22 February 2021

Macro Weekly

Week 8/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week 1: The corona story & some economic news

- **The no. of new Covid-19 cases** is still falling sharply almost everywhere, even where mutated viruses are dominating totally, also where the vaccination levels (or immunity due to many earlier infections) are low. Hospitalisations & deaths are falling rapidly too. The UK and the US still have high rate of vaccinations, materially decreasing the 'R', week by week – and **mobility** can and will soon increase
- However, in **Norway** the number of new cases increased last week. However, testing rose too, and the positivity rate fell – and the R may still be at or below 1. However, it may be >1 too, as the mutated virus is spreading rapidly. Vaccines will not arrive in substantial quantities the next few weeks, and the margins may be narrow (check some illustrative charts at page 10) before running into the need for another round of new restrictions (which were slightly eased last week)
- There were good news on the **vaccine** front last week too. **BioNTech/Pfizer's** vaccine is extremely effective in Israel, close to 100% vs. hospitalisations & deaths, and it prevents transmission to others. Temperature requirements are less rigorous, making distribution easier. A substantial immunity is reached after the first dose, and more countries will probably follow UK's example, and wait some months before giving the 2nd - in order to give the first shot to many more. **BioNTech** will be able to ramp up production after a deal with the EU. **Johnson & Johnson** has delivered an application for a European license, and will very likely receive one

- **PMI**
  - **The global composite PMI** very likely rose in February, due an uptick in both manufacturing and services. The **US** PMIs surprised on the upside, confirming strong growth in Q2. **EMU** PMIs were mixed, services weaker than expected, manufacturing better – and the composite rose a tad more than expected but signals (at 48.1) a moderate decline in GDP in Q1. **UK** services returned to the 50 line, from 40 – and the next months will probably be strong due to a rapid vaccination process
  - According to companies, both **input and output prices** are surging, signalling substantially higher headline CPI inflation just around the corner. Delivery times and prices are increasing faster than normal given growth in activity, indicating 'unusual' <u>supply side challenges (albeit rather broad based) are more to blame for the surge in prices than strong growth in demand</u> (but strong growth in demand no doubt contributes). Specific supply side bottlenecks will usually be sorted out, if demand is not too strong. General lack of labour and broad capacity constrains can entertain inflation for longer

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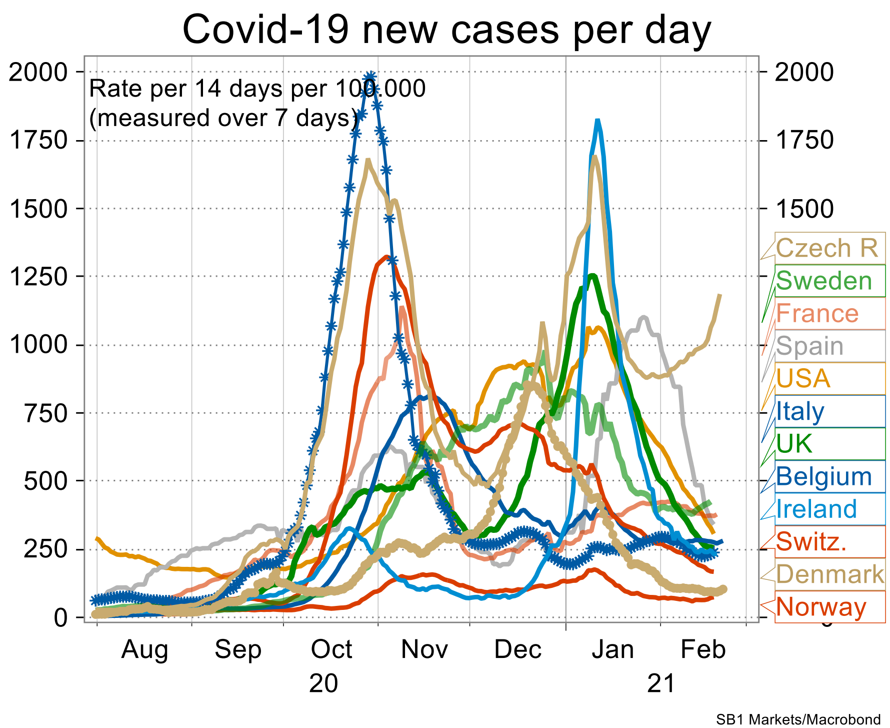
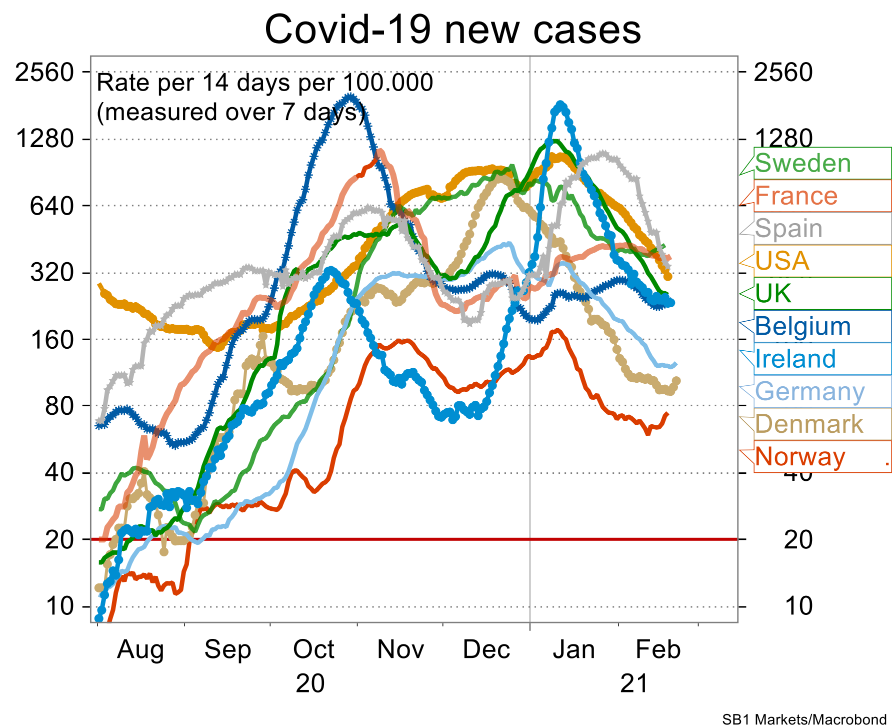
Last week 2: More economic news

- **USA**
  - » **Retail sales** shot up by more than 5% in January as some 20% of the USD 600/person stimulus checks that were sent out early in the month were immediately spent (but most was saved, for spending another day). **Housing data** are still strong, so are both building permits (and starts), and existing home sales – and the inventory of homes for sale is close to emptied. **Existing home prices** are soaring, up 15% y/y according to the realtors (an exaggeration, but prices are sharply up). **Manufacturing production** is growing at a 12% pace, and once more beating expectations in January. The PMI and **regional surveys** signal further growth. Still, **CPI inflation** is still low – but producer prices (even ex. Food & energy) are rapidly gaining speed and are – together with energy prices in all available surveys – signalling that inflation will soon shift sharply upwards.
  - » Markets are starting contemplating that in order to keep inflation in check, monetary policy will at one stage have to be tightened (but not the coming two years) but **long US real rates (10y TIPS), which may be more important for the well being of risk markets,** rose by 21 bps last week, still extremely low at -0.8%.
- **EMU**
  - » **Manufacturing production** fell by 1.6% in December, more than expected, but rose 0.1% if 'crazy' Irish production numbers are kept out of the calculus. Even **European interest rates** rose sharply last week, and now the market is expecting the ECB to hike, in 2027… The 10 year swap rate turned black too, for the first time in almost a year
- **UK**
  - » **Retail sales** dropped 8% in January, far more than expected (-3%) as many shops were closed down amid the fight against the mutated virus
- **Norway**
  - » **Mr 2% Olsen:** NoBa's governor warned in his annual address that low interest rates (at least until some days ago…) indicate that the Oil Fund will not be able to deliver 3% real return over time. He mentioned a 2% budget guideline would be in line with previous principals. An eventual tighter fiscal policy implies a more expansionary monetary policy (which he did not mention). There were several references to the Bank's prognosis that rates will be hiked one day, and not cut further
  - » **Oil companies** revised their 2020 investment estimate up by 4%, as we expected, still signalling a 6% decline, following a 5% drop in previous years. Lower investments in new fields are mostly responsible. The first, and much more uncertain 2022 estimate signals a further decline, even though a lot of projects will be submitted to the authorities before end of 2022 in order to utilise the favourable, but temporary tax reform. Higher oil prices are usually positive too. **Manufacturing companies** have revised their 2021 investment plans upwards, while **power supply companies** most likely will continue cutting investments in '21, for the 3rd year in row due to lower investments in transmission and distribution
  - » **Norges Bank's expectation survey** confirmed at more positive overall outlook. Inflation expectations among economist are stable at 2% – 2.5%, but both business leaders and households have revised their estimate for expected annual inflation 2 – 3 years ahead substantially upwards last year, up to 3.4% and 3.8% resp, both above their average (remarkable high) infl. expectations. We wonder on what real interest rate expectations they base their decisions. Realised wage inflation last year, and expected wage inflation the coming two years (among economists in labour market org.) is 0.6 pp higher per year than NoBa's Dec MPR f'casts

Still mostly good corona news, even where the mutants dominate

The 'R's are below 1 almost everywhere, even in the UK, Ireland, Spain and Portugal, with mutants



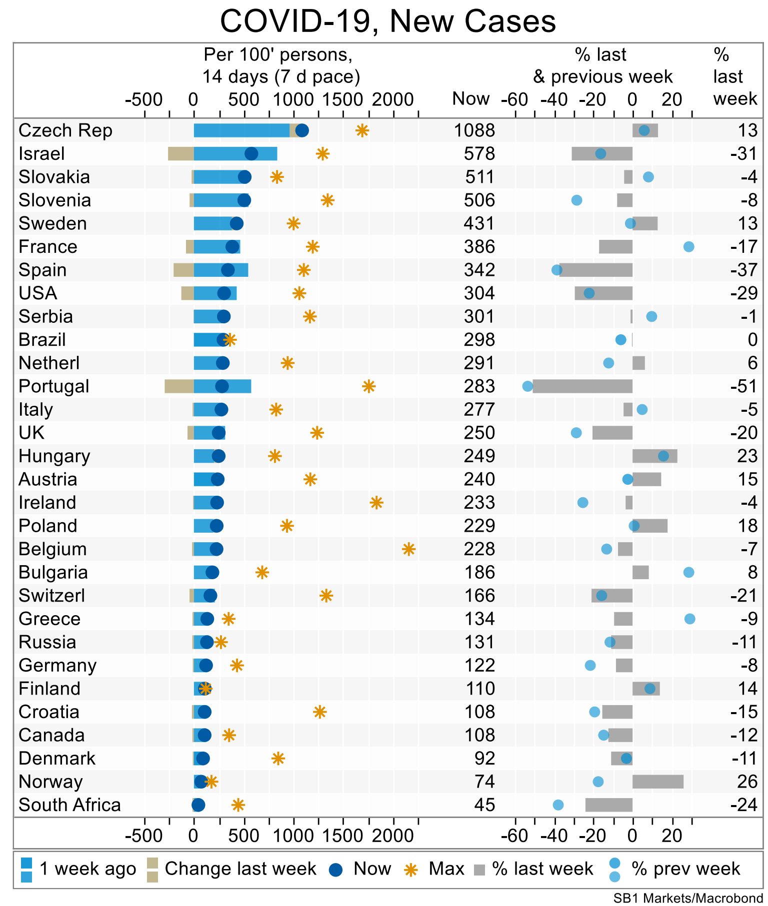


- The virus cycles are dramatic, and normally very short. Most countries are new reporting fewer cases – and no country with a high prevalence is reporting more cases – except the Czech Rep. The decline in the US is accelerating
- Last week Norway reported a significant increase in no of new cases, from a very low level that is
  - » However, the positive rate has fallen, and the increase in new cases may be to more testing ahead of winter holiday travelling
- Sweden also reported more cases and the country is contemplating tighter measures. Sweden has far fewer cases than in December but is at the top of the league in Europe

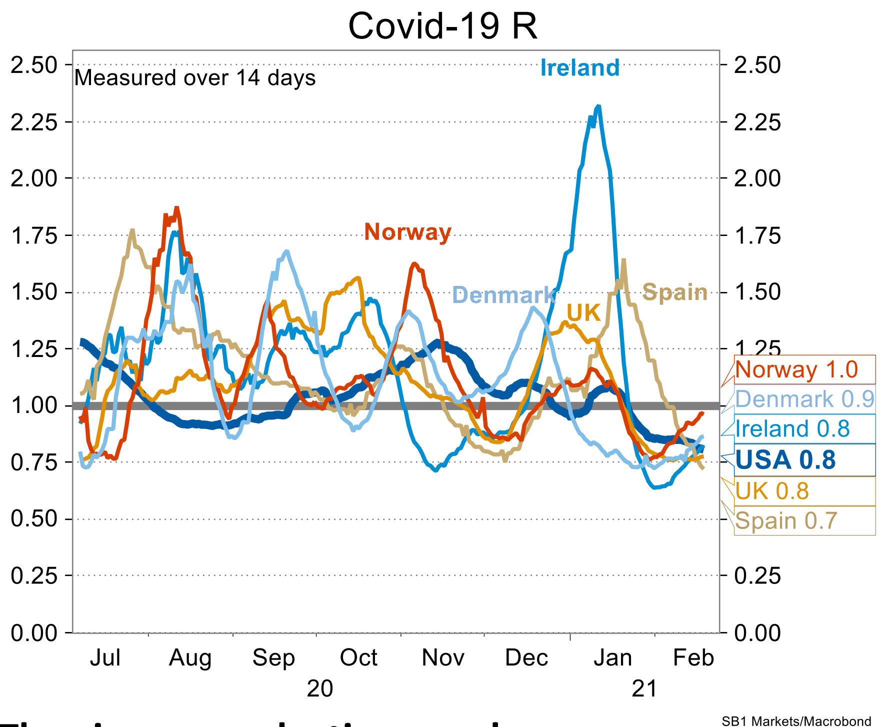
Positive corona news: The large majority of countries are reporting fewer cases

Cases, hospitialisations & deaths down, even where mutated viruses dominate

- **Norway** reported the steepest increase in new cases last week – but there may be some technicalities (more testing, as the positivity rate fell)
- The no. of **hospitalised patients** and **deaths** are down almost everywhere too
- **Mutated, and more infectious viruses** are taking market shares everywhere, and will be dominant most places before the spring, we assume
- **Israel** is reporting that the Pfizer vaccine is 98% -99% effective vs serious respiratory problems, hospitalisations & deaths. In addition, the vaccine prevents transmission as well
- **BioNTec and EU** made a deal on substantially increasing production of the BionTech/Pfizer vaccine
- <u>We assume</u> production of vaccines will be easily ramped up over the coming months and at least quarters, as bottlenecks are cleared



Covid-19: Back to the 'R'



The virus reproduction number:

$R_e = \beta_e C_e D_e X$

β the share of people you infect when you meet them

C no of contacts per day (measured vs. the β)

D days you are infectious

X share not immune (starts at 1, down to 0 when all have been infected or have been vaccinated).

Mutated corona viruses probably require a 75% immunity rate, if β & C are as 'before corona' (no masks, not mild distancing ect – very unlikely)! Will a 60% immunity rate be sufficient to really 'open up?'

The no. of cases are falling rapidly most places, but not everywhere

- The 'R' is well below 1 almost everywhere – though it does not normally last for too long, as behaviour adjusts fast
  - » The R is at 0.7 – 0.8 in UK & Ireland, even with the mutated viruses dominating. Soon, restrictions can be relaxed to bring the R closer to 1(when the level of contagion is low) even before taking the impact of vaccinations into account
- **In Norway** the R measured over 14 days rose by 0.1 to 1, and measured over 7 days to 1.2 from below 1. IF the R is at 1.2 (we really hope not), something will have to give before vaccines arrives in large quantities

However, what if mutated viruses spread to all countries?

- If the mutated viruses are 1.5x as infectious as the original virus, for a given social distancing, R^{mut}= 1,5 x R^{org} then β^{mut} is 1.5x larger than β^{ord}
- If the mutated virus took over the market, social distancing (C in the formula) had to be reduced by 33% in order to keep the R constant - which UK and Ireland were forced to do (and then further down to 0.7 – 0.8 to get the no. of cases down 80% – 90% over

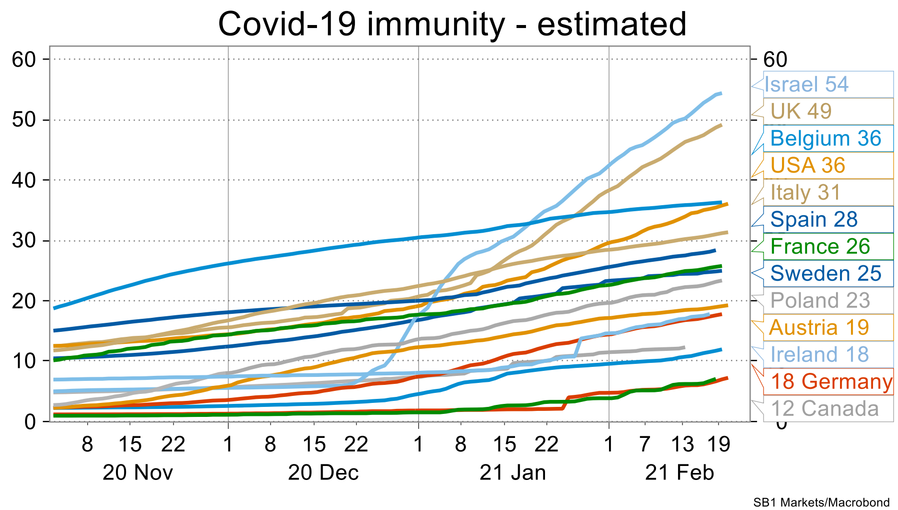
Luckily

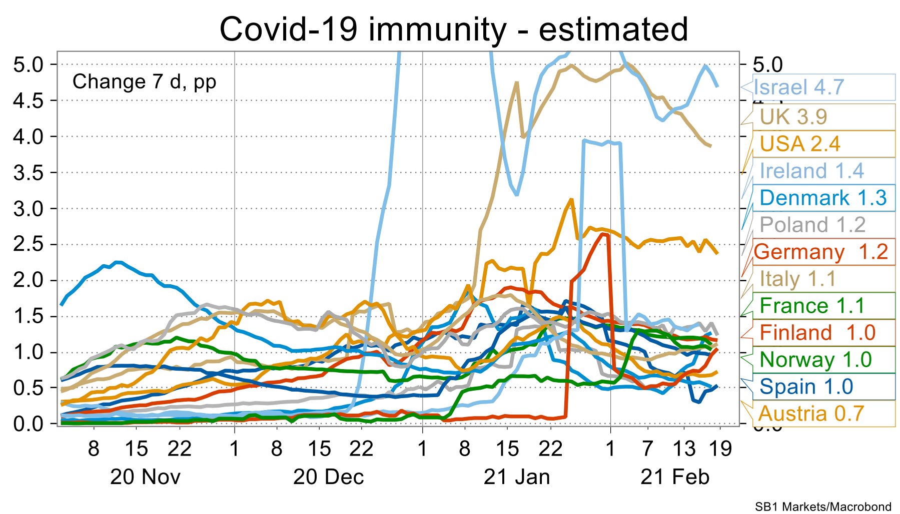
1) The mutant still have a small market share most places
2) The Rs are not at 1, they are already below
3) The vaccines are arriving. Even a 3% per week vaccinating rate reduces the R by 3% per week (if they work), and accelerating

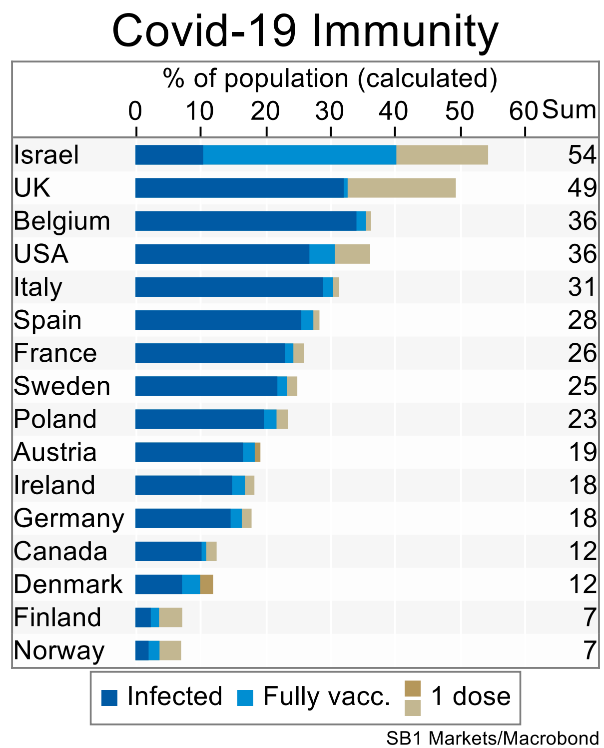
The vaccines very likely able to reduce the R faster than the mutated virus will increase the R.
The 'only' remaining risk: Vaccines are not effective!

How to reach herd immunity? Through infections or vaccinations?

Vaccination is slowing down most places – and too low, except for Israel, UK & US







We calculate the infected rate by assuming a 0.5% infection fatality rate, and a 90% immunity from infection. We assume those who have been infected are vaccinated in line with others

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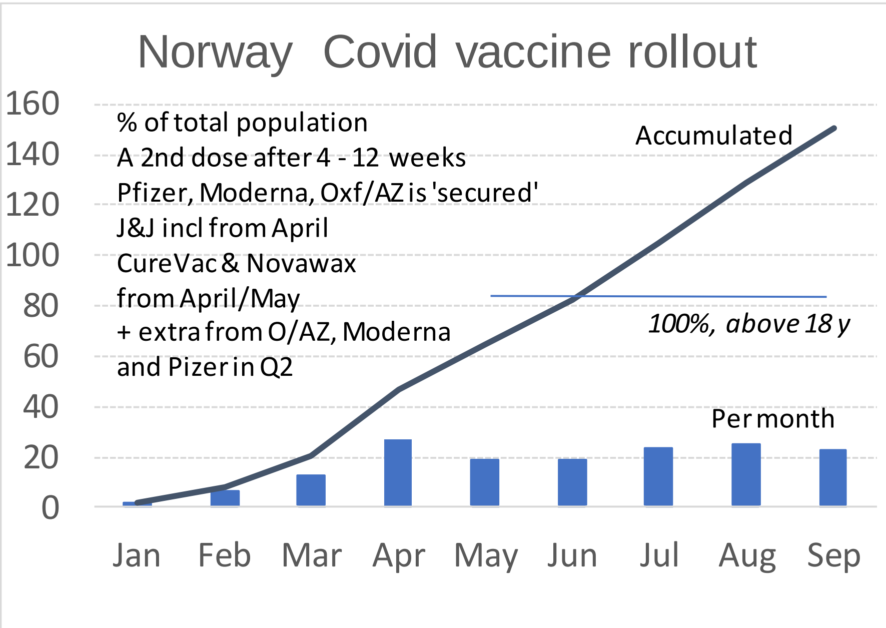
Pfizer and Astra/Zeneca: More doses are on the way. Will we get to 3% - 4%/w?

EU/Norway will receive more vaccines through Q2 – adult population vaccinated before the summer?



The first shot per week % of popul	
Jan	0
Feb	1
Mar	3
Apr	6
May	4
Jun	4
Jul	5
Aug	6
Sep	5

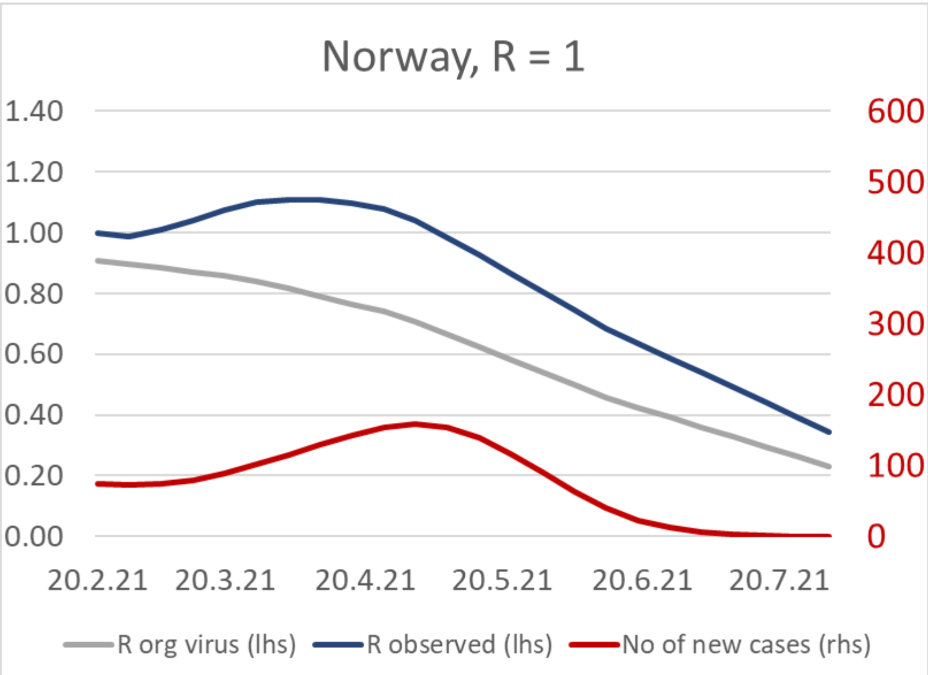
- Norway may reach a pace of vaccination at 3% of the population per week in March (adjusted for offset for the 2nd dose) – <u>and substantially more during Q2</u>

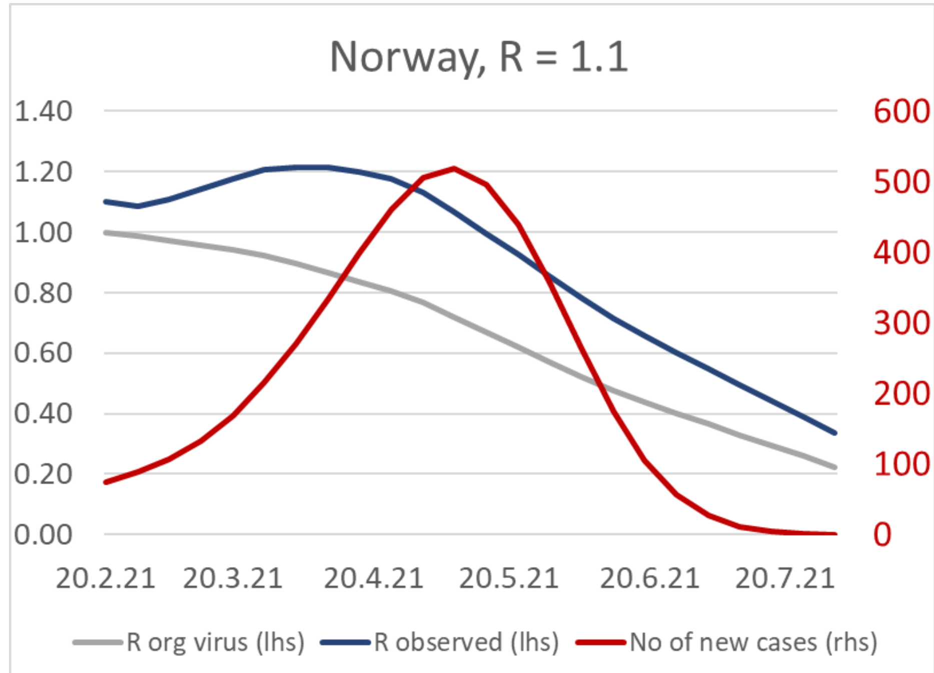
- There is still substantial uncertainty vs. the availability of vaccines, both concerning global production volumes and the share EU/Norway will receive
- Two weeks ago Pfizer announced a substantial increase in delivery of doses to the US and EU, some 200 mill to each – Norway will receive some 2 mill extra, of which almost the half during Q2. The EU deal with BioNTech will should lift deliveries of BioNTech/-Pfizer’s vaccine further. Astra/Zeneca will increase its deliveries to Europe by 50% (twice as much as we estimated one week ago)
- In our forcest other vaccines included, especially Johnson & Johnson, which has applied for a European licence
  - » Some few vaccines from CureVac & Novawax are included as well (EU has agreements with both of them)
- Norway <u>may</u> reach 100% coverage of the adult population by the end of Q2
- **However, immunity in the population will be lifted substantially before that**, reducing the ‘R’ proportionally by (1-immunity rate) for a given behaviour/social distancing. The impact is substantial, *check the next page*
- Old/sick or persons in the risk groups are vaccinated by early Q2 at the latest– no doubt **reducing the hospitalisation & death rates substantially** (like we now see in Israel) making a higher infection level acceptable

Data from FHI, VG, international media

Given a likely vaccine path, what does in require of 'us'?

The 'R' reproduction number is highly critical for the outcome the next few weeks





Model assumptions:
R = 1 (lhs) or 1.1 (rhs)
R^{mut}= 1.5 x R^{org}
15% of the infections now are due to a mutated virus
Vaccination: From 1.5%/week now, up to 5%/w in mid April
85% vaccine efficiency
7% are immune now, due to previous infection, vaccines
75 new cases per 100' over the past 14 days (red line)

The margins are narrow the coming weeks:

If the R = 1: And behaviour is kept unchanged, a modest increase in new cases, to 150 from 75, and as the elderly are vaccinated, fewer hospitalisations & deaths

If the R =1.1: 6 - 7 time increase in new cases to 500 until early May – not an attractive alternative

If the R = 1.2 – a peak at 1600, and major health challenges

We do not how we arrive there: But in June, the sun should shine

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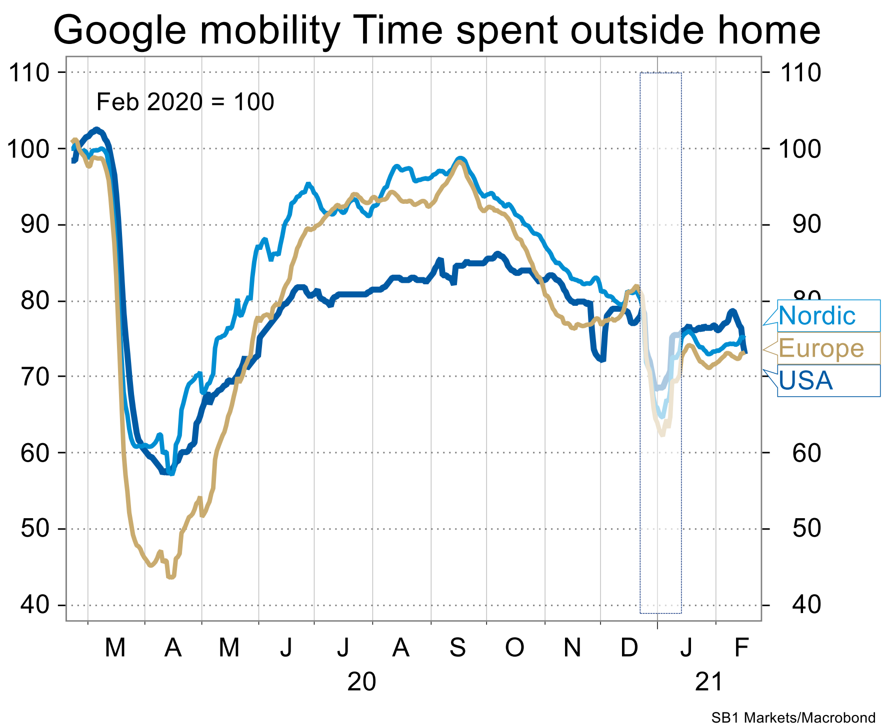
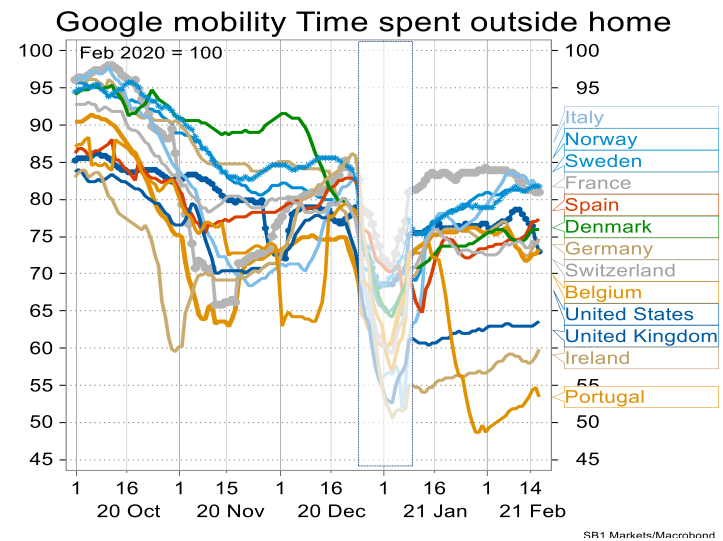
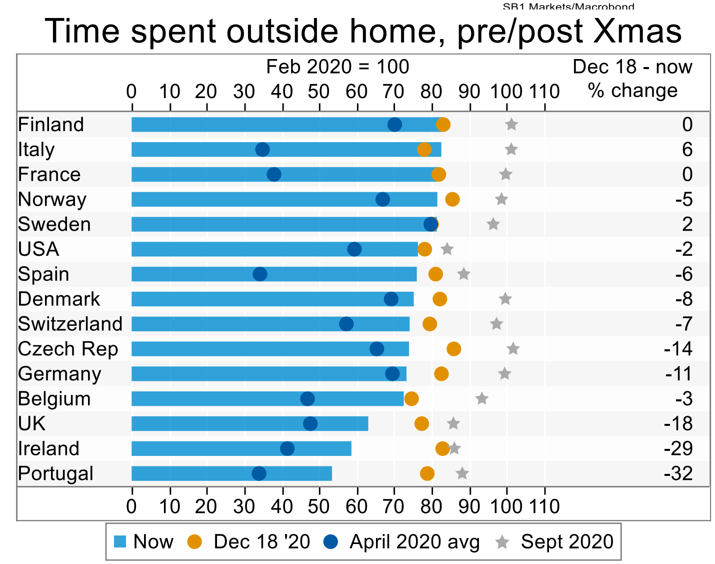
Will the US winter storm hurt the virus too? Mobility sharply down

Mobiliy is on the way up most places – so far without pushing the 'R's above 1 again







- **In the UK**, time spent outside home is down 18% (not percentage points) – and mobility is down almost 40% vs. a 'normal' level (Feb 2020)
- **In Ireland**, -29% vs pre Xmas, and the level still now down more than 40% vs. 'normal'
- Germany, Denmark & Norway is down 5% – 8% vs the pre-Xmas level, <u>and some economic costs will incur</u>

Mobility on the way up again – and the 'R' have probably crossed the 1 line

Mobility is below the pre Xmas level but now the mutated viruses are rapidly gaining market share

Google mobility Time spent outside home

- Vaccinations are still running at very low levels, and as the mutated virus spreads rapidly, the observed R will increase further

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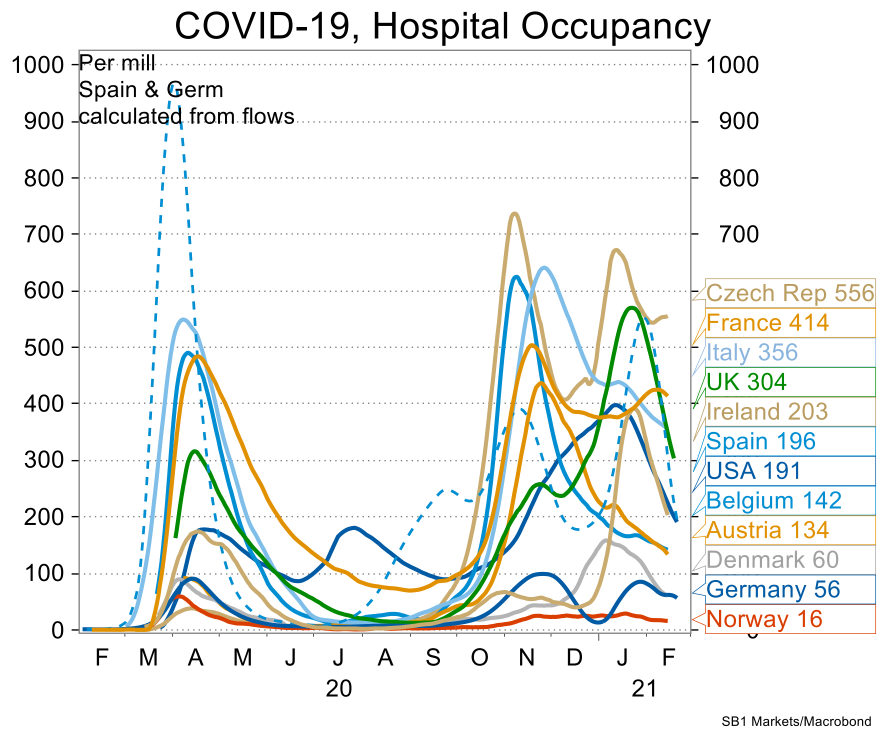
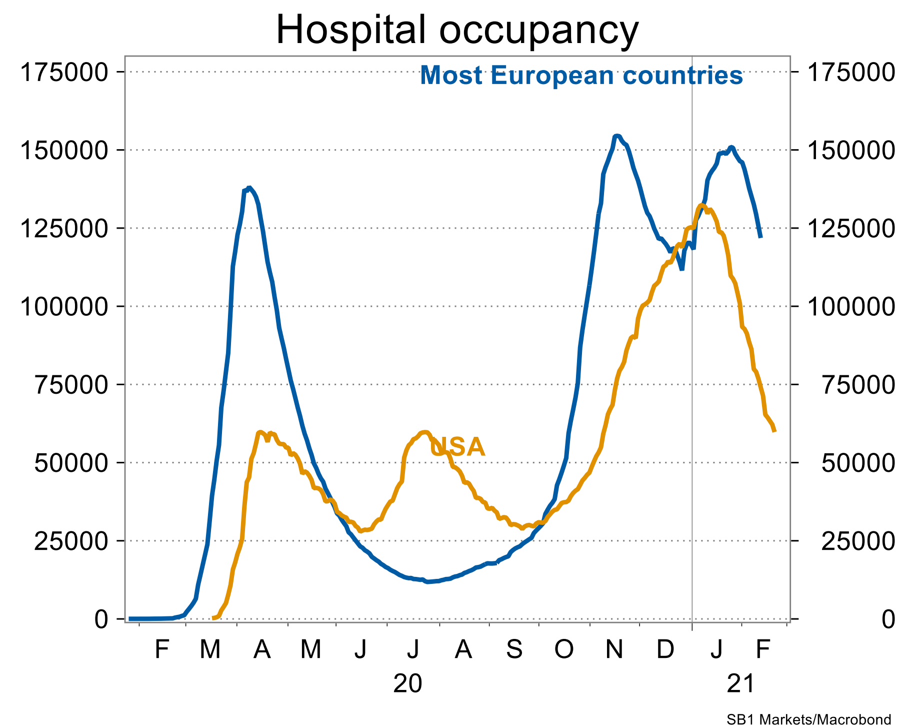
Hospitalisations on the way down almost everywhere

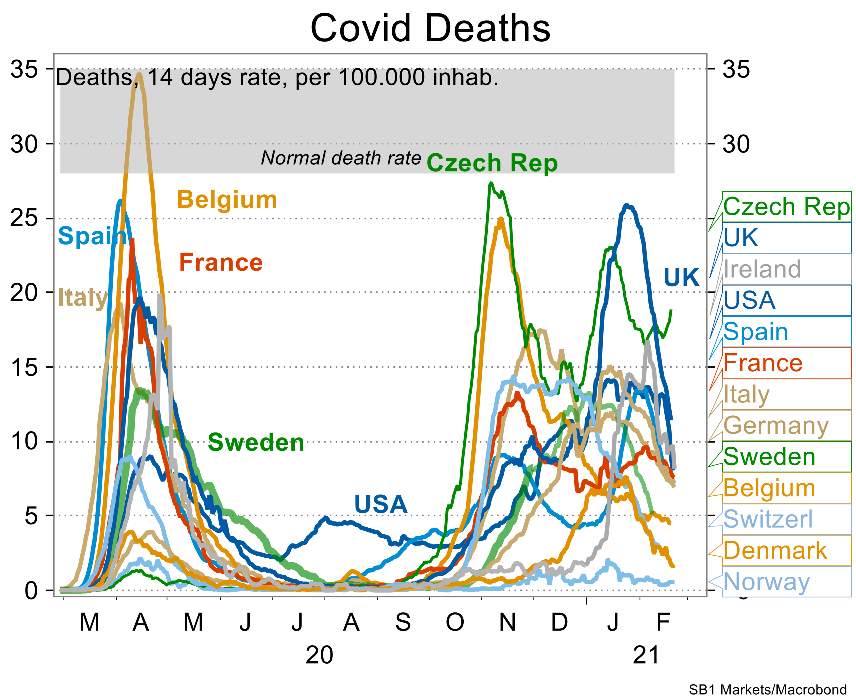
France is the exception (as is the Czech R)

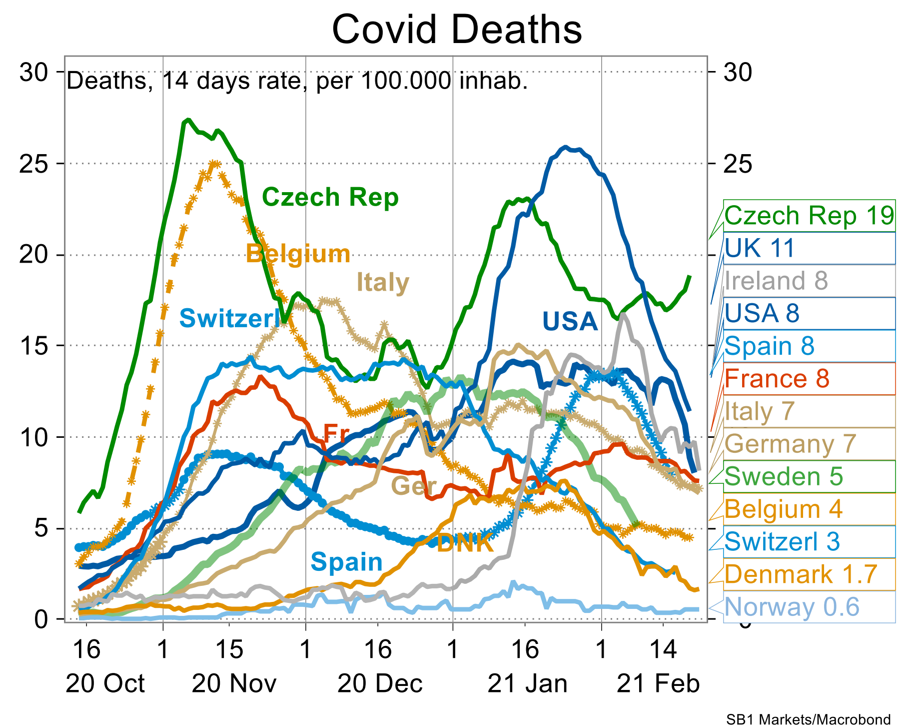




The deaths: A sharp decline everywhere – except for the Czech Rep

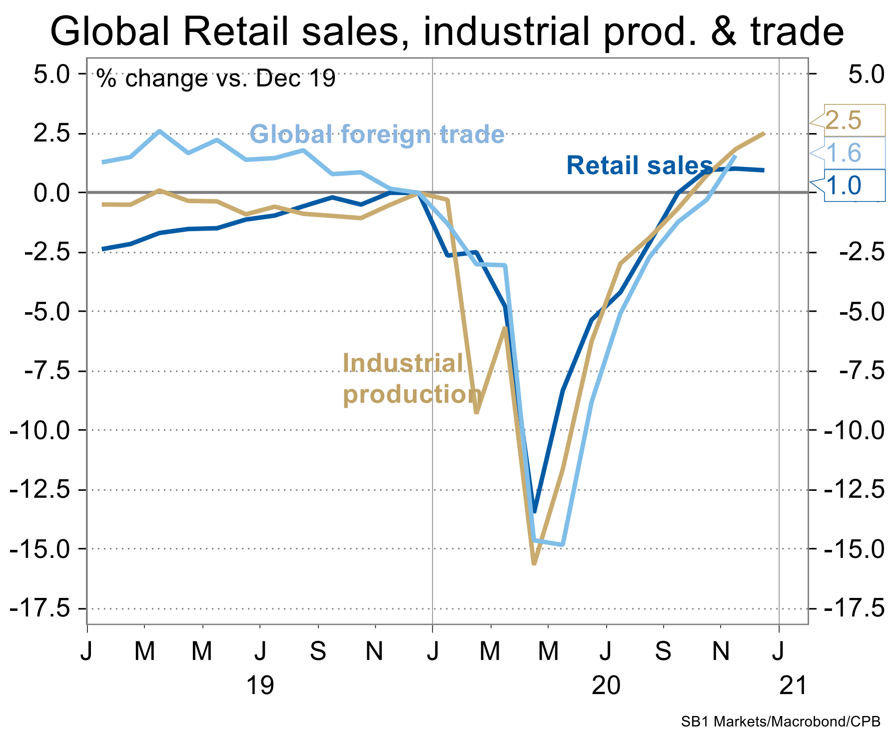
Even Sweden is reporting fewer cases

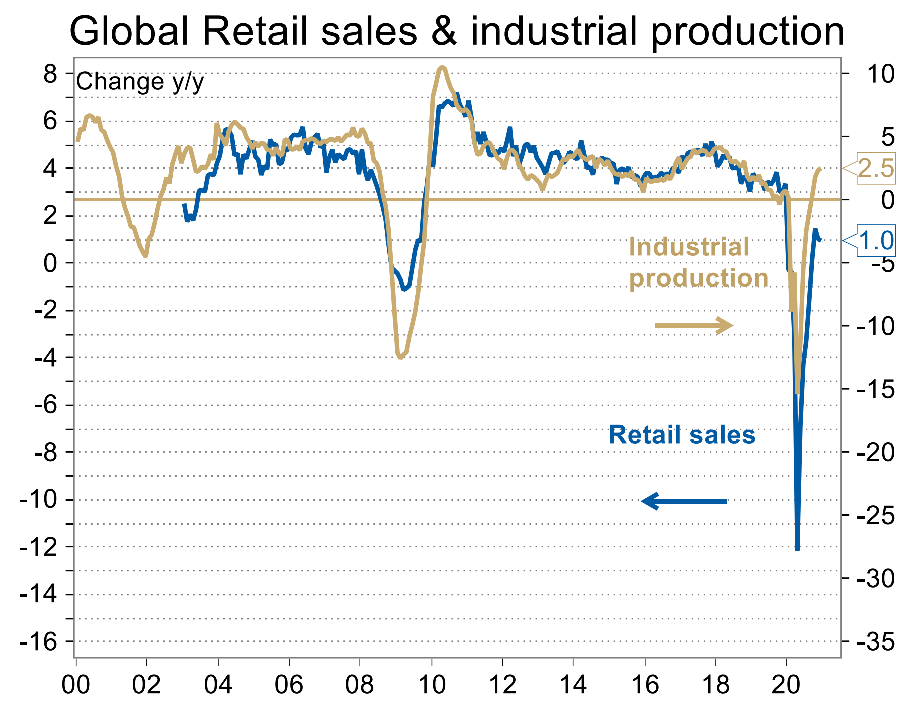




Retail sales has flattened, manufacturing production continues upwards

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



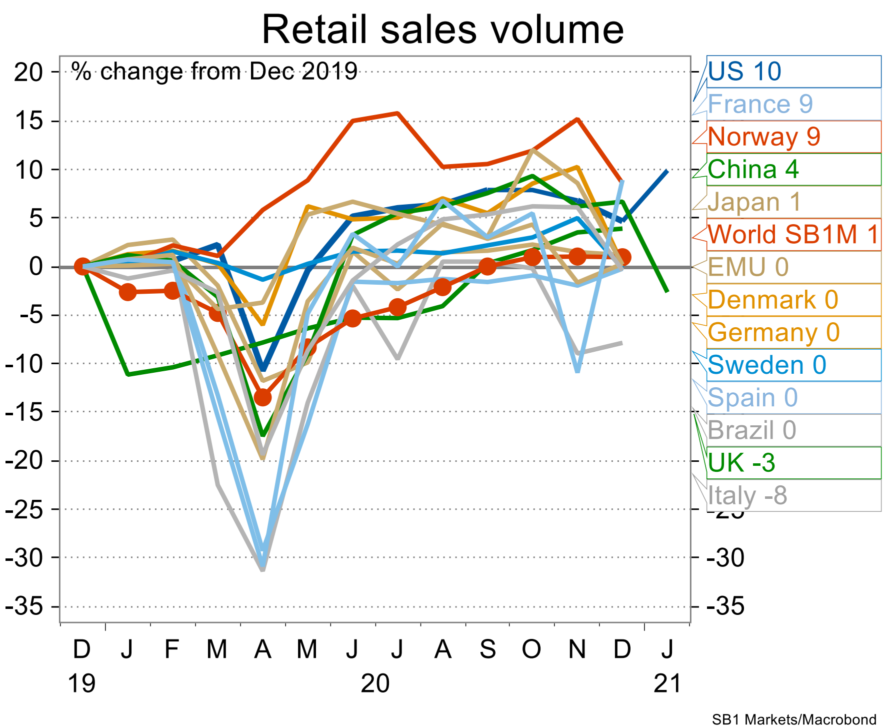


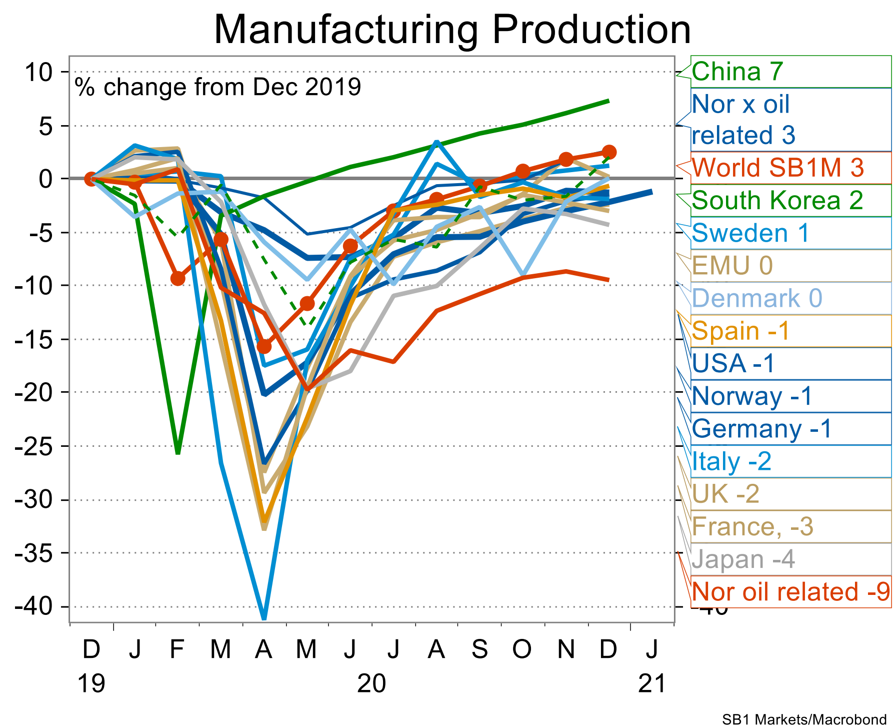
Memo: Keep in mind the different scales at the chart above

- **Retail sales** were flat in in Dec, following a small decline in Nov. Sales are 1% above the pre-corona level
- **Manufacturing production** probably climbed 1%, and is 2.6% above the pre-corona level, according to our estimates
- **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 flat in Nov/Dec due to US, Europe & Brazil, +1 % vs. Feb 20

Manufacturing production still on the way up, 3% above Feb 20 level

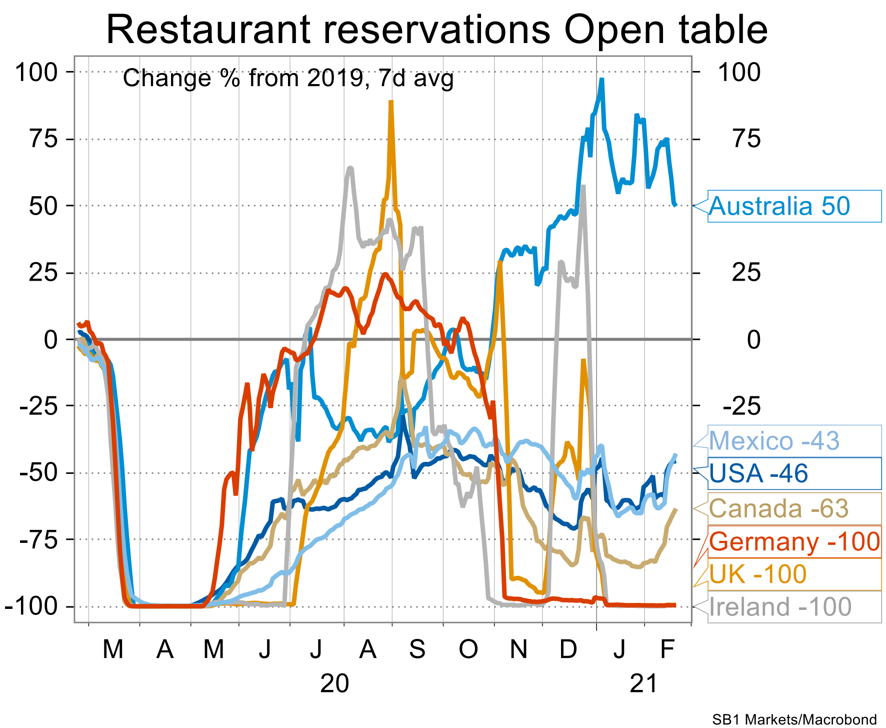


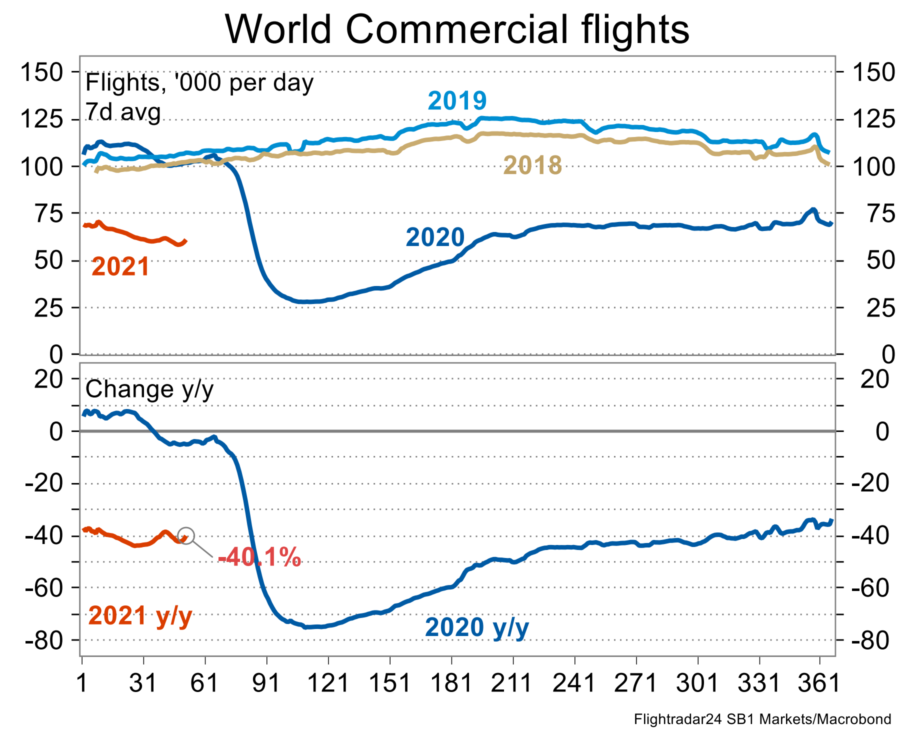


- Mixed retail sales in January: UK down 8%, US up 5%

US restaurants are slowly opening up again. UK restaurants will soon follow suit

Canadian restaurants are also inviting some guests again

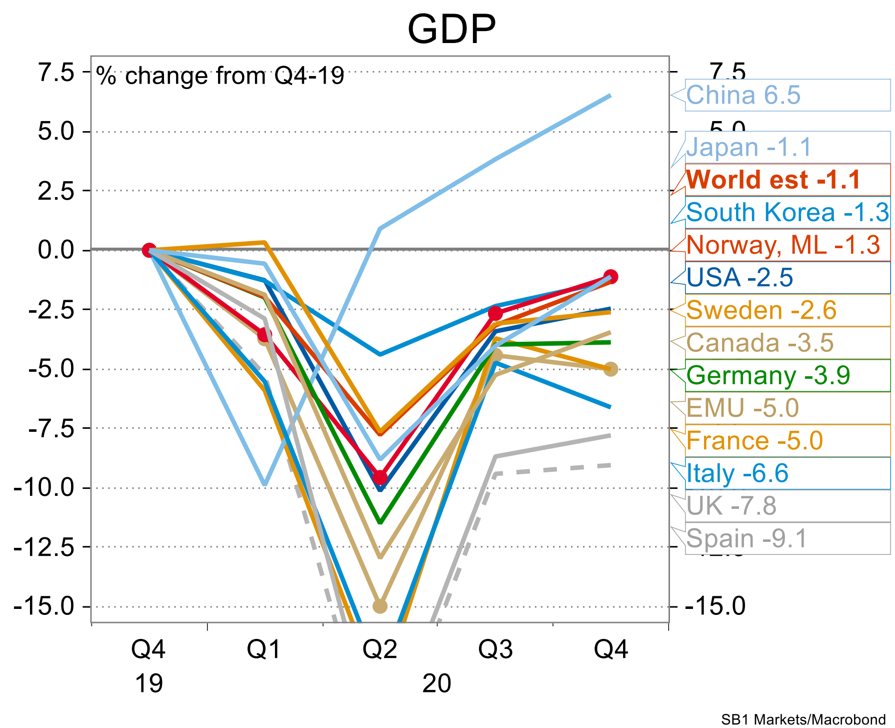


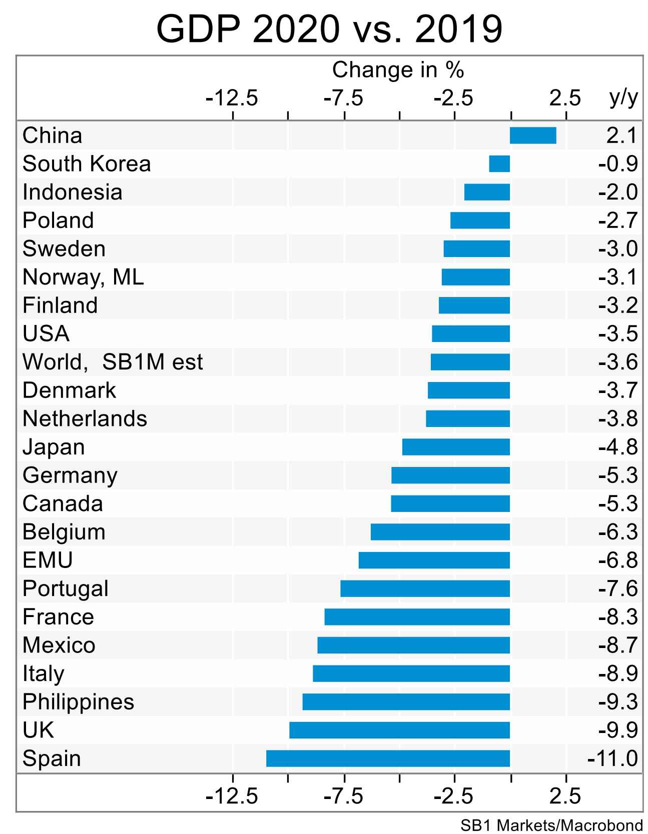


- Global airline traffic remains at a low level – and it probably will for some more weeks/few months

Growth slowed in Q4 but still grew above trend, at a 5%+ pace, 1.1% down y/y

GDP fell in EMU but most other countries/regions grew in Q4

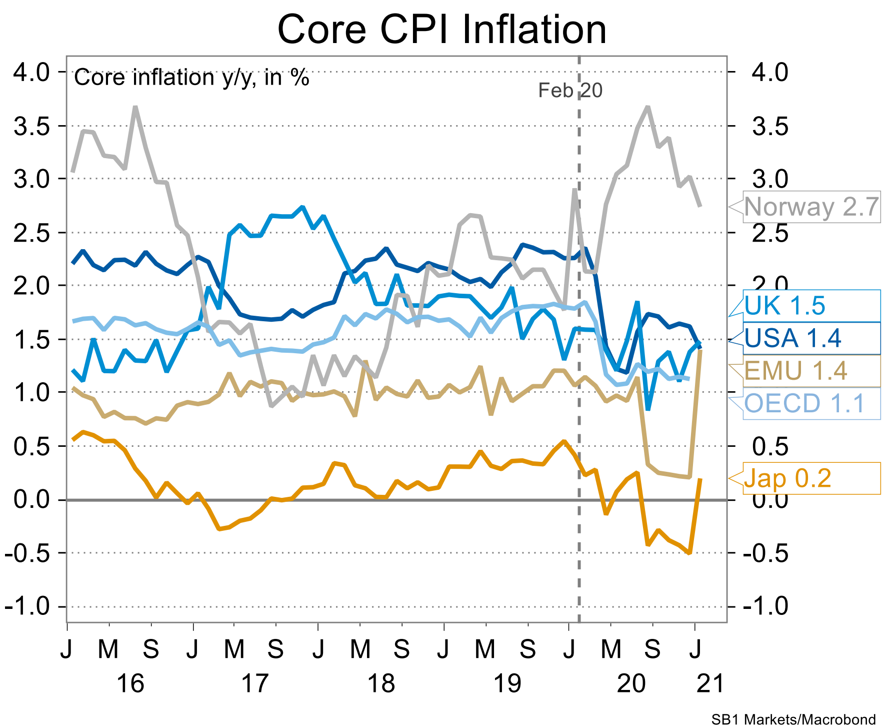


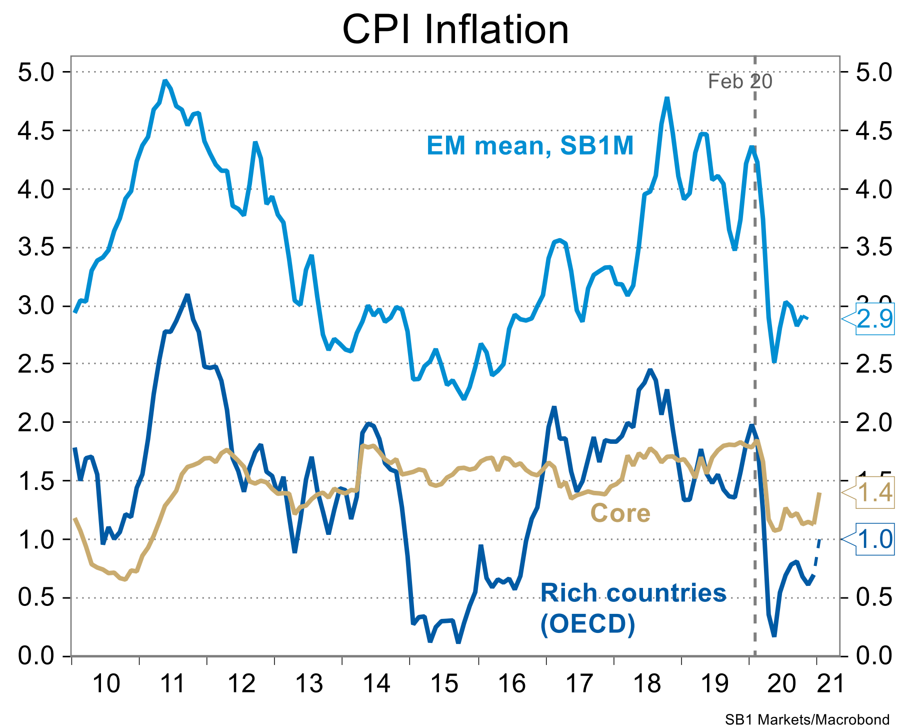


- We estimate that GDP grew by at least a 6% pace in Q4 – the double of underlying trend growth, leaving global GDP down 1.1% y/y. Last year GDP fell 3.6% (still an uncertain figure!)
  - » China & US have reported decent Q4 growth, alongside some Asian countries, UK & Norway – and mot others. However, GDP fell in both France & Italy
- **In 2020,** China grew by 2.1%, all others down
- Sweden -3%, Norway (Mainland) -3.1% and US -3.5%
- EMU contracted almost 7%, UK by 10% and Spain by 11%. What a year…

Inflation is bottoming – an the next step is up

Inflation in the EMU shot up in Jan, mostly due to the reversal of the German temp. 3 pp VAT cut

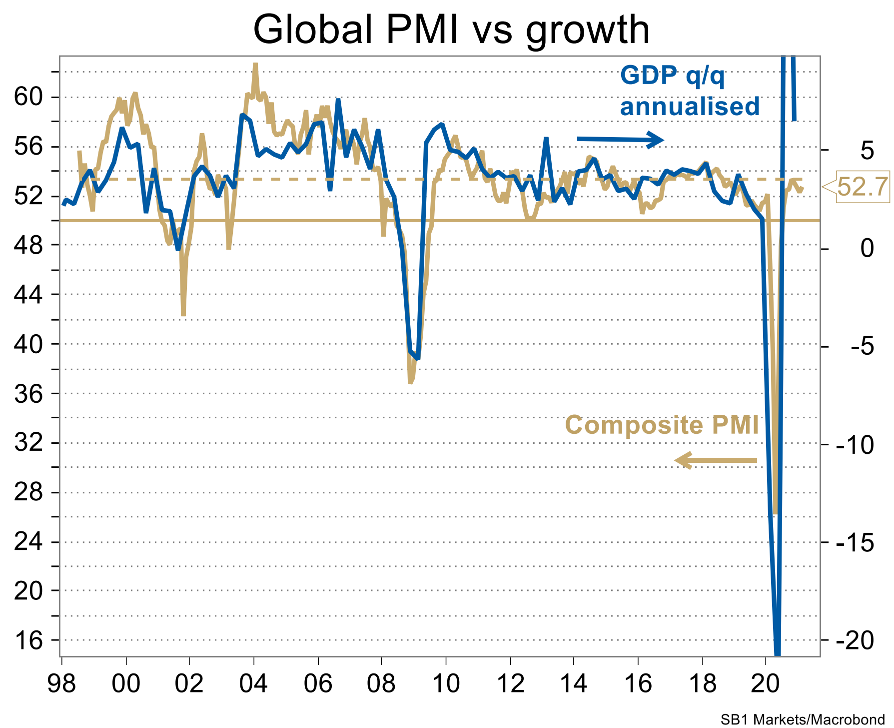


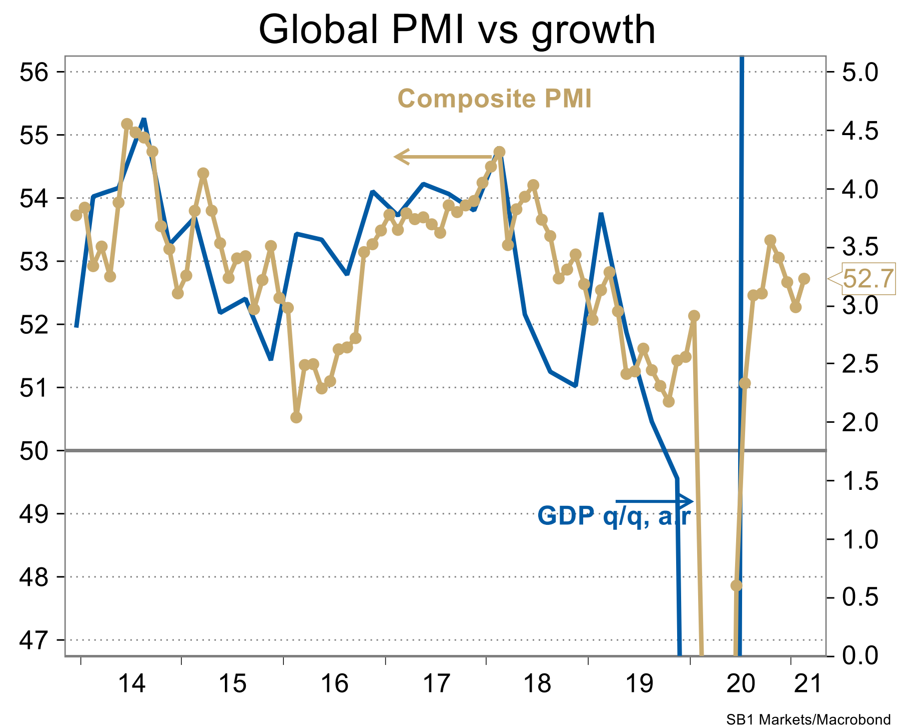


- The PMI reports as well as the increase in raw material prices towards a lift in at least the headline inflation rate the coming quarters

The global composite PMI likely recovered in February, broadly

We estimate a 0.3 – 0.6 p lift in the comp. PMI to 52.7, signalling growth at trend



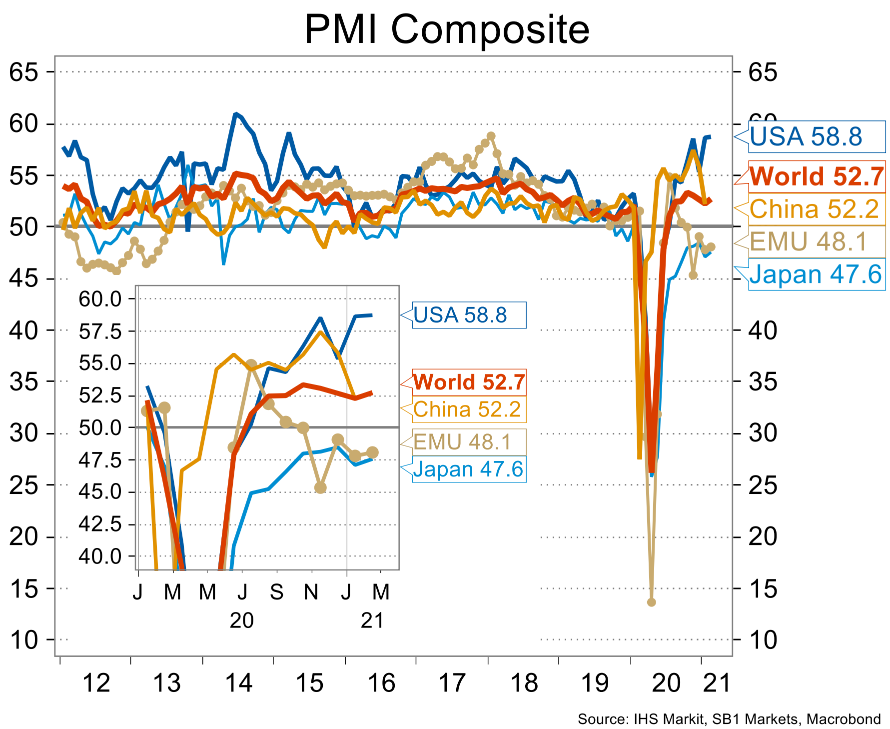


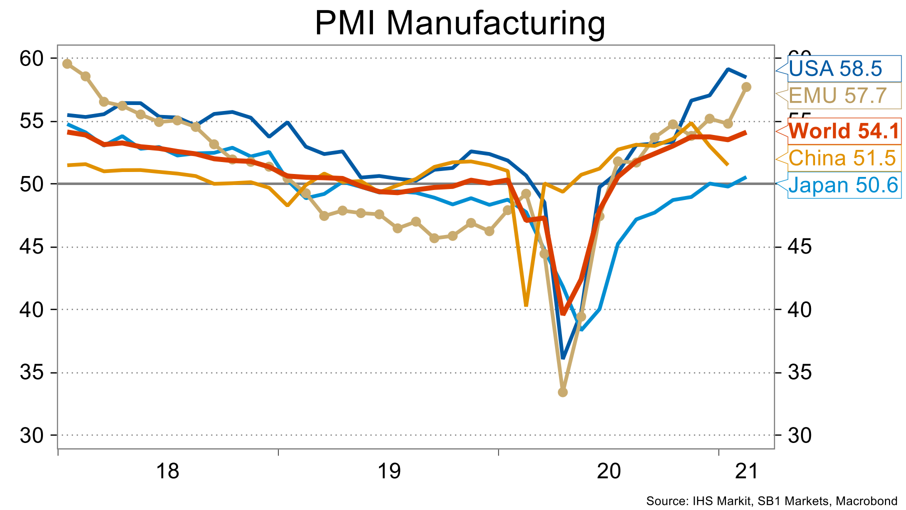
- The **preliminary PMIs** were better than expected, broadly on the manufacturing side, and without support from the Eurozone & Japan in services (but a huge lift in the UK).
  - » China does report preliminary data, and the final outcome is uncertain, in January the Chinese indices nosedived

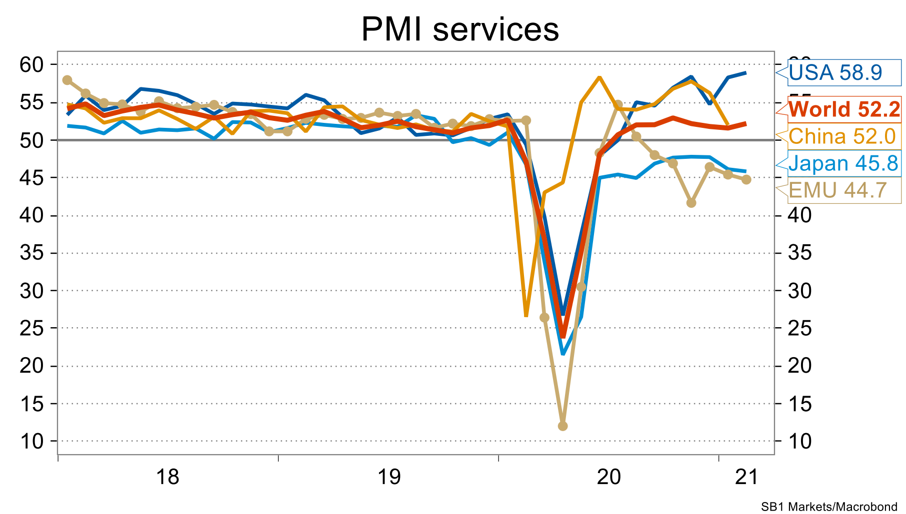
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

EMU manufacturing straight up, to a high level – US even stronger!

EMU services fell but the manufacturing is showing strength – and the composite rose



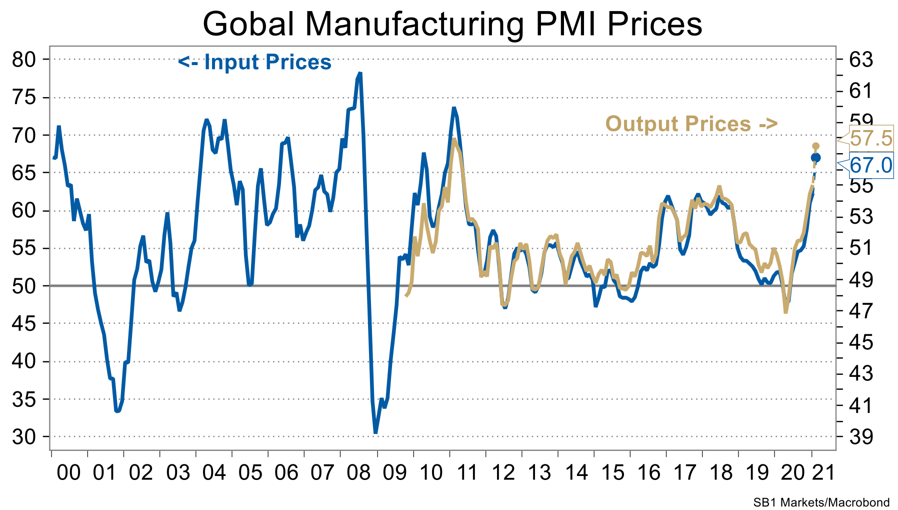


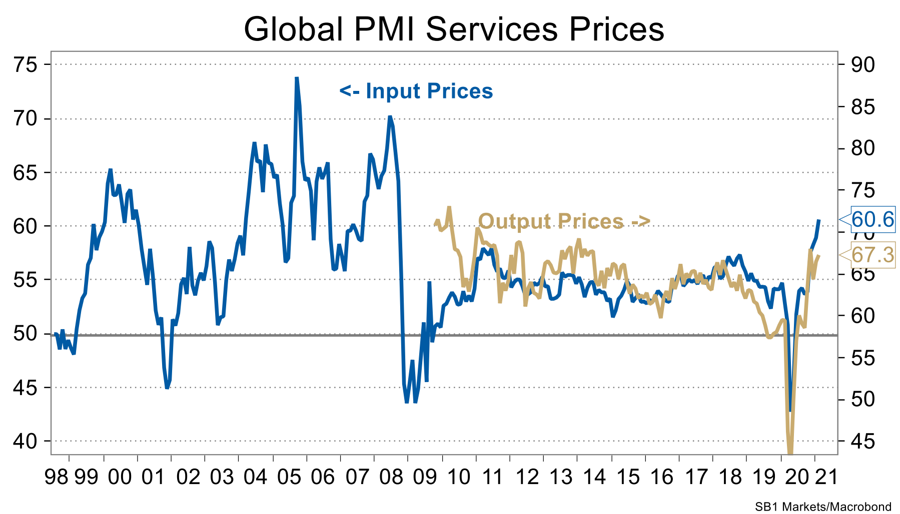


- In the EMU, the service sector PMI fell further due to a weak French print. The composite at 48.1 signal a 1% pace of decline in GDP (0.25 per quarter)
- The US PMIs are VERY strong
- The UK index recovered most of the large Jan decline

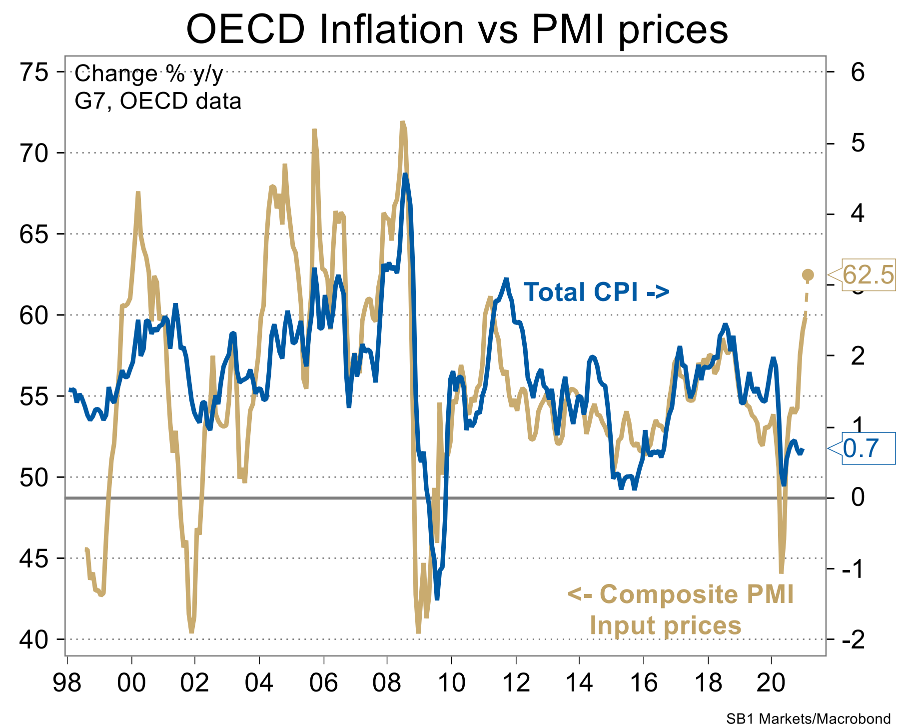
Businesses are reporting even faster growth in input/output prices

CPI inflation next? Without any doubt





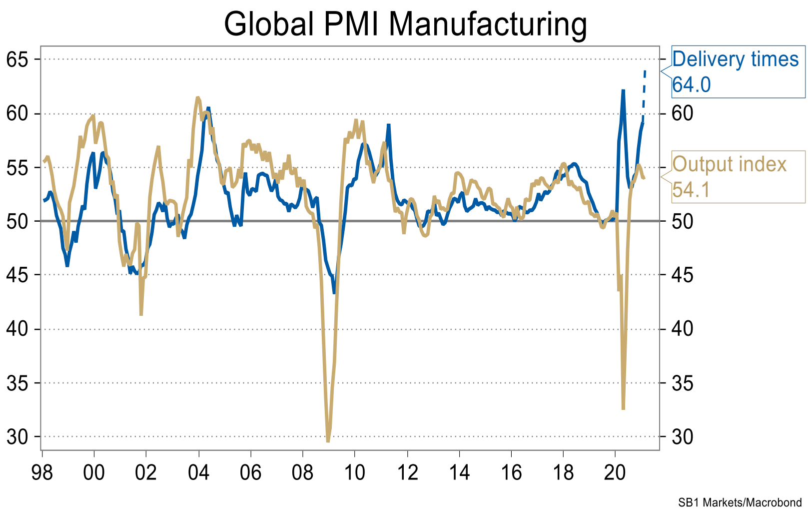
The last obs. Is based on preliminary PMIs from EMU. Japan, UK and US

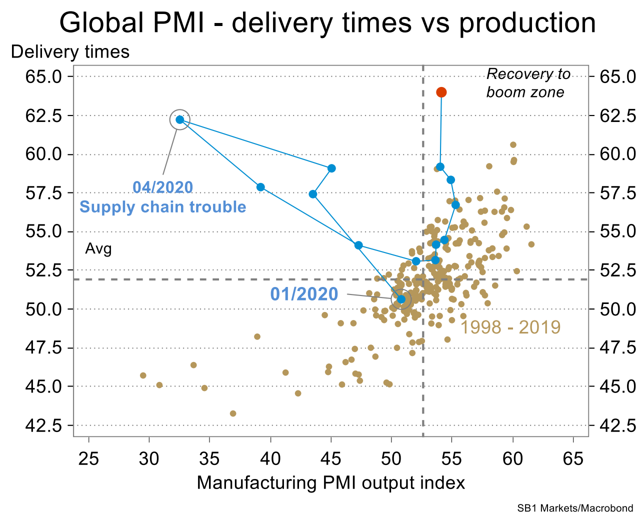


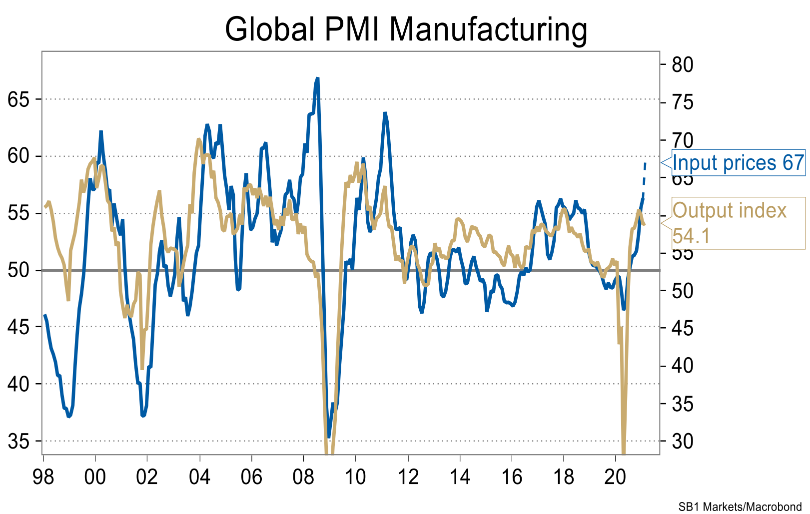
- **Both manufacturers and services** are reporting rapid increases in prices, both input & export prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from some 0.5% in rich countries now, up to 2.5% - 3%

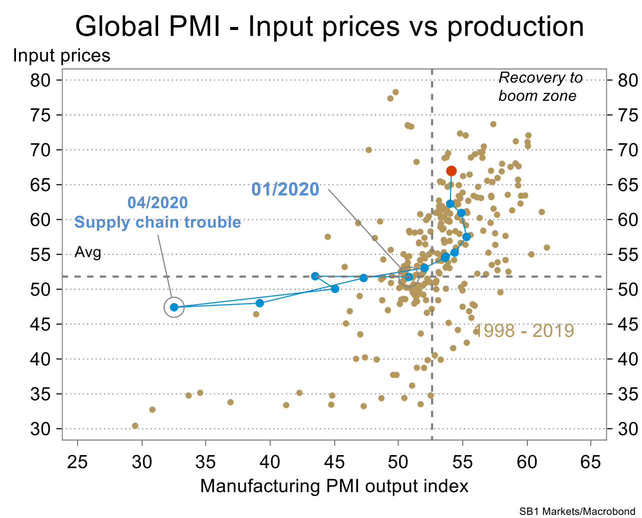
Prices & delivery times are soaring! Supply or demand?

Prices and delivery times are increasing faster than production growth usually explains





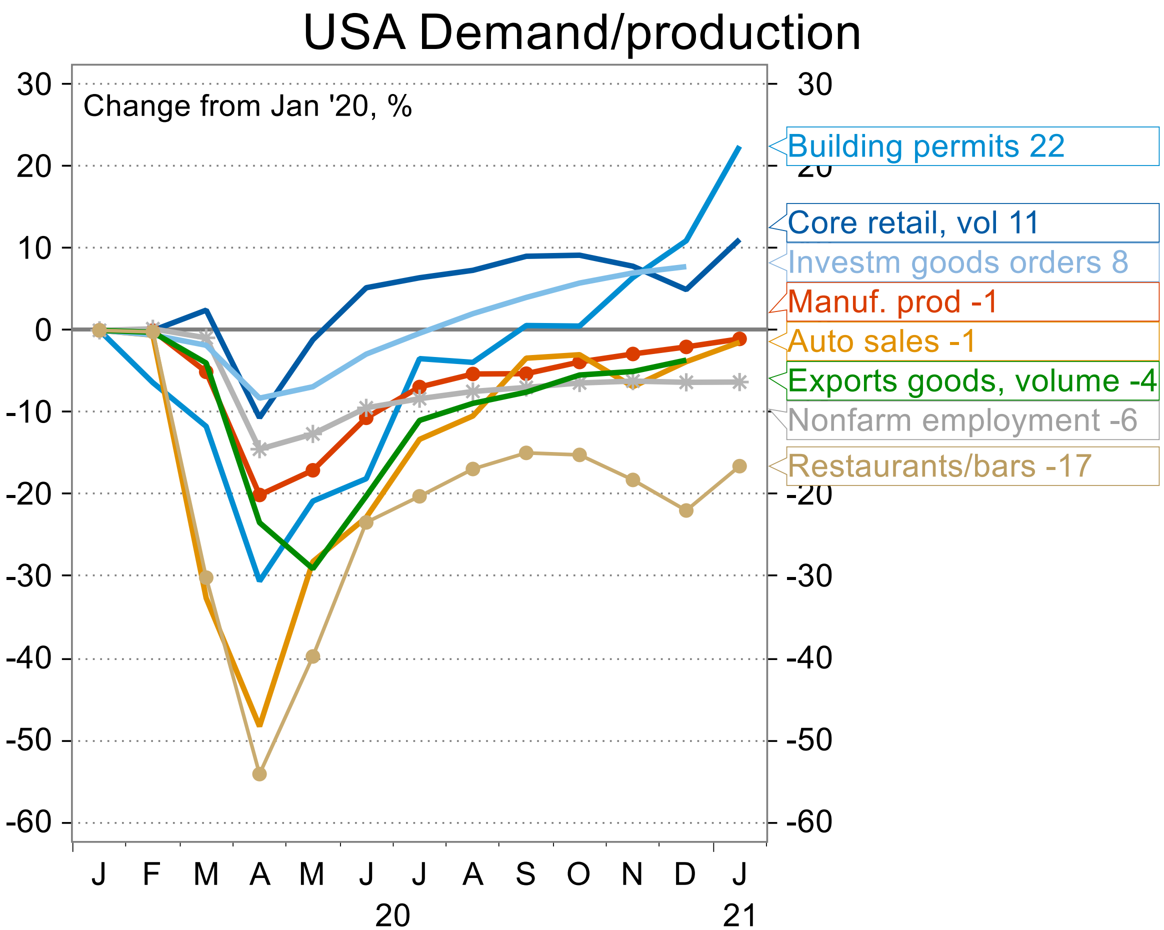




- Barring the Feb-Jun 20 months, activity, delivery times & prices have been moving in tandem. Demand was pulling prices up
- Last year, supply chains struggled to cope with the corona outbreak, and delivery times soared, but prices as not pulled up, demand was weak.
- Until 3 months ago, a 'normal recovery', higher activity (demand) was followed by normal increase in delivery times & prices
- Now, delivery times & prices are rising faster without faster growth (the PMIs have stabilised), suggesting some specific (albeit broad) supply chain challenges (like in semi conductors, container freight) or that many costs pushed up by higher oil prices
- Such bottleneck challenges/cost push factors are normally not long lasting, and do not signal permanent higher inflation
- Still, demand has strengthened too, explaining a substantial part of the price increases

The recovery full speed ahead in Q1

The 2nd /3rd coronavirus wave has slowed parts of the US economy but others are booming!



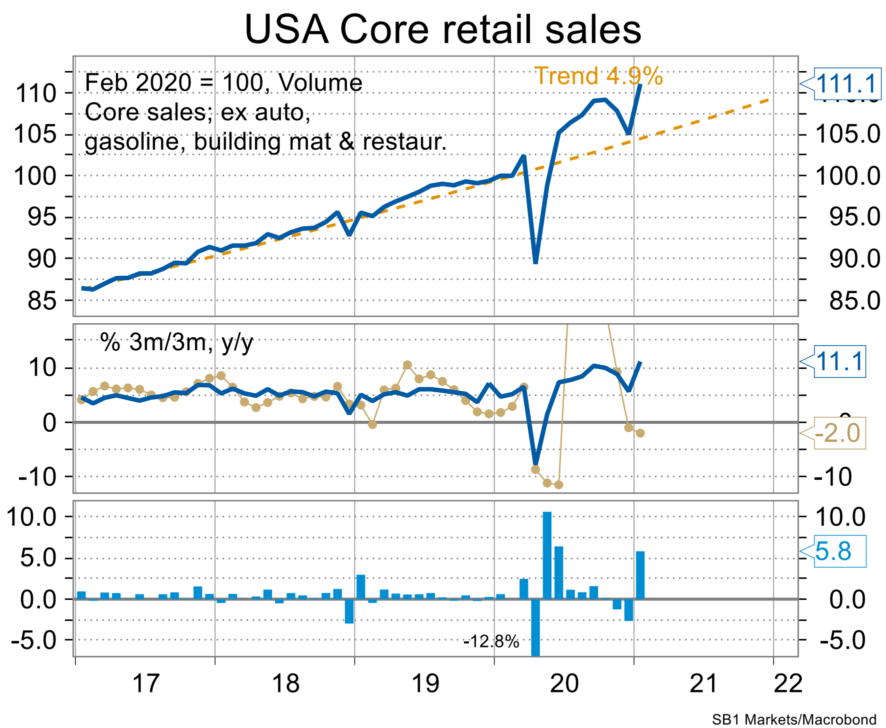
SB1 Markets/Macrobond

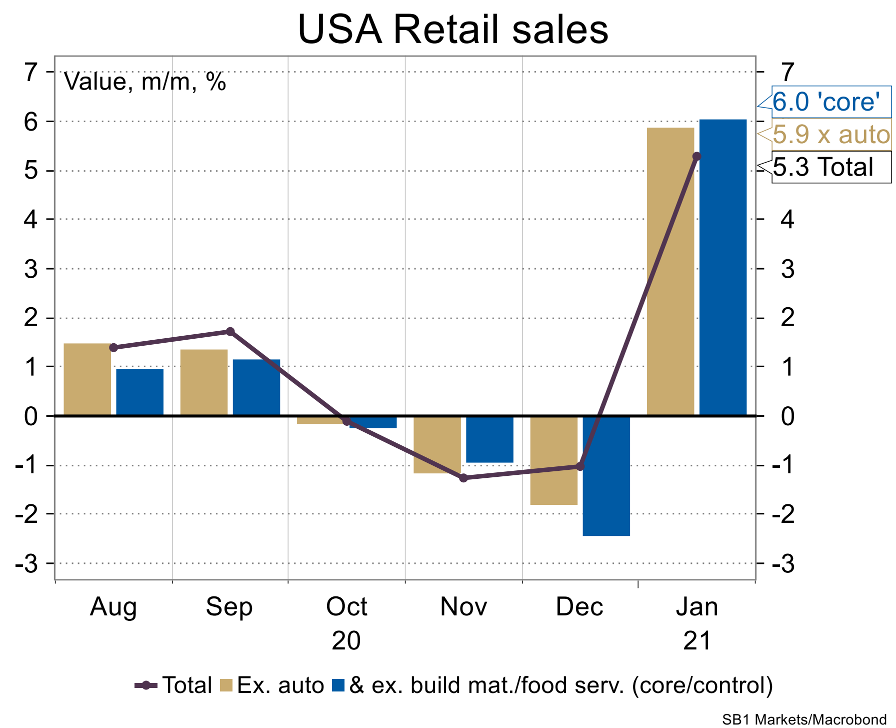
- **Retail sales** (goods) fell in both Nov & Dec but surged almost 6% in January, expected up 1%... – and sales are up 11% vs. last January
- **Building permits are soaring, 10% up in January, up 22% vs. last Jan**
- **Investment orders** ex aircrafts/defence are up 8% vs last Jan, and flat including aircrafts
- **Exports** remain below par but is still on the way up, now just 4% below Jan last yr
- **Restaurant sales** are down 27% (in value terms). Airline traffic is down even more
- **Employment** has flattened, and is still 6% below Jan 2020 level. The weakness is mostly due to a sharp contraction in employment in the hotel/restaurant sector but not a growth story elsewhere
- **Nowcasters** are now signalling 8 – 10% growth (annualised) in Q1 – or up 2%-2.5%. If so, GDP is almost back to the Q4 '19 level – still, of course, below the pre-corona growth path

SpareBank 1 MARKETS

Retail sales up 5%+ in Jan, 5x more than exp. Some stimulus checks were spent!

We thought the f'cast was far too low but did not expect anything like this. Still, 80% of checks saved



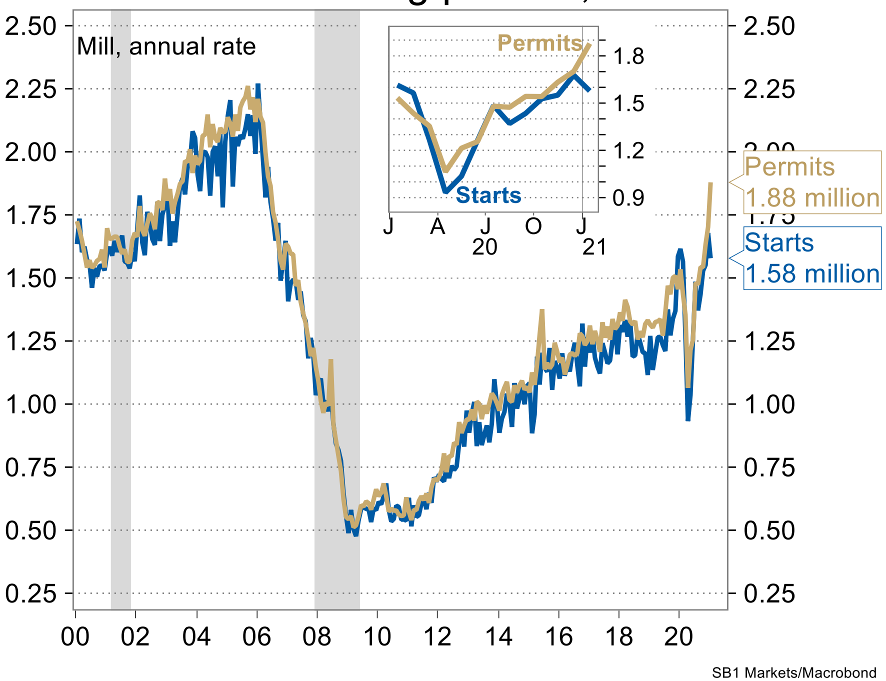


- **Total nominal sales** rose by 5.3%, expected 1% (No help from all big data – or are the economists just not in touch?
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) jumped 6%. A minor downward revision of Dec is irrelevant. Core sales of goods are up 11% y/y. Unprecedented
- Check details next page, sales rose everywhere but still huge discrepancies between sectors – restaurant (incl, in the total) is still down 16%
- No doubt, some of the USD 600 per person checks (given annual income below 75') that were sent out early January were spent! That's not surprising, given media reports but it was not factored into analysts' estimates, which perhaps was the real surprise
  - » Households received some USD 139 bn in stimulus checks, equalling 0.8% of annual disposable income. Retail sales rose by almost USD 30 bn, or some 25 bn more than normal. Thus less than 20% of the checks were spent – and the rest saved ☺. The next check, from Biden, could be at USD 1,400

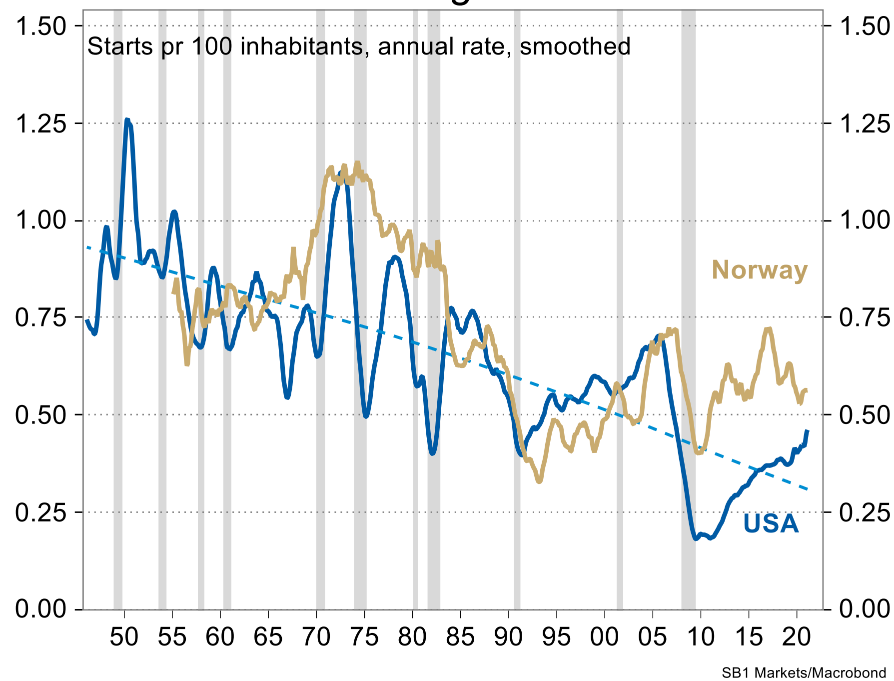
Housing building permits the highest in ~~13~~ 15 years in ~~Oct Nov Dec~~ January

Permits up 10% to 1.88 mill in Jan, far better than expected. Starts down, but will very likely climb

USA Housing permits, starts



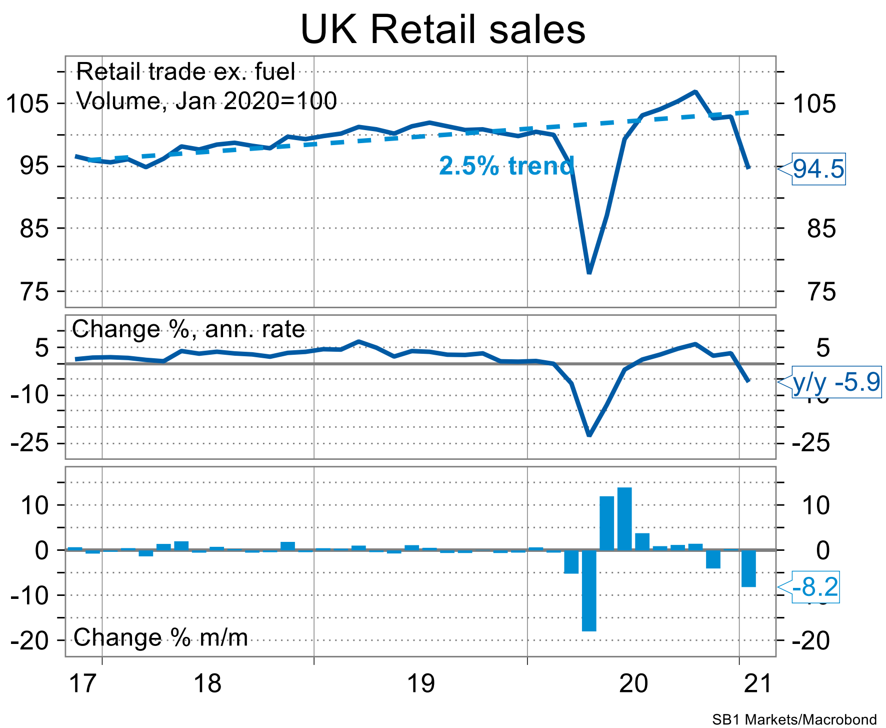
Housing starts

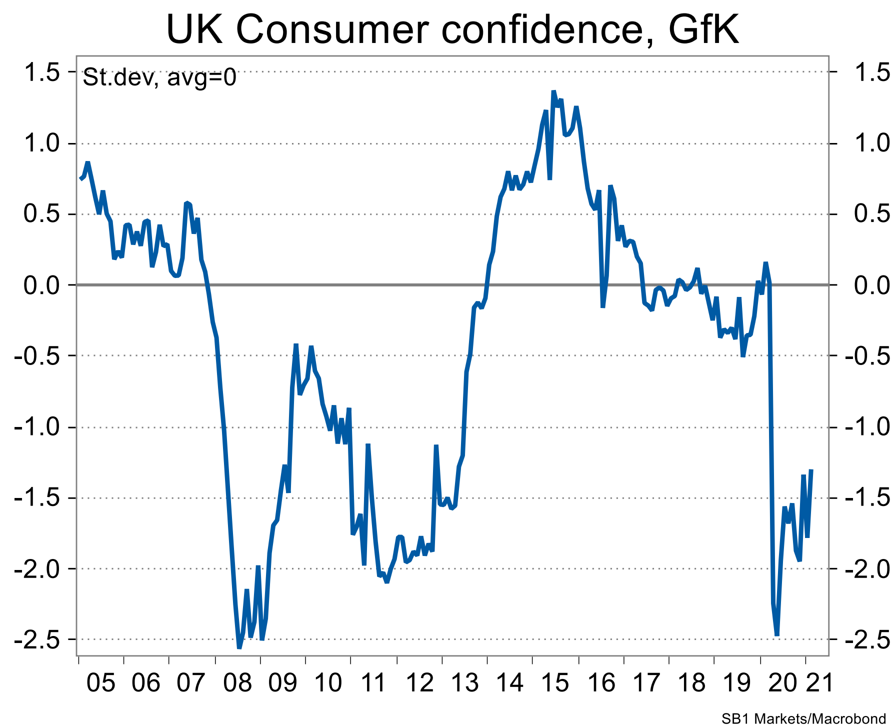


- Both permits and starts were expected slightly down. However, permits shot up another 10% (to 1.88 mill, expected 1.67 mill), and are up 60% from April – and 25% above the rather high pre-pandemic level – and the highest since 2006 (but still below the late <u>2005</u> peak)
  - » Starts fell 6% to 1.58 mill, expected down to 1.66 mill, still a high level, and <u>more than 20% above the 2019 average! Permits signal more starts</u>
- Housing starts are not at high level per capita vs. history. However, like in all other rich countries, as the 'country is built', at least in many cities, and population growth is slowing. <u>Housing starts have been trending downwards in most countries over several decades</u>
  - » However, not in Norway the past 30 years. Because we love our homes (and our low interest rates, vs our income expectations)

There it was: Retail sales down 8.2% in Jan, expected -2%. *So much for big data*

… or economists, you could add – nobody saw anything?? Still, less than ½ as bad as last spring ☺

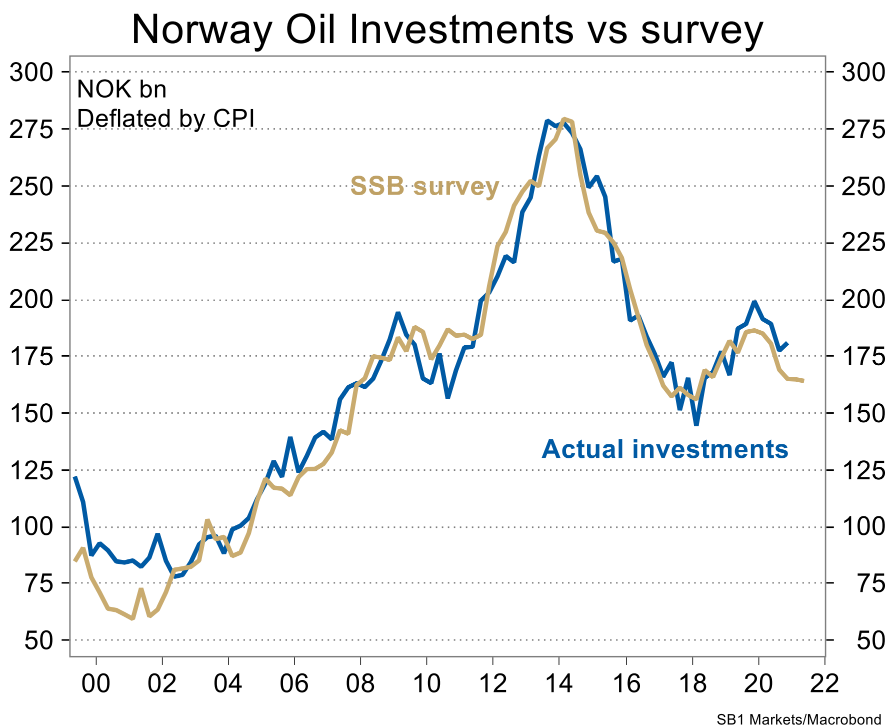


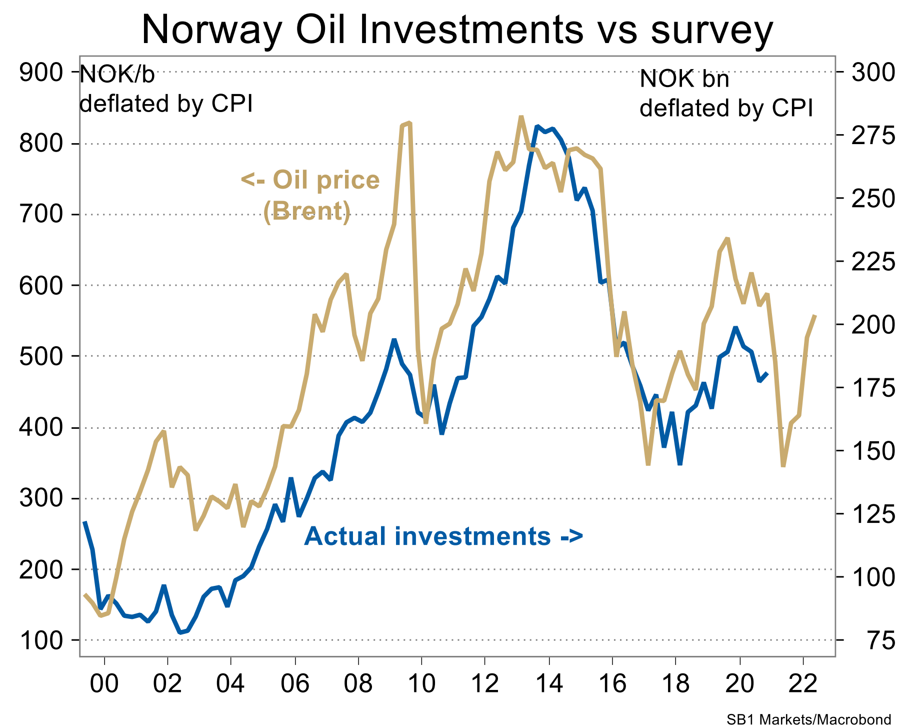


- **The lockdown**, which included much of the retail trade business, made a dent in sales - and much more than expected.
- **Retail sales** were 5.5% below the pre-pandemic level, after being well above since July, at the peak 7% above
- The roll-out of vaccines is very successful and restrictions will be eased, also vs. retail trade
- **Consumer confidence** rose in February, following the setback in Jan. The level is still far below normal – but it is trending rapidly upwards. Leaves some hope for stronger sales data next months
- (Just to remind you, we have some tricky retail sales data ahead us in Norway too, at least in February, but nothing like a 8% drop)

Oil investments: A mild downturn - tax cuts & the oil price saved the day?

SSB's investment survey signals a further but moderate decline in oil sector investments

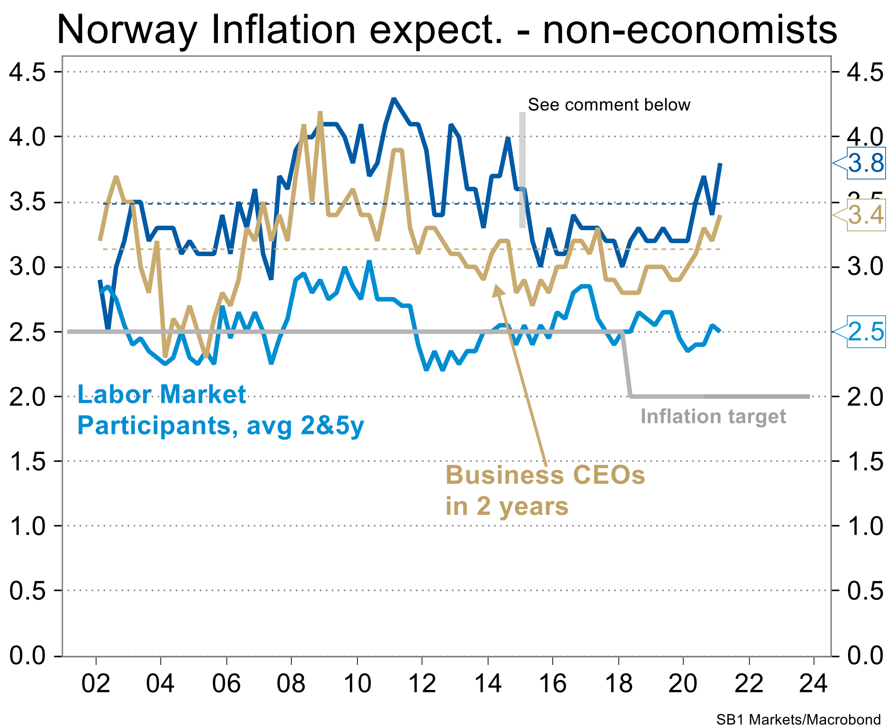




- Oil companies revised their **2021 investment forecast** up by 4% to NOK 174 bn (we exp. 173), still signalling a 6% decline vs. 2020. We expect some more upward revisions, but keep our 6% volume decline estimate – which is equal to Norges Bank's and SSB's Dec forecasts. An increase in investments in exploration and concept studies is not to counterweight a much larger decline in investments in new fields
  - In 2020 , investments fell by 5% in volume terms - but 14% to Q4 20 from Q4 19, which was well felt by the Norwegian supply industry
- **The first 2022 estimate** is down 9% vs. the equivalent 2021 estimate, at NOK 137'. Several investment projects will be added to the list (a PDO delivered) during next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. Still, we expect 2022 investments to decline by 5% (volume terms)
- A 5% decline in oil investments subtracts less than 0.2 pp from Mainland GDP growth. The current 15% decline (2019 -2022), is far milder than the previous 30% setback (2013 – 2017). Measured vs. the Mainland GDP, the current downturn decline is less than 1/3rd of the previous

Inflation expectations: What are the others expecting? (Answ: Households 3.8%)

We assume that business leaders' & households' expectations are more important than economists'



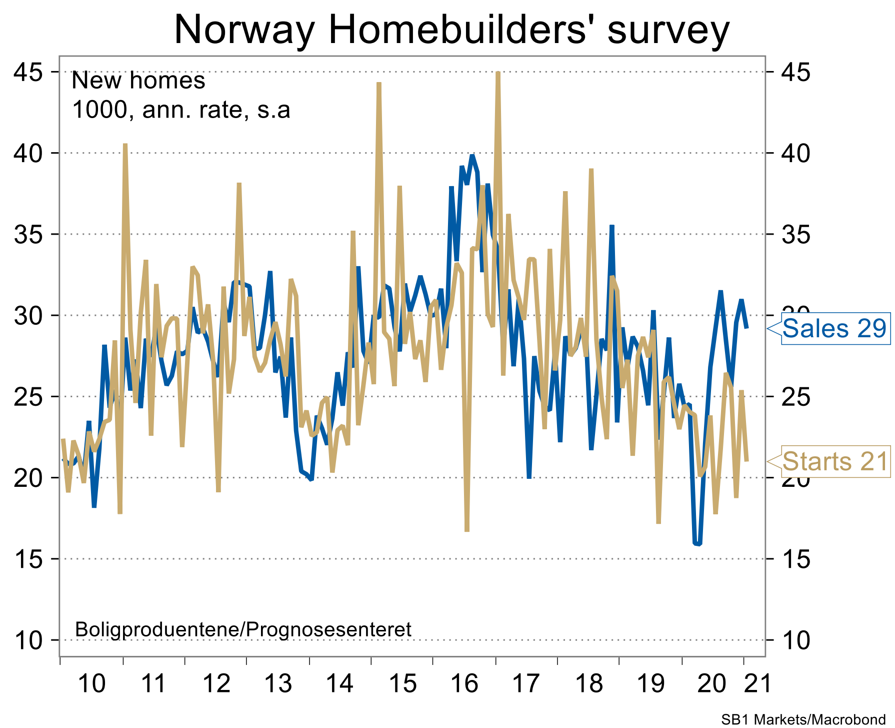
Business leaders & households expectations are rising sharply to well above normal (very high) levels

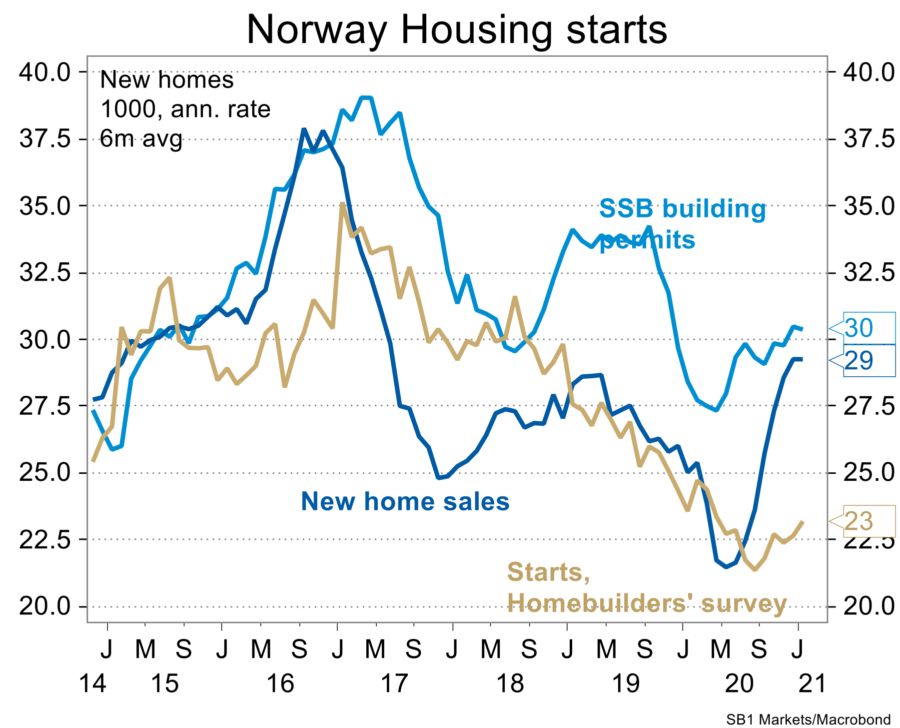
- **Labour market participants** (leaders in trade unions & employees' assoc.) are probably listening to their economists, and they expect a 2.5% longer term rate of inflation, in line with their average expectations (2.6%) -– but unaffected by the 50 bps cut in the inflation target in 2018
- **Business leaders** are expecting a 3.4% inflation rate in 2 years time – up 0.5 pp over the past year, and higher than their average expectation (3.1%)
- **Households** have always expected incredible high inflation going forward (even after an adjustment of data prior to Q1 '15, due to a clarification of 'inflation', see below) – on average 3.5%. Now, **they expect 3.8% in** 2 to 3 years time, up 0.5 pp over the past year, just as among the business leaders.
  - » Should we just ignore these 'silly' expectations, or should we reflect on them?
  - » We should at least put some emphasis on the significant rise in inflation expectations – to above average levels
  - » Perhaps could we even explain demand for credit from households by the 2 pp difference between lending rates and expected inflation?

The questions regarding expected inflation in 2 or 2 – 3 years time for business leaders and households were slightly altered in Q1 2015 survey. Since then, they have been asked about the expected rate of annual inflation in 2/2-3 year time, not just 'inflation' which could have an unambiguous interpretation. Household revised their expectations down by 0.6 pp in the Q1 '15 vs the Q4 '14 survey due to this clarification. Business CEO's revised their expectations a tad upwards. Since there were no other major change in actual inflation or inflation expectations among other groups during these months, we have just revised households' expectations down by 0.6 pp pre Q4 '14.

Homebuilders are selling more new homes, have to build MUCH more

Sales at 29’ in Jan. Starts down to 22’, will surely recover sharply. SSB reports >30’ starts

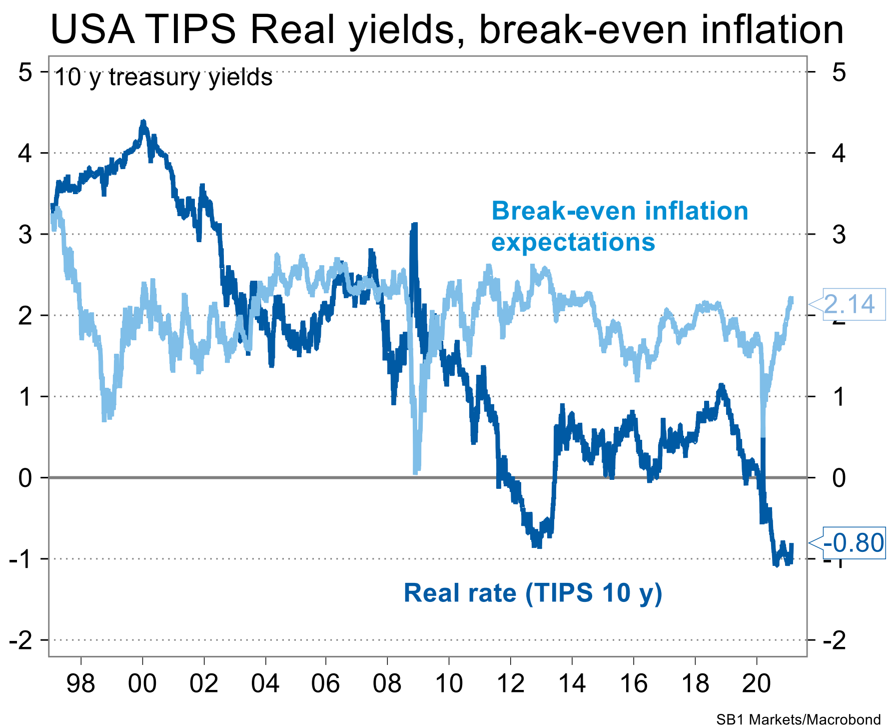


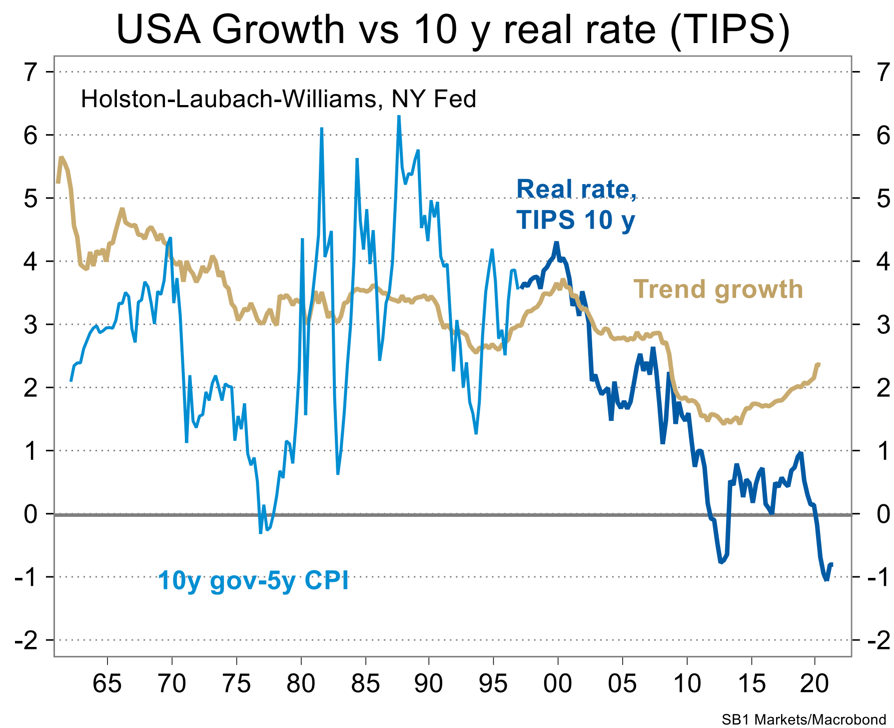


- Homebuilders: New home sales down 2’ to 29’ in Jan. Sales have stabilised around 30’ recent months
  - » Starts fell 5’ to just 21’. As more homes are sold, we assume they will have to be build?
- SSB: Sales fell slightly in Jan, but have stabilised at above 30’ recent months
- We assume the strong existing home market will support new home sales & starts the coming months
- Housing investments (in National accounts) will continue to rise, at least through H2, as it did through last year

Record low real rates – and decent growth expectations!

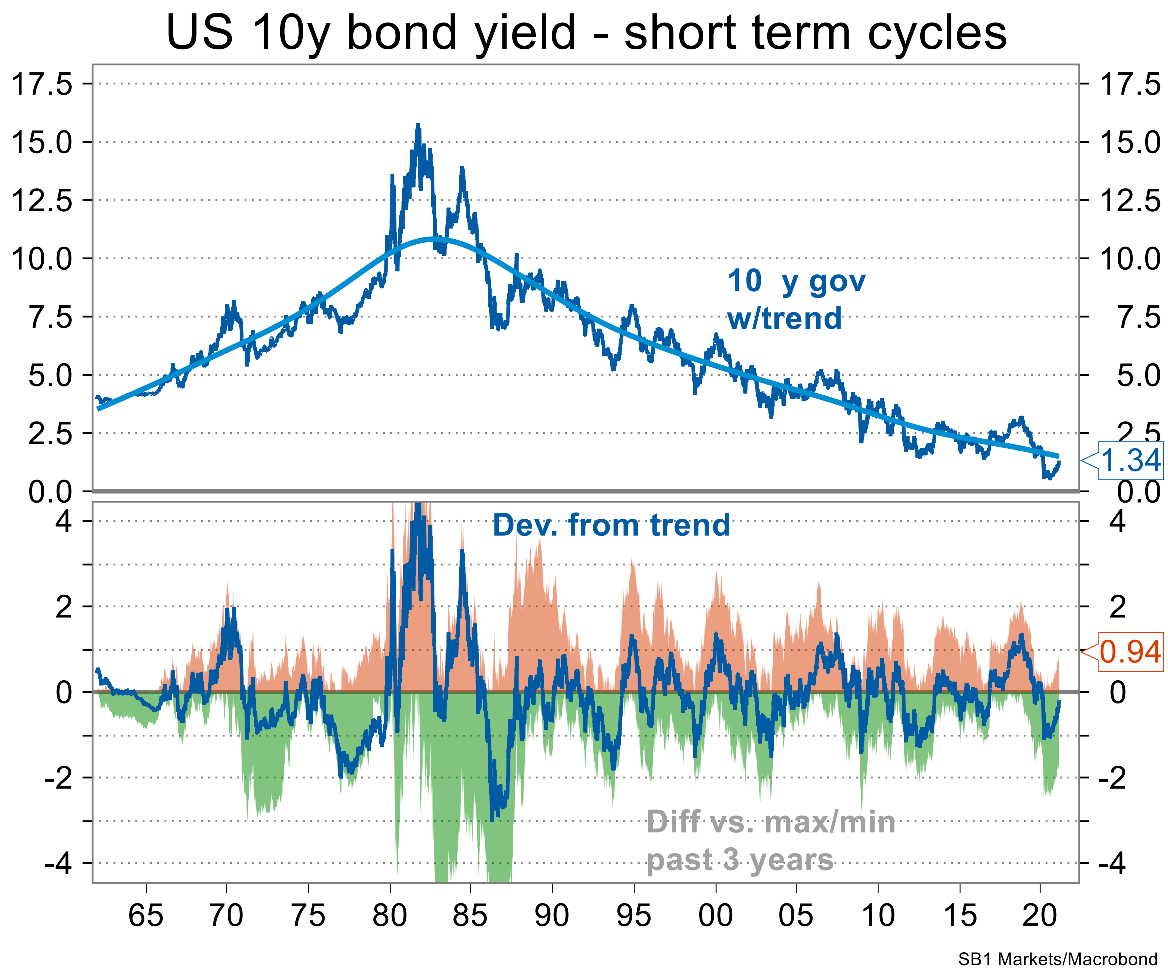
Optimal for risk markets! Real rates rose sharply last week but is still very low. *For how long?*





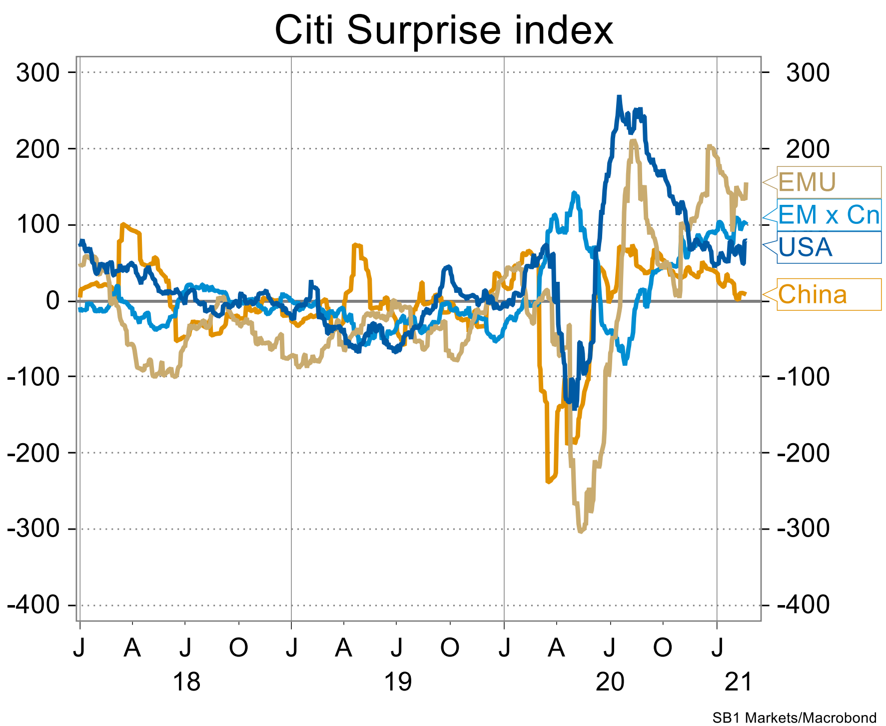
Some ‘smaller’ bond yield cycles: -200 bps/+200 bps vs recent peaks/troughs

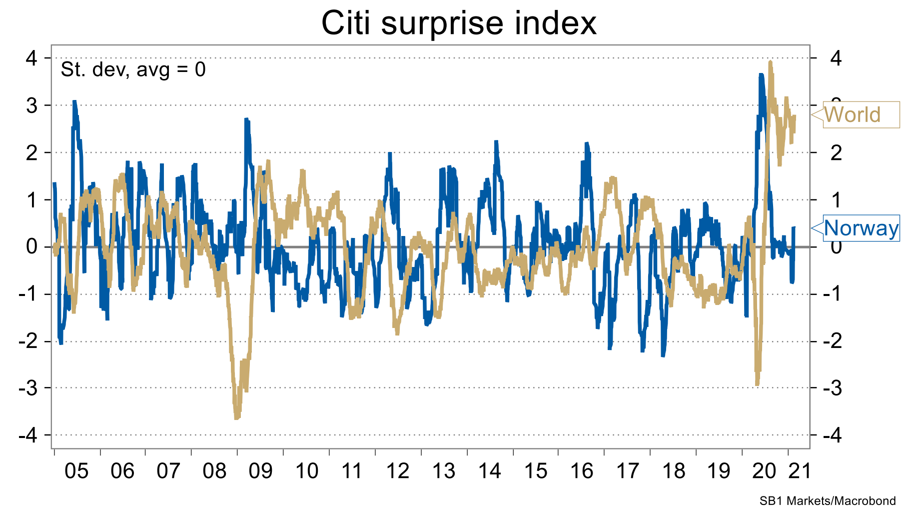
We may soon half-way through a ‘normal’ correction – but there is more than 100 bps more to go ☺

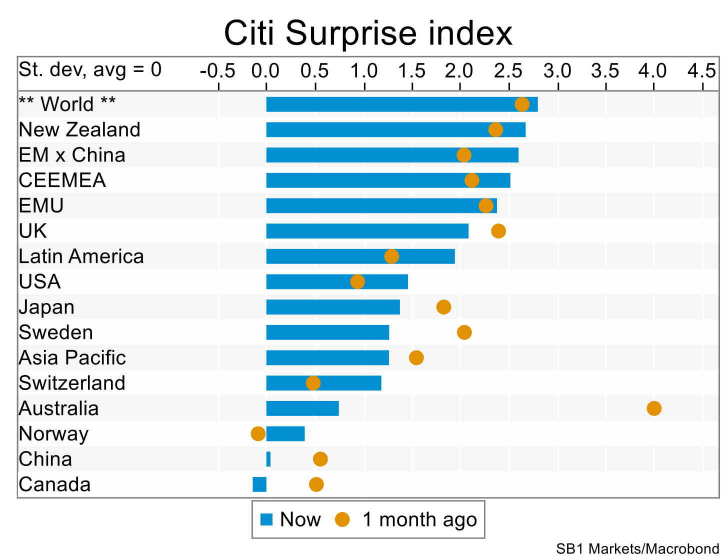


SpareBank 1 MARKETS

Surprises are still on the upside, now even in Norway (and everywhere)







- **All major countries/regions** are reporting data above expectations, for the first time ever
- The **Euro Zone** is still far up on the list, even if the economy has slowed. Expectations have been adjusted
- The **US** is still well into positive territory – and the hike in retail sales, manufacturing lifted the index
- **China** has moderated lately, has fallen down to an average level – at the bottom of the list
- **Other EMs** are well above their average level, and are on the way up
- **Besides China, Norway, US (!)** at the bottom

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

The Calendar

Look out for Norwegian credit growth and unemployment data, US durable orders, and Chinese PMIs

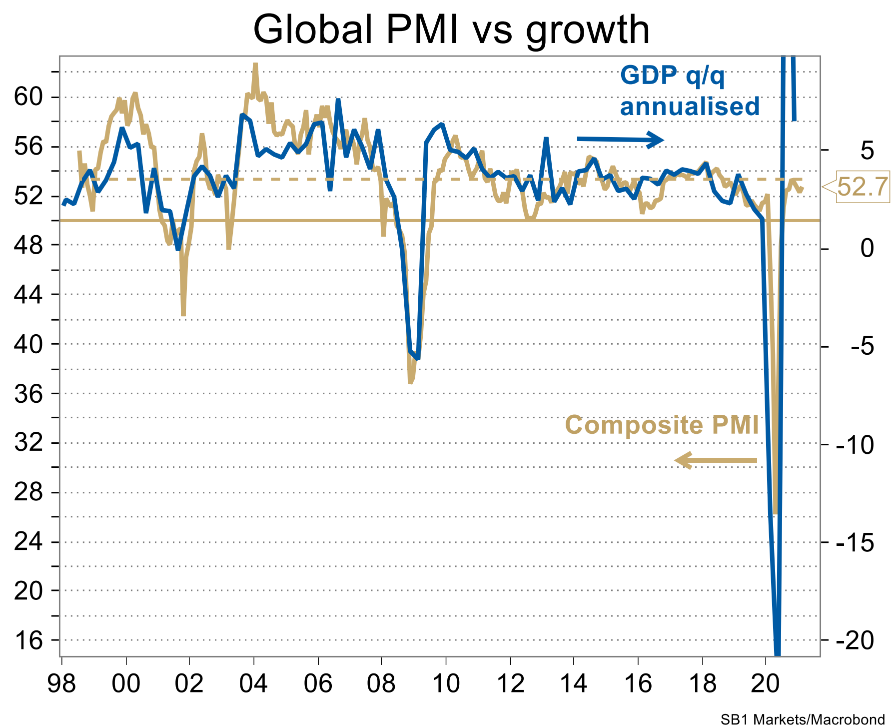
Time	Count.	Indicator	Period	Forecast	Prior
Monday Feb 22					
10:00	GE	IFO Expectations	Feb	91.6	91.1
14:30	US	Chicago Fed Nat Activity Index	Jan		0.52
16:00	US	Leading Index	Jan	0.3%	0.3%
Tuesday Feb 23					
02:30	CH	New Home Prices MoM	Q4		0.1%
08:00	NO	Population growth			
08:00	UK	Claimant Count Rate	Jan		7.4%
08:00	UK	ILO Unemployment Rate	Dec	5.2%	5.0%
09:30	SW	Unemployment Rate, LFS	Jan		
11:00	EC	CPI Core YoY	Jan F	1.4%	1.4%
15:00	US	House prices Case Shiller YoY	Dec	9.9%	9.1%
16:00	US	Conf. Board Consumer Conf.	Feb	90.0	89.3
Wednesday Feb 24					
08:45	FR	Business Confidence	Feb		92
16:00	US	New Home Sales	Jan	865k	842k
Thursday Feb 25					
09:00	SW	Economic Tendency Survey	Feb	--	100
11:00	EC	Economic Confidence	Feb	92	91.5
14:30	**US**	**Durable Goods Orders**	**Jan P**	**1.4%**	**0.5%**
14:30	US	Cap Goods Orders Nondef Ex Air	Jan P	0.6%	0.7%
14:30	US	Initial Jobless Claims	Feb-20		862k
14:30	US	GDP Annualized QoQ	4Q S	4.3%	4.0%
16:00	US	Pending Home Sales MoM	Jan		-0.3%
Friday Feb 26					
00:50	JN	Industrial Production MoM	Jan P	3.9%	-1.0%
00:50	JN	Retail Sales MoM	Jan	-1.30%	-0.8%
08:00	**NO**	**Credit Indicator Growth YoY**	**Jan**	**(4.9%)**	**4.8%**
08:45	FR	Consumer Spending MoM	Jan	-3.40%	23.00%
08:45	FR	GDP QoQ	4Q F	-1.3%	-1.3%
09:30	SW	GDP QoQ	4Q F	0.5%	0.5%
09:30	SW	Retail Sales MoM	Jan		-4.9%
10:00	**NO**	**Unemployment Rate, NAV**	**Feb**	**(4.4%**	**4.4%**
10:00	**NO**	**Total unemploymet , NAV SA**		**(129.8k)**	**128.1k**
14:30	US	Advance Goods Trade Balance	Jan	-$83.0b	-$82.5b
14:30	US	Personal Income	Jan	10.0%	0.6%
14:30	US	Personal Spending	Jan	2.1%	-0.2%
14:30	US	PCE Core Deflator YoY	Jan	1.4%	1.5%
15:45	US	Chicago PMI	Feb	61.0	63.8
16:00	US	U. of Mich. Sentiment	Feb F	76.4	76.2
Monday Feb 29					
08:00	**CH**	**PMI Manufacturing, NSB**	**Feb**		**51.3**
08:00	CH	PMI Composite	Feb		52.8

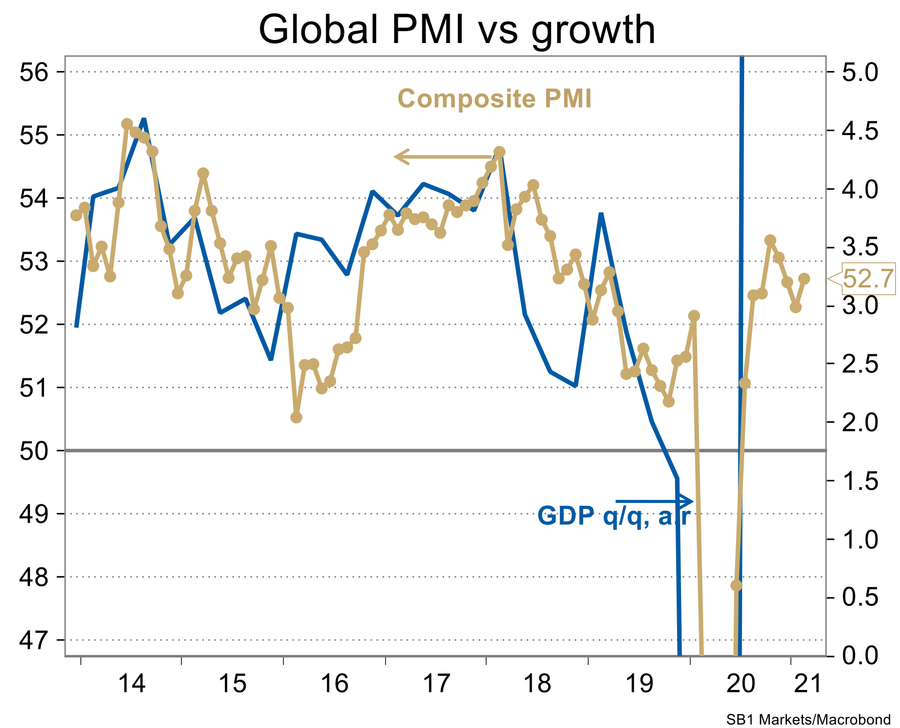
- **China**
  - » The **'official' Chinese PMI** fell less than Markit's survey in Jan but both manufacturing and even more services reported slower growth (but not slow, still at trend!). Reduced mobility in the Lunar New Year holidays will probably move demand to goods from services, and services may report a slowdown – which most likely will be temporary. **House price inflation** has been slowly increasing (existing homes) as credit policy has been expansionary – and new policy as been tightened somewhat
- **USA**
  - » **Durable orders** have been remarkably strong, and capital goods orders (x aircrafts, defence) rose last year! **Personal spending** likely rose sharply in January as some of the USD 600 per person stimulus checks were spent. **Income rose** far more, and for the same reason
- **EMU**
  - » **More surveys** will confirm that the manufacturing is booming, and that some services are struggling, due to the various measures to contain the corona virus
- **Norway**
  - » **NAV unemployment** probably rose marginally February, seasonally adjusted. The total increase during '2nd wave', from early November is not more than 5' persons, and not by 300' persons like last spring.
  - » **Credit growth** is slowly, but surely accelerating; we expect another tenth in January

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

The global composite PMI likely recovered in February, broadly

We <u>estimate</u> a 0.3 – 0.6 p lift in the comp. PMI to 52.7, signalling growth at trend

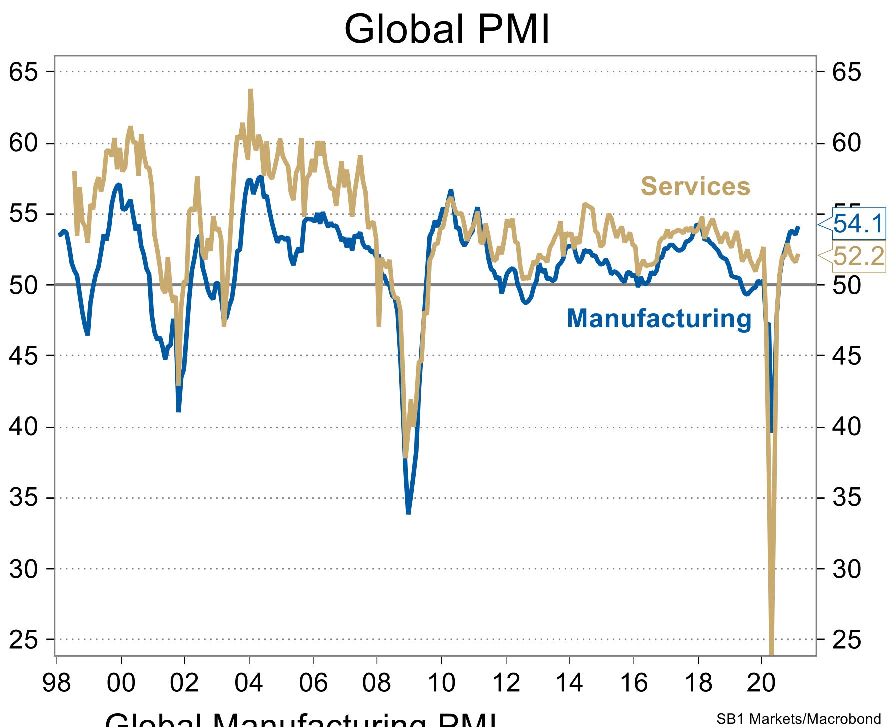


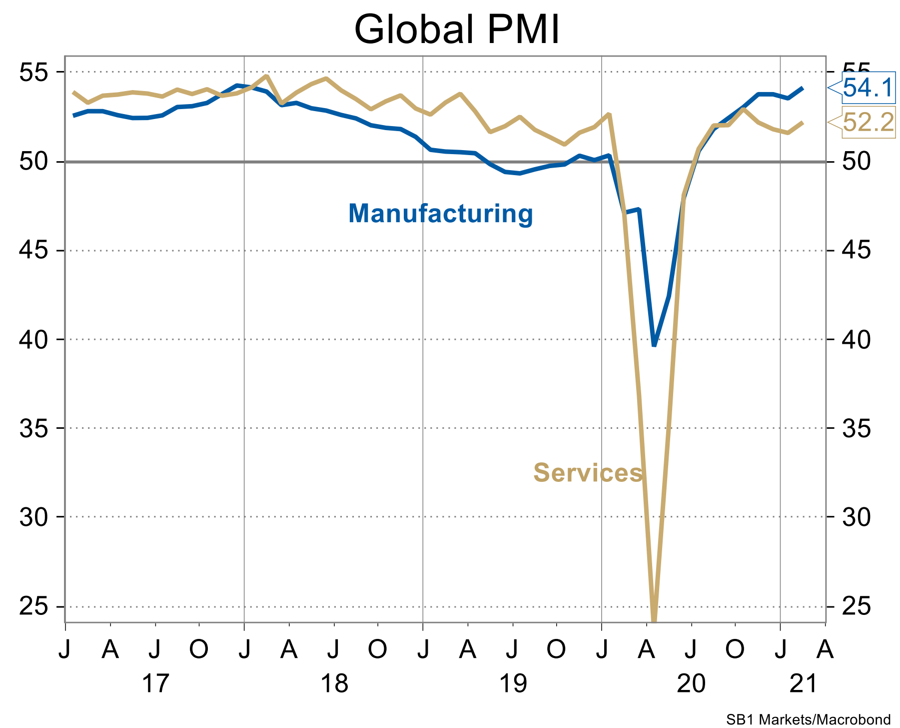


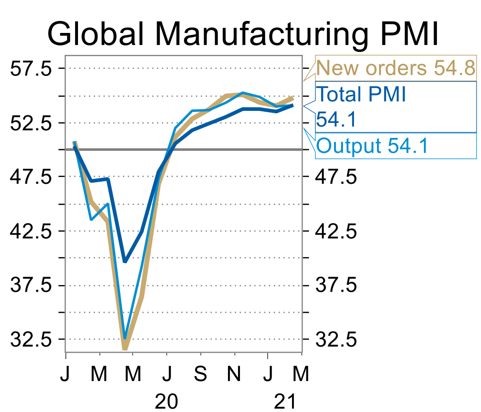
- The **preliminary PMIs** were better than expected, broadly on the manufacturing side, and without support from the Eurozone & Japan in services (but a huge lift in the UK).
  - » China does report preliminary data, and the final outcome is uncertain, in January the Chinese indices nosedived

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

Both manufacturing and services PMIs up in February







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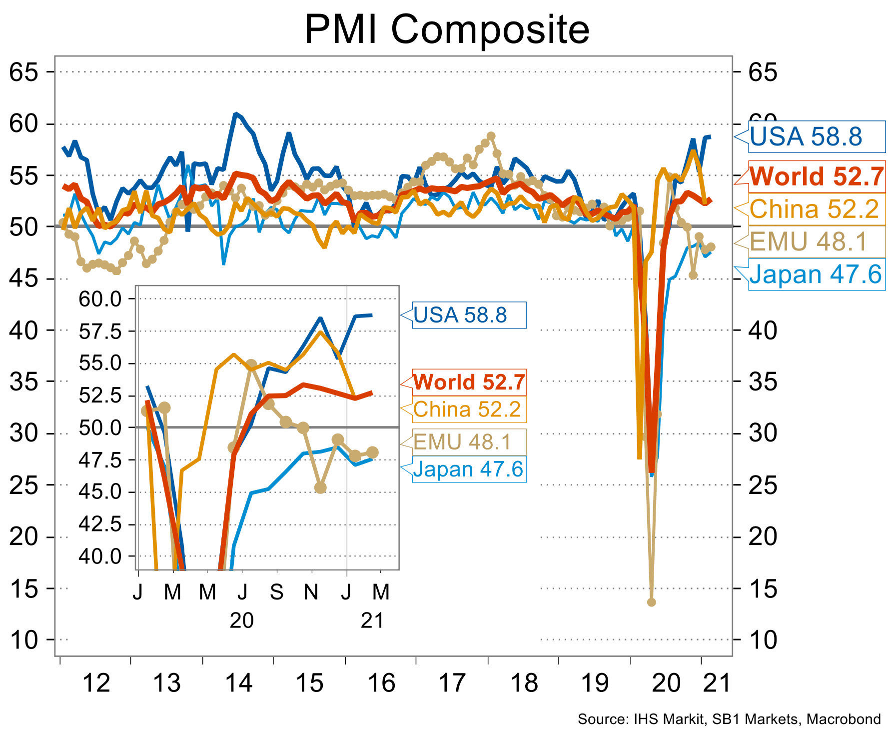
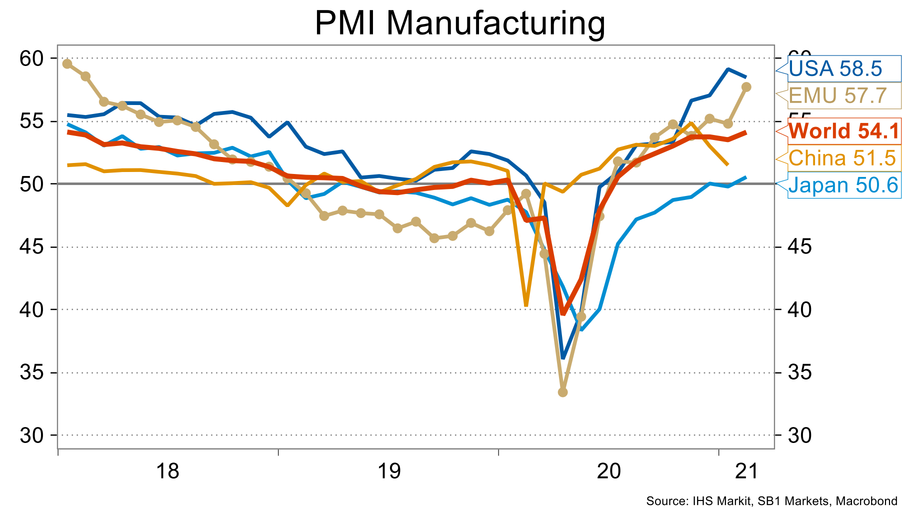
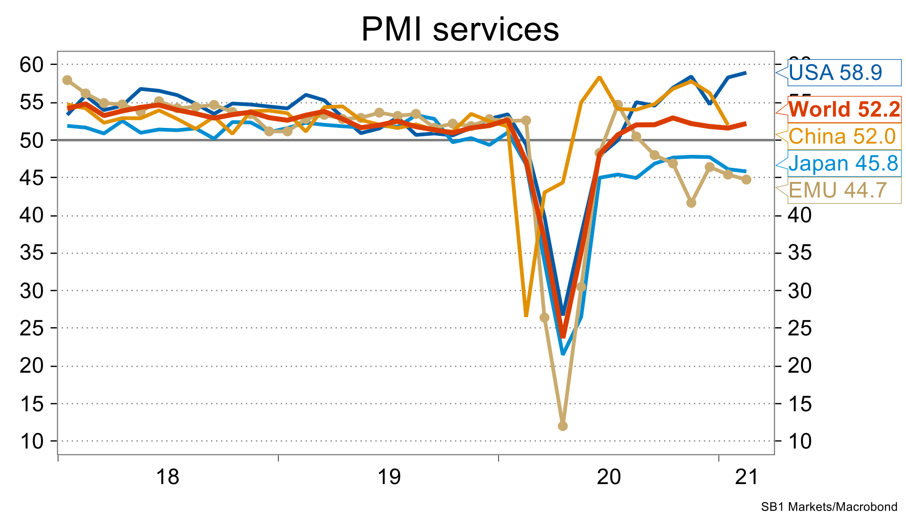
EMU manufacturing straight up, to a high level – US even stronger!

EMU services fell but the manufacturing is showing strength – and the composite rose



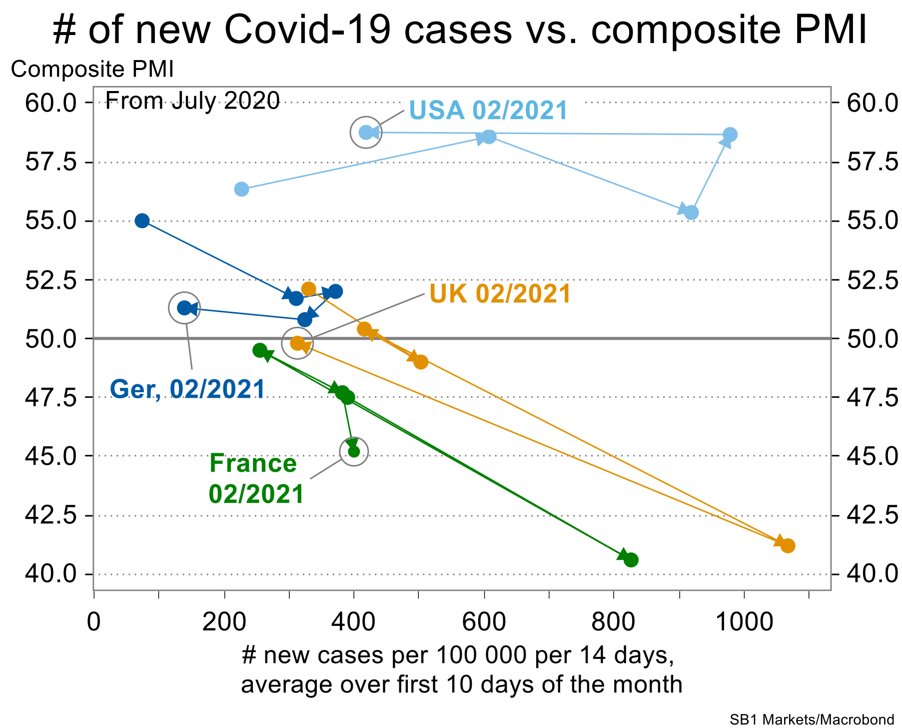




- In the EMU, the service sector PMI fell further due to a weak French print. The composite at 48.1 signal a 1% pace of decline in GDP (0.25 per quarter)
- The US PMIs are VERY strong
- The UK index recovered most of the large Jan decline

Cases down, PMIs up (except for France where cases rose)

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



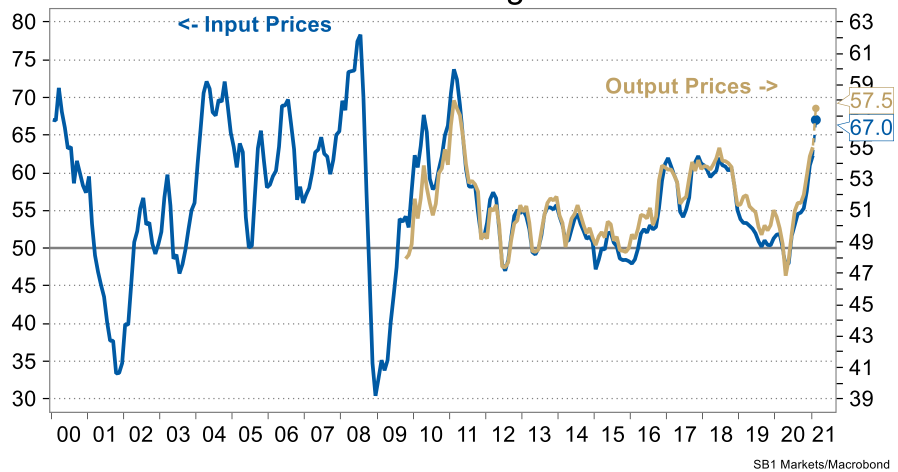
- … and now cases are falling rapidly
- In UK, the PMI rose sharply, back to 50, as the no of new cases collapsed through January and in to February

SpareBank 1 MARKETS

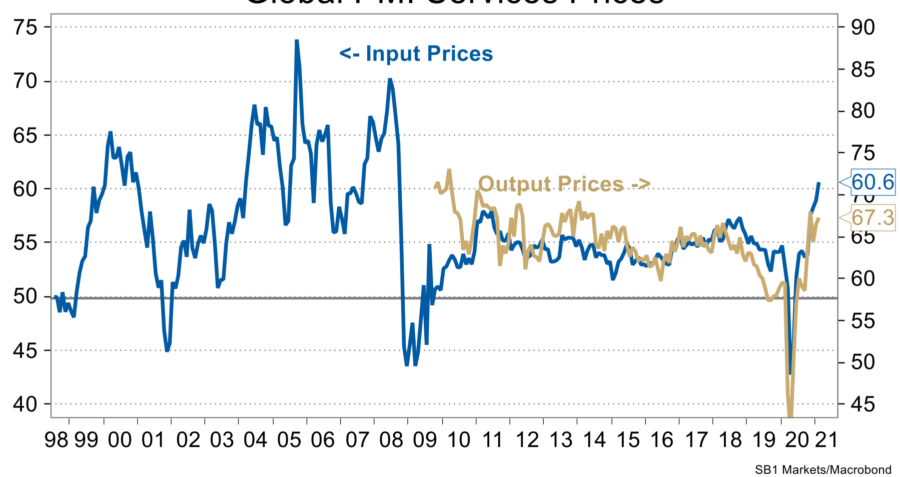
Businesses are reporting even faster growth in input/output prices

CPI inflation next? Without any doubt

Gobal Manufacturing PMI Prices

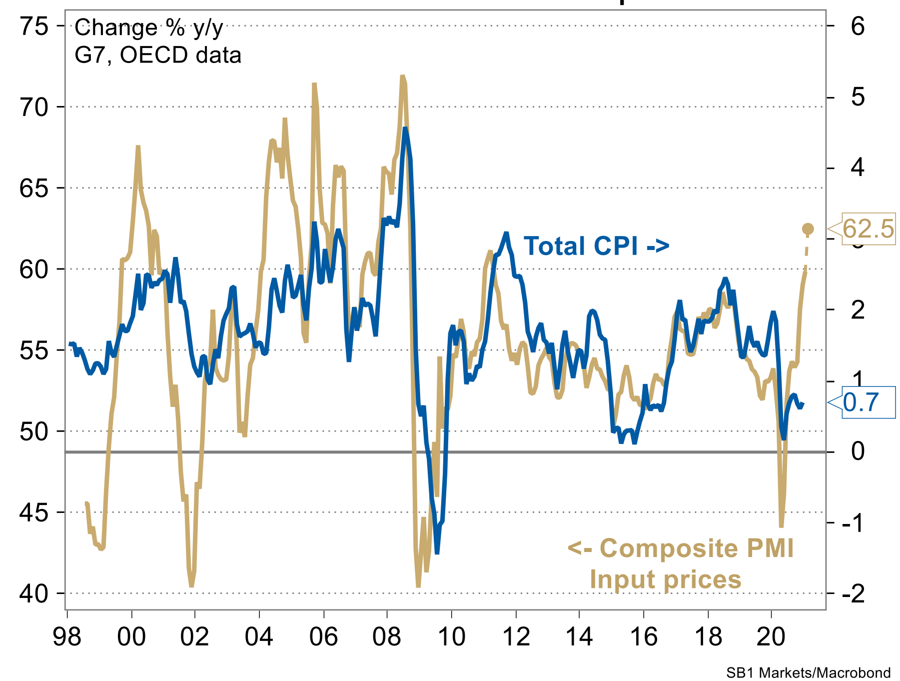


Global PMI Services Prices



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

OECD Inflation vs PMI prices



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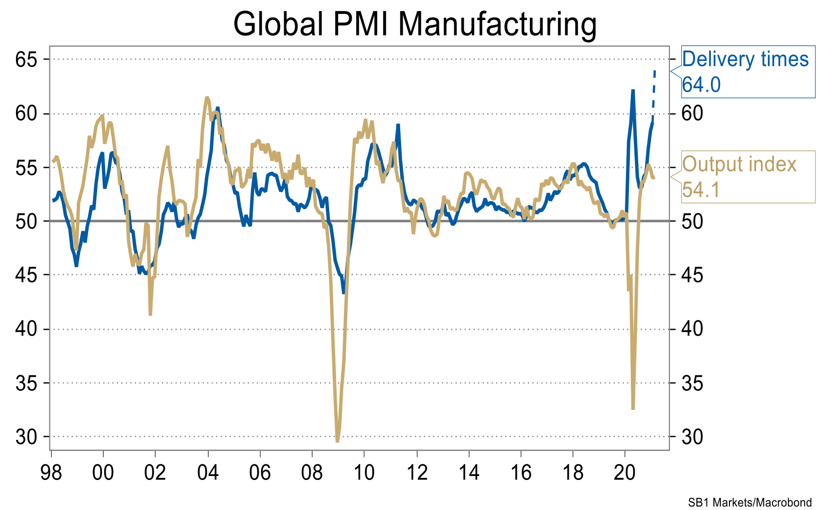
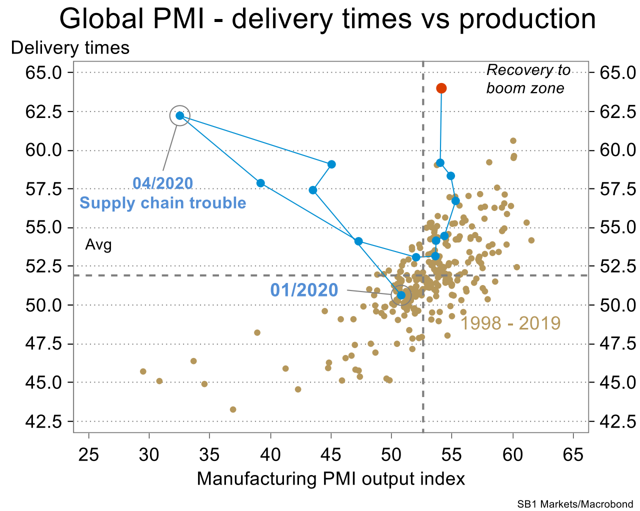
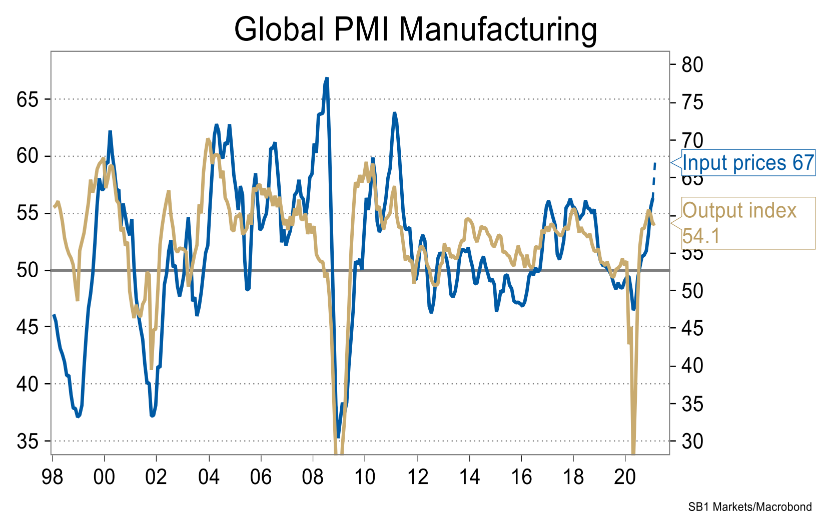
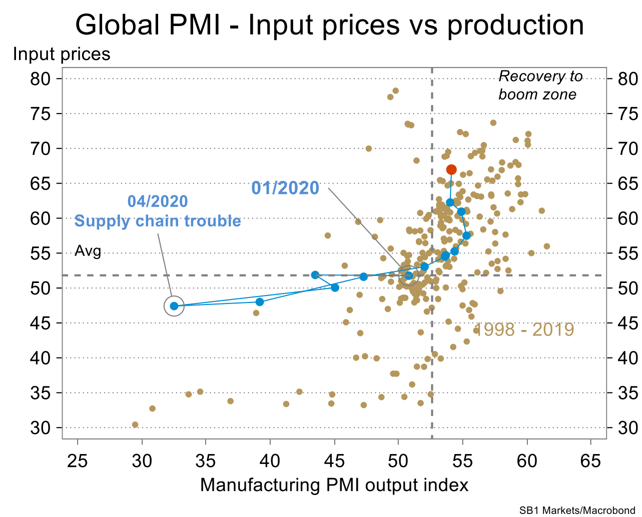
Prices & delivery times are soaring! Supply or demand?

Prices and delivery times are increasing faster than production growth usually explains









- Barring the Feb-Jun 20 months, activity, delivery times & prices have been moving in tandem. Demand was pulling prices up
- Last year, supply chains struggled to cope with the corona outbreak, and delivery times soared, but prices as not pulled up, demand was weak.
- Until 3 months ago, a 'normal recovery', higher activity (demand) was followed by normal increase in delivery times & prices
- Now, delivery times & prices are rising faster without faster growth (the PMIs have stabilised), suggesting some specific (albeit broad) supply chain challenges (like in semi conductors, container freight) or that many costs pushed up by higher oil prices
- Such bottleneck challenges/cost push factors are normally not long lasting, and do not signal permanent higher inflation
- Still, demand has strengthened too, explaining a substantial part of the price increases

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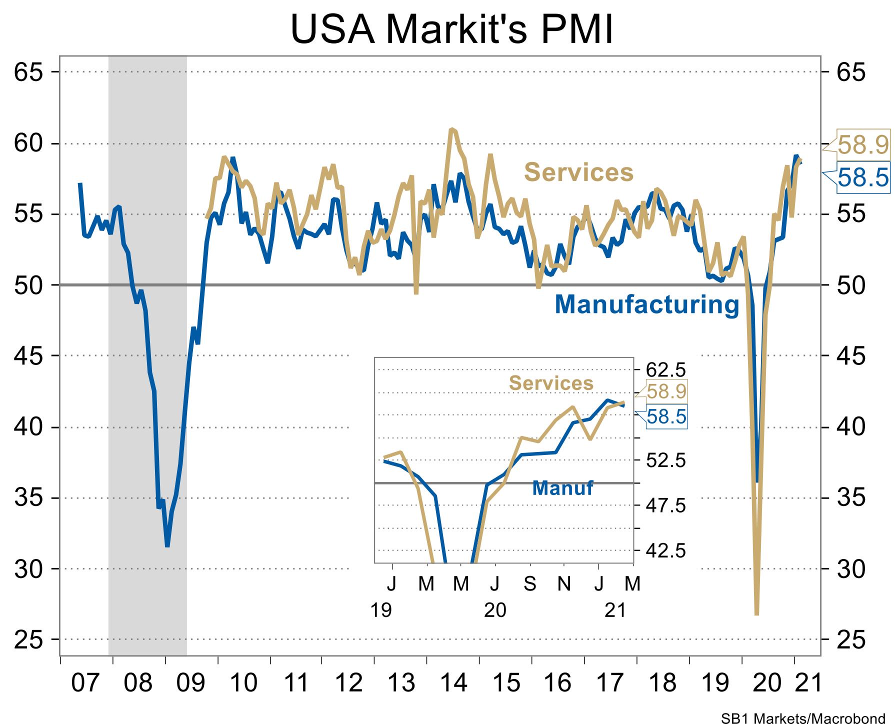
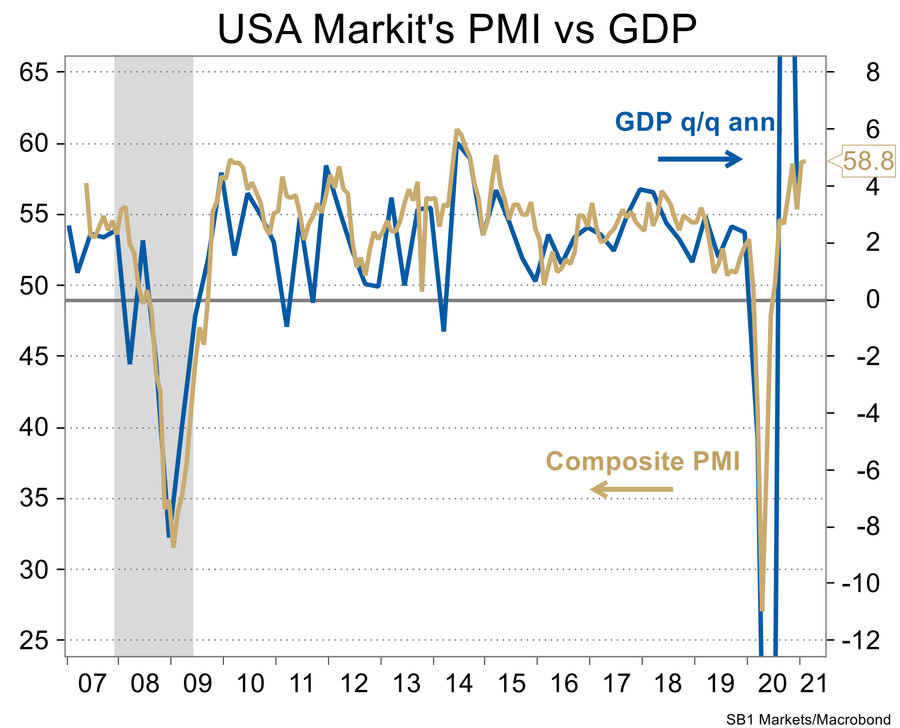
The PMIs signals 5% growth, both manufacturing & services very strong

Manuf. a touch down, services up, at 58.8/58.5, both slightly better than expected





- What the US needs now, is probably a USD 900 + 1,900 (4% +9% of GDP) fiscal stimulus package? Well…

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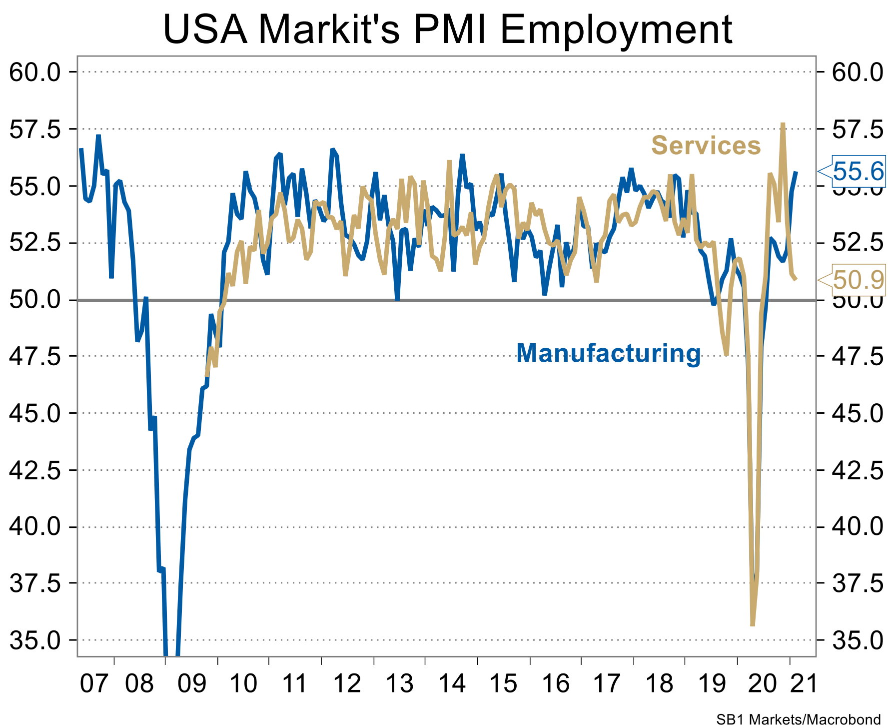
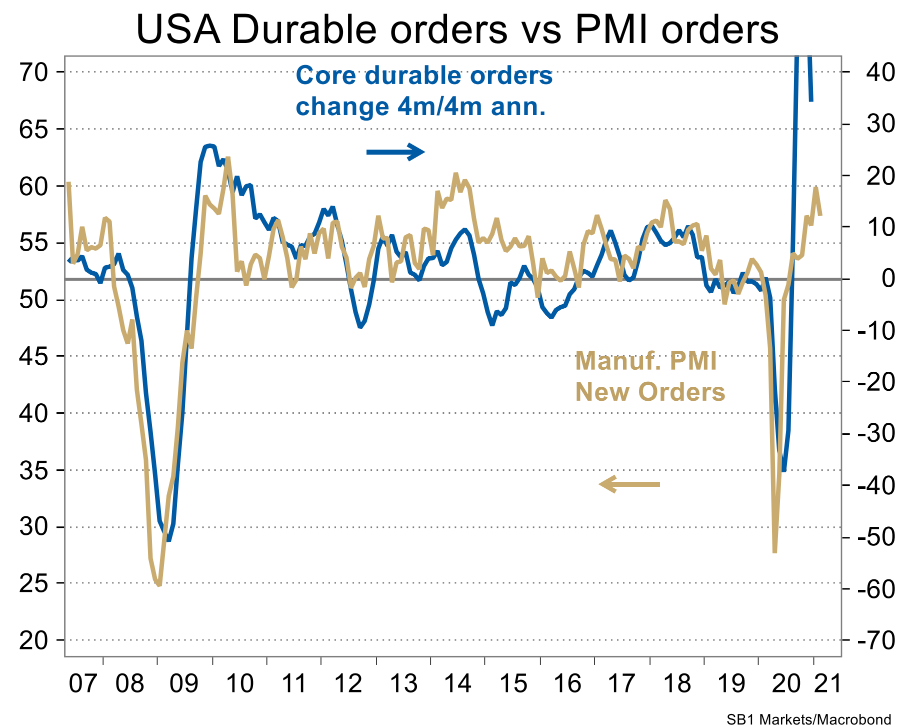
Weaker growth in employment signalled but no cut. Orders are VERY strong





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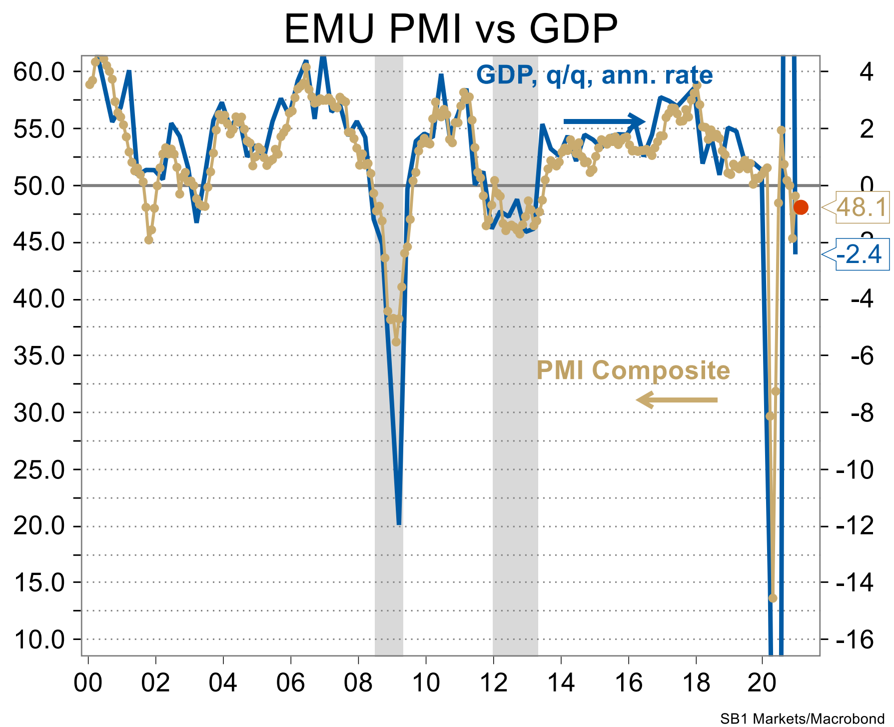
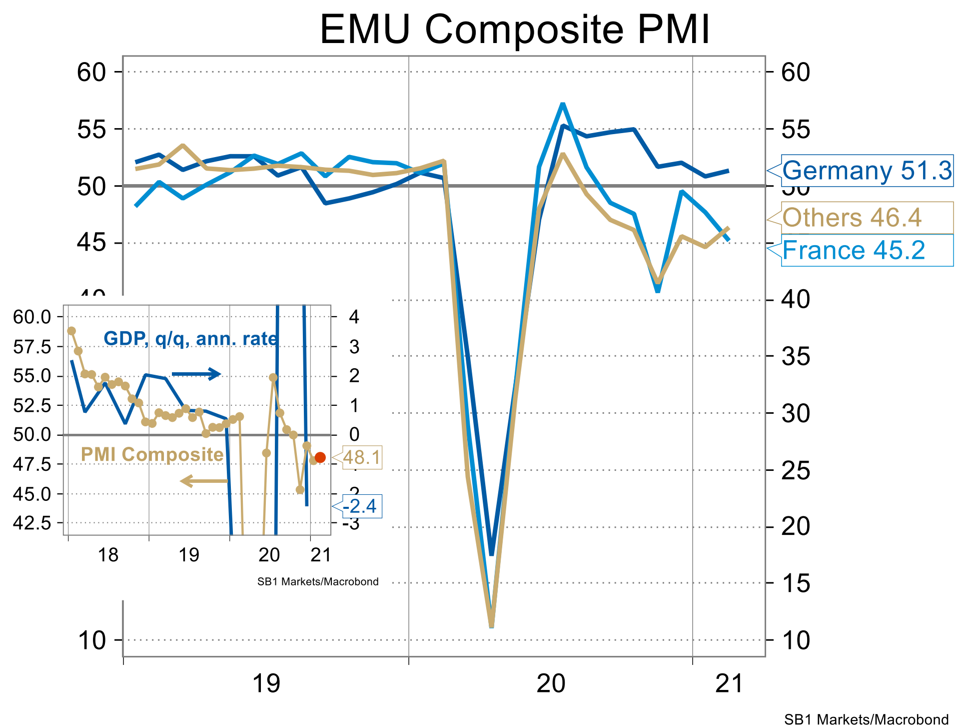
Composite PMI up in February thanks to a strong manufacturing sector

… but at a reading of 48.1, the PMI still signals a moderate GDP decline





- The **service sector** PMI fell 0.8 p, to 44.7 (consensus +0.3 p). The **manufacturing index** rose 2.9 p to 57.7, and more than expected. This is the highest level in 3 years and it's signalling strong growth in the sector
  - » Manufacturing is strong everywhere, with Germany in the lead. Services are below the 50 line everywhere, and the French fell the most
- **The 48.1 composite level** signals close to 1% pace of decline in GDP (or ¼ % per quarter) – and nothing compared to the huge setback during the spring
  - » The composite index rose and remains above 50 in Germany. France fell sharply. Other countries were on average up

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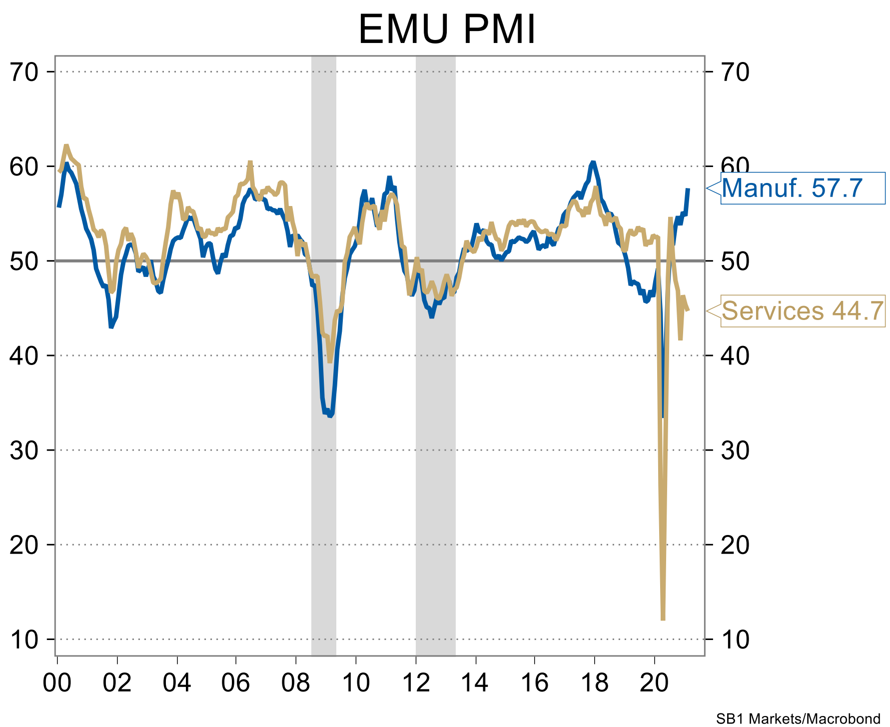
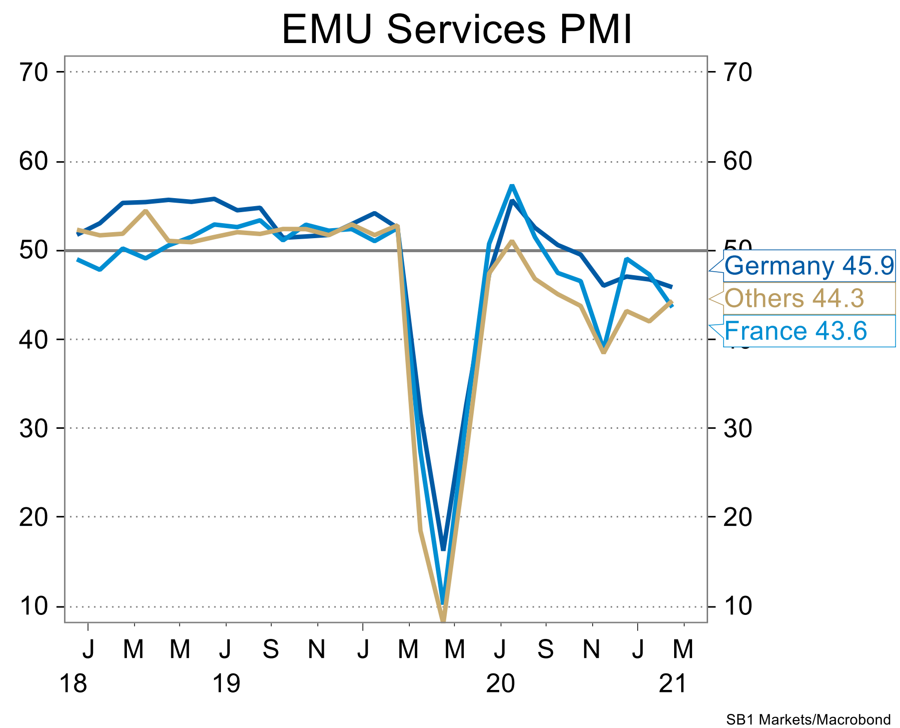
Services still in contraction mode, and more than in January. Manuf. straight up!

The manufacturing PMI confirms that the downturn is nothing but corona trouble in <u>some</u> services





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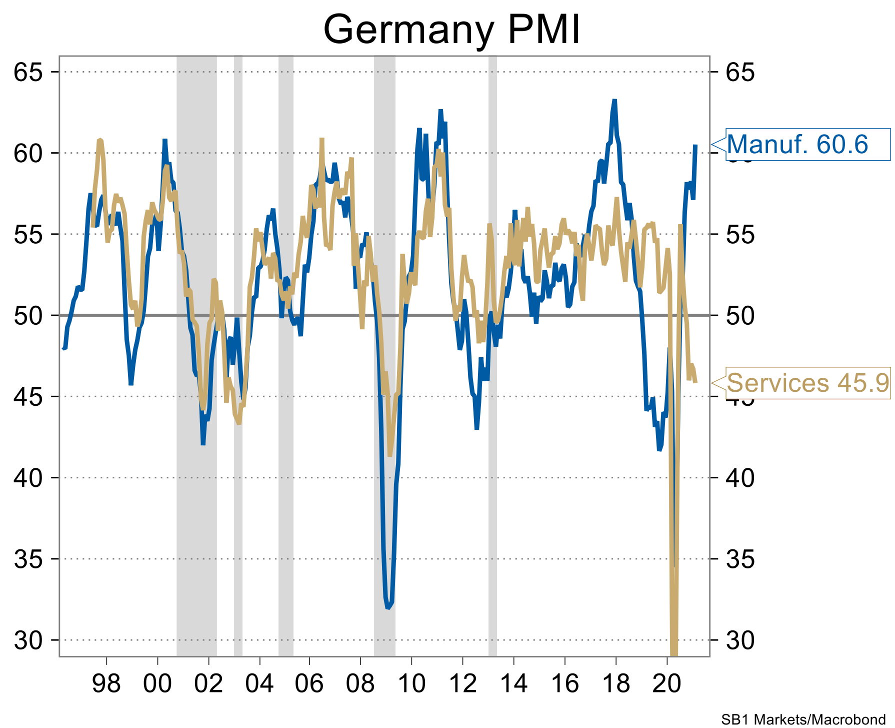
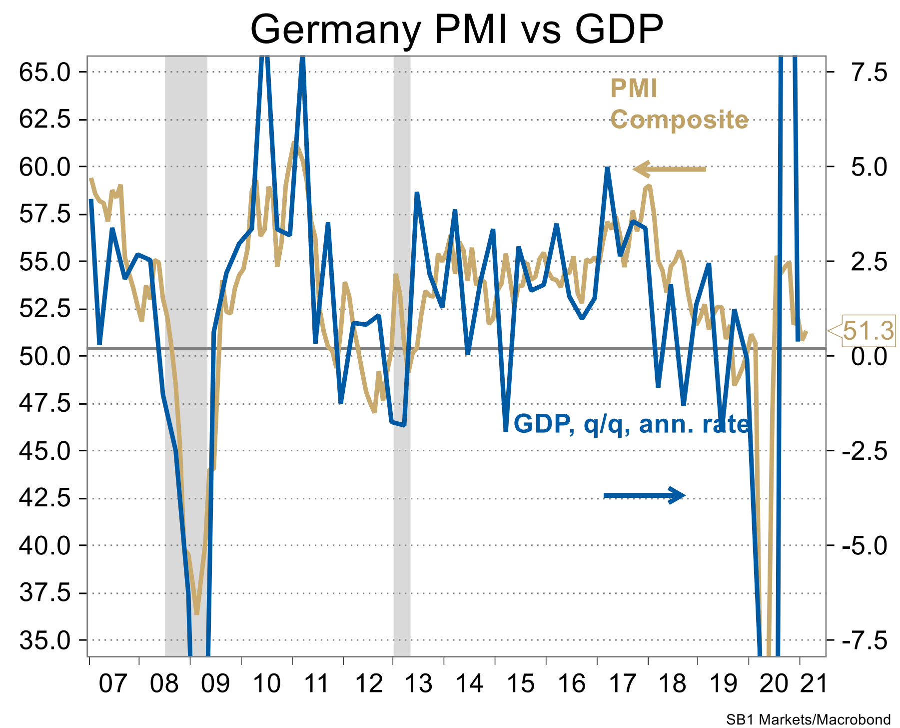
Germany: Composite PMI up and manufacturing sector still very strong

However, corona restrictions are still putting a clamp on the service sector





- The manufacturing PMI at 60.6 is at a very high level, not far below normal cyclical peaks
- The service sector PMI is signalling a contraction. The composite signals close to zero growth – as in Q4
- Germany has been in a partial lockdown since the beginning of Nov. New restrictions in Dec, and further restrictions imposed at the beginning of January, which have been extended to March 7th

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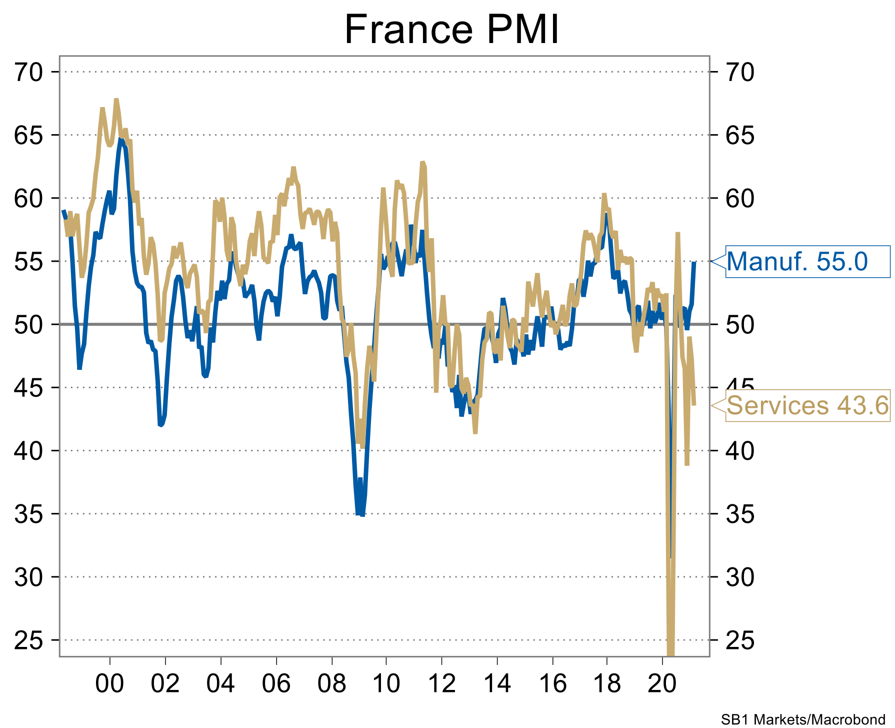
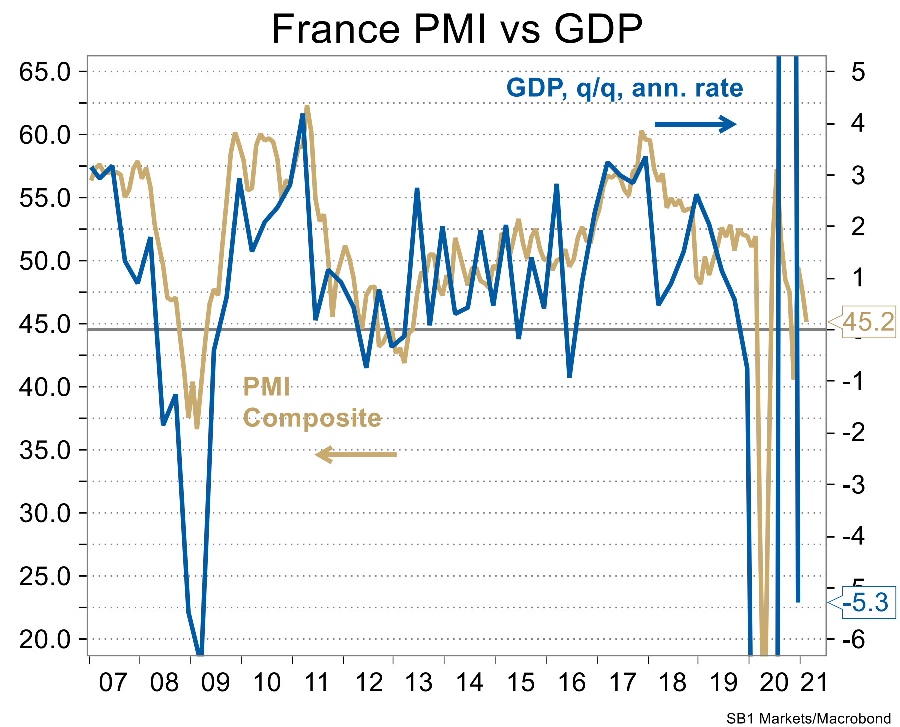
France: Big moves in PMIs – in opposite directions, services down in February

Composite PMI at 45.2 signals marginal to no growth but precision lost during the pandemic

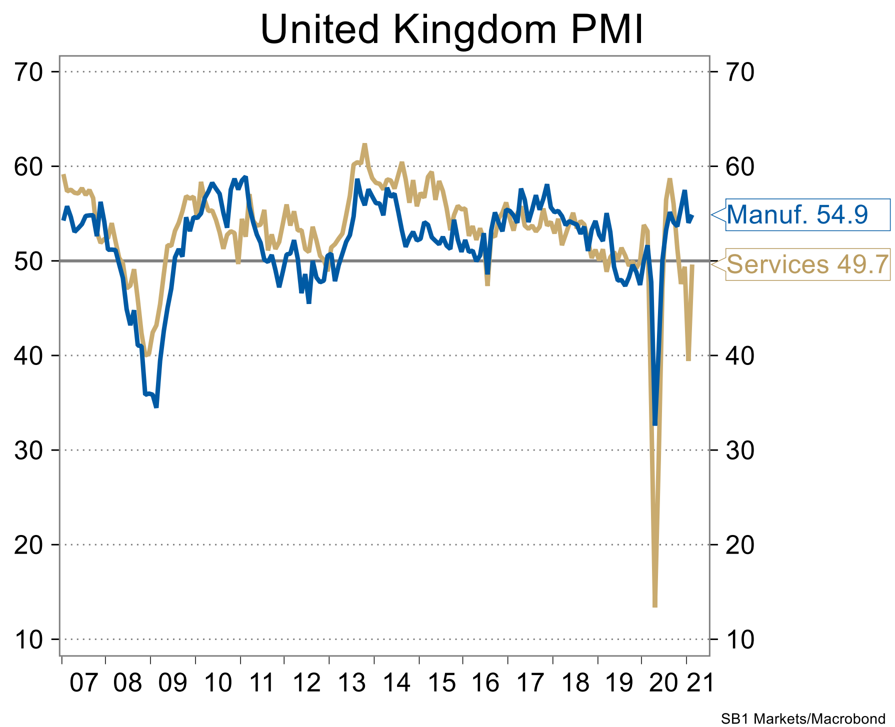


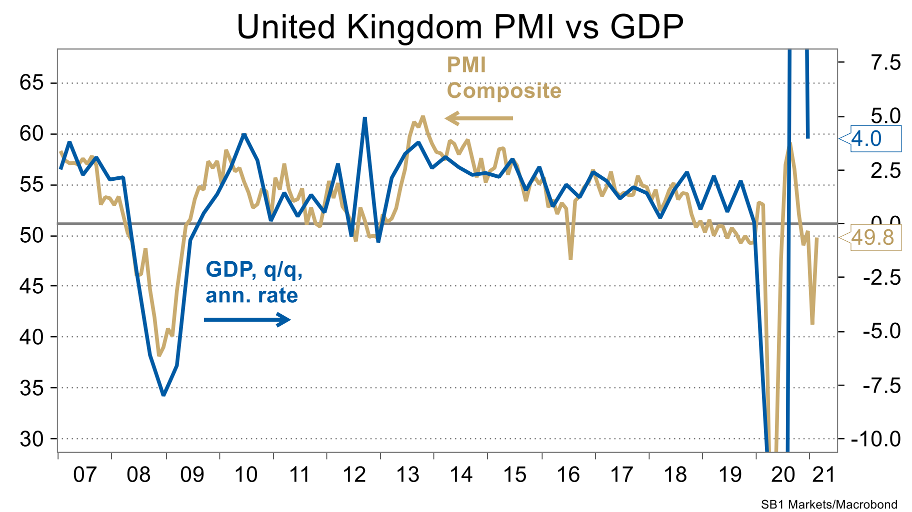


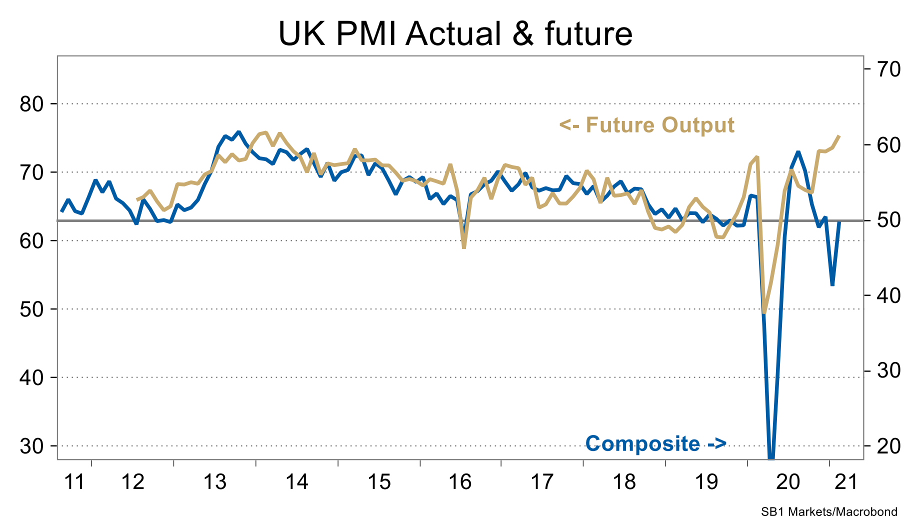
- **The composite** PMI fell by 1.8 p to 45.2. The index was expected down just 0.2 p. The Jan level signals a marginal to zero growth in GDP
- The **service sector** index declined by 3.7 p to 43.6, as Covid restrictions are limiting activity – reduction in business comes from domestic market
- **Manufacturing PMI** climbed further, by 3.4 p to 55. This was the fastest increase in 2.5 years, signalling strong growth in this sector
- **Corona cases** has fallen sharply since the early Nov peak, as has hospitalisations & deaths but cases inched upwards from early December until early February – and mobility slowed in the first part of February. However, new cases are trending down again, and mobility & the economy will most likely pick up some steam again

Services straight back up in Feb – Manuf. improved as well. The outlook is bright

The composite index rose 8.6 p to 49.8 after falling 10 p last month. Signals a flattish GDP in Q1



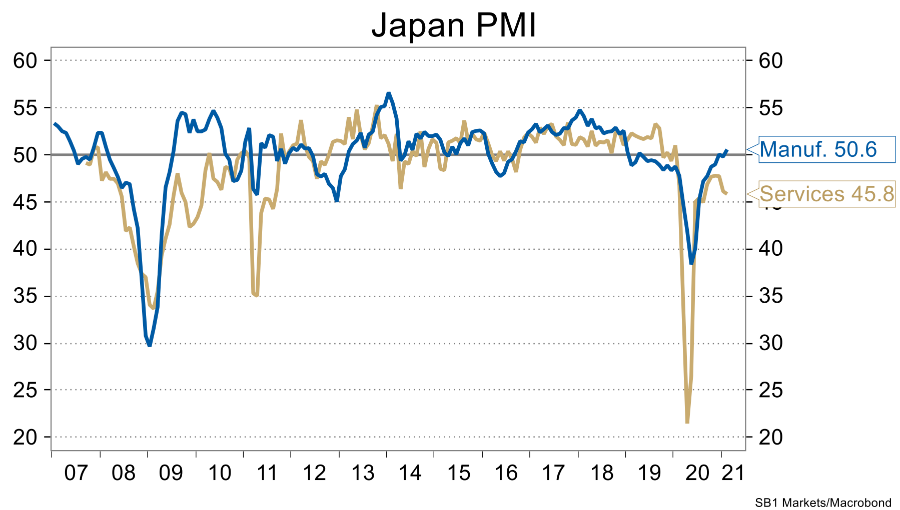


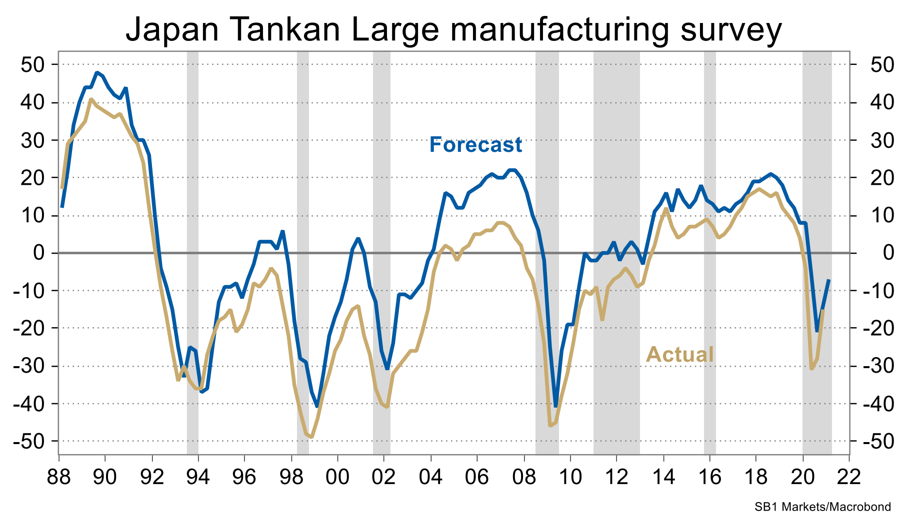


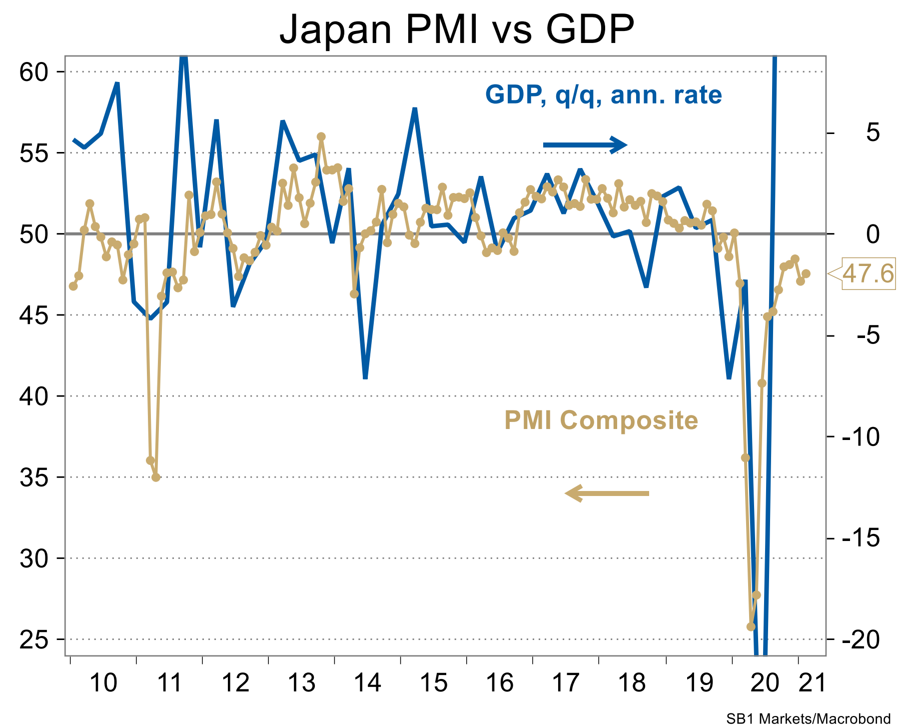
- **Services PMI** increased by 10.2 p to 49.8. Is the contraction in services coming to an end, or is the PMI still not giving accurate signals during the pandemic? Retail sales fell 8% in Jan, and some other services were hit too, and Q1 GDP is exposed
  - Still, this is nothing like March - April last year!
- In addition: Companies has never been more positive vs. **the outlook** – may be due to both the low starting point (GDP is still down 7 – 8% vs Feb 20, and the very positive vaccination outlook

Japanese services PMI further down in February – GDP is probably contracting

Manuf. PMI up 0.8 p to 50.6, services PMI down 0.3 p to 45.8, the composite under water



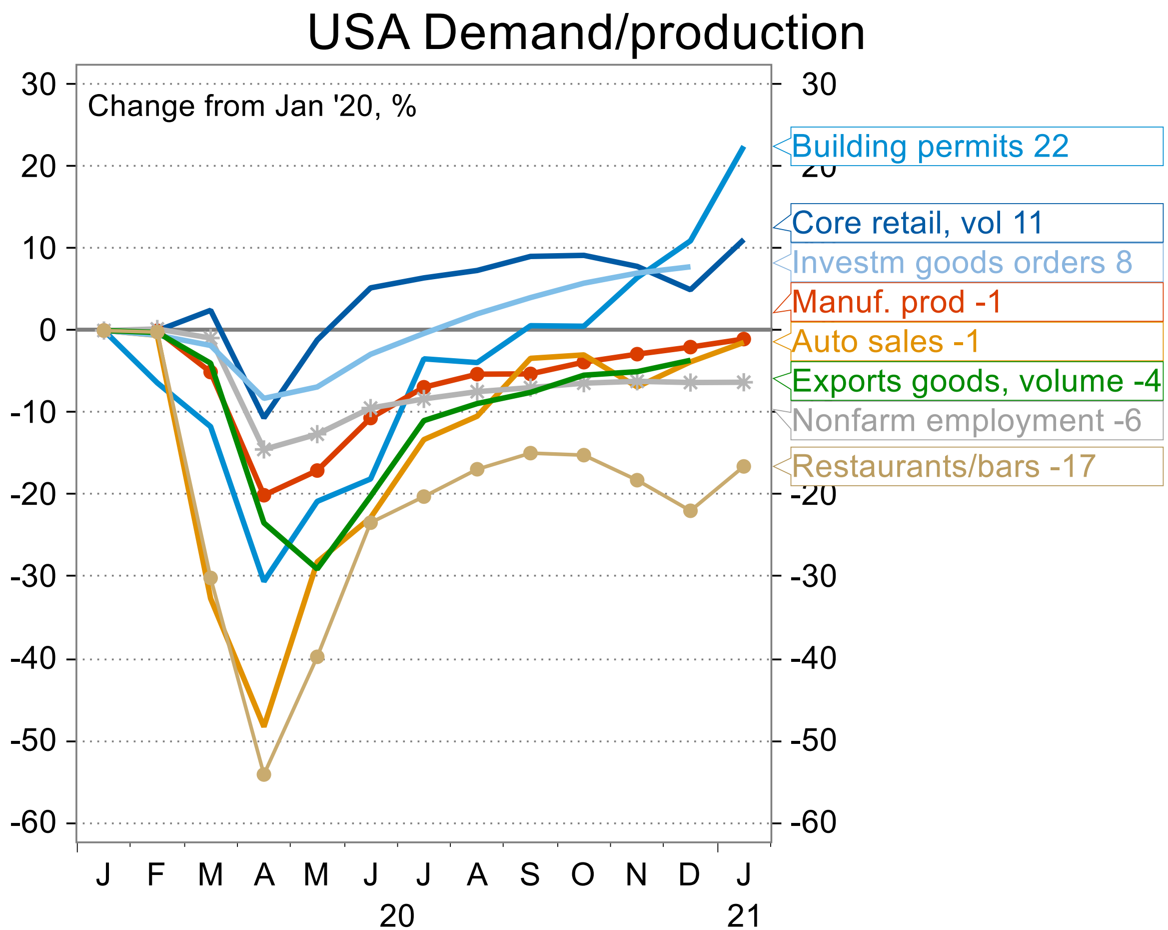




- The composite PMI at 47.6 signals 2% decline in GDP (annualised) – but the correlation is not impressive
- According to the BoJ Tankan business survey, most manufacturing firms were less pessimistic in Dec than in Sept. In fact it was the largest increase in the Tankan index since 2002, however, index is still in negative territory.

The recovery full speed ahead in Q1

The 2nd /3rd coronavirus wave has slowed parts of the US economy but others are booming!

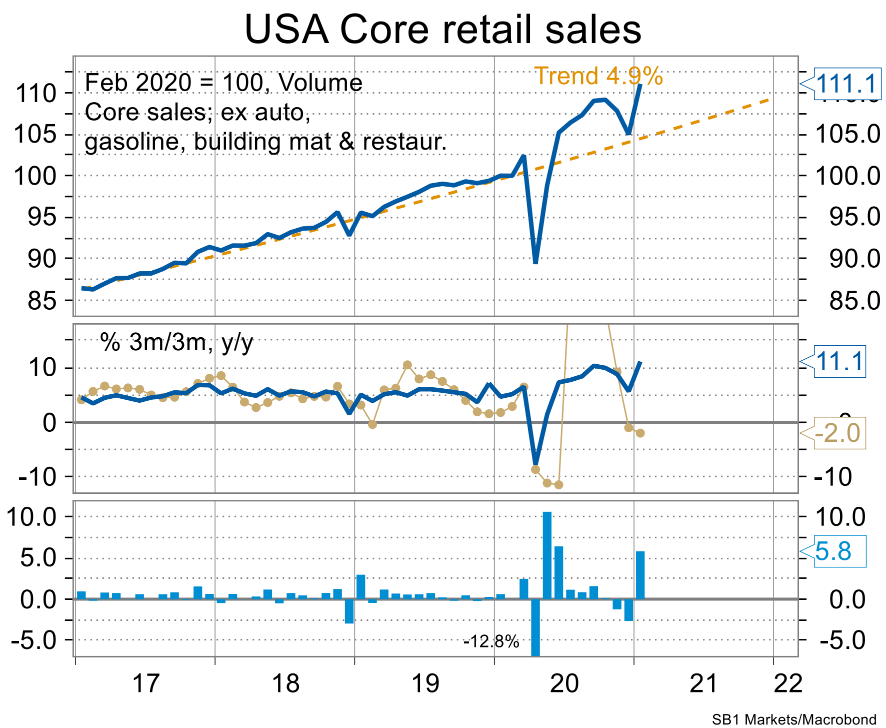


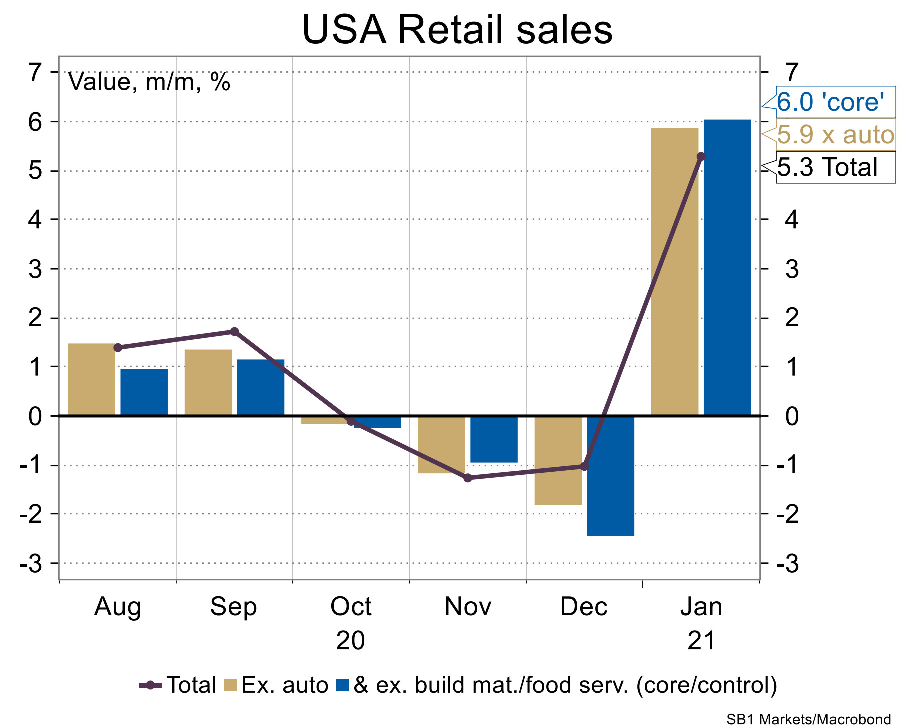
SB1 Markets/Macrobond

- **Retail sales** (goods) fell in both Nov & Dec but surged almost 6% in January, expected up 1%... – and sales are up 11% vs. last January
- **Building permits are soaring, 10% up in January, up 22% vs. last Jan**
- **Investment orders** ex aircrafts/defence are up 8% vs last Jan, and flat including aircrafts
- **Exports** remain below par but is still on the way up, now just 4% below Jan last yr
- **Restaurant sales** are down 27% (in value terms). Airline traffic is down even more
- **Employment** has flattened, and is still 6% below Jan 2020 level. The weakness is mostly due to a sharp contraction in employment in the hotel/restaurant sector but not a growth story elsewhere
- **Nowcasters** are now signalling 8 – 10% growth (annualised) in Q1 – or up 2%-2.5%. If so, GDP is almost back to the Q4 '19 level – still, of course, below the pre-corona growth path

Retail sales up 5%+ in Jan, 5x more than exp. Some stimulus checks were spent!

We thought the f'cast was far too low but did not expect anything like this. Still, 80% of checks saved

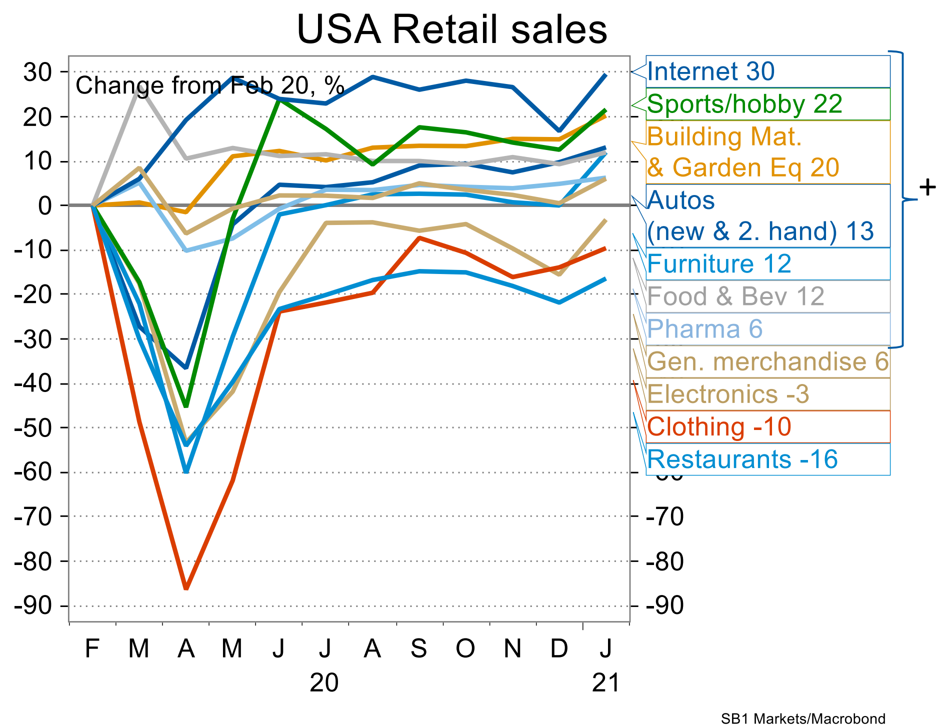


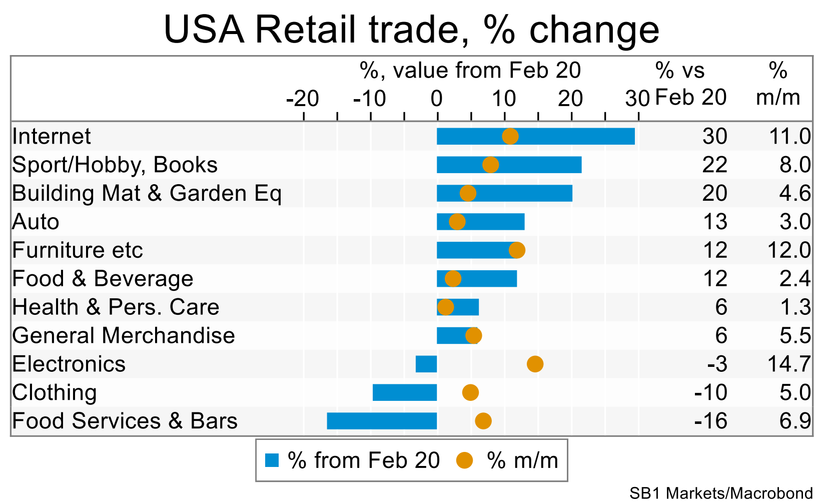


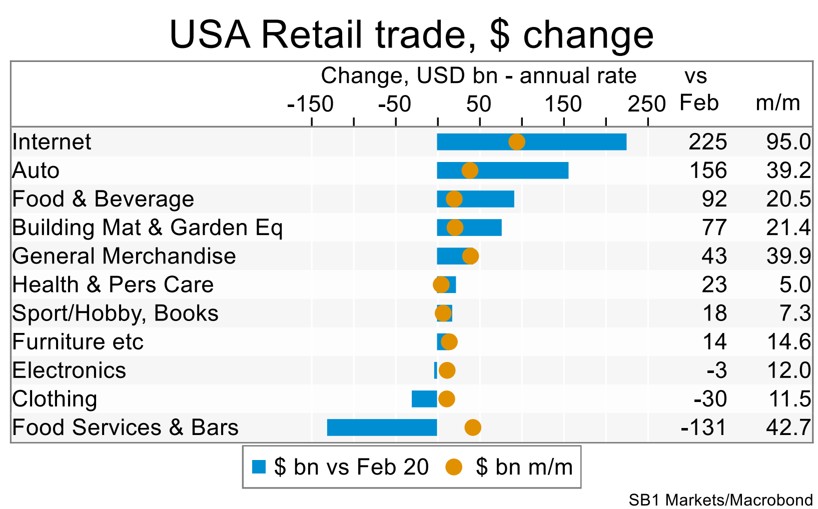
- **Total nominal sales** rose by 5.3%, expected 1% (No help from all big data – or are the economists just not in touch?
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) jumped 6%. A minor downward revision of Dec is irrelevant. Core sales of goods are up 11% y/y. Unprecedented
- Check details next page, sales rose everywhere but still huge discrepancies between sectors – restaurant (incl, in the total) is still down 16%
- No doubt, some of the USD 600 per person checks (given annual income below 75') that were sent out early January were spent! That's not surprising, given media reports but it was not factored into analysts' estimates, which perhaps was the real surprise
  - » Households received some USD 139 bn in stimulus checks, equalling 0.8% of annual disposable income. Retail sales rose by almost USD 30 bn, or some 25 bn more than normal. Thus less than 20% of the checks were spent – and the rest saved ☺. The next check, from Biden, could be at USD 1,400

Still huge differences between sectors but all rose in January

Internet sales up again, strong growth in electronics, furniture. Not in food, health & autos







January

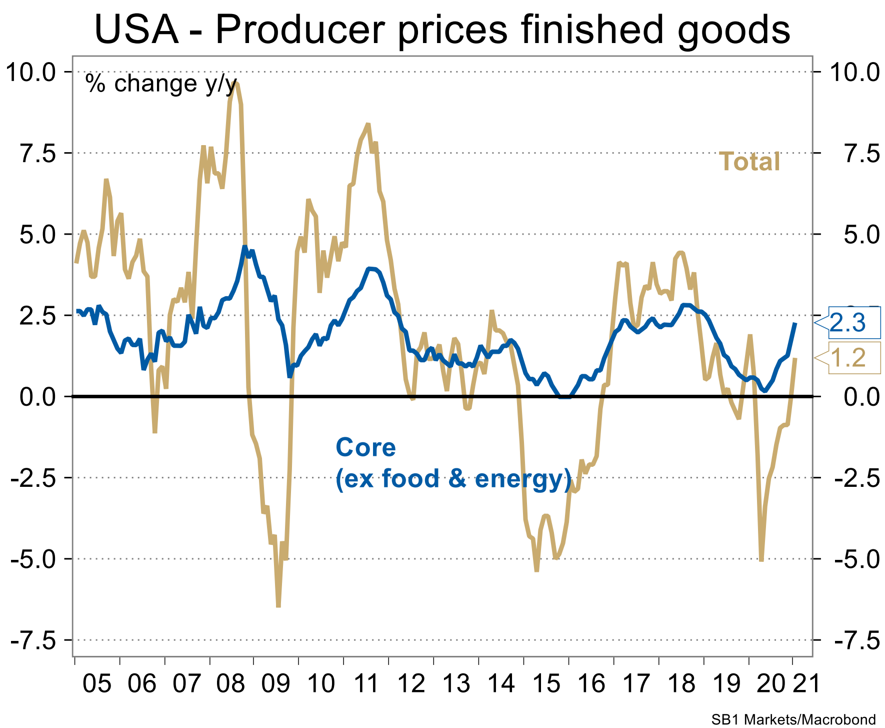
- 11 out of 11 main sectors reported growth, following the broad decline in December

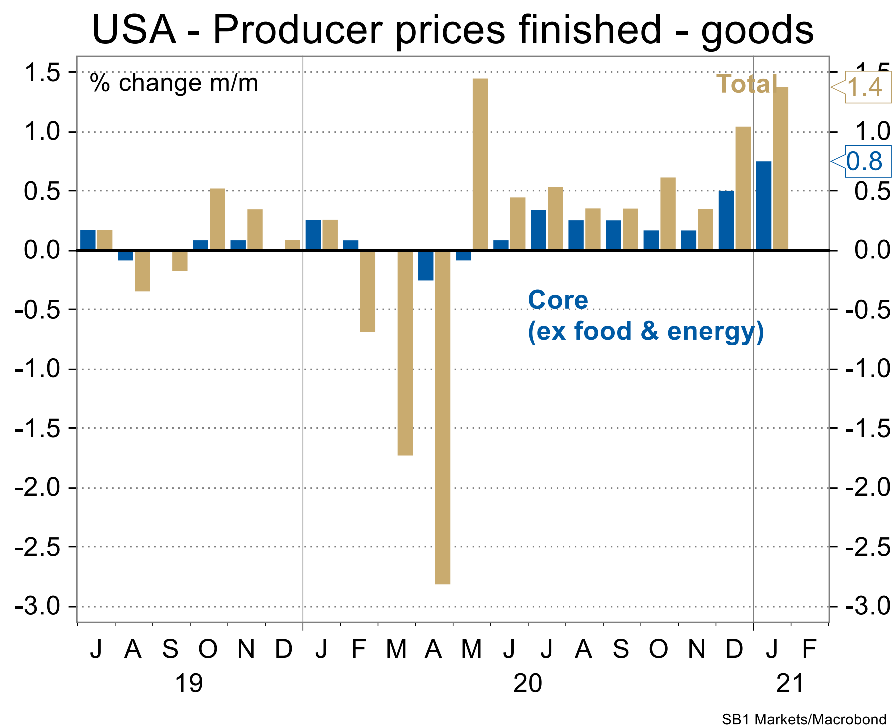
Since pre corona

- Internet has taken a substantial market share, to well above 10%
- Clothing is down, probably due to more time spent at home, less outside
- Gyms are partly closed, more sport equipment is bought
- Restaurant gained 7% in Jan but is still down 16%
- But why are electronics still so weak, even after the Jan jump?

Core producer price inflation soared in January. And something is brewing…

Core goods up 1.2% m/m, up 2% y/y. Total finished goods prices up % 1.4 y/y – from -5% in April

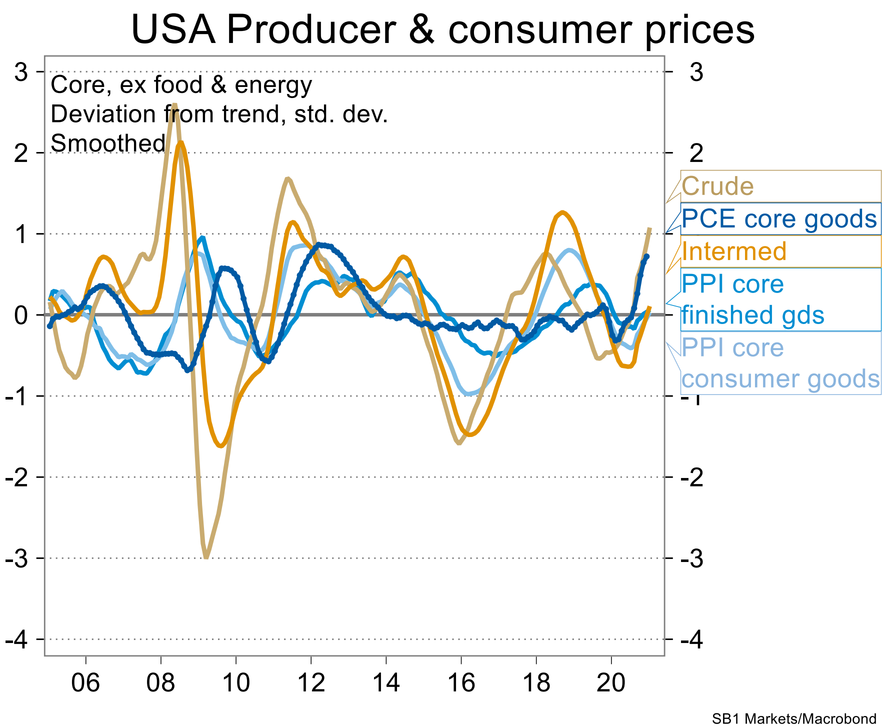


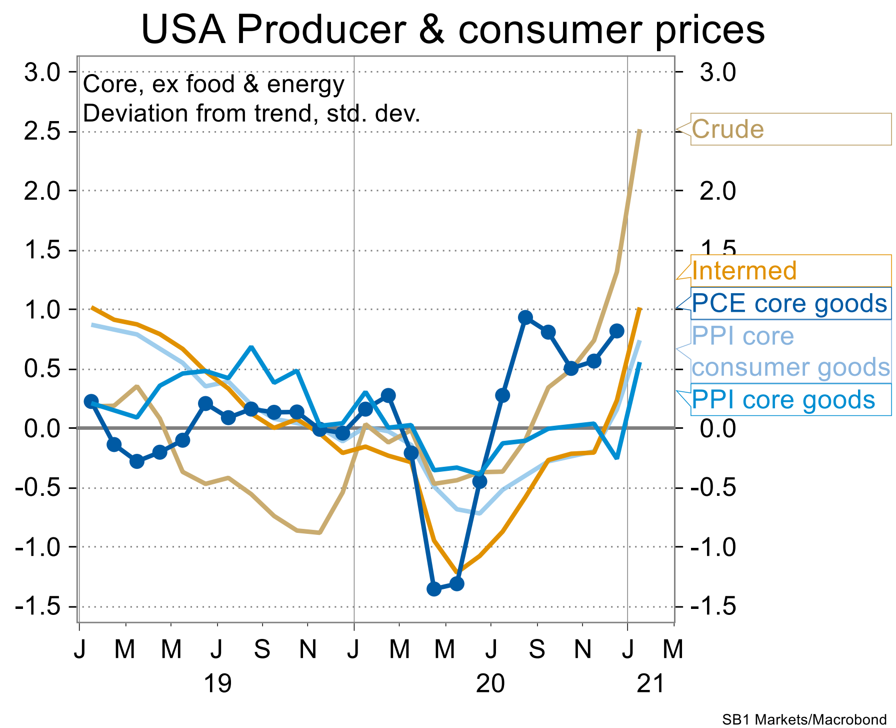


- **Core finished goods x food & energy** PPI rose by 0.8% m/m in January, which is the largest monthly increase since 2008 (we have joined the old PPI index with the new (but quite similar) since 2009). The core good PPI us up 2.3% y/y, vs. close to zero in April. Several goods contributed to the unusual price hike, some will probably be reversed the coming months. However, all surveys are confirming that something is happening with prices for most industrial inputs – and we now see some impact in final goods
  - » Core finished goods producer price inflation does necessarily not suggests high CPI inflation, but producer prices at earlier stages are now moving upwards, *check next page*
- **Headline goods PPI** rose 1.4% m/m, due to higher food & energy prices (and as expected). The annual rate climbed 1.1 pp to 1.2%.
- **The PPI for services** rose 1.4% m/m, a new all time high, but not that impressive, data just back to 2009 ☺. The annual rate is 1.7%

Producer prices in all categories are on the rise. CPI to follow suit?

Core crude & intermediate goods prices have been rising since July, core the sharpest since 2008



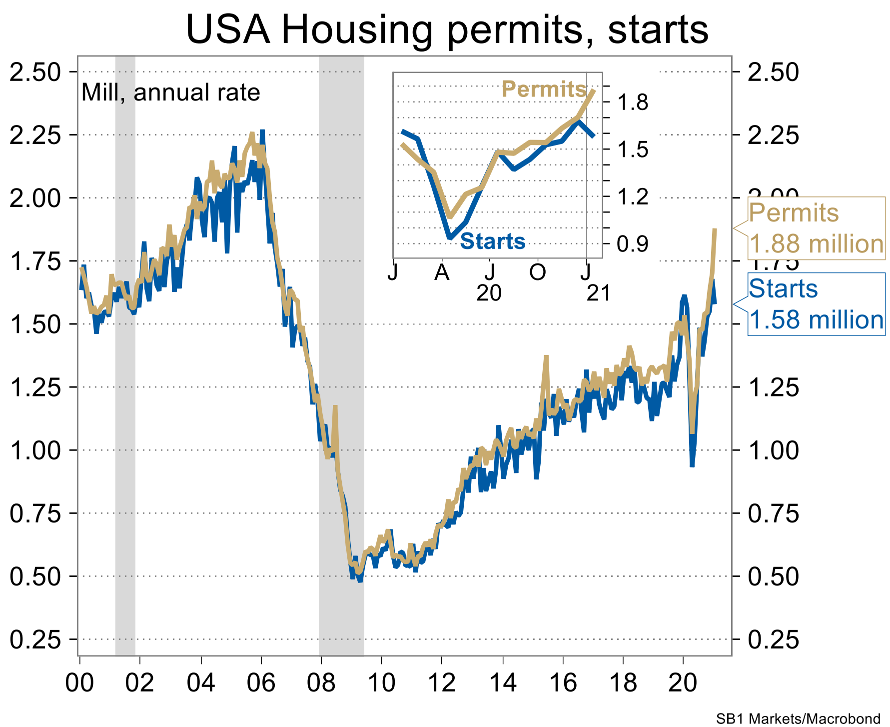


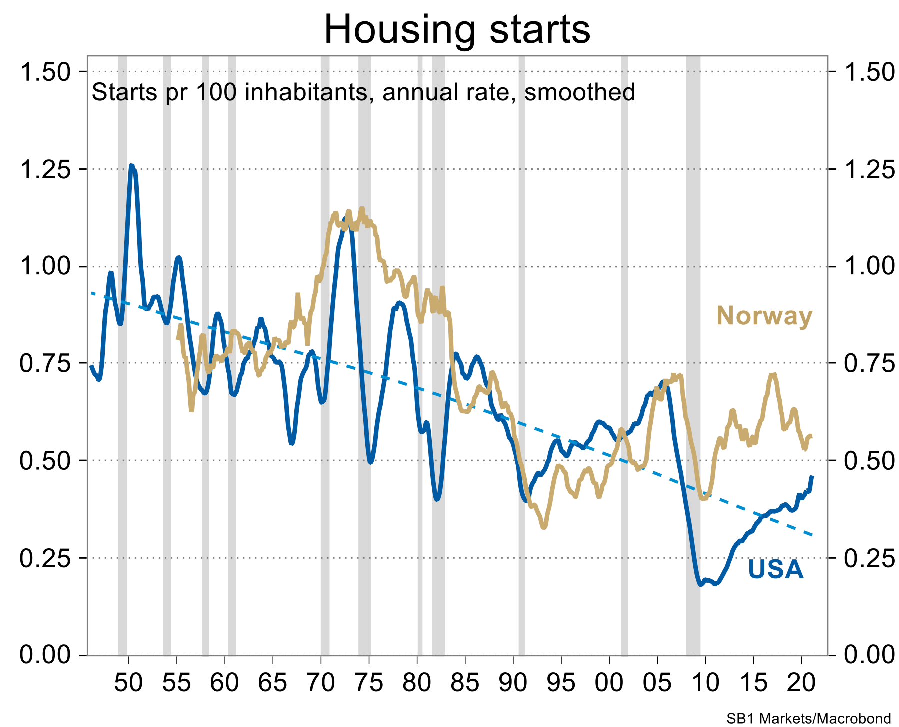
- Prices are on the way up, as are delivery times – and production is increasing rapidly
- However, core consumer goods prices (PCE) have been rising faster than indicated by finished goods prices . Thus, short term, probably not that much more price pressure from producer prices.
- Looking forward however,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

SpareBank 1 MARKETS

Housing building permits the highest in ~~13~~ 15 years in ~~Oct Nov Dec~~ January

Permits up 10% to 1.88 mill in Jan, far better than expected. Starts down, but will very likely climb

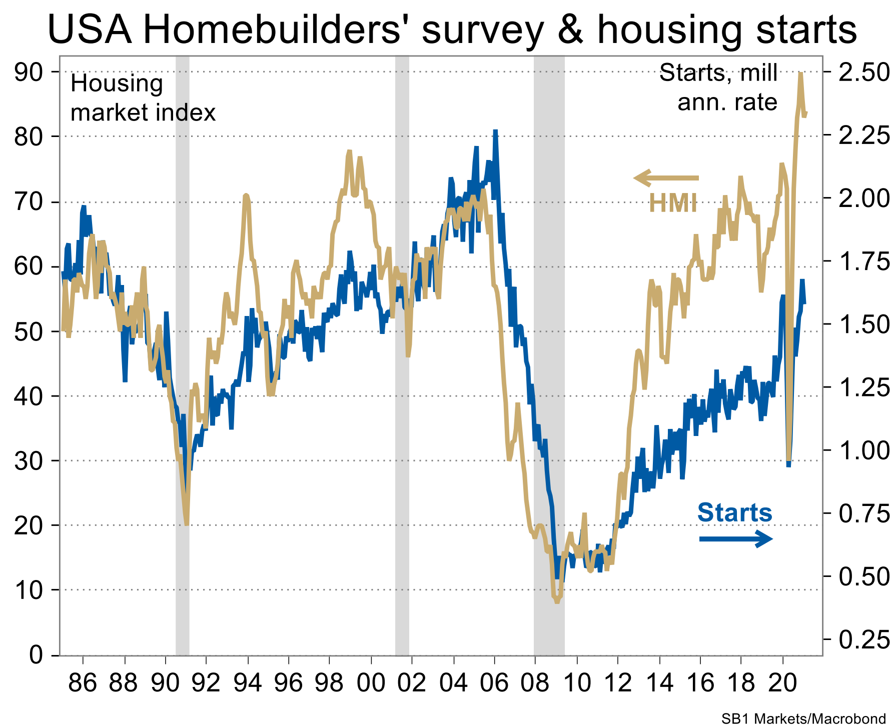


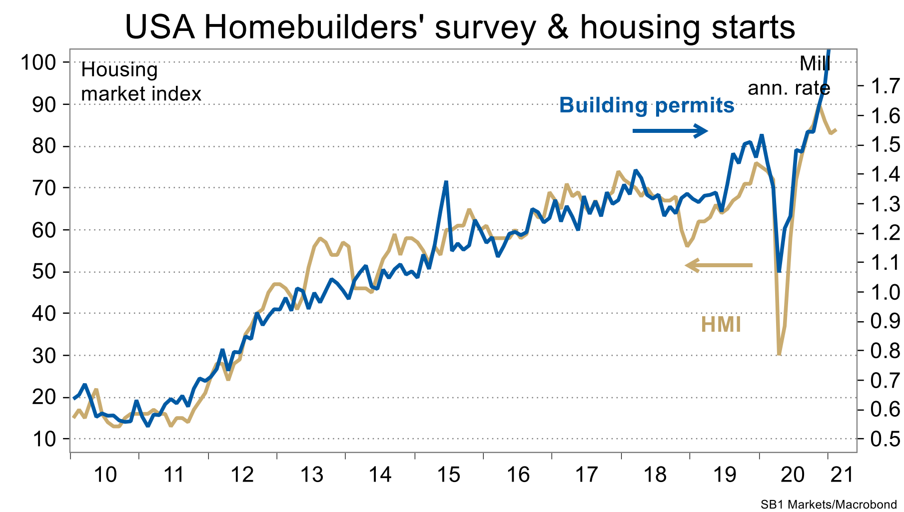


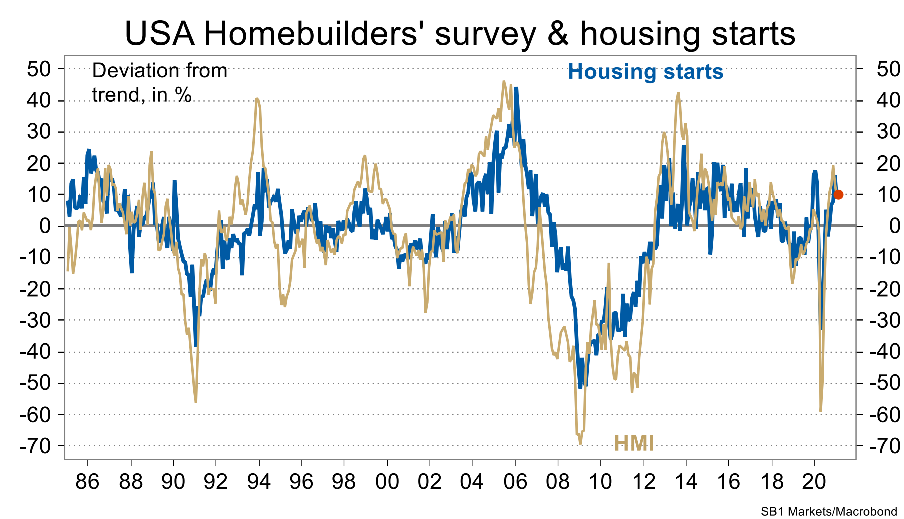
- Both permits and starts were expected slightly down. However, permits shot up another 10% (to 1.88 mill, expected 1.67 mill), and are up 60% from April – and 25% above the rather high pre-pandemic level – and the highest since 2006 (but still below the late 2005 peak)
  - Starts fell 6% to 1.58 mill, expected down to 1.66 mill, still a high level, and more than 20% above the 2019 average! Permits signal more starts
- Housing starts are not at high level per capita vs. history. However, like in all other rich countries, as the ‘country is built’, at least in many cities, and population growth is slowing. Housing starts have been trending downwards in most countries over several decades
  - However, not in Norway the past 30 years. Because we love our homes (and our low interest rates, vs our income expectations)

Homebuilders index turned upwards again, level close to ATH

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



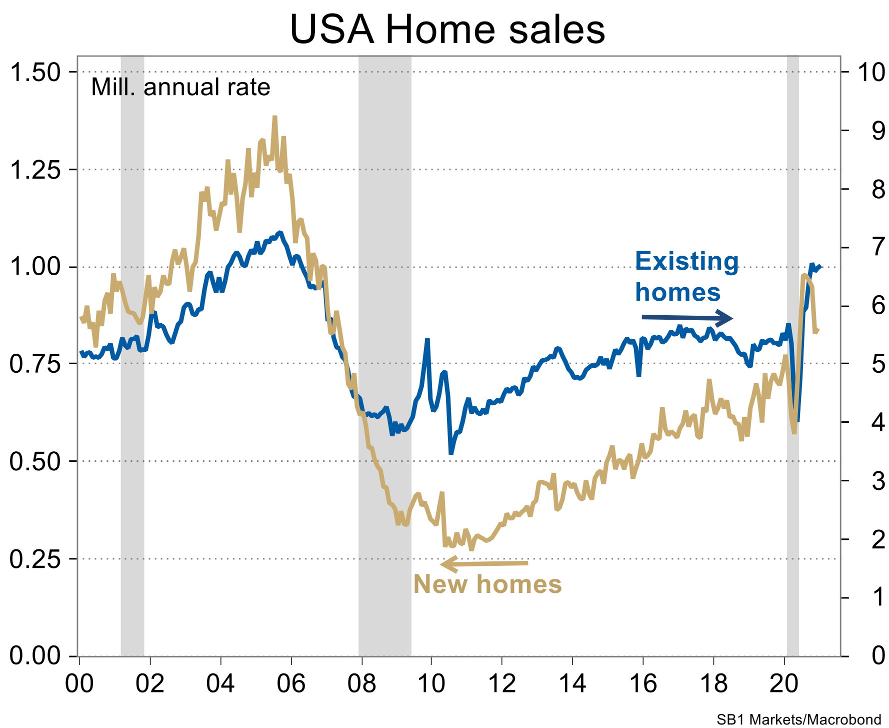


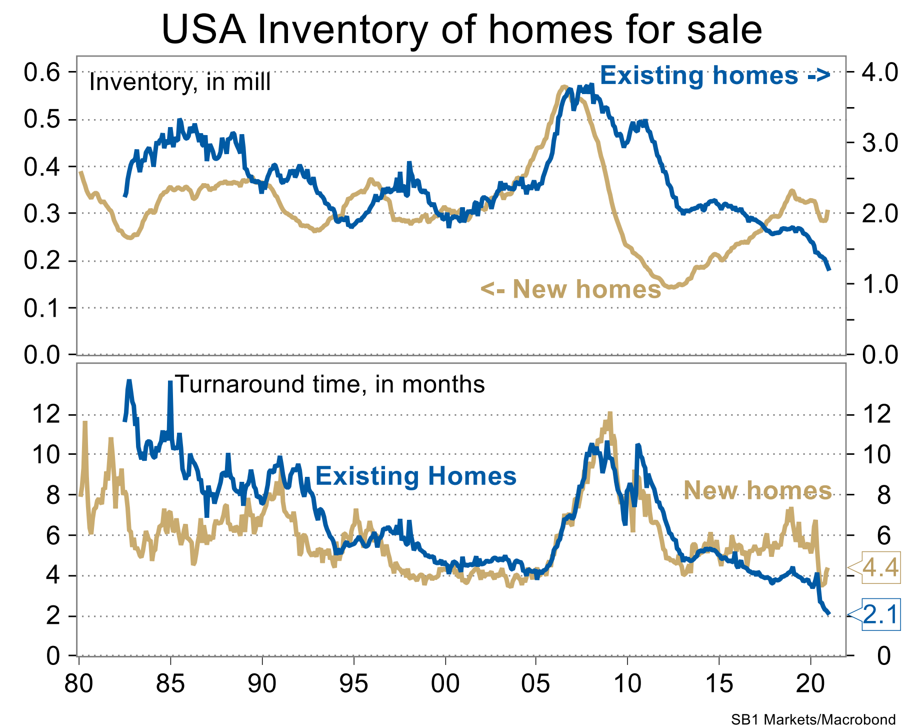


- **The Homebuilder's Housing Market Index** rose by 1 p to 84, expected unch. It is down from the 90 Nov record level but we have never seen anything like this before
- The HMI is not an assessment of growth in housing stars nor the level of housing starts vs a long term average. The best fit is vs deviation of starts from a more flexible trend, check the difference between the chart above and the two to the right
- Even if the level is very high, the HMI signals that the surge in starts is now over

Existing home sales has stabilised at high level – the inventory is running dry

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



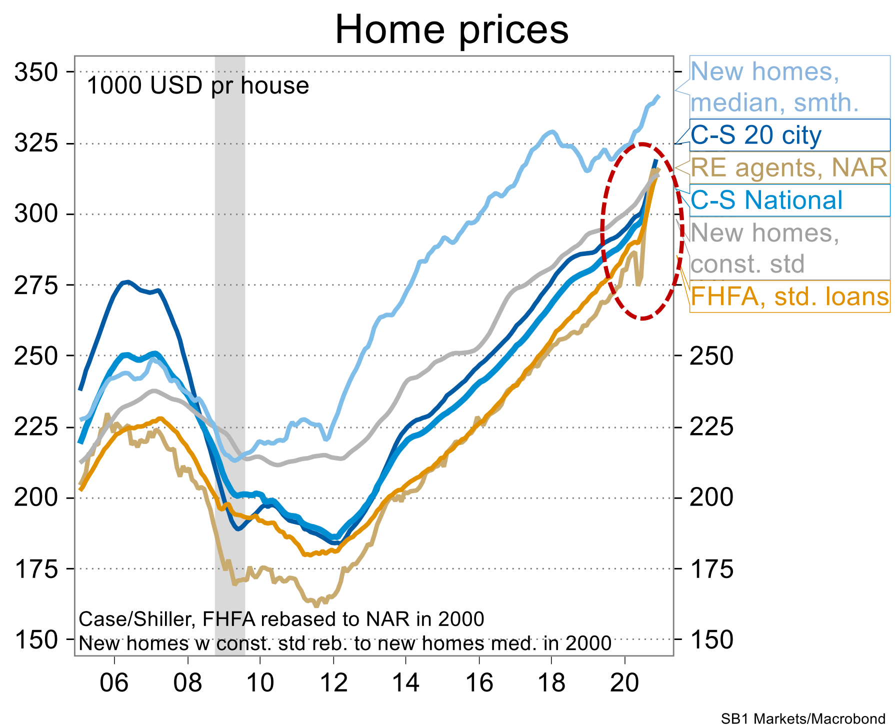


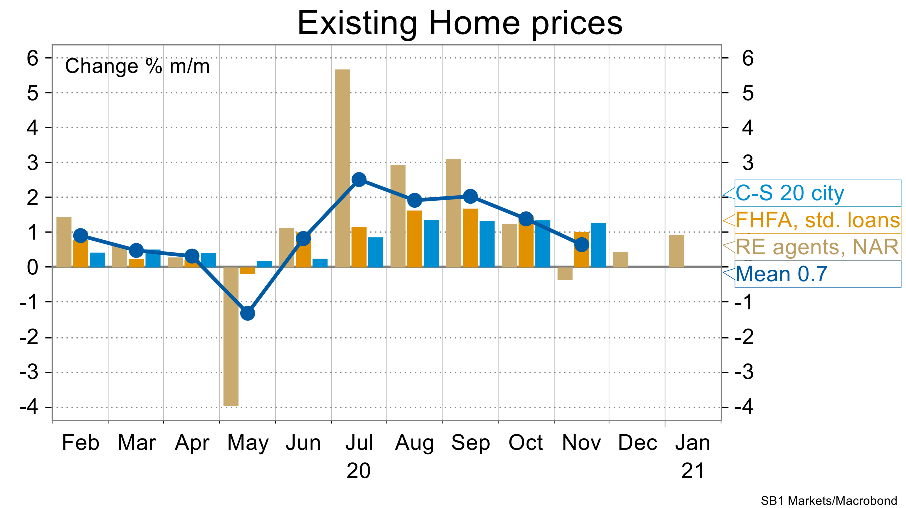
- **Existing home sales** rose marginally in Jan, expected slightly down (6.69 mill vs. exp 6.60 mill, Dec revised down to 6.59 mill from 6.76 mill). <u>The level is not far below ATH (in 2005)</u>.
- **The inventory of unsold existing homes** fell further and is at far below pervious record low levels, both the actual inventory and vs sales
- During the buildup of the housing bubble up in early 2006, both new and existing home inventories rose sharply, in fact all the way from 2001 – and sharply from 2004/2005. <u>Prices are rising in the same way, but the inventory story is quite the opposite!</u>

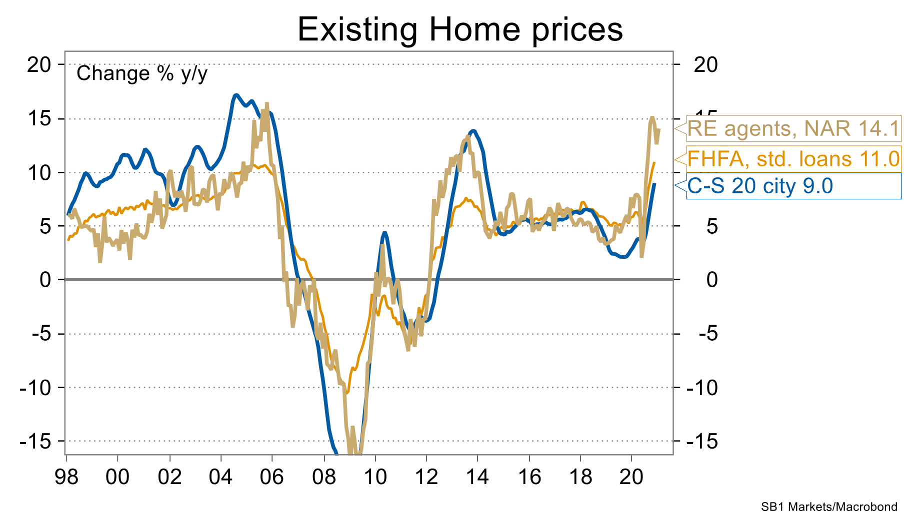
SpareBank 1 MARKETS

Housing price inflation may be slowing but realtors say +1% m/m in Jan, 14% y/y

The recent price hike is among the steepest ever. In real terms, still below the 2006 level



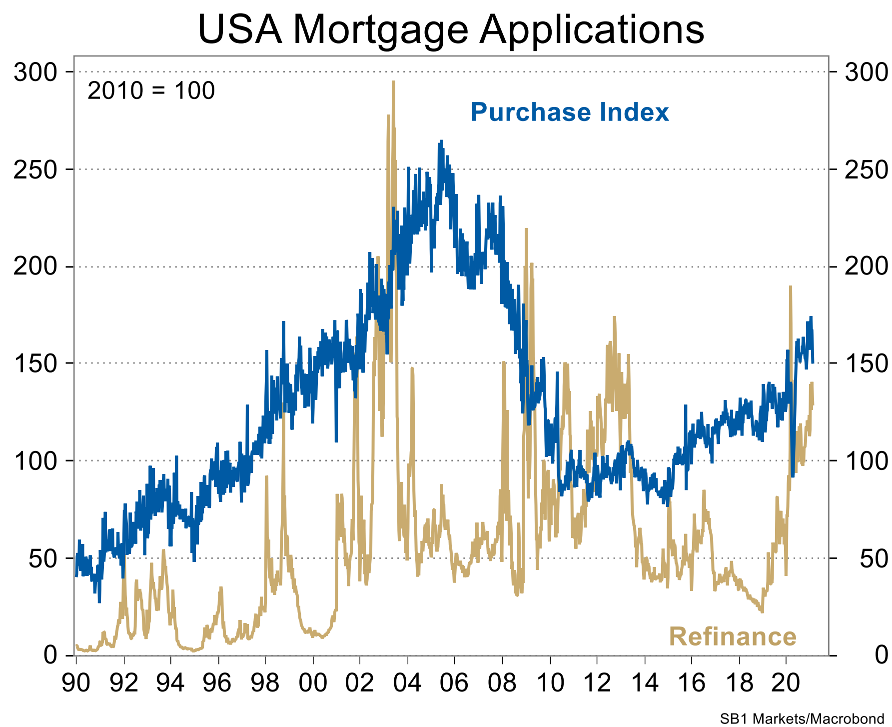


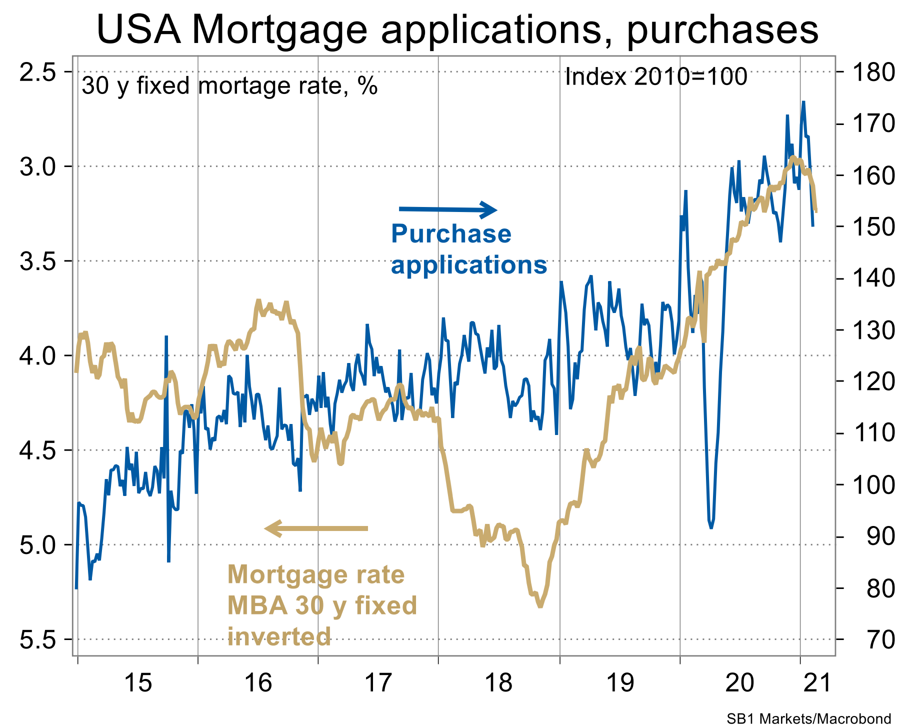


- The realtors' index is a primitive median 'raw' index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) very likely lifted the median price from June to Oct. Prices are up 14.1% y/y
- Still, 'something is very likely going on' in the housing market. Other – and the more sophisticated and less volatile indices are reporting annual inflation at 7.9% – 10.2%. New home prices are on the way up too, but not faster

Mortgage applications down from >10 y high, amid a small uptick in mort. rates

Weekly application data is volatile, and useless, short term. However, we note that…

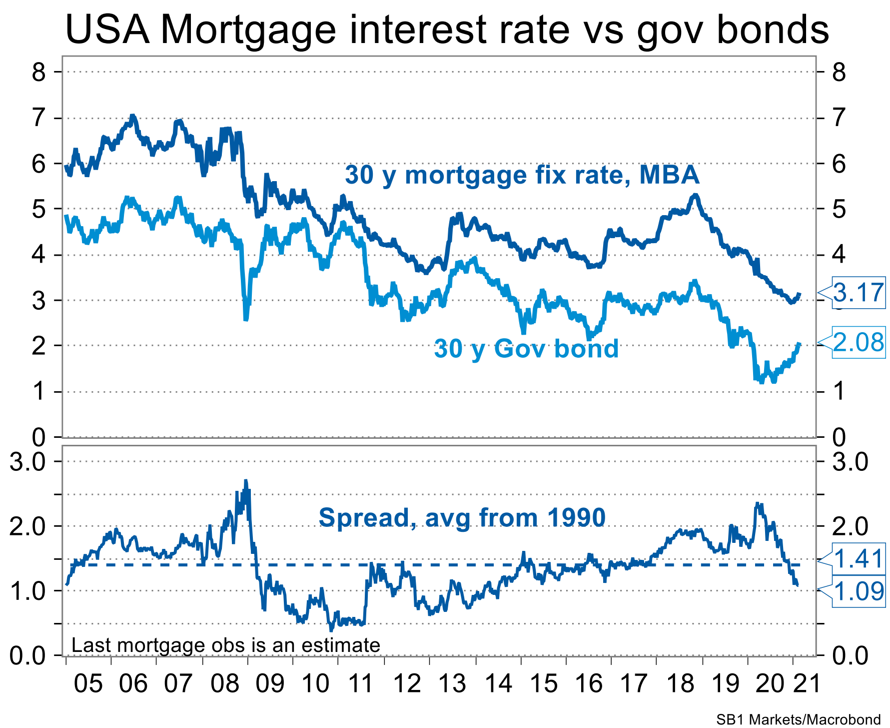




- The 30 y fixed mortgage rates have come up by some 20 bps from the record bottom at 2.95% late last year
- It is reasonable to assume that the strong decrease in rates the past 2 years has supported the housing market
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market. Still, strong demand for new mortgages cannot be a sign of weakness

The 30 y mortgage rate is finally yielding to the pressure from beneath

The 30 y gov is up almost 1 pp (to 2.08%), and finally the mortgage rate turned marginally up

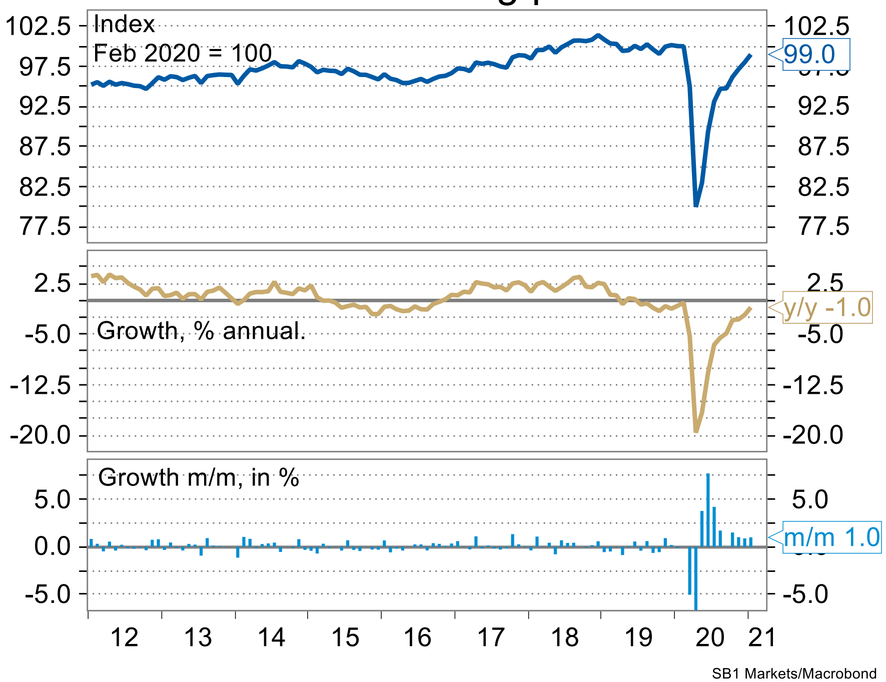


- The spread between the two has fallen to 109 bps - to below and average level – from the almost 240 bps peak last March
- It is more than fair to suspect Fed's intervention in the mortgage market as a main reason the decline in this spread – Fed has been buying mortgage backed bonds – and is still buying, if the spread is pretty low

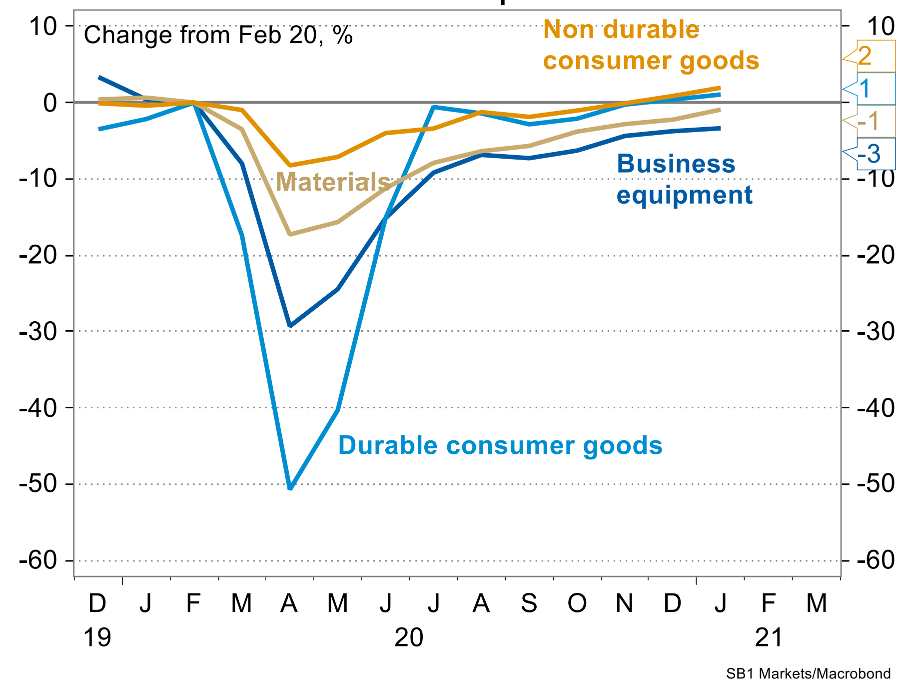
Manufacturing up 1% in January, well ahead of expectations (0.7%) again

And after an upward revision, now only 1% below pre-corona level, and growth is still very strong!!

USA Manufacturing production



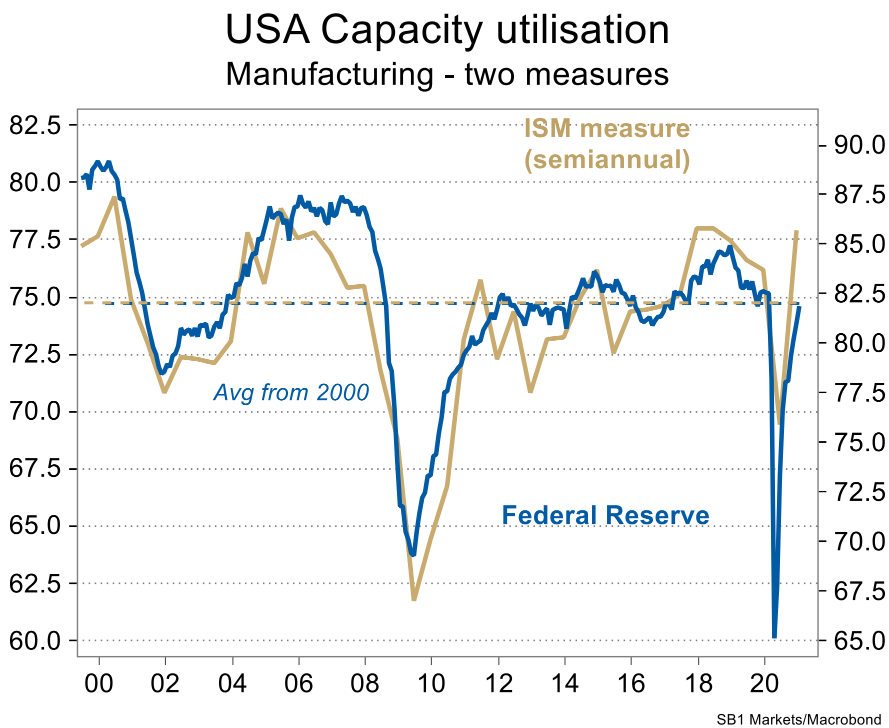
USA Industrial production



- **Manufacturing production** has seen a monthly growth of around 1% for the past four months. Nothing like the period May-Aug but the recovery is still well underway (a 12% annualised growth rate is not that normal)
  - » Production rose in all main categories in January. Consumer goods production is now above the Feb 20 level
- **Total industrial production**, including utilities, mines/oil production, rose 0.9 % in January, expected up 0.4%, as mining was up by 2.3% m/m
- **PMI/ISM and other surveys** signal a further recovery - even an extraordinarily strong one, according to the ISM

Is capacity utilisation at or above normal? At least not below

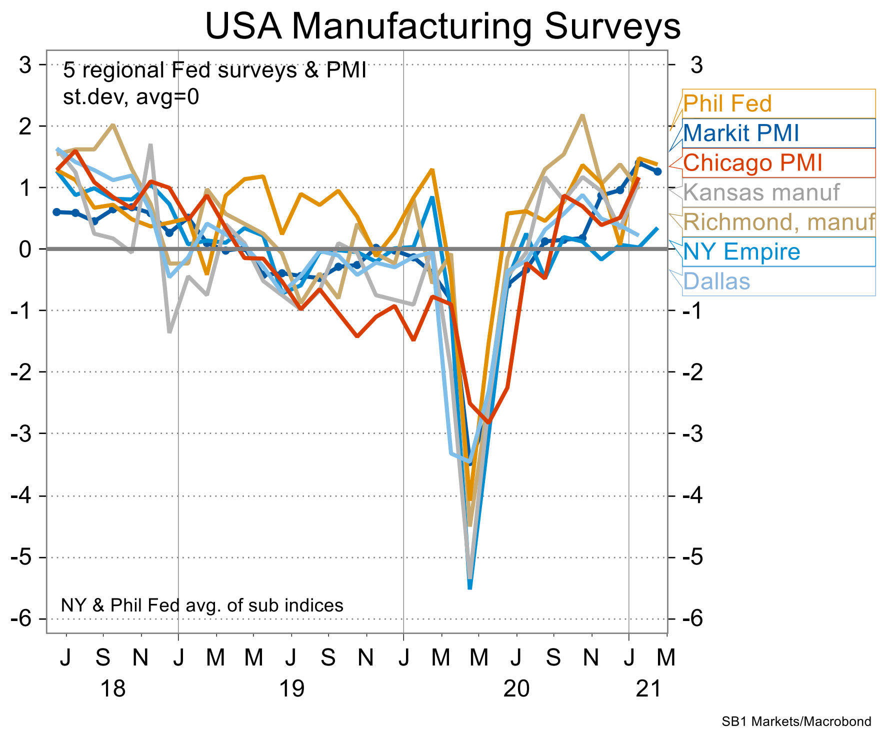
… and capacity utilisation is close to, or clearly above the pre-pandemic level

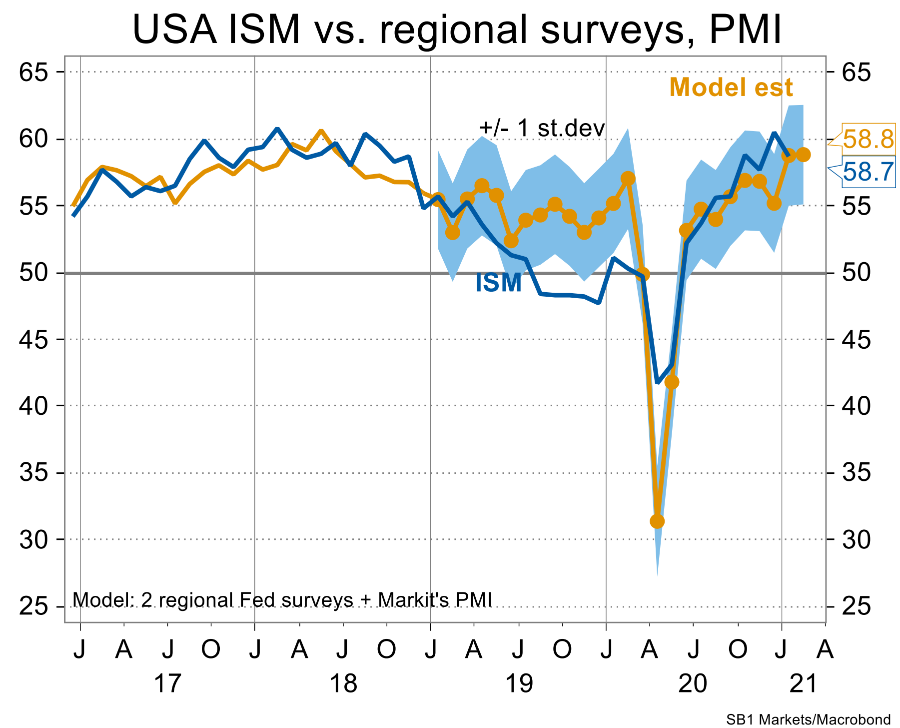


- **The Federal Reserve's** measure yields an average capacity utilisation, and just marginally below the pre-corona level
- **ISM's semiannual** survey reported a close to record high utilisation rate

Markit's PMI, Philadelphia Fed's index slightly down, NY Fed up – ISM flat in Feb?

... and anyway at a very strong level! Further growth is signalled!

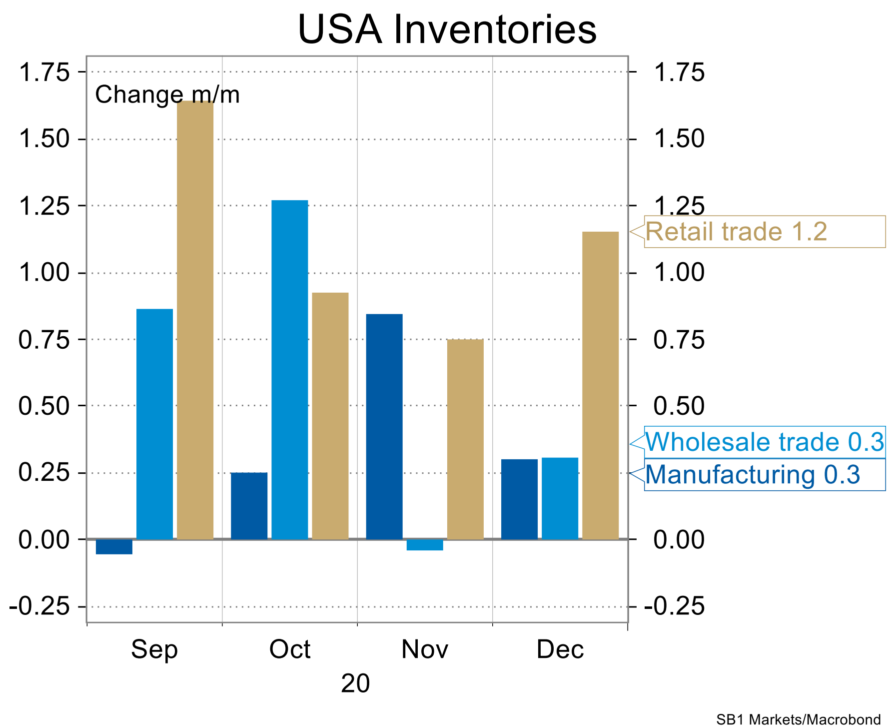


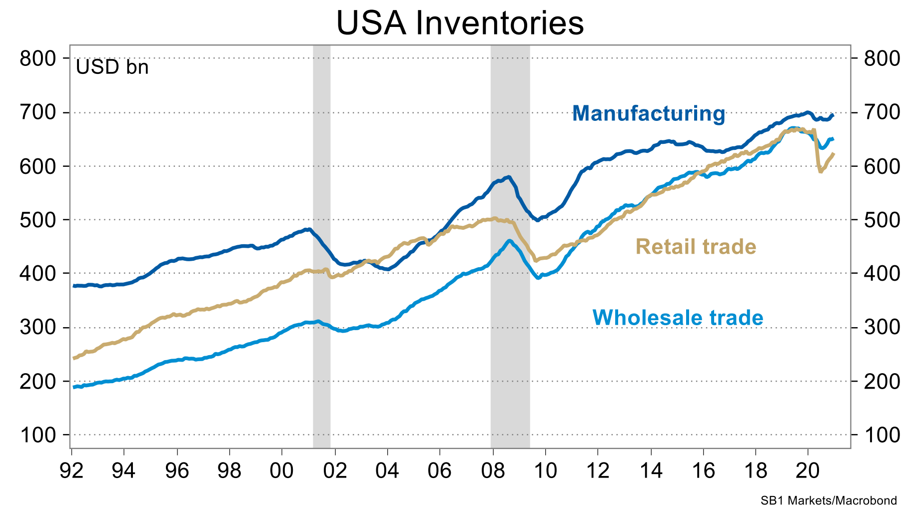


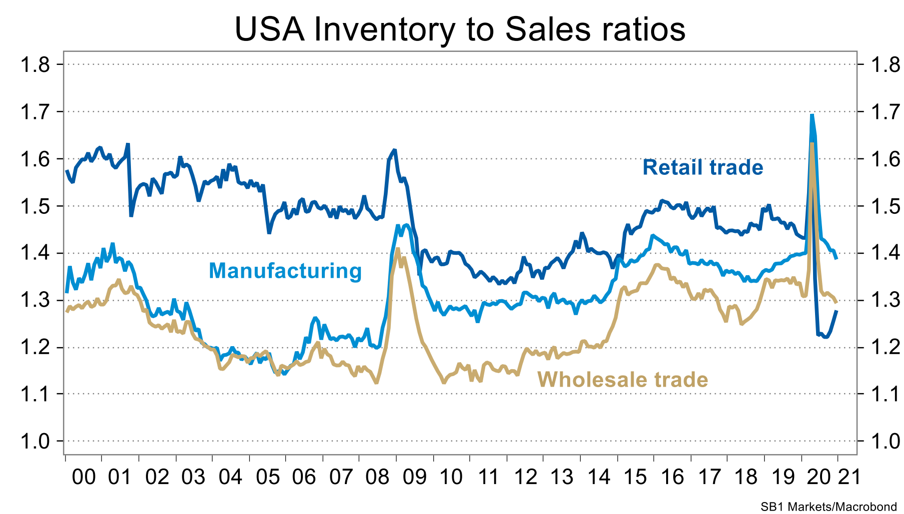
- The headline in Phil Fed index fell by 2.4 to 23.1, a strong level (1.4 st.dev above avg)
- The headline in Ny Fed's index rose by 8.6 p to 12.1, well above expectations, but not far above an average level (from below)
- At the chart above, we utilise the relevant sub-indices in these surveys not the general outlook headline index

Inventories are being built up, but they are still low

… and they will very likely be filled further up the coming months (but not among retailers in Jan)



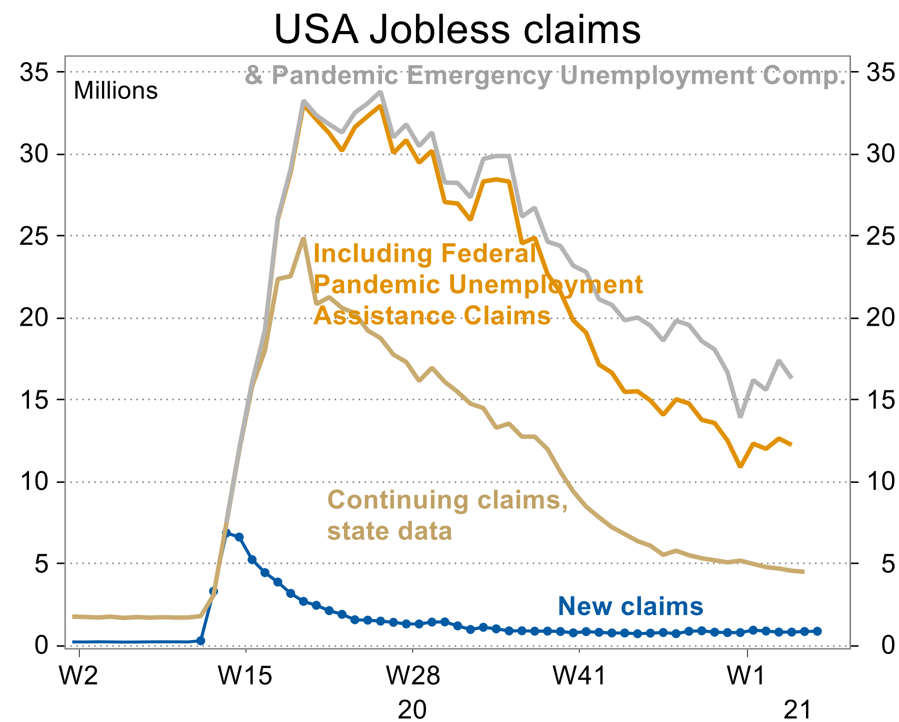




- Retail trade inventories fell sharply in April-June. Inventories are now on the way up, but levels are still very likely below a normal level
- Inventories are probably too low in wholesale trade
- Manufacturing inventories are probably close to a normal level, or somewhat below

New jobless claims up again. And the trend is … up??

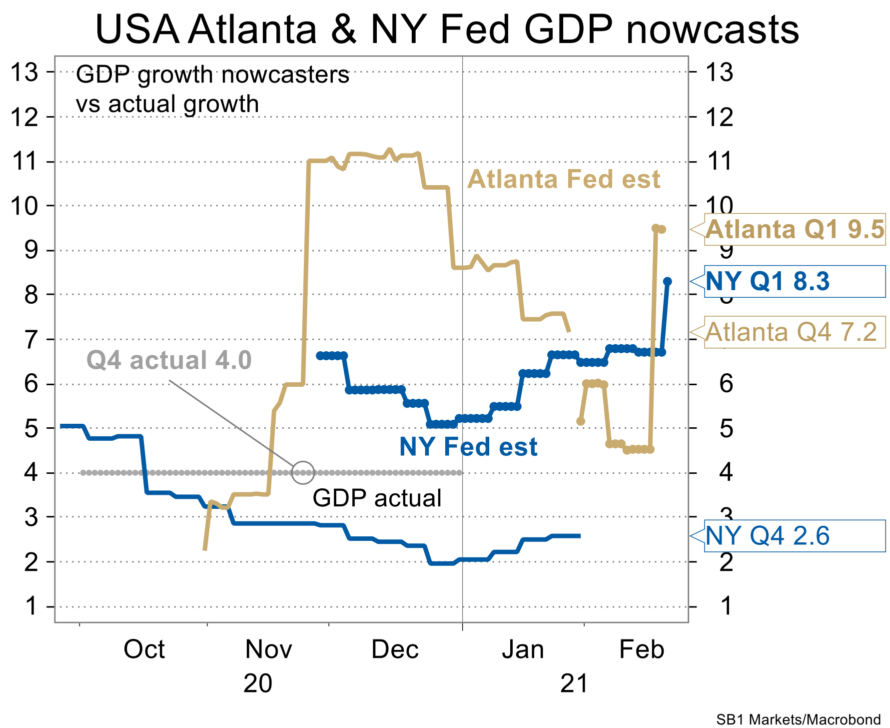
New claims have been trending up since early November – by some extra 150' per week

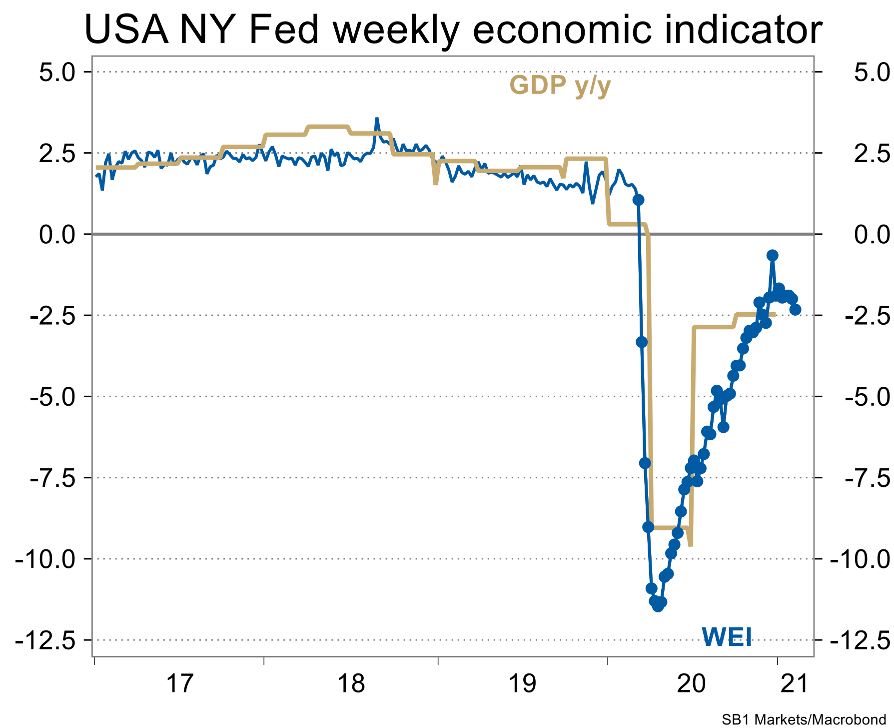


- New claims rose by to 861' last week, from 848' – revised from 793' (!), and expected down to 765. The deviation is rather large
  - » The level is far above anything "normal", signalling still serious 'turbulence' at the US labour market
  - » A slowly upward trend is somewhat surprising given strong retail sales, including a lift even in restaurants in January
- Pandemic unemployment programs' claims rose, as expected, following the extension of these programs from the start of 2021

Q1 GDP towards 10%?? At least according to Fed nowcasters

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

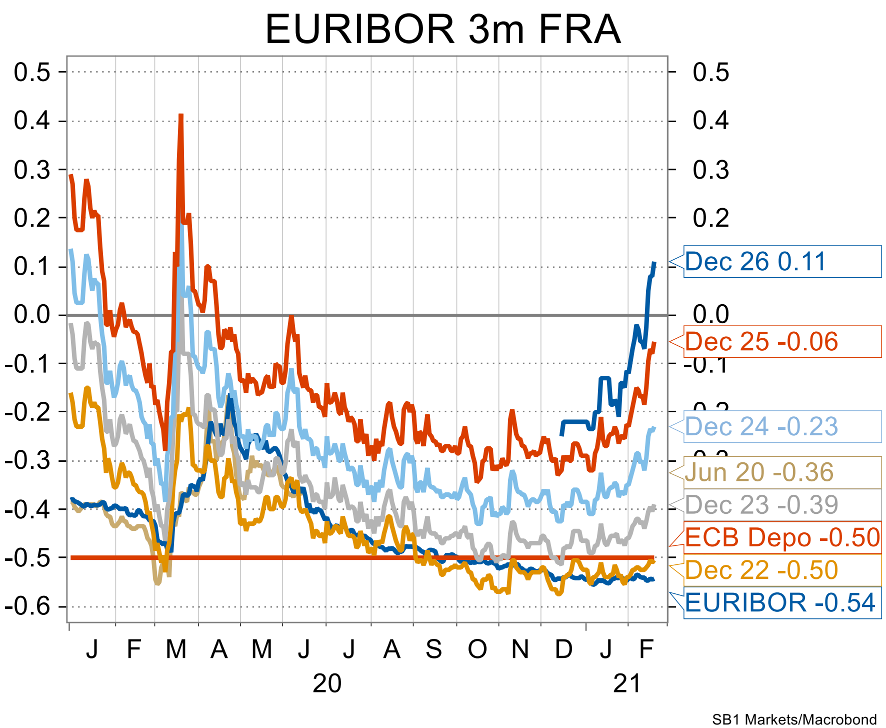


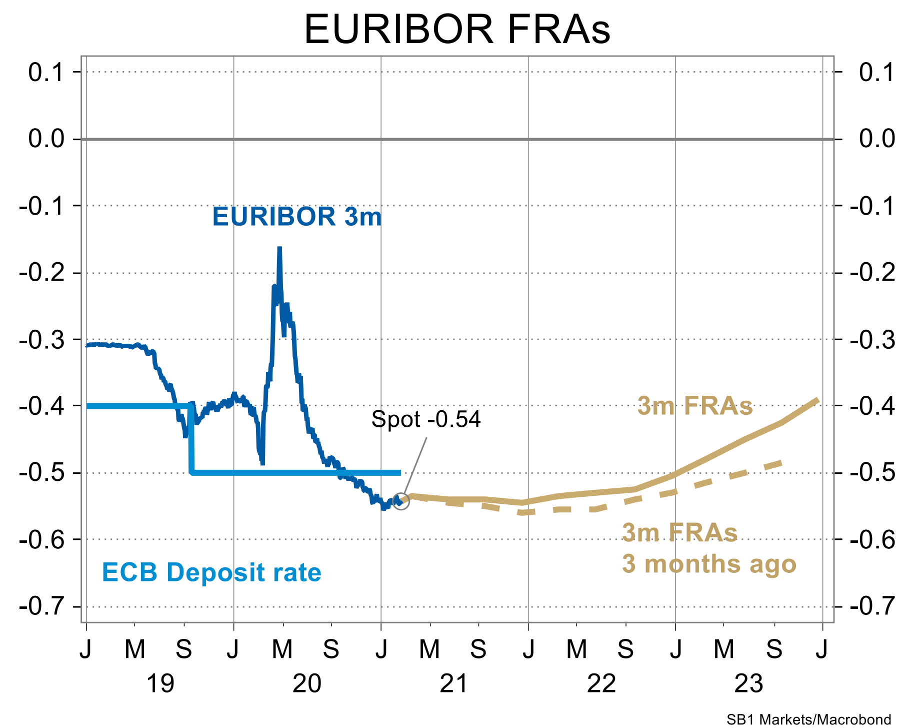


- The retail sales report boosted Q1 GDP growth expectations, for good reasons

The ECB minutes unanimously supports full speed ahead. Markets not bearish but

… interest rates are starting to move upwards, + 30bps last month. A signal rate above zero in… 2027?



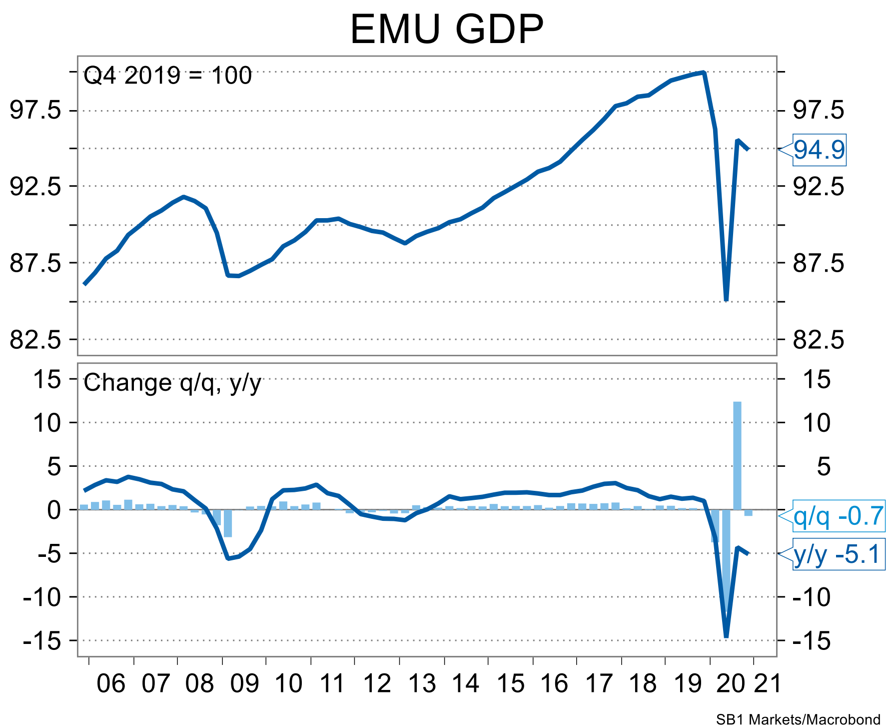


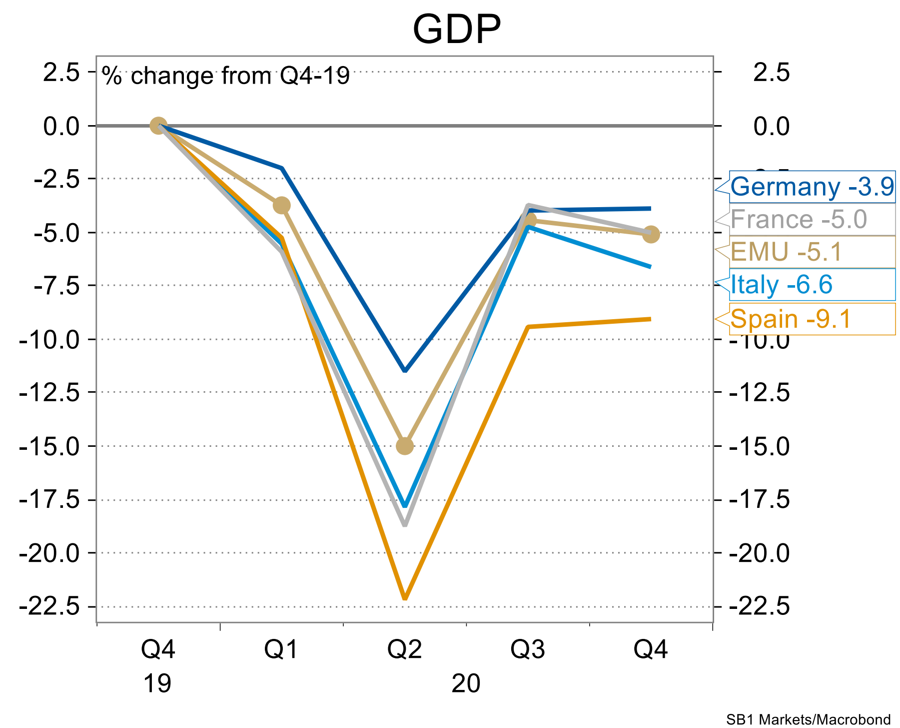
- We have not spent much time looking at the short end of the EUR curve recently – but suddenly something is moving again

SpareBank 1 MARKETS

GDP down 0.6% in Q4 (up 0.1 pp from last flash estimate)

Euro Area GPD fell by 6.8% in 2020, and GDP is still 5.1% below the pre-corona level

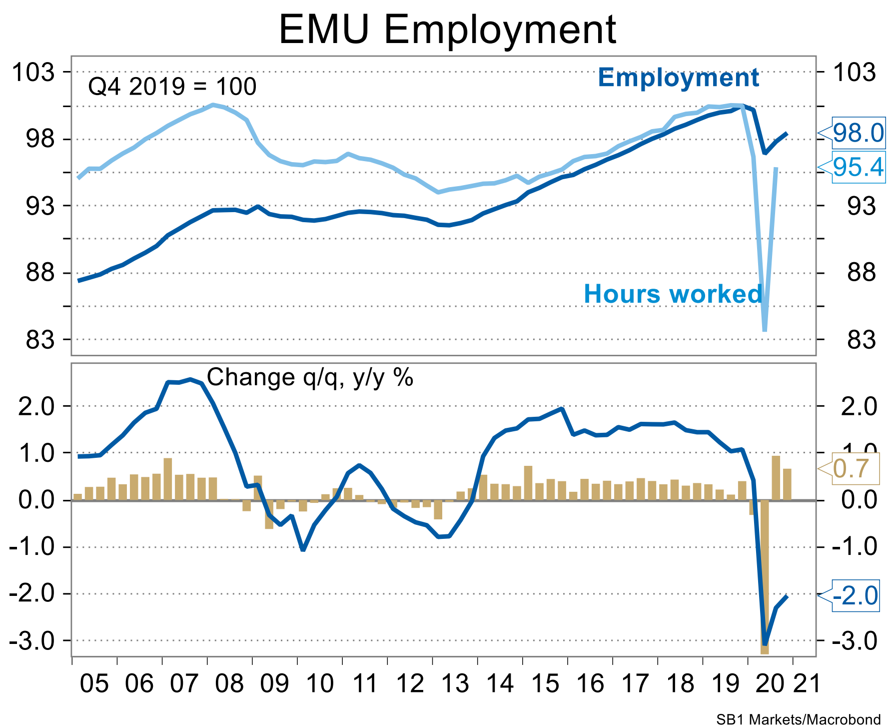




- GDP grew by 0.1% q/q in Germany, 0.4% in Spain, and GDP decreased by 1.3% q/q in France, -2.0% in Italy, and -4.3% in Austria
- France, Germany, Spain and Italy were down 3.9% - 9.1%% from Q4 '19
- No demand details yet

Employment up in Q4, still 2% below the pre-pandemic level

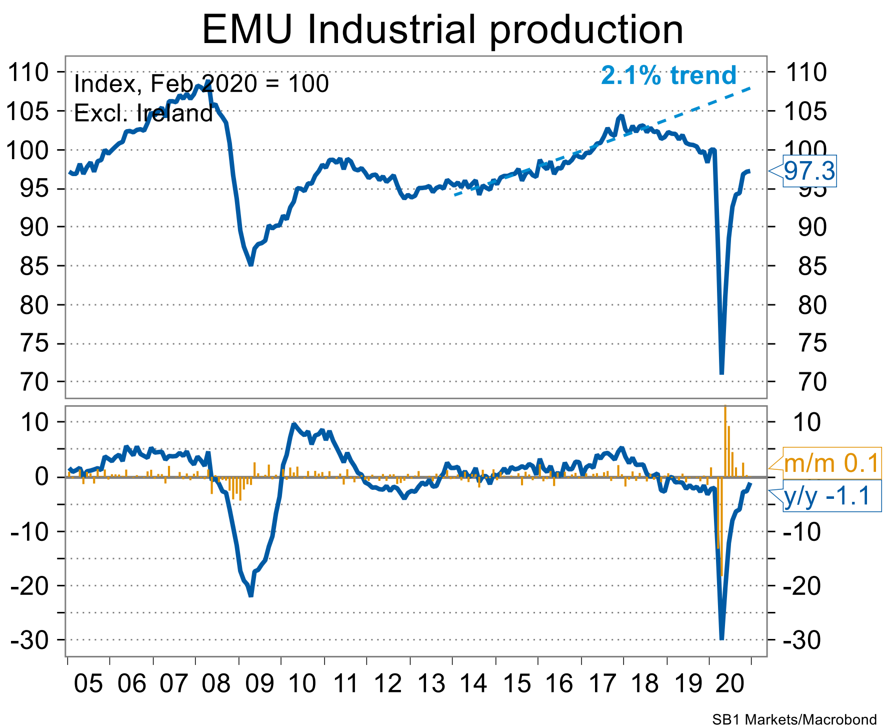
Public measures (wage subsidies) makes employment data somewhat irrelevant

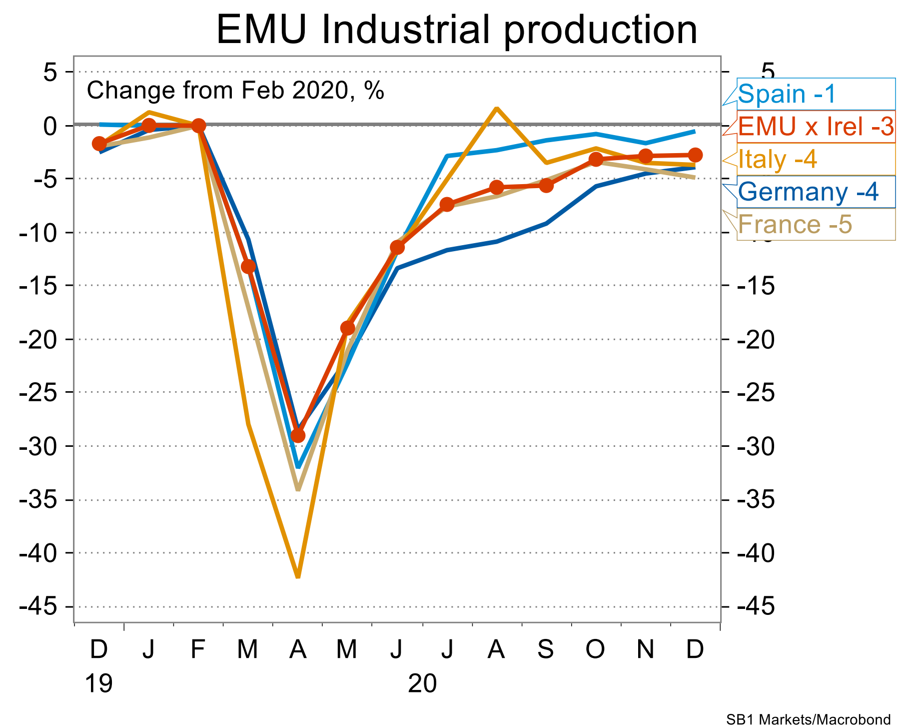


- We do not yet have Q4 hours worked data. As GDP fell, there is a priori no reason to expect an increase
  - In Q3, hours worked was down 4.6% vs. the Q4 19 level, less than the decline in the US

Manufacturing production, ex. Ireland, up 0.1% m/m (we exp. 0.2%)

Production incl Ireland down by 1.6% (we exp. -1.25%, consensus at -0.6%) from +2.5% in Nov

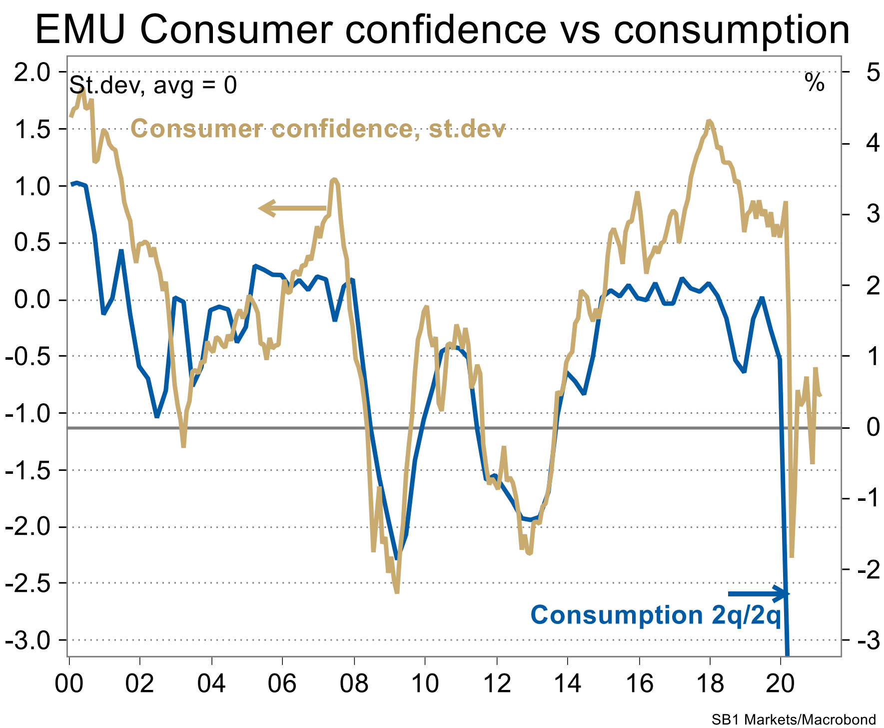


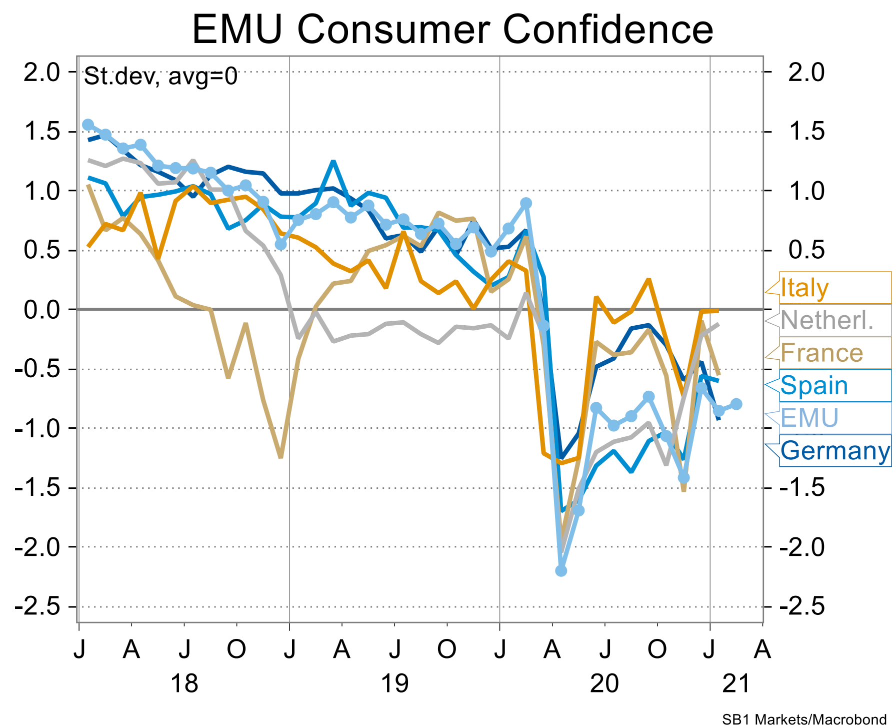


- **EMU manufacturing production** is still 2.7% below the pre-pandemic level – which was a rather weak level, following a 2 year setback. Still, production is still heading upwards
- Production increased in **Spain** (0.7%) & **Germany** (0.6%), while **France** (-0.8%) & **Italy** (-0.2%) have reported small setbacks. Production in Italy has been heading down from (a high level) in August. The Big 4 together grew by 0.2% m/m
- **Ireland** reported 25% decline m/m in Dec, following by 53% lift in Nov – due to extreme statistical volatility in the 'modern' sector (software etc, partly tax 'free', heavily influenced by tax motivated transfers of 'production', we assume). These Irish data are totally irrelevant for the real activity in manufacturing sector – and we have removed them from the EMU aggregate

Consumer sentiment marginally up in Feb, still below par

The confidence index close to stable in Feb, following the 0.4 st.dev. setback in Jan . Trend still up?

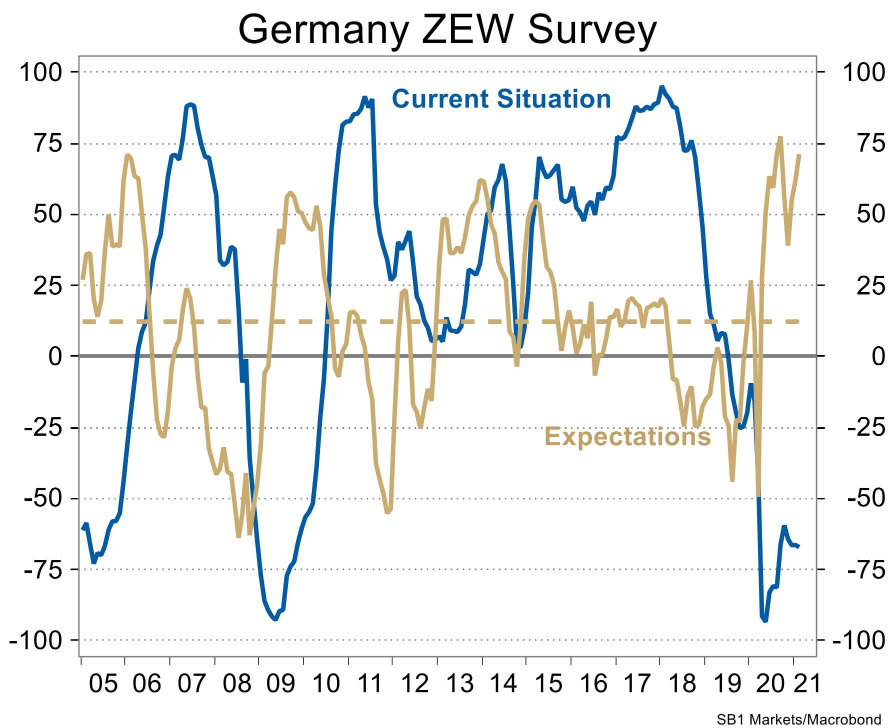


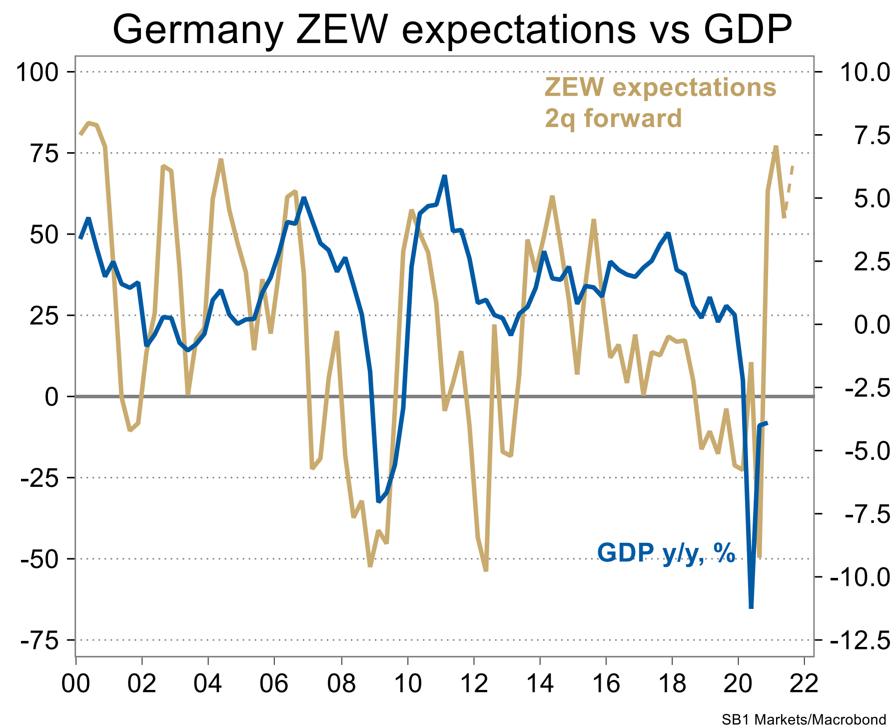


- A confidence at the present level does normally not signal any decline in private consumption
  - » However, consumption has been weaker vs. sentiment then normal the past years
- In January, the confidence indicator was at an average level – the other big 4 were below, with Germany at the bottom (probably due to the lockdown)

ZEW analyst/investor sentiment improved for the 3rd month

Strong growth expected. Why not? The starting point is low. Vaccines are arriving

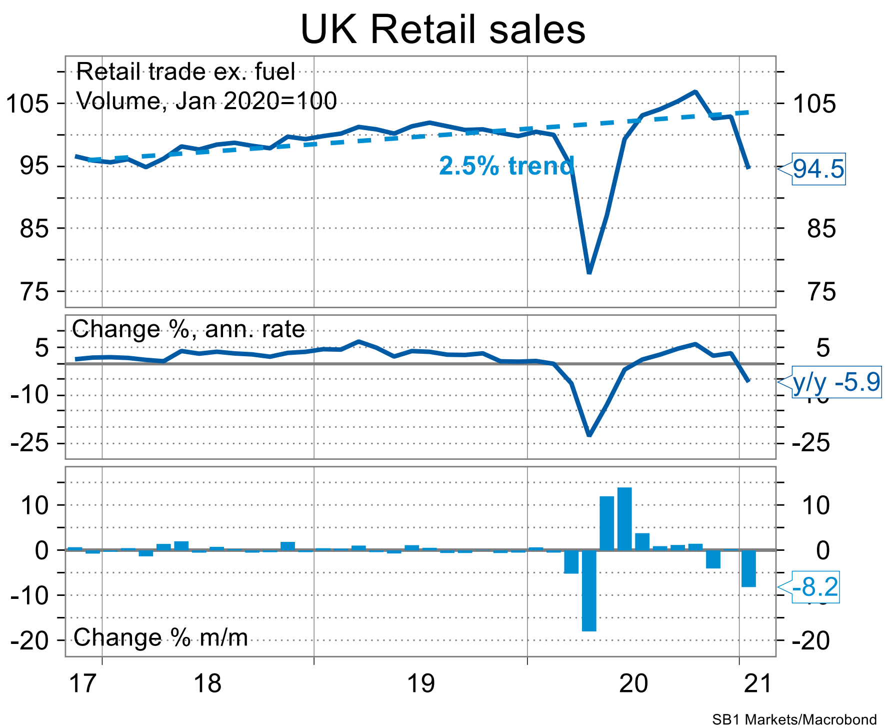


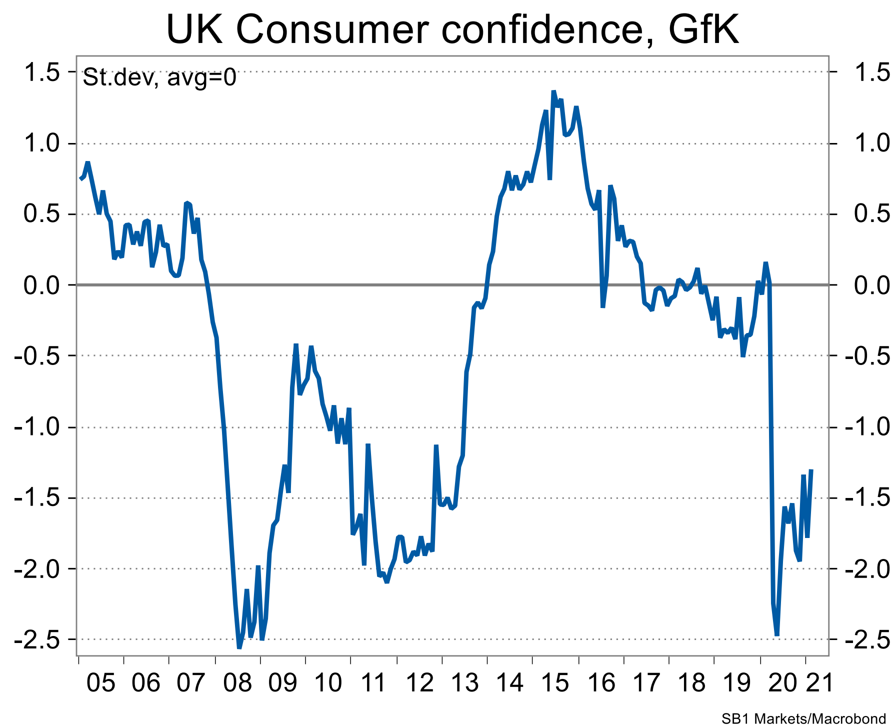


- The ZEW expectation index is close to the strongest level since 2000 - but can probably not be used to calibrate any precise GDP forecast
- Investors and analysts are just pretty sure that the economy will not remain in the basement (or below) forever. Which is reasonable
- Assessment of current situation deteriorated somewhat – but what can one expect from a country in lockdown?

There it was: Retail sales down 8.2% in Jan, expected -2%. *So much for big data*

… or economists, you could add – nobody saw anything?? Still, less than ½ as bad as last spring ☺

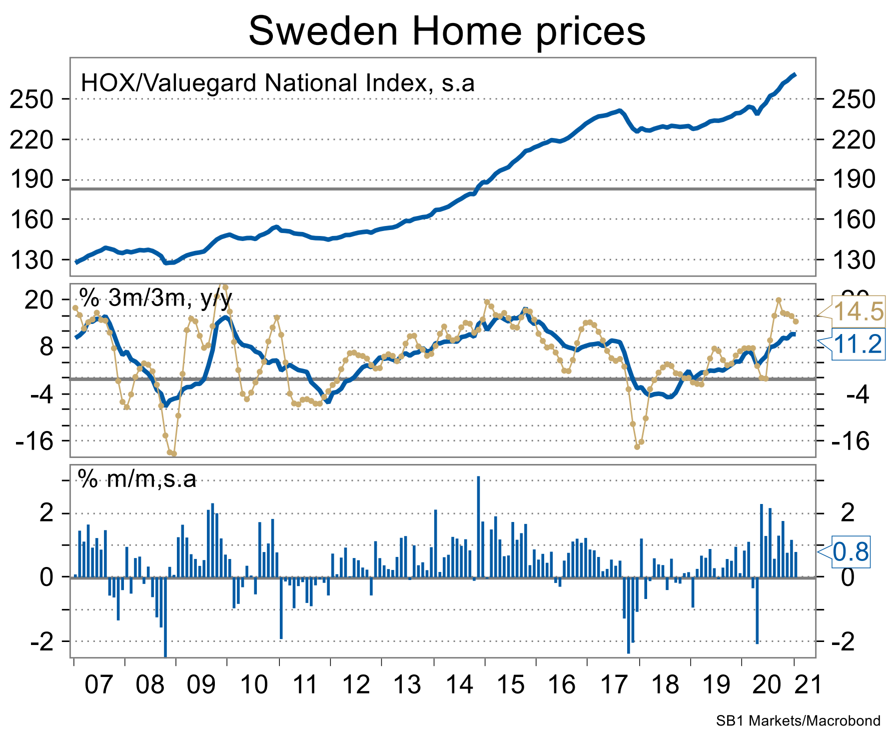


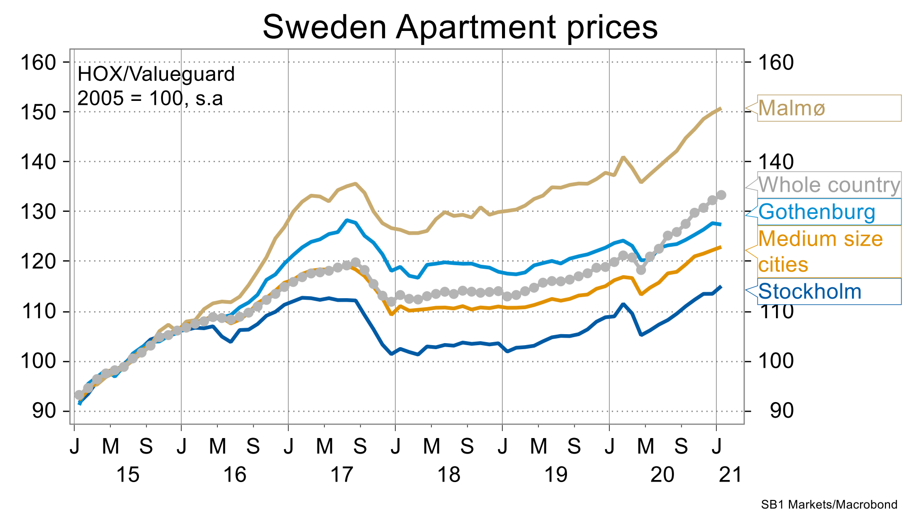


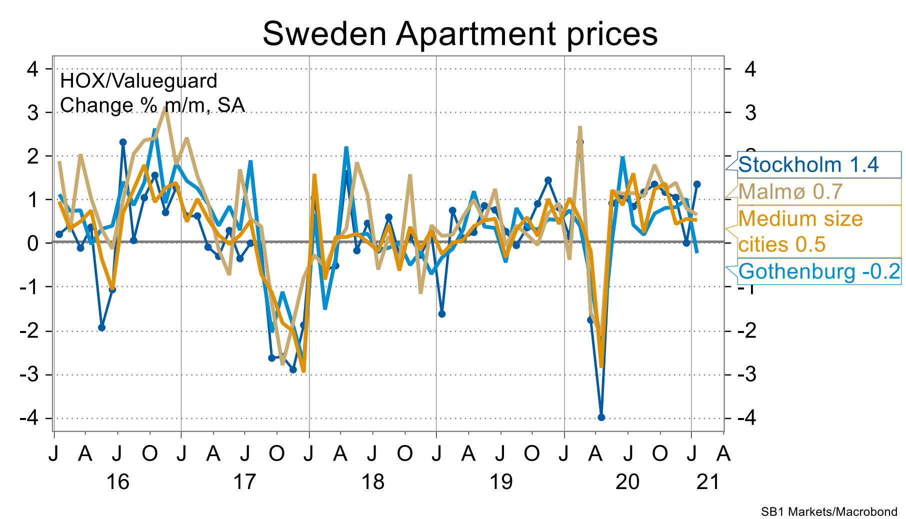
- **The lockdown**, which included much of the retail trade business, made a dent in sales - and much more than expected.
- **Retail sales** were 5.5% below the pre-pandemic level, after being well above since July, at the peak 7% above
- The roll-out of vaccines is very successful and restrictions will be eased, also vs. retail trade
- **Consumer confidence** rose in February, following the setback in Jan. The level is still far below normal – but it is trending rapidly upwards. Leaves some hope for stronger sales data next months
- (Just to remind you, we have some tricky retail sales data ahead us in Norway too, at least in February, but nothing like a 8% drop)

Swedish house prices up 0.8% in January

Greatest increase in Stockholm, while second largest city sees a small decline in prices m/m



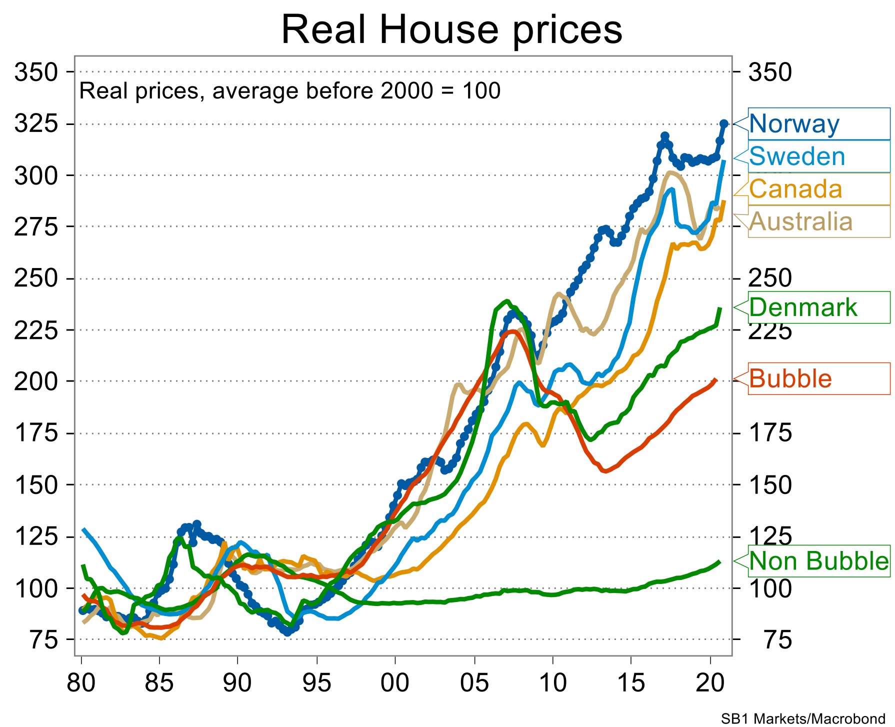


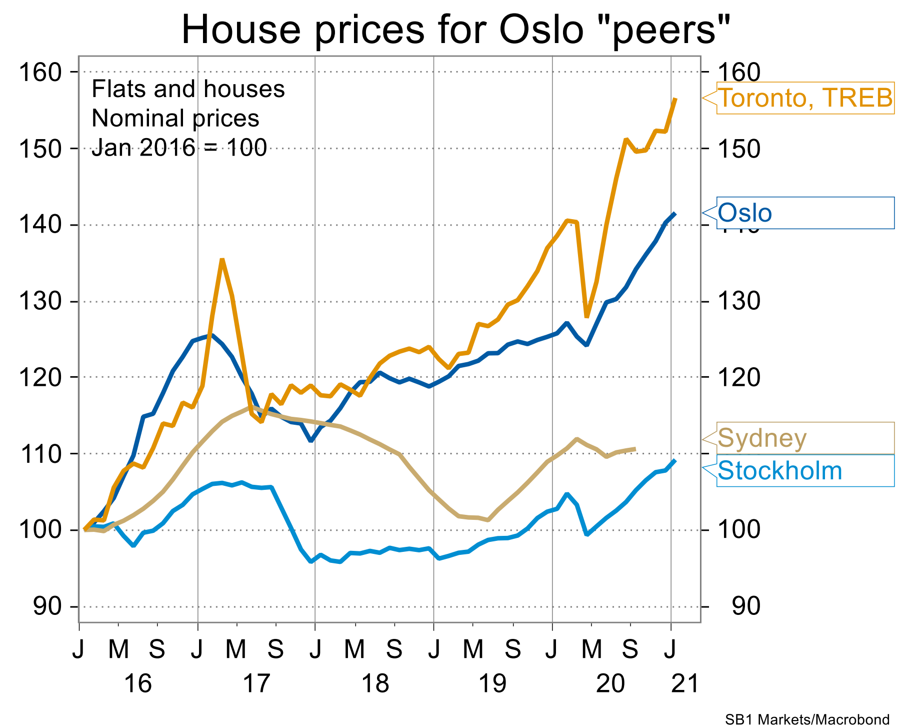


- Underlying price growth is now 15%, even higher than in Norway
- Prices are now increasing in all the major cities – and finally both Stockholm and Gothenburg prices are above the February level, after being lagging sharply recent months

Zero-interest rates for the win

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

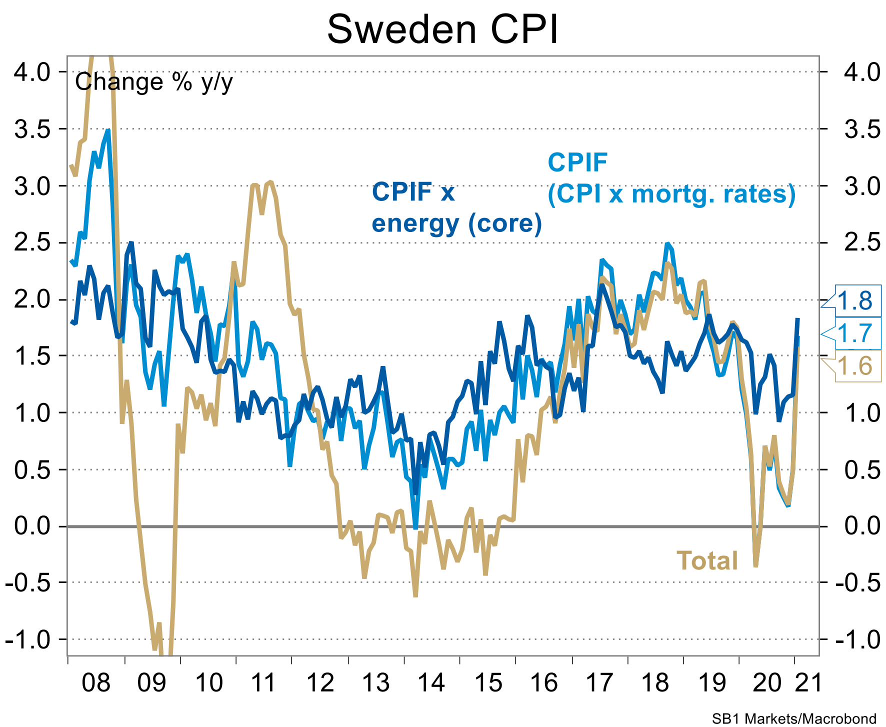


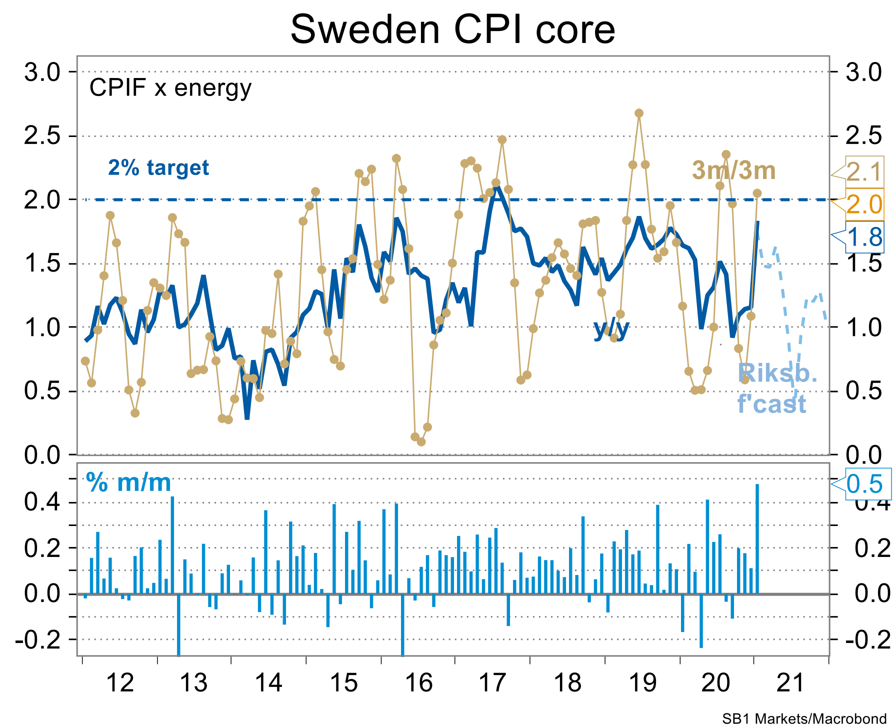


- Real house prices are at high levels in both Canada, Norway, and Sweden

Core inflation shot up 0.6 pp to 1.8% in January – Riksbank had 1.7%

Riksbank expects core to remain low for long, and expects core CPI to dip from here until summer



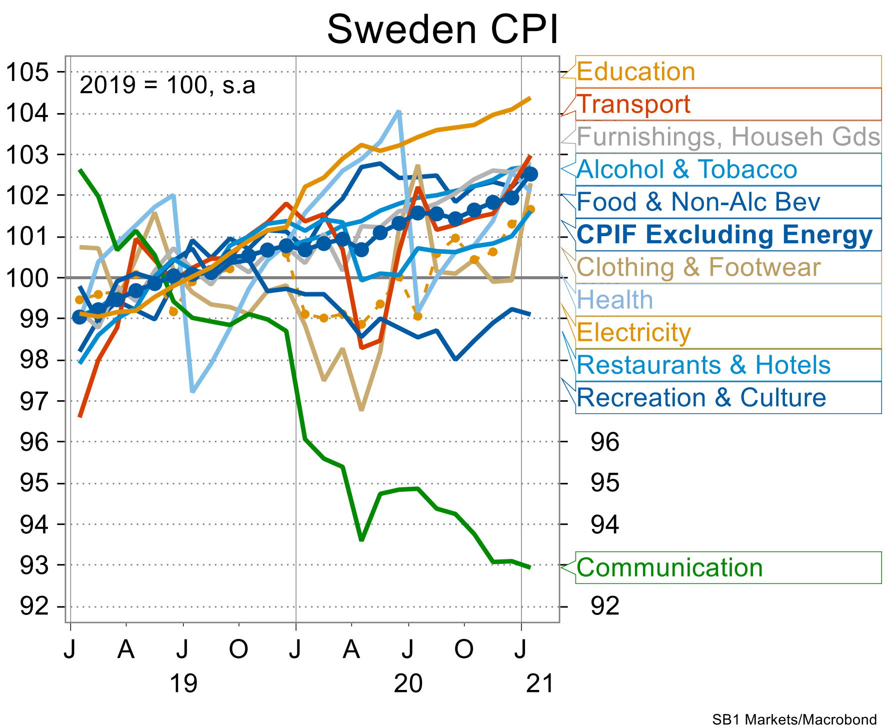


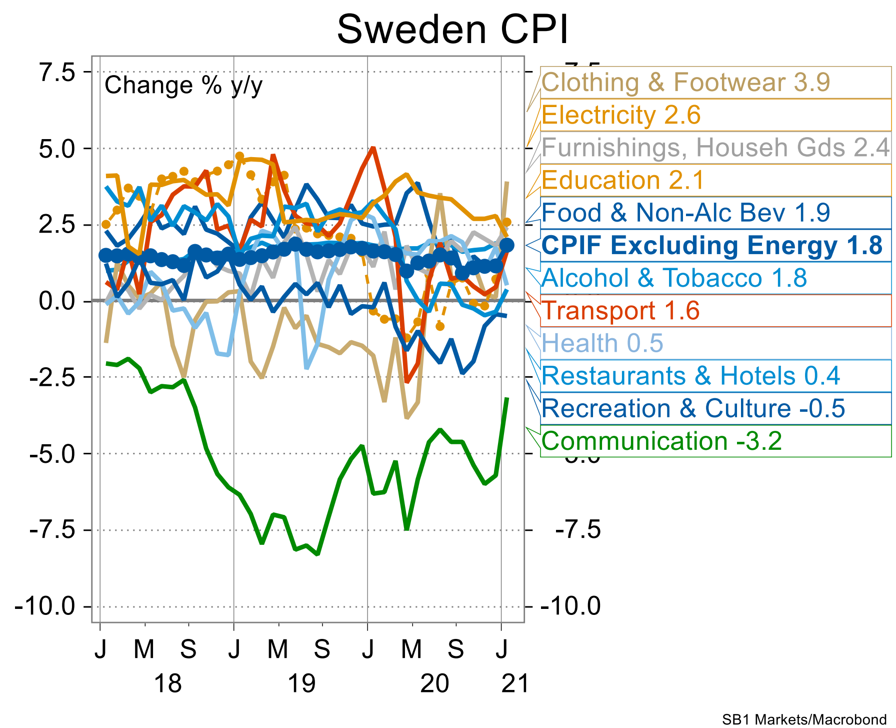
- The core inflation (CPI-F x energy) was expected up to 1.7% - so no big surprise
  - » Core prices rose by 0.5% m/m, the most since 2009. Clothing contributed the most, probably not a permanent trend – but other prices rose more than normal as well
  - » The 1.8% print is close to the inflation target

- Total inflation accelerated to 1.6% from 0.5%, supported by higher electricity prices, just like in Norway

Clothing, electricity and food prices contributing to the uptick in CPI

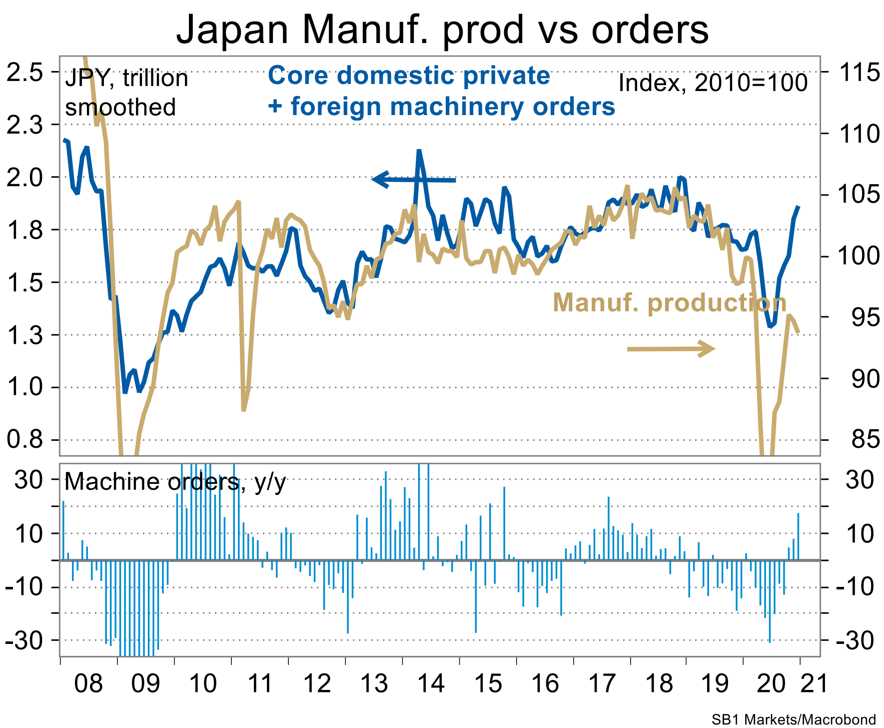
…but majority of sectors are still reporting inflation below 2%

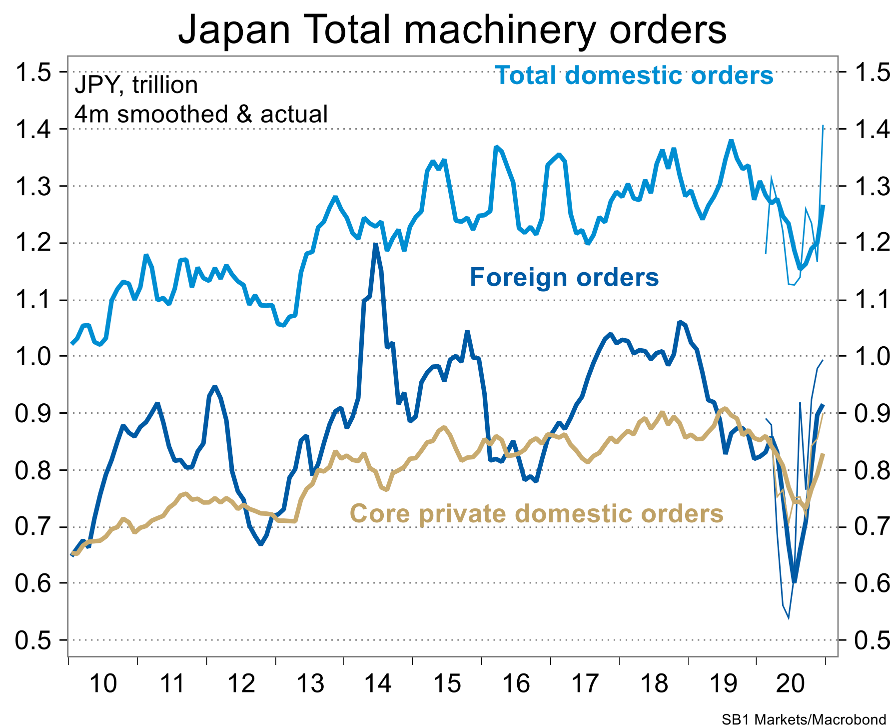




Manufacturing orders are surging – production has to follow suit?

Both domestic and foreign orders are far above the pre-corona levels

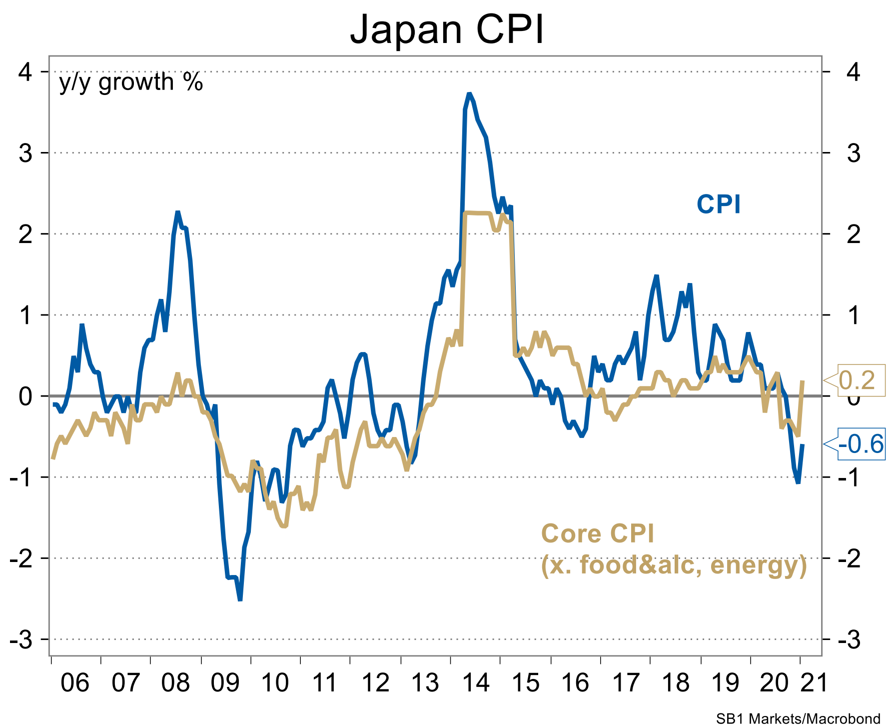


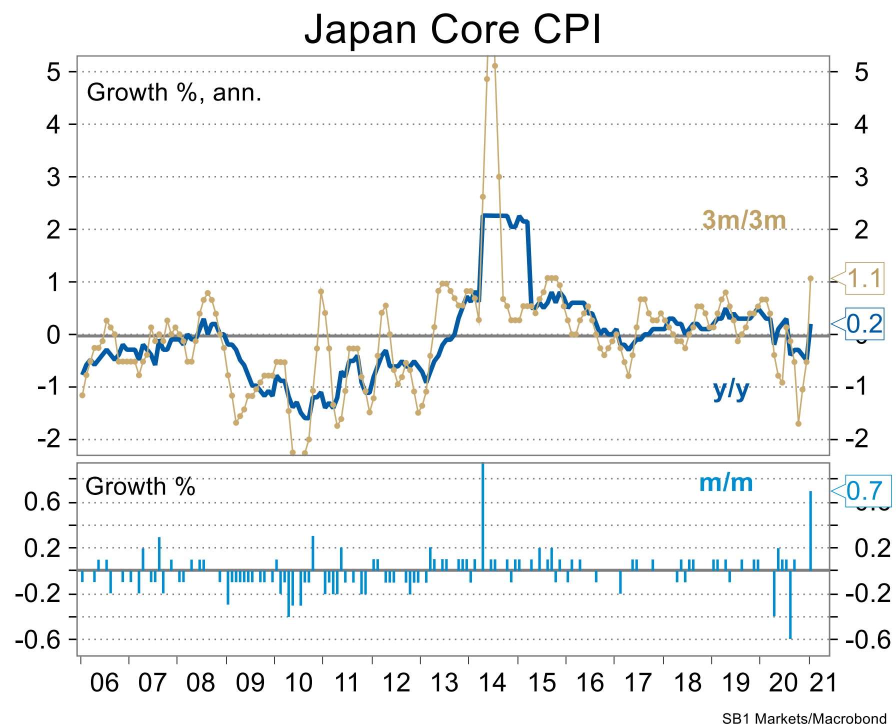


- The current recovery has been stronger than expected, like in January where core private domestic machinery orders were expected down 3% but actual orders were up 12%. In addition foreign orders have shot as well, and total inflow is strong too
- **Manufacturing production** is best correlated with private domestic orders + foreign orders, not total domestic orders. Production has not recovered to the pre-corona level yet but order inflow signals that may happen the coming months

Core CPI back in plus – but not more than that

End of the travel subsidy program lifted prices sharply – but BoJ is far from reaching its 2% infl. target





- Core CPI (ex food, energy) rose by 0.7% in m/m, pushing the y/y rate to 0.2% from -0.5%
- The main reason for the lift was the reversal of the travel subsidy equalling 35% of the cost, in the pandemic stimulus "Go to travel" pandemic program – which lowered inflation by the same amount in August last year
- Total CPI is still below zero, at 0.6%, as energy prices has fallen sharply. That may soon change
- <u>Anyway, Bank of Japan has not succeeded in bringing inflation up to the 2 % target…</u>

Highlights

The world around us

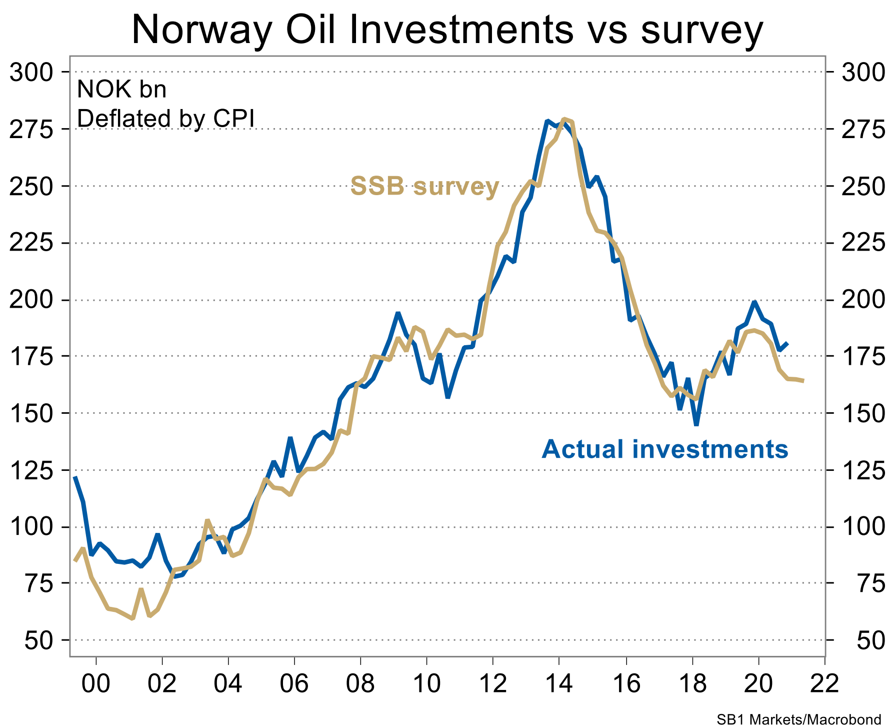
The Norwegian economy

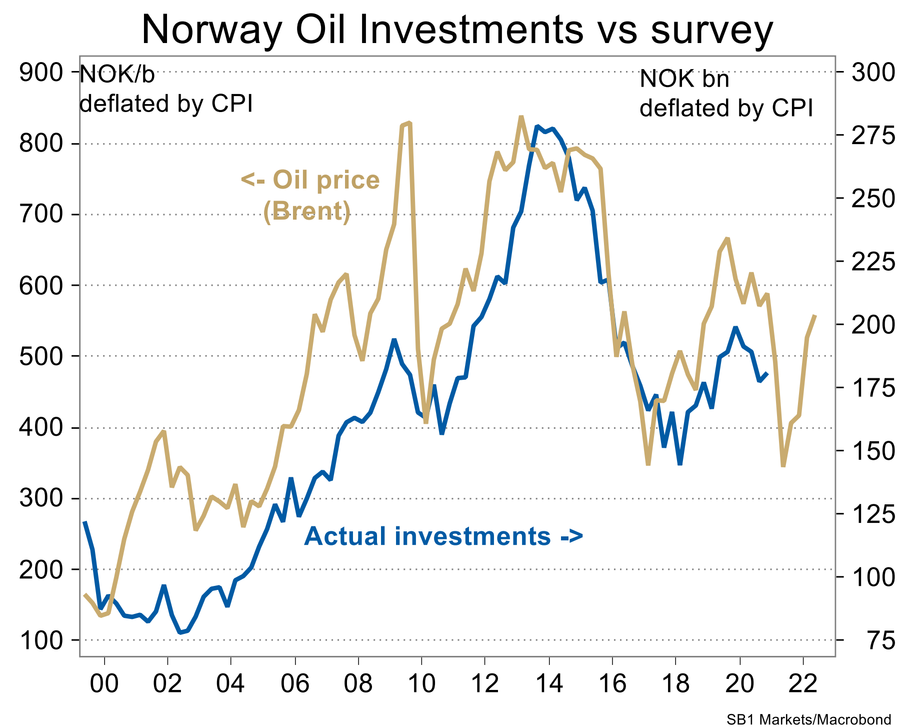
Market charts & comments

SpareBank 1 MARKETS

Oil investments: A mild downturn - tax cuts & the oil price saved the day?

SSB's investment survey signals a further but moderate decline in oil sector investments

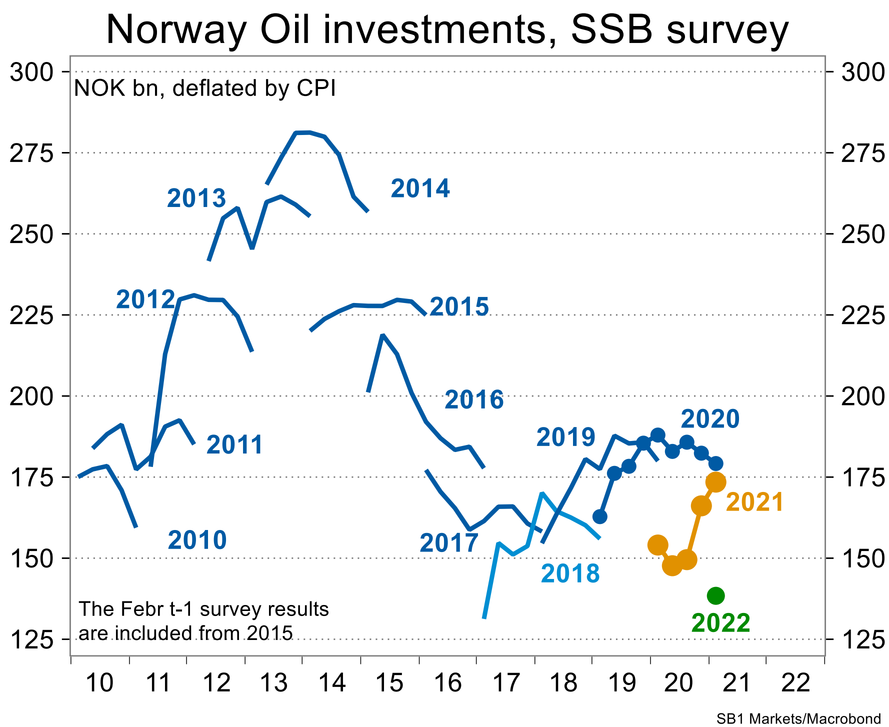




- Oil companies revised their **2021 investment forecast** up by 4% to NOK 174 bn (we exp. 173), still signalling a 6% decline vs. 2020. We expect some more upward revisions, but keep our 6% volume decline estimate – which is equal to Norges Bank's and SSB's Dec forecasts. An increase in investments in exploration and concept studies is not to counterweight a much larger decline in investments in new fields
  - » In 2020 , investments fell by 5% in volume terms - but 14% to Q4 20 from Q4 19, which was well felt by the Norwegian supply industry
- **The first 2022 estimate** is down 9% vs. the equivalent 2021 estimate, at NOK 137'. Several investment projects will be added to the list (a PDO delivered) during next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. Still, we expect 2022 investments to decline by 5% (volume terms)
- A 5% decline in oil investments subtracts less than 0.2 pp from Mainland GDP growth. The current 15% decline (2019 -2022), is far milder than the previous 30% setback (2013 – 2017). Measured vs. the Mainland GDP, the current downturn decline is less than 1/3rd of the previous

Another upward revision of the 2021 oil investment forecast but 2022 starts low

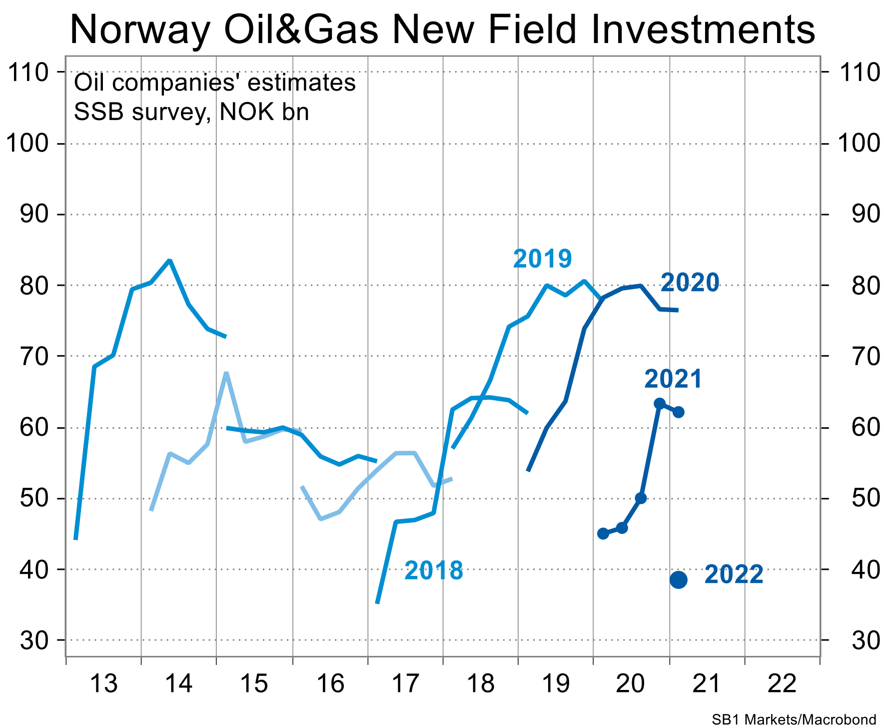
2021 investment forecast lifted by 4% from Nov, still signalling a 2021 decline. Most likely…

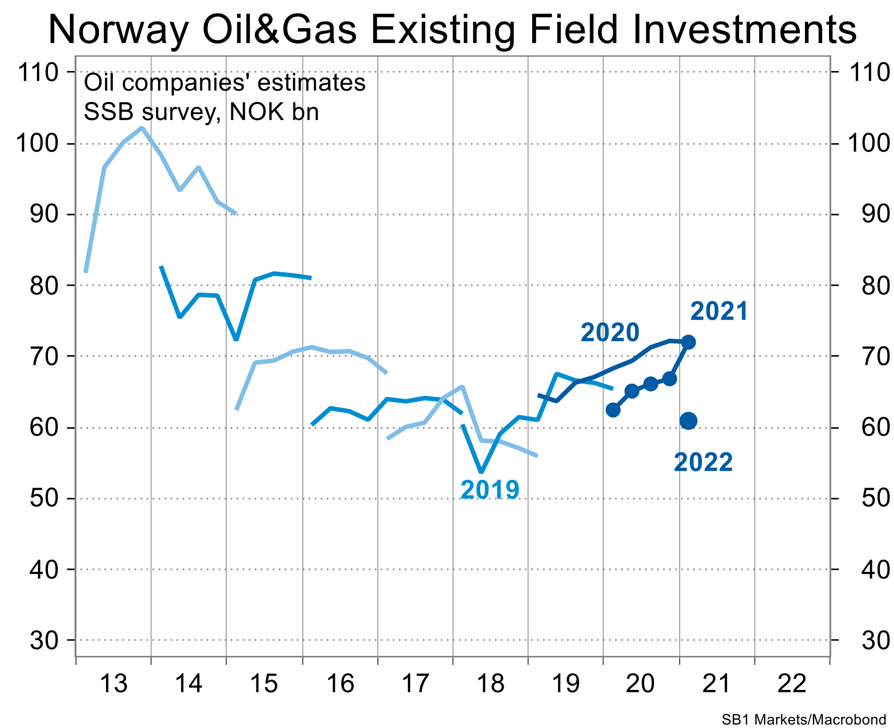


- In SSB's Q1 oil & gas investment survey, companies adjusted their **2021 investment f'cast** up by NOK 7 bn to 174 bn (we expected 173). Companies are still signalling a 6% decline vs. 2020 (up from -9% in the Nov survey) vs the equivalent 2020 forecast. We assume that the f'cast will be revised down the coming quarters, but less than last year. Thus, we pencil a 4% nominal decline
  - » The setback in 2021 is entirely due to lower investments in new fields, as large developments were finalised last year.
  - » The upward revision of 2021 f'cast largely driven by a 7.7% (NOK 5.2 bn) upward revision of investments in existing fields
  - » Exploration & concept studies expenses revised up again by NOK 1.5 bn to 25.8 bn, as companies tries speed up producing plans for development and operation (PDO) that can be delivered before end of 2022 in order to utilise the temporary (favourable) changes in tax system decided last June
  - » As we assume a 2% price inflation, we arrive at 6% decline in volume in 2021 – in line with our current f'cast as well as Norges Bank's forecast in the Dec MPR, and SSB's Dec f'cast.
  - » In 2020, investments fell by 5% in volume terms, and the level in Q4 was down 14% vs. Q4 '19 – which explains why oil related manufacturers struggled last year
- **The first 2022 estimate** is 9% below the first 2021 estimate, a tad lower than we expected
  - » The decline largely driven by a 9% drop in investments in new fields. Exploration and concept studies are on the way up – we assume in order to utilise the temporary tax reform.
  - » More projects will be added before 2022 is history, but it still seems reasonable to expect a further decline. We f'cast an another 5% (volume) setback
- **Lower oil investments** will continue be a drag on the Norwegian economy through 2022, but not by as much as we feared 8 months ago – due to tax cuts and a higher oil price. A 5% per year cut deducts less than 0.2 pp from Mainland GDP growth (no multiplier but adjusted for the import share) – not that dramatic vs our 4 ½ - 4 ½ growth forecast

A 20% drop in new field investments in 2021 – a further decline in '22?

Most likely, even more projects will be added

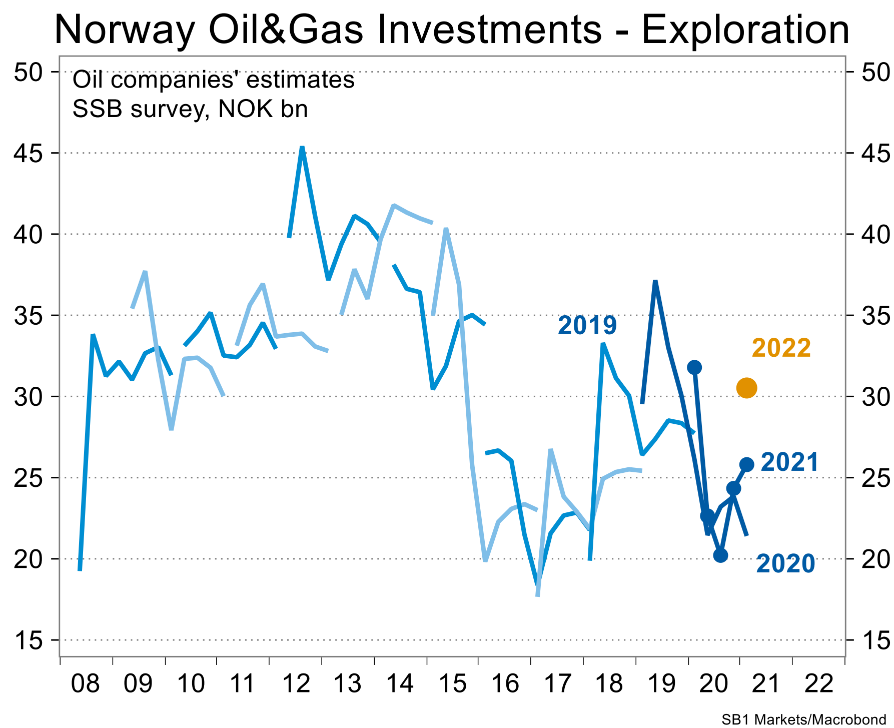


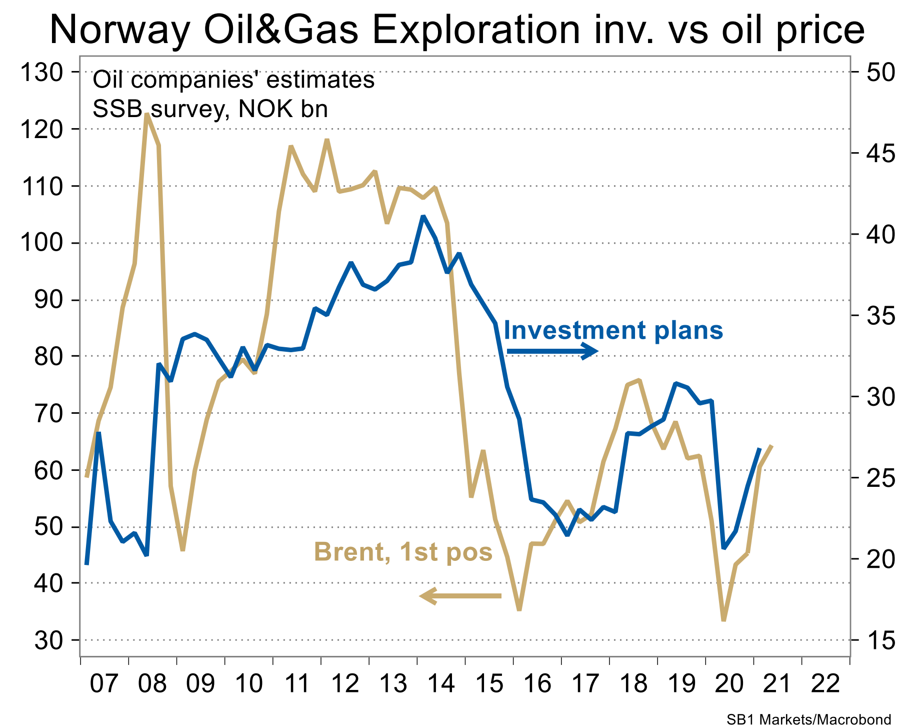


- **Investments in new fields:** The 2021 estimate was revised marginally down, following the unusual +27% revision in the estimate 3 months ago (which mostly was due to cost inflation, not "more real" investments). Companies signal a 20% drop in 2021 vs 2020, as big projects were completed last year (like Johan Sverdrup). The decline in 2021 is now more or less a done deal, as the Feb estimates never deviate much from the final outcome
- The first 2022 forecast is one of the weakest on record, down 9% vs. the first (low) 2021 estimate (published one year ago). Several projects will be added, and more costs to existing will probably be added. To benefit from the temporary tax subsidies, companies will have to submit applications for new projects to the authorities 'PDOs' (PUD). We expect a several PDOs to be delivered before end of 2022, and then spending on these projects will be labelled as 'oil investments'. Still, the 2022 outlook is not that favourable as spending on these new projects will be limited in the 'first' year - but more will follow the coming years (*the Green transformation, the Norwegian way??*)
- **Investments in field on stream:** Rose some in 2021, and we assume the 2022 forecast to be revised up the coming quarters

Exploration & concept studies on the way up – supported by tax cuts, oil prices

The first 2022 estimate (most likely) signals brisk growth – and 2021 is up vs. 2020

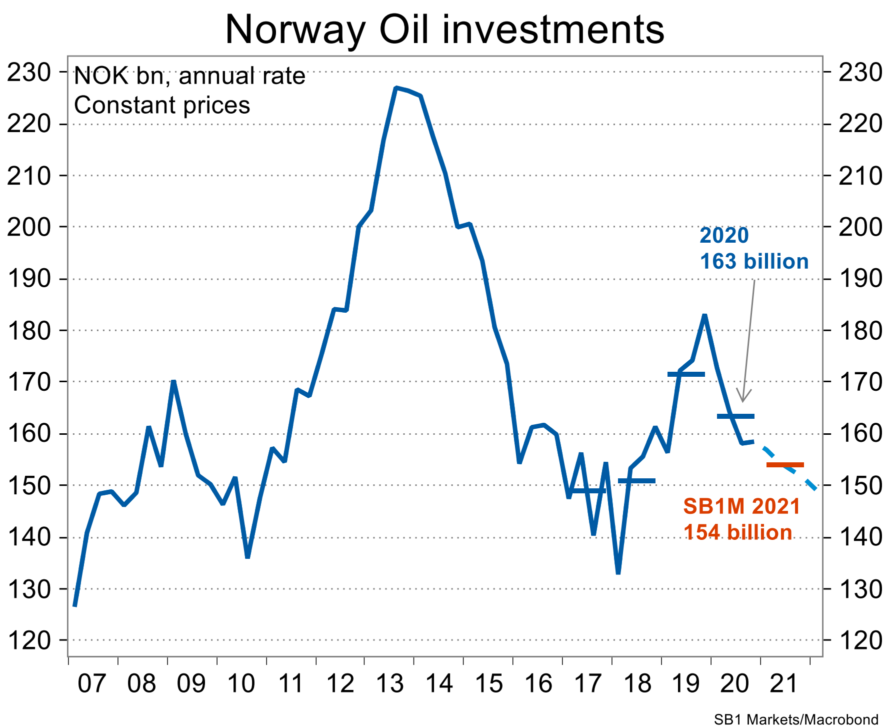


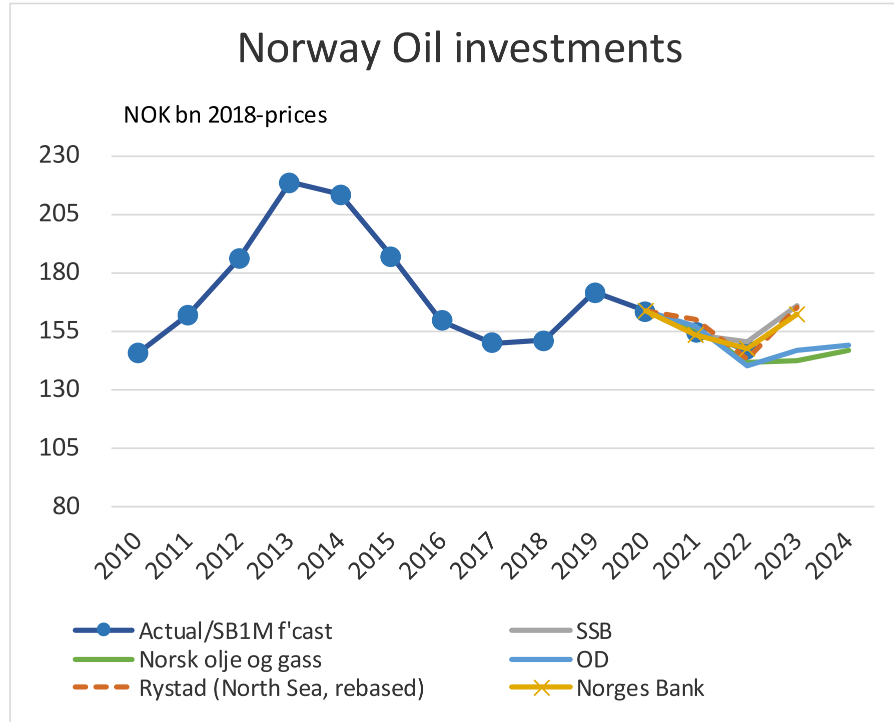


- Oil companies lifted their 2021 investment forecast further in Feb, and a 15 - 20% lift in spending seems likely
- The first 2022 forecast signals a further increase next year – very likely due to tax stimulus – and the lift in the oil price that have always been important to these investments

2021 better than feared but a crucial growth engine has anyway changed sign

Our forecasts imply another decline in 2021 – and a further decline in '22 – but the latter is uncertain

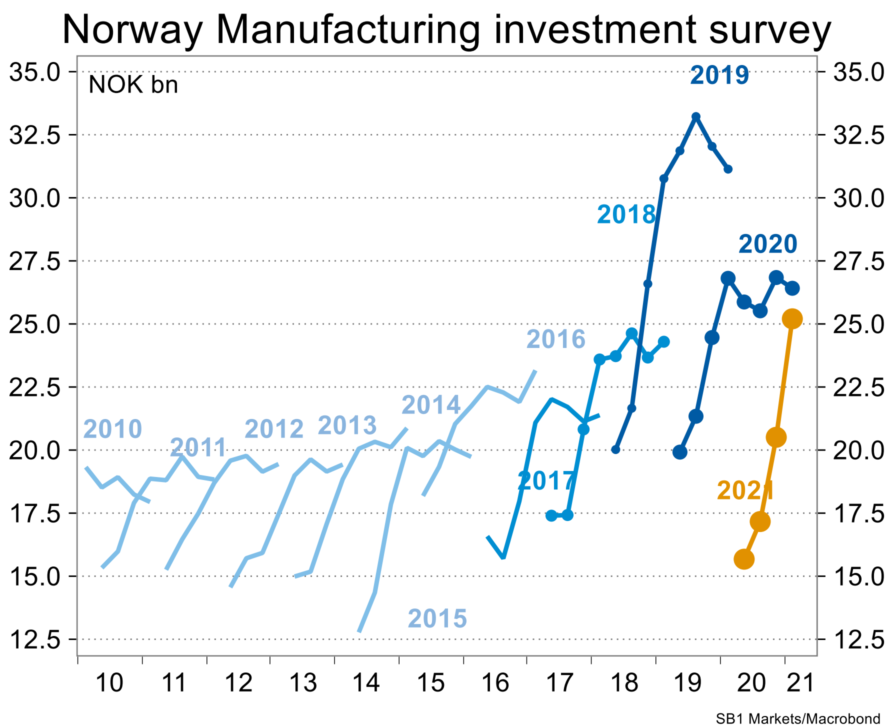


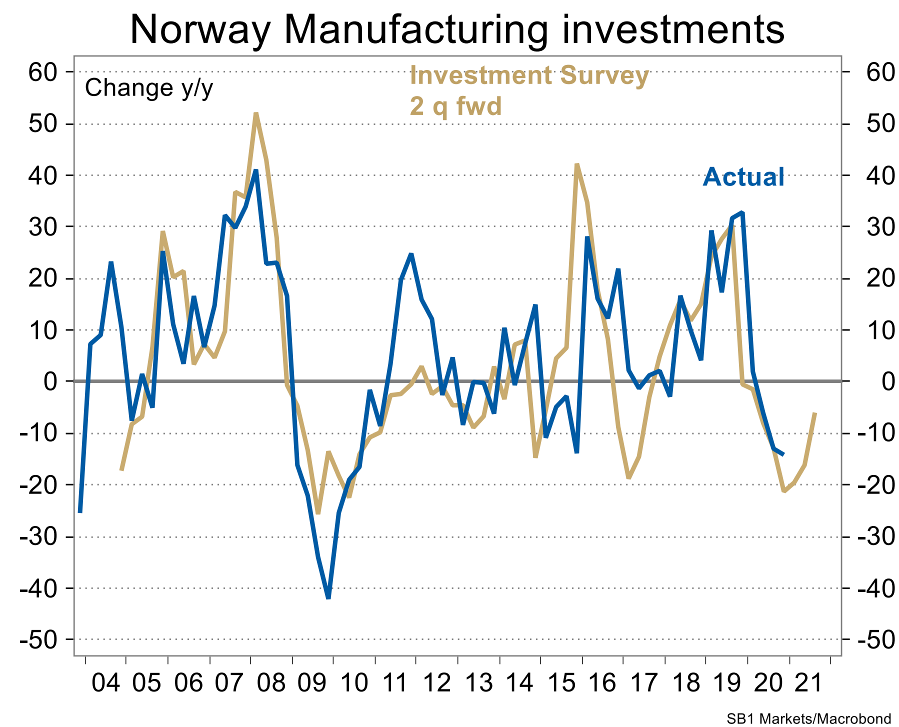


- Other forecasters are all expect further investment cuts in both 2021 and 2022, while the 2023 outlook is deemed to be better. Which seems reasonable

Manufacturers revised their investment forecast sharply up. No further decline?

The 23% revision to the Feb vs the Nov survey was the 2nd largest ever (1996 mar. better)!

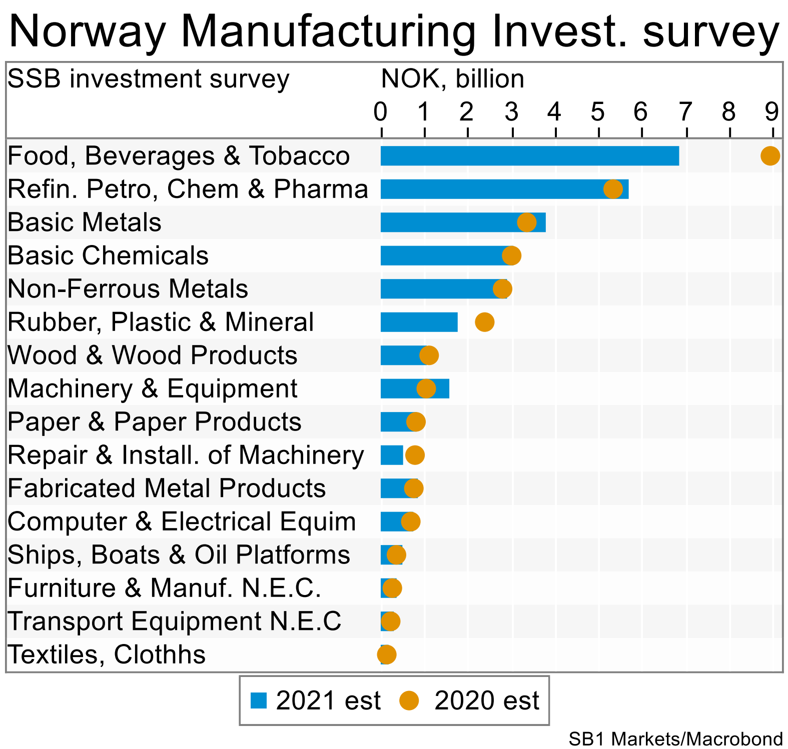


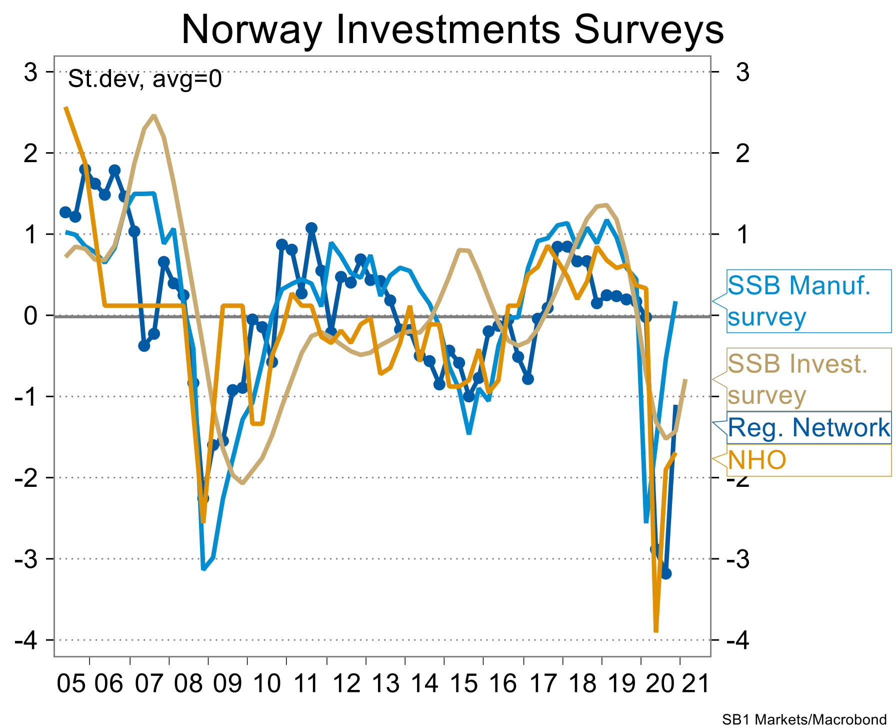


- Manufacturing companies adjusted their 2021 investments up by 23% in the Q1 survey far more than normal (average 9%), and the second highest on record – *data from 1979* ☺
- **The estimate is still lower than the 5% equivalent 2020 forecast** – though far better than the -16% in Nov, and -20% last August. We assume a parallel trajectory for the 2021 estimates to the 2020 path, which was close to normal. Given the sharp lift in the 2021 forecast it is tempting to apply the ruler, and add another lift. Still, there is no correlation between the Nov-Feb estimate change, and the change to the final outcome vs the Feb estimate
- We had already adjusted our 2021 manufacturing investment forecast to -6% from -15% (party due to a better Regional Network investment outlook), and we do not revise our forecast further up
  - » We expect a moderate decline q/q through H1, and then a modest recovery. Last year, investments fell by 11% - form the highest level in more than a decade (both in value and volume terms)

Lower investments in the food (processing) industry the main culprit in 2021

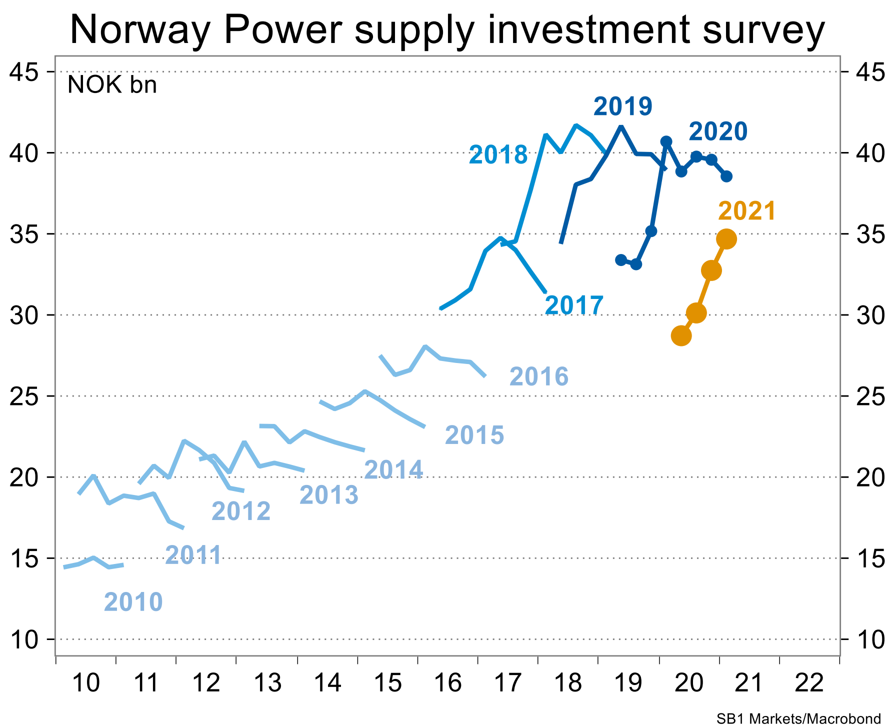
However, no industry is reporting a rapid increase in investment either

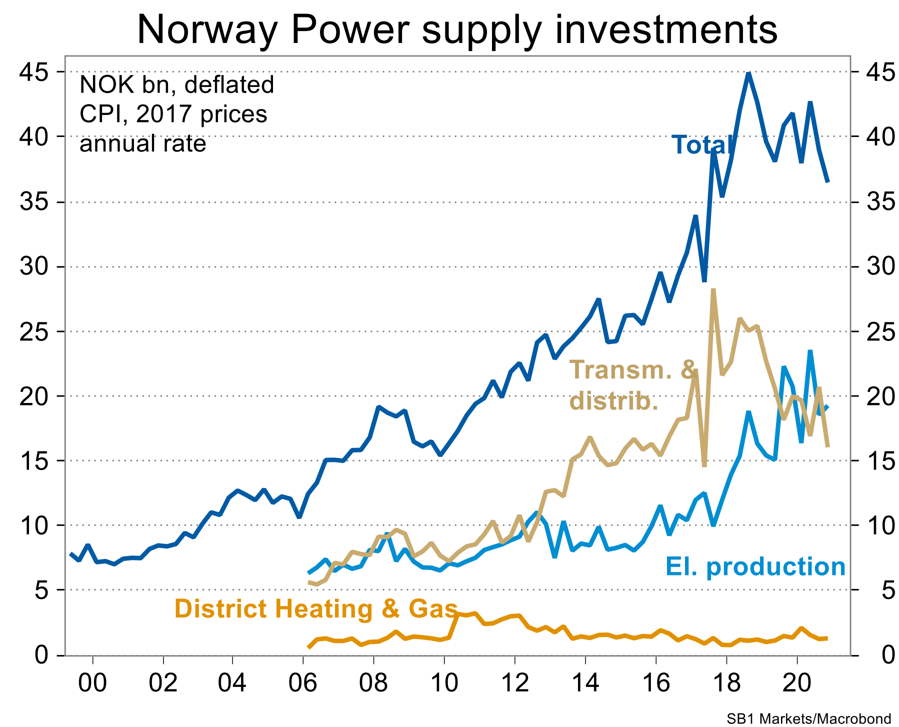




Power supply: Investments have peaked, but forecasts are nudged upwards

The 2021 forecast is 15% below the equivalent 2020 forecast – a 10% volume decline is likely

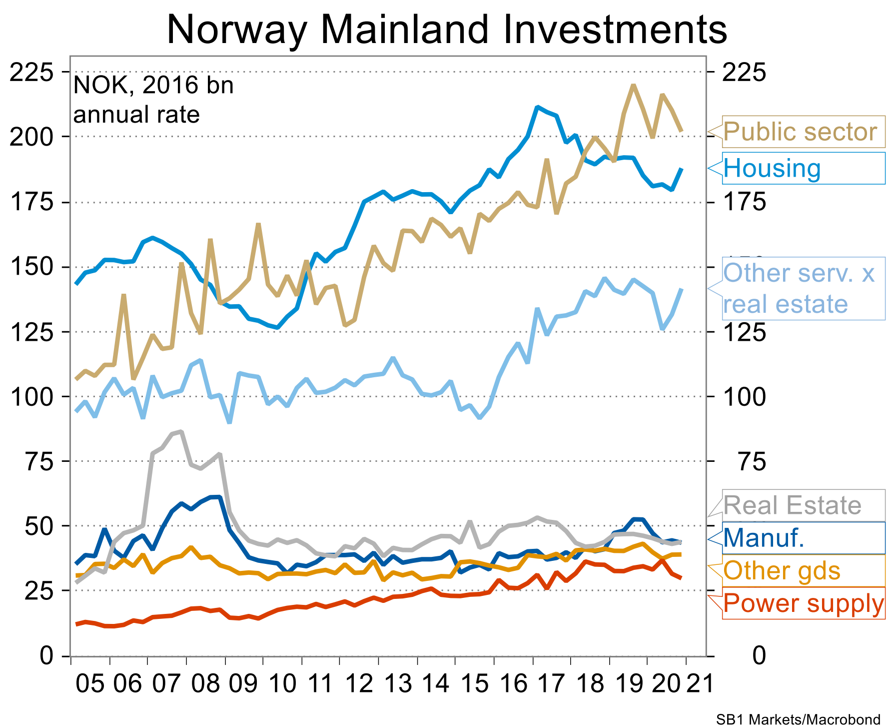


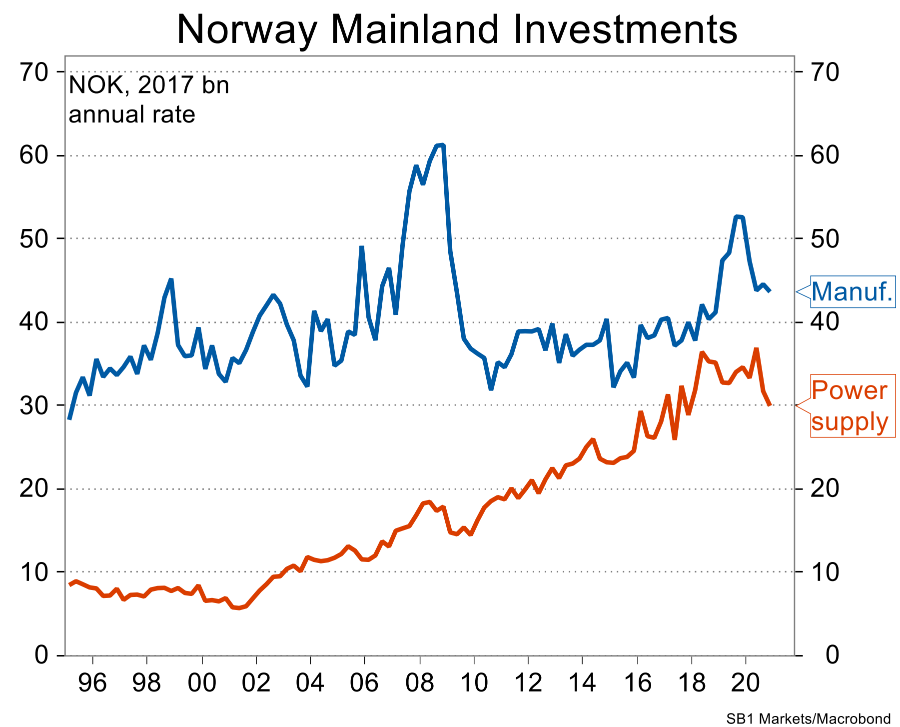


- Power supply (production & distribution) companies revised their 2021 investment forecast up by 6% in the Feb survey vs the Nov survey. Still, the forecast is 15% below the equivalent 2020 forecast
  - The investment forecast usually peaks in the Feb or May surveys. The downward revision from the Feb est. to the final outcome was 2% last year, close to the average. We assume a similar pattern for the 2021 estimate. If so, investments will decline by some 15% in nominal terms, and somewhat more in volume terms
  - Most of the big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- Actual investments in electricity production/distribution fell by 3% in 2019 and 2% in 2020, in volume terms. The decline is due to reduced investments in transmission & distribution. Investments in electricity production still on the way up
- Investments have more than quadrupled in 25 years, by more than 10% p.a in average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades

Both manufacturing and power supply investments have peaked

Each equal 1 - 2% of Mainland GDP and 5 - 8% of total Mainland investments (private/public)

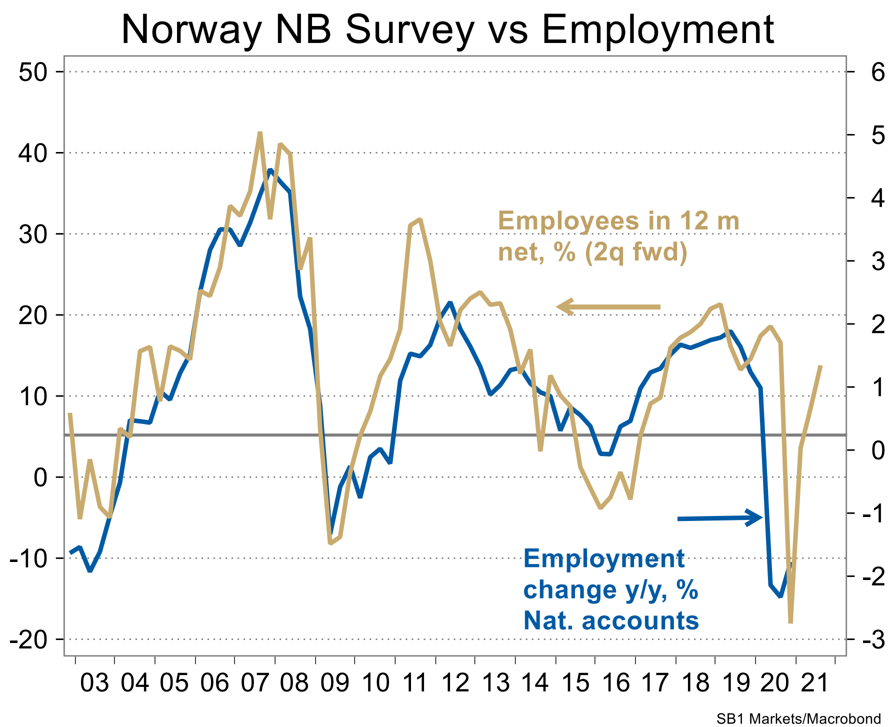


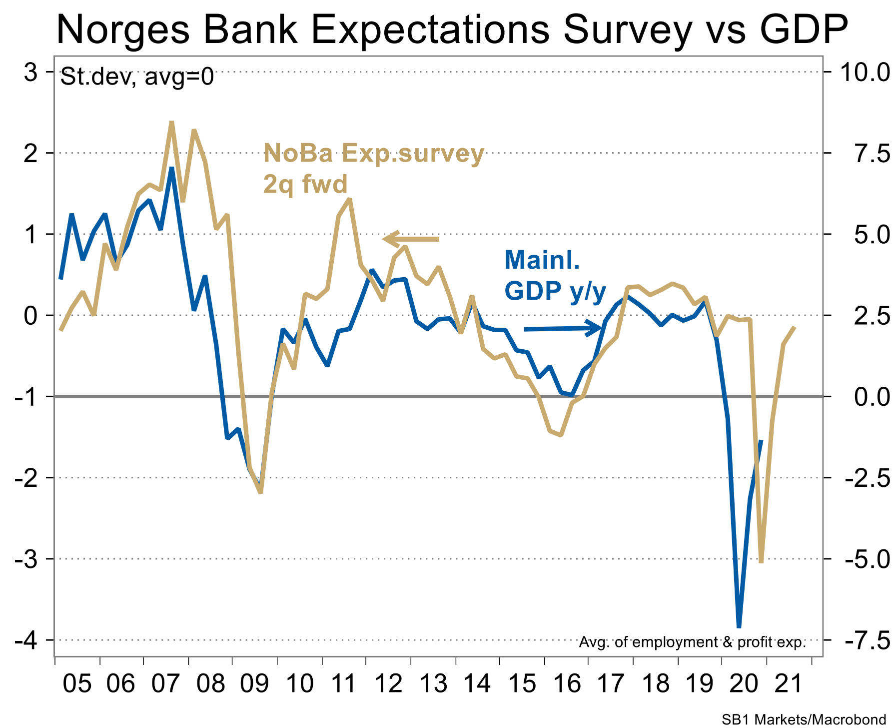


- In volume terms, investments in the manufacturing have accelerated sharply the past two years, but investments fell in 2020, and companies are signalling a further decline in 2021
- The outlook for Mainland business investments has brightened recent months. Investment surveys have recovered substantially, and actual investments flatted in H2 last year

NoBa Expectation survey: Sustaining the momentum

Positive, but not remarkable profit expectations. However, employment is on the rise



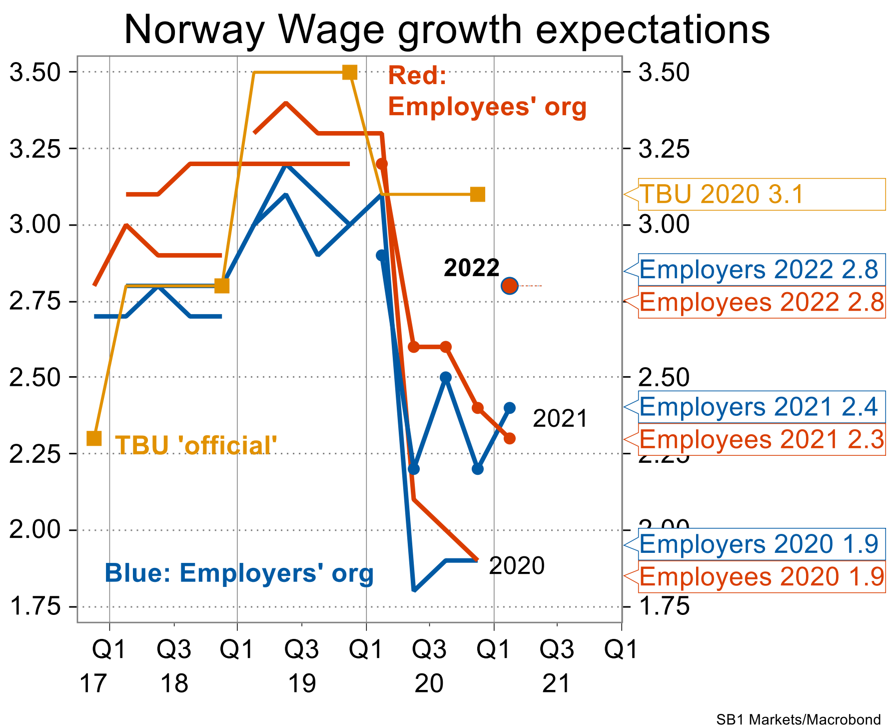


- Companies are expecting moderate growth in profits, even if the starting point is low. But more companies are expecting to increase the no. of employees (+3.4 pp from Q4), and fewer are expecting layoffs (-1.9 pp from Q4)
  - » We still think companies are not able to calibrate their answers because the starting point rather low and more importantly very unevenly distributed between sectors. Most likely, companies are not reporting expected <u>changes</u>, which they are asked to but rather (at least an element) of an assessment of the expected <u>level</u>. The PMI and many other surveys have been experiencing the same challenges during the corona crisis
- We expect something better than 1.3% employment growth & 2.4% GDP growth the coming 12 months

SpareBank 1 MARKETS

NoBa Expectation survey: 2021 wage expectations mixed, 2022 up – to 2.8%

Actual 2020 wage inflation & '21 & '22 f'casts higher than NoBa expected, <u>in average 0. 6pp per year</u>



2020

- National Accounts reported a 3.1% growth in the average annual wage, and 2.4% per hour (last year had 3 more working days than 2019).
  - » According to the official arbiter (TBU), wages in the manufacturing industry rose by 2.25% last year, above the 1.7% which was assumed in the wage negotiations last autumn. Other sectors got more, others less
  - » In the Q4 survey, economist among both trade unions & employers' associations expected a 1.9% 2020 wage growth
  - » Norges Bank assumed a 2.2% wage growth in the Dec MPR – and the bank may argue that this figure better reflect the cost for the employers

2021

- Economists in employers' organisations revised their forecast up by 0.2 pp to 2.4%, while economists in trade unions cut their forecast by 0.1 pp to 2.3%
  - » In general, employees' org expects higher wage growth than their peers at the employers' side, as one should expect – not so this year. Seems like the wage negotiations will run easy this spring ☺
  - » In the Dec MPR Norges Bank expected a 2.0% wage growth

2022

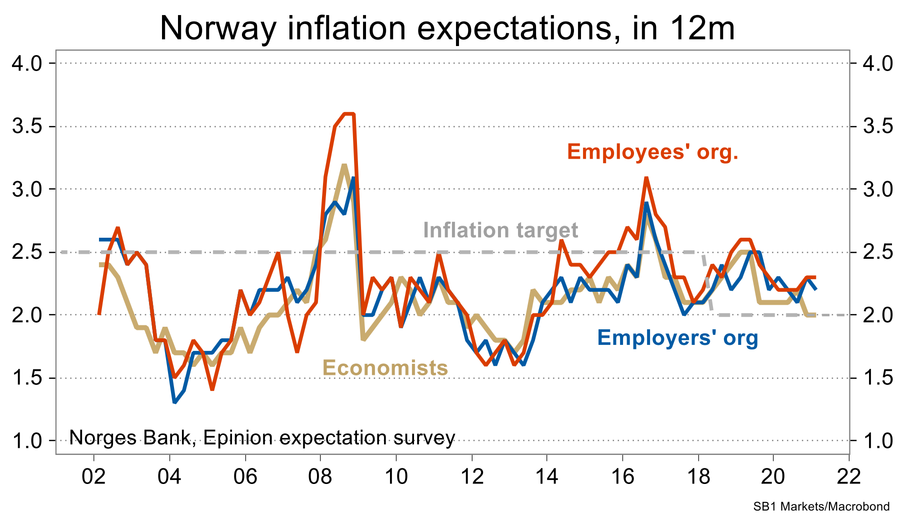
- Both the employers' the unions' economists expect 2.8% wage inflation next year. Perhaps they should cut a deal right away?
  - » In the Dec MPR Norges Bank expected a 2.3% wage growth

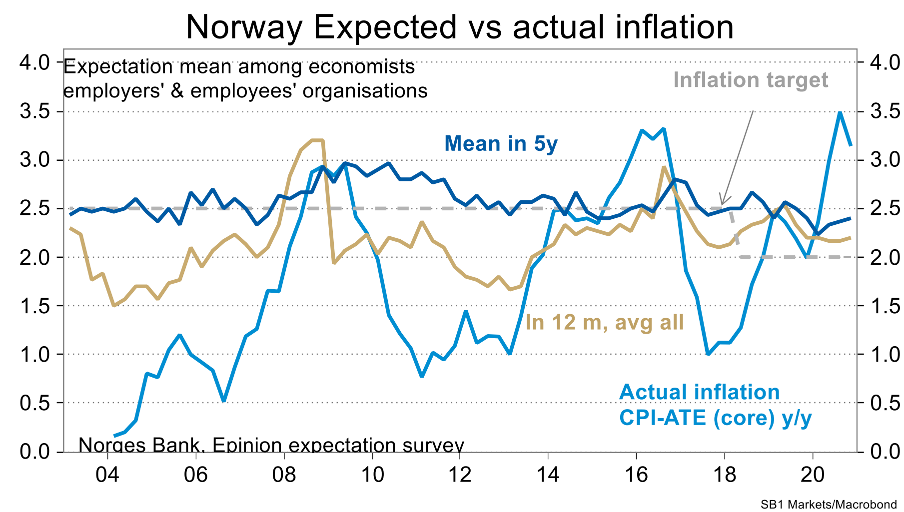
In sum

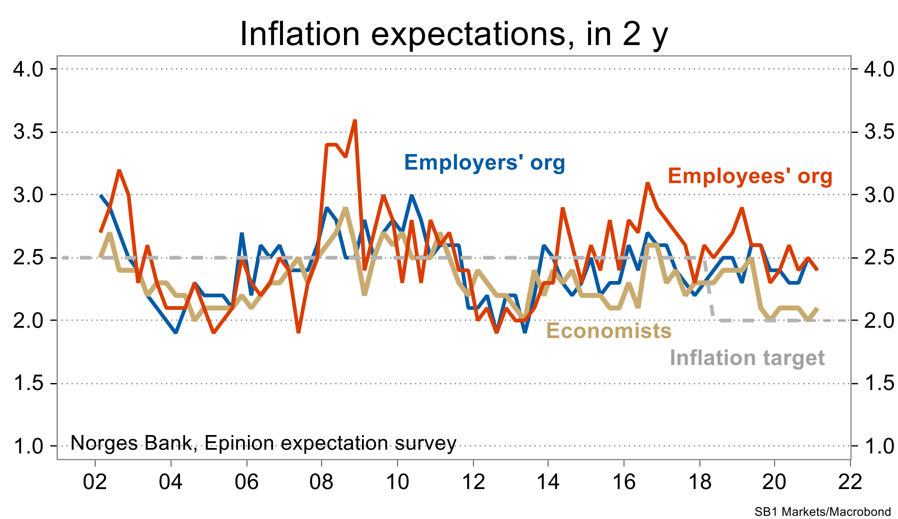
- Actual wage inflation in 2020, and expected wage inflation in 2021 & 2022 (by these economists) is in <u>average 0.6 pp higher per year than Norges Bank assumed in December! Most likely, some estimates will be revised upwards in the March report</u>

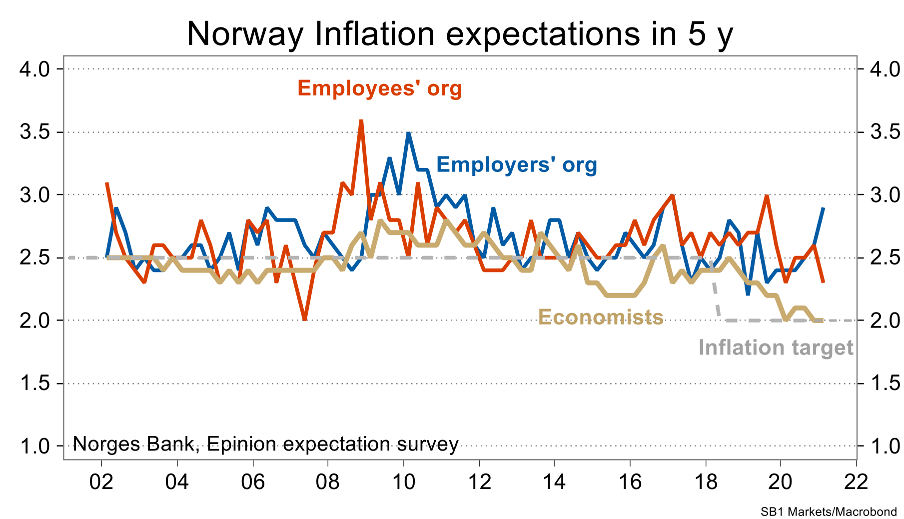
Inflation expectations unmoved by the corona crisis (and still 'too' high)

Expectations stable at approx. 2.5% (<u>the 2% target is recognised just by the economists</u>)



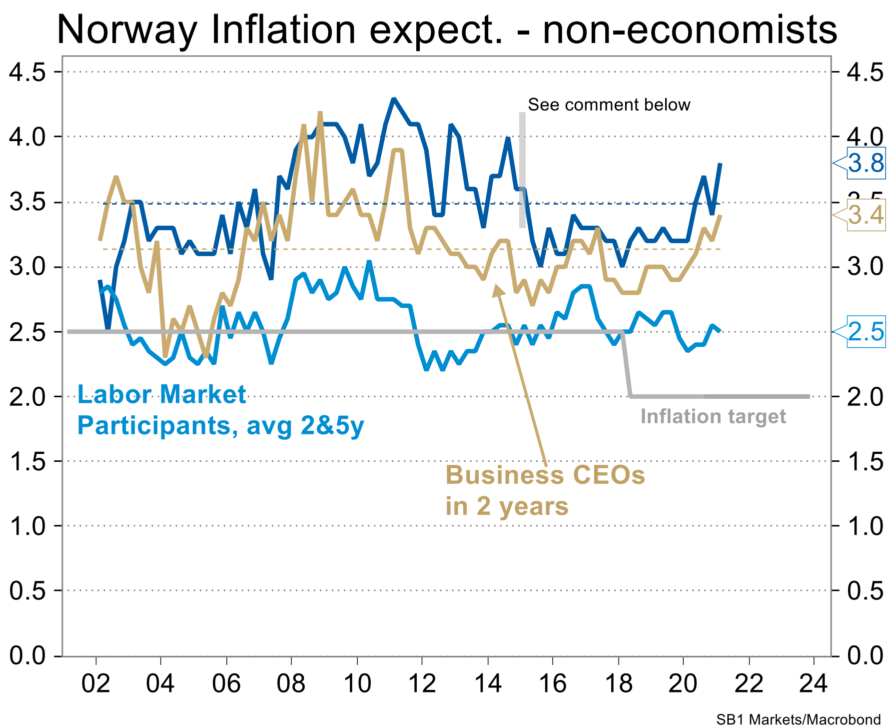






Inflation expectations: What are the others expecting? (Answ: Households 3.8%)

We assume that business leaders' & households' expectations are more important than economists'



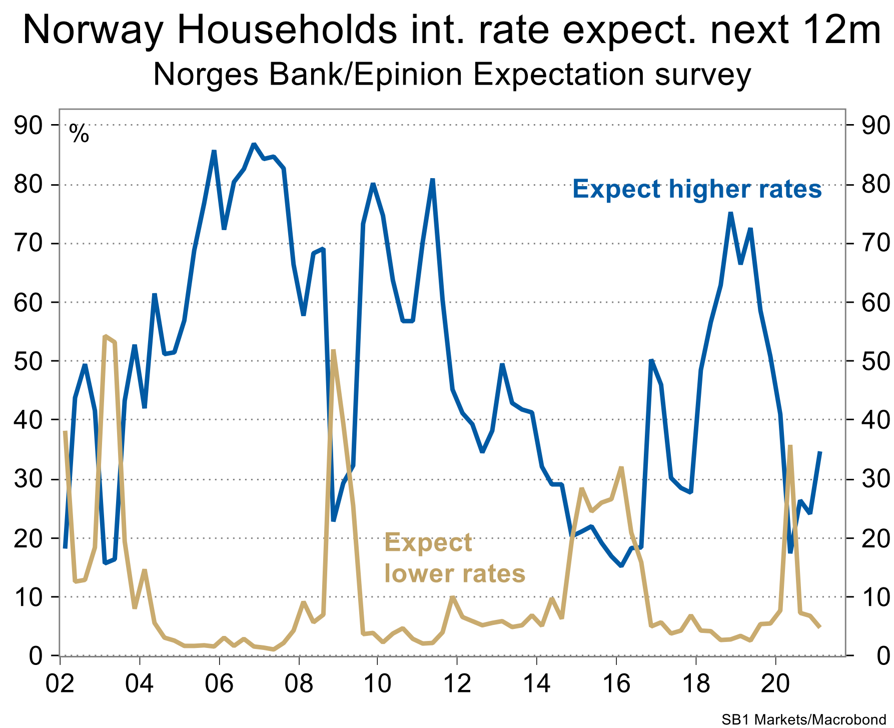
Business leaders & households expectations are rising sharply to well above normal (very high) levels

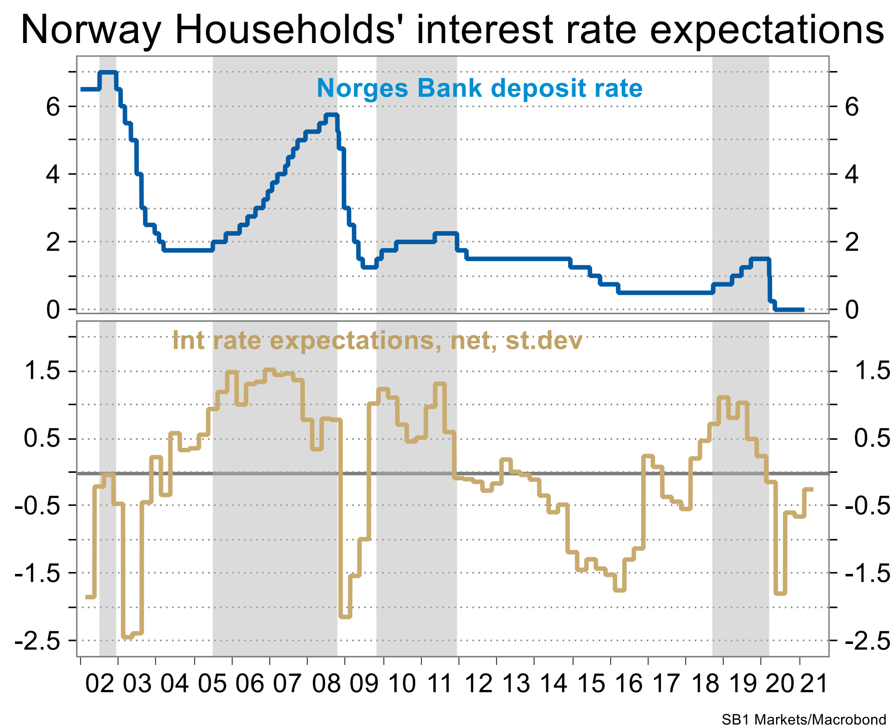
- **Labour market participants** (leaders in trade unions & employees' assoc.) are probably listening to their economists, and they expect a 2.5% longer term rate of inflation, in line with their average expectations (2.6%) -– but unaffected by the 50 bps cut in the inflation target in 2018
- **Business leaders** are expecting a <u>3.4% inflation rate</u> in 2 years time – up 0.5 pp over the past year, and higher than their average expectation (3.1%)
- **Households** have always expected incredible high inflation going forward (even after an adjustment of data prior to Q1 '15, due to a clarification of 'inflation', see below) – on average 3.5%. Now, **they expect 3.8% in** 2 to 3 years time, up 0.5 pp over the past year, just as among the business leaders.
  - » Should we just ignore these 'silly' expectations, or should we reflect on them?
  - » We should at least put some emphasis on the significant rise in inflation expectations – to above average levels
  - » Perhaps could we even explain demand for credit from households by the 2 pp difference between lending rates and expected inflation?

The questions regarding expected inflation in 2 or 2 – 3 years time for business leaders and households were slightly altered in Q1 2015 survey. Since then, they have been asked about the expected rate of annual inflation in 2/2-3 year time, not just 'inflation' which could have an unambiguous interpretation. Household revised their expectations down by 0.6 pp in the Q1 '15 vs the Q4 '14 survey due to this clarification. Business CEO's revised their expectations a tad upwards. Since there were no other major change in actual inflation or inflation expectations among other groups during these months, we have just <u>revised households' expectations down by 0.6 pp pre Q4 '14</u>.

Interest rate expectations are normalising, not yet pointing upwards

Households are often ahead of the curve when NoBa (well communicated) starts hiking

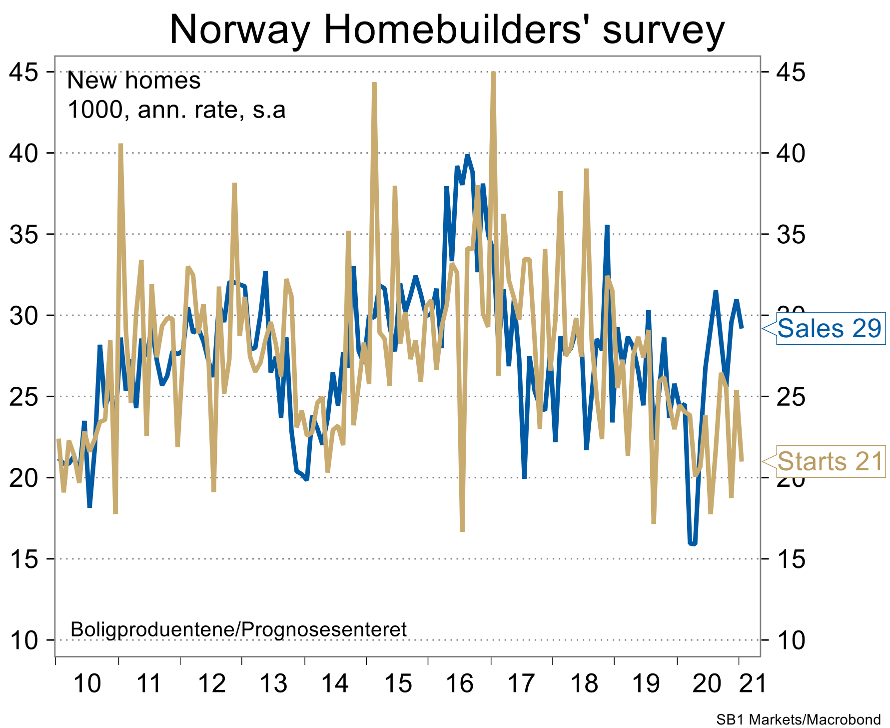


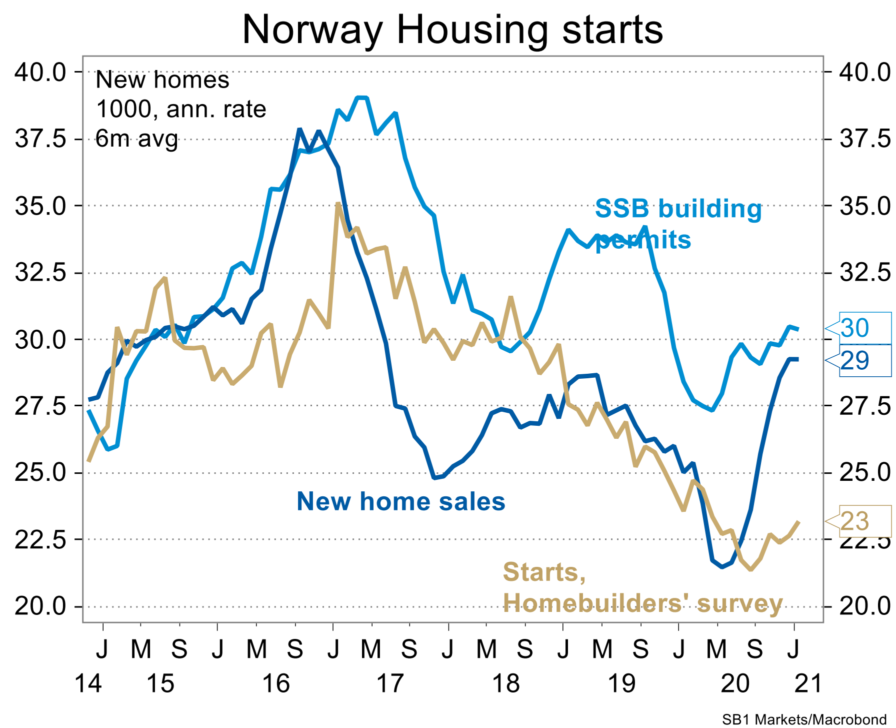


- Households do not yet expect rates to be hiked the next 12 months but expectations are gradually nudged upwards

Homebuilders are selling more new homes, have to build MUCH more

Sales at 29' in Jan. Starts down to 22', will surely recover sharply. SSB reports >30' starts

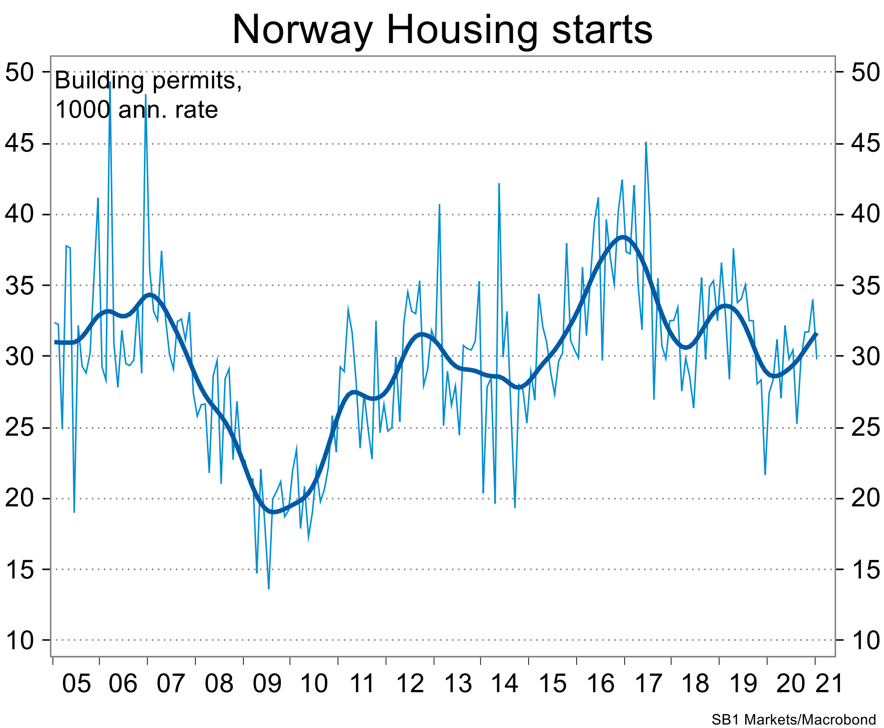


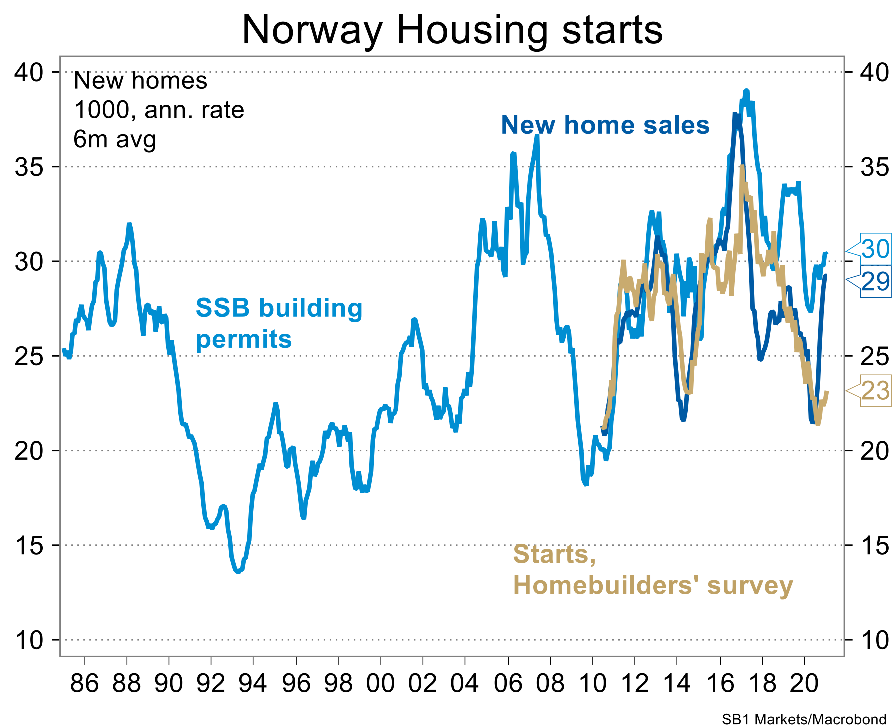


- Homebuilders: New home sales down 2' to 29' in Jan. Sales have stabilised around 30' recent months
  - » Starts fell 5' to just 21'. As more homes are sold, we assume they will have to be build?
- SSB: Sales fell slightly in Jan, but have stabilised at above 30' recent months
- We assume the strong existing home market will support new home sales & starts the coming months
- Housing investments (in National accounts) will continue to rise, at least through H2, as it did through last year

SSB: Housing starts have already turned up

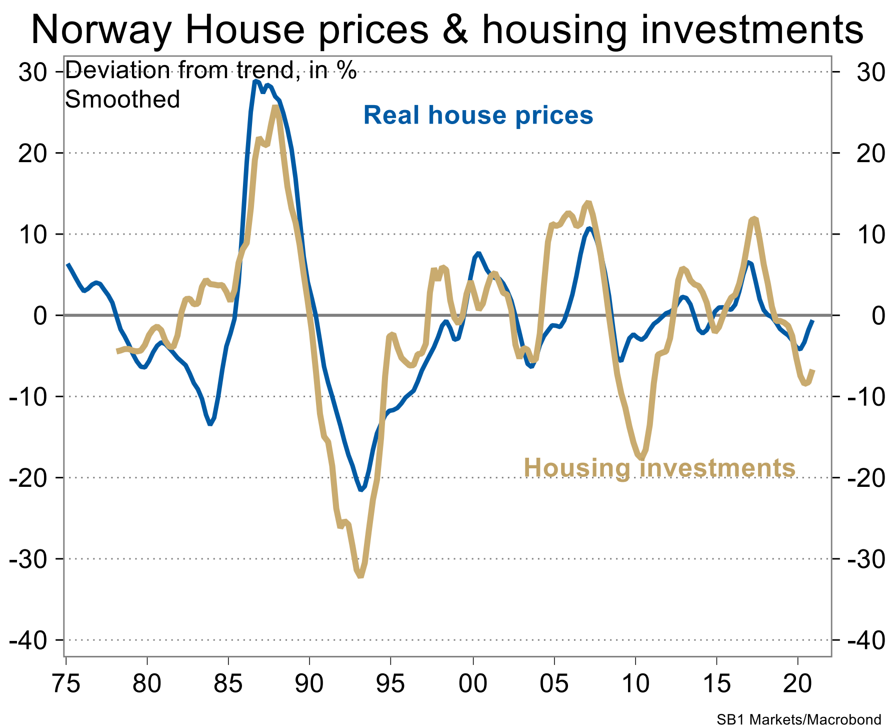
SSB reports down 4’ to 30’ starts in January – but the trend has definitely turned up

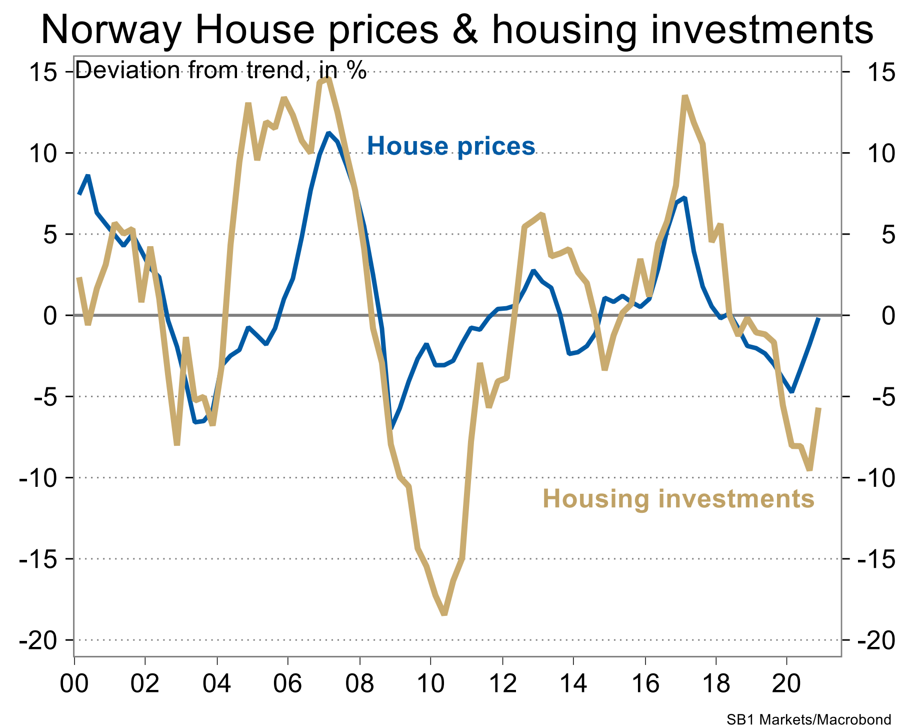




Housing starts/investments normally in tandem with house prices, no surprise

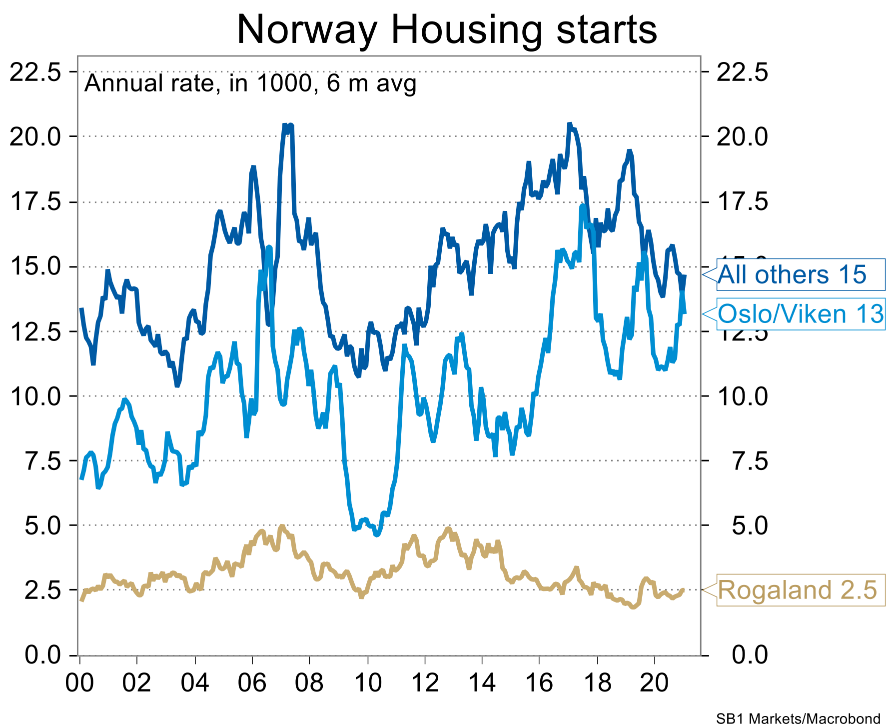
And now prices have turned sharply up; housing starts/housing investment to follow?

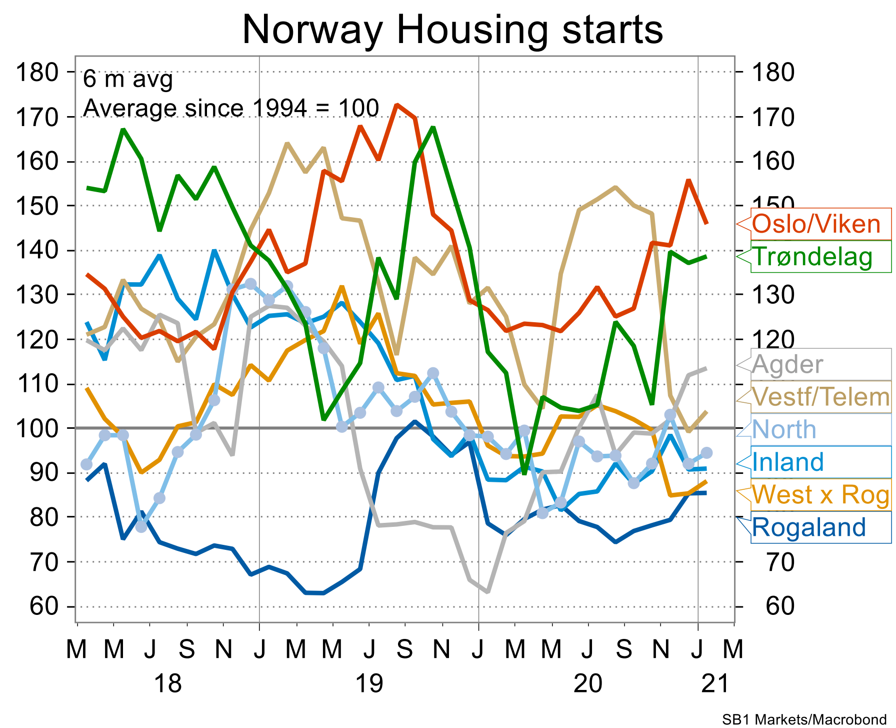




Starts are picking up speed in Oslo/Viken

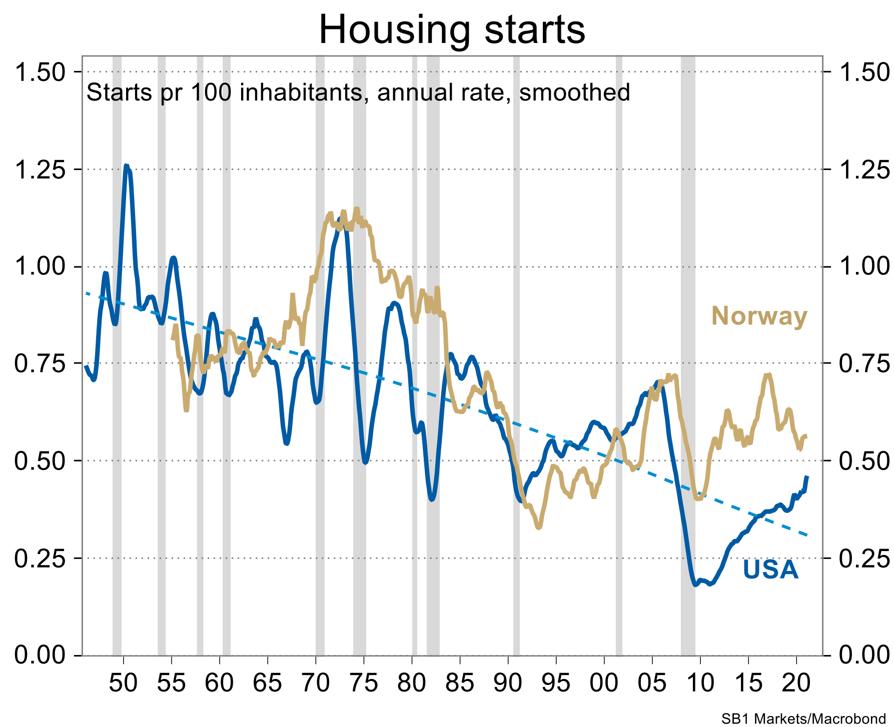
Starts up in Trøndelag too. Starts lower than normal in Rogaland, Vestland, North & Innlandet

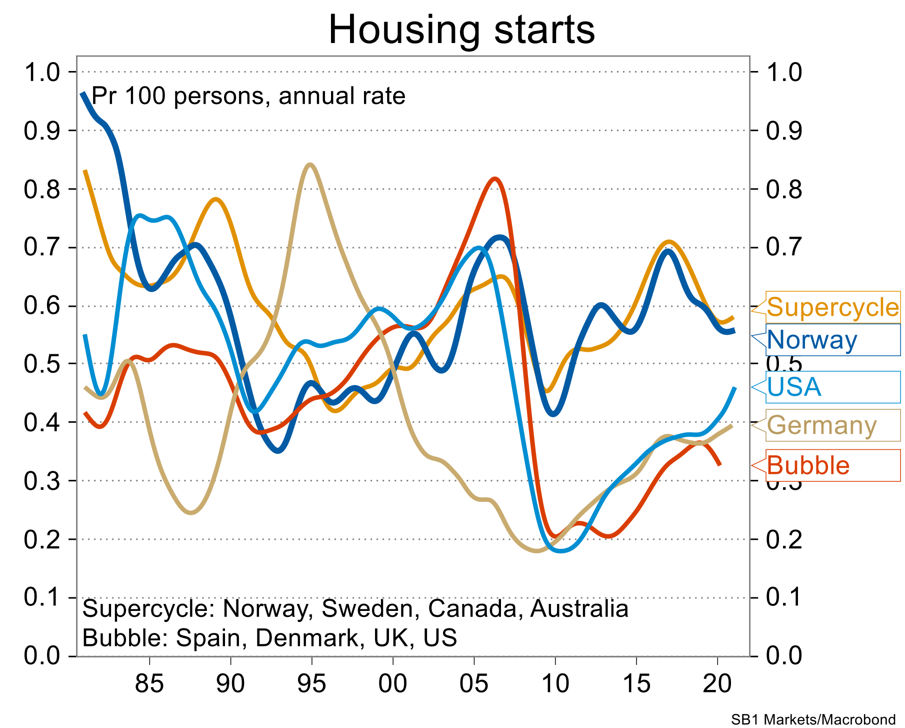




Home building in Norway has been high vs. most other countries

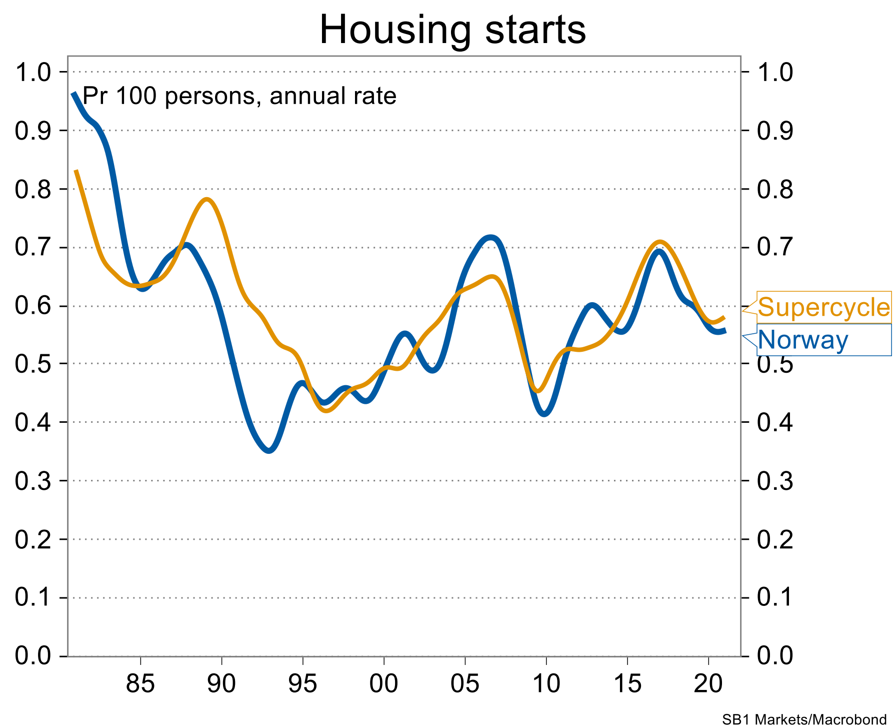
However, Norwegian housing starts are in line with other 'supercycles'





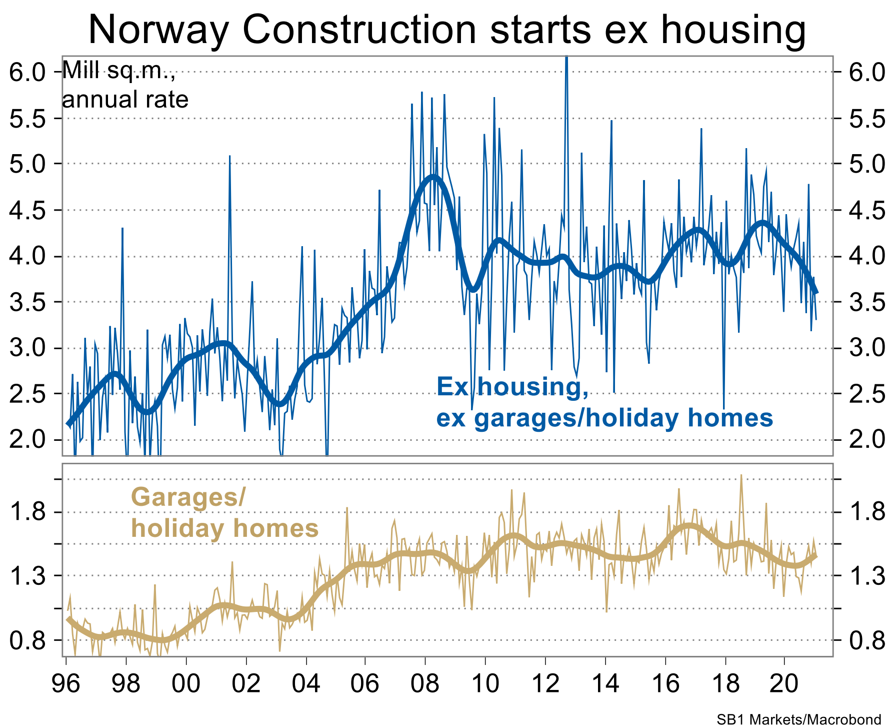
- The housing start cycles among the super-cyclicals (Australia, Canada, Norway, Sweden) have been closely correlated the past decades (for a better picture, flip to the next page). Since 2017, starts fell in both Australia, Sweden and Norway, and more modestly in Canada. We guess the boom in the 2nd hand house markets in these countries will stimulate new starts – which we just now are seeing
- House prices and debt inflation are higher and rental yields are lower in these super-cycle countries than other DMs. We guess because interest rates have been too low for too long, as rates fell more or less the same level as in countries that actually needed a strong monetary stimulus after 2008 housing market/financial/real economy crisis

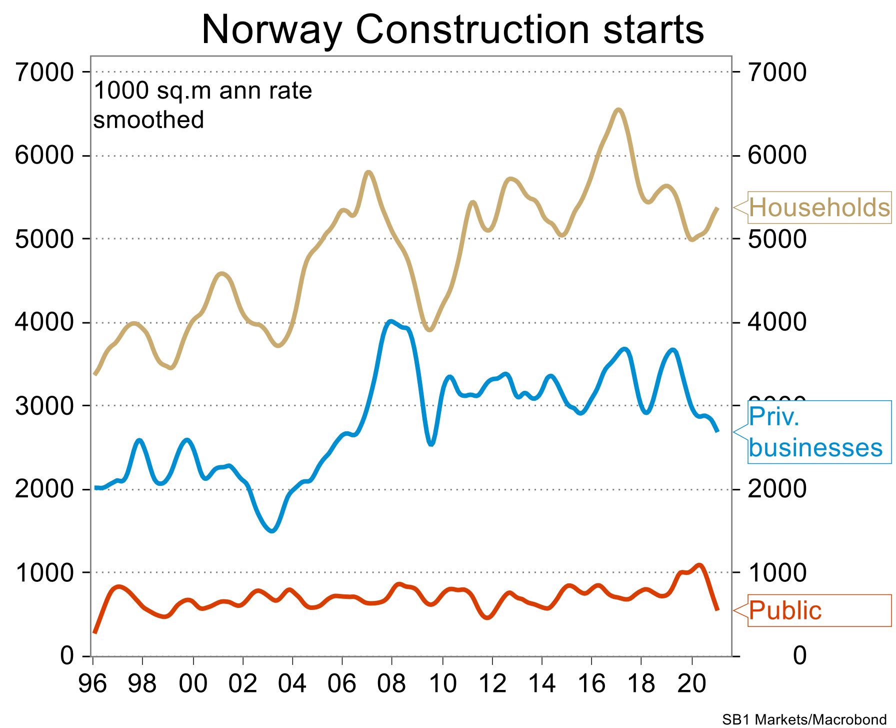
Check the brothers in arms!



Construction ex. housing is clearly trending downwards

Construction ex housing/2. homes is down almost 20% from the local 2019 peak

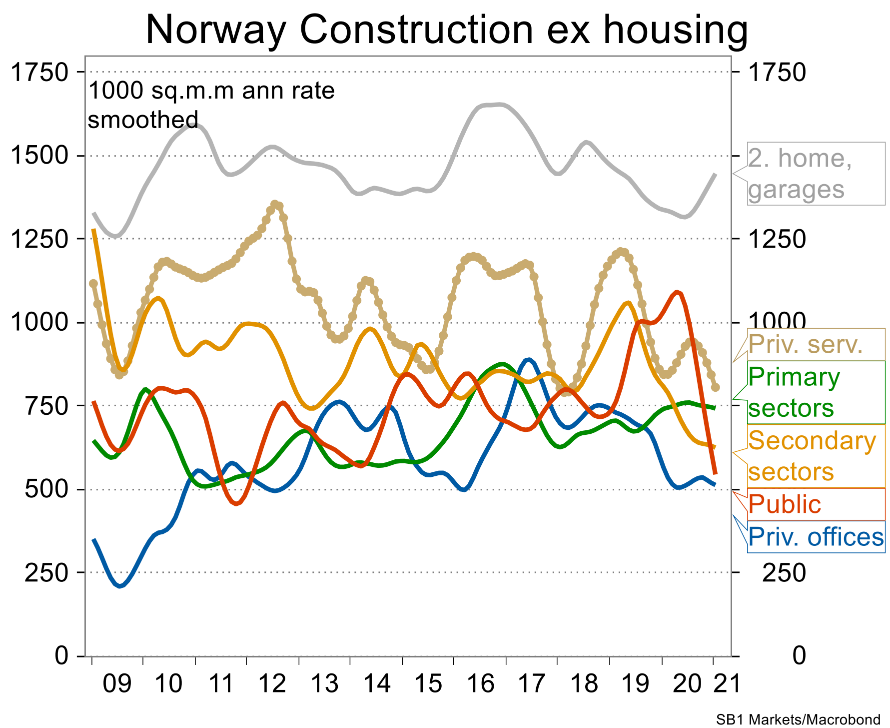


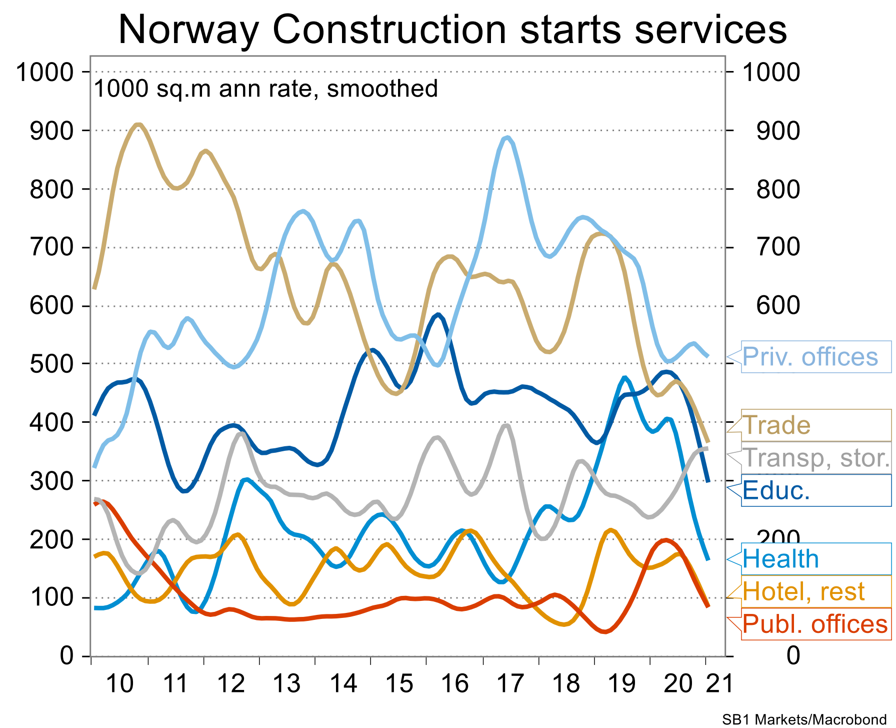


- **Construction starts ex housing & garages/cabins** peaked in early 2019, and is still sliding downwards
- **Construction starts of cabins/garages** is heading up, following a decline from the peak in 2016. Given the surge in demand for second homes, that's not surprising
- **Private non-residential starts** are at the lowest level since 2009. The downturn started well before the corona crisis
- **Public sector construction starts** are heading down (from a peak, supported by a new hospital in Stavanger, and hospital & university building in Viken)

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

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





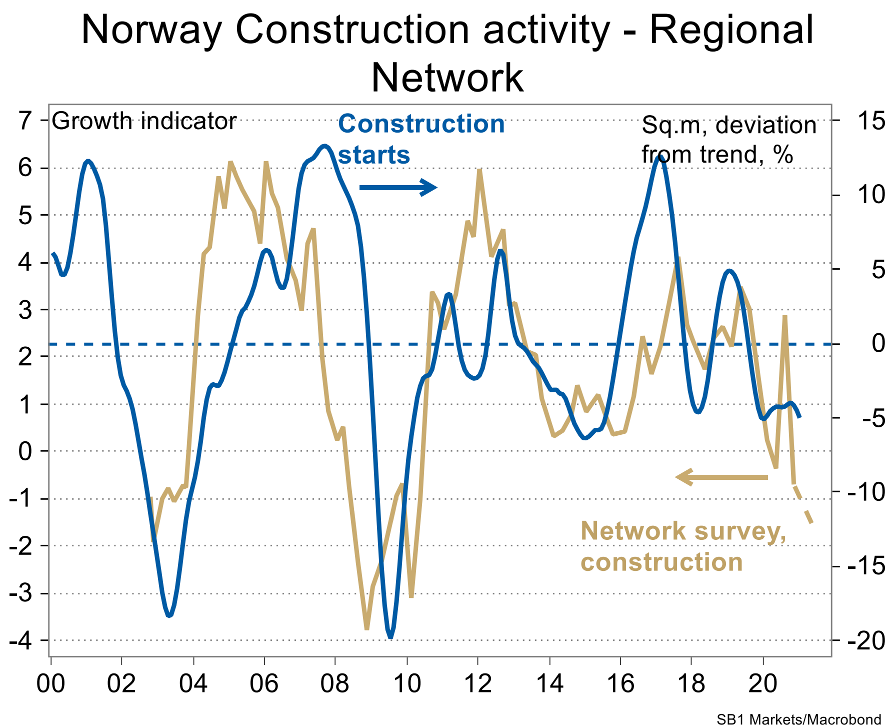
Most still on the downside

- New construction in trade, health, education, hotels, public sector offices are all turning down
- Private offices have stabilised – and transport/storage construction is on the way up

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

The Q4 NoBa Regional Network signalled zero growth – or weaker

Actual starts up due to higher demand from households

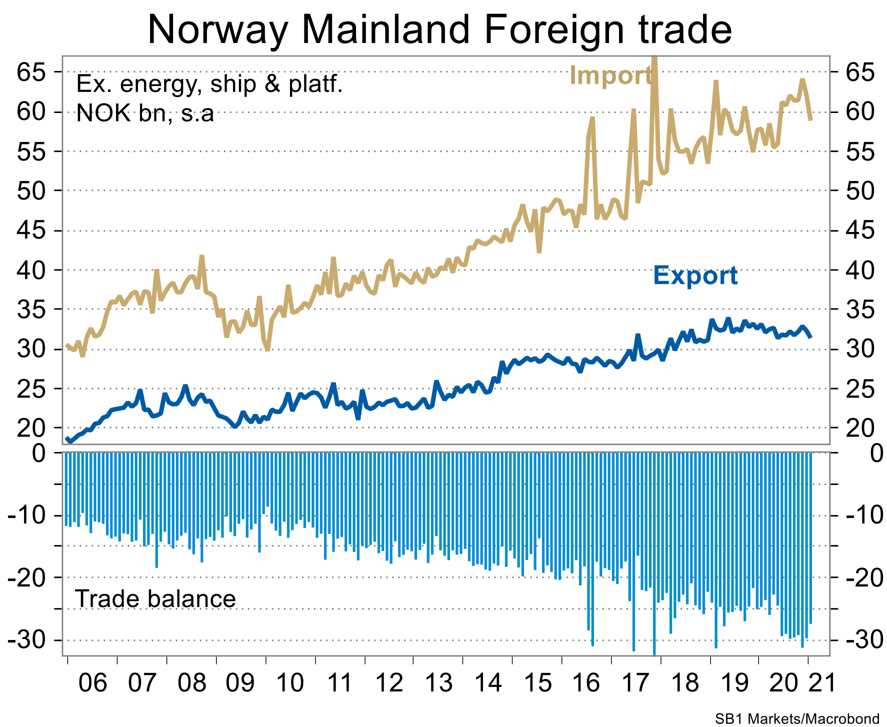


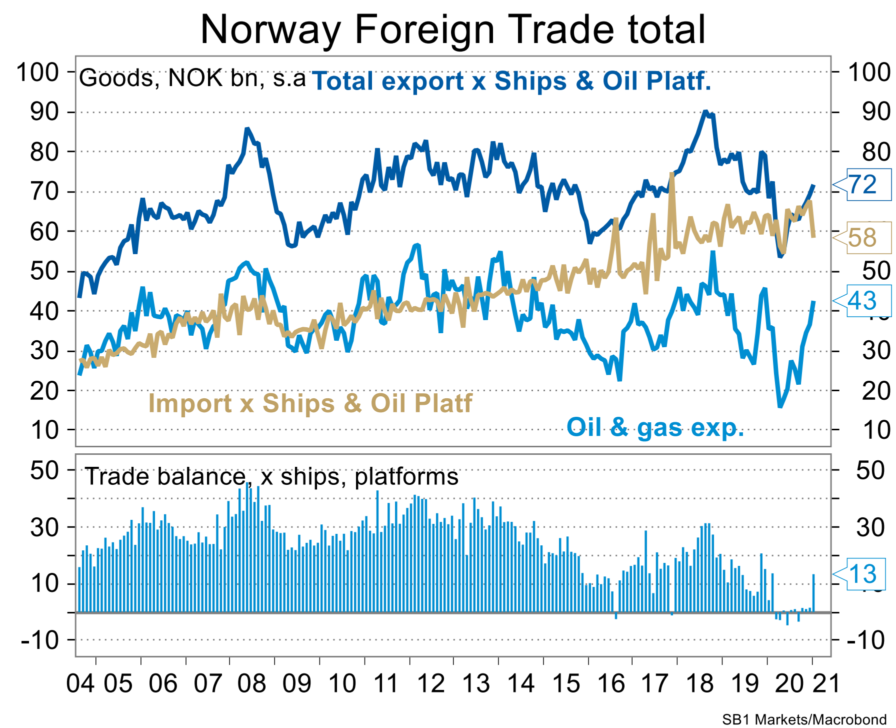
- Total starts stable, due to household demand

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

Mainland trade deficit down in Jan, imports are finally yielding

Total balance back in solid black, as oil & gas exports rose sharply

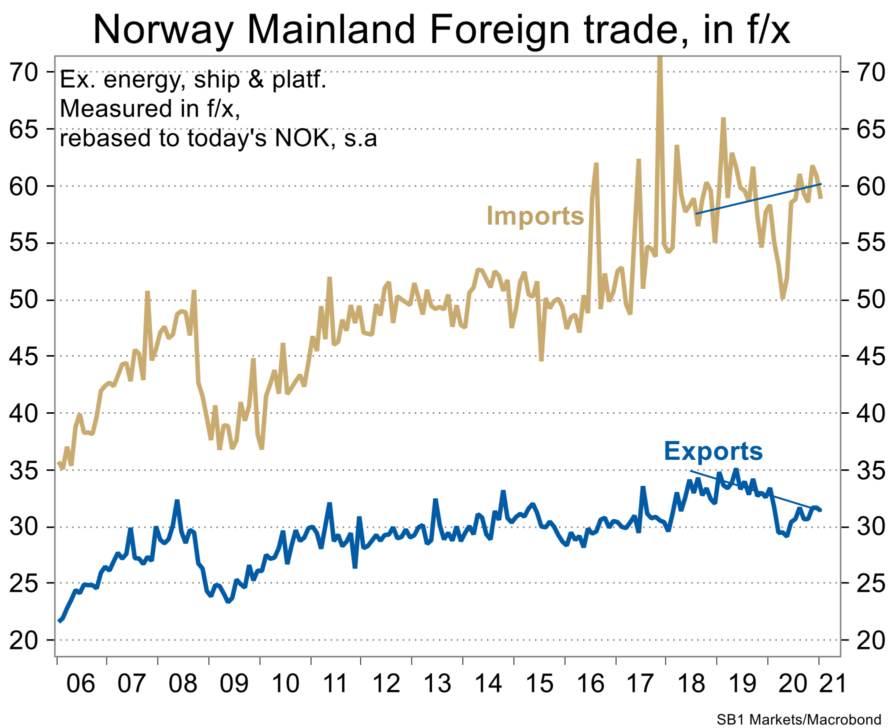


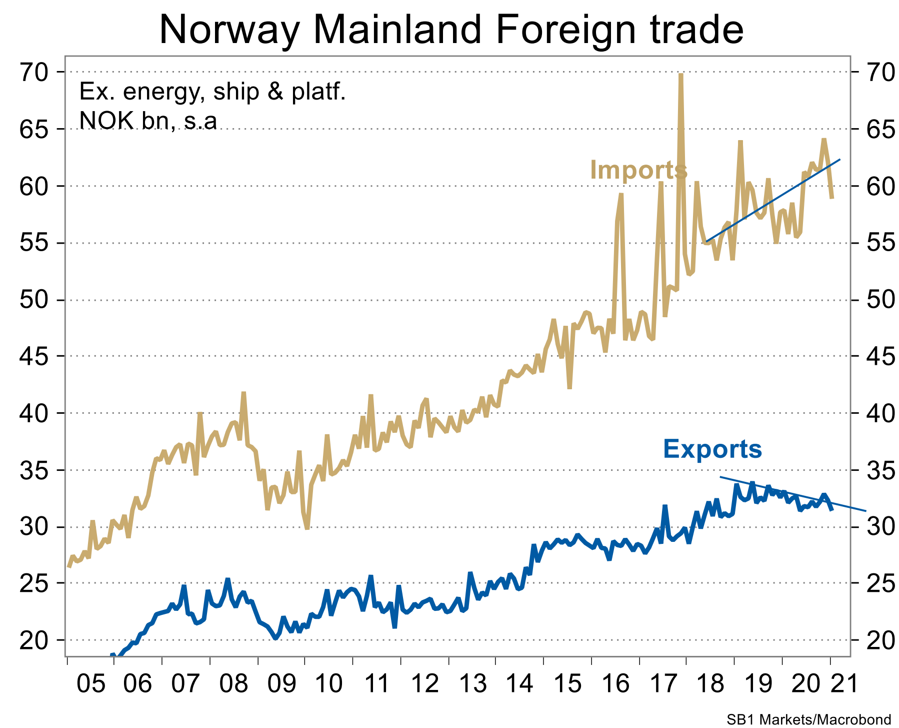


- The Mainland (non energy) trade deficit in goods decreased further in January, but the trend is marginally upwards, in value terms. Exports have more or less recovered in value terms following the mild drop during the corona spring . Strong domestic demand for goods have kept imports up (+5% vs pre corona). As a result, the 'traditional goods' deficit has widened to NOK 27 bn from NOK 23 bn in early 2020, or by 2.3% of Mainland GDP, a substantial worsening of the trade balance. However, exports of tourism (foreign spending in Norway) has fallen less than imports of tourism (Norwegians spending abroad), compensating for the shortfall in goods vs the overall trade balance in goods & services ☺
- Export of oil and gas is now back at pre-corona levels, at 43 bn (+6 bn in Jan), bringing the total trade surplus to 13 bn.

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

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

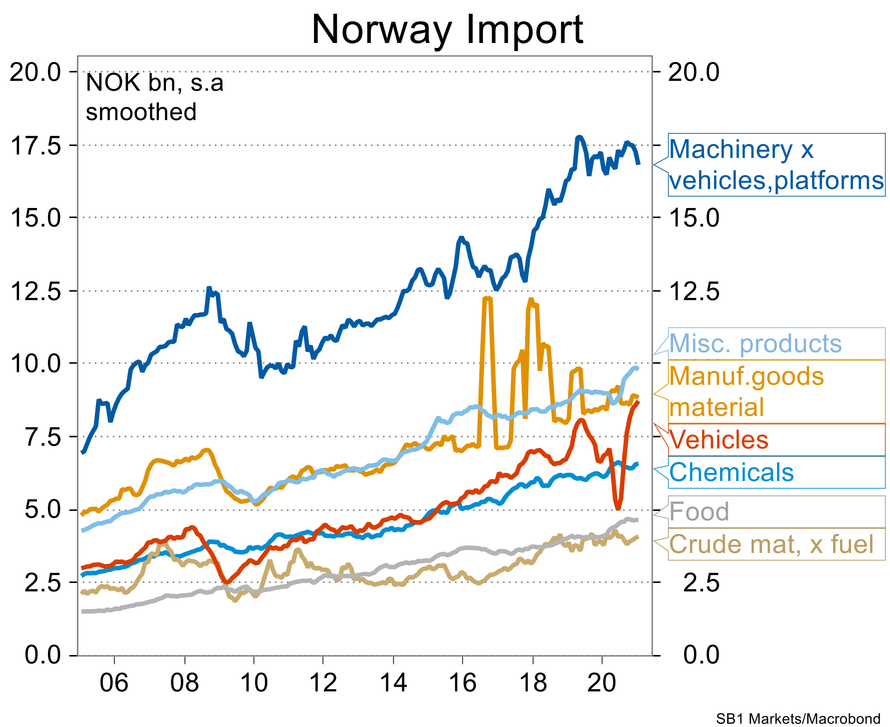


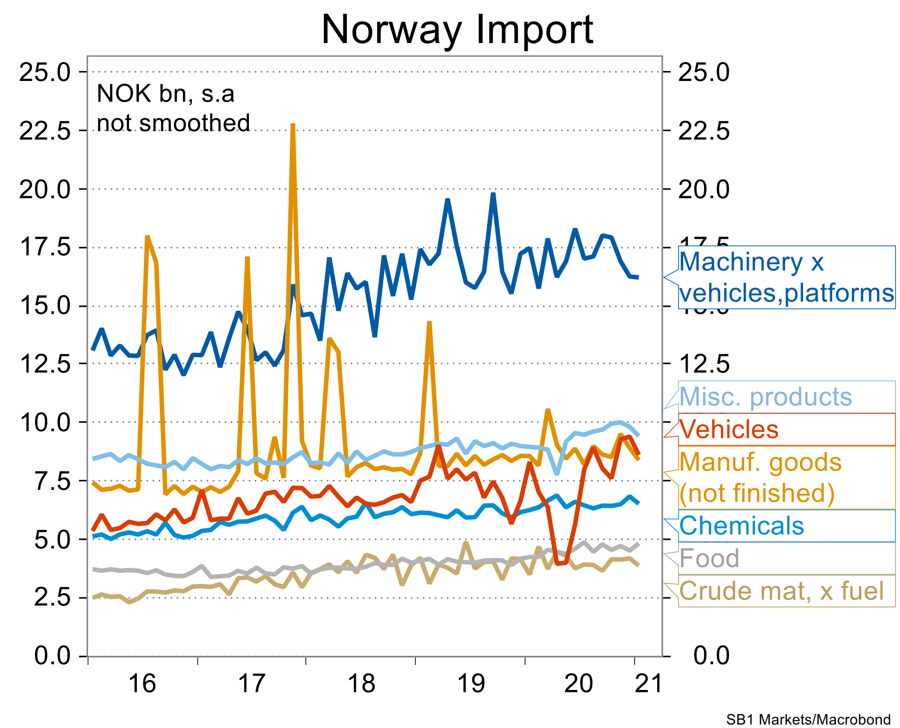


- At the chart to the left, trade values measured in f/x, adjusted by the NOK I-44 index, and rebased to today's NOK I-44 index

Imports on the rise, except for machinery

Auto imports up 20% since before the virus hit, now far higher than ever before

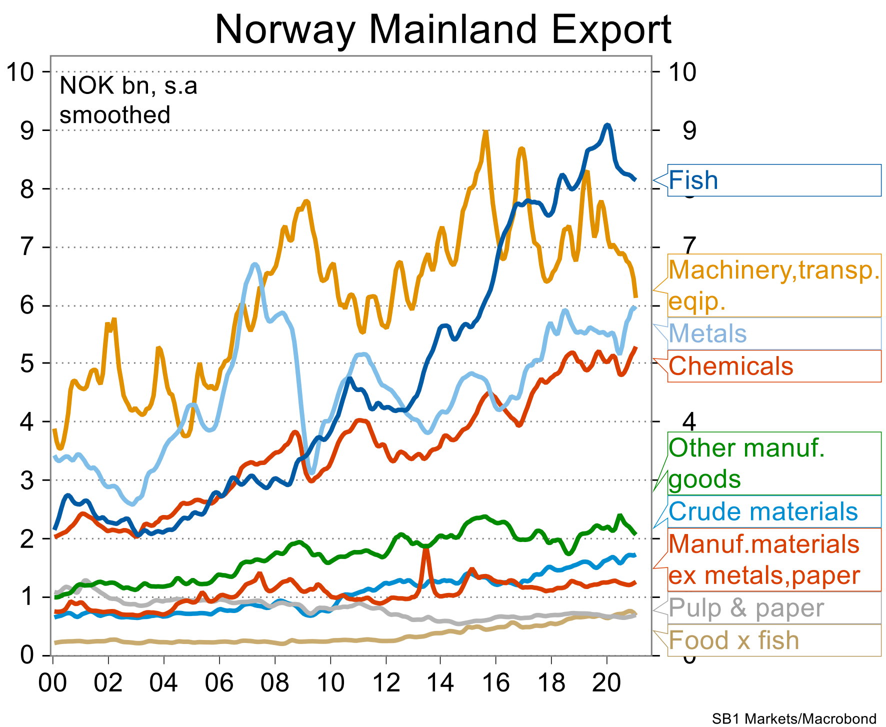


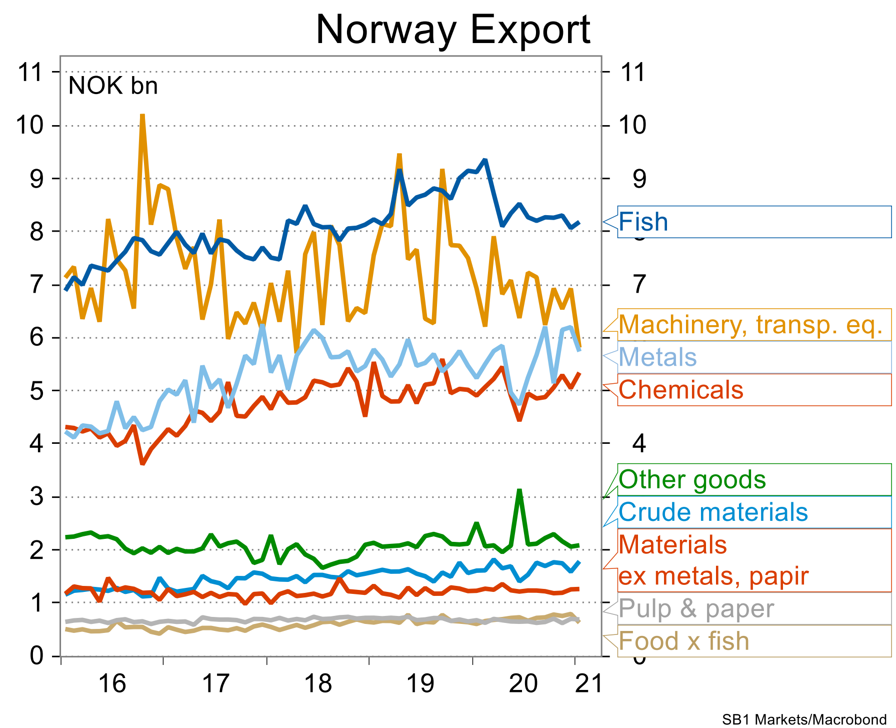


- Imports of chemicals, food, and machinery have all grew last year. Machinery imports increased steadily until October but have since declined. Manufactured materials more or less flat recent years
- Vehicle imports slowed rapidly in H2 2019 and early 2020, along with auto sales. Since April, imports have shot up –to the highest level ever

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

Export of electricity at highest level ever – 5x Jan 2020 level!

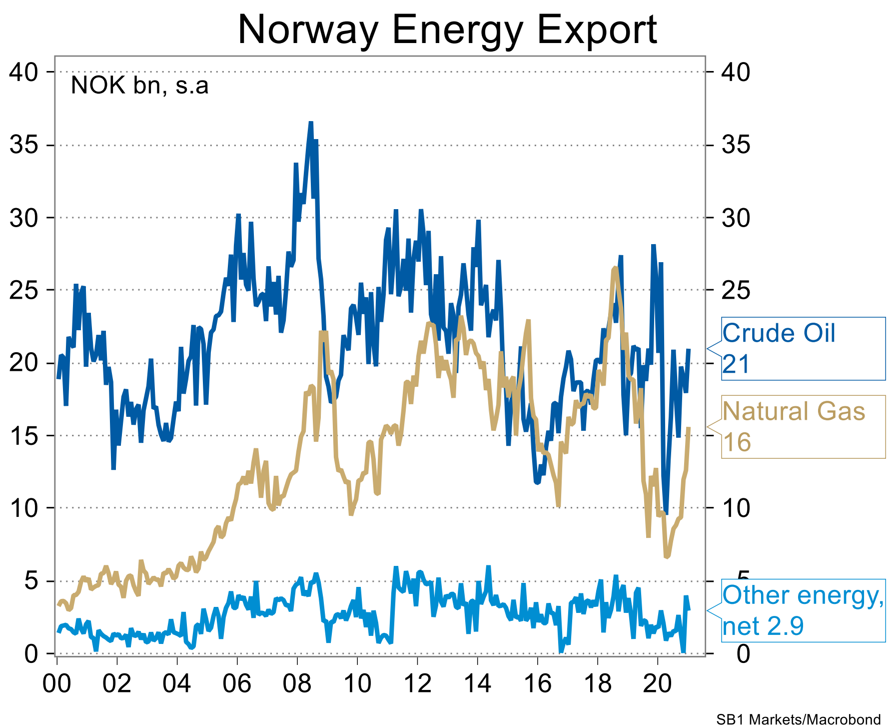


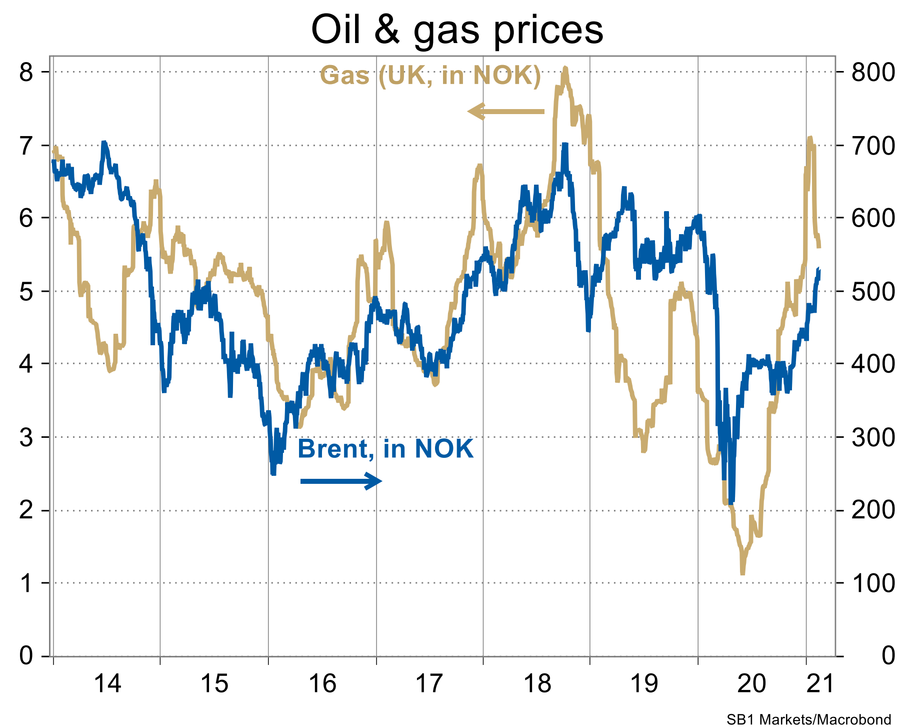


- Exports of machinery and transport equipment (of which much is related to oil activities abroad) is trending down, due to lower oil sector investments abroad

Oil & gas exports sharply up recent months

Oil exports have recovered most of the March/April drop (in value terms)





- **Crude oil** exports (in NOK bn) fell rapidly in March and April as the oil price dropped and global demand subsided. Exports have turned up since then, with the oil price, and most of the fall has been regained
- **Gas** export values fell sharply during H1 but has recovered to above pre-corona level as gas prices recovered substantially during H2 last year, and in January. Gas prices have since come down somewhat, but are far higher than in 2020

Highlights

The world around us

The Norwegian economy

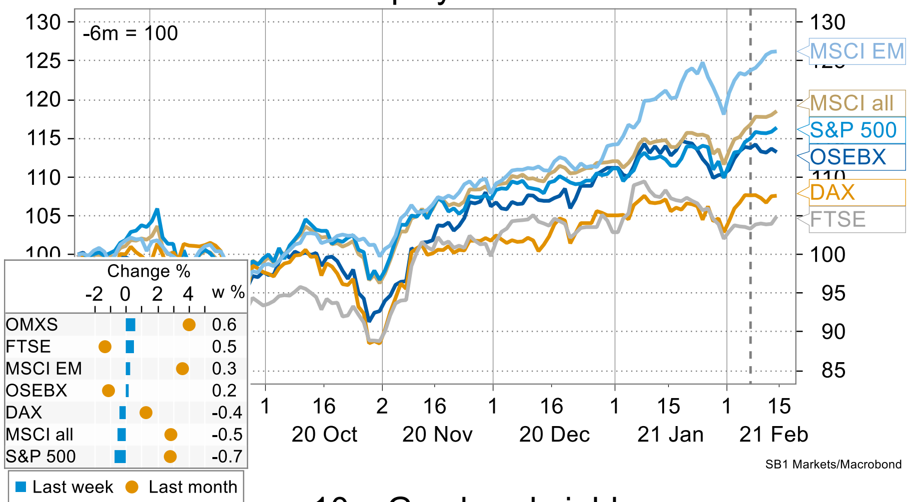
Market charts & comments

SpareBank 1 MARKETS

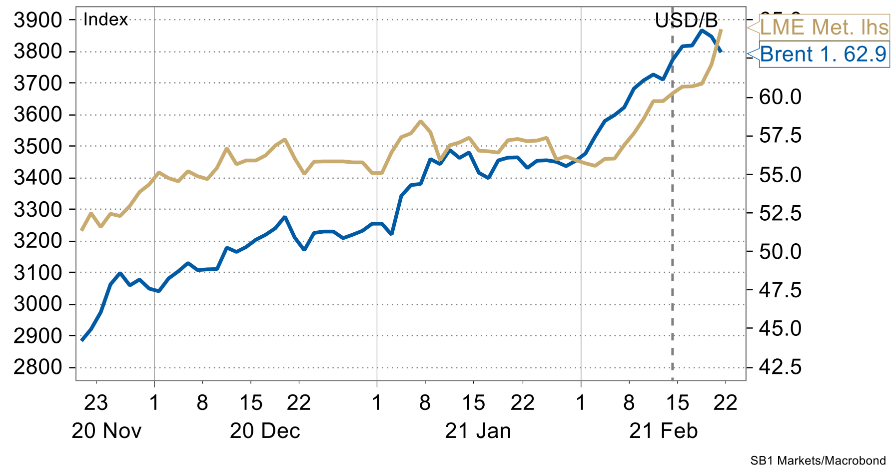
(Real) bond yields sharply up (even in Europe), stock markets flattened

Metal prices sharply up, oil a tad more. The (vaccinated) GDP sharply up

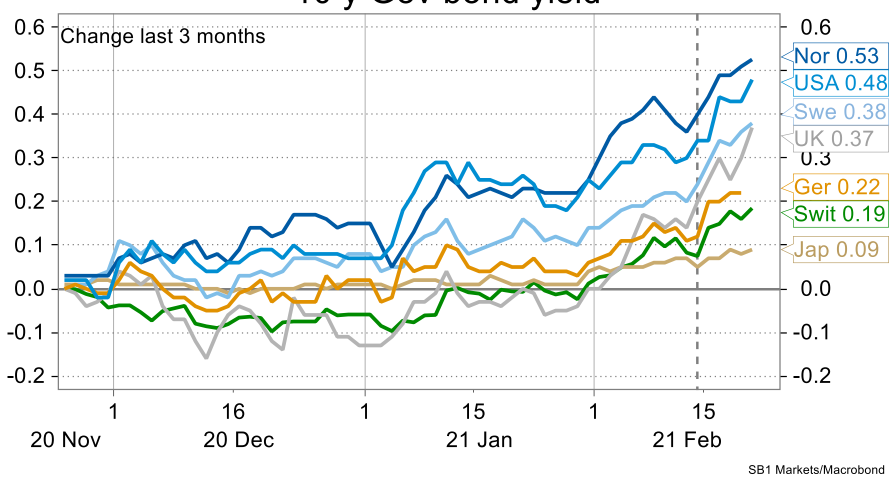
Equity Indices



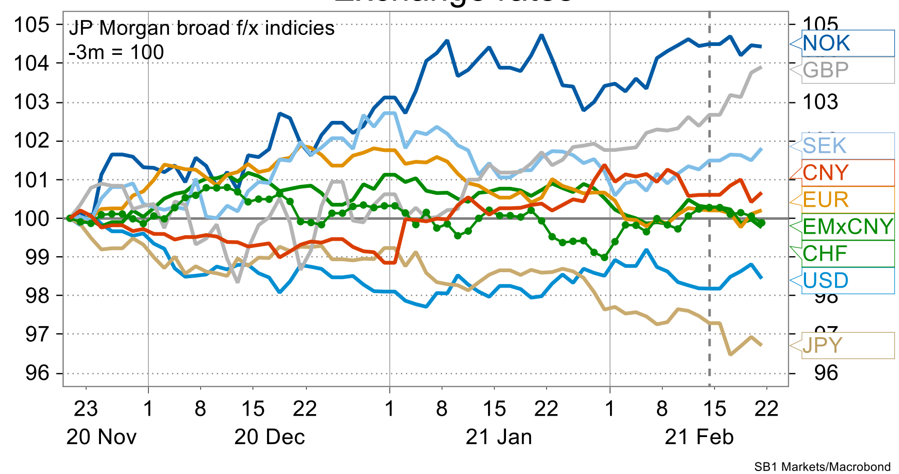
Oil vs. metals



10 y Gov bond yield



Exchange rates



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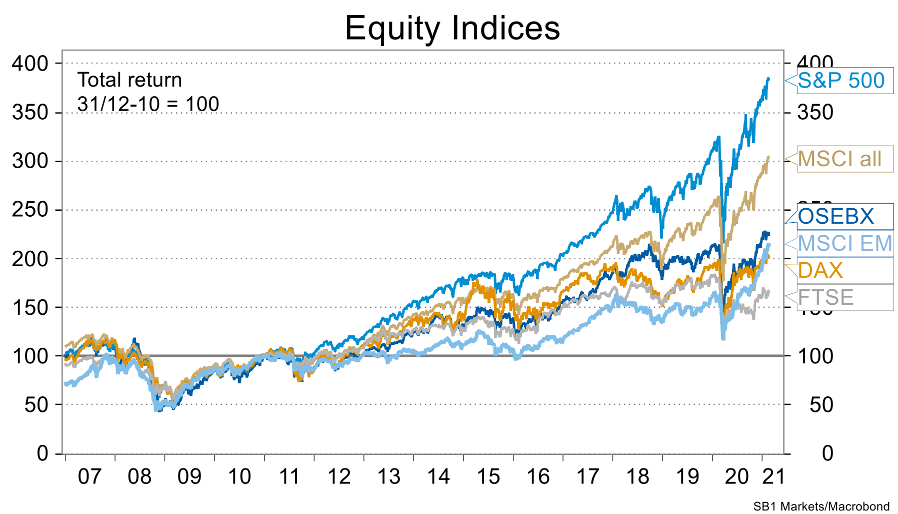
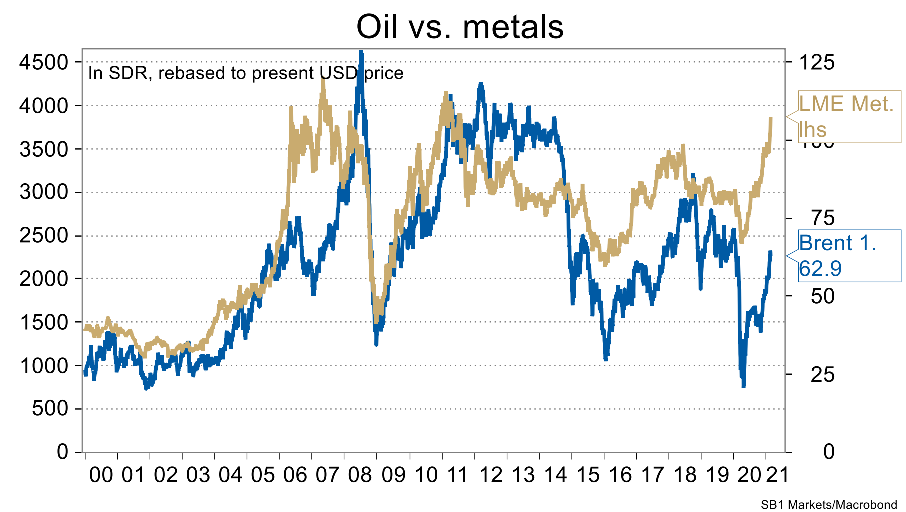
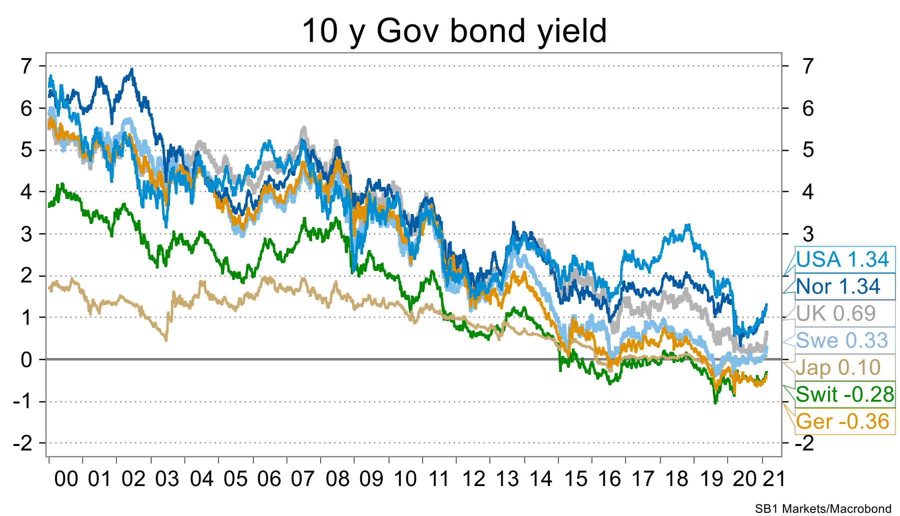
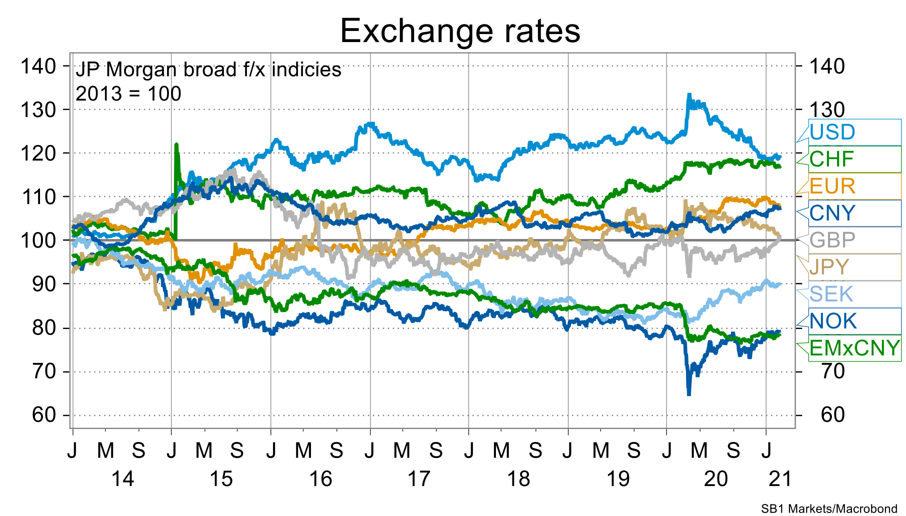
What happens when economies actually open fully?



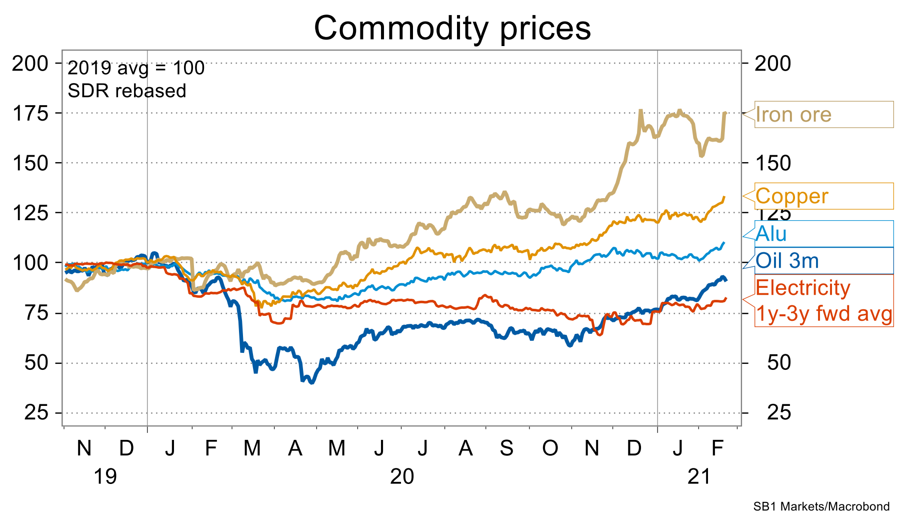


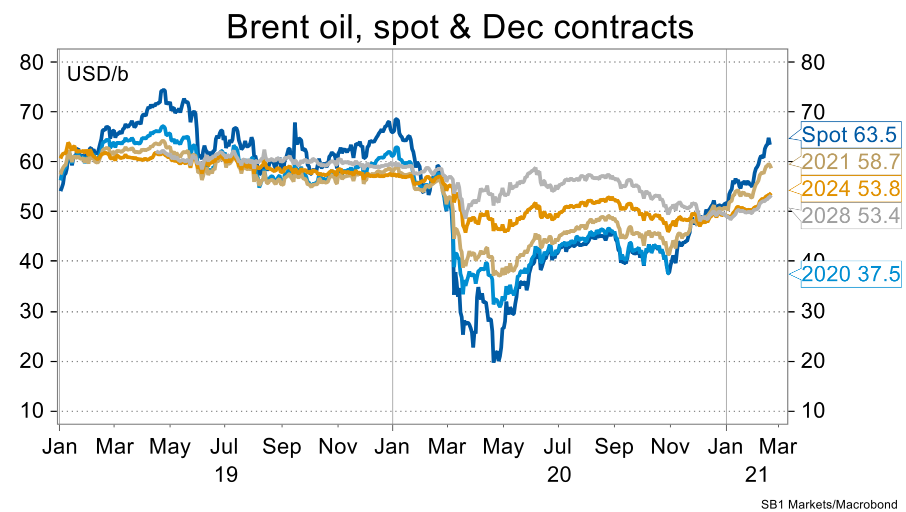


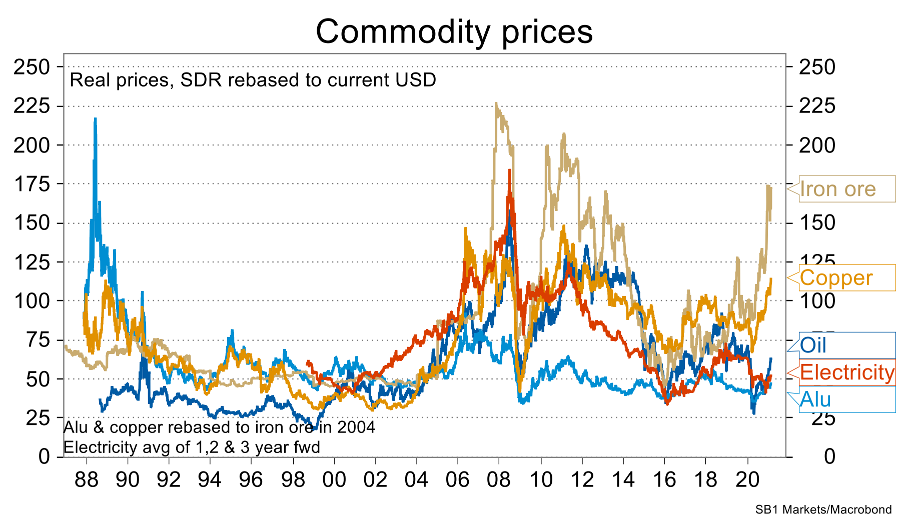


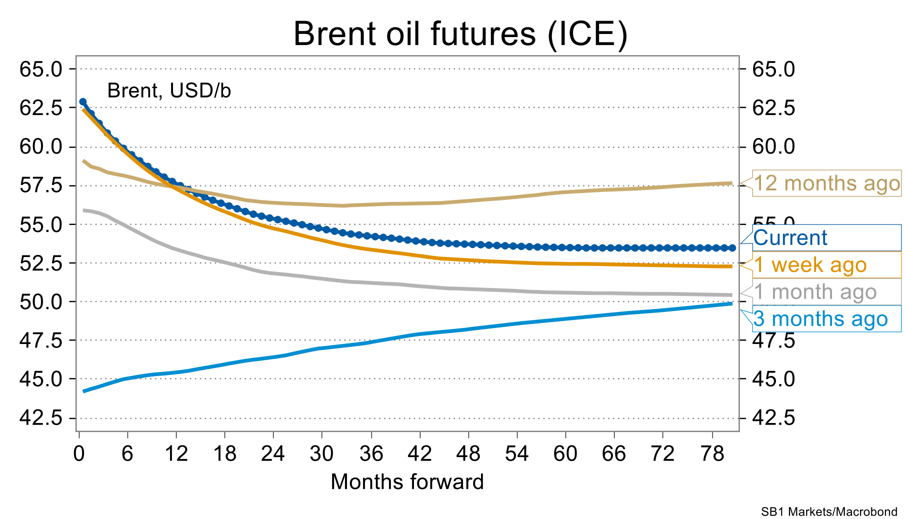
SpareBank 1 MARKETS

Commodities up. Oil up across the curve as inventories are declining



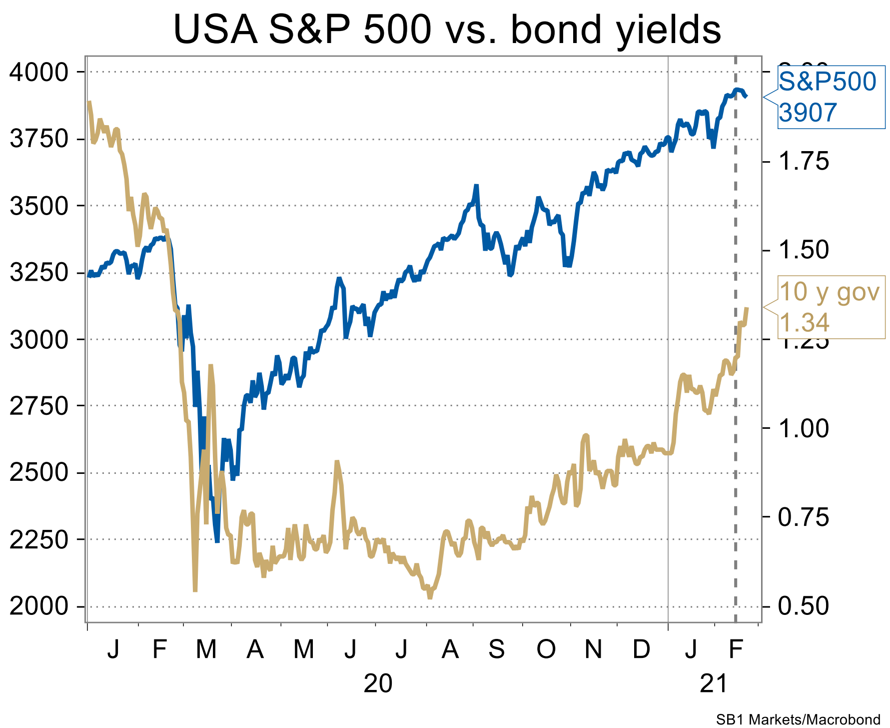


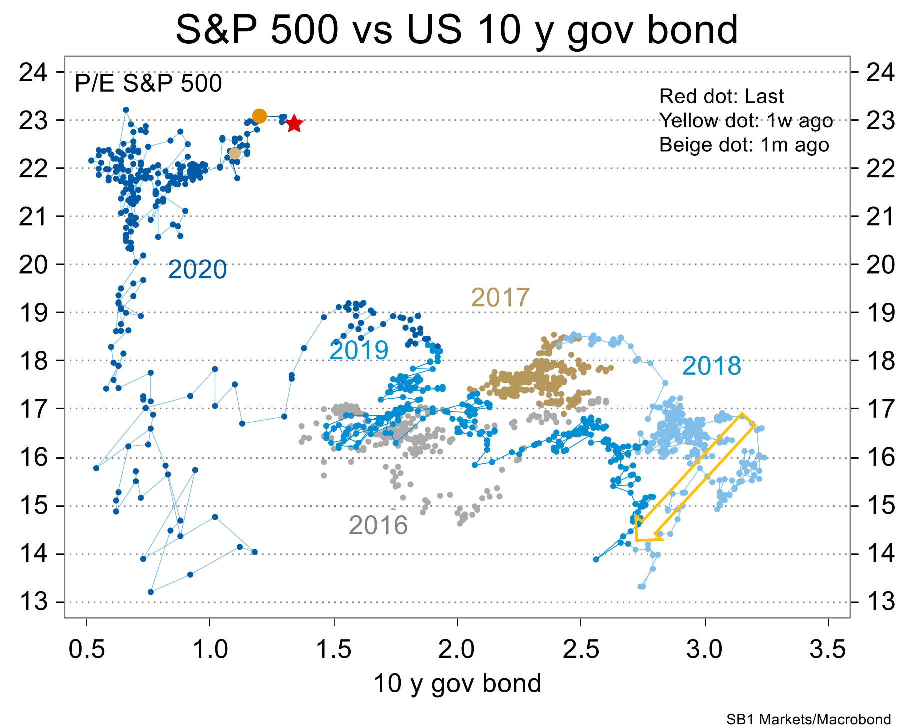




Yields are surging, the 10 y up 14 bps to 1.34% - and the stock market yielded

... but just marginally, down 0.7%. However, the debate started; *there is an alternative now…*

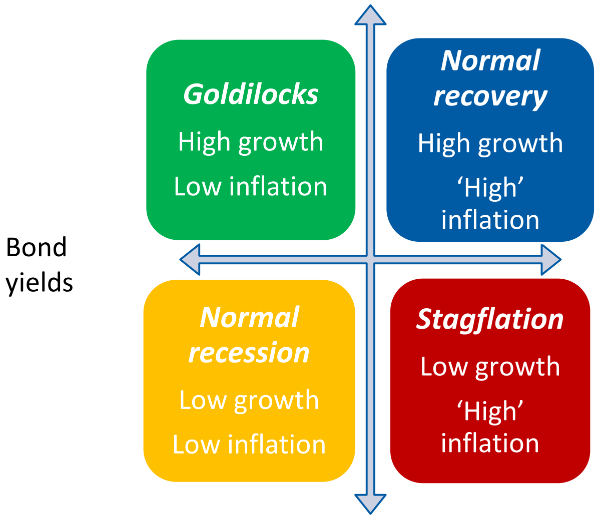


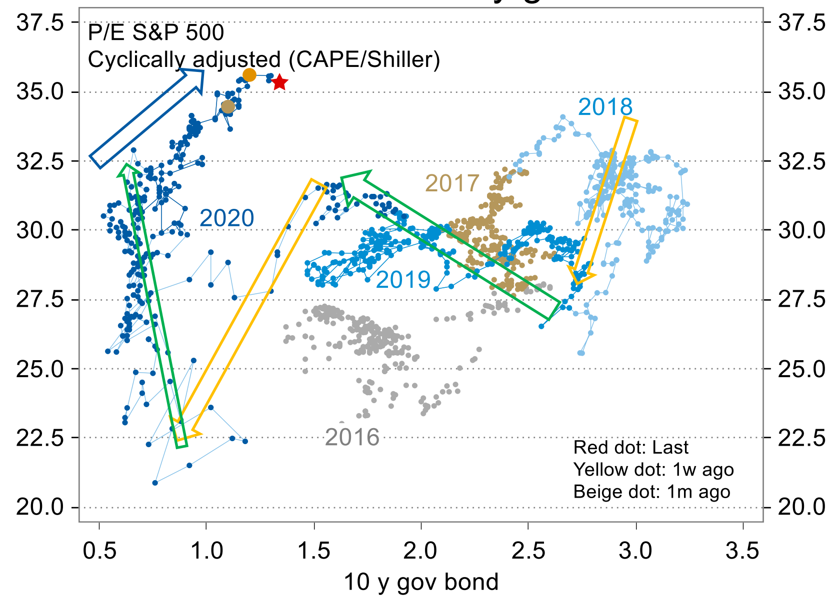


- Since the through in yields in early August, 80 bps ago (10 y gov), the stock market has climbed 20%

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

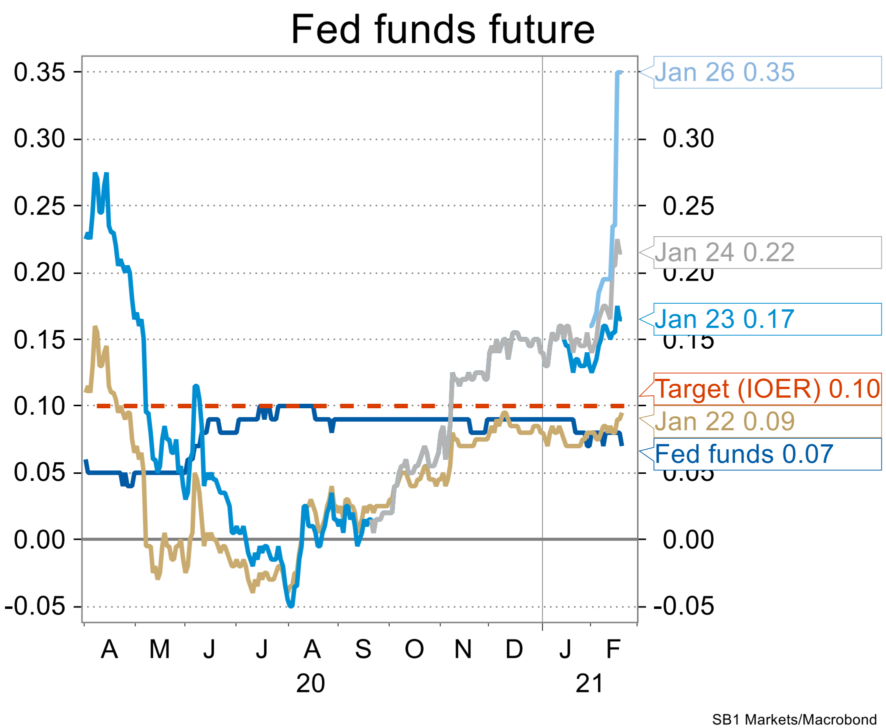


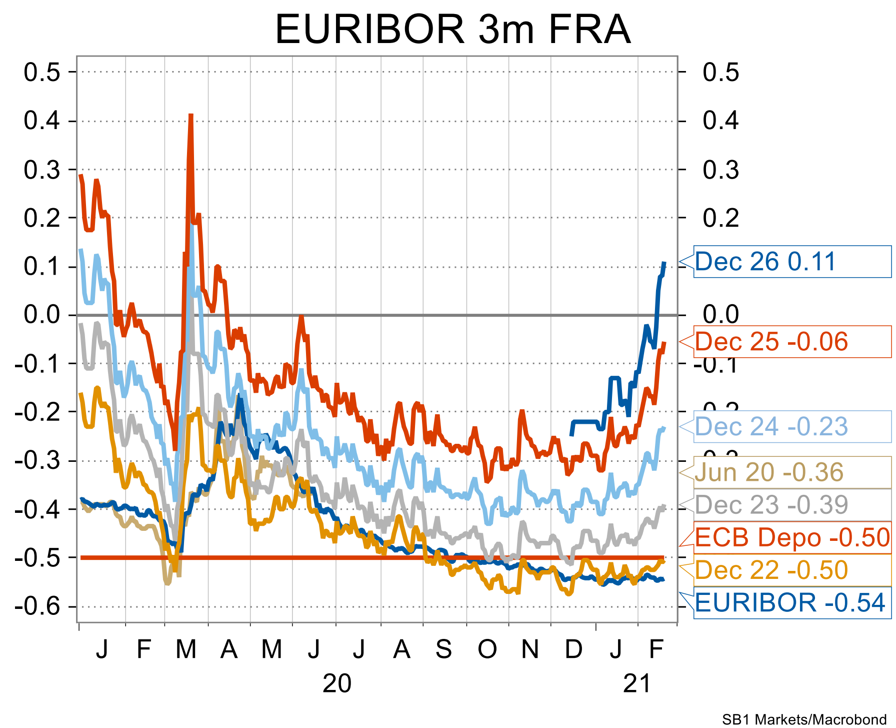


SB1 Markets/Macrobond

- 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

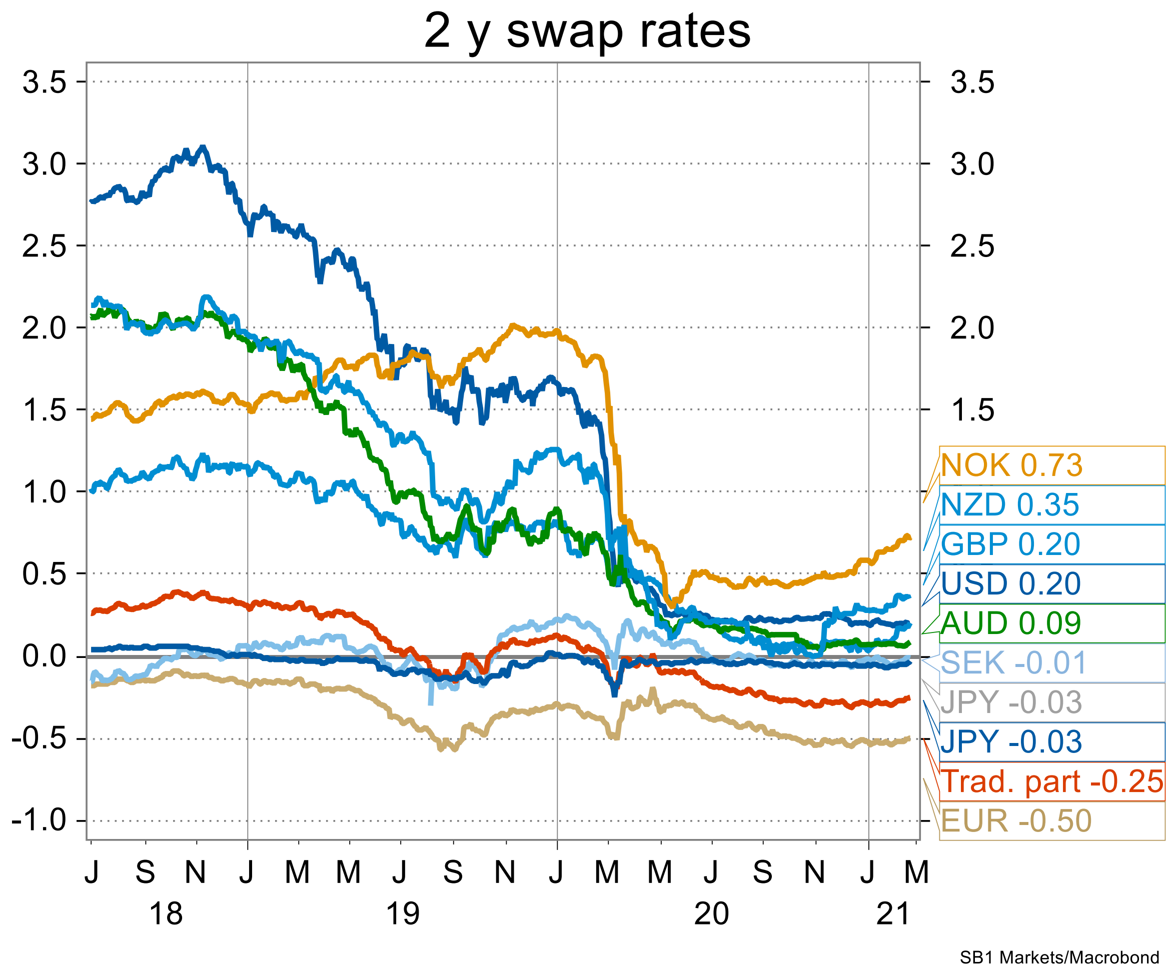
US & EMU: Not now… But rates won't stay low forever

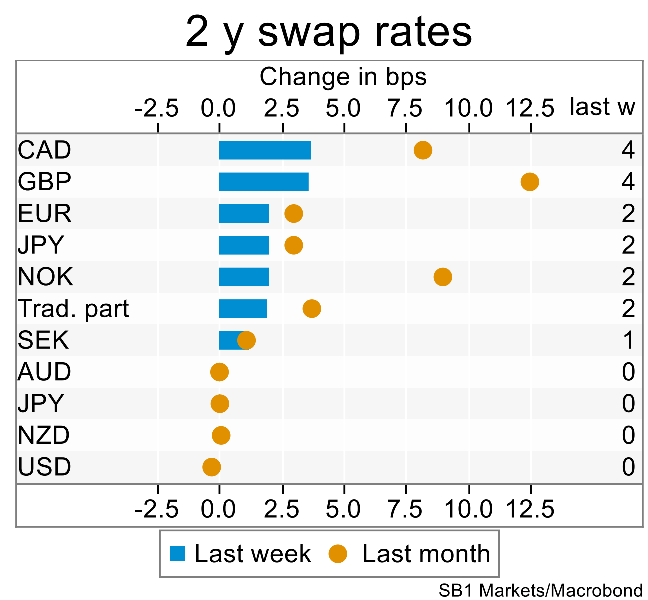




Short-term swap rates have bottomed, NOK & NZD rates at the front

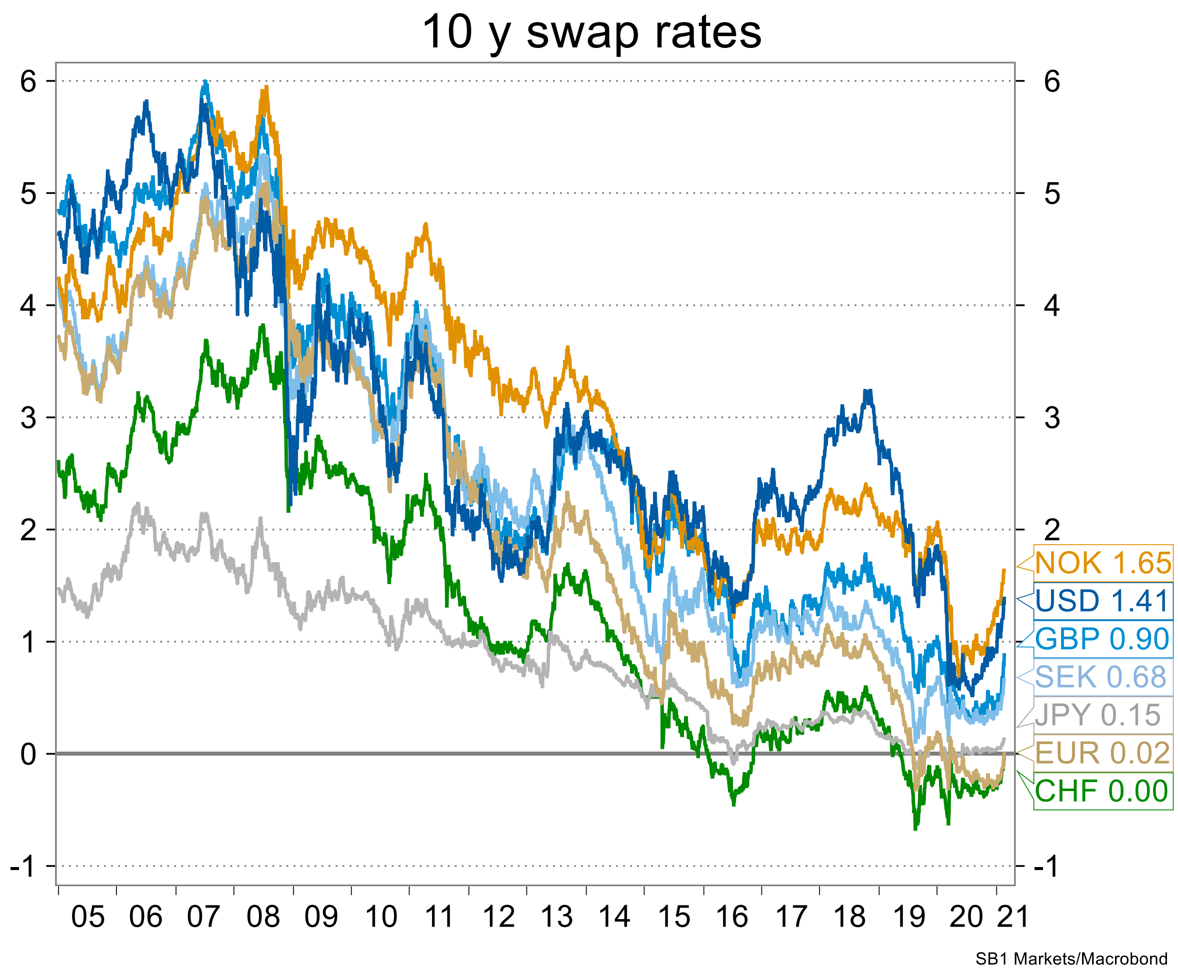
None down last week (and just USD rates marginally down last month, as the long end surges)

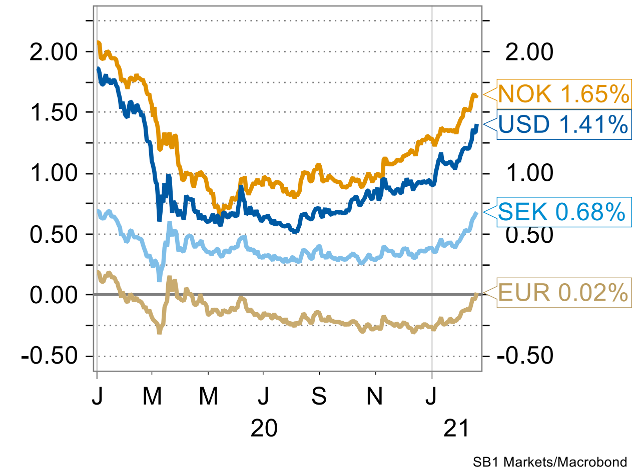


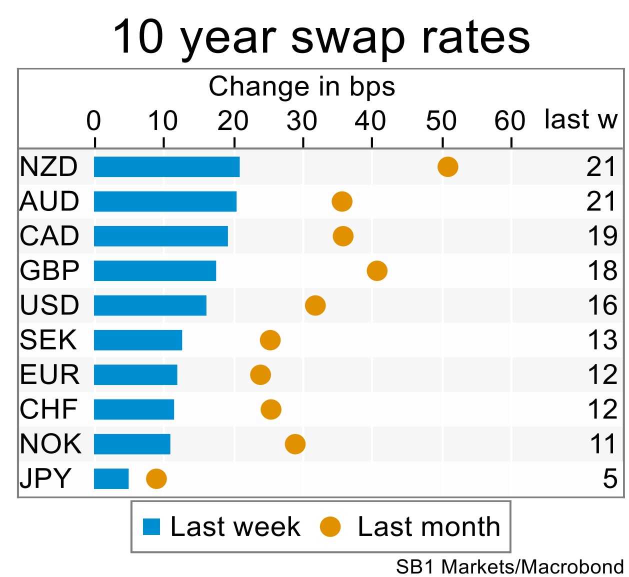


Wow, even European rates are moving upwards – the 10 y swap back in black!!!

EUR up 12 bps, US +16, UK +18 and AUD/NZD +21 bps. And the JPY swap rose by 5 bps. NOK +11



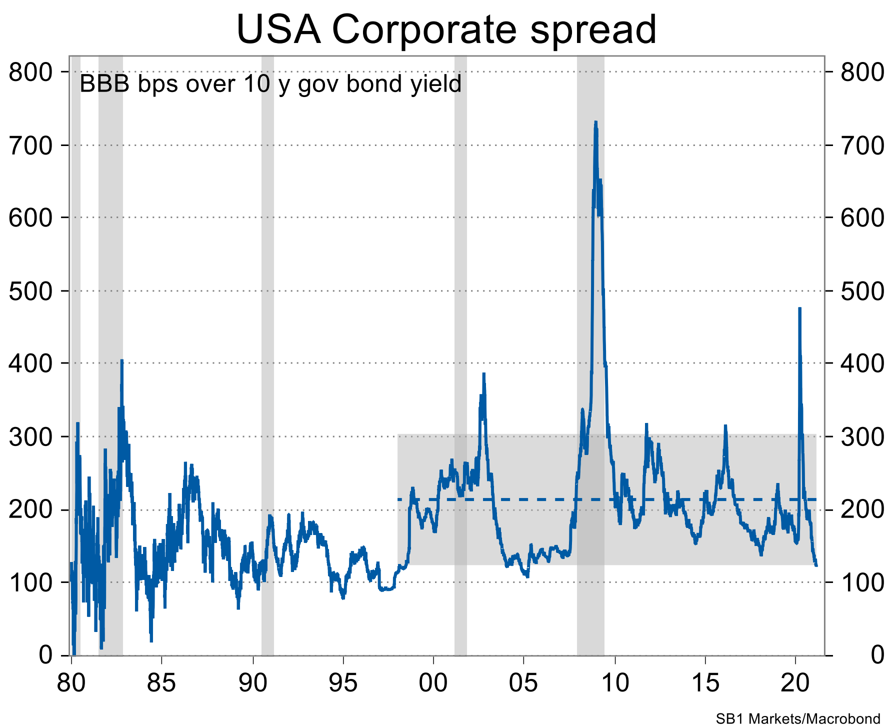


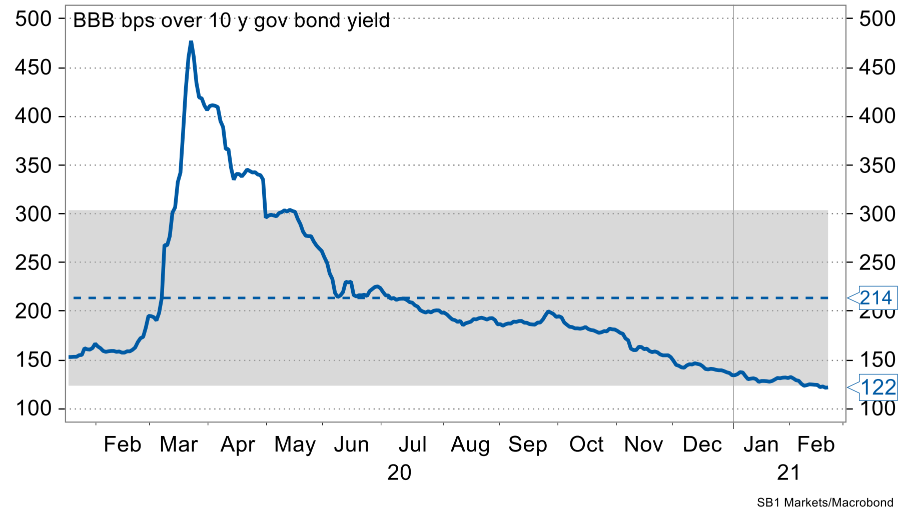


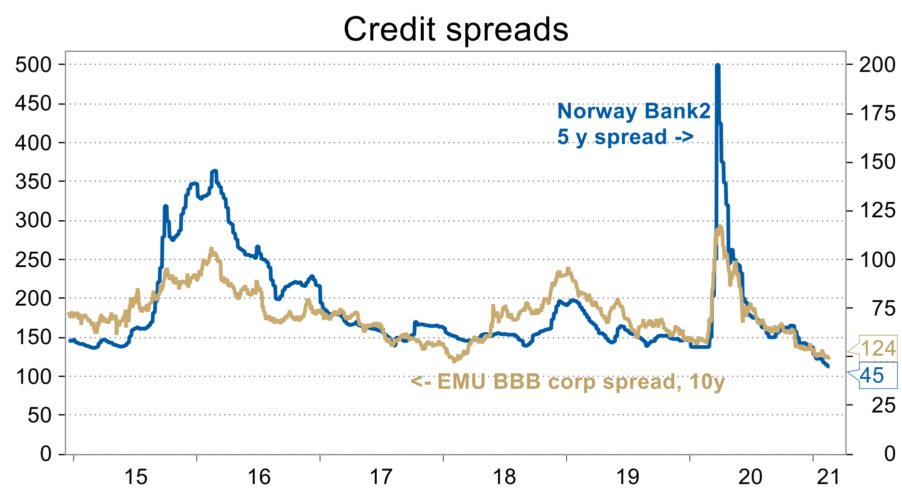
SpareBank 1 MARKETS

The market is throwing caution to the wind: Credit spreads down – again!

Credit spreads haven't been lower since 2005!

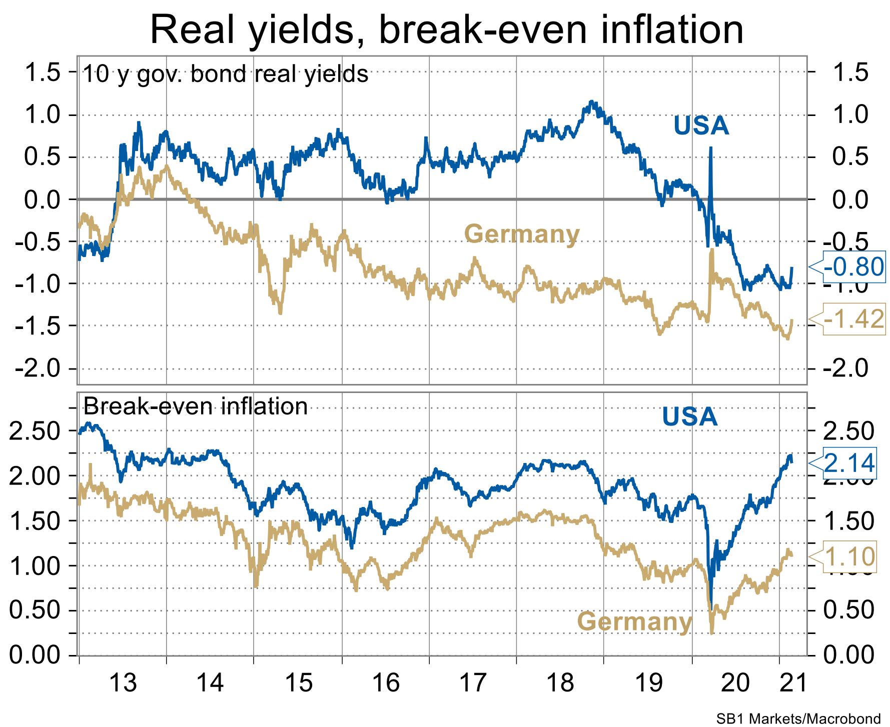


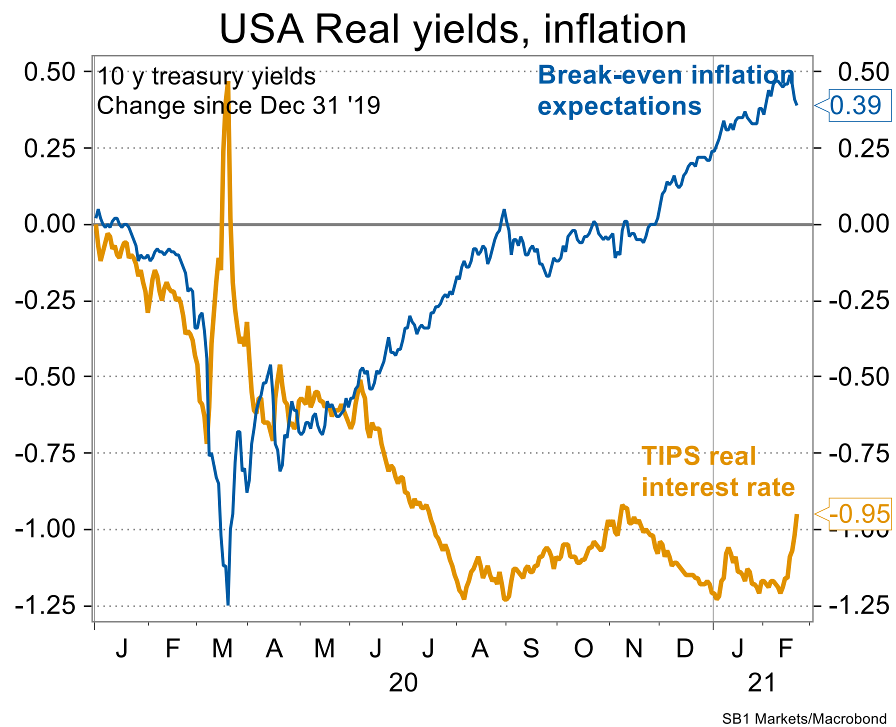




Has the (ridicules low) real rate cycle finally turned? *US TIPS + 21 bp!*

Last week's interest rates 'shock' is more than entirely due to higher real rates, inflation exp. fell!

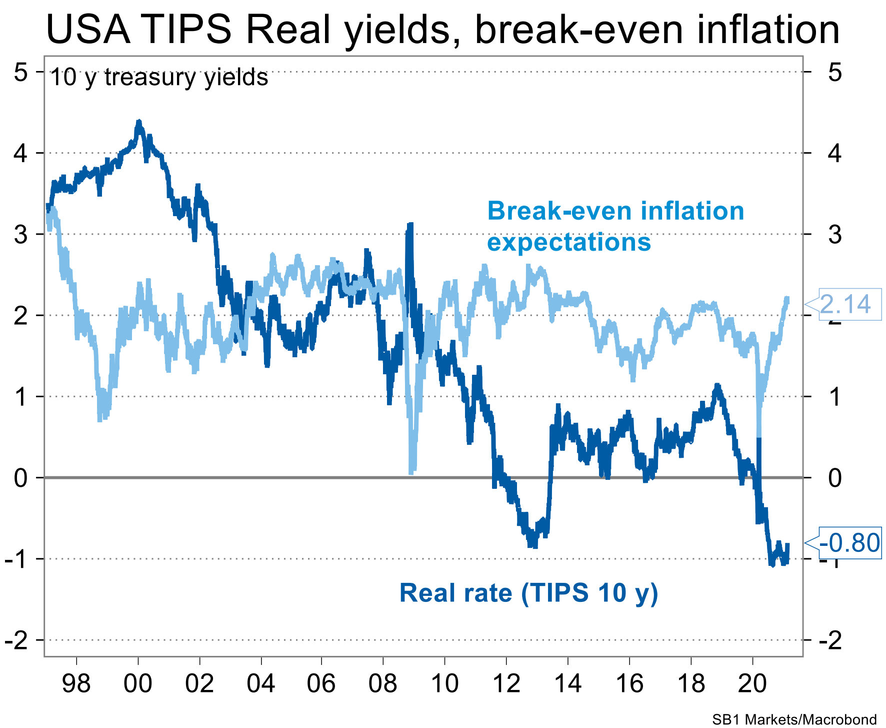


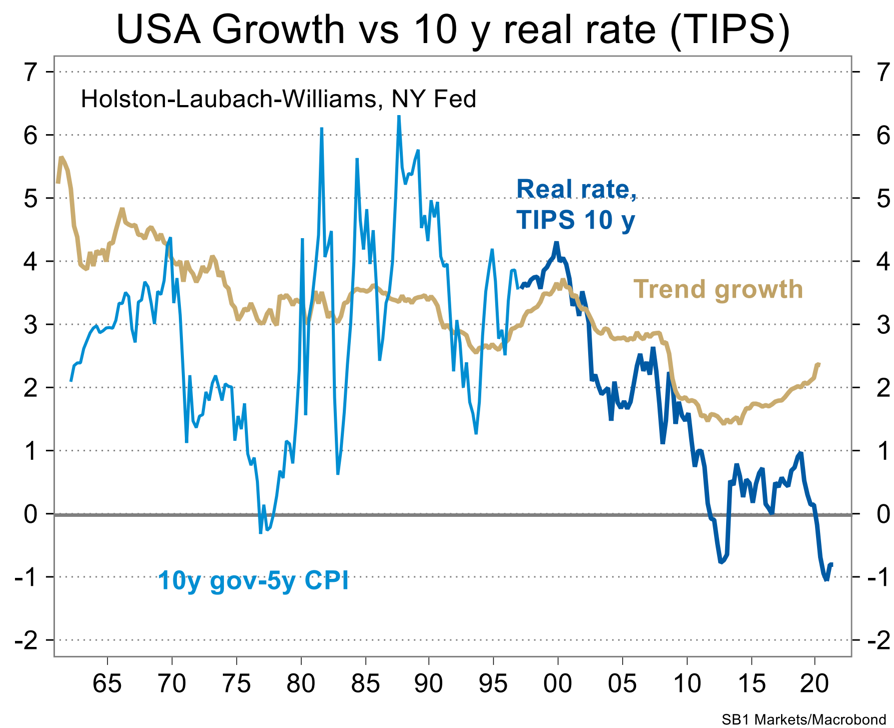


- **US 10 y +<u>14 bps to 1.34%</u>**
  - Inflation expectations down 7bpts to 2.14%. Still up 38 bps from late Nov, and well above past 6 - year average
  - The TIPS real rate rose by 21 bps -0.80%, one of the larger lifts (without major market dislocations)
- **Germany 10y <u>down 2 bps to -0.47%</u>**
  - Inflation expectations down 2 bps to 1.10%
  - Real rate +16 bps -1.42% - a substantial lift

Record low real rates – and decent growth expectations!

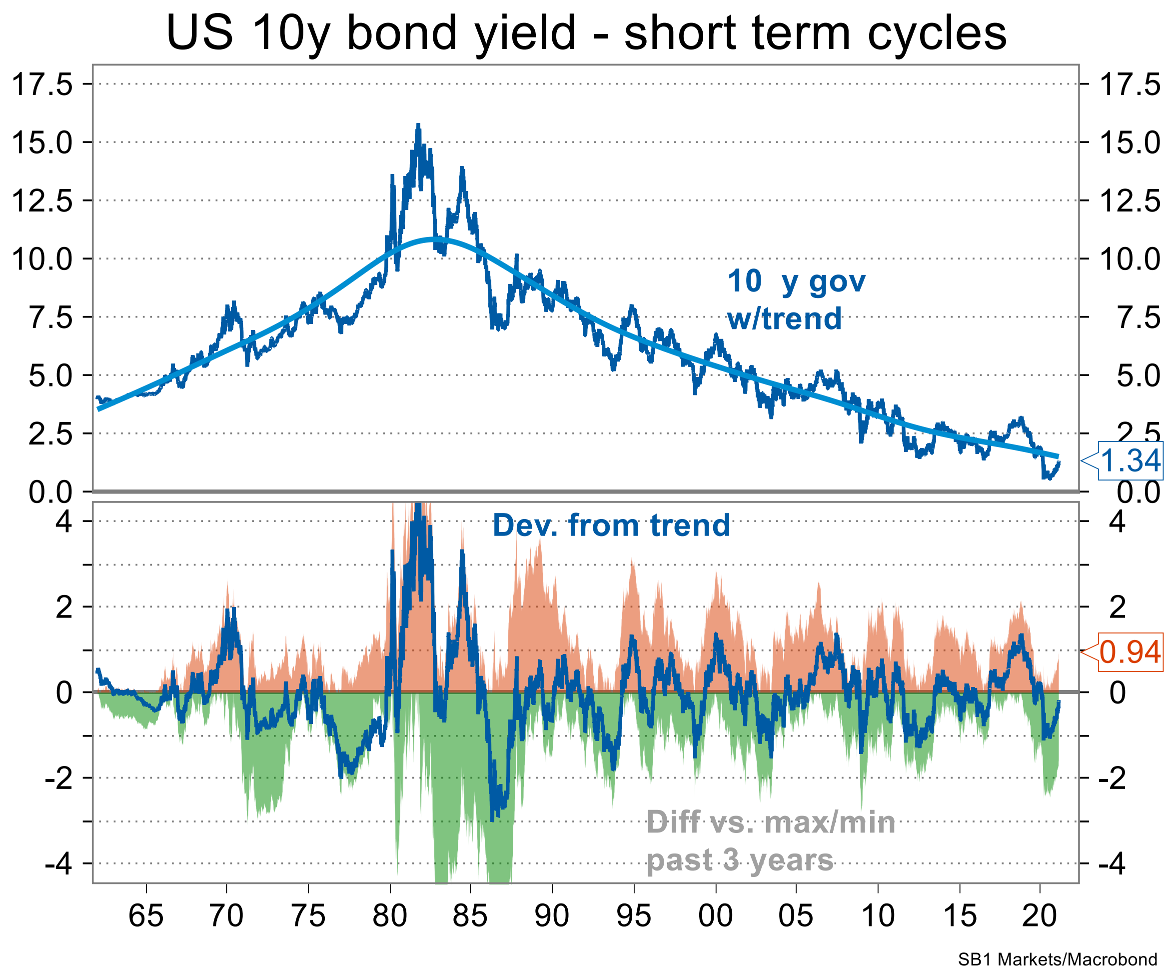
Optimal for risk markets! Real rates are still very low. But what if they continue upwards??





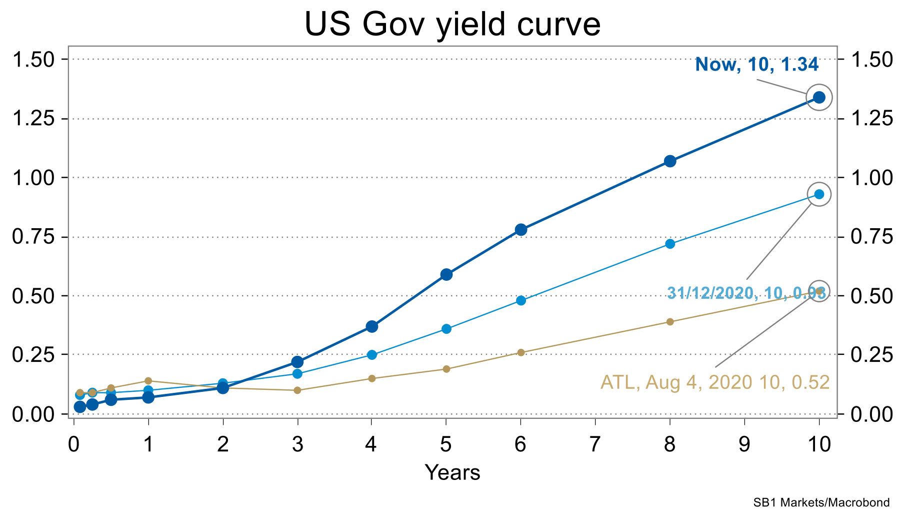
Some ‘smaller’ bond yield cycles: -200 bps/+200 bps vs recent peaks/troughs

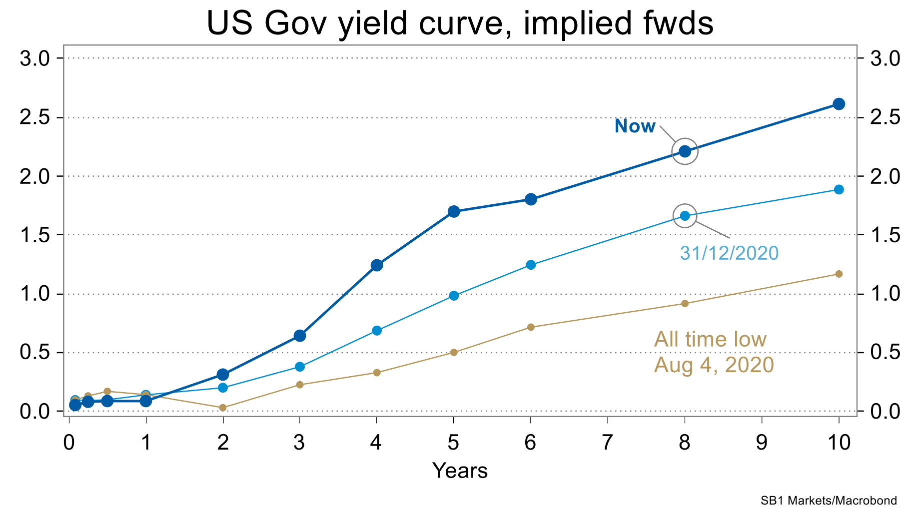
We may soon half-way through a ‘normal’ correction – but there is more than 100 bps more to go ☺

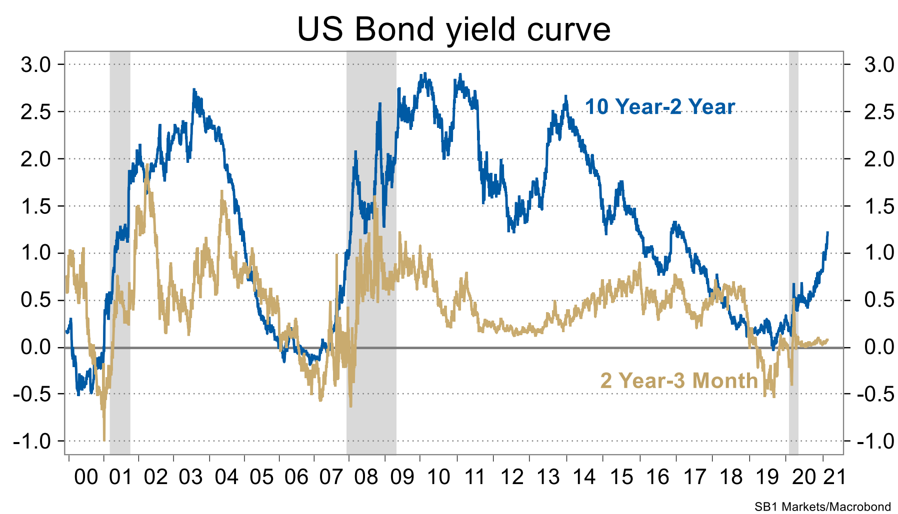


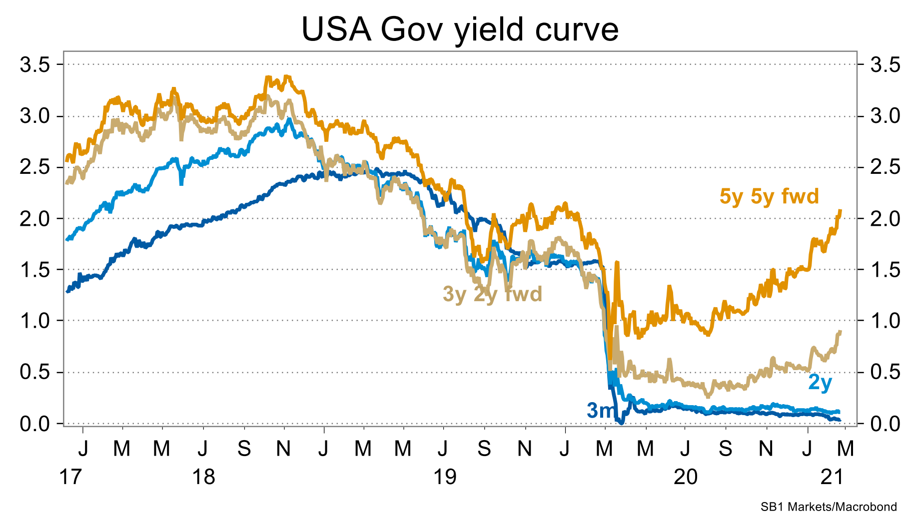
The US curve is just getting steeper – the short end remains in (Fed's) check

The curve is flat out to 2 years



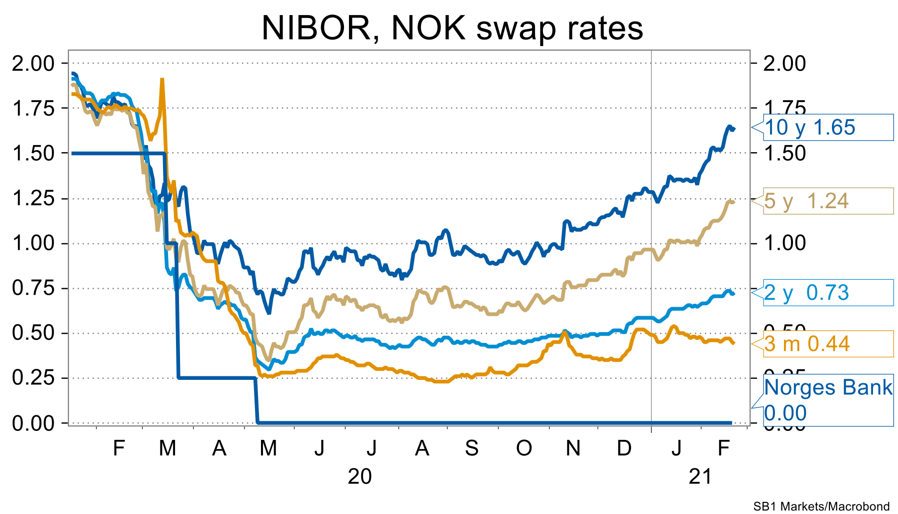




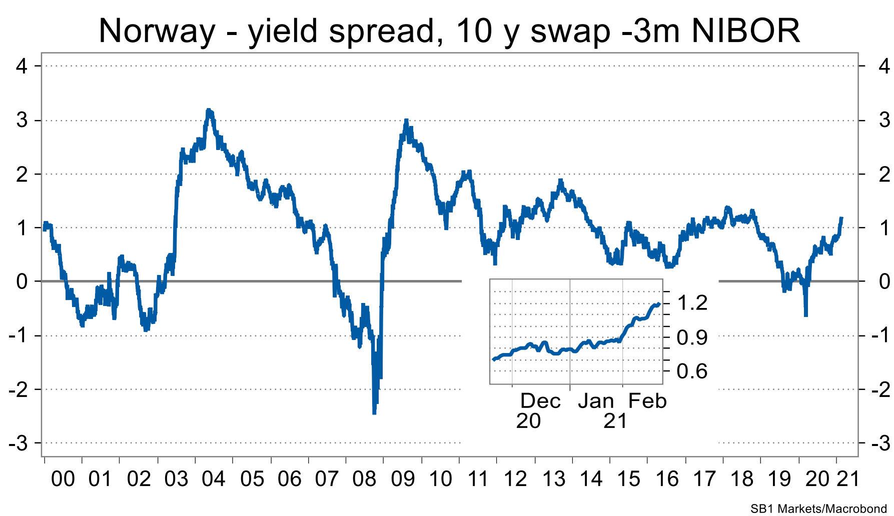


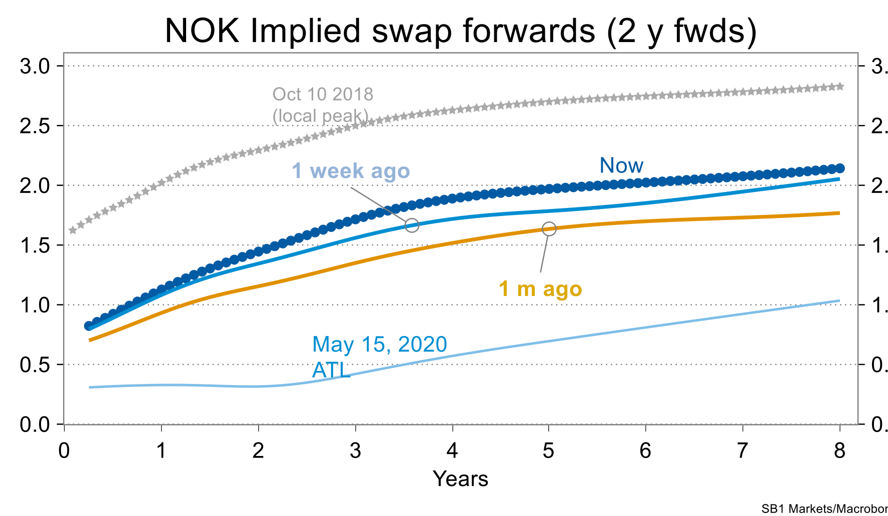
NOK rates climbed further last week

NOK 10 y swap +11 bp to 1.65%; up 105 bps vs May all time low



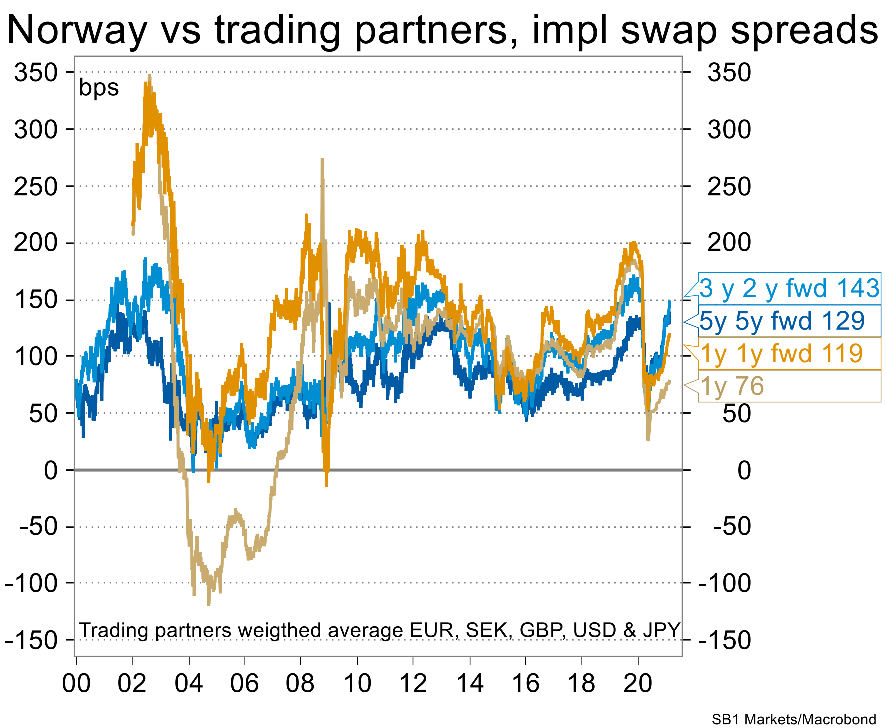
- 10 y swap rate is just 10 – 15 bps below the level in early 2020, before the corona virus hit. Still, implied rates from 4 – 5 years onwards are on par, at the implied rate 10y fwd is now finally above 2%
  - » The first half of the curve is still well below but it is inching upwards
- The curve steepened last week to but not between 5 and 10 years

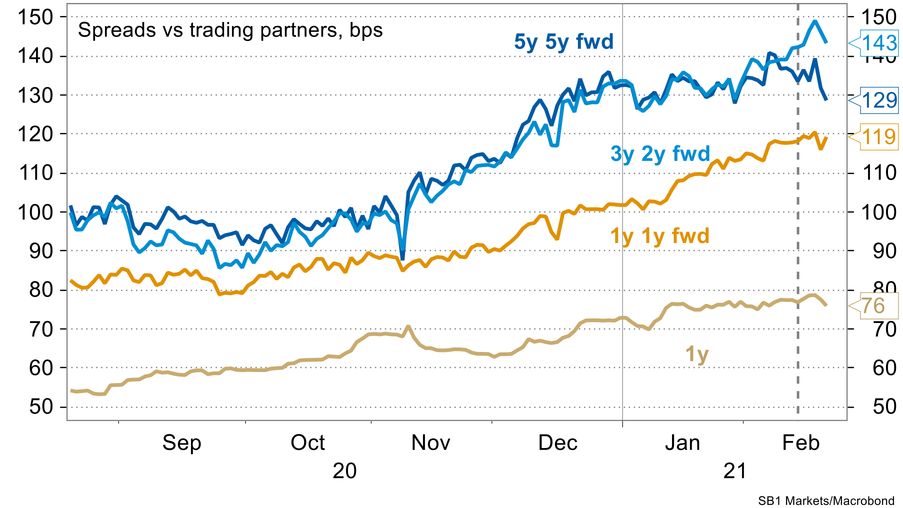


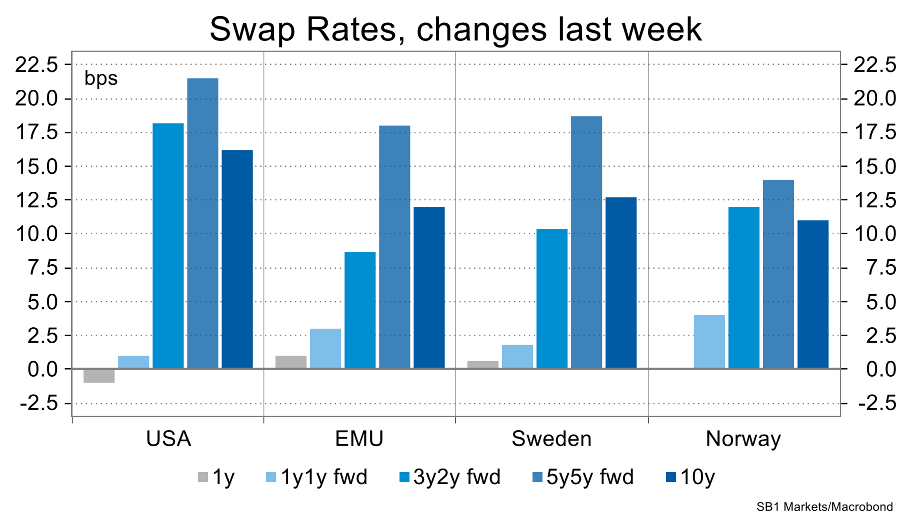


The long end of the curve rose more abroad than in Norway this week too

The spread marginally higher at the short end of the curve

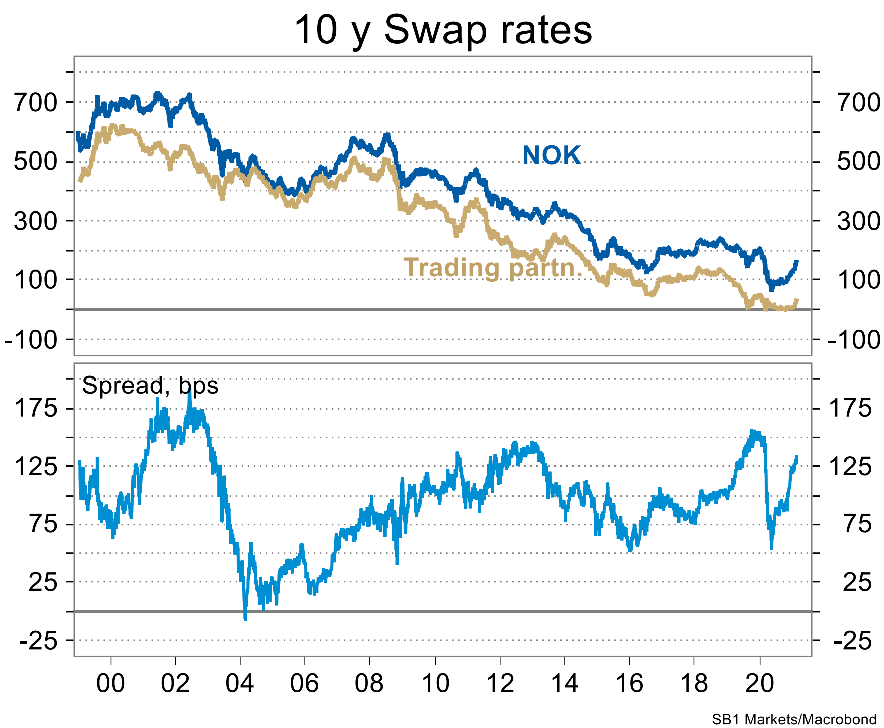


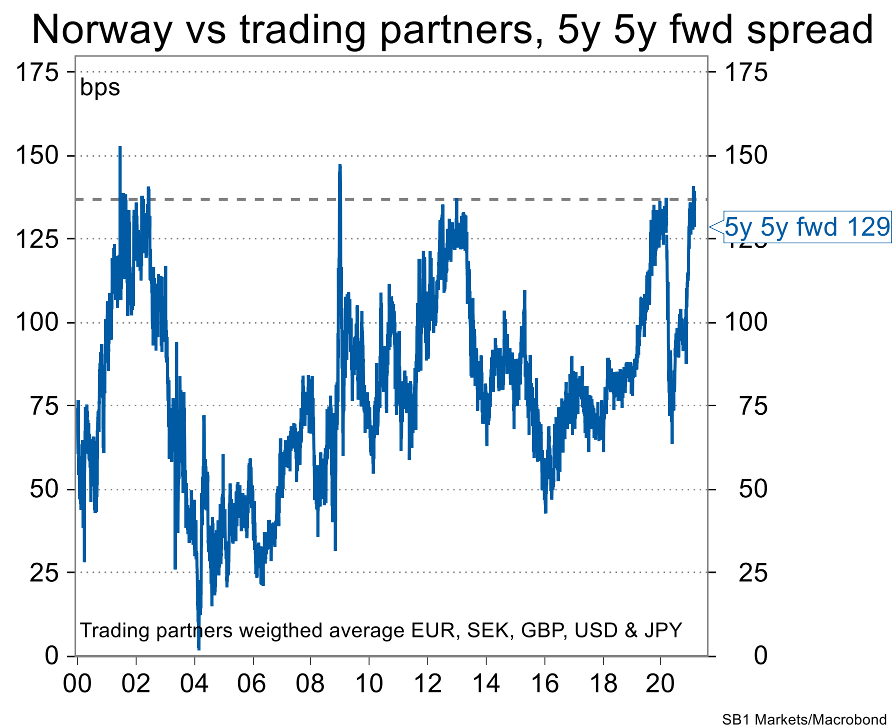




- Longer end of swap curves climbed 12 – 15 bps last week, and by 11 bps in Norway
- The implied spread between NOK rates and trading partners' at the second half of the curve (check the chart at the next page too) has probably peaked – at a high level
- In the short end of the curve, spreads are still below previous peak levels *–and may well widen further*

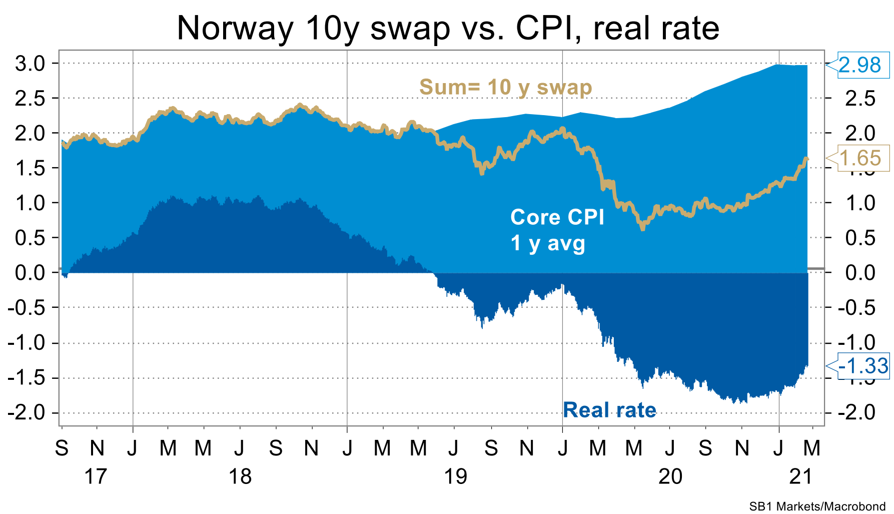
The 5y 5y fwd spread down by another 5 bps - from a very high level





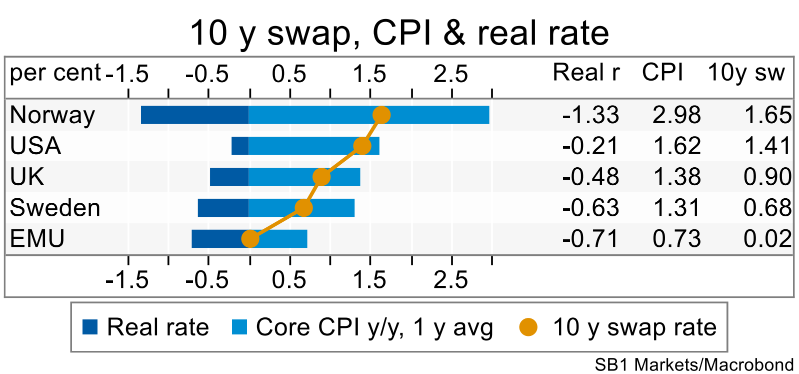
- How much inflation will Norway have, over time?
- How much faster growth will Norway deliver, over time?
- Thus, how much higher interest rates will Norway need, over time?

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 105 bps since the bottom in May, to 1.65%!
- **The real rate**, after deducting 3% average core CPI inflation over the 2 past years still equals -1.33%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 3%
  - » On the other hand, barring economists' in academia & finance, nobody else believe in the 2% inflation target. Other economists say 2.5%, business leaders 3.5% and households 3.8% (in 2 to 3 years' time)
  - » In seems unreasonable to revise expected inflation to below 2.5% - and in may in fact be that it is even higher than 3% among most decision makers

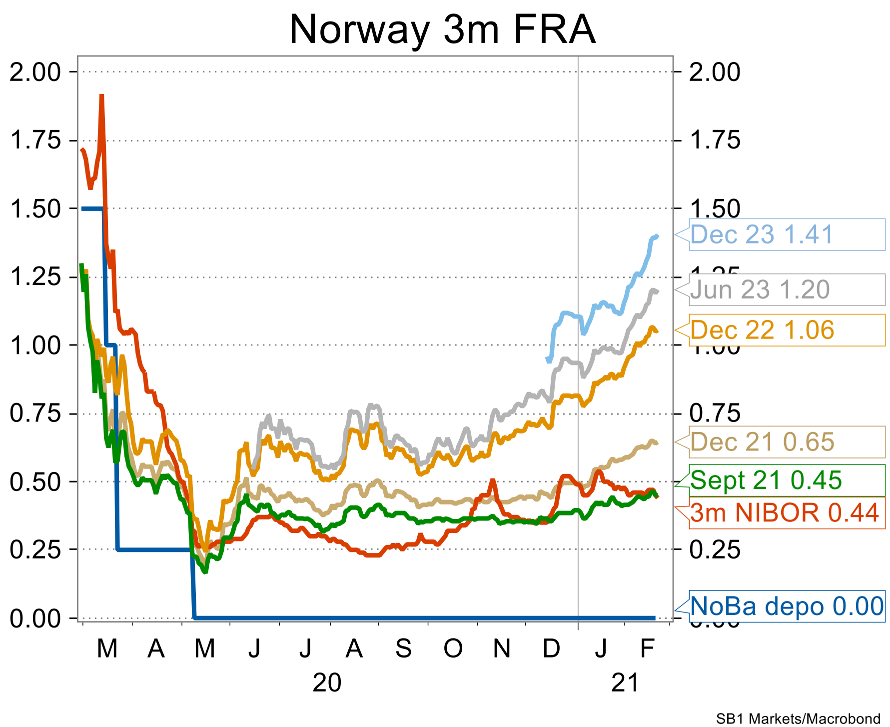


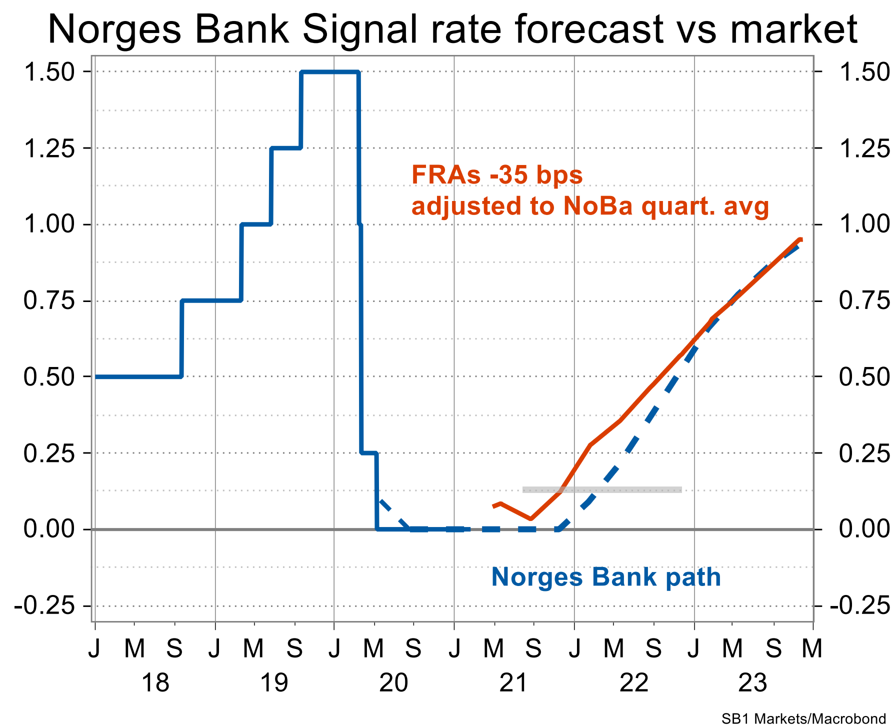
NOK real rates among the lowest, as inflation is at the top

- **Inflation** among Norway and our main trading partners varies between 0.73% to 2.98% (here again 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 -0.2% to -0.7% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.3% is an outlier at the downside, even if the nominal rate is the highest**

3m NIBOR down 1 bps to 0.44% last week but the FRA-curve steepens further

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

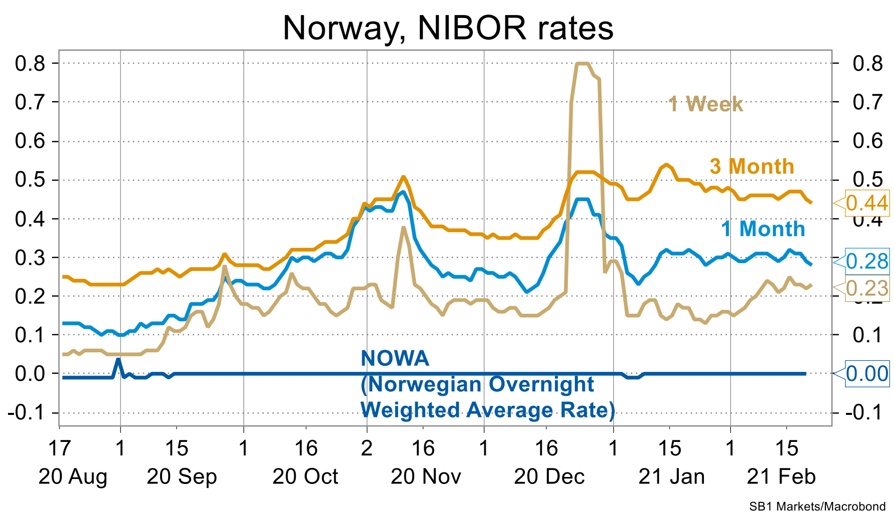


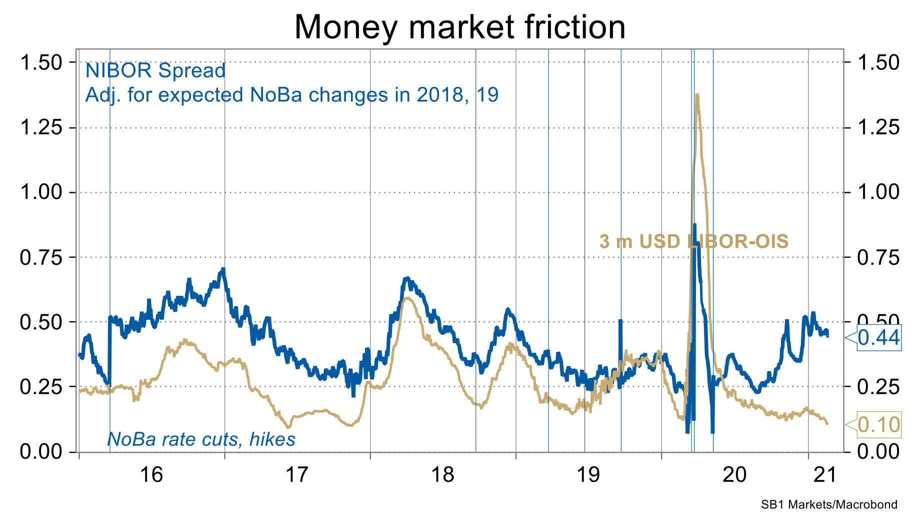


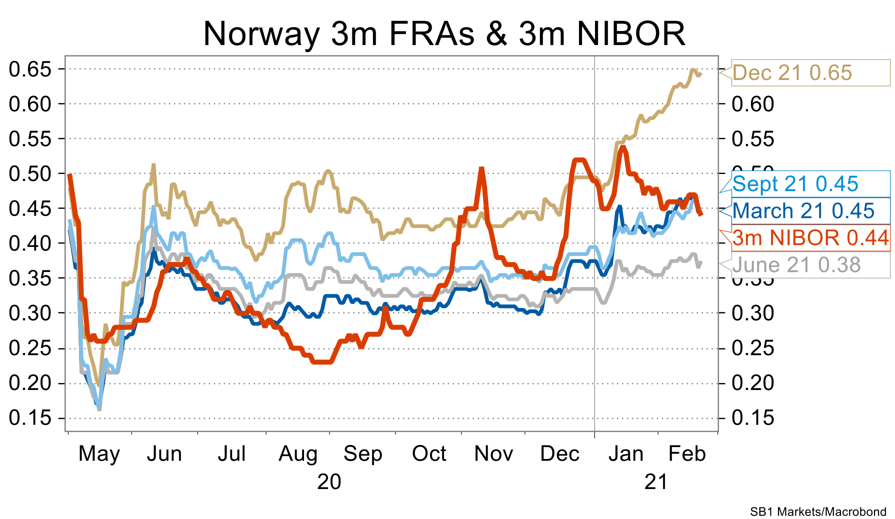
- The curve is above NoBa's path until early 2023 – if the expected NIBOR spread is at 35 bps (we are slowly accepting a higher spread, until now we have said 30 bps – and 40 may be an even better estimate)

NIBOR rates are sliding down again, the 3 m rate to 0.44%

The March 3 m FRA at 0.45%, and June at 0.38% signal that market do not expect 30-35 bps anymore



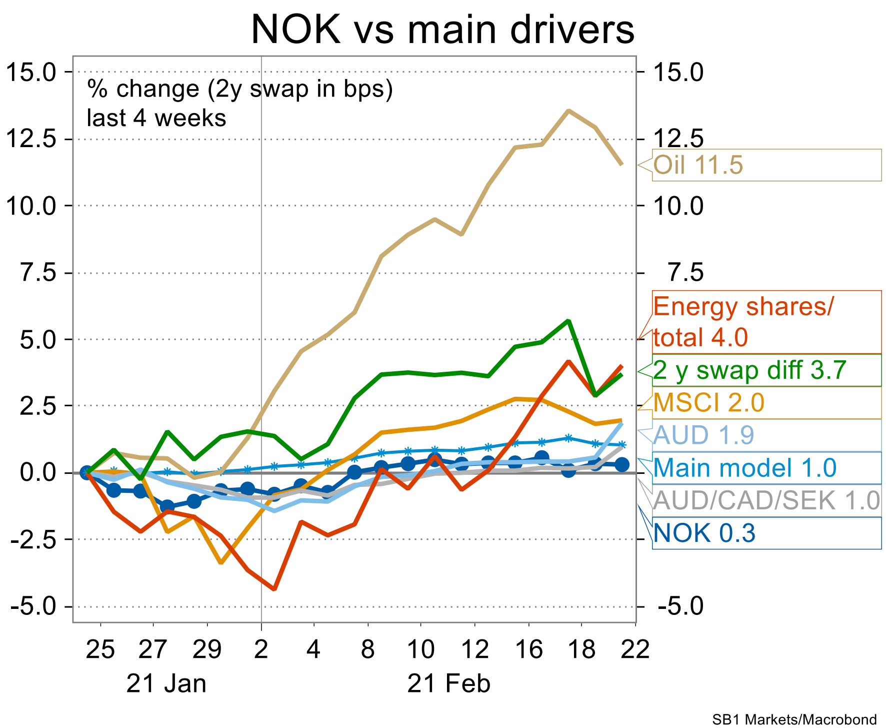


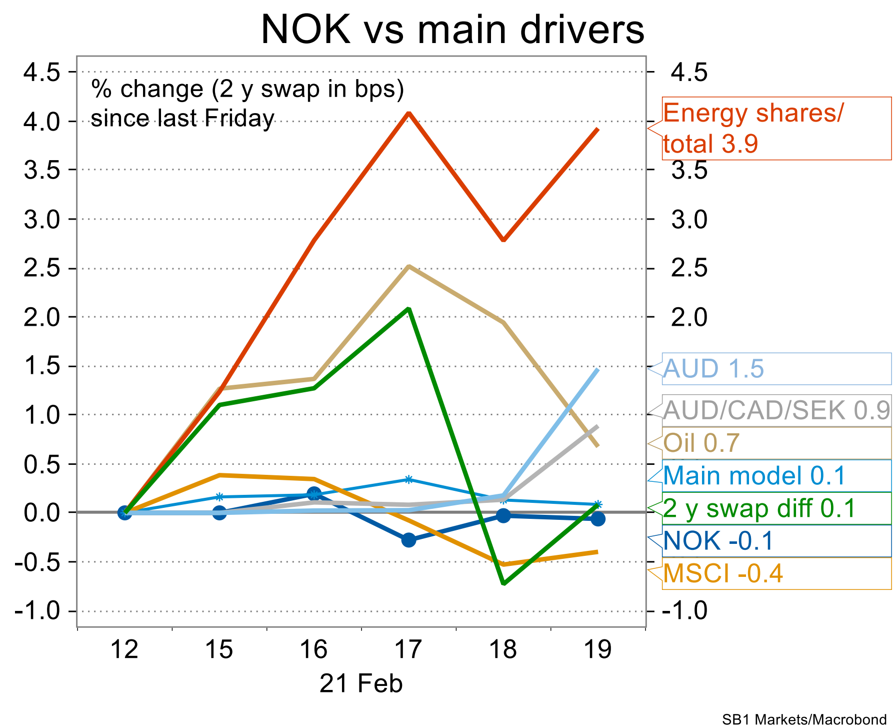


- **The 3m NIBOR** was flat last week but the spread vs. the NoBa deposit rate remains larger than 'normal'
- Now, the **FRA rates implies** that market participants expect that the spread will remain higher than the 'normal' 30 – 35 bps
  - » However, the spread has been far from stable, though mostly driven by LIBOR-OIS spread in dollar market. The present gap between the spreads are larger than normal

More factors on the upside than on the downside – but the NOK lost 0.1%

However, global risk market became a bit worried due to the steep rise in US treasuries?





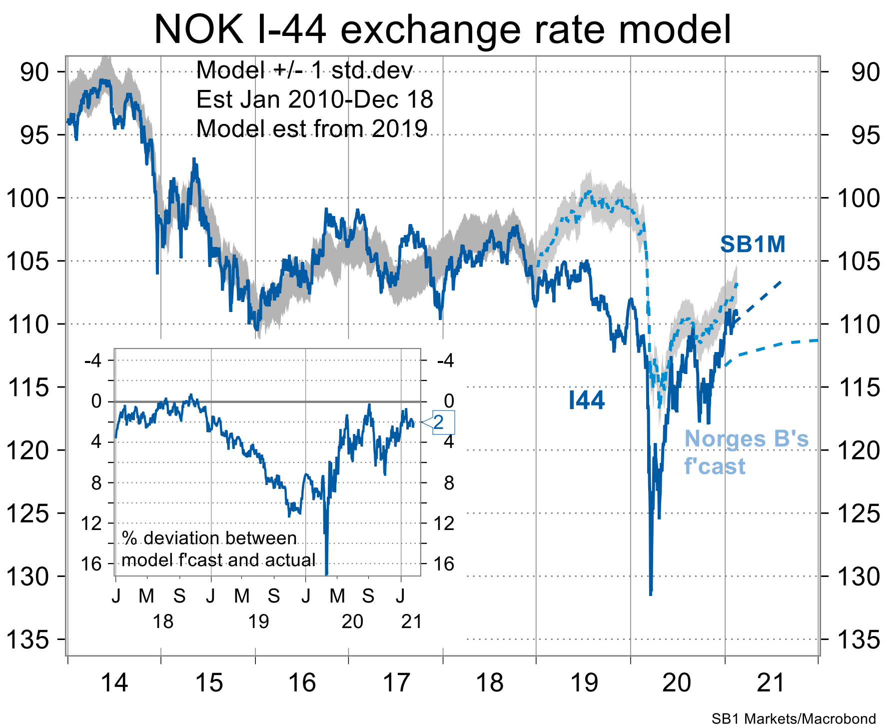
In sum, the NOK is still a buy:

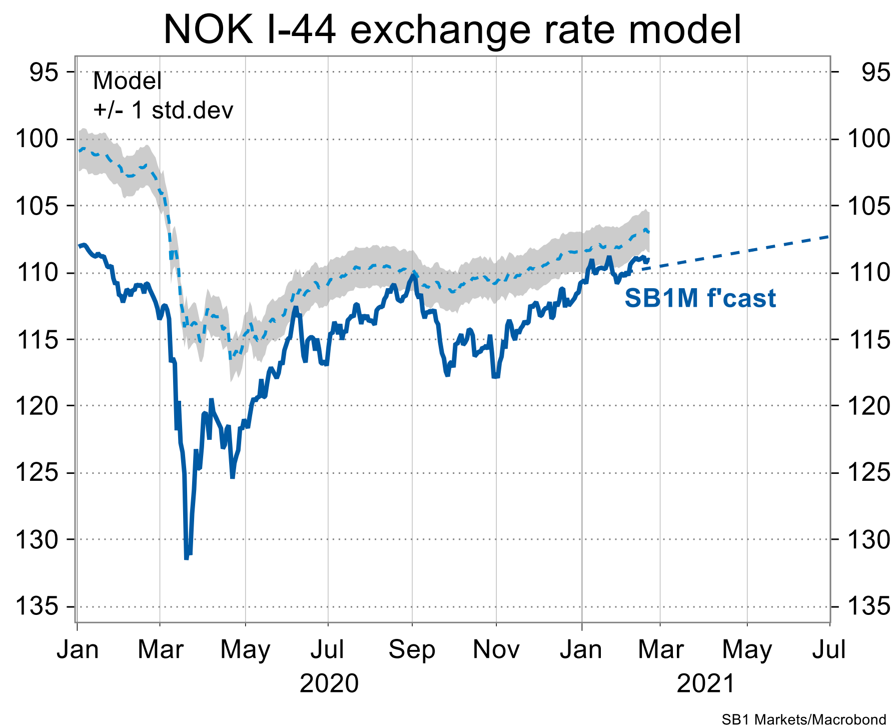
- The NOK is 2% <u>weaker</u> than suggested by our standard model
- The NOK is 4% '<u>weaker</u>' than the global stock market vs the correlation between the two in 2020
- The NOK is 7% <u>weaker</u> than an average of AUD/CAD/SEK, our 'super-cycle peers'
- On the other hand, the NOK is far (10%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market)

At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index for the last 25 observations. The I44 has an earlier closing time than the 'official' closing time for fx crosses, which is the same as for JP Morgan's indices, and JP Morgan's index correlates closer to the 'official' main NOK fx crosses. There are no substantial difference between these two indices over time. AUD etc. are JP Morgan data

NOK I44 down 0.1%, our model said +0.1%

The NOK is 2% below our model forecast





On this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index for the last 25 observations. The I44 has an earlier closing time than the 'official' closing time for fx crosses, which is the same as for JP Morgan's indices, and JP Morgan's index correlates closer to the 'official' main NOK fx crosses. There are no substantial difference between these two indices over time. AUD etc. are JP Morgan data

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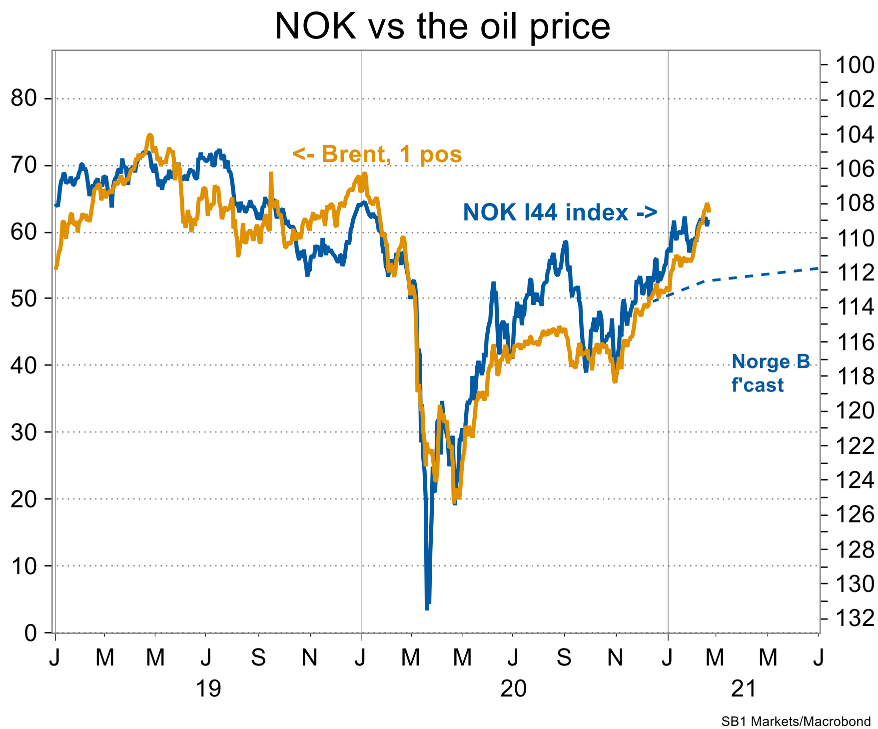
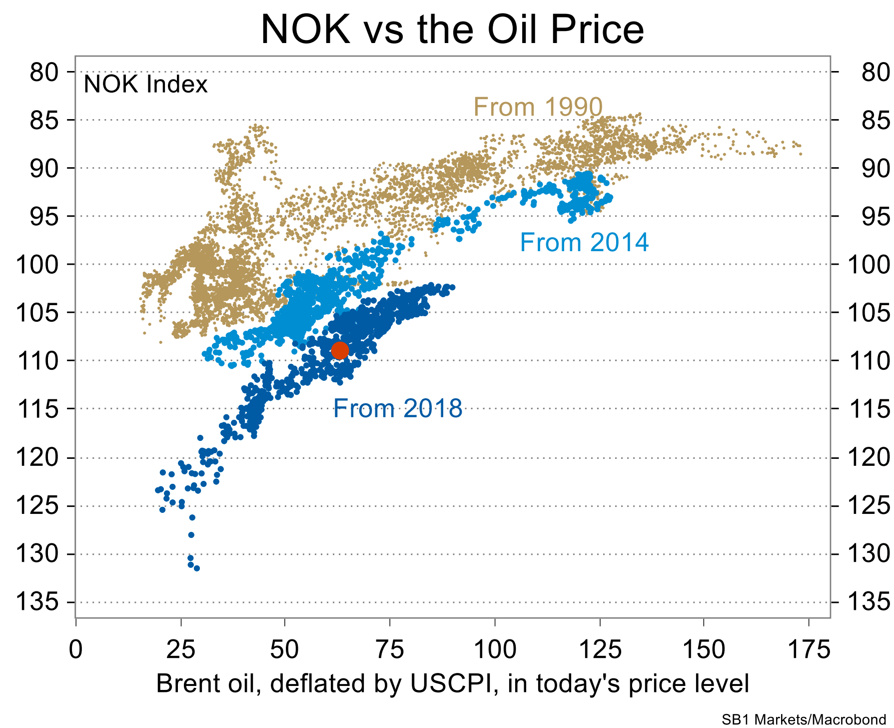
NOK flat over the past weeks, even if the oil price is up 10%

The oil price is above USD 60/b, to above the pre-pandemic level. Thank you, Saudi & Russia

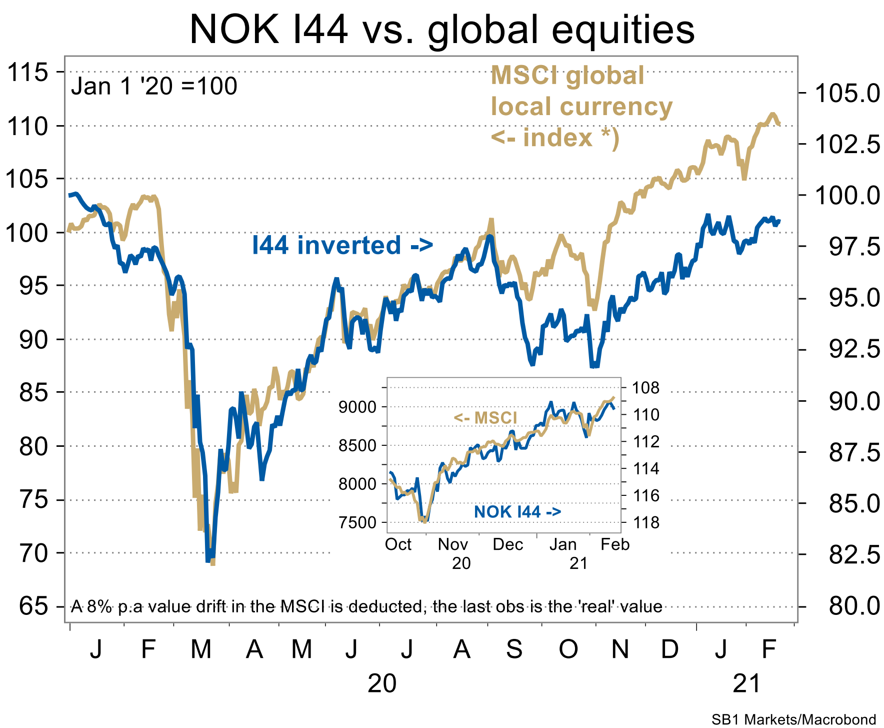


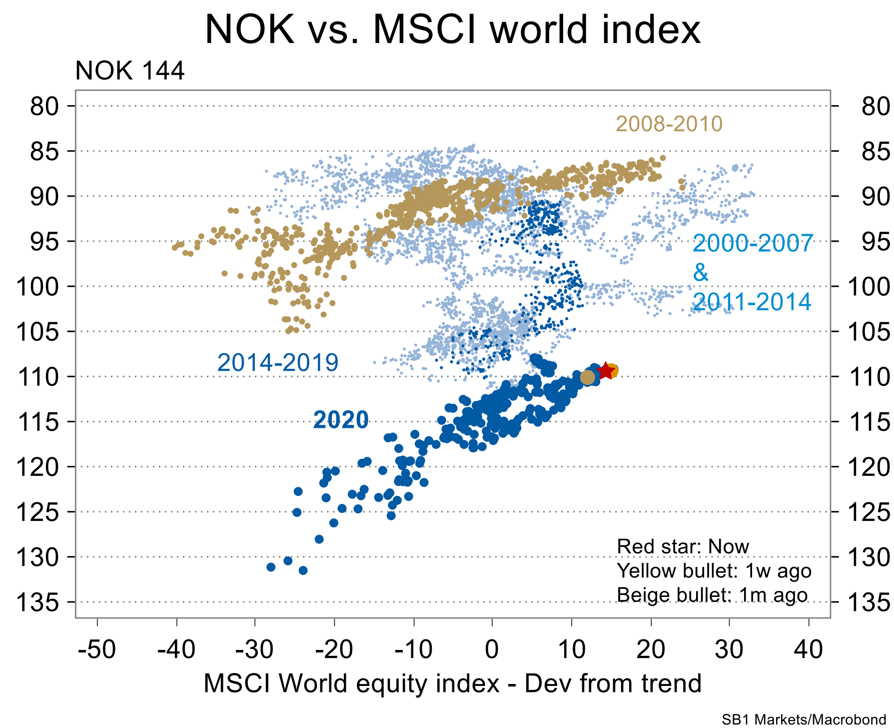


- Opec+ has announced that the cartel + will keep production down in order to trim inventories back to a normal level

Equities were up – and more than NOK

Except for Sept. NOK and global equities have walked in tandem last year. In Sept, NOK 'lost' 5%





- 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. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - Now, the NOK is more than 4% weaker than 'normal' vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020). However, at one stage we will have to recalibrate the scales, as equities are trending upwards 6 – 8% per year
- 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 than 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

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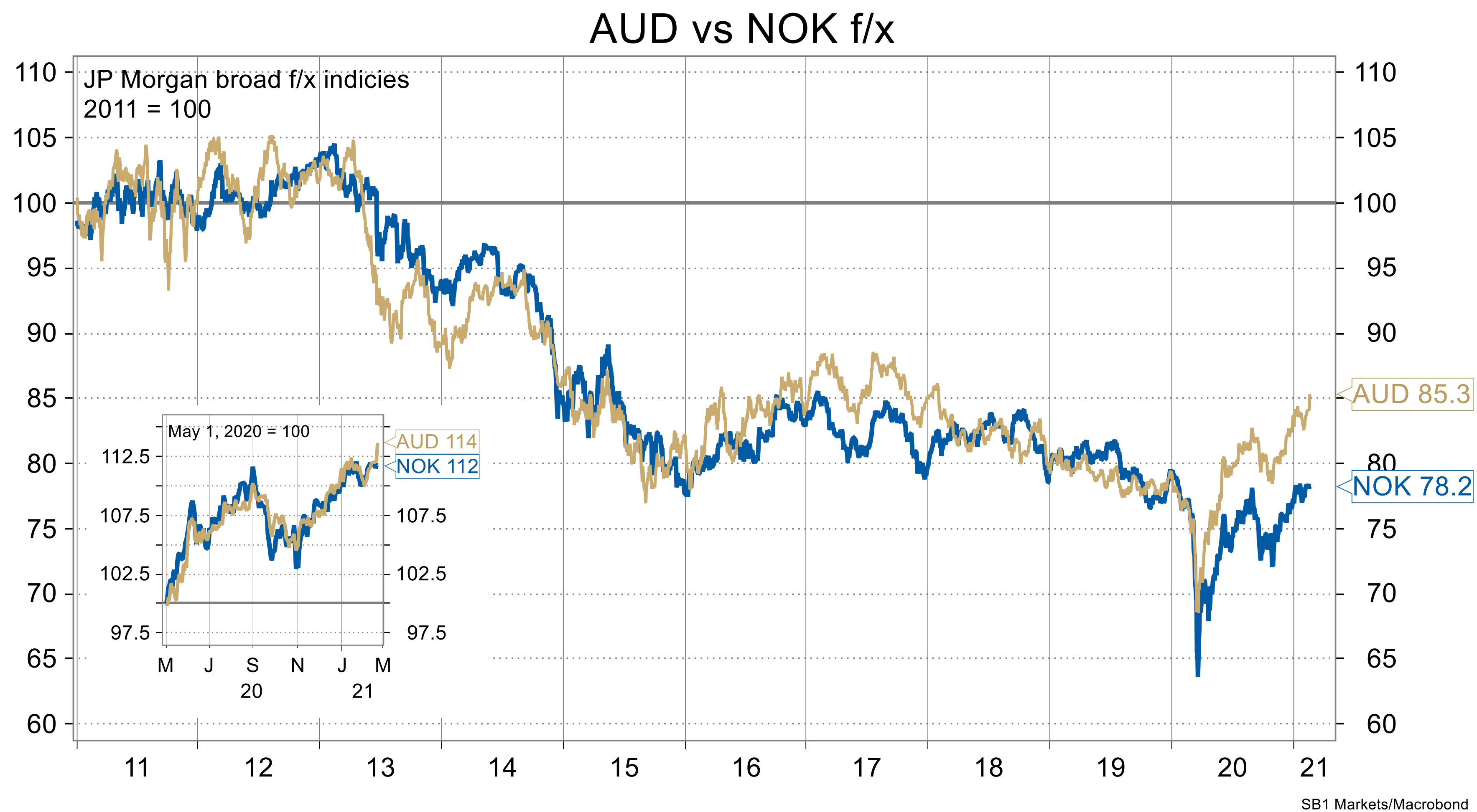
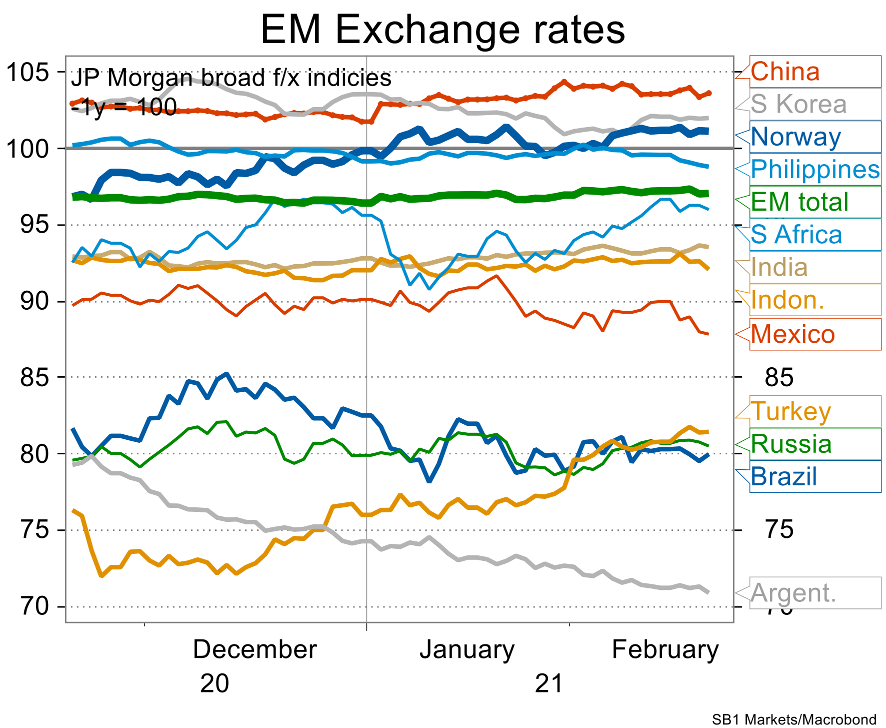
Hey Aussie, are you leaving us behind again??

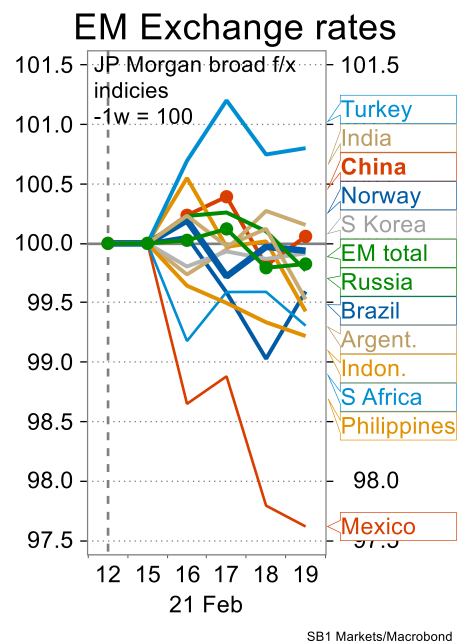
The AUD gained almost 2% vs NOK last week, for quarrelling with Facebook??

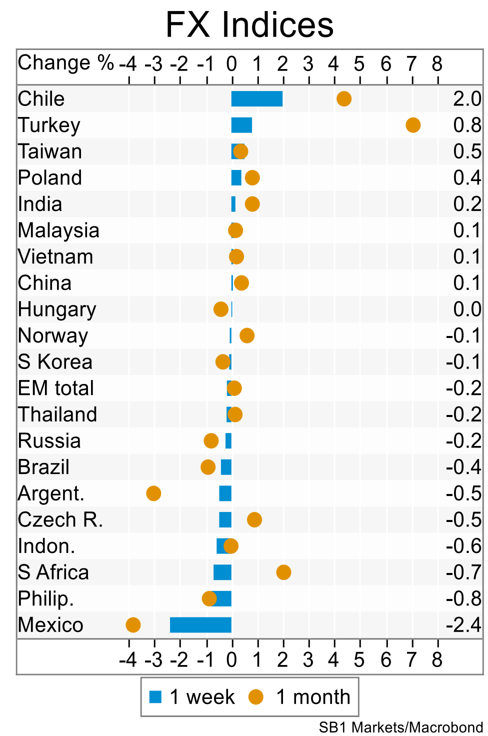


More down than up last week, still more up last month

Turkey is slowly cutting losses, Mexico is trending down







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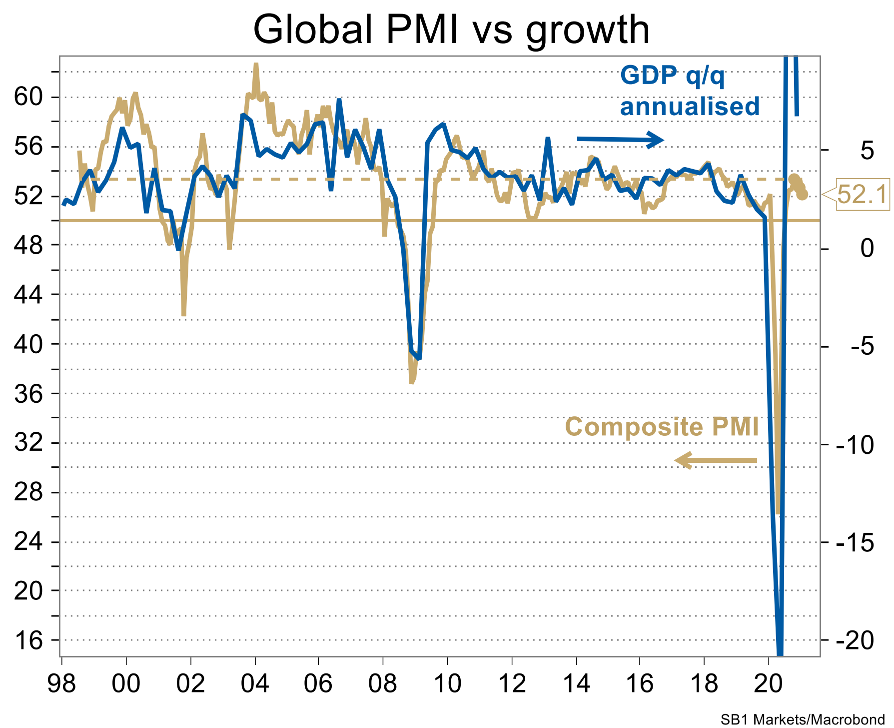
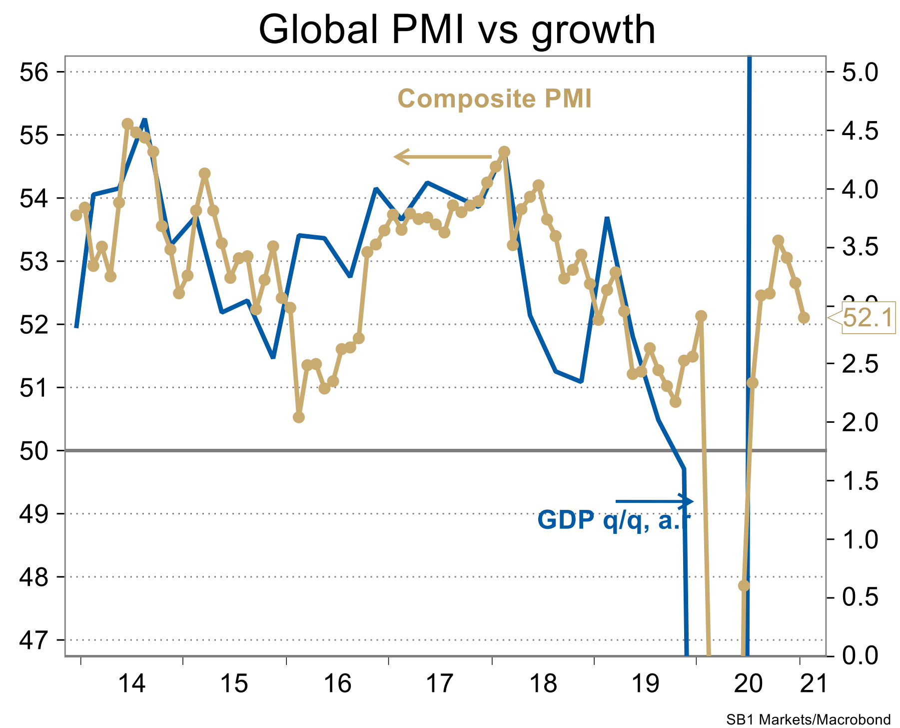
The global composite PMI probably down 0.6 p to 52.1 in Jan

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



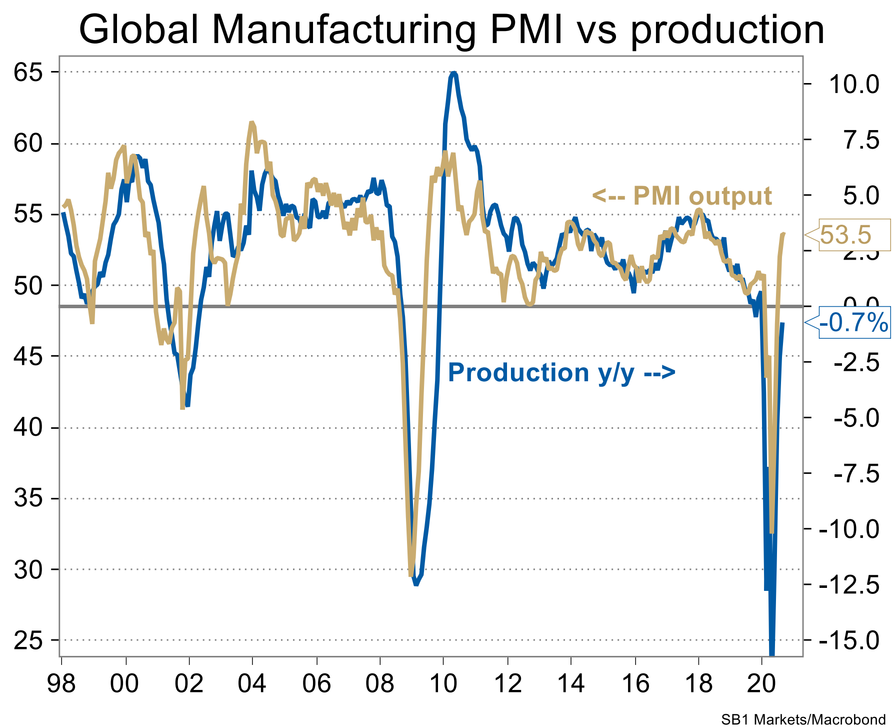


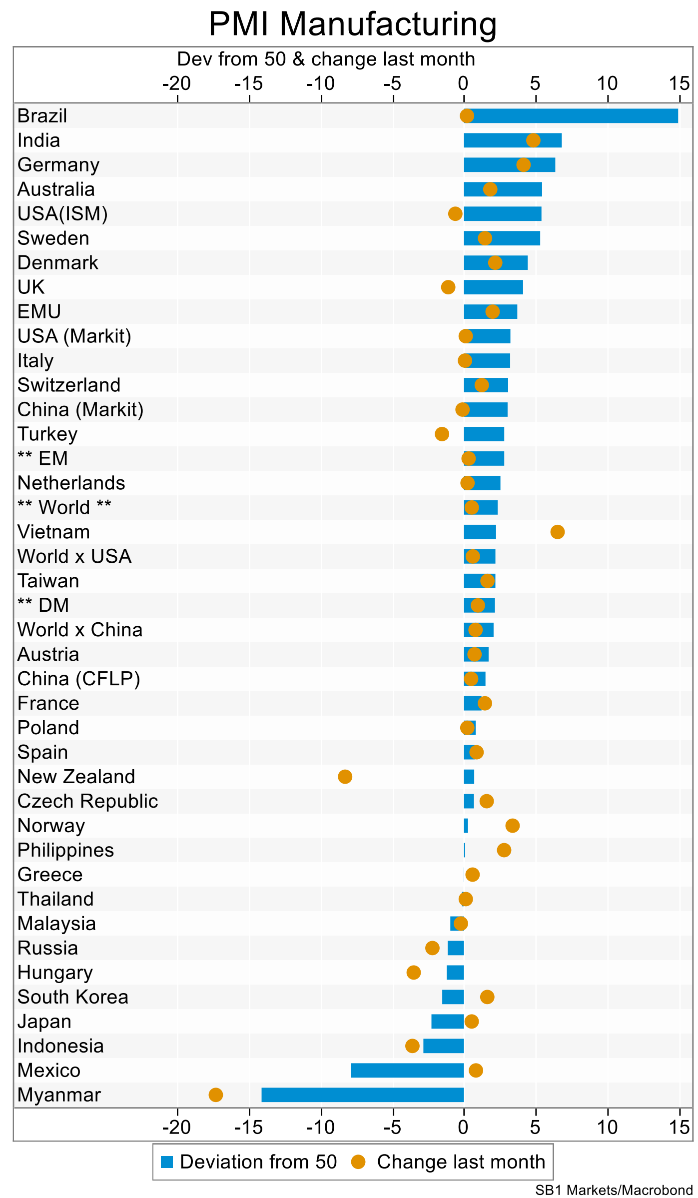
- The preliminary PMIs were mixed, a surge in the US was not sufficient to compensate for a decline in both China, EMU, Japan and UK (a sharp drop here). (The China service sector PMI is not yet reported, our estimate is included)
- Our **global PMI composite** estimate is down 0.6 p to 52.1 . The level 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

Manufacturing PMI climbs, most countries above 50

The PMI rose 1.5 p in Sept but the level is still not impressive

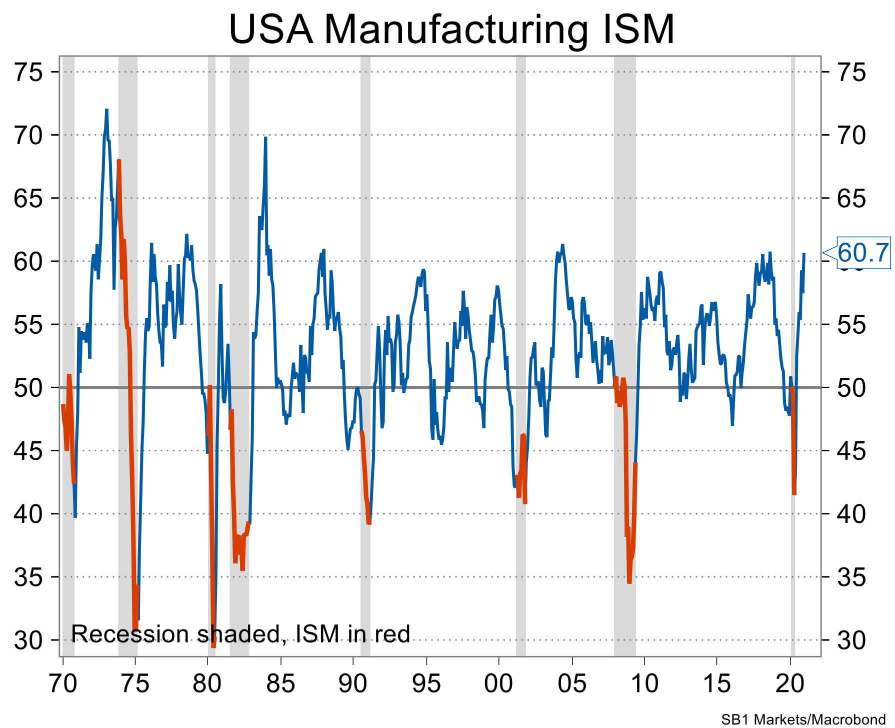


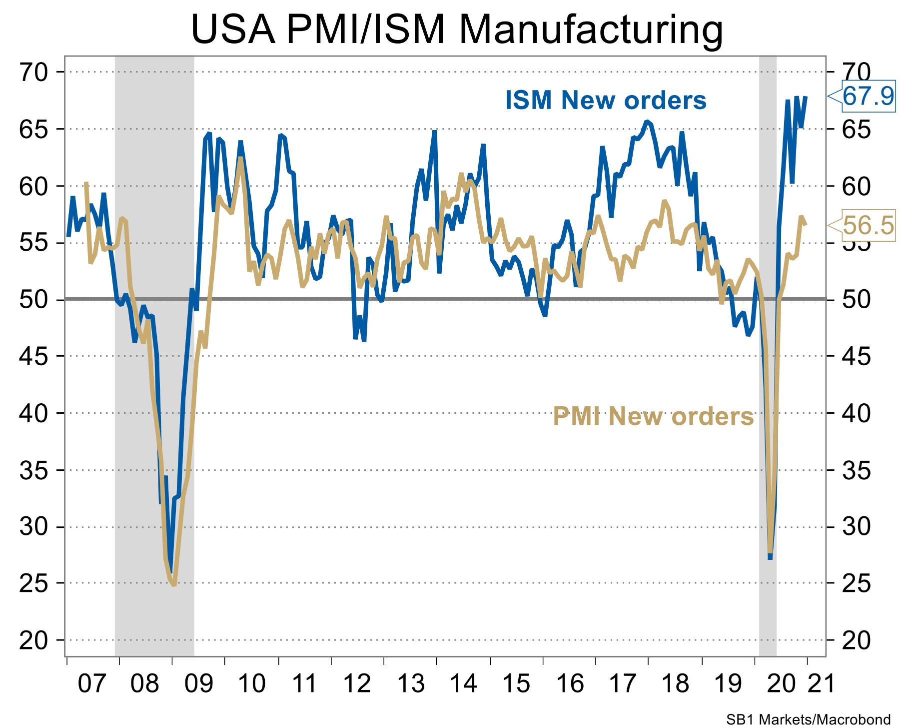


- The global manufacturing PMI rose 1.5 p to 52.3 in Sept, close to our estimate based on preliminary PMIs
  - » 69% of the countries/regions reported higher PMIs in September than August
  - » A majority of the countries (72%) are reporting PMIs above the 50 line
- Rich countries (DM) recovered somewhat more than Emerging Markets (EM), from a lower level. Brazil and India in the lead, Mexico at the bottom

Manufacturing ISM surged in Dec, has been marg. higher just 3 times past 40 y

The ISM surprised sharply at the upside, +3.2 p to 60.7, expected down to 56.6. Orders strong too

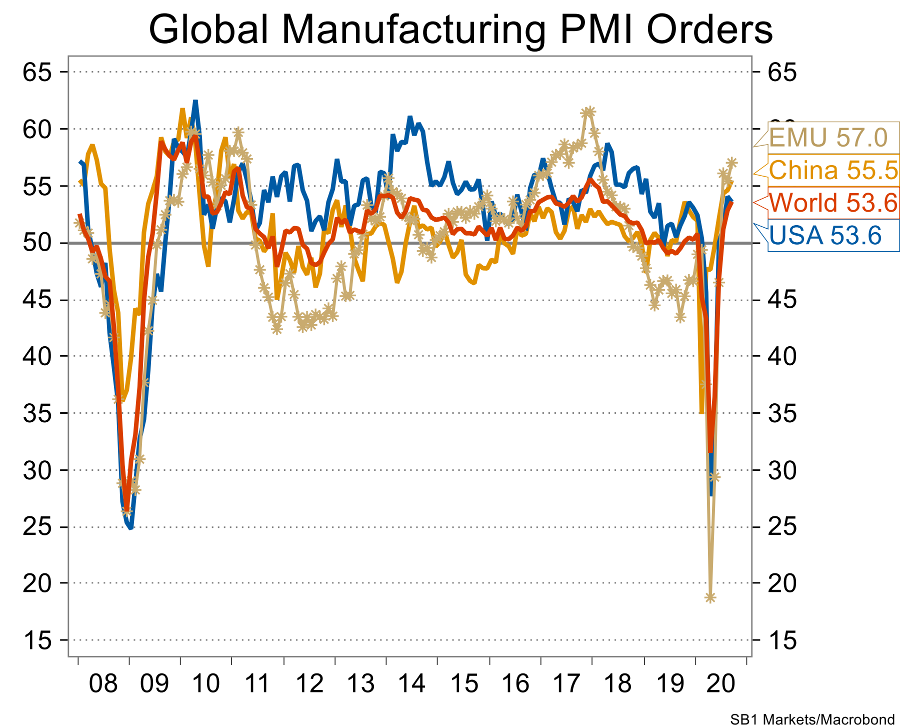


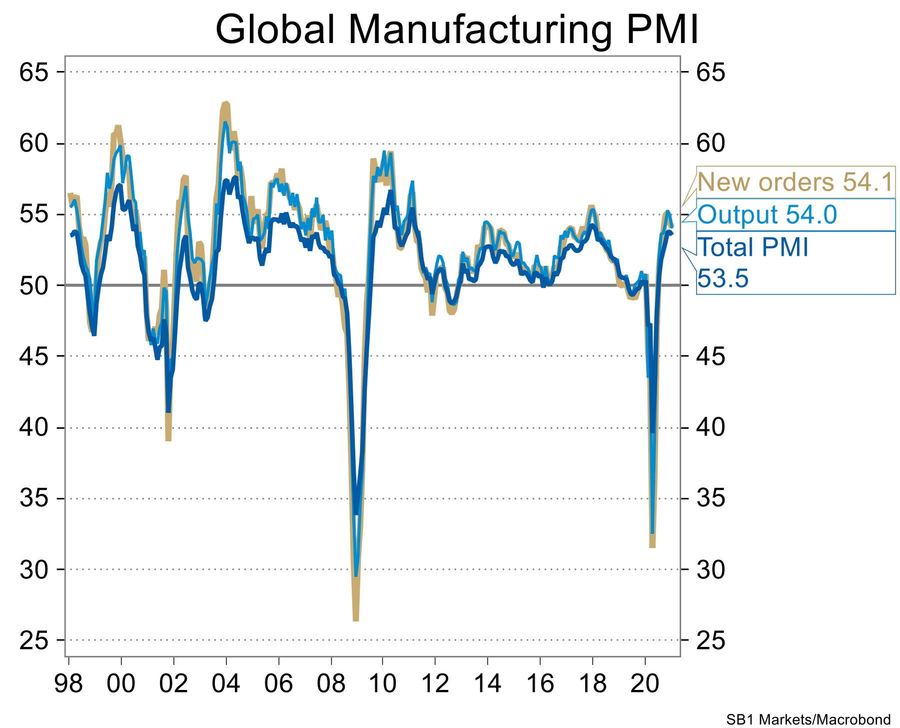


- No signs of a slowdown, of course

Manufacturing PMI signals growth in major countries/regions

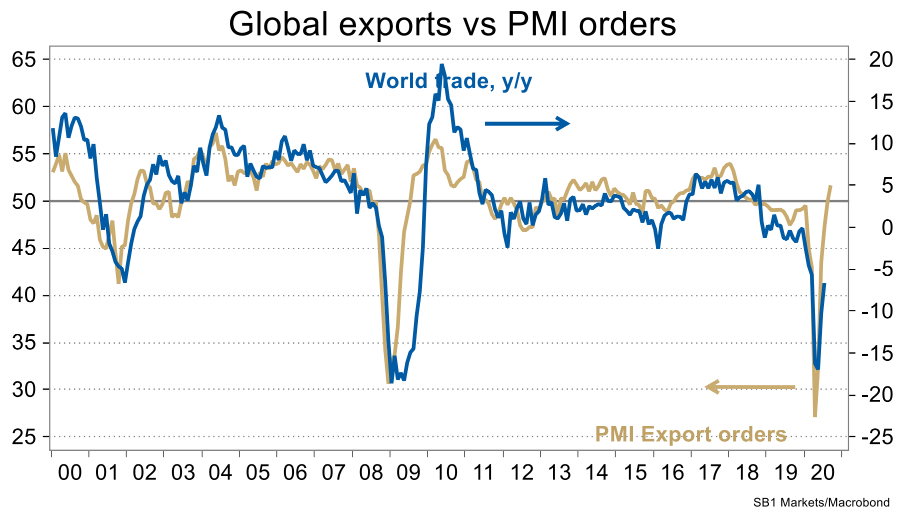
Orders are increasing at the fastest speed in Europe, from the steepest decline

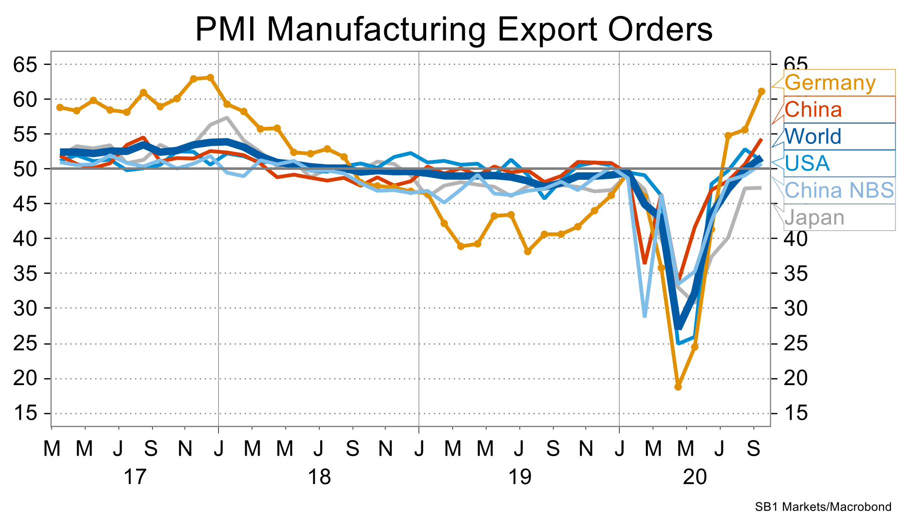




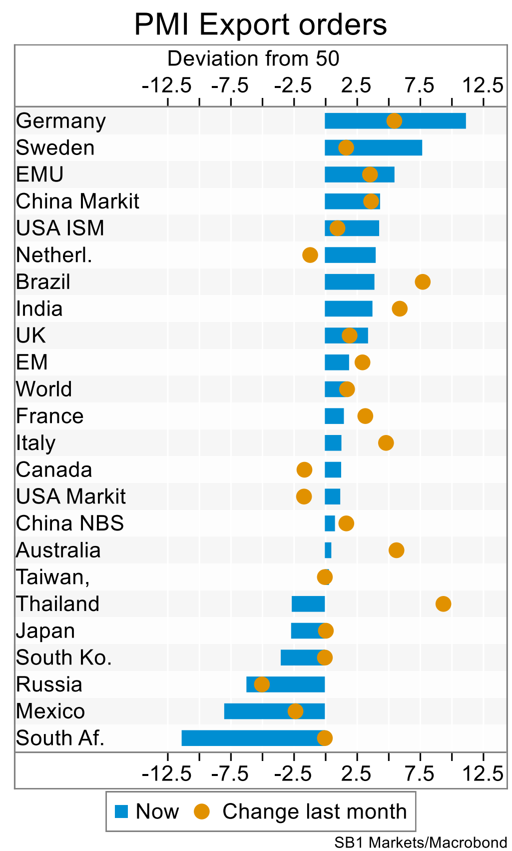
Export order PMIs further up but does not signal a fast recovery, Germany at top

Some Asian & EM countries still below the 50 line





- Most countries are now reporting an increase in export orders (index >50)
  - » Germany has moved to the top of the list, from the bottom in April/May!



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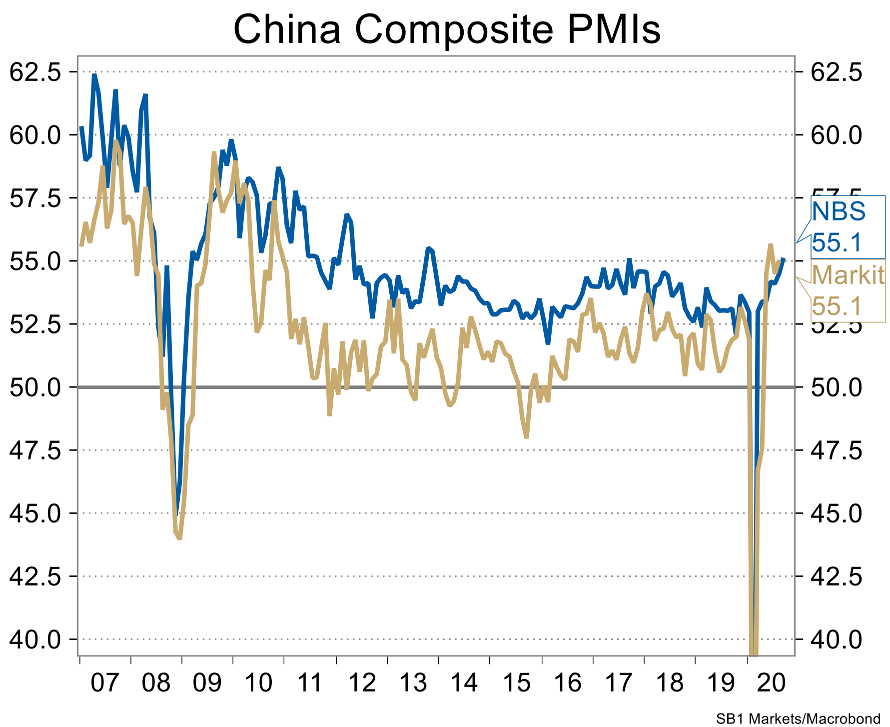
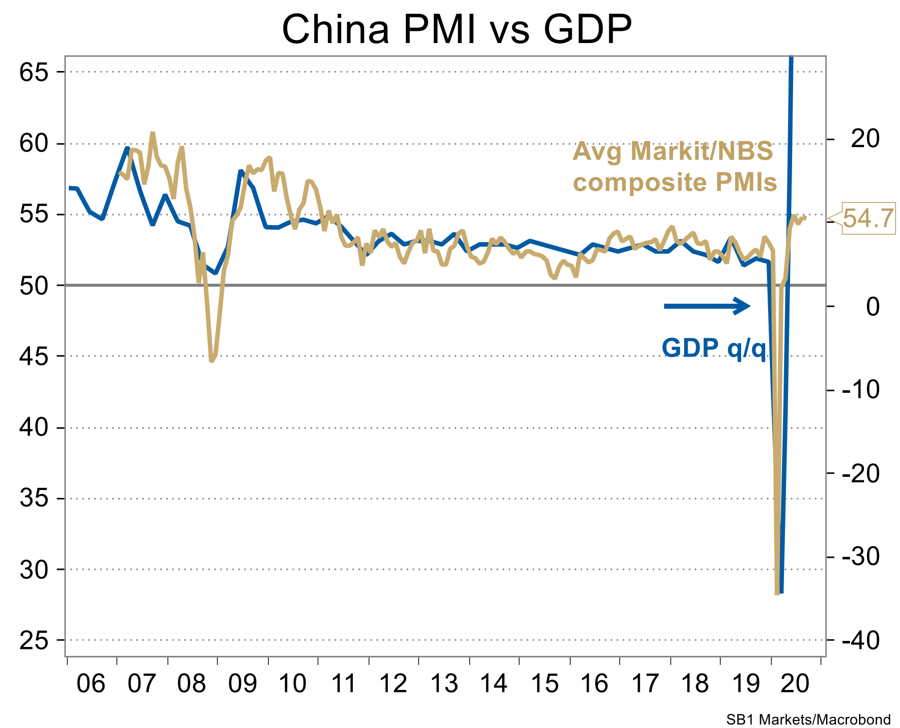
September PMIs in sum steady, signalling growth well above trend

The NBS composite PMI rose by 0.6 p to 55.1, we estimate a 0.8 p decline in Markit's PMI

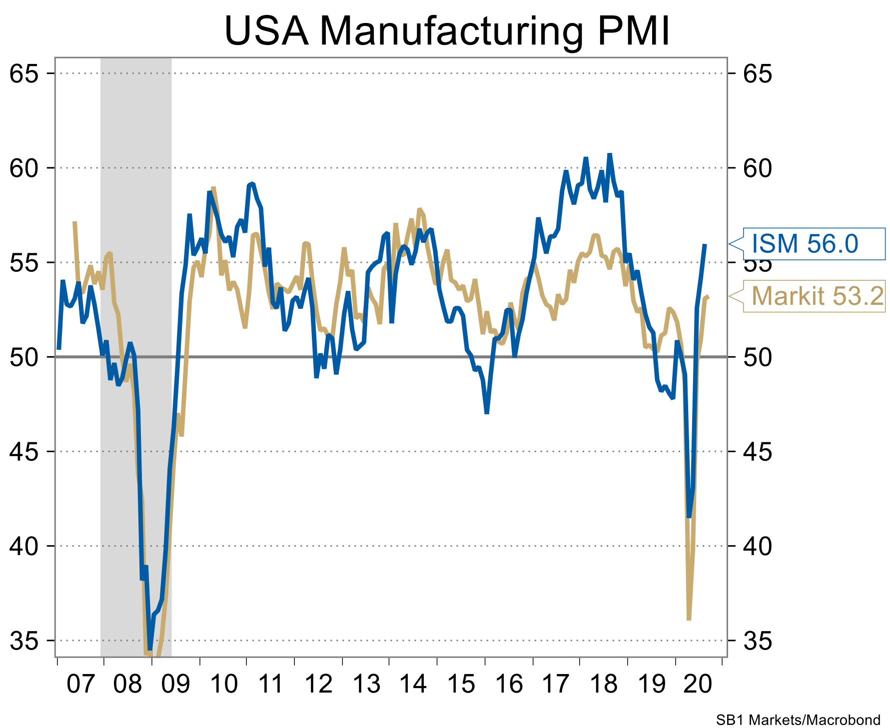


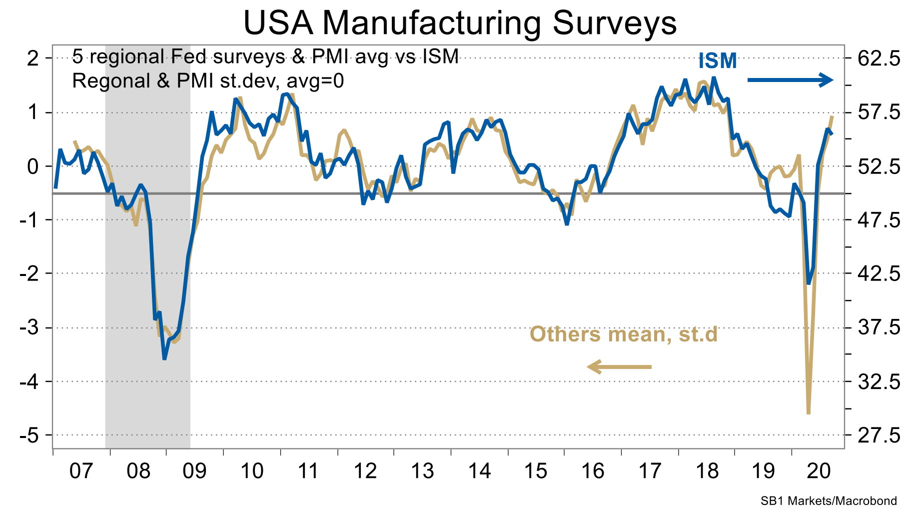


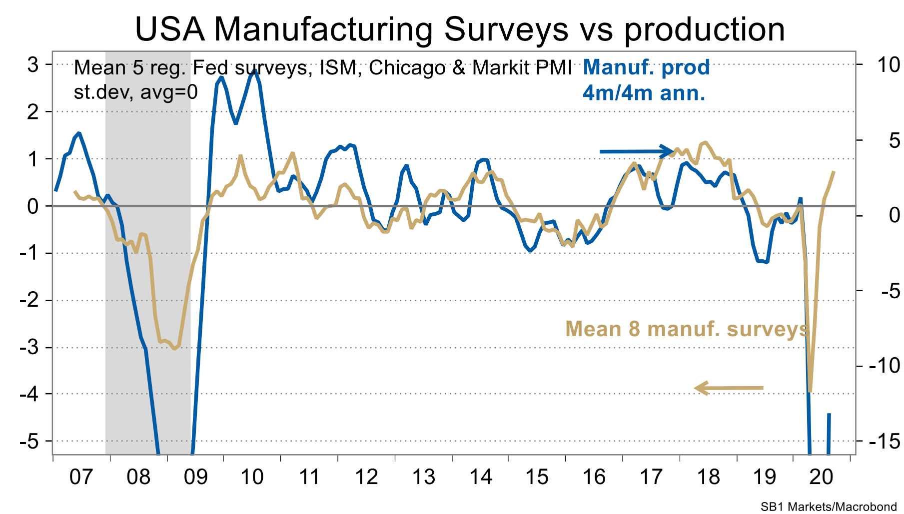
- The NBS' 'official' composite PMI edged up to 55.1 in Sept, up 0.6 p. The manufacturing index rose by 0.5 p to 51.5, services up 0.7 p to 55.9. The higher level of the services index is needed to bring activity in the service sector back to pre corona levels (it is still well below the pre corona trend, while manufacturing is fully recovered)
- Markit's manufacturing PMI inched down to 53.0, composite down 0.8 p if we assume a 0.7 p rise in services (not yet reported)
- In sum, these two PMI data sets confirm a continued recovery in the Chinese economy (a 8 – 9% growth pace), and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap in Q2

Other manufacturing surveys somewhat more upbeat than the ISM in Sept

In average, the surveys are not that impressive, we expect growth well above an average pace



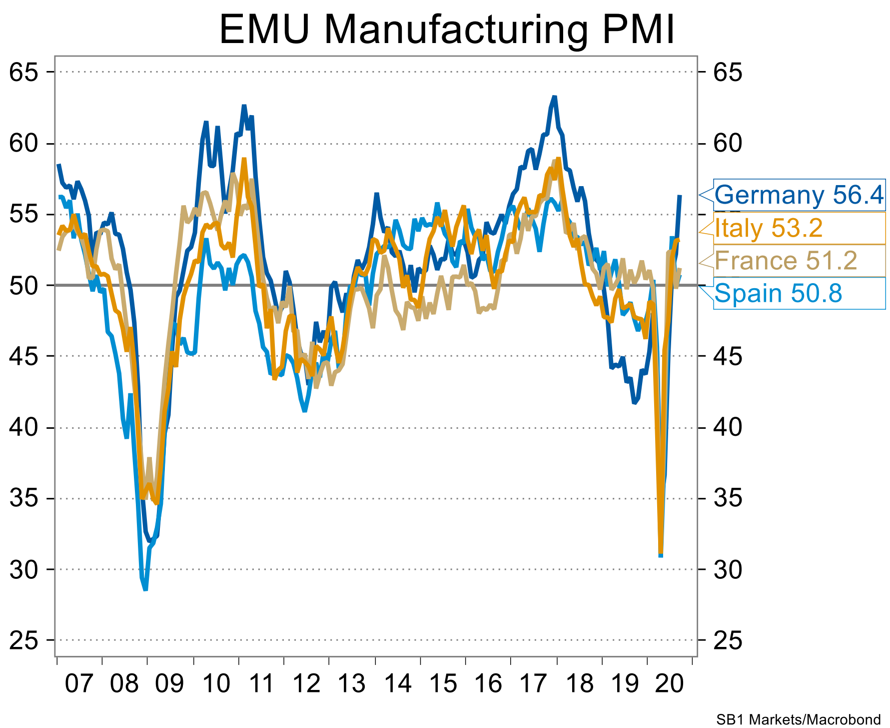


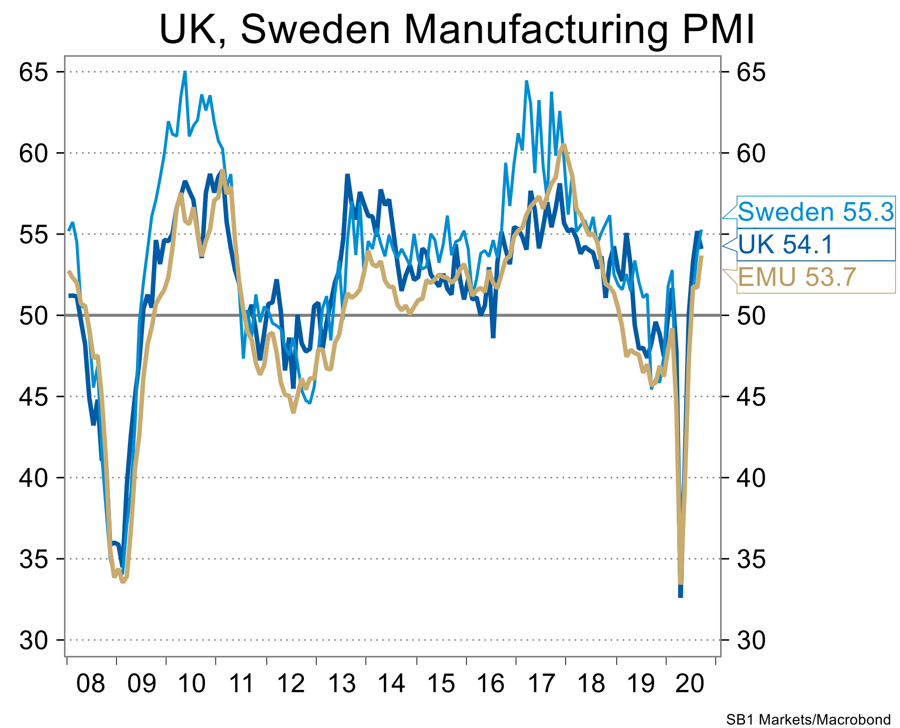


- Markit's final manufacturing PMI at 53.2, 0.3 p weaker than first reported (and up 0.1 p from Aug)
- Actual manufacturing production is on the recovery track but is still some 7% below the pre corona level
- We expect a continued growth the coming months. Core durable goods orders are above the pre corona level and goods consumption is strong

Eurozone manufacturing recovery gains speed, as in UK and Sweden

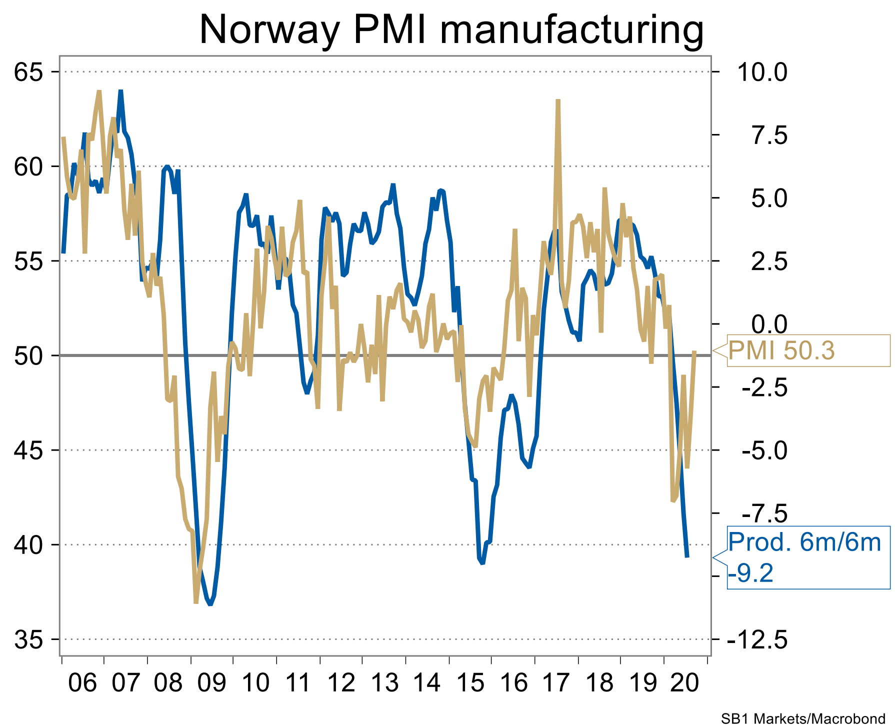
The PMI was unchanged at 53.7 in the final report (+2 from Aug). All main four countries above 50

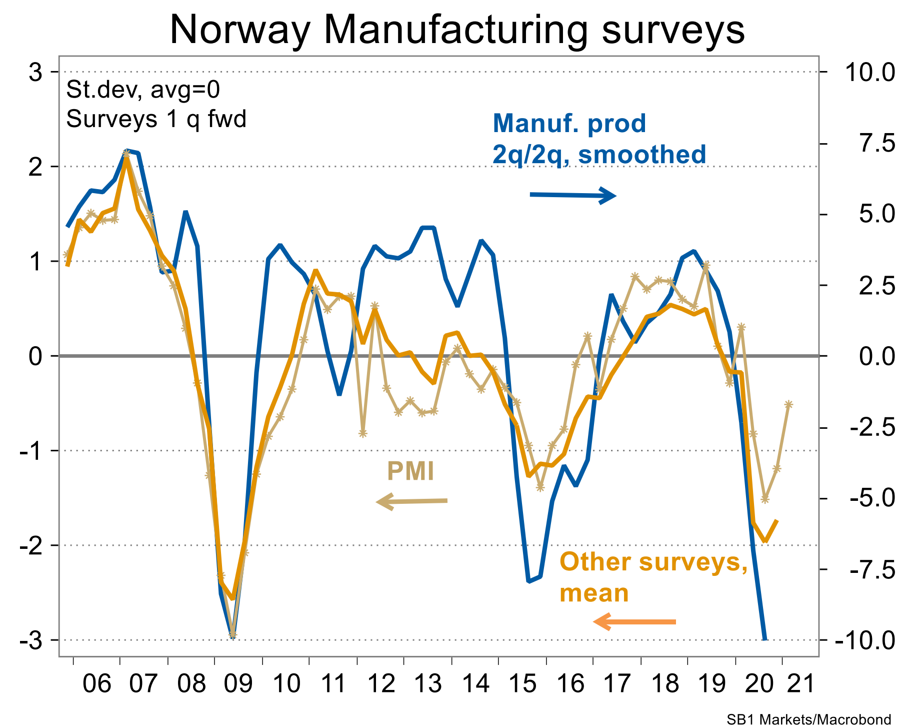




Manufacturing PMI finally (just) above 50 in September

The manufacturing recovery has so far been subdued, PMI signals a stabilisation, at best





- The manufacturing PMI rose to 50.3 in September, a 4.2 p increase, we expected up to 48. Activity in the Norwegian manufacturing industries fell in the spring but did not experience a deep setback. So far, we have not seen any upturn either, and the PMI signals just a stabilisation
  - » The details were not bright, even as all sub indices rose. New orders failed to increase and employment continued to decline
- Other surveys are still signalling a substantial decline in manufacturing production

Norwegian manufacturers fared better during the spring but lags now

… at least growth wise (Norway is still ahead, level wise)