25 January 2020

Macro Weekly

Week 4/2021

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: Mostly bad corona news – but new cases still on the way down

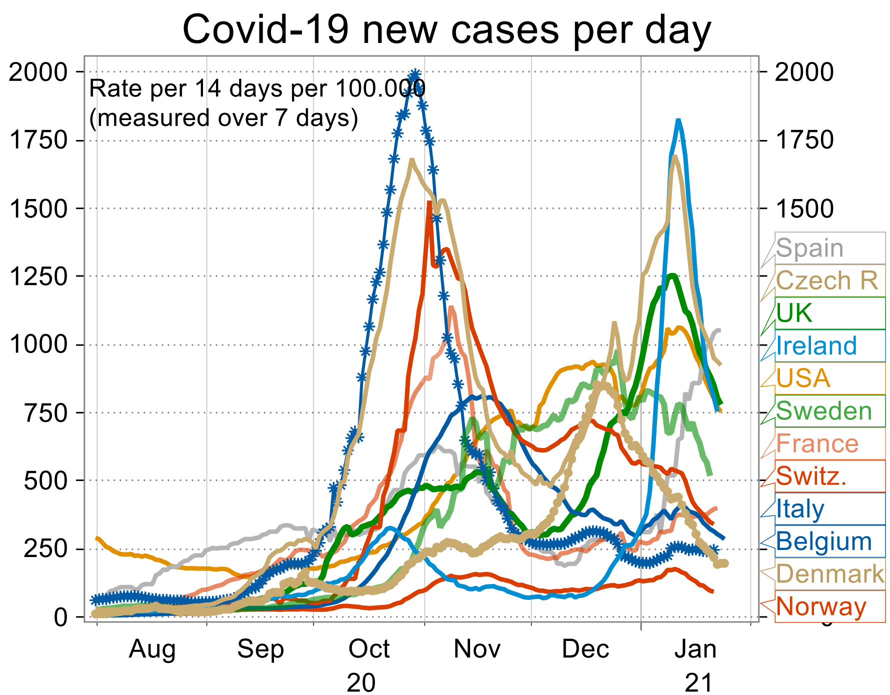
- **Tight lockdowns** are able to combat even the mutated virus, as the no. of new Covid-19 cases is falling rapidly in both **UK and Ireland.** We estimate an R for the mutated virus to 0.75 in Ireland now (vs an R at 0.5 for the original version). However, mobility was sharply reduced to obtain these results. New cases are falling over most of Europe, and **Denmark** is down >75% since late Dec. New infections has fallen almost by 50% in **Norway.** On the other hand, the no. of new cases is surging in **Spain and Portugal** (to ATH both places), and new restrictions are imposed again. The **US** is steadily on the way down
- Following the discovery of an outbreak of the (British) **mutated virus outside Oslo**, restrictions in large parts of the Norwegian capital region were substantially tightened before and during the week-end. Mutated, and far more contagious viruses, are now found in more than 60 countries, and will <u>most likely become dominant within weeks</u>. It is not likely that Norway will be shielded. In order to prevent a break-down in the hospital system, social contact will have to be reduced by some 1/3rd compared to the what has so far been needed vs. the original virus. This is not impossible, as witnessed by the sharp decline no. of new cases in Ireland & UK, but mobility must be sharply reduced, and their economies are no doubt hurt. UK sent mix signals on the **death risk of the mutated virus** – and the CFR has increased to 3%, from 2% (but other explanations are possible). Research on the **South African mutated virus** may indicate that present vaccines are less efficient, and may need to be recalibrated
- **More bad vaccine news**: According to media reports, today's **vaccines may be less efficient** against the South African mutation. In UK, the PM stated that the British mutant **may be more deadly** than the original version, while others downplayed the risk. The CFR is up to 3% from 2%. The previous week **Pfizer** announced lower **vaccine production** during rest of Jan and in Feb. Last Friday **AstraZenica** said that deliveries to EU (here included Norway) would be sharply cut in February, due to production problems. Norway may receive just 200' doses in Feb, down from initially planned 1.12 mill! The Q1 aggregate may be cut by 60%. Let's hope Johnson & Johnson not disappoints too
- **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). Norway continues to be the laggard. <u>We still assume that distribution will be far smoother the coming weeks/months – this is not an impossible logistical challenge!</u>
- <u>**The real challenge remains:** The vaccines will not arrive fast enough to curb the 3rd wave, now. Without social distancing (and more economic pain), an unacceptable explosion in new cases & hospitalisations, especially if the mutated virus takes the lead (which it probably will). However, the outlook from some time in Q2 or at least in Q3 is far better, given the plans for ramp up of vaccine production – which hopefully will be fulfilled, and not too late.</u> 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 others are infected, as younger people also are becoming hospitalised)

Last week 2: The economy

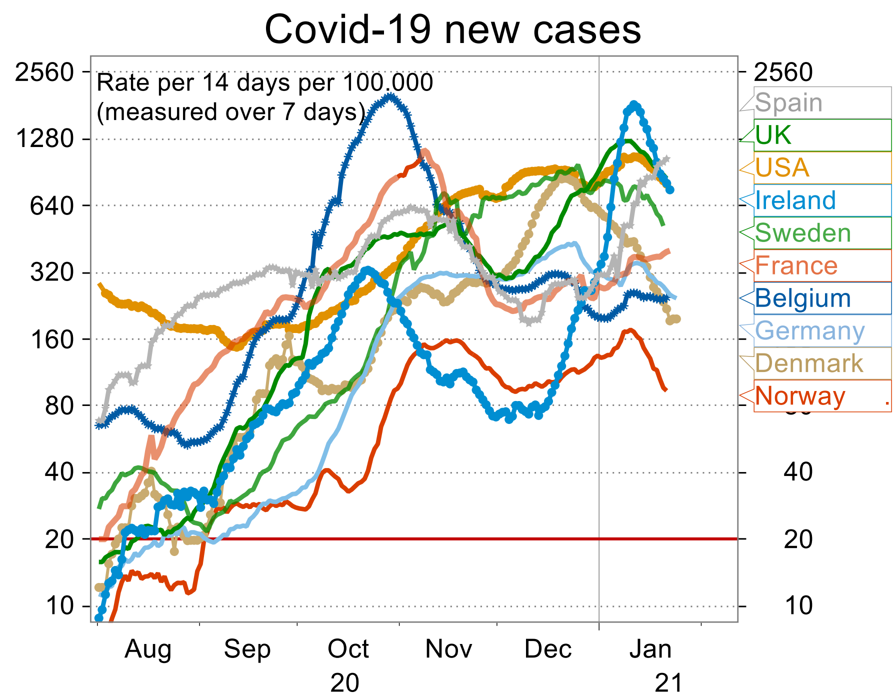
- **The global composite PMI** may have declined marginally in January but an unexpected surge in the US PMIs counterweighted most of the declines in EMU, UK and Japan. The manufacturing PMIs are still strong, while services in the EMU took a beating (albeit less than in Nov). The global composite signals growth close to trend. **Price sub-indices** are rapidly on the way up, signalling higher headline CPI inflation during H1
- **US housing starts** rose further in Dec, **existing home sales** remained at high level, and the inventory of unsold homes is smaller than ever. And BTW, the a **new president** was peacefully inaugurated, but it is far from clear how and how much of the 9% of GDP stimulus package can pass Congress (which is on top of the 4% of GDP extra stimulus decided in Dec)
- **The ECB** sent a somewhat hawkish signal on its pandemic emergency bond-buying program (PEPP, which was increased by almost 10% of GDP, and prolonged at the Dec meeting) by stating that credit conditions and bond yields would decide the actual utilisation of the program. Until now, there have not been any preconditions for the enhanced QE program, it was on autopilot
- **Swedish house prices** are surging, up 11.5% y/y
- As expected, no news from **Norges Bank's** interest rate meeting last week. SSB's quarterly **manufacturing survey** rose further in Q4, tough a tad less than we expected. Even oil related sectors are reporting better times, at least vs the domestic market. **Homebuilders** reported strong **new home sales** in December, and SSB a further increase in **housing starts**. **NAV unemployment** has increased since late December, and more than the usual seasonal impact

Except Spain, more good news on no. of new cases

A sharp reduction in new cases, even where the mutated virus dominates



SB1 Markets/Macrobond



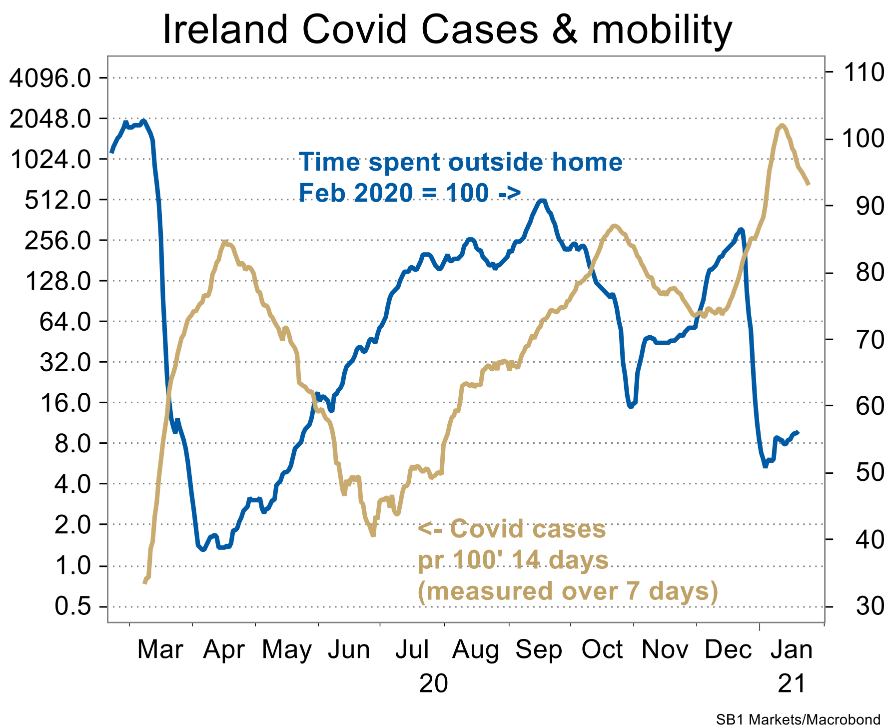
SB1 Markets/Macrobond

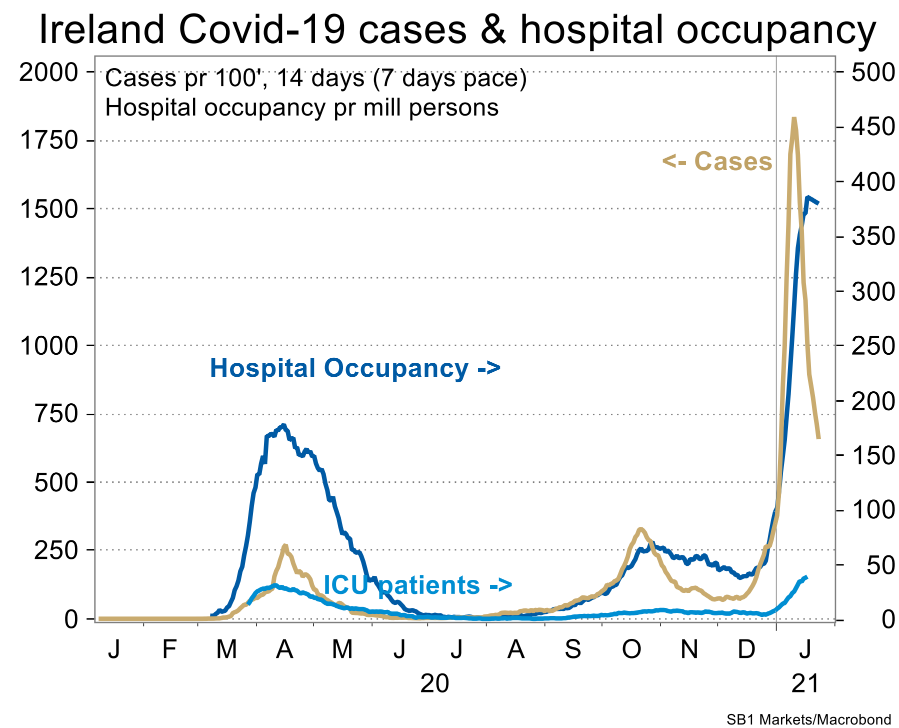
- 2 weeks ago, the no. of cases was rapidly increasing in several countries, with **Ireland and the Czech Rep at the top**. Over the past 11 – 13 days, the no. of cases has fallen by 30 – 60%, in these 3 countries (implying 'R's at 0.65 – 0.8), even with as substantial share mutated viruses in Ireland and UK. The no. of new cases are falling in almost all other countries too – except Spain (and Portugal)
  - » The 'R' in Spain may suddenly have increased to almost 1.6 from approx 1, and the no of cases has increased by 3.5x, since Jan 6, up to the pole position in Western Europe (with Portugal)! Both the mutated virus and a sharp increase in mobility the past two weeks are probably both to blame. New restrictions are announced
- **Denmark** has reported an almost 80% drop in new cases, even if the mutated virus is rapidly gaining market share. 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 – at least so far (but
  <u>However, really tough lockdowns are needed, check the next page</u>

SpareBank 1 MARKETS

Even a mutant can be beaten down; the Irish 'R' from 2.5 to 0.64! $R^{mut.}$ at 0.75?

The no. of cases down 60% over 11 days, even if the mutated virus has taken a 60% 'market share'



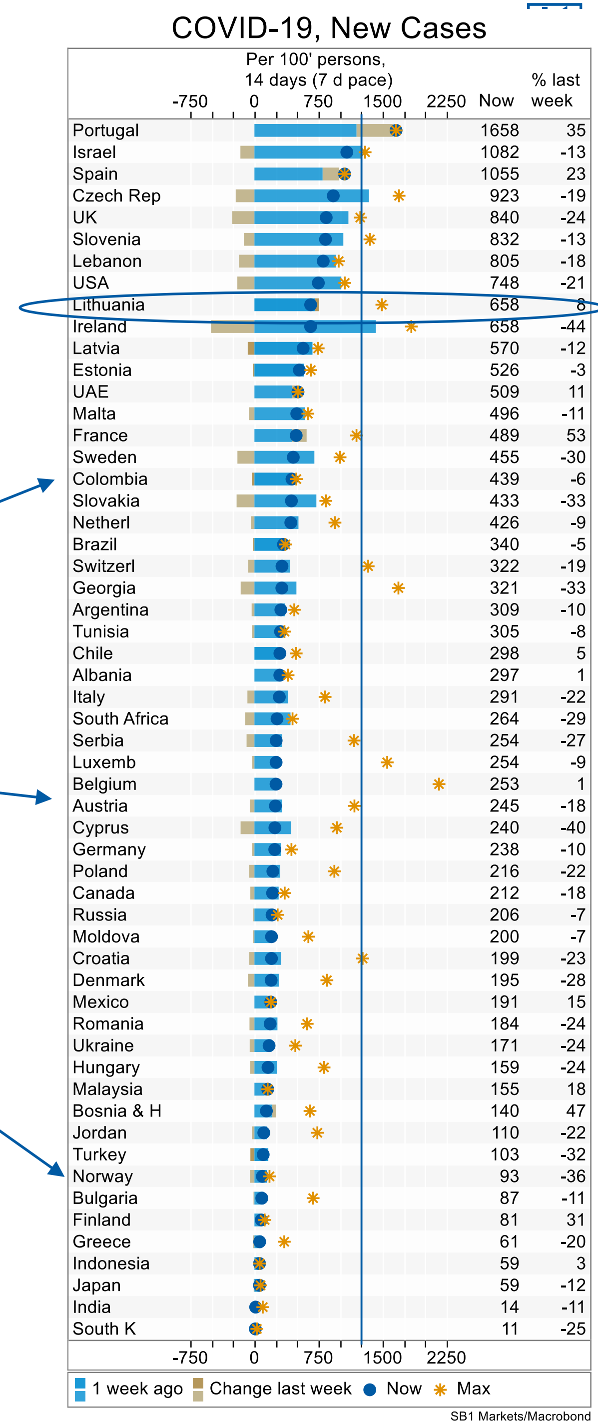


- In Ireland, cases exploded from mid Dec until 2 weeks ago, with an 'R' at up to 2.5x (2.6x per week, 70x per month). The mutated virus, and eased restrictions in Dec created this dreadful mix. However, following a tightening of restrictions, the no. of new cases turned south – and has fallen by 60% over 11 days, implying an 'R' at 0.63 – even if the mutated virus is found in 60% of new cases
  - » We *estimate* an R for the original virus strain to 0.5 and an 'R^{mut}' at ***0.75 for the mutated virus***, which of course is excellent news! (*However, the calculus is uncertain*)
- The no. of hospitalised peaked at just above 1,900 patients, 15% of total bed capacity (The Irish population 5 mill…), and the no has fallen slightly last week. The no of ICU patients is close to capacity
- This successful fight required reduction of mobility (measure by time spent outside home) by more than 40%, to 50% from 87% of normal. (We do not have any other Jan. Irish activity data at hand). As the spread of the virus is brought under control, mobility is on the way up again ☺

The list (ex countries with few reported new cases)

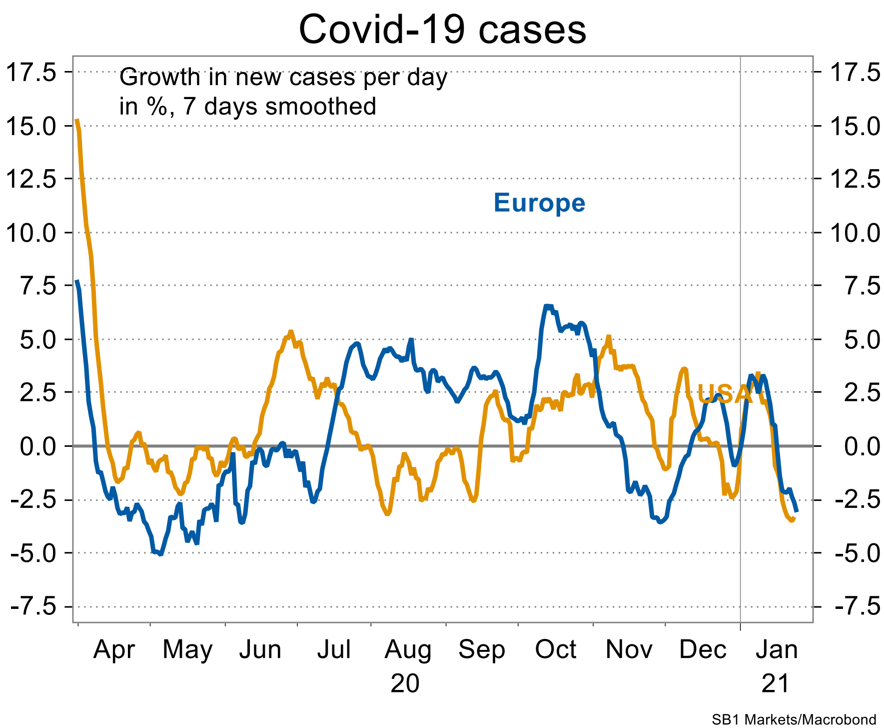
Portugal, Israel & Spain at the top, Israel down from the high 4th wave

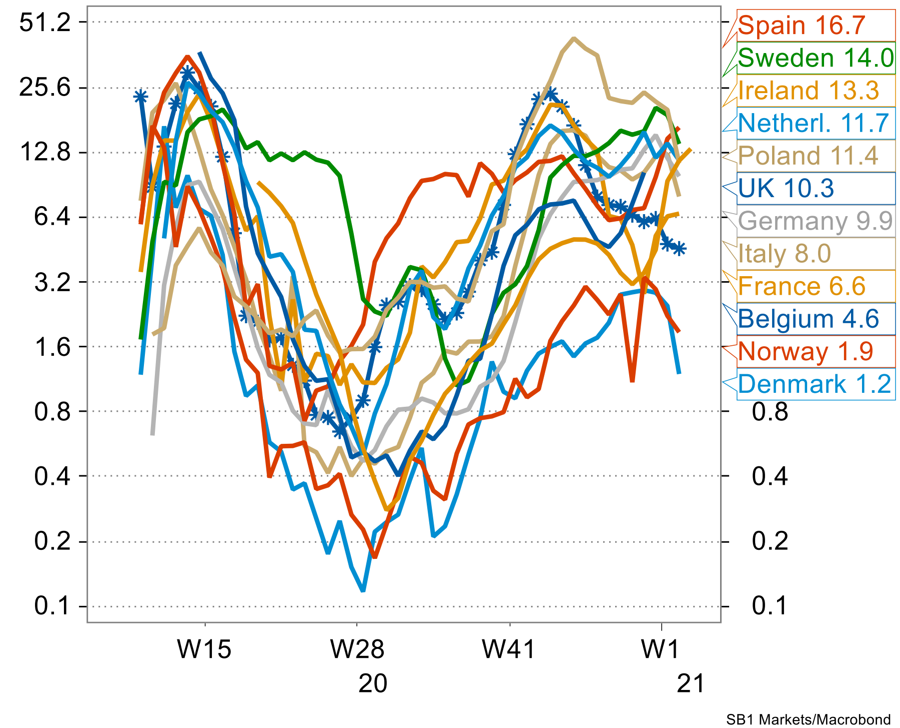
- A large majority of countries reported fewer cases last week, but Spain and Portugal have serious problems again, both up to ATHs
  - » Israel is no 2 at the list, even if almost 40% of the population is vaccinated. Most likely (and hopefully) the no new cases will fall rapidly as soon as the vaccinated are getting immune (it takes some time, two weeks?)
- The no. of cases in Ireland and the UK are falling rapidly. So are the no. of cases in Italy and the US.
- Sweden, Denmark & Norway on the way down too



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)

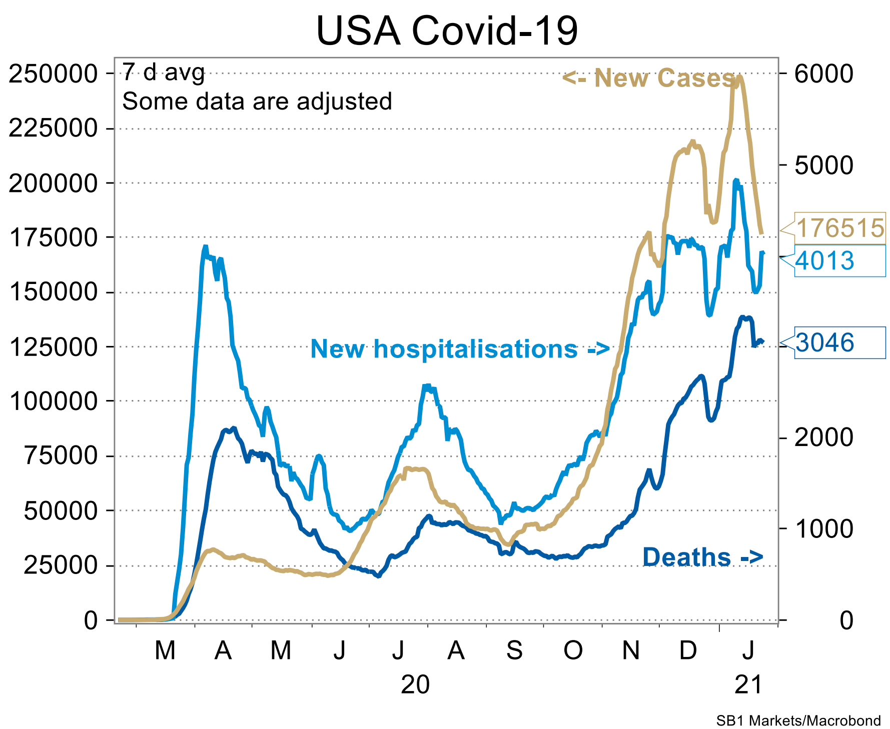


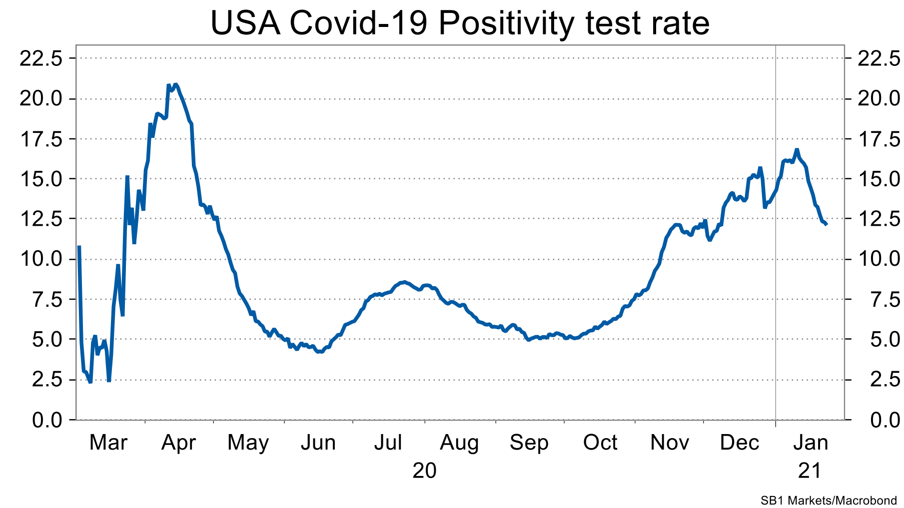


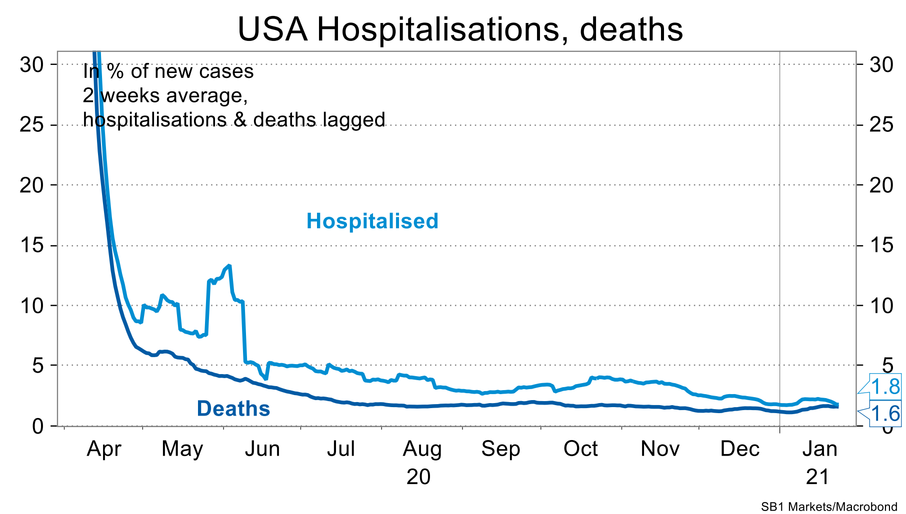
- Ireland reported a higher positivity rate last week too, most others are stabilising

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

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





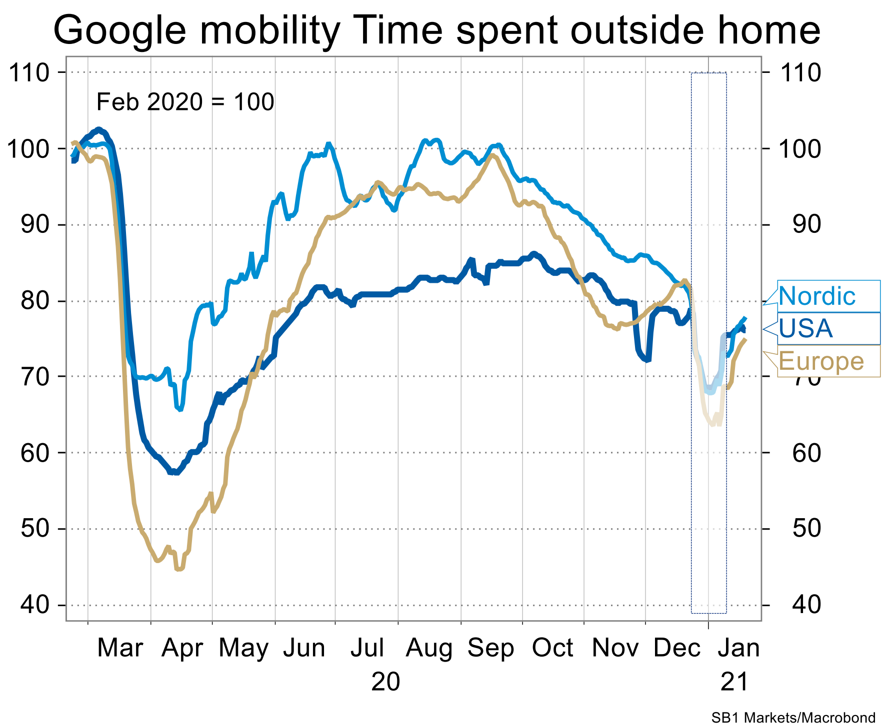


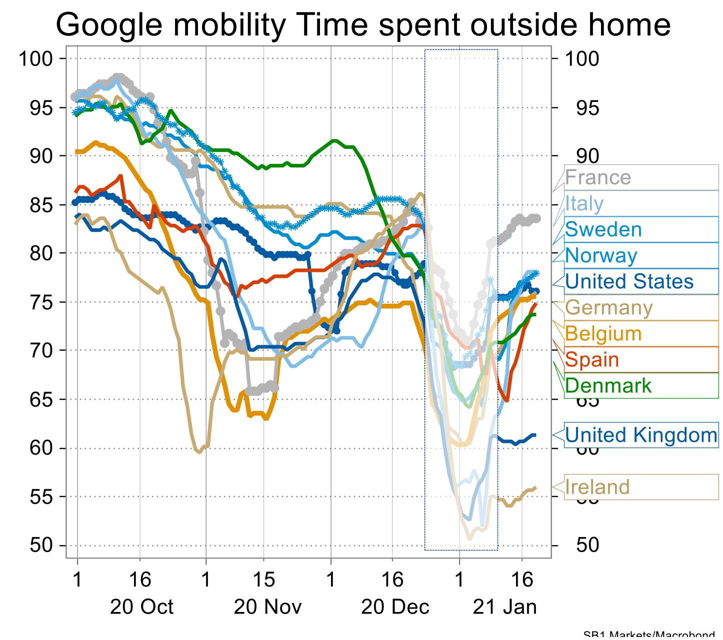
- The positivity test rate has fallen somewhat, a good sign
- The hospitalisation and death rates are quite stable

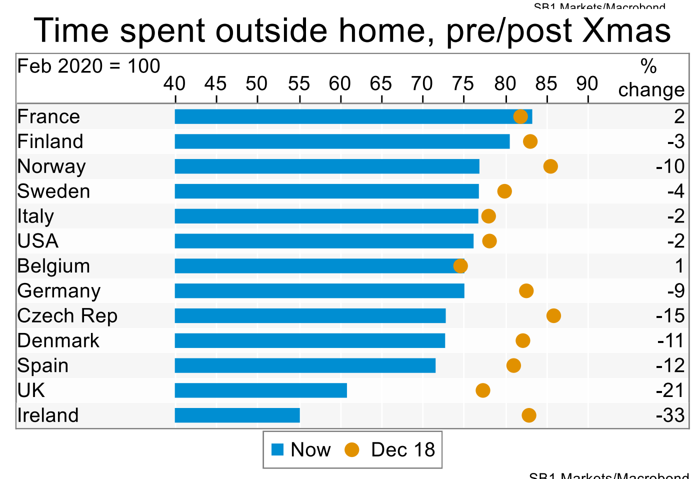
SpareBank 1 MARKETS

Mobility up but most countries sharply down vs pre-Xmas levels

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



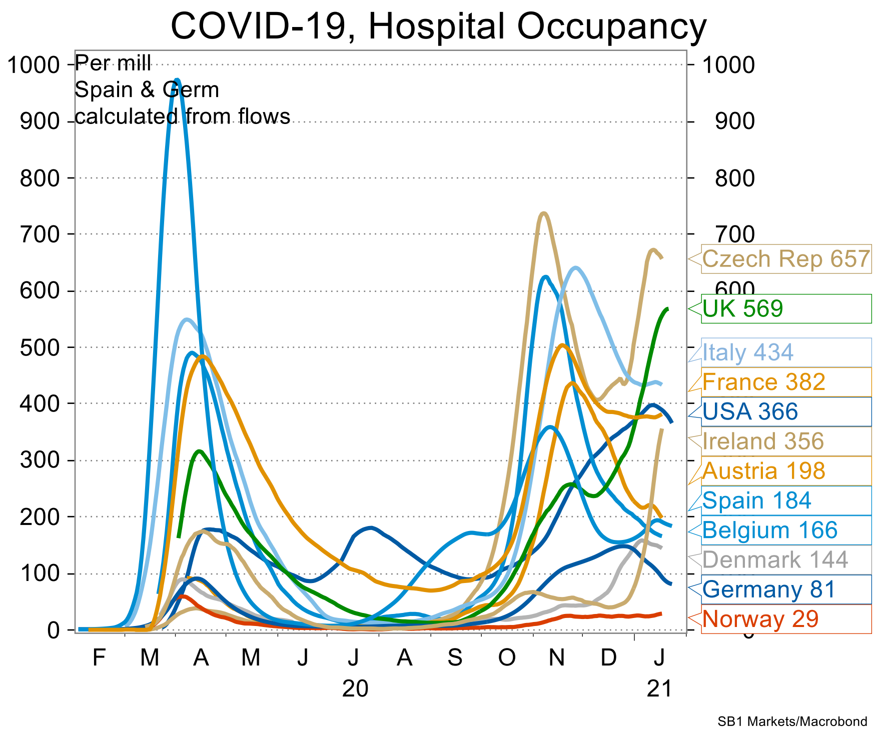


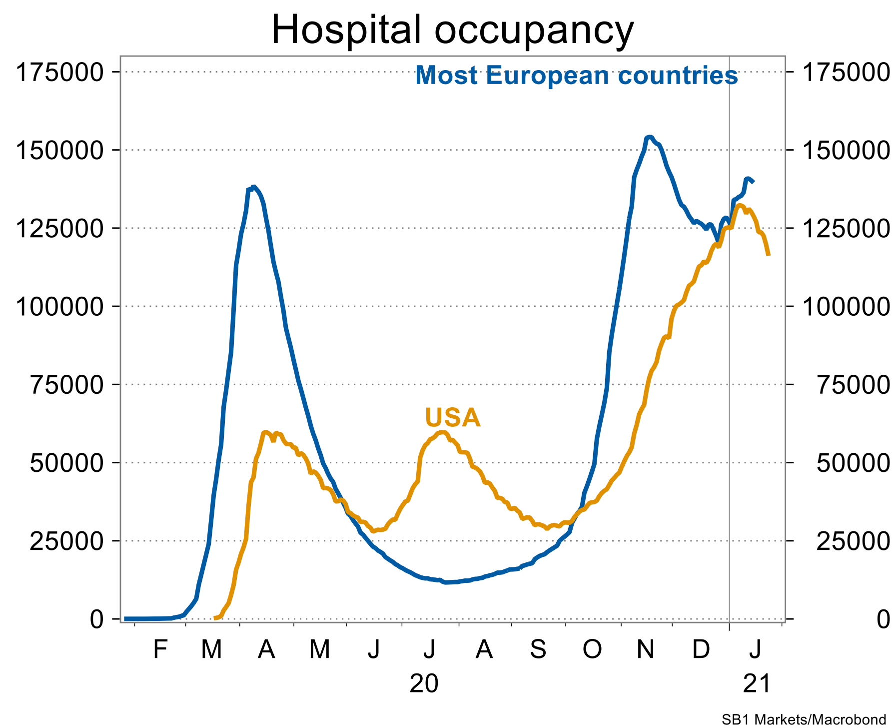


- Lockdowns/restrictions have been decided in several countries over the past weeks
- **In the UK**, time spent outside home is down 21% (not percentage points) – and mobility is down more than 40% vs. a ‘normal’ level (Feb 2020)
- **In Ireland**, -33% vs pre Xmas, and the level is now down 45% vs. ‘normal’

Some countries are still filling up their hospital beds

.. While others are reporting few covid-19 patients



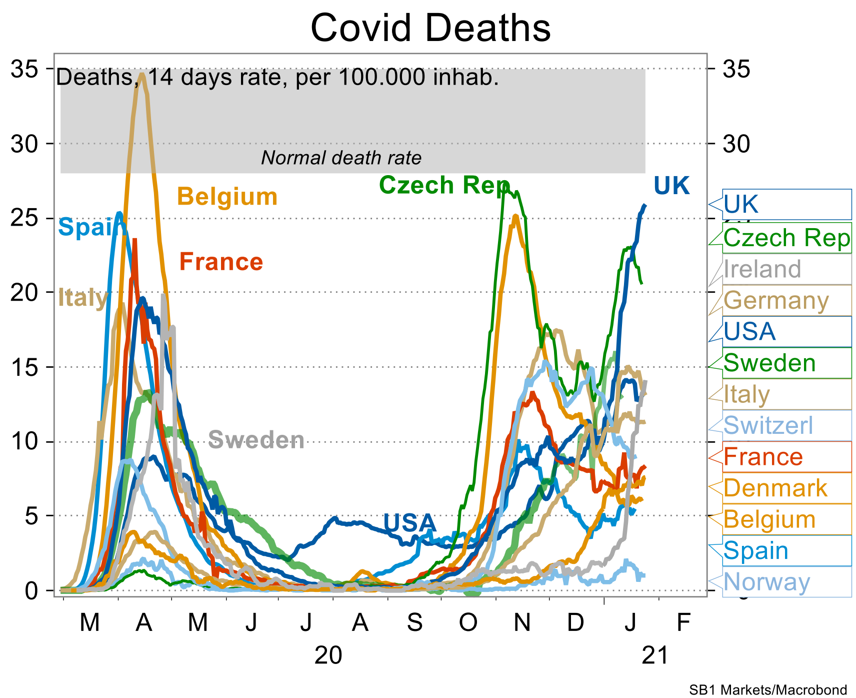


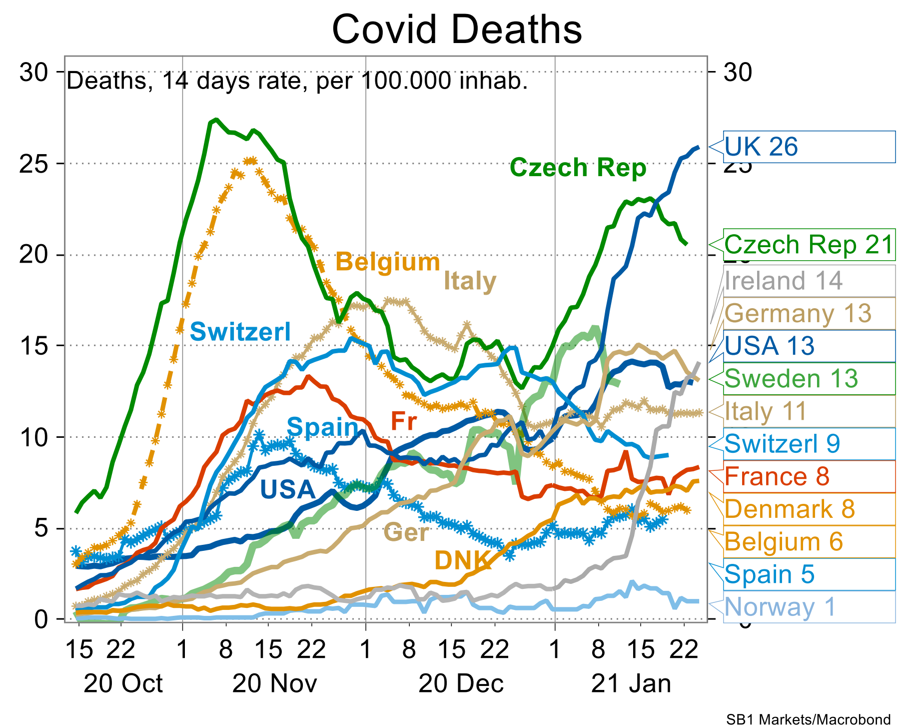
- The Czech Rep is really struggling again, and the situation is critical in the UK
- In several countries, hospital occupancy is on the way down
  - » Denmark is probably peaking now

SpareBank 1 MARKETS

The deaths: UK on the top

… and has not peaked yet. The death rate (CFR) has increased somewhat. The mutant?



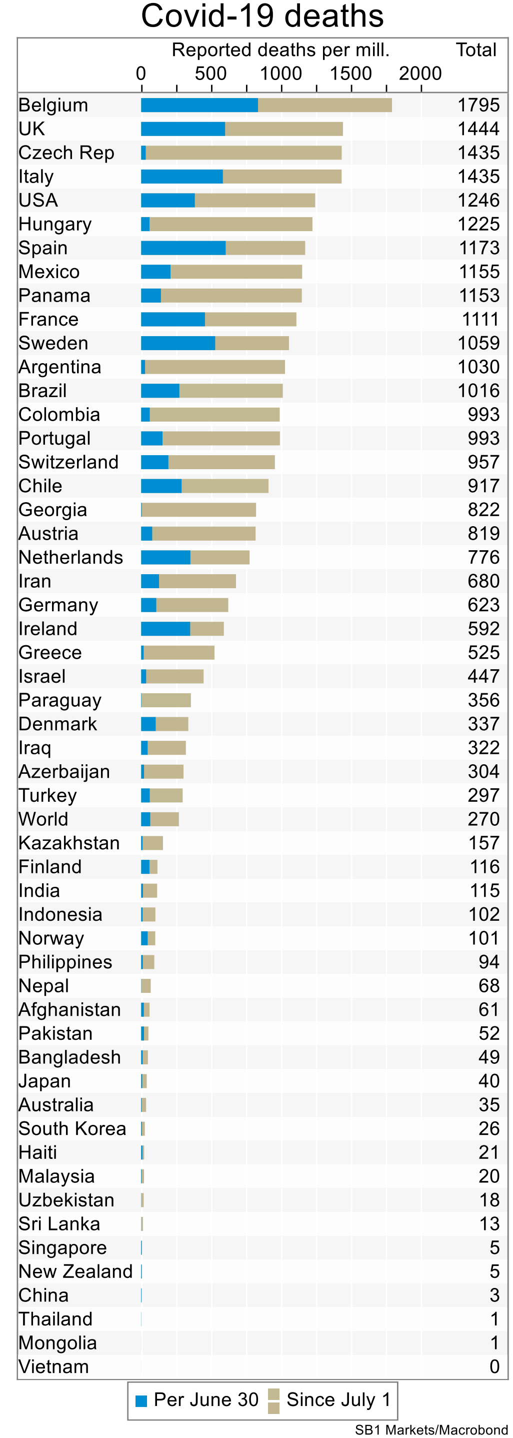


- The increase in the CFR in UK (from 2% to almost 3%) may be to <u>less capacity for treatment at hospitals</u> but also that the <u>new virus may be more lethal</u> than the original version. The authorities sent mixed signals during the weekend
- The no. of deaths in Ireland will probably soon stabilise, following a huge hike the 2 past weeks
- Deaths in Denmark and Germany have flattened, and should decline the coming two weeks

The final countdown…

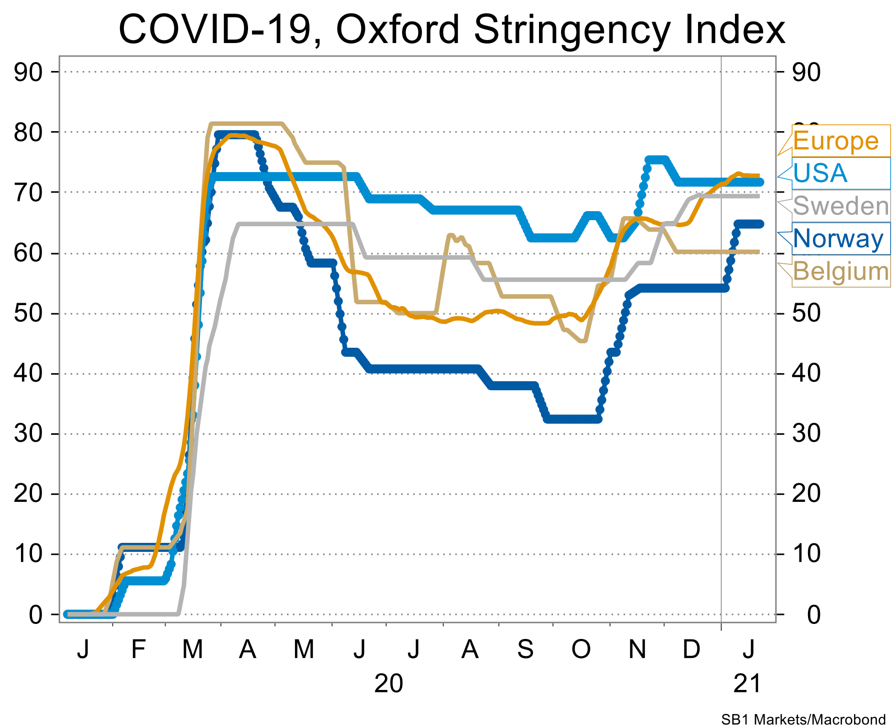
So, this wasn't an ordinary flu…

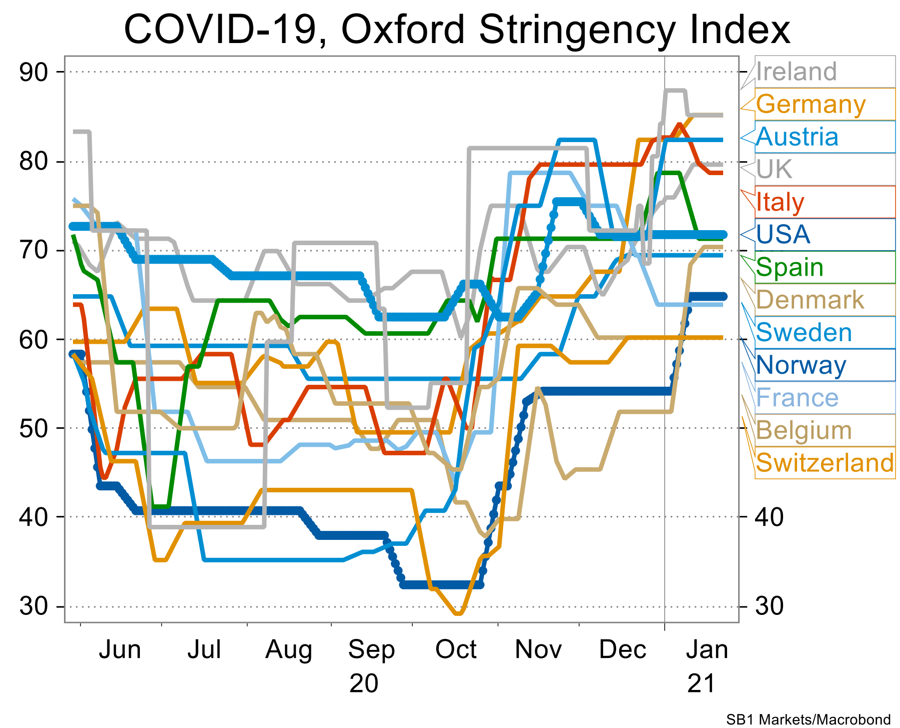
- In some countries the death toll has been very high. In Belgium the death rate at 1,800 per mill. equals almost 20% extra deaths since the start of the pandemic
  - » During the peaks of the outbreaks, the death rate was the double of normal in Belgium
- UK is no 2 at the list, followed by the Czech Rep, Italy & the US
- Sweden has a seen a 10% increase in deaths, the largest increase y/y since the Spanish flu



SpareBank 1 MARKETS

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





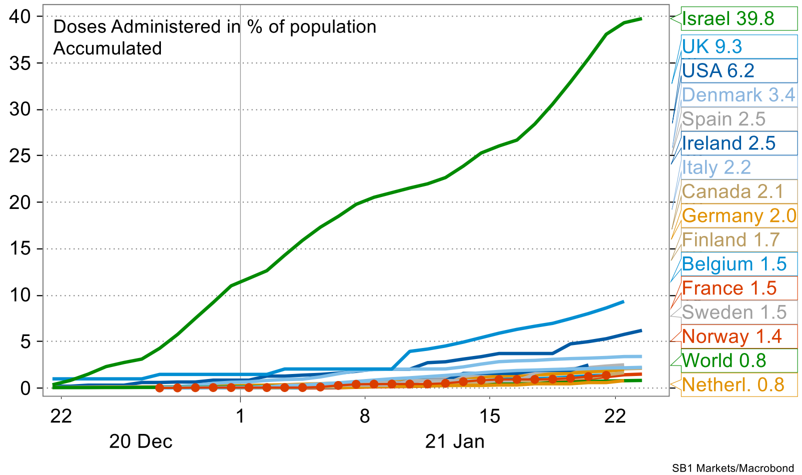
- France & Belgium have lifted some measures decided in Oct/Nov
- Ireland, UK, Germany, Switzerland, and Denmark have all tightened somewhat during December and so far in January
- Spain has eased restrictions but will tighten again, due to the large increase in new cases recently
- We are not sure Oxford's stringency indices are correct all the time but the broad picture may still be relevant

SpareBank 1 MARKETS

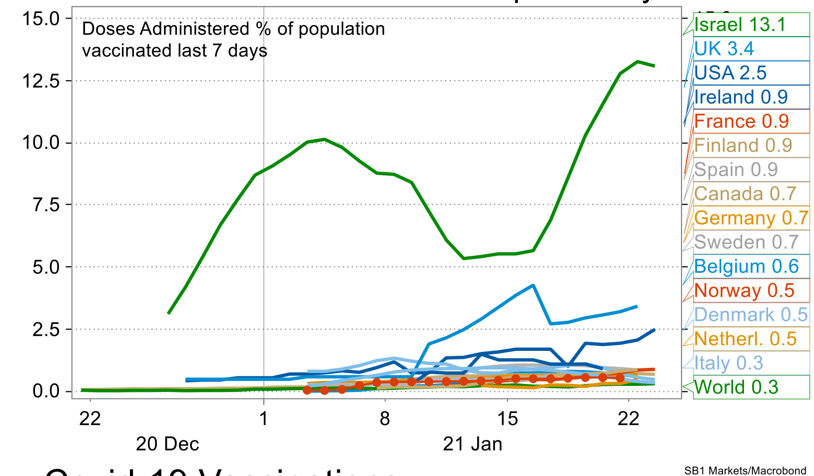
Vaccinations: UK & US in the lead (if Israel is excluded). Norway is a big loser

Israel expects to reach herd immunity by end of Q1. Others need more time

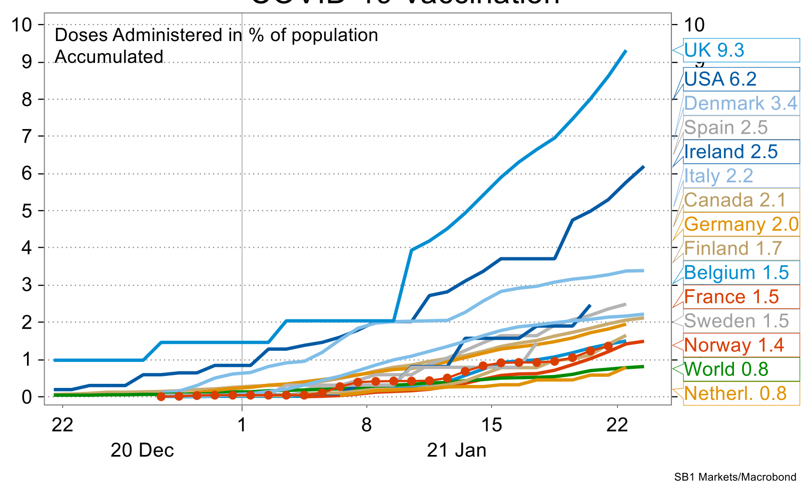
COVID-19 Vaccination



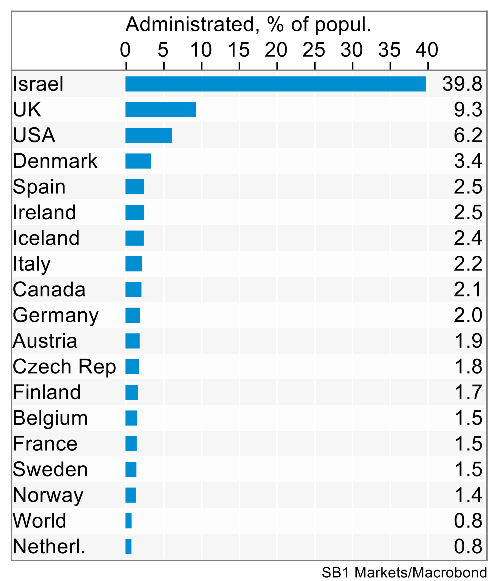
COVID-19 Vaccinations - past 7 days



COVID-19 Vaccination



Covid-19 Vaccinations

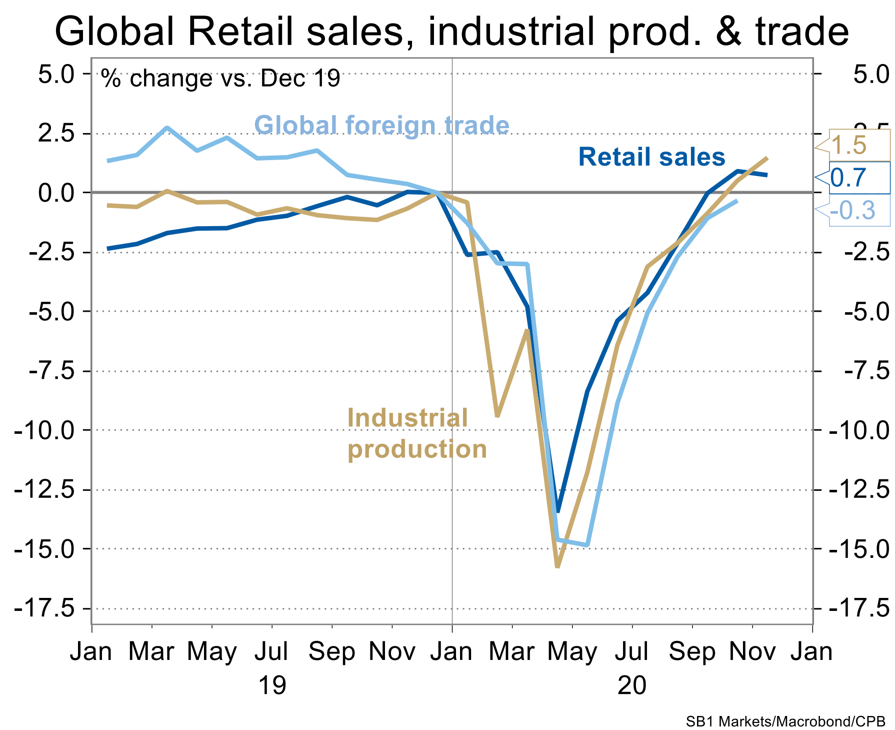


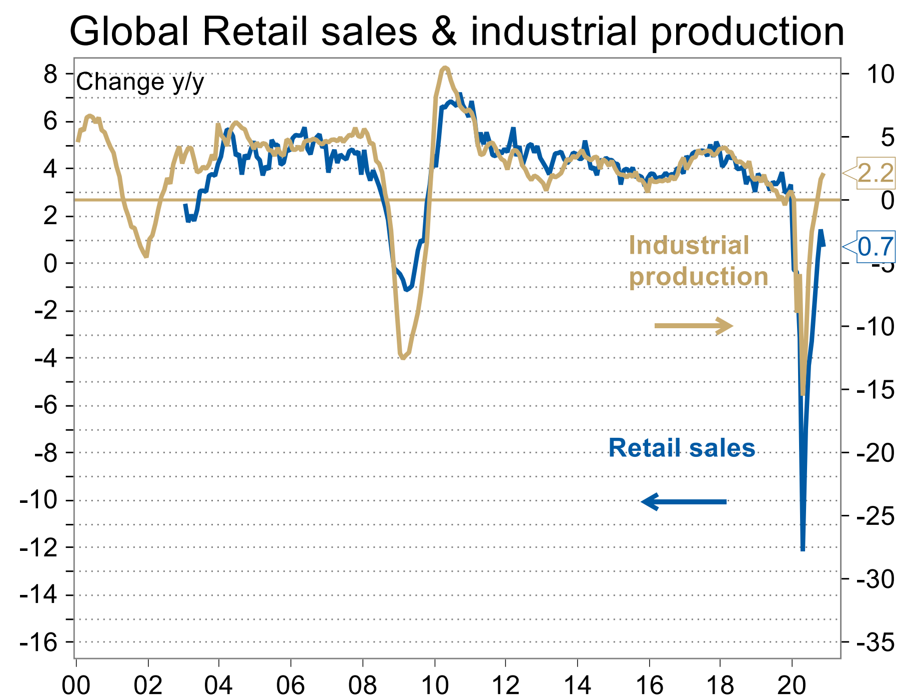
- Oxford/AstraZeneca and Johnson & Johnson will eventually provide much larger quantities. Others may follow
- We doubt distribution will become an impossible challenge, as most countries are used to distribute large quantities of vaccines
  - » Complicated priority systems create problems now, but hopefully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

Sources: Our World in Data/Macrobond

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

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



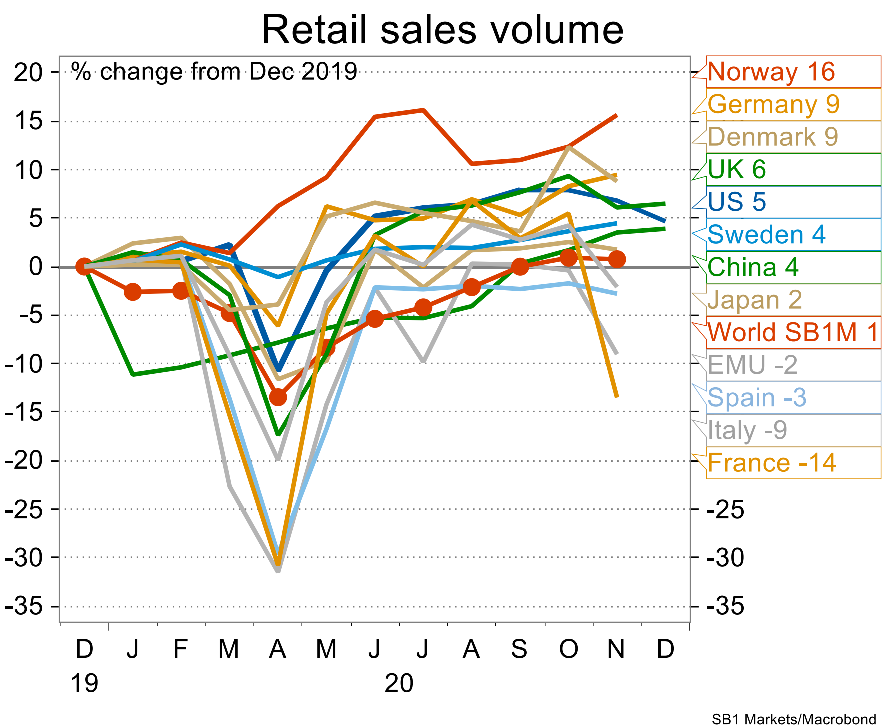


Memo: Keep in mind the different scales at the chart above

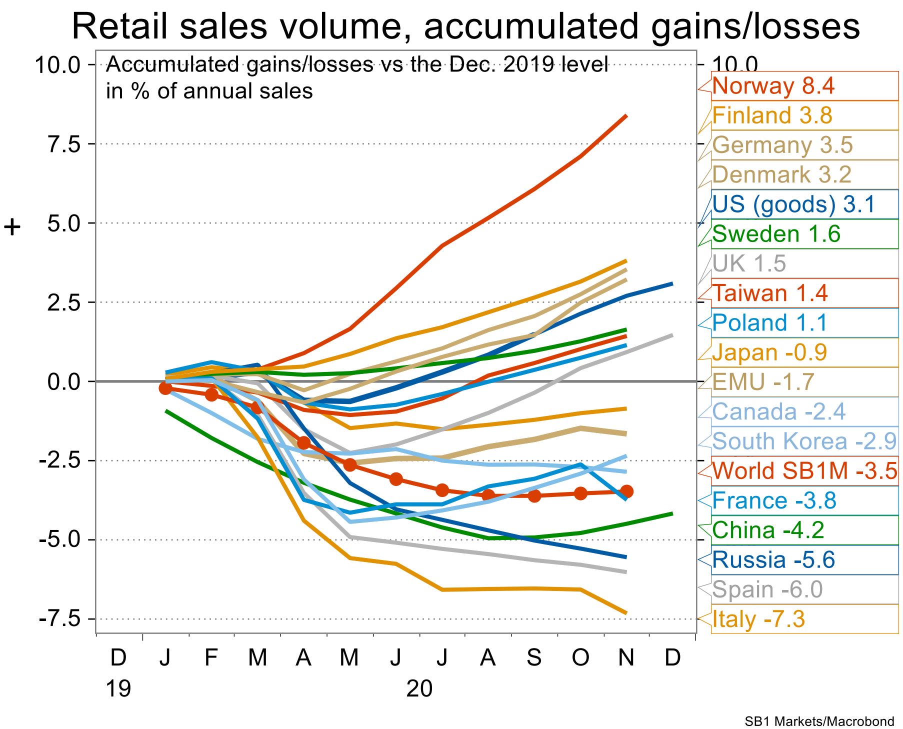
- **Retail sales** fell by 0.3% due to a larger than expected (6.2% vs. 3.8%) decline in retail sales in EMU (Belgium & France down 16 – 18%). Global sales are still 0.7% above the pre-corona level
- **Manufacturing production** probably climbed 1% - and is 1.5% above the pre-corona level, according 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

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?



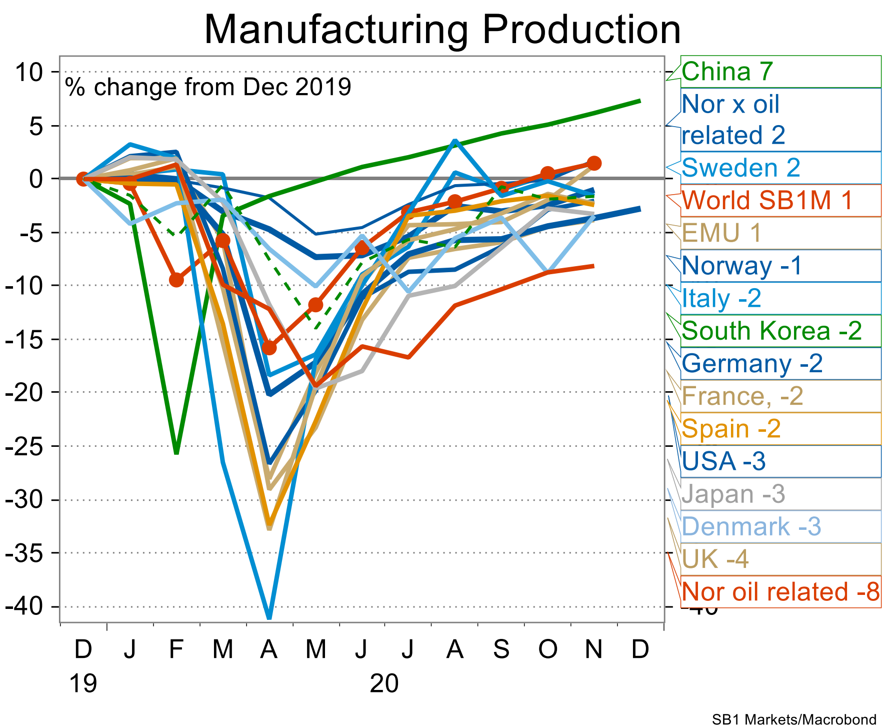
+

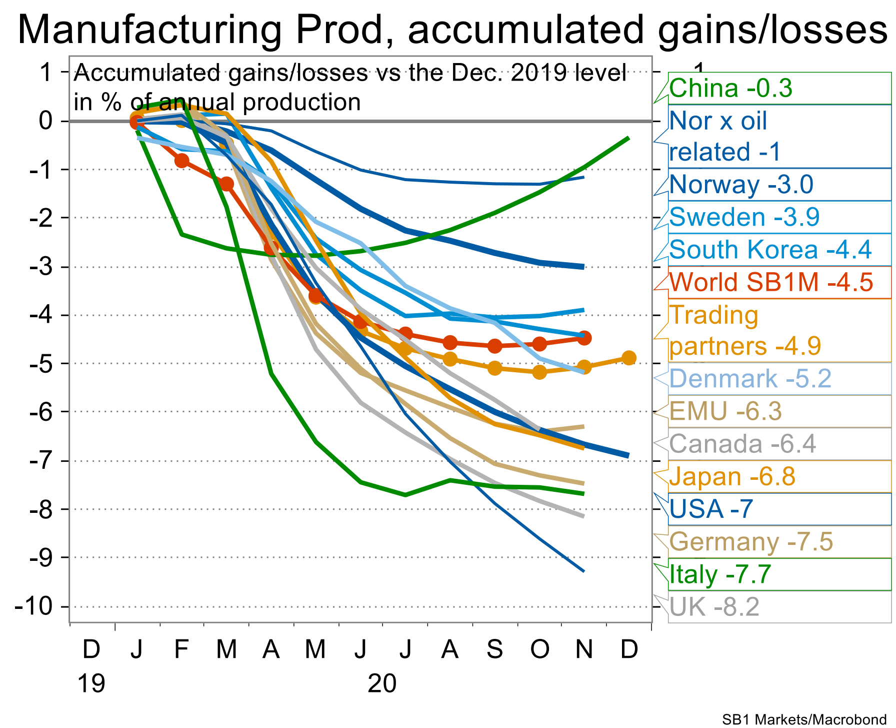


- Norway is in the lead – and has been during the whole corona crisis. Crisis, what crisis??
- US sales fell in both Nov & Dec but is still well above the pre-corona level
- Consumption of services is not included in these retail sales data – and service consumption has fallen sharply, everywhere

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

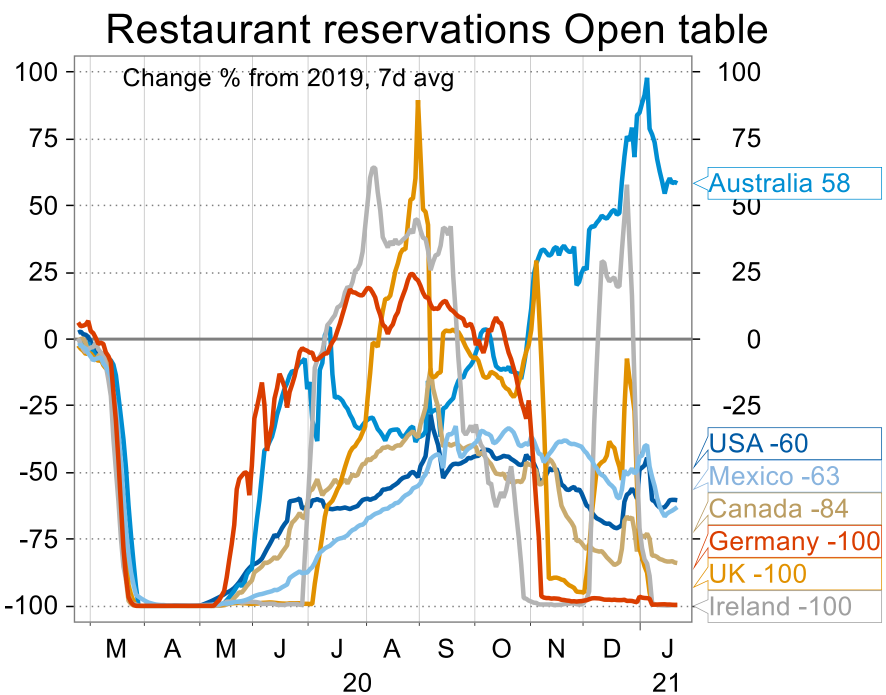




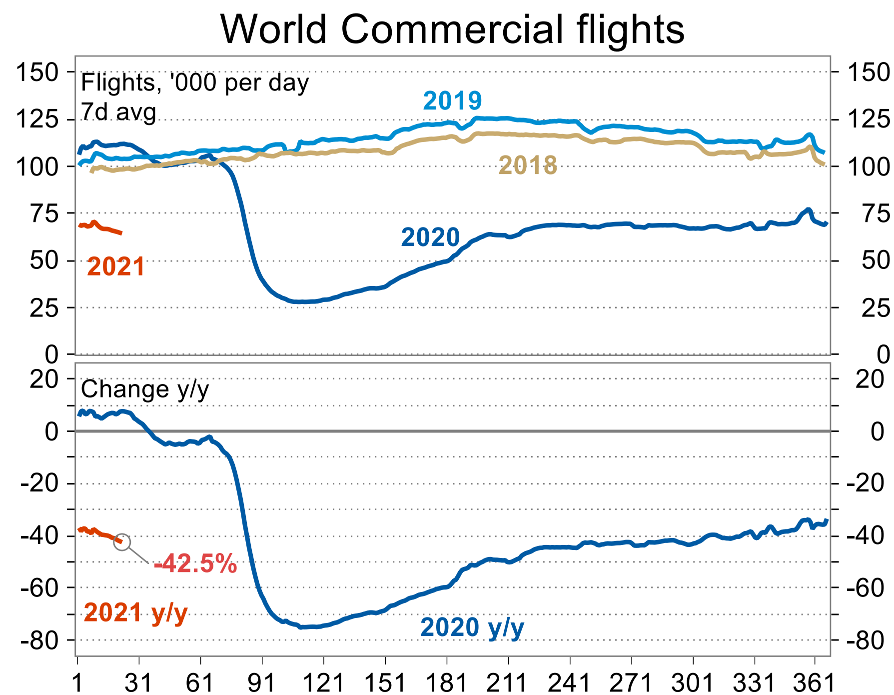
- Service sector production is not included in these retail sales data – and service consumption(=production) is still way below a normal level

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

Commercial airline traffic down 42% vs the early 2020 level – and on the way down again?



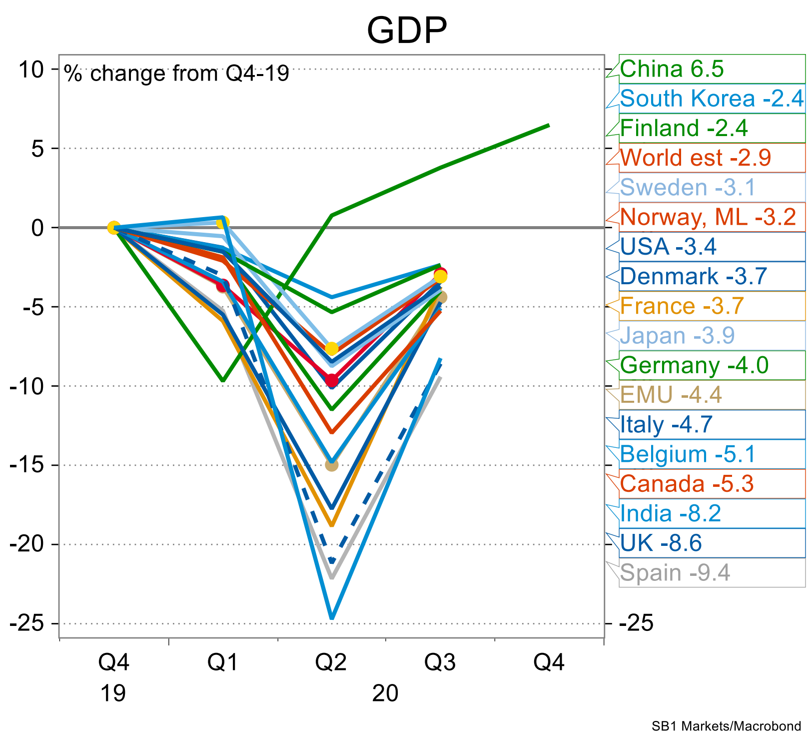
SB1 Markets/Macrobond

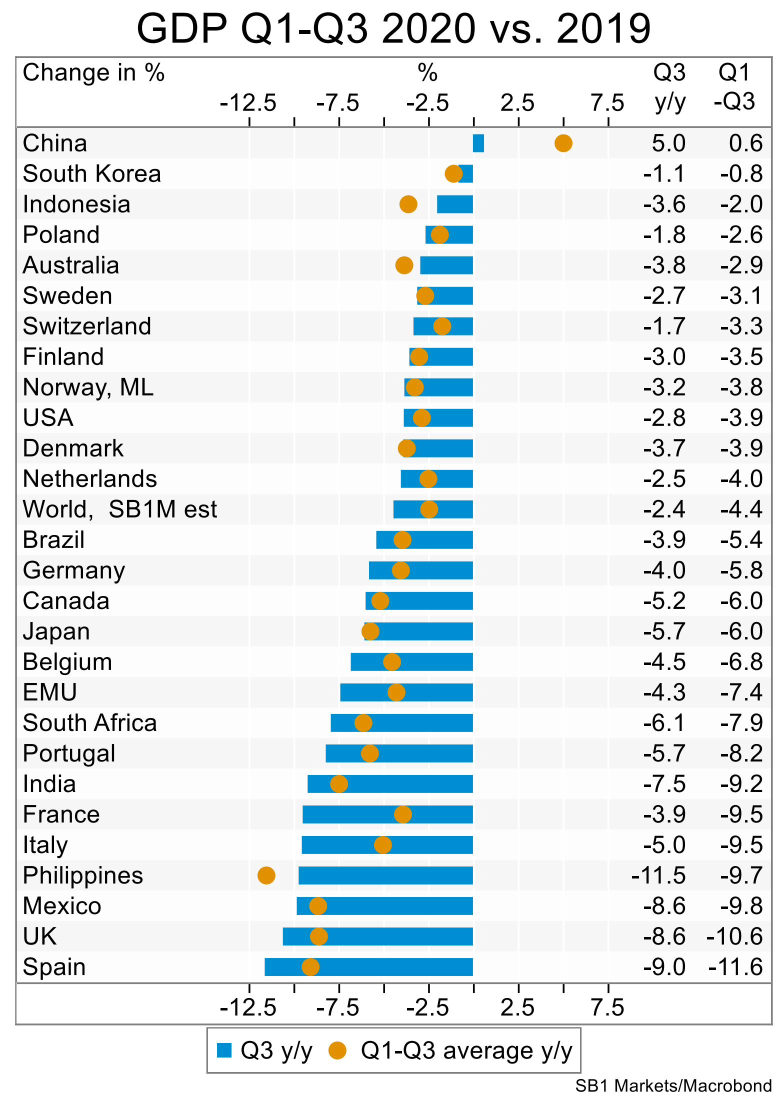


Flightradar24 SB1 Markets/Macrobond

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%

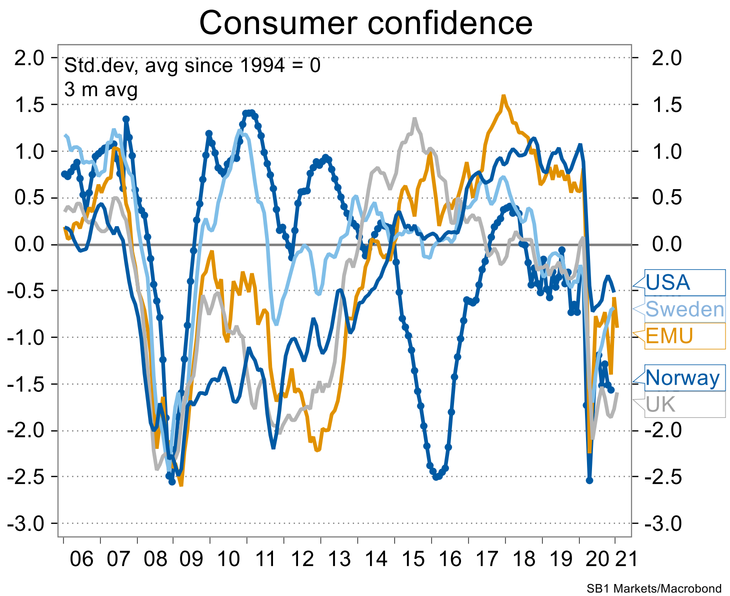


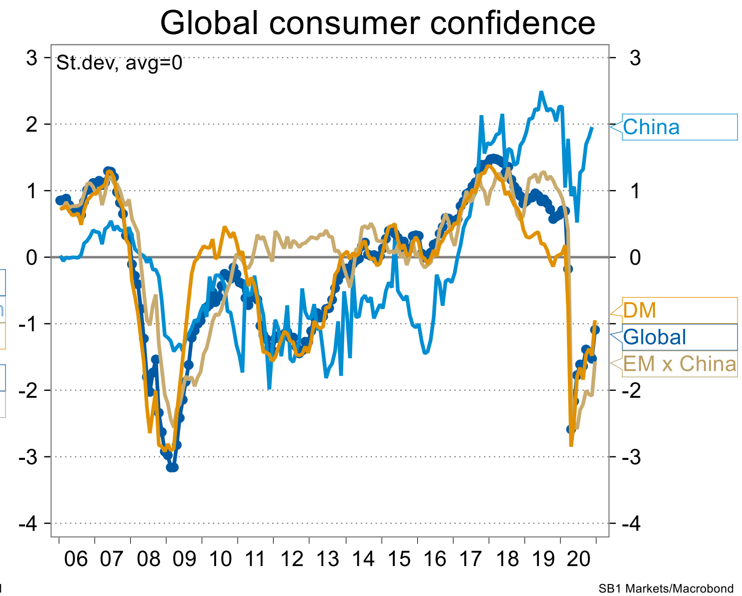


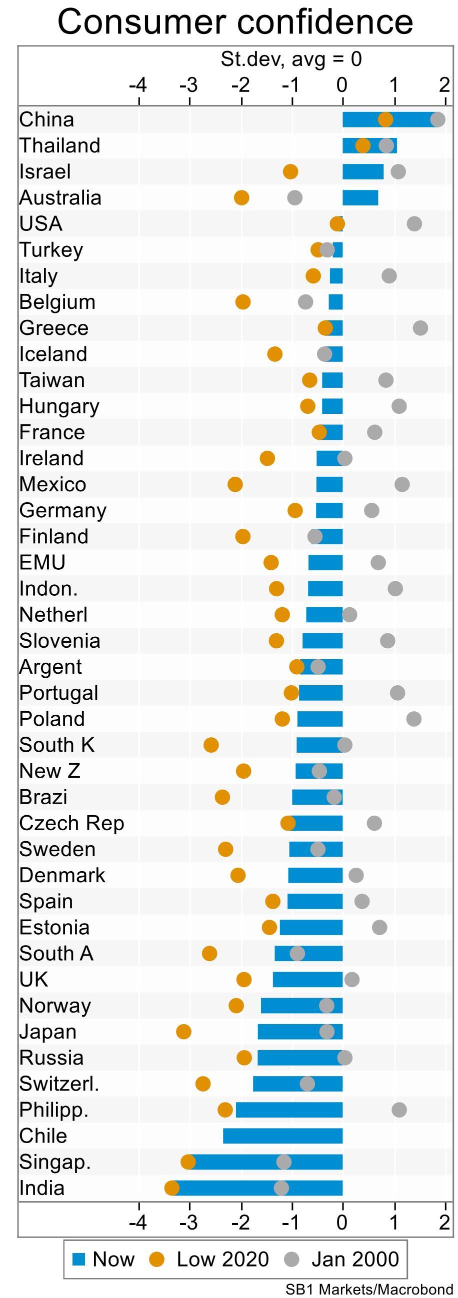
- Some observations – Q3 vs Q4-19:
  - » China was 3.8% above Q4-19 (and up 6.5% in Q4-20). Others were down in Q3
  - » India still down 8.2%, even after a 22% recovery in Q3 (124% annualised ☺)
  - » Japan is down 3.9% (but 6% vs Q3 19, before the VAT hike tanked the economy in Q4)
  - » USA -3.4%
  - » 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%

Consumers are not that bullish, barring the Chinese, that is

Norwegians close to the bottom of the league



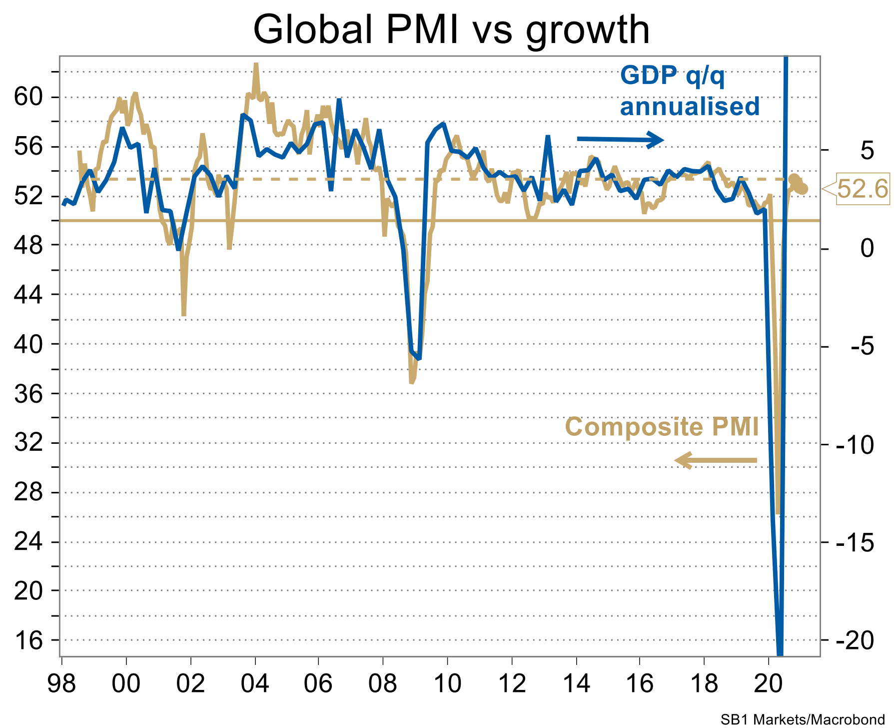


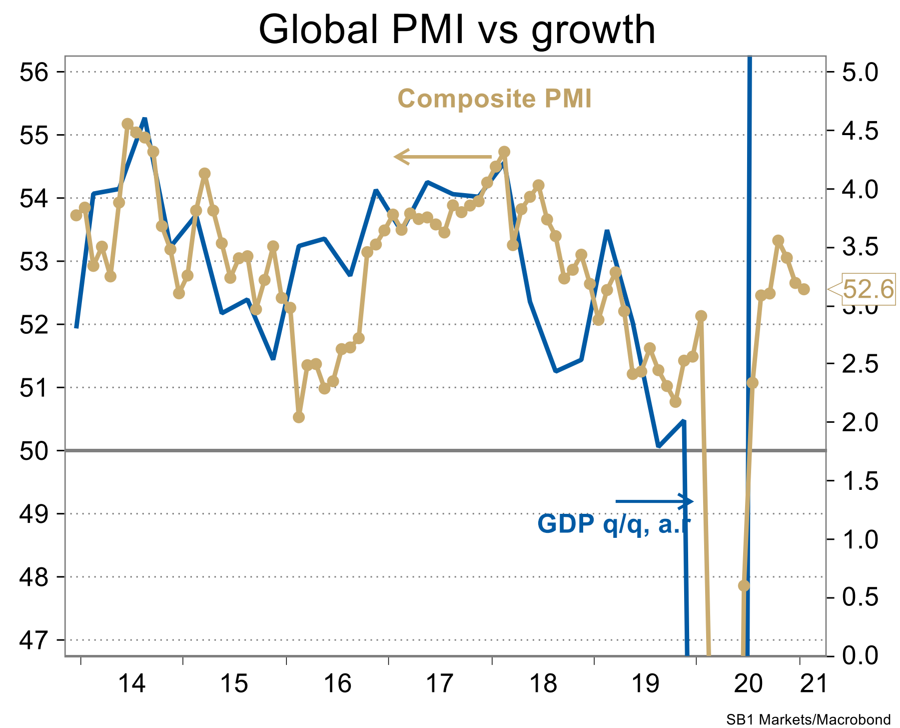


- However, sentiment is heading upwards, and most countries are well above the 2020 lows

The global composite PMI likely down one small tick in January, level still OK

We estimate a 0.1 p decline in the comp. PMI to 52.6, still signalling growth close to trend





- The preliminary PMIs were mixed, a surge in the US compensated for a decline in both EMU, Japan and UK (a sharp drop here). Our **global PMI composite** estimate is close to unch (-0.1 p) at 52.6 . However, the uncertainty is larger than normal, given the discrepancy between the main regions. The level signals some 3% – 3.5% growth in the global economy
- The **global manufacturing PMI** total index was probably close to unch too, while the **service sector** index may have fallen by 0.1 p

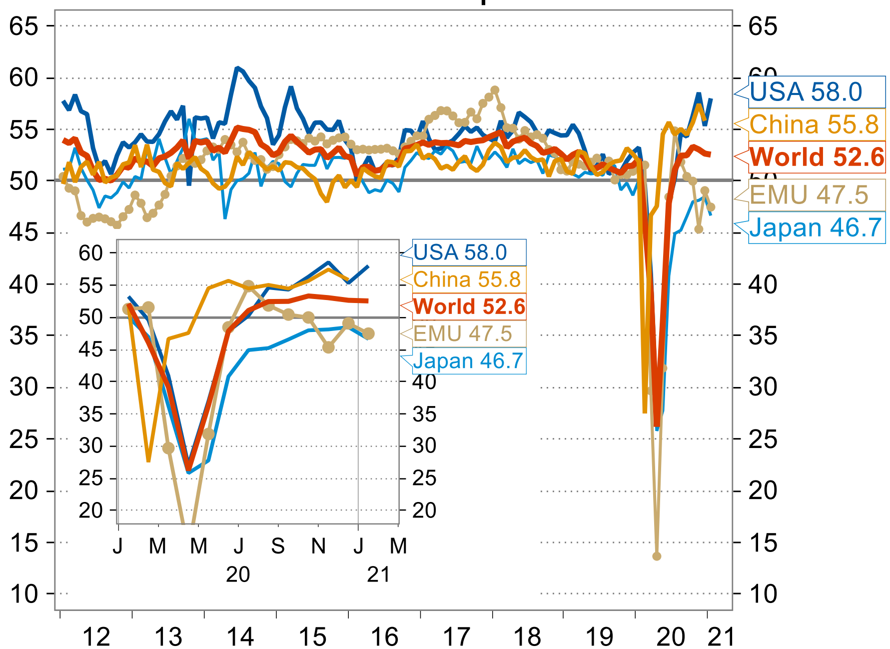
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

SpareBank 1 MARKETS

US PMIs sharply up, EMU & Japan slightly down

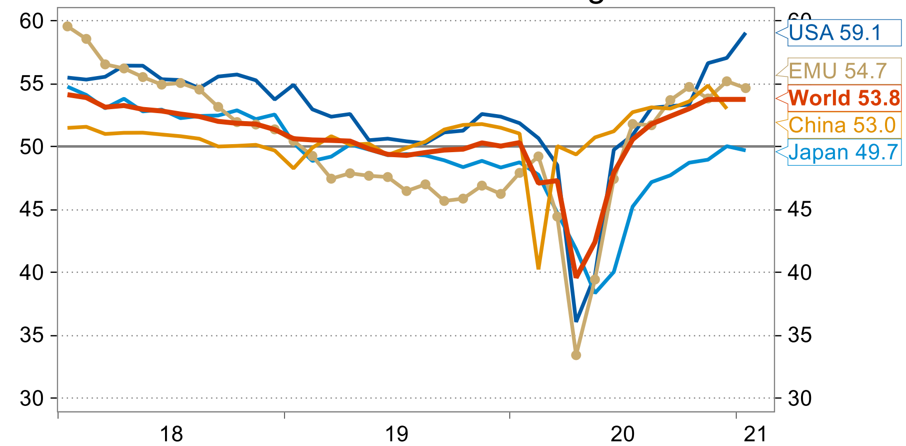
The US is reporting strong growth, the Eurozone a mild downturn

PMI Composite



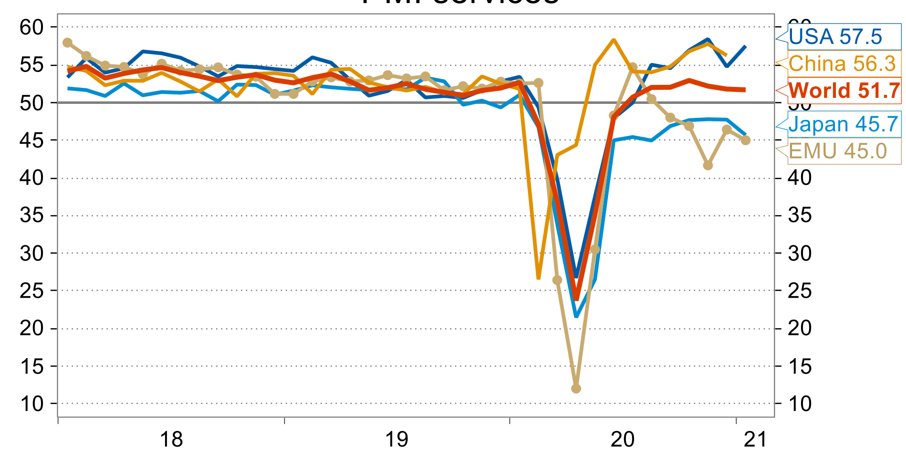
Source: IHS Markit, SB1 Markets, Macrobond

PMI Manufacturing



Source: IHS Markit, SB1 Markets, Macrobond

PMI services



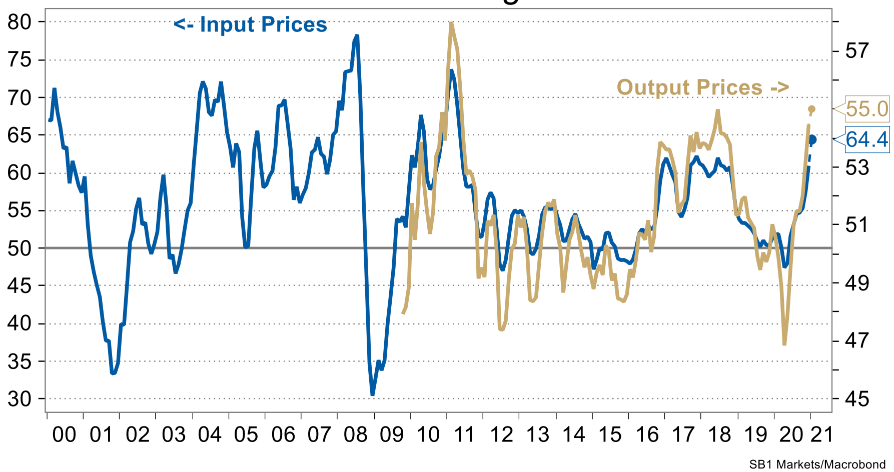
SB1 Markets/Macrobond

- In the EMU, the service sector PMI turned down again, as expected, and at 45, the sector is contraction mode. Manufacturing is not, at 54.7. The composite at close to 47.5 signal a moderate decline in GDP
- The US composite PMI reversed the decline in Dec, and the manufacturing PMI is the strongest ever! Services are reporting string growth too – amidst the corona 3rd wave
- The UK PMI fell sharply, to 40.6

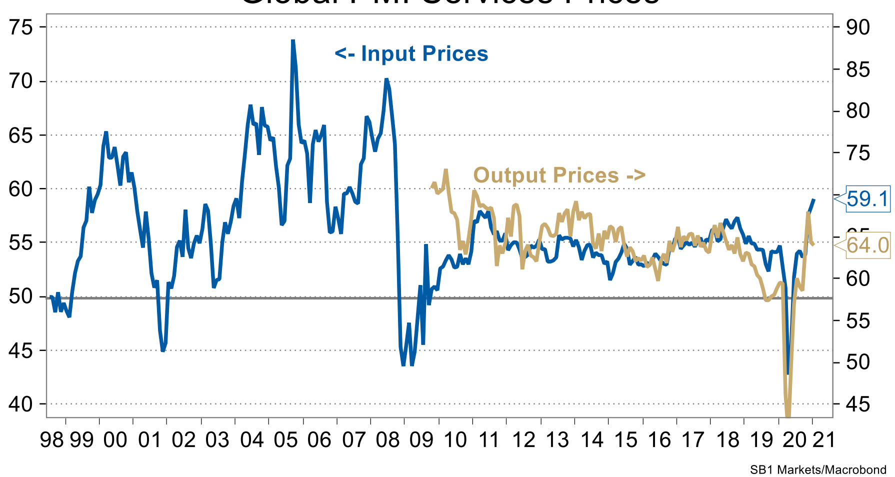
Businesses are reporting the fastest input price inflation in 10 years

Output prices are sharply up too, manufacturing at the fastest pace in 10 years. CPI inflation next?

Gobal Manufacturing PMI Prices

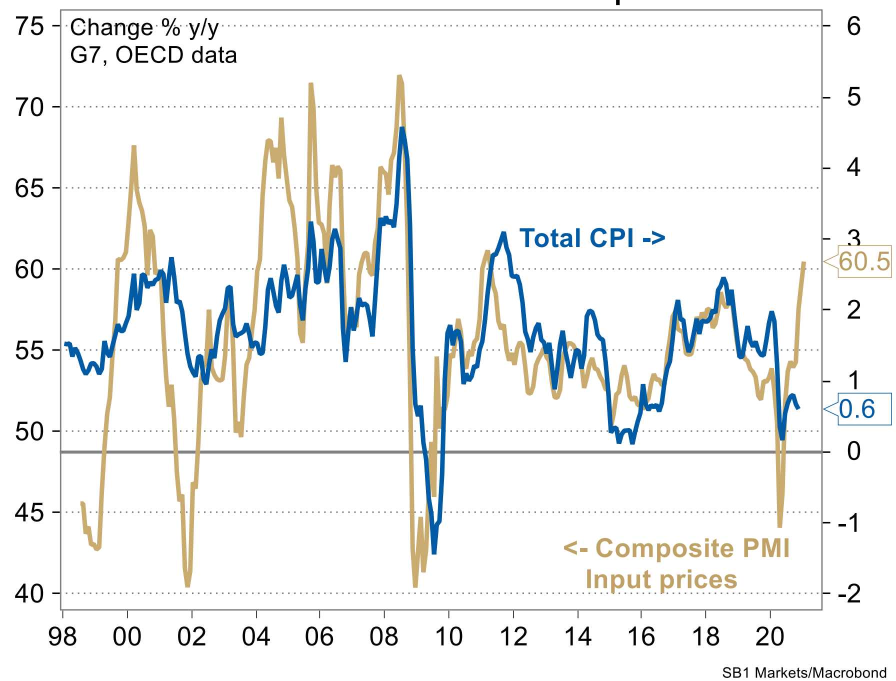


Global PMI Services Prices



The last obs. Is based on preliminary PMIs from EMU. Japan, UK and US

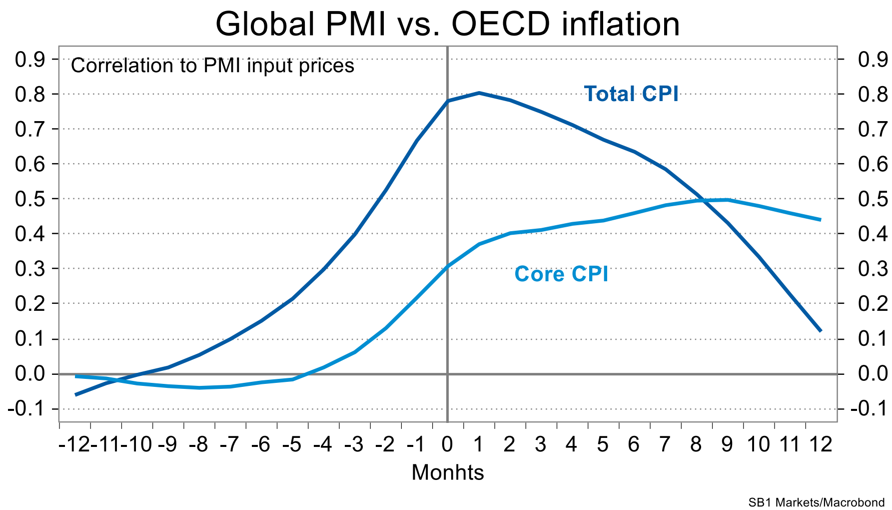
OECD Inflation vs PMI prices

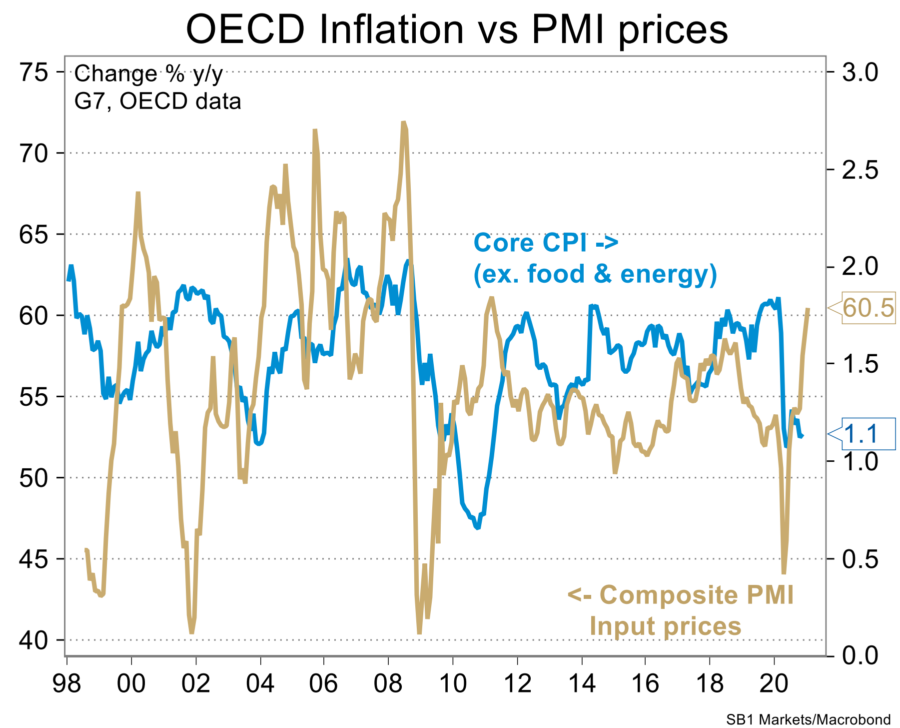


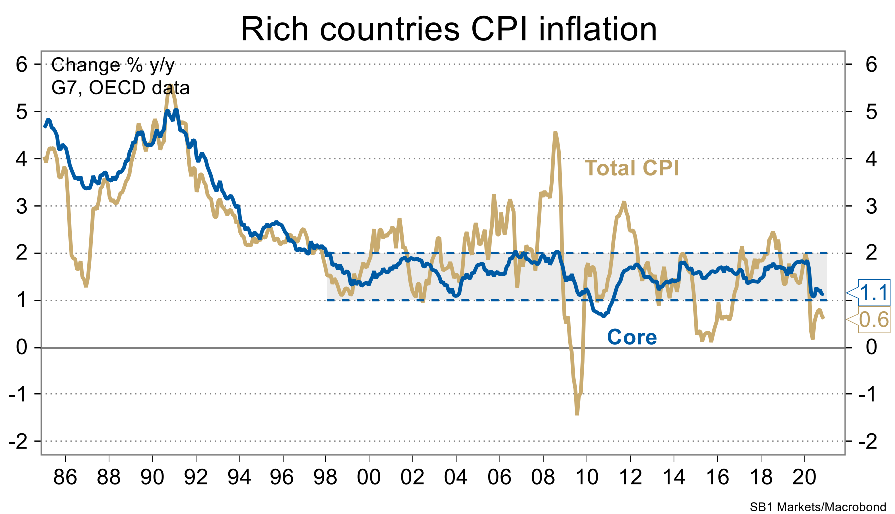
- **Both manufacturers and services** are reporting rapid increases in prices, both input & export prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from some 0.5% in rich countries now, up to 2.5 - 3%

However, core inflation is not that closely correlated to the PMI price cycles

BTW, can you spot the continuous decline in inflation, into deflation at the bottom left chart??



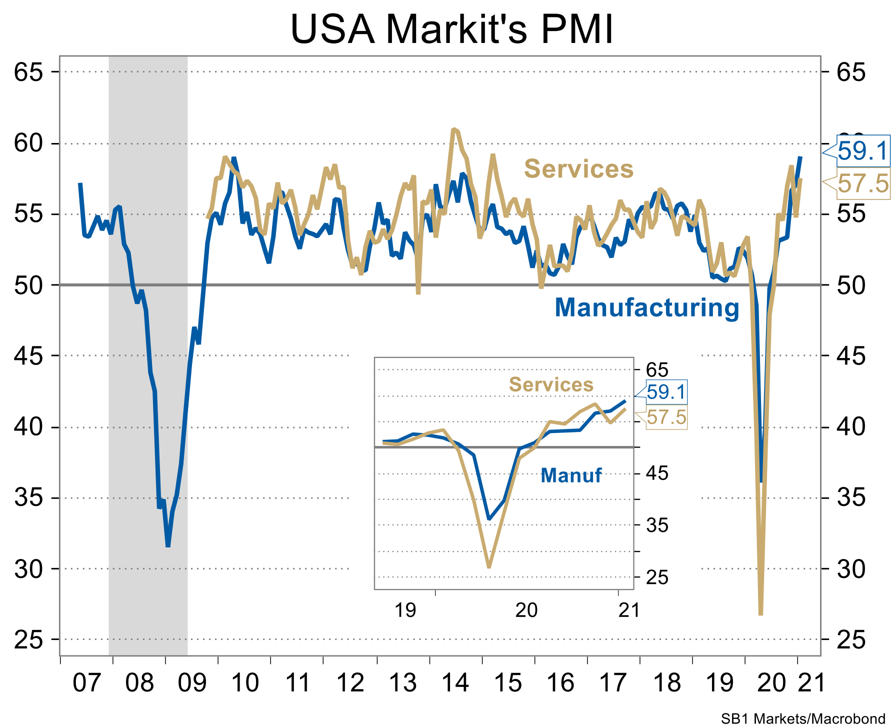


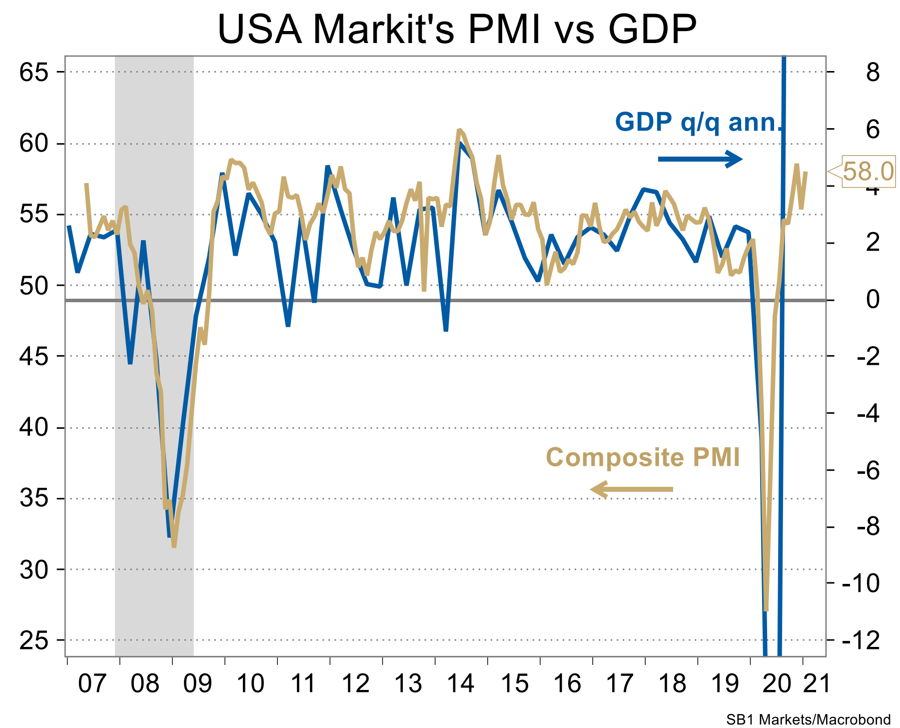


- Longer term, wage inflation & productivity is more important for inflation than short term ups & downs in the economy/PMIs
- So far, few signs of any broad

The PMIs sharply UP, manuf. to ATH, services not that far below

The comp. PMI up 2.7 p to 58 (exp. -1.2p!), signals 5% growth, in the time of the 3rd corona wave!

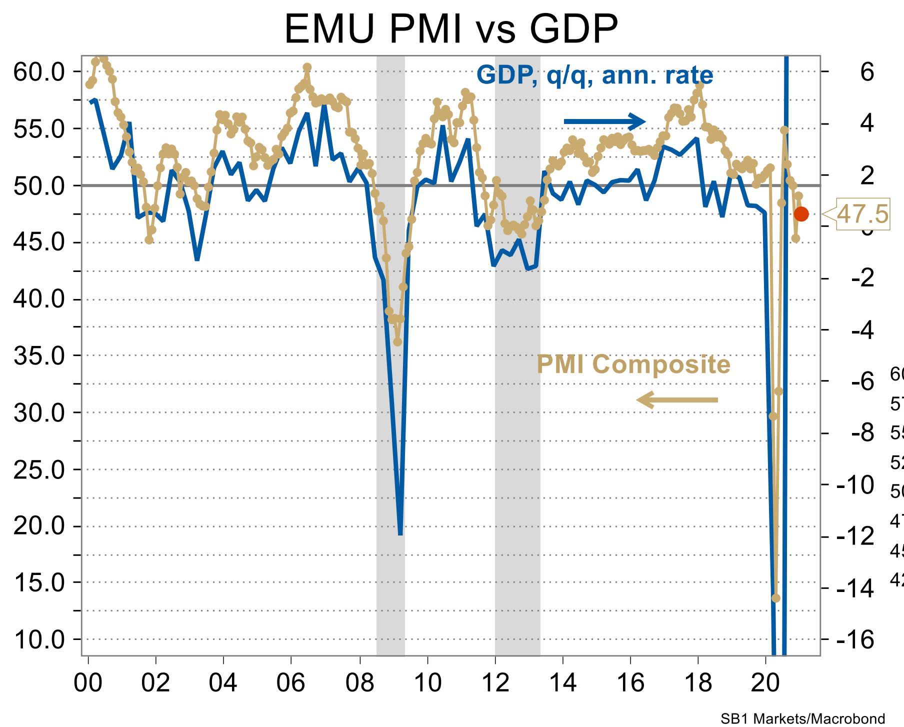


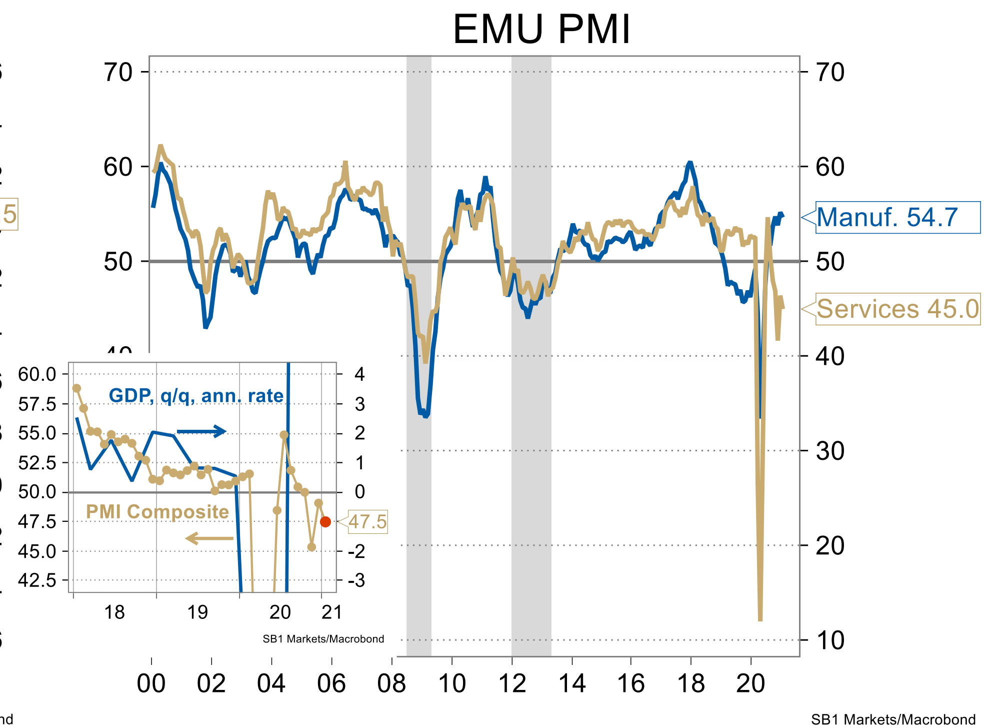


- A much stronger PMI Jan data set than expected. In Dec, the ISM manufacturing index was much stronger than expected
- Both services and the manufacturing sector are reporting unusual strong growth
- What the US needs now, is probably a USD 900 + 1,900 (4% +9% of GDP) fiscal stimulus package? Or does it??

Services are down everywhere – and the composite PMI down 1.6 p to 47.5

… as expected. Signals a moderate GDP decline

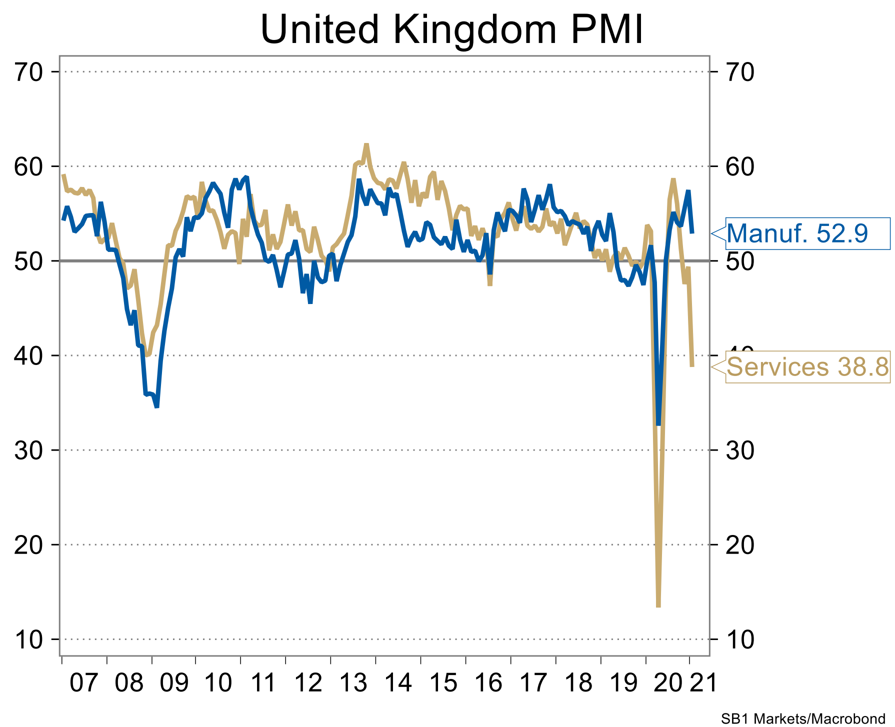


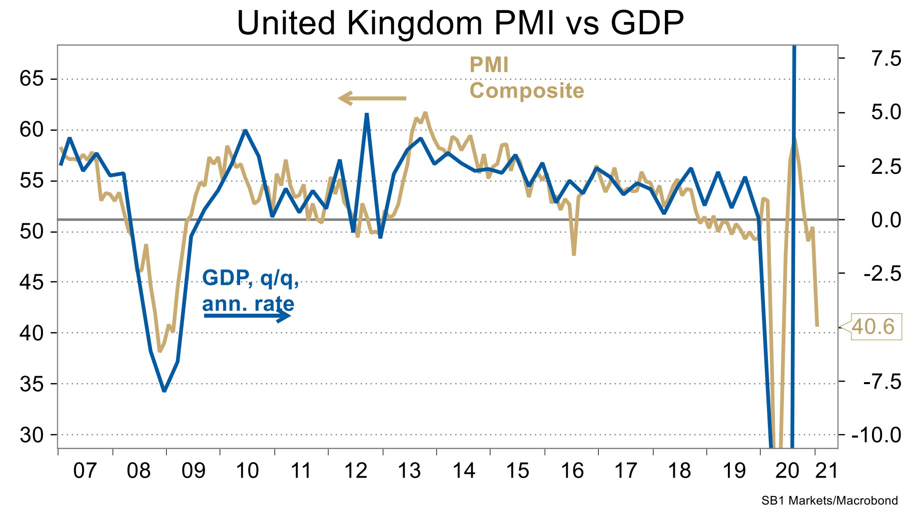


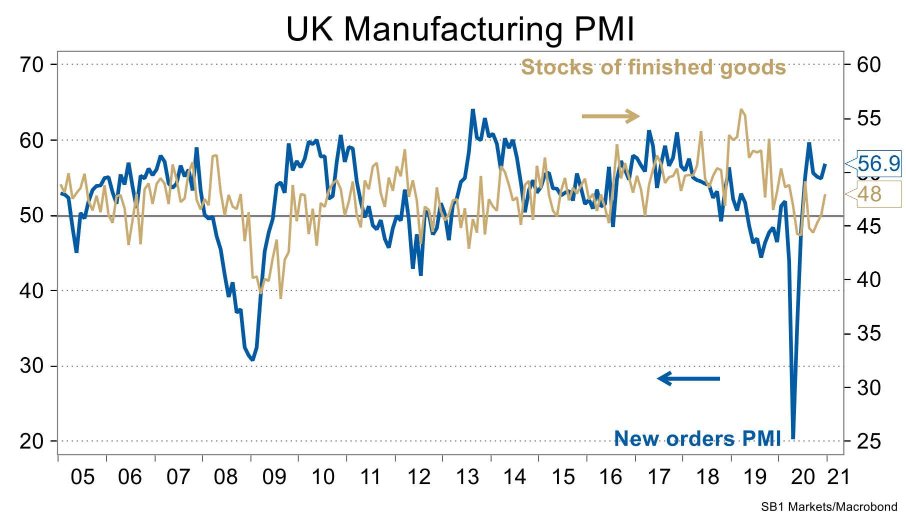
- The preliminary **composite PMI** is still above the Nov level. The **service sector** PMI fell 1.4 p, to 45, and less than expected. The **manufacturing index** fell 0.5 p to 54.7, and less than expected – and is signalling strong growth in goods production (the output component in the manuf PMI, which represents the sector in the composite index, fell more)
  - » Both PMIs from France, Germany and the implied average of Italy & Spain fell slightly in Jan
- **The 47.5 composite level** signals a 1% pace of decline in GDP (or 0.25% per quarter) – and nothing compared to the huge setback during the spring

Services straight down – in a locked down UK, manuf. down too, from 4y's high

The composite index fell almost 10 p to 40.6, the 3rd largest decline. Signals -5% GDP growth





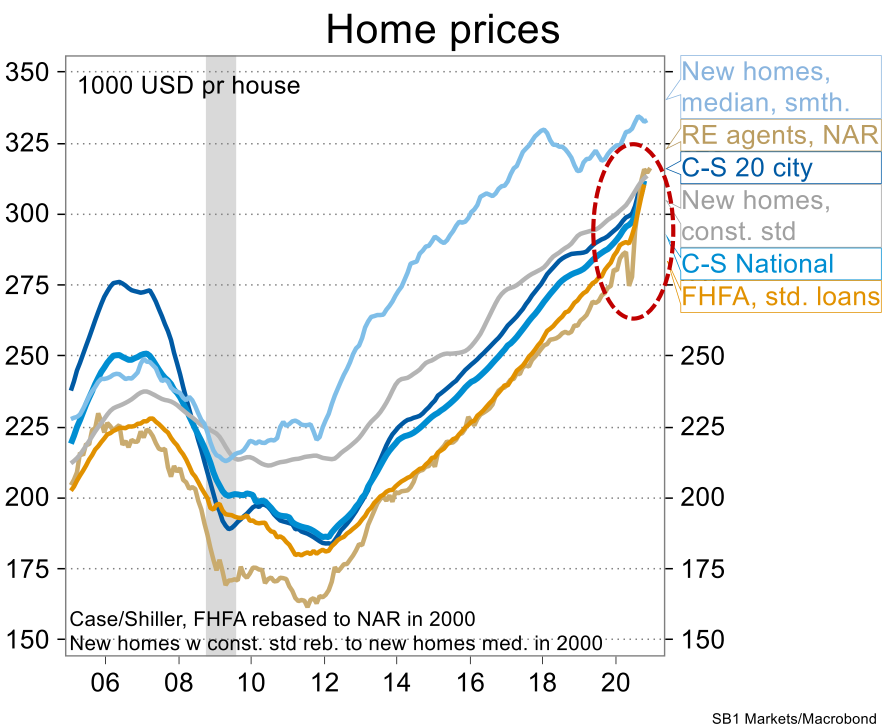


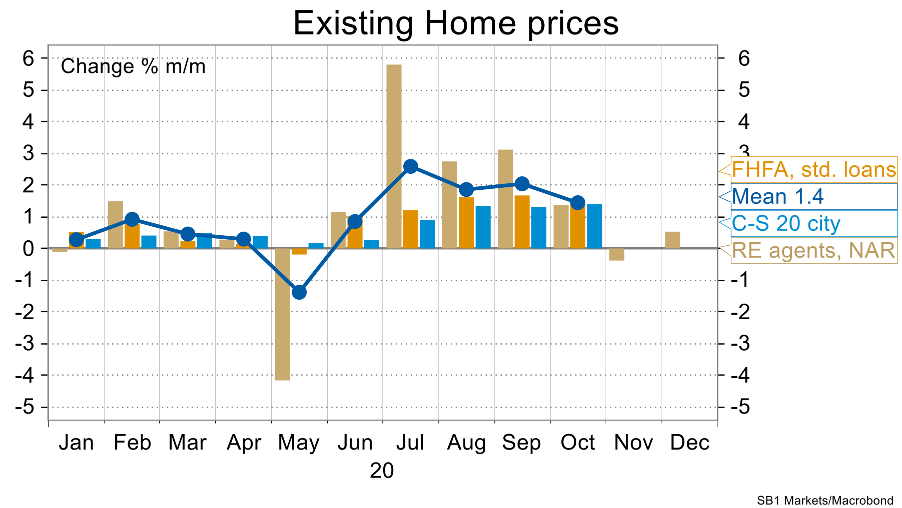
- The composite PMI fell by 9.8 p, twice as much as expected, we think the largest miss (barring the 'impossible' months in March/April last year). The difference quals a 2.5% GDP growth pace
- The level is still far above the March/April ATLs, but signals a significant decline in GDP

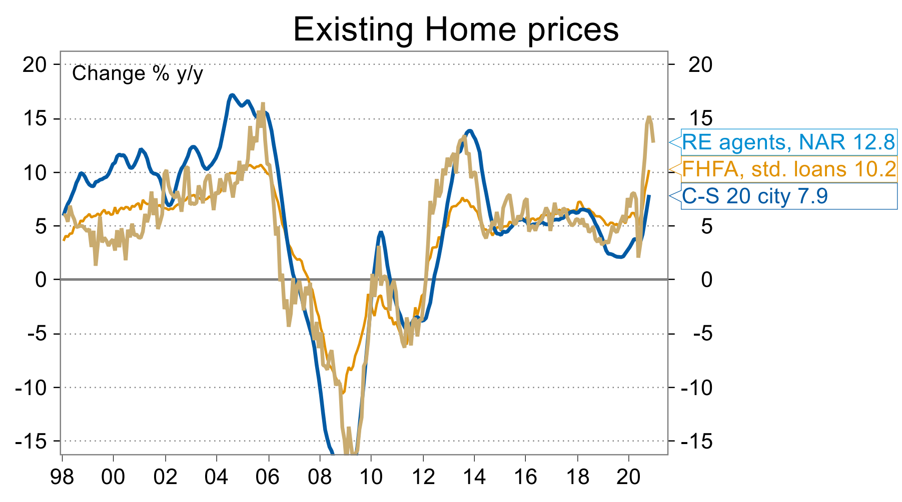
SpareBank 1 MARKETS

Is the price hike over? Real estate agents are reporting flat prices in Nov/Dec

… or is it just a ‘mean reversion’ for a volatile index that rose too fast some few months? Still up 13%





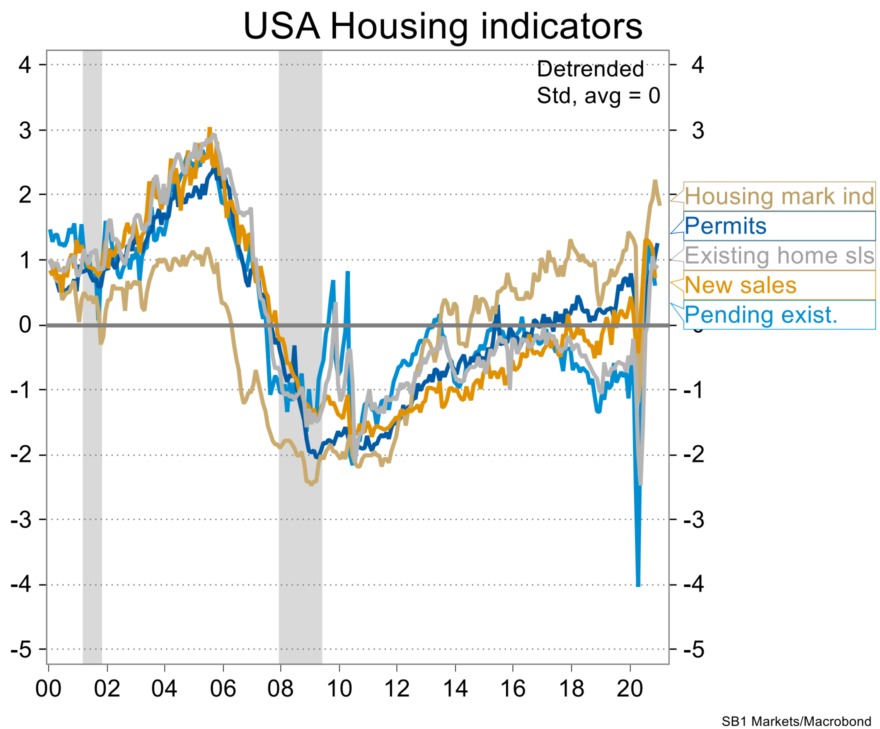


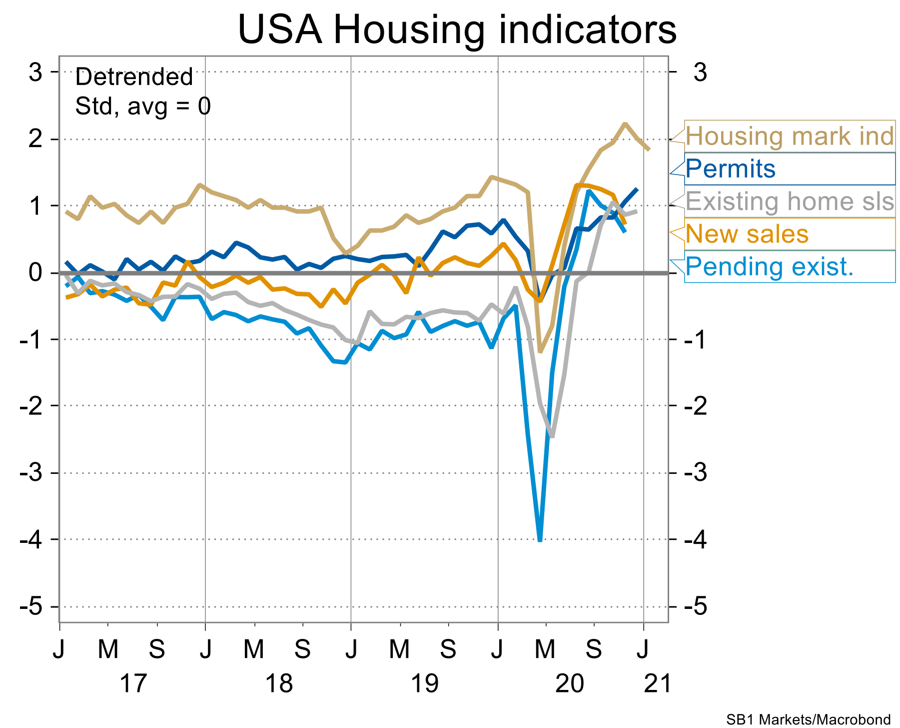
- The realtors’ index is a primitive median ‘raw’ index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) very likely lifted the median price from June to Oct. Prices are up 12.8% y/y
- Still, ‘something is very likely going on’ at the housing market. Other – and the more sophisticated and less volatile indices are reporting annual inflation at 7.9 – 10.2%. New home prices are on the way up too, <u>but not faster</u>

SpareBank 1 MARKETS

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

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

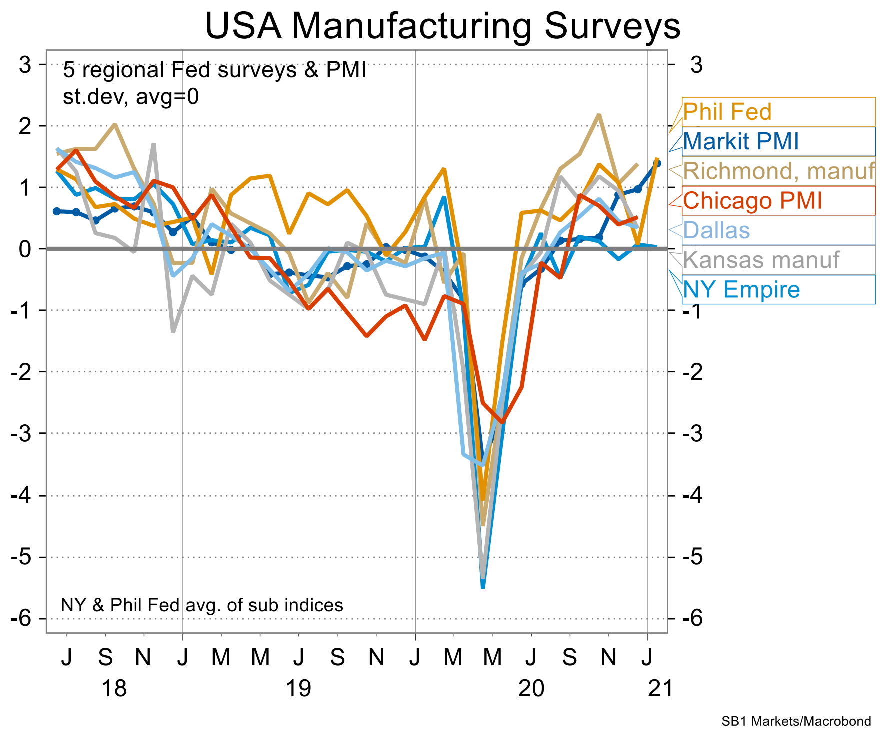


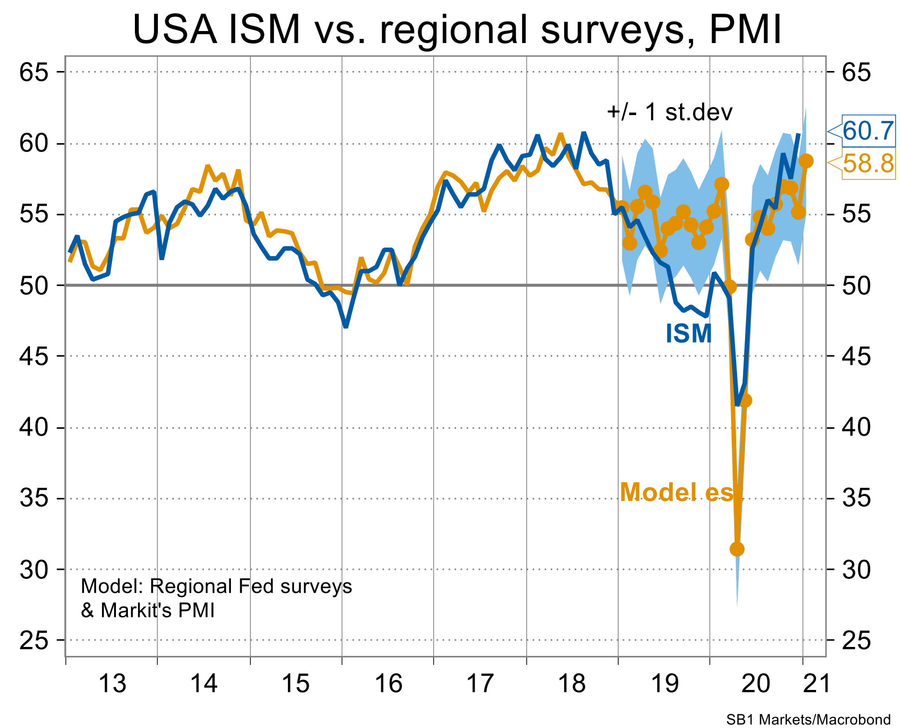


- Compare this 4 – 5 month downturn/recovery to what happened during/after the housing/financial crisis: Housing has not yet come back to the pre-corona peaks. It even took some 10 years to come back to an average housing market activity level (barring the Homebuilder's market index)!
  - » BTW: The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

PMI & Phil Fed sharply up in Jan, NY Empire flat: In sum ISM + 4 p?

Very likely not, as the ISM rose to 60.7 in December, and our model signals a level at 59



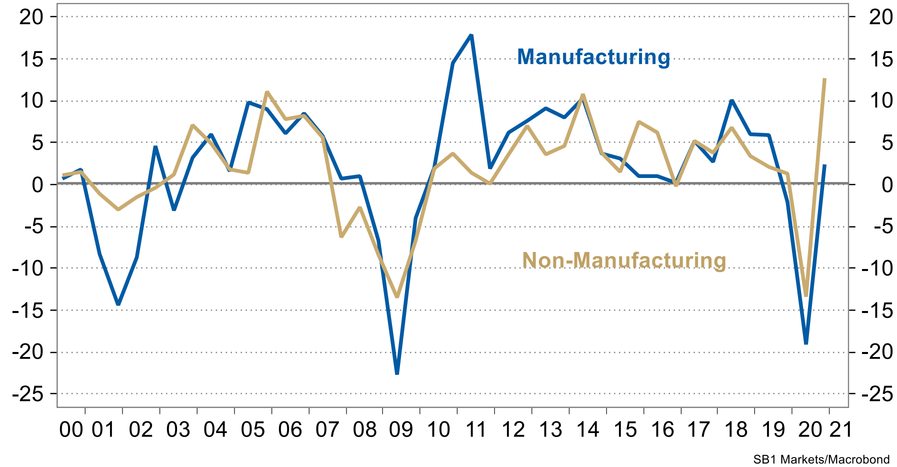


- Even if the ISM should not climb another 4 p, the US manufacturing surveys are really strong!! No impact of the 3rd corona wave at all
- The Phil Fed index rose to 26.5 from 9.1 level since expected up to 11. The average of the most relevant sub-indices rose to the highest level in more than 3 years

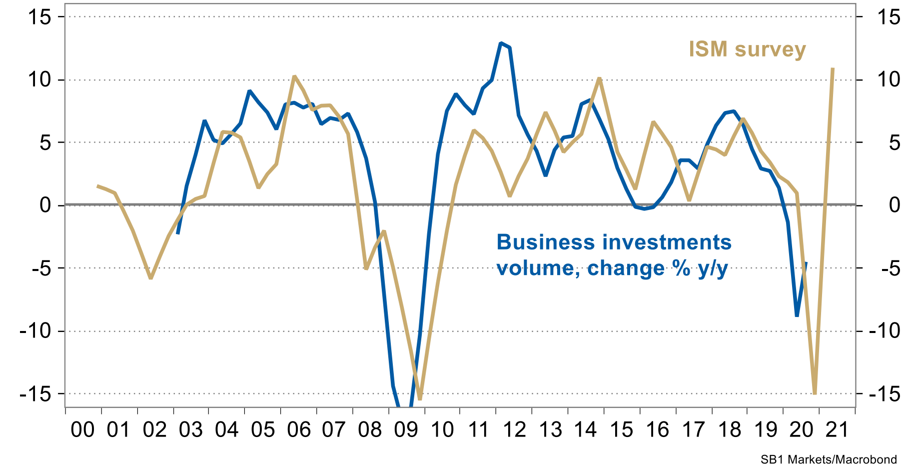
The H2 ISM investment survey sharply up, others up too: Investments to rise!

Not that spectacular, given the sharp drop in Q2 last year – still a usuful confirmation!

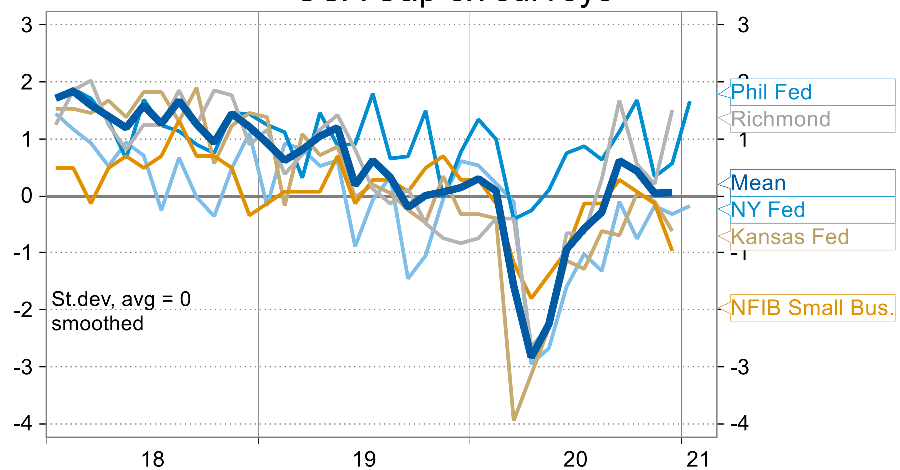
USA ISM Investment survey



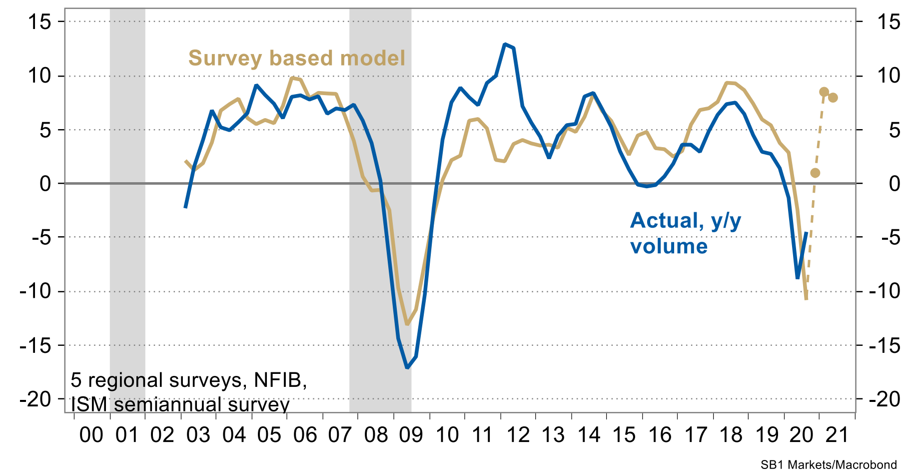
USA ISM Cap ex survey vs actual



USA Cap ex surveys

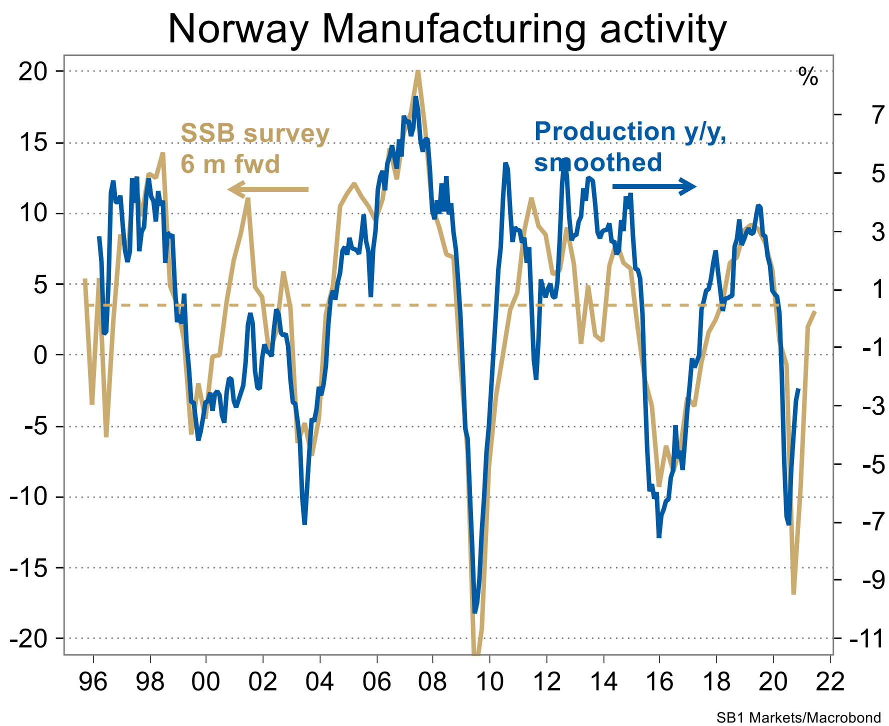


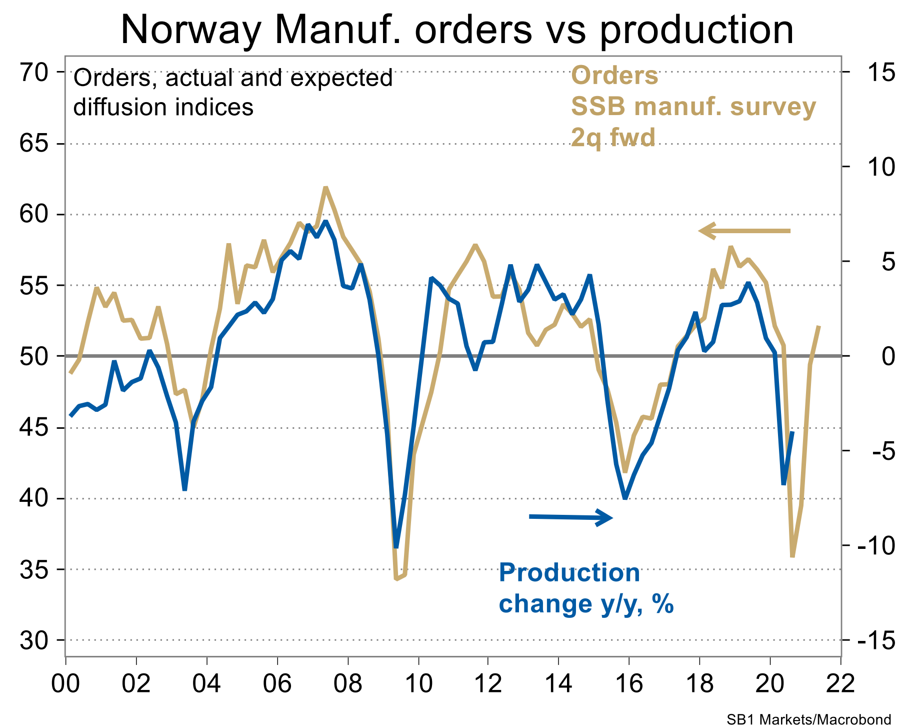
USA Business investments



SSB's manufacturing survey further up in Q4 but less than we expected

Oil related still weak, other parts of the manufacturing sector not

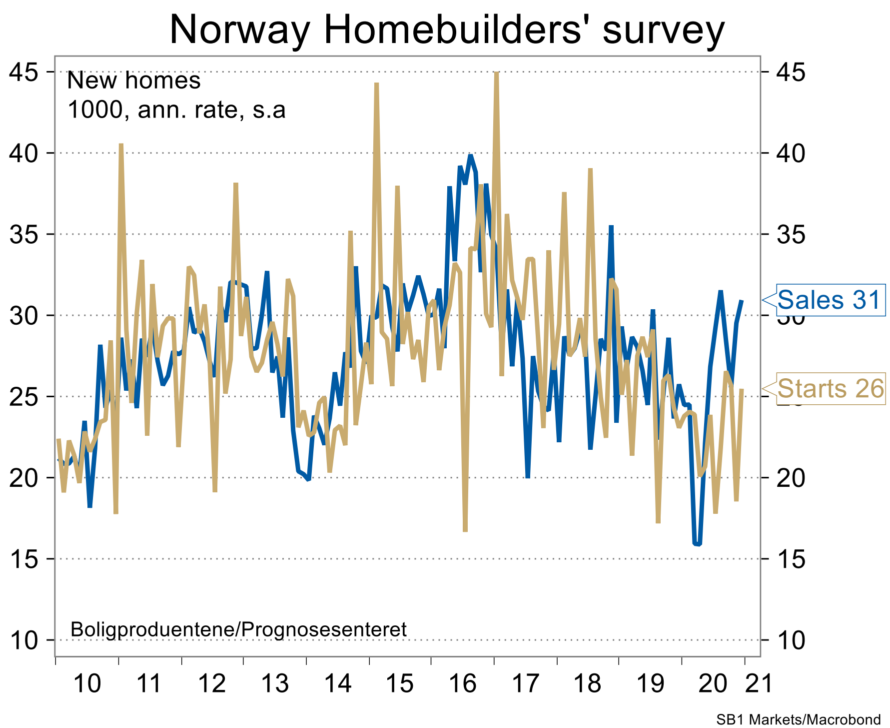


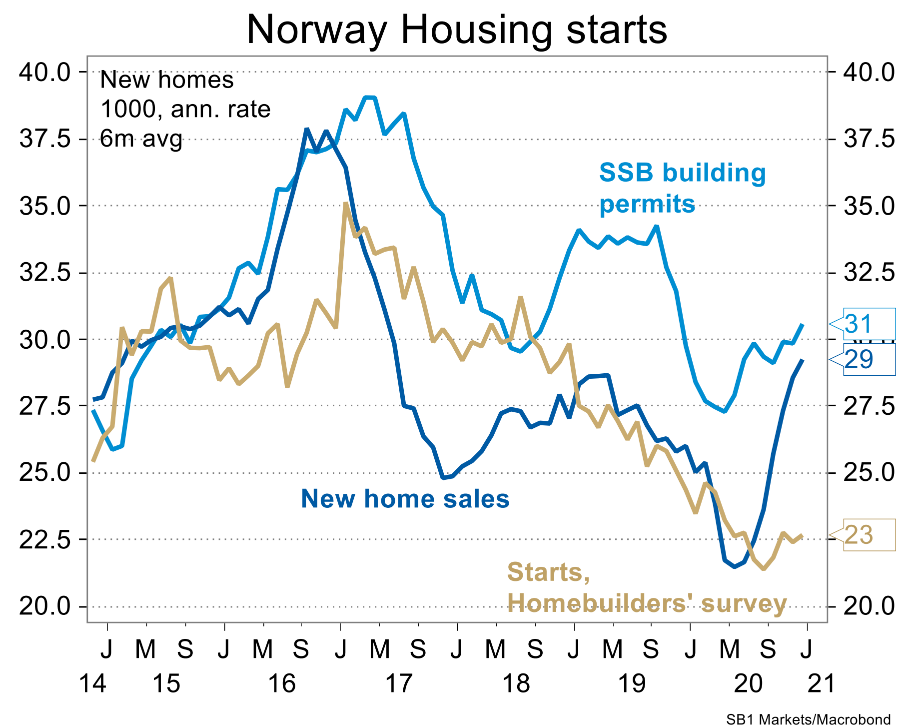


- The composite index in SSB's manufacturing survey rose to 3 in Q4, from 2 in Q3 (rev. up from 1.7). We expected an increase to 4.5
  - » The historical average is at 3.5, and the current print is just marginally below
  - » The index signals a marginal growth in the manufacturing sector, 2% growth in GDP and 10% growth in corporate earnings. However, like for all surveys these days, it is more challenging than usual to translate survey data into growth rates
- Orders are recovering, though with the oil related industries still lagging. Domestic orders are stronger then foreign orders
- ***ZZZz An average share of companies are reporting lack of demand as a constraining factor – this is not a demand crisis***

Homebuilders are selling more new homes, have to build more

Sales rose to 31’ in Dec, starts to 26’, the 2nd/3rd best in 2020, both are trending up. SSB starts up too





- New home sales up 3’ to 31’ in Dec, to among the best months the since late 2016, according to the Homebuilders’ association
- Homebuilders reported 26’ sales, up 7’ vs. November. SSB reported 31’ starts in Dec
- New homes sales & starts peaked at 35 – 40’ in 2016, and trended down to 25’ before the corona crisis. During the summer and into the autumn, sales have recovered to the pre-corona level, alongside the strengthening of the existing home market since mid April
  - » Over the past 6 months, the sales pace has been 29’ vs a starts pace at 23’. Starts will probably recover the coming months
- We assume the strong existing home market will encourage new home sales & starts the coming months

The Calendar

Q4 GDP in US/Europe, US orders, FOMC. Norwegian retail sales & unemployment

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 25					
10:00	GE	IFO Expectations	Jan	93.5	92.8
14:30	US	Chicago Fed Nat Activity Index	Dec		0.27
Tuesday Jan 26					
08:00	UK	Claimant Count Rate	Dec		7.4%
15:00	US	S&P CoreLogic CS 20-City MoM SA	Nov	0.7%	1.6%
16:00	US	Conf. Board Consumer Confidence	Jan	89.1	88.6
Wednesday Jan 27					
14:30	US	Durable Goods Orders	Dec P	1.0%	1.0%
14:30	**US**	**Cap Goods Orders Nondef Ex Air**	**Dec P**	**0.3%**	**0.5%**
20:00	**US**	**FOMC Rate Decision (Lower Bound)**	**Jan-27**	**0.0%**	**0.0%**
Thursday Jan 28					
00:50	JN	Retail Sales MoM	Dec	-0.9%	-2.0%
08:00	NO	Unemployment Rate AKU	Nov	5.2%(5.3)	5.2%
08:00	**NO**	**Retail Sales W/Auto Fuel MoM**	**Dec**	**0.5%(-2)**	**2.9%**
09:00	SW	Economic Tendency Survey	Jan		95.6
09:30	SW	Unemployment Rate SA	Dec	8.60%	8.30%
09:30	SW	Retail Sales MoM	Dec		0.80%
11:00	EC	Economic Confidence	Jan	89.4	90.4
14:00	GE	CPI YoY	Jan P	0.6%	-0.3%
14:30	US	Advance Goods Trade Balance	Dec	-$83.5b	-$84.8b
14:30	**US**	**GDP Annualized QoQ**	**4Q A**	**4.4%**	**33.4%**
14:30	US	Initial Jobless Claims	Jan-23	875k	900k
16:00	US	Leading Index	Dec	0.2%	0.6%
16:00	US	New Home Sales	Dec	852k	841k
Friday Jan 29					
00:50	JN	Industrial Production MoM	Dec P	-1.5%	-0.5%
07:30	FR	Consumer Spending MoM	Dec	20.0%	-18.9%
07:30	**FR**	**GDP QoQ**	**4Q P**	**-4.0%**	**18.7%**
08:00	GE	GDP QoQ	4Q P	0.0%	8.5%
08:00	NO	Credit Indicator Growth YoY	Dec	(4.9)	4.7%
10:00	**NO**	**Unemployment Rate**	**Jan**	**4.3%(4.4)**	**3.8%**
10:00	**EU**	**Credit growth**	**Dec**		
14:30	US	Personal Spending	Dec	-0.5%	-0.4%
14:30	**US**	**PCE Core Deflator YoY**	**Dec**	**1.3%**	**1.4%**
14:30	US	Employment Cost Index	4Q	0.5%	0.5%
16:00	US	Pending Home Sales MoM	Dec	-0.5%	-2.6%
16:00	US	U. of Mich. Sentiment	Jan F	79.2	79.2
Monday Feb 1					
02:00	CH	Composite PMI	Jan		55.1
02:00	CH	Manufacturing PMI	Jan	51.6	51.9
02:45	CH	Caixin China PMI Mfg	Jan	52.6	53

- **China**
  - **3 of 4 PMIs** will be published next Monday. A gradual slowdown of a far above trend growth is likely as the Chinese economy is back at the pre-corona trend growth path (or even slightly above)
- **USA**
  - **FOMC** will probably not revise its growth forecasts up, like at the previous two 'main' gatherings. We do not expect new signals. The covid/vaccinations situation is still uncertain, and the second stimulus fiscal package (9% of GDP!) is not yet decided – and more importantly, the economy is still operating well below par. However, given a successful vaccine rollout, the bank may signal earlier tightening in June or in Sept
  - **Q4 GDP** is expected up by 4.4%, a fair estimate, implying a 2.4% decline from Q4 '19. Growth in private consumption slowed through Q4 but was still up some 4%. Business investments probably grew faster
  - **New durable orders** and even more **investment goods orders** surprised on the upside during H2, the latter is now far above the pre-corona level
  - More **housing data**: New home sales & housing prices
- **EMU**
  - Both Germany, France and Spain will report **Q4 GDP** on Friday. The French GDP is expected down 4% due to the Nov lockdown, Germany unch as the lockdowns hit only from mid December. Some retail Dec retail sales data will be published as well
- **Norway**
  - We expect **NAV unemployment** to increase somewhat in Jan, following the decline in Dec. Still, the increase from Oct to Jan is marginal vs. last spring's chock. We forecast a small uptick in the **LFS (AKU) unemployment** rate too. Consensus expect a further increase in **retail sales** in Dec, from the high level in Nov, we assume a correction down. The level is anyway very high. **Credit growth** is accelerating, slowly

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

Highlights

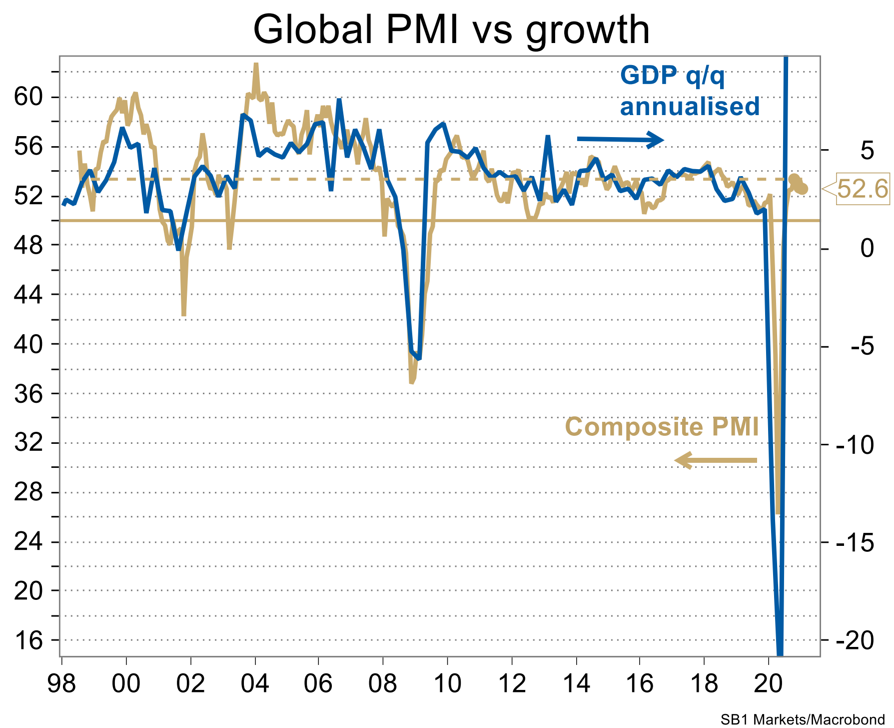
The world around us

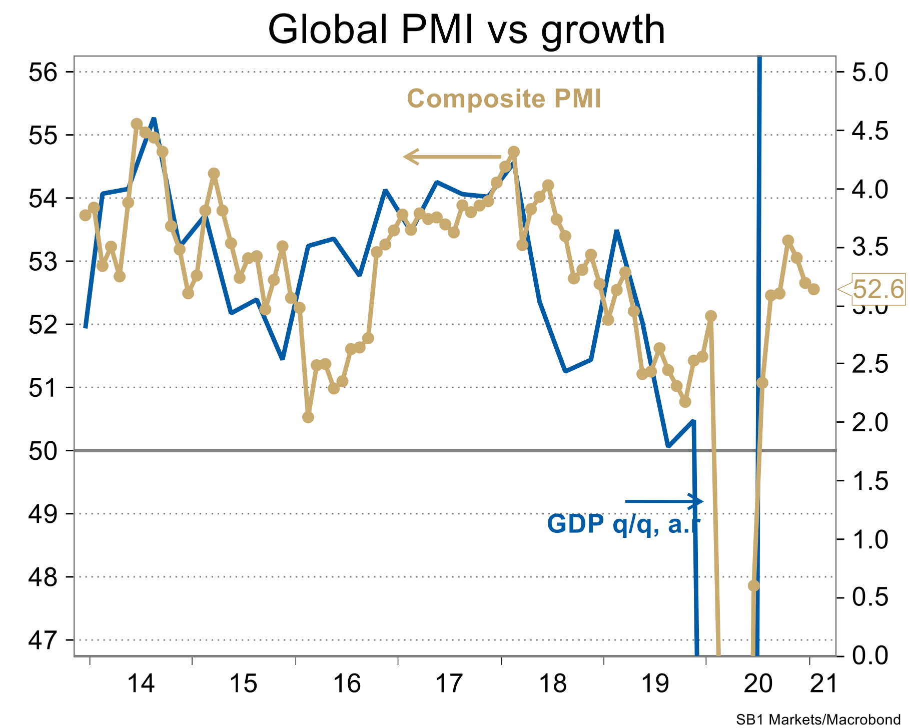
The Norwegian economy

Market charts & comments

The global composite PMI likely down one small tick in January, level still OK

We estimate a 0.1 p decline in the comp. PMI to 52.6, still signalling growth close to trend

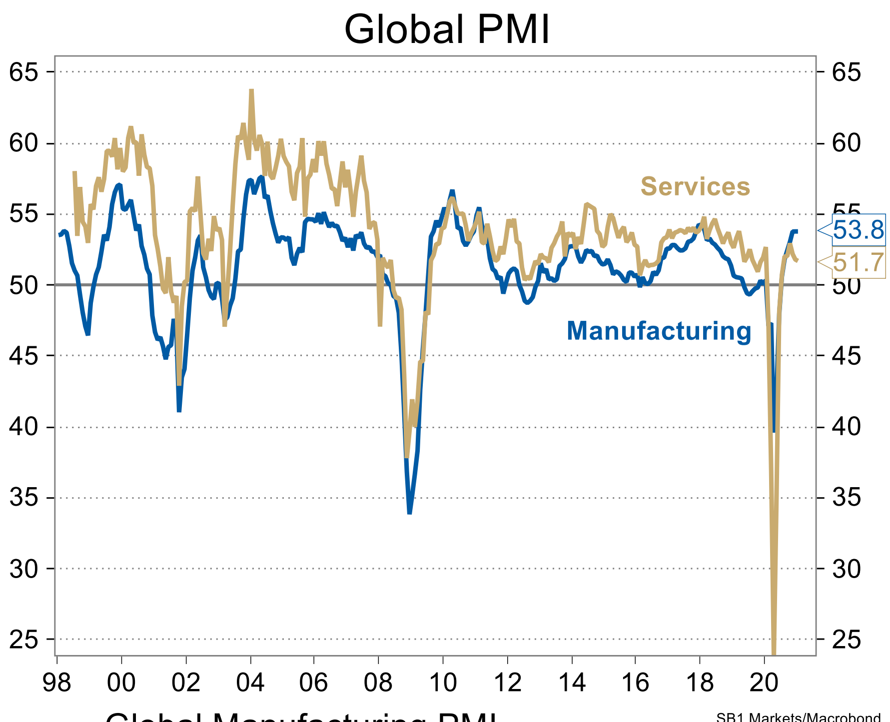


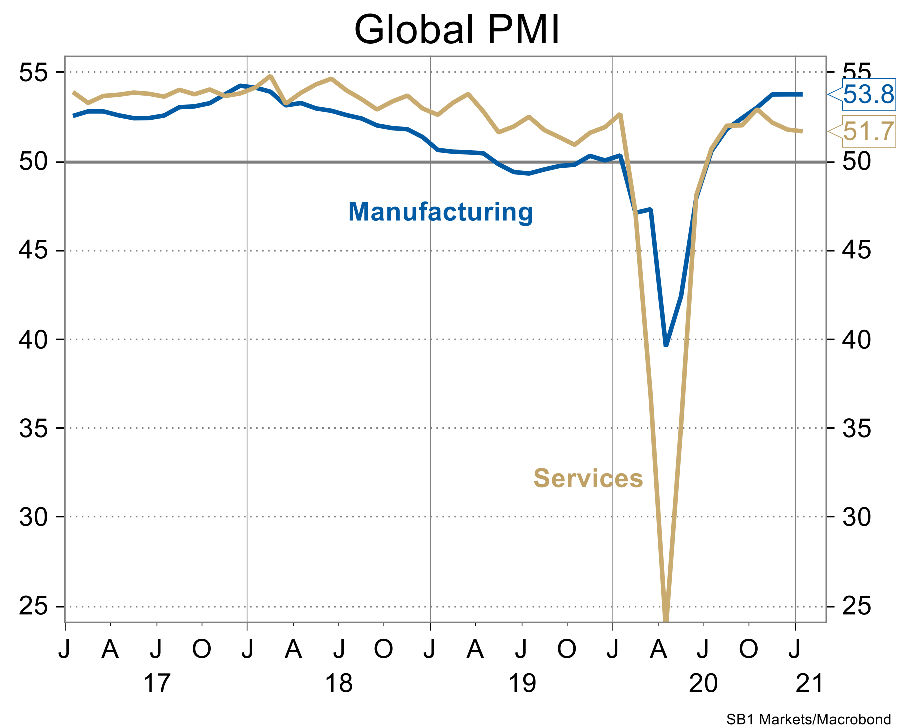


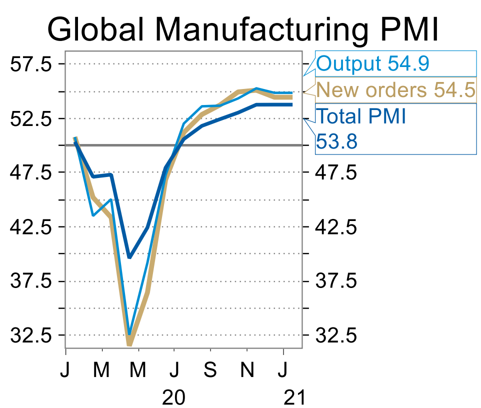
- The preliminary PMIs were mixed, a surge in the US compensated for a decline in both EMU, Japan and UK (a sharp drop here). Our **global PMI composite** estimate is close to unch (-0.1 p) at 52.6 . However, the uncertainty is larger than normal, given the discrepancy between the main regions. The level signals some 3% – 3.5% growth in the global economy
- The **global manufacturing PMI** total index was probably close to unch too, while the **service sector** index may have fallen by 0.1 p

Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

Both manufacturing and services PMIs close to unch. in Jan



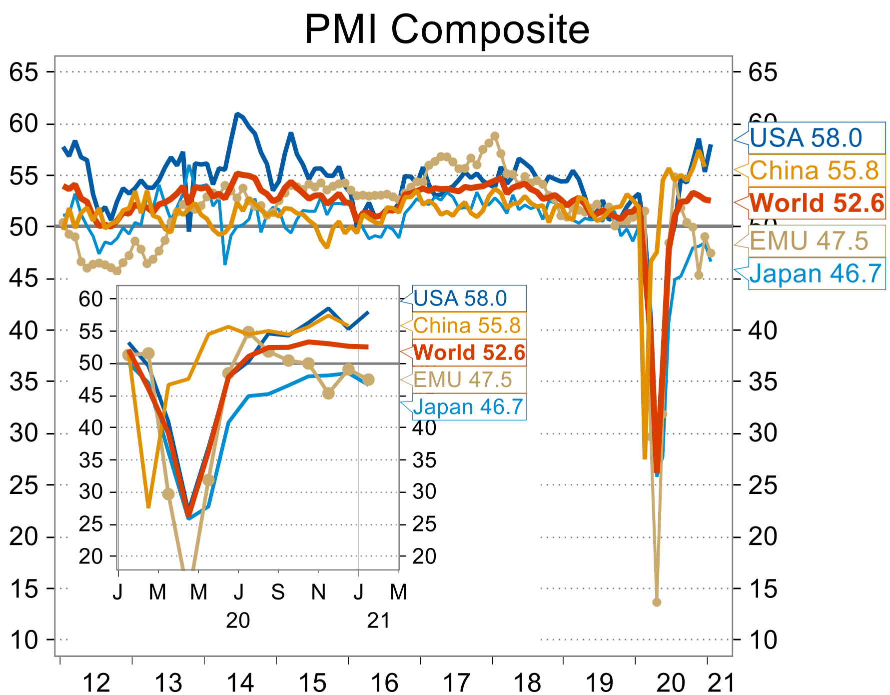




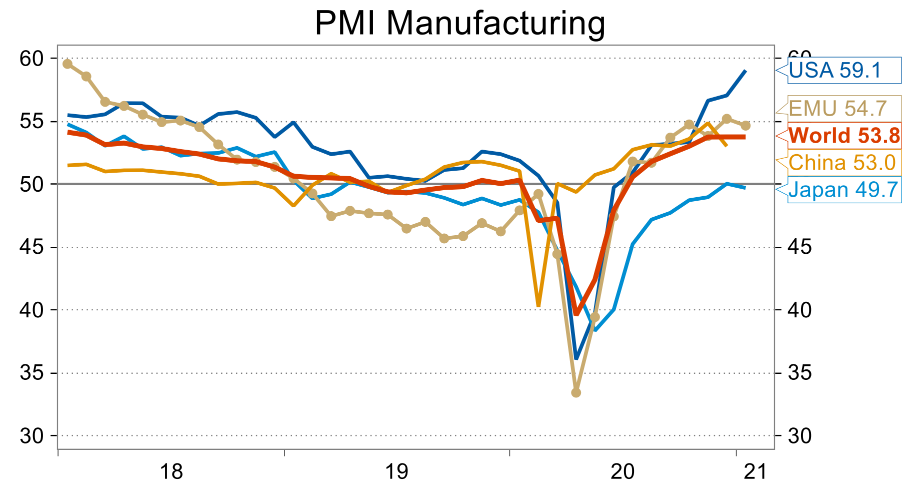
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

US PMIs sharply up, EMU & Japan slightly down

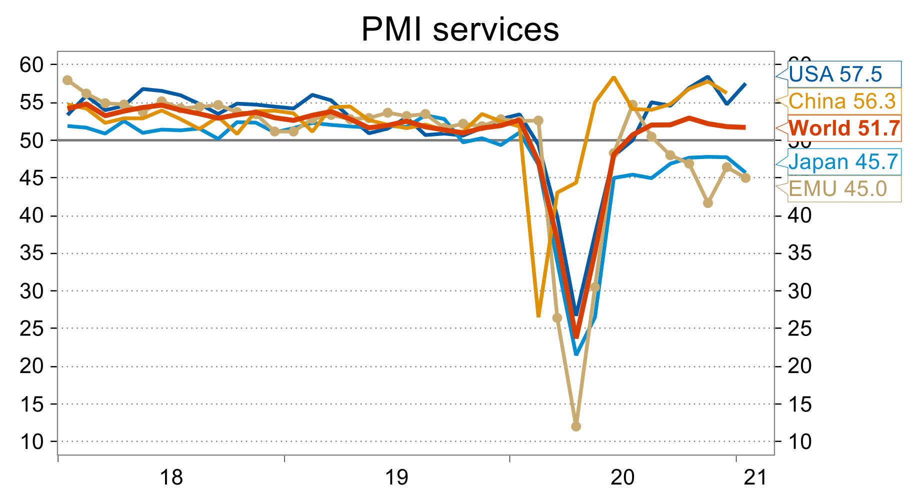
The US is reporting strong growth, the Eurozone a mild downturn



Source: IHS Markit, SB1 Markets, Macrobond



Source: IHS Markit, SB1 Markets, Macrobond

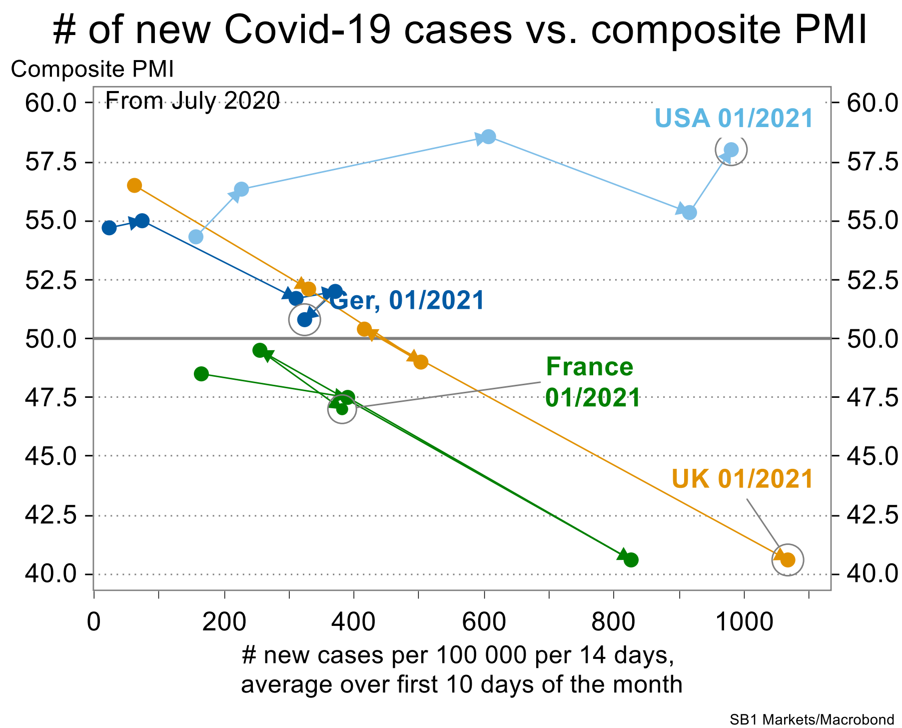


SB1 Markets/Macrobond

- In the EMU, the service sector PMI turned down again, as expected, and at 45, the sector is contraction mode. Manufacturing is not, at 54.7. The composite at close to 47.5 signal a moderate decline in GDP
- The US composite PMI reversed the decline in Dec, and the manufacturing PMI is the strongest ever! Services are reporting string growth too – amidst the corona 3rd wave
- The UK PMI fell sharply, to 40.6

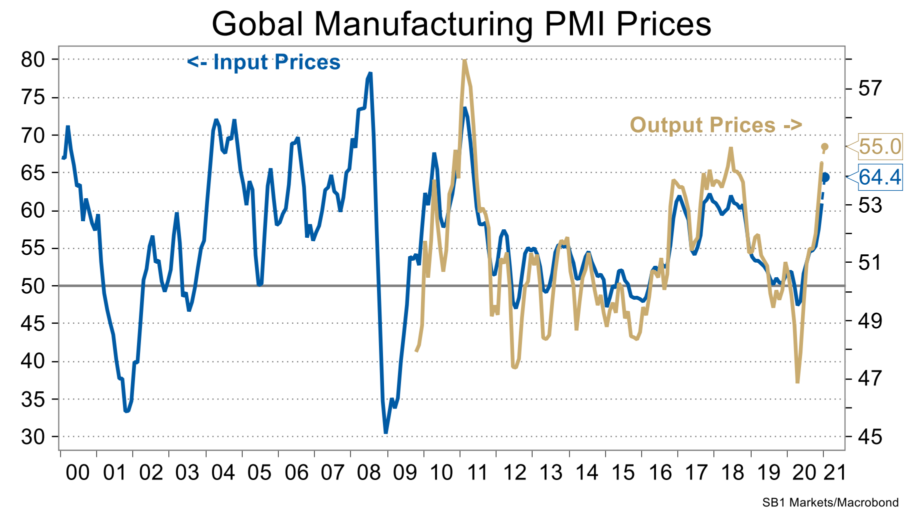
The virus explains the PMIs in Europe – but not in the US!

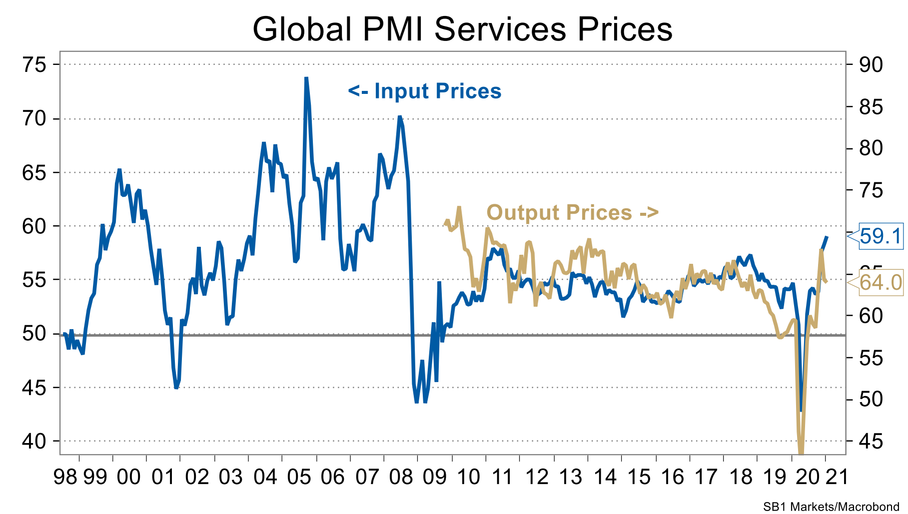
The US is an outlier, still not seriously hurt by the 2nd/3rd corona wave



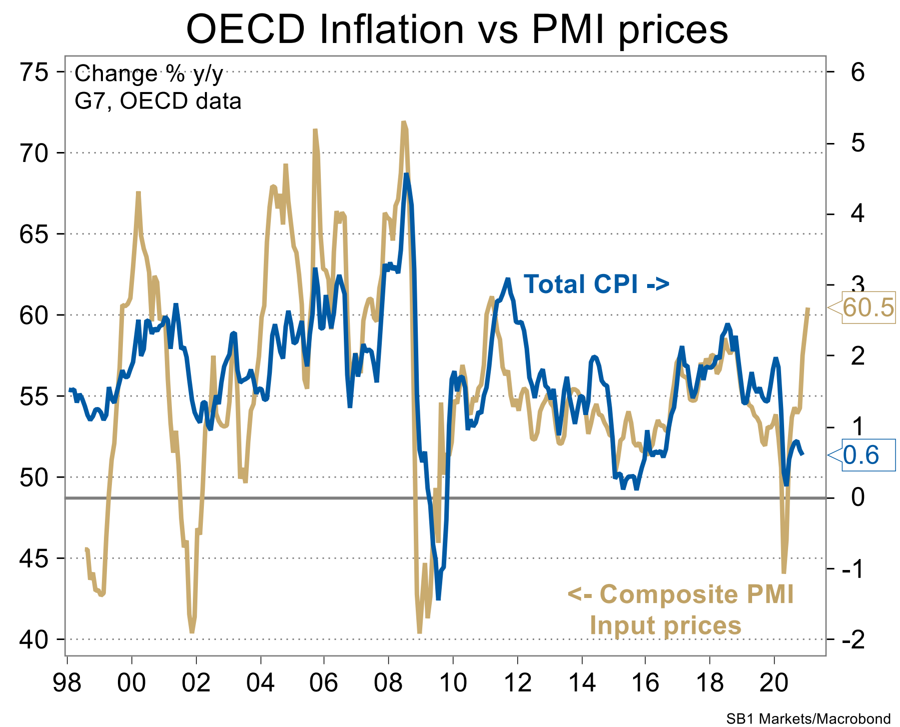
Businesses are reporting the fastest input price inflation in 10 years

Output prices are sharply up too, manufacturing at the fastest pace in 10 years. CPI inflation next?





The last obs. Is based on preliminary PMIs from EMU. Japan, UK and US



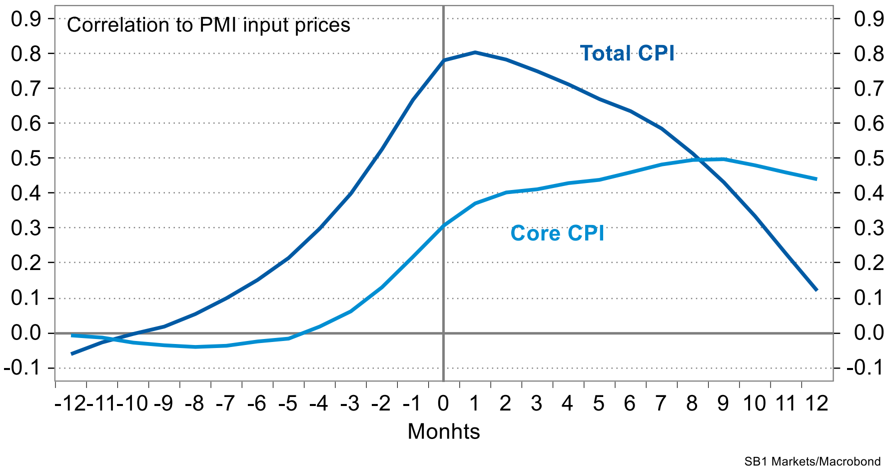
- **Both manufacturers and services** are reporting rapid increases in prices, both input & export prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from some 0.5% in rich countries now, up to 2.5 - 3%

SpareBank 1 MARKETS

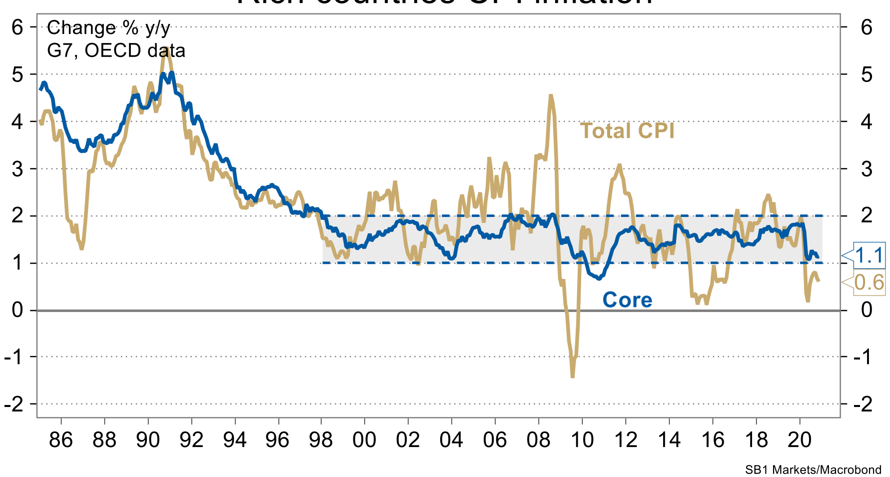
However, core inflation is not that closely correlated to the PMI price cycles

BTW, can you spot the continuous decline in inflation, into deflation at the bottom left chart??

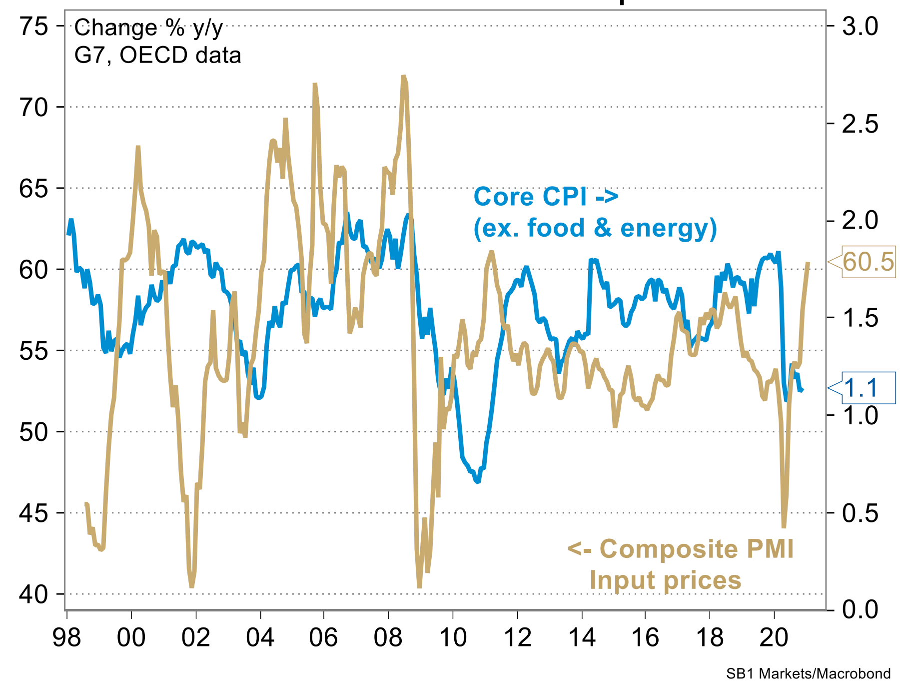
Global PMI vs. OECD inflation



Rich countries CPI inflation



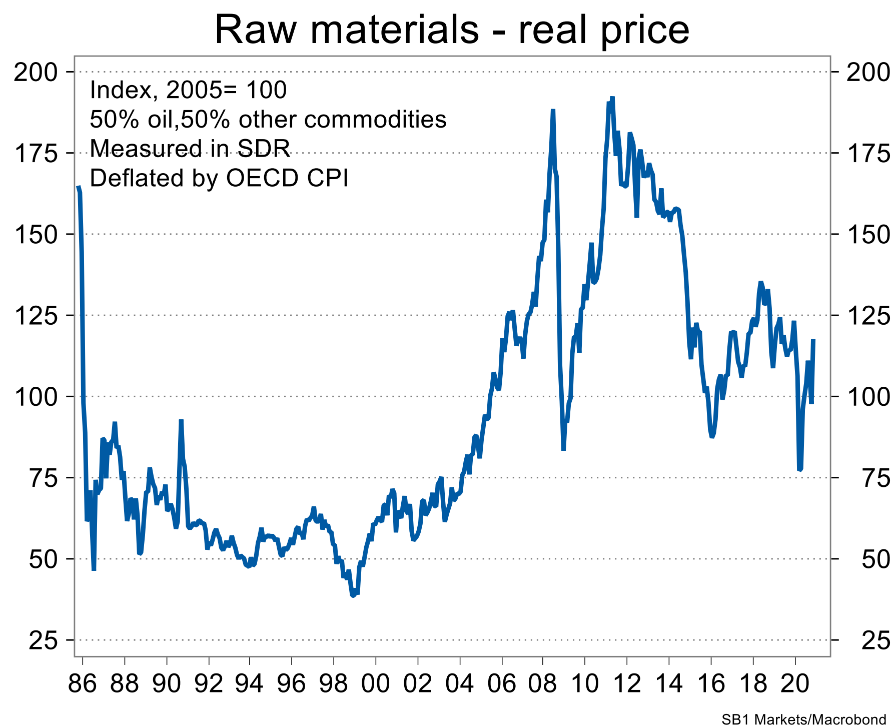
OECD Inflation vs PMI prices

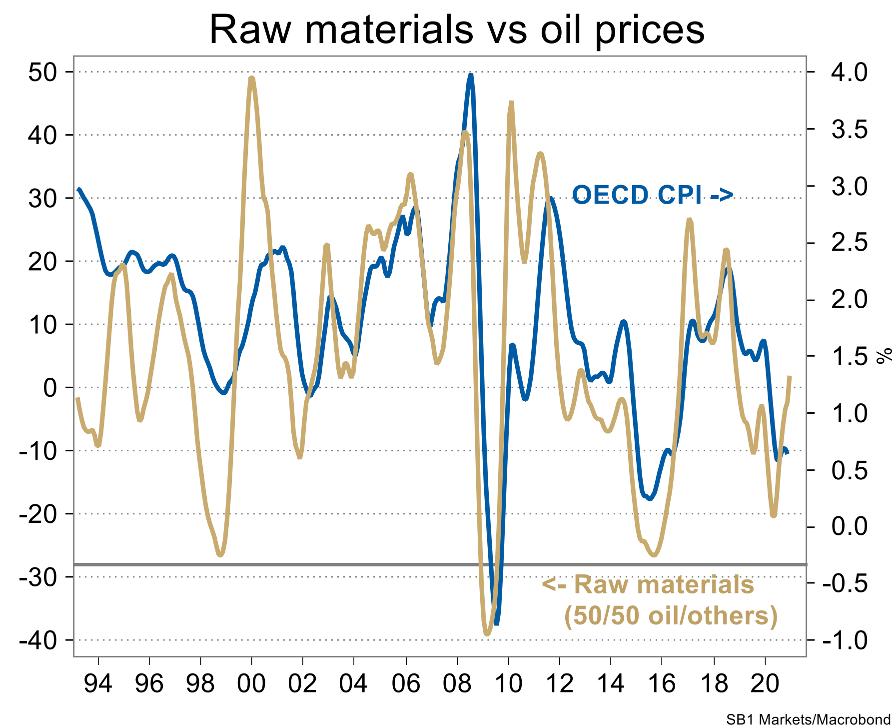


- Longer term, wage inflation & productivity is more important for inflation than short term ups & downs in the economy/PMIs
- So far, few signs of any broad

Raw material prices are on the way up but are (as of yet) far from high

Still, the recent hike suggests a market lift in headline CPI inflation in H1

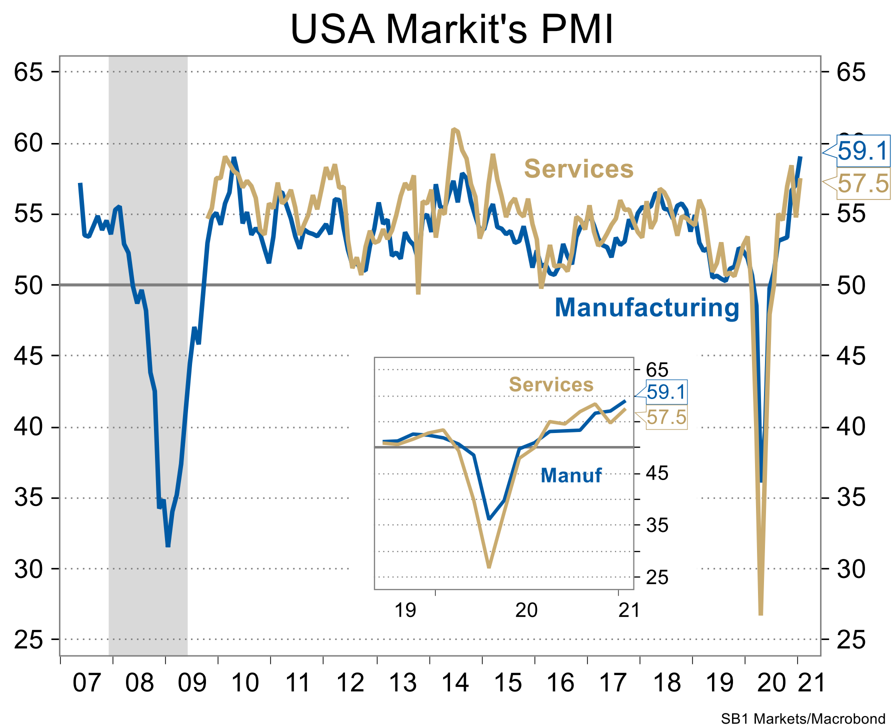


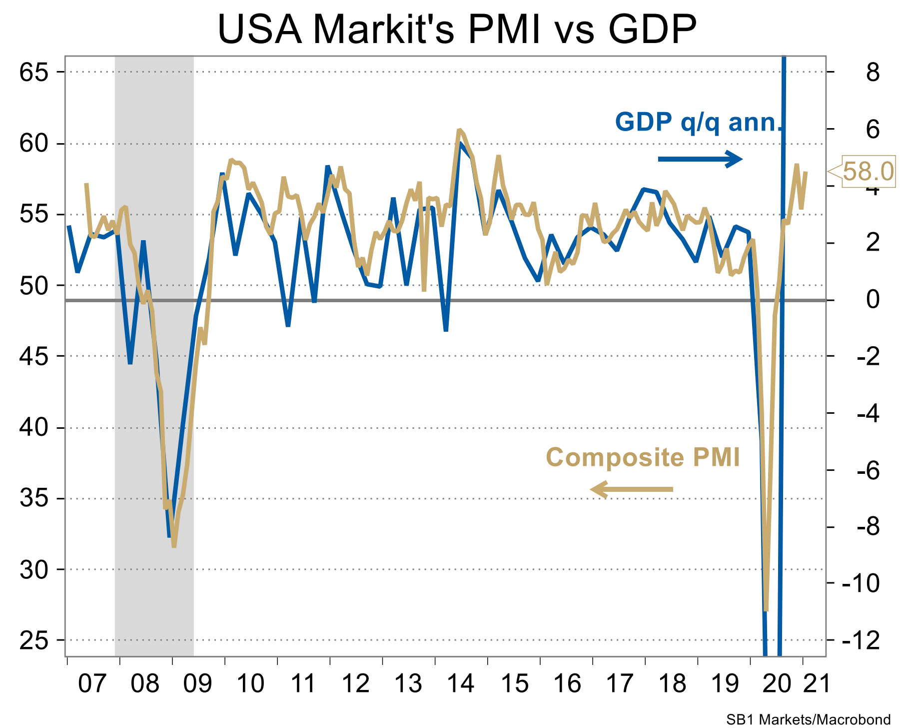


- By itself, not a problem for dovish central banks, but a ‘challenge’ if the the economy strengthens into H2 (if vaccines are produced in promised quantities, and work even vs present and possible future mutations)

The PMIs sharply UP, manuf. to ATH, services not that far below

The comp. PMI up 2.7 p to 58 (exp. -1.2p!), signals 5% growth, in the time of the 3rd corona wave!



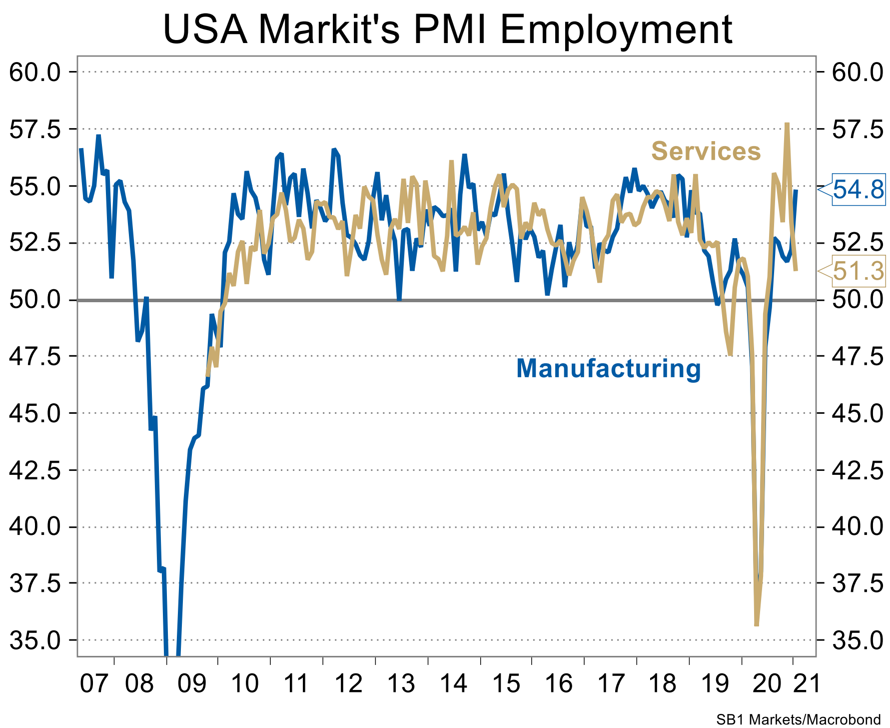


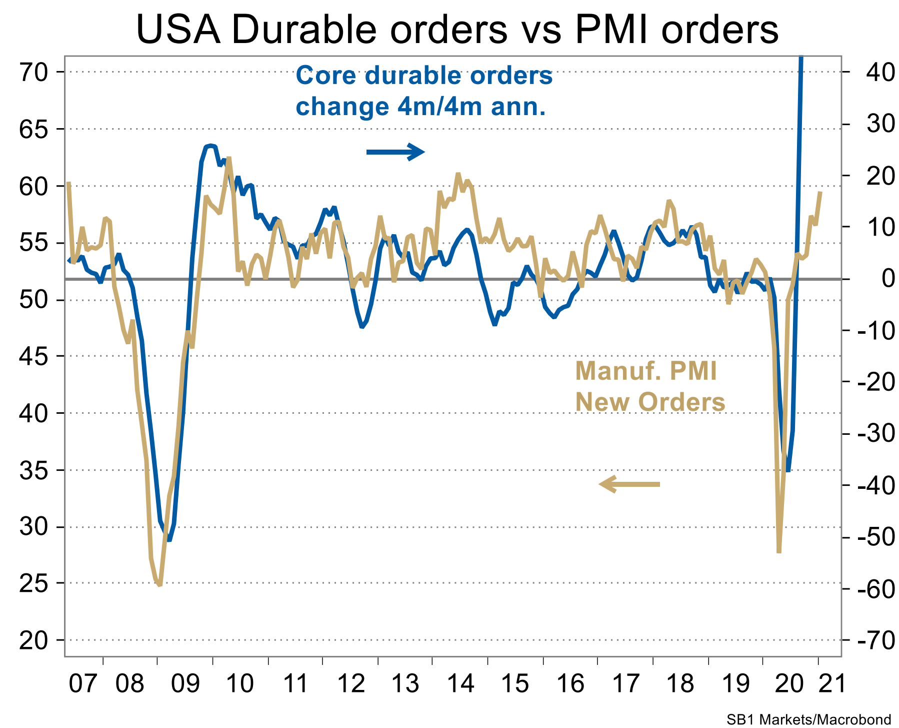
- A much stronger PMI Jan data set than expected. In Dec, the ISM manufacturing index was much stronger than expected
- Both services and the manufacturing sector are reporting unusual strong growth
- What the US needs now, is probably a USD 900 + 1,900 (4% +9% of GDP) fiscal stimulus package? Or does it??

SpareBank 1 MARKETS

Weaker growth in employment signalled but no cut. Orders are VERY strong

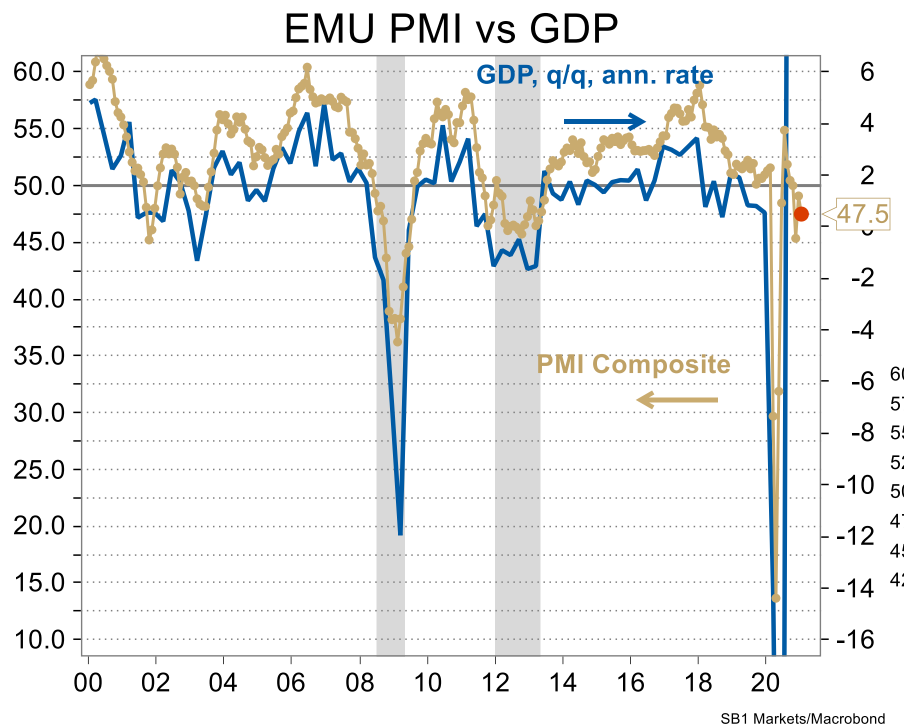
The order component is among the strongest on record!

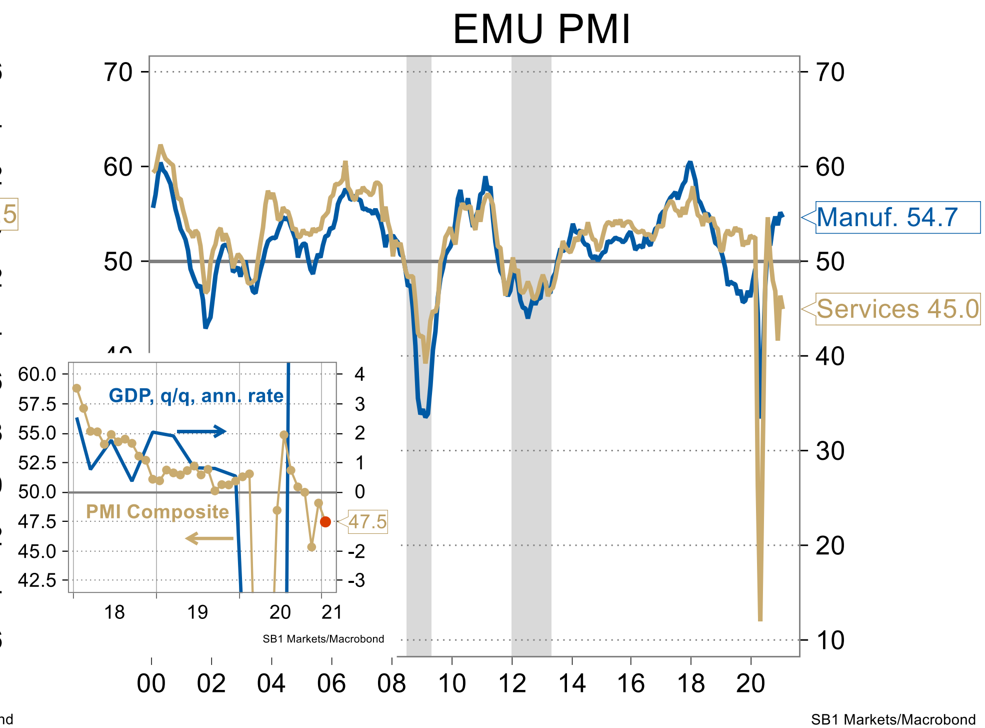




Services are down everywhere – and the composite PMI down 1.6 p to 47.5

... as expected. Signals a moderate GDP decline

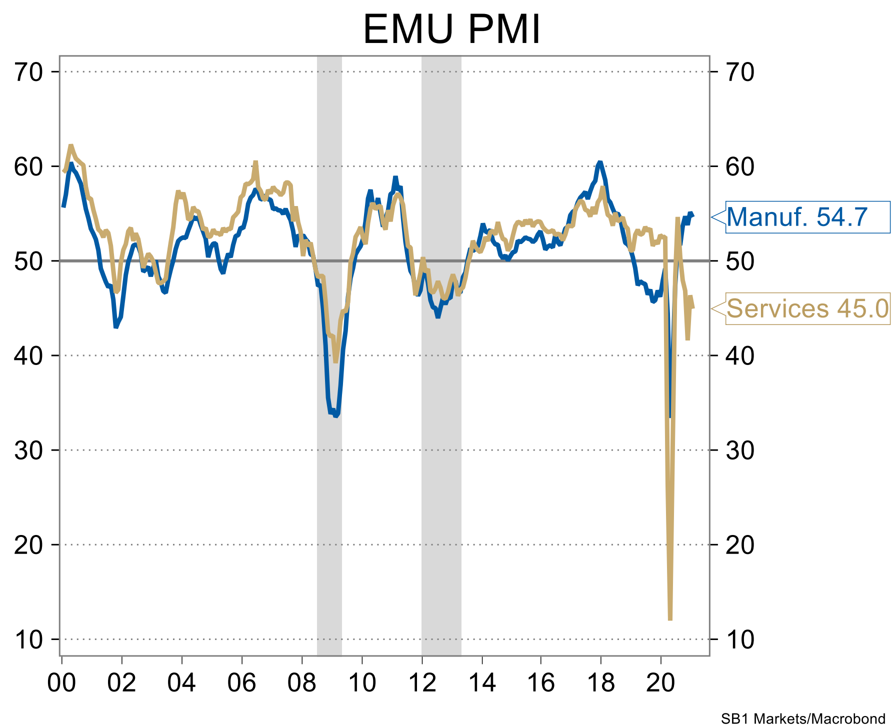


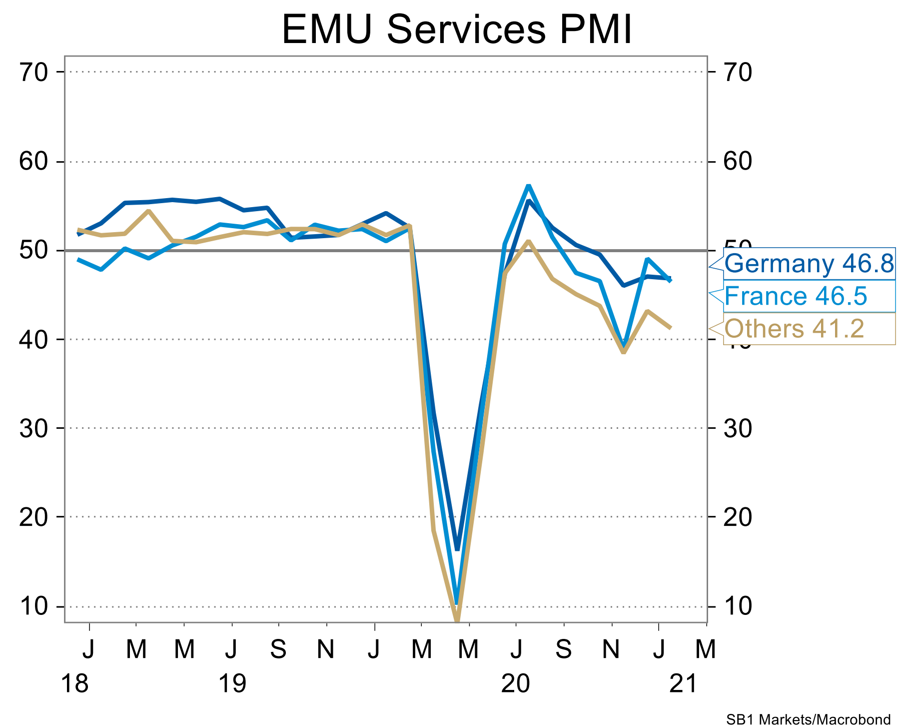


- The preliminary **composite PMI** is still above the Nov level. The **service sector** PMI fell 1.4 p, to 45, and less than expected. The **manufacturing index** fell 0.5 p to 54.7, and less than expected – and is signalling strong growth in goods production (the output component in the manuf PMI, which represents the sector in the composite index, fell more)
  - » Both PMIs from France, Germany and the implied average of Italy & Spain fell slightly in Jan
- **The 47.5 composite level** signals a 1% pace of decline in GDP (or 0.25% per quarter) – and nothing compared to the huge setback during the spring

Services still in contraction mode, albeit less than in Nov. manuf. very strong!

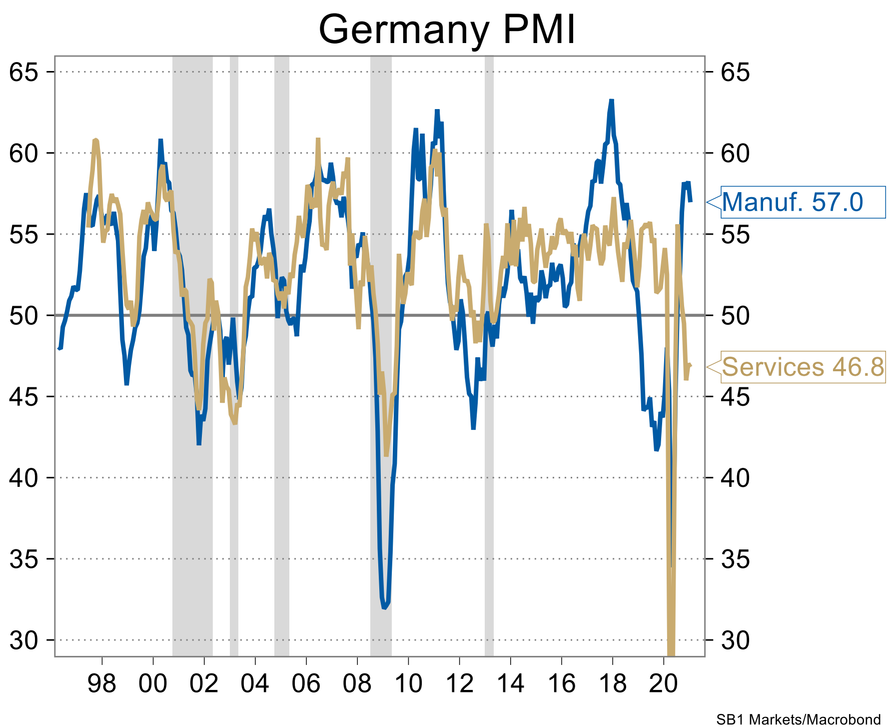
The manufacturing PMI confirms that the downturn is nothing but corona trouble in some services

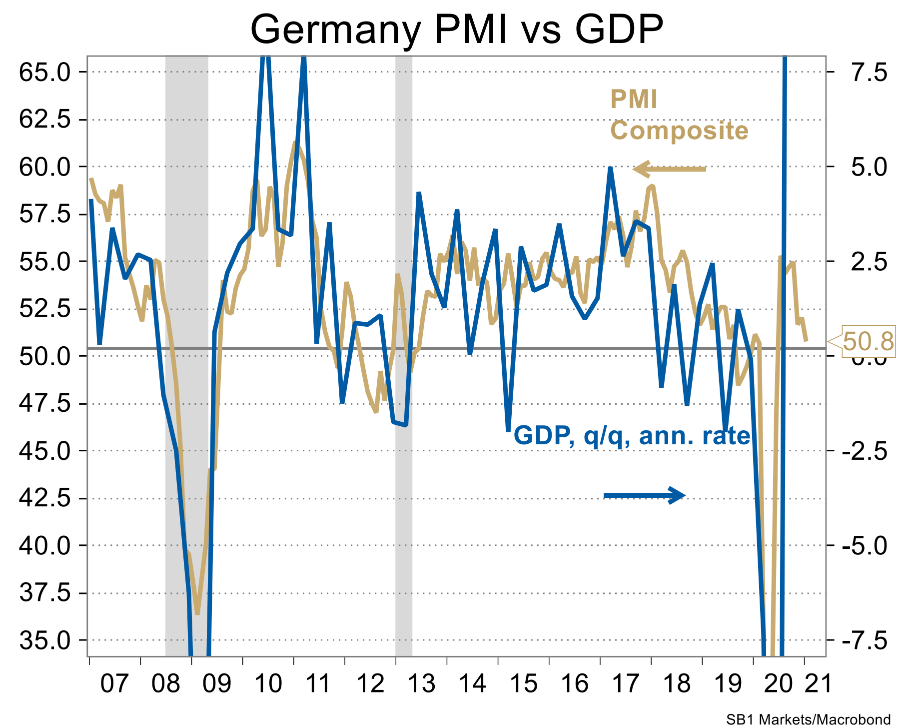




Germany: The PMI down, still not downturn signaled. Manuf. very strong

Services are not, obviously due to corona restrictions



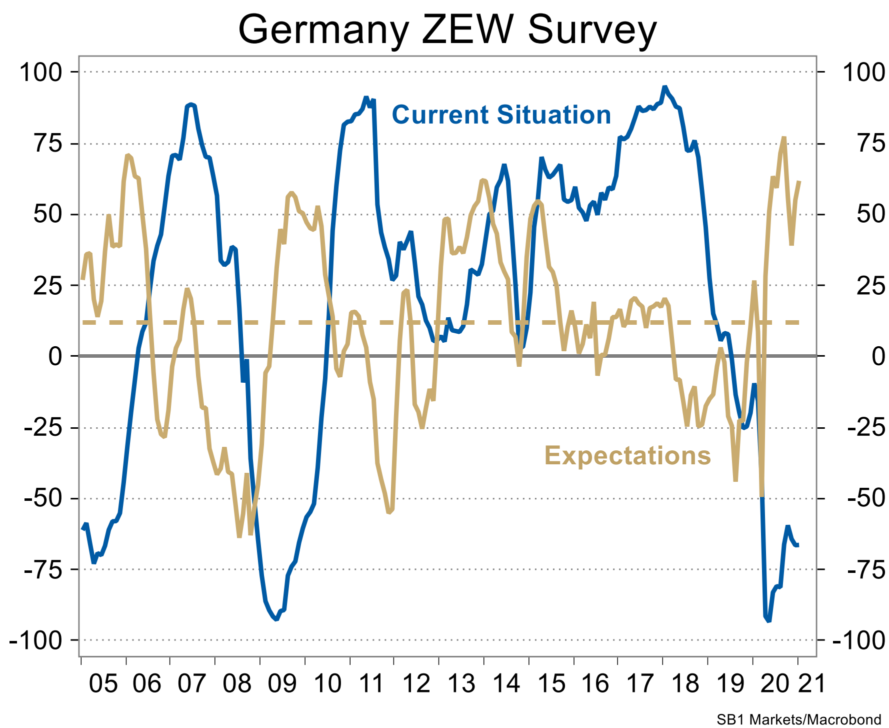


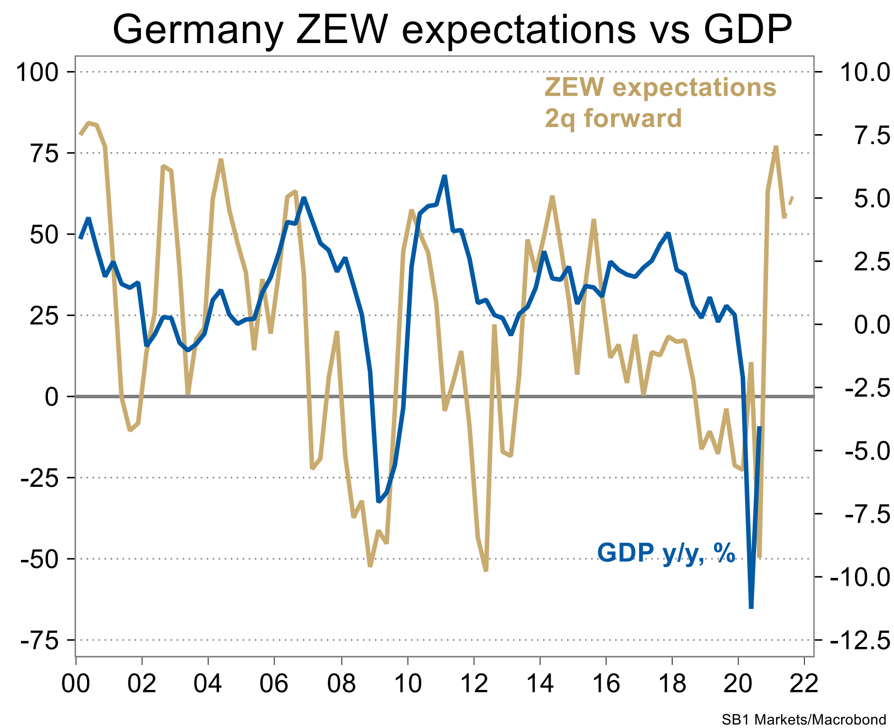
- Germany has been in a partial lockdown since the beginning of Nov. New restrictions in Dec, and further restrictions imposed at the beginning of January and they are extended into February

SpareBank 1 MARKETS

ZEW expectations up in January too, level not far below previous peaks

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

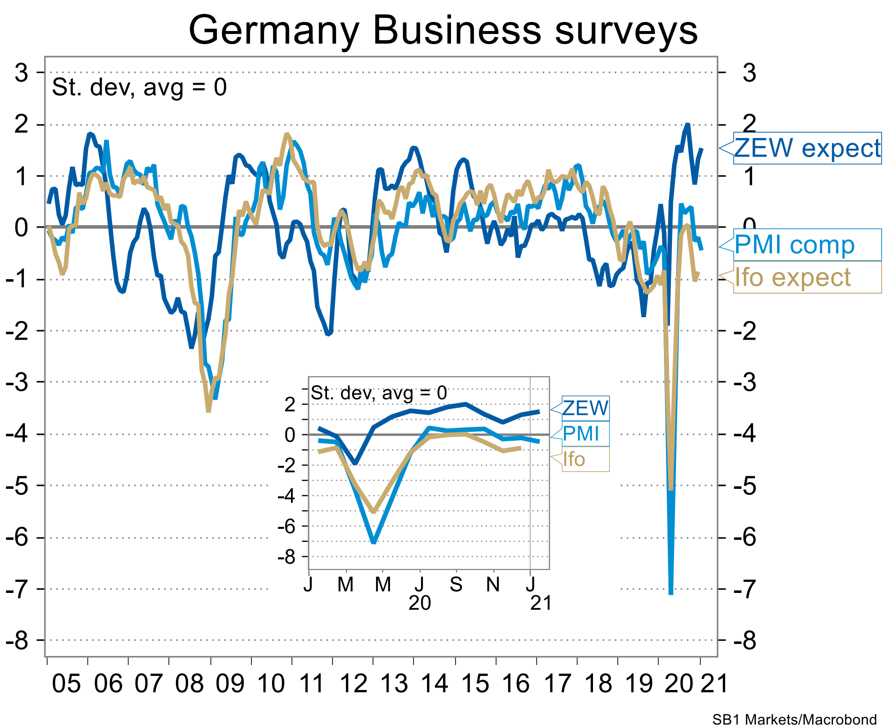




- The German ZEW expectation index climbed until September, but fell sharply in October and further in November- but then recovered most of the loss in December and in January. November was the highest since 2000 – and it of course signals expectations of growth far above trend
- The current situation index nosedived during the spring, down to same record low level as during the Financial Crisis. The index has recovered somewhat but is still far below a normal level – as is the overall capacity utilisation in the German economy

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

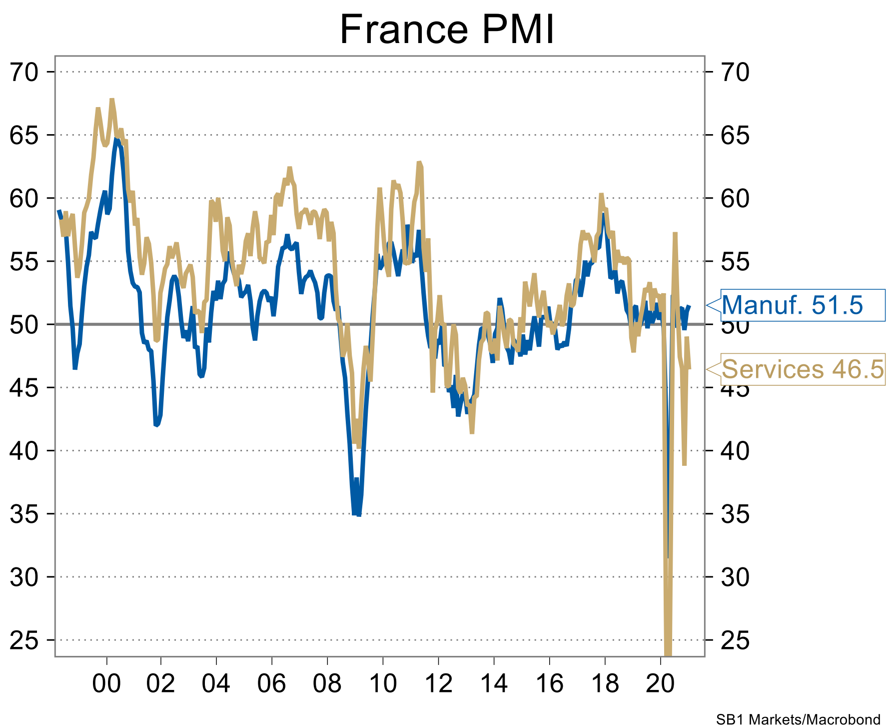
However, often the ZEW is right, it's leading

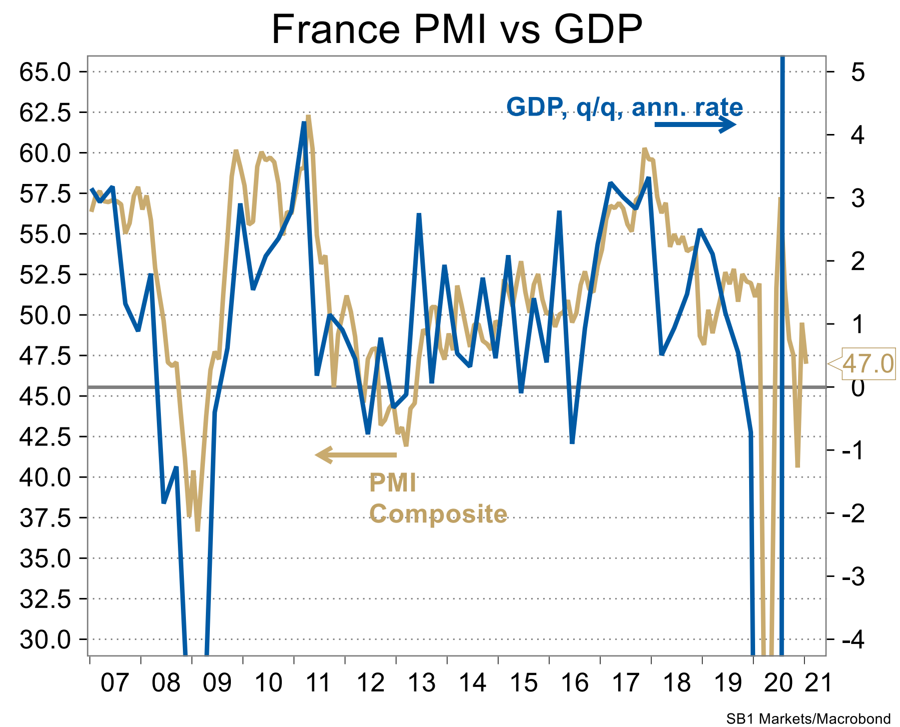


- The ZEW expectation survey (which is a survey among economists and investors, not a survey among businesses) is the most upbeat
- The PMI index fell in Jan, down to a marginally below normal level. Ifo rose in December but is below par too

France: PMI just marginally down, signals a modest (positive) growth rate

… following the almost unprecedented December surge

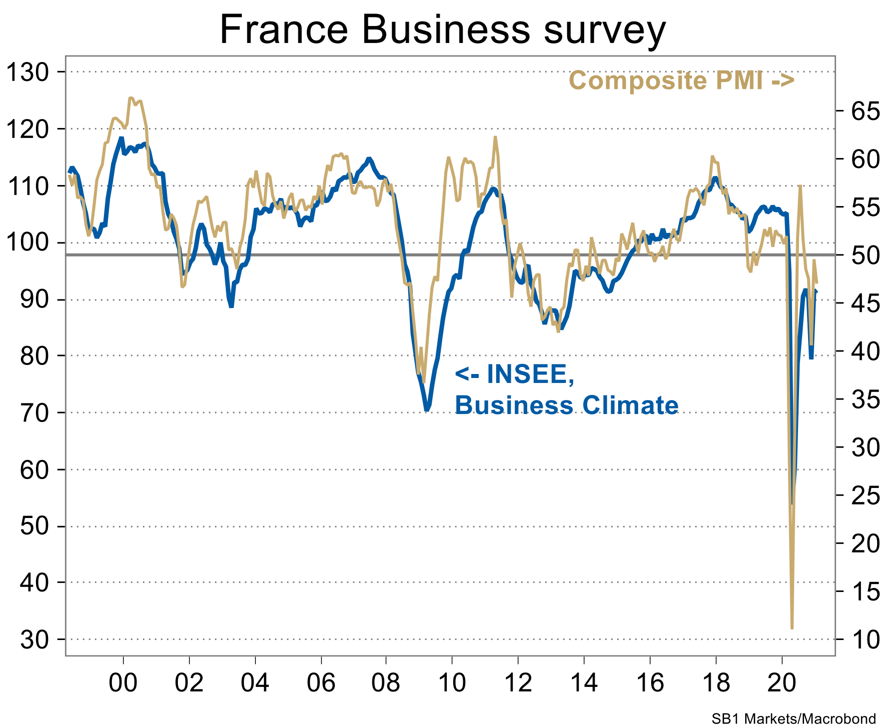


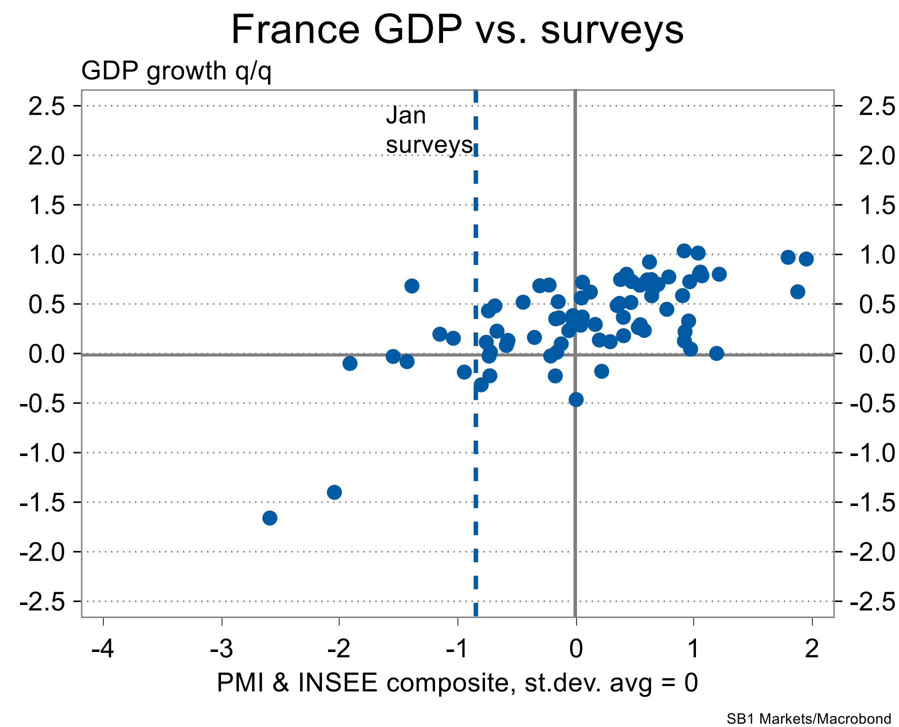


- **The composite** PMI fell by 2.5 p to 47.0, following the 9 p hike in Dec – but the index was expected down just 0.5 p. The Jan level signals a marginal growth in GDP
- The **service sector** index declined by 2.6% to 46.6, still far above the Nov level (at 36, during the lockdown this month).
- **Manufacturing PMI** climbed further, by 0.4 p to 51.5, signalling further growth in this sector
- **Corona cases** has fallen sharply since the early Nov peak, as has hospitalisations & deaths – and time spent outside home is rather high – check our Covid-19 section at the beginning of this report

France: A x-check with the INSEE survey. Not that weak

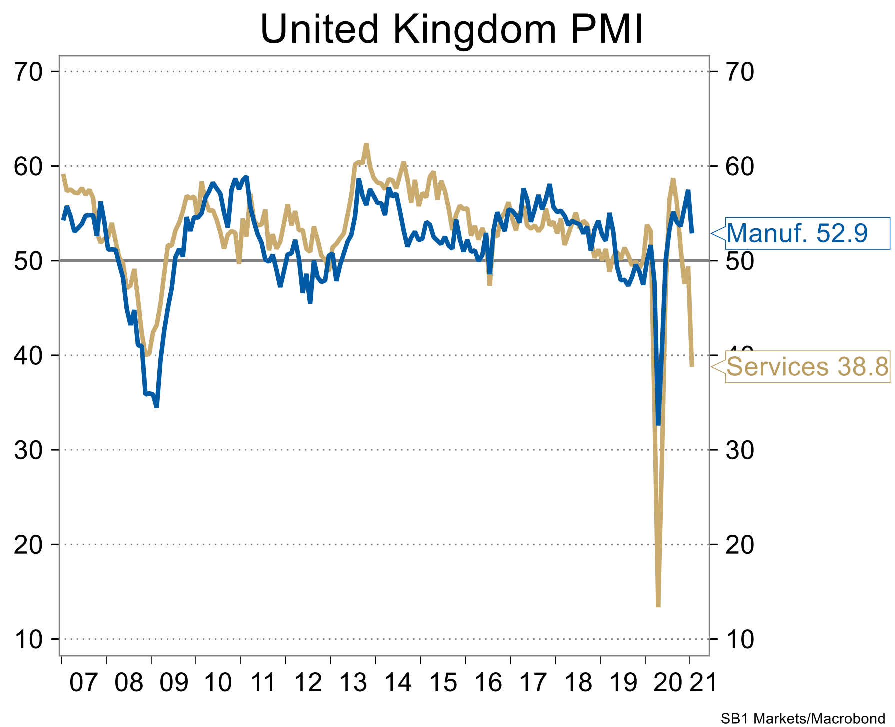
… and not a GDP setback. Activity has probably kept well up in Jan, as confirmed by mobility data

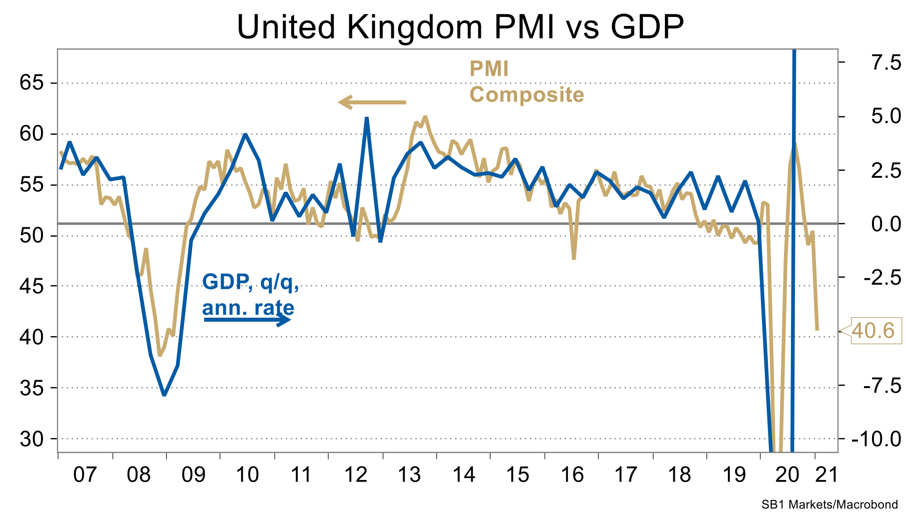


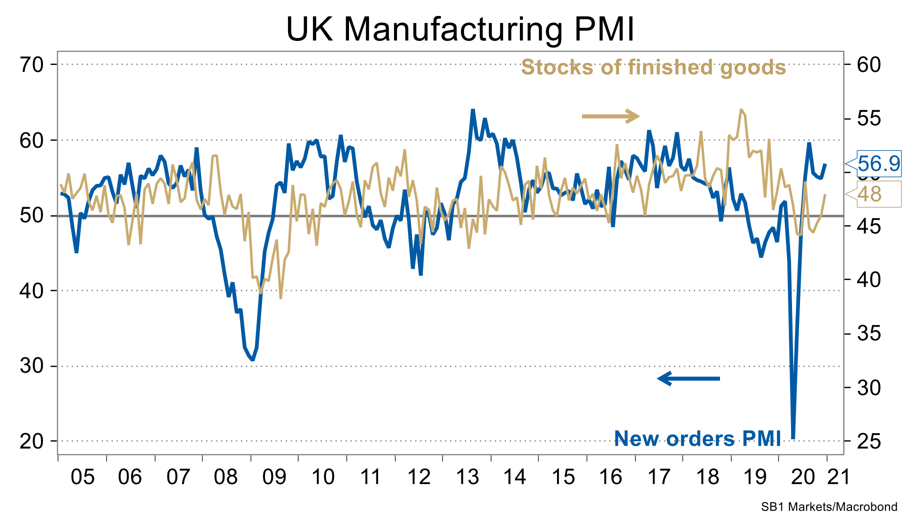


Services straight down – in a locked down UK, manuf. down too, from 4y's high

The composite index fell almost 10 p to 40.6, the 3rd largest decline. Signals -5% GDP growth



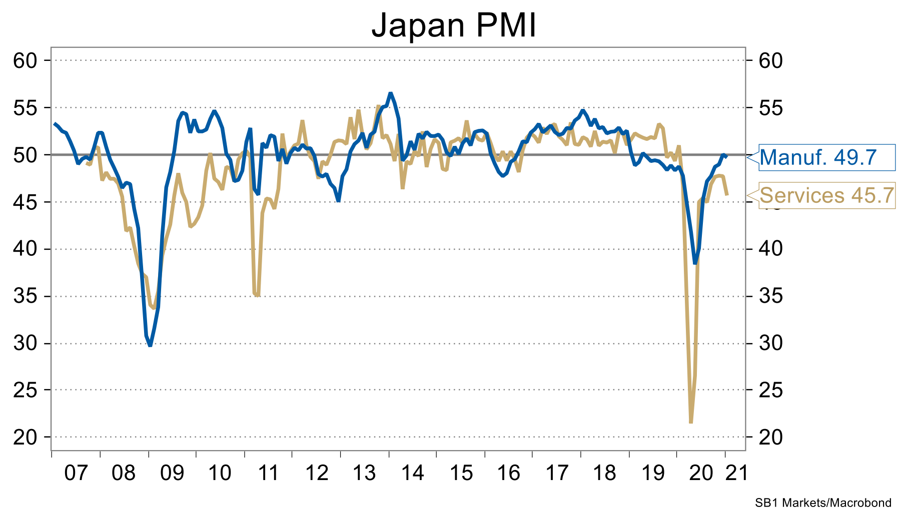


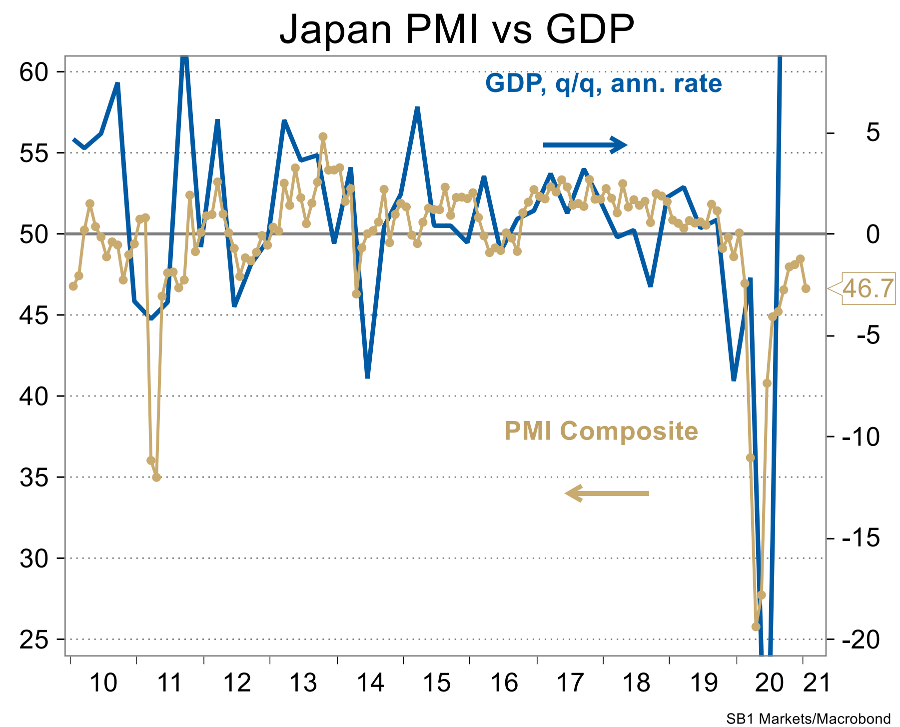


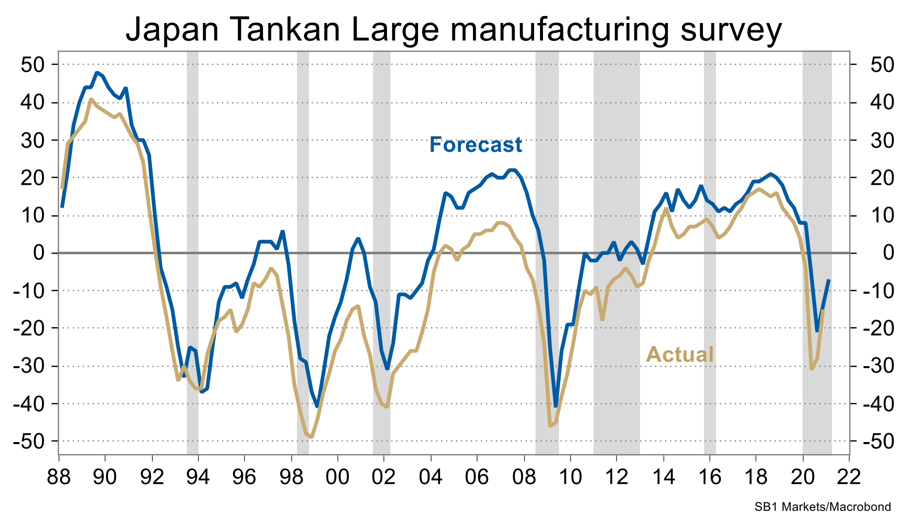
- The composite PMI fell by 9.8 p, twice as much as expected, we think the largest miss (barring the 'impossible' months in March/April last year). The difference quals a 2.5% GDP growth pace
- The level is still far above the March/April ATLs, but signals a significant decline in GDP

Japanese services PMI down in January – GDP is probably contracting

Manuf. PMI just marginally (0.3 p) down to 49.7, services PMI down 2.1 p to 45.7



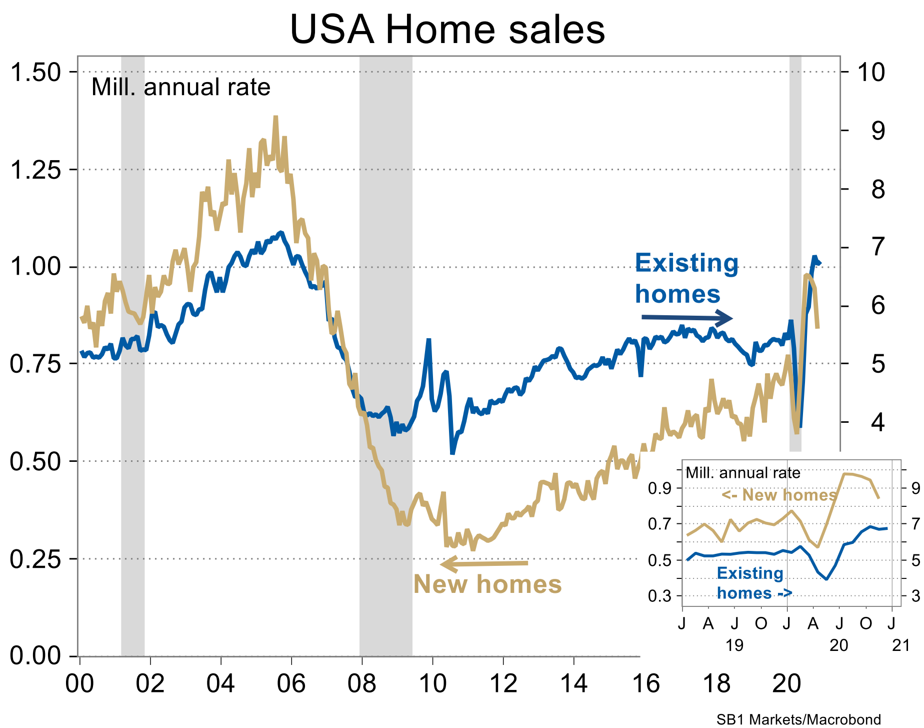


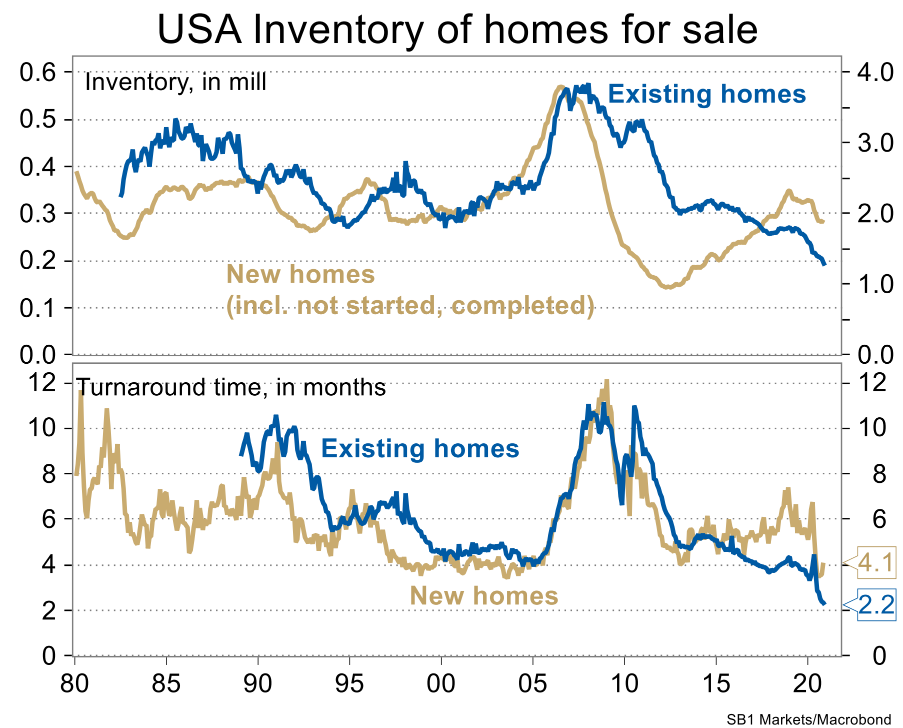


- The composite PMI signals 2% decline in GDP (annualised) – but the correlation is not impressive
- According to the BoJ Tankan business survey, most manufacturing firms were less pessimistic in Dec than in Sept. In fact it was the largest increase in the Tankan index since 2002, however, index is still in negative territory.

Existing home sales still very strong, the inventory is shrinking, from ATLs

Existing home sales are close record high – and inventories are 'emptied'. Prices are soaring

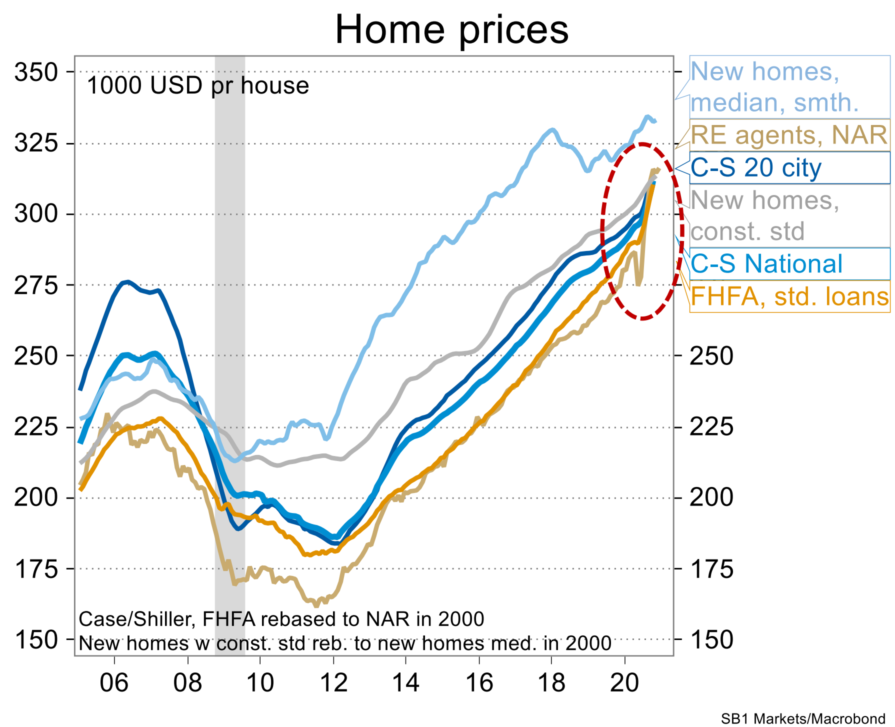


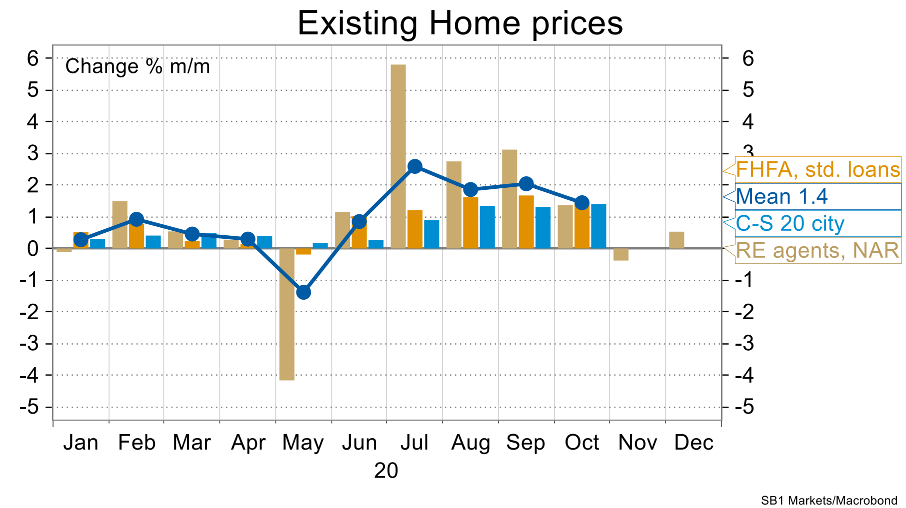


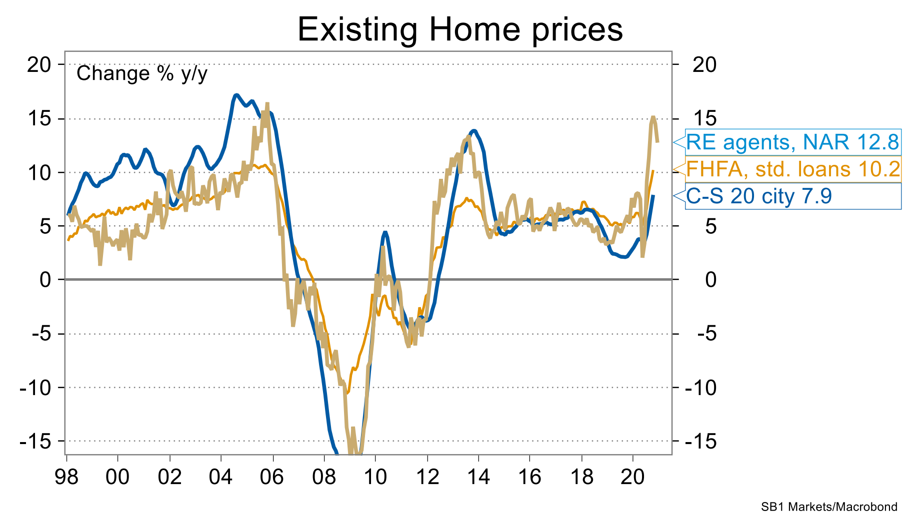
- **Existing home sales** rose marginally in Dec, to 6.76 mill, expected down to 6.55. The level is not far below ATH (in 2005), but has flattened out since October. The inventory of **unsold existing homes** fell further at is at far below pervious record low levels, both the actual inventory and vs sales, which are higher than normal. The inventory equals 2.2 months of sale, vs. the 6 average (and in bad times, 10 months). The flattening of sales may of course be due to lack of supply
- During the buildup of the housing bubble up to early 2006, both new and existing home inventories rose sharply, in fact all the way from 2001 – and sharply from 2004/2005. **We are clearly not there now, even if prices are skyrocketing!**

Is the price hike over? Real estate agents are reporting flat prices in Nov/Dec

… or is it just a 'mean reversion' for a volatile index that rose too fast some few months? Still up 13%



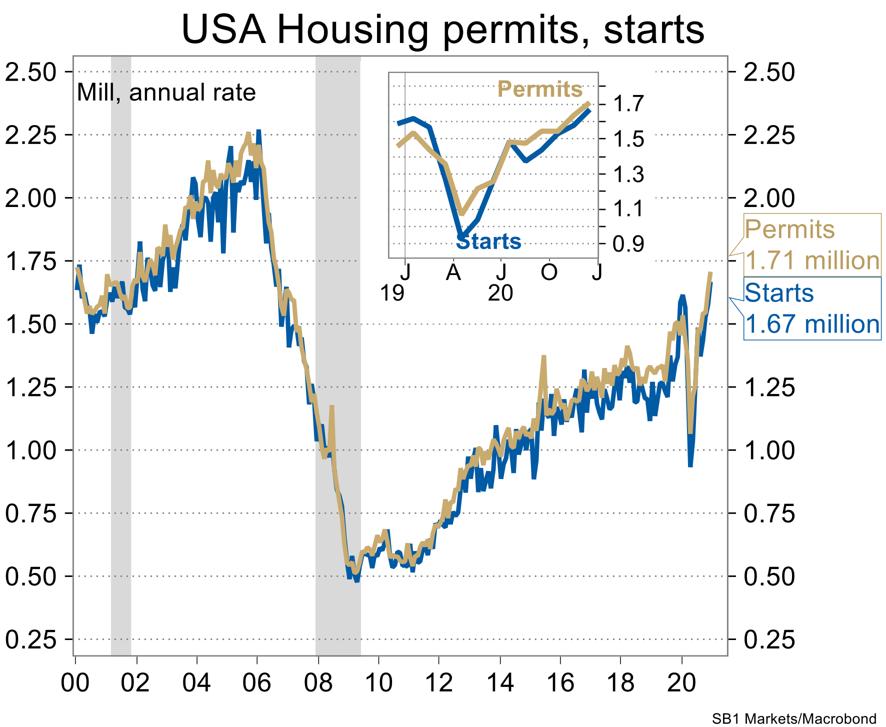


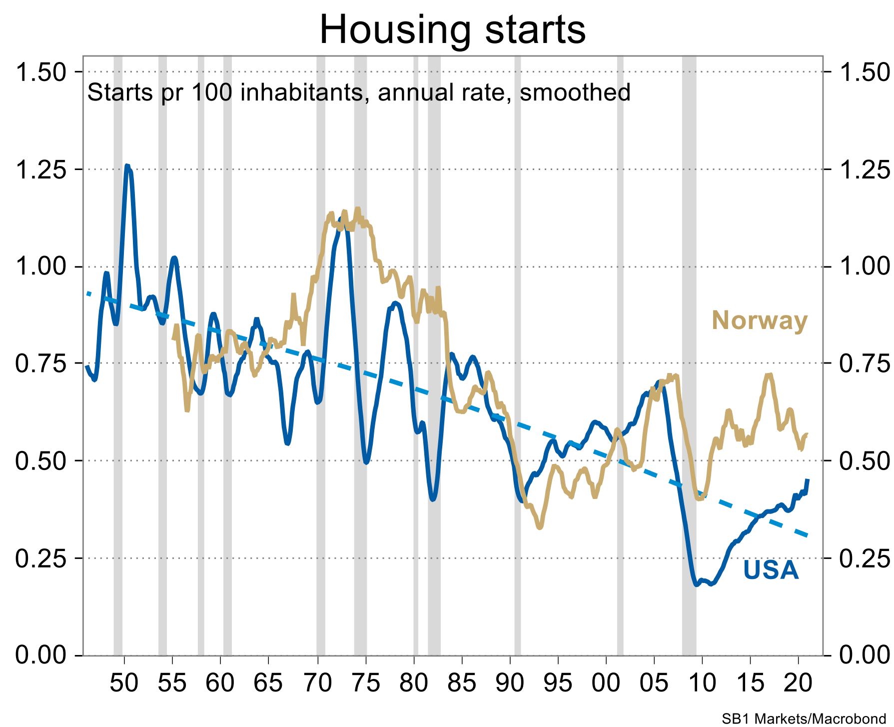


- The realtors' index is a primitive median 'raw' index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) very likely lifted the median price from June to Oct. Prices are up 12.8% y/y
- Still, 'something is very likely going on' at the housing market. Other – and the more sophisticated and less volatile indices are reporting annual inflation at 7.9 – 10.2%. New home prices are on the way up too, <u>but not faster</u>

Housing building permits the highest in 13 years in ~~Oct~~ ~~Nov~~ December

Permits up 5% to 1.71 mill in Dec, the highest level since ~~2007~~ 2006. Starts follow suit

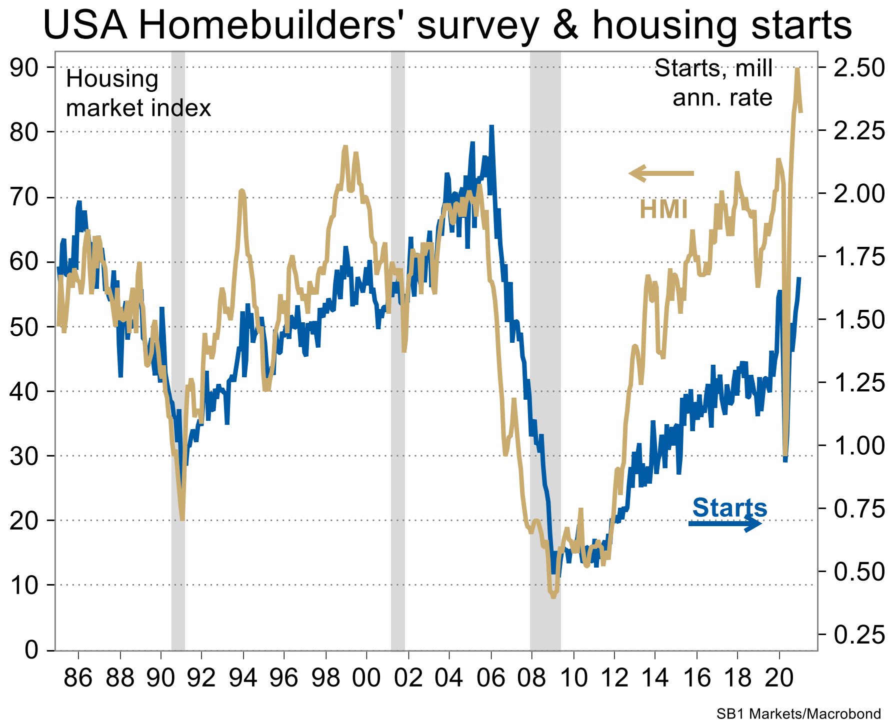


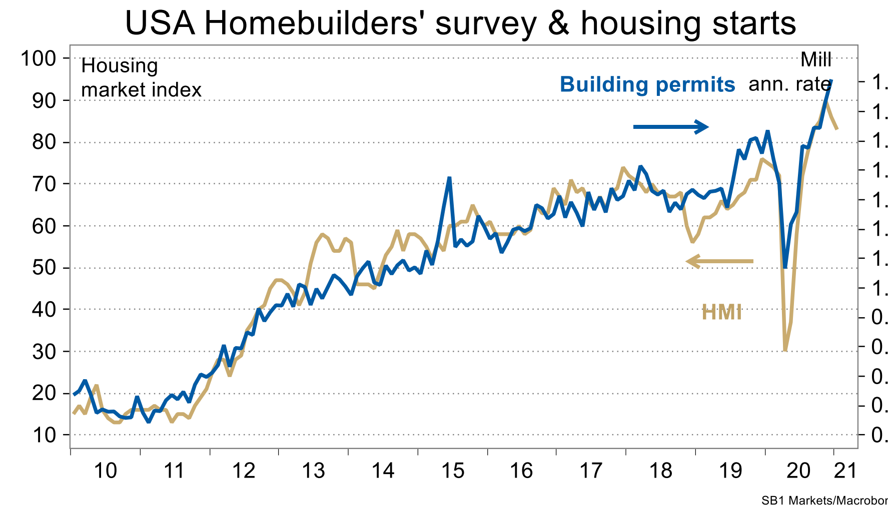


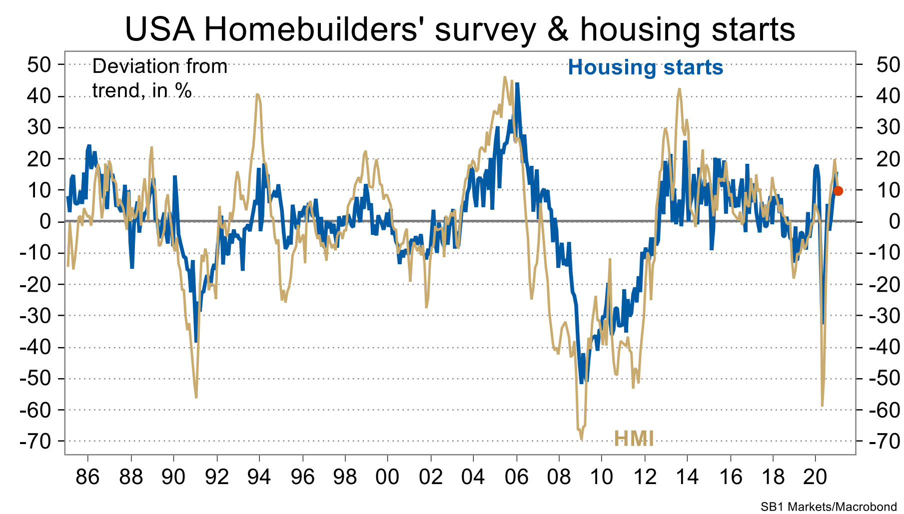
- Both permits and starts were expected slightly down but both continued upwards in Dec. The two are up 60 – 80% from the April trough, and both are at the highest level since 2006, but still below the peak levels in late 2005/Jan 2006
- Housing starts are not at high level per capita vs. history. However, like in all other rich countries, as the ‘country is built’, at least in many cities, and population growth is slowing. Housing starts have been trending downwards in most countries over several decades
  - » However, not in Norway the past 30 years

Homebuilders index marginally down in Jan too, from ATH in Nov '20

Still, the index probably does not signal a further lift in housing starts – which have soared



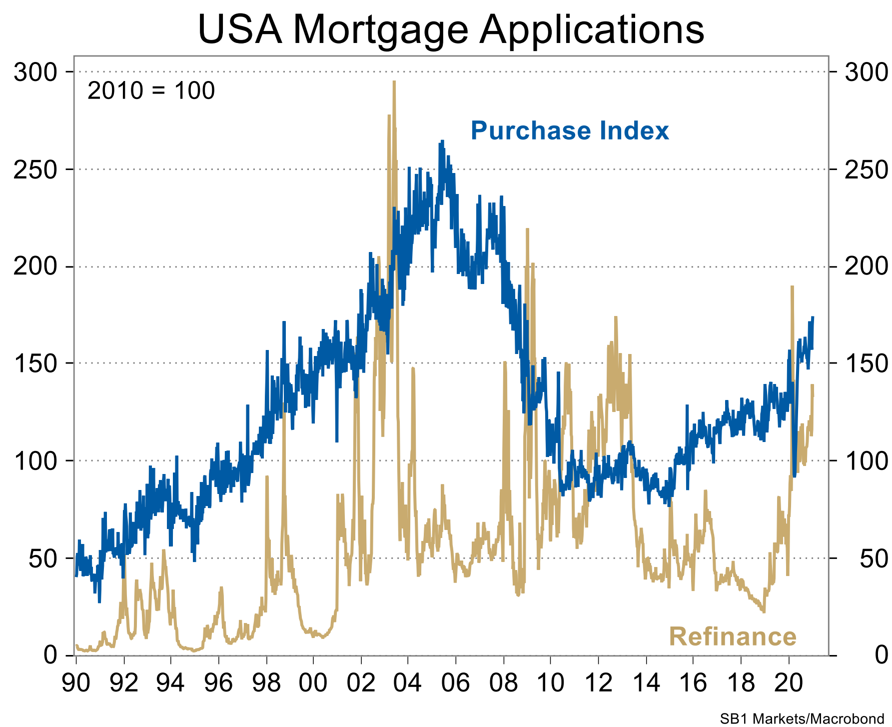


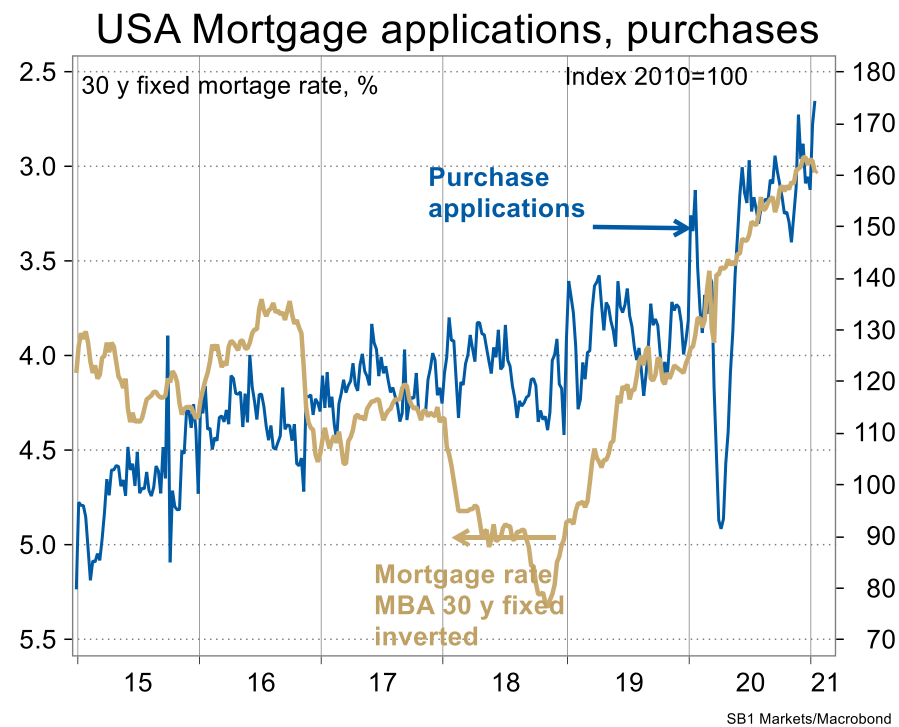


- Builders confidence fell to 83 in Jan, from 86 in Dec (and 90 in Nov) 2 p below consensus. Present sales level, expectations for the next months, and buyer-traffic fell at almost the same pace
- The HMI is not an assessment of growth in housing stars nor the level of housing starts vs a long term average. The best fit is vs deviation of starts from a more flexible trend, check the difference between the chart above and the two to the right
- The current index level signals that the surge in starts now is over

Mortgage applications the highest level since '08, mortgage rates the lowest ever

Signals a still strong housing market

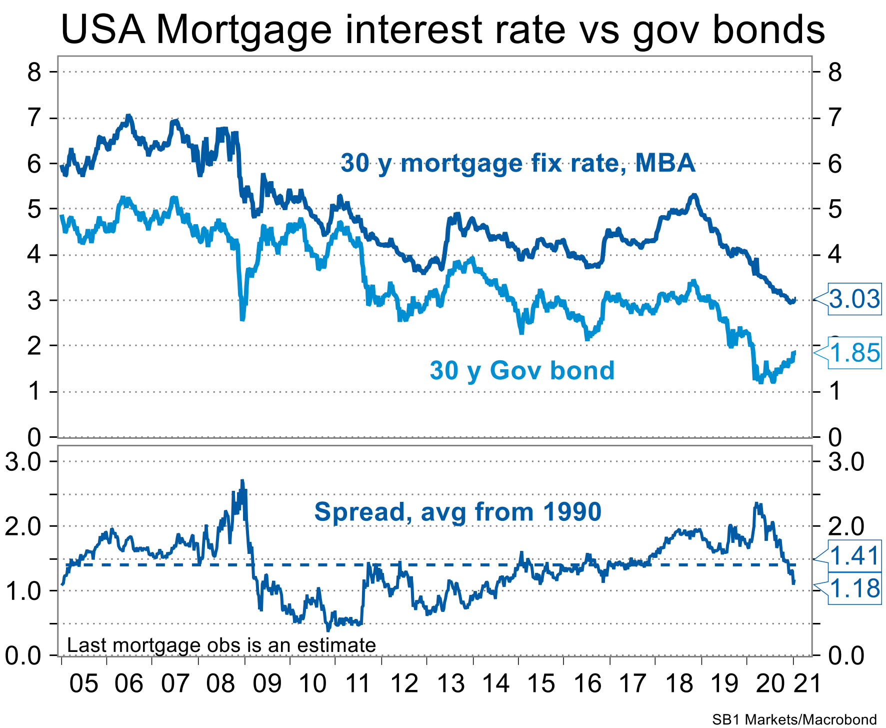




- No doubt, low mortgage rates have stimulated demand
- 30 y fixed mortgage rates have fallen to 3.0% from 5.25% late 2018 via almost 4% at the end of 2019 (details next page)
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market. Still, strong demand for new mortgages cannot be a sign of weakness

The 30 y gov bond rate up is <u>up</u> 70 bps, the 30 y mortgage rate is <u>down</u> 60 bps

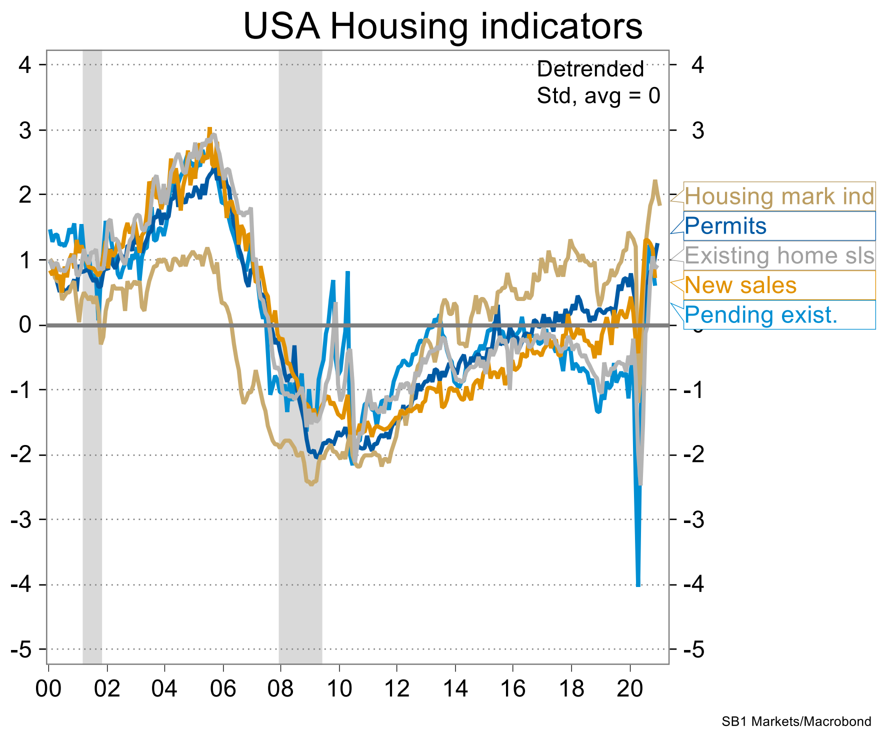
... as the spread is down 130 bps – to below an average level

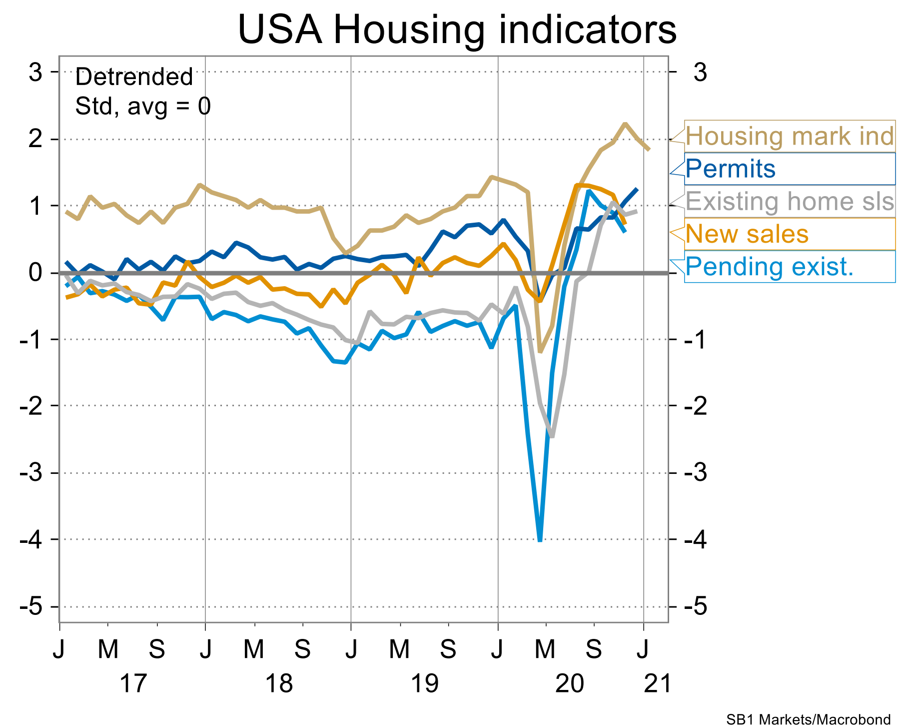


- This may be an QE impact, as the Fed has been buying large quantities of mortgage backed bonds
- The 30 y fixed rate has not fallen further since before Christmas (and it is some few bps up since that)

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

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

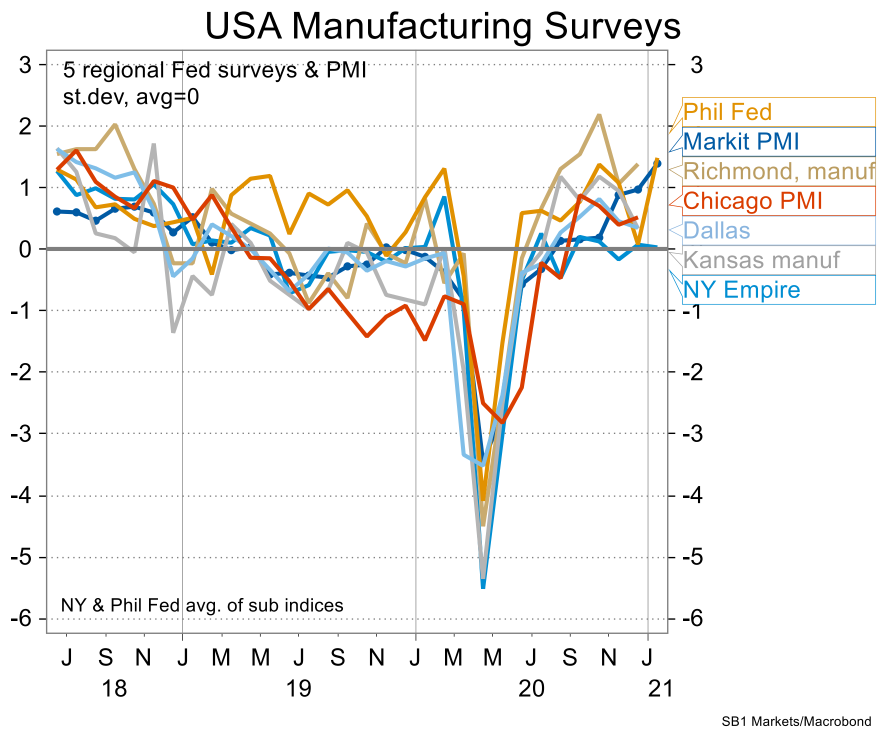


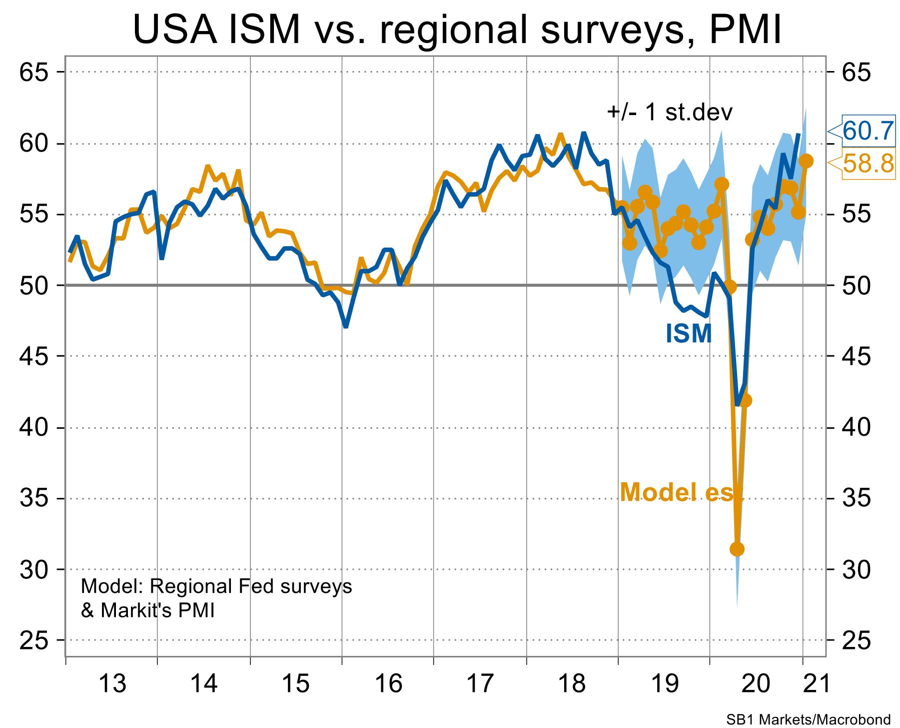


- Compare this 4 – 5 month downturn/recovery to what happened during/after the housing/financial crisis: Housing has not yet come back to the pre-corona peaks. It even took some 10 years to come back to an average housing market activity level (barring the Homebuilder's market index)!
  - » BTW: The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

PMI & Phil Fed sharply up in Jan, NY Empire flat: In sum ISM + 4 p?

Very likely not, as the ISM rose to 60.7 in December, and our model signals a level at 59

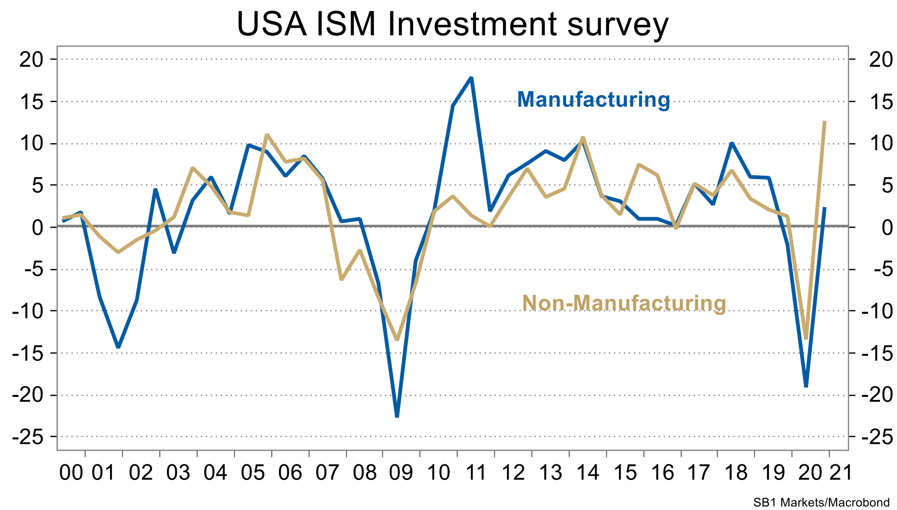


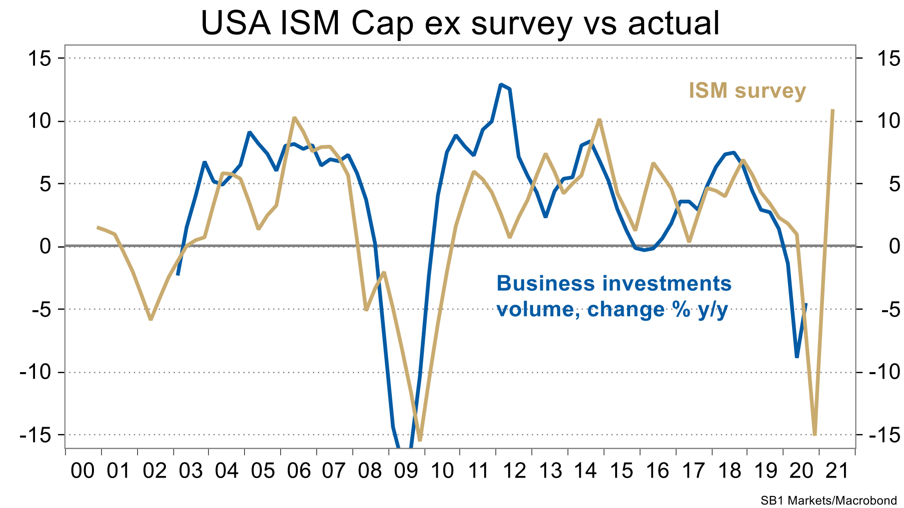


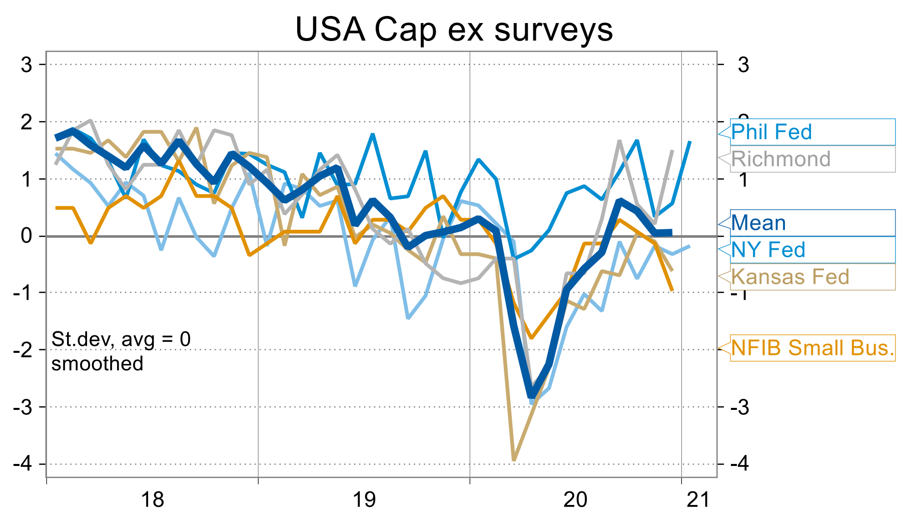
- Even if the ISM should not climb another 4 p, the US manufacturing surveys are really strong!! No impact of the 3rd corona wave at all
- The Phil Fed index rose to 26.5 from 9.1 level since expected up to 11. The average of the most relevant sub-indices rose to the highest level in more than 3 years

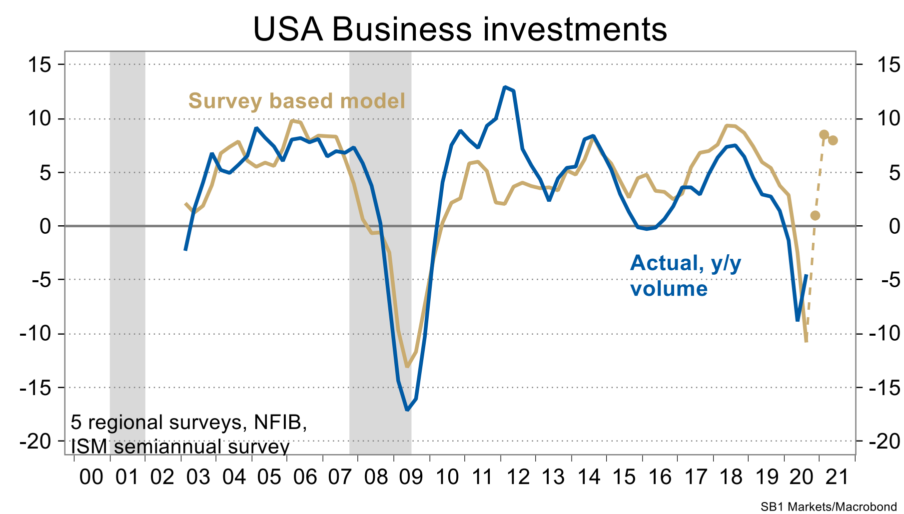
The H2 ISM investment survey sharply up, others up too: Investments to rise!

Not that spectacular, given the sharp drop in Q2 last year – still a usuful confirmation!



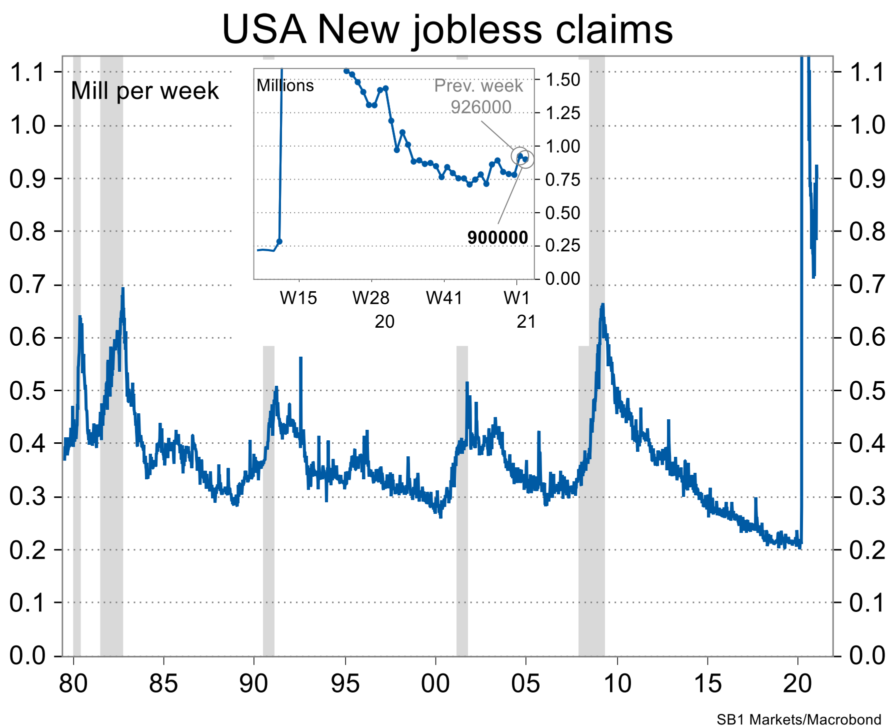


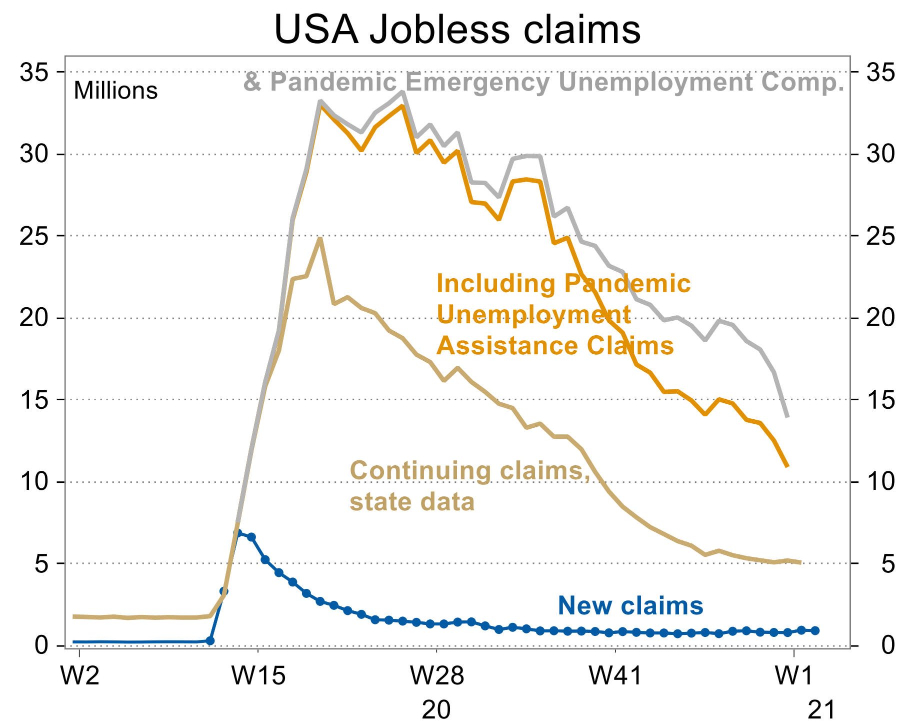




A 200’ increase in new jobless claims confirmed, a substantial lift

Normally, 200 extra new claims have suggested a full blown US recession. This time is different?

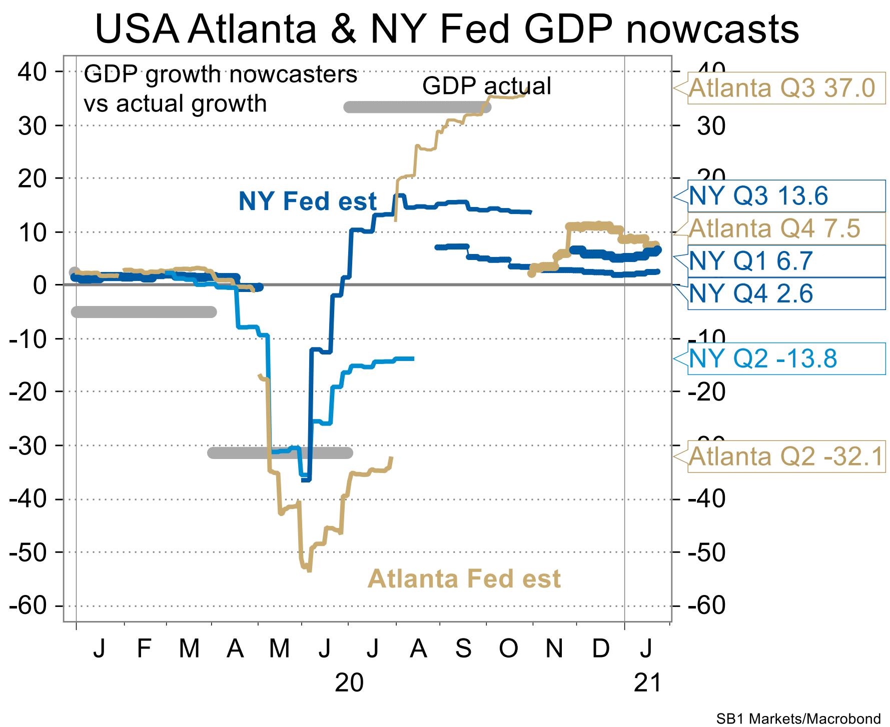


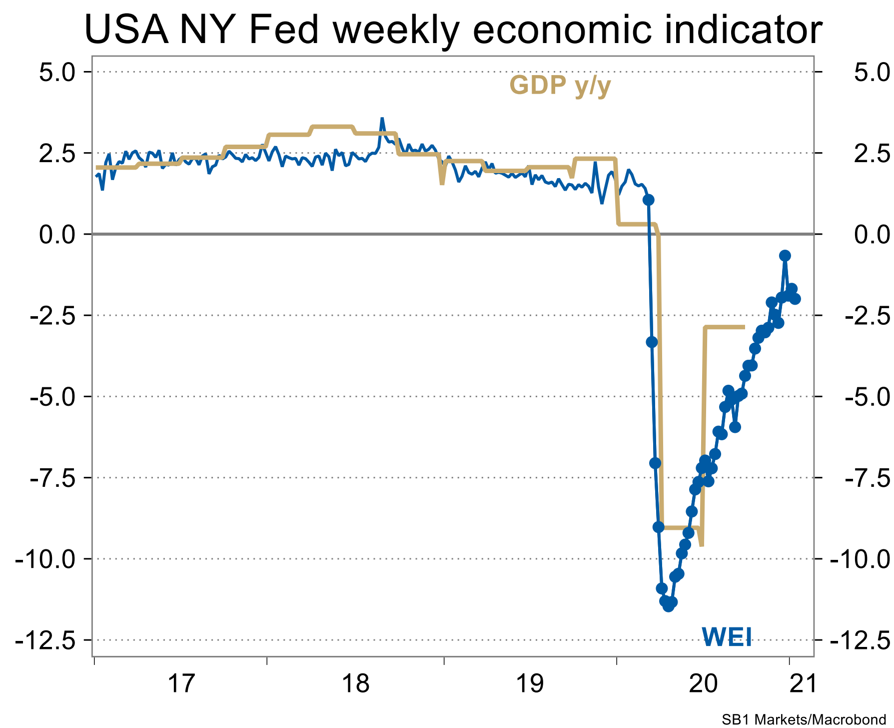


- Last week , 900’ applied for jobless support, down from 926’ the previous week (first reported to 965’), expected 925’. Still the level is almost 200’ higher than some few weeks ago – and a 200’ lift is substantial, check the chart to the left above
- The only ‘hope’ is that the increase and extension of the supplementary federal unemployment programs have increased ‘demand’ for unemployment compensation, more than the real unemployment has increased
- Most likely, there are some ‘corona’ impacts as well - and the economy is slowing somewhat

Nowcaster reports mixed, no signs of any abrupt slowdown

However, NY Fed's weekly GDP indicator does not signal a further narrowing of the gap vs. pre corona

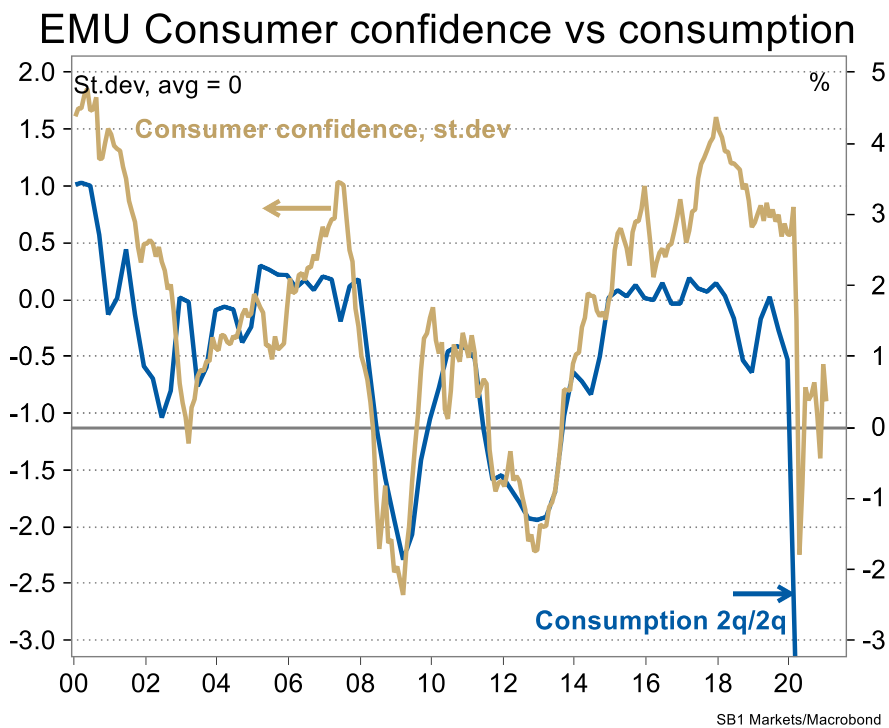


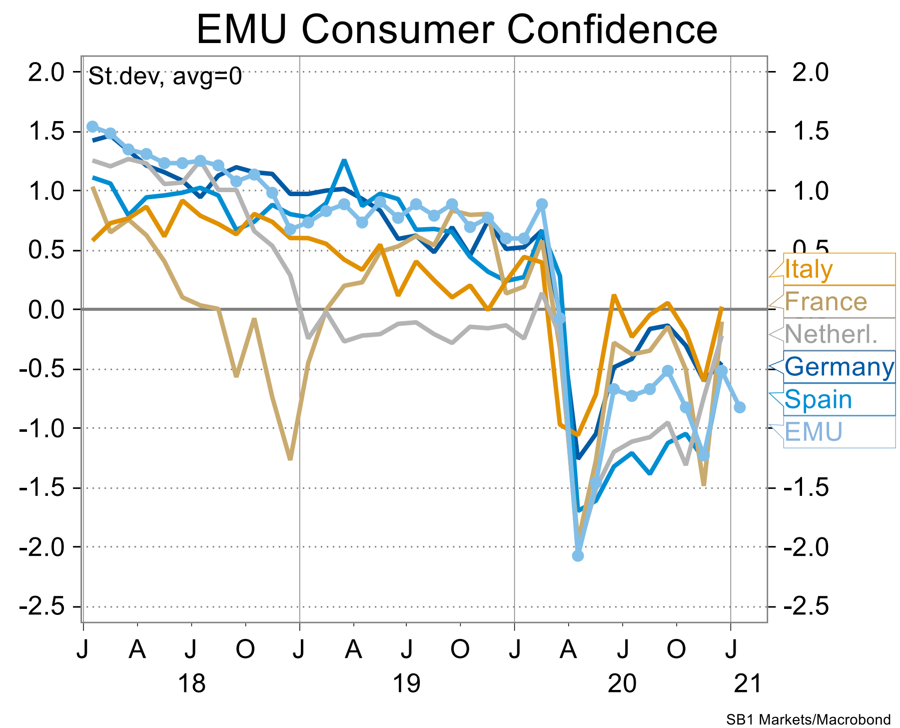


- Still, Atlanta Fed's nowcaster reports 7.5% growth in Q4
- The NY Fed's old model says 2.6%

Consumer sentiment down in Jan but still above the Nov level

The confidence index fell by 0.4 st.dev in Jan Level at -0.9 st.dev (was -2.2 in Apr, +0.7 before corona)

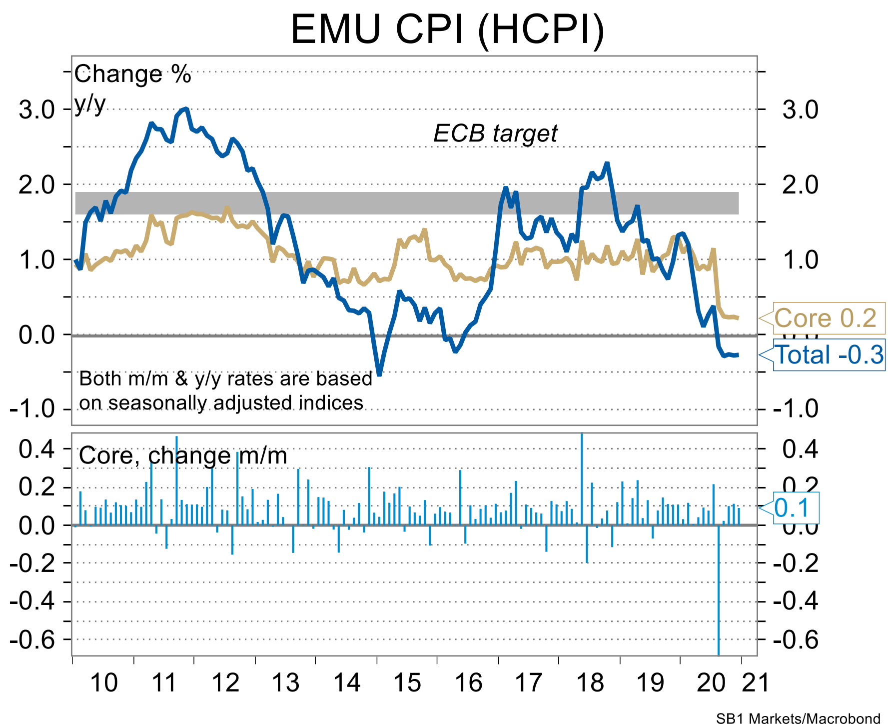


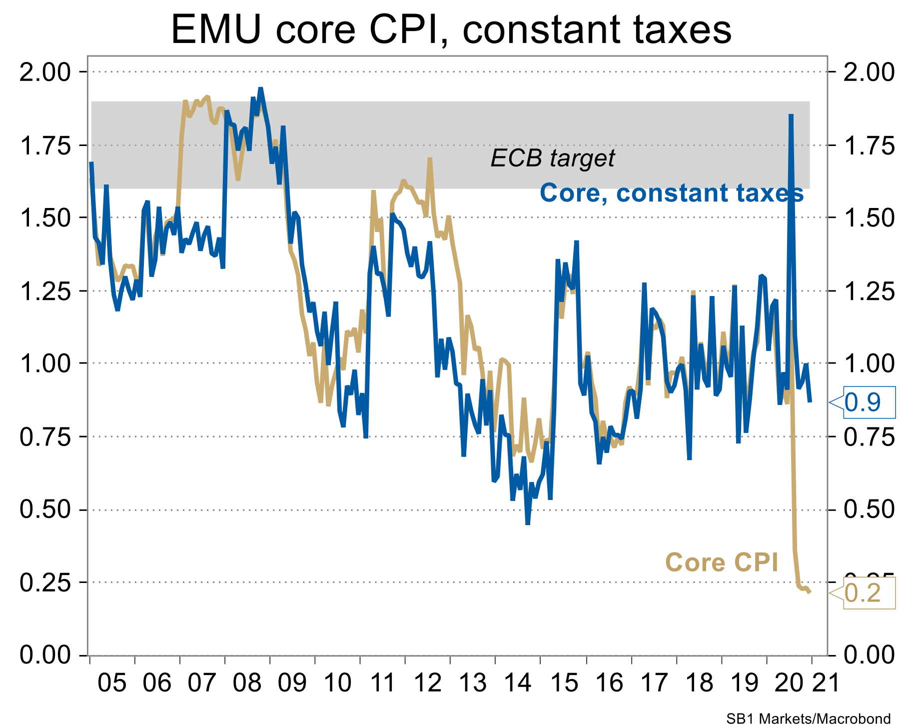


- The decline was a tad larger than expected
- A confidence at the present level does not signal any decline in private consumption
- In December, confidence rose everywhere, even if some countries had some corona challenges
  - » No single country has reported January data

Core inflation stable at 0.2% (y/y…), total at -0.3% in Dec

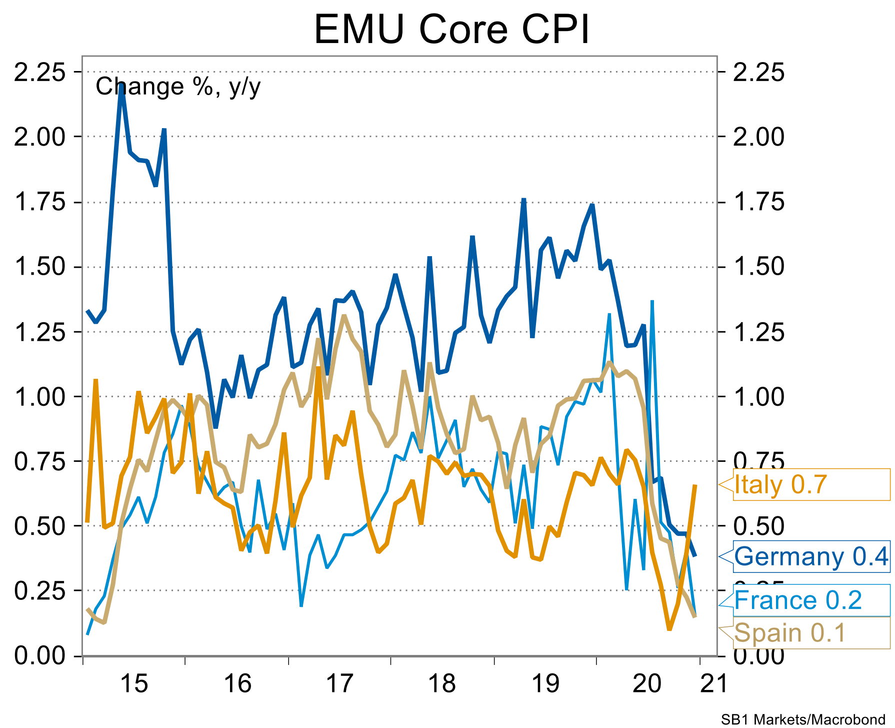
The German VAT cut (& other tax cuts) have lowered EMU infl. by some 0.7 pp. Still, 'real' infl. is low

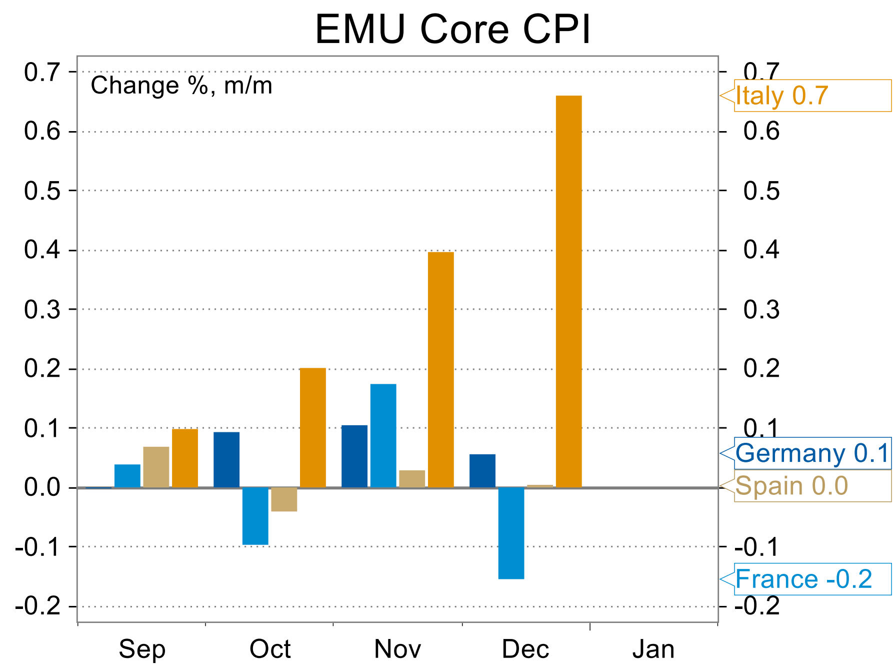


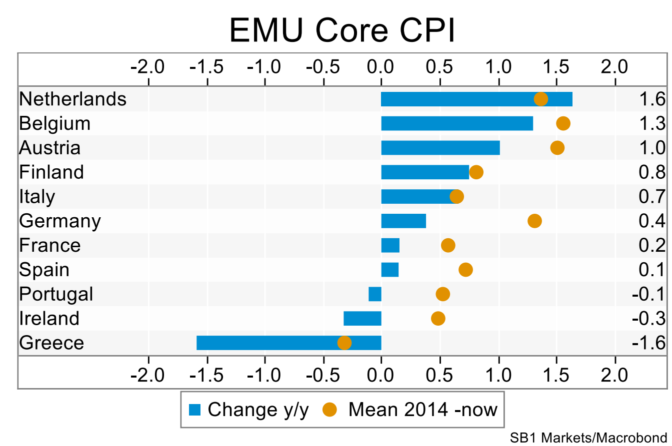


- In Dec, core prices grew 0.1% m/m and the annual rate was unch at just 0.2%, both as in Nov – and as the preliminary data showed
  - » Core inflation has fallen in all the major countries. However, the German VAT cut (and some other tax cuts) partly explain the slowdown in EMU inflation. The core, constant taxes CPI it at 0.9%, and this rate has been quite stable over the past year. Thus, taxes are explaining 0.7 pp of the decline in core inflation, after taxes
- Energy prices have taken the total CPI down – and the headline HICP was down 0.3% y/y in Dec, like in the two previous months. *Good news for European households, and their purchasing power – but energy component will soon change sign*

Core inflation is low everywhere





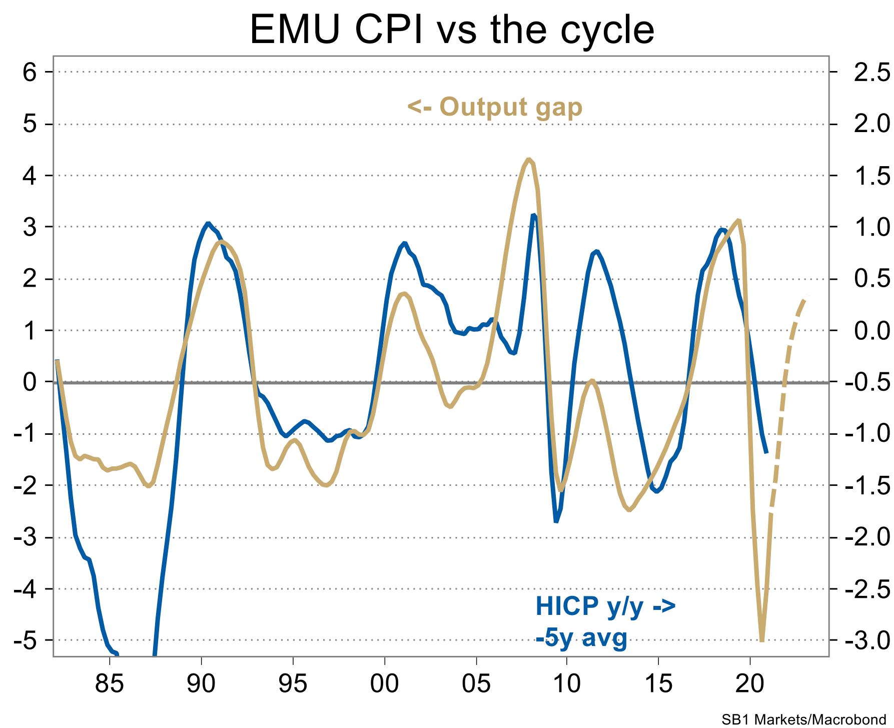


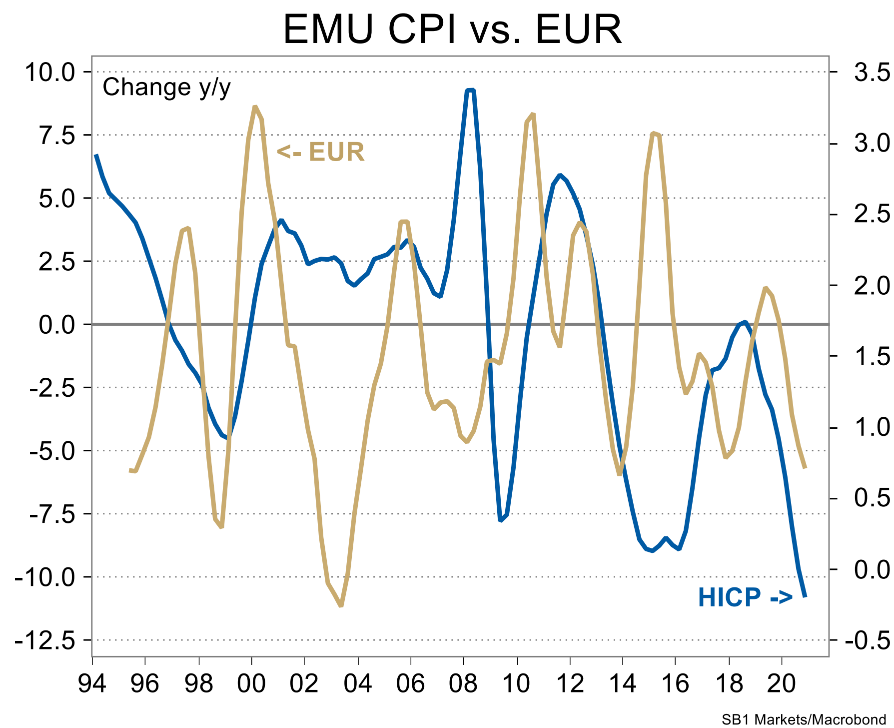
- Greece has fallen into deflation again – and prices are not higher than in 2010 (and core since ’08). Core inflation are below zero in Ireland and Portugal too

SpareBank 1 MARKETS

EMU inflation: The cycle or the EUR? We go for the EUR!

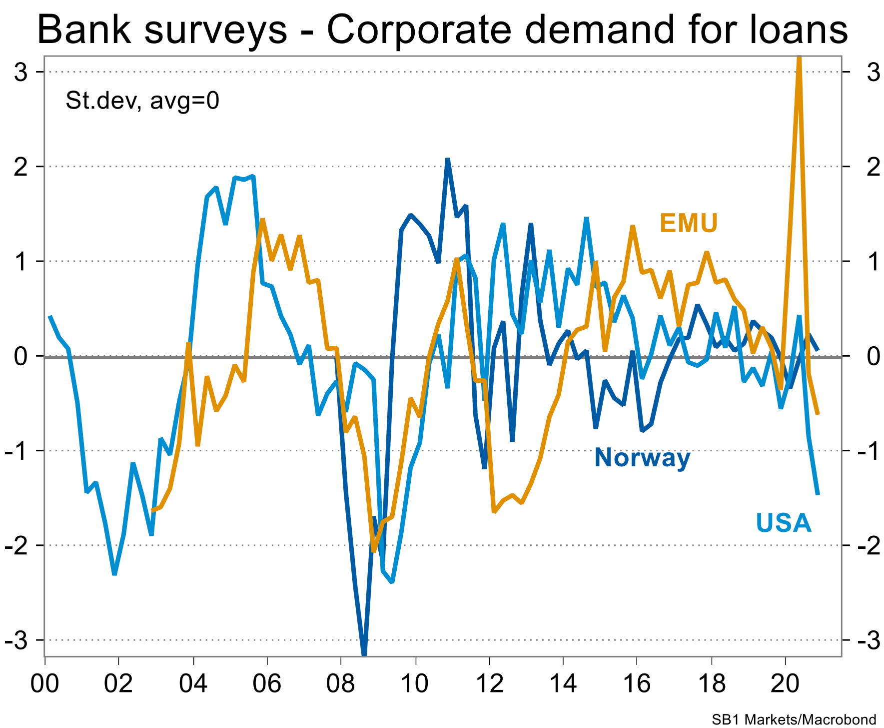
CPI (HICP) is far closer correlated to the EMU outut gap than to the EUR ups and downs

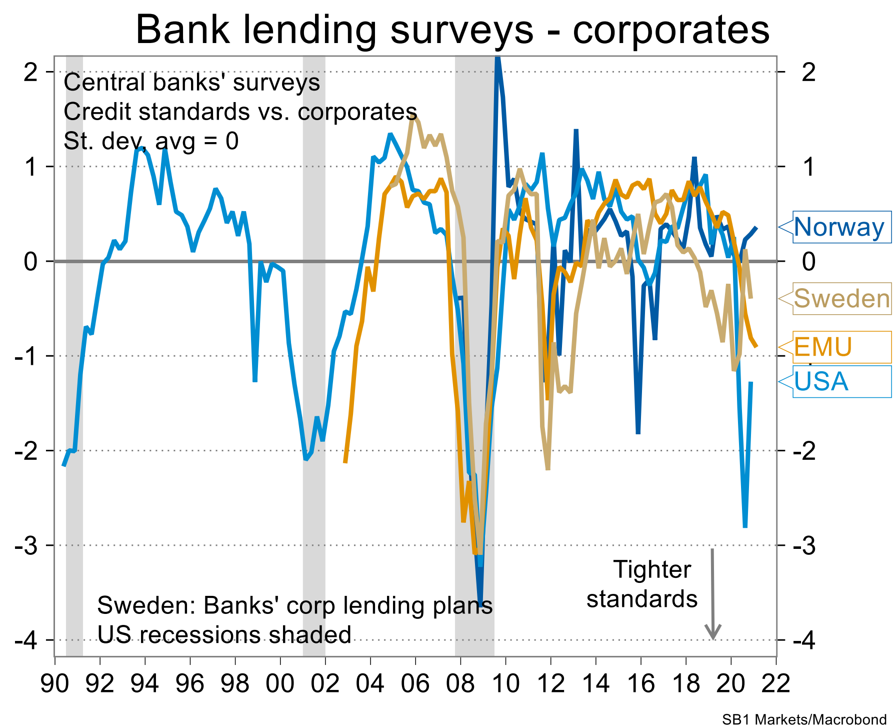




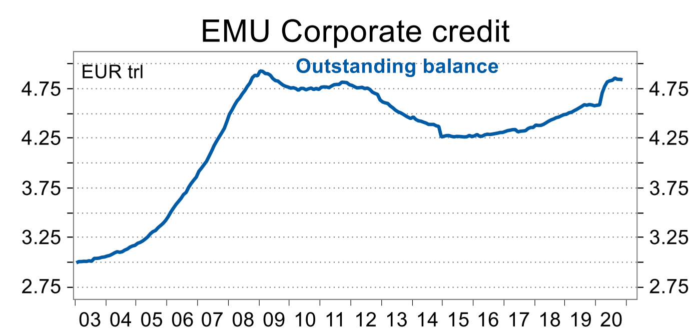
EMU banks are reporting weakere corporate demand, and are tightening

However, credit grew rapidly in Q2 last year, balances were strengthened



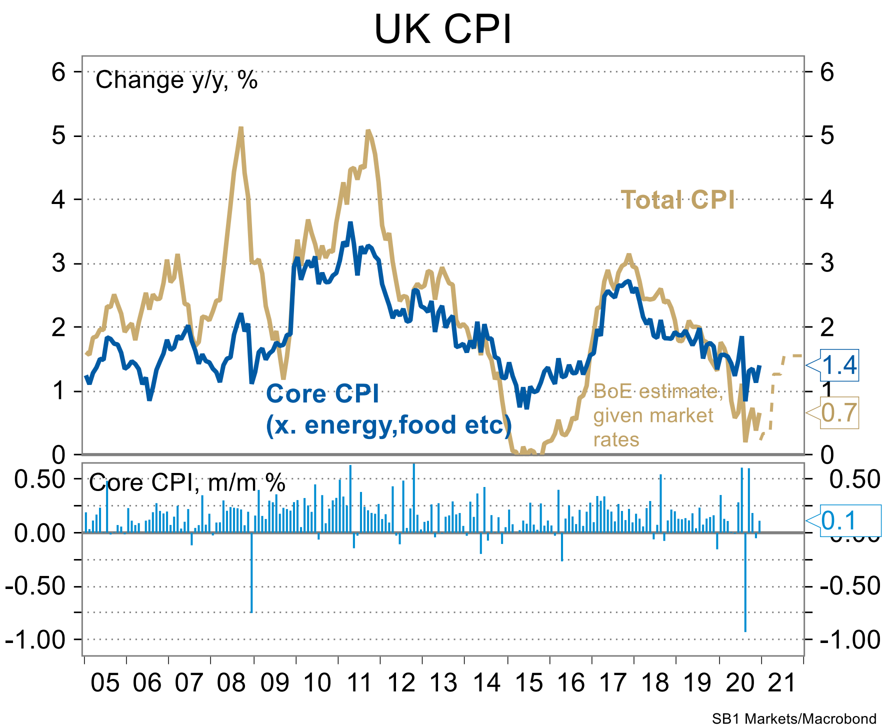


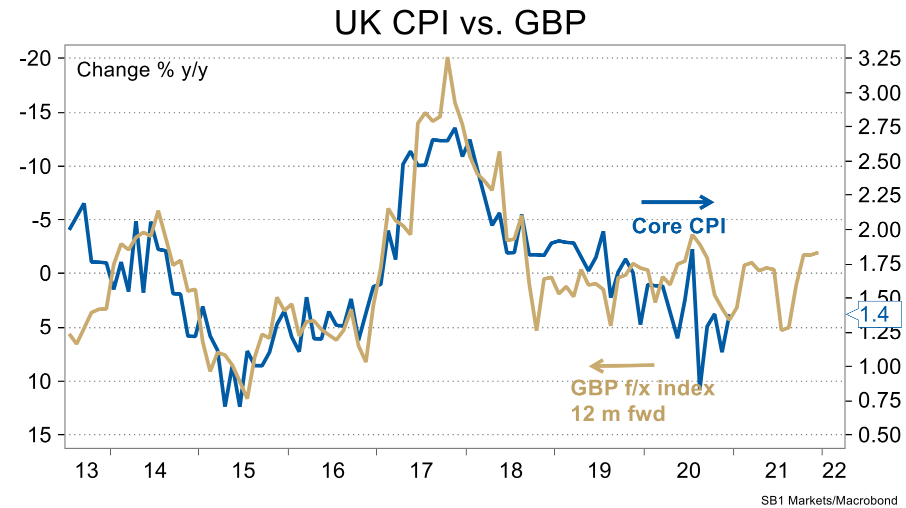
- Less need for credit for a while among Euro zone businesses, following last spring's hike?
- Banks in the US are reporting weaker demand, and are tightening more



CPI inflation up 0.3 pp in December, still well below target

Core CPI up 0.1% pp m/m, and the annual rate up 0.3 pp to 1.4%

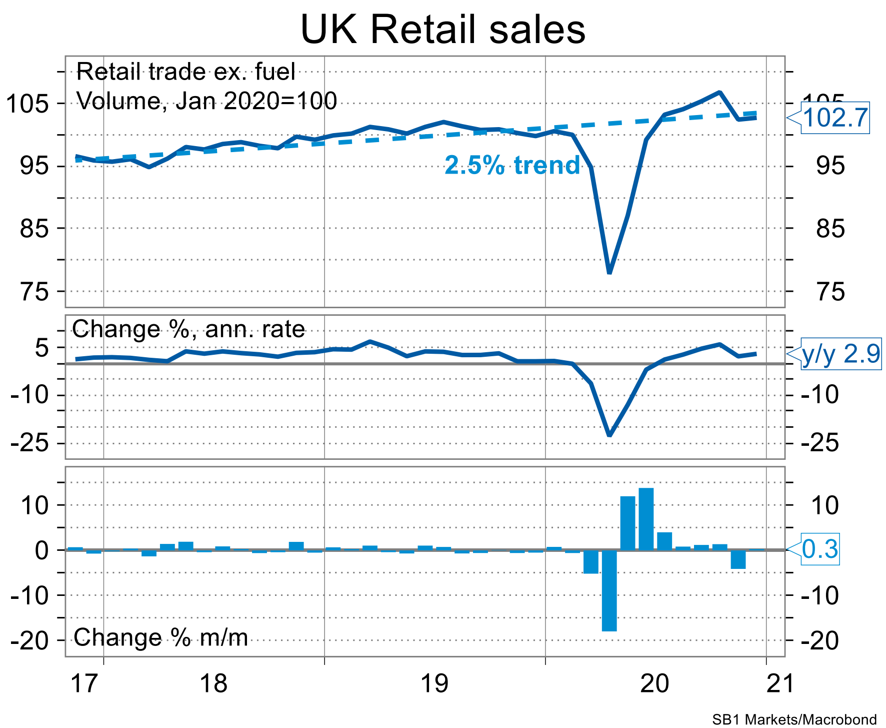


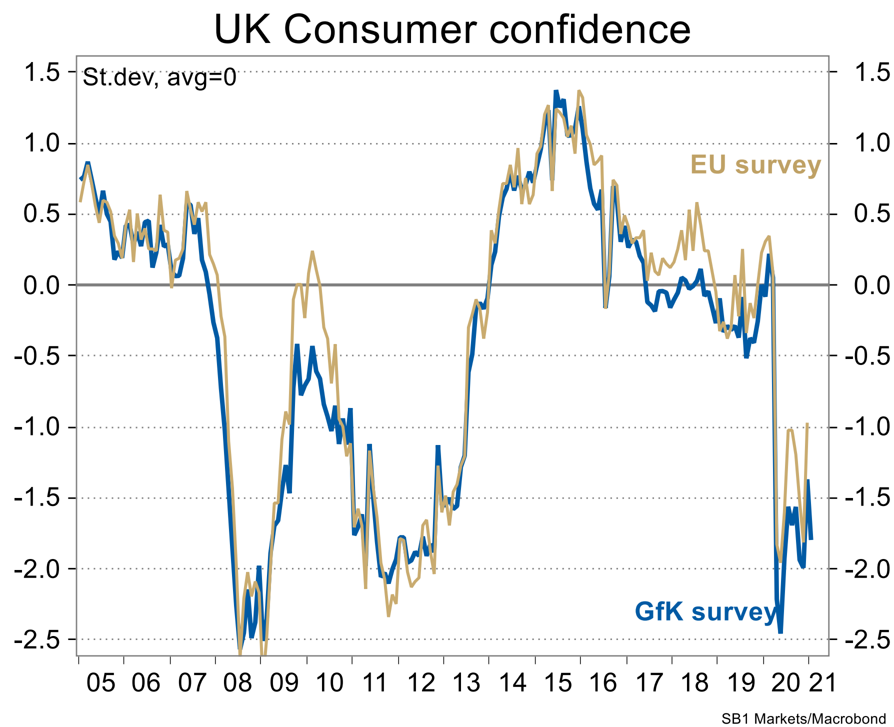


- Total inflation up 0.3 pp to 0.7% in November
- Our simple f/x based model indicates that the impact from the GBP depreciation in 2018 is fully recognised; the slowdown in the UK economy is more important now

Retail sales flat in Dec (but January will be weaker?)

Sales up 0.3% in Dec, but less than expected (1.3%), and Nov revised down by 0.3 pp to 4.1%

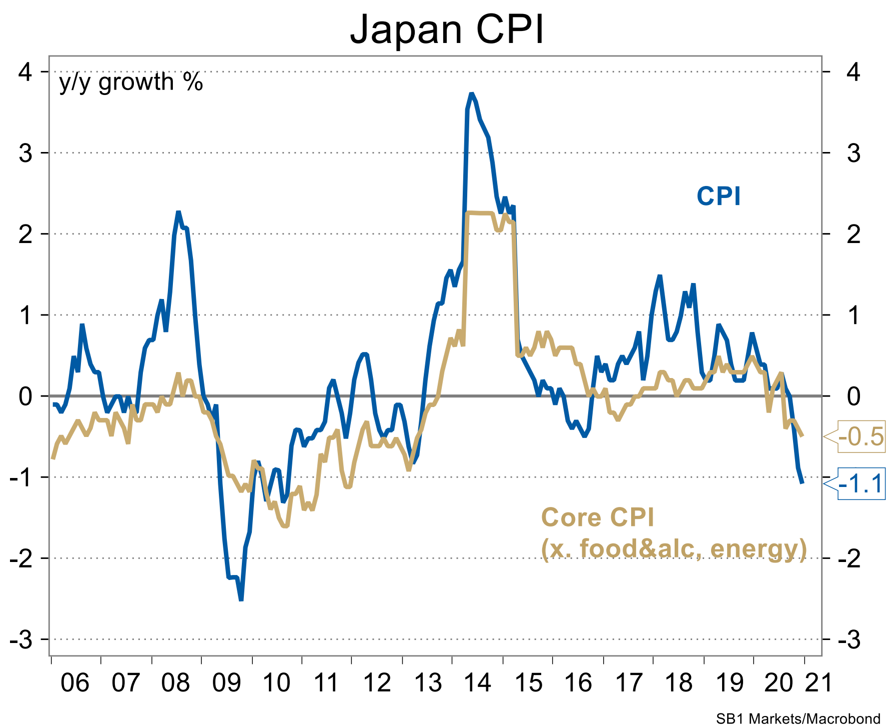


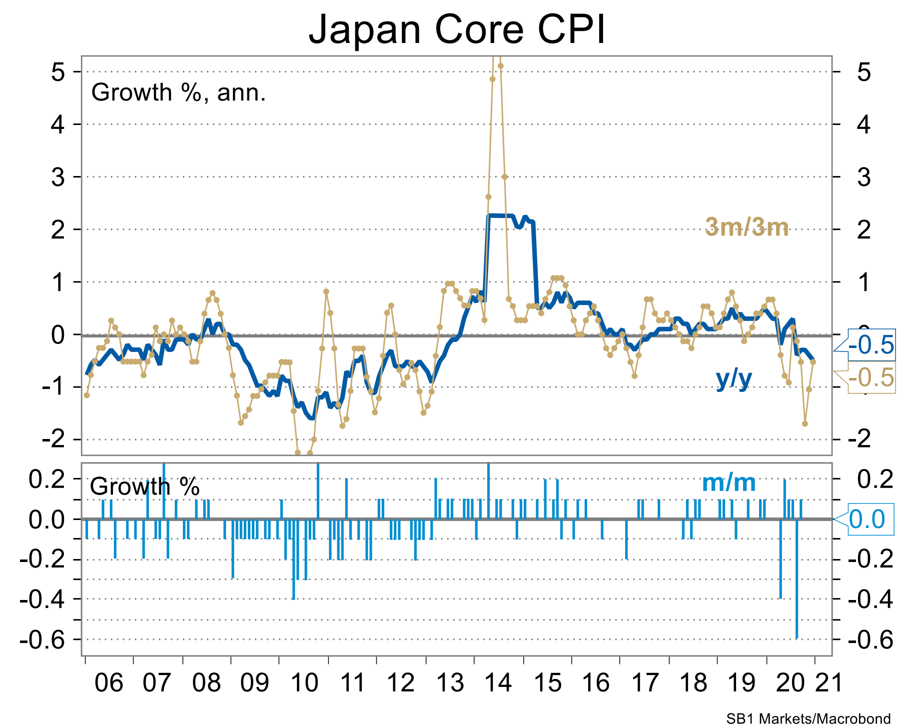


- Even following 3.8% setback in Nov/Dec, the level is on par with the pre-corona growth path, and sales are up 2.9% y/y. So the lockdown is not a full lockdown. We assume sales will fall further in January due to tighter restrictions in January
- Consumer confidence has recovered in December, but fell somewhat in January, at least according to the GfK survey. The level is far below a normal

Japan into deflation again, even ex. Energy. Headline at -1.2%, core -0.4%

A 35% (!) subsidy for the travel industry lowered prices by 0.4%, but prices are anyway on the way up

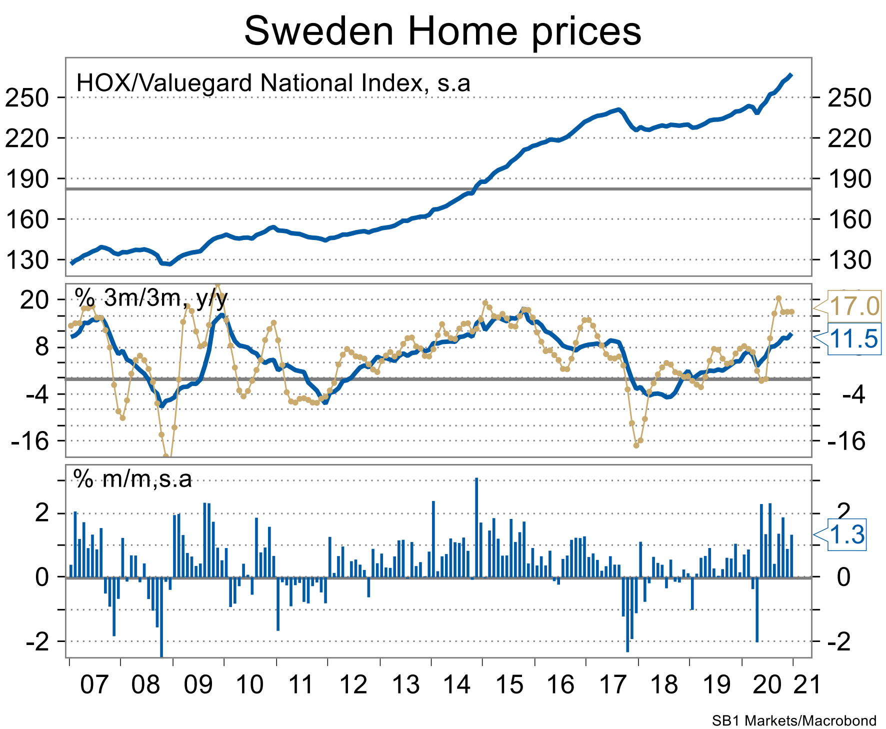


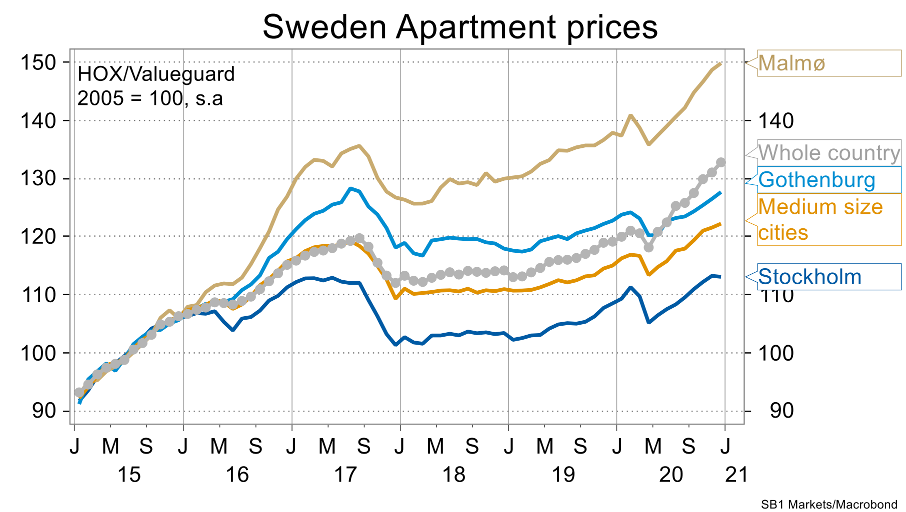


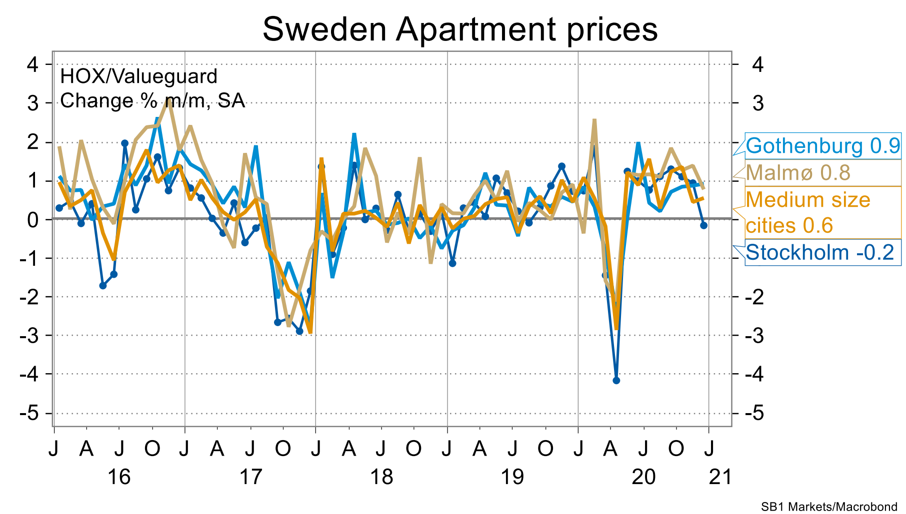
- Core prices were flat in Dec. In Oct prices fell by 0.6%, almost entirely due to travel subsidies
- Total inflation has vanished too, now at -1.1%
- Bank of Japan has not succeeded in bringing inflation up to the 2 % target…

Swedish house prices up 1.3% in December, up 11.5% y/y!

Faster outside the large cities than inside. Stockholm flat vs. 2017, nominally



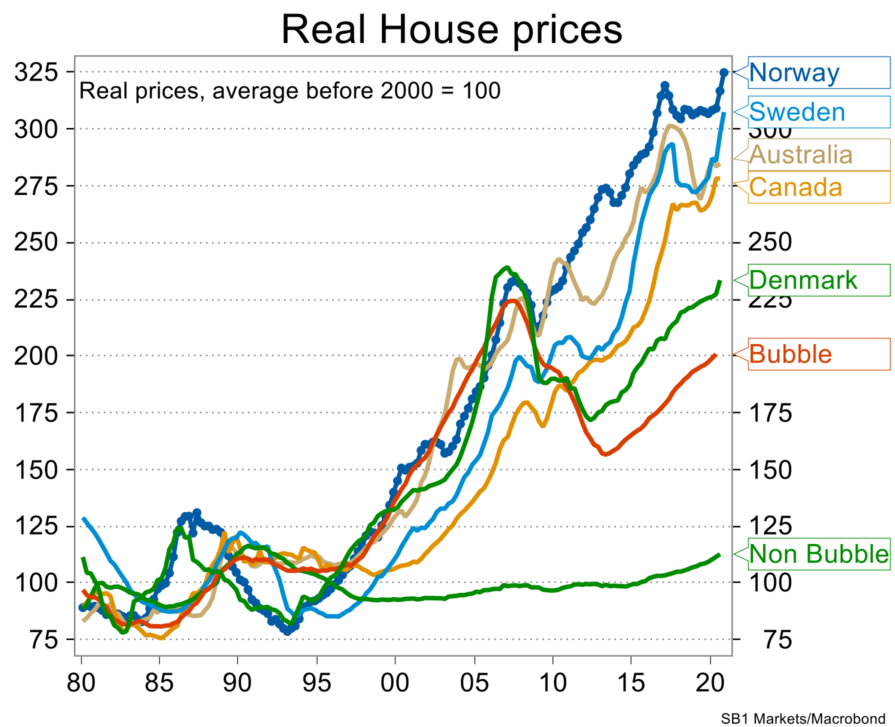


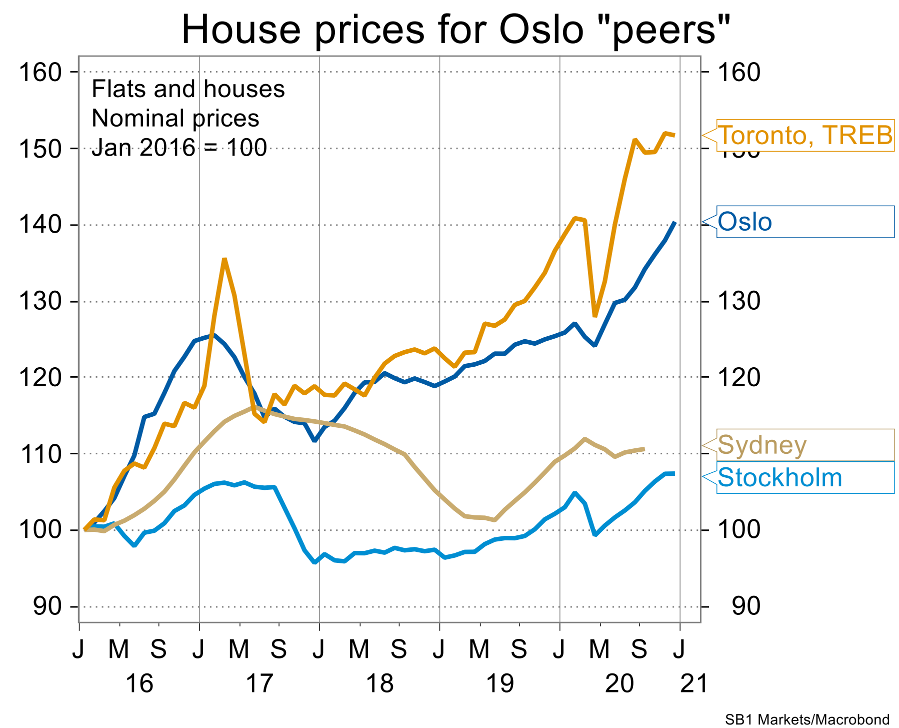


- Underlying price growth is now 15 – 20%, even higher than in Norway
- Prices are now increasing in all the major cities – and finally both Stockholm and Gothenburg prices are above the February level, after being lagging sharply recent months

Here we go again…

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





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

Highlights

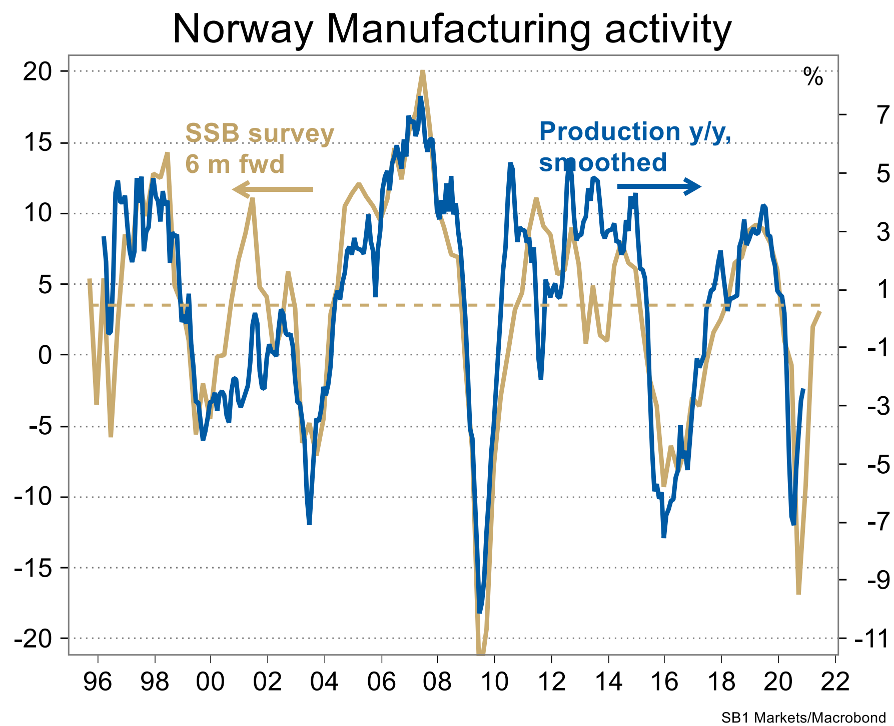
The world around us

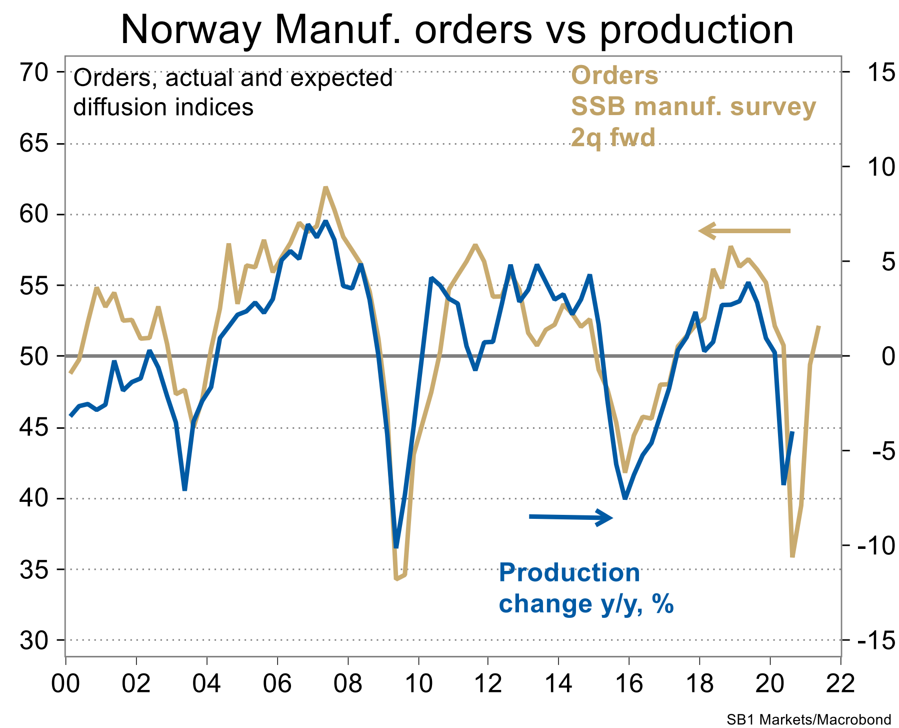
The Norwegian economy

Market charts & comments

SSB's manufacturing survey further up in Q4 but less than we expected

Oil related still weak, other parts of the manufacturing sector not

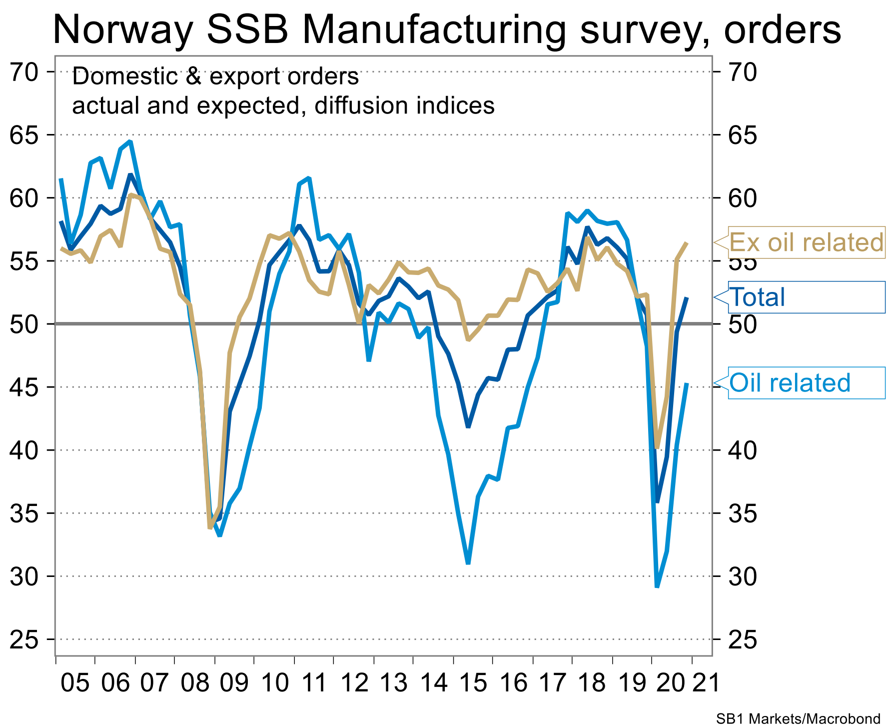


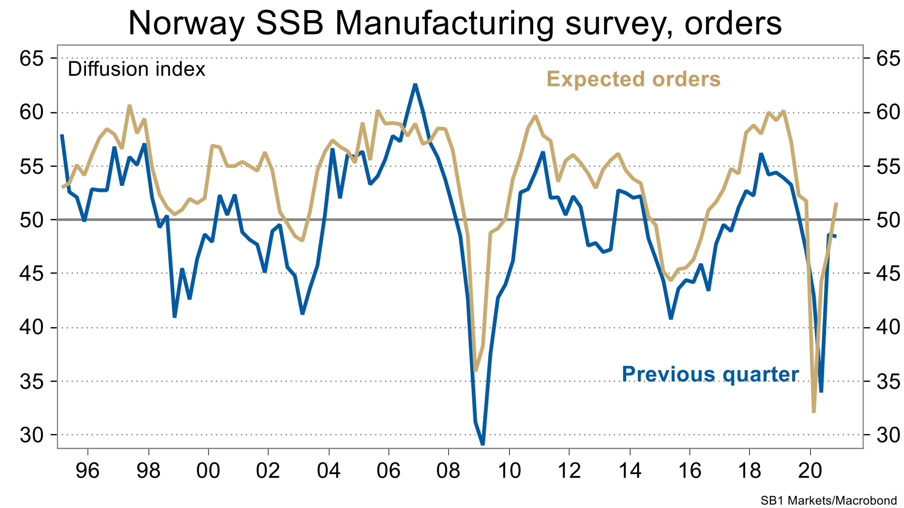


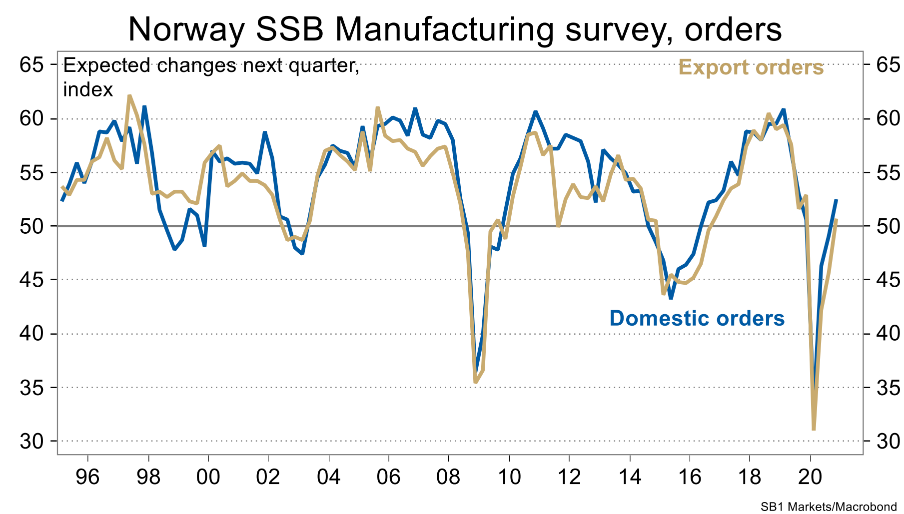
- The composite index in SSB's manufacturing survey rose to 3 in Q4, from 2 in Q3 (rev. up from 1.7). We expected an increase to 4.5
  - » The historical average is at 3.5, and the current print is just marginally below
  - » The index signals a marginal growth in the manufacturing sector, 2% growth in GDP and 10% growth in corporate earnings. However, like for all surveys these days, it is more challenging than usual to translate survey data into growth rates
- Orders are recovering, though with the oil related industries still lagging. Domestic orders are stronger then foreign orders
- ***ZZZz An average share of companies are reporting lack of demand as a constraining factor – this is not a demand crisis***

Orders are heading upwards again – if not yet in the oil related industries

Both domestic & foreign orders are recovering, domestic orders the most

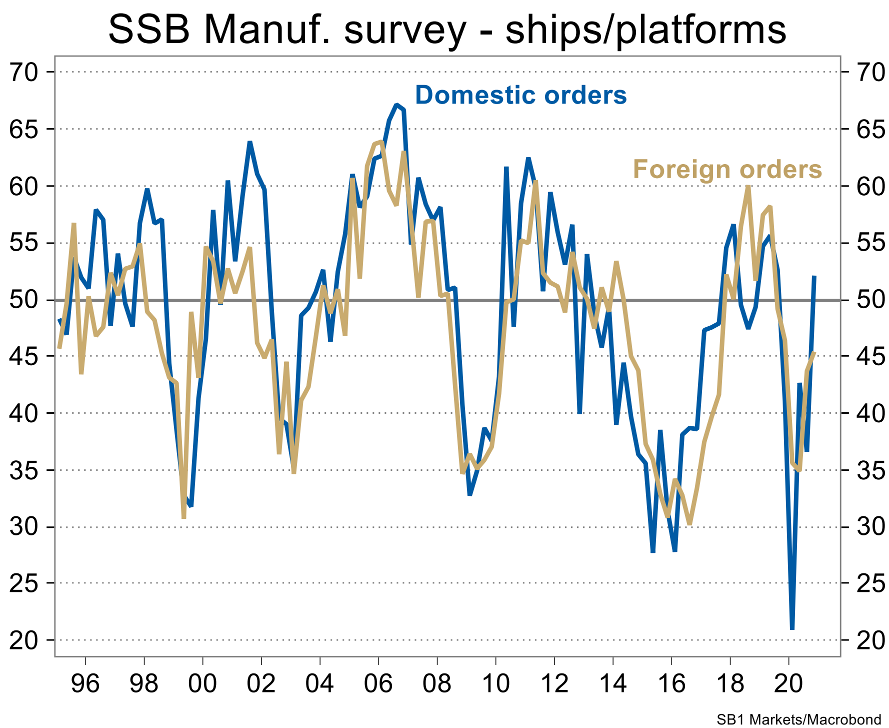






Oil related: Domestic orders are outperforming export orders

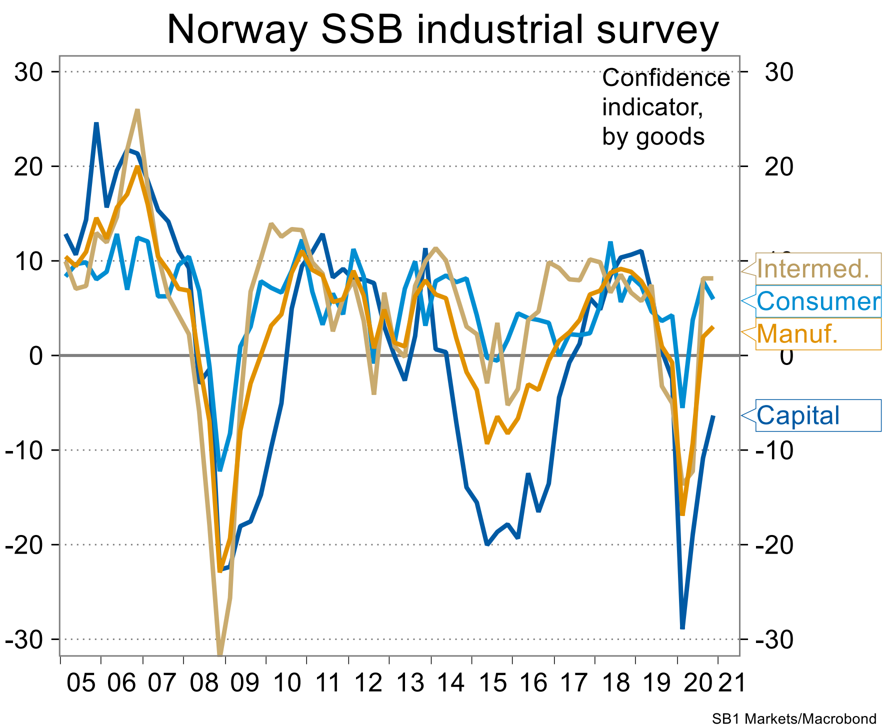
The first signs of the impact of last year's tax reform (cuts)? Very likely

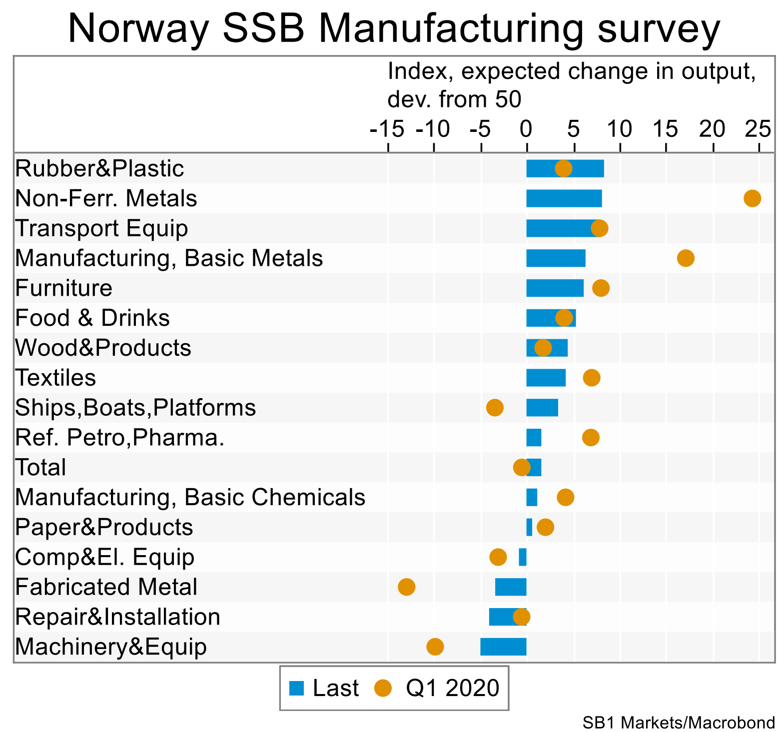


- The rise in domestic orders vs foreign orders was most visible in shipbuilding/platforms

Capital goods the weakest link (much oil related)

Manufacturers are more positive now than in Q1 2020, before corona – but mixed sector wise

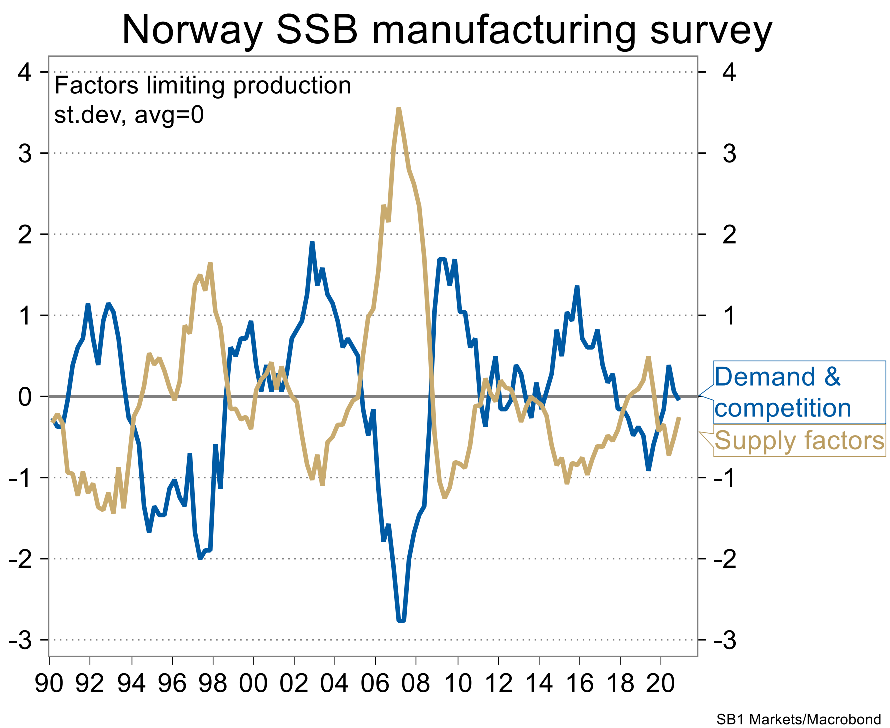


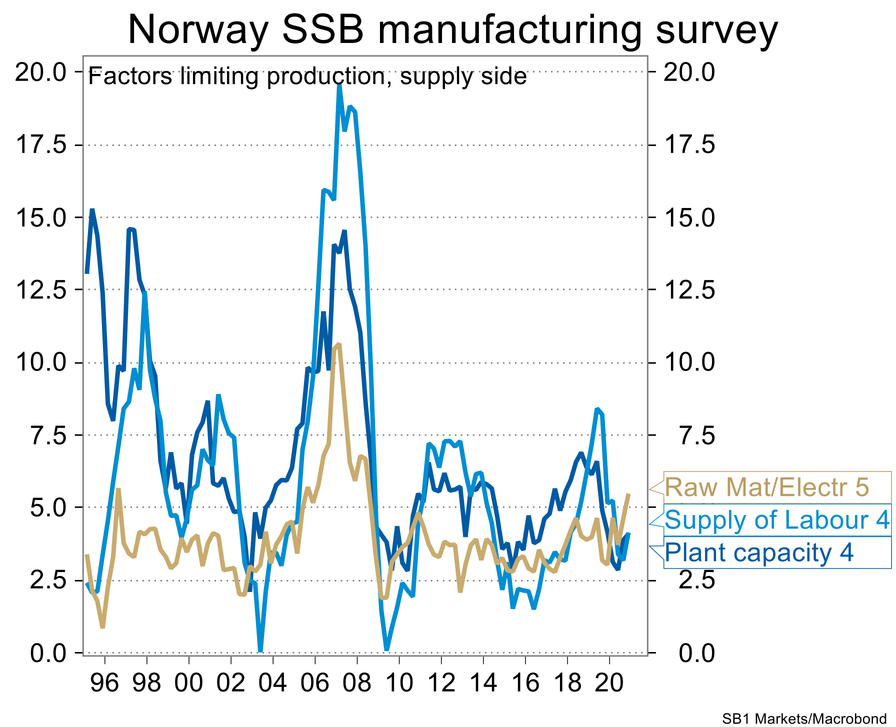


- The downturn in oil related industries started before the corona virus hit

Limiting production: Demand spot on average, supply just marginally below

The share of businesses reporting labour shortages dropped further in Q3, no surprise

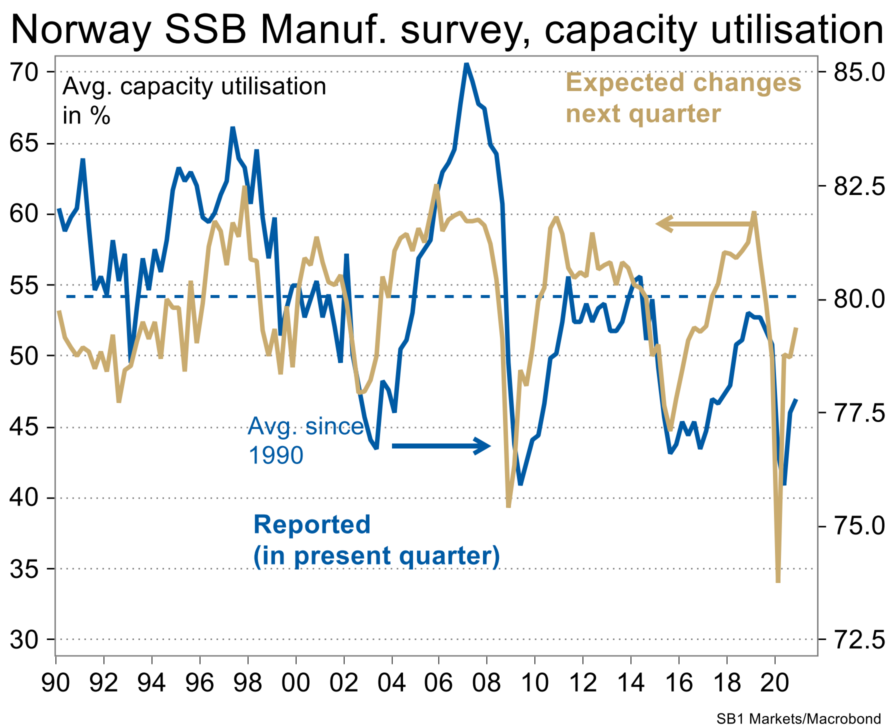


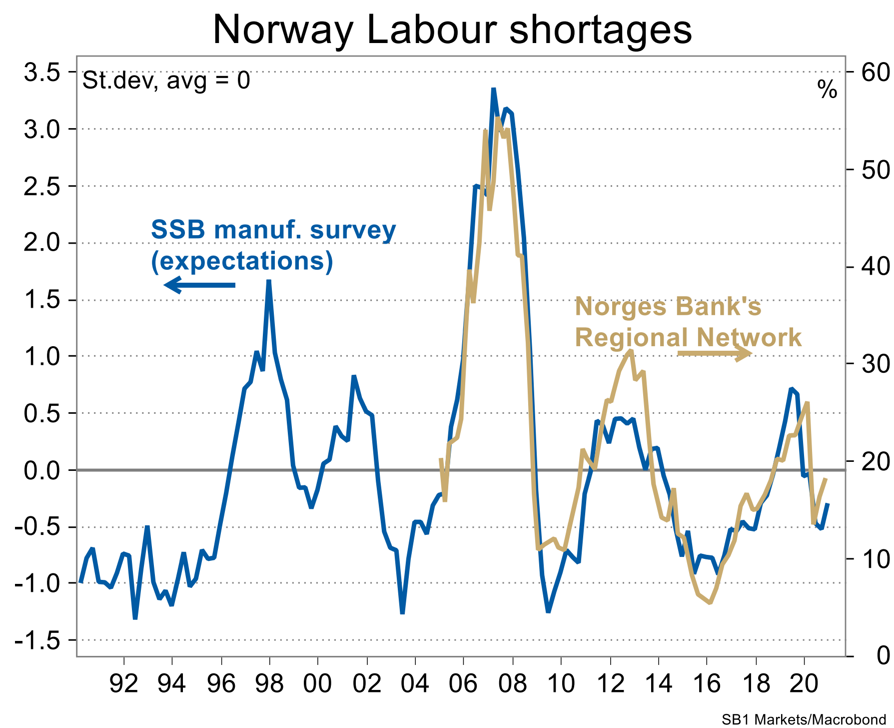


- The share of companies reporting a lack of labour is well below average, but far from record low
- Plant capacity constraints have fallen substantially but recovered somewhat in Q3/Q4, from a close to record low level
- More companies are reporting lack of raw materials, in fact the highest share since 2009! (but far below a really high level)
- Fewer, and now close to an average share of companies are reporting of demand/too much competition as a constraint in Q4. ***No demand crisis – and it never was***

Reported capacity utilisation up, still not high

Labour shortages below par too, the SSB survey agrees with Norges Bank's network report

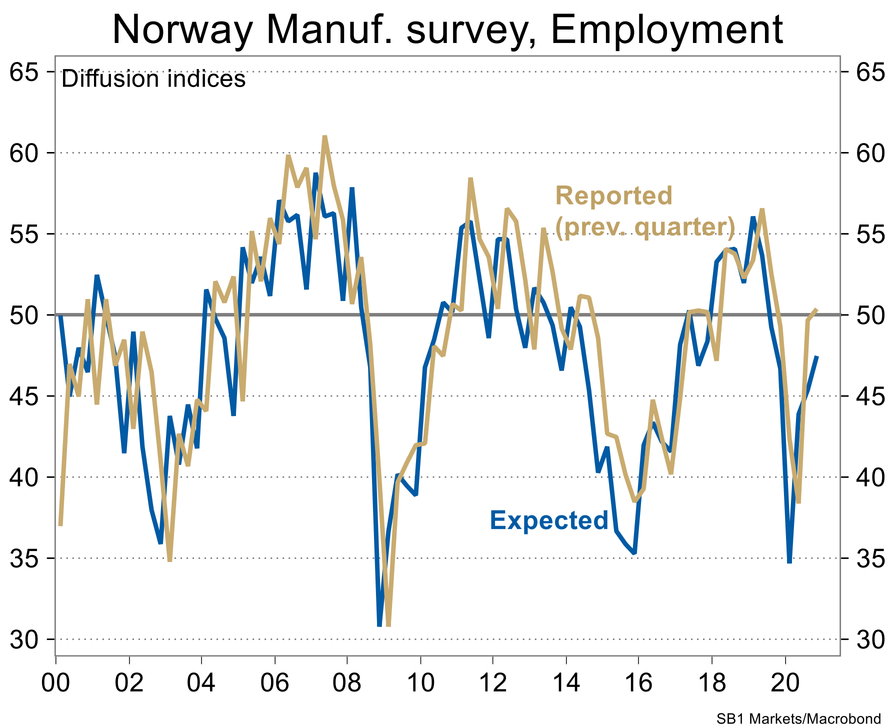


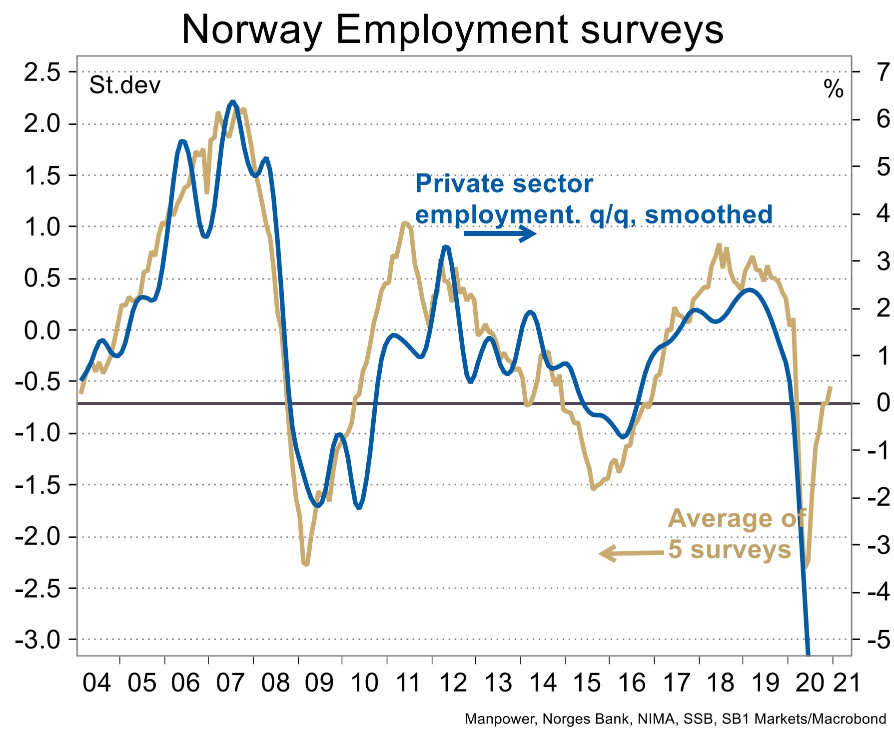


- An expectation index at close to 50 (like in Q3) formally signals a stable utilisation in Q3 but in reality is signals an increase

Manufacturers stabilised their workforce in Q4, but do not expect growth

In sum, employment surveys signal a modest growth in employment

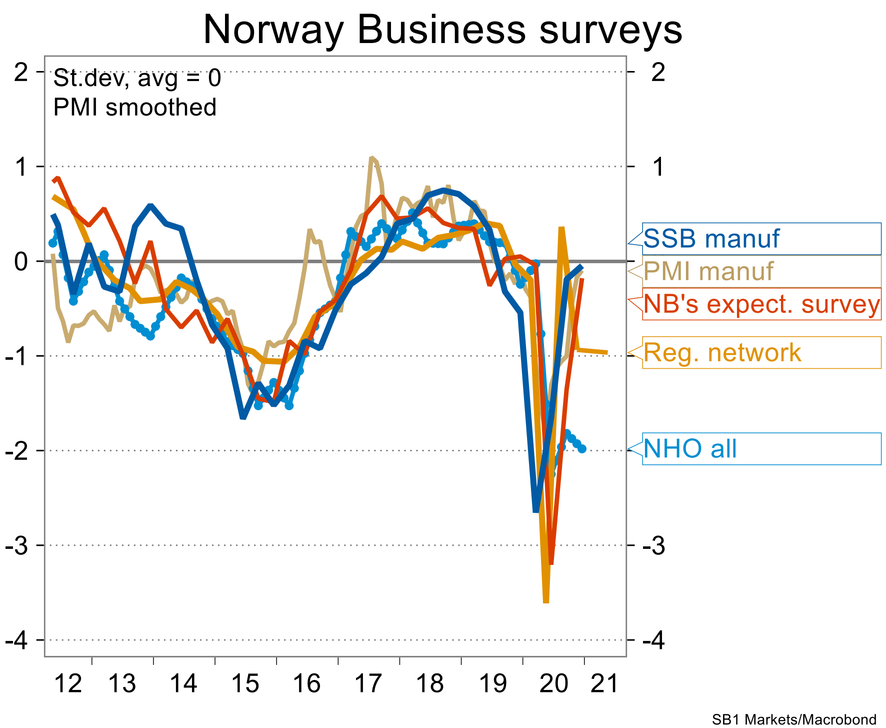


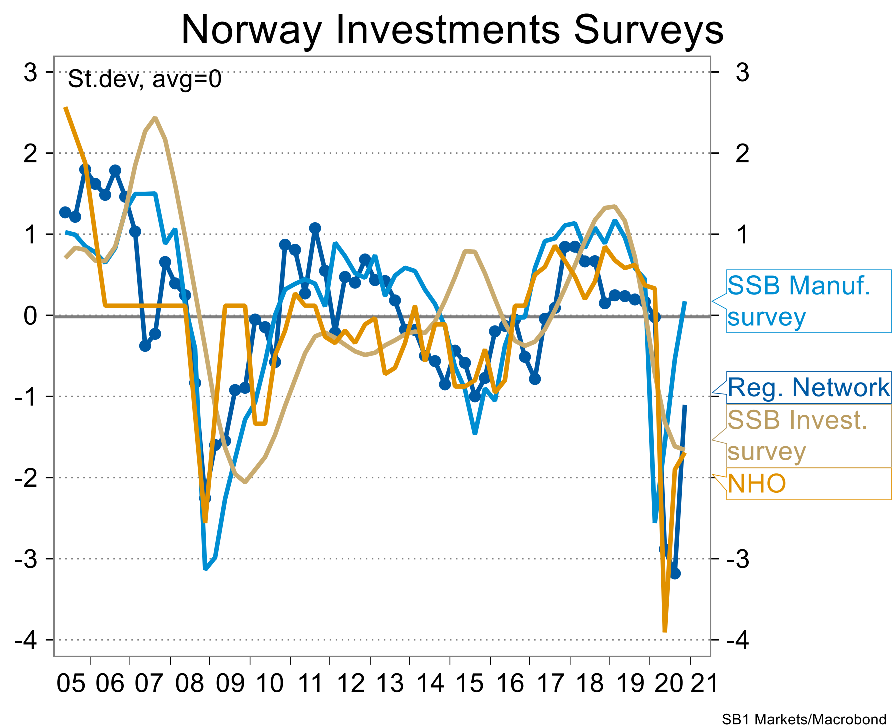


SpareBank 1 MARKETS

Surveys: On the way up, still below par

Investment plans in the manufacturing sector are revised upwards, sill not strong

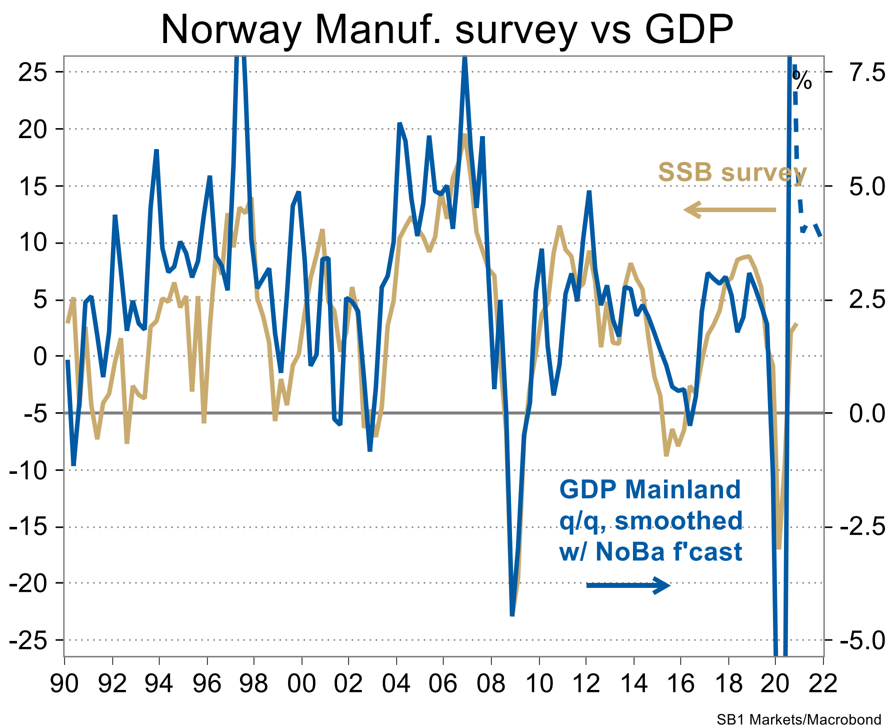


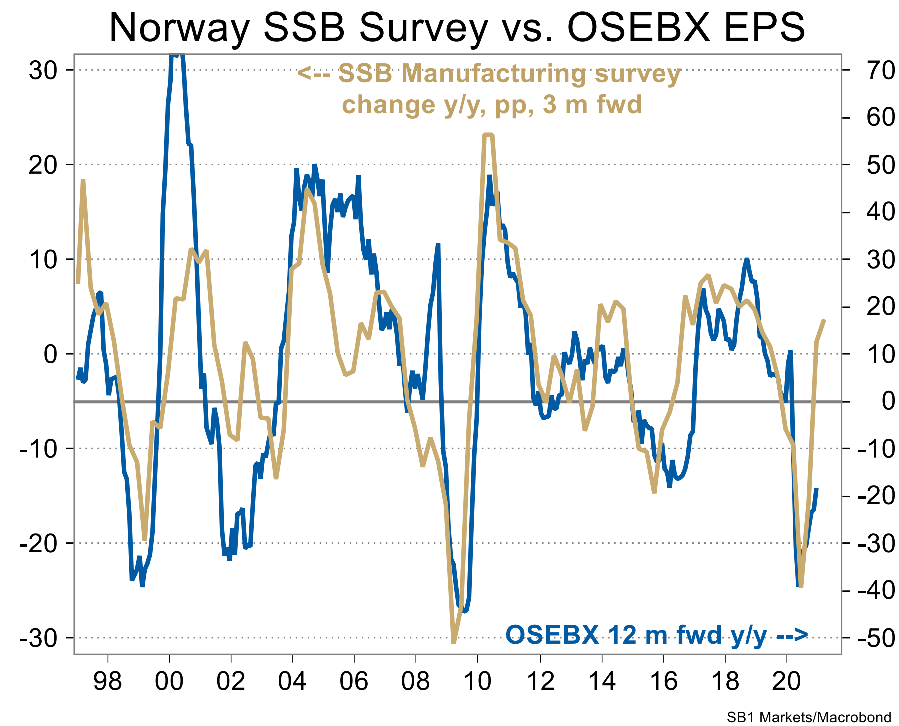


- In the current manufacturing survey, companies upgraded their **investment plans,** and they are now signalling a an average growth. Other surveys are still signalling no growth or a decline (A zero standard deviation at the charts above implies average growth)

SSB's manufacturing survey signals 2% GDP growth, almost 20% earnings growth

SSB manufacturing survey confirms better times ahead

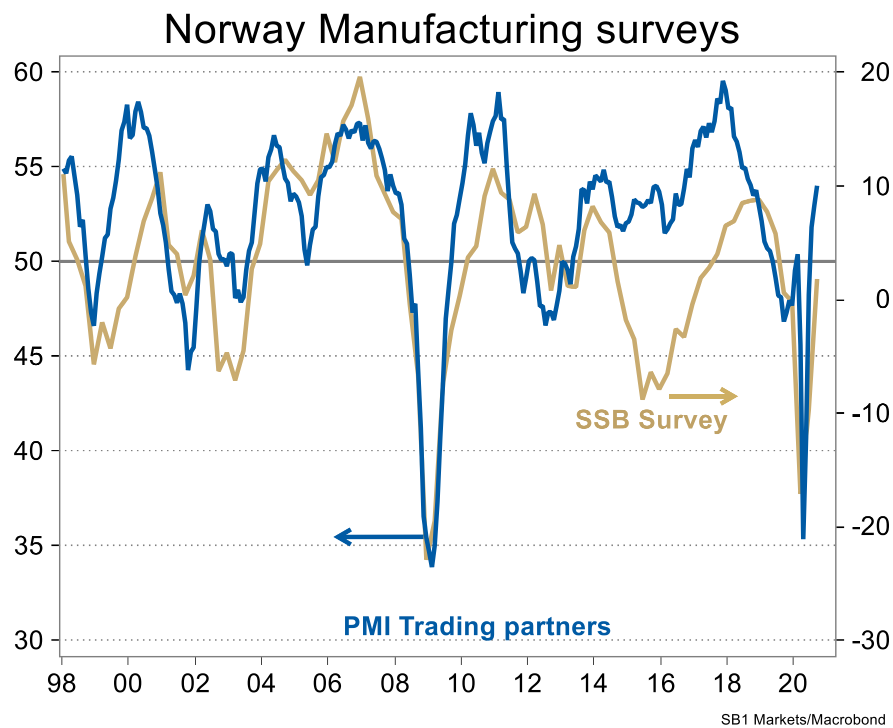


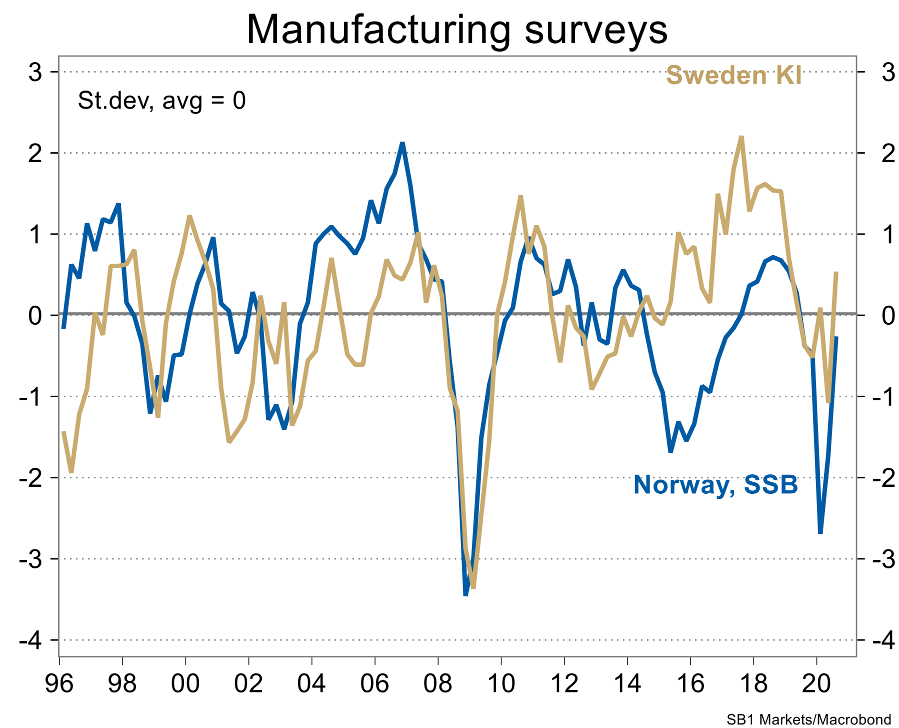


- Our simple EPS-model is not perfect when oil prices are volatile. The decline

Norway is following its trading partners down – and now up, as usual

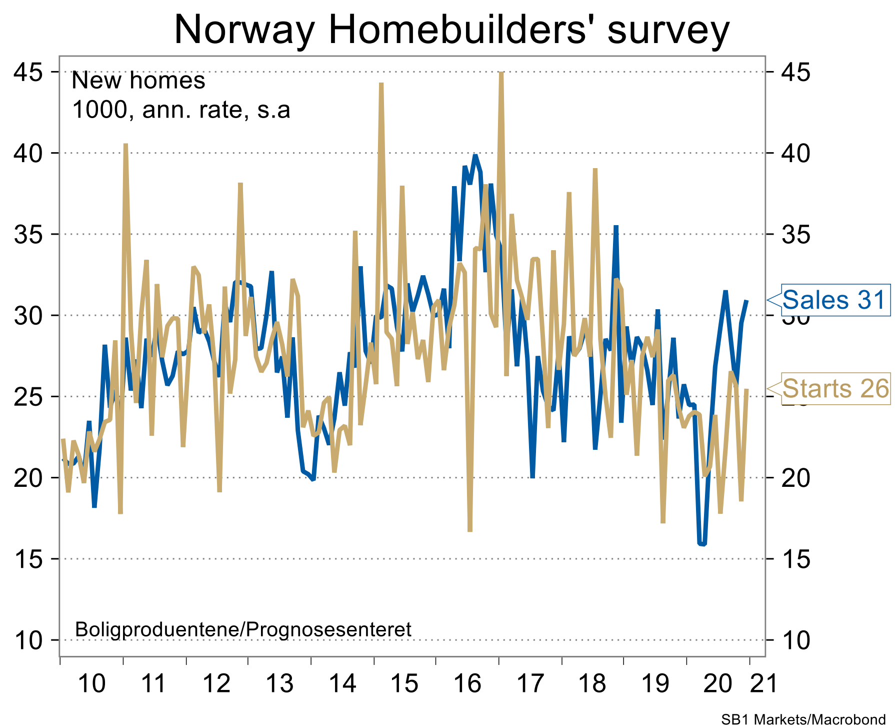
... but is lagging somewhat

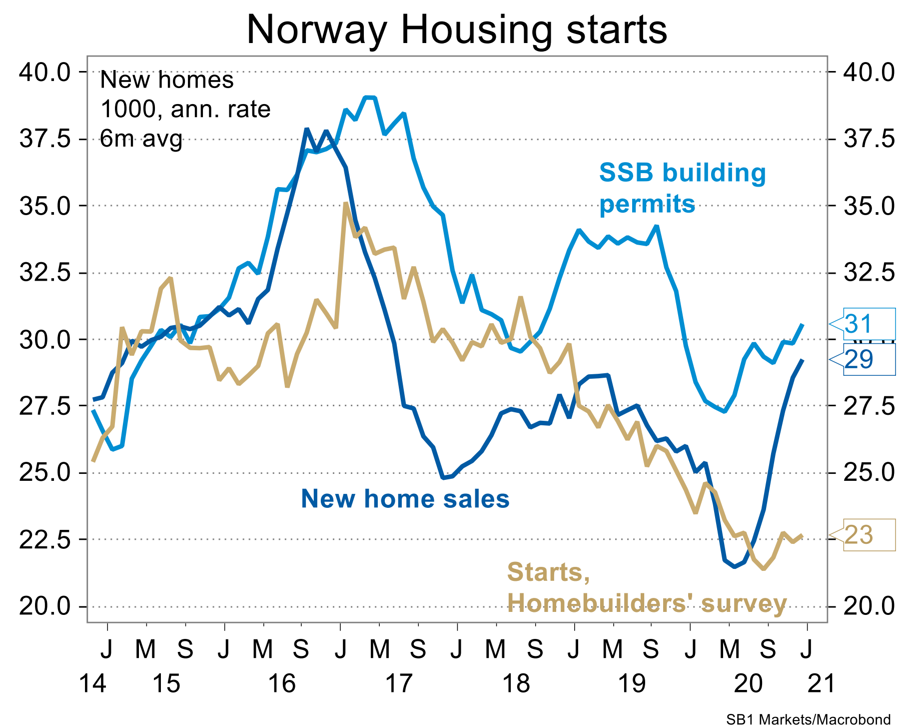




Homebuilders are selling more new homes, have to build more

Sales rose to 31’ in Dec, starts to 26’, the 2nd/3rd best in 2020, both are trending up. SSB starts up too

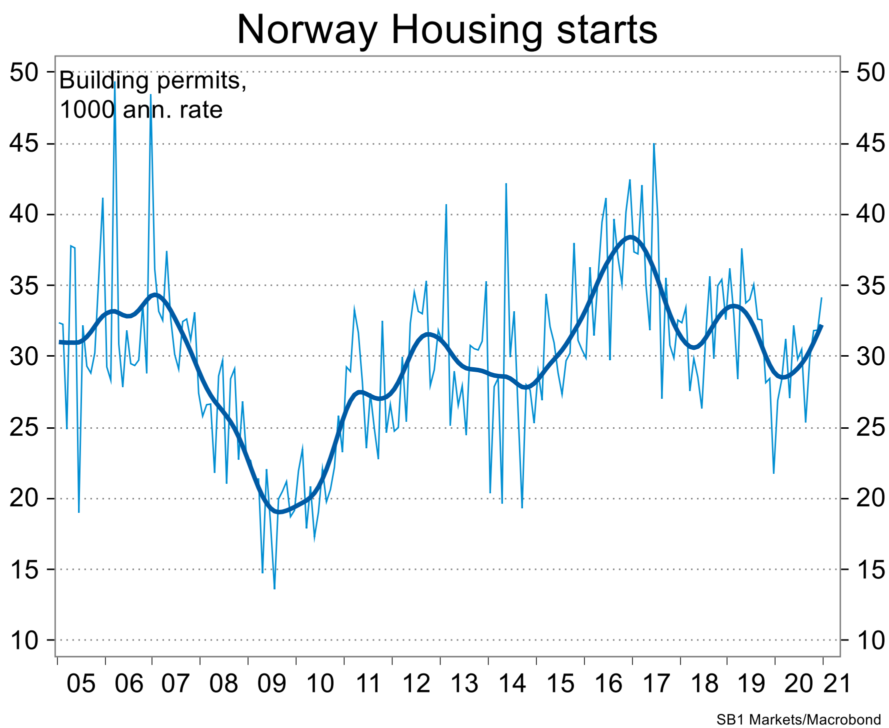


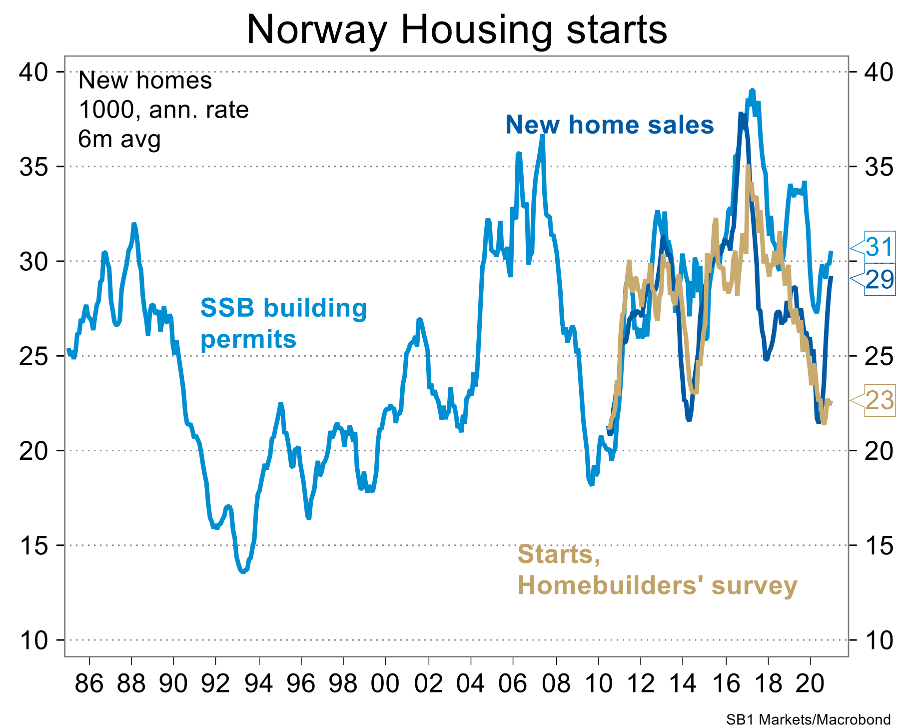


- New home sales up 3’ to 31’ in Dec, to among the best months the since late 2016, according to the Homebuilders’ association
- Homebuilders reported 26’ sales, up 7’ vs. November. SSB reported 31’ starts in Dec
- New homes sales & starts peaked at 35 – 40’ in 2016, and trended down to 25’ before the corona crisis. During the summer and into the autumn, sales have recovered to the pre-corona level, alongside the strengthening of the existing home market since mid April
  - » Over the past 6 months, the sales pace has been 29’ vs a starts pace at 23’. Starts will probably recover the coming months
- We assume the strong existing home market will encourage new home sales & starts the coming months

SSB: Housing starts have already turned up

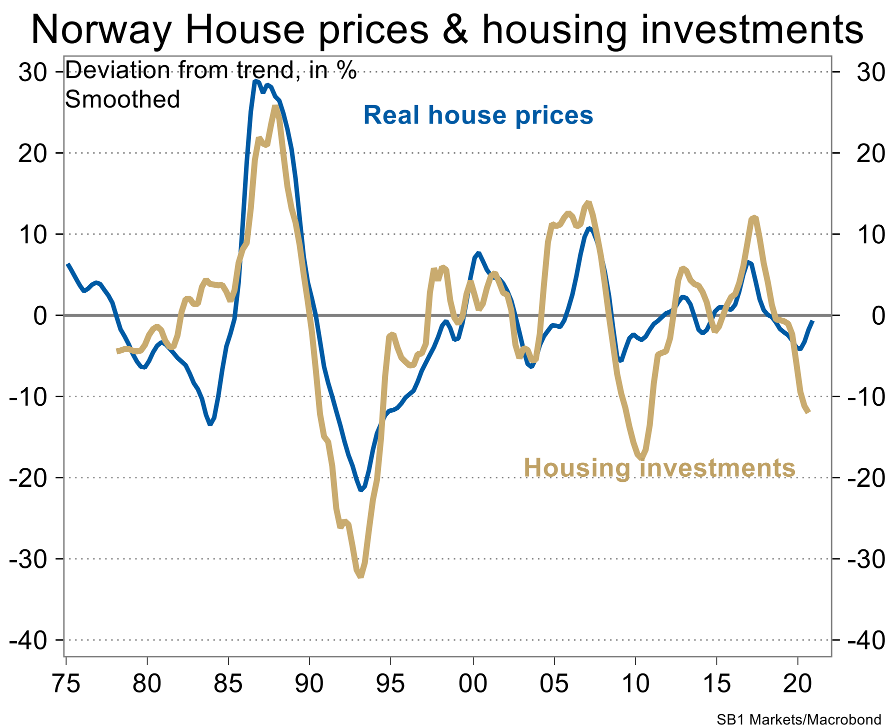
SSB reports 34' starts in December – and the trend has definitely turned up

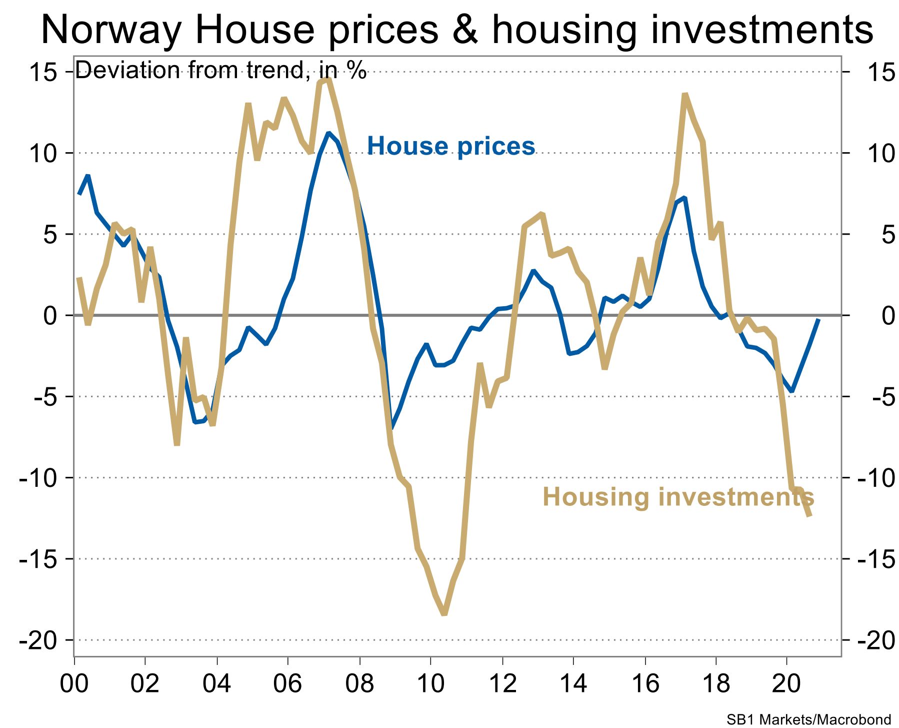




Housing starts/investments normally in tandem with house prices, no surprise

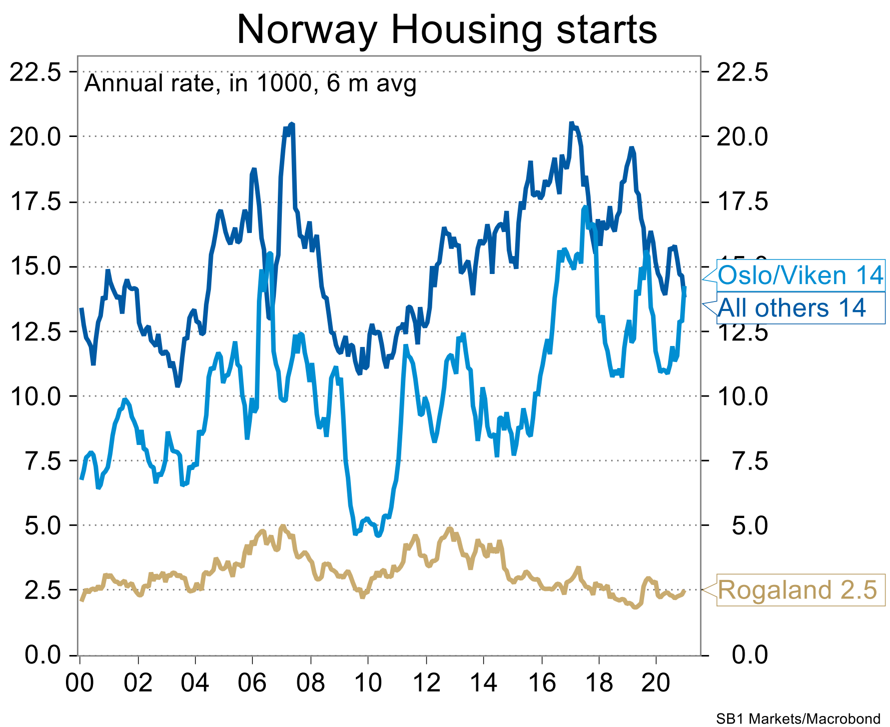
And now prices have turned sharply up; housing starts/housing investment to follow?

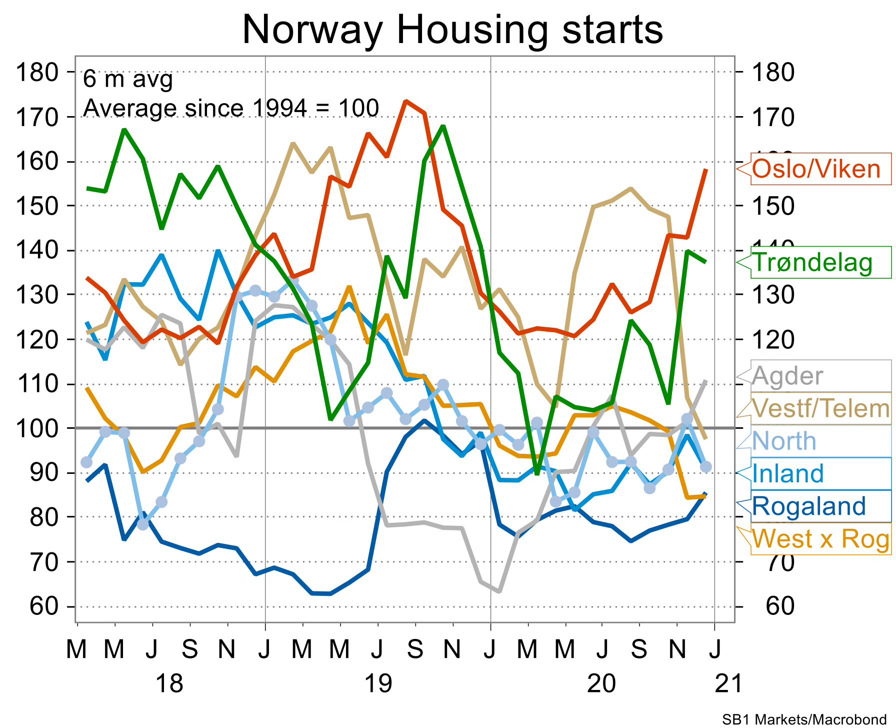




Starts are picking up speed in Oslo/Viken

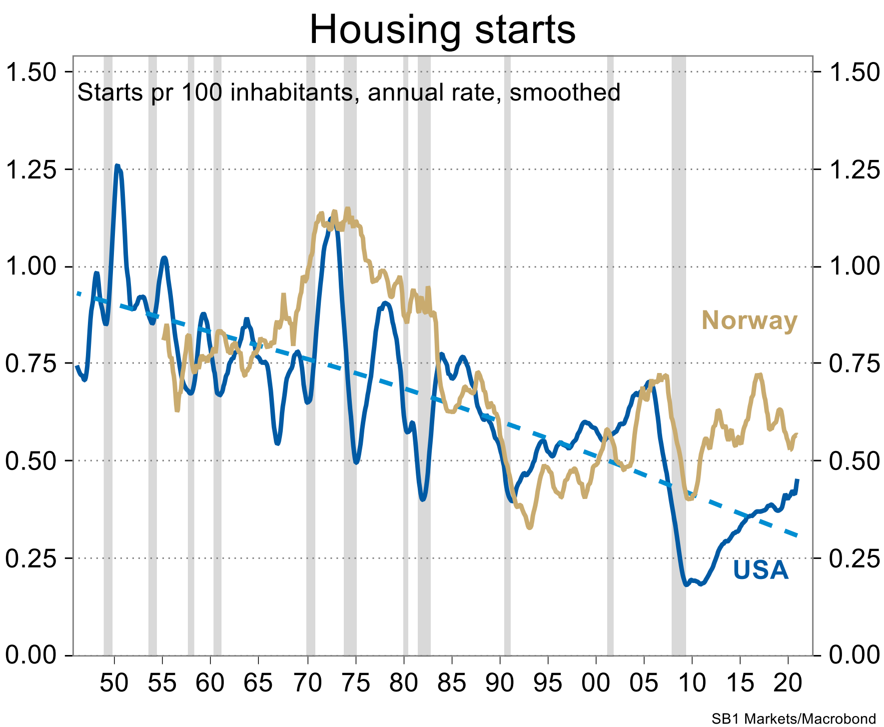
Starts up in Trøndelag too. Starts lower than normal in West, North & Innlandet

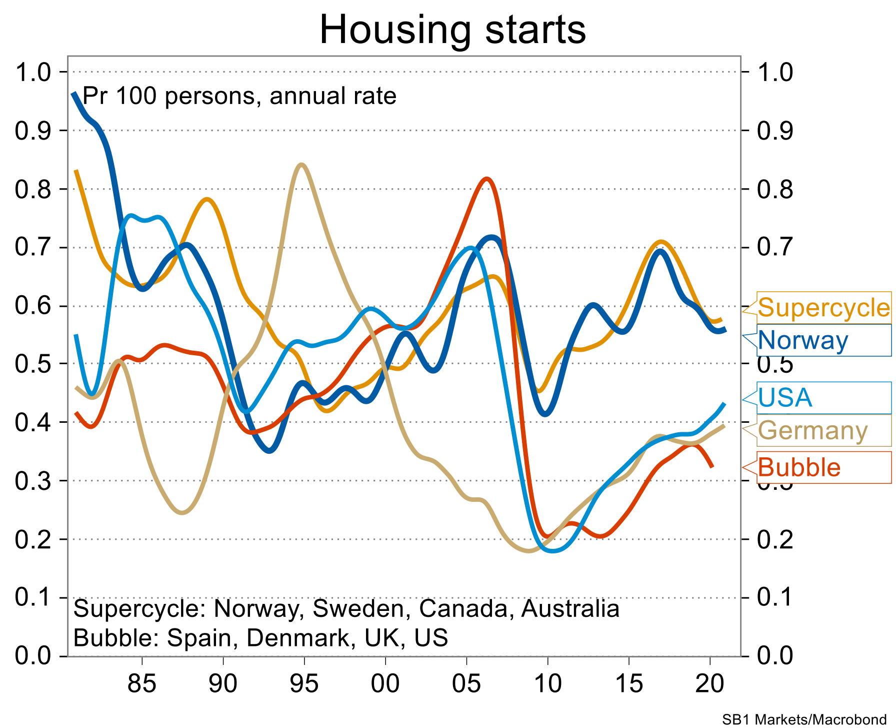




Home building in Norway has been high vs. most other countries

However, Norwegian housing starts are in line with other 'supercycles'



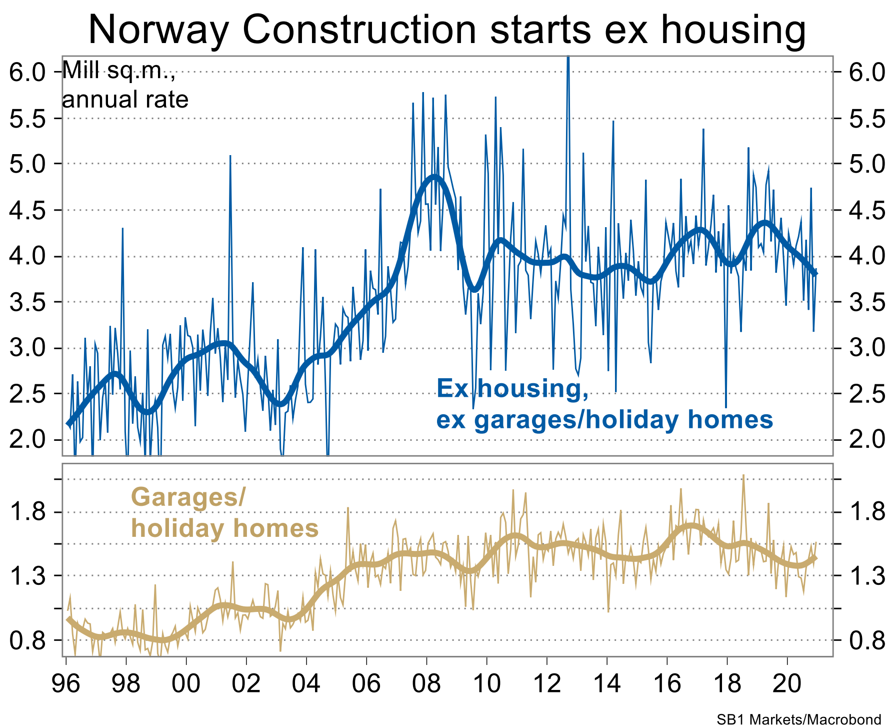


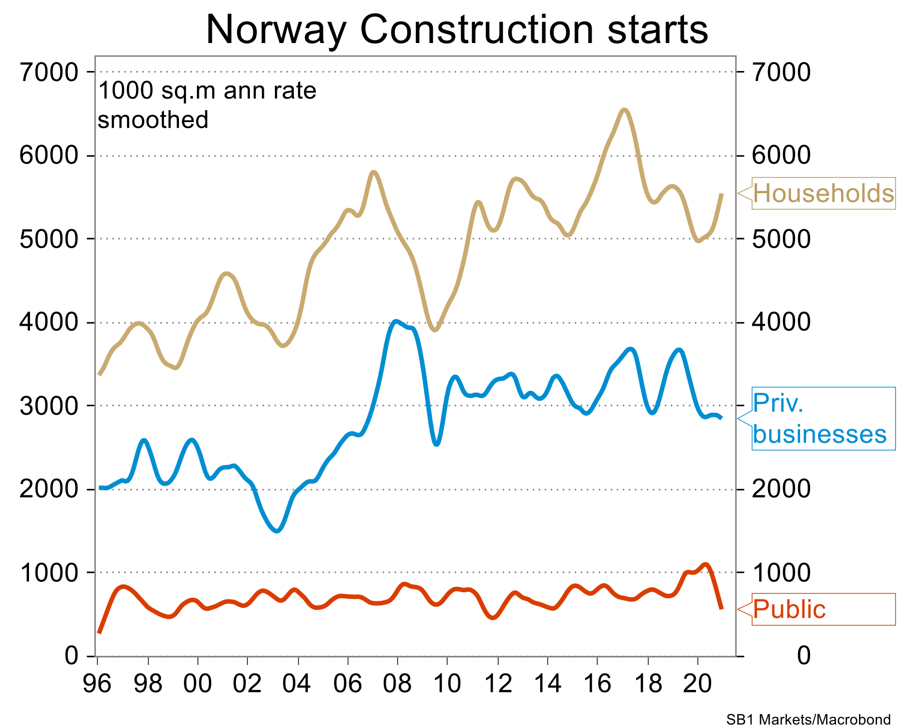
- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been closely correlated the past decades. Starts have been falling in Australia, Sweden and Norway, and more modestly in Canada. We guess the boom in the 2nd hand house markets in these countries will stimulate new starts
- House prices and debt inflation are higher and rental yields are lower in these supercycle countries than other DMs. Because interest rates have been too low for a long time, as they cut to more or less the same level as in countries that actually needed a strong monetary stimulus after 2008

SpareBank 1 MARKETS

Construction ex. housing up in Dec, but is trending downwards

Business construction down from 2018 peak, while garages/2nd homes/cabins may have bottomed



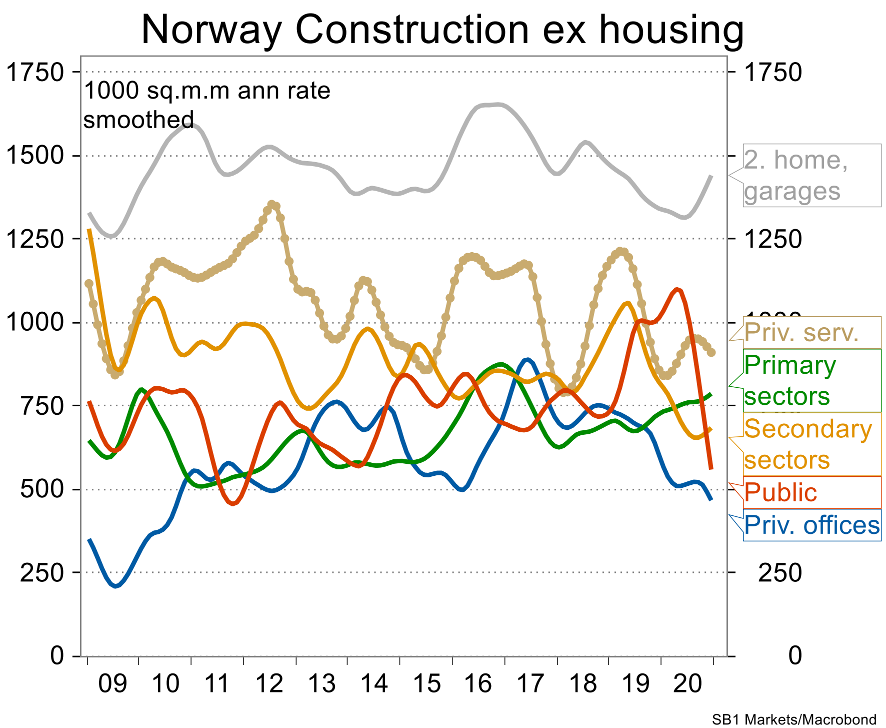


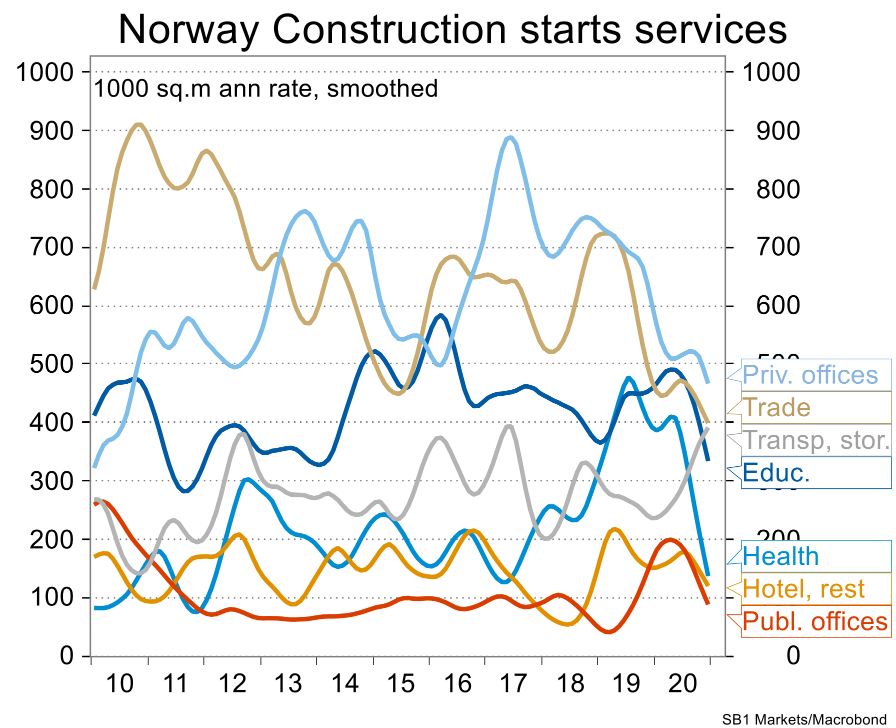
- **Construction starts ex housing & garages/cabins** turned down last year, and may still be on the way down
- **Construction starts of cabins/garages** have at least stabilised – and may be heading up again. Given the surge in demand for second homes, that's not surprising
- **Private non-residential starts** are at the lowest level since 2009. The downturn started well before the corona crisis
- **Public sector construction starts** are heading down (from a peak, due to a new hospital in Stavanger).

SpareBank 1 MARKETS

Volatile details: Most services have turned down, offices since 2017

Manufacturing new construction has fallen sharply since early 2019, may be bottoming now





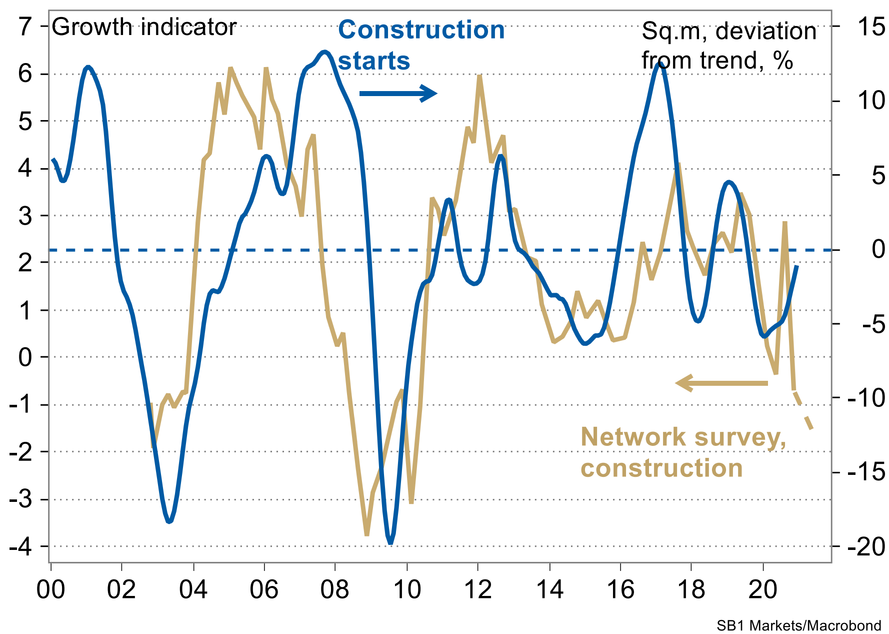
- Public sector building activity has fallen recent months

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

The Q4 NoBa Regional Network signalled zero growth – or weaker

Actual starts up due to higher demand from households

Norway Construction activity - Regional Network



- Would builderes have been more positive today?

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

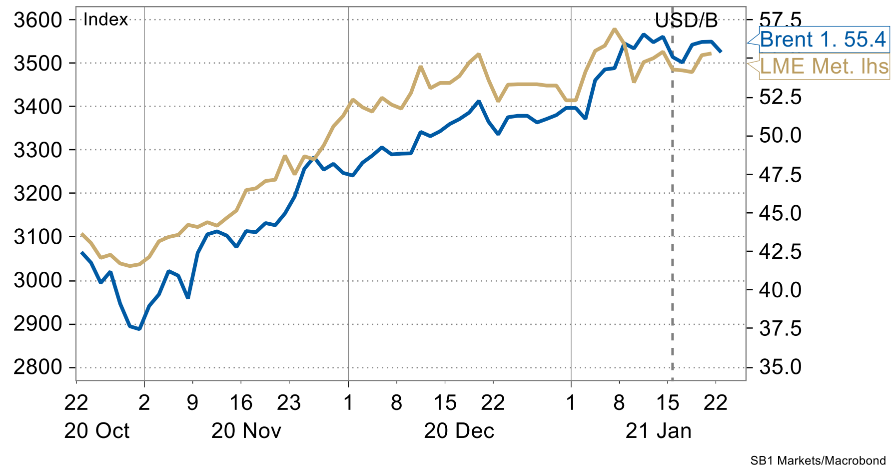
SpareBank 1 MARKETS

Stock markets further up, without support from bonds, raw materials

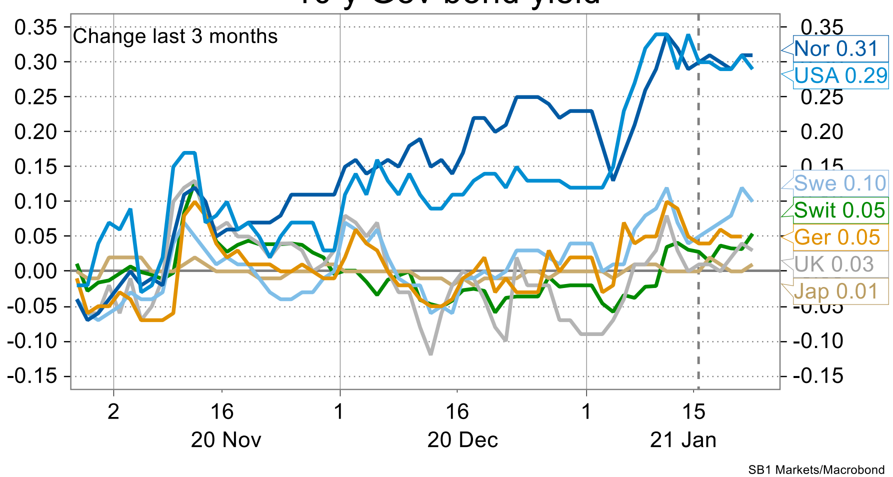
The USD has finally flattened? The NOK is drifting upwards but not further last week

Equity Indices

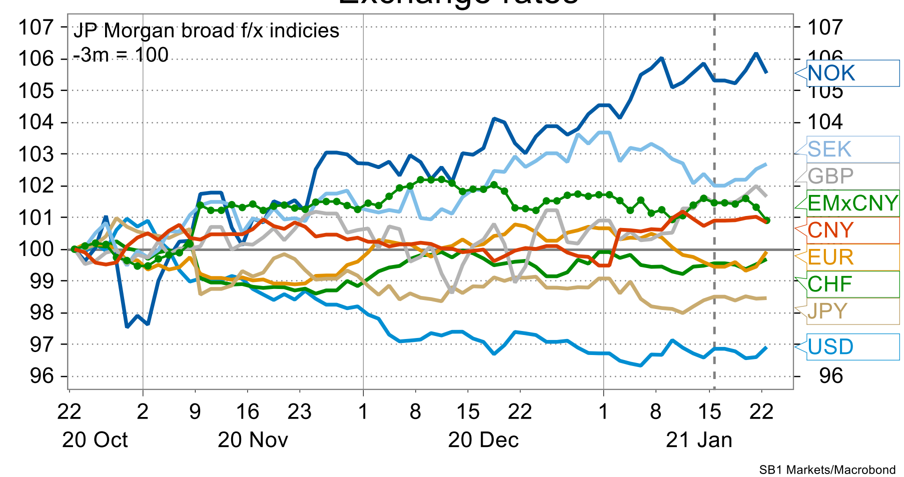
Oil vs. metals



10 y Gov bond yield

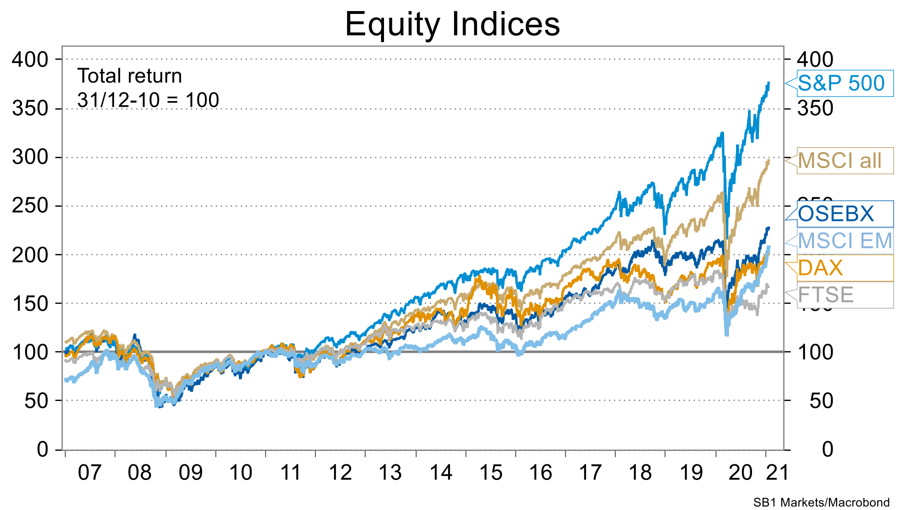


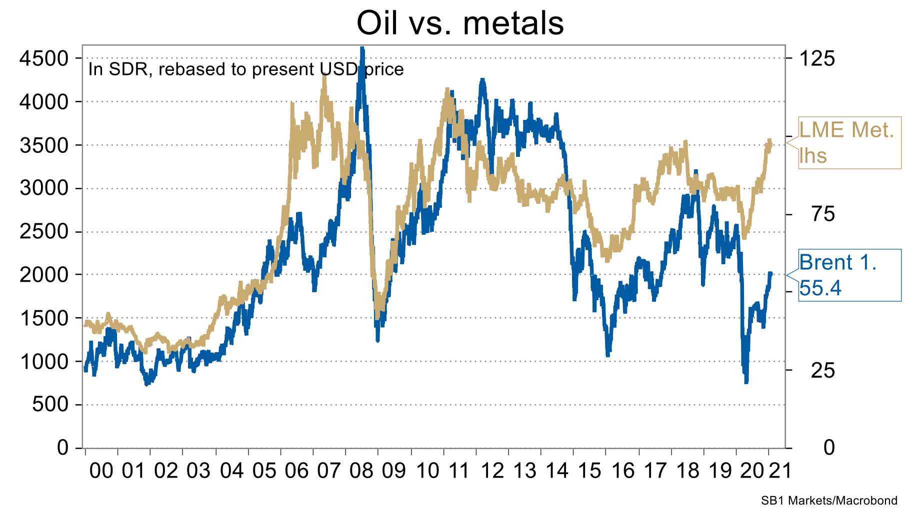
Exchange rates

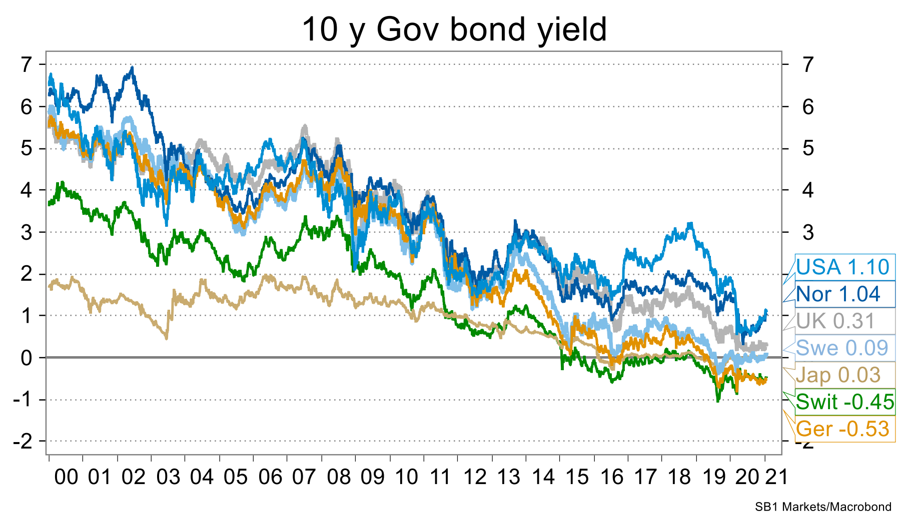


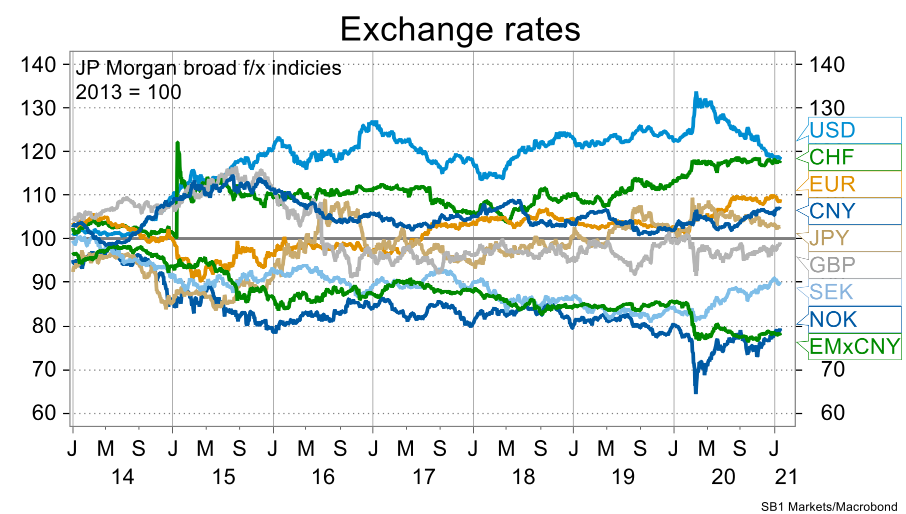
US 10y -2 bps, Brent flat since Jan 8th

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



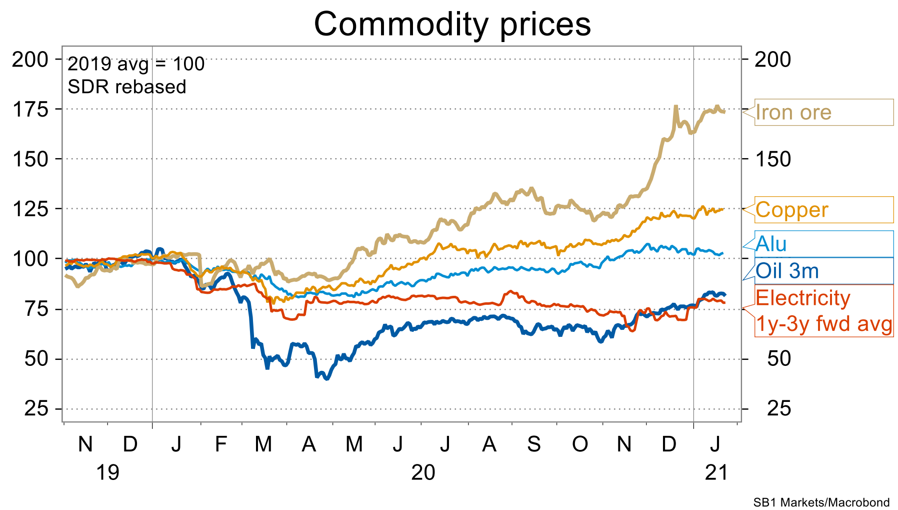


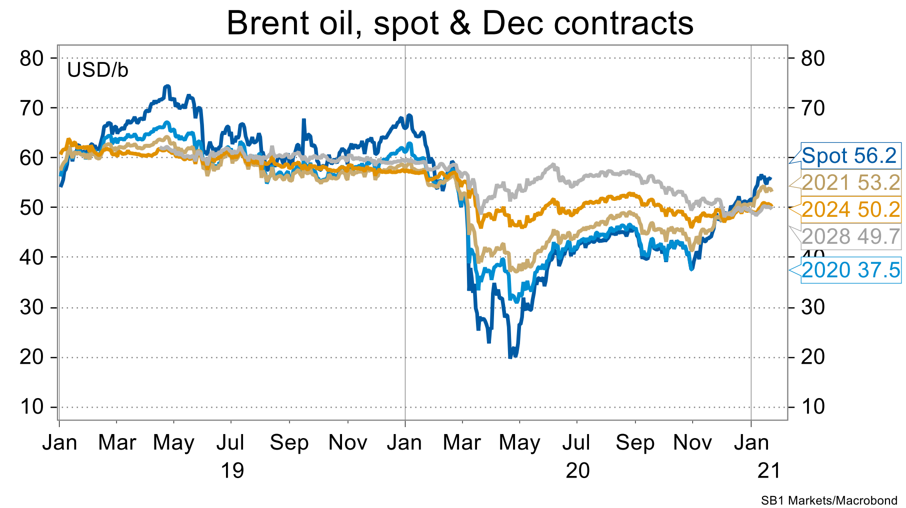


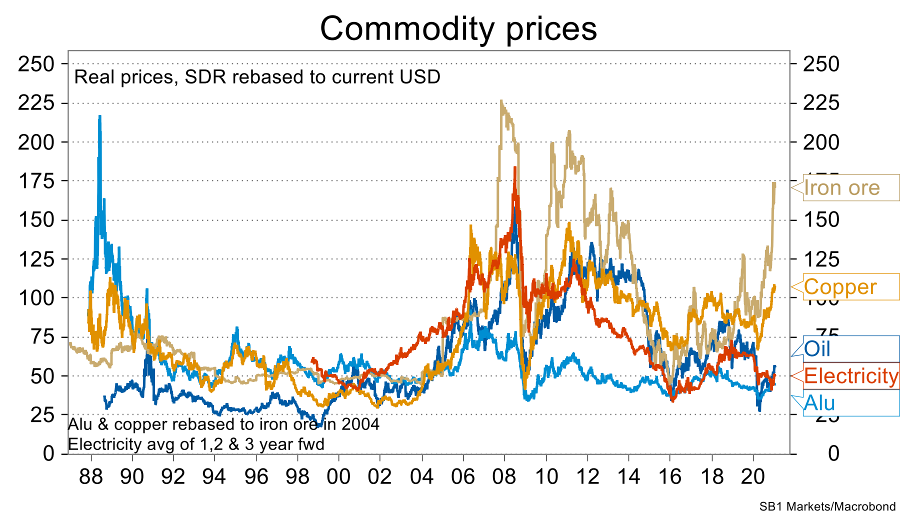


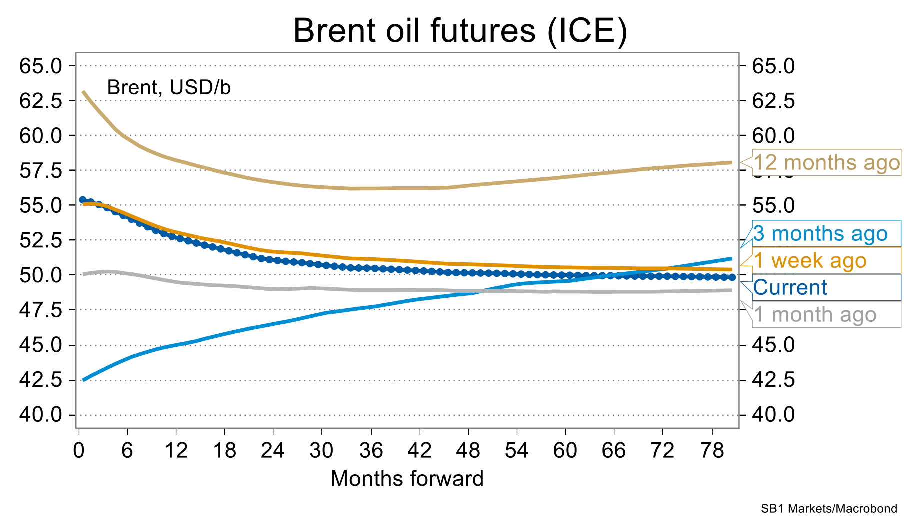
Flattish raw material prices

Still, the trend is sharply up





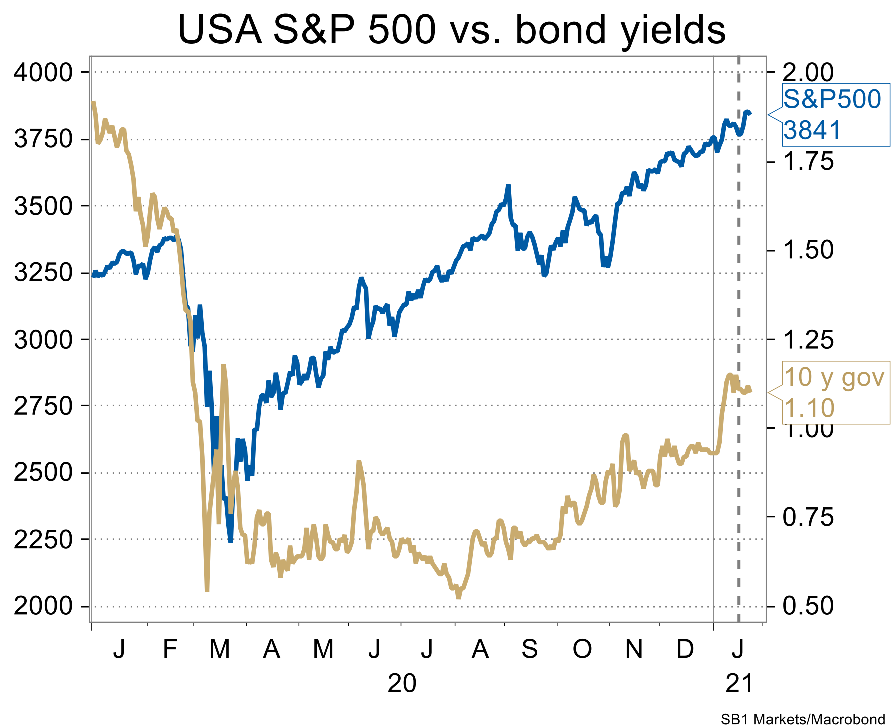


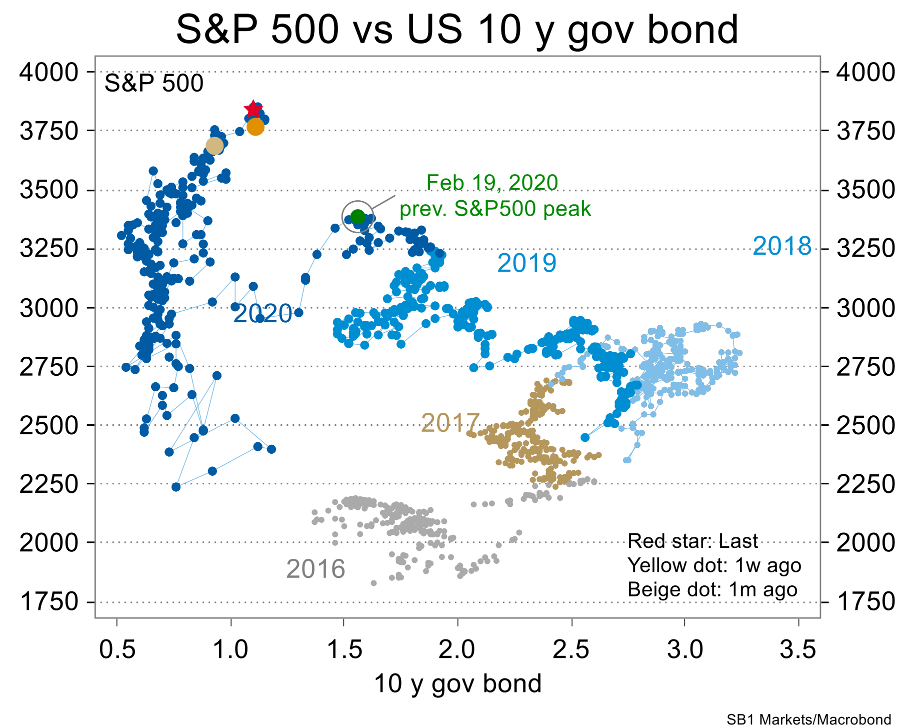


SpareBank 1 MARKETS

New S&P500 ATHs – without higher bond yields

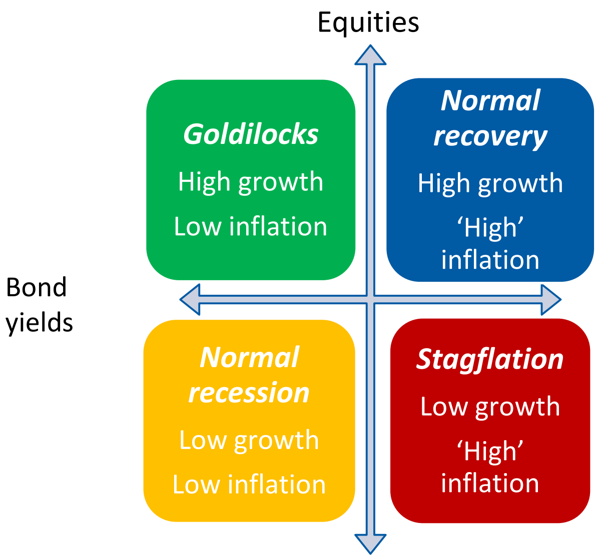
S&P 500 up 1.9%, the 10 y gov bond down 1 bps

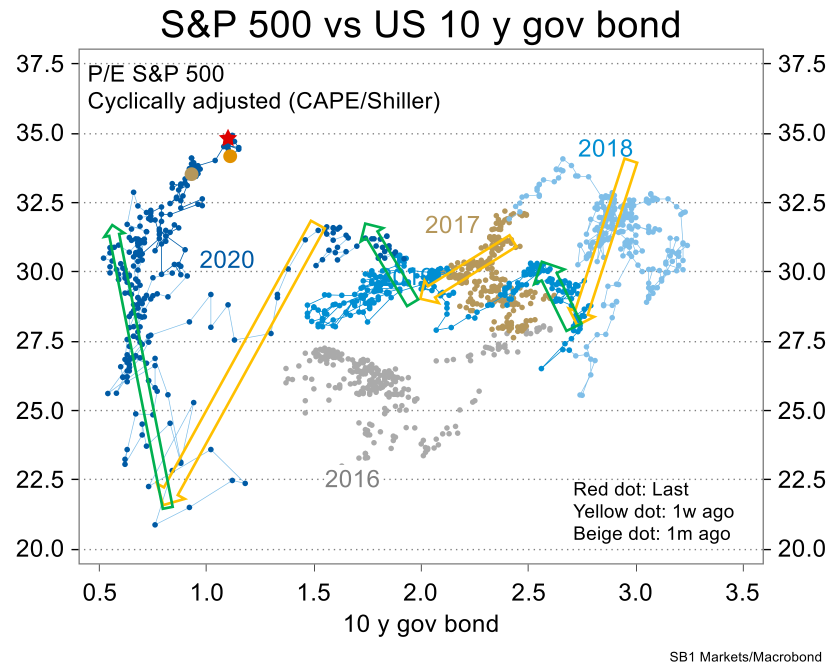




A long term view: From the ‘Goldilocks corner’, where to go?

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

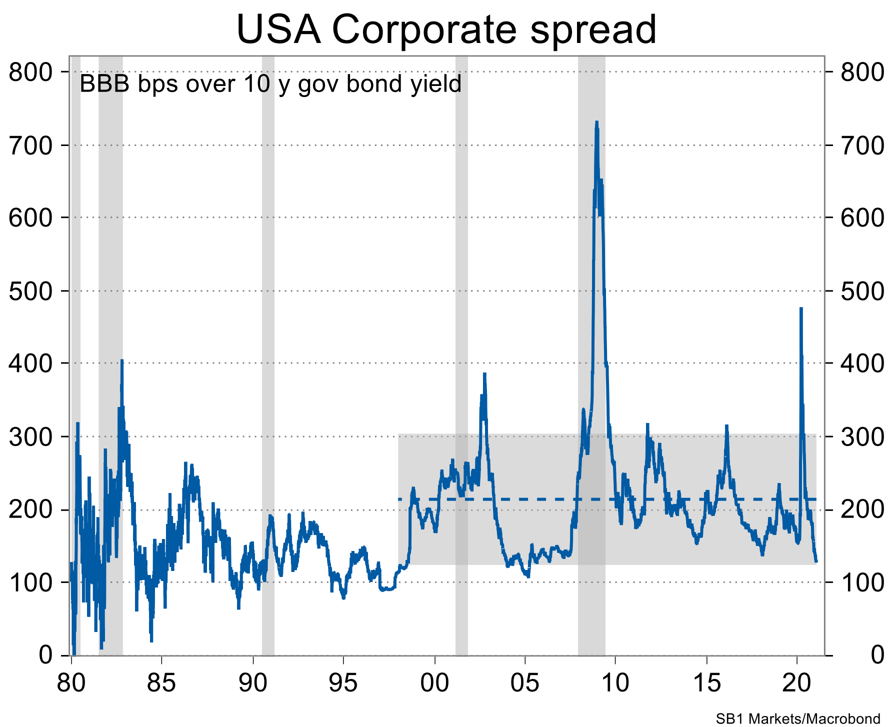


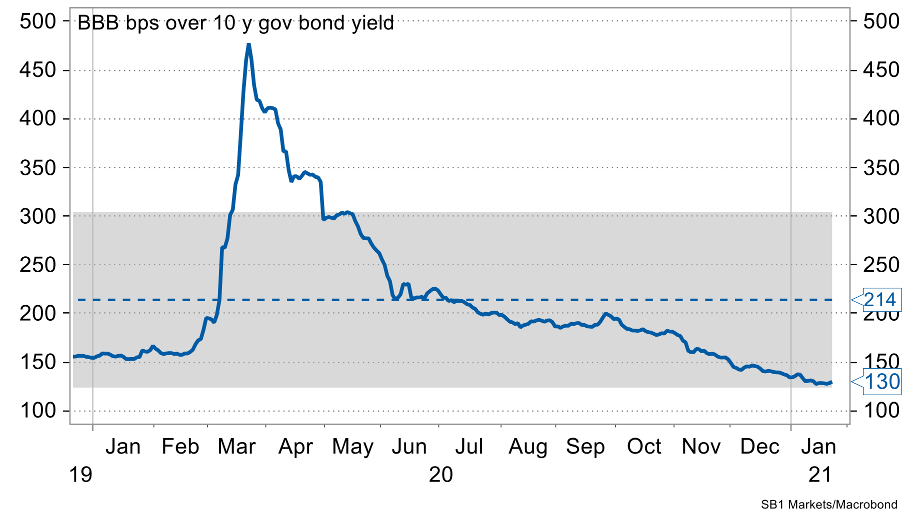


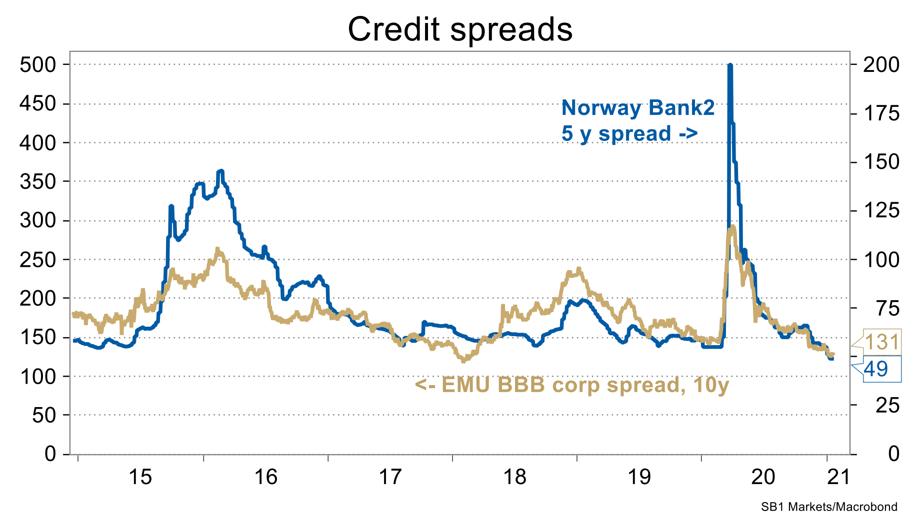
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 2% for 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 flattened last week – but the trend is straight down

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

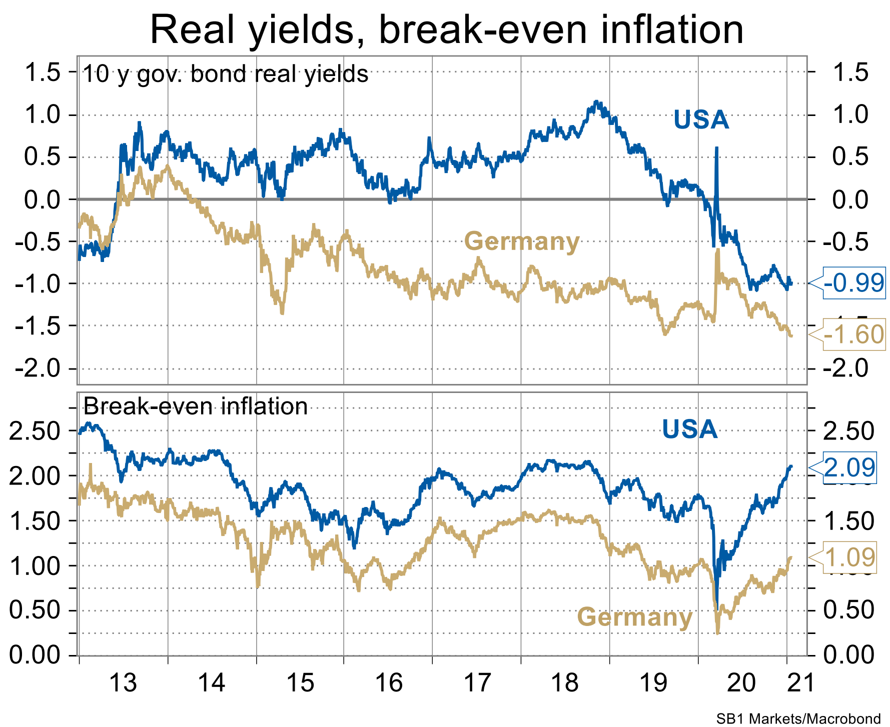


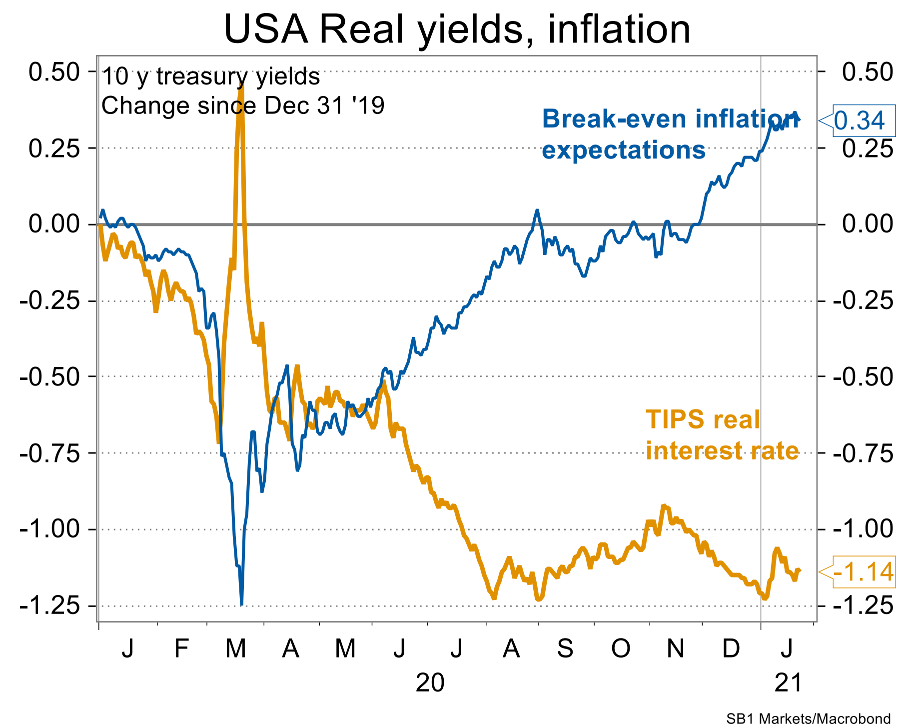




Does helicopter money bring back inflation? The market thinks so

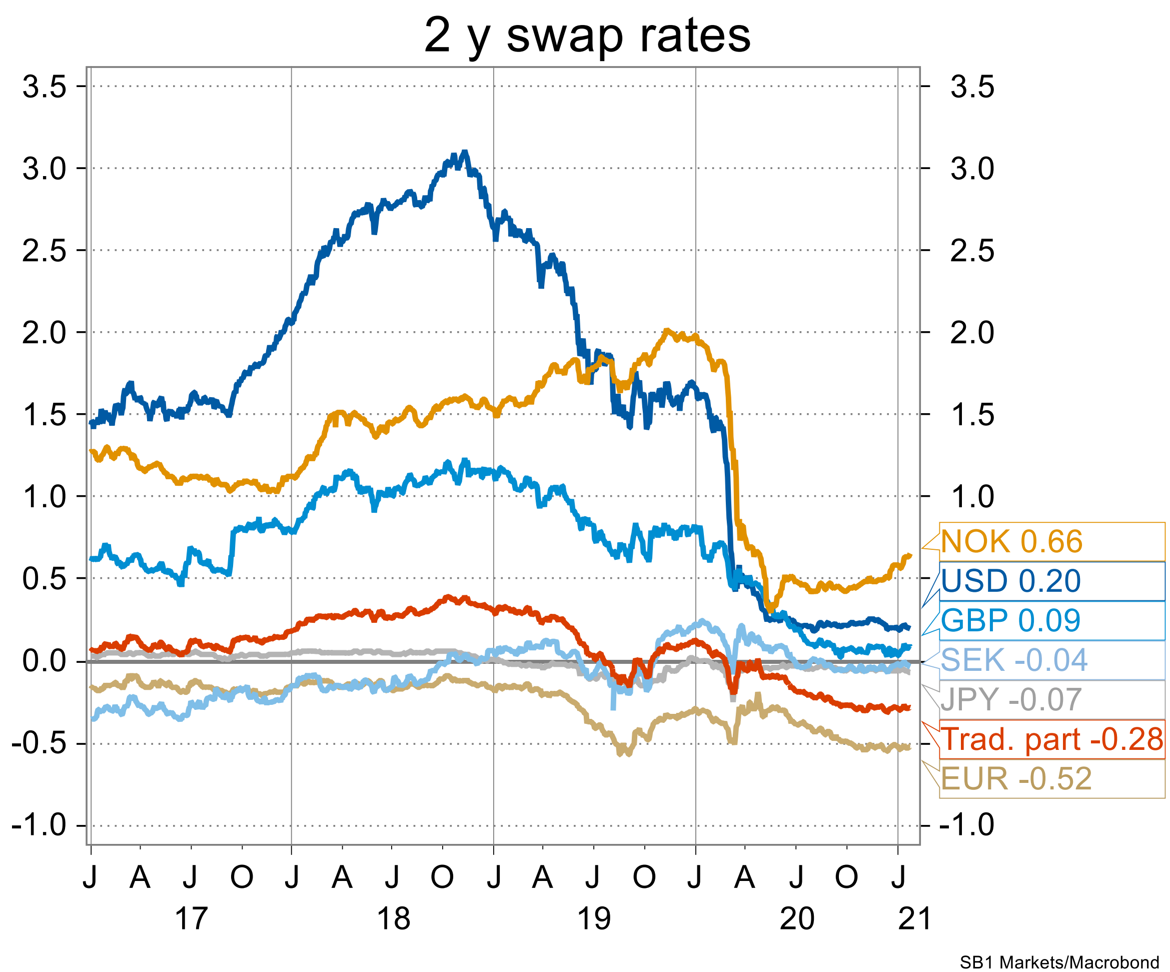
Inflations expectations kept are trending upwards but not further last week

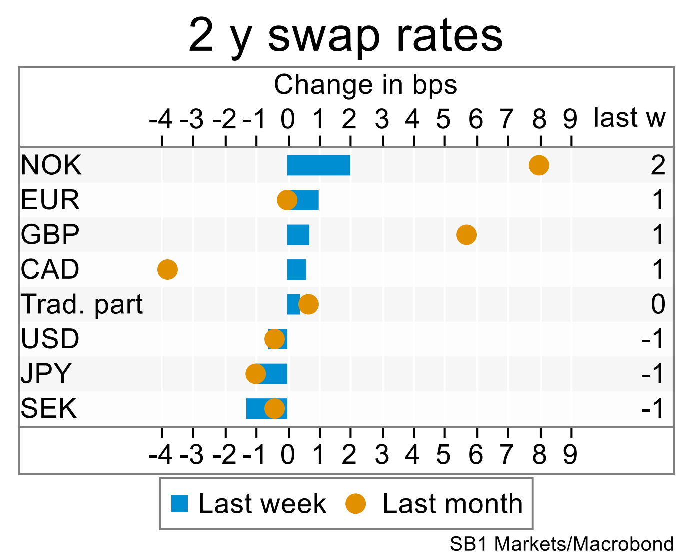




- **US 10 y <u>-1 bps</u>**
  - » Inflation expectations down 1 bps to 2.09% (but up 30 bps from late Nov) – and at the highest level since 2018
  - » The TIPS real rate unch at -0.99%. The level remains almost 1 pp below the pre-corona level (and 200 bps lower than in late 2018)
- **Germany 10y <u>+3 bps</u>**
  - » Inflation expectations up 2 bps to 1.09% over the past week
  - » Real rate up 1 bps -1.60%, close to ATL

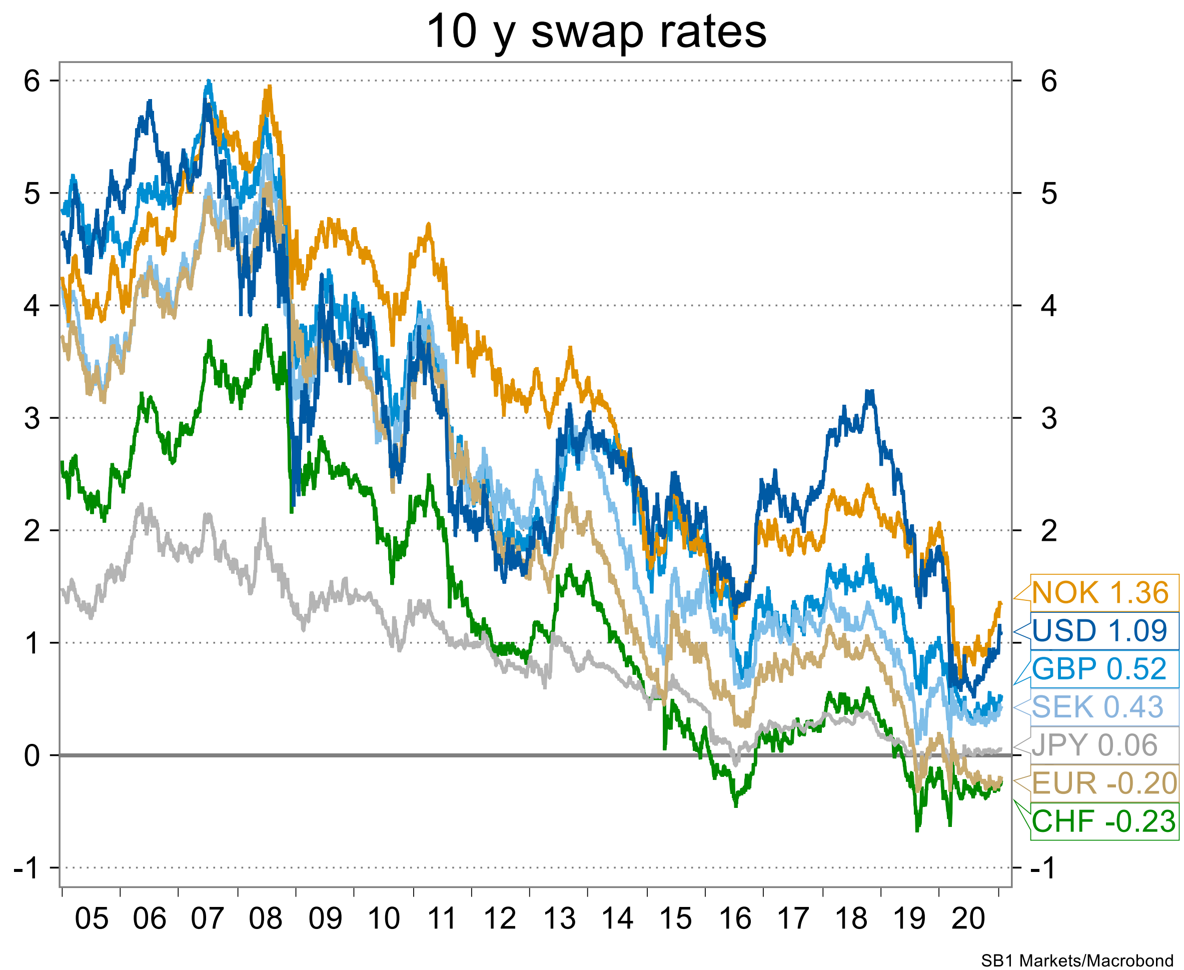
Short-term swap rate close to flat

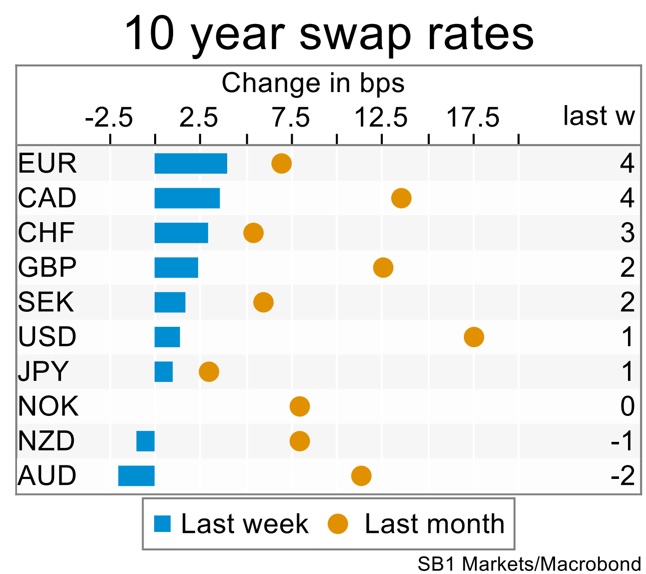




SpareBank 1 MARKETS

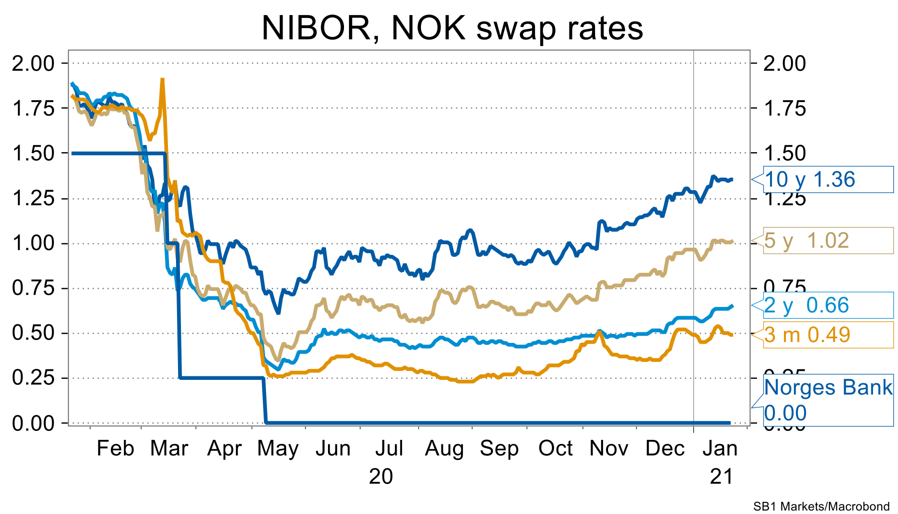
Most 10 y swap rates up last week – but not in Norway

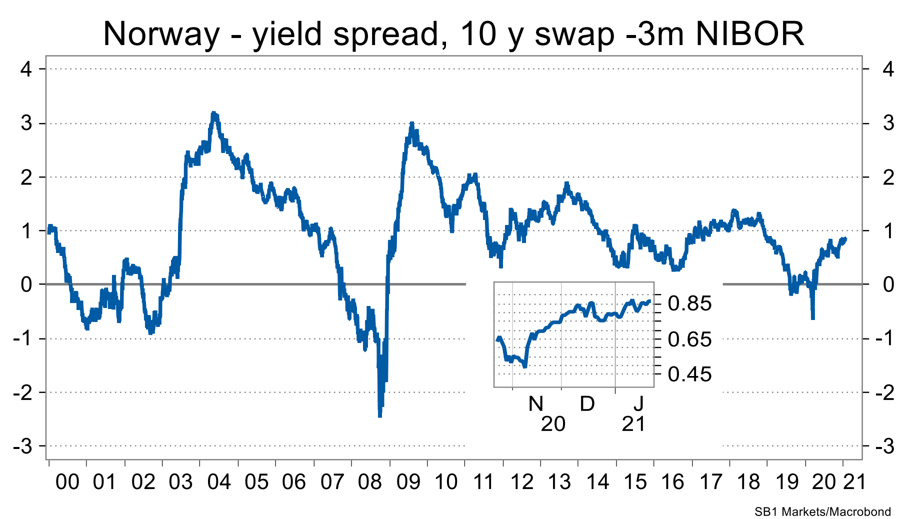


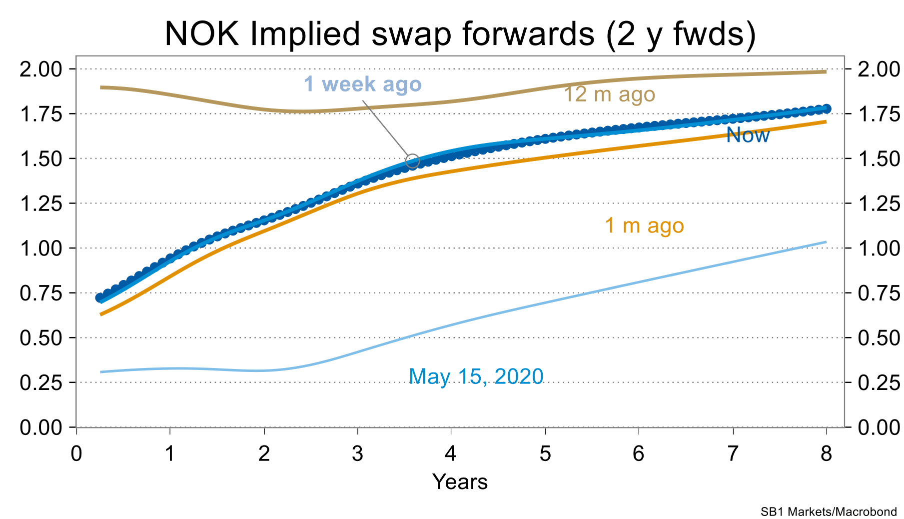


NOK swap curve close to unch last week

Still, the trend is upwards – after a significant lift – and steepening – since the spring

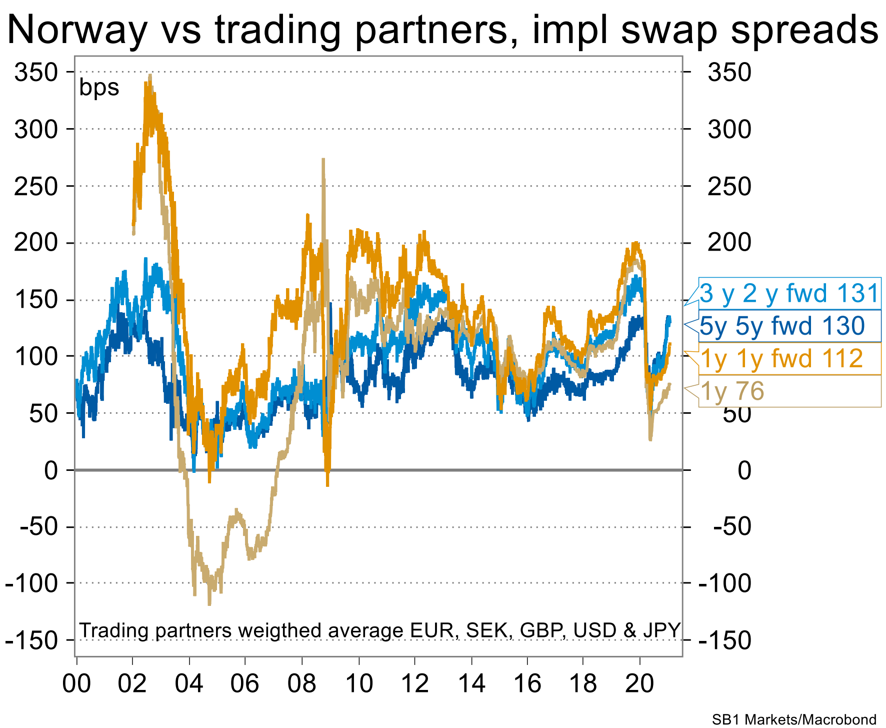


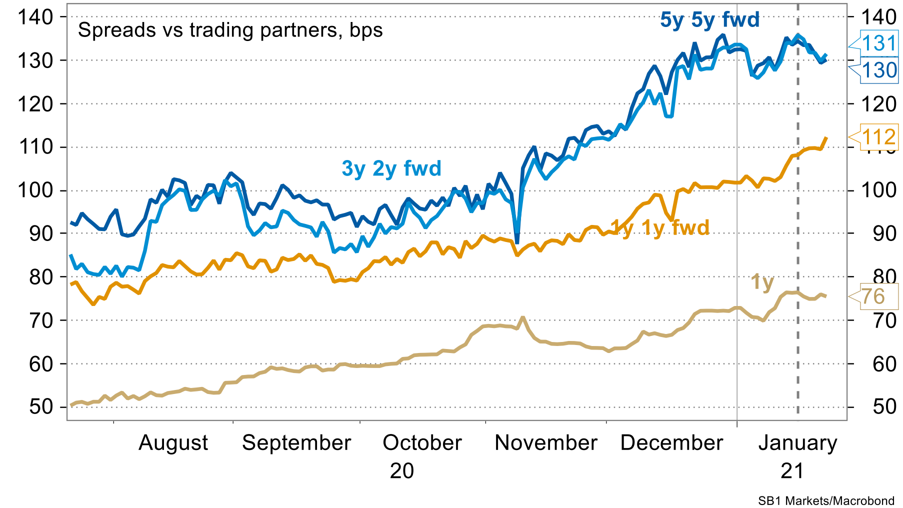


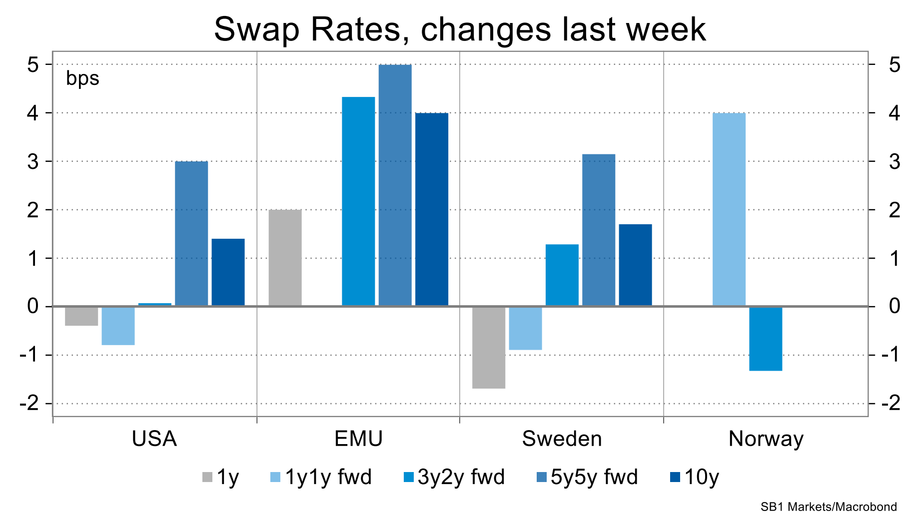


From 2 – 10y, the swap spread has flattened – at a rather high level

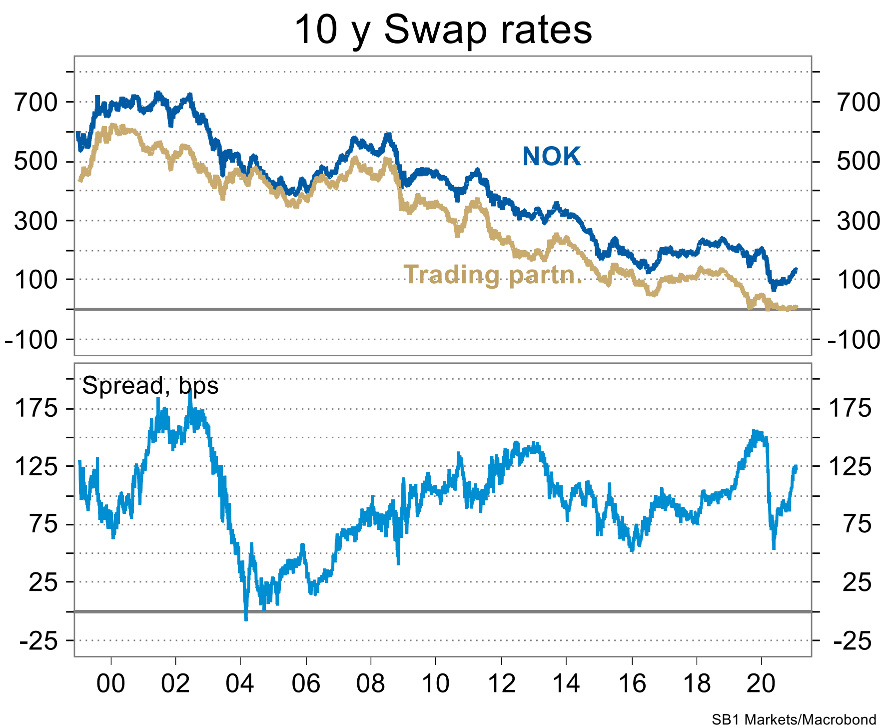
The 5y 5y fwd spread has reached the 'normal' peak level (130 bps). More to go in the short end?

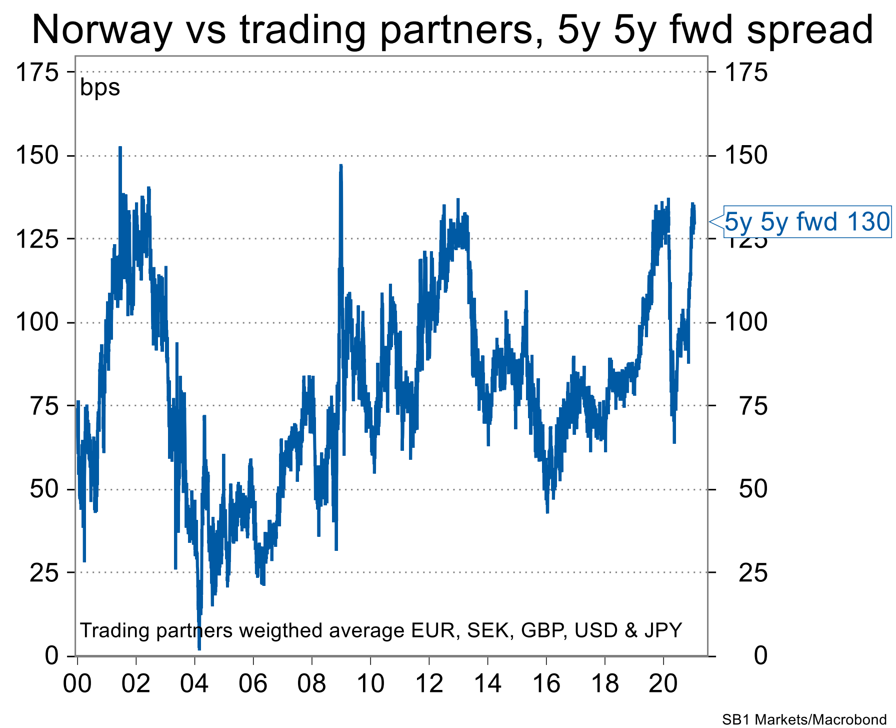






- It's tempting to weight against a further increase in implied spread at the second half of the curve (check the chart at the next page too)
- In the short end of the curve, spreads are still below previous peak level –and may well widen further

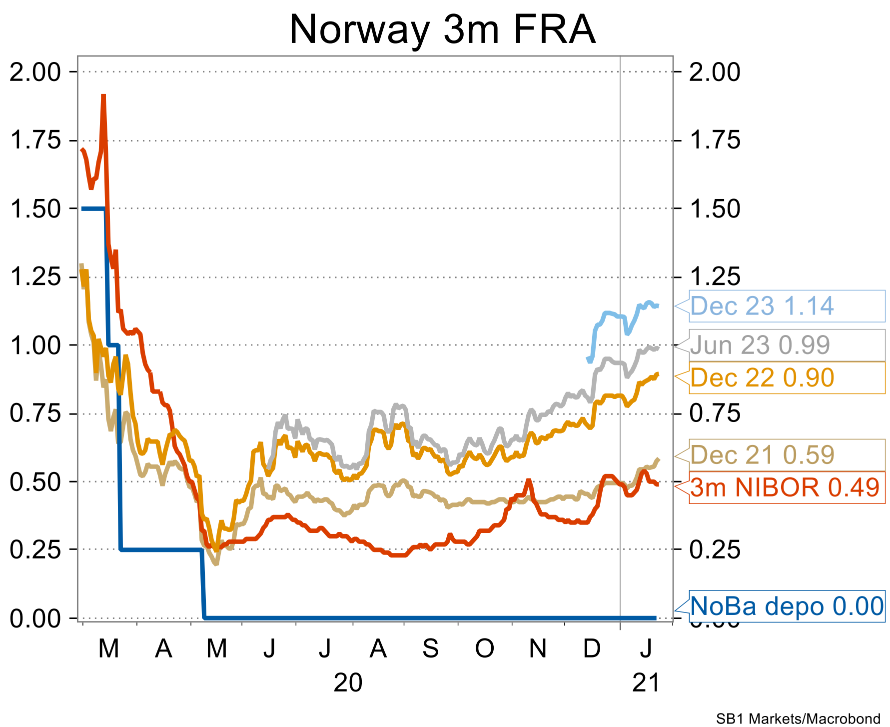

10 y Swap rates
NOK
Trading partn.
Spread, bps
700
500
300
100
-100
175
125
75
25
-25
00
02
04
06
08
10
12
14
16
18
20
SB1 Markets/Macrobond

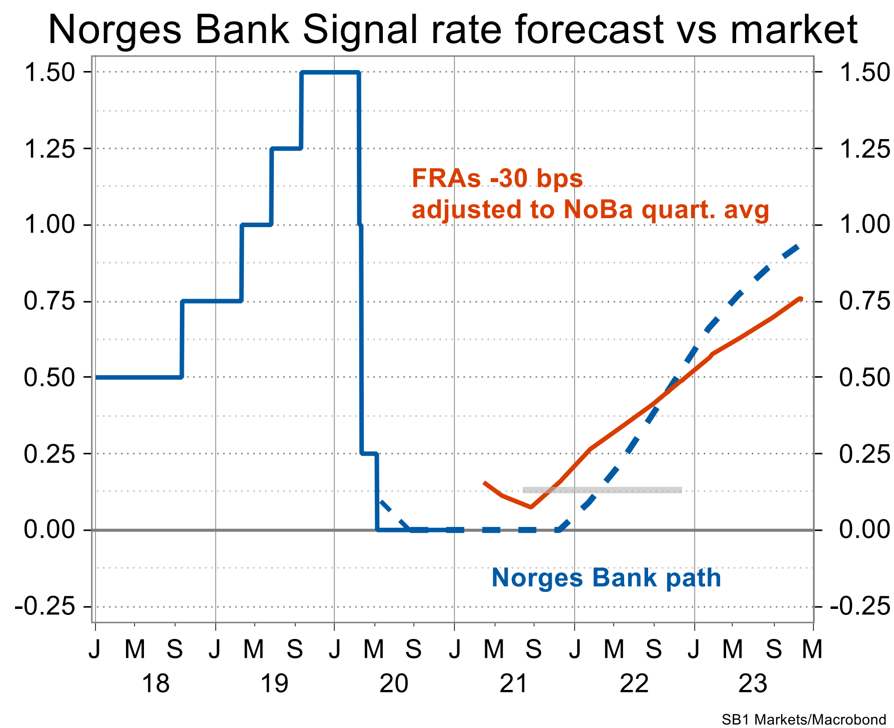

Norway vs trading partners, 5y 5y fwd spread
bps
5y 5y fwd 130
Trading partners weigthed average EUR, SEK, GBP, USD & JPY
175
150
125
100
75
50
25
0
00
02
04
06
08
10
12
14
16
18
20
SB1 Markets/Macrobond

SpareBank 1 MARKETS

3m NIBOR down but the FRA curve is steadily shifting upwards

Most likely, just bad virus/vaccine news will dampen rate expectations



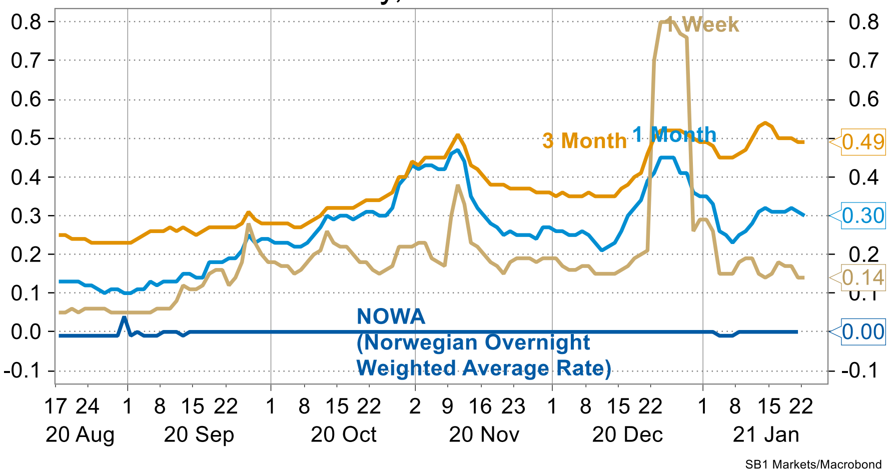


- The curve is above NoBa's path until late 2022 – if the expected NIBOR spread is at 30 bps
- In the short end, we know that the spread is close to 50 bps. The June 3m FRA at 0.37% (check chart next page) signals that the market expect the spread to narrow towards a 'normal' level. If so, from somewhere in 2021, the FRA path represents expectations for changes in NoBa's signal rate

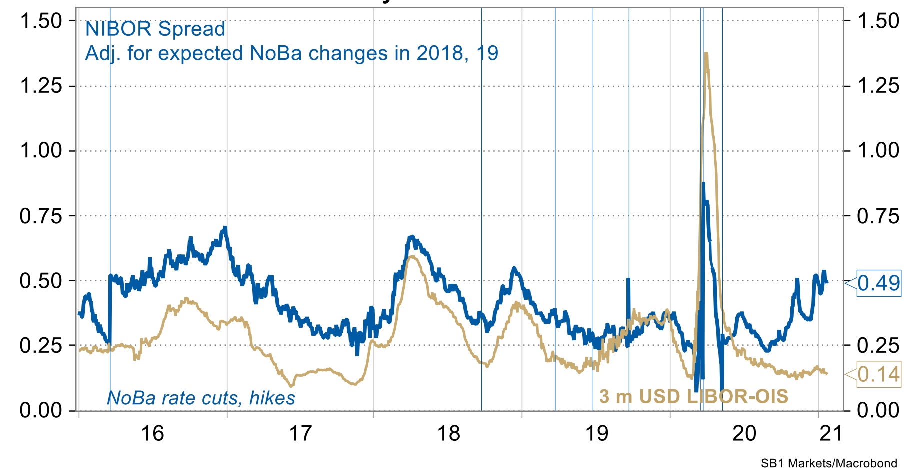
NIBOR rates sliding slowly down but the 3 m rate at 0.49% is still on the high side

The 3 m rate fell 4 bps last week

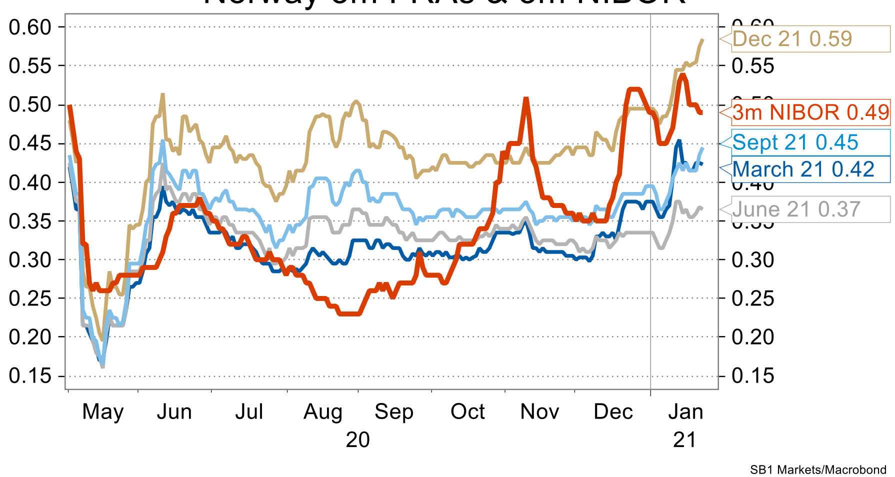
Norway, NIBOR rates



Money market friction



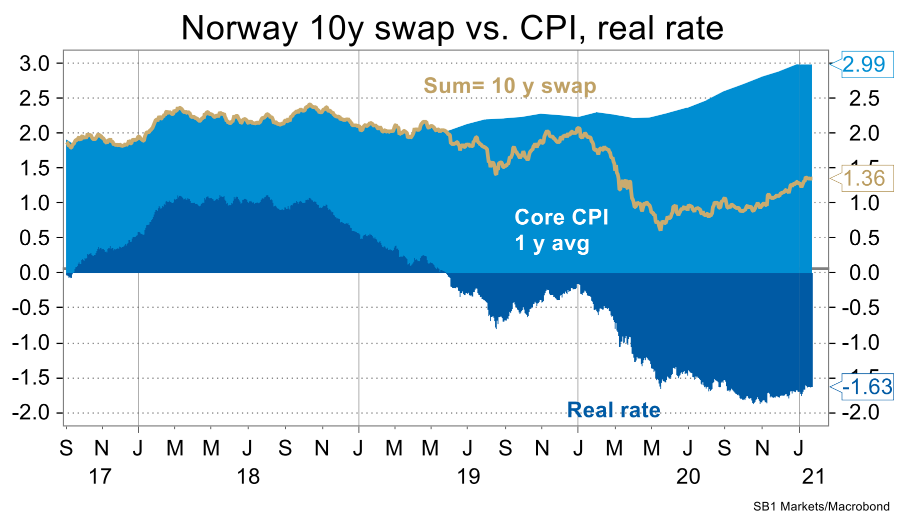
Norway 3m FRAs & 3m NIBOR



- The 3m NIBOR rate is still rather elevated, and even the **3m March FRA** at 0.42% (-1 bp) implying a much higher spread vs the signal rate than normal. **The June FRA** is at 0.37% (unch)
- 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 but we expect the bank will compensate for the 3m NOK 47 bn f-loan which expires Feb 10

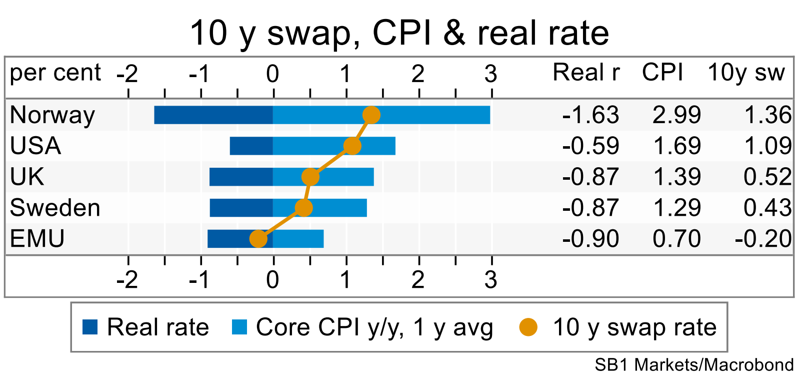
SpareBank 1 MARKETS

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%

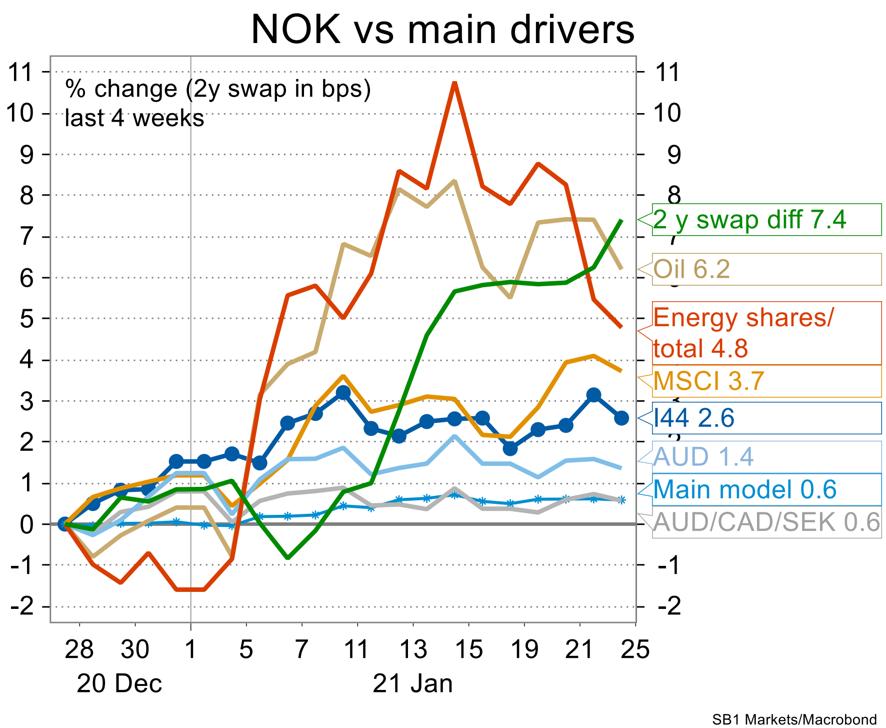


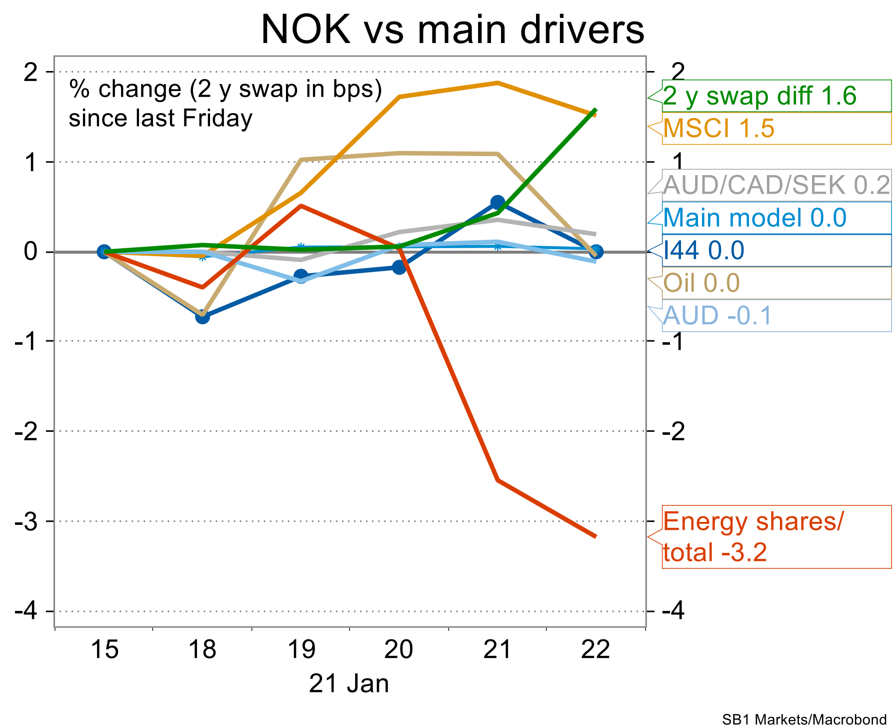
NOK real rates among the lowest, as inflation is at the top

- **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**

NOK flat last week, just as the model said. Oil & supercyclical f/x unch too

The oil price essentially flat since last week

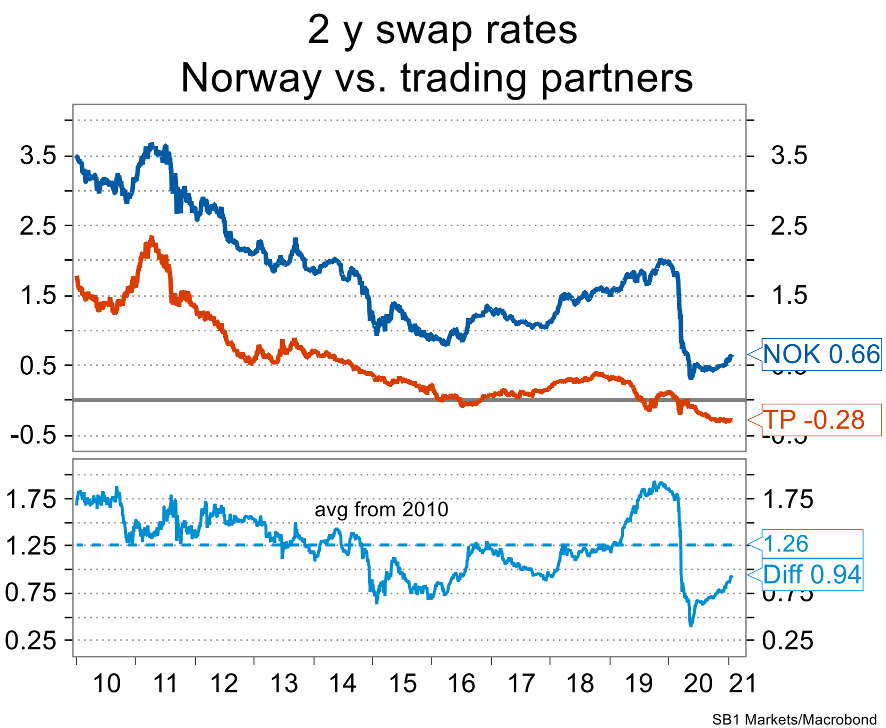


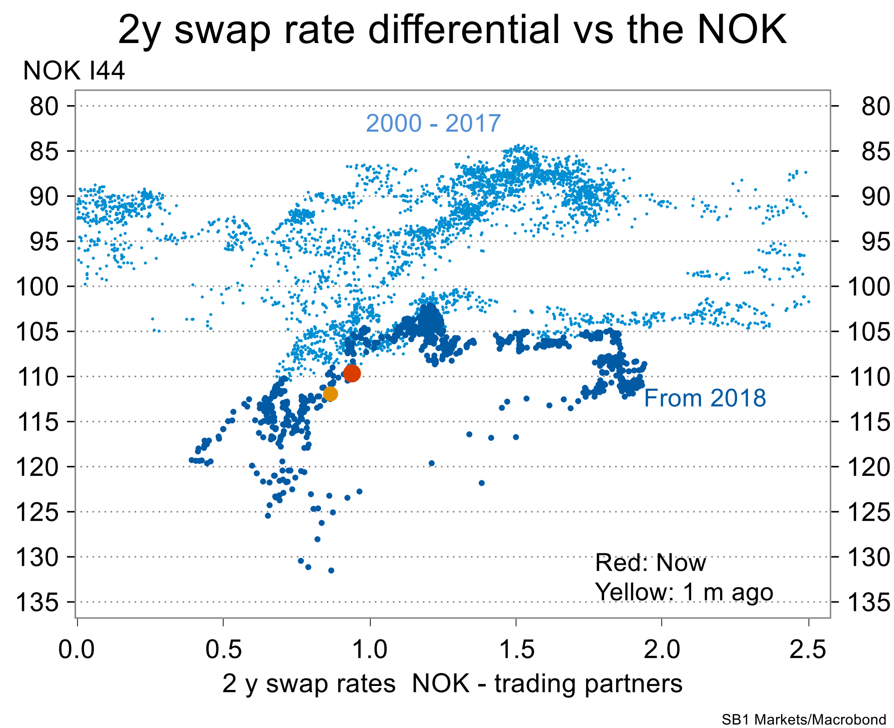


- The NOK is 1% weaker than suggested by our standard model
- The NOK is 5% 'weaker' than the global stock market vs the correlation between the two in 2020
- The NOK is 8% weaker than an average of AUD/CAD/SEK, our 'supercycle peers'
- On the other hand, the NOK is far (16%) stronger than a model which 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

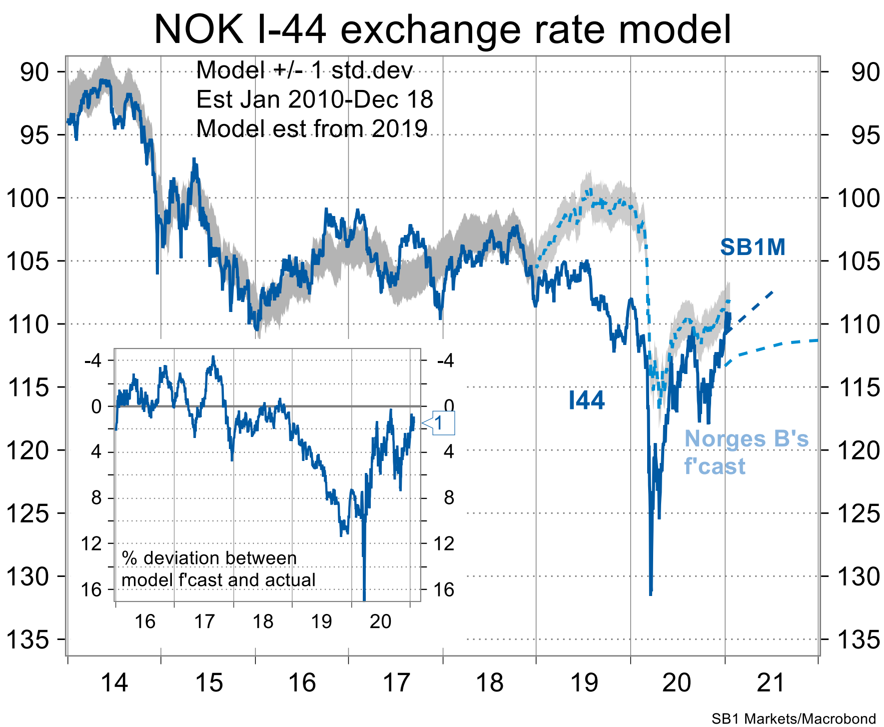


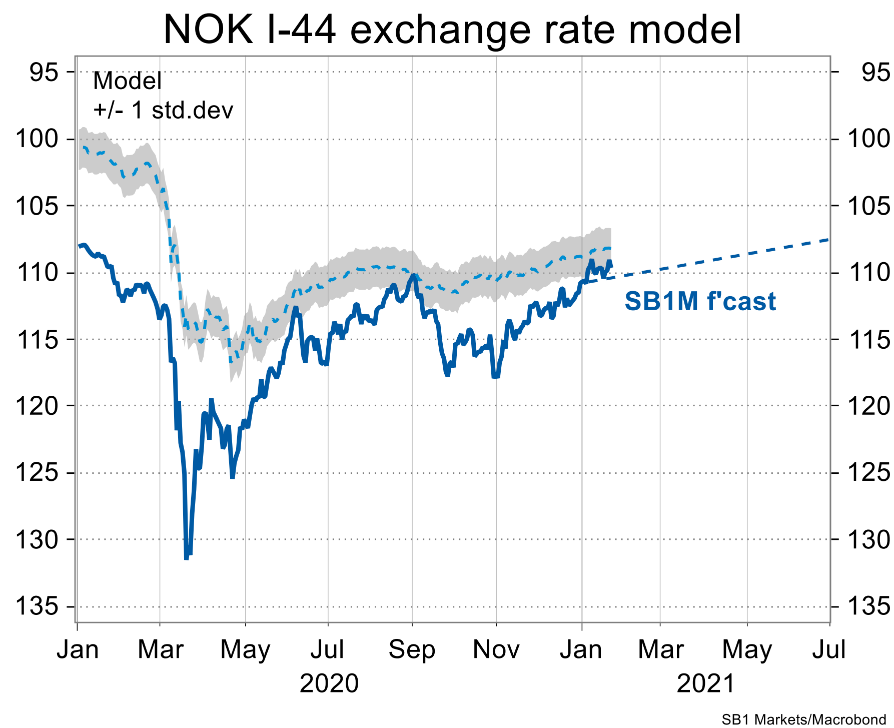


- However, the relationship is far from stable – and the oil price is usually much more important – and other factors are more important too, at least from time to time

NOK I44 unch last week, just what the model said

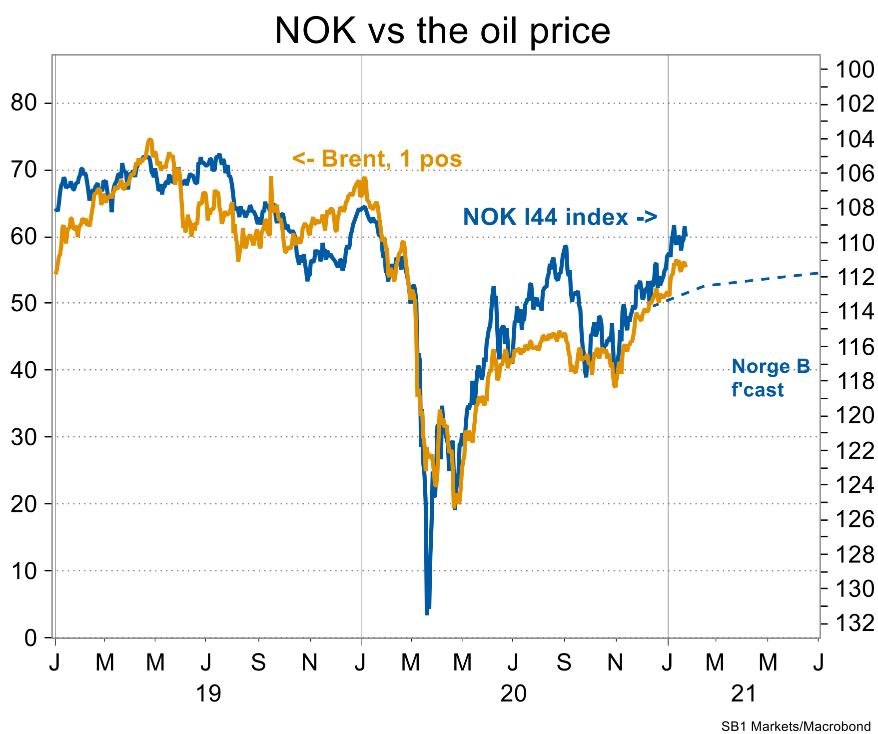
The NOK is just 1% below our model forecast

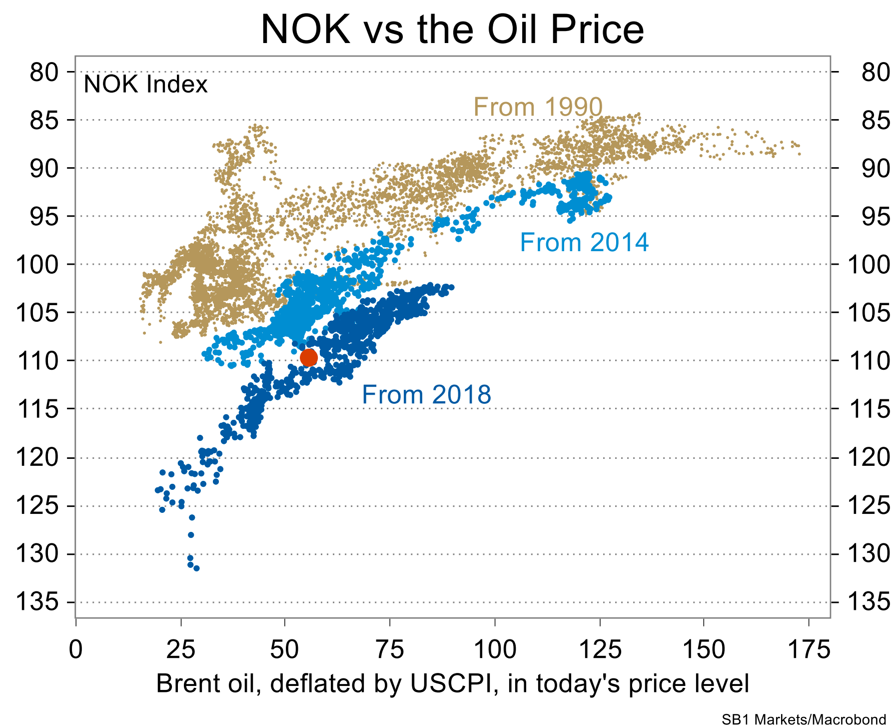




- The estimation period now includes 2018. The inclusion of the extra year did not change the model's forecasts significantly (well below 1%)

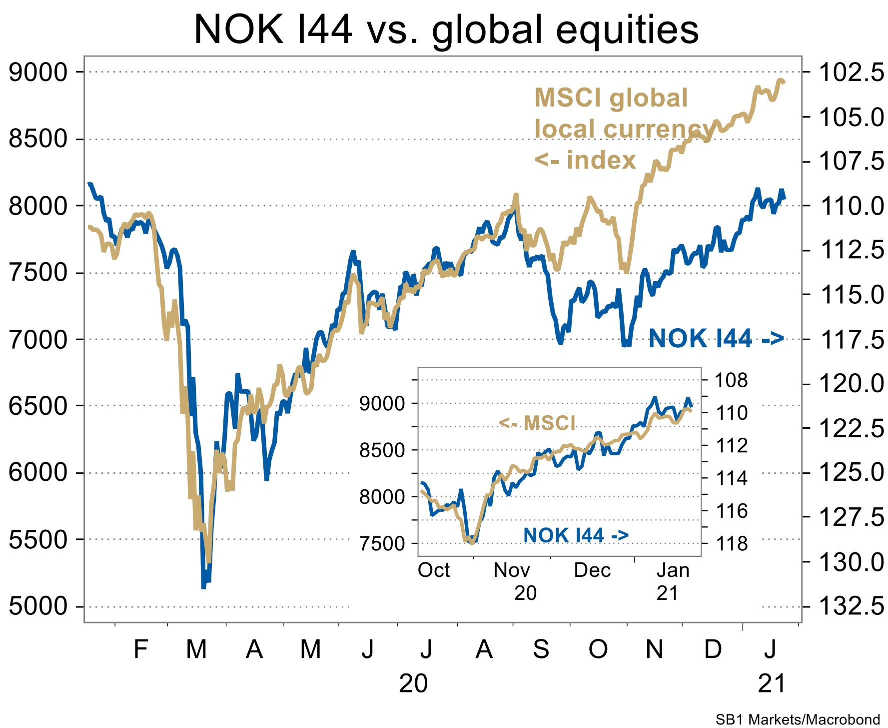
NOK up together with the oil price since November – both flat last week

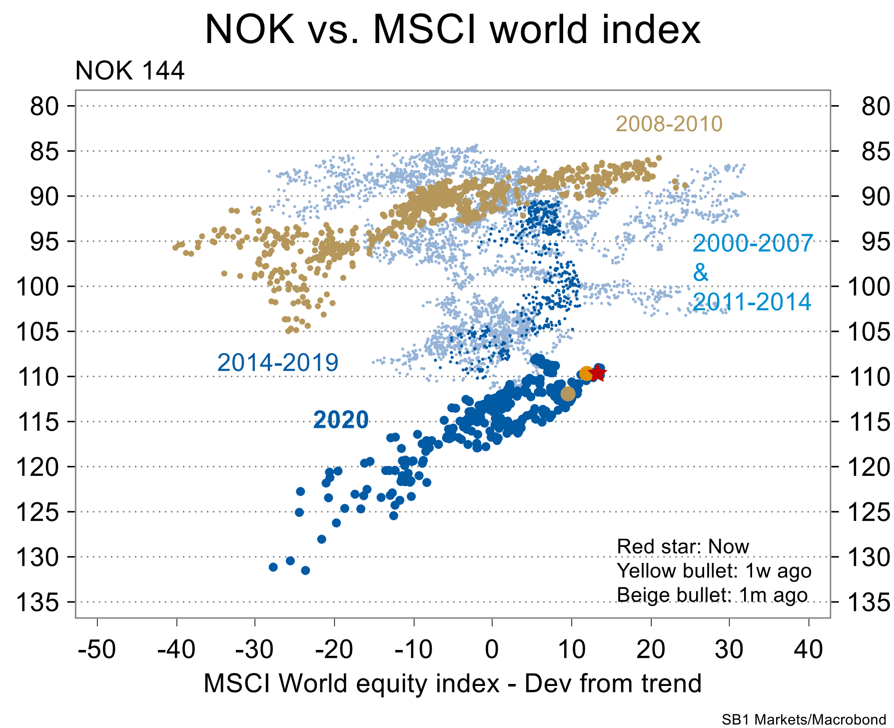




NOK & global equities flat; NOK still 5% 'behind' the stock market

Since Nov, NOK and global equities have walked upwards in tandem



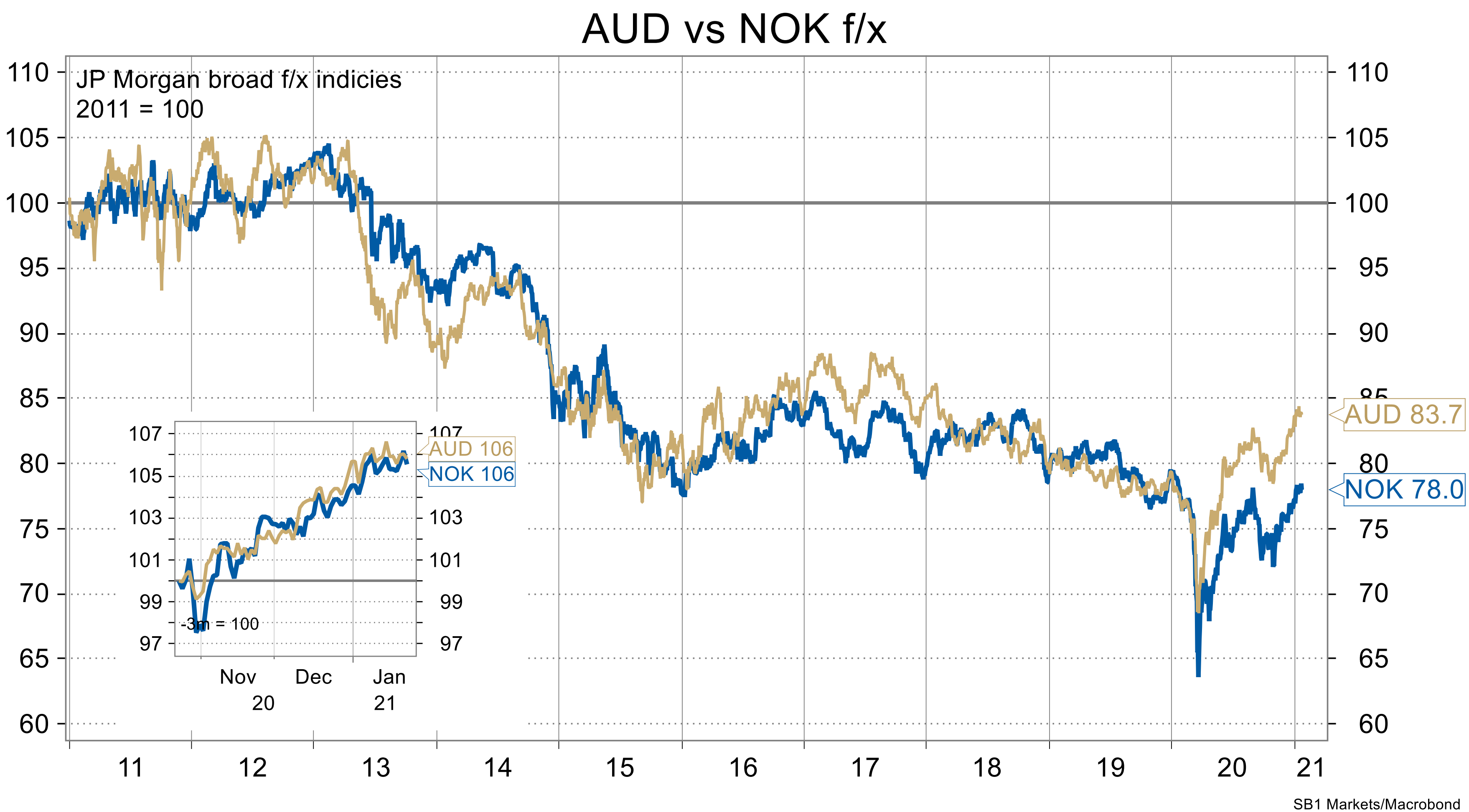


- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with pretty close correlation like we have seen since early 2020
  - » NOK has not been correlated to OSE/MSCI (which 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 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)

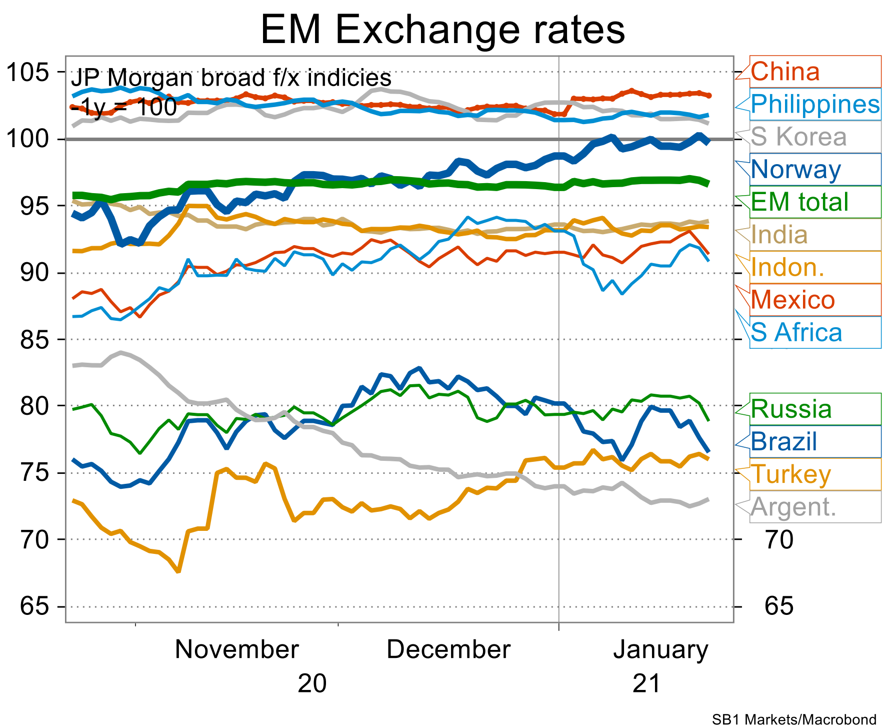
SpareBank 1 MARKETS

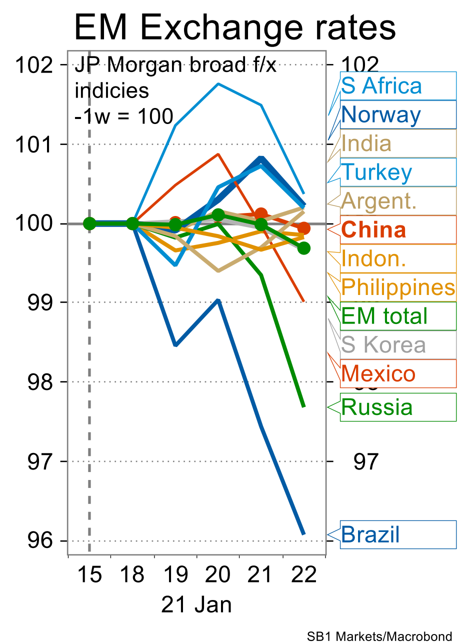
The brother in arms on the way up. Still, AUD has gained 7% on the NOK in '20

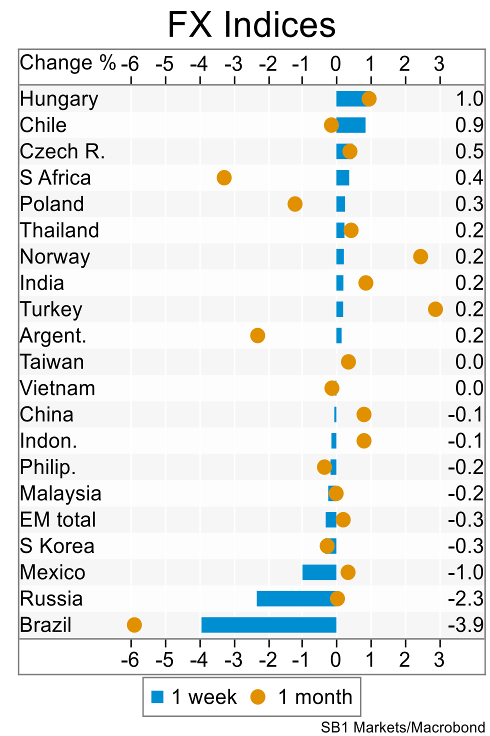
Fair? Not sure. The Aussies are having a clash with their largest trading partner (China)



EM f/x more down than up, Brazil last week's loser (and the prev. week's winner)







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.