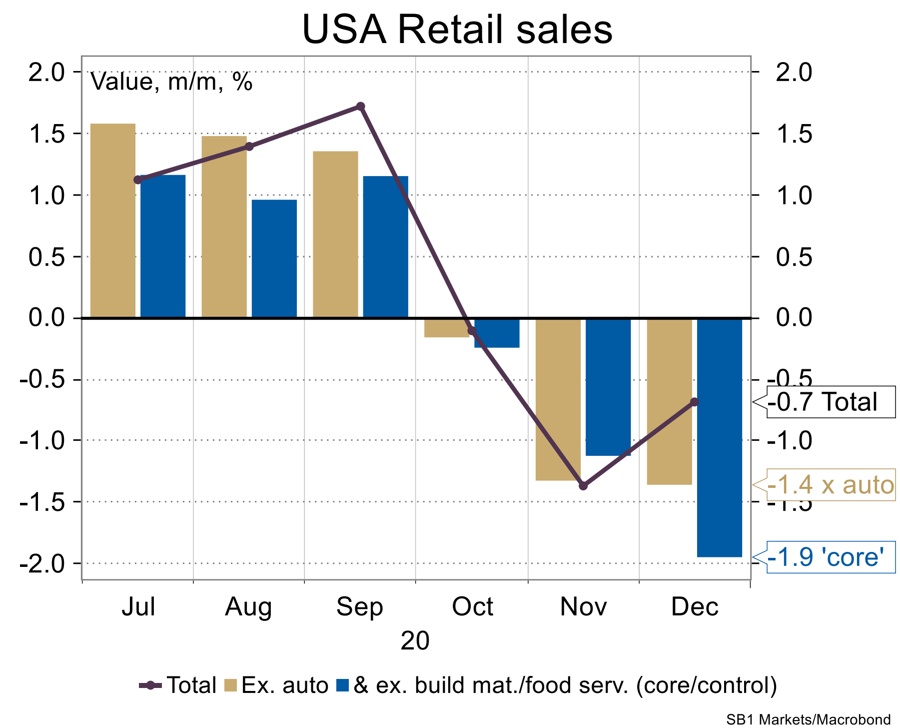
SB1 Markets/Macrobond

- **Retail sales** fell in both Nov & Dec but remains at 6% above the pre-corona level. Auto sales have not fully recovered
- **Building permits** are at the same level
- **Investment orders** are on par, even included 'zero' aircraft orders
- **Exports** remain below par but is still on the way up
- **Restaurant sales** are down 22% (in value terms). Airline traffic is down even more
- **Employment** fell in December, due to a sharp contraction in employment in the hotel/restaurant sector

Retail sales fell further in Dec, and Nov revised down, in sum 2.8% below expect.

The 2nd/3rd corona wave, lack of jobless stimulus probably to blame. Core sales still up 6% vs Feb



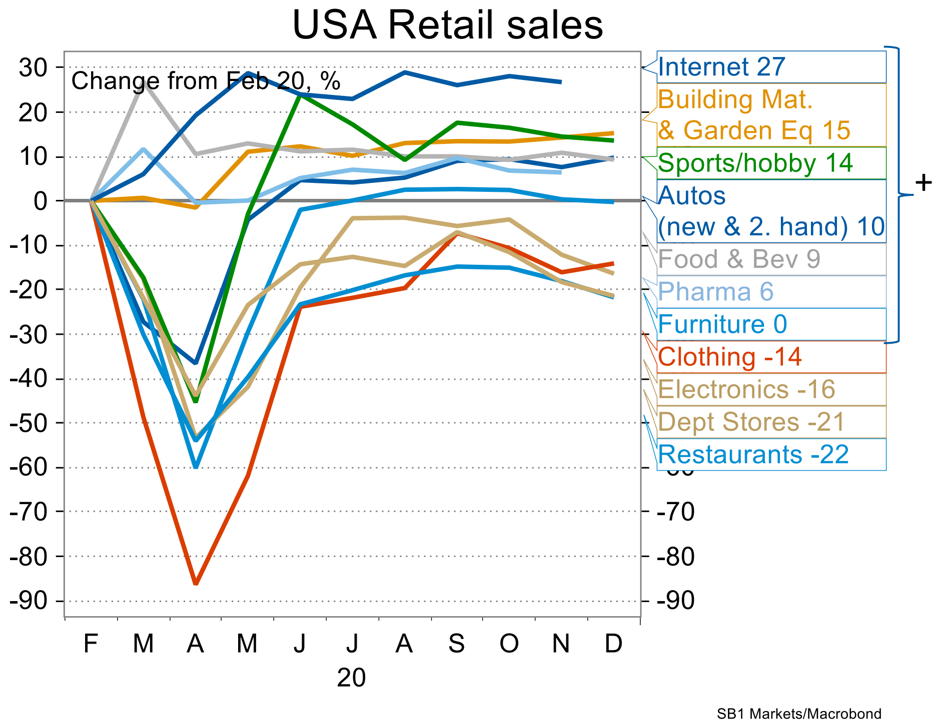


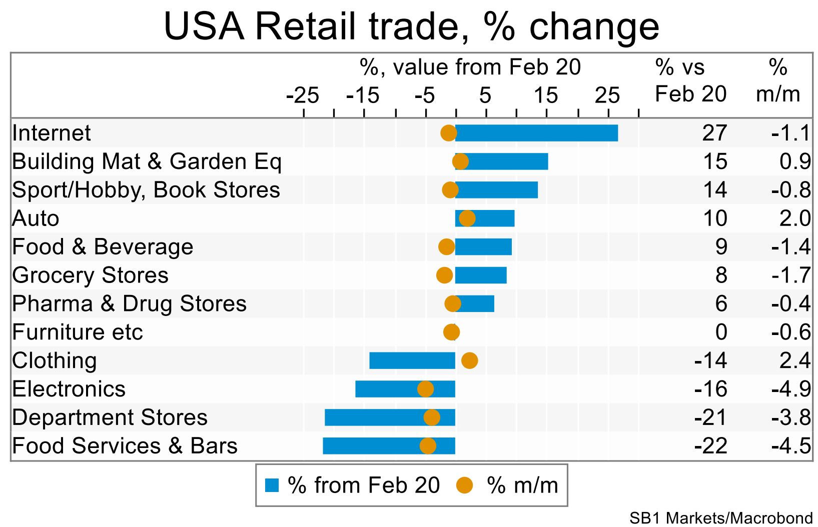
- **Total nominal sales** declined by 0.7%, expected unch, and Nov was revised down by 0.3 pp to -1.4%
- **Core sales of goods**(=control group, excludes auto, gasoline, building materials & restaurants) fell by 1.9%, expected up 0.2%. In addition, Nov was revised down by 0.6 pp to -1.1%. In total, core sales were 2.7% weaker than assumed, an unusual large deviation, signalling a weak Q4 consumption, as service consumption is even harder hit by the corona outbreak
  - » Core sales are still 6% above the Feb level – and up 6.6 % y/y. At one stage, the level has to come down (like in most other rich countries)
- Check details next page, still huge discrepancies between sectors

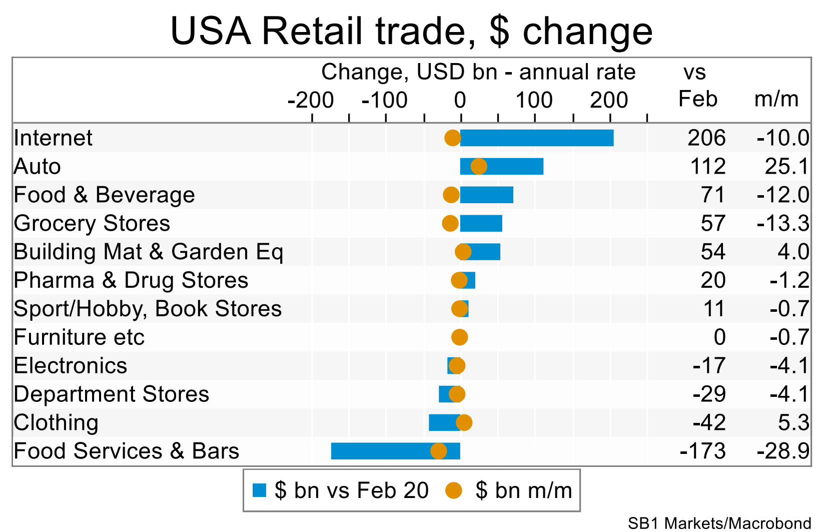
SpareBank 1 MARKETS

Still huge differences between sectors: Restaurants -22%, Internet +28%

Food & bev +9%! Sports etc. +14% Clothing -14%. Our spending habits have changed (for a while)







December

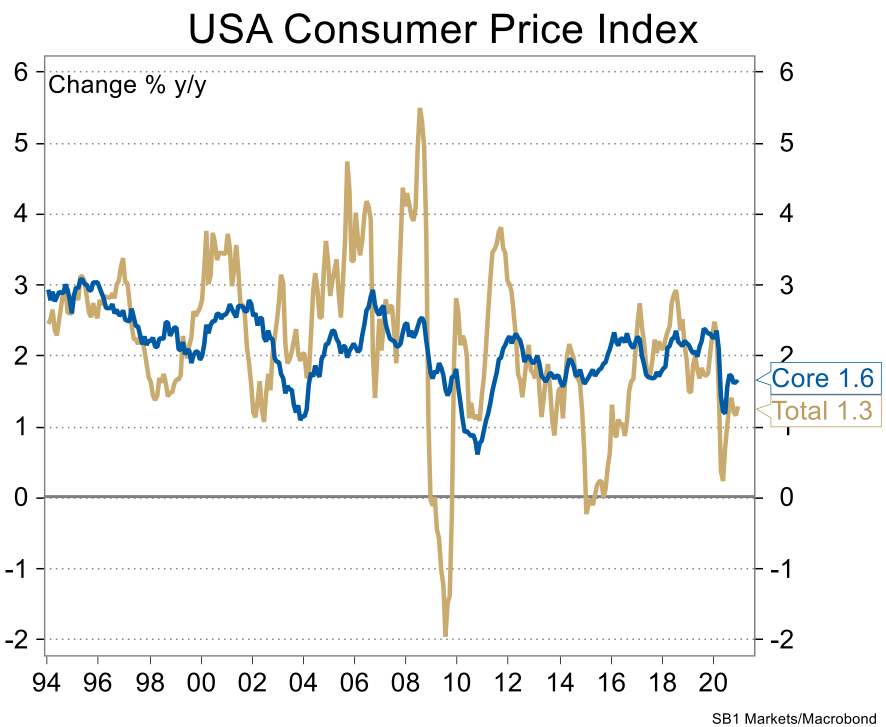
- 9 out of 12 sectors reported a decline, just auto, building mat & clothing up

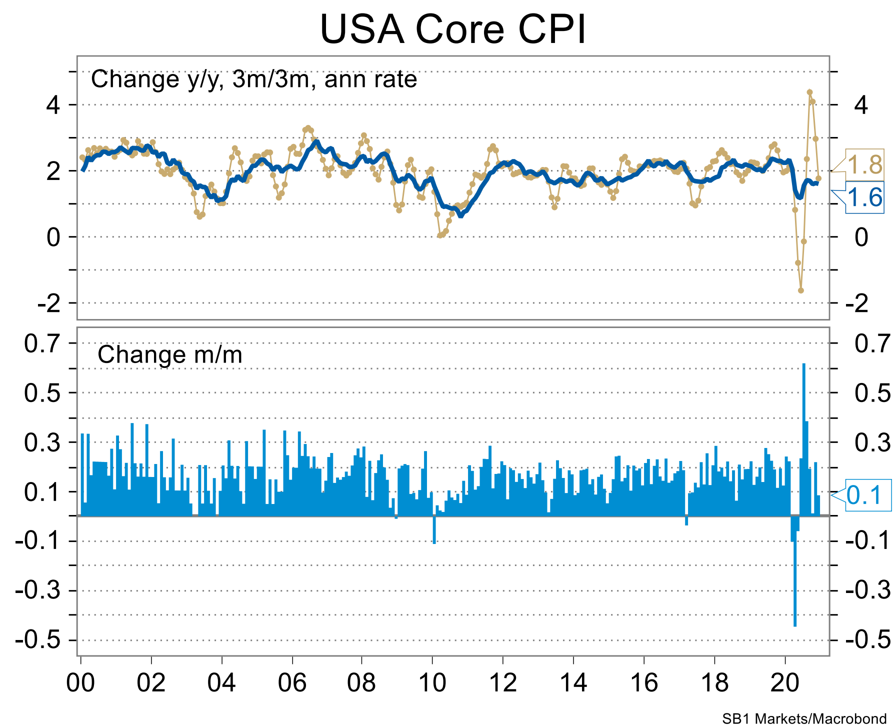
Since pre corona

- Internet has taken a substantial market share, to well above 10% (and probably way above !
- Clothing is probably down due to more time spent at home, less outside
- Gyms are partly closed, more sport equipment is bought
- But why are electronics still so weak?

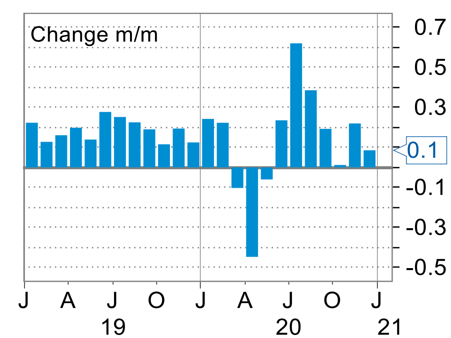
Core CPI up 0.1% in Dec – a touch slower than in Nov, stable y/y at 1.6%

...while headline prices rose 0.4%; both in line with consensus. Total CPI flat at 1.3%



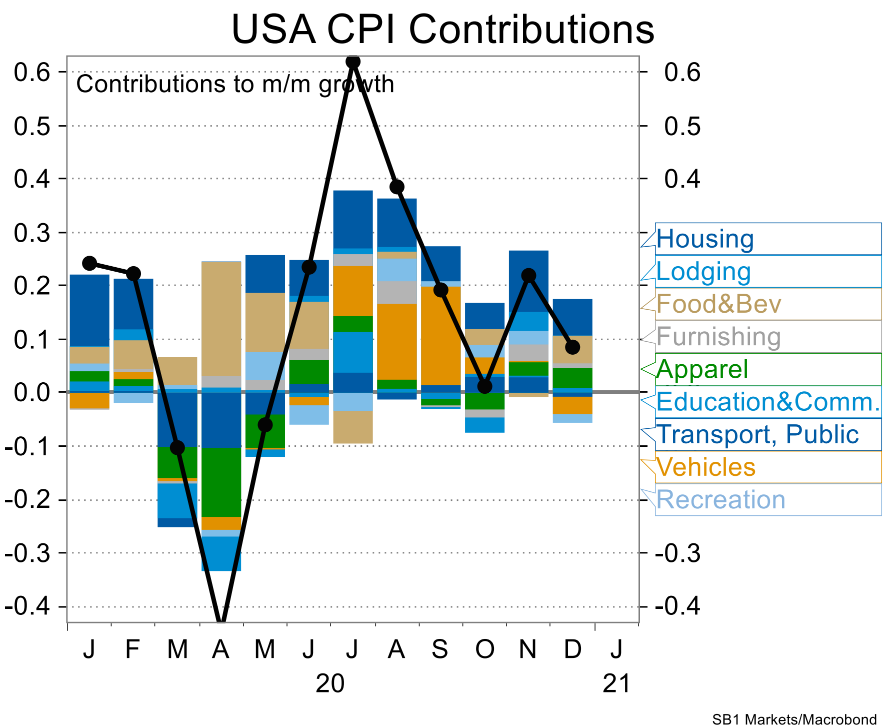


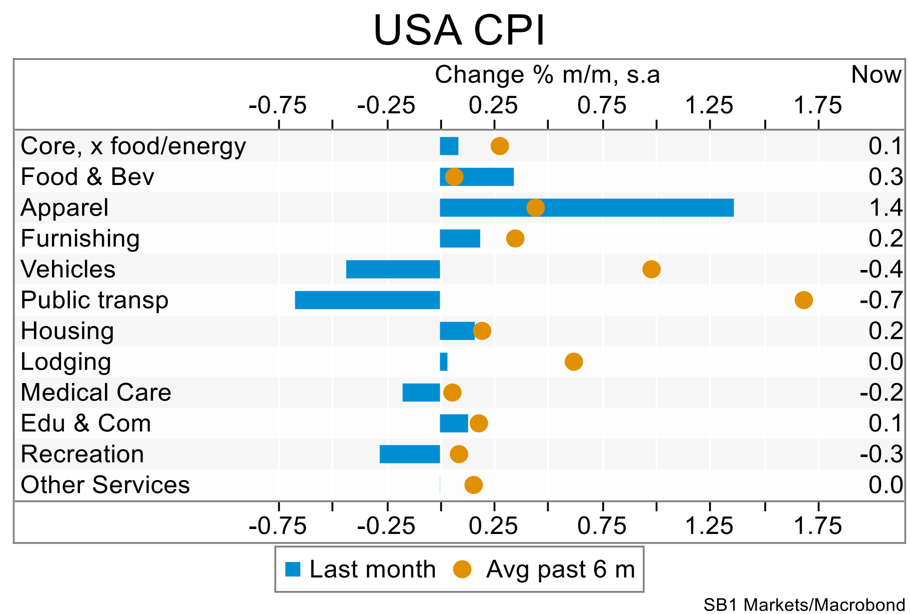
- The annual core rate held steady at 1.6%, and is well below the 2.4% pre-corona level, and below Fed's 2% target (measured by the national account PCE price deflator, which over time has reported an inflation rate 0.2 – 0.3 pp below the CPI inflation rate)
- Headline CPI is up 1.6% y/y; unch from Nov. In May, headline CPI was up 0.2% y/y
- Used vehicles and airline ticket prices saw the biggest decline from previous month
- The decline in CPI inflation just shows that there is still not demand



Used vehicles prices, airfares, healthcare and recreation on the downside in Dec

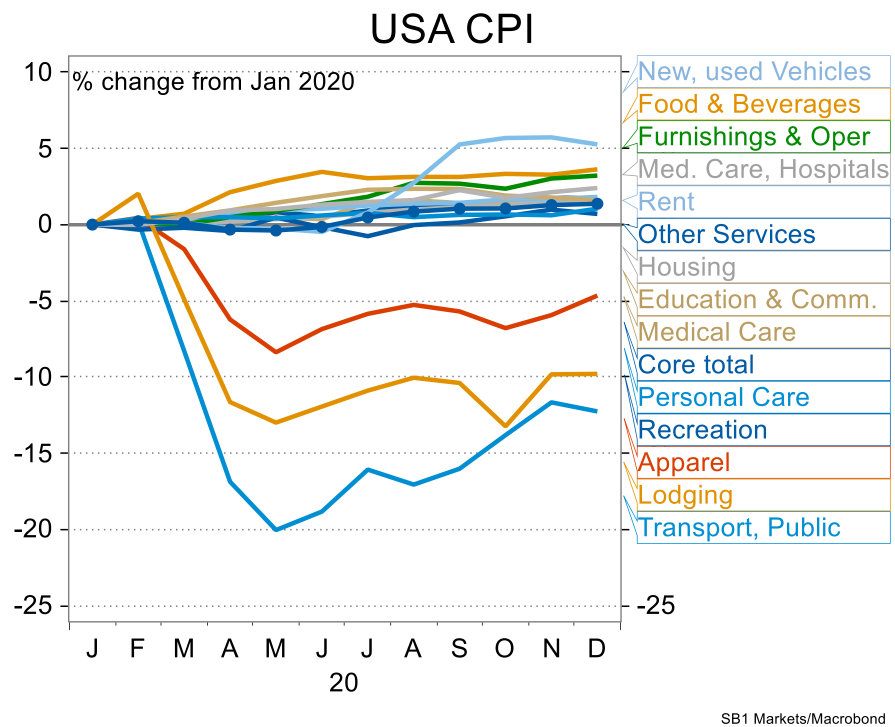
Clothing price inflation up 1.4%

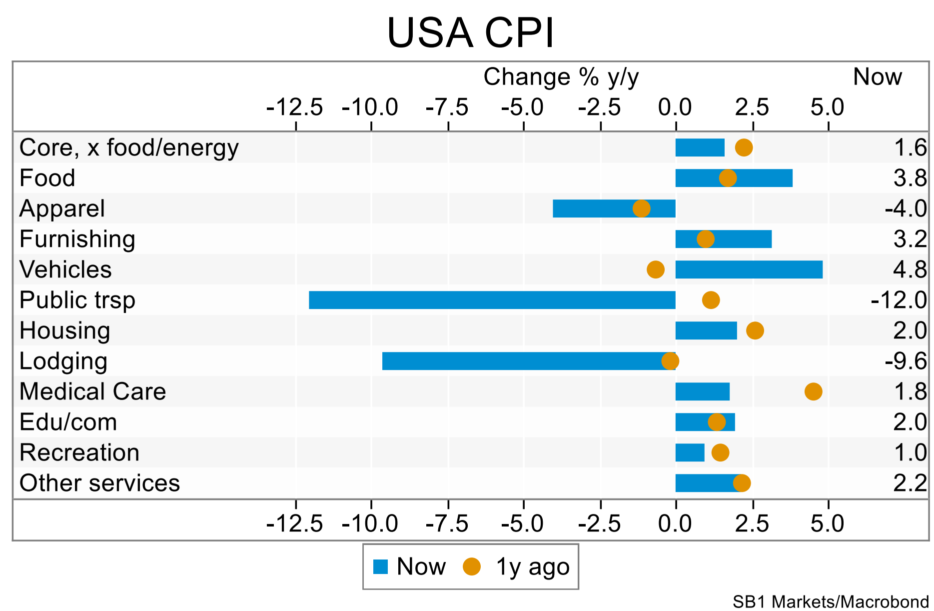




Clothing, hotels and transport (airline tickets) still very cheap

Public transport -12.3% (airline tickets) and hotels -9.8% are still far down vs Jan 20 level

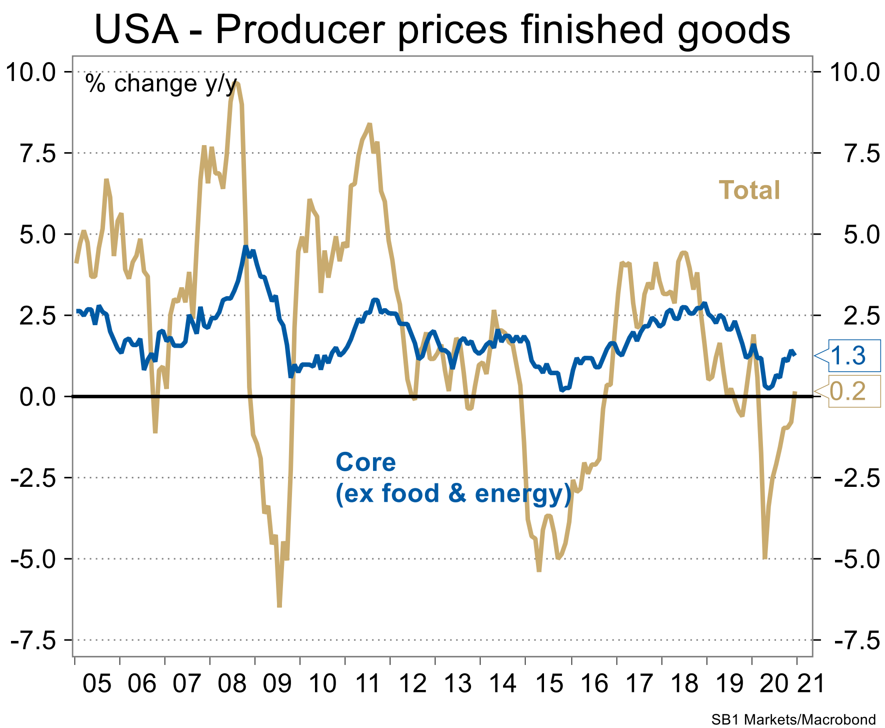


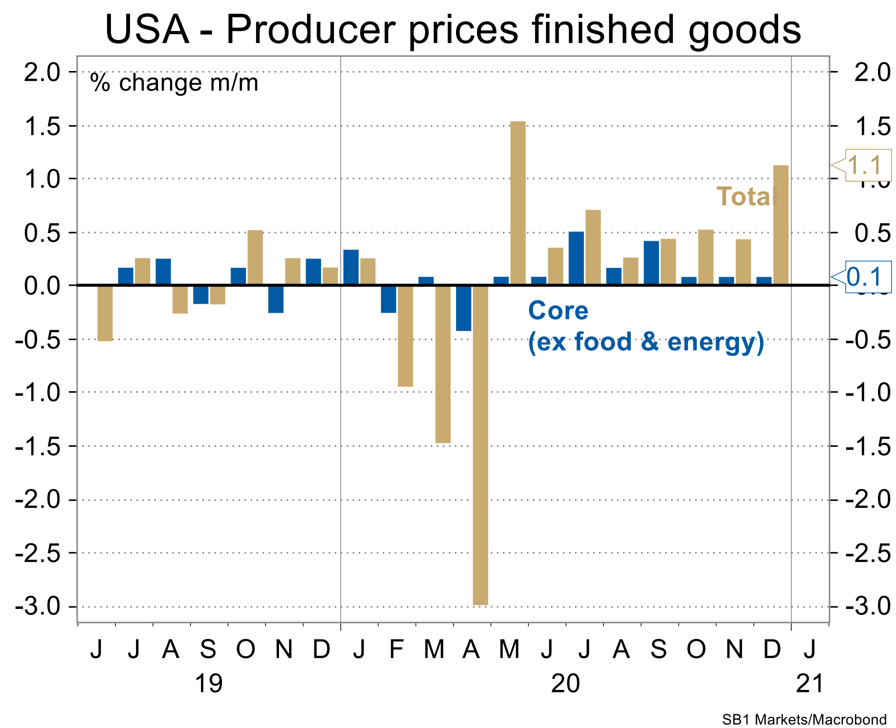


- Just some few components of the CPI contributed to the ‘corona’ setback: Public transport (airline tickets), lodging (hotels), apparel, and partly recreation (cinemas, parks etc). Most other components of the CPI have not slowed
- Food prices are up 3.6% y/y, corona has no doubt boosted demand among households (as in Norway)
- Medical care costs are up just 1.6%

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

Core goods up 0.1% m/m, up 1.3% y/y. Total finished goods prices up 0.2% y/y – from -5% in April

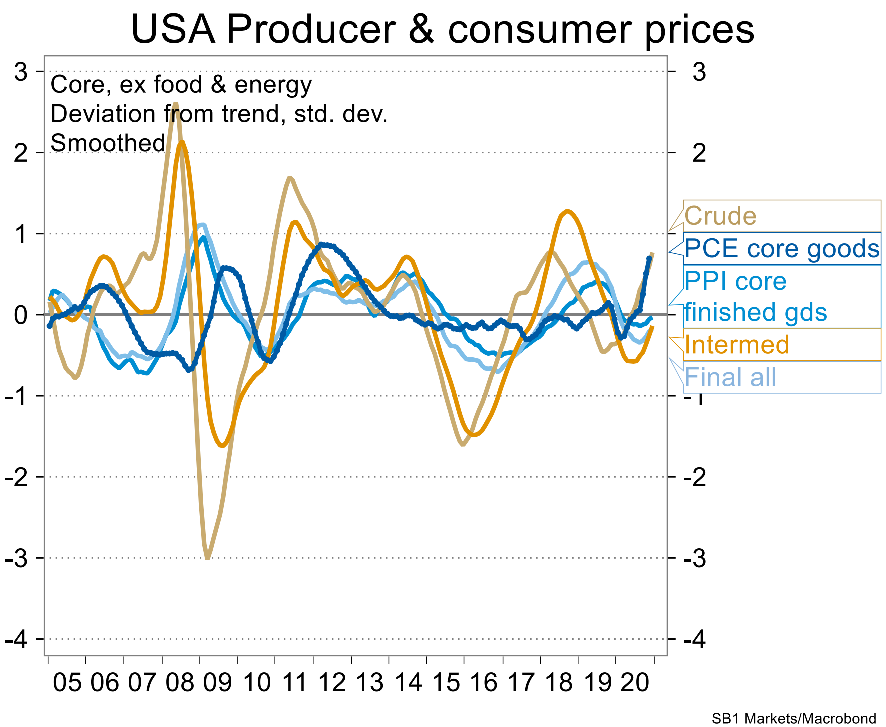


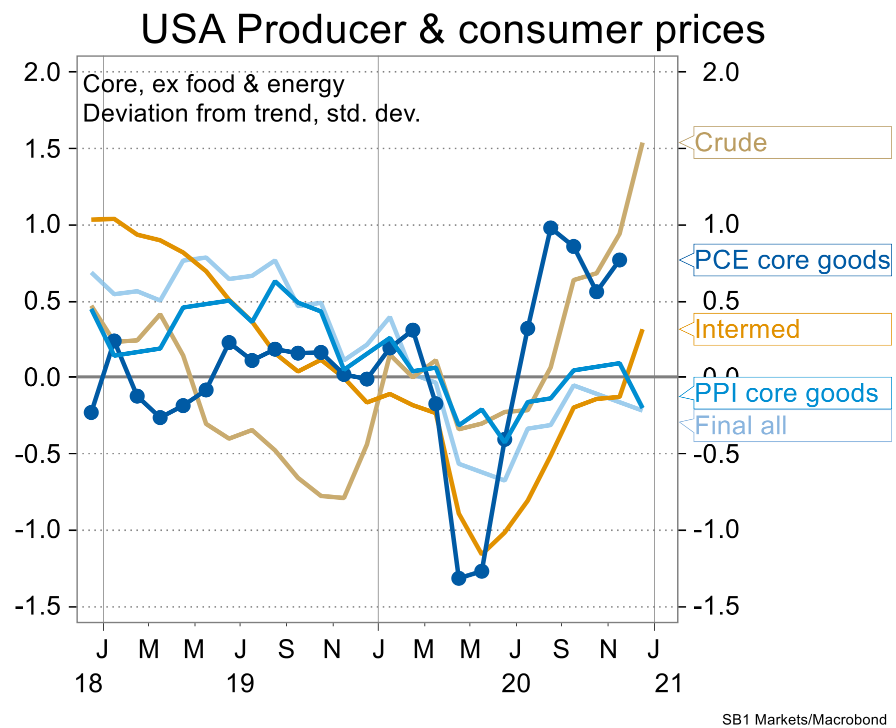


- Core finished goods x food & energy PPI rose by 0.1% m/m in Dec, as in Nov
- Core finished goods producer price inflation does not suggest high CPI inflation, but producers prices at earlier stages are now moving upwards
- Headline PPI rose 1.1% m/m, due to higher food & energy prices (and as expected). The annual rate climbed 1 pp to 0.2%

Something is brewing? Producer prices have turned up, and sharply for crude gds

Intermediate goods prices are on the way up too – confirming business surveys

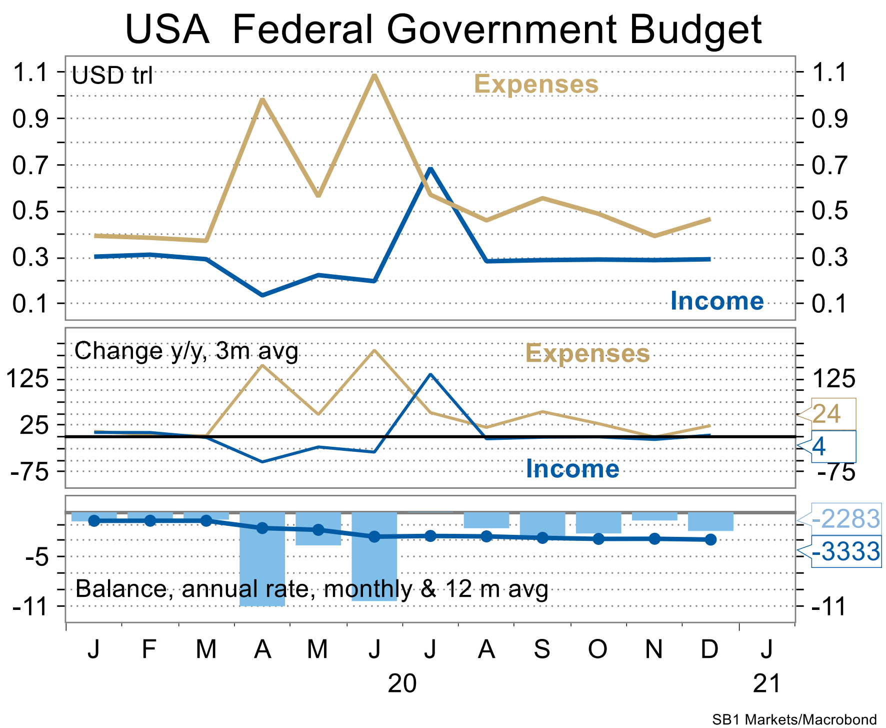


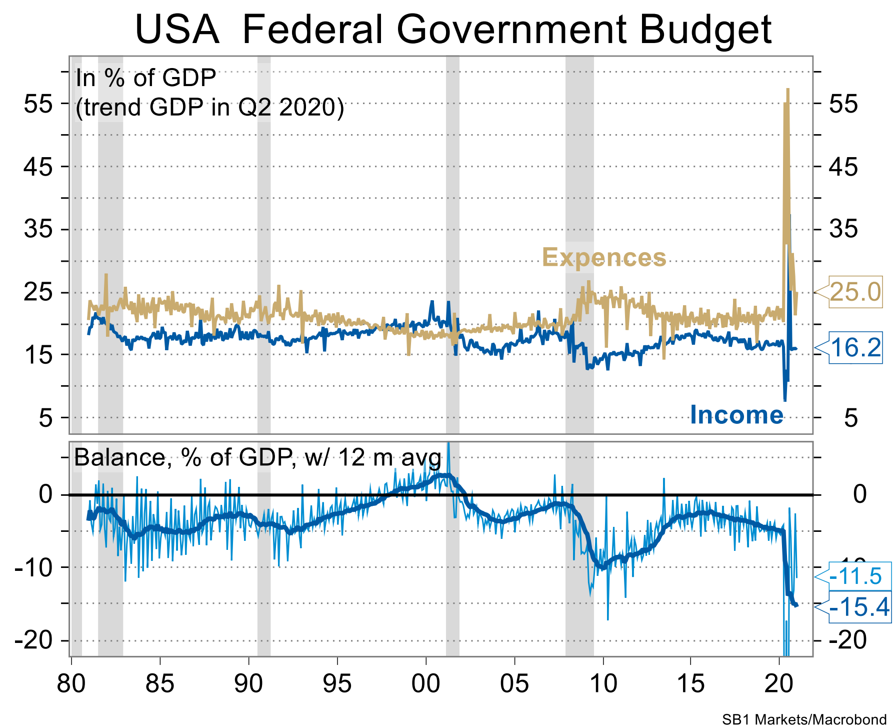


- Prices are on the way up, as are delivery times – and production is increasing rapidly. Hmm…
- However, consumer prices are rising faster than indicated by finished goods prices. Thus, short term, probably not that much more price pressure from producer prices. Looking forward however, the steep rise in crude prices and now followed by intermediate goods prices are signalling higher consumer price inflation (crude goods are leading consumer prices by 12 months, intermediate goods by 4 months)

Ahead of the 2. stimulus package: The budget deficit at 9% in Dec, 16% last year

Expenditures still far above a normal level, revenues at a normal level. And now a HUGE fiscal stimul.

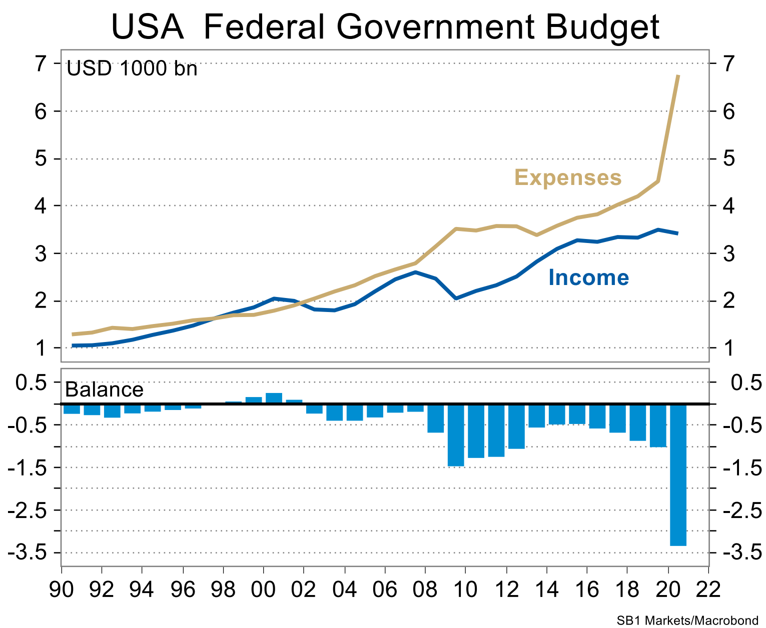




- **Federal spending** equals 25% of GDP, far higher than the 'normal' 21-22% (*we have normalised GDP, not taking into account the 2020 slump when calculating the ratio*). **Revenues** equals 16% GDP – and the gap is of course huge
- More on the outlook following the Biden/Democrat election victories 4 pages forward

A USD 900 bn (4% of GDP) 2021 fiscal stimulus was decided

Biden proposes an extra USD 1,900 bn (9% of GDP)



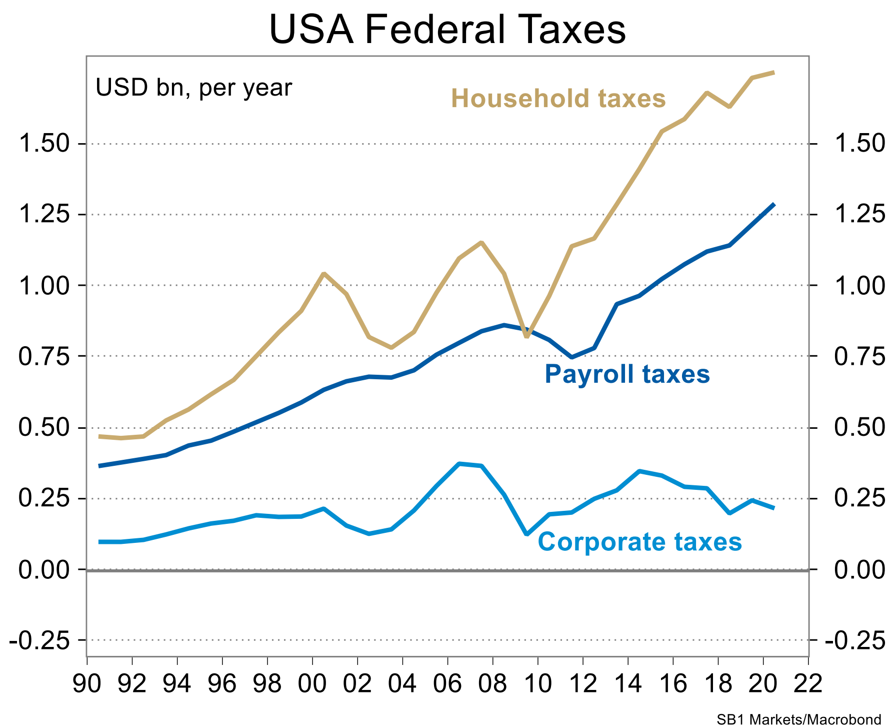
- Last year, federal expenditures rose by 2,300 bn, or 50% y/y, equalling 10% GDP
- Revenues fell marginally, due to lower corporate tax payments
- The deficit rose by USD 1,350 bn to 3,350 bn, or 16% of GDP, a new ATH

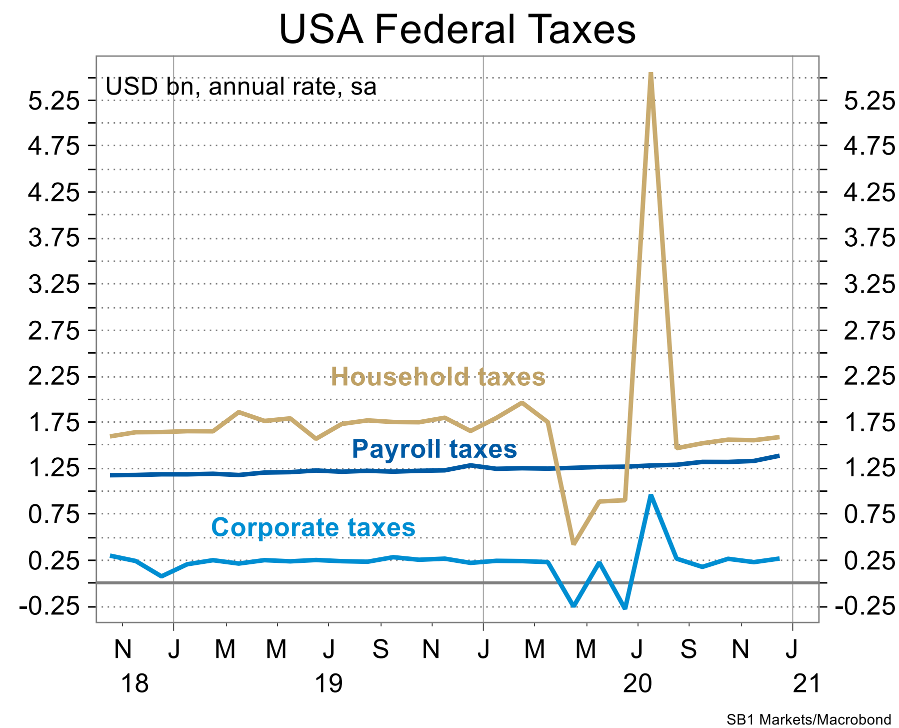
- Just before year end, Trump finally accepted the **USD 900 bn stimulus package (4% of GDP) decided by the Congress**, including a USD 600/person cash transfer (for those with annual income <75').
  - » Trump & the Democrats wanted USD 2000/person cash support
- Last week, Biden outlined an **additional USD 1,900 bn (9% of GDP)** fiscal stimulus program
  - » The proposal included an additional USD 1,400/person cash transfer (the total cost for the 600 + 1,400 will be some 670 bn (3% of GDP)
  - » Support to state and local governments (US 350 bn), extension of jobless benefits (USD 400/week, 350 bn), education (170 bn), coronavirus vaccination (160 bn), child tax credit expansion (160 bn) and other policy changes (250 bn)
  - » In addition other proposals, like a doubling of the lowest possible minimum wage to USD 15 from 7.25!
- **The total stimulus equalling 13% of GDP seems to be far larger than needed**, given that households (in average) has saved a large part of the previous cash support, and GDP is now just some 3% below the Q419 level. US is not experiencing lack of income or demand, but rather a virus problem, with parts of the service sector unable to produce as normal, creating huge challenges for businesses/employees.
- **Can Biden get it through Congress**?
  - » Usually, the Senate minority can 'filibuster' (debate forever), and a 60/40 vote is needed to end the talk show, Then, a compromise has to be made – and this time without all of the proposals in the 1,900 package, some are guessing at some USD 1,000, still a huge amount
  - » However, a budget reconciliation procedure exempts some legislation on taxes and spending from the filibuster – and Biden might get his dollars (reconciliation can however possible just once per year. His other proposals, like the minimum wage and all laws (and budget decisions that have more than 10 y impact on the deficit) can still be filibustered by the Republicans
- **Who will pay?**
  - » Biden's huge spending plan does not include any funding proposals. However a substantial reversal of Trumps 2018 **corporate tax** cuts, a clean up of favourable **capital/partner taxes**, and **higher taxes 'on the rich'** seem very likely – and can be decided by the Democratic Senate, without a filibuster

SpareBank 1 MARKETS

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

Both now essentially back to a pre-corona level – households paid more last year, corporations less

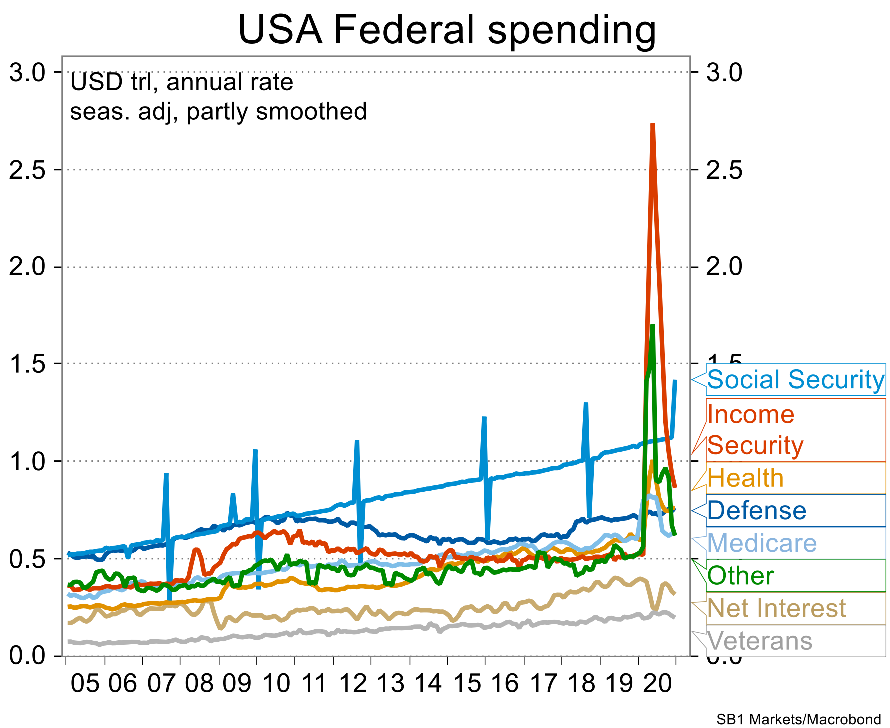


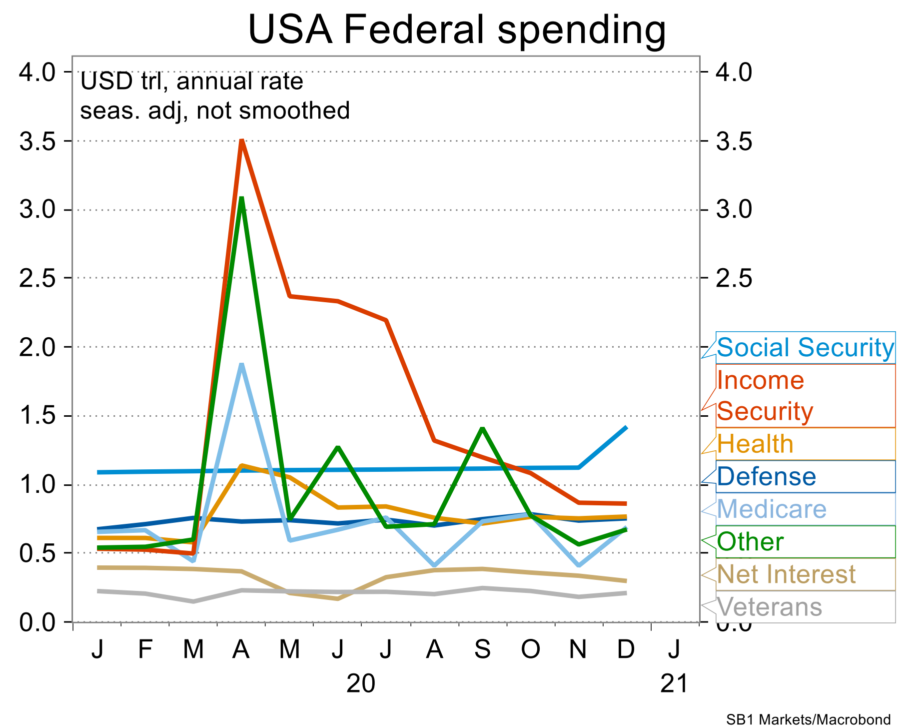


- Households taxes were all over the place in 2020 due to timing of payments. Total tax payments ended slightly up but far less than income growth – and the average tax rate fell

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

… Another hike in transfers to households when the USD 600+ (1400?) checks are distributed

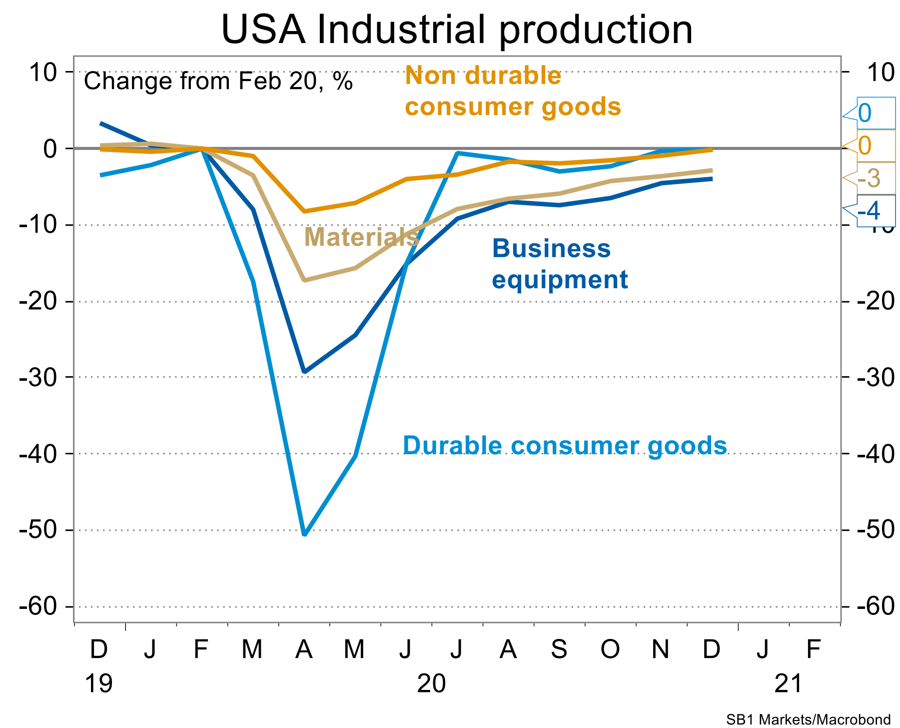




- The cost for a the likely USD 2000/person cash support (for persons with annual income <75' per year, USD 600 for dependents in the household)

Manufacturing up 0.9% in Dec, exp. 0.5%. Remains 2.6% below pre-corona level

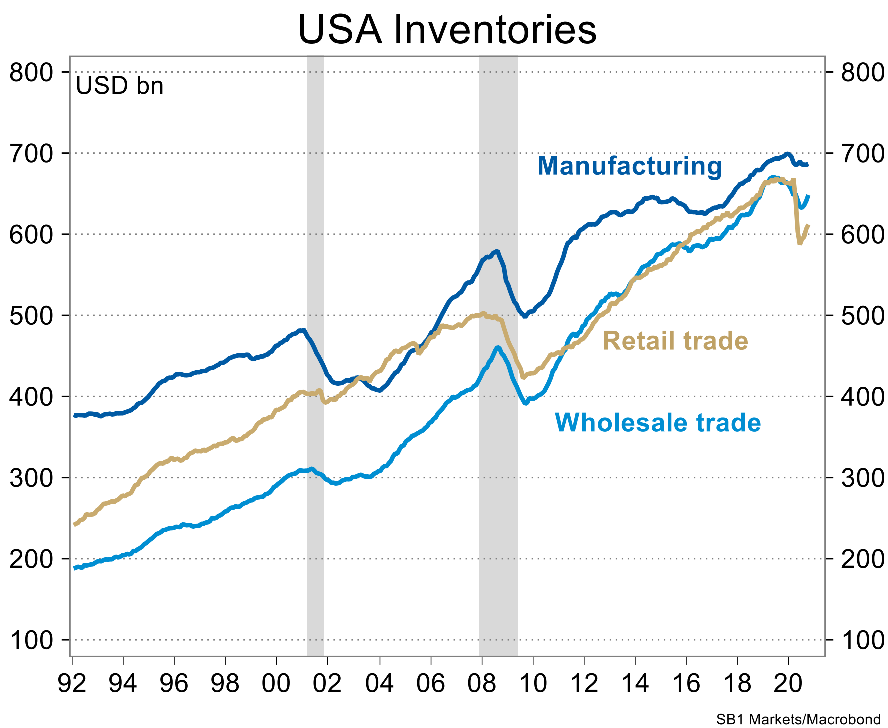
The trend is still upwards – but the setback in retail sales will probably dampen growth somewhat

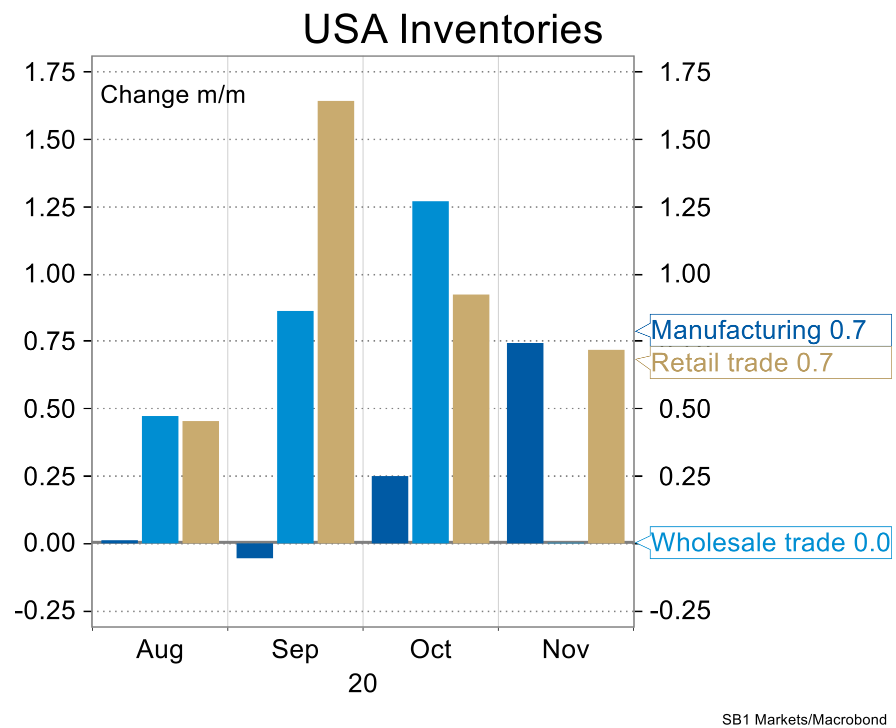


- Growth in production has not been that strong in recent months, compared to the initial hike during the summer. However, production will probably increase some 10-11% in Q4 (q/q annulised)
- Production rose in all main categories in December
- Total industrial production, including utilities, mines/oil production, rose 1.6 % in December, expected up 0.5%, as oil and electricity production rose
- PMI/ISM and other surveys signal a further recovery - even an extraordinarily strong one, according to the ISM

Inventories are being built up, but they are still low

... and they will very likely be filled further up the coming months

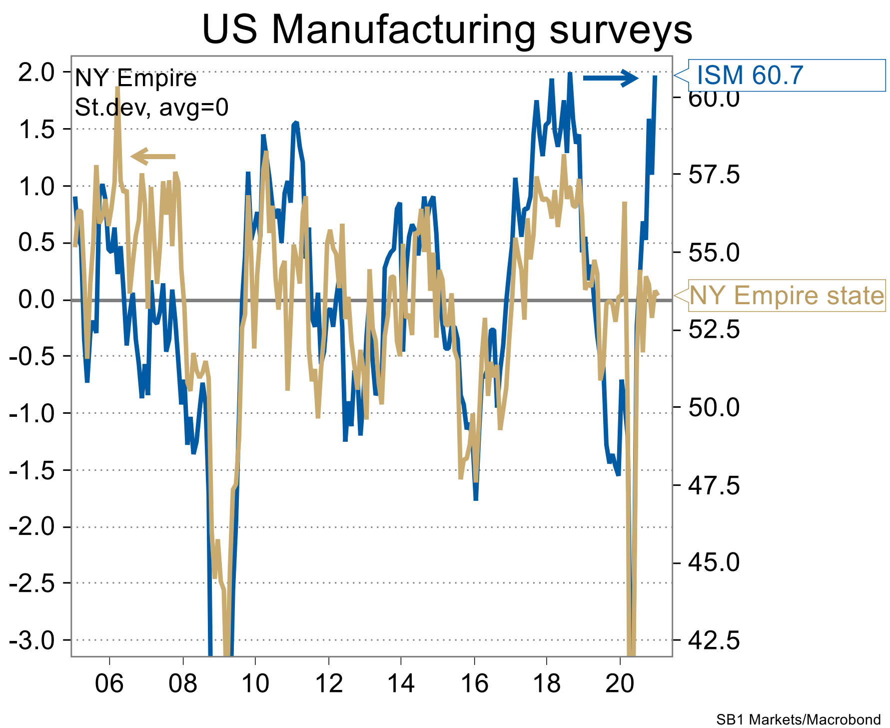




- Retail trade inventories fell sharply in April-June. Inventories are now on the way up, but levels are still low, especially in retail trade – where sales are far above normal levels
  - » We assume retail inventories rose further, and probably faster, in December as sales surprised on the downside. Still, inventories are still some 10% too low

NY Fed Empire survey: The first January survey in the middle of the road

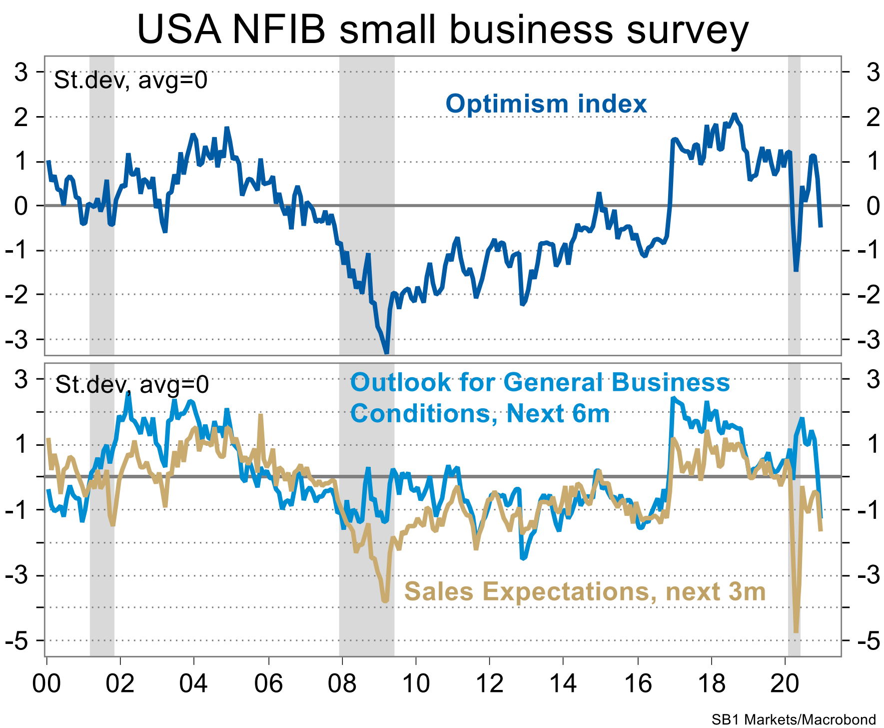
The headline index was expected up but declined. The details were better, still signalling an ISM at 53

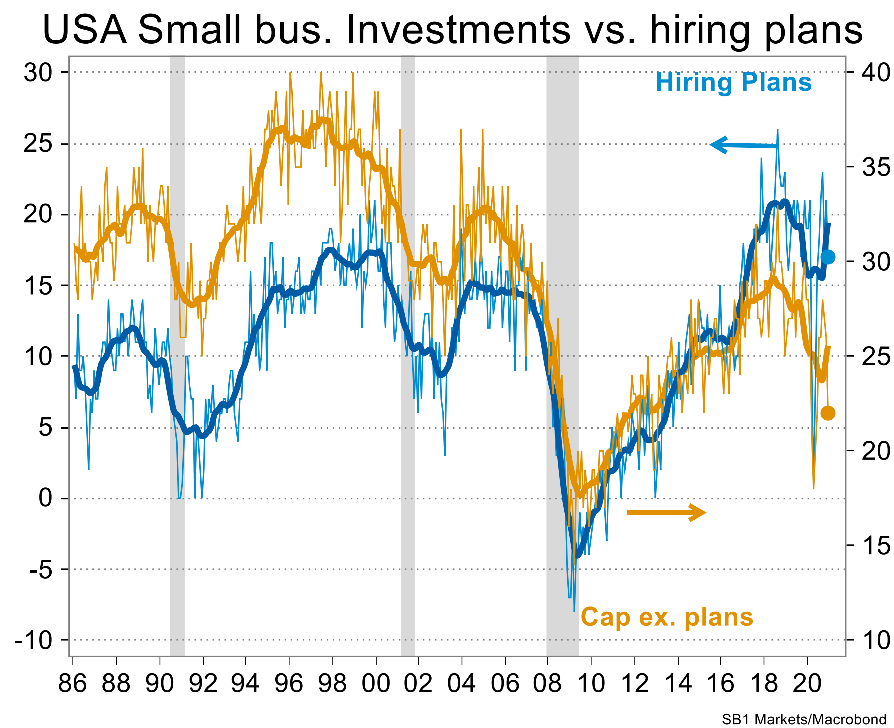


- In Dec the ISM was at 60, one of the best prints since 1980 – while the NY manufacturing survey was at the same 'low' level as in January.
  - » The level is not low, the index is signalling growth slightly above trend

Small businesses' optimism fell to 7-month low – 9/10 components down

Increased uncertainty due to virus and economic policy of the new Democratic administration

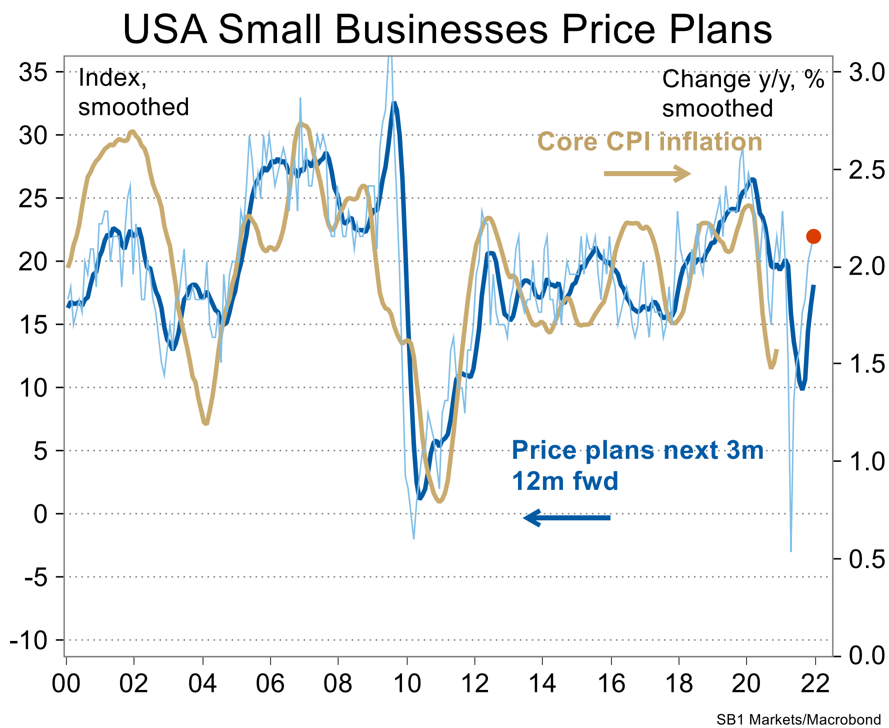


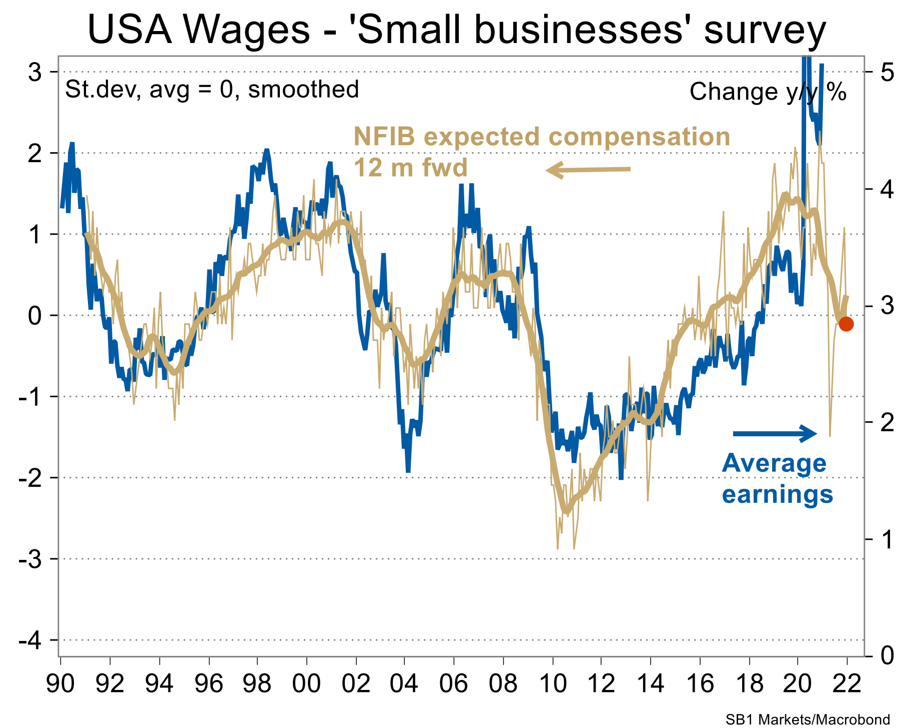


- The **NFIB optimism index** fell to 95.9 in December from 101.4 (expected down to 100), down to a slightly below average level
  - » The setback in Nov/Dec was the 3rd largest ever, the worst was in March/April last year, the 2nd worst in March/April 1980, when the Fed hiked to 20%, from 15%. BTW, the 2nd biggest lift was in Nov/Dec 2016. We guess both the corona outbreak as well as Biden's victory has influence the change in mood (which was recorded even before the Senate flipped).
- **The expectation index**, the outlook for the next 6 months, fell for the 3rd month – currently 1.3 st.dev below average
  - » Sectors: Transportation and services are the most downbeat, while construction and manufacturing in the lead
- Businesses cut back their **sales expectations** in Dec
- **Investment plans** also dropped in December, to well below an average level
- Fewer business are also reporting that they plan to increase employment. **Hiring plans** fell to 17% from 21% last month, but this is still above average

Companies assume higher price inflation and 'normal' wage inflation

Price expectations continued upwards, while wage inflation abated

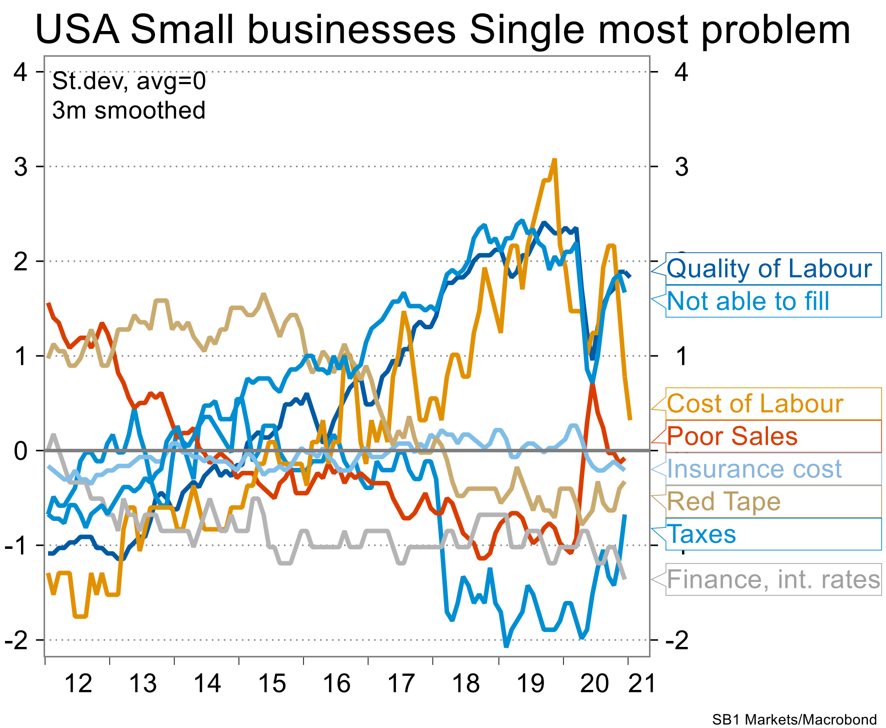


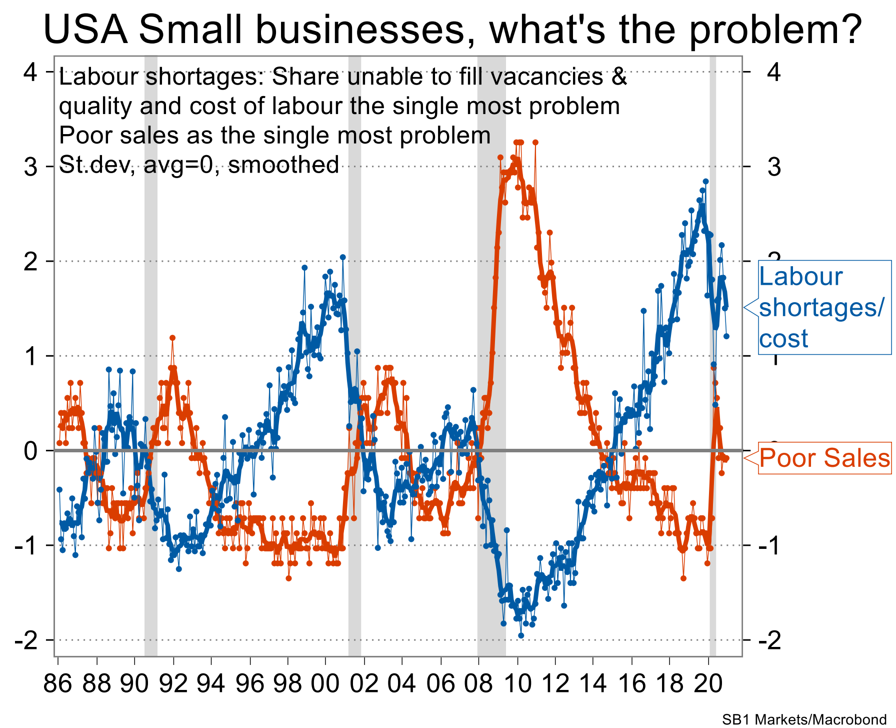


- Inflation expectations are well above the average level the past 10 years, and higher than before corona
- The expected increases in wage compensation are at an average level in Dec, but has come down during the corona crisis

Supply and quality of labour yet again reported as the major problems!

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

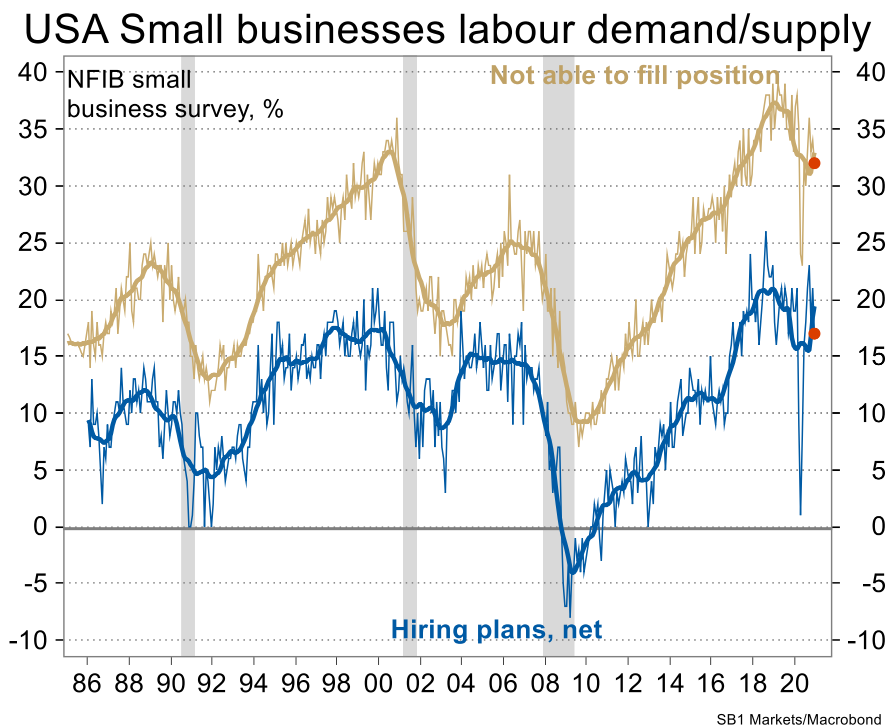


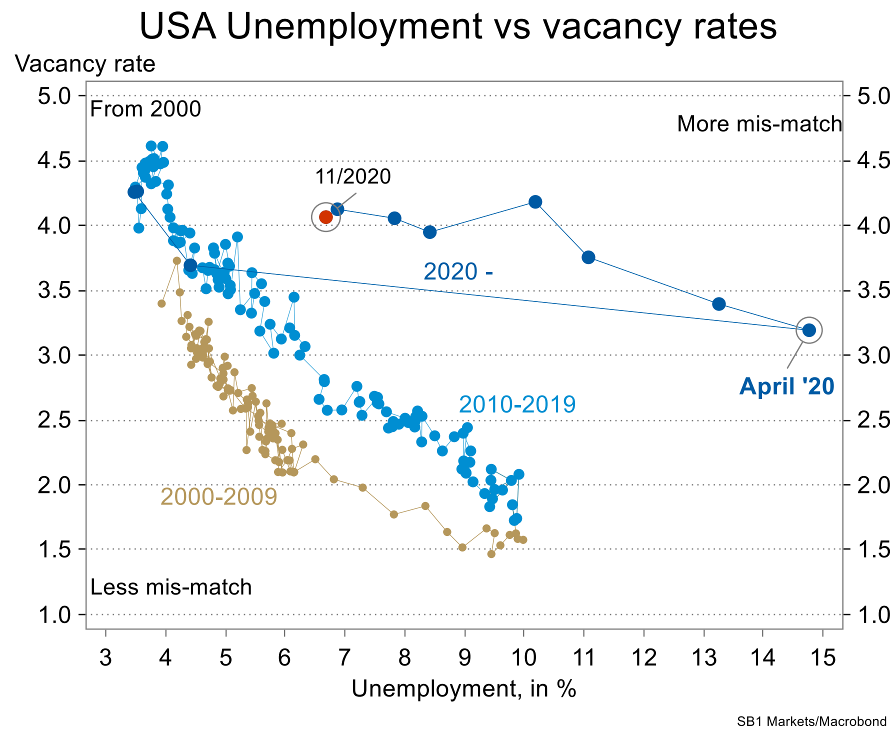


- More businesses have been stating weak sales as the major problem during the pandemic, but the level has been surprisingly low, and in December the level increased but was still below average!
- The share of businesses that have been noting problems with tight labour markets remained at a remarkably 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, and quality of labour are still reported as huge problems. However, cost of labour is less of a worry – but these worries are still above average!
- Unusually few companies are complaining about finance/interest rates and about taxes

Small businesses are still not able to fill vacant positions

So much for the Beveridge curve…

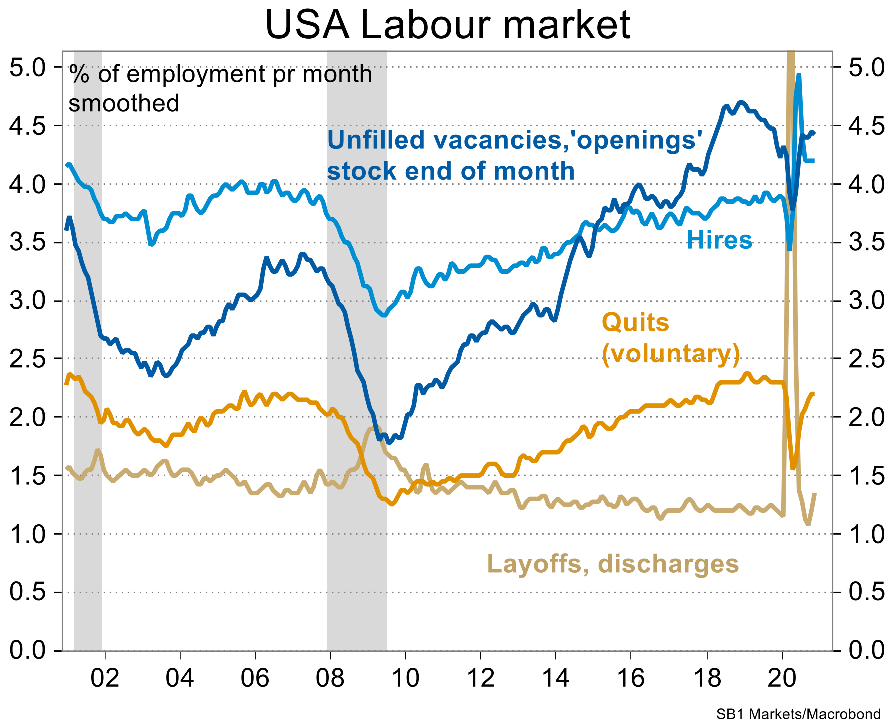


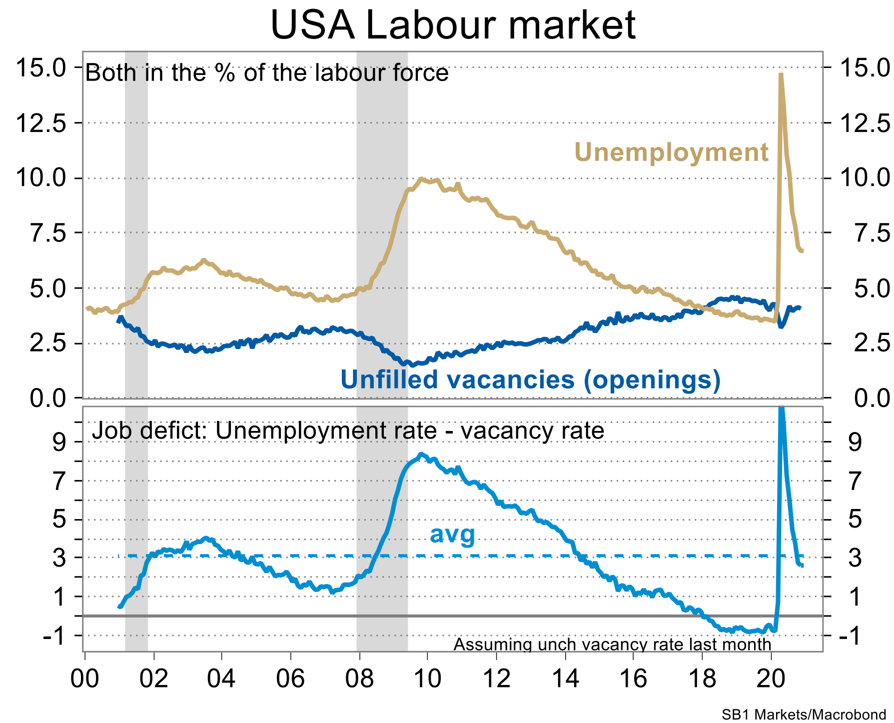


- The number of unfilled vacancies is also high, according to official statistics, *more next page*
- *Lack of transport, stay at home orders, closed schools - all due to the corona crisis - may explain that companies are not able to fill vacancies*

Unfilled vacancies remain elevated, as are hires

More voluntary quits but layoffs increased too, probably in the hospitality sector

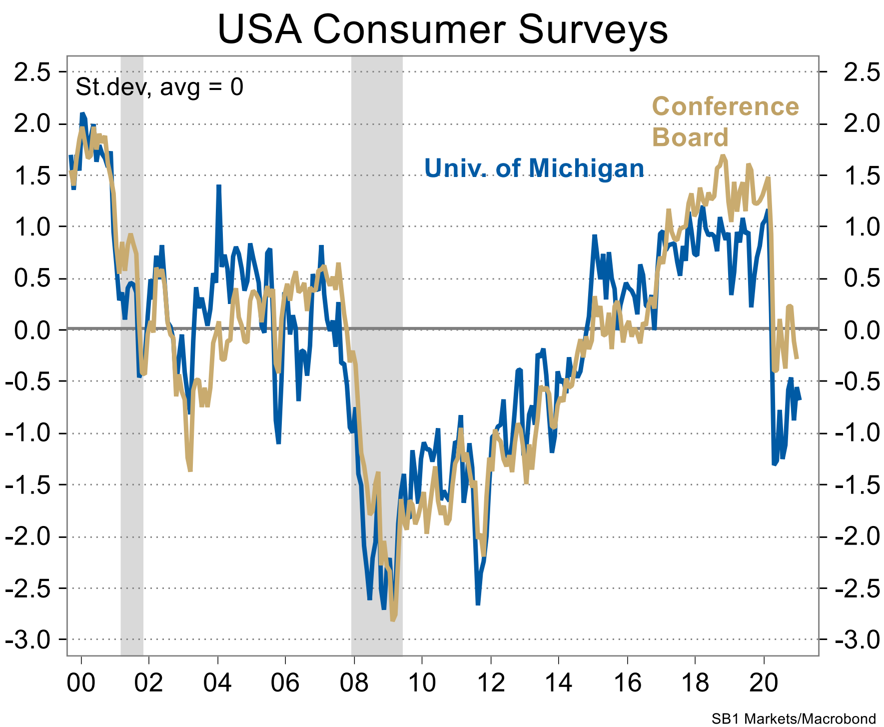


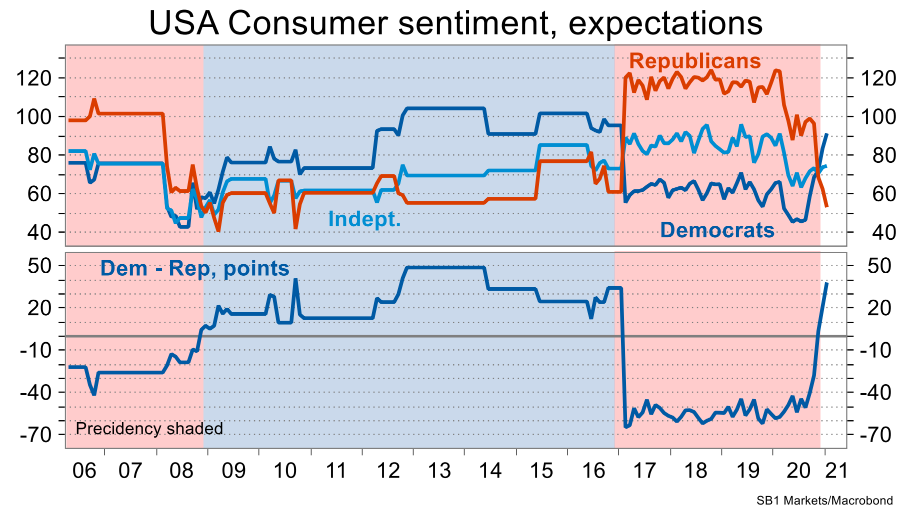


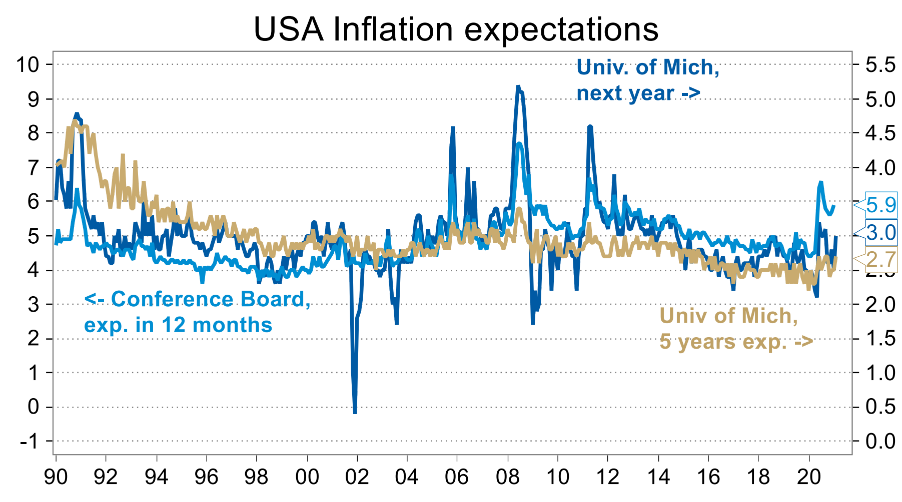
- The difference between unemployment and unfilled vacancies has fallen to below an average level

Univ of Mich consumer sentiment marginally down in January

Level somewhat below par. The virus probably to blame, and some sore losers, happy winners?



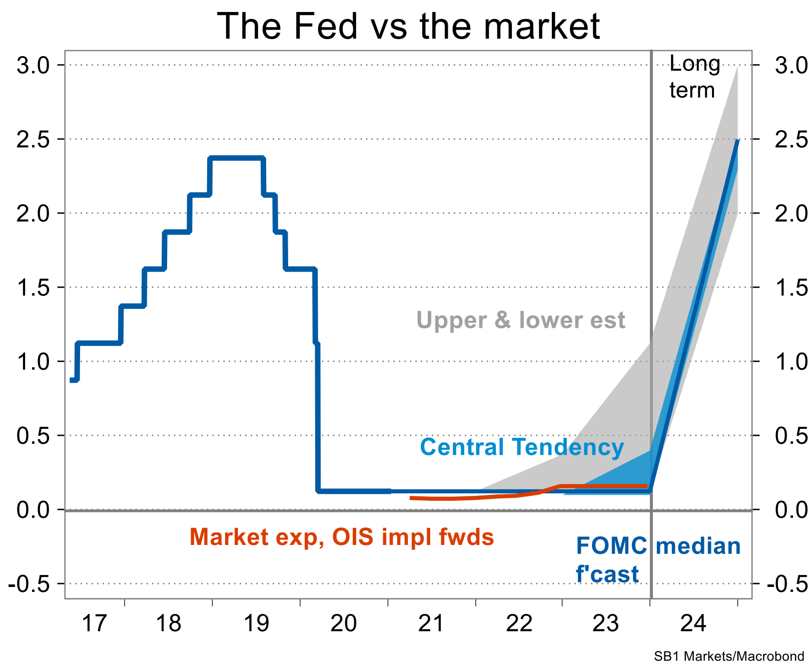




- The consumer sentiment survey reported a small decline, and slightly more than expected
- Both households' assessment of the **current situation** and **expectations** fell marginally
- **Democrats** have become much more optimistic since Oct, the same cannot be said for **Republicans**. Just as 4 years ago, then with an opposite sign, of course
- **Inflation expectations have not taken off, but they are on the way up**

Beige book: Modest recovery as coronavirus continues to be an obstacle

Employment rose - but it's increasingly more difficult for businesses to fill positions. Powell still dovish

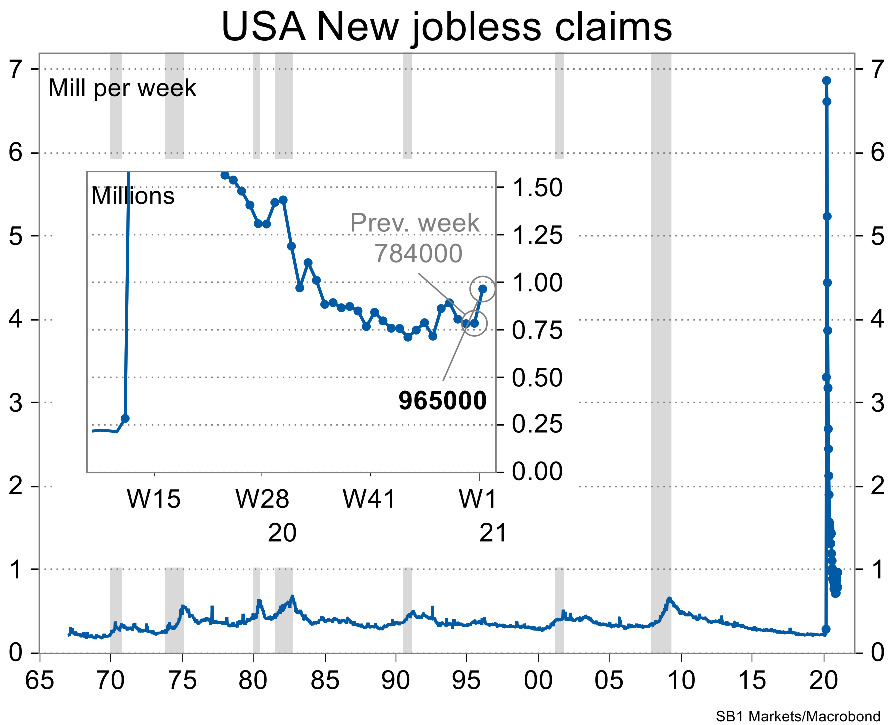


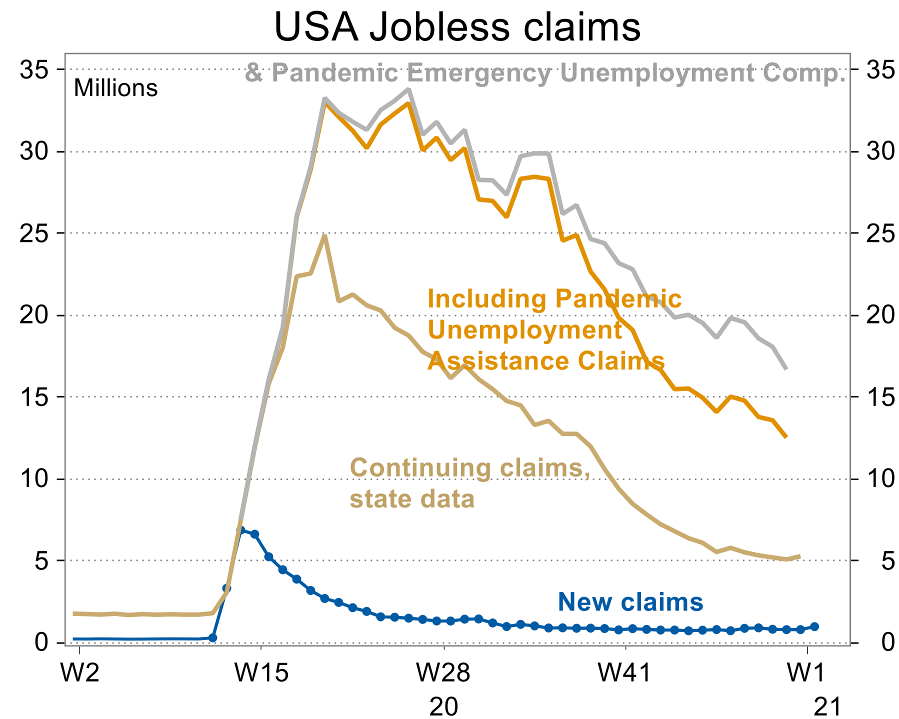
- We assume that the Fed will stay hyper-dovish until
  a) The **corona virus** is brought under control AND
  b) The **unemployment** rate has returned to well below 5% AND
  c) **Inflation** is en route towards target
- ***However, that will not necessarily take that long time!!***
- ***However, last week, gov. Powell confirmed his dovish stance, 'killing' signals from some FOMC members that the Fed could slow down the QE program in 2021***

- Growth still **modest or moderate** in most districts past six weeks, according to the Fed's 12 district banks. Vaccines lifted the mood, while short term corona trouble did not
  - » 2 districts reported little or no growth
  - » 2 districts reported a decline in activity
- Some districts report decline in **retail sales and demand for leisure/hospitality service** – due the surge in Covid-10 cases. Auto sales slower too
- **Manufacturing** on the way up, despite supply chain challenges. Energy expanded for the first time since the onset of the pandemic. The housing market is still going strong, while the commercial real estate markets are still weak
- Most sectors are reporting further growth in **employment** but growth is slowing – and employment was cut in corona related services
- **Wage inflation** remain modest but some are reporting higher compensation, and businesses are reporting labour shortages (partly due to corona)
- **Input prices** are on the way, and some plans to **increase selling prices**. And **house prices** continued to climb
- **In sum:** No reason the expect the FOMC to change its assessment of the economic outlook, at the meeting this week

Oops, 220' more new jobless claims last week. Very likely due to the coronavirus

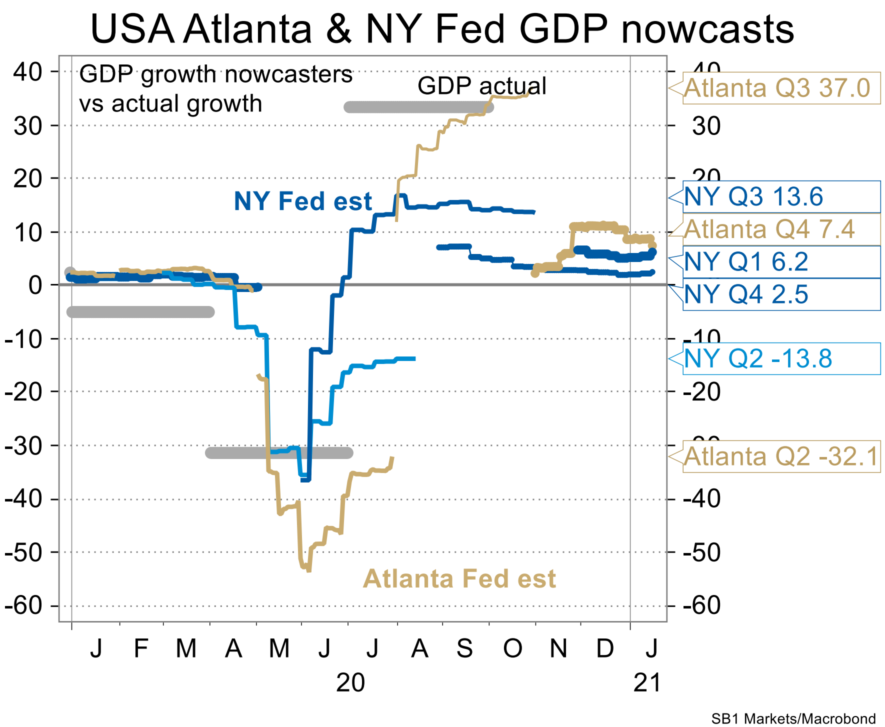
New claims down up to 965', expected close to unch.

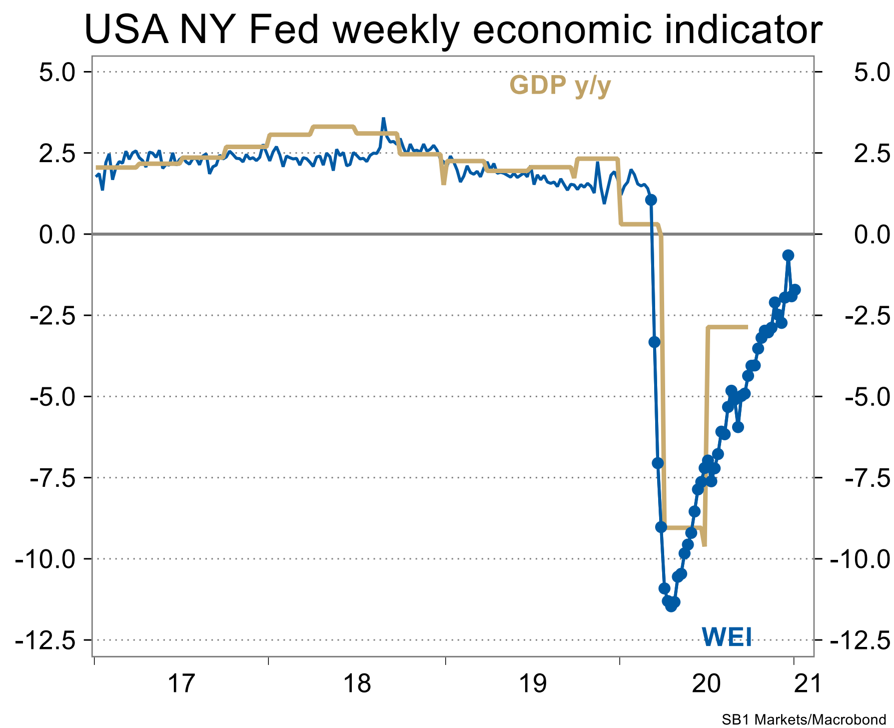




- It is hard to find any other reasons for the hike in new jobless claims than coronavirus problems

Nowcaster reports mixed, Atlanta Fed's model down to 7% in Q4, NY says 2.5%



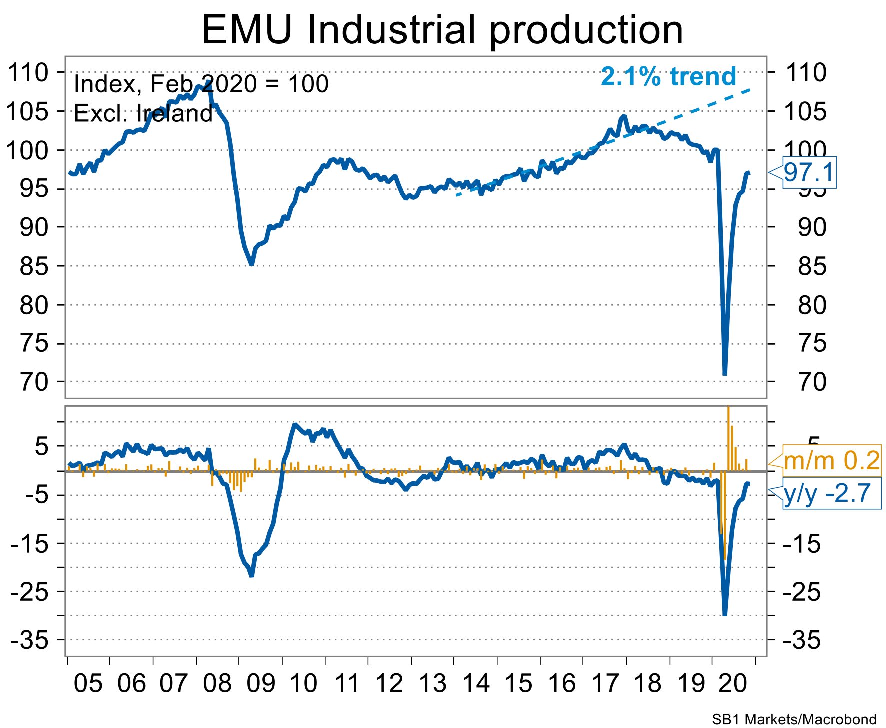


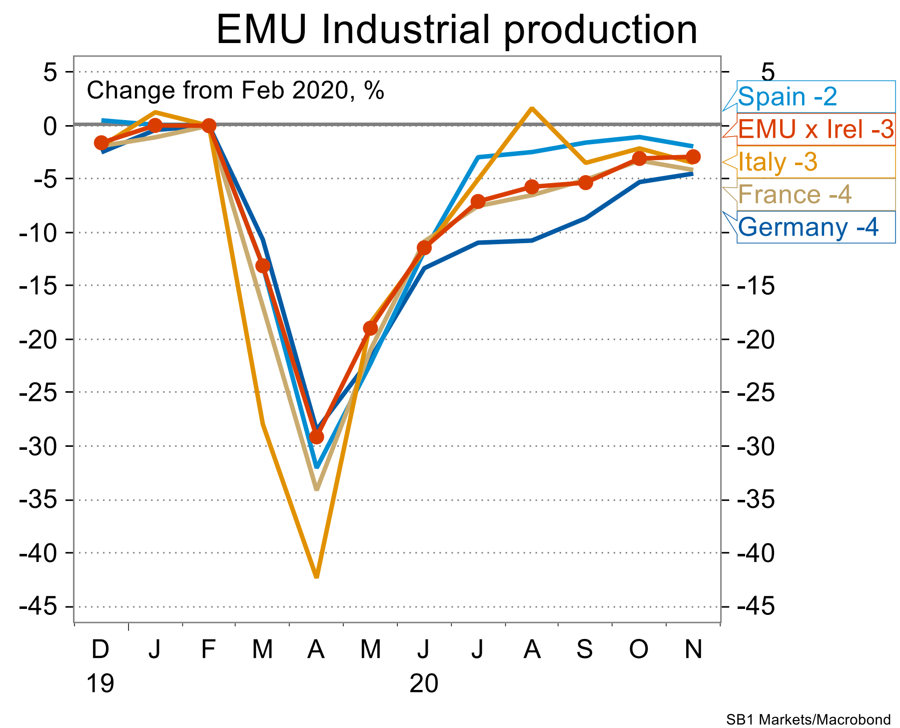
- NY Fed's new <u>weekly</u> model signals some 2.7% decline y/y in Q4, and the annual contraction is steadily narrowing. That implies imply a 3.2% (annualised) q/q Q4 growth

SpareBank 1 MARKETS

(Irish) Manufacturing production surprised on the upside in November

Production up 2.5% m/m, expected 0.3% – because Ireland shot up 53%... EMU x Irel. +0.2%

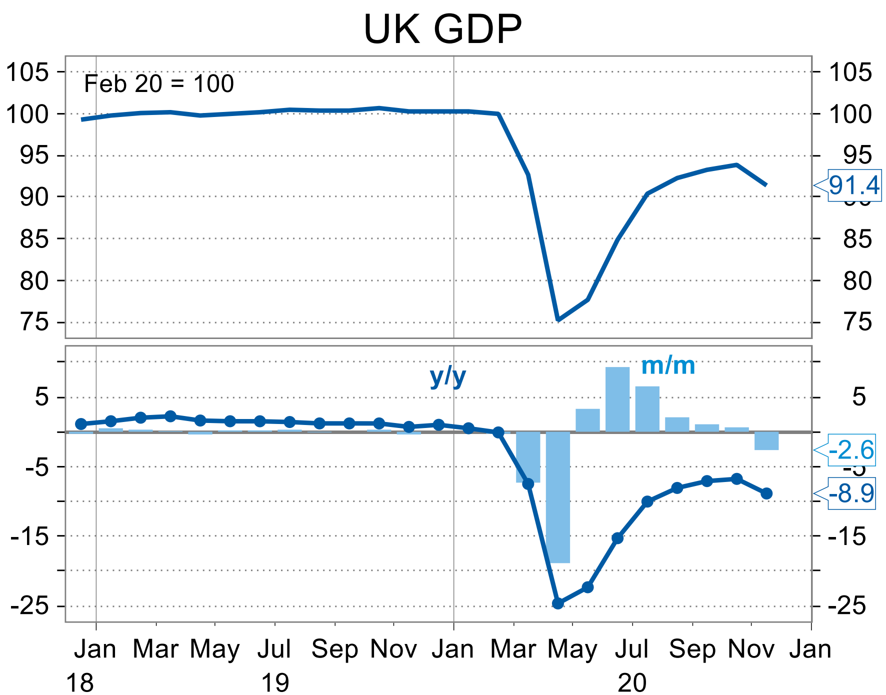


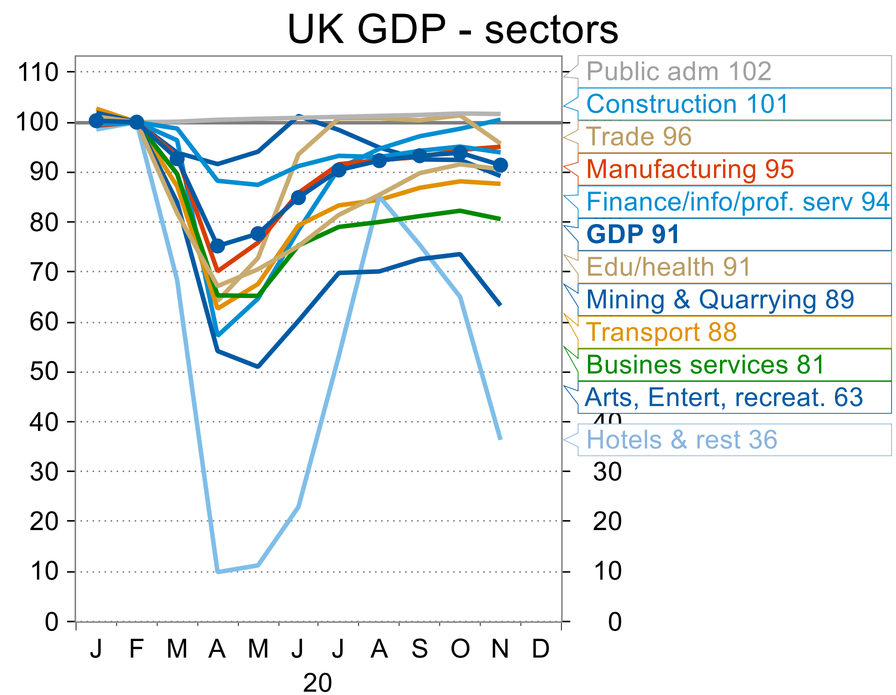


- Production increased in Germany, while France, Italy and Spain were all slightly down
  - » Production in Ireland was up almost 53% m/m – due to booking of (we assume) tax motivated transactions within the Irish "Modern" manufacturing sector, contract producers in Ireland within chemicals/pharma & computers etc (including software), operating of behalf of large global (American) IT/software companies. We have adjusted EU production data for these irrelevant wild Irish data. (The same problem is turns up even in Euro Area GDP data, especially – and clearly visible – for business investments)
- EMU (x Ireland) manufacturing production is now 3% below the Feb '20 level.
  - » Production is down -1% incl. Ireland – as production in Ireland was far above a normal level in Nov

GDP 2.6% in November, heading for a decline in Q4. Level 8.6% below Feb

The sick man of Europe, together with Spain. We expect a further setback in Dec/Jan, due to lockd.

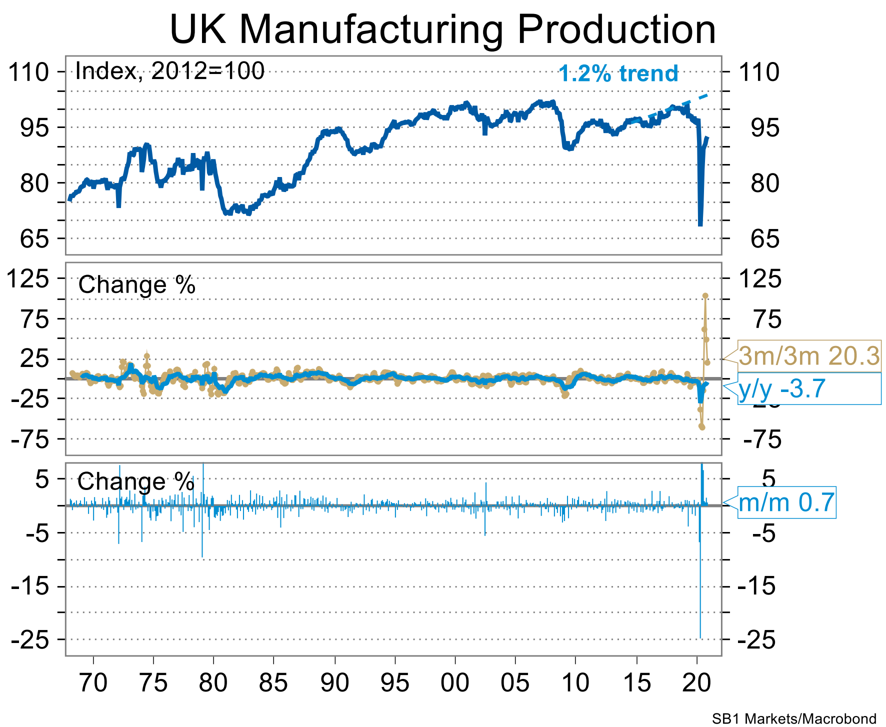


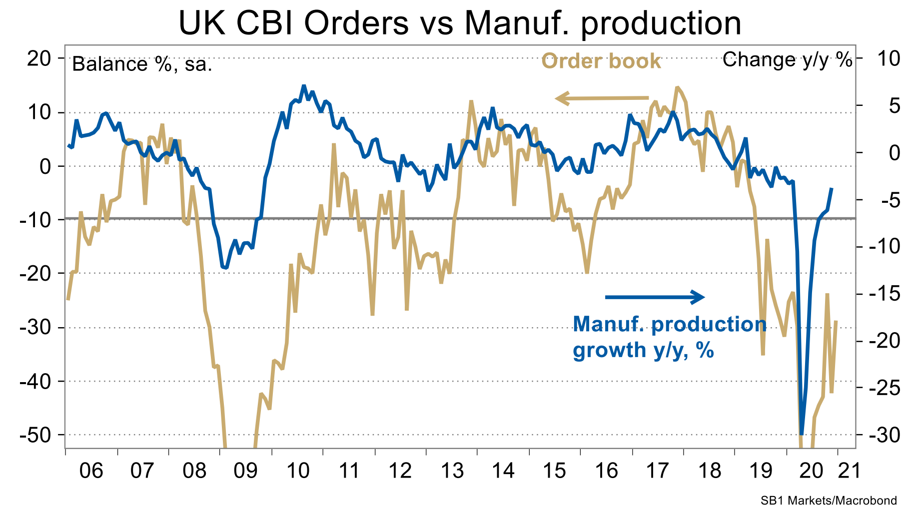


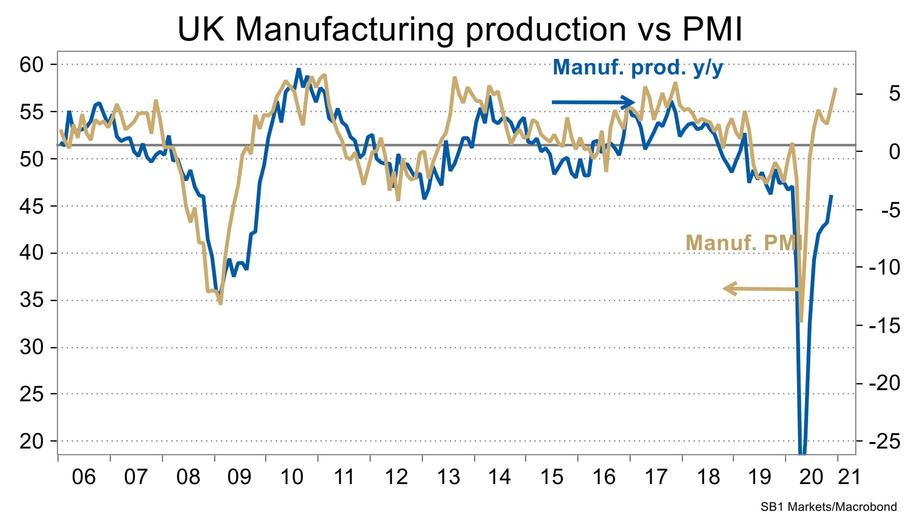
- The manufacturing sector is still on the way up, +0.7 % in Nov and 4.9% vs. the Feb '20 level. Construction was up 2%, and activity is marginally above the Feb 20 level
- Hotels & restaurants were down 40%, to 35% of a normal activity level (vs. 10% of normal during the April/May lockdown)
- Other sectors were mostly down, like trade (-5%), and arts/entertainment (-14%) – and minor losses in other service sectors. Outside hotels & restaurants, nothing comparable to the March – May shock

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

.. Even if the order book strengthened in December

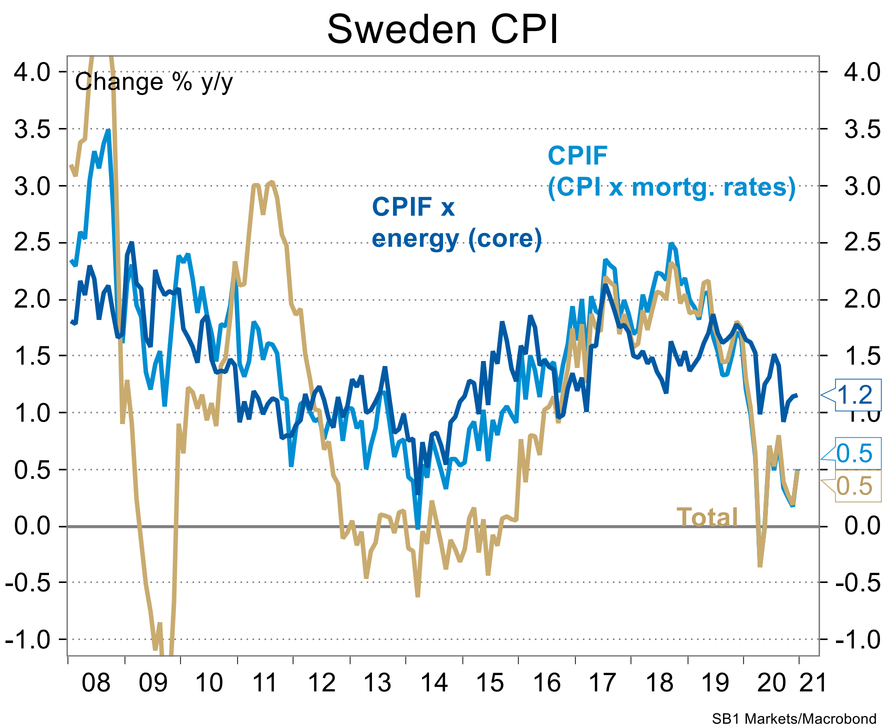


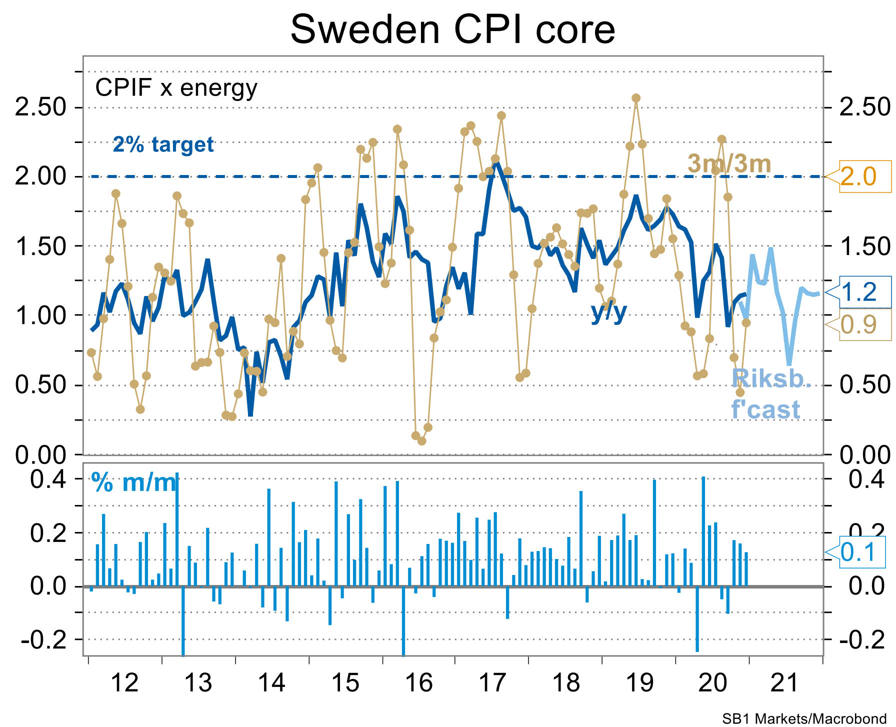




Core inflation up in Dec, still low at 1.2%, well below the target. Headline at 0.5%

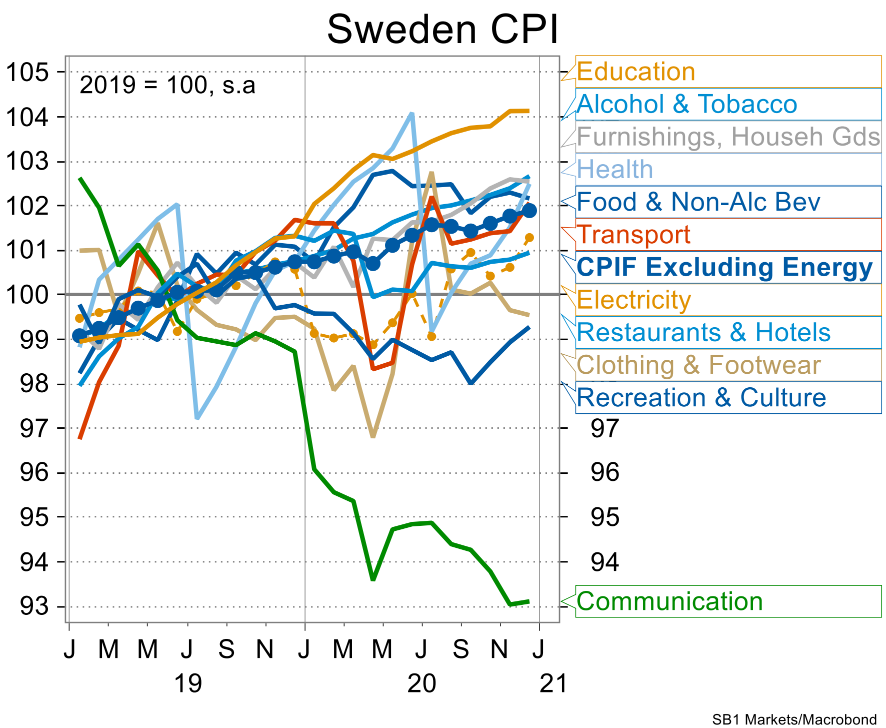
The Riksbank expects the core to remain low for long

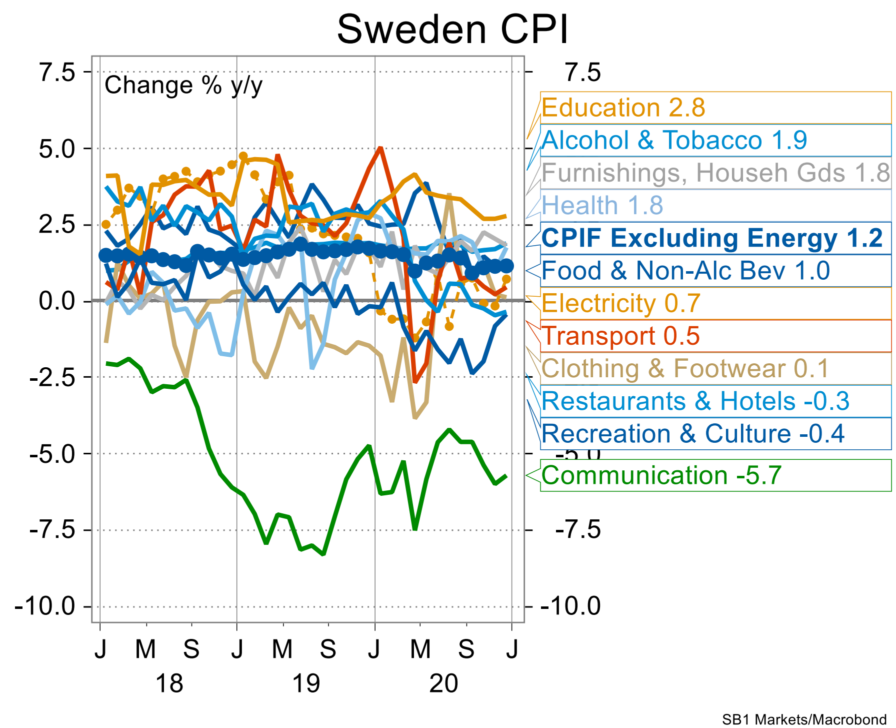




Almost all sectors are reporting inflation below the 2% target

.. And there are no signs of faster growth





Highlights

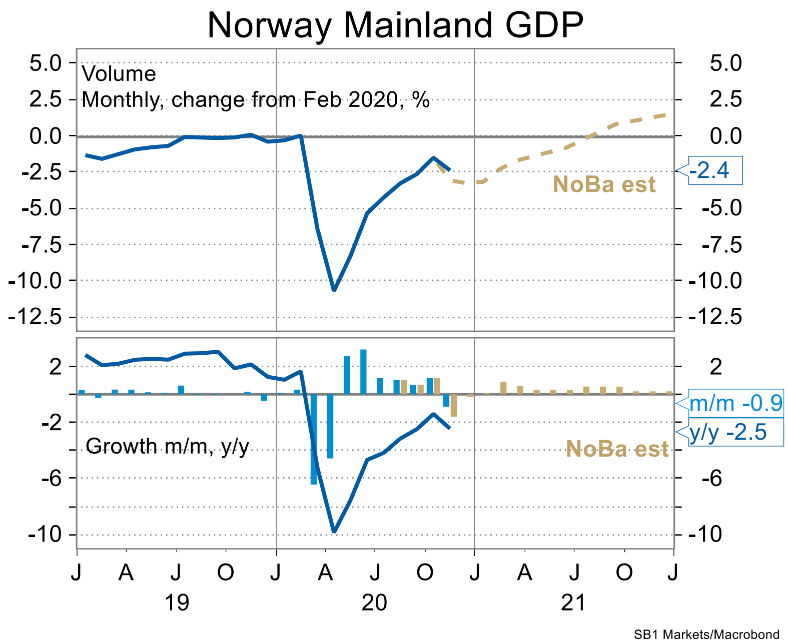
The world around us

The Norwegian economy

Market charts & comments

GDP down 0.9% in Nov, but fisheries & electr. prod contributed -0.8 pp

Sure, the new corona restrictions cut back hot/rest/travel but other sectors grew further

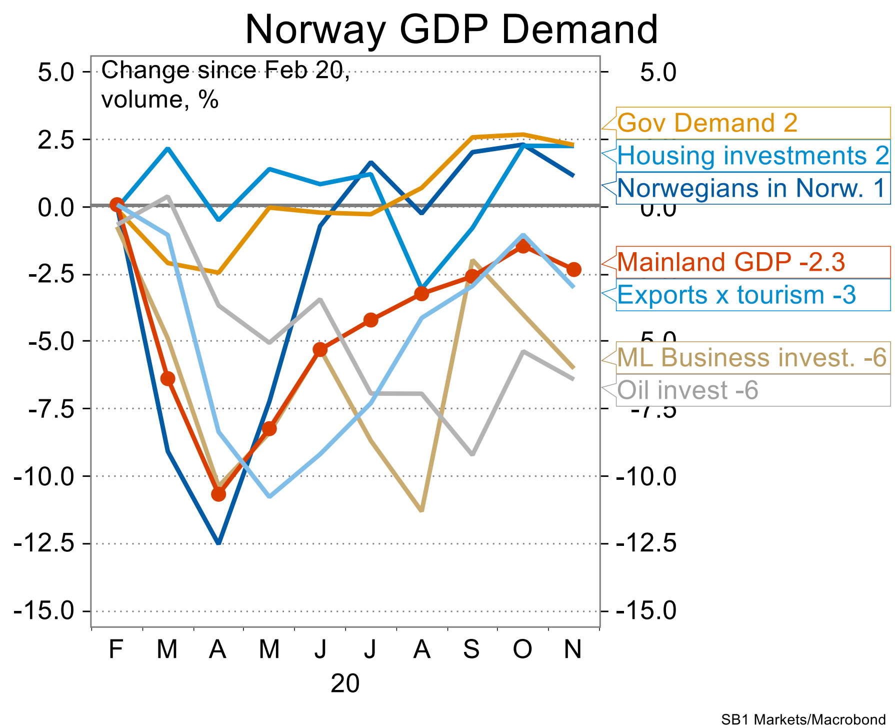


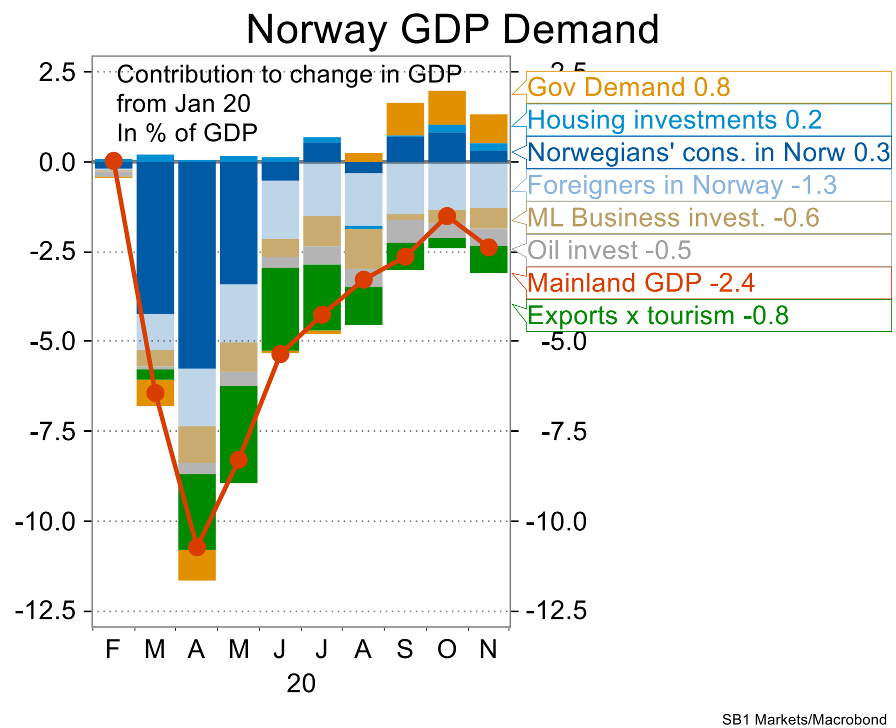
- <u>**The outlook: A full scale recovery as soon as we are vaccinated**</u>
  - **Goods consumption** will remain higher than normal until we can spend more both on domestic services and abroad
  - **Foreigners' spending** in Norway will not recover before the coronavirus is beaten down, <u>abroad and in Norway</u>. No quick fix, even if vaccines are under way
  - **Demand for services x foreigners** will recover briskly as soon as the virus is brought under reasonable control <u>in Norway</u>
  - Both **Mainland and oil investments** are heading down but recent surveys are better – and taxes are cut and the oil price is not low anymore
  - **Exports** will be kept up, as long as demand for goods abroad
  - **We expect the output gap to be closed earlier than Norges Bank expects (Q2-22), and that rates will be hiked in H2, possibly already in Q3 in 2021**

- **GDP declined by 0.9% in November**, consensus was at -1.6%, in line with NoBa's est, while we had pencilled just -0.5% (but we had 'forgotten' the decline in electricity production…)
  - **Demand:** Household services down (as from the supply side), but off- and onshore business investments fell, as did exports
  - **Production**: A 20% decline in **fishing & aquaculture** cut 0.4 pp from ML GDP (ocean fisheries to blame, after a similar surge in Oct). **Electricity prod** fell by 13%, also deducting 0.4 pp. Ex these two volatile elements, 'core' GDP fell by just 0.1% - even if activity in **hotels & restaurants** fell by 27% (a -0.4 pp contribution, and **culture/transport** fell as well. (SSB reported -0.4% ex fish & electricity)
- **Mainland GDP is 2.4% down vs the February level**. If GDP remains unch in Dec (as NoBa assumed in mid Dec), Q3 is still up 1.3% in Q3, and GDP fell by 3.4% in 2020. Big picture:
  - **Demand:** Norwegians are spending more in Norway than in early 2020, as consumption of goods have increased more than services have declined. Spending abroad has fallen by 95% (equalling 8% of disp income), and the money are saved. Housing investments are up. Mainland business investments have fallen by 6%, as are oil sector investments. Exports ex petroleum (and tourism) are down 3%
  - **Production:** Trade (retail+) and education is up vs. Feb, others are still down. Hotels & restaurants are down 43%, transport, culture/ entertainment and business services are down 18 – 29%

A broad demand setback in Nov, following a strong Oct

Barring housing investments & foreigners demand in Norway, all major sectors at the downside



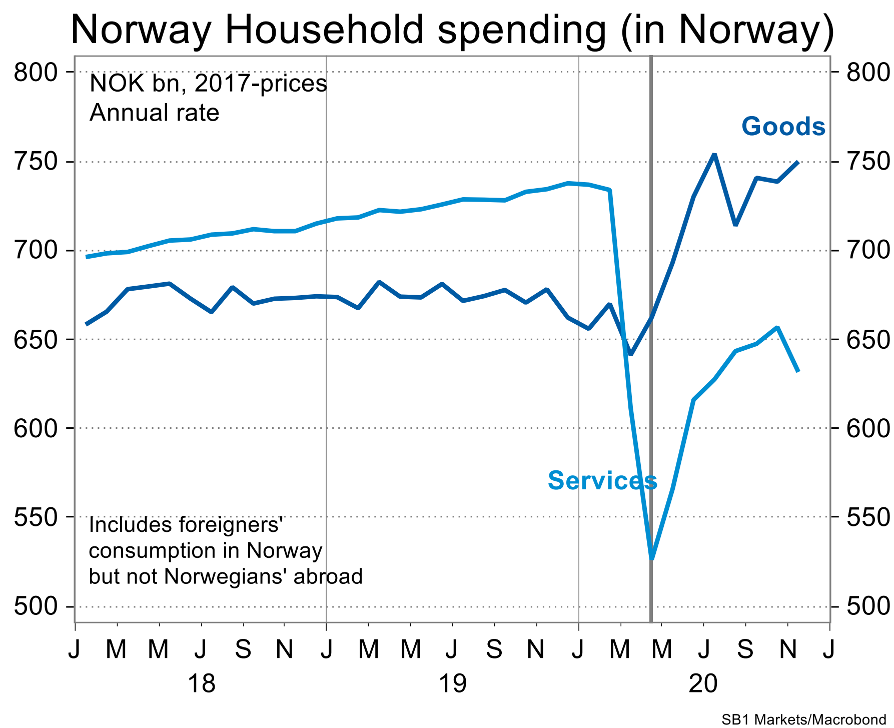


- **Norwegians' consumption in Norway** fell due to lower spending in hotels/restaurants/travel but domestic spending is still higher than in February! **Foreigners spent** a tad more in Nov, but their demand still deducts 1.3% from GDP (not adjusted for imports of goods they buy here)
- **Mainland business** investments fell 2%, as in Oct – following a 10% hike in Sept. Down 6% vs. the Feb level
- **Oil investments** fell following a much larger hike in Oct. The level is 6% down vs. Feb (and 11% from Nov '19)
- **Mainland exports** fell but is no more than 3% below the Feb level
- Final **Mainland demand** fell by 1% - and total demand more as exports fell more. A large inventory build-up was due to higher oil inventories
- **Monthly data are volatile, and consumption is trending up, as are exports x tourism – however both declined in Nov. Investments are flattish**

SpareBank 1 MARKETS

Norway also not immune when tougher virus restrictions are imposed

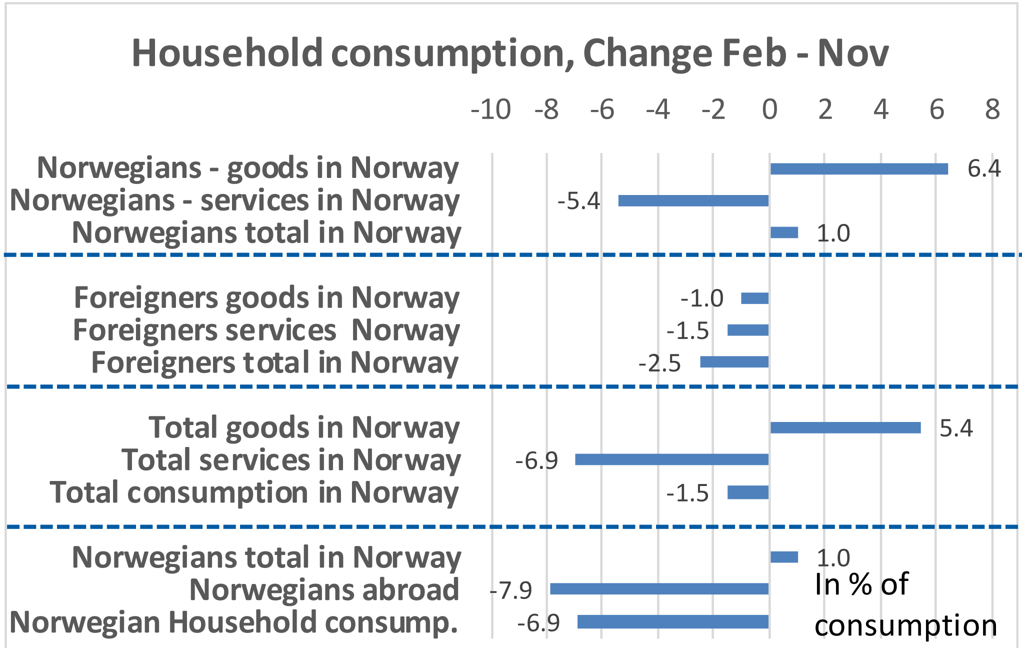
Spending on services down 3.8% in November, still a moderate downturn



- As expected, **consumption of services** took a hit in November after having increased 6 months in a row prior to this. We expect a further (though smaller) decline, as even tighter restrictions (not allowed to serve alcohol, among others) have been imposed since the first part of November
- However, Norwegians are still **spending more <u>in Norway</u>** than in February, as consumption of goods is still very strong
- Norwegian households have reduced their **consumption abroad** (=lower imports) much more than foreigners have reduced their consumption in Norway (lower exports). *More details next page*

Norwegians are consuming like normal – in total – in Norway

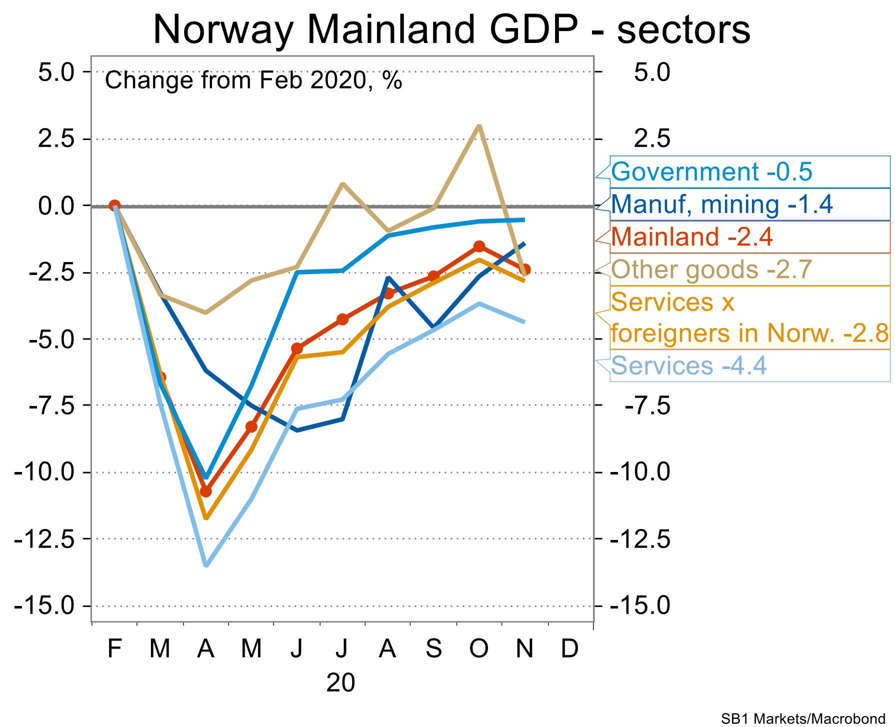
Goods consumption has soared, services cut. And no foreigners are spending money here!

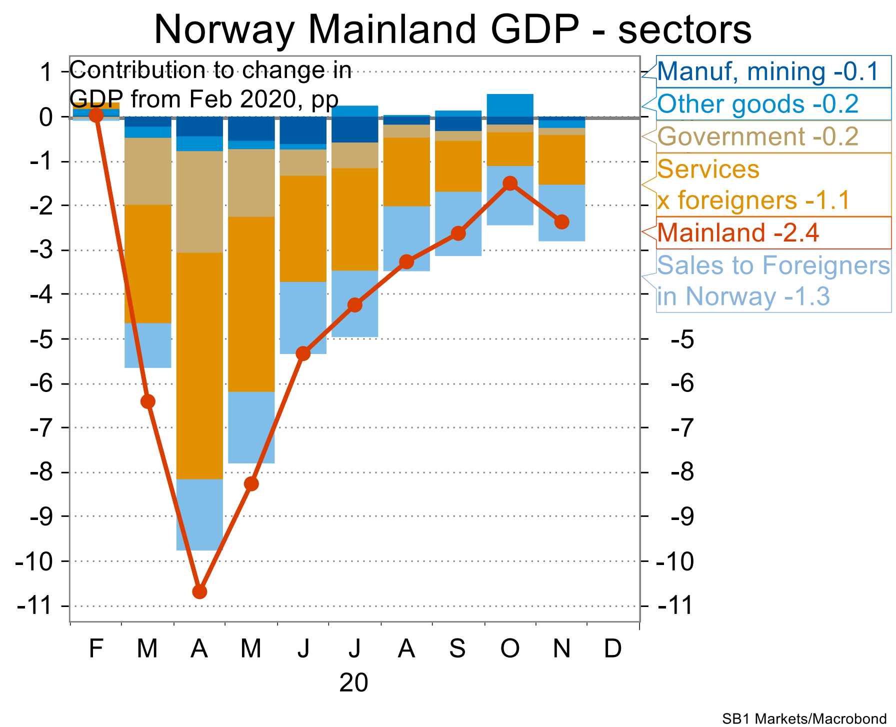


- Norwegian households have increased their consumption of goods <u>in Norway</u> more than they have cut their consumption of services – in sum up 1.0% of total household consumption
- Foreigners have cut their spending in Norway equalling 2.5% of *total private consumption*
- Sales of consumption goods are up 5.4%, and services are down 6.9%. The total is down 1.5% - *all in % of total consumption*
- Norwegians have reduced their spending abroad equalling 7.9% of their total consumption – and total Norwegian household consumption is down by 6.9%
  - » Other countries have taken the beating from 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%, as consumption is sharply down, incomes not

Production: Services down in Nov, due to new restrictions. Fish+electr. -0.8 pp

Services production is down 4.4% from the pre-corona level, manufacturing & mining -2.4%

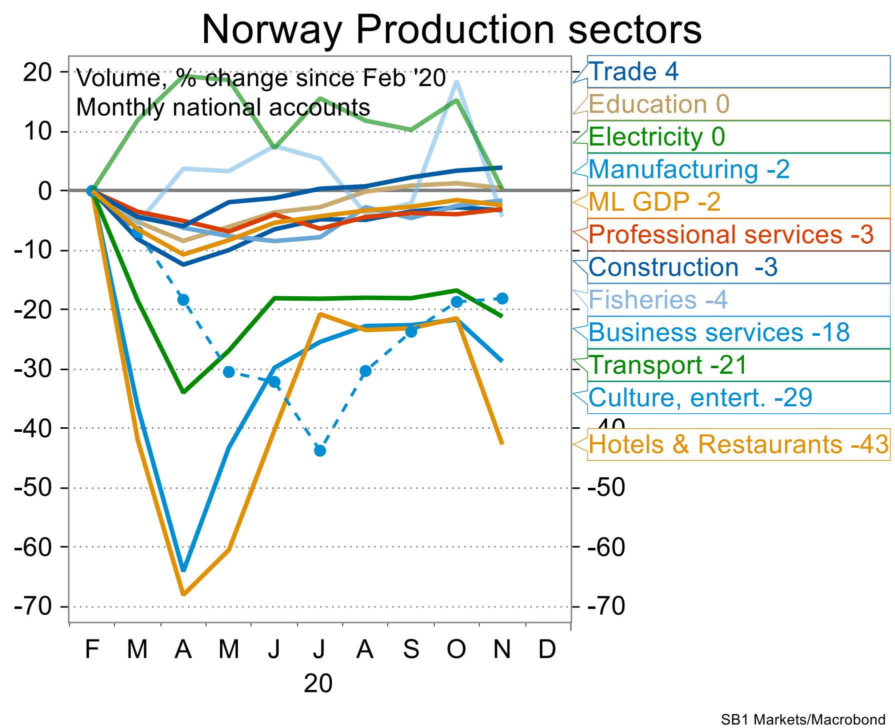


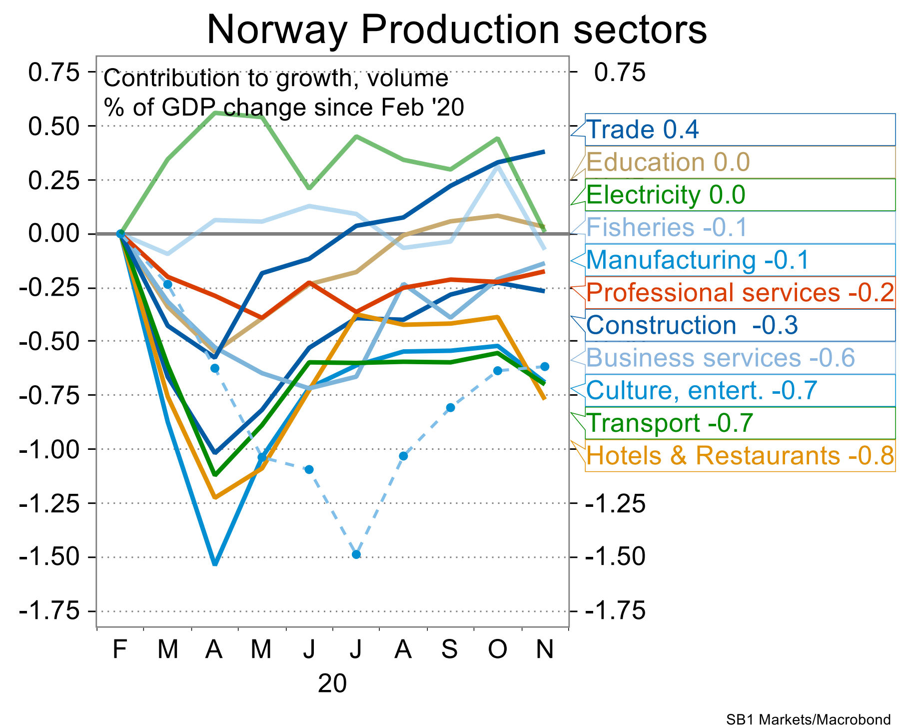


- The new restrictions cut activity in the **service sector** by 0.8%, vs. the 12% setback in March/April – but hotels/restaurants were down 27% (check next page). Services is sum are down 4.4%, with a substantial contribution from **foreigners not spending** in Norway. <u>The upside potential for parts of the service sector is probably limited as long as the coronavirus stays around</u>
- **Manufacturing production** rose, but **other goods production** declined almost 6% from a high level in Oct, due to steep declines in **fishing & aquaculture** and **electricity production** (see more the two next pages)

The production side: Peoples' businesses down in Nov but serious just in hot/rest

Transport & culture down too, due to covid restrictions. Fisheries contributed -0.3 pp!

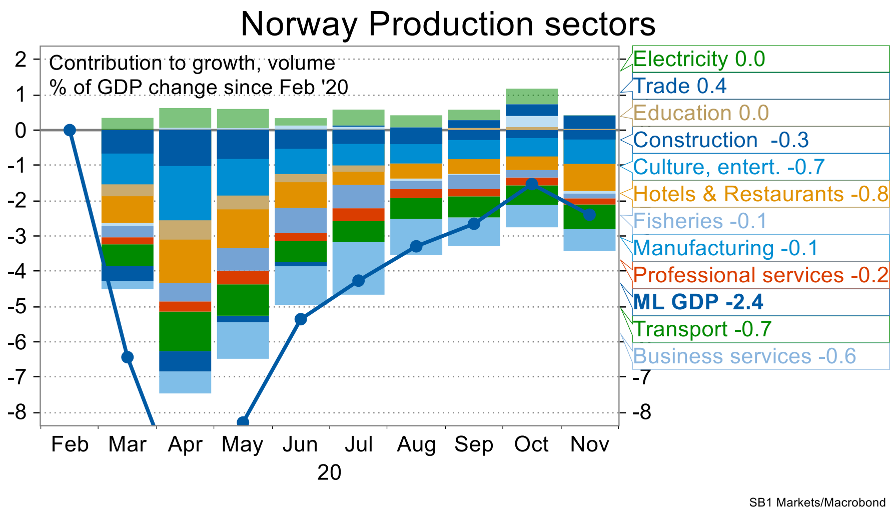


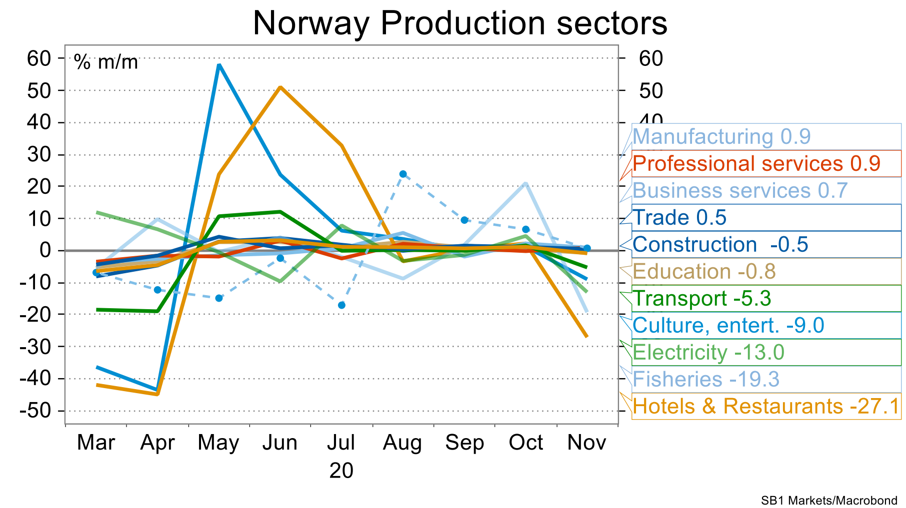


- The decline in **hotels & restaurants** at 27% m/m is dramatic for the sector, of course, and activity is 43% below a normal level. However, during March & April, activity fell by 70%. The 27% Nov setback cut Mainland GDP by 0.4 pp
- Production fell in **culture & transport** too, but 'just' by 9% and 5% resp., far less than during the spring. Still, the sector is down 30%
- Activity in **fisheries & aquaculture** fell 20% (due to ocean fisheries) from the high level in October, contributing to a 0.4 pp decline in Mainland GDP. Electricity production fell 13%, also contributing to 0.4 pp decline in GDP
- Thus, according to our calculations, the 'underlying" GDP fell by just 0.1%. SSB reported -0.4% x fish & electricty
- Several sectors reported growth: **Health, manufacturing, trade, professional & business services**

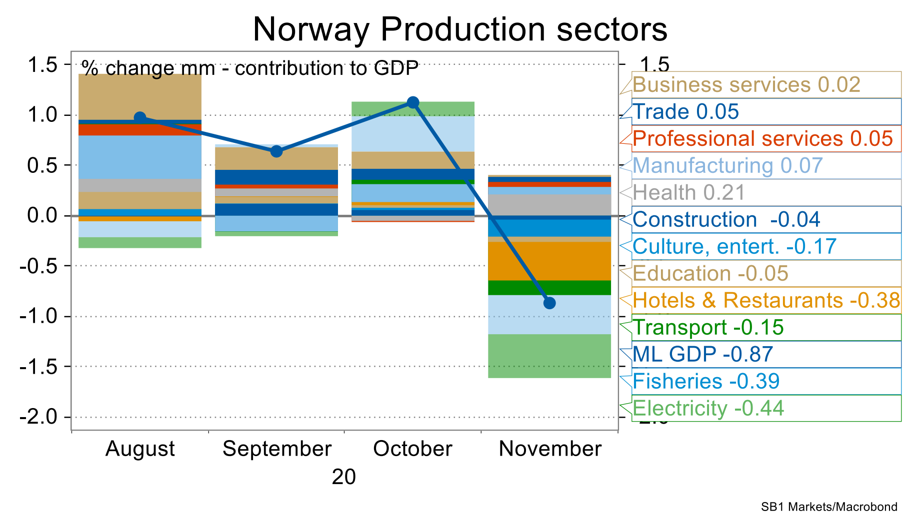
Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing

Production: Squeezing the data



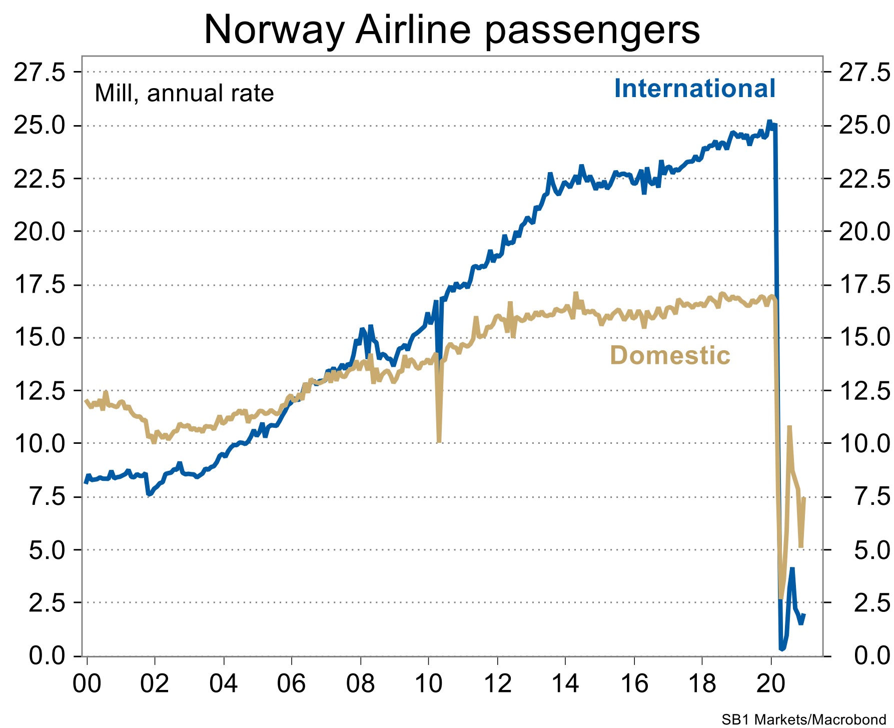


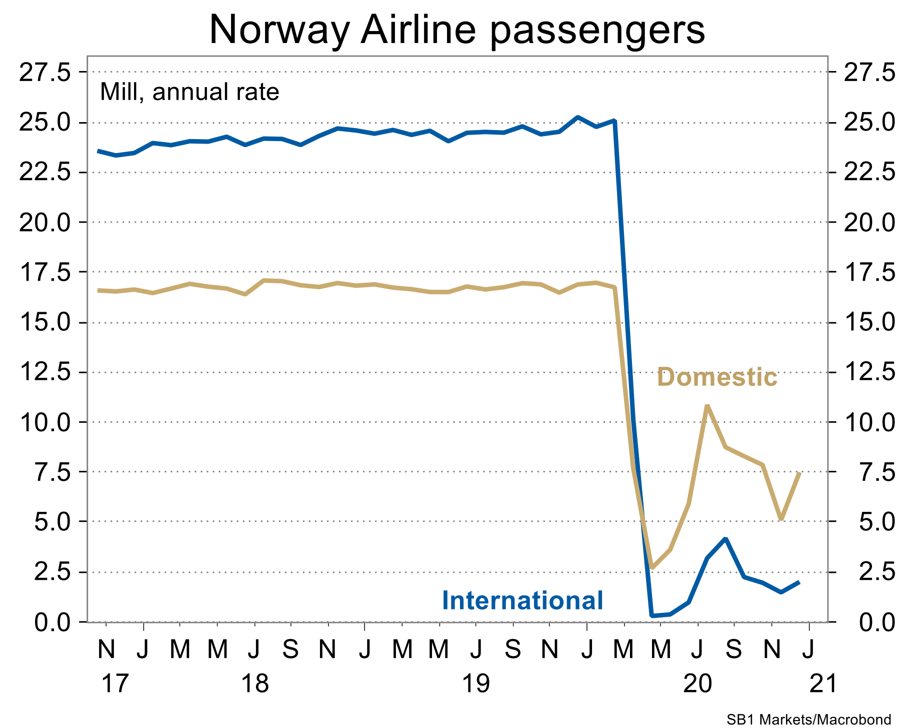
- **In November**
  - » Fish & aquaculture down 19%, following the 20% spike in Oct. The level in Nov is 'normal'
- **Since February**
  - » Hotels & Rest, culture & entert. & transport services have all contributed by 0.7 – 0.8 pp to the 2.4% decline in Mainland GDP
  - » Just trade is on the upside, due to the surge in retail sales



Air traffic up m/m in Dec, domestic still down 55% vs 'normal', internat. -92%

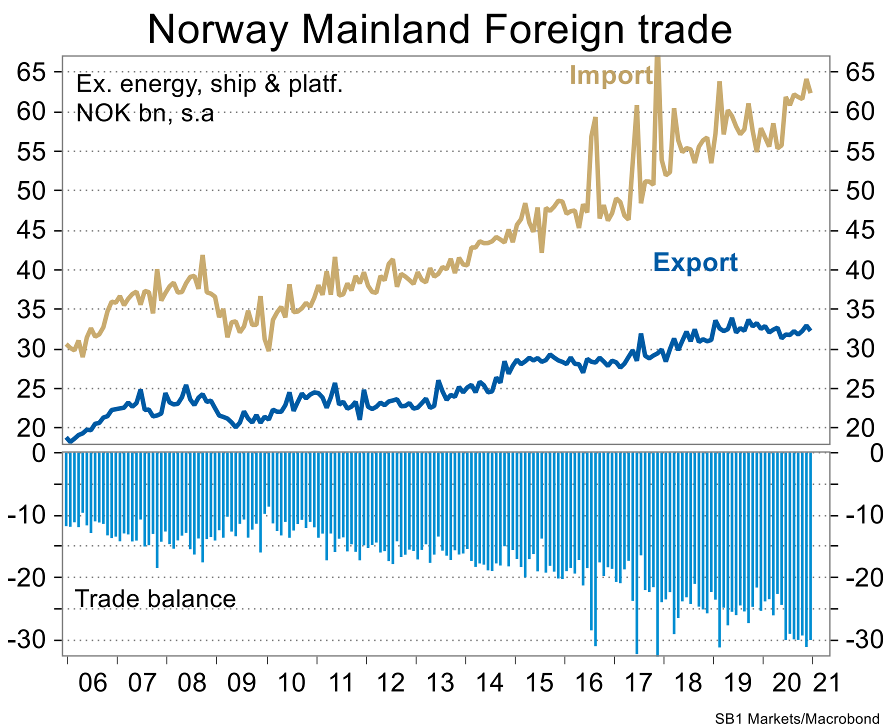
Anyway, the contribution to GDP will be slightly positive in Dec

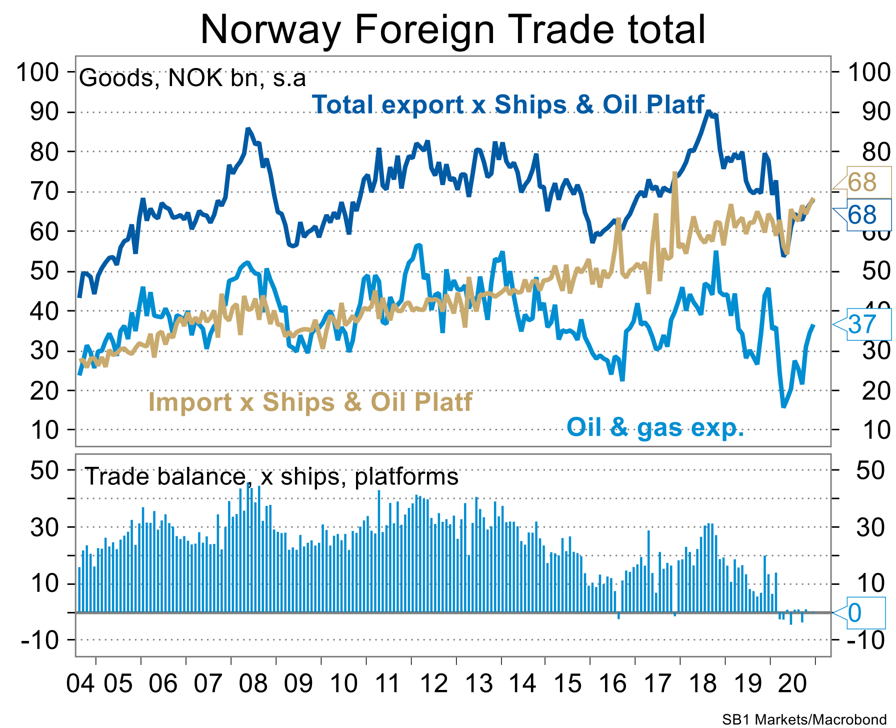




The trade balance in balance

Imports down in Dec, following a rapid increase in Nov (and through last year), exports less down



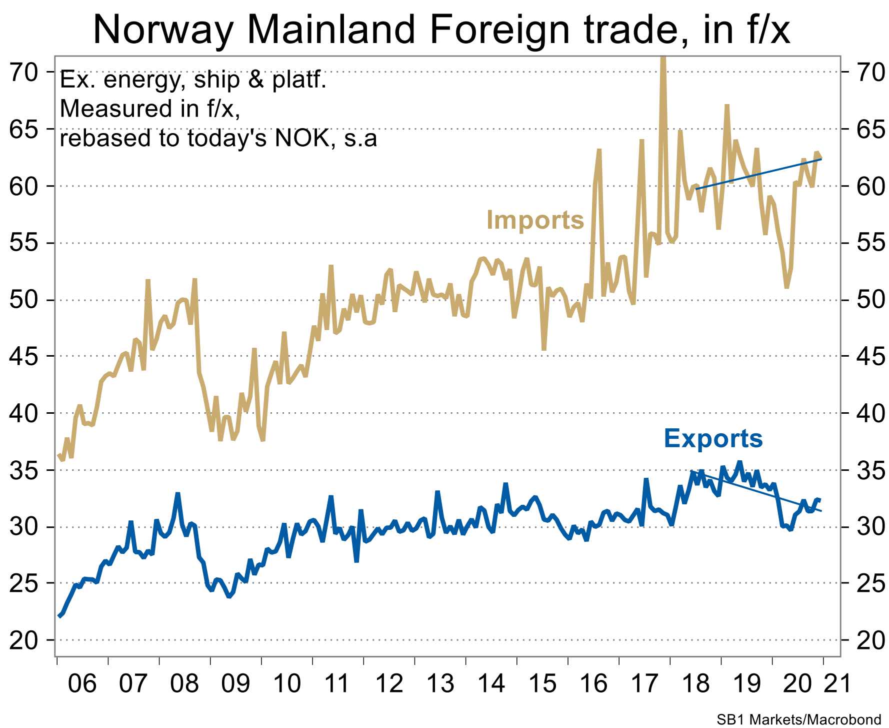


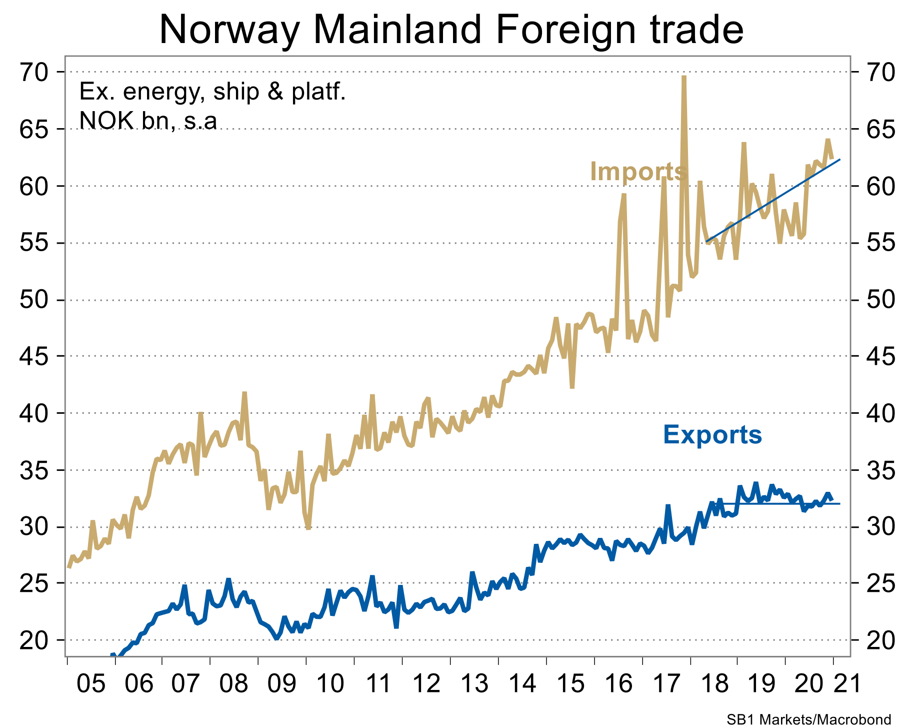
- The Mainland (non energy) trade deficit in goods fell marginally in Dec but the trend is marginally upwards recent months, in value terms. Exports have more or less recovered in value terms following the mild drop during the corona spring . Strong domestic demand for goods have kept imports up (+13% vs pre corona). As a result, the 'traditional goods' deficit has widened almost to NOK 30 bn from NOK 23 bn in early 2020 to, or by 2.6% of Mainland GDP, a substantial worsening of the trade balance. However, exports of tourism (foreign spending in Norway) have far less than imports of tourism (Norwegians spending abroad), compensating for the shortfall in goods ☺
  - » Imports of cars have surged
- At the same time, exports of oil and gas have fallen to approx. NOK 34 bn from 40 bn – and the total trade balance is marginally in red (0.2 bn) over the past 5 months

SpareBank 1 MARKETS

… in f/x, Mainland imports & exports are not that brisk…

The NOK depreciation has lifted trade values, measured in NOK. This impact will soon fade

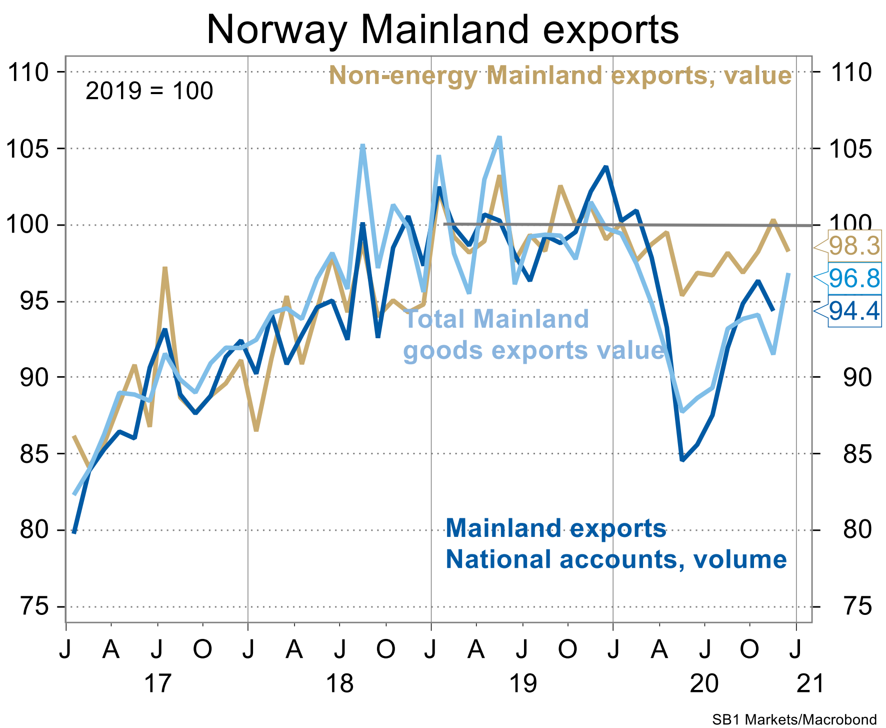




- At the chart to the left, trade values measured in f/x, adjusted by the NOK I-44 index, and rebased to today's NOK I-44 index

Mainland exports down on lower ‘re-export’ of oil and gas

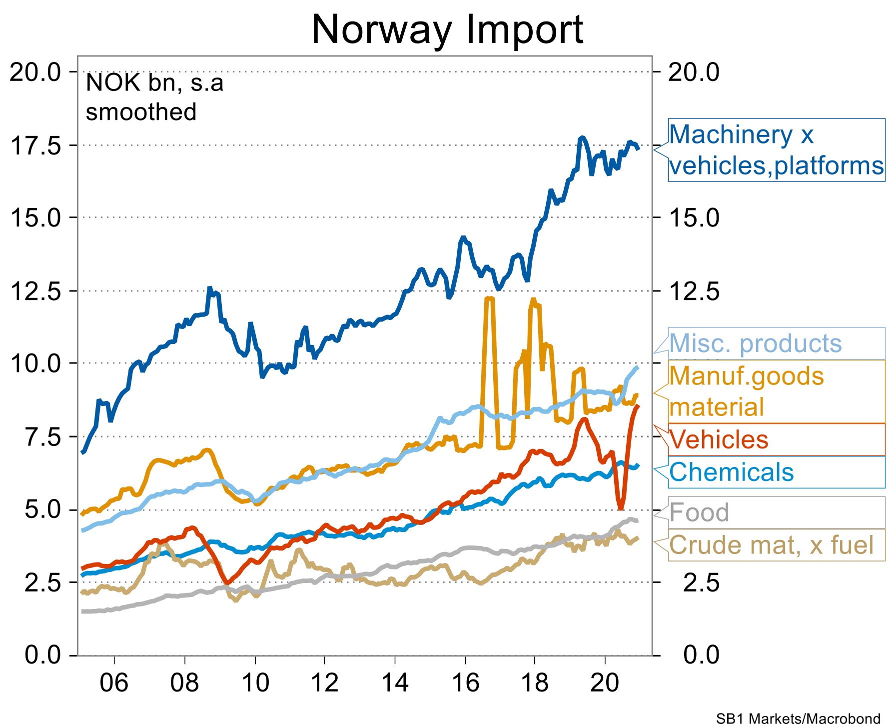
‘Real’ Mainland exports has kept up better than what is often called ‘Mainland export’

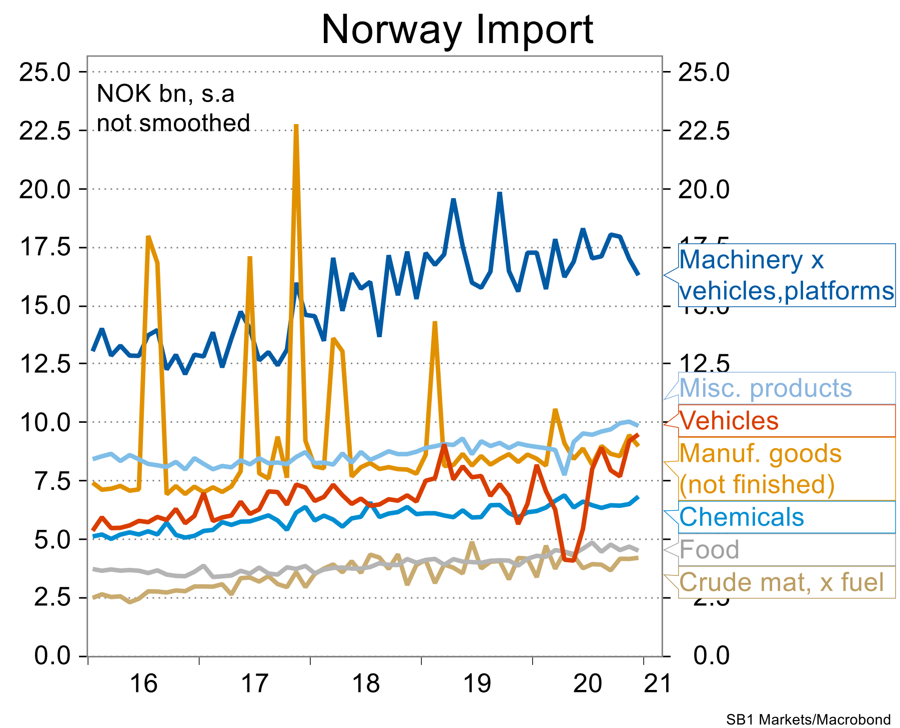


- We usually adjust Mainland export for re-exports of oil and gas that has just been lightly processed in refineries onshore, before being exported abroad. In addition we take away electricity exports (and imports) as this trade is not relevant to the activity in ‘ordinary’ Mainland exporting businesses
- Through 2020, the difference is substantial as both electricity exports and exports of processed petroleum products until recently have fallen sharply – implying that ‘Mainland exports’ have been reported weaker than they really are
- We expect the national account to show higher Mainland exports in December

Imports of vehicles straight up, machinery slightly down recent months

Auto imports fell rapidly in March/April but are now soaring. Most others slightly up

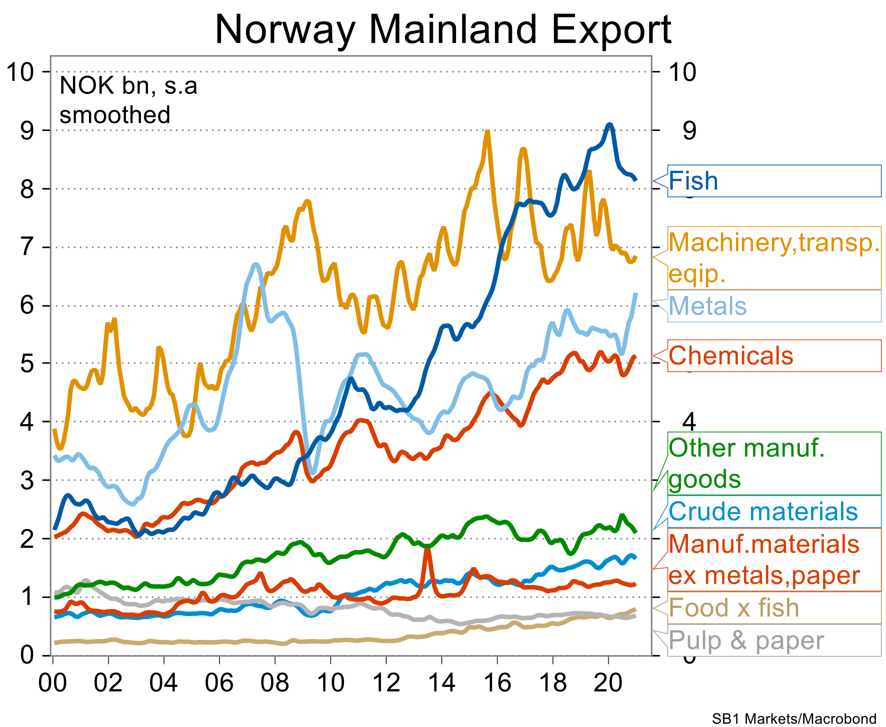


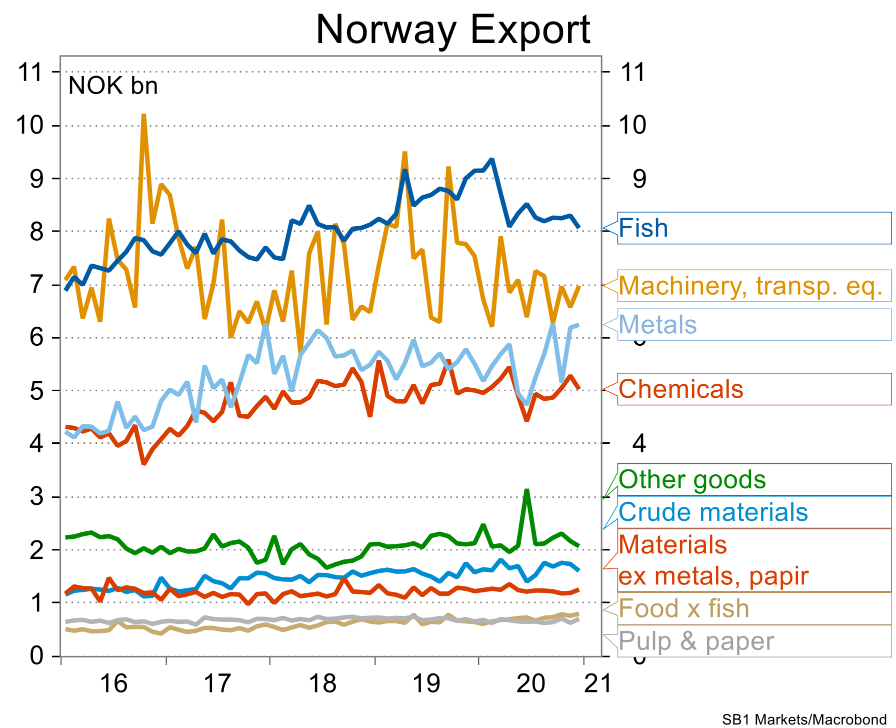


- Import values in most sectors are somewhat higher than before corona hit
- Imports of chemicals, food, and machinery have all increased this year. Machinery imports have increased steadily until recent month. Manufactured materials more or less flat recent years, with some ridiculous volatility, due to huge transactions of (not finished) oil platforms, and wind mills
- Vehicle imports slowed rapidly in H2 2019 and early 2020, along with auto sales. Since April, imports have picked up, both in tons and in NOK (although the level is even higher, relatively, in value, due to the prior NOK depreciation). Auto sales have recovered and are far above the pre-corona level, and very high in December

Mixed exports (in value terms) – fish & machinery on the way down

Other sectors are flat or up, due to the strong recovery in industrial production abroad

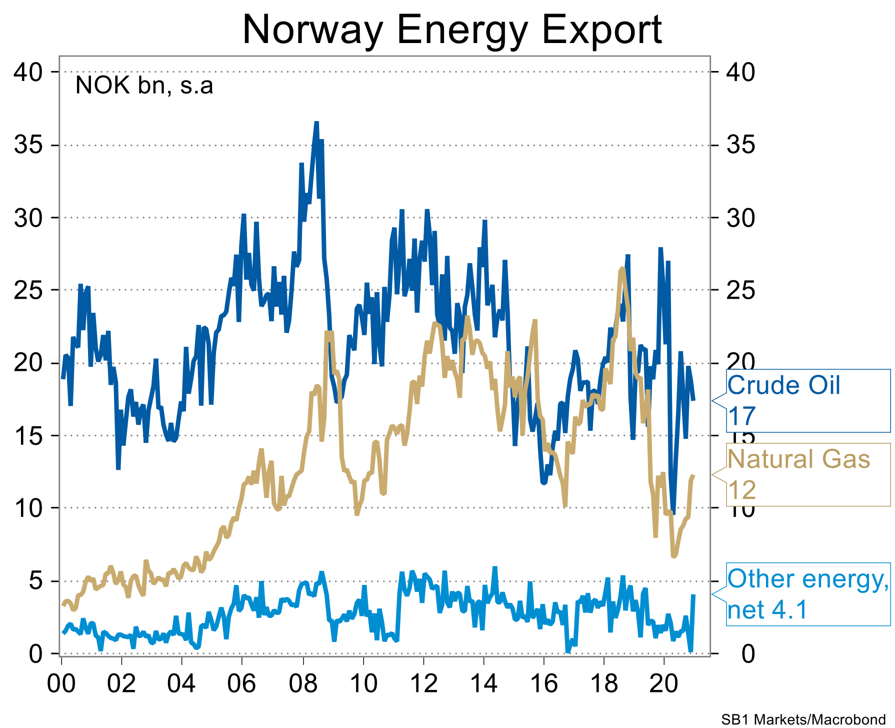


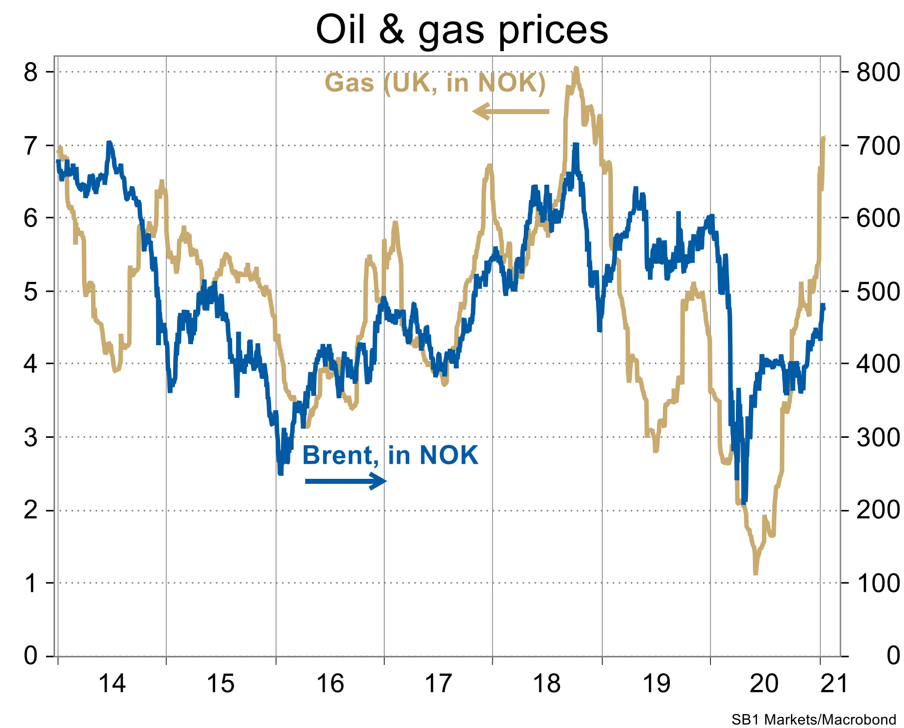


- Exports of machinery and transport equipment (of which much is related to oil activities abroad) is trending down, due to lower oil sector investments abroad

Oil & gas exports sharply up recent months (and gas are prices further up in Jan)

Oil exports have recovered almost half the March/April drop (in value terms)



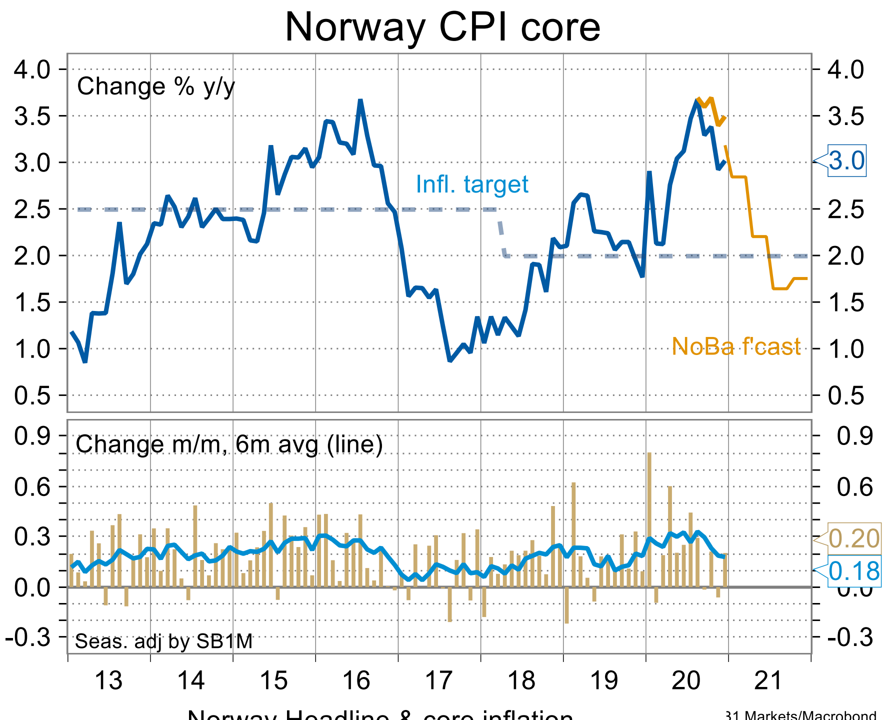


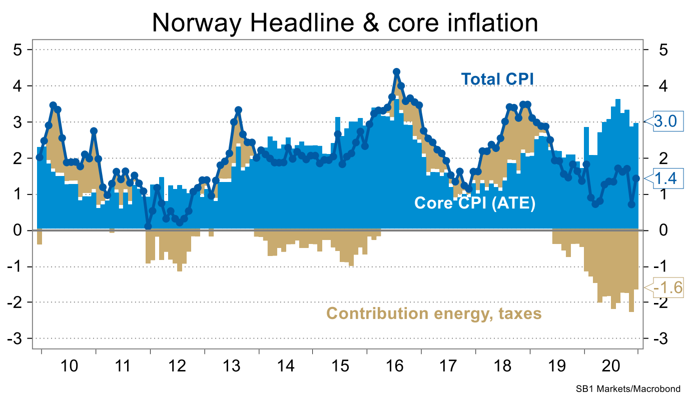
- **Crude oil** exports (in NOK bn) fell rapidly in March and April as the oil price dropped and global demand subsided. Exports have turned up since then, with the oil price. Oil exports are still far lower than before corona, just below 50% of the decline is reversed
- **Gas** export values fell sharply during H1 but has recovered to the (low) pre-corona level as gas prices have recovered substantially. Gas prices have been climbing further

SpareBank 1 MARKETS

Core inflation slightly lower than consensus and Norges Bank's estimate

Non-event with regards to NoBa's monetary policy outlook – virus impact more important





- CPI-ATE (ex. energy and taxes) inflation rose 0.1 pp to 3.1% in December, slightly below consensus and our forecast (3.1%). Norges Bank expected 3.3% (Dec MPR f'cast)
  - » Prices rose 0.2% m/m (s.a)
  - » Food price inflation was weaker than we expected
  - » Inflation is below 2% for housing, health, clothing and airline tickets – all others are still above
  - » Import price inflation is up again m/m – will probably recede as NOK effect fades
- Total inflation was up 0.7 pp to 1.4%%, more than we expected as electricity prices rose more m/m than we assumed. They are still down 21% y/y
- **The price outlook**
  - » We expect inflation to slow the coming quarters as the NOK effect stabilises and wage inflation remains muted. Demand for goods will have to decline from a very high level, while the 'beaten down services' will not have 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

Food prices fell in Dec – are sliding down, even if demand is strong

Furniture prices are up

		Change m/m, seas. adj			Change y/y			Contribution, pp		
Dec-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	-0.1	0.2	-0.3	3.8	3.2	3.8	-0.02	0.40	-0.04
Alcohol, tobacco	3.9	0.5	0.2	0.2	2.1	2.5	2.2	0.02	0.10	0.01
Clothing, footwear	4.9	0.8	0.2	0.6	-3.8	-2.8	-3.8	0.04	-0.14	0.03
Housing x. energy	20.1	0.2	0.2	0.0	1.2	1.2	1.1	0.03	0.24	0.00
Furnishing	6.6	0.4	0.2	0.2	7.1	8.0	6.9	0.03	0.52	0.01
Health	3.2	0.1	0.3	-0.2	1.4	1.7	2.0	0.00	0.06	-0.01
Transp. ex. gas, airl. tick	12.0	0.2	0.4	-0.1	5.1	5.2	5.3	0.03	0.63	-0.02
Airline tickets	1.2	-1.7	-3.0	1.3	-10.7	-11.7	-9.8	-0.02	-0.13	0.02
Communication	2.2	0.1	0.3	-0.1	2.9	2.7	2.9	0.00	0.06	-0.00
Recreation, culture	11.9	0.2	0.2	0.0	4.6	4.8	4.8	0.03	0.58	0.00
Education	0.5	-	-	-	2.1	2.1	2.1		0.01	0.00
Restaurants, hotels	6.2	0.5	0.0	0.5	2.5	3.1	2.4	0.03	0.19	0.03
Other	8.8	0.2	0.3	-0.1	4.0	4.1	4.1	0.02	0.36	-0.00
CPI-ATE	94	**0.1**	**0.2**	-0.0	**2.9**	**3.0**	**3.1**			
Norges Bank est.			**0.4**				*3.3*			
Imported	33	0.6	0.2	0.4	3.2	3.7	3.2	0.19	1.21	0.14
Domestic	61	0.1	0.2	-0.0	2.9	3.0	3.1	0.08	1.83	-0.02
Energy, housing	4	13.5	5.0	8.5	-34.6	-21.1	-28.5	0.52	-0.82	0.33
Energy, transport	4	6.3	0.0	6.3	-14.7	-7.7	-13.1	0.22	-0.27	0.22
CPI Total	101	**0.8**	**0.2**	0.6	**0.7**	**1.4**	**0.9**	0.81	1.46	0.63

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

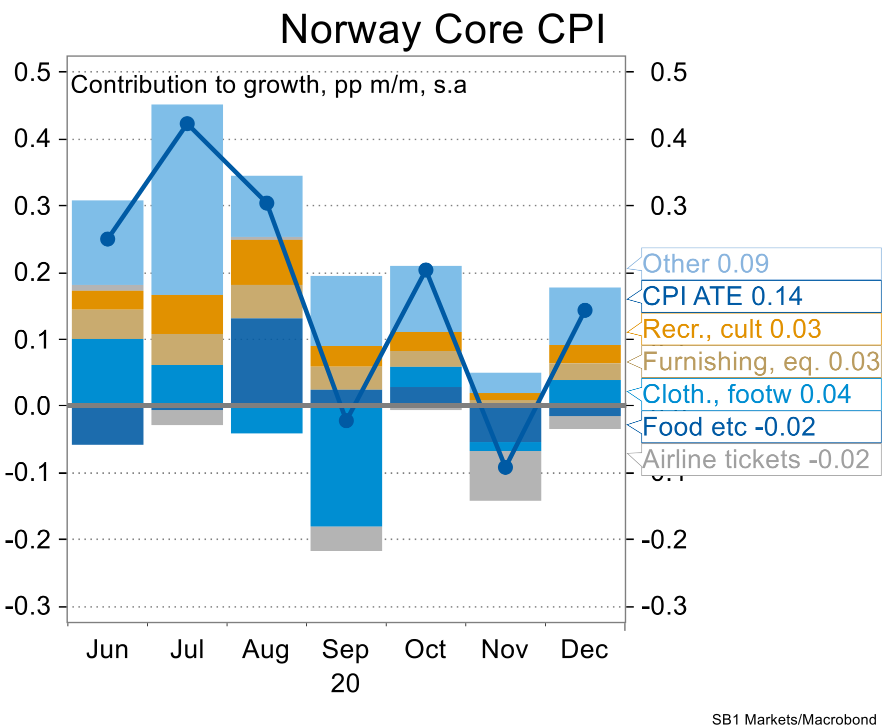
- Food price inflation is down to 3.2%, well below our f'cast. Several subsectors contributed
- Clothing prices are down 2.8% y/y
- Furniture/hardware/equipment prices are up 8% y/y! Demand is still strong, but the NOK impact will soon fade?
- Car prices are up 4.7%, but less than we expected
- Airline ticket prices persist to fall, probably due to Wizz entering the market. And demand is not that strong…
- Restaurant price inflation was higher than expected. Hotel prices are still falling, but less than in the previous months. Bottoming out?

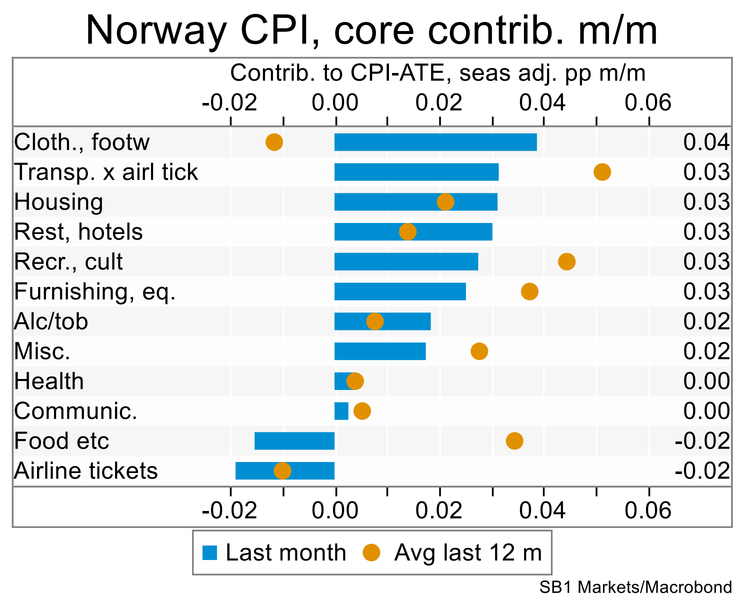
- **CPI-ATE up 3.0% y/y, 0.1 pp below expectations NoBa expected 3.3%**
- Prices on imported goods rose by 0.6% m/m and the annual rate by 0.5 pp to 3.7%. Will probably slow as the NOK impact fades
- Domestically produced goods & services rose too, albeit only marginally. The annual rate is up by 0.1 pp to 3.0%, a high number!
- Electricity prices rose more than we expected in Dec
- … and so the headline inflation came in at 1.4%, somewhat higher than our estimate

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

Clothing, transportation and restaurant prices pulling inflation up in December

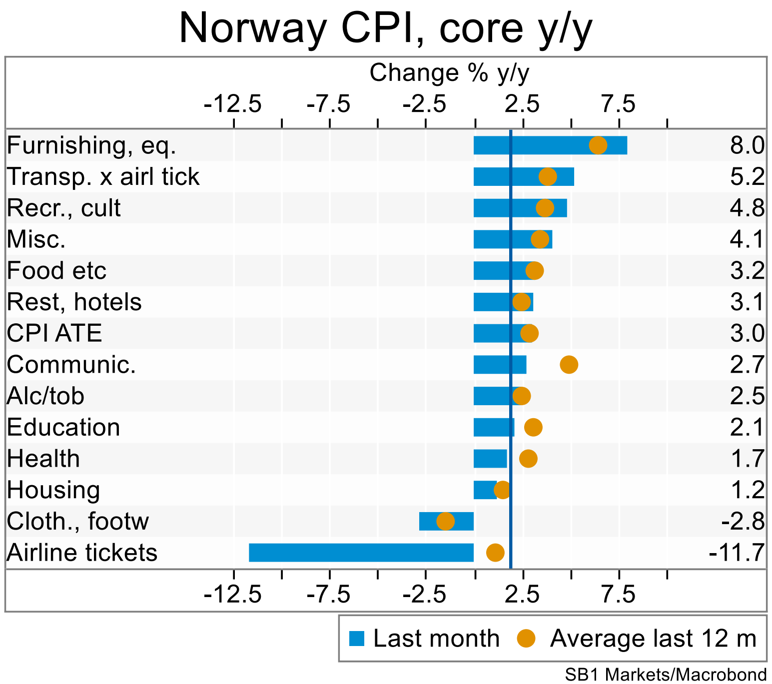
Food inflation still on the weak end

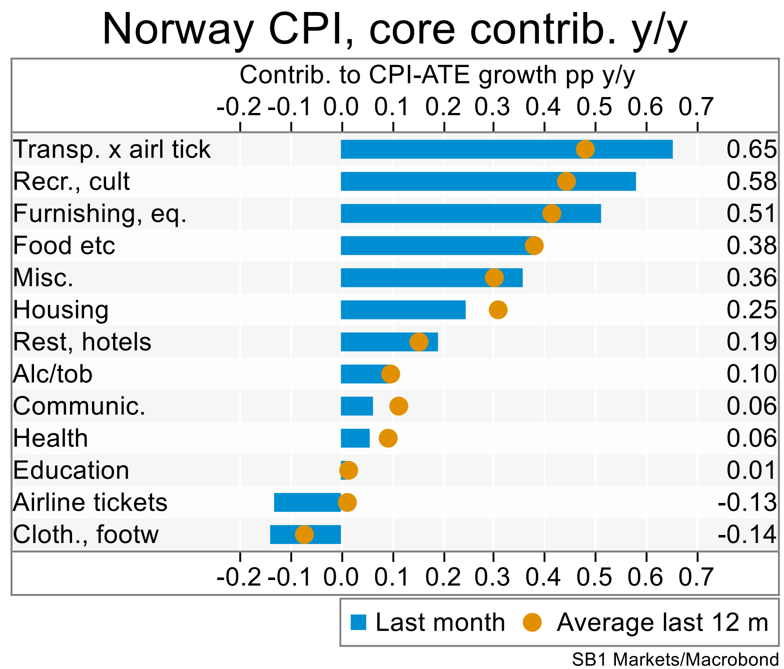




Most sectors report inflation above 2%

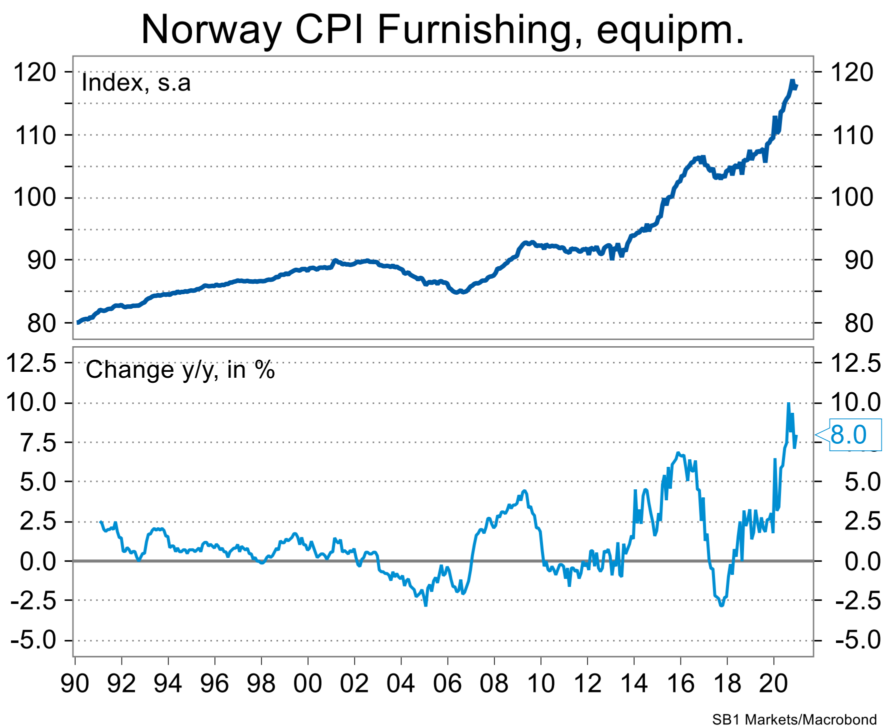
Just clothing & footwear, housing (rent), health, and airline tickets < the 2% infl. target

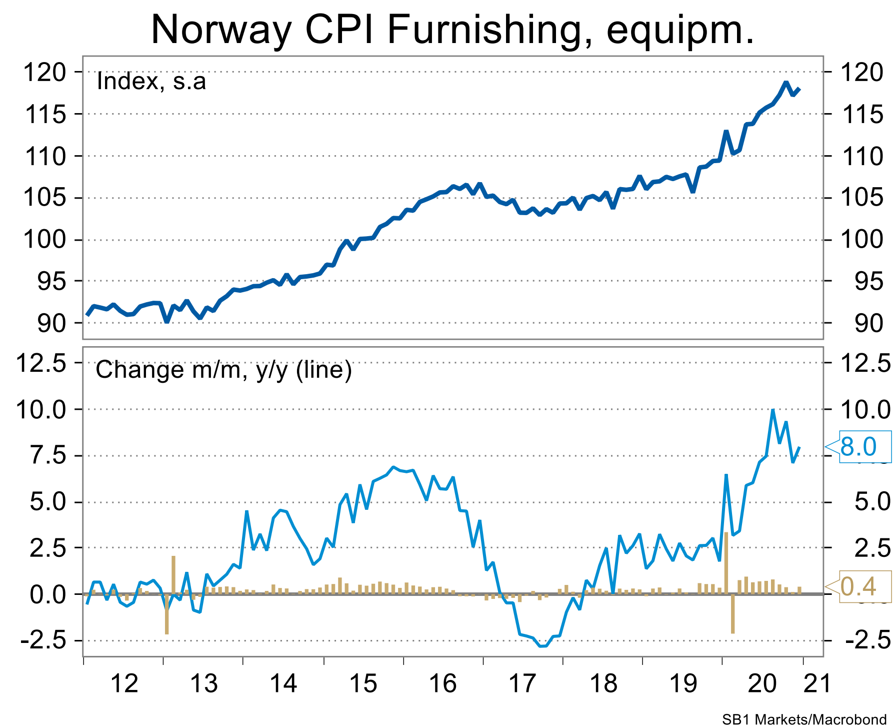




After dipping in Nov, furnishing prices up 0.4% m/m in Dec

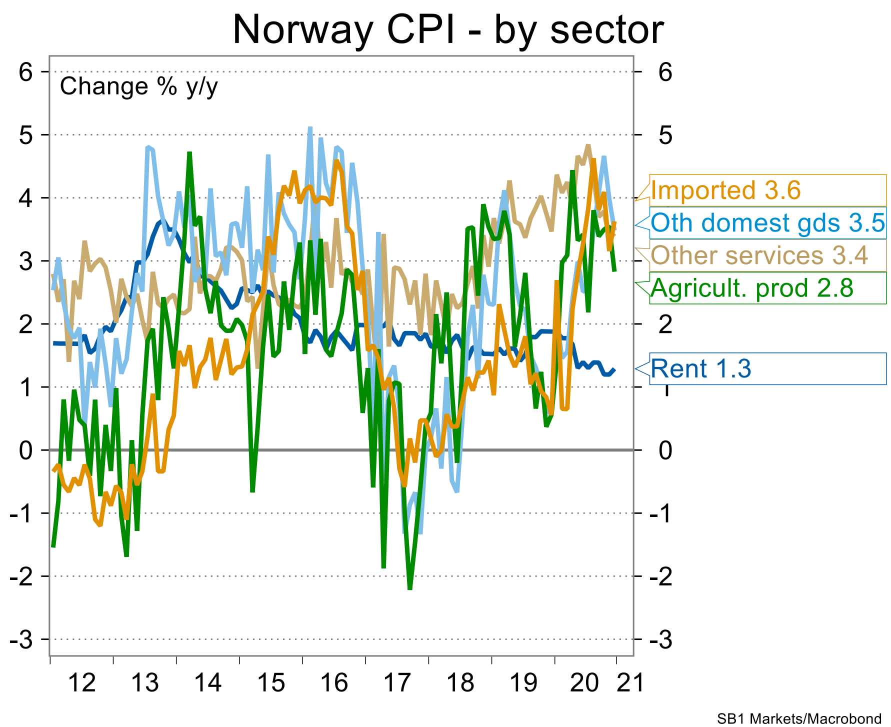
Prices are still up 8% y/y, down from 10% in August. We expect furnishing price inflation to taper

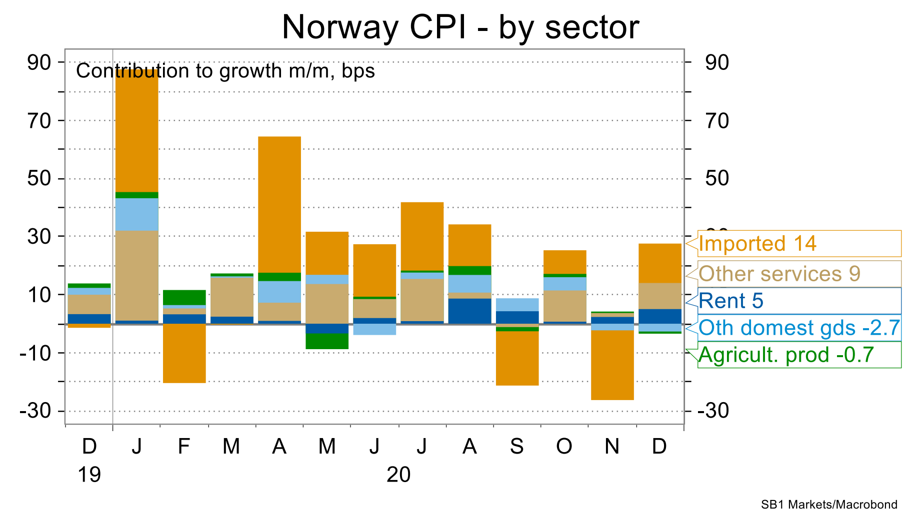


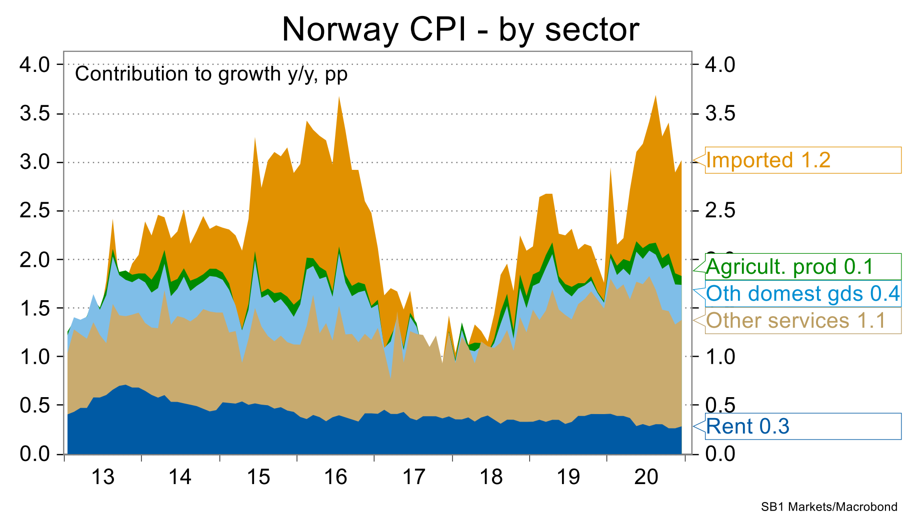


Imported goods prices up 0.6% m/m – and are up 3.6

Should shrink with a stabilisation/strengthening of NOK. Domestic inflation is heading down



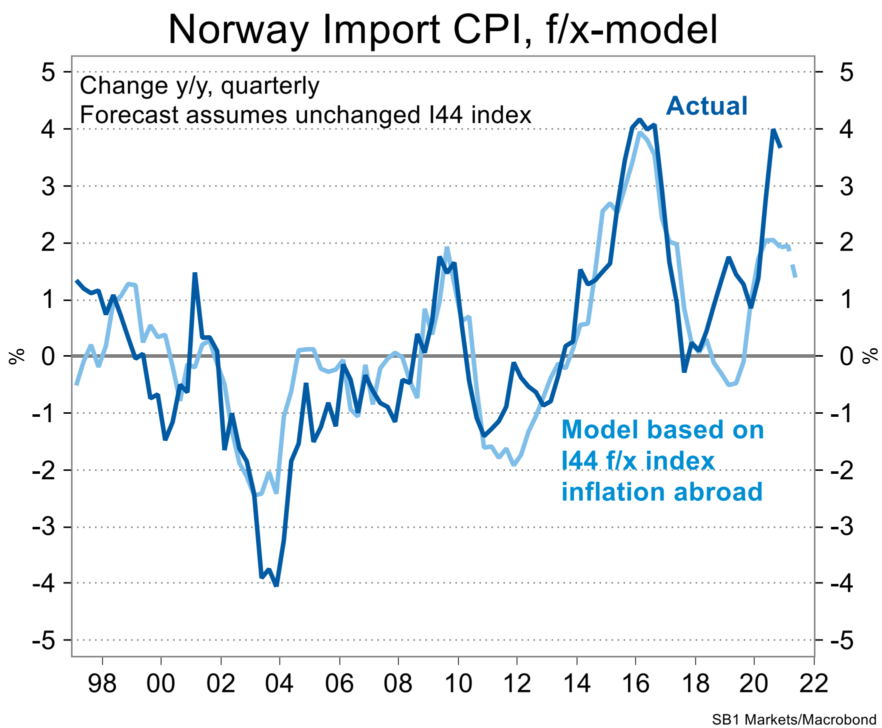


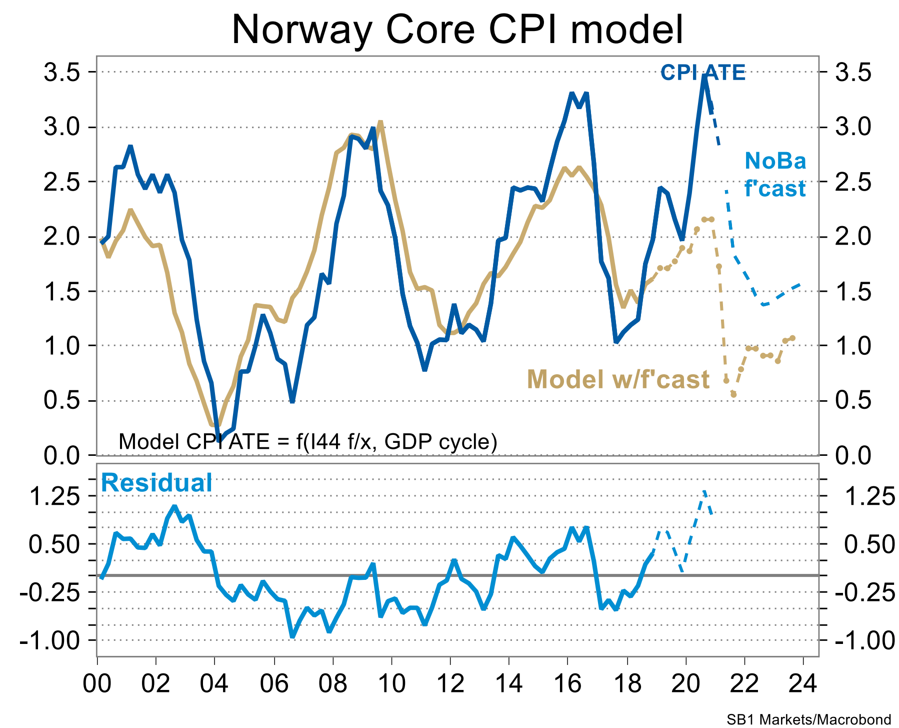


- Imported goods are up 3.6% y/y - though down from 4.7% some few months ago

Imported goods prices: 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

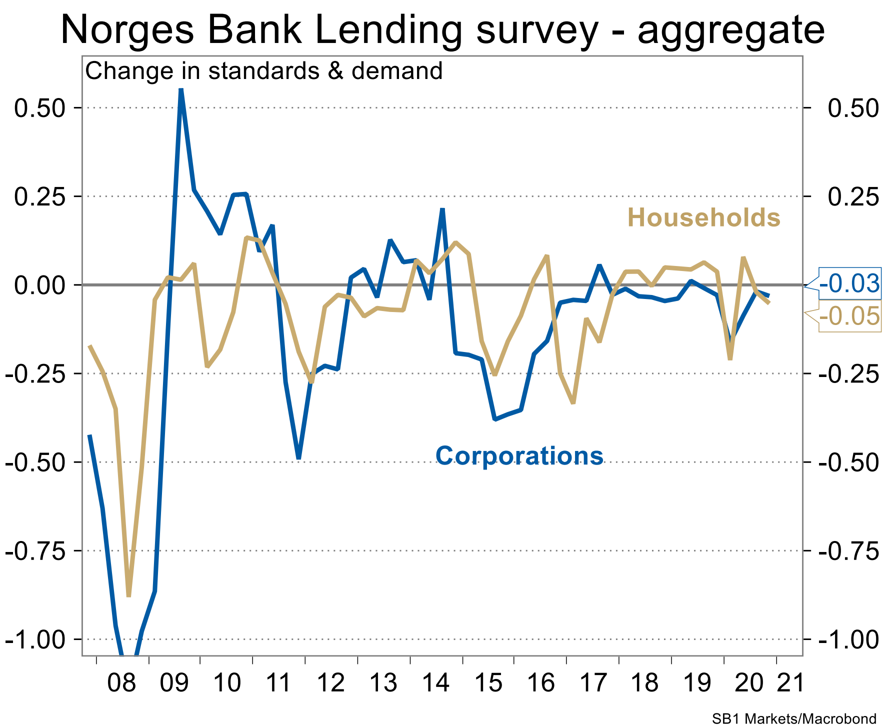


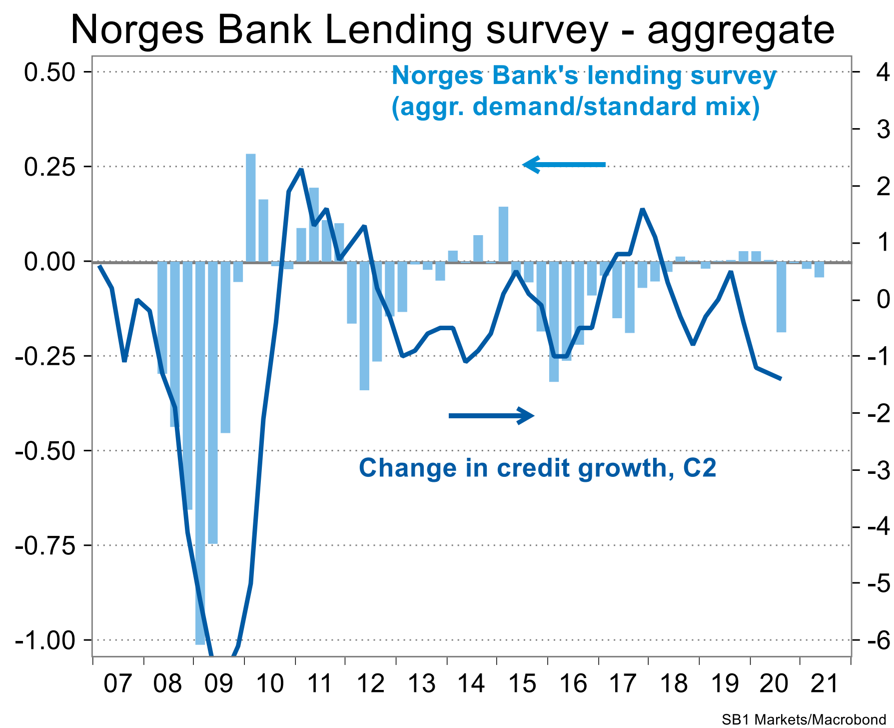


- The NOK steep depreciation in early 2020 has no doubt been driving **imported inflation** up. It usually takes a few months before these impacts are reflected in the CPI. Closed borders/supply chain challenges due to Covid-19 may have contributed to the lift in import prices too, and more importantly: <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)

Another flattish bank lending survey – but will banks turn out to be right?

NoBa’s Q4/Q1 survey signal close to normal demand for loans, no change in lending standards

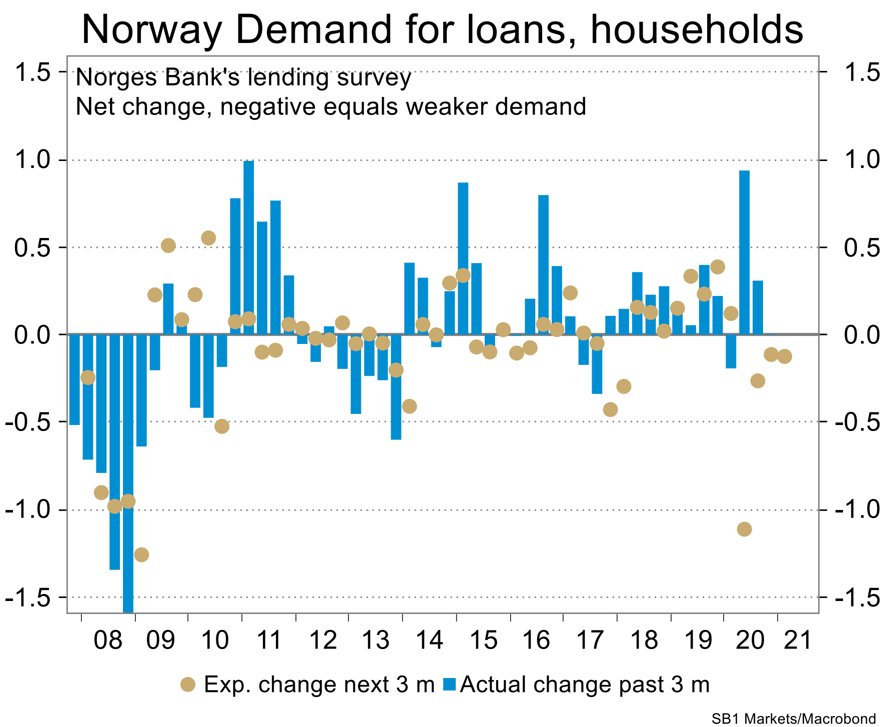


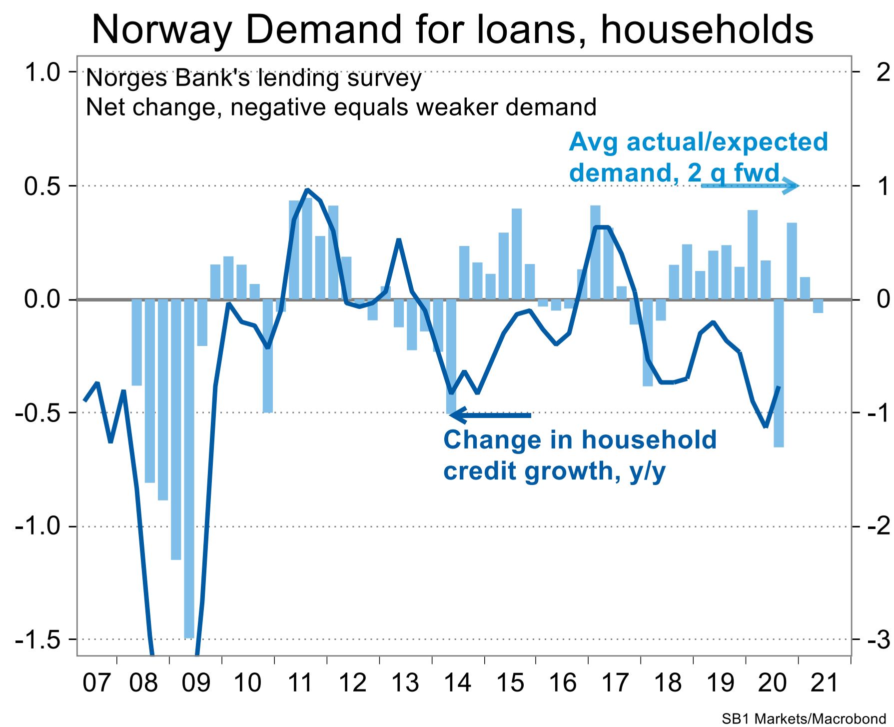


- We expected banks to report stronger demand from households and weaker demand from the business sector

Demand was normal in Q4, and is expected to remain so in Q1

Banks expected a minor weakening in Q4, which did not materialise (and they expect the same in Q1)

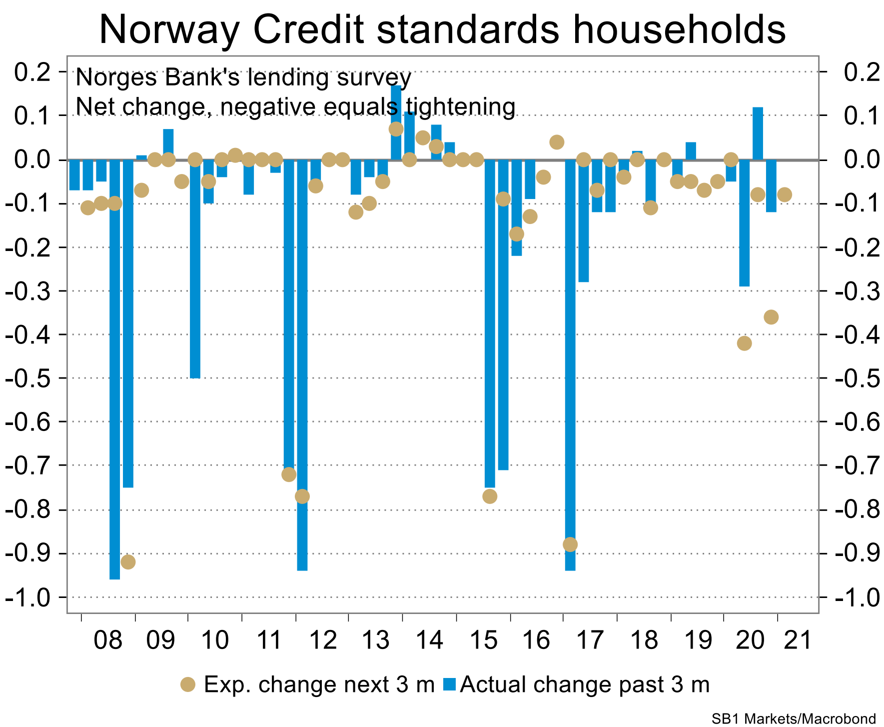


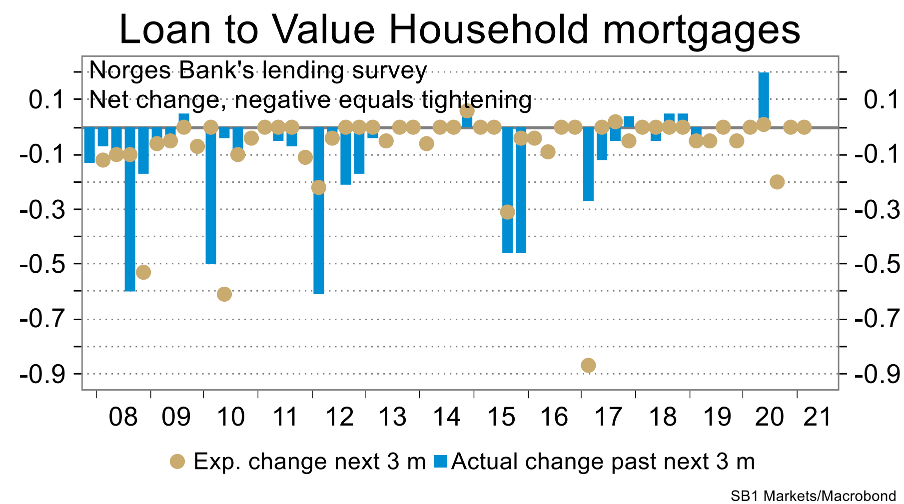


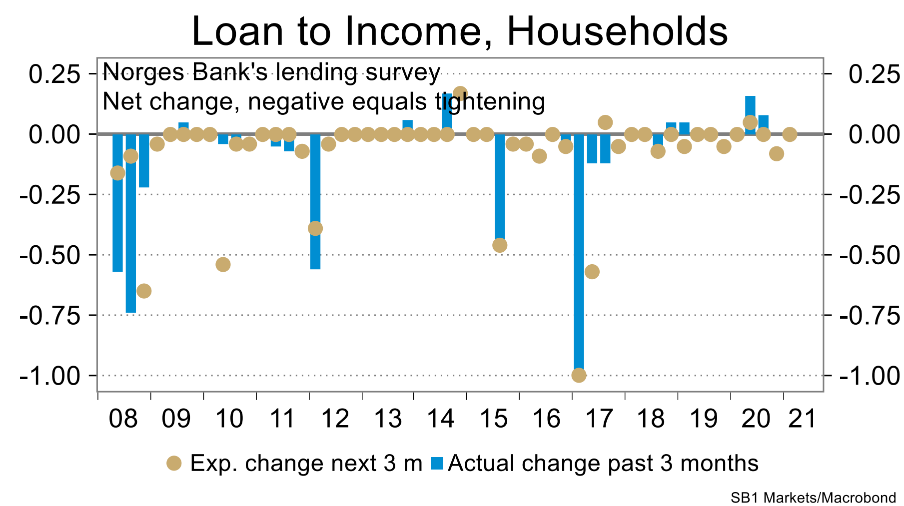
- There is not any tight correlation between banks' expectations for household demand for credit or their assessment of actual growth and the realised growth in households credit, as measured by the C2 credit indicator)
  - Still, the lending survey probably tells the sentiment among bankers pretty well

Banks tightened less than expected in Q4, no significant changes planned for Q1

The aggregate credit standard index signals tightening but no changes in LTV or LTI



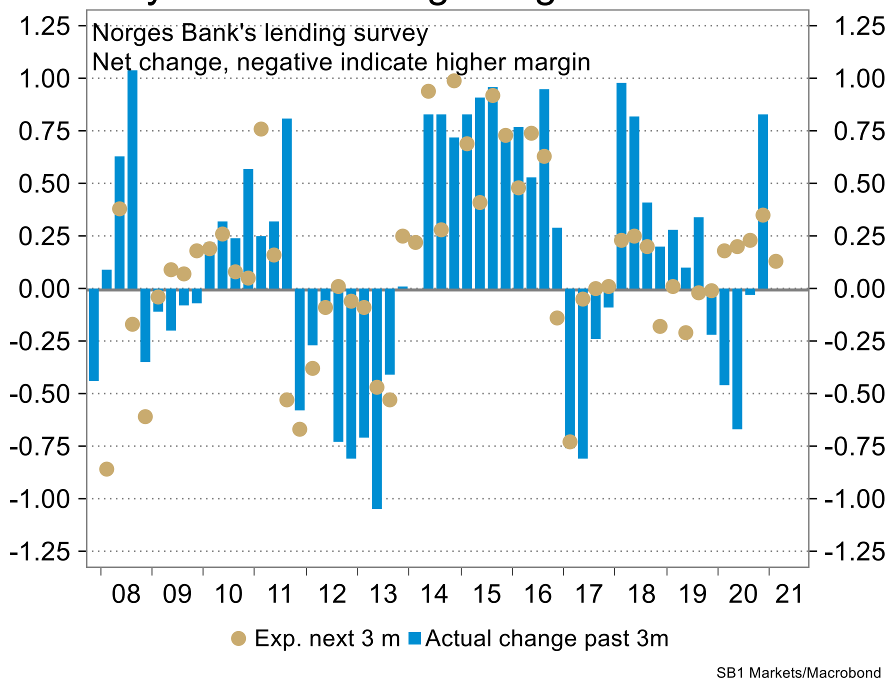




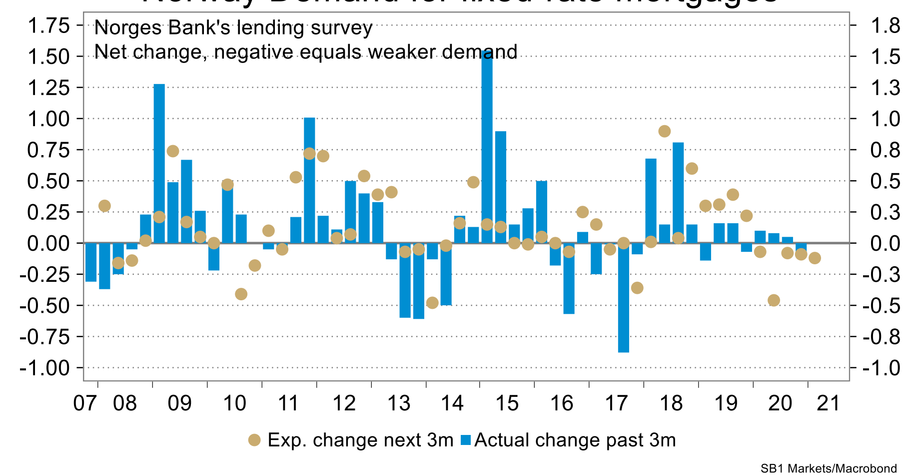
- As the temporary easing in lending standards were skipped in Q4, and some tightening took place

Banks cut their lending margin in Q4, expects some further margin pressure

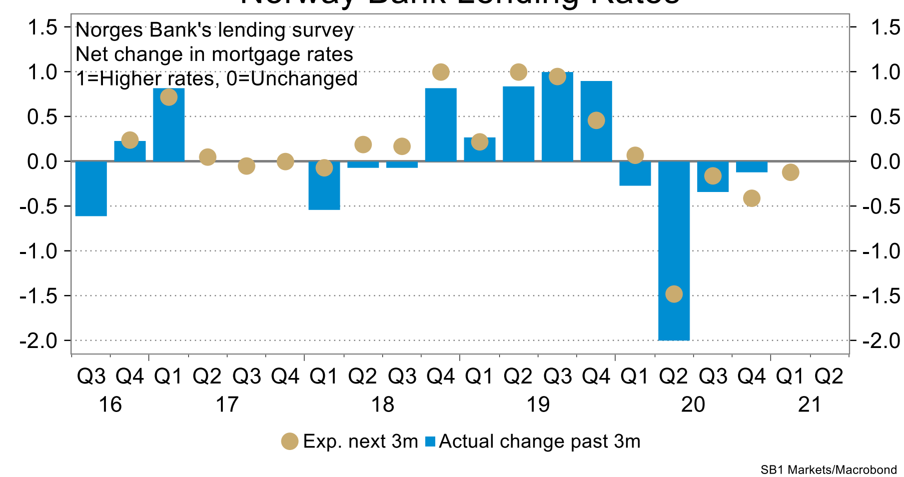
Norway Banks' lending margin vs households



Norway Demand for fixed-rate mortgages



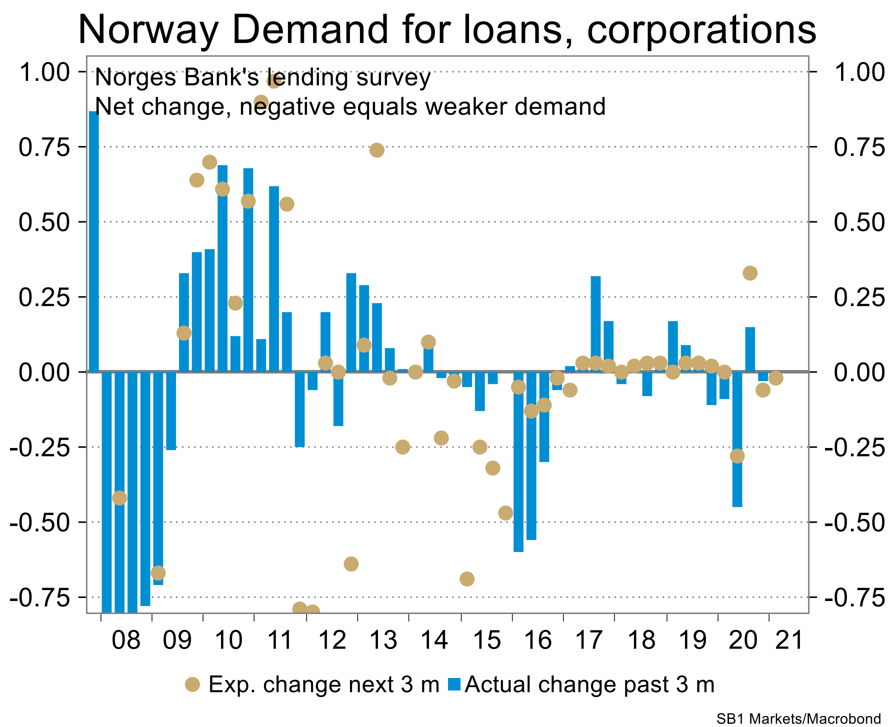
Norway Bank Lending Rates

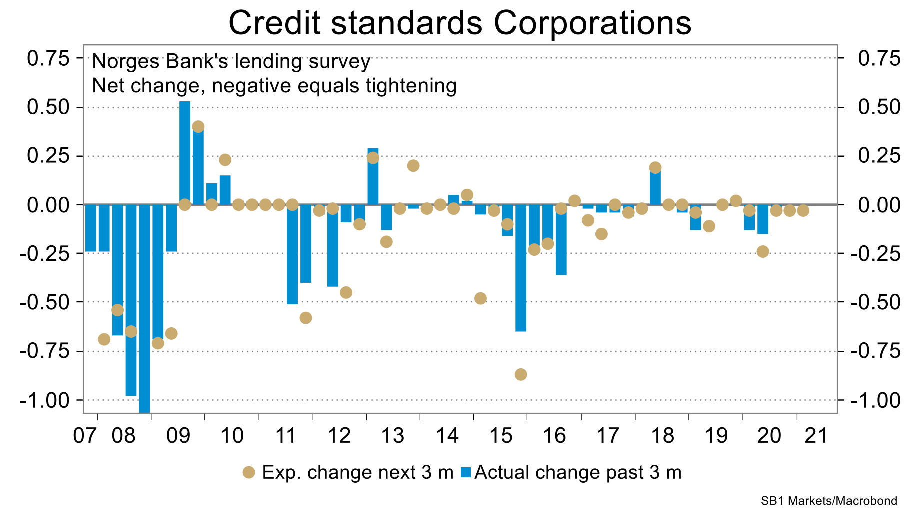


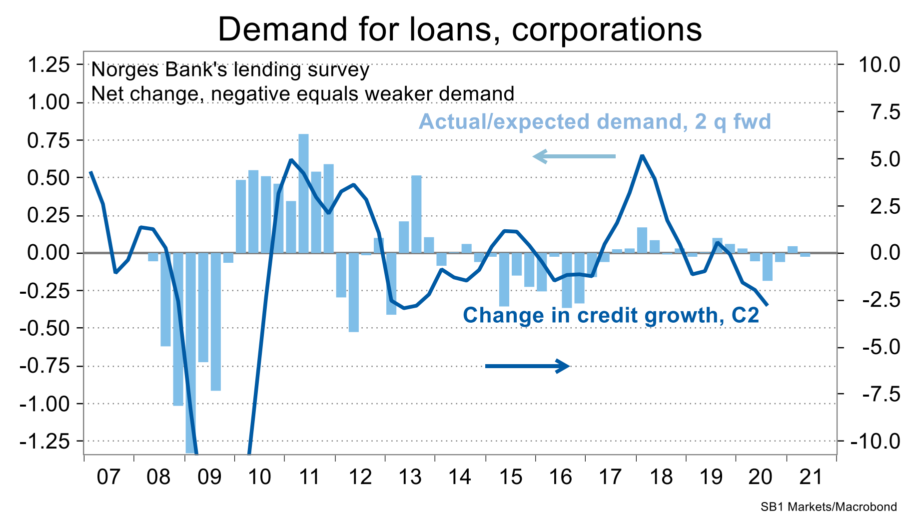
- No demand for fixed-rate mortgages, of course

Banks expect close to normal demand growth from businesses

Demand grew as normal in Q4, as expected. Expected to grow at a normal pace in Q1 as well



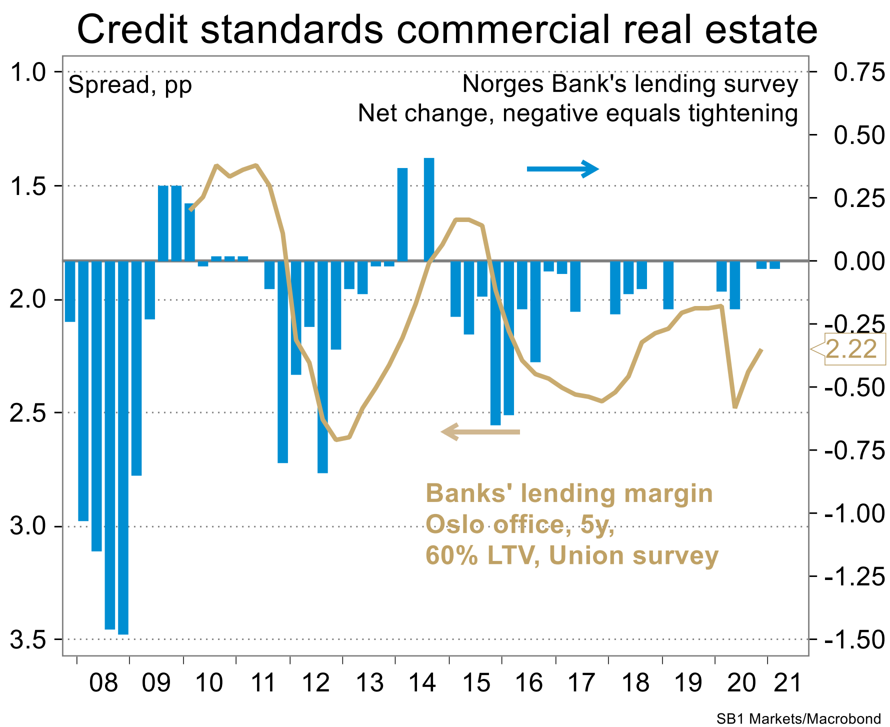


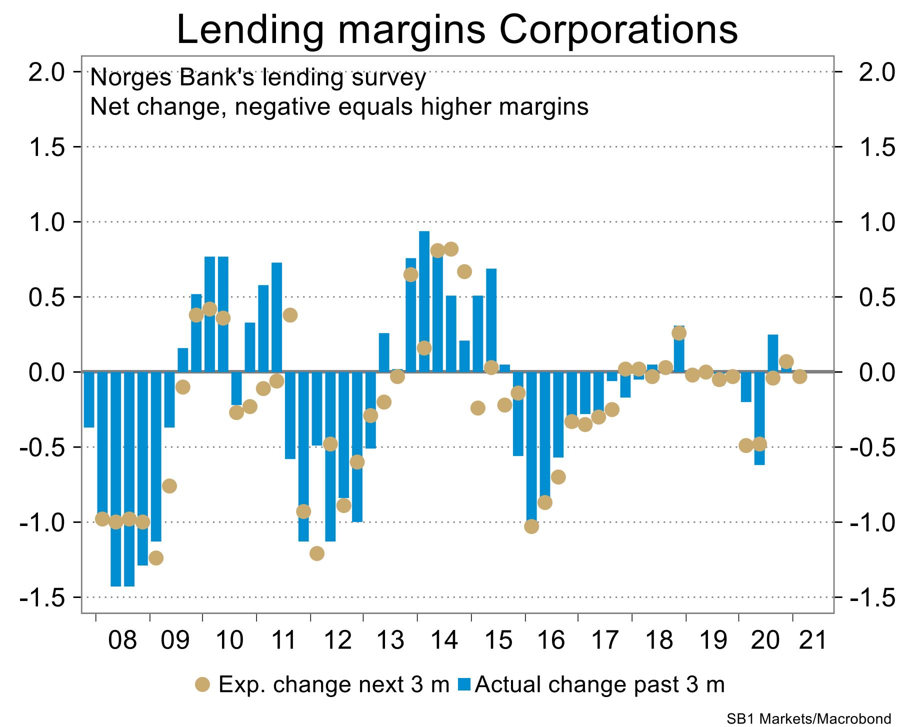


- We expected banks to report somewhat lower demand from the business sector but so far no signs of any slowdown
- However, actual credit growth has slowed

Real estate loan standards flat, margins too, according to banks

Bank spreads have narrowed somewhat following the ‘corona’ widening in Q2, but remains above avg

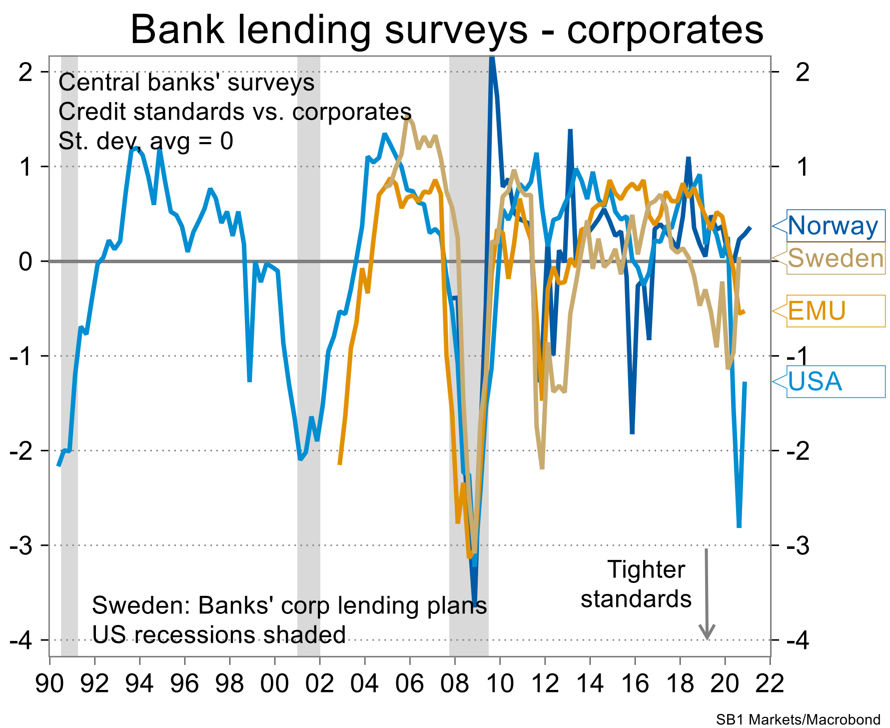


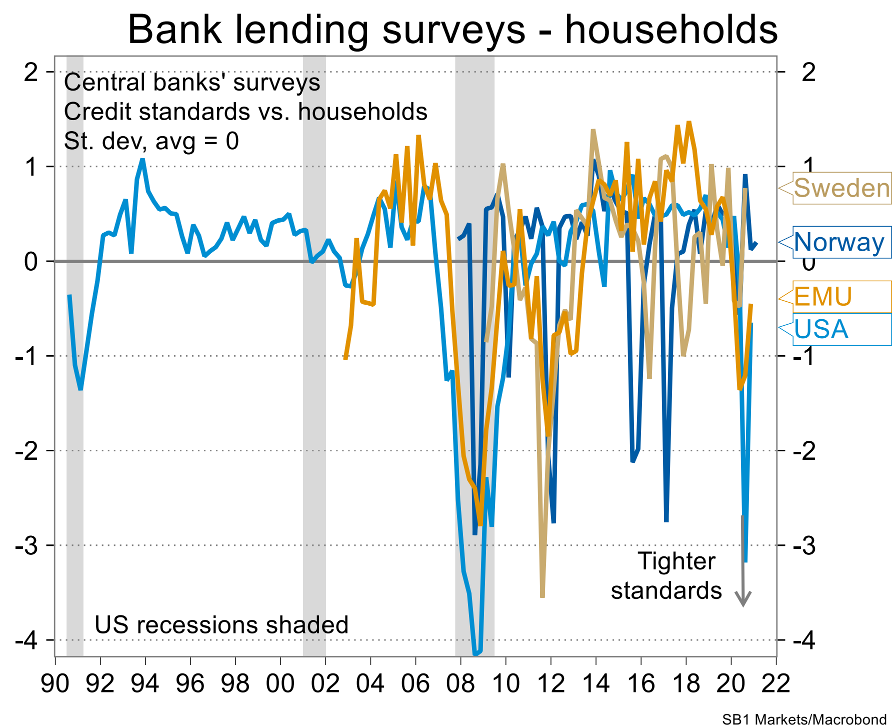


SpareBank 1 MARKETS

Global view: What will banks do now? Mixed – but most are still tightening

Norwegian are not tightening vs. businesses – most other are, especially in the US





- **US banks** are signalling a continued tightening, the most the corporate sector – but less during the bottom of the corona crisis. Actual credit spreads in the corporate bond market are among the lowest past two decades
- **European banks** are reporting a significant tightening both vs households and businesses
- **Swedish banks** are reporting easing standards vs. households and no change vs businesses

SpareBank 1 MARKETS

Highlights

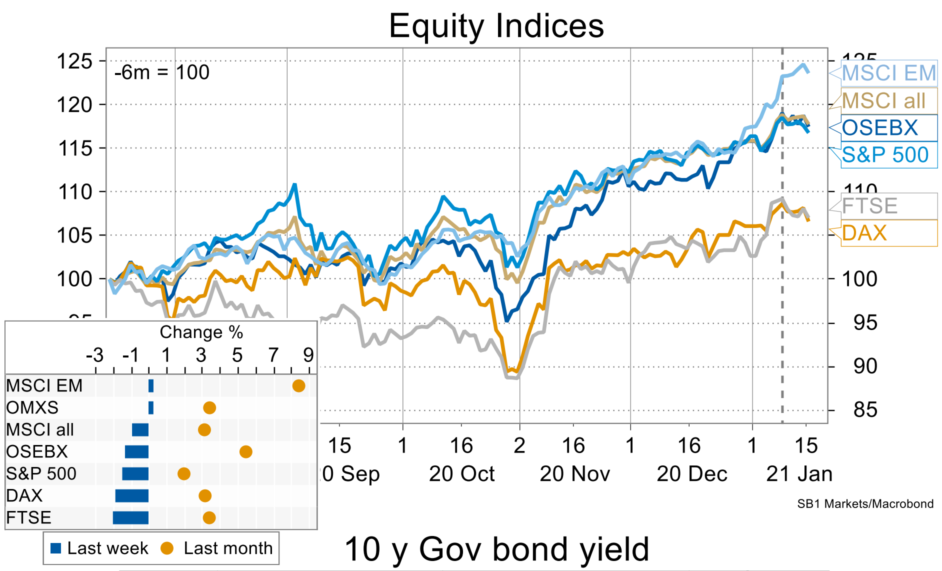
The world around us

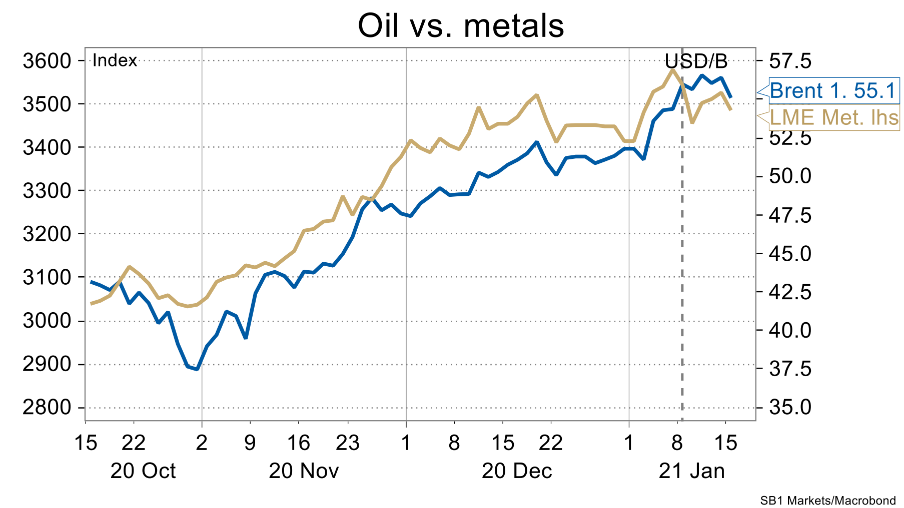
The Norwegian economy

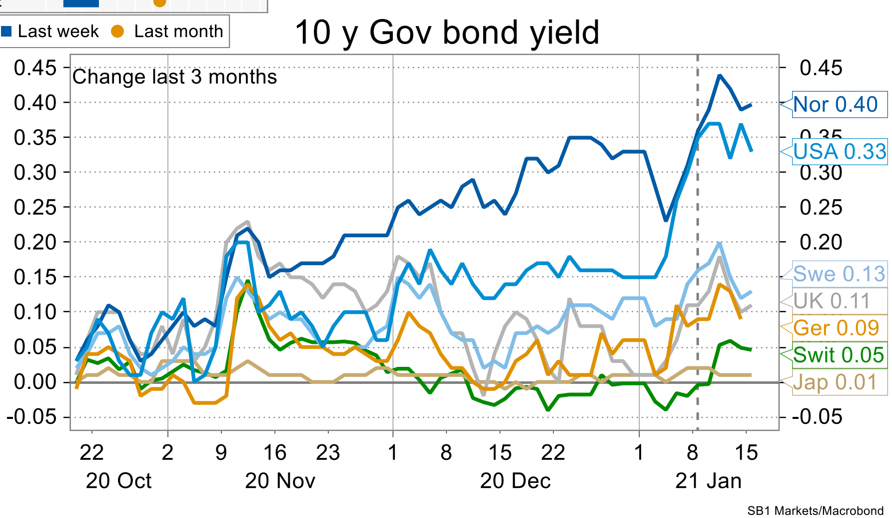
Market charts & comments

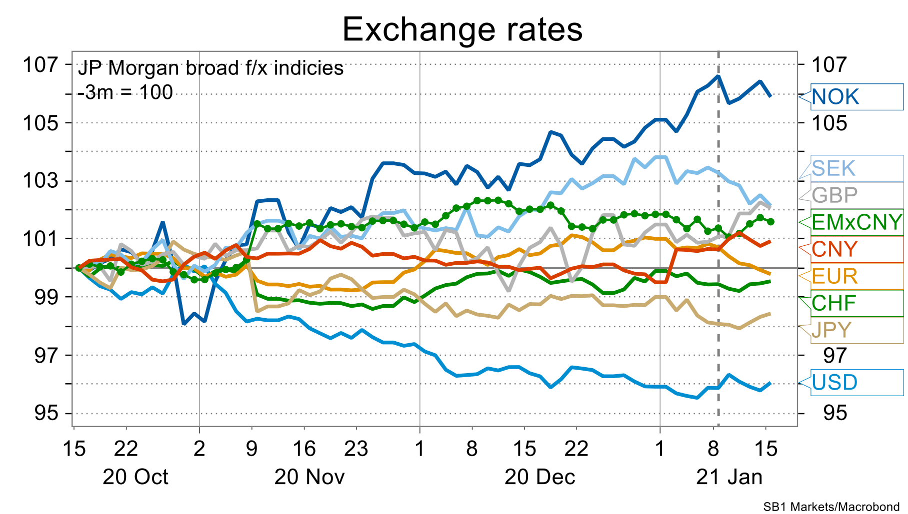
Markets took a breather and dollar slightly stronger ahead of inauguration

Extended coronavirus restrictions aren't helping either…







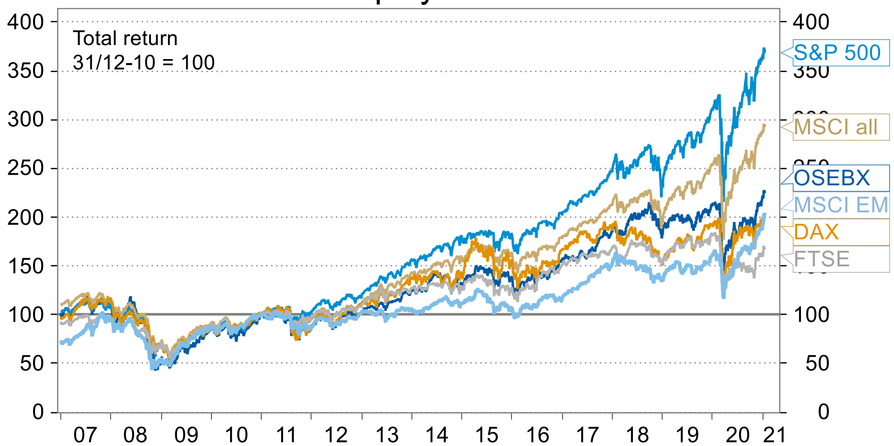


SpareBank 1 MARKETS

US 10y -2 bps, Brent flat since Jan 8th

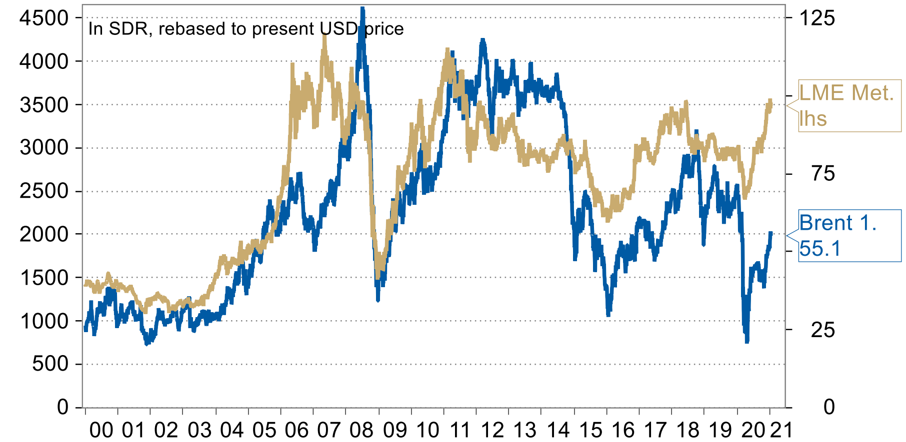
For oil and raw materials the trend is still positive – as for other ‘risk on’ markets

Equity Indices



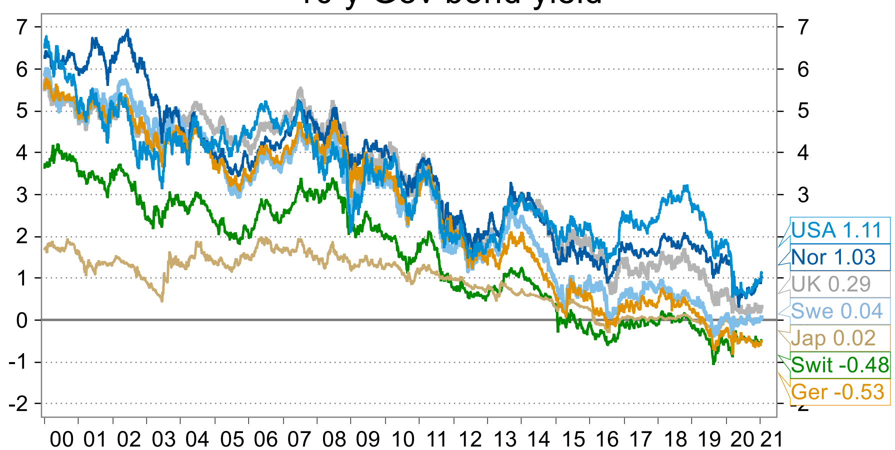
SB1 Markets/Macrobond

Oil vs. metals



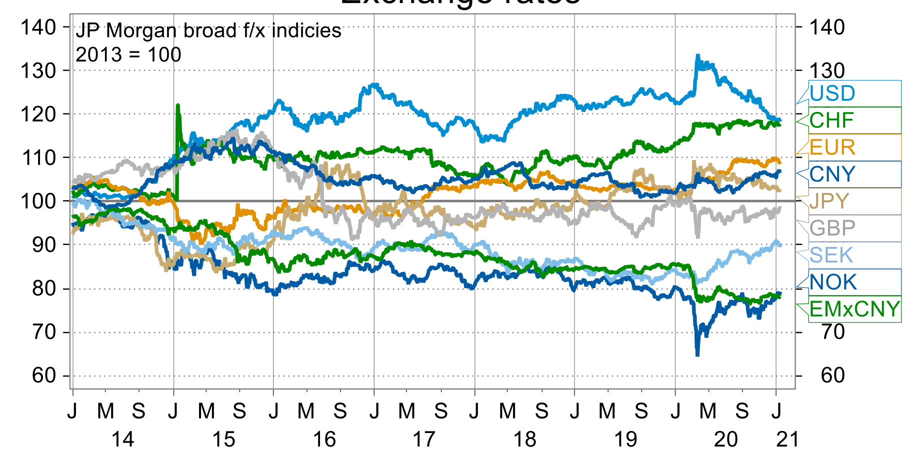
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

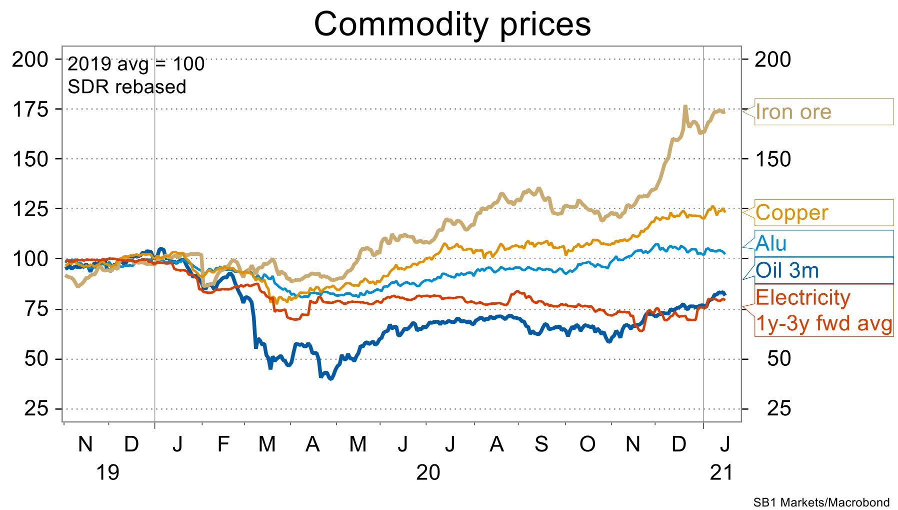
Exchange rates

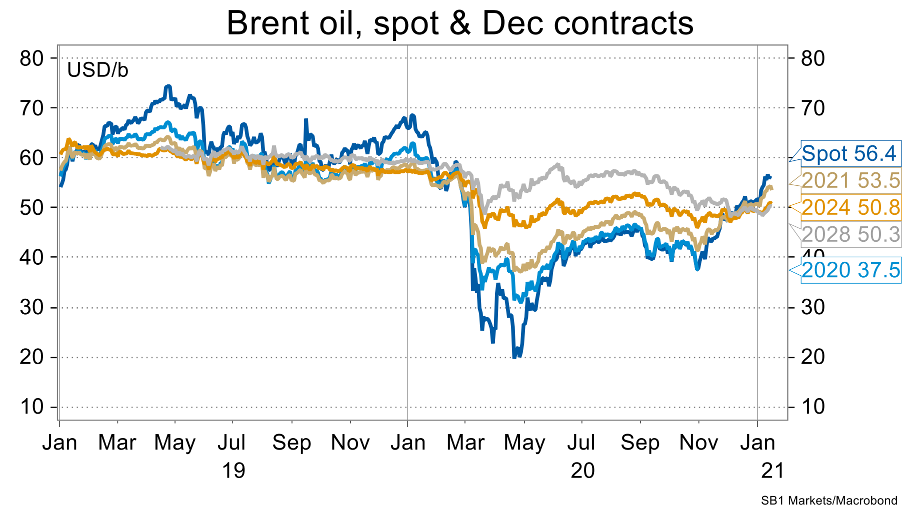


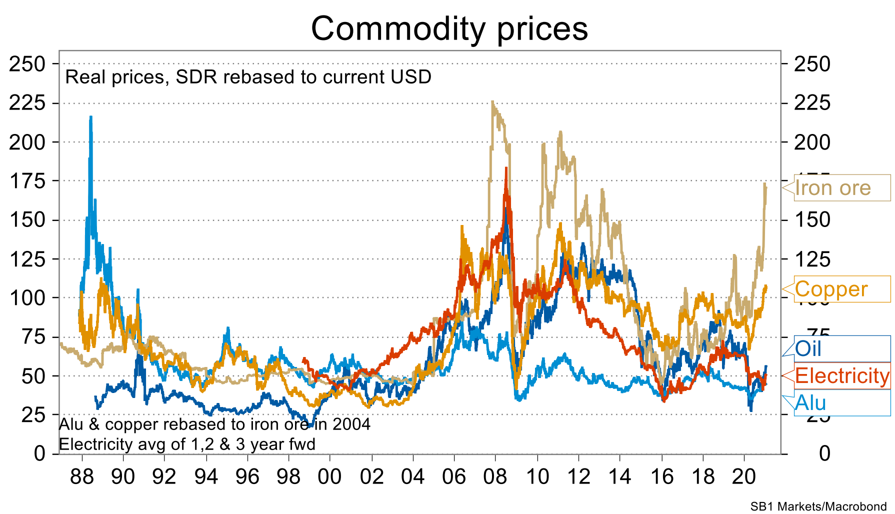
SB1 Markets/Macrobond

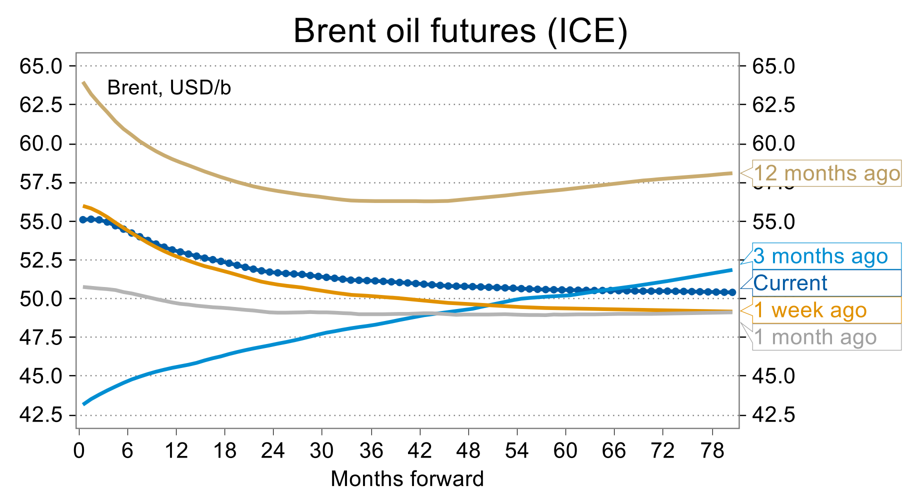
Oil futures up across the curve

Increase in iron ore prices likely due to Chinese recovery



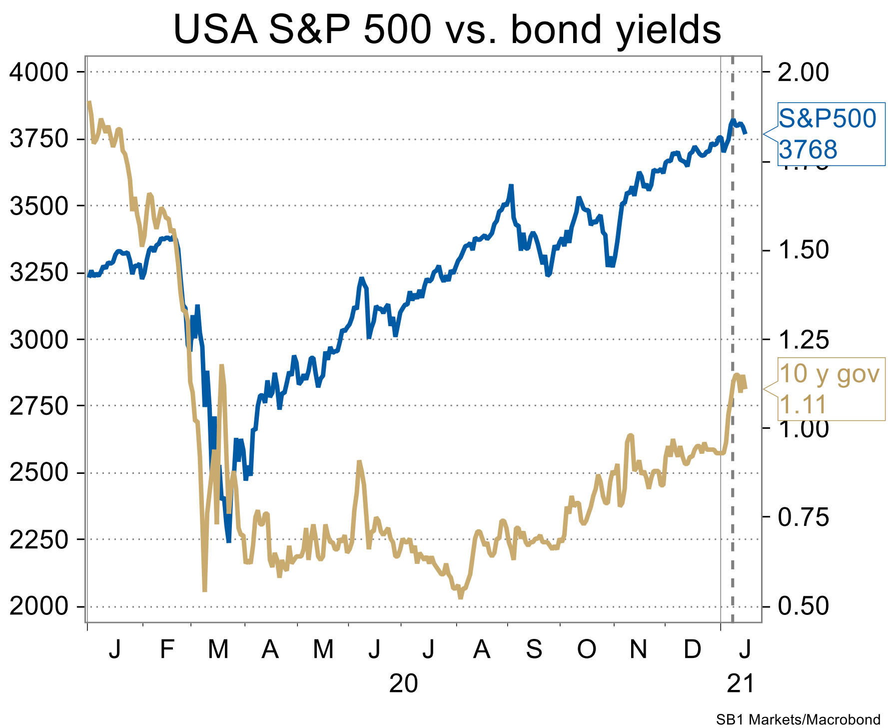


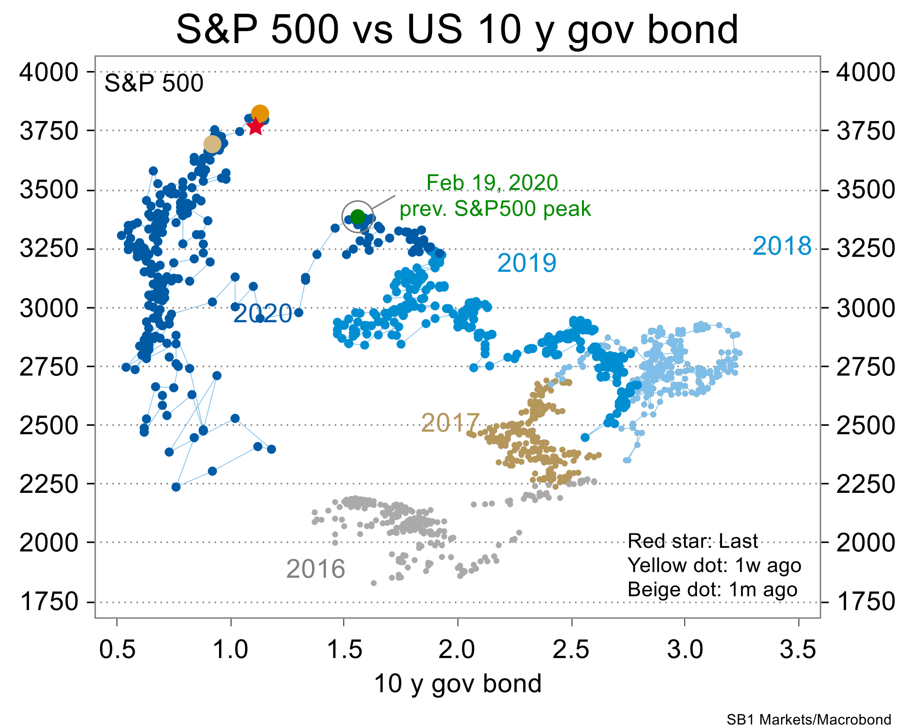




Prolonged lockdowns, poor U.S. retail sales puts markets in wait-and-see modus

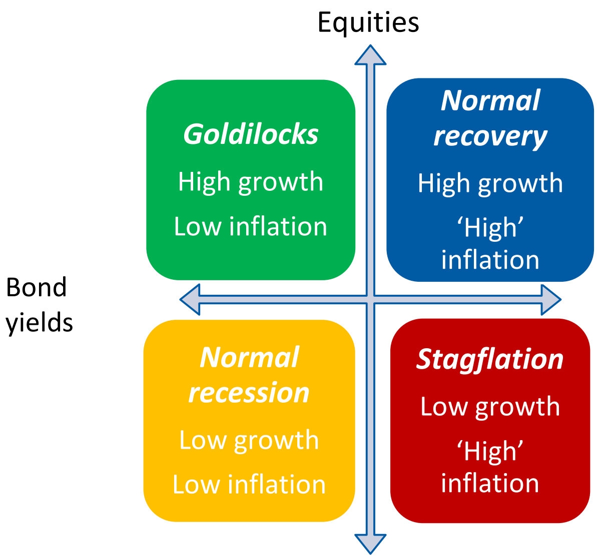
S&P 500 down 1.5%, the 10 y gov bond down 2 bps



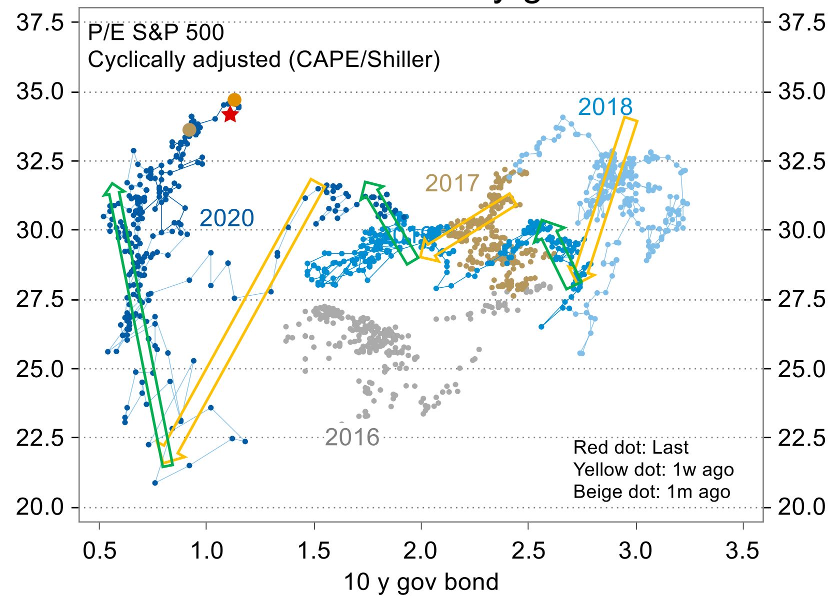


A long term view: From the ‘Goldilocks corner’, where to go?

Over the past month/week: Towards the normal recovery ‘blue’ corner, but we are still in the ‘green’ Goldil.’s



S&P 500 vs US 10 y gov bond

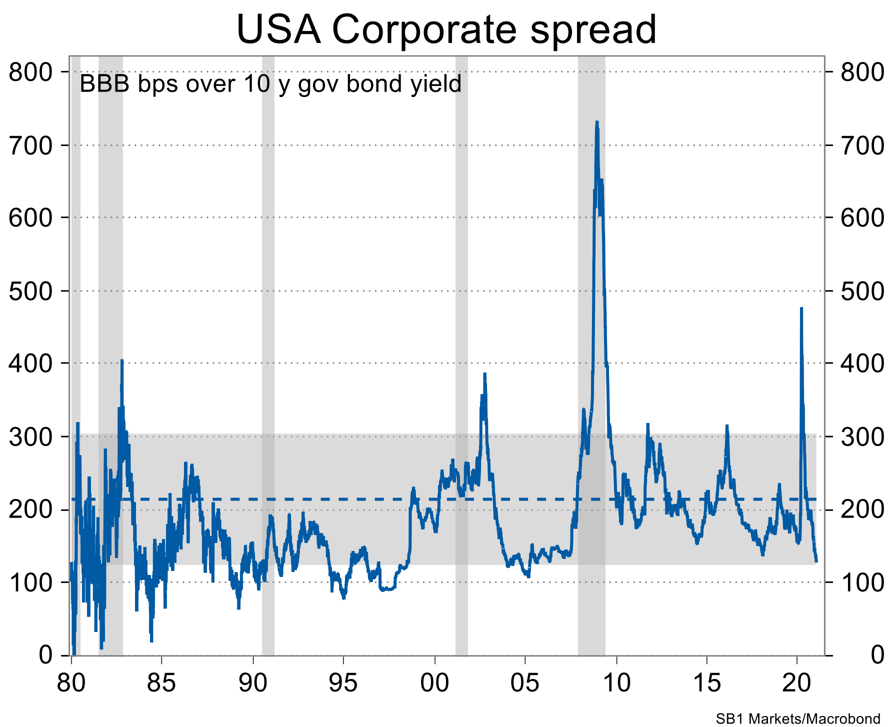


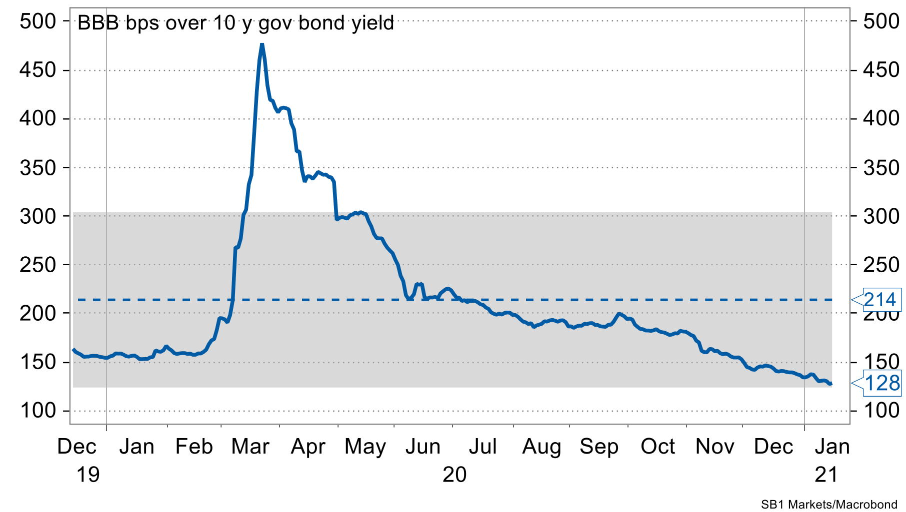
SB1 Markets/Macrobond

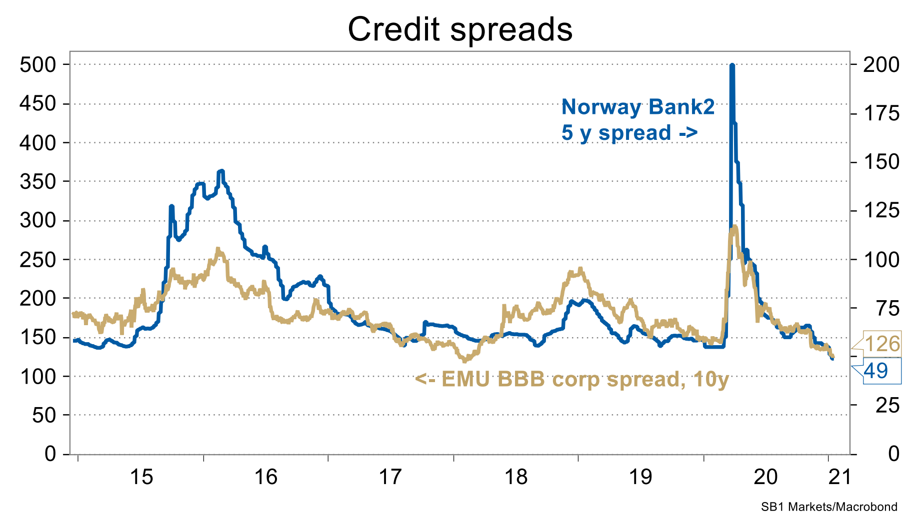
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 2% for some time. As a bonus (at a late stage of a cycle), that would also make it possible for the Fed to push employment higher and profits margins lower (which the market will not discount before it is too late?)
- Will we stay up here, in the green? Perhaps, for while – but probably not, long term
  - » The economy has rebounded rapidly from the corona trough. Any substantial disappointment on corona/vaccine or the growth cycle in general would be challenging for the equity market. Still, the corona hit is most likely behind us, and vaccines have arrived
  - » The Fed will not yield from its new strategy anytime soon. However, (higher than expected) actual wage or price inflation numbers or just a rapid decline in the unemployment rate may shake the market’s confidence in the sustainability of Fed’s strategy, pushing long term bond yields up. Again, the risk is not serious, short term
- Why are we sceptical vs. the long term outcome? Before corona, the employment rate was high in the core age group, businesses reported (and are now again reporting) unprecedented lack of labour, wage growth was not low vs. CPI inflation or productivity. Profits were under pressure, and investments on the way down. Interest rates had not been too low, even if that is the popular view these days

Credit spreads keep tightening

US corporate bond spreads haven't been lower since 2005!



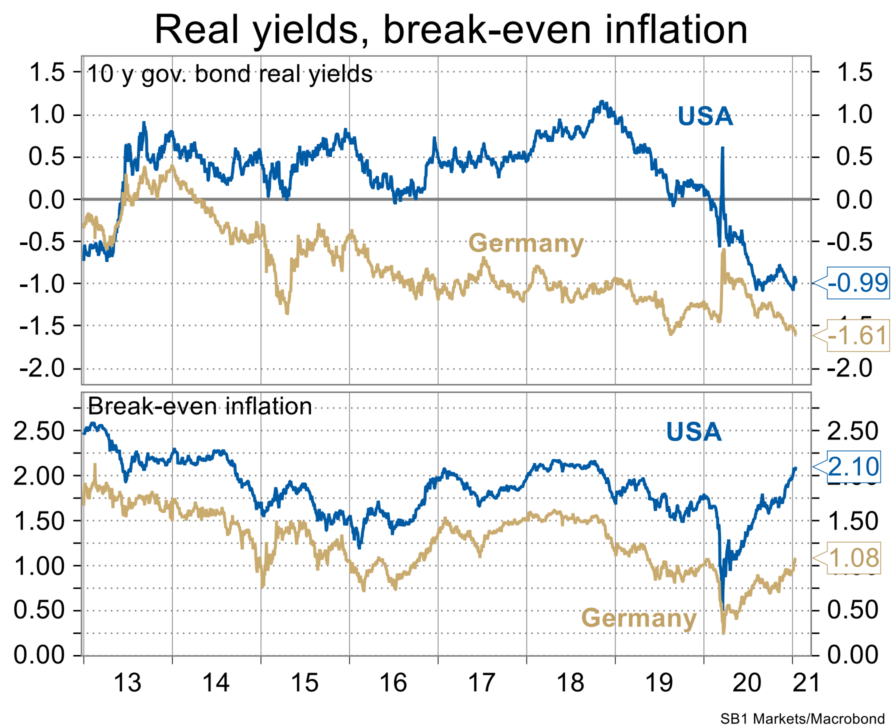


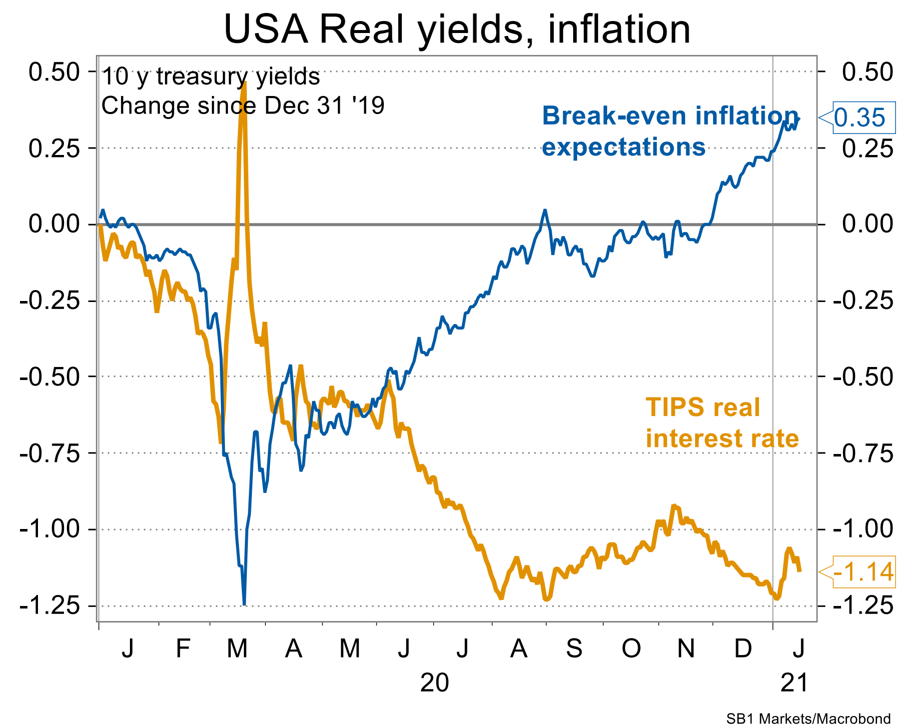


SpareBank 1 MARKETS

Does helicopter money bring back inflation? The market thinks so

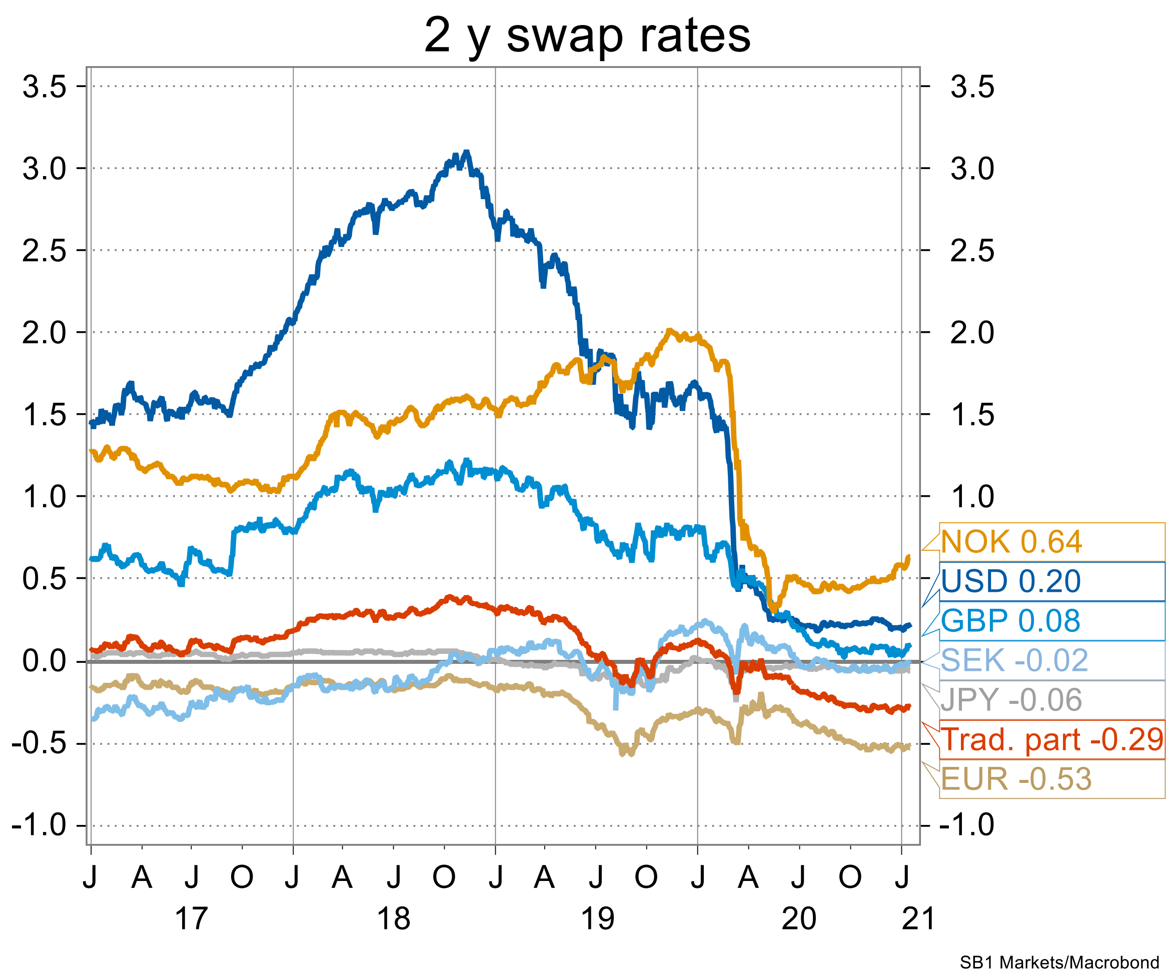
Inflations expectations kept rising last week; now at 2.10%. Powell sounded dovish last week

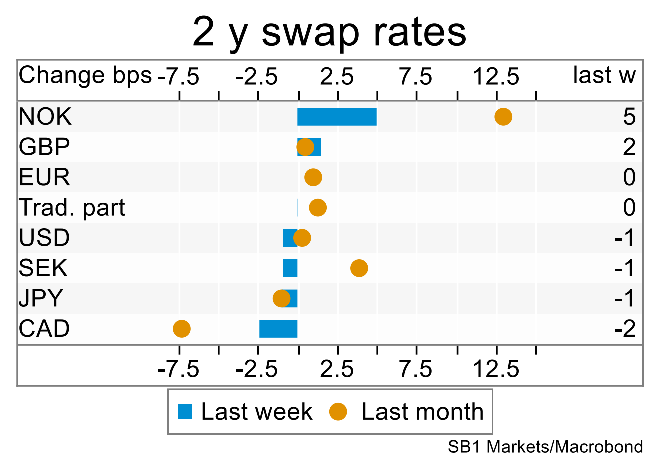




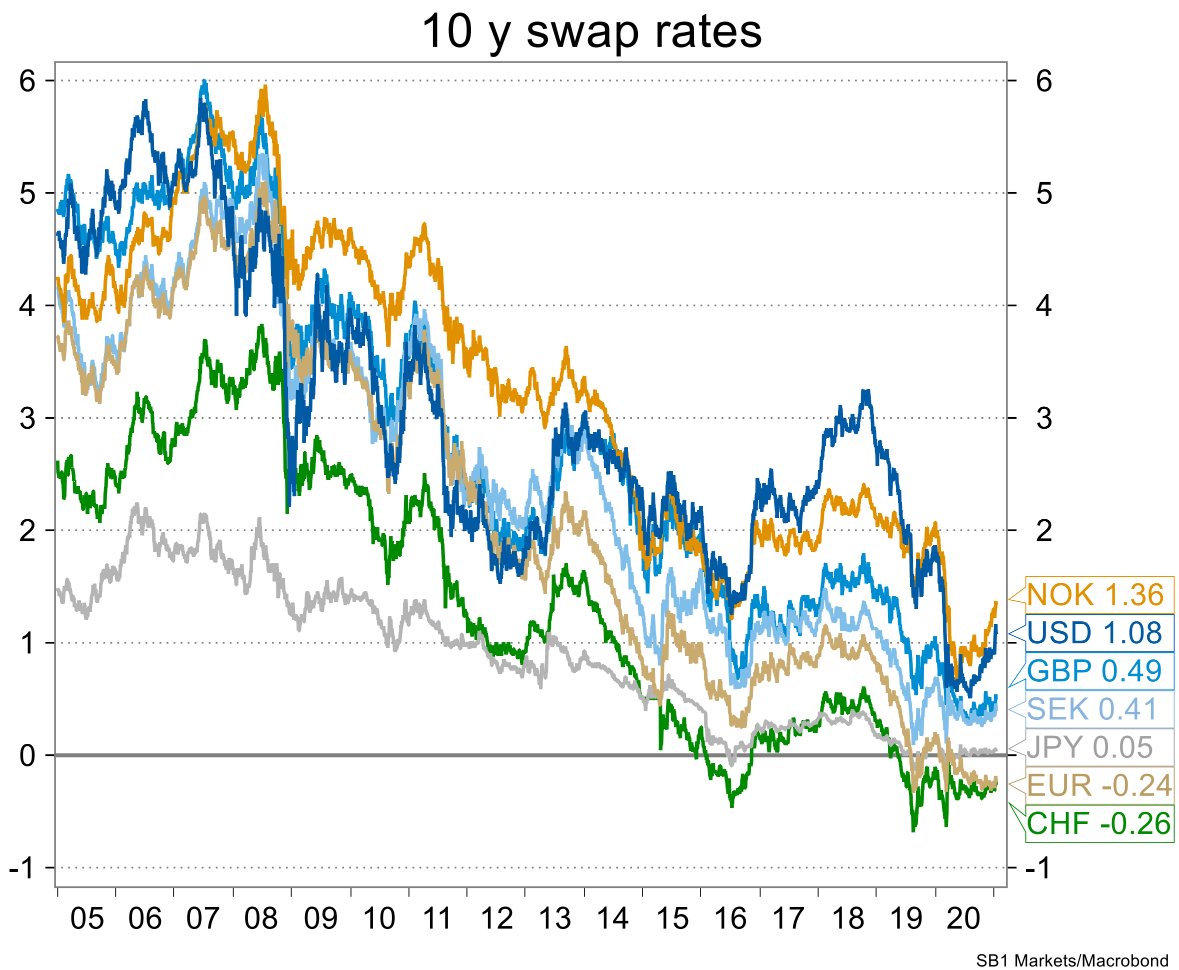
- US 10 y -2 bps
  - » Inflation expectations up 3 bps to 2.10% (and up 30 bps from late Nov) – and at the highest level since 2018
  - » The TIPS real rate fell 6 bps to -0.99%. The level remains almost 1 pp below the pre-corona level (and 200 bps lower than in late 2018)
- Germany 10y -2 bps
  - » Inflation expectations up 5 bps to 1.08% over the past week
  - » Real rate down 6 bps -1.61%, close to ATL – once more

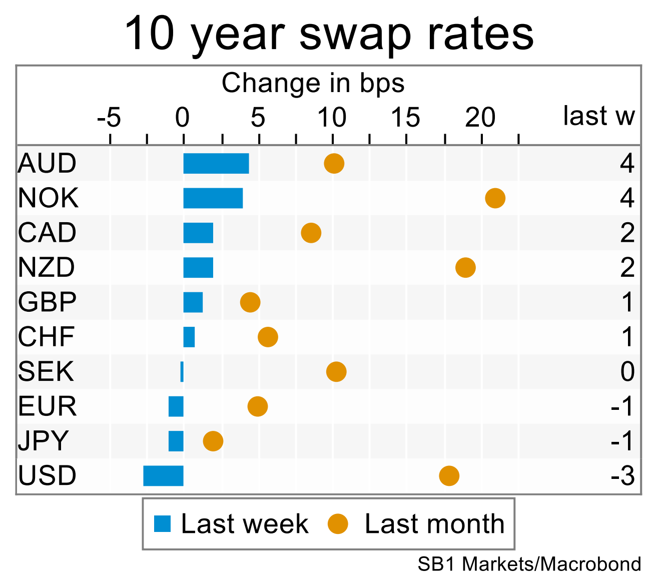
Short term swap rate close to flat, except for NOK rate (+5 bps w/w, +13 m/m)





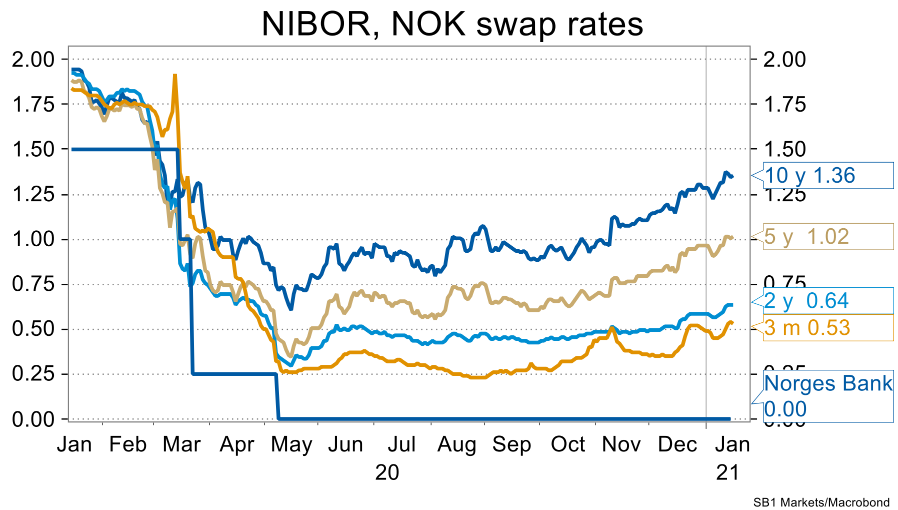
USD 10 swap rates down 3.7 bps. Rates of supercycle countries up

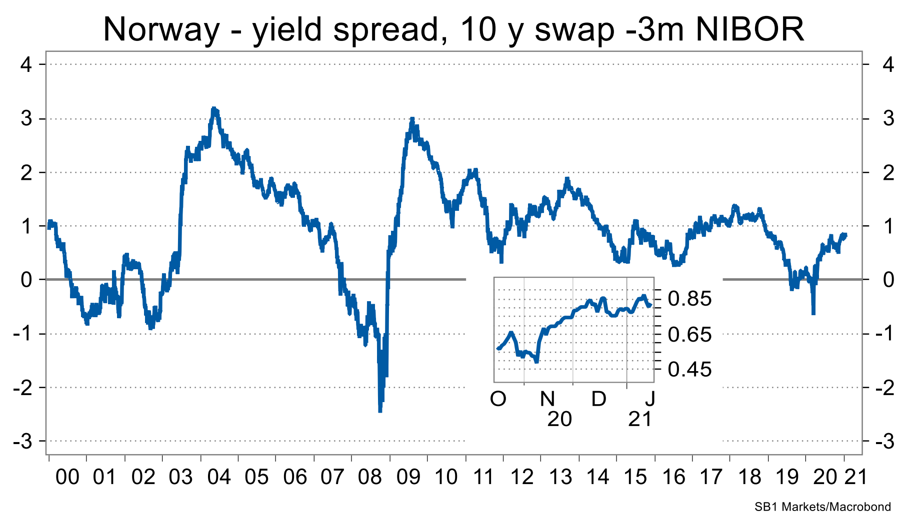


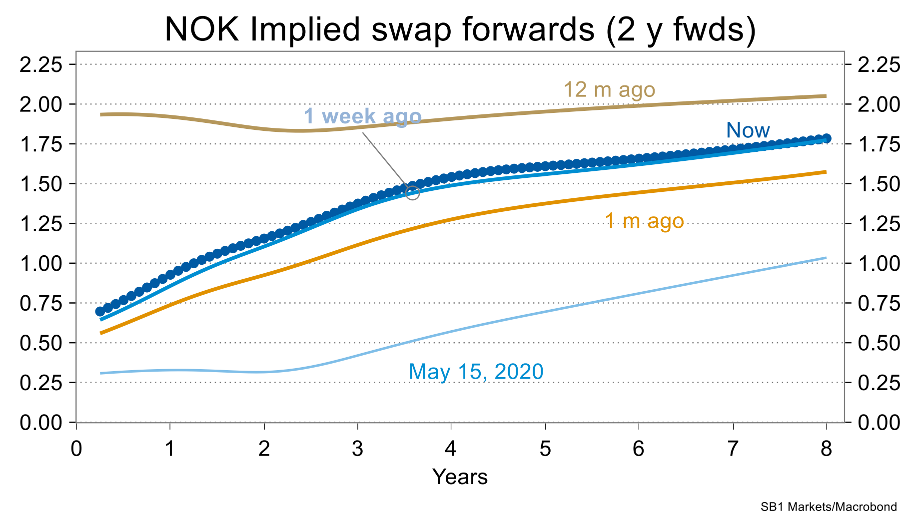


NOK swap rates up across all maturities

The 10 y swap rate has more than doubled vs the May trough – and is still at low level?

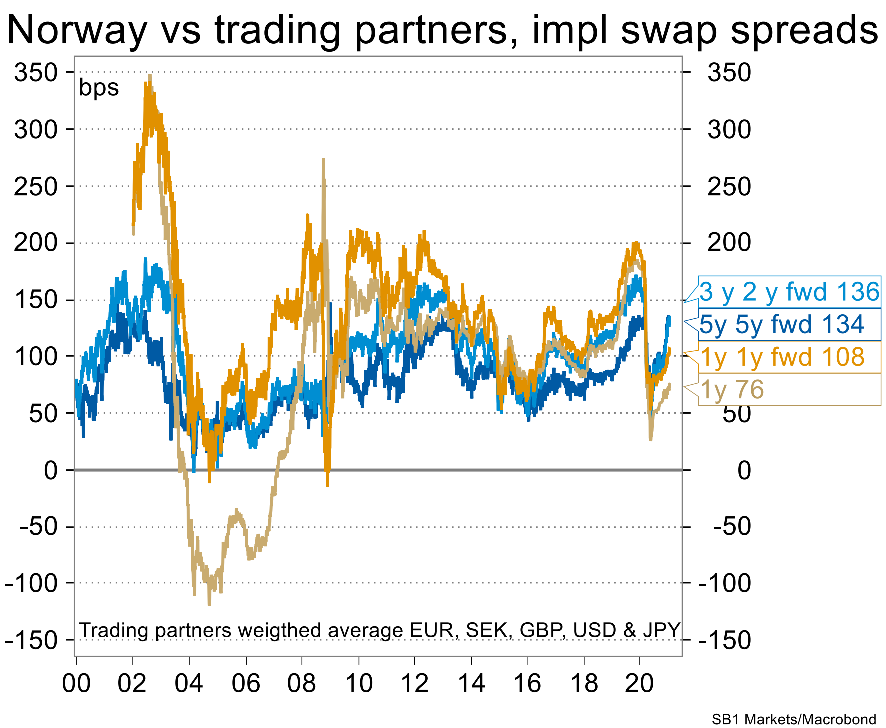


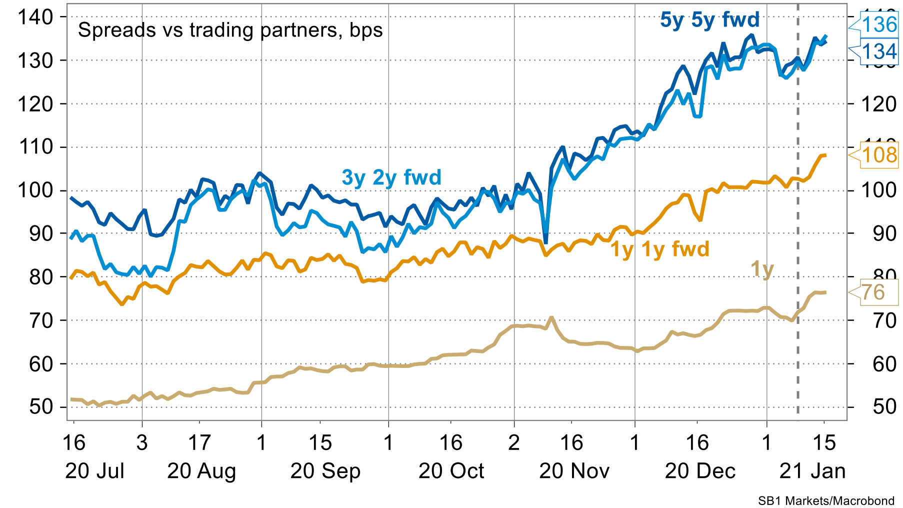


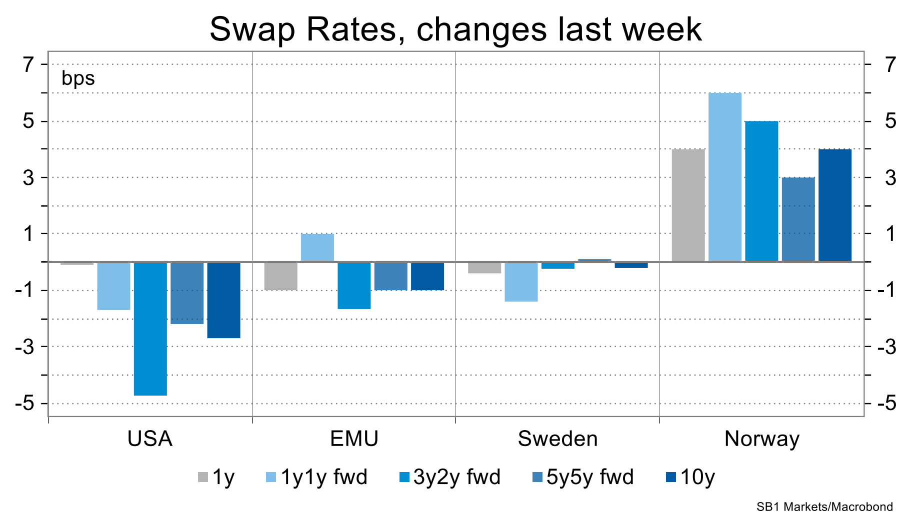


Spreads vs trading partners widened yet again

Norwegian swap rates up 3-6 bps last week, rates abroad fell last week

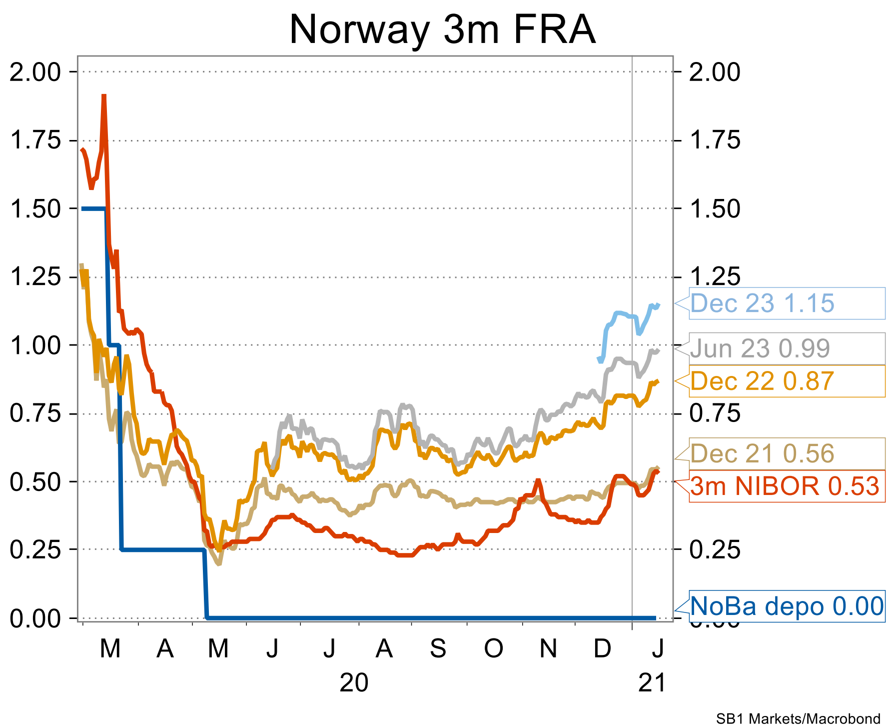


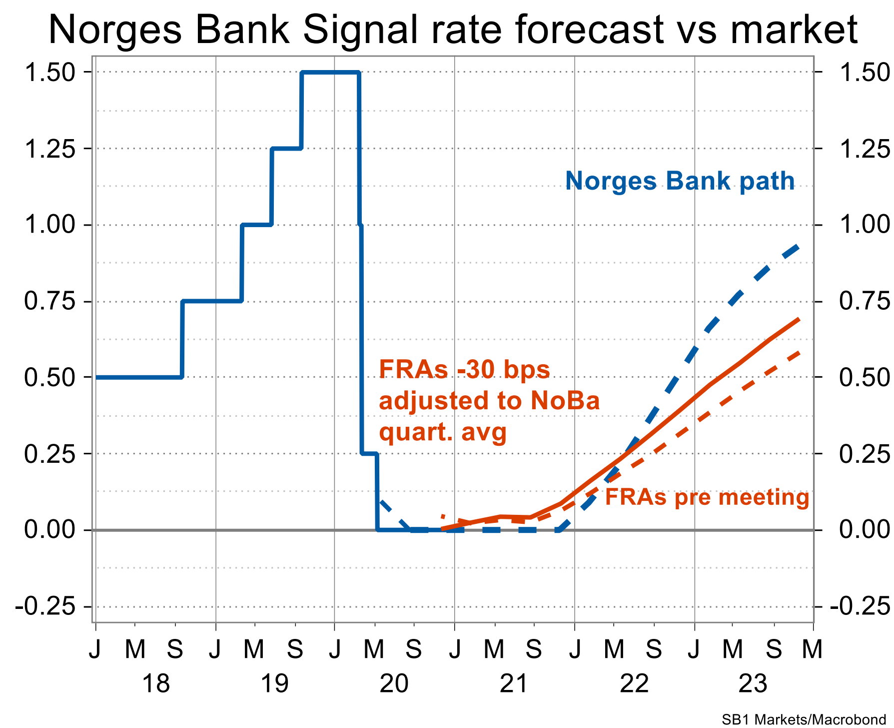




- The spread has widened substantially since the spring. We have been neutral to the spread. We expected rates to rise both abroad and in Norway. As we were uncertain on the investment outlook in Norway, we did not recommend betting on a more rapid steepening in Norway than abroad – even in the Norwegian housing market recovery from May could trigger at faster tightening in Norway. The spreads have to widen more before it's 'too much'

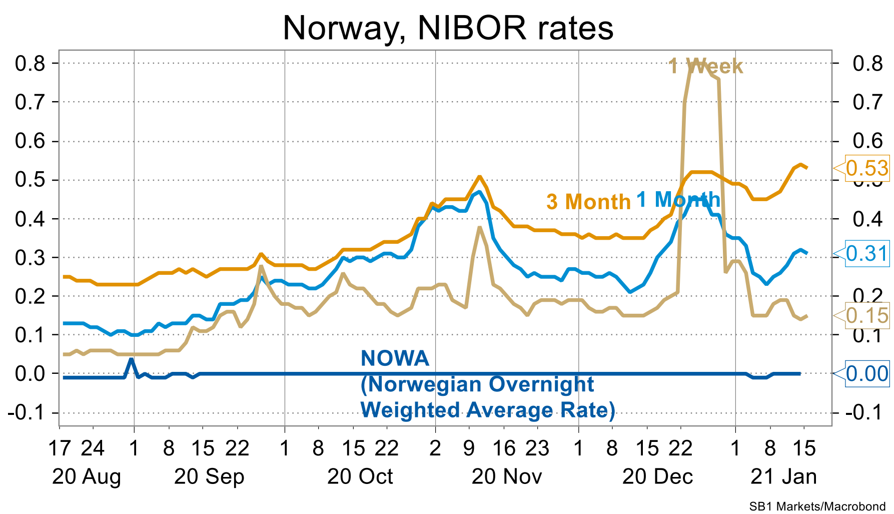
3m NIBOR FRAs up – Spot rate now at 0.53 bps

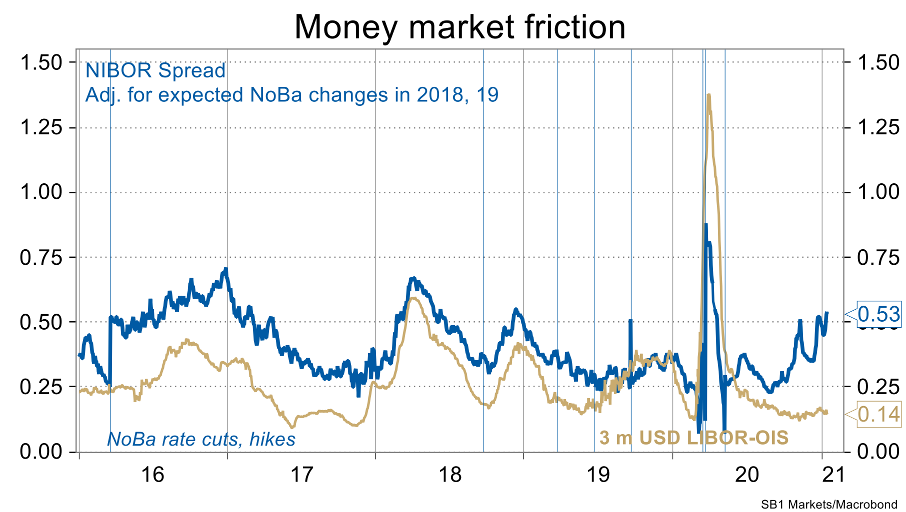


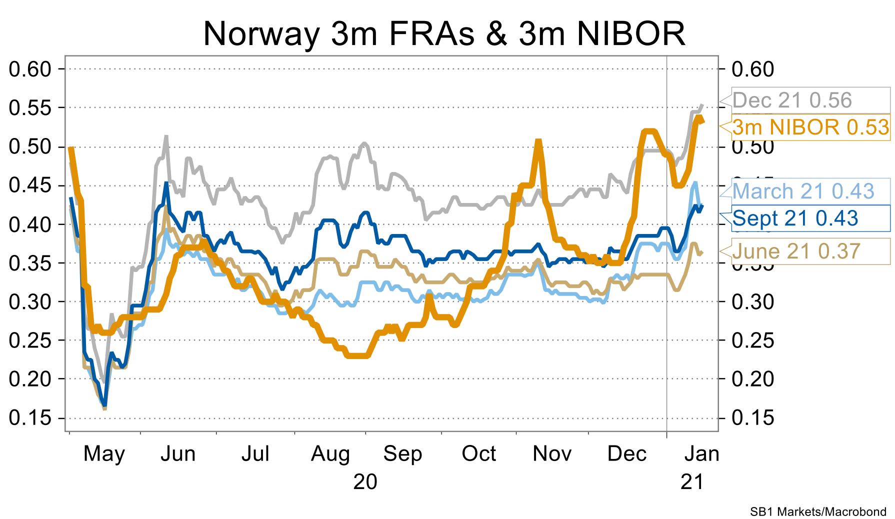


- The FRA curve steepened before Christmas due the 'aggressive' rate message from NoBa. Of course, the Bank was not specifically hawkish per se but obviously more hawkish than the market expected beforehand
- The FRAs are up again, and we find it surprising that NoBa hasn't reacted more hawkish to the spreading out of the 3m NIBOR

NIBOR rates up, expect the 1w NIBOR down to 0.15%



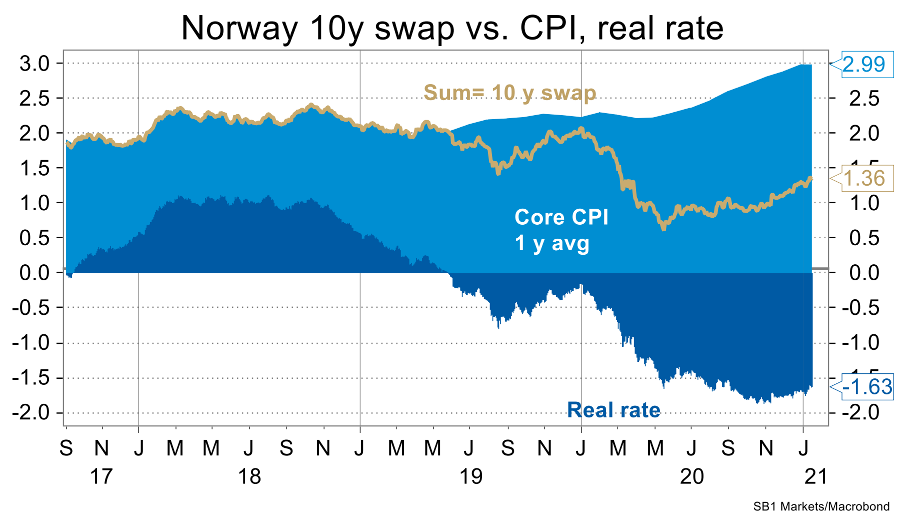




- The 3m NIBOR rate is still rather elevated, and even the 3m March FRA at 0.43% implying a much higher spread vs the signal rate than normal. The June FRA is at 0.37%, up 3 bps last week
- There are no signs of stress in money markets in other countries
- Norges Bank has thus far not taken any action to tighten the spread to the signal rate

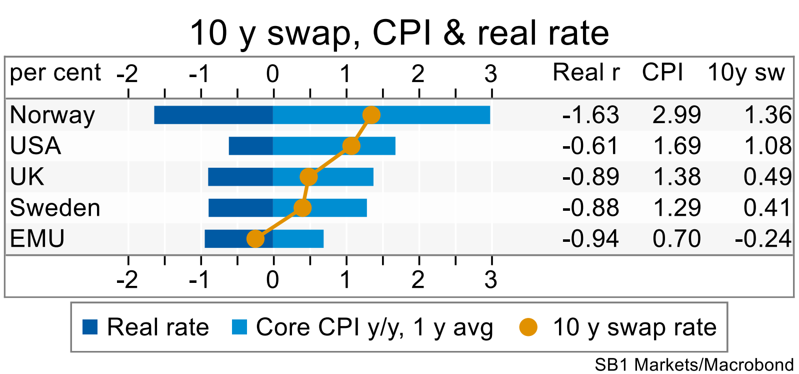
SpareBank 1 MARKETS

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 75 bps since the bottom in May, to 1.36%!
- The real rate, after deducting average inflation over the 2 past years still equals -1.63%



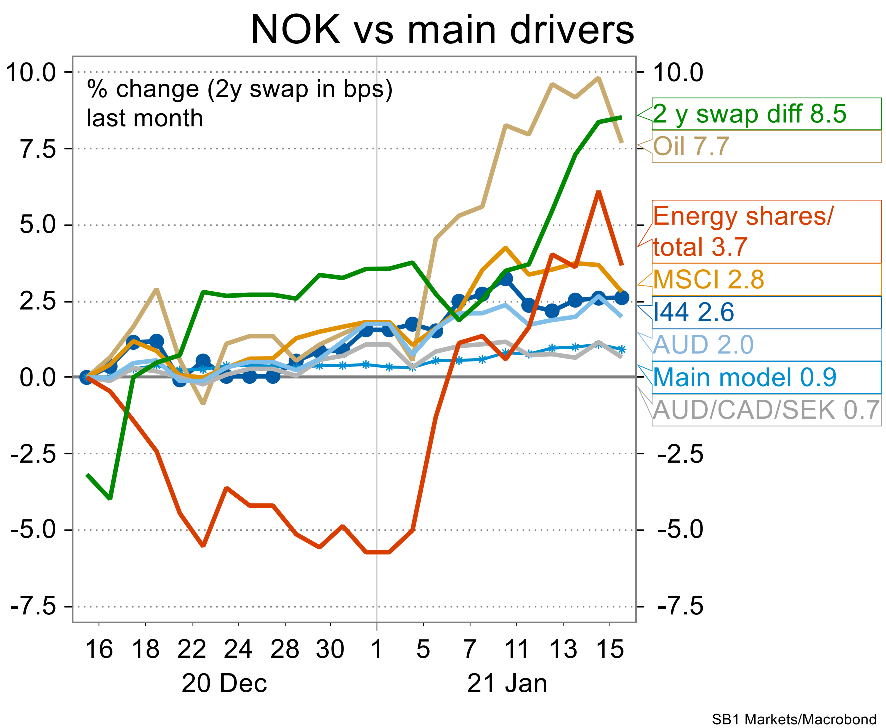
NOK real rates among the lowest, as inflation is at the top

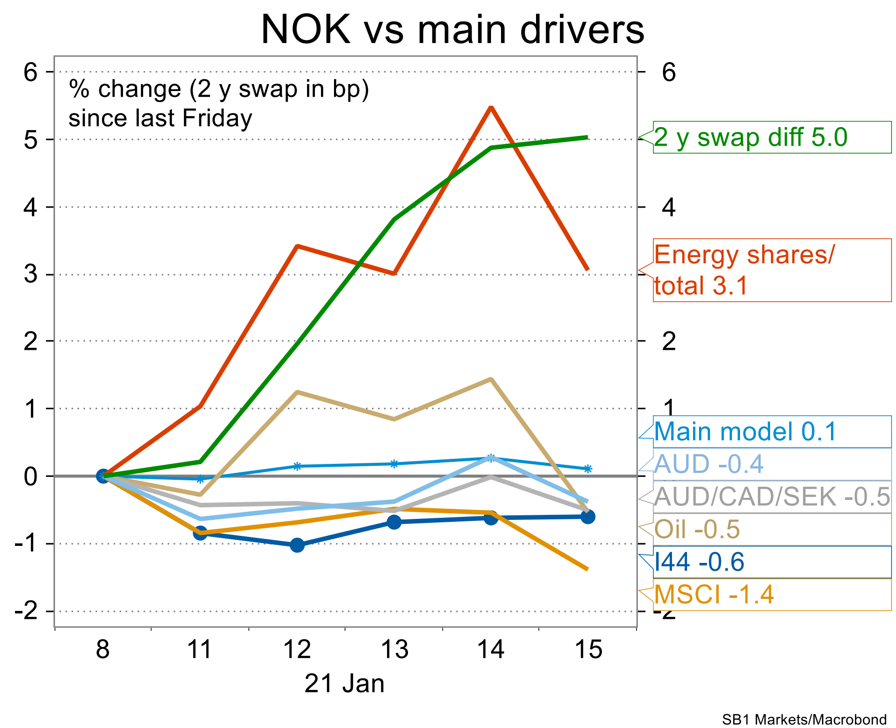
- Inflation among Norway and our main trading partners varies between 0.70 pp to 2.99% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top, by far
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- Real rates are quite similar among our trading partners, at -0.6% to -0.9% measured vs. the 10 y swap rate and core inflation over the past two years
- Thus, the Norwegian real rate at -1.6% is an outlier at the downside, even if the nominal rate is the highest

SpareBank 1 MARKETS

NOK down last week – together with our peers and the market

The oil price essentially flat since last week

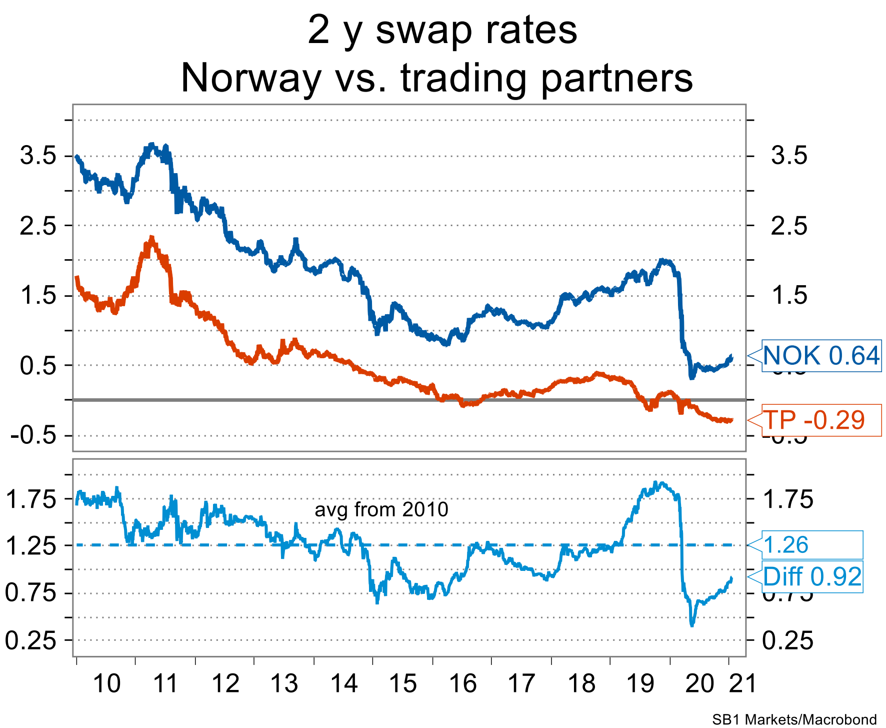


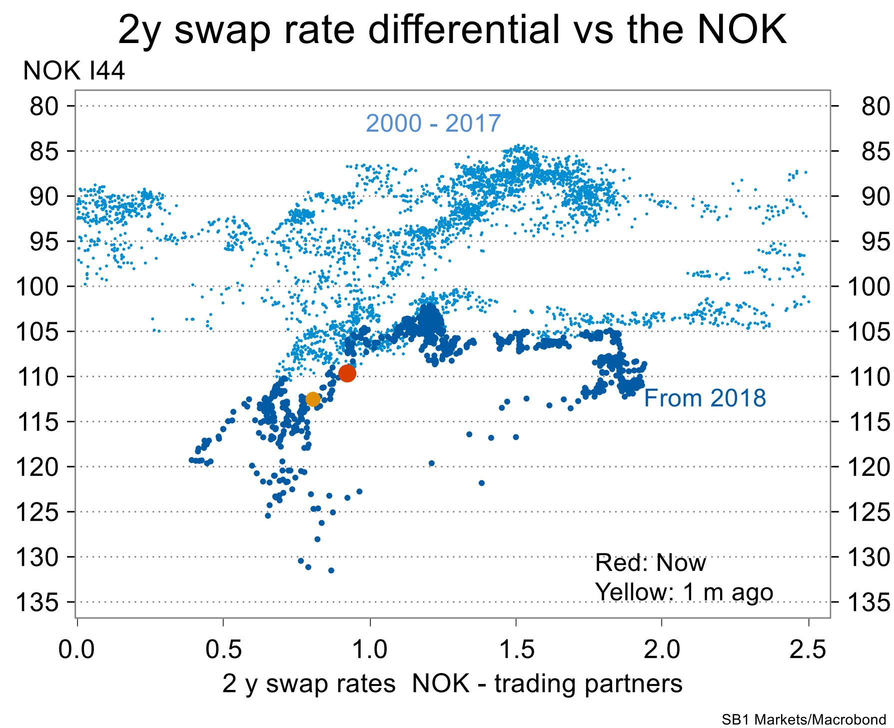


- The NOK is 1% weaker than suggested by our standard model
- The NOK is 5% 'weaker' than the global stock market vs the correlation between the two in 2020
- The NOK is 8% weaker than an average of AUD/CAD/SEK, our 'supercycle peers'
- On the other hand, the NOK is far (13%) stronger than a model which includes global energy companies equity prices (vs the global stock market), even after the impressive energy sector recovery recent weeks (that took a break last week)

Can Norges Bank walk the walk alone? Will the NOK become too strong?

In our models, a 2y swap 1 pp spread widening yields a 7% stronger NOK

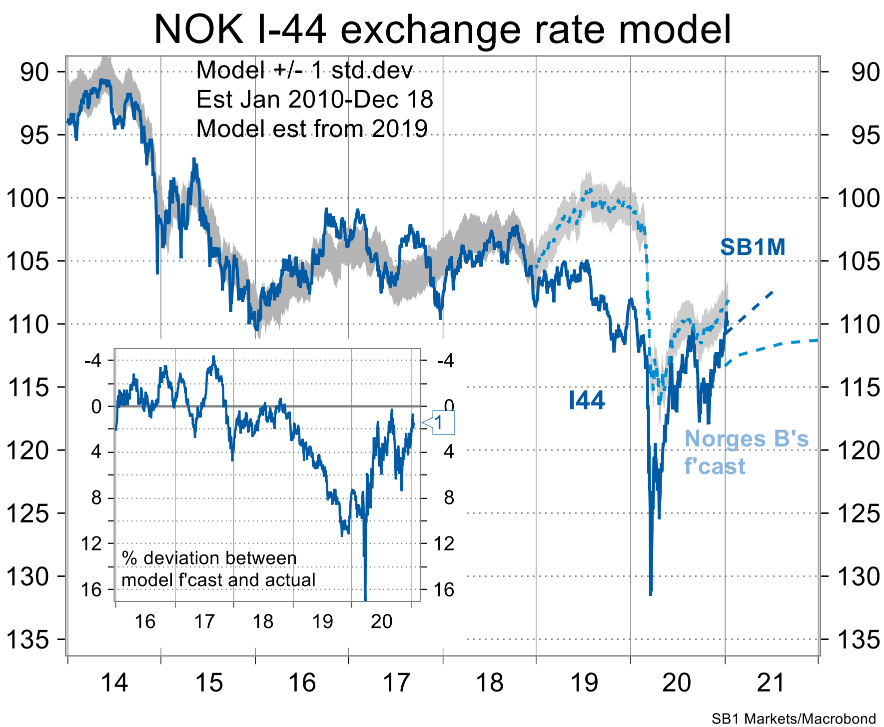


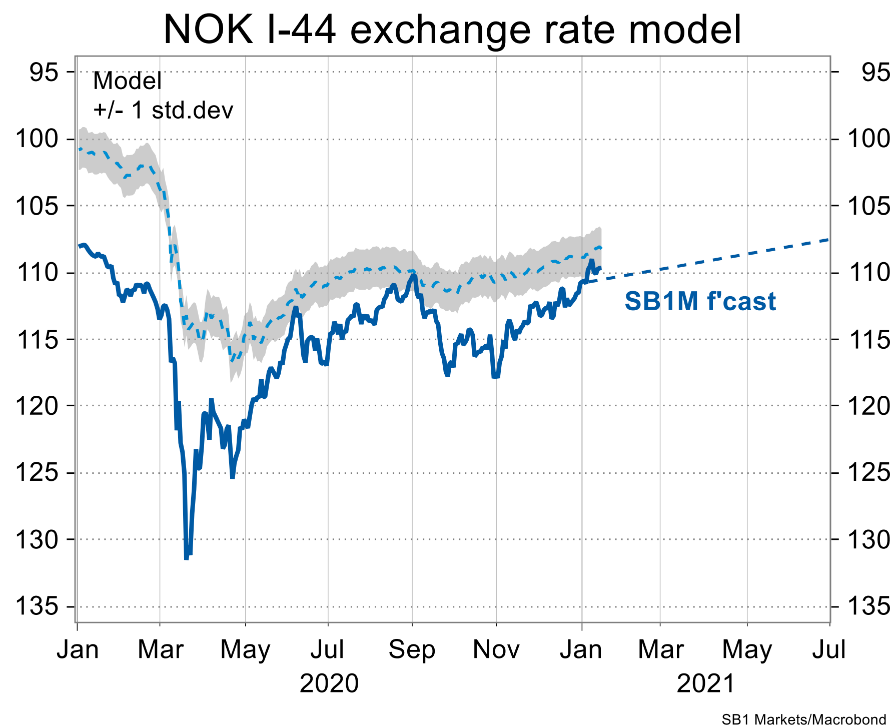


- However, the relationship is far from stable – and the oil price is usually much more important – and other factors are more important, at least from time to time

NOK I44 down 0.7% last week, our model said flat

The NOK is just 1% below our model forecast



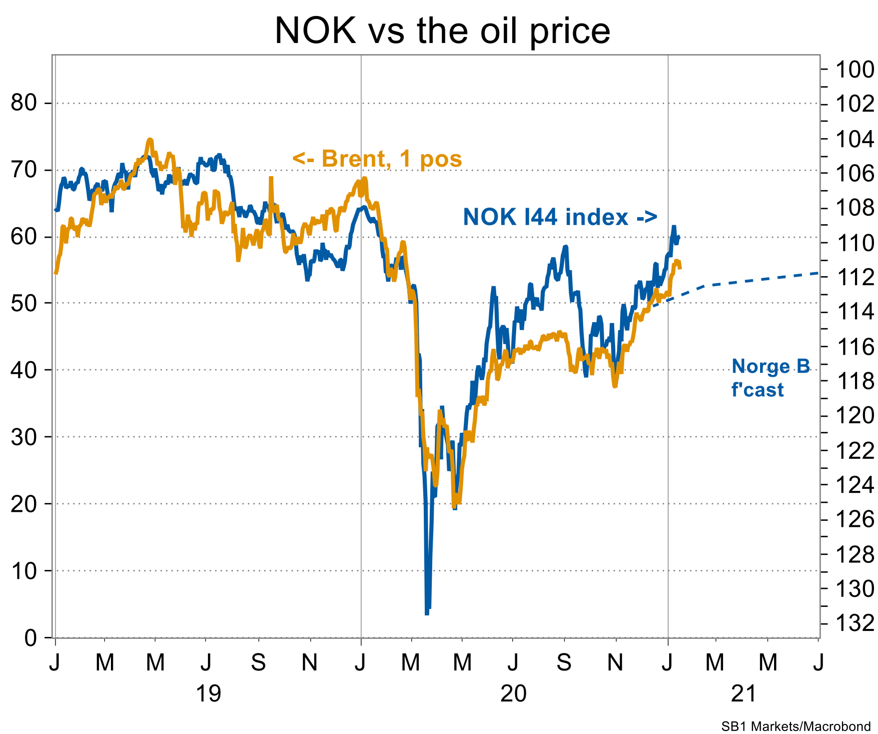


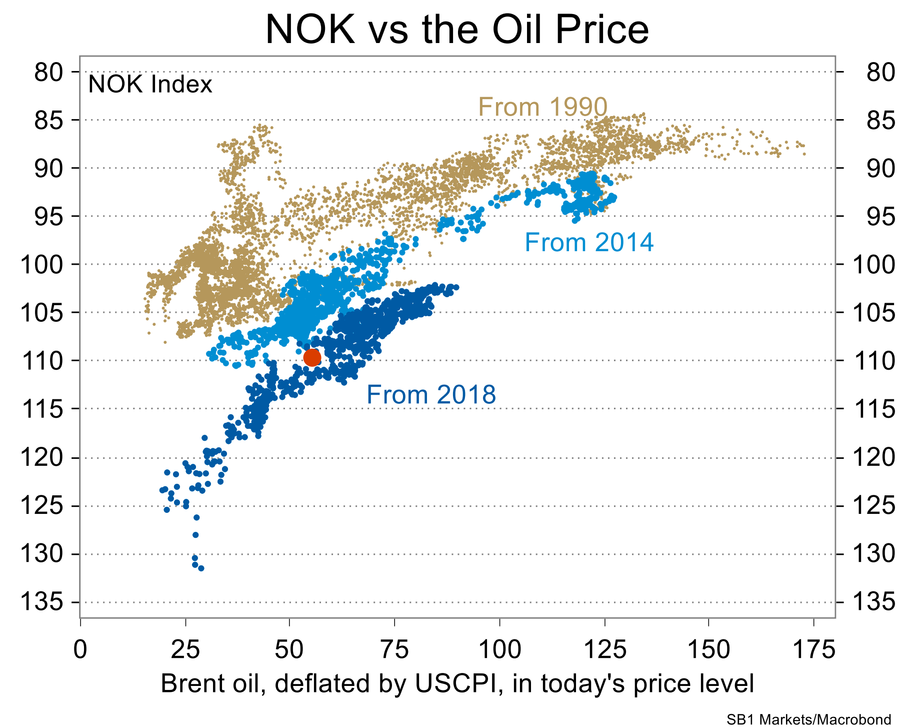
- The estimation period now includes 2018. The inclusion of the extra year did not change the model's forecasts significantly (well below 1%)

SpareBank 1 MARKETS

NOK down – oil price at status quo

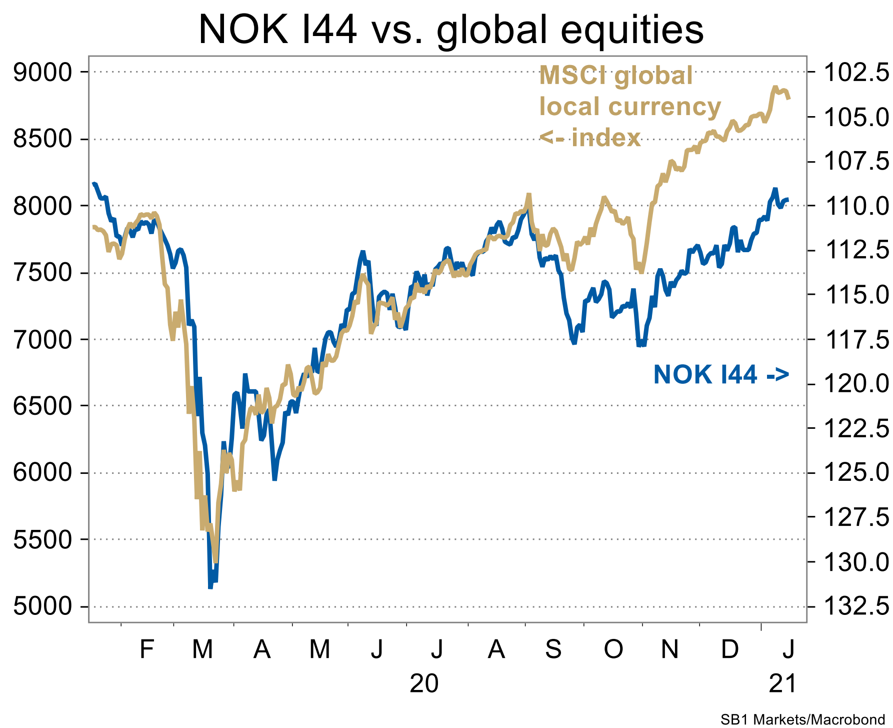
The oil price is still important for the NOK but the correlation has not been impressive since July

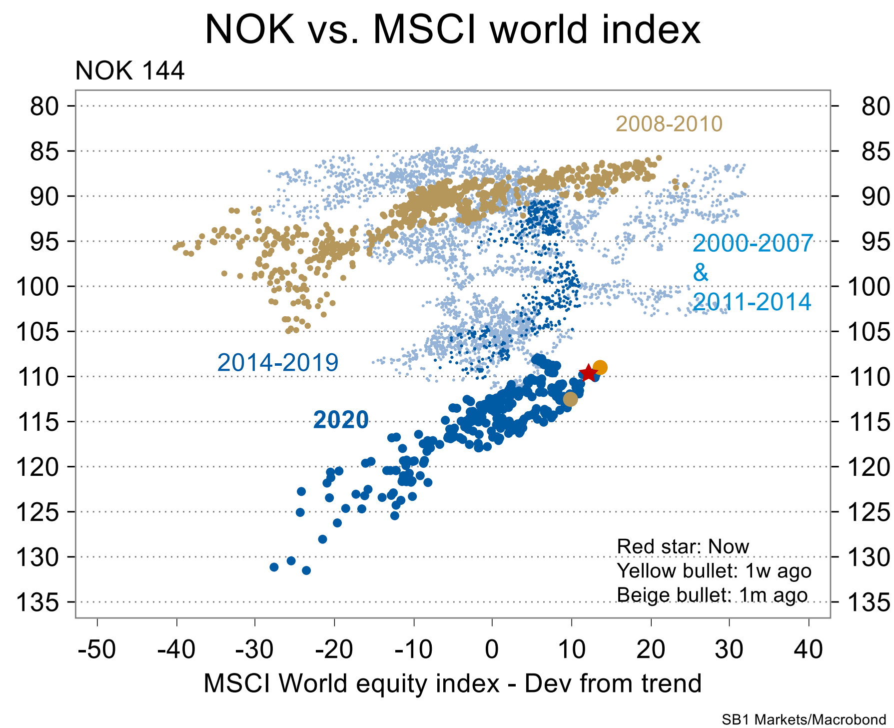




NOK & global equities down; Equities marginally 'more' than NOK last week

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

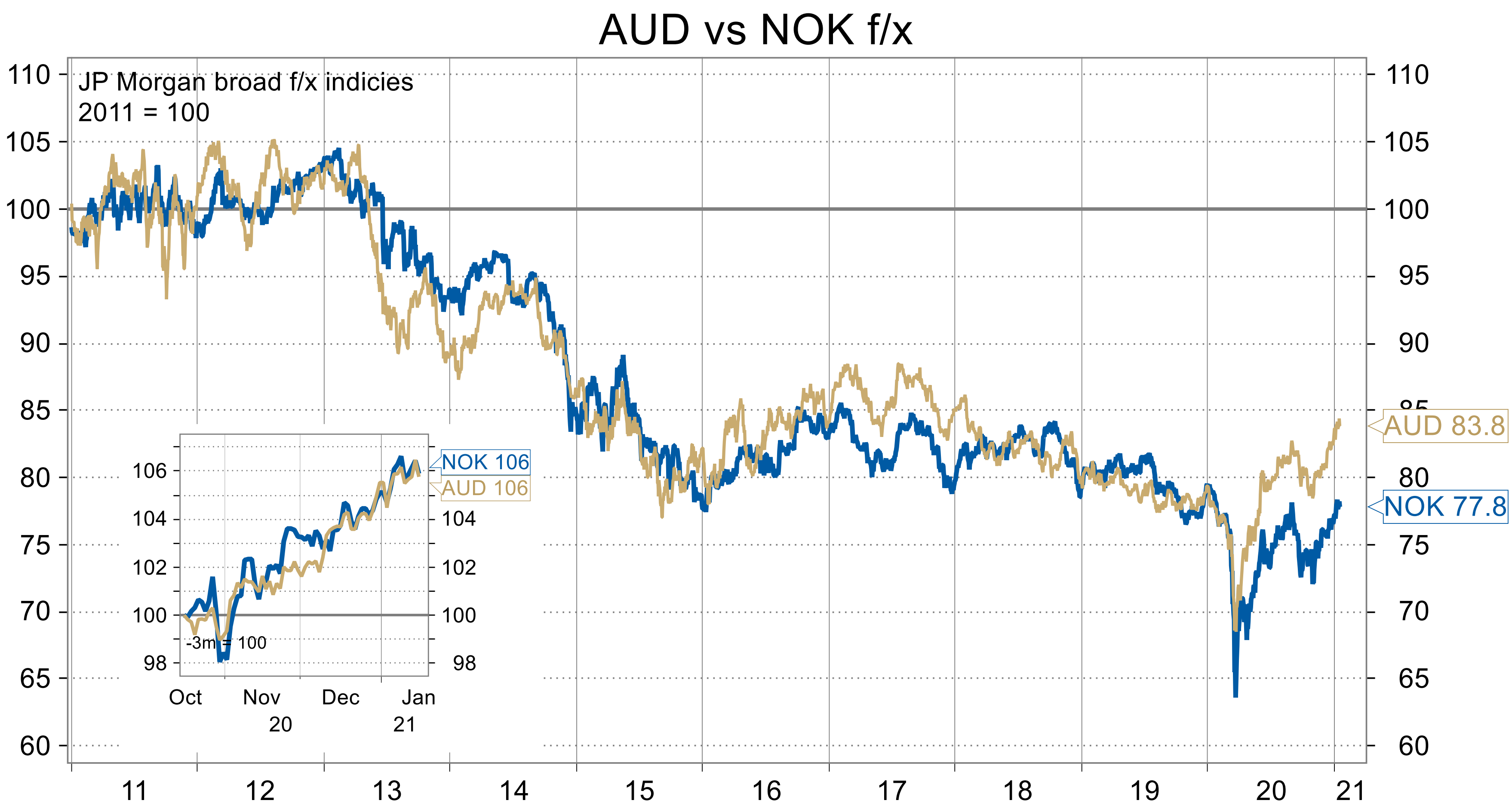




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with pretty close correlation like we have seen since early 2020
  - NOK has not been correlated to OSE/MSCI (which 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 5% weaker than 'normal' vs the stock market – (the gap that built up since early September, based on the link between the NOK and MSCI since Jan 2020)

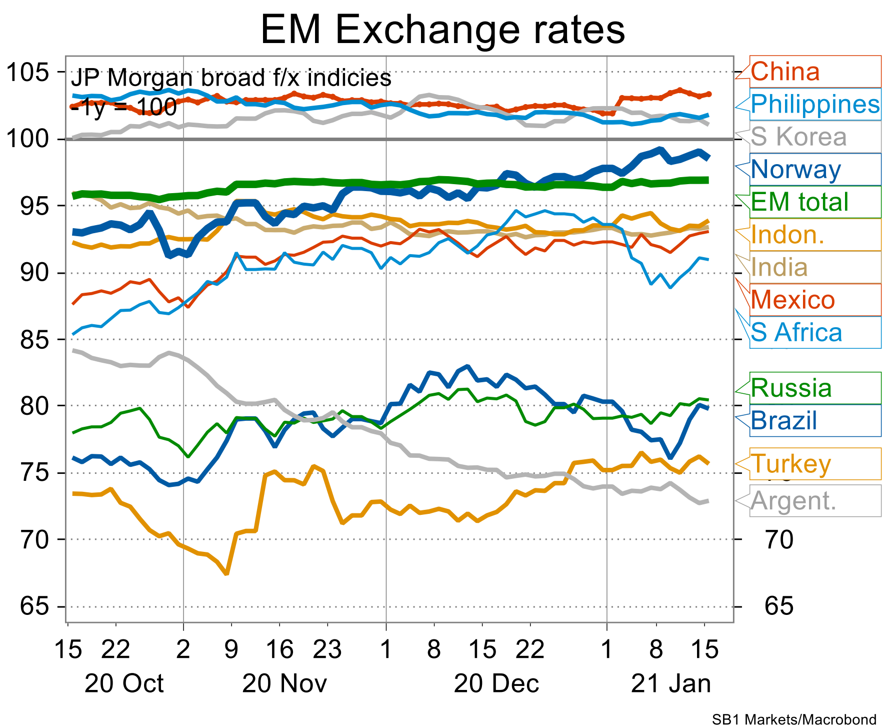
The brother in arms on the way up. Still, AUD has gained 7% on the NOK in '20

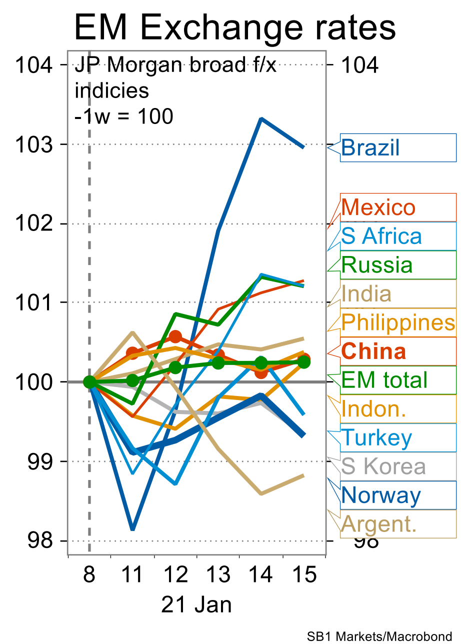
Fair? Not sure. The Aussies are having a clash with their largest trading partner (China)

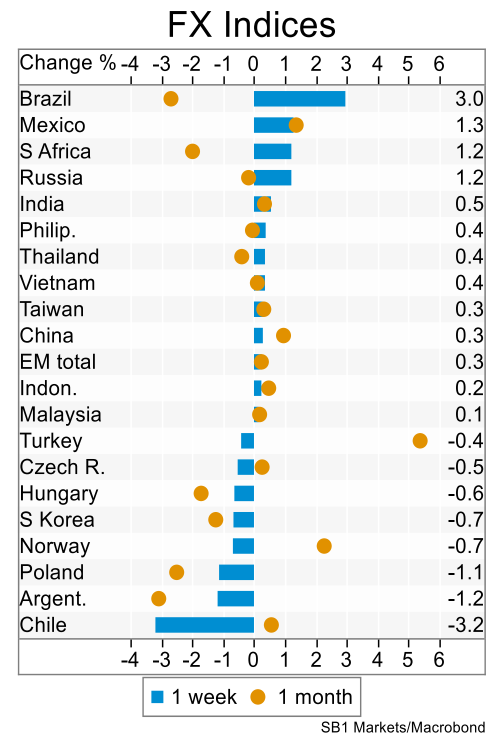


SB1 Markets/Macrobond

EM f/x mixed, slightly more up than down







DISCLAIMER

DISCLAIMER

SpareBank 1 Markets AS ("SB1 Markets")

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

No investment recommendation

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

No personal recommendation

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

Research for the purposes of unbundling

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

Conflicts of interest

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

Accuracy of sources

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

Risk information

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

Limitation of liability

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

Limitation on distribution

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