8 March 2021

Macro Weekly

Week 10/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week 1: The (once again challenging) corona story

The virus

- **Here we go again:** The no. of new covid-19 infections continued upwards in most countries last week. Just UK, Spain & Portugal are still clearly trending down, in the UK no doubt supported by a rapid increase in the share of vaccinated. In the US, where the trend is flat, the pace of vaccination has been far higher than in EU too.
- **Norway** is reporting the 2. highest mobility and most rapid increase in new cases among rich countries. Last week, the Norwegian 'R' may have reached 1.5, yielding a 60% pace of growth, per week. Or 8x per month. The level of new infections is still low but will – if behaviour is unchanged, and even if the share of vaccinated increases according to an optimistic delivery scenario, increase to an extreme level in some few weeks. No doubt, policy/behaviour will be changed, implying some economic cost the coming weeks. Given the experience from other countries, the cost will not be too high – and anyway, there is just few weeks before vaccines will come to the rescue (but too many weeks to let the virus run free)
- Still mostly good **vaccine** news: Vaccines are quite effective vs. mutated viruses. No more negative news on deliveries to EU/Norway, and slightly more doses are now distributed here

The economy

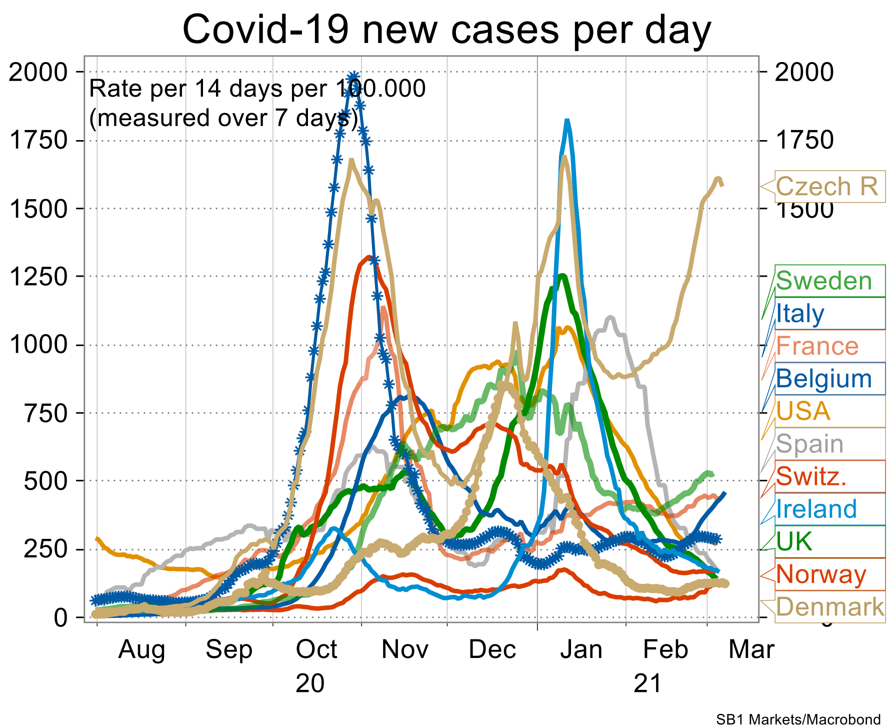
- **PMI**
  - » The global PMI gained 0.6 p to 53.2 in February, to the best level since October signalling growth at trend in Q1. Both the manufacturing sector & services contributed. The Chinese PMIs surprised on the downside again but at least the service sector PMIs were influenced by travel restrictions during the Lunar New Year holidays. The Chinese indices are surely reporting slower growth than during the far-above-trend growth in H2 last year, but not low growth. Services in the EMU are still contracting, while activity stabilised in the UK. The rest of it: Pretty good, and the manufacturing sector in the EMU – and elsewhere is booming. The US manufacturing ISM has not been better since 2004! Sweden is still at the top of the PMI league together with India and the US, and Norway advanced. Delivery times are surging in most countries, as are both input & output prices. Corona related supply problems (including at labour markets) no doubt explain part of the observed bottlenecks but so does a surprisingly strong global demand for goods. See discussions on the inflation outlook further out in the report
- **Global auto sales**
  - » Sales fell by 1% in February, following the 4% drop in January, and sales are 7% down vs. the 2019 average. Sales fell in the **US**, but the weak chain in the link is **Europe**, down 25% vs. '19 (vs -2% last Nov). **Chinese** sales were probably close to unch., but are 7% up vs. '19. Sales in **other EMs** are just 3% below, with **India** far ahead

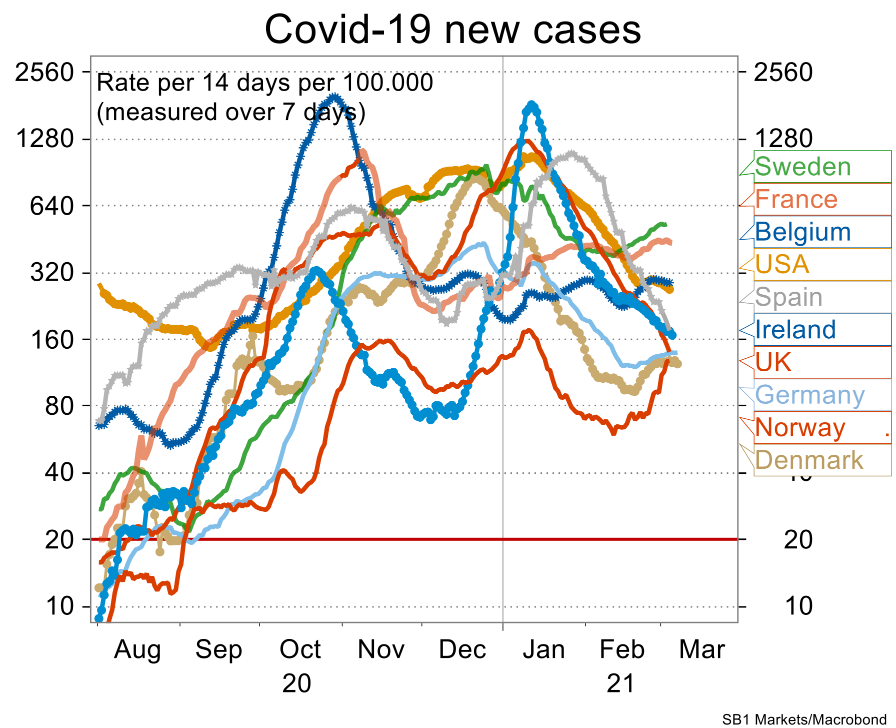
Last week 2: More economic news

- **China**
  - **Exports** remained at a very high level in Jan/Feb, at new ATHs – and far above any reasonable trend path. **Imports** rose 10% vs. Dec, partly due to higher prices but volumes must be high too
- **USA**
  - **The Senate** accepted **Biden's 9 % of GDP** supplement budget package, with some minor changes, and the House will rubberstamp the changes on Tuesday. An incredible amount of money is soon underway. **Employment** grew twice as much as expected in Feb, and unemployment fell to 6.2% as restaurants reopened. Still, employment is 12 mill. below the pre-corona trend path, and the employment rate is almost 6% below the pre-pandemic level. Employment is still down 20% vs Feb 2020 in the leisure & hospitality sector, others are down from 3% (retail trade, even if sales are strong!) to -9% (education). **Unemployment** is kept in check by a close to 3% decline in the participation rate. Most of this decline is due to corona-related problems (child care etc), according to survey. Real wage inflation is still moderate but businesses are reporting increase wage pressures, according to **Fed's Beige book**. **Fed's Powell** reiterated that the bank will keep the signal rate at zero until the economy & the labour market have recovered, and inflation has climbed above 2%, and is expected to remain above 2%. However, the chairman was more focused on overall financial conditions than on the rise in government bond yields. And **bond yields** rose further, this week without scaring the stock market
- **EMU**
  - **Retail sales** collapsed in January, down 6% expected -1.3%. All the big countries contributed. Increased risk for a substantial decline in GDP in Q1. Core inflation fell by 0.3 pp to 1.1% y/y, and remains well below ECB's target
- **Norway**
  - **House prices** rose 1.3% in February, once again more than Norges Bank expected. The annual rate at 9.7% is 1.7% higher than NoBa assumed in December. Oslo is up above 15% y/y. The inventory of unsold existing homes is low. Retail sales fell 0.1% in February, due to a surprising decline in clothing sales. Internet sales are still booming. **Hotel occupancy** fell 64% y/y in January. **The household savings rate** surged to 15.4% in Q4, and we assume that by Q2 this year households have accumulated extra savings equalling 12% of their annual income. And debt has not been paid down… **Household incomes** were revised upwards and grew more then we expected in Q4 and are up 3% y/y, supported by higher unemployment benefits. In early March, **NAV unemployment** fell slightly

Mixed, but on the balance somewhat better infection data last week

Still, more countries are reporting more new cases as the mutated viruses becomes dominant





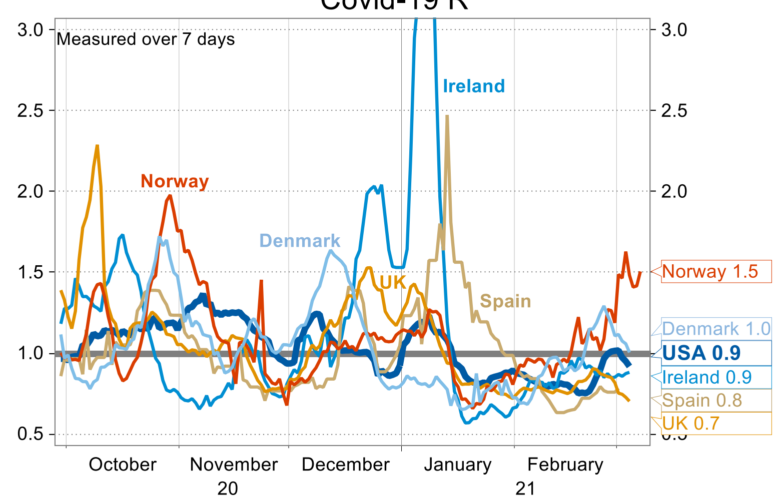
- Barring UK, where vaccines have been rolled out at a high speed, and mobility is still very low, and in Portugal & Spain, the no. of new cases are increasing in most European countries – Denmark, Finland, Norway, and Sweden included. US has flattened – and here too the no. of vaccinated has been increasing faster than in most of Europe
- The no. of hospitalisations and deaths are still on the way down, barring in the Czech Rep where they are really struggling again with a rapid growth in new cases
- Norway is reporting the fastest increase in new cases, and we are moving rapidly upward on the list of new cases/inhab.

Suddenly, more cases in several countries. At our top 30 list: 14 up, 8 down

Few countries are reporting high infection numbers, but more cases reported as the mutant expands

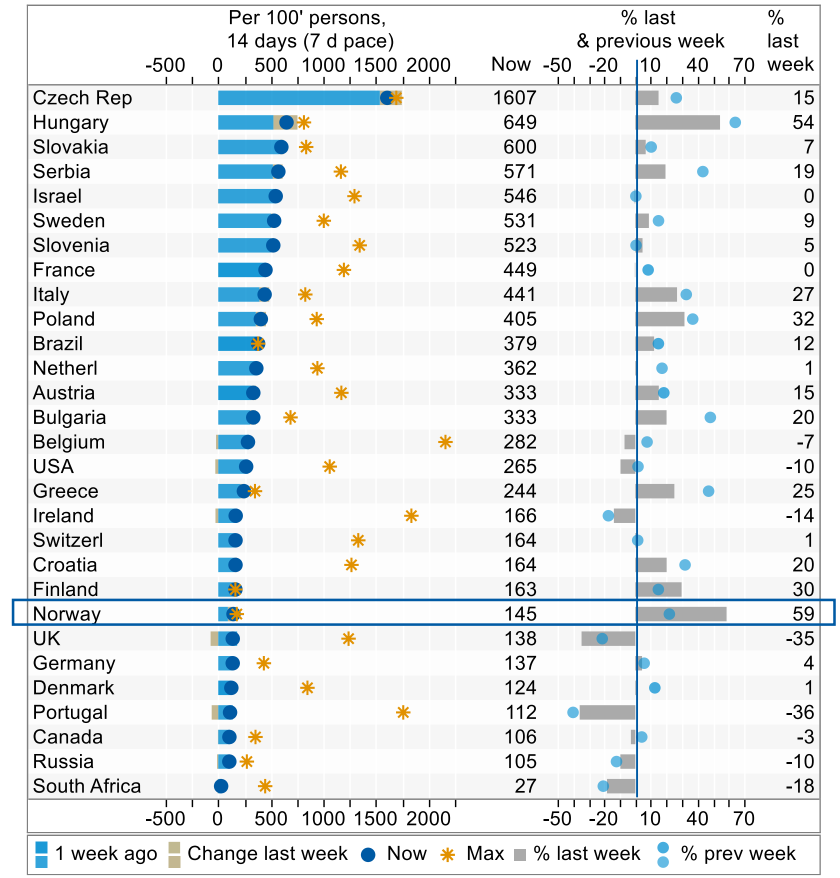
- **The Czech Rep.** is still at the top, but may be close to peaking
- Norway is reporting the highest growth rate, has the highest 'R'
  - » Mobility in Norway is higher than almost all other countries
  - » Regrettably, with a weekly growth rate at 60%, Norway cannot afford to wait for the vaccines to arrive in large quantities
  - » New measures will be announced tomorrow
- The no. of **hospitalised patients** and **deaths** are lagging, and are still down almost everywhere. We may soon expect to see the impact of vaccination of the most exposed groups
- **The mutated, and more infectious viruses** are taking market shares everywhere, and are now becoming dominant. Vaccines are still assumed to be quite effective against the mutated viruses

Covid-19 R



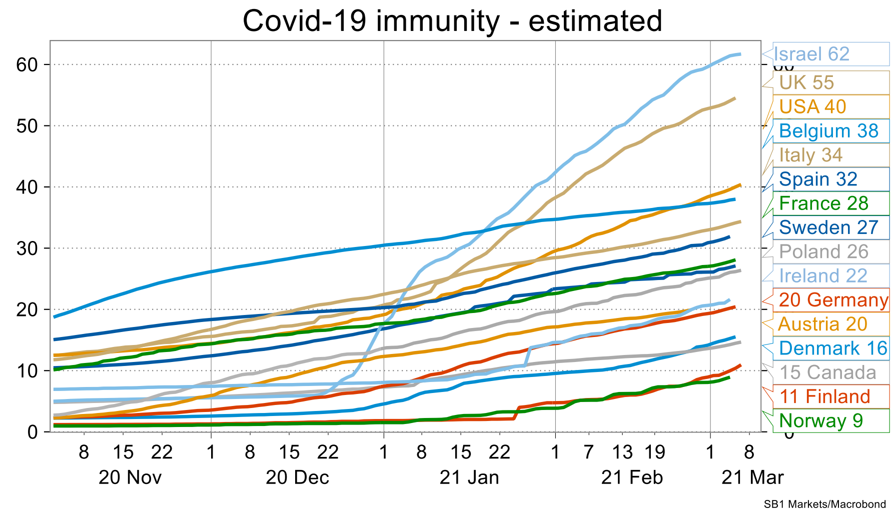
SB1 Markets/Macrobond

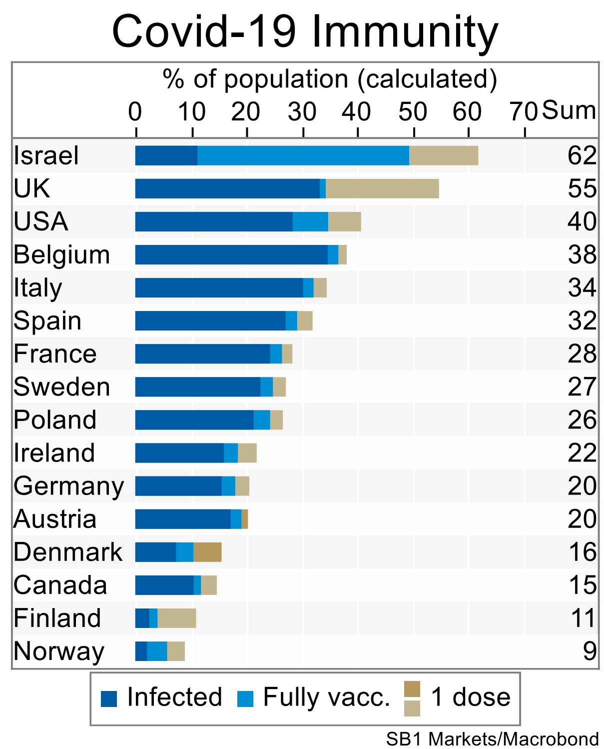
COVID-19, New Cases

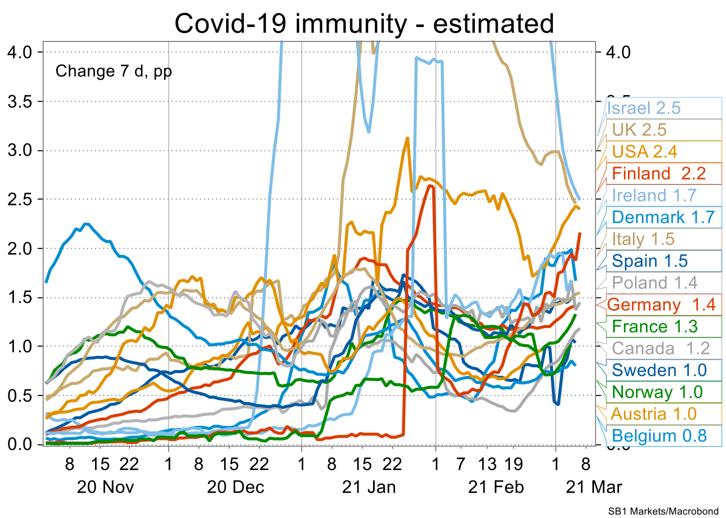


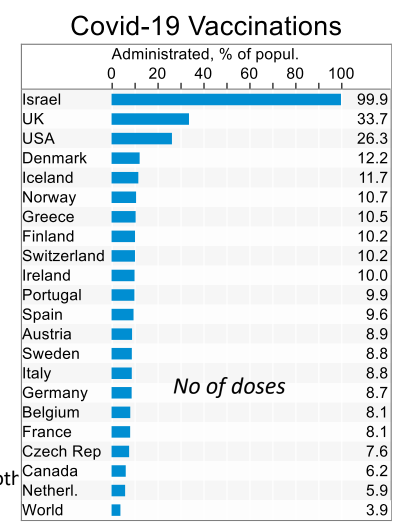
SB1 Markets/Macrobond

Pace of vaccinations are accelerating in most of EU/Norway. More to come





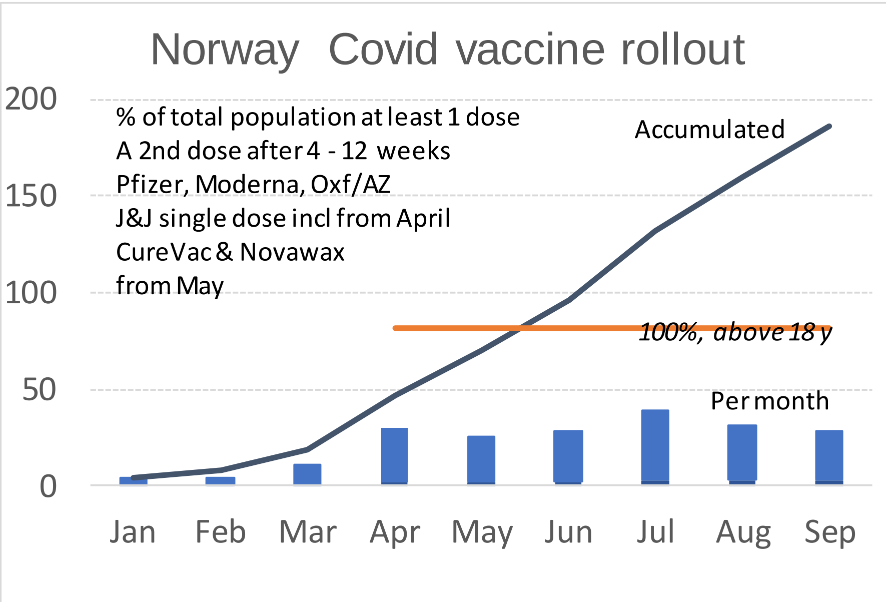




We calculate the infected rate by assuming a 0.5% infection fatality rate, and a 90% immunity from infection. We assume those who have been infected are vaccinated in line with oth

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 – the adult pop. vaccinated before the summer?



The first shot per week % of popul	
Jan	1
Feb	1
Mar	3
Apr	7
May	6
Jun	6
Jul	9
Aug	7
Sep	6

- 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
- In the forecast vaccines from Pfizer, Astra/Zeneca, Johnson & Johnson are included as well
  - » Some few vaccines from CureVac & Novawax are included (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, but if the starting point is an 'R' at 1.3, vaccines will not arrive fast enough
- 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. However, mutated viruses are probably more aggressive, also vs. how sick the infected person gets

Data from FHI, VG, international media

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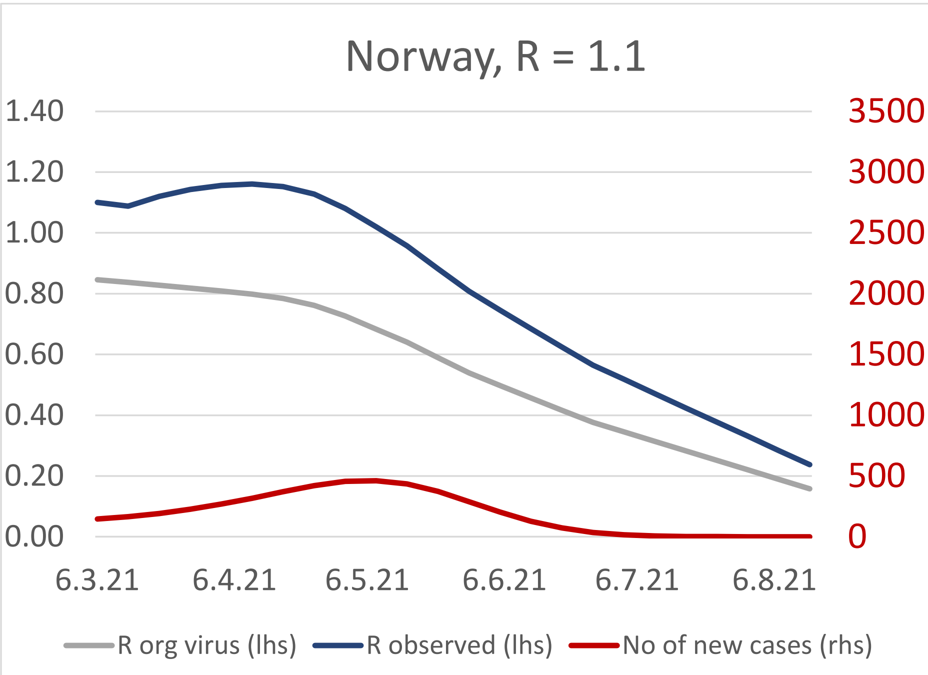
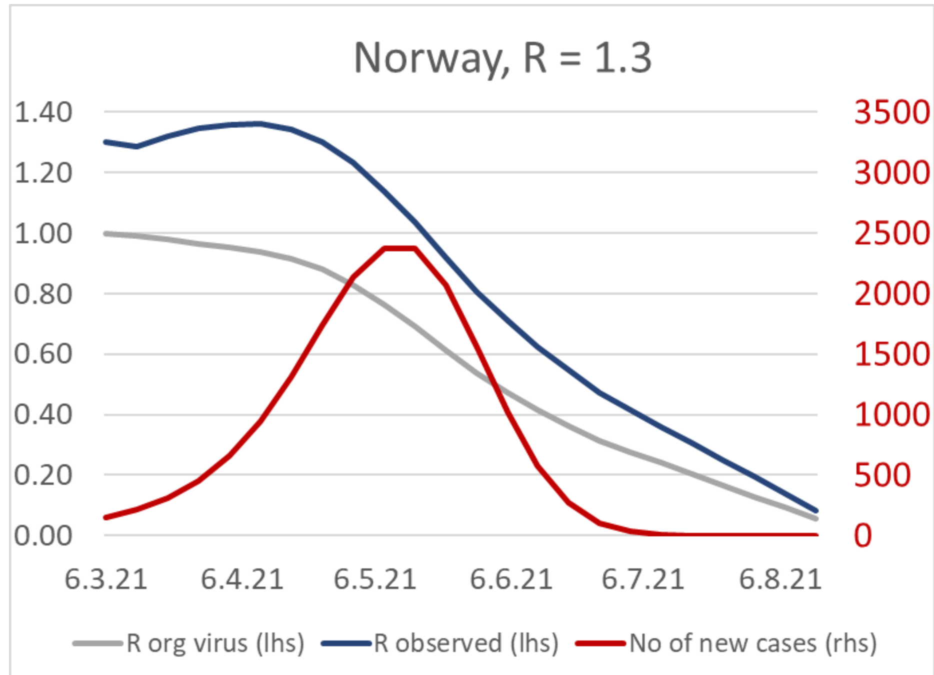
Just to illustrate the impact of an 'R' at 1.1 vs 1.3 (and we will show you an R at 1.5…)

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





Model assumptions:

R = 1.1 (lhs) or 1.3 (rhs) (1.5, which we have now, is 'impossible')

R^{mut}= 1.5 x R^{org}

60% 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

10% are immune now, due to previous infection, vaccines

90 new cases per 100' over the past 14 days now (red line)

The margins are narrow the coming weeks:

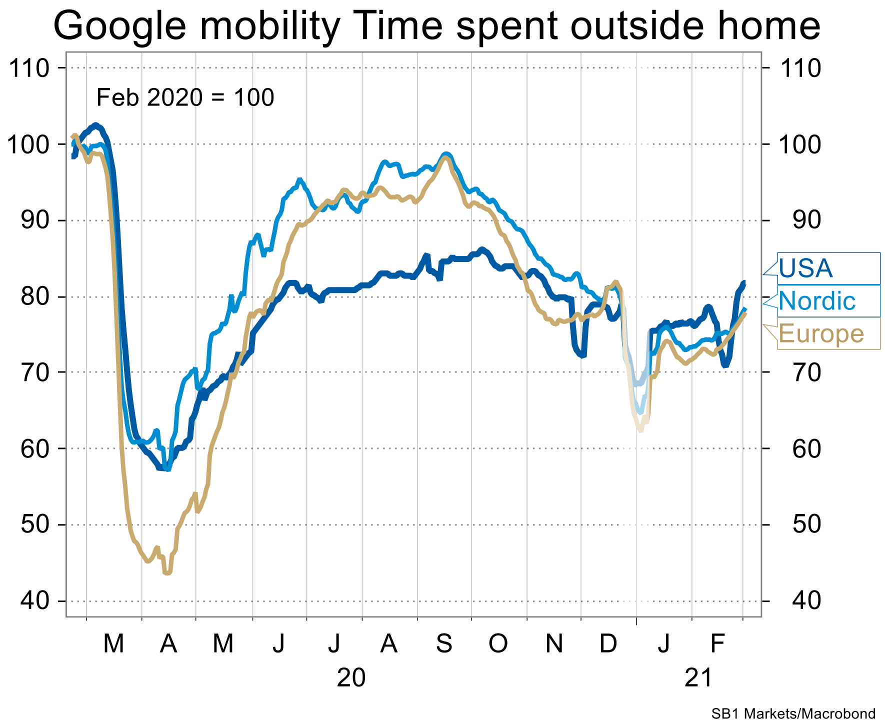
If the R = 1.1: And behaviour is kept unchanged, a substantial increase in new cases, to 500 from 145, and as the elderly are vaccinated, a high but manageable for the hospital system

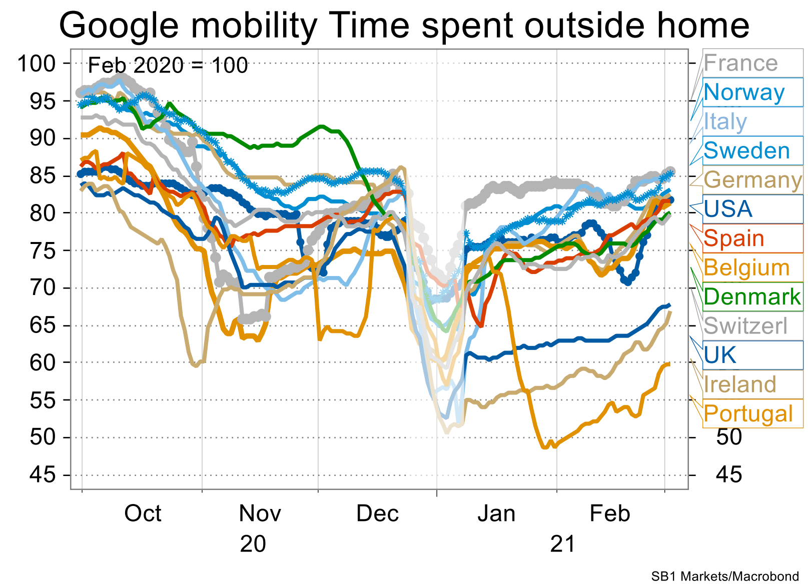
If the R =1.3: Not a favourable scenario – a 17 times increase in new cases to 2,500 in mid May. Something will give before that

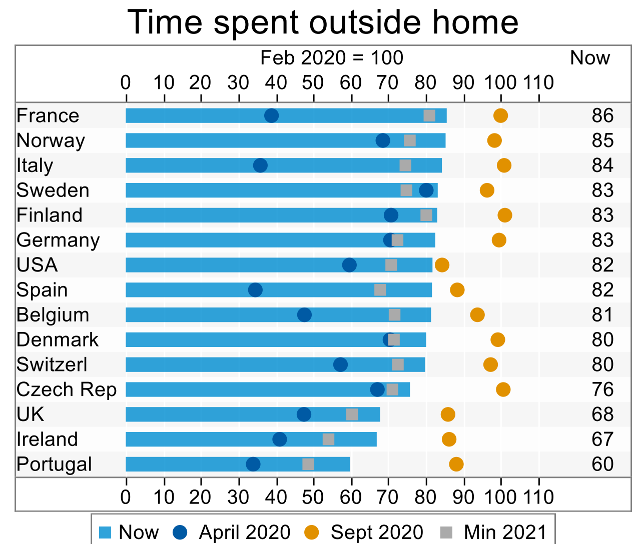
We do not know how we arrive there: But in June, the sun should shine. If the vaccines arrives according to plan..

Mobility is still trending up everywhere - and the viruses are thriving again

Norway is still close to the most open society, at least measured vs. time outside home



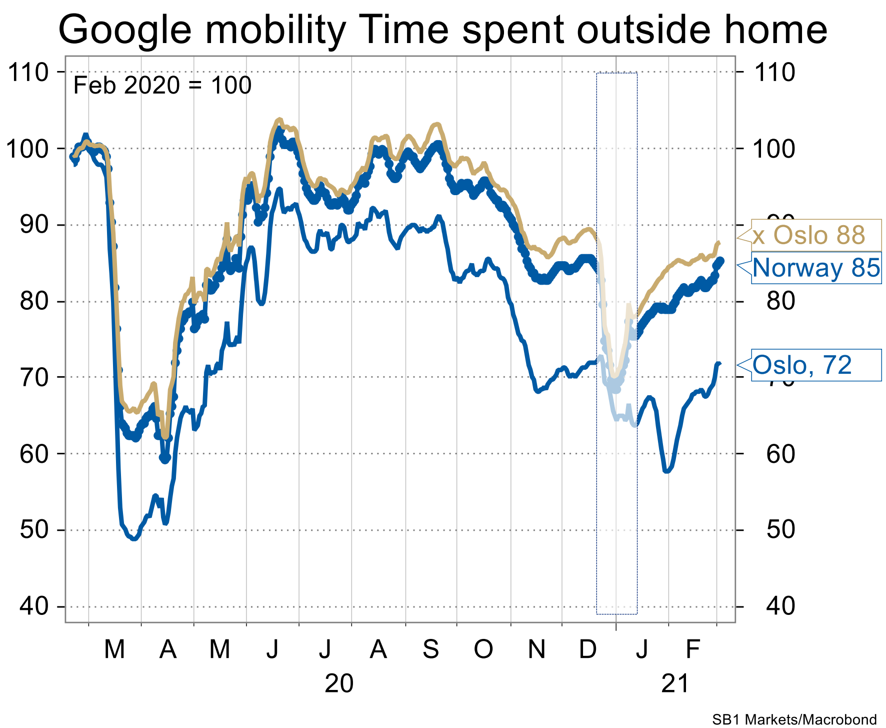




- UK, Ireland and Portugal are still staying more at home than others - but less than some weeks ago when the fight against the virus was more aggressive

Mobility on the way up again – and the 'R' is ~~well~~ far above 1

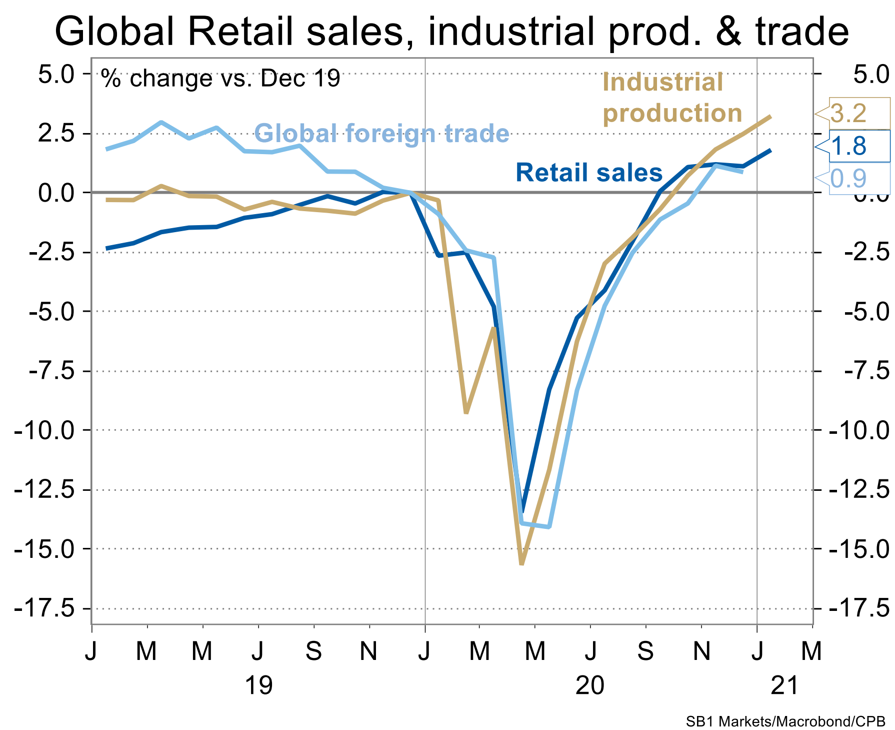
Mobility is back to the pre-Xmas level but the mutated virus is some 1.5 x more infectious!

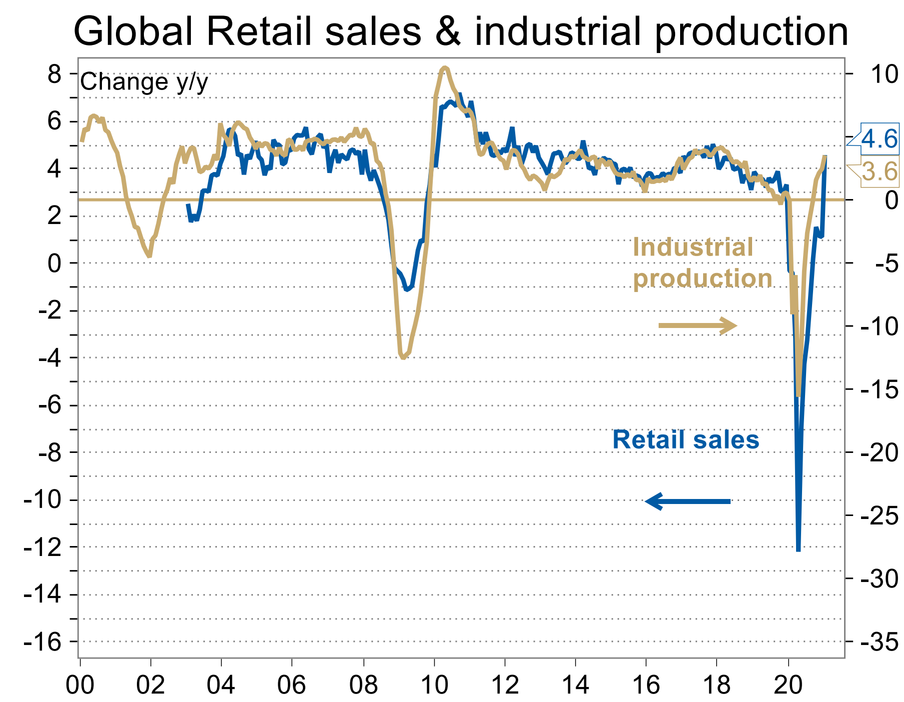


- Vaccinations are still running at very low levels, and as the mutated virus spreads rapidly, the observed R will increase further

Both retail sales and industrial production up in January

Just few countries have reported Jan data but so far, so good





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

- **Retail sales** probably rose in Jan (many countries still missing) even in sales in Europe collapsed. Sales are 1.8% above the pre-corona level
- **Manufacturing production** probably climbed at least 1%, and is 3 % above the pre-corona level, according to our estimates
- **Global foreign trade** fell a tad in Dec but is still 0.9% above the Dec 19 level

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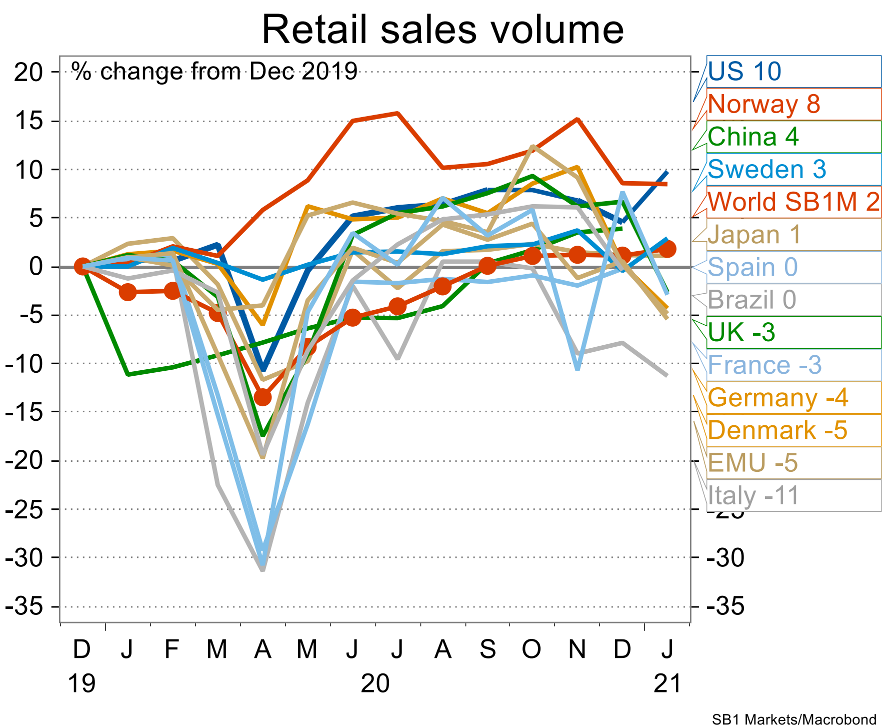
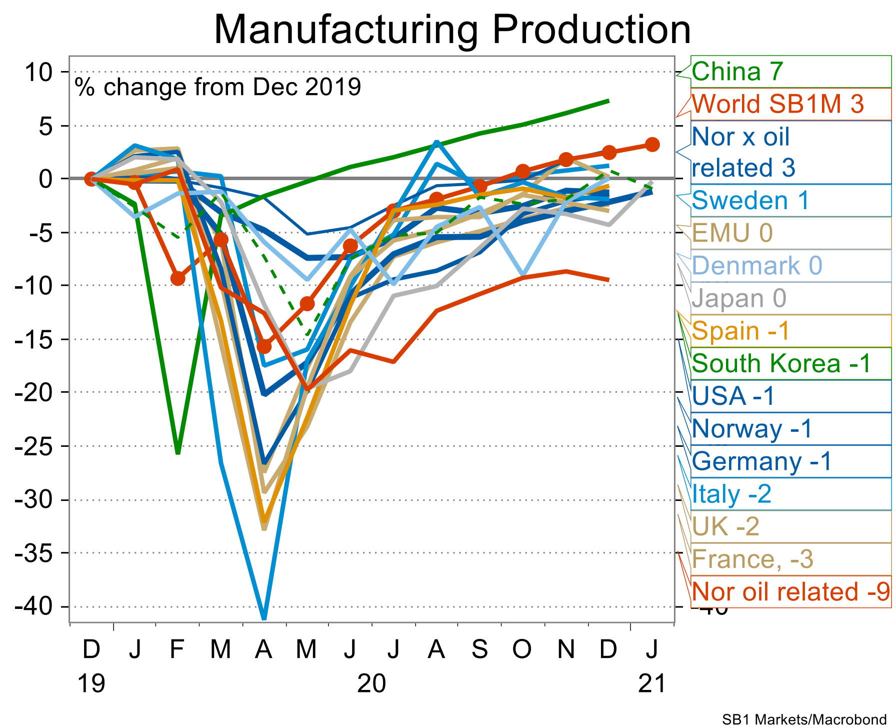
Volatile retail trade data but the global trend is still upwards

Industrial production is still on a rapid way up too

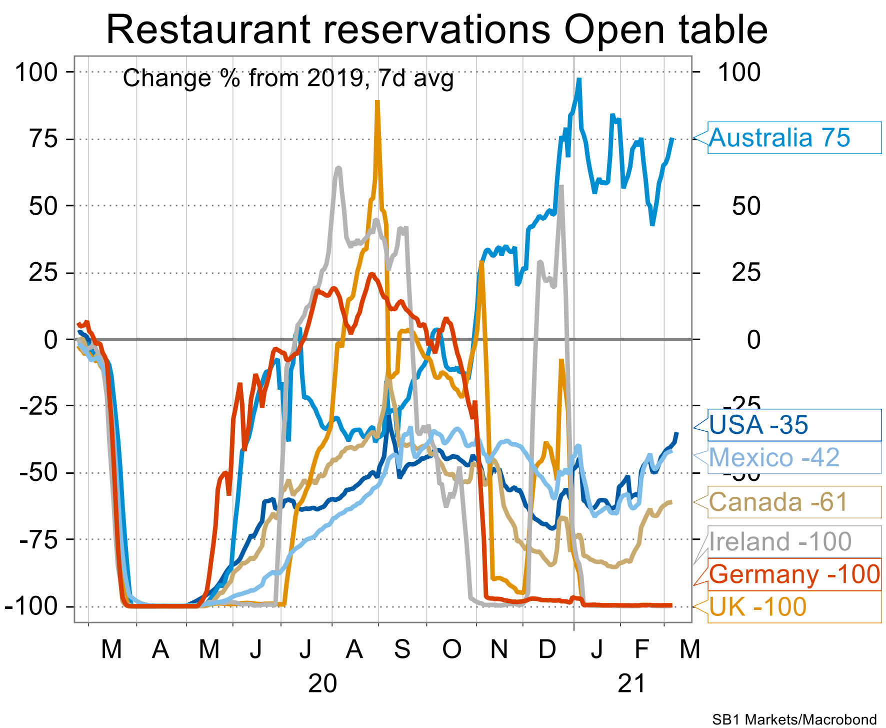


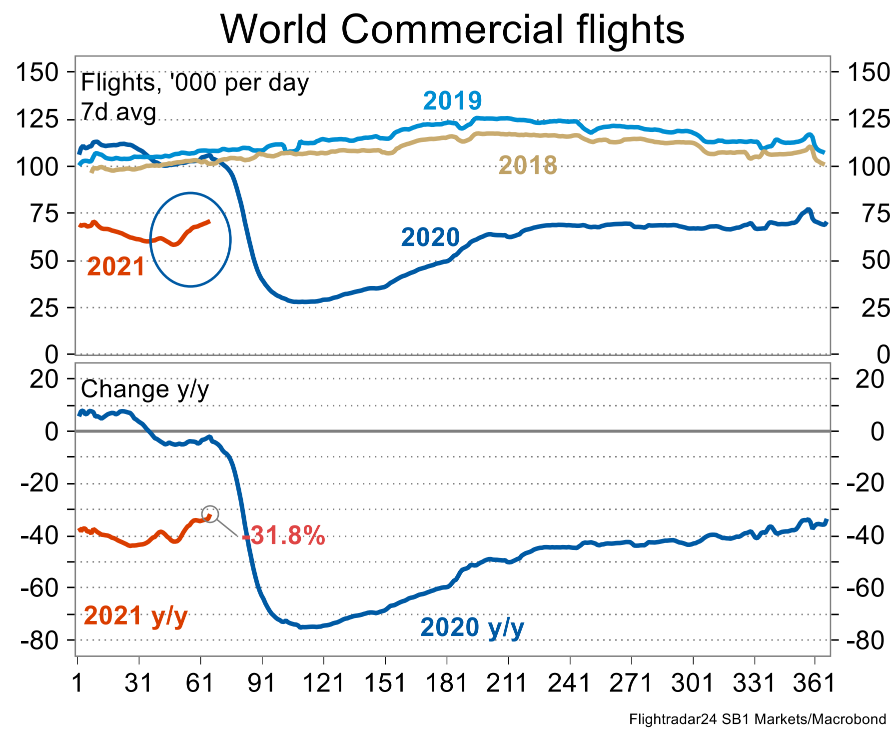


- Mixed retail sales in January: UK down 8%, EMU down 6%, US up 5% - but in sum still up, also with strong support from India
- We expect manufacturing production to climb further in January - the recovery is still intact

Look there: Somebody is eating out more, and are flying again!!

US restaurants are opening up, now just 35% below par. No changes in Europe yet

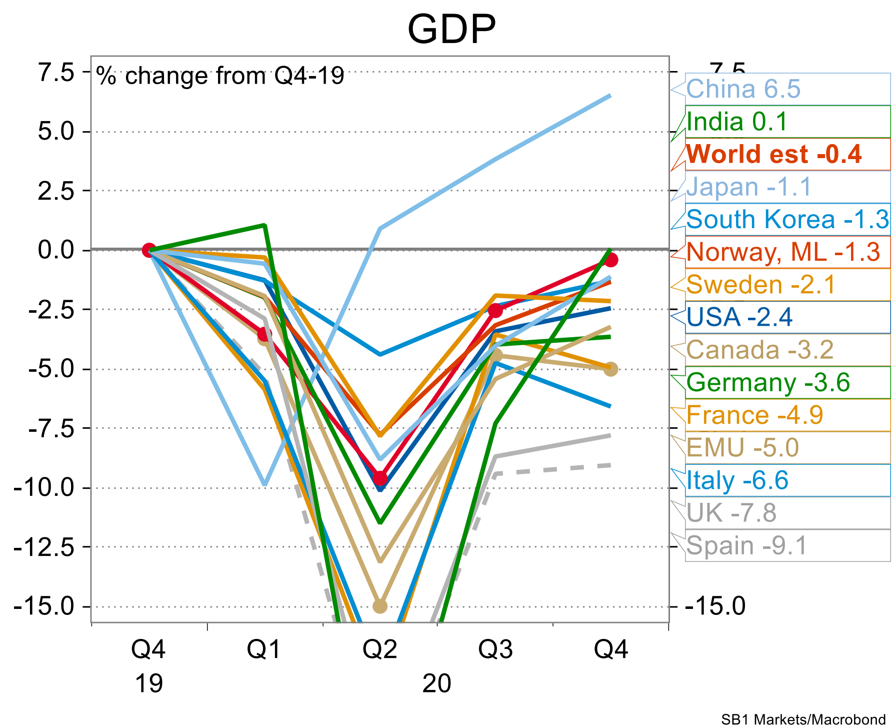


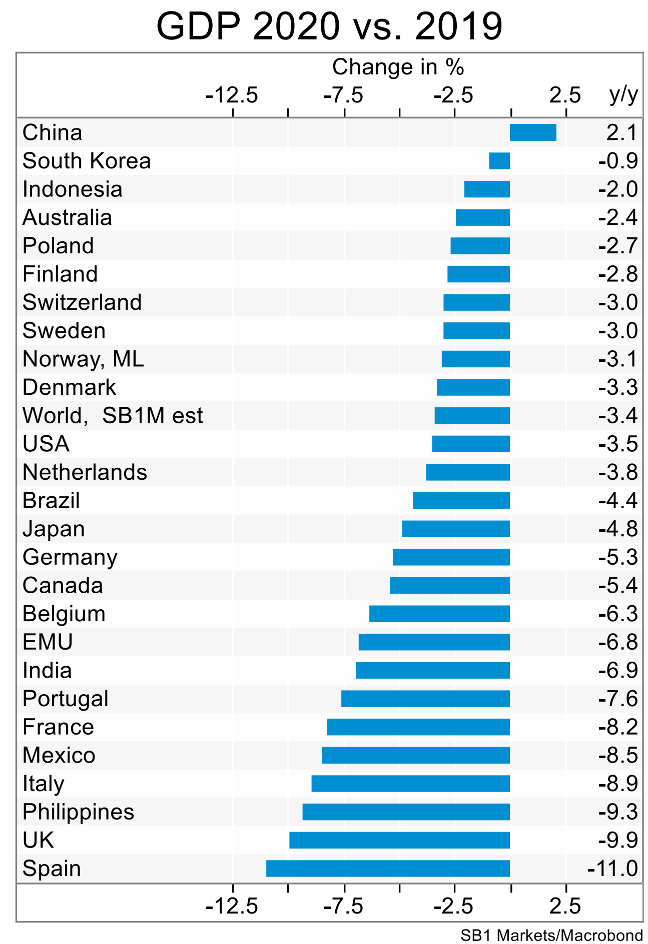


- Air traffic is also recovering, in the US and globally

Q4 GDP growth even stronger than we assumed – India recovered sharply

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

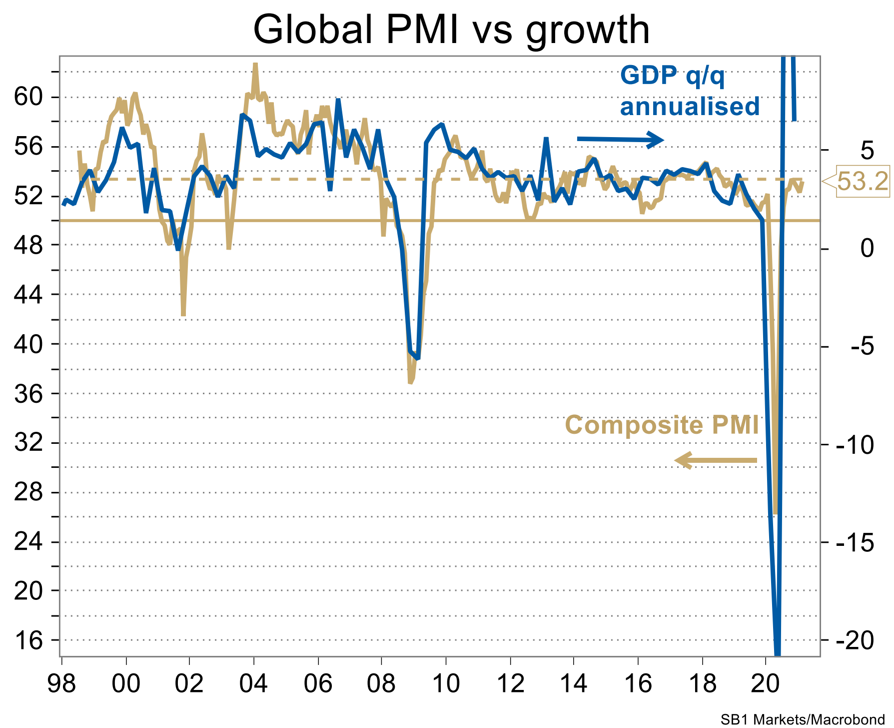


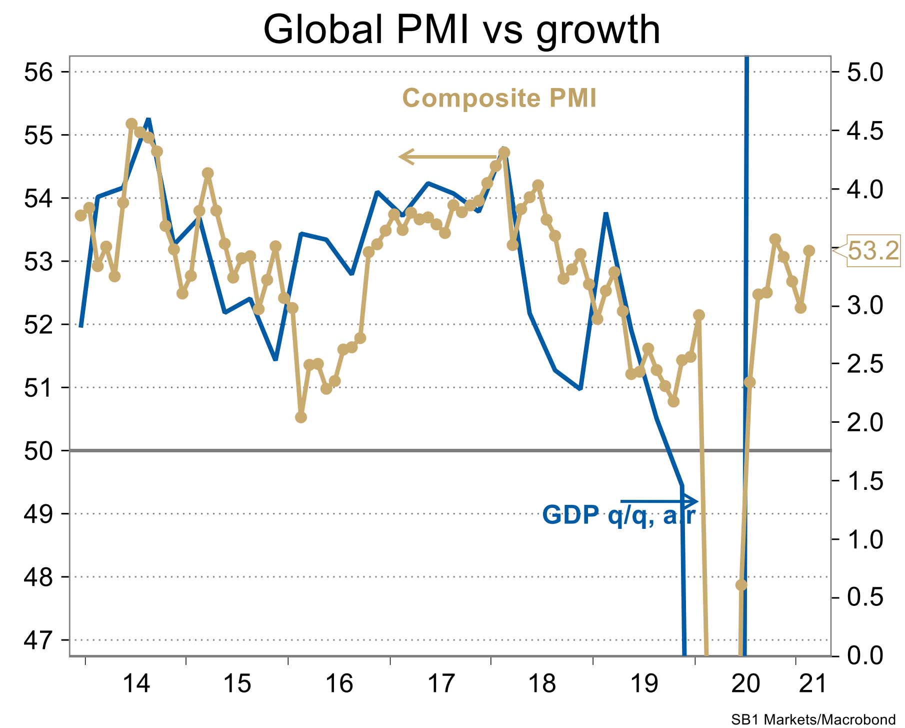


- We estimate that GDP grew by a 8% pace in Q4 – more than double of underlying trend growth, leaving global GDP down just 0.4% y/y. Last year GDP fell 3.4% (still an uncertain figure!)
  - » China, India & the US have reported decent Q4 growth, alongside some Asian countries, UK & Norway – and mot others. 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…

The composite PMI up 0.6 p to 53.2, signalling growth at trend

Both manufacturing and services reported higher growth in February





- The manufacturing PMI was up 0.2p in Feb, and signals growth well above trend. Services gained 0.6 p, up to 52.8
- The global composite PMI signals a continued recovery in the global economy

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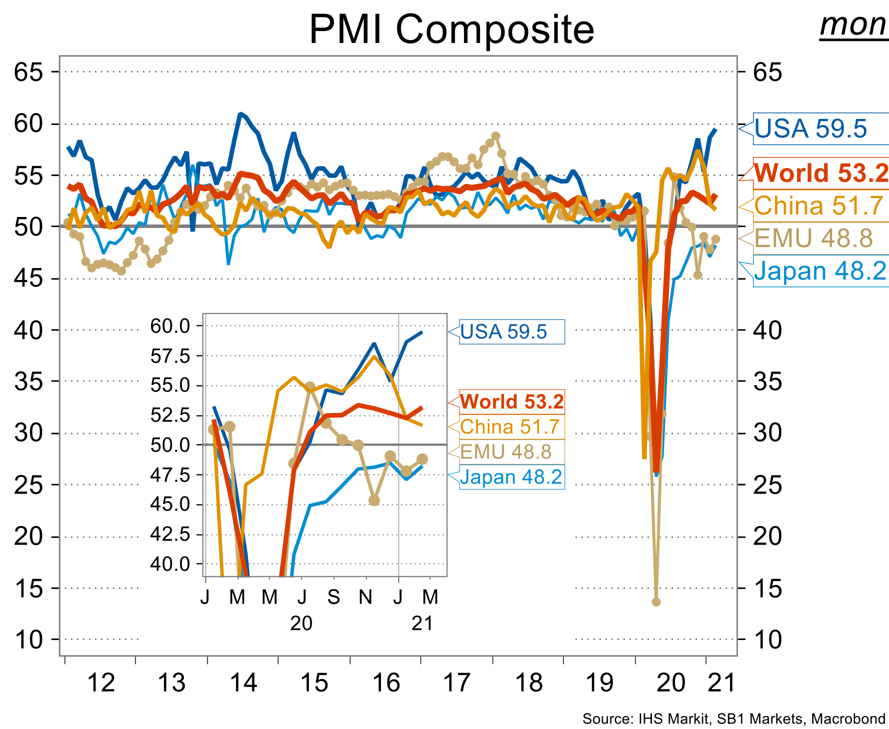
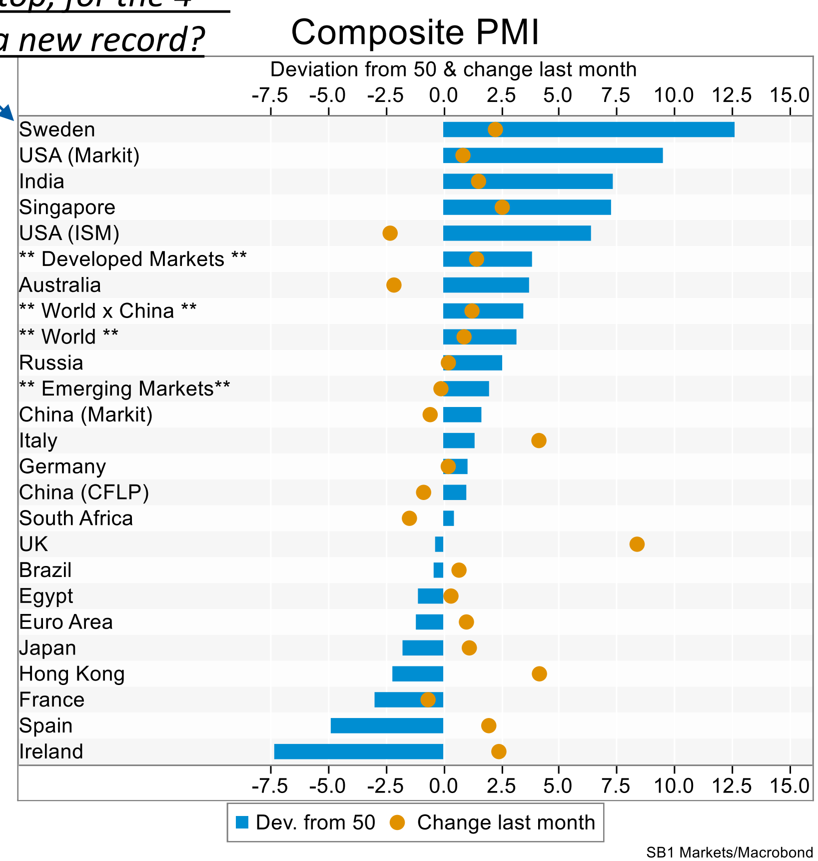
UK & Ireland January's losers, it's tough to fight the mutants. Spain struggled too

EMU also down, but like in Nov. Both the Chinese PMIs fell as well, while the US PMI rose sharply.



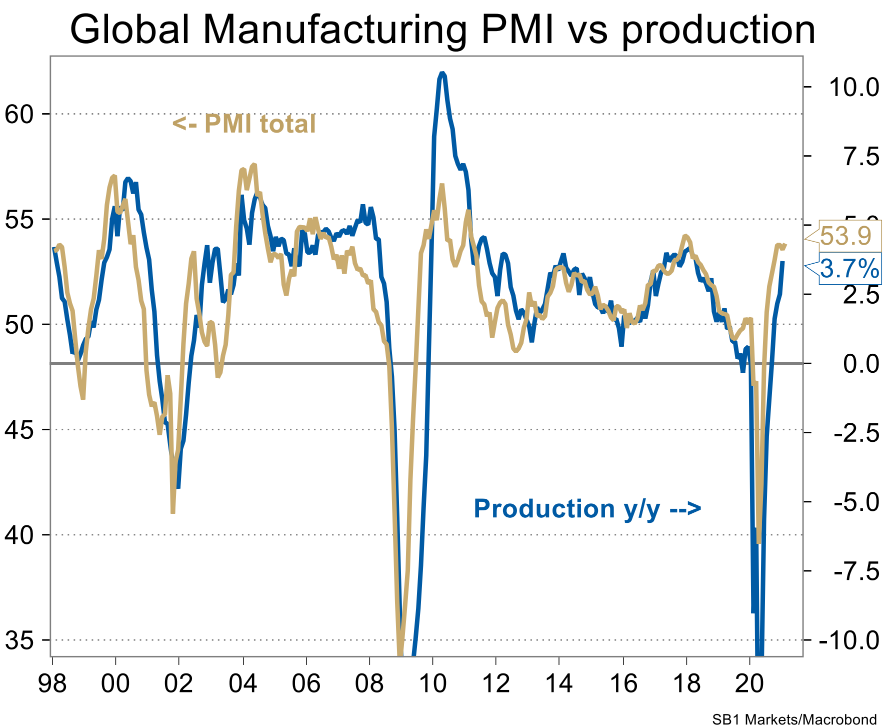
Sweden at the top, for the 4th month in row, a new record?

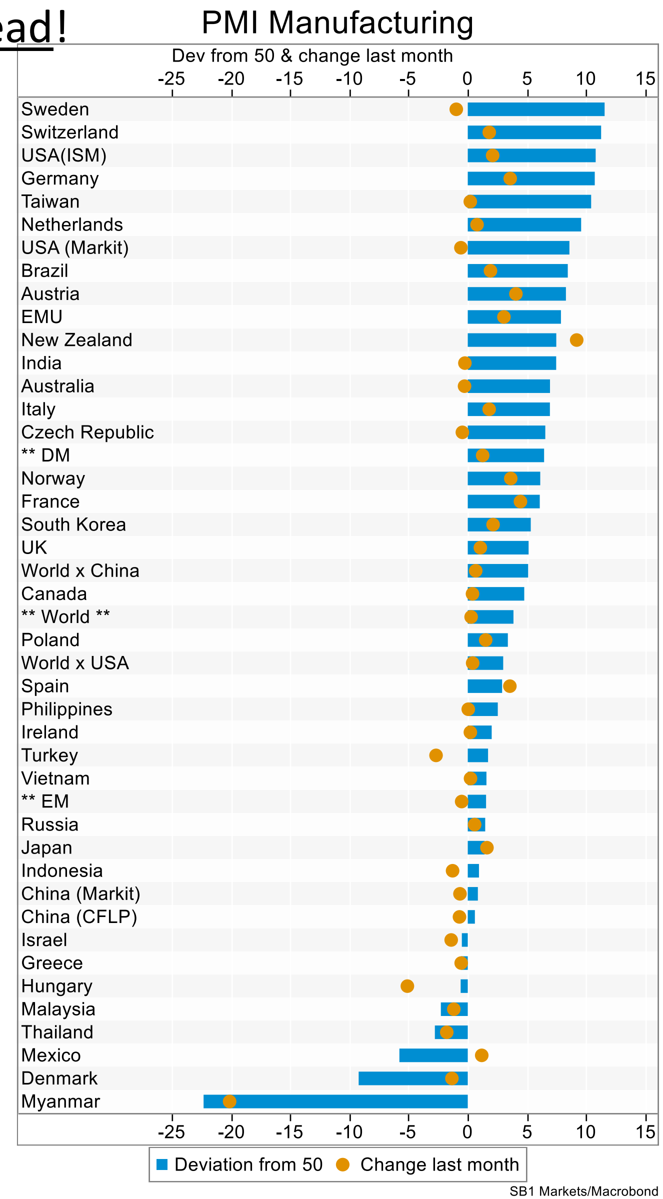


- 18 countries up, 5 down. 16 above the 50 line, 9 below
- Besides **Sweden**, **USA** is the most impressive, both Markit's PMIs and the ISMs are at very high levels, signalling 5% GDP growth
- **The Chinese PMIs** fell much more than expected, at least partly due to a subdued New Year Holiday
- **The EMU PMIs rose, and more than first reported, but remains below 50. Ireland** at the bottom, together with **Spain** at the bottom, Germany is still above the 50 line, thanks to a vibrant manufacturing sector
- **India** is thriving (close to the top of the league), while **Russia** is reporting decent growth. **Brazil** remained in contraction mode

The global manufacturing PMI marginally up – and at a high level!

The PMI up 0.2 p to 53.9, 2.8 p above avg. Sweden still in the lead!





- The global manufacturing PMI rose a tad less than we assumed. The level signals growth well above trend in global manufacturing sector
  - Breadth: 61% of the countries reported higher PMIs in Feb vs. Jan
  - A large majority of the countries (80%) are reporting PMIs above the 50 line
- EM down due to China, Turkey. DM up due to EMU, New Zealand & South Korea. ISM in the US rose, but Markit's PMI fell slightly
- Sweden in the lead for the 3rd month in row, the volatile Danish PMI close to the bottom, just Myanmar below, we assume for political reasons

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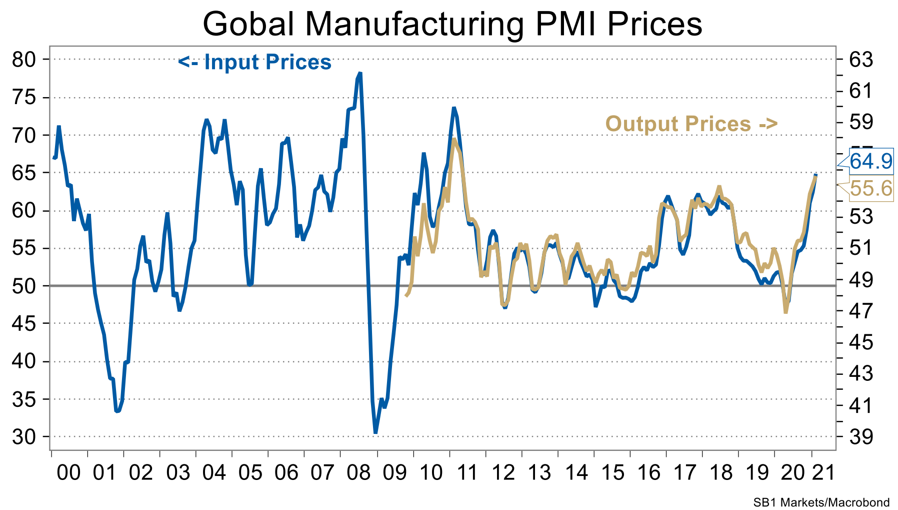
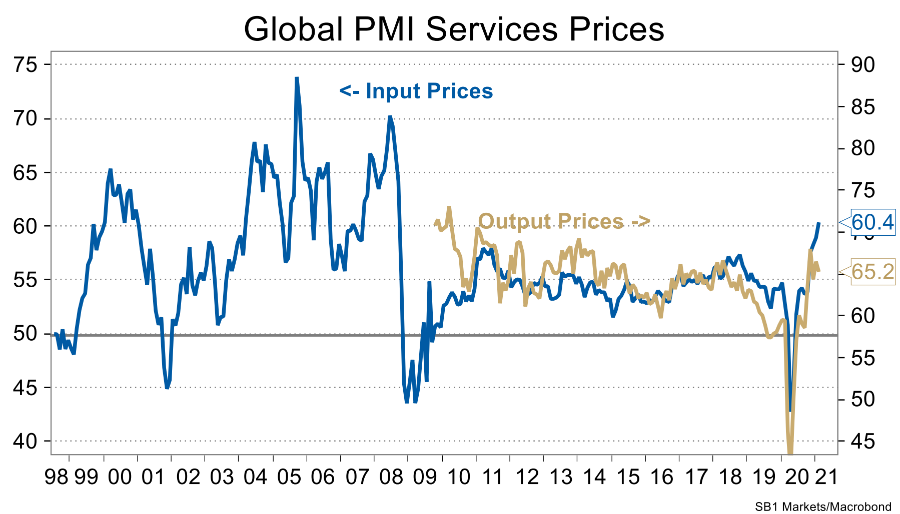
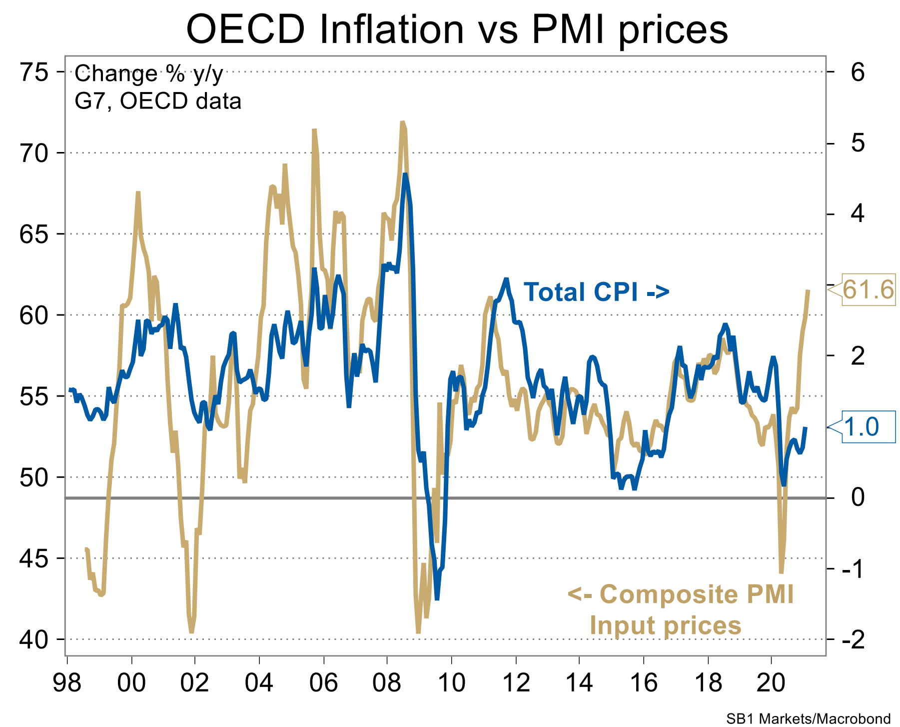
Businesses are reporting the fastest price inflation in 10 years, both in- & output

High growth, capacity constraints & longer delivery times. CPI inflation next? VERY likely. A problem?



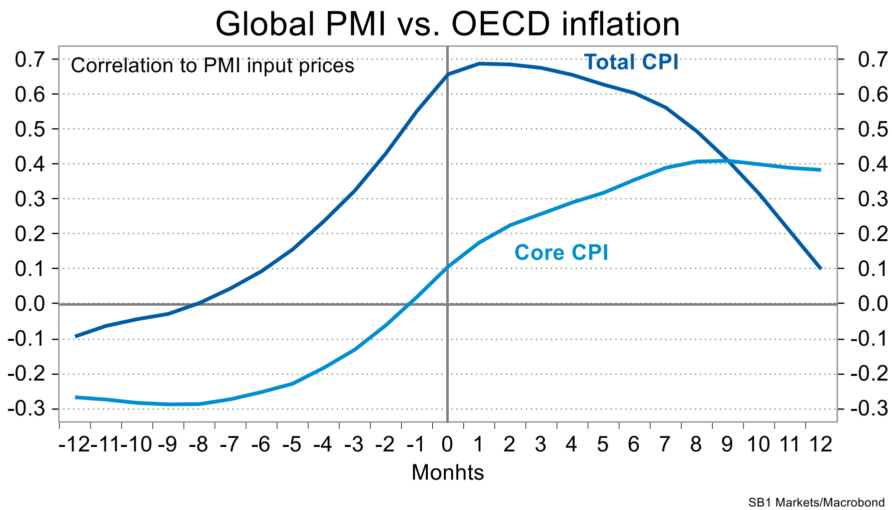


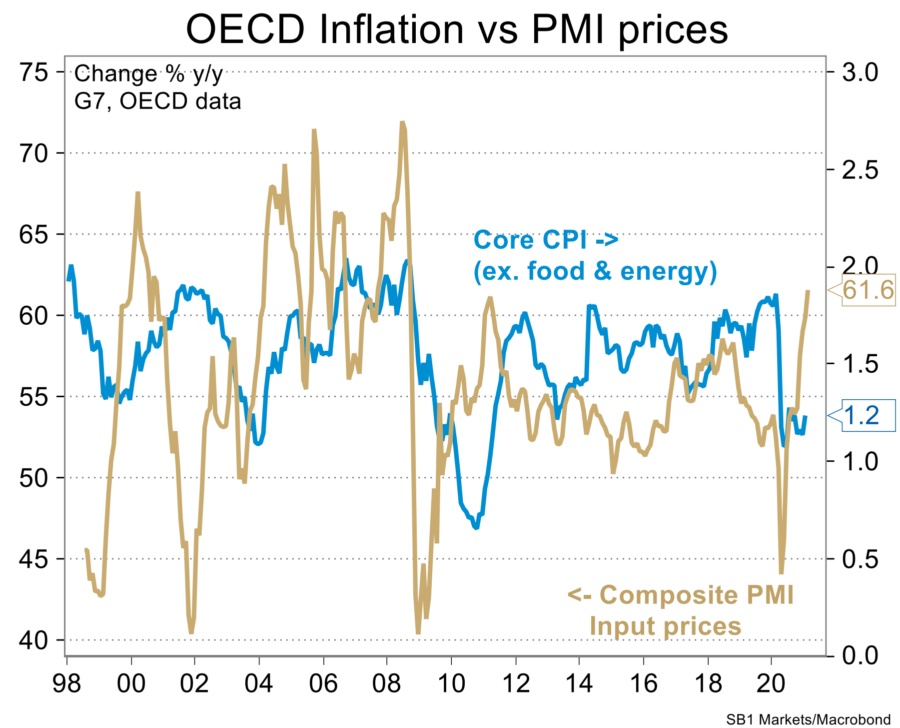


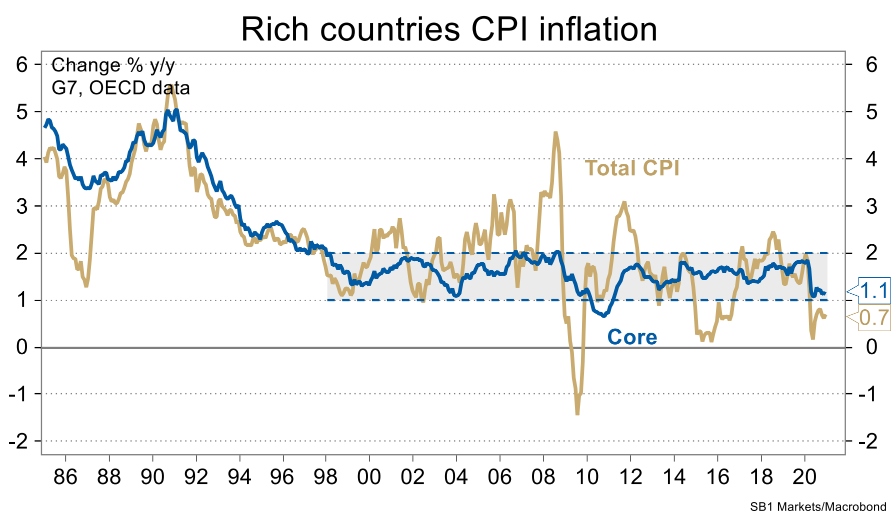
- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but output prices in the service sector slowed somewhat in Jan
- The correlation to **actual CPI inflation** is not prefect but pretty close. The PMI price indices are signalling <u>a lift in headline inflation, from some 0.5% in rich countries now, up to 2.5 - 3%.</u> Much is 'a done deal', as energy prices soon will be sharply up y/y

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

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



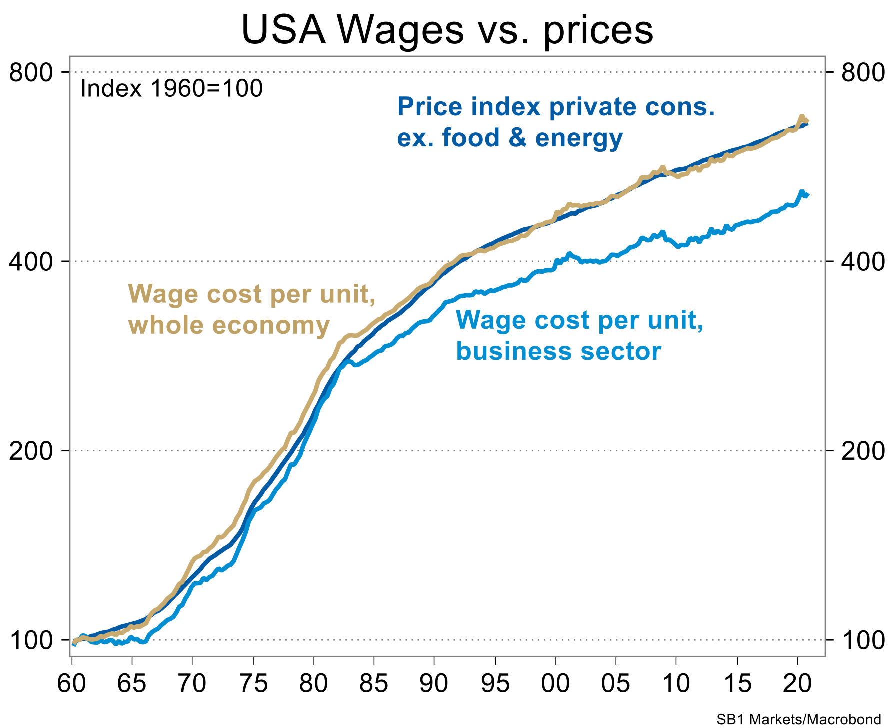


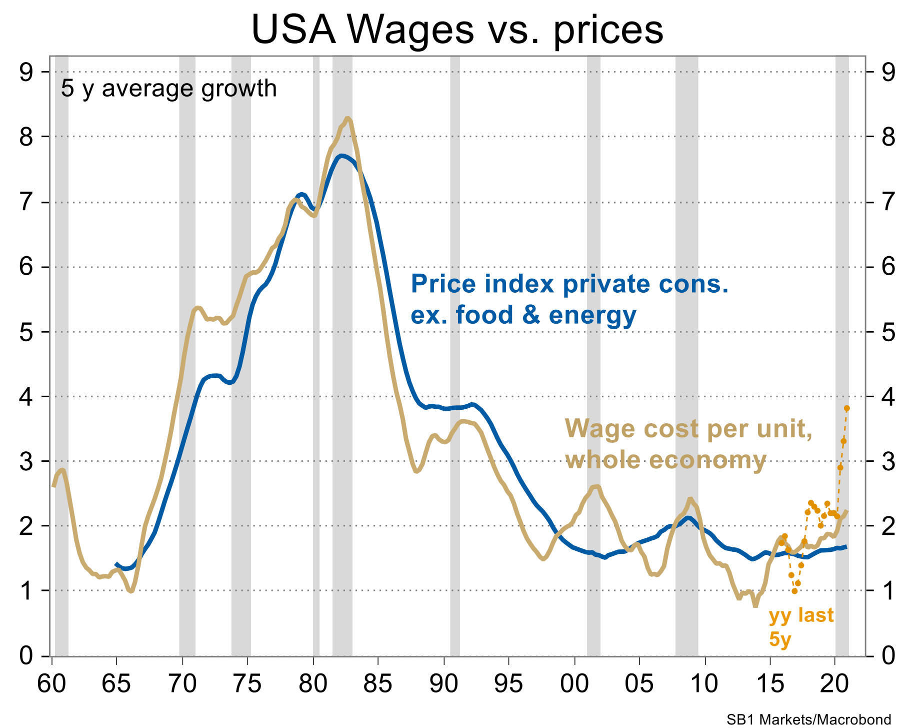


- Longer term, wage inflation & productivity is far more important for inflation than short term ups & downs in the economy/PMIs
- Wage costs per unit produced have accelerated recently, but we are not sure the productivity & hourly costs are relevantly measure. Check next page & here

In the long run: Wage costs are driving price levels & inflation cycles

Before corona: Unit wage costs were drifting upwards to above 2%

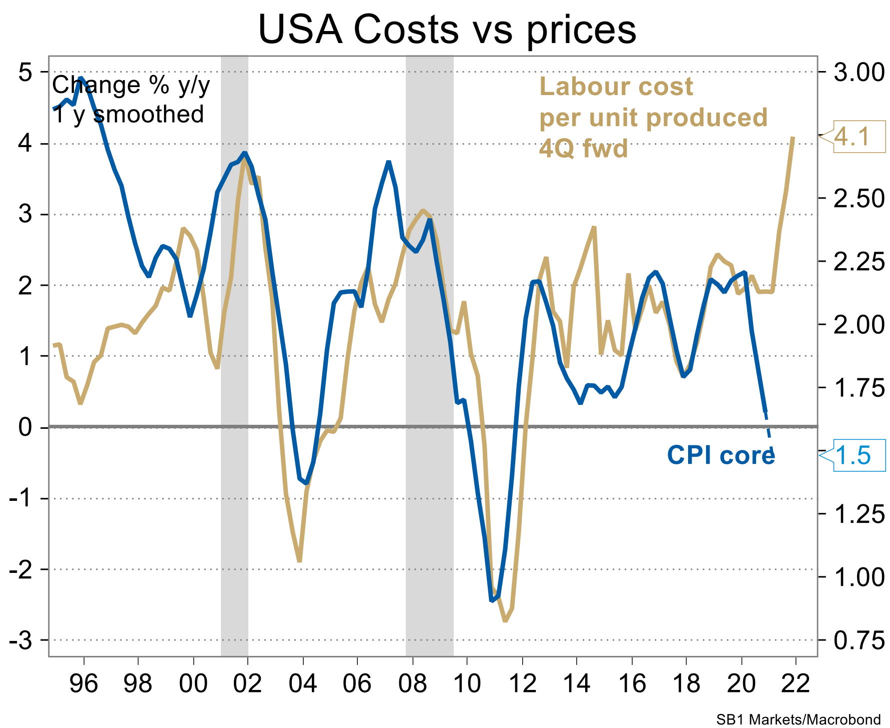


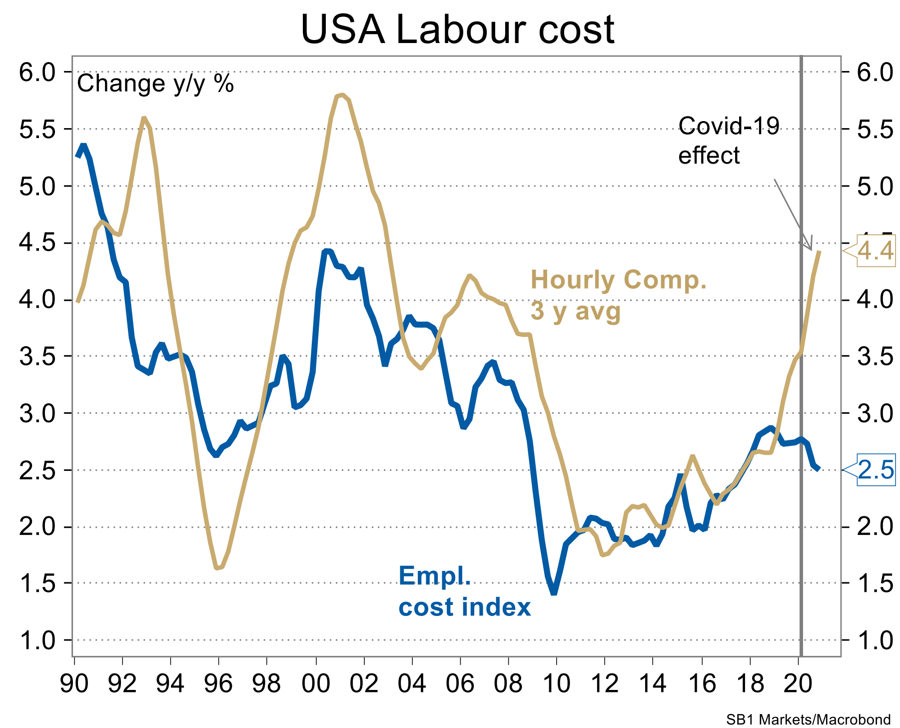


- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- The rapid increase in ULC through last year was very likely not 'for real', check next page

Hourly compensation surged during corona due to changes in employment mix

The employment cost has slowed during the corona crisis, probably the most relevant measure

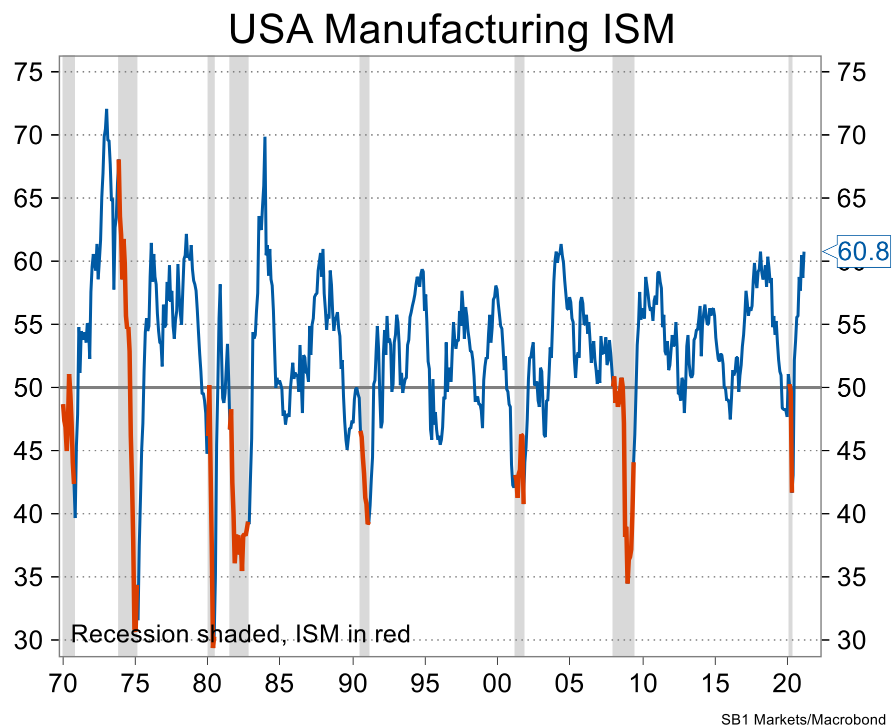


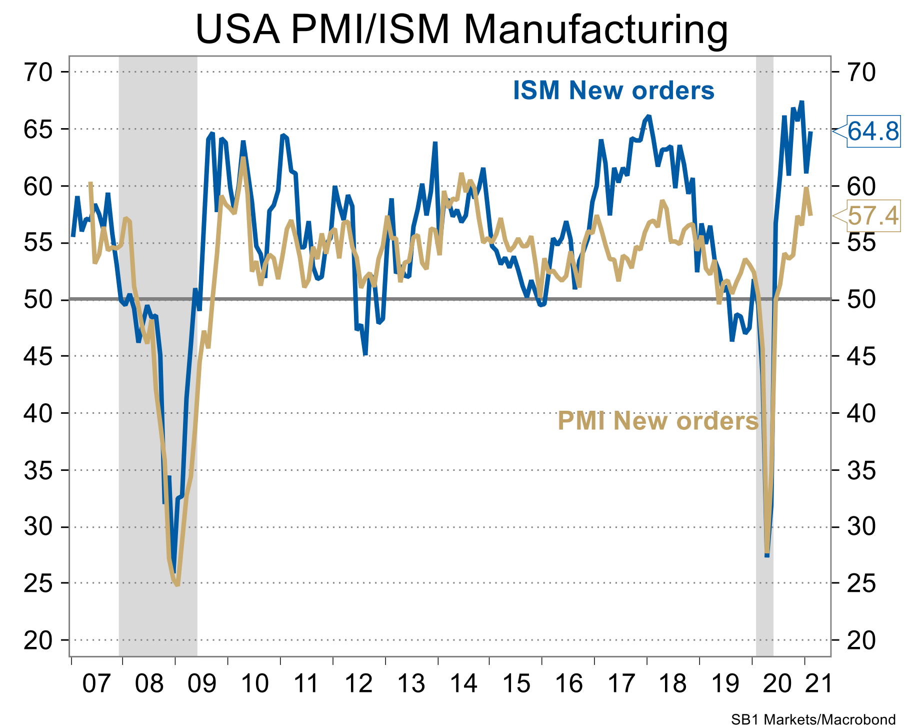


- In principle, productivity growth should have appreciated alongside the increase in average hourly labour cost as measured in the National accounts, as low-productive sectors laid off workers. So far, that has not been the case, and unit labour costs have surged (ULC = wage growth – productivity growth)

Manufacturing ISM rose above 60, has not been higher in 17 years

The ISM surprised on the upside, gaining 2.1 p to 60.8, expected down to 58.6.

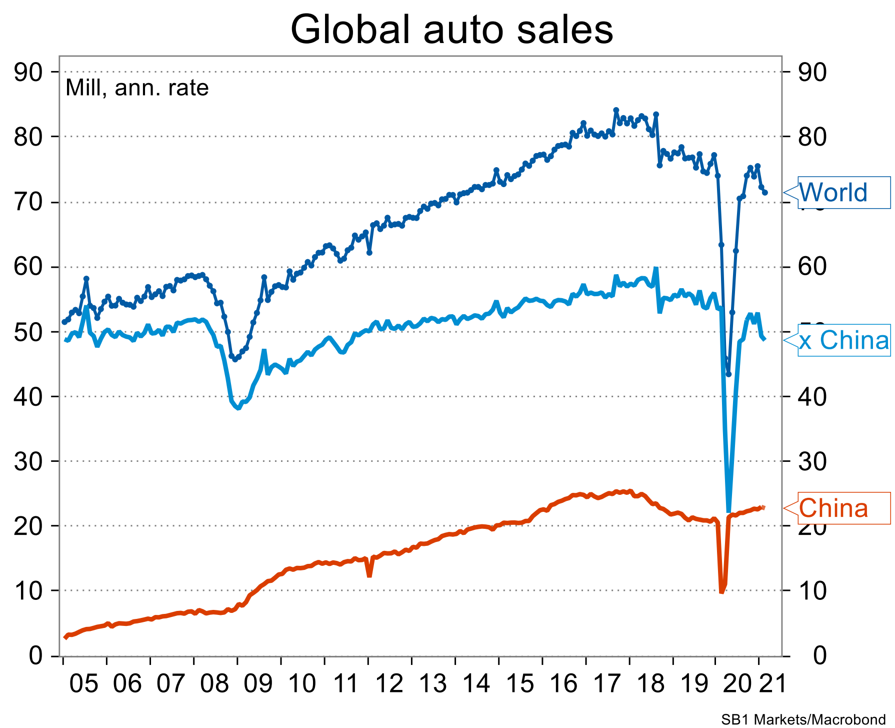


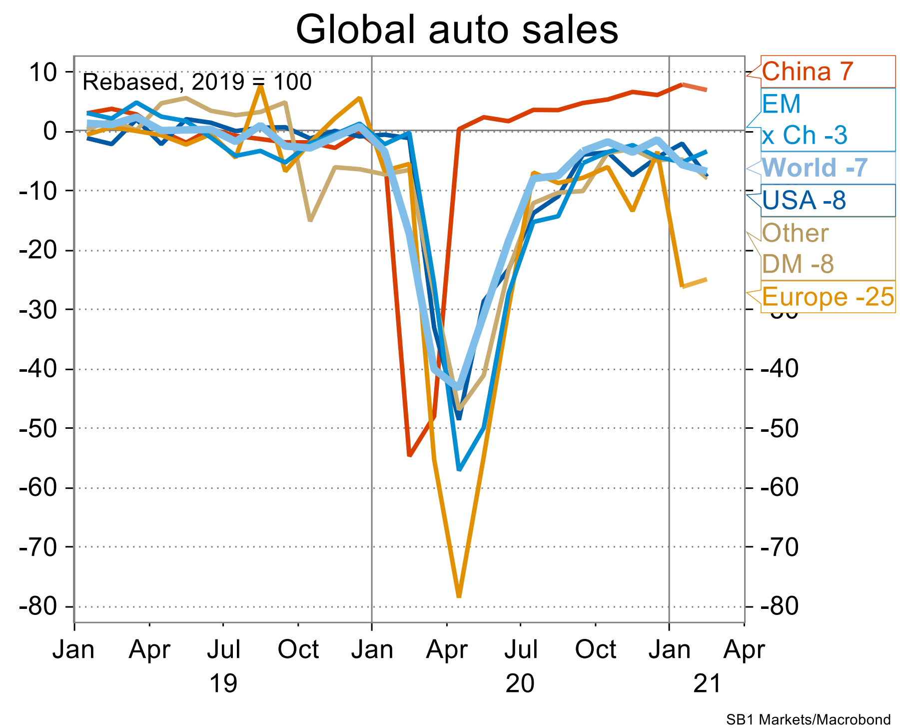


- Like the previous month, 16 of 18 manufacturing sectors reported growth in February, just printing and petroleum down
- 26 groups of commodities were up in price m/m, like in the two previous months. Just one, dairy, was down in Feb. A large number of commodities were in short supply as well
- ISM new orders was up 3.7 p to 64.8, while Markit's new order survey came in at 57.4 down 2.5 p from January

Global sales down in February too, -7% vs. the 2019 level

US sales down, EU sales marginally up, from a low level, -25% vs ’19. China & other EMs at the top

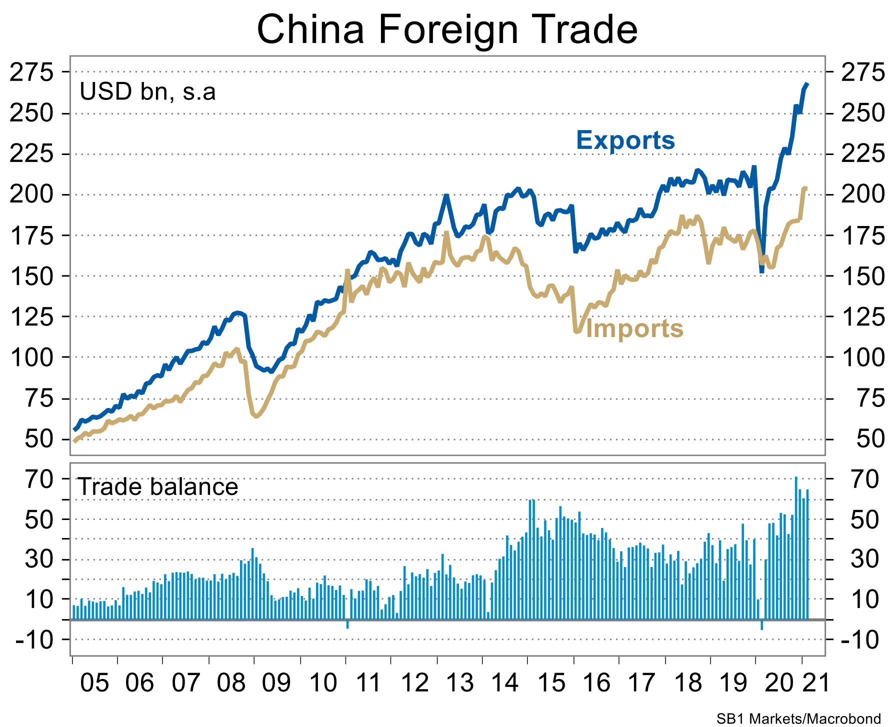




- Based on our preliminary estimates global auto sales fell some 1% in Feb, following a 4% drop in January, when sales in EMU & UK fell sharply. European sales did not recover in February, and are down 1/4 vs the 2019 level
- Sales in China may have fallen marginally in February but is still trending upwards, +7% vs. 2019 level
- Sales in EM x China rose in Feb and are 3% below the 2019 level

Exports remained at a very high level in Jan/Feb, imports surged 10% vs. Dec!

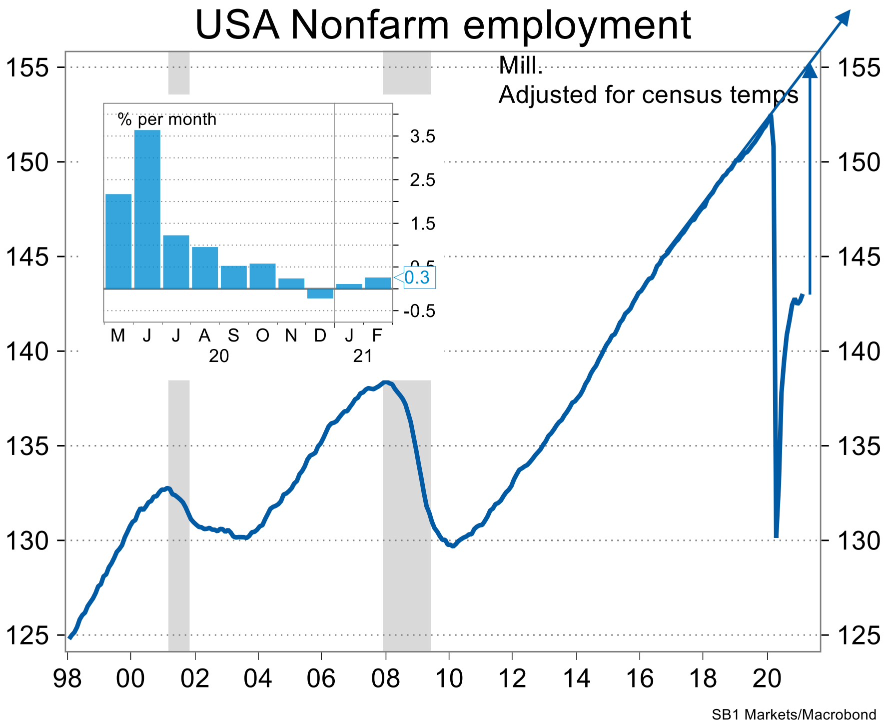
No signs of any slowdown in the global or the Chinese economy

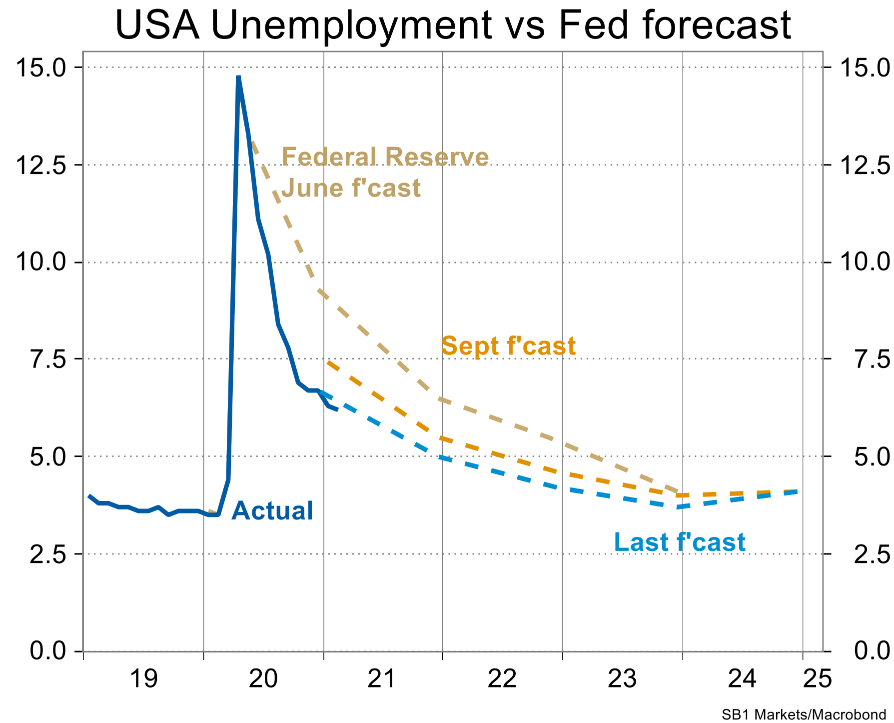


- **Exports** rose by some 2% - 3 % in Jan/Feb from the very strong level in December – it's new all time high (annual growth rates are irrelevant due the slump last Feb). In **volume terms** exports very likely kept up too. Exports are far above any reasonable trend path. Global demand for goods is strong
- **Imports** rose some 10% in Jan/Feb from a close to record high level in Dec. In **volume terms** (our price assumptions last 4 m) the lift is less impressive, as we assume import prices rose sharply (oil and other raw materials – but imports volumes are record high and at least at the long term trend path. Domestic demand is OK
- The **trade surplus** is still high, at some USD 60 bn. The surplus has been higher than normal since last March. China is still running a **deficit in services** (but it is narrowing, less Chinese travelled abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks - in % of GDP, that is

Decent employment growth in February but it is a long way back home

Employment +379' (exp 200'), hist. revised up. Still 12 mill. or 7¾% below the pre-pandemic trend

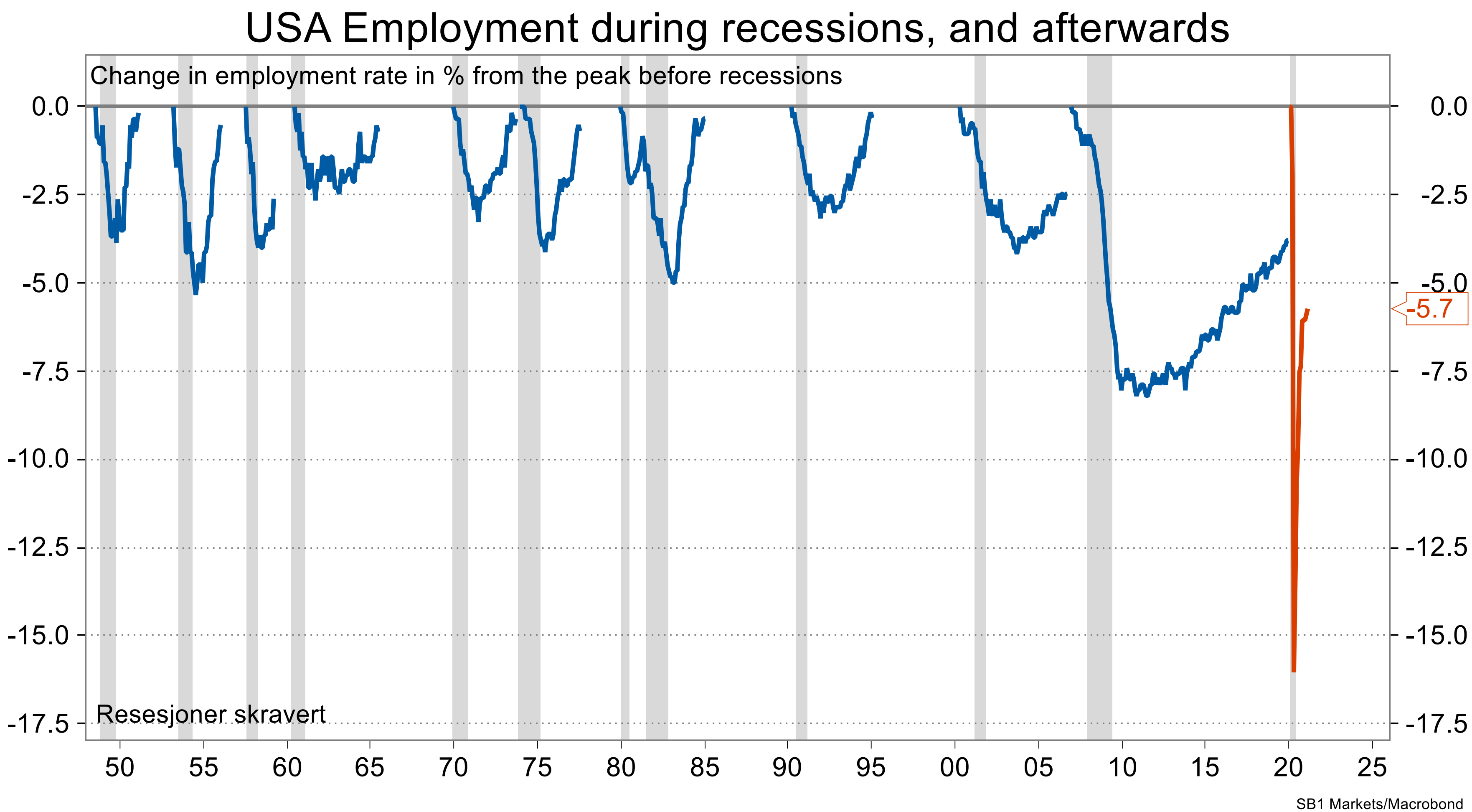




- **Employment** rose by 379', almost twice as much as expected, and the two prev. months were revised up by 38'. Total nonfarm payrolls rose more than expected, even if the public sector (mostly education) cut 86' (exp. +15). Employment in hotels & restaurants (parks, arts++) rose 3% but remains 20% below par! Total employment is 12 mill. below the pre-corona trend path, equalling almost 8%
- **Unemployment** fell 0.1 pp to 6.2%, expected +0.1/unch. Unemployment is 'just' less than 3 pp higher than before the pandemic but the participation rate has fallen by 2.8% (1.8 pp), lowering the measured unemployment rate substantially. In a survey, 5 mill. persons report that they had withdrawn from the labour force (and were not searching a job) due to corona related reasons. Most of them probably do want to return to the labour market, when possible. The close to 8% jobs shortfall may be for real. (In Norway, the equivalent shortfall is 3%)
- **The Federal Reserve will anyway keep pushing the accelerator hard the coming months**

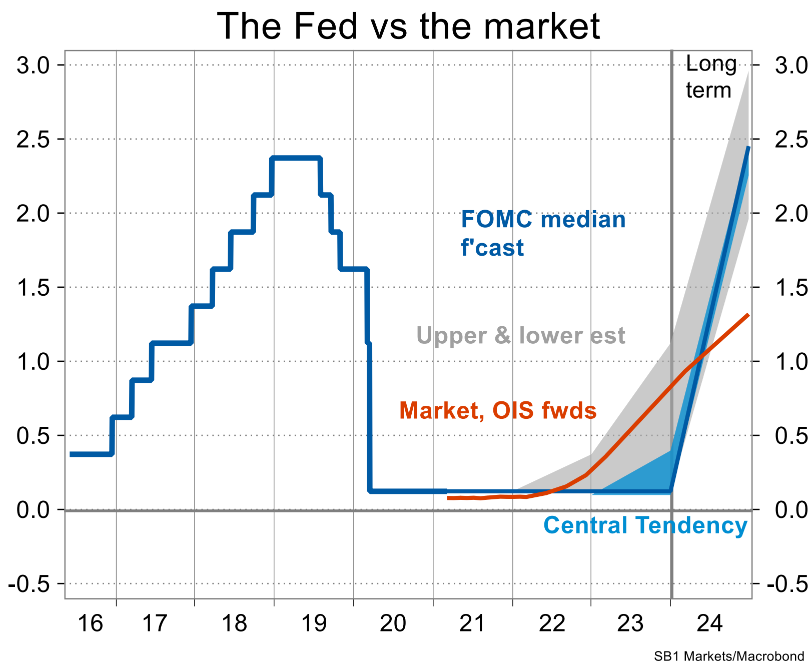
The virus attack was really something special…

And it ain't over yet



Beige book: Reports of upward wage pressure – just a flash in the pan? Prob. not

Still a Modest recovery overall but a optimistic outlook as vaccines are rolled out

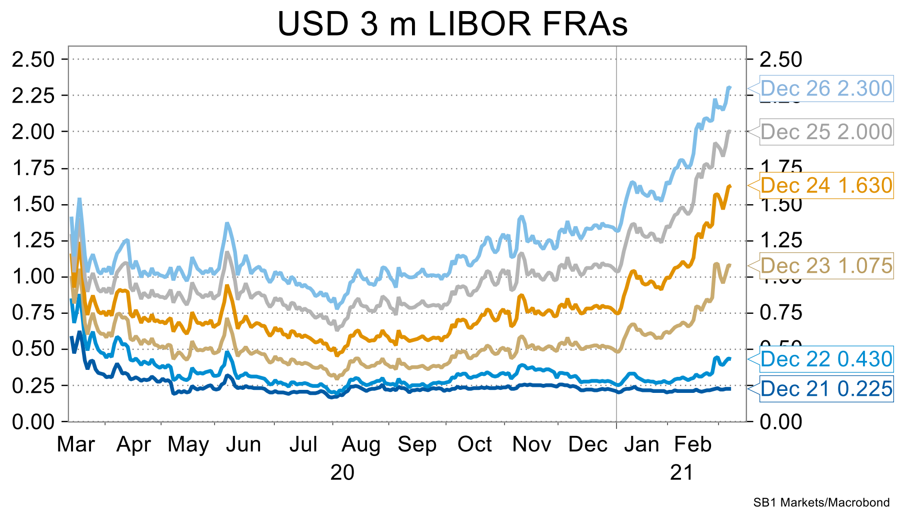


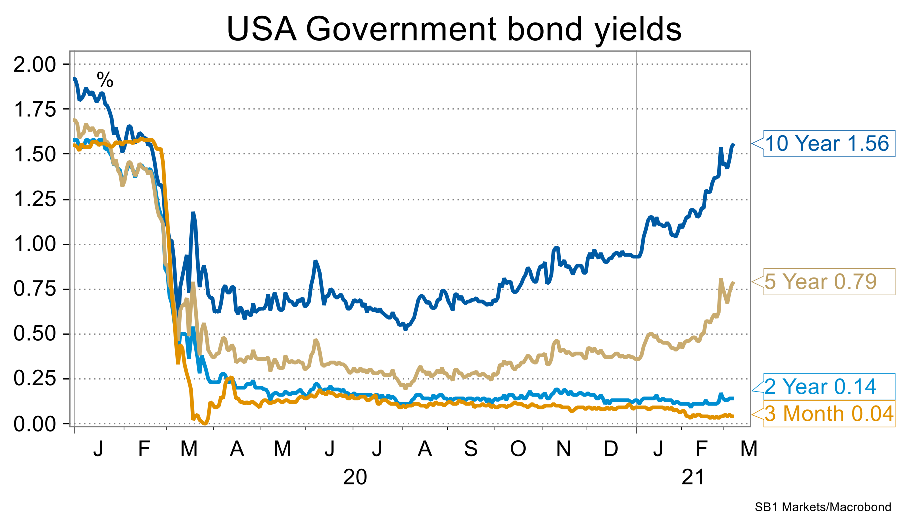
- We assume that the Fed will stay hyper-dovish until
  a) The **corona virus** is brought under control AND
  b) The **unemployment** rate has returned to well below 5% AND
  c) The employment rate has recovered most of the losses OR
  d) There are widespread reports of **lack of labour** AND
  e) wage inflation is clearly accelerating AND
  f) Inflation has been above 2% for a while
- ***The question is WHEN that will happen***
- ***However, last week, gov. Powell once again reiterated his dovish stance, with some caveats (check next page)***

- Growth still **modest or moderate** in most districts past six weeks, according to the Fed's 12 district banks. Vaccines lifted the mood, while short term corona trouble did not
  - » 9 districts reported modest growth
  - » 1 district reported no change in activity
  - » 2 districts reported a decline in activity
- Activity in **demand for leisure/hospitality service** remains subdued due to Covid-10 restrictions. Both **retail sales and auto sales** were robust
- **Manufacturing** on the way up, despite supply chain challenges. Energy kept expanding. The **housing market** is still going strong, while the commercial real estate markets are still weak. **House prices** are (of course) still climbing
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** remain modest but many districts are seeing an upward pressure on wages, which is expected to increase over the coming months
- **Input prices** are on the way up, but there was a mixed ability to **increase selling prices**.
- **In sum:** Although this report was more positive than the previous one, we see no reason to expect the FOMC to change its assessment of the economic outlook, at the meeting on March 17th. Markets probably focused more on the signals of a tighter labour market

Chairman Powell reiterated the Fed's stance on monetary support…

…but markets just shrugged it off. *At least Powell's implicit timeline*

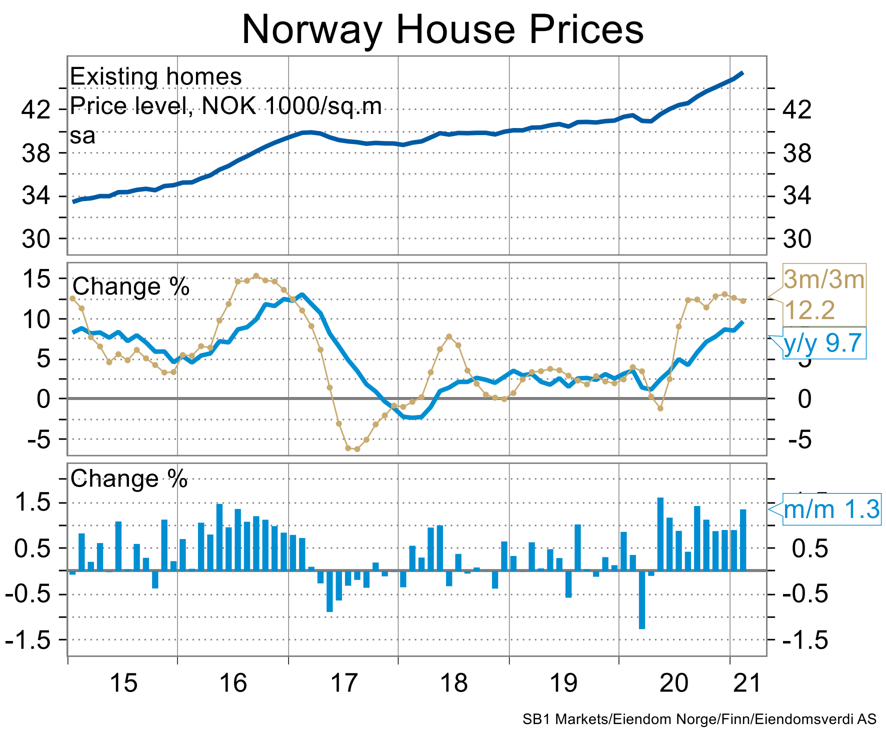


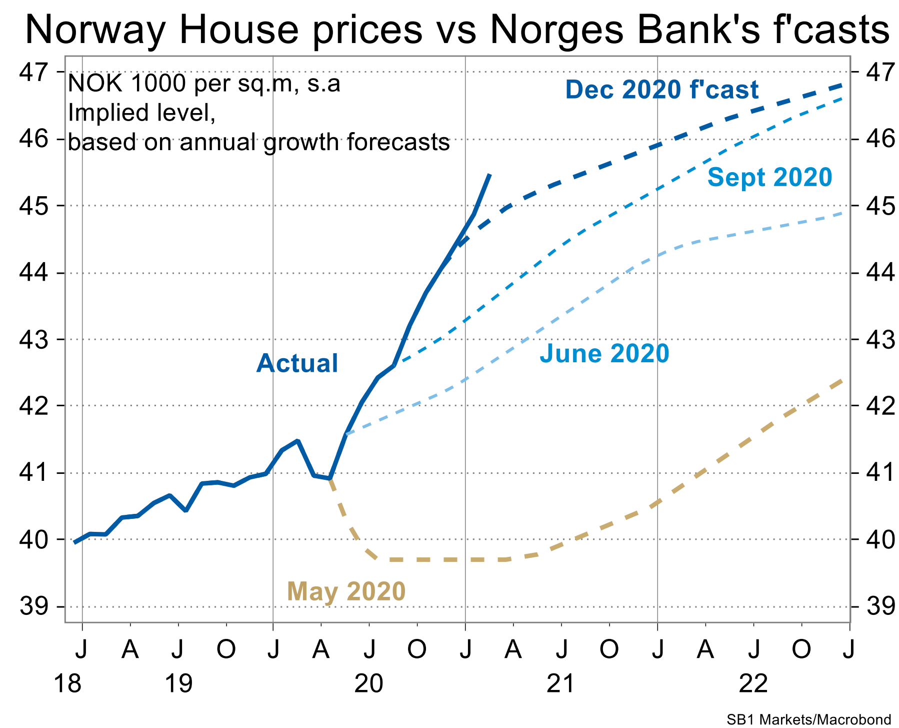


- Following the recent rise in yields, Fed chairman Jerome Powell tried to reassure markets that monetary support would be upheld and that the Fed "will be patient", even if the 12 m inflation rate will get a boost the coming months due to the base effects from falling prices m/m last spring. However, markets were not convinced. Rather, the market believes in **faster growth and a rise in inflation**, and that rates will have to be raised sooner than what has been communicated by the Fed, even if Powell stresses that it will take long time to return to *'maximum employment'*
- Mr. Powell acknowledged that the rise in yields had caught his attention and stated *"I would be concerned by disorderly conditions in markets or persistent tightening in financial conditions that threatens the achievement of our goals."* This, combined with his statement that he sees the current policy as appropriate seemed to confuse the market more than reassure it.
- In fact, equity markets receded and the **U.S. 10 y treasury yield rose 5-6 bps** following the chairman's comments. However, yields retreated afterwards, and the hike was anyway not close to the surge in yields Feb 25
- The Fed likely thinks the inflationary pressures we are seeing are temporary, and they may very well be…

Oops, house prices accelerated upwards in February. Norges Bank must revise its paths

Both the house price & the interest rate path. Prices +1.3% m/m, NoBa exp. 0.4%. y/y 9.7% vs 8.0%!

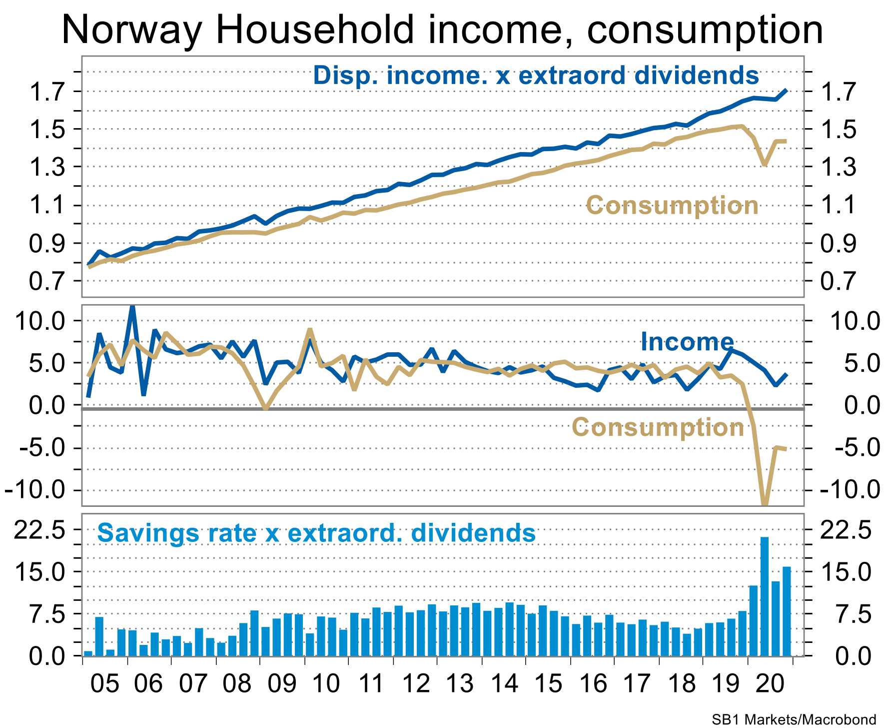




- House prices rose by 1.35% seas. adj in Feb, up from 0.9% in Jan (revised up by 0.2 pp). We expected 0.6%, NoBa 0.4%. The past 3m/3m, prices are up by 12%, annualised. Prices are up 9.7% y/y, NoBa expected 8.0% back in Dec. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% last Feb), has been much more important than the corona setback and higher unemployment
  - » All cities reported higher prices m/m. Oslo at the top +2.5%. Tønsberg at the bottom, 0.3%
  - » Smoothed 3m/3m prices are up everywhere too. Oslo at the top, at a 22% pace! Outer east towns at the bottom, still up 4% at an annual rate
  - » The number of transactions rose in Feb and the level is high. The inventory of unsold homes is sliding down again, and it is very low vs sales per month
- **The sharp lift in house prices will no doubt be an important factor when NoBa very likely lifts the interest rate path substantially on March 18**

Consumption flat in Q4, income up 3% (and hist. rev. up), savings rate to 15.4%!

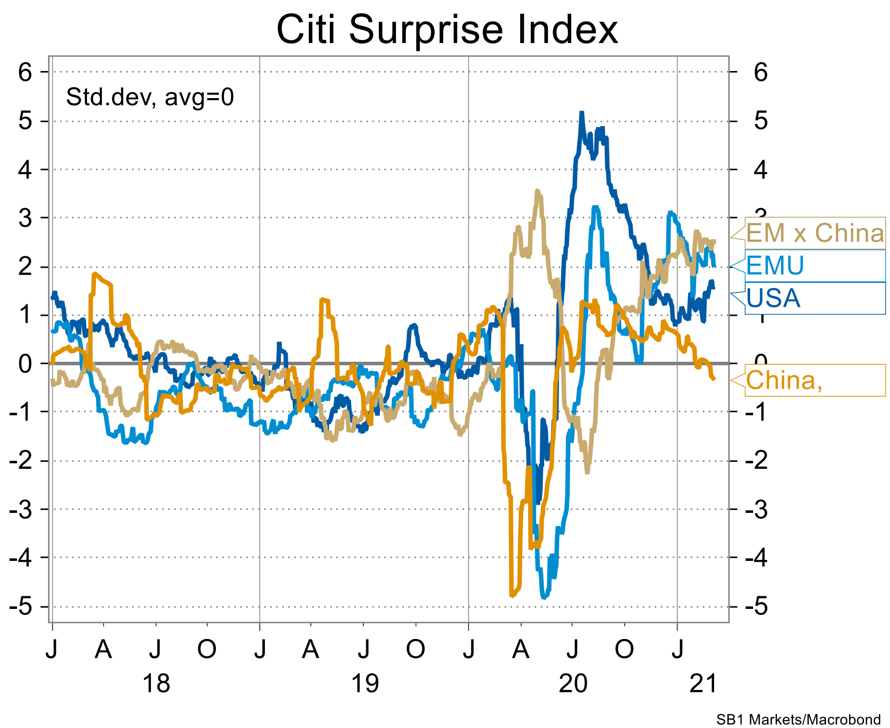
Households spend a lot on goods, buy domestic service consumption still weak, no spending abroad

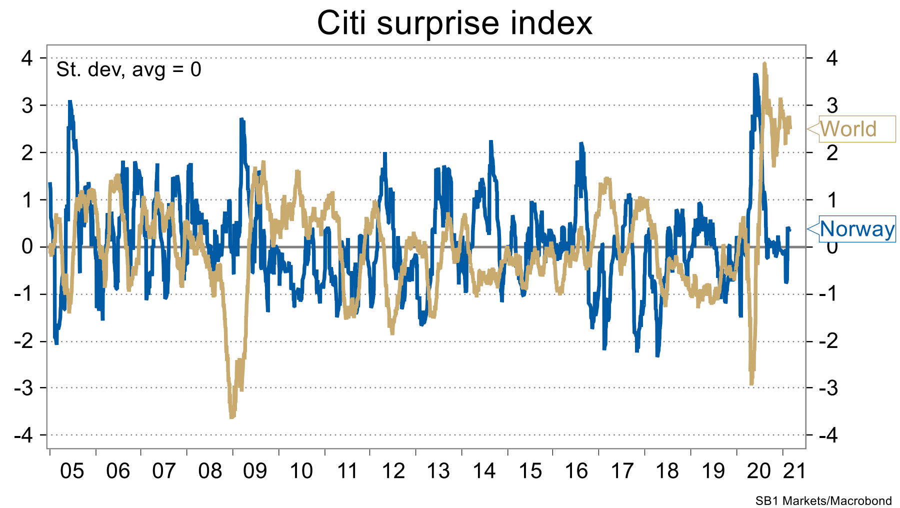


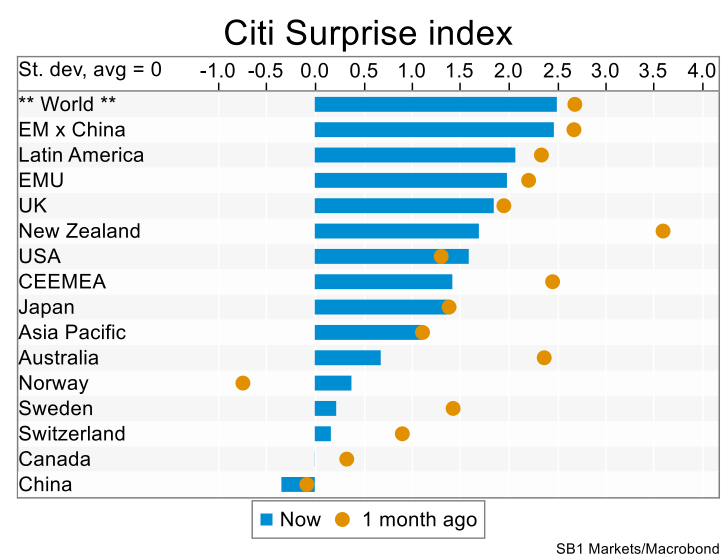
- **Household disposable** income rose by 3% (nominally) q/q in Q4, more than we assumed – and the level is up 3.9% y/y. Both Q2 and Q3 income data were revised up; the level in Q3 by >1%, ditto for the savings rate. In Q4, the savings rate rose to 15.4% from 13.1%, we expected up 0.9 pp to 12.9%
- During last year, **the savings rate** has on average been 8% higher than in 2019, and it still is – and will most likely be similarly higher than 'normal' in both Q1 and Q2. If so, households will at the end of Q2 have accumulated extra net savings (national accounts calculated) equalling 12% of their disposable income, or NOK 190 bn. A decent 'Wall of Money'.
- In aggregate, households have not reduced their debts, and just a minor part has covered higher residential investments, so their financial assets have increased substantially, like bank deposits.
  - » By end of last year, bank deposits are NOK 60 bn higher than the pre-covid trend (the Q4 data for the other elements of their financial accounts are not yet published)

China surprises on the downside. But that's all folks

All other countries, regions are still surprising on the upside







- The **Euro Zone** is still far up on the list, even if the economy has slowed. Expectations have been adjusted
- The **US** is well into positive territory too – and now accelerating
- **Other EMs (x China)** are at the top of the list , well above their average level, and are on the way up
- **Norway** and **Sweden** close to the bottom

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

The Calendar

Time	Count.	Indicator	Period	Forecast	Prior
Monday Mar 8					
08:00	GE	Industrial Production MoM	Jan	-0.3%	0.0%
08:00	NO	Manufacturing prod MoM	Jan	--	-0.20%
Tuesday Mar 9					
08:00	GE	Trade Balance	Jan	14.5b	14.8b
08:00	NO	GDP MoM	Jan		1.4%
08:00	**NO**	**GDP Mainland MoM**	**Jan**	**-0.6% (-.5)**	**1.0%**
10:00	NO	Regional Survey: Past 3 months	Feb	(0)	0.13
10:00	**NO**	**Regional Survey: Next 6 months**	**Feb**	**(1)**	**0.1**
10:00	NO	Financial sector accounts	Q4		
10:00	SW	Activity Indicator	Jan		
11:00	EC	OECD Economic outl. Interim			
11:00	EC	Employment QoQ	4Q F		0.3%
11:00	EC	GDP SA QoQ, details	4Q	-0.6%	-0.6%
12:00	US	NFIB Small Business Optimism	Feb	96.3	95.0
Wednesday Mar 10					
02:30	CH	CPI YoY	Feb	-0.3%	-0.3%
08:00	NO	CPI YoY	Feb	3.1%(3.3)	2.5%
08:00	**NO**	**CPI Underlying YoY**	**Feb**	**2.9%(3.0)**	**2.7%**
14:30	US	CPI MoM	Feb	0.4%	0.3%
14:30	**US**	**CPI Ex Food and Energy MoM**	**Feb**	**0.2%**	**0.0%**
20:00	US	Monthly Budget Statement	Feb		-$162.8b
Thursday Mar 11					
06:00	SW	PES Unemployment Rate	Feb		4.6%
13:45	**EC**	**ECB Deposit Facility Rate**		**-0.5%**	**-0.5%**
14:30	US	Initial Jobless Claims	week	725k	745k
18:00	US	Flow of funds. Househholds chg	4Q		$3817b
Friday Mar 12					
08:00	**NO**	**SSB f'casts, 2020 review**			
08:00	UK	Manufacturing Production MoM	Jan	-0.8%	0.3%
08:00	**UK**	**Monthly GDP (MoM)**	**Jan**	**-5.0%**	**1.2%**
11:00	**EC**	**Industrial Production SA MoM**	**Jan**	**0.3%**	**-1.6%**
14:30	US	PPI Ex Food, Energy, Trade MoM	Feb	0.3%	1.2%
16:00	US	U. of Mich. Sentiment	Mar P	78.0	76.8
Monday Mar 15					
02:30	CH	New Home Prices MoM	Feb	--	0.3%
03:00	CH	Fixed Assets Ex Rural YTD YoY	Feb	40.0%	2.9%
During the week					
	CH	**Aggregate Financing CNY**	**Feb**	**900b**	**5170b**
	CH	New Yuan Loans CNY	Feb	950b	3580b

- **China**
  - **Credit & investment** data for the first two months will probably confirm no marked slowdown in the Chinese economy
- **USA**
  - Any signs of higher **inflation**? Probably not at the CPI level in February either but producer prices are brewing on something
  - **Small businesses** have been reporting slow growth but desperate lack of labour, and plans to hike prices and wages
  - **The Flow of funds stats** will reveal how households & businesses allocated their funds, i.e the excess savings in Q4
- **EMU**
  - **The ECB** will express the bank's concern for the current downturn, hope for the vaccines and reiterate that the bank will continue to support the recovery by keeping the monetary policy expansionary
  - **Manufacturing production** probably rose further in Jan, even if retail sales collapsed
- **Norway**
  - **Norges Bank's regional network** has been close to useless during the pandemic, and it may turn up to be irrelevant this time around too, as businesses clearly a struggling calibrating their answers due to the highly unusual changes in activity. Still, we assume businesses will report no growth over the past months, and a gradual recovery the coming 6 months, a 1.0 index (a 2% growth pace). However, it must be difficult for the respondents (too) to look through the corona & vaccine fog these days
  - We assume **Mainland GDP** fell in January, following the far stronger than expected growth in December. Some sectors contracted, like fisheries and some 'peoples' services. We doubt the greater Oslo lockdown in the last week in Jan influenced the national activity by much
  - We expect **core (and total) CPI** inflation accelerated in February

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

Highlights

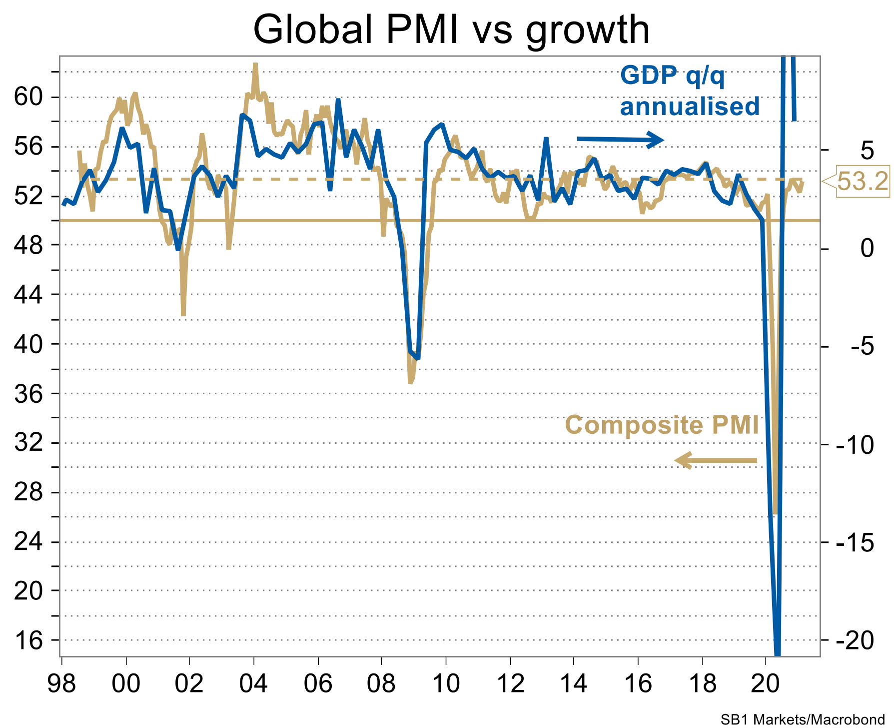
The world around us

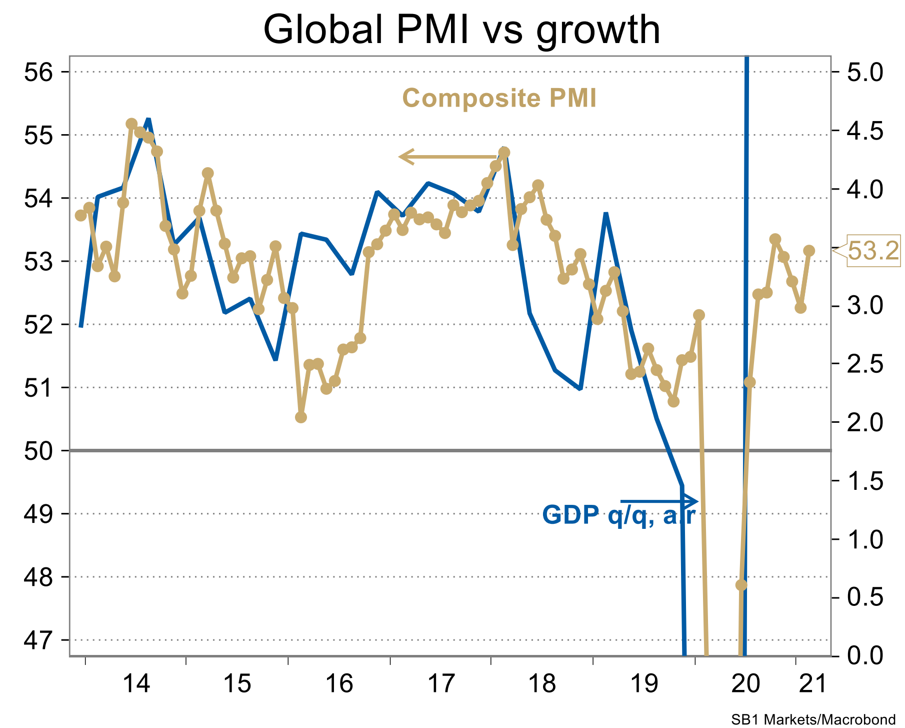
The Norwegian economy

Market charts & comments

The composite PMI up 0.6 p to 53.2, signalling growth at trend

Both manufacturing and services reported higher growth in February

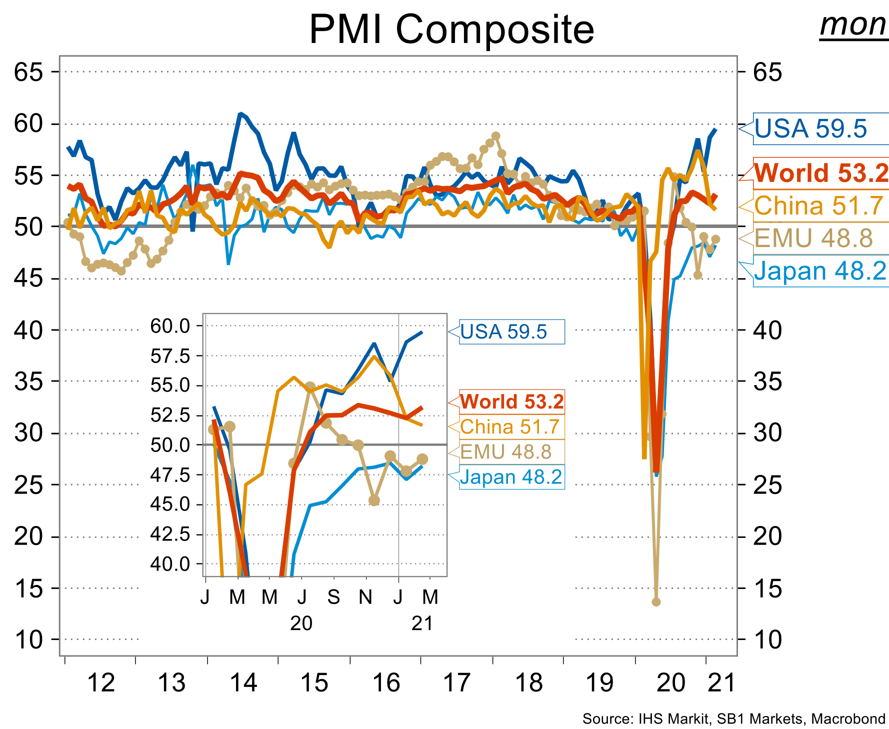




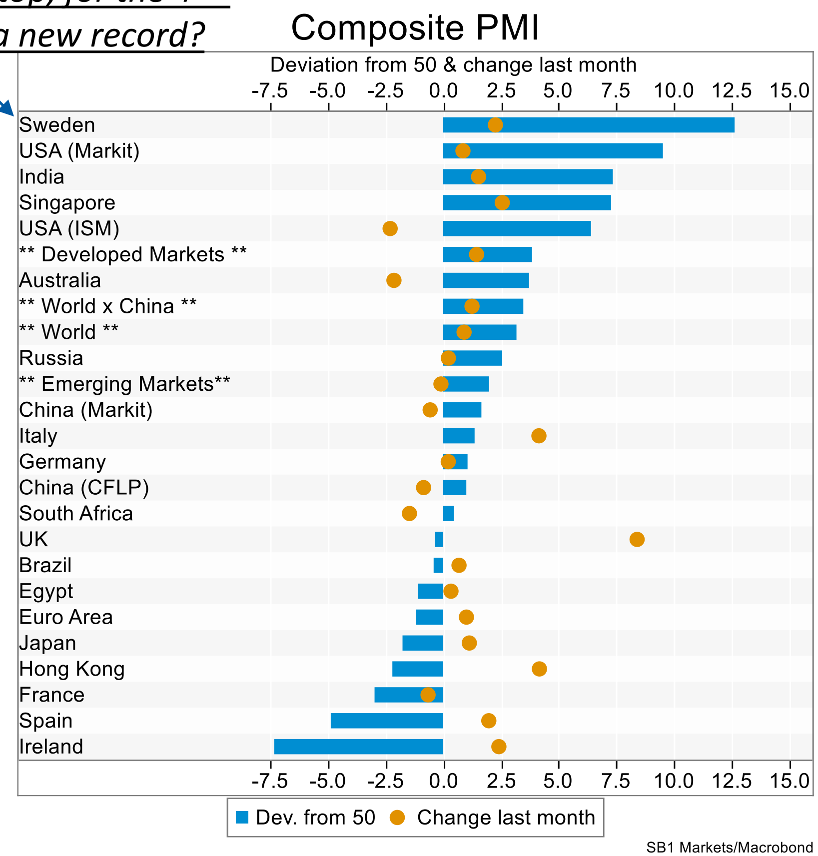
- The manufacturing PMI was up 0.2p in Feb, and signals growth well above trend. Services gained 0.6 p, up to 52.8
- The global composite PMI signals a continued recovery in the global economy

UK & Ireland January's losers, it's tough to fight the mutants. Spain struggled too

EMU also down, but like in Nov. Both the Chinese PMIs fell as well, while the US PMI rose sharply.



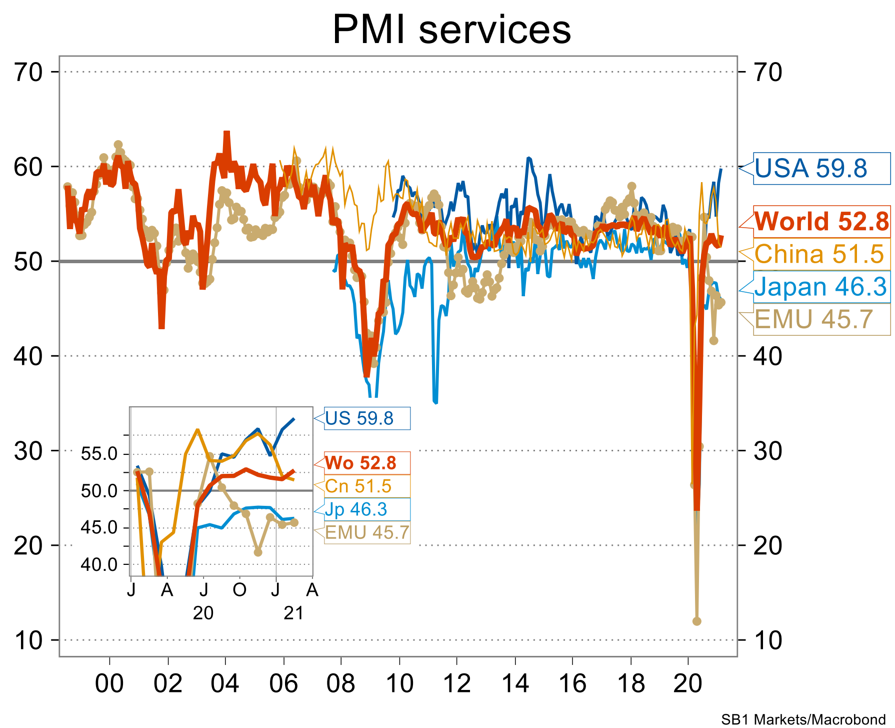
Sweden at the top, for the 4th month in row, a new record?

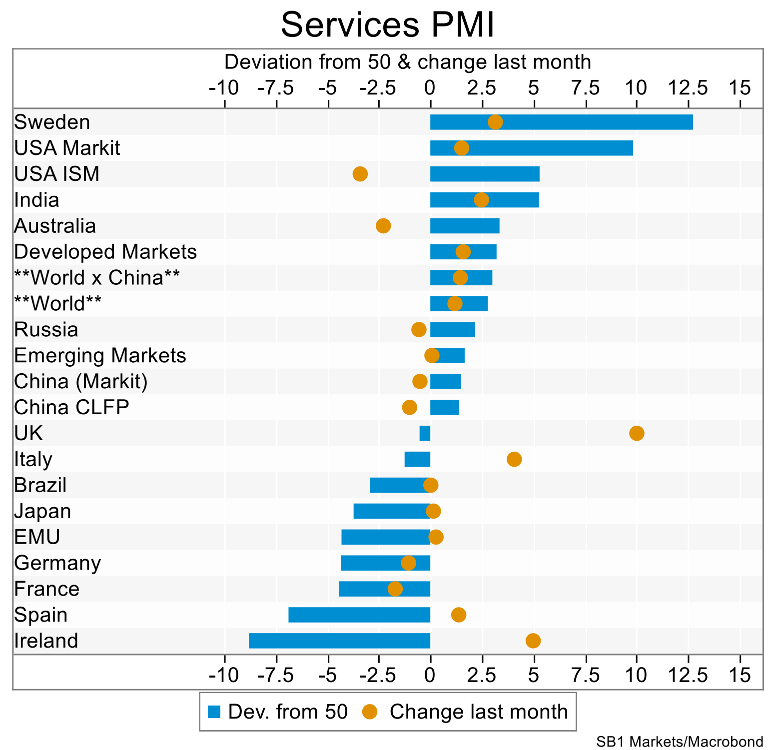


- 18 countries up, 5 down. 16 above the 50 line, 9 below
- Besides **Sweden**, **USA** is the most impressive, both Markit's PMIs and the ISMs are at very high levels, signalling 5% GDP growth
- **The Chinese PMIs** fell much more than expected, at least partly due to a subdued New Year Holiday
- **The EMU PMIs rose, and more than first reported, but remains below 50. Ireland** at the bottom, together with **Spain** at the bottom, Germany is still above the 50 line, thanks to a vibrant manufacturing sector
- **India** is thriving (close to the top of the league), while **Russia** is reporting decent growth. **Brazil** remained in contraction mode

The service sector PMI up 0.6 p to 52.8 in February

Sweden at the top for the 2. month in row

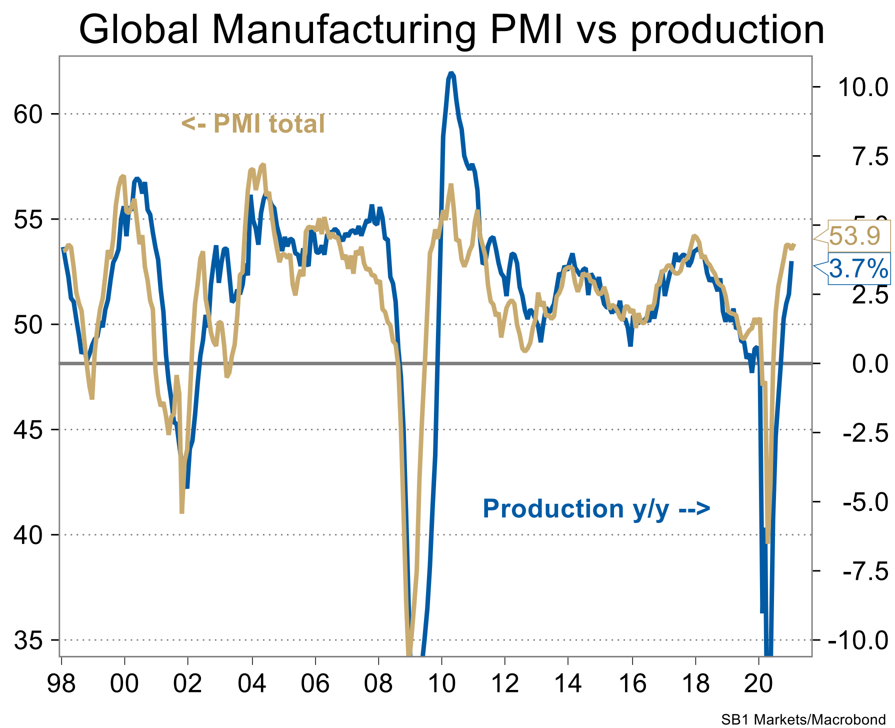


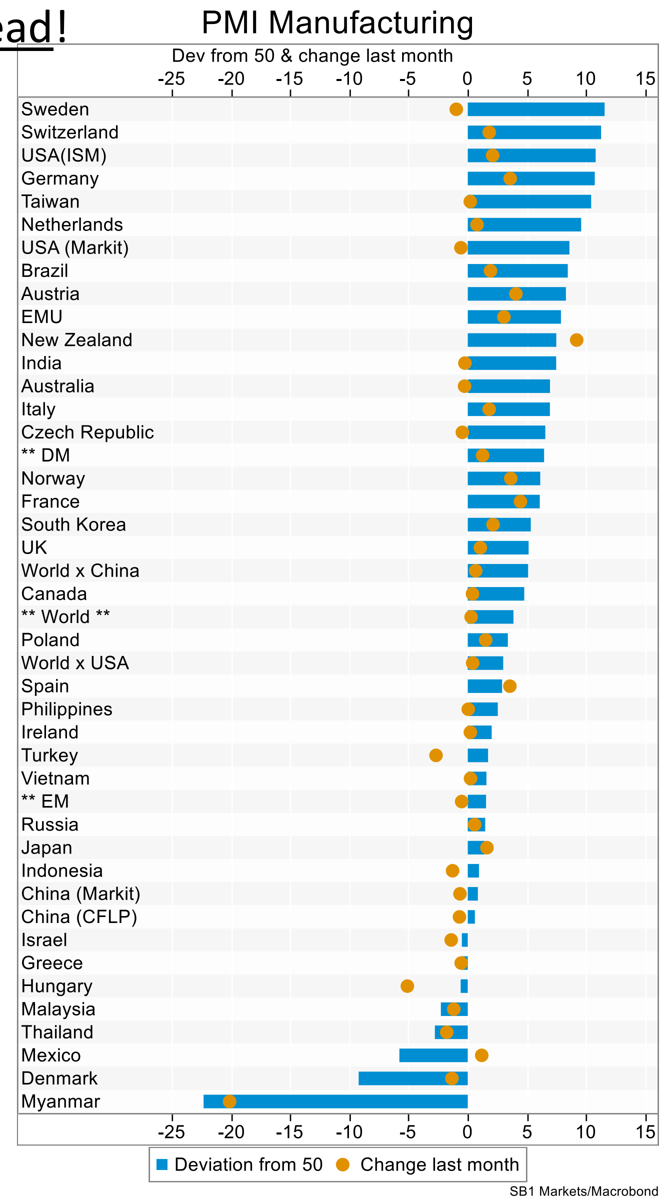


- 13 countries/regions up, 7 down. 9 below the 50 line, 12 above – and global index 52.8, somewhat below average
- The corona lockdowns to fight the mutated virus took its toll on the service sector in **Germany and France.** The UK PMI, albeit still below 50, experienced the greatest increase in Feb as vaccinations have gained speed
- Both the Chinese PMIs fell too, but both remained above 50, and do not signal any contraction

The global manufacturing PMI marginally up – and at a high level!

The PMI up 0.2 p to 53.9, 2.8 p above avg. Sweden still in the lead!

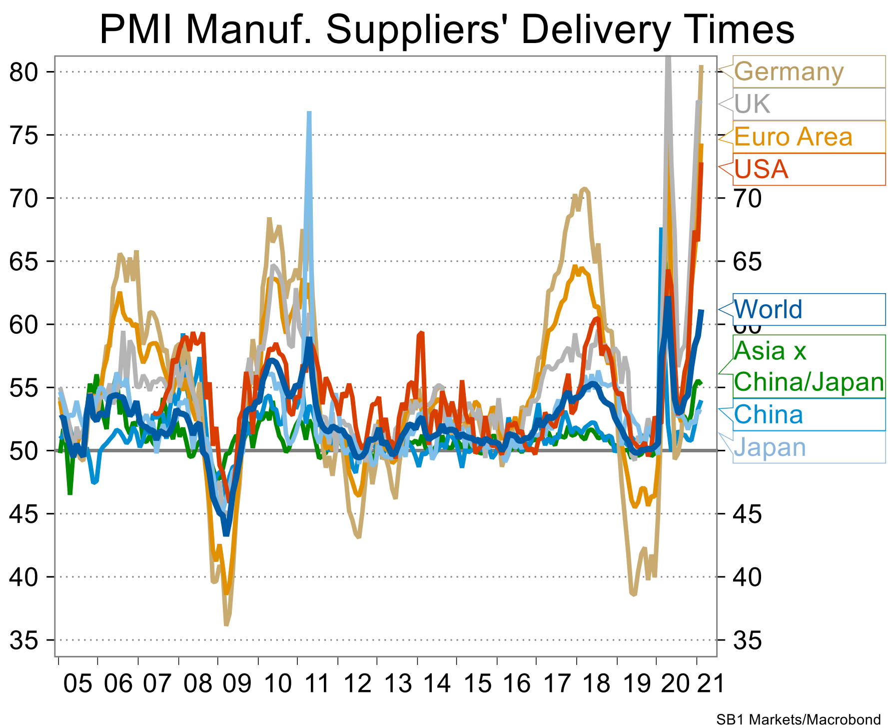


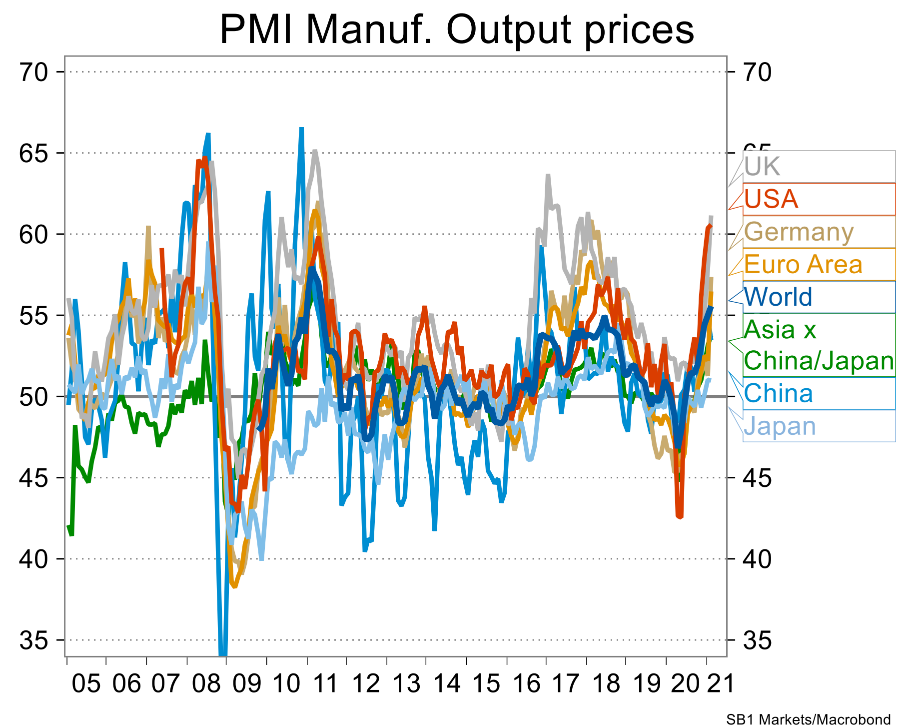


- The global manufacturing PMI rose a tad less than we assumed. The level signals growth well above trend in global manufacturing sector
  - » Breadth: 61% of the countries reported higher PMIs in Feb vs. Jan
  - » A large majority of the countries (80%) are reporting PMIs above the 50 line
- EM down due to China, Turkey. DM up due to EMU, New Zealand & South Korea. ISM in the US rose, but Markit's PMI fell slightly
- Sweden in the lead for the 3rd month in row, the volatile Danish PMI close to the bottom, just Myanmar below, we assume for political reasons

Delivery times are soaring and prices are rising faster almost everywhere

… and probably not mostly due to specific corona challenges – it's the booming activity, stupid!

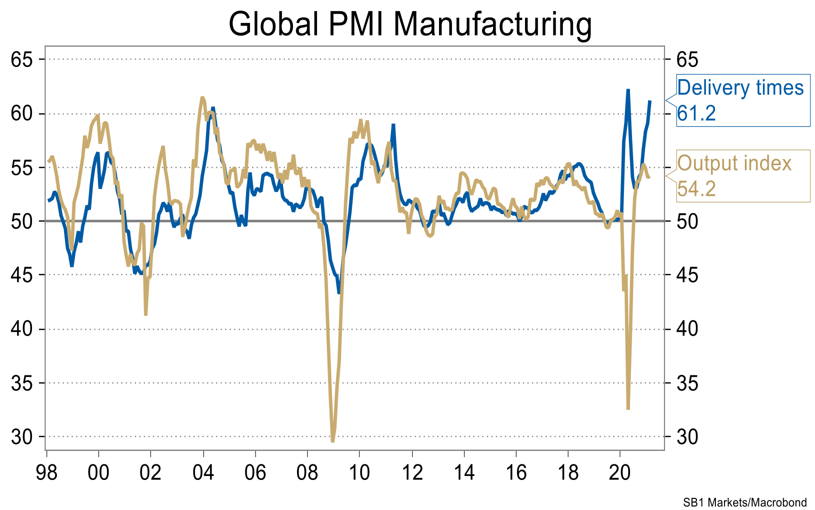


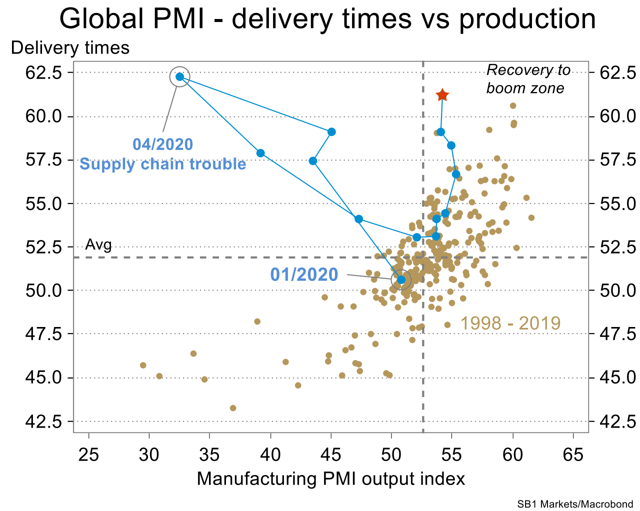


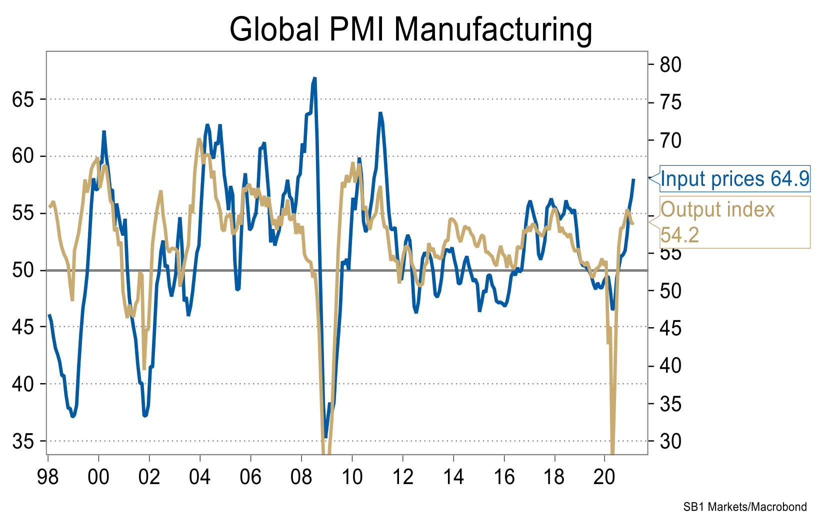
- Brexit and partly the covid-19 surge may explain some of the delivery problems in the UK, perhaps even in Germany – but production is surging in many countries
- All together – rapid growth, longer delivery times and higher prices looks like something more familiar – *check the next pages!*

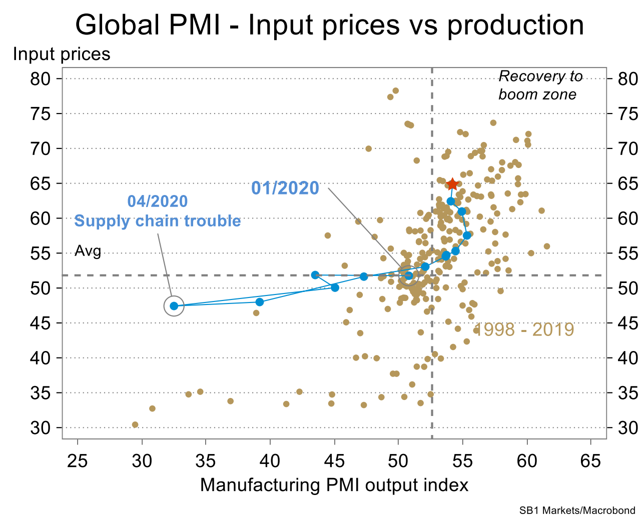
Prices & delivery times are soaring! Supply or demand?

Prices and delivery times are increasing faster than usually explained by production growth







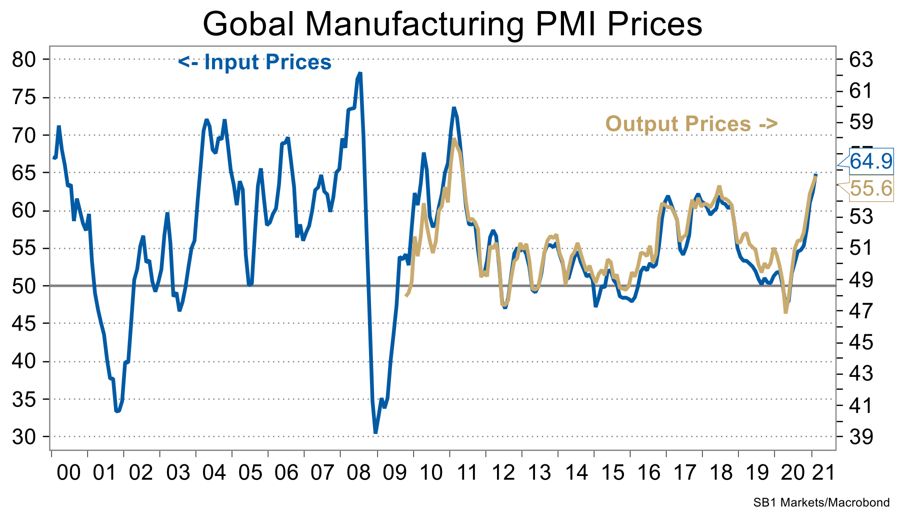


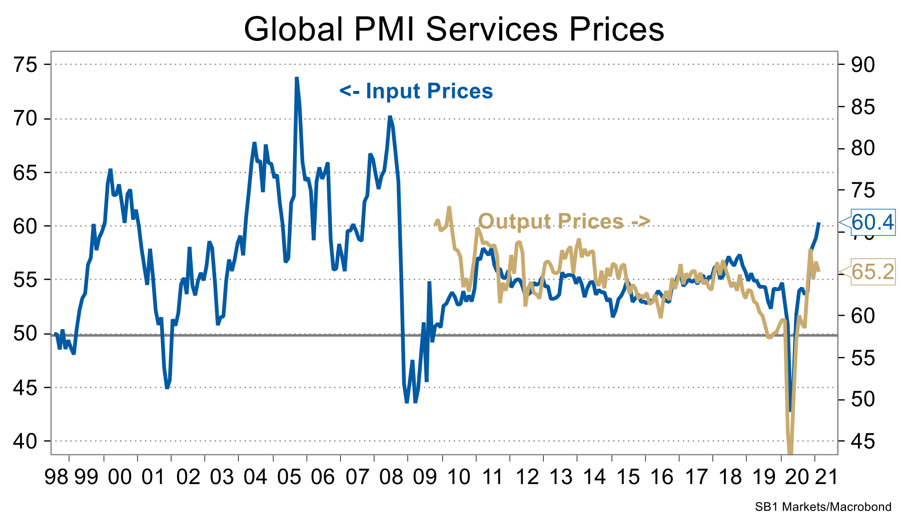
- Barring the Feb-Jun 20 months, activity, delivery times & prices have been moving in tandem. <u>Demand was pulling prices up</u>
- Last year, <u>supply chains</u> struggled to cope with the corona outbreak, and delivery times soared, but prices as not pulled up, demand was weak.
- Until 3 months ago, 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 <u>specific (albeit broad) supply chain challenges</u> (like in semi conductors, container freight) or that many costs pushed up by higher oil prices
- <u>Such bottleneck challenges/cost push factors are normally not long lasting, and do not signal permanent higher inflation</u>
- <u>Still, demand has strengthened too, explaining a substantial part of the price increases</u>

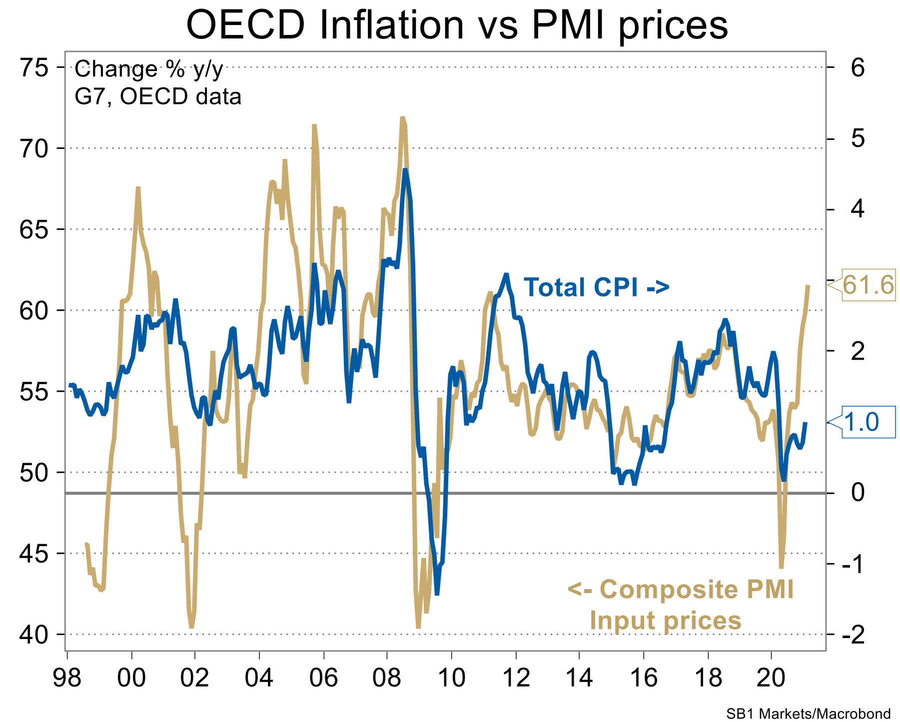
SpareBank 1 MARKETS

Businesses are reporting the fastest price inflation in 10 years, both in- & output

High growth, capacity constraints & longer delivery times. CPI inflation next? VERY likely. A problem?



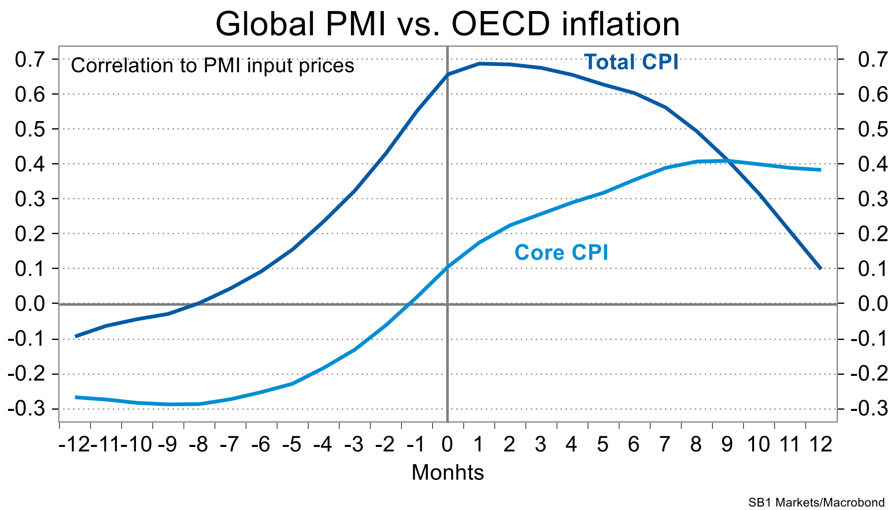


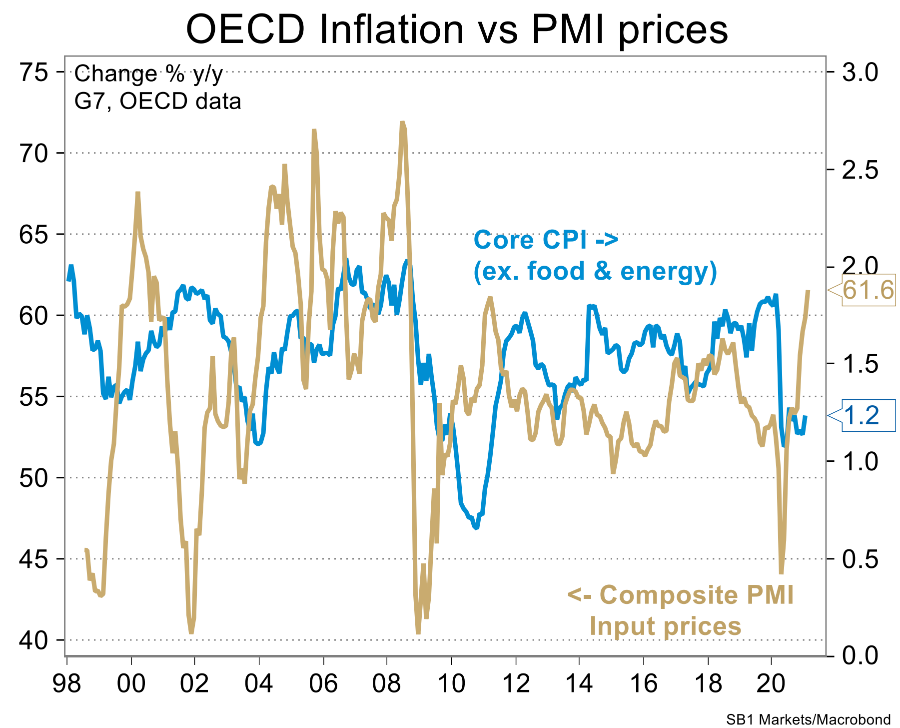


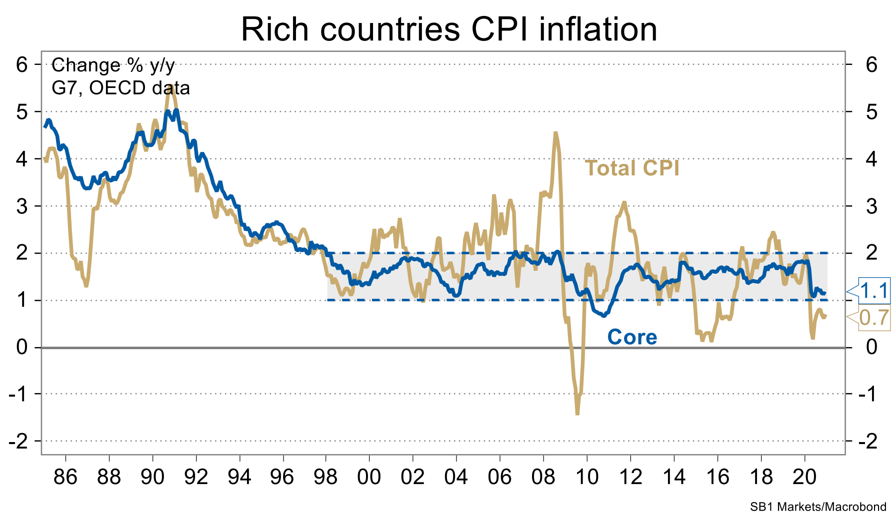
- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but output prices in the service sector slowed somewhat in Jan
- The correlation to **actual CPI inflation** is not prefect but pretty close. The PMI price indices are signalling a lift in headline inflation, from some 0.5% in rich countries now, up to 2.5 - 3%. Much is 'a done deal', as energy prices soon will be sharply up y/y

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

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



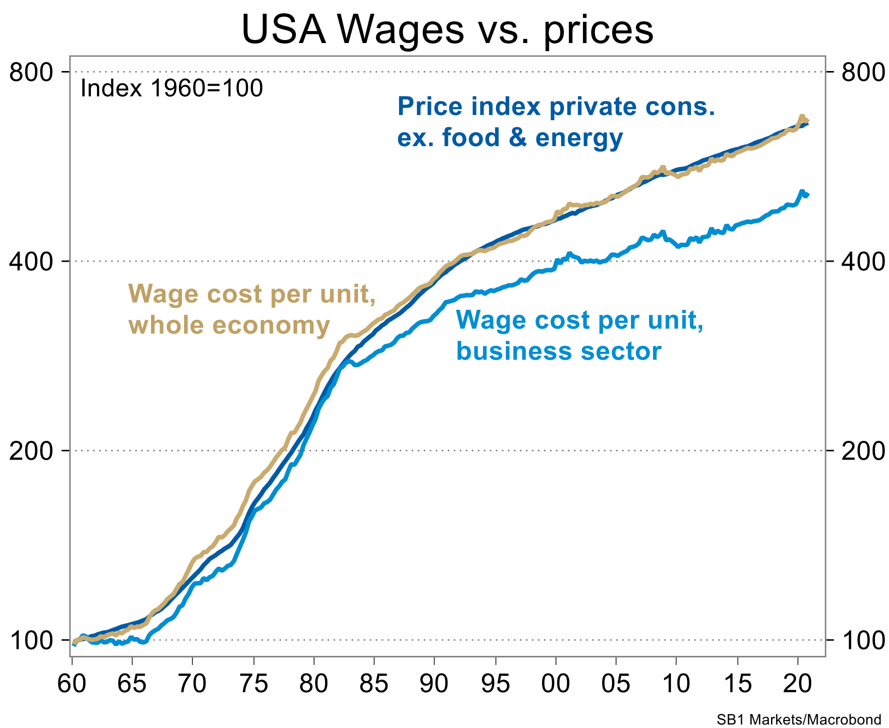


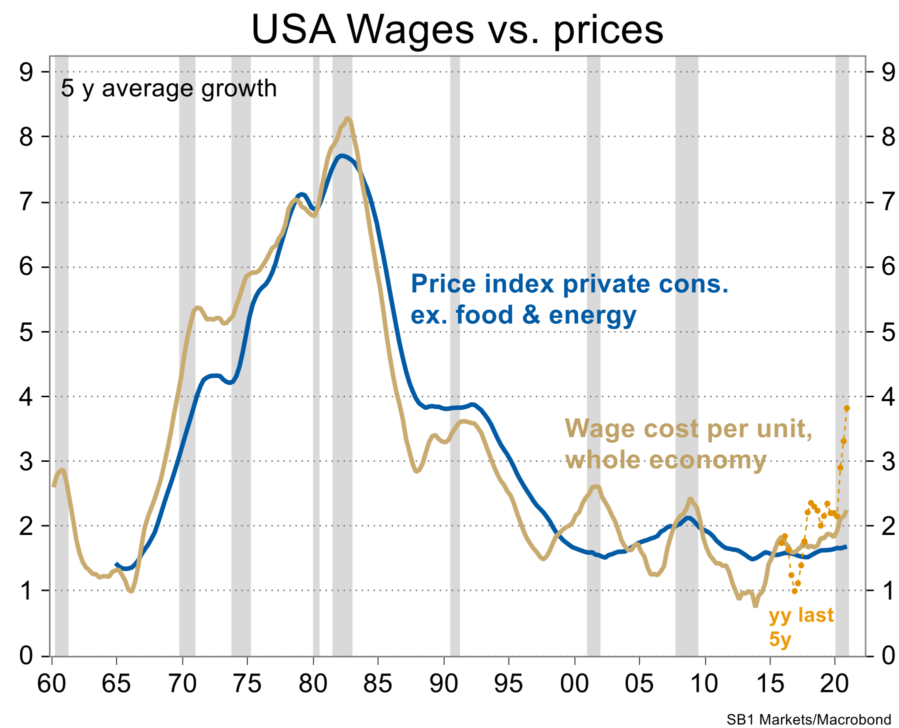


- Longer term, wage inflation & productivity is far more important for inflation than short term ups & downs in the economy/PMIs
- Wage costs per unit produced have accelerated recently, but we are not sure the productivity & hourly costs are relevantly measure. Check next page & here

In the long run: Wage costs are driving price levels & inflation cycles

Before corona: Unit wage costs were drifting upwards to above 2%

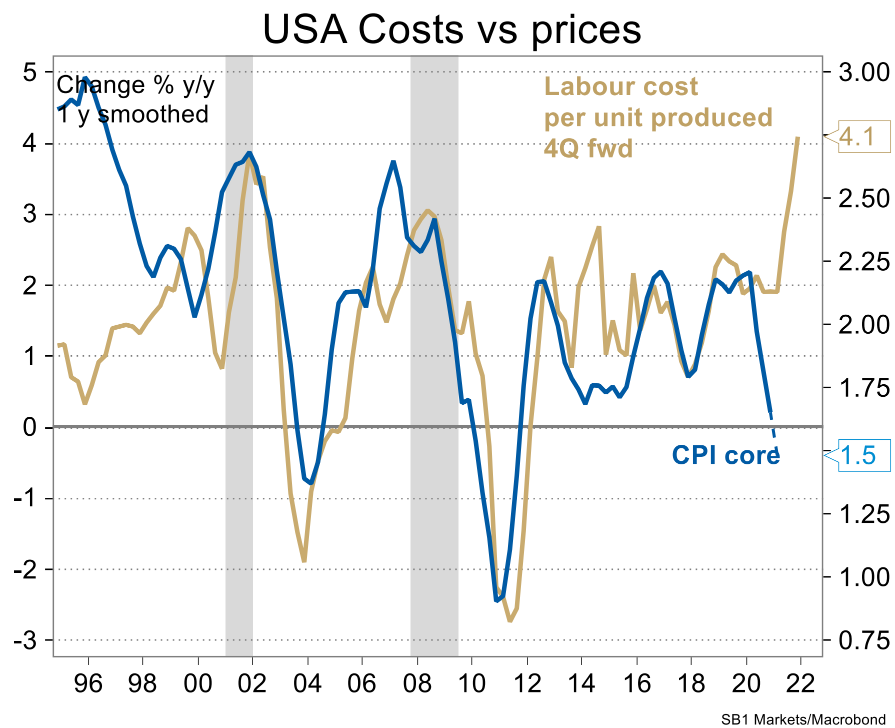


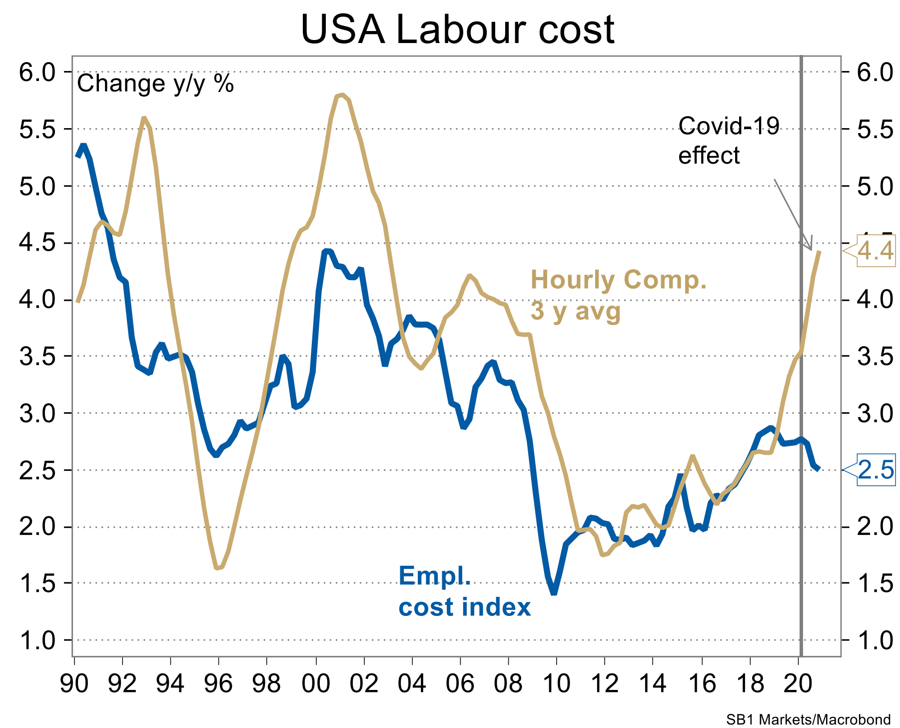


- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- The rapid increase in ULC through last year was very likely not ‘for real’, check next page

Hourly compensation surged during corona due to changes in employment mix

The employment cost has slowed during the corona crisis, probably the most relevant measure



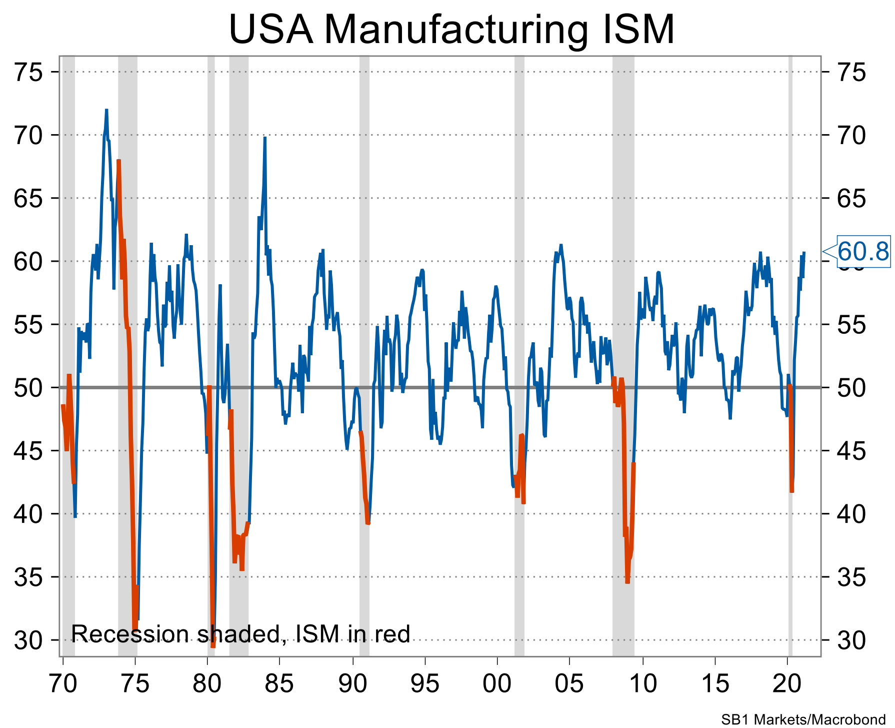


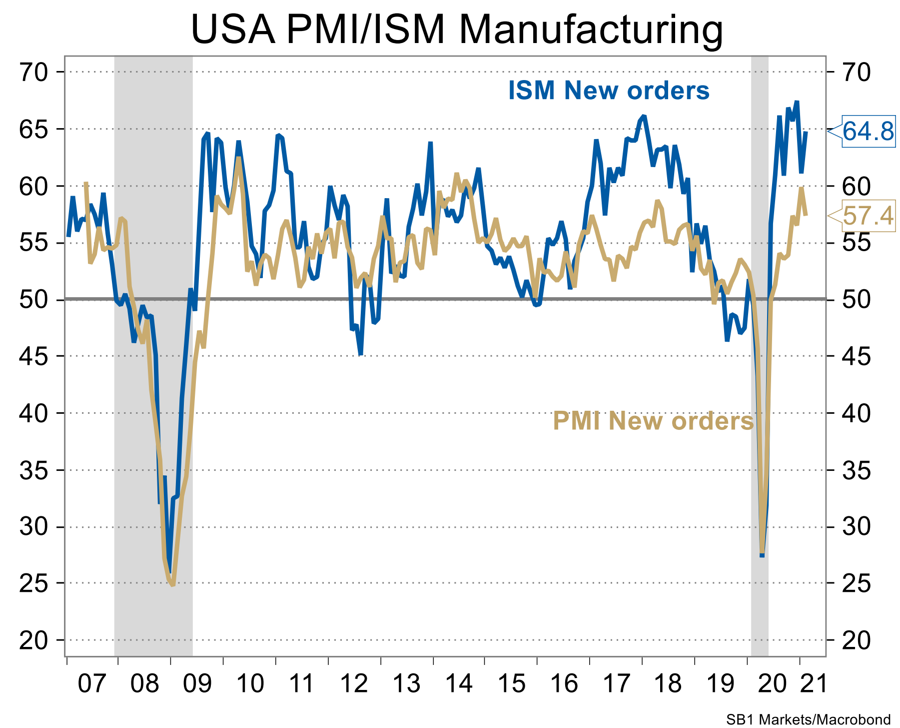
- In principle, productivity growth should have appreciated alongside the increase in average hourly labour cost as measured in the National accounts, as low-productive sectors laid off workers. So far, that has not been the case, and unit labour costs have surged (ULC = wage growth – productivity growth)

SpareBank 1 MARKETS

Manufacturing ISM rose above 60, has not been higher in 17 years

The ISM surprised on the upside, gaining 2.1 p to 60.8, expected down to 58.6.

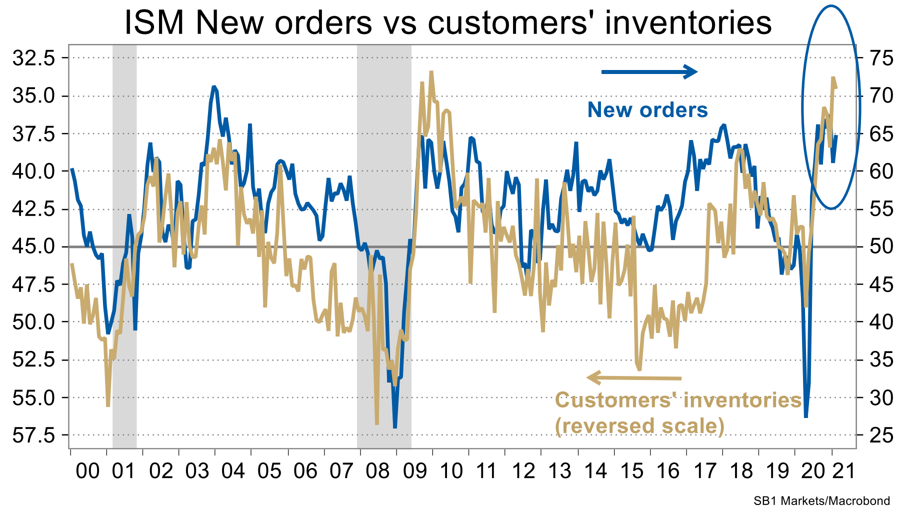


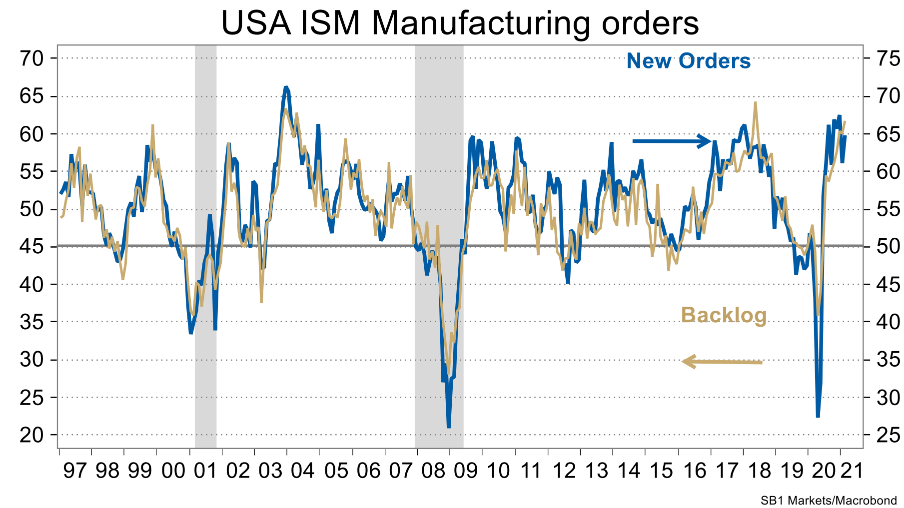


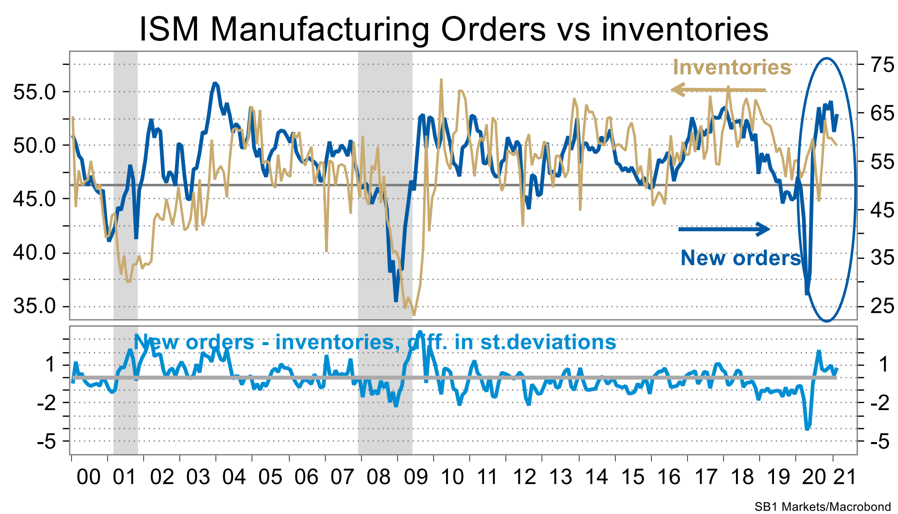
- Like the previous month, 16 of 18 manufacturing sectors reported growth in February, just printing and petroleum down
- 26 groups of commodities were up in price m/m, like in the two previous months. Just one, dairy, was down in Feb. A large number of commodities were in short supply as well
- ISM new orders was up 3.7 p to 64.8, while Markit's new order survey came in at 57.4 down 2.5 p from January

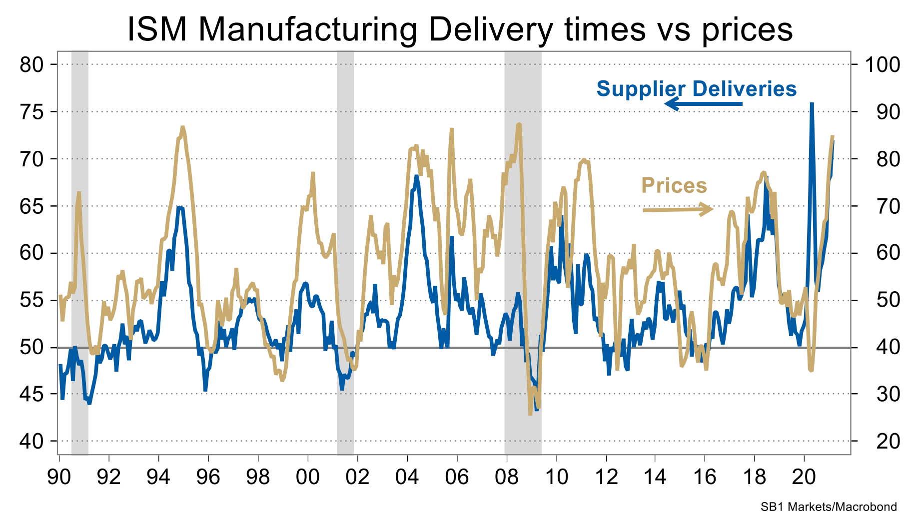
Delivery times & prices soar, as customers inventories are emptied

The order inflow is very strong too



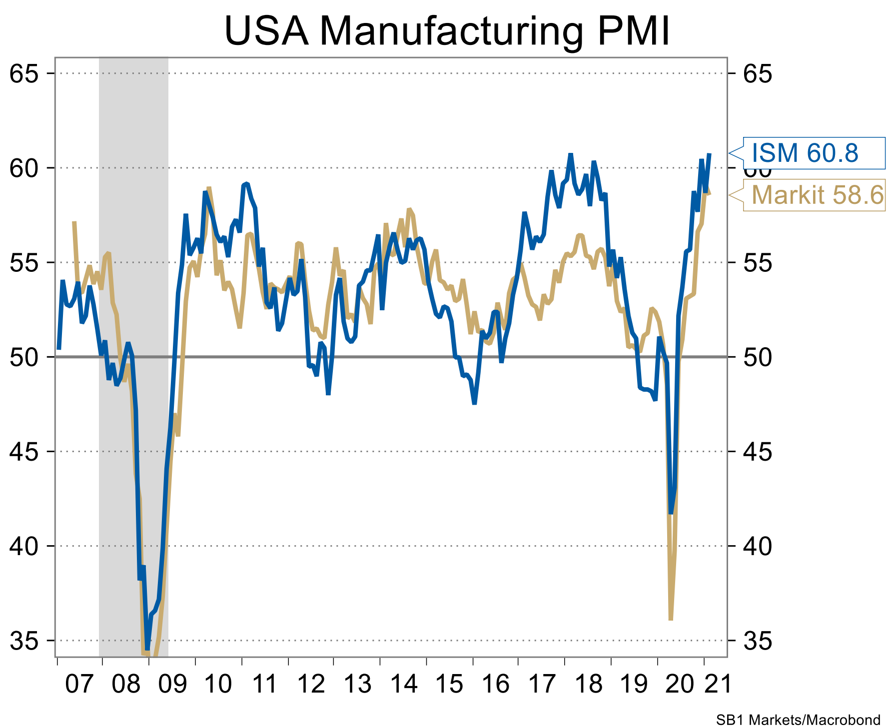


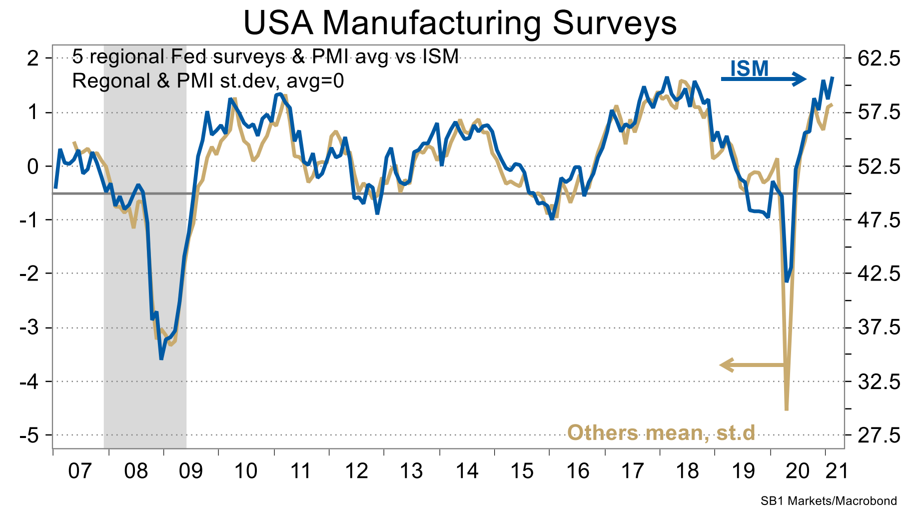


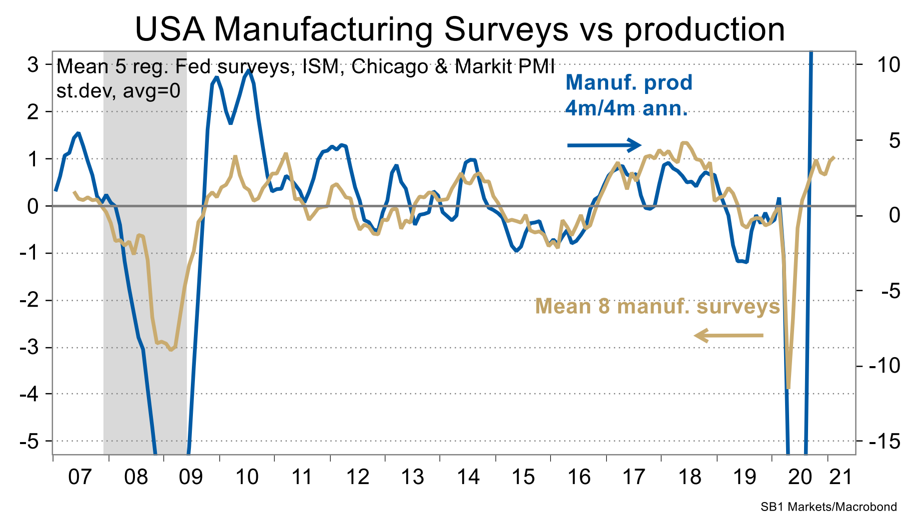


Markit's manuf. PMI down in Feb, Manufacturing ISM up to ATH!

Both indices remain elevated, signalling strong growth in the US manuf. sector



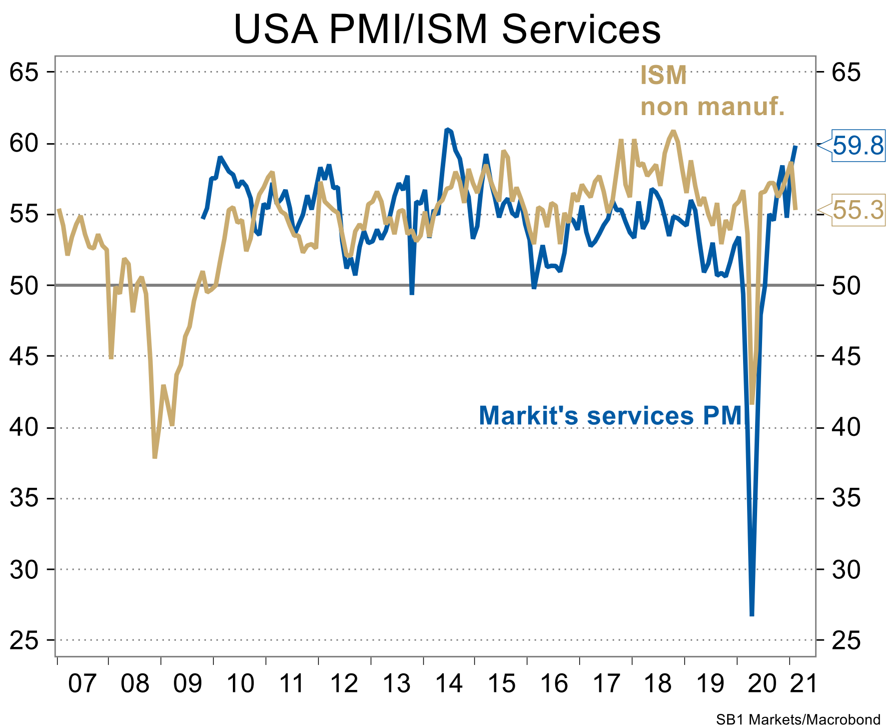


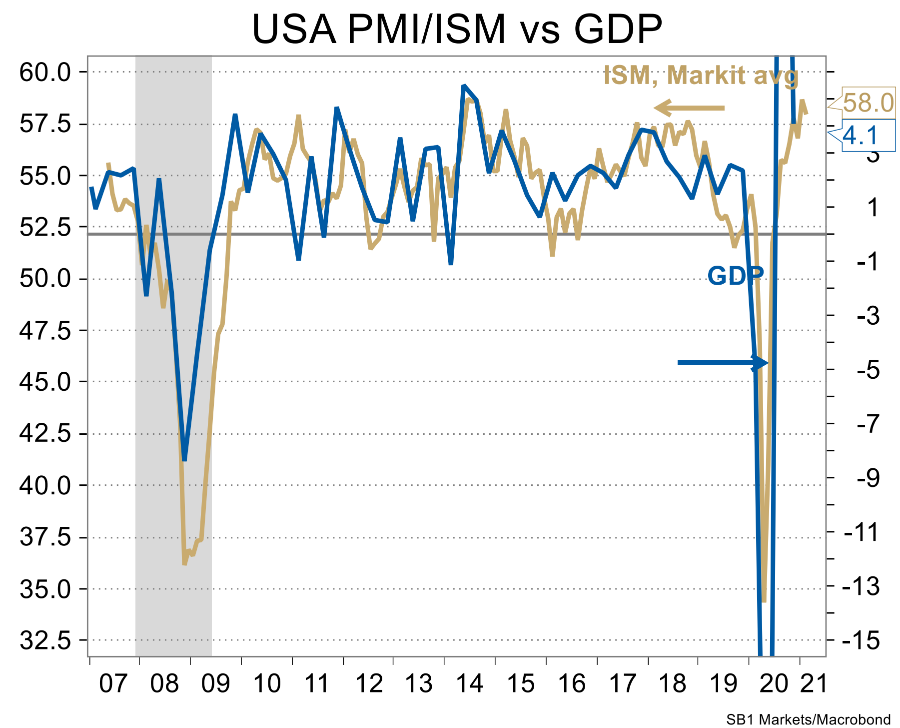


- Markit's PMI declined 0.6 p to 58.6, from the highest level ever – by a wide margin – in February
- Other surveys rose, but the average level remains a touch lower than the ISM/PMI. All in all, surveys signal a further recovery in the manufacturing sector

Markit services PMI stronger, ISM services surprised on the downside

But both service PMIs still at high levels, and composite PMI indicates 4.5% growth in GDP



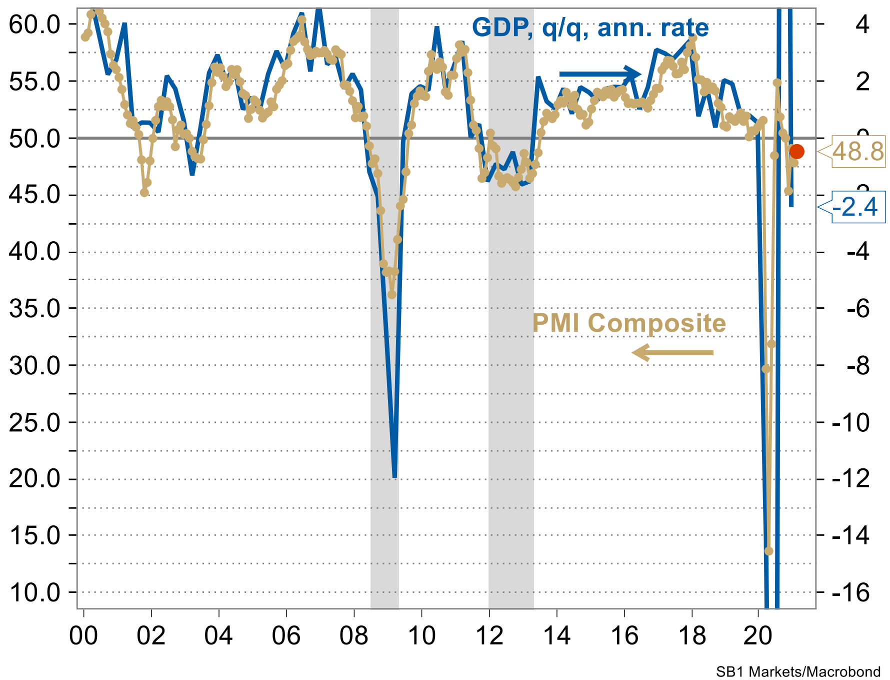


- ISM services index fell to 55.3 from 58.7, while Markit's service sector PMI gained 1.5 p to 59.8
- Now is the time for a huge fiscal stimulus package – and we need ZIRP, forever! (not)
- Well: PMI is a growth indicator, not an activity level measure! The activity level is still some 3% below par

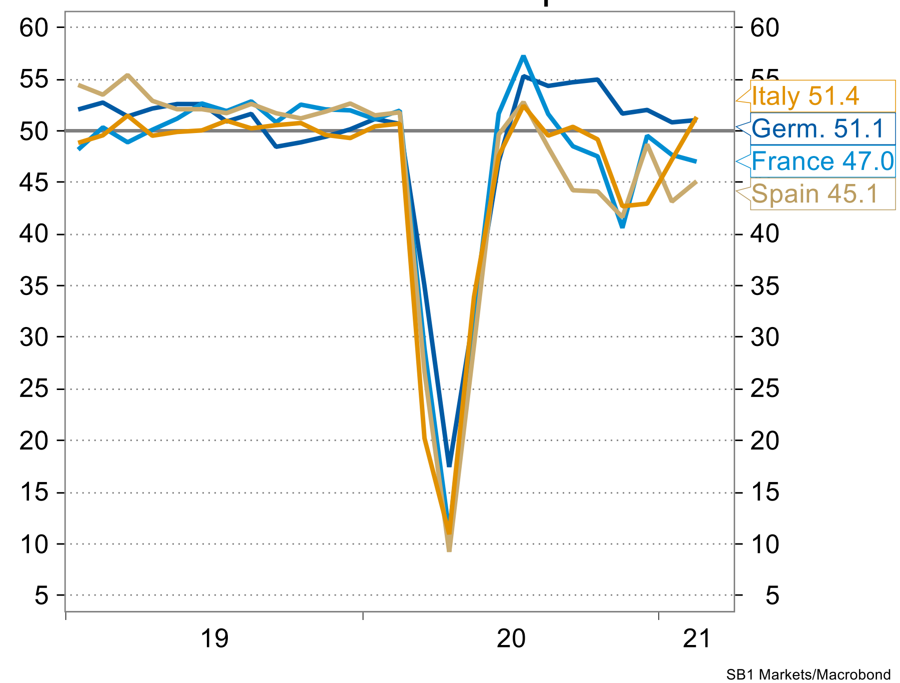
The service sector is putting a drag on growth but it's temporary

The composite revised up 0.7 p vs. prelim. est. Services are still well below 50, manufacturing above

EMU PMI vs GDP



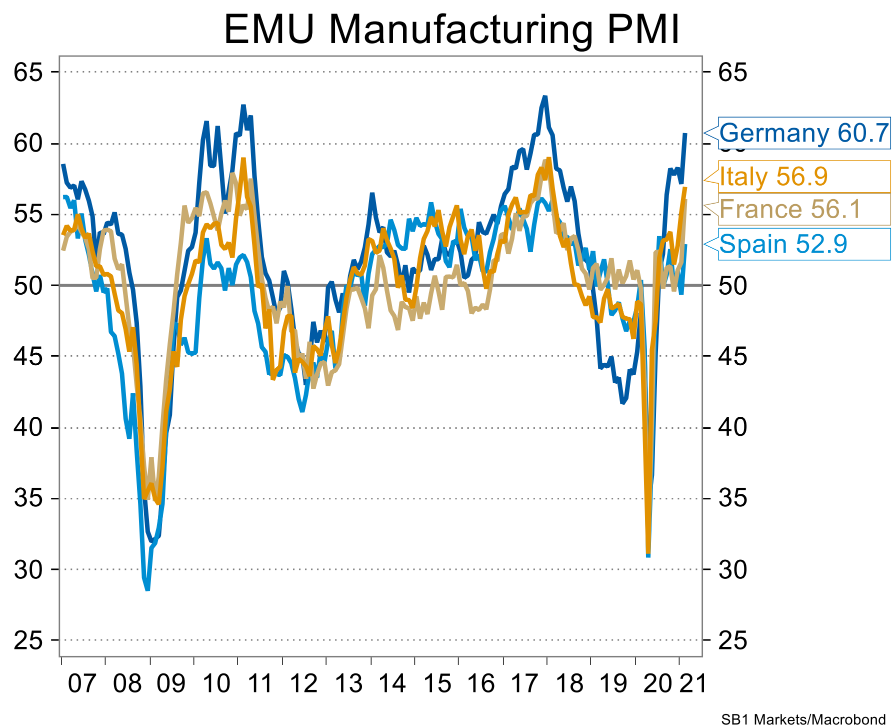
EMU PMI Composite

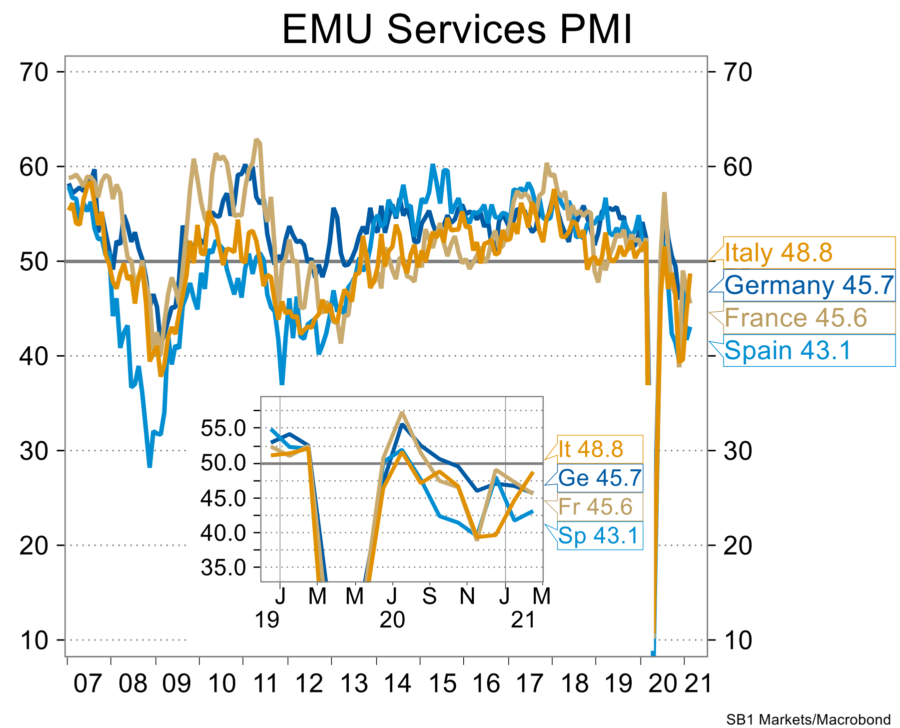


- The final **composite PMI** rose to 48.8 from 47.8 in February
  - » The Composite PMI is at a 8 mo. low in Germany – but the index still above the 50 line. The other big 4 are all below the water mark, Spain at the bottom
  - » The PMI was higher than the initial estimate, but is still not inspiring
- GDP fell by 0.6% in Q4 (2.4% annualised), more than signalled by the PMIs. They now imply a 0.5-1.0% contraction pace in Q1 (-1/4 pp, not annualised), which seems somewhat optimistic, given the sharp decline in retail sales

A struggling service sector won't recover until virus recedes

It all hangs on access to vaccines in EU (…which has not been impressive thus far)

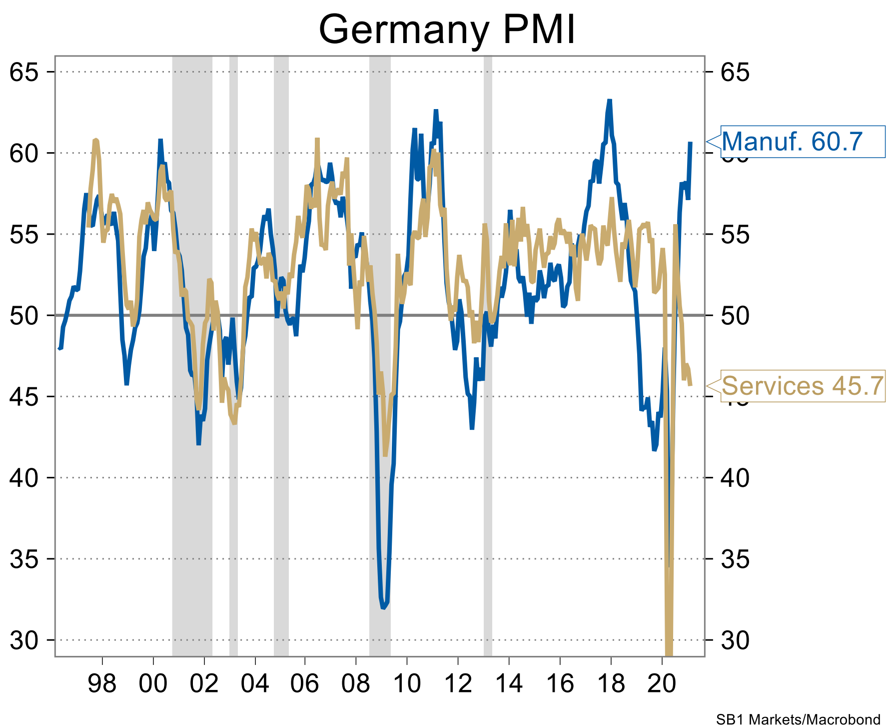


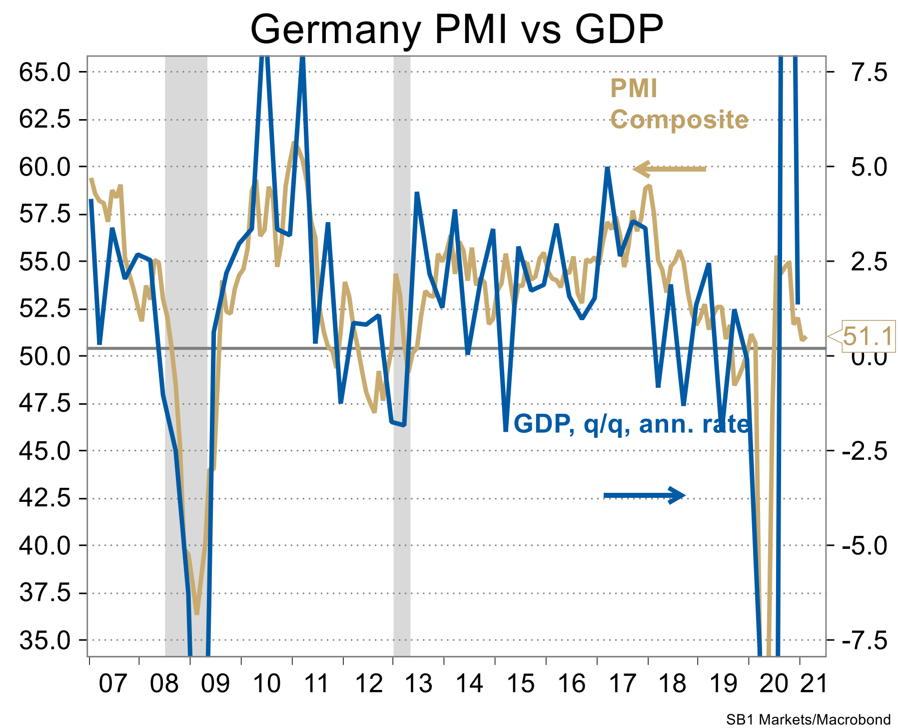


- The Service PMIs fell by 1.0 p in Germany and 1.7 p in France, while it rose 1.4 p in Spain and 4.1 p in Italy
- The manufacturing PMIs rose and are very strong in all the four major EU countries: up 3.5 p in Germany, 4.5 p in France, 1.8 p in Italy, and 3.6 p in Spain. All are now above the 50 line

Germany: PMI stabilised in February. Services weak, manufacturing above 60!

Virus restrictions and supply-chain challenges are holding back growth

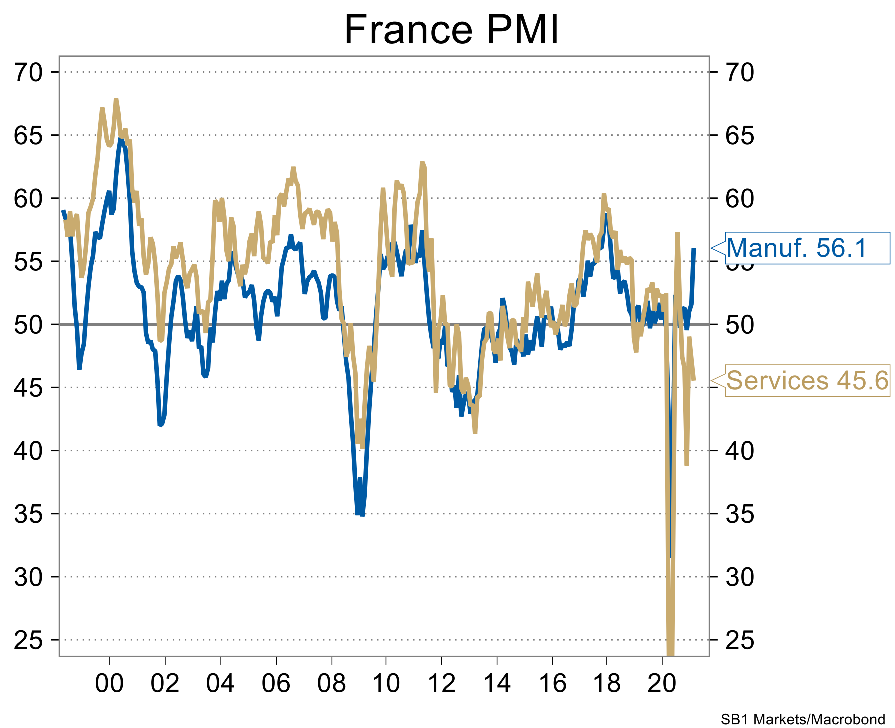


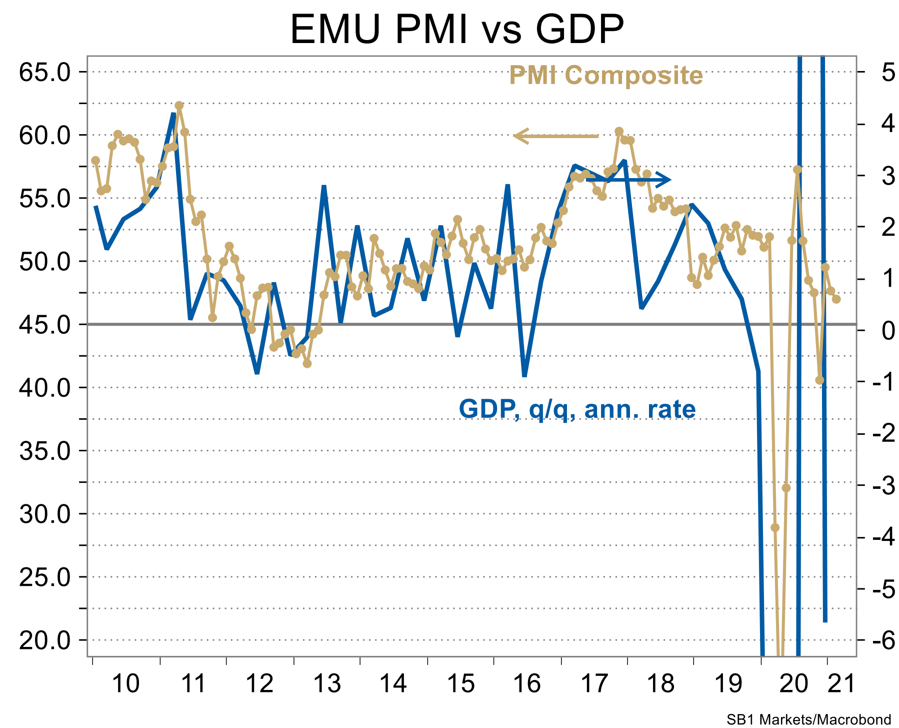


- The PMI still signals close to zero growth, equal to actual growth in Q1. The final outcome was slightly lower than the flash est. (0.2 p worse)
- Germany has been in a lockdown since the beginning of Nov. Travel restrictions have been imposed on travellers from countries where virus mutations dominate, and the lockdown is now extended until March 28th

France: February PMI slightly better than first reported, signals flattish GDP

Manufacturing and Service PMIs moved in opposite directions amid Covid restrictions

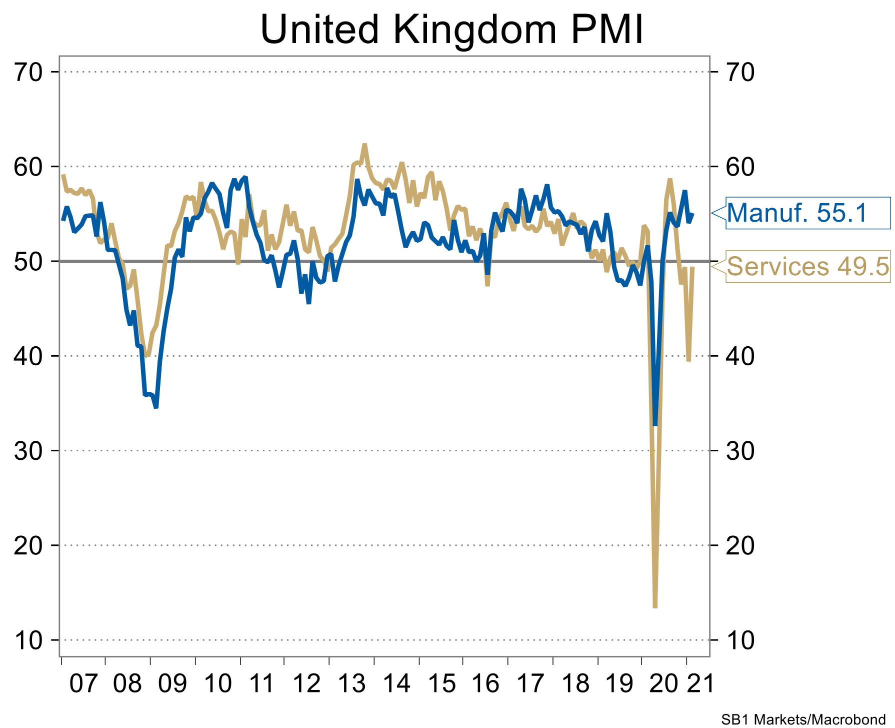


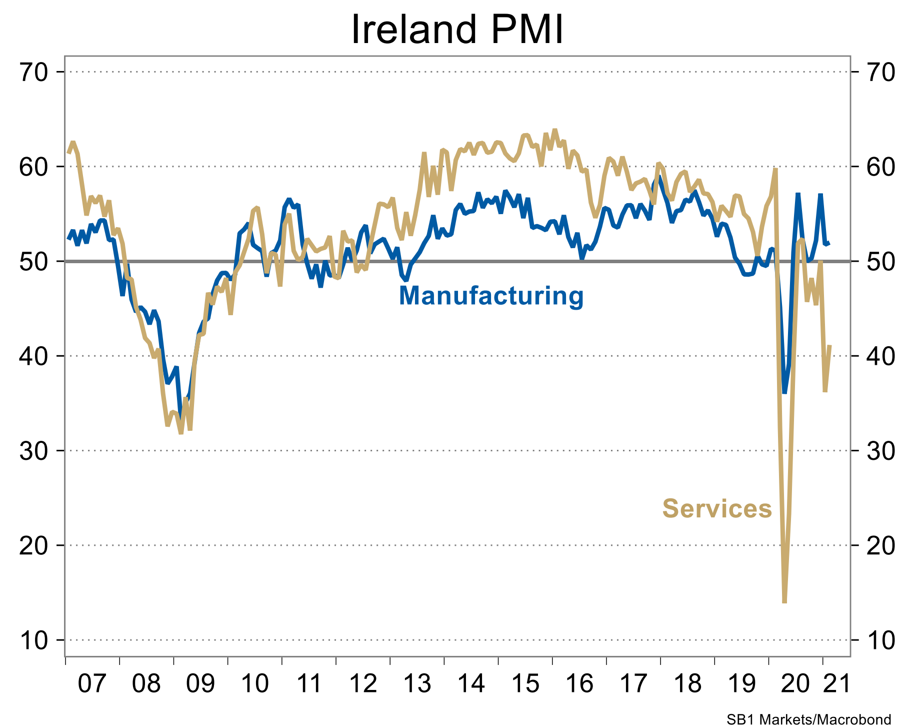


- **The service sector** index at 45.6, albeit low, is far better than the flash estimate of 43.6. Covid restrictions, we assume mostly due to travel restrictions as a result of the mutated virus, hampered activity in hotels & restaurants
- **Manufacturing PMI** climbed 4.5 p to 56.1 in February – the fastest expansion of the manufacturing sector in 3 years. Survey also showed that input costs are rising, and now sales prices are rising too
- In **Q4 GDP** fell by 1.3% (5.3% annualised), significantly more than signalled by the composite PMI. However, the calibration vs. growth is not precise in France. Thus, the +/- 0 % Q1 PMI growth message has to be taken with a pinch of salt, a larger decline seems more likely
- Businesses reported 2nd strongest outlook vs. the current stance in the economy since 2012

UK & Ireland down but not due to the fight against the mutants

Manufacturing still OK. UK services stabilized (rose 10 p to 50), Irish services are still contracting

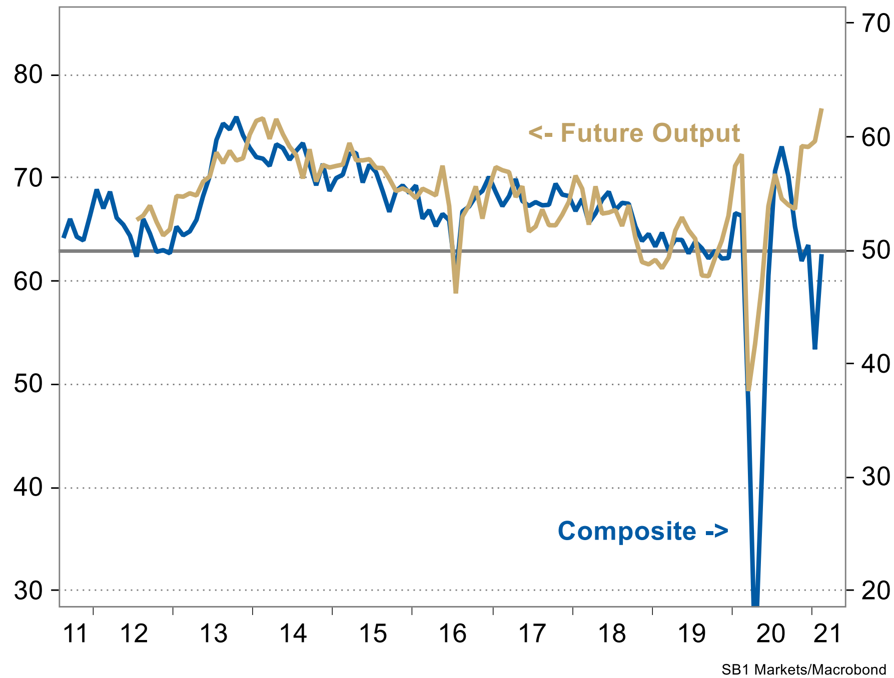




UK: A sharp rise in optimism – vaccination paying off?

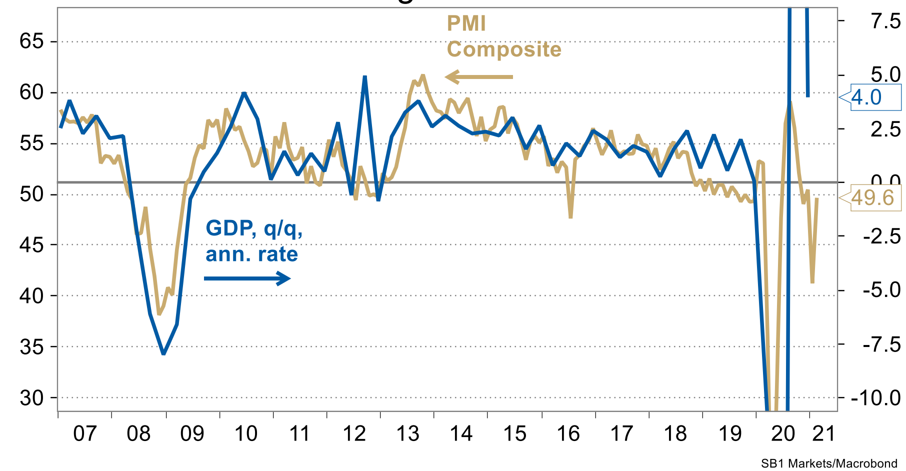
A (volatile, and not leading…) future index the best since 2006!

UK PMI Actual & future

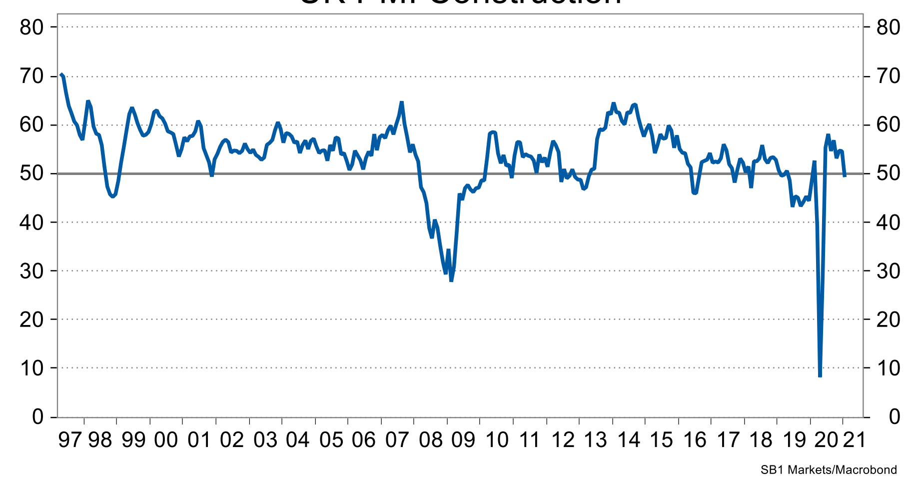


- The service PMI rose 10 p in February, despite lockdown
- The manufacturing PMI was up 1 p, while construction dipped below the 50-line, and like in many other countries, managers are reporting increased price pressure
- <u>However, the PMIs still signal a GDP contraction in Q1!</u>

United Kingdom PMI vs GDP

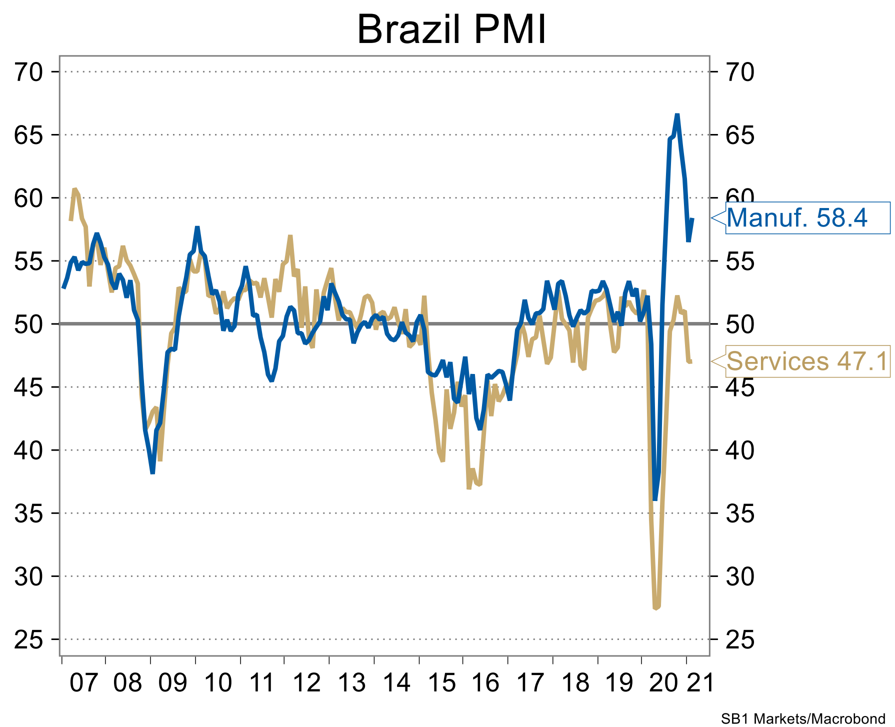


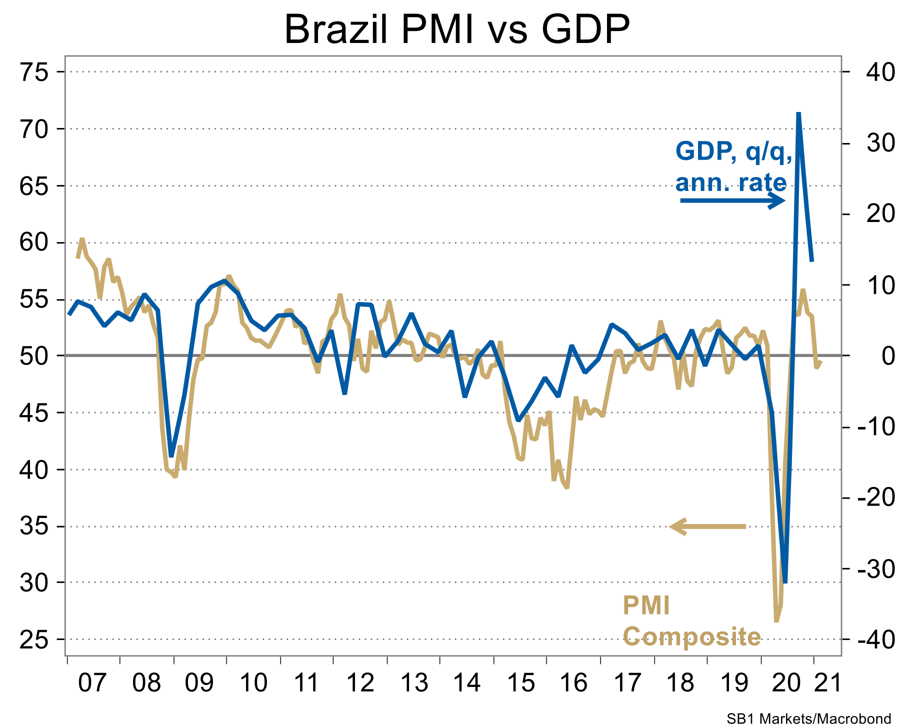
UK PMI Construction



Composite PMI still below 50 - Brazilian economy not in the clear yet

Composite PMI rose to 49.6 in February from 47.8, services are struggling

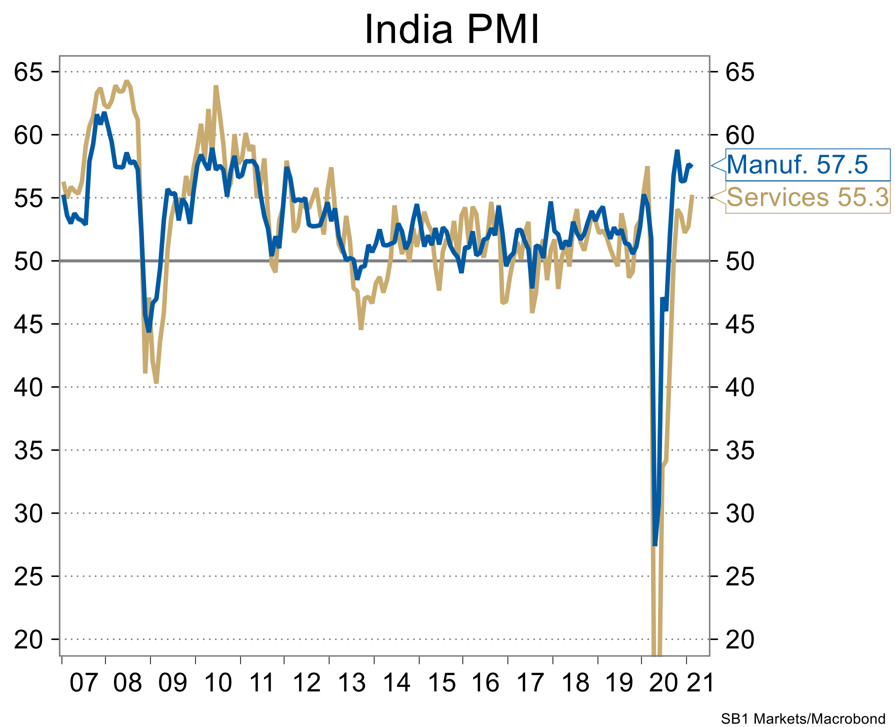


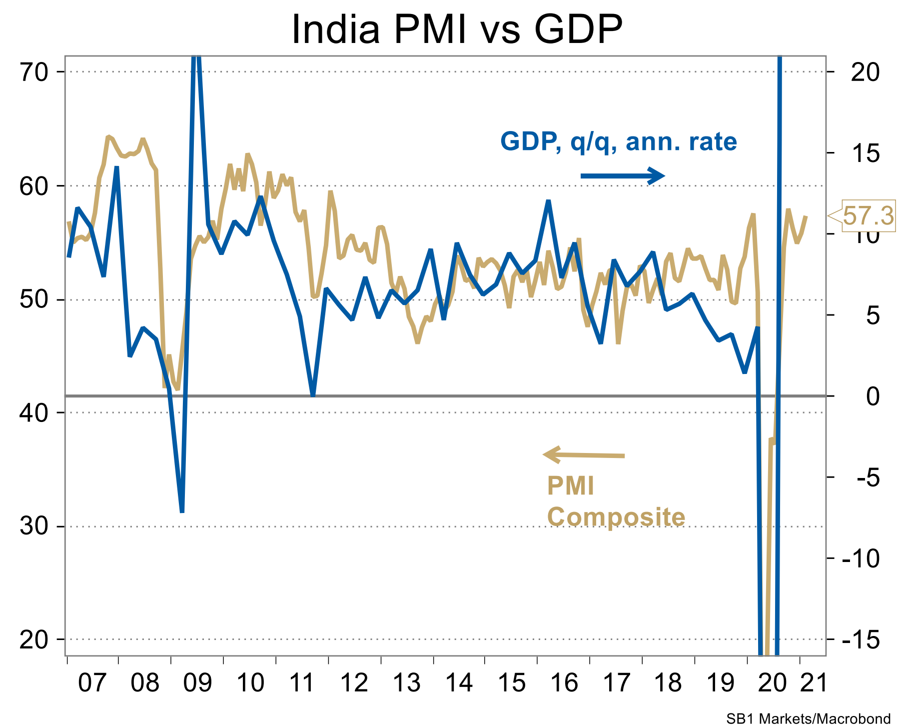


- Manufacturing PMI rose 1.9 p to 58.4 from 56.5 after falling in the 3 previous months
- The service sector PMI was up 0.1 p to 47.1, Covid related of course
- Composite PMI signals mild GDP contraction

Survey indicate Covid restrictions curb demand – hard to spot in the numbers

The recovery continues with at 10% growth pace, according for the PMIs

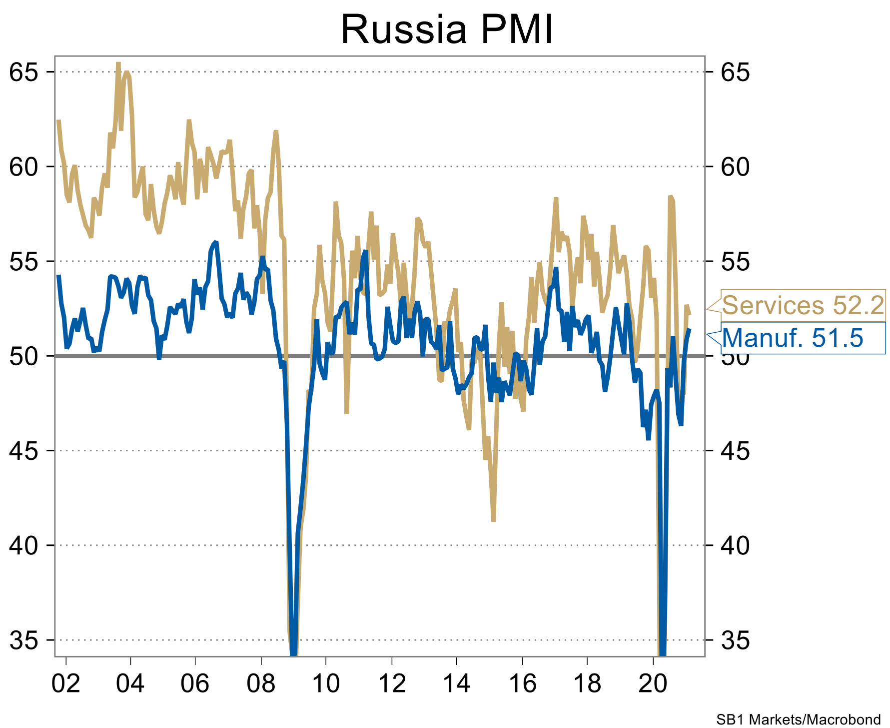


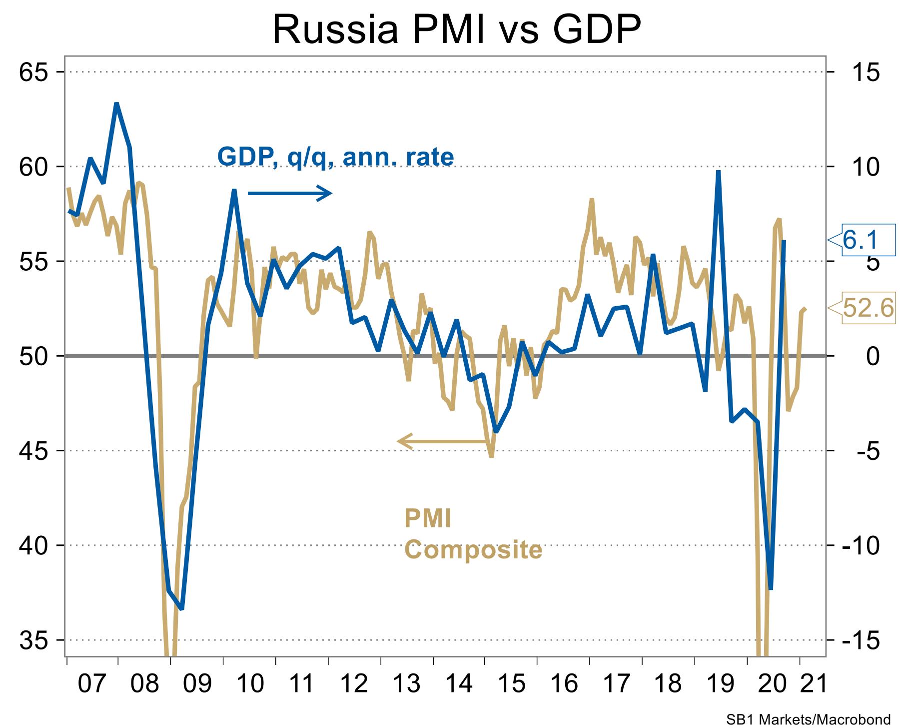


- The manufacturing PMI fell 0.2 p, but a print of 57.5 still indicates strong growth. The services PMI was up 2.5 p to 55.3 in February
- No corona trouble, at least according to official figures, GDP grew by 8% in Q4 (36% annualised), and is 0.1% up vs. Q4 2019. Vs a normal growth rate at some 5%, the output gap is still substantial
  - » Manufacturing cost inflation at 32-month high, according to Markit. New orders increased too

Russia's economy is expanding again in ~~January~~ February

While the service PMI was slightly down, the composite signals a 2.5% growth pace

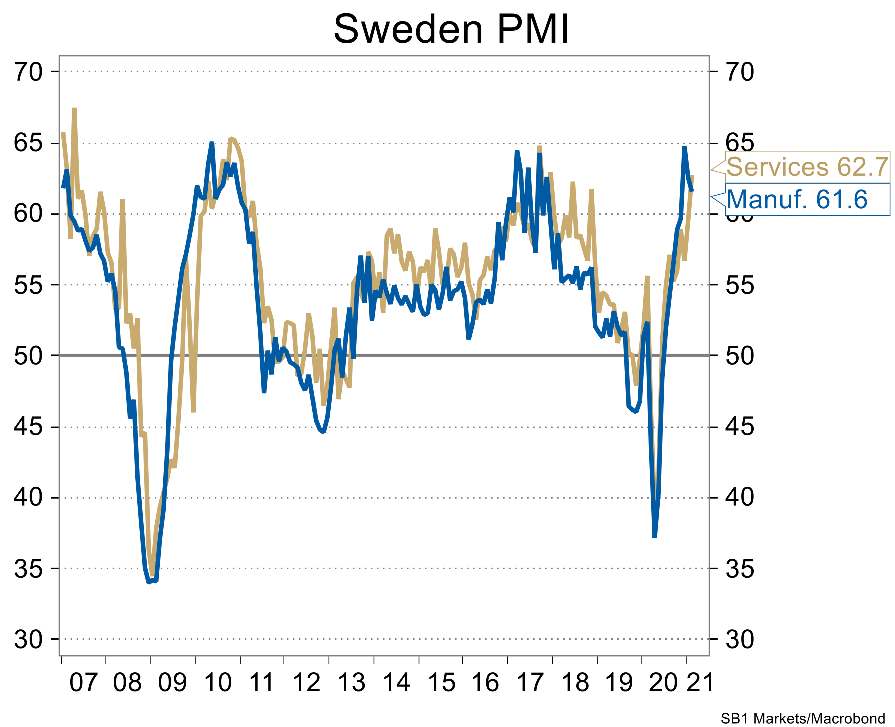


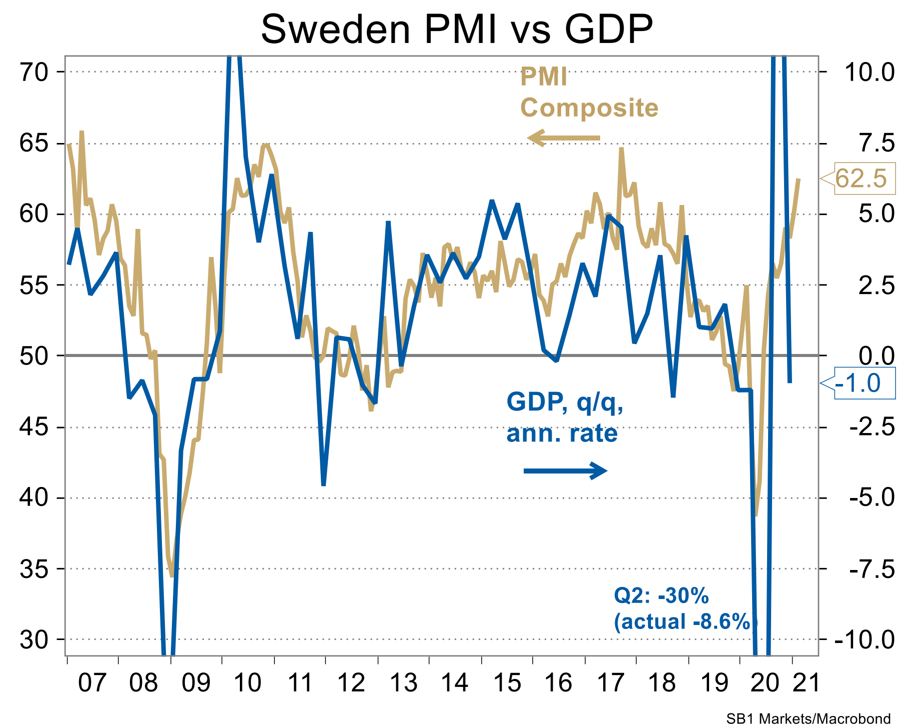


- Manufacturing PMI rose to 51.5 in February, up from 50.9 in the previous month
- Service sector PMI was down 0.5 p to 52.2

Swedish economy looks infallible, composite PMI up – signalling 6% GDP growth

Manufacturing PMI down 0.8 points to 61.6 in Feb. Services up 3.4 p to 52.8, a very strong print

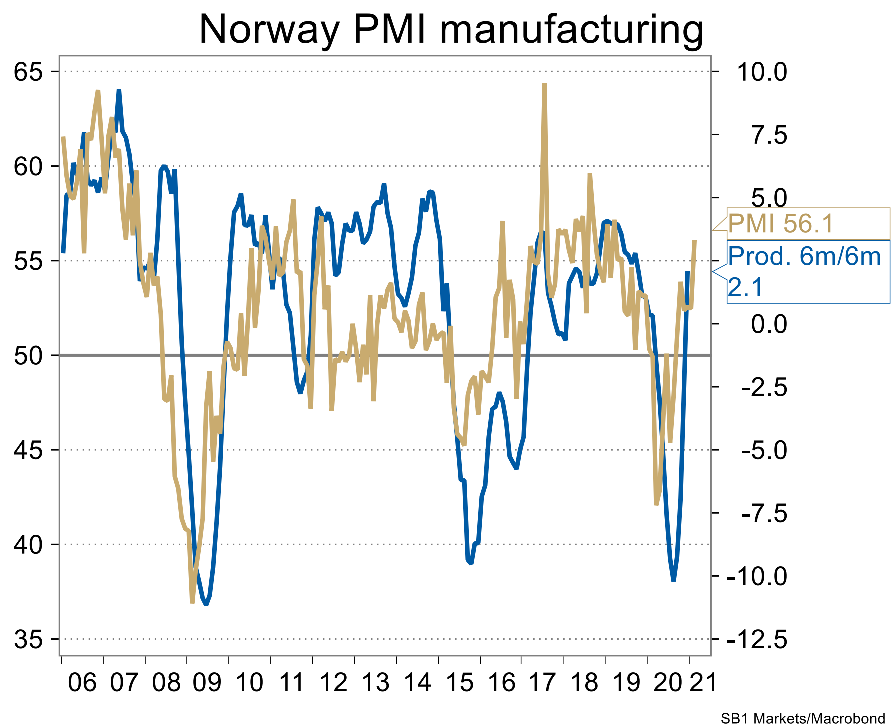


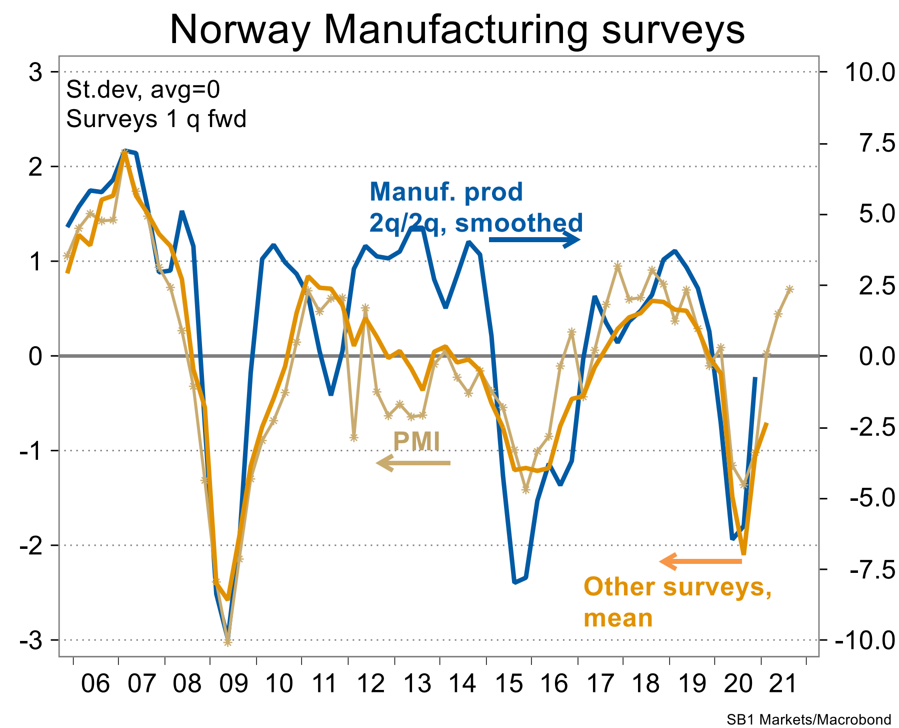


- The Swedish PMI is at the top of the global ranking, both manufacturing & services!
- In November, the Riksbank expected another downturn due to the corona outbreak, and turned the QE tap further. So far the fear does seem to be warranted (as we not believe that the incremental lift in the QE program explains the continued strength in the Swedish economy), even if GDP fell by 0.2% in Q4 (1% annualised)

Manufacturing PMI surged in February

The Norwegian PMI rose to 56.1 from 52.5 – and production is heading upwards





- … following the contraction in the first part of 2020. Production is now heading upwards
- Other surveys have also turned up over the summer but the levels late last year were still well below average

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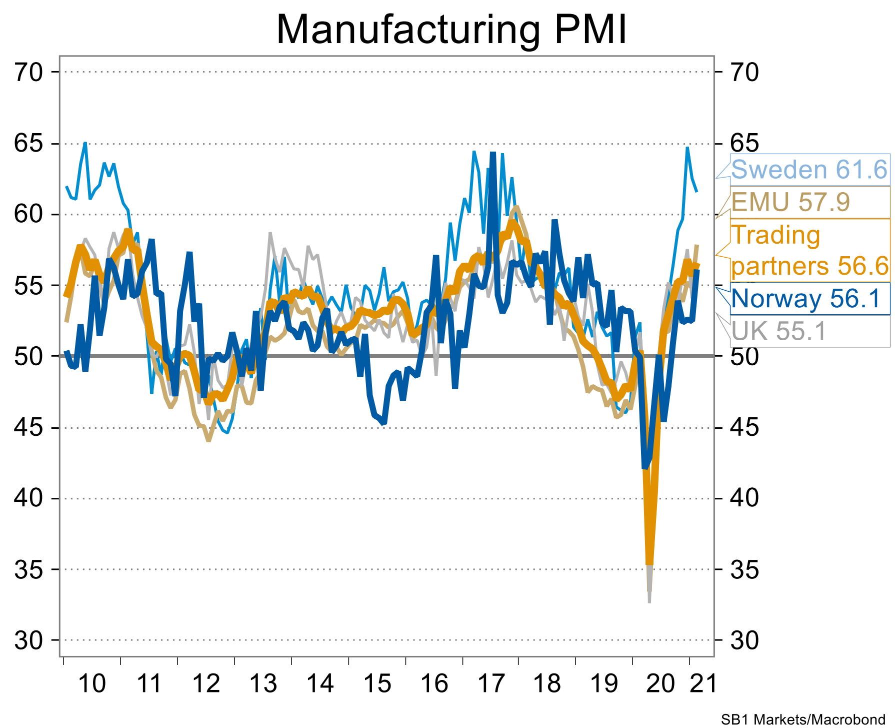
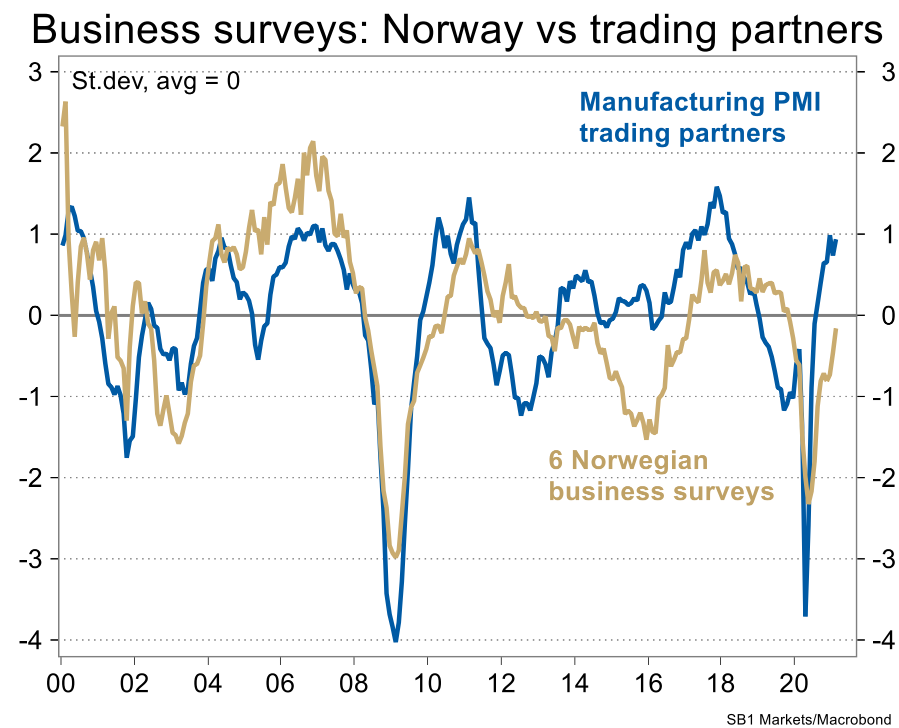
Norwegian manufacturers follow others upwards, the PMI joined the others

… Other (and less updated) surveys are still lagging





- The downturn in oil investments is probably the best explanation for Norway lagging our trading partners somewhat

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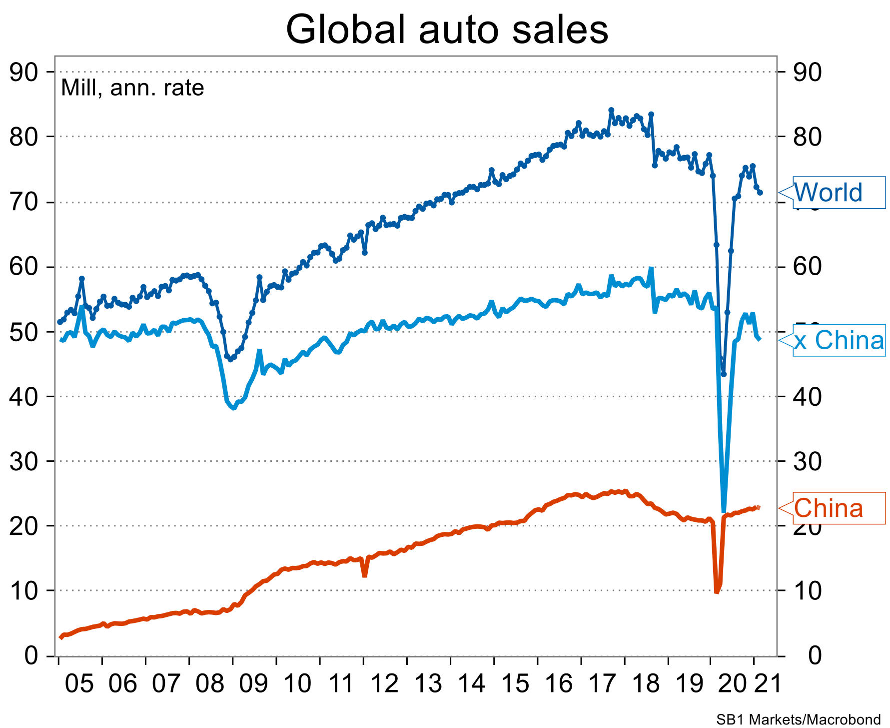
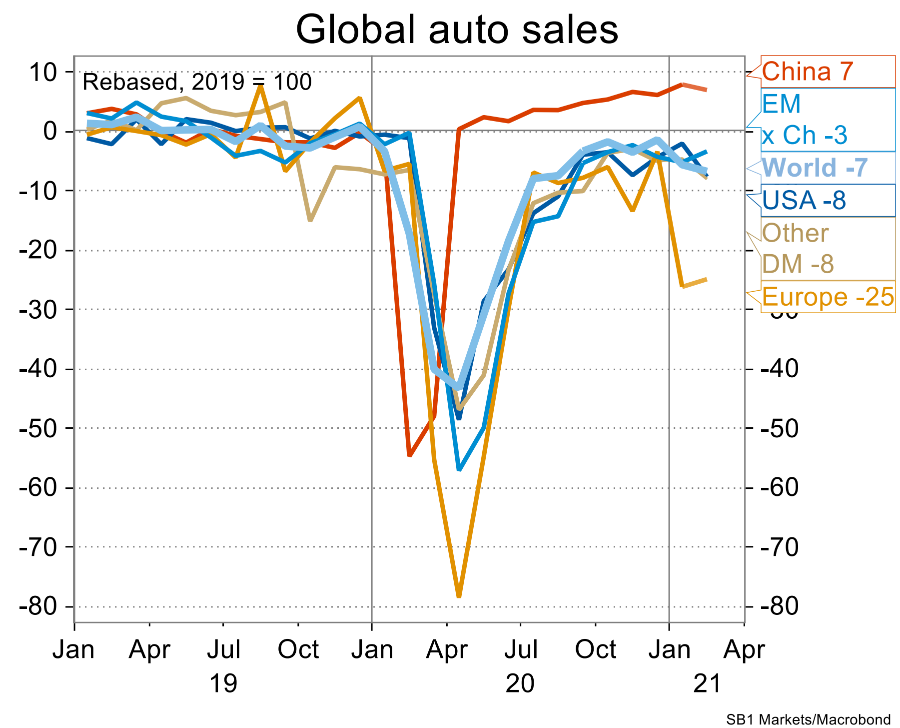
Global sales down in February too, -7% vs. the 2019 level

US sales down, EU sales marginally up, from a low level, -25% vs ’19. China & other EMs at the top

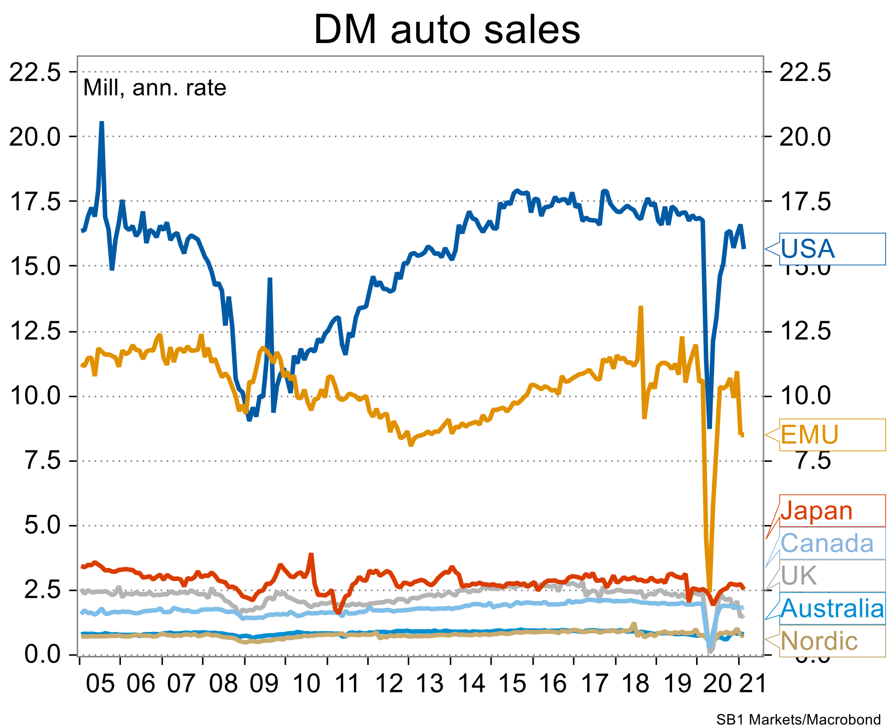


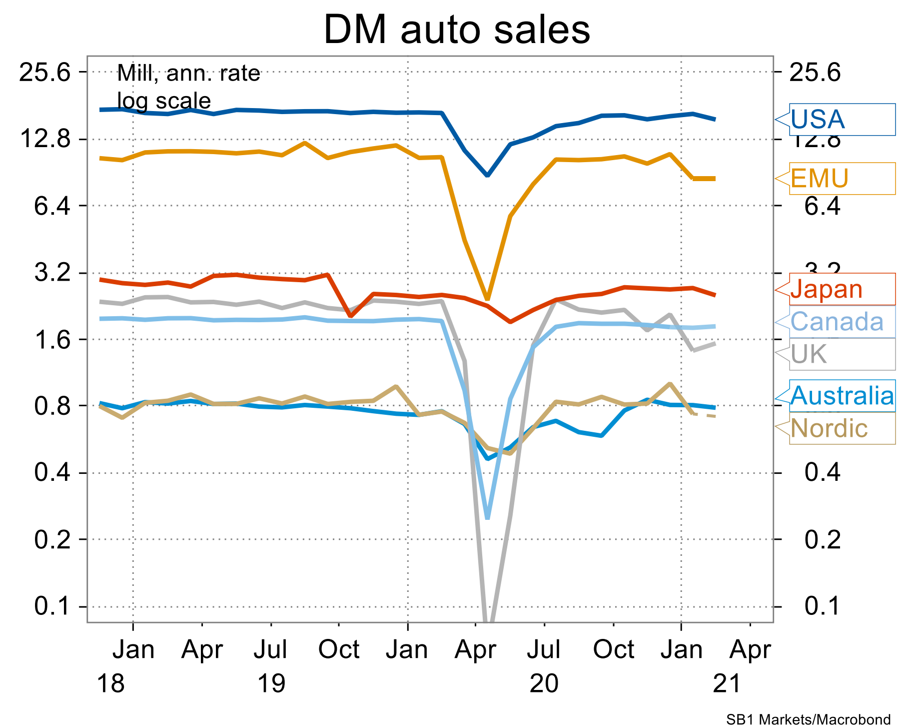


- Based on our preliminary estimates global auto sales fell some 1% in Feb, following a 4% drop in January, when sales in EMU & UK fell sharply. European sales did not recover in February, and are down 1/4 vs the 2019 level
- Sales in China may have fallen marginally in February but is still trending upwards, +7% vs. 2019 level
- Sales in EM x China rose in Feb and are 3% below the 2019 level

DM sales: EMU & UK sharply down recent months

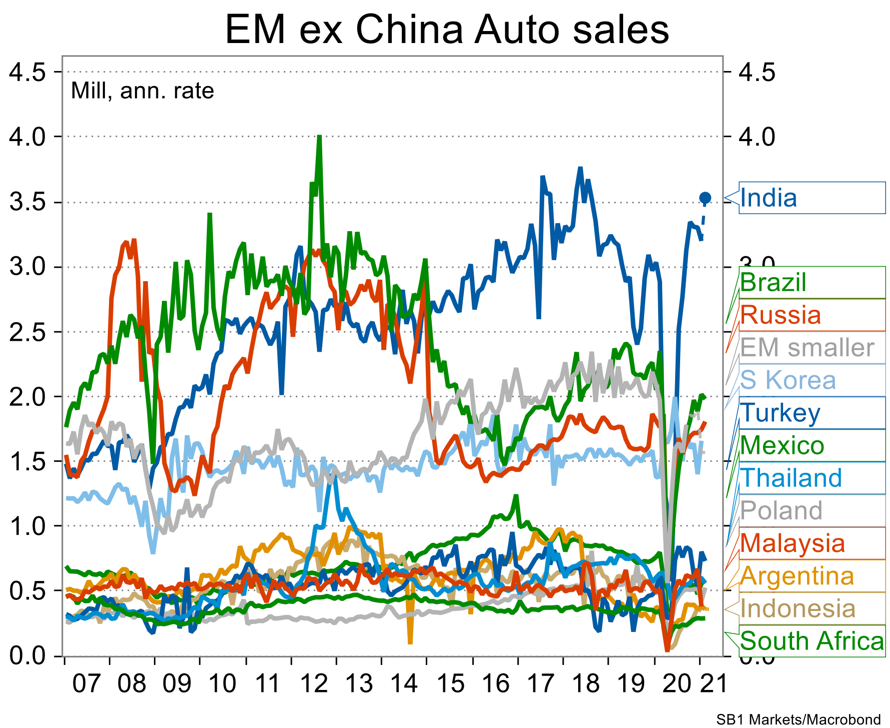
Both US & Europe have been trending down since 2016/18

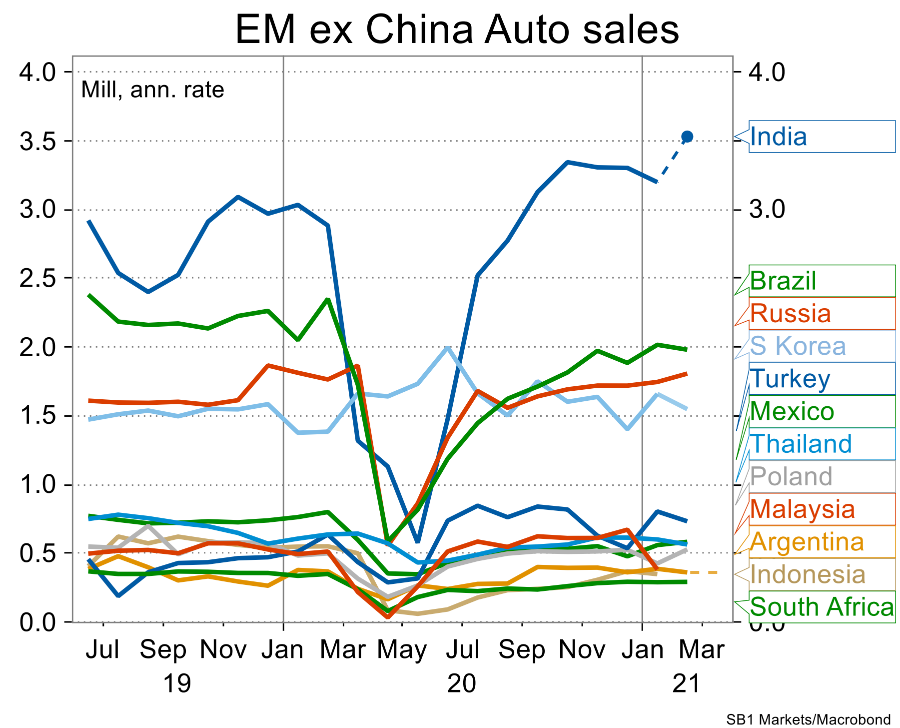




EM: Strong Indian sales, Brazil & Russia on the way up too

In sum, sales are back to the same level as in early 2020





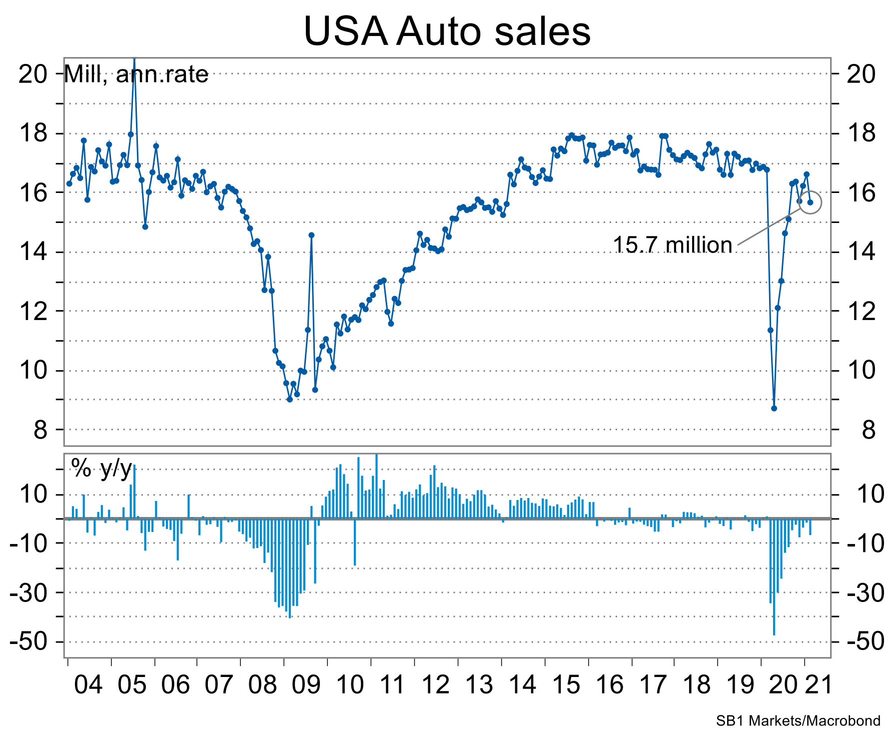
- Sales in India were probably the best since 2018, well above the pre-pandemic level!

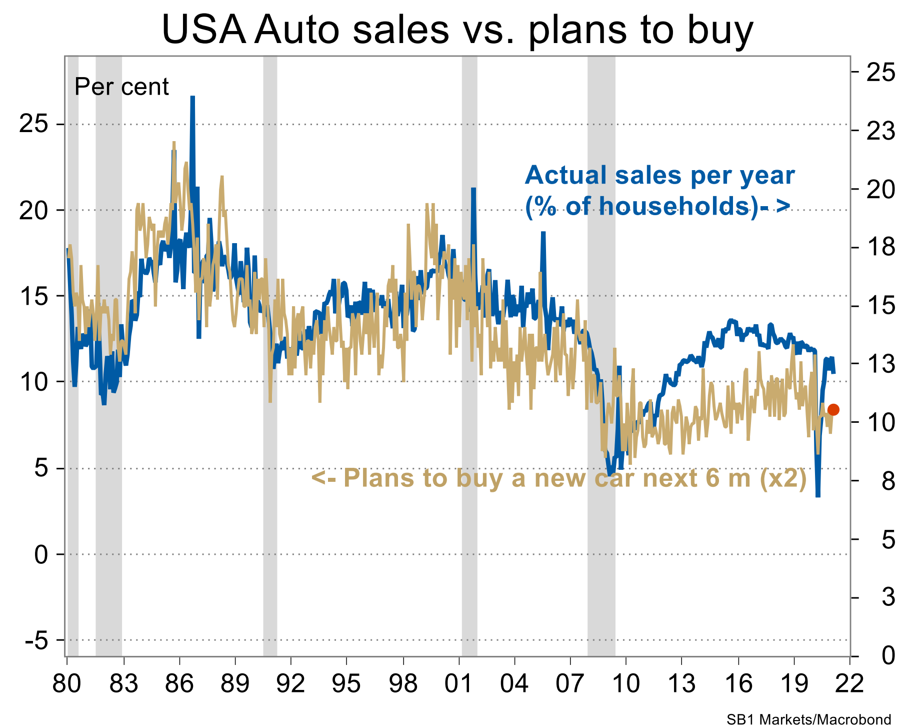
Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

SpareBank 1 MARKETS

US auto sales down again in Feb, and households do not plan to buy a new car

Sales down to 15.7 mill, from 16.6, exp. 16.2. They need an even bigger check! And they will get it

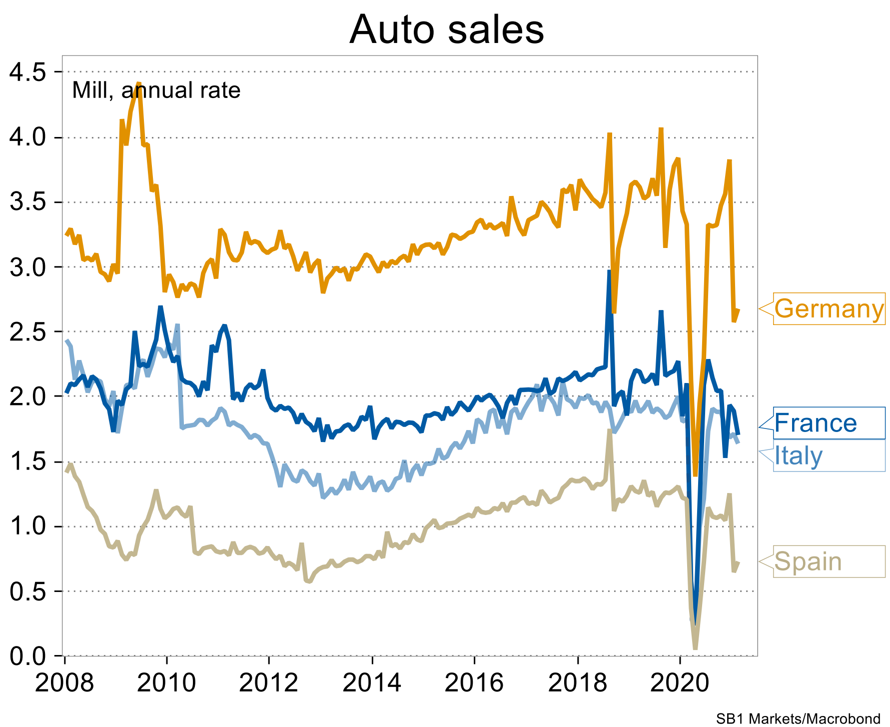


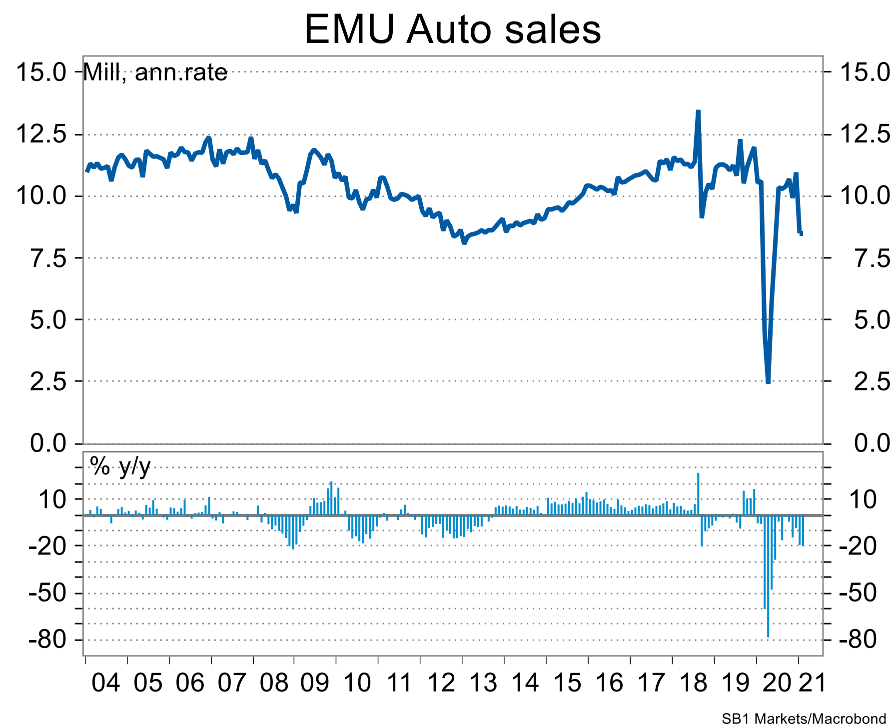


- Sales are down 8% vs. the 2019 average. Sales were trending down before the pandemic hit
- Households are not reporting aggressive plans for buying a new car, rather the opposite

EMU: Sales probably flat at a low level in February, down 22% from December

No recovery in Spain or Germany, and sales are weak in France & Italy too. Lockdowns + tax hikes?

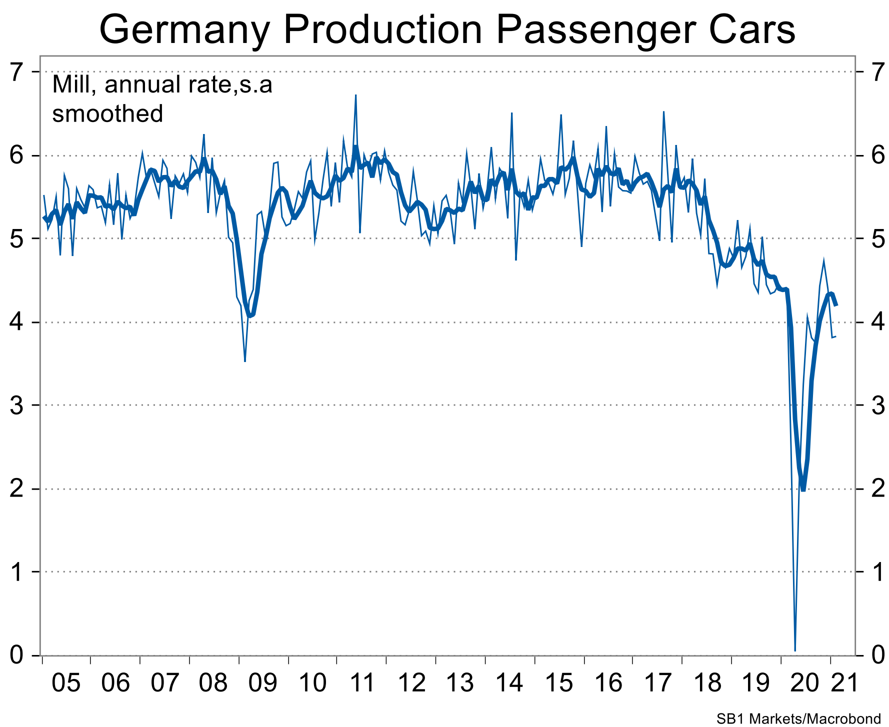


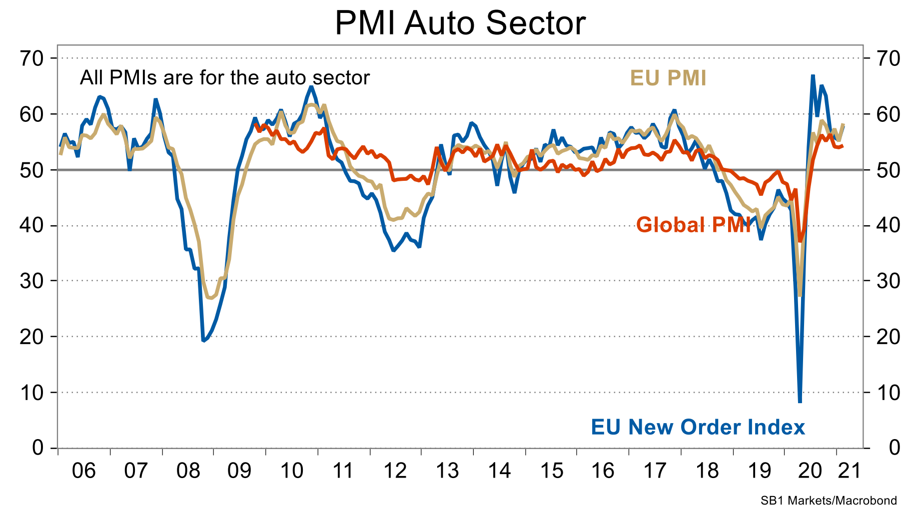


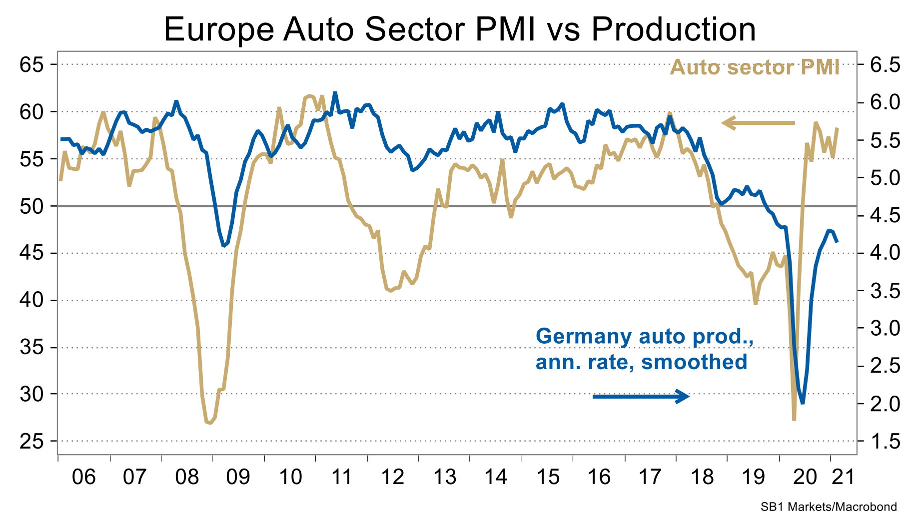
- In Dec, auto sales were back at the pre-pandemic level – but sales fell sharply in January, dragged down by Germany and Spain

German auto production down in Jan/Feb, demand or supply?

Car factories have reported component shortages (chips), but has demand slowed too? The PMI up!



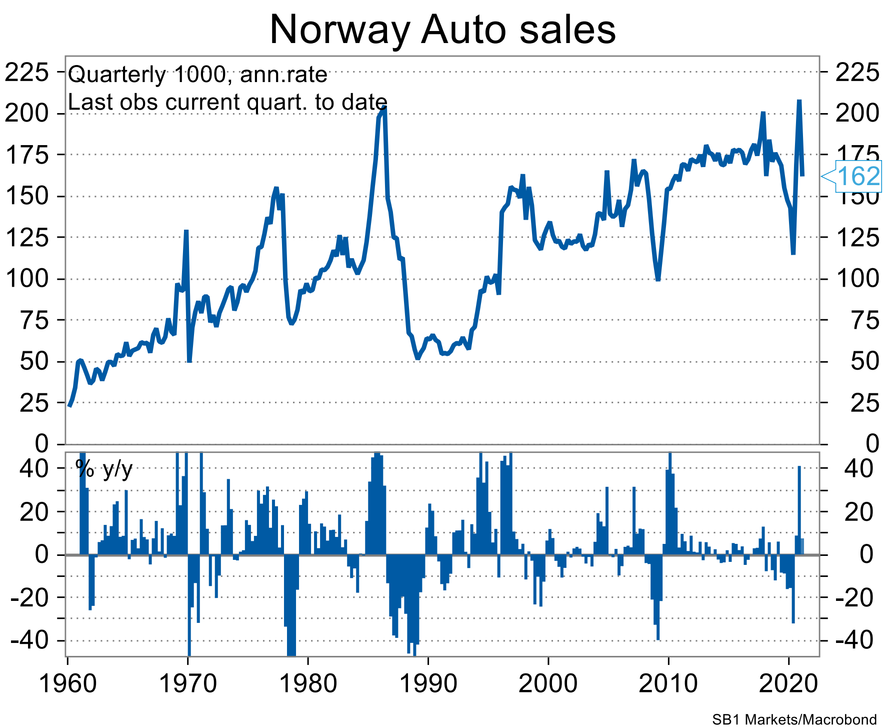


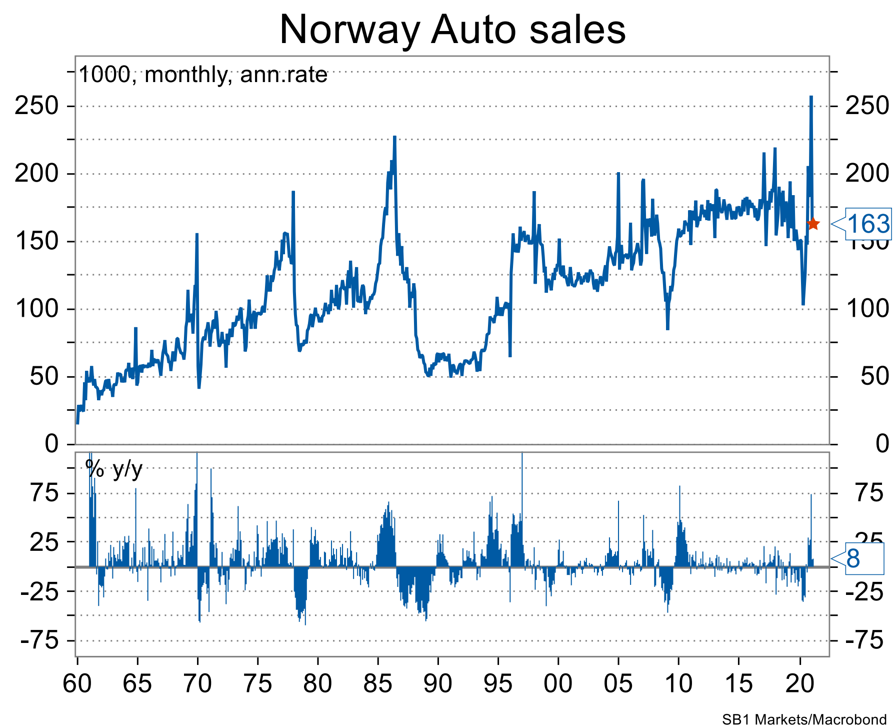


- Global and EMU auto sector PMIs have retreated somewhat past few months but reported higher growth in February

‘Normal’ auto sales in January & February, following the Dec surge

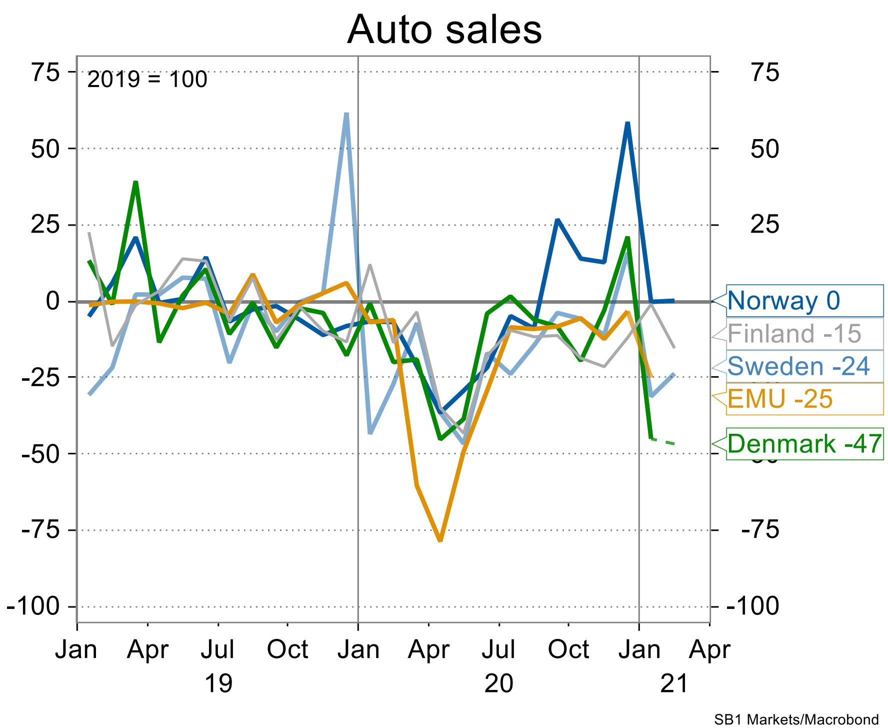
The Dec rush probably partly due to tax increases from January. The trend anyway not weak anymore





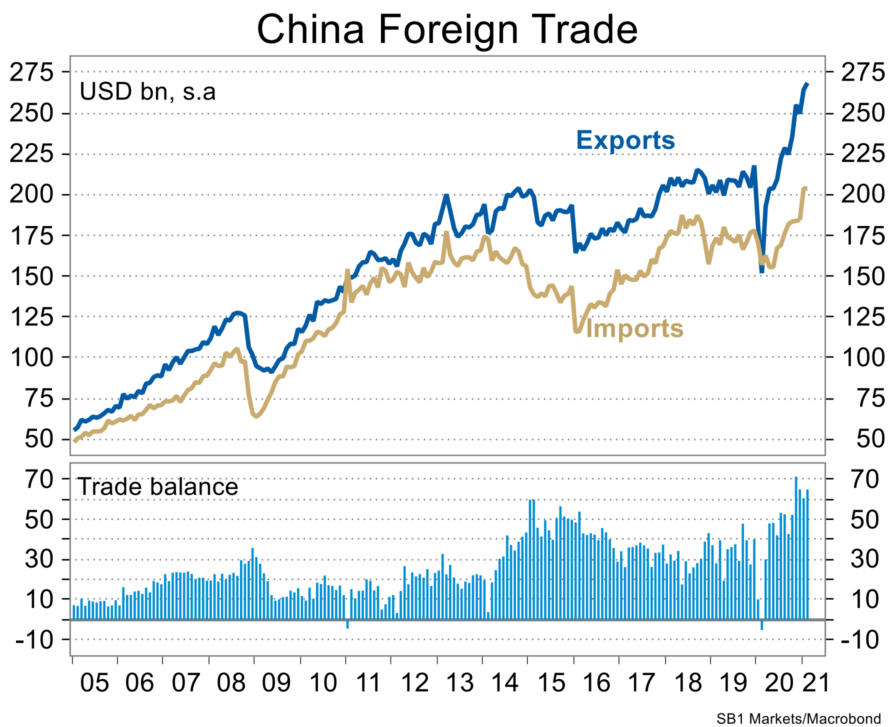
The Nordics: Auto sales down to earth in Jan/Feb

Sales in Denmark down almost 50% vs. the '19 level, Sweden -24%, Finland -15%, Norway flat



Exports remained at a very high level in Jan/Feb, imports surged 10% vs. Dec!

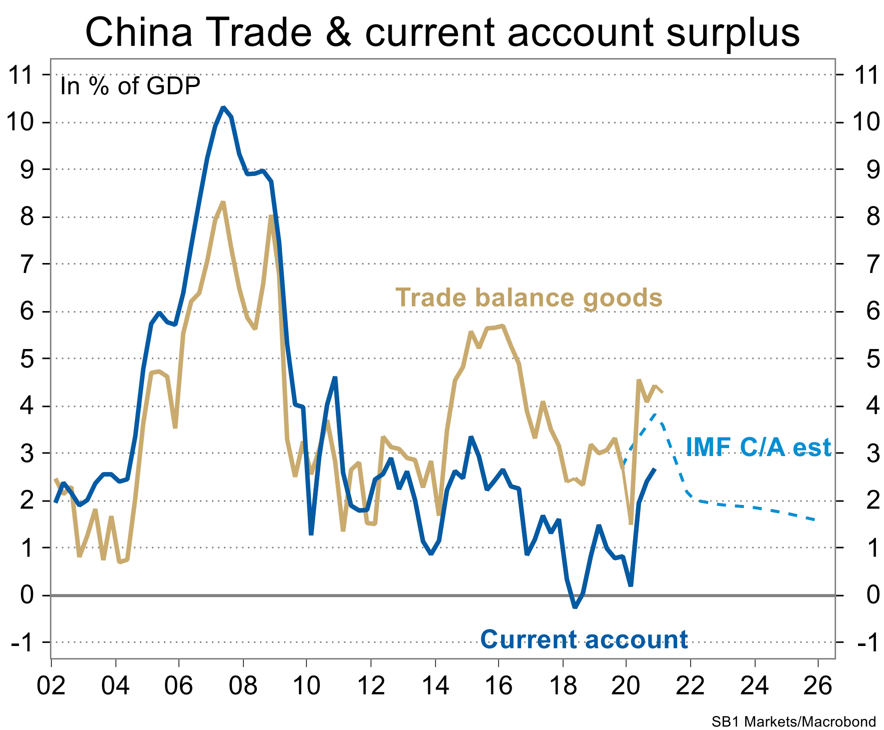
No signs of any slowdown in the global or the Chinese economy

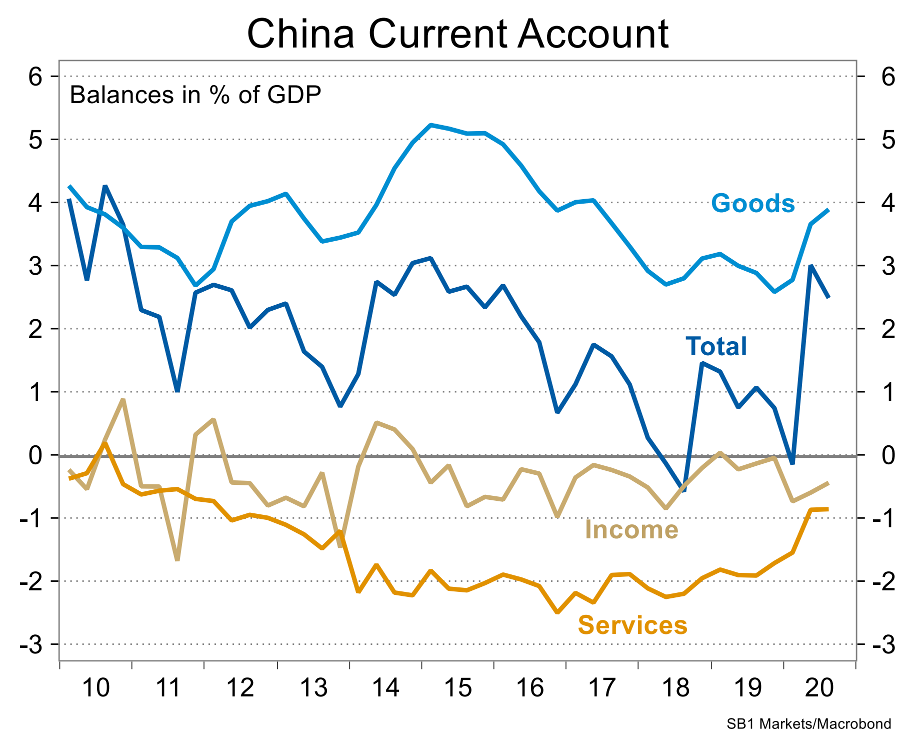


- **Exports** rose by some 2% - 3 % in Jan/Feb from the very strong level in December – it's new all time high (annual growth rates are irrelevant due the slump last Feb). In **volume terms** exports very likely kept up too. Exports are far above any reasonable trend path. Global demand for goods is strong
- **Imports** rose some 10% in Jan/Feb from a close to record high level in Dec. In **volume terms** (our price assumptions last 4 m) the lift is less impressive, as we assume import prices rose sharply (oil and other raw materials – but imports volumes are record high and at least at the long term trend path. Domestic demand is OK
- The **trade surplus** is still high, at some USD 60 bn. The surplus has been higher than normal since last March. China is still running a **deficit in services** (but it is narrowing, less Chinese travelled abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks - in % of GDP, that is

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

The C/A surplus was above 10% of GDP in 2007

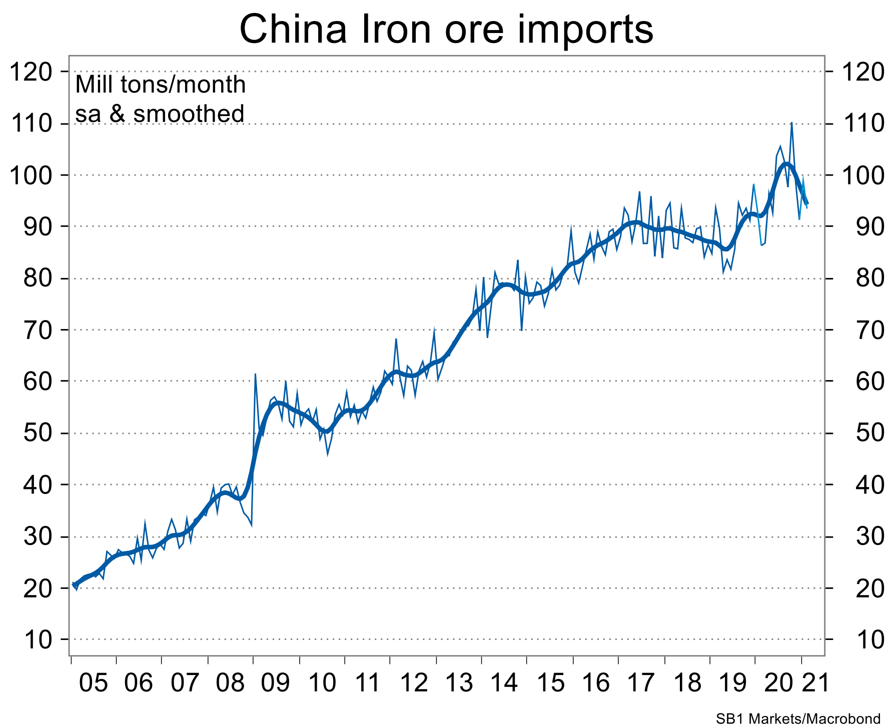


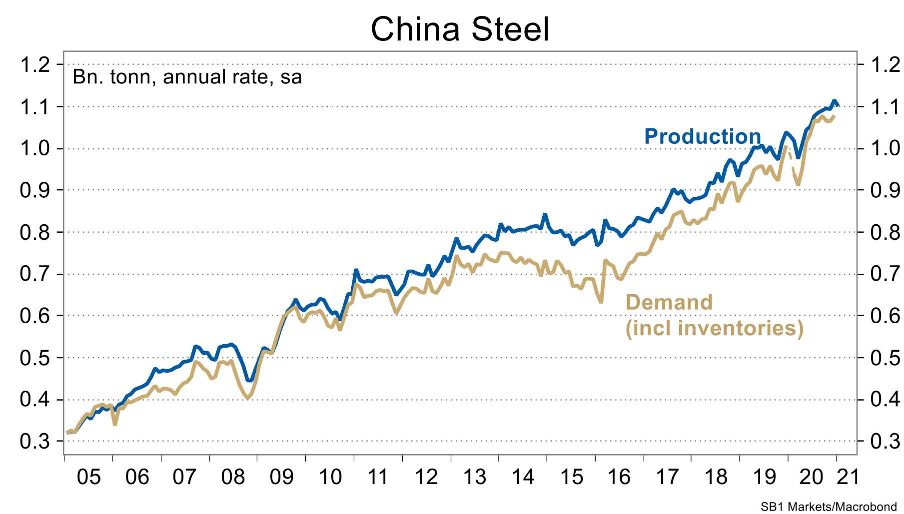


- The trade surplus in goods is now at 4% - 5% of GDP
- In services, China runs a 1% deficit, down from -2% in 2015 – 2019, but from zero 10 years ago. For the time being, the Chinese do not travel abroad
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

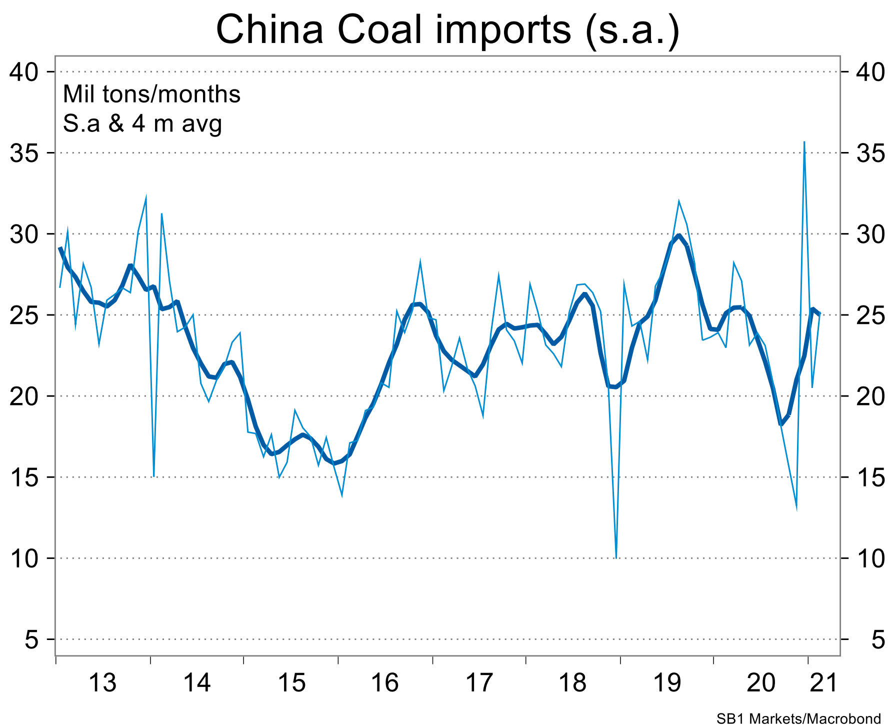
Iron ore imports have slowed recent months, production still on the way up

Growth in domestic demand may have slowed, and net steel exports have strengthened

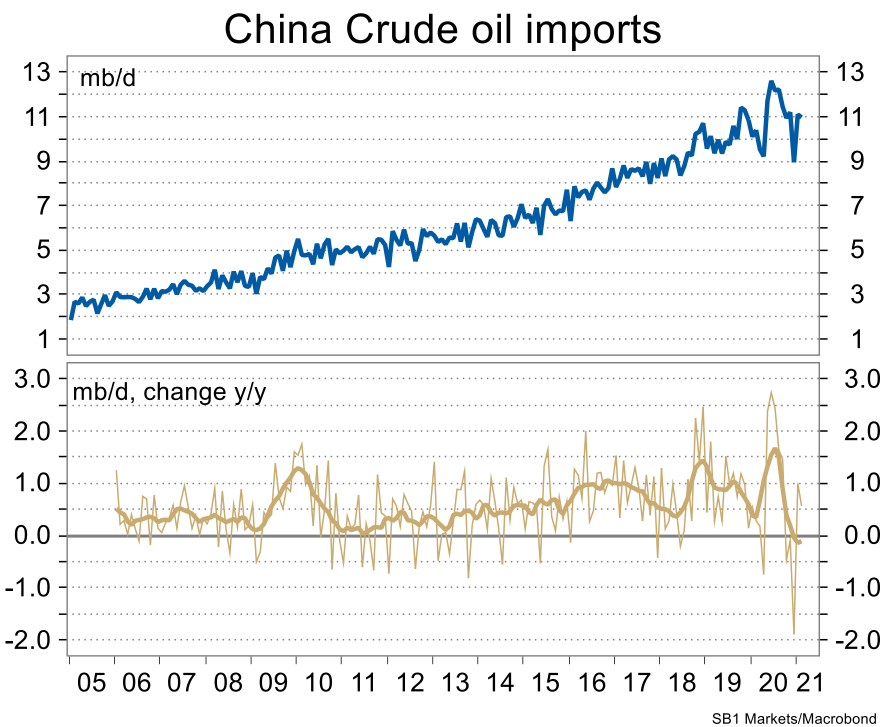


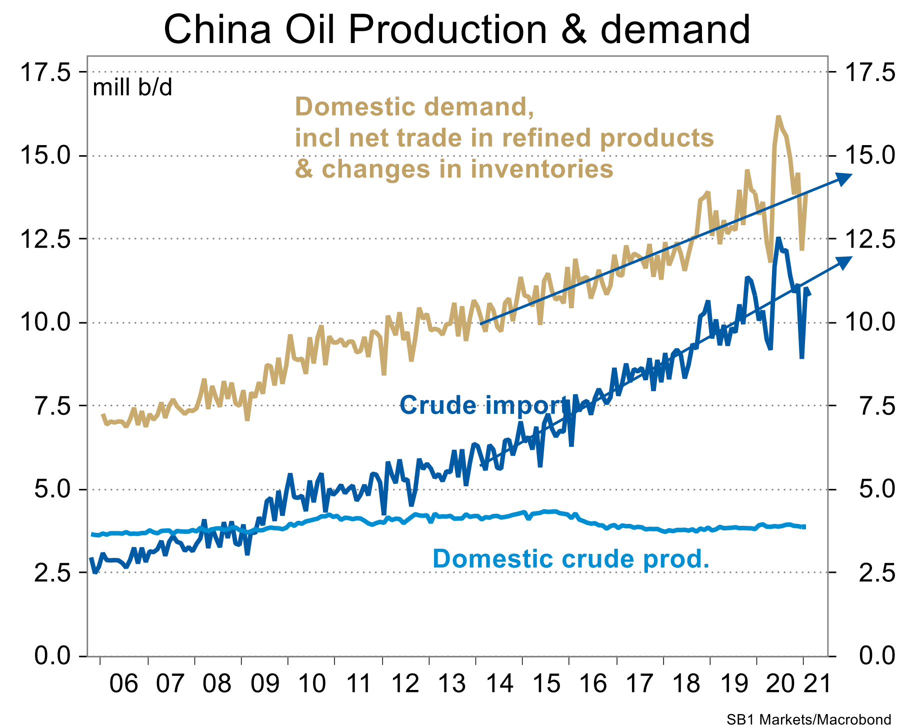


Coal imports have been trending flat since 2016



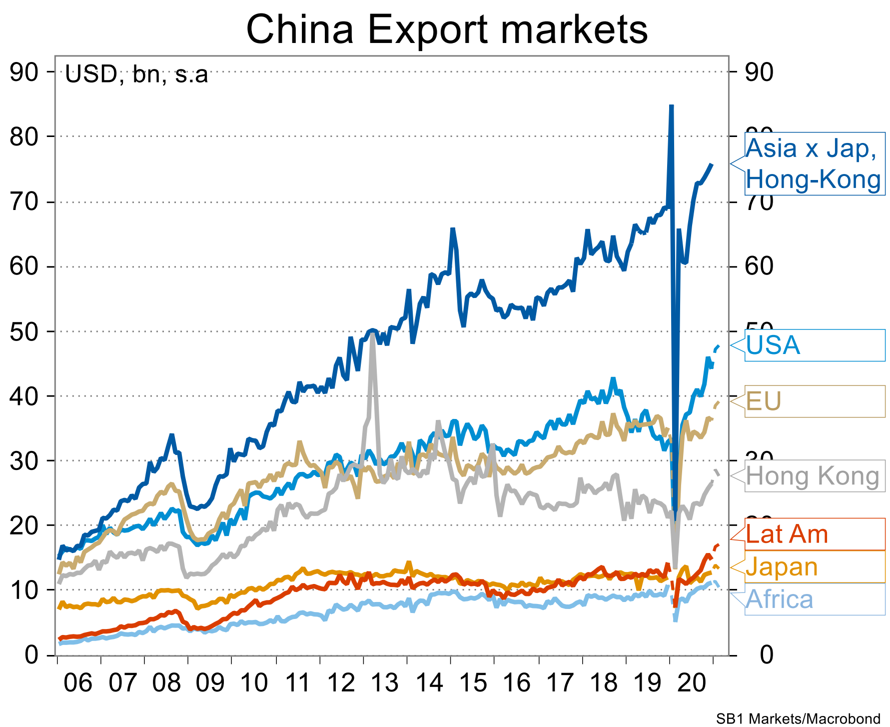
Oil imports up to a normal level in Jan/Feb. Trend growth at 0.5 – 1 m/b p.a



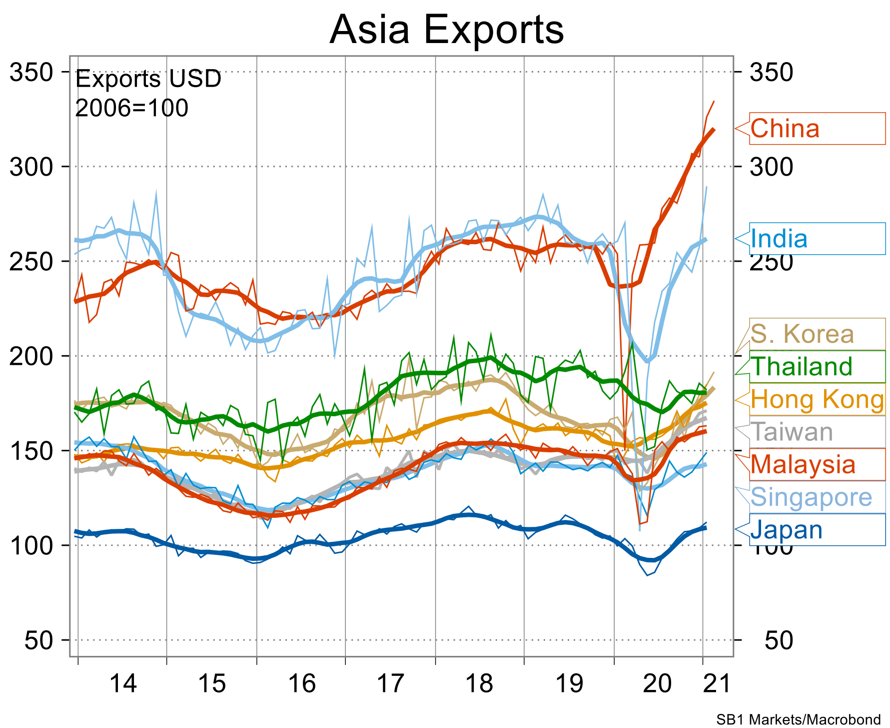


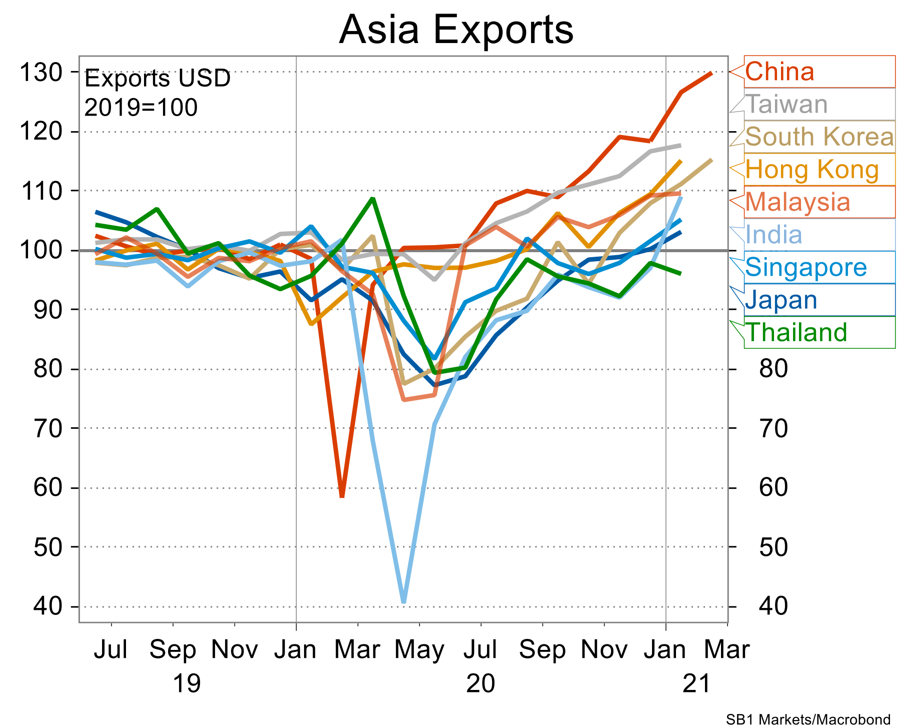
Chinese exports to 'all countries' up, and a further lift in exports the US in Jan/Feb

Exports to other countries in Asia strong too



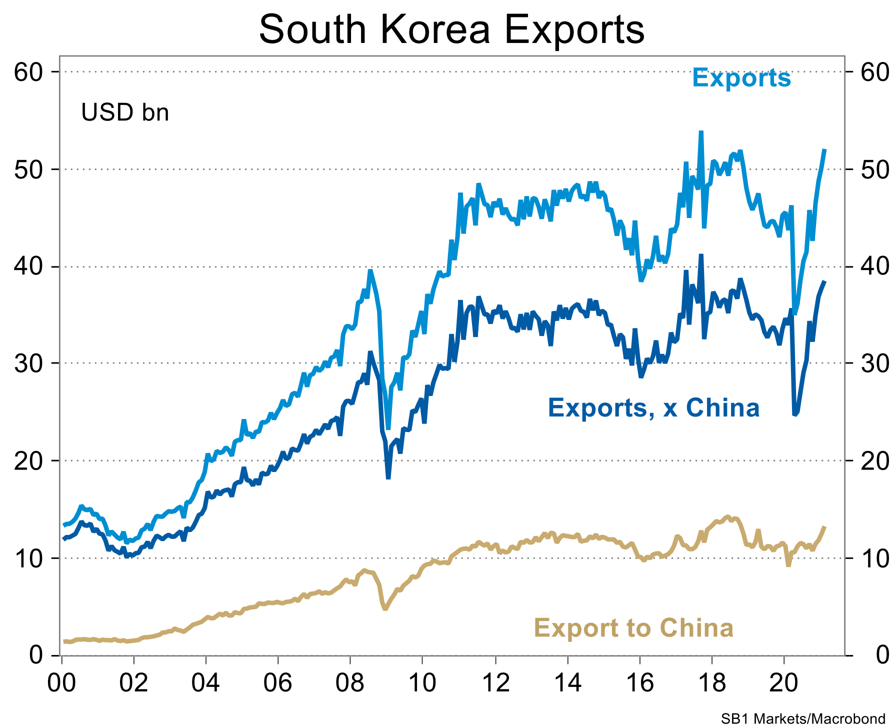
Asian exports are on the way everywhere





South Korea exports sharply up in Jan/Feb

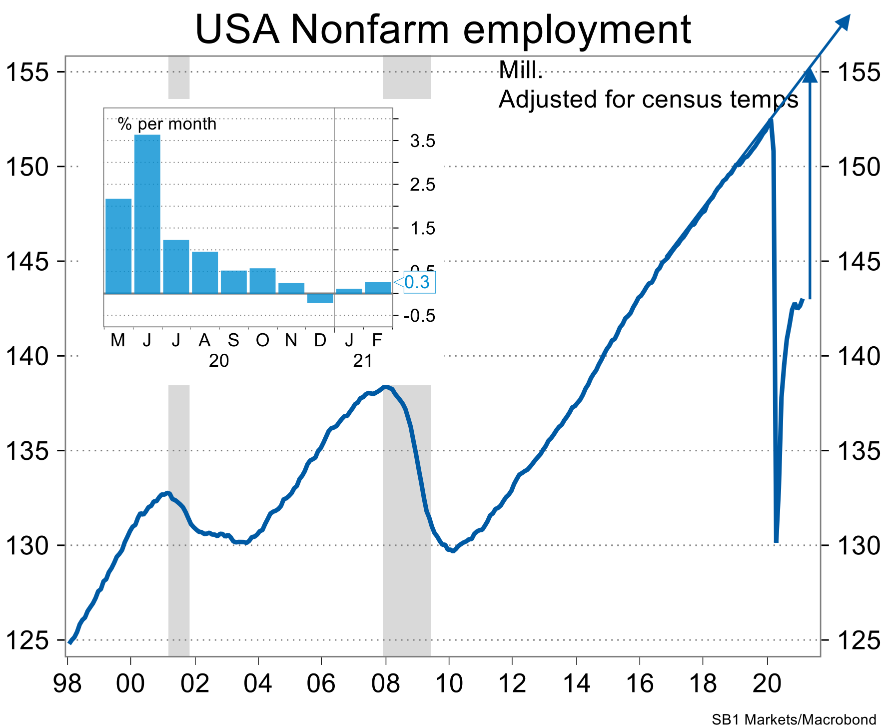
Exports are well above the pre-corona level

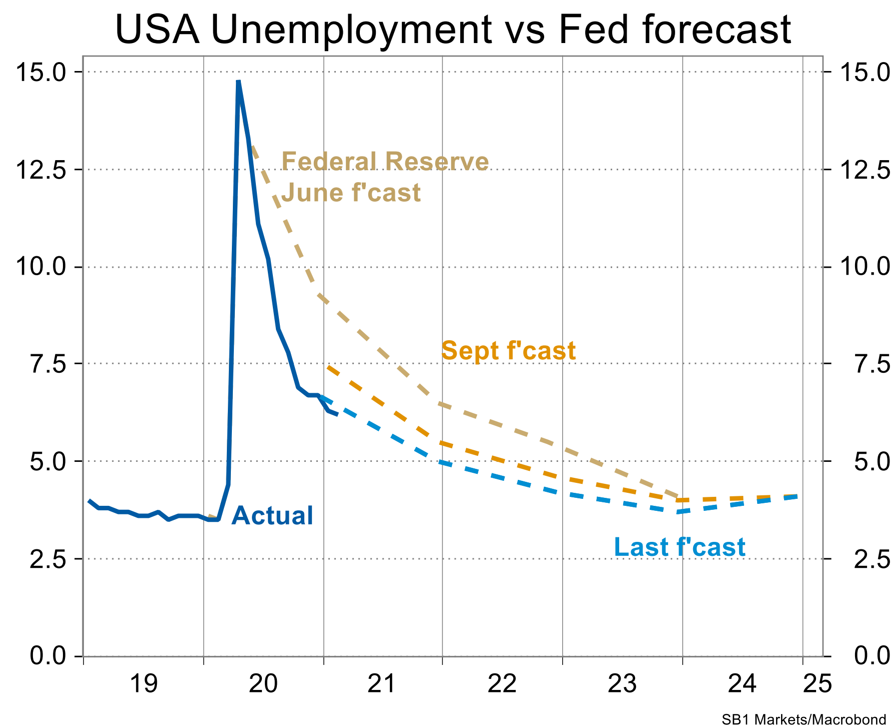


- Korean exports were not impressive before the corona hit – exports to China as well to the rest of the world had fallen substantially. Total exports are not up in value since 2011 (not to China either)
- Exports to China were not to blame for the setback March - June

Decent employment growth in February but it is a long way back home

Employment +379’ (exp 200’), hist. revised up. Still 12 mill. or 7¾% below the pre-pandemic trend

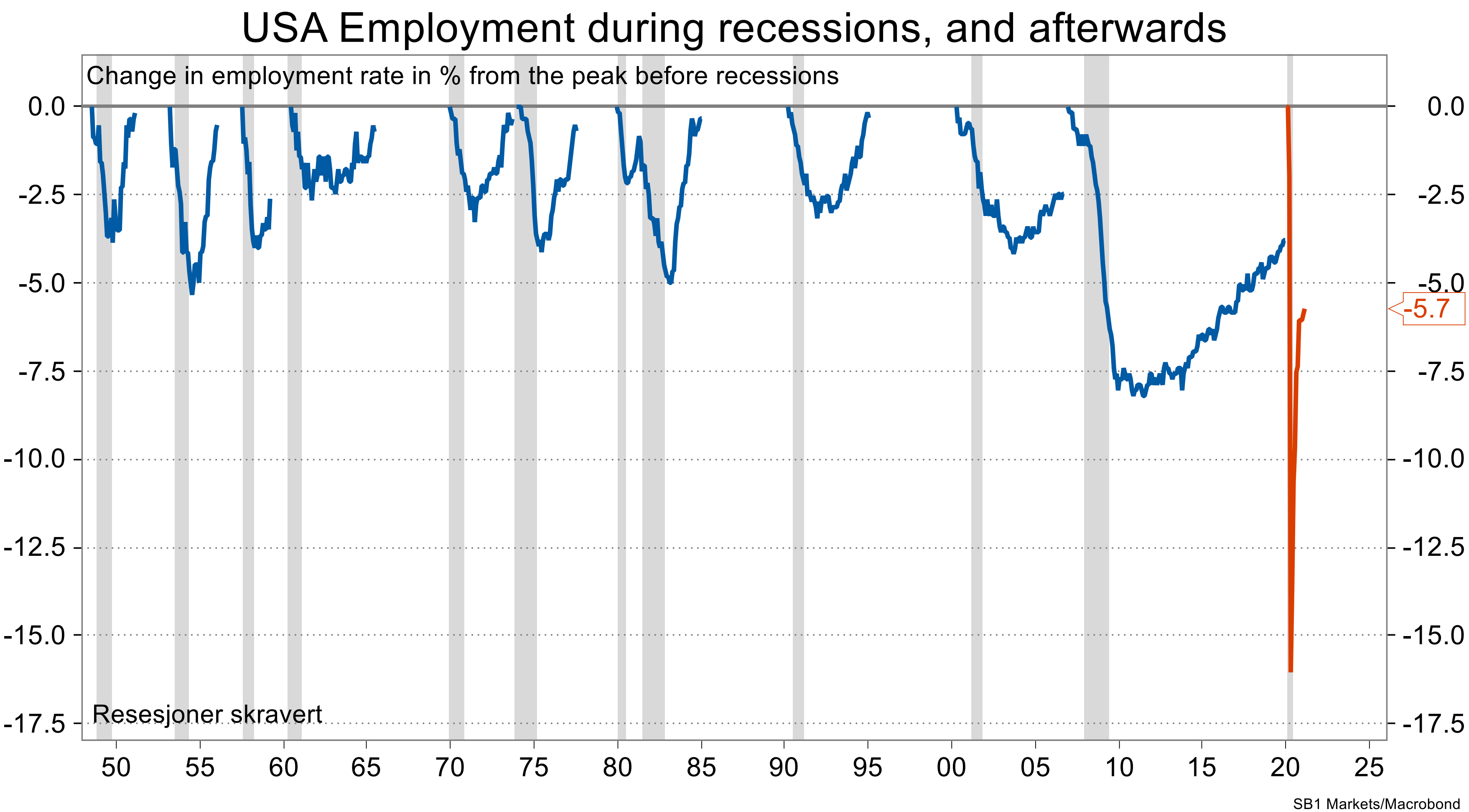




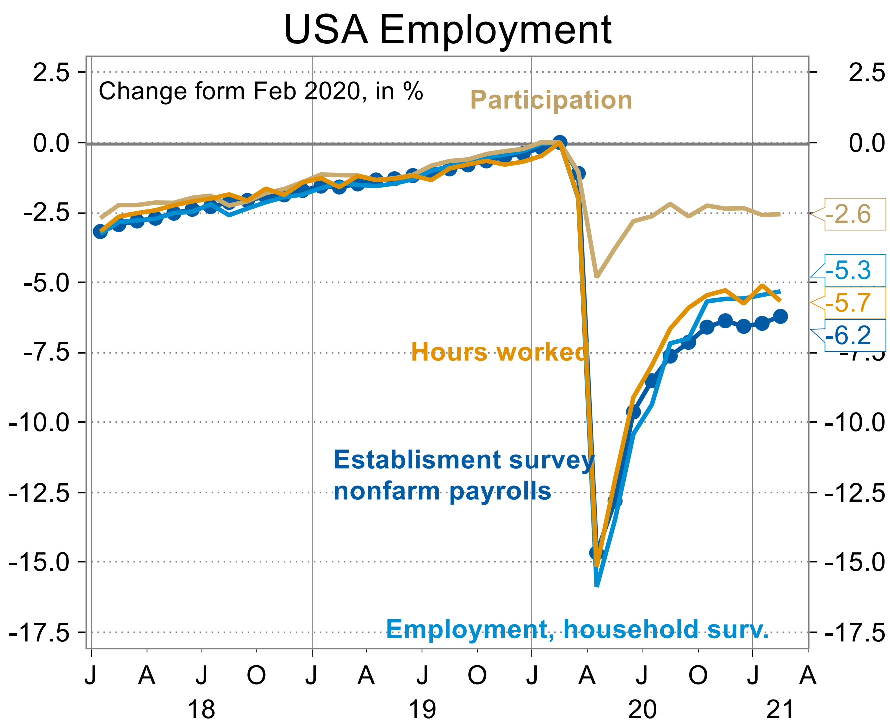
- **Employment** rose by 379’, almost twice as much as expected, and the two prev. months were revised up by 38’. Total nonfarm payrolls rose more than expected, even if the public sector (mostly education) cut 86’ (exp. +15). Employment in hotels & restaurants (parks, arts++) rose 3% but remains 20% below par! Total employment is 12 mill. below the pre-corona trend path, equalling almost 8%
- **Unemployment** fell 0.1 pp to 6.2%, expected +0.1/unch. Unemployment is ‘just’ less than 3 pp higher than before the pandemic but the participation rate has fallen by 2.8% (1.8 pp), lowering the measured unemployment rate substantially. In a survey, 5 mill. persons report that they had withdrawn from the labour force (and were not searching a job) due to corona related reasons. Most of them probably do want to return to the labour market, when possible. The close to 8% jobs shortfall may be for real. (In Norway, the equivalent shortfall is 3%)
- **The Federal Reserve will anyway keep pushing the accelerator hard the coming months**

The virus attack was really something special…

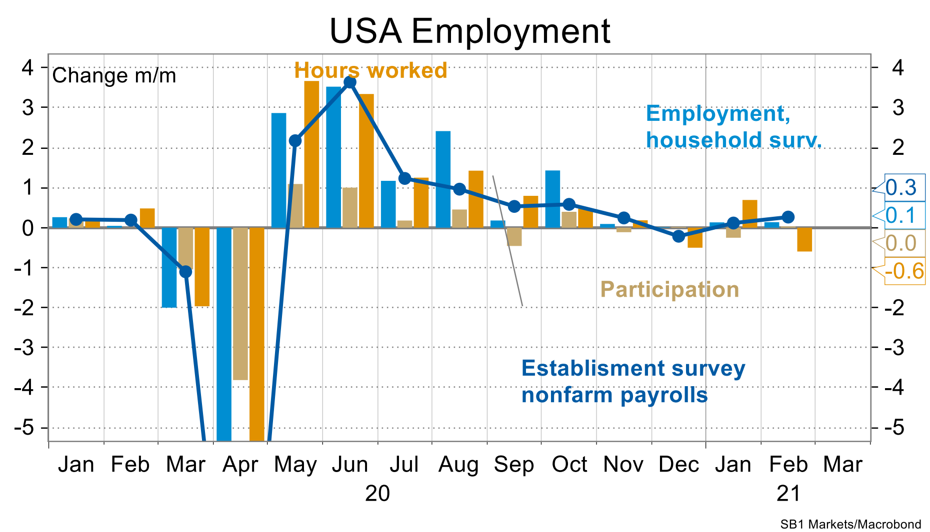
And it ain’t over yet



Labour market activity is on the way up but just gradually

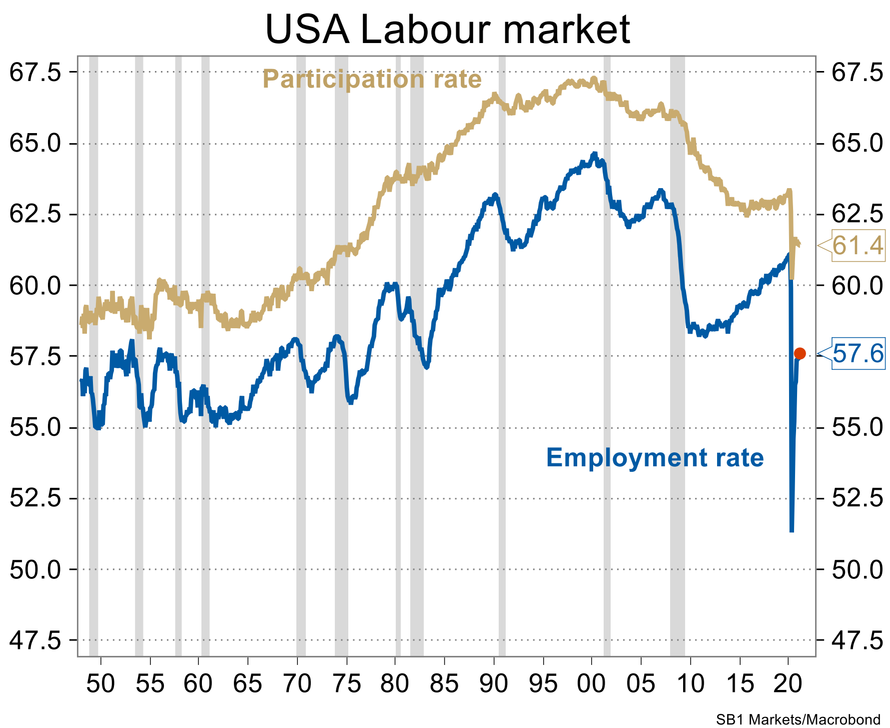


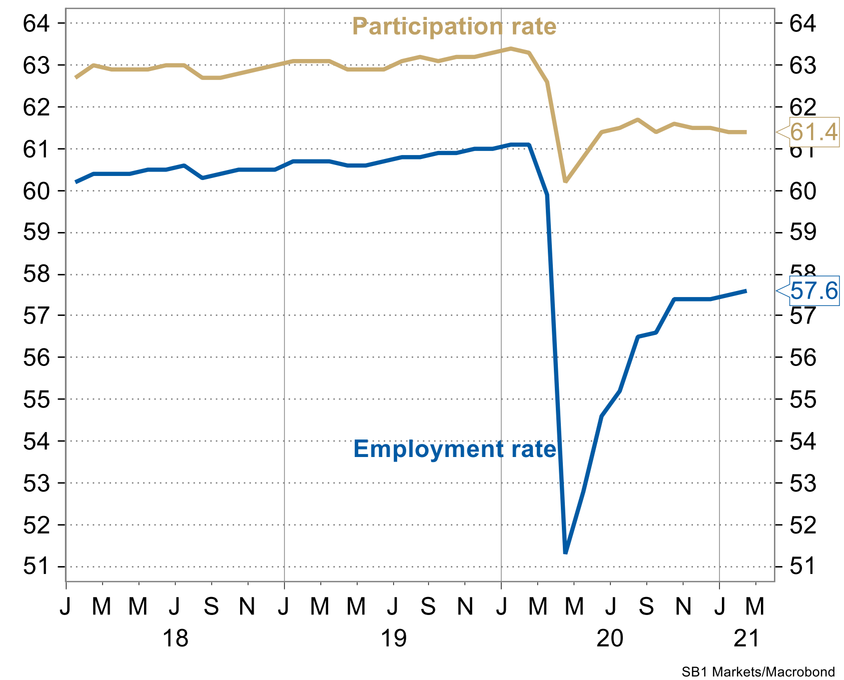
- Labour market participation rate has stabilised at some 2.5% below the pre-corona level, which is lowering the unemployment rate by the same amount
- Nonfarm payrolls are down 6.5% vs Feb, while employment measured by the household survey (LFS/'AKU') is 5.4% below par
- Hours worked jumped 0.9% in Jan as average hours worked rose sharply following the 0.4% Dec setback – a positive signal



The employment rate marginally up in Feb, while the participation rate slides

The participation rate is down 2.6% (-2.1 pp), the employment rate is down 5.9% (-3.6 pp)

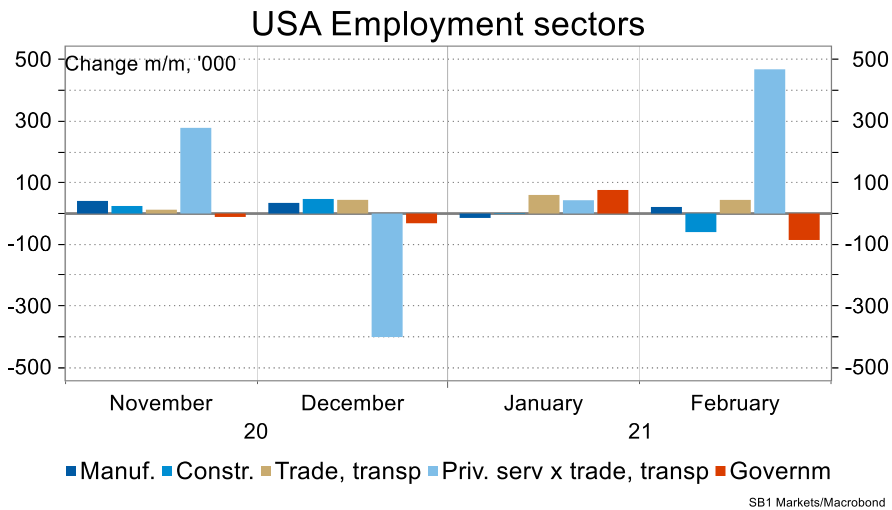


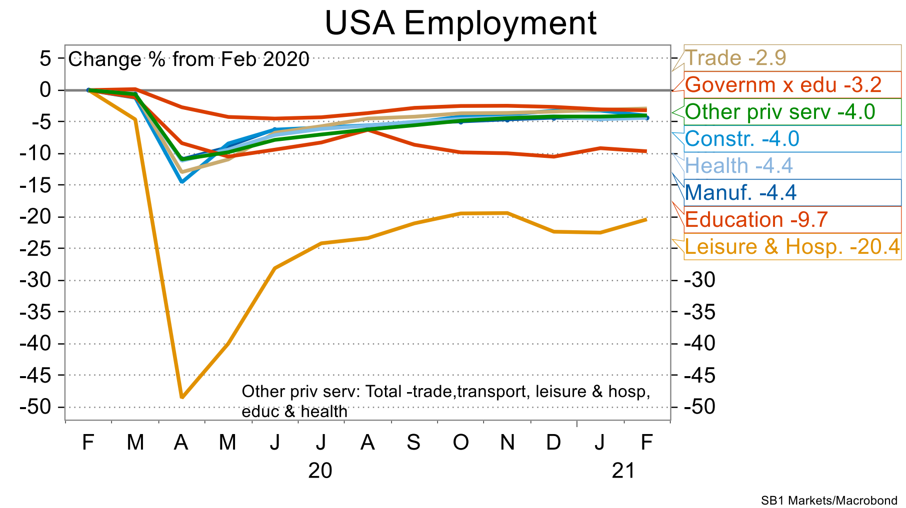


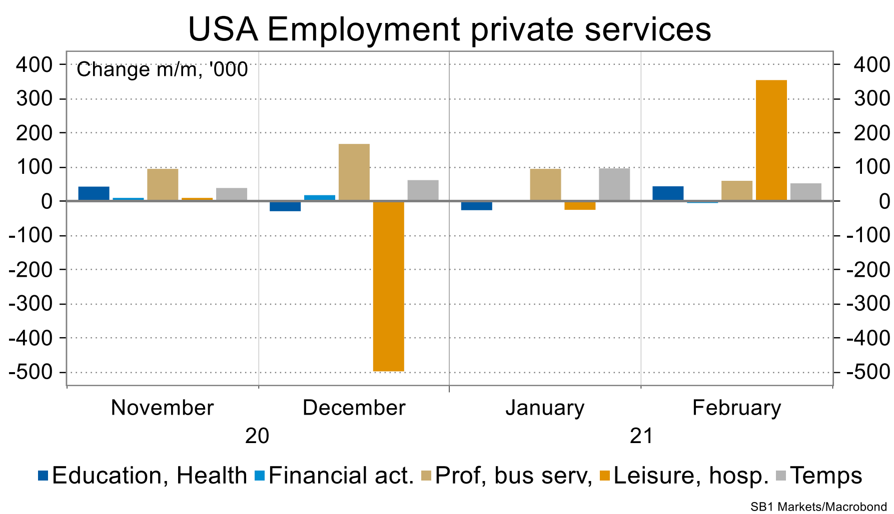
- Most of the decline in the participation rate seems to be corona related, according to a survey referred to by Fed's Powell at his Feb 10th speech. Nearly 5 mill. persons have withdrawn from the labour force – and are now not actively searching for a job – due to fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc.
- We are not sure how many of these 5 mill. persons will try to join the labour market when the virus is beaten down

Leisure & hospitality reversed most of the Dec losses, modest growth elsewhere

Employment in L&H is still 20% down vs. last Feb. Other sectors are down too, by 3 - 6%







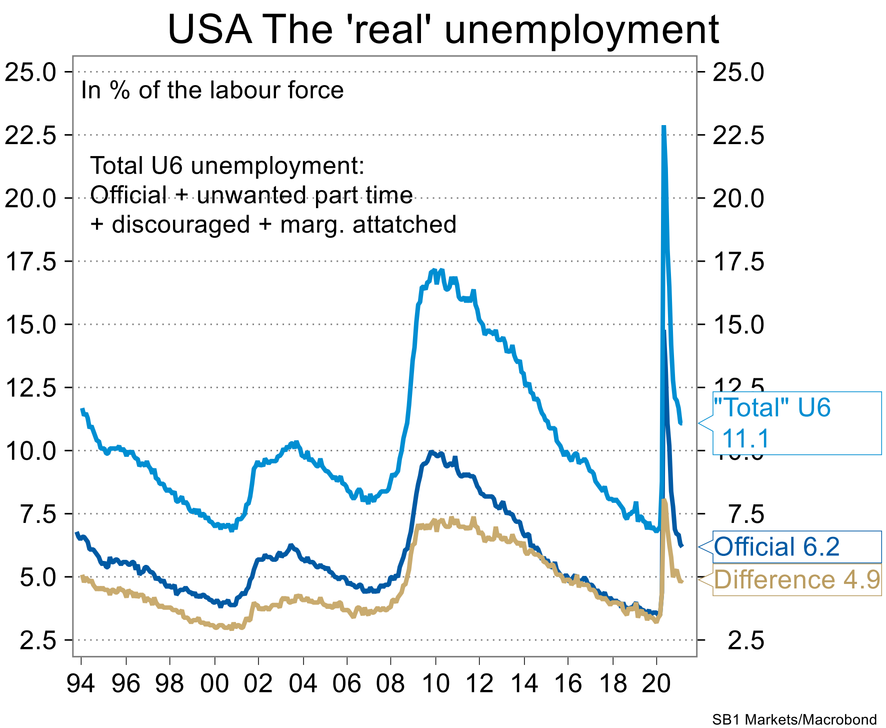
- **In January**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 355' workers, +2.7%
  - » Empl. in **Government** reversed the gain in Jan, as teachers were sent home
  - » **Construction** was hurt by harsh winter weather, down 60'
  - » Manufacturing slowly in the way up
  - » Other private services just marginally up
- **From February last year**
  - » No main sector is above the pre-pandemic level, even not retail trade
  - » **Leisure & hospitality** is down 20.4%. **Manufacturing** is down 4.4%, **trade & transport** 2.9%, **construction** 4%
  - » **Education** is down almost 10%, many schools are closed
  - » Even **government employment** x education is down 3.2% (adjusted for temp census workers), which is remarkable in an economic downturn.

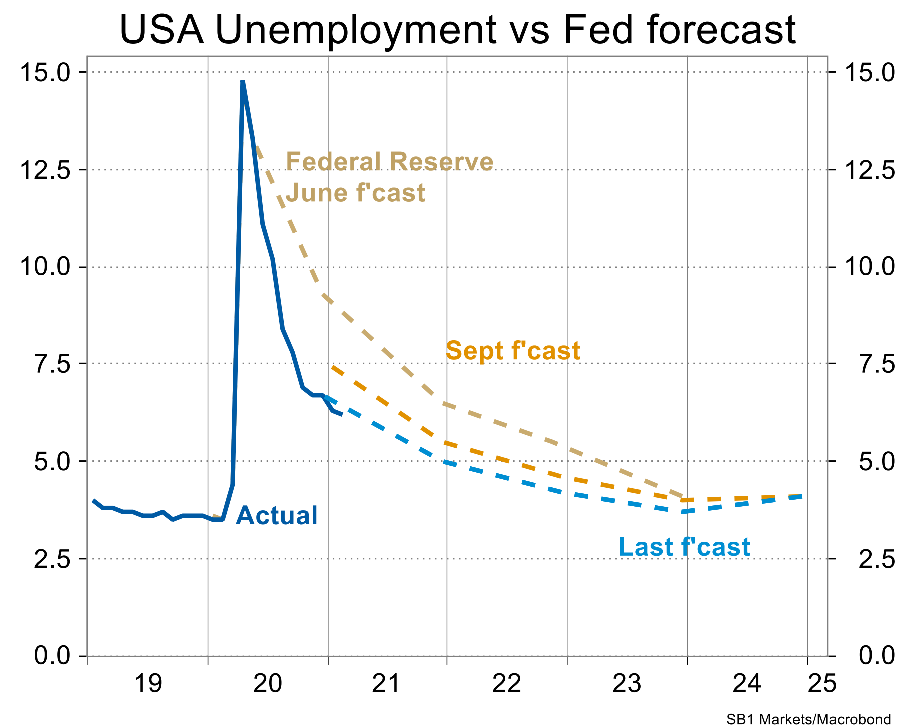
Government employment adjusted for temporary 2020 census workers

SpareBank 1 MARKETS

Unemployment down 0.4 pp to 6.3% (exp. unch), 2.8 pp higher than pre corona

The ‘real’ unempl. rate (including involuntary part-time, etc) is substantially higher but is falling fast



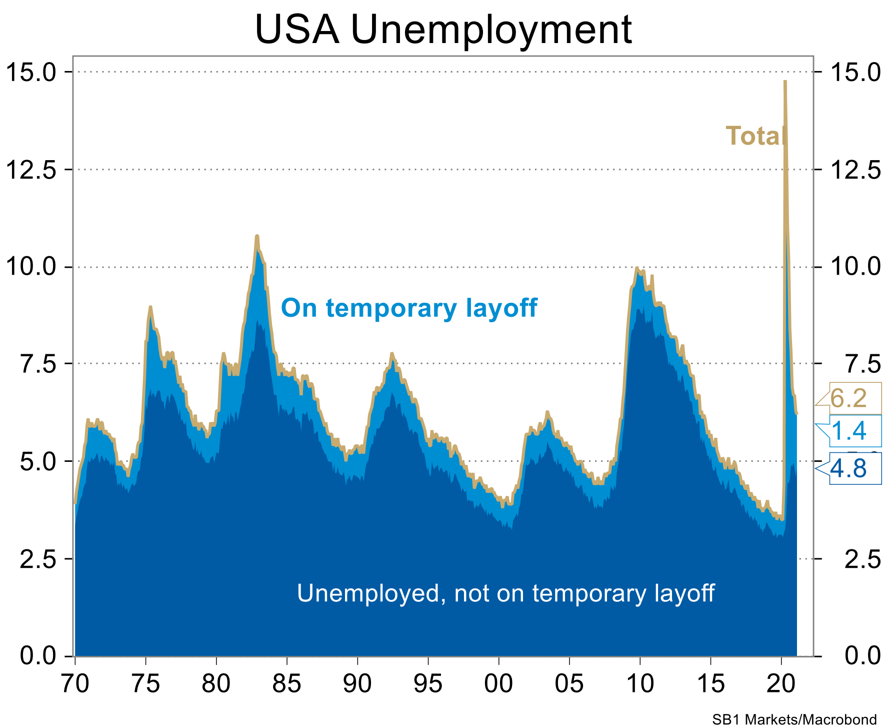


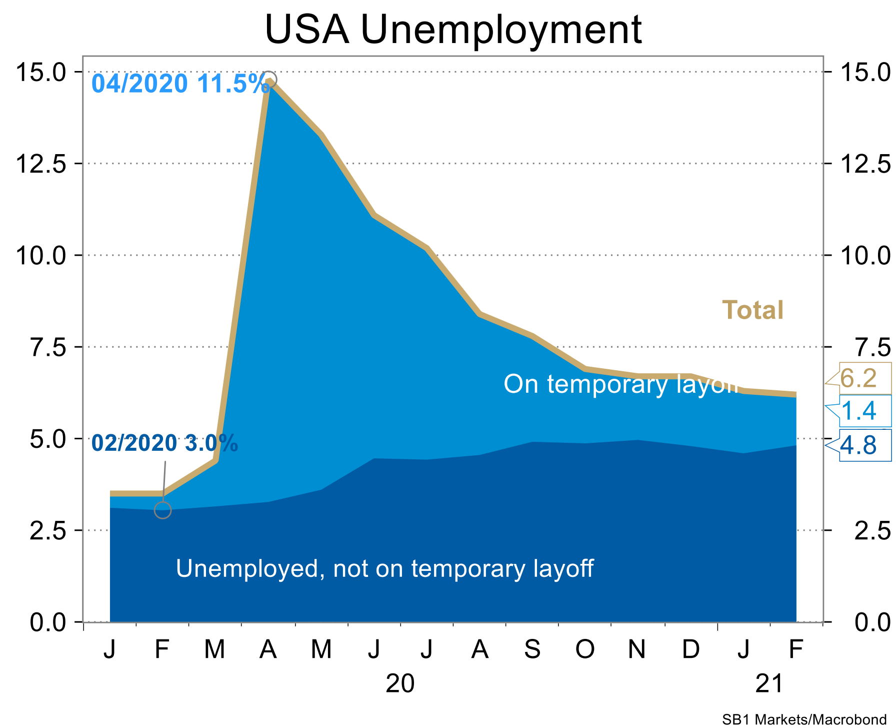
1) Almost 5% of the labour force is working unwanted part time (or are not able to get work). In good times, less than 4%
2) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (+2.8% extra unemployment, if counted)
3) In sum, the unemployment is significantly higher than the traditional official rate

Still, unemployment has been declining much faster than the FOMC has expected vs. its June & Sept forecasts. The Feb unempl. rate was below FOMC’s Dec 2020 path (our interpretation)

The ‘ordinary’ unemployment rate up but fewer furloughed workers

Temp layoffs down 0.3 p 1.4%, the permanently unemployment rate up 0.2 pp to 4.8%



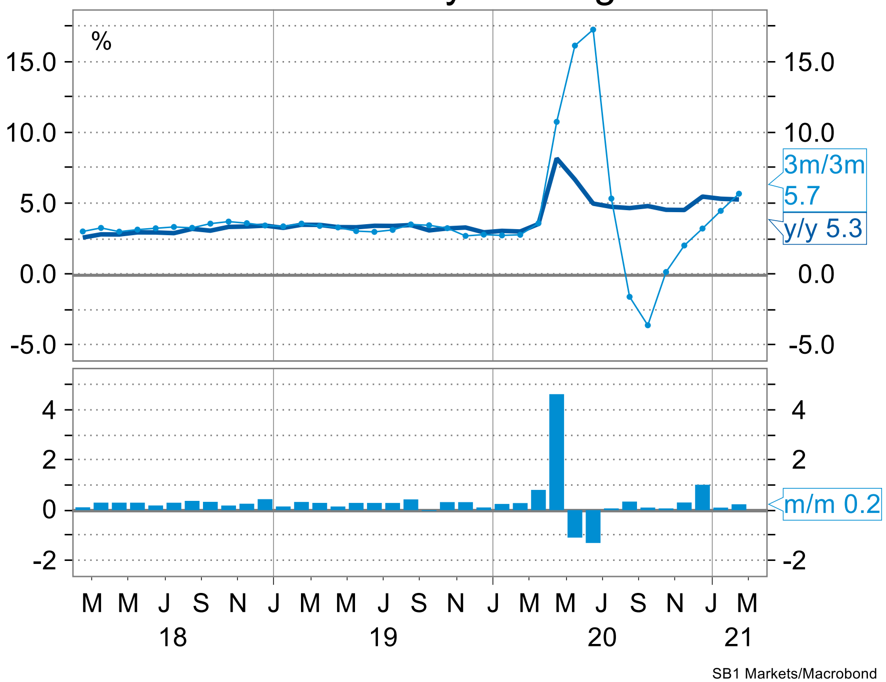


SpareBank 1 MARKETS

Average wages up and down during the corona crisis – *due to the labour mix*

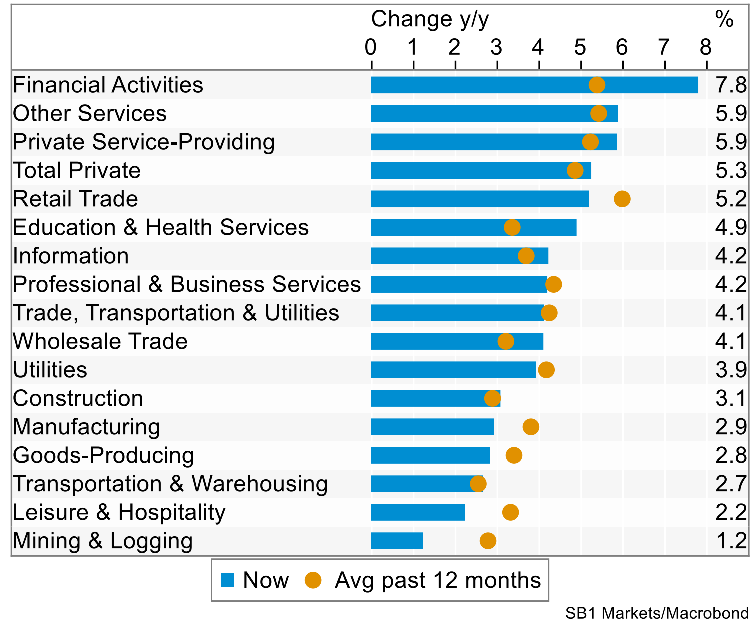
These wage data are not relevant now as the mix between high/low paid works changes rapidly

USA Hourly earnings

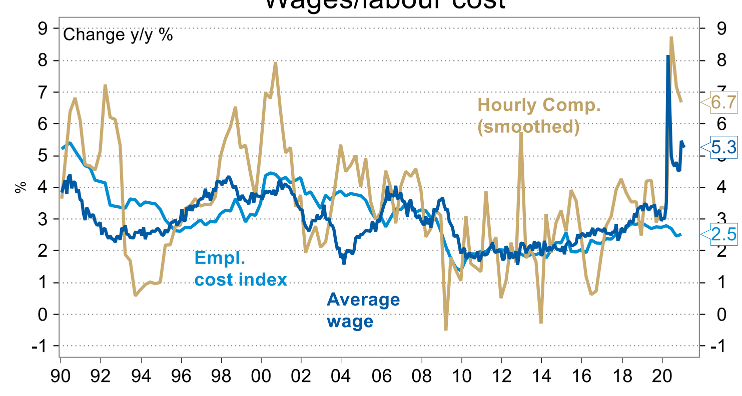


- The average hourly wage rose by 0.2% m/m in Feb, and the annual rate accelerated fell 0.1 p to 5.3%
- According to national accounts, the wage cost grew 6.7% in Q4
- However, the employment cost for ‘the same job’ was up just 2.5% y/y in Q4 *(check the chart to the right)*
- The ‘strange’ wage inflation data are just due to changes in the mix of high and low paid workers

USA Hourly earnings

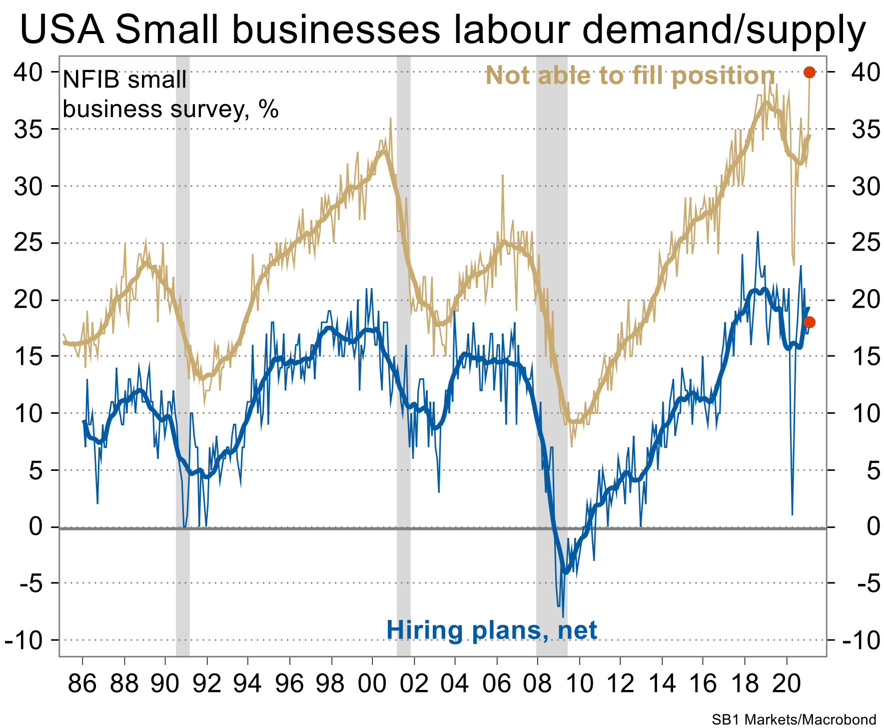


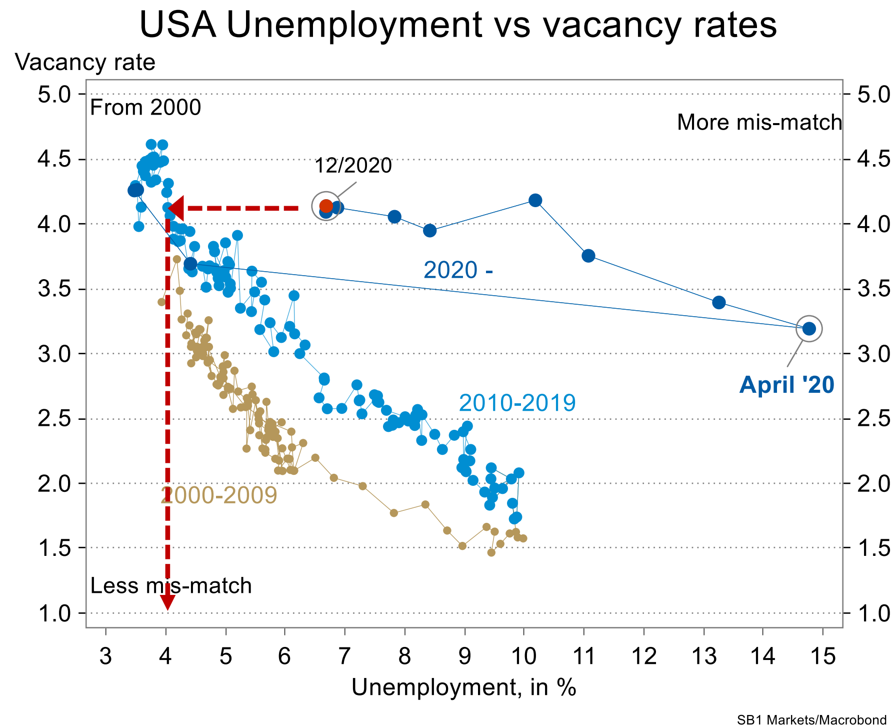
Wages/labour cost



Small businesses have never before had more problems filling vacant positions

Are people temporarily prevented from working outside home due to corona…

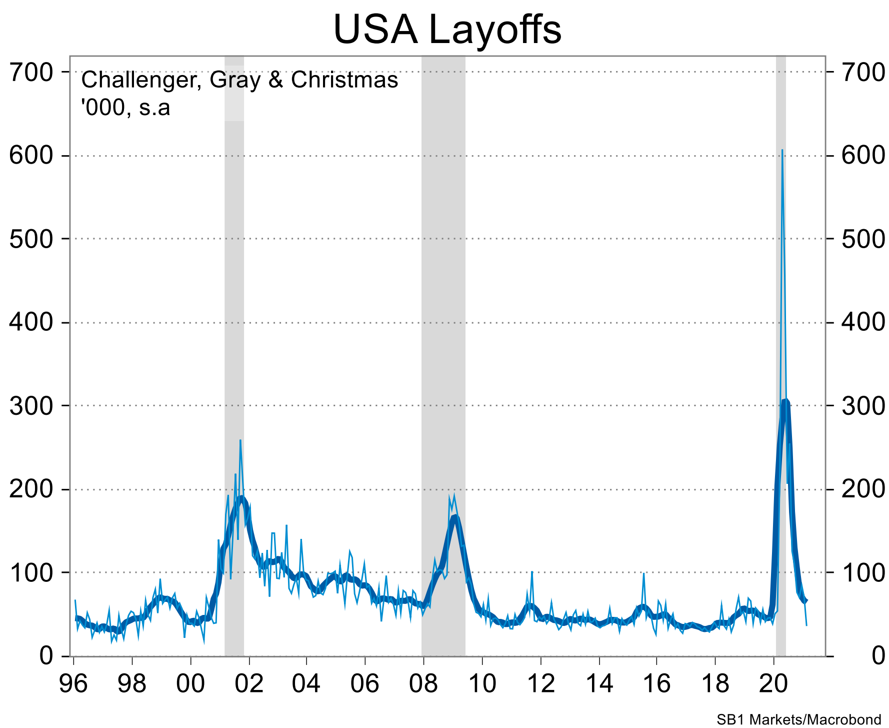


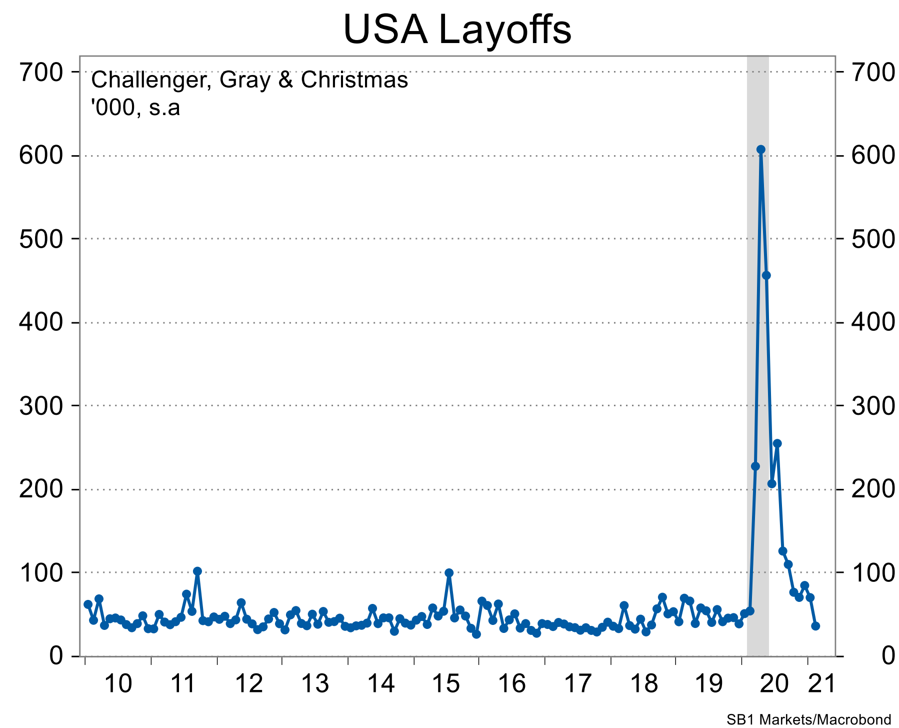


- …or are large parts of the labour market tight 'for real'? A large swat of those who have withdrawn from the labour market say it is corona related. When the economy most likely opens up in the coming months as the virus will be kept in check by the vaccines, will these workers return to the labour market?
- Hiring plans are still very aggressive
- The **number of unfilled vacancies** is also high, according to official statistics (last obs. Dec) – as if the unemployment rate was 4%, not close to 7% (as it was in Dec). The U/V curve moved outwards after the financial crisis. Will it shift outwards once more?

SpareBank 1 MARKETS

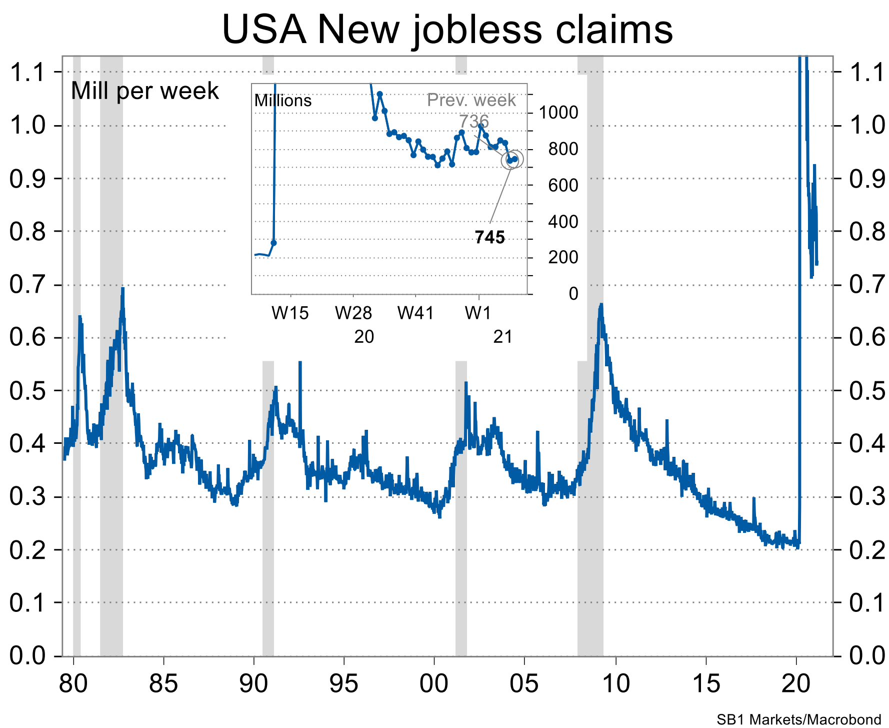
A sharp decline in announced layoffs in February, the first ‘normal’ month in 1 y

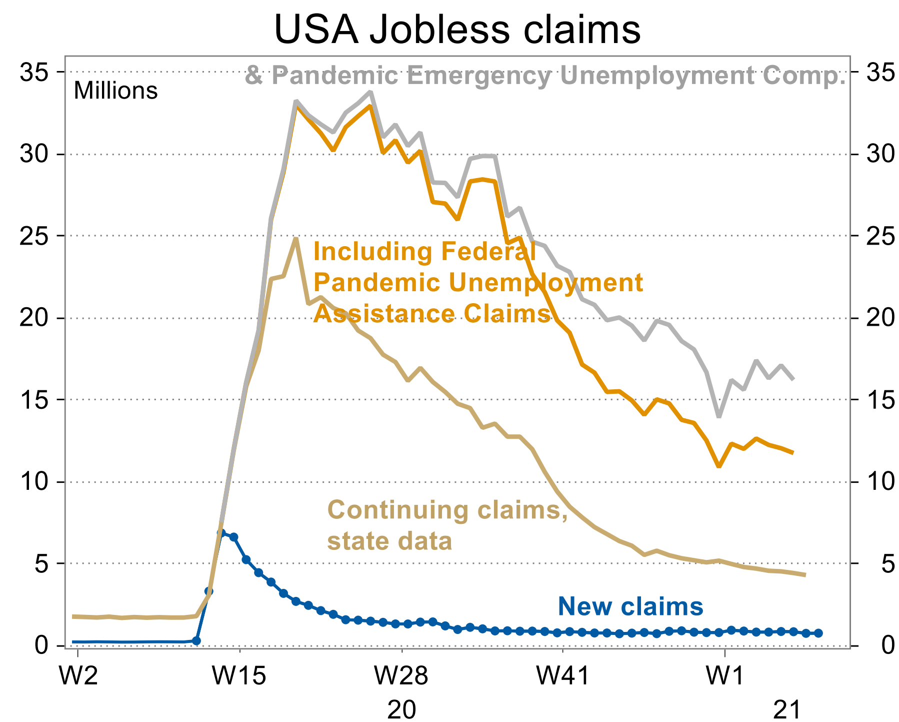




Are new jobless claims on the way down again?

New claims have been trending slowly up since late last autumn but improved two past weeks

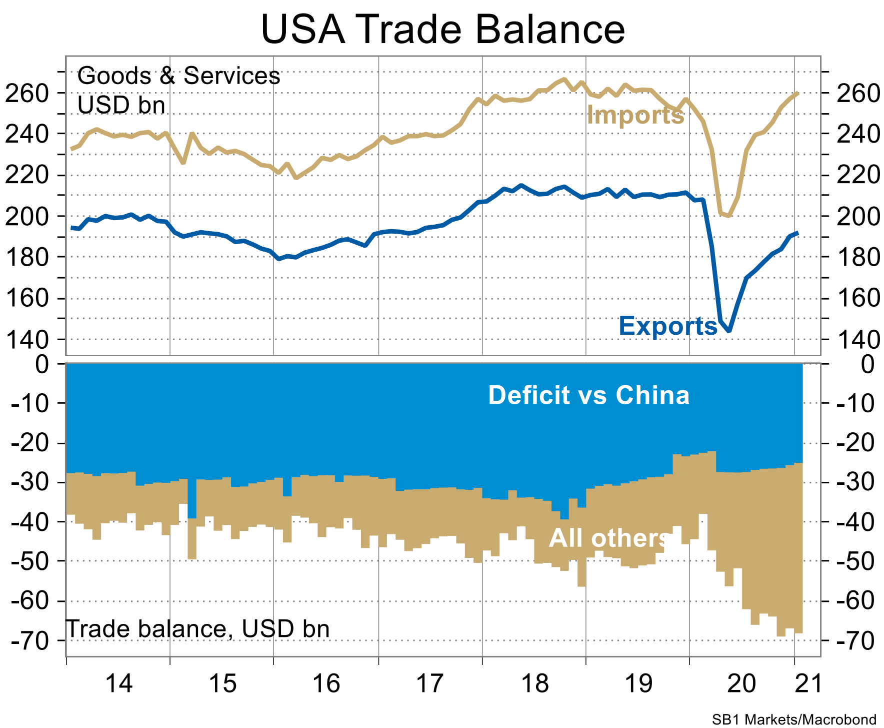


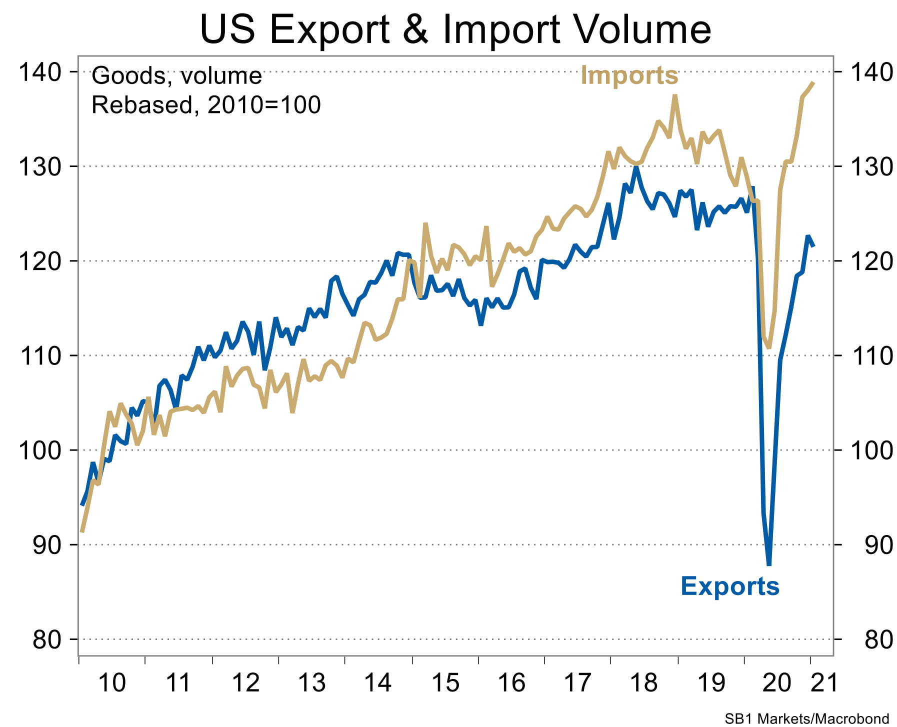


- New claims up by 11' following the 10x larger decline the previous week – to 745'
  - » Anyway: The inflow is still far above anything "normal", signalling still serious 'turbulence' at the US labour market

Export volumes stalled in Jan, imports continued upwards

Imports are far above the corona levels in volume terms, exports are still well below

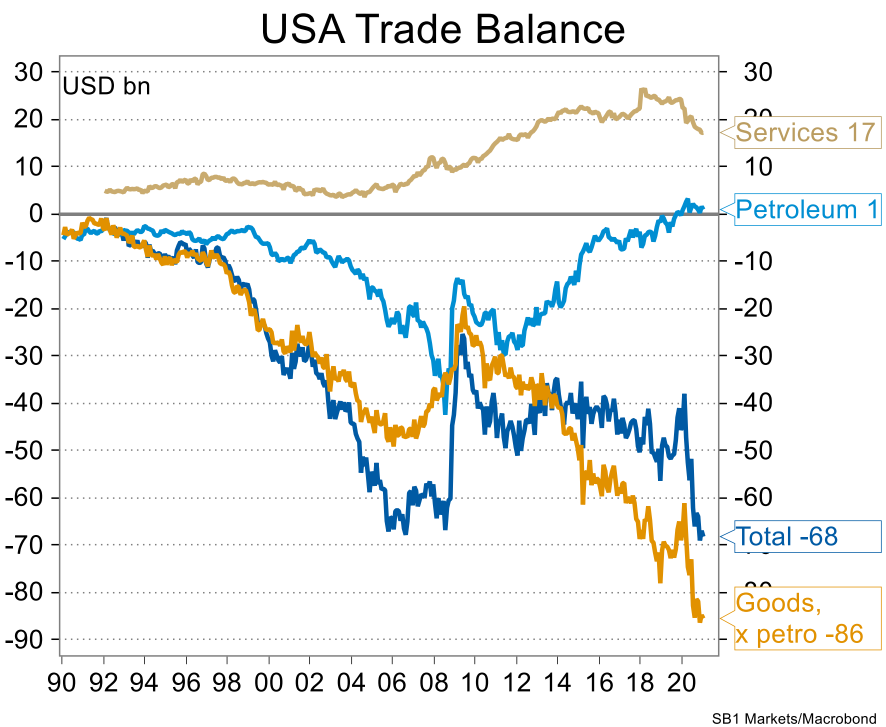


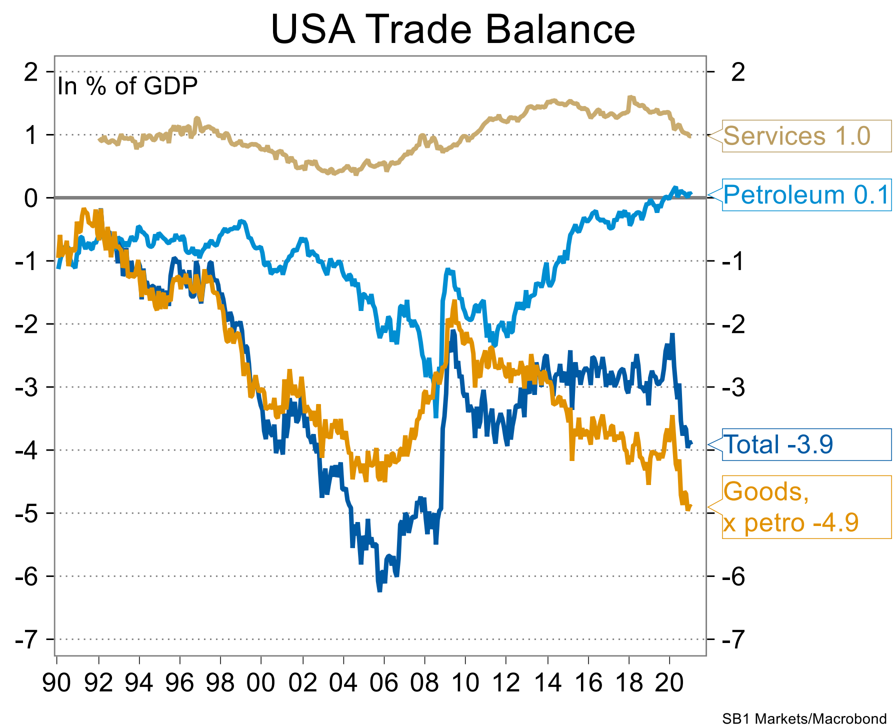


- The overall trade deficit of goods & services widened marginally to USD 68 bn in Jan (expected 67), close to the AHT at USD 69 bn in last Nov.
- Exports rose by 1%, but are still 9% below the pre-pandemic level. In volume terms, exports fell slightly in Jan
- Imports rose by 1.2 in Jan, and slightly above the early 2020 level. In volume terms, the level is 7% above! The reason is no doubt strong demand for goods in the U.S
- The deficit vs China is almost at the same level as when Trump became president
  However, the total deficit vs. other countries has exploded

The US is no longer running a deficit in petroleum, but other goods deficit at ATH

The goods deficit ex petroleum has widened to 4.9% of GDP, the surplus in services is falling rapidly

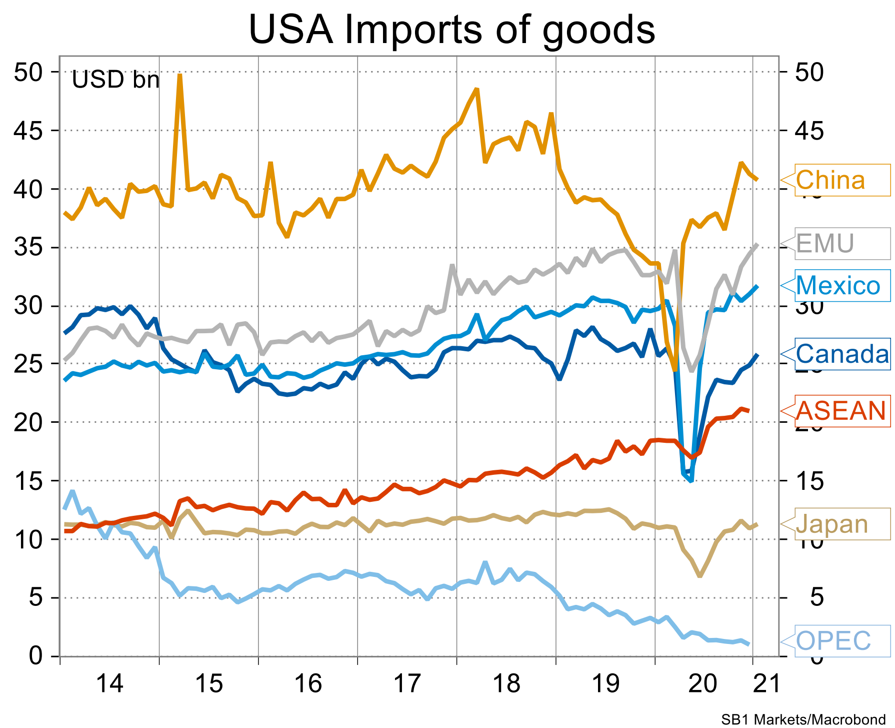


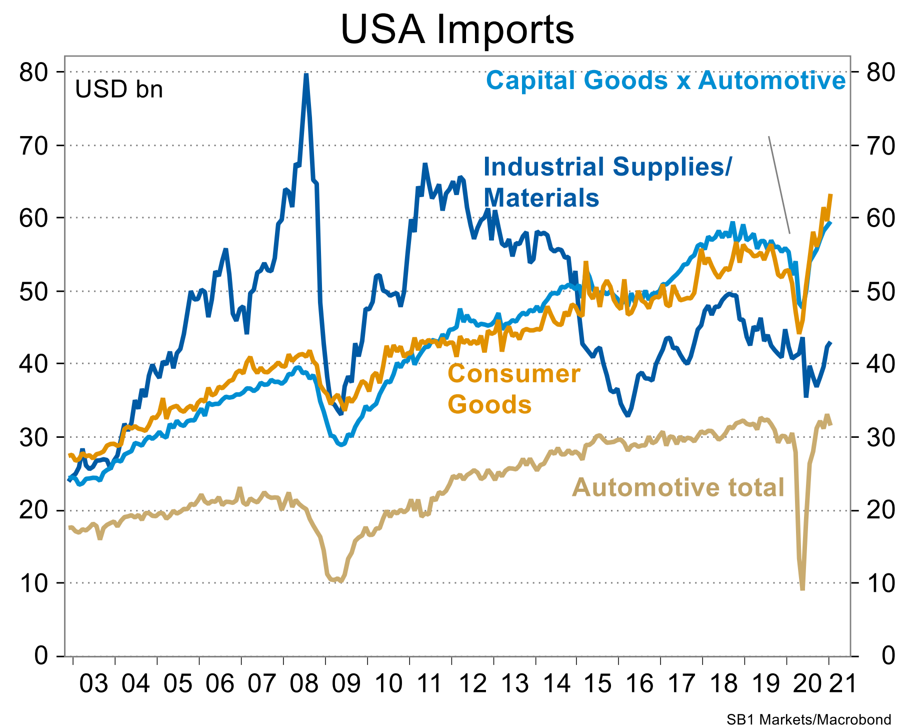


- The goods x petro products deficit was at USD -86 bn in Jan, close to the Nov ATH, or 4.9% of GDP. Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
- The petroleum trade deficit has turned into a minor surplus, from -30 bn/m in 2012!
- The US runs a surplus in services at USD 18 bn, equalling 1% of GDP but is trending sharply down (and the downturn started well before corona)
- The total trade deficit equals 3.90% of GDP, well below the record at 6.2% in late 2005

Most imports have recovered, consumer goods at a record high level

Imports of autos & capital goods close to ATH – materials are still below, partly due to low oil imports



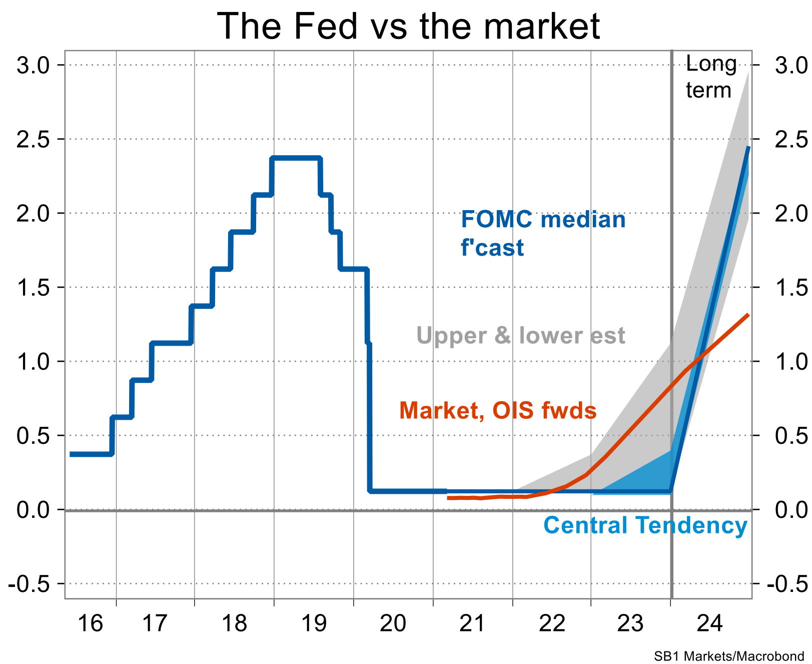


- Imports from China are well above the pre-corona level – and exports are even stronger
- Export from ASEAN (the minor Asians) are very strong too.
- Exports to US from EMU are also back to a pre-corona level, while Canadian exports are still lagging

SpareBank 1 MARKETS

Beige book: Reports of upward wage pressure – just a flash in the pan? Prob. not

Still a Modest recovery overall but a optimistic outlook as vaccines are rolled out



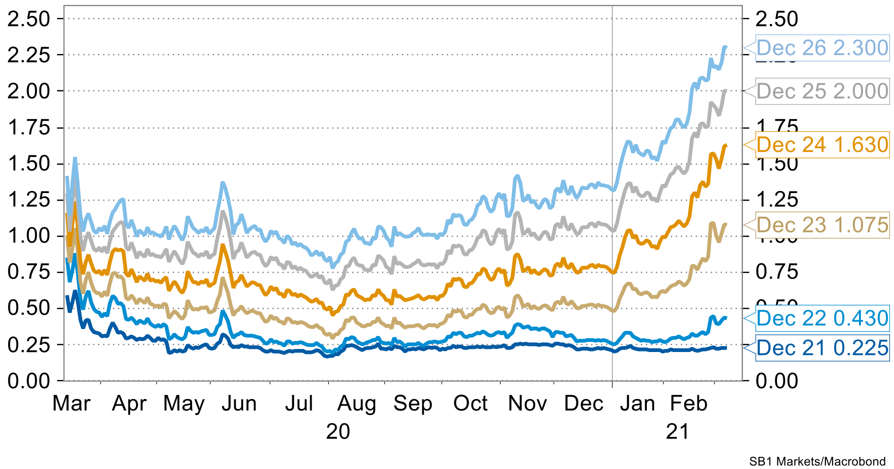
- We assume that the Fed will stay hyper-dovish until
  a) The **corona virus** is brought under control AND
  b) The **unemployment** rate has returned to well below 5% AND
  c) The employment rate has recovered most of the losses OR
  d) There are widespread reports of **lack of labour** AND
  e) wage inflation is clearly accelerating AND
  f) Inflation has been above 2% for a while
- ***The question is WHEN that will happen***
- ***However, last week, gov. Powell once again reiterated his dovish stance, with some caveats (check next page)***

- Growth still **modest or moderate** in most districts past six weeks, according to the Fed's 12 district banks. Vaccines lifted the mood, while short term corona trouble did not
  - » 9 districts reported modest growth
  - » 1 district reported no change in activity
  - » 2 districts reported a decline in activity
- Activity in **demand for leisure/hospitality service** remains subdued due to Covid-10 restrictions. Both **retail sales and auto sales** were robust
- **Manufacturing** on the way up, despite supply chain challenges. Energy kept expanding. The **housing market** is still going strong, while the commercial real estate markets are still weak. **House prices** are (of course) still climbing
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** remain modest but many districts are seeing an upward pressure on wages, which is expected to increase over the coming months
- **Input prices** are on the way up, but there was a mixed ability to **increase selling prices**.
- **In sum:** Although this report was more positive than the previous one, we see no reason to expect the FOMC to change its assessment of the economic outlook, at the meeting on March 17th. Markets probably focused more on the signals of a tighter labour market

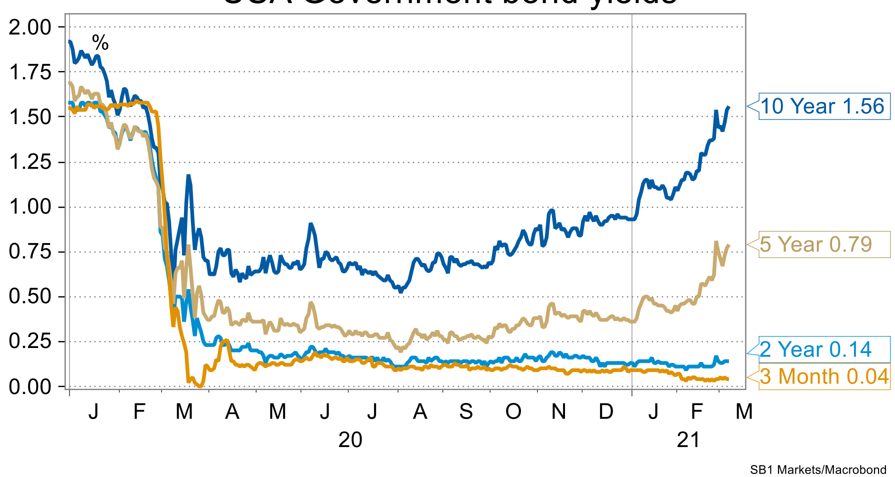
Chairman Powell reiterated the Fed's stance on monetary support…

…but markets just shrugged it off. <u>*At least Powell's implicit timeline*</u>

USD 3 m LIBOR FRAs



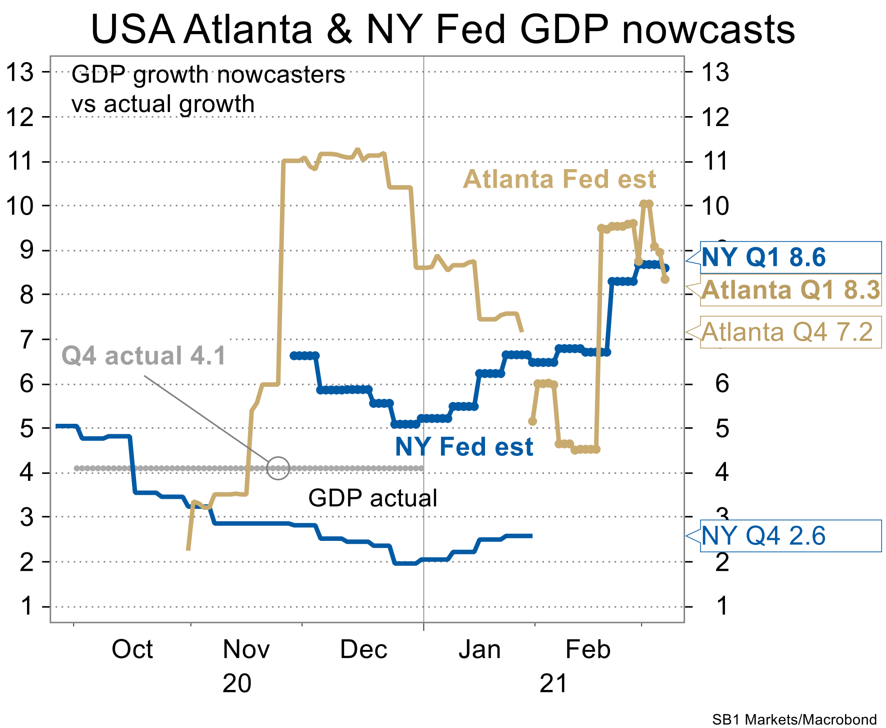
USA Government bond yields

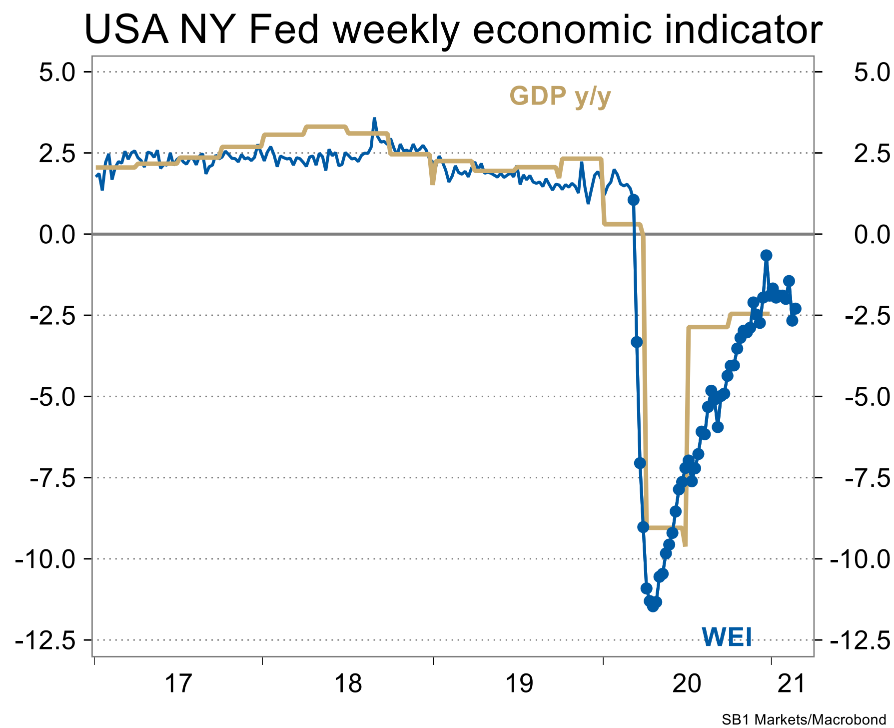


- Following the recent rise in yields, Fed chairman Jerome Powell tried to reassure markets that monetary support would be upheld and that the Fed "will be patient", even if the 12 m inflation rate will get a boost the coming months due to the base effects from falling prices m/m last spring. However, markets were not convinced. Rather, the market believes in **faster growth and a rise in inflation**, and that rates will have to be raised sooner than what has been communicated by the Fed, even if Powell stresses that it will take long time to return to *'maximum employment'*
- Mr. Powell acknowledged that the rise in yields had caught his attention and stated *"I would be concerned by disorderly conditions in markets or persistent tightening in financial conditions that threatens the achievement of our goals."* This, combined with his statement that he sees the current policy as appropriate seemed to confuse the market more than reassure it.
- In fact, equity markets receded and the **U.S. 10 y treasury yield rose 5-6 bps** following the chairman's comments. However, yields retreated afterwards, and the hike was anyway not close to the surge in yields Feb 25
- The Fed likely thinks the inflationary pressures we are seeing are temporary, and they may very well be…

8% Q1 GDP growth? At least according to Fed nowcasters

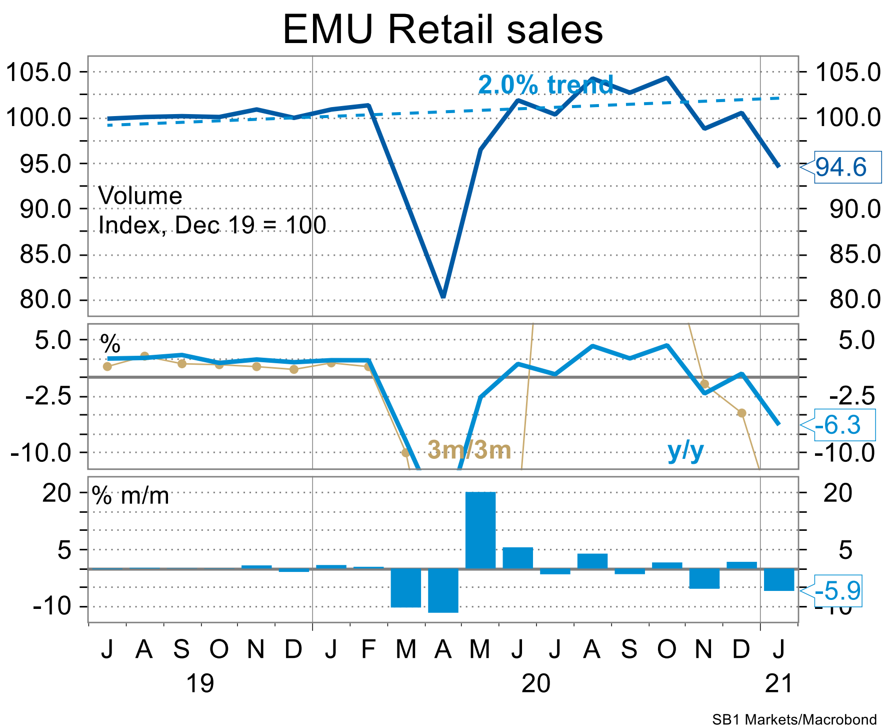
However, NY Fed's weekly GDP indicator does not signal a further narrowing of the gap vs. pre corona

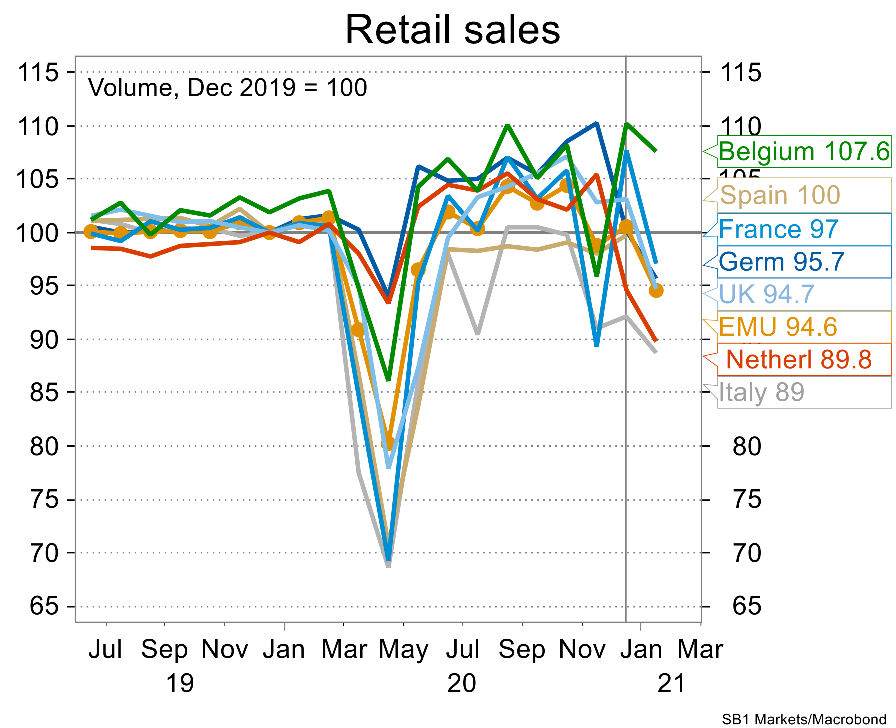




Retail sales fell far more than expected in Jan, -6%! Down 9% from Oct.!

Sales were expected down by 1.3%... No big data, here either? Sales down 4.4% from Feb '20

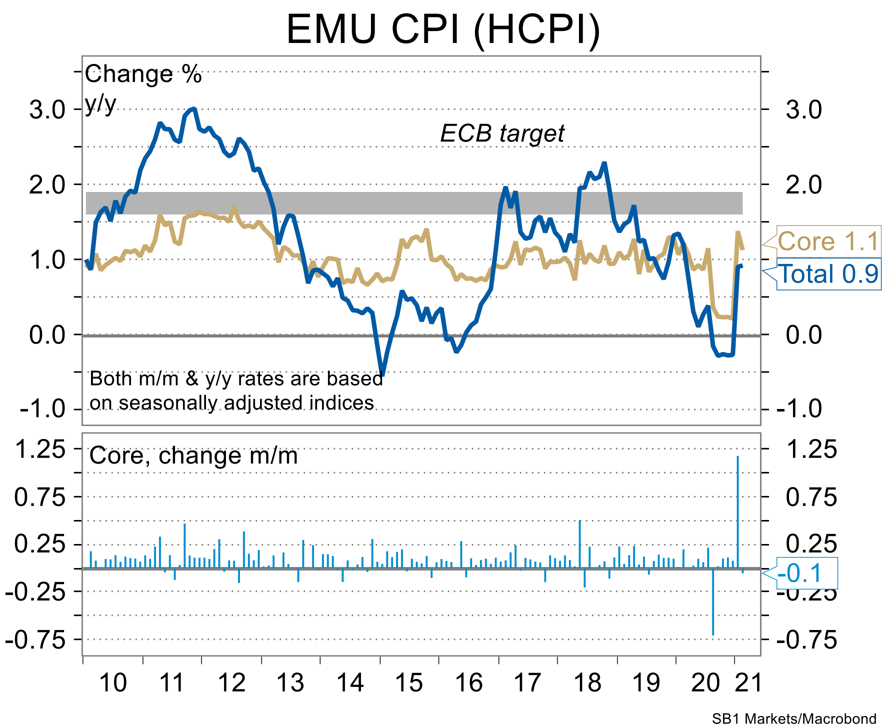


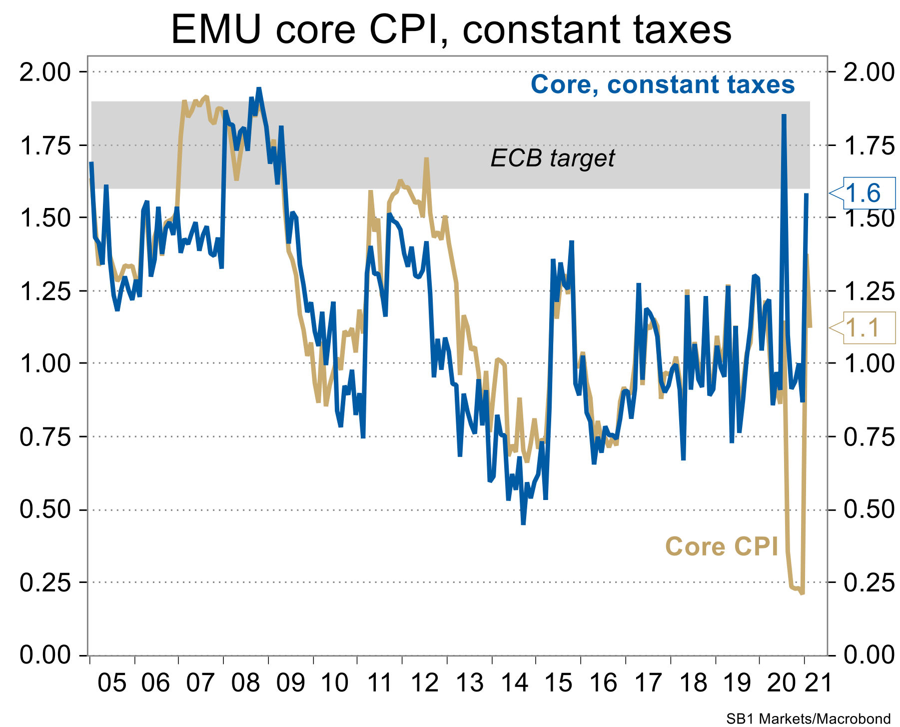


- Sales fell everywhere – and by large numbers in all main countries, the main countries were down 4% (Italy) to 10% (France)
- The sharp cut in retail sales in January will very likely not be compensated with strong growth rates in February and March, even if mobility has increased most places. The spread of the (mutated) virus in accelerating in many countries, and planned easing of restrictions will be postponed – or even reversed. Vaccines will not arrive in huge quantities before April and the following months
- Lower retail sales equals lower **private consumption**. There is no reason be expect **service consumption** to fare any better. Inventories will act a buffer (inventories will be build in the production chain) but **GDP will be affected as well** – and probably not less than in Q4. The PMIs – or other surveys – do not however signal a dramatic decline in Q1. <u>And in the end, the virus challenge in Q1 will have limited impact on economic activity in H2 – and beyond</u>

SpareBank 1 MARKETS

Core inflation down 0.3 pp to 1.1%, while headline inflation held steady at 0.9%



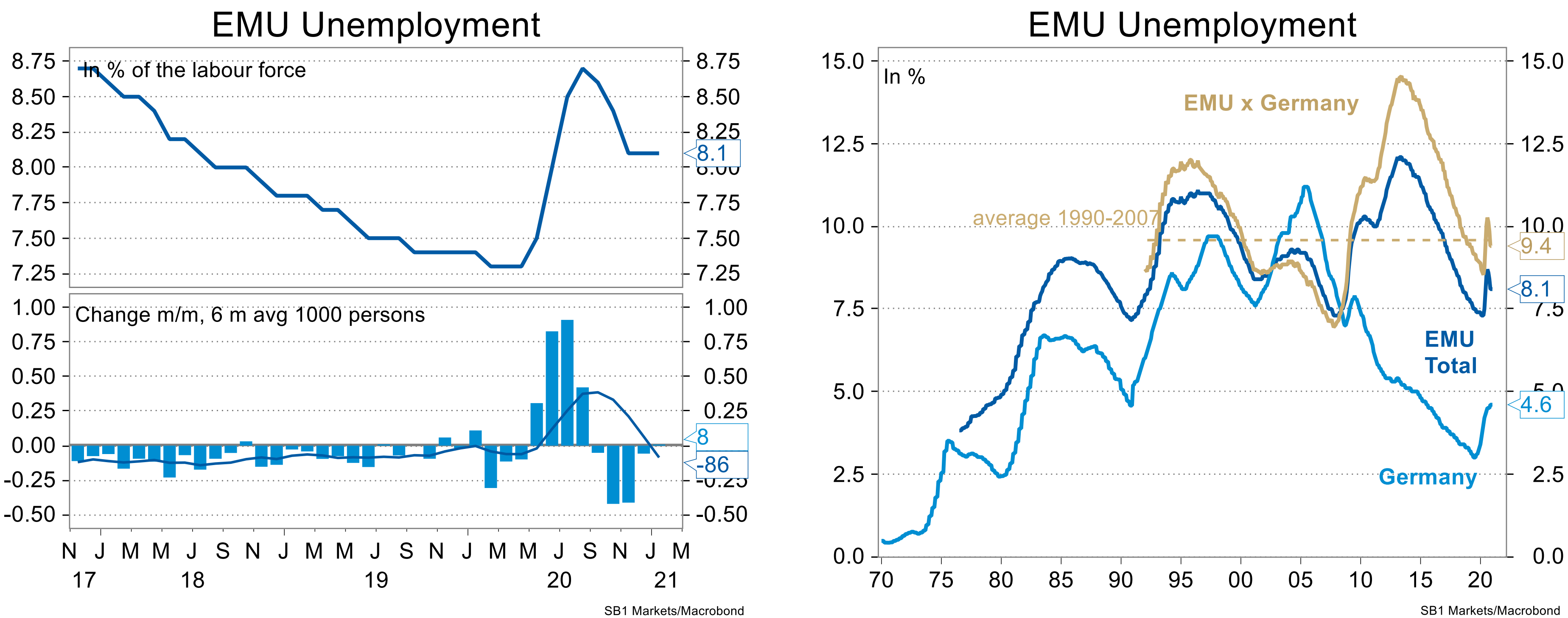


- In February, core prices fell by 0.1% m/m and the annual rate declined to 1.1% from 1.4%. Core inflation rose in most countries, the most in Germany and the Netherlands. Spain is the only major country where prices are dropping (0.1% a.r)
  - There might be more particularities than the impact of the normalization of the German VAT rate, as the m/m lift was larger than explained by this factor alone.
  - The core, constant taxes CPI was 1.6% in Jan, and we think the underlying core inflation most probably is approx. 1.1%
- Headline HICP was unchanged at 0.9% y/y in February
- Energy prices still contributes at the downside, as these prices were down 1.7% y/y – even if prices rose 0.9% in Feb – taking the annual headline rate down by 0.16 pp. Soon, energy prices will change sign - and contribute positively to the headline. Perhaps the ECB enjoys that but households do not

SpareBank 1 MARKETS

Unemployment steady at 8.1% (exp. 8.3%)

Unemployment stats are 'useless', due to gov. employment subsidies & furlough schemes



- The number of unemployed is now 1.01 million higher than in January 2020
  - » In Europe, companies are partly paid to take care of their workers during the lockdown. These government employment programmes makes unemployment stats useless as a gauche of real demand for labour (but the impact on household income is better mirrored by unempl. rates)
  - » Moreover, those who are furloughed are not counted as unemployed the first 3 months in the labour force surveys (like in the Norwegian 'AKU')
- The best proxy for the real unemployment rates, at least vs. demand for labour is the number of hours worked. Q3 was down by 4.6% from Q4-19

Highlights

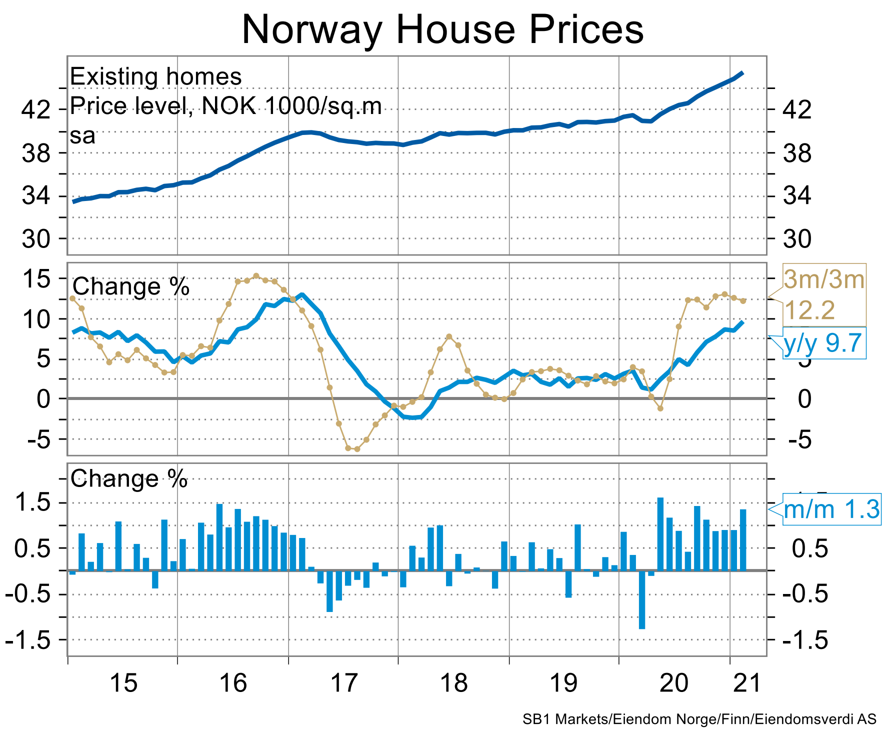
The world around us

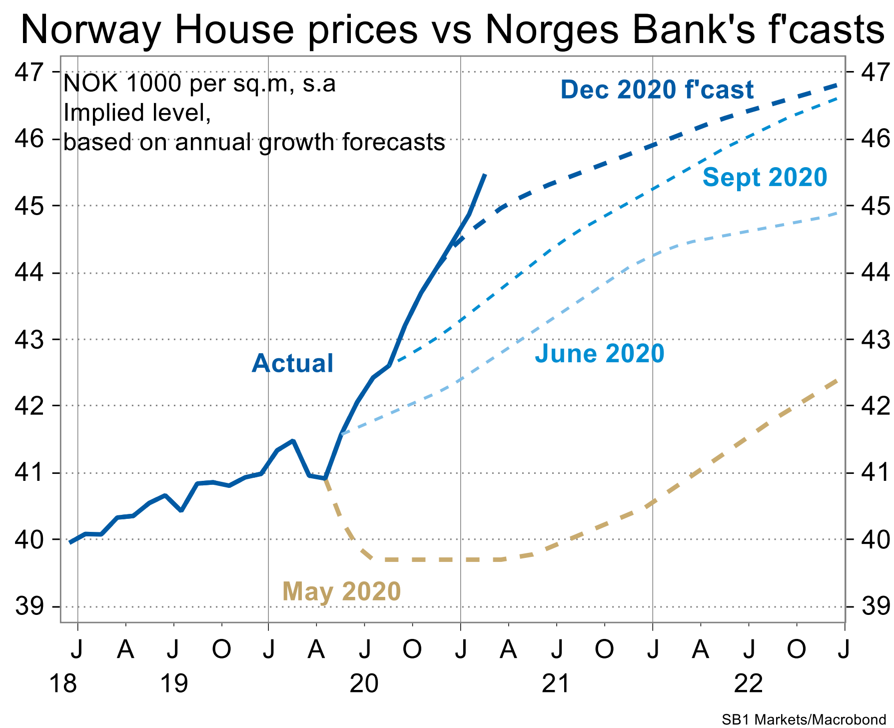
The Norwegian economy

Market charts & comments

Oops, house prices accelerated upwards in February. Norges Bank must revise its paths

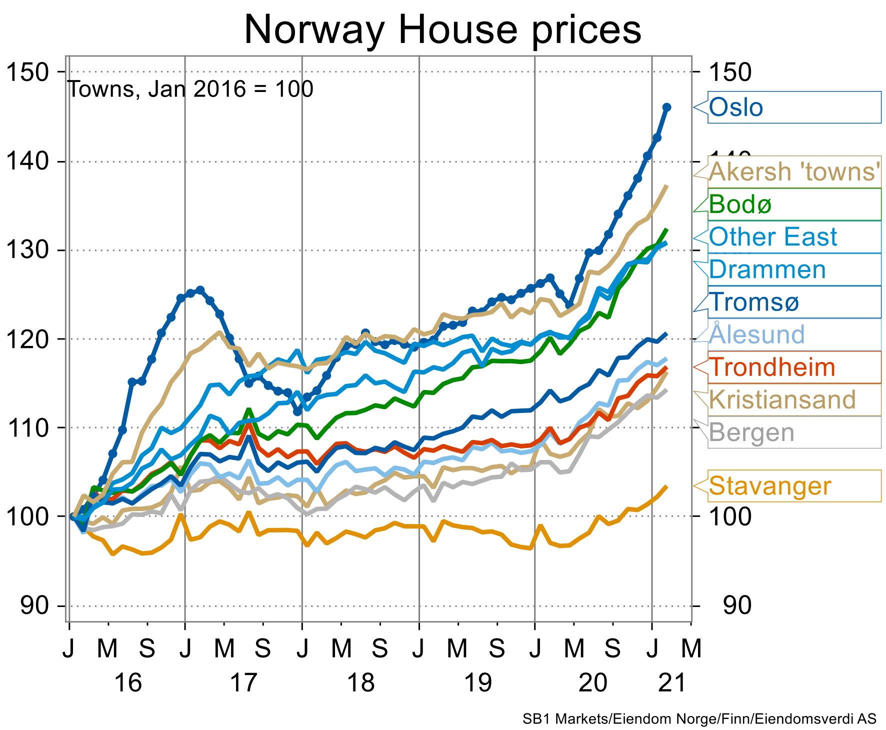
Both the house price & the interest rate path. Prices +1.3% m/m, NoBa exp. 0.4%. y/y 9.7% vs 8.0%!

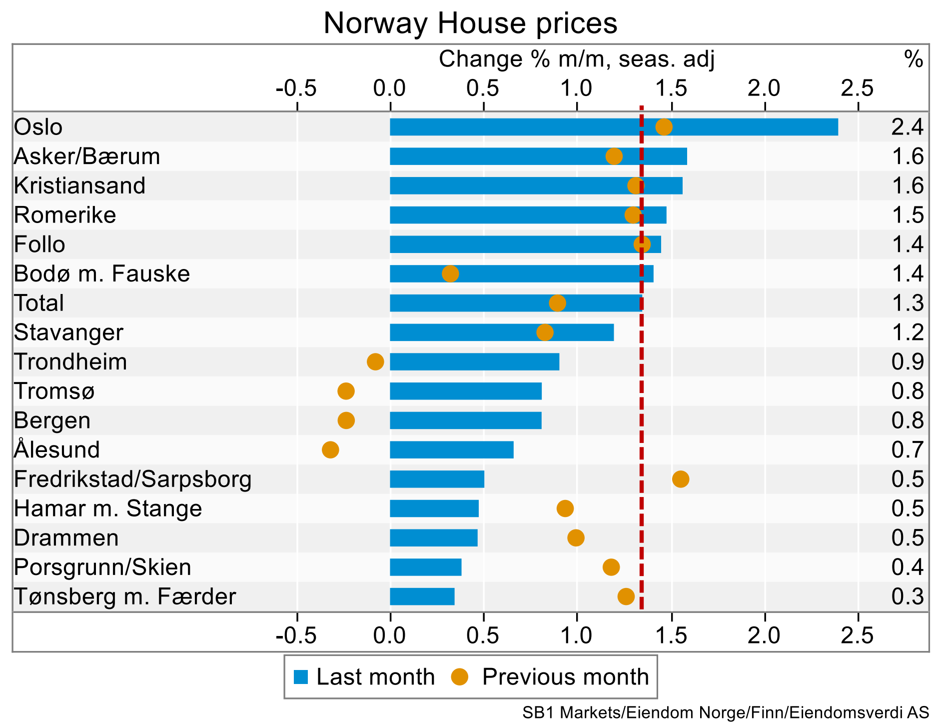




- House prices rose by 1.35% seas. adj in Feb, up from 0.9% in Jan (revised up by 0.2 pp). We expected 0.6%, NoBa 0.4%. The past 3m/3m, prices are up by 12%, annualised. Prices are up 9.7% y/y, NoBa expected 8.0% back in Dec. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% last Feb), has been much more important than the corona setback and higher unemployment
  - » All cities reported higher prices m/m. Oslo at the top +2.5%. Tønsberg at the bottom, 0.3%
  - » Smoothed 3m/3m prices are up everywhere too. Oslo at the top, at a 22% pace! Outer east towns at the bottom, still up 4% at an annual rate
  - » The number of transactions rose in Feb and the level is high. The inventory of unsold homes is sliding down again, and it is very low vs sales per month
- **The sharp lift in house prices will no doubt be an important factor when NoBa very likely lifts the interest rate path substantially on March 18**

Prices up everywhere m/m, ‘outer east’ the least, Oslo the most

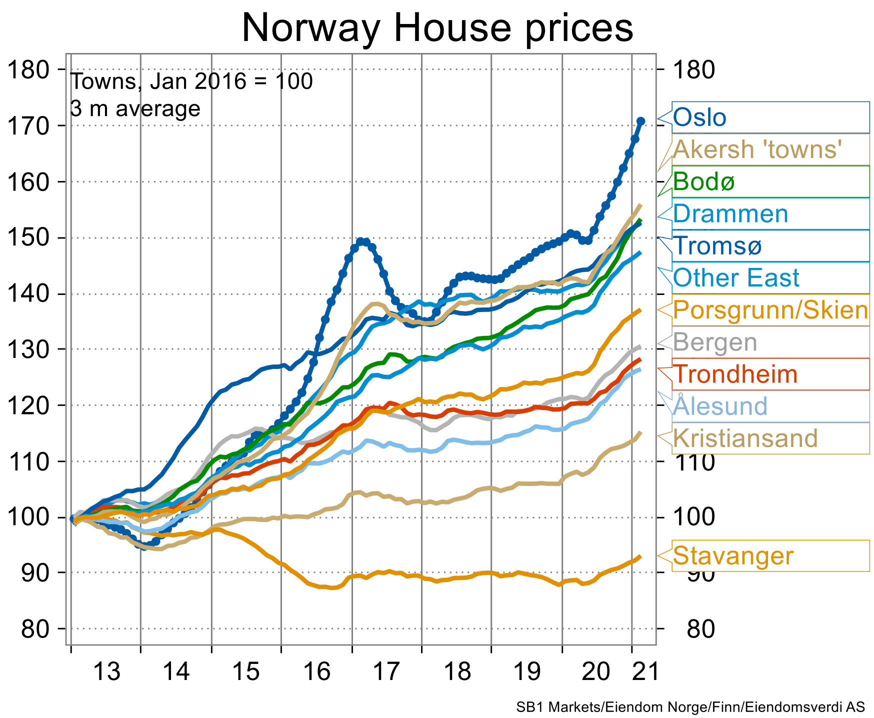


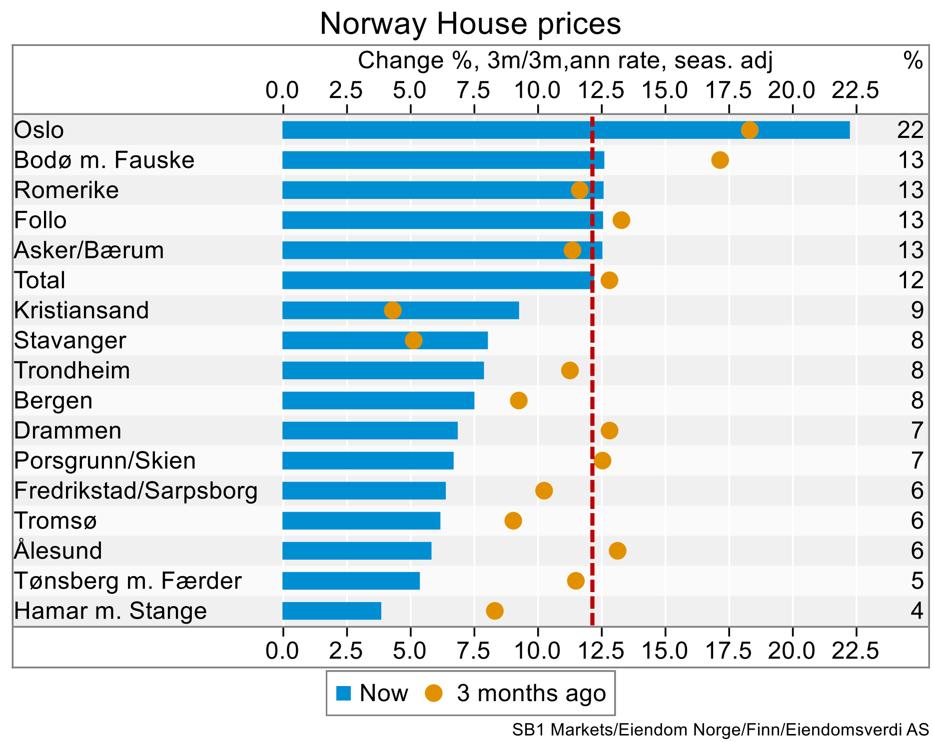


SpareBank 1 MARKETS

Recent months; measured 3m/3m: All up, average at 15%. Oslo at 22%

Prices in Oslo fell the most in March/April – but has recovered sharply since then, now up 19% 3m/3m

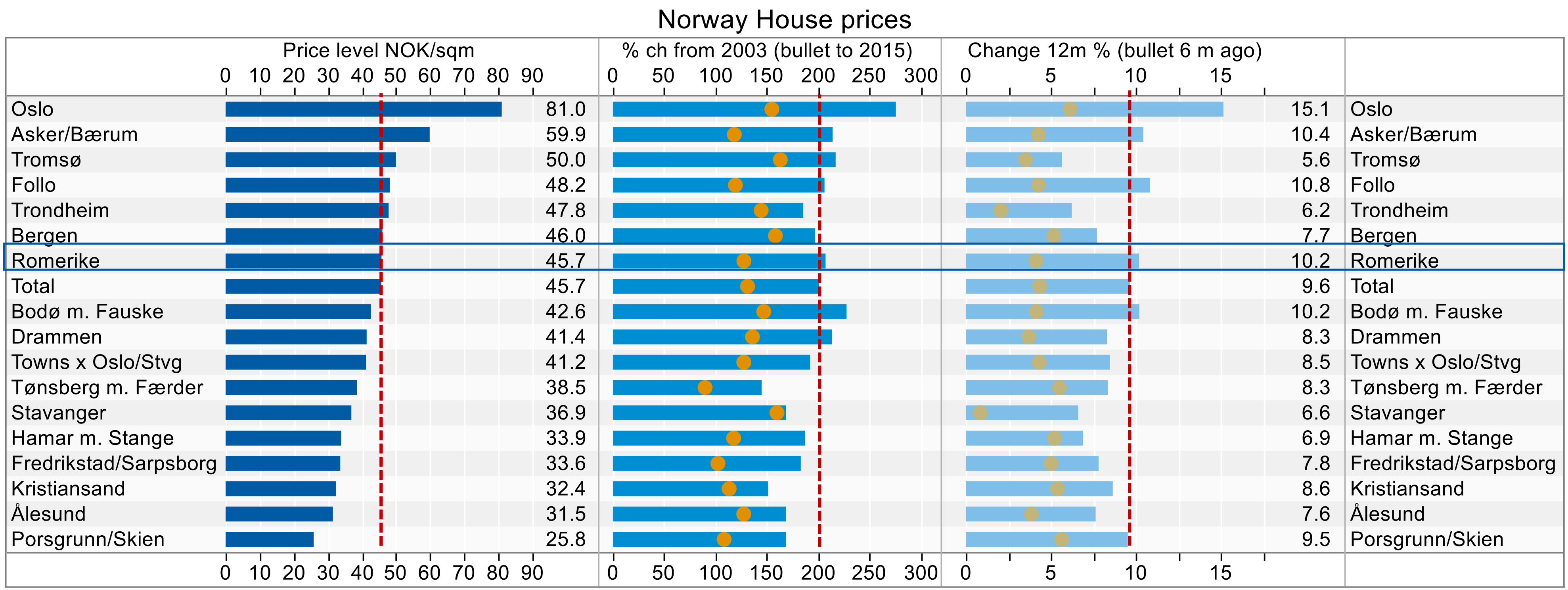




- Stavanger is perhaps best described as flat, recent years, even if prices have climbed since last spring.
- All others are up – with Oslo in the lead vs the early 2016 price level

Oslo in the lead past 12 months, up 15.1% - but the boom is broad!

But the weakest chain in the link through last year, Tromsø, is up 5.6%

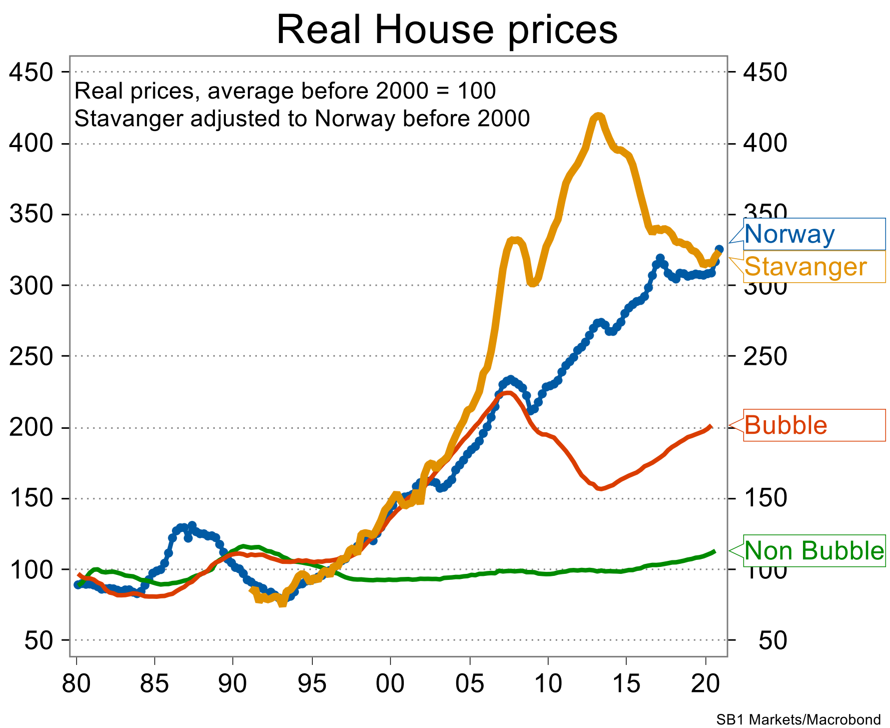


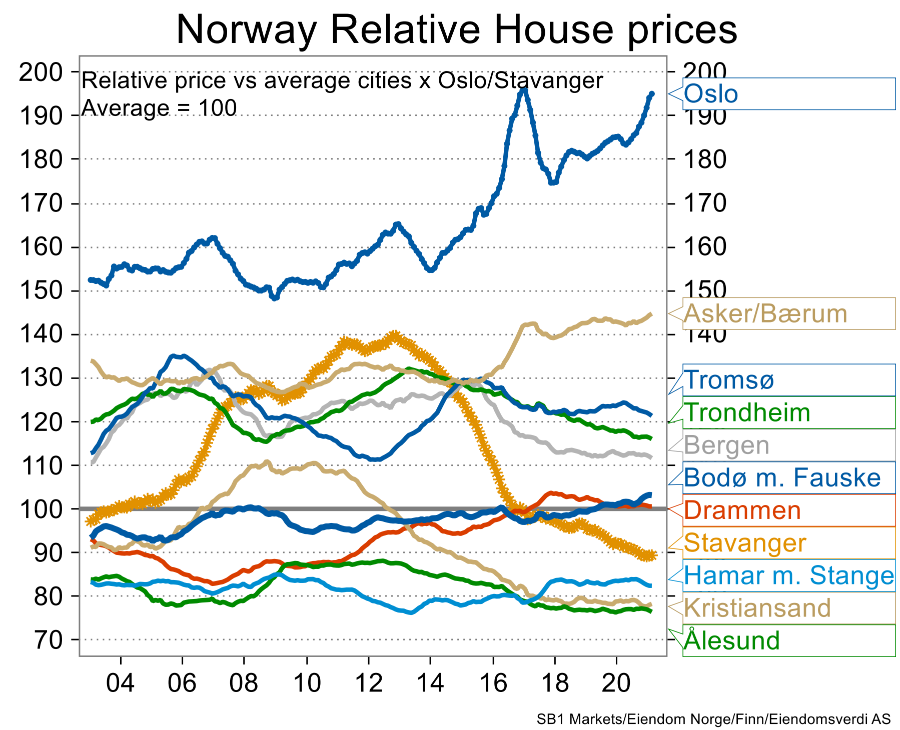
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

SpareBank 1 MARKETS

The Stavanger case: Could it happen elsewhere?

From no 2 in Norway in early 2012 to the bottom of the league now



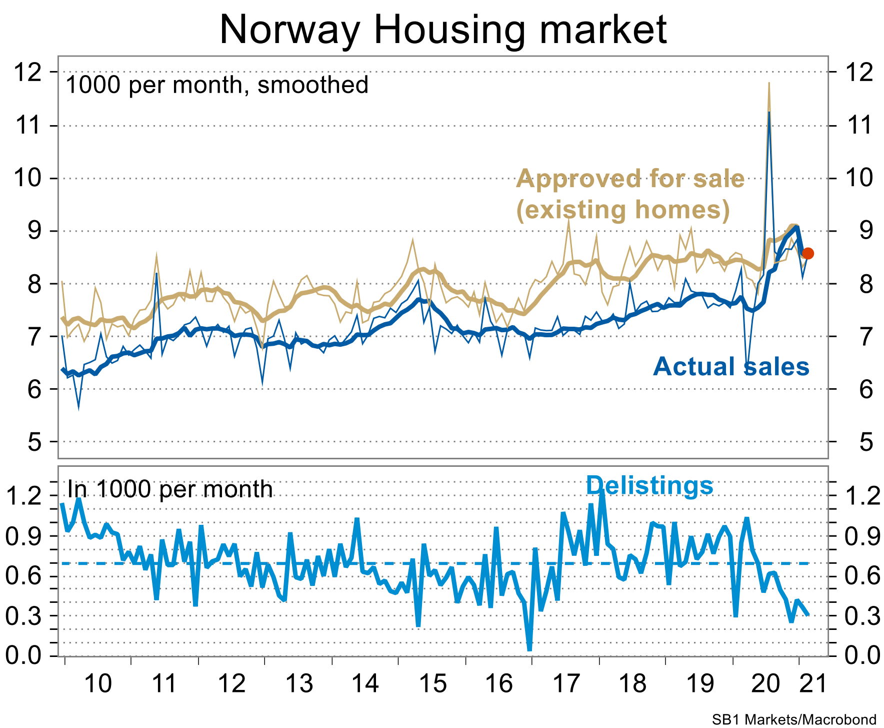


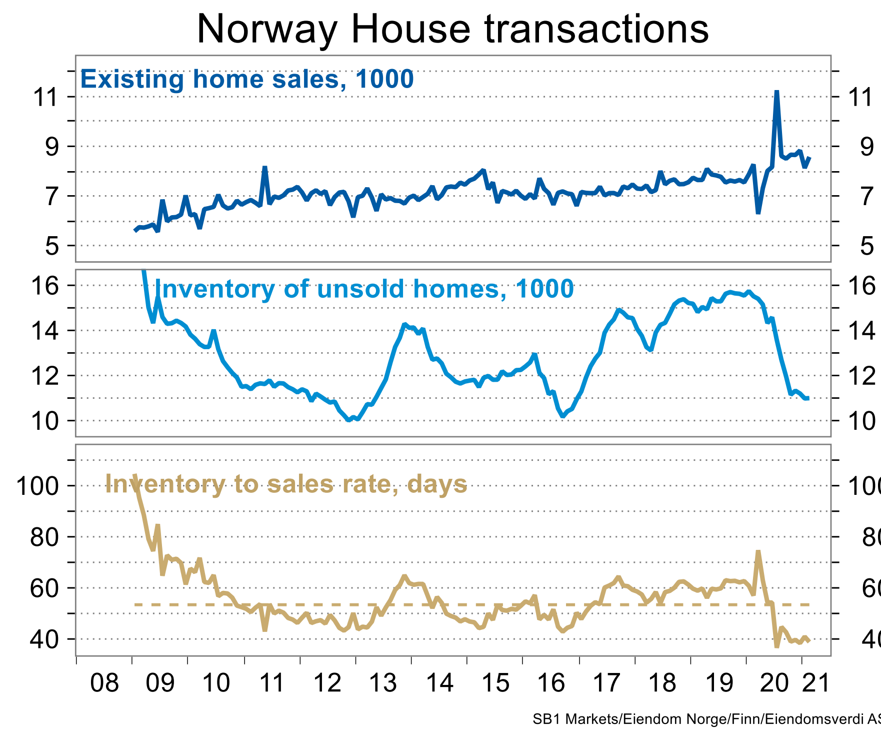
- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

SpareBank 1 MARKETS

The no. of transactions down but still high in Jan, inventory further down

The inventory is not far above previous troughs but the speed of decline has slowed



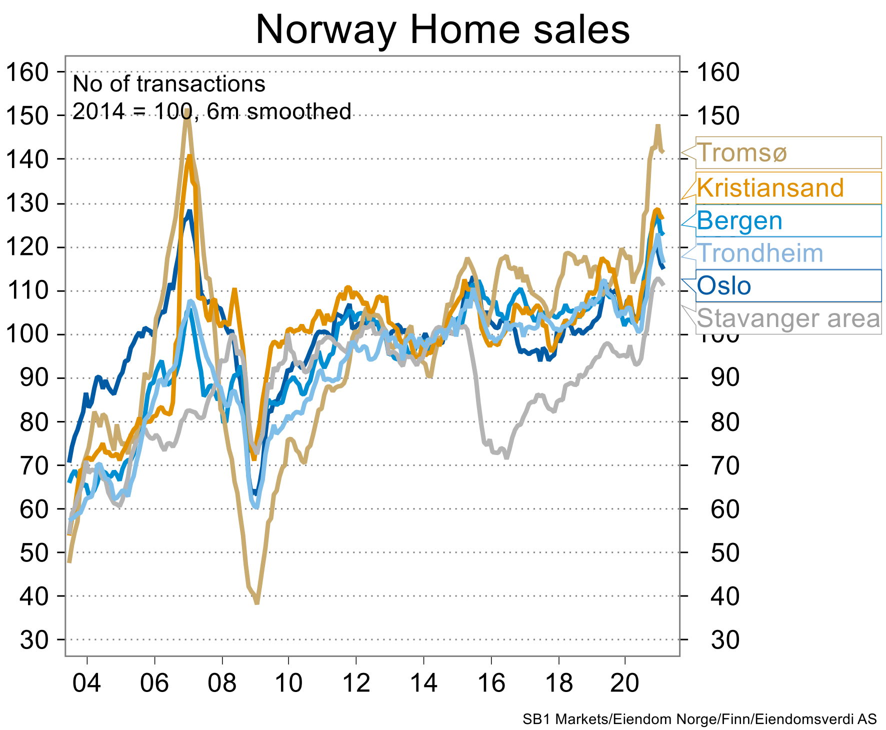


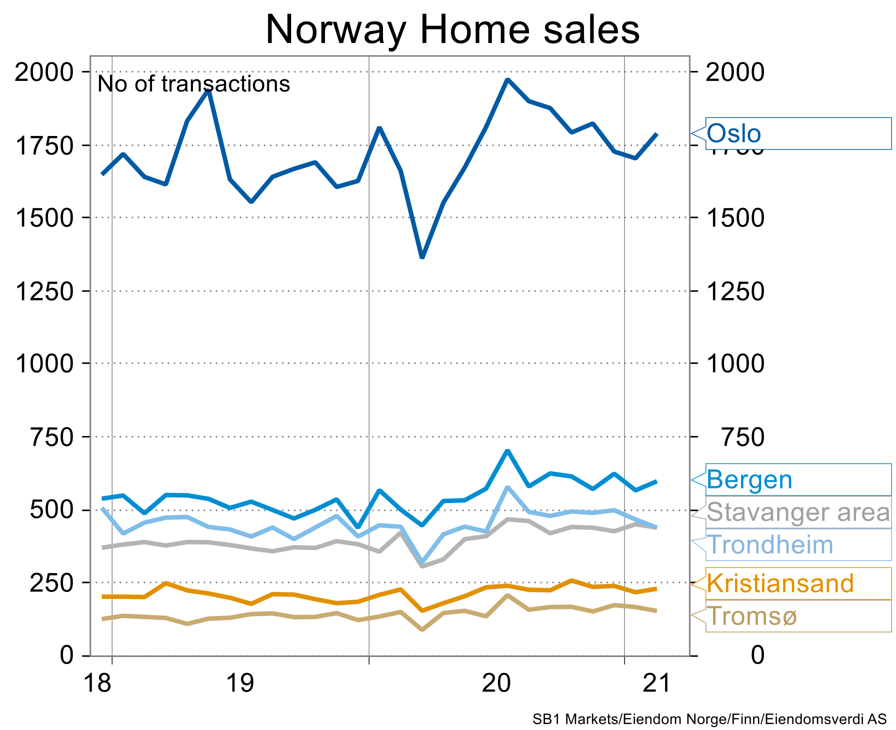
- **The number of transactions recovered** from a high level in Dec but remained well above the pre-corona level
- The **supply of new existing homes for sale (approvals)** declined in February but remain at a higher level than normal
- **The number of delistings** is far below a normal level – house are rather sold ☺
- The **inventory of unsold homes** fell further in Feb after stabilising the previous 3 months – at a level almost 30% down vs. the pre-pandemic level
- The **inventory/sales ratio** has contracted sharply too, and is close to ATL. The **turnover time** was 40 days in Feb vs an avg of 54 days. As more homes that have been at the market for a while now are sold, the **average time on market for homes sold** is still high, at 50 days vs. an average at 43. Time on the market will very likely decline rapidly the coming months, as even the shelf warmers are accepted by eager buyers

SpareBank 1 MARKETS

Fewer transactions in Oslo in the latter part of last year – level still high

The decline no doubt due to lack of supply. Sales have increased more in Tromsø than elsewhere



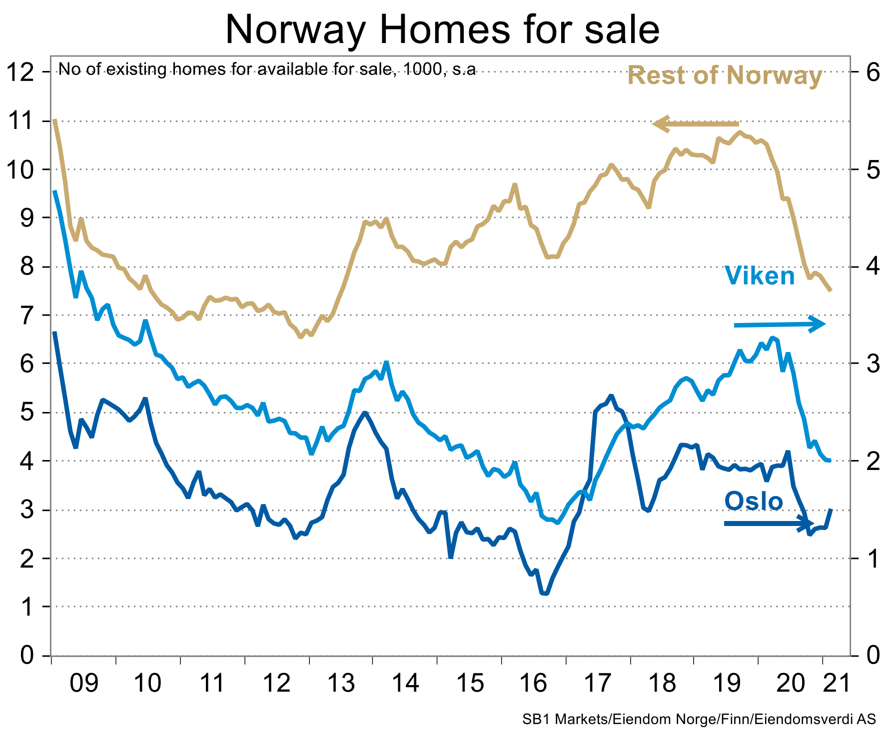


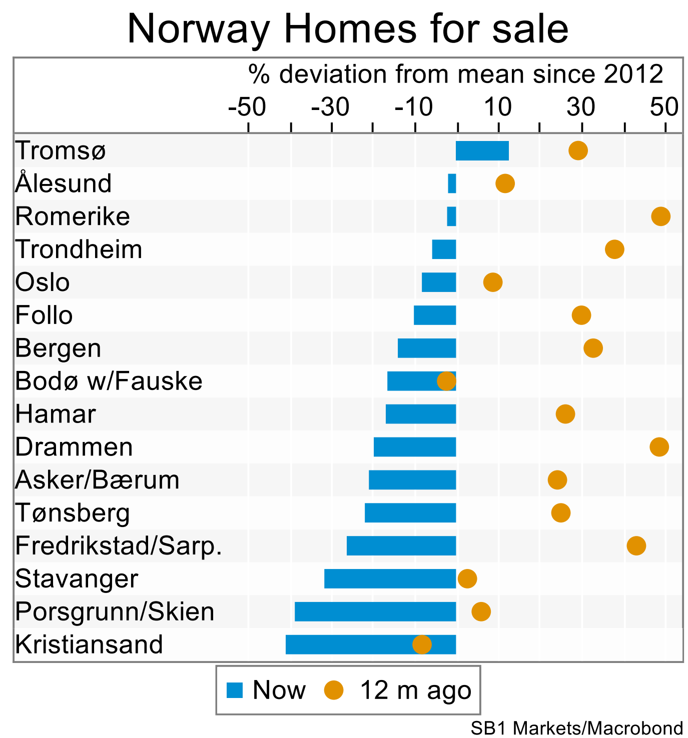
- Also, in Tromsø the inventory of unsold homes is larger than 'normal', and over the last year, prices have appreciated the least among Norwegian towns

SpareBank 1 MARKETS

The inventory is falling everywhere, and is lower than normal almost everywhere

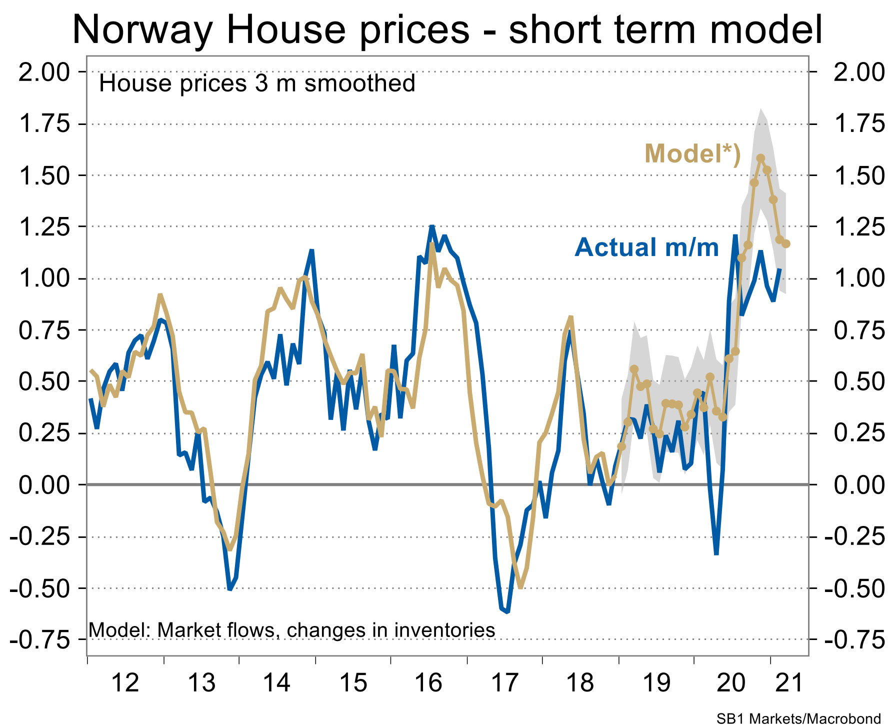
… and Tromsø is the only town with a higher inventory vs the average since 2012





Short term market flows suggest a price acceleration

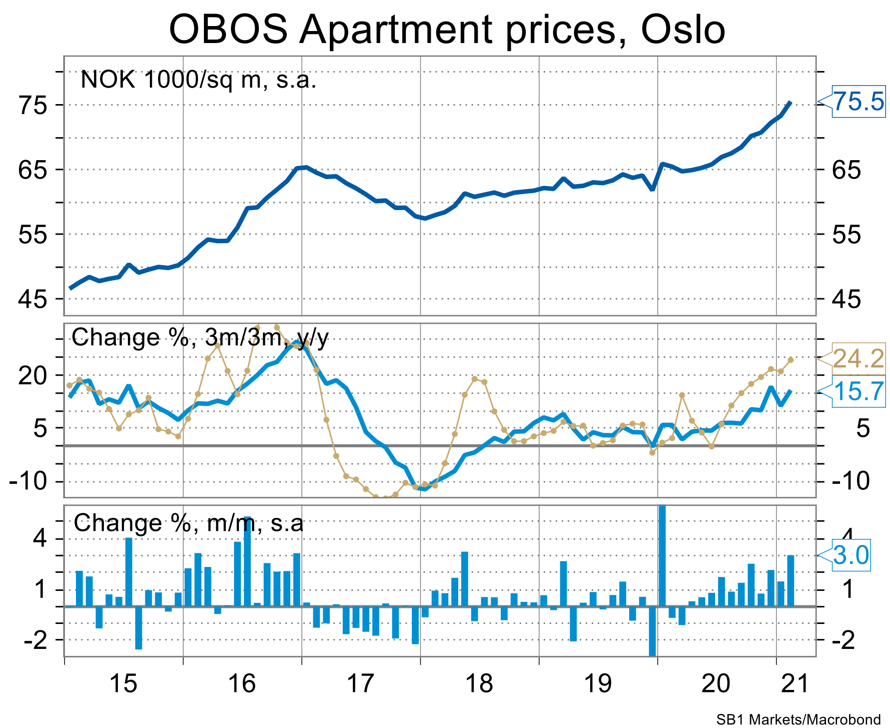
However, the model signals a slower growth now than in the past 4 months

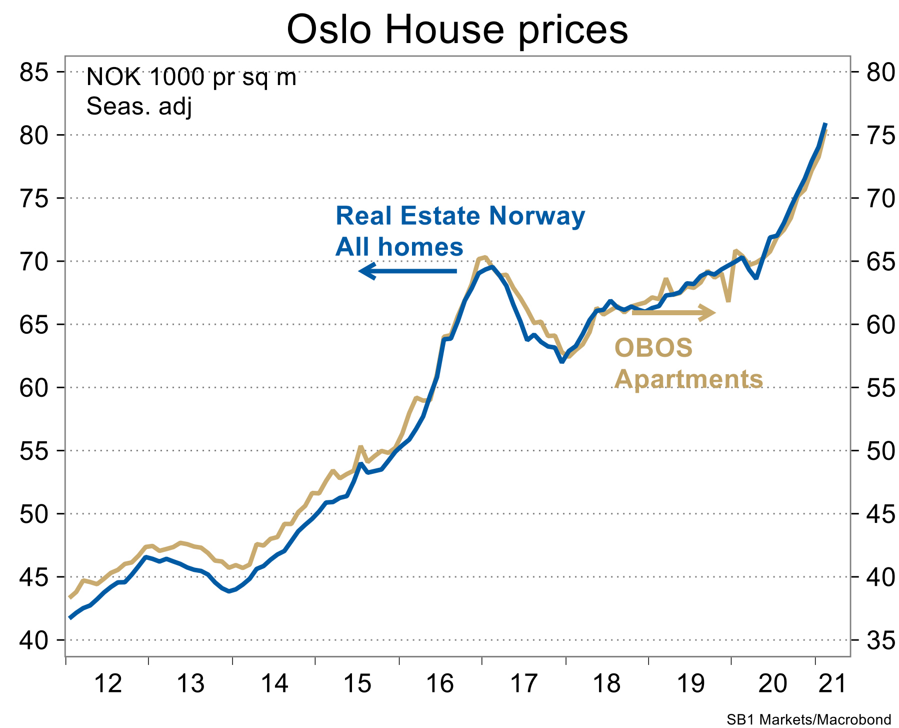


- The supply of new homes for sales and the inventory suggest rapid price growth the coming months, even faster than the past 3 months (avg)!
- The model signals a 15% growth pace, a tad higher than the current pace
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

OBOS apartment prices confirm the Oslo surge, up 3% in Feb, up 15.7% y/y!

Underlying growth recent months even higher, at 24%...

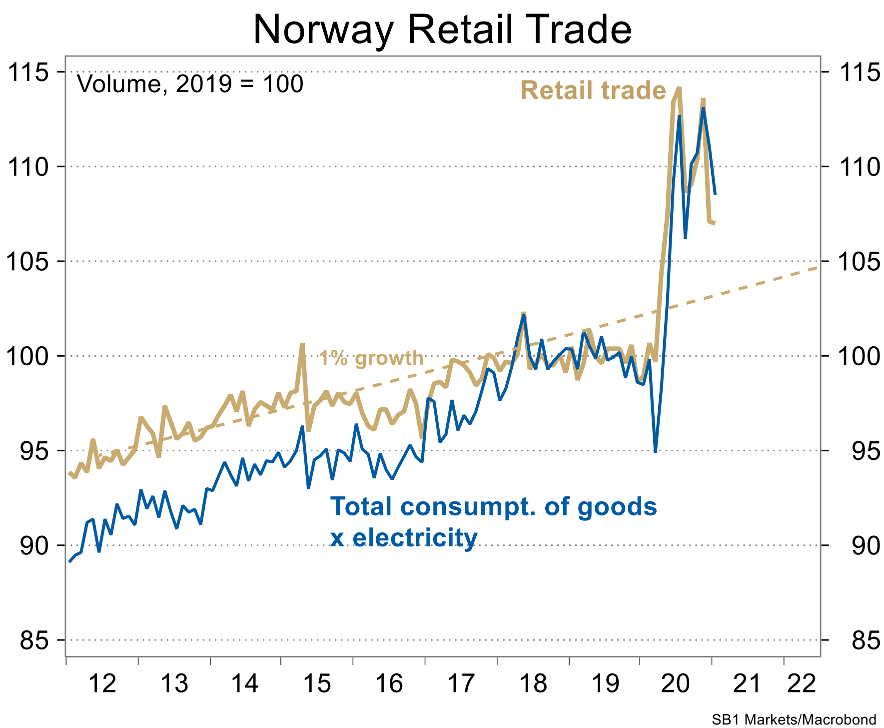


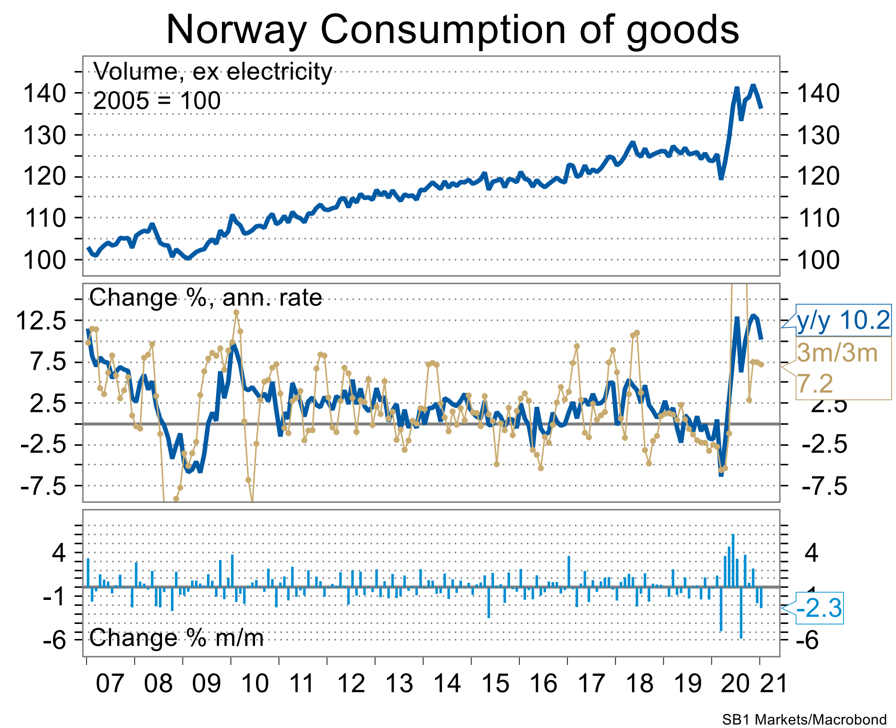


- Prices rose more than 5% not seasonally adjusted in February
- Co-op apartment prices follow the overall Oslo market quite closely, the average price level is some 6% lower than total Oslo market

Retail sales marginally down in January, still at a very high level

Sales fell by 0.1%, we expected +1%, which was close to consensus, following the 5.7% drop in Dec

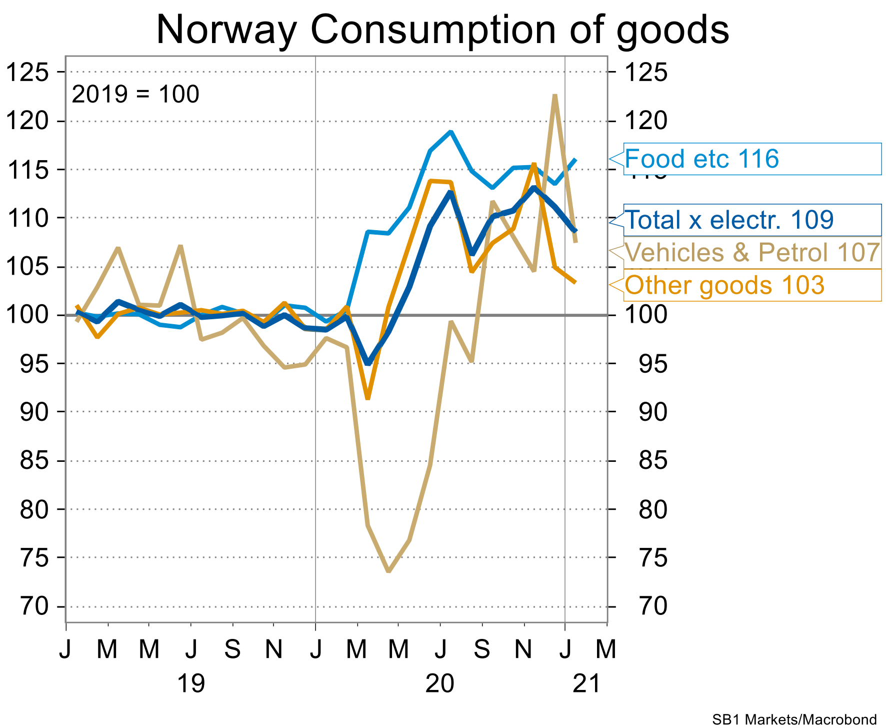


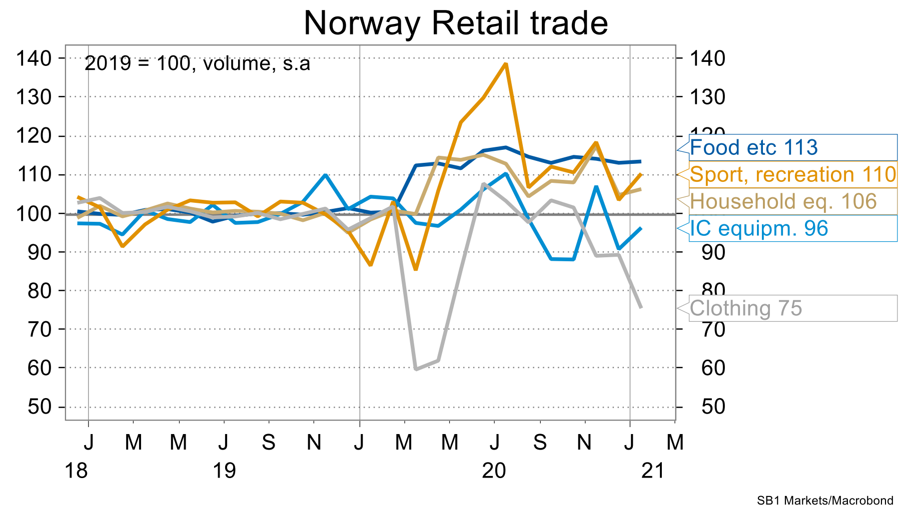


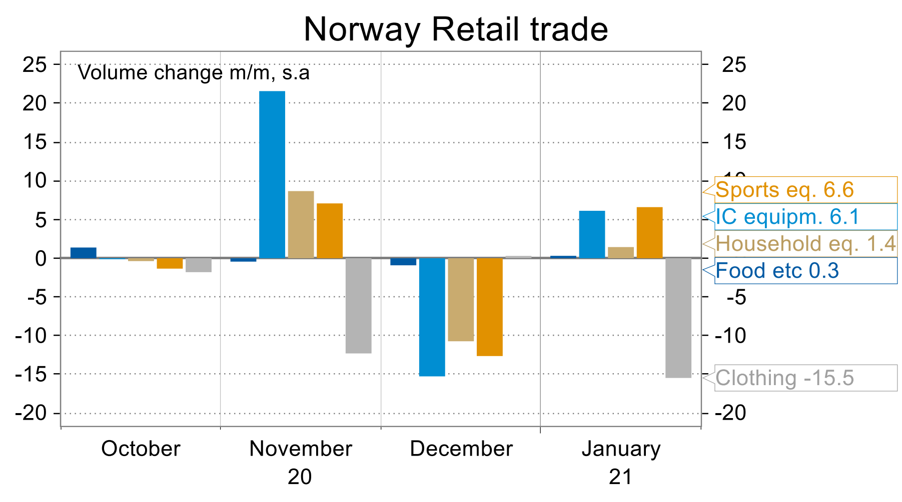
- **The partial lockdown in the greater Oslo region** the last week of the month no doubt reduced overall sales in January (which we of course had incorporated in our f'cast). Restrictions were eased in part of the region and for shops in early February but then Bergen had to close down too – and now in early March more shops are closed again. So, we expect a further decline in sales in February – and Q1 will probably not be a success story for many retailers in parts of the country
- **Total consumption of goods** (x electricity) fell by 2.3% in January, as auto sales returned to a more normal level, following an incredible surge in December. In February, auto sales were stable vs. the Jan level
- **Retail sales** are up 7% from the pre-corona level, consumption of goods are up almost 10%. Demand for goods will very likely return to a 'natural' trend path when households one day are allowed (and dare) to start spending more on 'locked down' services, and to go abroad again
- **Service consumption** is of course far below a pre-corona level, no data included in these retail sales data

Auto & clothing sales down, other goods up in January

Clothing down 16% m/m, are 25% below the 2019 avg – we don't care to dress up (at home)?

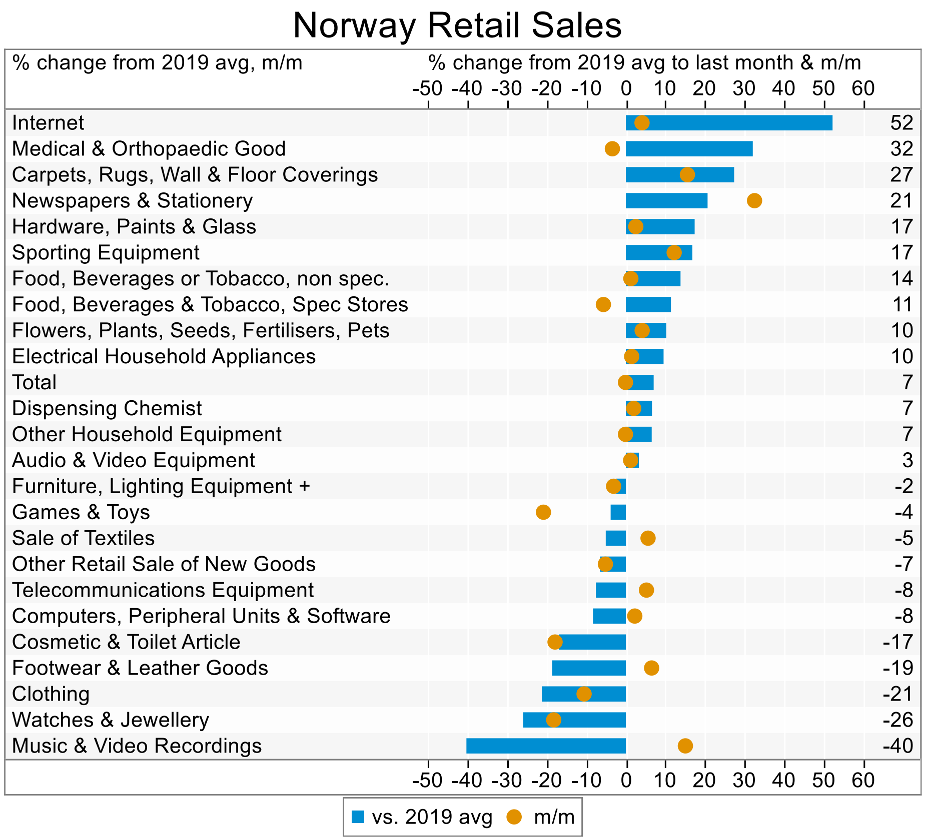




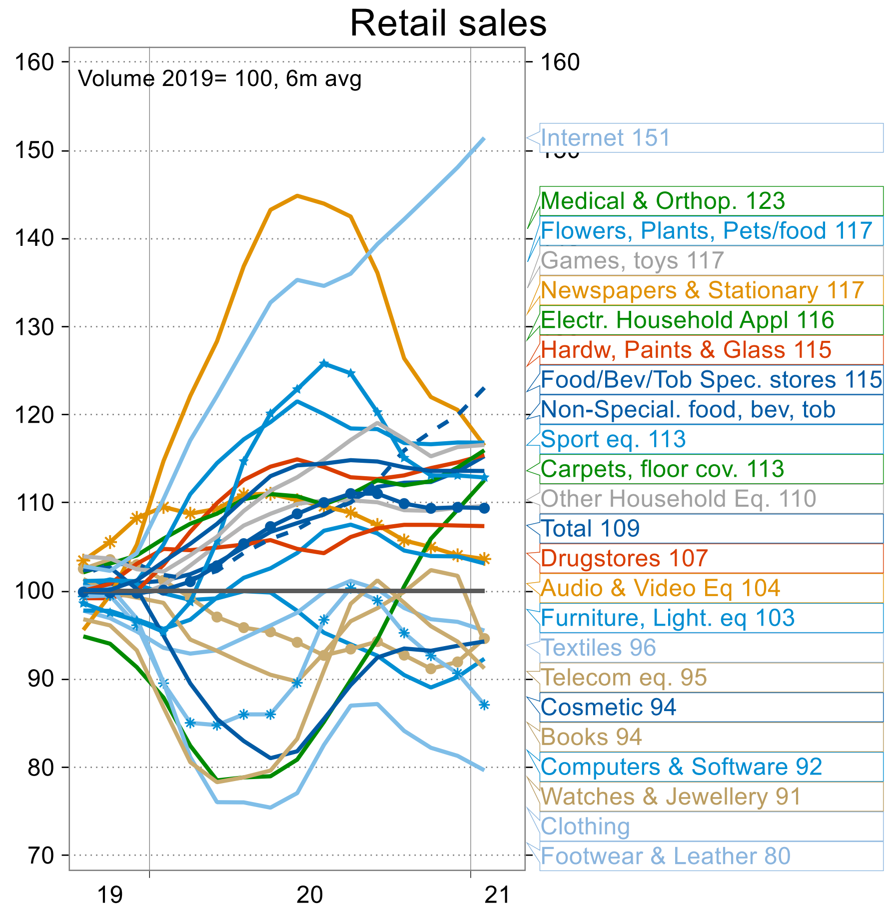


- Sales of sport equipment, information & communication technologies, and household equipment reversed some of the decline in Dec. Sport, recreation is up 10% vs. the 2019 average
- Food sales were flat m/m but still up 13% vs. pre corona, as many restaurants, cantinas are closed, and no x-border trade in Sweden

Some wild months, but a structural trend reinforced: The internet‘s outpacing all



SB1 Markets/Macrobond

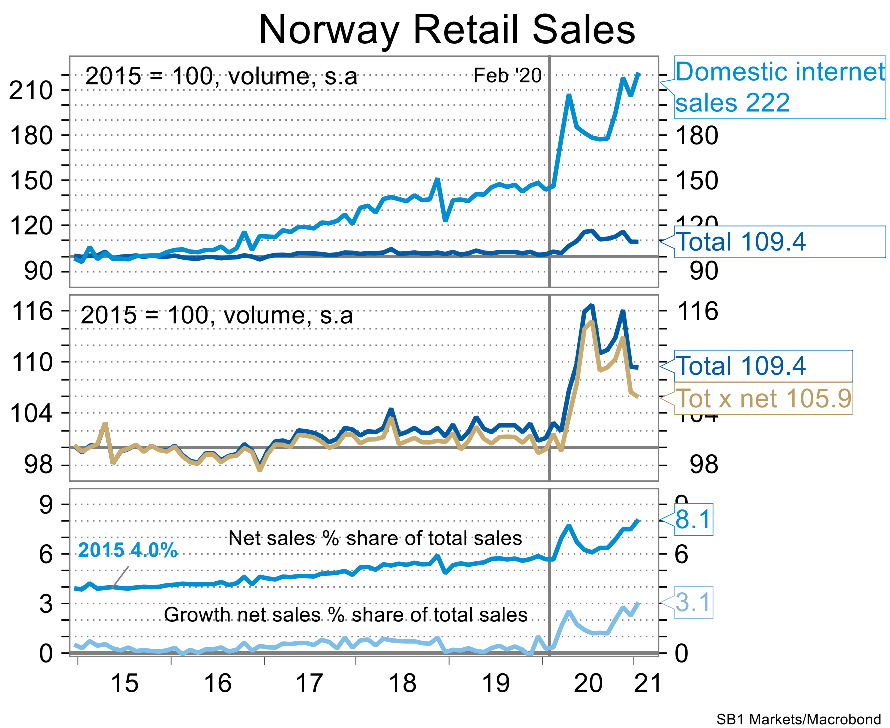


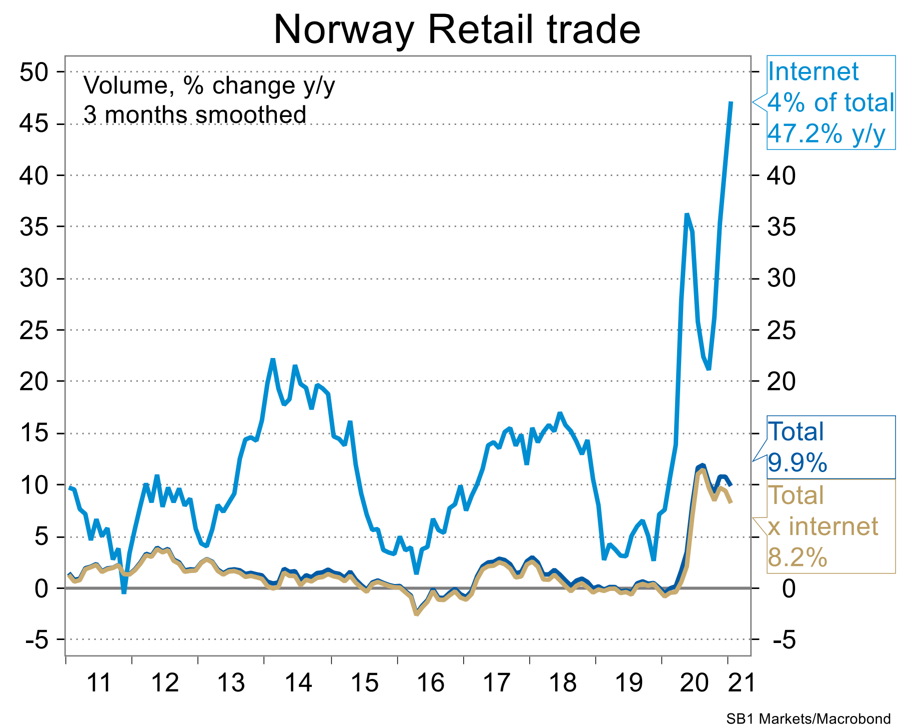
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Internet sales (domestic) up 50% - has captured 1/6 of retail growth last year

The market share has increased to 8% from 6% - and the trend is indisputable



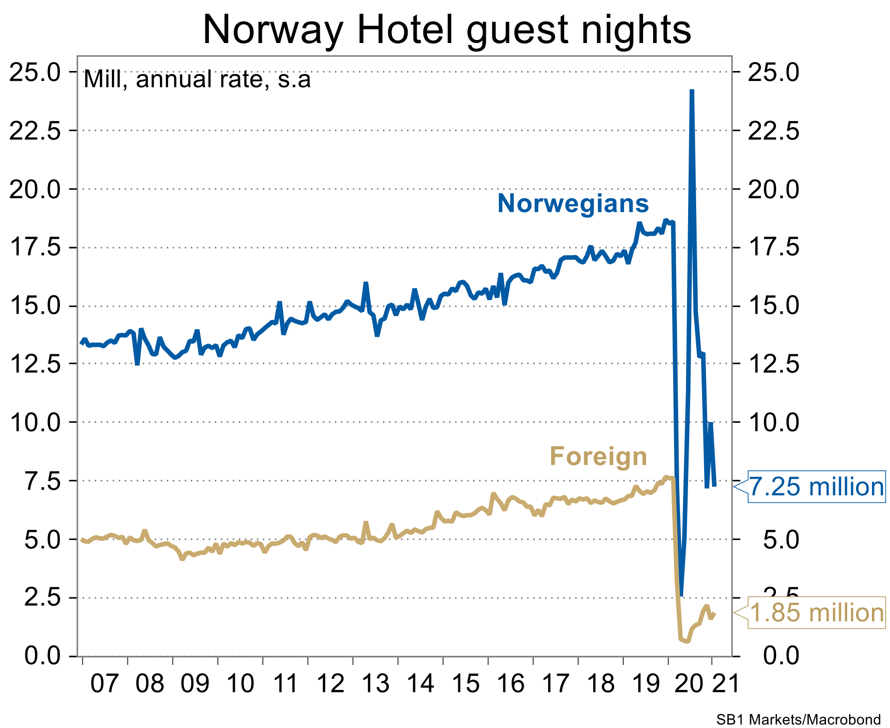


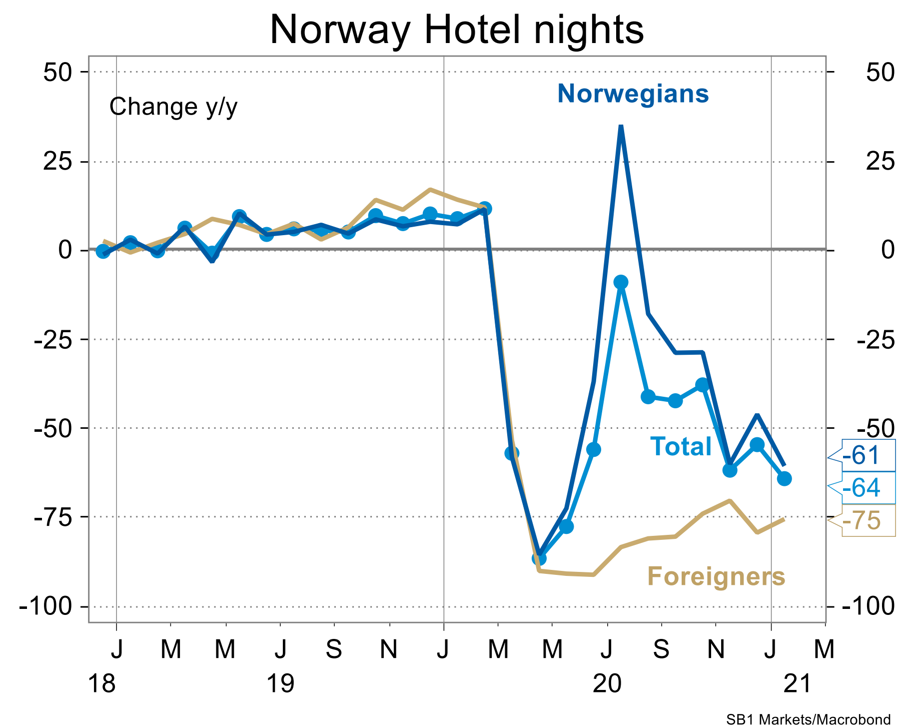
- Since 2015, domestic internet sales have increased its market share to 8 from 4%, of which half the of the lift since last February
- Since 2015, domestic internet sales have contributed to 60% of the increase in total sales (more than 90% of the total, in 2017)
- ICT equipment, cosmetics/drugs, clothing, food and sport equipment are the 5 largest product categories sold from net outlets
  - » Guess SSB will soon have to report updated sales by product too, and not just by the type of outlet

SpareBank 1 MARKETS

January was not the best of months at Norwegian hotels

Guest nights down some 65%. Light in the tunnel, but it will take some few more months

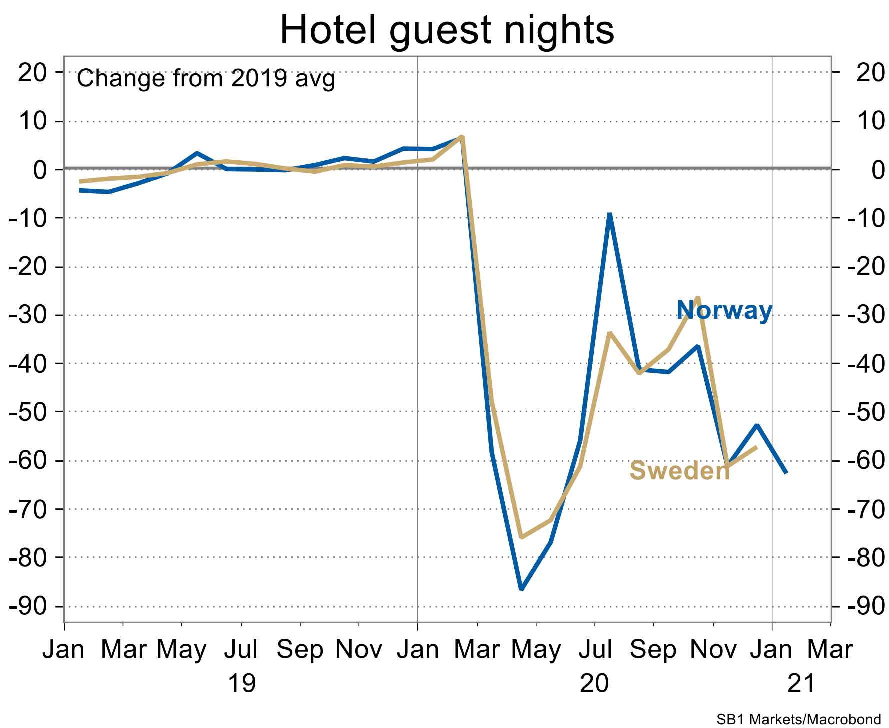




- Just July has been anything close to normal for Norwegian hotels since February. Hotels cannot return to anything like normal activity before corona is brought under control, both in Norway and abroad

Don't blame the 'lockdowns', rather the virus

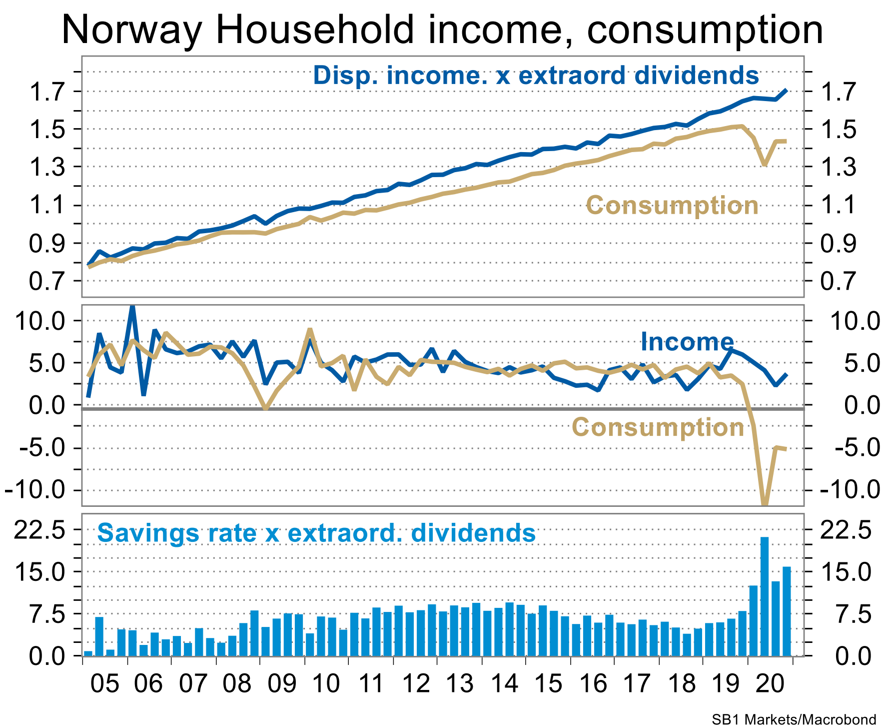
Spot the difference between Norway & Sweden (and we could added other European countries)



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

Consumption flat in Q4, income up 3% (and hist. rev. up), savings rate to 15.4%!

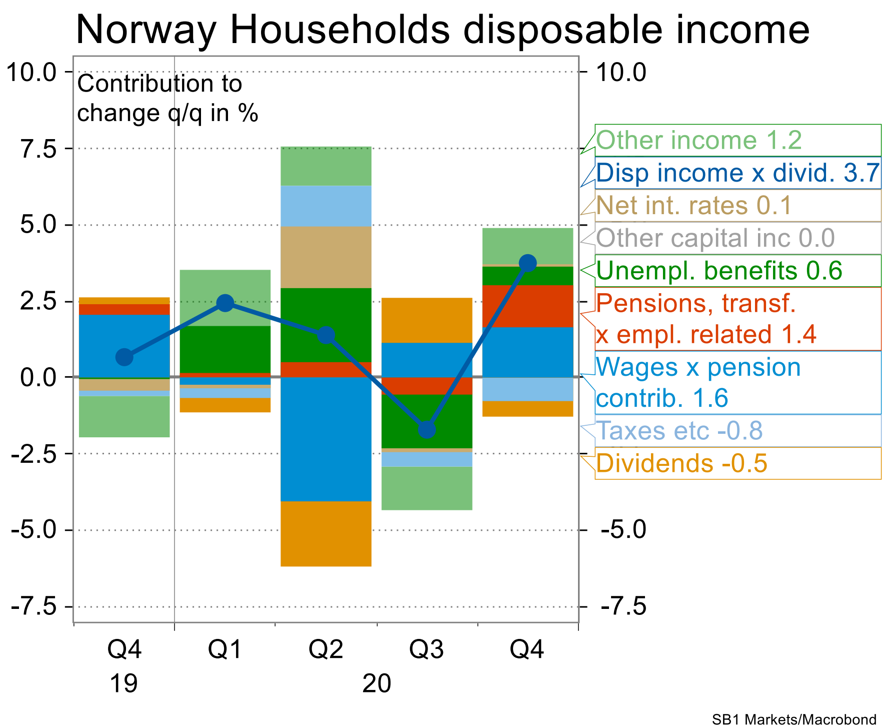
Households spend a lot on goods, buy domestic service consumption still weak, no spending abroad

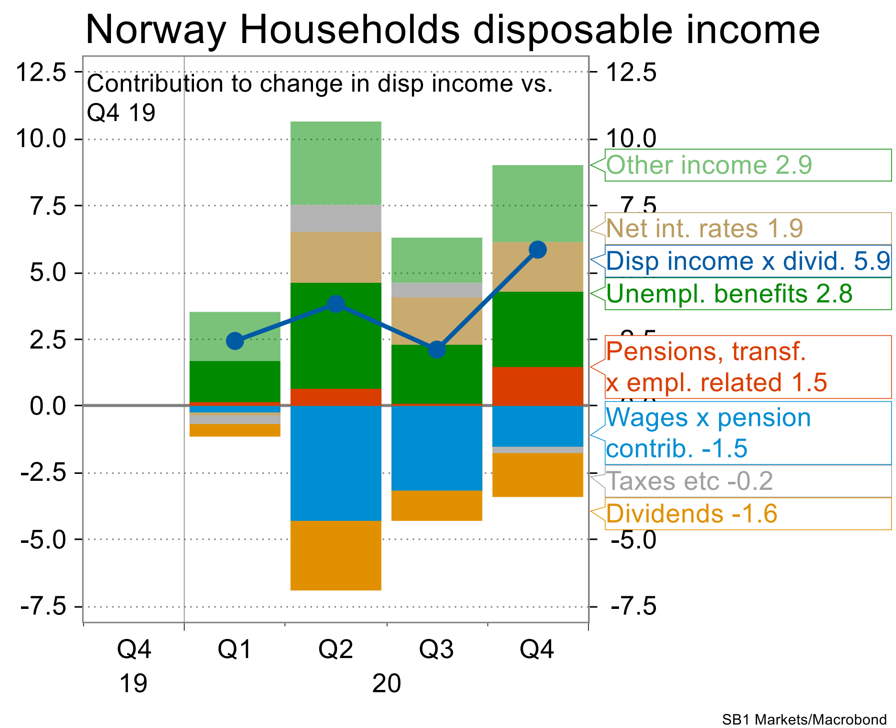


- **Household disposable** income rose by 3% (nominally) q/q in Q4, more than we assumed – and the level is up 3.9% y/y. Both Q2 and Q3 income data were revised up; the level in Q3 by >1%, ditto for the savings rate. In Q4, the savings rate rose to 15.4% from 13.1%, we expected up 0.9 pp to 12.9%
- During last year, **the savings rate** has on average been 8% higher than in 2019, and it still is – and will most likely be similarly higher than 'normal' in both Q1 and Q2. If so, households will at the end of Q2 have accumulated extra net savings (national accounts calculated) equalling 12% of their disposable income, or NOK 190 bn. A decent 'Wall of Money'.
- In aggregate, households have not reduced their debts, and just a minor part has covered higher residential investments, so their financial assets have increased substantially, like bank deposits.
  - » By end of last year, bank deposits are NOK 60 bn higher than the pre-covid trend (the Q4 data for the other elements of their financial accounts are not yet published)

Some wild swings at the income side too, wage revenues still down y/y

Households are compensated by higher unemployment benefits but no 'stimulus checks'

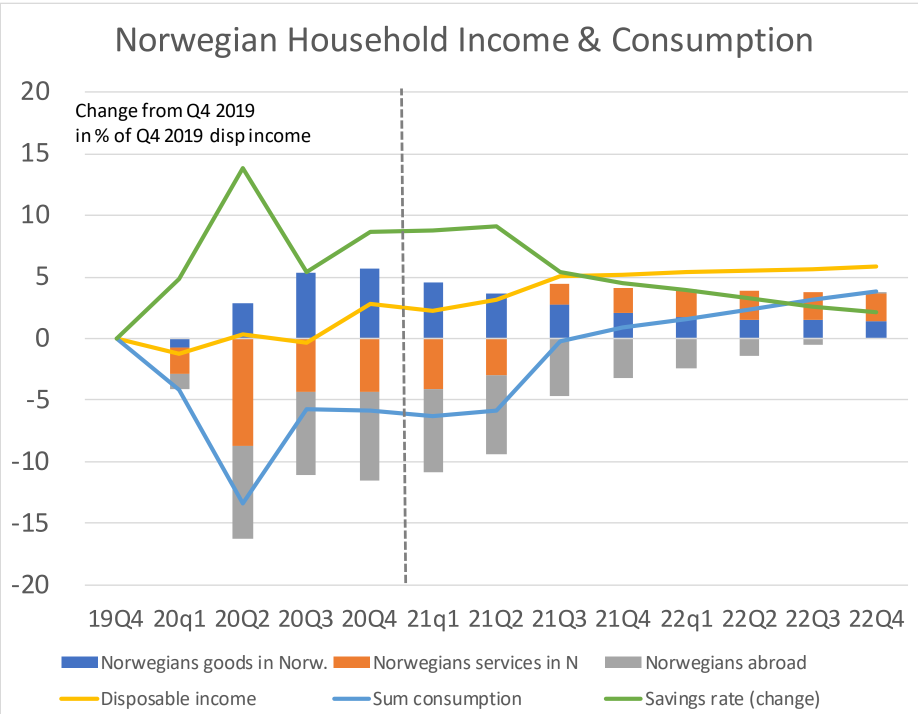




- Household net disposable income (before adjustments of pension rights), adjusted for short term volatility in dividends, rose by 5.9% y/y in Q4, a decent growth. Dividends fell sharply, by 30%, equalling 1.6% of disposable income
- In Norway, government transfers to households have been rather limited. Unemployment benefits are up but no 'checks for free' have been distributed. Wage revenues are slightly down y/y
- Three months ago we wrote: *The decline in net interest income in Q3 (and the small increase in Q2) seems unreasonable, given the huge decline in mortgage rates. If we are right, disposable income have declined less than so far estimated.* Which turned out to be correct, the 1.3 pp neg. drag was revised to +0.1

Norwegians spend more at home than pre-Covid but aren't spending abroad

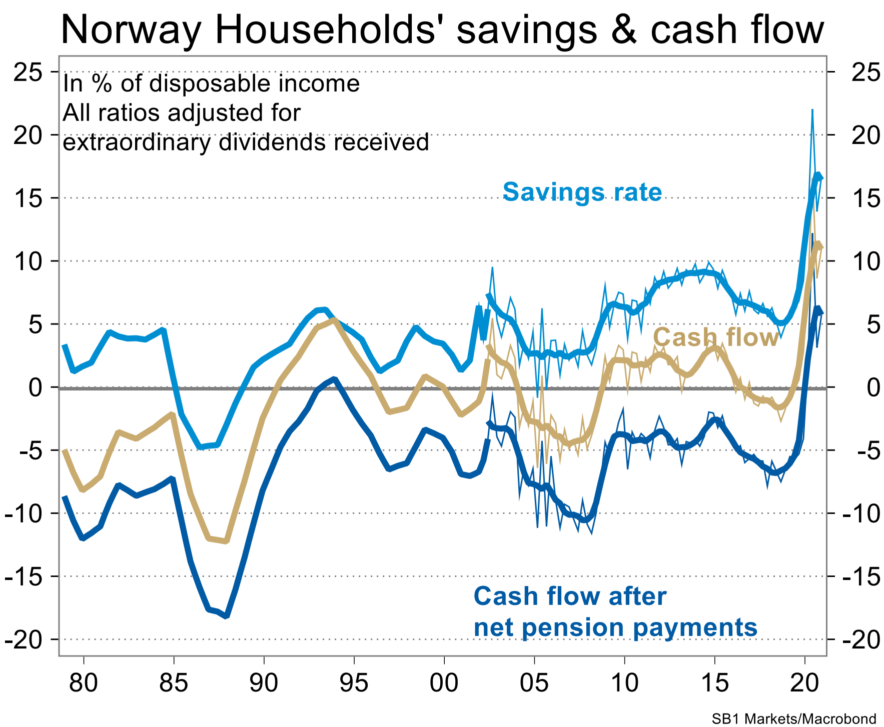
The large lift in savings can be 'explained' by this 7% of disposable income cut in foreign spending

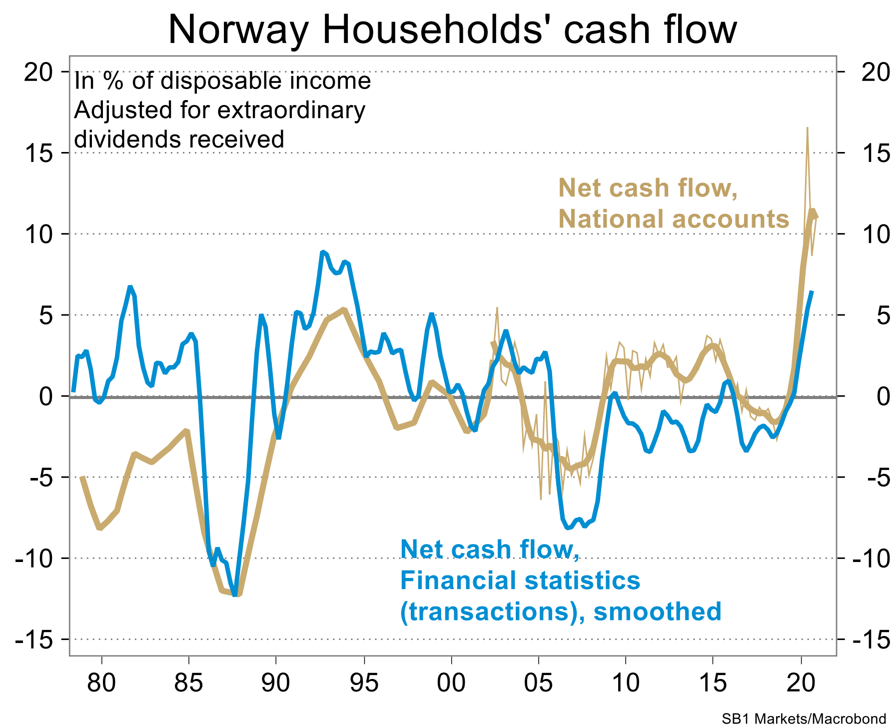


SB1M forecasts

Huge cash surpluses in the household sector, even after pension payments

Consumption was cut sharply and much more than income fell, savings jumped 6 pp to 21% in Q2

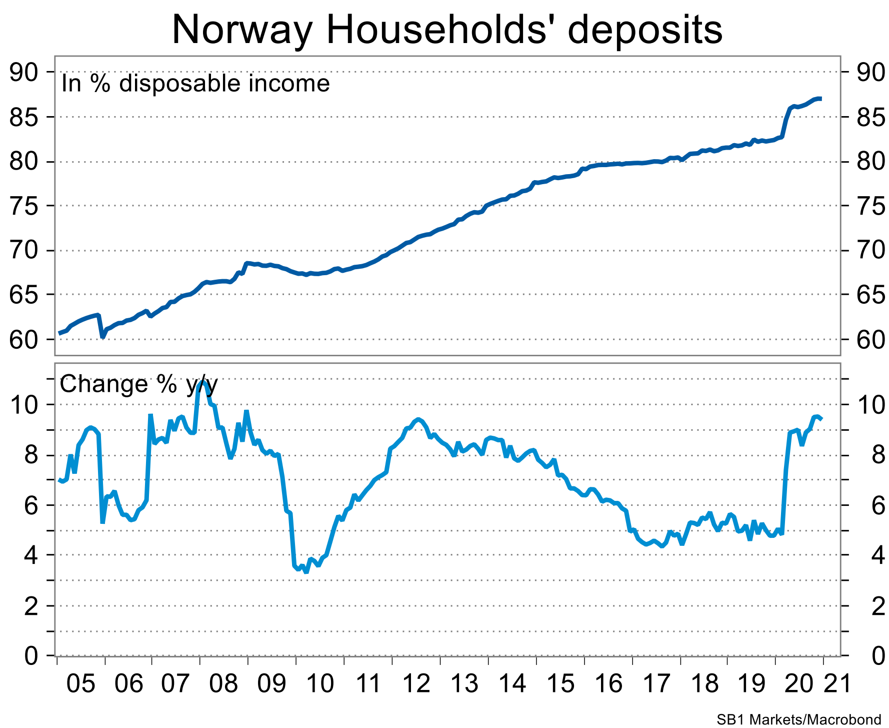


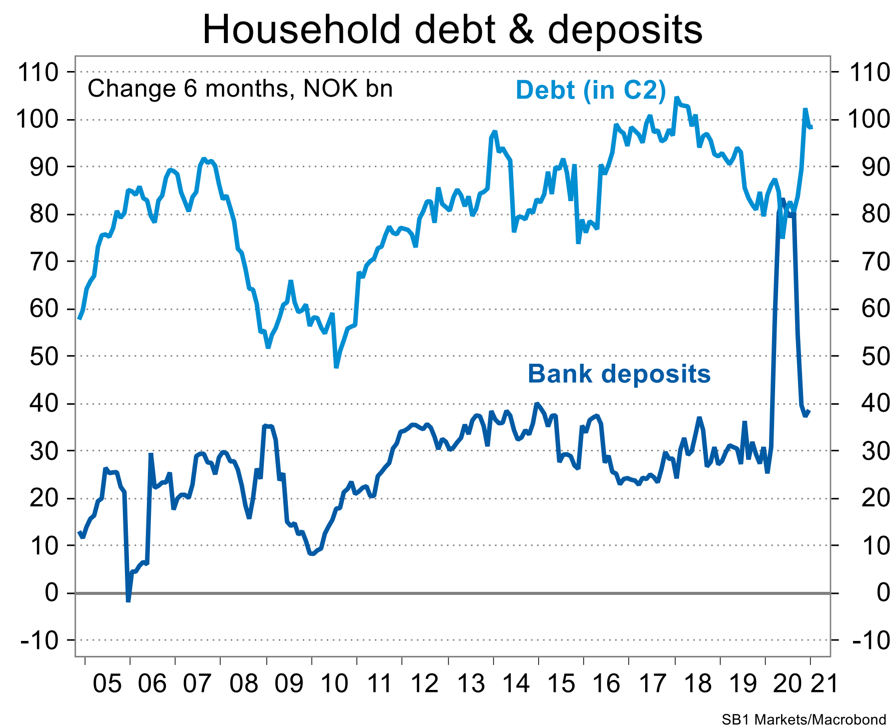


- As households normally invest in new homes than depreciation on their old ones (which is included in total consumption), the cash flow is lower than their savings. In addition, households have to fill up their pension contracts, and the 'free' cashflow is even lower. <u>However, this free cash flow is now for the first time in history in positive territory!</u>
- Total financial accounts are not yet published for Q4 but large parts of the extra savings (calculated in the National accounts) were recognised in Financial accounts. However, Q4 bank deposit and lending data are available, check next page

Households have increased their deposits by 4% of disposable income

-- and at one stage they increased their deposits more than their loans. No more so

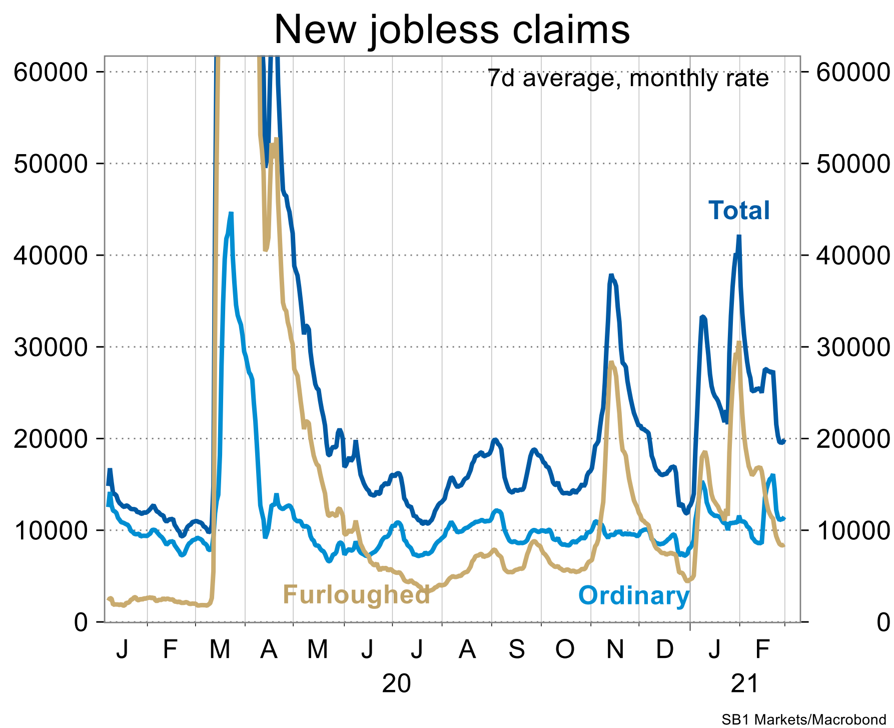


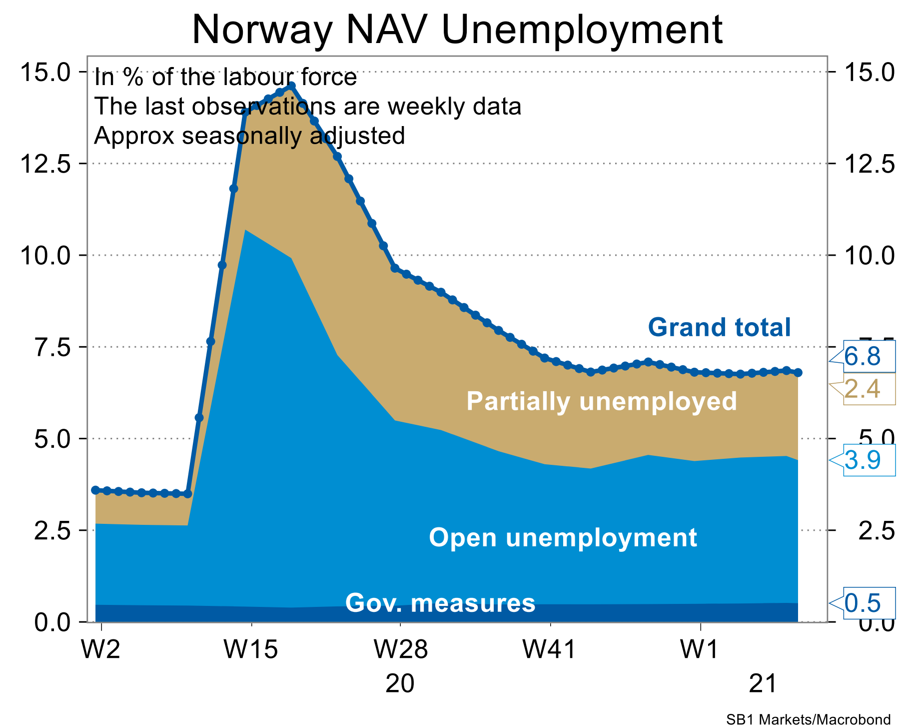


- For the first time 'ever' household deposits rose at the same rate as household debt, measured in NOK – for some few months
- Growth in deposits have slowed since May, as consumption has gradually recovered – and growth in debt is gained traction and household debt is once again growing faster than their bank deposits.
  - » Still, households have saved a 'wall of money' – at least some of is ready to be spent!

More new jobless claims since Nov but no increase in continued claims (unempl.)

A new wave of new claimants will very like turn up now, due to the new restrictions imposed





- So far, the unemployment rate (the stock) has not increased, even if some 55.000 persons (almost 2% of the labour force) more than 'normal have turned up at NAV since November. Last spring, almost 400' extra claimants arrived, so the 2nd /3rd covid-19 wave has been rather muted compared to the first – and now increase in the unemployment rate
- It remains to be seen if the new 'lockdowns' that are being implemented now will lift overall employment

Highlights

The world around us

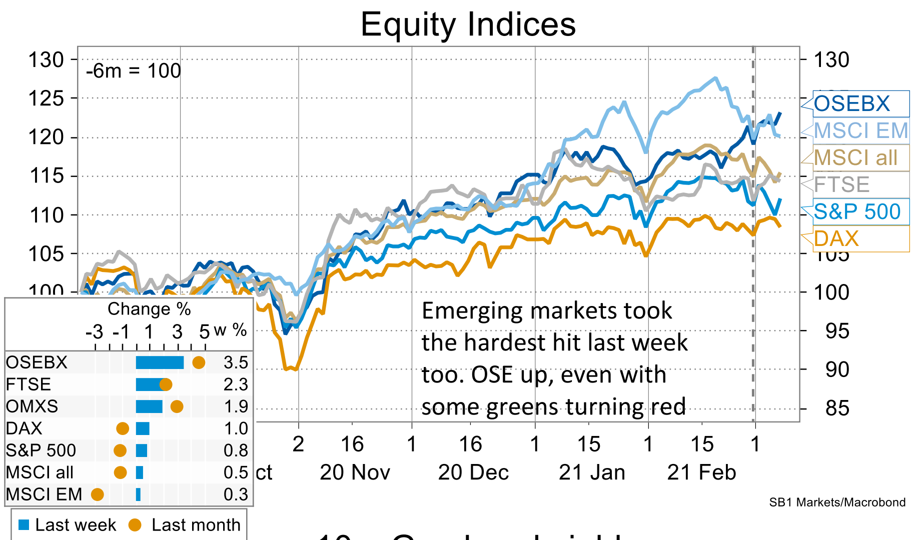
The Norwegian economy

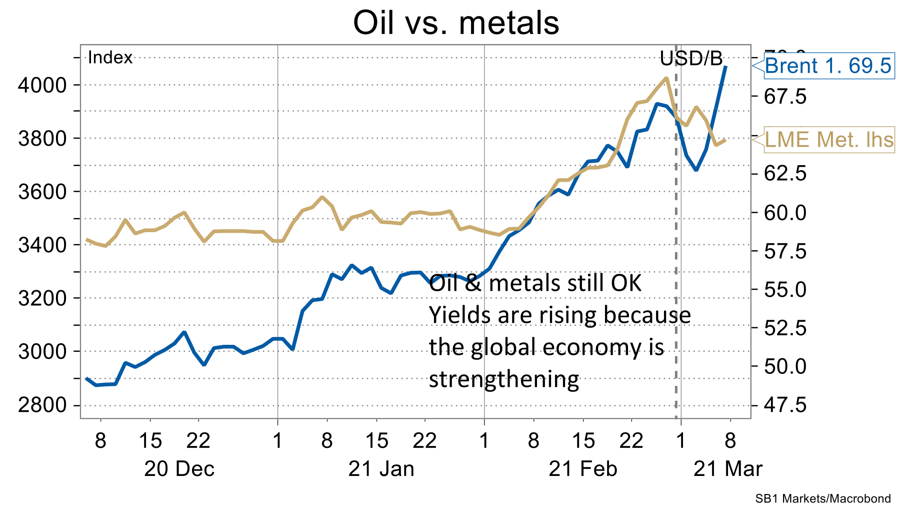
Market charts & comments

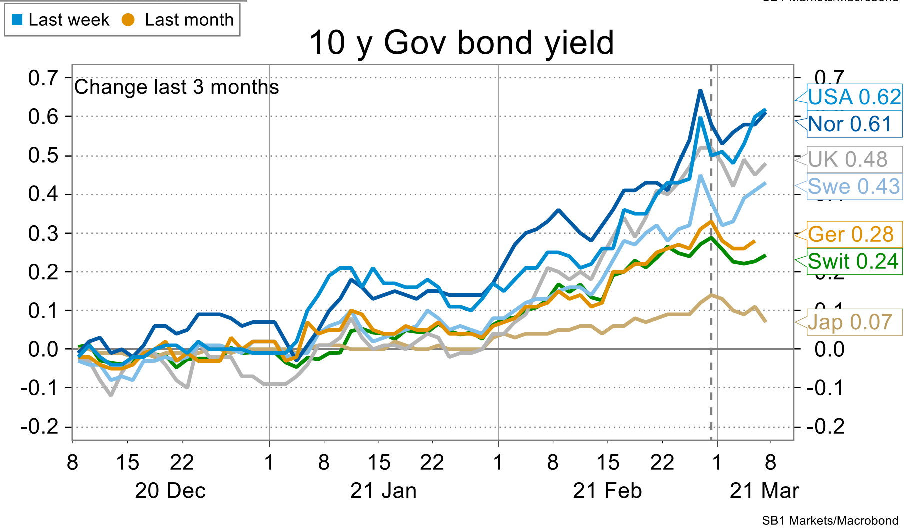
SpareBank 1 MARKETS

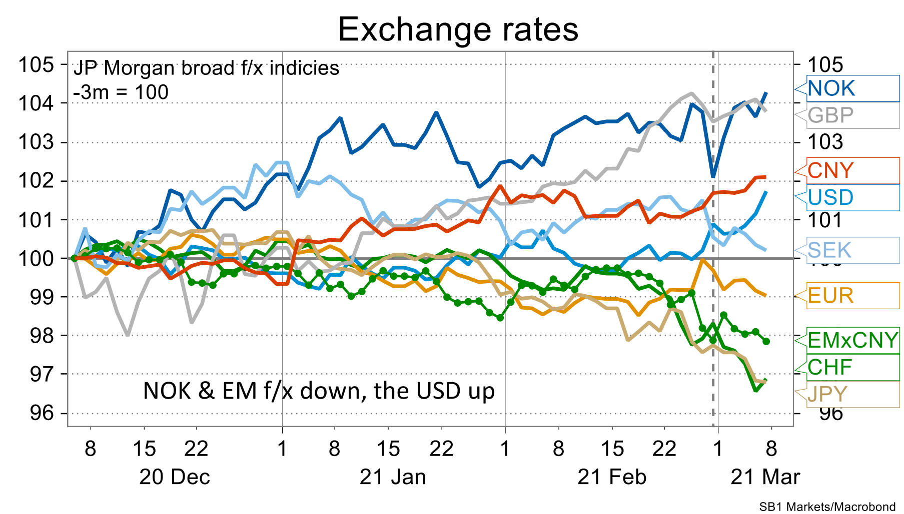
10 y US gov yield up above 1.56% - without stock markets complaining ☺

The USD & NOK up – and the NOK recovered before the oil price shot up in the Opec deal



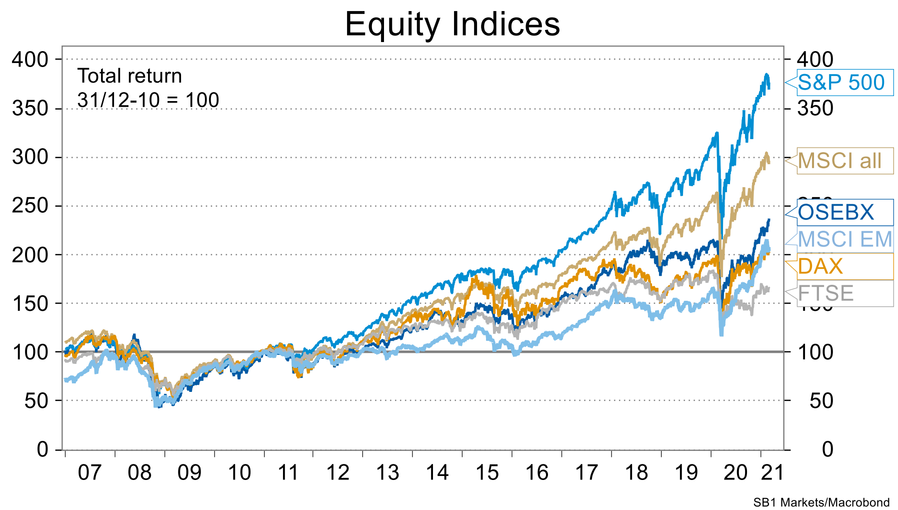


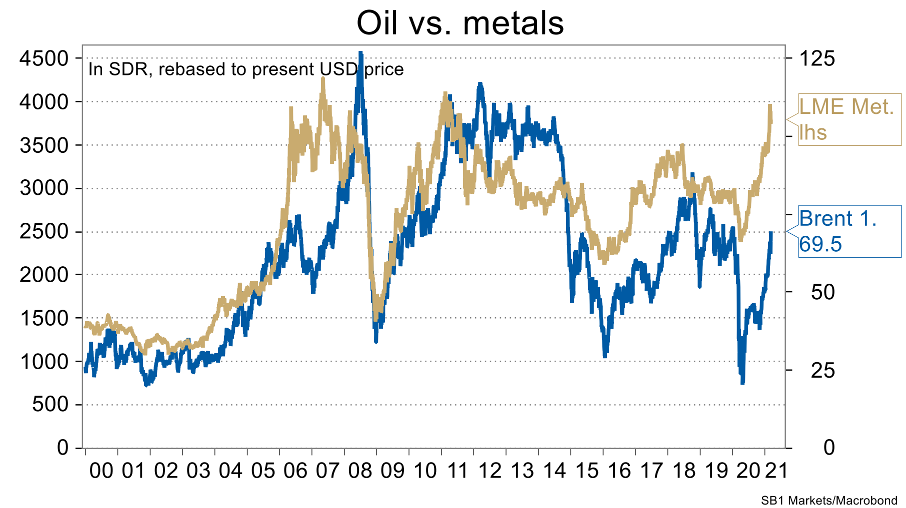


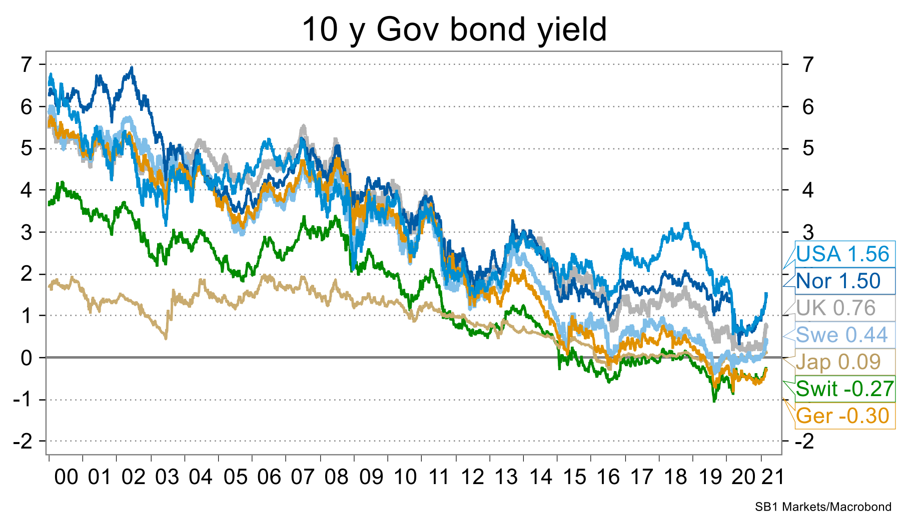


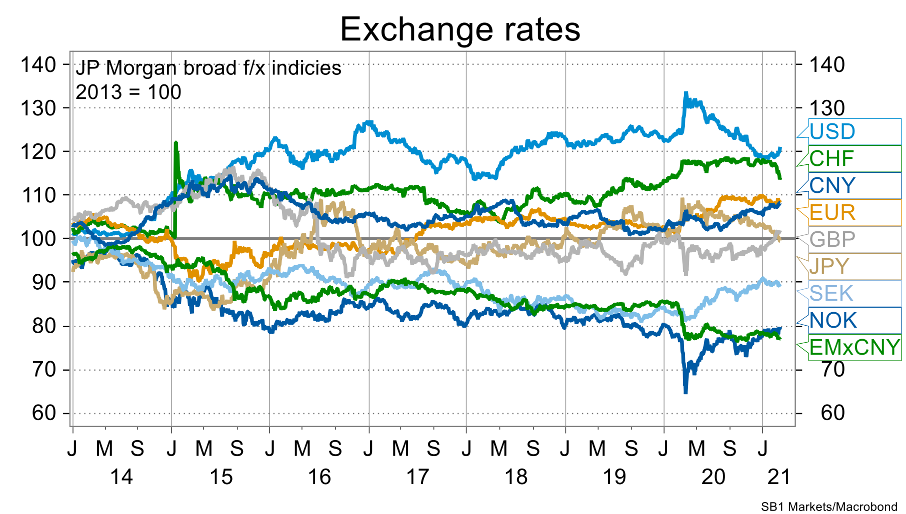
SpareBank 1 MARKETS

Positive growth expectations: the trend for longer yields and commodities is up



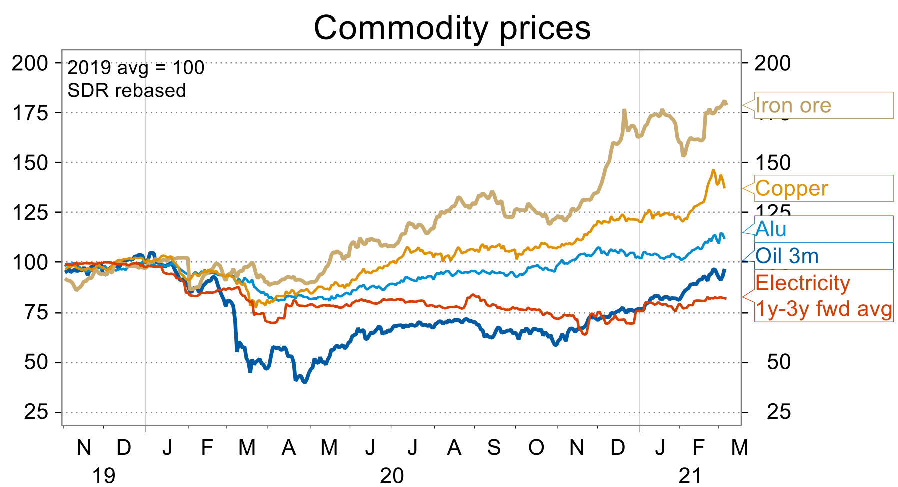


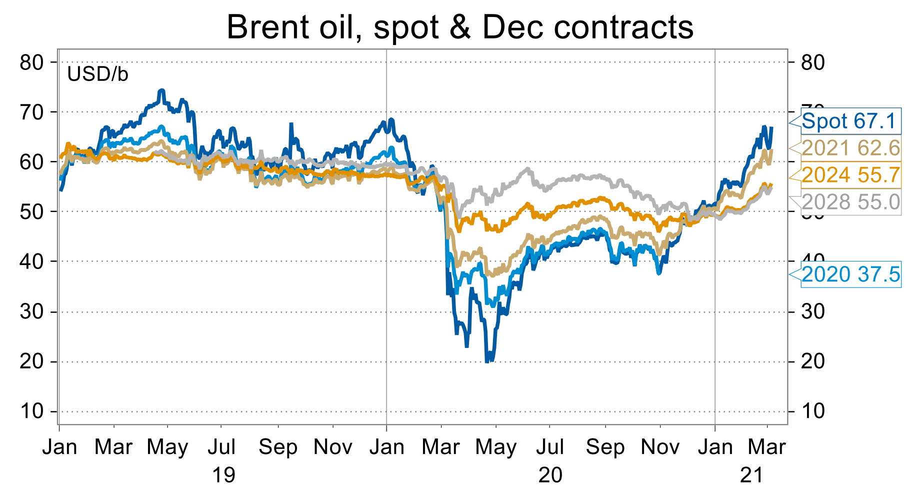


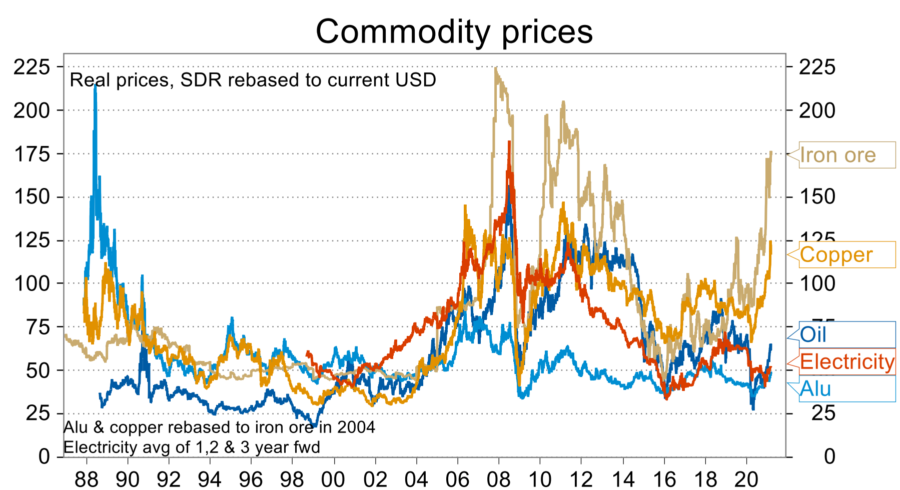


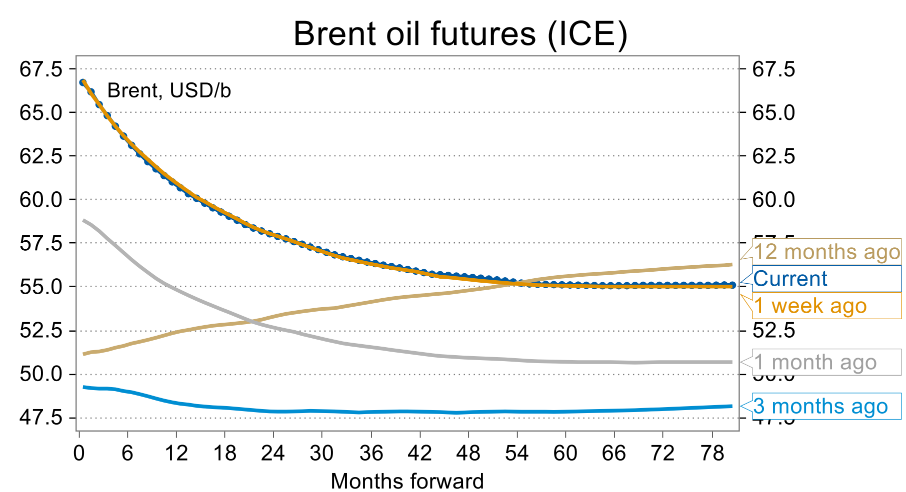
Oil up on OPEC+ deal, other commodities up too (XX oil prices not updated)

Growth expectations are strengthening



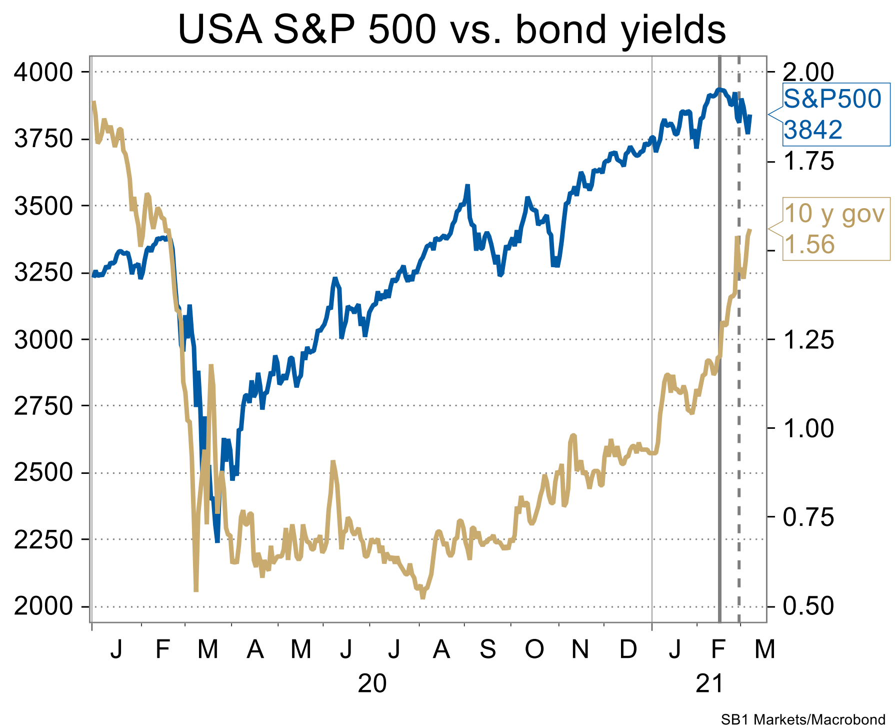


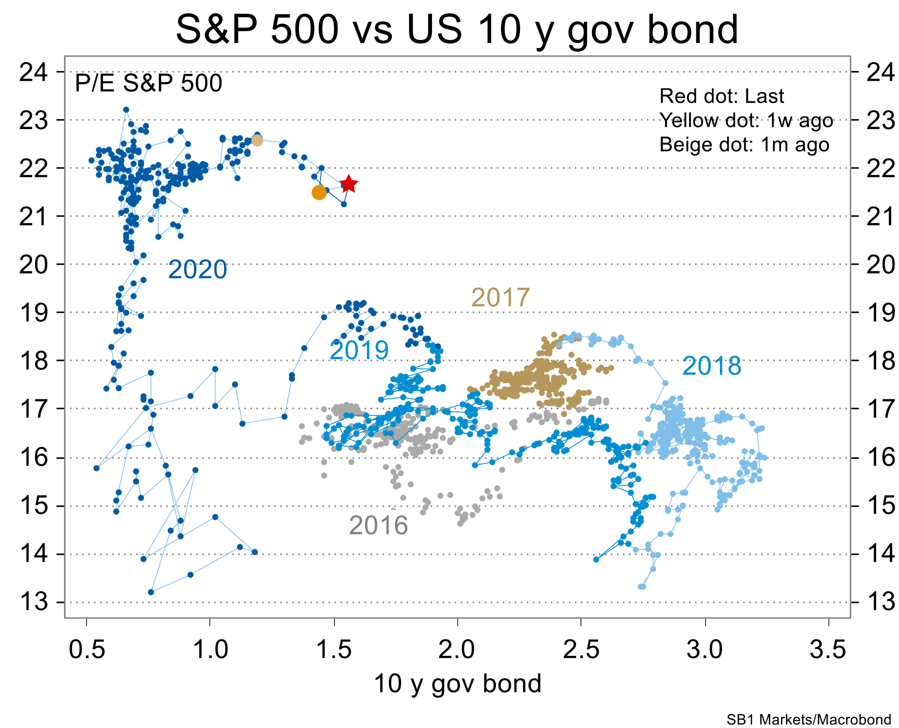




Again, yields are surging, the 10 y up 12 bps to 1.56%, S&P up 0.8%

S&P 500 still down 2.3% from the mid Feb ATH, yields are up 36 bps, too much, too fast?



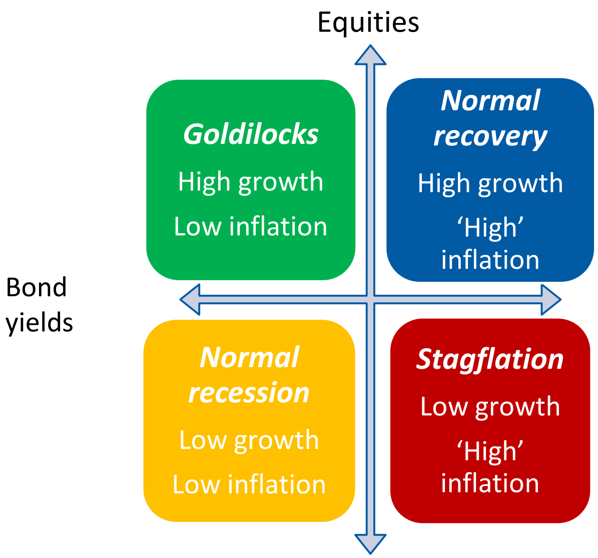


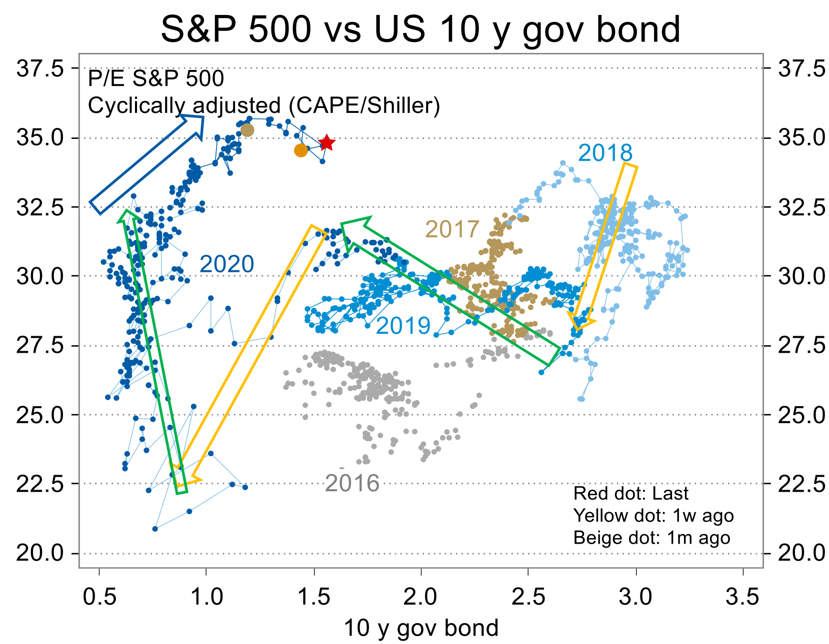
- Since the **through in yields** in early August, 102 bps ago (10 y gov), the stock market has climbed almost 14%. Higher bond yields are normally not a disaster for stocks. In fact, over the past 20+ year the correlation between bond and equity return have been quite consistent, the stock market has gained when yields rose and vice versa.
  - Changes in growth expectations were dominant for both markets, not fears of too high inflation.
- Over the past month, however, the stock and the bond market have switched to being negatively correlated. After a substantial almost 90 bps) rise in bond yields, markets started to get shaky
- Why could this time be different? Perhaps because the starting point is so special, equities were strong even if yields were low because central banks were so eager to support growth an to get inflation back on track. *More at the next page*

SpareBank 1 MARKETS

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

Towards the ‘bad’ stagflation corner last week/month – without any stagflation in sight. But rates were too low





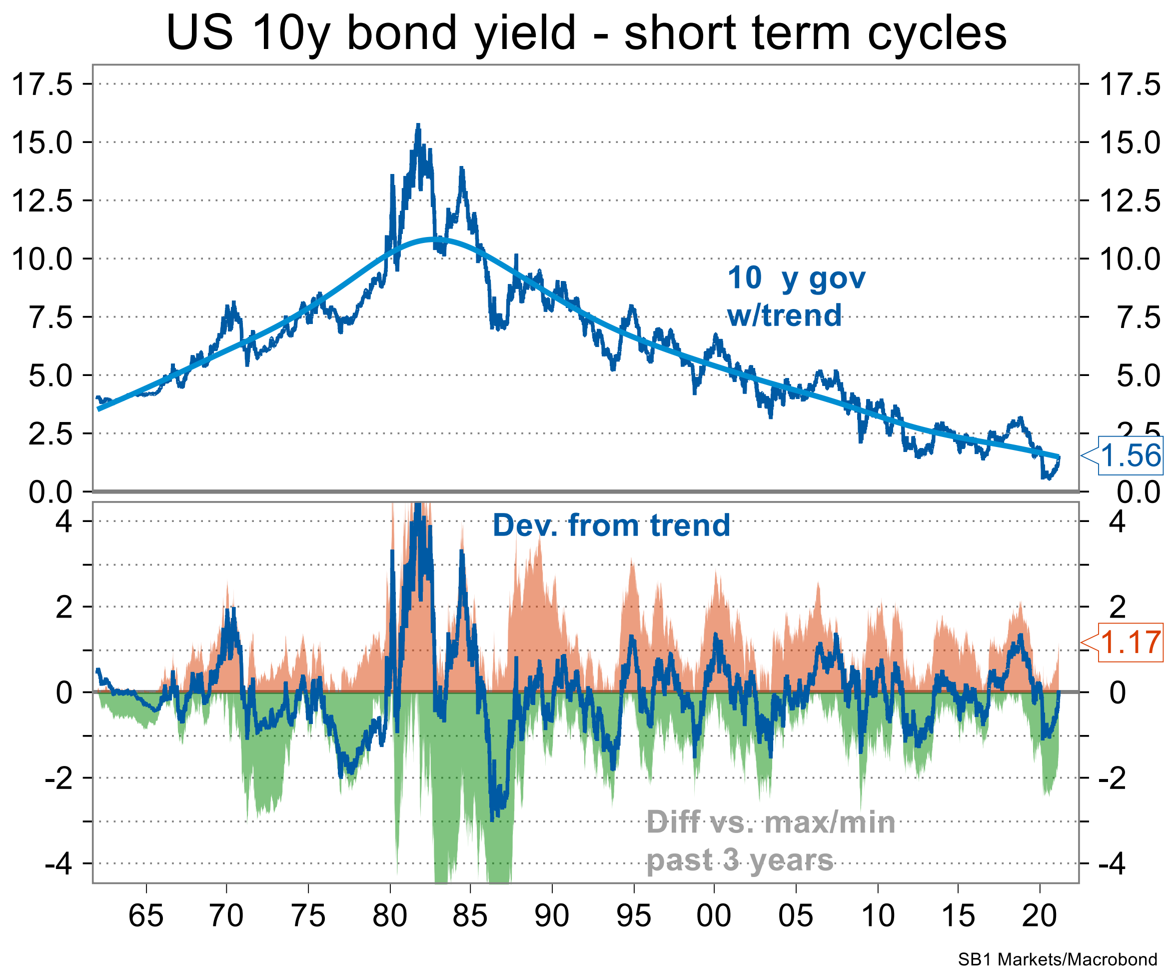
SB1 Markets/Macrobond

- 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
- Fed’s Powell last week reiterated that the bank will not hike its signal rate before the economy has recovered, unemployment brought down, and inflation has increased to above 2% and was expected to remain above 2% for a while – in order to boost growth and reduce inequality (by pushing wages higher). This is looking more like a normal ‘Recovery’ scenario, as interest rates at one stage most likely will have to normalise, and few believe the current rates are normal, at least not in the US. Then, interest rate expectations will trend higher – which they have been doing since last August
- Normally, a recovery trade (into the blue corner) should not be a big problem for the equity market. Yields are rising because growth in nominal incomes strengthen (both real growth & inflation)
- However, since H2 2018 bond yields have fallen, and the equity market has gained – and markets moved well into the ‘green corner’, as growth expectation have not fallen together with lower yields, as have been the norm, at least since 1998 (in the US), at least partly due to aggressive central bank actions
- Now, vaccines are underway, and fiscal policy is ‘running crazy’ (4+9% of GDP in budget stimulus), and the full scale economic recovery Powell stressed he was waiting for may come far earlier than the bank (understandingly) feared. The equity market has probably long time ago discounted a rapid recovery – without having to take into account the normalisation of interest rates, which is now taking place
- Suddenly, there are alternatives (sorry, Tina) for investors, even if yields still are way below reasonable growth expectations. Probably the best to hope, is unchanged equity market pricing (P/E-wise), but growing earnings will yield moderate returns as yields increase. The alternative is ‘normal multiples’ and ‘normal’ rates. Which is not a 22x 12m fwd P/E, or a 35x Shiller P/E – and not a 10 y bond rate at 1.4% - or even less a -0.7% 10 real TIPS bond yield

SpareBank 1 MARKETS

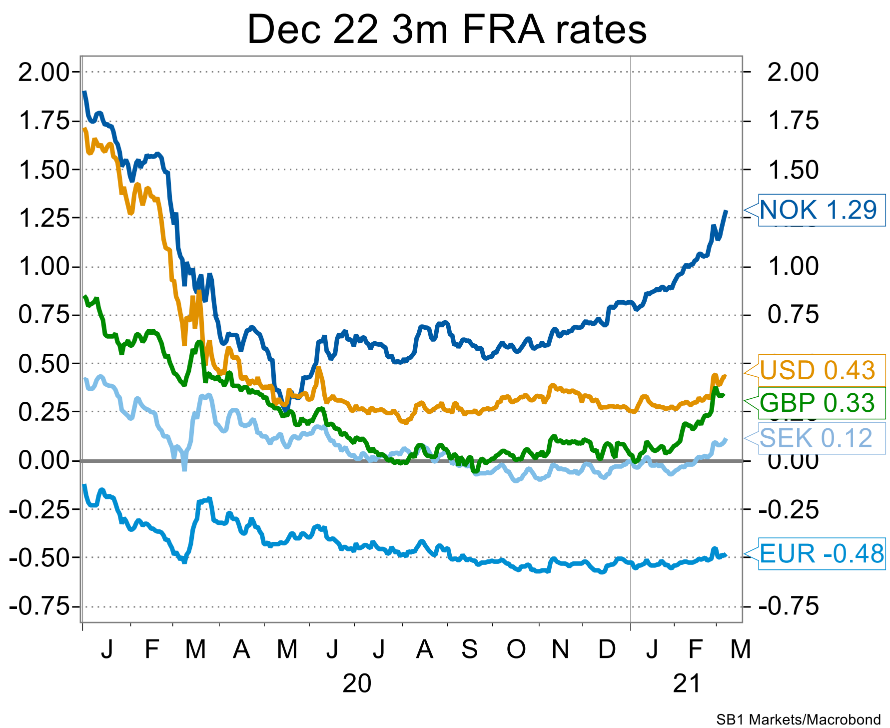
Some 'smaller' bond yield cycles: -200 bps/+200 bps vs recent peaks/troughs

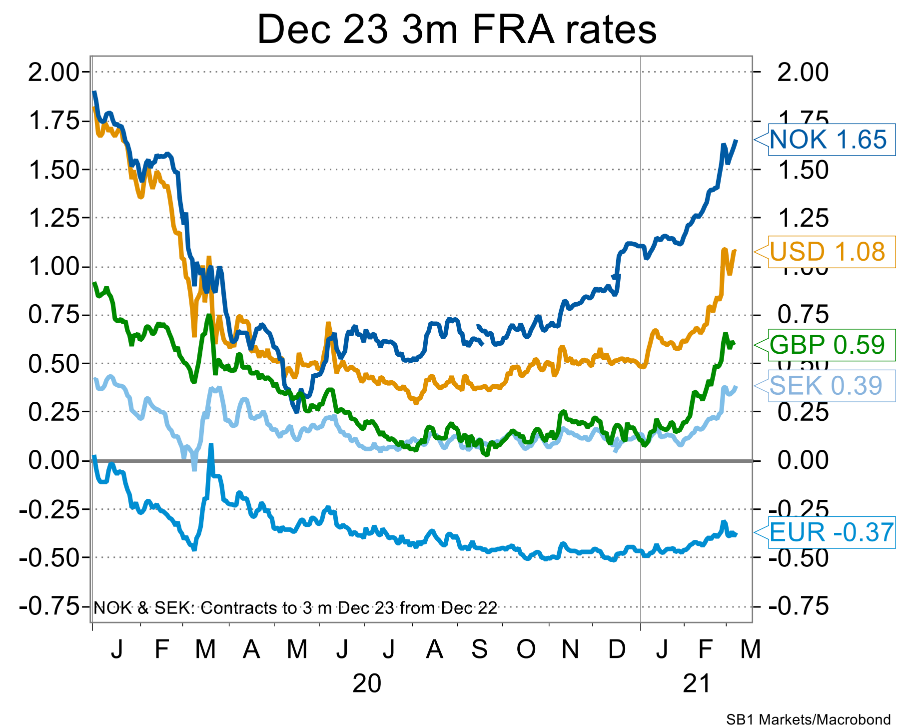
We may be more than half-way through a 'normal' correction – but still much more to go



Interest rate expectations: Norway in the lead – but others are following suit

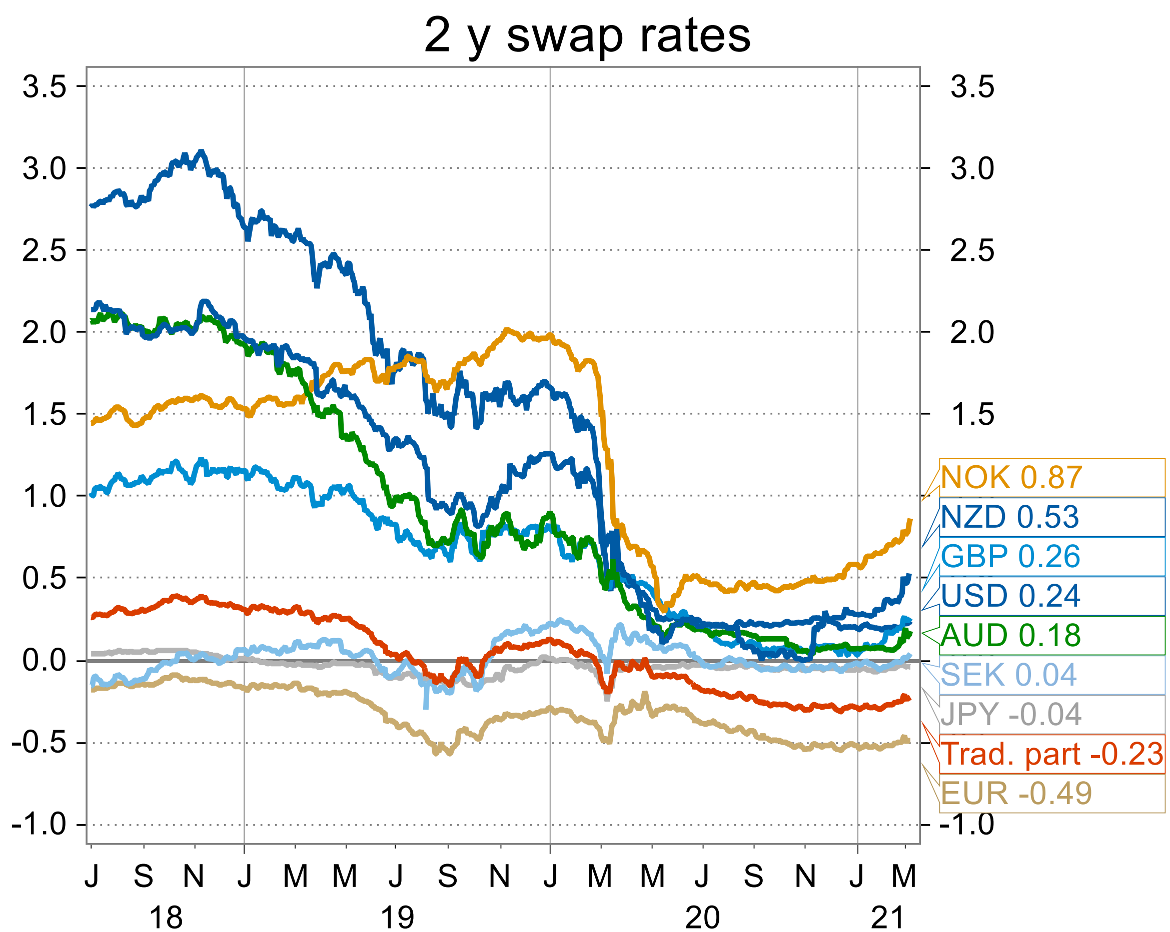
Some microscopical lifts in the Dec 22 contracts in SEK & EUR. More visible in the Dec 23 contracts

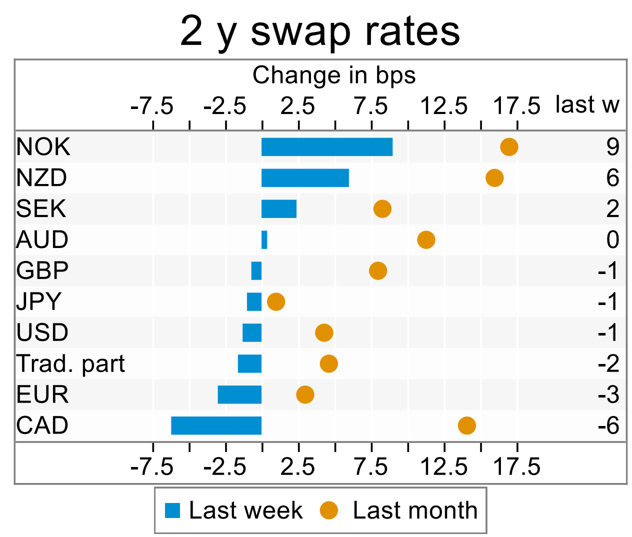




2y swap rates on the way up, even if trading partners’ rates were down last week

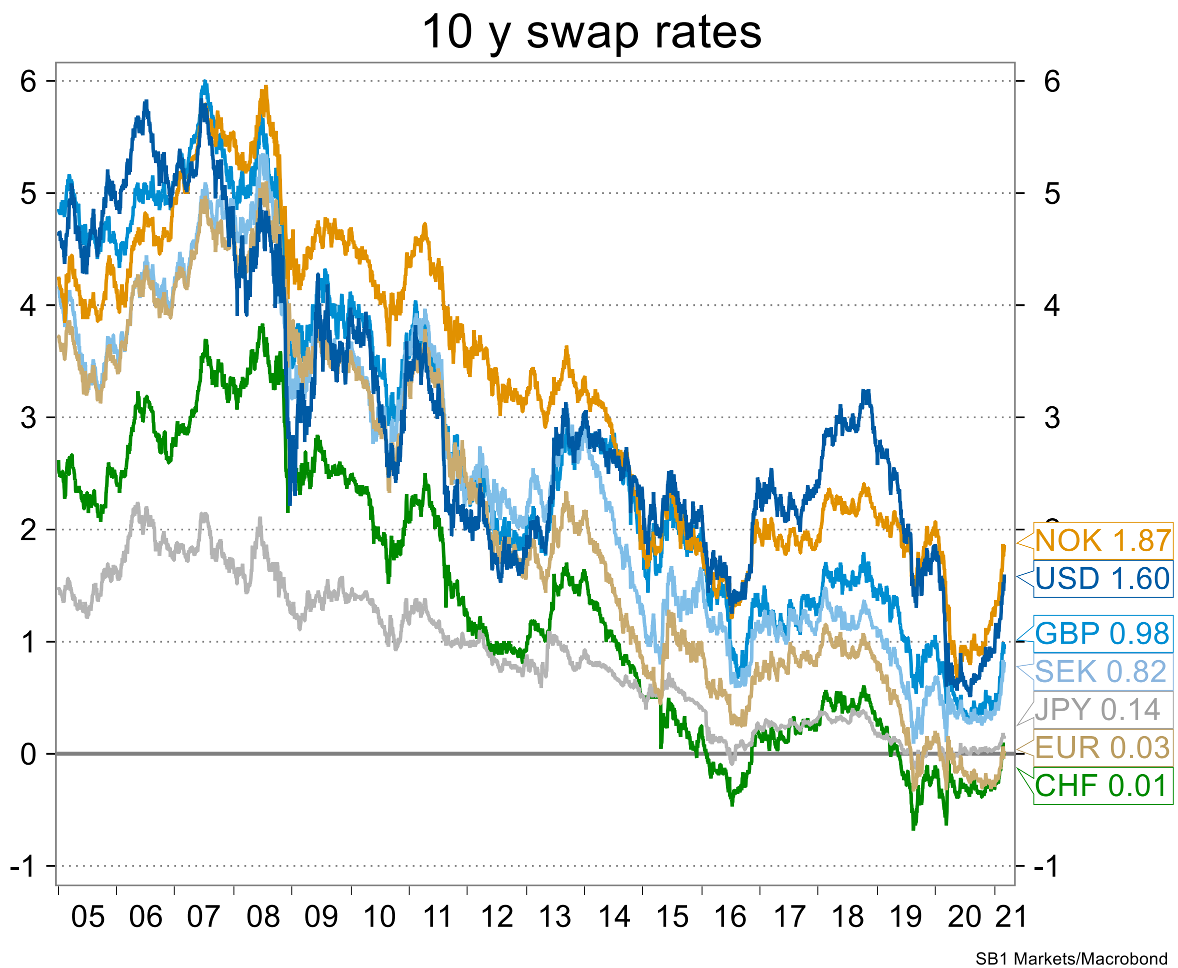
... due to a decline in EUR rates. Still all trading partners’ rates up over the past month

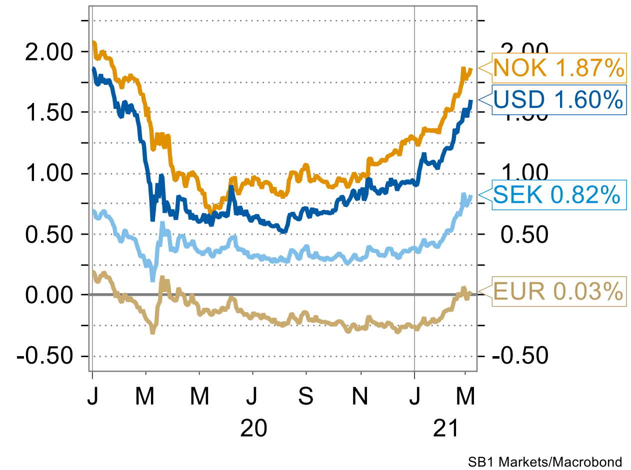


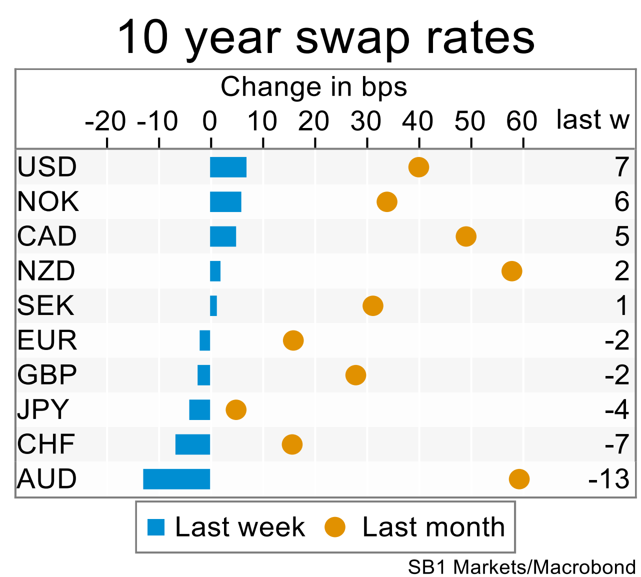


Mixed in the long end, US & Norway up the most, AUD most down

AUD & NZ rates have risen sharply last month, debate intensifies on house prices vs. mon. policy

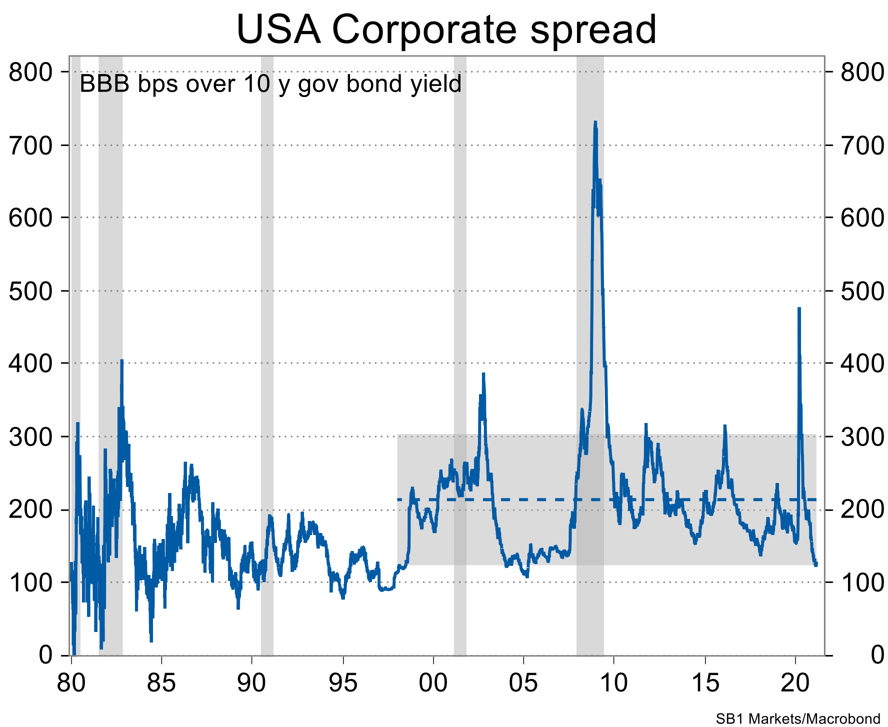


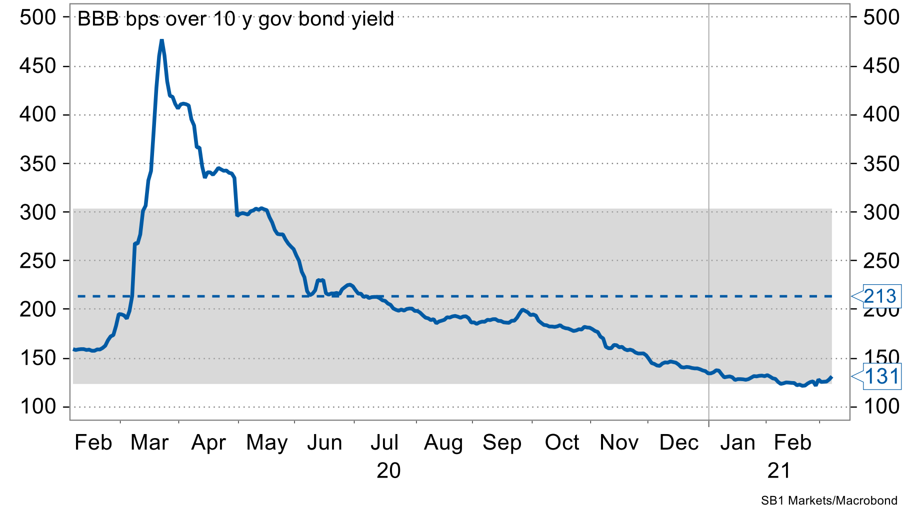


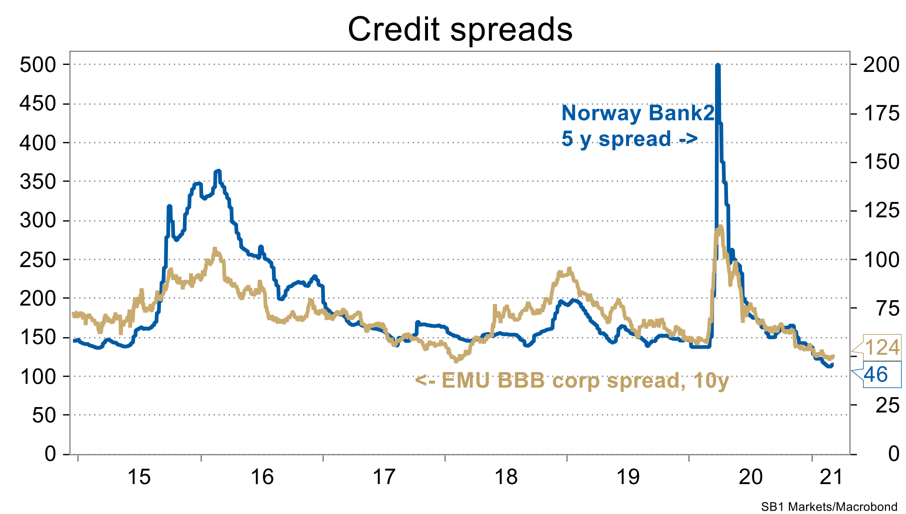


Credit spread widened marginally last week

Spreads are still very low, of course

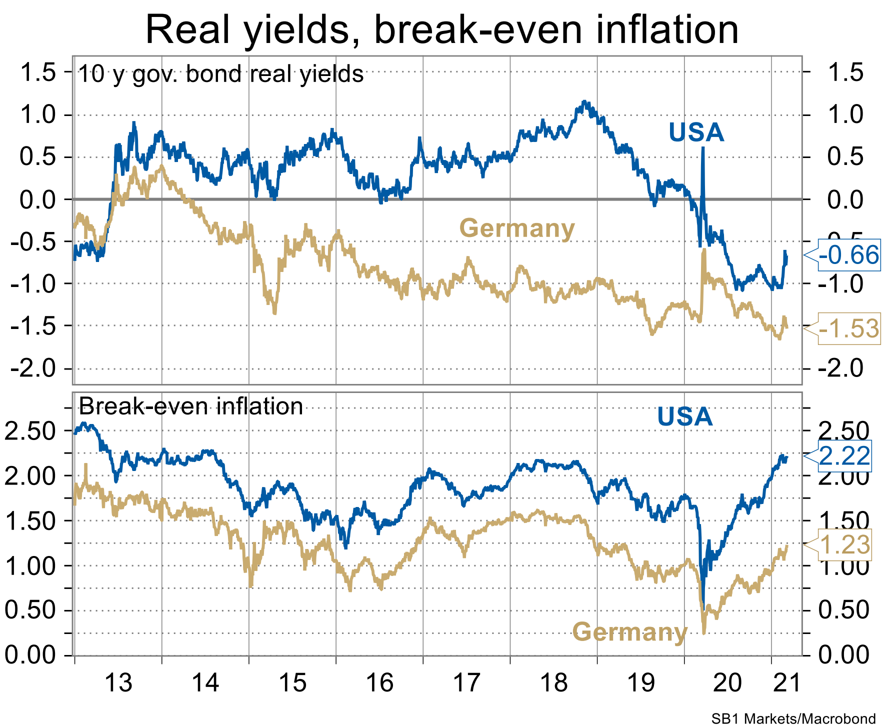


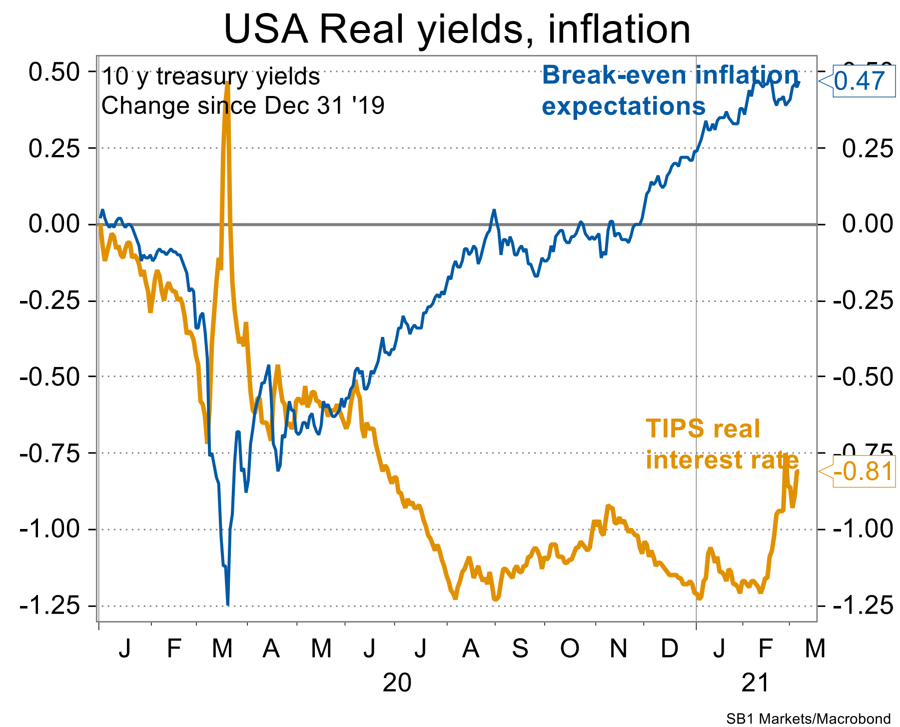




US yields continue upwards, German rates took a break

Last week's interest rates 'shock' was more due to higher real rates, not higher inflation expect.

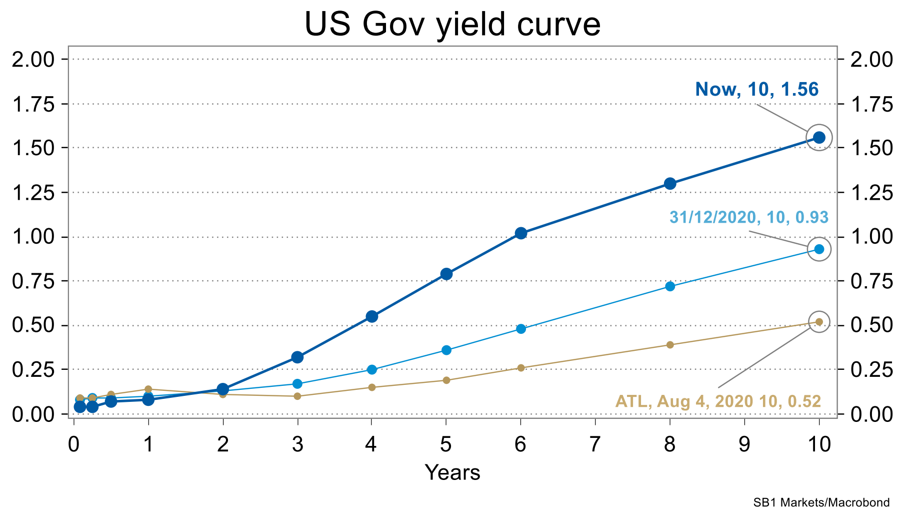


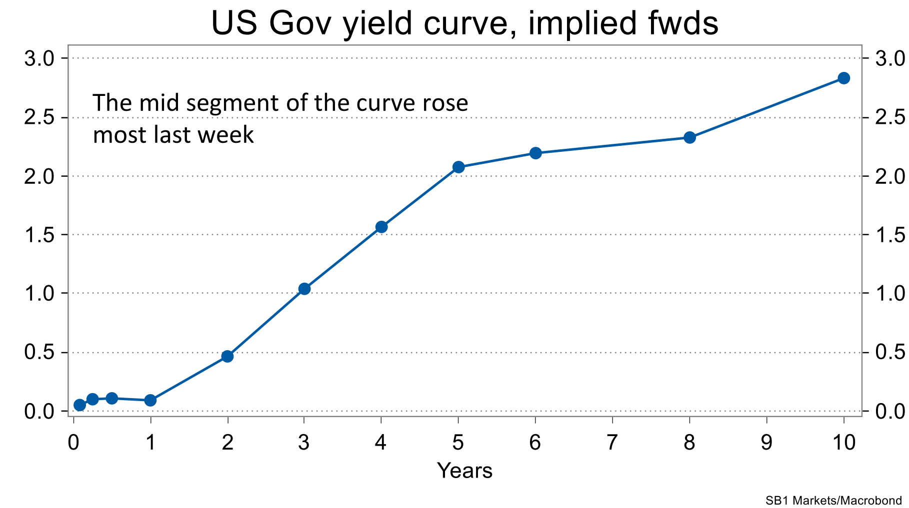


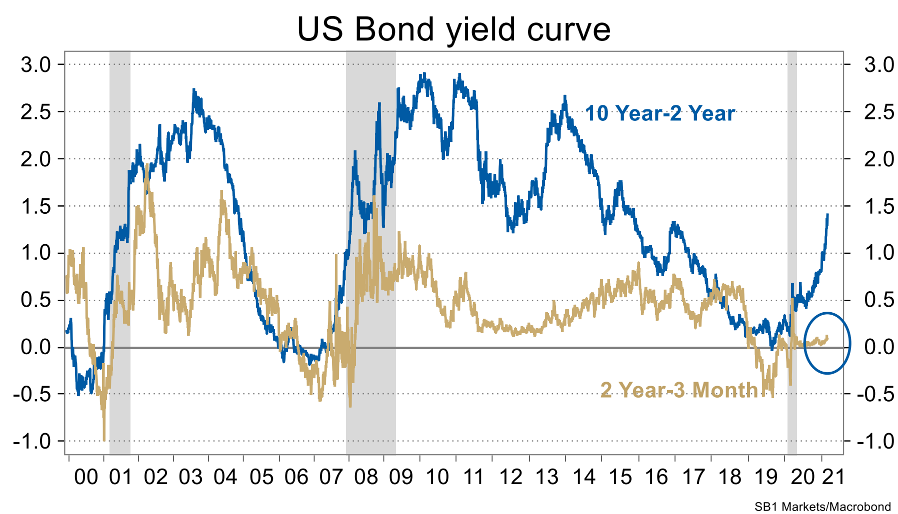
- **US 10 y <u>+12 bps to 1.56%</u>**
  - » Inflation expectations up 7 bp to 2.22%, close to the local peak two weeks ago
  - » The TIPS real rate rose further by 5 bps to -0.66 – and up by 40 bps in less than 1 month
- **Germany 10y <u>-5 bps to -0.30%</u>**
  - » Inflation expectations up 9 bps to 1.23%
  - » Real rate -14 bps -1.53%, still well up from the ATL at -1.65%. But incredible low, of cource

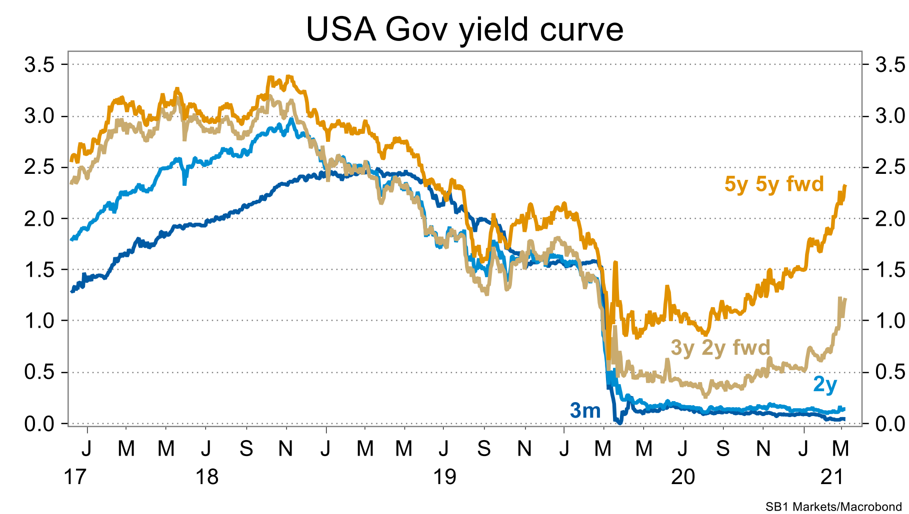
The short end of the US yield curve is not fully anchored anymore

Even if Powell & Co. insist that rates will be kept low as long as needed. Sure, but for how long?



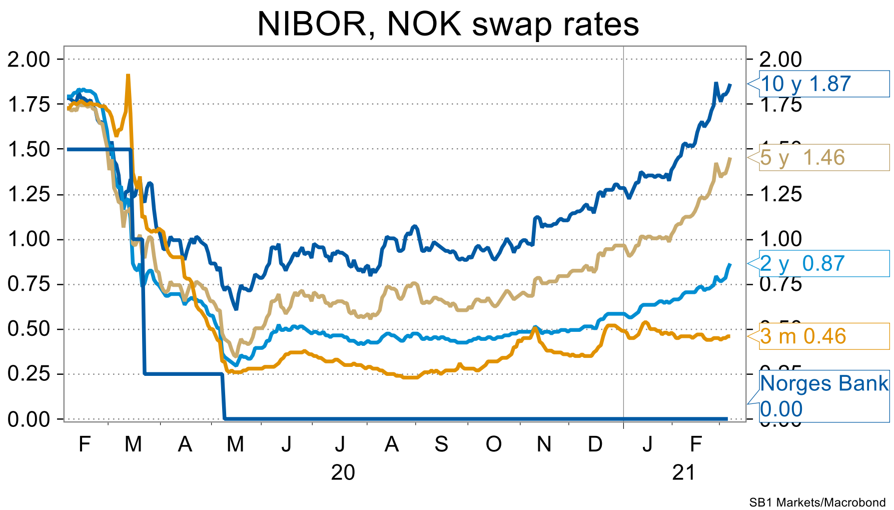




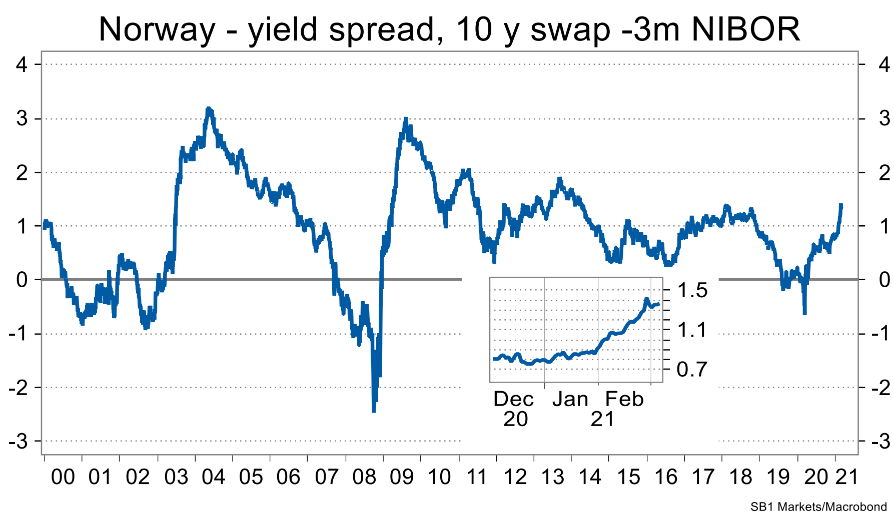


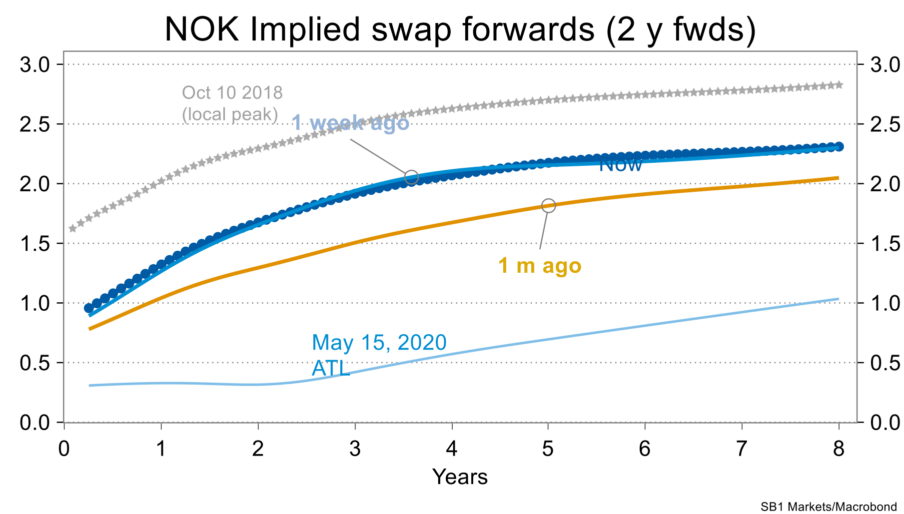
NOK rates climbed further last week

NOK 10 y swap +6 bp to 1.87%; up 137 bps vs May all time low



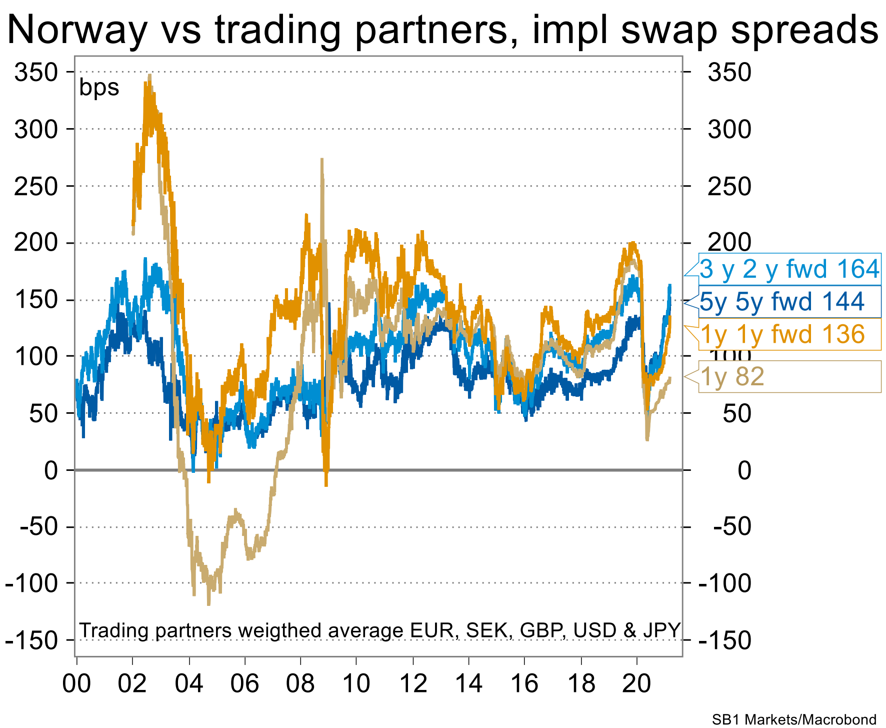
- The 10 y swap rate is now above the level in early 2020, before the corona virus hit, even if the first half of the curve is well below
- Last week, the mid segment of the curve rose the most

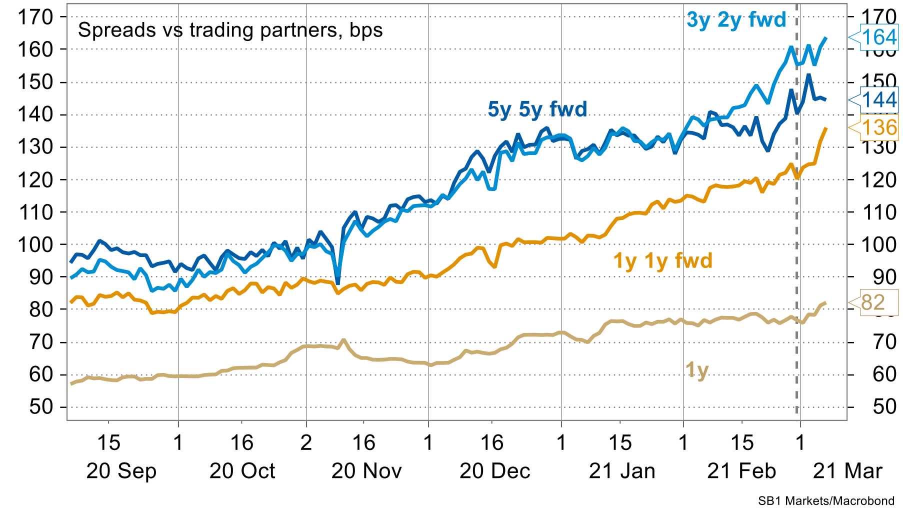


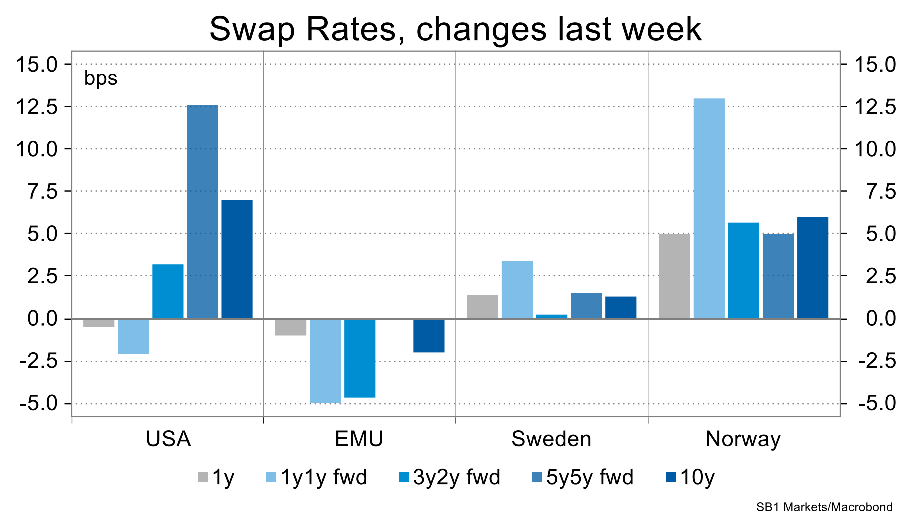


Swap rates up in the U.S. and in Norway, not in EMU/Sweden

The 5y 5y fwd spread at 145 bps is close to record high. Probably little upside

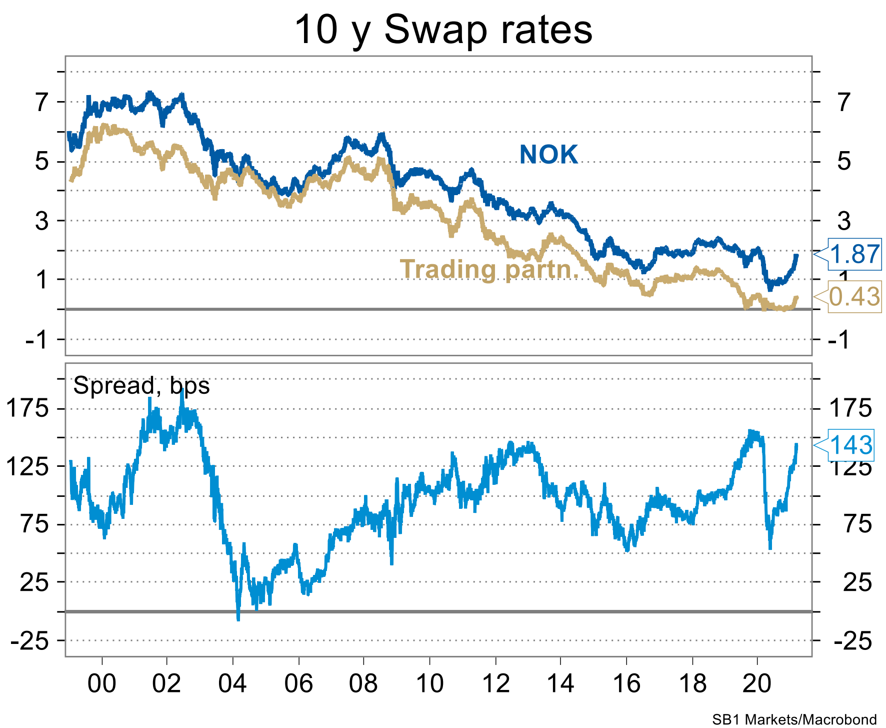


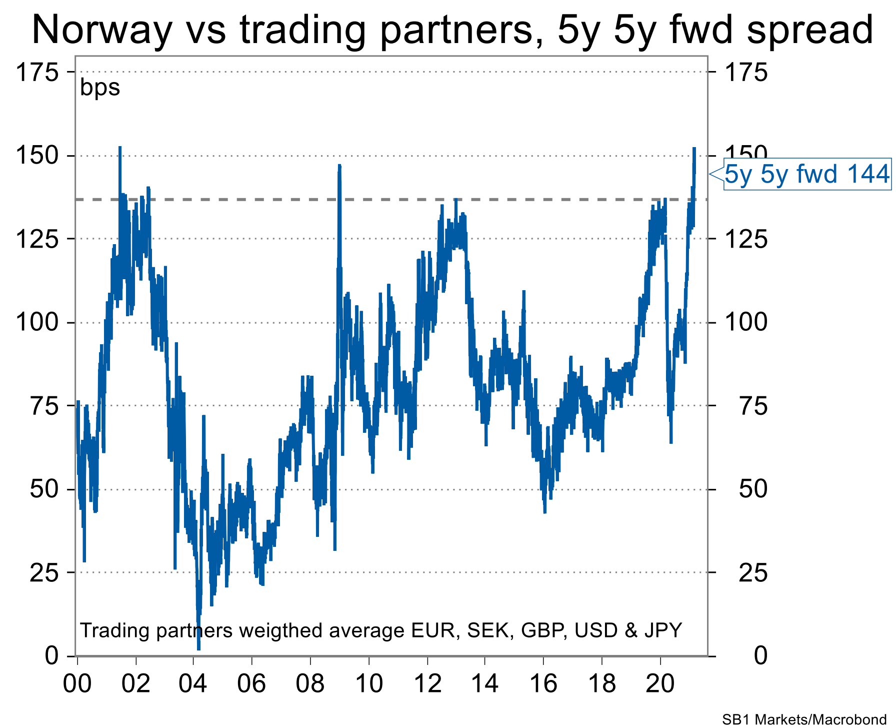




- Interest rates rose sharply further in the US and Norway last week, while rates in Sweden and the Euro zone were down.
- The implied spreads between NOK rates and trading partners' rose across the curve
- In the long end, the spread is very high vs. history, while spreads on the first half have been substantially higher

The 5y 5y fwd spread closing in on record-high levels





- 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?

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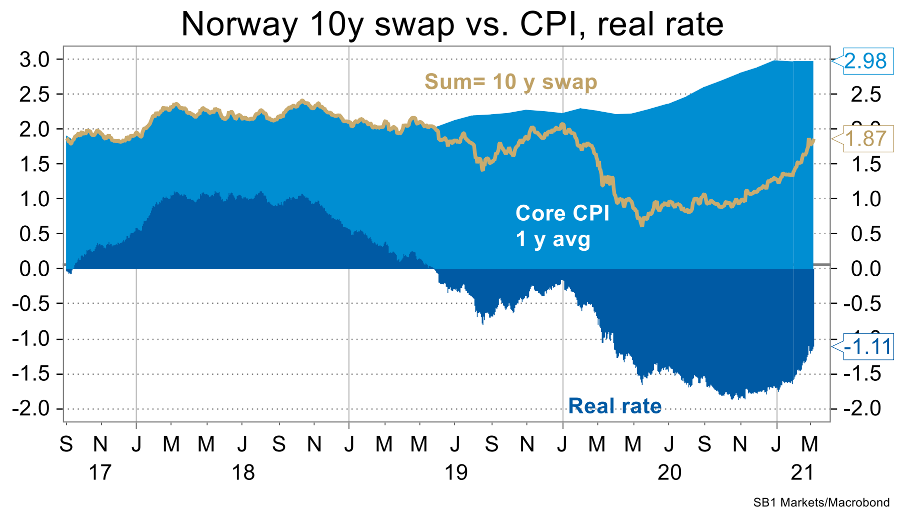
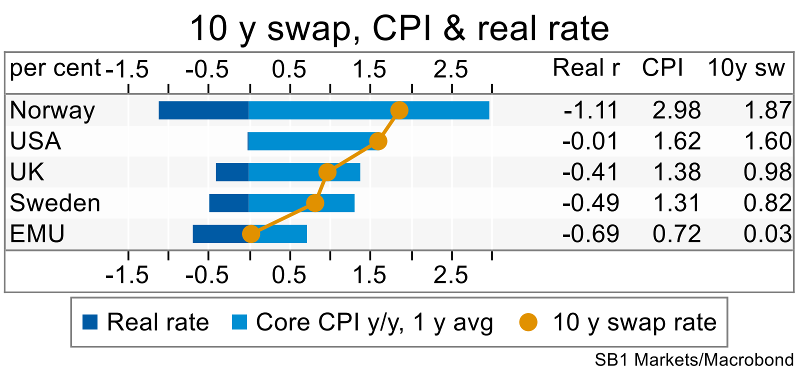
Negative (actual) real interest rates everywhere – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The **10y NOK swap rate** has climbed by 136 bps since the bottom in May, to 1.87%!
- **The real rate**, after deducting 3% average core CPI inflation over the 2 past years equals -1.11%
  - » 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 many decision makers



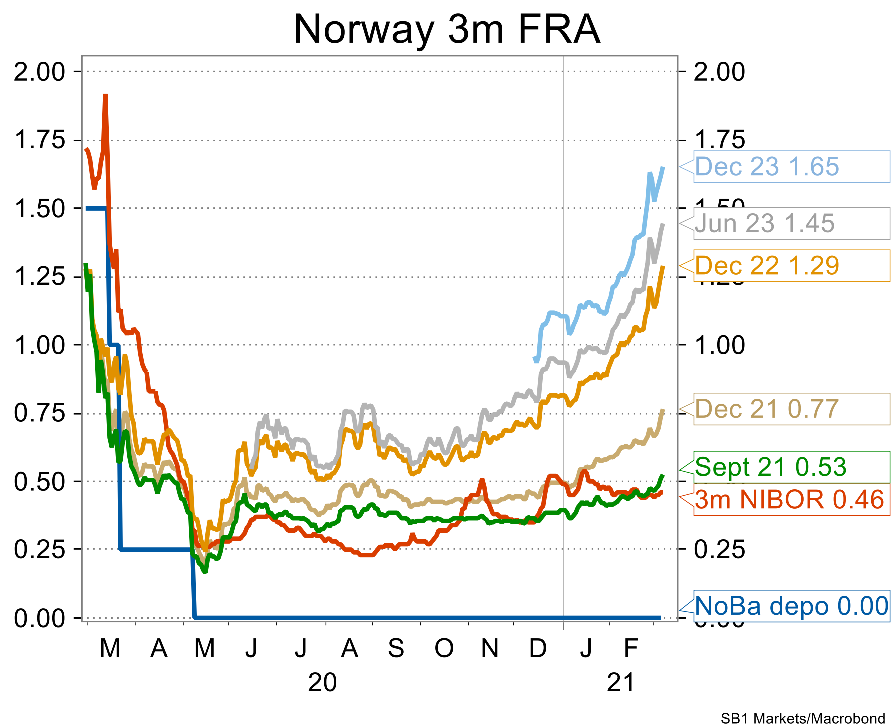
per cent	Real r	CPI	10y sw
Norway	-1.11	2.98	1.87
USA	-0.01	1.62	1.60
UK	-0.41	1.38	0.98
Sweden	-0.49	1.31	0.82
EMU	-0.69	0.72	0.03

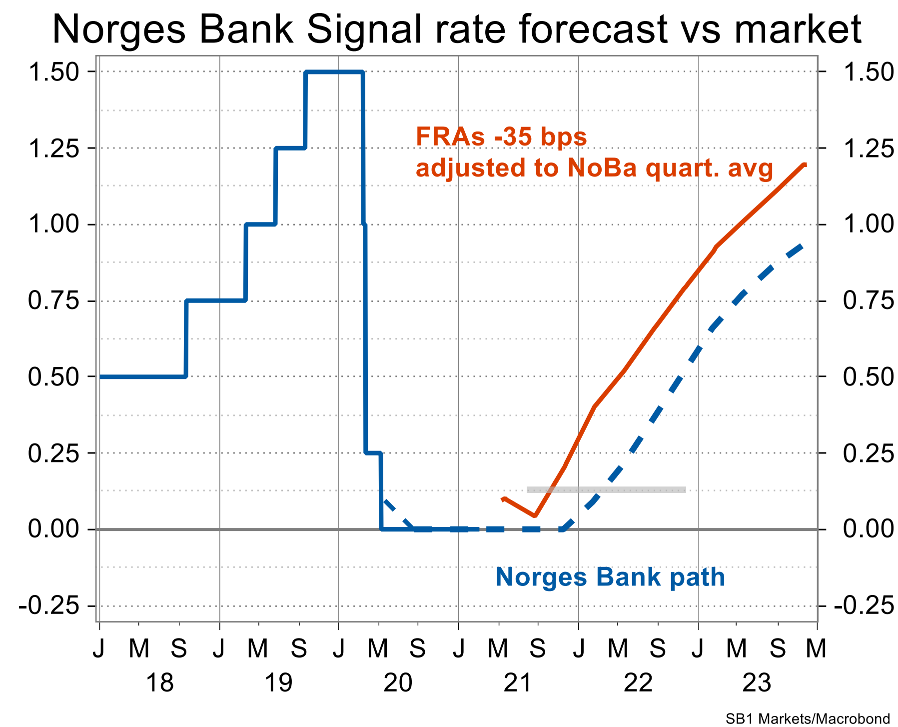
NOK real rates among the lowest, as inflation is at the top

- **Inflation** among Norway and our main trading partners varies between 0.72% 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 -0.01% to -0.69% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.11% is an outlier at the downside, even if the nominal rate is the highest**

The market is discounting 1 (60%) or 2 (40%) hikes in H2!

The FRA-curve is steepening rapidly, up 6-10 bps last week, up to +60 since Jan 1

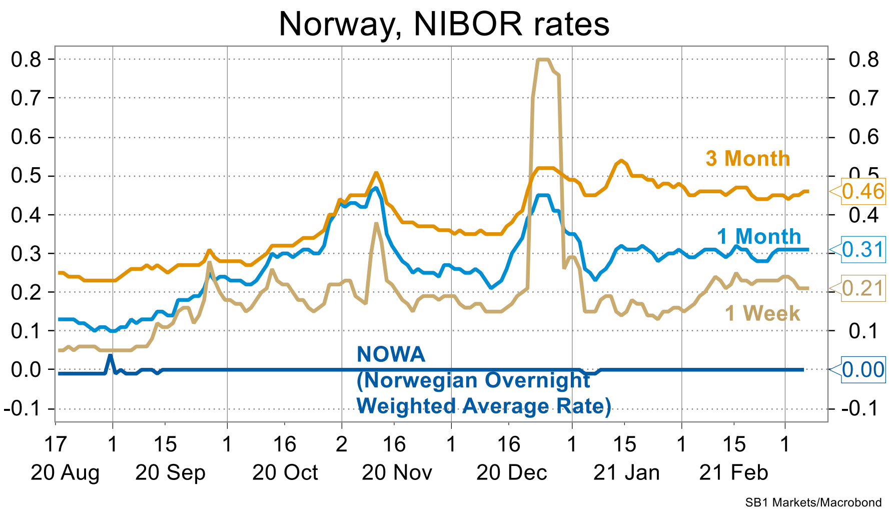


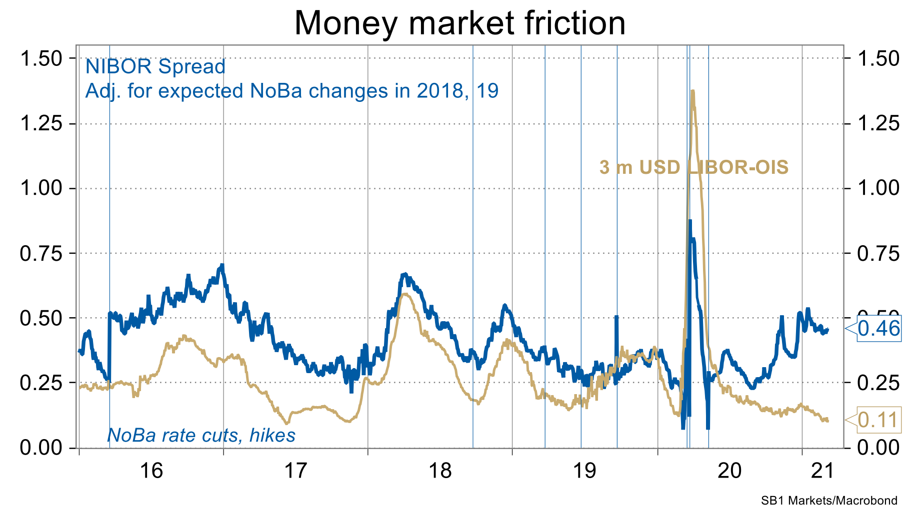


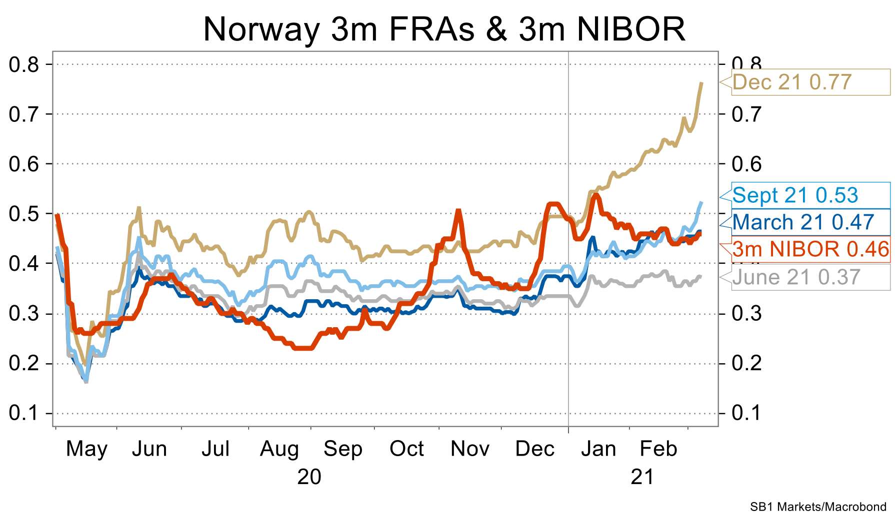
- The NoBa 23 Sept meeting is the week after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate of Sept 21 FRA contract period will be 0.23% (the NoBa Dec meeting takes place the day after the Dec IMM date). Assuming a 35 bps NIBOR spread, the FRA-rate equals a 0.18% NoBa deposit rate. If so, a 78% probability for a Sept hike is discounted
- The Dec 21 FRA at 0,77%, and a 35 bps NIBOR spread, yields a 0,42% NoBa rate. However, the Dec FRA is normally some few (5 – 7 bps points 'too high' due to year liquidity adjustments at banks – which we have to deduct before calculating market's 'real' NoBa expectation. Anyway, a 0,35% 'clean' (spread & year-end adjustment) implies an almost 50% probability for a 2nd hike in H2!
- The rest of the (spread adjusted) FRA-curve is up to 30 bps above Norges Bank's Dec interest rate path
- Norges Bank will present its new interest rate path next Thursday. The path will be substantially lifted, both due to foreign and domestic factors – and by more than 30 bps, at least through 2022 and 2023 (our final call in next week's Macro report)

NIBOR rates have flattened – the 3m rate still at 0.46%

FRAs signal a minor spread tightening vs. NoBa deposit rate. But now focus at the longer contracts…



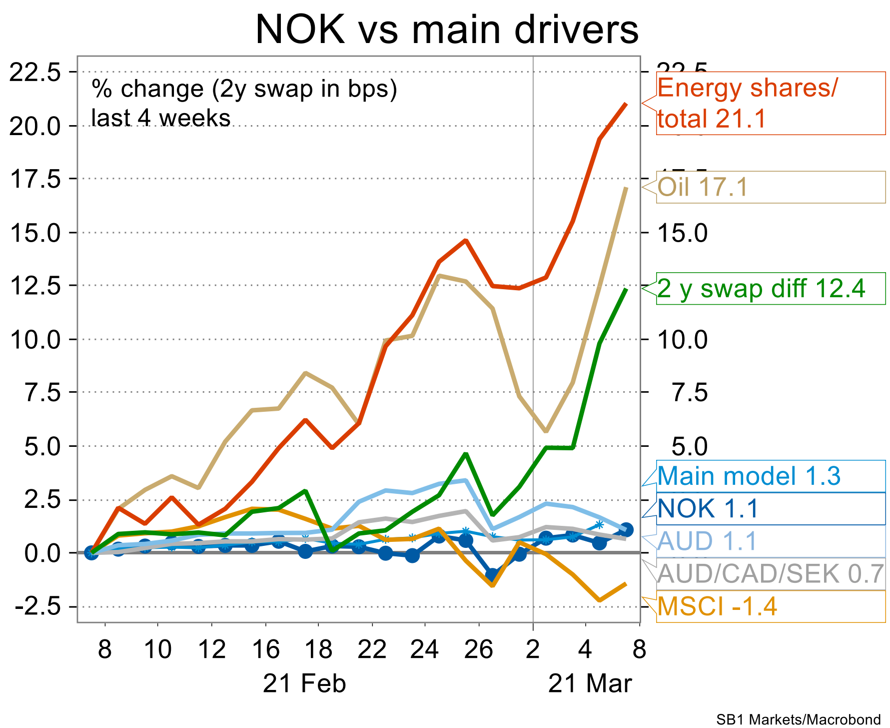


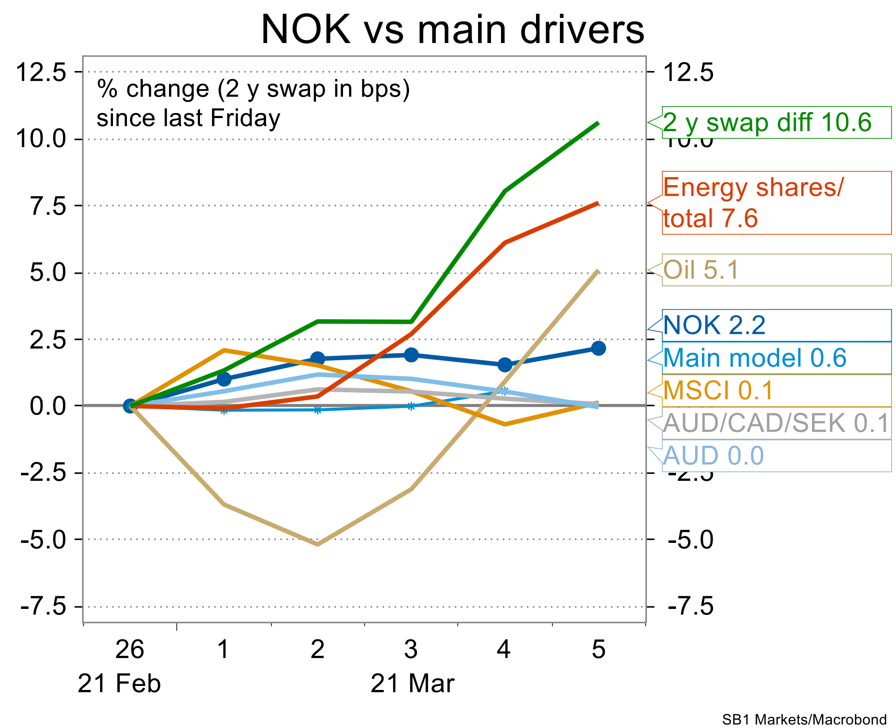


- **The 3m NIBOR** was flat last week but the spread vs. the NoBa deposit rate remains larger than 'normal'
- Now, the **FRA rates implies** that market participants expect that the spread will remain somewhat higher than the 'normal' 30 – 35 bps
  - » However, the spread has been far from stable, though mostly driven by LIBOR-OIS spread in dollar market. The present gap between the spreads are larger than normal
  - » We expect Norges Bank will assume a 35 bps spread going forward in it's MPR next week, up from 30 bps in the Dec MPR
- However, it is more exiting to follow the longer end of the FRA curve, upwards

NOK up 2.2%! The NOK surged, even before Opec+ once again lifted the oil price

… and without any help from our currency friends, or stock markets. Energy shares, NOK rates rose





In sum, the NOK is still a buy:

- The NOK is 2% <u>weaker</u> than suggested by our standard model (from 4% last week!)
- 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 (9%) <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. Thus, JP Morgan's index correlates closer to the 'official' main NOK fx crosses. There are no substantial difference between these two indices over time. JPM ind. is used for other f/x too

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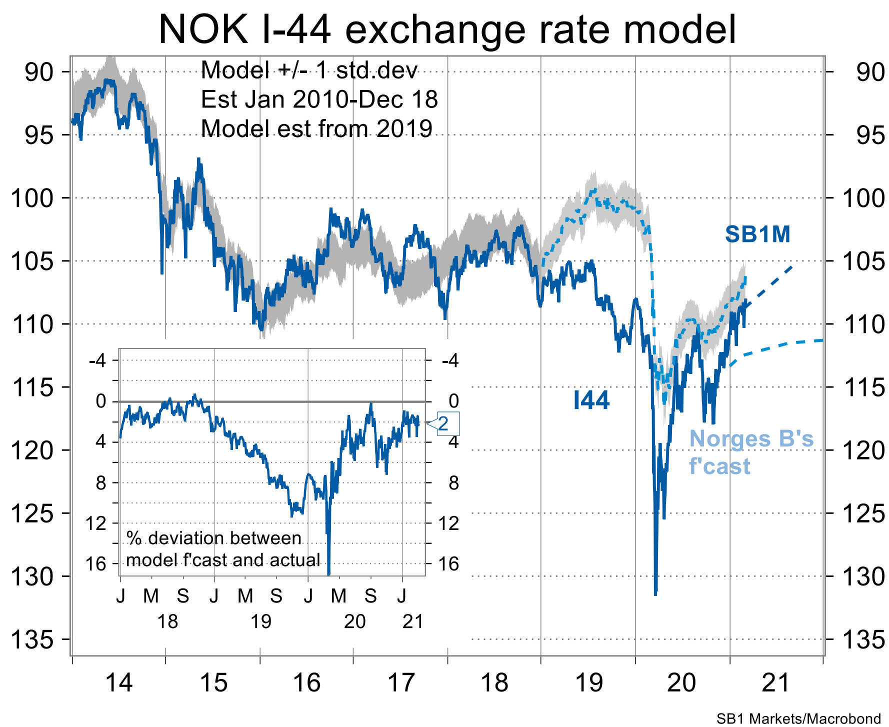
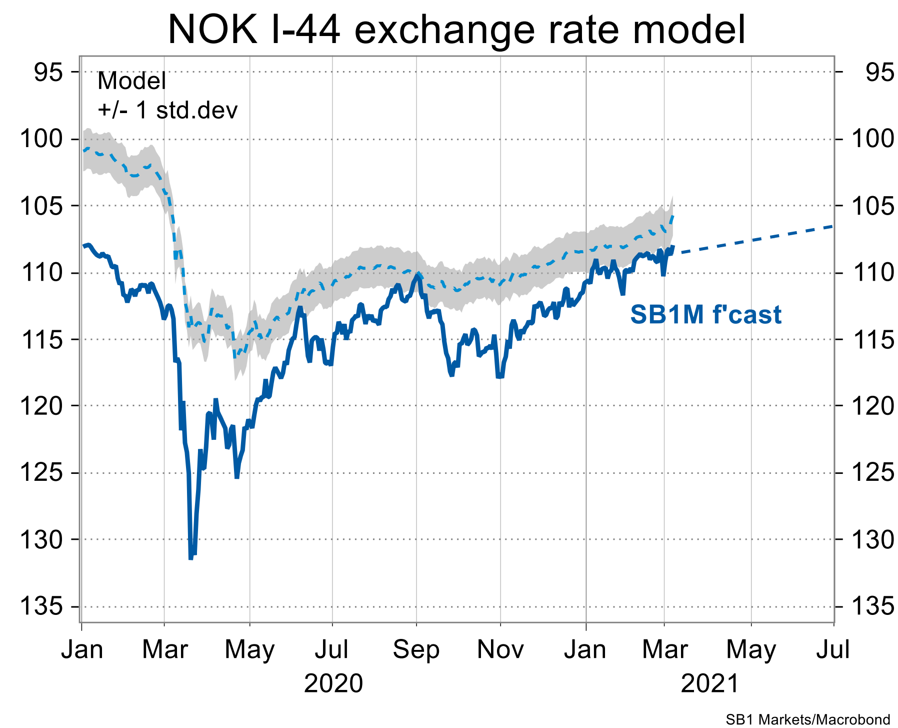
NOK I44 up 2.2%, our model said +1%

The NOK is now 2% below our traditional NOK model forecast





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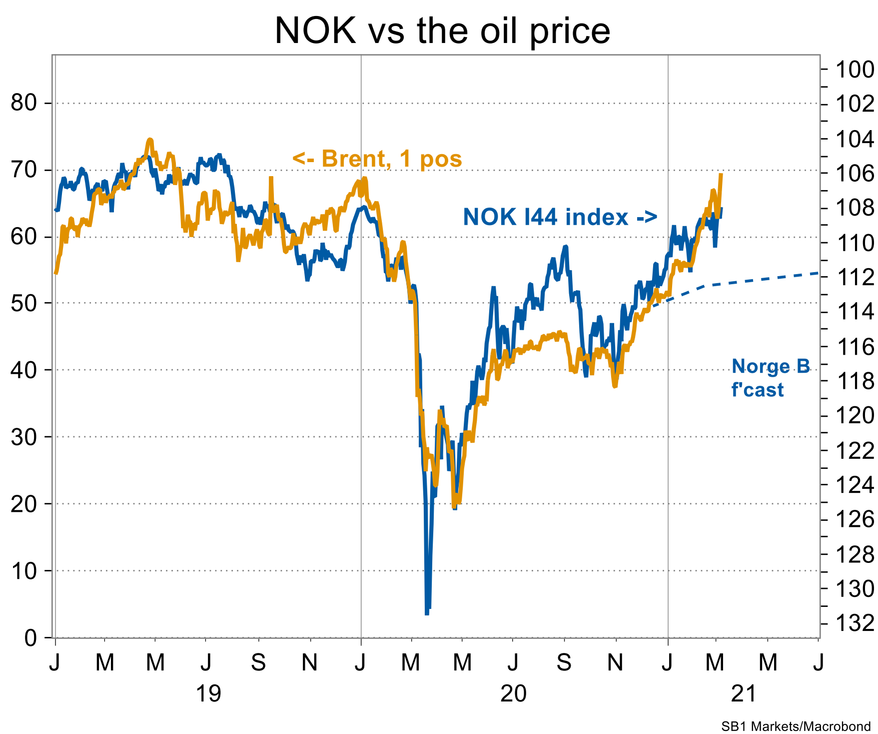
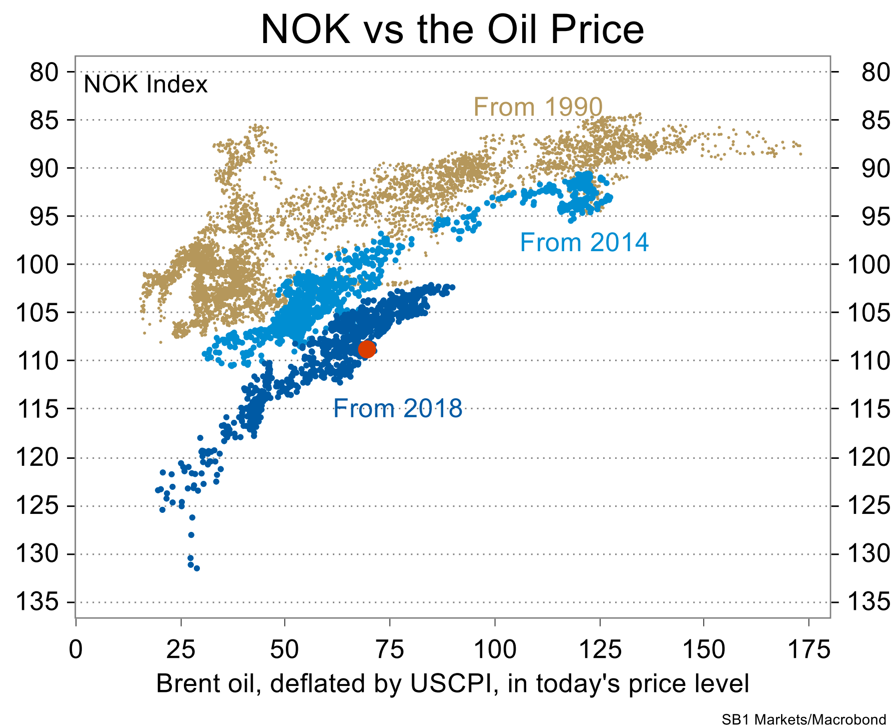
Oil sharply up, NOK up too. But the NOK climbed first

The oil price is approaching USD 70/b again, best since May 2019. Thank you, Saudi A & Russia

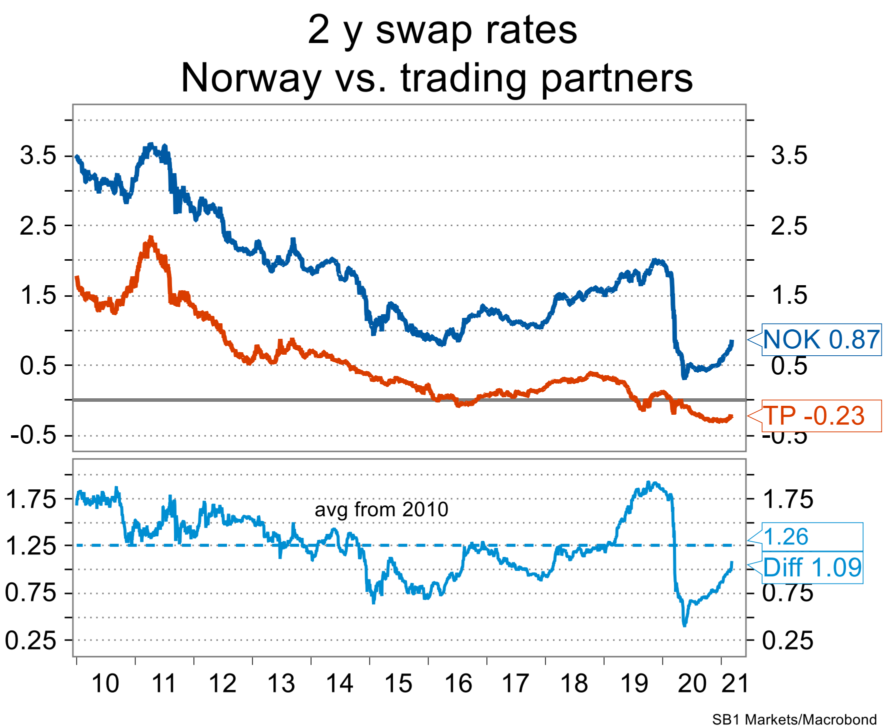


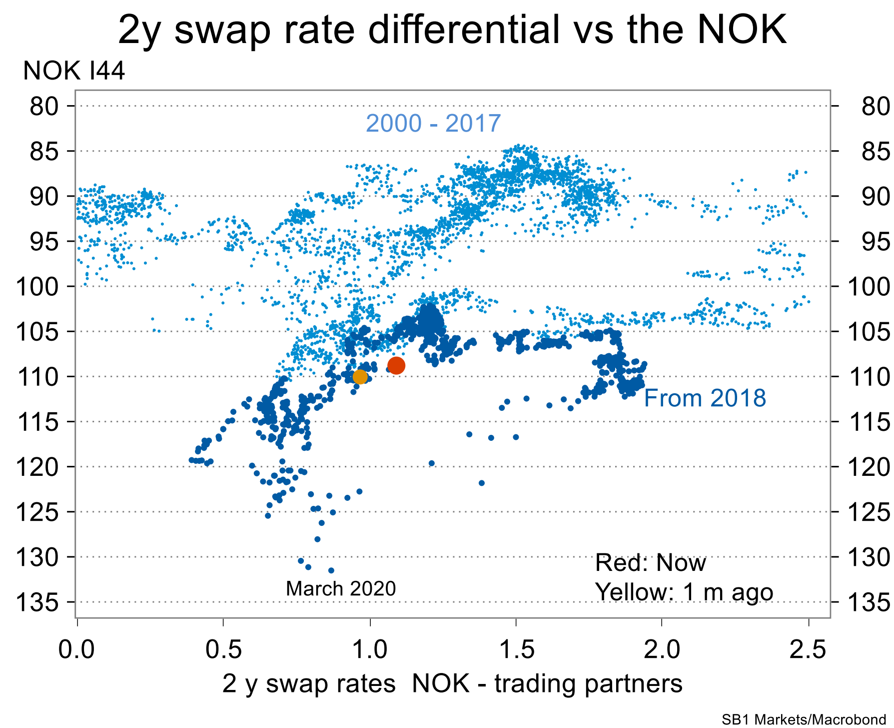


- The NOK is still weak vs. the oil price, even vs. the low 'low normal' since 2018

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

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

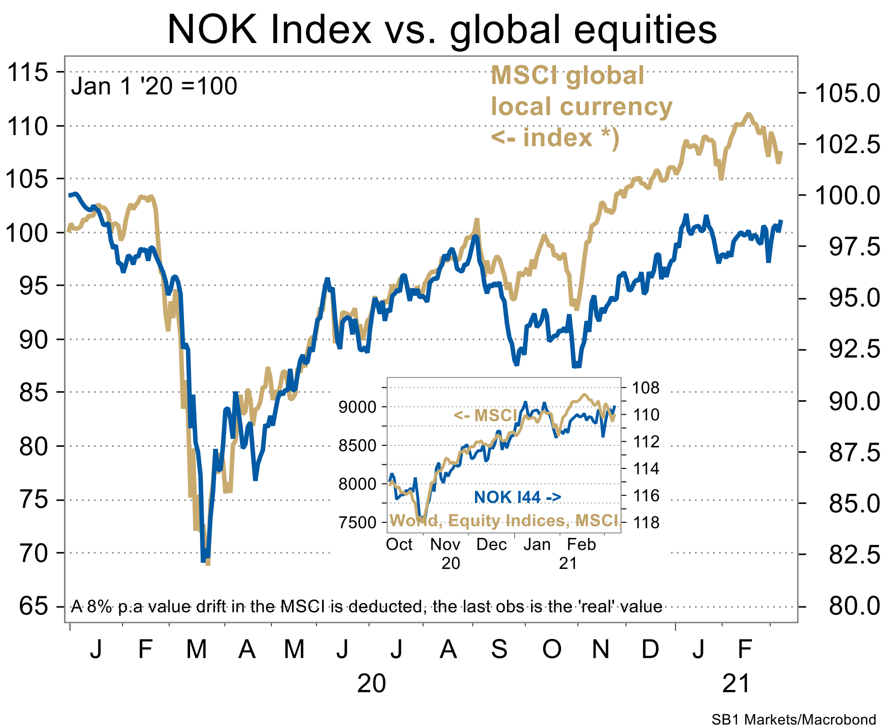


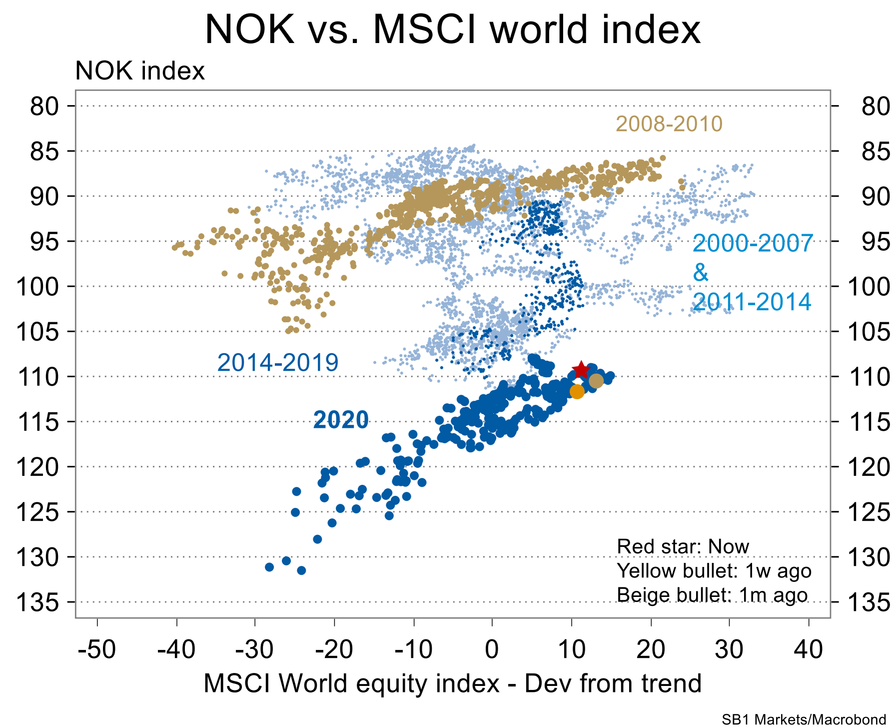


- However, the relationship is far from stable – and the oil price is usually much more important – and other factors are more important too, at least from time to time

NOK up, without support from global equities (the gap narrowed)

Except for Sept. NOK and global equities have walked in tandem last year. The ‘gap’ is now 4%

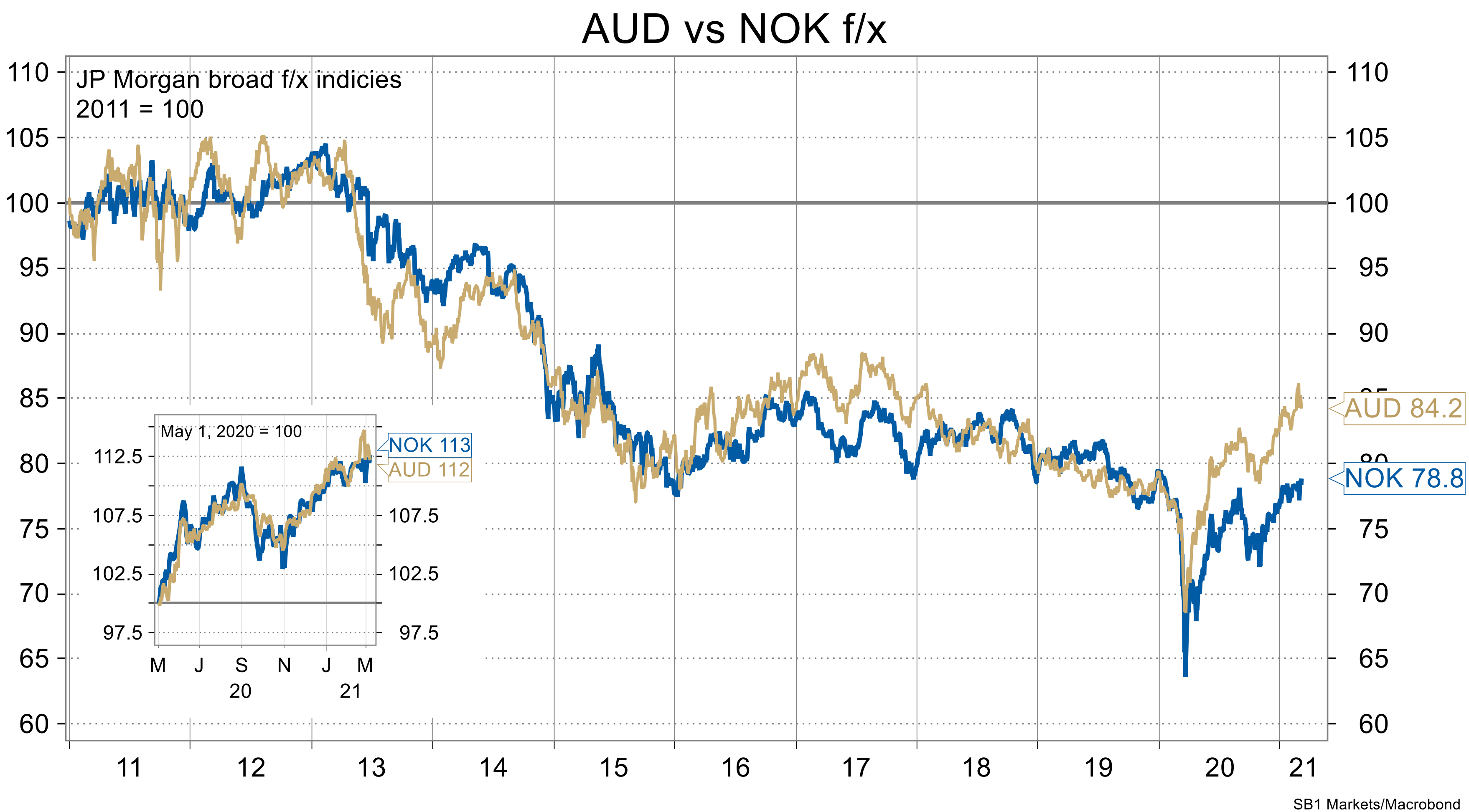




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the 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

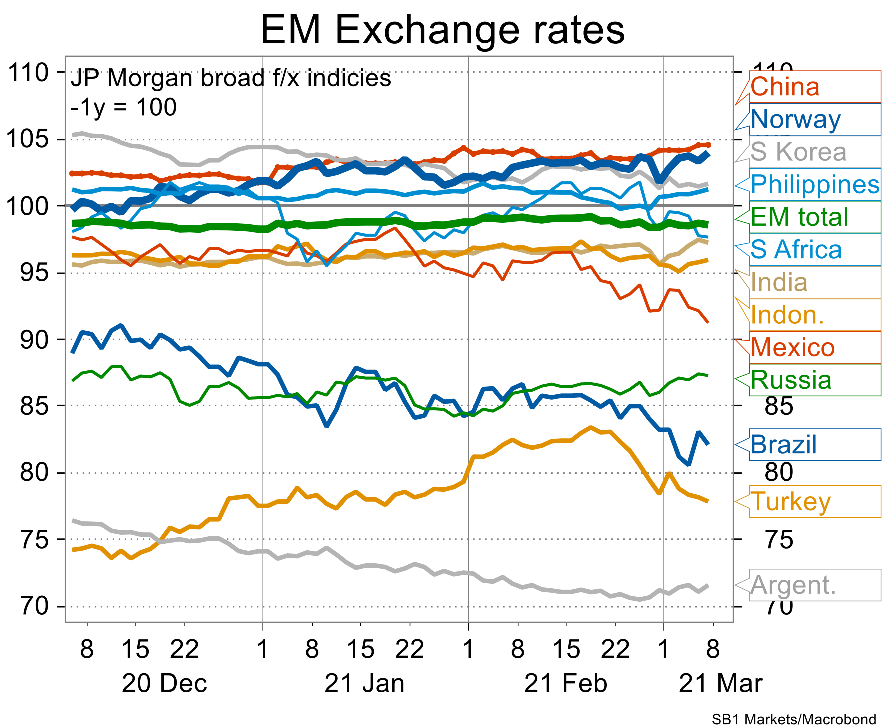
The NOKie made a giant leap in the past week, and close the short term gap

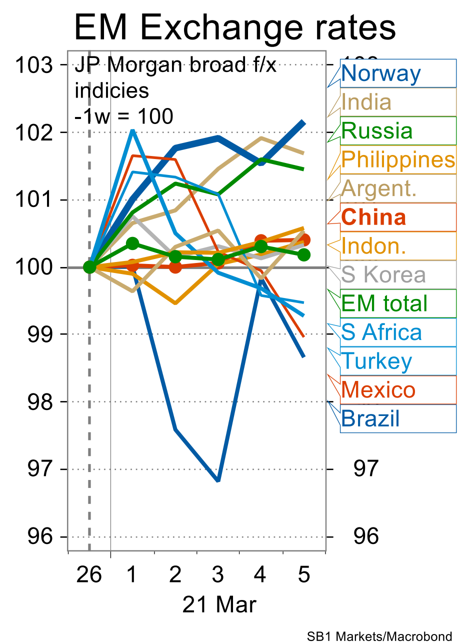
.. But the last spring setback remains intact – the NOK is 'lagging' some 6% (vs the 2011-2019 avg)

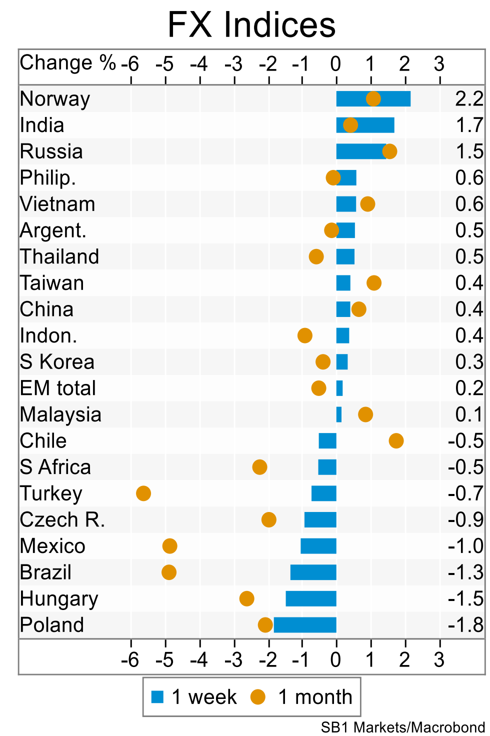


Who can stand higher US yields – and risk market turbulence? Not everybody

Still, our EM f/x avg appreciated last week, lead by India and Russia (and NOK was even better ☺)







* Brazil is not impressing anybody anymore. The PMI still weak. (While India and Russia reported better data)

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