1 February 2020

Macro Weekly

Week 5/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

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'I can calculate the movement of stars, but not the madness of men'

Isaac Newton may have written, post losing his lifetime savings in the South Sea bubble collapse (1721)

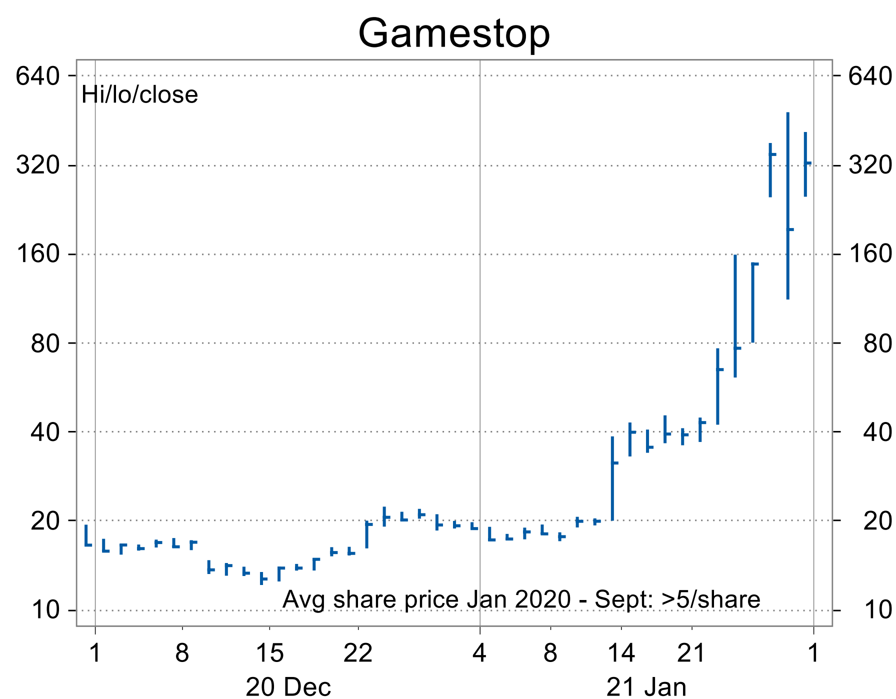
Another word of wisdom:

When the capital development of a country becomes a by-product of a casino, the job is likely to be ill-done, J.M Keynes, 1935.

He probably did not say (it was more likely A. Gary Shilling, in 1984) '*The market can stay irrational longer than you can stay solvent*', but anyway it is a good quote for some, these days

» Keynes BTW is said to have been a clever, risk loving investor, beating the stock market by 7 p.a over 20 years

- Hopefully, 'the madness of the men' is not able to devastate the market place for that many 'real' companies



SB1 Markets/Macrobond

Last week 1: New cases still on the way down most places, some good vaccine news

- **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,** even if the mutant has taken a large market share both places. We estimate an 'R^{mut}' (for the mutated virus) to approx. 0.8 both places, assuming the mutant is 1.5x higher than the original. If so, mobility in UK and Ireland is lower than needed long term now
- **The no. of new cases is falling in a large majority of countries too**, including Norway (and the other Scandics). US is reporting an encouraging decline too. However, in most countries where few mutated viruses so far have been found, the 'R's are too high to handle a mutant virus. We will need to behave as we had to get the $R^{org} < 0.66$ to prevent a health crisis with the new virus onboard – at least until vaccines have arrived in substantial quantities. Portugal is struggling hard now, while the no. of cases in Spain may have peaked
- **The mutated versions of the virus** is turning up more places in other countries as well. It seems likely that these mutants will gain the upper hand on the virus markets
- **Norway is trying to curb several outbreaks of the mutated virus** with local, partial lockdowns. Parts of retail trade has been closed down in an area covering 27% of the population in and around the Greater Oslo area. In parts of this region, restrictions are eased somewhat, while several other municipalities/towns will be included. We estimate a 1% drop in Norwegian GDP as long as this lockdown lasts –hopefully for not too many weeks
- **Some good vaccine news**: AstraZeneca is authorised by EU (but unfortunately the company does not have the capacity to deliver according to plan, as was announced the previous week – however some few doses were added yesterday). Johnson & Johnson has announced quite positive trial results but it will take weeks before the vaccine eventually is authorised. This one-shot vaccine can be produced in large quantities but it is not included in Norwegian authorities' roll out plans (and we doubt the likely double delivery from Pfizer from March/April is included in the forecast. So, some positive news are possible the coming weeks/months)
- **The pace of vaccinations** has gained pace in both the US and even more the UK, and they are ahead of other European countries (though both are well behind Israel). Norway continues to be the laggard. We still assume that distribution will not be a bottleneck when larger quantities arrives the coming months
- **The real challenge remains: A substantial degree of social distancing and discipline will be needed to keep the virus in check the coming months, before vaccines arrives in large quantities.** 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. In addition, the death rate should decline during the coming weeks as the old'ies are getting vaccinated (but hospitals will still have a problem if too many others are infected, as younger patients are also a being hospitalised)

Last week 2: The economy

- **The Chinese PMIs** surprised on the downside but is still signalling growth above trend, especially in manufacturing. Other **Asian PMIs** were more up than down
- The **Federal Reserve** left rates, the QE program, and the forward guidance unchanged – all as expected. Powell once more sounded dovish, he repeated that he is not even thinking about changing expansionary policy (and he does not need to say "before the economy recovers when the virus is under control"). **GDP** grew 1% (4% annualised) in Q4, a tad lower than expected as consumption slowed more than expected. Investments continued upwards, while net exports reduced growth by 0.5 pp (2pp annualised). Domestic **corporate profits** most likely fell sharply due to less government support. **Production of goods** is up, **services** sharply down vs Q4 last year – and the total GDP was down 2.5%. **Private consumption** fell in both Nov & Dec, while **income** grew in Dec, and the **savings rate** rose almost 1 pp to 13.7%. Last year the savings rate rose by 9% to 16%. <u>A 'wall of money' is waiting to be spent</u>. **Housing data** are still strong, and **house prices** are rising faster (than almost) ever before. **Durable orders** rose further in Dec, and **core investment orders** are 8% higher than in early 2020 – and are <u>up 3% in 2020 vs. 2019</u>!! **Investment surveys** signals further growth
- In the **Euro Zone Q4 GDP** was better than expected in both **Germany, France & Spain**. Some weeks ago, a 3-4% contraction was expected in the EMU, now -0.5% (2% annualised) seems more likely. Still, GDP fell, and Q1 did not start well everywhere and surveys signal a continued, albeit moderate, decline in activity. On a positive note, **French retail sales** recovered sharply in December, and outcome for the region will probably be better than expected. **Household borrowing** is better than in several years, and **corporate borrowing** is crawling upwards too
- **In Japan**, both **manufacturing production and retail sales** fell more than expected in Dec
- **Swedish retail sales** fell by 5% in December, and the level is not impressive (flat vs pre corona). However, sales were strong in Oct & Nov, and Q4 was up almost 1% q/q, and 3.3% y/y – <u>to the best quarter ever</u>! Both **consumer & business confidence** rose in Jan, and the latter suggest a 2 ½ - 3% GDP growth pace in Q1. **Employment** is on the way up, but still down 1.2% y/y
- **Norwegian retail sales** fell by 5.7% in Dec (we expected just -2%). However, given the 2.9% lift in November, Nov/Dec was in line with Oct, and sales were flat q/q, following the almost 9% surge in Q3 – and <u>Q4 sales were up 11% y/y</u>! Total consumption of goods even better due to an incredible ATH in auto sales in Dec. Both hotel guest nights and airline traffic rose m/m in Dec, but levels are of course low. The **partial lockdown** in the Oslo/South East region might shave a couple of tenths from GDP in Jan and Feb, mostly due to lower retail sales. **NAV unemployment** rose less than we expected in January, and if partially unemployed are included, unemployment fell back to the same level as in Oct (seas adj., our est)! The number of **new vacancies** were at the same high level as in Jan last year. The LFS (AKU) unemployment surprisingly fell to 5.0% in Nov, and employment is down just 0.9% y/y (but some furloughed workers are counted as employed). **Credit growth** (C2) accelerated y/y in Dec, to 4.8%, and the underlying growth is even higher. Still, no signs of a take-off in credit growth! Households increased their debt less than we expected m/m, following a record high growth in Nov (in NOK, not %). And last but not least, the **Government proposed another stimulus package**, equalling 0.5% of GDP, after the extra support equalling 1% of GDP decided last autumn, on tot of the Government's Oct. budget proposal. Most support programs are continued. The structural, non-oil deficit at 10.9% is 1.1pp higher then the long term spending rule yields (or 3.3% of the Oil fund's value – but the discrepancy vs. budget rules is smaller than in almost all rich countries

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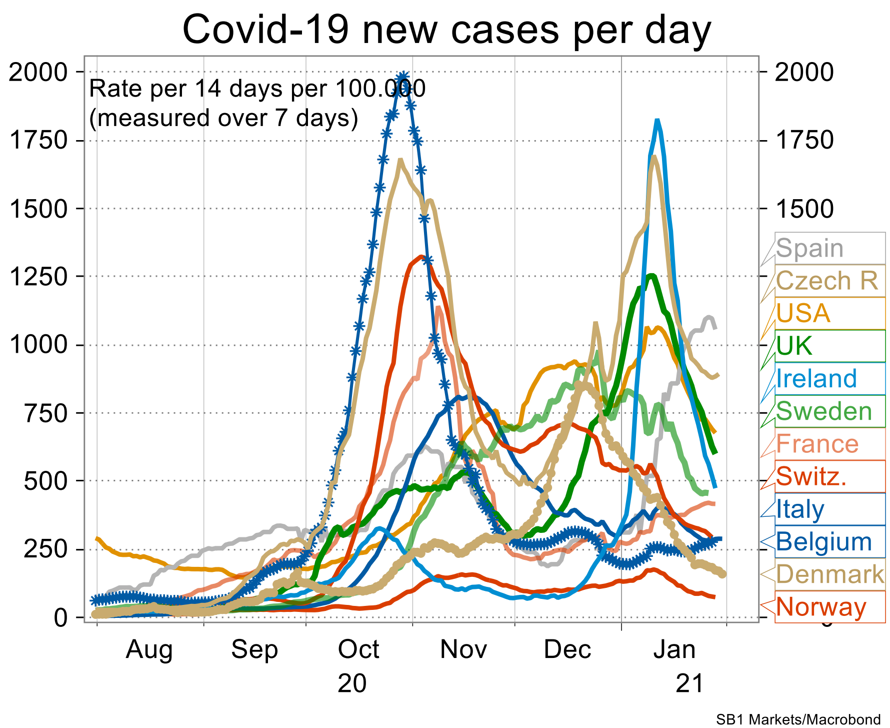
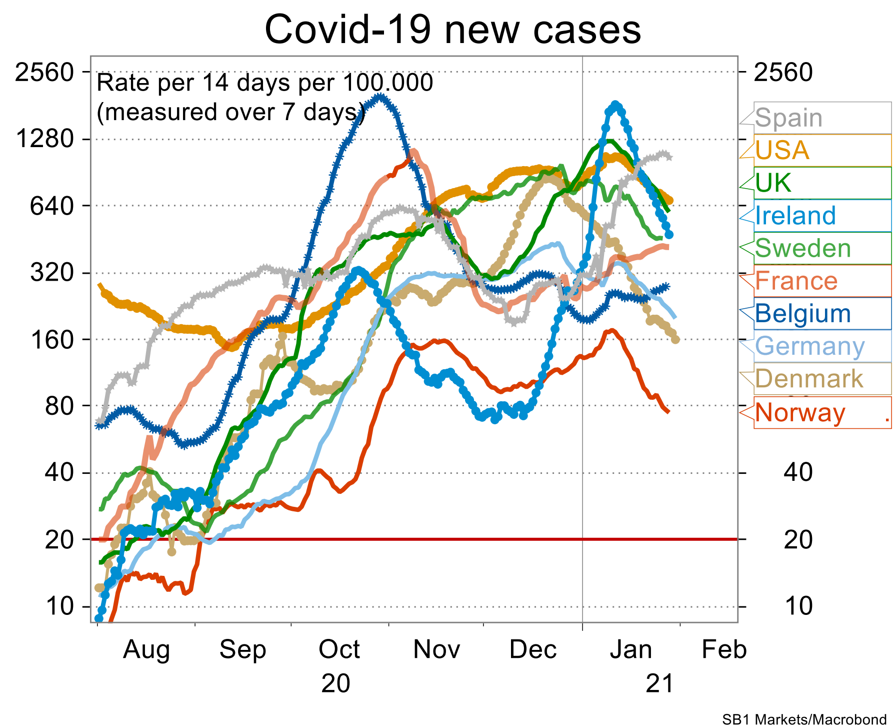
UK, Ireland still rapidly on the way down, even with the mutant onboard

The 'R's are below 1 most places, even in Spain last week. France, Belgium (at Portugal) on the way up





- The virus cycles as dramatic, and normally very short. Most countries are reporting fewer cases (our 56 country check at next page!)
  - » Cases are falling rapidly in UK and Ireland, even if the mutated virus is reported to have taken substantial market shares. Most likely, mobility can be increased substantially vs. the present level without bringing the R for the mutated virus to above 1. See more next page.
- The no. of cases is falling rapidly in Norway & Denmark – but the risk for the mutated virus has kept authorities on high alert
- Some few countries are reporting more new cases. France will have to tighten regulations quite soon, Belgium can still afford to wait. The mutant is very likely gaining market shares here – and mobility has returned to (too) high levels

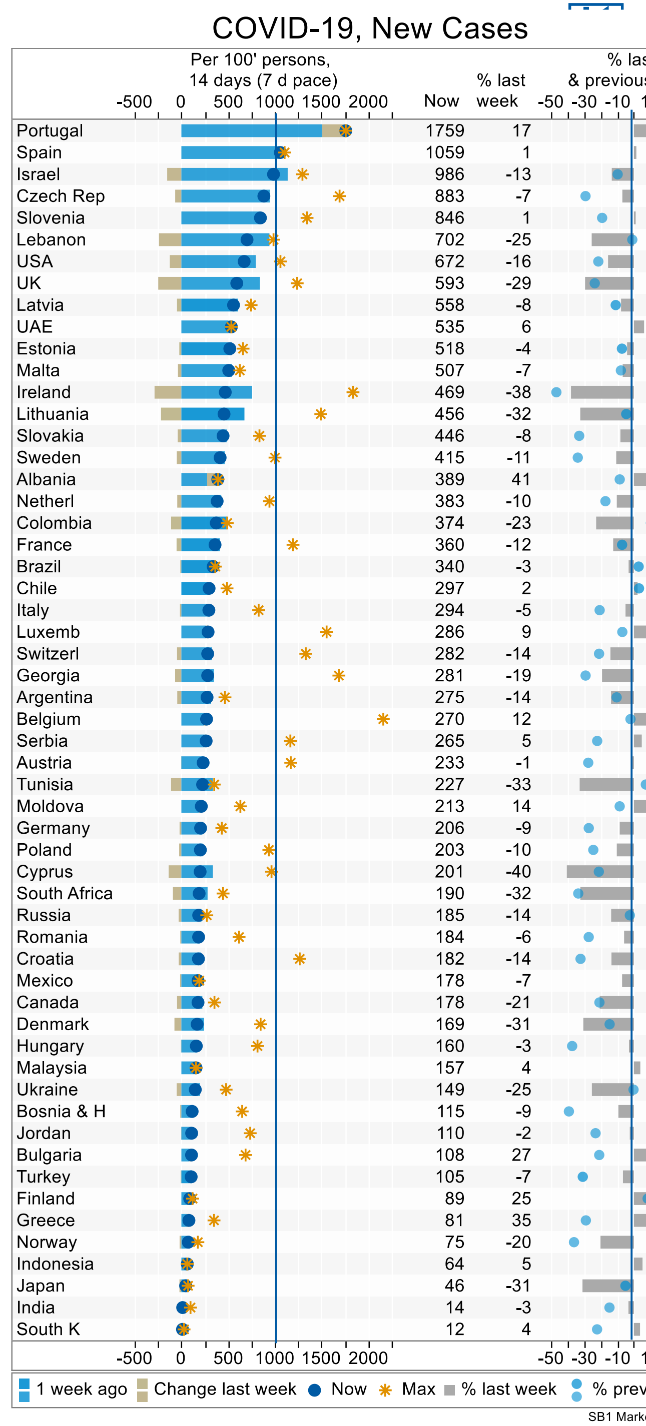
The list (ex countries with few reported new cases)

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

- 11 of 56 reported more new cases last week, like last week
- 35 of 56 reported fewer new cases, down from 40 last week
- More importantly, just 3 of the top 20 countries (cases per person), reported more new cases last week, 15 are reporting fewer cases
- The no. of cases in Ireland (-38%) and the UK (-29%) are falling rapidly. So are the no. of cases in Italy and the US.
- Portugal is struggling, with a continued growth, at the top of the list, but growth is slowing (compare blue bulled with grey bar to the right at the chart)
- Spain reports a flattening of the no. of new cases
- Israel has finally peaked – at a high level, with almost 50% of the population vaccinated (but 'just' 30% probably immunised, it takes a couple of weeks before the vaccine is working)
- Sweden(-11%), Denmark (-31%) & Norway (-20%) on the way down too

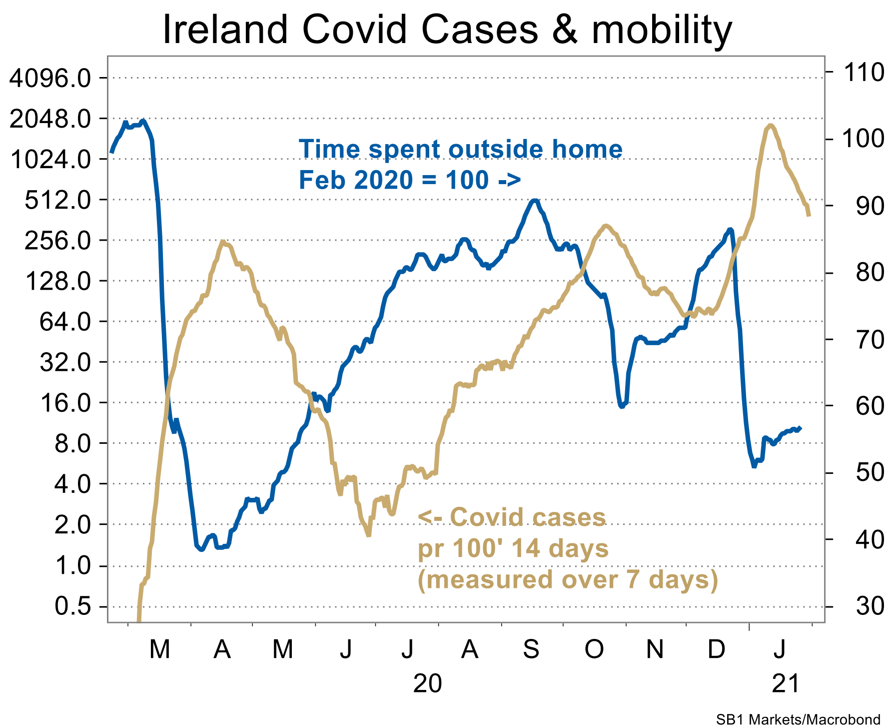
What about the mutant?

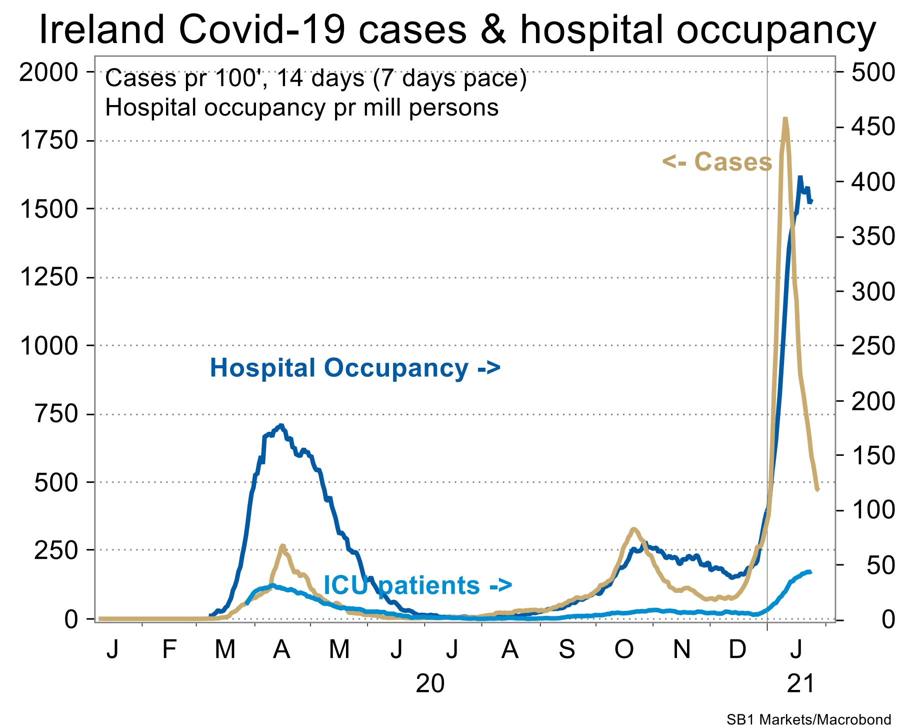
- If the mutated virus is 1.5 x more infectious than the original virus, countries must behave is if they should deliver an 'R^{org}' at 0.67, that is measured vs. the original virus (yielding 'R^{mut} at 1). That equals a decline at 40% per week, before the mutant arrives
- UK and Ireland now report a 29% and 38% decline in new cases, even if the mutated virus is reported to have gained a 70 - 80% share of cases in UK and 60-70% in Ireland. If these 'market shares' are correct, the R^{org} equals less than 0.6 in both UK and Ireland, and the R^{mut} at some 0.8 both places.
  - » That's somewhat good news, activity can increase substantially from the present levels without creating a health crisis (even before the vaccines arrives)



Even a mutant can be beaten down; the Irish 'R' from 2.5 to 0.64! $R^{mut.}$ at <0.8?

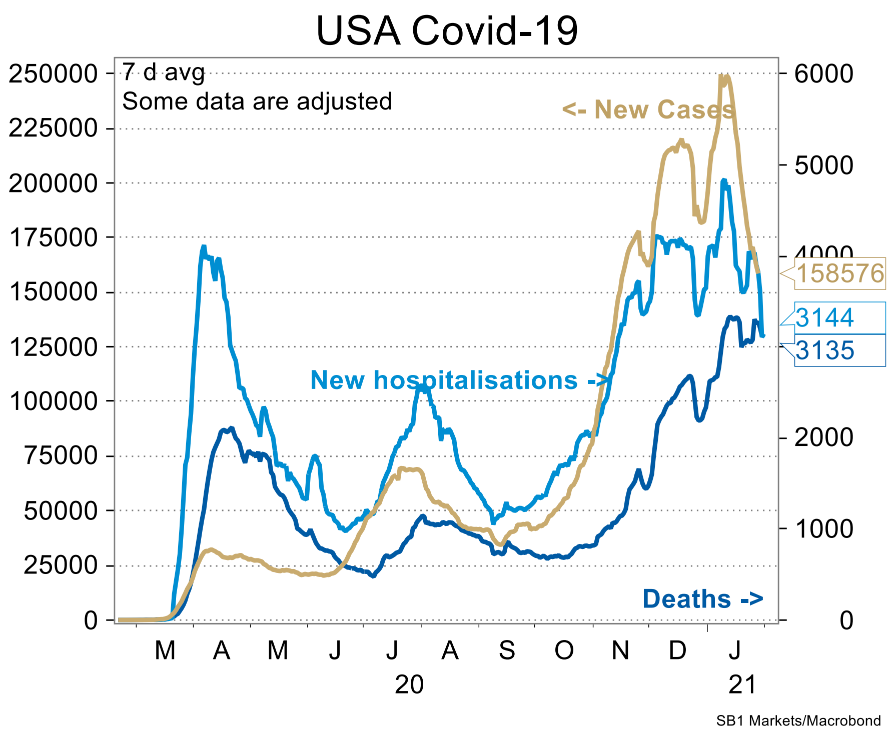
The no. of cases is still falling almost 40% per week, even with the mutant around

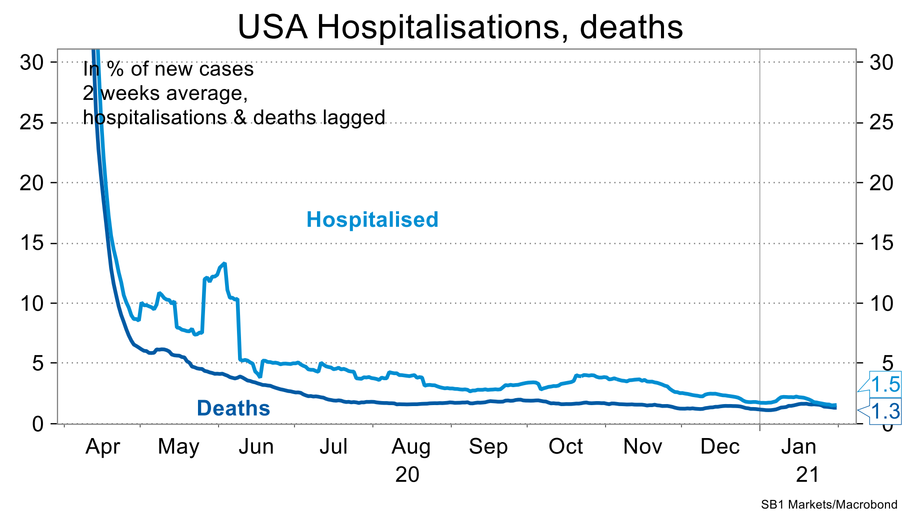




USA: A further decline in new cases, down by more than 1/3rd from the peak

Hospitalisations sharply down as well. Too early to give vaccines any credit





- The hospitalisation and death rates may be declining somewhat

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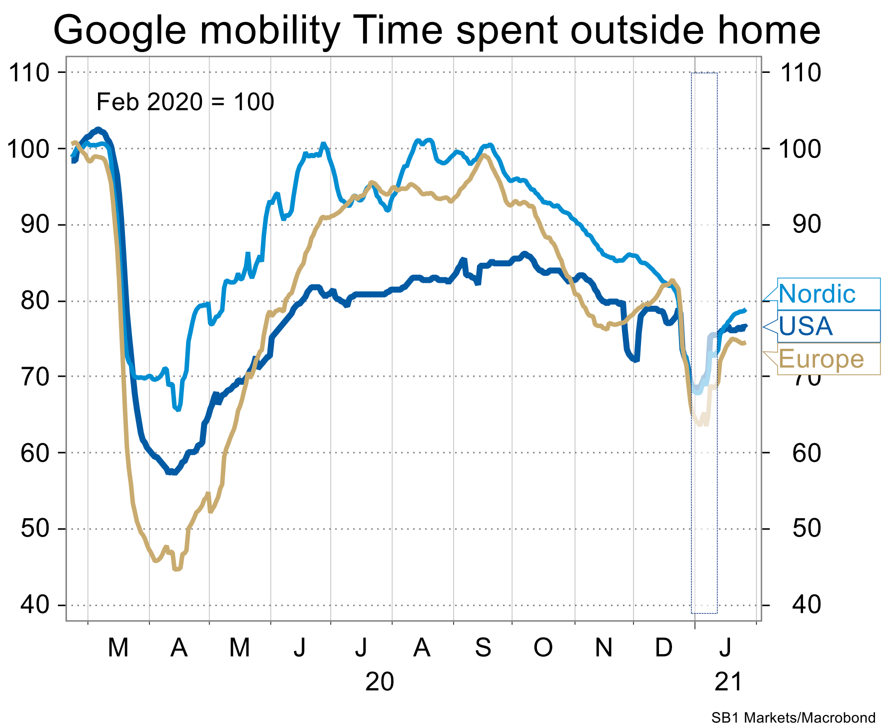
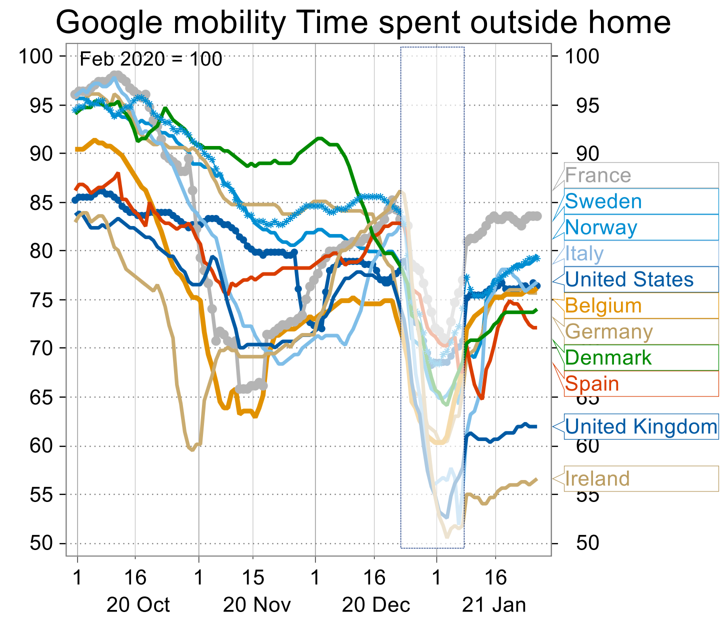
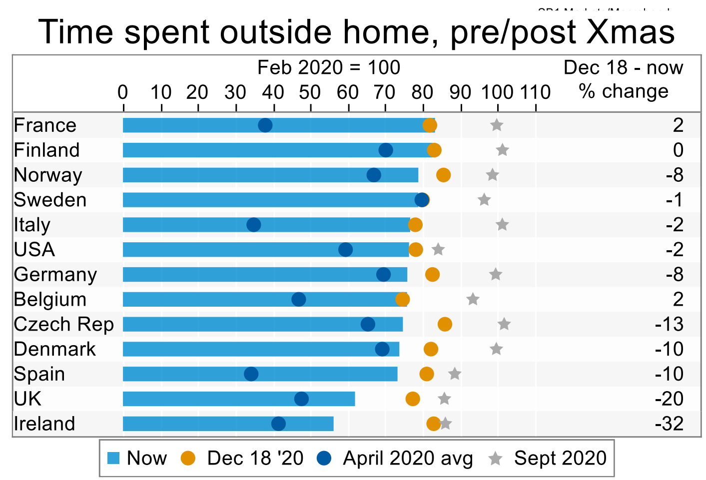
Mobility up in most countries, as the virus retreats

Spain has turned down – and the no. of cases flattened







- In several countries is on par the pre Xmas level, France is even above (and the no. of cases is on the way up too).
- **In the UK**, time spent outside home is down 20% (not percentage points) – and mobility is down almost 40% vs. a 'normal' level (Feb 2020)
- **In Ireland**, -32% vs pre Xmas, and the level is now down 45% vs. 'normal'
- Germany, Denmark & Norway is down 8 – 10%, and some economic cost will incur

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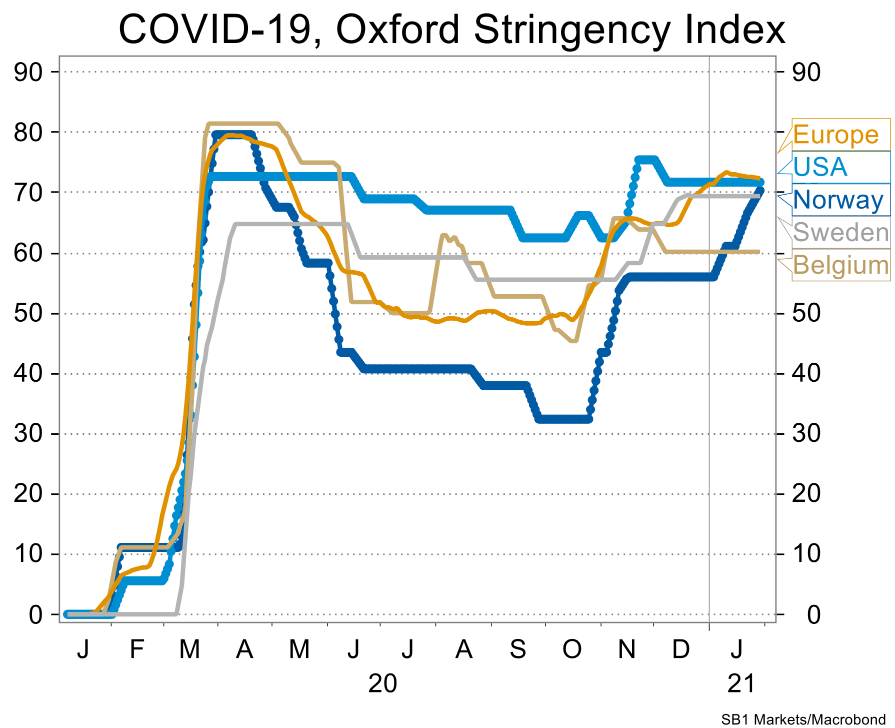
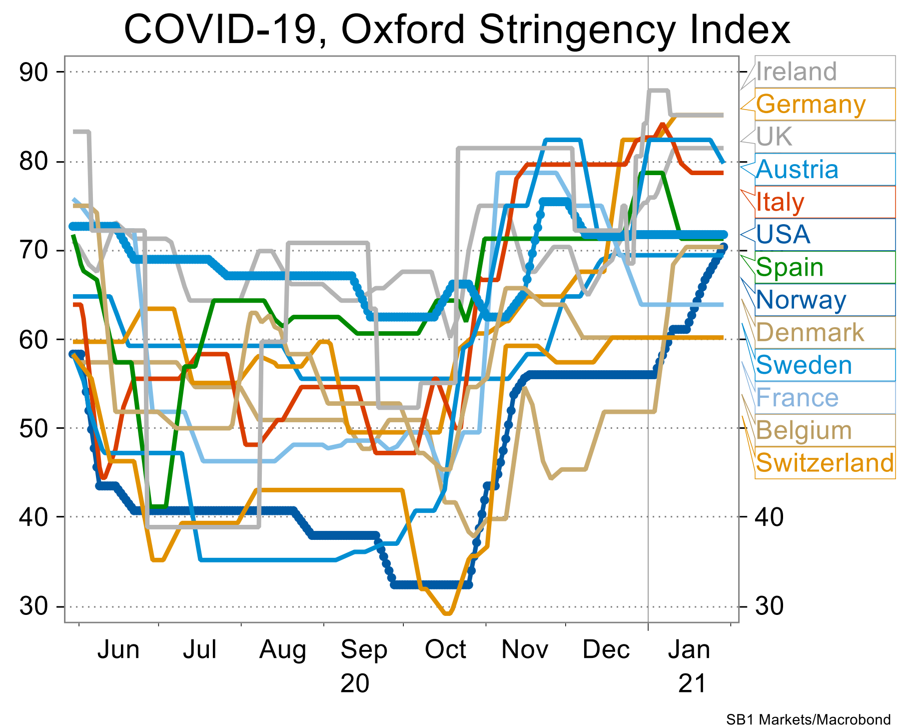
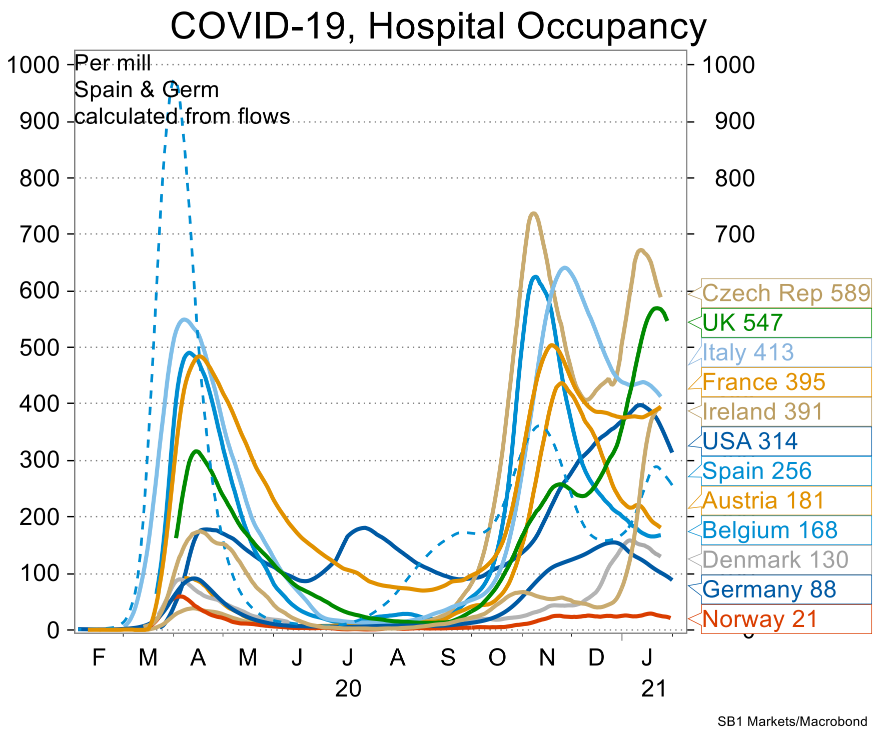
The stringency index has flattened in Europe – but is sharply up in Norway

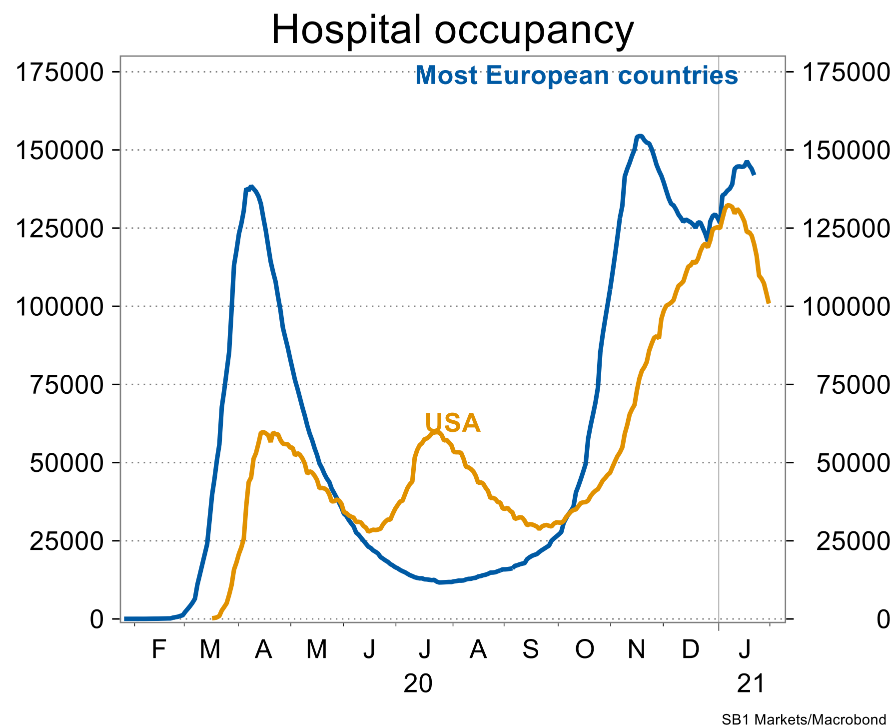




Hospitalisations on the way down almost everywhere

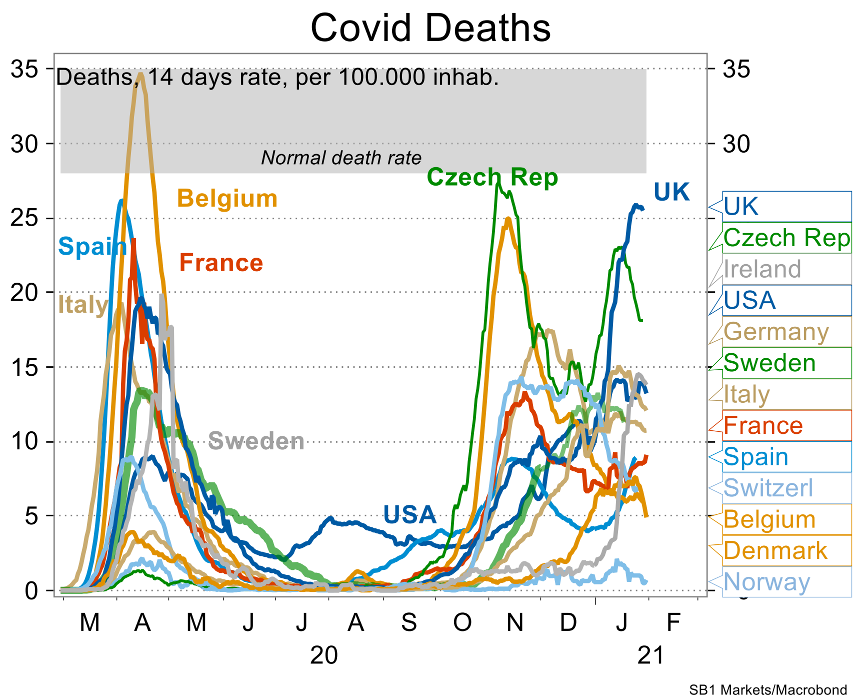
However, France is on the way up again

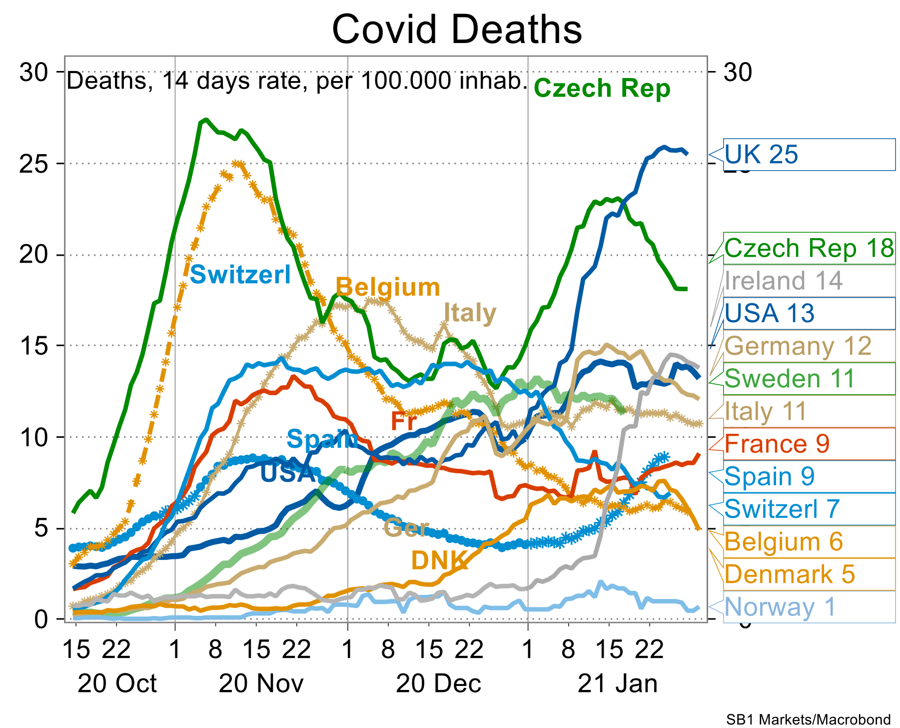




The deaths: UK on the top but has peaked! Ireland has peaked too

Most others down. However, Spain, France (& Portugal) are all on the way up!





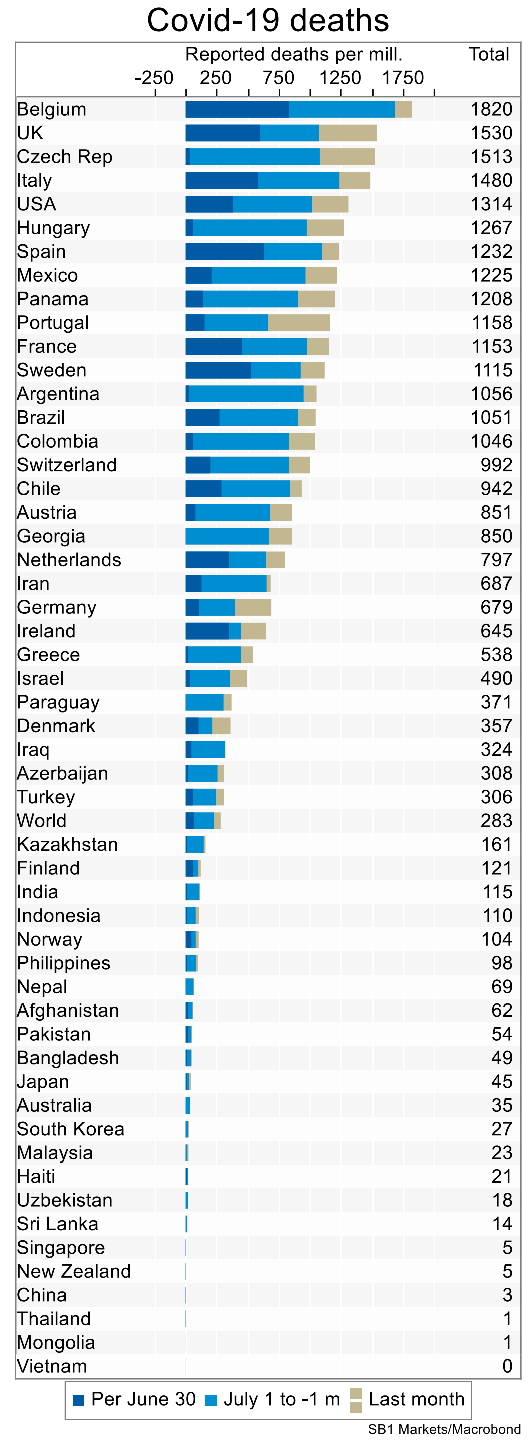
- Our calculation of the CFR in UK has come down, no signs of increased mortality of the new virus
- The no. of deaths in Ireland have stabilised (as we forecasted last week ☺)
- Deaths in Denmark and Germany are falling rapidly, alongside the decline in cases that started some weeks ago

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 on the list, so far at 1,530 deaths/mill, 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
- UK, the Czech Rep & Portugal have reported the highest no of deaths the last month

- ***During the flu season, 40 – 400 (average 160) per mill. die due to the influenza (Norwegian data)***
- ***In some countries, the Covid-19 death rate is 10 times higher***
- ***The death rate would have been tremendously higher without the huge changes in behaviour, decided by authorities or individuals since the outbreak almost 1 year ago***



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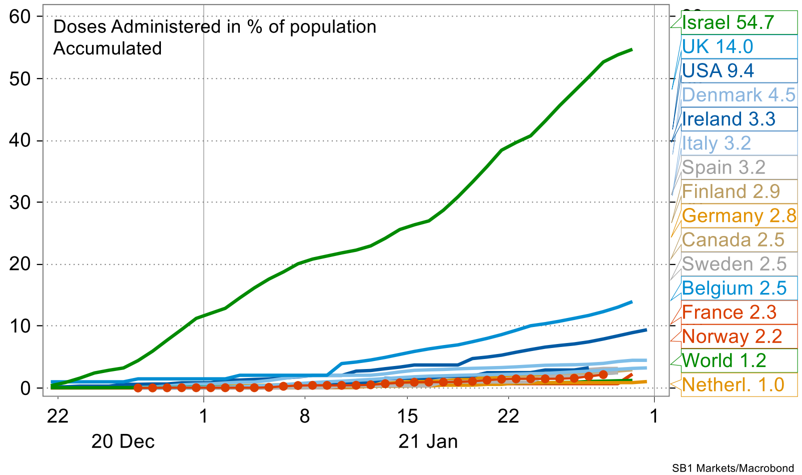
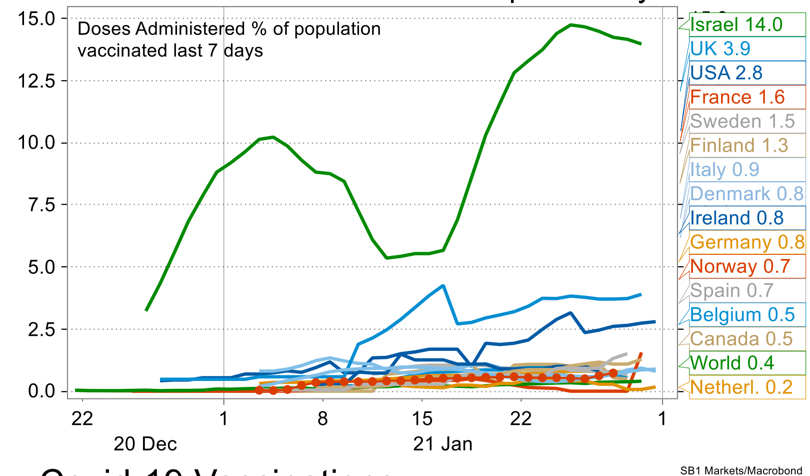
Vaccinations: UK & US in the lead (if Israel is excluded). Norway is a big loser

Israel will reach herd immunity in 2 – 3 weeks? Norwegian authorities pledges to move faster

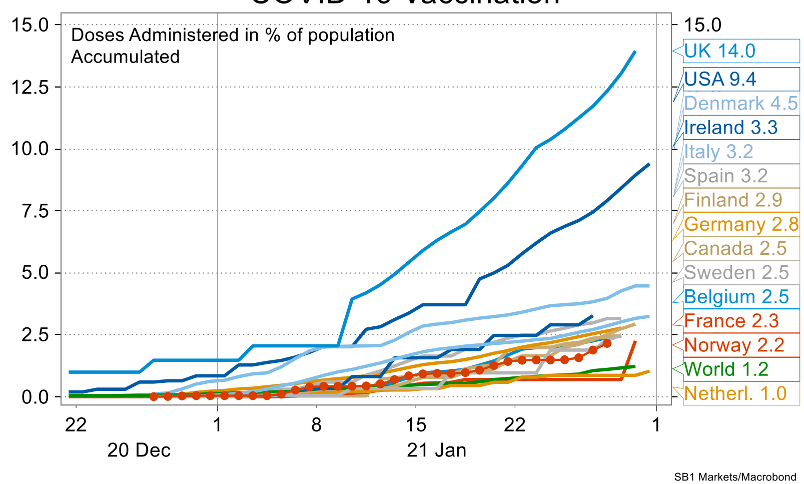
COVID-19 Vaccination



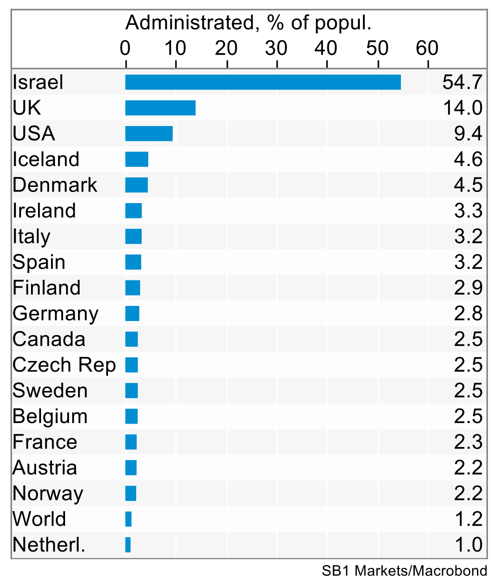
COVID-19 Vaccinations - past 7 days



COVID-19 Vaccination



Covid-19 Vaccinations

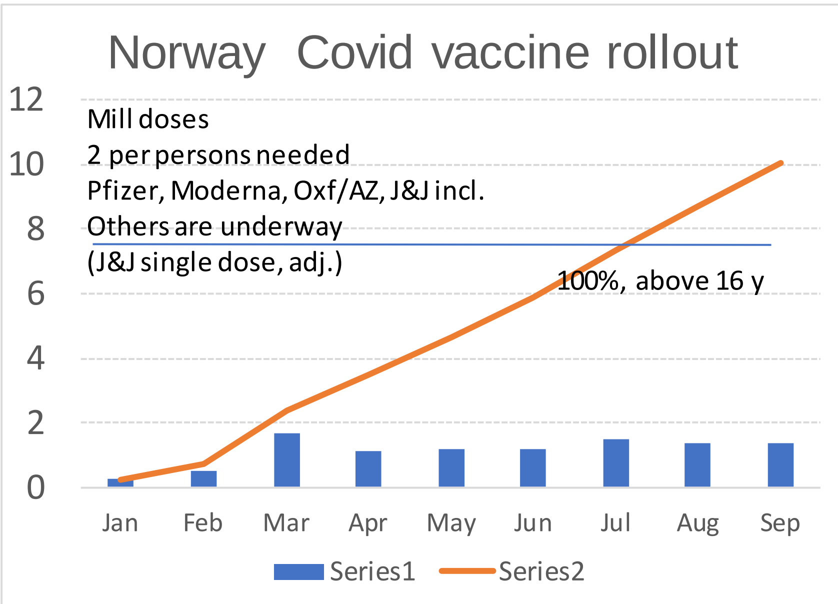


- The bottleneck in EU/Norway is the supply of doses. Oxford/AstraZeneca and Johnson & Johnson will eventually provide much larger quantities, as will Pfizer
- We doubt distribution will become an impossible challenge, as most countries are used to distribute large quantities of vaccines
  - » Complicated priority systems create problems now, but hopefully not for too long

Sources: Our World in Data/Macrobond

A possible Norwegian Covid-19 vaccine roll-out plan

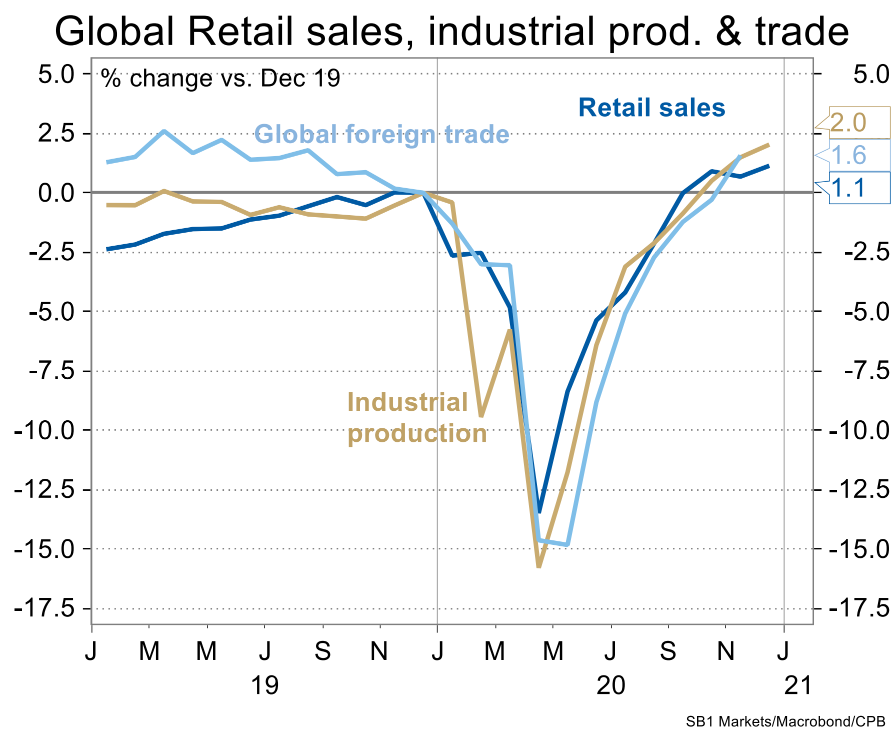
We have added likely Johnson & Johnson doses to the announced roll-out plan

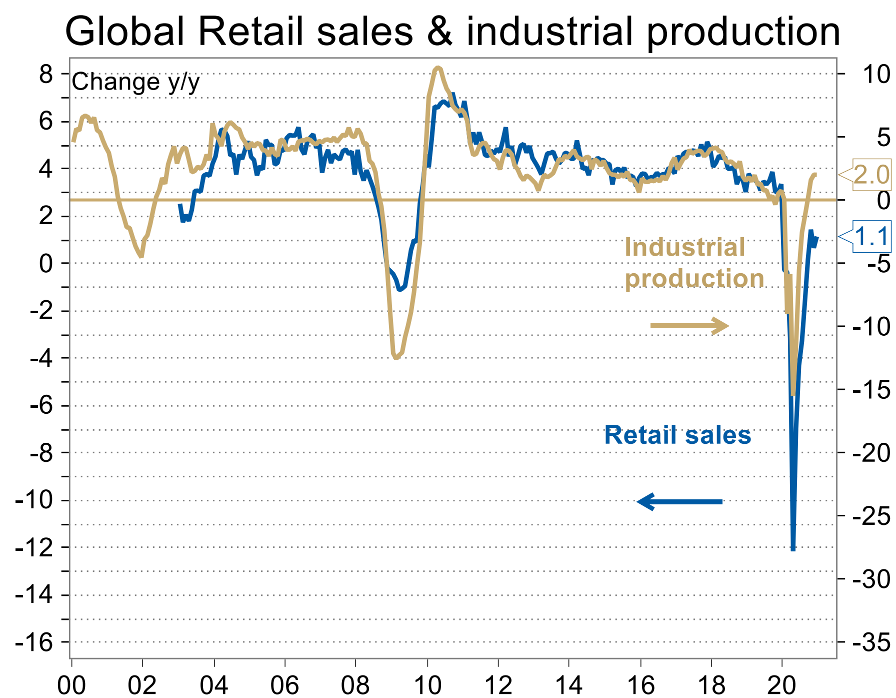


- There is still substanatial uncertainty vs. the availabity of vaccines, both concerning global production volumes and the share EU/Norway will receive
  - » Yesterday, AstraZeneca promised to deliver 9 mill doses to the EU in Q1, up to 40 mill, still just 50% of the originally 'promise'
- There are several vaccines underway but we have included Johnson & Johnson's, which probably will be authorised in Q2
- Norway may reach 100% coverage of the population in early Q3

Retail sales & industrial production probably up in Dec

And global foreign trade rose almost 2% m/m in Nov, and trade volumes are above early 2020 level



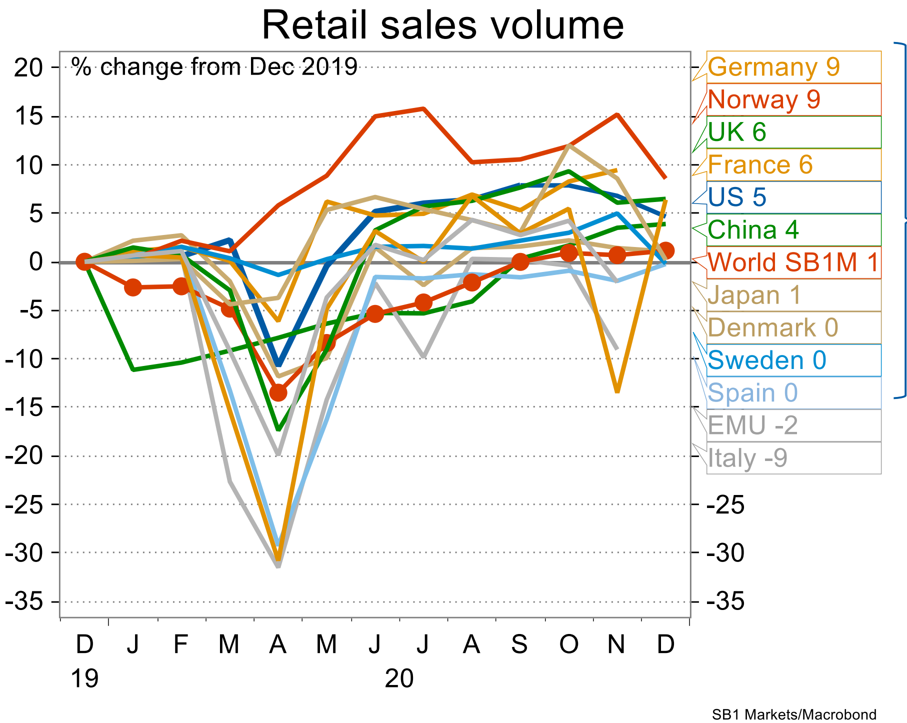


Memo: Keep in mind the different scales at the chart above

- **Retail sales** may have increased by 0.5% in Dec, following a small decline in Nov. EMU contributed on the downside in Nov, and probably on the upside in Dec. Sales in the US fell both months
- **Manufacturing production** probably climbed 0.5% too, and is 2% above the pre-corona level, according to our very preliminary estimates. Production has fallen sharply in the EMU in Dec due to the Irish 'whale' in Nov. Better data from China & the US
- **Global foreign trade** rose 1.9% in November, and the level is 1.6% above 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?



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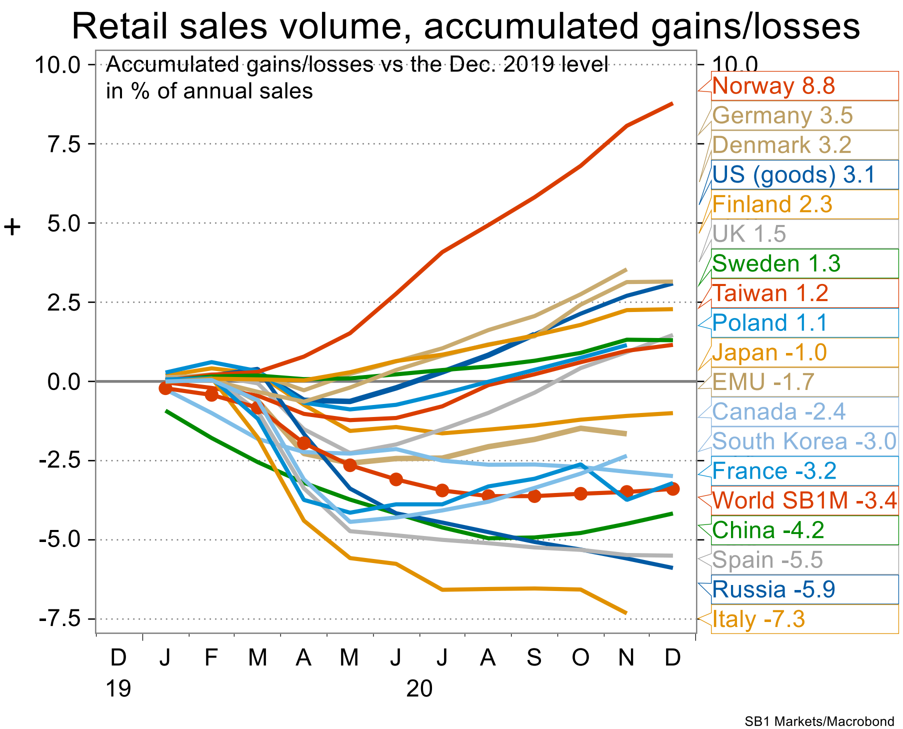
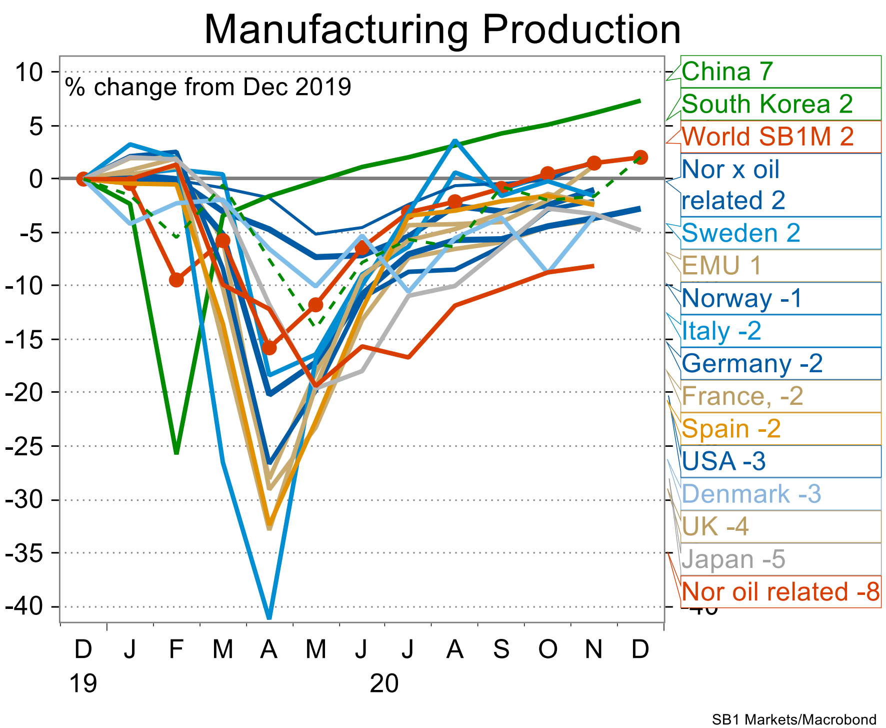
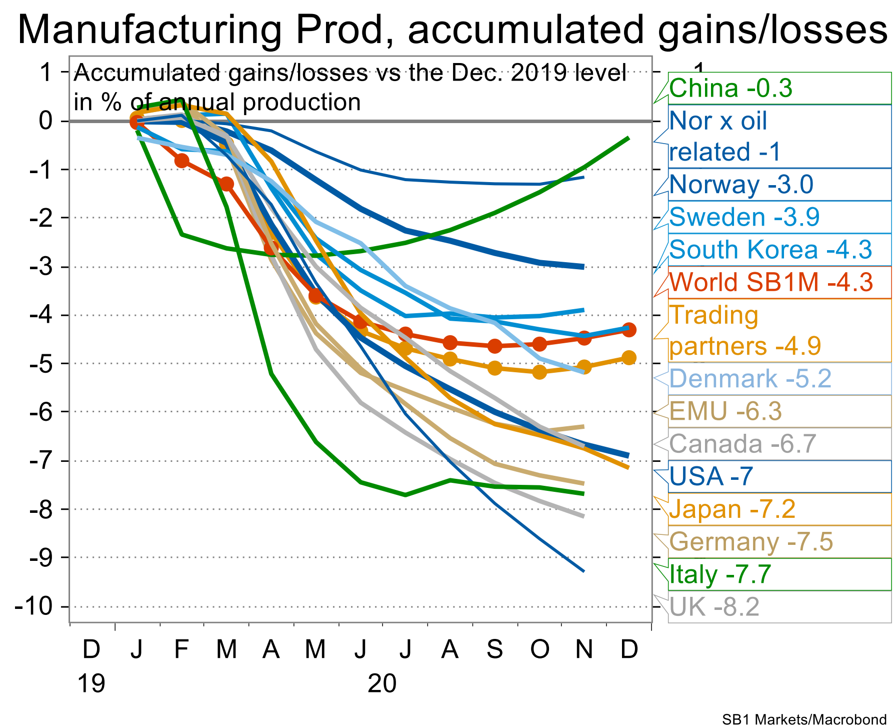


- Norway is in the lead – and has been during the whole corona crisis. Crisis, what crisis??
- US sales fell in both Nov & Dec but is still well above the pre-corona level
- Consumption of services is not included in these retail sales data – and service consumption has fallen sharply, everywhere

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

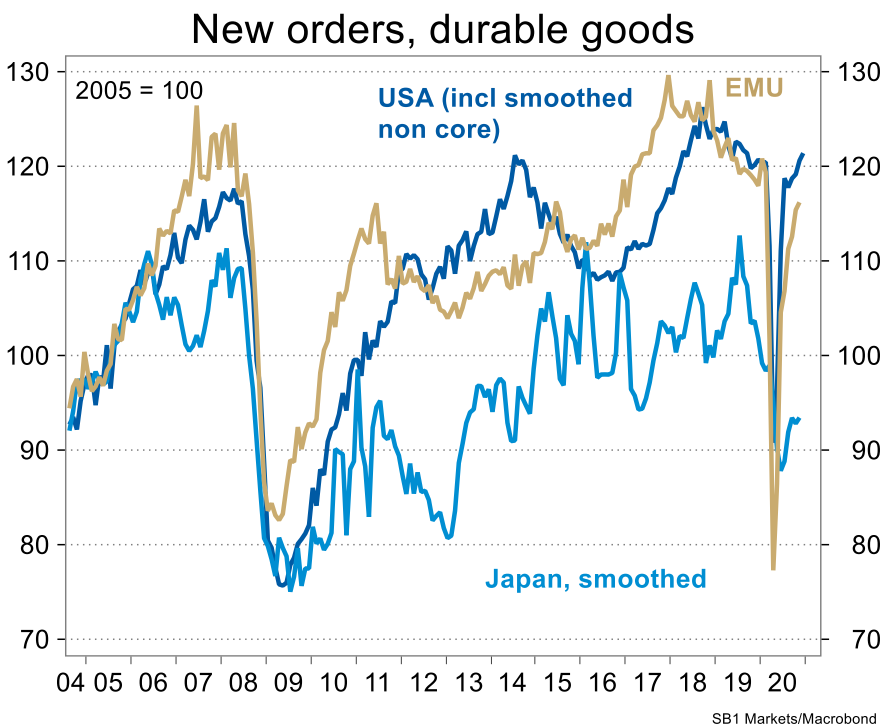


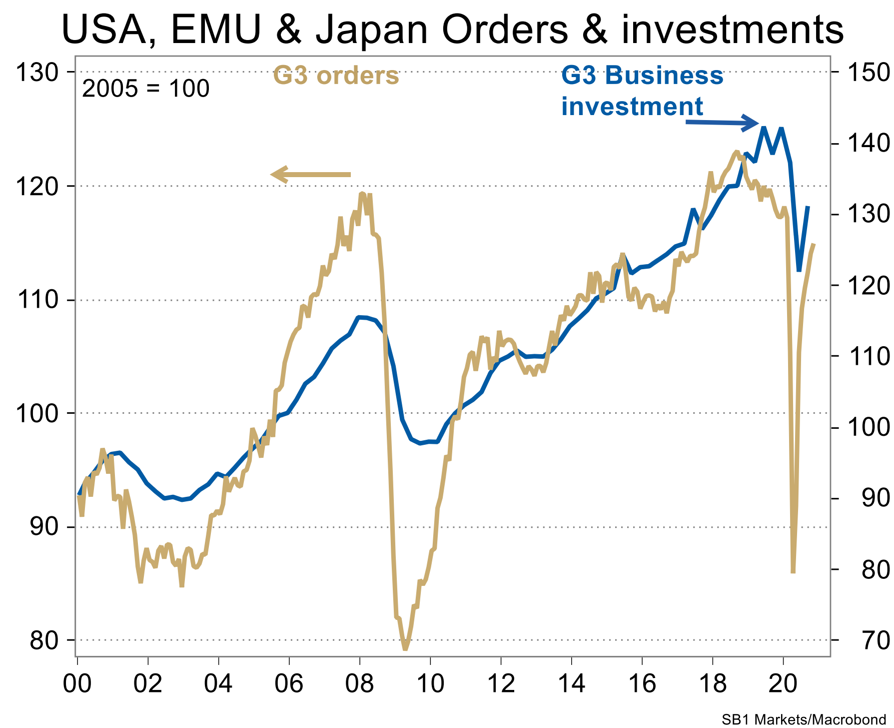


- <u>Service sector production is not included</u> in these retail sales data – and service consumption(=production) is still way below a normal level

DM orders: Japan is still lagging, and EMU below par – but on the way

Something must be happening with investments, somewhere





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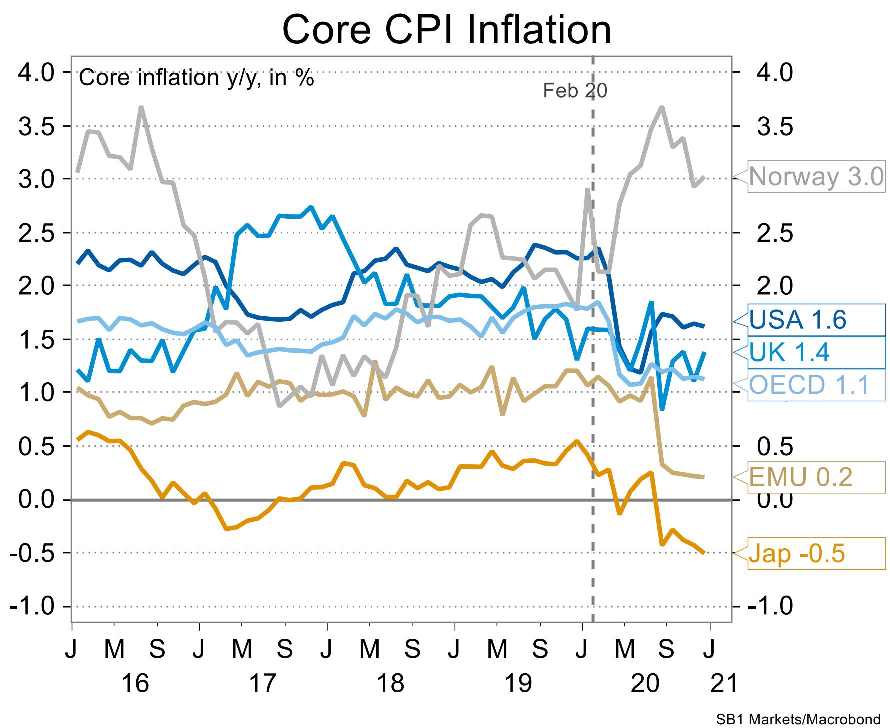
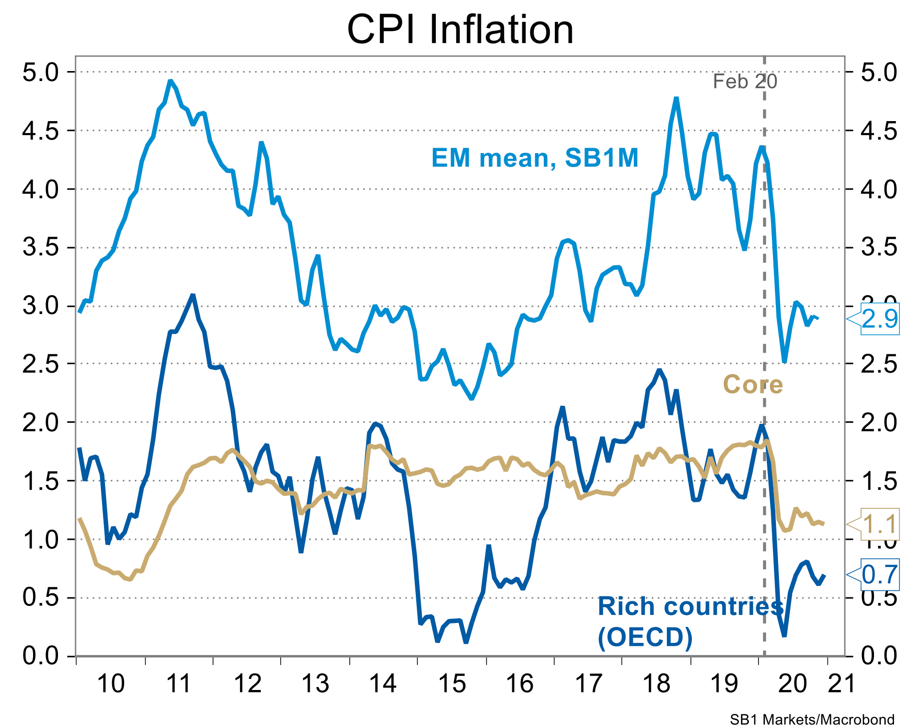
Inflation still in the doldrums, but it is not declining further

Some temporary factors such as VAT cuts have contributed. And now the cycle soon turns upwards?





- The PMI reports as well as the increase in raw material prices towards a lift in at least the headline inflation rate the coming quarters

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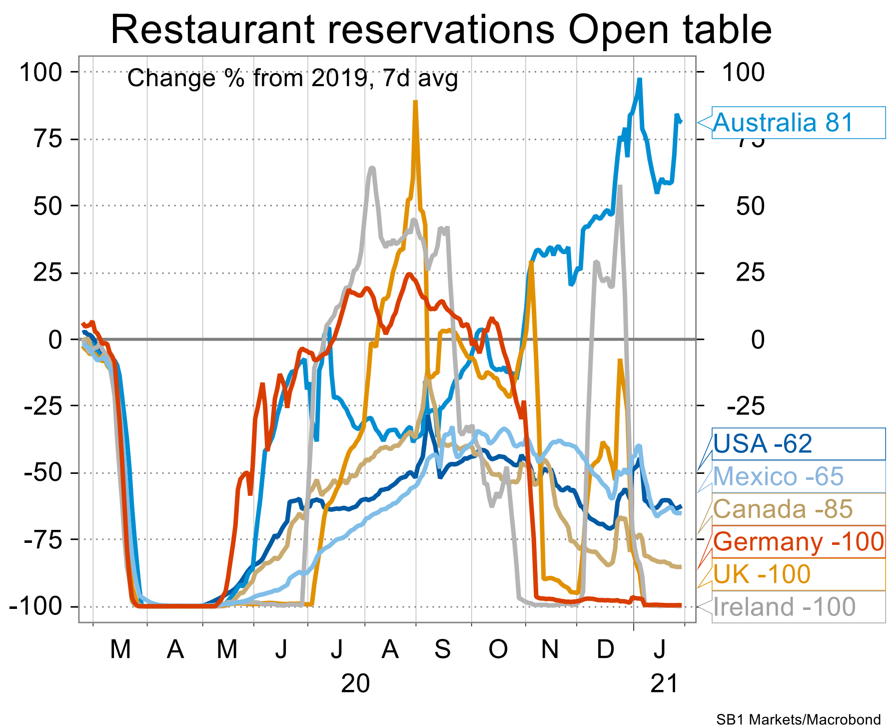
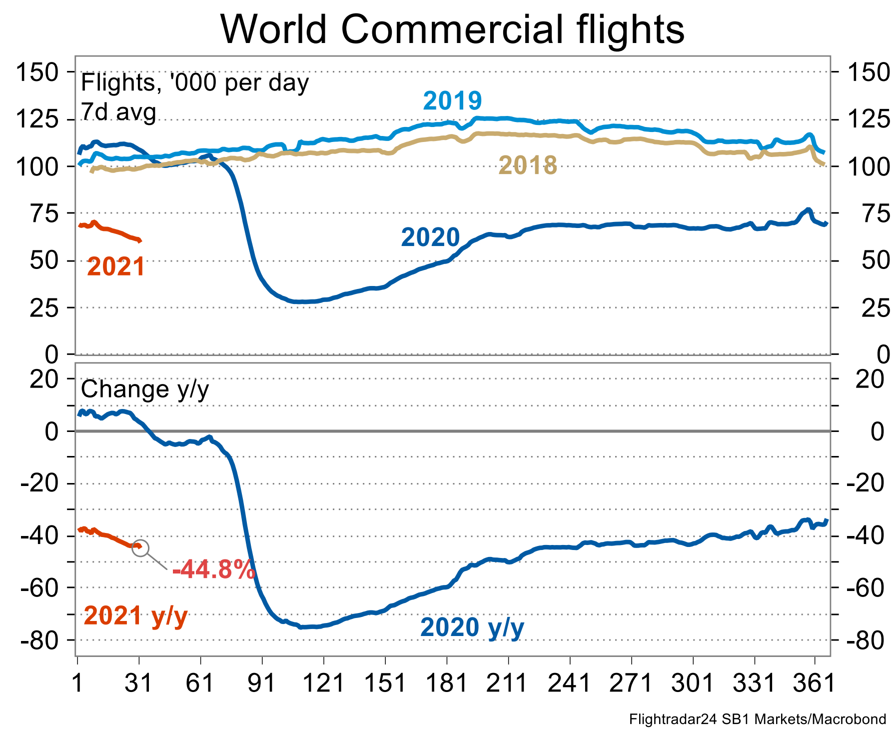
Restaurants open only in Australia. Full closure in Ireland, UK & Germany

Commercial airline traffic is falling again, down 45% y/y. The mutated virus does not foster travel





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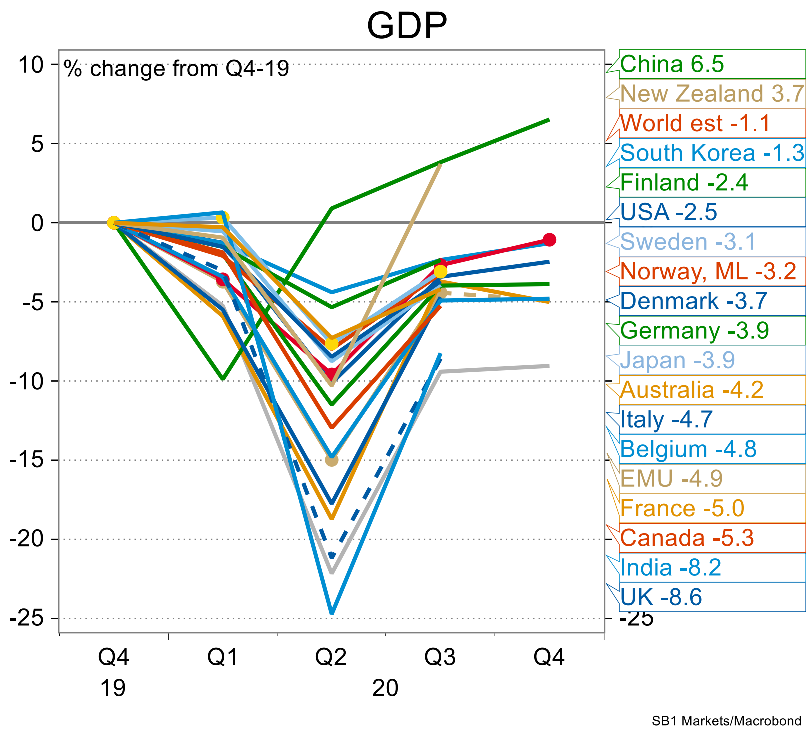
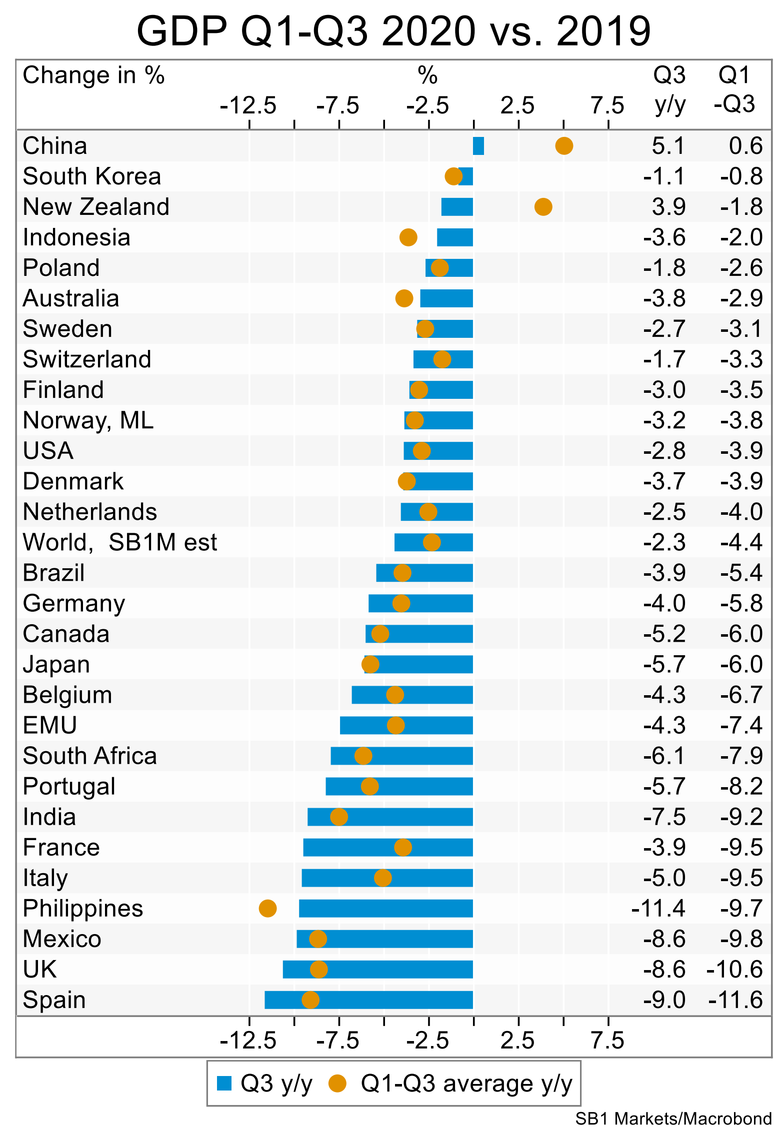
Growth probably slowed in Q4 but still grew above trend, at a 5%+ pace

GDP in EMU probably fell slightly, but other parts of the world continued upwards

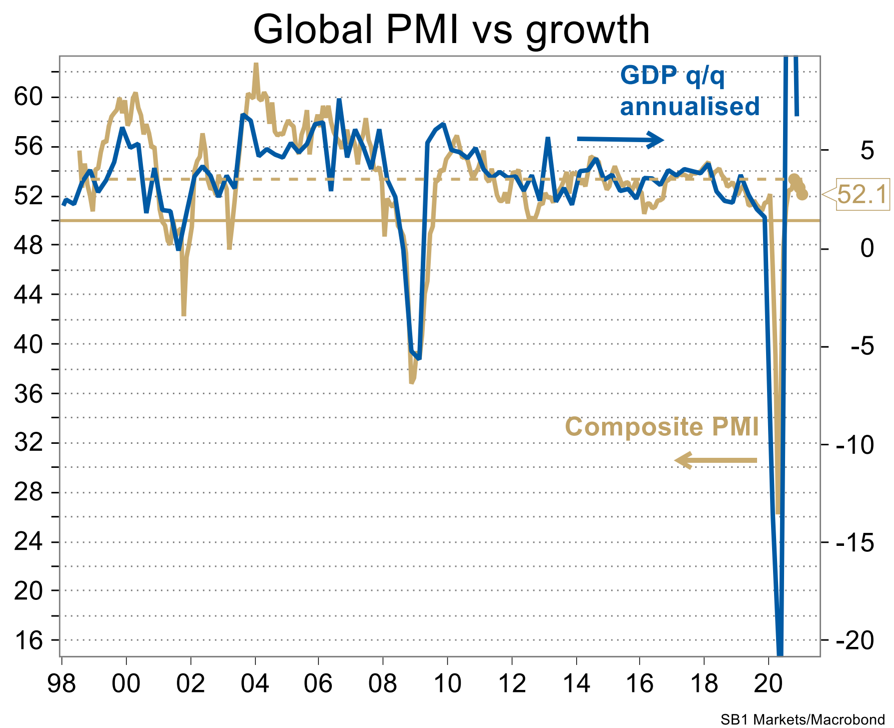


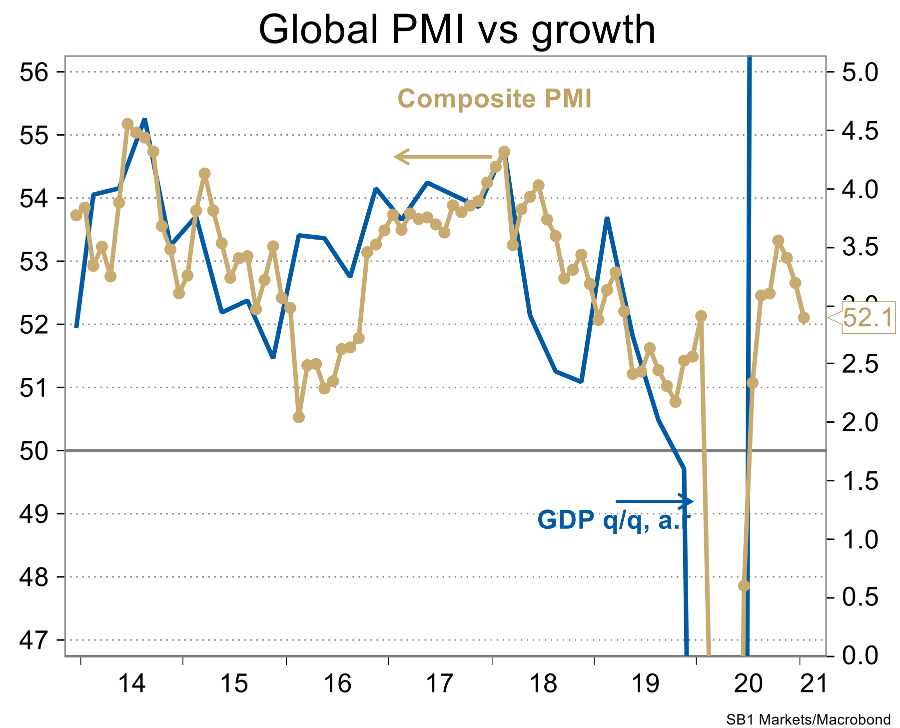


- Our Q4 forecast is preliminary as most countries have not yet reported
- We estimate that GDP grew at a 5 – 6% pace in Q4, if so leaving global GDP down 1.1% y/y
- China & US have reported decent Q4 growth, alongside some Asian countries
- We assume a 0.5% decline in the EMU

The global composite PMI probably down 0.6 p to 52.1 in Jan

China & the EMU contributes at the downside, and more than the US at the upside



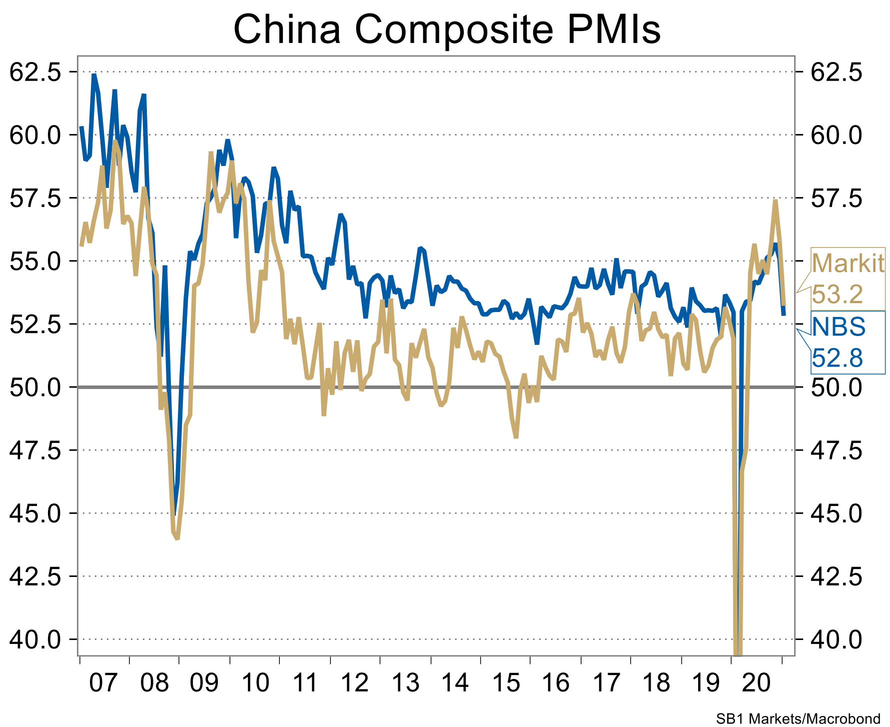


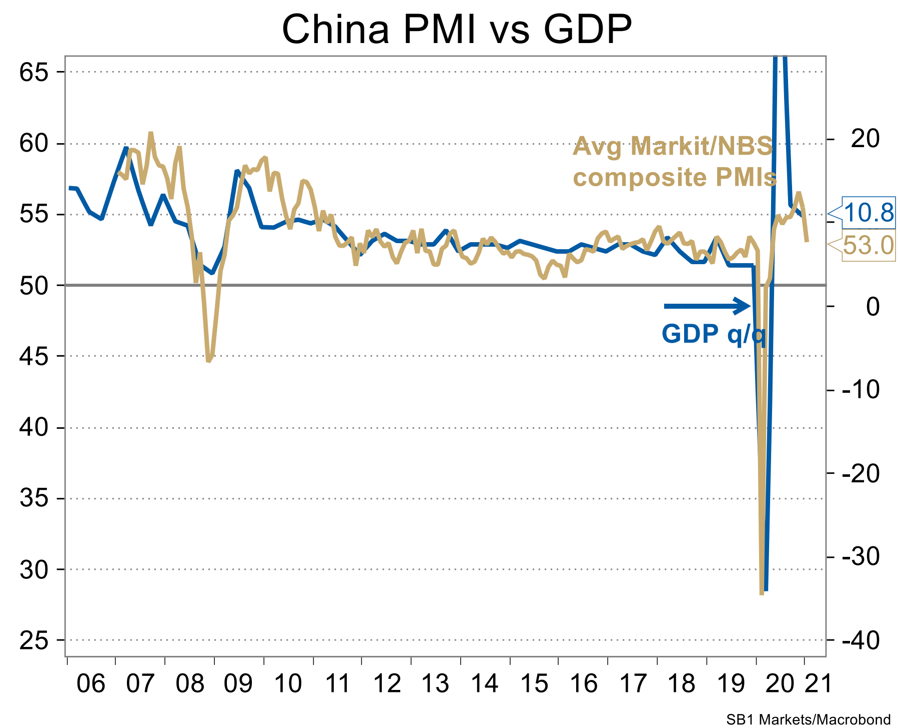
- The preliminary PMIs were mixed, a surge in the US was not sufficient to compensate for a decline in both China, EMU, Japan and UK (a sharp drop here). (The China service sector PMI is not yet reported, our estimate is included)
- Our **global PMI composite** estimate is down 0.6 p to 52.1 . The level signals some 3% growth in the global economy, vs the actual growth rate at 5 -6% in Q4 (our very preliminary estimate)
- The **global manufacturing PMI** total index was probably just marginally down but the output index fell sharply, 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

The PMIs sharply down in January but far from out, still signalling growth >trend

The NBS composite PMI fell 2.3 p to 52.8, as both manuf. & sevices retreated. Markit mauf. -1.5 p

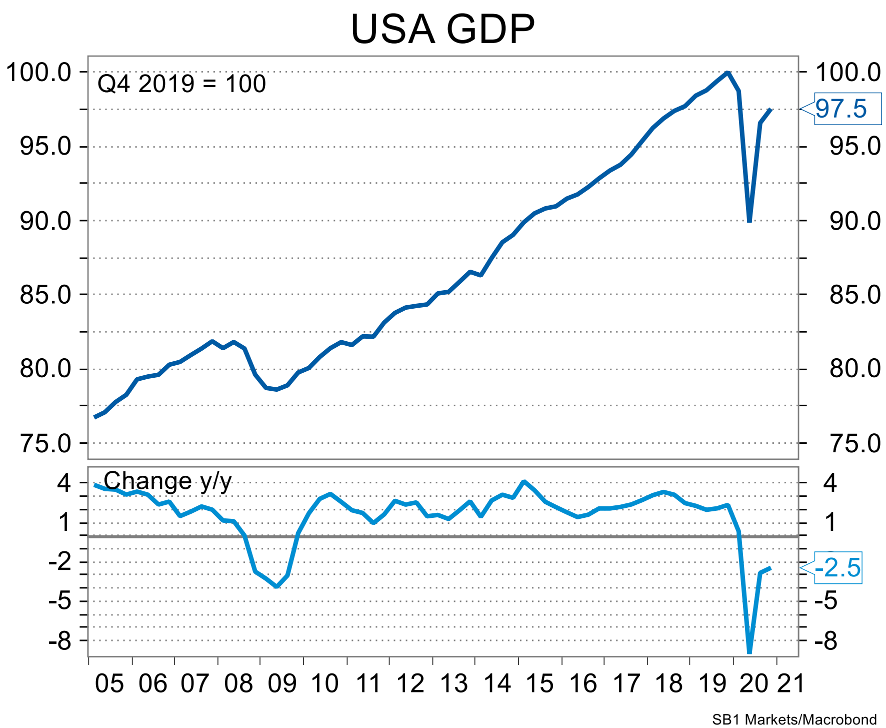


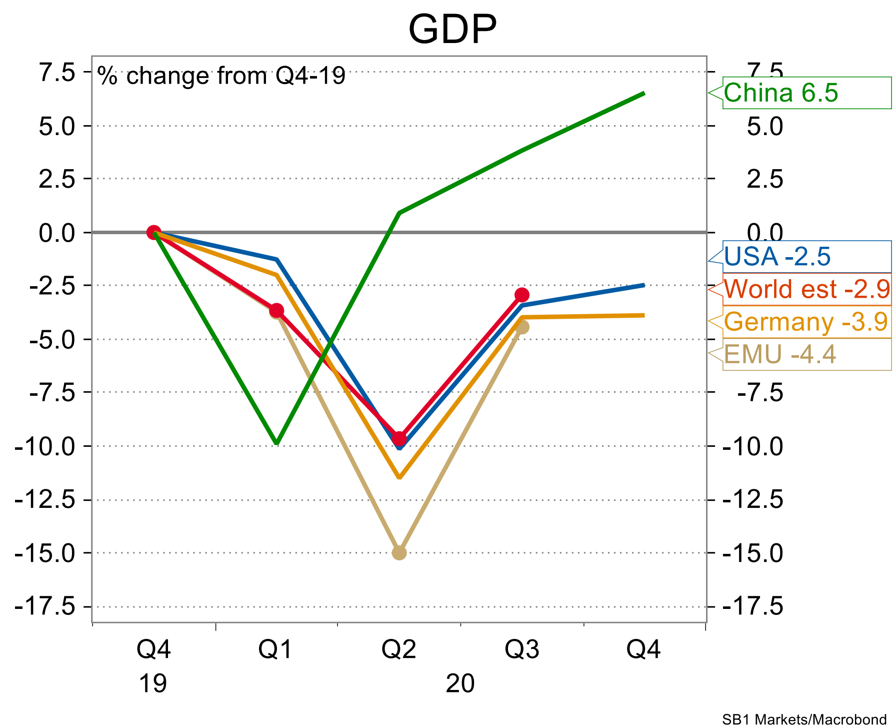


- The NBS manufacturing PMI fell by 0.6 p to 51.5, expected down 0.3 p. The service sector PMI fell by 3.3 p to 52.5
- Markit's PMI declined by 1.5 pp to 51.5, expected down to 52.6.
  - » We assume Markits's PMI fell sharply too, which is included in our forecast for the composite index
- A moderate credit tightening may explain the slowdown, even in exports orders are more to blame
- Even if the PMIs fell, the levels is not yet weak – and growth above trend (at 7 – 8%) is signalled.
- Still, the direction is down

GDP up 4% in Q4 (1% not annualised), still down 2.5% down from Q4 2019

Domestic demand growth slowed in Q4 vs the unprecedented Q3 recovery

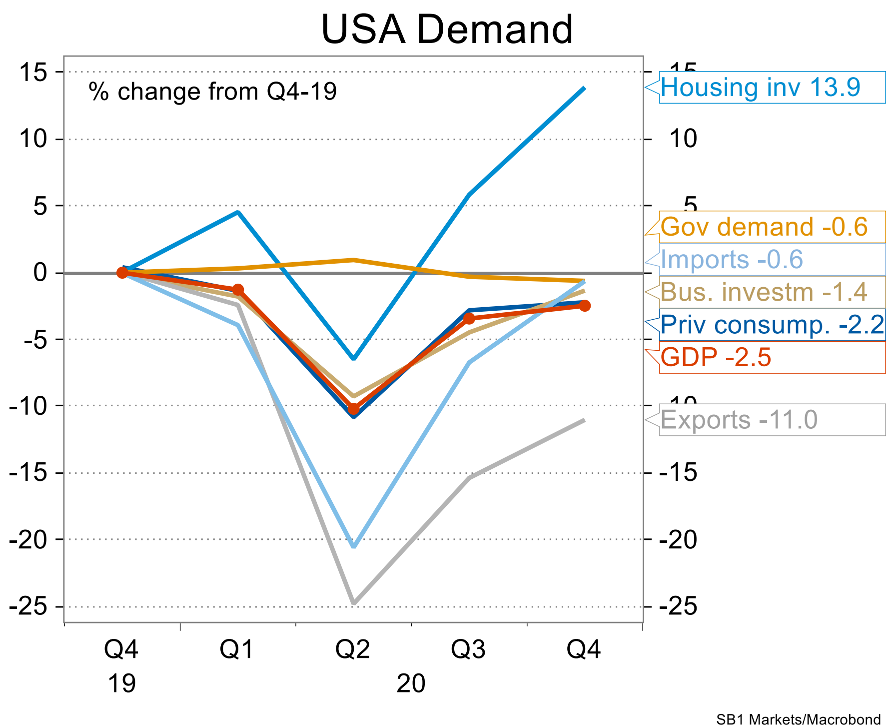


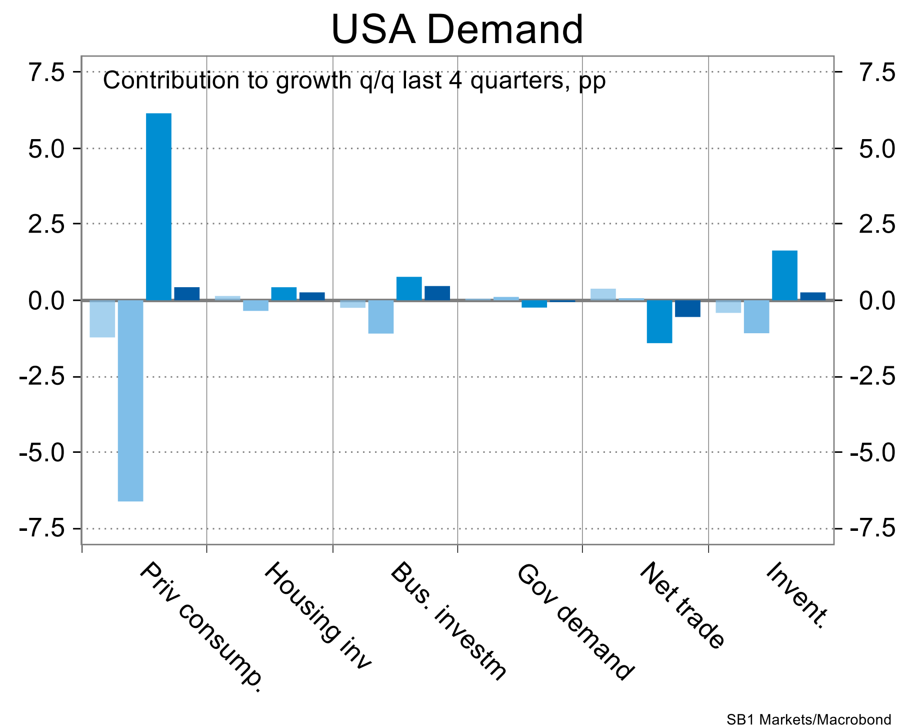


- **GDP grew** slightly slower than expected (4.0% vs 4.4% annualised), down from 33% (7.5% not annualised).
- **The GDP level** was down 2.5% y/y. The activity level was some 4.5% below the pre-pandemic growth path. However, since activity clearly was above trend one year ago, with the unemployment at the lowest level in 50 years, and profits under pressure, the **output gap** is lower, we assume some 3%
- **Last year** GDP fell by 3.5%, the most since 1946 following the demobilisation after WWII. But that's all history
- **In Q4**, GDP was 1.9% above the 2020 average – which is 'growth for free' in 2021
- **A further recovery is of course very likely** – with both timing and strength mostly decided by the virus (incl. mutations) & pace of vaccinations. We assume growth will accelerate from sometime in Q2 due to a reopening of most of the closed down parts of the service sector (hotels/restaurants/transport/education). If so, growth will slow through H2

Housing is going strong – exports the weakest link in the chain

Business investments have recovered pretty well trough H2

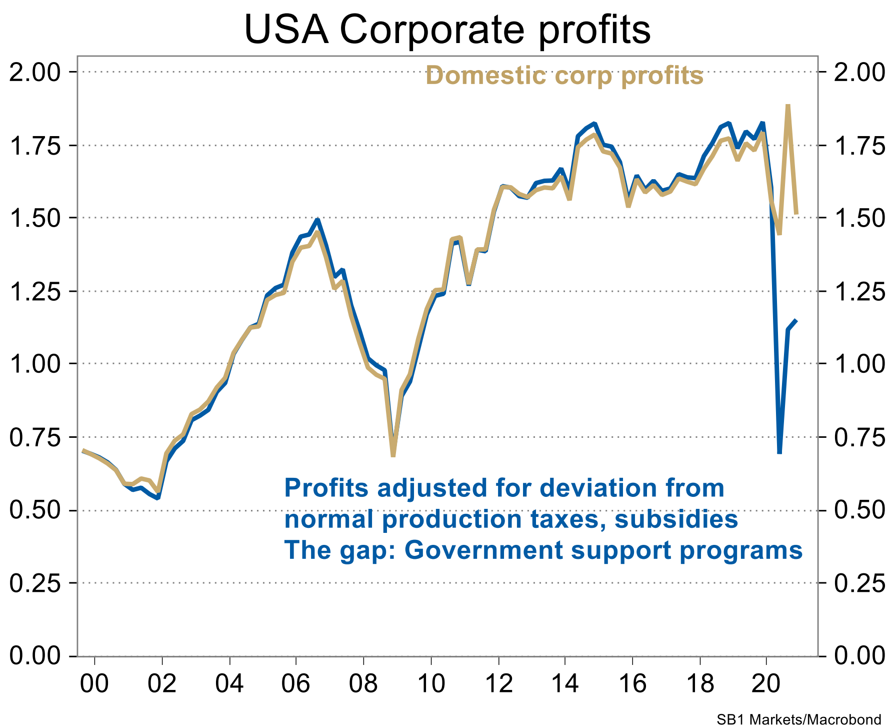


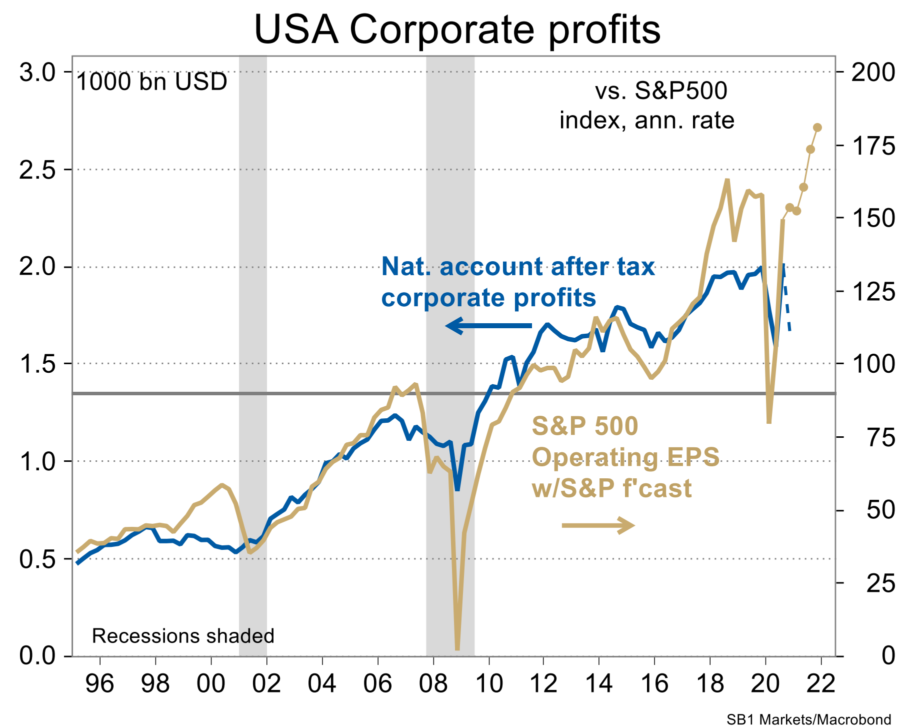


- **Private consumption** contributed most to the shortfall vs. expectations in Q4 – but was still up 2.5% q/q. Consumption is down 2.2% y/y. It contributed to ¾ of the overall volatility in GDP last year
- **Housing and business investments** grew further in Q4. Housing investments are up 14% y/y, while business investments are down just 1.3%!
- **Exports** rose 22% in Q4, but **imports** grew even faster at 29.5% - and **net trade** deducted 0.5pp from growth. Measured y/y exports are down 11% y/y, while imports are down just 0.6%! Thus, **net trade** deducted 1.4 pp from GDP growth y/y
- *Check the charts at the next page too*

Less gov't support: Corporate profits prob. down almost 20% q/q in Q4 (-15% y/y)

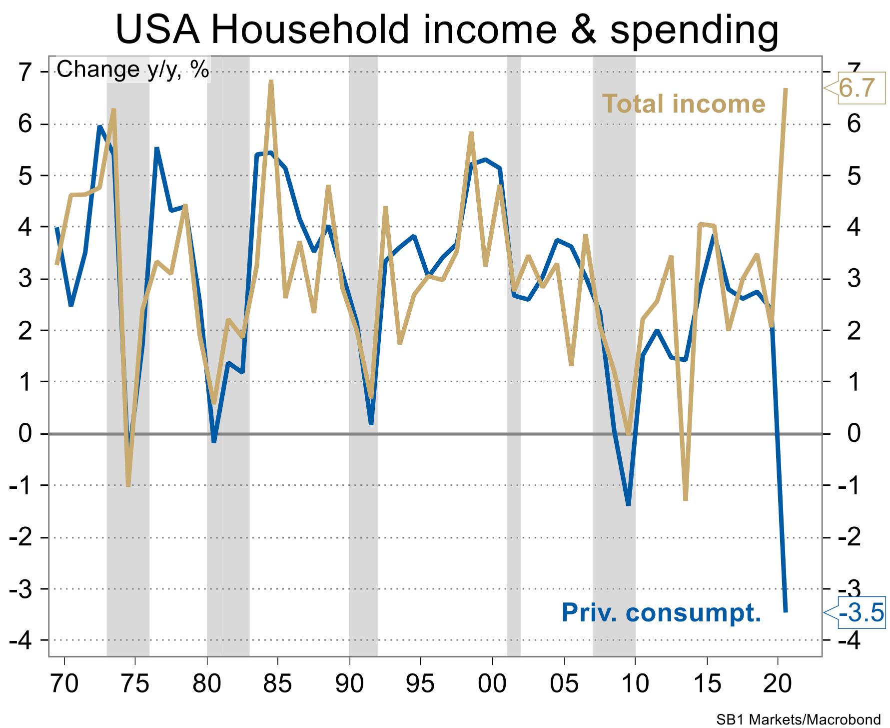
Less pandemic subsides in Q4, and profits will take a huge hit (for the domestic corp sector in total)

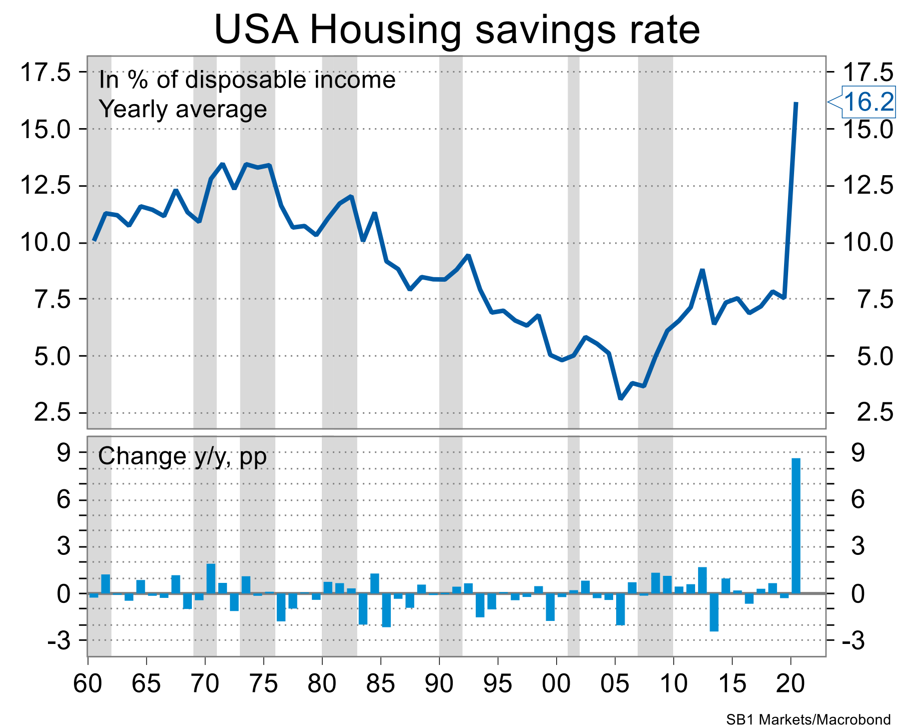




- **Government pandemic programs** have lifted domestic corporate profits at an unbelievable scale
  - Profits have been kept up, even if the 'normal' profit generation has collapsed. In Q2/Q3 the support equalled 40% of normal profits.
  - In Q4, the public support slowed but still equalled 25% of the pre-corona profit level. Still, as the underlying profits did not grew much, the booked profits fell by some 20% q/q, and by 17% y/y. The gov. subsidies equalled some 2% of GDP in Q4 (down from 4% in Q2/Q3
    - We have made some few assumptions as all date are not published yet, and others are often revised. A less than 13% decline q/q (-8% y/y) would still be surprising
- Going forward, the corporate tax rate will probably be lifted (Biden has pledged reverse half of the 2018 cuts) – but it will most likely not happen anytime soon

Never seen such a decline in consumption
– and not such in increase in income, since 1984. Or 9 pp lift in savings

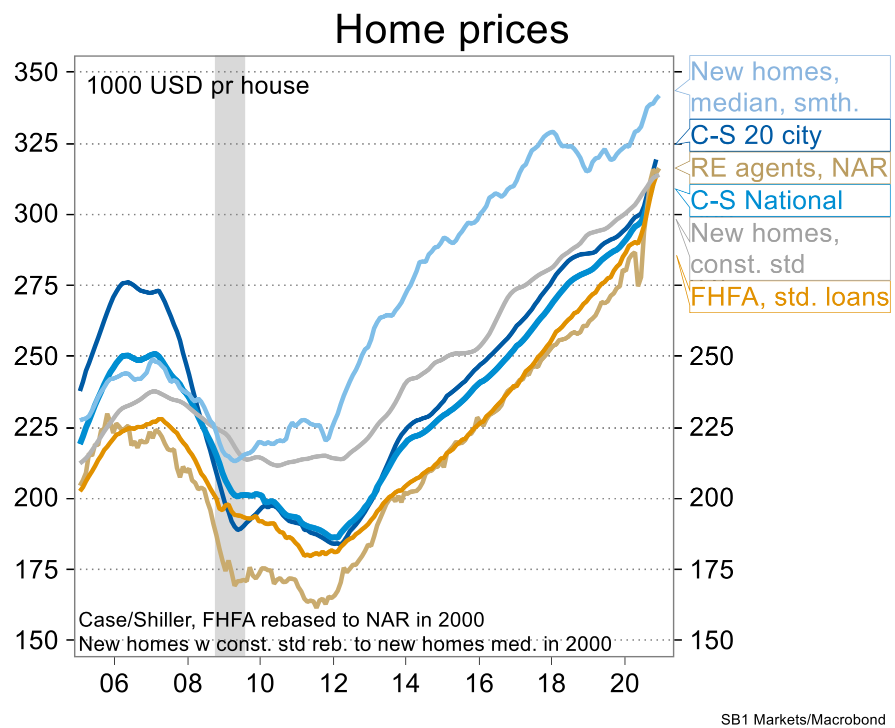


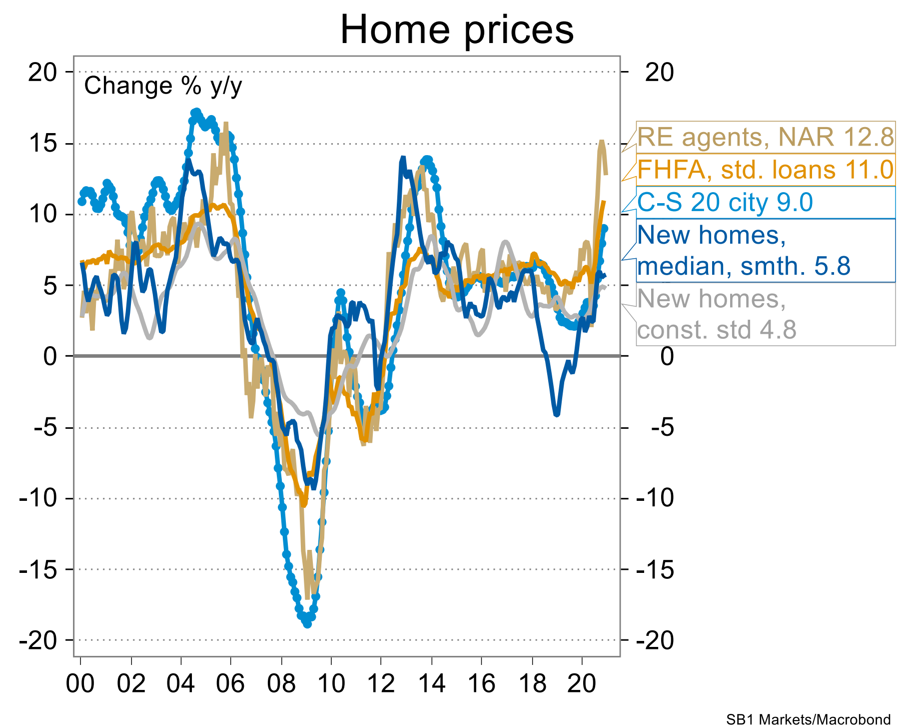


- And we have never ever seen 16% savings rate or an 9 pp lift from the previous year
  - » The extra savings equal USD 1,600 bn, almost as much as Biden's proposed stimulus plan. If both are spent next year…
- Savings are not up because households do not dear spending them but rather because money cannot be spent where households want to spend them
- Economically, and in aggregate, households are extremely well positioned for spending more in 2021, as soon as the virus is gone!

SpareBank 1 MARKETS

New home prices are starting to move too, up 6% y/y (came in at 3% last month)

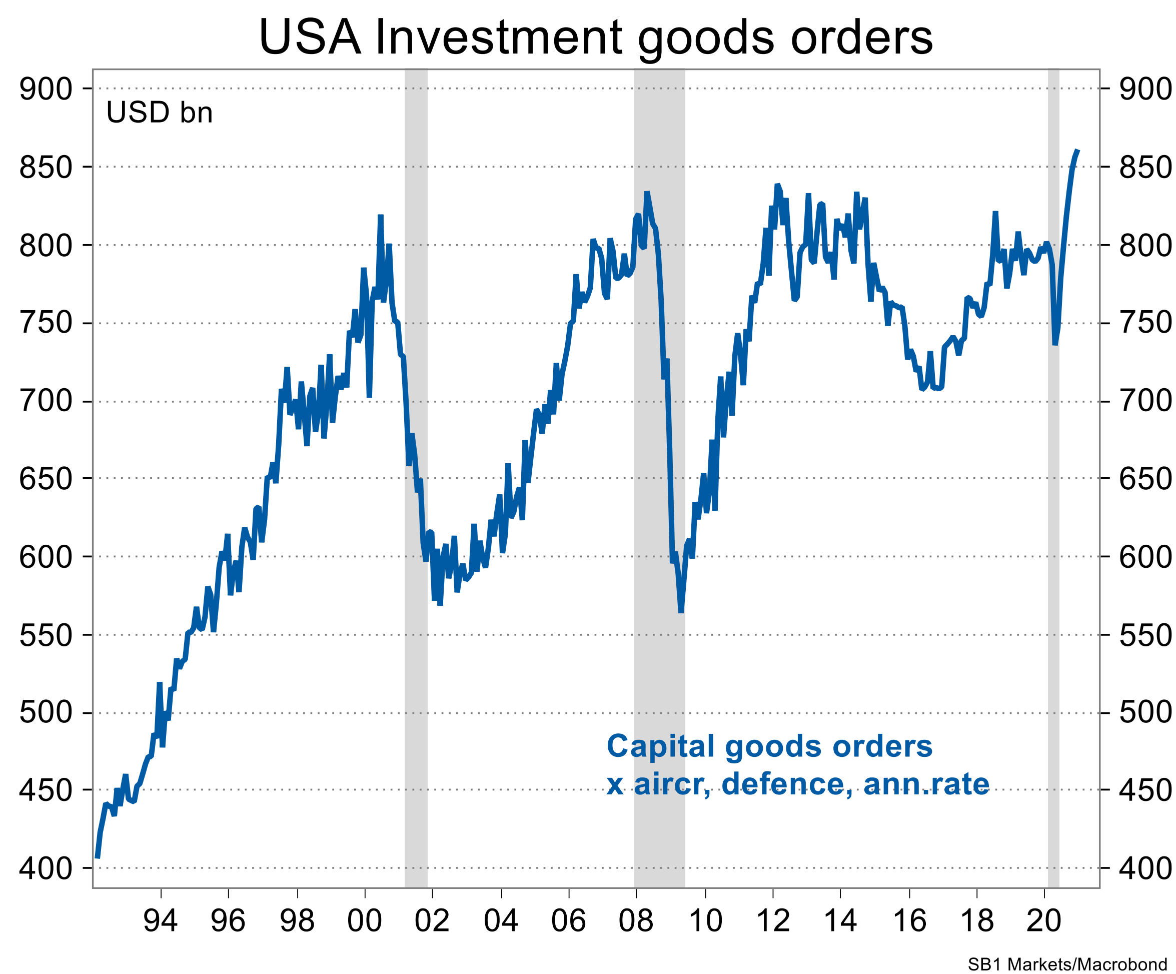




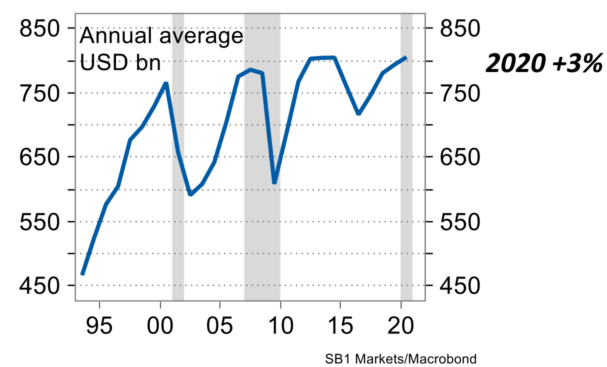
- Existing home prices are up at least 10% y/y (the Case-Shiller index is 3 m average, and the ‘real’ y/y growth is no doubt above 10%)
- New home prices up some 5 – 6% (5% standard adjusted)

Investment orders: The most shallow & shortest downturn ever

Can you spot if anything happened around 2020? Investment goods orders rose 3% from 2019



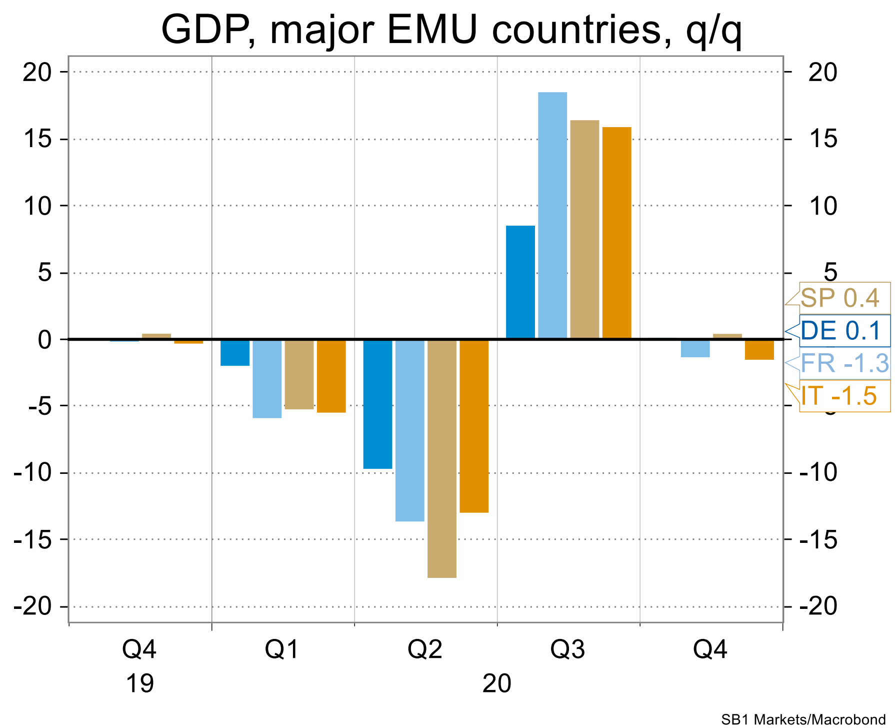
- The areas in the 'Vs' or 'Us' describe the aggregated losses during downturns
- *The 2020 downturn was at least not an investment recession*

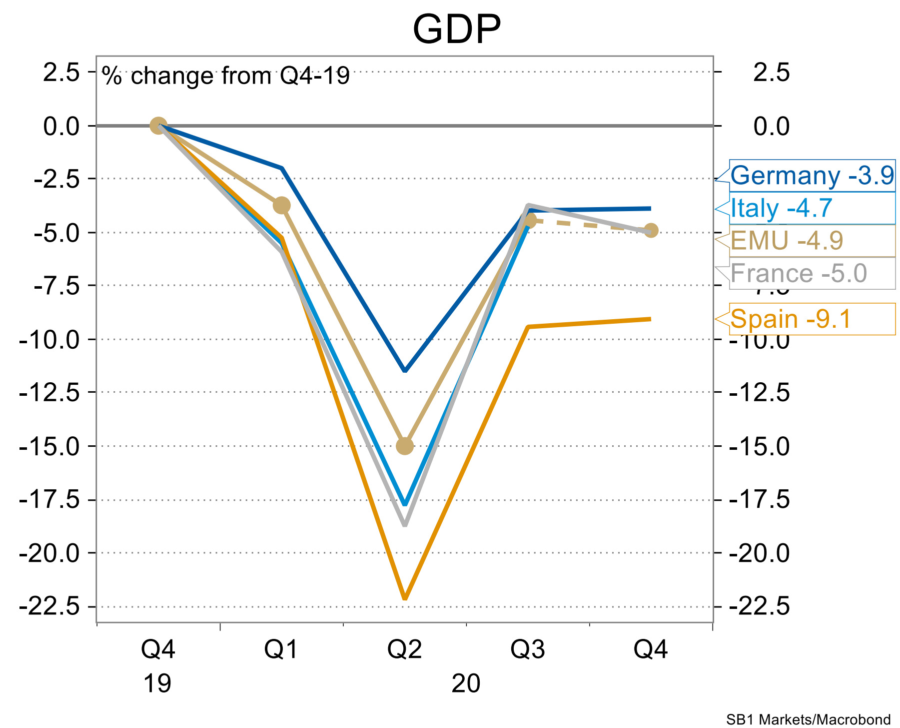


SpareBank 1 MARKETS

GDP probably just slightly down in Q4, far better than expected

Germany reported 0.1% (exp flat), France down 1.3% (exp. -4.1%), Spain 0.6(exp. -0.6)

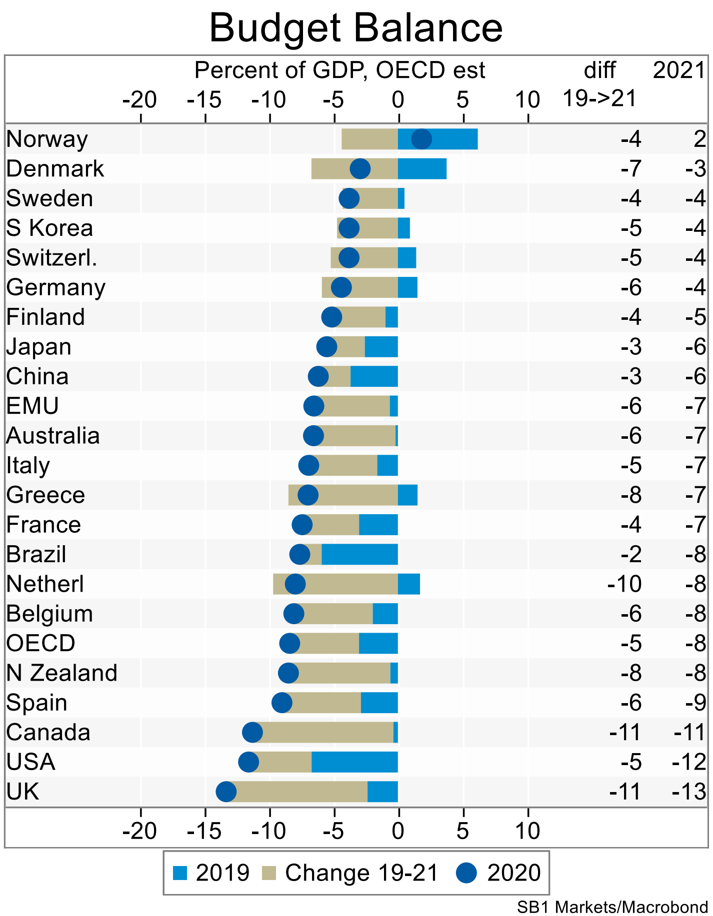




- Italy and several other countries have not yet reported their Q4 GDP data
- We assume GDP in the EMU fell by some 0.5%, less than so far expected

Another stimulus package – 0.5% of GDP, after adding 1.0% post budget last aut.

The structural non-oil budget deficit equals 10.9% of GDP, 3.3% of the Oil Fund

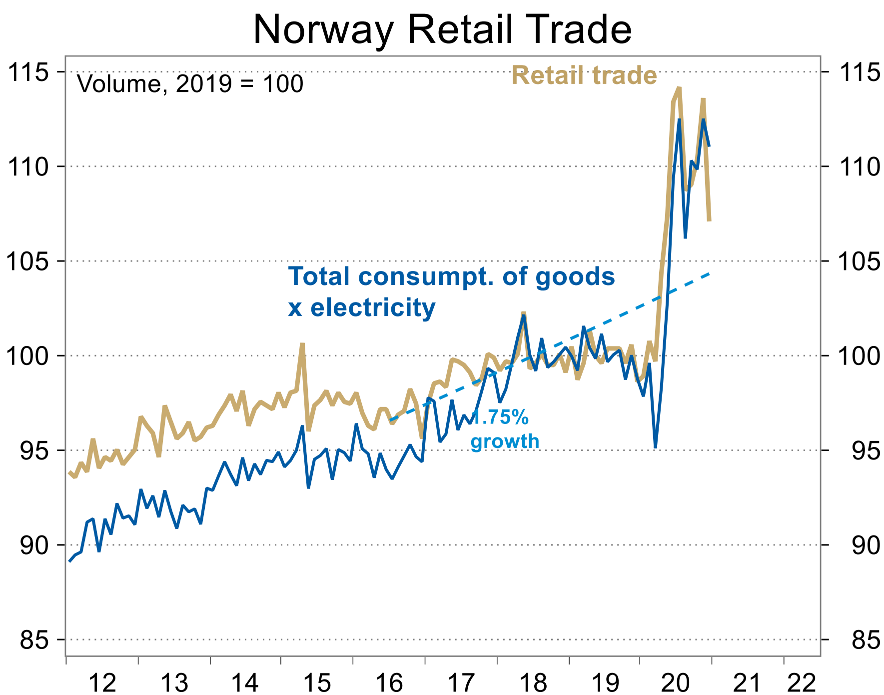


- **The non-oil structural budget deficit** at 10.9% is 'just' 1.1 pp of GDP higher than indicated by the long term budget rule – which is a rather small deviation theses days. The deviation is smaller than in any other rich country, vs. their long term (explicit or implicit) budget rules
  - In 2019, this deficit equalled 7.8% of GDP, well below the budget rule's long term guideline. In 2021, it is 3.1 pp higher
  - The actual non-oil deficit at NOK 415 bn equals 12.7% of GDP, or 2.5 pp higher than the budget rule (which though is defined vs. the structural, cyclically adjusted deficit)
    - The actual non-oil deficit was at 7.4% of GDP in 2019. To 2012 the balance has been weakened by 5.3% of GDP (NOK 188 bn)
  - Other OECD countries runs budget deficits equalling from 3% to 13% of GDP (USA's deficit was estimated to 12%, ahead of the 4% decided and 13% proposed extra stimulus packages)
- Formally, the **budget is still contractive**, as the deficit is 1.4 pp lower than the 2020 budget
- However, the **output gap** was some 3.5 – 4.5% last year, while the economy most likely will recover substantially in 2021, implying a reduction to a 1 – 2% gap
- If so, **fiscal policy is rather expansionary**, as the economy should need far less support in 2021 vs. 2020

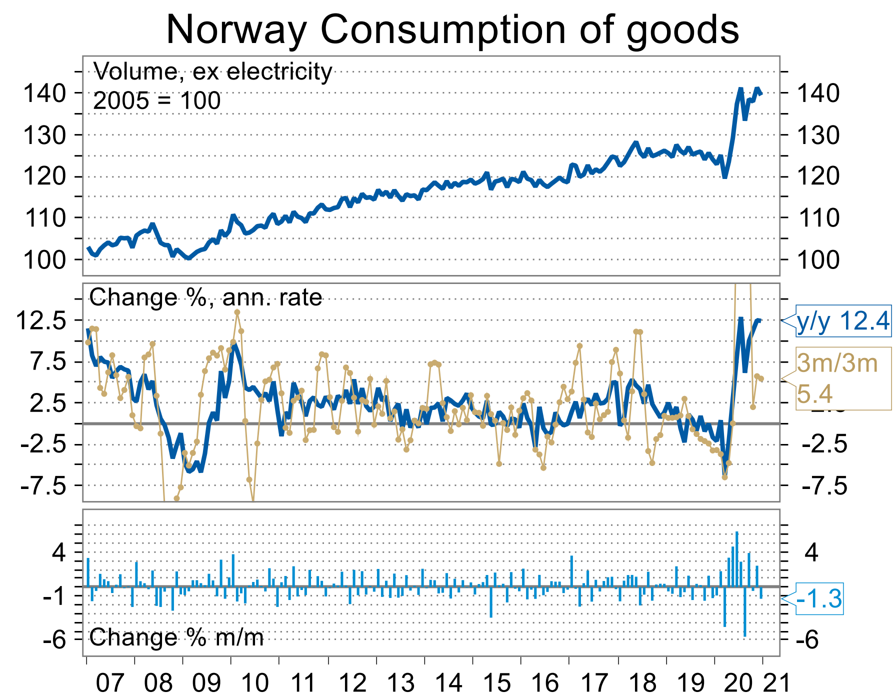
Data for Norway at the chart above OECD estimates, for the total budget

Retail sales straight down, far from down to earth. Q4 up 11% y/y!

We expected a 2% m/m decline (cons. +0.6%), and not a 5.7% setback. Nov/Dec still at a high Oct levl.



SB1 Markets/Macrobond



SB1 Markets/Macrobond

- A 5.7% drop in retail sales is not that common, and we had just pencilled -2%. However, as sales rose by 2.9% in Oct, and the Nov/Dec average is exactly at the Oct level. Q4 is flat vs Q3, and up 10.8% y/y. In addition, sales are 7% above the 2019 average in December, far above a reasonable long-term sustainable level. As we have said since last summer's peak, the direction will be down
- Total consumption of goods fell by 'just' 1.3% (x electricity), as auto sales shot up through the roof – and the level is 11% above the 2019 average, even further above any reasonable long-term trend
- We still expect a gradual decline in retail sales the coming months/quarters, even if some sectors will blossom as long as borders are closed, and we cannot go shopping in Sweden or spend time (and money) abroad. Check next page for an assessment of the impact of the Oslo area lockdown, imposed one week ago
- Service consumption is of course far below a pre-corona level, no data included in these retail sales data.

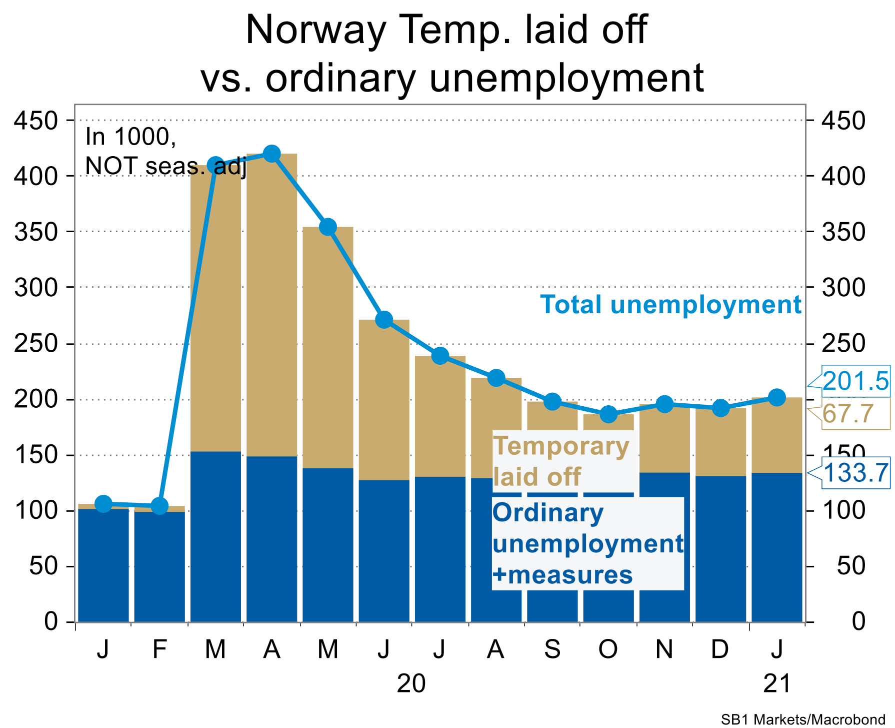
Most shops closed in the Oslo area, retail sales/growth down in Jan/Feb

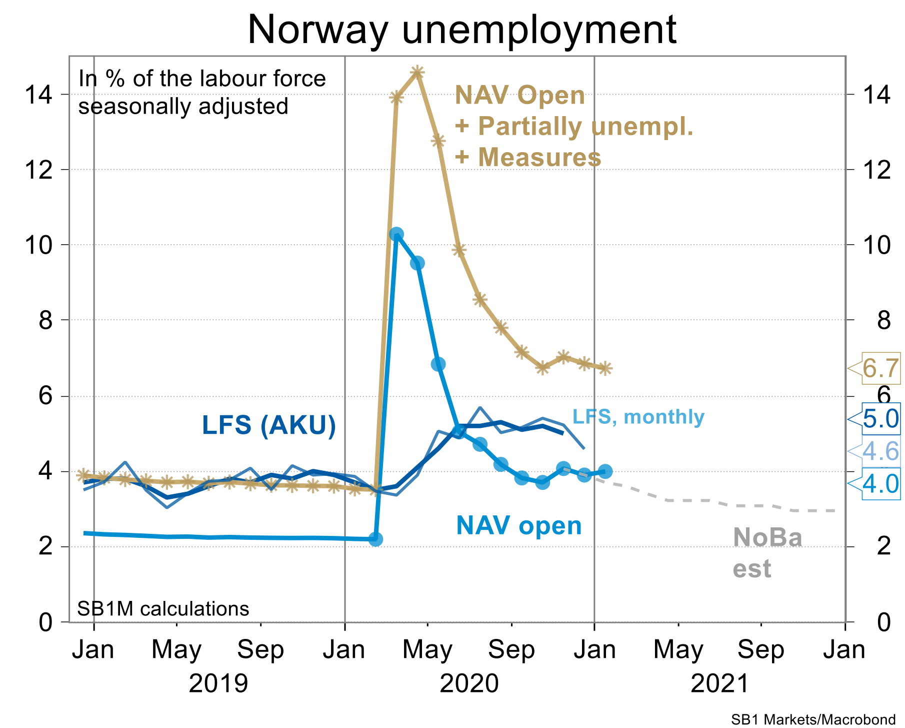
So far, a limitied impact on the national economy

- At Jan 23, an partial lockdown was imposed in the greater Oslo area (27% of the Norwegian population, we assume 30% of the national economy), in order to prevent the British mutant virus to spread.
- Shopping centre shops were closed ex. food, pharmacies & drugstores as well as liquor stores (Vinmonopolet) and gasoline stations. Most other shops were closed
  - » We assume that 2/3rd of the activity in the retail sector remains open as all shops selling food, pharmacies, gasoline stations and some others still operating
- Restrictions were imposed on some other sectors as well, like restaurants, gyms etc. In addition, transport, hotels & culture activities will be even more depressed
- In sum, we assume that 12% of the regional economy (retail trade is less than 10%) is hurt by the restrictions. We assume a 30% decline in activity, in this part of the economy. If so, 3 – 4% % of the economic output in the region is lost as long as the 'lockdown' lasts. That equals some 1% of the national economy
- The government announced some easing Saturday, and signalled more changes during this week. However, on Sunday more cities/municipalities in southern Østfold were included in the area with tighter restrictions
- **If the lockdown lasts just 2 – 3 weeks (which is not unlikely, given the reduction in the overall no. of new cases), the impact on Mainland GDP in January and February will be limited, some 0.25% in both months, vs the pre-lockdown path.**
- **The impact of the full closure of the borders for non-Norwegian citizens will be limited, at least short term**
- **The real risk:** A longer, and larger, and even more strict lockdown, due to the mutated virus spiralling out of control - before the vaccines have arrived (and the latter will take time anyway…)

NAV unemployment slightly up in January (or down?). Up 2 – 3pp vs. pre corona

Open ordinary unemployment rose 0.1 pp to 4%, 0.1 pp less than we exp. Grand total still down?

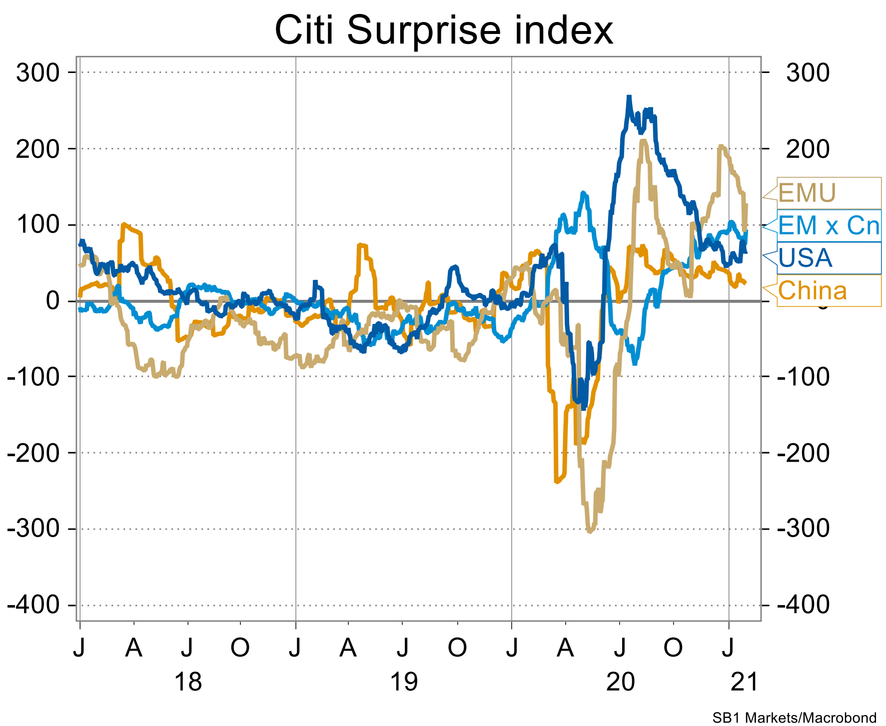


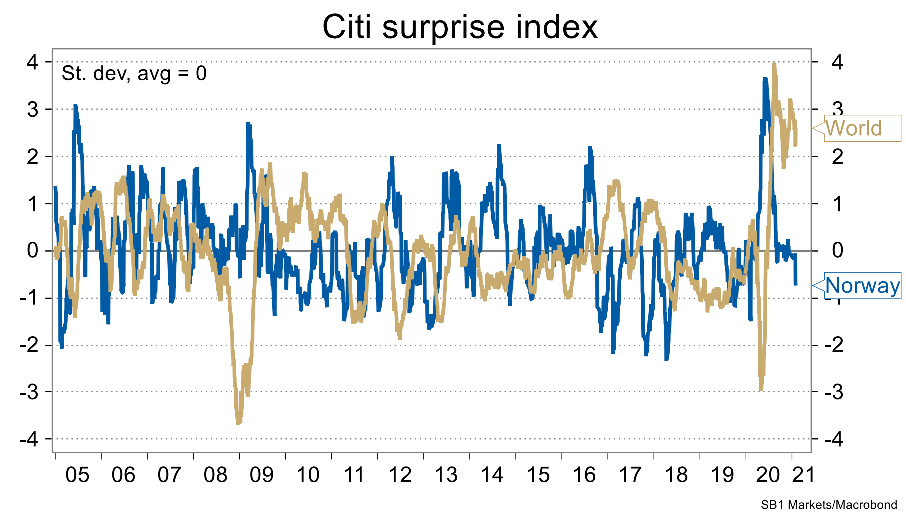


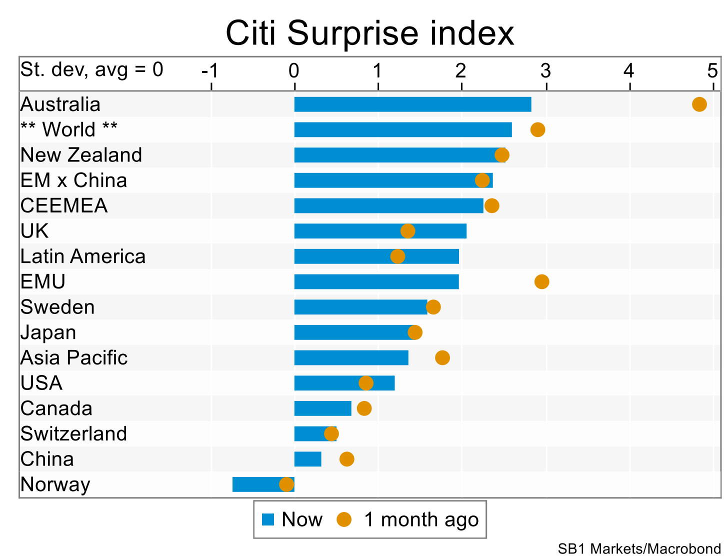
- **Open '<u>full time</u>' NAV unemployment**, which includes furloughed workers rose by 2.8' in Jan, following the 5' drop in Dec (after rising 10.5' in Jan. The rate rose 0.1 p to 4%, up from 2.2% pre corona. Norges Bank assumed a decline to 3.7% in its Dec MPR. Not seasonal adj. the rate climbed to 4.4% from 3.8%, in line with consensus. We expected 4.5%
  - » **Including <u>labour market measures</u>**, unemployment rose by 3.8' to 128.1 equalling 4.4% of the labour force. In February, the rate was 2.6%. The decline open unemployment was in line with NoBa's f'cast
  - » **Including <u>part time</u> unemployed**, we estimate a marginal decline in unemployment, but the seasonal adj. is uncertain in January. The rate is at 6.7%. Before corona: 3.5%
- **<u>The LFS</u> (AKU)** reported a decline to 5.0% in November, up 1.3 pp vs. February. Furloughed workers are not included before 3 months on the dole

Surprises are still on the upside – but less than some weeks ago

EMU is not that strong vs expectations anymore







- **All major countries/regions** are reporting data above expectations, for the first time ever
- The **Euro Zone** is still in net plus, butt less than late last year
- The **US** is still well into positive territory – and is heading upwards
- **China** has moderated lately
- **Other EMs** are well above their average level too
- **Norway, Canada and Switzerland** at the bottom, with China, but just Norway below an average level. And BTW, **Australia** at the top

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

The Calendar

PMI/ISM everywhere. Jan auto sales many places. EMU GDP, retail sales

Time	Count.	Indicator	Period	Forecast	Prior
Monday Feb 1					
08:00	GE	Retail Sales MoM	Dec	-2.1%	1.9%
08:30	SW	PMI Manufacturing	Jan	--	64.9
09:30	SW	GDP Indicator SA QoQ	4Q	0.9%	4.3%
10:00	NO	PMI Manufacturing	Jan	(52)	51.9
10:00	EC	PMI Manufacturing	Jan F	54.7	54.7
15:45	US	Manufacturing PMI	Jan F	59.1	59.1
16:00	US	Construction Spending MoM	Dec	0.8%	0.9%
16:00	**US**	**ISM Manufacturing**	**Jan**	**60.0**	**60.7**
17:00	**WO**	**PMI manufacturing**		**(53.6)**	**53.8**
Tuesday Feb 2					
11:00	**EC**	**GDP SA QoQ**	**4Q A**	**-1.20%**	**12.50%**
	US	Auto sales	Jan	16.10m	16.27m
Wednesday Feb 3					
02:45	CH	Caixin China PMI Services	Jan	55.5	56.3
08:30	SW	Swedbank/Silf PMI Services	Jan	--	56.6
09:55	GE	Markit Germany Services PMI	Jan F	46.8	46.8
10:00	EC	Markit Eurozone Services PMI	Jan F	45	45
10:00	EC	Markit Eurozone Composite PMI	Jan F	47.5	47.5
10:30	UK	Markit/CIPS UK Services PMI	Jan F	38.8	38.8
11:00	**EC**	**CPI Core YoY**	**Jan P**	**0.9%**	**0.2%**
14:15	US	ADP Employment Change	Jan	50k	-123k
15:45	US	Markit US Services PMI	Jan F	57.5	57.5
16:00	**US**	**ISM Services Index**	**Jan**	**56.7**	**57.2**
17:00	**WO**	**PMI composite**	**Jan**	**(52.1)**	**52.7**
Thursday Feb 4					
11:00	**EC**	**Retail Sales MoM**	**Dec**	**1.6%**	**-6.1%**
13:00	UK	Bank of England Bank Rate	Feb-04	0.1%	0.1%
13:30	US	Challenger Job Cuts YoY	Jan	--	134.5%
14:30	US	Unit Labor Costs	4Q P	3.6%	-6.6%
14:30	**US**	**Nonfarm Productivity**	**4Q P**	**-2.8%**	**4.6%**
14:30	US	Initial Jobless Claims	Jan-30	850k	847k
Friday Feb 5					
08:00	GE	Factory Orders MoM	Dec	-1.3%	2.3%
08:00	NO	Ind Prod Manufacturing MoM	Dec	(0.0)	1.5%
14:30	**US**	**Change in Nonfarm Payrolls**	**Jan**	**55k**	**-140k**
14:30	**US**	**Unemployment Rate**	**Jan**	**6.7%**	**6.7%**
14:30	US	Average Hourly Earnings MoM	Jan	0.3%	0.8%
14:30	US	Trade Balance	Dec	-$66.0b	-$68.1b

- **PMI/ISM**
  - » We expect a 0.6p decline in the **global PMI to 56.1**, due to weakness in services in Europe (EMU&UK), and a decline in the Chinese PMIs. If so, the PMIs are signalling a continued recovery but at a substantial slower pace than in Q4. The manufacturing PMIs are still going strong, and in the US the ISM is the 3rd best level in 40 years! We assume an unch Norwegian PMI was at 52
- **USA**
  - » **Nonfarm employment** fell in December but only due to sharp cuts in restaurant/bars. In other sectors, employment grew further at a decent pace. We doubt restaurants etc did not cut that much in Jan, and if so, the expected 55' total gain is not an aggressive estimate. The **unemployment** rate is expected unch at 6.7%. **Productivity** is expected down in Q4 but these data have been extremely volatile recently, and close to useless due to the large sectoral differentials in activity
- **EMU**
  - » How much did **GDP** decline in Q4? Some weeks ago, the consensus was for a 3 – 4% decline, which we thought was far to low. Now, the consensus is for at 1.2% decline. That's at least closer to the ball, as confirmed by several Q4 data releases last week. We expect a 0.5 decline%. December **retail sales** may surprise on the upside too. The EMU CPI will increase sharply, as signalled by the German CPI – due to the reversal of the temporary VAT cut
- **Sweden**
  - » **GDP** is expected up 0.2% in Q4, and given the dismal Dec retail sales, that's not impossible
- **Norway**
  - » **Manufacturing production** has surprised in the upside recently. We expect a flat print for December

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

Highlights

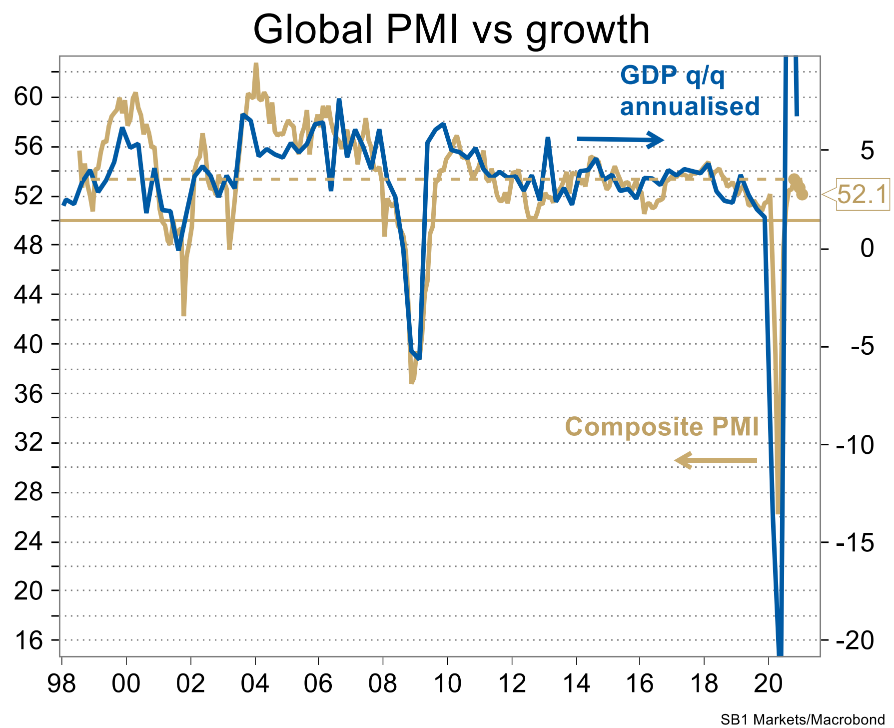
The world around us

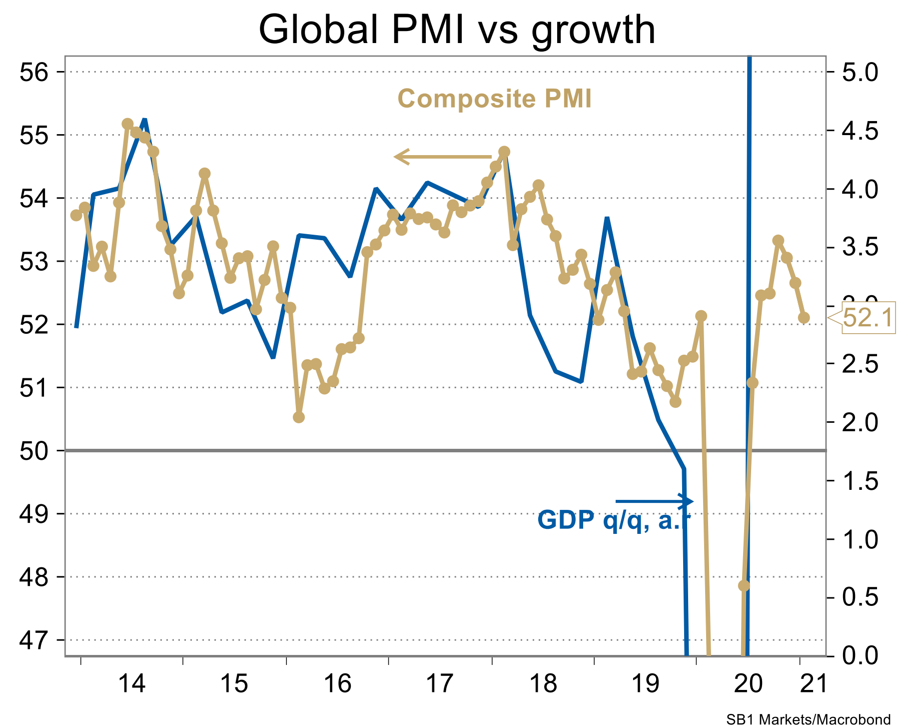
The Norwegian economy

Market charts & comments

The global composite PMI probably down 0.6 p to 52.1 in Jan

China & the EMU contributes at the downside, and more than the US at the upside



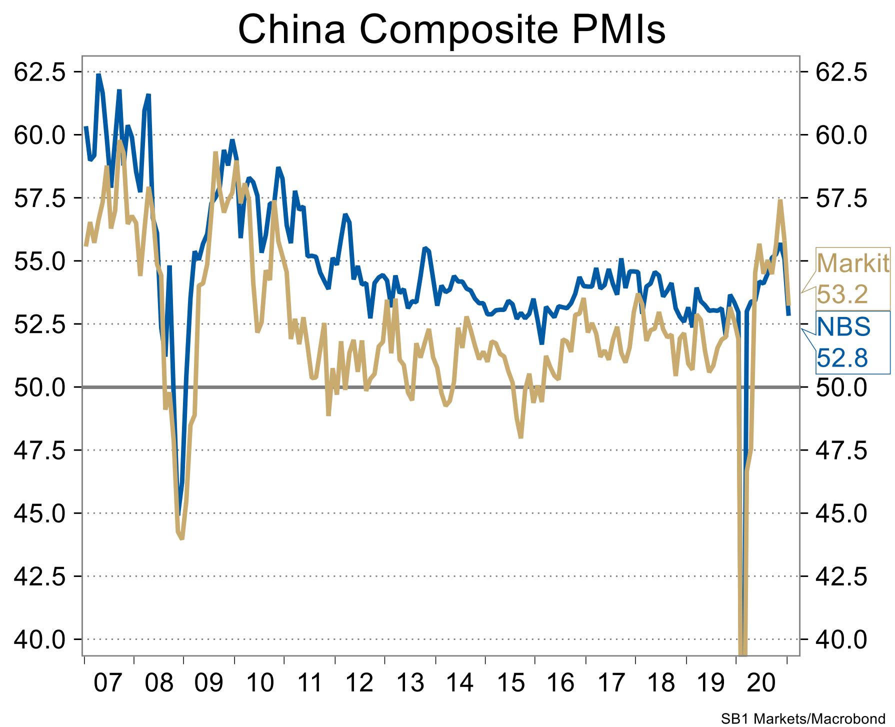


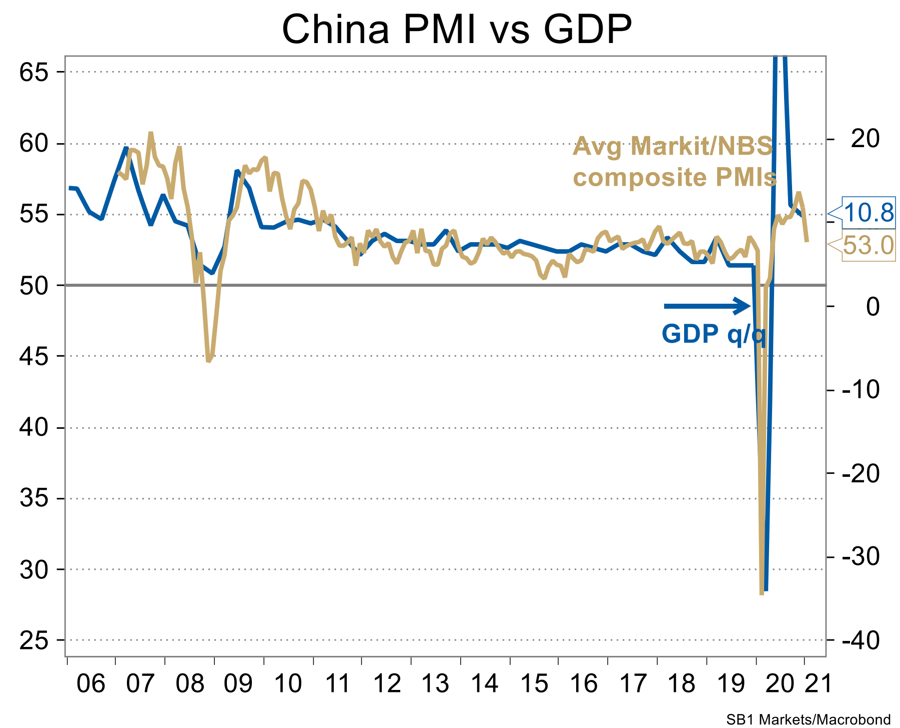
- The preliminary PMIs were mixed, a surge in the US was not sufficient to compensate for a decline in both China, EMU, Japan and UK (a sharp drop here). (The China service sector PMI is not yet reported, our estimate is included)
- Our **global PMI composite** estimate is down 0.6 p to 52.1 . The level signals some 3% growth in the global economy, vs the actual growth rate at 5 -6% in Q4 (our very preliminary estimate)
- The **global manufacturing PMI** total index was probably just marginally down but the output index fell sharply, 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

The PMIs sharply down in January but far from out, still signalling growth >trend

The NBS composite PMI fell 2.3 p to 52.8, as both manuf. & sevices retreated. Markit mauf. -1.5 p

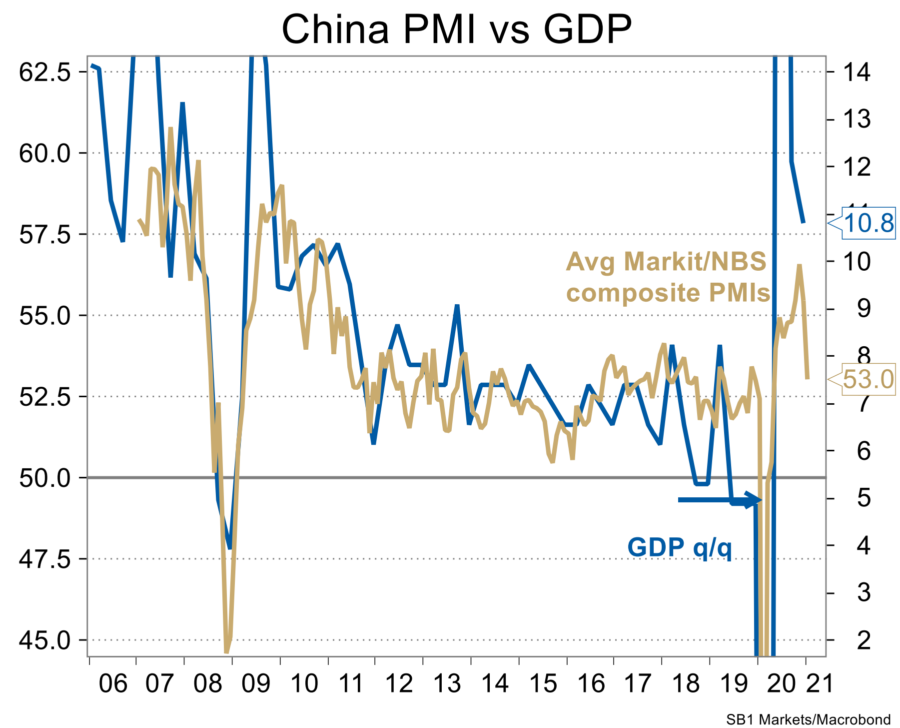




- The NBS manufacturing PMI fell by 0.6 p to 51.5, expected down 0.3 p. The service sector PMI fell by 3.3 p to 52.5
- Markit's PMI declined by 1.5 pp to 51.5, expected down to 52.6.
  - » We assume Markits's PMI fell sharply too, which is included in our forecast for the composite index
- A moderate credit tightening may explain the slowdown, even in exports orders are more to blame
- Even if the PMIs fell, the levels is not yet weak – and growth above trend (at 7 – 8%) is signalled.
- Still, the direction is down

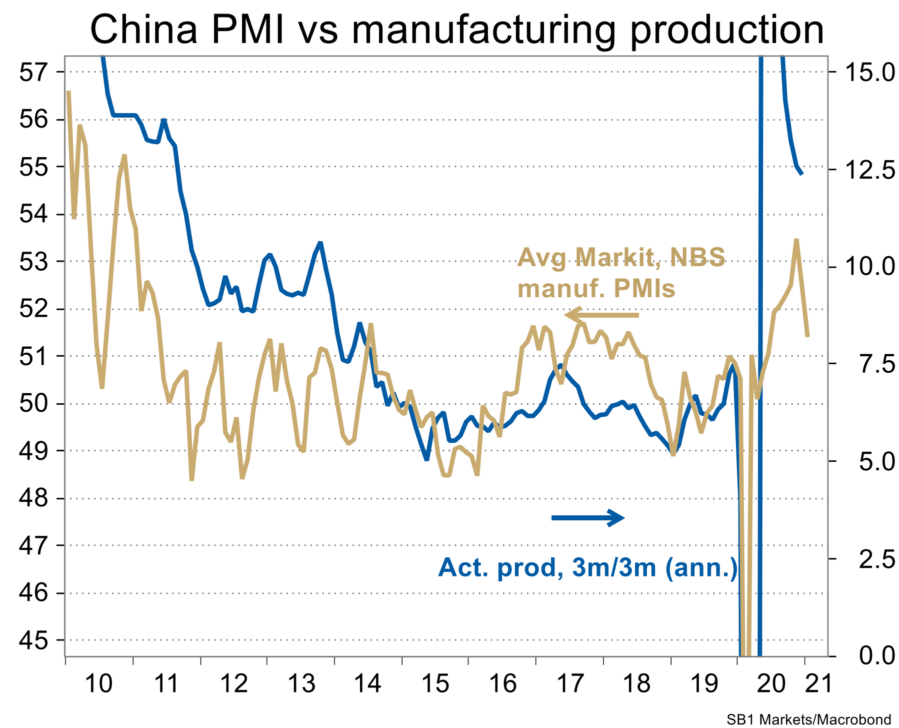
… a closer look, at 'normal' times: The PMIs are signalling a 7 -8 % growth pace

GDP grew by 2.6% q/q in Q4 (10.8 annualised, 6.5% y/y) – and the PMIs still signals growth >trend



Both manufacturing PMIs further down in January – and both weaker than exp.

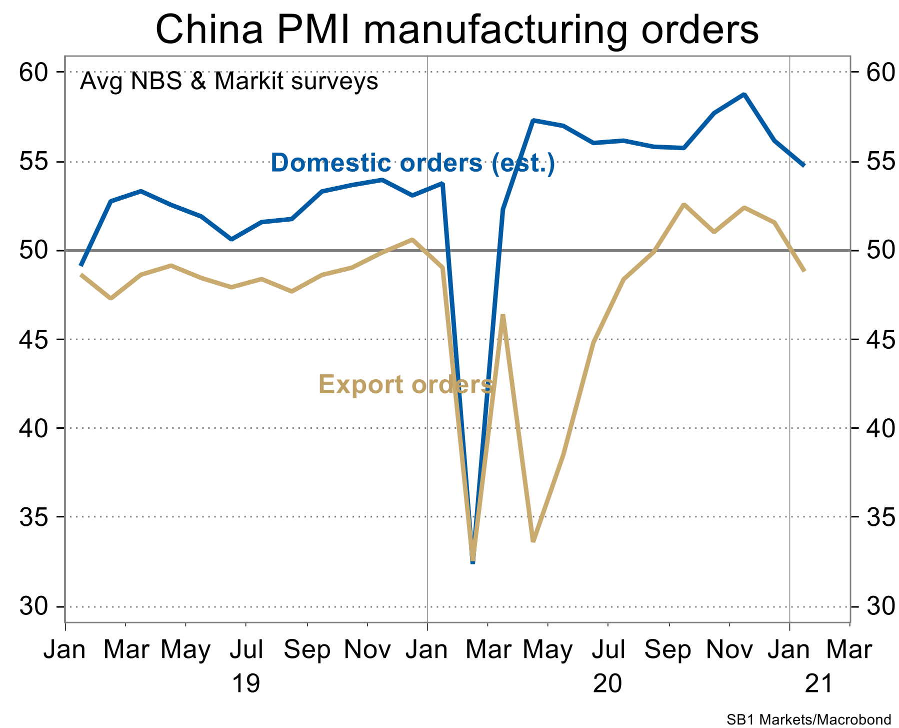
The average fell by 1.9 p to 51.4, still well above the average since 2011 – and signals strong growth



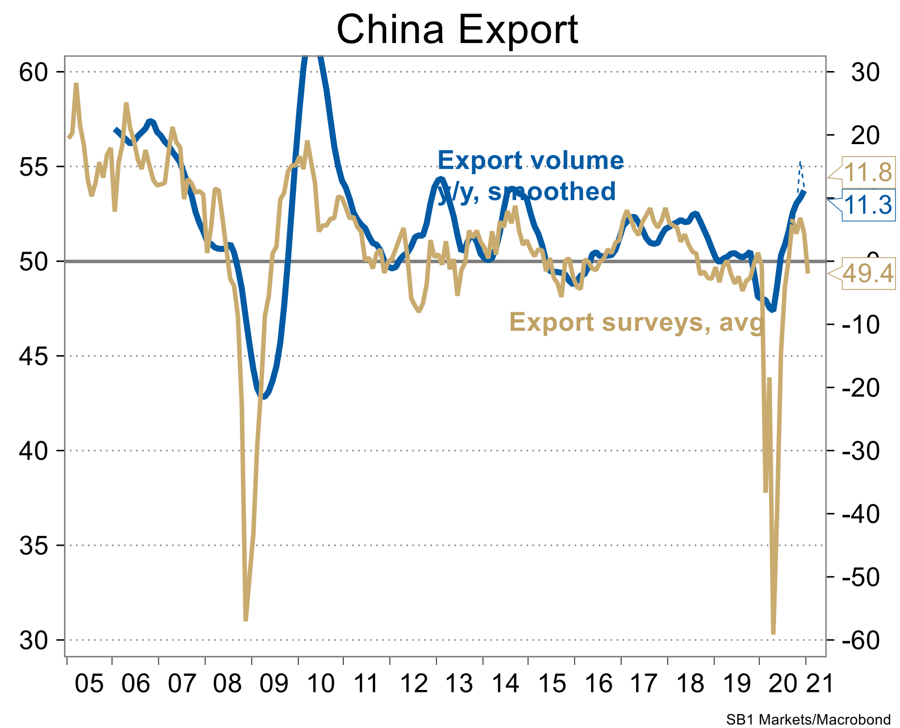
- Still, the direction is down…
- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

Exports orders are sagging, and domestic orders are growing slower

Both total & domestic orders are rising faster than normal recent years. Export orders approx. on par



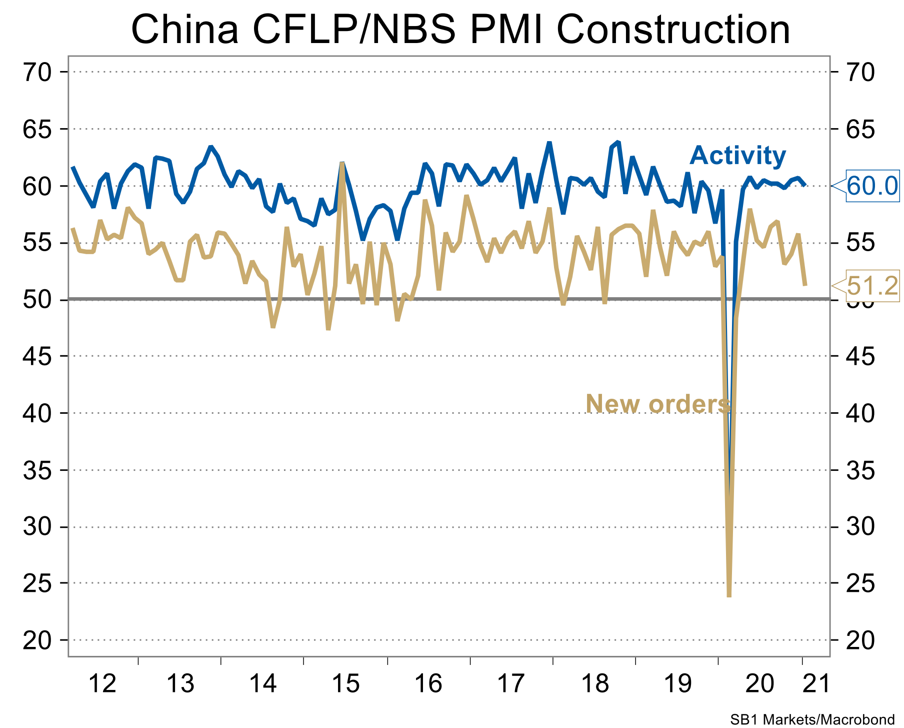
Export surveys signal a slowdown, but not a real setback

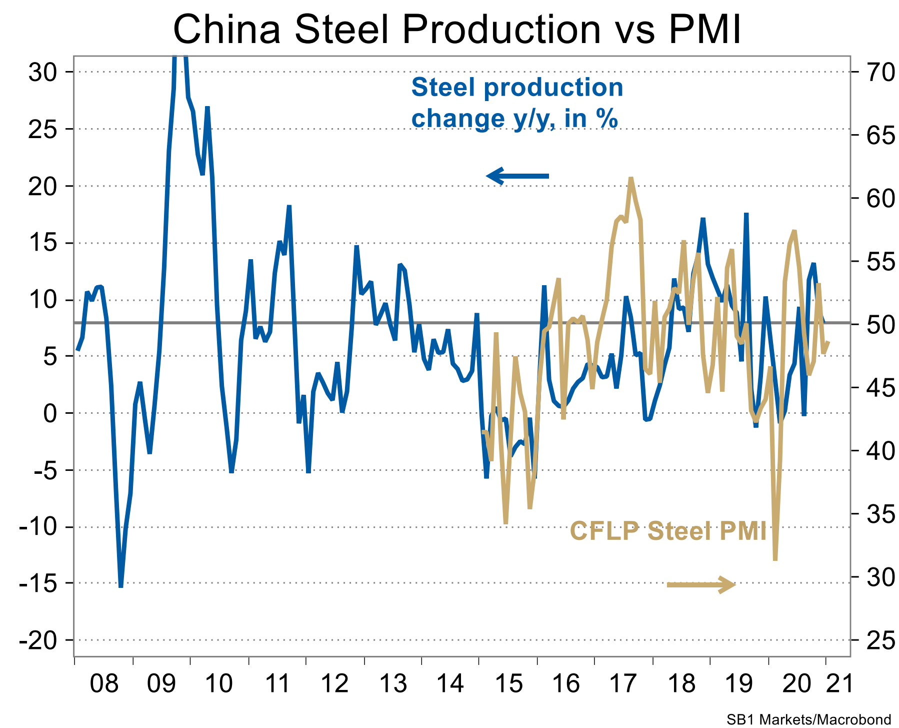


SpareBank 1 MARKETS

Construction & steel: Signs of slower growth?

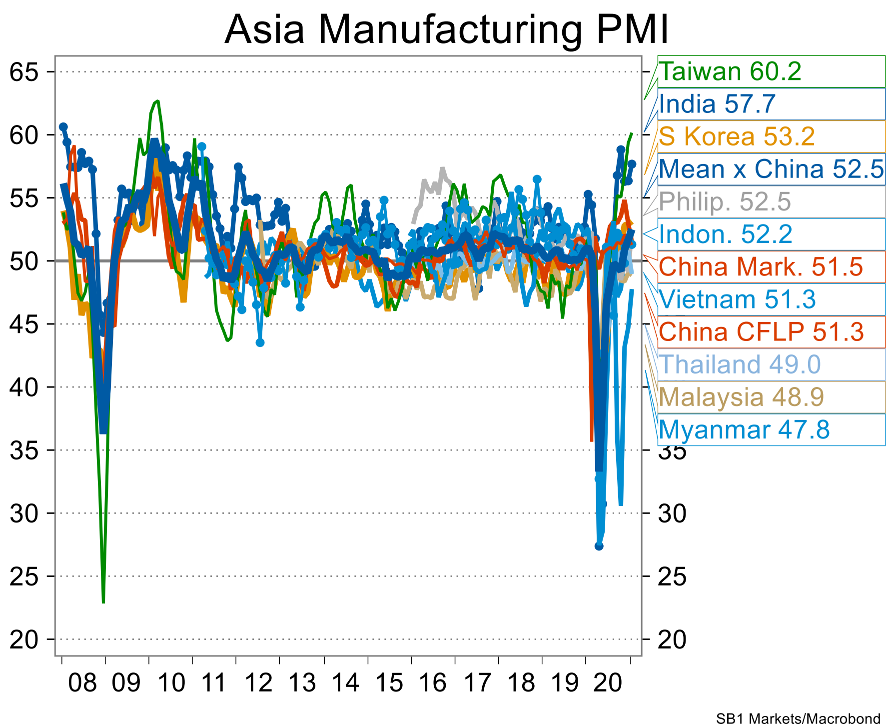
Slowdown in construction orders & steel production?



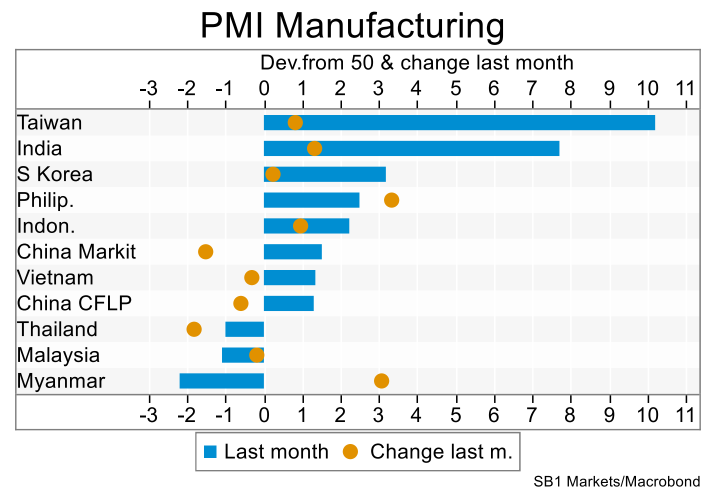


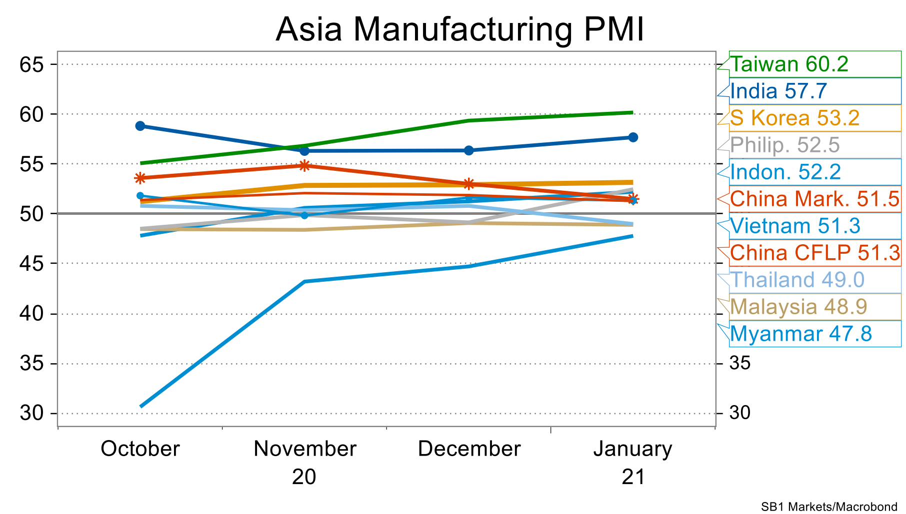
More up than down in January, just 3 of 11 below the 50 line

6 manufacturing PMIs up, 3 down, of which 2 of the Chinese PMIs



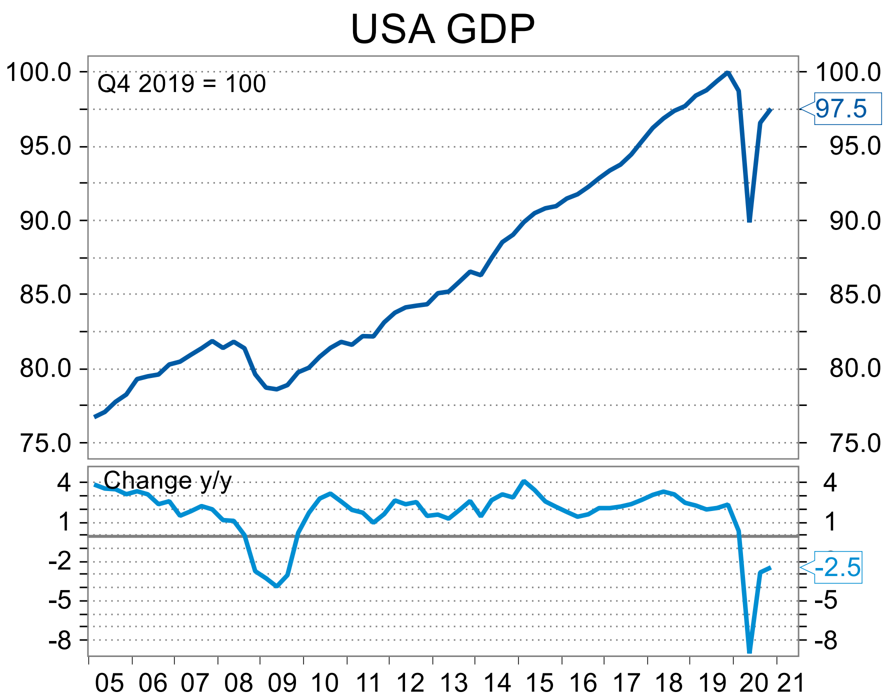
- Taiwan, India and South Korea are all reporting decent – and higher – growth

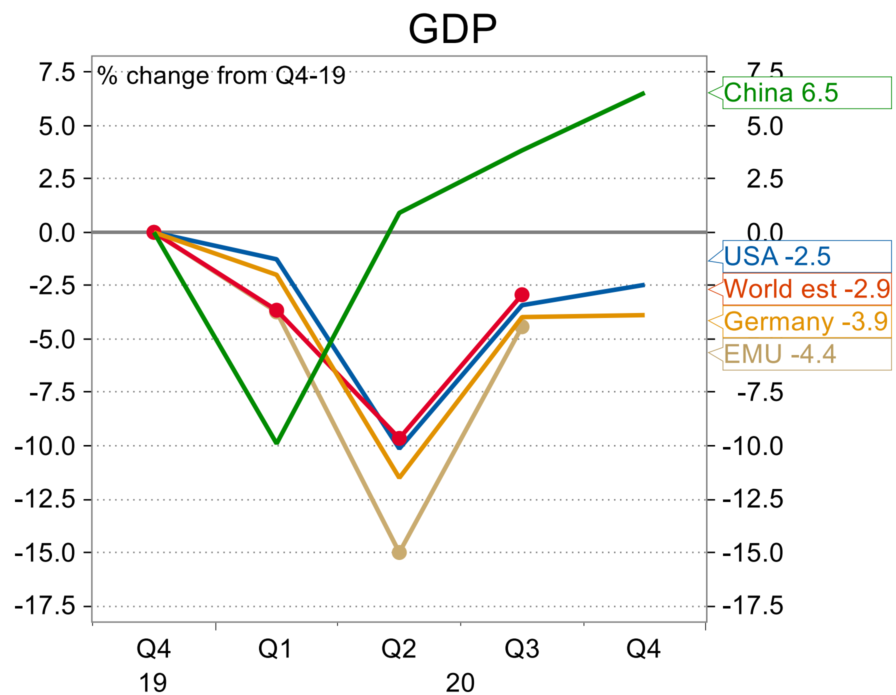




GDP up 4% in Q4 (1% not annualised), still down 2.5% down from Q4 2019

Domestic demand growth slowed in Q4 vs the unprecedented Q3 recovery

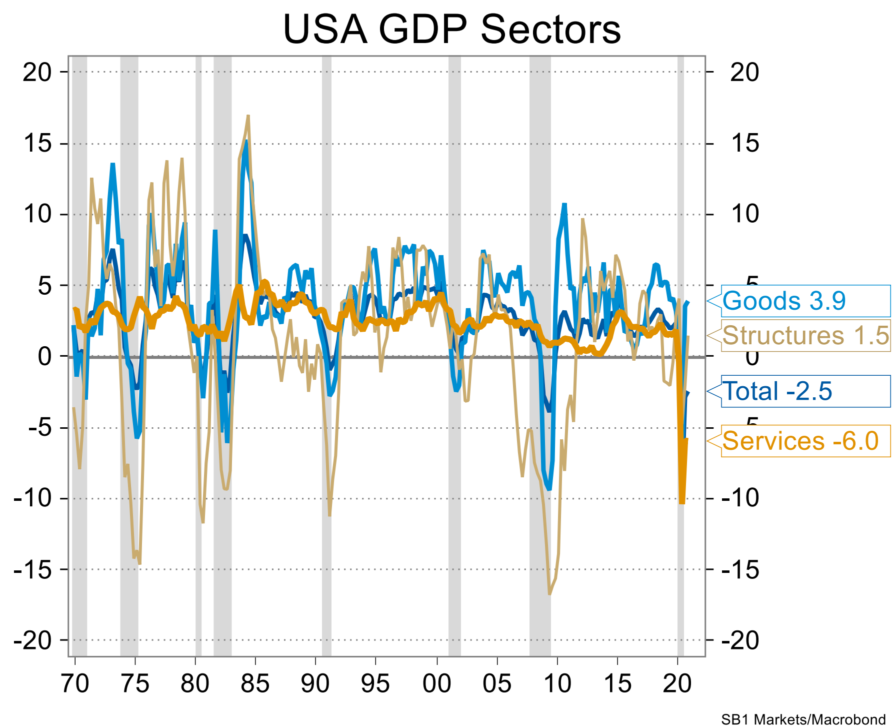


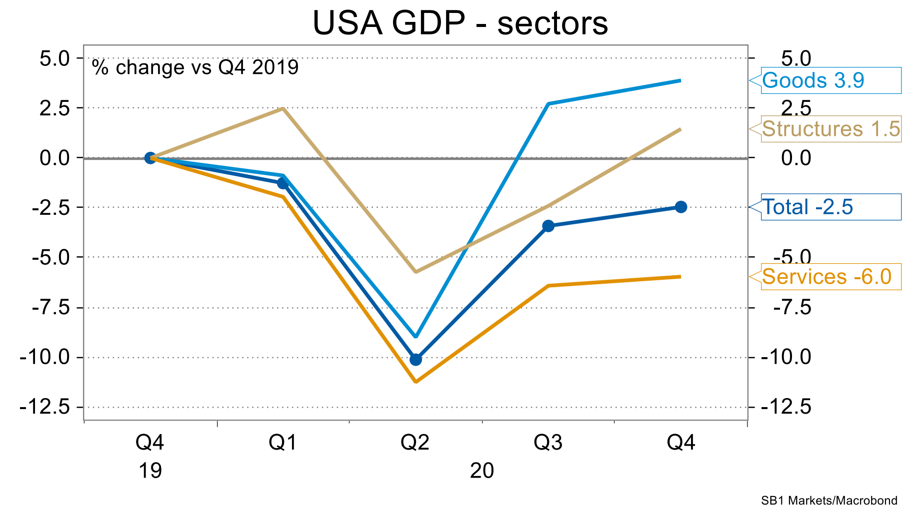


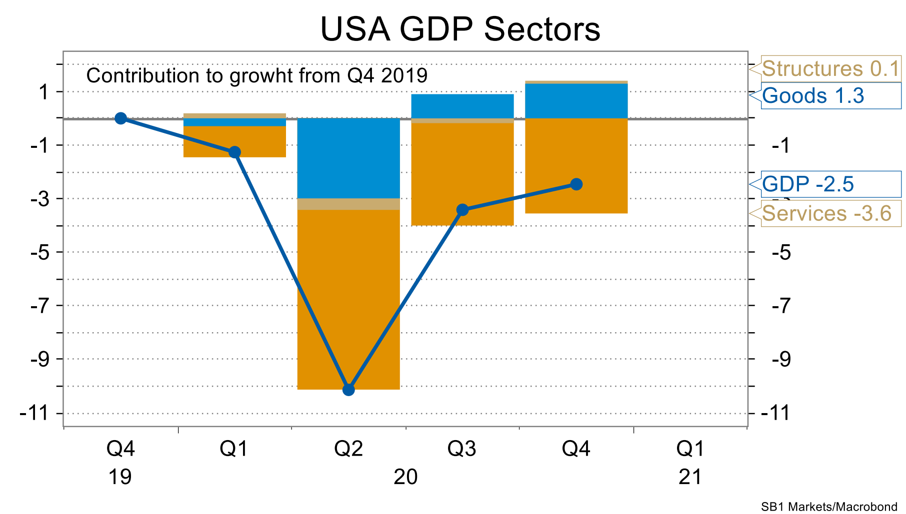
- **GDP grew** slightly slower than expected (4.0% vs 4.4% annualised), down from 33% (7.5% not annualised).
- **The GDP level** was down 2.5% y/y. The activity level was some 4.5% below the pre-pandemic growth path. However, since activity clearly was above trend one year ago, with the unemployment at the lowest level in 50 years, and profits under pressure, the **output gap** is lower, we assume some 3%
- **Last year** GDP fell by 3.5%, the most since 1946 following the demobilisation after WWII. But that's all history
- **In Q4**, GDP was 1.9% above the 2020 average – which is 'growth for free' in 2021
- **A further recovery is of course very likely** – with both timing and strength mostly decided by the virus (incl. mutations) & pace of vaccinations. We assume growth will accelerate from sometime in Q2 due to a reopening of most of the closed down parts of the service sector (hotels/restaurants/transport/education). If so, growth will slow through H2

A quite unusual recessions, not an ‘economic’ recession but the virus version

The downturn in services explains the downturn in the economy, and not the usual suspects



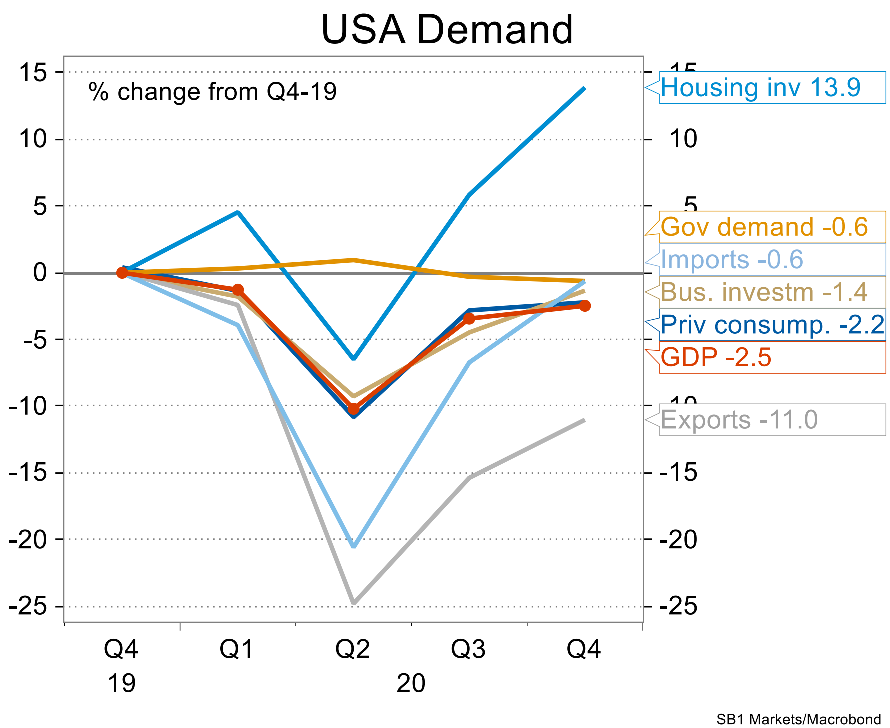


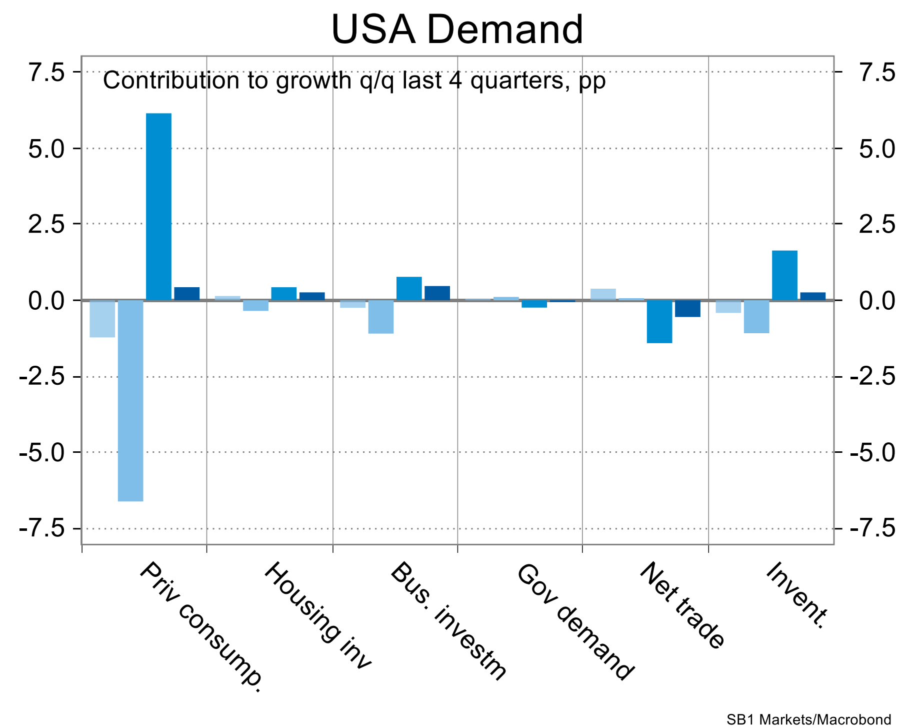


- And the recovery will of course be driven by services the coming quarters, as soon as the virus is brought under control

Housing is going strong – exports the weakest link in the chain

Business investments have recovered pretty well trough H2

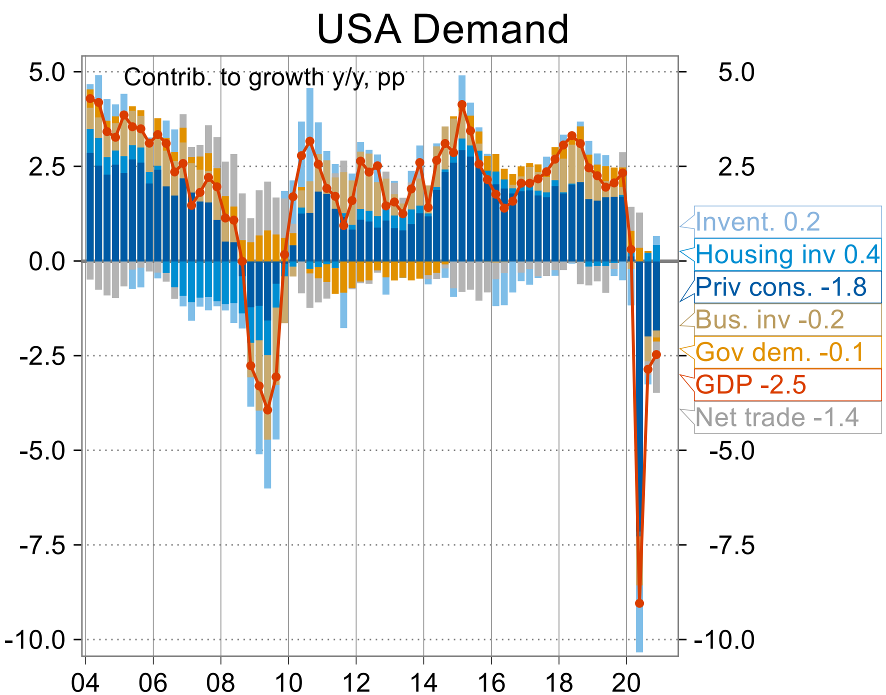




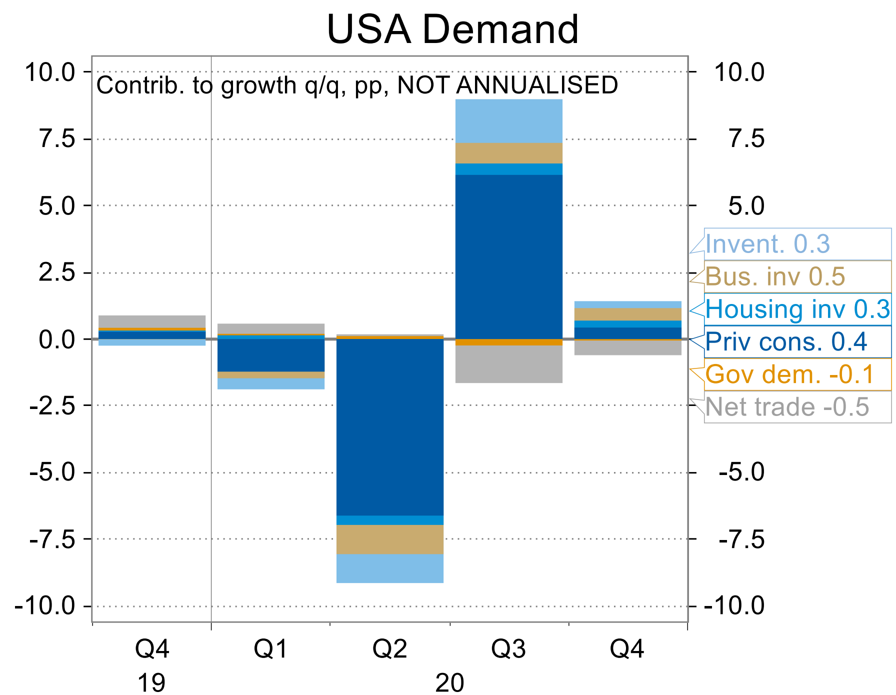
- **Private consumption** contributed most to the shortfall vs. expectations in Q4 – but was still up 2.5% q/q. Consumption is down 2.2% y/y. It contributed to ¾ of the overall volatility in GDP last year
- **Housing and business investments** grew further in Q4. Housing investments are up 14% y/y, while business investments are down just 1.3%!
- **Exports** rose 22% in Q4, but **imports** grew even faster at 29.5% - and **net trade** deducted 0.5pp from growth. Measured y/y exports are down 11% y/y, while imports are down just 0.6%! Thus, **net trade** deducted 1.4 pp from GDP growth y/y
- *Check the charts at the next page too*

Private consumption the main swing factor, due to lack of spending opportunities

Just net trade contributed on the downside through H2



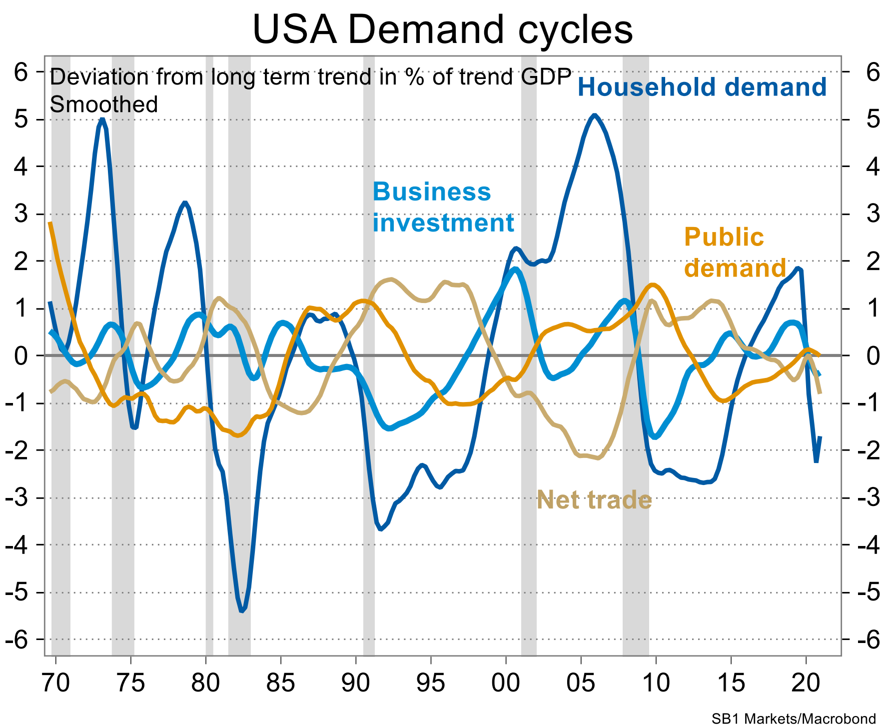
SB1 Markets/Macrobond

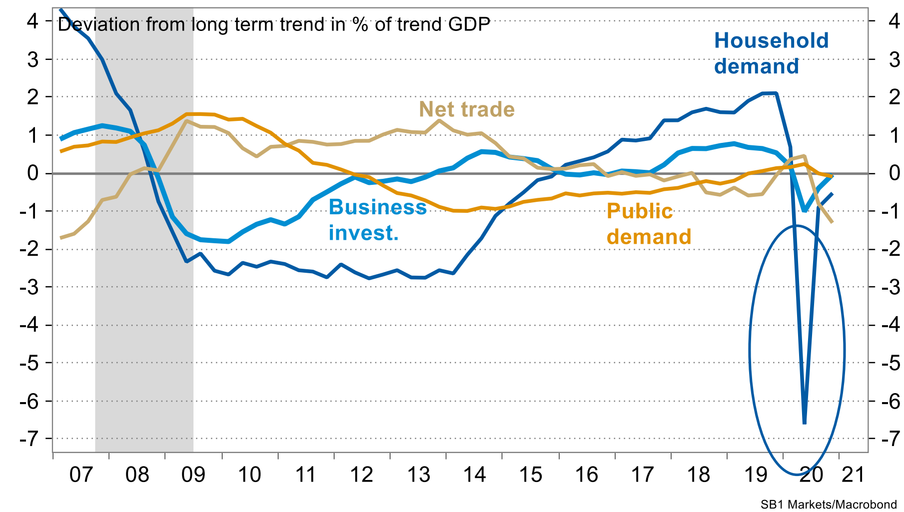


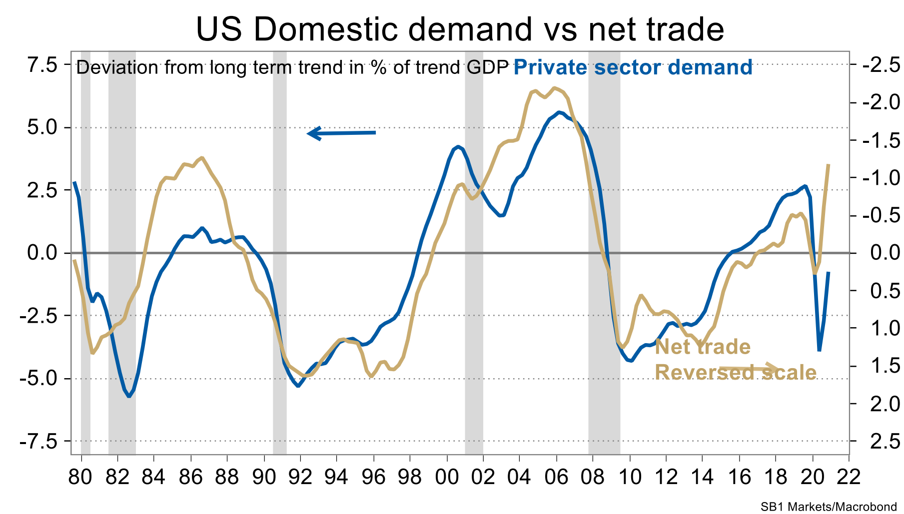
SB1 Markets/Macrobond

A private consumption cycle. Or rather, a virus cycle…

A shallow business investment downturn. Net trade is far too weak, but will probably not correct short term





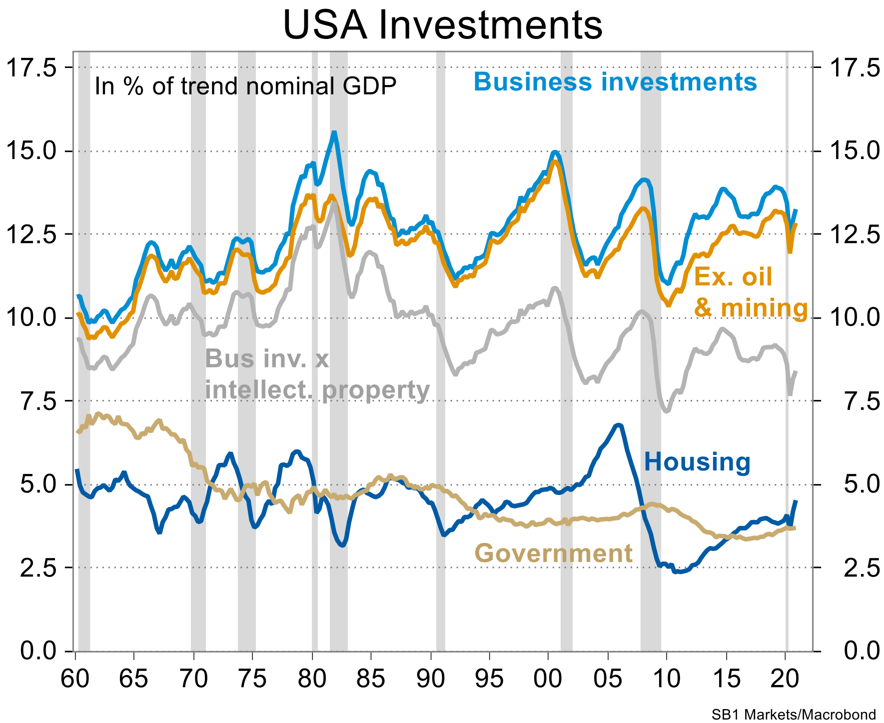


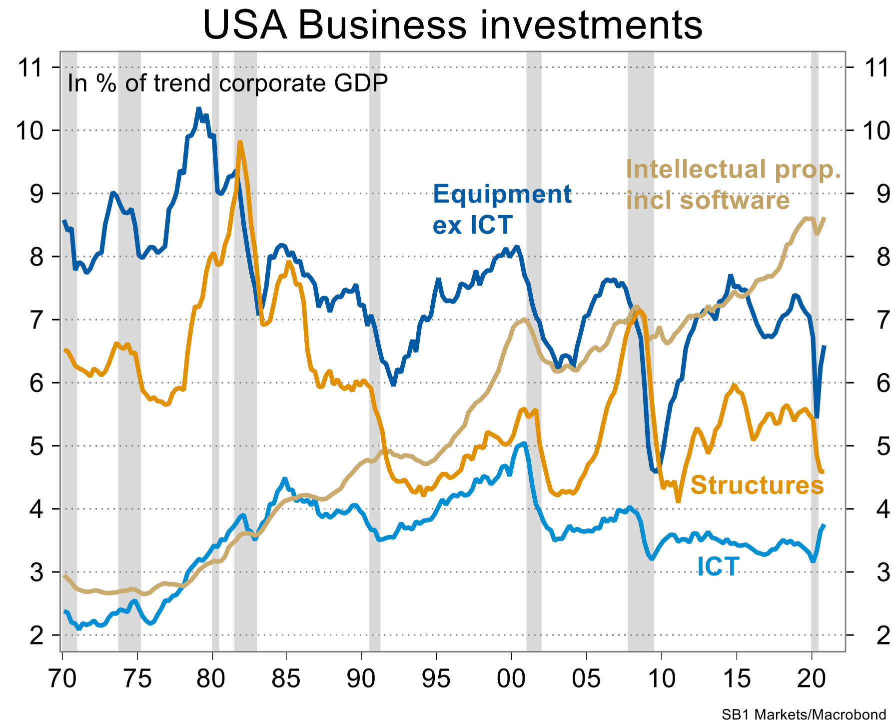
- *Check more on the household some few pages forward*

Investment: Back on trend in Q4. A mini ITC investment boom due to corona?

All sorts of investments rose in Q4, even structures

Investments are measured in % of trend GDP, not actual GDP

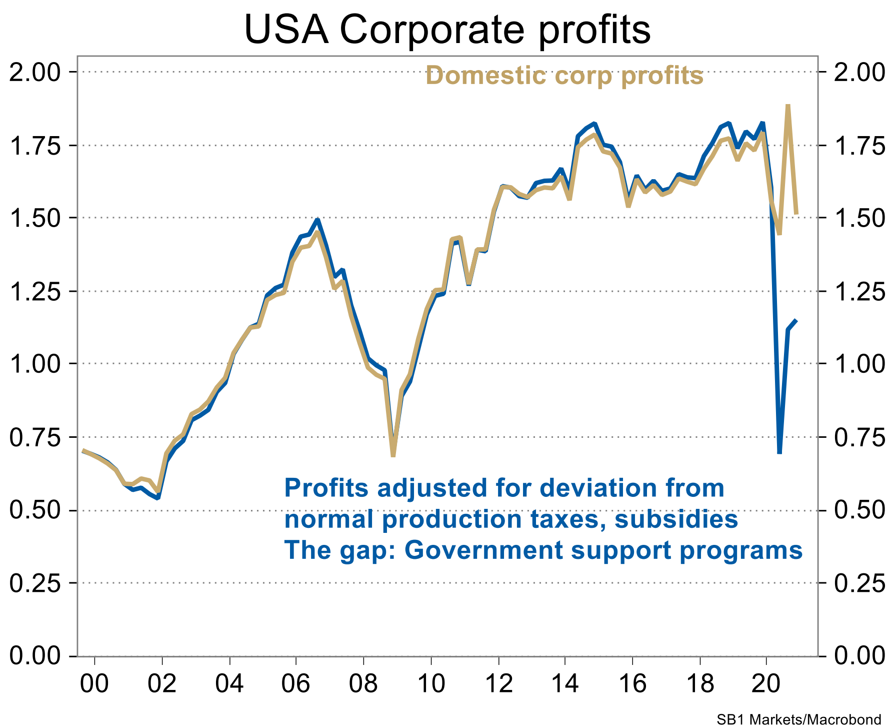


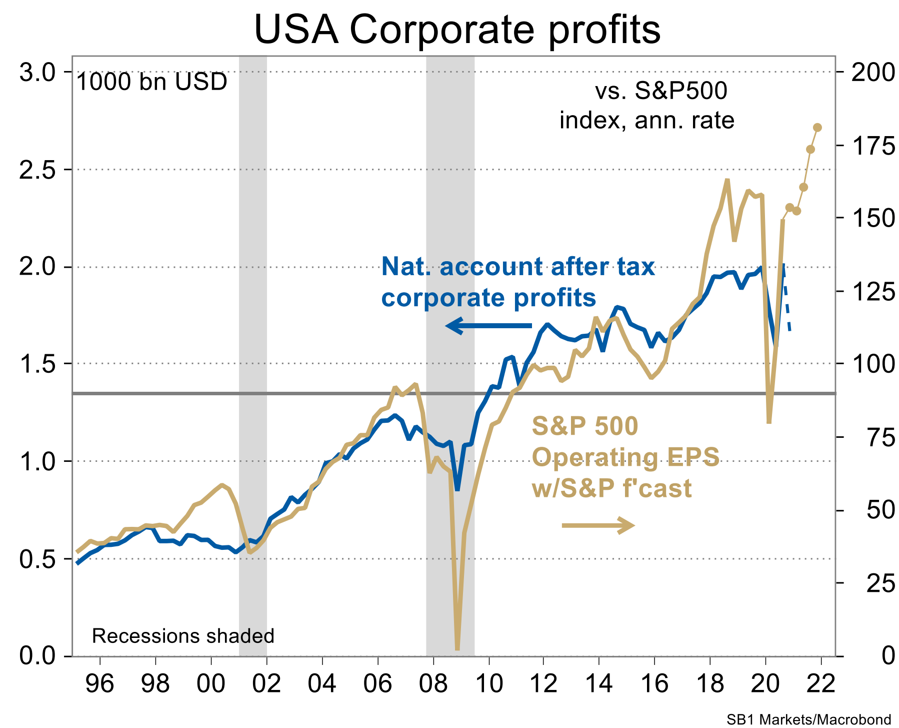


- Business investments are down just 1.4% y/y (in volume terms, 0.7% in nominal terms)
  - » ITC investments are up 18% in nominal terms, the highest growth rate since early 1980 – and ITC investments vs corporate GDP is highest since 2007 but still fare below the 2000 level. There were good reasons to accelerate ITC investments in 2020, we assume. However, the accumulated increase in ITC capital is not that impressive, as the upturn has been short (so far), and the level is not that far above normal – investments were low during the quarters ahead of the pandemic. (the level in Q4 is no more than 3.7% vs the 3.5 level over the previous years, which of course was not sufficient to create an economic miracle
  - » Investments in structures are below a normal level, while IP/software seems to be a one way bet – upwards. However, one day…
- Housing investments rose sharply in Q4 too – housing investments are well above the long term trend (our assessment)
- Government investment as share of GDP is on the way up – but probably still too low

Less gov't support: Corporate profits prob. down almost 20% q/q in Q4 (-15% y/y)

Less pandemic subsides in Q4, and profits will take a huge hit (for the domestic corp sector in total)

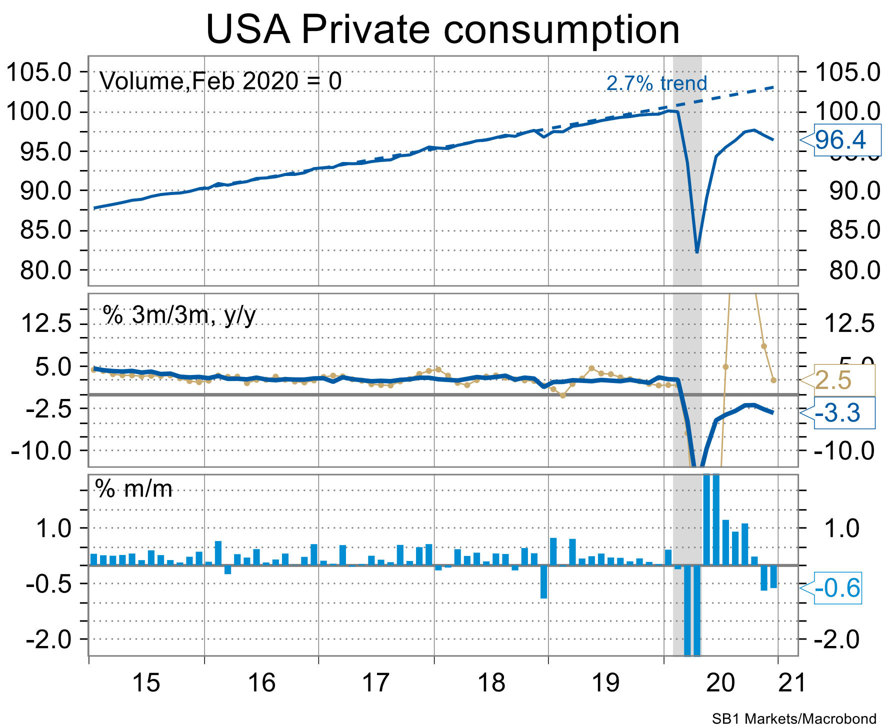


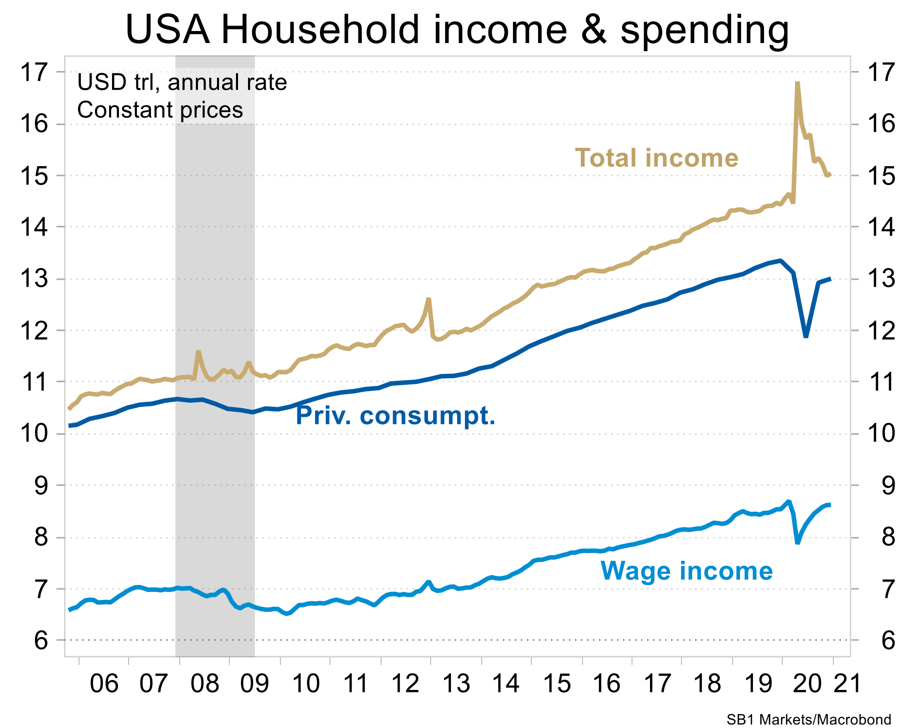


- **Government pandemic programs** have lifted domestic corporate profits at an unbelievable scale
  - » Profits have been kept up, even if the 'normal' profit generation has collapsed. In Q2/Q3 the support equalled 40% of normal profits.
  - » In Q4, the public support slowed but still equalled 25% of the pre-corona profit level. Still, as the underlying profits did not grew much, the booked profits fell by some 20% q/q, and by 17% y/y. The gov. subsidies equalled some 2% of GDP in Q4 (down from 4% in Q2/Q3
    - We have made some few assumptions as all date are not published yet, and others are often revised. A less than 13% decline q/q (-8% y/y) would still be surprising
- Going forward, the corporate tax rate will probably be lifted (Biden has pledged reverse half of the 2018 cuts) – but it will most likely not happen anytime soon

Consumption down 0.6%, disp. income up 0.4% (real), and savings up to 13.7%

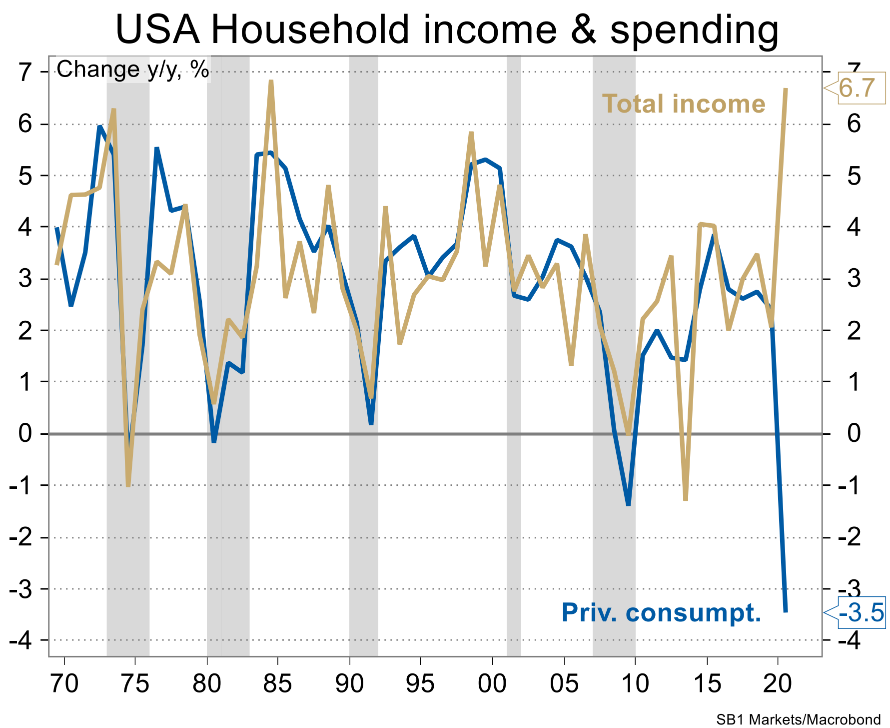
Both service & goods consumption down in December

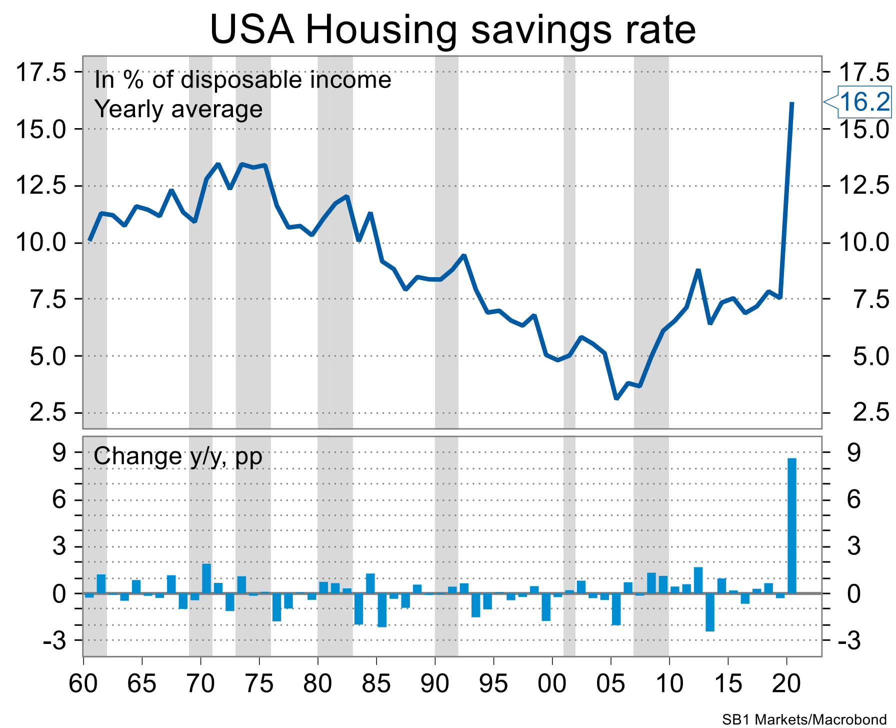




- **Private consumption** fell 0.6% in real terms in Dec, like in Nov (revised from -0.4%). Such declines are rather unusual. Consumption is down 3.6% from February last year. In nominal terms, consumption fell by 0.2%, less than expected (-0.4%)
- **Personal disposable real income** rose by 0.4% m/m. Nominal income grew by 0.6%, well above the expected 0.1%. Incomes are far above the pre-corona levels, as wage incomes almost are back, while government transfers are still supporting income
  - » That will the case in 2021 too, one fiscal stimulus package is already decided, another – much larger – is proposed
- **The savings rate** got another boost in Dec, up to 13.7%, more than 6 pp above the pre-corona level. If US households have an income problem due to the corona crisis, it is due to the distribution of change in income, not the average change in income

Never seen such a decline in consumption
– and not such in increase in income, since 1984. Or 9 pp lift in savings



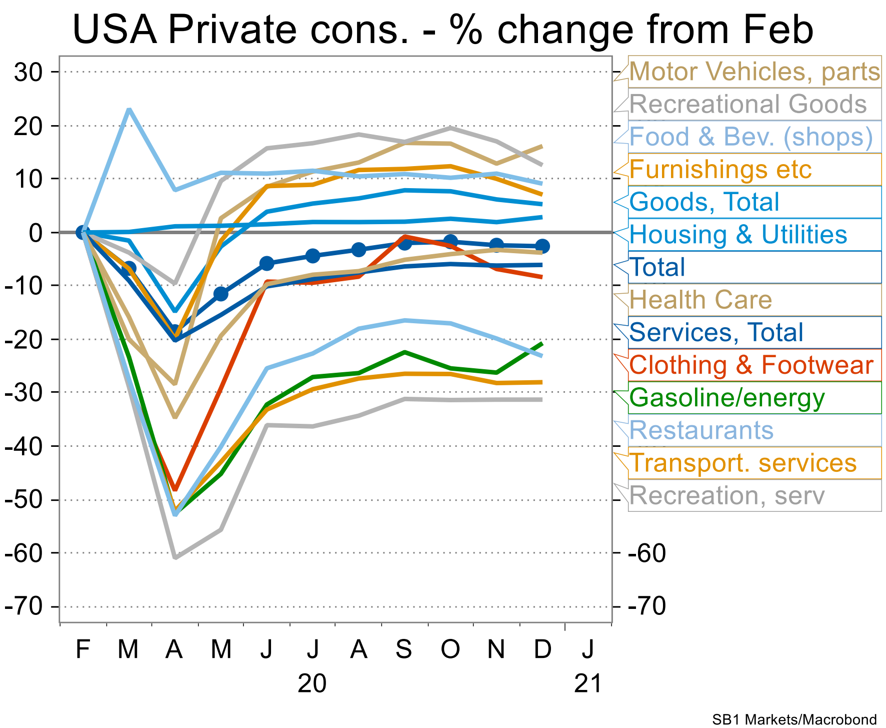


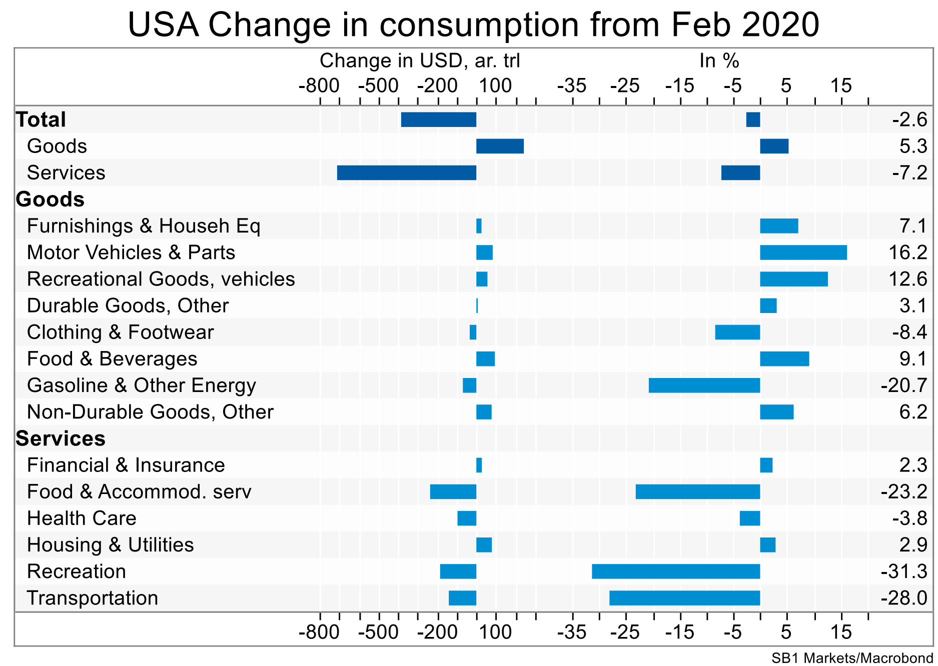
- And we have never ever seen 16% savings rate or an 9 pp lift from the previous year
  - » The extra savings equal USD 1,600 bn, almost as much as Biden's proposed stimulus plan. If both are spent next year…
- Savings are not up because households do not dear spending them but rather because money cannot be spent where households want to spend them
- Economically, and in aggregate, households are <u>extremely well positioned for spending more </u>in 2021, as soon as the virus is gone!

USA

The recovery in services has stalled, at a low level. In Nov/Dec goods down

However, consumption of goods is still 5.3% above the Feb 2020 level

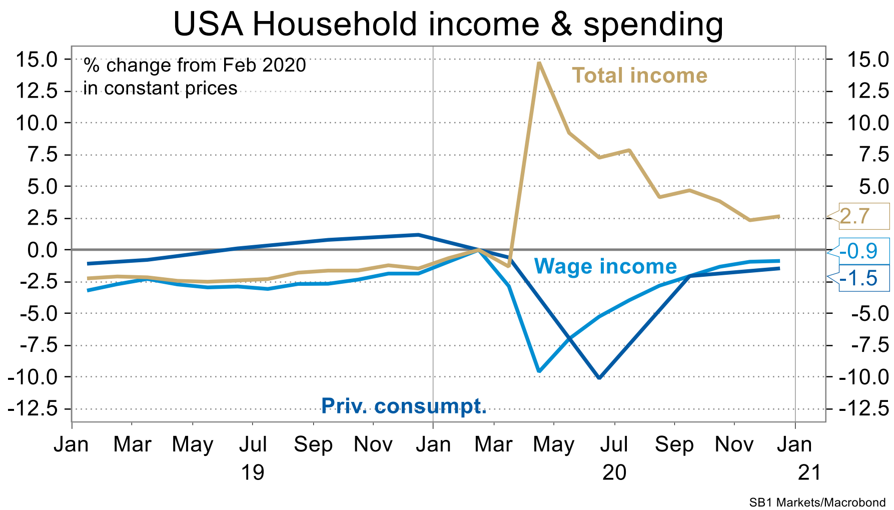


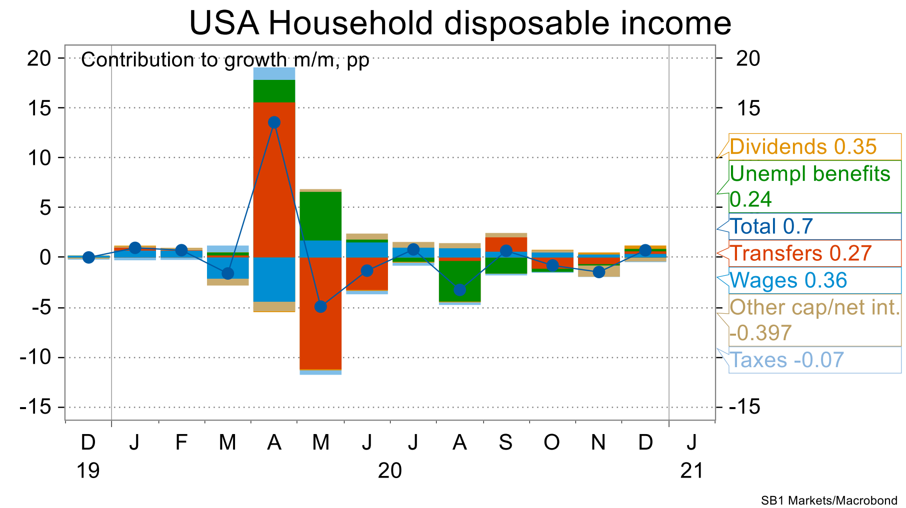


- Growth in **consumption of goods** has been driven by food & beverages (at home), autos (2nd hand), recreational vehicles (!), while gasoline is sharply down – all in value terms
  - » In Nov, auto sales fell, as did sales of clothing & footwear
- **Consumption of services** is down 7% vs Feb 2020, due to a 23 – 31% shortfall in restaurants/hotels, recreational services, transport – of course dramatic for companies in these industries (and their employees!)
  - » In Nov/Dec, restaurant sales fell sharply – and employment fell as well

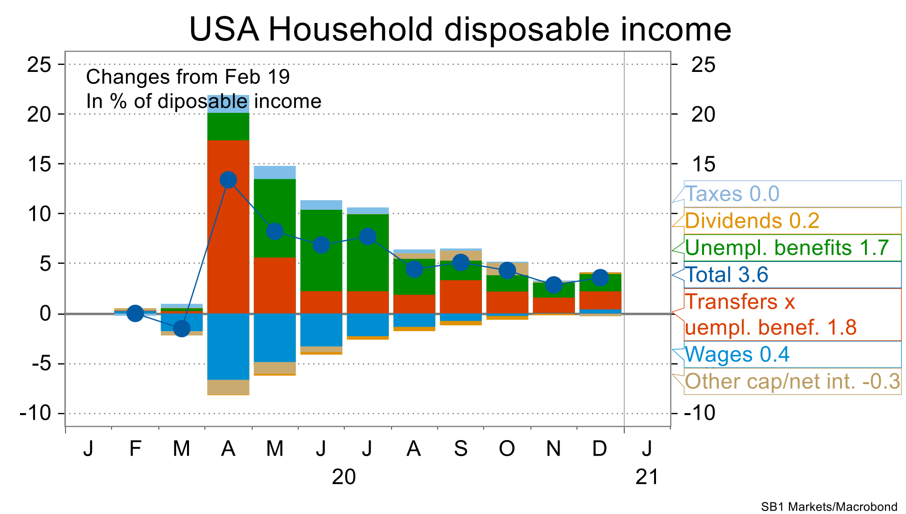
Income down from the spring peak, but still far from weak

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



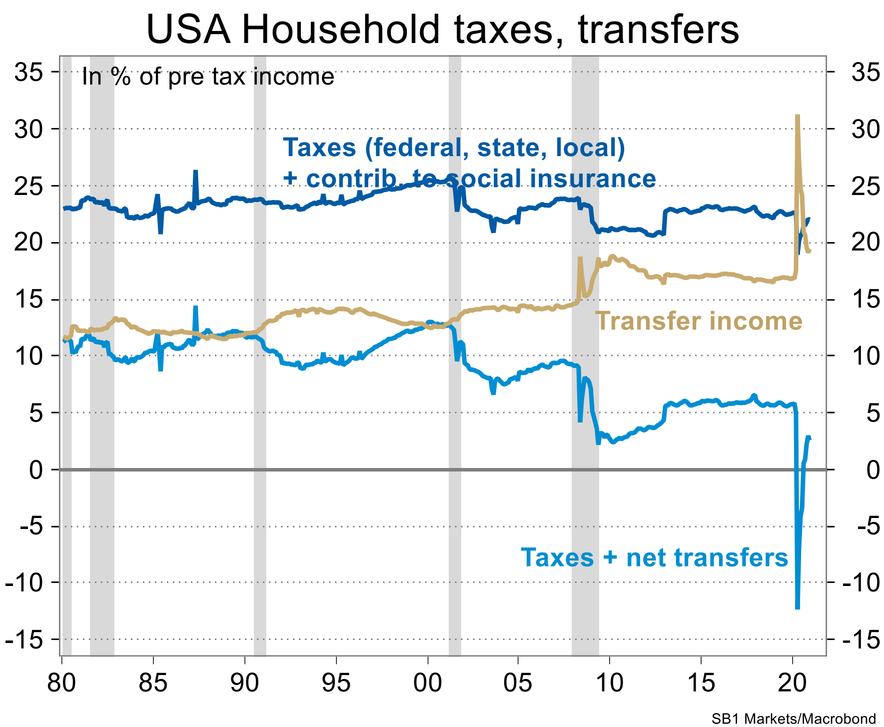


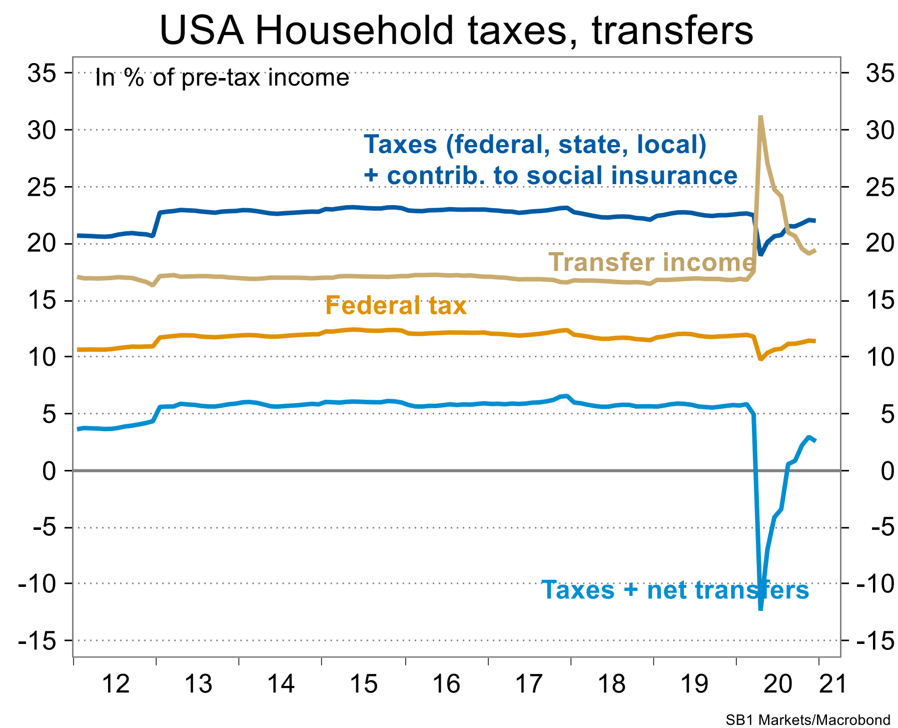
- Household disposable income rose by 0.7% nominally in Dec, with contributions from several components
- Since before corona: Households have – in aggregate – been overcompensated, big time by government support
- Household disp. income is 3.6% from February 2020
  - » Wage income (incl. supl.) is slightly above the Feb level, even if hours worked still is far below – it's the lower paid that have lost their jobs. The others have increased their wage income substantially
  - » Unemployment benefits are up equalling 1.7% of disp. income
  - » Other transfers are up equalling 1.8% of disp income. At the peak in April, transfers equalled 17% of the Feb-20 monthly income!
  - » Government transfers have in sum been much larger than the decline in wages and other market-based incomes
- Unemployment benefits were reduced in August but support will probably be lifted in 2021



SpareBank 1 MARKETS

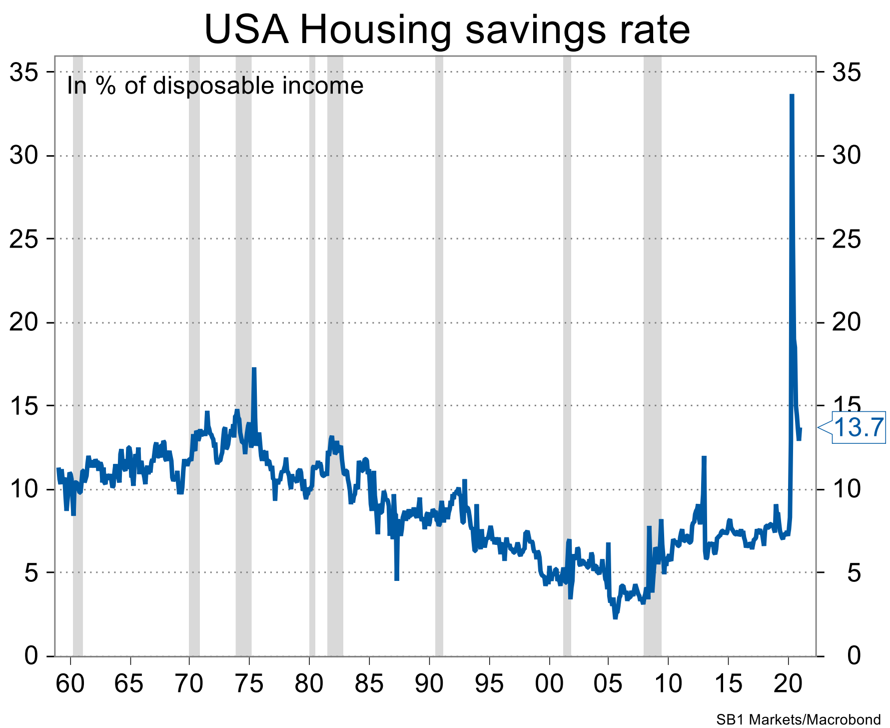
Transfers are still running higher than before corona. Taxes are back to normal

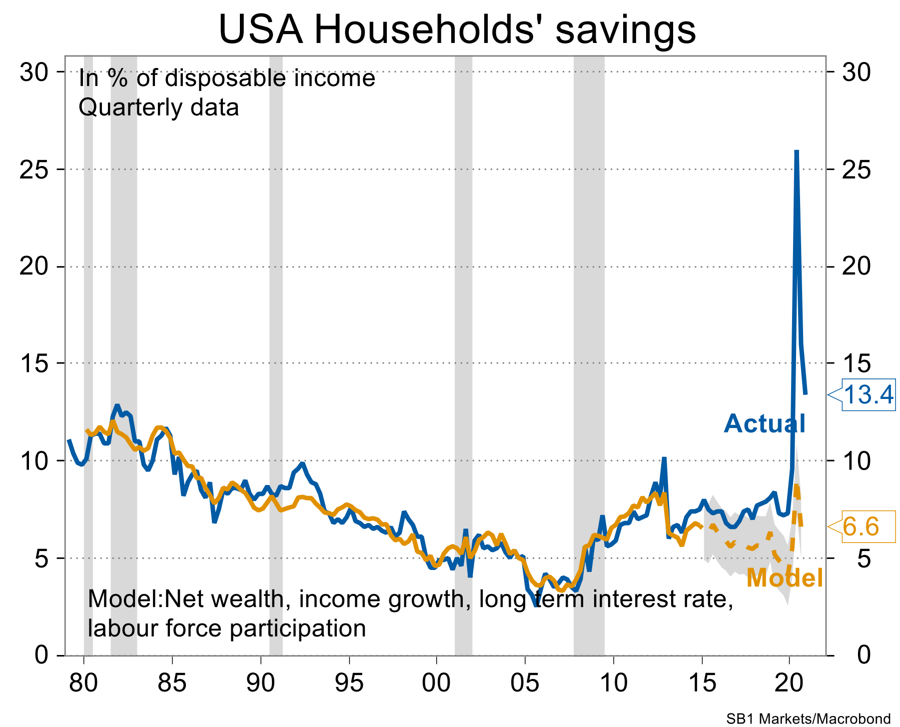




Savings up again in December, just waiting to be spent ☺

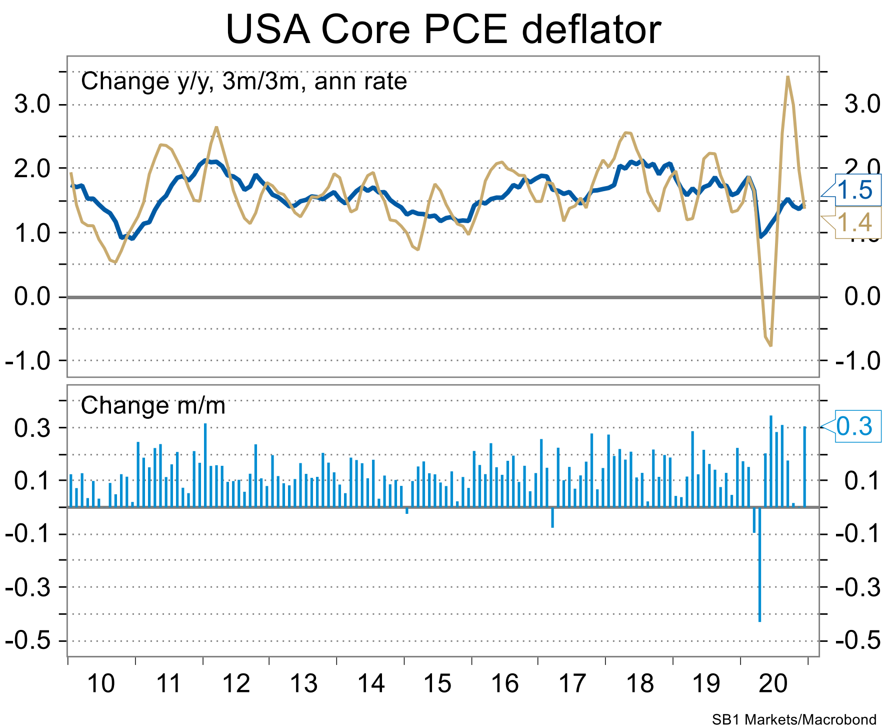
No normal model can of course explain the extreme lift in household savings. Just the virus

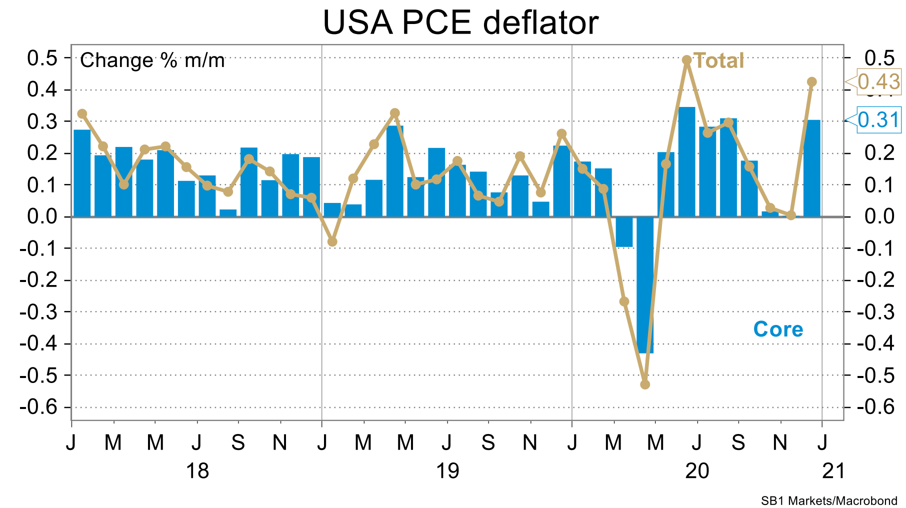


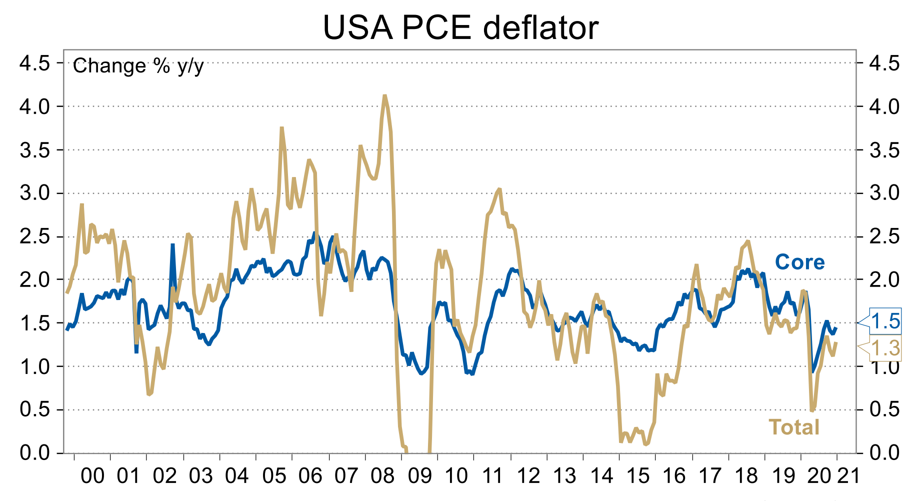


Consumption prices up 0.3 – 0.4% m/m!

Prices rose more than expected, though following 2 months without price increases. Core at 1.5%



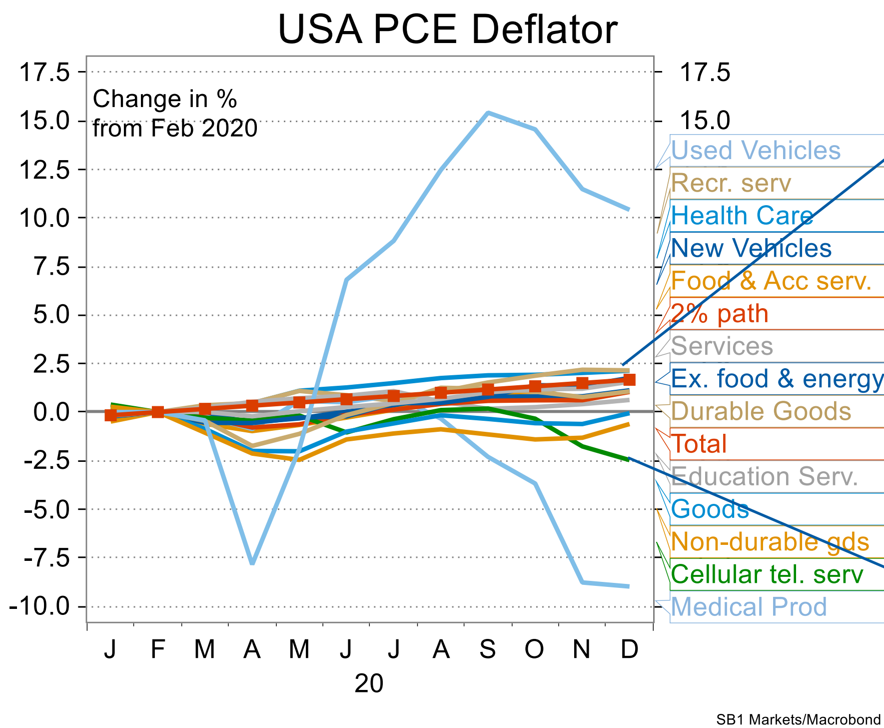


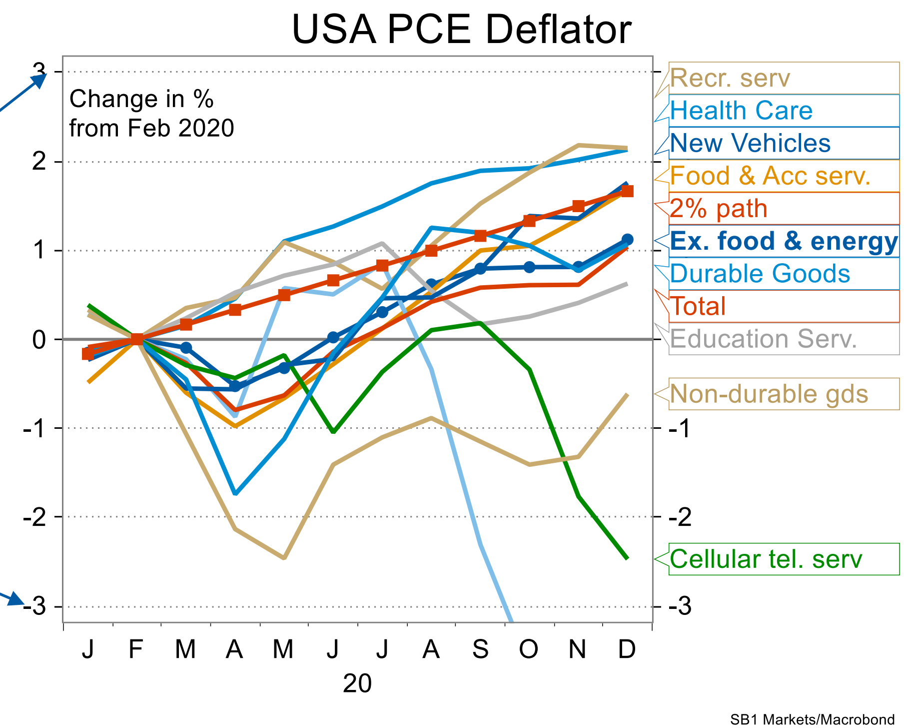


- **Total PCE deflator** rose 0.4%, and the annual rate rose 0.2 pp to 1.4%
- **The core price deflator** rose 0.3%, expected up 0.1%. The annual inflation rate rose 0.1 pp to a still low rate at 1.5%

Both goods and services contributed, no specific scapegoat

Since, February the underlying inflation rate has equalled 1.2%

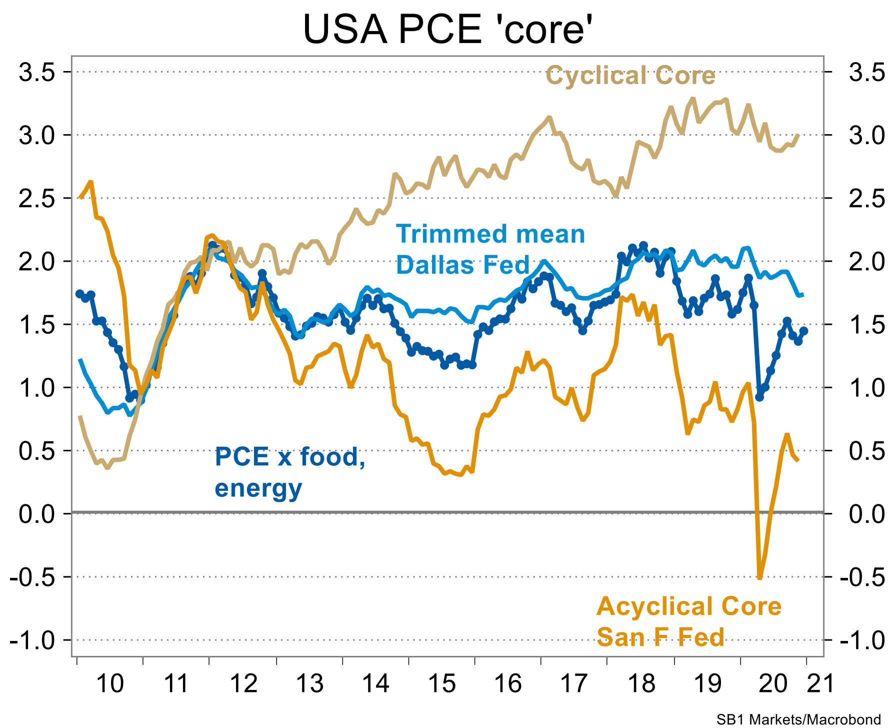




- Medical products have fallen sharply – and cell services are becoming cheaper again

The PCE deflator is below par – but not due to cyclical factors

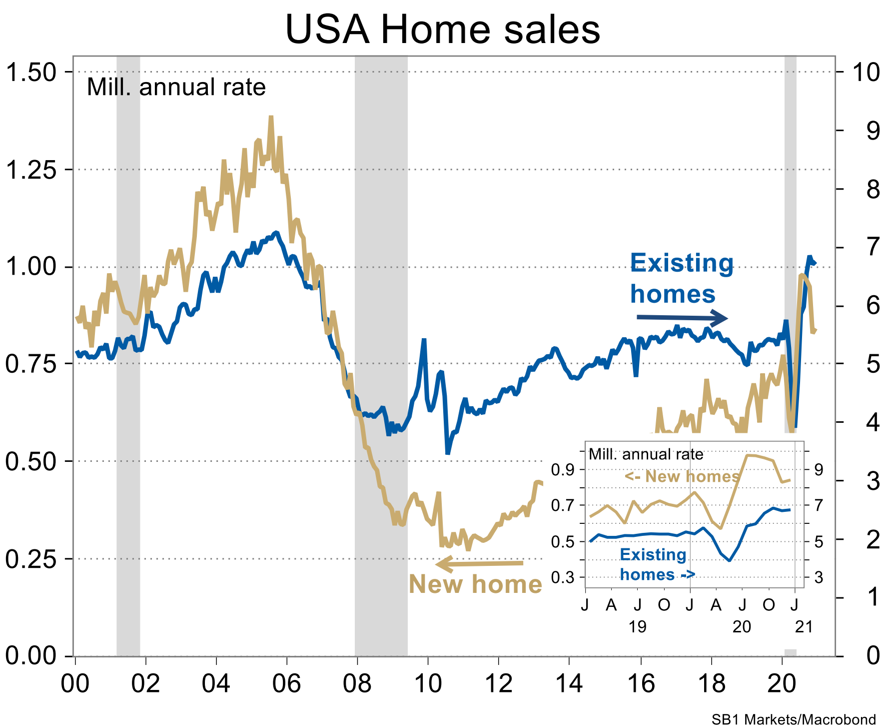
Cyclical core PCE inflation at 2.9% - the acyclical index at 0.7%

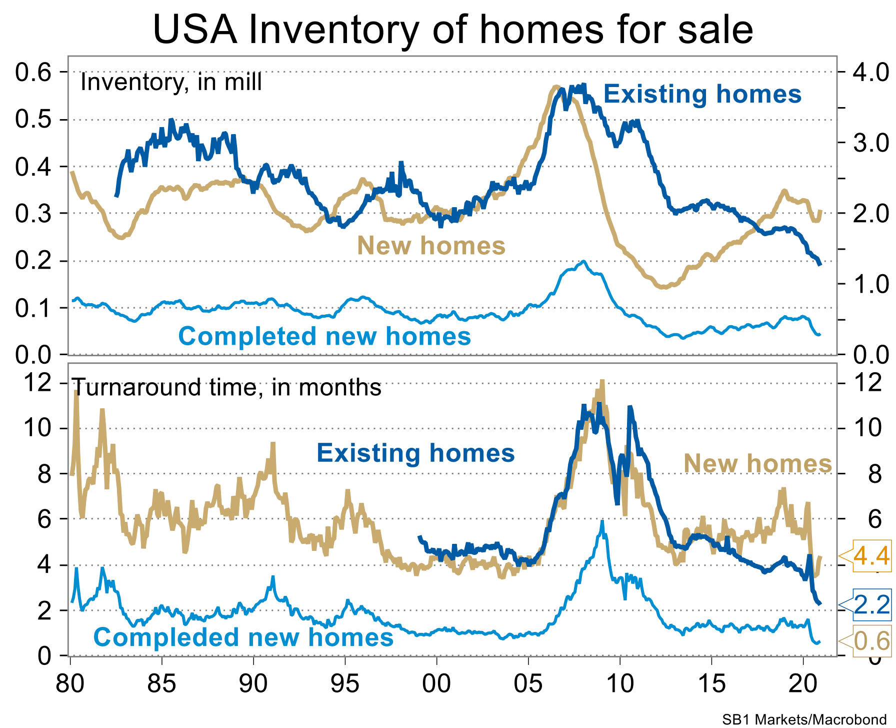


- It's hard to move the acyclical (non-cyclical) components of the PCE deflator
- The trimmed mean has fallen to 1.7%

New home sales slightly up in Dec, up 20% vs. the 2019 level

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

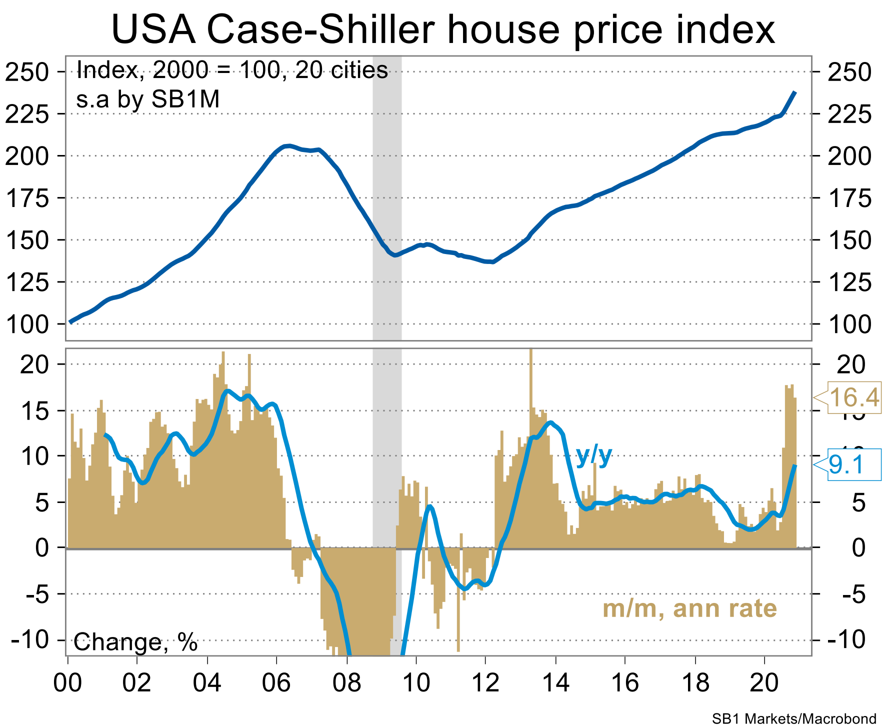


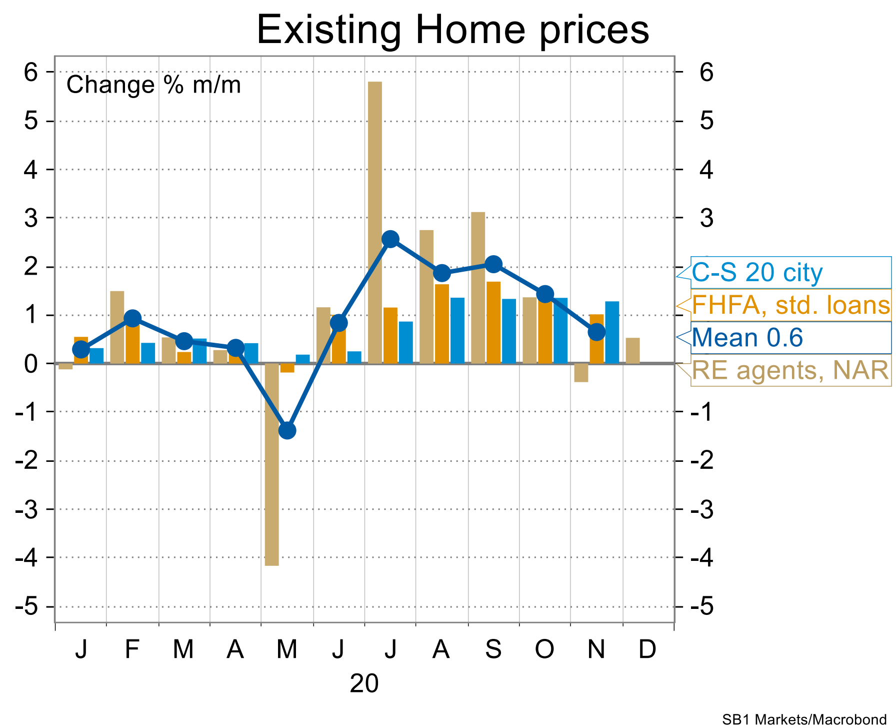


- **New home sales rose** 14' to 842' in December, expected up to 875', and sales have fallen from almost 1 mill/month (in an annual rate) in Aug – Oct. Still, sales are at high level – some 20% above the 2019 average.
  - » The **inventory of unsold new homes** rose somewhat as more projects were added to the sales list (buildings not yet started), while the no of unsold completed homes was close to unch. at the lowest level ever, both the actual level as well vs. sales of new homes.
  - » Sales of **existing homes** have flattened recently, at an unusual high level – while the inventory of unsold existing homes are far below anything seen before
- 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!**

It's 'official': Shiller agrees, house prices are rising faster than (almost) ever before

C-S prices up 16% m/m (a.r) in Nov, and by 17% over the past 4 months, close to ATH

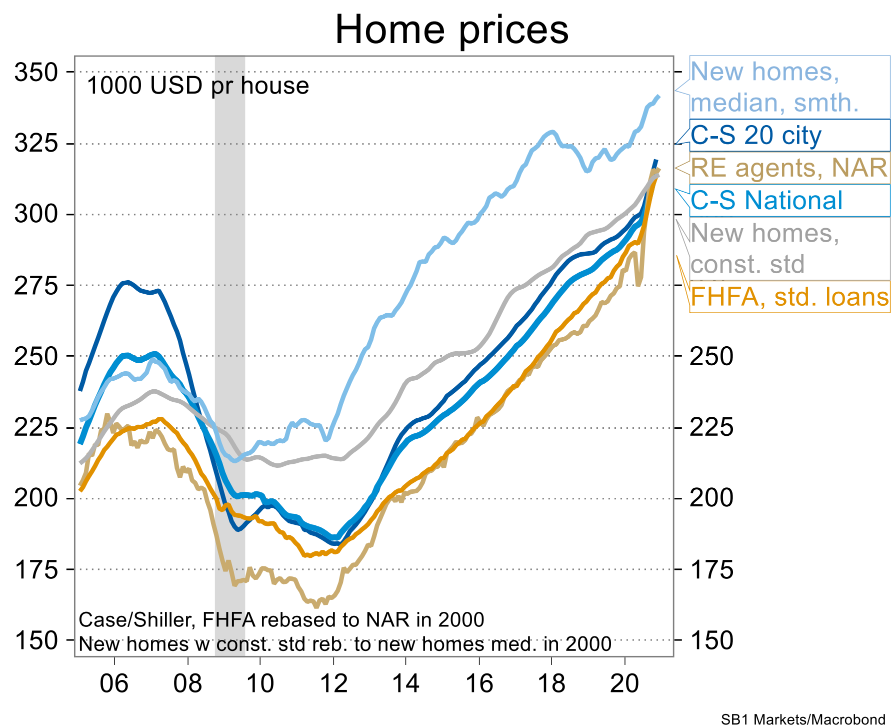


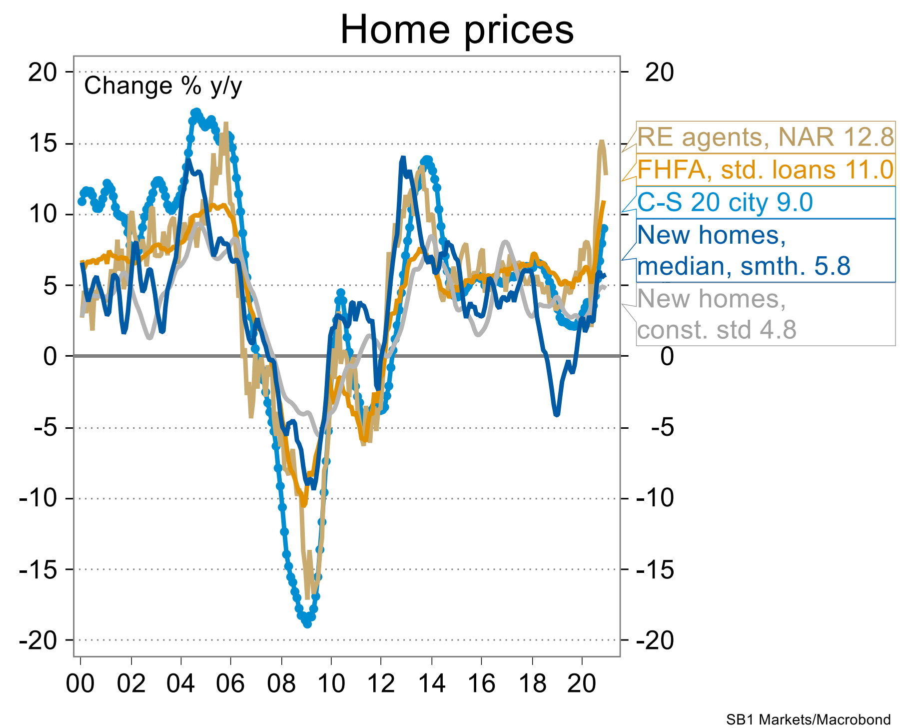


- Case/Shiller's price index rose 1.3% m/m in Nov (3 m moving avg), marginally slower than over the previous 3 months. The 4-month pace at 17% is just marginally below the ATHs in 2004 and 2005.
  - » The annual growth rate climbed by 1.1 p to 9.1%, expected up just up 0.1 pp to 8.1%. For the past 5 months, consensus has been totally off the mark, the rapid price inflation has been unexpected, even if realtors have been reporting rapid price growth since June
- Other price indices have also reporting a sharp increase from July onwards
  - » However, the realtors' volatile (price) index flattened in Nov/Dec, which may indicate that the mortgage rate impact may be fading

SpareBank 1 MARKETS

New home prices are starting to move too, up 6% y/y (came in at 3% last month)

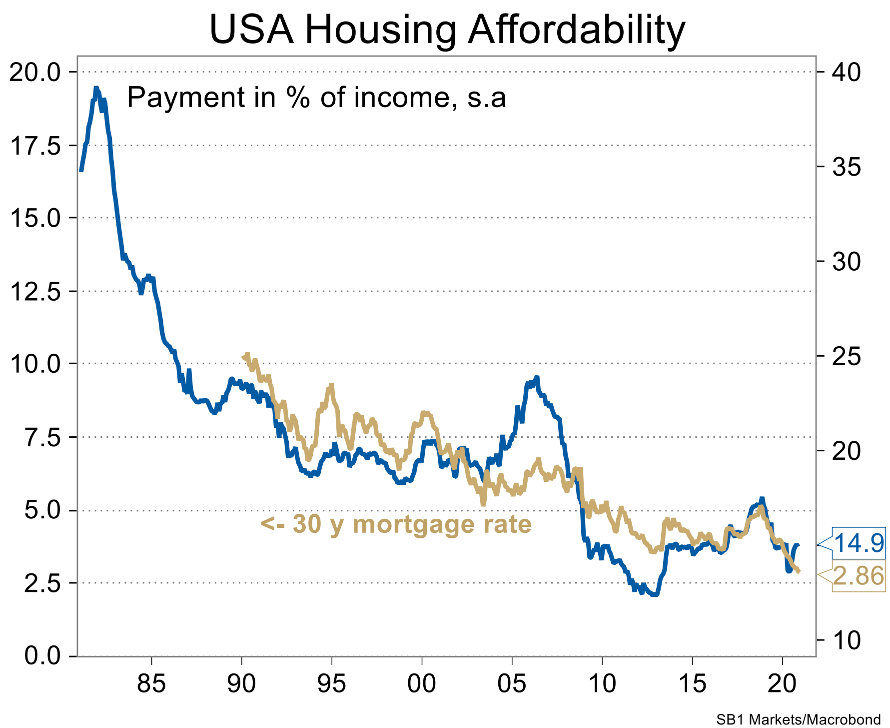




- Existing home prices are up at least 10% y/y (the Case-Shiller index is 3 m average, and the 'real' y/y growth is no doubt above 10%)
- New home prices up some 5 – 6% (5% standard adjusted)

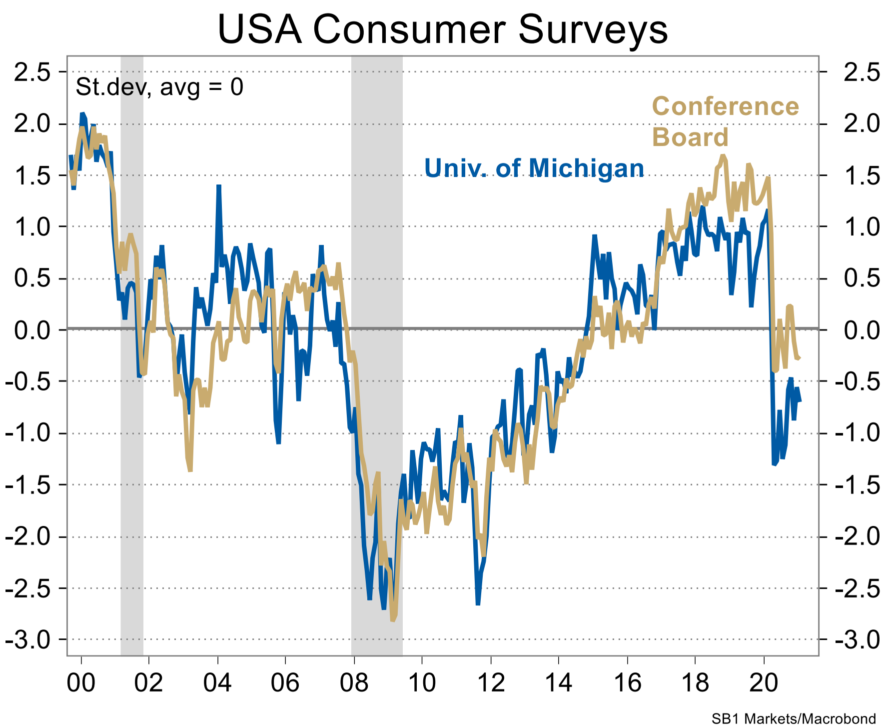
Homes are still very affordable, because the mortgage rate is so low!

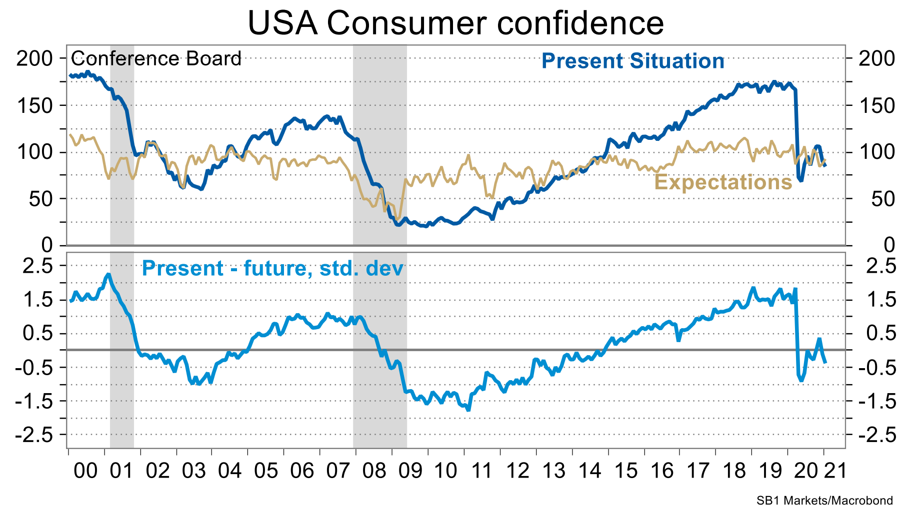
BTW, it was not high mortgage rates that killed the housing market in 2006

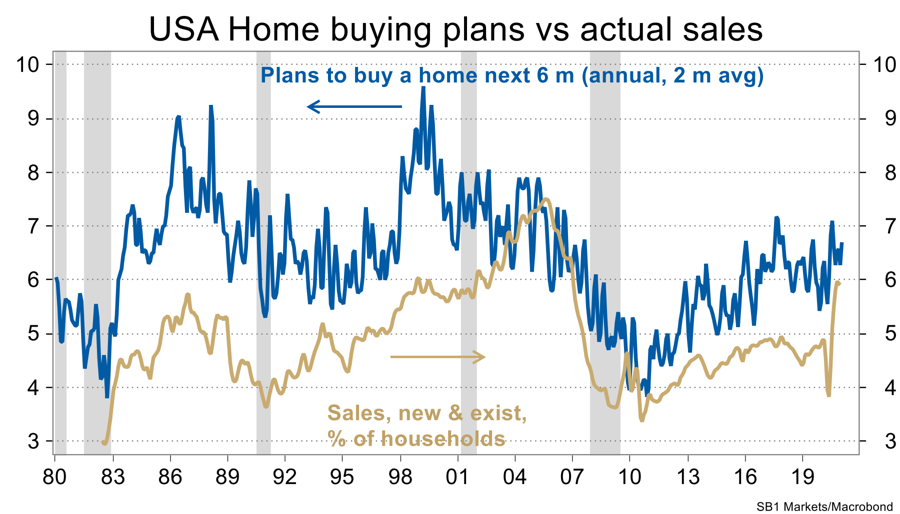


Consumer confidence marginally up in Jan, expected down

Both Conference Board's confidence, and Univ. of Mich's sentiment are below par



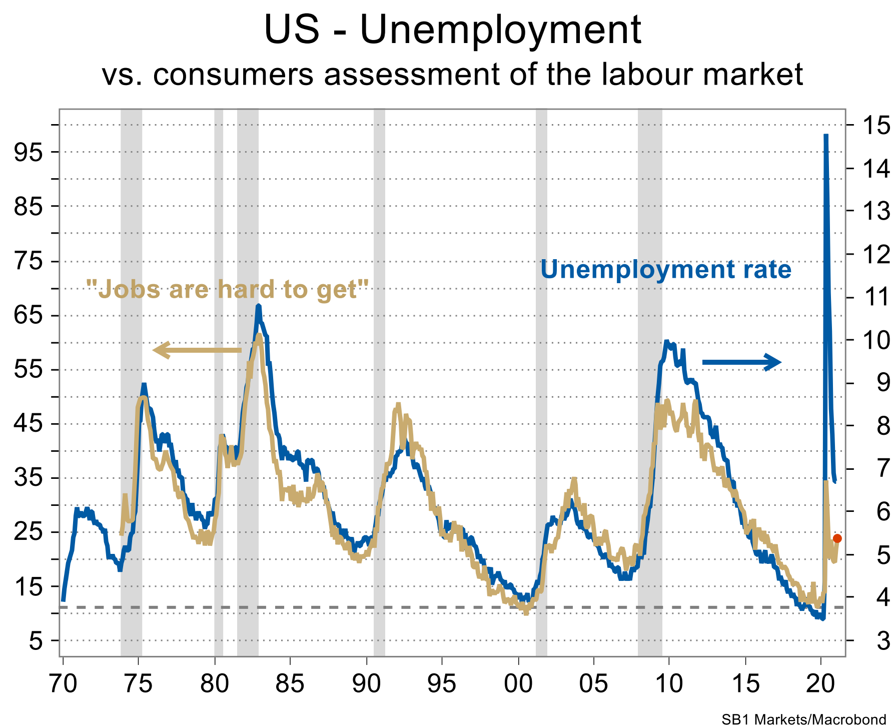


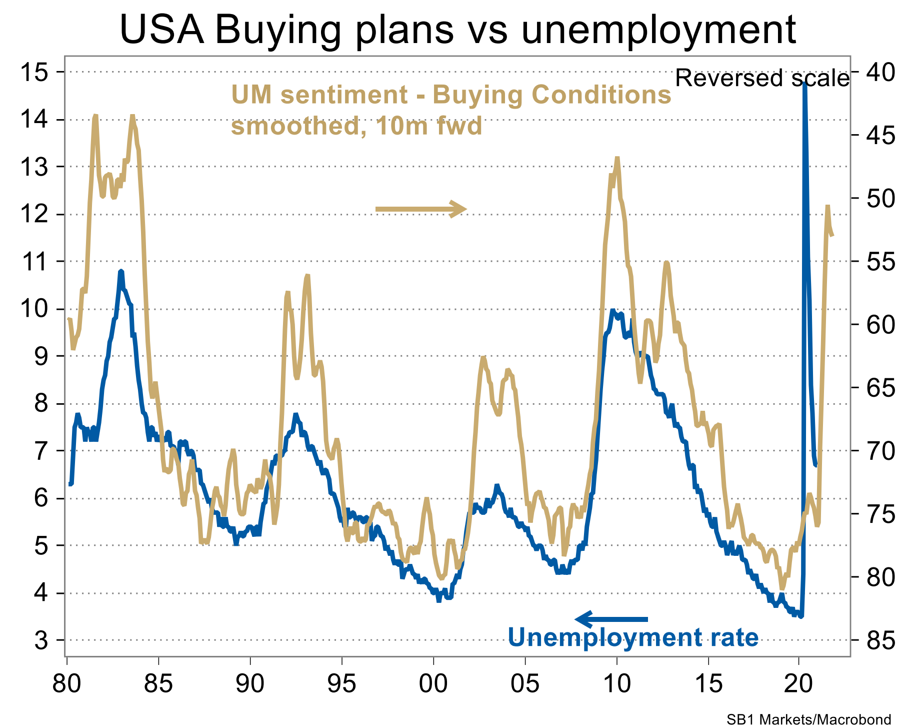


- Expectations rose, while the assessment of the current situation fell in Jan, according to Conf. Board
- Households report that jobs are not as available as a couple of months ago (check next page)
- House buying plans are still upbeat
- **Univ. of Michigan's sentiment** was marginally weaker than the preliminary estimate in January

The labour market slightly weaker past two months, households report

Still, their assessment normally corresponds to a 5.5% unemployment rate, and not a 6.8% rate



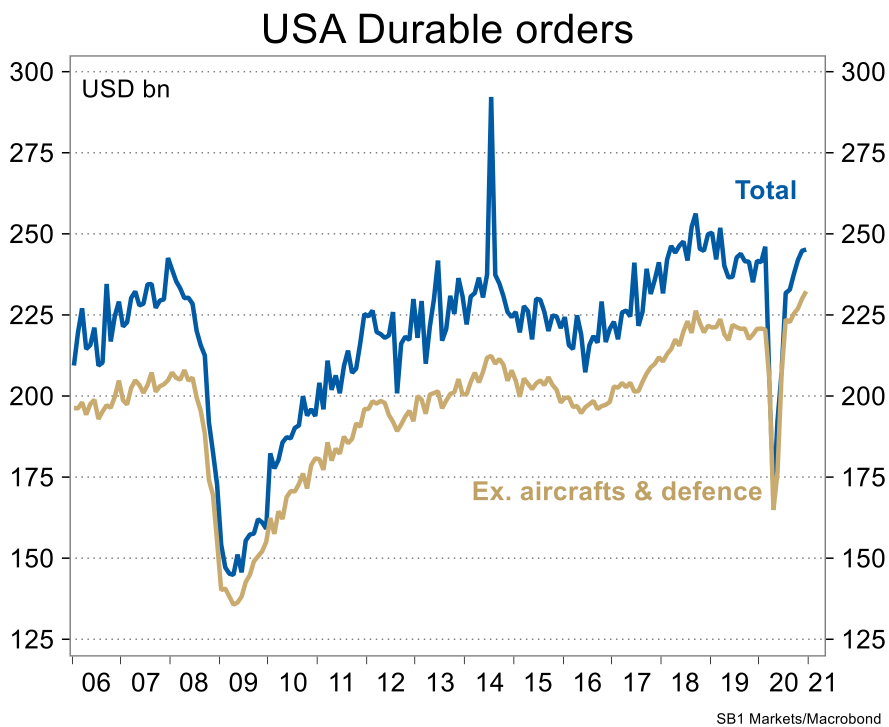


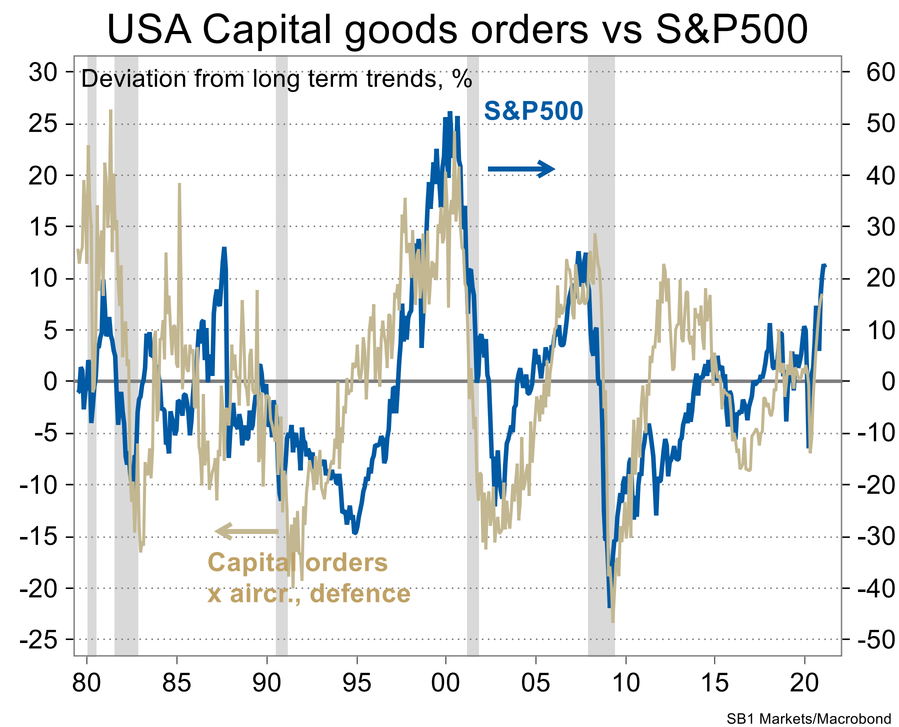
- The ‘jobs are hard to get’ index from Conference Board has come down to a rather low level
- On the other hand: The measure of buying conditions from UoM are at very low level (the scale is reversed on the chart to the right) – usually not a good sign

SpareBank 1 MARKETS

Core durable orders further up in Dec: +5% vs the pre-corona level!

And total orders are at the same level! Core investment orders are surging, up 8% y/y ('20 avg +3%)

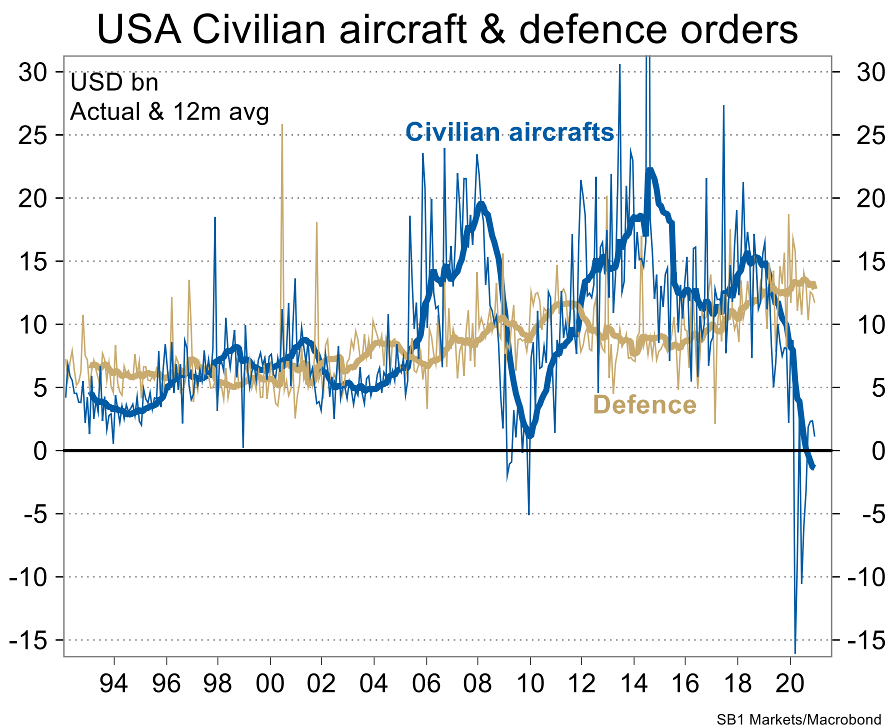




- **Total durable orders** up 0.2%, expected +1%. The level is higher than in the months before the virus hit.
- **Core orders** (ex aircrafts & defence) rose by 1%, probably more than expected. The level is 5% up from last February.
- **Core investment goods orders** rose 0.6%, a tad more than expected – and the level is spectacularly strong – up 8% vs. the level in early 2020. In 2020, orders rose by 3% vs. the 2019 level!! *(Check the 'long' history 3 pages forward)*
  - » Business investments 13.8 % in Q4, and are down just 1.3% y/y! This was not a normal investment recession

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

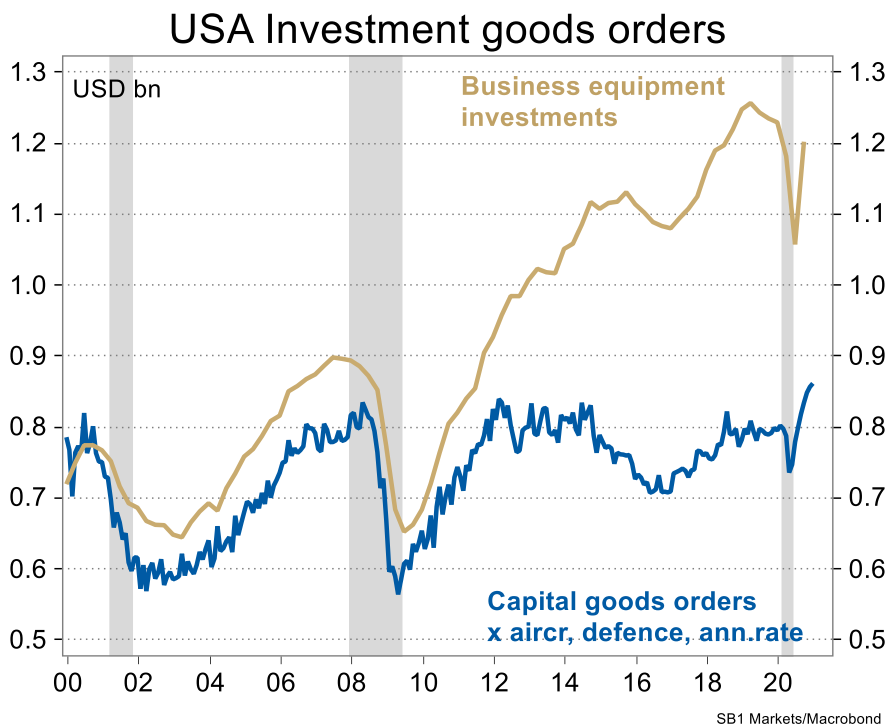
Net aircraft orders have been negative since March, barring a small plus in May

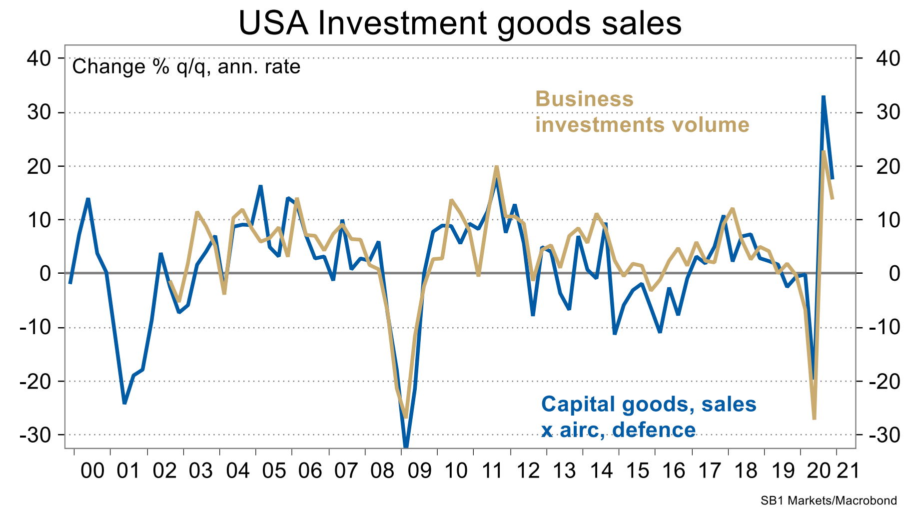


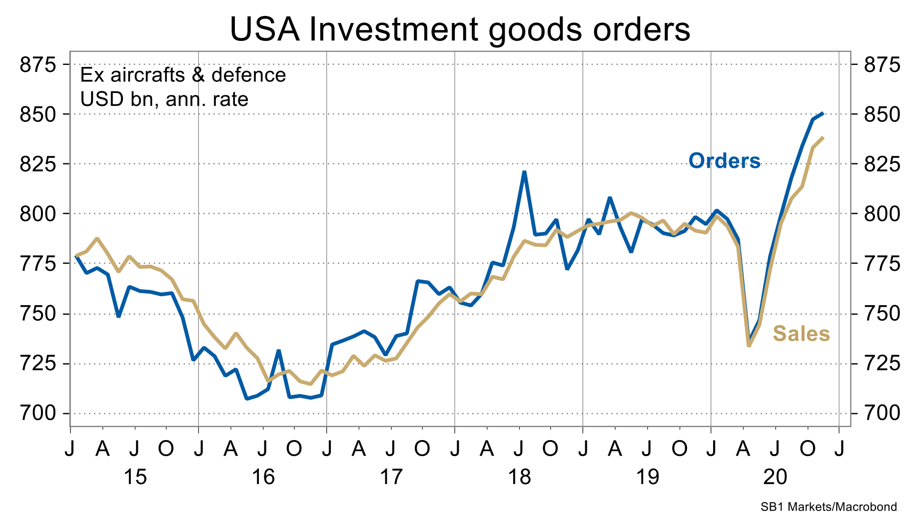
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters is not surprising at all – even if the USD 40 bn net cancellations to August from March were unprecedented

Core capital goods orders & sales rose further in Dec, 8% above pre-corona level!

In 2020, orders rose by 3% from 2019. The gap in the 'V' is invisible, with a relevant x-axis





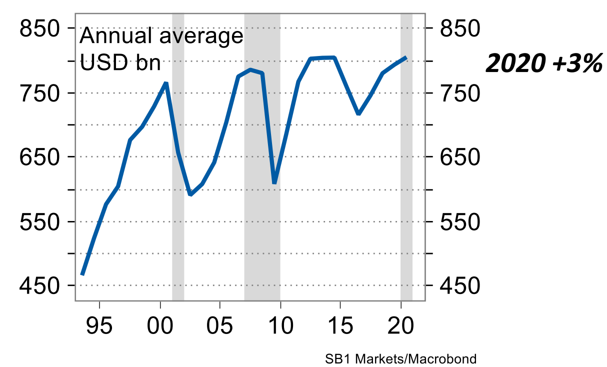


- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
  - » Usually, the decline in investment goods orders, as well as in actual business investments, are stretched out over time, typically one year or even more. Then it takes 1- 2 years to recover back up to the pre-recession level. Now, the decline lasted 2 months, and the recovery up to the pre-crisis level lasted just 3 months ☺
- Business inventories rose by 13.8% in Q4, and surveys signal a further increase in business investments (check 2 p fwd)

Investment orders: The most shallow & shortest downturn ever

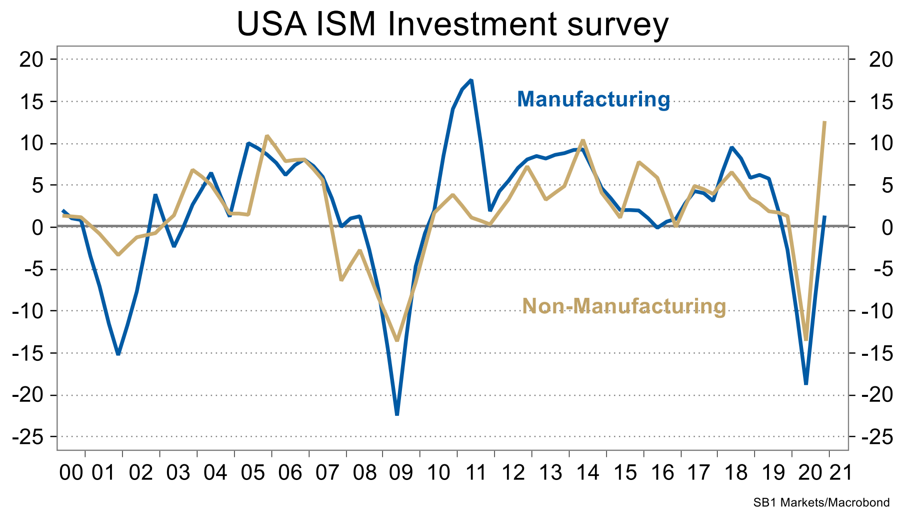
Can you spot if anything happened around 2020? Investment goods orders rose 3% from 2019

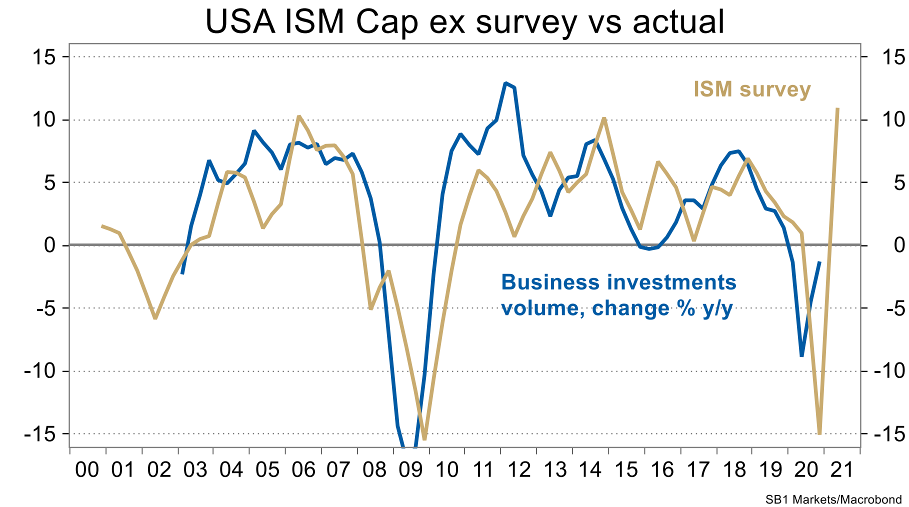
- The areas in the 'Vs' or 'Us' describe the aggregated losses during downturns
- *The 2020 downturn was at least not an investment recession*

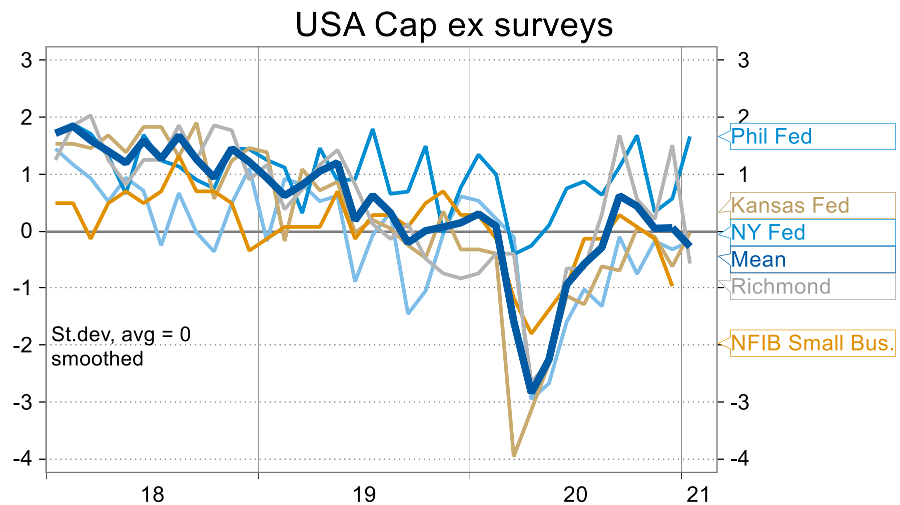


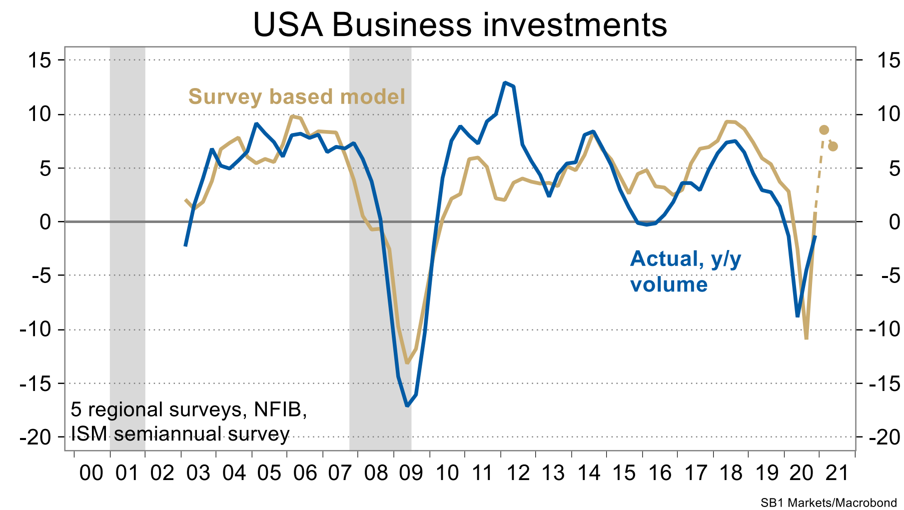
Investment surveys: Mixed, but in sum a further lift

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



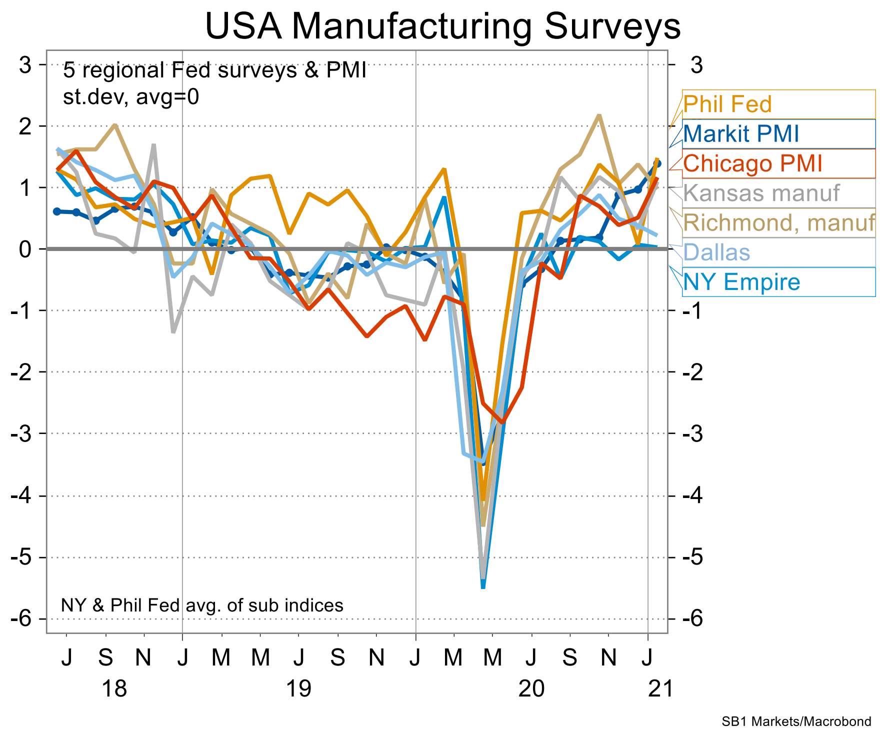


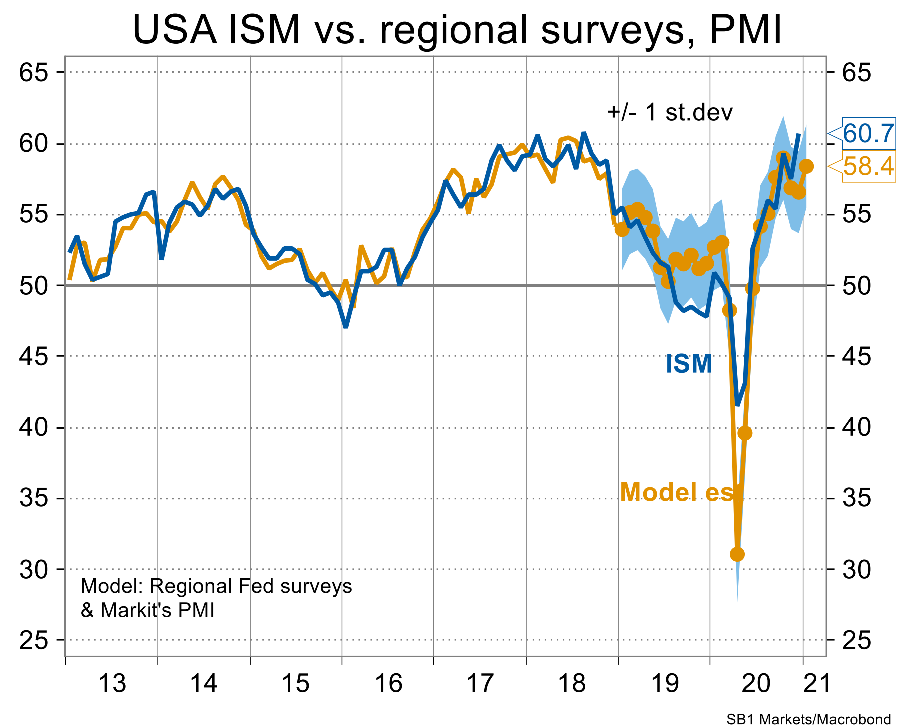




The PMI and most regional manuf. surveys up in Jan, ISM will remain strong

Our model signals a 2 p lift in the ISM index. However, the ISM was way better than others in Dec

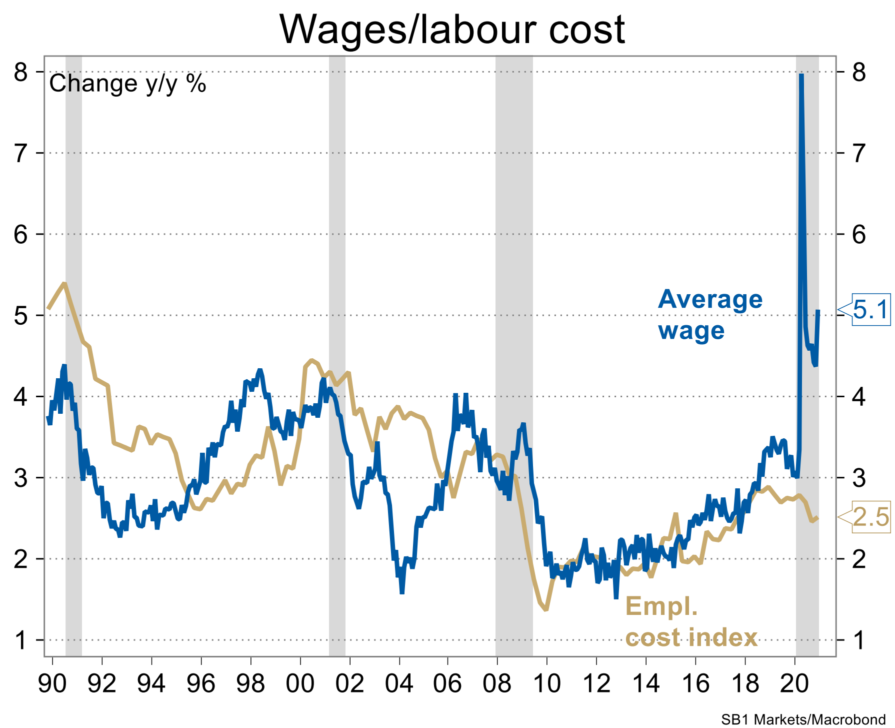




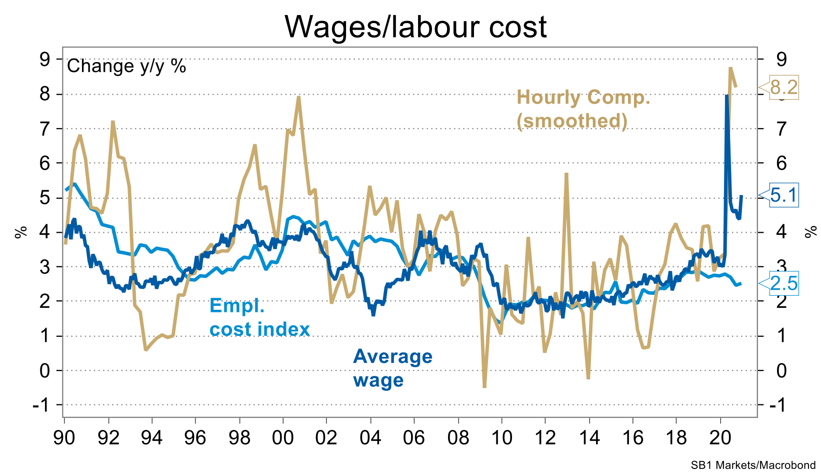
- Anyway: No indications that the virus creates any problems in the manufacturing sector

Employment costs are not accelerating

The Employment Cost Index rose 2.8% q/q in Q4, up form 2%. The annual rate was flat at 2.5%

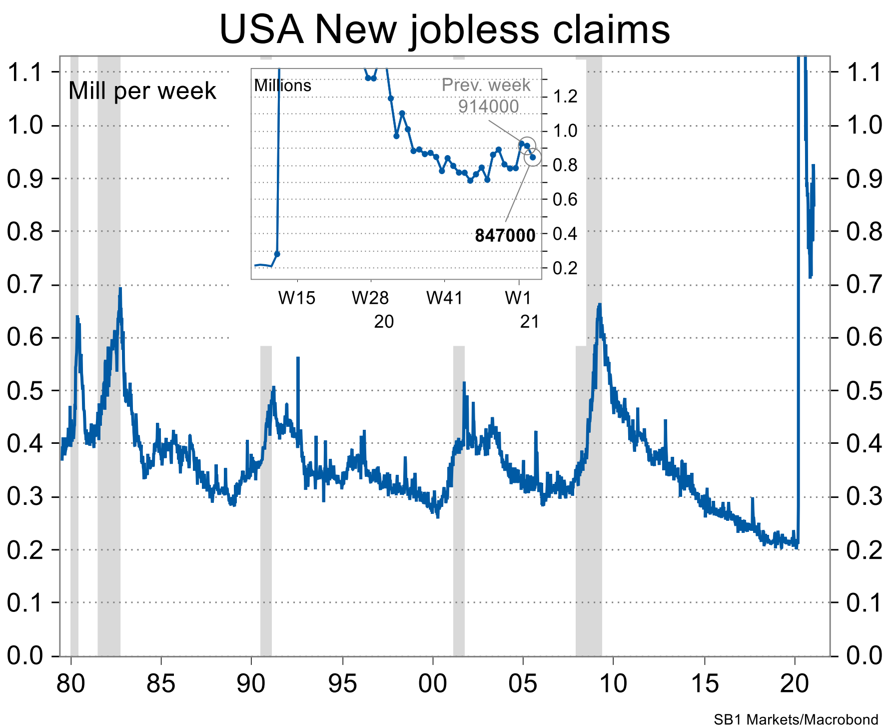


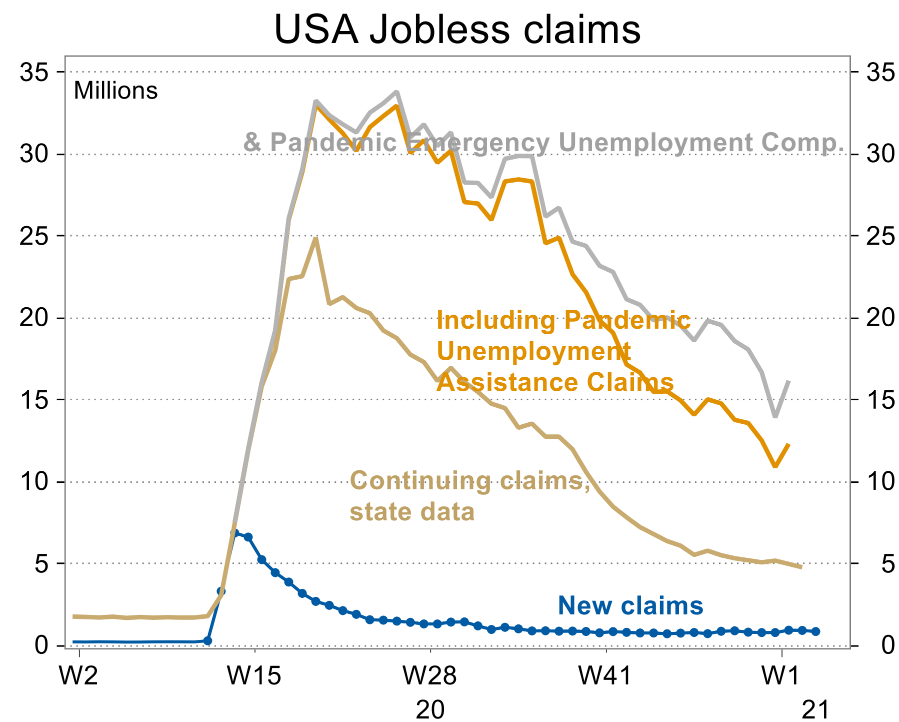
- The ECI is adjusted for changes in the mix of labour, it measures wage for 'the same worker', not the change in the average wage per worker that are on the job at different times. Now the difference is HUGE, far larger than we have ever seen before!
  - » The Covid-19 recession has been especially tough for the lower paid – and the average wage for the remaining employees has risen sharply. The average wage rate for those still at work is up 5% (monthly payroll stats), or 8% (total compensation per hour, National accounts). The ECI measures the wage rate for a specific job over time, and thus not the average wage rate for those at work a specific time. For businesses (and the employees!), the latter is the relevant figure)
- The ECI is up 2.5% y/y - and it has fallen through the corona crisis



New jobless claims down but still at an elevated level

New claims down 67’ to 847’ last week, still 100’ above the local trough last autumn (& +650’ vs BC)

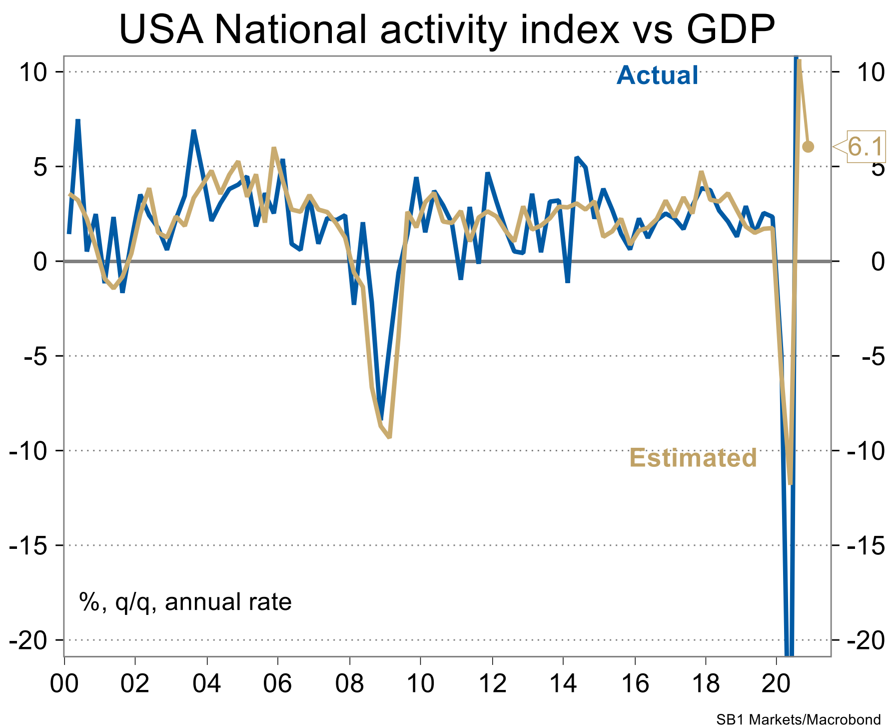


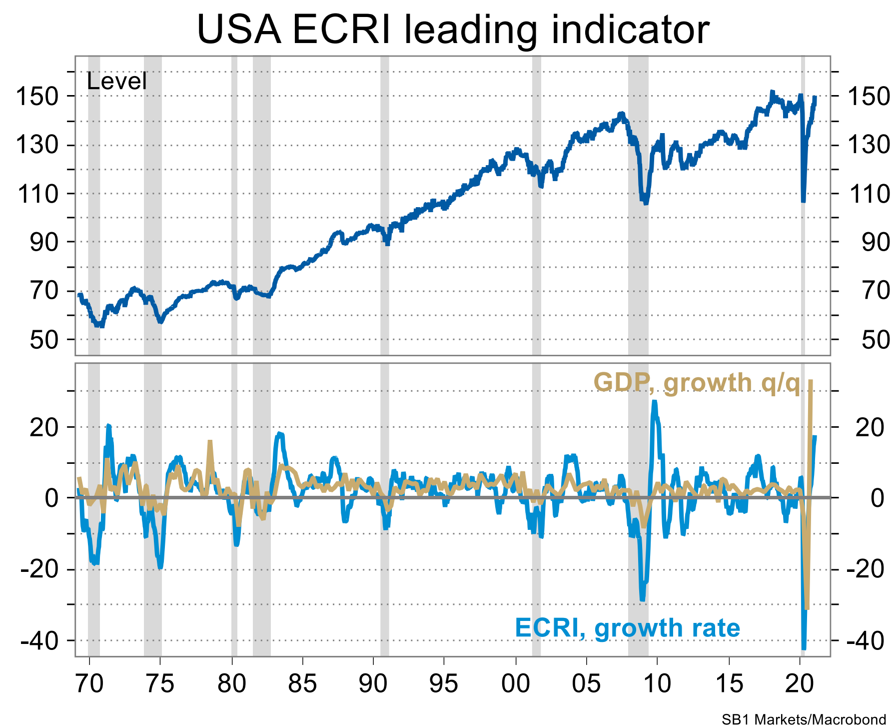


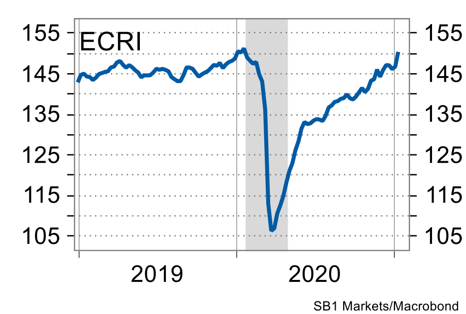
- The weekly inflow has fallen by 80’ vs the peak 2 weeks ago and may reflect that the 3rd US corona wave peaked some weeks ago – and that restrictions are now eased, not tightened

The national activity index, ECRI leading indicator confirm cont. growth

No signs of growth slowing to below trend

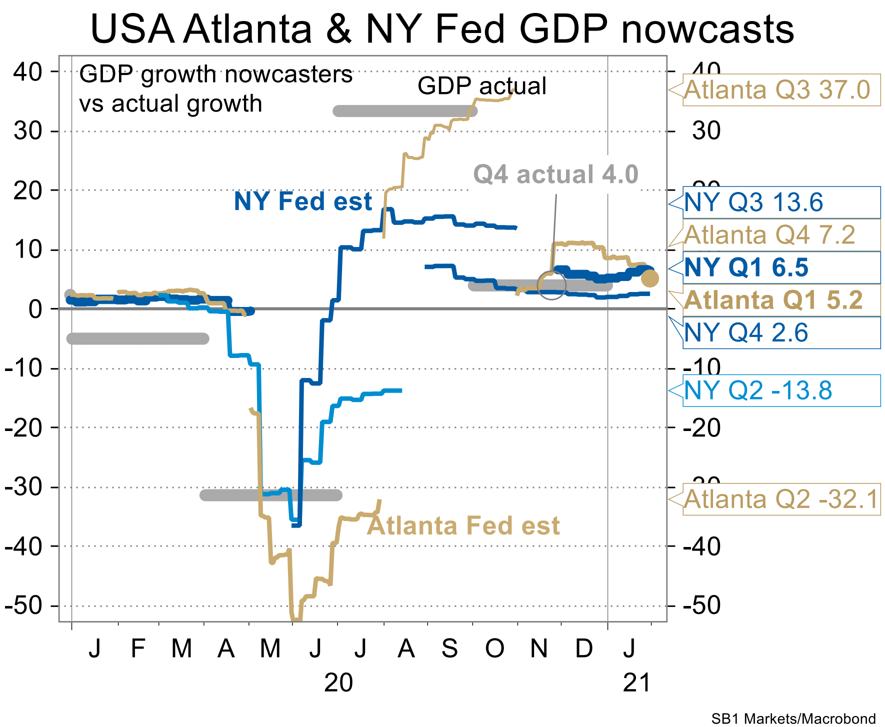


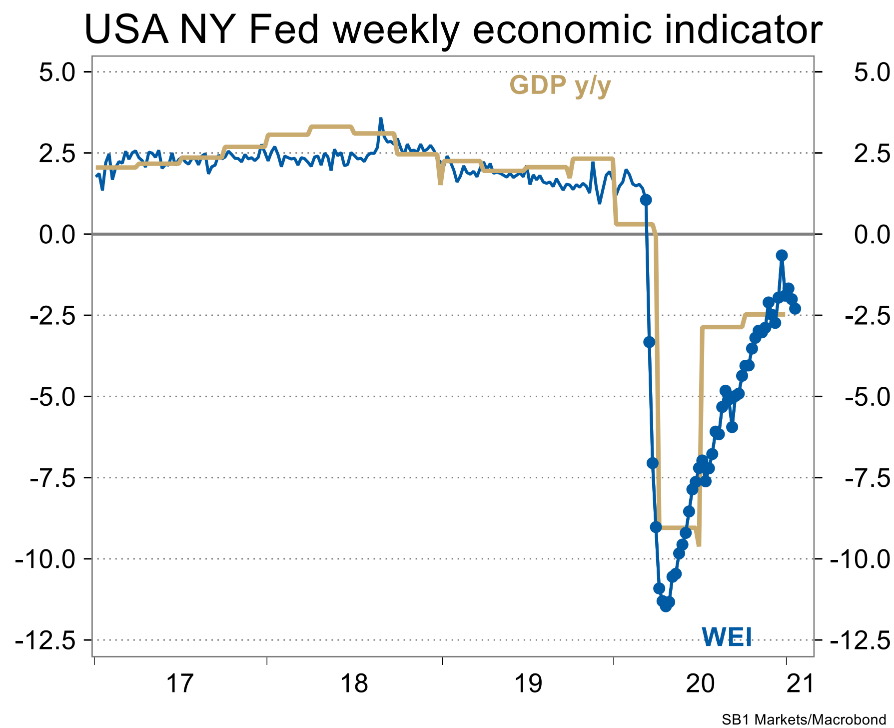




Nowcasters points towards 5% Q1 growth

The NY Fed's weekly model signals a 2.5% y/y decline, implying a 5% decline q/q in Q1. *Impossible?*

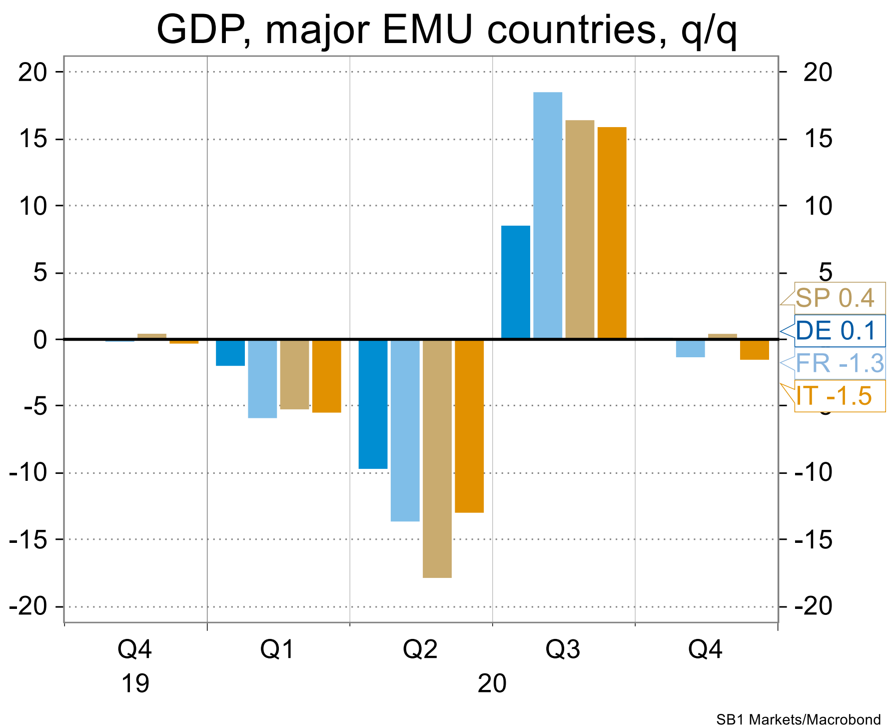


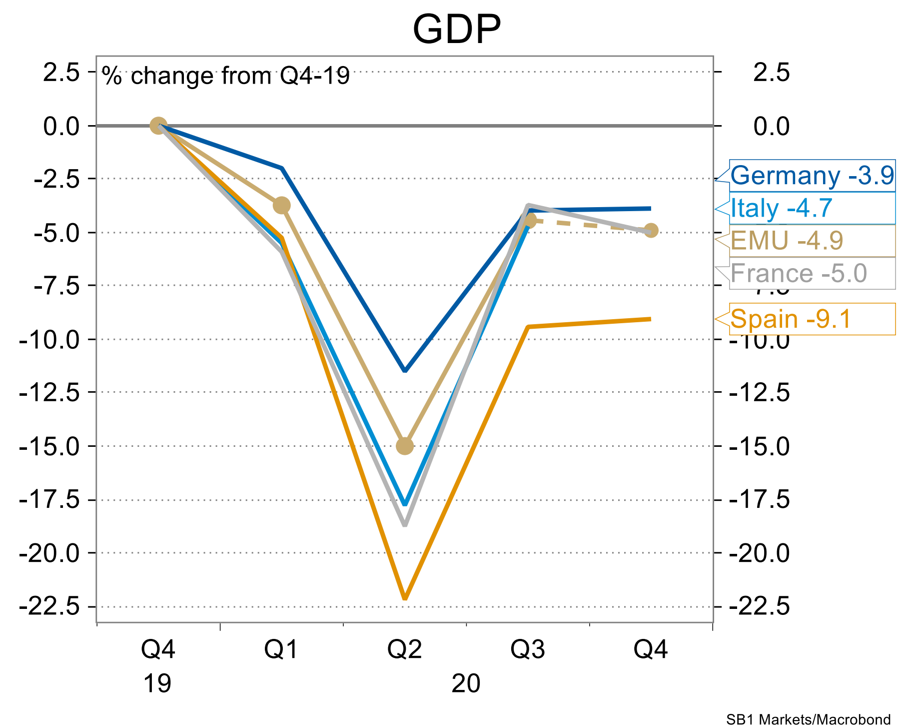


- Atlanta Fed overestimated growth in Q4, NY Fed underestimated the real outcome
- Alas, no model is perfect ☺

GDP probably just slightly down in Q4, far better than expected

Germany reported 0.1% (exp flat), France down 1.3% (exp. -4.1%), Spain 0.6(exp. -0.6)



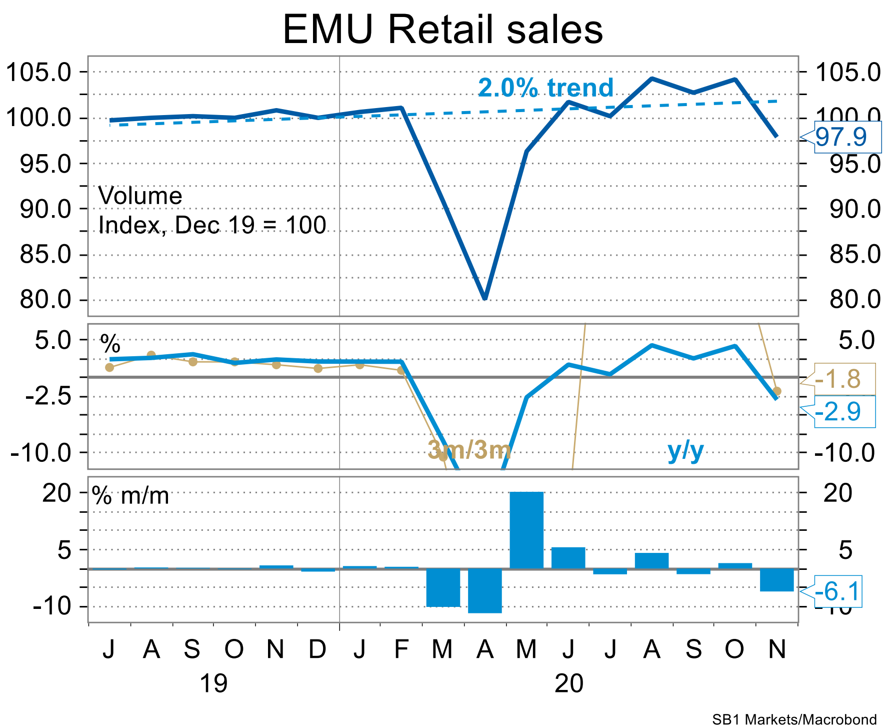


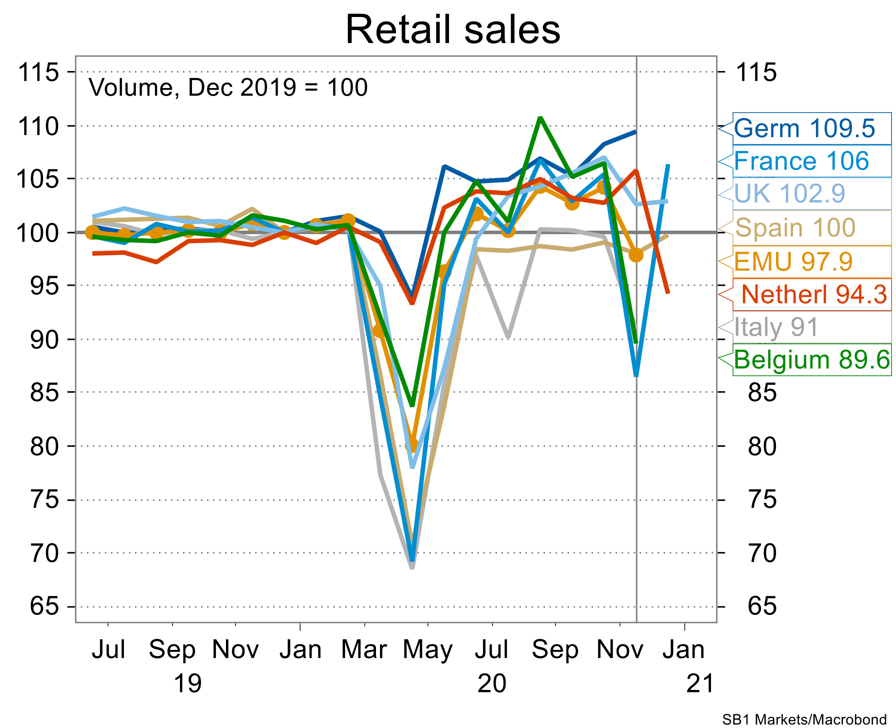
- Italy and several other countries have not yet reported their Q4 GDP data
- We assume GDP in the EMU fell by some 0.5%, less than so far expected

SpareBank 1 MARKETS

December retail sales mixed, a sharp recovery in France

France (and likely Belgium) recovered sharply following the Nov setback. But other sharply down

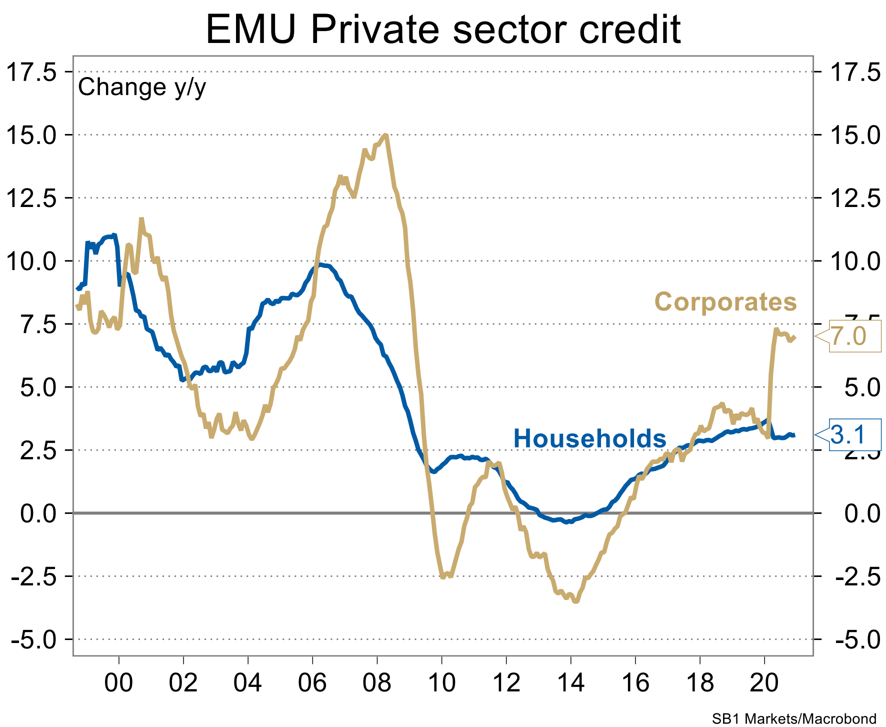


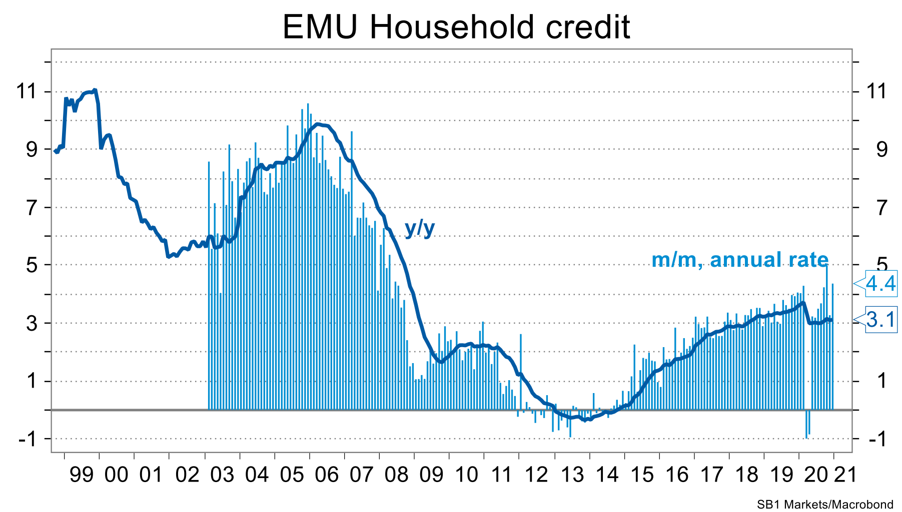


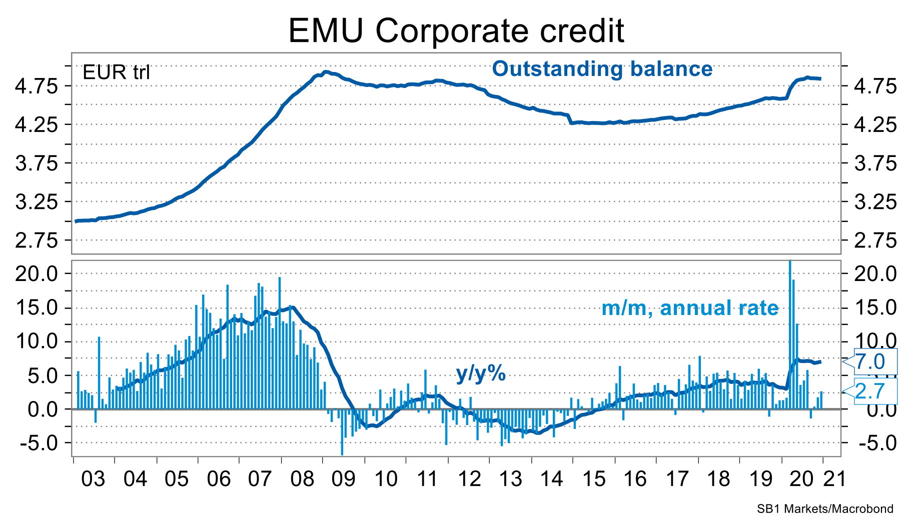
- The lockdowns were eased in Dec in some countries, as new corona cases fell sharply, and retail sales recovered. The 23% lift in France is based on consumption data
- Other countries imposed restrictions due to the new outbreaks –and sales fell sharply – like in Netherlands (-11%). We expect Germany to report a setback too (consensus -2.6%, and we expect even more in January)
- Consensus for EMU retail trade is for a 1.6% increase in retail sales in Dec following the 6.1% November setback. We think the forecast is too pessimistic

Households are borrowing - some life among corporates too?

Households are borrowing more than in 12 years. Corporates have slowed recent months, but…



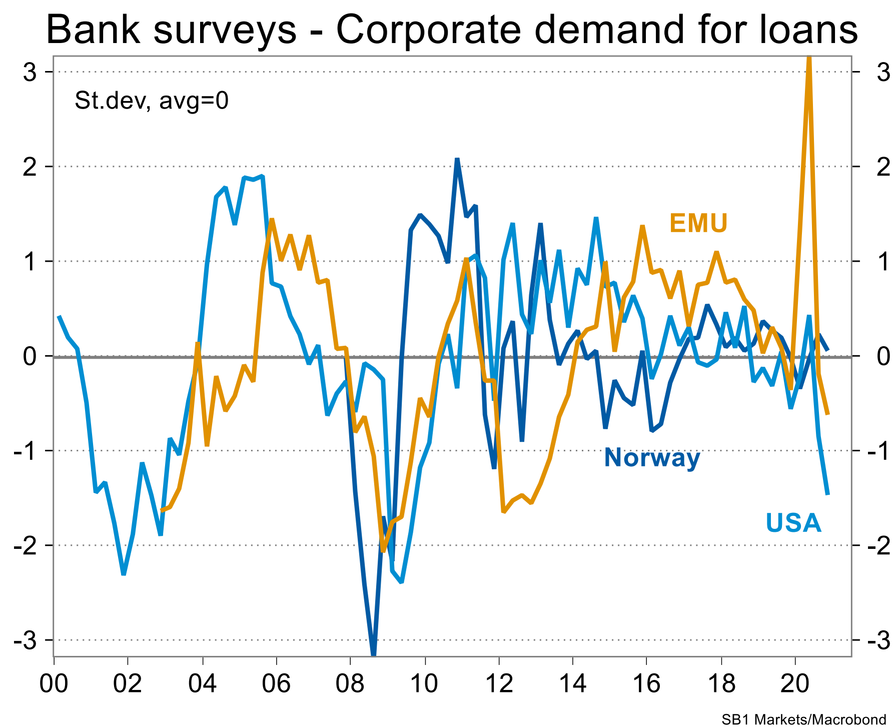


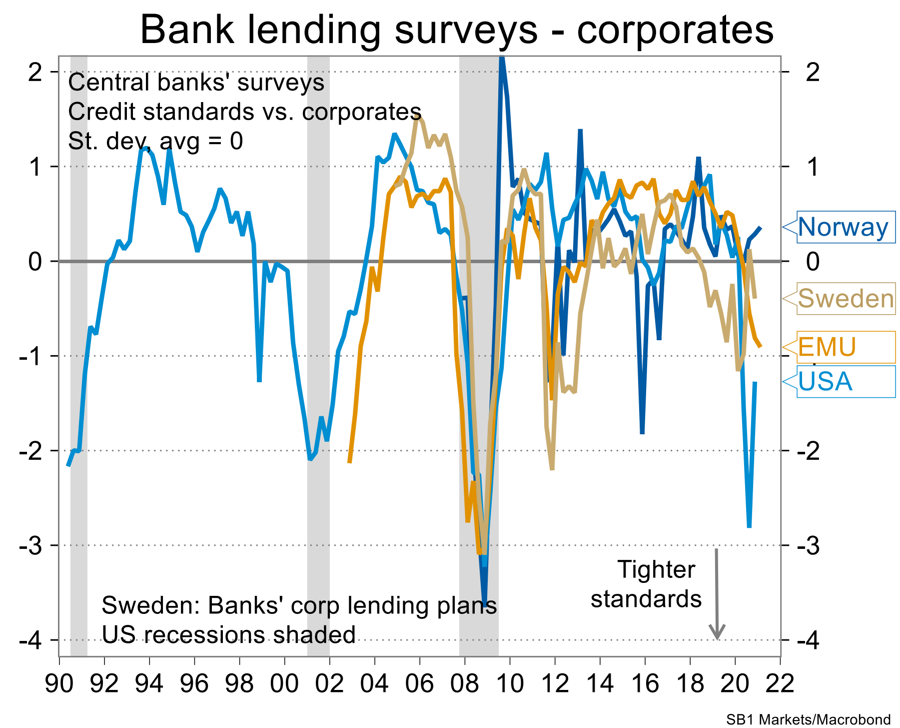


- During the spring the corporate sector increased its debts by 3 – 4%, as a part of corona support programs
  - » Banks reported low demand from the corporate sector in the Q4 lending survey (and US banks even more), and credit standards were tightened (even if spreads in the credit market narrowed last year)
- Deposits increased sharply during the spring – as always when credit accelerates

EMU banks are reporting weaker corporate demand, and are tightening

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

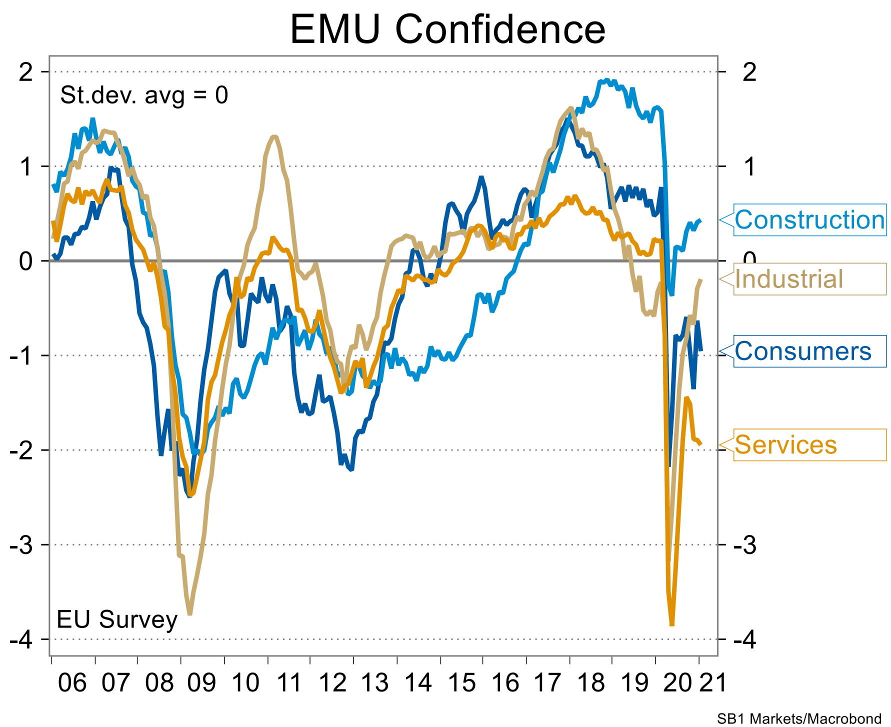


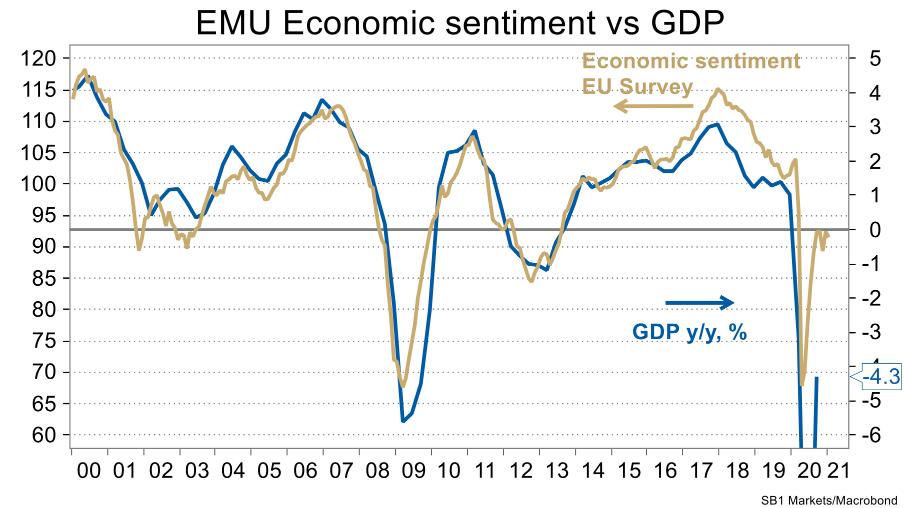


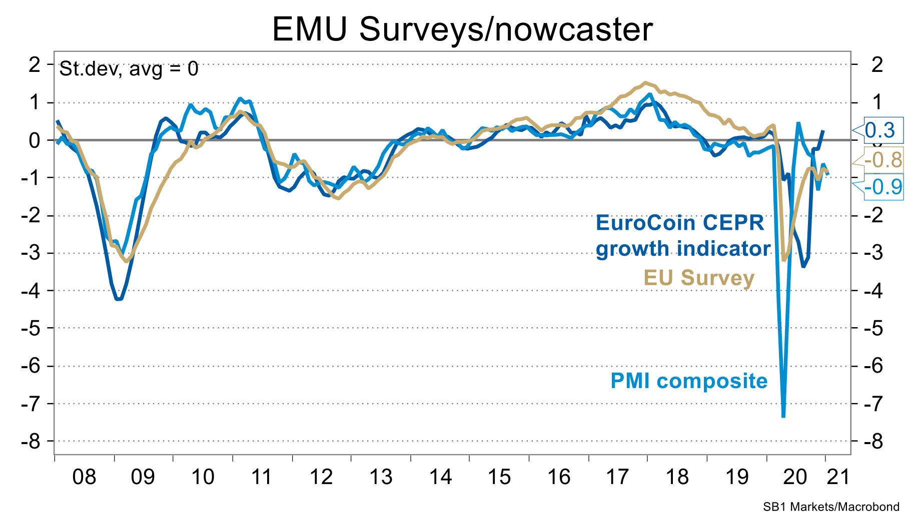
- Less need for credit for a while among Euro Zone businesses, following last spring's hike?
- Banks in the US are reporting weaker demand, and are tightening more

EU economic sentiment marginally down in Jan, better than Nov – but 0 growth?

Just construction is above par, services are reporting a rapid contraction. Industrial conf. up!



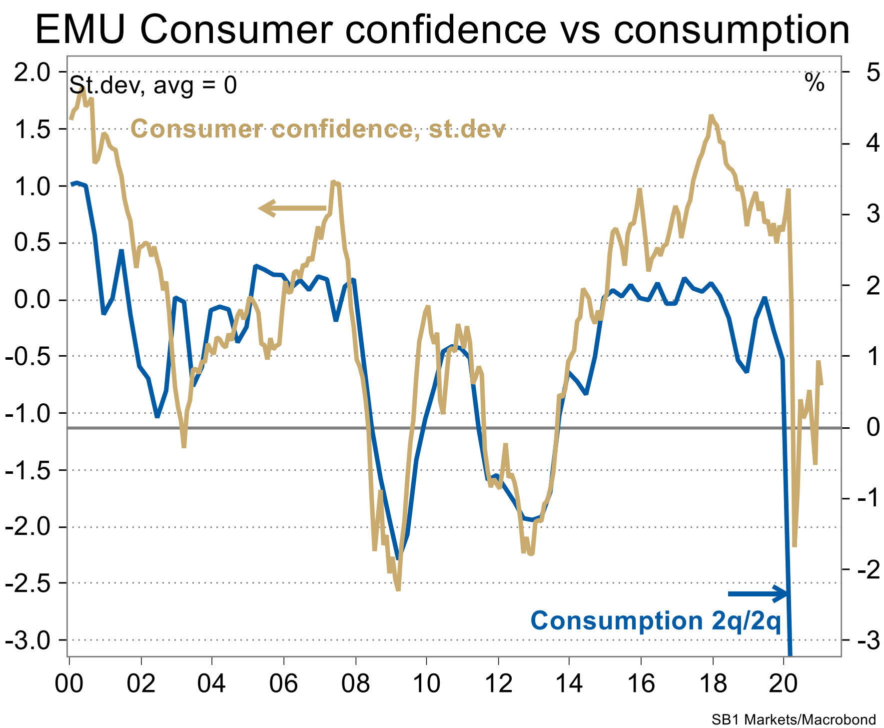


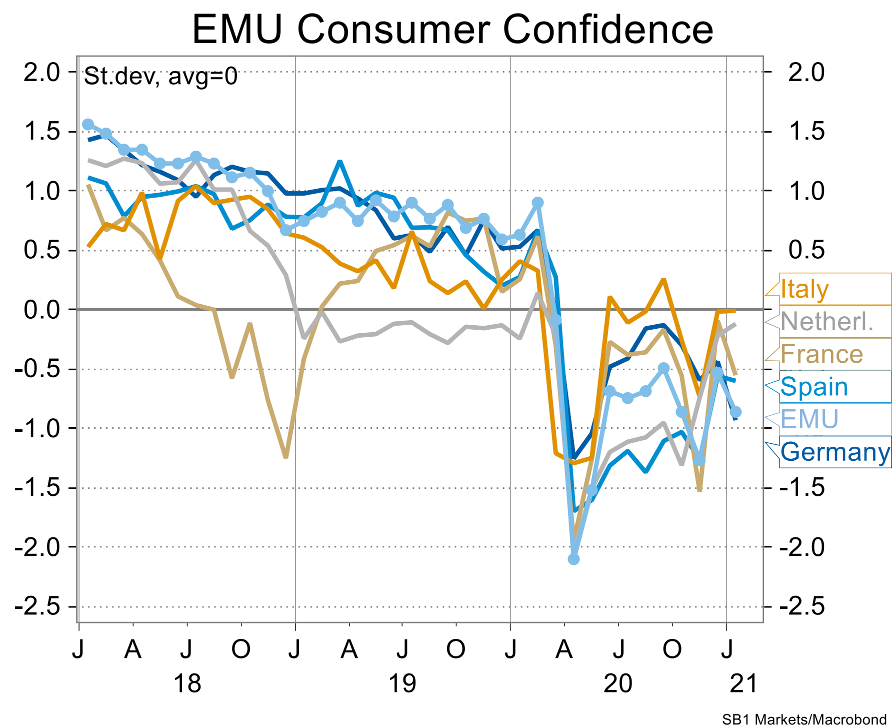


- The confidence survey fell to 91.5 in Jan from 92.4, expected down to 91.0.
  - The survey is 0.8 st.dev below average, signalling close to zero GDP growth.
  - This survey has been useless to calibrate quarterly (q/q) growth rates during the pandemic
  - The same goes for most other surveys (like the PMI/ISMs)

Consumer sentiment confirmed down in Jan, all countries but Italy down

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)

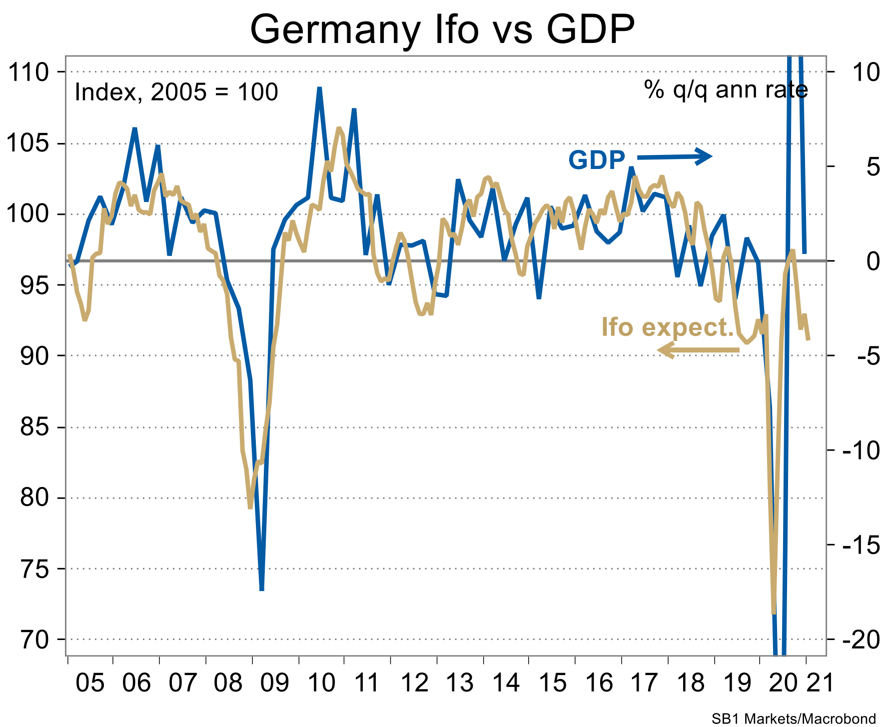




- A confidence at the present level does normally not signal any decline in private consumption
  - » But consumption has been weaker vs. sentiment then normal the past years
- In Dec, confidence rose everywhere – and parts of the lift reversed in Jan
  - » Except for an unch. confidence level in Italy, where the sentiment is at the highest level among the big 4, at average!

Ifo further down in January, signals a decline in Q1 GDP

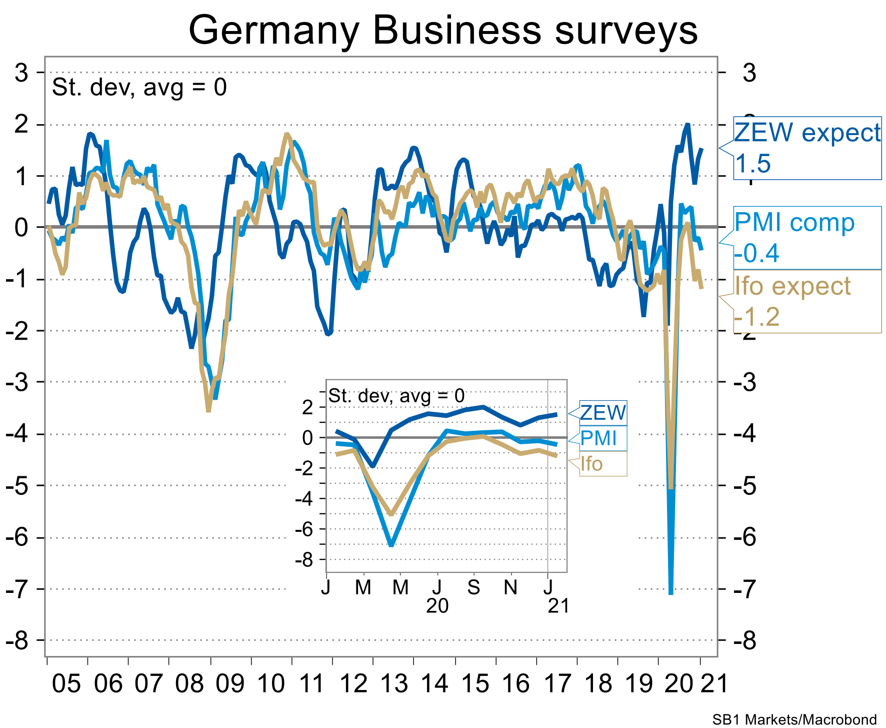
The expectation index fell 1.9 p down to 91.1, expected up +0.7%

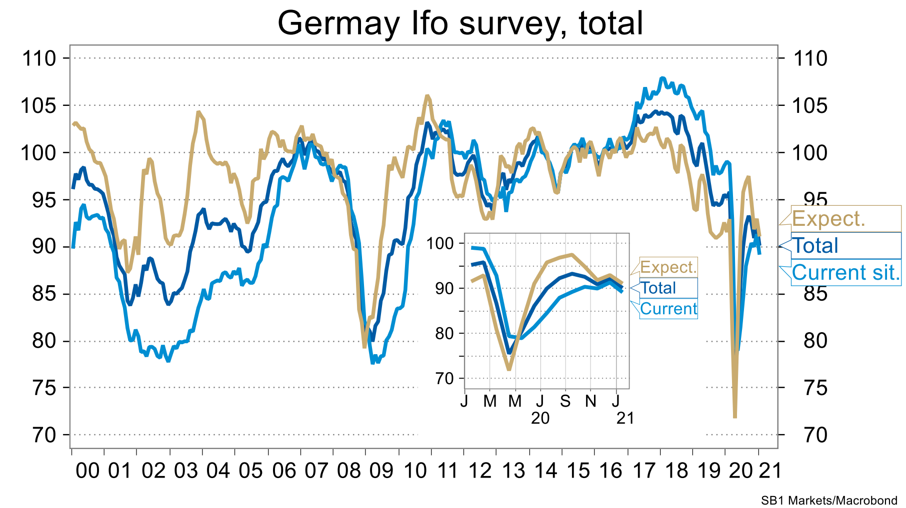


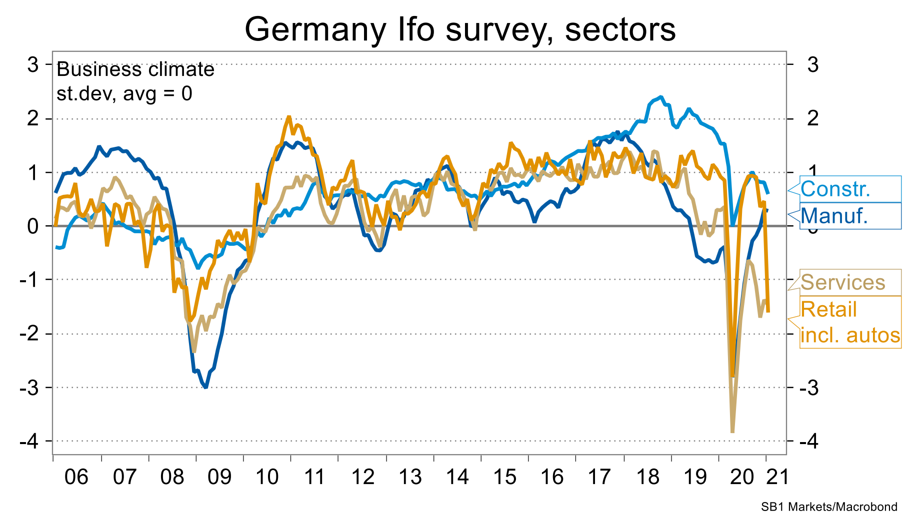
- In January, the expectations index is 1.2 st.dev below average
  - » In last April, the Ifo index fell to 70, or -5 st.dev, an ATL of course – amid the economic 'collapse' during the first lockdown
- The assessment of the current situation fell too, like the expectation components – and nothing like the 'full stop' level last spring
- In Jan, sentiment in the retail sector sentiment 'collapsed', still far less than during last spring
- Other parts of the service sector have been weak since Nov but did not report a faster decline in Jan
- Ifo is the weakest of the German surveys we follow most closely.
- **In average, the surveys signal zero GDP growth, which seems somewhat optimistic today. In Q4 the GDP was unch**

The (locked down) retail sector is complaining, other services still weak

... But manufacturing and construction is still reporting growth above trend



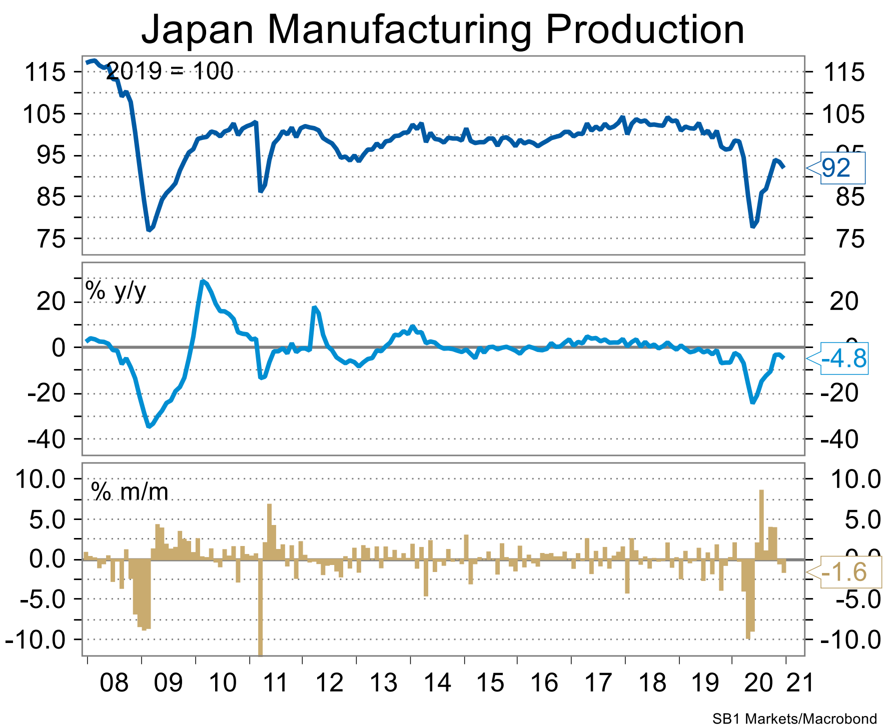


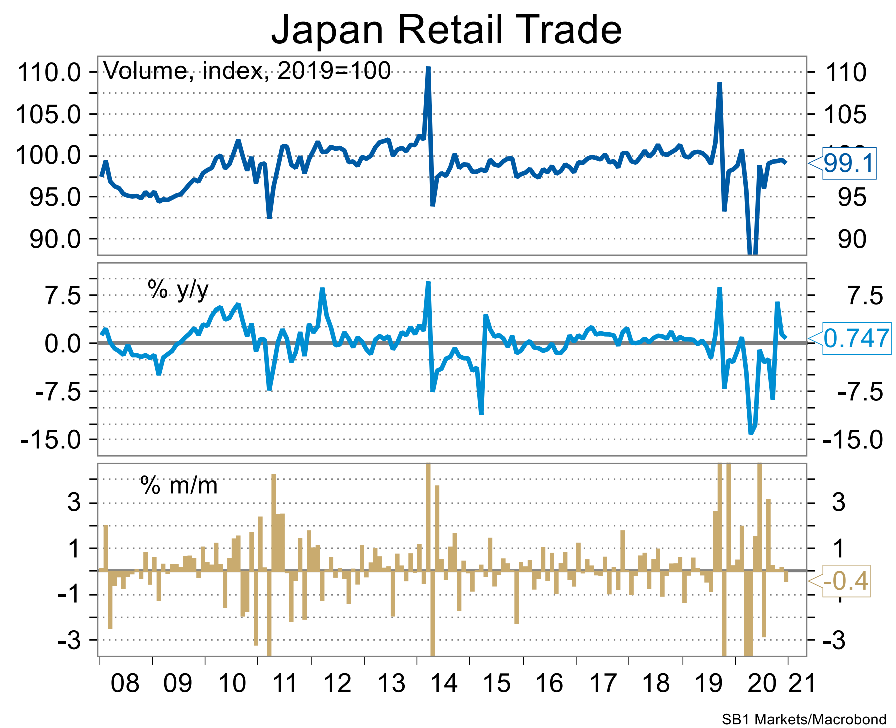


- The ZEW expectation survey (which is a survey among economists and investors, not a business survey) is the most upbeat
- The PMIs has fallen to 0.4 st.dev below average in Jan, from above average in October
- **The average of the 3 surveys still indicates <u>growth</u> in the German economy. The PMI survey is the most closely correlated to GDP growth – and is signalling close to zero growth**

Manuf. production down in Nov & Dec, down 5% y/y. Retail sales down too

Production fell by 1.6% in Dec. Retail sales down 0.4% but still at pre-corona level

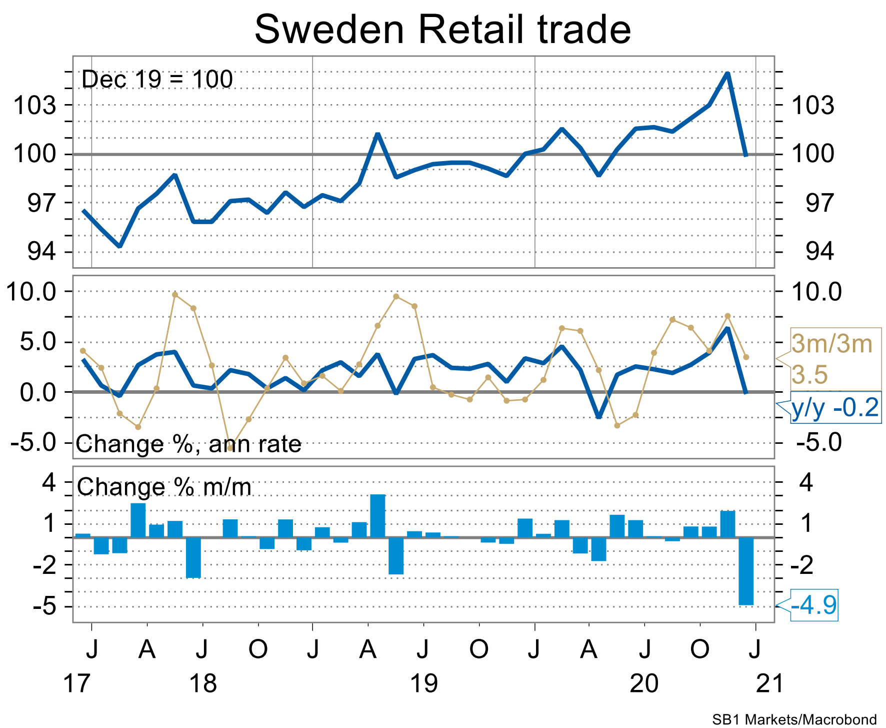


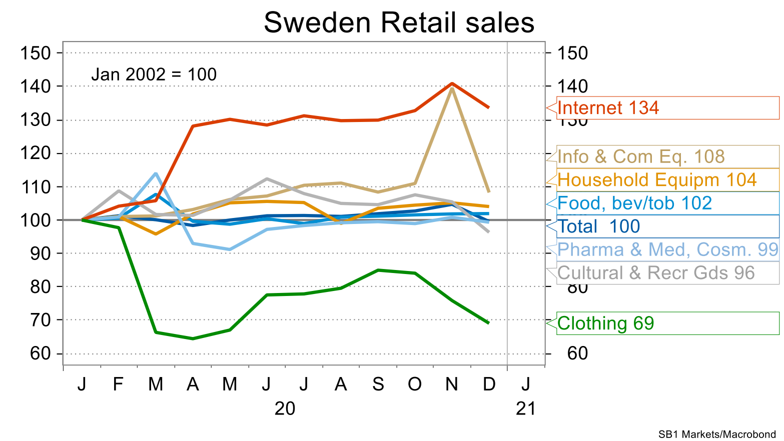


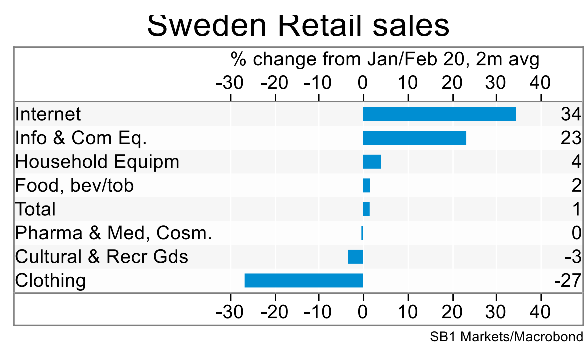
- **Manufacturing production** fell by 1.6%, as expected – and the recovery has stalled. Surveys are not upbeat (but they did not recognised the recovery from Mar – Oct)
- **Retail sales** has been stable recent months – at a level that is close to the level in early 2020. The trend has been weak since 2018 (or from 2010…)

Retail sales fell sharply in Dec too in Sweden (too): -5%, down to below BC level

Still: Q4 was further up form Q3 – and the best ever, up 3.4% y/y. No crisis?



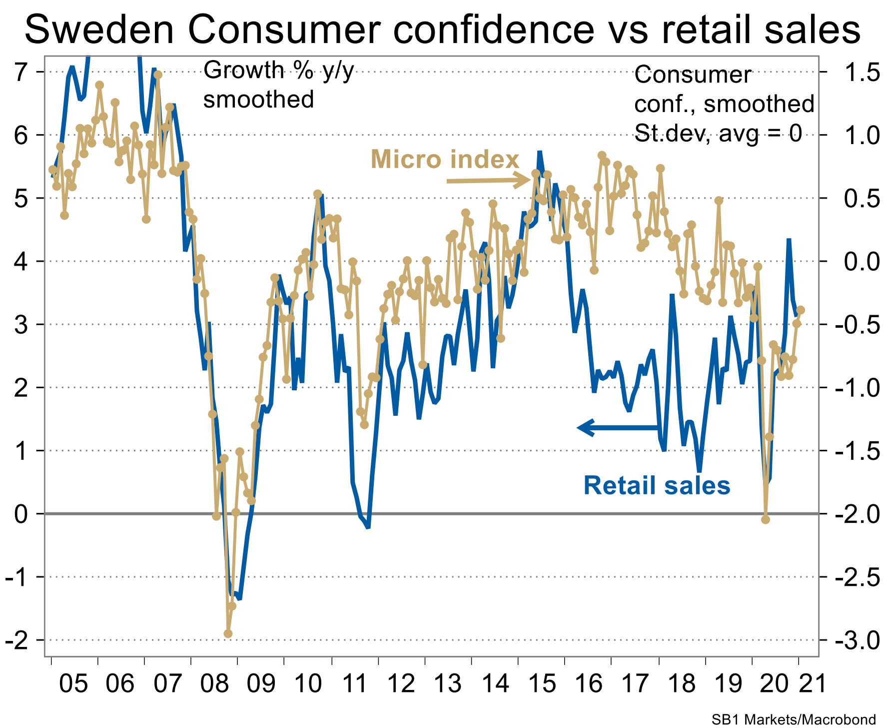


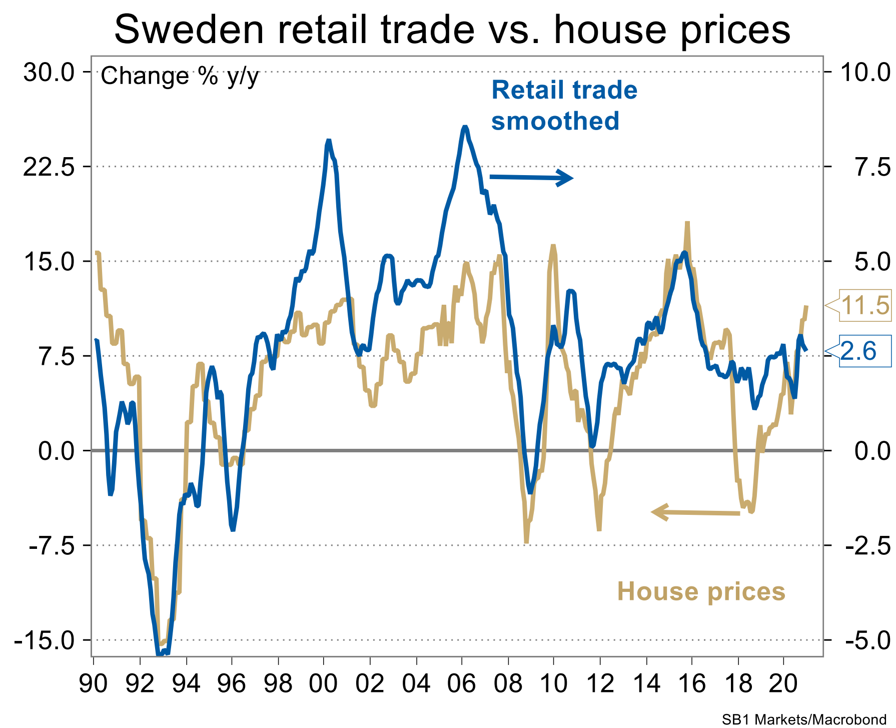


- Retail sales fell by 4.9% m/m in December, down to the lowest level since last April – and on par with the level one year ago
- Restrictions were implemented in December, and mobility declined somewhat – but not sufficient to explain the setback in retail sales
- However: Sales were strong in November, and the Q4 is up almost 1% vs Q3 – to the highest level ever, +3.4% y/y
- Huge sectoral differences. Clothing down 30 % vs Jan/Feb. Internet sales up 34%, info/communication +23%. Food sales are flat

Consumer confidence further up Jan (as expected) but remains slightly below par

… while retail sales have been OK (until Dec), and the housing market has been (and still is) strong

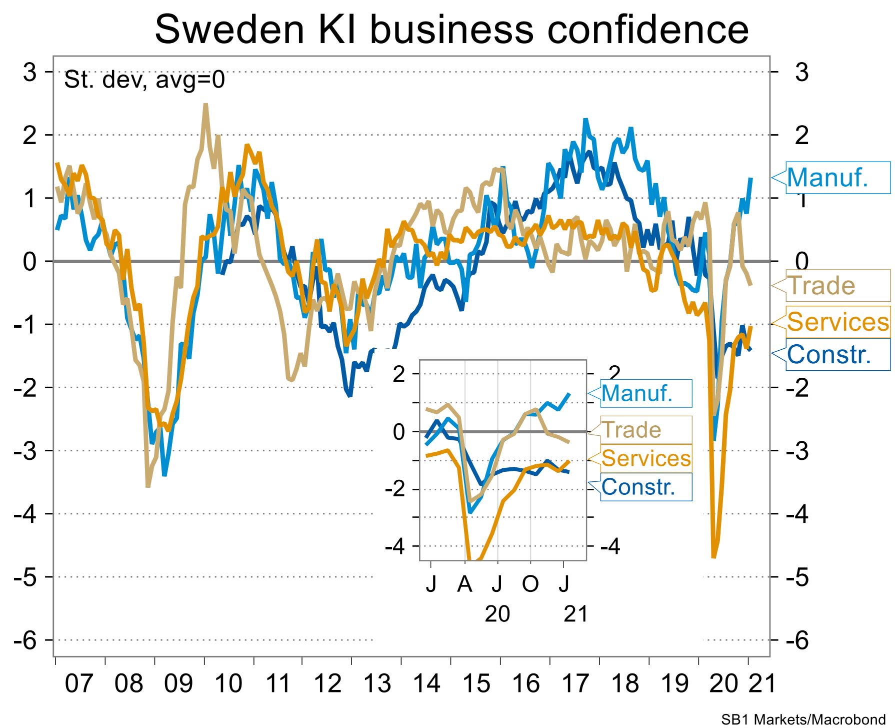


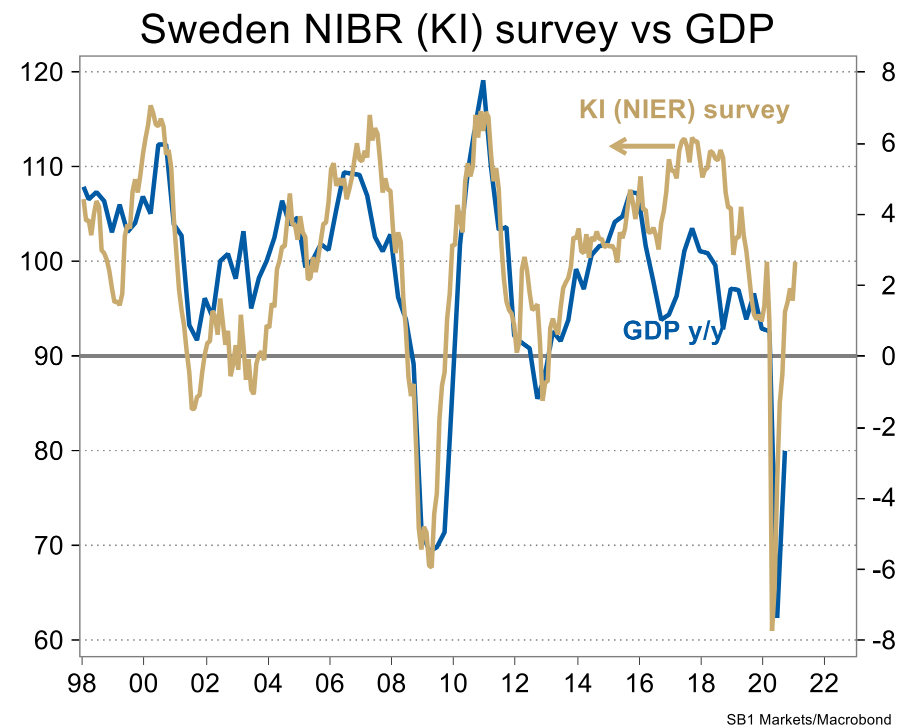


- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened
- Confidence has at least partly recovered, alongside retail sales (until December) - and a booming housing market (that did not take break in Dec). However, service consumption remains weak, in Sweden as elsewhere
- Households are better sat forecasting their own consumption of goods than retailers

KI business survey up again in January – and signals decent GDP growth

The overall index at an average level – thus signalling growth at trend!

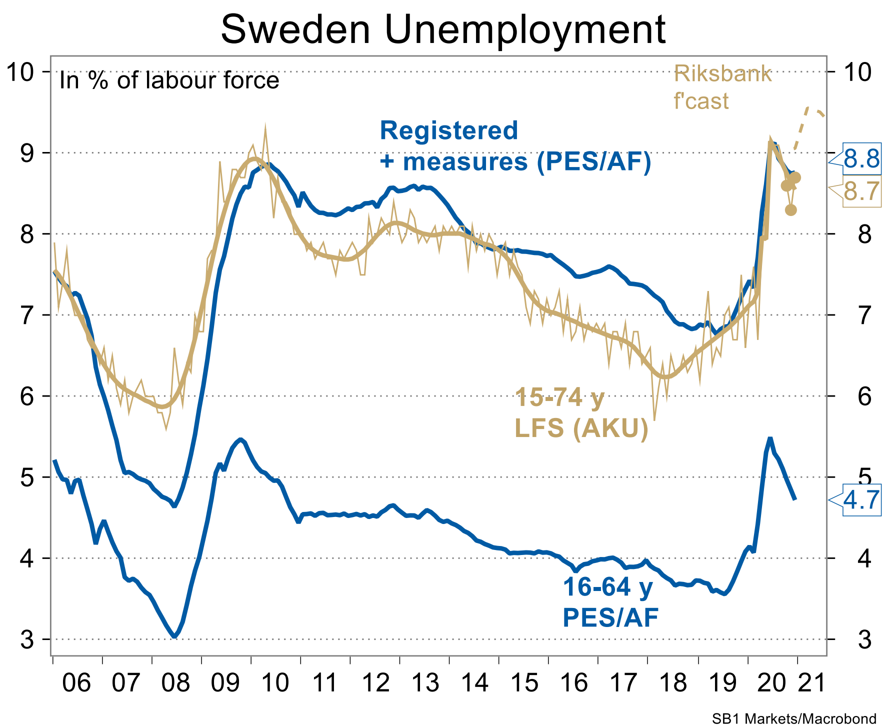


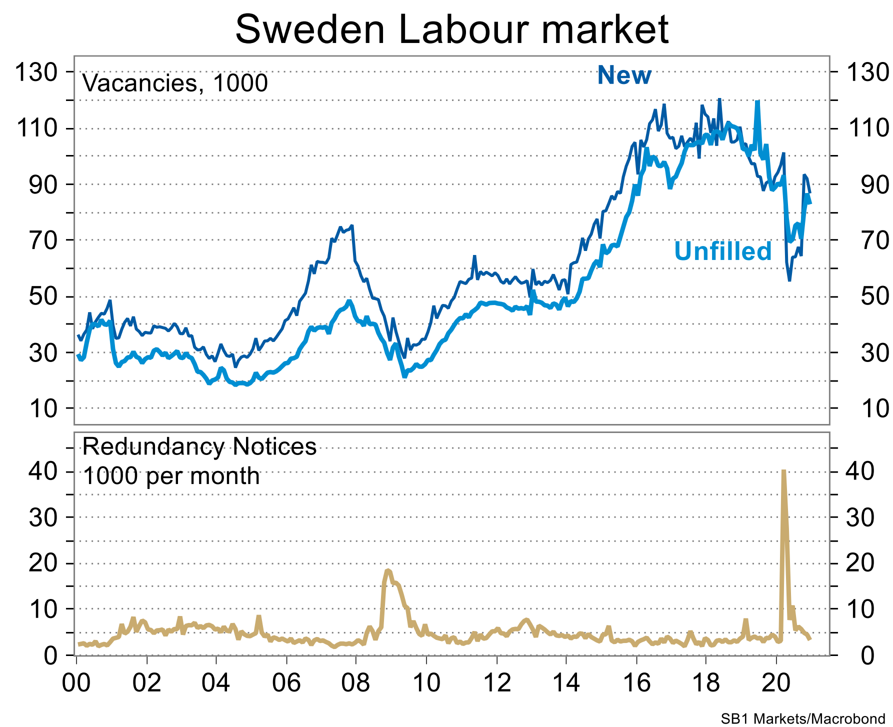


- The composite index signals a 2.5% – 3% GDP growth
  - » ...while the Riksbank assumed a harsh setback was underway in early December when the QE program was extended further
- Services are still reporting a weak sentiment, but less so in Jan . Construction not upbeat either, in spite the housing market upturn, a bit strange
- Trade and manufacturing both fully recovered over the summer – but trade has slowed again – even if actual sales have been strong recent months. Retail trade sector report growth below trend

LFS unemployment a tick up in Dec, because the participation rate rose sharply!

Employment rose but less than participation. Many new vacancies also signals better labour market

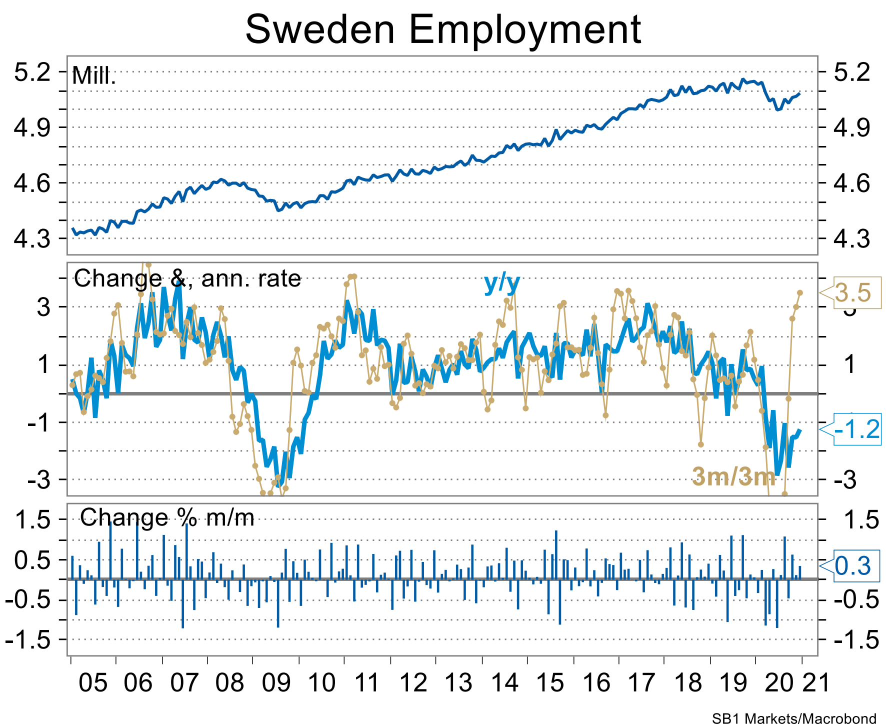


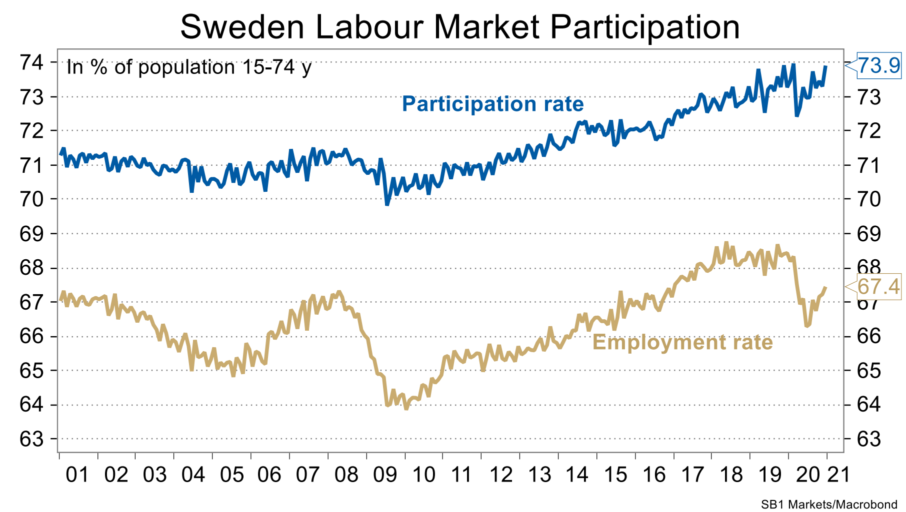


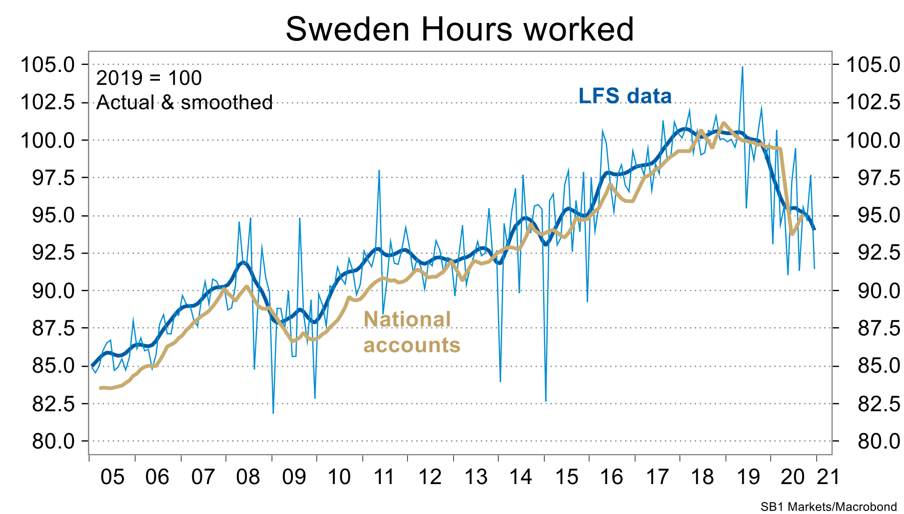
- Sweden has less furlough schemes, and less measures to subsidise employers to keep workers at work than in some other countries. Still, employment & unemployment are heavily 'distorted' in Sweden too, and do not reflect the 'real' demand for labour
- LFS unemployment 0.4 pp to 8.7% in Dec – and up 1.5 pp vs the pre-pandemic level
- Registered unemployment has inched down past 3 months, to 8.8% incl. labour market measures in Oct – still up from 7.3% in February
- The number of new and unfilled vacancies rose sharply in Oct, especially new vacancies – almost back up to the pre-corona level

Employment up in Dec but less than the huge hike in the participation rate

Employment is still down 1.2% y/y, and hours worked 4%. (Volatile) hours worked down in Dec



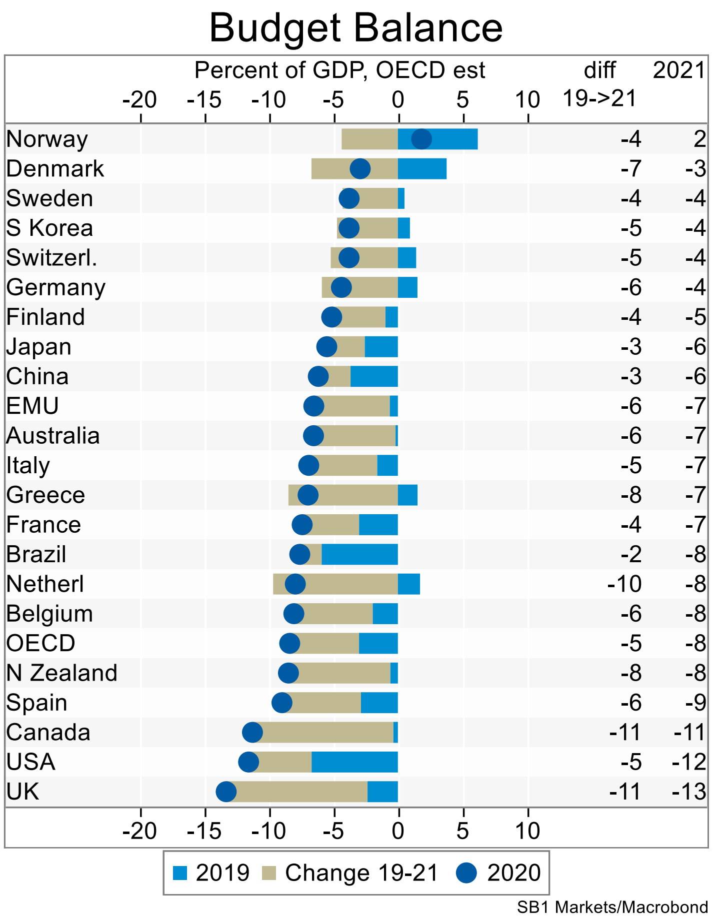




- In Dec, the participation rate rose to close to the record high level in February 2020
- The employment rate is still well below the early 2020 level
- Hours worked are volatile, and fell in Dec but have probably stabilised

Another stimulus package – 0.5% of GDP, after adding 1.0% post budget last aut.

The structural non-oil budget deficit equals 10.9% of GDP, 3.3% of the Oil Fund

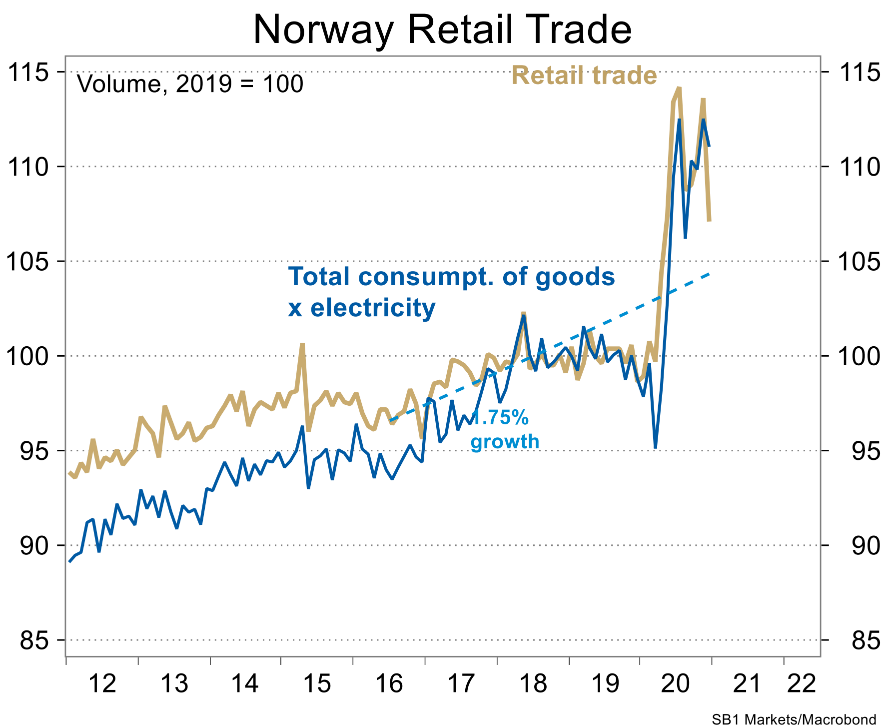


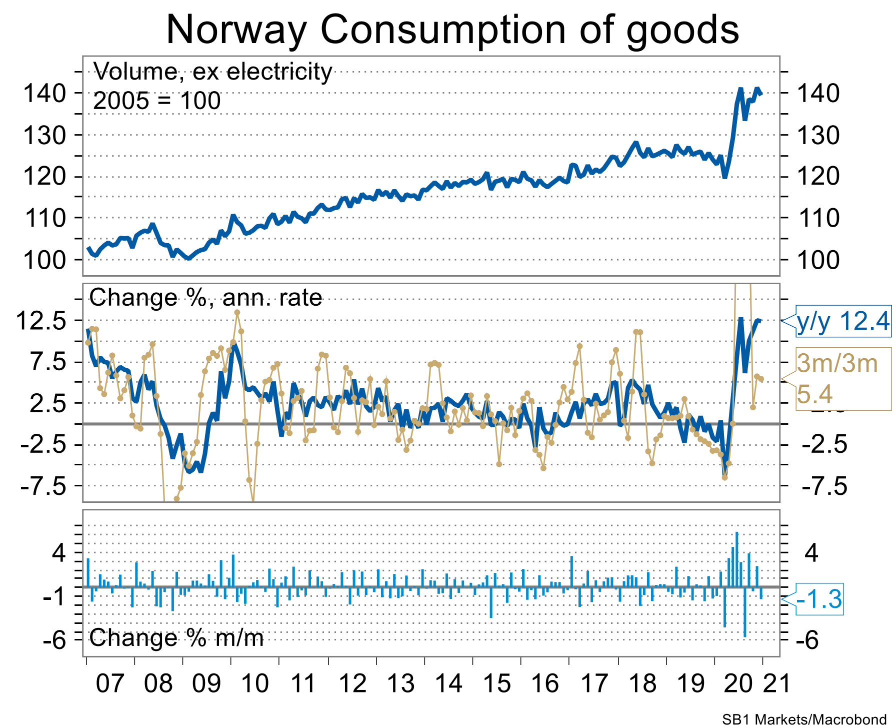
- **The non-oil structural budget deficit** at 10.9% is 'just' 1.1 pp of GDP higher than indicated by the long term budget rule – which is a rather small deviation theses days. The deviation is smaller than in any other rich country, vs. their long term (explicit or implicit) budget rules
  - In 2019, this deficit equalled 7.8% of GDP, well below the budget rule's long term guideline. In 2021, it is 3.1 pp higher
  - The actual non-oil deficit at NOK 415 bn equals 12.7% of GDP, or 2.5 pp higher than the budget rule (which though is defined vs. the structural, cyclically adjusted deficit)
    - The actual non-oil deficit was at 7.4% of GDP in 2019. To 2012 the balance has been weakened by 5.3% of GDP (NOK 188 bn)
  - Other OECD countries runs budget deficits equalling from 3% to 13% of GDP (USA's deficit was estimated to 12%, ahead of the 4% decided and 13% proposed extra stimulus packages)
- Formally, the **budget is still contractive**, as the deficit is 1.4 pp lower than the 2020 budget
- However, the **output gap** was some 3.5 – 4.5% last year, while the economy most likely will recover substantially in 2021, implying a reduction to a 1 – 2% gap
- If so, **fiscal policy is rather expansionary**, as the economy should need far less support in 2021 vs. 2020

Data for Norway at the chart above OECD estimates, for the total budget

Retail sales straight down, far from down to earth. Q4 up 11% y/y!

We expected a 2% m/m decline (cons. +0.6%), and not a 5.7% setback. Nov/Dec still at a high Oct levl.





- A 5.7% drop in retail sales is not that common, and we had just pencilled -2%. However, as sales rose by 2.9% in Oct, and the Nov/Dec average is exactly at the Oct level. Q4 is flat vs Q3, and up 10.8% y/y. In addition, sales are 7% above the 2019 average in December, far above a reasonable long-term sustainable level. As we have said since last summer's peak, the direction will be down
- Total consumption of goods fell by 'just' 1.3% (x electricity), as auto sales shot up through the roof – and the level is 11% above the 2019 average, even further above any reasonable long-term trend
- We still expect a gradual decline in retail sales the coming months/quarters, even if some sectors will blossom as long as borders are closed, and we cannot go shopping in Sweden or spend time (and money) abroad. Check next page for an assessment of the impact of the Oslo area lockdown, imposed one week ago
- Service consumption is of course far below a pre-corona level, no data included in these retail sales data.

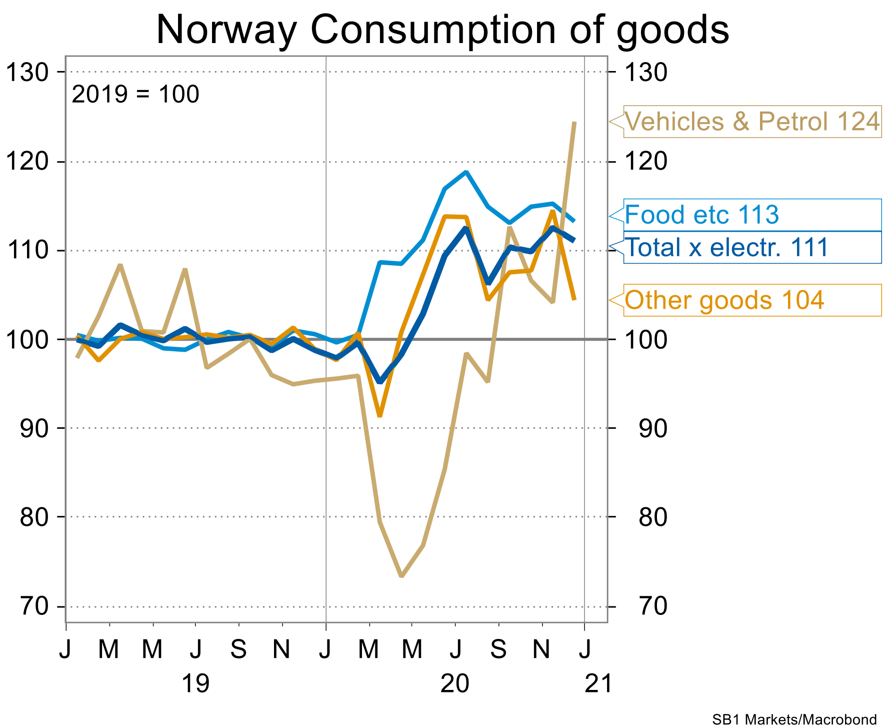
Most shops closed in the Oslo area, retail sales/growth down in Jan/Feb

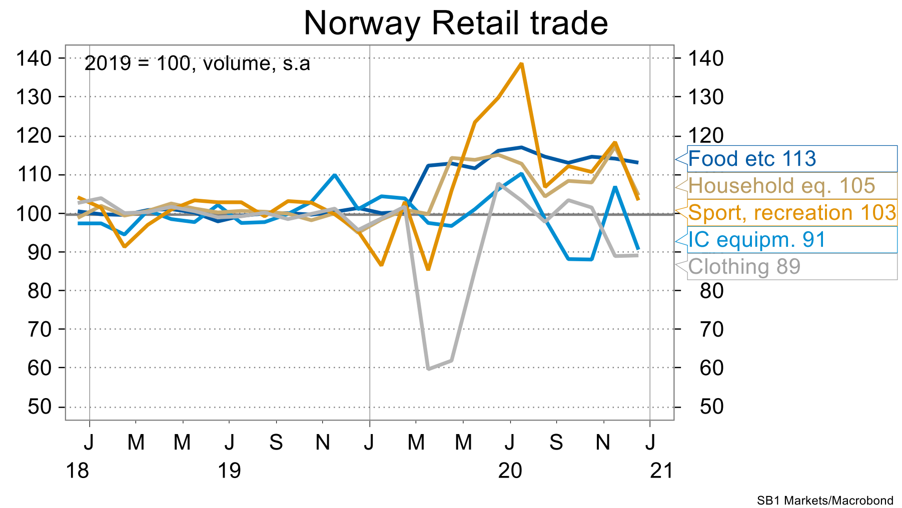
So far, a limitied impact on the national economy

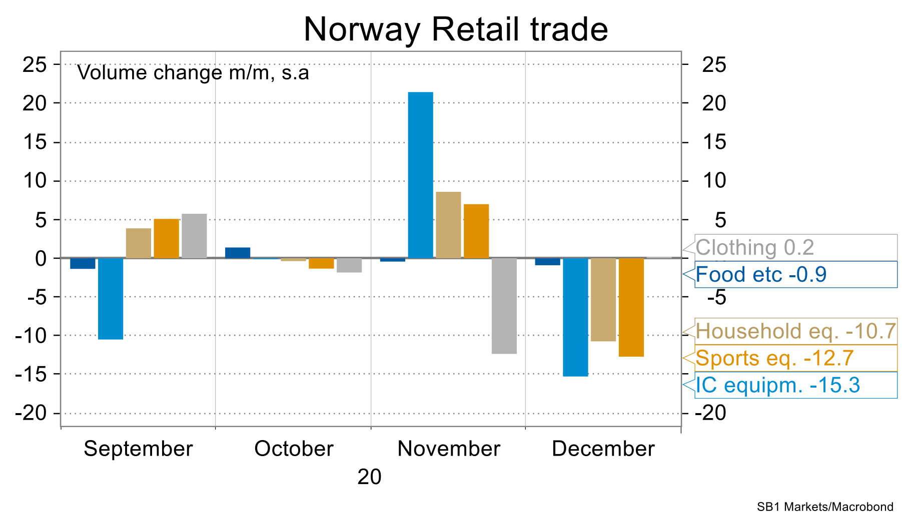
- At Jan 23, an partial lockdown was imposed in the greater Oslo area (27% of the Norwegian population, we assume 30% of the national economy), in order to prevent the British mutant virus to spread.
- Shopping centre shops were closed ex. food, pharmacies & drugstores as well as liquor stores (Vinmonopolet) and gasoline stations. Most other shops were closed
  - » We assume that 2/3rd of the activity in the retail sector remains open as all shops selling food, pharmacies, gasoline stations and some others still operating
- Restrictions were imposed on some other sectors as well, like restaurants, gyms etc. In addition, transport, hotels & culture activities will be even more depressed
- In sum, we assume that 12% of the regional economy (retail trade is less than 10%) is hurt by the restrictions. We assume a 30% decline in activity, in this part of the economy. If so, 3 – 4% % of the economic output in the region is lost as long as the 'lockdown' lasts. That equals some 1% of the national economy
- The government announced some easing Saturday, and signalled more changes during this week. However, on Sunday more cities/municipalities in southern Østfold were included in the area with tighter restrictions
- **If the lockdown lasts just 2 – 3 weeks (which is not unlikely, given the reduction in the overall no. of new cases), the impact on Mainland GDP in January and February will be limited, some 0.25% in both months, vs the pre-lockdown path.**
- **The impact of the full closure of the borders for non-Norwegian citizens will be limited, at least short term**
- **The real risk:** A longer, and larger, and even more strict lockdown, due to the mutated virus spiralling out of control - before the vaccines have arrived (and the latter will take time anyway…)

Apart from autos, a broad decline in December

Food sales almost unch. (11% above 2019 level), others down 10 – 15% m/m!





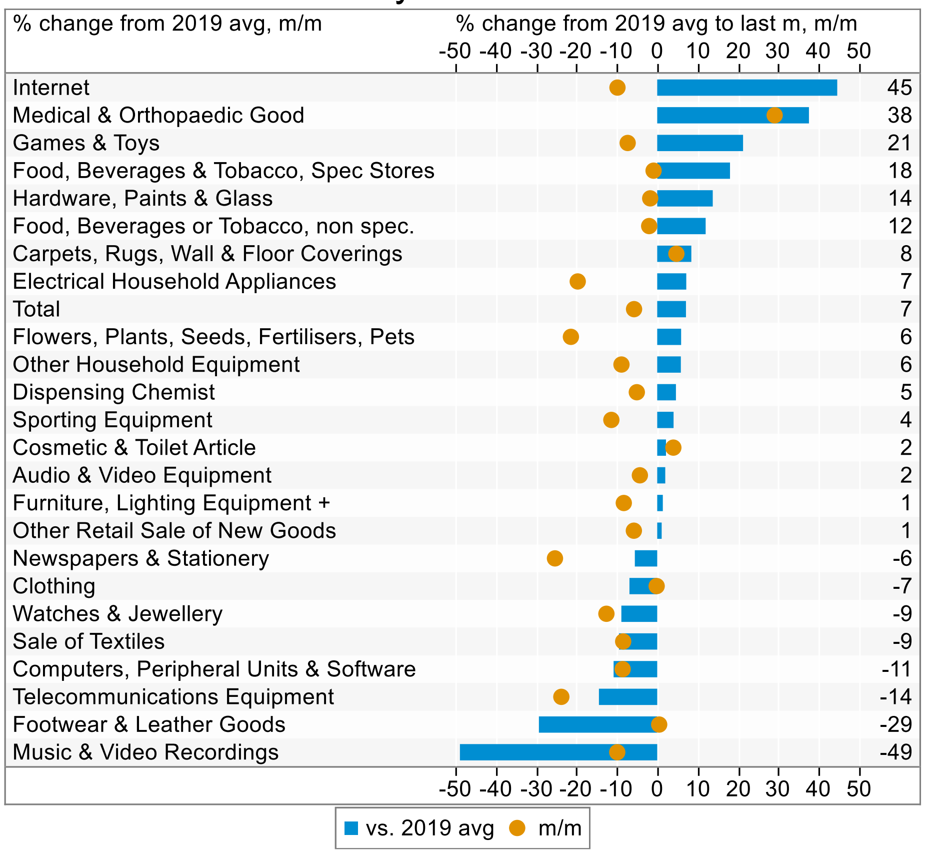


- Sales of sport equipment, information & communication technologies, and household equipment sharply down 10% – 15%
  - » Most sectors are still above the 2019 level
- Clothing flat, but still 11% below 2019 level
- Vehicles & gas up 20%, as auto sales rose to ATH

Some wild months

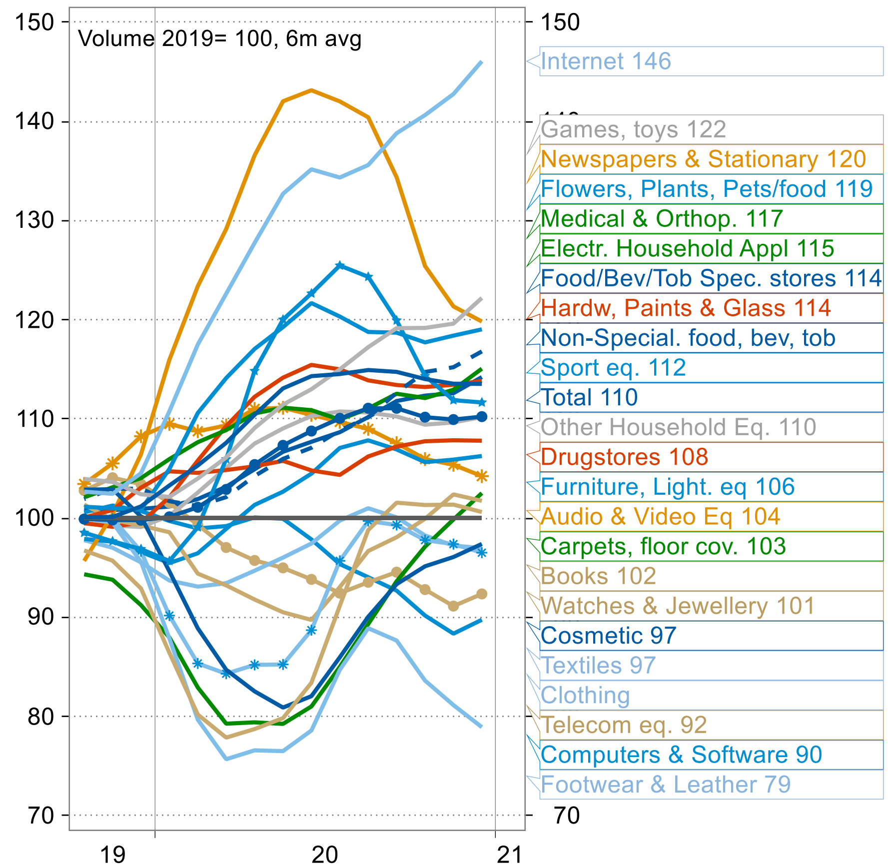
With some exceptions: Telecom equipment remains a loser

Norway Retail Sales



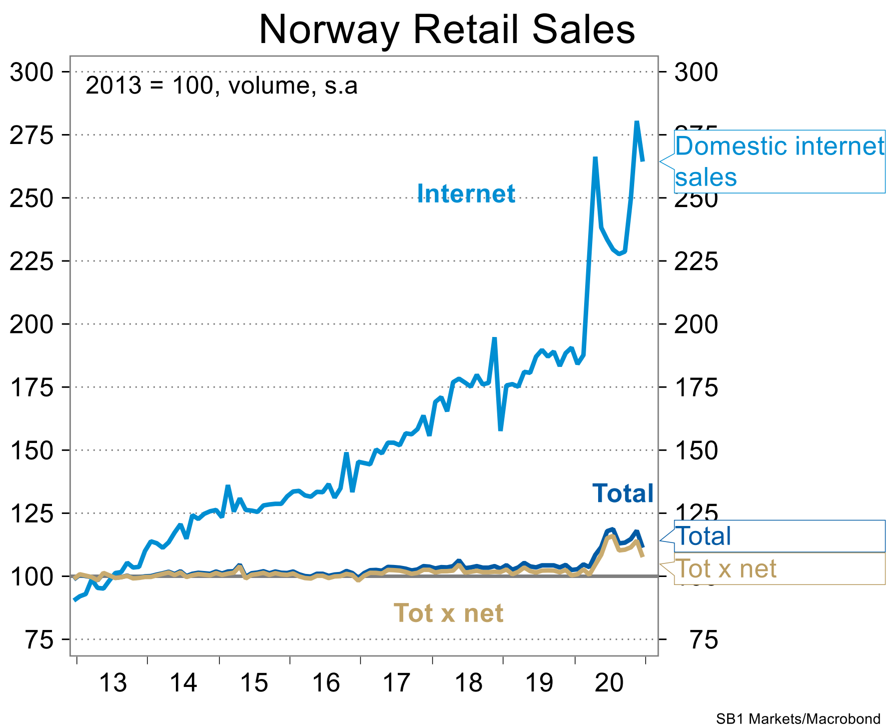
SB1 Markets/Macrobond

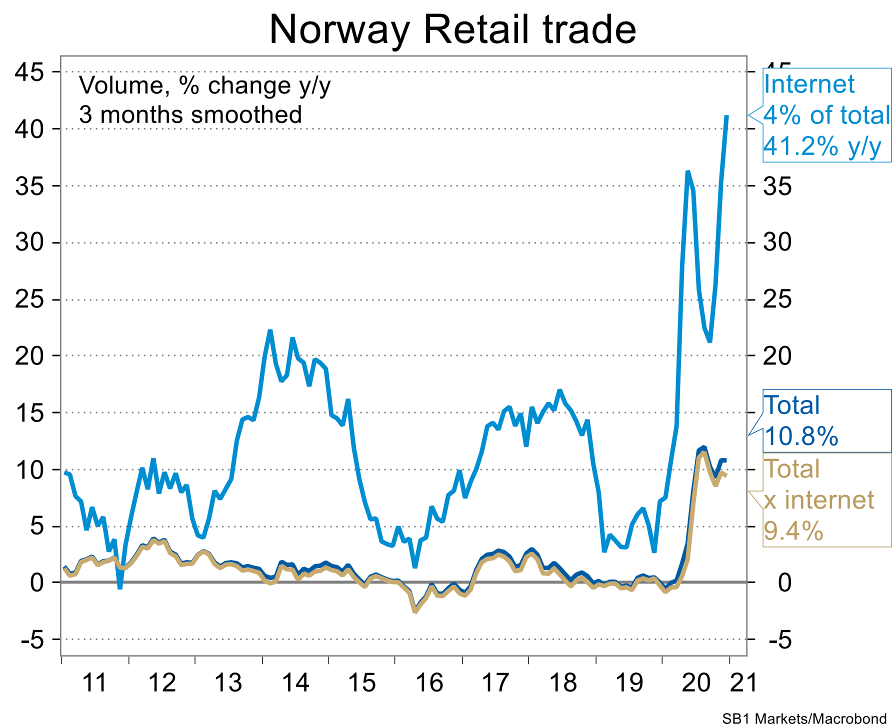
Retail sales



SB1 Markets/Macrobond

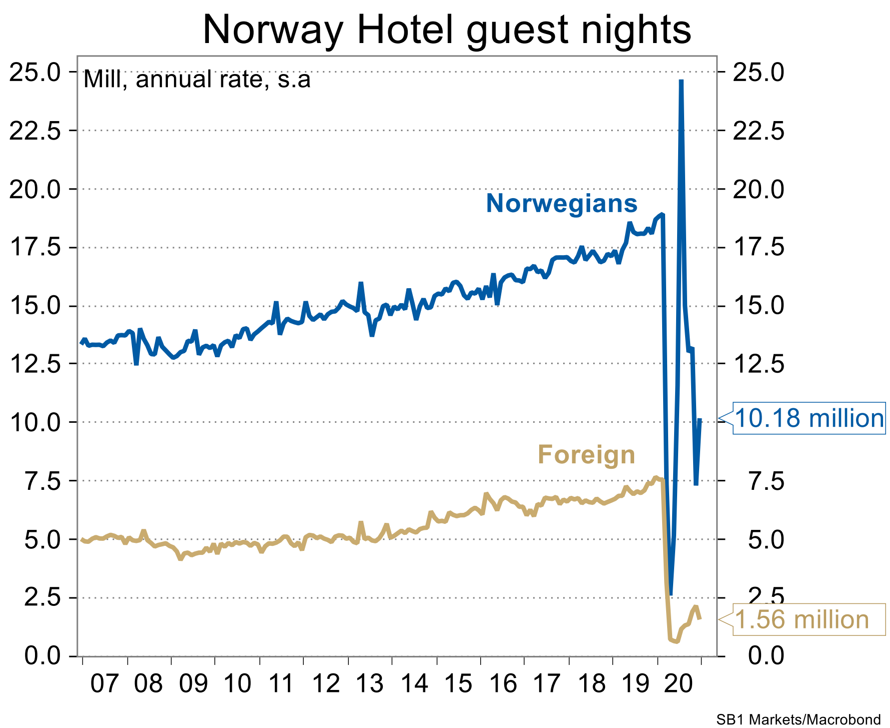
Internet sales (domestic) up 35% - but that's still just some 1% of total sales

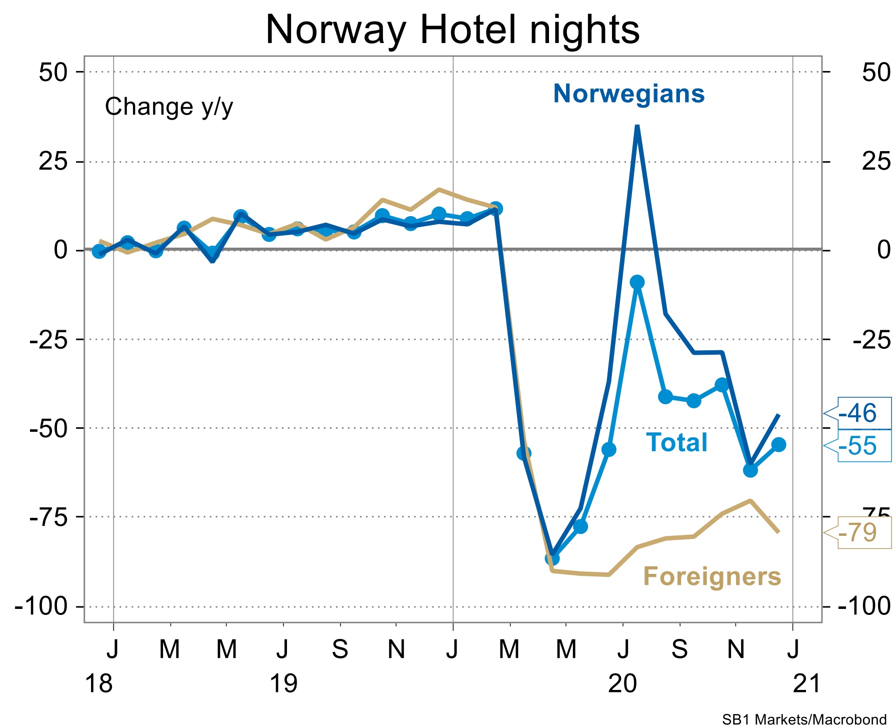




More domestic guest nights in Dec but still down 46%. Total down 55%

Most likely, January will probably not be much better

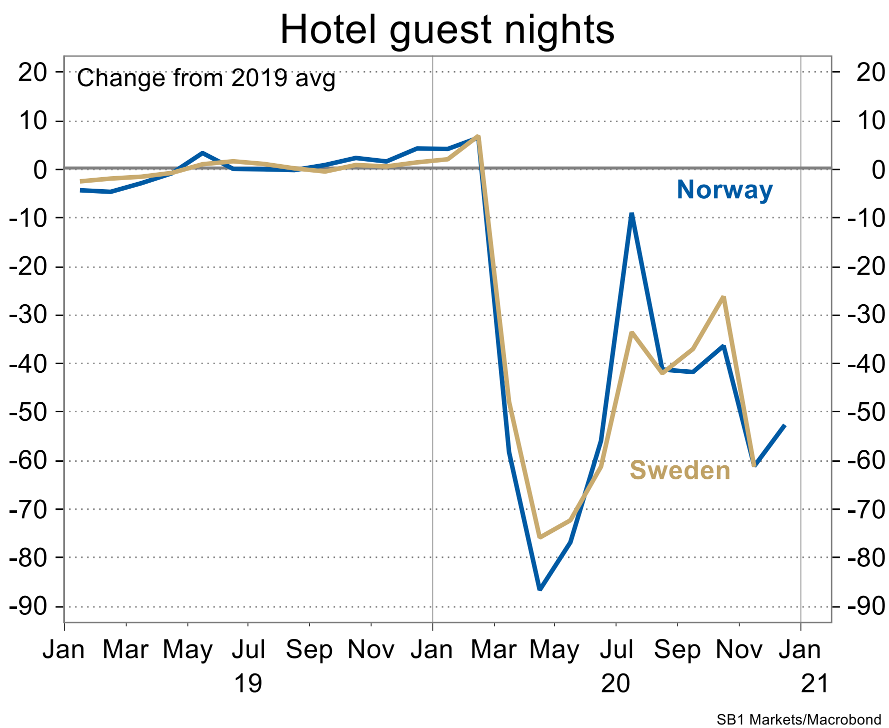




- Just July had been anything close to normal for Norwegian hotels since February. Hotels cannot return to anything like normal activity before corona is brought under control, both in Norway and abroad

Don’t blame the ‘lockdowns’, rather the virus

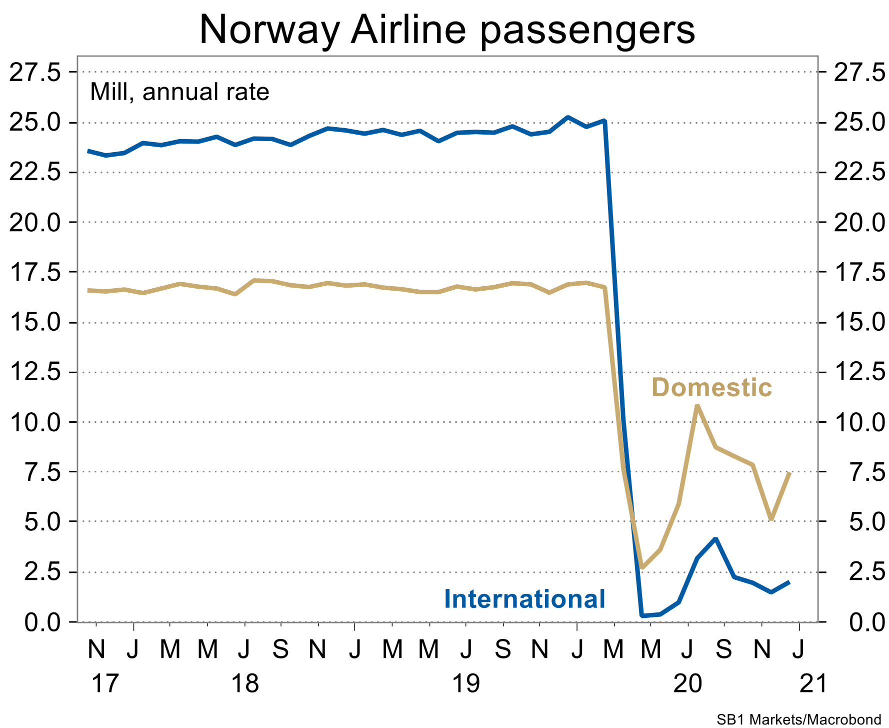
Spot the difference between Norway & Sweden (and we could added other European countries)



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

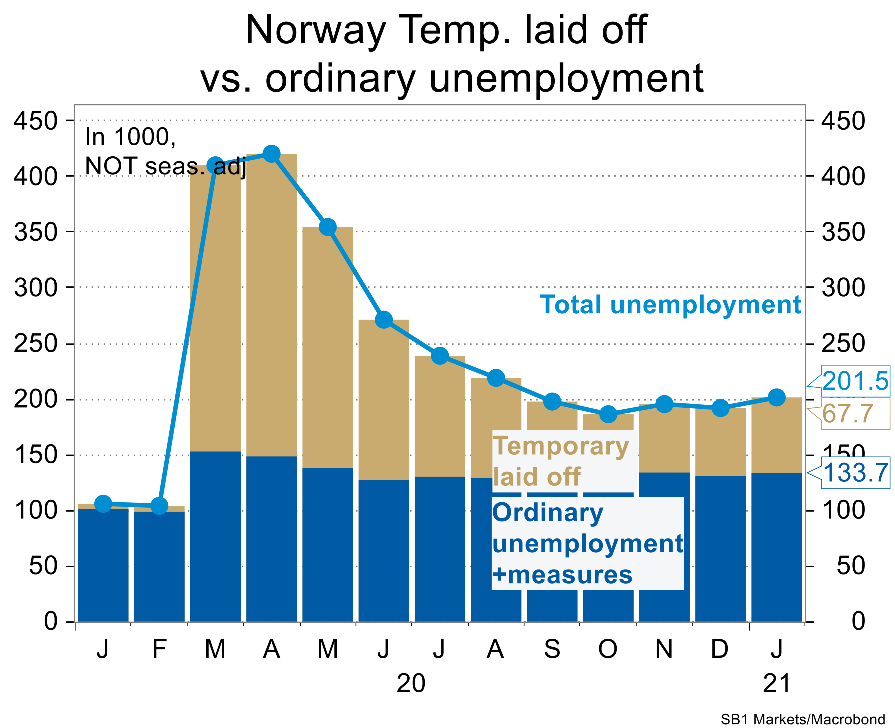
Domestic airline traffic up in December, still down 55%

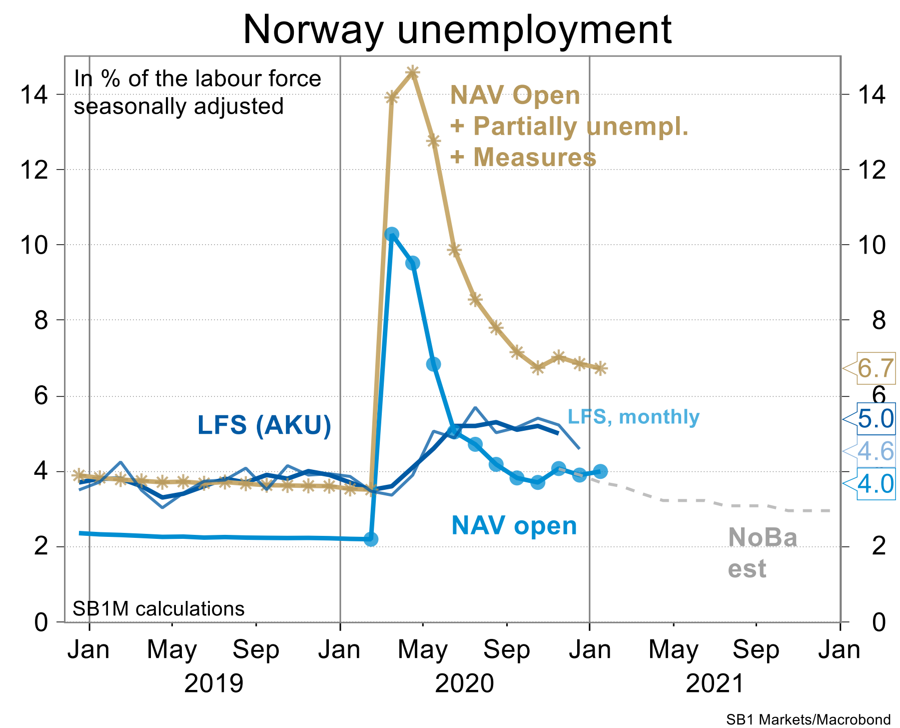
International traffic is down 90%, and will not recover anytime soon…



NAV unemployment slightly up in January (or down?). Up 2 – 3pp vs. pre corona

Open ordinary unemployment rose 0.1 pp to 4%, 0.1 pp less than we exp. Grand total still down?

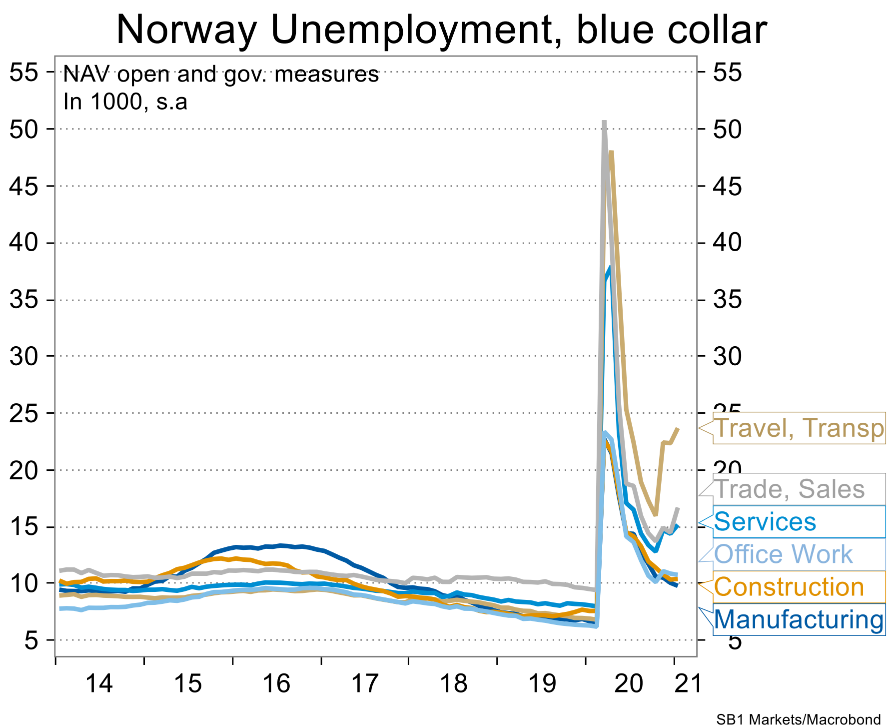


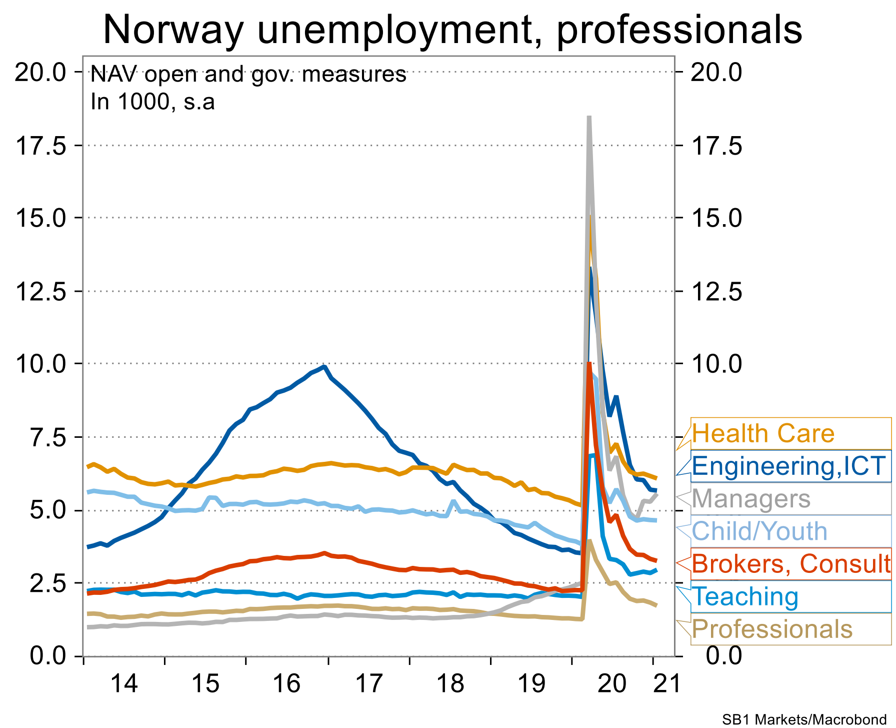


- **Open '<u>full time</u>' NAV unemployment**, which includes furloughed workers rose by 2.8' in Jan, following the 5' drop in Dec (after rising 10.5' in Jan. The rate rose 0.1 p to 4%, up from 2.2% pre corona. Norges Bank assumed a decline to 3.7% in its Dec MPR. Not seasonal adj. the rate climbed to 4.4% from 3.8%, in line with consensus. We expected 4.5%
  - » **Including <u>labour market measures</u>**, unemployment rose by 3.8' to 128.1 equalling 4.4% of the labour force. In February, the rate was 2.6%. The decline open unemployment was in line with NoBa's f'cast
  - » **Including <u>part time</u> unemployed**, we estimate a marginal decline in unemployment, but the seasonal adj. is uncertain in January. The rate is at 6.7%. Before corona: 3.5%
- **<u>The LFS</u> (AKU)** reported a decline to 5.0% in November, up 1.3 pp vs. February. Furloughed workers are not included before 3 months on the dole

Unemployment in travel, transport and other services are on the way up again

The impact of the 2nd 'lockdown' has been narrow – and limited. A lift in trade/sales is surprising

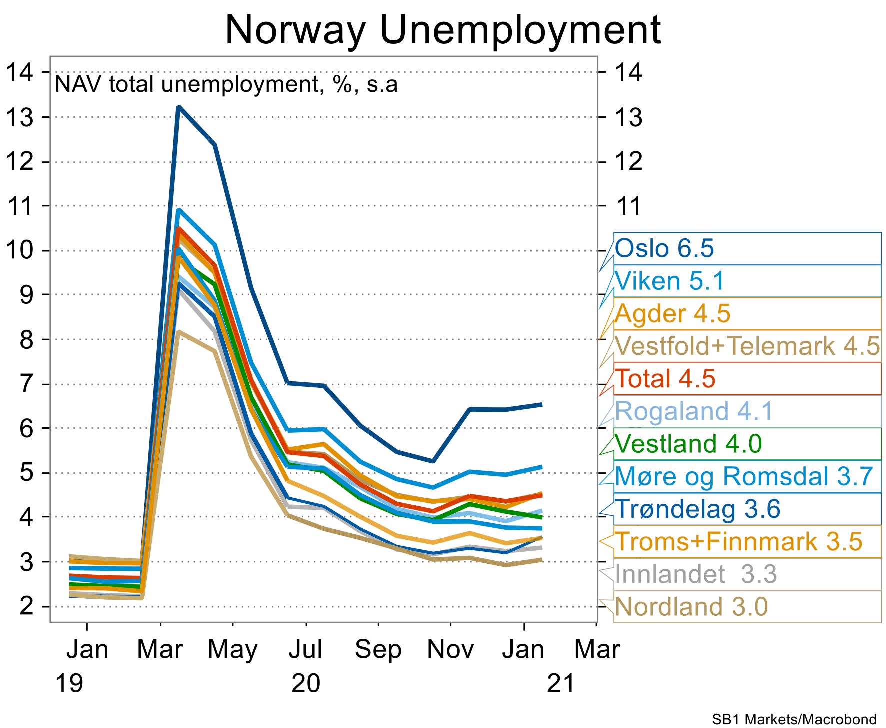


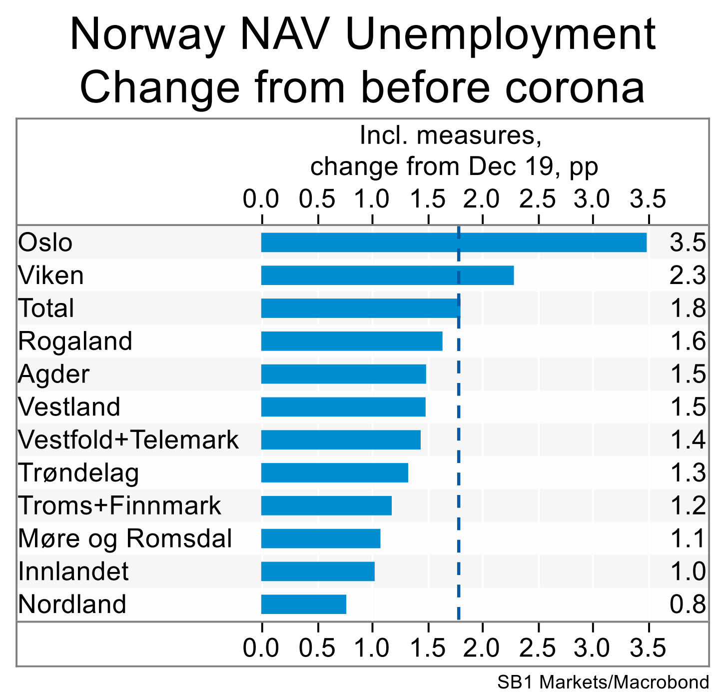


- We deem the risk for wide-spread increases in unemployment in other sectors due to the 2nd wave – like we saw during March & April 'panic' – to be very low

Oslo the outlier but most counties reported higher unemployment in January

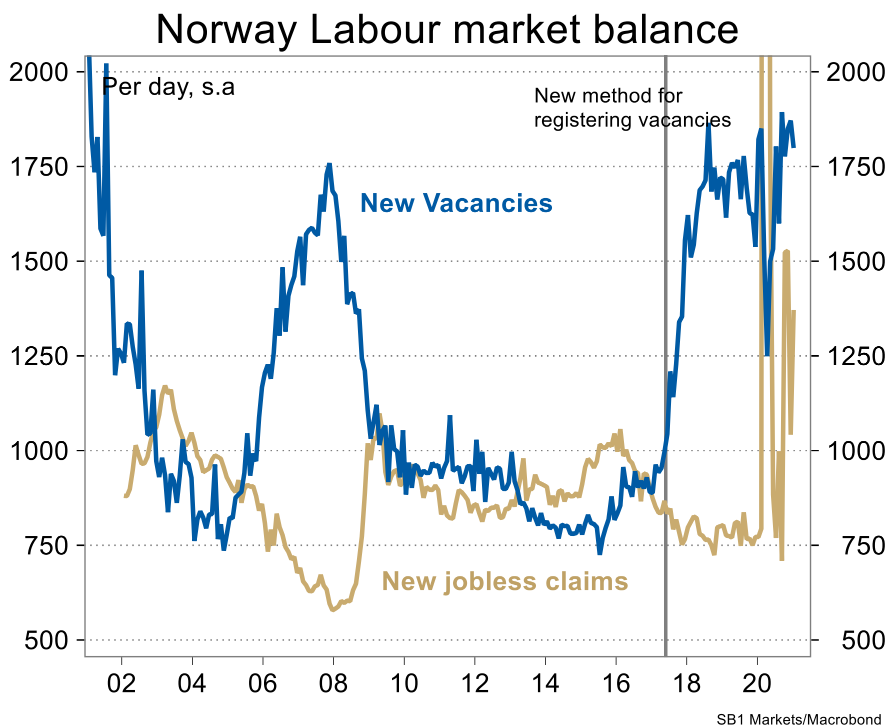
Oslo has the highest unemployment rate, following the steepest rise since before corona

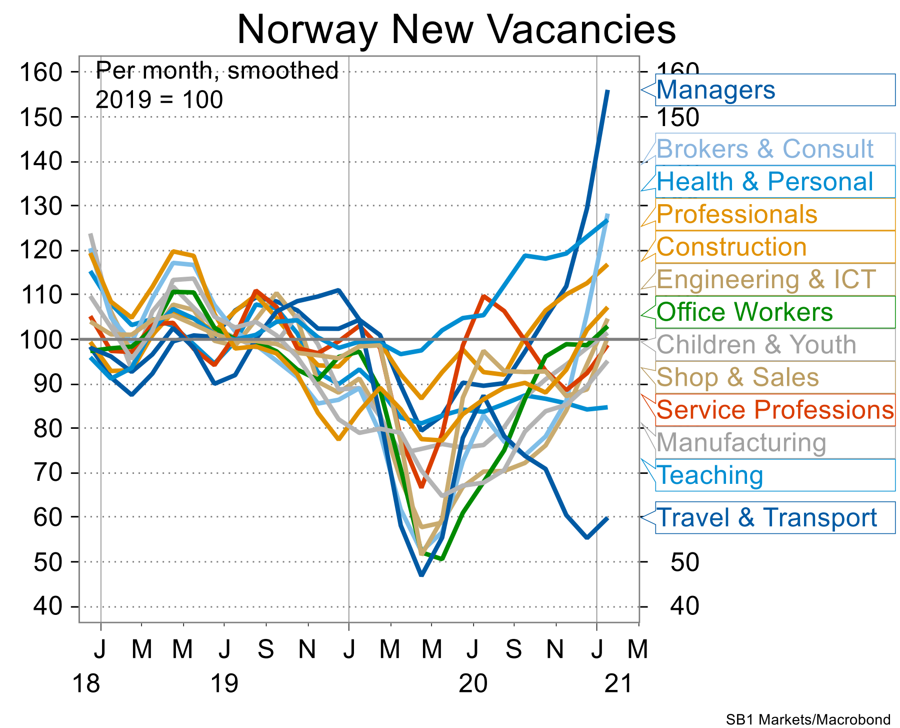




More new claims but also many new vacant positions

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

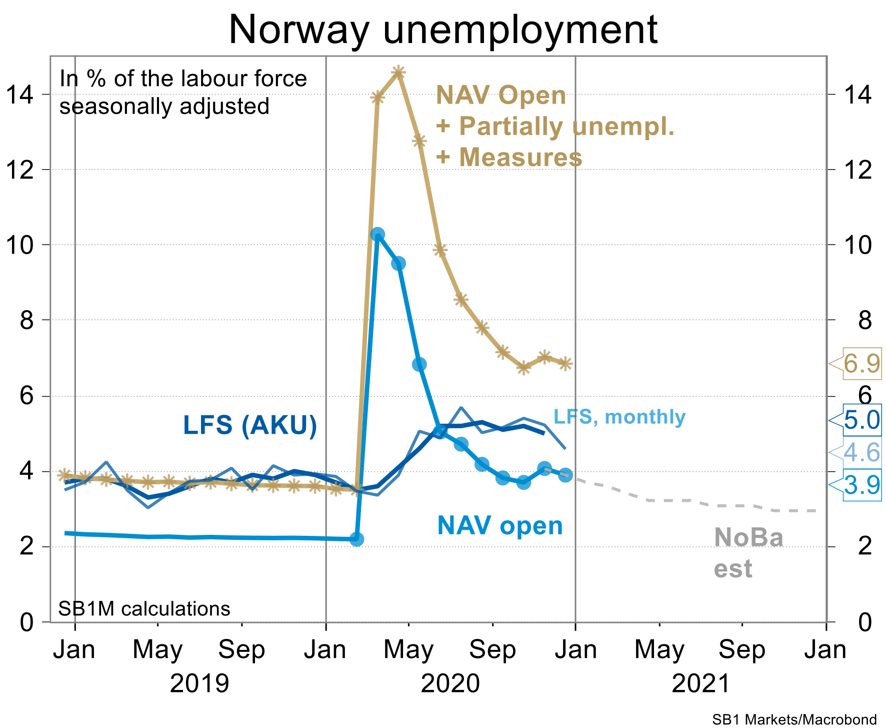


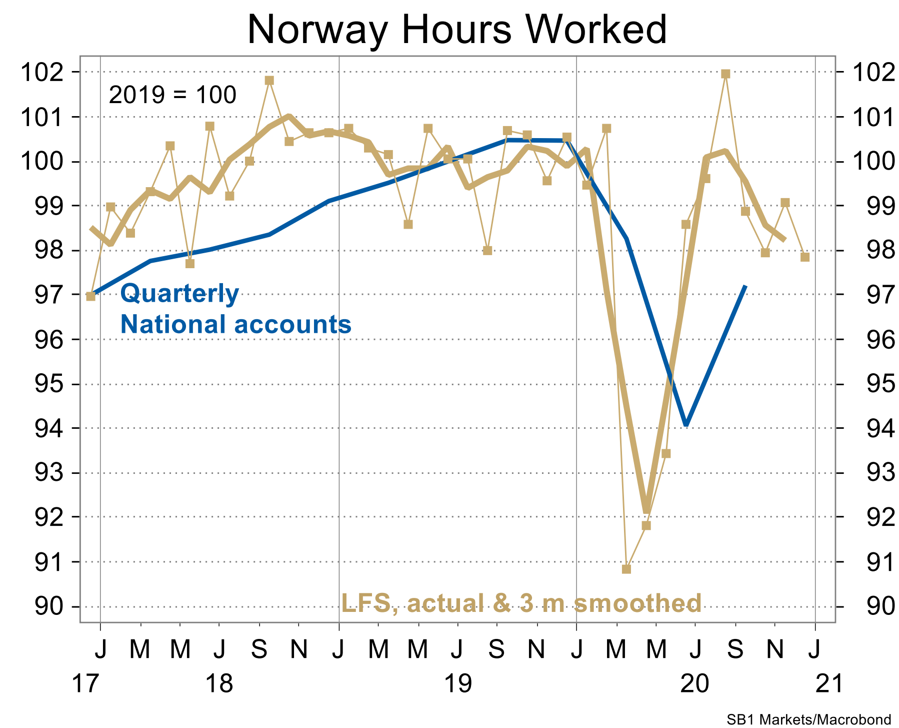


- We have made a preliminary adjustment of the 2020 vacancy data due to a NAV reporting error which have led to under reporting of new positions through the year. NAV reports that the no of new vacancies are the same level in January 2021 as one year ago
  - » Vacancies per types of jobs are not adjusted
- New jobless claims are not seasonally adjusted through 2020 – and the data points are very uncertain

LFS (AKU) unemployment down to 5%, employment rose marginally

Unempl. up 1½ pp and employment down 1¼ % vs. pre corona. Persons at work & hours worked -1%

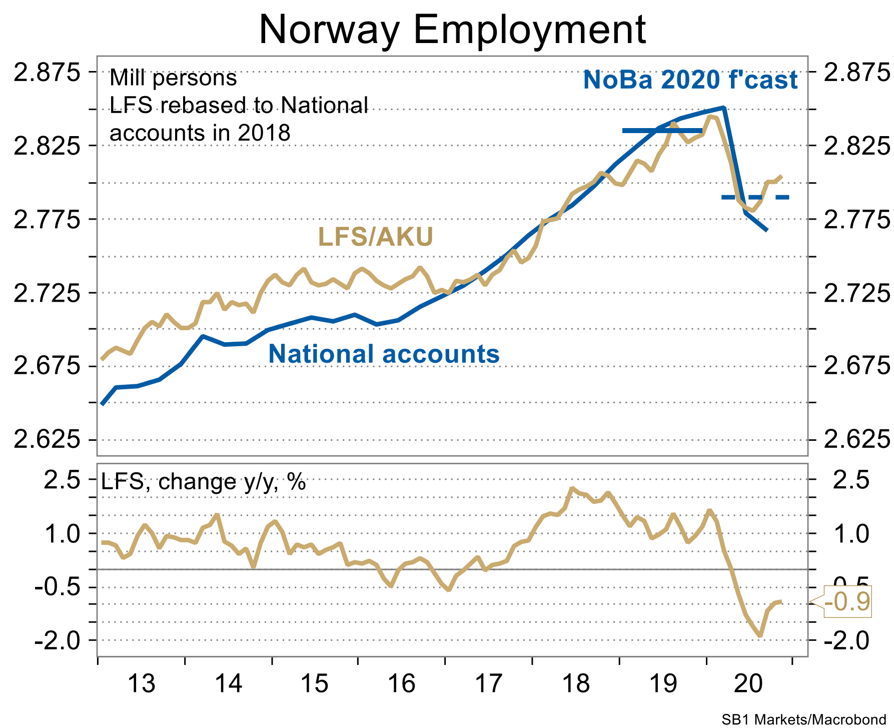


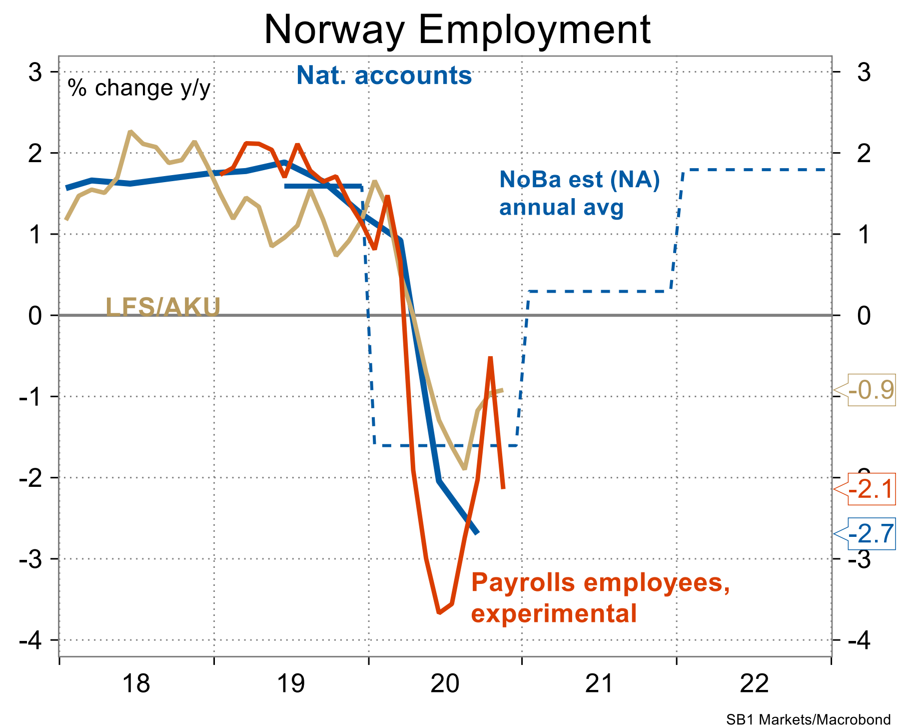


- The 3m smoothed **LFS (AKU) unemployment** fell by 0.2 p to 5.0% in Nov (average Oct – Dec), we expected an increase to 5.3%. The unemployment is up by 1¼ pp from the 3.7% BC level. The monthly rate for December fell sharply, from 5.3% to 4.6%, we expected unch. These monthly data are volatile
- **LFS employment** has climbed recent months – and further in Nov, and it is now down 0,9% y/y. **Hours worked** fell in Dec & Q3, and is down almost 2% y/y
- **Furlough schemes** and other adjustments to the corona crises may still be distorting these data – and may do so the coming months as well as more employees are being furloughed in some services. Furloughed workers are counted as employed for first 3 months (international std.)

Employment is on the way up again, according to the LFS

... and other statistics

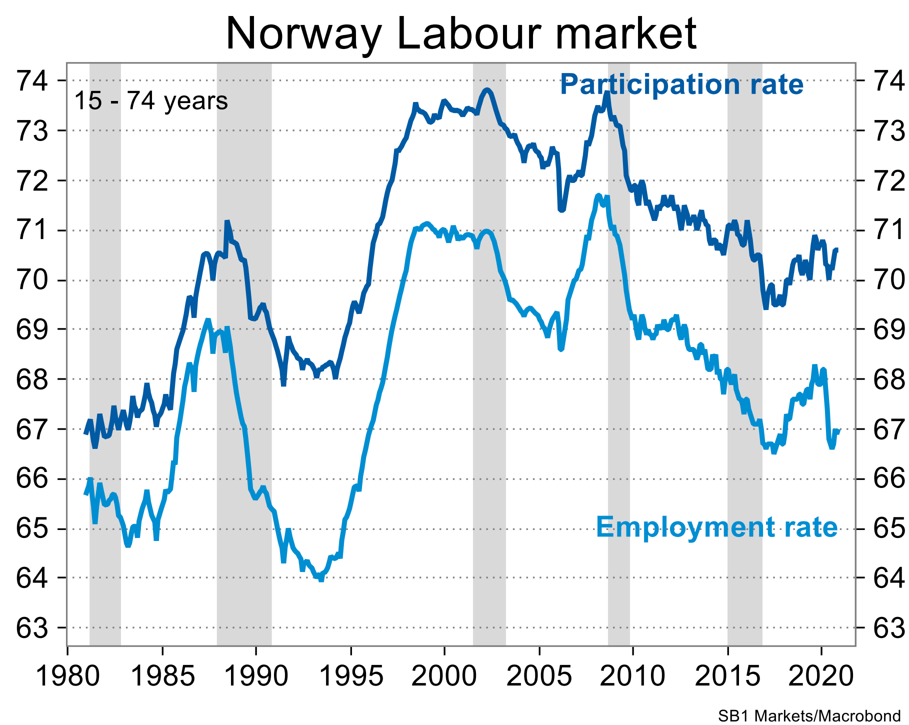


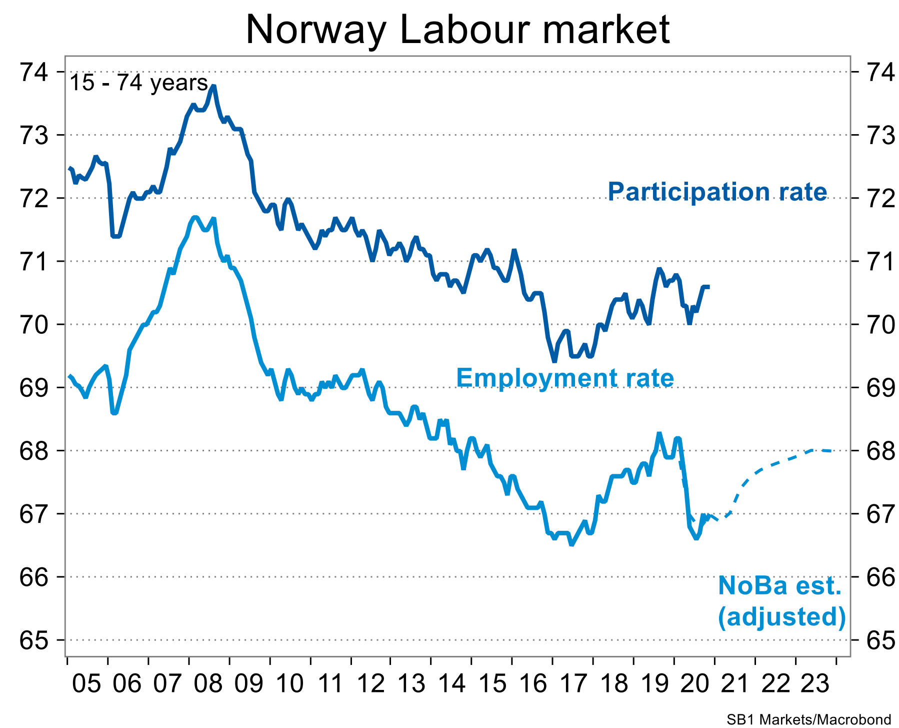


- ... during the summer the decline was 3.5%

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

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

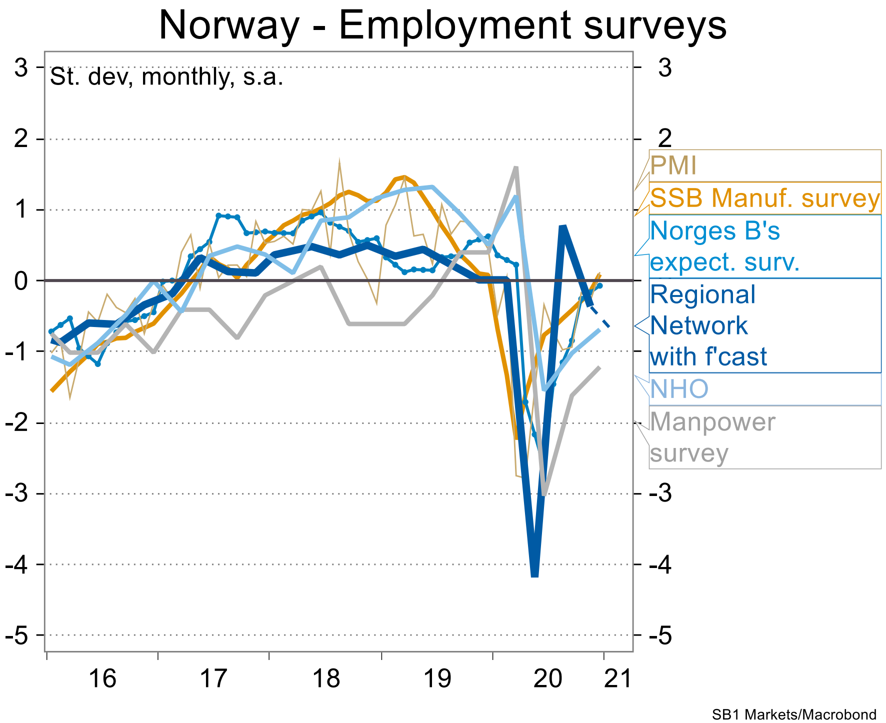


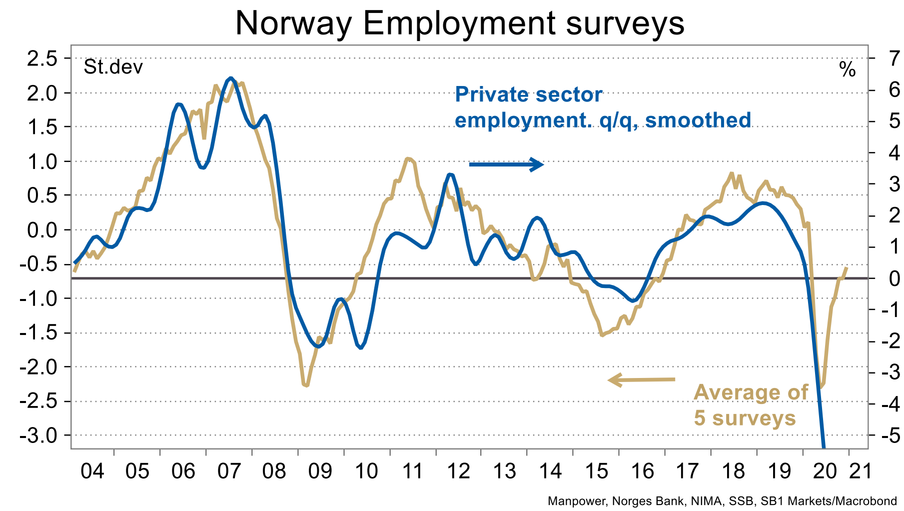


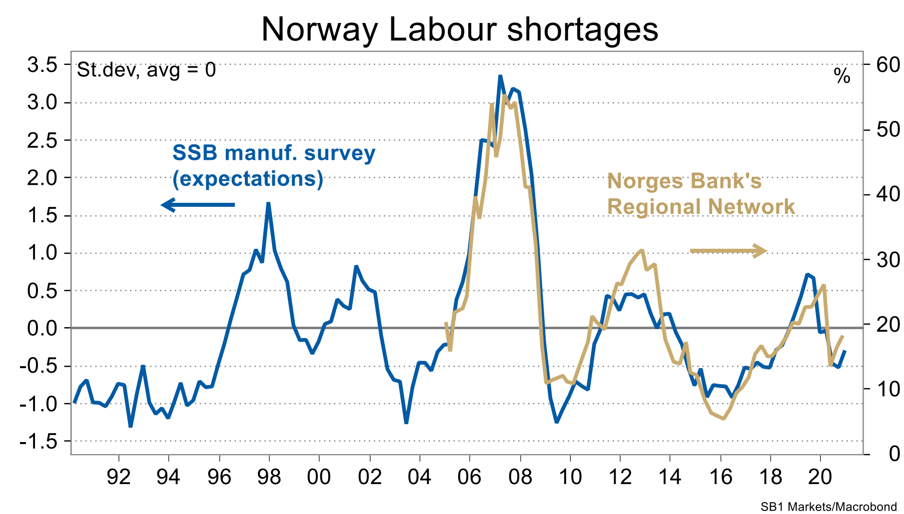
- The employment rate is down 1 pp vs the pre-corona level
- The participation rate is almost back to the same level. Usually, if demand for labour weakens, participation yields
- Norges Bank expect the reemployment rate to decline marginally in Q1 and then start the next leg of the recovery in Q2, based on the Bank's main virus scenario. 0
  - » The NoBa employment rate is calculated via National account employment data, not the LFS, and data differ somewhat. We have adjusted the NoBa forecast to the 'official' employment rate from the LFS rate in October

Employment surveys are heading up, on average

Employment surveys are softening but just the Regional Network is signalling a rapid slowdown



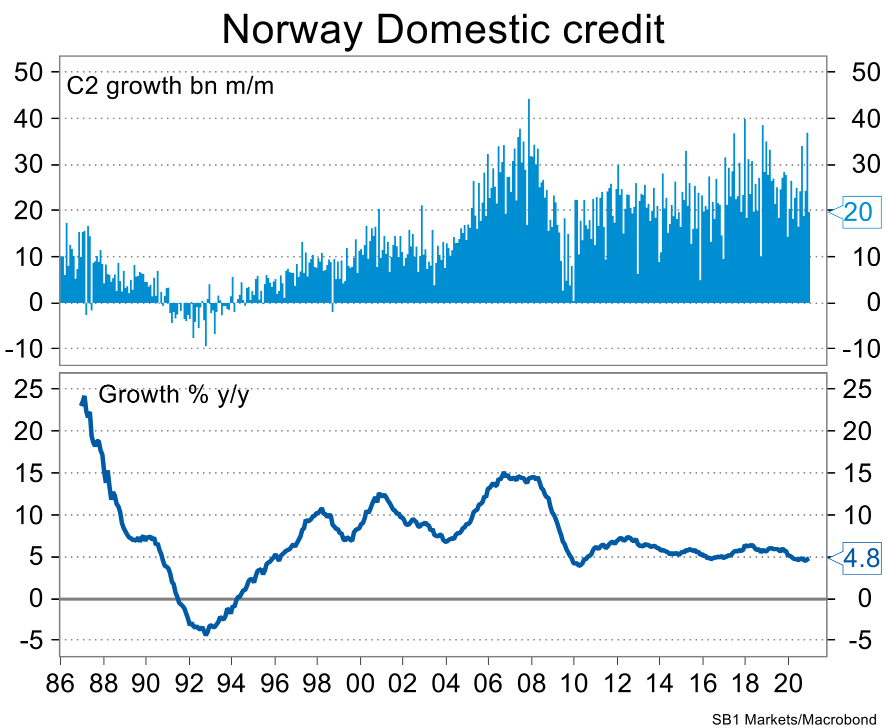


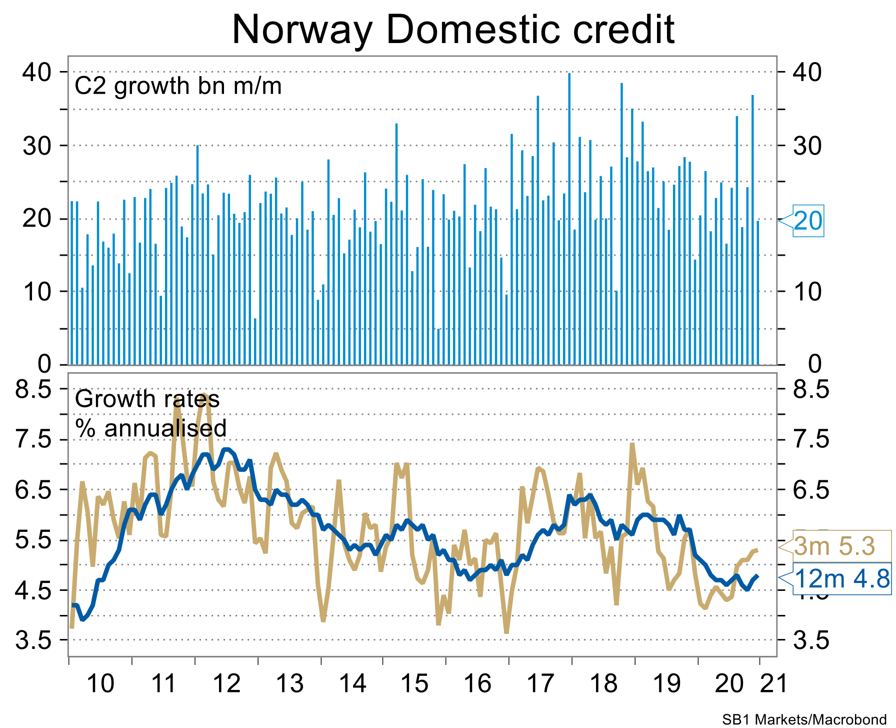


- Employment surveys are mixed, the avg of 6 surveys do not point to any slowdown. However, some of the most reliable of surveys, like NoBa's Reg. Network, points to substantially softer growth in employment
- The Regional Network reported higher labour shortages in Q4, however, the level is rather low, indicating that the labour market tightness is not very pronounced

Moderate credit growth in Dec, the Nov/Dec average 'normal'

Total domestic credit growth (C2) accelerated by 0.1 pp to 4.8%, we expected 4.9%. No credit boom

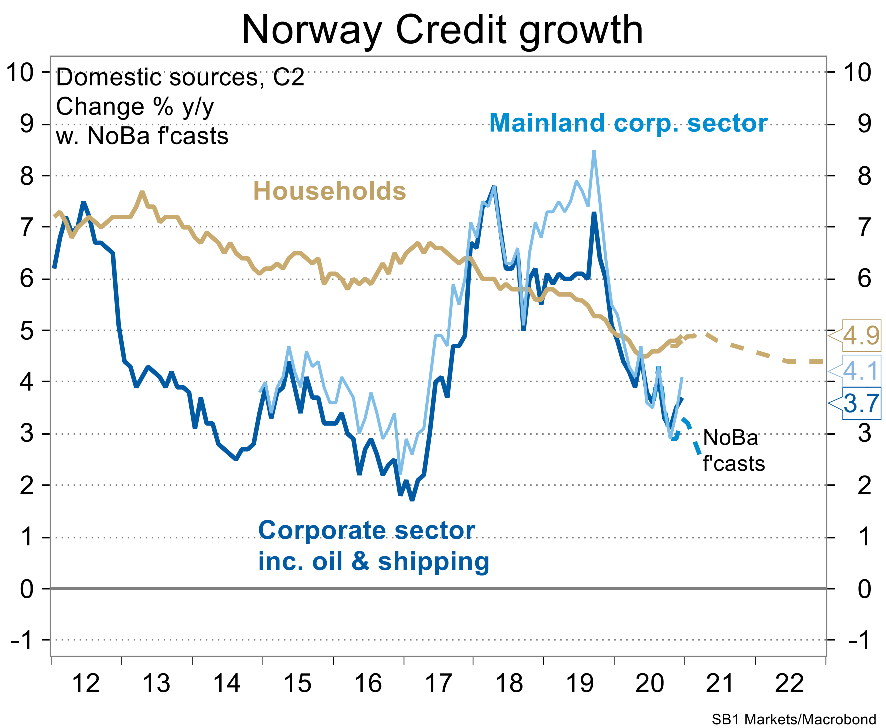


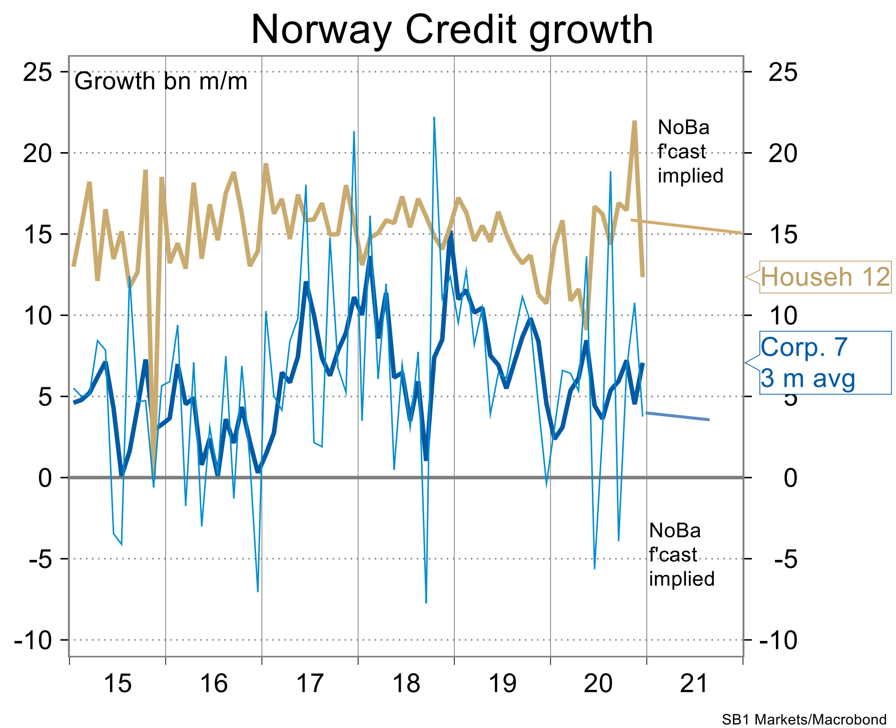


- **Total domestic debt** (C2) rose by NOK 20 bn in Dec, down from 37 bn in Nov. The average equals a 5.4% pace. The annual growth rate climbed another 0.1 pp to 4.8%. We are not witnessing a full scale credit boom, even if growth is accelerating slowly
- **Household credit** rose by NOK 12 bn in Dec following the record high 21 bn in Nov, we expected 18 bn. Still, the annual rate rose to 4.9%, and the underlying growth is at above 5%, higher than a reasonable estimate of long term nominal income growth – but not by much
- **Corporate C2 credit**, rose by NOK 4 bn (down from 12 bn) and by 3.7% y/y, up from 3.5%. **Mainland corporates** increased their debt by 4.1% vs Norges Bank's 3.3% forecast. (In the Dec MPR, NoBa revised its year-end corp C2 estimate by 4 pp, some 75 bn!)

November was an outlier, household debt up ‘just’ at a 5.5% pace in Nov+Dec

Household debt grew slower than normal in Dec, following the Nov hike. The average is ‘OK’

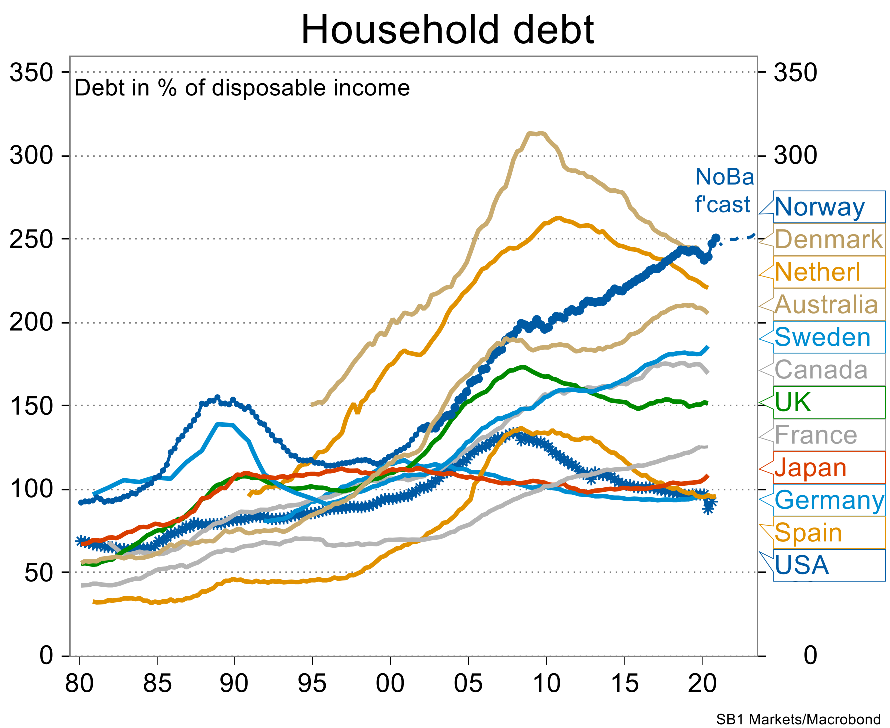


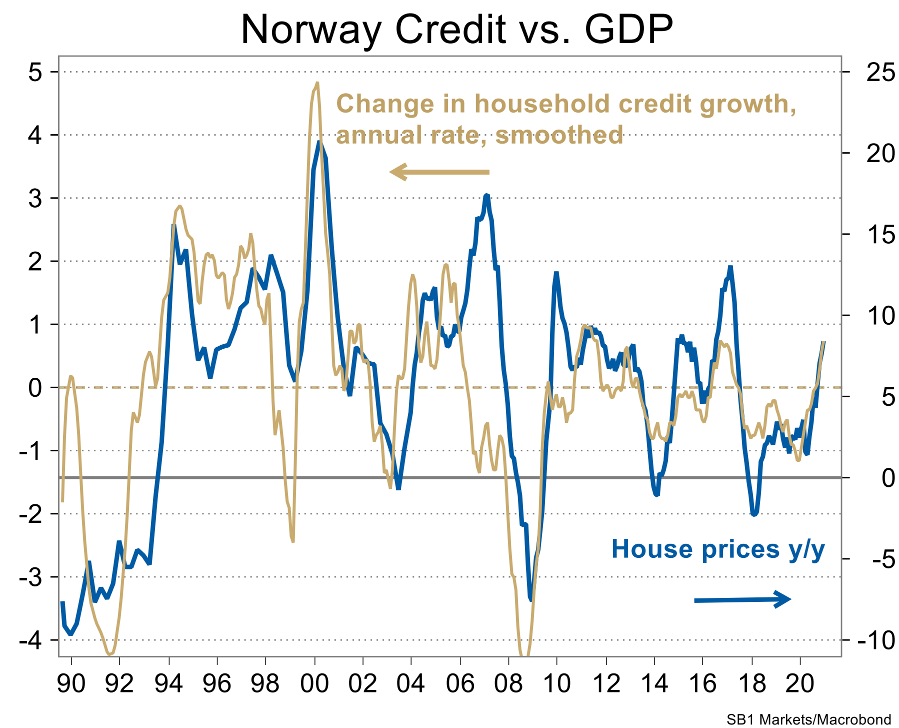


- Following a mild slowdown during the corona spring, **household credit** growth has recovered, and the annual rate is now 4.9%, up from 4.5% last summer. Underlying growth recent months is above 5% - but there is no “take off”. Annual growth is in line with NoBa’s Dec forecast (apart from a minor upward revision of history)
  - » Consumer credit has been declining at some NOK 1 -1.5 bn/month over the past year, which has reduced the annual total credit growth by some 0.5 pp
- While the annual rate in **corporate credit** has fallen sharply since late 2019, actual m/m growth has stabilised through 2020 at 3.5% pace. If anything, the underlying growth rate is <u>increasing</u>. Norges Bank revised up its growth forecast sharply in the Dec MPR, from a rapid contraction m/m to a moderate growth. Corp credit grew faster than NoBa’s f’casts in both in Nov & Dec

The household debt/income at ATH, and now highest in the world!

The Norwegian debt/income ratio have overtaken Denmark's. *WE ARE FINALLY AT THE TOP!*

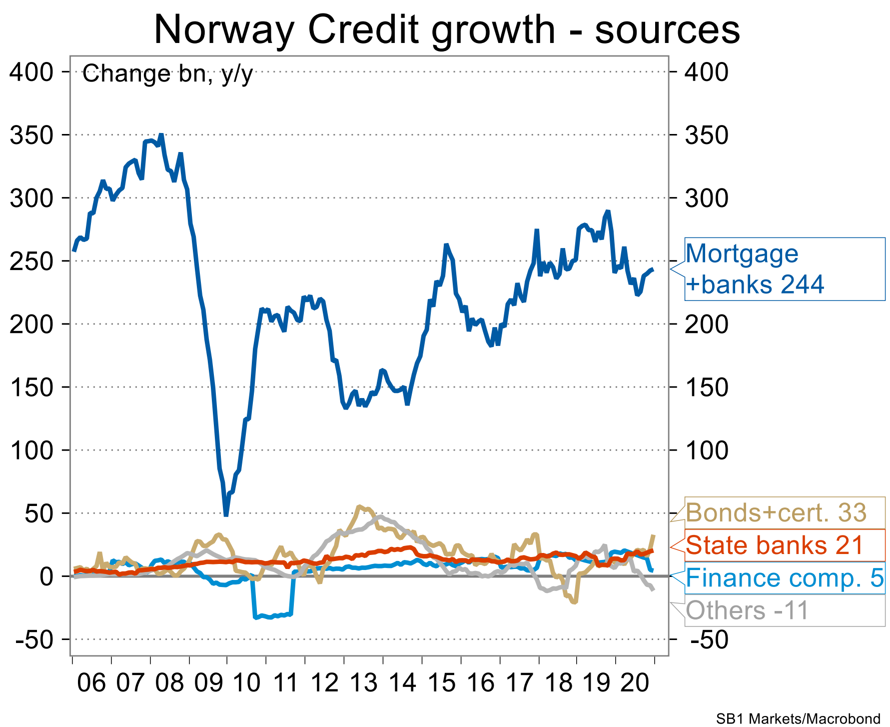


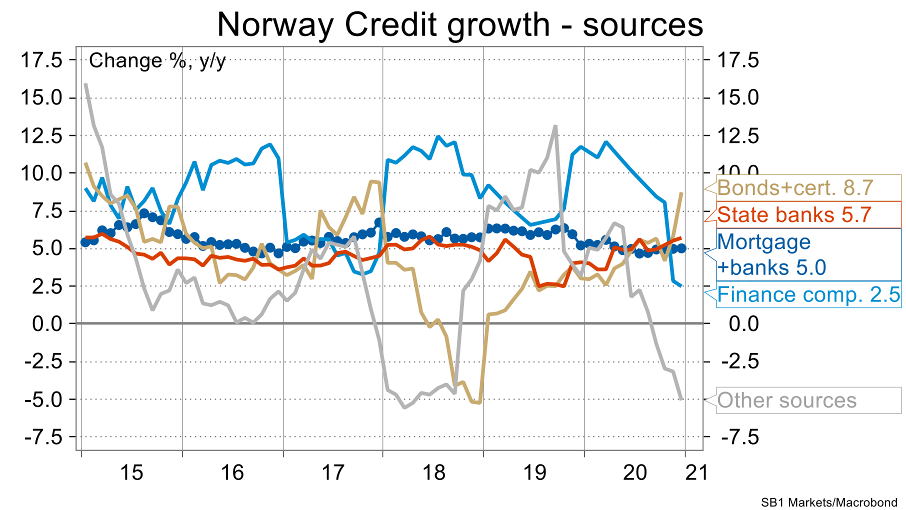


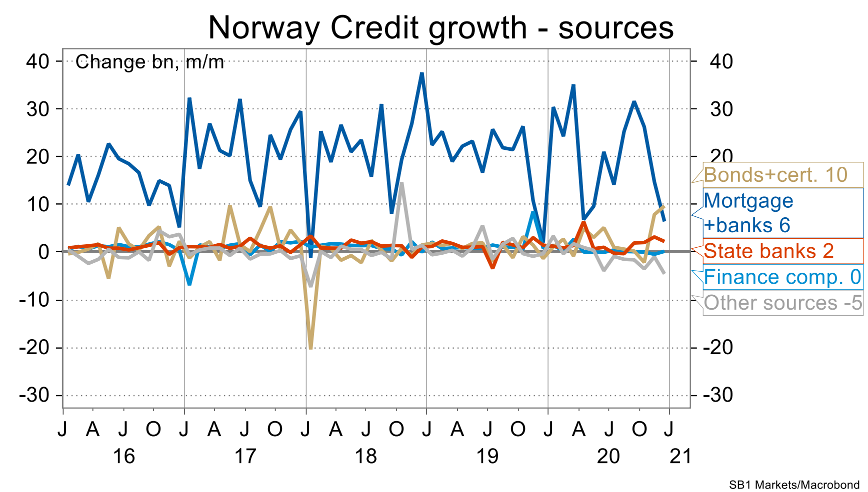
- Norwegians households' debt has been growing slower than household disposable income since late 2018, for the first time in 30 years (barring some minor turbulence in 2008/09). A small decline in household income lifted the debt ratio in Q3
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market. Now, however, the interest rate cuts may have boosted credit appetite more than the economic setback has restrained it
  - Now, credit growth is not declining anymore – and the correlation to house prices is still to be seen, check the chart to the right

Bank lending has been slowing but is strengthening now

Banks and their mortgage institutions are totally dominating the domestic credit market







- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in 'sum of the parts' credit supply does not exactly equal changes in the total C2s

Highlights

The world around us

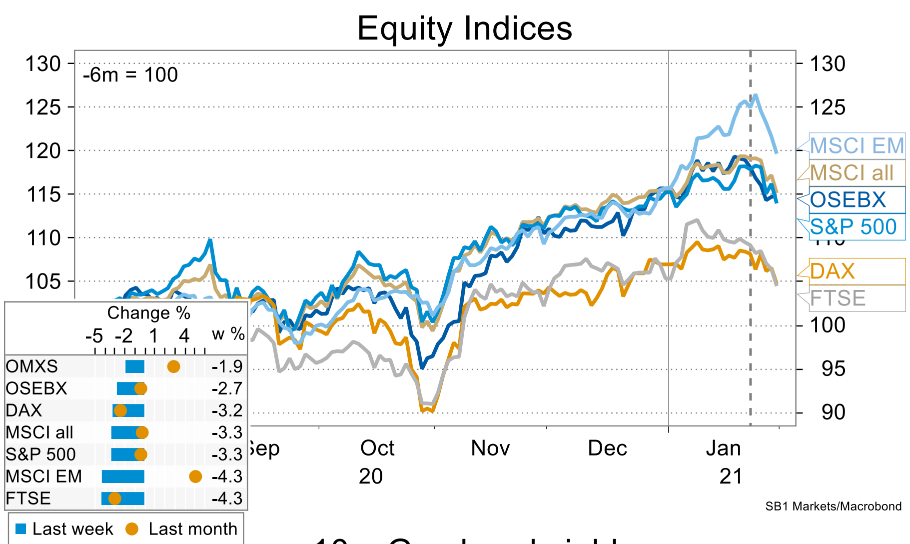
The Norwegian economy

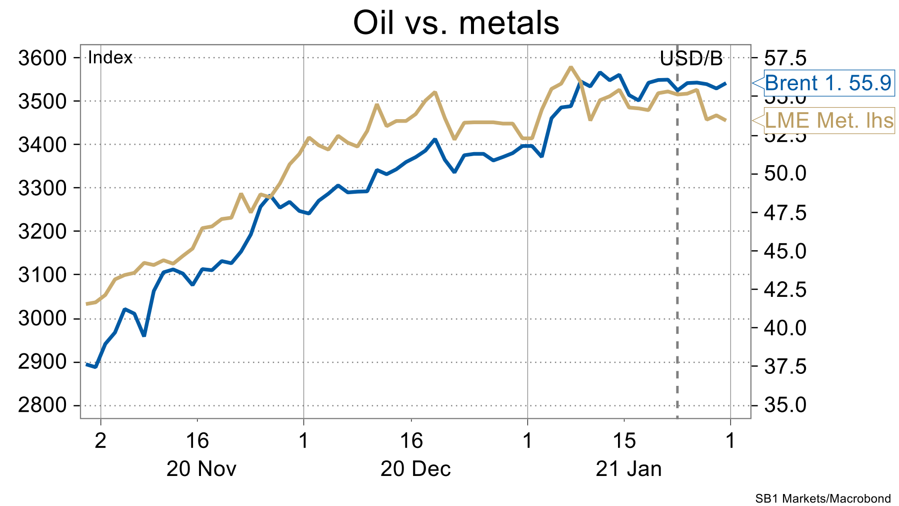
Market charts & comments

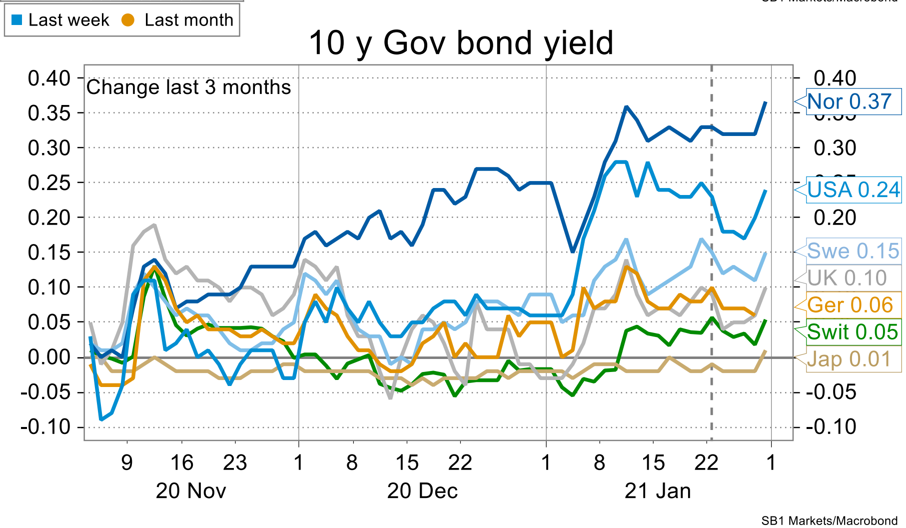
SpareBank 1 MARKETS

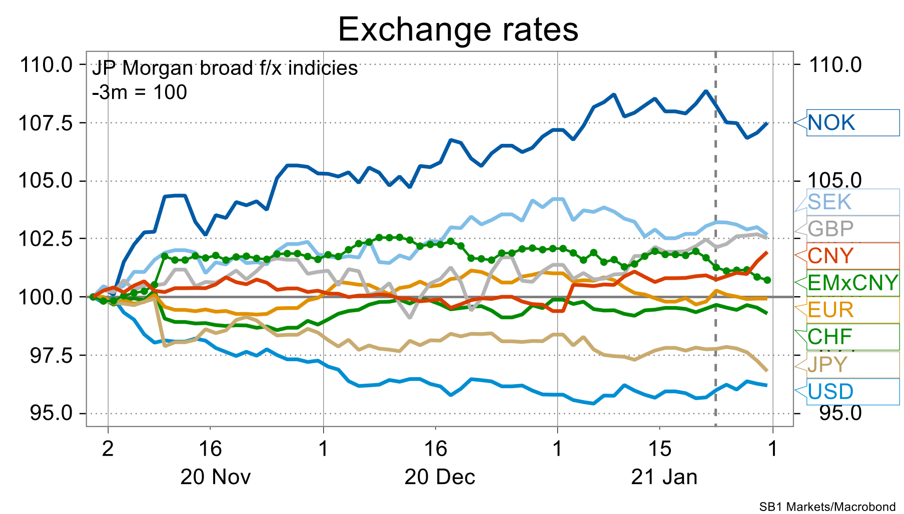
Red ink at stock markets, but yields don't bother. Commodities just marg. down

The USD has appreciated slightly since early Jan, the NOK has lost some steam

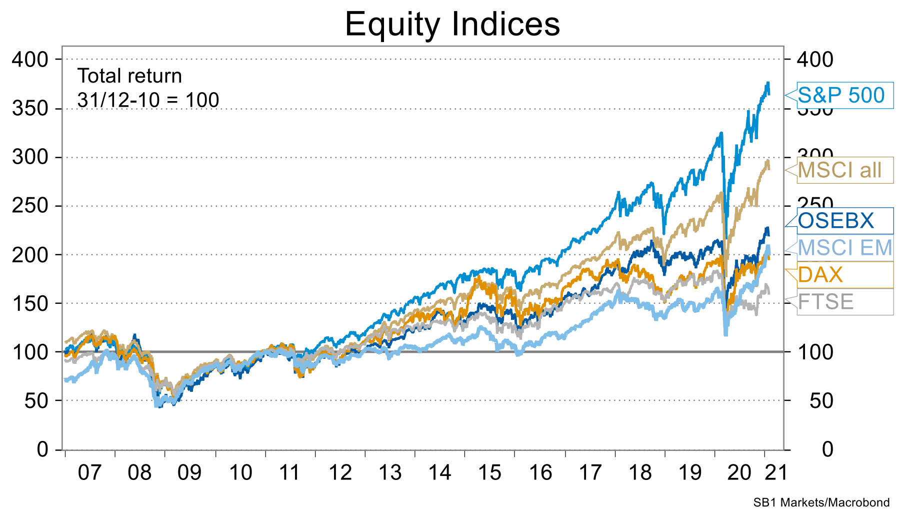


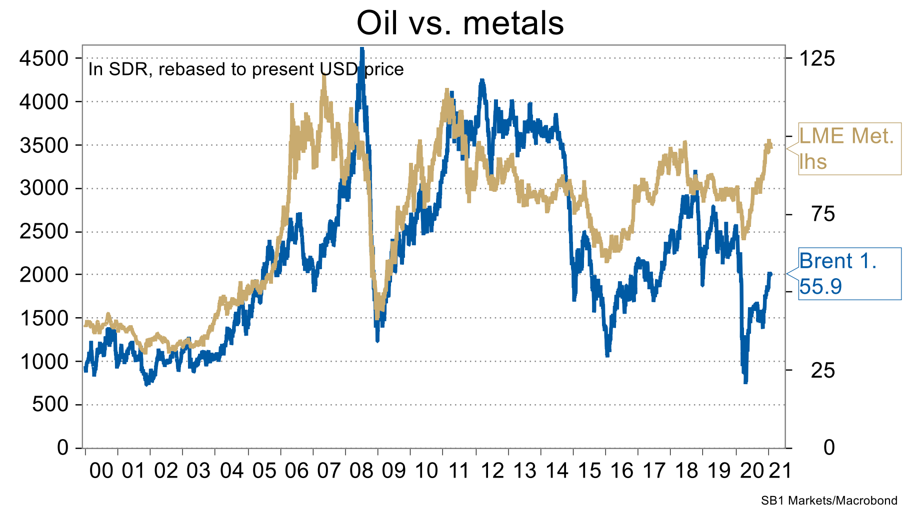


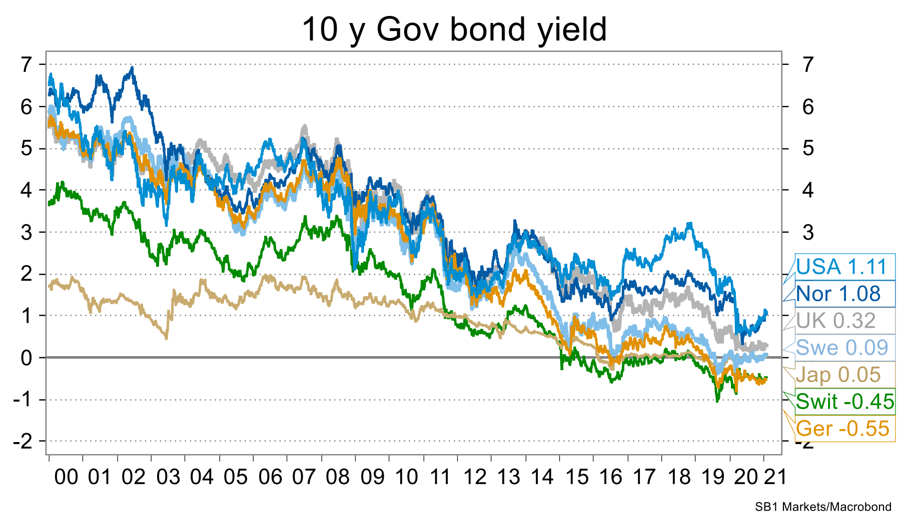


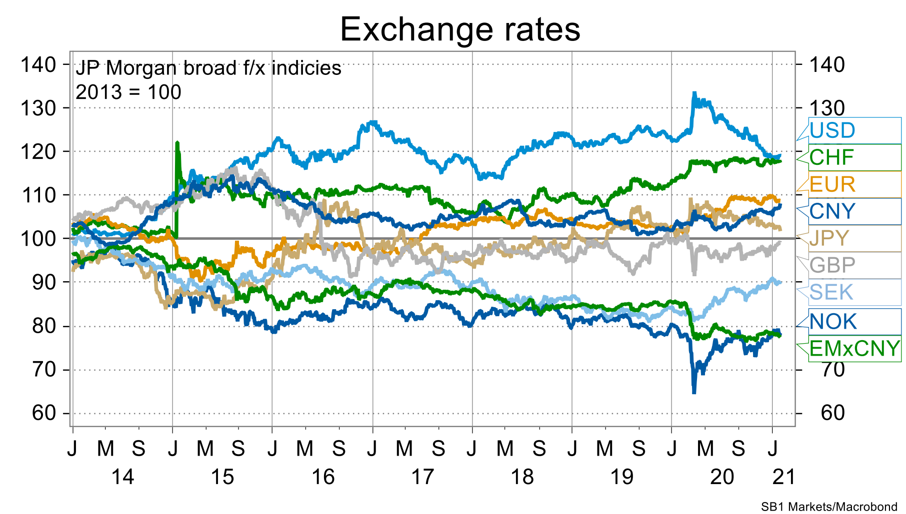


No drama (yet) with a longer x-axis



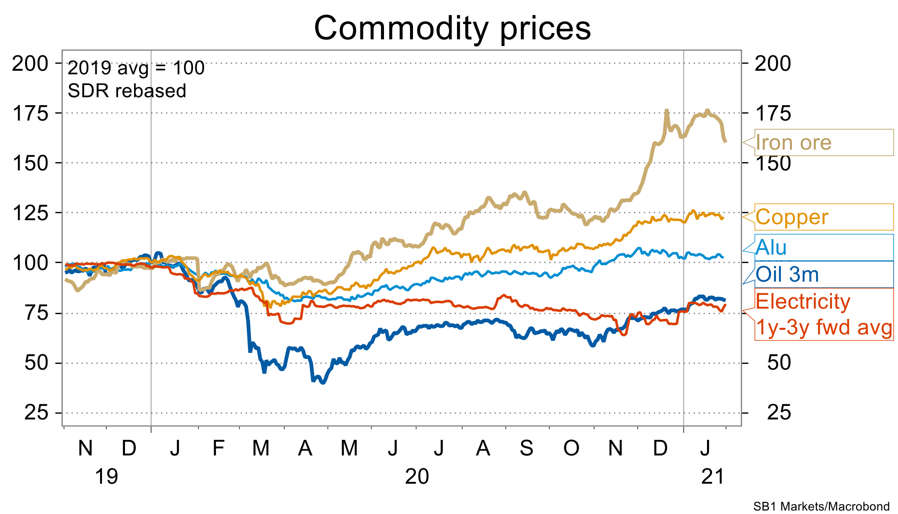


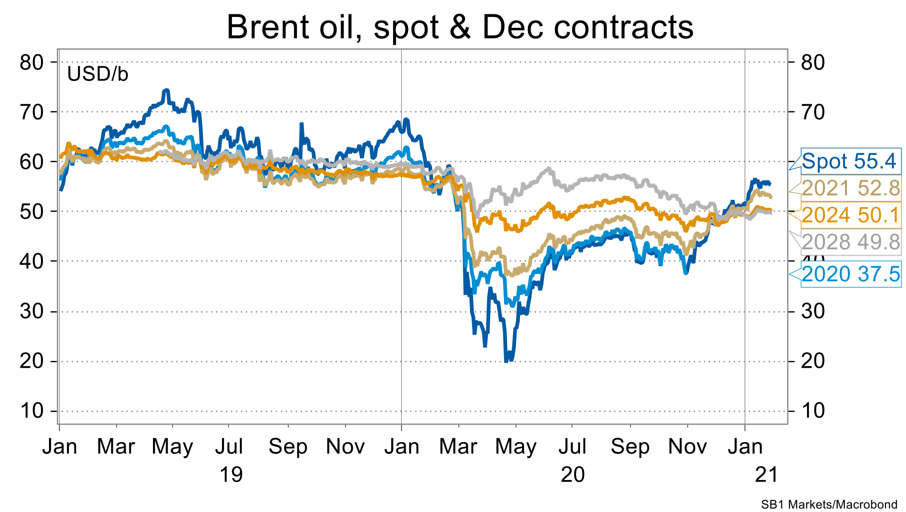


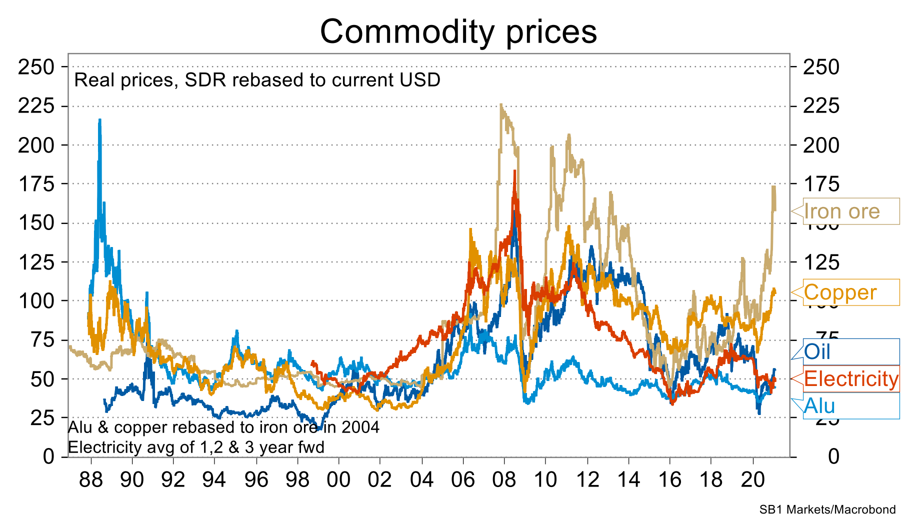


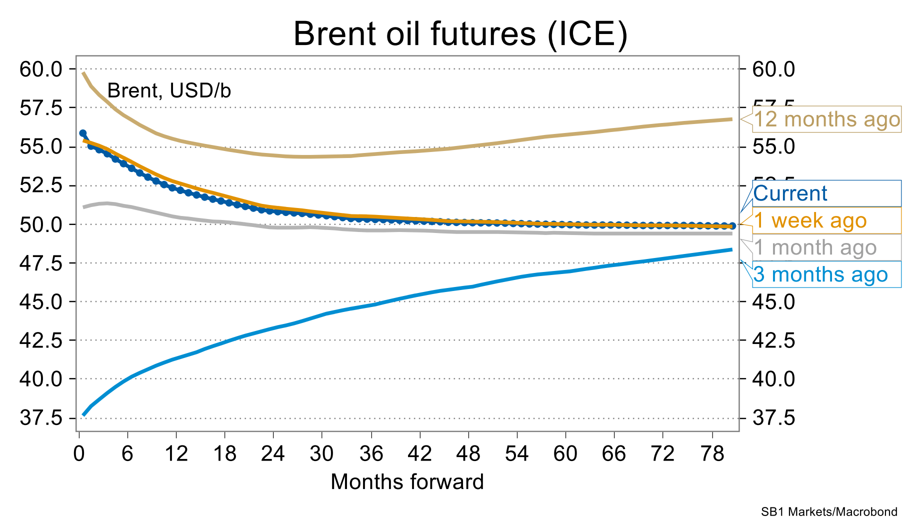
SpareBank 1 MARKETS

Iron ore down last week, other commodities not





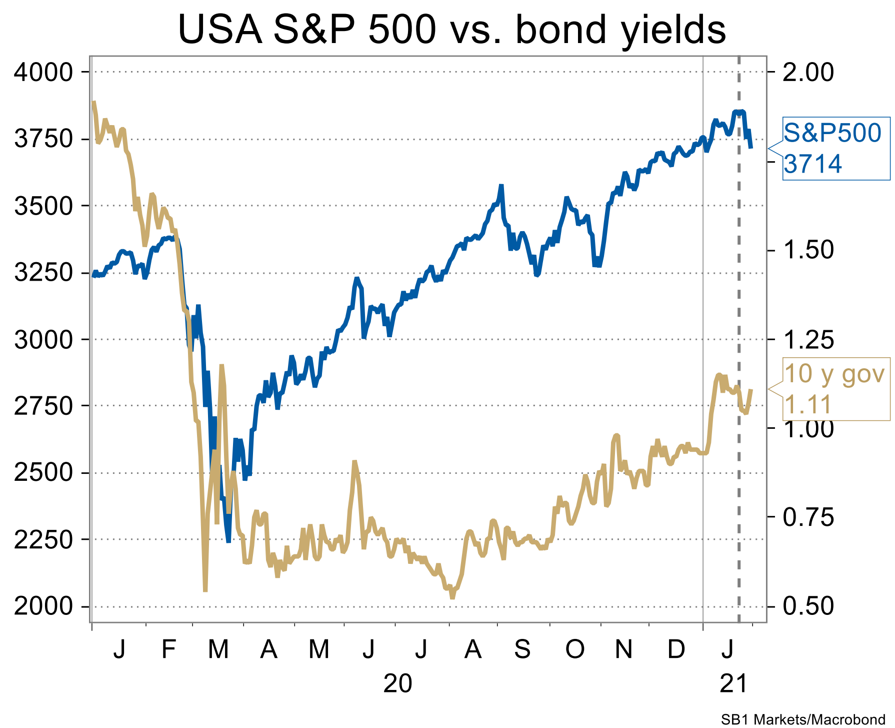


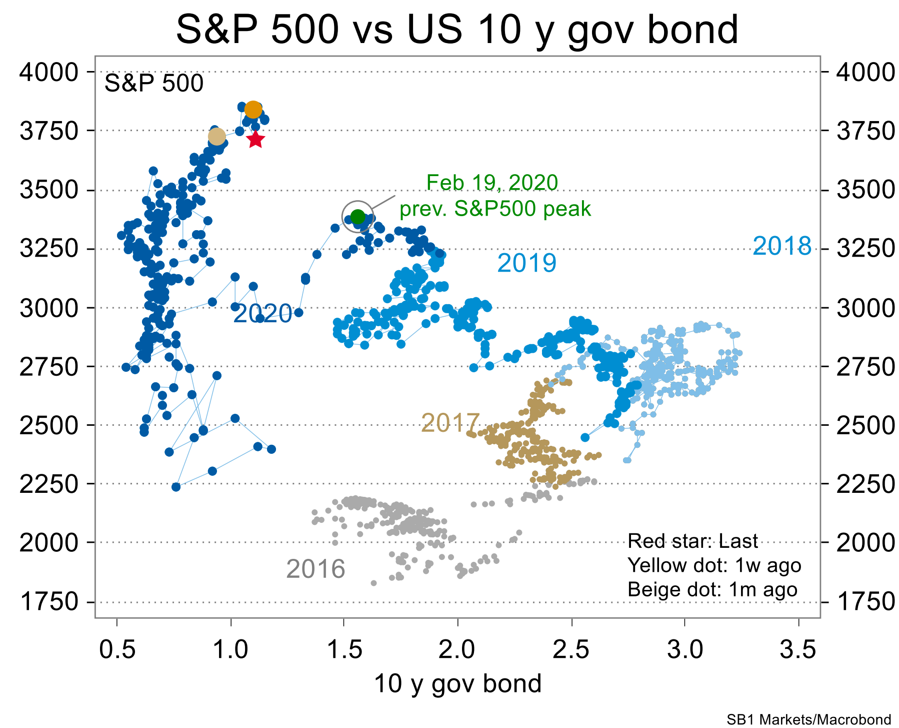


SpareBank 1 MARKETS

The S&P lost 3.3% last week, without yields yielding

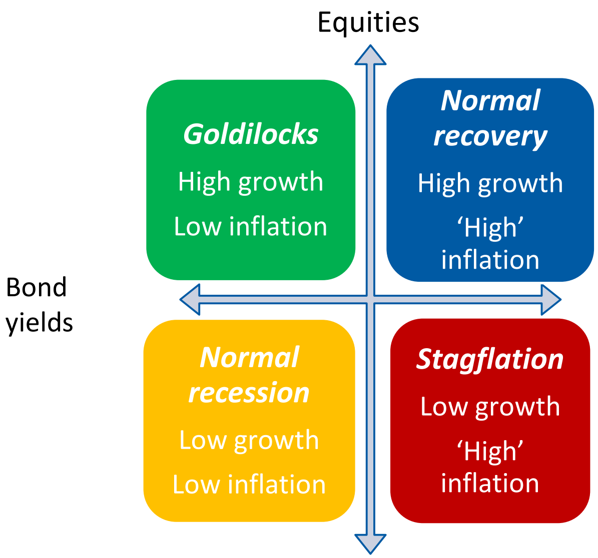
The 10 y gov bond up 1 bps to 1.11% (but fell after close Friday, now at 1.08%)

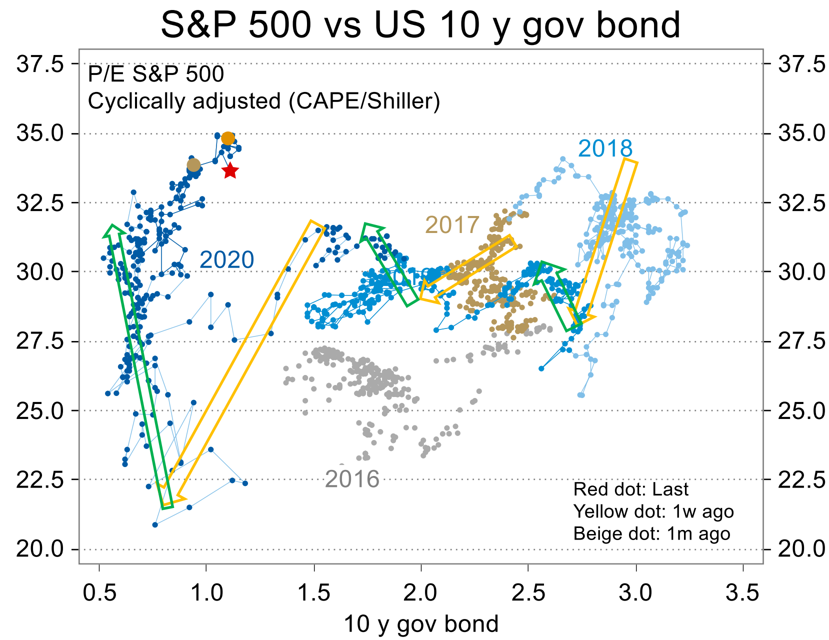




A long term view: From the 'Goldilocks corner', where to go?

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





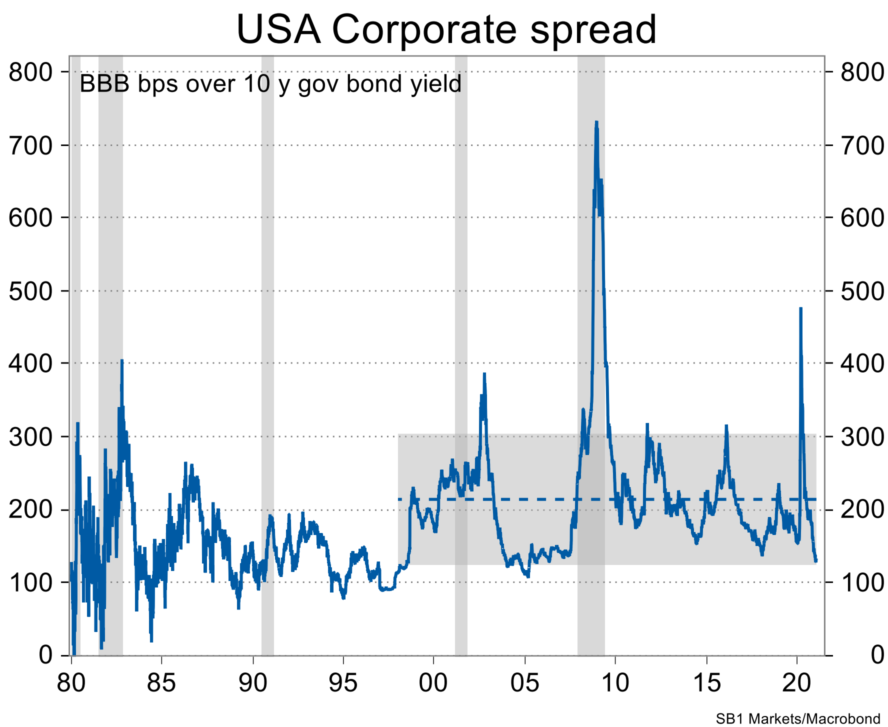
SB1 Markets/Macrobond

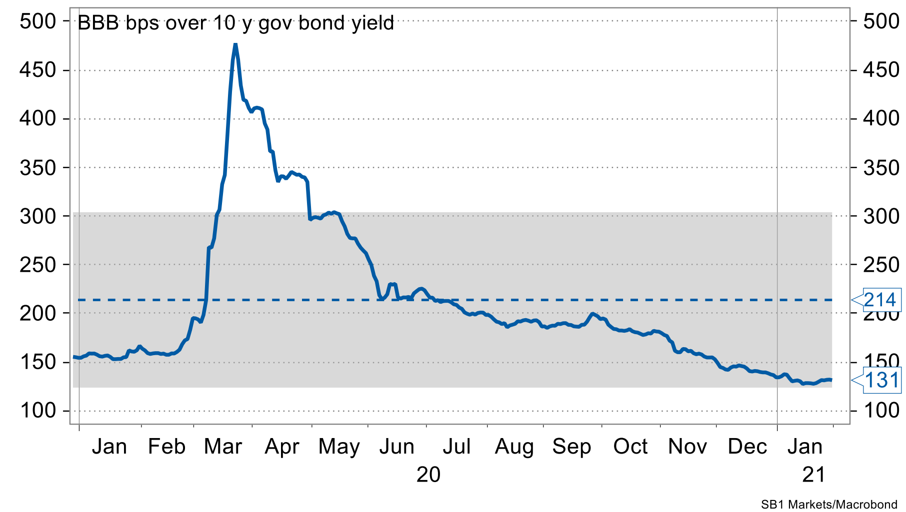
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 2% for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

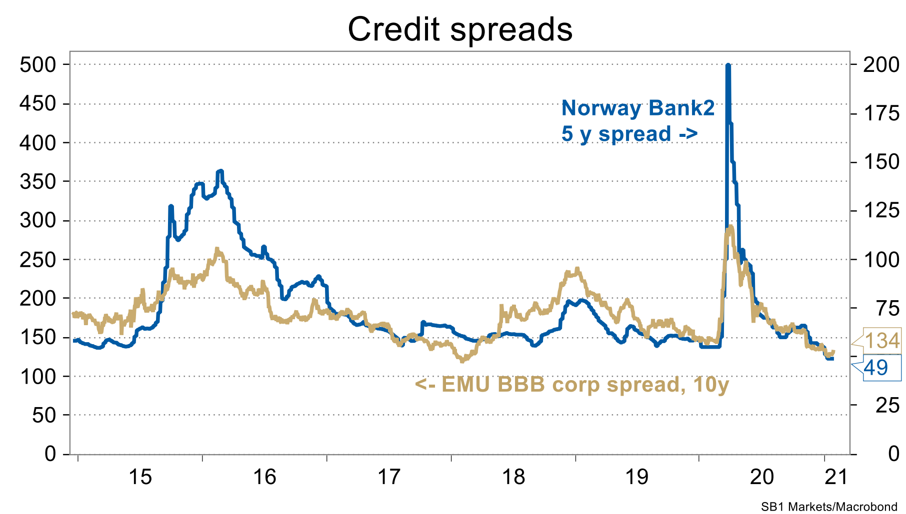
SpareBank 1 MARKETS

Credit spreads marginally up last week (but 'less' than equity markets fell)

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

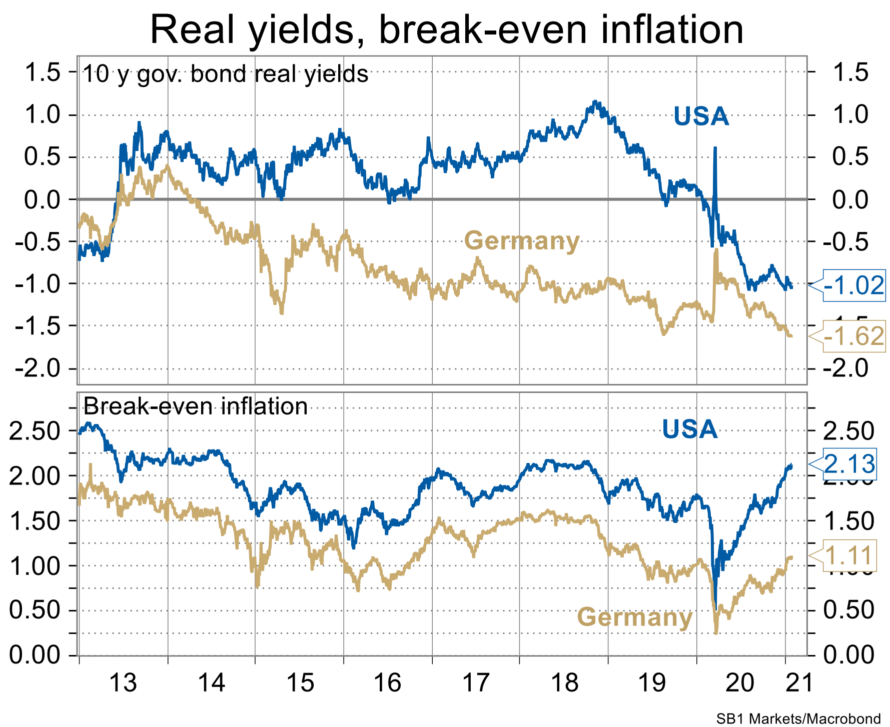


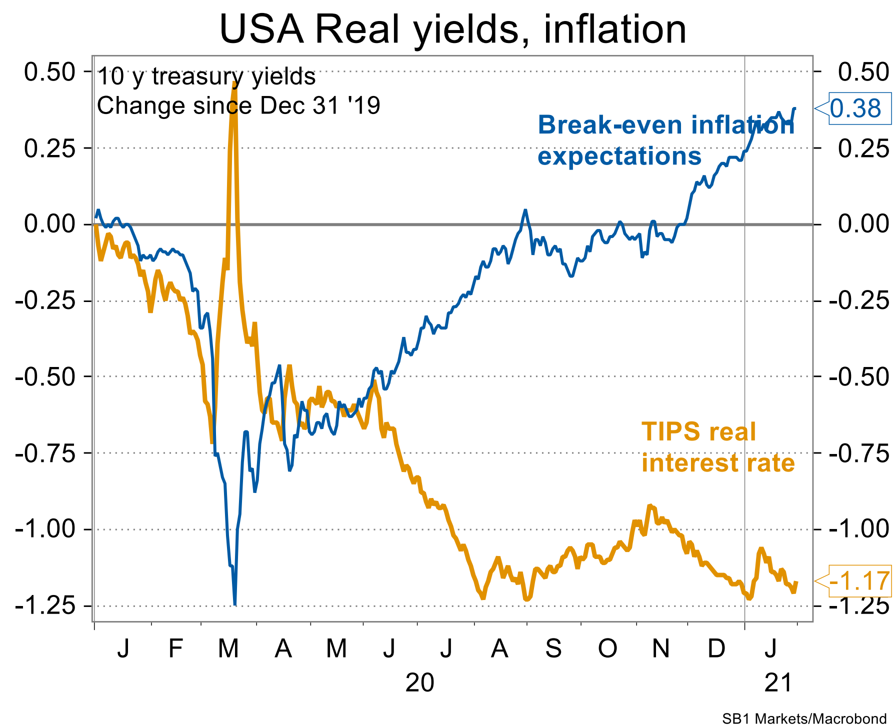




Does helicopter money bring back inflation? The market thinks so, at least some..

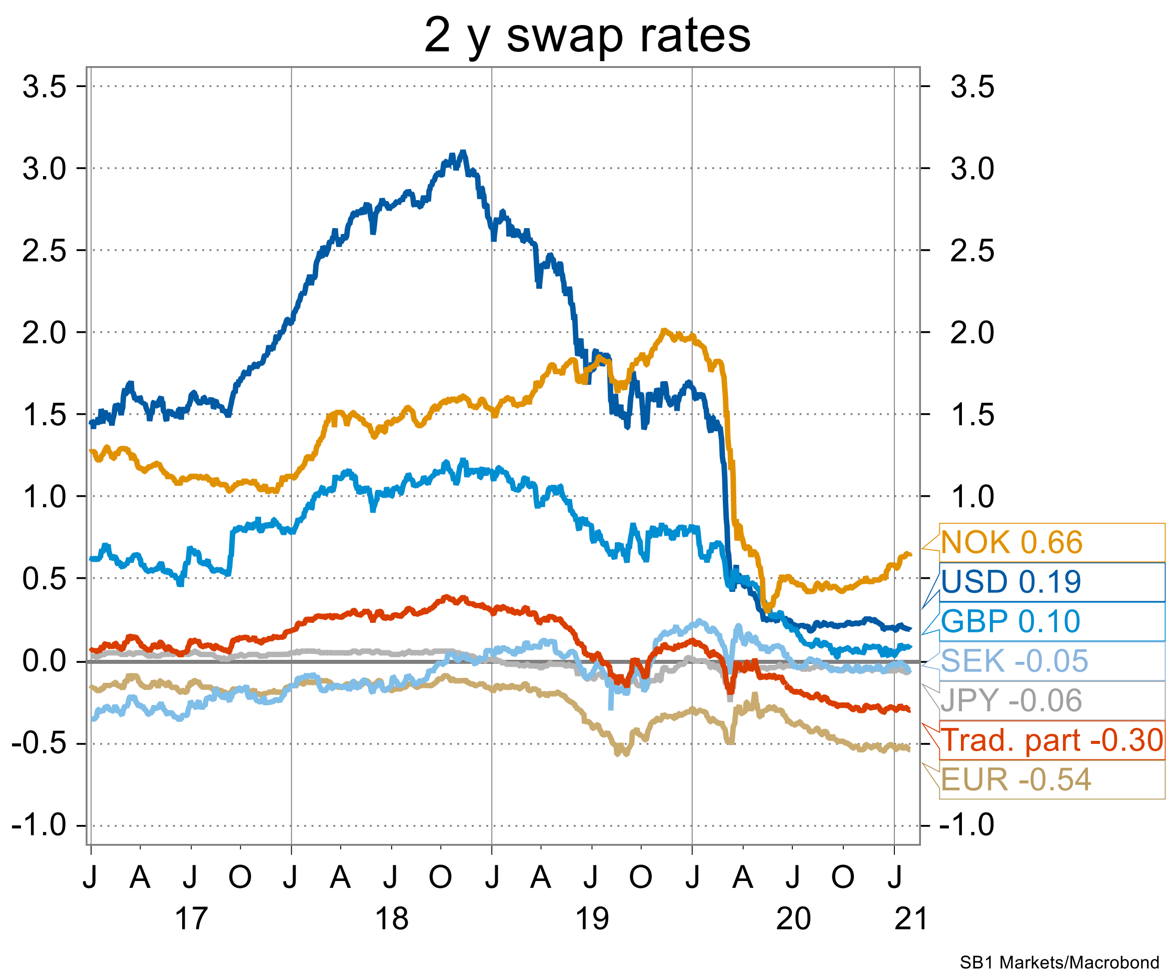
Inflations expectations kept are trending upwards – and are well above the past 7 y avg

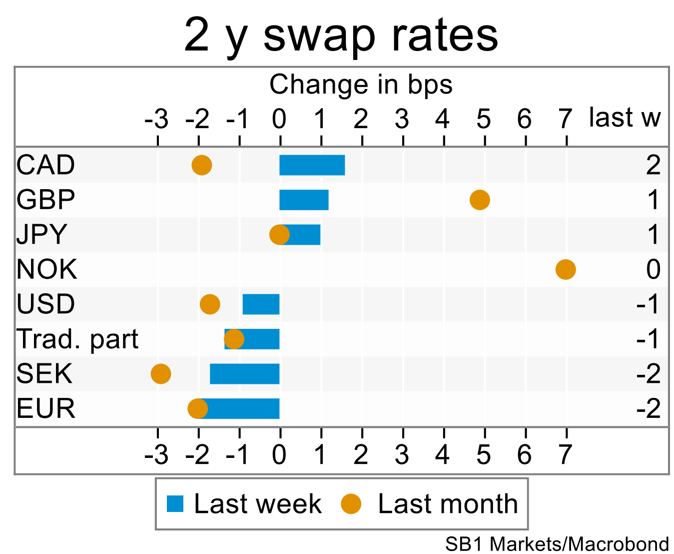




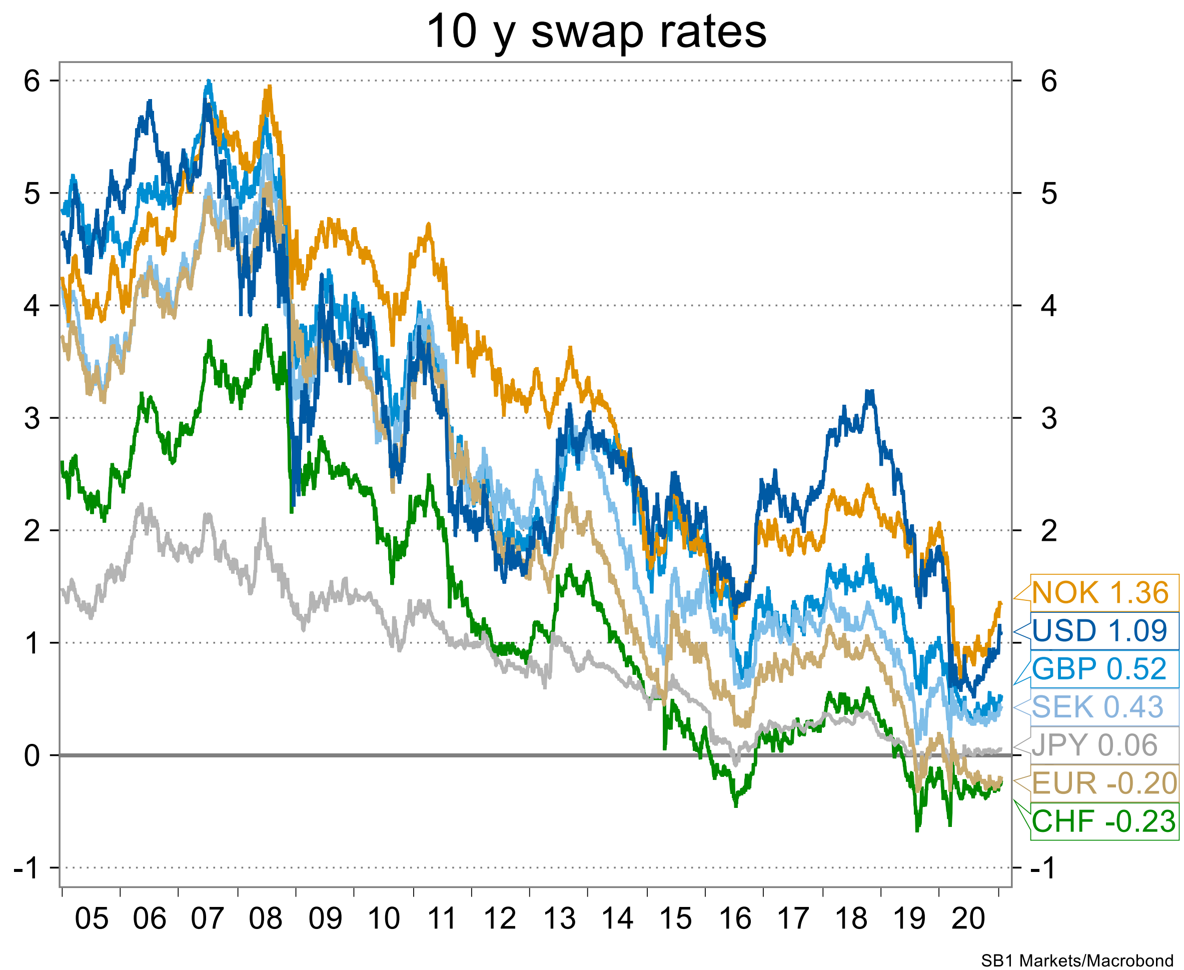
- **US 10 y +<u>1 bps to 1.11%</u>**
  - » Inflation expectations +4 bps to 2.13% (but up 35 bps from late Nov) – and at the highest level since 2018
  - » The TIPS real rate -3 bps to -1.03%. The level remains almost 1 pp below the pre-corona level (and 200 bps lower than in late 2018)
- **Germany 10y <u>unch, at -0.51%</u>**
  - » Inflation expectations +2 bps to 1.11% over the past week
  - » Real rate -2 bps -1.62%, close to ATL

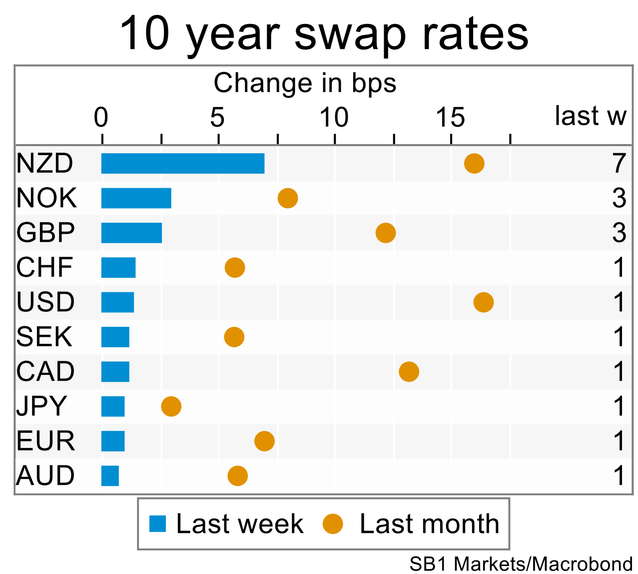
Short-term swap rates in average down – flat in Norway





Most 10 y swap rates slightly up last week too

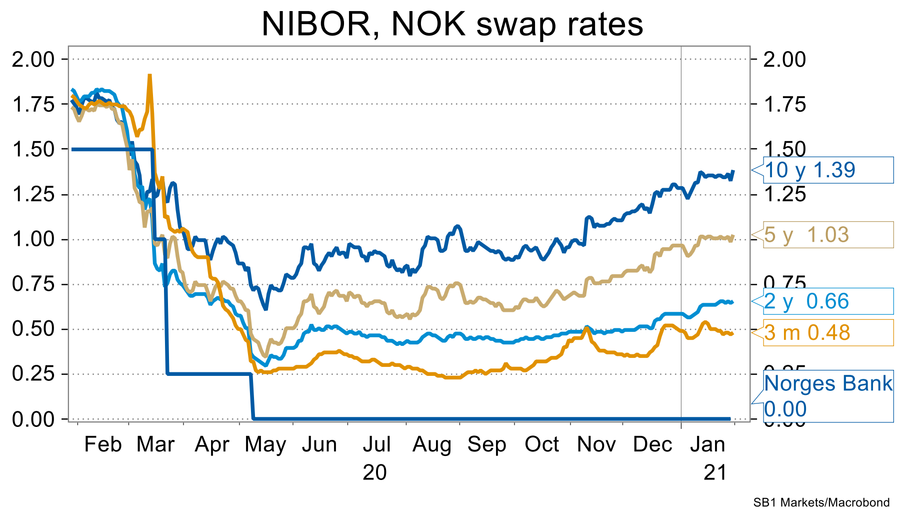


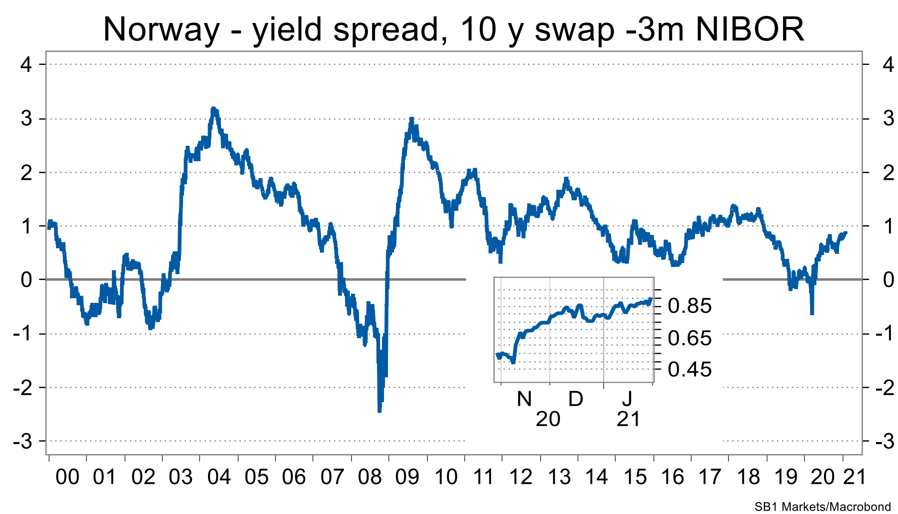


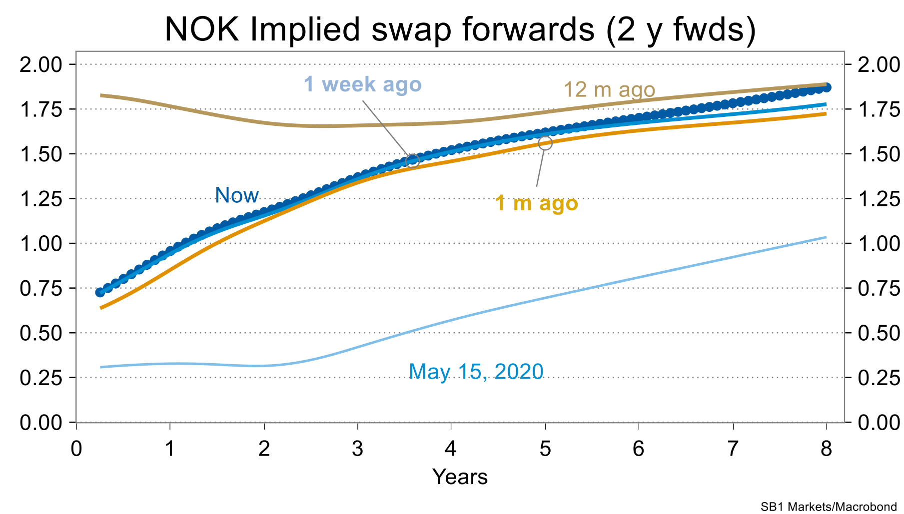
SpareBank 1 MARKETS

NOK swap marginally up last week, most in the long end

Rate have more or less flattened following the hike in early Jan



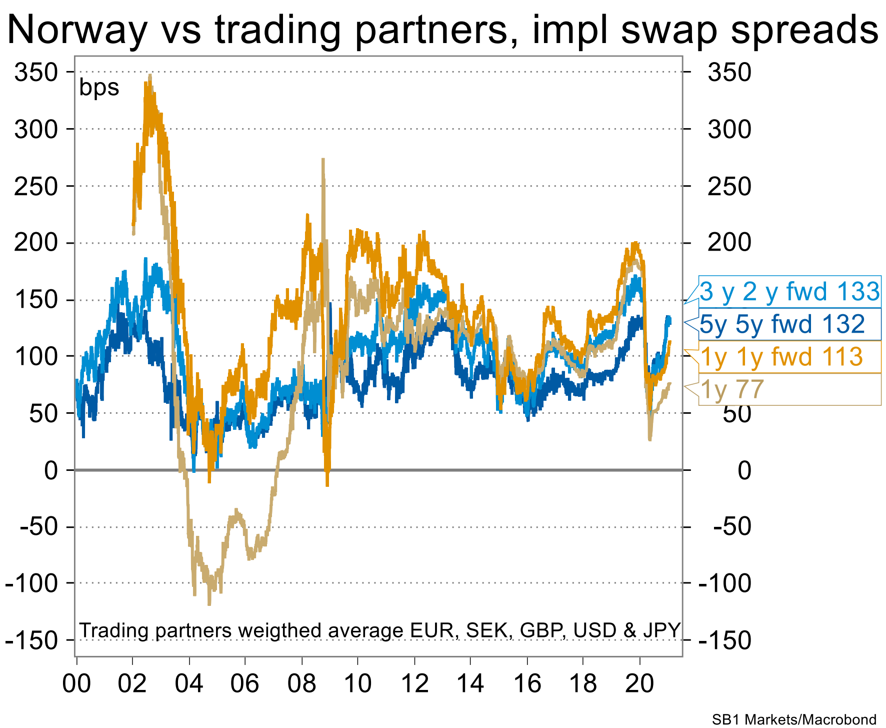


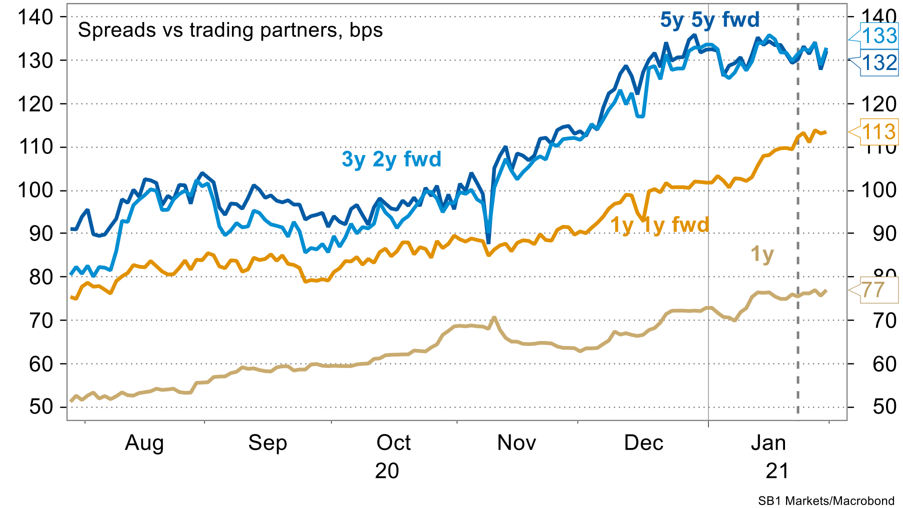


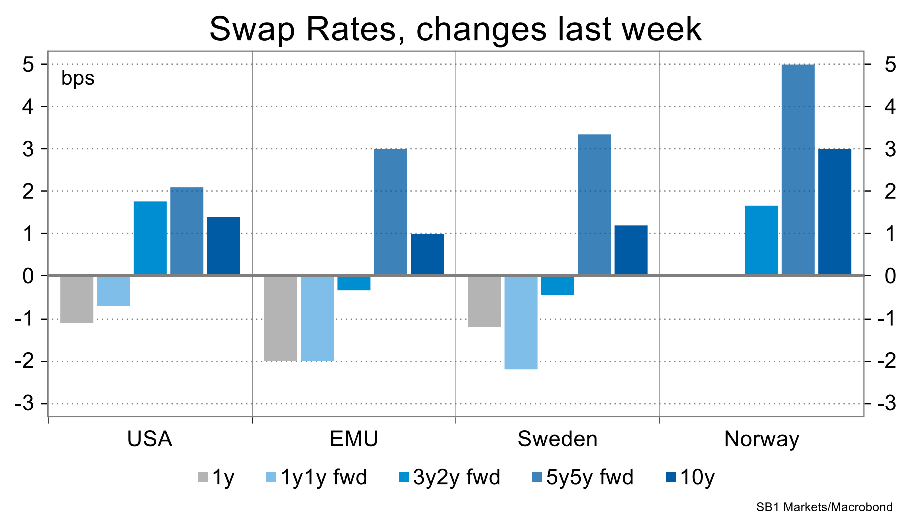
SpareBank 1 MARKETS

From 2 – 10y, the implied 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?



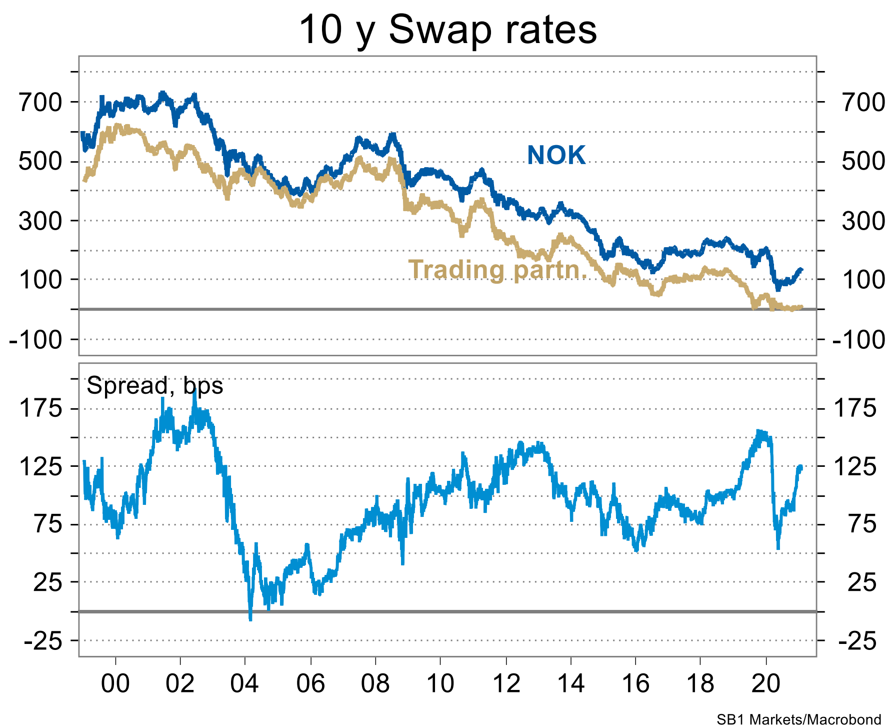


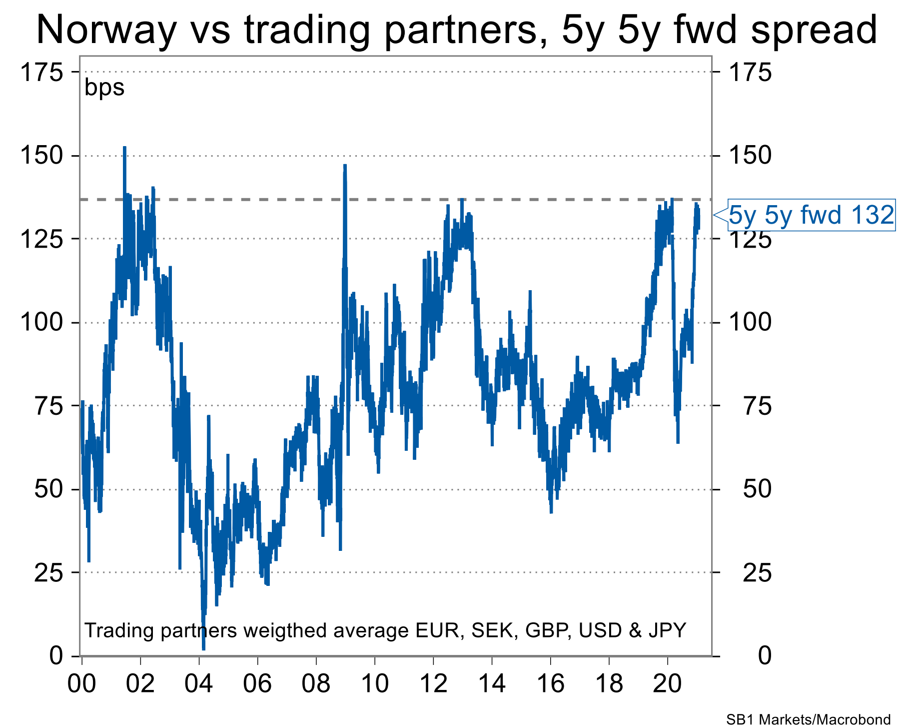


- It's tempting to weight against a further increase in implied spread at the second half of the curve (check the chart at the next page too)
- In the short end of the curve, spreads are still below previous peak level –and may well widen further
- Last week: NOK rates rose more than abroad all over the curve

The 5y 5y fwd spread has never been much higher. Probably for good reasons

And most likely, the upside is limited from there – at a 130+ bps 5y 5y fwd spread

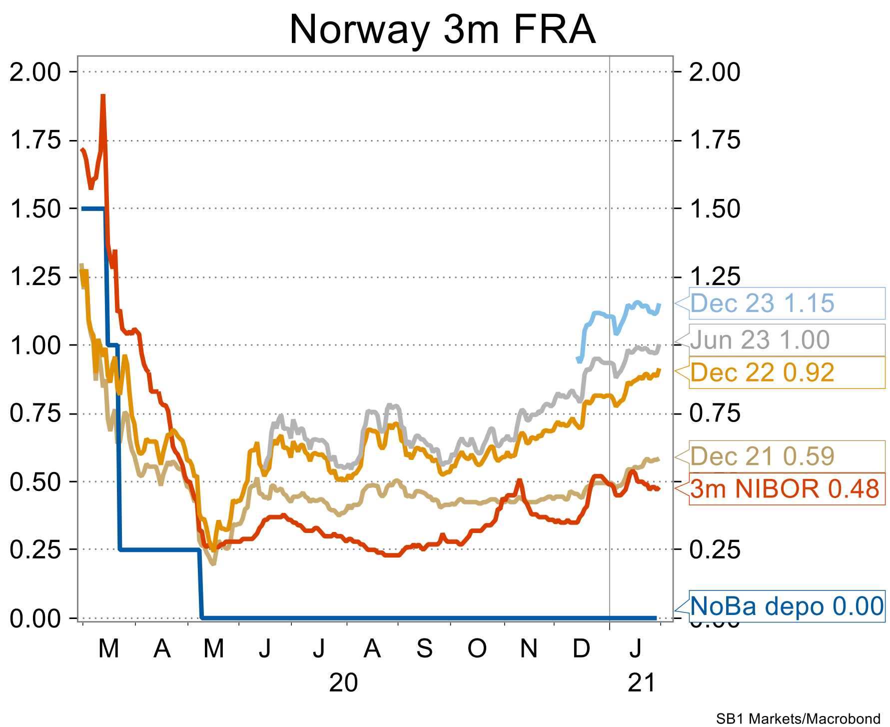


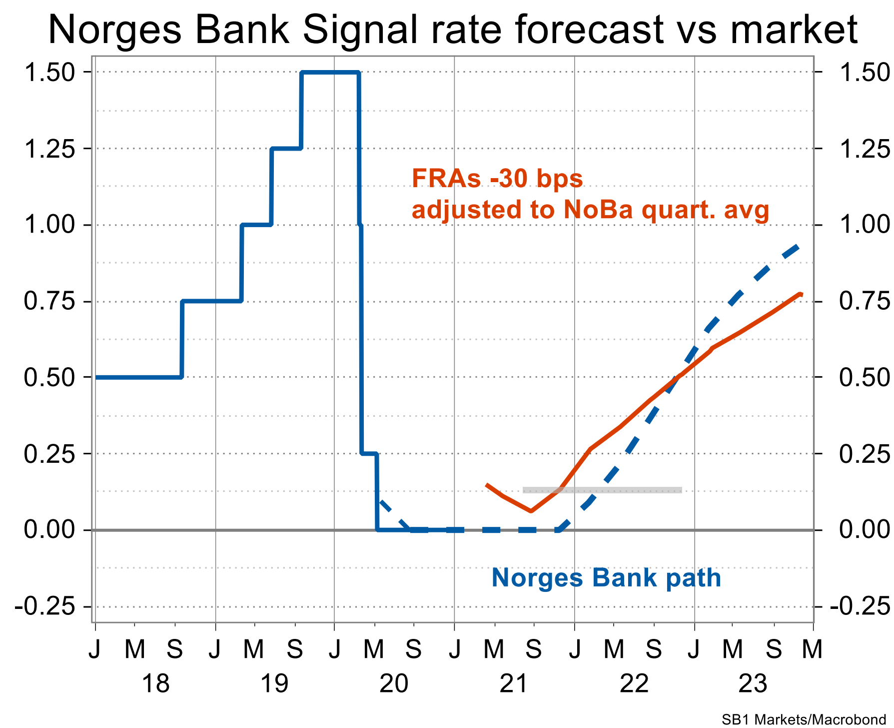


- How much inflation will Norway have, over time?
- How much faster growth will Norway deliver, over time?
- Thus, how much higher interest rates will Norway need, over time?

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

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

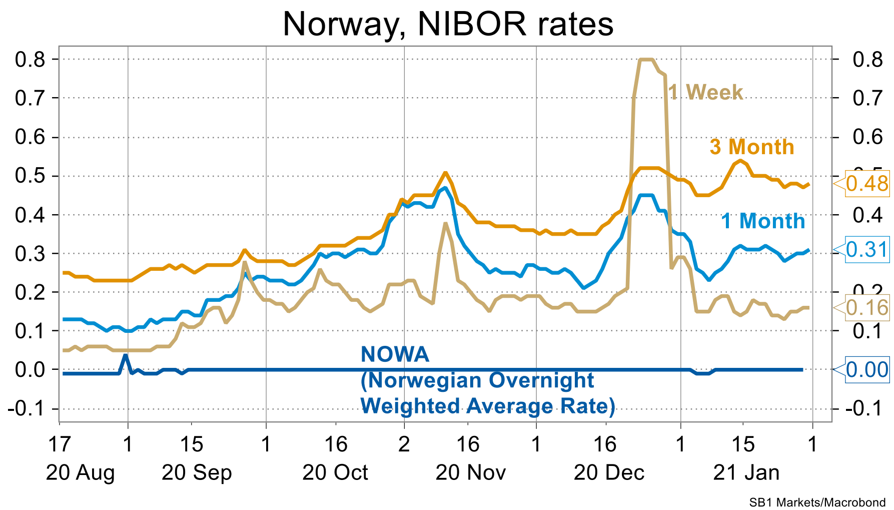


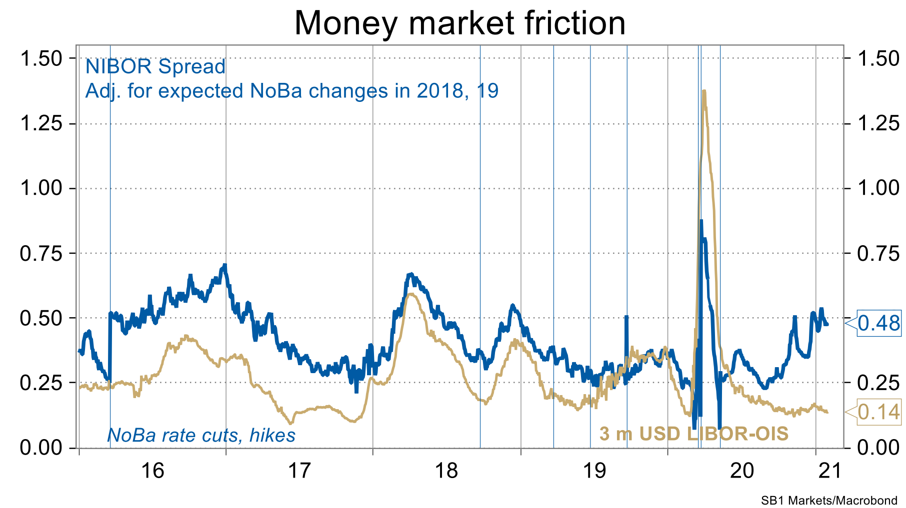


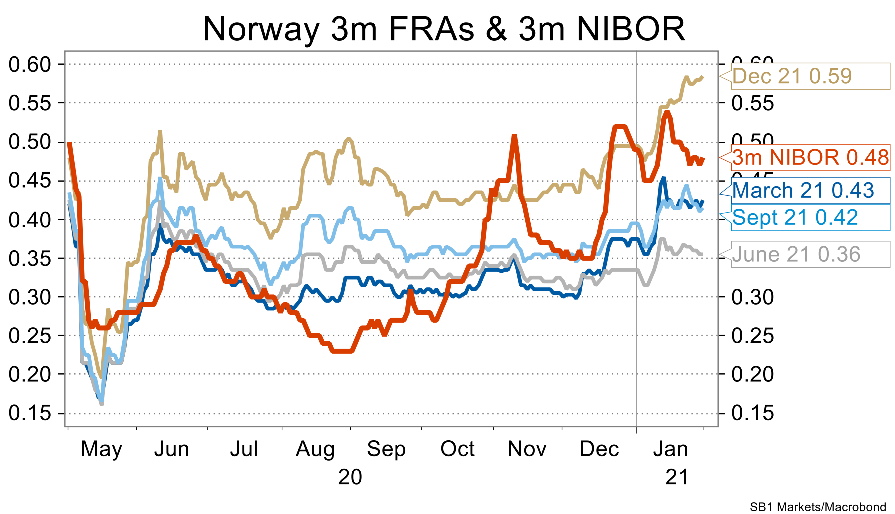
- The curve is above NoBa's path until late 2022 – if the expected NIBOR spread is at 30 bps
- In the short end, we know that the spread is close to 50 bps. The June 3m FRA at 0.36% (check chart next page) signals that the market expect the spread to narrow towards a 'normal' level. If so, from somewhere 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 0.48% is still on the high side

The 3 m rate fell 1 bps last week



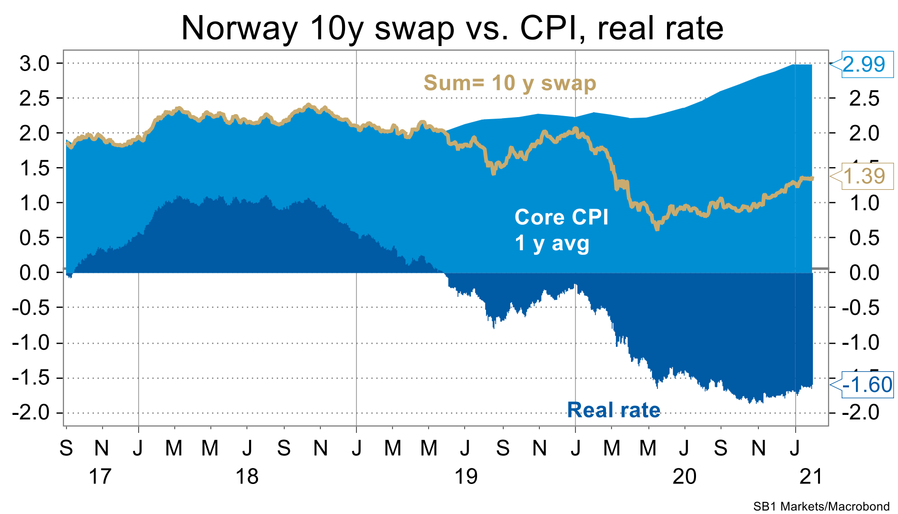




- The 3m NIBOR rate is still rather elevated, and even the **3m March FRA** at 0.43% (+1 bp) implying a much higher spread vs the signal rate than normal. **The June FRA** is at 0.36 (-1 bps)
- There are no signs of stress in money markets in **other countries**
- **Norges Bank** has thus far not taken 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

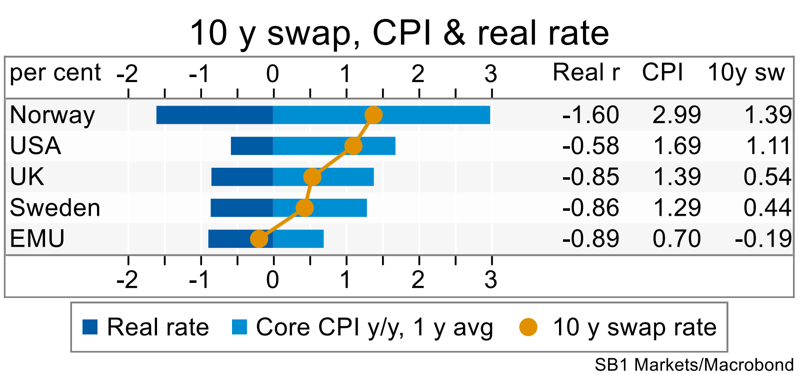
SpareBank 1 MARKETS

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 1.39%!
- **The real rate**, after deducting average inflation over the 2 past years still equals -1.60%

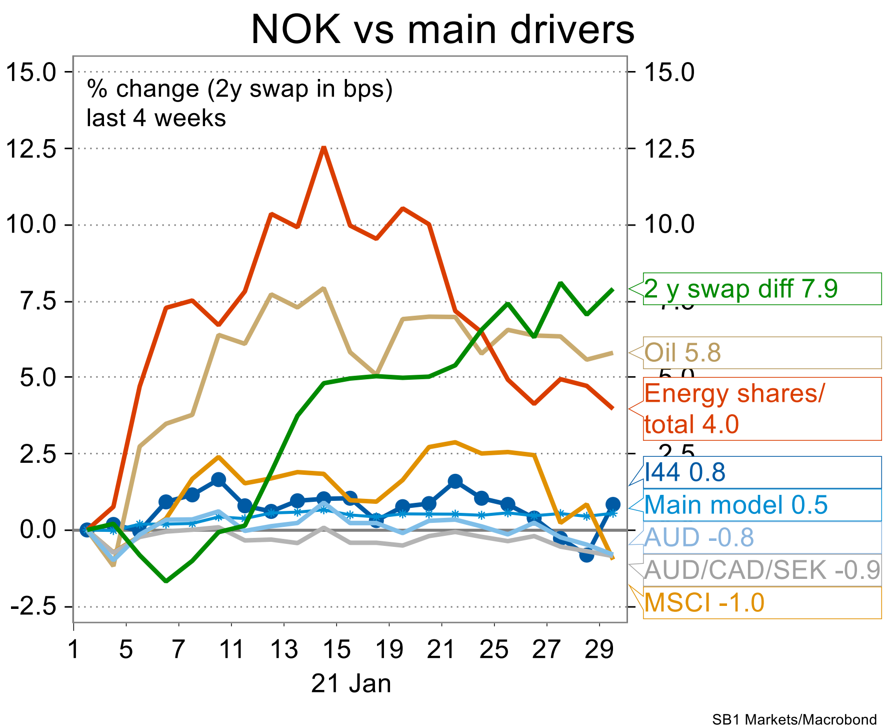


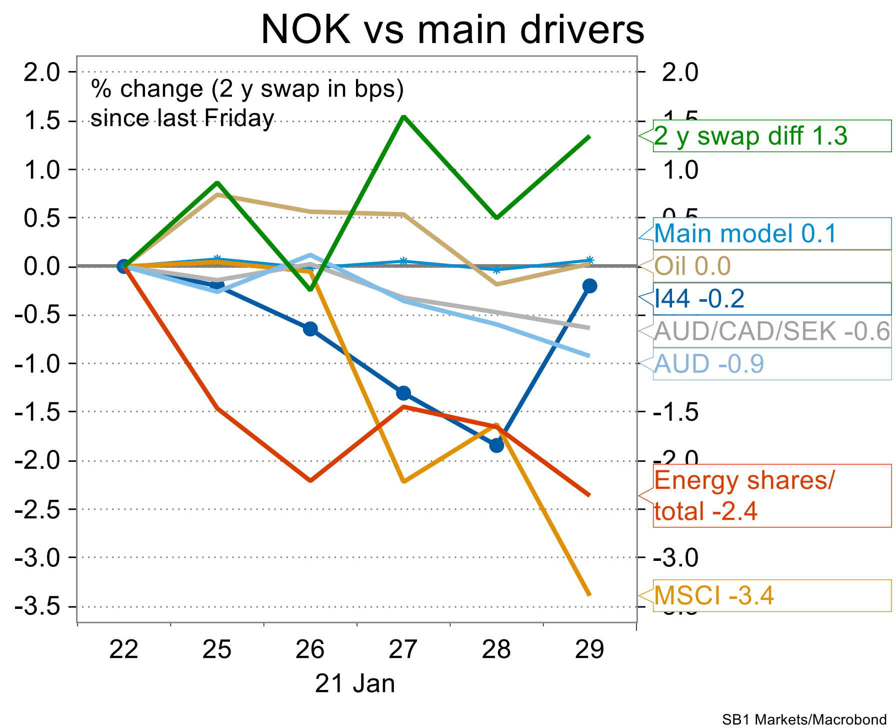
NOK real rates among the lowest, as inflation is at the top

- **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 close to flat last week, supported by a stable oil price

(and saved by a substantial strengthening on Friday)

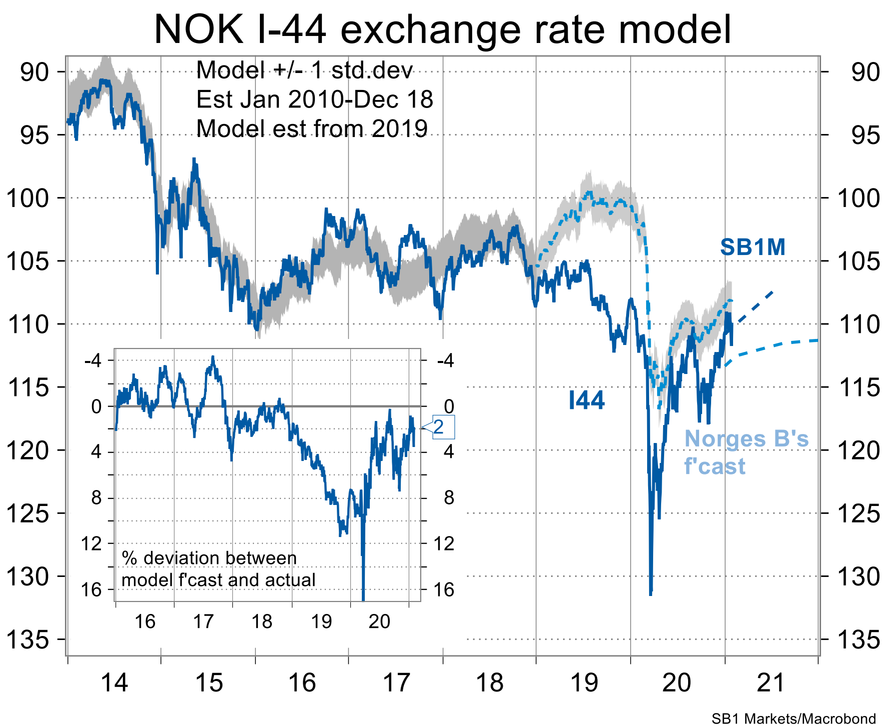


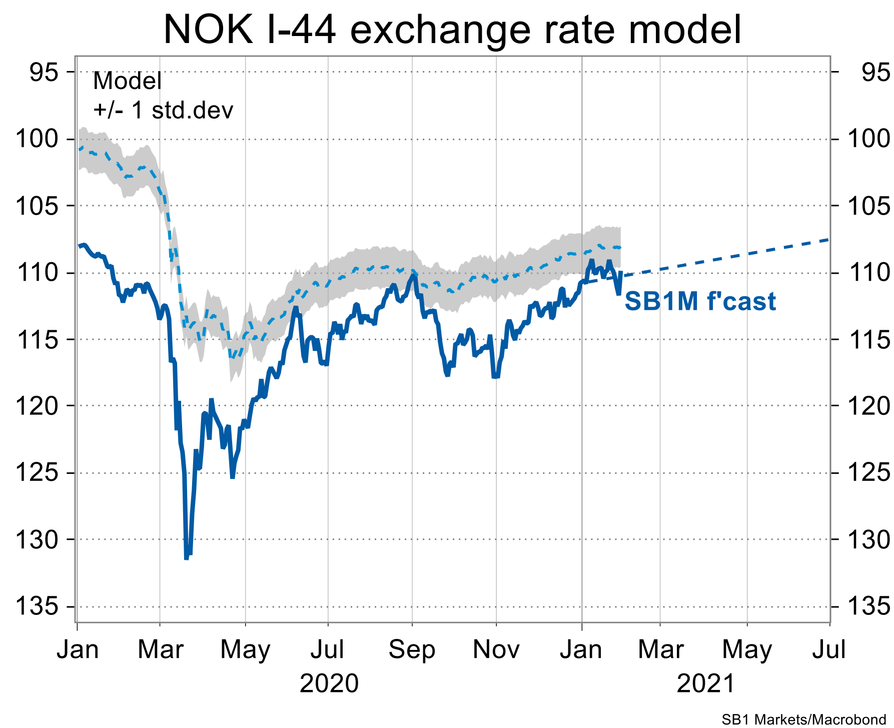


- The NOK is 2% weaker than suggested by our standard model
- The NOK is 4% 'weaker' than the global stock market vs the correlation between the two in 2020
- The NOK is 5% weaker than an average of AUD/CAD/SEK, our 'supercycle peers'
- On the other hand, the NOK is far (12%) stronger than a model which 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)

NOK I44 just marginally down last week. Our ol' model suggested unch.

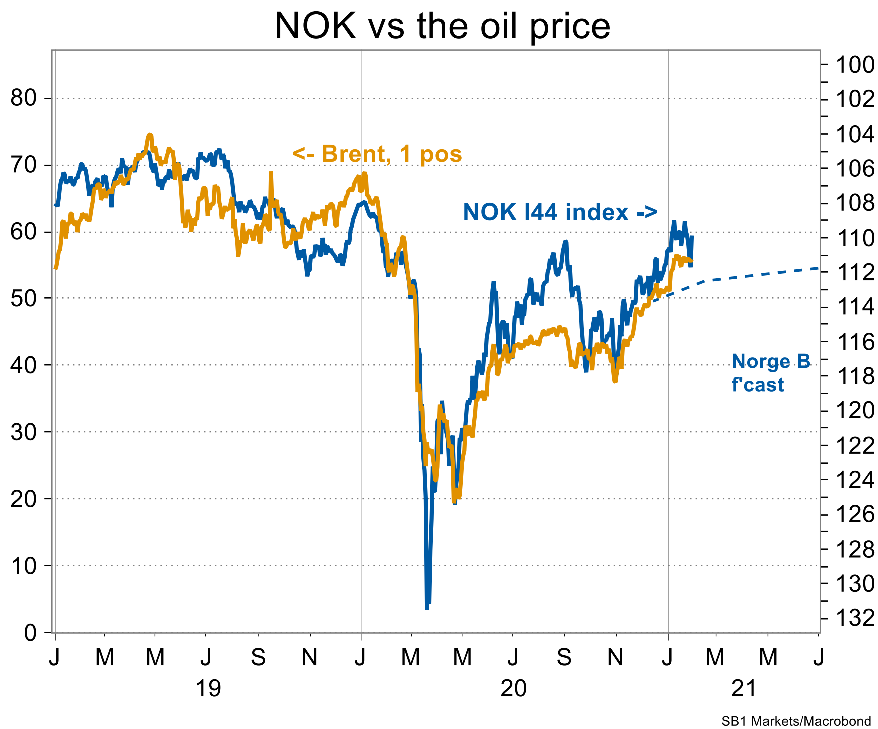
The NOK is 2% below our model forecast

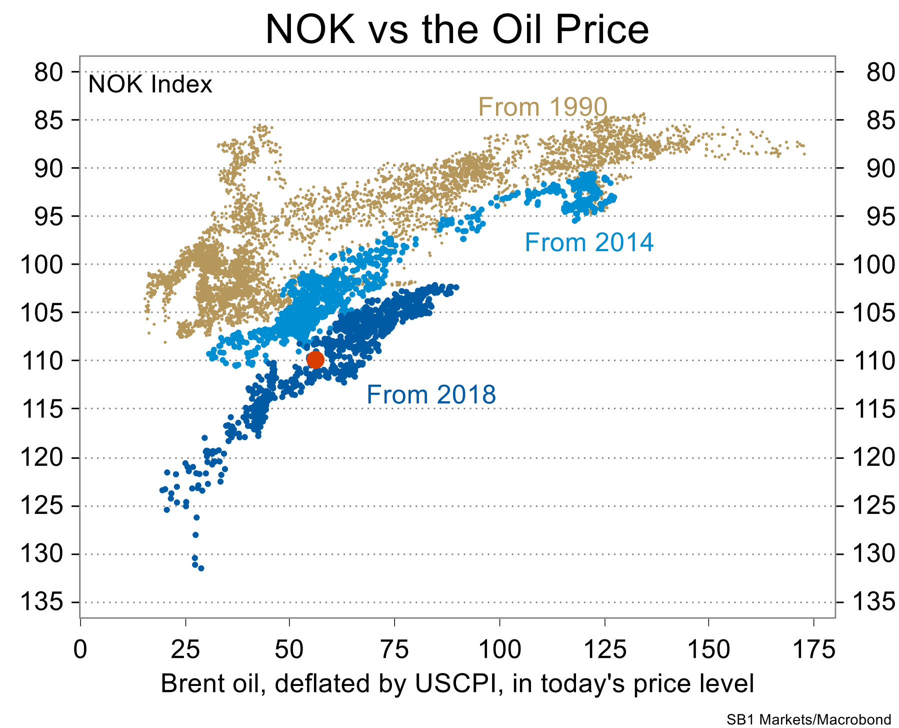




- The estimation period now includes 2018. The inclusion of the extra year did not change the model's forecasts significantly (well below 1%)

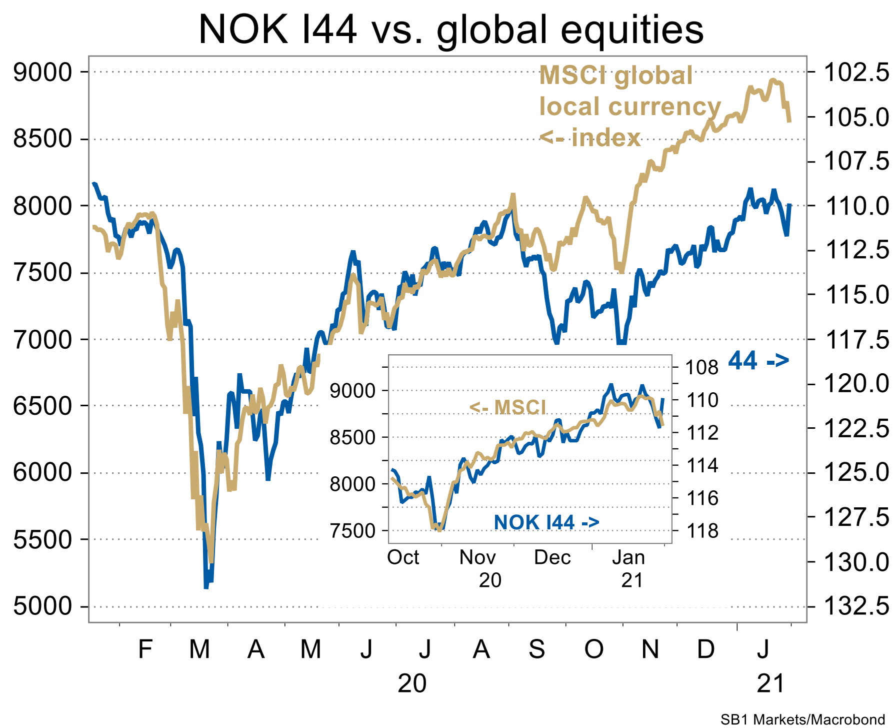
NOK up together with the oil price since November – both flat last week

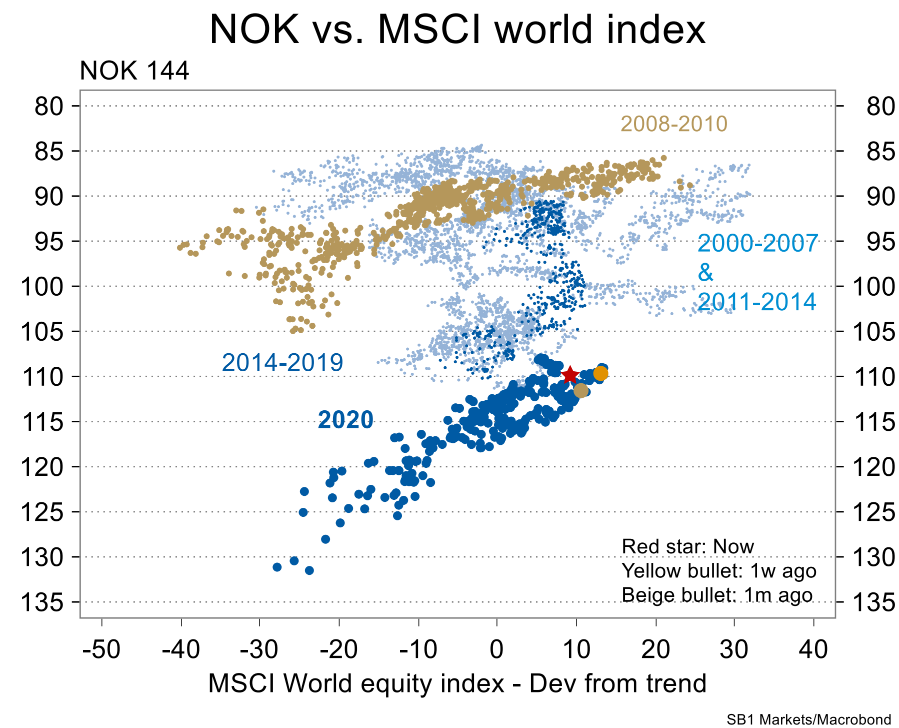




NOK almost flat, even of global equity markets fell

Since Nov, NOK and global equities have walked upwards in tandem – but the NOK is lagging





- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with pretty close correlation like we have seen since early 2020
  - » NOK has not been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund are larger then the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually
- Now, the NOK is more than 4% 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)

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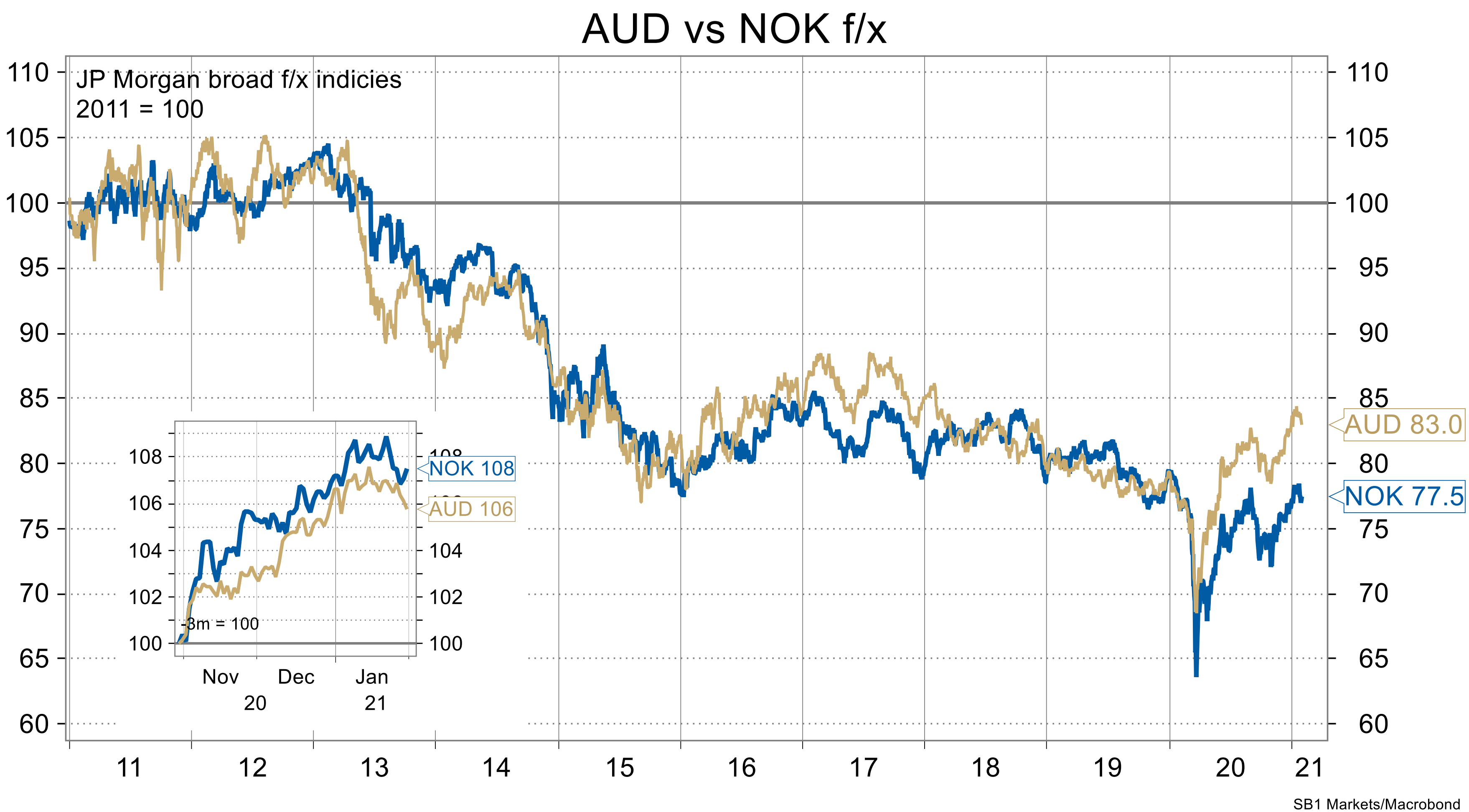
The AUD lost some altitude, so did the NOK. NOK still the laggard

Fair? Not sure. Both Australia and Norway are handling the corona crisis OK



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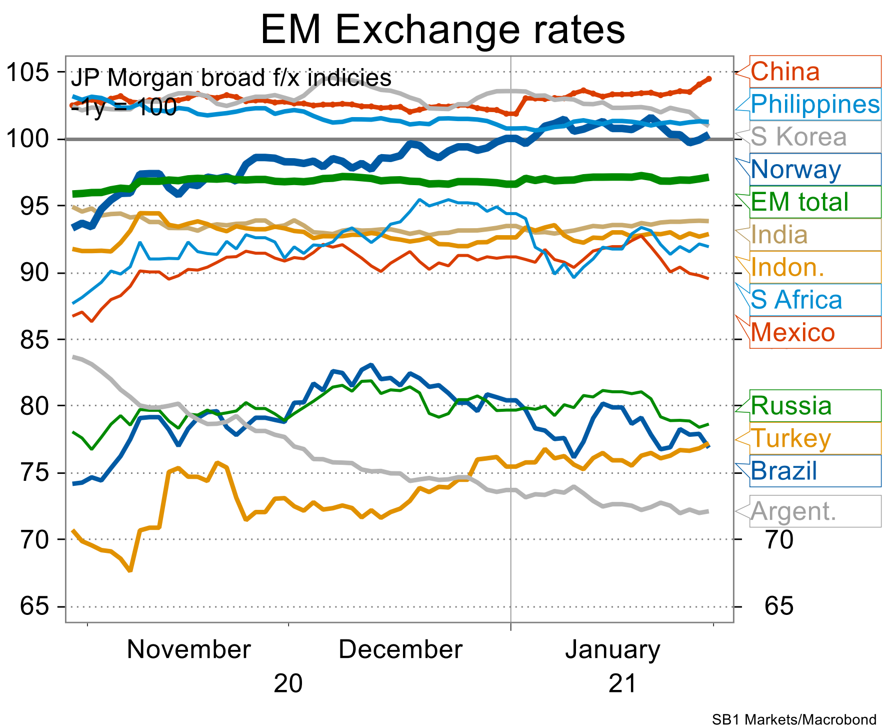
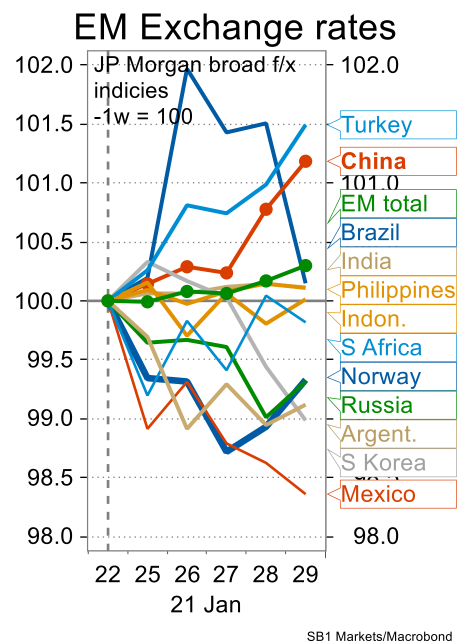
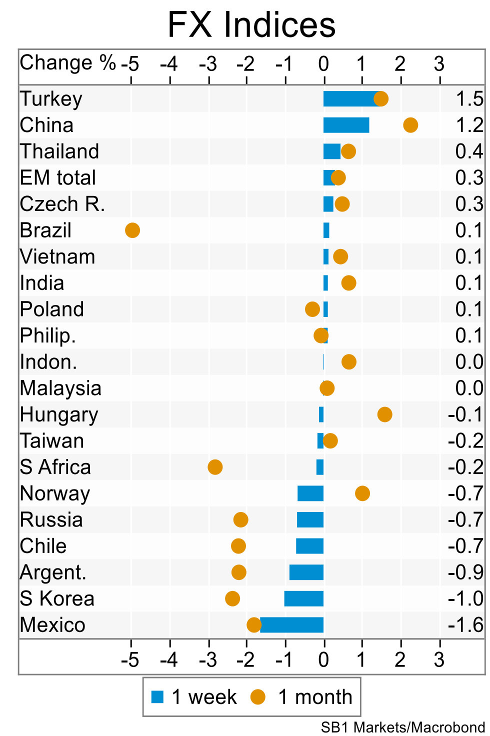
EM f/x more up than down, but just in average, due to the CNY

The turbulence at stock markets did not ignite an escudos from Emerging Markets







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