15 March 2021

Macro Weekly

Week 11/2021

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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

- **Most countries are still on the way up:** The no. of new covid-19 infections continued upwards in most countries last week. However, both the UK and the US are reporting a further decline, in the UK both due to vaccinations and still very low mobility, and in the US due to more vaccinations. The US is now vaccinating 3% of the population per week. In Europe x UK just 1% - 2% per week
- **Norway** is reporting the 2nd highest mobility and 2nd mot most rapid increase in new cases among rich countries. Some new local restrictions were imposed last week, and more are likely, as the national 'R' is still at 1.3 (at least). As it takes time to speed up vaccination, the current growth rate is not sustainable
- Last week **AstraZeneca** acknowledged that the company had to reduce deliveries to EU (and subsequently Norway) by 60% in Q2, following a big miss in Q1 as well. EU will receive 100 mill fewer doses, Norway 1 mill less, postponing the assumed date where all adults are vaccinated by 1 month.
- In addition, both Austria, Denmark and Norway in addition to others have reported **serous blood clot cases** following use of the AZ vaccine, still at very low rate (in average 1 of 100.000), and nothing compared to the increased covid-19 risk if not taking this vaccine. Still, several countries have paused vaccination by the AZ vaccine. If it turns out it is not safe (rather unlikely though), another month's postponement in Europe. Even if is deemed safe (which seems most likely), anti-vaxxers have found a new argument, and vaccine resistance will increase – and probably not just for the AstraZeneca vaccine
- The main risk going forward: The vaccines are not able to cope will with the **Brazilian variant** and previously infected with other strains of the virus will not be immune vs. this variant

The economy, part I

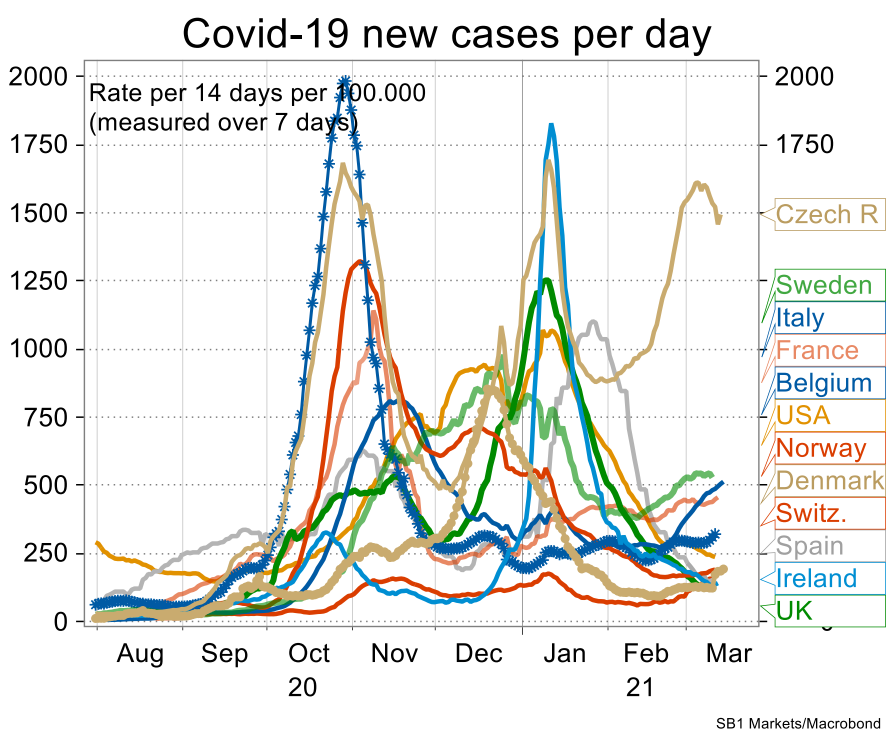
- **Global economy**
  - **The OECD** lifted its global 2021 growth forecasts by 1.4 pp to 5.6%, of which 1.1 pp due to the US stimulus package decided last week. Growth in US is assumed was revised up by 3.3 pp to 6.5%! We have never seen anything like this
- **China**
  - China surprised us this morning by publishing the full Jan/Feb data set, and not just the fixed investment stats, and no time for the usual analysis. **Industrial production and investments** are still strong measured m/m, while **retail sales** yielded in January, and **service sector production** in February**.** The modest New Year festive seasons is very likely to blame for the weakness. If so, no reason to worry. **Credit growth** was on the strong side in February too, no squeeze to be seen. The official y/y growth figures the authorises publishes are even more useless than normal (due to the corona collapse 1 year ago), as are like analysts' expectations for the same data. For what it is worth (and that is not much), Jan/Feb data were better than expected

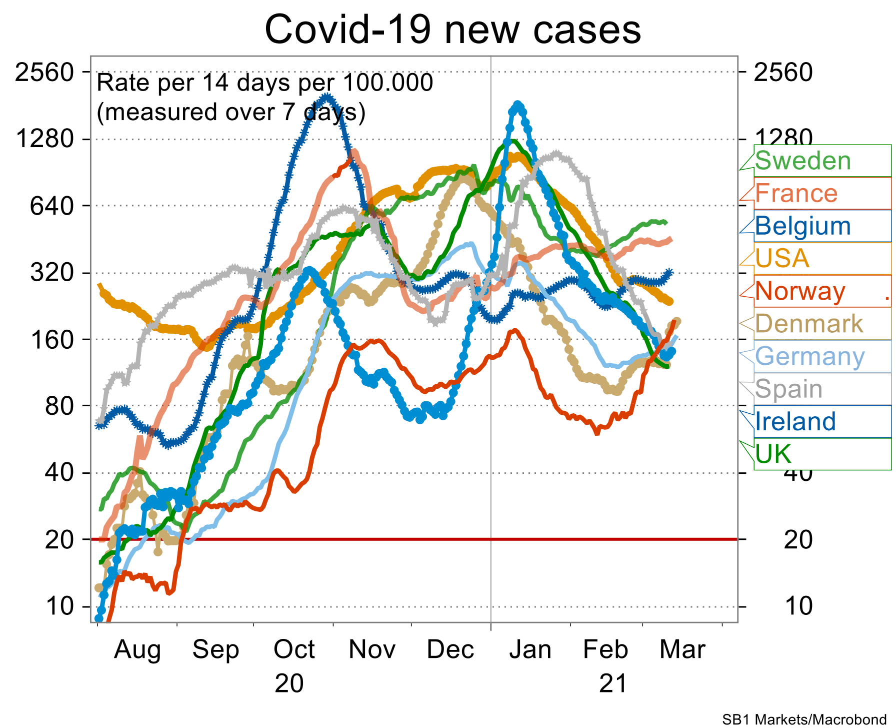
Last week: The economy, part II

- **USA**
  - » **CPI inflation** remains muted but both the headline & the core will accelerate significantly measured y/y the next months due to base effects from last year's corona related price cuts. This impact is short lived but **producer prices** are on the way up, and demand may increase even more than supply the coming months, as both the use of household savings (the increase in **bank deposits**, according to Q4 flow of funds) and the extreme fiscal stimulus should lift demand strongly. Wage inflation is still moderate. However, **small businesses** have never been less able to fill vacancies, they want to hire more, they plan to increase compensation faster than normal, and barring in June 2009, there hasn't been more companies that are planning to increase their selling prices than since 1982!!
- **EMU**
  - » **The ECB remains uber-dovish**. A formal Yield Curve Control was not decided but the PEPP bond buying program will become more frontloaded, lifting the monthly QE, obviously to influence yields, at least in the periphery. Italian bond yields fell, German real rates fell, while inflation expectations rose
  - » **Industrial production** rose more than expected in January but it remains 1.9% below the pre-pandemic level. Surveys are still strong, retail sales not
- **Norway**
  - » **Mainland GDP** fell less than expected in January and was 1.5% below the Feb-20 level, and 1.6% above Norges Bank's f'cast. 'Personal' services reported a significant reduction in activity as did trade. Manufacturing and construction grew
  - » **Norges Bank's regional network** reported that activity the past 3 months was down vs. the previous 3 months (even if actual GDP grew by a 3% pace). The outlook for the coming 6 months is better, especially for household services due to the expected vaccination rollout. Construction and oil services expect a further contraction but the manufacturing sector x oil related expects decent growth. Investment plans were revised further up and now signal growth in Mainland business investments. Expected wage inflation is higher than NoBa's Dec forecast
  - » **Core CPI** was up 2.7% y/y in February, below consensus, NoBa's and even further below our estimate. Total CPI 0.8 pp up 3.3% due to higher electricity prices y/y
  - » **Manufacturing production** is 'booming', at least outside oil related sectors
  - » **SSB** expects a muted recovery in 2021, with a Mainland GDP growth at 3.2% but accelerating to 3.6% next year, though in sum equal to NoBa's Dec f'cast. Wage inflation will accelerate slowly but clearly to above NoBa's plan. SSB expects NoBa to start hiking in Q4

Mixed, most countries still on the way up – but not faster

Italy and Norway report the steepest increase now. UK,US still in the way down, many are vaccinated



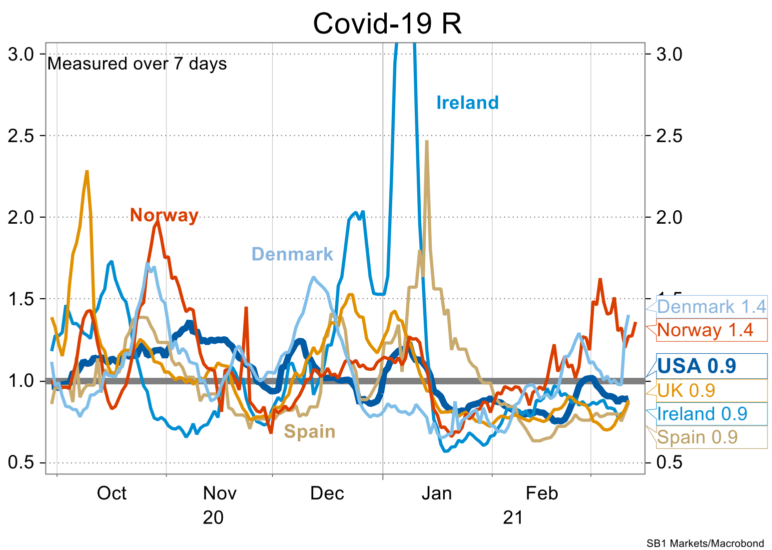


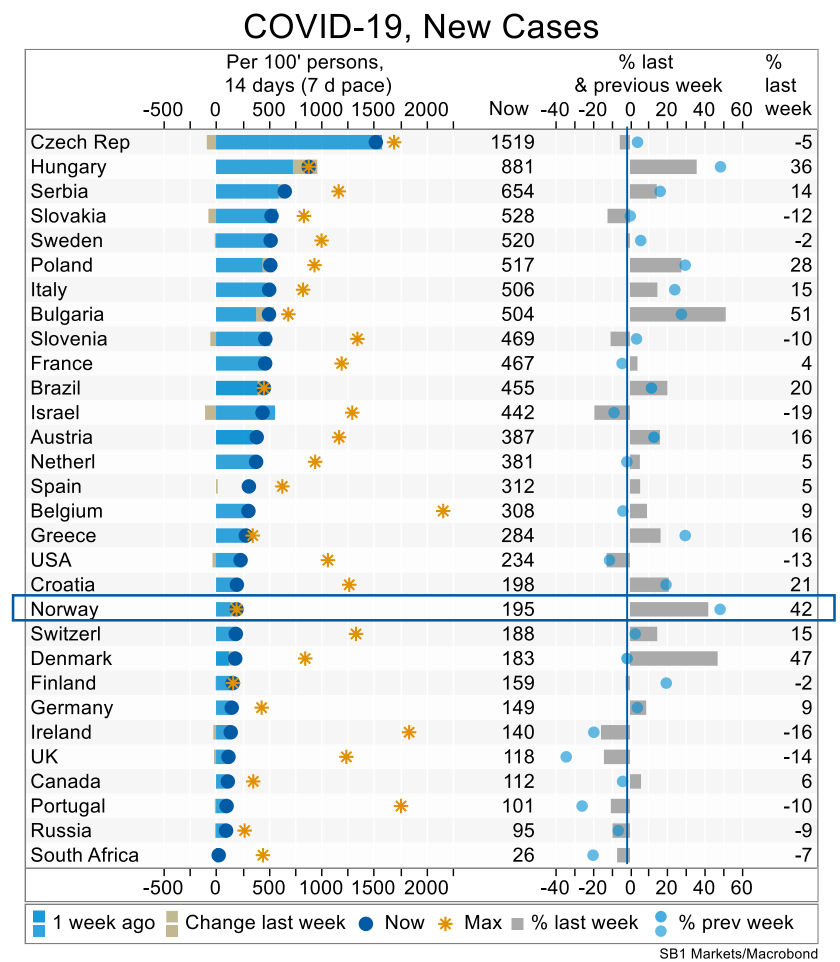
- Vaccines are no doubt keeping new cases down in the UK and the US
- In many other countries, the no. of cases is rising, in some places quite rapidly, like in Norway. Here, the no. of hospitalisations is increasing too
- The no. of deaths is shrinking most places as the no. of new cases has been on the low side for a while, and the oldest inhabitants are vaccinated in most places

Still more countries on the way up than down, the 3rd wave

Few countries are reporting high infection numbers, but more cases reported as the mutants expand

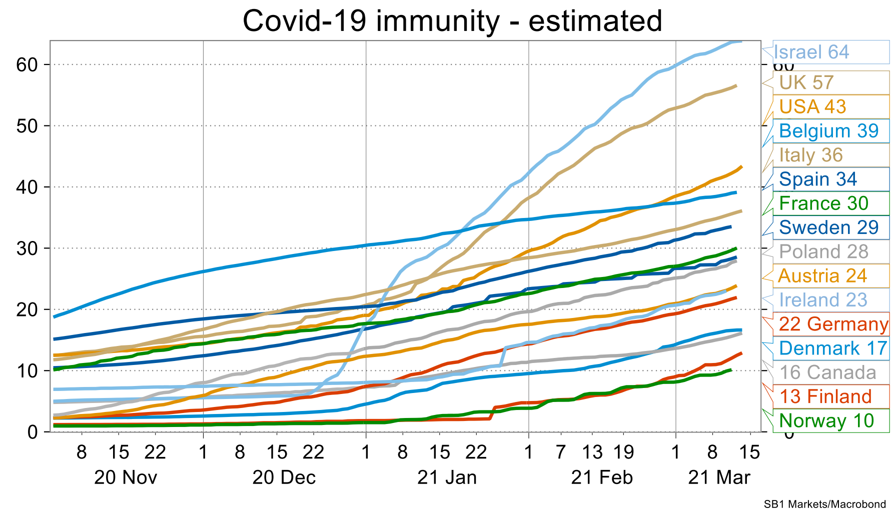
- **The Czech Rep.** is still at the top but has probably peaked
- **Norway** is still reporting a very high growth rate, 40% per week, however down from 60% last week, and is moving rapidly upward on the list
  - » Regrettably, with a weekly growth rate at 40%, Norway cannot afford to wait for the vaccines to arrive in large quantities
  - » Mobility in Norway is higher than almost all other countries
  - » Some local restrictions are announced, and mobility is on the way down
- The no. of **hospitalised patients** and **deaths** are lagging, and are still down almost everywhere. We have already seen some impacts of vaccination of the oldest/most exposed groups (also in Norway)
- **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

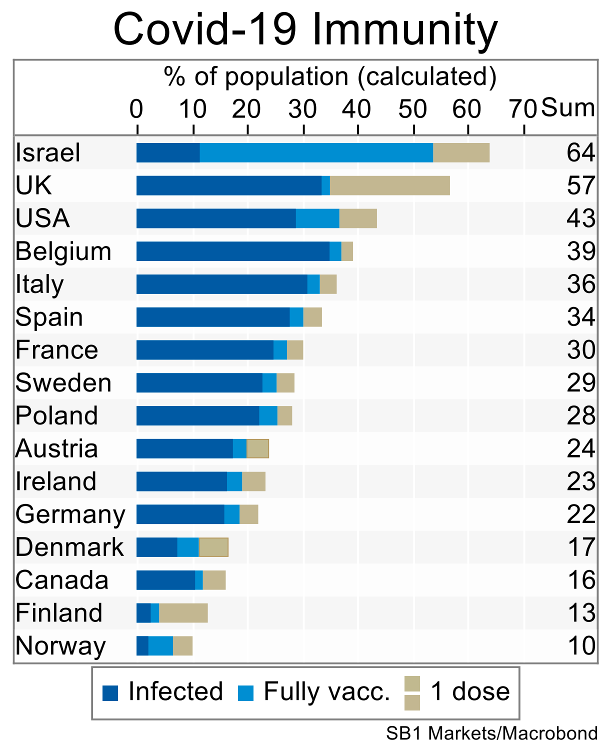




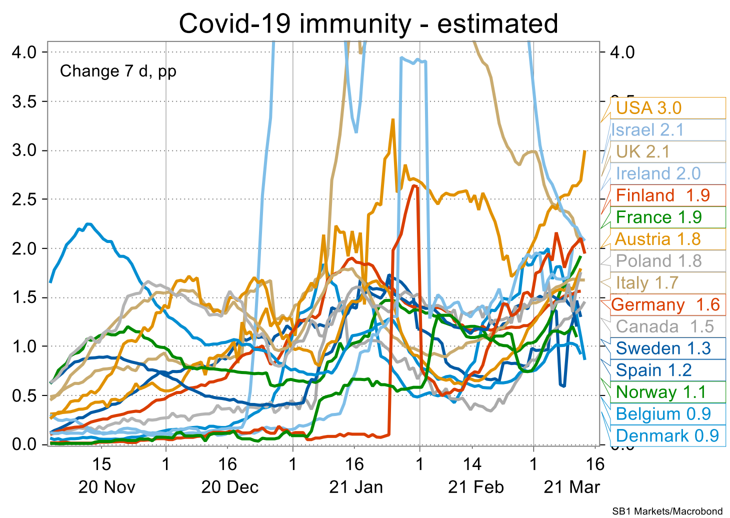
Pace of vaccinations are accelerating in most of EU/Norway

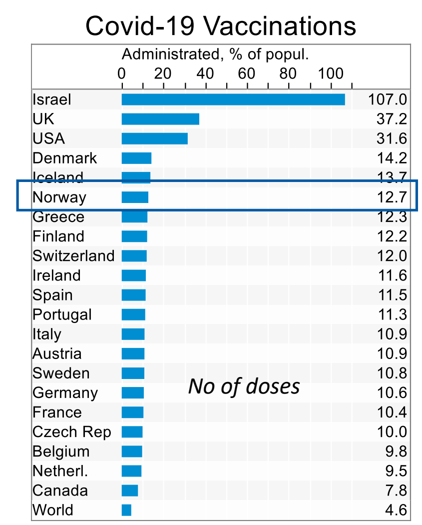
But the US is now vaccinating at the fastest pace, 3% per week pace, and >40% are probably immune





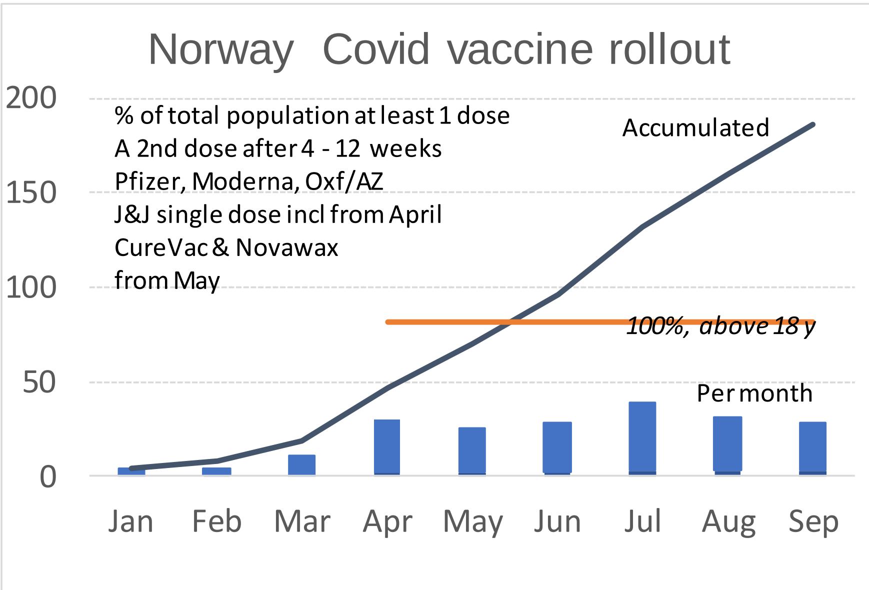
And even more so in the UK





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

This was the roll-out plan 1 week ago



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>

Data from FHI, VG, international media

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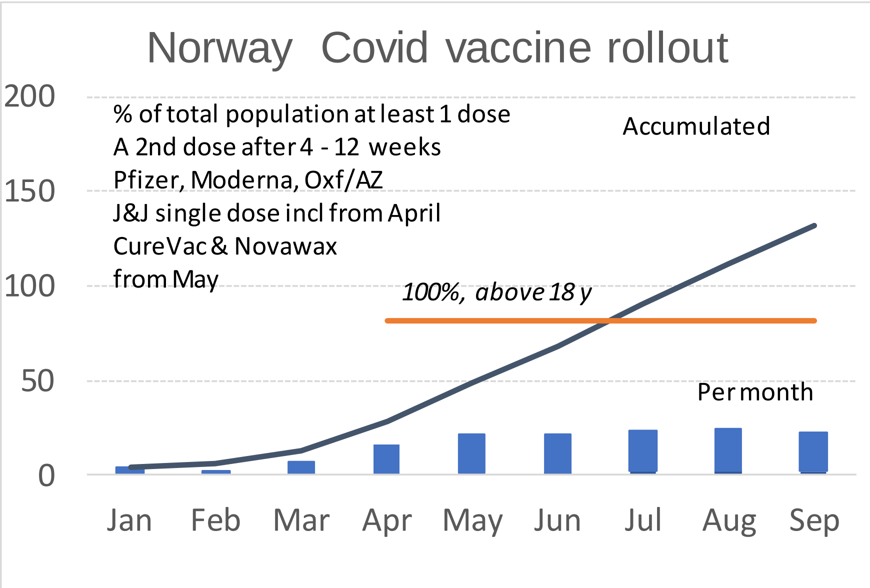
This is the plan now. AstraZeneca cut deliveries by 60% in Q2, -1 mill doses



- We have said it for a while: There is still substantial uncertainty vs. the availability of vaccines, both concerning global production volumes and the share EU/Norway will receive
- Last week, AstraZeneca had to acknowledge that deliveries to the EU (and by that Norway) would fall seriously below the promised volumes. Some 100 mill less to the EU, and 1 mill less to Norway.
- We has assumed Norway could reach at 100% coverage of the adult population by the end of May. Now end of June seems more likely

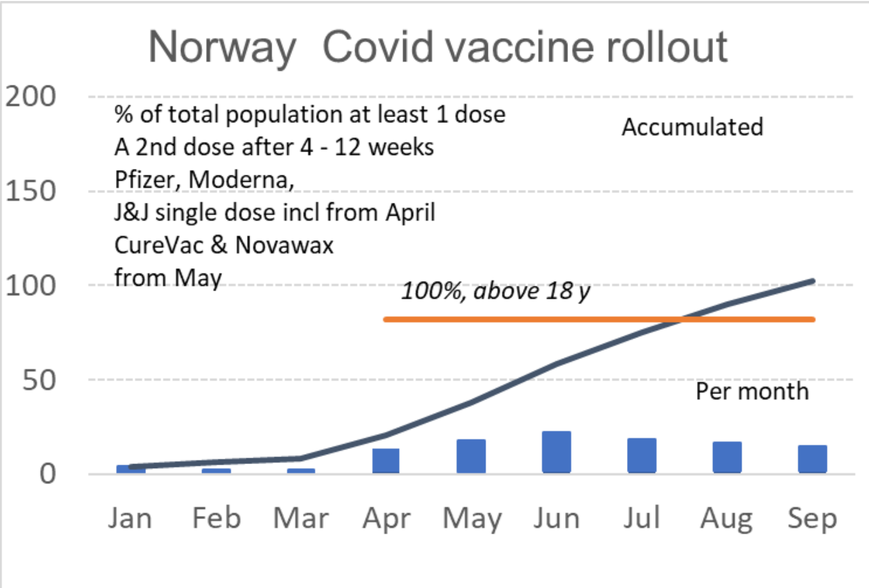
The first shot per week % of popul	
Jan	1
Feb	1
Mar	2
Apr	4
May	5
Jun	5
Jul	5
Aug	5
Sep	5

- Norway may reach a pace of vaccination at 4% of the population per week in April

Data from FHI, VG, international media

And what if we may get a blood clot from AstraZeneca' vaccine?

Well, then we are talking about end of July before the target is reached…



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Jan	1
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Data from FHI, VG, international media

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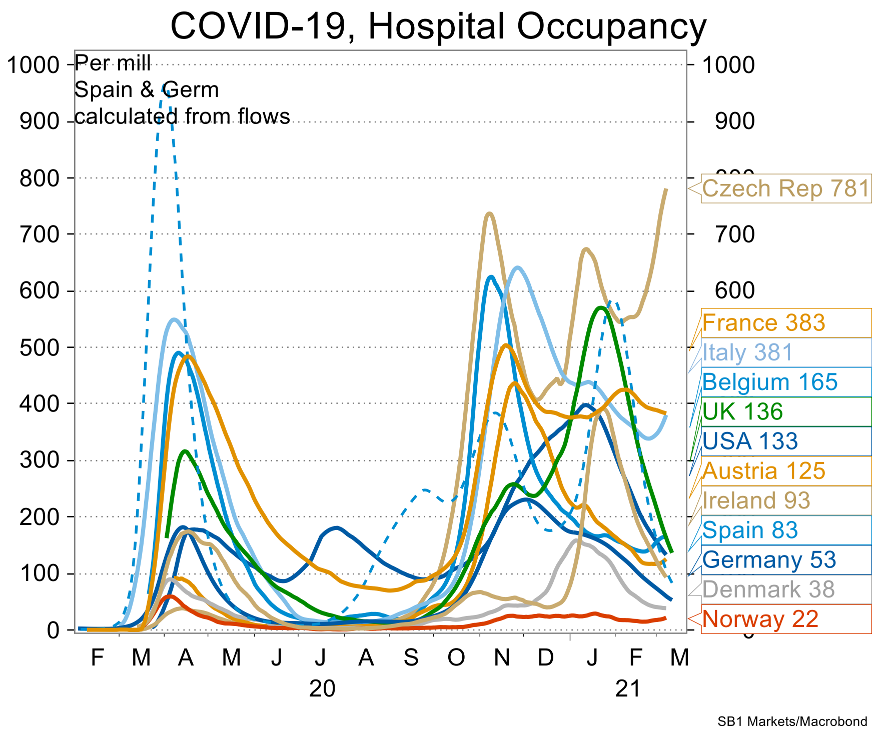
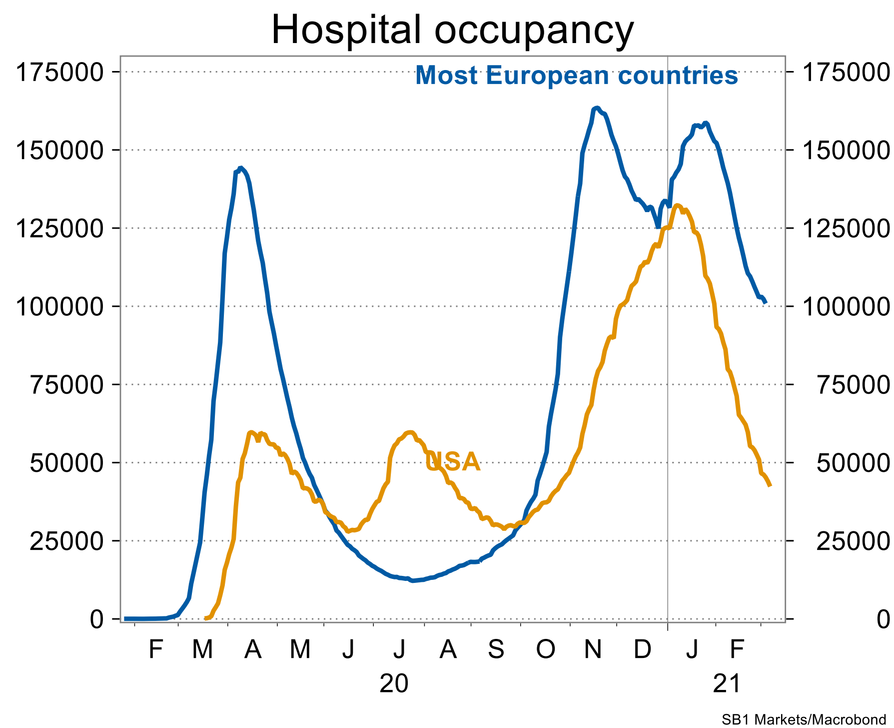
Hospitalisations on the way down almost everywhere

Italy is the exception (as is the Czech R)





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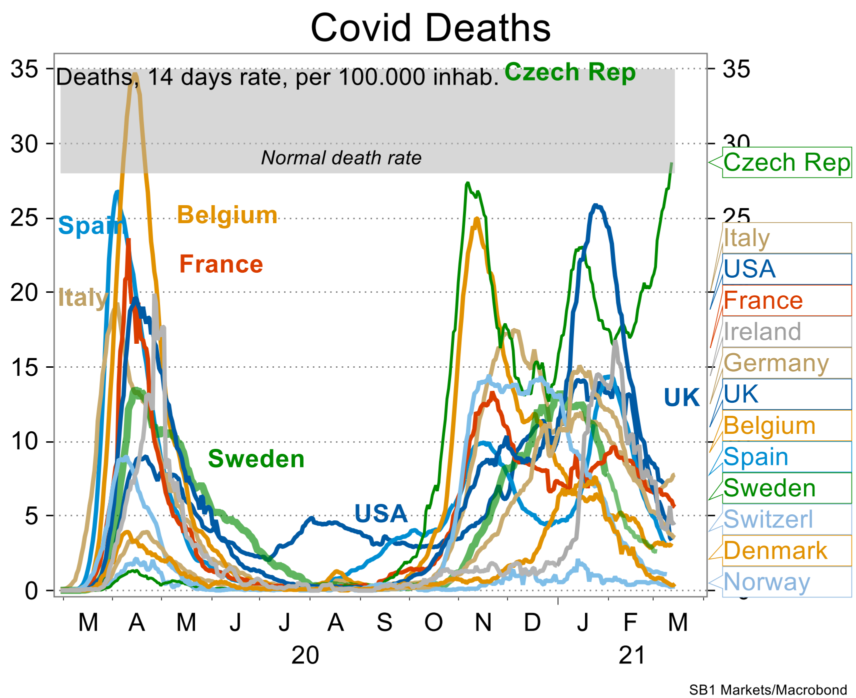
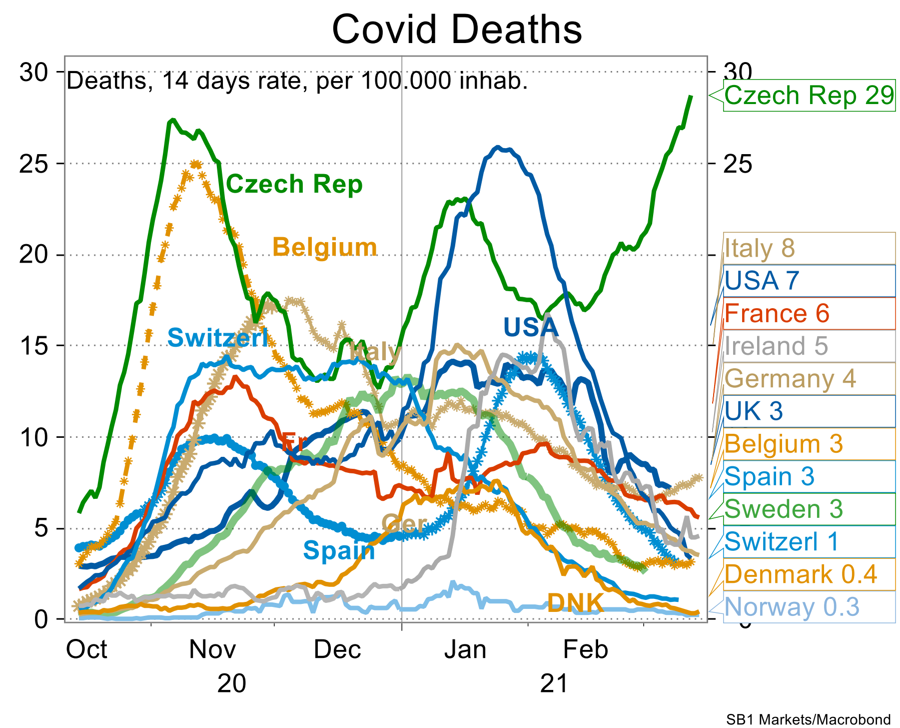
The deaths: A sharp decline everywhere – except for the Czech Republic

Italy is reporting more deaths again (as new cases surge)





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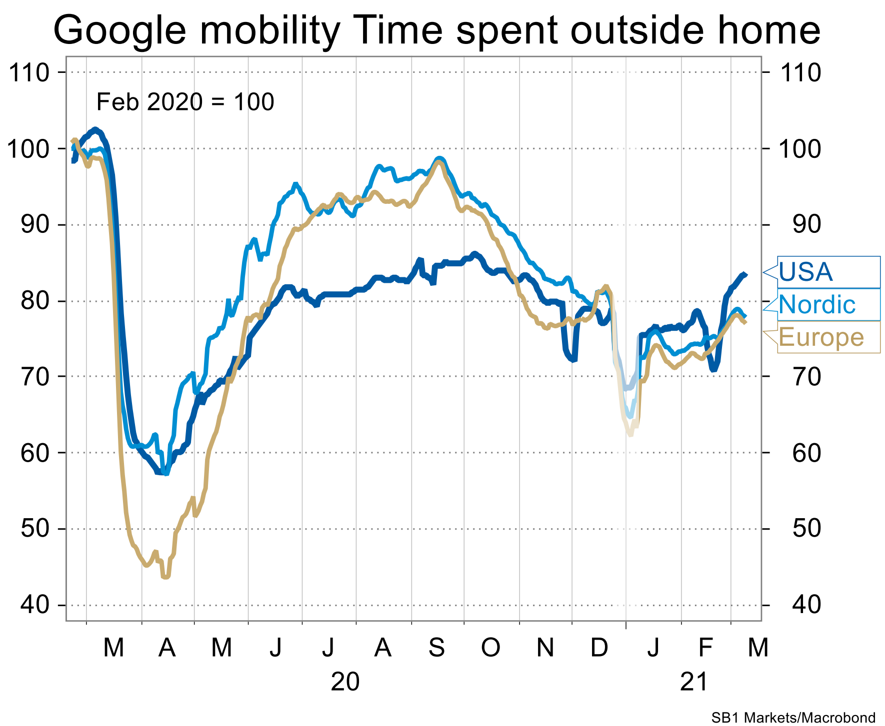
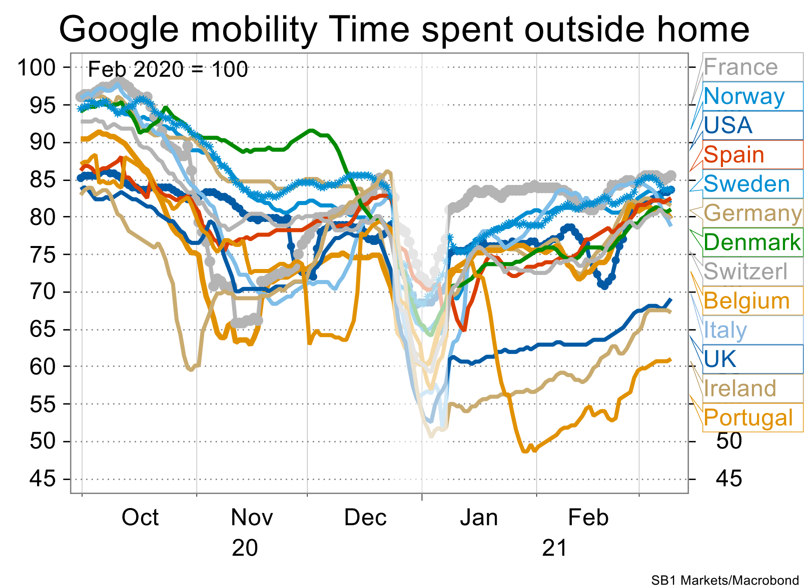
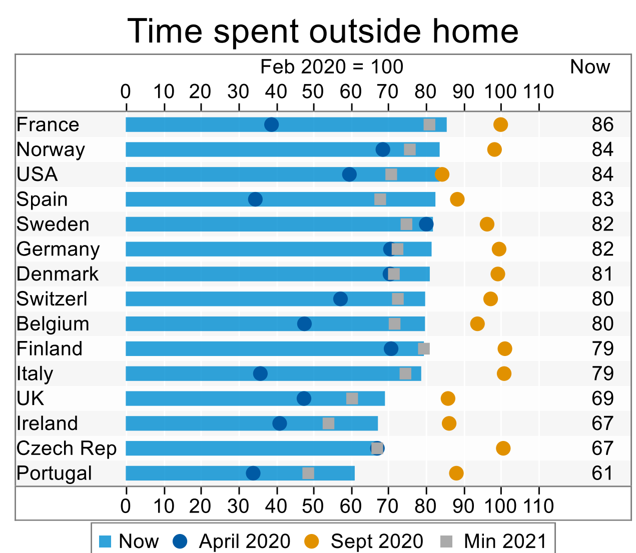
Mobility is still trending up everywhere - and the viruses are thriving again

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



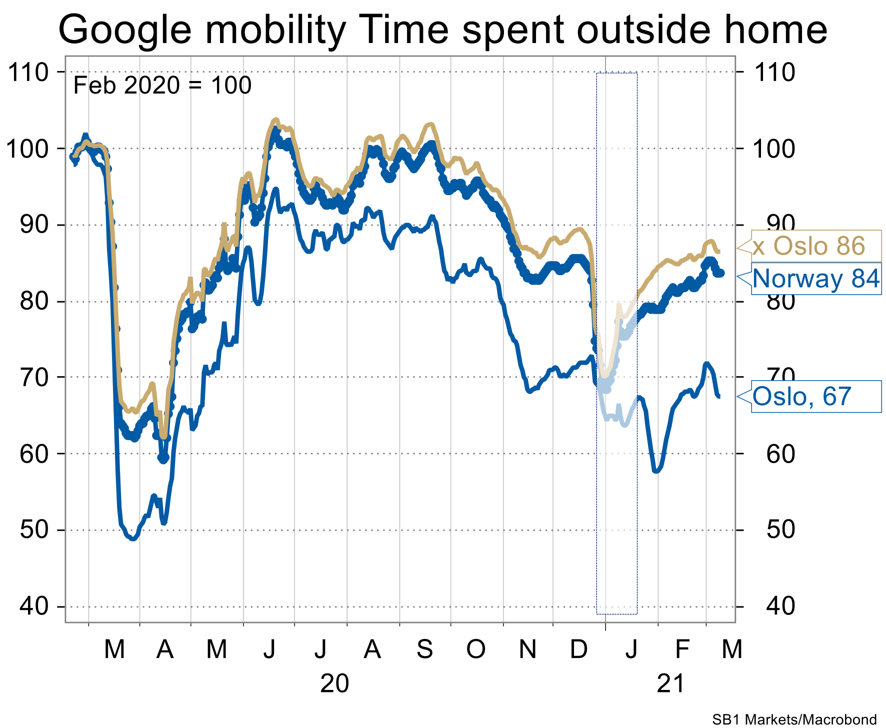




- UK, Ireland and Portugal are still staying more at home than others - but less than some weeks ago when the fight against the virus was more aggressive. Their 'R's are still well below 1, and the level of contagion is low. Guess some easing will follow pretty soon
- The Czechs have closed down again, like never before, as they are struggling for the 4th time

New restrictions lowers mobility in Norway, especially in Oslo

The mutated virus is still creating serious challenges, less social contact is needed

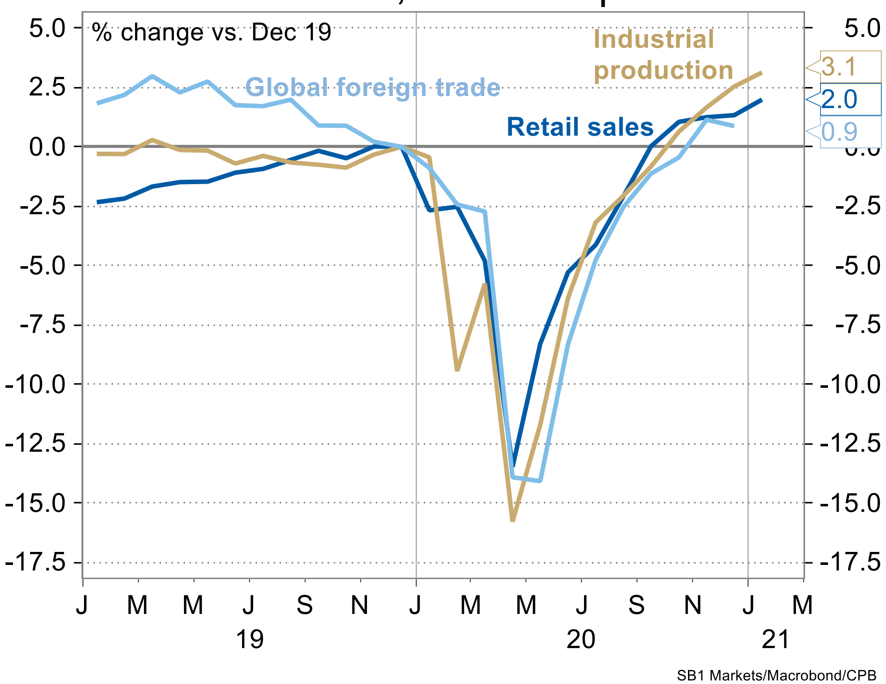


- Vaccinations are still running at very low levels, and as the mutated virus spreads rapidly, the observed R will increase further

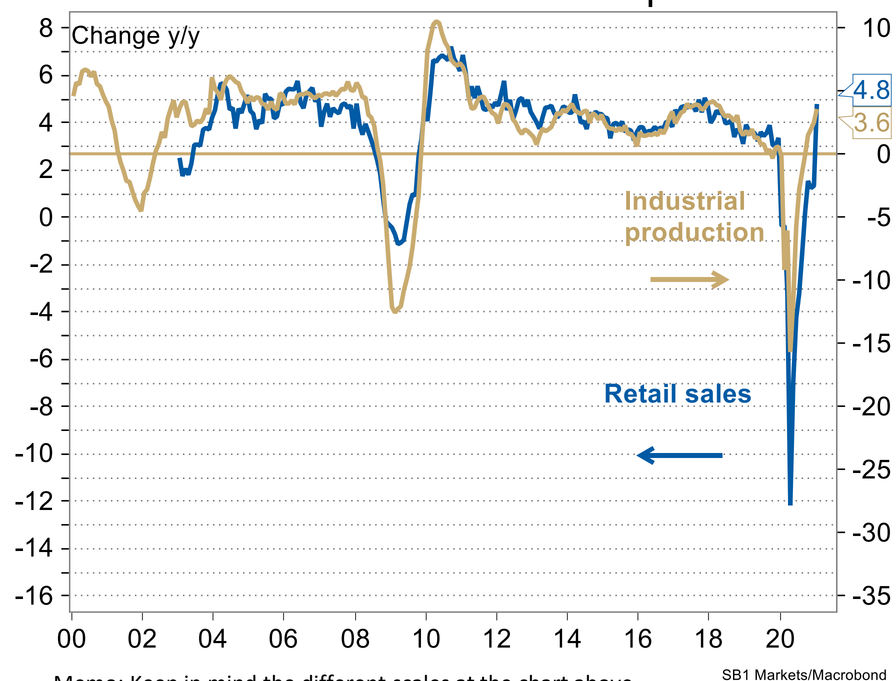
Both retail sales and industrial production up in January

China has not reported Jan data, but x China Jan was pretty strong, even with weakness in Europe

Global Retail sales, industrial prod. & trade



Global Retail sales & industrial production

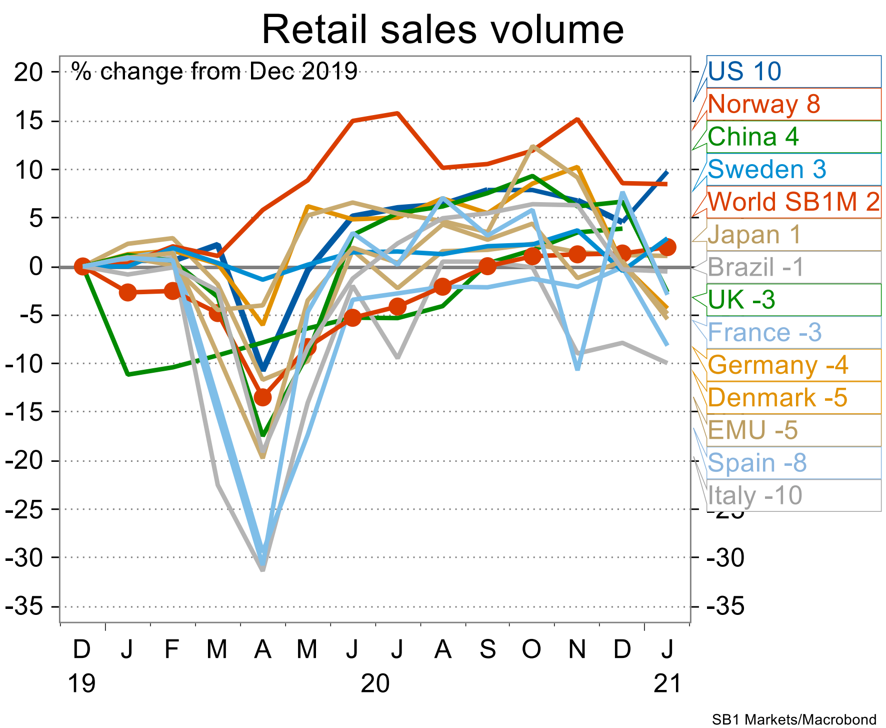


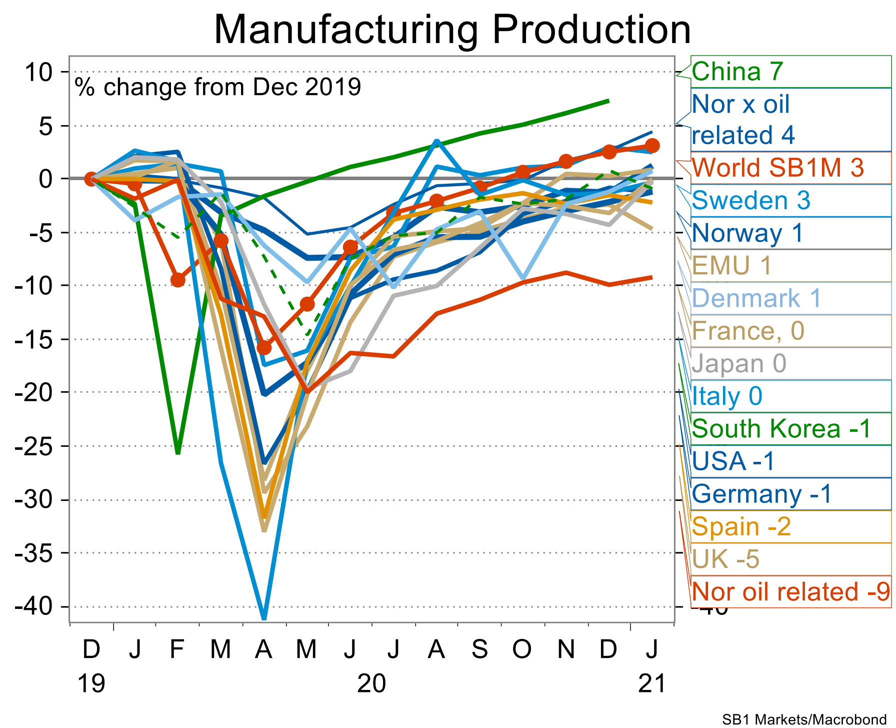
Memo: Keep in mind the different scales at the chart above

- **Retail sales** rose approx. 1% Jan (some countries still missing) even if sales in Europe collapsed. Sales are 2% 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

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

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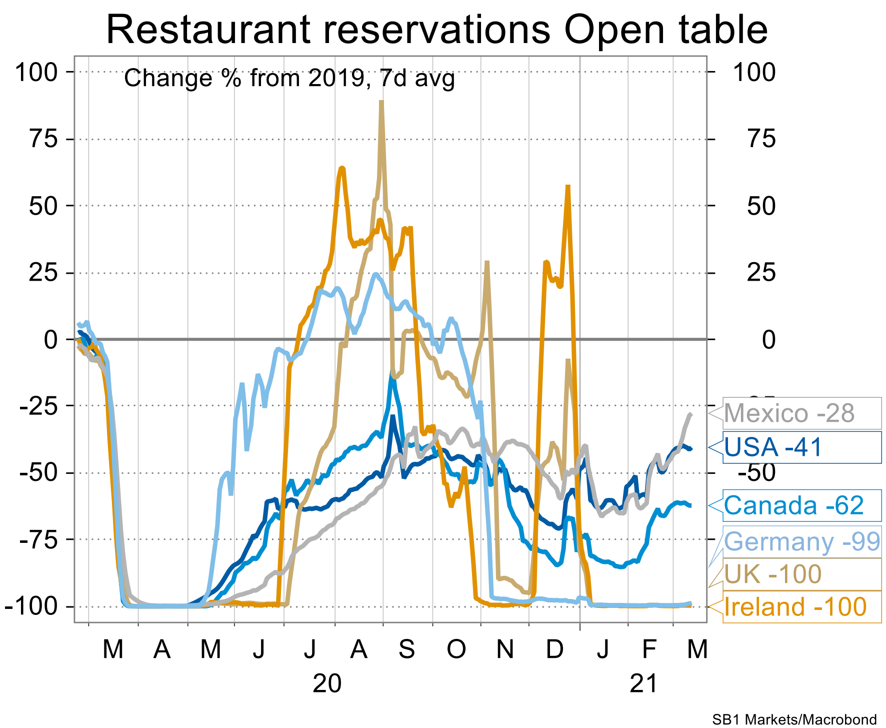
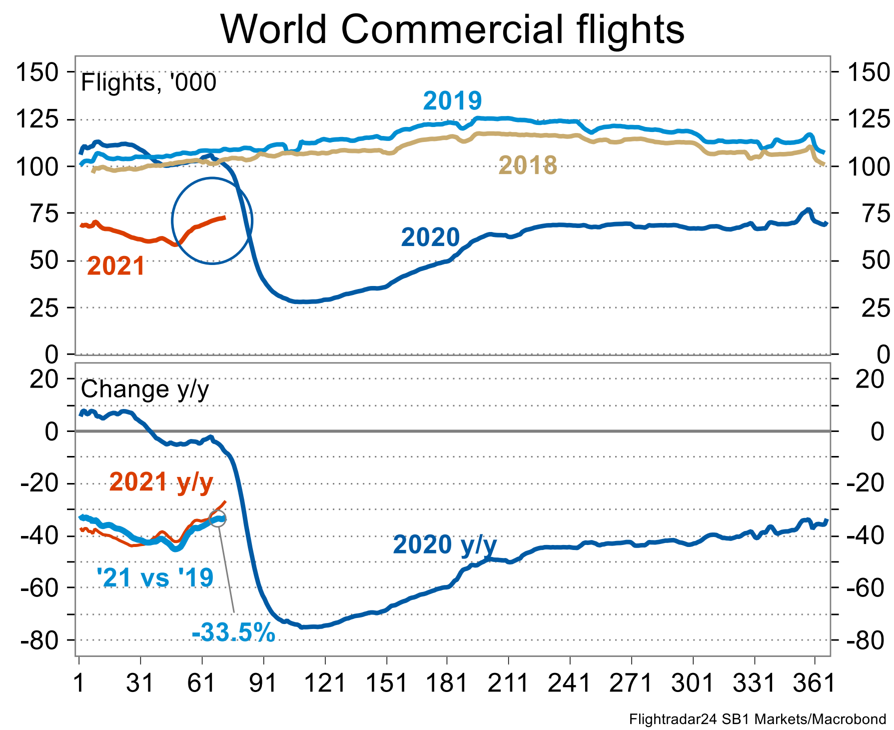
Look there: Some are eating out more, and are flying again!!

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

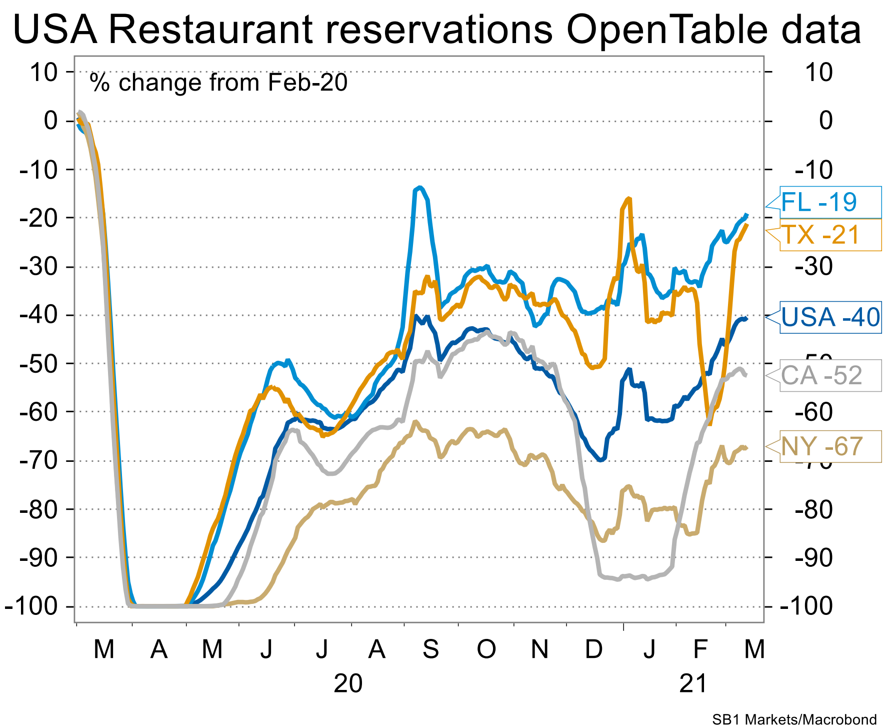


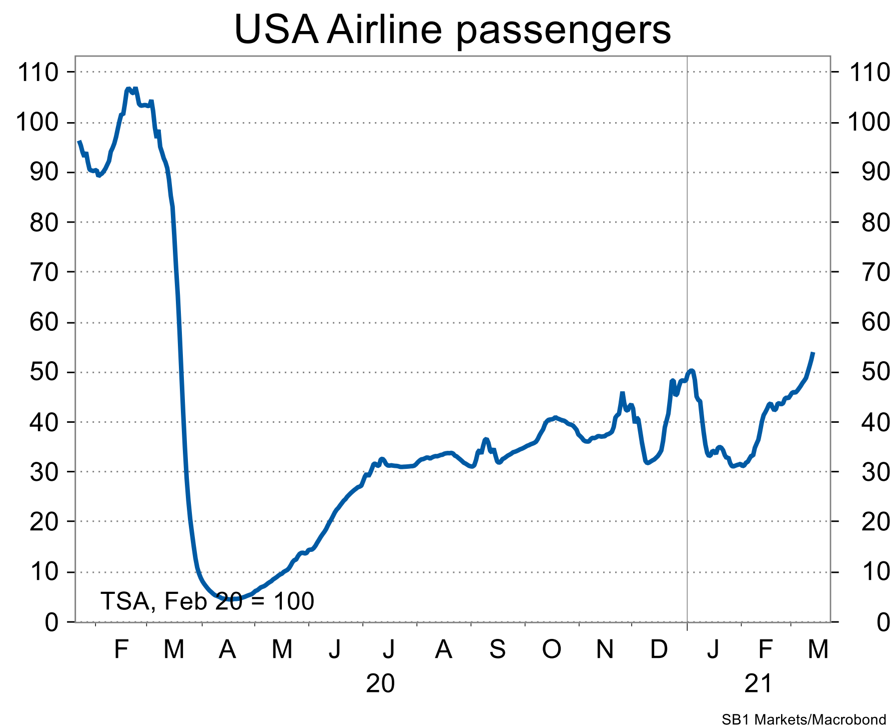


- Air traffic is also recovering, in the US and globally

US Air traffic is ascending. +80% vs. the late January through

Still almost 50% down vs. the pre-pandemic level

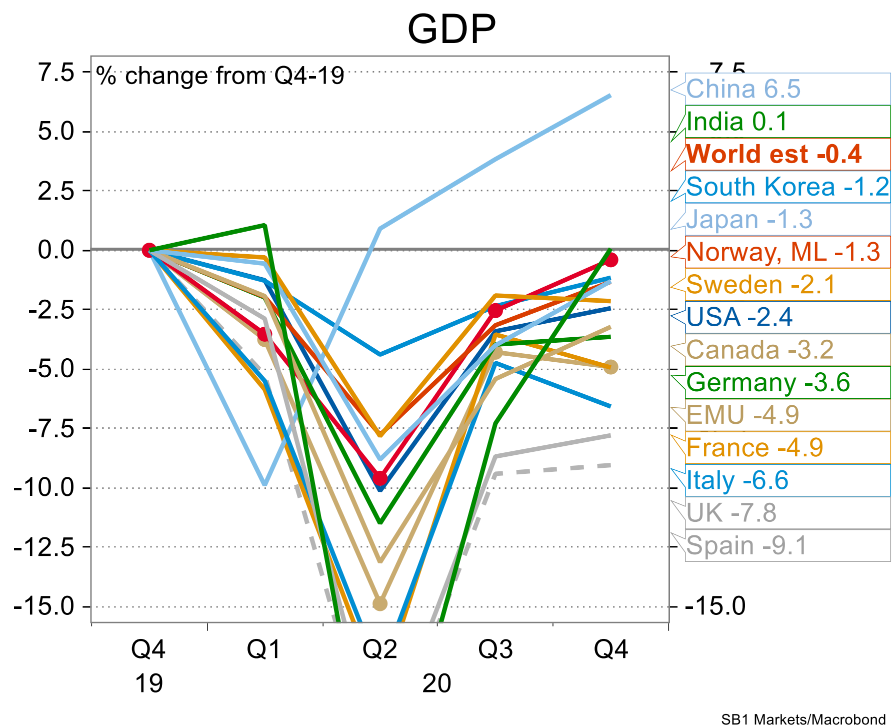




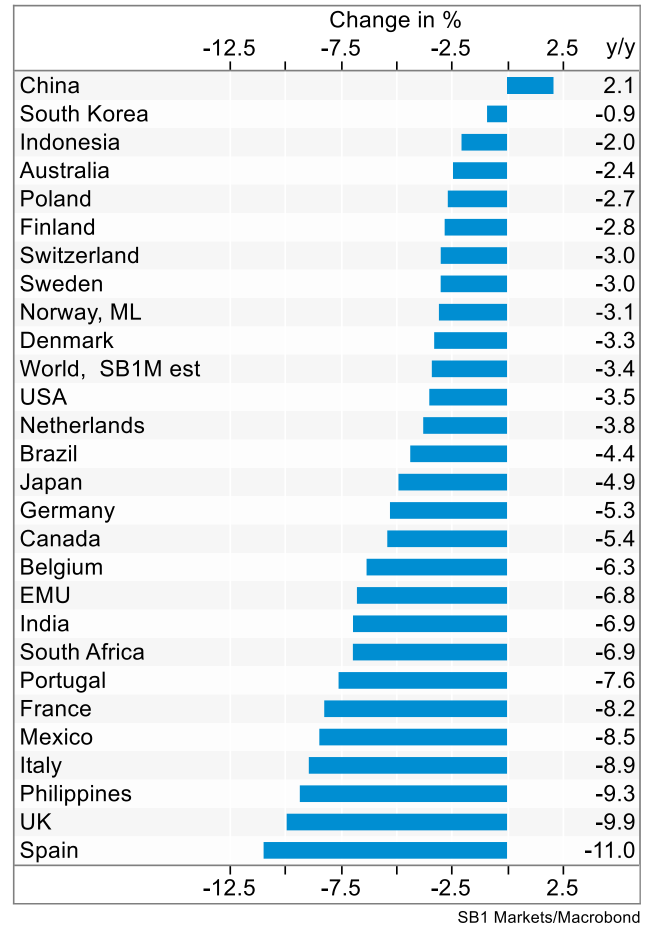
- Take-away and no-reservation US restaurants not included in Open-Table restaurant reservation data

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

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



GDP 2020 vs. 2019

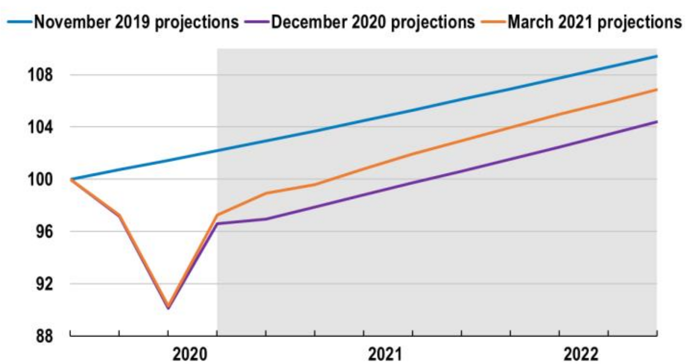


- We estimate that GDP grew by a 8% pace in Q4 – more than double of underlying trend growth, leaving global GDP down just 0.4% y/y. Last year GDP fell 3.4%
  - » China, India & the US have reported decent Q4 growth, alongside some Asian countries, UK & Norway – and mot others. However, GDP fell in both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

Thank you, uncle Sam! OECD lifts global growth projections sharply

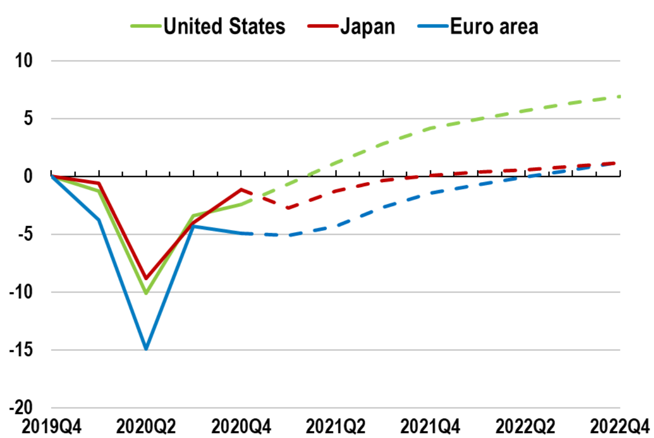
The huge fiscal stimulus decided last week will lift US GDP by almost 4% and the world by 1.1%

World GDP, Q4 2019 = 100



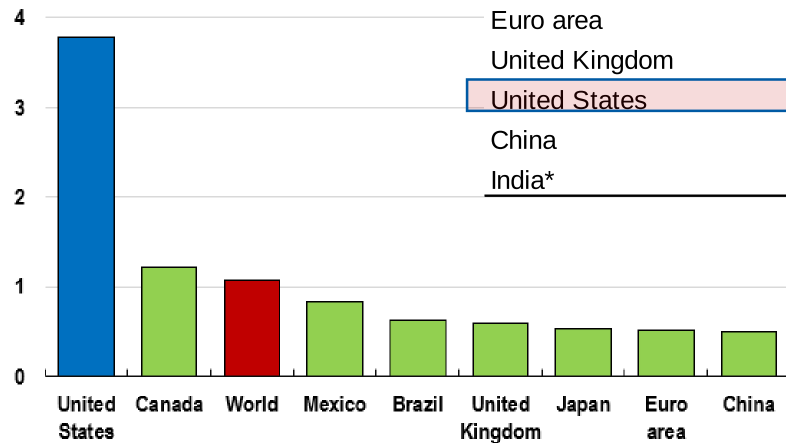
- **Unprecedented upward revision** of OECD's '21 growth f'casts in the March-21 projection
- **The US growth forecast** is revised up by 3.3 pp to 6.5%, due to the stimulus package, which is assumed to boost GDP growth by almost 4 pp
- **The spill-over to other countries** is substantial, GDP is lifted by 0.5 pp (EMU & China) to more than 1% (Canada/Mexico)
- Still, **global GDP is expected to remain below** the pre-pandemic growth path. US expected to return to the Q4 2019 production level by the end of Q1 2021!

GDP vs Q4, 2019



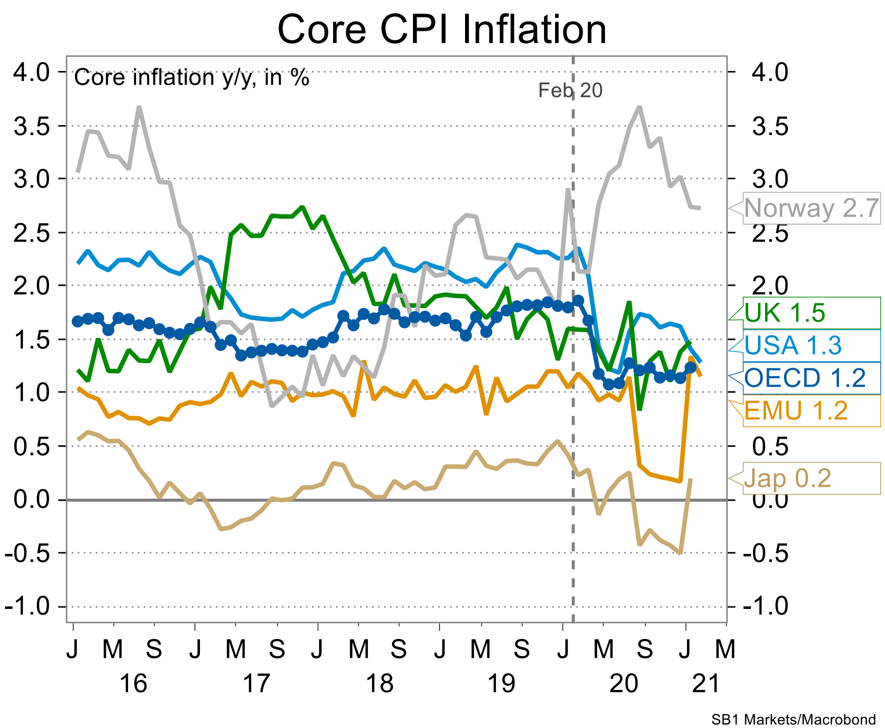
OECD March GDP growth forecasts

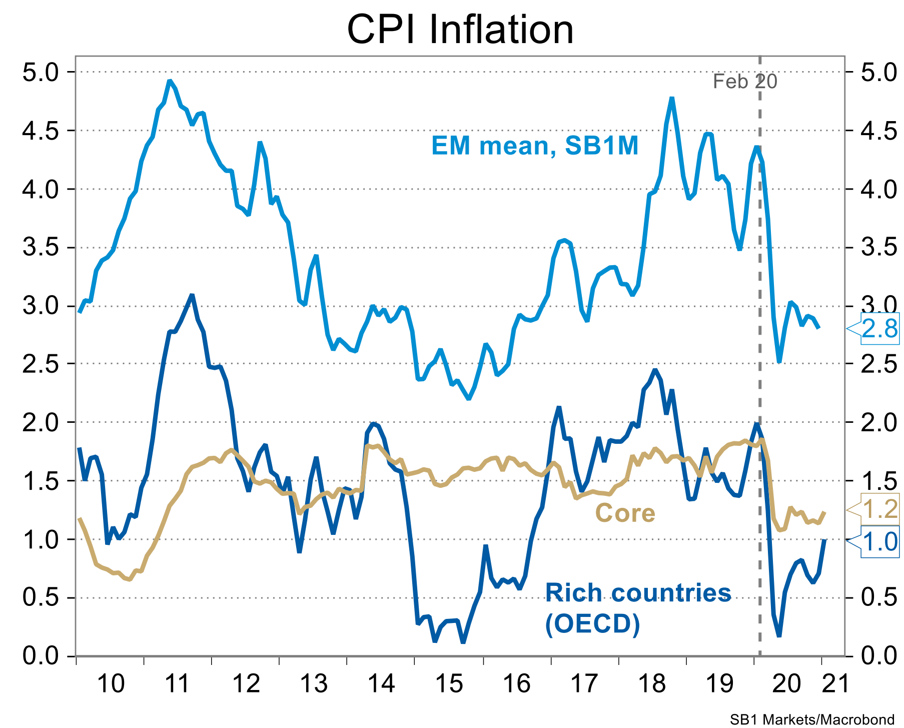
	2020	2021	vs. Nov est
World	-3.4	5.6	1.4
Euro area	-6.8	3.9	0.3
United Kingdom	-9.9	5.1	0.9
United States	-3.5	6.5	3.3
China	2.3	7.8	-0.2
India*	-7.4	12.6	4.7



Inflation has bottomed

Inflation in the EMU shot up in January, and just not due to VAT hikes

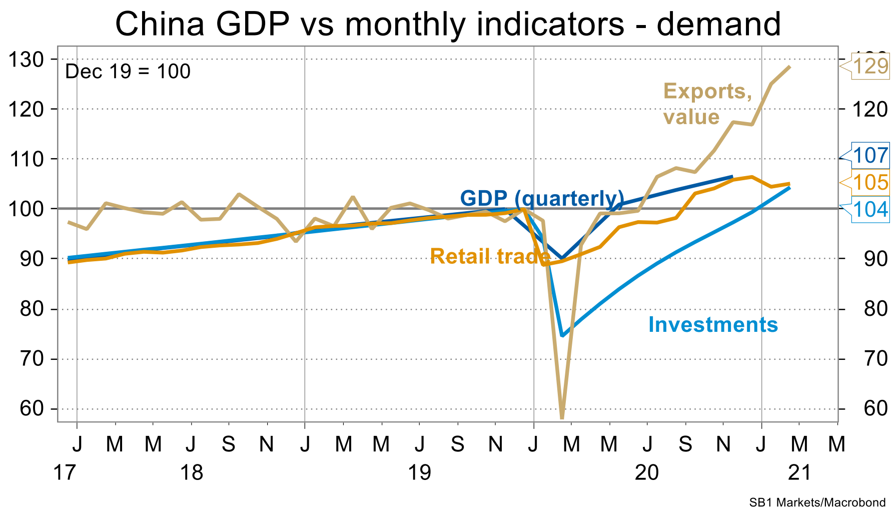


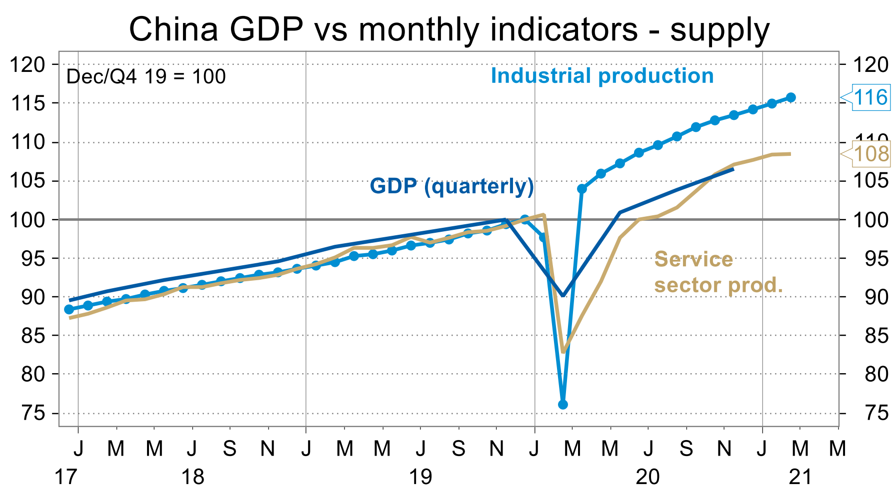


- **The PMI surveys** reports that the increase in raw material prices are pushing both total input and output prices upwards. The correlation to headline inflation is very close, and <u>a substantial lift in headline inflation is now inevitable</u>
- However, the **correlation to core (ex food, energy) inflation** is far weaker, and central banks should not and will not panic even if headline exceeds the inflation target for a while (and the Fed is explicit on this, as it is now targeting the price target)
- Should core inflation increase, which will likely happen the coming months, at least in the US, central banks will not panic, as long as they have a reasonable story for a moderate inflation outlook
- The **inflation outlook** depends on the banks' assessment of output gaps, growth and especially vs their assessment of the balance in the labour market and the outlook for wages
- So far, banks can afford to wait and see until the post-Covid recovery is well established. <u>However, that won't necessarily take that many months</u>

Covid measures dampened the Chinese economy in Jan/Feb, no reason to worry

No weakness in manufacturing or investments, just in retail sales & service sector production





- **China reported a full Jan/Feb data set this morning, which was not scheduled in our calendars! No time for analysis, just a look at the headlines!**
  - Fixed investments were scheduled this morning, see more nest 2 pages
- **Industrial production** rose 0.7% in both Jan & Feb. Measured y/y, production is up 35%, expected 30% but these y/y data are noe 'impossible' to calibrate. Production is well <u>above the pre-corona trend path, and is growth faster</u>. Growth will now most likely slow
- **Service sector production** grew by 0.6% in Jan, as in Dec, but slowed to 0.1% m/m in Feb, clearly due to the muted festive New Year season. Activity is anyway back to the pre-corona growth path
- **Retail sales volumes** fell by 1.9% m/m in Jan and grew by just 0.6% in Feb, according to our calc. We assume the Lunar New Year holiday is to blame for the weak start of the year. Measured y/y, sales were far above expectations
- **CPI inflation** has falling sharply, and prices are <u>down</u> 0.2% y/y (from above +5% at the peak) as pork prices are heading down. <u>Supportive for real household demand, of course</u>. **Producer prices** rose further in February
- **Investments** rose 2.4% m/m in both Jan and Feb, faster than over the previous months. The gap vs. the pre-corona trend is almost closed. Measured y/y investments were 3 pp lower than expected
- **Credit growth** recovered in both Jan & Feb
- **Exports** were record strong in Jan/Feb, and imports are more than OK (reported in last week's Macro Weekly)

In sum: Covid measures kept the economy somewhat back during the festive season but no reason to expect further weakness

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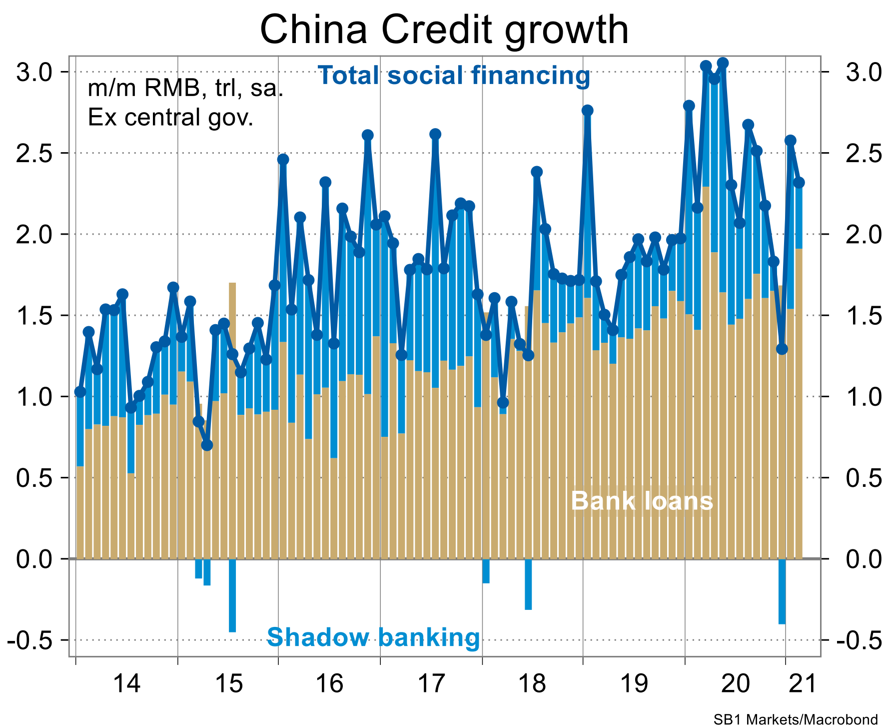
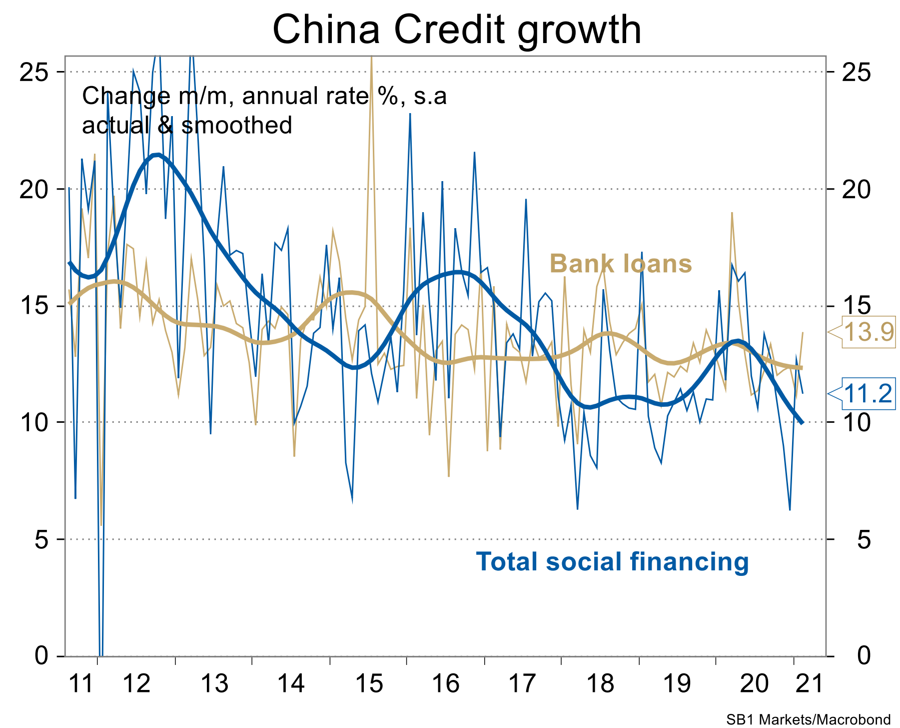
No credit squeeze in January & February

Credit growth has accelerated moderately at the start of 2021

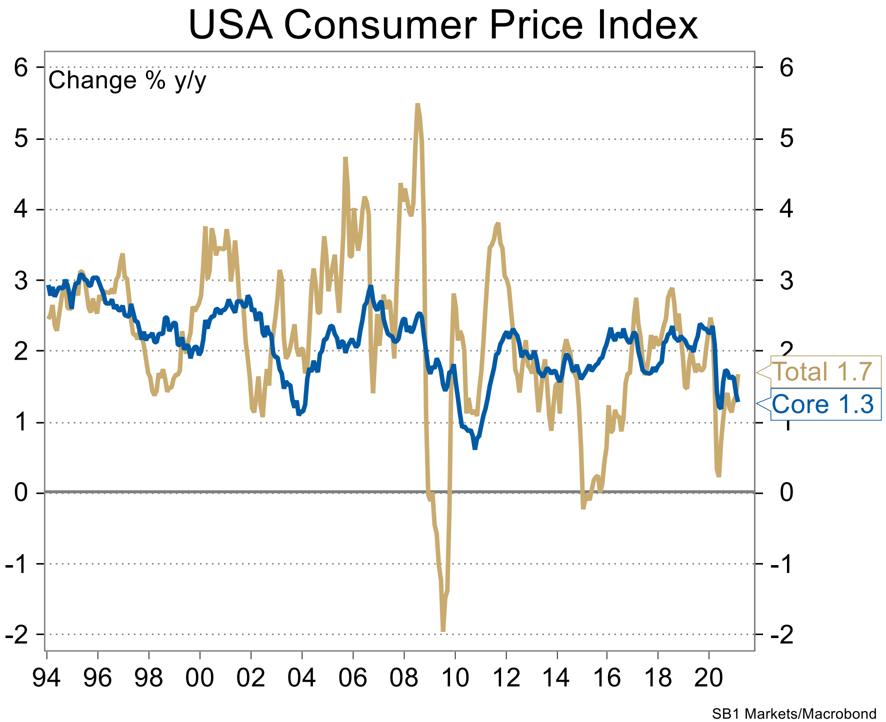


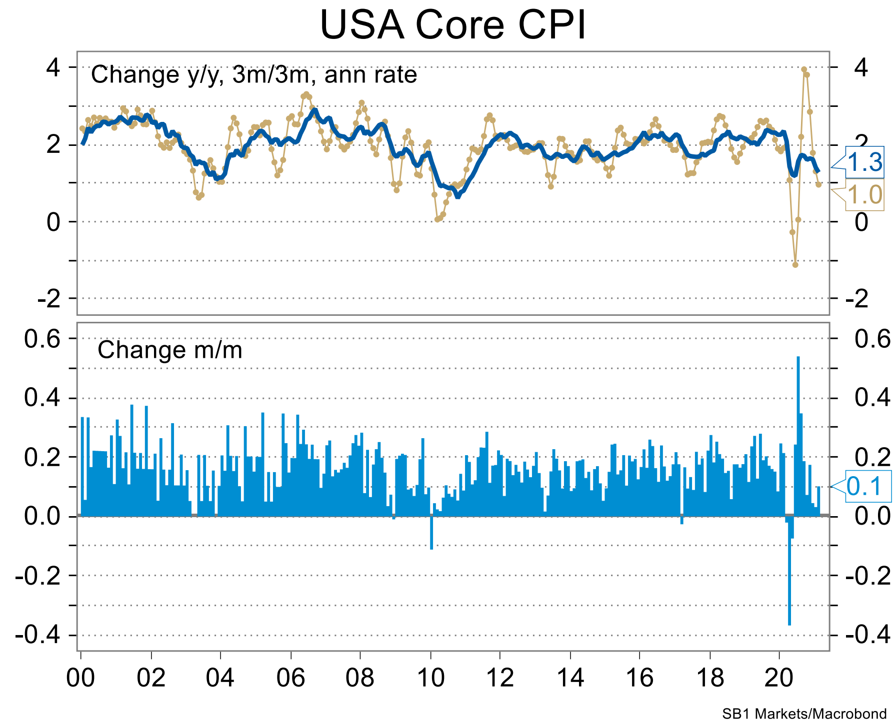


- In Feb **total credit** grew at a 11% rate (m/m, annualised), down from 12% in Jan. Smoothed, the underlying rate may be some 10%, down from 13% during last spring (and >15% during some months). A 10% growth rate is above trend growth in nominal GDP
  - Total credit rose by RMB 1.7 trl expected 0.9 trl (not seasonally adjusted, total social financing, including central & local government bond, and corporate equities). Seasonally adjusted the core total social credit (total ex central gov bonds & corporate equites) grew by 2.3 bn, down from 2.6 bn in Jan
  - Bank loans rose by 1.5 trl, but seasonally adjusted 1.9 trl, an the highest growth rate since last February
- Total credit is still up 0.2 pp to 12.5% y/y, substantially above normal income growth, banks loans are up 13.2%. The shadow banking market contributes with some ¼ of the total
- Until recently, some feared that the Chinese authorities would push to hard at the brake, in order to reduce the risk for a further build-up of a possible debt bubble. **Still, they do not want to strangle the economy – which the strong January & February data signals!**

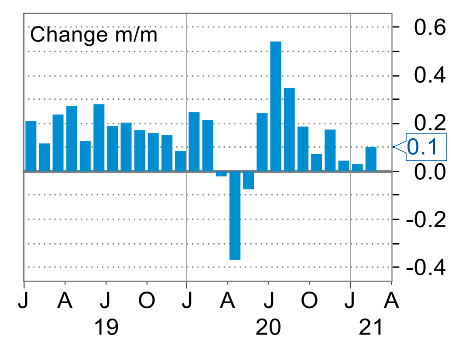
Inflation currently not a problem: Core CPI ticked in at 1.3% y/y, below consensus

Core CPI fell by 0.5% Mar-May '20. In Mar-May now, +0.1% per month? If so, a lift up to 2.1% y/y



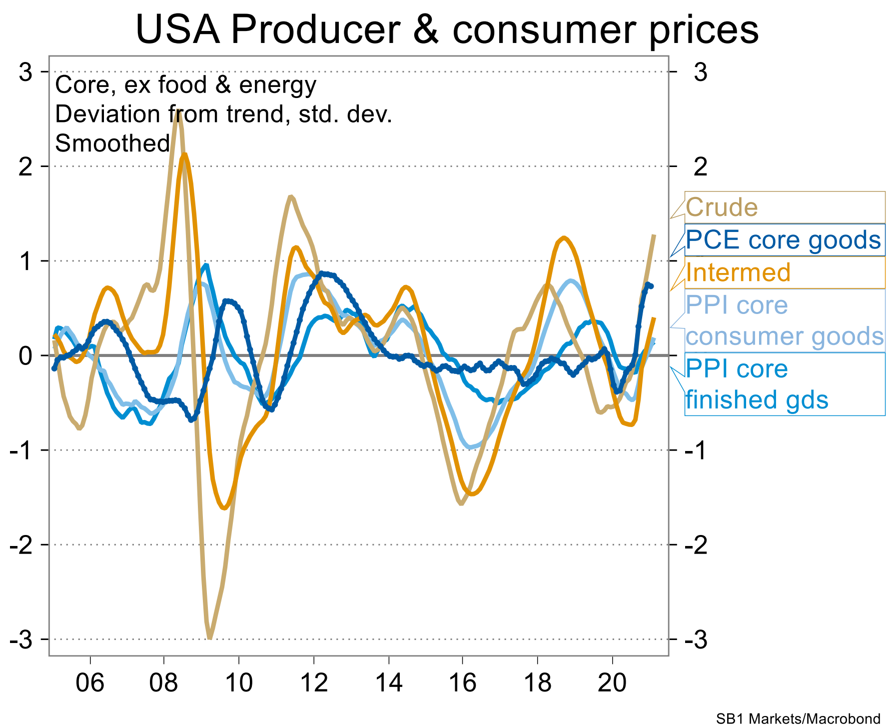


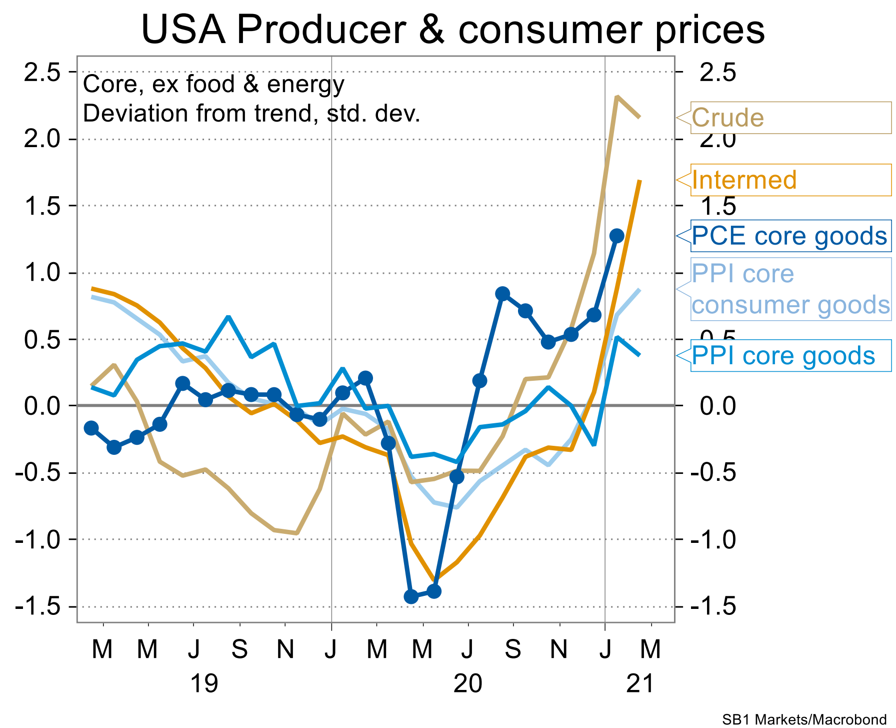
- **Core CPI** rose 0.1% m/m in February, expected 0.2%. The annual rate fell 0.1 pp to 1.3% (exp. unch at 1.4%), and is far below the 2.4% pre-corona level, and below Fed's 2% target (measured by the national account PCE price deflator, which over time has reported an inflation rate 0.2 – 0.3 pp below the CPI inflation rate).
- **Headline CPI** rose to 1.7% y/y; up from 1.4% in February, due to higher gasoline prices. In May '20, headline CPI was up 0.2% y/y. In Mar-May '20, CPI prices fell by 1.1%. Assuming 0.15% per month the coming 3 months, the annual rate will reach 3.2% in May
- Clothing, lodging, vehicles, and airline ticket prices saw the biggest decline from previous month
- **The annual growth rate** will climb sharply the coming months, just due to the price cuts m/m last spring. Federal Reserve assumes that the annual inflation rate will retreat thereafter, as prices rose sharply m/m in Jun-Aug last year. Thus, the annual growth rates are funny to look at, but still useless. Still, how worried should we be, given producer price hikes, surveys telling the same story combined with an unprecedented fiscal stimulus at a 'Wall of Money" in household bank deposit accounts, waiting to be spent in a economy with limited spare capacity? We are more worried than normal. *More on that on the following pages*



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

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

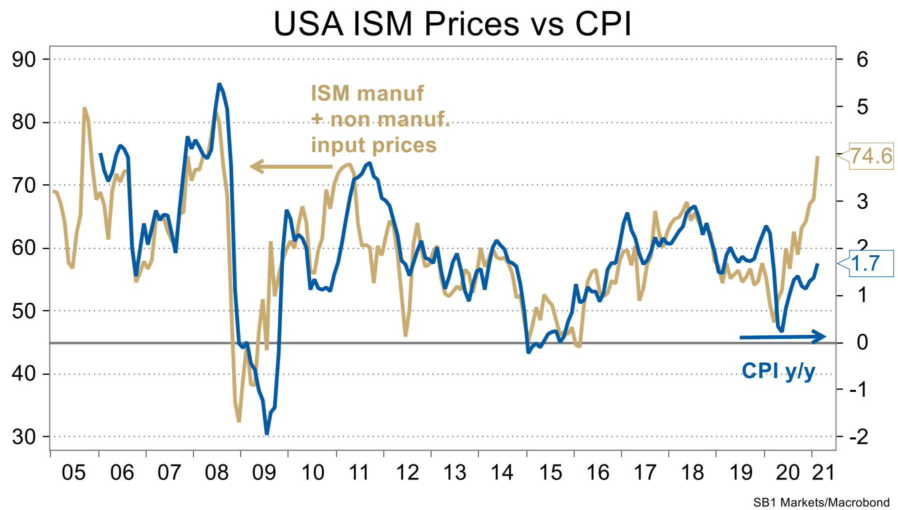


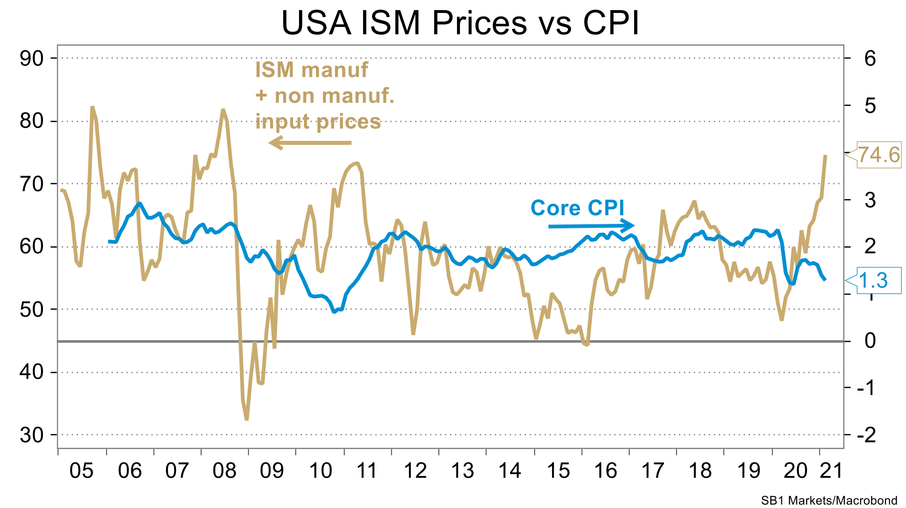


- Prices are on the way up, as are delivery times – and production is increasing rapidly. Hmm…
- However, consumer prices have been rising faster than indicated by finished goods prices. Thus, short term, probably not that much more price pressure from producer prices
- Looking forward however, the steep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

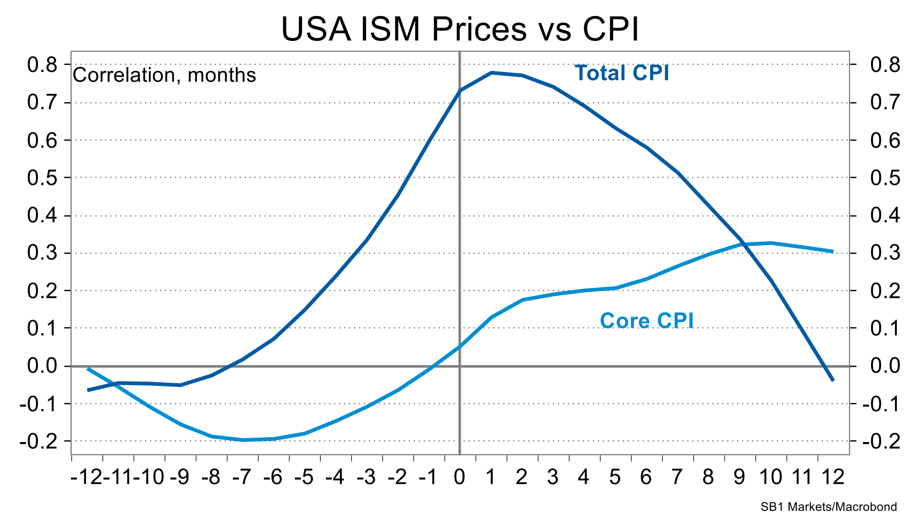
ISM has sent a clear message. For the headline CPI, that is

Total CPI will very likely climb substantially, and not only just due to base effects



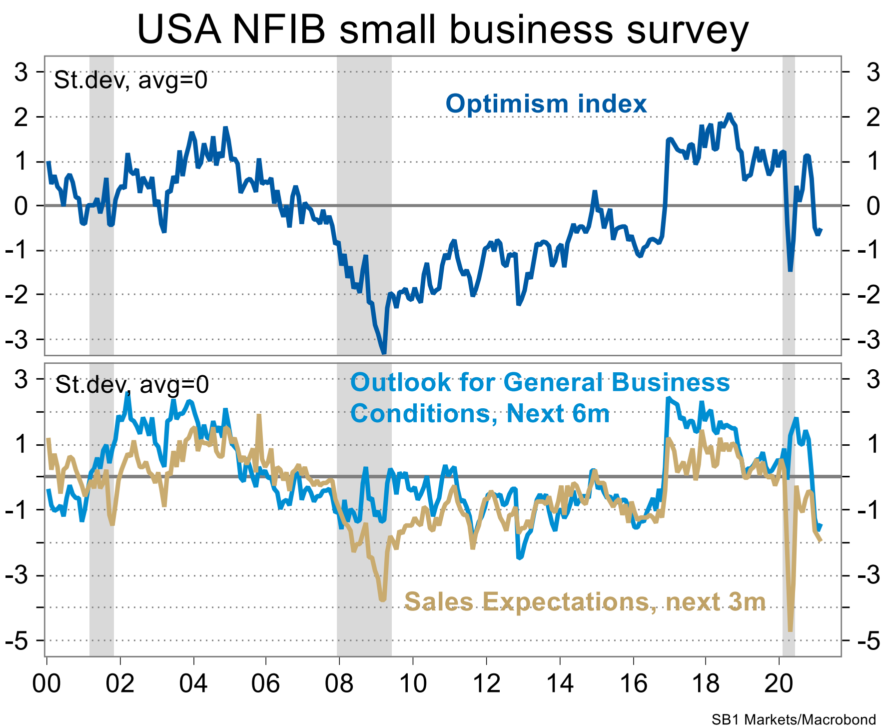


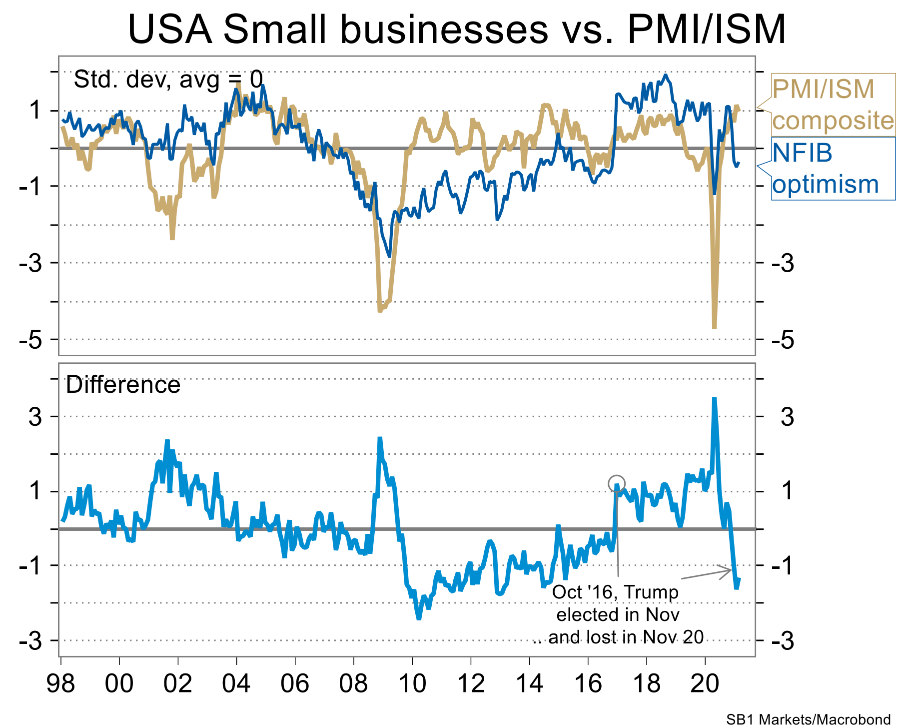
- However, the correlation between price indices in the ISM (or PMI) business surveys and the core CPI is far weaker than between these indices and the total CPI, check the charts at this page
- The Fed – and other central banks – are surely right not to focus on the volatile headline CPI, but more on the core CPI and even more on underlying cost pressures in the economy, as shown on the next page



Small businesses' are not optimistic, cannot find labour, are hiking prices, big time

They plan to hike wage as well. Something for the Fed to chew on?

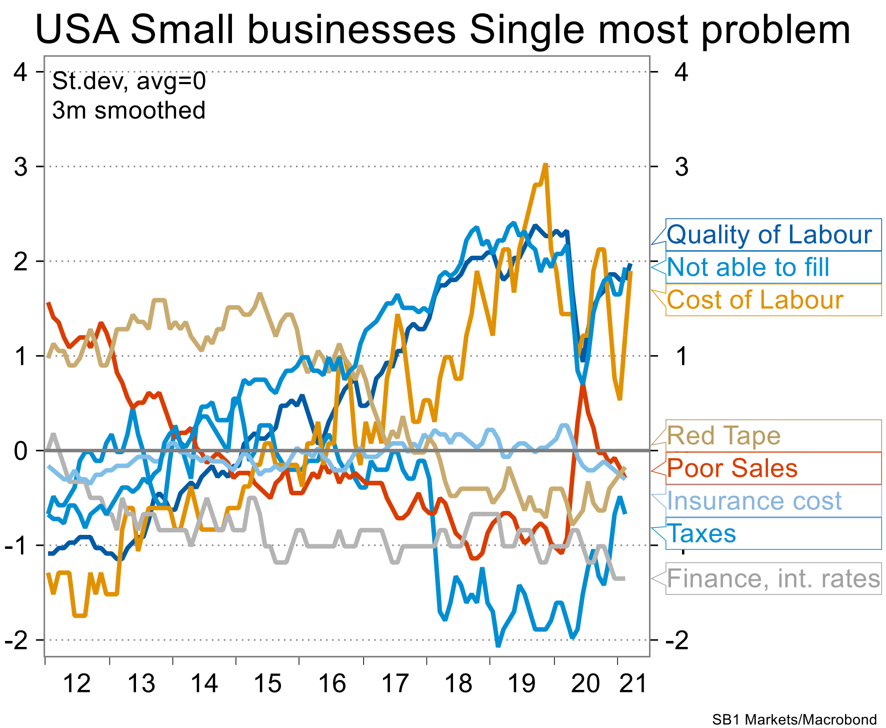


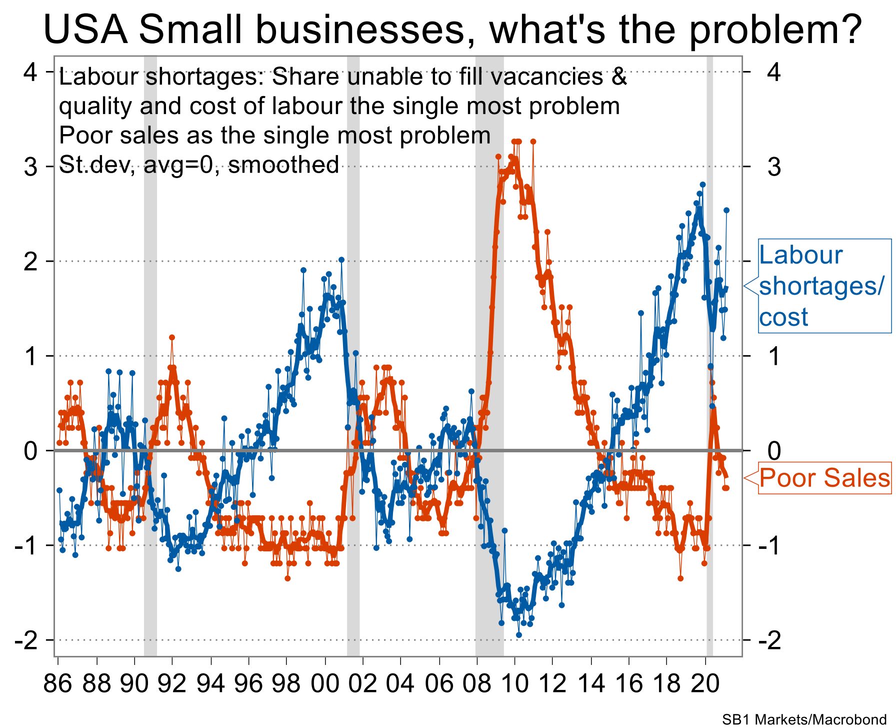


- The **NFIB optimism index** rose to 95.8 in January from 95.0 (expected 97). Softened Covid-restrictions, vaccinations and stimulus checks seems to have improved the outlook for small business owners. Still, <u>businesses are less optimistic than normal</u>, the business conditions are expected to worsen, as are own sales! The contrast to ISM/PMI is not unprecedented but striking
- Check this list, just before the HUGE fiscal stimulus is arriving:
  - Companies are reporting very aggressive **hiring plans**
  - They have never ever been more **unable to fill vacant positions**
  - They **plan to lift wages** much faster than normal
  - Barring June 2009, there hasn't been more companies planning to **increase selling prices** than since 1982!

Availably/quality & cost of labour is once again the biggest problem

Fewer than normal are complaining about poor sales! (Just before a 9%-of-GDP fiscal boost arrives)

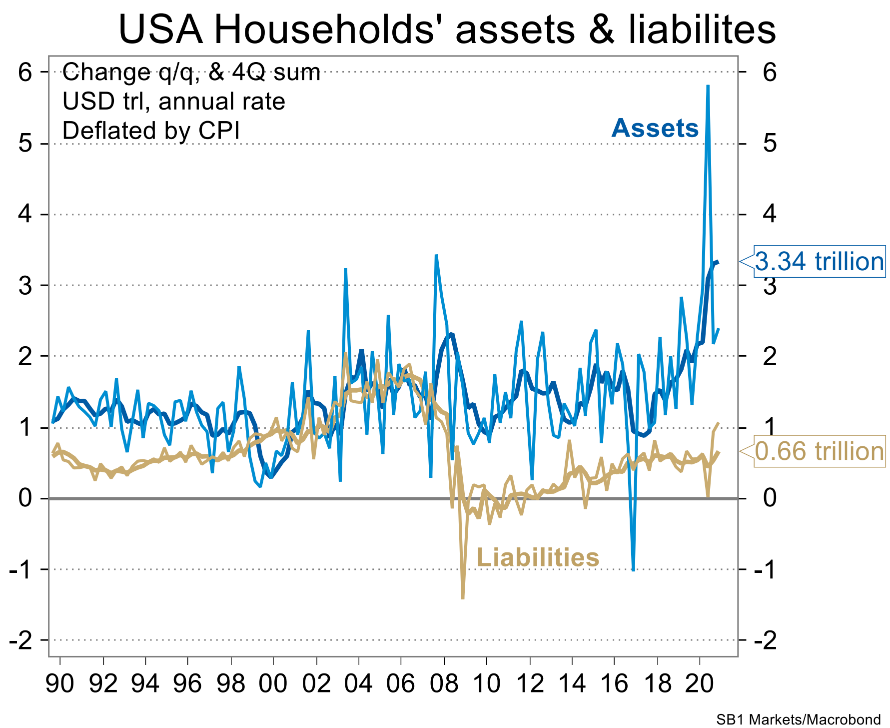


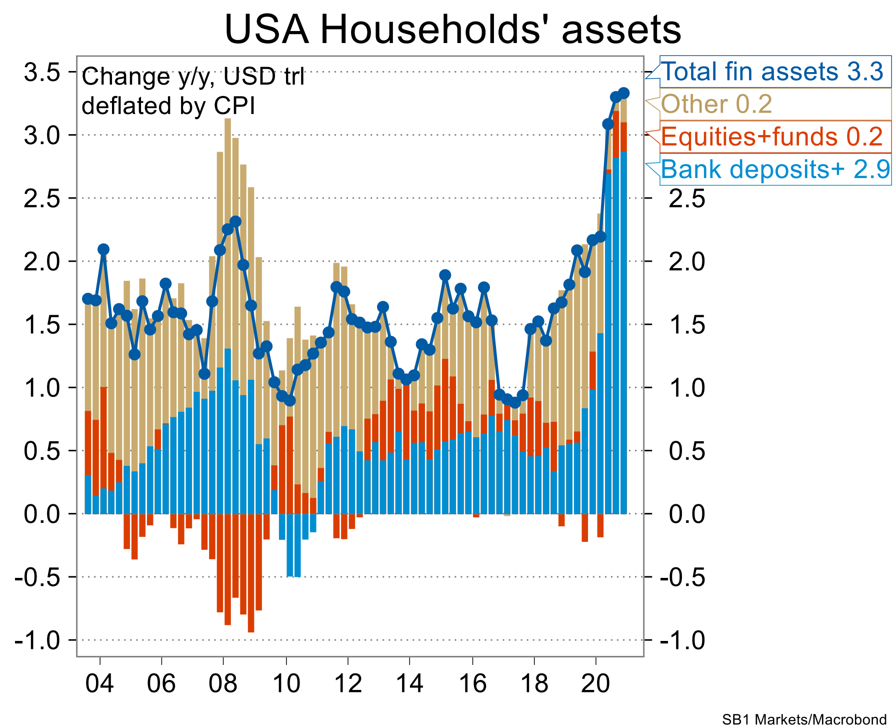


- Incredibly many companies are reporting that **cost of labour, ability to fill vacancies**, and **quality of labour** are more serious challenges than normal! In sum, almost unseen (it was slightly worse during the 3 months before corona hit, but that's all)
- Unusually few companies are complaining about **finance/interest rates** and about **taxes** (although tax concerns increased post Biden win, so far without any taxes being increased, as far as we know)
- And fewer companies than normal are complaining about poor sales

Flow of funds: Where are the money saved (or more precise, invested)?

US: Debt is not repaid (it's the opposite, debt growth has accelerated sharply). 90% in bank deposits!

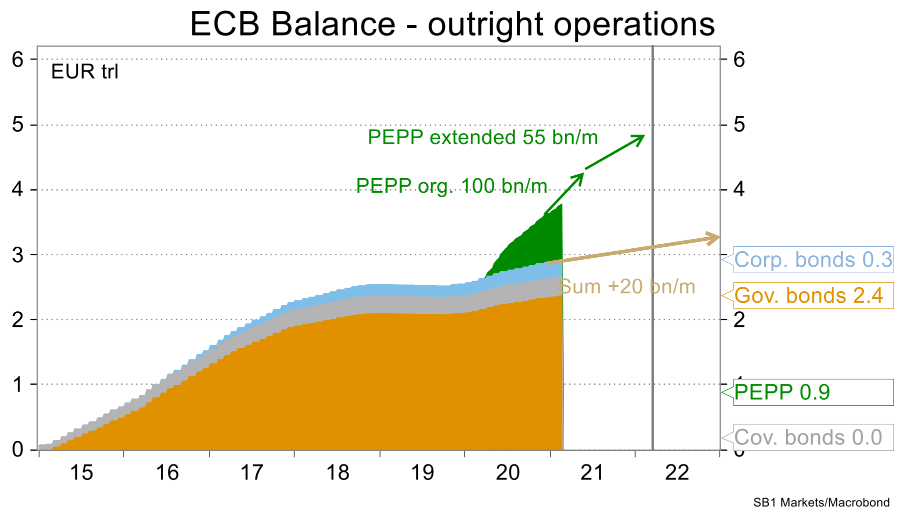


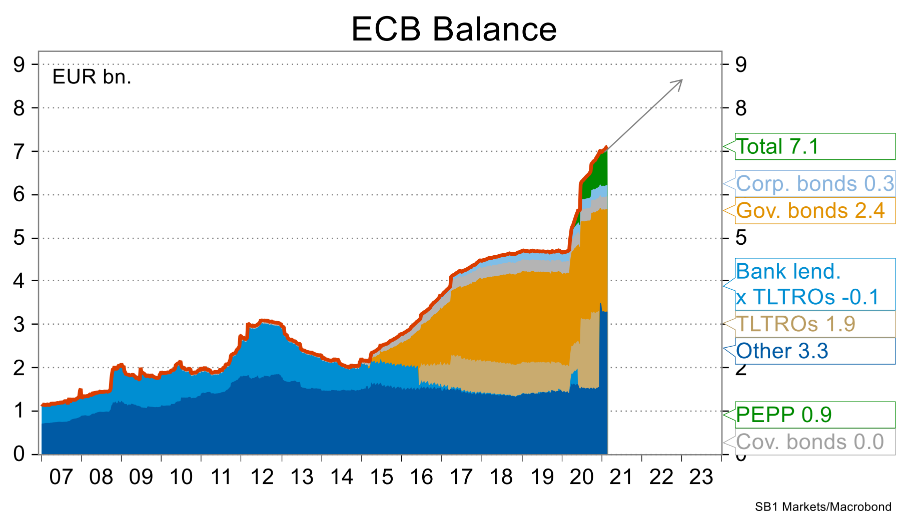


- Households have become much more liquid, at least on average during the pandemic
- Households have invested 6% of the increase in their financial assets in equities over the past year
  - » Net of buy-backs, that is. (However, GameStop has not bought any shares back, as far as we know)
- How much of the excess savings in bank accounts will stay there, how much will be spent?? That will decide the fate of the US economy (and Federal Reserve's current policy stance)

ECB will accelerate the bond buying program, but not control yields, of course

The PEPP programme was not extended, but ECB promised to accelerate buying

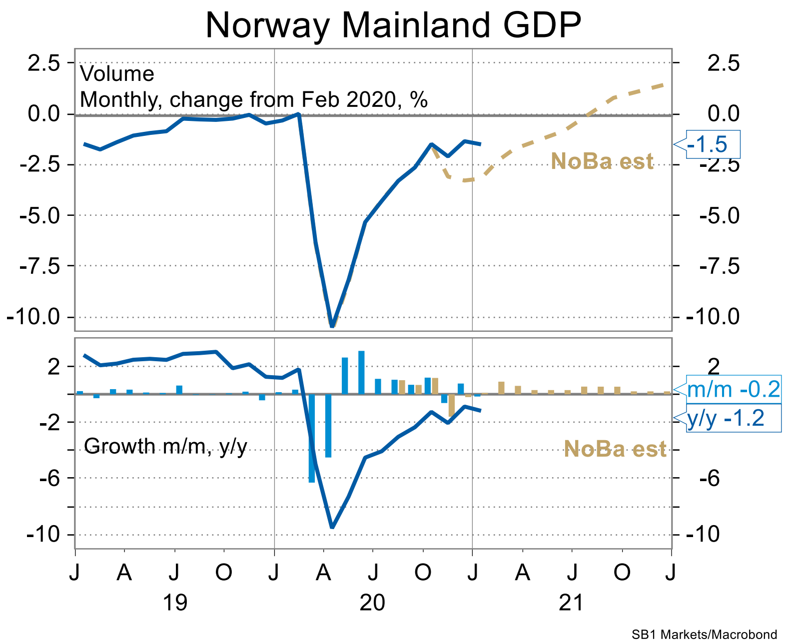


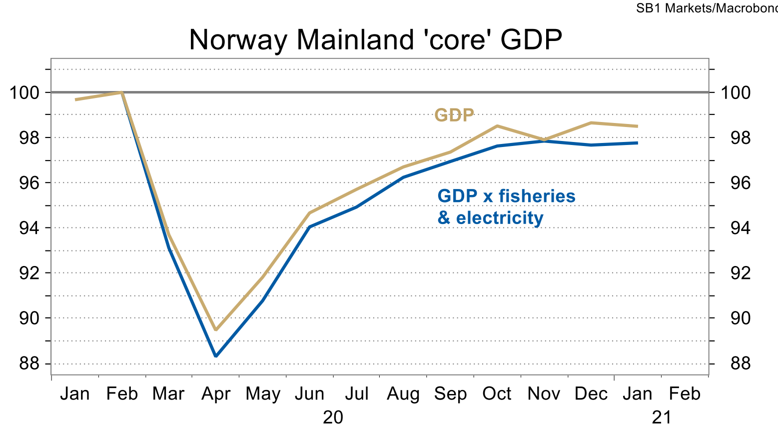


- **Programs not expanded, but more QE, now**
  - » The ECB recognises that the covid crisis will make a another dent in GDP in Q2, but lowered its 2020 EMU GDP growth forecast by just 0.1 pp to 3.9%, perfectly in line with OECD's estimate
  - » The ECB did not introduce any formal Yield Curve Control, but Lagarde & co pledged to prevent a premature tightening of financial conditions
  - » PEPP (Pandemic Emergency Purchase Program) was initiated at EUR 1.35 trillion, but was extended in Dec, to 1.85 trl, and the bank should buy government bonds equalling 100 bn/month. The bank has still EUR 1.0 trl left to buy. The bank has bought less than promised but the bank announced that it will buy significantly more the coming 3 months
- Bond yields fell, especially in the periphery

Mainland GDP flattened due to new corona restrict., still 1.6% above NoBa est

However, still better than expected in January but new 'lockdowns' in Feb & March may be felt

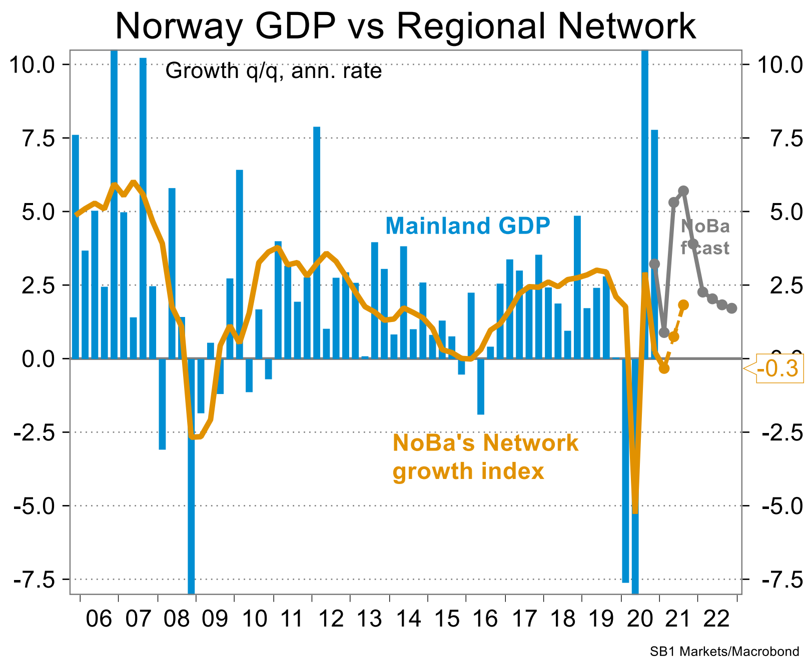




- **Mainland GDP fell by 0.2% m/m in January**, we exp. -0.5% (consensus -0.6%). Norges Bank assumed 0.1% in Dec MPR.
  - » Once again fisheries & electricity, the two volatile and not business cycle correlated sectors, had a material impact on the headline figure: Ex these sectors, GDP grew by 0.1% in January
  - » **Production:** Private services are no doubt hampered by restrictions, down 1.1% m/m. Hotels/restaurants & culture entert. (each representing 2% of GDP!) reported a 9 – 11% setback! Transport services down 4%, as was activity in trade. Manufacturing value added rose by 3.3%
  - » **Demand:** Exports x travel rose marginally, while consumption, Mainland & business investments, and public demand. Lower imports, and a 2.7% of GDP faster growth in inventories, saved the day, as domestic demand fell sharply
- **Mainland GDP is down 1.5% vs the Feb '20 level**
  - » **The GDP level** is 1.6% higher than Norges Bank assumed in Dec. Adjusted for the volatile electr./fisheries sectors, GDP is down 2.2%
  - » **Production:** The 4 hard hit services are down 17% (business services) to 46% (hotels & restaurants). The total negative drag equals 3.1% of Mainland GDP. Other sectors are up, with trade, manufacturing & education in the lead. Construction is down 2%, even if housing investments are up
  - » **Demand:** Norwegians are spending almost the same in Norway as in Feb '20, services down 13%, goods up 9%. Spending abroad has fallen by 93% (equalling 8% of disp. income), and the money is saved. Housing investments are up. Mainland business investments have fallen by 7%, while oil investments are down 6% but both are now trending upwards. Exports ex petroleum (and tourism) are back to the Feb '20 level. Foreigners are not spending anything in Norway, a cut equalling 1.3% of Mainland GDP

Norges Bank's Network sees light at the end of the tunnel

However, the Network seems to continue to underestimate activity the past 3 months

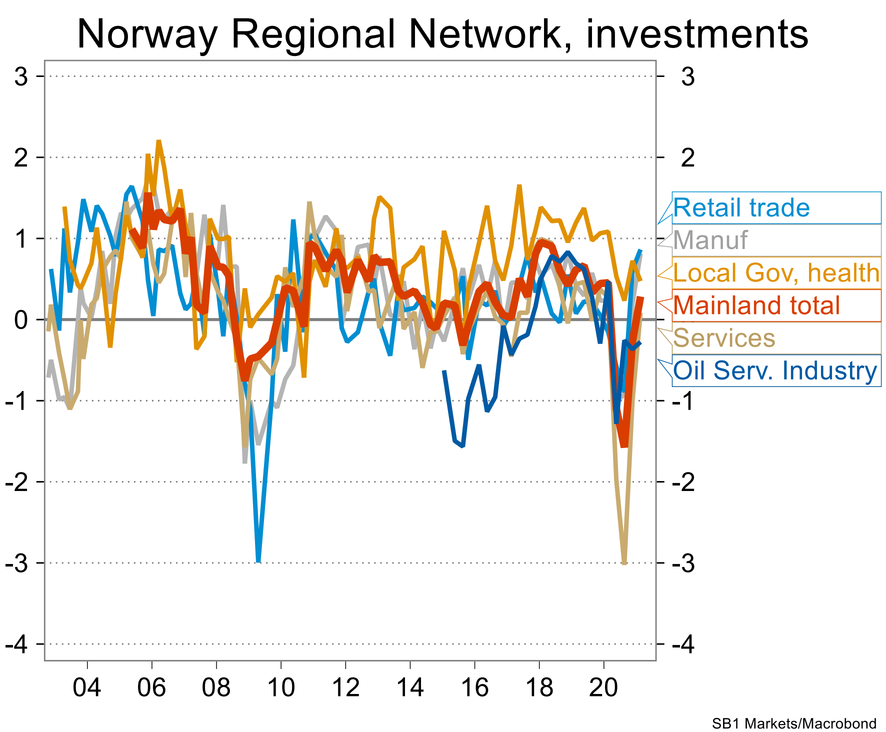


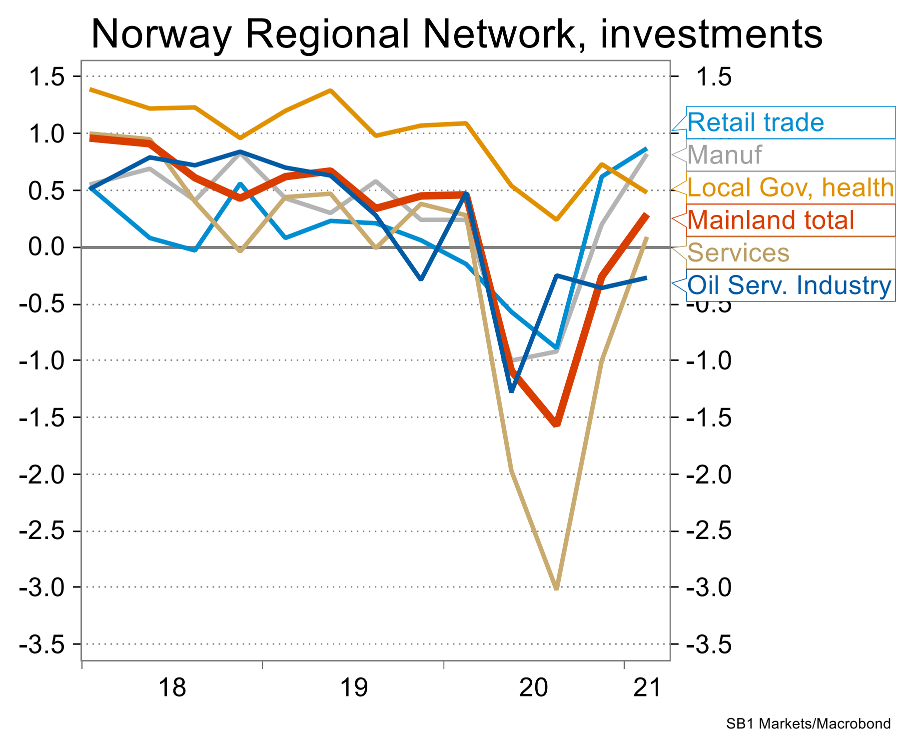
- **Implications**
  - » Norges Bank will probably draw the same conclusion as we do: <u>This network is close to useless – except for assessing the present mood among the respondents</u>
- We expect Norges Bank to lift its interest rate path substantially at Thursday, <u>check details here</u>

- **Activity the past 3 months**
  - » If we take the survey results literally, activity fell by a <u>0.3%</u> to Nov-Jan, annualised vs the Aug-Oct level. Actual Mainland GDP grew at a 3.4% pace. 3 months ago, the network reported 0,3% growth, while GDP rose by a 17% pace. <u>Thus the Network is reporting close to useless data, at least if our National accounts are total off the mark (and they are not)</u>
- **Expectations for the coming 6 months**
  - » The Network expect at 1.8% growth pace the next 6 months, we forecasted 2%. In Nov, the network expected a 0.2% growth pace. <u>Should we put any weight on the Network's assessment of the next 6 months?</u>
  - » The Network might of course be right, even if vaccines will arrive in large quantities during Q2. The restrictions cannot be eased before late Q2, a 2 % growth pace is possible
    - ▪ We think a gradual opening will be possible before June, as the 'R' will be reduced sharply if the promised vaccines are delivered
  - » Construction is expected to decline, so are oil related industries (just marginally). Other manufacturers are quite optimistic. Household services are very optimistic. Retailers do not expect much growth from here, for good reasons, the level is 'too' high.
    - ▪ Even if the growth outlook is muted indeed, companies revised their investment plans upwards – and are now signalling growth!

The Network now signals (modest, though) growth in Mainland investments!

After 3 quarters in the doldrums, businesses revised their investment plans up to above zero in Q1

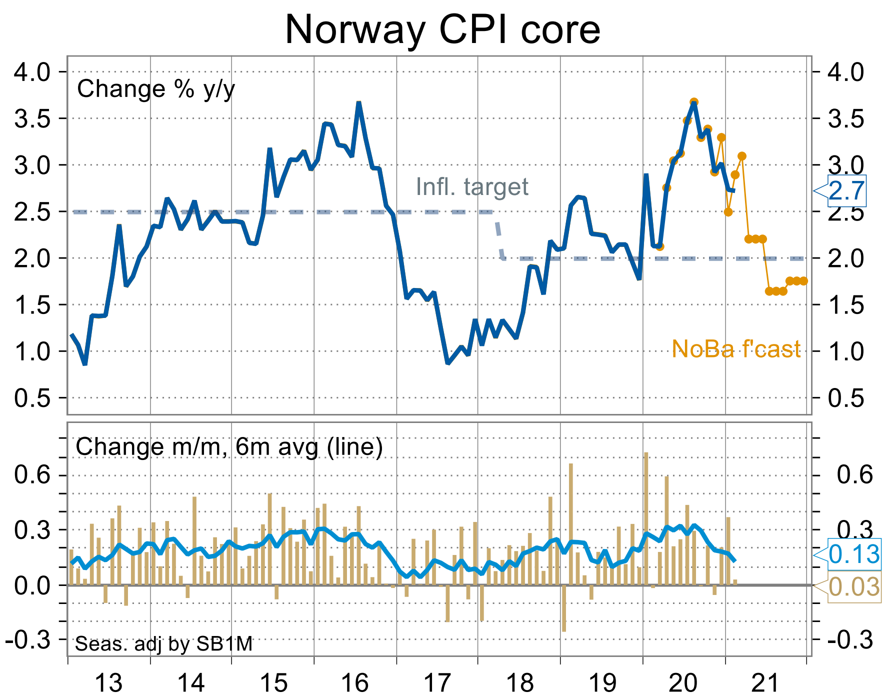


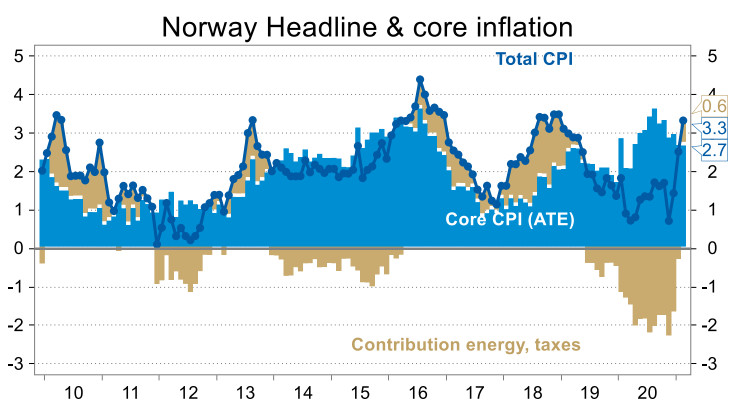


- Services, which represents almost 50% of Mainland non-residential investments, were signalling unprecedented, dramatic cuts six months ago. Still, following a modest decline in Q2, actual investments rose in through H2
- Oil services (not oil companies!) (9% of total) still plans cut, but far from aggressive
- Manufacturers (12%) and retail trade (7%) have revised their investments plans further upwards – and are signalling strong growth!
- **The total Mainland investments index climbed to above the zero line – signalling growth**

Core inflation held steady at 2.7% in February, lower than expected

Headline inflation up 0.8 pp to 3.3% y/y, as we assumed

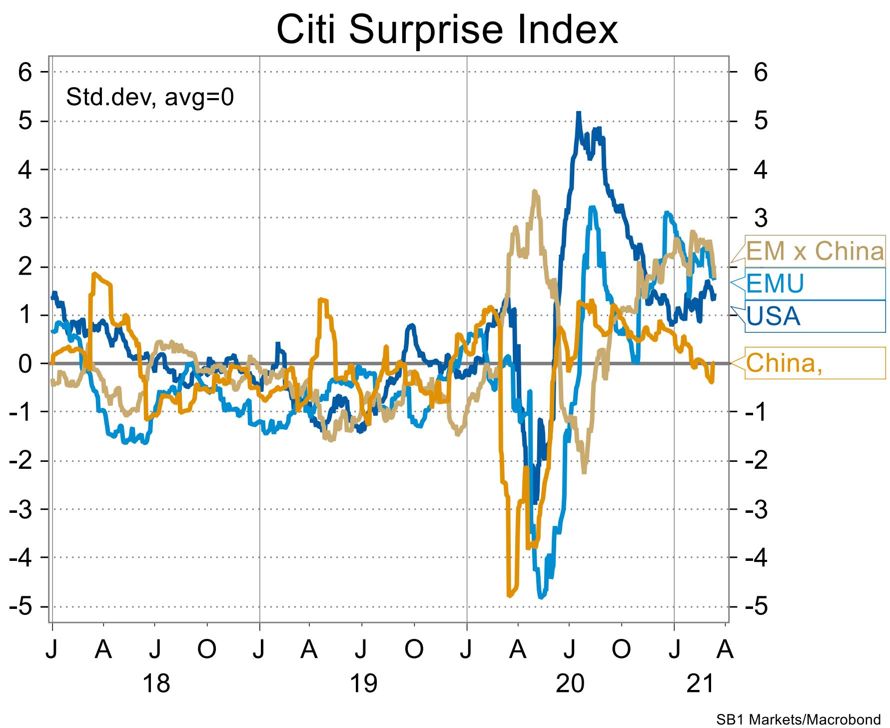


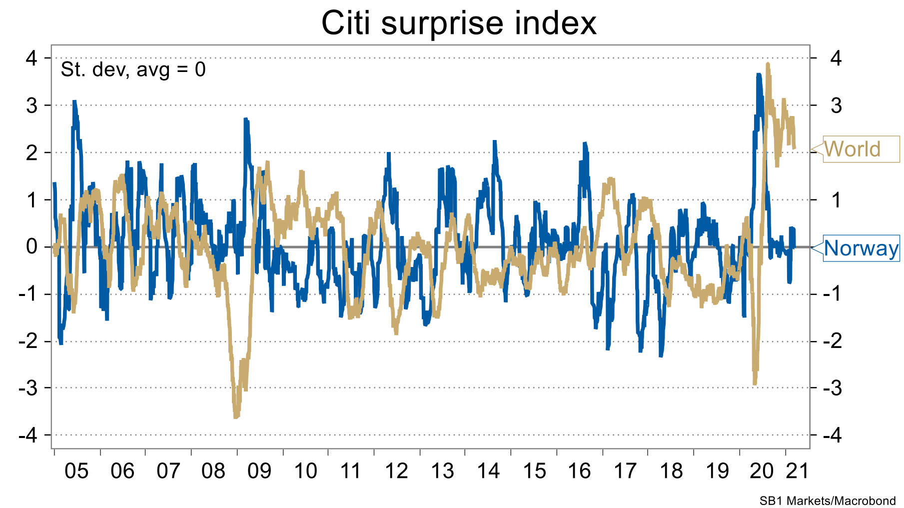


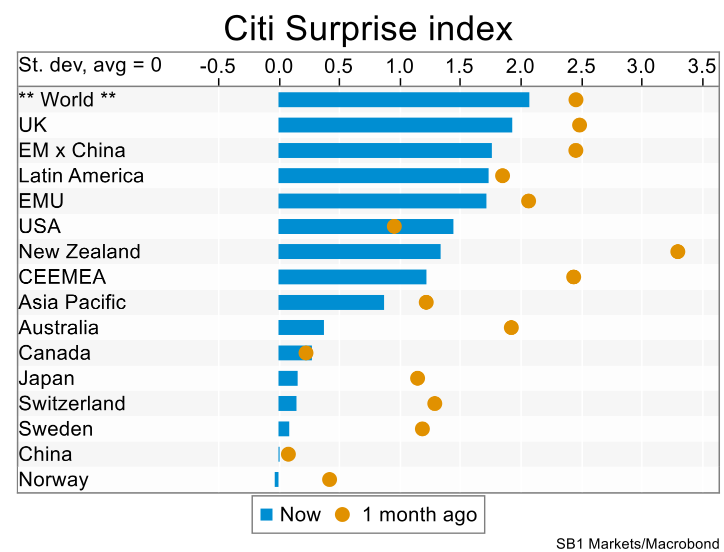
- CPI-ATE (ex. energy and taxes) inflation flat at 2.7% in February; somewhat below consensus (2.9%) and our forecast (3.0%). Norges Bank expected 2.9% (Dec MPR f'cast)
  - » Prices were unch m/m (s.a), down from +0.4% in January
  - » Food, alcohol, rent, airline tickets and restaurants were all lower than we expected
  - » Inflation is below 2% for housing, clothing, alcohol, communication and airline tickets – others are still above
  - » Imported goods price inflation was up in Feb, but will recede further as NOK effect fades. Domestic services have slowed substantially
  - » Domestic inflation has slowed substantially but remains close to 3%
- Total inflation accelerated 0.8 pp to 3.3%, in line with our f'cast, due to a lift in the annual inflation rate for electricity.
- **The price outlook**
  - » We expect inflation to slow the coming quarters as the NOK effect fades and wage inflation remains muted. Demand for goods will have to decline from a very high level, while the 'beaten down services' will probably not have pricing power anytime soon, even if demand should pick up steam during Q2/Q3
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. It's all about the Covid-19 impact on the real economy, and the outlook for the recovery.

Norway is the one and only that is surprising on the downside, says Citi

All other countries, regions are still surprising on the upside







- **China (and Sweden)** is next to the bottom of the list. Strong Chinese trade data lifted the surprise index past week
- The **Euro Zone** is still far up on the list, even if the economy has slowed – and the surprises have been less positive lately
- The **US** is well into positive territory too
- **Other EMs (x China), and UK** are at the top of the list , well above their average level

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

The Calendar

Fed will publish hawkish growth forecast but no policy change. Norges Bank will do both

Time	Count.	Indicator	Period	Forecast	Prior
Monday Mar 15					
08:00	NO	Trade Balance	Feb		23.1b
09:30	SW	CPIF Excl. Energy YoY	Feb	1.6%	1.8%
13:30	US	Empire Manufacturing	Mar	14.5	12.1
Tuesday Mar 16					
05:30	JN	Industrial Production MoM	Jan F		4.2%
10:00	NO	New Home Sales, Boligprod.	Feb		
11:00	GE	ZEW Survey Expectations	Mar	74	71.2
13:30	**US**	**Retail Sales Advance MoM**	**Feb**	**-0.7%**	**5.3%**
13:30	US	Retail Sales Control Group	Feb	-1.1%	6.0%
14:15	US	Industrial Production MoM	Feb	0.4%	0.9%
14:15	US	Manufacturing Production	Feb	0.2%	1.0%
15:00	US	Business Inventories	Jan	0.3%	0.6%
15:00	US	NAHB Housing Market Index	Mar	84	84
Wednesday Mar 17					
11:00	EC	CPI Core YoY	Feb F	1.1%	1.1%
13:30	**US**	**Building Permits**	**Feb**	**1750k**	**1881k**
13:30	US	Housing Starts	Feb	1565k	1580k
19:00	**US**	**FOMC Rate Decision**	**Mar-17**	**0.00%**	**0.00%**
Thursday Mar 18					
10:00	**NO**	**Norges Bank Rate Decision**	**Mar-18**	**0.00%**	**0.00%**
13:00	UK	Bank of England Bank Rate	Mar-18	0.1%	0.1%
13:30	US	Initial Jobless Claims	Mar-13	703k	712k
13:30	US	Philadelphia Fed Business	Mar	24	23.1
15:00	US	Leading Index	Feb	0.3%	0.5%
Friday Mar 19					
00:30	JN	Natl CPI YoY	Feb	-0.4%	-0.6%
06:00	SW	Home-Price Index, Valueguard			
08:00	NO	Housing Starts	Feb		

- **USA**
  - » **The Fed** will stand by its current monetary support policy, and will not be moved by inflation alarmists or vaccination success… yet. Chairman Powell has, on several occasions since the last meeting, stated that the policy will not change before maximum employment and medium-term inflation above 2% are reached. However, Fed's estimate of the timing of this to happen is crucial. The bank will have to revise its 2021 growth f'cast sharply up, both due the vaccination outlook, and due the two huge stimulus packages that have been decided since Dec. The economy will be expected to return to its pre corona growth path far earlier than assumed in Dec (early 2022? vs late 2023). Such an (inevitable) analysis will not dampen market's expectation for Fed to move far earlier than the bank so far has indicated, whatever the FOMC member's dot plot (individual Fed fund paths) and QE signals. It's the economy, stupid
  - » **Retail sales** skyrocketed in January, totally unexpected, even if the first round of stimulus cheques were distributed. 80% of the extra transfer was saved, and sales are expected down just 0.7% in February. The estimate seems quite optimistic, also due to the winter storms. **Housing** is booming as well, and a permits must collapse the alter our view. **The manufacturing** sector is booming, the ISM has not been better in 17 years. No reason to expect a bad February, and if it is, we blame the weather
- **UK**
  - » **Bank of England** is not expected send any new signals but would probably appreciate the successful vaccination process
- **Norway**
  - » **Norges Bank** will keep the policy rate unchanged at zero. However, we believe that the rate path will be lifted significantly, pushing the possibility of the first hike to Q3, from Q1 next year. If so, no surprise for the market, which has discounted that possibility by some 70%. However, we expect the bank to signal an more rapid normalisation of the signal rate thereafter, by lifting the interest rate path by up to 50 bps by the end of 2023 (*details next page*)
  - » **New home sales & housing starts** were very like strong in February as well

Norges Bank preview: Another (large) lift in the interest rate path, >50 bps?

The signal rate will be kept unch at 0.0% but the first hike(s) will be signalled in H2-21, from H1-22

Changes in the interest rate path from the December NoBa meeting	Impact bps
Domestic demand (incl oil price), capacity util.	52
Money Market (money market, lending spreads)	-5
Prices, wages	15
Foreign factors	11
NOK	-20
Judgement (surveys, fin. stab, global risk etc)	7
Sum	**60**
Changes in NOK FRA's since Dec	65

Interest rate paths

	Path 4-20	SB1M est **Path 1-21**	Change **bps**	Fair FRA *) @IMM, NoBa	FRA now	NoBa - FRA
Q4 20	0.00	**0.00**	**0.00**			
Q1 21	0.00	**0.00**	**0.00**	0.43	**0.44**	-0.01
Q2 21	0.00	**0.00**	**0.00**	0.36	**0.37**	-0.01
Q3 21	0.00	**0.01**	**0.01**	0.49	**0.51**	-0.02
Q4 21	0.00	**0.16**	**0.16**	0.66	**0.70**	-0.03
Q1 22	0.09	**0.34**	**0.25**	0.84	**0.89**	-0.04
Q2 22	0.21	**0.52**	**0.31**	1.02	**1.05**	-0.02
Q3 22	0.36	**0.70**	**0.34**	1.20	**1.19**	0.01
Q4 22	0.51	**0.88**	**0.37**	1.38	**1.31**	0.07
Q1 23	0.66	**1.06**	**0.40**	1.56	**1.43**	0.13
Q2 23	0.77	**1.24**	**0.47**	1.72	**1.52**	0.20
Q3 23	0.86	**1.39**	**0.53**	1.87	**1.59**	0.28
Q4 23	0.93	**1.54**	**0.61**	2.02	**1.68**	0.34

**) Assuming a 35 bps NIBOR spread*

- We expect the Bank to lift its **interest rate path** by up to 50 bps, or even more (as our 'mechanical' tabulation indicates, less than the FRAs have added since the Dec meeting
- Our Q3 and Q4 estimates implies a 50/50 chance for a **Sept hike** (the 1 bp in NoBa avg in Q3), and 50/50 for a **2. hike i Dec**, given a hike in Sept, or a 100% for a hike in Dec, given no hike in Sept
- We have pencilled 3 hikes per year through '22 and '23

What has changed since NoBa's Dec MPR?

- **On the upside**
  - » **Global growth** estimates have been revised sharply up
  - » **Interest rates** among our trading partners are on the way up
  - » **The oil price** (curve) is 14 USD higher than assumed by NoBa
  - » **Vaccines will arrive earlier.** Even though AstraZeneca once more have disappointed massively (possible blood clots, and other major likely miss cut vs promised on deliveries in Q2) the rollout will very likely be far ahead of Norge Bank's Dec assumption, with large parts of the population vaccinated before end of Q2 (or now early Q3) vs. Q4 in the Dec report. We applied the growth implications of an earlier lifting of restriction as indicated in the 'optimistic' scenario form Norges Bank in Dec.
  - » **Mainland business investments** will be revised by more than justified by an earlier re-opening post corona, as will housing investments
  - » **Wage inflation** will be revised up by at least 0.3 pp
- **Neutral**
  - » **Oil investments**, the Dec forecasts are OK, as least if the oil price impact is included already
  - » **Fiscal policy**, even if a extra measures are decided, seems like NoBa had expected most of it
- **On the downside**
  - » **NOK** is 4% stronger than assumed
  - » The **NIBOR-NoBa deposit spread** will be revised up by some 5 bps

Highlights

The world around us

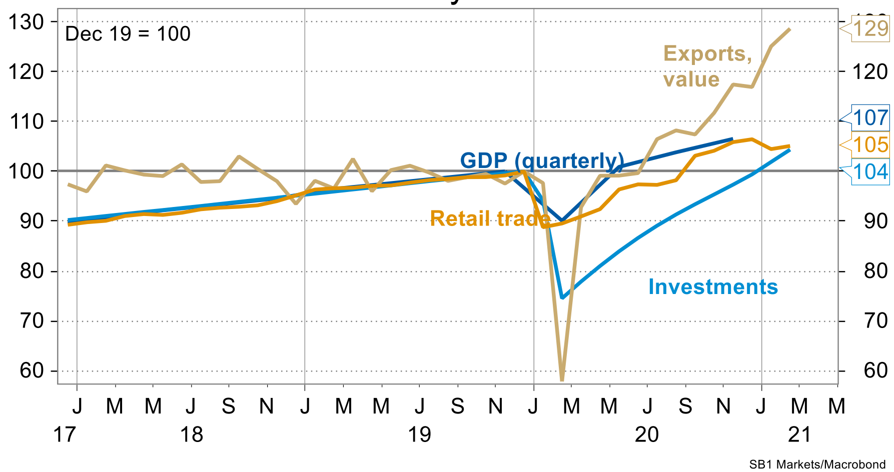
The Norwegian economy

Market charts & comments

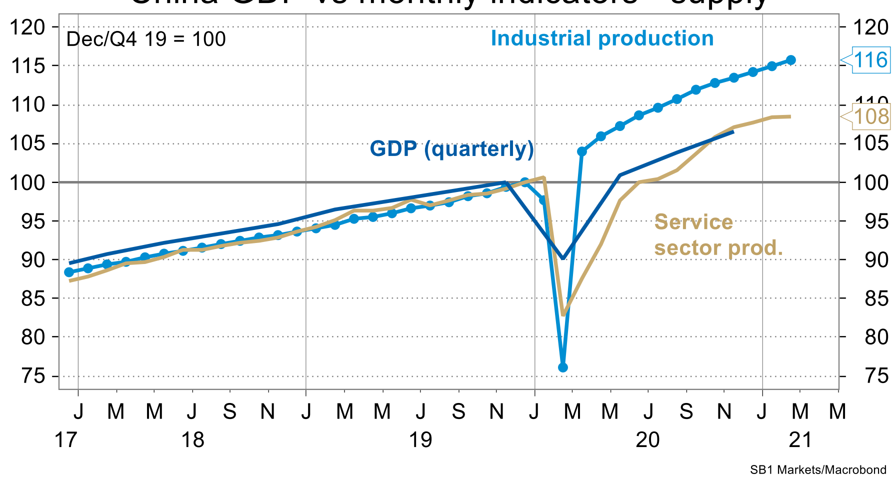
Covid measures dampened the Chinese economy in Jan/Feb, no reason to worry

No weakness in manufacturing or investments, just in retail sales & service sector production

China GDP vs monthly indicators - demand



China GDP vs monthly indicators - supply

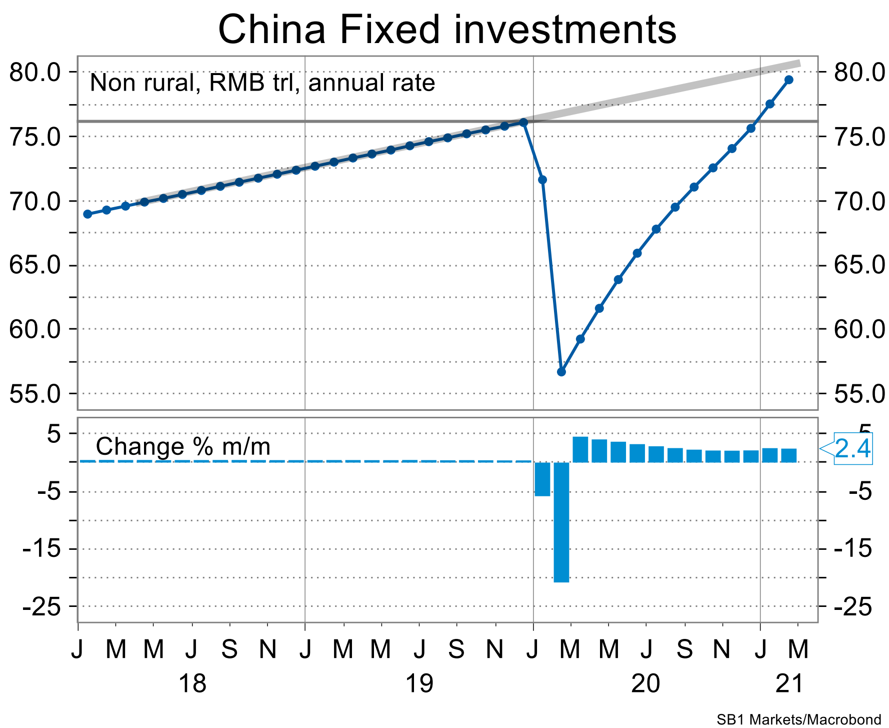


- **China reported a full Jan/Feb data set this morning, which was not scheduled in our calendars! No time for analysis, just a look at the headlines!**
  - » Fixed investments were scheduled this morning, see more nest 2 pages
- **Industrial production** rose 0.7% in both Jan & Feb. Measured y/y, production is up 35%, expected 30% but these y/y data are noe 'impossible' to calibrate. Production is well above the pre-corona trend path, and is growth faster. Growth will now most likely slow
- **Service sector production** grew by 0.6% in Jan, as in Dec, but slowed to 0.1% m/m in Feb, clearly due to the muted festive New Year season. Activity is anyway back to the pre-corona growth path
- **Retail sales volumes** fell by 1.9% m/m in Jan and grew by just 0.6% in Feb, according to our calc. We assume the Lunar New Year holiday is to blame for the weak start of the year. Measured y/y, sales were far above expectations
- **CPI inflation** has falling sharply, and prices are down 0.2% y/y (from above +5% at the peak) as pork prices are heading down. Supportive for real household demand, of course. **Producer prices** rose further in February
- **Investments** rose 2.4% m/m in both Jan and Feb, faster than over the previous months. The gap vs. the pre-corona trend is almost closed. Measured y/y investments were 3 pp lower than expected
- **Credit growth** recovered in both Jan & Feb
- **Exports** were record strong in Jan/Feb, and imports are more than OK (reported in last week's Macro Weekly)

In sum: Covid measures kept the economy somewhat back during the festive season but no reason to expect further weakness

Nominal investments up up 2.4% m/m in both Jan & Feb, gap almost closed

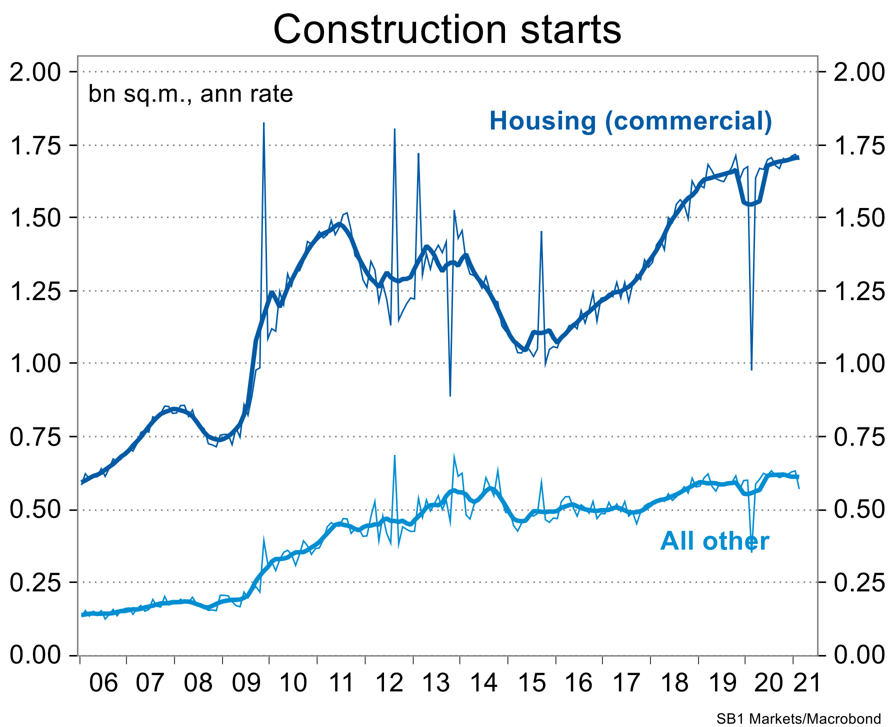
Investments are 4.2% above the Dec-19 level, and just marginally below the pre corona growth path

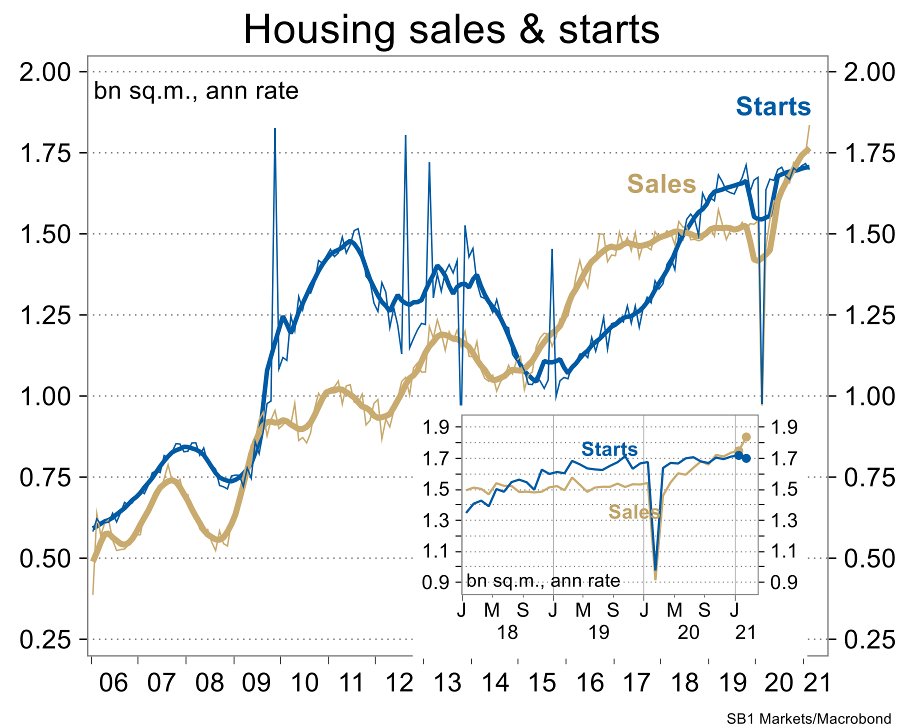


- Measured ytd, investments are up 38%, higher than the expected 35%. These growth numbers are of course due to the 25% setback in Jan/Feb last year
- Growth had been slowing m/m since peak growth in March but accelerated slightly in Jan & Feb
- In real terms, investments are up approx. by the same amount as in nominal terms (due to lack of an updated investment price index, we utilise a mix of a producer price index, and a GDP deflator)

Strong home sales in February, starts are trending up, both at very high levels

New home sales rose sharply in Jan, while starts fell marginally. Other construction starts fell in Feb

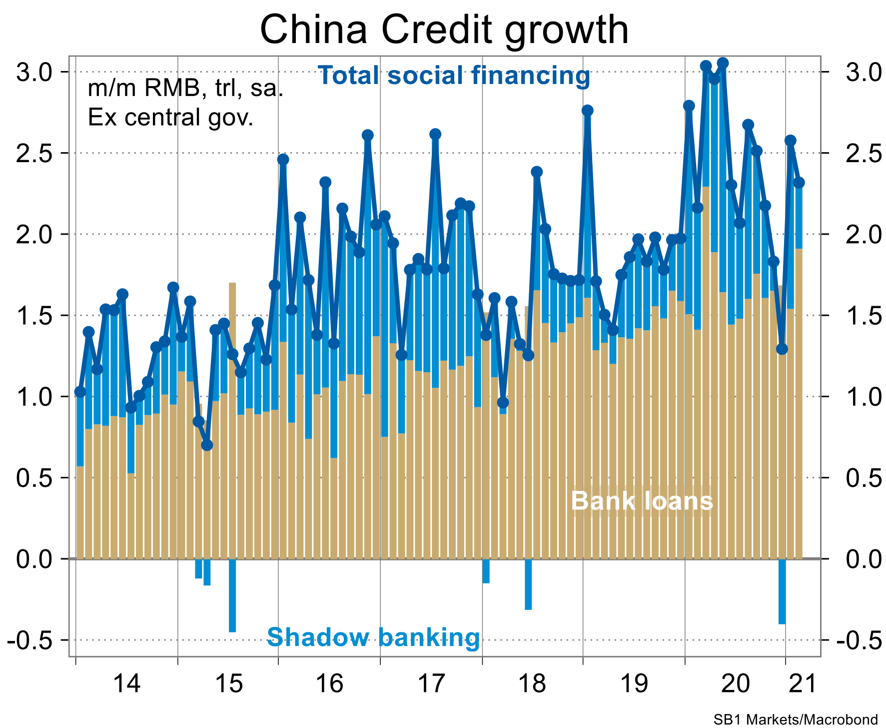


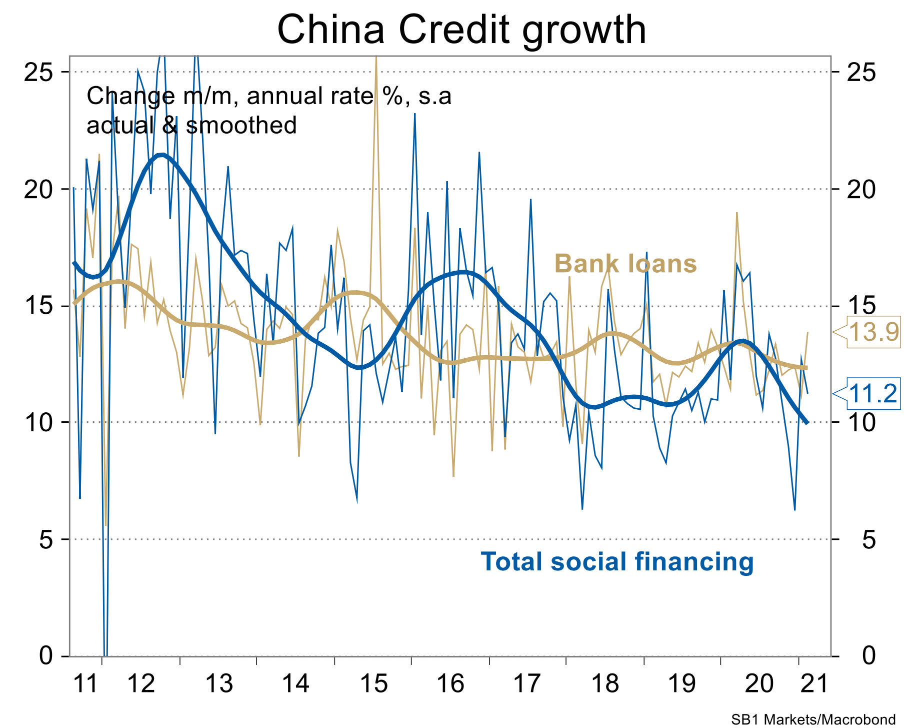


- Non-residential construction starts are still trending up, and Feb sales data signals no weakness
- The decline in other building starts is not dramatic and volatility in our even well seasonal adjusted data around year end is not unusual

No credit squeeze in January & February

Credit growth has accelerated moderately at the start of 2021

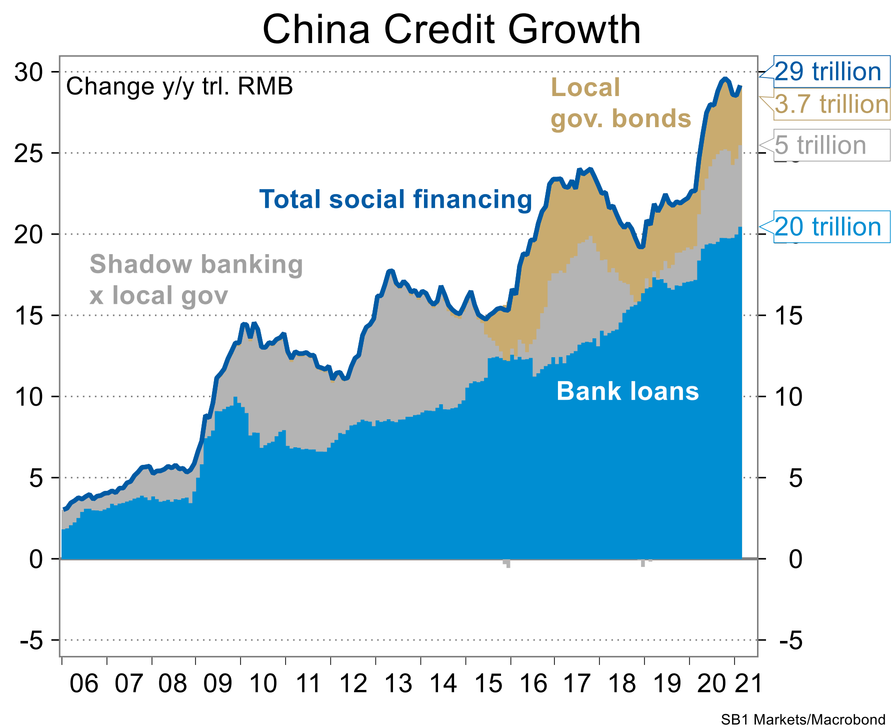


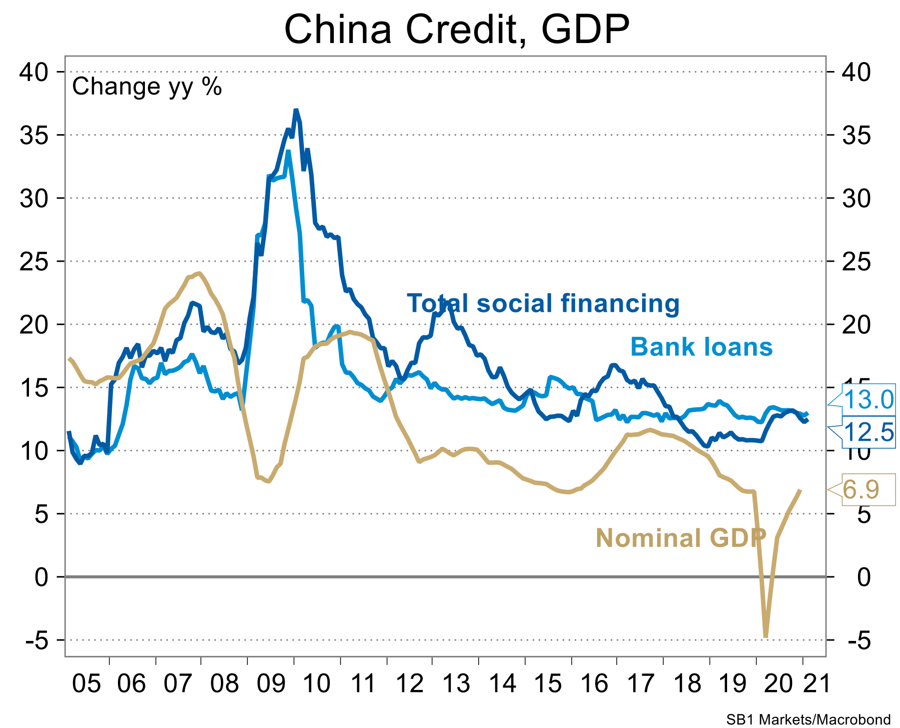


- In Feb **total credit** grew at a 11% rate (m/m, annualised), down from 12% in Jan. Smoothed, the underlying rate may be some 10%, down from 13% during last spring (and >15% during some months). A 10% growth rate is above trend growth in nominal GDP
  - Total credit rose by RMB 1.7 trl expected 0.9 trl (not seasonally adjusted, total social financing, including central & local government bond, and corporate equities). Seasonally adjusted the core total social credit (total ex central gov bonds & corporate equites) grew by 2.3 bn, down from 2.6 bn in Jan
  - Bank loans rose by 1.5 trl, but seasonally adjusted 1.9 trl, an the highest growth rate since last February
- Total credit is still up 0.2 pp to 12.5% y/y, substantially above normal income growth, banks loans are up 13.2%. The shadow banking market contributes with some ¼ of the total
- Until recently, some feared that the Chinese authorities would push to hard at the brake, in order to reduce the risk for a further build-up of a possible debt bubble. **Still, they do not want to strangle the economy – which the strong January & February data signals!**

Credit growth curve showed signs of flattening

… at a rather high level

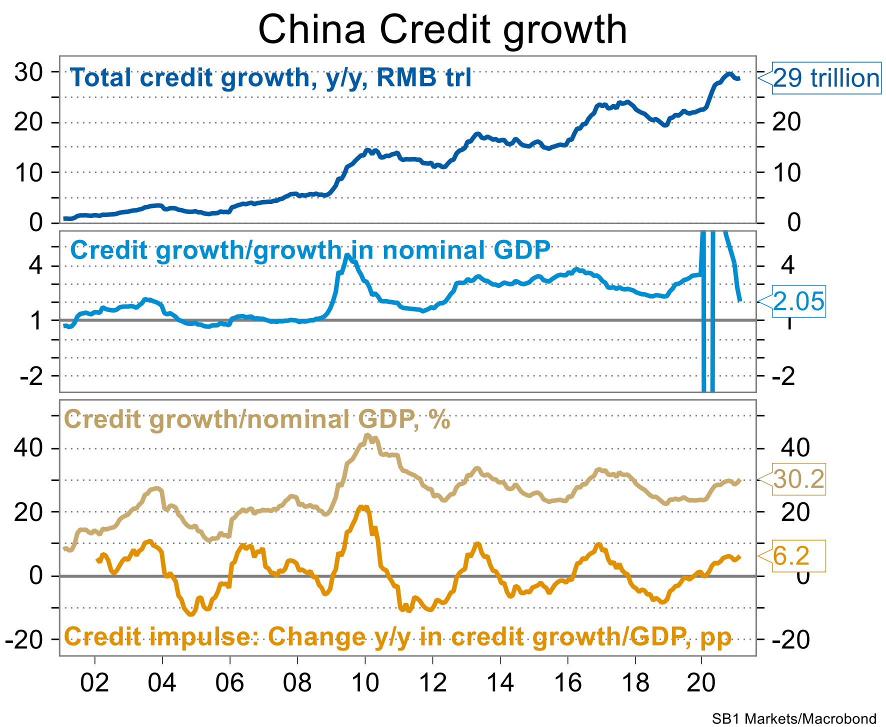


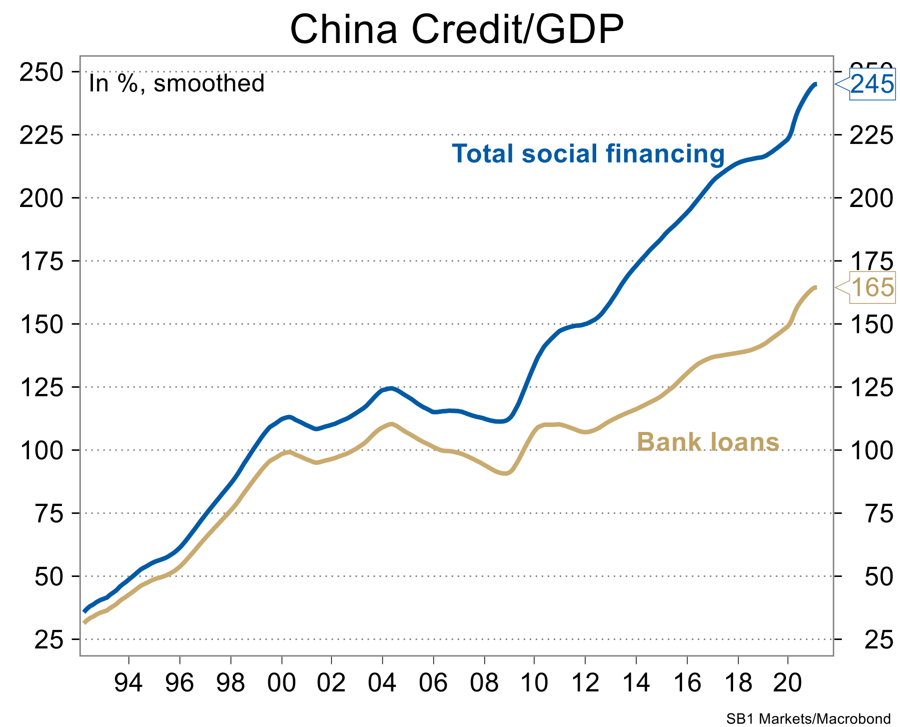


- Over the past year, **total credit** has expanded by CNY 29 trl, equalling 25% of GDP (even before the Q1 '20 collapse)
- Banks supplied CNY 20 trl of the y/y increase
- **Local governments** have not yet accelerated their borrowing by much, at least not in the bond market, still up 3.7 bn y/y
- Other credit – via the **shadow credit market** x local gov bonds has gained traction over the past year
- Total credit growth at 12.5% is well above trend nominal GDP

The credit impulse has peaked – but far from in tightening mode

A moderate pressure at the brake pedal is reasonable, given strong growth and a high dept/GDP ratio

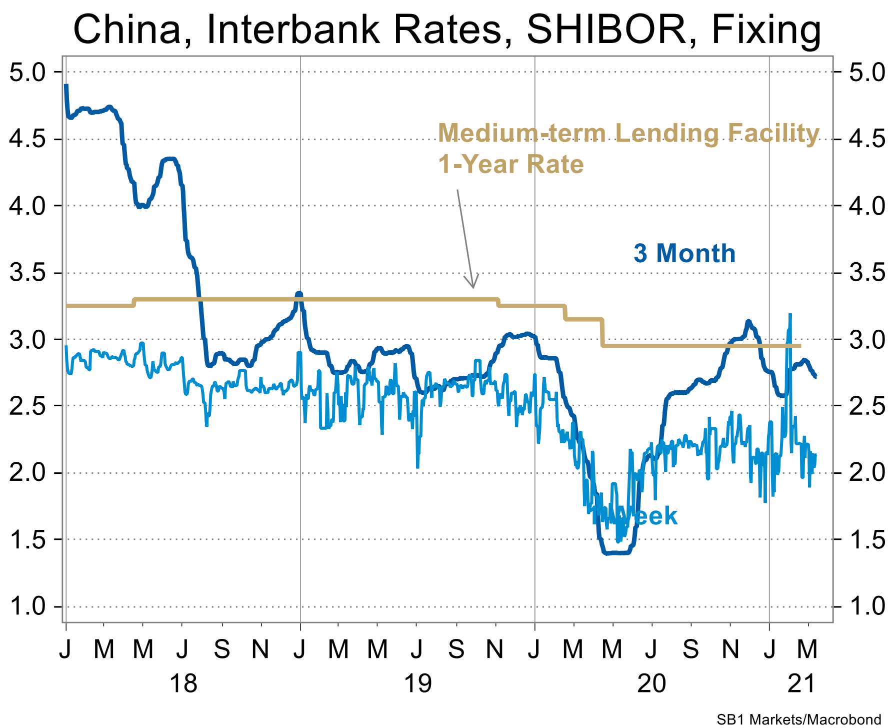




- A positive **credit impulse** implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
- The credit impulse has been in the positive territory since late 2019, but may be peaking. At least growth slowed somewhat – but not further in Jan/Feb

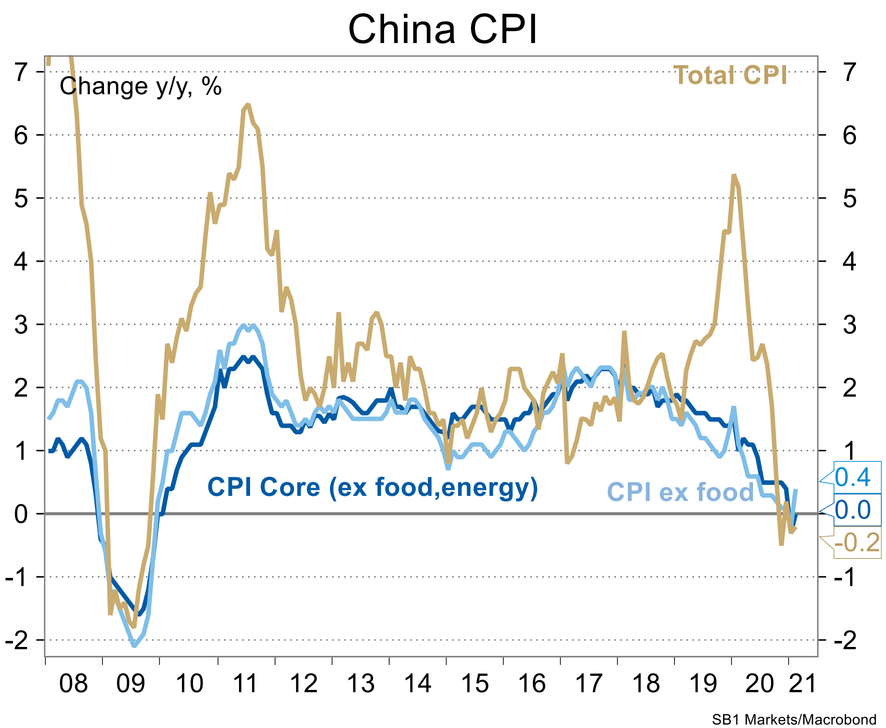
Interest rates not on the way up – and PBoC does not want to tighten sharply

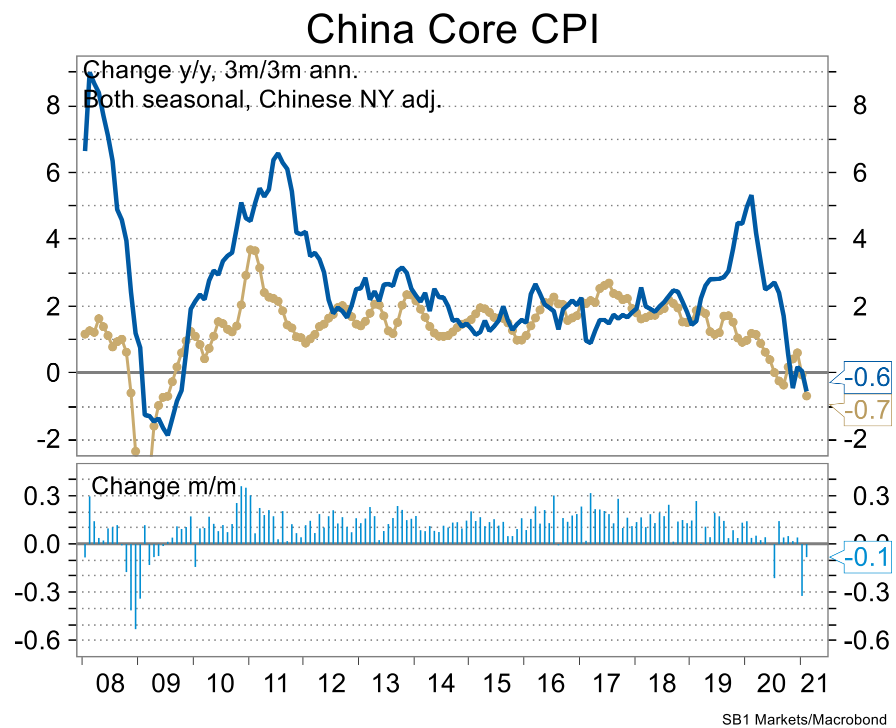
Some turbulence in late January, probably due to technicalities



Chinese core inflation at 0% y/y – not problematic

The headline CPI y/y up 0.1 pp to -0.2%, beating expectations at -0.3%. The core fell 0.1% m/m

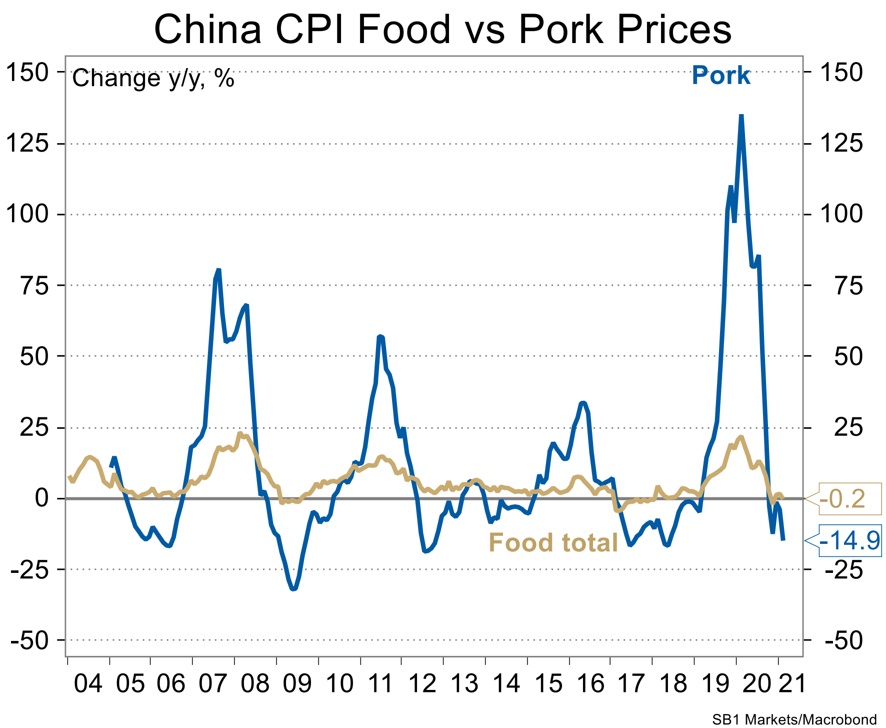


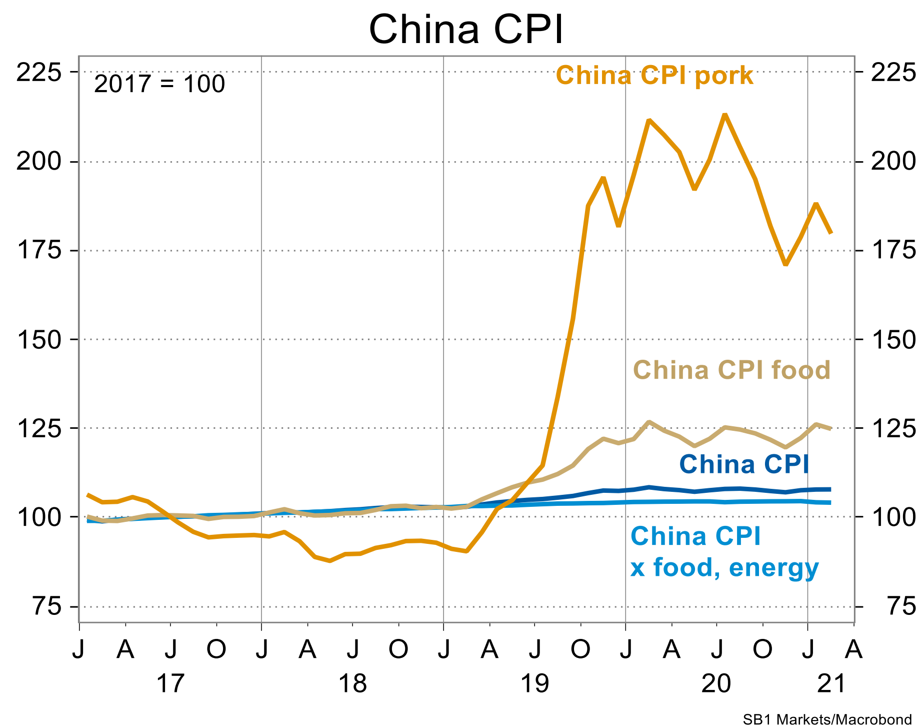


- **Total annual CPI** growth has fallen from above 5% in early 2020 to -0.2% in Feb, expected -0.3%. The steep decline in headline CPI is due to a partial reversal of the ultra high pork prices last year. In February, they did contribute further on the downside.
- **Food prices** fell by 1.0% m/m as pork prices fell 14%. Food prices are up 0.2% y/y. However, the latter is trending down following the 130% price increase due to the 'pig massacre' (swine flu), and prices are still up almost 100%, and will probably continue to decline substantially over time
- **The core, ex food & energy price index** rose by 0.3 pp, and is flat y/y
- **Low inflation** support real income growth. **Monetary policy** will not respond at low inflation per se, the real economy is more important

Pork prices down 1% in February, still far above a normal level

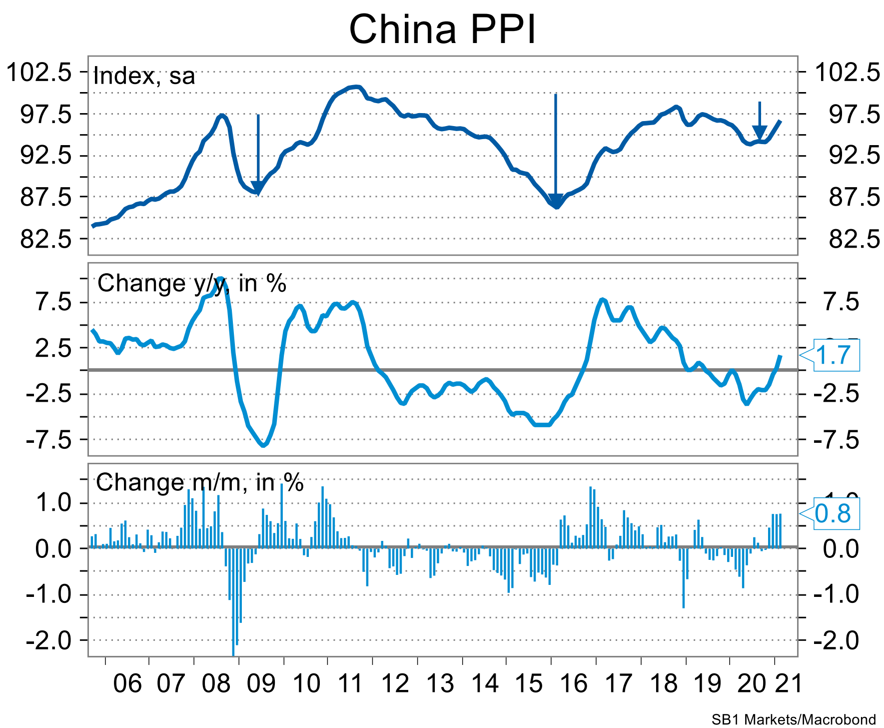
Pork prices will most like decline substantially, taking both overall food prices, and the total CPI down

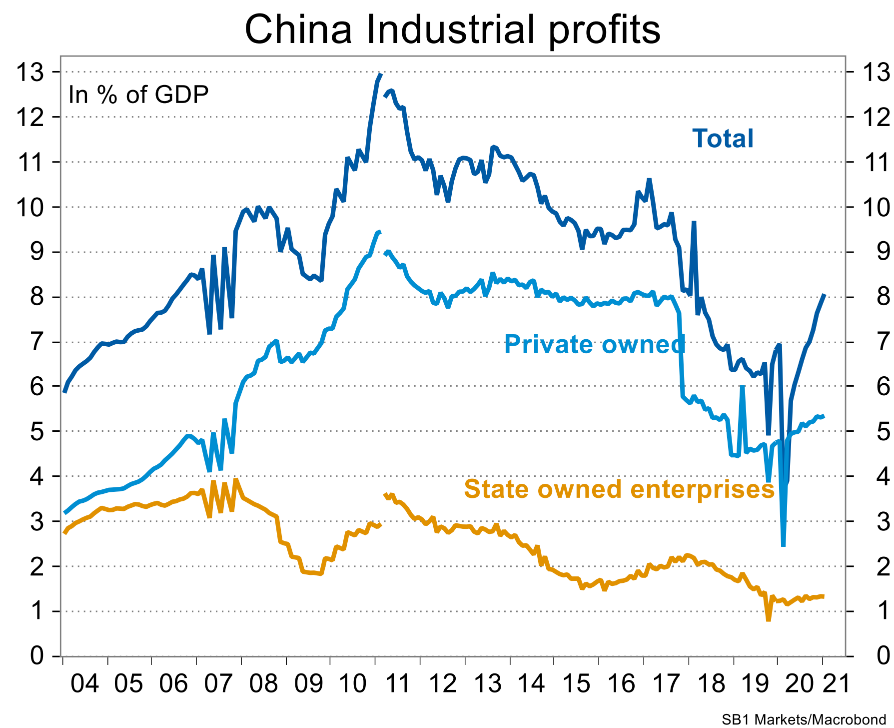




Producer prices and profits on the way up again

PPI up 0.8% m/m in Feb, up 1.7% y/y

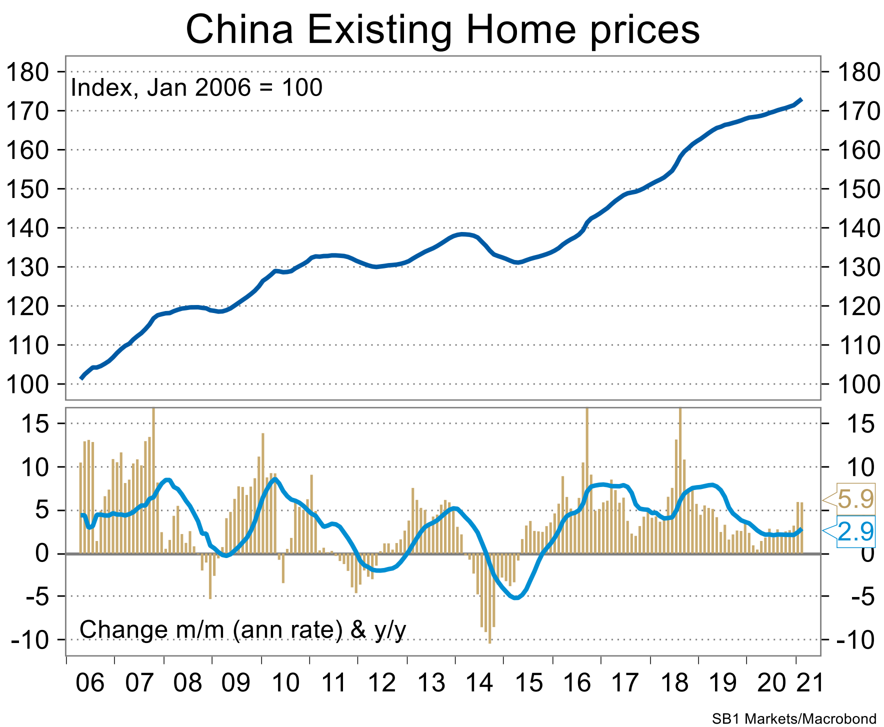


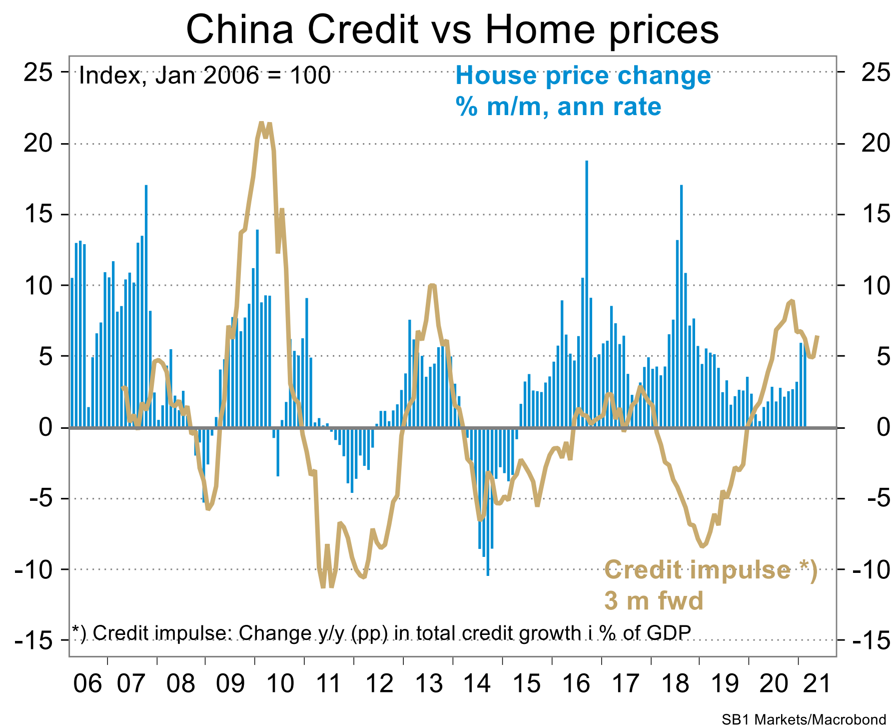


- The **PPI** peaked in late 2018 but prices just fell some 4%, some of it during the spring. During previous setbacks, PPI has fallen up to 13% (and never less than 8%). The rise in PPI in February can largely be contributed to an increase in the price of commodities
- **Profits in privately owned industrial enterprises** fell by 50% in February '20. Profits rose to a normal level in April/May – if we label the profit level in 2019 and early 2020 as normal – at 5% of GDP – and now it has climbed to 8%!
- **In state owned enterprises profits** have fallen from 2% in 2018 to just above 1% now – but the profit rate has slowly increased since last summer

House price inflation is accelerating, but not a reason for drastic credit tightening

Prices up 5.9% m/m in Feb (annualised), like in Jan, and the highest in two years

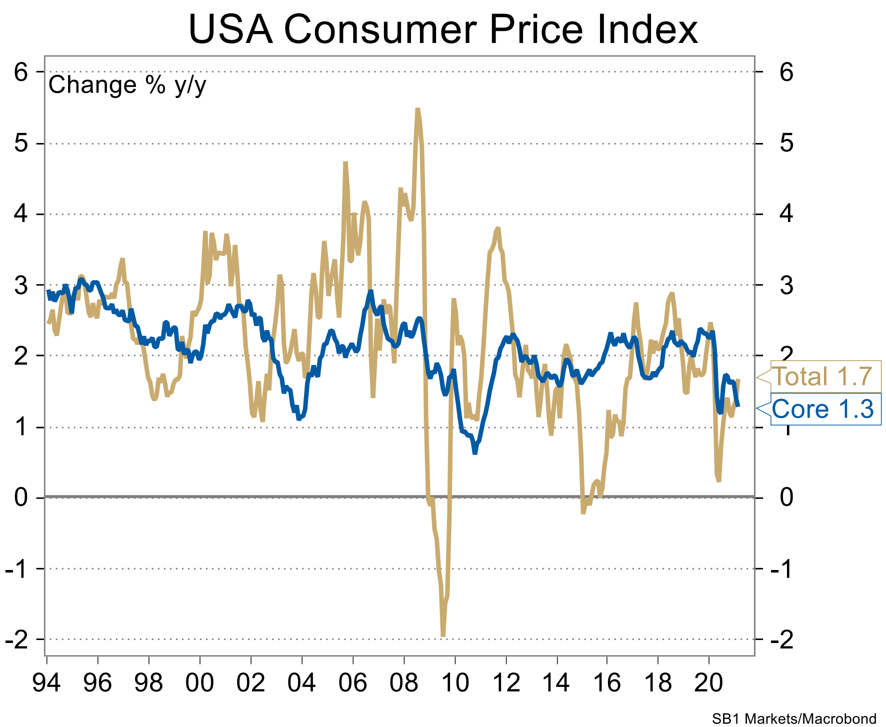


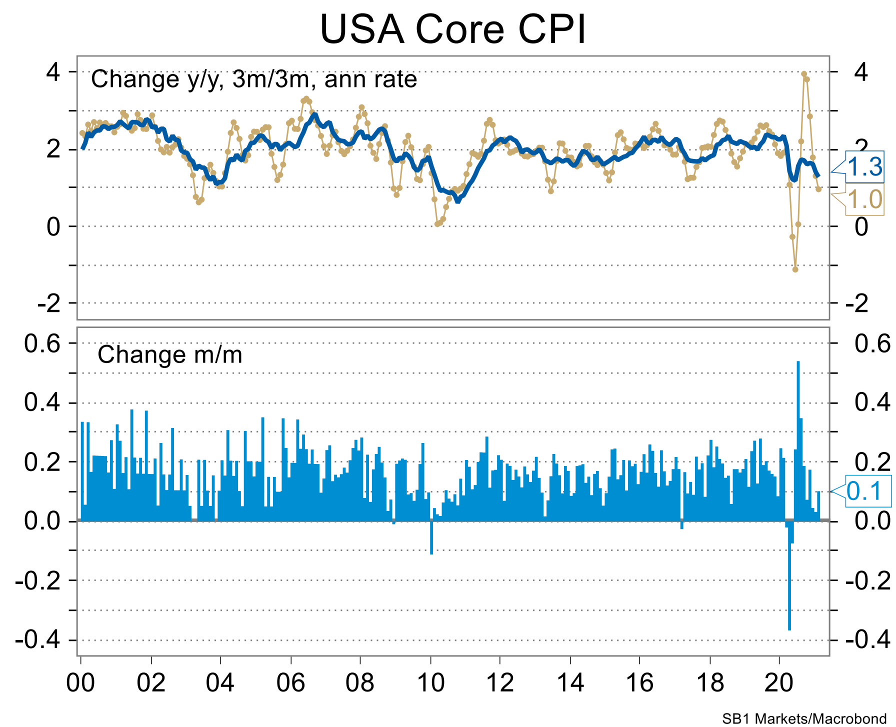


- Credit policy has been supportive, until now. Credit growth has slowed, but not further in Jan/Feb – and house prices are responding, even faster than normal (probably by coincidence)

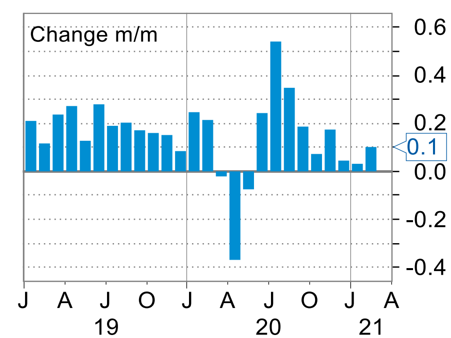
Inflation currently not a problem: Core CPI ticked in at 1.3% y/y, below consensus

Core CPI fell by 0.5% Mar-May '20. In Mar-May now, +0.1% per month? If so, a lift up to 2.1% y/y



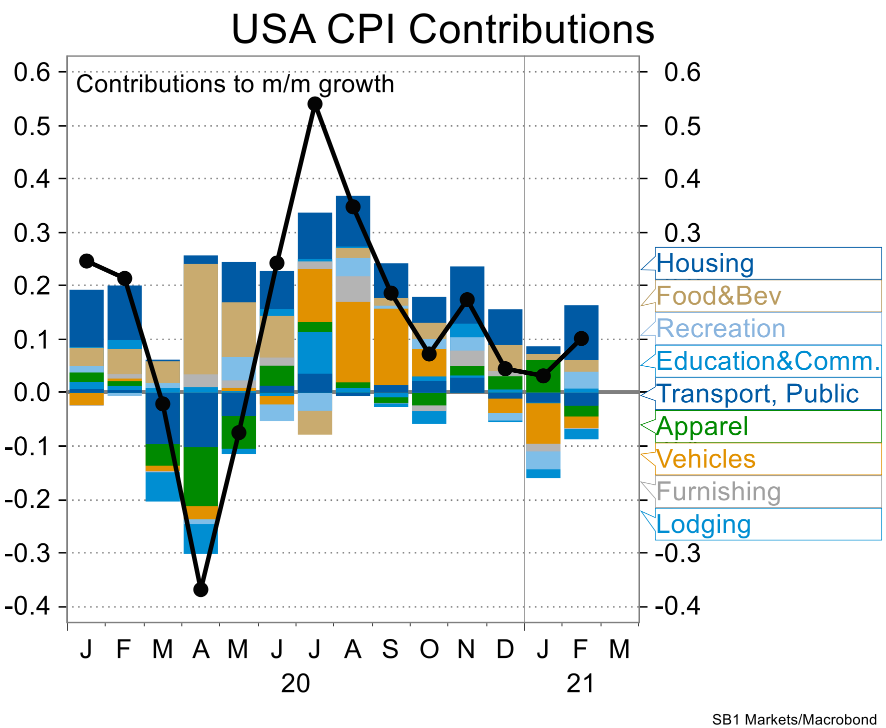


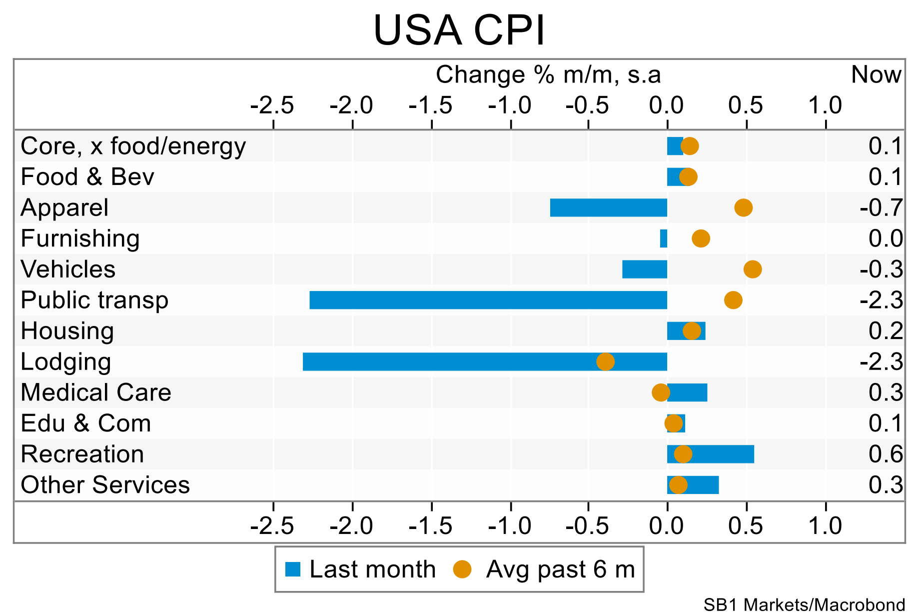
- **Core CPI** rose 0.1% m/m in February, expected 0.2%. The annual rate fell 0.1 pp to 1.3% (exp. unch at 1.4%), and is far below the 2.4% pre-corona level, and below Fed's 2% target (measured by the national account PCE price deflator, which over time has reported an inflation rate 0.2 – 0.3 pp below the CPI inflation rate).
- **Headline CPI** rose to 1.7% y/y; up from 1.4% in February, due to higher gasoline prices. In May '20, headline CPI was up 0.2% y/y. In Mar-May '20, CPI prices fell by 1.1%. Assuming 0.15% per month the coming 3 months, the annual rate will reach 3.2% in May
- Clothing, lodging, vehicles, and airline ticket prices saw the biggest decline from previous month
- **The annual growth rate** will climb sharply the coming months, just due to the price cuts m/m last spring. Federal Reserve assumes that the annual inflation rate will retreat thereafter, as prices rose sharply m/m in Jun-Aug last year. Thus, the annual growth rates are funny to look at, but still useless. Still, how worried should we be, given producer price hikes, surveys telling the same story combined with an unprecedented fiscal stimulus at a 'Wall of Money" in household bank deposit accounts, waiting to be spent in a economy with limited spare capacity? We are more worried than normal. *More on that on the following pages*



Clothing prices down 0.7% in February, but car prices keep falling!

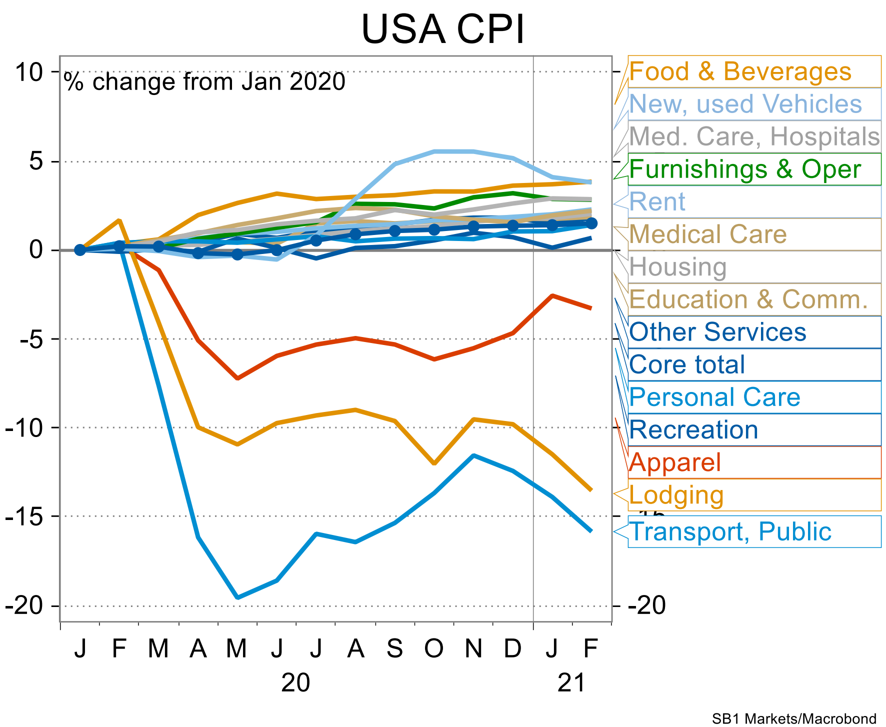
The prices of airfares, lodging, and furnishing also on the downside in February

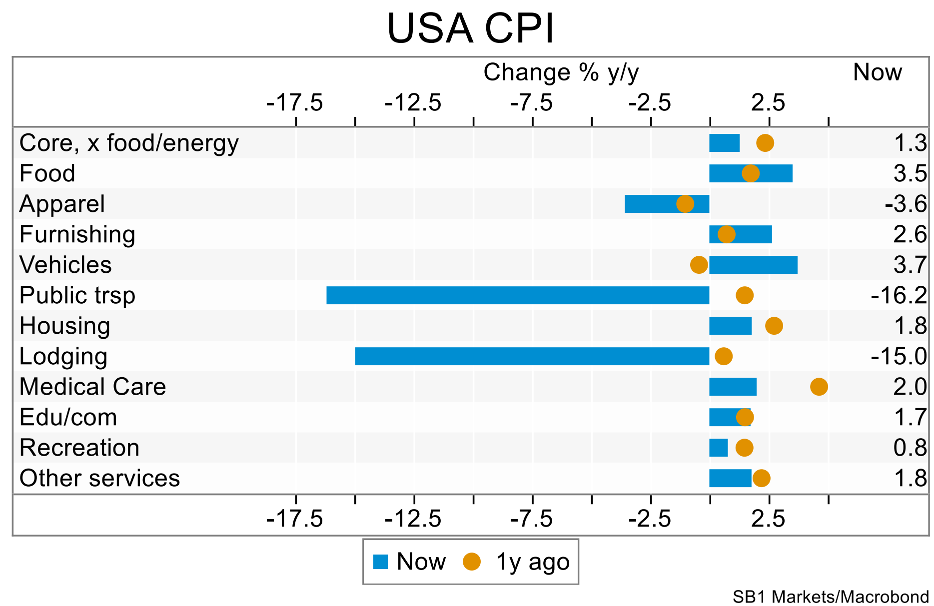




Clothing, hotels and transport (airline tickets) very cheap…

…until society opens up

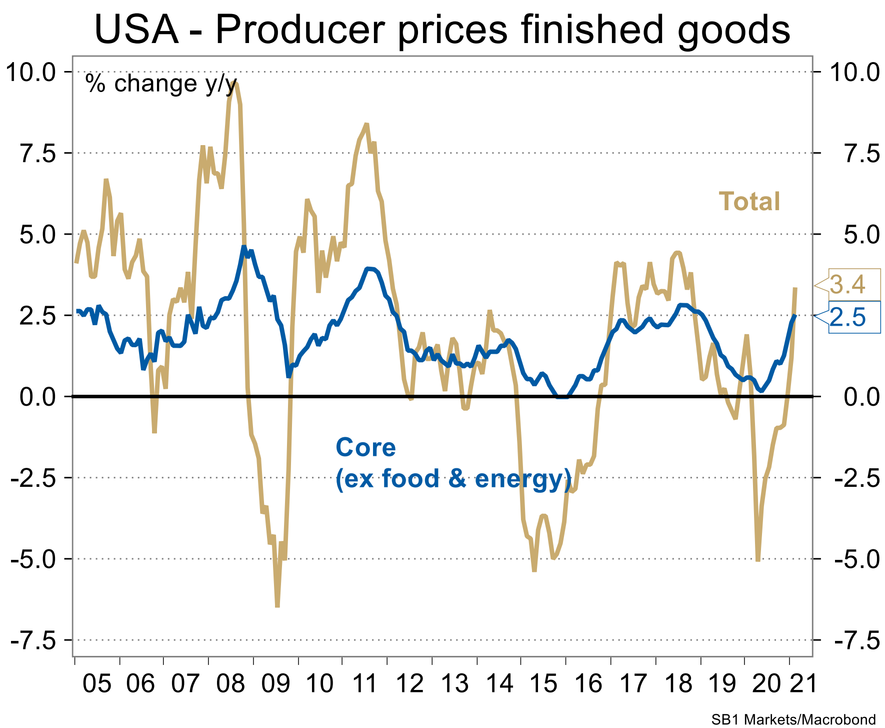


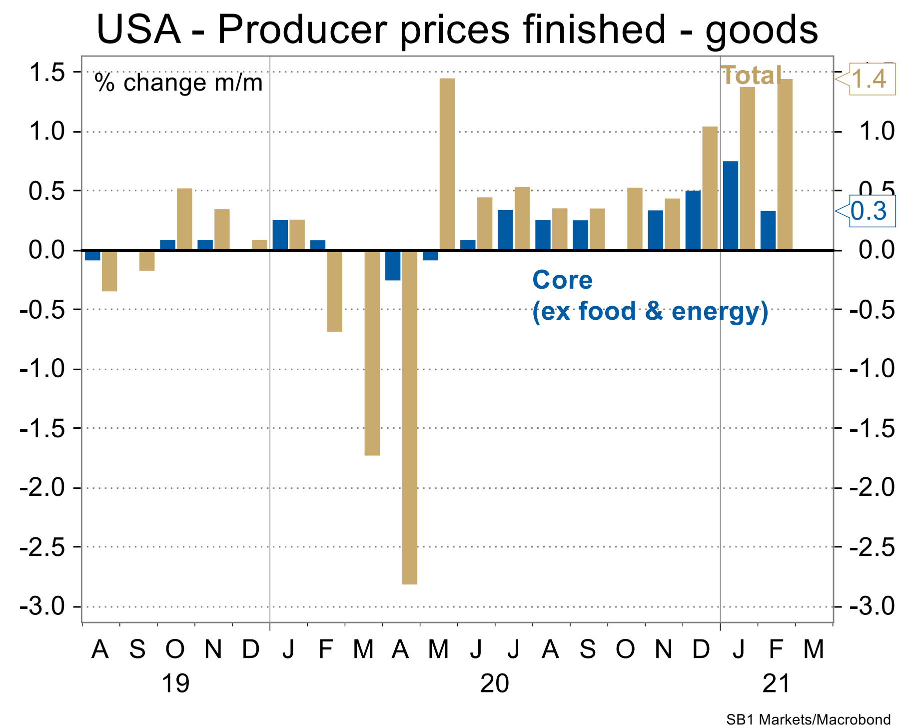


- Just some few components of the CPI contributed to the 'corona' setback: Public transport (airline tickets) is down -15.8% y/y, lodging (hotels) -15.5%, and clothing -3.3%. Other components of the CPI have not slowed (recreation contributed on the downside at the start of the pandemic, but has since recovered somewhat)
  - » In a month or two, these prises will be flat or up y/y. In 2 – 3 more months, these prices will most likely be up y/y, as the country re-opens. The impact on the CPI from the negative to zero will be ¼ pp on the headline CPI, and an additional ¼ pp in if these prices normalise to pre-pandemic levels
- Food (at home) prices are up 3.5% y/y, corona has no doubt boosted demand among households, due to less eating out (as in Norway). However, global food commodity prices are rising as well
- Medical care costs are up 2.0%

Core producer goods price inflation +0.2 pp to 2.5%, total +2.2 pp to 3.4%

Core producer prices up 0.3% m/m, a tad more than expected. The total up 1.4% m/m

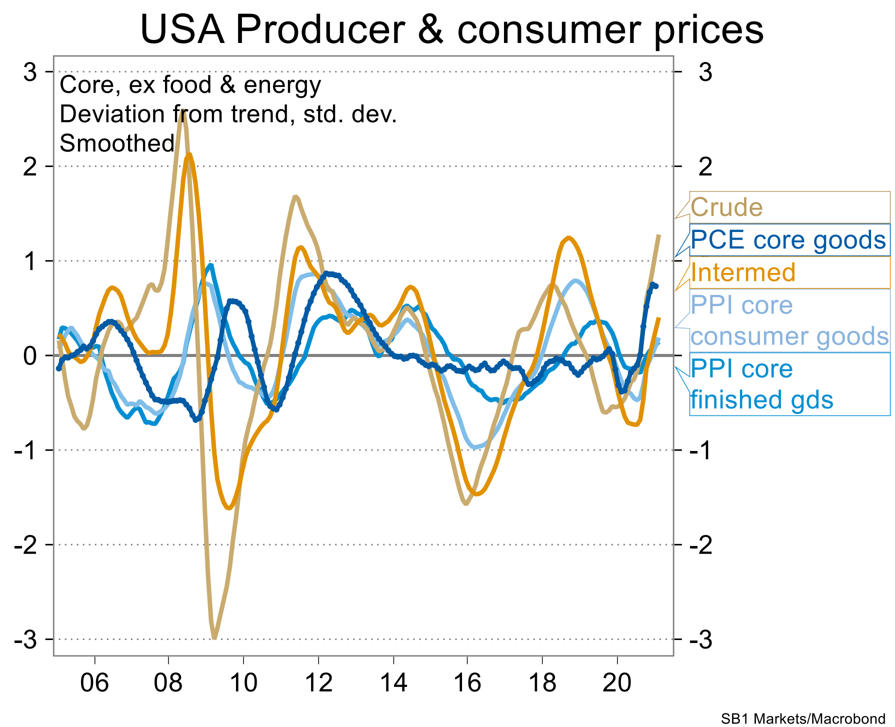


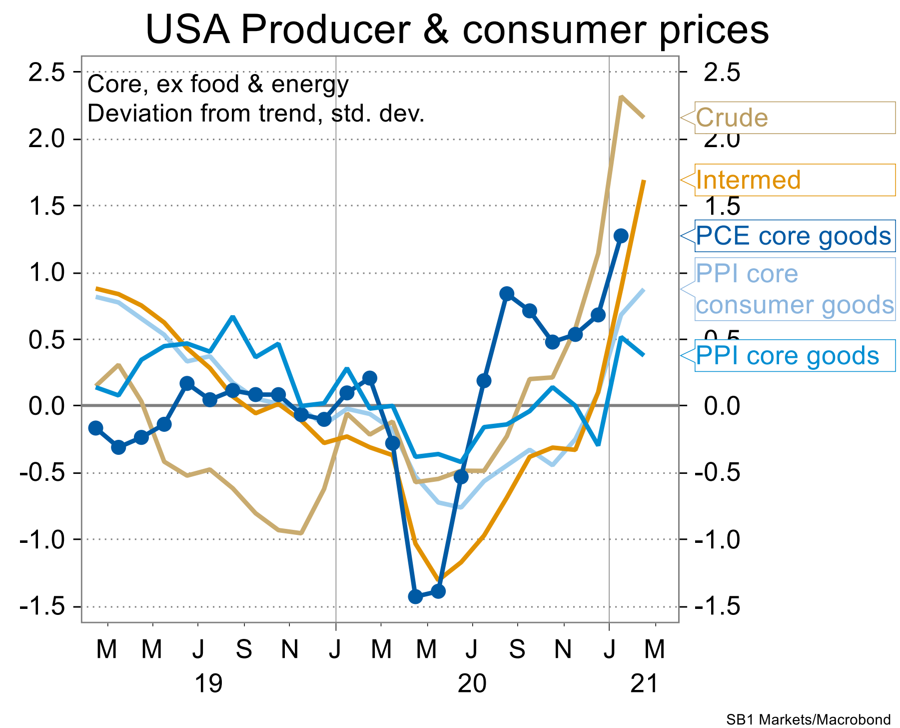


- **Core finished goods x food & energy** PPI rose 0.3% in Feb, lower than the previous months
  - » Core finished goods producer price inflation does not suggest high CPI inflation, as goods prices at the consumer level already have increased substantially. However, producers prices at earlier stages are now moving upwards, signalling future pressure at the consumer level
- **Headline finished goods PPI** rose 1.4% m/m, due to higher food & energy prices (and as expected). The annual rate climbed 2.2 pp to 3.4%. This price index is notoriously volatile, but the cycles are quite similar for the core PPI for goods
- **The 'official' total final demand PPI**, including services, rose by 0.5% (2.8% y/y), both 0.1 pp more than expected

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

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

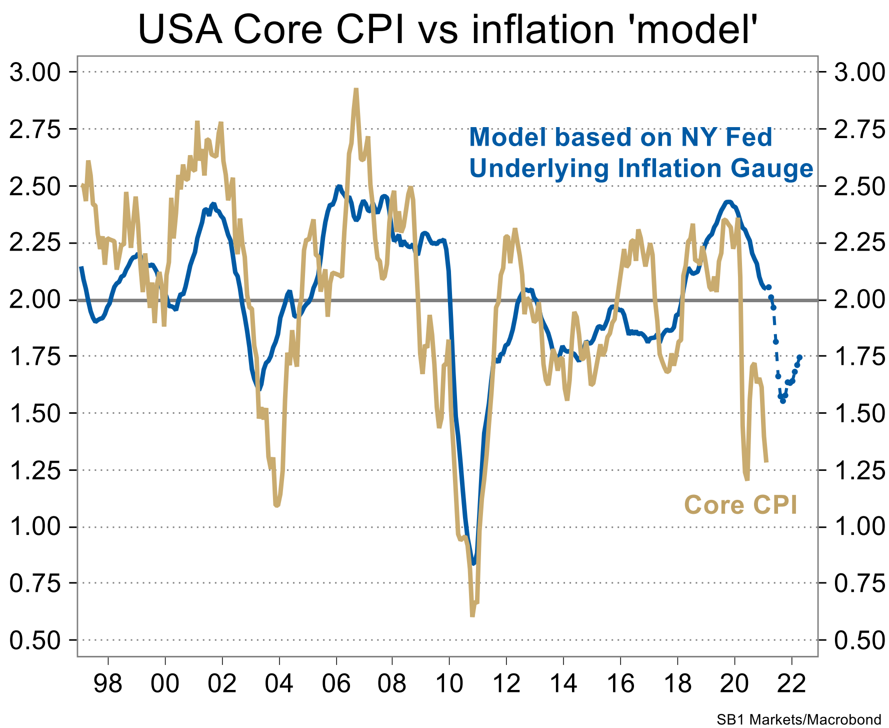




- Prices are on the way up, as are delivery times – and production is increasing rapidly. Hmm…
- However, consumer prices have been rising faster than indicated by finished goods prices. Thus, short term, probably not that much more price pressure from producer prices
- Looking forward however, the steep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

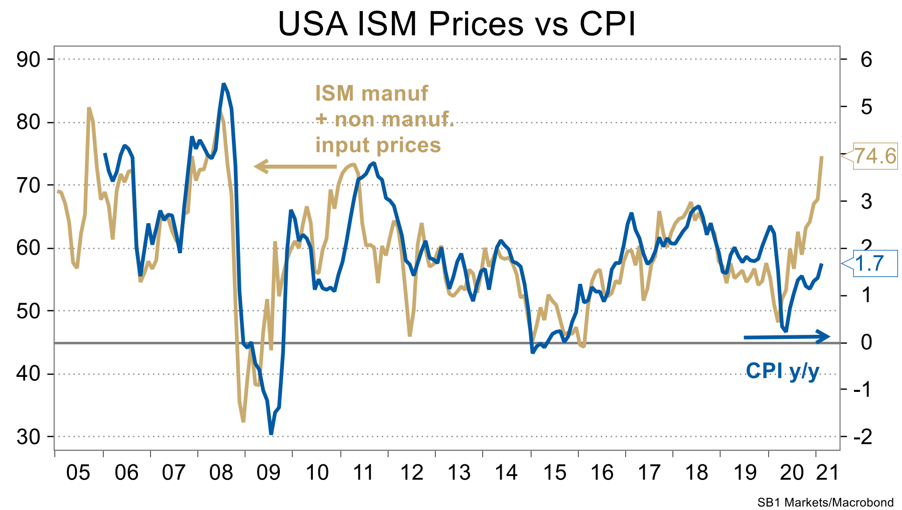
Fed's price model: No warning sign yet

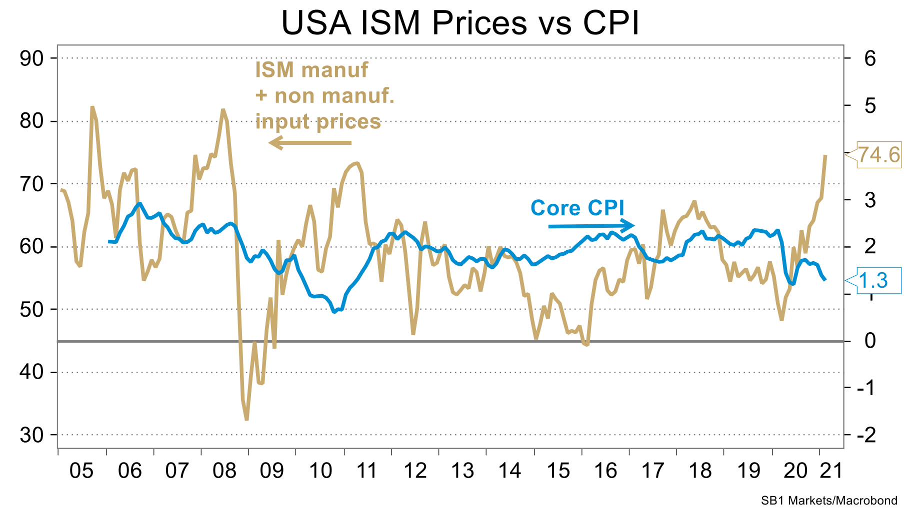
Fed's Underlying Inflation Gauge (UIG) does signal higher inflation, but still well below 2%



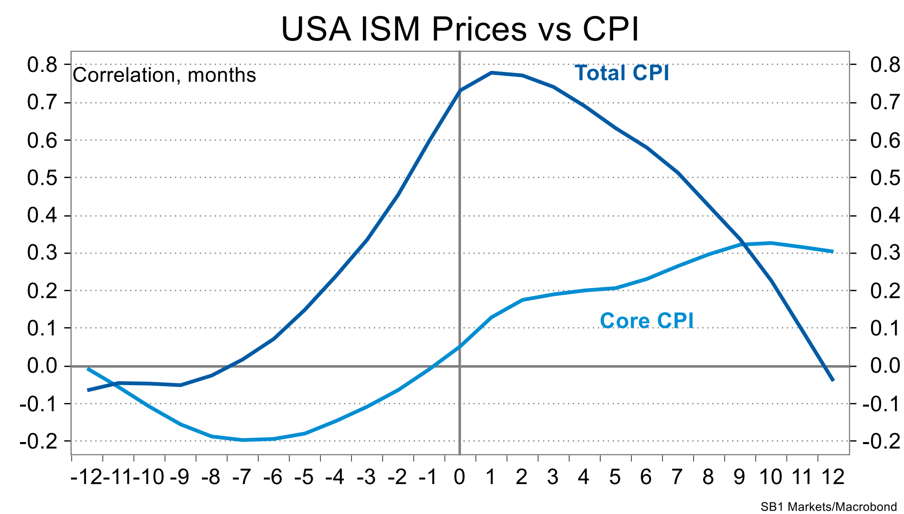
ISM has sent a clear message. For the headline CPI, that is

Total CPI will very likely climb substantially, and not only just due to base effects





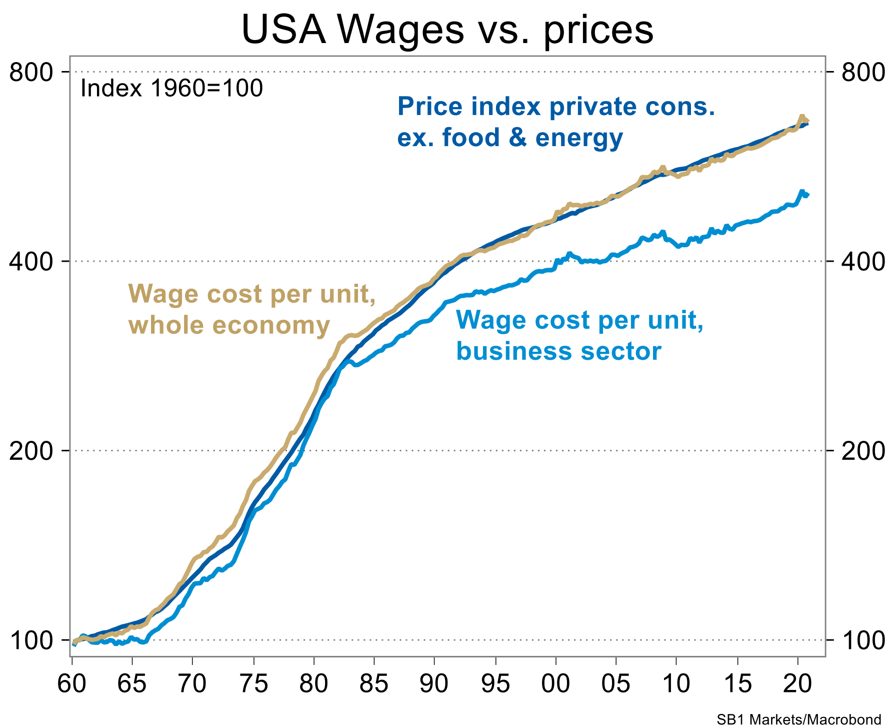
- However, the correlation between price indices in the ISM (or PMI) business surveys and the core CPI is far weaker than between these indices and the total CPI, check the charts at this page
- The Fed – and other central banks – are surely right not to focus on the volatile headline CPI, but more on the core CPI and even more on underlying cost pressures in the economy, as shown on the next page

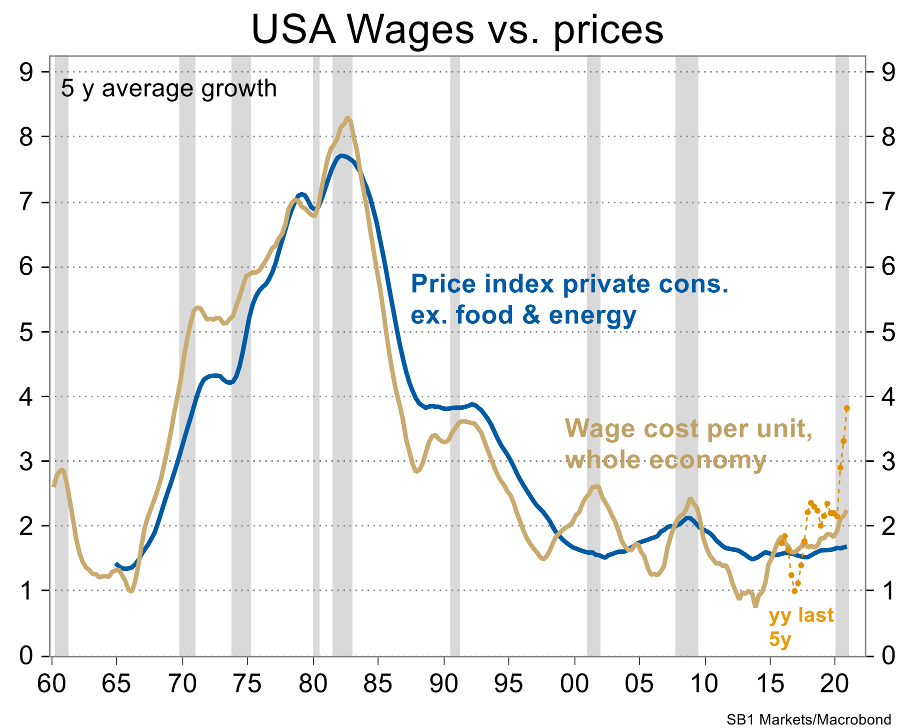


SpareBank 1 MARKETS

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

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

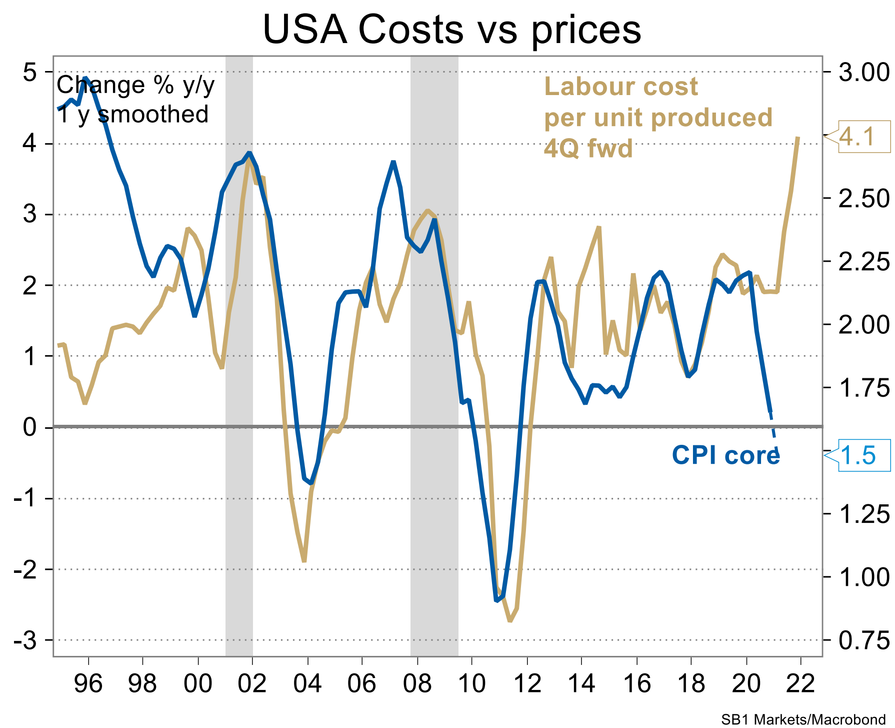


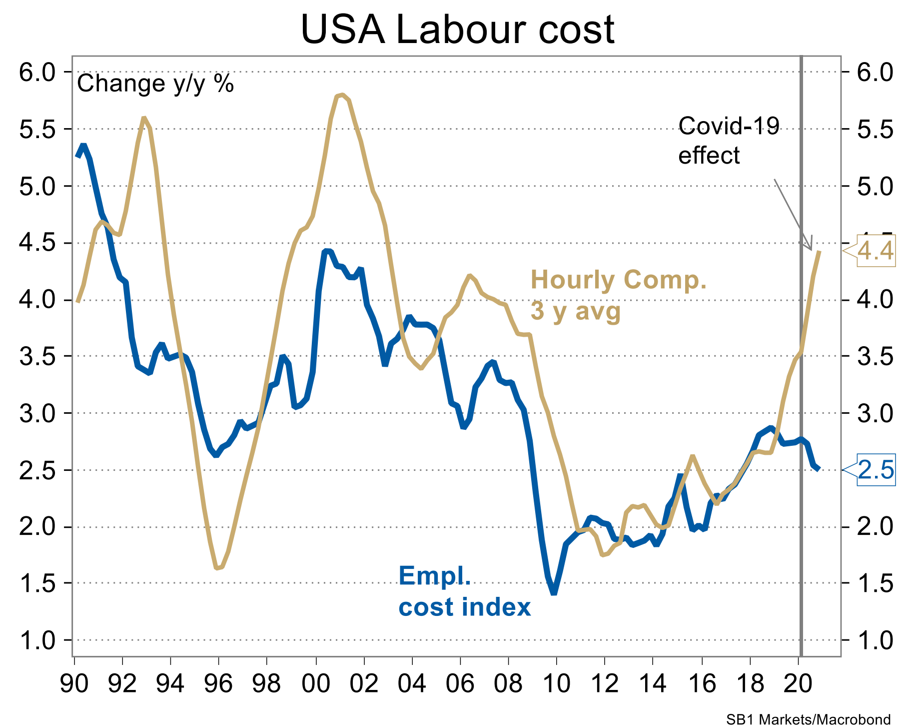


- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- The rapid increase in ULC through last year was very likely not 'for real', check next page

Hourly compensation surged during corona due to changes in employment mix

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



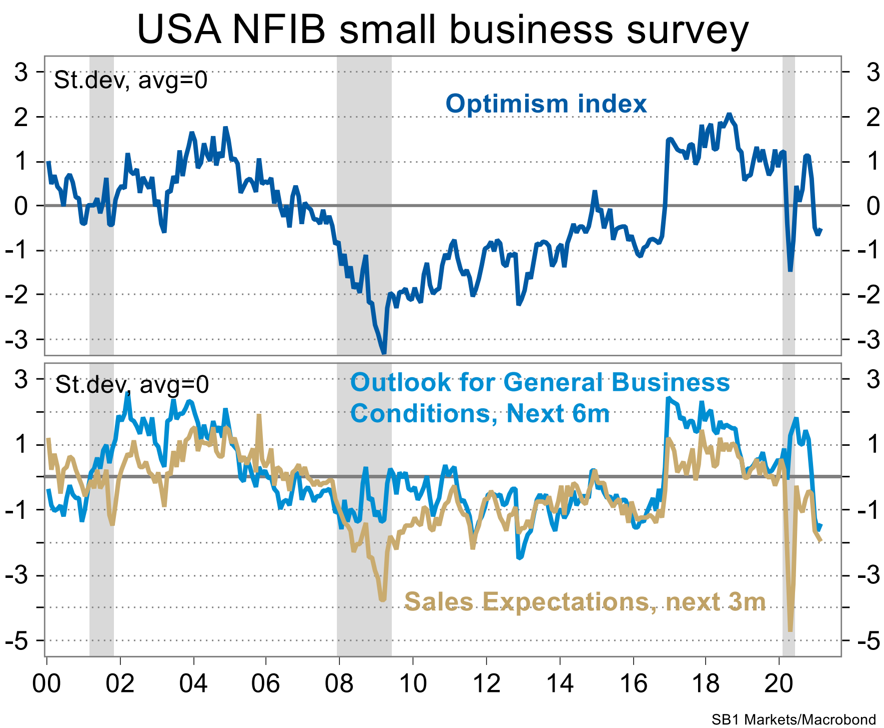


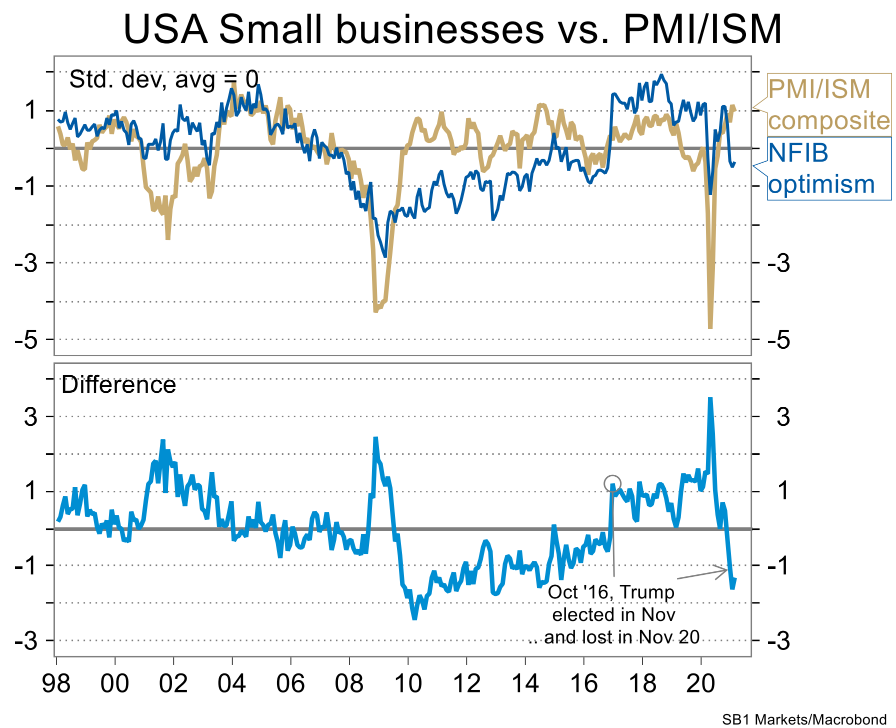
- In principle, productivity growth should have appreciated alongside the increase in average hourly labour cost as measured in the National accounts, as low-productive sectors laid off workers. So far, that has not been the case, and unit labour costs have surged (ULC = wage growth – productivity growth)

SpareBank 1 MARKETS

Small businesses' are not optimistic, cannot find labour, are hiking prices, big time

They plan to hike wage as well. Something for the Fed to chew on?

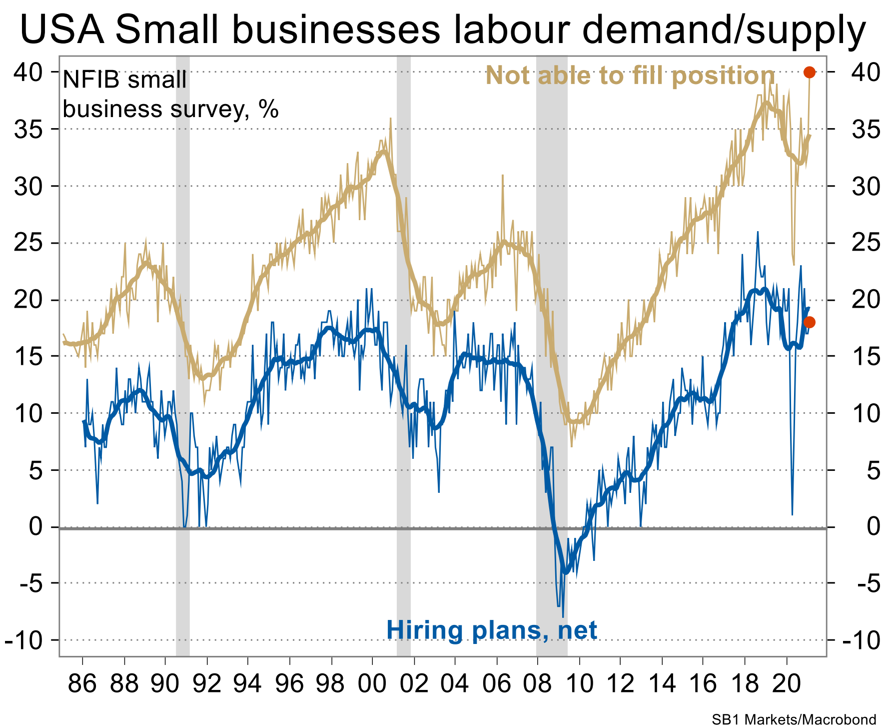


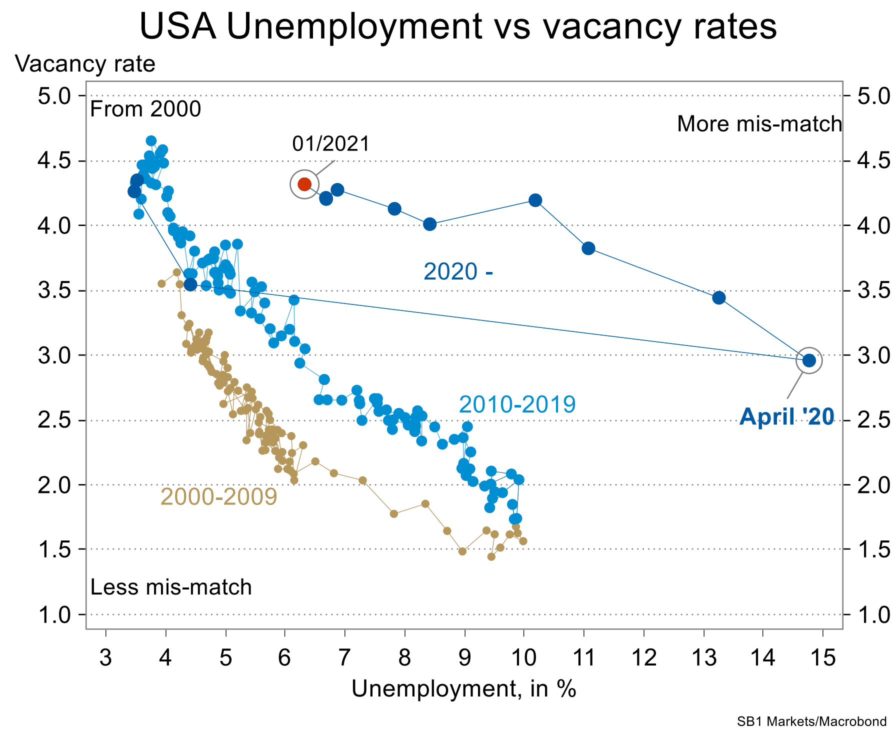


- The **NFIB optimism index** rose to 95.8 in January from 95.0 (expected 97). Softened Covid-restrictions, vaccinations and stimulus checks seems to have improved the outlook for small business owners. Still, businesses are less optimistic than normal, the business conditions are expected to worsen, as are own sales! The contrast to ISM/PMI is not unprecedented but striking
- Check this list, just before the HUGE fiscal stimulus is arriving:
  - Companies are reporting very aggressive **hiring plans**
  - They have never ever been more **unable to fill vacant positions**
  - They **plan to lift wages** much faster than normal
  - Barring June 2009, there hasn't been more companies planning to **increase selling prices** than since 1982!

Small businesses not able to fill vacant positions, despite a 'higher' unempl. rate

Official stats confirm many vacancies. Has the Beveridge curve shifted outwards, again?

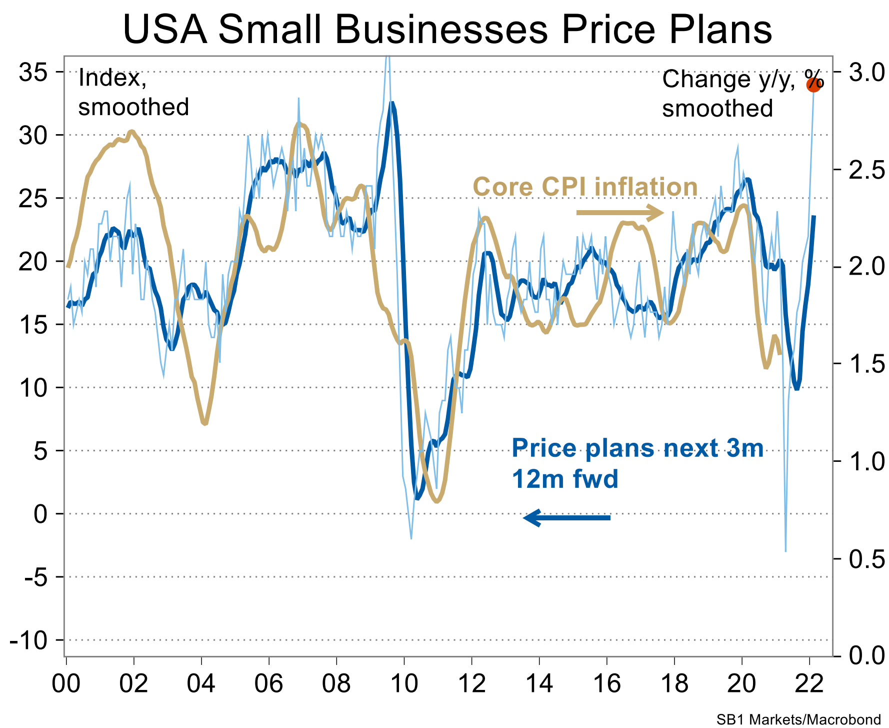


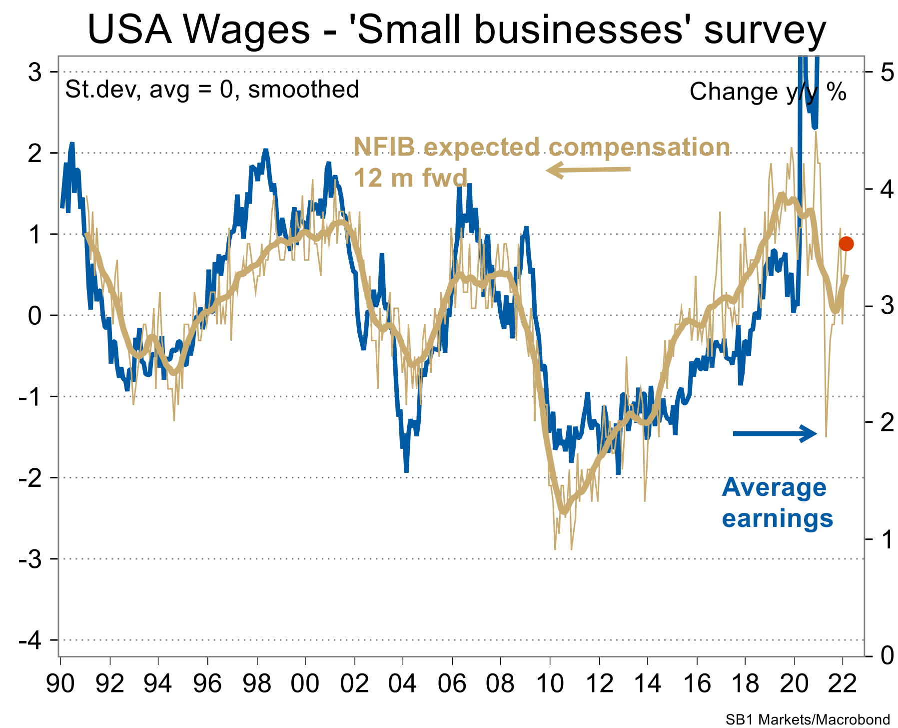


- The number of unfilled vacancies is also high, according to official statistics, *more next some few pages forward*
- Lack of transport, stay at home orders, closed schools - all due to the corona crisis – may no doubt partly explain that companies are not able to fill vacancies. If so, fresh supply of labour will soon be released – and businesses will be able to fill their vacancies.
  - » We would not have put all our bets on this hope. Most likely, this survey will be extremely interesting to follow in the coming months

Companies expect to lift prices sharply and to increase wages more than normal

Price plans continue upwards to the highest in 12 years (and before that 39 years…)

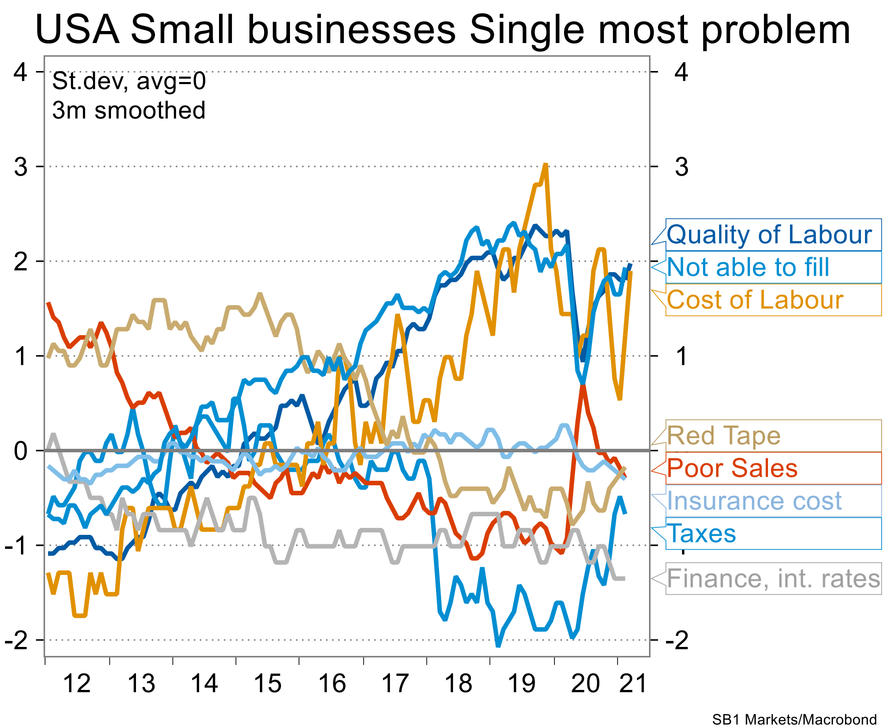


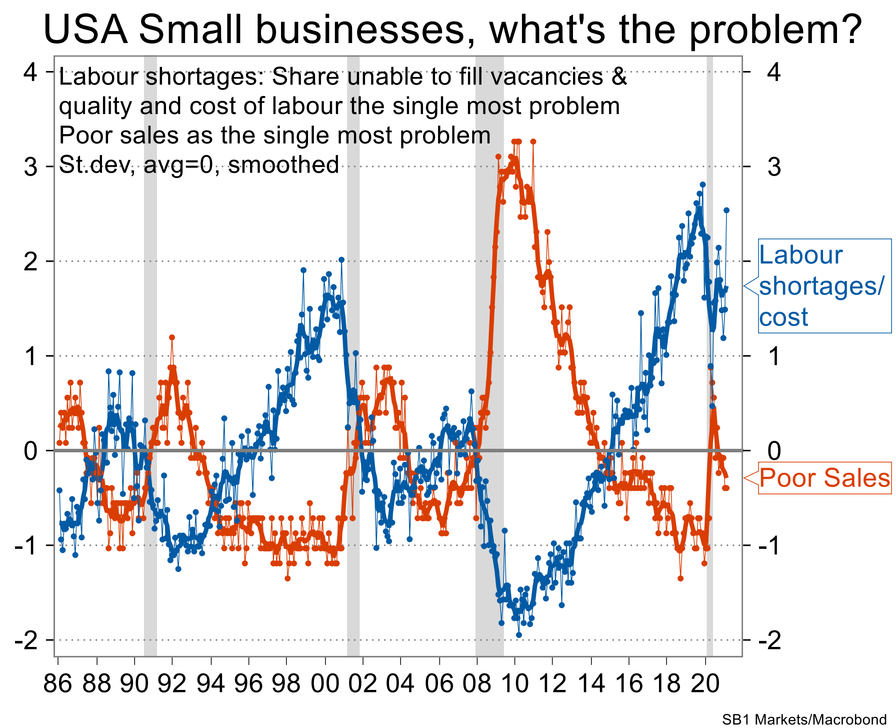


- The SMB are planning to increase their selling prices at a very unusual pace, the highest since June 2009 (a strange timing) and before that not since 1982. Higher gasoline prices may explains some of these expectations, but they are extreme!
- The expected increase in wage compensation is above an average level in Feb, and has increased for the 3rd month in row – still not signalling really high wage growth

Availably/quality & cost of labour is once again the biggest problem

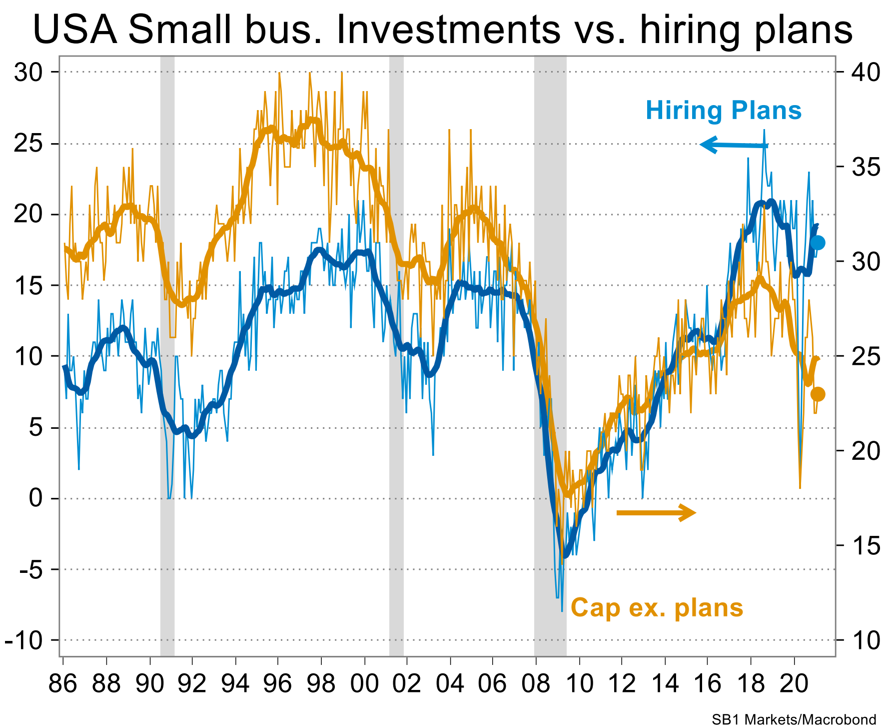
Fewer than normal are complaining about poor sales! (Just before a 9%-of-GDP fiscal boost arrives)





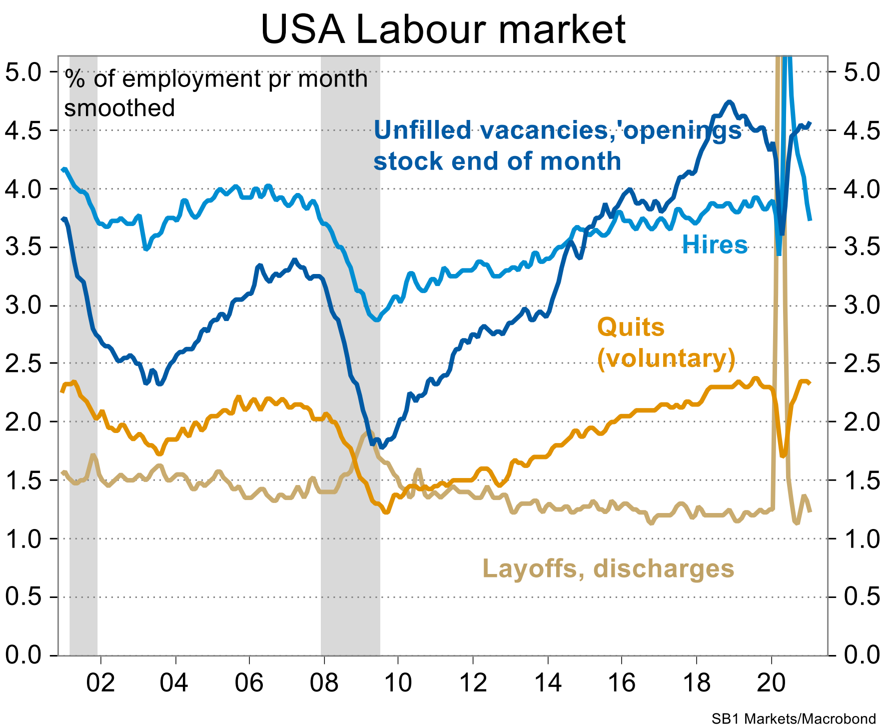
- Incredibly many companies are reporting that **cost of labour, ability to fill vacancies**, and **quality of labour** are more serious challenges than normal! In sum, almost unseen (it was slightly worse during the 3 months before corona hit, but that's all)
- Unusually few companies are complaining about **finance/interest rates** and about **taxes** (although tax concerns increased post Biden win, so far without any taxes being increased, as far as we know)
- And fewer companies than normal are complaining about poor sales

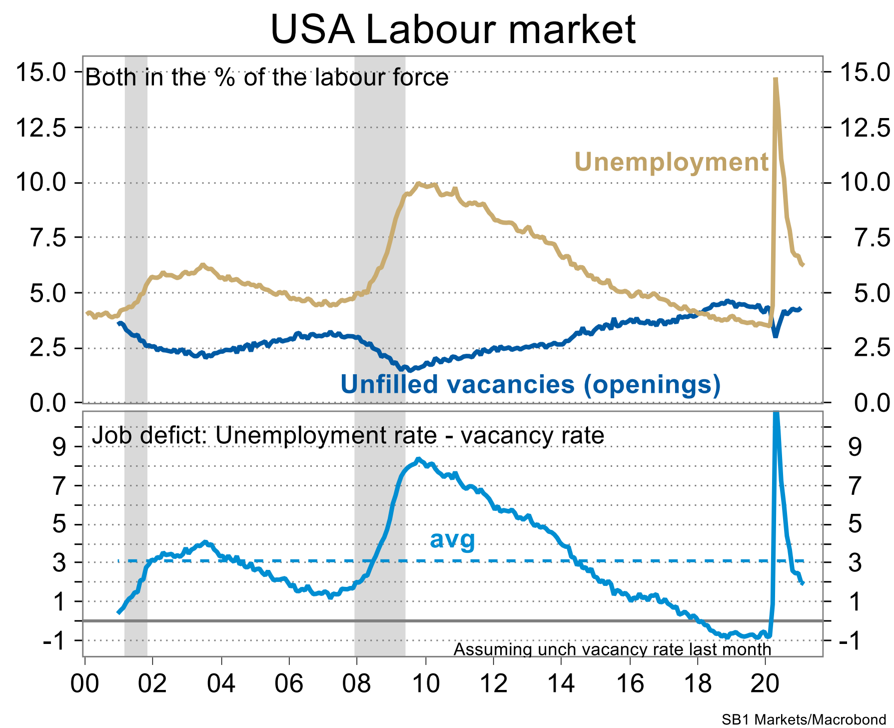
Small businesses: Investment plans are still muted (as overall optimism)



Tight labour market: More unfilled vacancies, brisk hiring, and many volunt. quits

And few layoffs. According to the JOLTS report

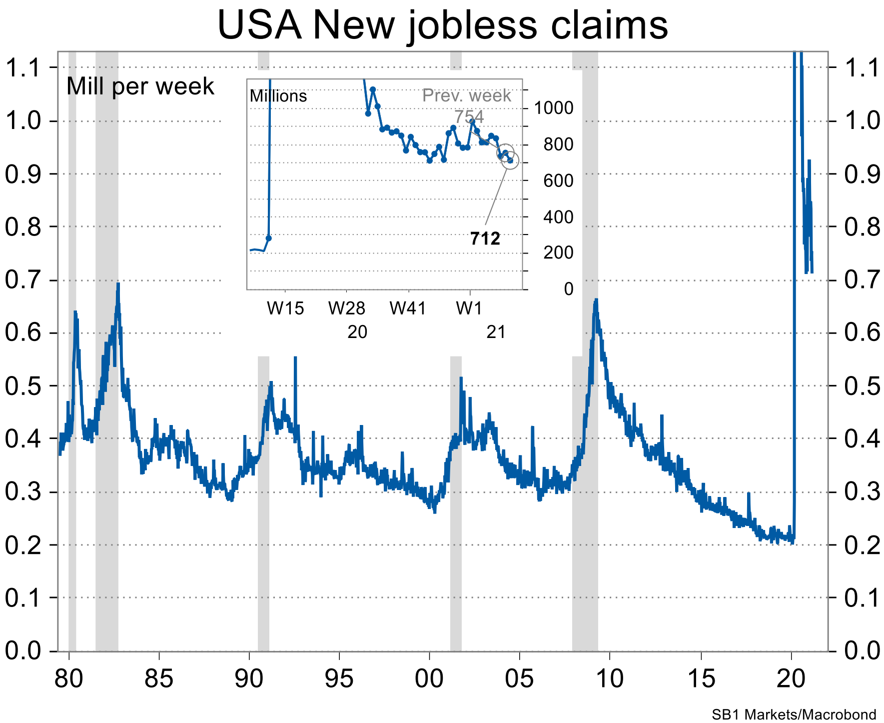


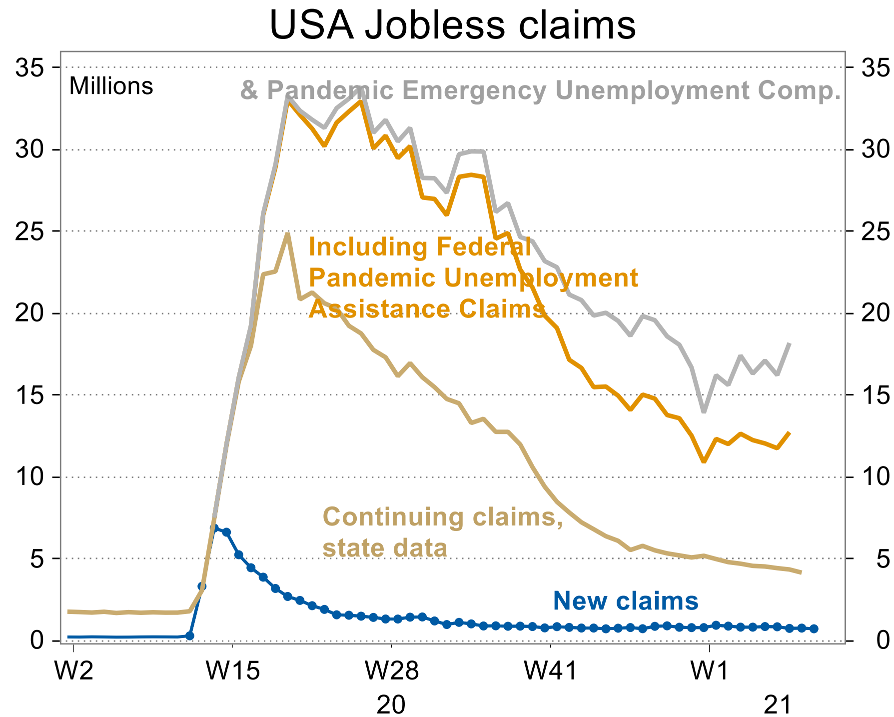


- The **difference between unemployment and unfilled vacancies** has fallen to below an average level, signalling a tighter labour market than normal (but not a really tight labour market)
- Some more layoffs in Dec but not many, at least not vs. the setback in the restaurant/bar sector

~~Are n~~New jobless claims on the way down again~~?~~!

Still incredibly many new jobless claims each week but the trend is now downwards!



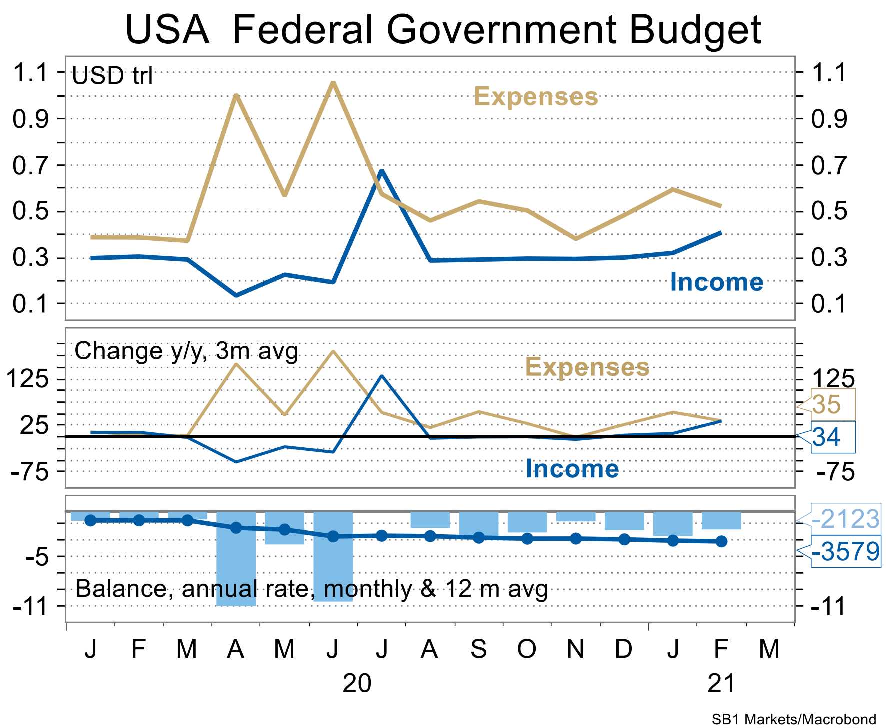


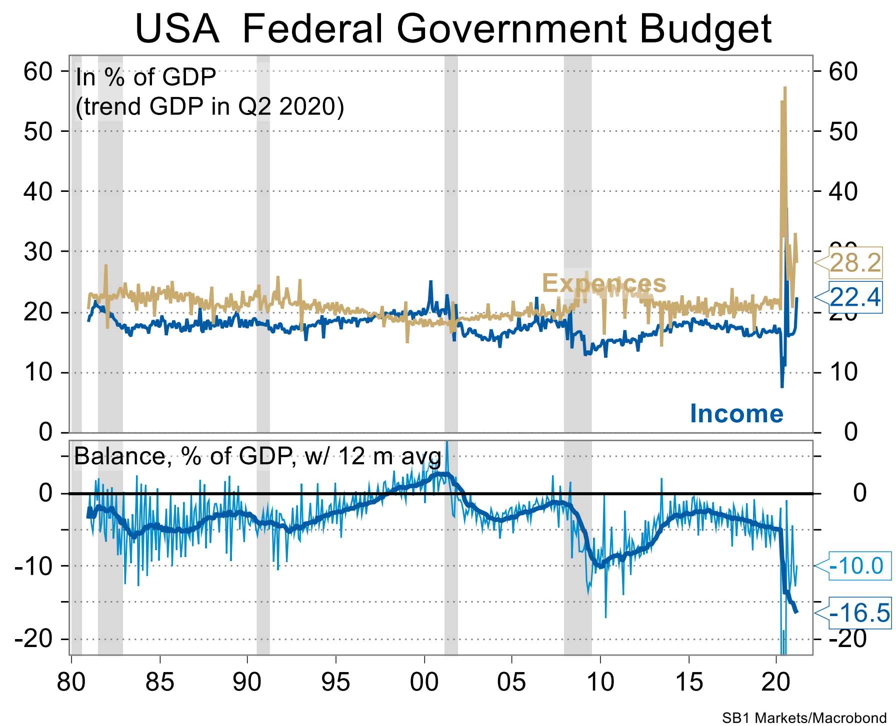
- New claims down 42' to 712' last week – but still not lower than last autumn – and they are still at an extremely high level
- Given
  - » A low number of layoffs (check previous page)
  - » Decent growth in employment in February, as restaurants started to re-open
  - » Small companies are reporting that they are more unable to fill vacancies than ever before!
  - » Households reporting that jobs are quite easy to get
  - » The unemployment rate is rather low at 6.2%

<u>It is somewhat strange that the flow of new jobless claims are far higher than ever before (except last spring). Are jobless benefits too attractive??</u>

Deficit surpassed USD 1 trillion

Deficit projected to hit USD 2.3 trillion for the fiscal year (Biden's 1.9 trl package not counted for)

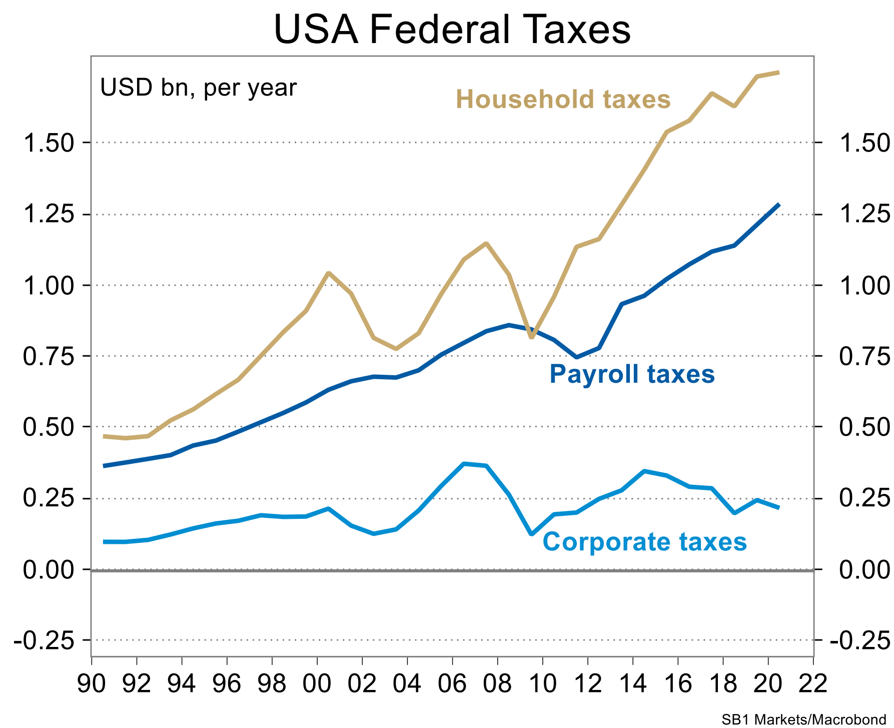


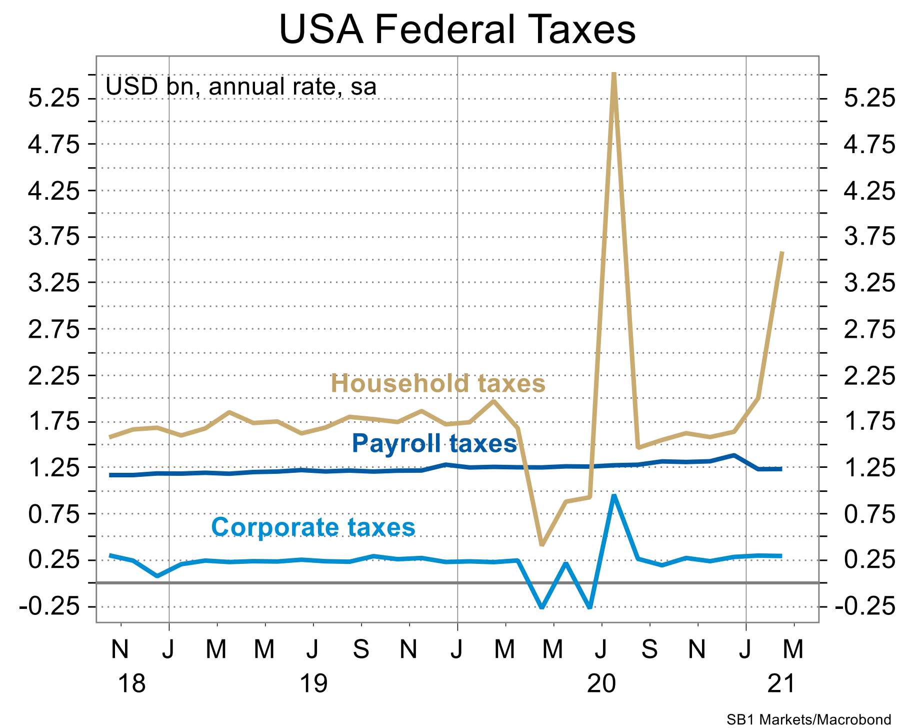


- **Federal expenses** were USD 559 bn in Feb. Federal income was 248 bn, or 44% of the expensens. The deficit was at 2.2 trl.
  - » President Biden's stimulus package at USD 1.900 (9% of GDP) was passed by the House and the Senate last week, and the budget deficit will 'explode' even if some of the actual spending is stretched out over time, into H1 next year – in an economy were lack of demand is not the problem. New spending proposals are coming, infrastructure and 'green deal', at perhaps USD 2.000, >9% of GDP, though over several years
- **Federal spending** equalled 28% of GDP in Feb far higher than the 'normal' 21-22%. **Revenues** equals 22% GDP, far higher than normal (it will return to 17%, household taxes were temporarily high in Feb) – and the gap is of course huge

A huge lift in household taxes, will return to normal next month

Corporate taxes are back to a pre-corona level

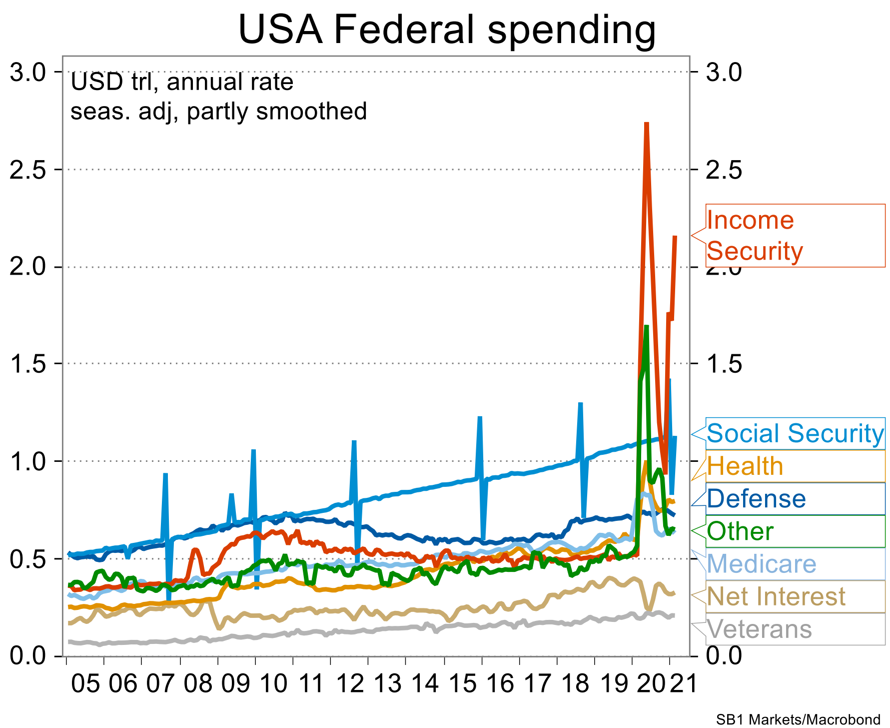


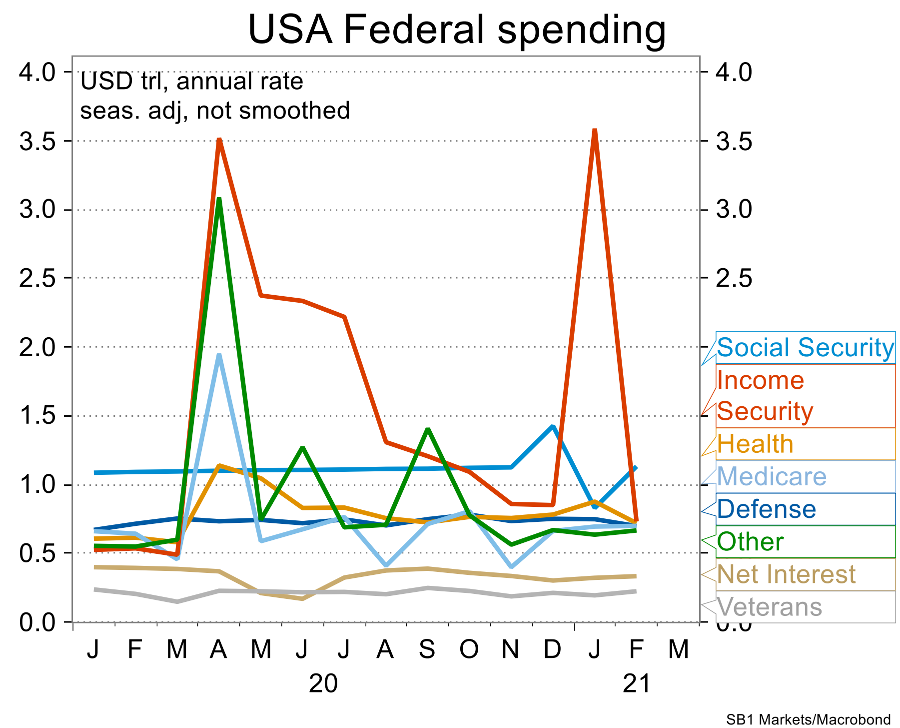


- Households taxes are volatile due to timing of payments

Federal spending sharply down in Feb, the stimulus checks were paid out in Jan

Another hike in transfers to households about to come as Biden's **1.9 trl** package is distributed

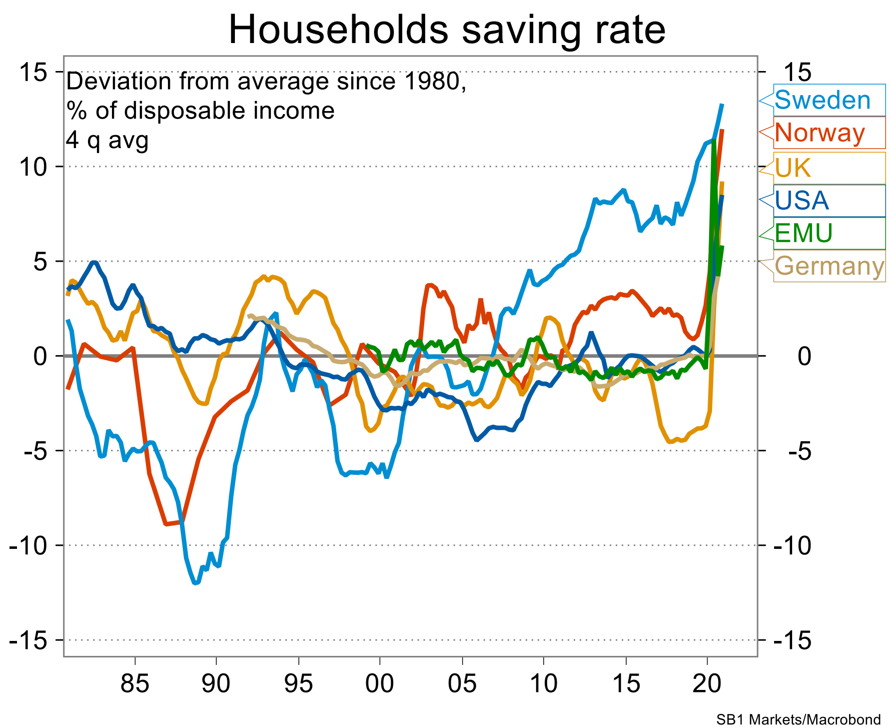


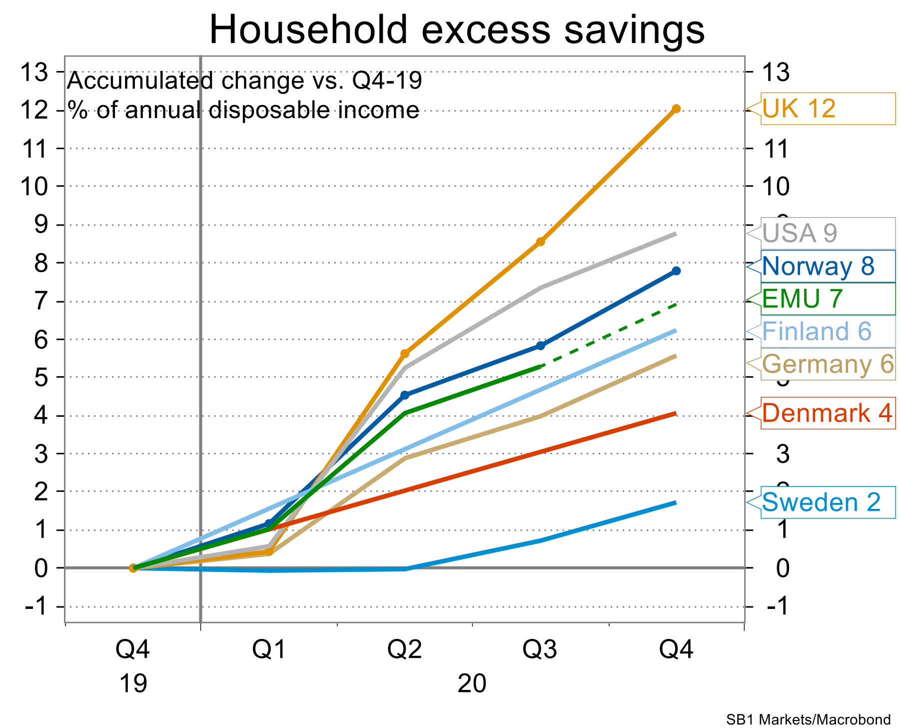


- The cost for a USD 1,400/person cash support for individuals making under USD 75,000/year (150,000/year for couples + extras for dependents in the household) will cost in the vicinity of USD 400 billion
- The rest of the package will go to increased unemployment benefits, larger child tax credit, vaccine distribution, health care, food assistance programs, support for businesses, USD 350 billion to states and local governments, and USD 310 billion to help schools reopen after the pandemic

The Wall of Money: Household savings up everywere

Most i UK, the least – and just marginally – in Sweden. (But saving are very high here!)





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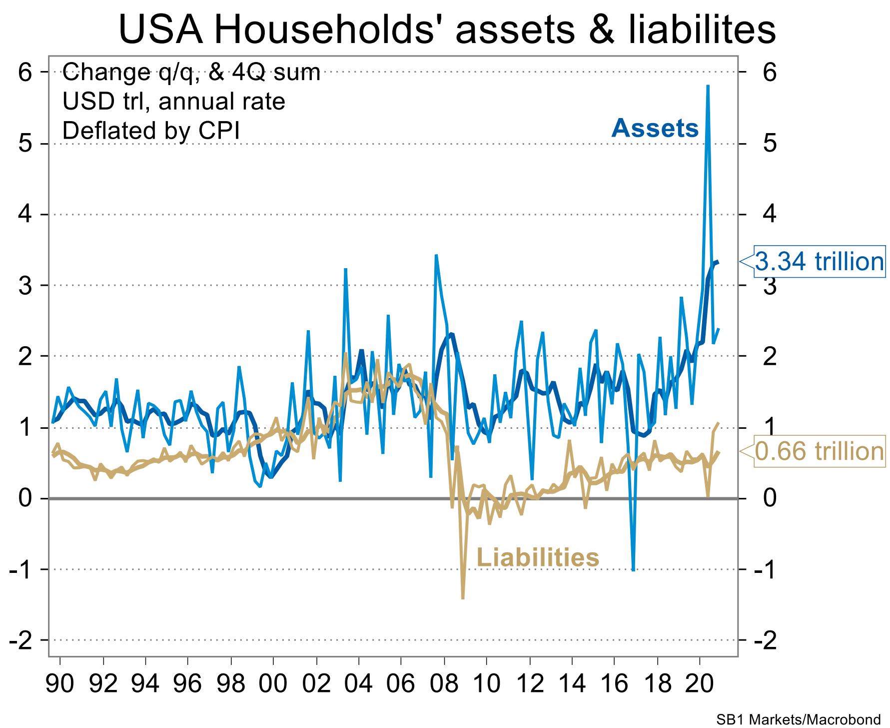
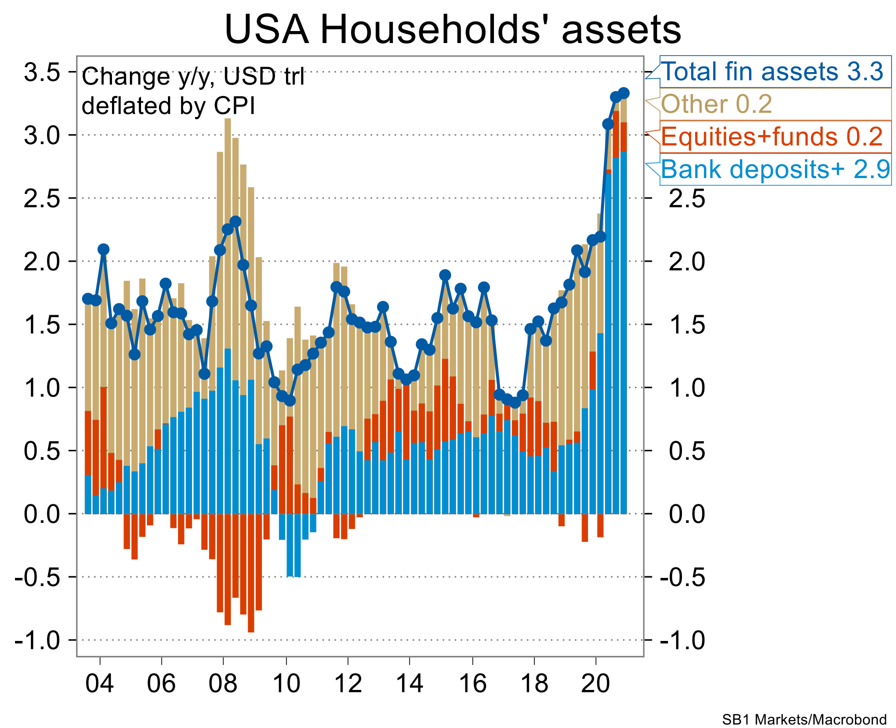
Flow of funds: Where are the money saved (or more precise, invested)?

US: Debt is not repaid (it's the opposite, debt growth has accelerated sharply). 90% in bank deposits!

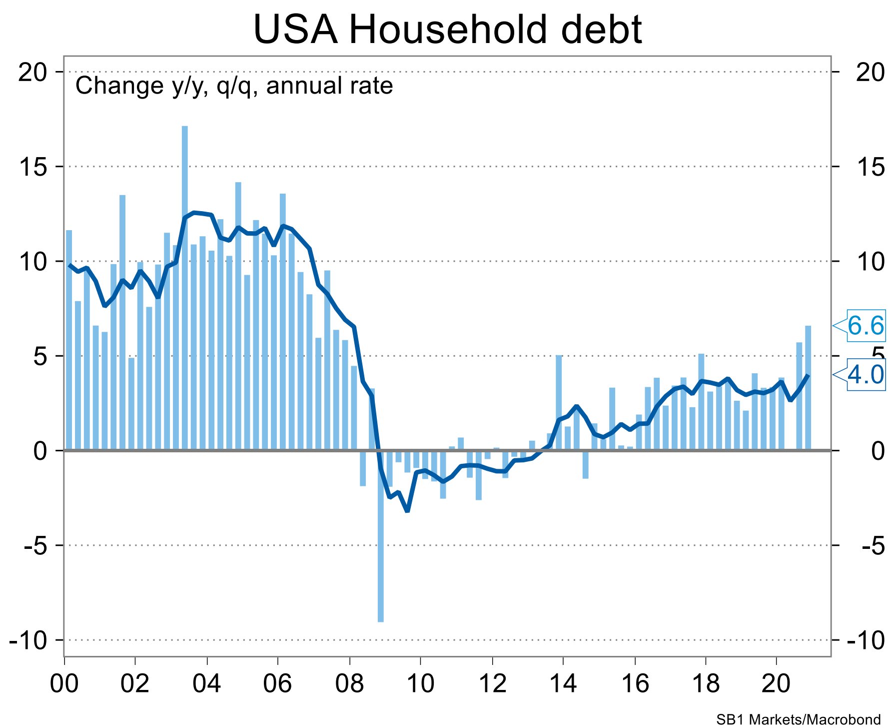


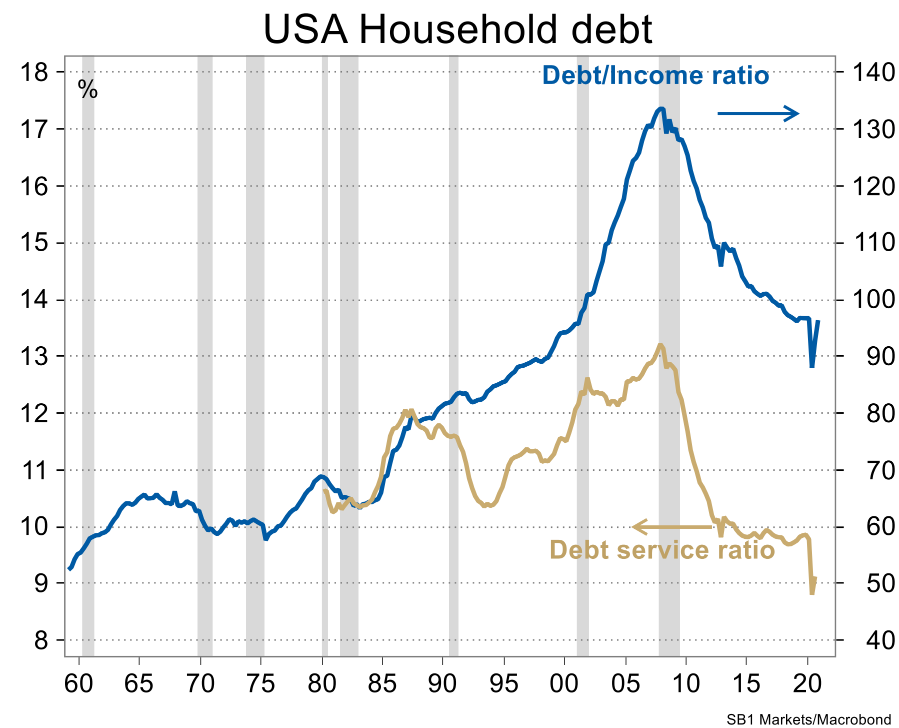


- Households have become much more liquid, at least on average during the pandemic
- Households have invested 6% of the increase in their financial assets in equities over the past year
  - » Net of buy-backs, that is. (However, GameStop has not bought any shares back, as far as we know)
- How much of the excess savings in bank accounts will stay there, how much will be spent?? That will decide the fate of the US economy (and Federal Reserve's current policy stance)

Household credit growth is accelerating, but still not high

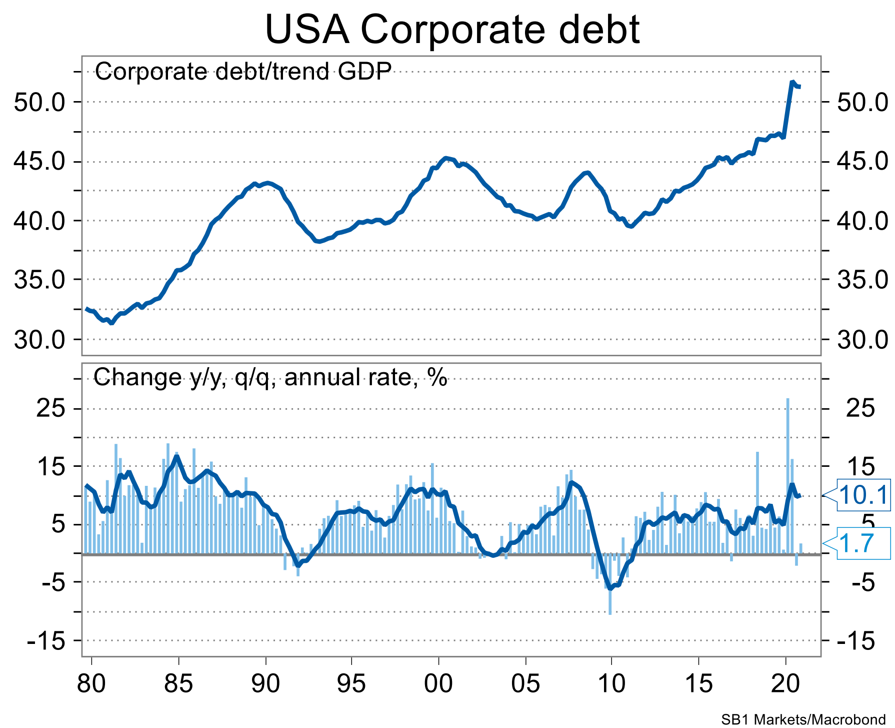
And the debt/income ratio is far below the pre-financial-crisis level

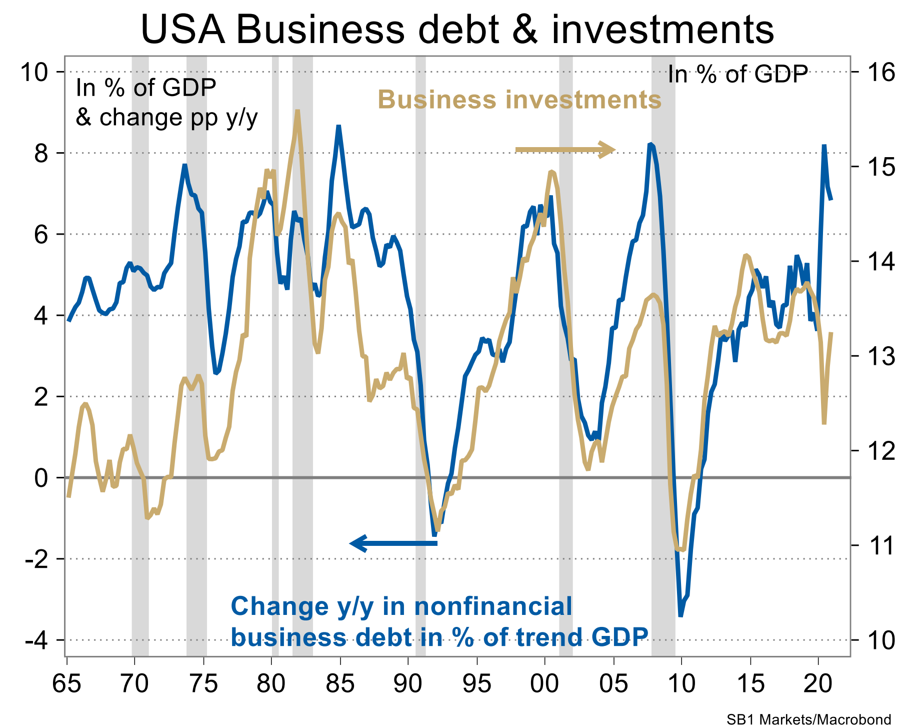




Corporate debt growth has slowed, following the Q1 hike

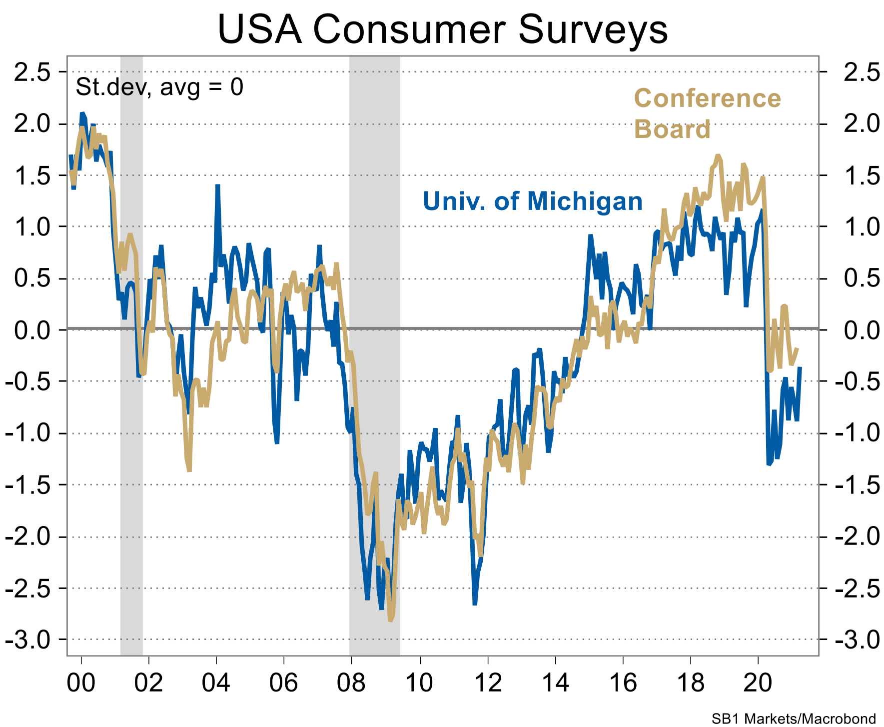
However, the debt level is very high. Much can be said but higher business investment is not unlikely

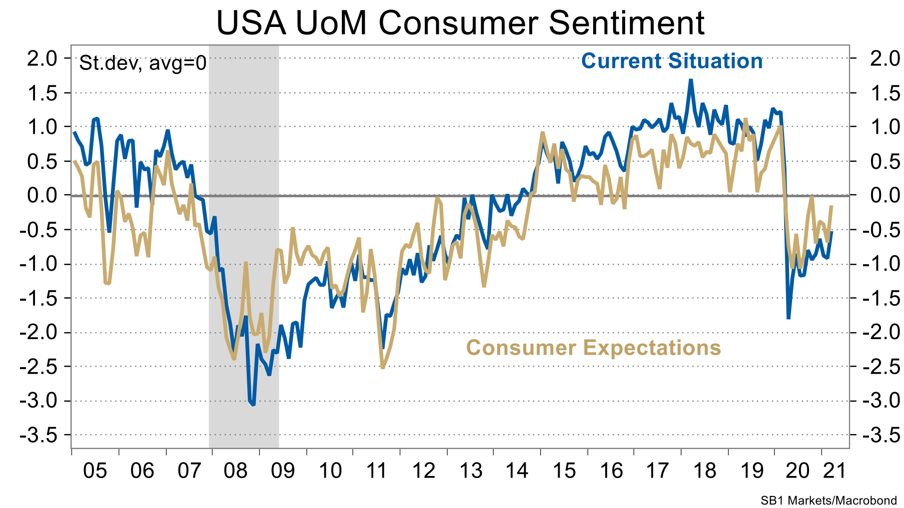


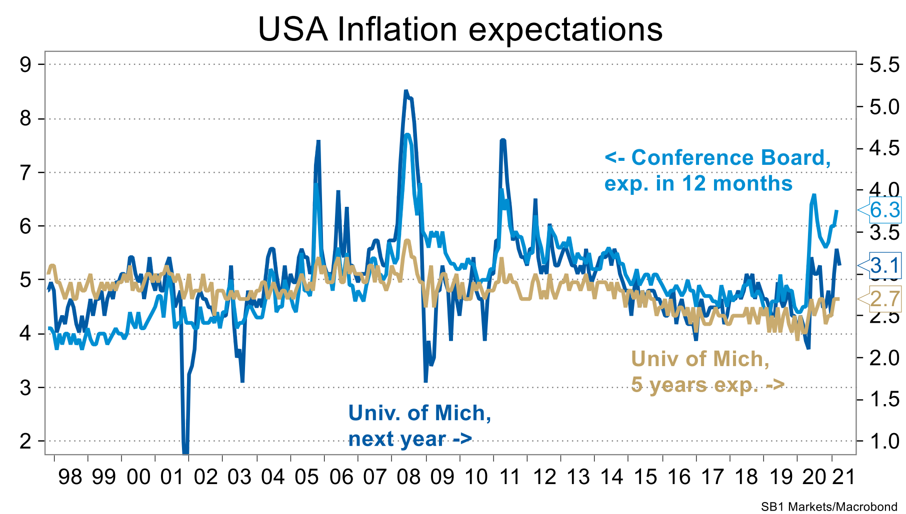


Univ. of MI: Consumer sentiment sharply up in early March, best since Pre-covid!

The feeling of joy is understandable: More vaccines and jobs. Less heath worries, checks in the pocket



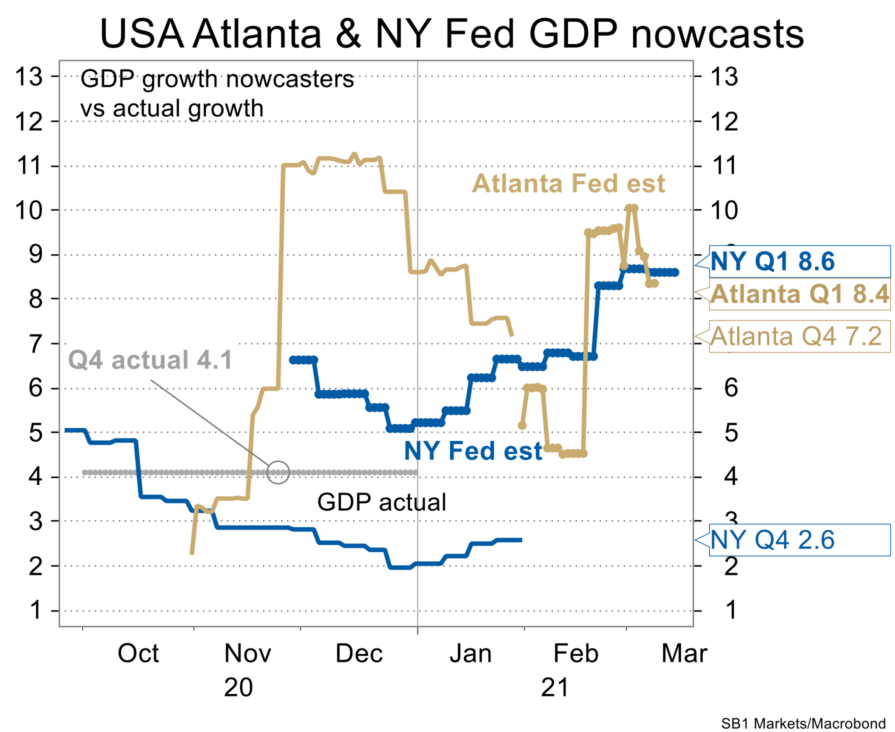


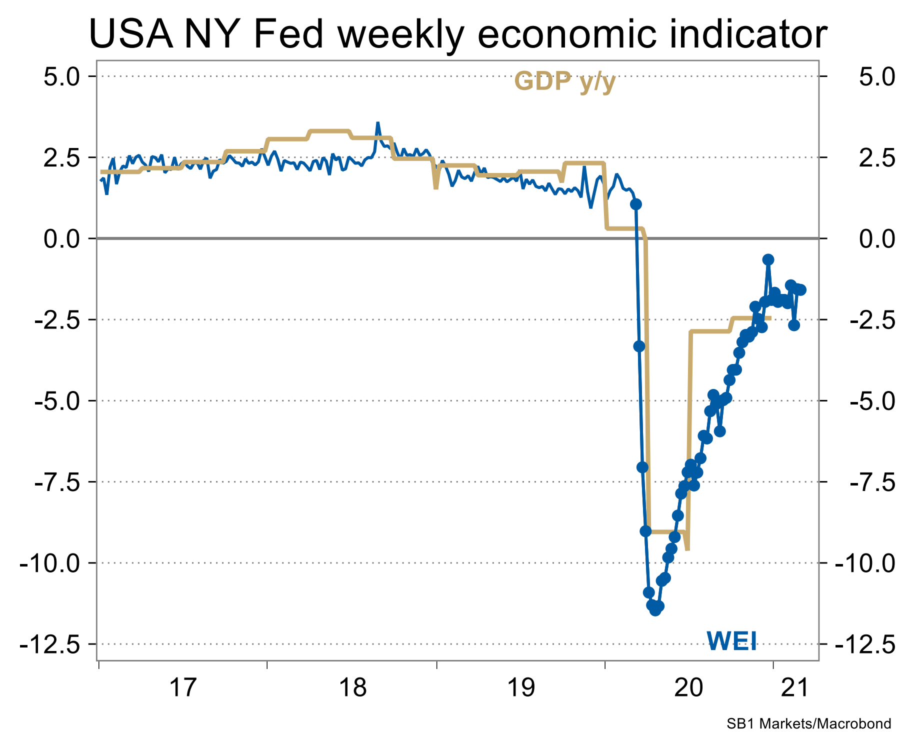


- **The UM sentiment index** rose to 83 in March from 76.8 in Feb, expected just up to 78.5! The lift equals >0.5 st.dev. The level is the highest since March last year but still below average
  - » Even Republicans became a tad less pessimistic in March.
  - » Both household's assessment of the **current situation**, and their **expectations** rose sharply
- **Inflation expectations** are have increased recent months, and are far above average levels, especially for the coming year

Nowcasters point towards 8% Q1 growth

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

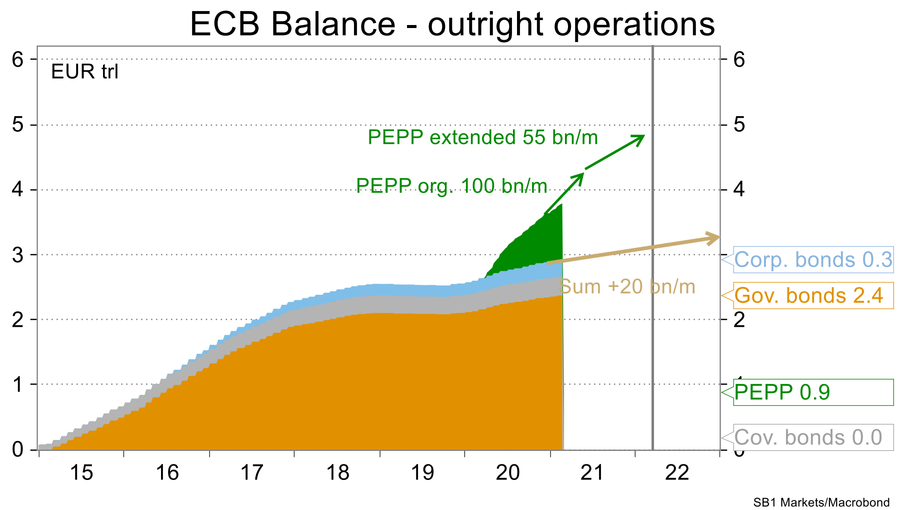


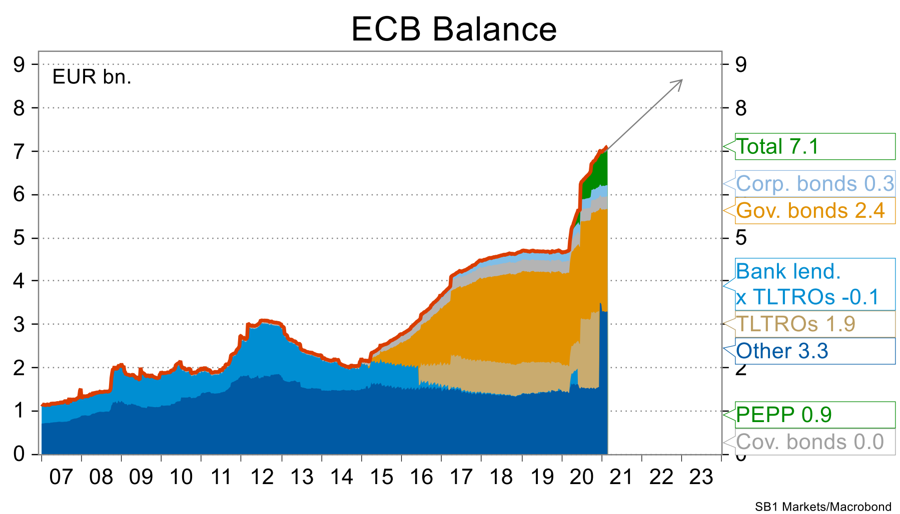


- Atlanta Fed overestimated growth in Q4, NY Fed underestimated the real outcome
- Alas, no model is perfect ☺

ECB will accelerate the bond buying program, but not control yields, of course

The PEPP programme was not extended, but ECB promised to accelerate buying

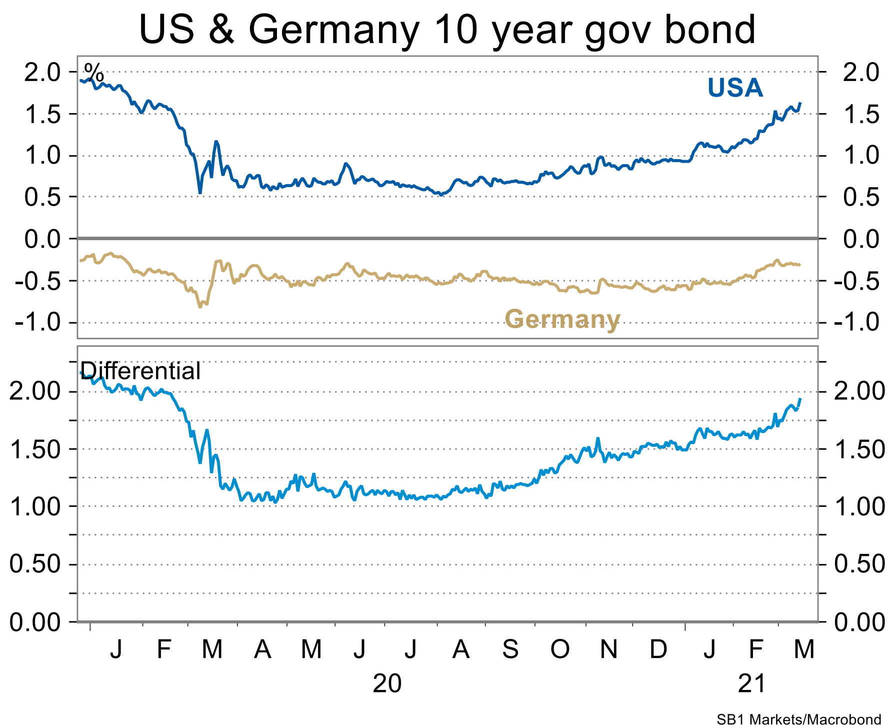


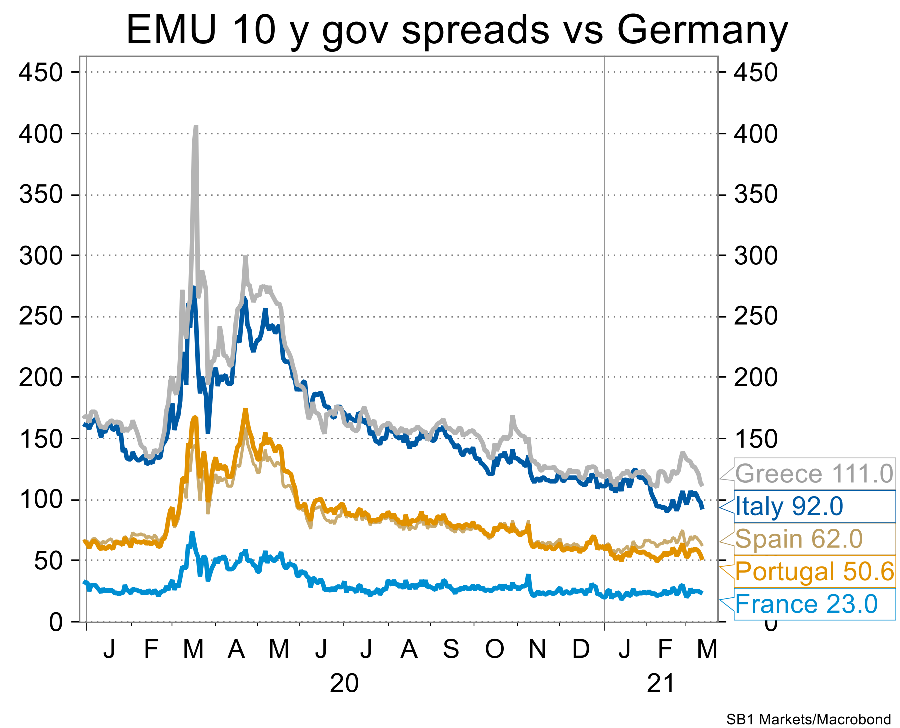


- **Programs not expanded, but more QE, now**
  - » The ECB recognises that the covid crisis will make a another dent in GDP in Q2, but lowered its 2020 EMU GDP growth forecast by just 0.1 pp to 3.9%, perfectly in line with OECD's estimate
  - » The ECB did not introduce any formal Yield Curve Control, but Lagarde & co pledged to prevent a premature tightening of financial conditions
  - » PEPP (Pandemic Emergency Purchase Program) was initiated at EUR 1.35 trillion, but was extended in Dec, to 1.85 trl, and the bank should buy government bonds equalling 100 bn/month. The bank has still EUR 1.0 trl left to buy. The bank has bought less than promised but the bank announced that it will buy significantly more the coming 3 months
- Bond yields fell, especially in the periphery

US yields up, German not. And Italian and other periphery yields fell

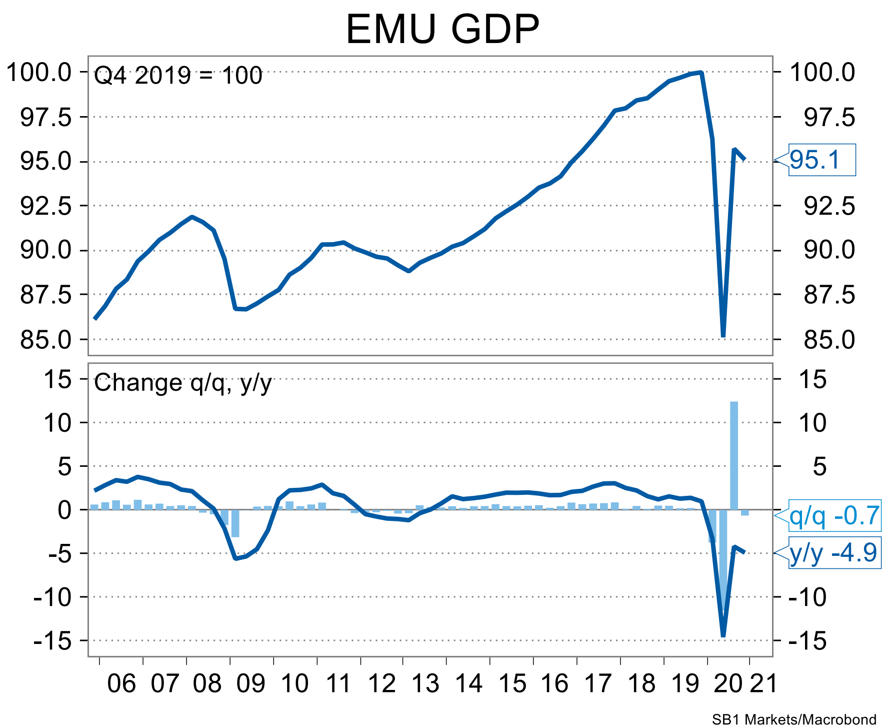
Alas, the ECB probably feels it succeeded

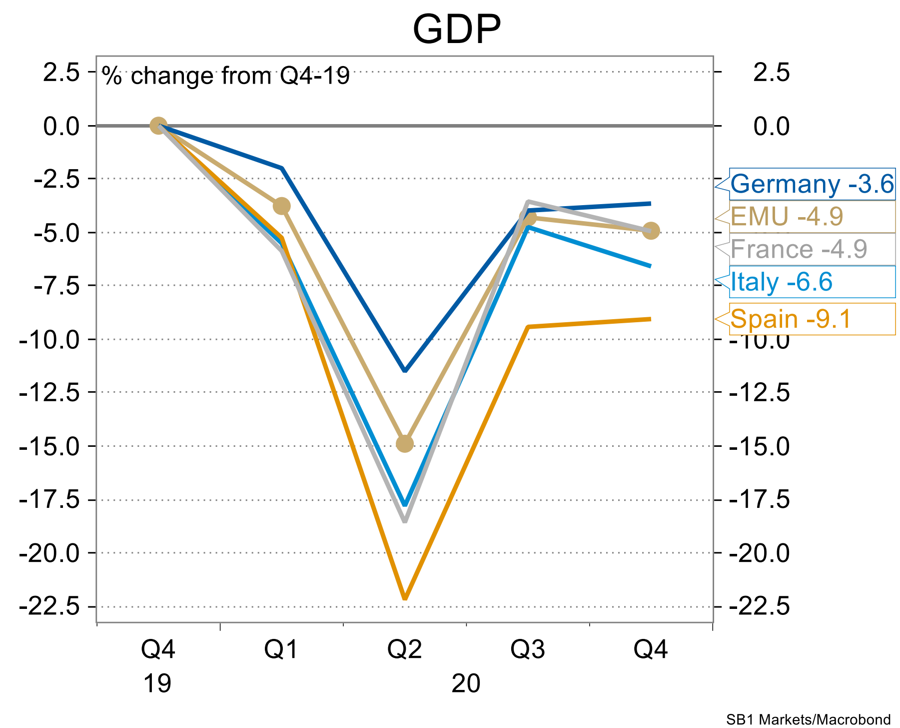




GDP confirmed down 0.7% in Q4 (as the initial estimate)

Euro Area GPD fell by 6.6% in 2020, and GDP is still 5% below the pre-corona level

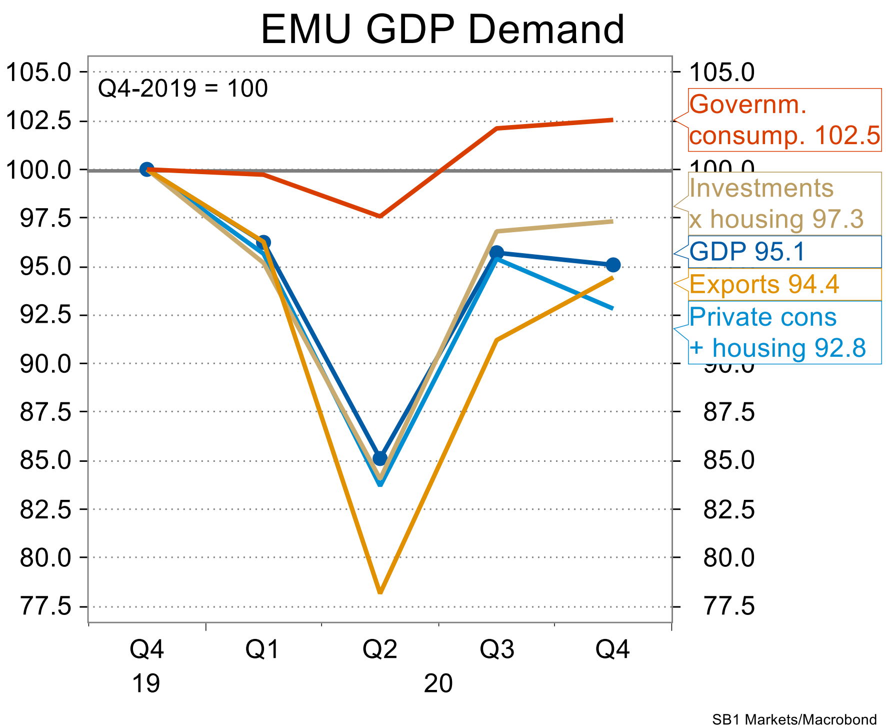


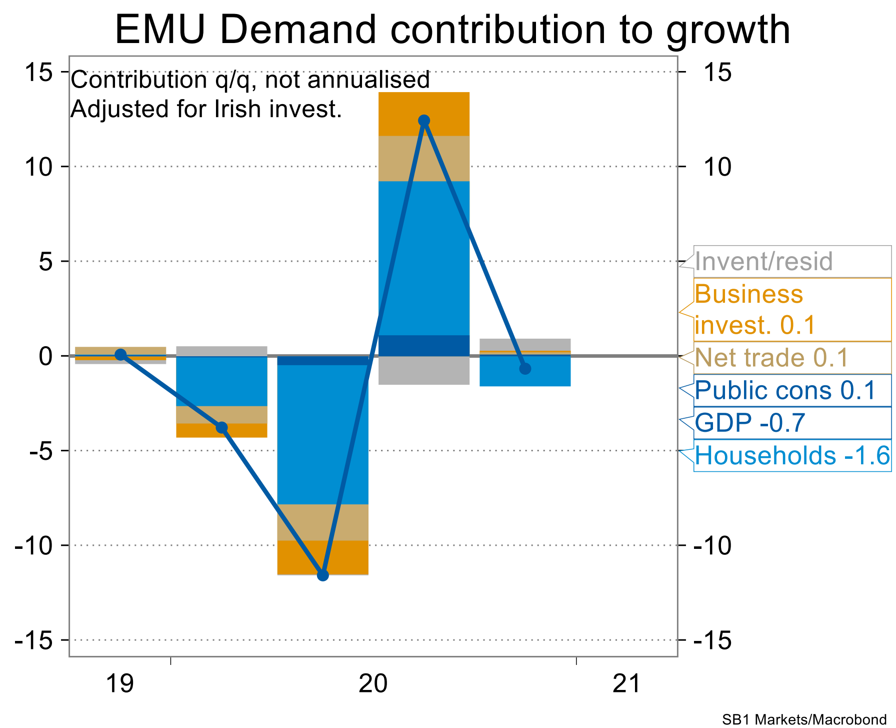


- GDP grew by 0.3% q/q in Germany, 0.4% in Spain, and GDP decreased by 1.4% q/q in France, -1.9% in Italy, and -2.7% in Austria
- France, Germany, Spain and Italy were down 3.6% - 9.1%% from Q4 ‘19
- Household consumption and the current account both contributed negatively in Q4, by -1.6% and -0.1% respectively. The other components contributed on the upside

Household demand down in Q4 – and is down almost 9%

… as households are prevented from going shopping, visiting restaurants





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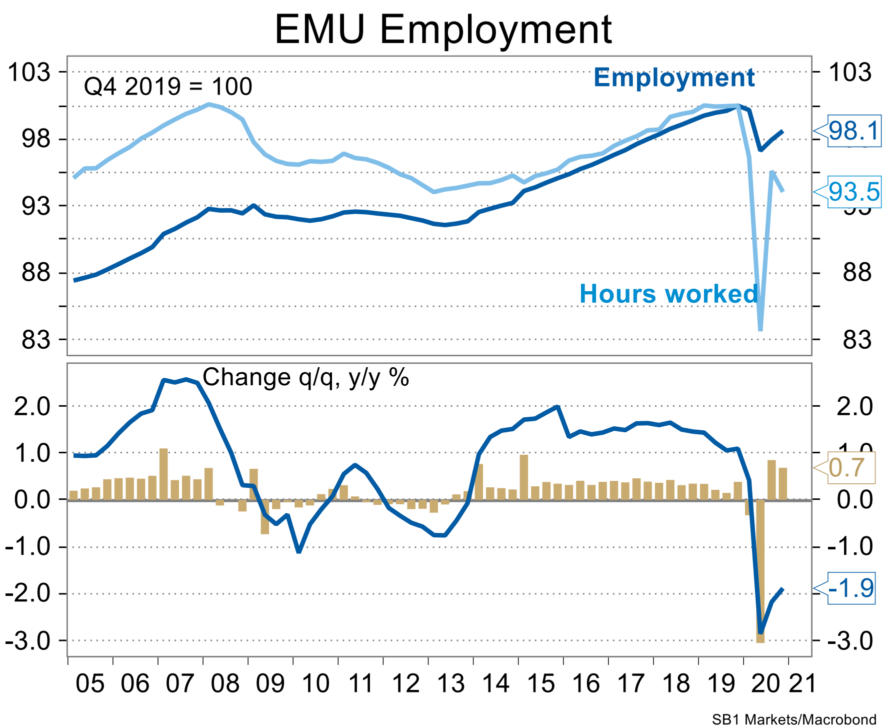
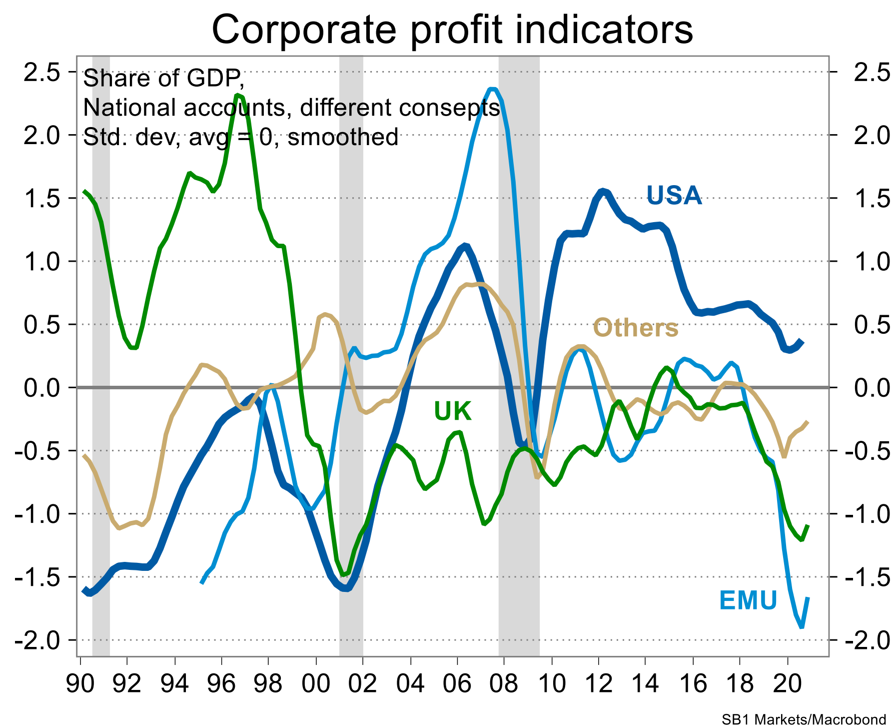
Employment up in Q4, down 1.9% y/y, hours worked down 6.5% y/y

Public measures (wage subsidies) makes employment data somewhat irrelevant

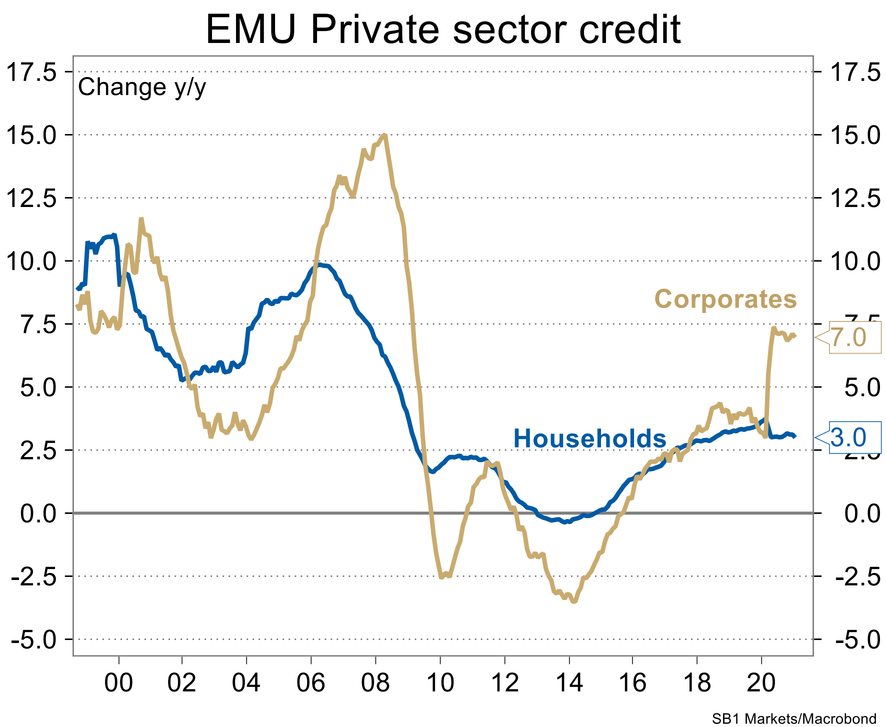


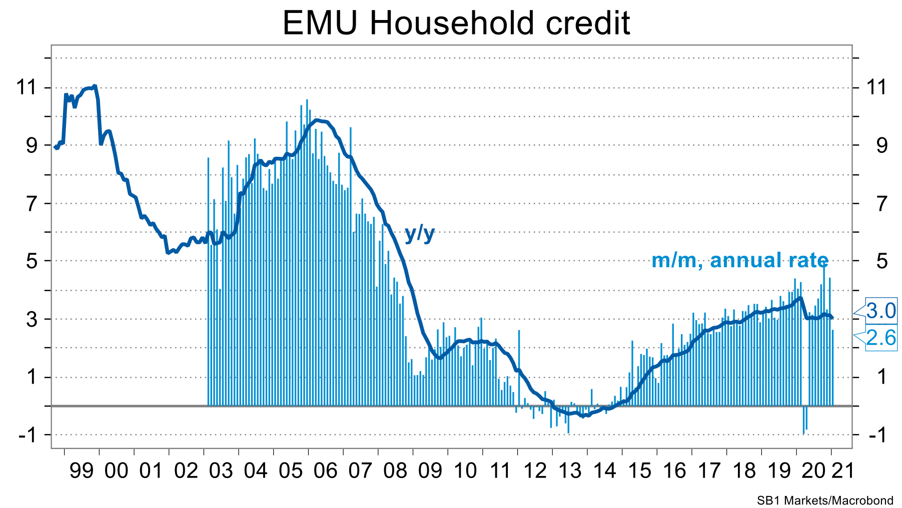


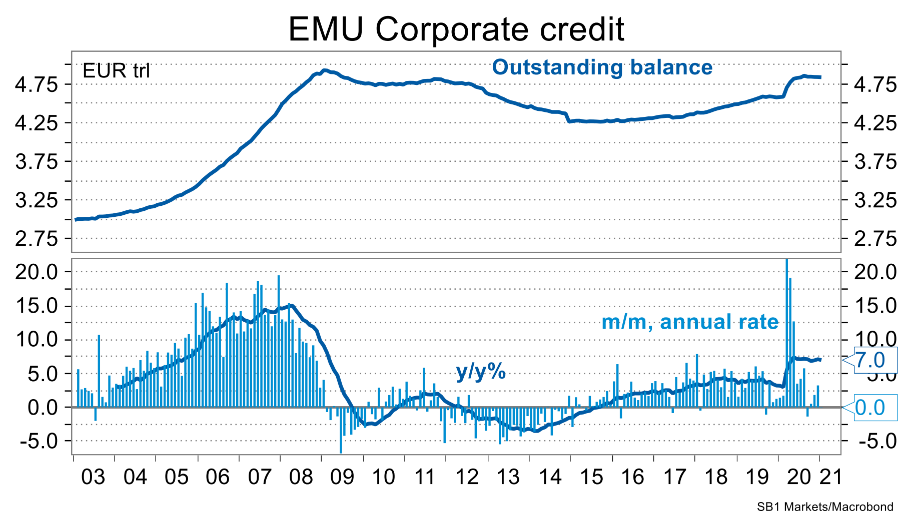
- Employment was up 0.7% q/q in Q4, while hours worked were down by 1.6%
- The 6.5% hours worked data point is the best to assess the downturn at the labour market
- Our EMU profit indicator (which is rather rudimentary), signals a deep decline in profits last year
  - » However, some important data, that are normally not important but may be so now, are missing from the calculation

Households are still borrowing – the business sector is cautious?

.. or have borrowed enough for a while – debt is up 7% y/y





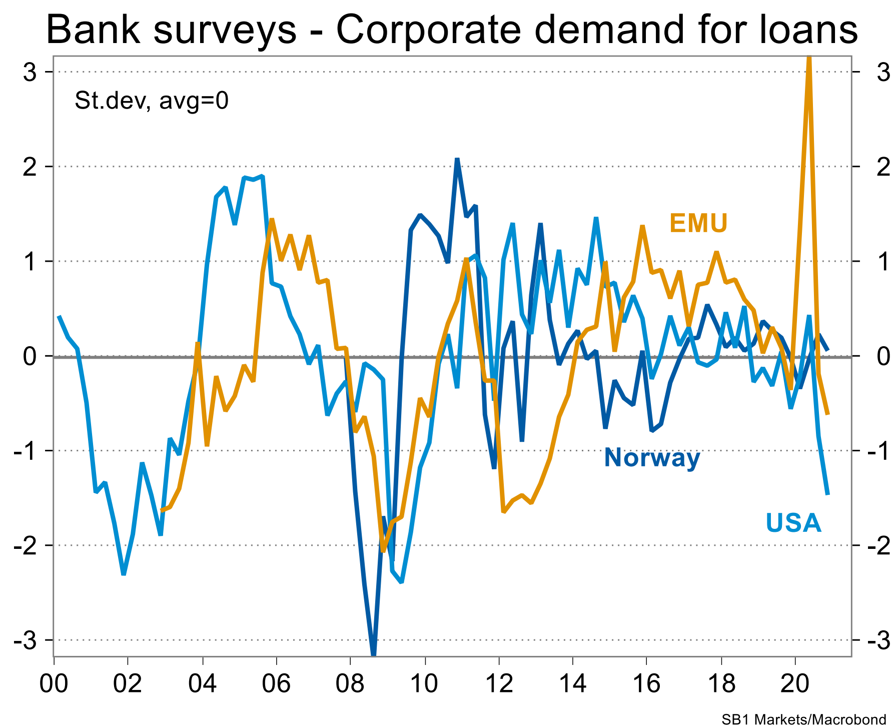


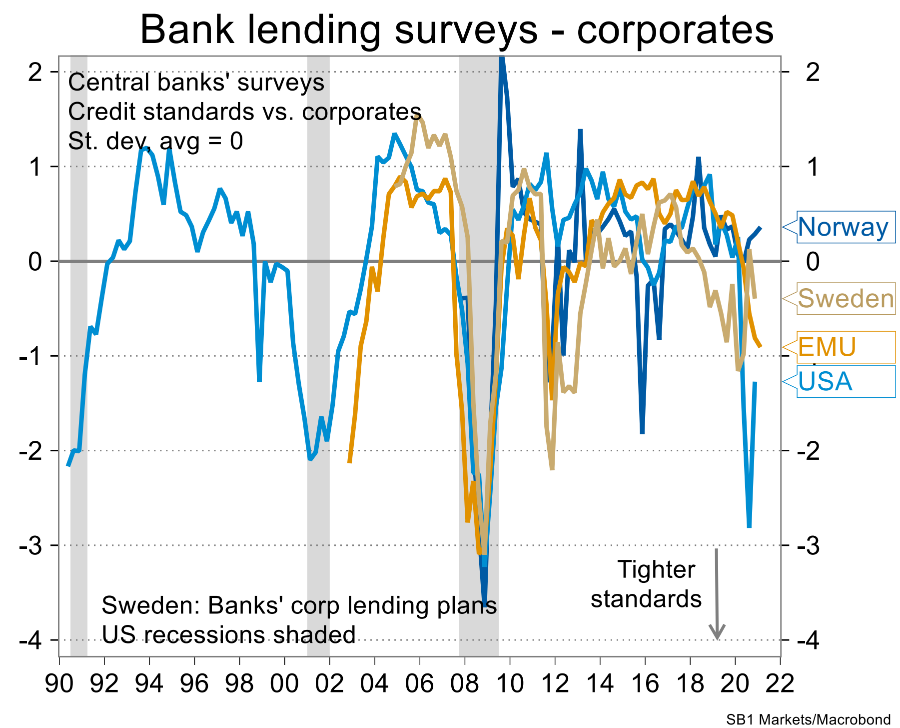
- During the spring the corporate sector increased its debts by 3% – 4%, as a part of Covid support programs
  - Banks reported low demand from the corporate sector in the last lending survey, and credit standards were tightened (even if spreads in the credit market narrowed last year)
- Deposits increased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

SpareBank 1 MARKETS

EMU banks are reporting weaker corporate demand, and are tightening

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



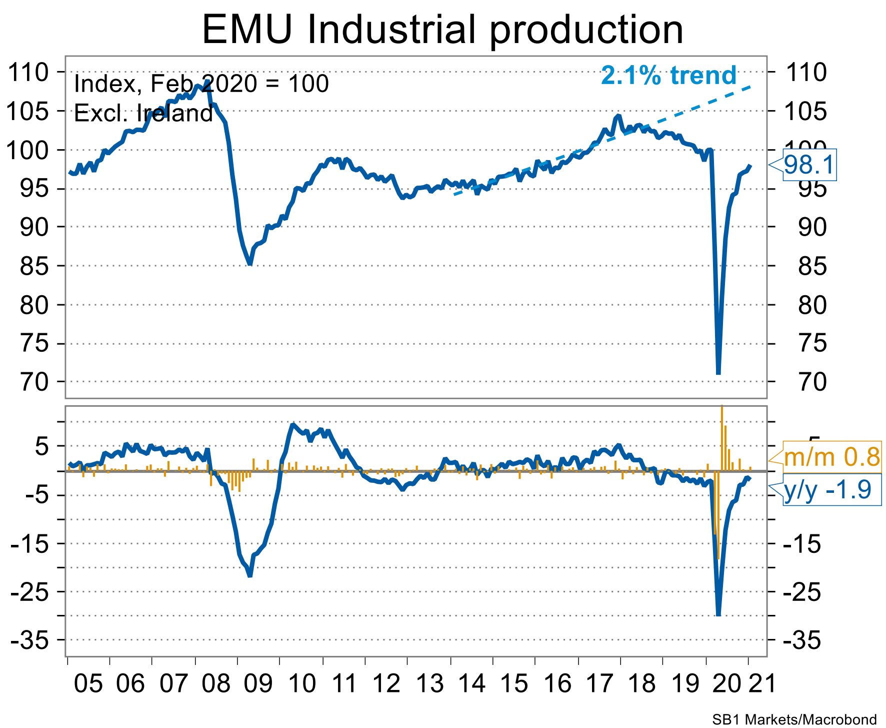


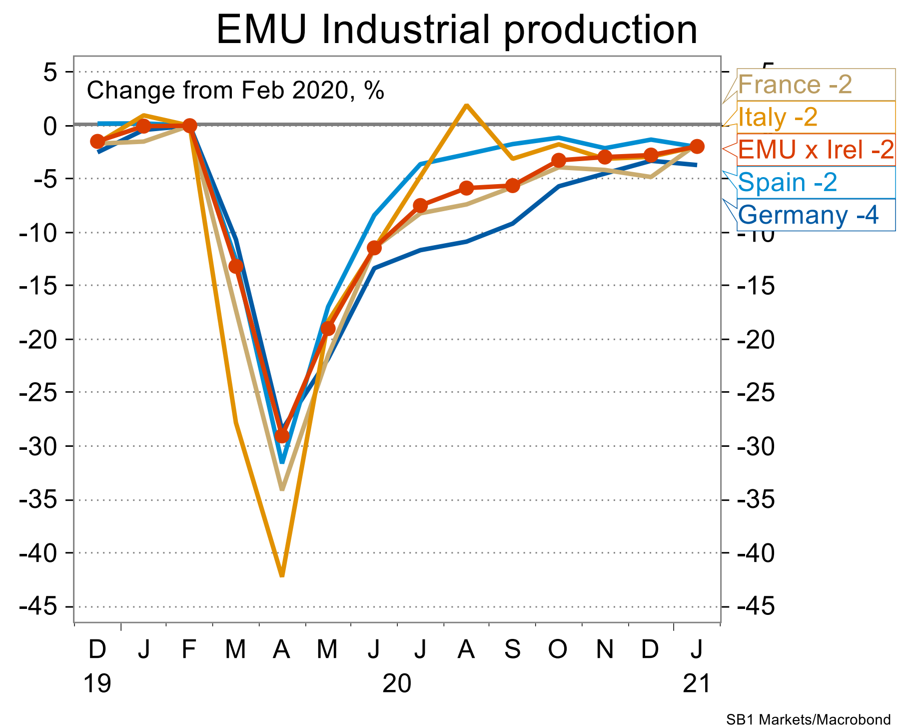
- Less need for credit for a while among Euro Zone businesses, following last spring’s hike?
- Banks in the US are reporting weaker demand, and are tightening more

SpareBank 1 MARKETS

Manufacturing production up 0.8% a tad better than expected

Production is 1.9 below the pre-pandemic level. The PMUs signals strong growth..





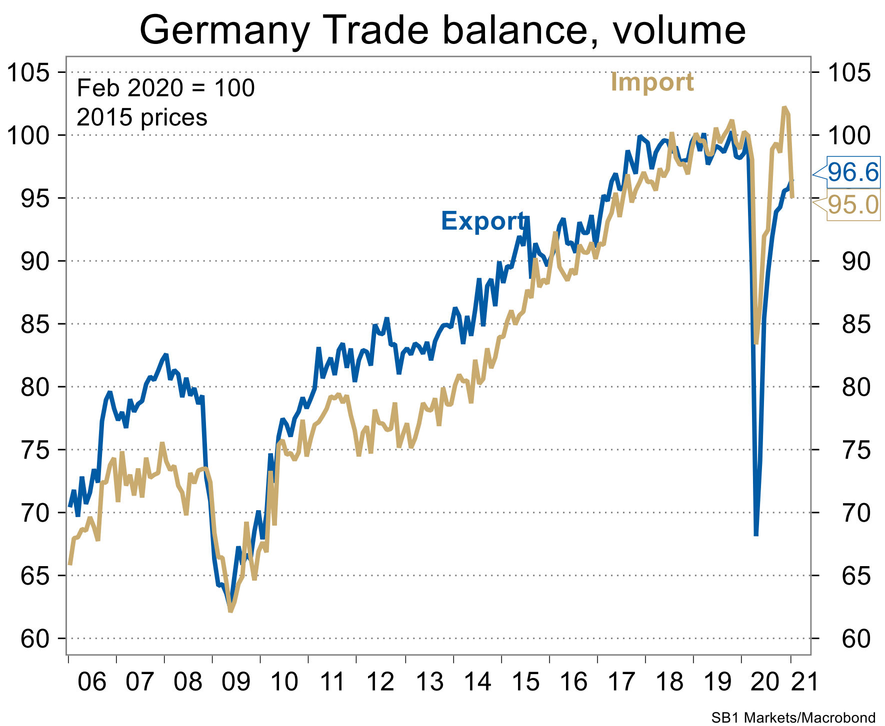
- … but the sharp decline in retail sales in the region in Dec/Jan (and further weakness?) may dampen production somewhat
- France reported brisk growth in Jan, the other big 4 a modest decline

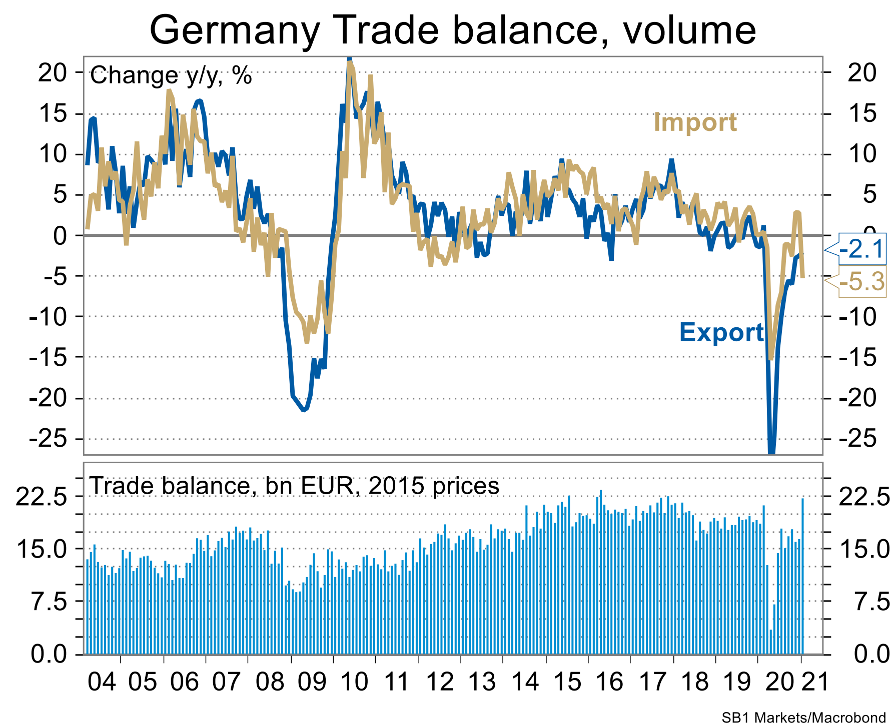
German orders up 1.5% in Jan, 4% above pre corona

Production down 0.5% and is still 4% below early 2020 level

Exports continue to improve – up 0.8% m/m (volume) in January, still -3.4 vs PC

Imports down 6.5% m/m in January - and down 5% vs Feb last year

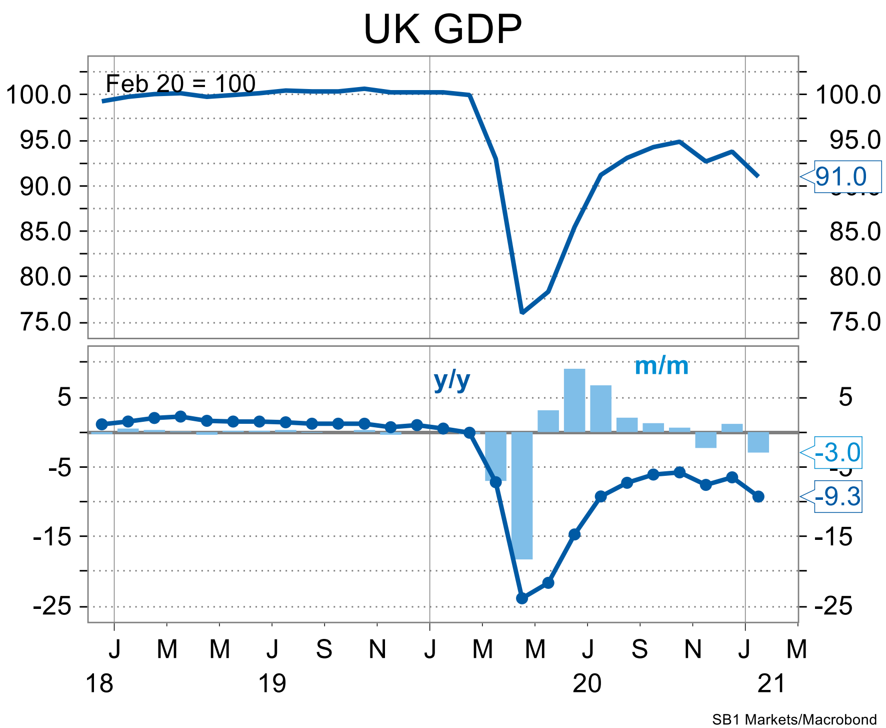


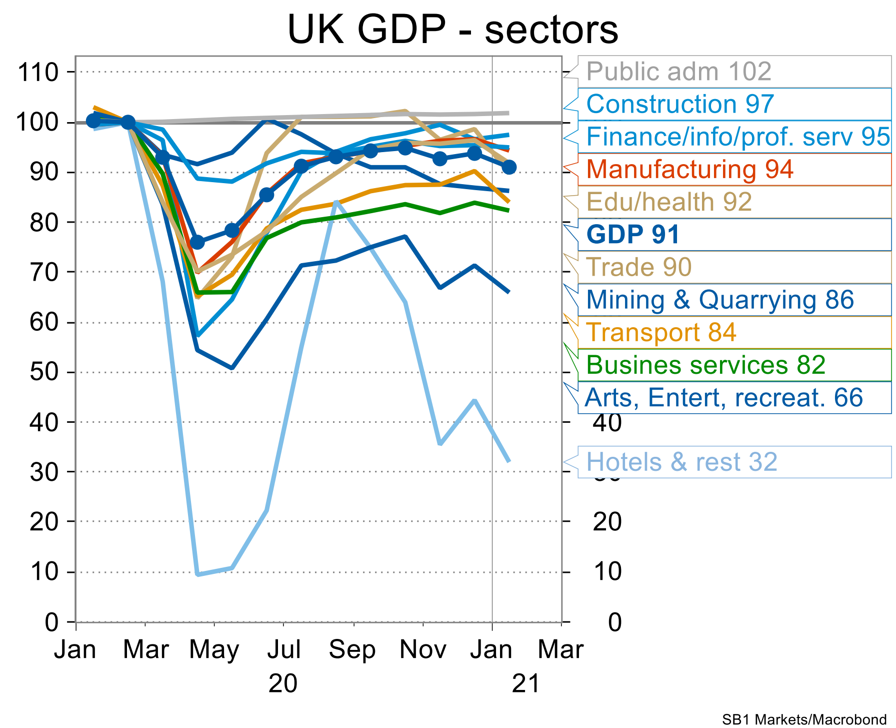


- Export volumes rose 1.4% m/m in January, imports down 4.7%
- The German trade surplus shrank rapidly during the corona crisis in the spring, to the lowest levels in 20 years. Since August, the surplus has been almost at a normal – and very high – level

UK GDP shrunk by 3% m/m in January, but less than expected in the lockdown

GDP -9% vs. the pre-pandemic level, among the worst in the world, even w/o much travel/tourism

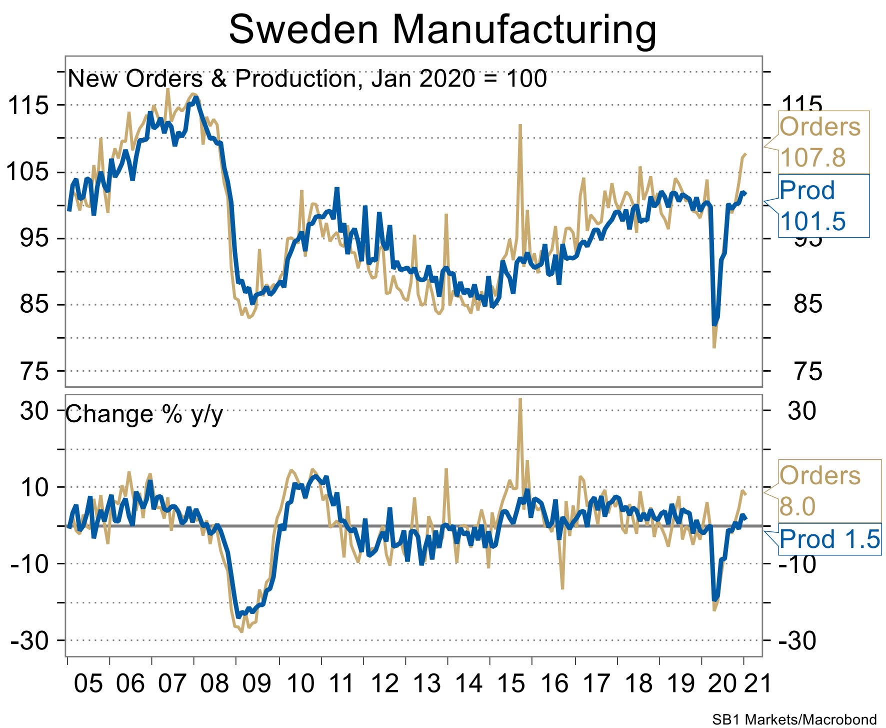


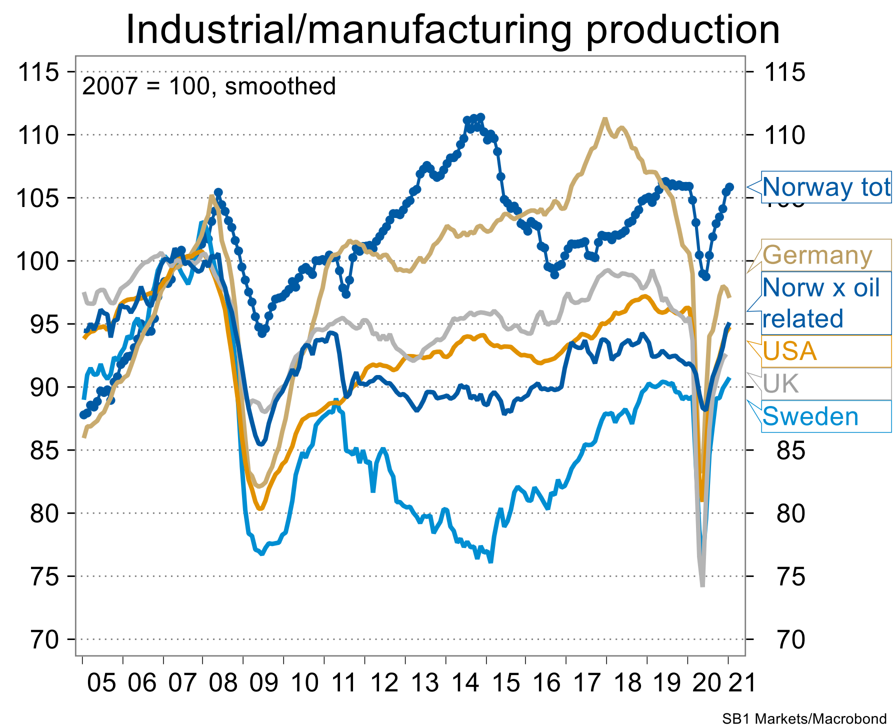


- The service sector was hardest hit, naturally, down 3.5%. Transport, business services, arts/entert., and hotel/rest are down 16 – 68% since before the pandemic
- Exports to the EU declined by 40+% - the consequences of Brexit are becoming evident
- Construction was up 0.9% in Jan, while most other sectors contracted, like manufacturing -2.3%

Industrial production down 0.4%, orders up 0.8% in January

Production is 1.5% above the pre-corona level, orders 8%. Strong surveys are confirmed





- Longer term, Sweden is not that impressive

Highlights

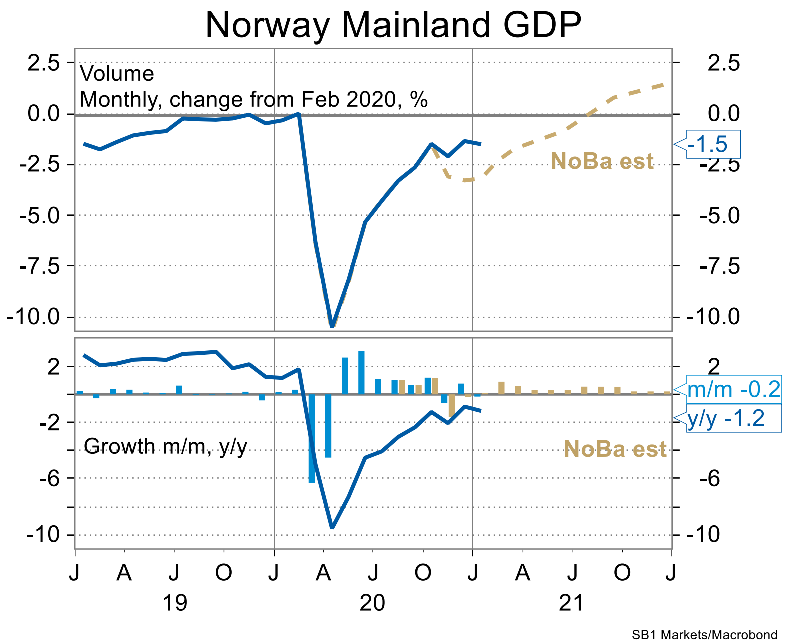
The world around us

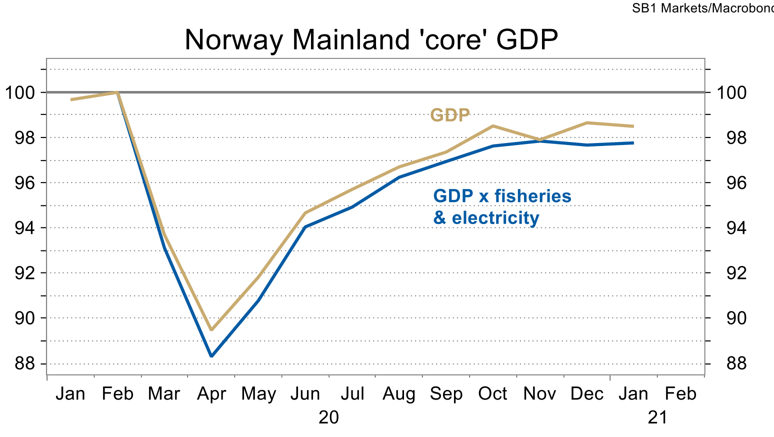
The Norwegian economy

Market charts & comments

Mainland GDP flattened due to new corona restrict., still 1.6% above NoBa est

However, still better than expected in January but new 'lockdowns' in Feb & March may be felt



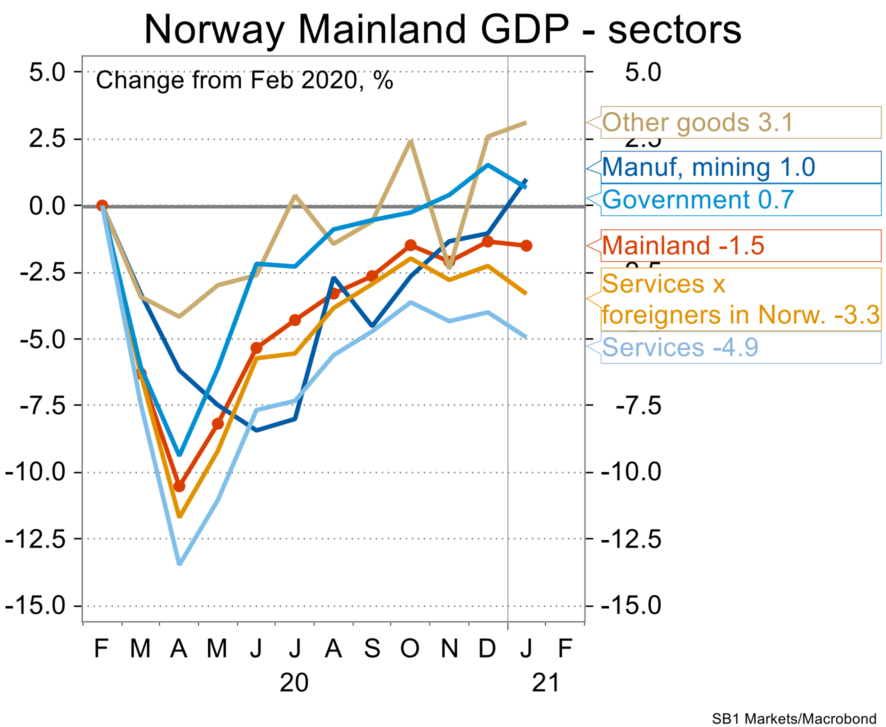


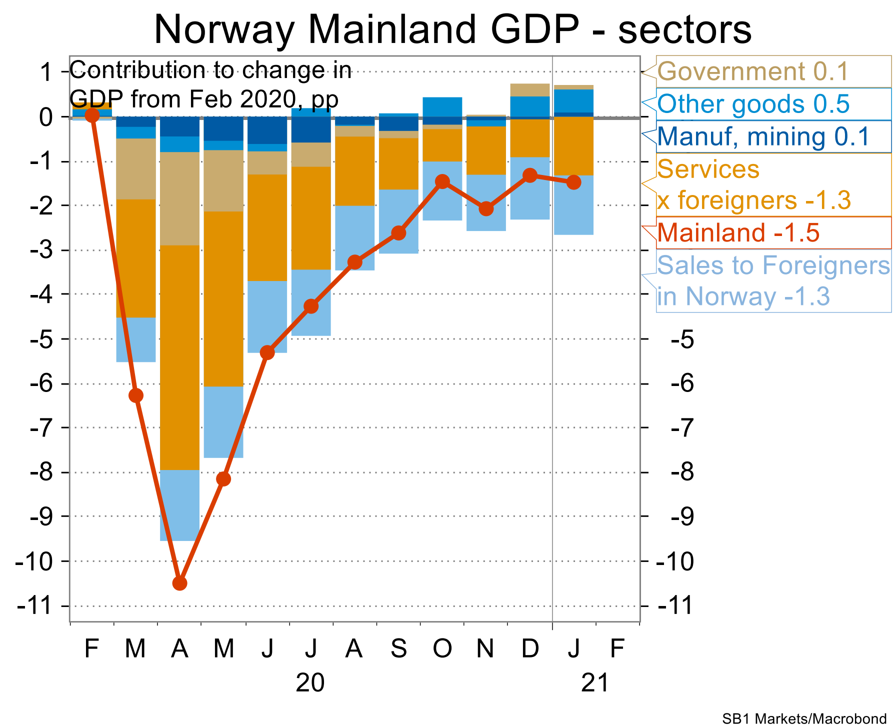
- **Mainland GDP fell by 0.2% m/m in January**, we exp. -0.5% (consensus -0.6%). Norges Bank assumed 0.1% in Dec MPR.
  - Once again fisheries & electricity, the two volatile and not business cycle correlated sectors, had a material impact on the headline figure: Ex these sectors, GDP grew by 0.1% in January
  - **Production:** Private services are no doubt hampered by restrictions, down 1.1% m/m. Hotels/restaurants & culture entert. (each representing 2% of GDP!) reported a 9 – 11% setback! Transport services down 4%, as was activity in trade. Manufacturing value added rose by 3.3%
  - **Demand:** Exports x travel rose marginally, while consumption, Mainland & business investments, and public demand. Lower imports, and a 2.7% of GDP faster growth in inventories, saved the day, as domestic demand fell sharply
- **Mainland GDP is down 1.5% vs the Feb '20 level**
  - **The GDP level** is 1.6% higher than Norges Bank assumed in Dec. Adjusted for the volatile electr./fisheries sectors, GDP is down 2.2%
  - **Production:** The 4 hard hit services are down 17% (business services) to 46% (hotels & restaurants). The total negative drag equals 3.1% of Mainland GDP. Other sectors are up, with trade, manufacturing & education in the lead. Construction is down 2%, even if housing investments are up
  - **Demand:** Norwegians are spending almost the same in Norway as in Feb '20, services down 13%, goods up 9%. Spending abroad has fallen by 93% (equalling 8% of disp. income), and the money is saved. Housing investments are up. Mainland business investments have fallen by 7%, while oil investments are down 6% but both are now trending upwards. Exports ex petroleum (and tourism) are back to the Feb '20 level. Foreigners are not spending anything in Norway, a cut equalling 1.3% of Mainland GDP

SpareBank 1 MARKETS

Production: Service sector lagging after being hit by new round of restrictions

Service sector down 1% in Jan and 5% from pre-covid level



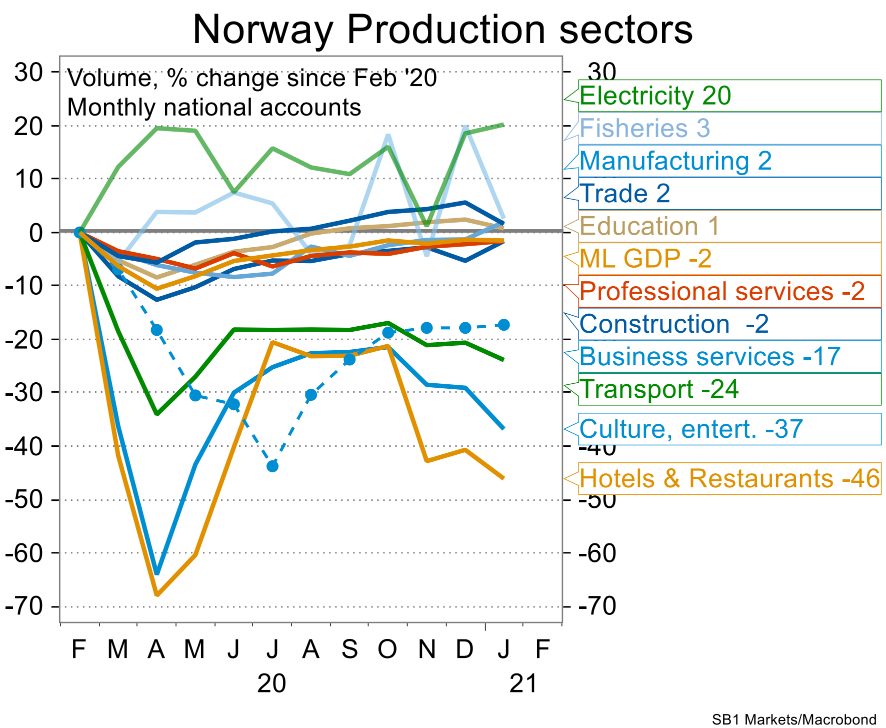


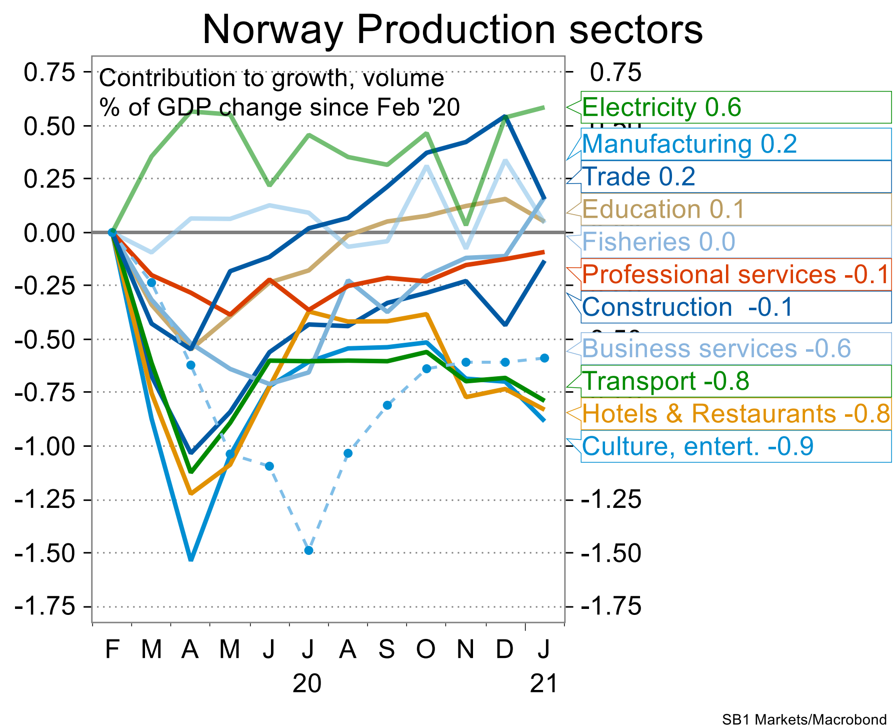
- **Service sector production was down 1%** in Jan, amid tighter corona restrictions – but this is nothing compared to the 13% drop last March/April. Hard to see a reversal for the sector before large parts of the population is vaccinated and society opens up
- **Manufacturing production** has recovered, and is now 1% above the Feb '20 level. But keep in mind, the downturn was solely due to steep decline in oil related industries – as oil investments are down 6% vs Feb. Ex oil related manufacturing industries, production is up to well above pre-covid levels
- **Other goods production** is volatile mostly due to (ocean) **fisheries and electricity production.** Fisheries were up 26% in Dec and down 15% in Jan.

SpareBank 1 MARKETS

Production details: Trade (Retail+) down 3.8% in January, services up to -11%

Peoples' business down 17 - 46% vs Feb '20, in sum a 3.1% negative drag on GDP

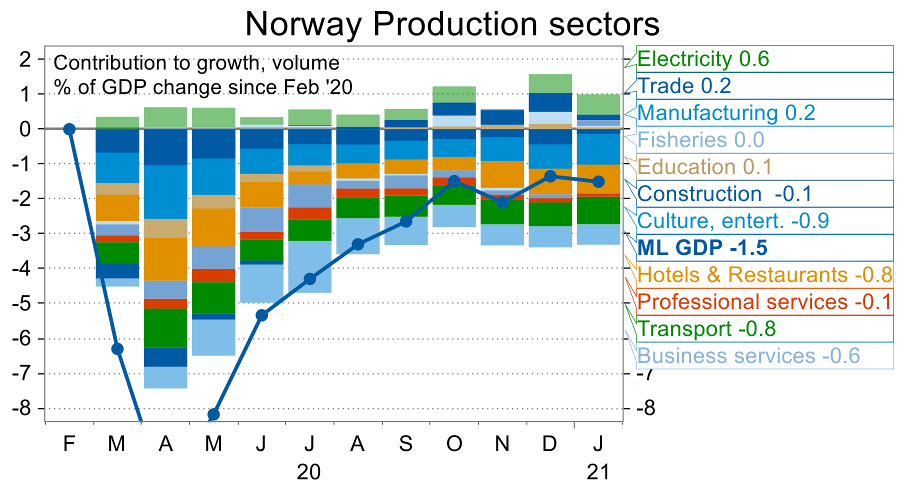


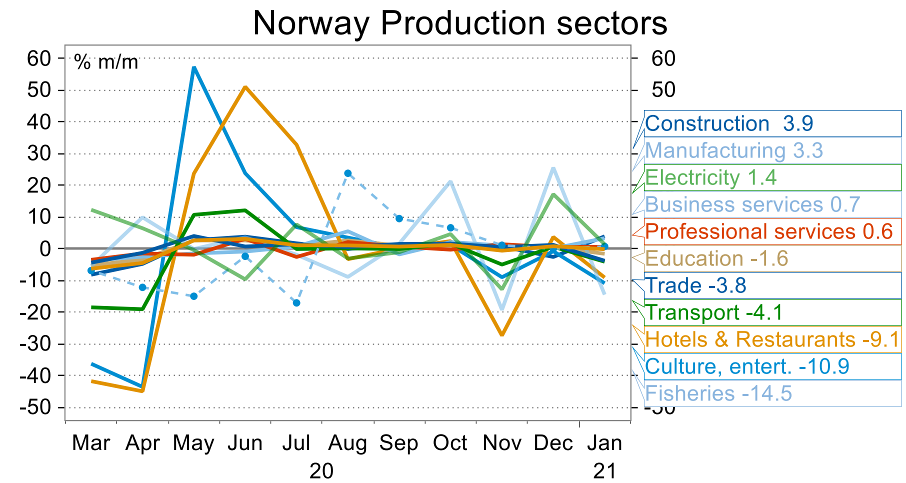


- The activity in wholesale and retail declined for the first time since April, and is, along with the service-related sectors, the main culprit for the fall in GDP
- Further decline in **hotels & restaurants, culture and transport** in Jan, as expected. Pattern likely to carry into Feb/March as well
- Activity in **fisheries & aquaculture** fell sharply in Jan after the upswing in Dec, while several sectors reported growth: **Construction, manufacturing, electricity production, and professional & business services**
- Thus, according to our calculations, the 'underlying" GDP rose by 0.1% in Jan, following a 0.2% decline in December

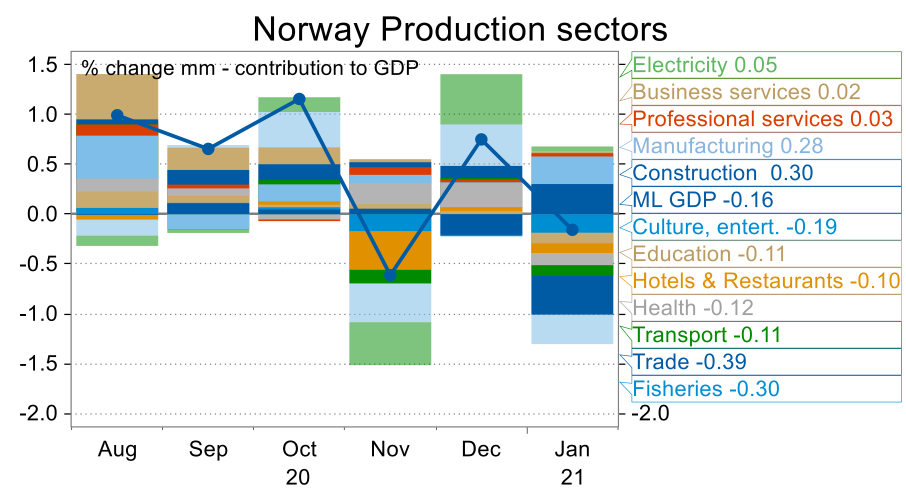
Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing

Production details: Squeezing the data





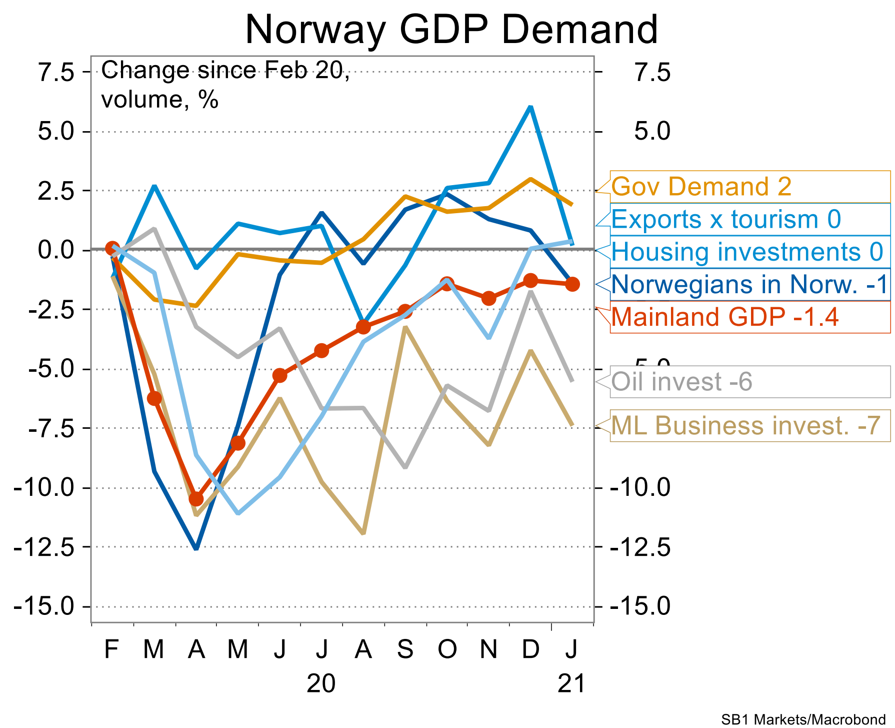
- **In January**
  - » Several services collapsed, down 10%
  - » Trade, mainly retail, down 3.8% which is a bit strange as retail sales & consumption of goods fell far less (many stores in the greater Oslo area were closed the last week in Jan, but normally sales data reflects value added in the sector)
  - » Fish & aquaculture down 15%, following the 25% increase in Dec, while manufacturing production rose 3.3% an construction by almost 4% (even if housing investments fell)
- **Since February –'20**
  - » Hotels & Rest, culture & entert., and transport & business services have all contributed by -0.6 – -0.9 pp, in sum equaling 3.1% of Mainland GDP (while GDP fell by 1.5%)

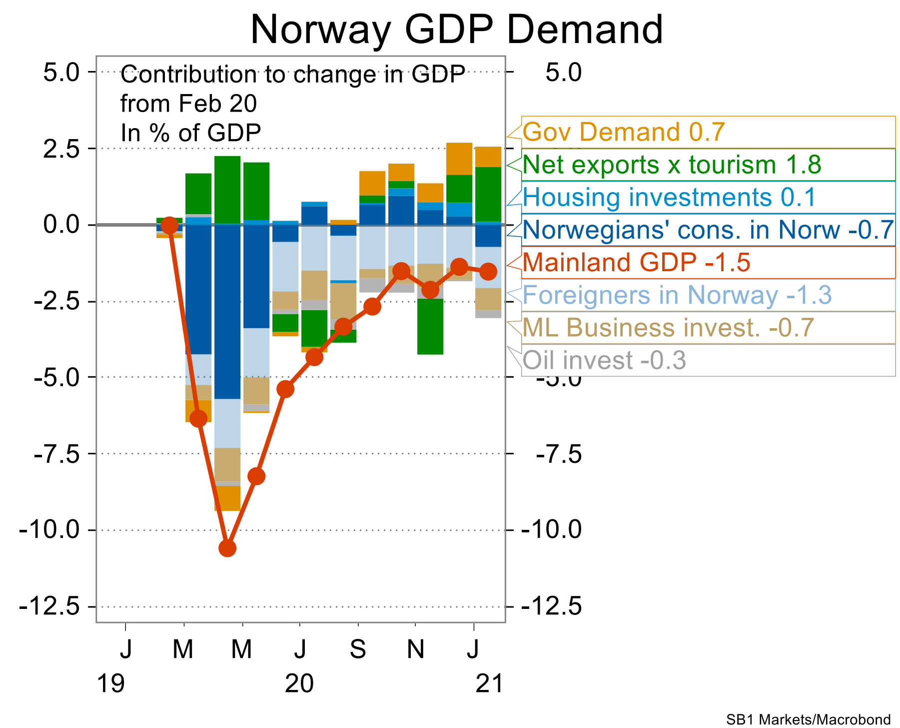


Not all sectors are included in this monthly detailed data

Demand: Most components down, production saved by growth in inventories

Investments (housing, on & offshore businesses) are trending up, but all fell in Jan, as did consumpt.





- **Norwegians' consumption in Norway** fell by 2.2% due to lower consumption of both goods & services. **Foreigners spent** a more in Jan but their lack of demand deducts 1.3% from GDP (not adjusted for import content of goods they (used to) buy here)
- **Mainland business** investments declined 3% in Jan, and are 7% down vs. last Feb – but is now trending upwards from the last April's through
- **Oil investments** have been on a road to recovery since Sept, but were down 4% in Jan and are now down 6% since Feb last year – deducting 0.3% from GDP
- **Government demand** is up 2% vs. Feb and has contributed to a 0.7% increase in GDP
- **Domestic final demand fell sharply m/m, by 2,2% but a much faster growth in inventories, equalling 2.7% of GDP saved the day**
- **Mainland exports** (x tourism) rose by 0.3% in Jan and are at the Feb '20 level. Net exports are higher than in Feb last year, as **imports** are below the Feb level
- The trends: Both investments and exports x tourism are trending up. Consumption has declined from October, we are pretty sure just due to corona restrictions

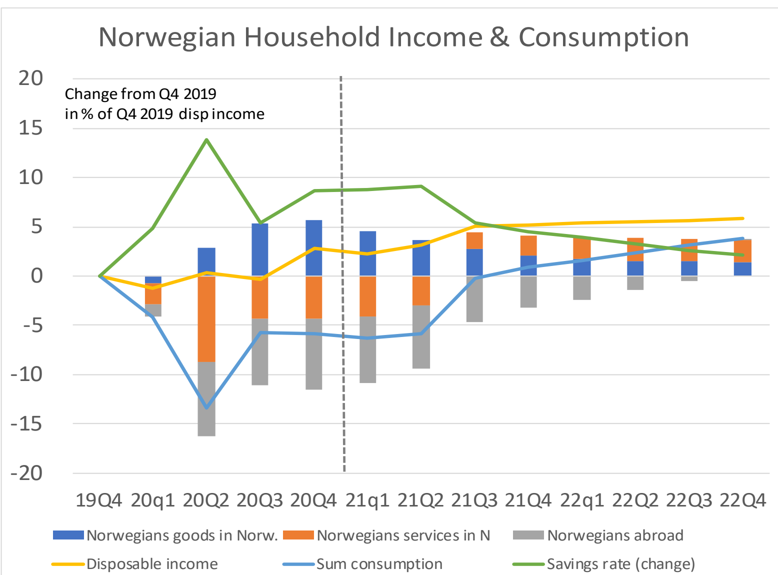
Norwegians are consuming almost like normal – in total – in Norway

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

Norway Consumption spending

Sales of consumer goods/ services & consumption	Change from Feb 20, NOK bn, annual rate, const. bn	% Change %
Sales in Norway	-55	-3.9
Goods	62	9.3
Services	-117	-15.9
Norwegians in Norway	-16	-1.1
Goods	78	12.0
Services	-93	-13.3
Foreigners in Norw.	-39	-75.6
Norwegians' consumption	-129	-8.8
In Norway	-16	-1.1
Abroad	-114	-93.0

SB1 Markets/Macrobond

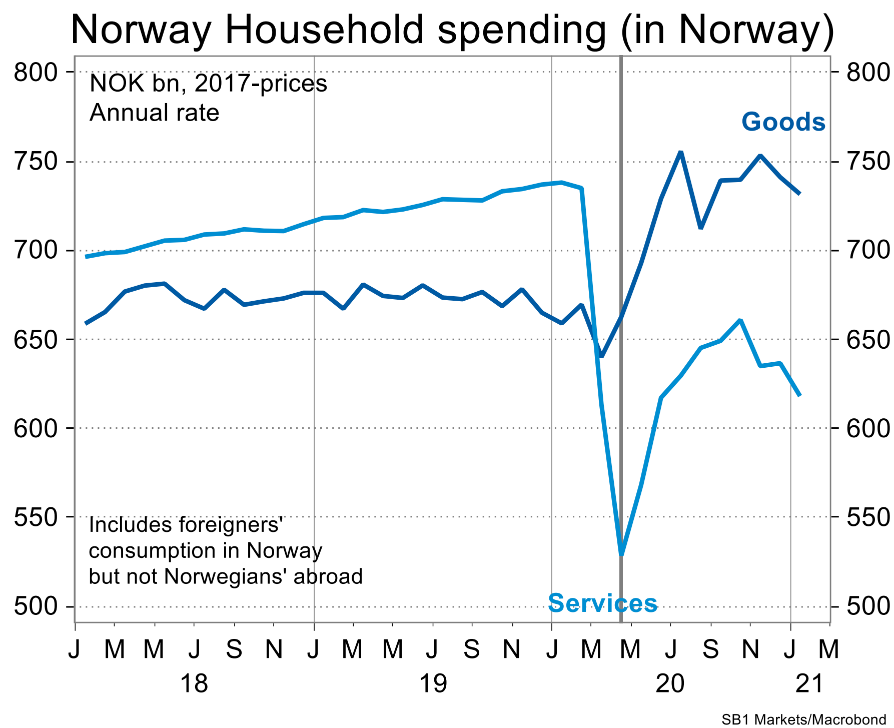


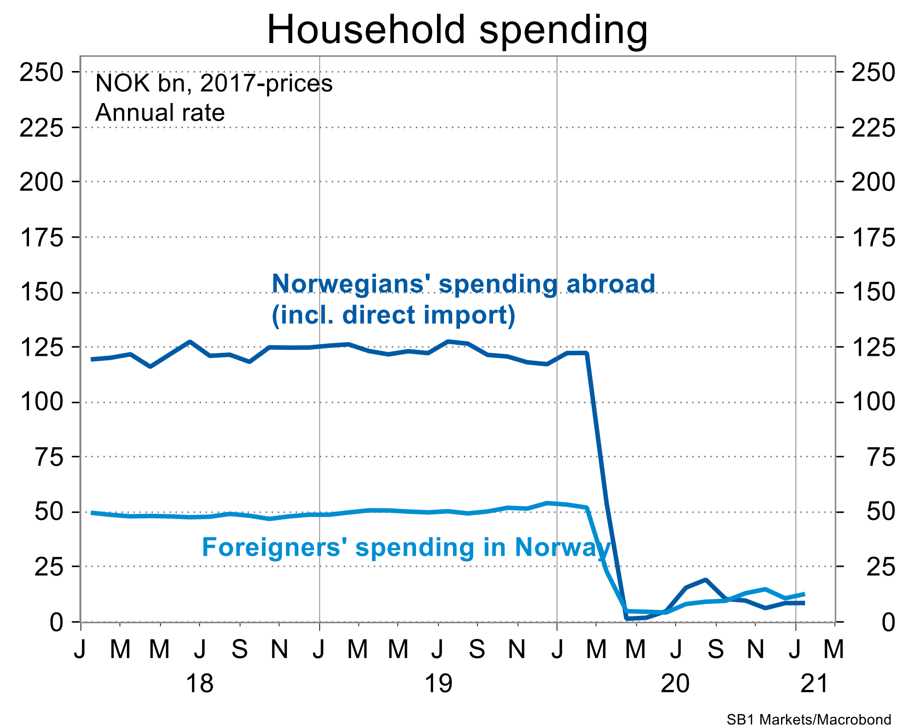
- **Sales of consumer goods** in Norway are up 9% vs. Feb 20, while services are down 16%, the sum is down 4%
  - » The 76% drop in foreigners' spending in Of this, 2.8 pp is due to lack of foreigners' demand in Norway – which has fallen by 76%
- **Norwegian households** have increased their consumption of goods in Norway by 12% but reduced consumption on services by 13% in sum 1% down (the total was up to Dec from last July)
- **Total (Norwegian) household consumption** has fallen by 8.8% vs. Feb last year. Of this is 7.7 pp due to the 93% decline in Norwegians' spending abroad

- **We expect consumption to normalise** the coming quarters. Demand for goods will start returning to a normal growth path when it is possible for households to increase spending on services, and to start spending abroad again, probably starting in late Q2 or in Q3. We expect the savings rate to decline substantially from the present level, some 8% above 'normal'

Virus restrictions now affecting both goods and services

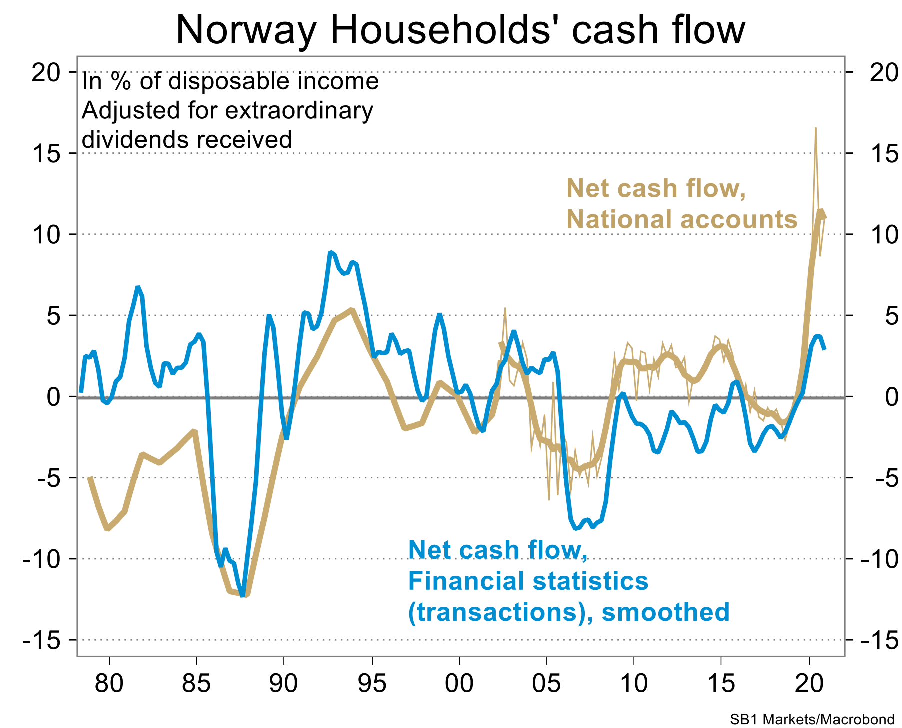
Consumption of goods is still sky high but fell by 1.3% in January, services retreated by 2.9%

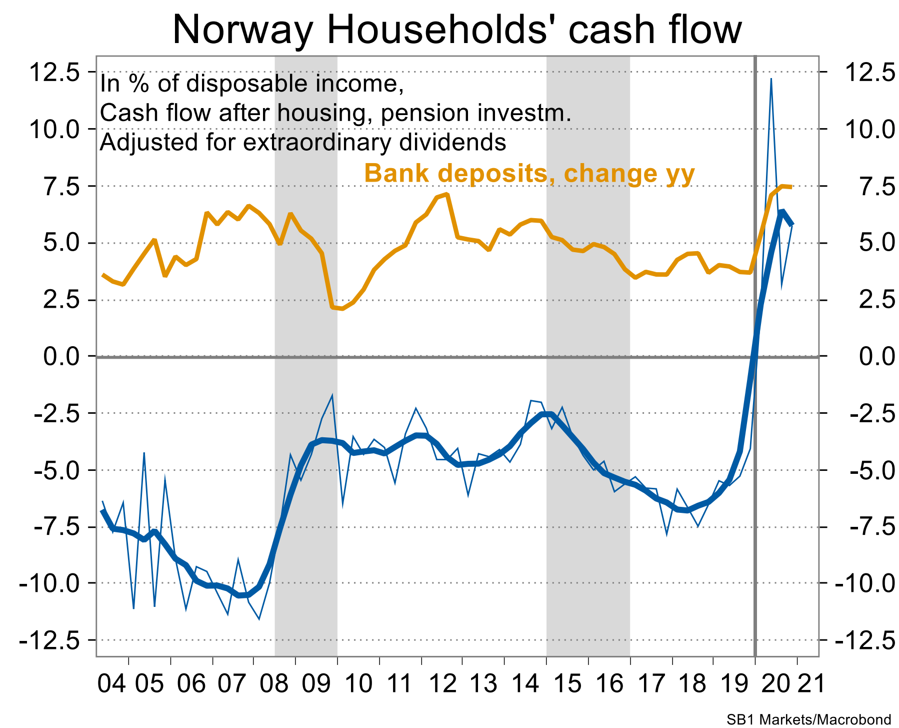




Where have all the savings gone? Or Exited?

Financial statistics report substantially lower net financial investments than national accounts

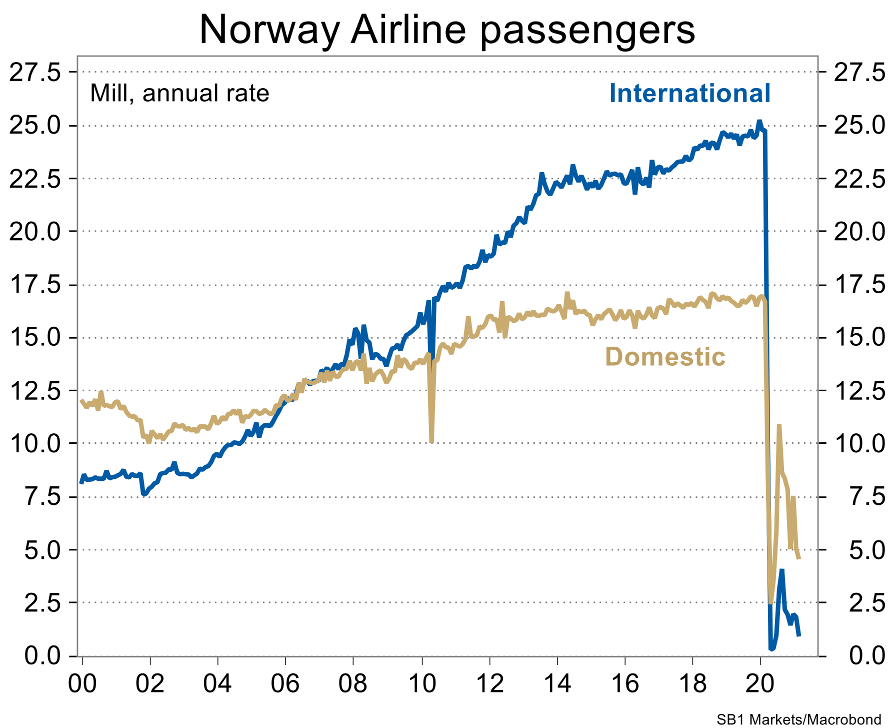


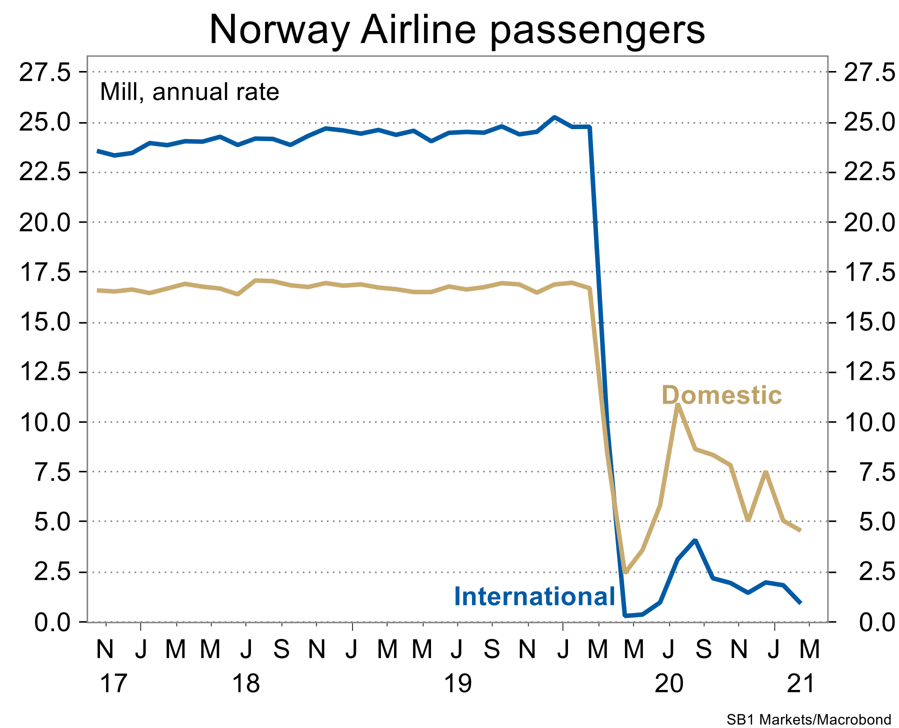


- Households' financial savings can be estimated both from National accounts (income – spending) or from Financial accounts (summing up all known transactions, in banks, funds etc). The two measures are not often equal but the discrepancy is now larger than usual. Normally, such deviations are revised downwards. Usually National accounts yields the most (but that's no fixed rule)
- However, the increase in bank deposits from the beginning of the pandemic is quite similar to the increase in net cash flow as calculated from the National accounts

Air traffic down again in Jan – domestic -72% y/y, international -96%!

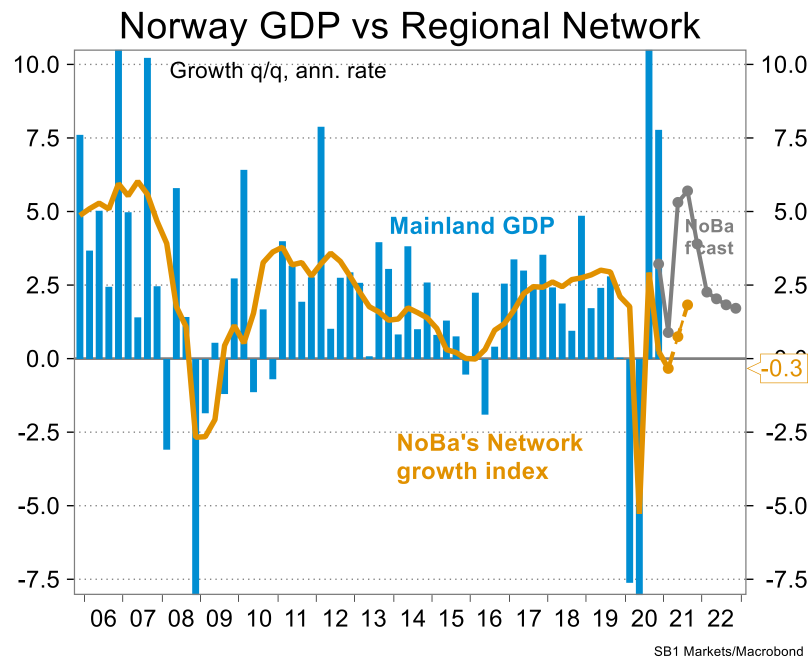
Traffic fell m/m too, but the negative m/m GDP drag is very limited, as the level is so low





Norges Bank's Network sees light at the end of the tunnel

However, the Network seems to continue to underestimate activity the past 3 months

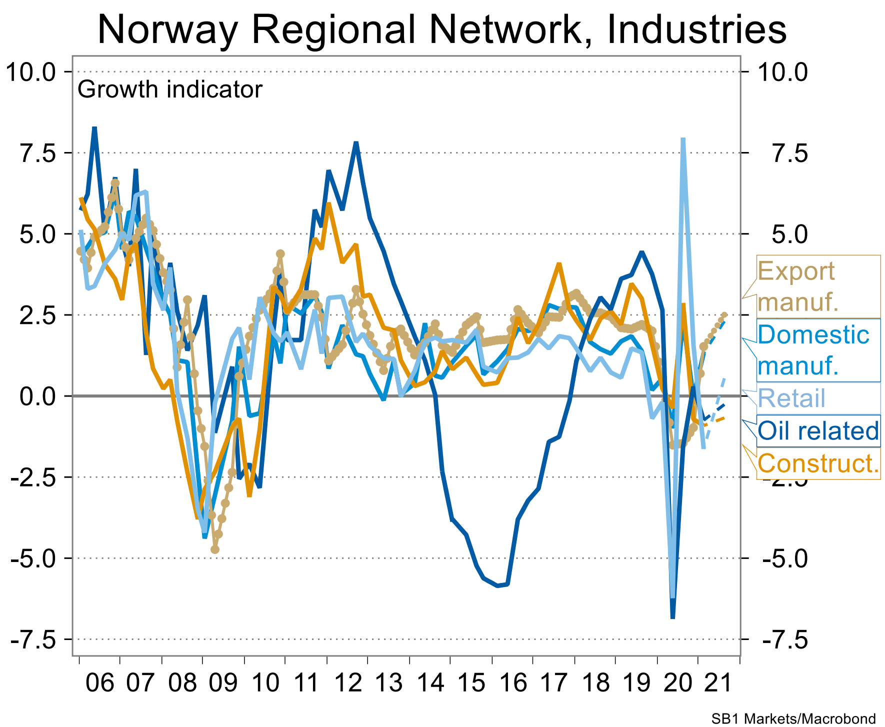


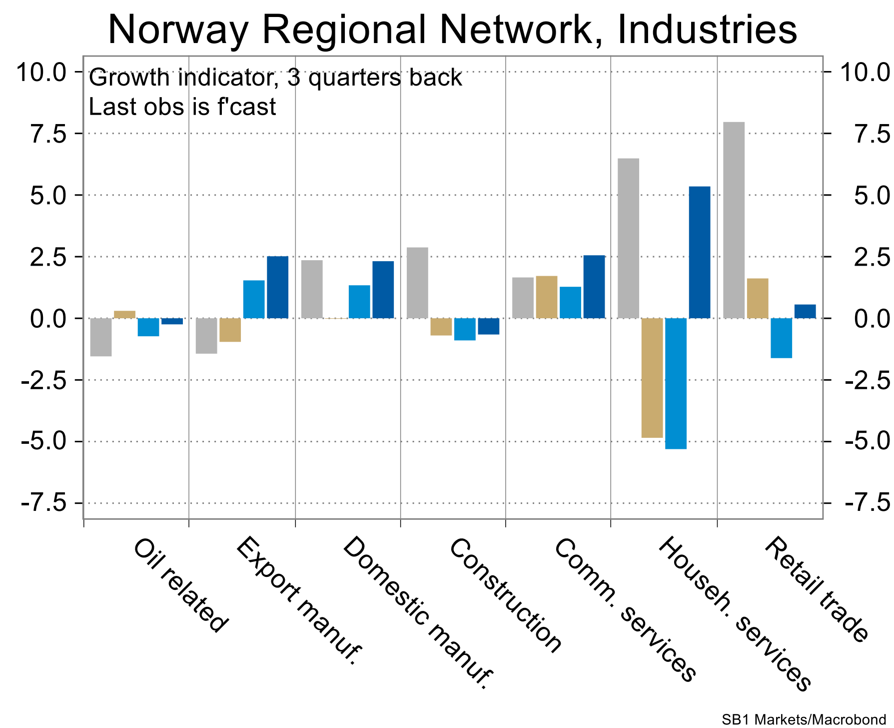
- **Implications**
  - » Norges Bank will probably draw the same conclusion as we do: <u>This network is close to useless – except for assessing the present mood among the respondents</u>
- We expect Norges Bank to lift its interest rate path substantially at Thursday, <u>check details here</u>

- **Activity the past 3 months**
  - » If we take the survey results literally, activity fell by a <u>0.3%</u> to Nov-Jan, annualised vs the Aug-Oct level. Actual Mainland GDP grew at a 3.4% pace. 3 months ago, the network reported 0,3% growth, while GDP rose by a 17% pace. <u>Thus the Network is reporting close to useless data, at least if our National accounts are total off the mark (and they are not)</u>
- **Expectations for the coming 6 months**
  - » The Network expect at 1.8% growth pace the next 6 months, we forecasted 2%. In Nov, the network expected a 0.2% growth pace. <u>Should we put any weight on the Network's assessment of the next 6 months?</u>
  - » The Network might of course be right, even if vaccines will arrive in large quantities during Q2. The restrictions cannot be eased before late Q2, a 2 % growth pace is possible
    - ▪ We think a gradual opening will be possible before June, as the 'R' will be reduced sharply if the promised vaccines are delivered
  - » Construction is expected to decline, so are oil related industries (just marginally). Other manufacturers are quite optimistic. Household services are very optimistic. Retailers do not expect much growth from here, for good reasons, the level is 'too' high.
    - ▪ Even if the growth outlook is muted indeed, companies revised their investment plans upwards – and are now signalling growth!

Household services (like hotels, restaurants) expect strong growth

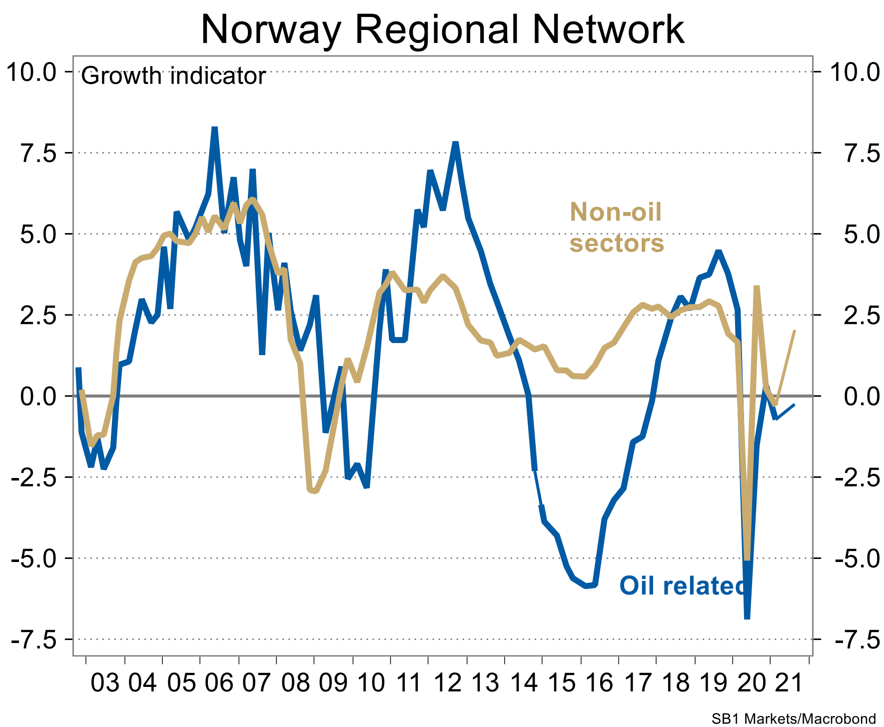
The manufacturing sector upbeat (both export & domestic), oil related & construction looks down

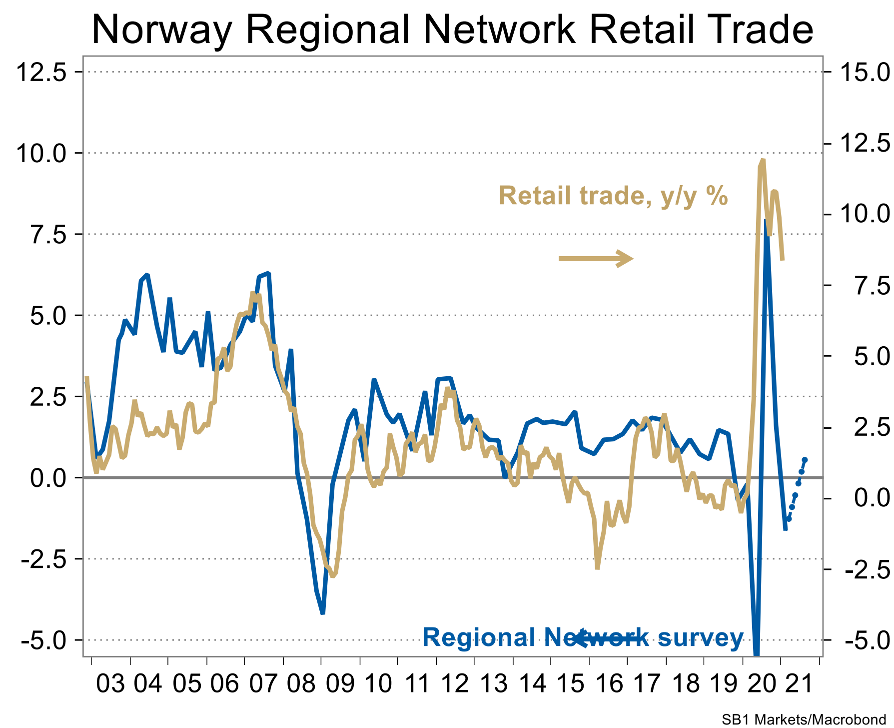




Oil related businesses do not expect growth, others do!

Retailers har acknowledging that the growth spurt could not last

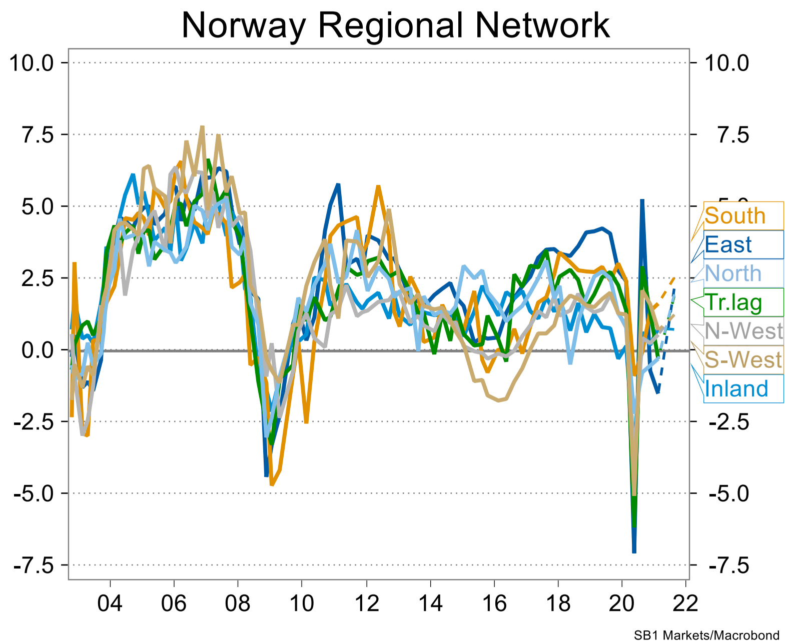


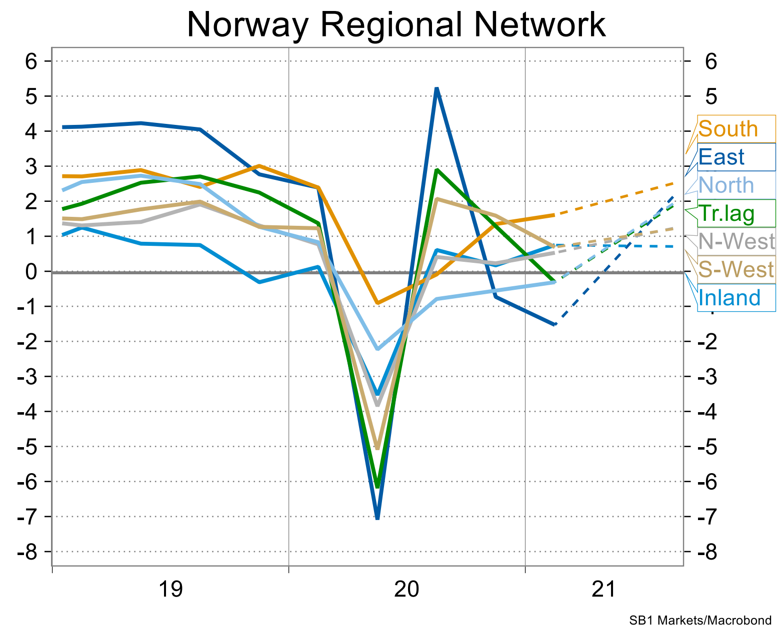


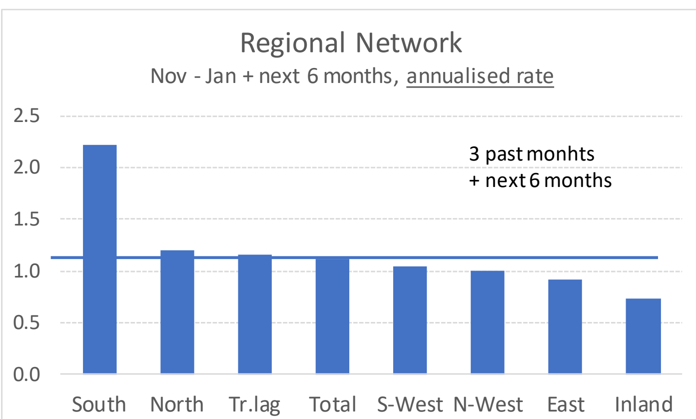
SpareBank 1 MARKETS

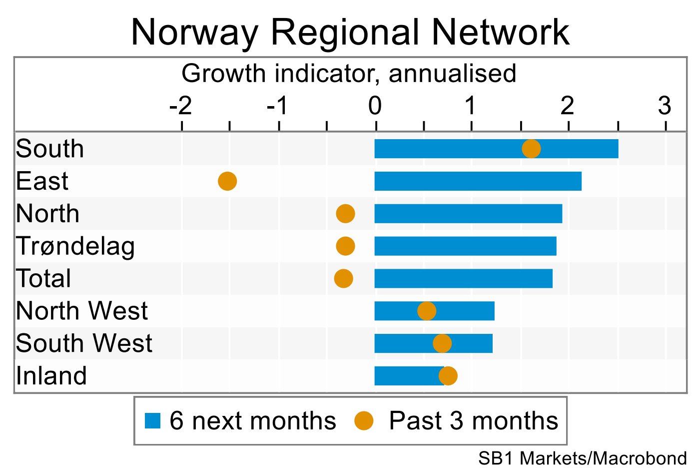
Regions: South in the lead, the Innlandet is lagging. The East has been struggling

All regions are expecting growth next 6 months, 3 (of 7) reported a setback past 3 months





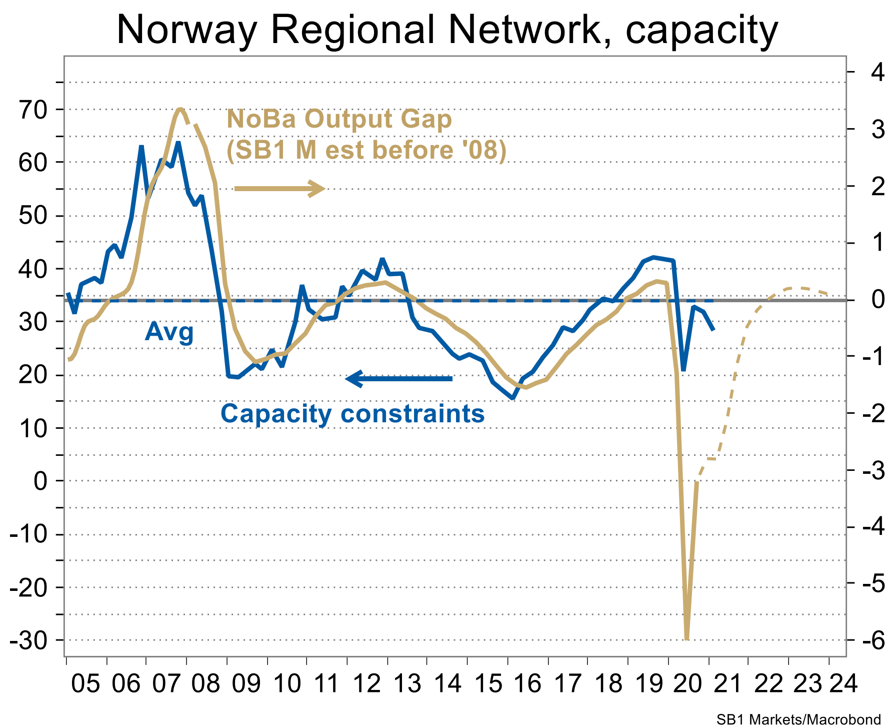


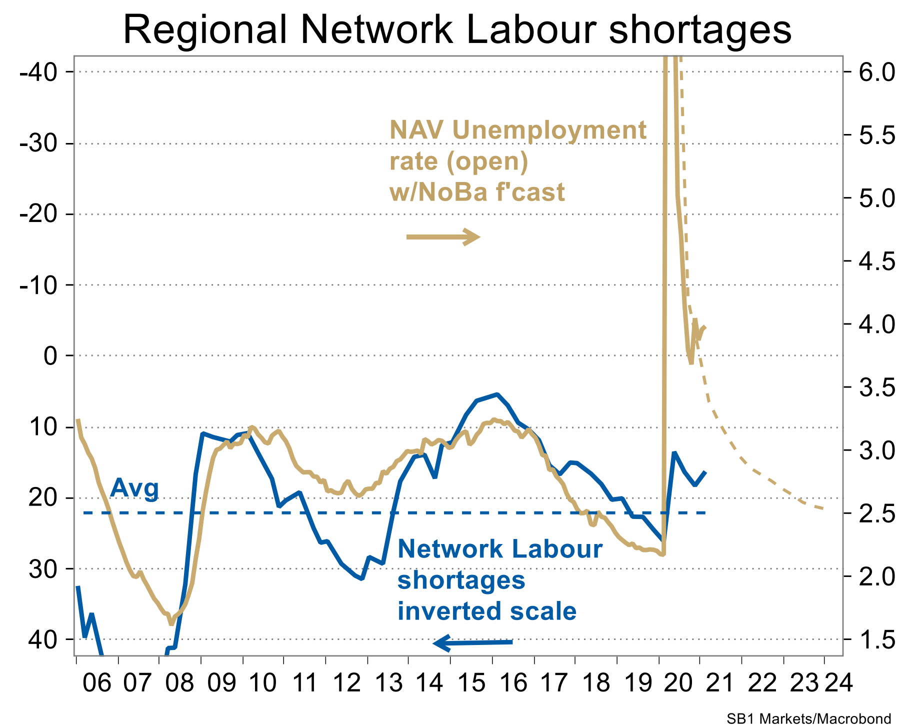


SpareBank 1 MARKETS

Capacity utilisation down past 3 months, less labour shortages

All other economic indicators suggest a reduced but still substantial negative output gap

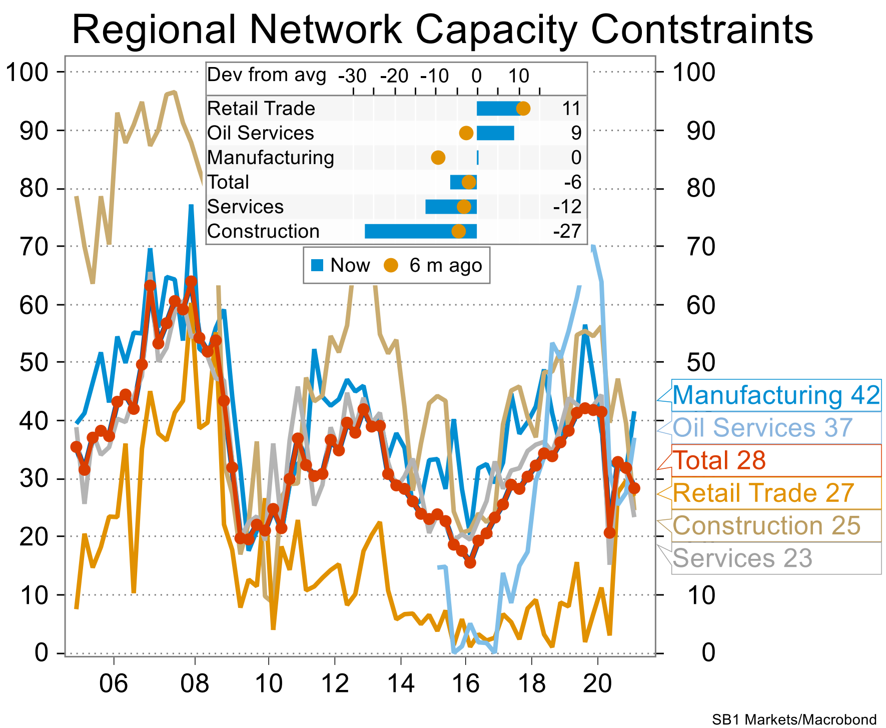


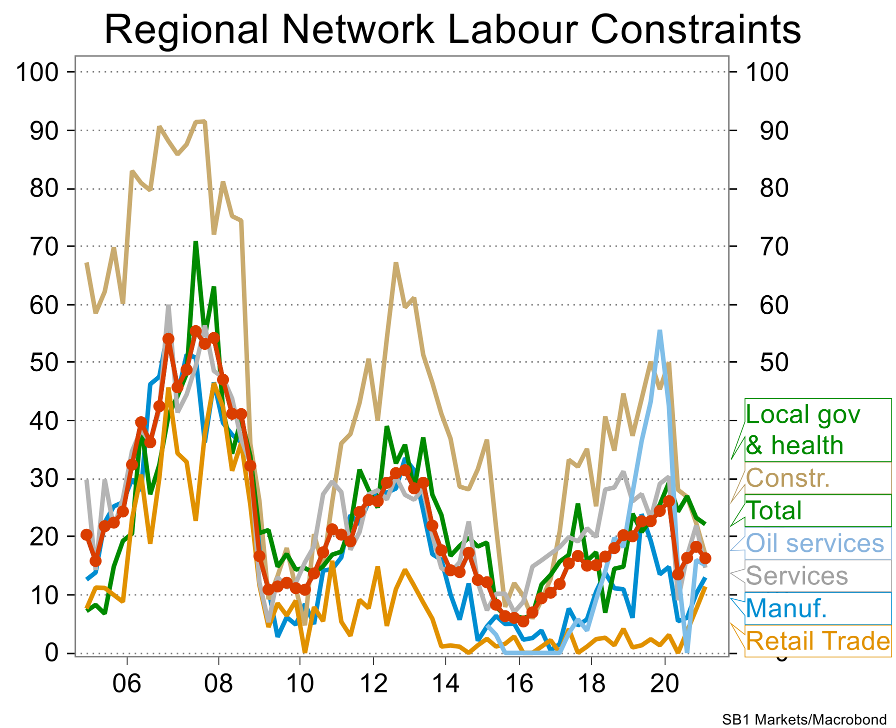


- We think a broad range of economic statistics and Norges Bank's output gap estimate is a better gauge of activity level in the Norwegian economy that the network report
- Labour supply shortages of course have eased this year, but remarkably little given the decline in employment and the increase in unemployment. An irrelevant data point – or have businesses really experienced more labour shortages during the current crisis than in 2015? We doubt so

Less capacity constraints, on average, services & construction on the downside

Some fewer companies are reporting labour shortages

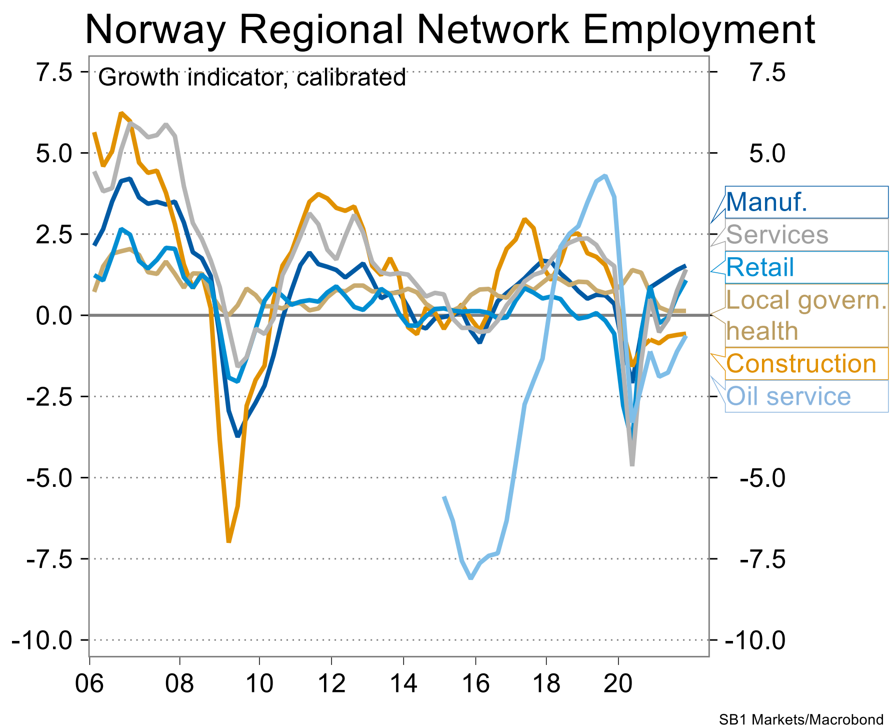


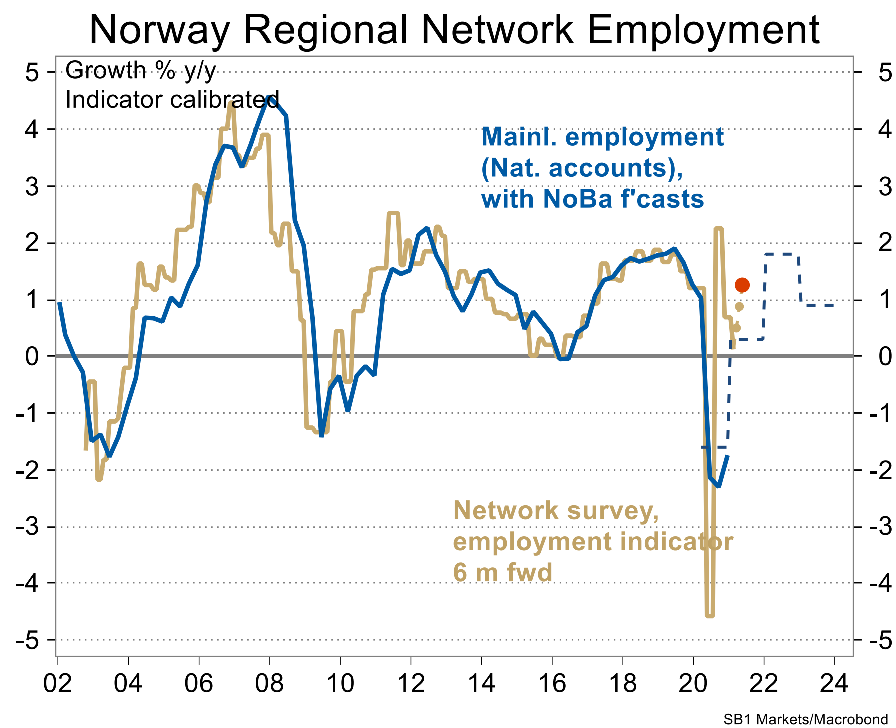


- Overall capacity utilisation fell the past 3 months, according to the network, and 6pp fewer companies than normal are reporting capacity constraints.
- Retail trade is reporting higher capacity utilisation, and 11 pp more companies than normal are reporting capacity constraints (still just 27%). The sector does not have any problems attracting labour
- Manufacturing industries are reporting capacity utilisation at an average level and limited problems attracting labour
- Oil related industries are operating at higher than normal capacity utilisation (data just from 2016)
- The construction sector operates far below par. Labour shortages have fallen sharply since the start of the year but remain high vs other sectors.
- Services are reporting some labour shortages, somewhat surprising, given a still low capacity utilisation level (but the sector is very broad, of course)

A modest employment recovery is expected

The Network: a decline in employment past 3 months but a 1%+ growth pace the 3 next months

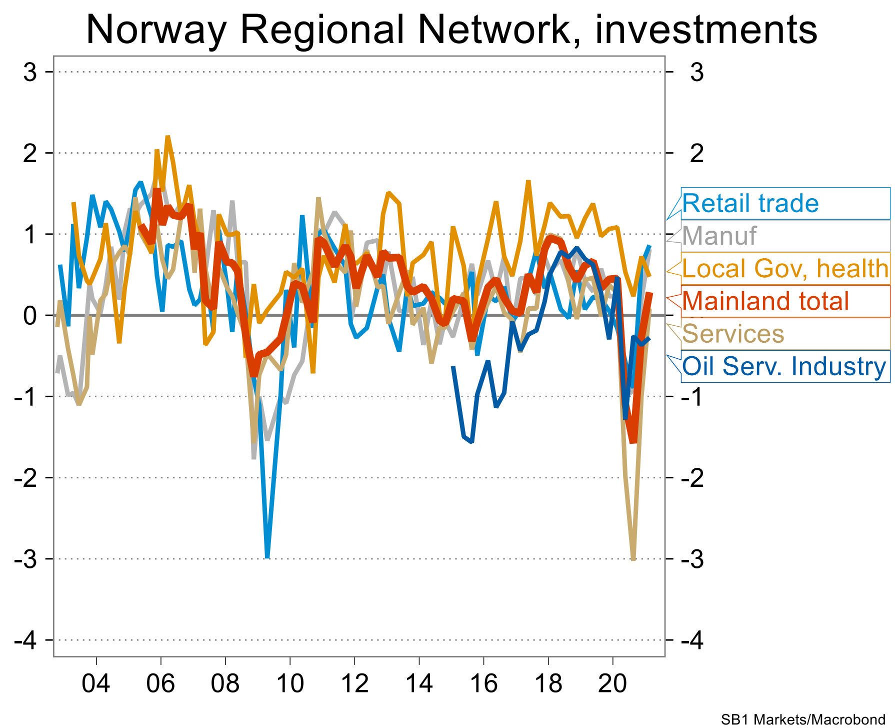


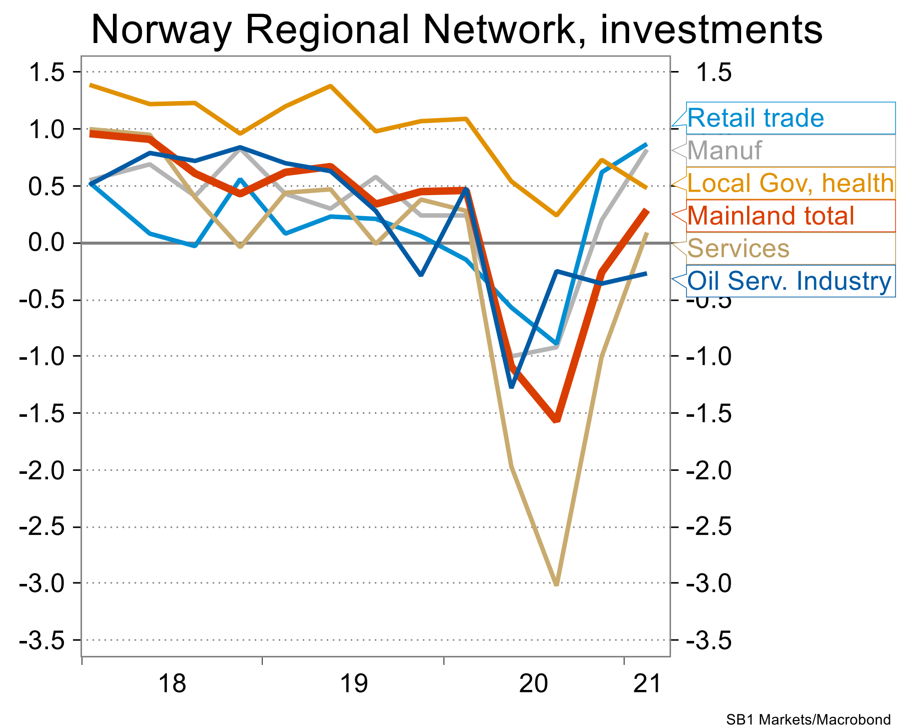


- Both services, retail trade & the manufacturing sector plans to increase employment
- Construction plans to cut, as do still oil services
- The NoBa forecast at the chart to the right represents the bank’s annual averages

The Network now signals (modest, though) growth in Mainland investments!

After 3 quarters in the doldrums, businesses revised their investment plans up to above zero in Q1

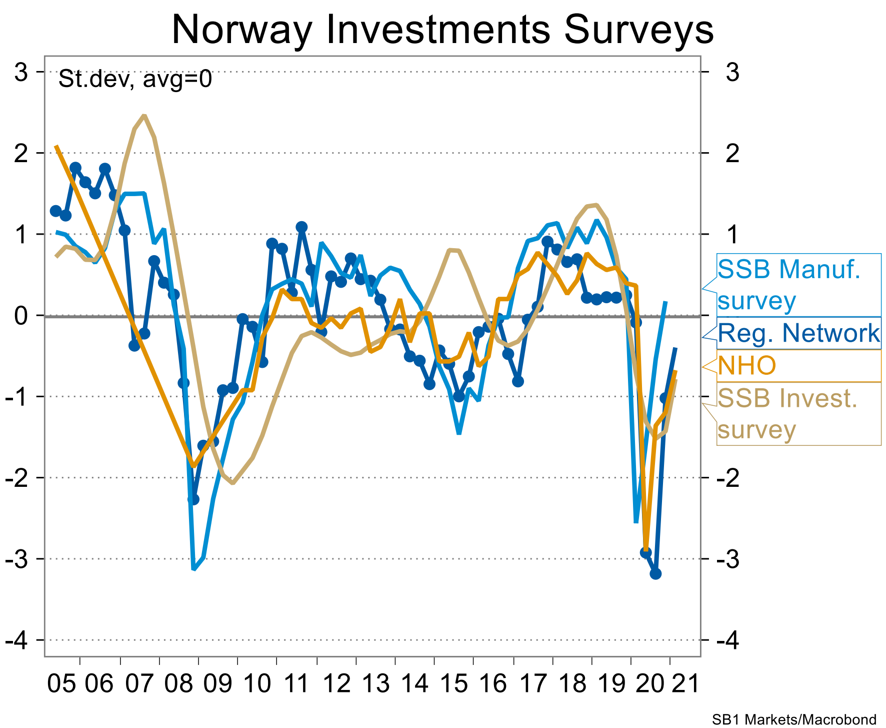


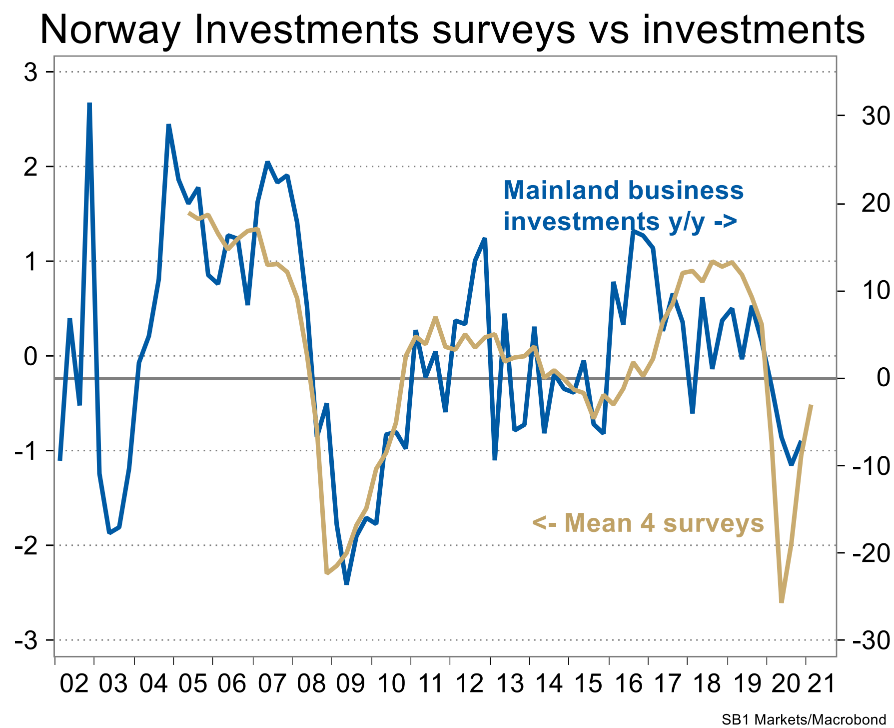


- Services, which represents almost 50% of Mainland non-residential investments, were signalling unprecedented, dramatic cuts six months ago. Still, following a modest decline in Q2, actual investments rose in through H2
- Oil services (not oil companies!) (9% of total) still plans cut, but far from aggressive
- Manufacturers (12%) and retail trade (7%) have revised their investments plans further upwards – and are signalling strong growth!
- **<u>The total Mainland investments index climbed to above the zero line – signalling growth</u>**

Other investm. surveys tell the same story: Surveys better but not yet strong

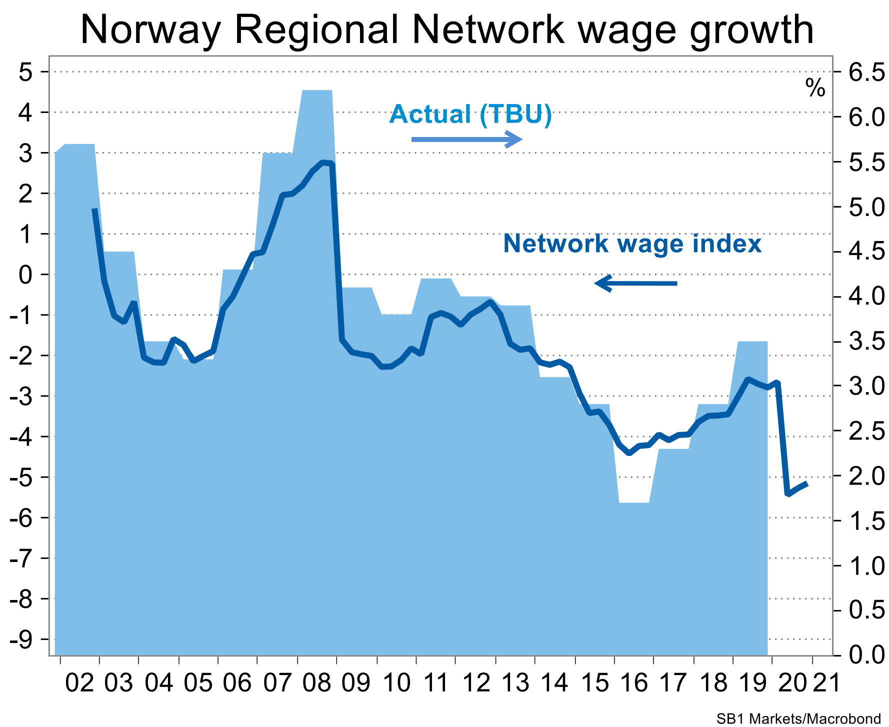
Most surveys are below average and are still signalling cuts in investments but not by much

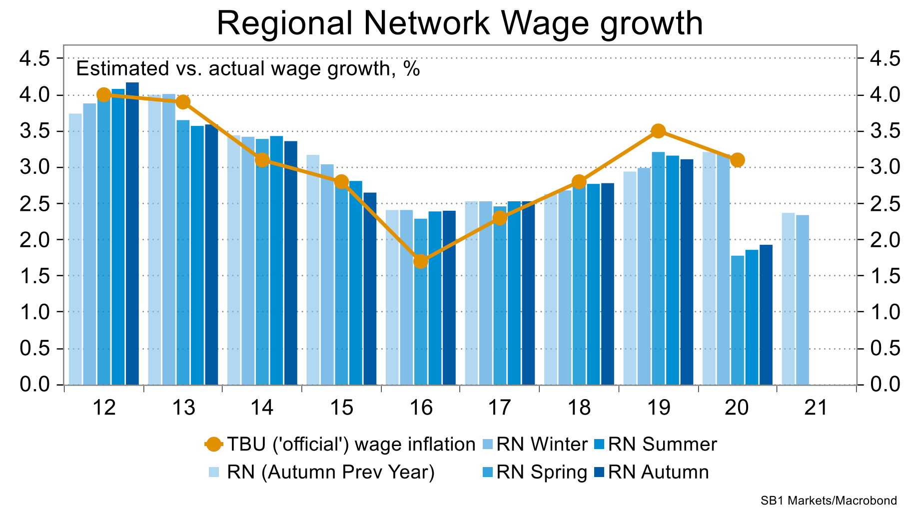




The Network expects 2.4% wage growth in 2021, 0.4 pp above NoBa's f'cast

Companies expected a 1.9% 2020 wage growth, but the official figure is now 3.1%



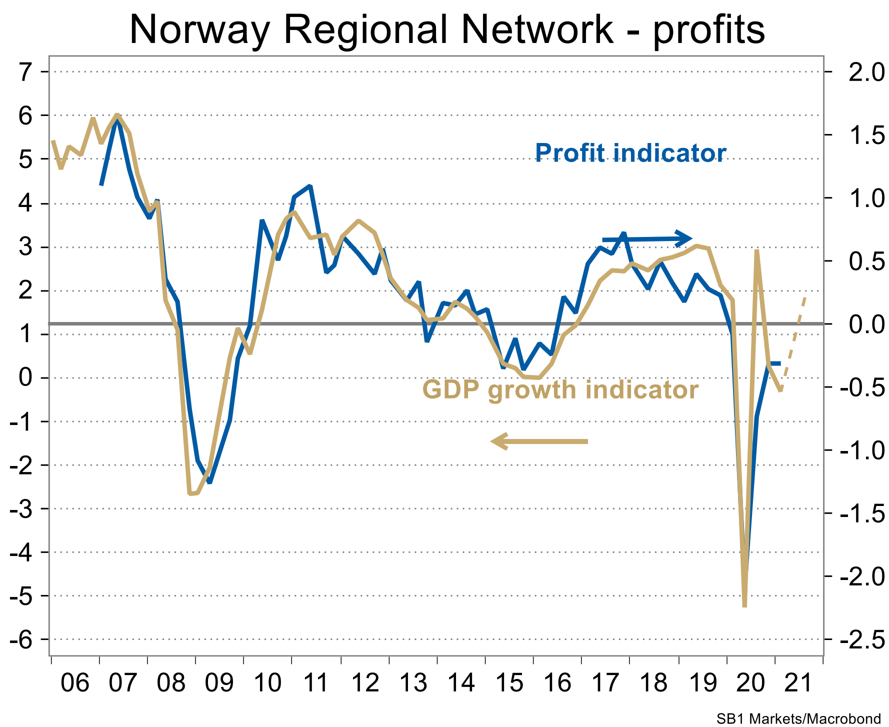


- Norges Bank assumed a 2.2% wage growth in December MPR, 0.9 pp below the outcome (TBU, National accounts)
- Norges Bank assumed a 2.0% 2021 wage growth in December, 0.4 pp below the Network's expectations. In Norges Bank expectation survey, economists in trade unions & employers associations forecasted a 2.4% wage growth too
- <u>We expect Norges Bank to revise its wage inflation forecasts up in the upcoming MPR</u>

SpareBank 1 MARKETS

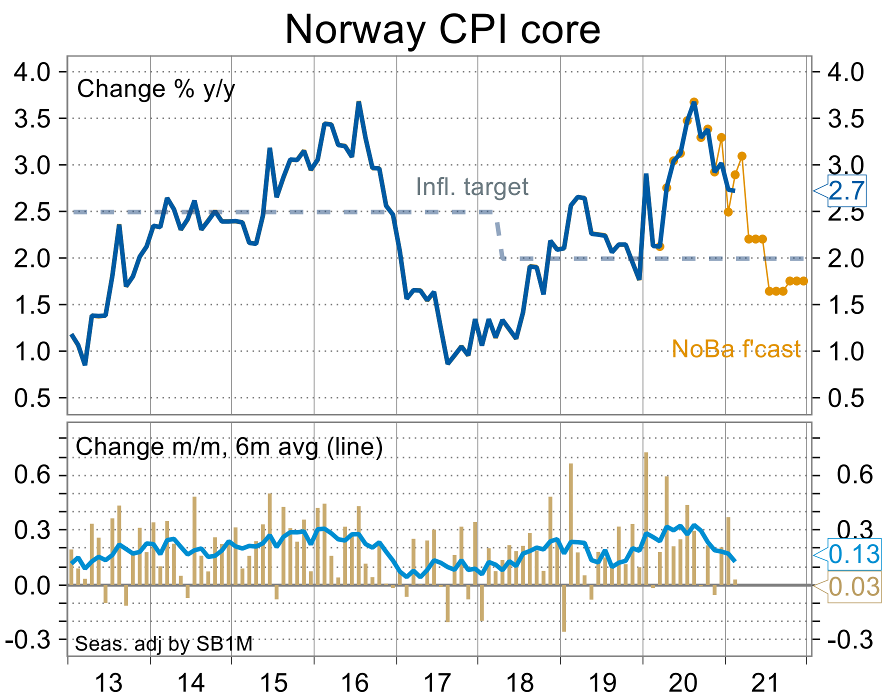
Businesses are expecting a further – but now moderate decline in profits

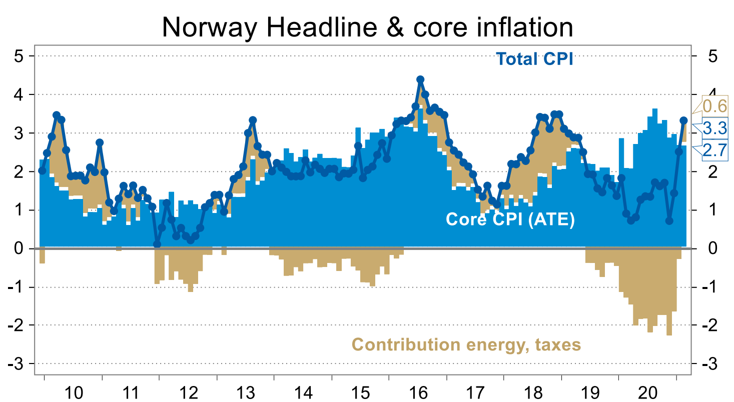
Given their growth outlook, that seems a tad too pessimistic



Core inflation held steady at 2.7% in February, lower than expected

Headline inflation up 0.8 pp to 3.3% y/y, as we assumed





- CPI-ATE (ex. energy and taxes) inflation flat at 2.7% in February; somewhat below consensus (2.9%) and our forecast (3.0%). Norges Bank expected 2.9% (Dec MPR f'cast)
  - » Prices were unch m/m (s.a), down from +0.4% in January
  - » Food, alcohol, rent, airline tickets and restaurants were all lower than we expected
  - » Inflation is below 2% for housing, clothing, alcohol, communication and airline tickets – others are still above
  - » Imported goods price inflation was up in Feb, but will recede further as NOK effect fades. Domestic services have slowed substantially
  - » Domestic inflation has slowed substantially but remains close to 3%
- Total inflation accelerated 0.8 pp to 3.3%, in line with our f'cast, due to a lift in the annual inflation rate for electricity.
- **The price outlook**
  - » We expect inflation to slow the coming quarters as the NOK effect fades and wage inflation remains muted. Demand for goods will have to decline from a very high level, while the 'beaten down services' will probably not have pricing power anytime soon, even if demand should pick up steam during Q2/Q3
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. It's all about the Covid-19 impact on the real economy, and the outlook for the recovery.

SpareBank 1 MARKETS

Lower food & airline ticket prices, rent than expected

Prices of airfare, food, and clothing surprised on the upside

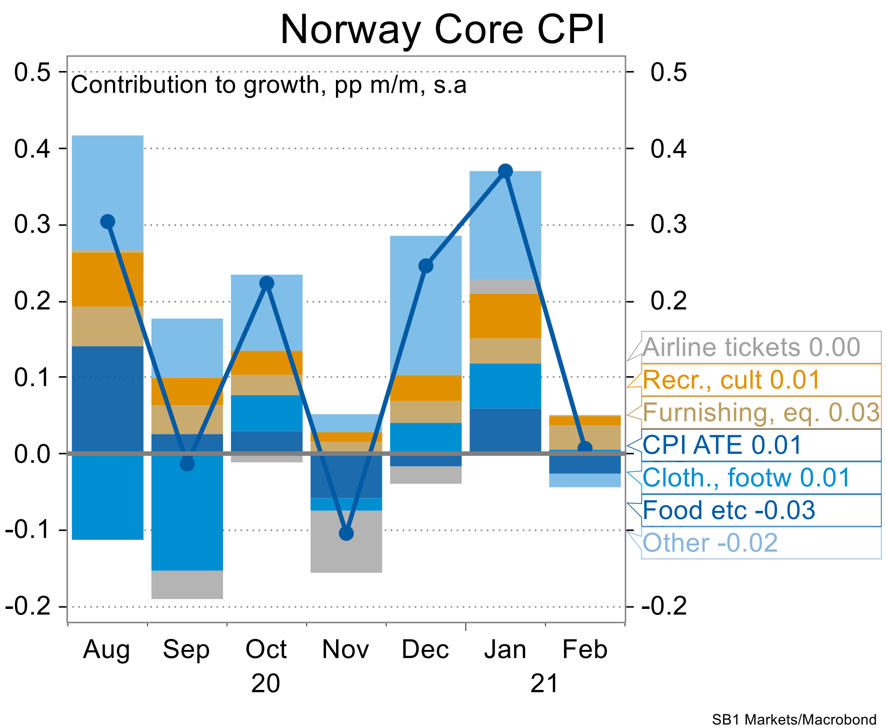
		Change m/m, seas. adj			Change y/y			Contribution, pp		
Feb-21	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	13.0	-0.2	0.1	-0.3	2.6	2.0	2.3	-0.02	0.26	-0.04
Alcohol, tobacco	4.3	-0.3	0.2	-0.5	1.9	1.3	1.8	-0.01	0.06	-0.02
Clothing, footwear	4.9	0.1	-1.0	1.1	-0.6	0.3	-0.8	0.00	0.02	0.05
Housing x. energy	20.5	-0.0	0.2	-0.2	1.0	0.8	1.0	-0.01	0.17	-0.04
Furnishing	6.8	0.4	0.3	0.1	6.2	7.0	6.1	0.03	0.47	0.01
Health	3.2	0.7	0.3	0.4	2.0	2.7	2.3	0.02	0.09	0.01
Transp. ex. gas, airl. tick	12.0	0.3	0.3	0.0	4.6	5.2	5.3	0.03	0.63	0.00
Airline tickets	1.0	0.2	1.0	-0.8	-13.4	-13.3	-12.9	0.00	-0.14	-0.01
Communication	2.5	-0.1	0.2	-0.3	2.6	1.9	2.3	-0.00	0.05	-0.01
Recreation, culture	11.2	0.1	0.3	-0.2	4.5	4.2	4.3	0.01	0.47	-0.02
Education	0.5	-	-	-	2.1	2.1	2.1		0.01	0.00
Restaurants, hotels	5.9	-0.3	0.3	-0.5	3.5	2.9	3.5	-0.02	0.17	-0.03
Other	8.7	0.3	0.2	0.1	2.9	3.1	2.9	0.03	0.27	0.01
CPI-ATE	94	**0.0**	**0.1**	-0.14	**2.7**	**2.7**	**2.89**			
Norges Bank est.			**0.4**		**2.5**		***2.9***			
Imported	34	0.2	-0.1	0.3	3.3	3.8	3.5	0.07	1.28	0.09
Domestic	60	-0.1	0.1	-0.2	2.7	2.7	2.9	-0.07	1.65	-0.11
Energy, housing	4	5.5	3.0	2.5	18.5	40.9	38.0	0.20	1.47	0.09
Energy, transport	2	1.9	8.0	-6.1	-3.9	0.0	6.0	0.04	0.00	-0.12
CPI Total	100	**0.4**	**0.4**	0.0	**2.5**	**3.3**	**3.3**	0.44	3.33	0.03
Change m/m based on seasonally adjusted data (calc by SB1M)										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

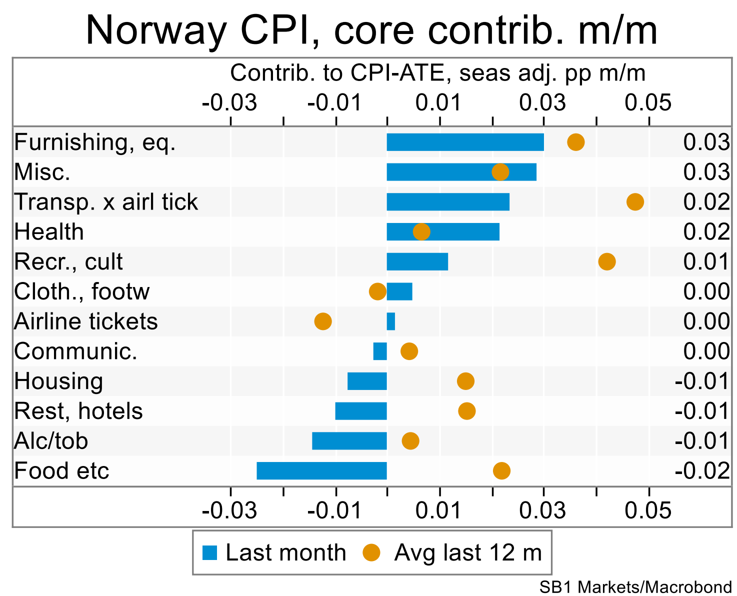
- Food price inflation is down to 2.0%, and below our f'cast
- Clothing prices are up 0.3% y/y, up 0.9 pp since January, following a 0.1 lift m/m
- Furniture/hardware/equipment prices are up 7% y/y!
- Transport ex. gas/airline – mostly cars – rose 5.2% y/y
- Airline ticket prices were up 0.2% m/m, slightly stronger than expected.
- Prices of books decreased significantly in February, much due to the annual book sale
- Restaurant price inflation was lower than expected. Hotel prices are still falling, but seem to be bottoming out

- **CPI-ATE up 2.7% y/y, 0.3 pp below our expectations**
- Prices on imported goods rose by 0.2% m/m and the annual rate rose by 0.5 pp to 3.8%. Will probably slow as the NOK impact fades
- Prices on domestically produced goods & services fell 0,1% m/m. The annual rate was flat at 2.7%, still a high number!
- Electricity prices rose by 5.5% in Jan, more than we expected
- **… and the headline inflation came in at 3.3%, equal to our estimate**

Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total, and deviations m/m and y/y do not necessarily add up. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

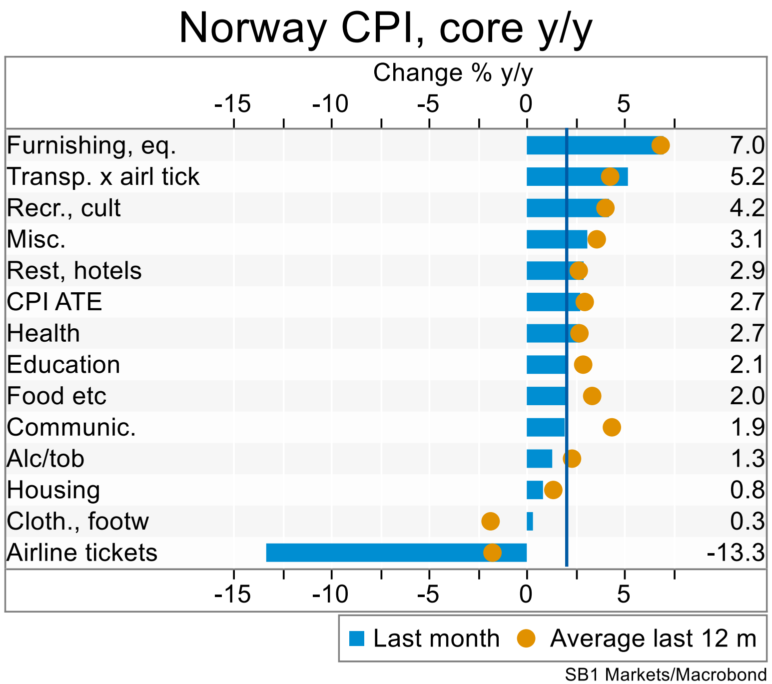
Unusual small m/m price changes in February

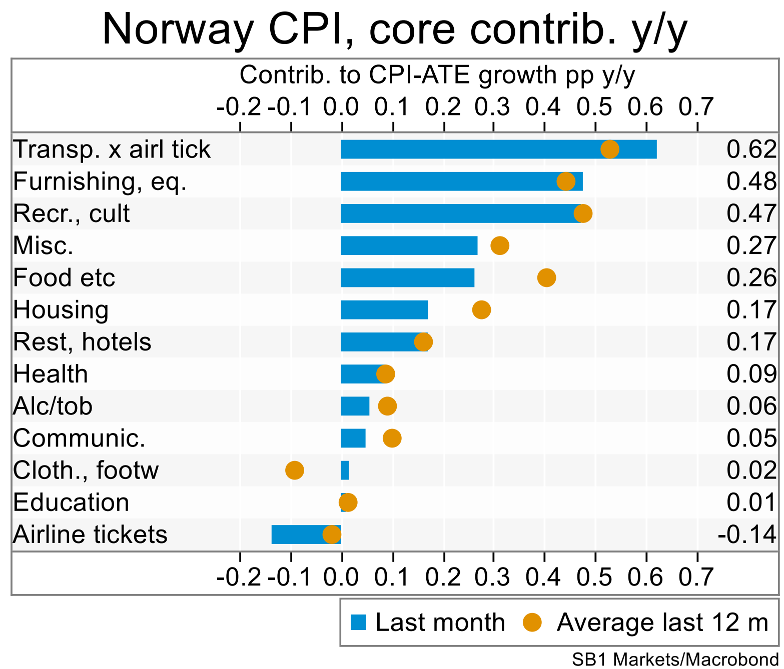




5 sectors report inflation above 2%, 3 are close to, 4 clearly below

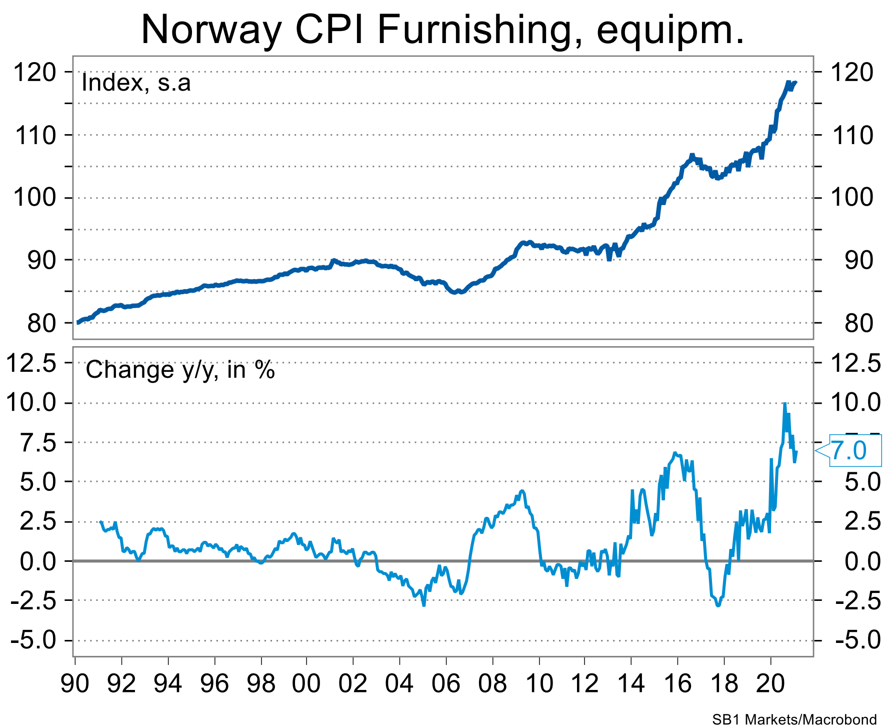
Just clothing, housing (rent), alcohol, communication & airfares < the 2% infl. target

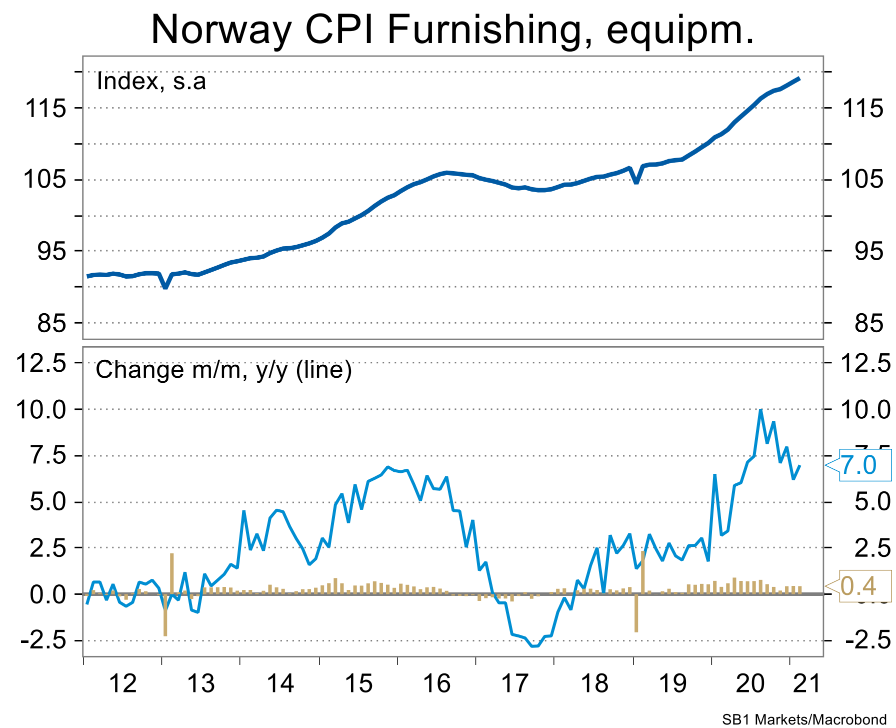




Furnishing prices up 0.4% m/m

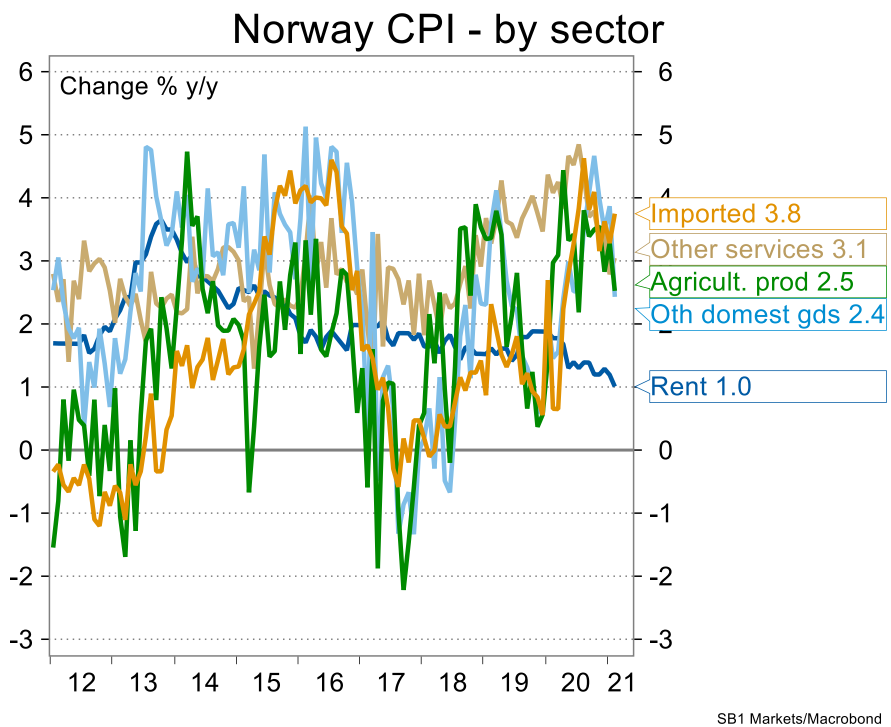
Prices up 7% y/y. We expect furnishing price inflation to taper further off, even if demand is strong



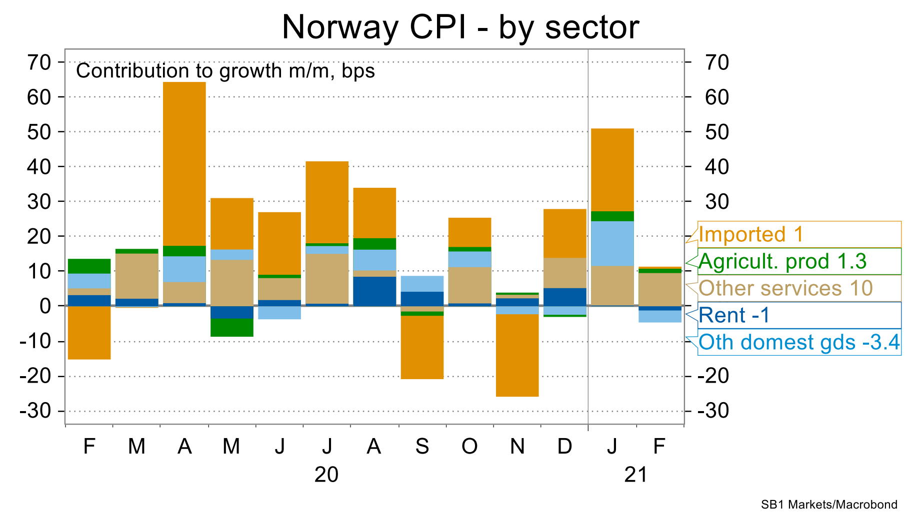


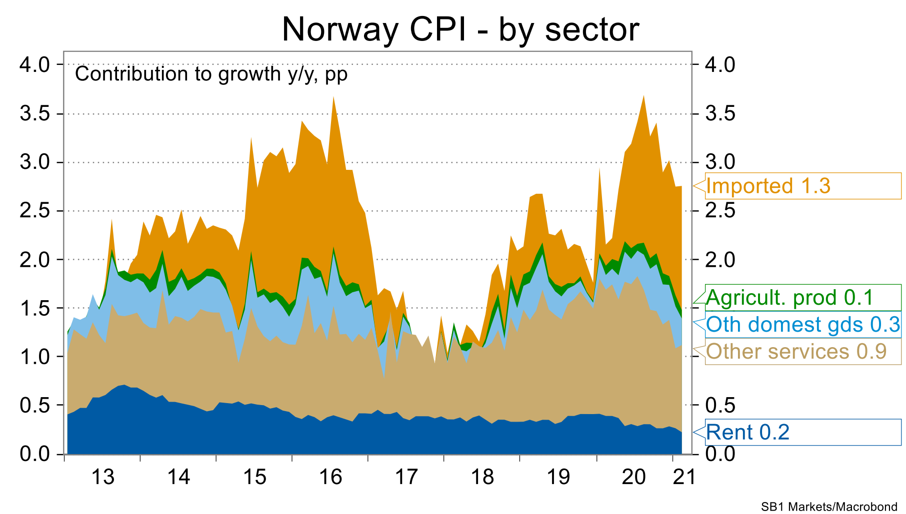
Imported goods prices up 0.2% m/m – and are up 3.8% y/y

Should shrink with a stabilisation/strengthening of NOK. Domestic inflation has slowed



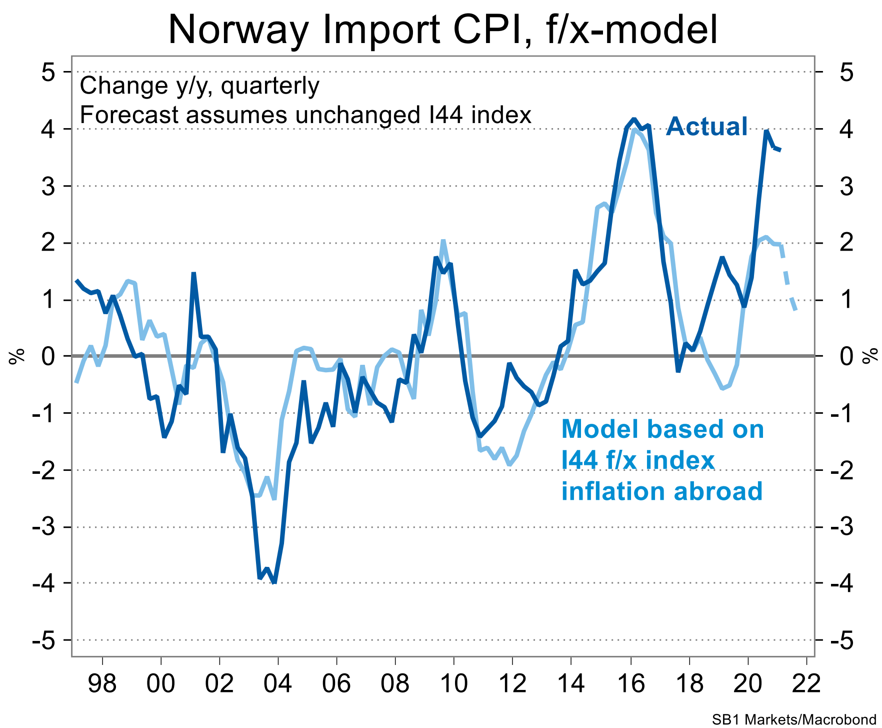
- Domestic services inflation has slowed during the corona crisis

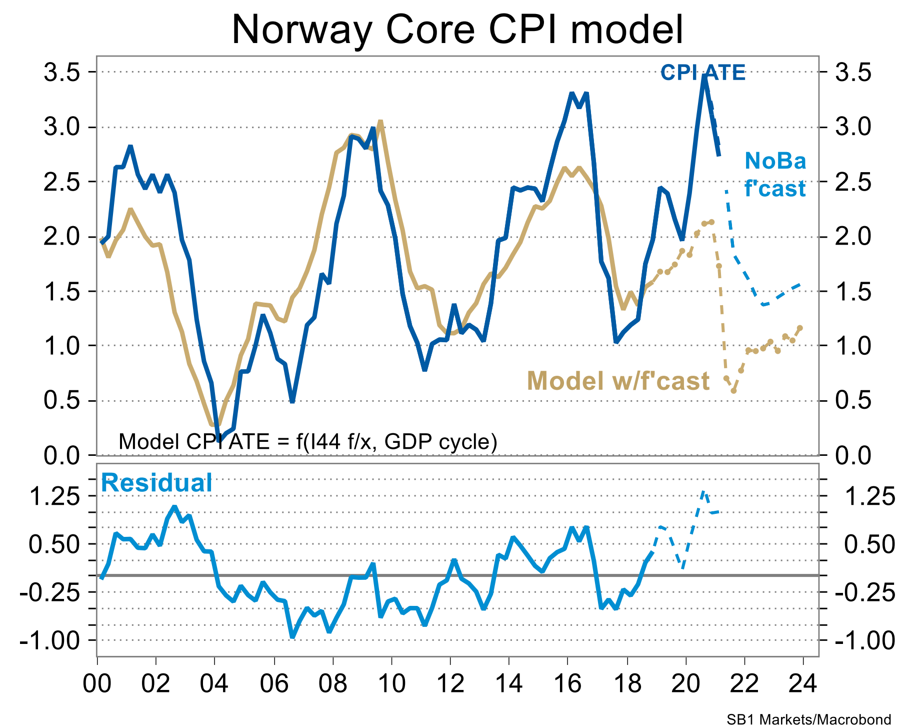




Imported goods prices: Too much up now? Should come down, soon

Our total core CPI model is not calibrated for a huge decline in GDP, but the sign is probably correct

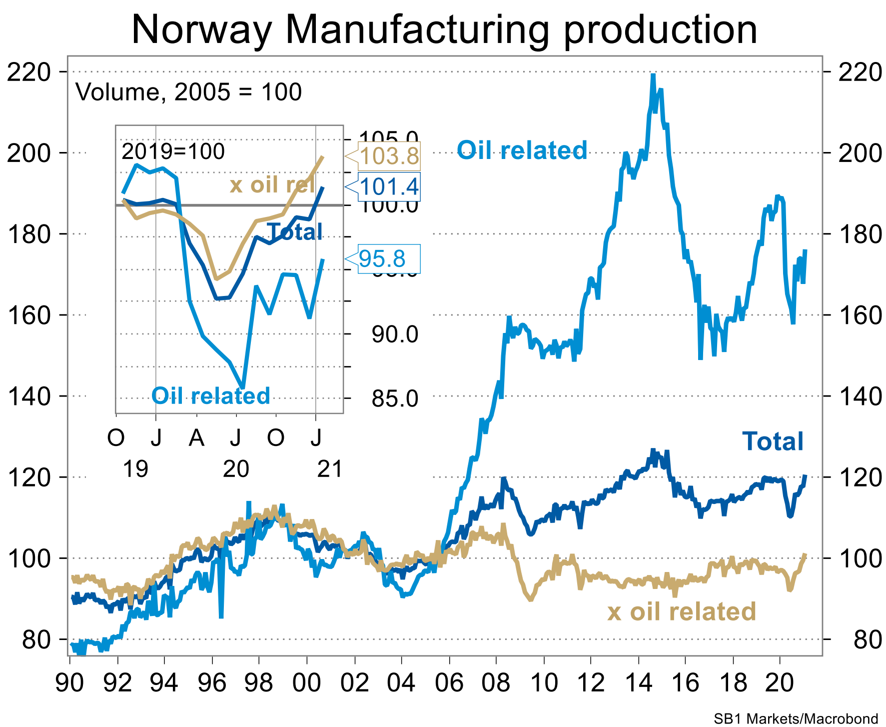


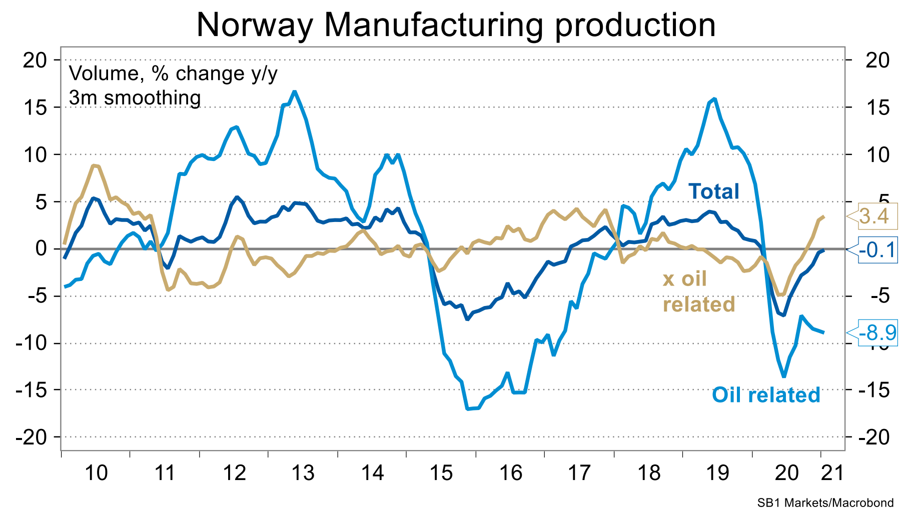


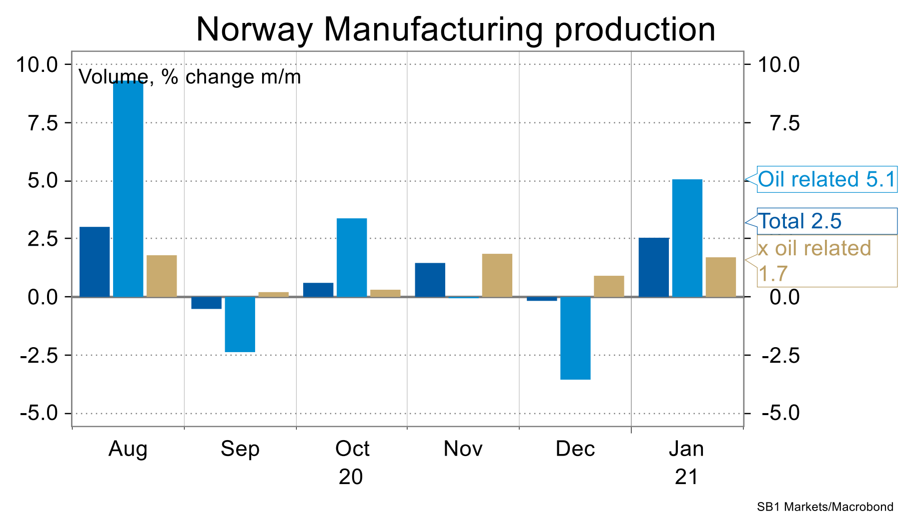
- The NOK steep depreciation in early 2020 has no doubt been driving **imported inflation** up. It usually takes a few months before these impacts are reflected in the CPI. Closed borders/supply chain challenges due to Covid-19 may have contributed to the lift in import prices too, and more importantly: <u>the strong growth in demand for some goods</u> (like sport equipment/furniture)
  - » Still, given moderate inflation abroad and a stabilisation of the NOK exchange rate, we expect imported inflation to slow the coming months – and quarters
- Domestic inflation will be kept in check due to low wage inflation – and total inflation will come down, as signalled by our **total core CPI** model (to the right)

Manufacturing production up 2.5% in January – back above pre-corona level

Production up 9% since last summer, non-oil production the highest in 9 years



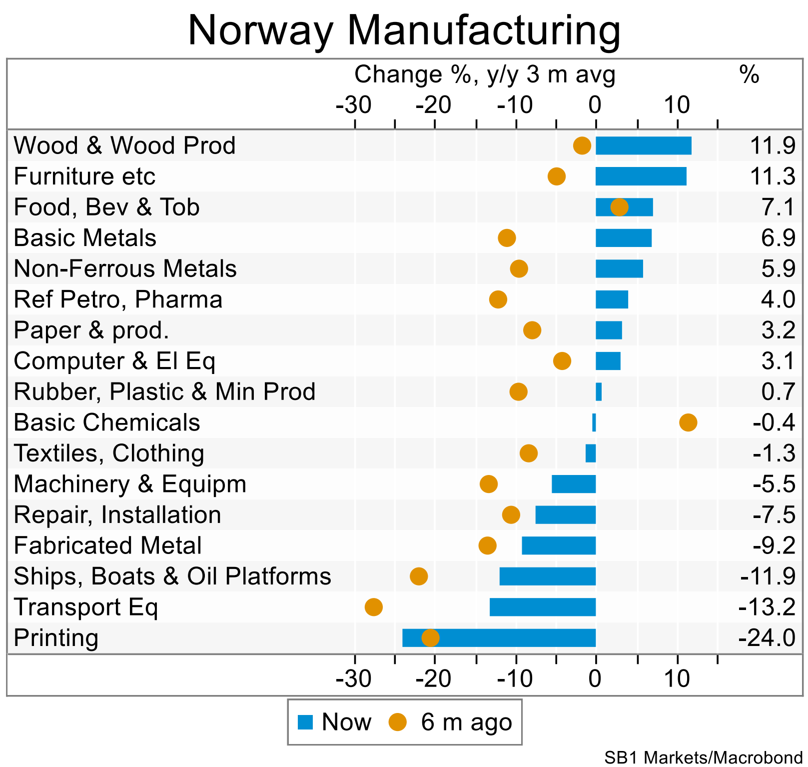


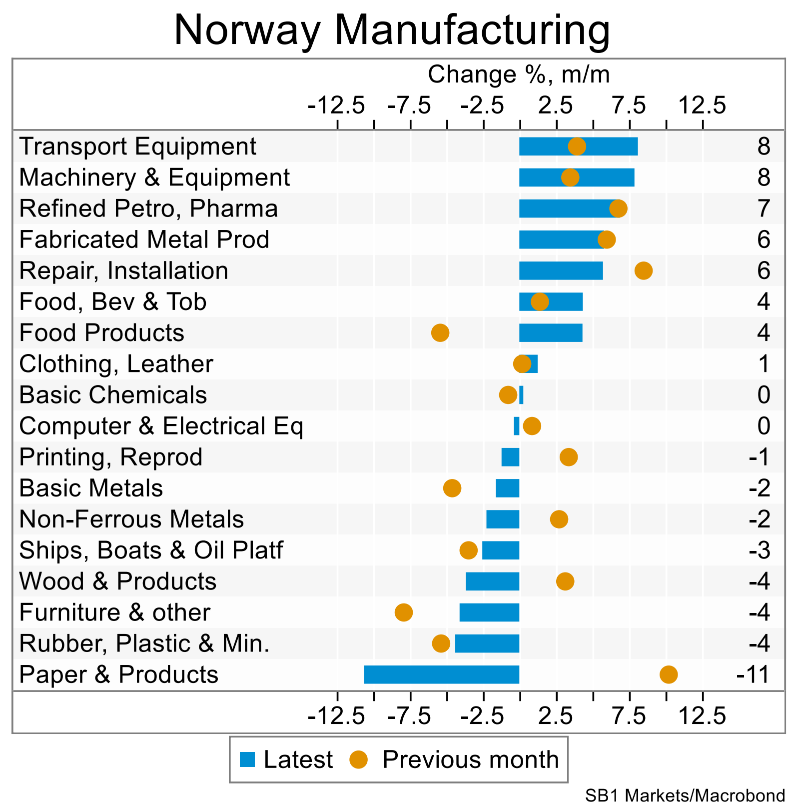


- Production has been at a steep upward trend since June, in total by 9%.
- Total production rose by 2.5% m/m, and is up 1% y/y
- Oil related production rose 5.1% m/m, but is still down 8.9% y/y
- Non-oil related production grew 1.7 % m/m, and up 3.4% y/y
- Surveys are gradually recovering, and are now signalling growth

Mixed between sectors m/m, and now half are up y/y

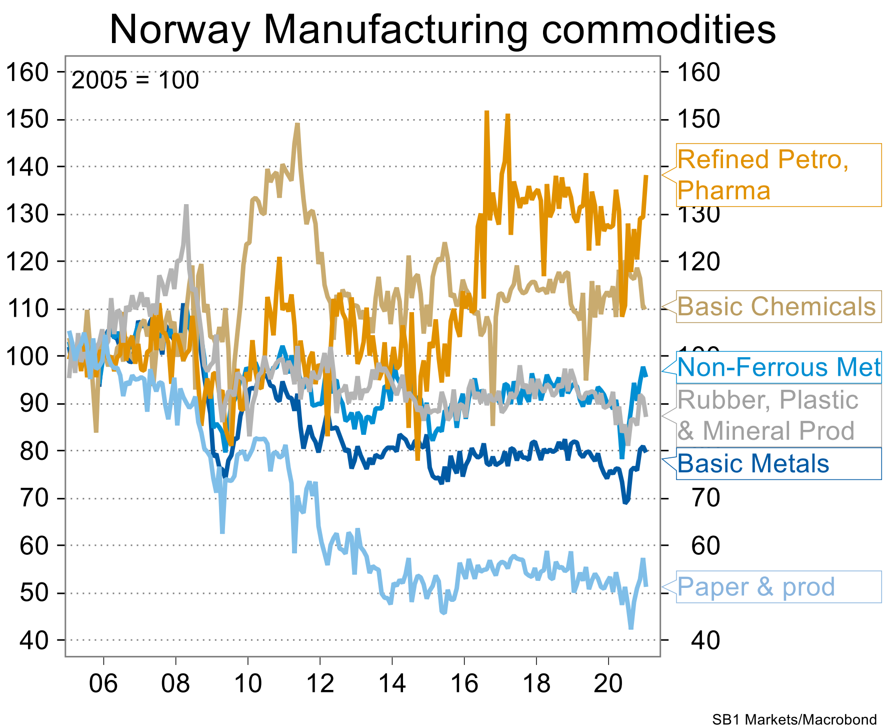
Also, half of the sectors are up m/m

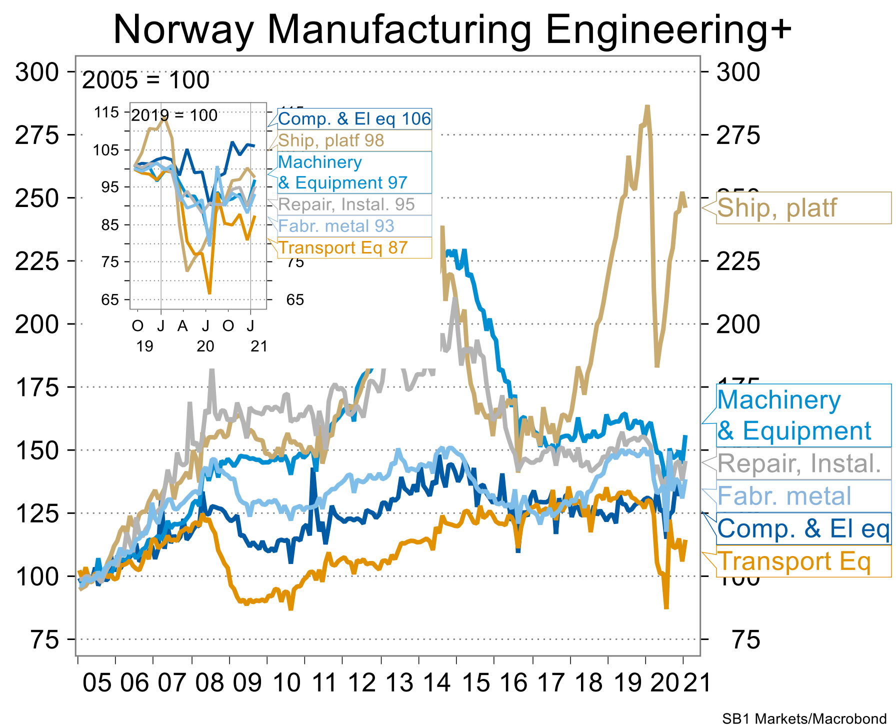




Engineering (and oil related) industries notably stronger in January

Commodity sectors mostly up recent months

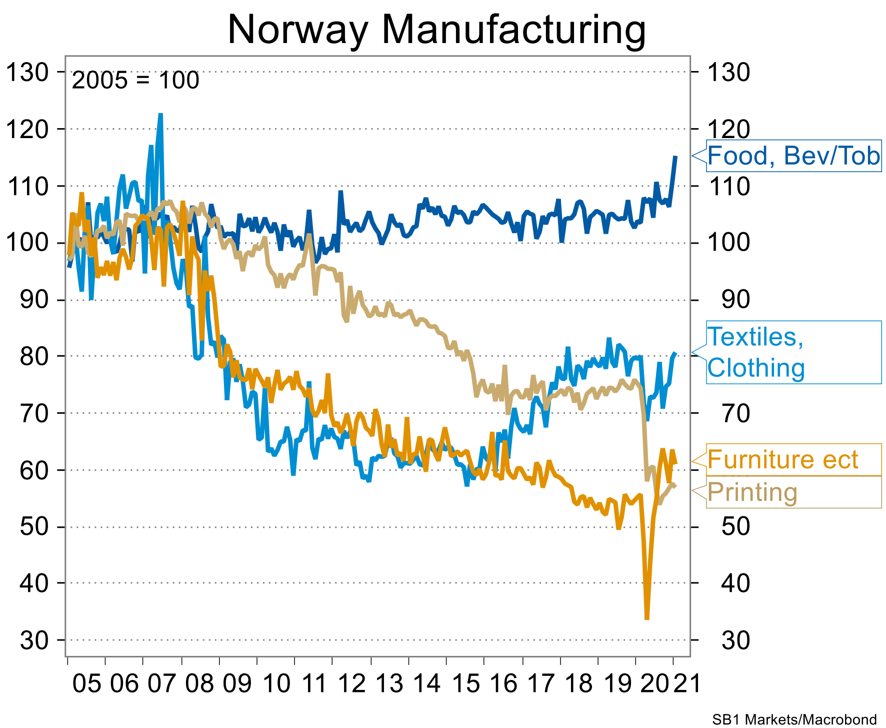




- Production of ships & platforms was incredibly strong in 2018/19, and have recovered sharply since the summer, following a 30%+ decline during H1. Although shipping and platforms were down in Jan, the level is once more impressive. Computers and electronic equipment was more or less flat, others further up
  - » Corona measures, supply chain challenges probably explained parts of the drop during the spring
- Commodities have all recovered from the spring through, but declined in Jan. The exception was refined petroleum and pharma, which were up 7% from the previous month

Food and beverage made another leap upwards

... and will remain high until borders are opened



- The food and beverage industry grew 4.3% in January, partly driven by an increase in the processing of fish due to higher slaughter volumes
- Furniture and printing slightly lower
- Clothing on the way up

Highlights

The world around us

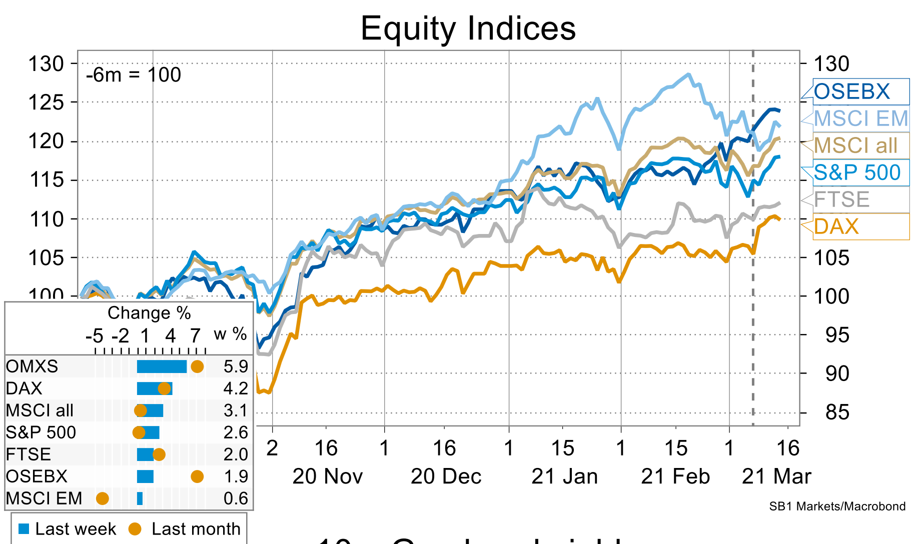
The Norwegian economy

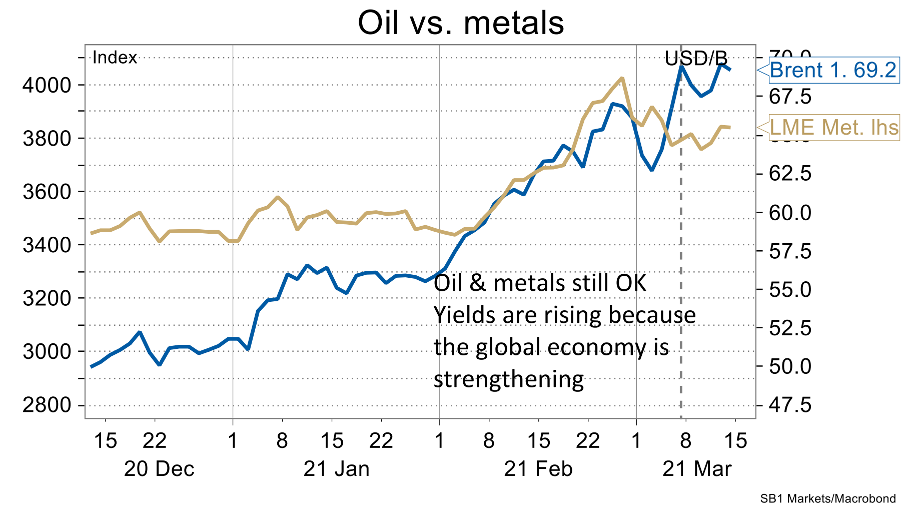
Market charts & comments

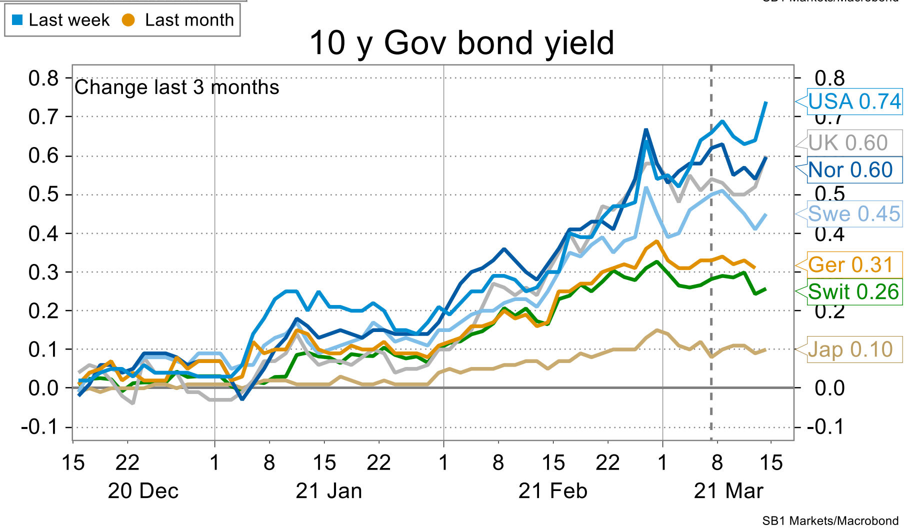
SpareBank 1 MARKETS

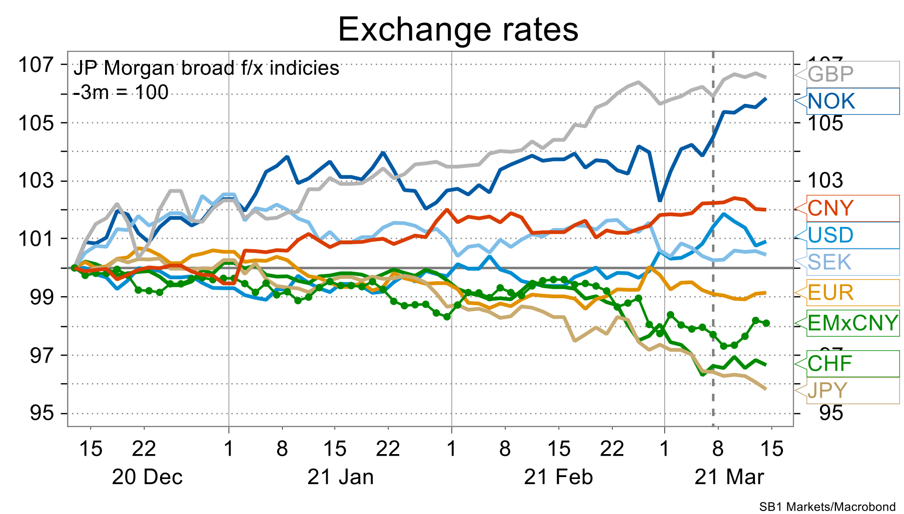
10 y US gov yield up above 1.64% - without stock markets complaining ☺

The NOK, AUD, SEK and GBP stronger. Oil flat at close to USD 70/b, metals slightly up









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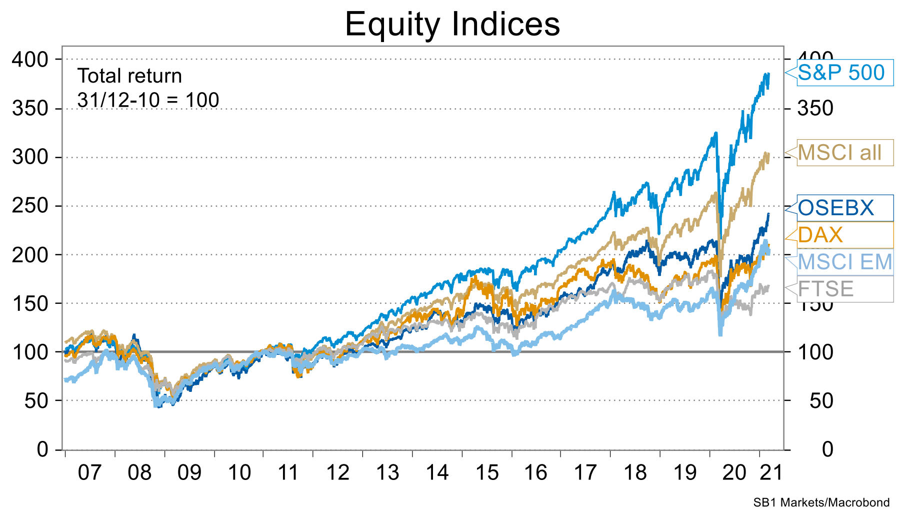
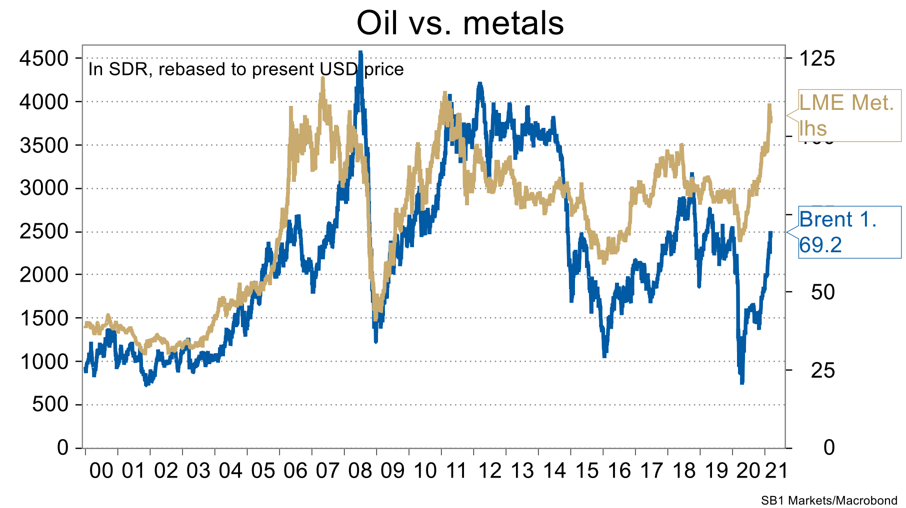
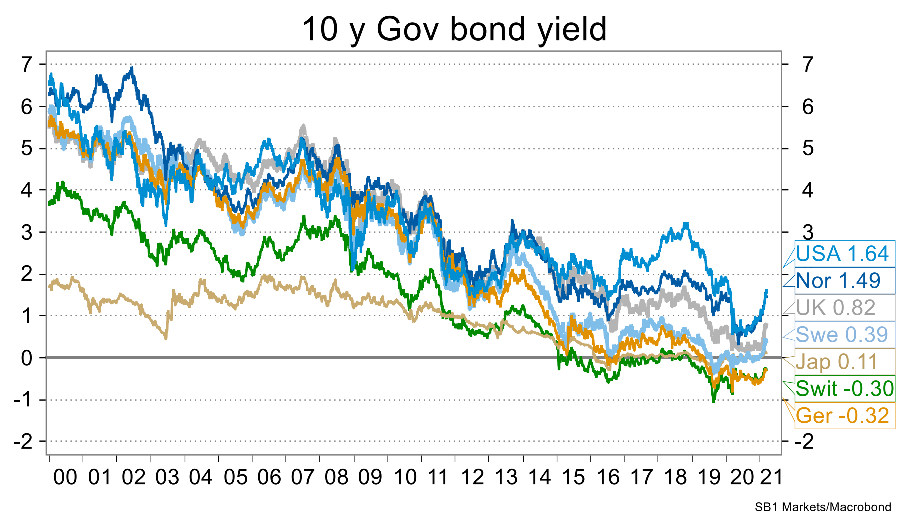
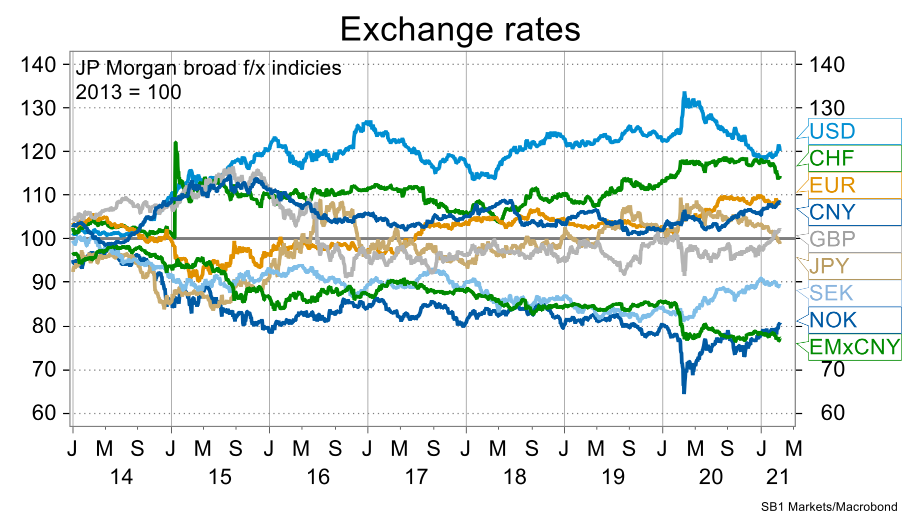
Positive growth expectations: the trend for longer yields and commodities is up



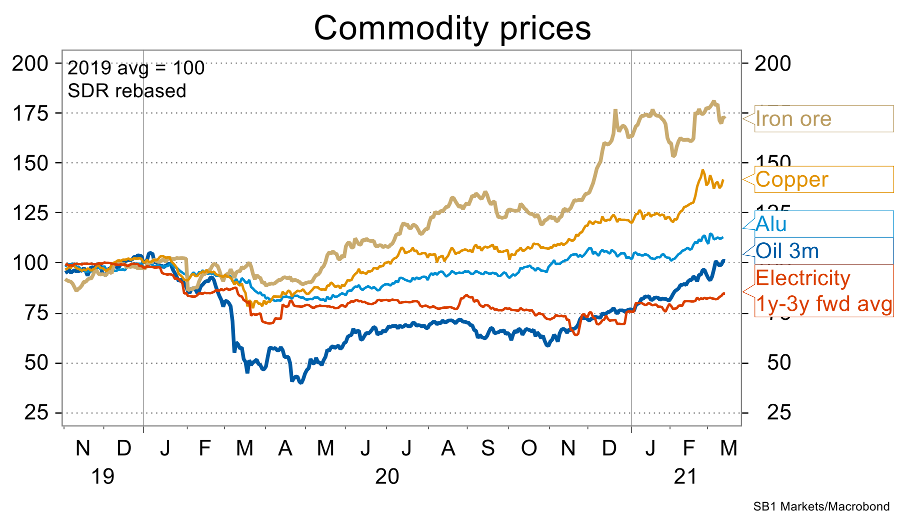


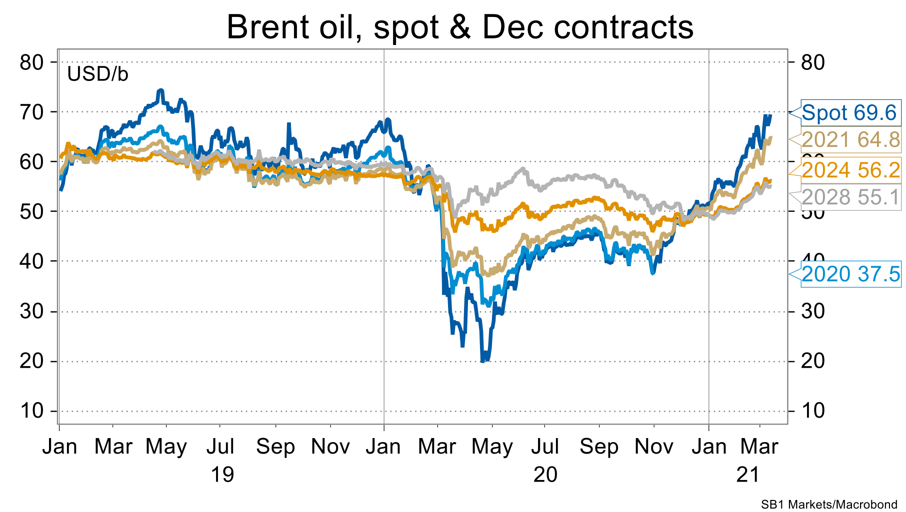


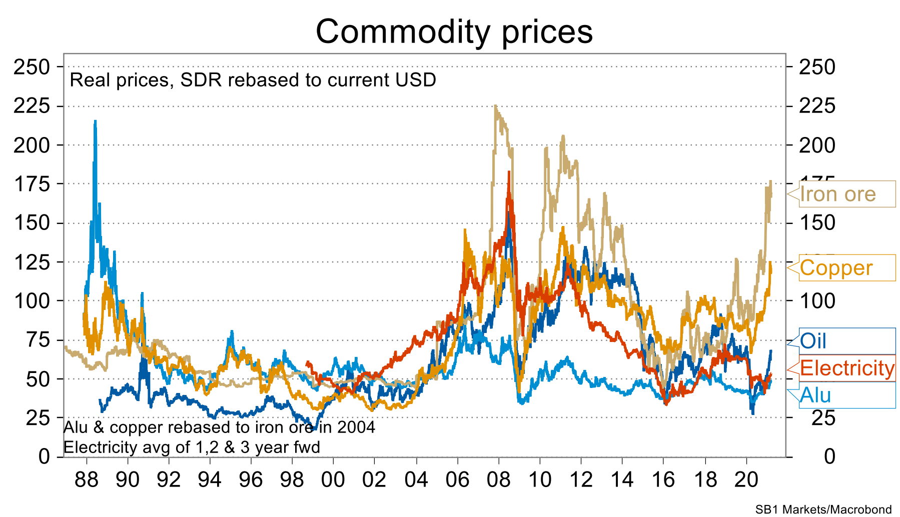


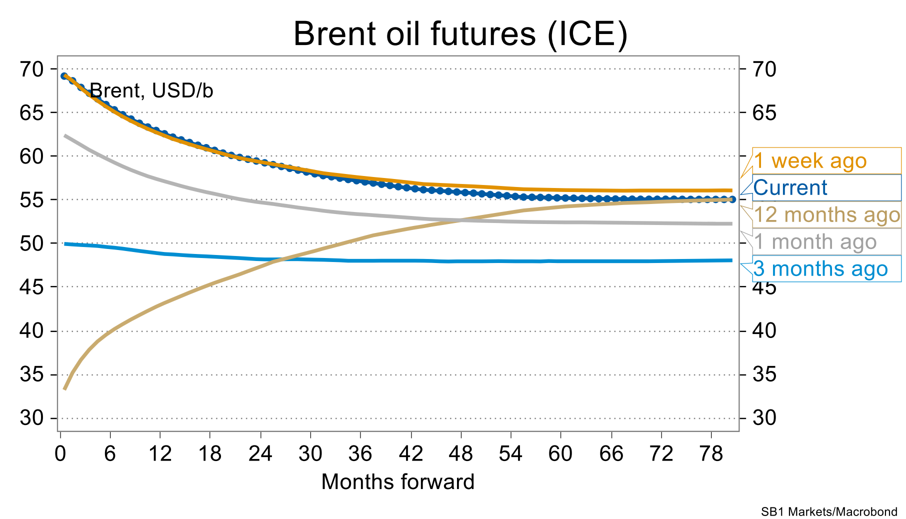
Commodities mixed over the past week

Oil flat, iron ore down and copper up – but the trend (and levels…) are high for many commodities



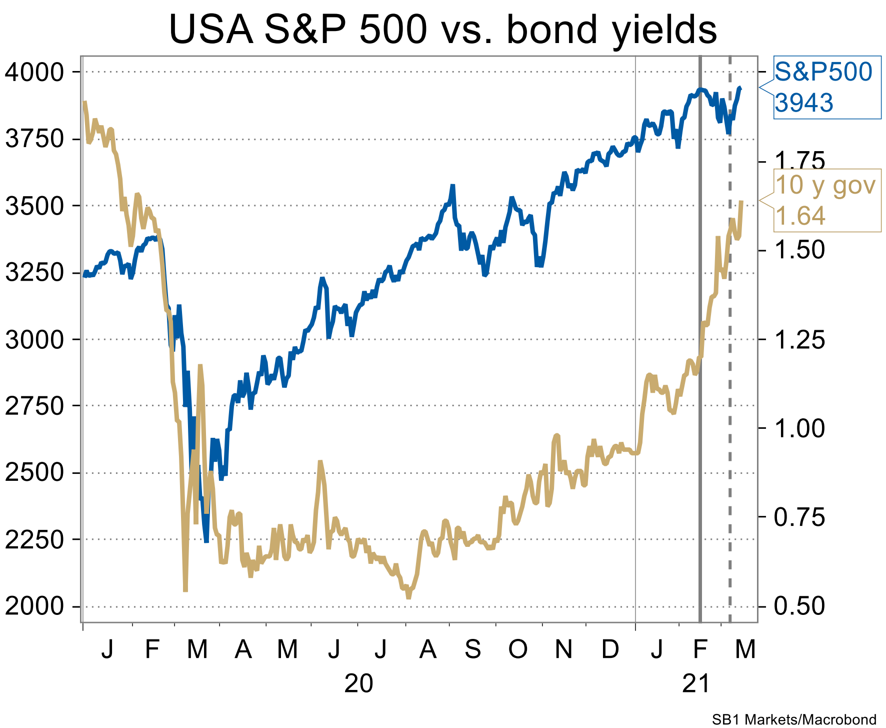


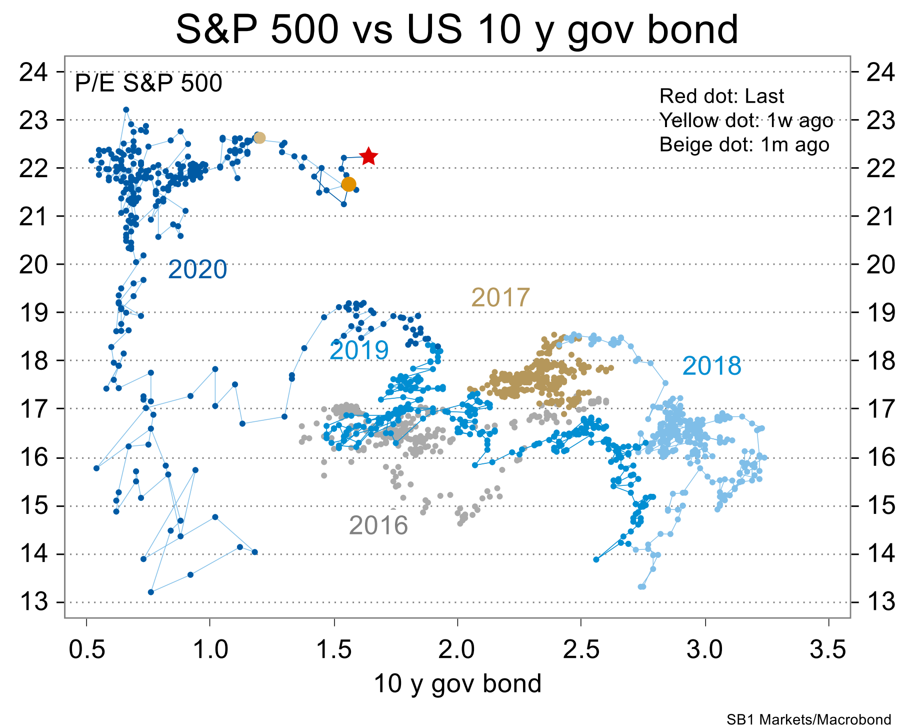




Again, yields are surging, the 10 y up 8 bps to 1.64%, S&P up 2.7%

Does the stock market believe in the Fed now?

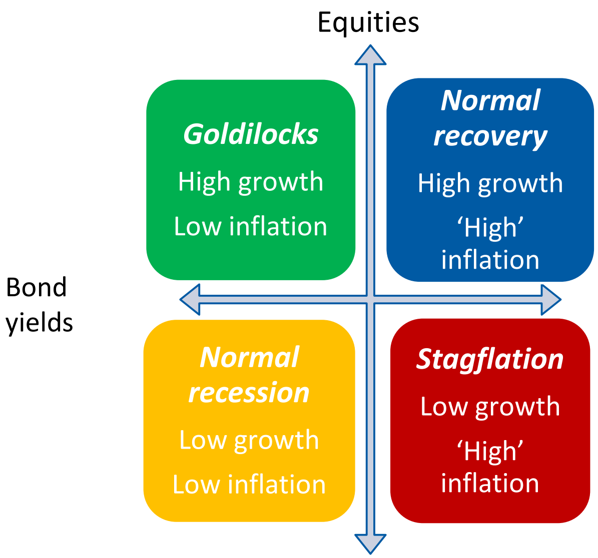


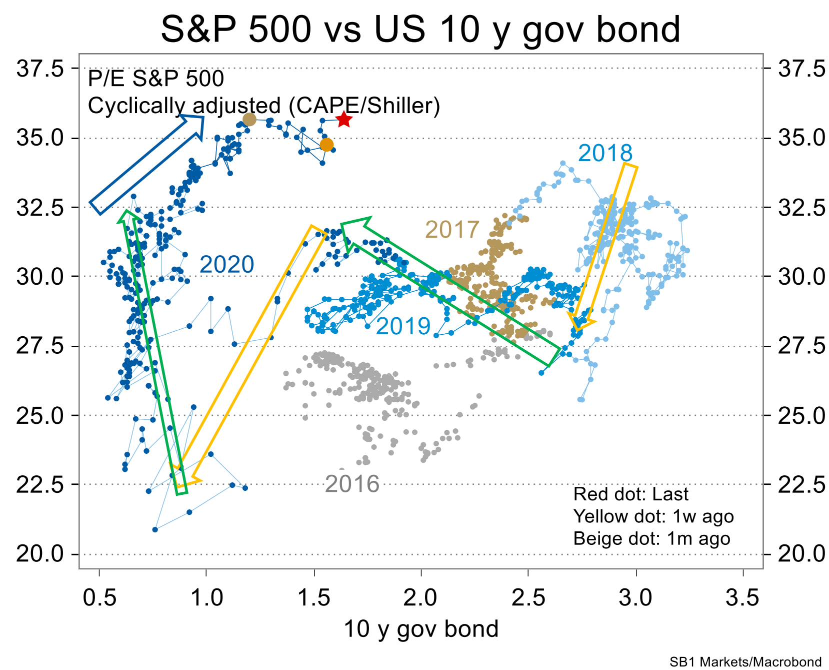


- Since the **through in yields** in early August, 110 bps ago (10 y gov), the stock market has climbed 19%. Higher bond yields are normally not a disaster for stocks. In fact, over the past 20+ year the correlation between bond and equity return have been quite consistent, <u>the stock market has gained when yields rose and vice versa</u>.
  - Changes in growth expectations were dominant for both markets, not fears of too high inflation.
- <u>Over the past month, however, the stock and the bond market have switched to being negatively correlated</u>. 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 on the next page*

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





- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> 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

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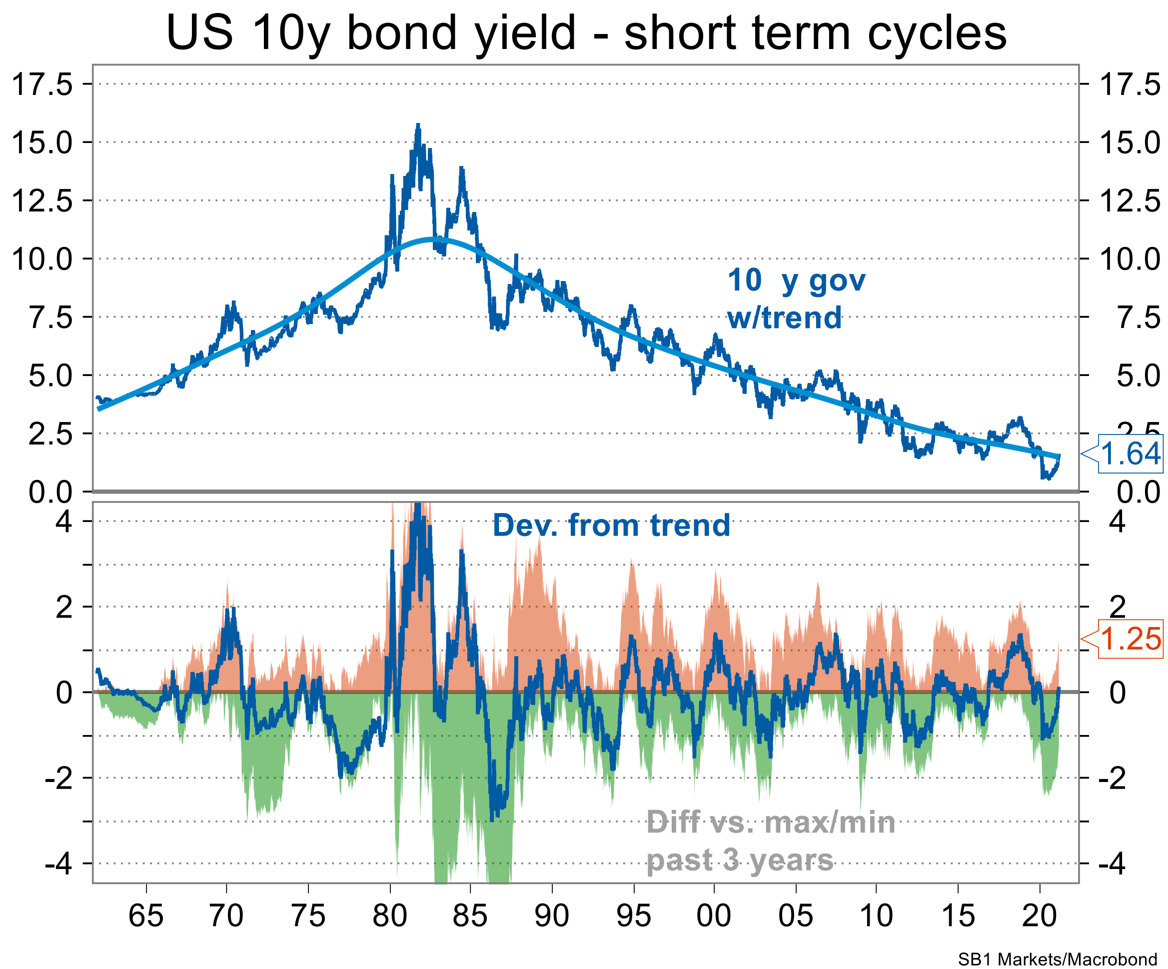
Some ‘smaller’ bond yield cycles: -200 bps/+200 bps vs recent peaks/troughs

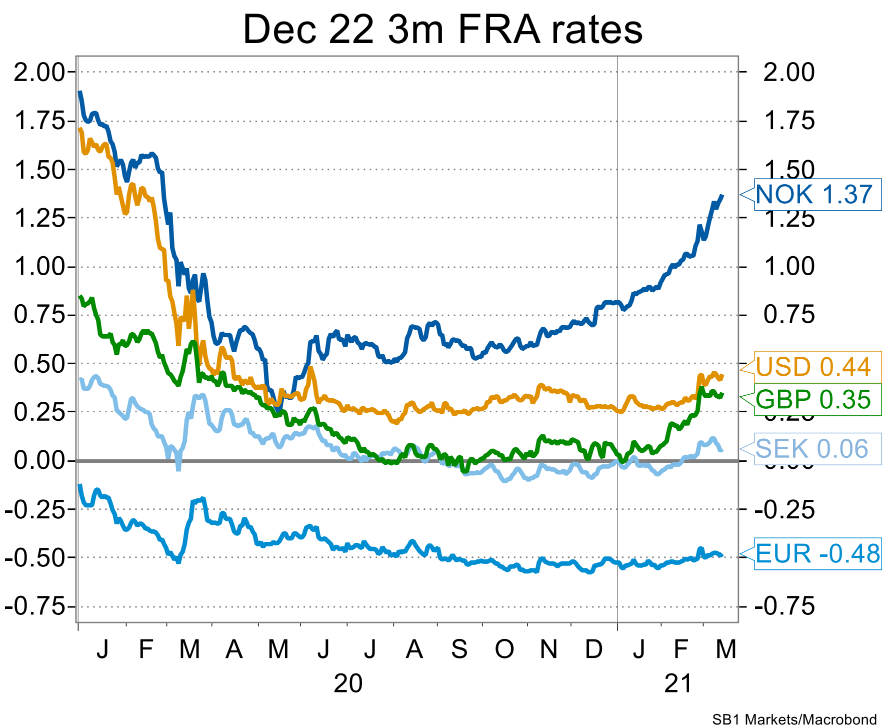
We may be more than half-way through a ‘normal’ correction – but still much more to go

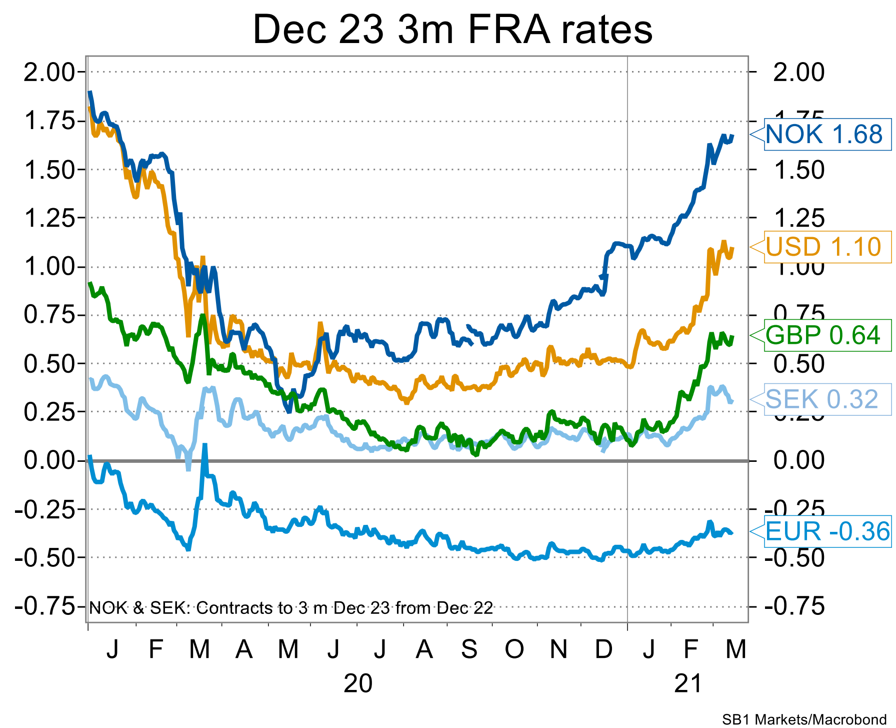


- … even within the current record low interest rate regime
- The tail risk now: Higher inflation following unprecedented ficscal stimulus in the US – and some elsewhere, and a very expansionary monetary policy everywhere

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

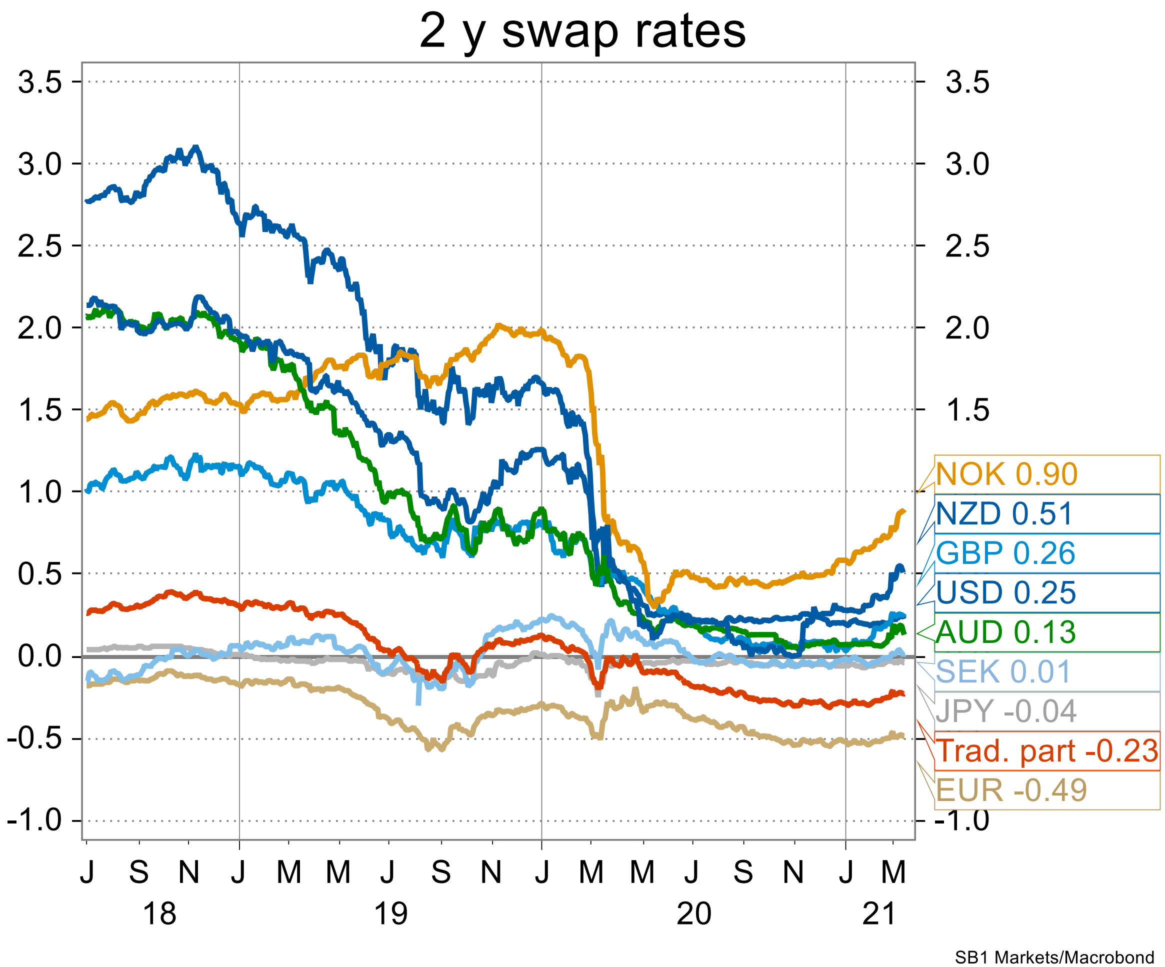
Some microscopical lifts in the Dec 22 contracts in SEK & EUR. More visible in the Dec 23 contracts

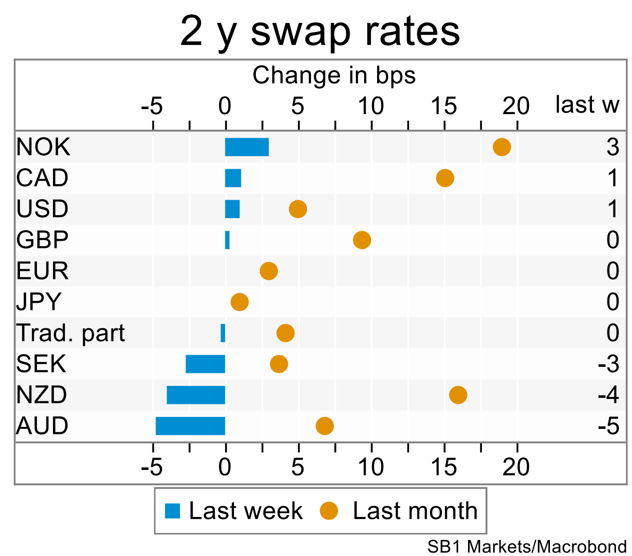




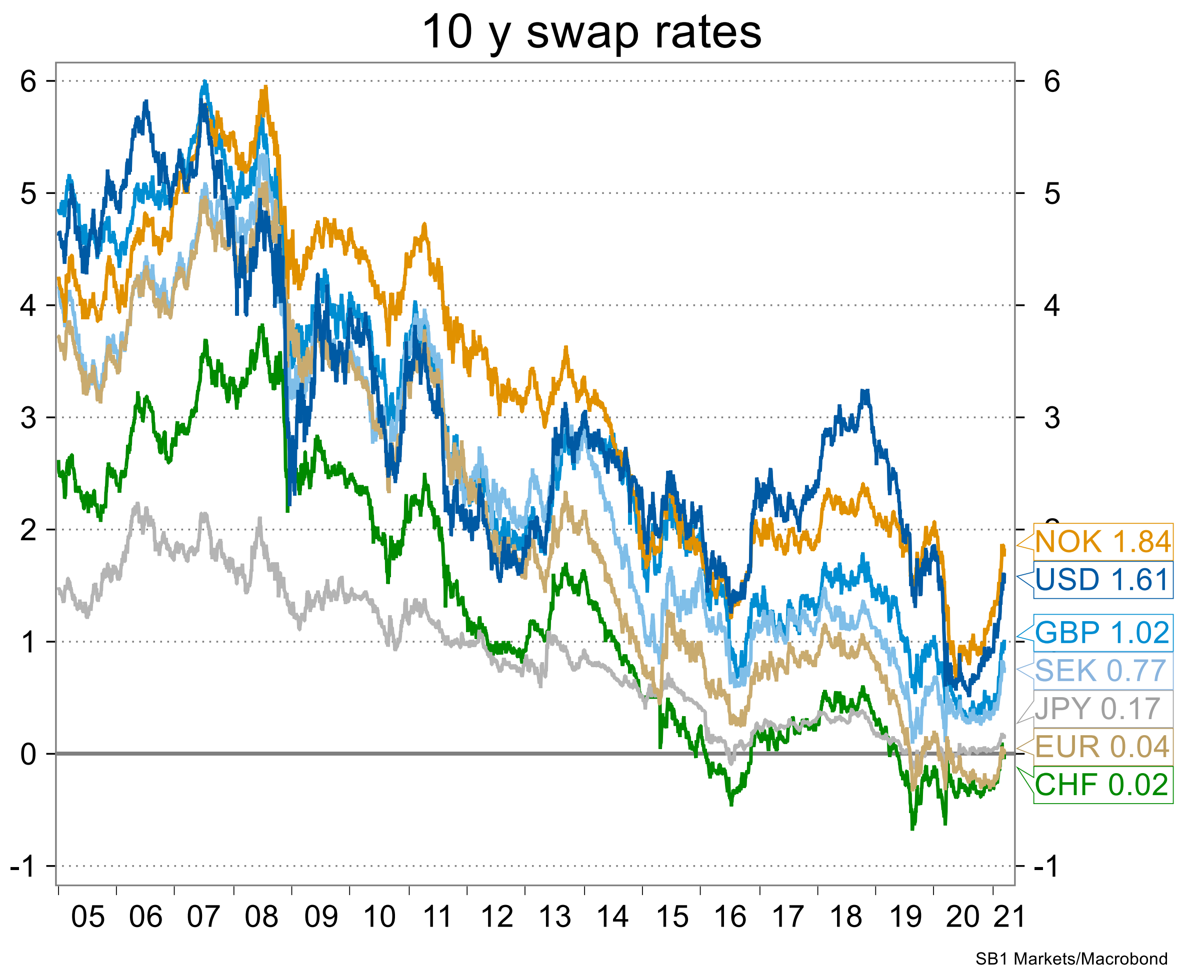
NOK rates in the lead both level & change last week

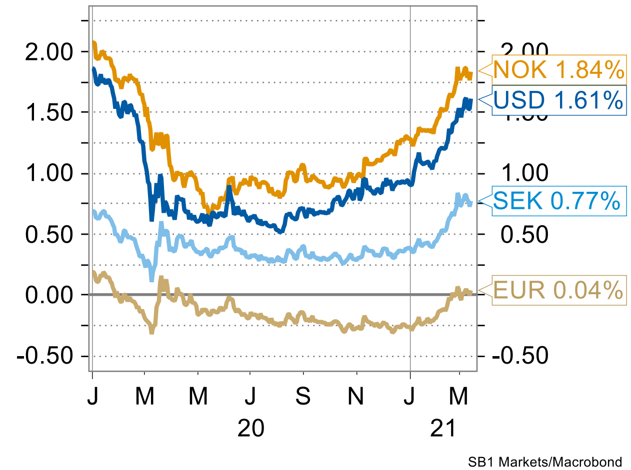
The trend is upwards everywhere

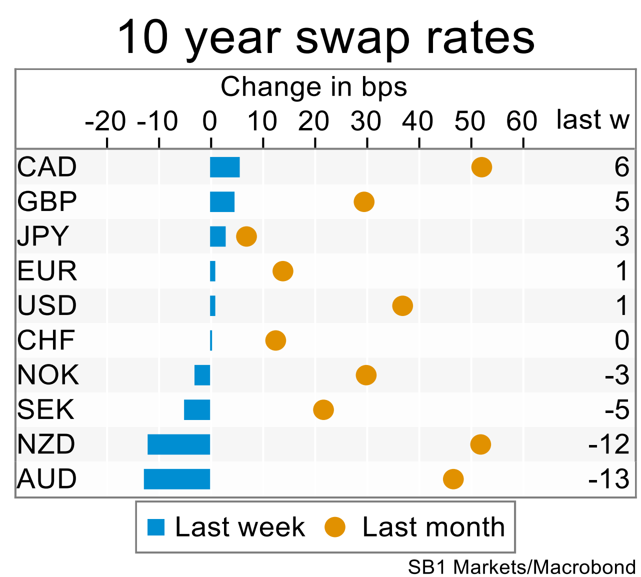




Mixed in the long end last week, not last month

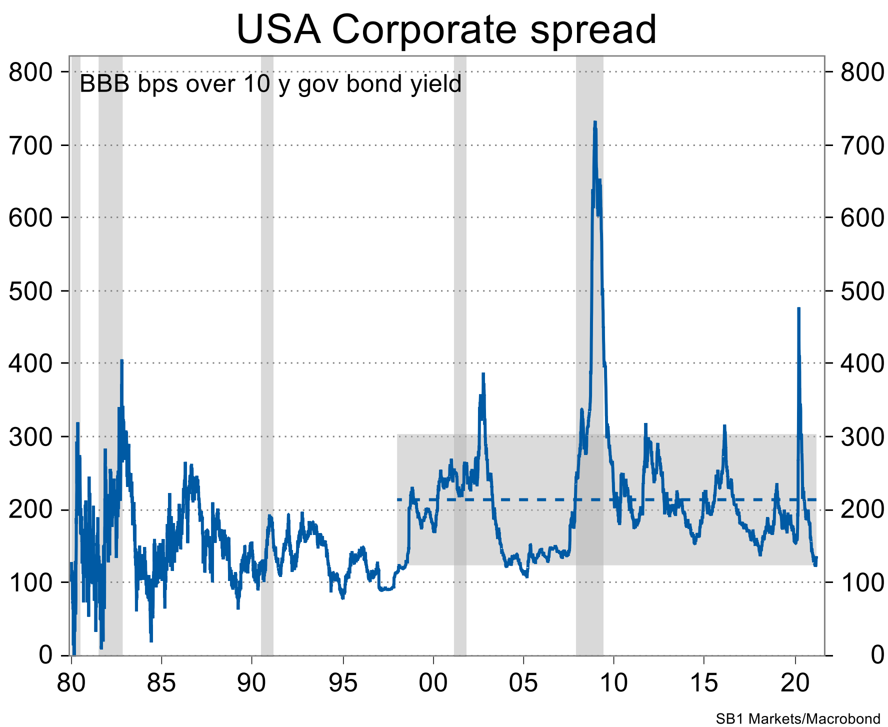


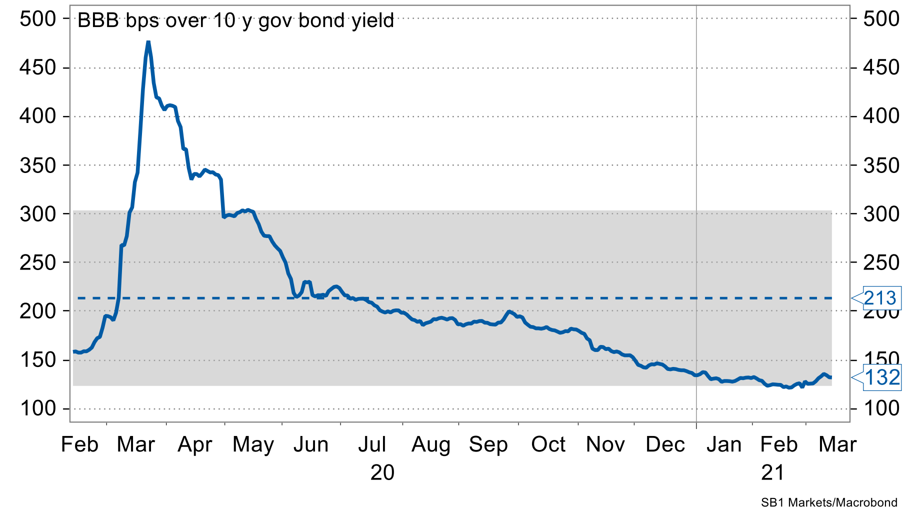


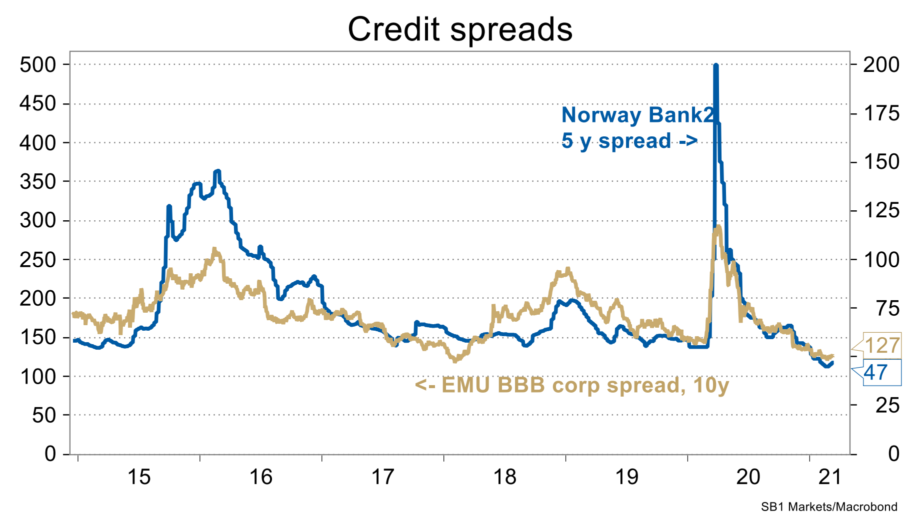


U.S. credit spreads (BBB) marginally up (but fell towards the end of the weak

European, Norwegian spread widened marginally last week too. Spread levels are very low







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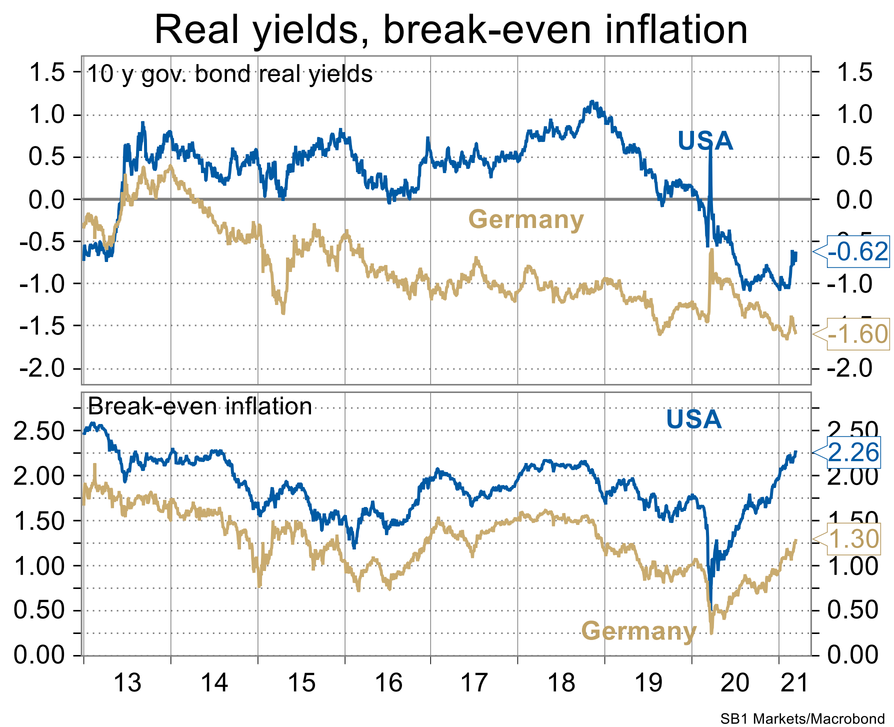
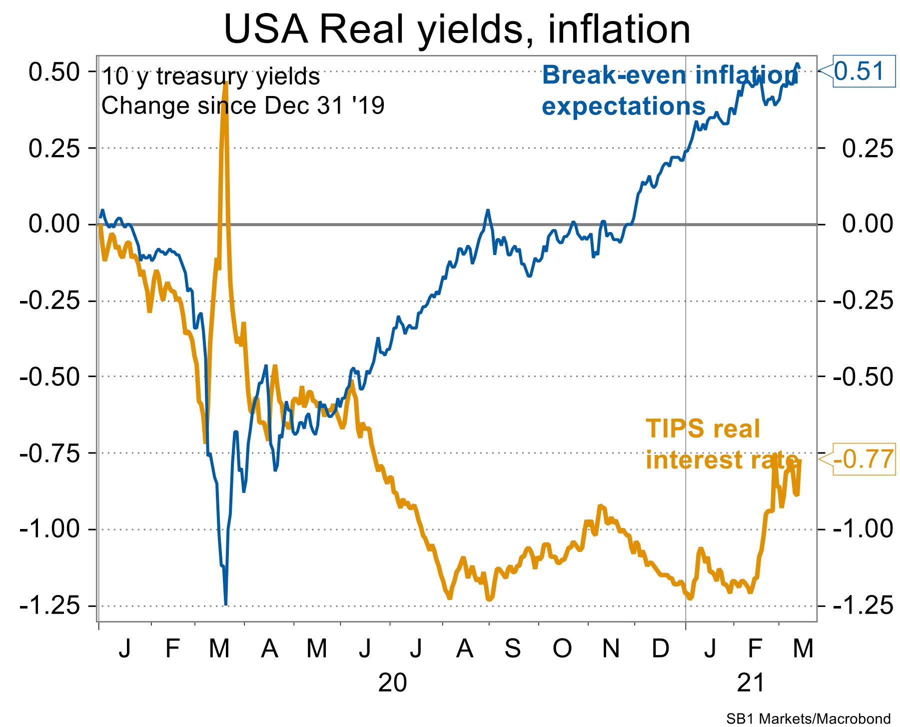
US yields continue upwards, German rates took a break

In the US, both inflation expectations & real rates rose – the former to the highest since 2014

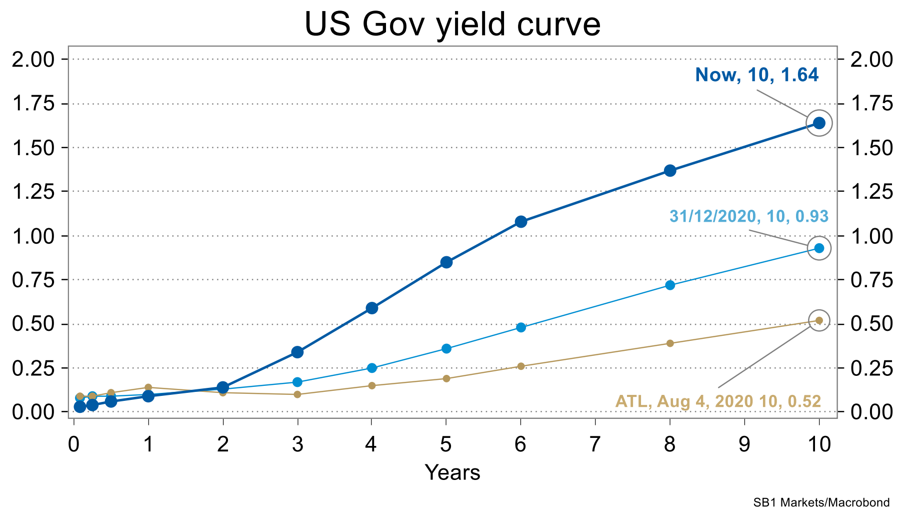


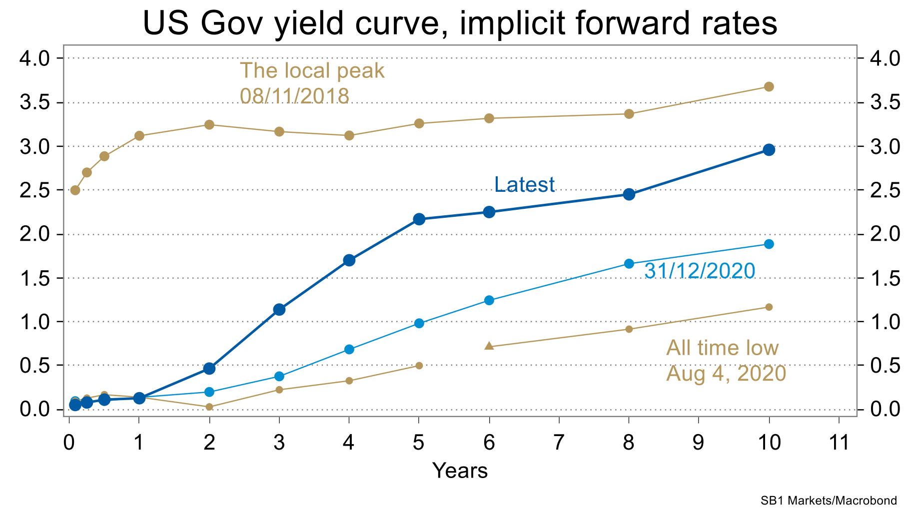


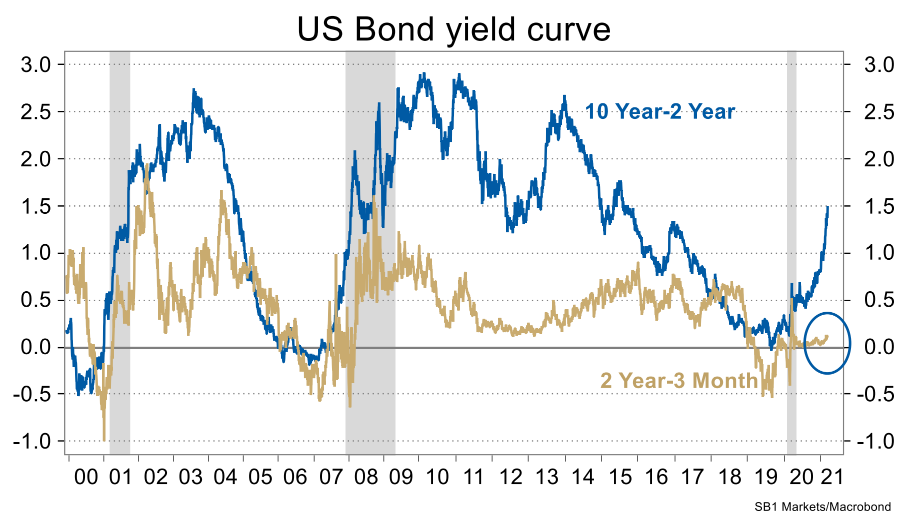
- **US 10 y <u>+8 bps to 1.64%</u>**
  - » Inflation expectations +4 bp to 2.26%, new high since 2014
  - » The TIPS real rate + 4 bps to -0.62 – <u>and up by more than 40 bps in less than 1 month</u>
- **Germany 10y <u>unch at -0.30%</u>**
  - » Inflation expectations +6 bps to 1.30
  - » Real rate -6 bps -1.60%, not far from ATL – and ECB and Lagarde talked real yields down last week (And AstraZeneca disappointed, once more)

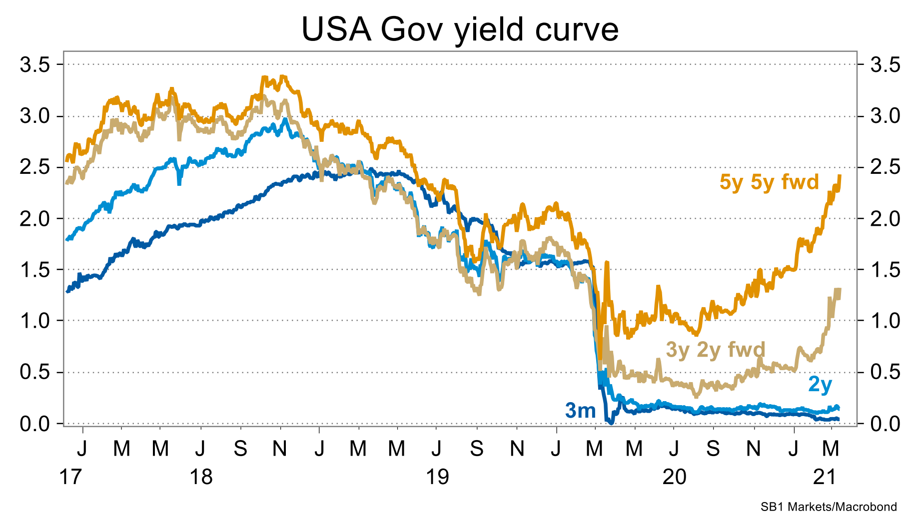
The short end of the US yield curve is not fully anchored anymore

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



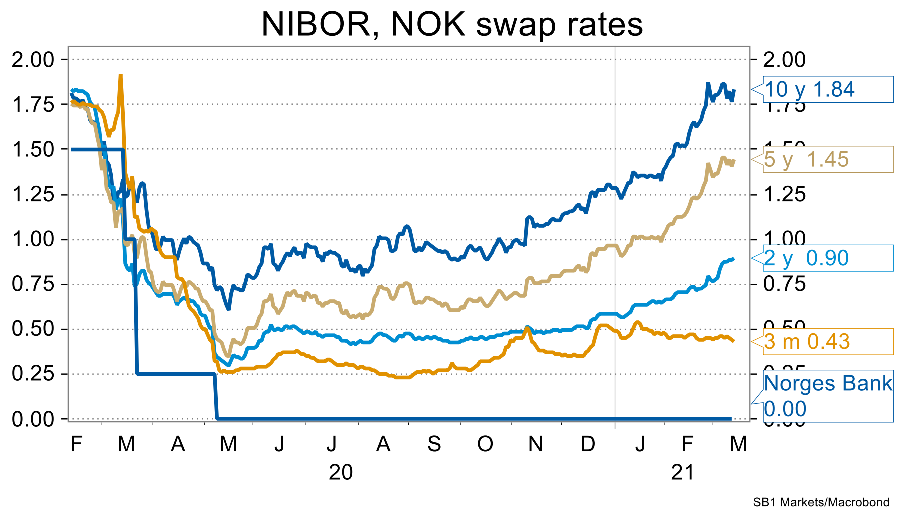




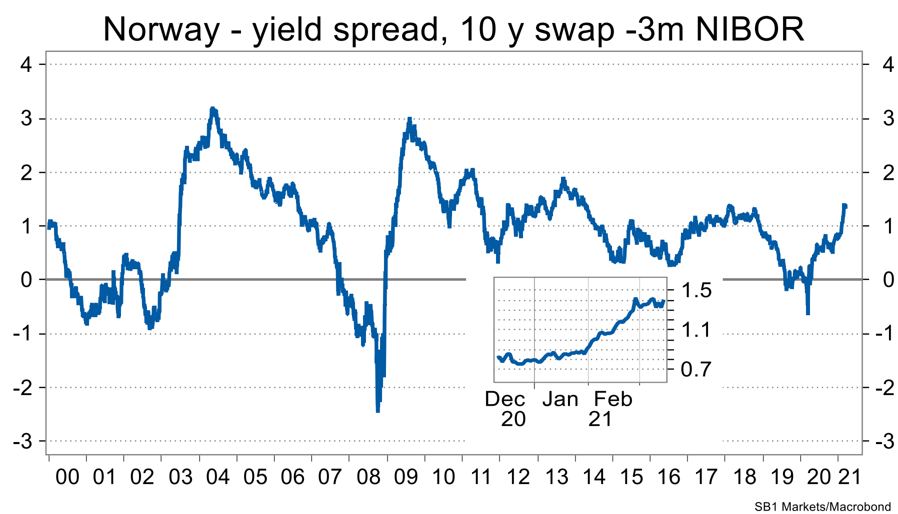


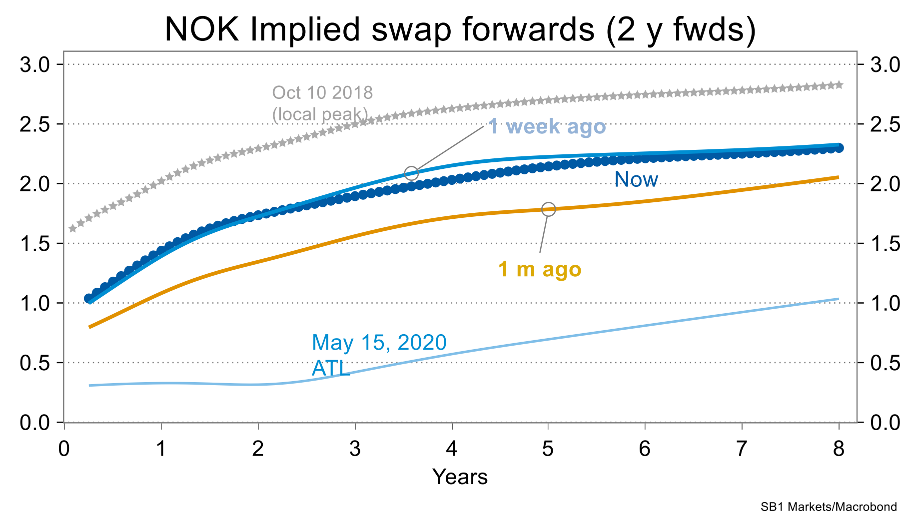
NOK rates mixed last week: The short end up, the long end down

Still, a NOK 10 y at 1.84%; up 134 bps vs May all time low



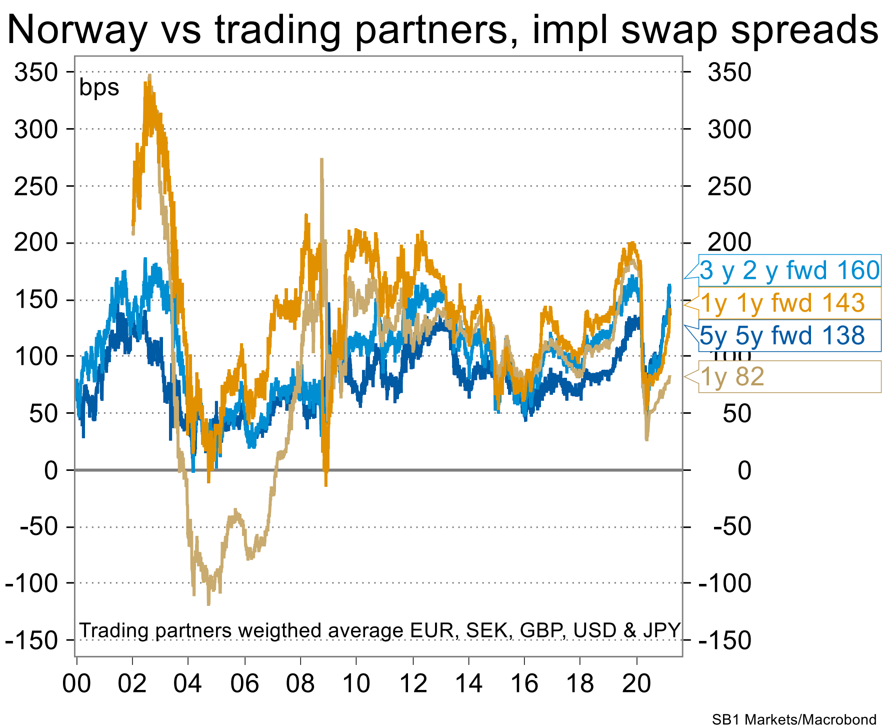
- The 10 y swap rate is now above the level in early 2020, before the corona virus hit, even if the first half of the curve is well below
- Last week, the mid segment of the curve rose the most

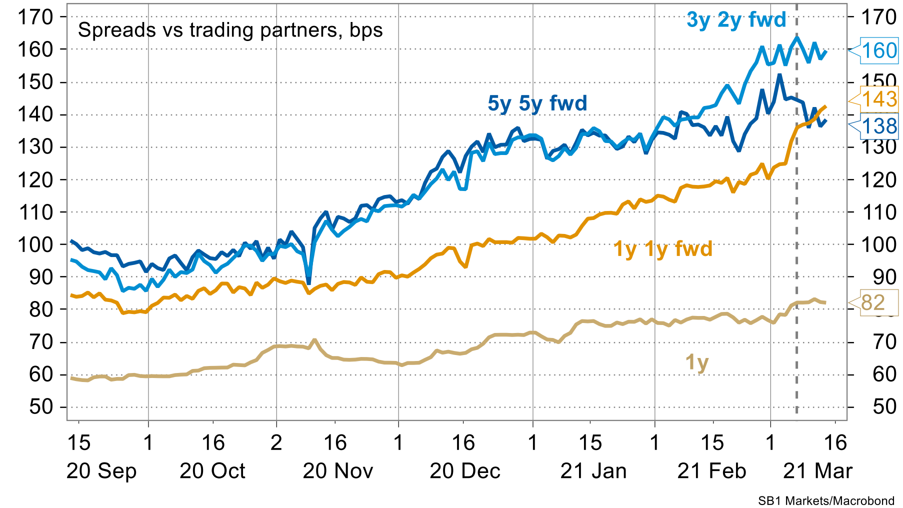


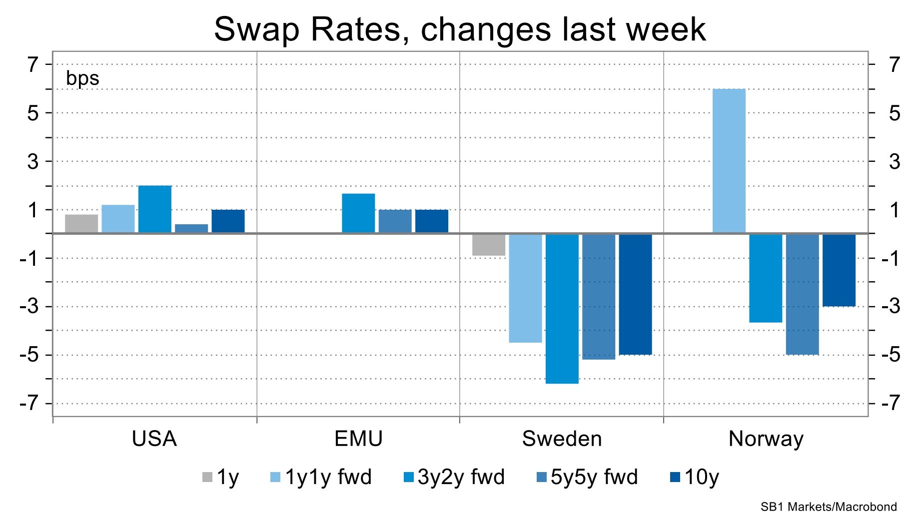


Longer USD/EUR Swap rates marginally up, down in SEK, NOK

NOK spreads vs trading partners further up in the short end, may have even more to go







- However, at the long end of the curve, the spread is rather elevated, check next page too

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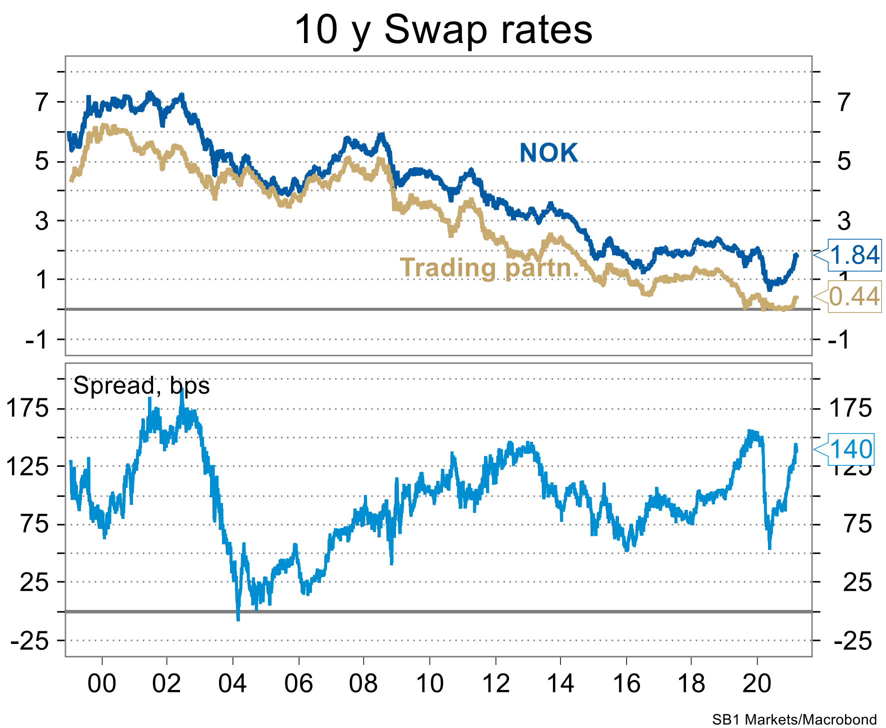
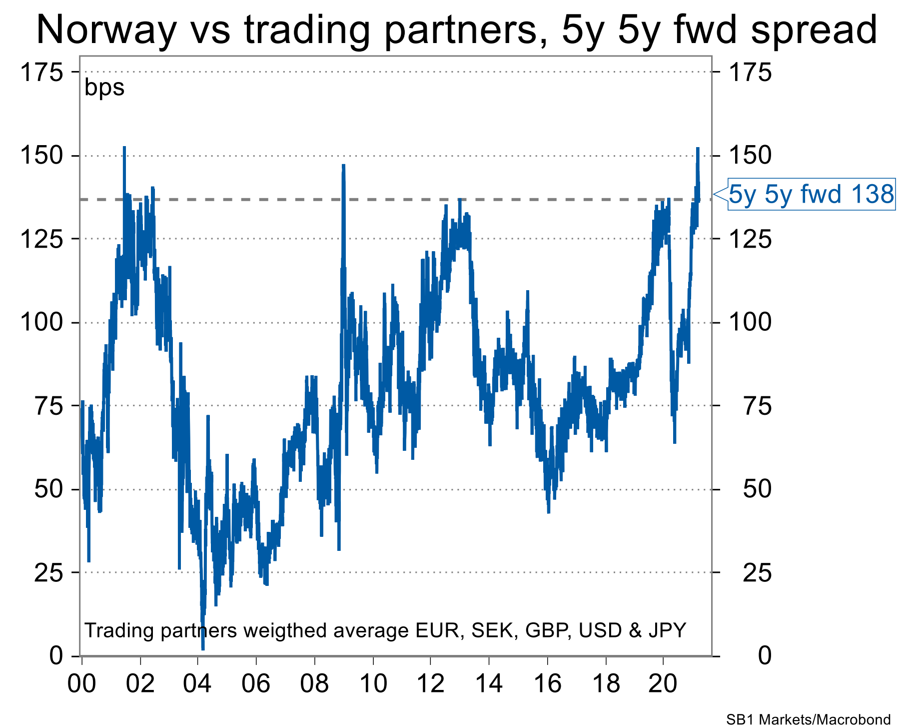
The 5y 5y fwd spread down last week, still at an unusual high level

Even the 10y outright spread is at the high end





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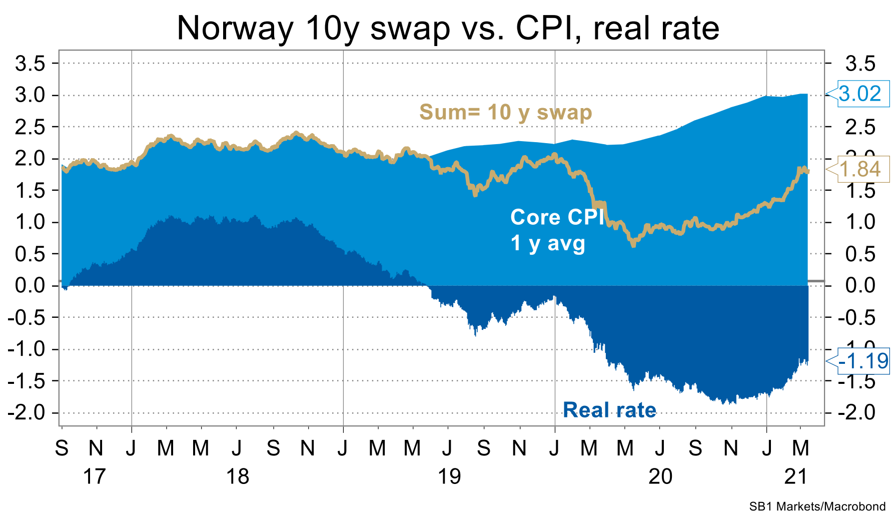
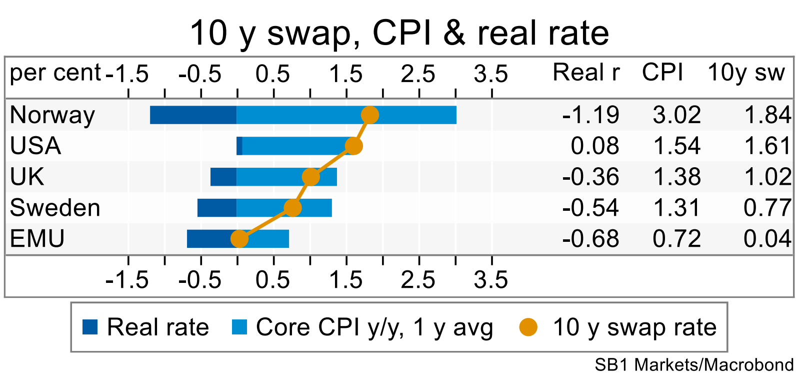
Negative (actual) real interest rates everywhere – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The **10y NOK swap rate** has climbed by 132 bps since the bottom in May, to 1.84%, after a 3 bps decline last week
- **The real rate**, after deducting 3% average core CPI inflation over the 2 past years equals -1.19%
  - » 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



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 3.02% (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 0.08% to -0.68% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.19% is an outlier at the downside, even if the nominal rate is the highest**

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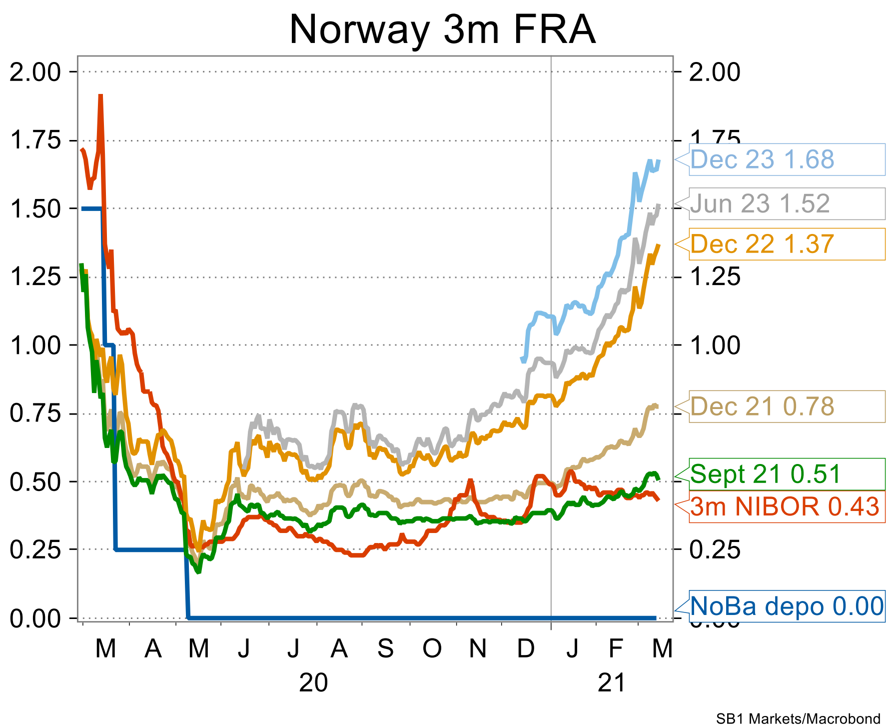
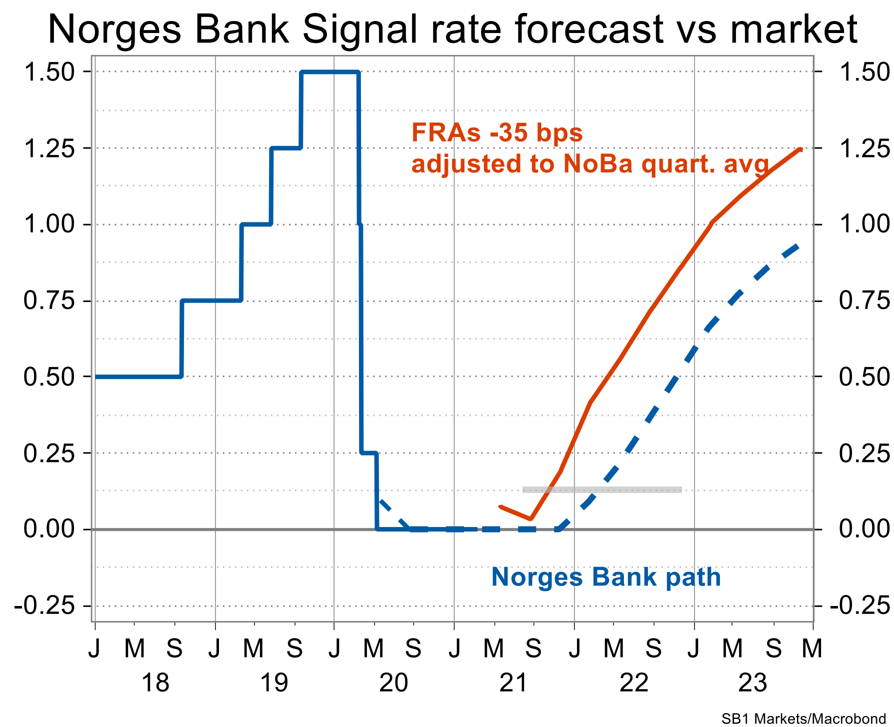
The market is discounting a 70% prob. for a Sept hike, 50% for two hikes in H2

The FRA-curve is steepening rapidly, up to 8 bps up last week, up almost 70 since early Jan





- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate of the Sept 21 FRA contract period will be 0.23%. Assuming a 35 bps NIBOR spread, the actual 0.51% Sep FRA-rate equals a 0.16% NoBa deposit rate. If so, a 70% probability for a Sept hike is discounted
- The Dec 21 FRA at 0,78%, and a 35 bps NIBOR spread, yields a 0,43% NoBa rate. However, the Dec FRA is normally some 5 – 7 bps 'too high' due to year liquidity adjustments at banks. We deduct this extra liquidity premium, and assumes market's 'real' NoBa expectation at 0.37%. A implies an almost 50% probability for a 2nd hike in H2!
- The rest of the (spread adjusted) FRA-curve is up to 35 bps above Norges Bank's Dec interest rate path
- Norges Bank will present its new interest rate path Thursday. We expect a 50 – 60 bps upward revision to above the present FRA curve. In Dec, NoBa lifted its path to well above market expectations, and the FRA curve rose sharply. More on Norges Bank's MPR & interest rate path here

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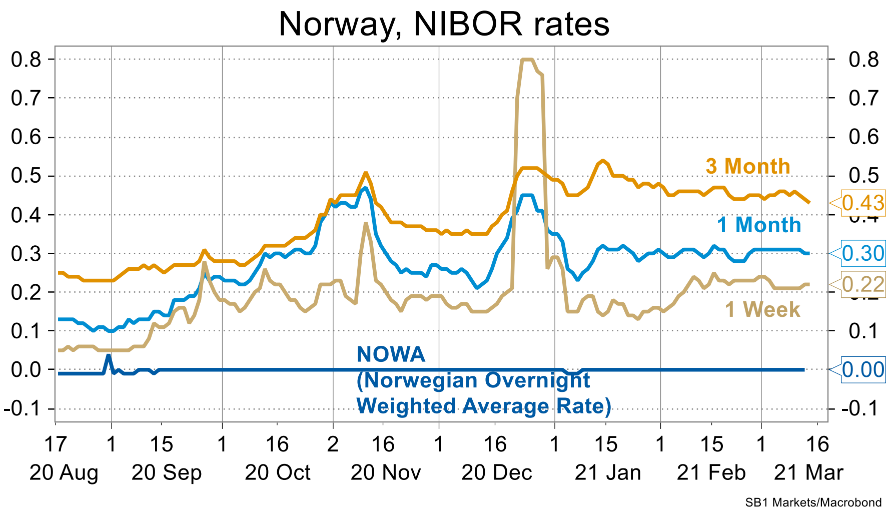
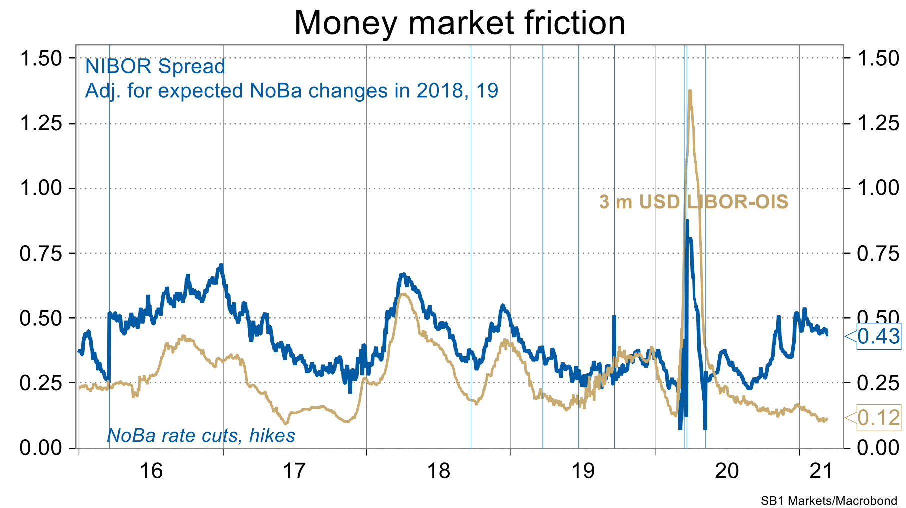
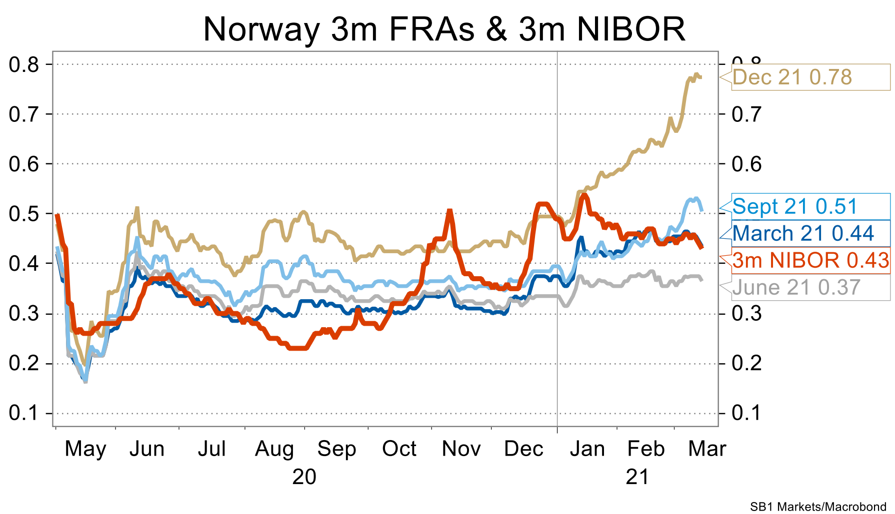
NIBOR rates are trending down, -3 bp to 0.43 last week

The June FRA signals a further decline to 0.37%. The NIBOR spread is narrowing



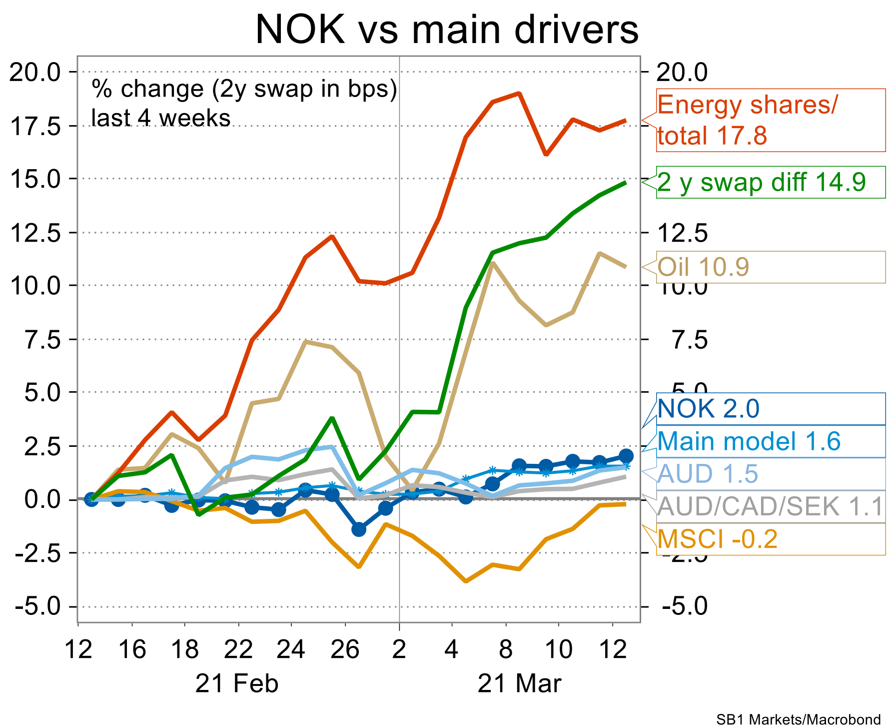


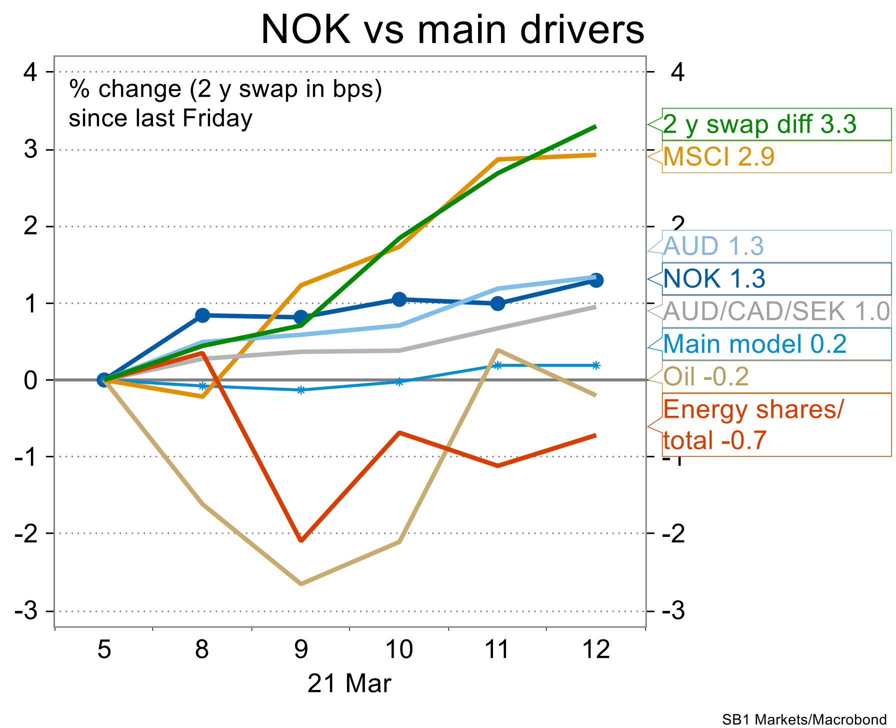


- **The 3m NIBOR** is still trending down
- **FRA rates implies** that market participants expect that the spread will remain somewhat higher than the 'normal' 30 – 35 bps but not by much
  - » We expect Norges Bank will assume a 35 bps spread going forward in it's MPR next week, up from 30 bps in the Dec MPR
- However, it is more even more exiting to follow the longer end of the FRA curve, upwards ☺

NOK up another 1.3% - still 'just' up 2% last 4 weeks

Oil flattened, at a high level and energy shares softened. But much else went in the right direction





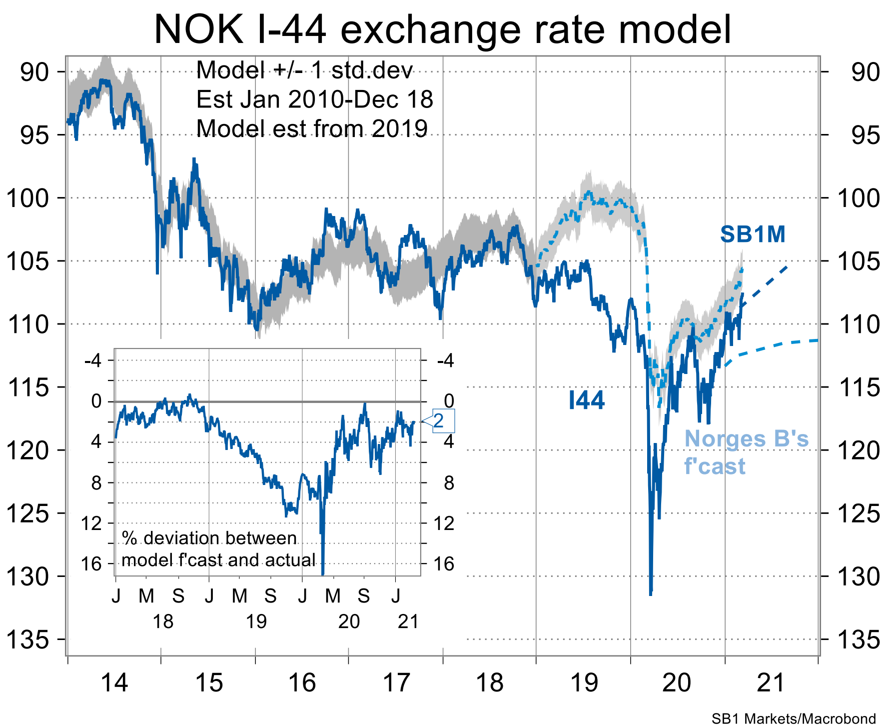
In sum, the NOK is still a buy:

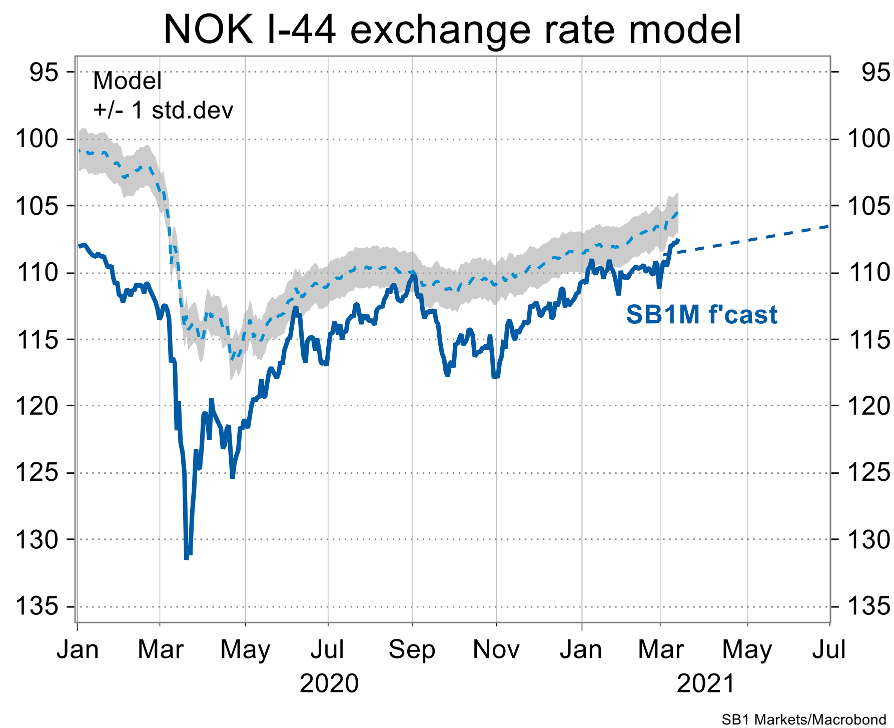
- The NOK is 2% weaker than suggested by our standard model (from 4% last week!)
- The NOK is 3% 'weaker' than the global stock market vs the correlation between the two in 2020
- The NOK is 7% weaker than an average of AUD/CAD/SEK, our 'super-cycle peers'
- On the other hand, the NOK is far (10%) stronger 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

NOK I44 up 1.3%, our model said +0.2%

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





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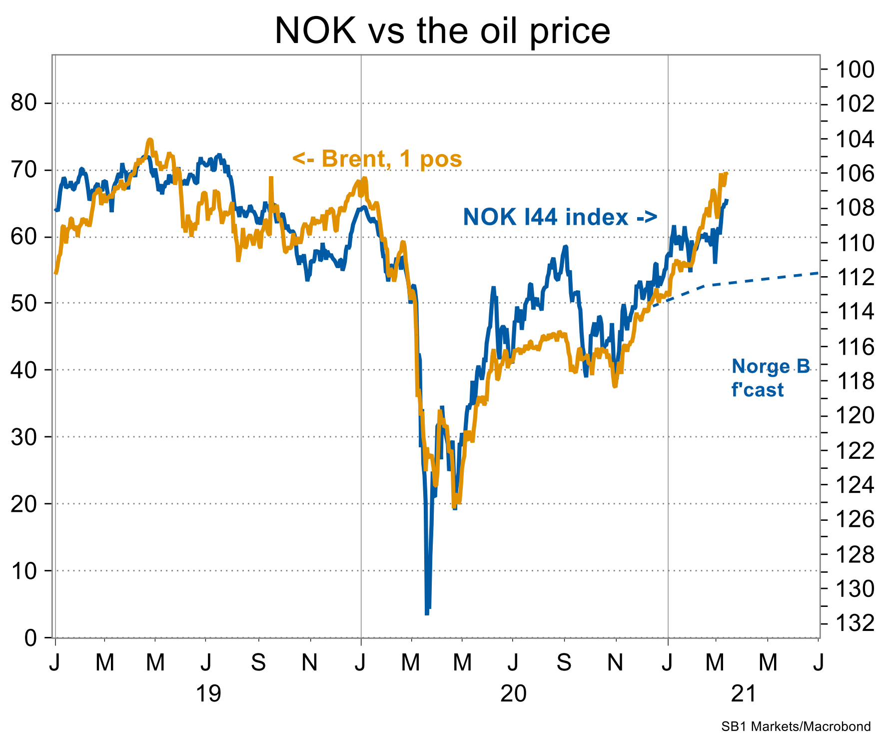
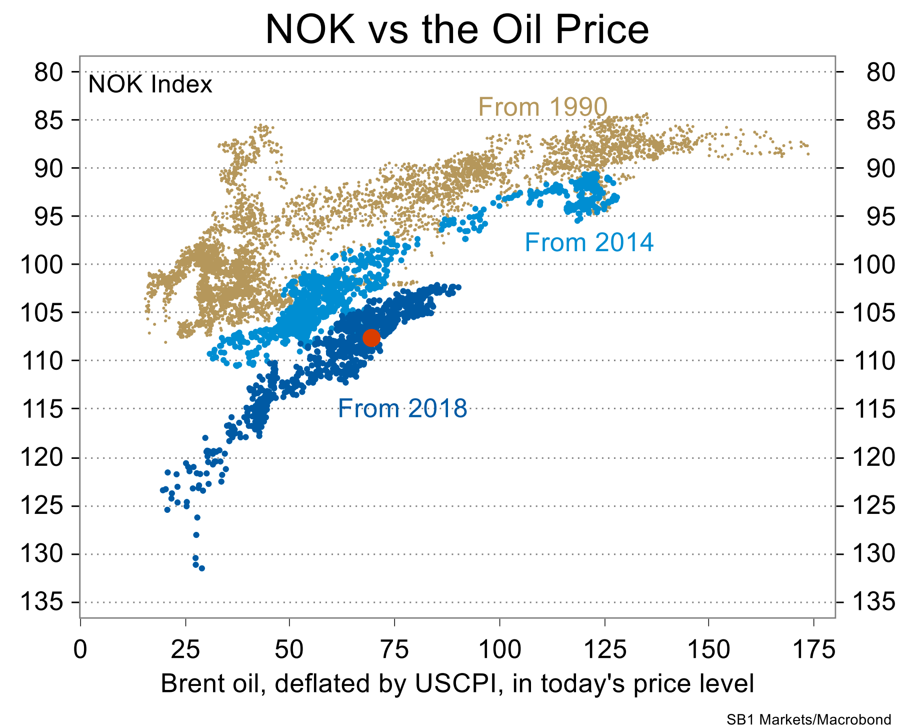
NOK further up even if the oil price was flat (though close to USD 70(b)

Both the NOK and the oil price is at the best level since May 2019

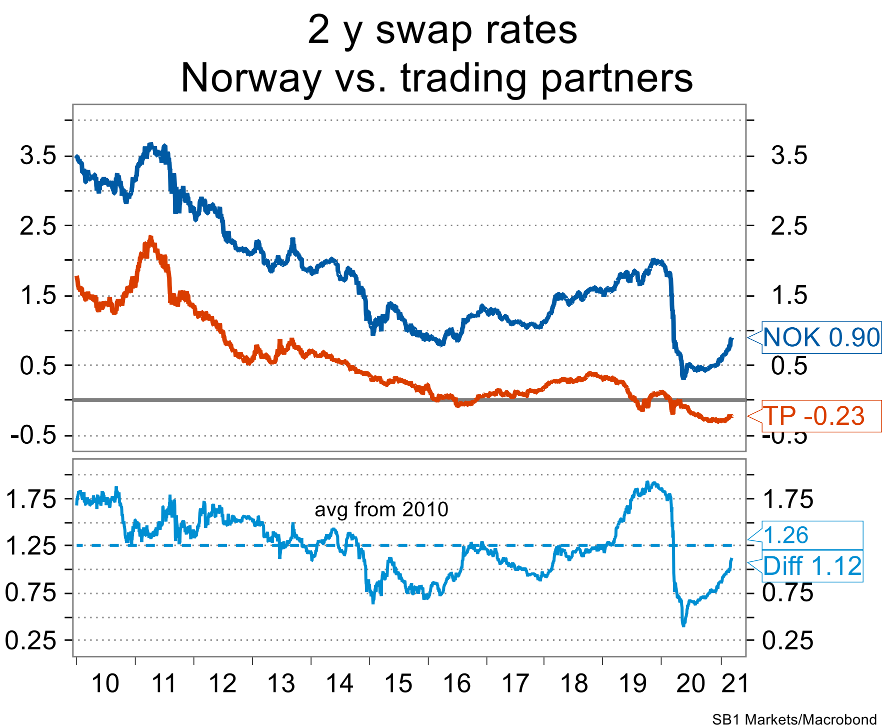


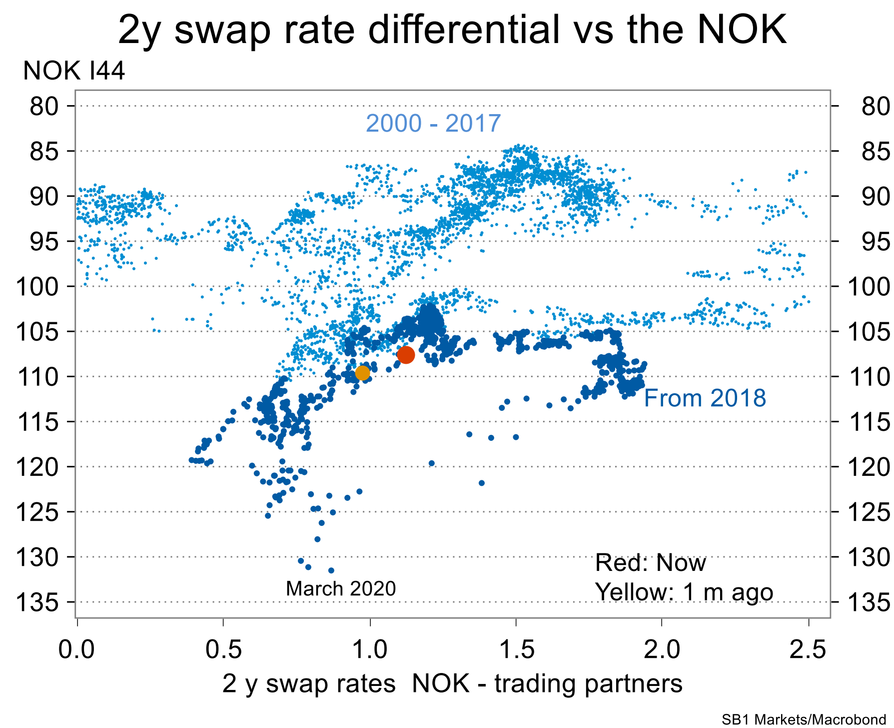


- Still; the NOK is weak vs. the oil price, even vs. the low 'low normal' since 2018

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

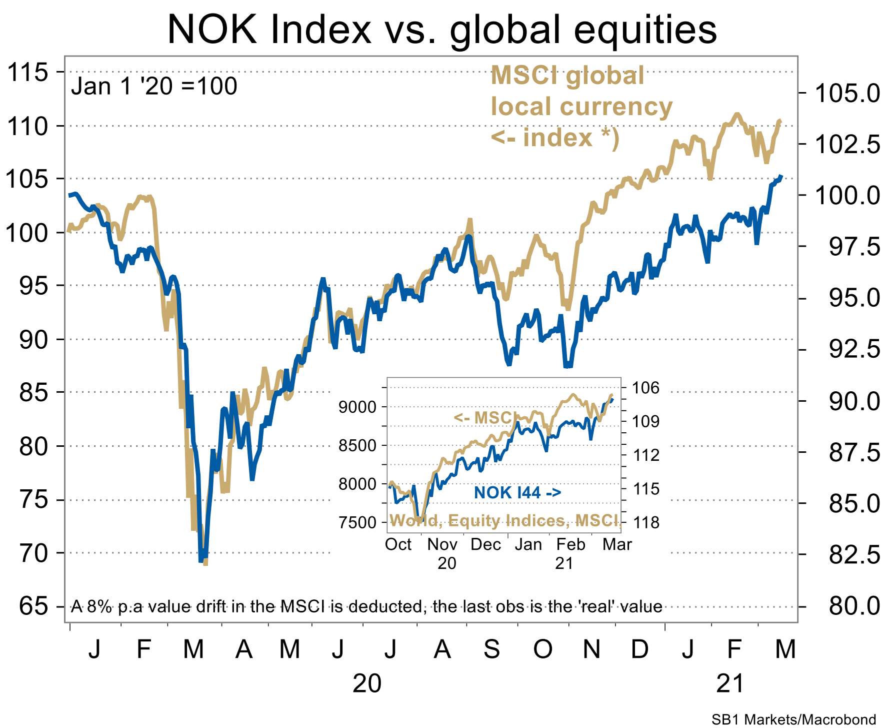


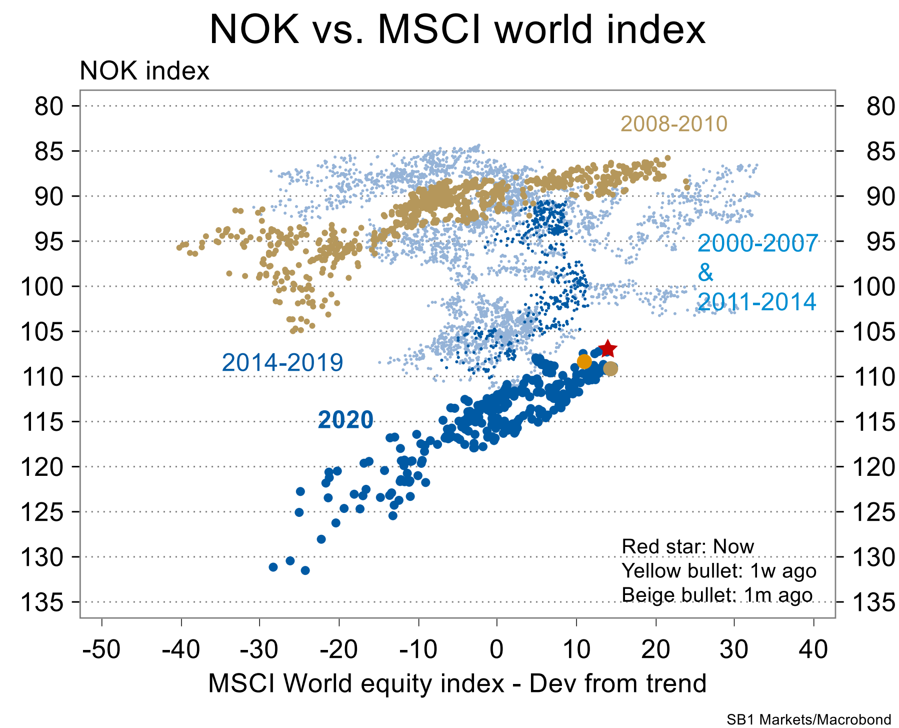


- However, the relationship is far from stable – and the oil price is usually much more important – and other factors are more important too, at least from time to time
- The NOK is still way below a normal level nominally and PPP-adjusted. Adjusted for the Norwegian wage level, the NOK is at a moderate level too, especially given the huge returns from the Oil Fund (which funds some 1/5th of Norwegian imports over time, implying less need for exports)

NOK further up, now together with the global stock market

Except for Sept. NOK and global equities have walked in tandem last year. The 'gap' is now 3%





- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - Now, the NOK is more than 4% weaker than 'normal' vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020). However, at one stage we will have to recalibrate the scales, as equities are trending upwards 6 – 8% per year
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund are larger than the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually

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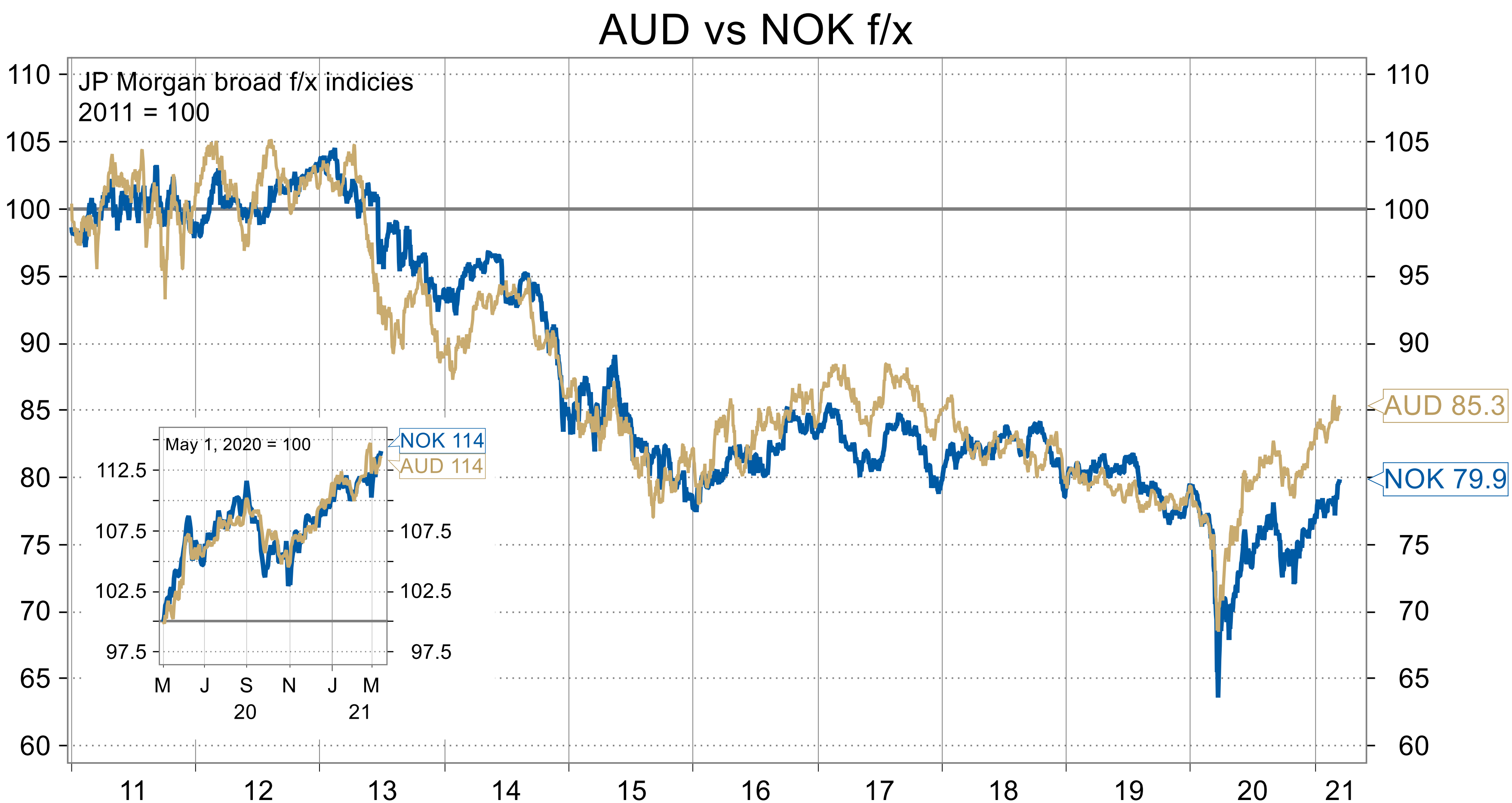
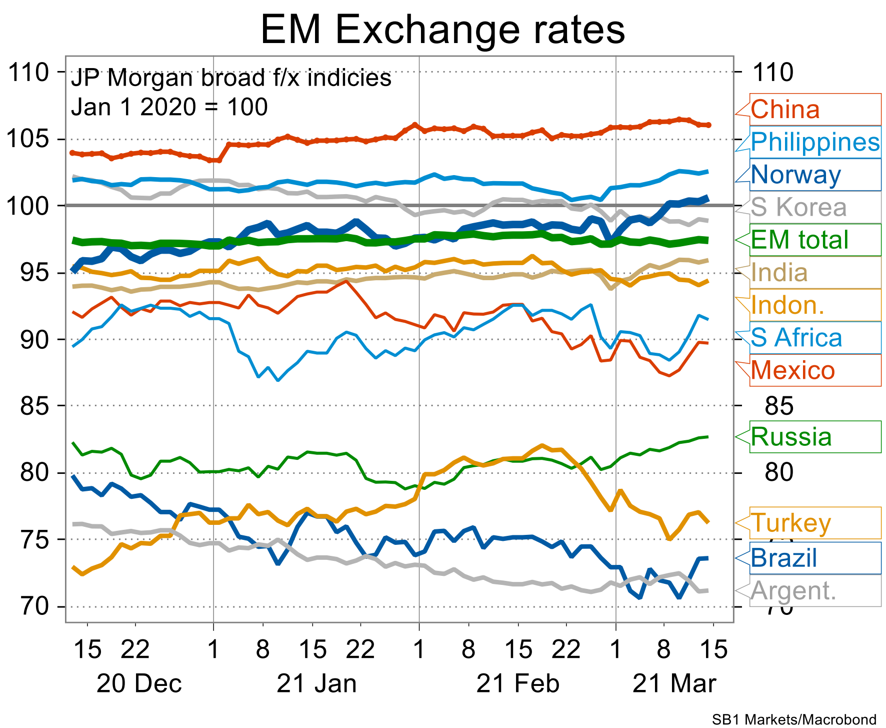
The NOKie made a giant leap in the past week, and closed the short term gap

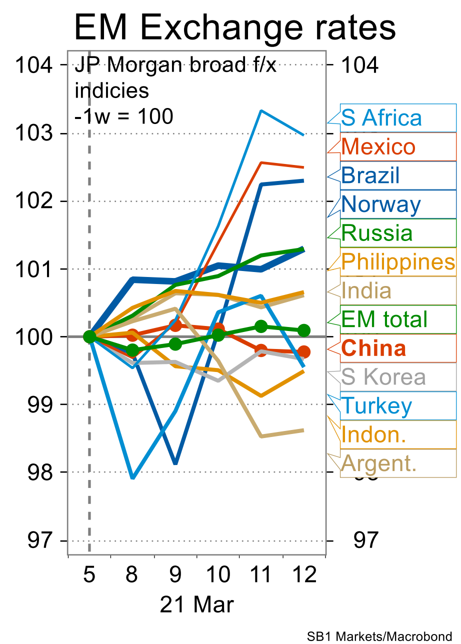
.. But the last spring setback remains intact – the NOK is 'lagging' some 6% (vs the 2011-2019 avg)

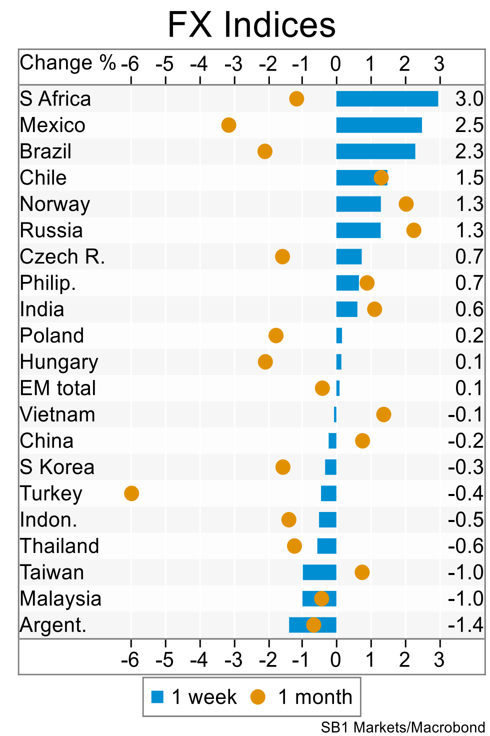


SB1 Markets/Macrobond

EM f/x more up than down last week, as risk markets boomed







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