6 April 2021

Macro Weekly

Week 14/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week 1: The 3rd wave has finally peaked most places. At least during Easter…

The virus

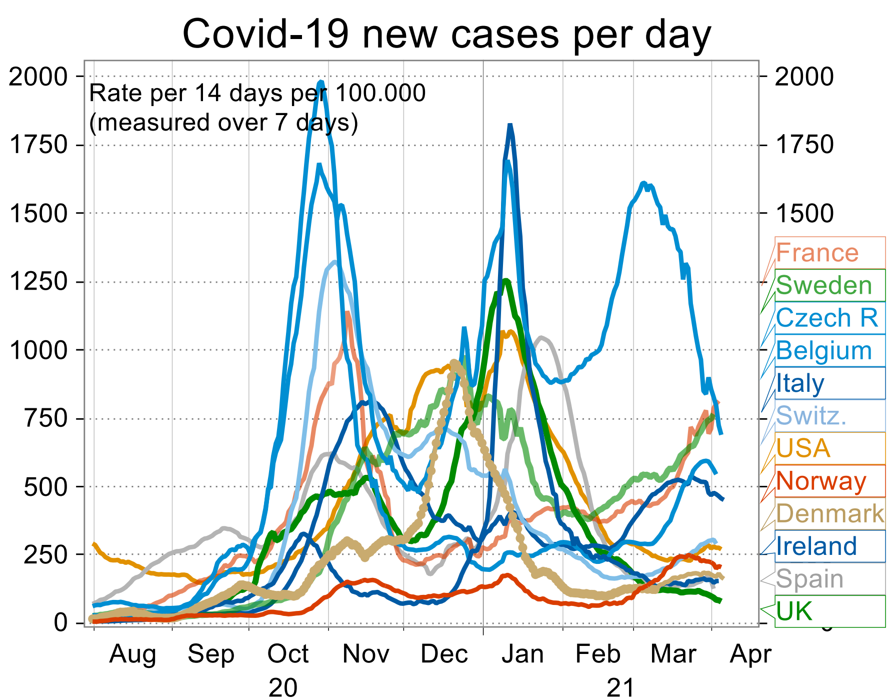
- During last week **most countries reported fewer new corona cases**. The Easter holiday may have reduced testing in many countries but growth was slowing the previous week, as 'normal' after some weeks with R's >>1. Restrictions & lower mobility worked, once more. Sweden and France is still heading upwards, while most other European countries are reporting fewer cases. This week will reveal the 'Easter impact'
- In **UK**, the no. of new cases is still falling fast as a large part of the population now is immune, and the infection level is down 94% from the peak. In **Israel**, the no. of cases is falling by 50% per week, and the virus is now almost eradicated
- **Norway** reported a decline in new cases the past 7 days, at least partly due to lower testing activity during the Easter holiday, and the positivity rate rose last week. However, the no of cases flattened before Easter and the no. of new hospitalisations has been heading down too, and the decline started before Easter
- **The pace of vaccinations in EU/Norway** has gained speed recently, and will accelerate further the coming weeks as BioNTech/Pfizer ramps up its deliveries. The **Astra/Zeneca** vaccine has lost momentum in EU/Norway due to more serious/deadly blood clot cases reported by several countries
- **The main risk going forward**: The vaccines are not able to cope will with **new variants of the virus** and that those previously infected with other strains of the virus will not be immune vs. new variants

Last week: The economy – strong PMIs/ISM, US jobs report

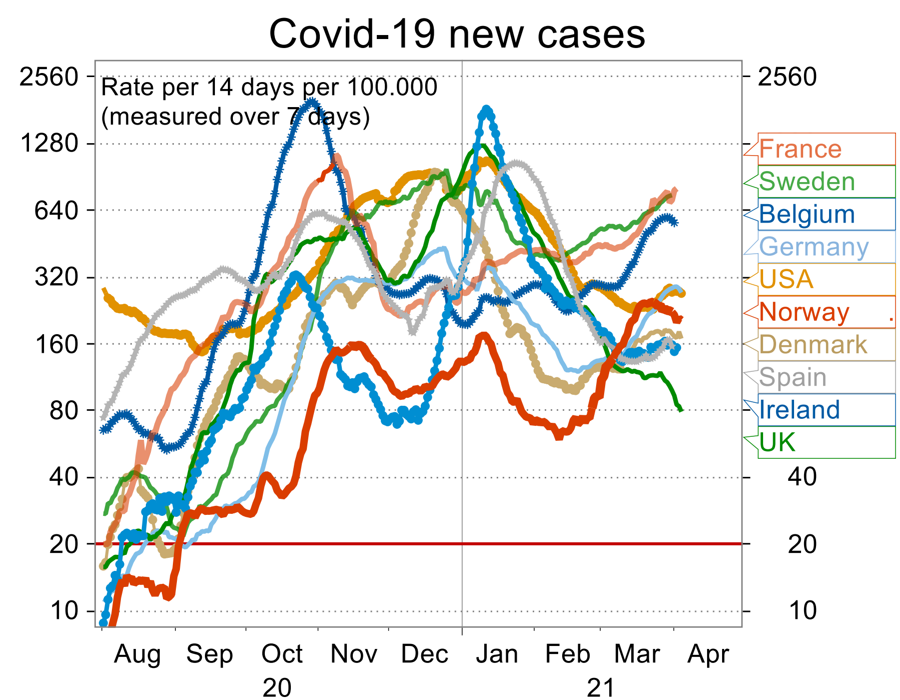
- **Global**
  - **The composite global PMI** probably rose by 1.2 – 1.4 p in March, to approx. 54.5, best since 2017, signalling growth well above trend. The **manufacturing PMI** was better than we assumed. In the US, the **manuf. ISM** rose to the highest level since 1983, and the **service sector ISM** skyrocketed to the highest level ever amid the first, partial reopening of the US economy. National surveys in the EMU are signalling higher growth too. Both in the US and elsewhere, **delivery times** are rising faster than ever, and **prices** are following suit, broad based. There are still some coronavirus 'issues', and harsh winter weather in US created some extra challenges in February, but most likely the main reason for rising delivery times/rapid prices increases is the surprisingly strong demand for goods. **Employment** is growing again but companies complain about availability of labour, especially in the US (small businesses are reporting unprecedented problems filling their many vacancies)
- **USA**
  - More than 0.9 mill **jobs** were added in March, 50% more than expected (given upward revisions of Jan & Feb). Many schools & restaurants reopened, but all sectors reported higher employment. However, the employment rate is still 5.4% below the pre-pandemic level, equalling 9 mill. missing jobs. In leisure/hospitality, 18%/3 mill jobs are missing . Unemployment fell by 0.2% to 6.0%, as expected
  - **Auto sales** rose sharply in March, we assume supported by the 2nd stimulus cheques. **Consumer** confidence rose sharply as well, and house prices are soaring
- **EMU**
  - **Retail sales** in several countries rose in February, but less than expected, at least in Germany. **Inflation** remains tame
- **Norway**
  - **Retail sales** kept up better than we assumed in February, given partly closure of most shops in the Oslo area. Sales fell just 0.3% m/m, and sales are still 8% above the pre-pandemic level

After some bad weeks, most countries have flattened/turned down again

Norway is probably on the way down for real (new hospitalisations confirm)



SB1 Markets/Macrobond



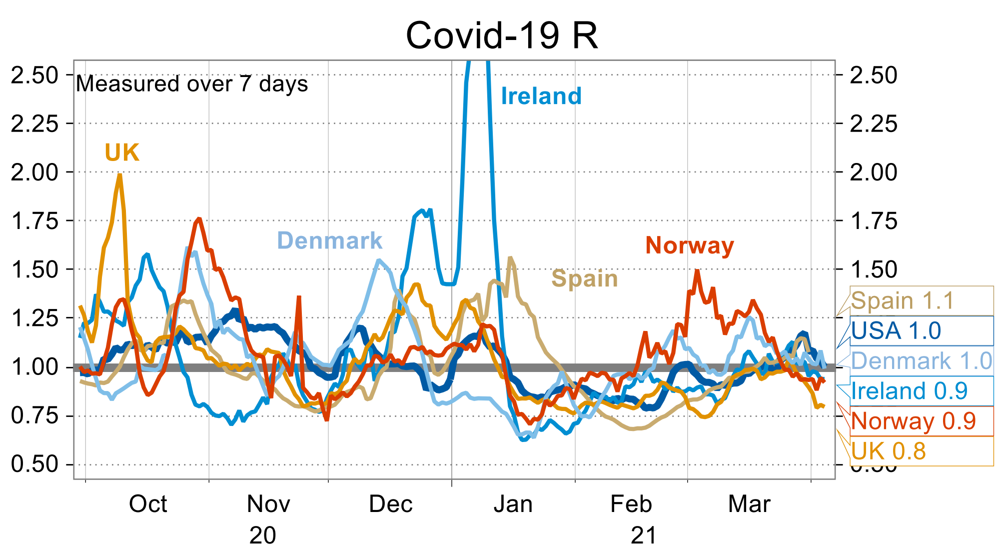
SB1 Markets/Macrobond

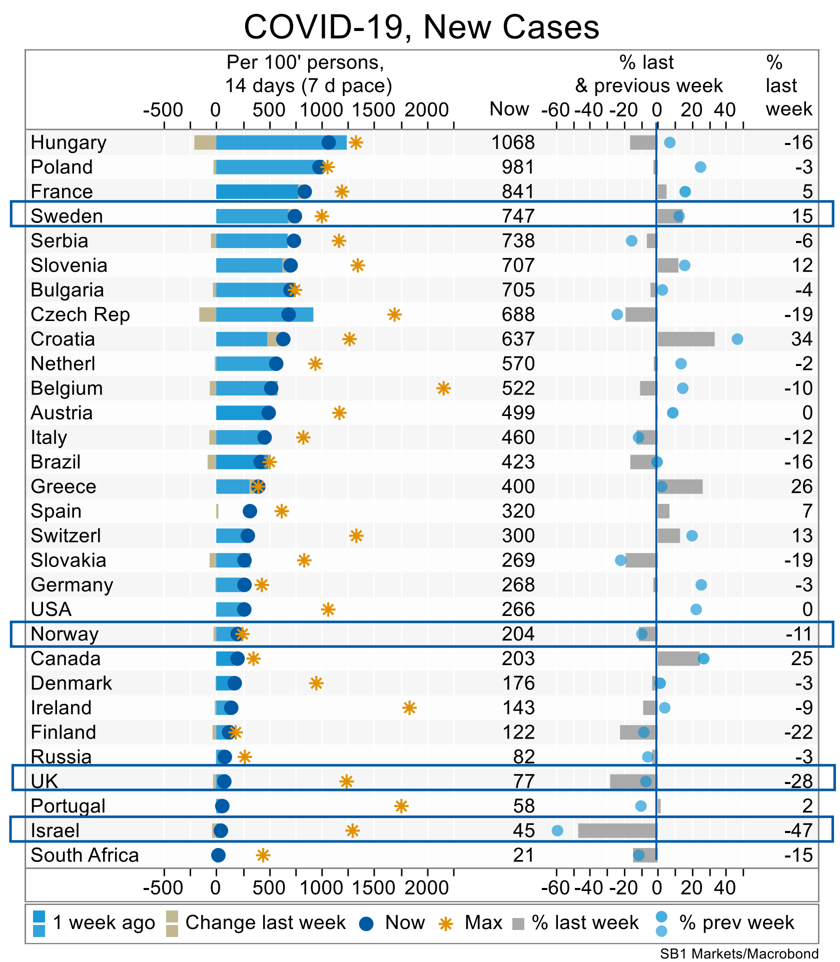
- Infections in **France** are still on the way up but slower. **Belgium & Italy** may have peaked. The **Czech Rep**. has come down to liveable levels again
- However, **Sweden** is not yielding, and may be in lead in Western Europe next by the end of next week
- Vaccines are definitely keeping new cases down in the **UK** and the **US**. There are some few more cases in the US but given the rapid roll-out of vaccines, the situation will probably not run out of control
- In **Norway** the R has fallen to below 1. New cases may be undercounted during the Easter holyday, and the positivity rate has increased. However, the no. of new hospitalisations has fallen past two weeks (last reliable data point March 30)

Now, more countries on the way down than on the way up

Nobody is reporting really high infection numbers anymore (Hungary, Poland borderline cases)

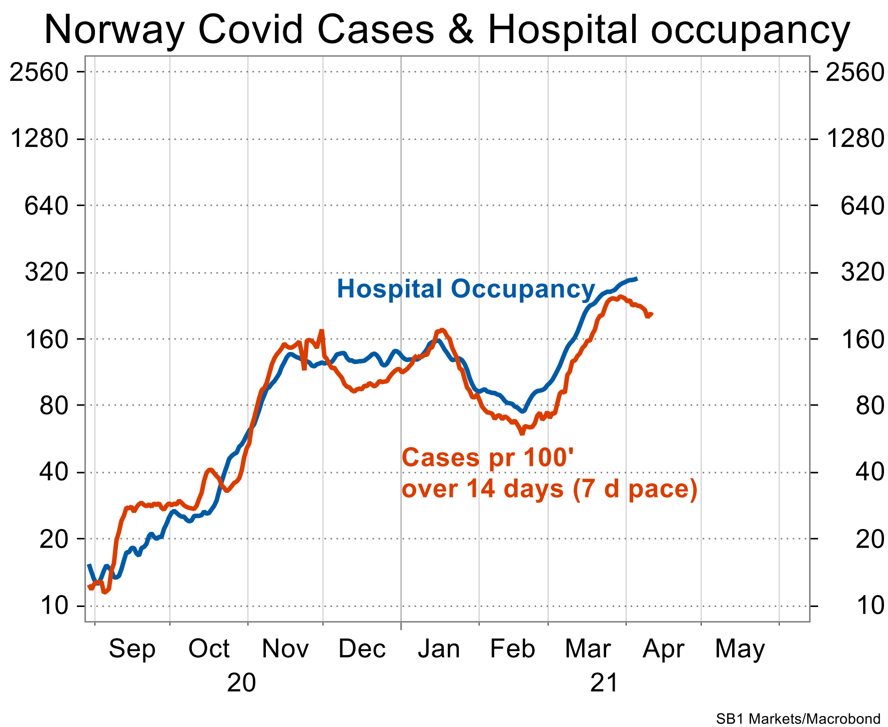
- **Hungary, Poland &** other **Eastern European** countries are at the top of the list, together with **France & Sweden**
- In **UK** the number of new cases is still falling rapidly, now down by 94% from the peak, to a very low level. Mobility is on the way up, and some restrictions are eased, more to come (we think earlier than the authorities announced this weekend). Some 60% of the population may now be immune
- The **US** has stabilised at a low level, even in mobility is increasing
- **Norway** reported a further decline in new cases last week, the last week at least partly due to the Easter holiday
- **In Israel,** the virus has almost disappeared: The no. of new cases is dropping by 50 - 55% per week!

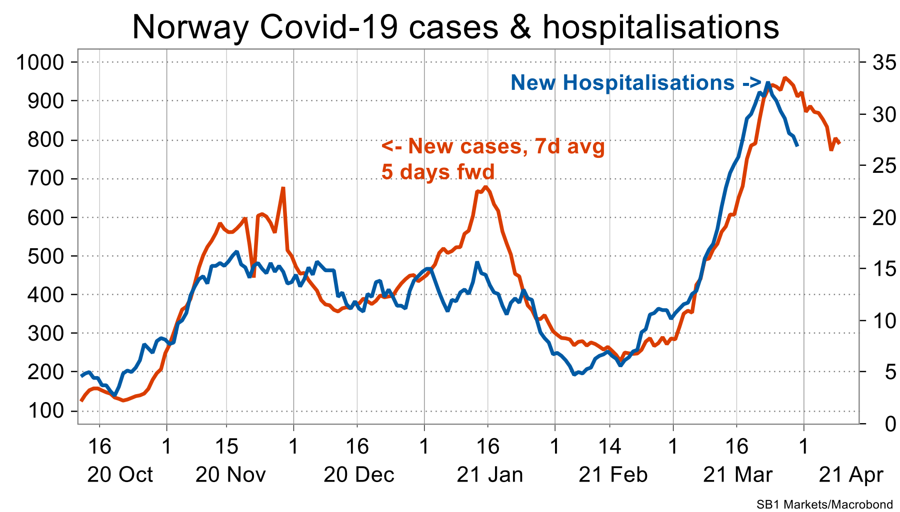


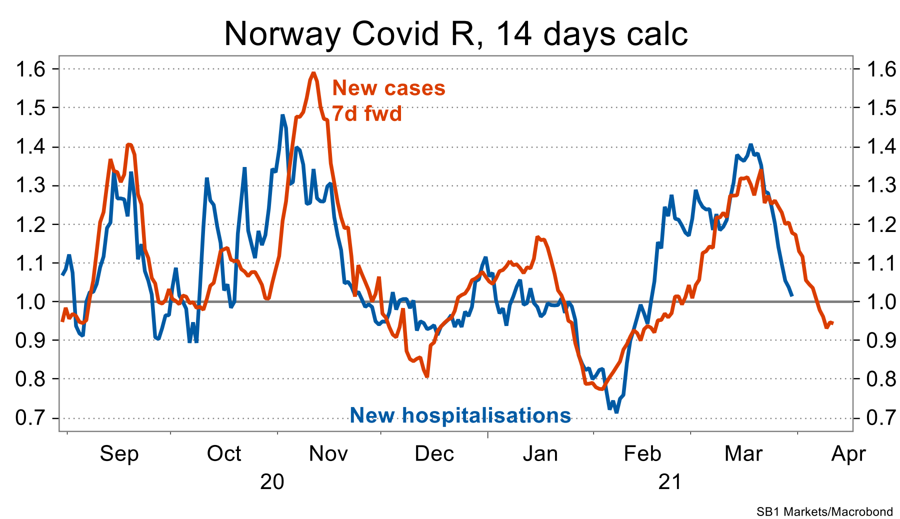


Norway: New cases and new hospitalisations down, R<1

Hospital occupancy is still creeping slowly upwards, probably as patients are allowed to stay longer







- No. of new cases may have been lowered due to the Easter holiday and fewer tests. (However, available but lagging test data show a decline in the positivity rate too)
- Data for new hospitalisations are released with some days lag, but the trend is clearly down, even earlier than normal vs. the downturns in no. of new cases

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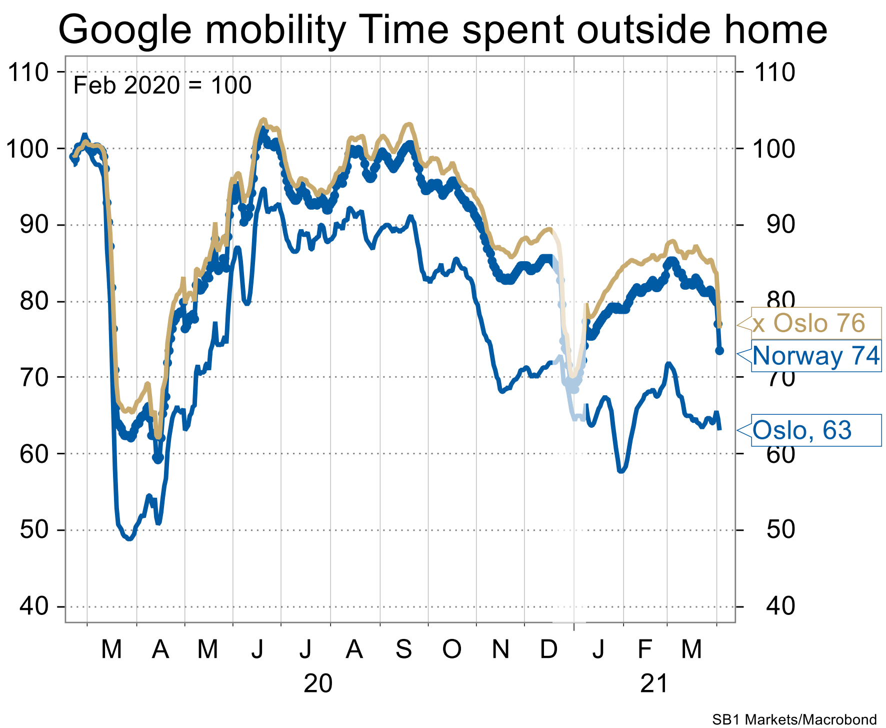
New restrictions have lowered mobility in Norway

The Easter holiday may have influenced the latest data (like during Christmas)



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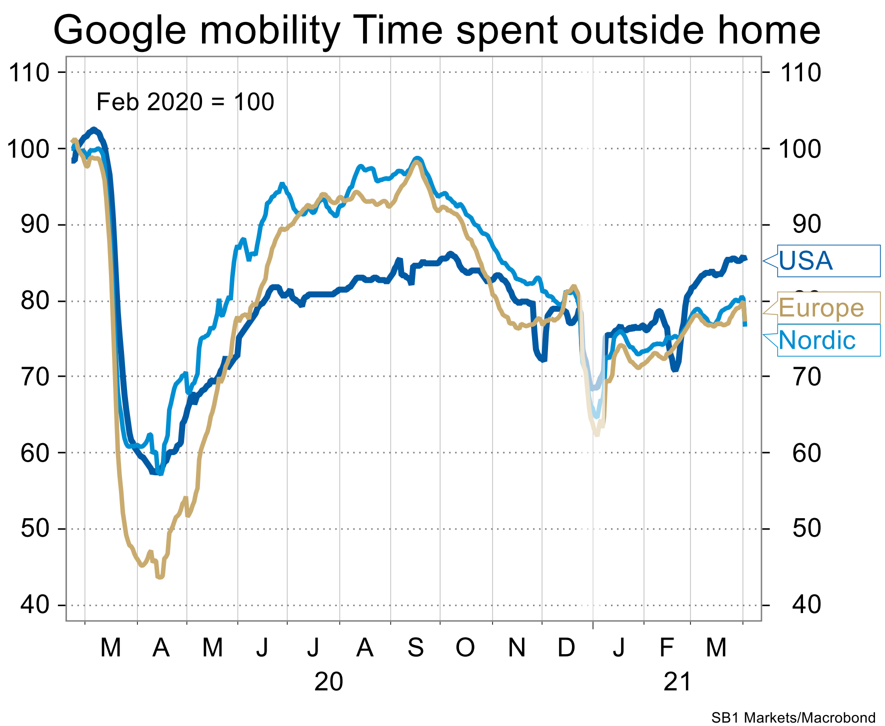
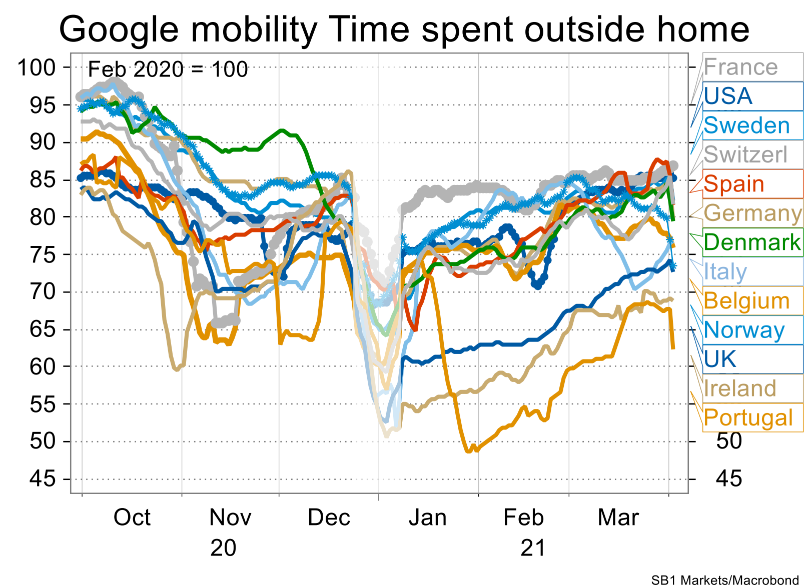
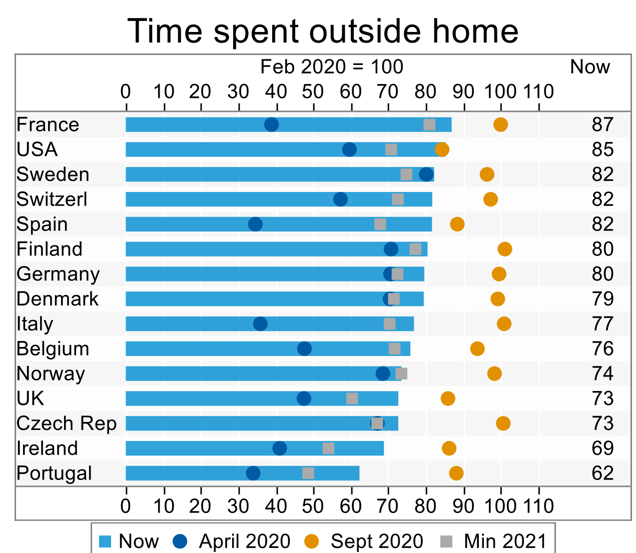
Mobility is trending up most places but restrictions are tightened some places

On the other hand: the US is on the way up, as are Spain & the UK



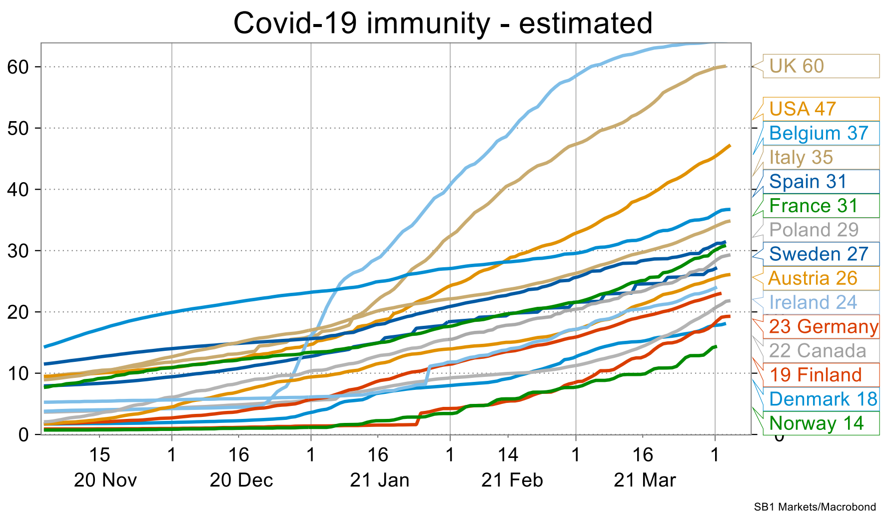


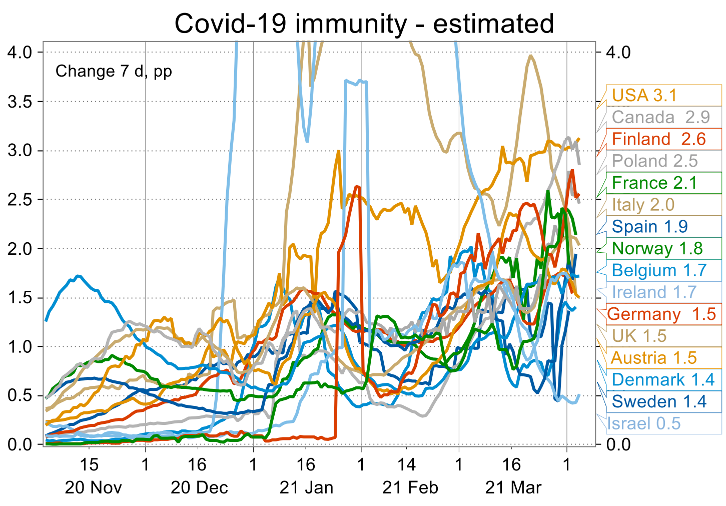


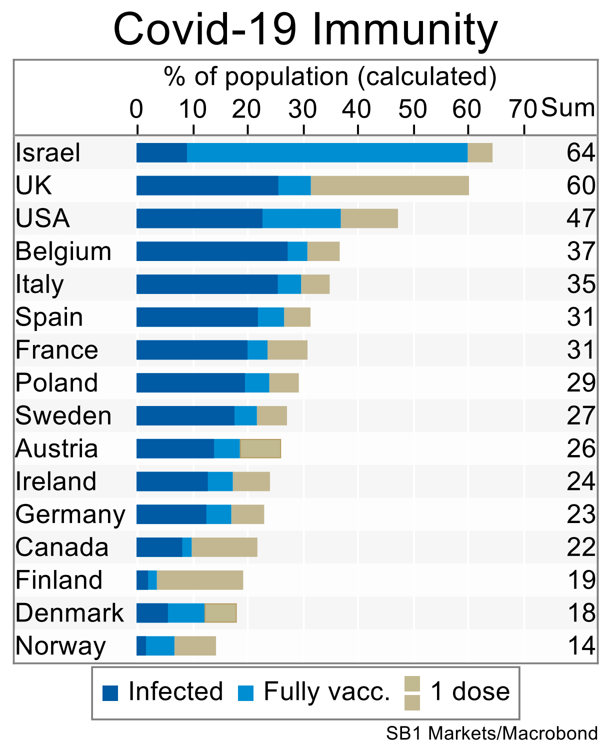
- The last observation is probably influenced by the Easter holiday

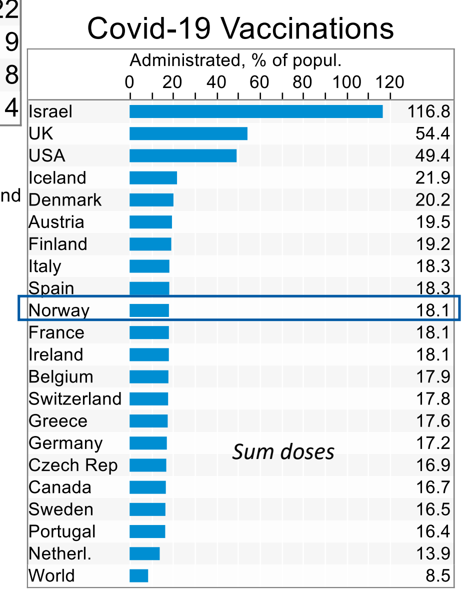
Vaccinations: EU/Norway are now finally speeding up

The US is keeping the pace up, 3% is getting the first shot per week. UK is slowing, from a high level





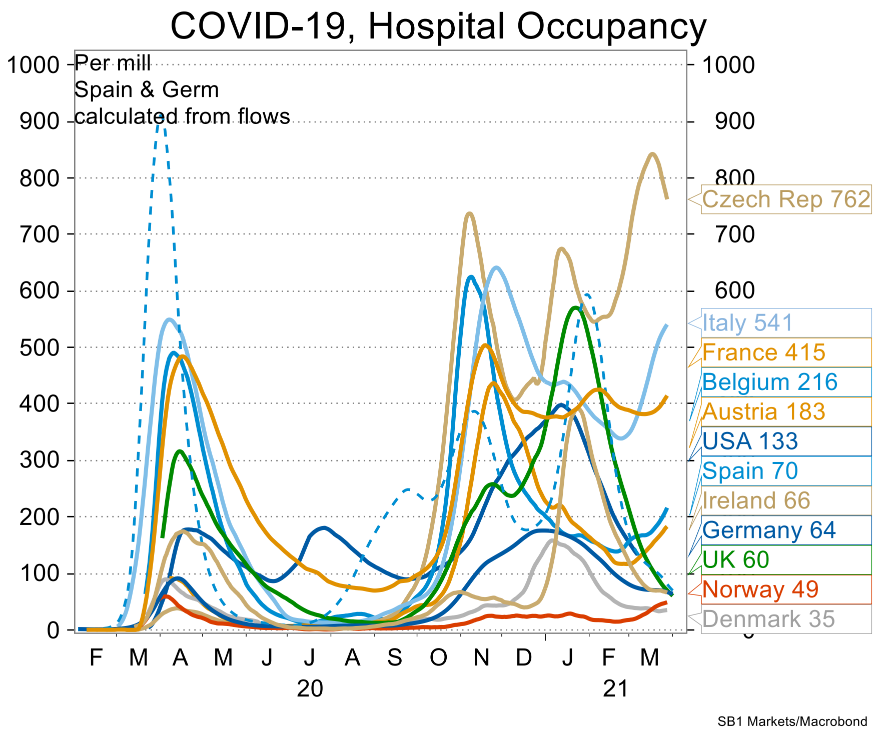


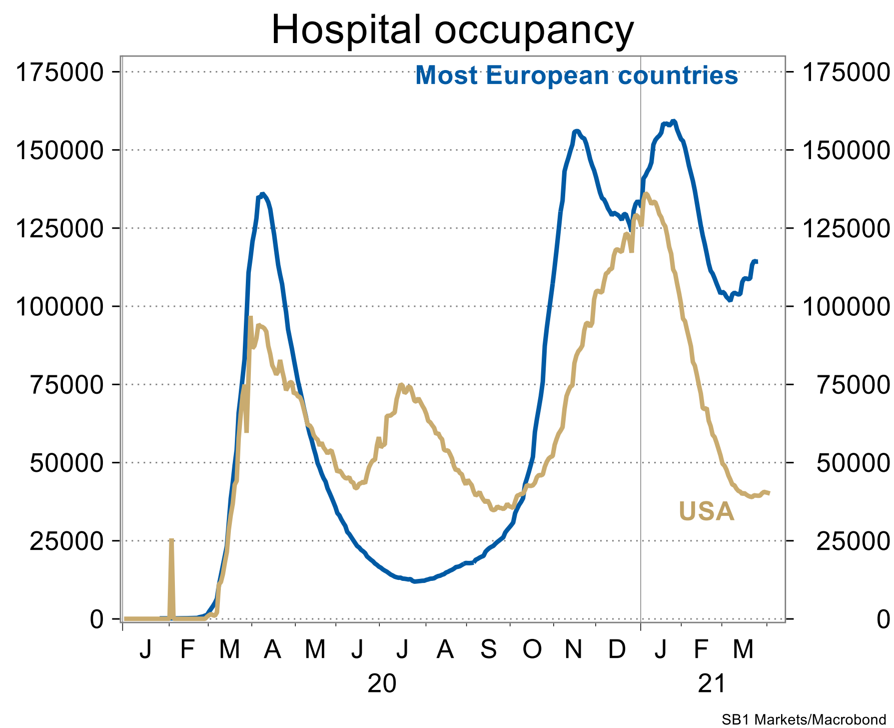


We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others

Hospitalisations on the way up again in Europe, mostly due to Italy (and France)

In the US, the no. of hospitalised persons has flattened, at a low level (as have no. of cases)

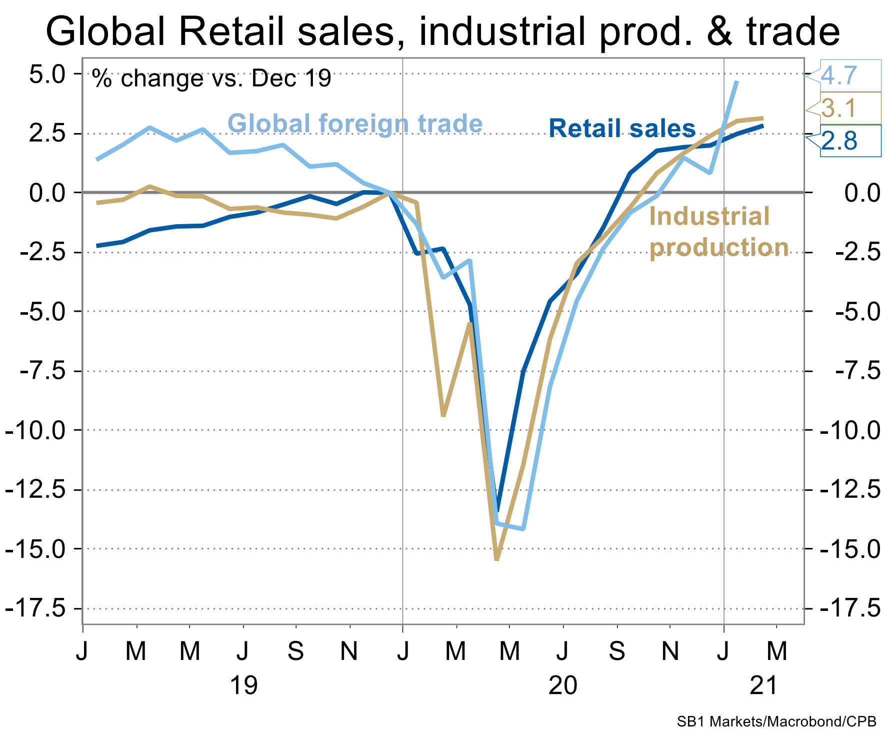


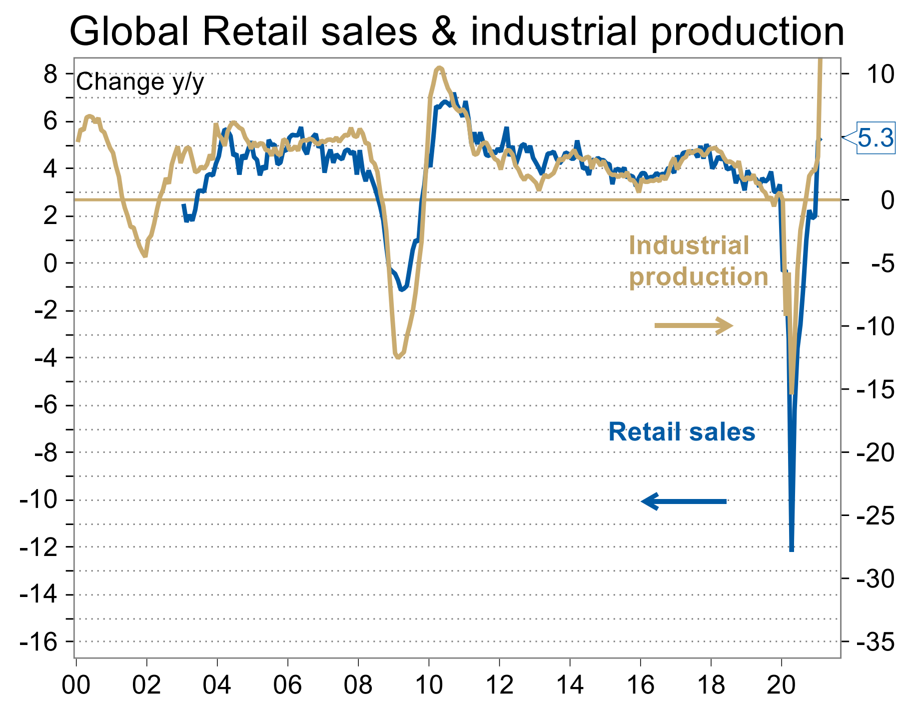


- Some increase in hospitalisations in Spain, Ireland too

Retail sales, manufacturing production further up in February

Both at ATH, as was global foreign trade in January



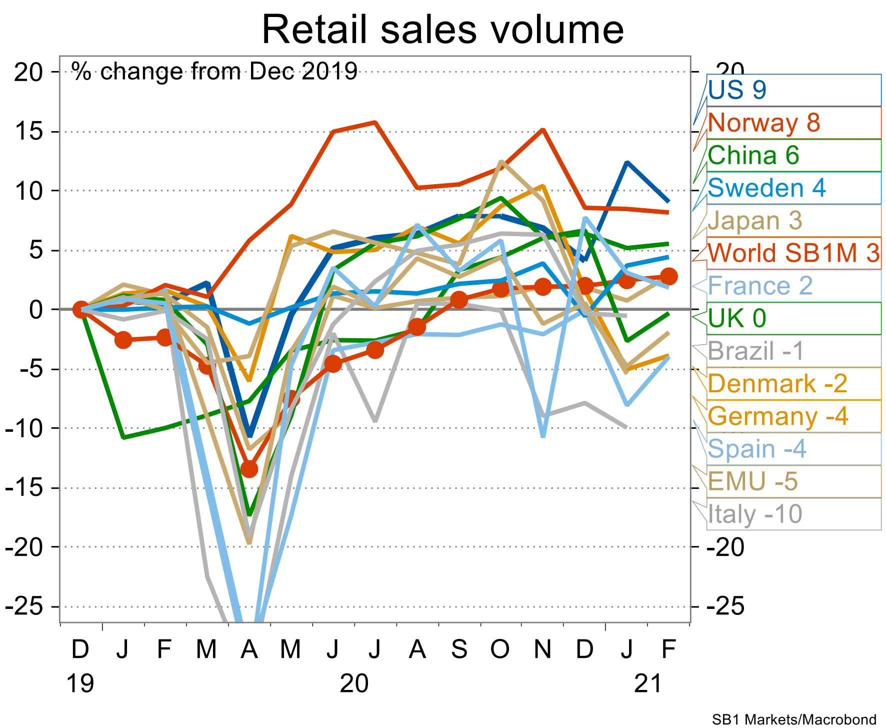


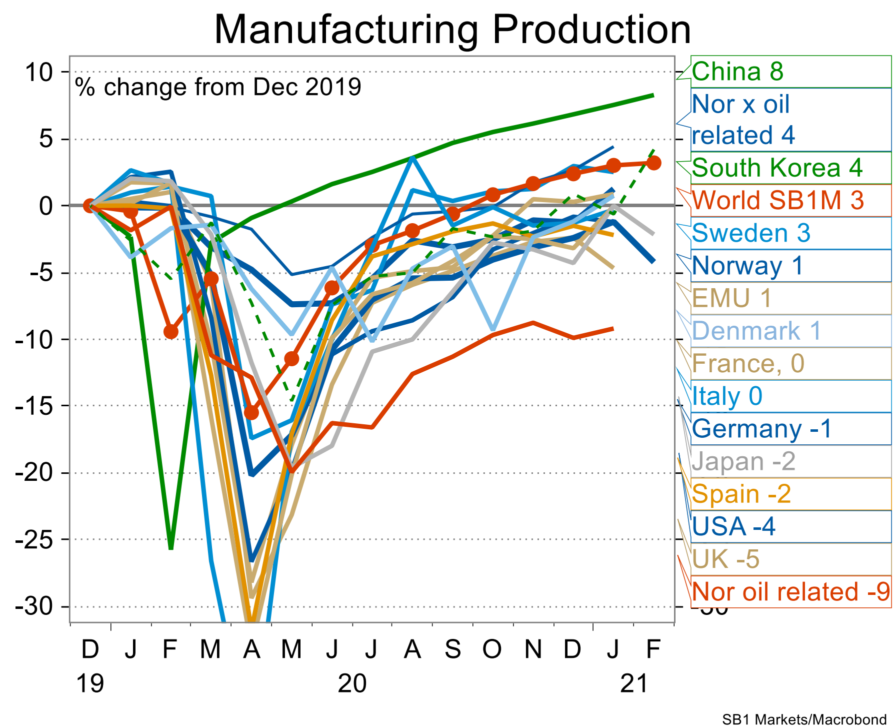
Memo: Keep in mind the different scales at the chart above

- **Retail sales** rose further in February, according to our preliminary estimate. Sales are 3% above the pre-pandemic level
- **Manufacturing production** probably rose further in February, and is 3% above the pre-corona level
- **Global foreign trade** rose sharply in January, to almost 5% above the pre-covid level, according to CBP in Netherlands

Volatile retail trade data, but trend is still up

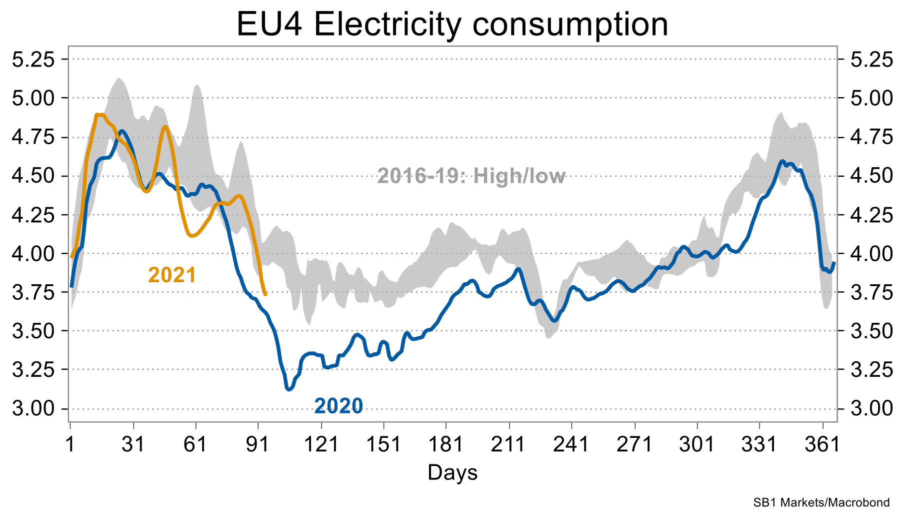
Manufacturing production is on the way up too, both up 3% vs. the pre-pandemic level

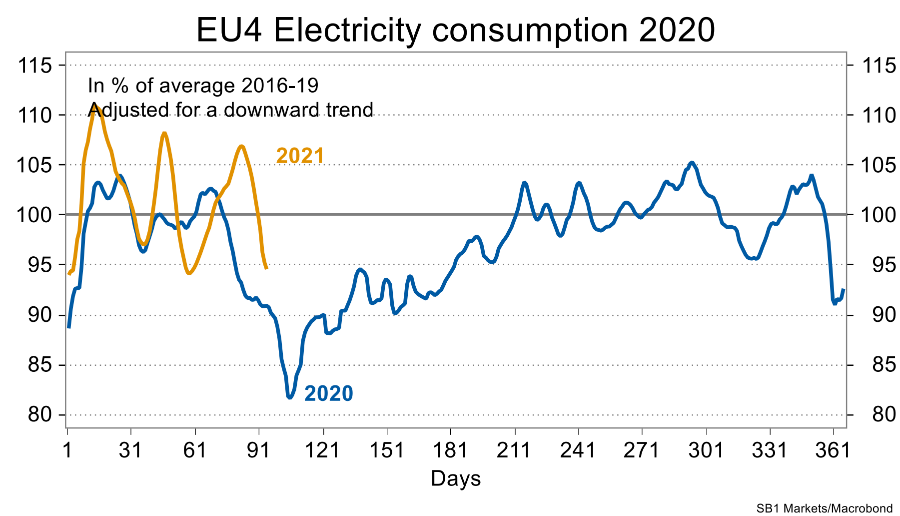


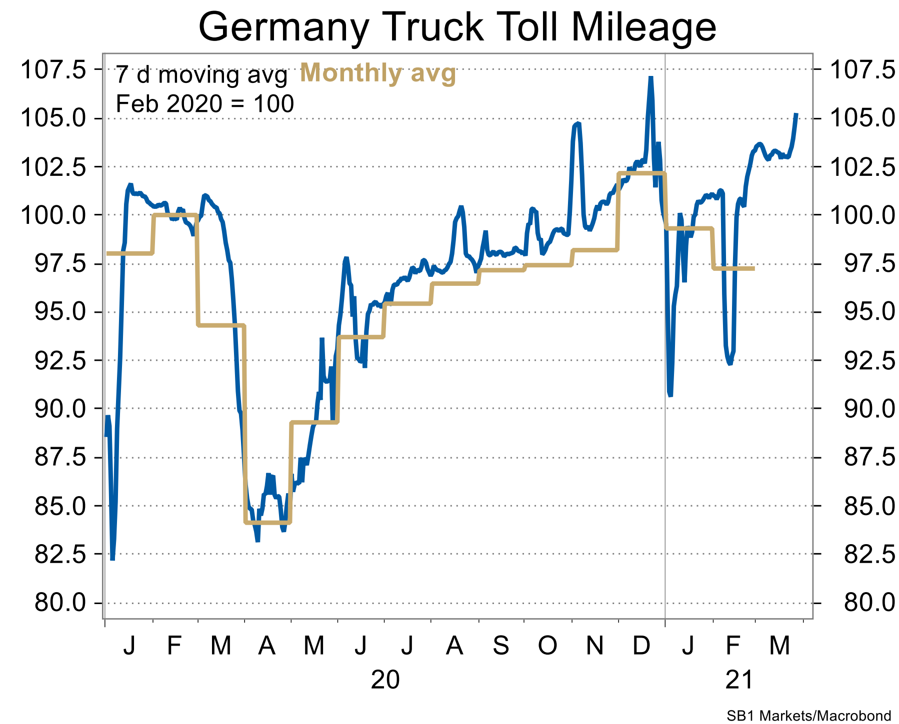


EMU: No signs of a slowdown in the 'goods' sectors

Truck traffic & electricity consumption shows no signs of weakness

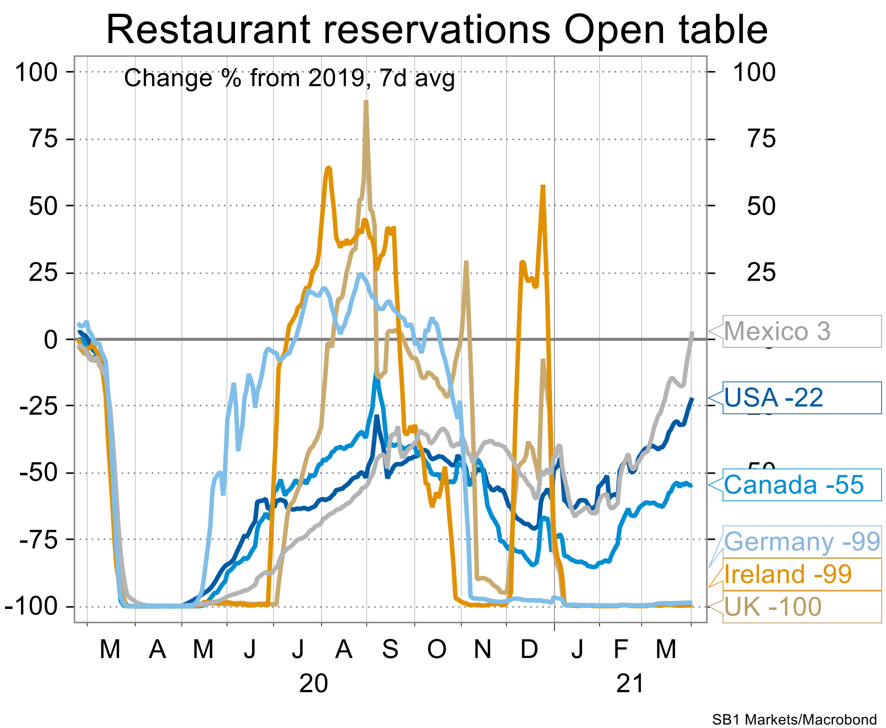


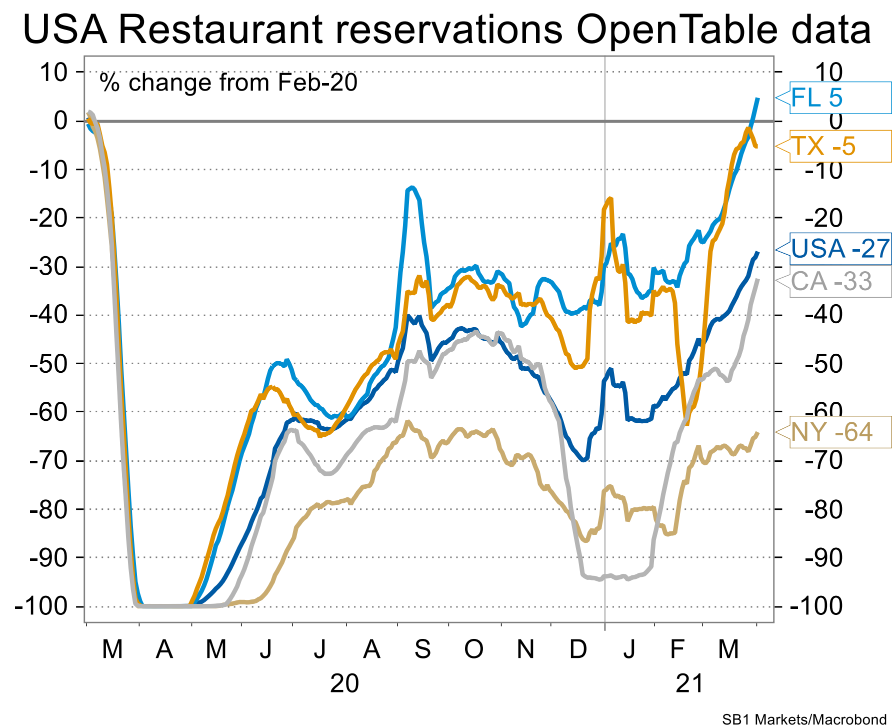




European restaurants still locked down, while the Americas is opening up

Some US states are above the Feb-20 level, US in total is down 22%

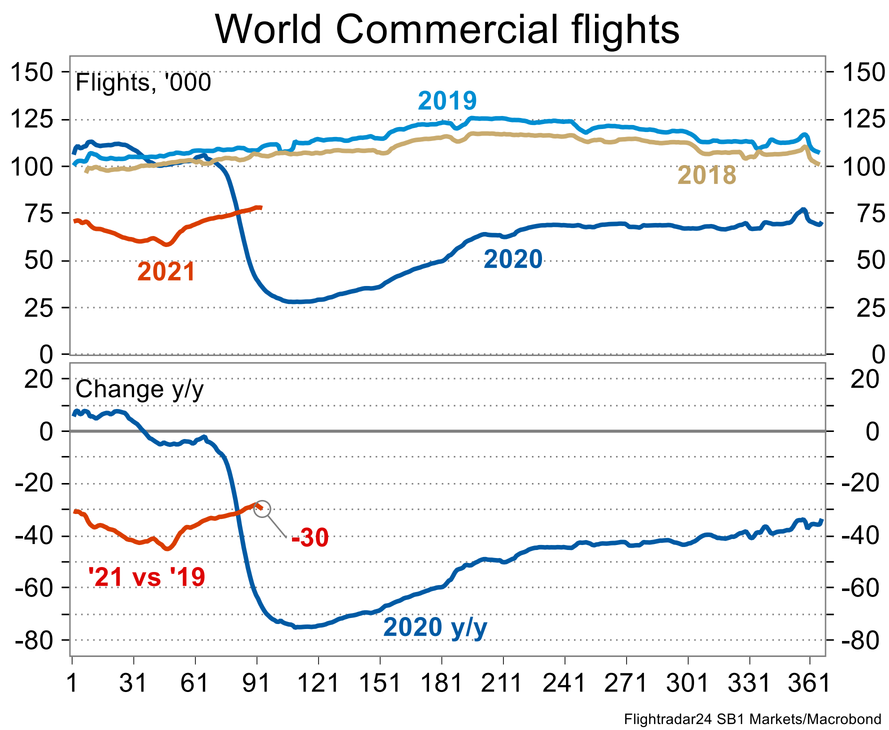


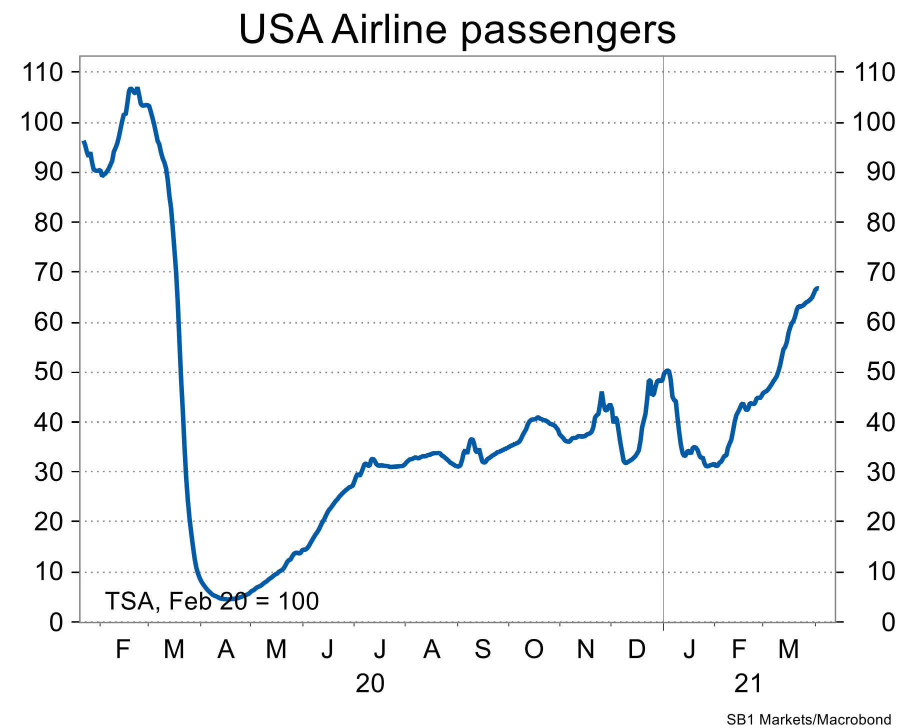


- Take-away and no-reservation US restaurants not included in Open-Table restaurant reservation data

Global airline traffic is steady climbing

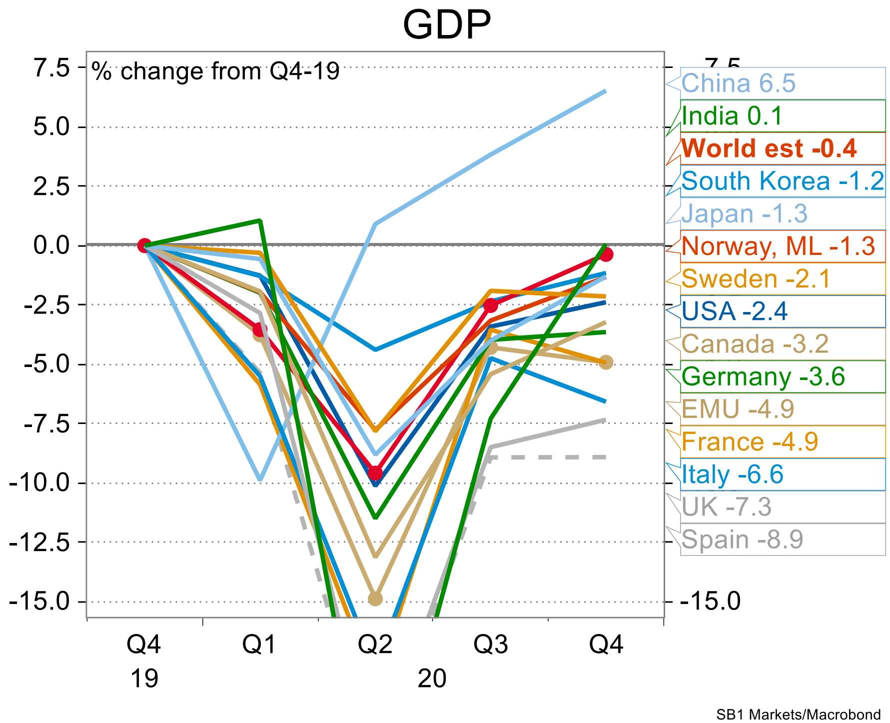
Still 30% down vs. the pre-corona (2019) level. US passenger traffic down 33%, but up >100% vs Jan



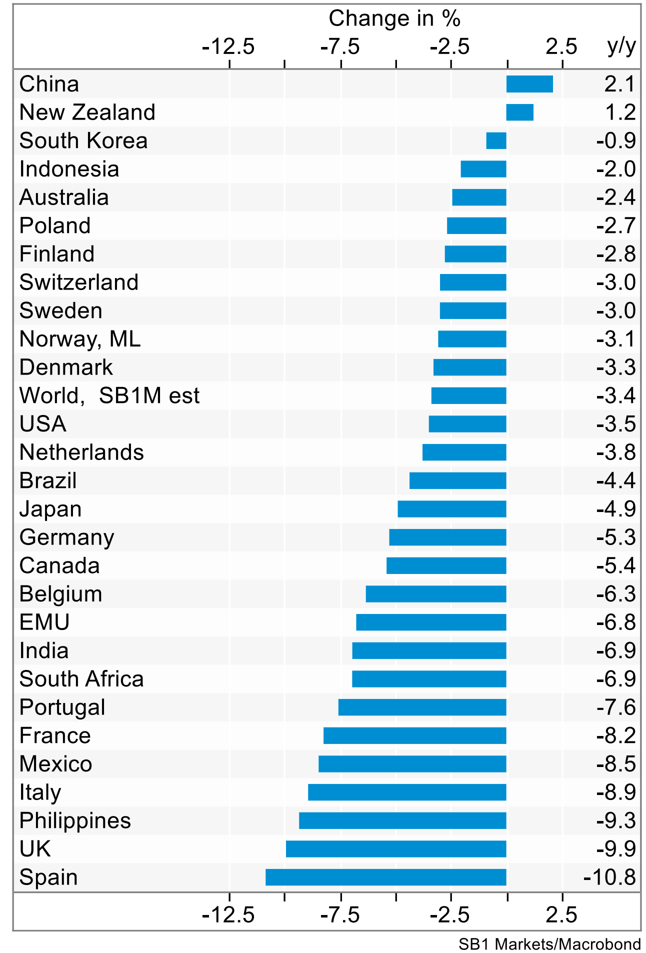


Q4 GDP growth even stronger than we assumed – India recovered sharply

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



GDP 2020 vs. 2019



- We estimate that GDP grew by an 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 most others. However, GDP fell in both France & Italy
- **In 2020,** China grew by 2.1%, New Zealand 0.2%, 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…

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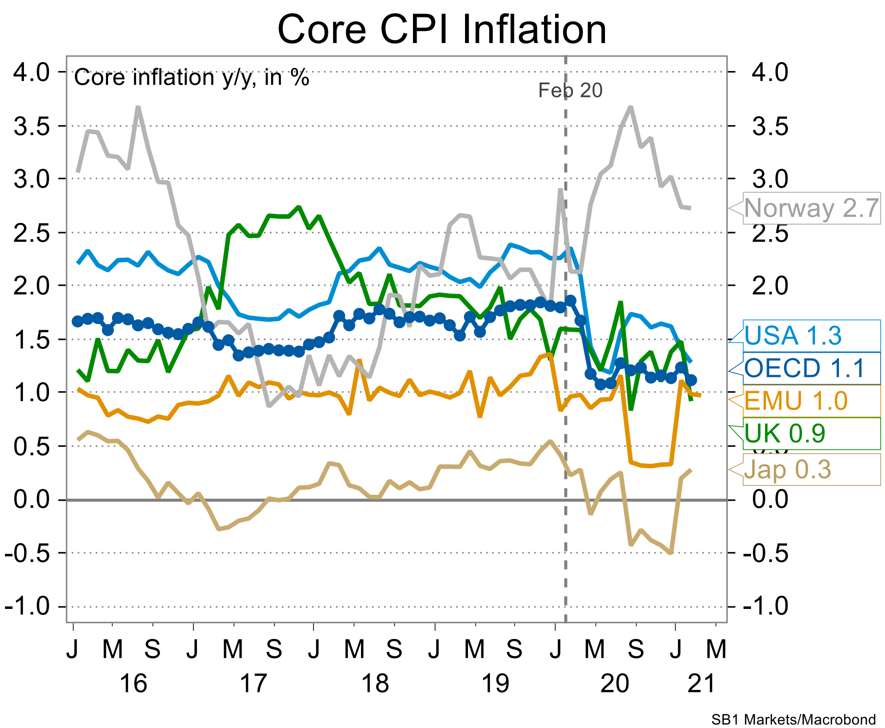
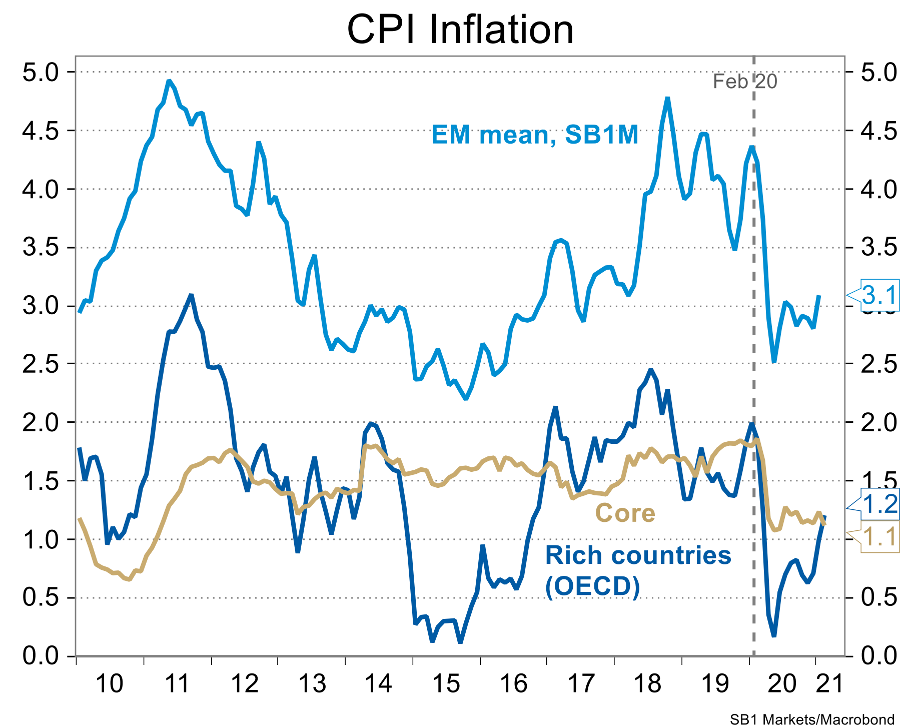
Inflation has bottomed

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

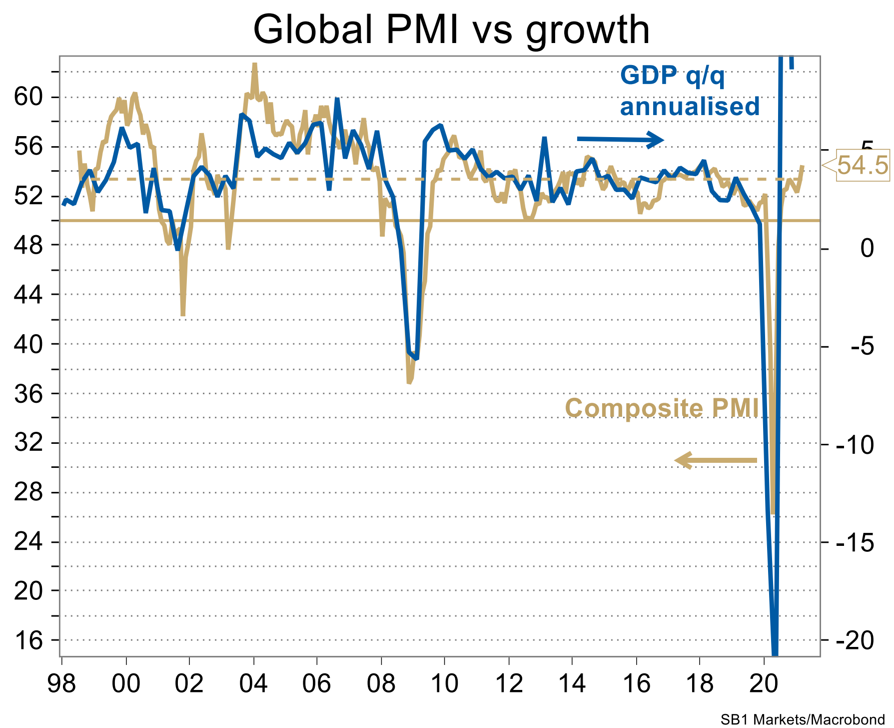


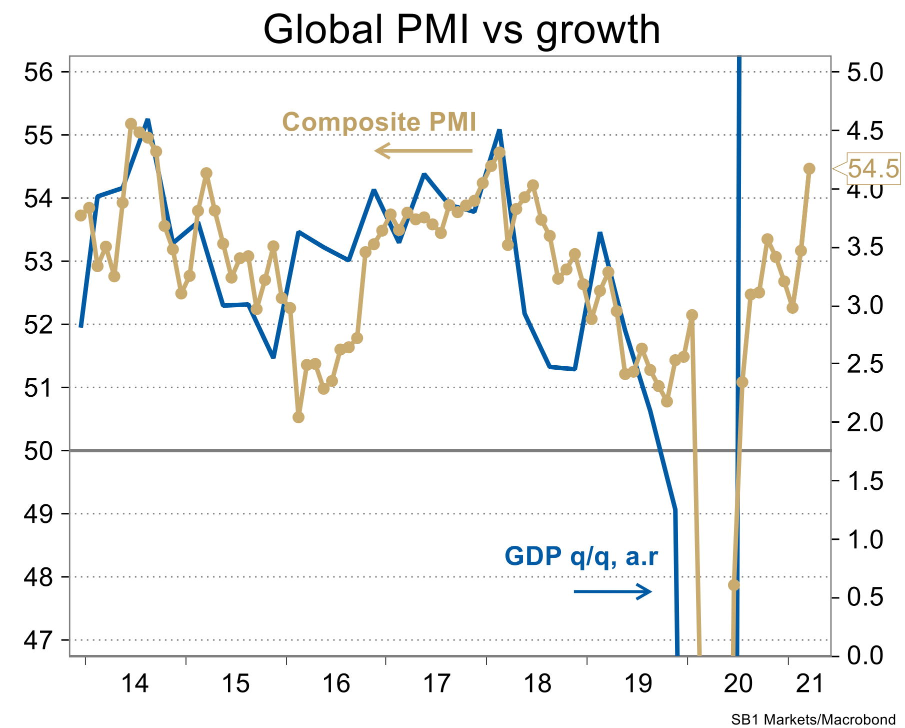


- **The PMI surveys** reports that the increase in raw material prices are pushing both total input and output prices upwards. The correlation to headline inflation is very close, and a substantial lift in headline inflation is now inevitable
- However, the **correlation to core (ex food, energy) inflation vs the PMIs** 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. However, that won't necessarily take that many months

The global composite PMI likely further up in March, mostly thanks to Europe!!

We estimate a 1.2 – 1.4 p lift in the comp. PMI to 54.4, signalling growth well above trend



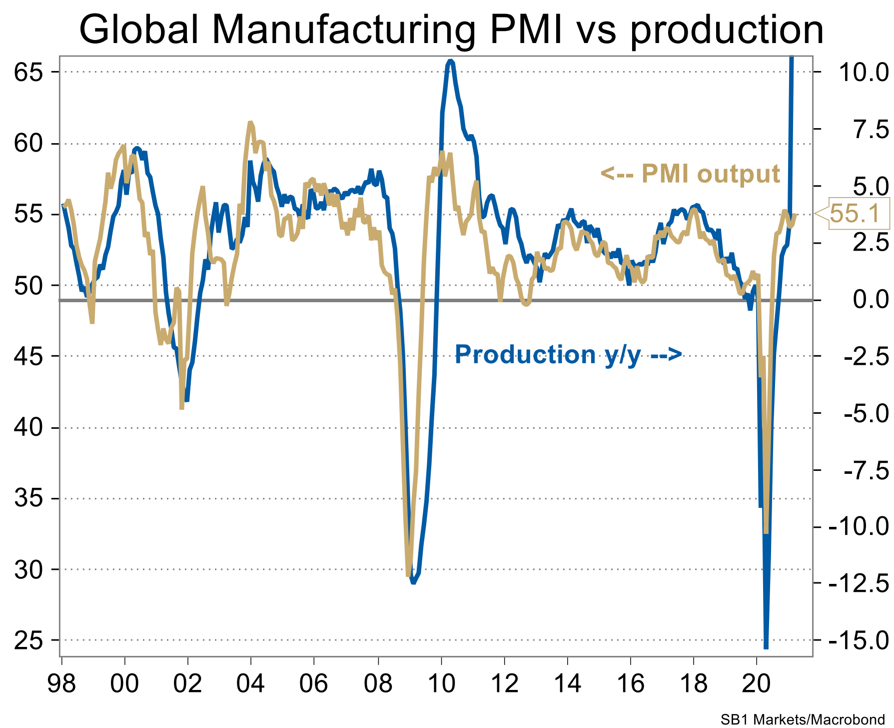


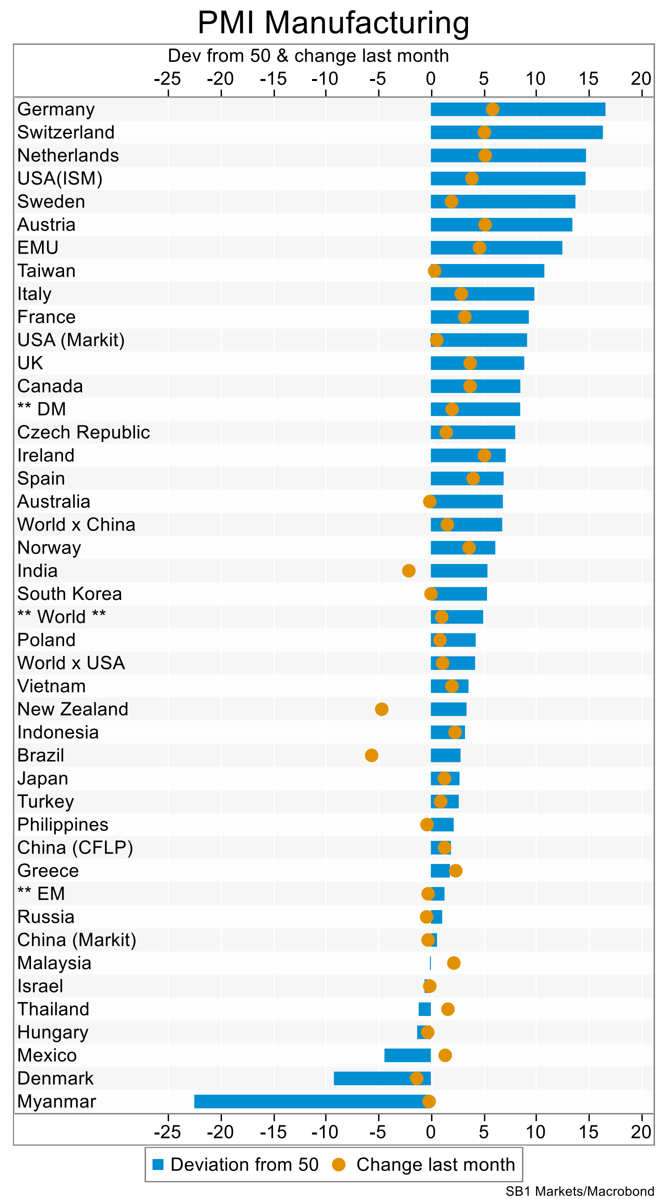
- **The global PMI** is trending upwards amid the 2nd /3rd covid wave, and is at the best level since mid 2018

Our estimates are based on country data published so far. The estimates are uncertain, but usually by less than 0.3 p

Manufacturing PMI climbs, 90% are above 50, a further recovery signalled

The PMI rose by 1 p to 55.0 in March, to the best level in 10 y

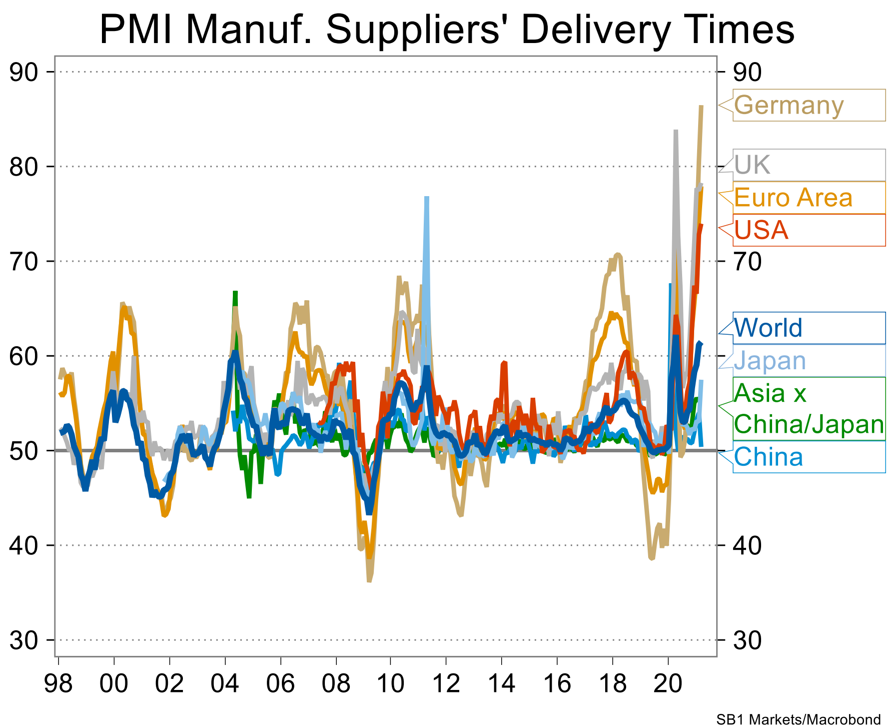


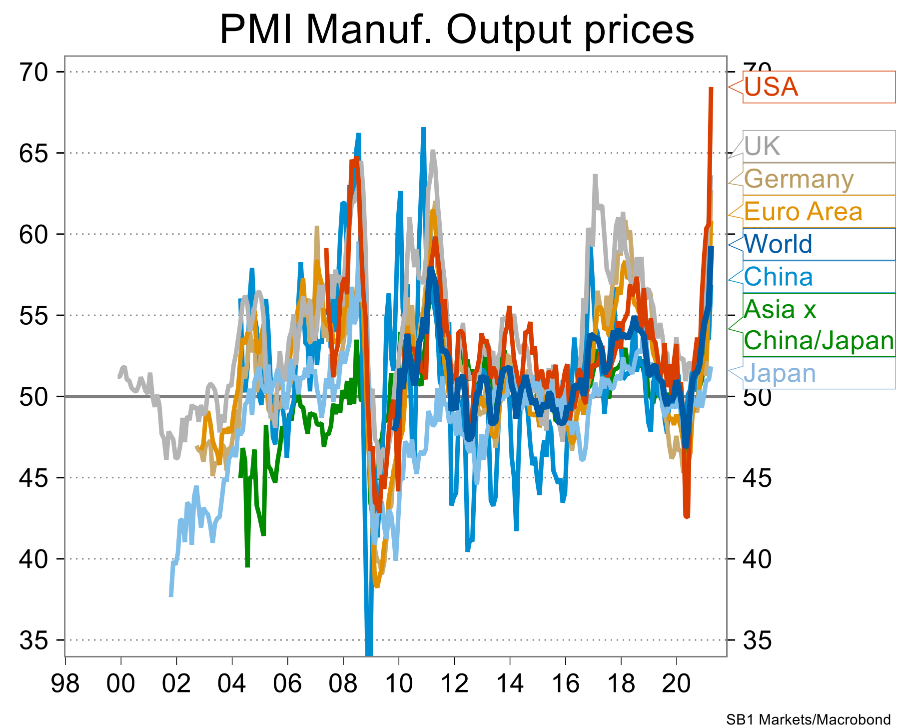


- The global manufacturing PMI rose 1.0 p to 55.0 in March, marginally above f'cast
  - 80% of the countries/regions reported higher PMIs in March vs. February
  - Almost 90% of countries reported a PMI> 50, the highest proportion since 2018
- The Swedish PMI rose further but was surpassed by Germany, Switzerland, the Netherlands & the US ISM. Europe surprised most at the upside
- China was mixed

Delivery times, prices are rising faster everywhere (and the fastest ever most places)

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





- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) rose further in March, to the 2nd highest level ever, just last April was worse. One year ago delays were entirely due to corona related supply chain challenges – and prices tumbled. Now, some of the delays may be corona related but demand is very strong – and both input and output prices are surging!
- **Both global manufacturing input & output price indices** are at the highest level since 2011, and both the US, EMU, Germany, UK are reporting the fastest output price rises ever
- **All together** – rapid growth, longer delivery times and higher prices look like something familiar – *check the next page!*

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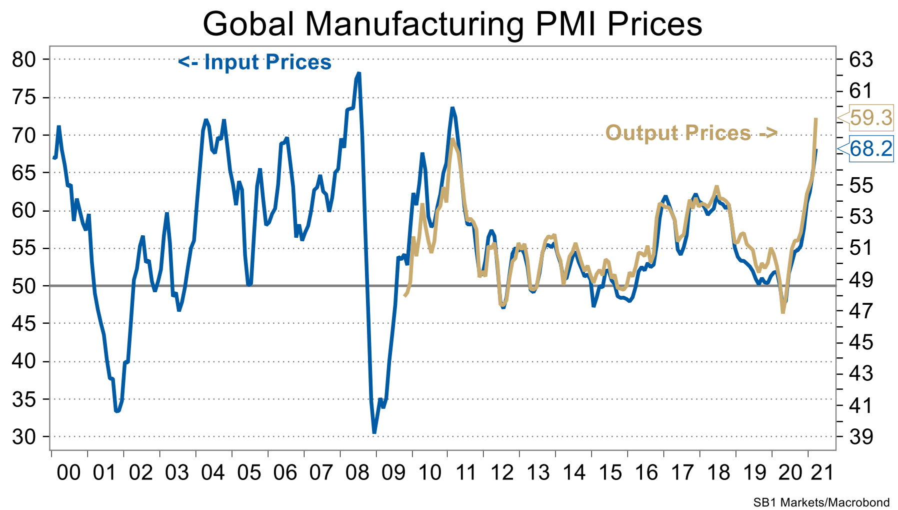
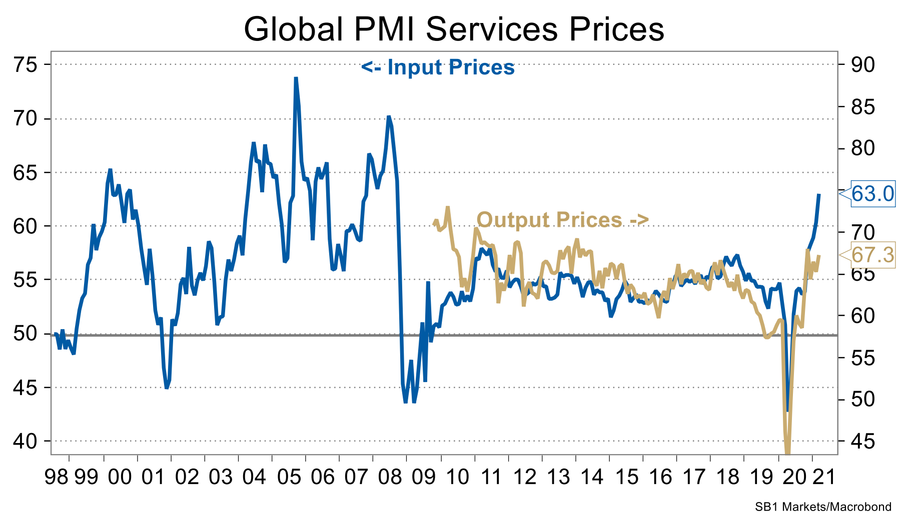
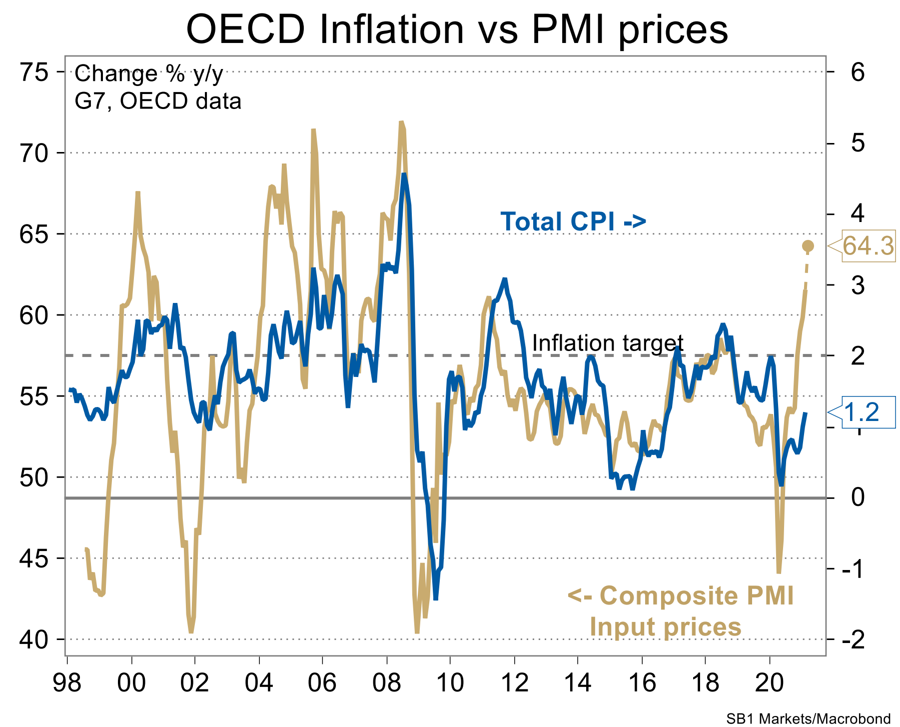
Businesses keep reporting even faster growth in input/output prices

CPI inflation seems to be the next stop





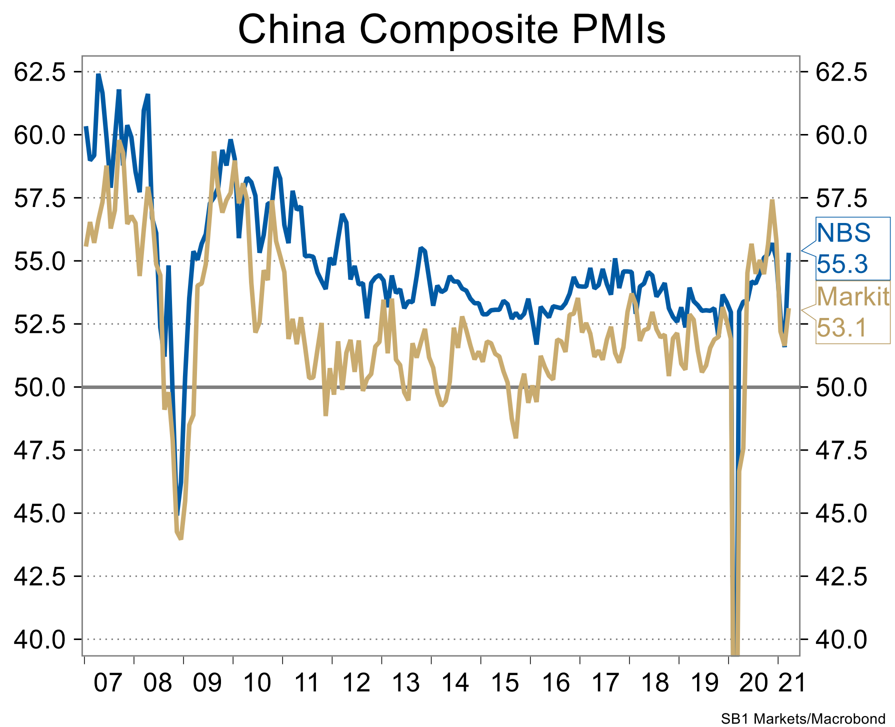
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

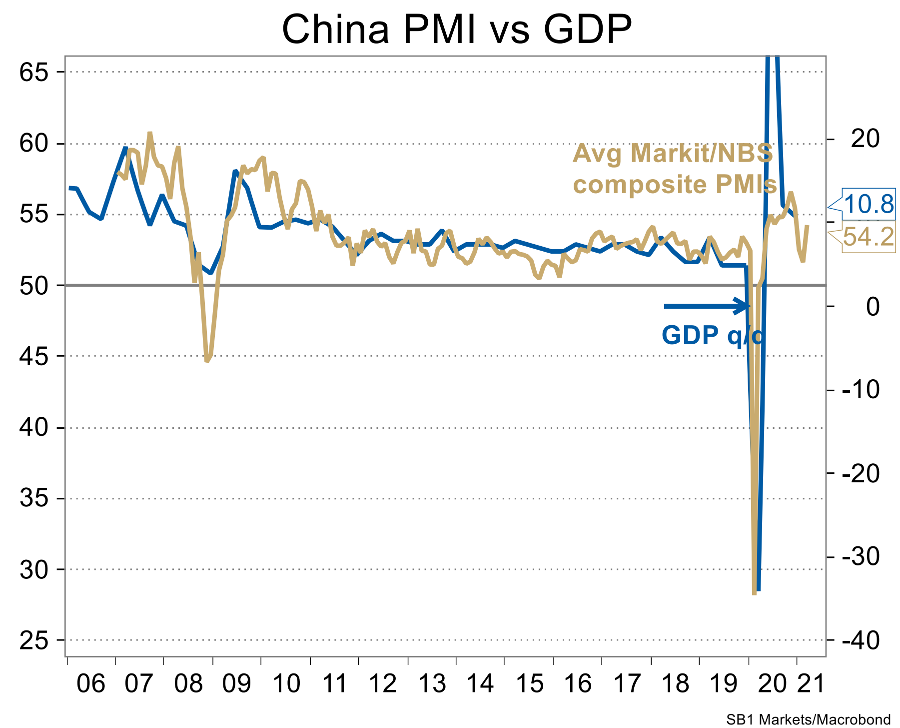


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.2% in rich countries now, up to something quite different the coming months

Mixed March manufacturing PMIs but the service sector recovered post lunar NY

NBS' composite PMI shot up 3.7 p to to 55.3, Markit's +1.4 p to 53.1





- The subdued Lunar New Year holidays no doubt dampened economic activity in February but the service sector reported a sharp uptick in activity in March
- The manufacturing surveys were mixed, NBS reported faster growth, Marktit (CFLP) not

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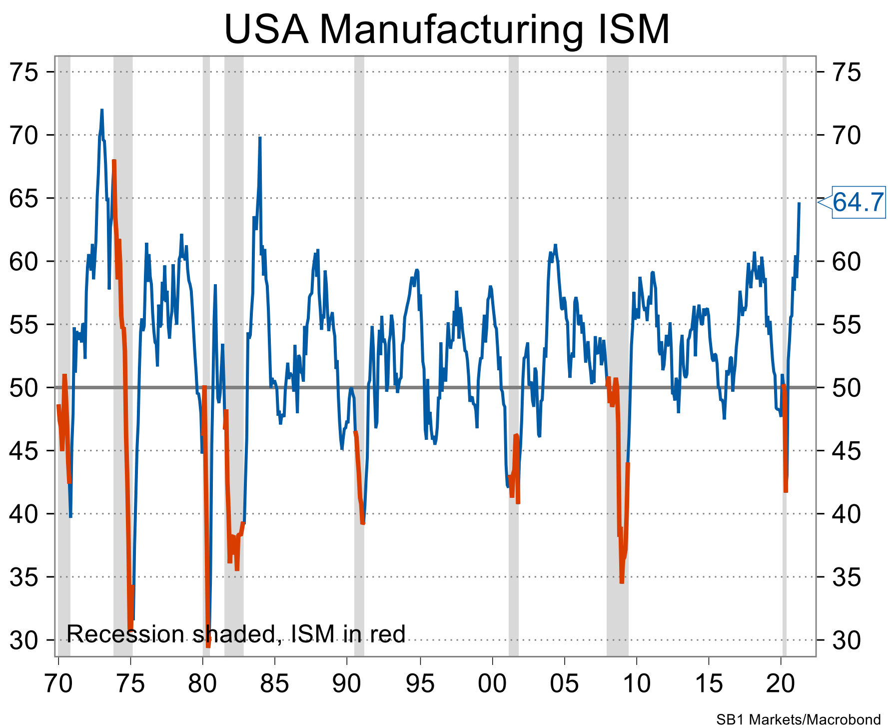
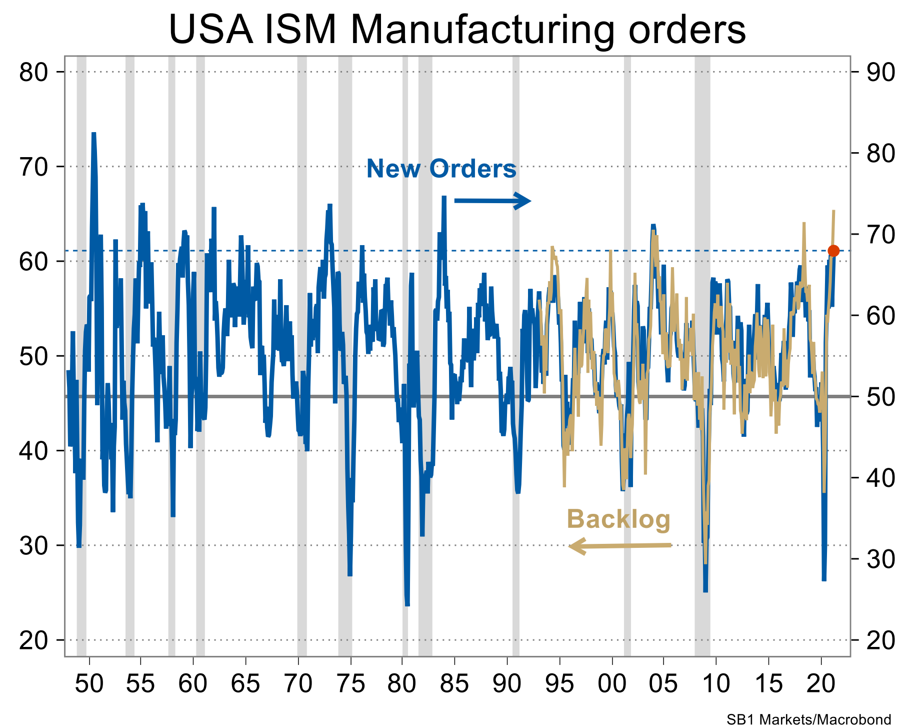
Manufacturing ISM surprised once more, up to almost 65, best since 1983

Delivery times are rising faster than ever, prices have been rising faster only 5 times since 1975

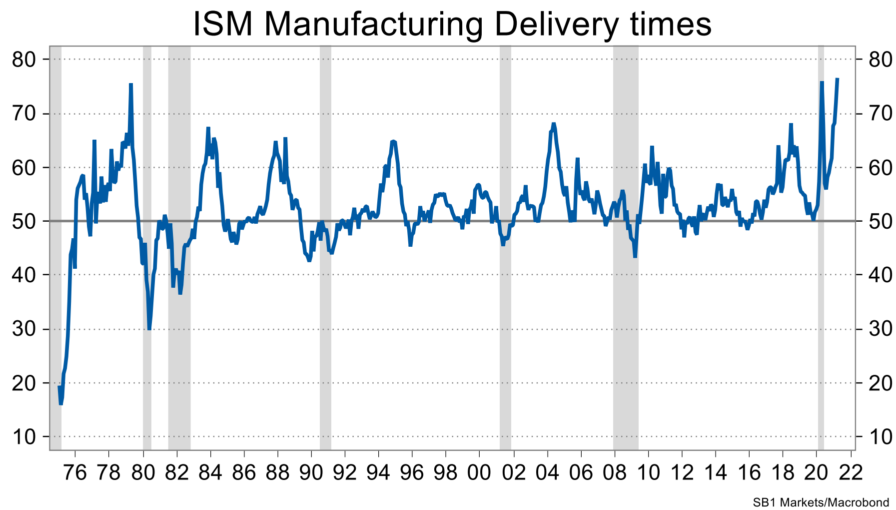


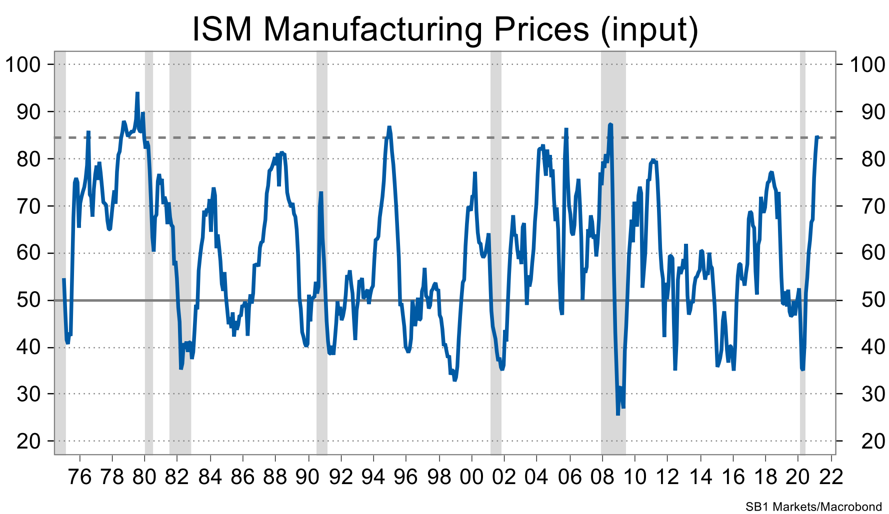


- **Demand** is strong: Orders are rising at the fastest pace since 2004 (and before than in 1983). The order backlog is increasing faster than ever (data from '90)
- **Activity** is increasing broadly: 17 of 18 industries reported growth, none reported a contraction, quite unusual
- **Delivery times** are increasing broadly: 17 of 18 industries reported slower deliveries, none faster. The winter storm is partly to blame, so are also coronavirus related impacts on availability of parts and materials
- **Prices** are soaring: 56 groups of commodities were up in price m/m, up from 26 past 2 months. Not a single commodity was down in price. All 18 sectors are reporting higher input prices. 25 commodities are in short supply. The price index remained at a level normally reached just once per decade
- **Inventories** among manufacturers' customers are falling faster than ever
- **Employment:** 14 industries reported higher employment, none a decrease. More companies are reporting lack of qualified workers, that they are not able fill vacant positions/attract and retrain workers. Better compensation is needed

This is not like April last year; Then delivery times 'exploded' too but prices fell

Now, prices are not falling…

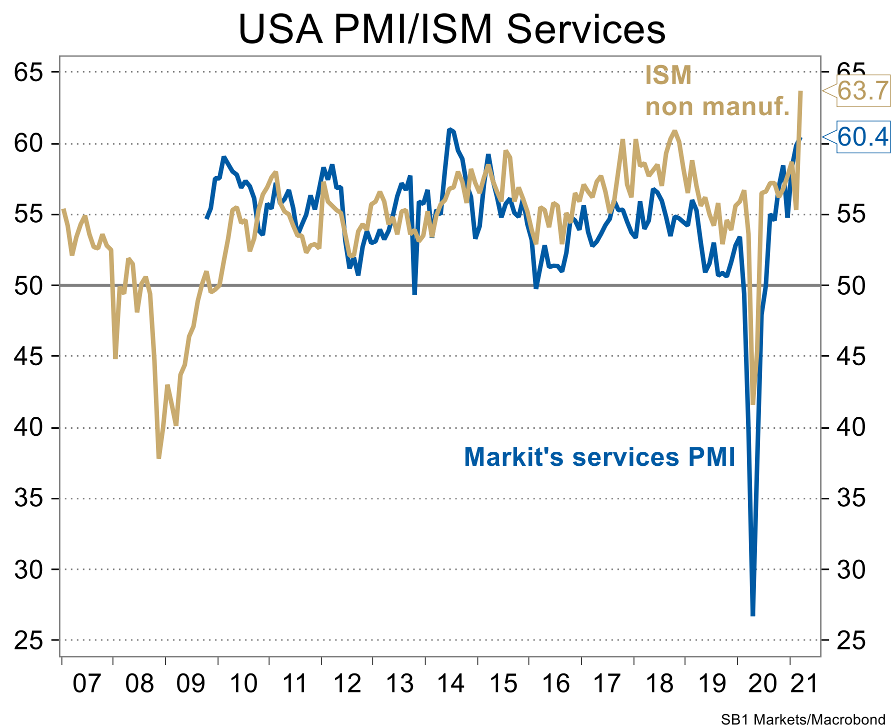


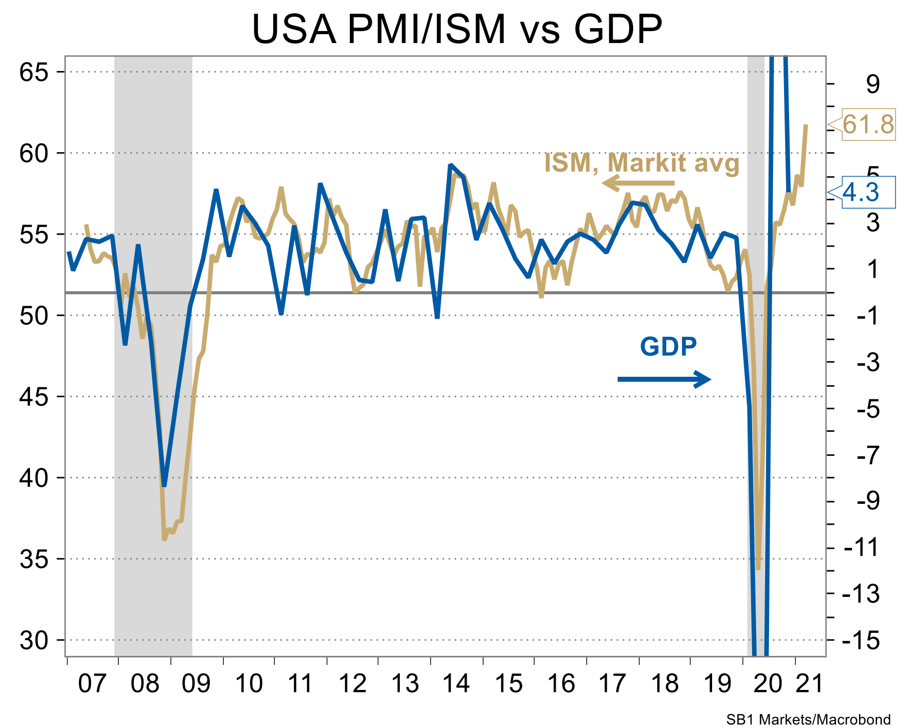


- Last spring, specific corona related **supply chain challenges** were clearly to blame for the rapid increase in delivery times. Orders & prices collapsed at the same time, and employment was sharply cut
- Now, **brisk growth in demand** (like an unusual growth in orders, and the fastest decrease in manufacturers' customers' inventories ever) is no doubt an important factor for the lack of supply. In addition some corona related trouble (perhaps mostly due to a surprising rapid recovery in demand?), and in the US some problems created by exceptional harsh winter weather explain some of increase in delivery times
- The **unusual broad, and rapid increase in input prices** signals a rapid increase in producer prices for finished goods, and thereafter for consumer goods
- The **service sector ISM** sends identical signals for services, input prices are surging. Check here

Services ISM surged in March, to ATH by a WIDE margin, 63.7 (expected 57)!!

The ISM/PMIs are signalling a 7% GDP growth pace (the ISMs signals 10%)

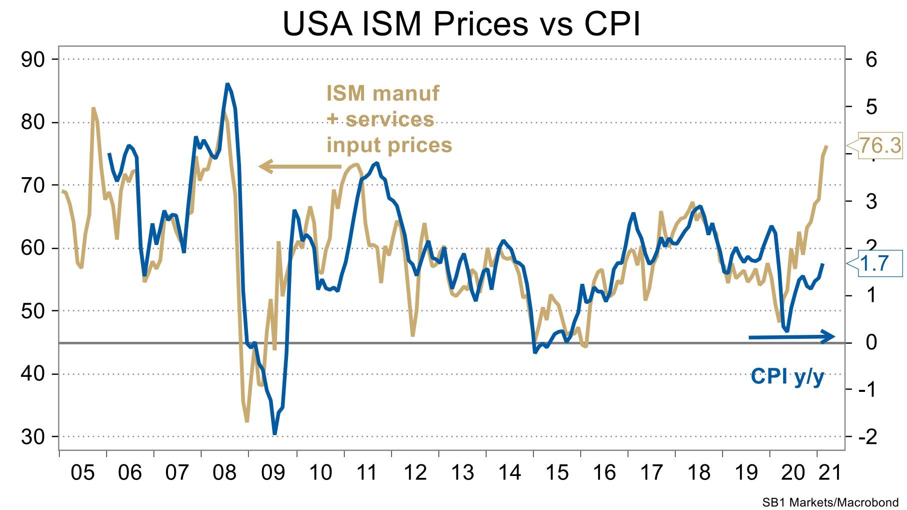


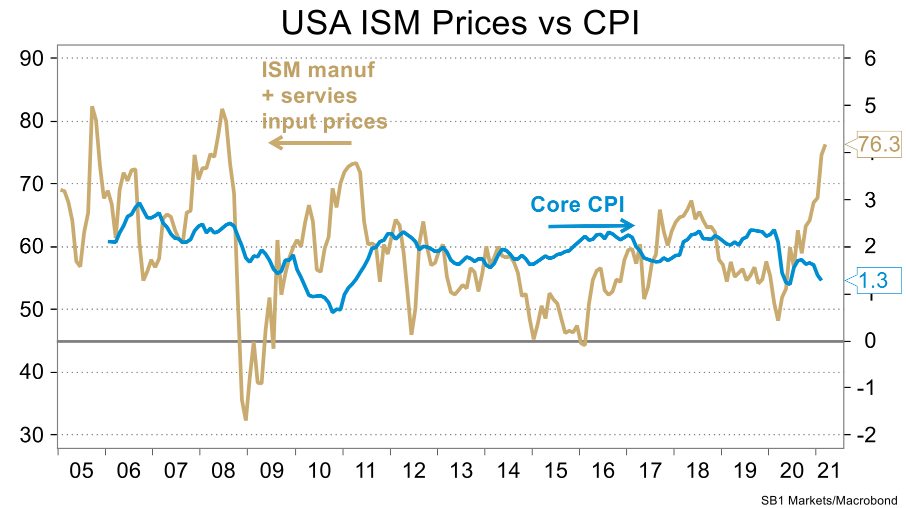


- **The reopening party:** The 8.4 p lift in the services ISM is the second largest ever, just June-20 more up (no. 3 on the list is at +5.1p)
- **18 of 18 service sectors** are reporting growth
  - » Arts, Entertainment & Recreation; Wholesale Trade; Mining; Management of Companies & Support Services; Construction; Agriculture, Forestry, Fishing & Hunting; Accommodation & Food Services; Real Estate, Rental & Leasing; Transportation & Warehousing; Public Administration; Finance & Insurance; Utilities; Health Care & Social Assistance; Professional, Scientific & Technical Services; Information; Retail Trade; Educational Services; and Other Services
- Just PPE (personal protective equipm.) down in price, a long list of goods & services are up price wise – and are in short supply. The price index is at the highest level since 2007
- **Markit's services PMI** rose to the 2nd highest level ever, at 60.4. Prices indices are at a special place, check next page

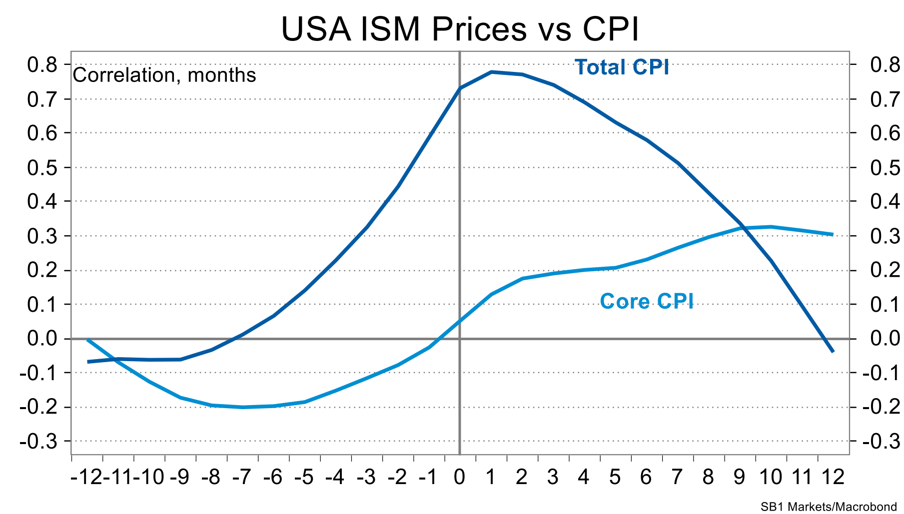
ISM has sent a clear message. For the headline CPI, at least

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



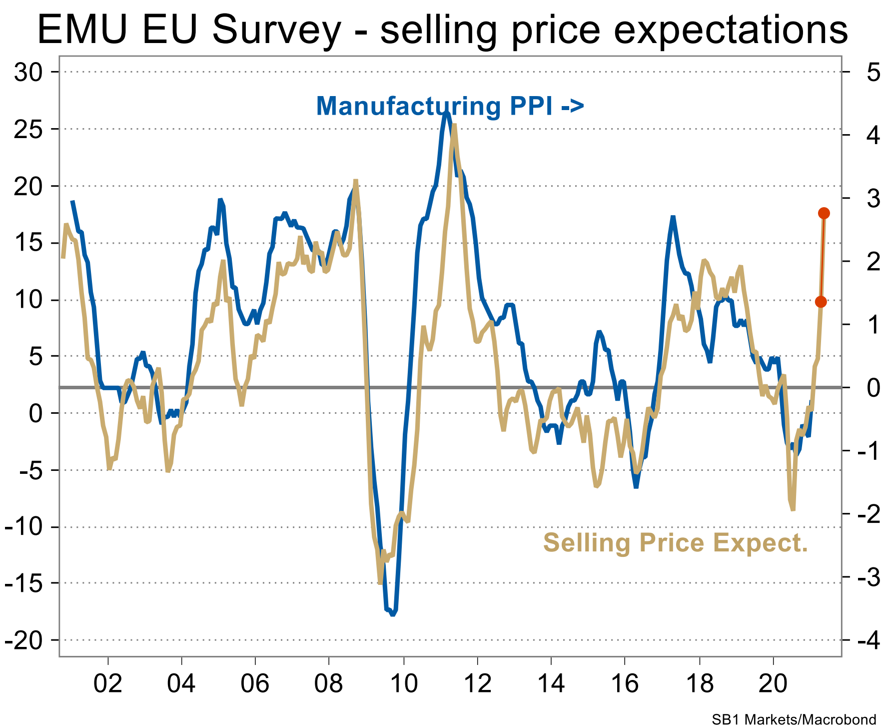


- However, the correlation between price indices in the ISM (or PMI) business surveys and the core CPI is far weaker than between these indices and the total CPI
  - » Energy prices are much more volatile than other prices are rapidly incorporated into consumer prices
- The Fed – and other central banks – are surely right <u>not</u> to focus on the volatile headline CPI, but more on the core CPI and even more on underlying cost pressures in the economy
  - » Wage inflation is so far modest but given the signals from the business sector, wage inflation is probably on the way up
  - » If so, central banks will have far more difficult decisions to make



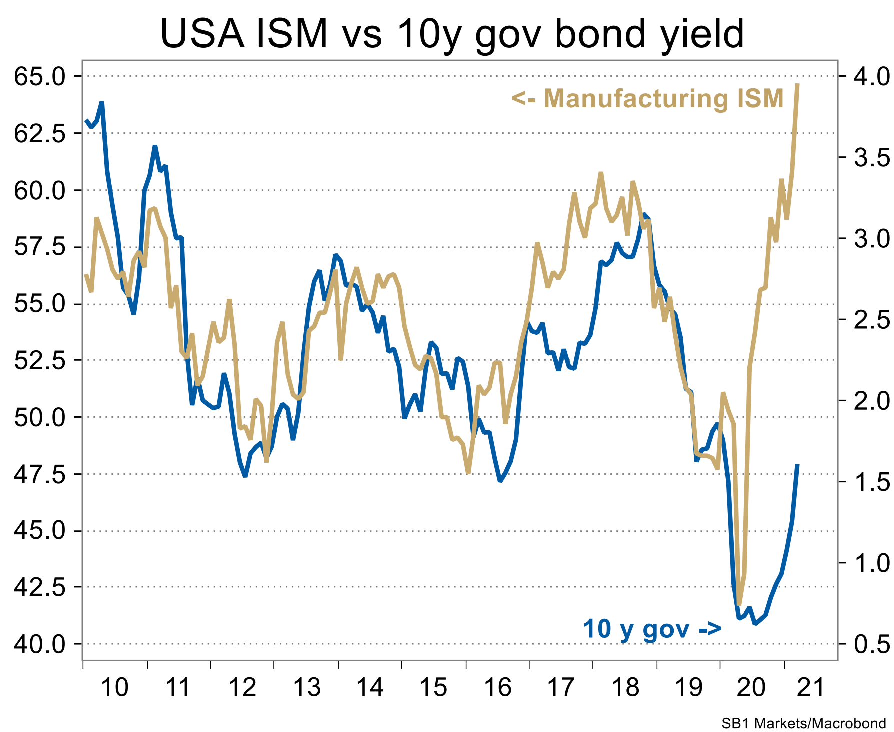
EMU companies are reporting the highest selling price expectations in 10 years

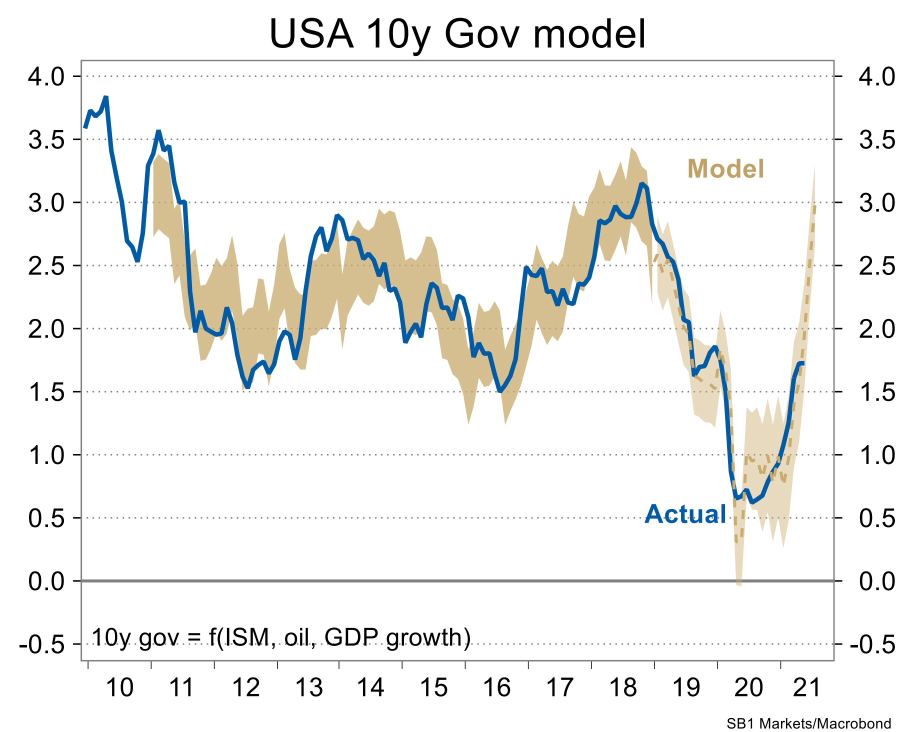
No drama in the EU survey, we said one month ago. Well, we can't say that this time around



Houston: You may have a problem, we are up here already

If the recovery continues, a 3% 10 y US gov bond rate?





- These are not the best of models over time, but they have worked OK during the past 10 years low inflation environment
- If inflation turns up, that's another question (on the upside for yields, of course)

SpareBank 1 MARKETS

A USD 2.3 trl 'infrastructure' plan, more to come. And some tax increases

Well, it is called a The American Jobs Plan – and is much more than infrastructure

- **A long list of whishes** – over the next 8 years
  - » Not all think about all of the proposals as 'infrastructure', like elder & disability care (17% of the bill, far more than to «bridges & roads")
    - And not all like the 'green' approach, of course
- **The amounts are 'small'** at least vs. the recent 4% +9% of GDP stimulus packages, meant to be mostly spent over 1 year: The new bill covers expenses over the next 8 years, and equals 'just' 1.4% of annual GDP
- The **spending program is 'funded'** albeit not over the normal 10 year period, but over 15 years. Thus, Biden proposes a net increase in the budget deficit the first 8 years by 0.6% of GDP (and a surplus the following 7 years)
- For sure, the funding is controversial too, as the whole burden is placed at the corporate sector
  - » The corporate tax rate up to 28% from 21%, reversing half of the 'Trump' 2018 tax cut
  - » A higher minimum global tax rate and some other measures
  - » The total tax increases at almost $150bn per year equals no more than 6.4% of total corporate profits (domestically & abroad)
- The US invests less on 'infrastructure' than other rich countries (check next page) and public investments in other sectors are lower than in most countries
- Biden will announce a **childcare and healthcare package** — more 'social infrastructure' — in just a couple of weeks. Should we add some $1bn, and then more taxes on the rich?
- What will be decided? Unlikely what Biden has proposed

Spending (over 8 years, *'this decade'*)
- Transportation infrastructure and electric vehicles: $621bn
  - » Bridges, roads, main streets: $115 bn
  - » Public local transport upgrade: $85
  - » Amtrack: $80bn
  - » Electric cars/buses/trucks: $174 bn
  - » Airports/waterways: $42
- Green housing, schools, power and water upgrades: $561bn
  - » Homes energy efficient $213bn
  - » Public schools $100bn
  - » Electricity grid: $100bn
  - » Clean drinking wager: $111bn
- Manufacturing subsidies R&D: $480bn
  - » Artificial intelligence, biotech: $180 bn
  - » Manuf. subsidies, incl chipmakers: $300bn
- Broadband and job training: $200bn
- Elder and disability care: $400bn

Revenue (over the first 10 years, supposed to run for 15 years in order finance the spending proposals)
- Corporate tax increase (to 28% from 21%): $695bn
- Global minimum tax increase (21% from 10.5%): $495bn (Some Dems are talking about lifting it to 28%)
- Repeal tax loophole for intangible income: $217bn
- End fossil-fuel tax breaks and anti-inversion measures: $54bn

Source: White House/FT

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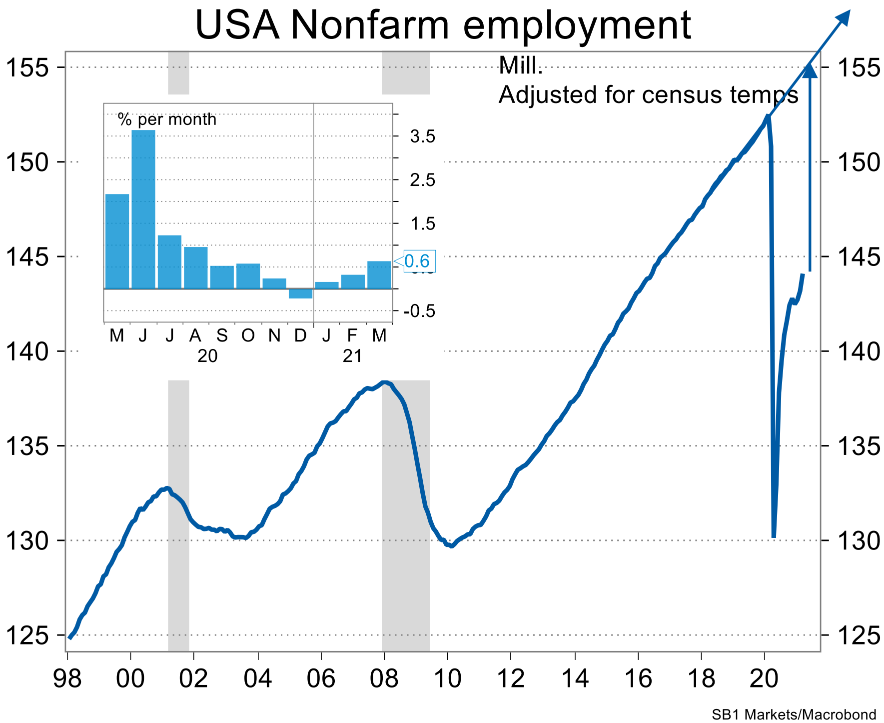
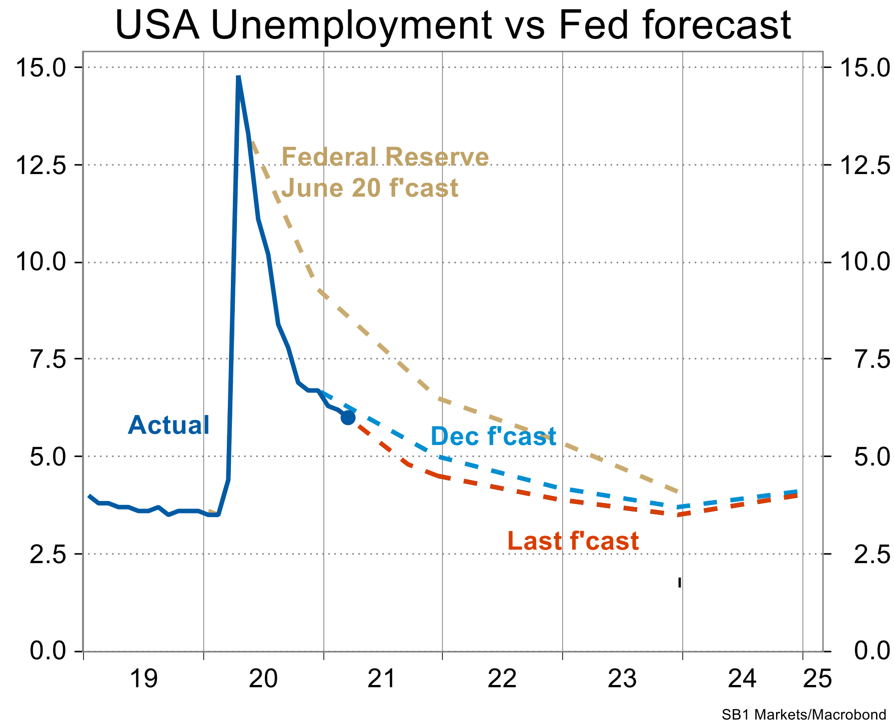
Here we go: Employment up 916’ in March, still 9 mill left

Employment rose more than expected (650’), leisure & hospitality, education in the lead

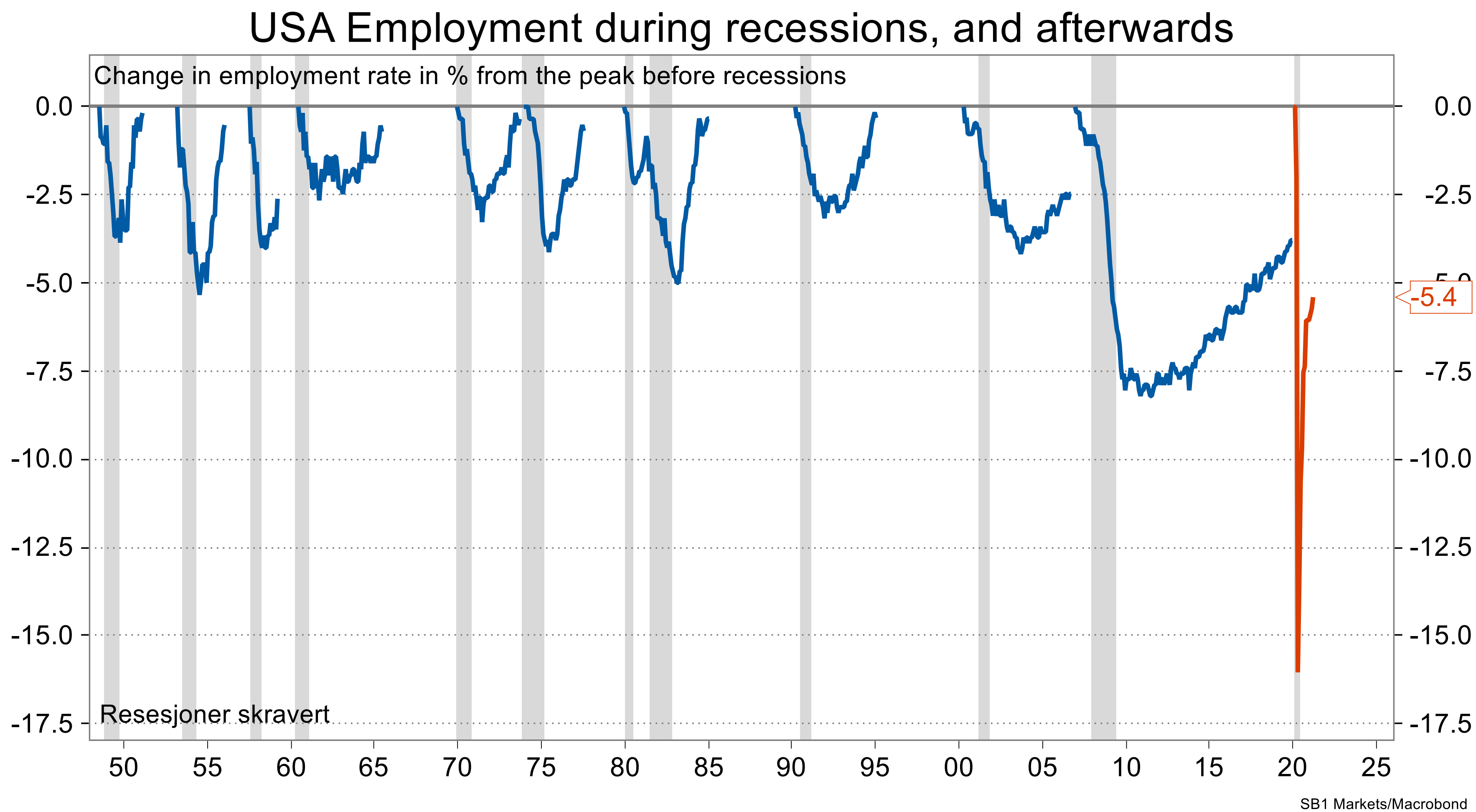




- **Employment** rose by 916’ (0.6%), far more than expected, and Jan & Feb was revised up by in total 156’. In Q1, unemployment grew by 0.5% (2.5% annualised), but by 1.1% through Q1. Restaurants, education in the lead in March but both remain far below pre-pandemic levels. The employment rate is 5.4% below the Feb-20 level, equalling 9 mill jobs.
- **Unemployment** fell 0.2 pp to 6.0, as expected, and as implied by Fed’s recent f’cast. Unemployment is ‘just’ 2.6 pp higher than before the pandemic but the participation rate has fallen by 2.8% (1.8 pp), lowering the measured unemployment rate substantially. Almost 4 mill. persons report that they had withdrawn from the labour force (and were not searching a job) for corona related reasons. Many of these – but very likely not all – probably do want to return to the labour market, when possible
- **The Federal Reserve** will remain dovish the coming months, whatever labour market & inflation data may turn up. *But not forever?*

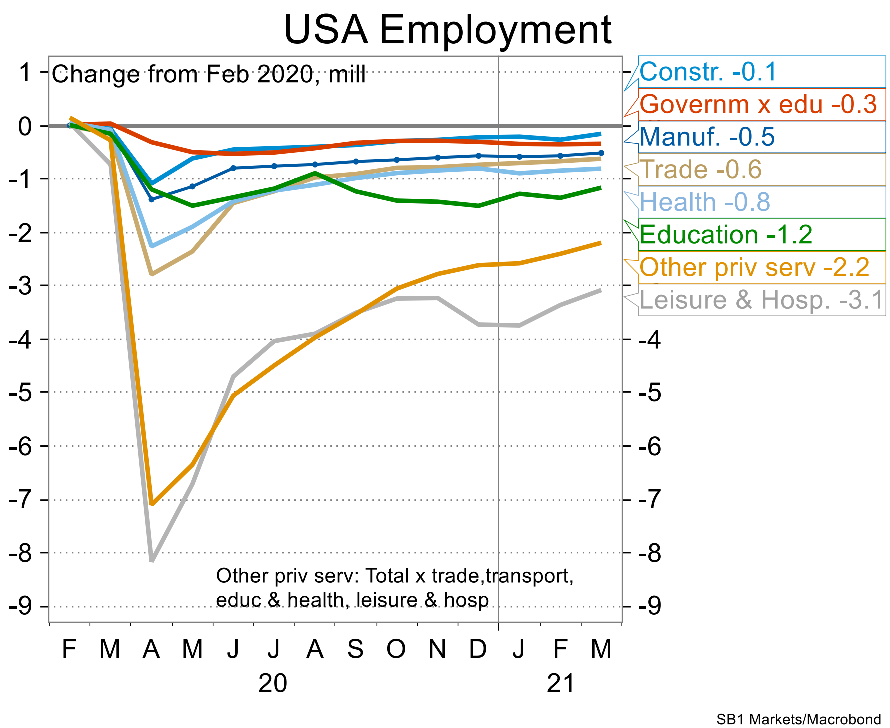
The virus attack was really something special…

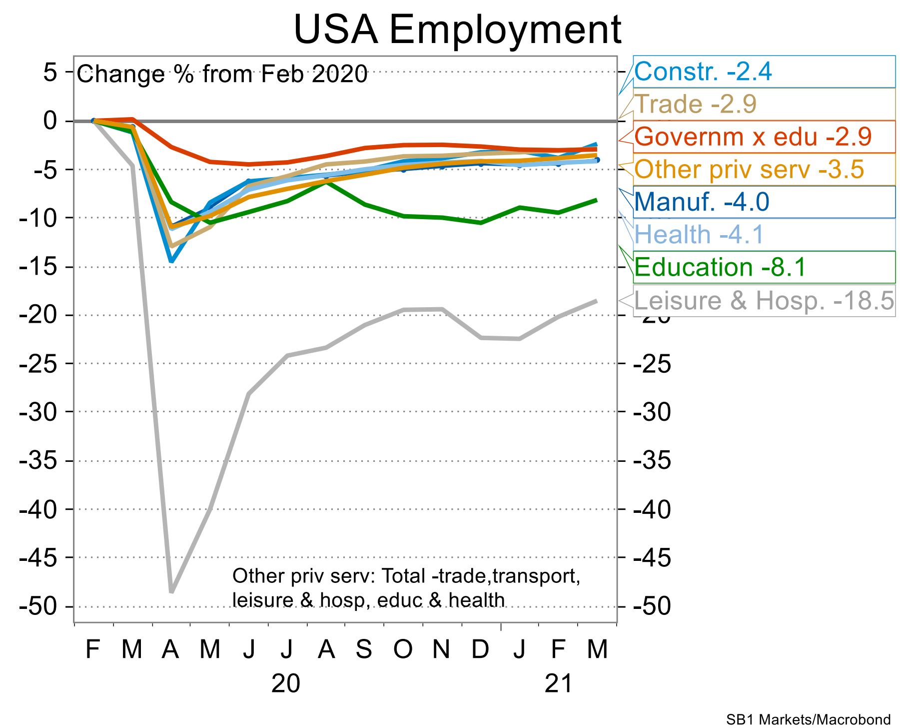
The employment rate is still 5.4% below the pre-pandemic level



From Feb-20: No sector is back yet. Leisure/hosp & education the big losers

... But these sectors are now gaining speed as the economy gradually reopens

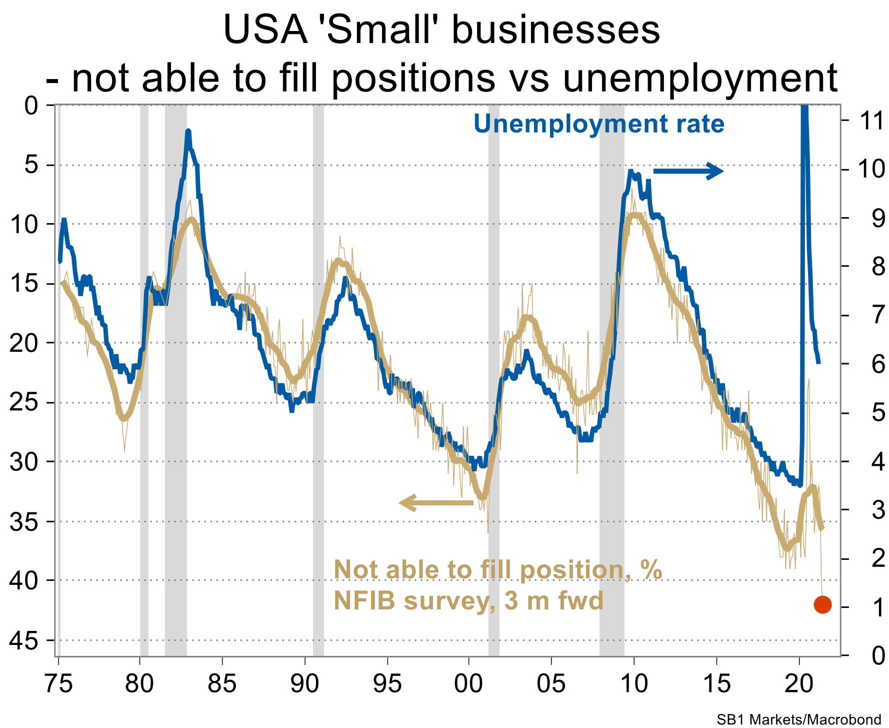


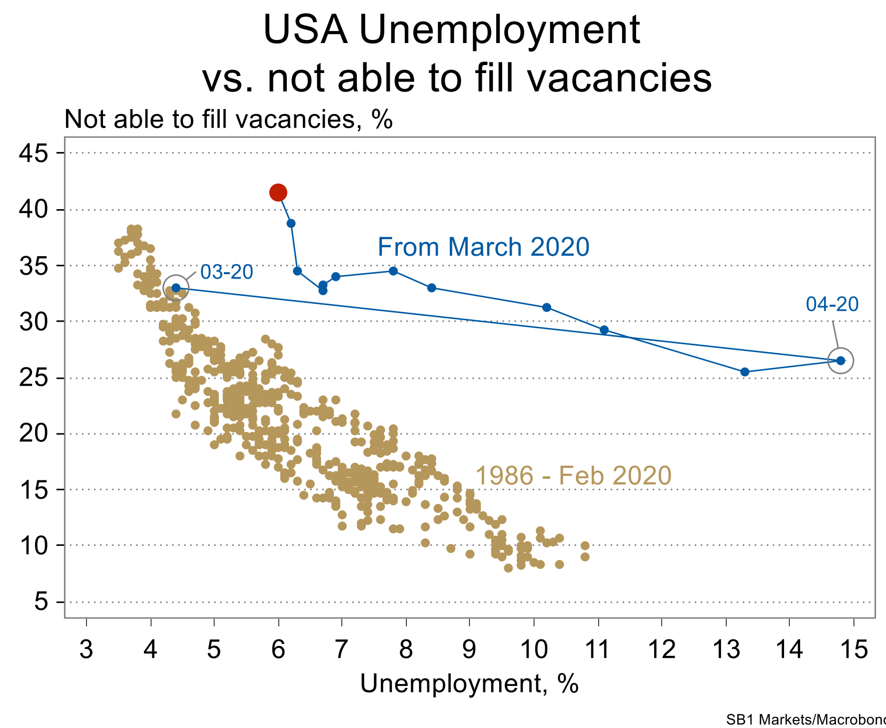


- **From February last year**
  - No main sector is above the pre-pandemic level, not even retail trade
  - **Leisure & hospitality** is down . **Manufacturing** is down 4.4%, **trade & transport** 2.9%, **construction** 4%
  - **Education** is down almost 10%, many schools are closed
  - Even **government employment** x education is down 3.2% (adjusted for temp census workers), which is remarkable in an economic downturn.

A x-check: Not able to fill positions vs. actual unemployment

Is the mismatch corona-related – or for real? That's the… billion dollar question!





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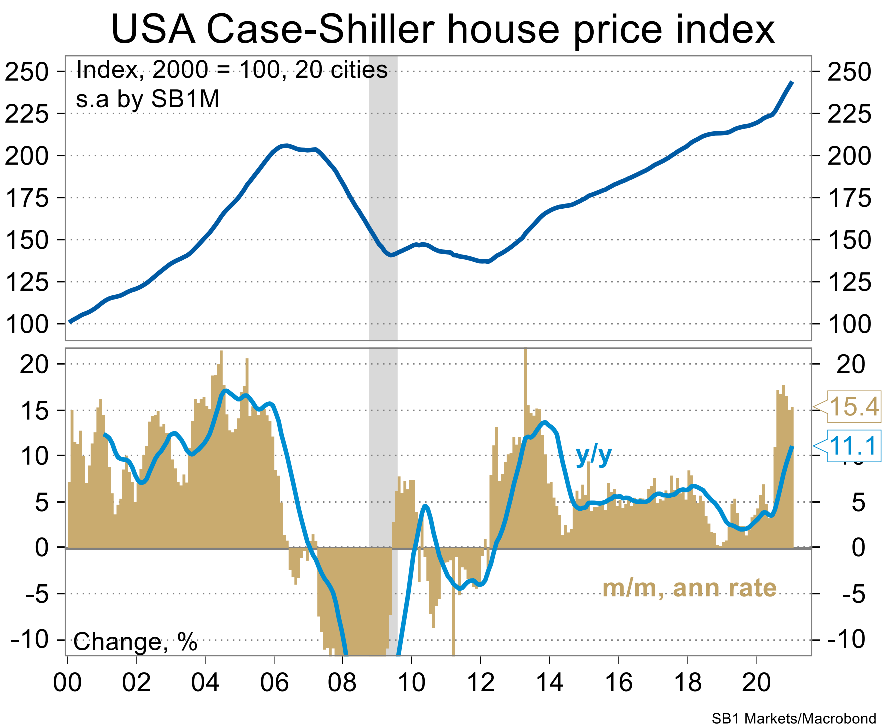
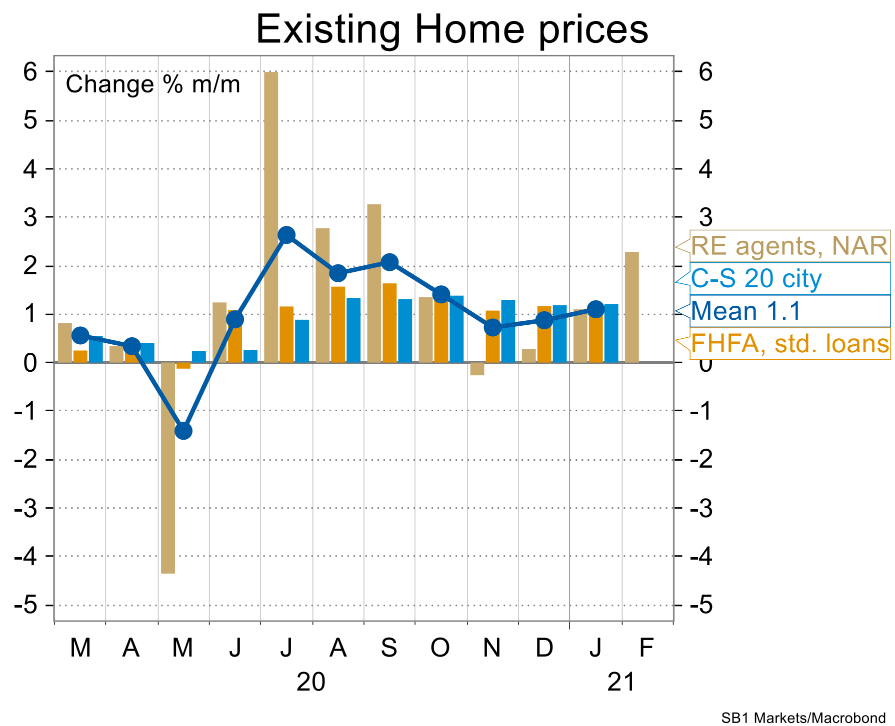
House price inflation may have peaked (m/m) but prices are still climbing fast!

C-S prices up 15.4% m/m (a.r) in Jan, slightly more than in Dec. The annual growth rate at 11%

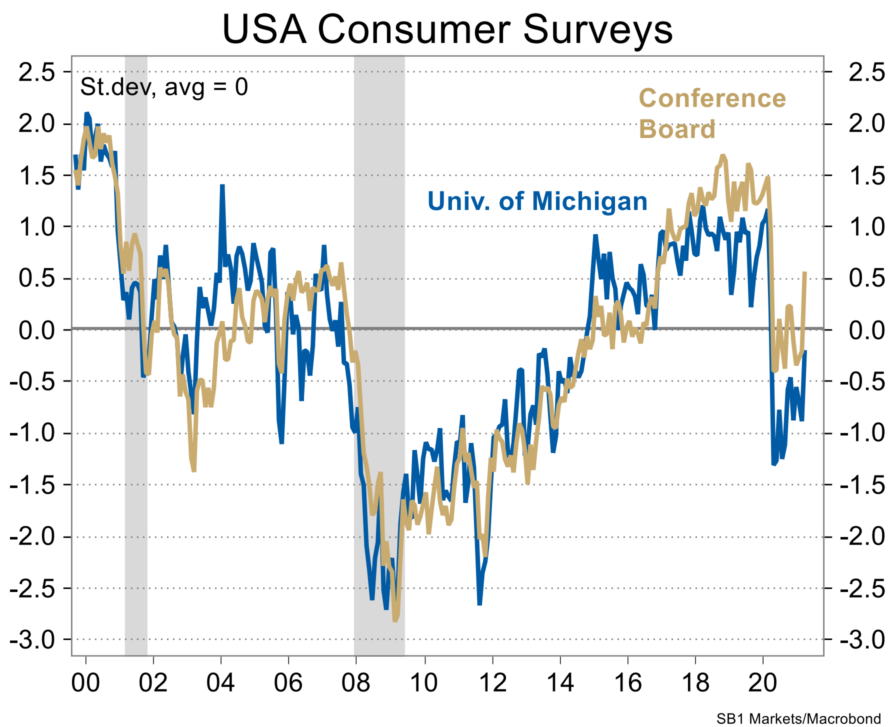


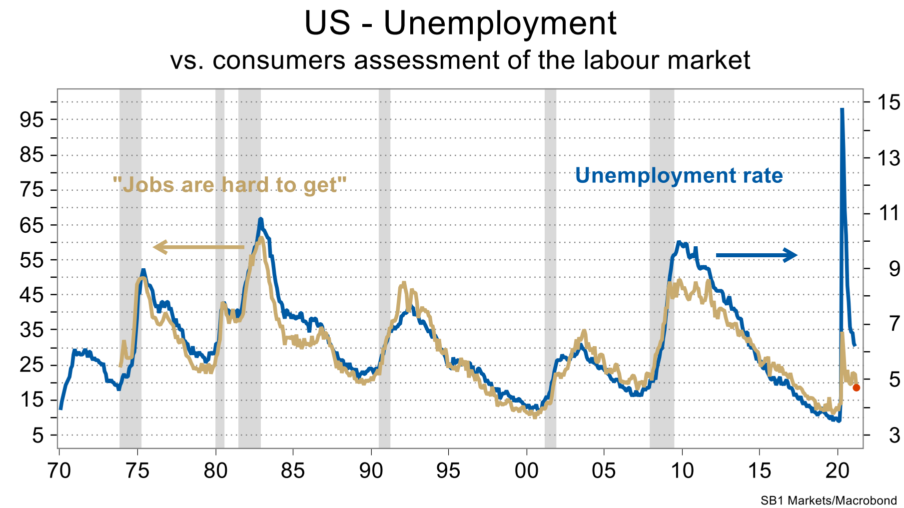


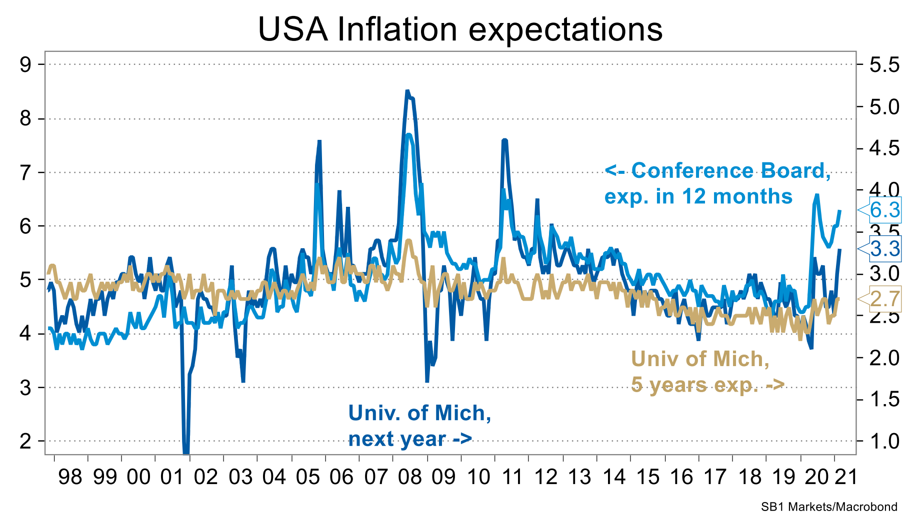
- S&P's Case/Shiller's price index rose 1.2% m/m in Jan (3 m moving avg), marginally slower than over the previous 3 months, finally as expected (forecasts have been far loo low for the previous 6 months)
  - » The 6-month pace at 16% is just marginally below the ATHs in 2004 and 2005. A corona crisis was just what the housing market needed, at least the decline in mortgage rates was appreciated ☺. The annual growth rate climbed by 1 pp to 11.1%, as expected
- Other price indices have also reporting a sharp increase from July last year onwards. In Jan the 'official' FHFA index rose by 1.2%. Relators reported 1.1% in Jan, and then another 2% m/m in Feb

Consumer confidence sharply up in March, to well above average

Conf. Board's consumer confidence up 18 p (+0.8 st.dev to +0.6), expected +6p. Inflation expect. up



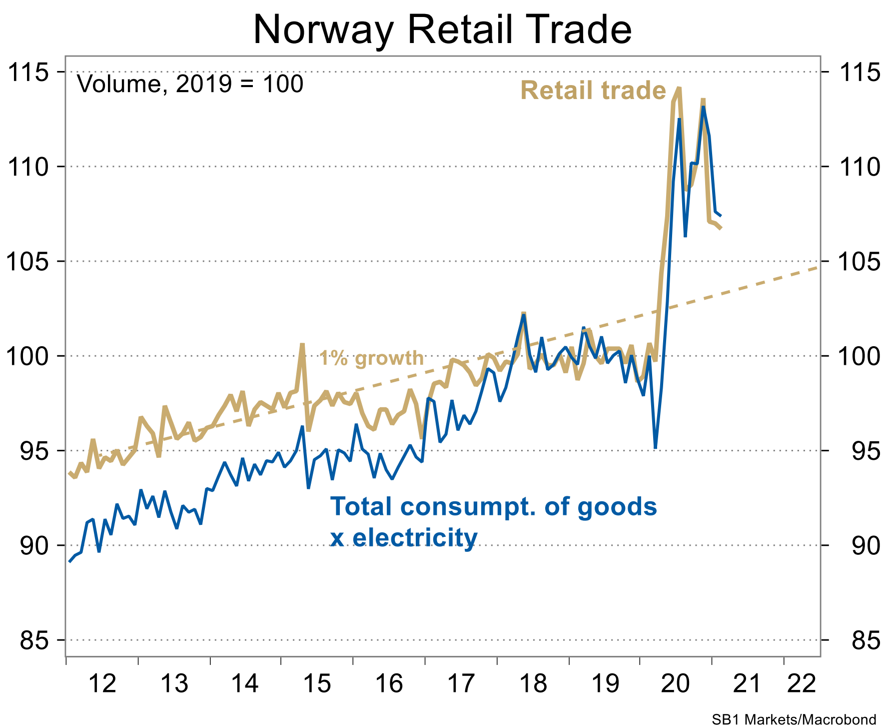


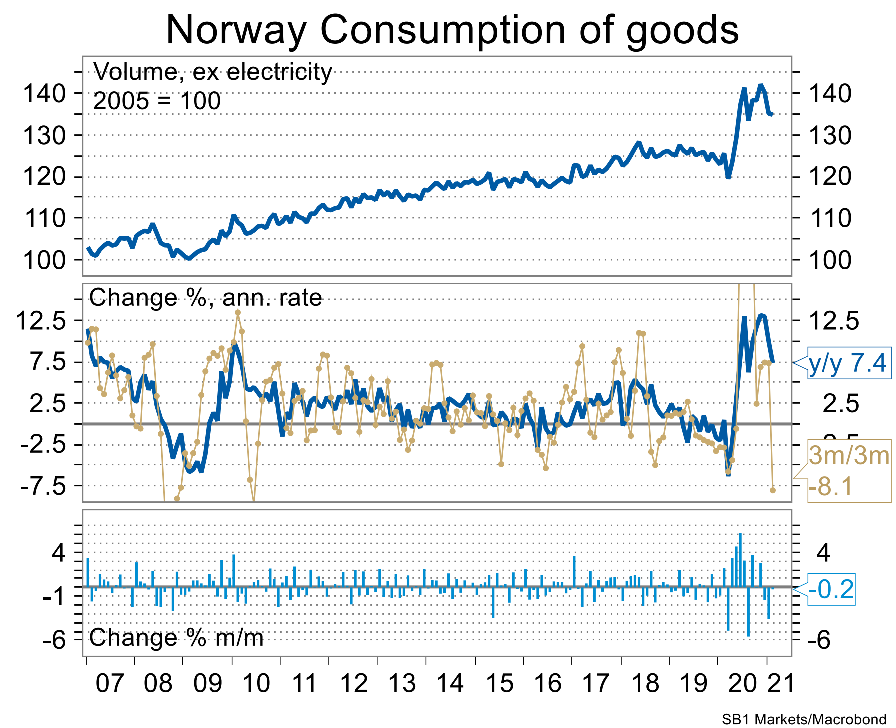


- Both the assessment of the **current situation and expectations** rose, according to Conf. Board
- **Inflation expectations** are have increased sharply in recent months, and are far above average levels, especially for the coming year
- **Jobs are easy to get**, as if the unemployment rate was below 5%, not like the actual 6.0% rate, according to the survey (chart next page)
- **House buying plans** rose to the highest level in 16 years
- **Univ. of Michigan's sentiment** rose sharply too in March (+0.7 st.dev) but remained 0.2 st.dev below average

Retail sales further down in February, but level still far above pre Covid

Sales fell by 0.3%, we expected -3%, and consensus was at -0.9%. Level is still ‘too high’





- **The partial lockdown in the greater Oslo region** and other areas with a rise in Covid cases definitely contributed to the fall in retail sales in February, a trend that is likely to continue into March and April as even tighter restrictions were imposed in both Oslo, Viken and some other cities
- **Total consumption of goods** (x electricity) fell by 0.2% in February, as auto sales returned to a more normal level, following an incredible surge in December. In February, auto sales were stable vs. the Jan level
- **Retail sales** are up 7% from the pre-corona level, consumption of goods is up almost 10%. Demand for goods will very likely return to a ‘natural’ trend path when households one day are allowed (and dare) to start spending more on ‘locked down’ services, and to go abroad again
- **We still expect sales** to slow the coming quarters, back the pre-corona trend path – when it becomes possible to spend more on services again
- **Service consumption** is of course far below a pre-corona level, no data included in these retail sales data

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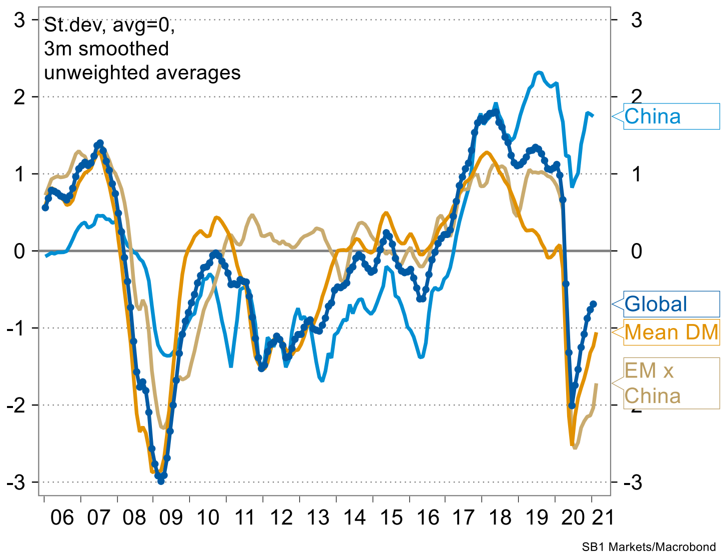
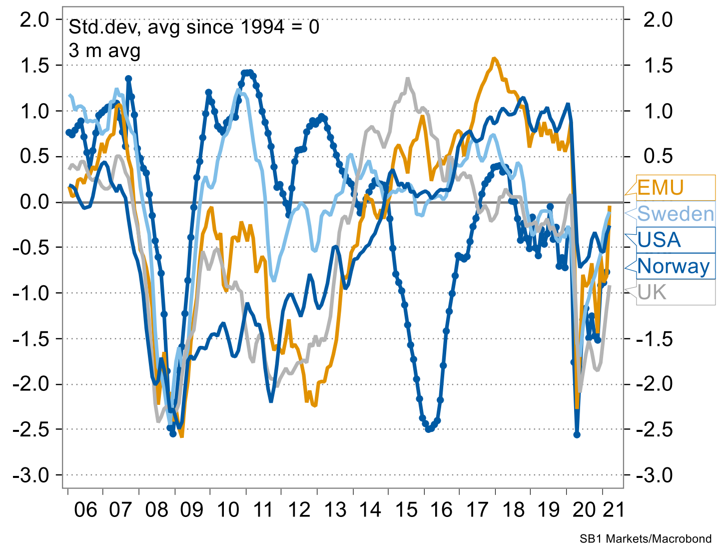
Consumer confidence is gradually recovering – but remains below par in EM x Ch

In Europe, as in the US, confidence is approaching average levels

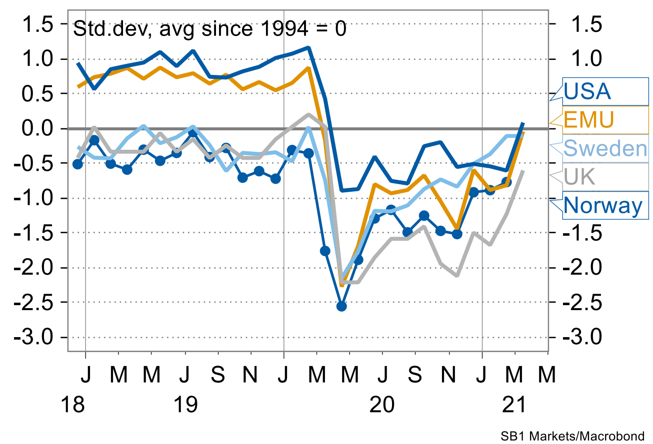
Global consumer confidence



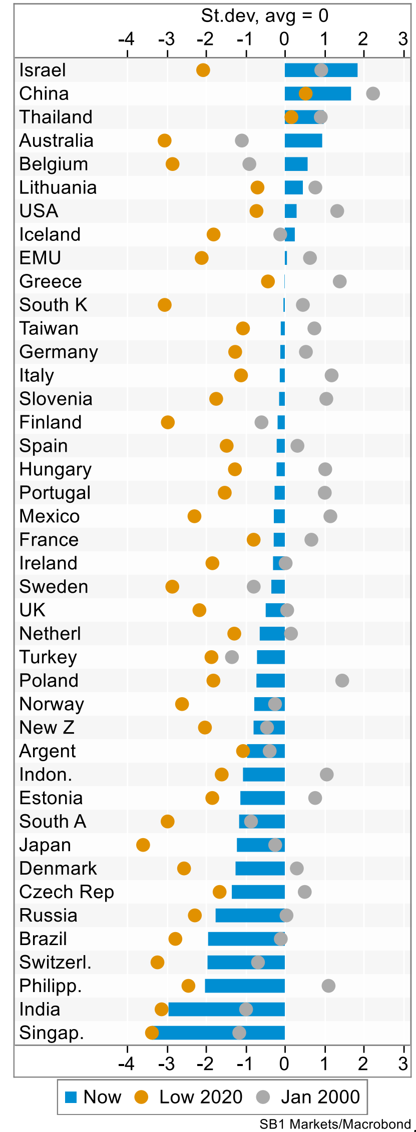
Consumer confidence



- In most EM x China, sentiment is below par
- Barring a few countries, sentiment is above last year's low (the Czech Rep is one of them, for good reasons)
- Israel is at the top, for goods reasons too



Consumer confidence



The Calendar

The final March PMI data, US & EMU producer pries. CPI & house prices here

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday Apr 6					
08:30	SW	PMI Services	Mar		62.7
10:00	NO	PMI Manufacturing	Mar	(58)	56.1
11:00	EC	Unemployment Rate	Feb	8.1%	8.1%
16:00	US	JOLTS Job Openings	Feb	6900	6917
Wednesday Apr 7					
10:00	EC	PMI Services	Mar F	48.8	48.8
10:00	EC	PMI Composite	Mar F	52.5	52.5
10:30	UK	PMI Services	Mar F	56.8	56.8
14:30	US	Trade Balance	Feb	-$70.4b	-$68.2b
17:00	**WO**	**PMI Composite**	**Mar**		**53.2**
20:00	US	FOMC Meeting Minutes	Mar-17		
Thursday Apr 8					
08:00	GE	Factory Orders MoM	Feb	1.2%	1.4%
08:00	NO	Ind Prod Manufacturing MoM	Feb	(-1.2%)	2.5%
09:30	SW	Industrial Orders MoM	Feb		0.6%
09:30	SW	GDP Indicator SA MoM	Feb		
11:00	**NO**	**House prices SA MOM**	**Mar**	**(1.0%)**	**1.3%**
11:00	EC	PPI YoY	Feb	1.3%	0.0%
14:30	US	Initial Jobless Claims	Apr-03	690k	719k
Friday Apr 9					
03:30	CN	CPI YoY	Mar	0.3%	-0.2%
03:30	CN	PPI YoY	Mar	3.5%	1.7%
08:00	NO	CPI YoY	Mar	3.4%(3.5)	3.3%
08:00	**NO**	**CPI Underlying YoY**	**Mar**	**2.7%(2.8)**	**2.7%**
08:00	GE	Industrial Production SA MoM	Feb	1.5%	-2.5%
08:45	FR	Manufacturing Production MoM	Feb	1.0%	3.3%
14:30	**US**	**PPI Ex Food, Energy, Trade YoY**	**Mar**	**2.7%**	**2.2%**

- **PMI**
  - » We expect a 1.3 - 1.4 p lift in the **global composite PMI**. The output component in the manufacturing index rose by 0.8p, and the service sector PMI rose by some 1.5 pp. The PMI rose sharply in Europe (both EMU & UK), while the Chinese composite PMI recovered, thanks to strong growth in the service sector
- **USA**
  - » The focus has turned sharply **towards inflation**, and for several months core inflation at early stages in the **PPI** has signalled increased price pressures. The recent PMI/ISMs have been 'chocking', with unusually wide spread reports of shortages and price increases, amid strong growth in final demand for goods. Now, the core finished goods PPI is expected up 'just' 0.2%. The risk is on the upside
  - » We doubt the minutes from the last **FOMC meeting** will reveal more on the different views of the committee, than the 'dot-plot' spread signalled. Some more members (but not the majority!) thought that the signal rate probably would be hiked earlier than 2024
- **EMU**
  - » Even here, businesses are signalling higher prices, and the annual growth in the **PPI** is expected up to 1.3% from 0.0%.
- **Norway**
  - » We expect **CPI inflation** to accelerate marginally in March, by 0.1 pp for the CPI-ATE, and by 0.2 pp for the headline CPI, to 2.8% and 3.5% resp. We expect a stronger NOK to dampen inflation, and that the domestic cost pressure will be moderate too. However, higher inflation abroad will have some impact on CPI prices in Norway as well
  - » **House prices** are rising at a 13% pace since last May. The inventory of unsold homes have fallen sharply but supply may now be increasing somewhat
  - » We expect a 1%+ drop in **manufacturing production** in February following the 2.5% lift in January

Highlights

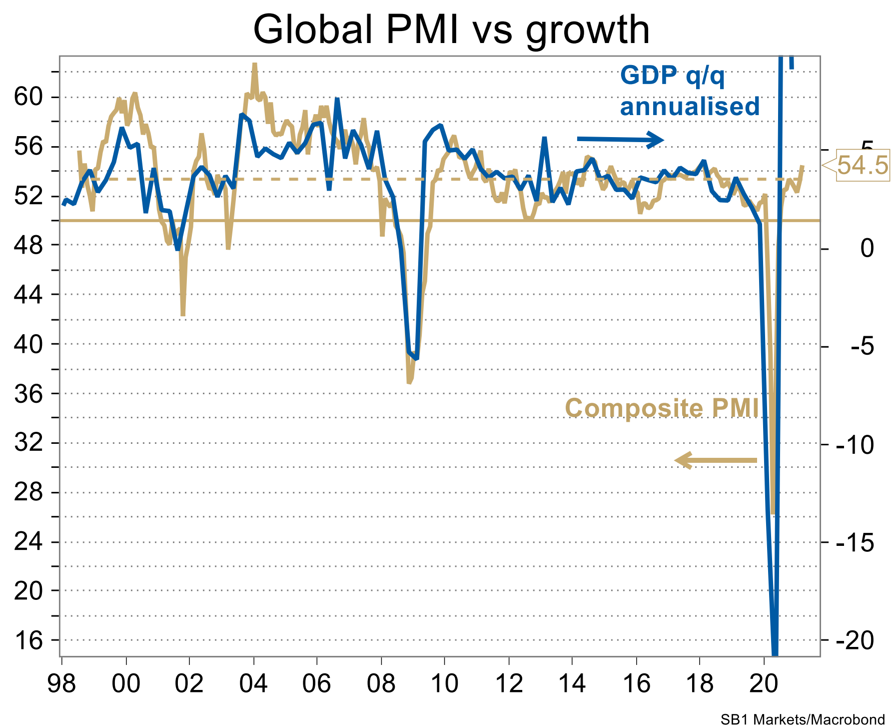
The world around us

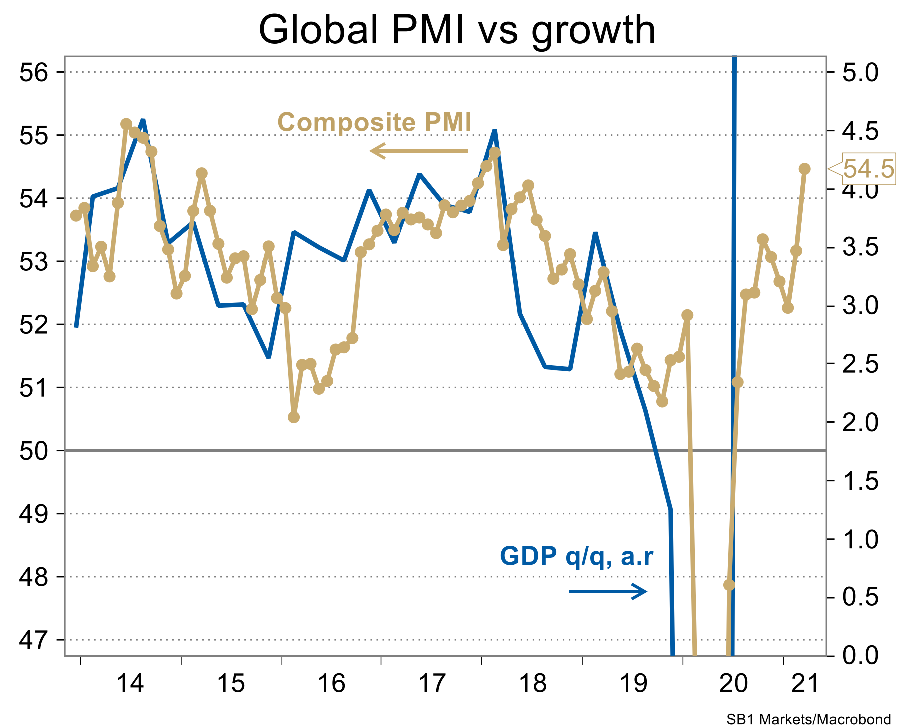
The Norwegian economy

Market charts & comments

The global composite PMI likely further up in March, mostly thanks to Europe!!

We estimate a 1.2 – 1.4 p lift in the comp. PMI to 54.4, signalling growth well above trend



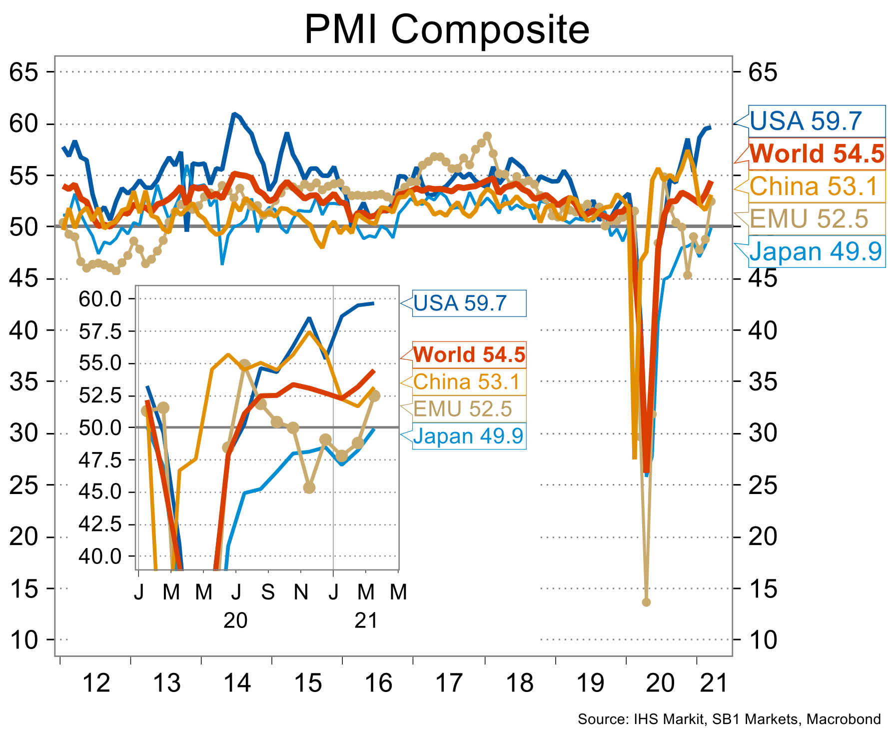


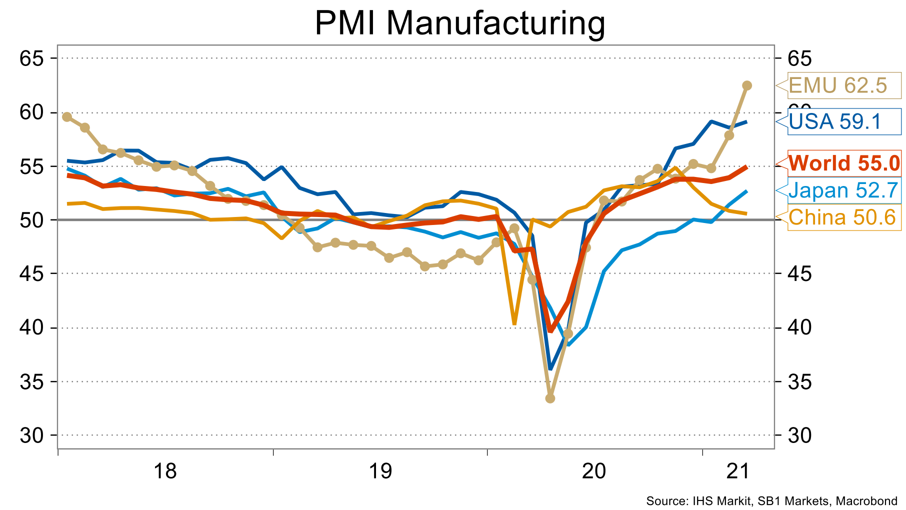
- **The global PMI** is trending upwards amid the 2nd /3rd covid wave, and is at the best level since mid 2018

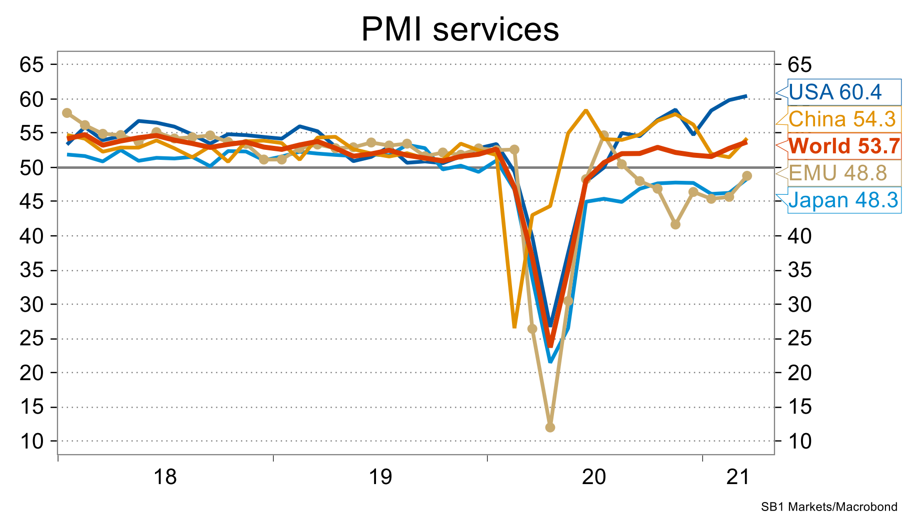
Our estimates are based on country data published so far. The estimates are uncertain, but usually by less than 0.3 p

EMU manufacturing straight up, to ATH (by far), and services are stabilising

The US is still in the lead, and at very high level, 59.7 (composite)





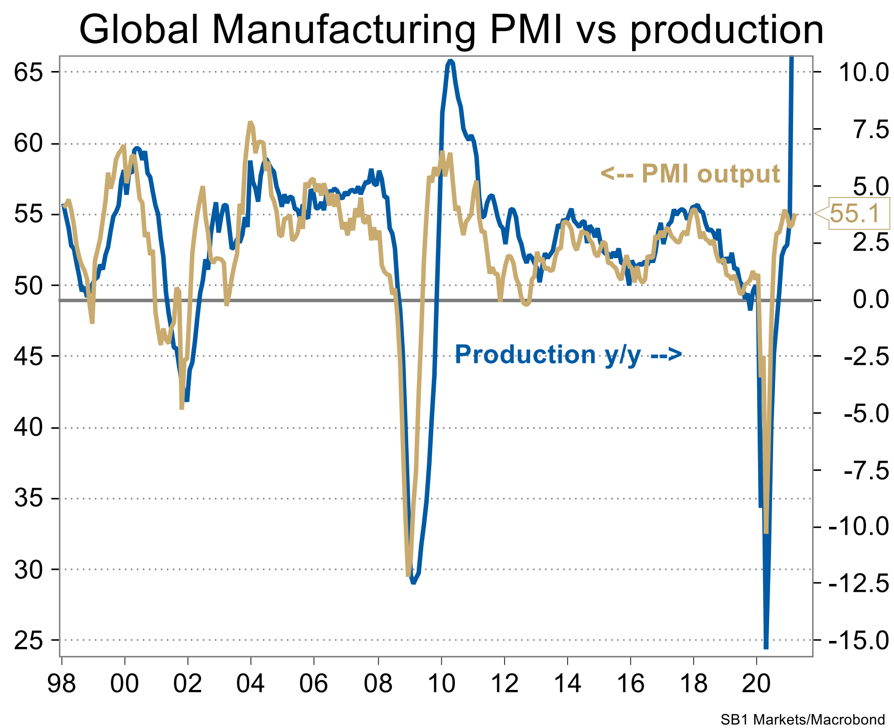


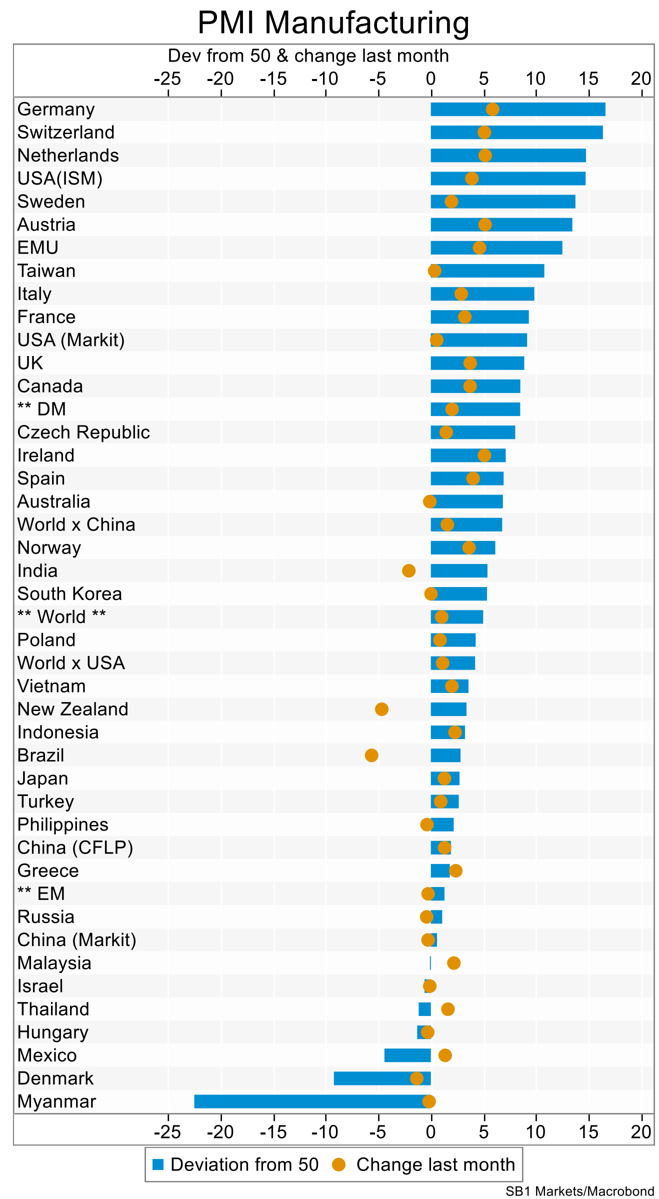
- In the EMU, the service sector PMI rose 3.1 p, despite Covid restrictions, far better than expected. The manufacturing PMI is super strong at or close to ATHs everywhere in the union. The composite at 52.5 signals a 1% pace of growth in GDP (0.25 per quarter). The UK PMIs rose sharply too
- The US service PMI was virtually flat from the previous month, but at a VERY high level
- In China, the services PMI – and the composite – recovered following 'weak' Jan/Feb reports

SpareBank 1 MARKETS

Manufacturing PMI climbs, 90% are above 50, a further recovery signalled

The PMI rose by 1 p to 55.0 in March, to the best level in 10 y

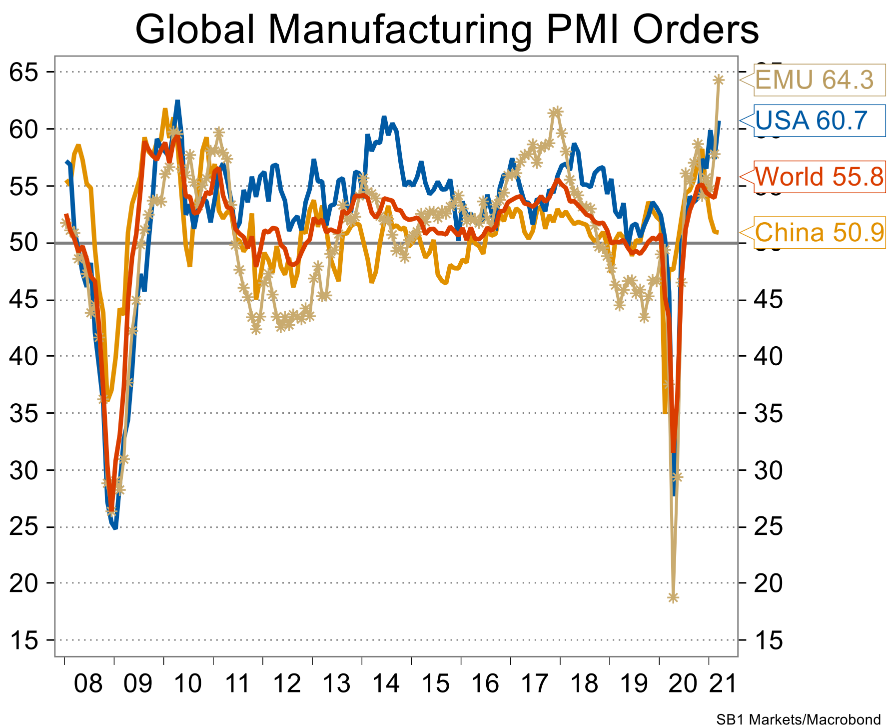


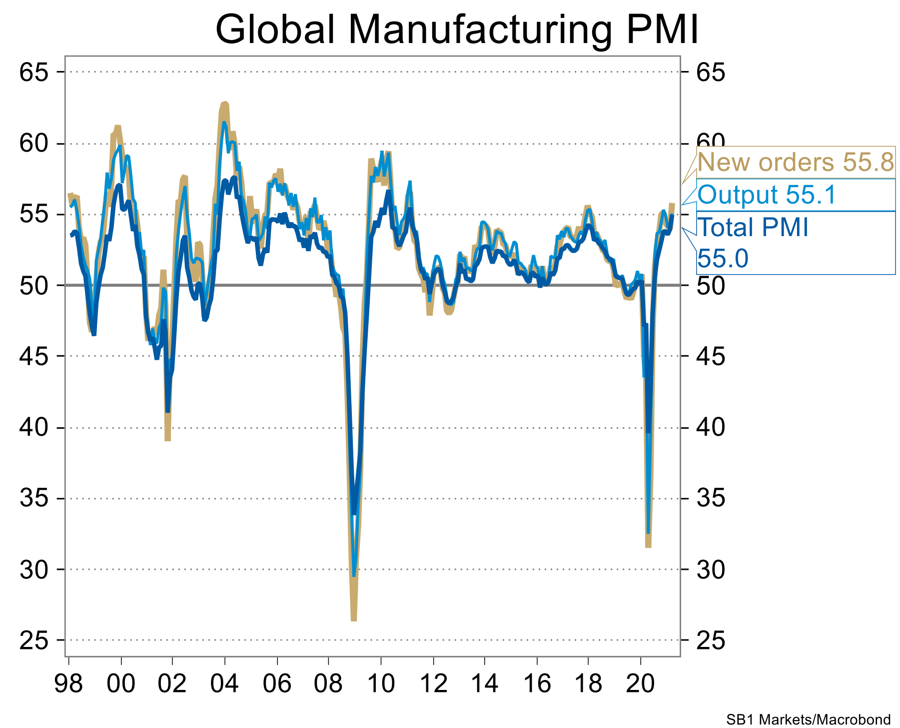


- The global manufacturing PMI rose 1.0 p to 55.0 in March, marginally above f'cast
  - » 80% of the countries/regions reported higher PMIs in March vs. February
  - » Almost 90% of countries reported a PMI> 50, the highest proportion since 2018
- The Swedish PMI rose further but was surpassed by Germany, Switzerland, the Netherlands & the US ISM. Europe surprised most at the upside
- China was mixed

Manufacturing PMI signals growth in major countries/regions

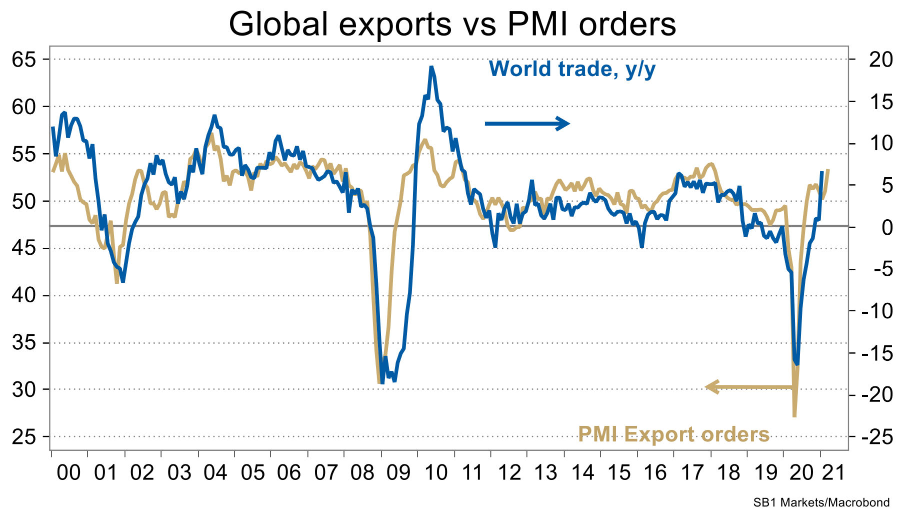
Orders are increasing at the fastest pace (and fastest ever) in Europe

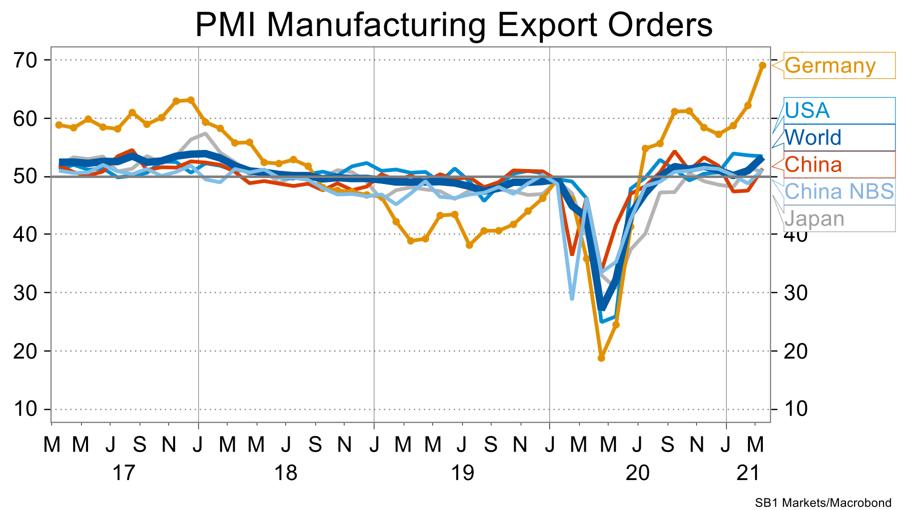




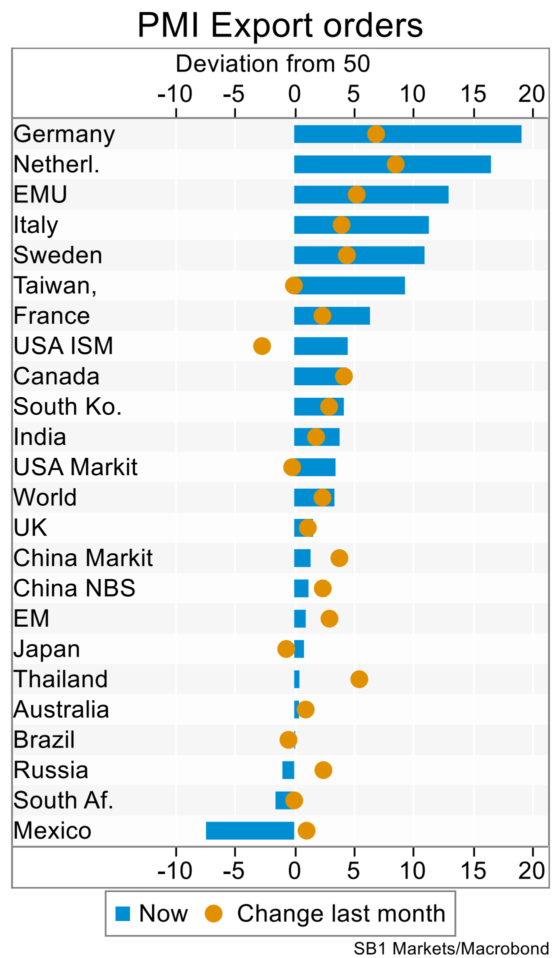
- The total global manufacturing index the strongest since 2010

Export order PMIs are surging, Germany/EMU in the lead



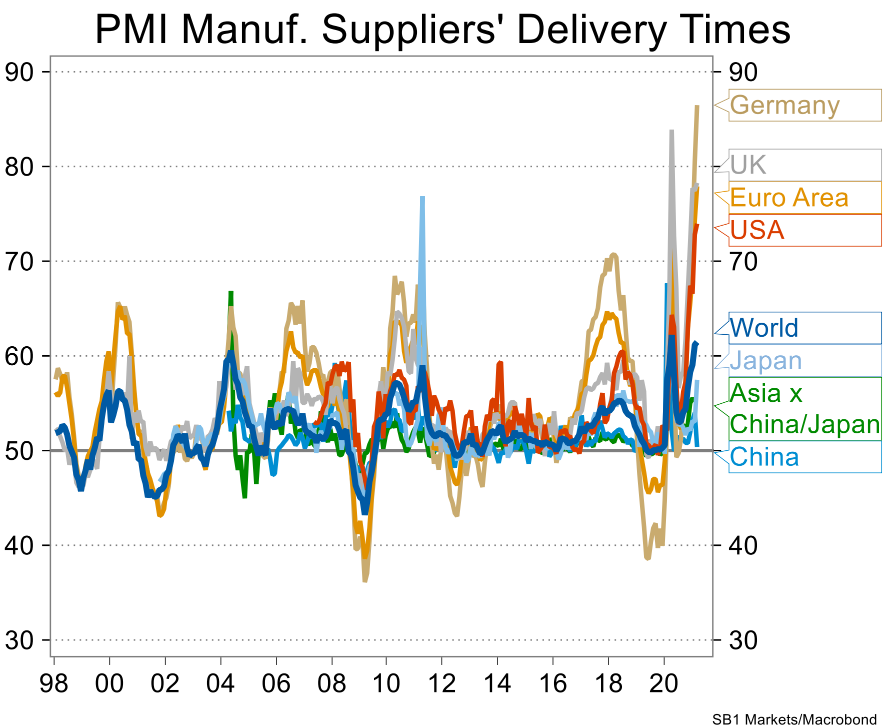


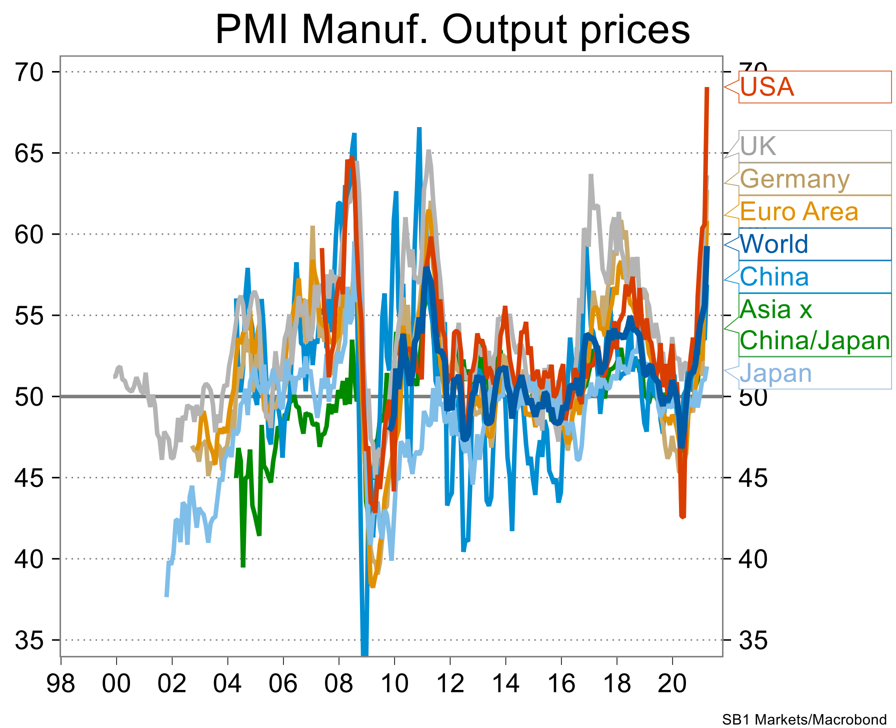
- Most countries are now reporting an increase in export orders (index >50)



Delivery times, prices are rising faster everywhere (and the fastest ever most places)

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

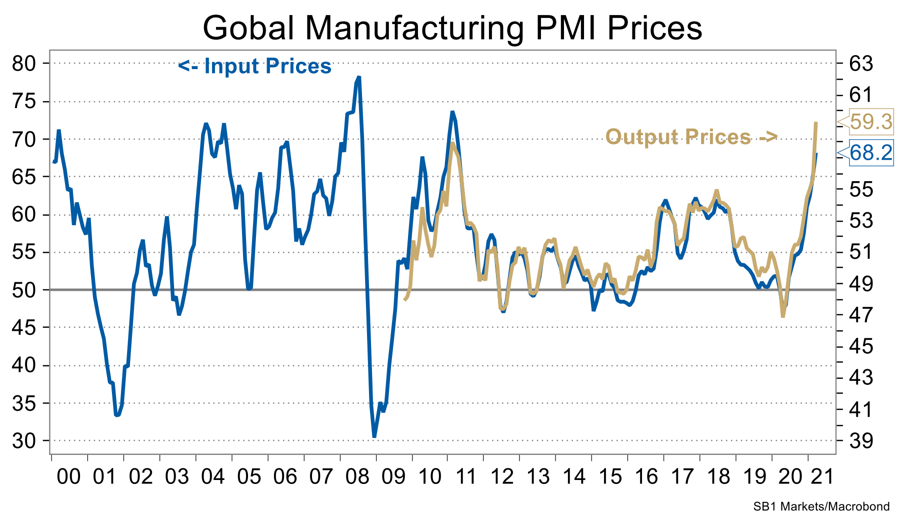


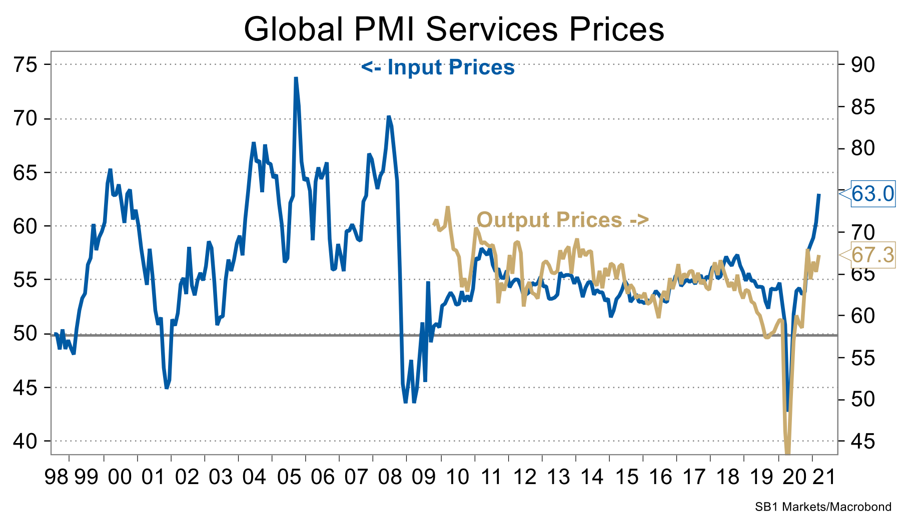


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) rose further in March, to the 2nd highest level ever, just last April was worse. One year ago delays were entirely due to corona related supply chain challenges – and prices tumbled. Now, some of the delays may be corona related but demand is very strong – and both input and output prices are surging!
- **Both global manufacturing input & output price indices** are at the highest level since 2011, and both the US, EMU, Germany, UK are reporting the fastest output price rises ever
- **All together** – rapid growth, longer delivery times and higher prices look like something familiar – *check the next page!*

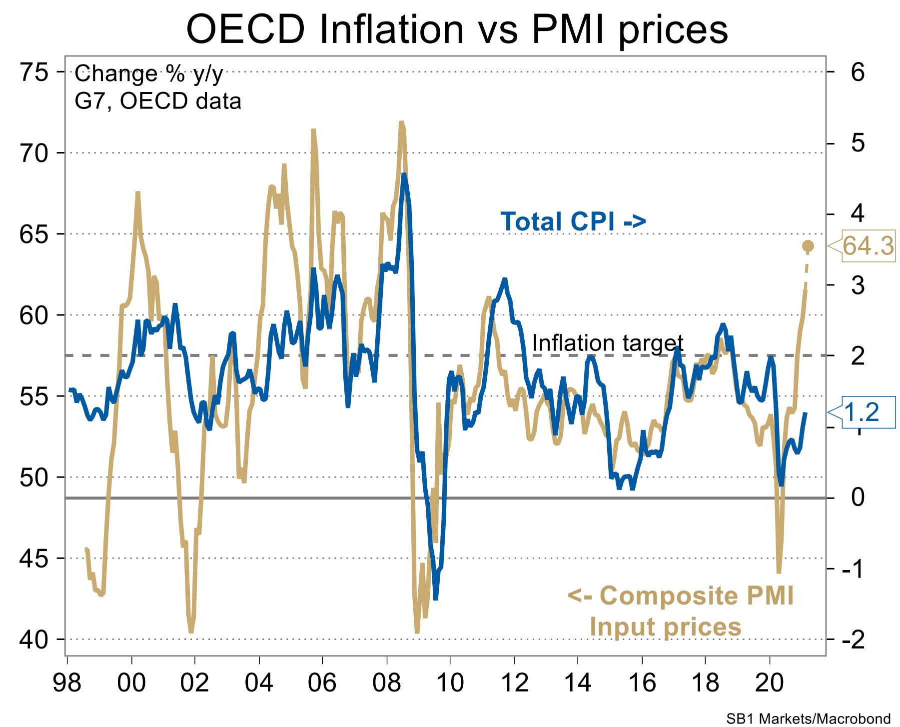
Businesses keep reporting even faster growth in input/output prices

CPI inflation seems to be the next stop





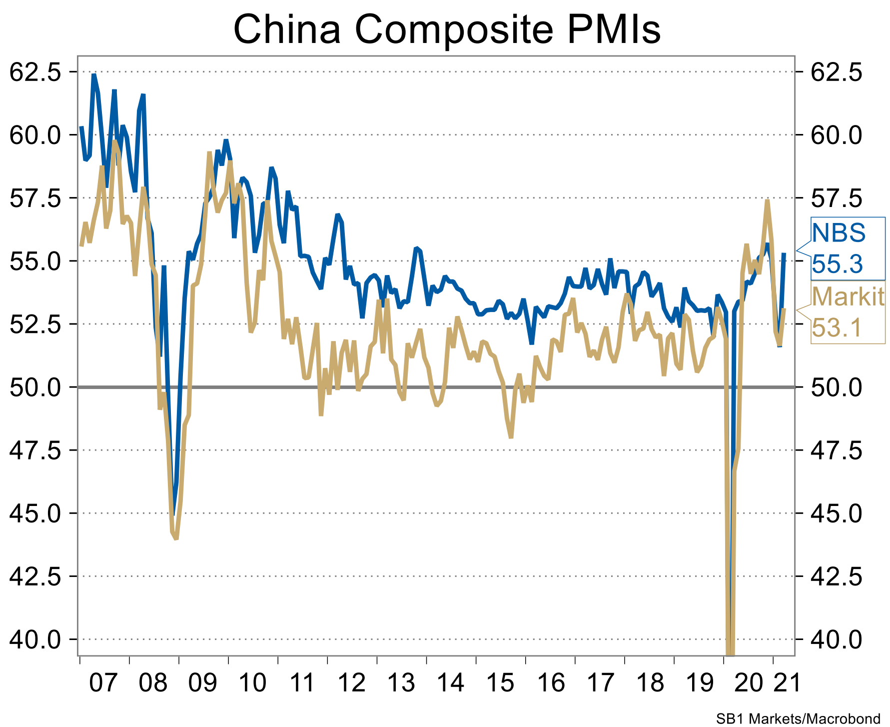
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

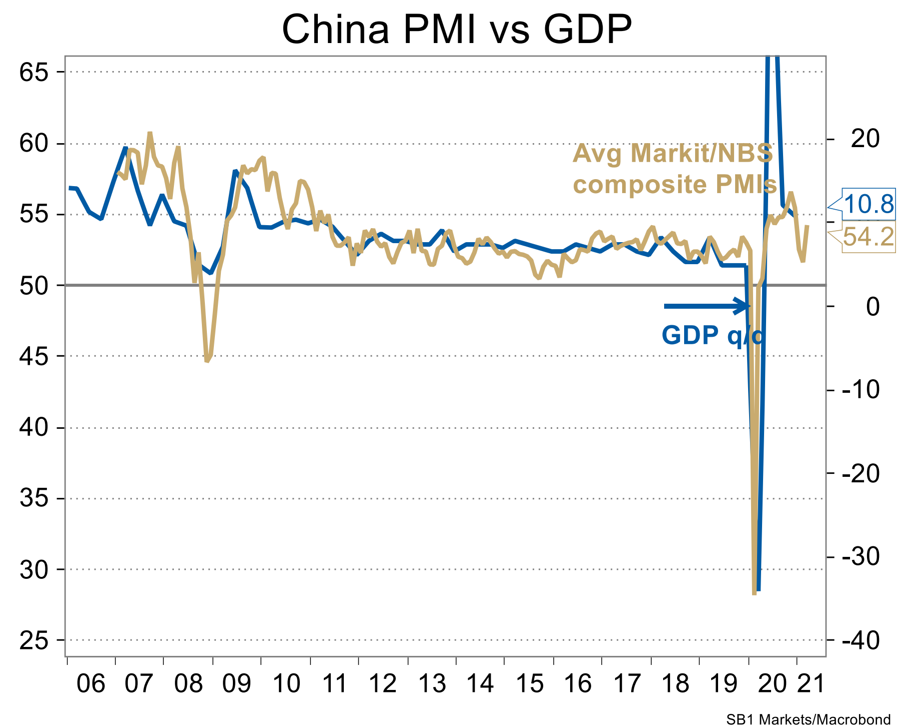


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.2% in rich countries now, up to something quite different the coming months

Mixed March manufacturing PMIs but the service sector recovered post lunar NY

NBS' composite PMI shot up 3.7 p to to 55.3, Markit's +1.4 p to 53.1





- The subdued Lunar New Year holidays no doubt dampened economic activity in February but the service sector reported a sharp uptick in activity in March
- The manufacturing surveys were mixed, NBS reported faster growth, Marktit (CFLP) not

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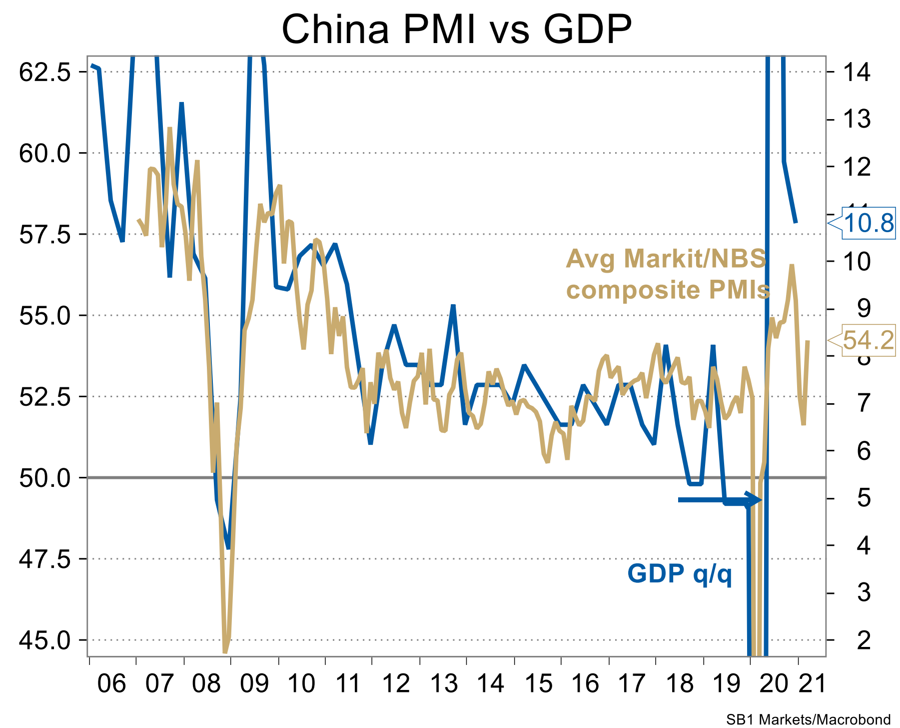
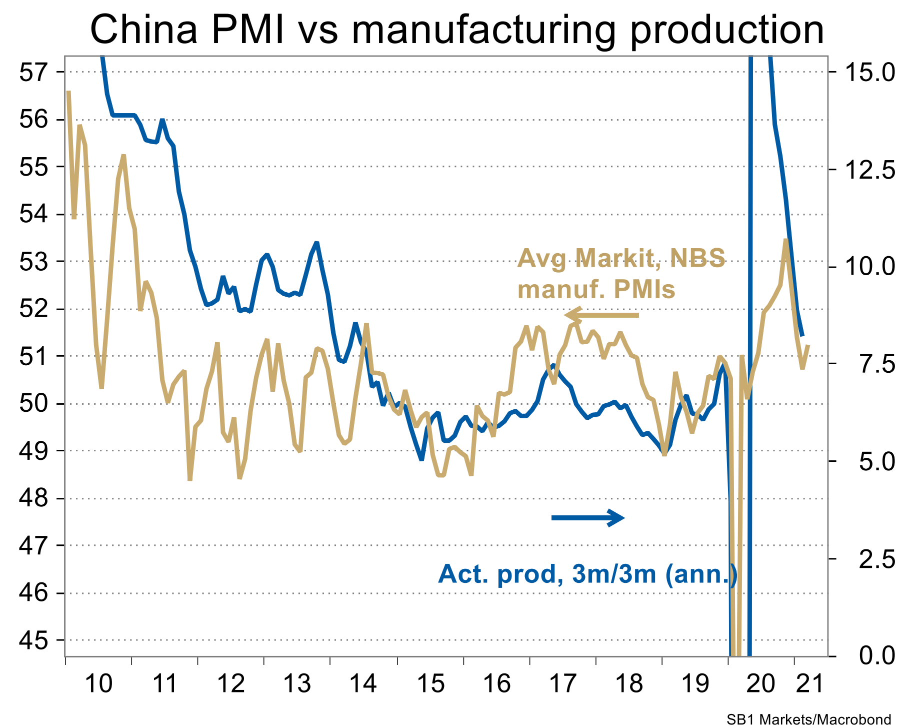
… a closer look, at 'normal' times: The PMIs are signalling a 7 - 9 % growth pace

… which of course is well above trend



NBS manufacturing PMI sharply up, Markit's a tad down

The PMIs are in average signalling growth above trend

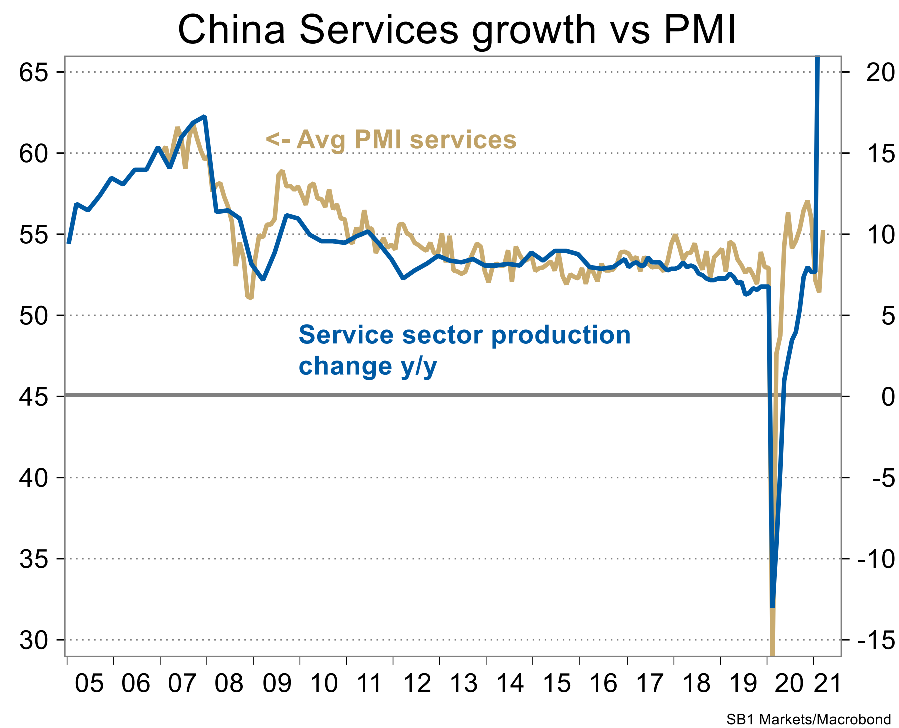


- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

Export orders are growing again – and domestic orders are still going strong

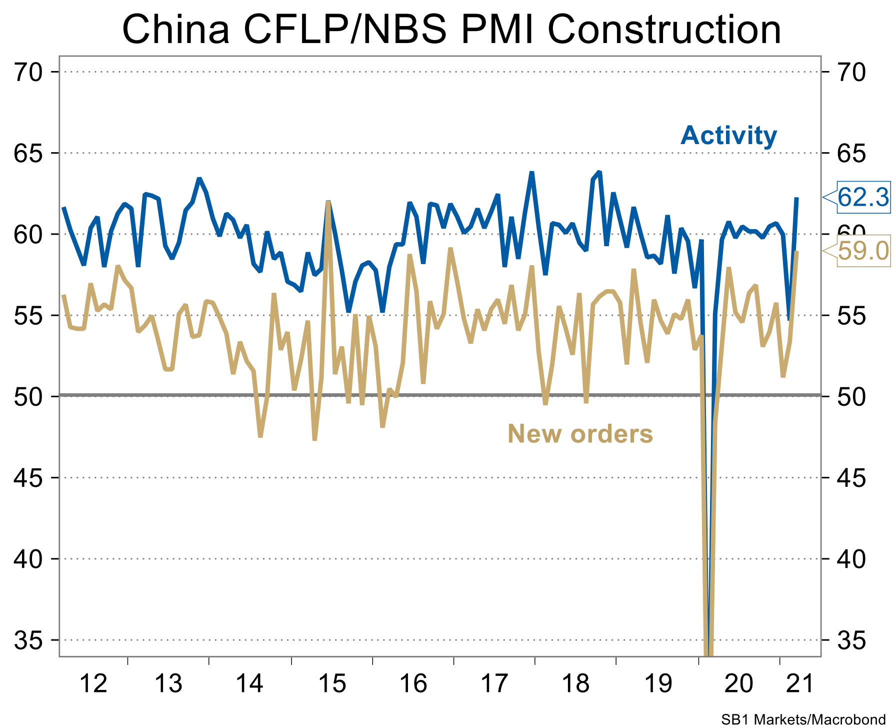
The service sector PMIs recovered in March, from the Jan/Feb 'pause'

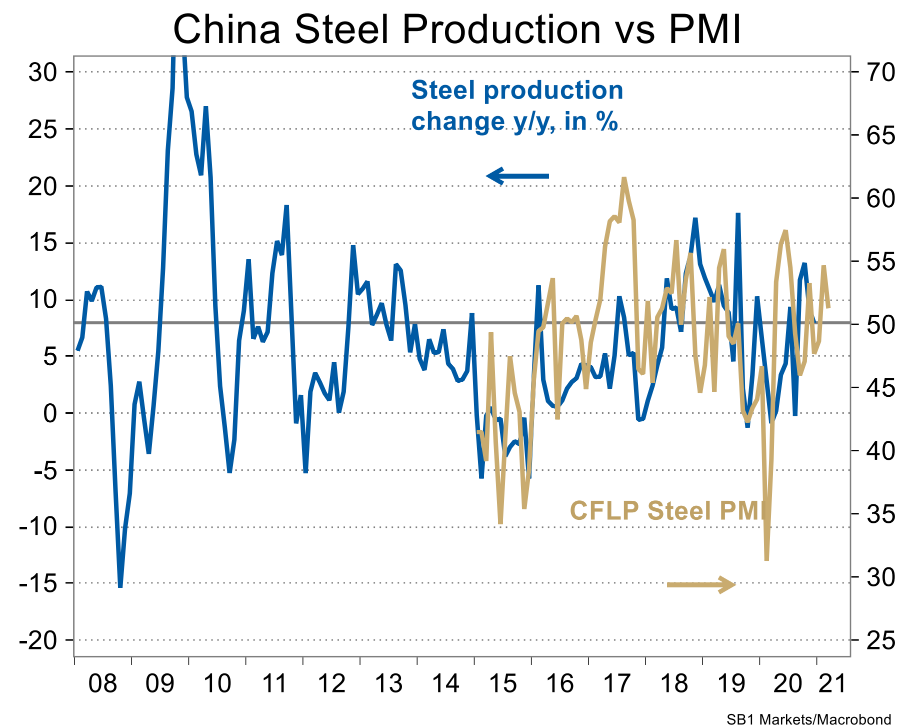
Corona restrictions lowered activity in the New Year holiday season



Construction report strong growth in March, after a weak February

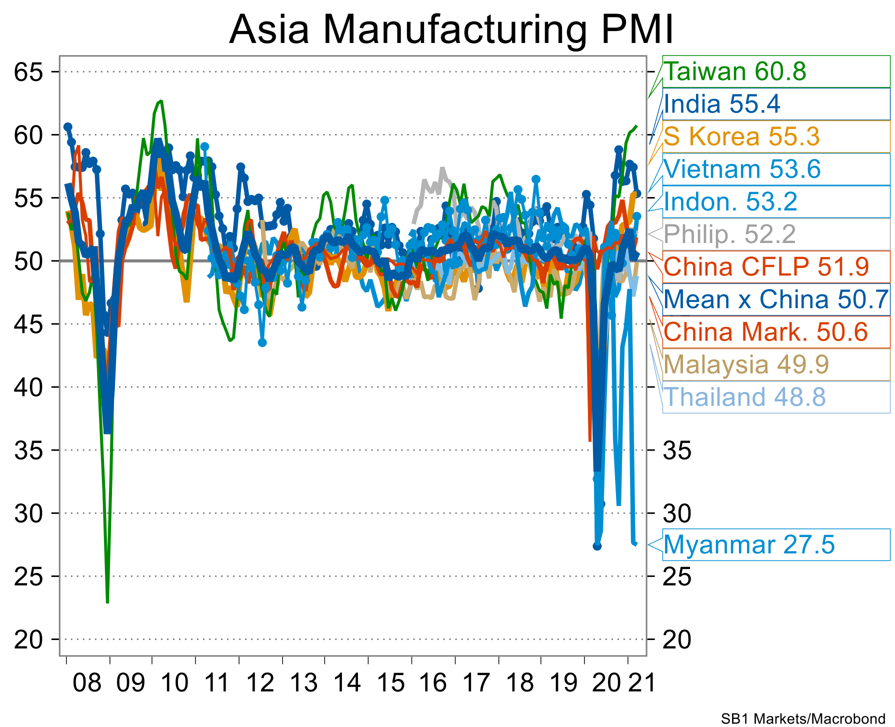
The steel PMI is reporting growth too



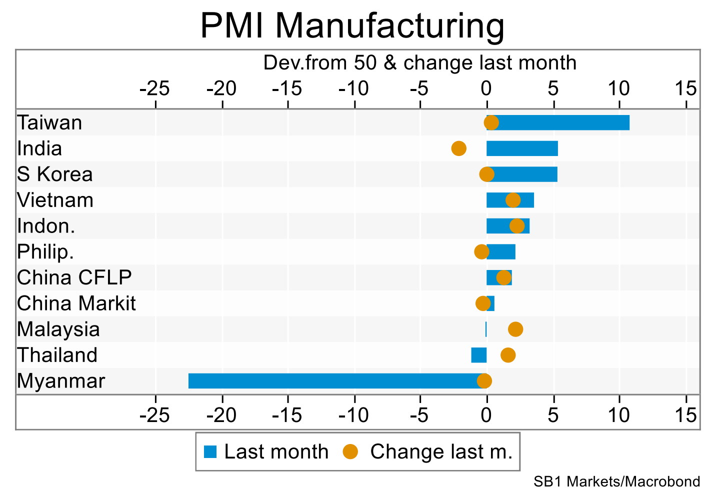


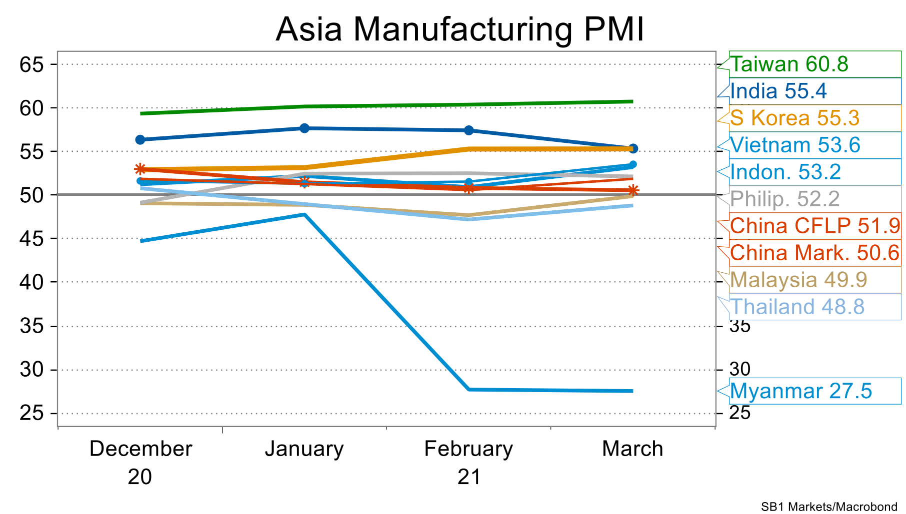
More up than down in March, barring civil war struck Myanmar, no major problems

6 manufacturing PMIs up, 3 flat, 2 slightly down



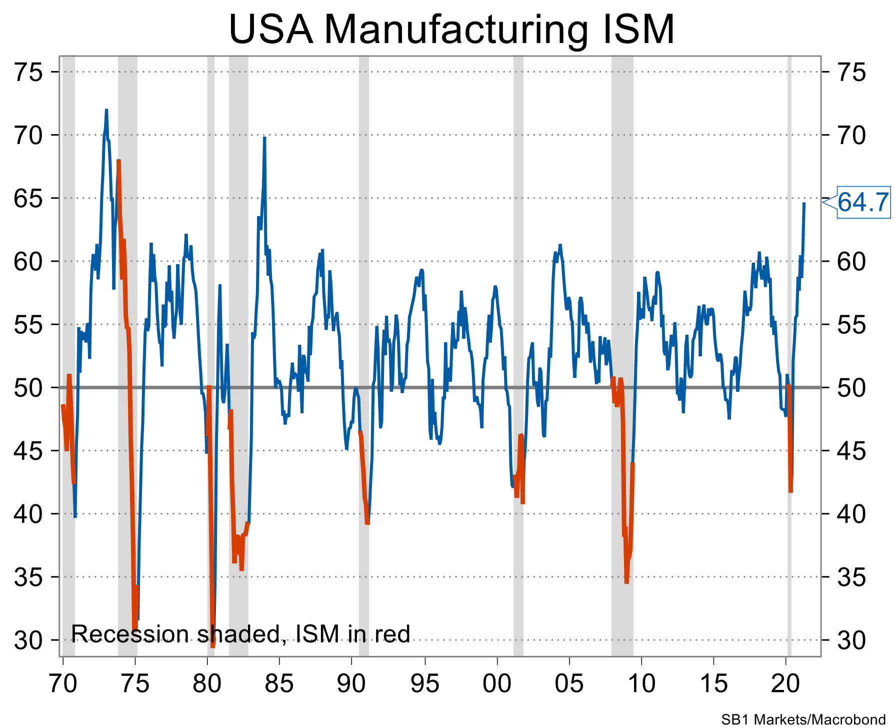
- The Indian PMI fell the most, but remains strong

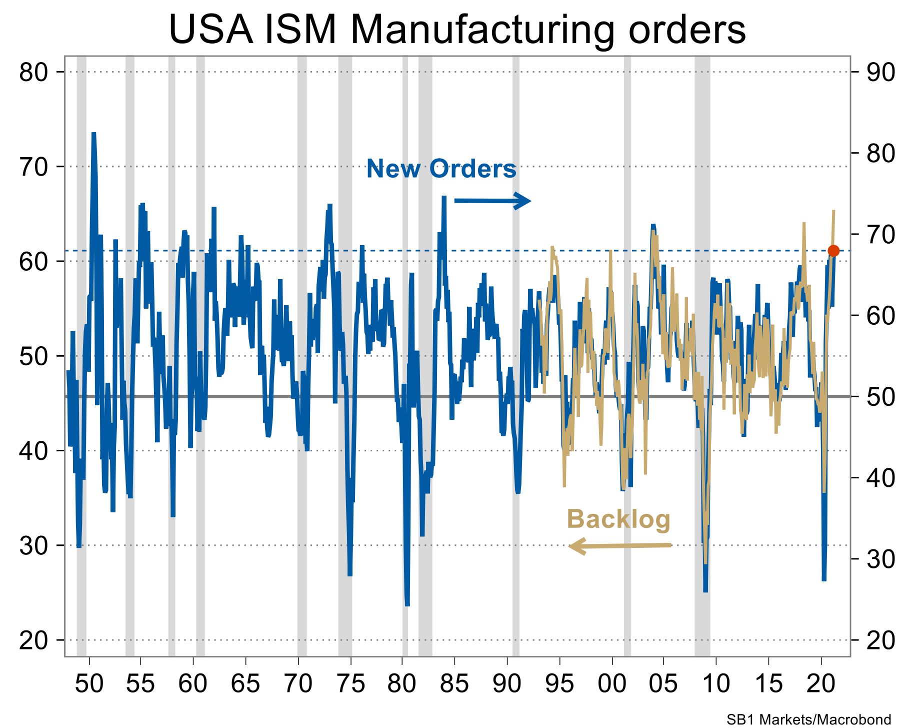




Manufacturing ISM surprised once more, up to almost 65, best since 1983

Delivery times are rising faster than ever, prices have been rising faster only 5 times since 1975

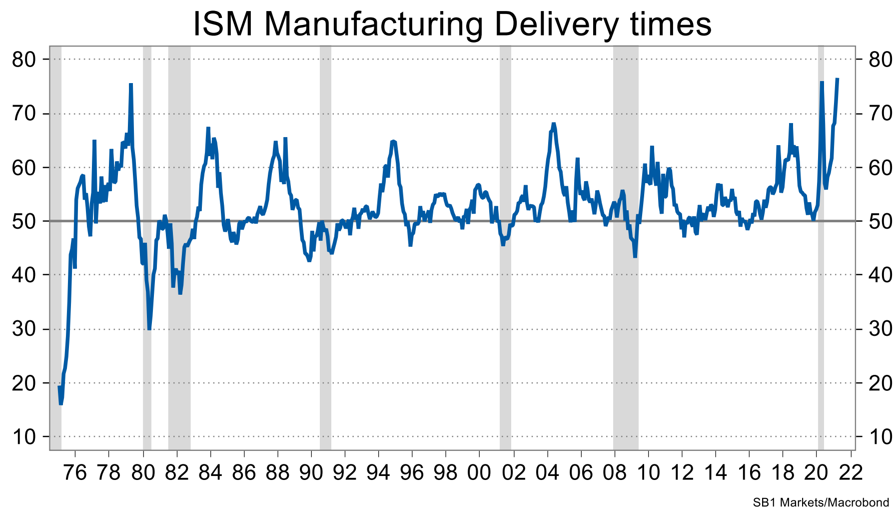


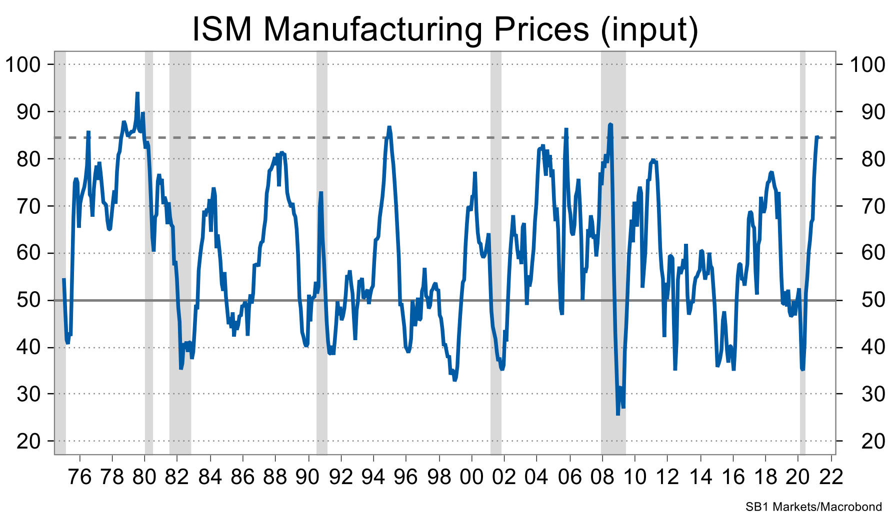


- **Demand** is strong: Orders are rising at the fastest pace since 2004 (and before than in 1983). The order backlog is increasing faster than ever (data from '90)
- **Activity** is increasing broadly: 17 of 18 industries reported growth, none reported a contraction, quite unusual
- **Delivery times** are increasing broadly: 17 of 18 industries reported slower deliveries, none faster. The winter storm is partly to blame, so are also coronavirus related impacts on availability of parts and materials
- **Prices** are soaring: 56 groups of commodities were up in price m/m, up from 26 past 2 months. Not a single commodity was down in price. All 18 sectors are reporting higher input prices. 25 commodities are in short supply. The price index remained at a level normally reached just once per decade
- **Inventories** among manufacturers' customers are falling faster than ever
- **Employment:** 14 industries reported higher employment, none a decrease. More companies are reporting lack of qualified workers, that they are not able fill vacant positions/attract and retrain workers. Better compensation is needed

This is not like April last year; Then delivery times 'exploded' too but prices fell

Now, prices are <u>not</u> falling…





- Last spring, specific corona related **supply chain challenges** were clearly to blame for the rapid increase in delivery times. Orders & prices collapsed at the same time, and employment was sharply cut
- Now, **brisk growth in demand** (like an unusual growth in orders, and the fastest decrease in manufacturers' customers' inventories ever) is no doubt an important factor for the lack of supply. In addition some corona related trouble (perhaps mostly due to a surprising rapid recovery in demand?), and in the US some problems created by exceptional harsh winter weather explain some of increase in delivery times
- The **unusual broad, and rapid increase in input prices** signals a rapid increase in producer prices for finished goods, and thereafter for consumer goods
- The **service sector ISM** sends identical signals for services, input prices are surging. Check here

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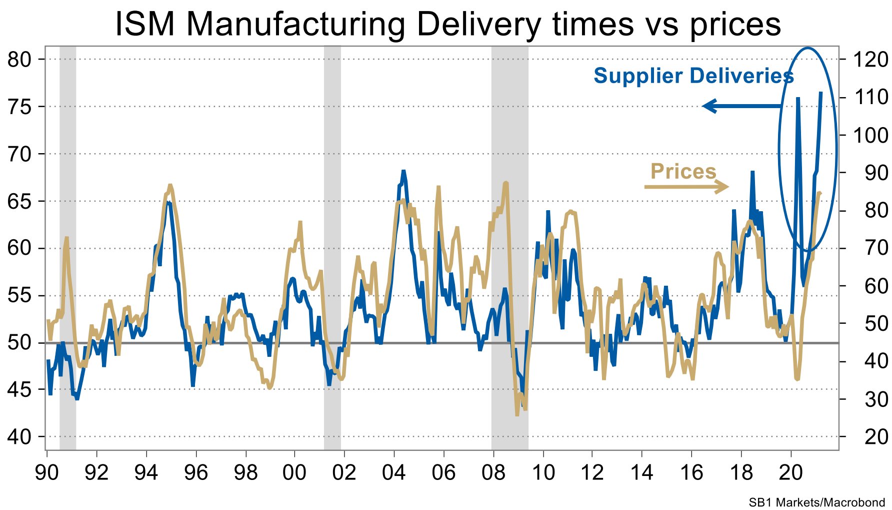
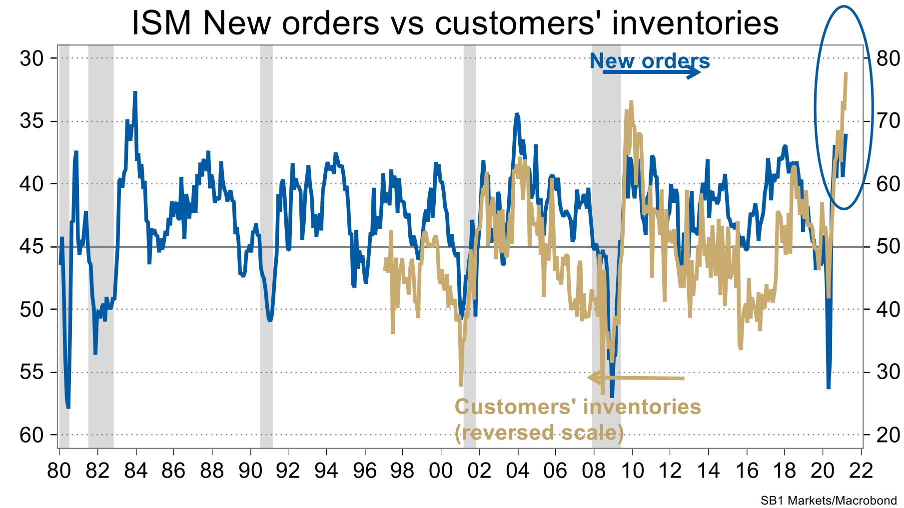
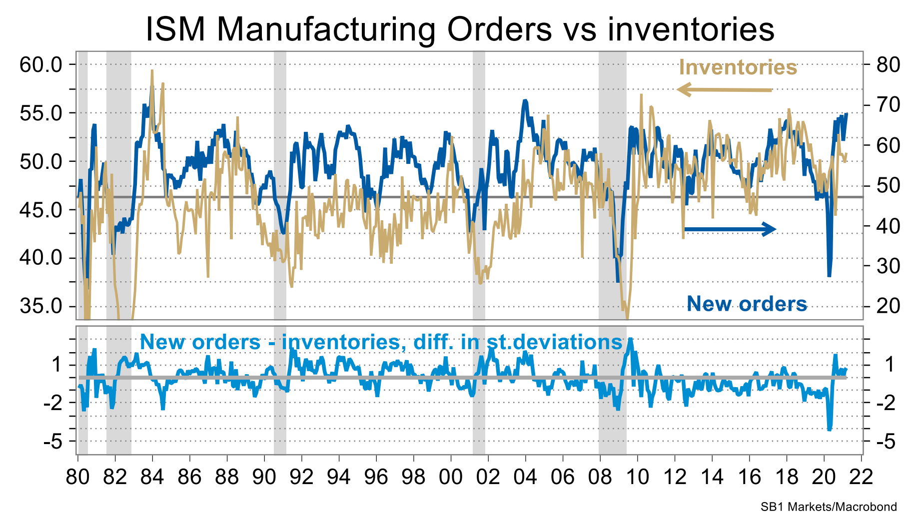
Delivery times & prices soar, as customers inventories are ‘emptied’



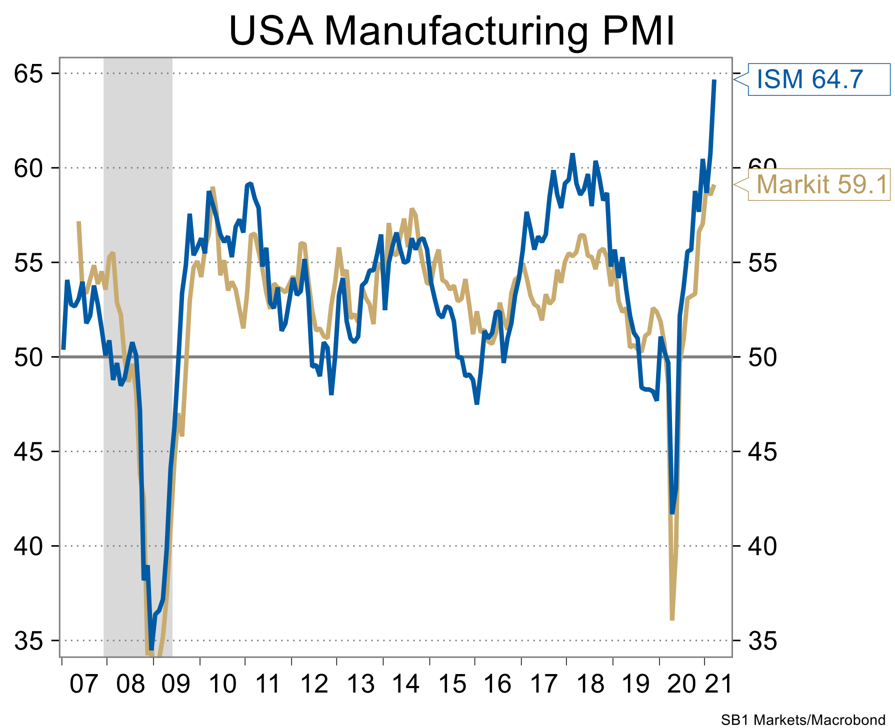


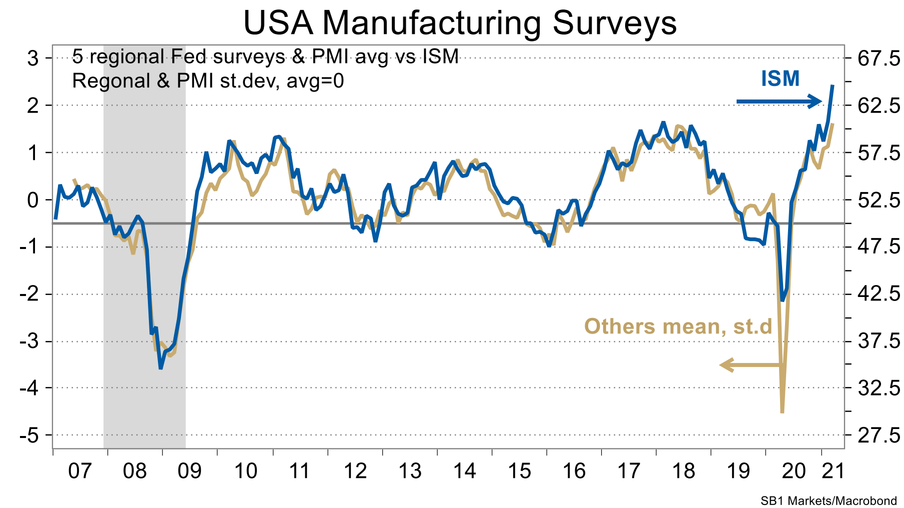
- The only ‘soft’ spot: Manufacturers’ own inventories are not declining

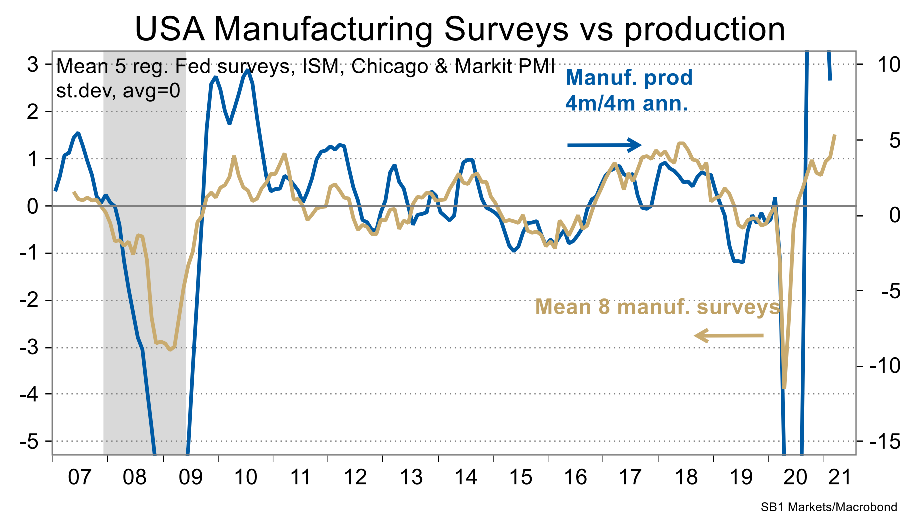


Other manuf. surveys sharply up too, on avg at ATH (data from ’07)

In sum all the surveys signal a continued expansion in the manufacturing sector



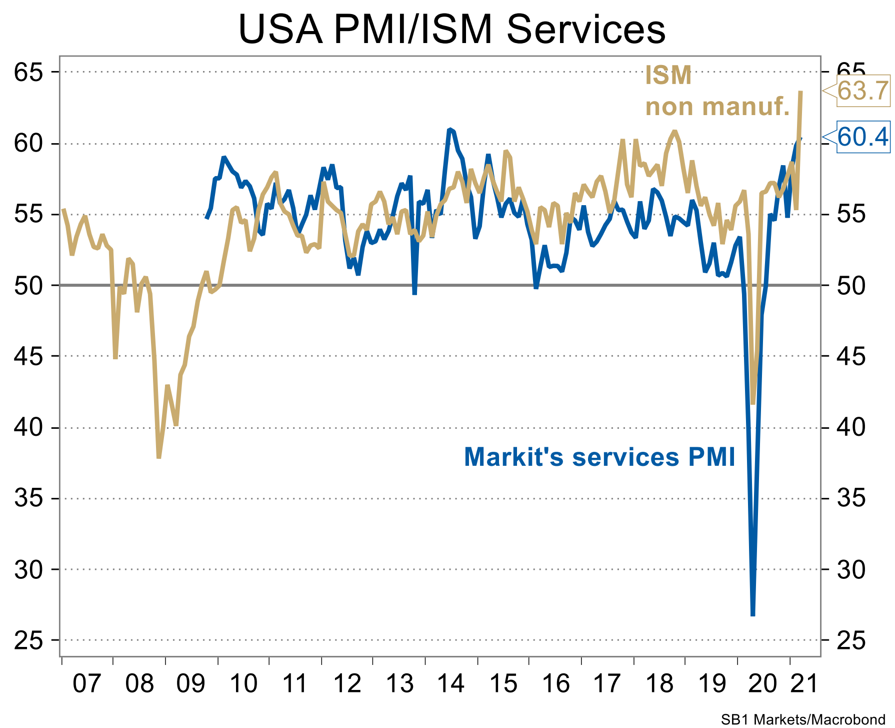


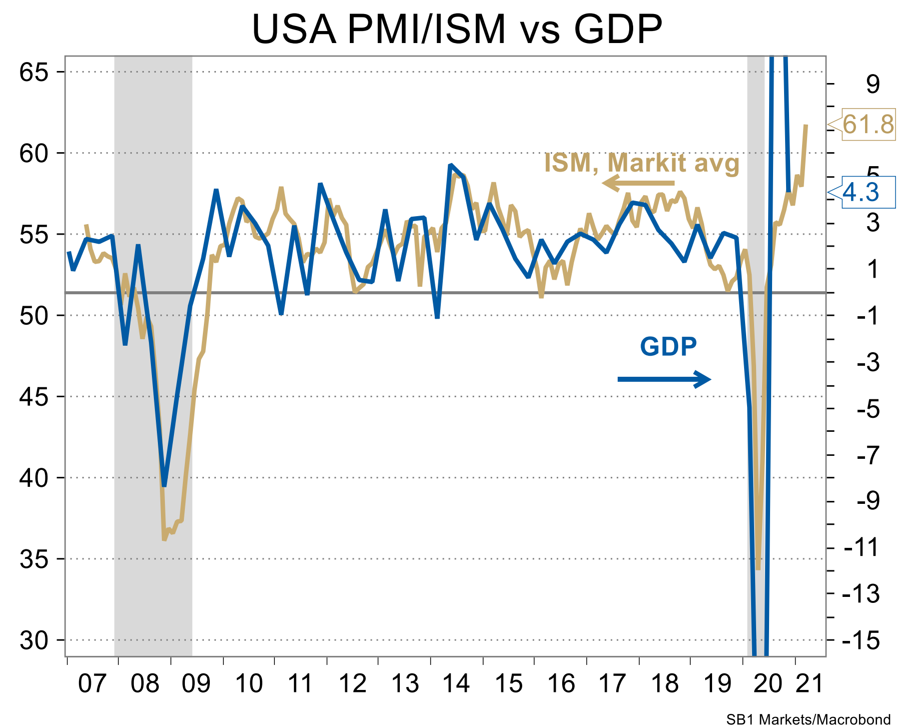


- Actual manufacturing production is on the recovery track but is still some 7% below the pre-corona level
- We expect a continued growth the coming months. Core durable goods orders are above the pre-corona level and goods consumption is strong

Services ISM surged in March, to ATH by a WIDE margin, 63.7 (expected 57)!!

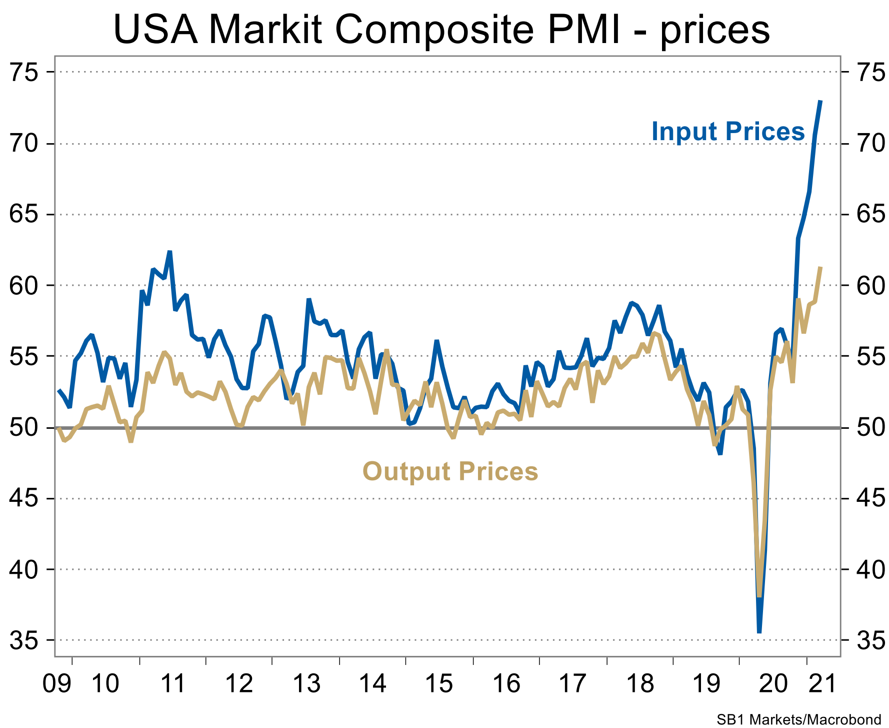
The ISM/PMIs are signalling a 7% GDP growth pace (the ISMs signals 10%)





- **The reopening party:** The 8.4 p lift in the services ISM is the second largest ever, just June-20 more up (no. 3 on the list is at +5.1p)
- **18 of 18 service sectors** are reporting growth
  - » Arts, Entertainment & Recreation; Wholesale Trade; Mining; Management of Companies & Support Services; Construction; Agriculture, Forestry, Fishing & Hunting; Accommodation & Food Services; Real Estate, Rental & Leasing; Transportation & Warehousing; Public Administration; Finance & Insurance; Utilities; Health Care & Social Assistance; Professional, Scientific & Technical Services; Information; Retail Trade; Educational Services; and Other Services
- Just PPE (personal protective equipm.) down in price, a long list of goods & services are up price wise – and are in short supply. The price index is at the highest level since 2007
- **Markit's services PMI** rose to the 2nd highest level ever, at 60.4. Prices indices are at a special place, check next page

Markit's PMIs are reporting something special…



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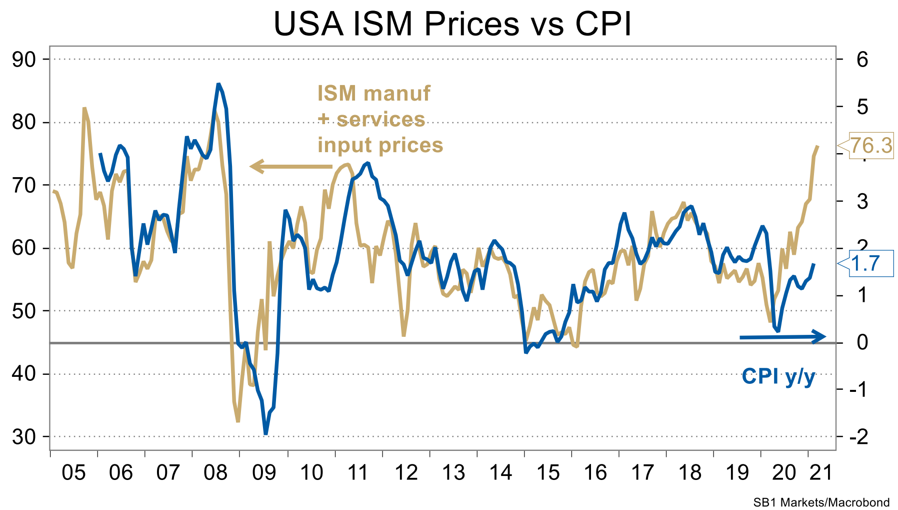
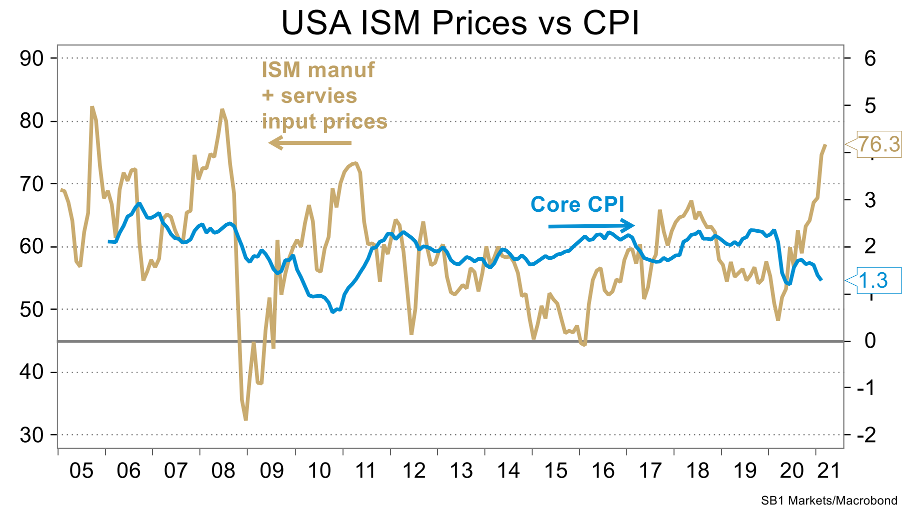
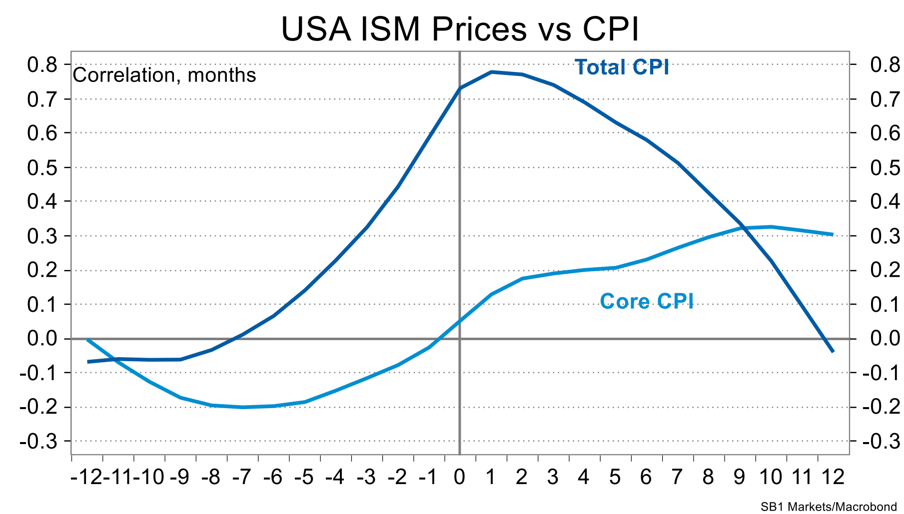
ISM has sent a clear message. For the headline CPI, at least

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



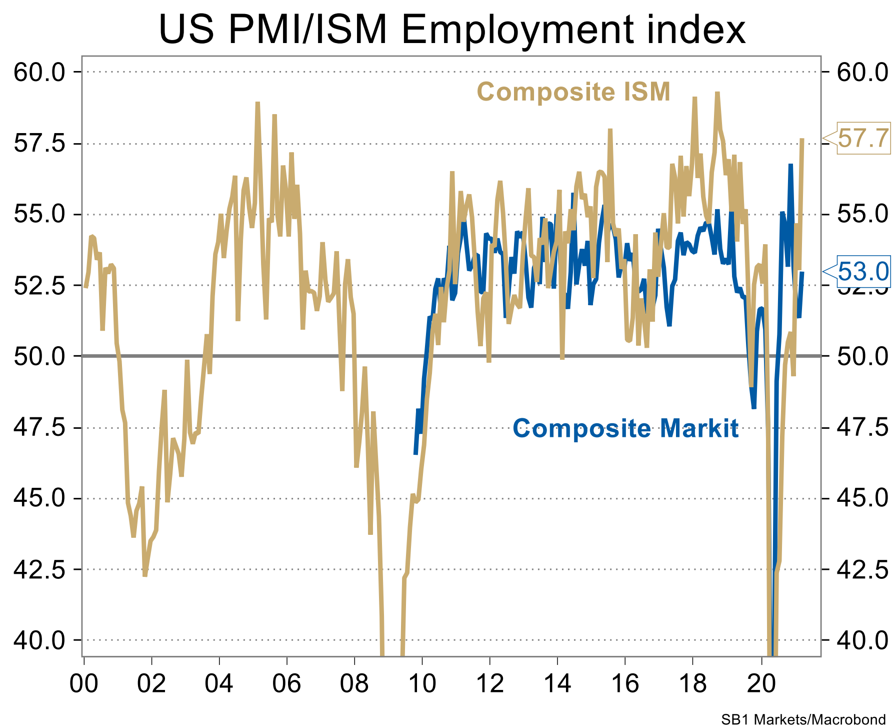


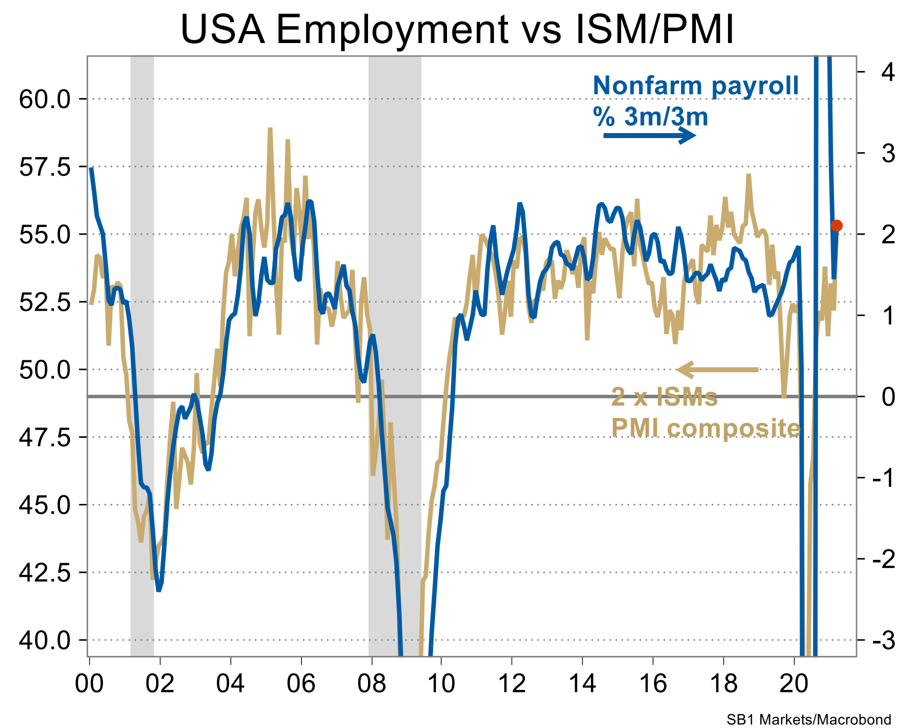
- However, the correlation between price indices in the ISM (or PMI) business surveys and the core CPI is far weaker than between these indices and the total CPI
  - » Energy prices are much more volatile than other prices are rapidly incorporated into consumer prices
- The Fed – and other central banks – are surely right <u>not</u> to focus on the volatile headline CPI, but more on the core CPI and even more on underlying cost pressures in the economy
  - » Wage inflation is so far modest but given the signals from the business sector, wage inflation is probably on the way up
  - » If so, central banks will have far more difficult decisions to make



ISM/PMI: Employment growth close to record high

The ISMs are more upbeat than the PMIs

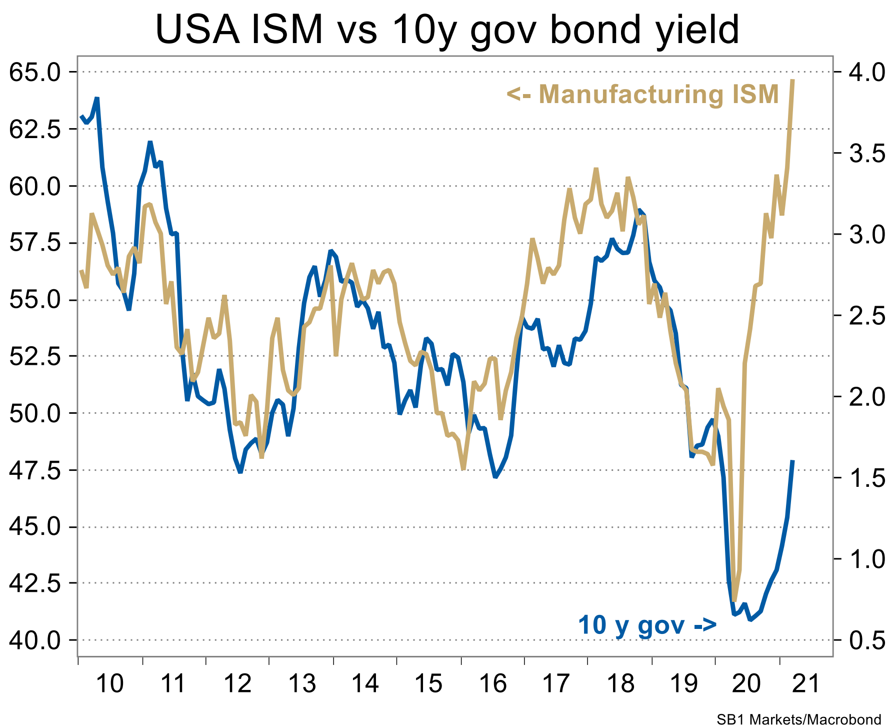


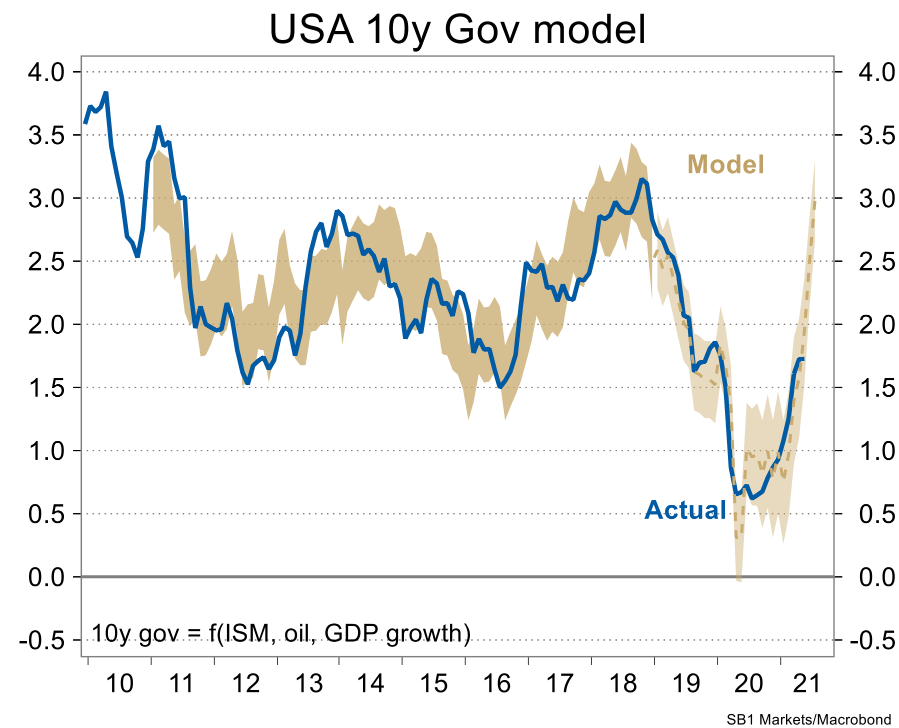


- Given the surge in employment in March, the Markit's PMIs seem too weak

Houston: You may have a problem, we are up here already

If the recovery continues, a 3% 10 y US gov bond rate?





- These are not the best of models over time, but they have worked OK during the past 10 years low inflation environment
- If inflation turns up, that's another question (on the upside for yields, of course)

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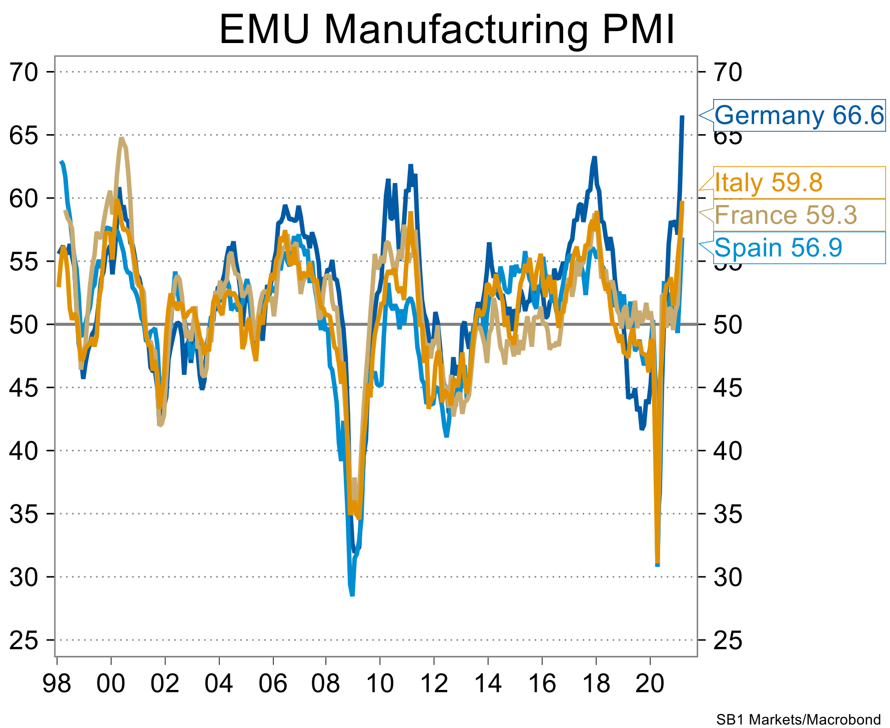
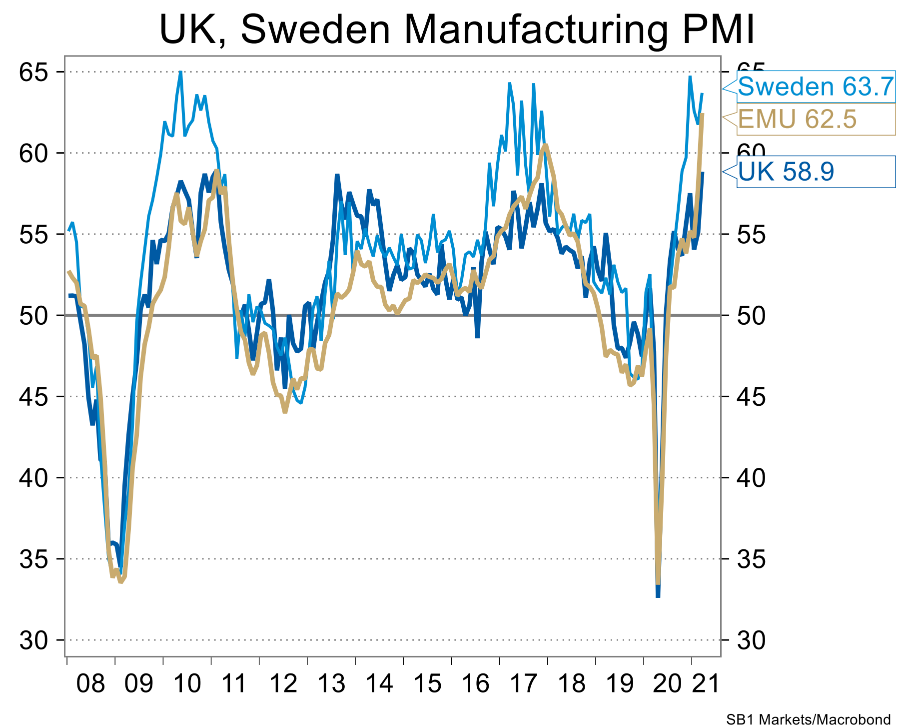
Germany confirms the strongest manuf. PMI ever, the other big 3 close too ATH

The EMU manufacturing PMI was revised marginally up, +4.6 p to 62.5p

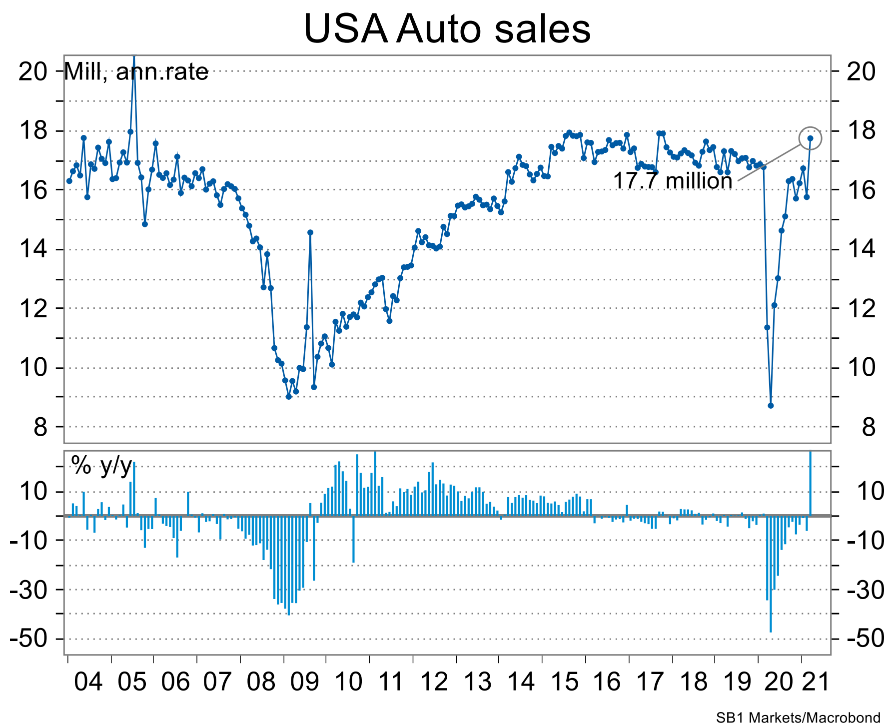


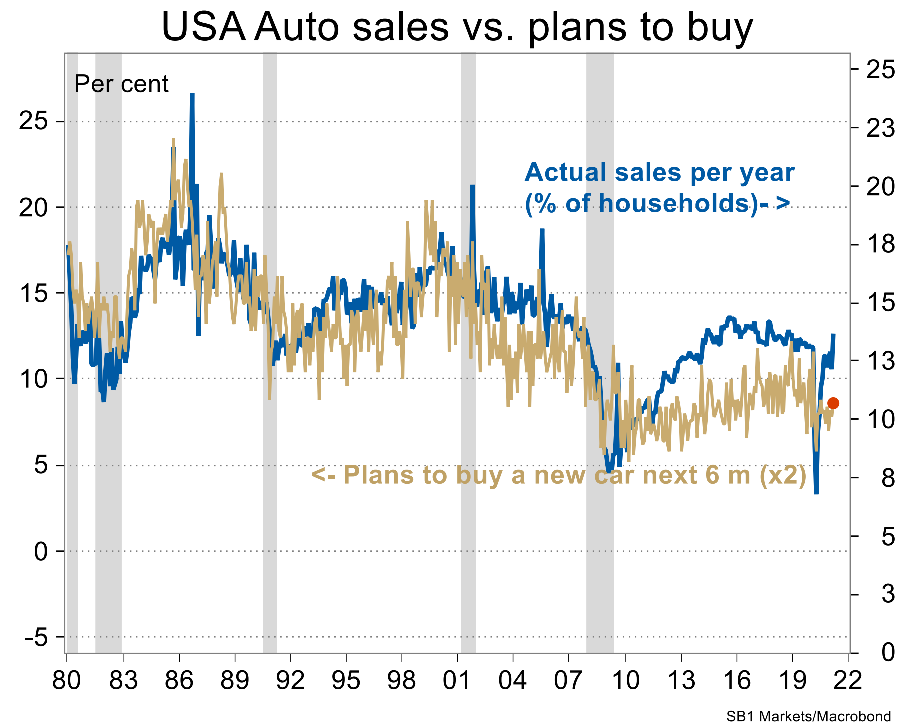


- The UK PMI was revised up by 1 p. +3.7 p to 58.9 – just 0.1 below ATH, in 2011
- The Swedish manufacturing PMI rose to 63.7, which of course is a very strong result

US auto sales sharply up in March

Sales up to 17.7 mill, best in 2½ years, well above expectations. Some stimulus cheques 'invested'?





- Sales were trending down before the pandemic hit but March sales were 5% above the 2019 average
  - » Sales rose by 4% m/m but was 16% higher than Q1 last year, were sales fell sharply in March, before bottoming in April
- The second round of stimulus cheques no doubt contributed to the lift in auto sales March
- Households are not reporting aggressive plans for buying a new car, rather the opposite

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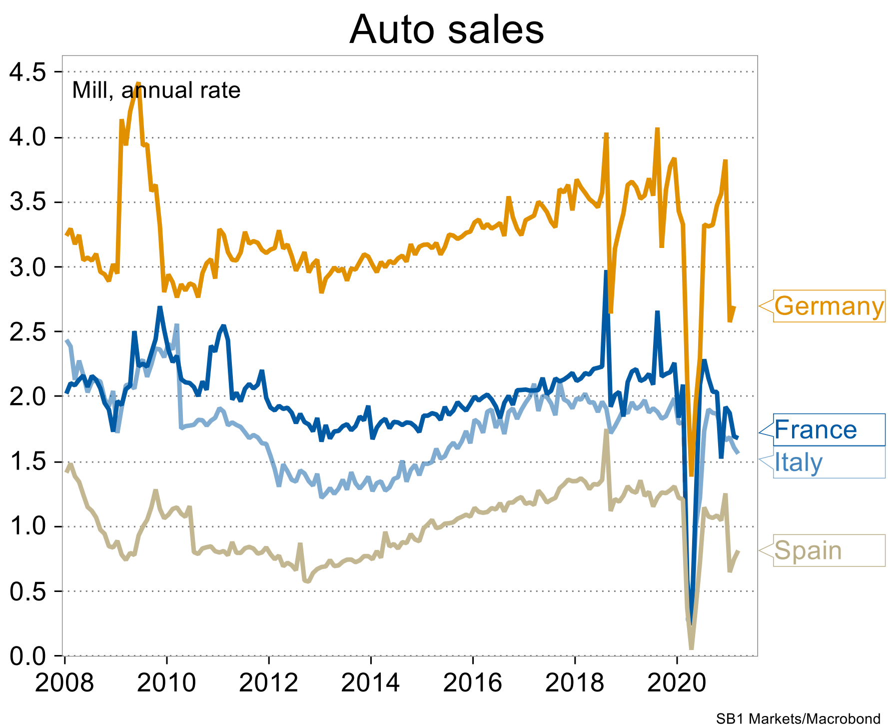
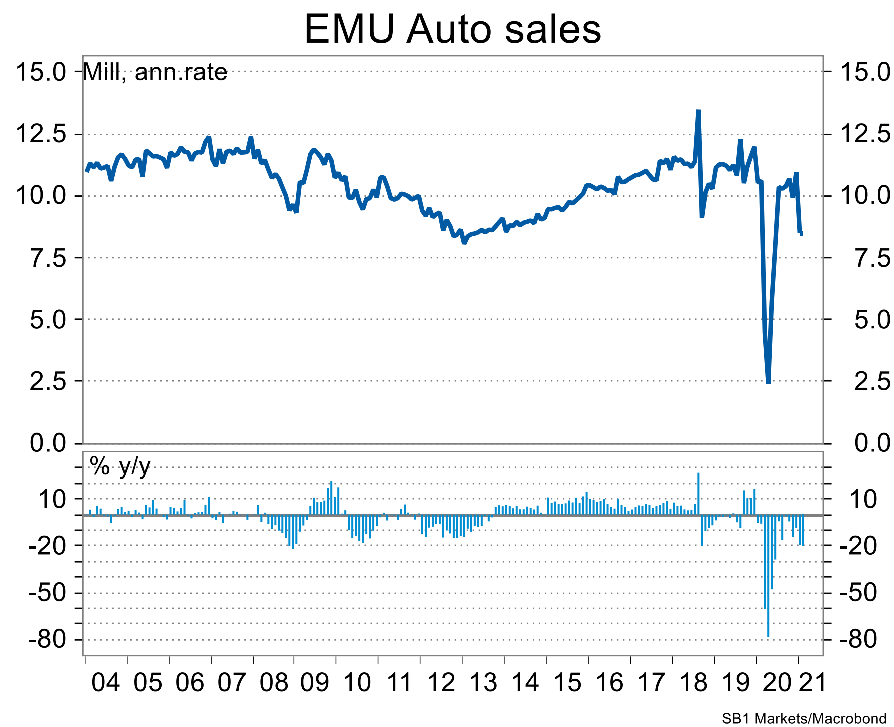
EMU: Sales probably flat at a low level in February, down 22% from December

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





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

A USD 2.3 trl 'infrastructure' plan, more to come. And some tax increases

Well, it is called a The American Jobs Plan – and is much more than infrastructure

- **A long list of whishes** – over the next 8 years
  - » Not all think about all of the proposals as 'infrastructure', like elder & disability care (17% of the bill, far more than to «bridges & roads")
    - And not all like the 'green' approach, of course
- **The amounts are 'small'** at least vs. the recent 4% +9% of GDP stimulus packages, meant to be mostly spent over 1 year: The new bill covers expenses over the next 8 years, and equals 'just' 1.4% of annual GDP
- The **spending program is 'funded'** albeit not over the normal 10 year period, but over 15 years. Thus, Biden proposes a net increase in the budget deficit the first 8 years by 0.6% of GDP (and a surplus the following 7 years)
- For sure, the funding is controversial too, as the whole burden is placed at the corporate sector
  - » The corporate tax rate up to 28% from 21%, reversing half of the 'Trump' 2018 tax cut
  - » A higher minimum global tax rate and some other measures
  - » The total tax increases at almost $150bn per year equals no more than 6.4% of total corporate profits (domestically & abroad)
- The US invests less on 'infrastructure' than other rich countries (check next page) and public investments in other sectors are lower than in most countries
- Biden will announce a **childcare and healthcare package** — more 'social infrastructure' — in just a couple of weeks. Should we add some $1bn, and then more taxes on the rich?
- What will be decided? Unlikely what Biden has proposed

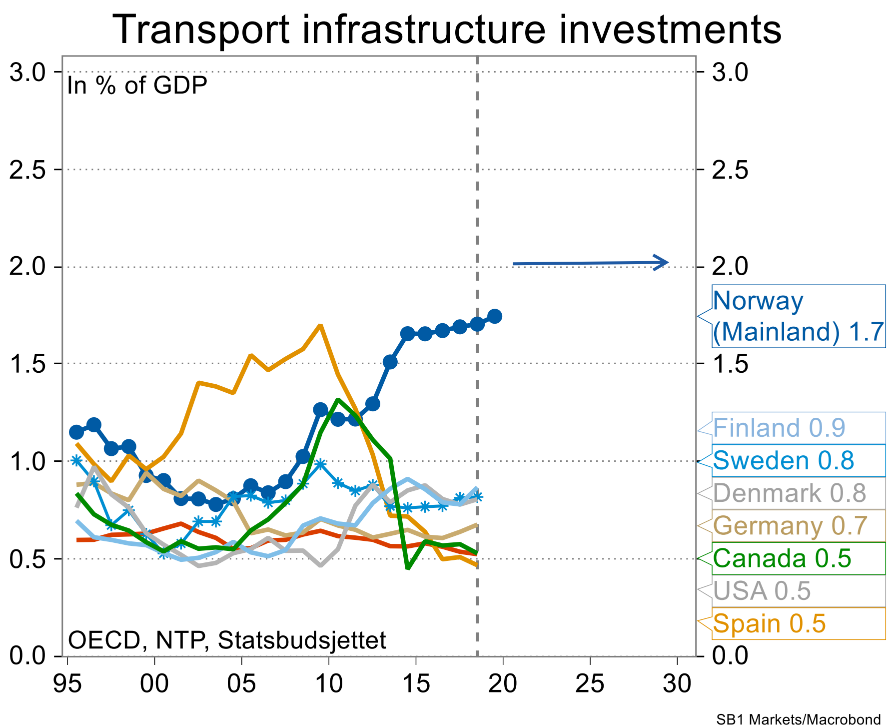
Spending (over 8 years, *'this decade'*)
- Transportation infrastructure and electric vehicles: $621bn
  - » Bridges, roads, main streets: $115 bn
  - » Public local transport upgrade: $85
  - » Amtrack: $80bn
  - » Electric cars/buses/trucks: $174 bn
  - » Airports/waterways: $42
- Green housing, schools, power and water upgrades: $561bn
  - » Homes energy efficient $213bn
  - » Public schools $100bn
  - » Electricity grid: $100bn
  - » Clean drinking wager: $111bn
- Manufacturing subsidies R&D: $480bn
  - » Artificial intelligence, biotech: $180 bn
  - » Manuf. subsidies, incl chipmakers: $300bn
- Broadband and job training: $200bn
- Elder and disability care: $400bn

Revenue (over the first 10 years, supposed to run for 15 years in order finance the spending proposals)
- Corporate tax increase (to 28% from 21%): $695bn
- Global minimum tax increase (21% from 10.5%): $495bn (Some Dems are talking about lifting it to 28%)
- Repeal tax loophole for intangible income: $217bn
- End fossil-fuel tax breaks and anti-inversion measures: $54bn

Source: White House/FT

Mirror, Mirror on the Wall, Who's the Biggest Spender of Them All?

Guess. And we plan to spend even more (National Transport Plan). The US will NEVER surpass us ☺

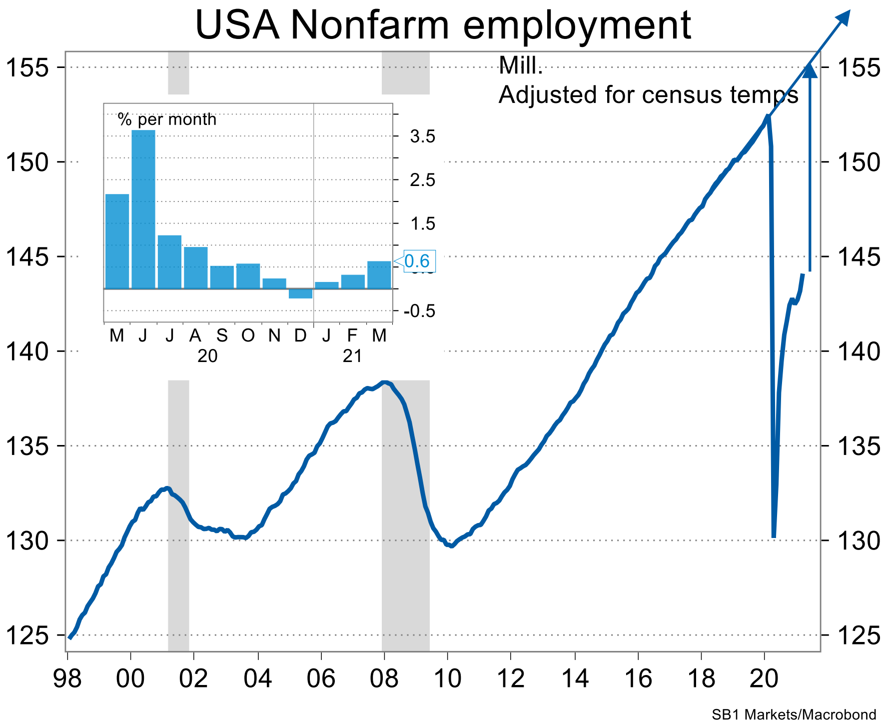


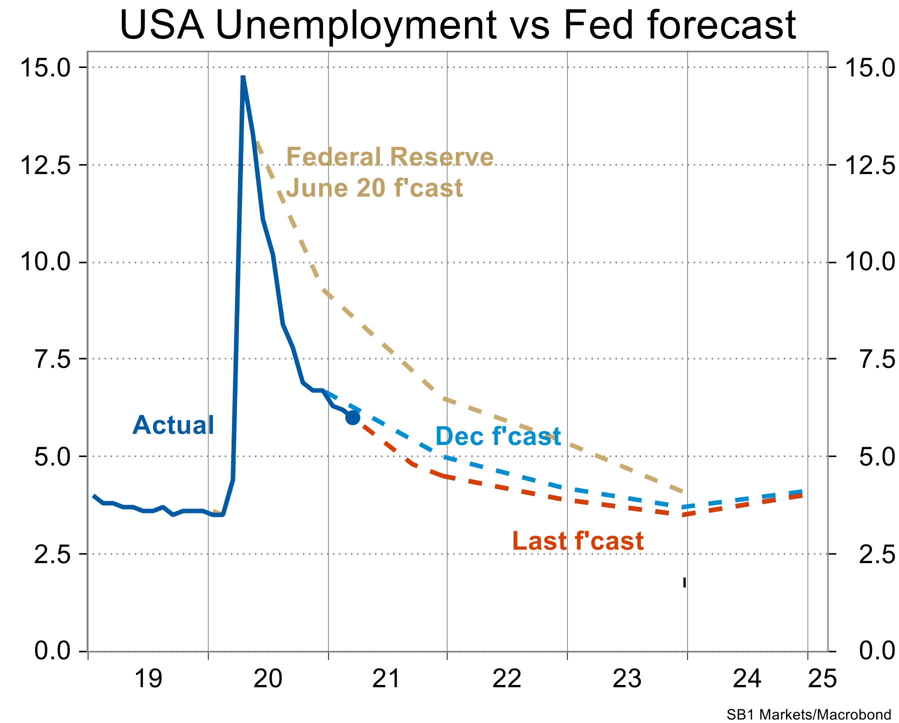
- BTW, Spain used to spend a lot. No more.

- Data just through 2018/19. But no big changes since that

Here we go: Employment up 916’ in March, still 9 mill left

Employment rose more than expected (650’), leisure & hospitality, education in the lead

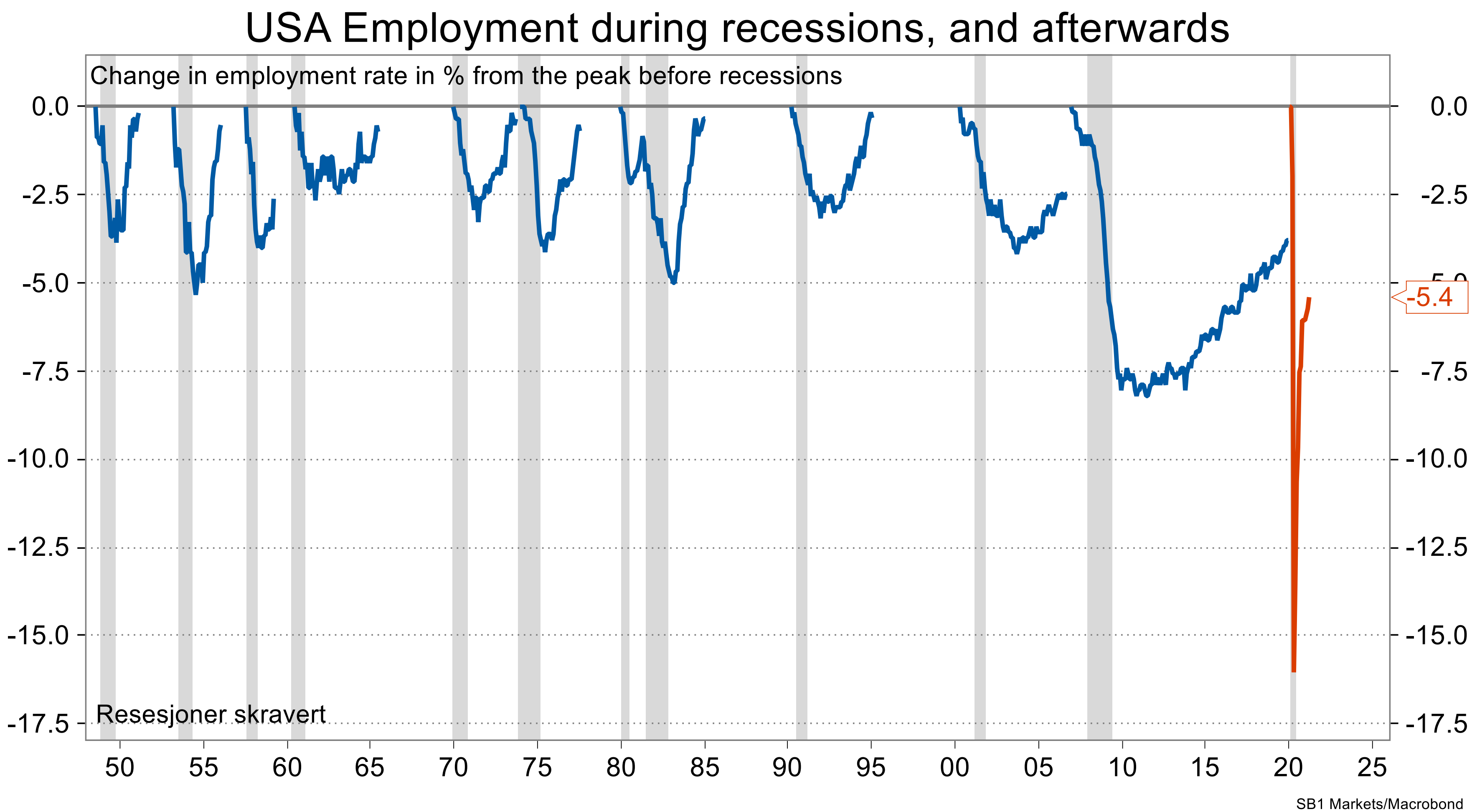




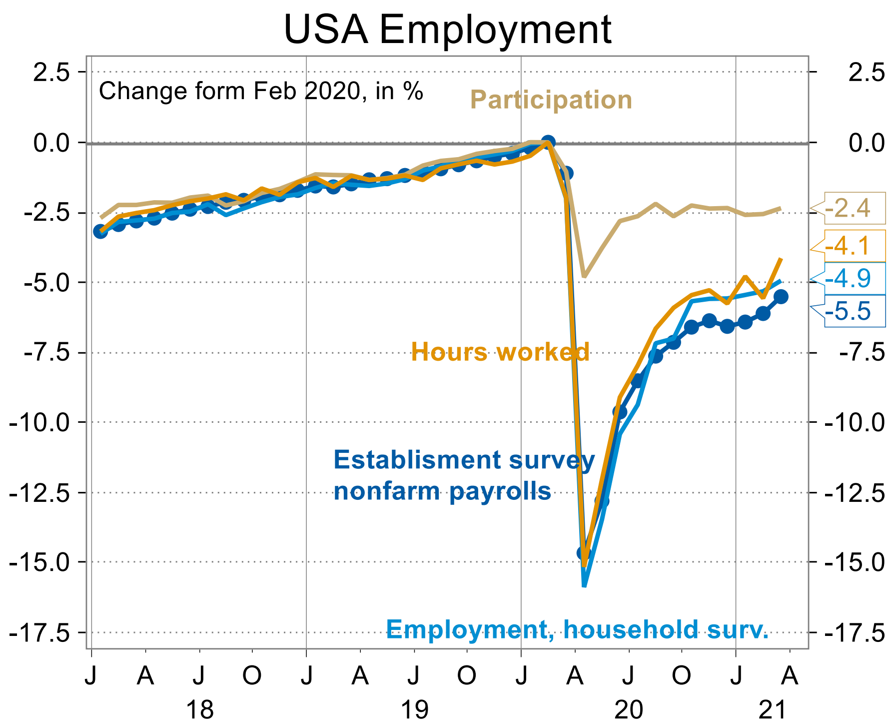
- **Employment** rose by 916’ (0.6%), far more than expected, and Jan & Feb was revised up by in total 156’. In Q1, unemployment grew by 0.5% (2.5% annualised), but by 1.1% through Q1. Restaurants, education in the lead in March but both remain far below pre-pandemic levels. The employment rate is 5.4% below the Feb-20 level, equalling 9 mill jobs.
- **Unemployment** fell 0.2 pp to 6.0, as expected, and as implied by Fed’s recent f’cast. Unemployment is ‘just’ 2.6 pp higher than before the pandemic but the participation rate has fallen by 2.8% (1.8 pp), lowering the measured unemployment rate substantially. Almost 4 mill. persons report that they had withdrawn from the labour force (and were not searching a job) for corona related reasons. Many of these – but very likely not all – probably do want to return to the labour market, when possible
- **The Federal Reserve** will remain dovish the coming months, whatever labour market & inflation data may turn up. *But not forever?*

The virus attack was really something special…

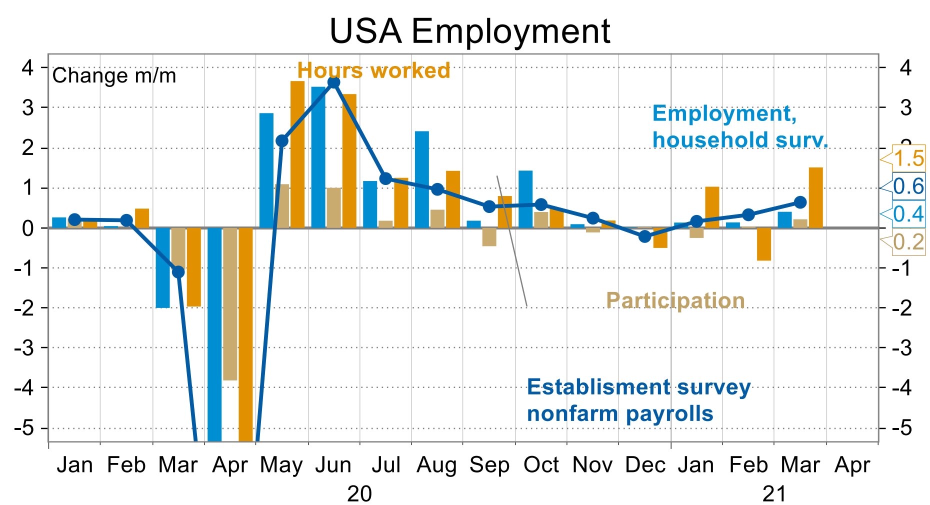
The employment rate is still 5.4% below the pre-pandemic level



Labour market activity is on the way up



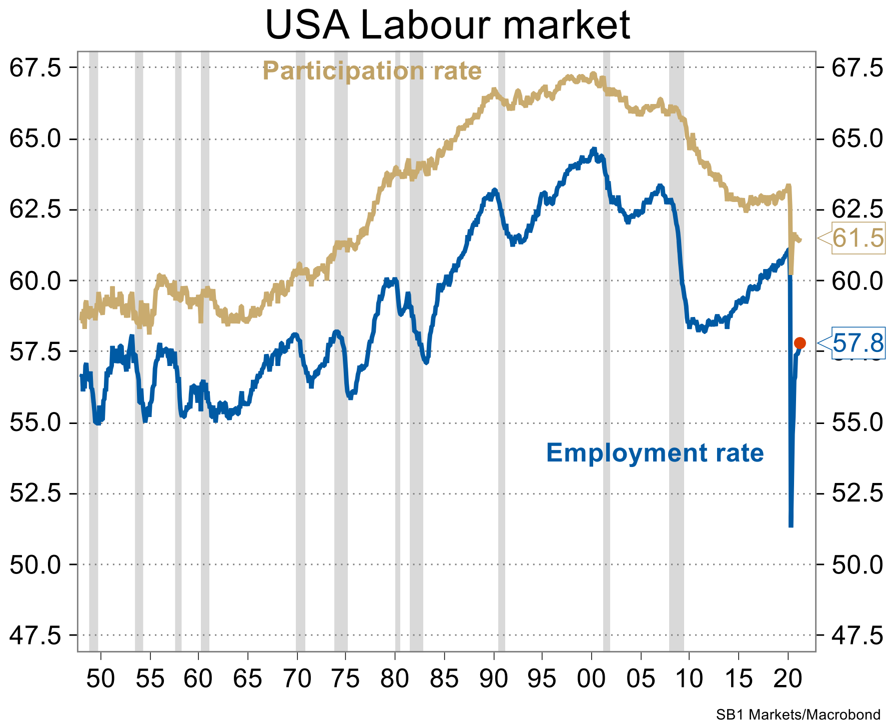
- **Labour market participation** rate has stabilised at some 2.5% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 5.5% vs Feb, while employment measured by the **household survey** (LFS/'AKU') is 4.9% below the pre-pandemic level
- **Hours worked** jumped 1.5% in March, following the weather related decline in 0.9% in Feb, down 4.1% vs. Feb-20. In Q1, hours worked rose by 2.9% (annualised) vs. Q4

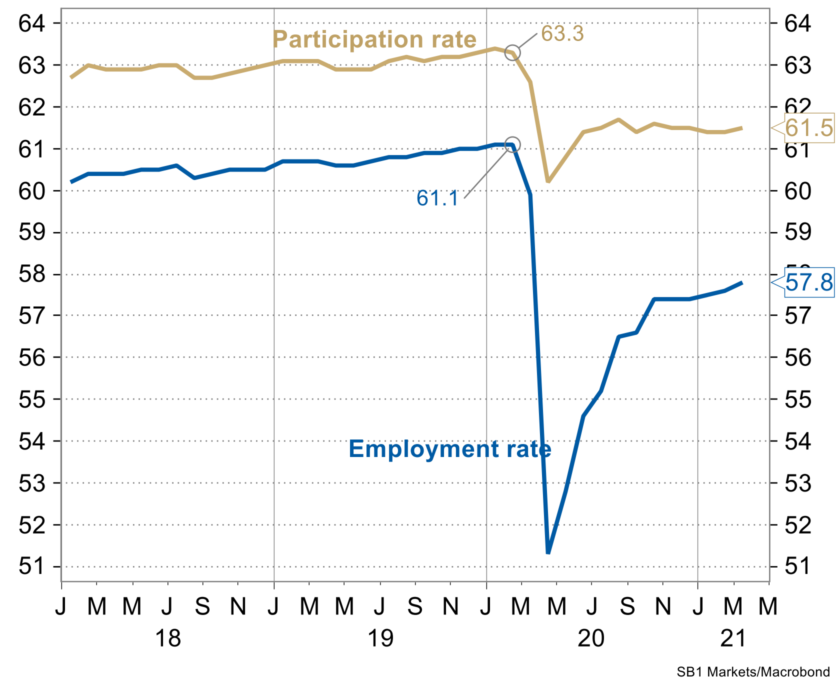


SB1 Markets/Macrobond

Employment & participation rate up in March

The participation rate is down 2.8% (-1.8 pp), the employment rate is down 5.4% (-3.3 pp)

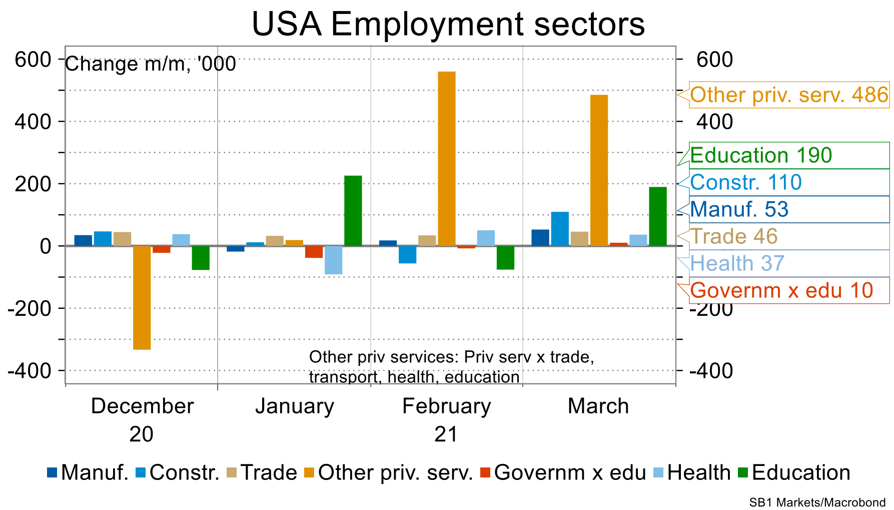


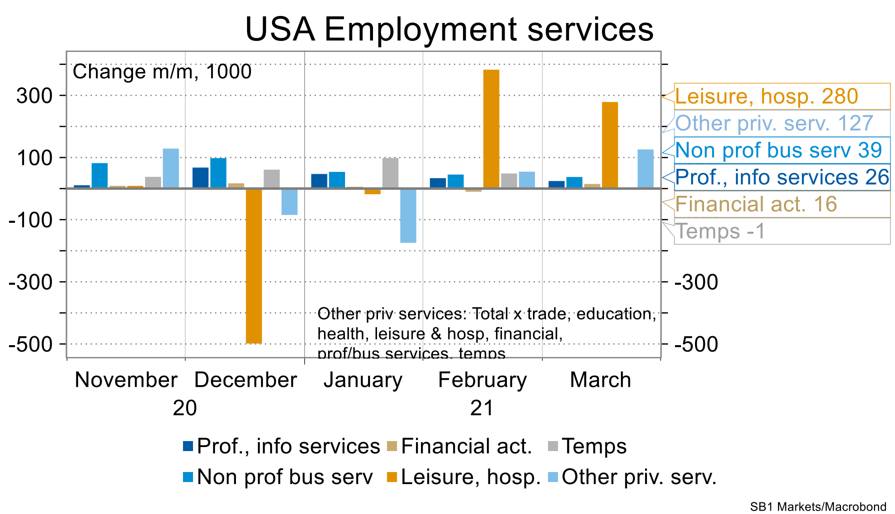


- The decline in the participation rate is corona related, at least it was initially. In March 3.7 mill. persons responded that they did not search for work (and thus were excluded from the work force) for corona related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc), down from 4.2 mill in February. However, more than half of the these respondents say they do not want a job, and we are uncertain of how many will return to the labour market
  - » The number of unfilled vacancies is high, small businesses are unable to fill vacant positions like never before, households state that it is not hard to find a job (see graphs further out in this report)

SpareBank 1 MARKETS

Leisure/hosp., education up in March, still much more to go



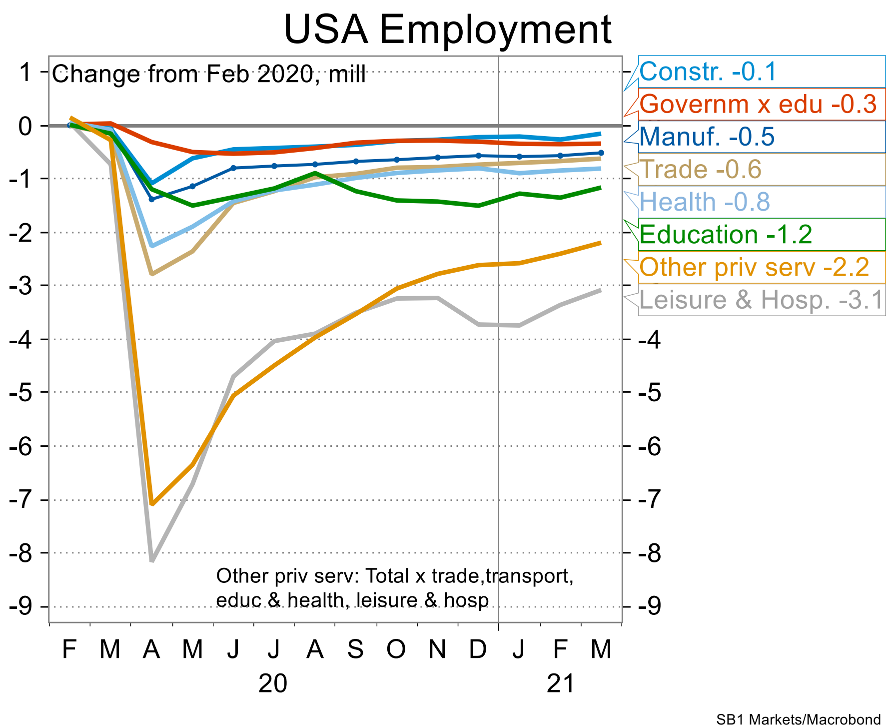


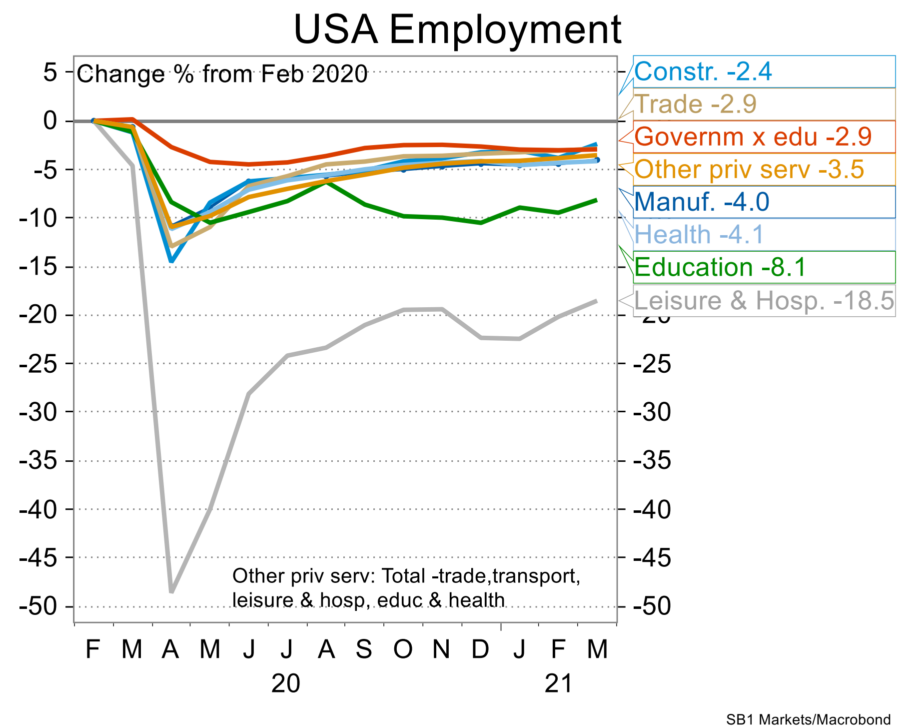
- **In March**
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 280’ workers, +2.1%, following the 2.7% Feb lift
  - **Education** (priv & public) added 190’ jobs as more schools reopened
  - **Other services** added more jobs too
  - **Manufacturing & trade** added more jobs
  - **Construction** recovered from the harsh weather setback in February, +100’
  - Empl. in **Government** reversed the gain in Jan, as teachers were sent home

Government employment adjusted for temporary 2020 census workers

From Feb-20: No sector is back yet. Leisure/hosp & education the big losers

... But these sectors are now gaining speed as the economy gradually reopens

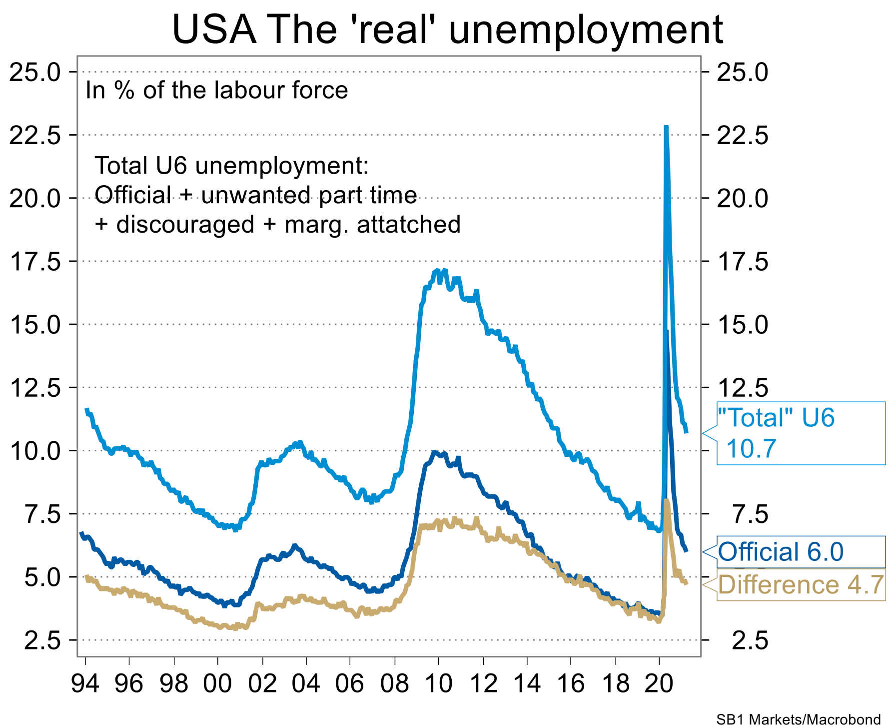


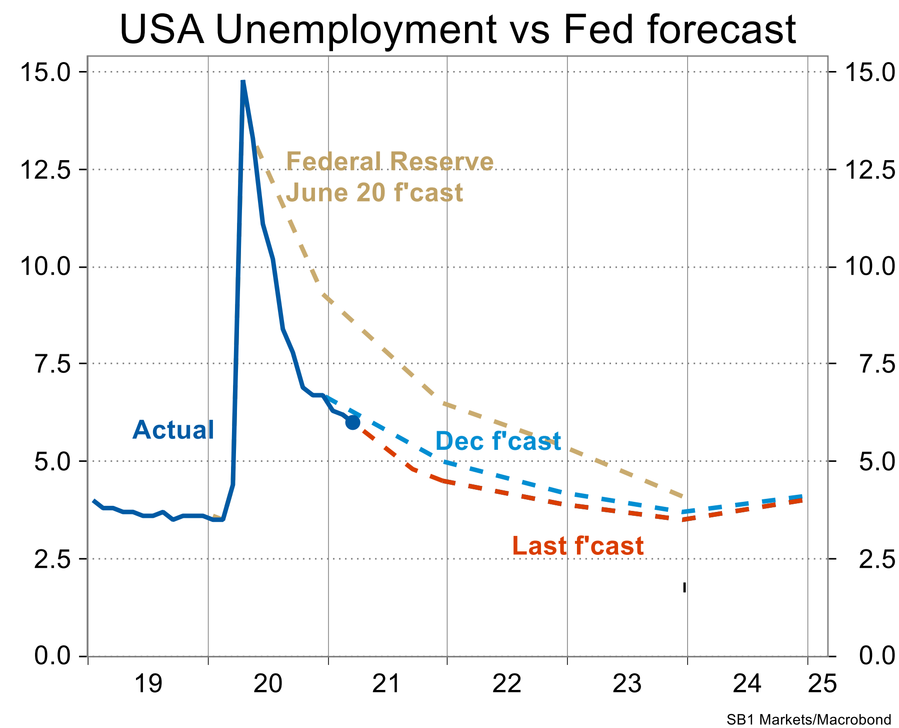


- **From February last year**
  - No main sector is above the pre-pandemic level, not even retail trade
  - **Leisure & hospitality** is down . **Manufacturing** is down 4.4%, **trade & transport** 2.9%, **construction** 4%
  - **Education** is down almost 10%, many schools are closed
  - Even **government employment** x education is down 3.2% (adjusted for temp census workers), which is remarkable in an economic downturn.

Unemployment down 0.2 pp to 6.0% (as exp.), 2.6 pp higher than pre corona

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



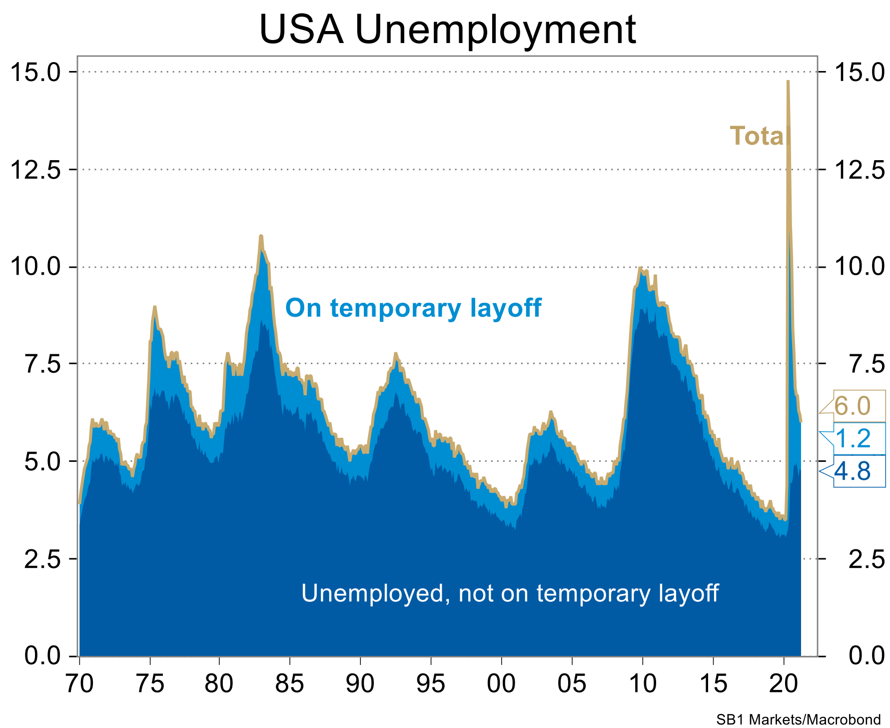


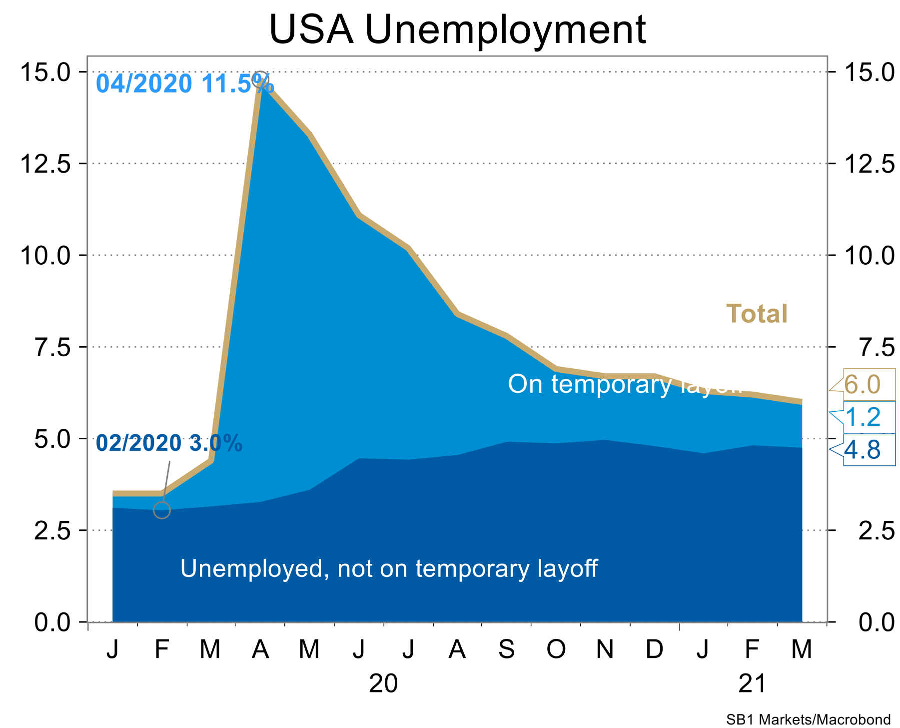
1) Almost 5% of the labour force is working unwanted part time (or are not able to get work). In good times, less than 4%
2) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (+2.8% extra unemployment, if counted)
3) In sum, the unemployment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

Still, unemployment has been declining much faster than the FOMC has expected – but in March we assume Fed’s internal forecast was 6.0%

The ‘ordinary’ unemployment rate flattish, fewer are on temporary leave

Temp layoffs down 0.2 p 1.2%, trending down. The permanently unemployment rate at 4.8%

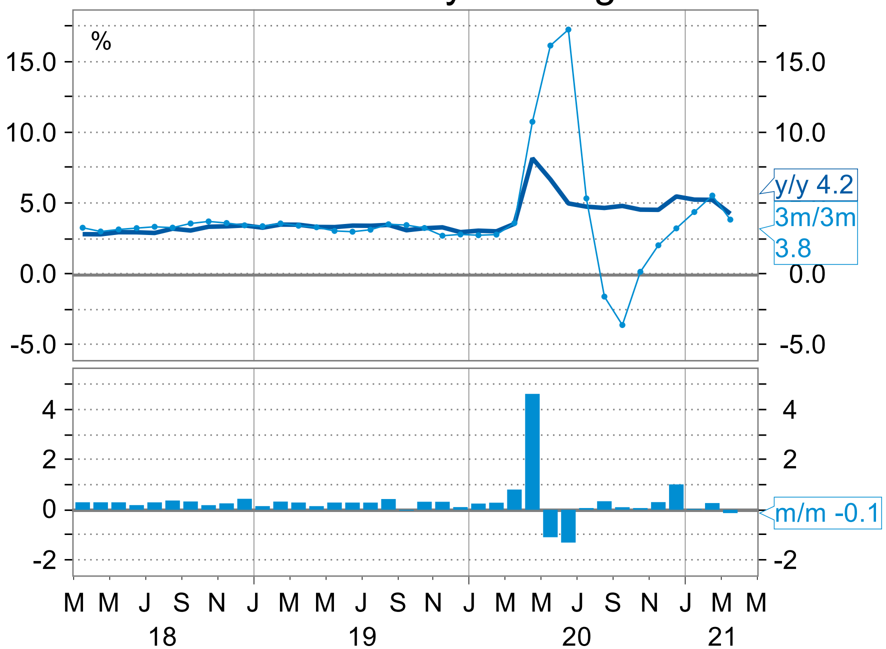




The average wage down in March as restaurant workers returned

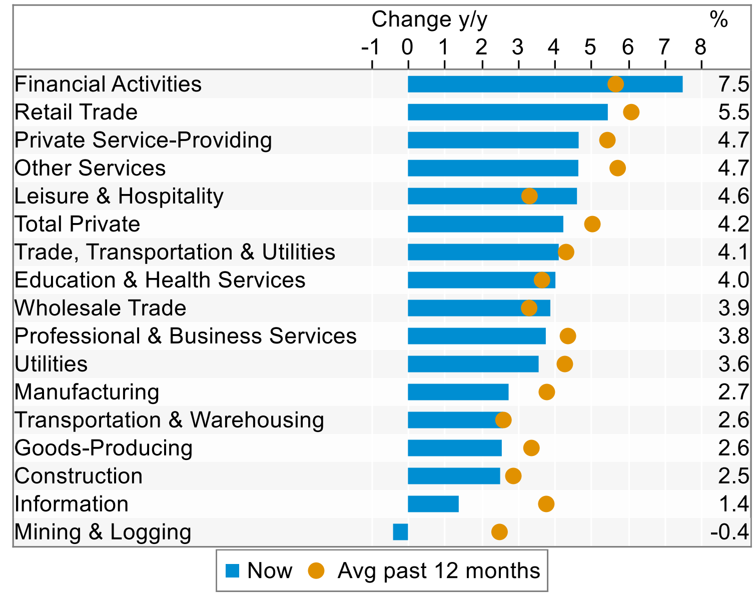
These wage data are not relevant now as the mix between high/low paid works changes rapidly

USA Hourly earnings



SB1 Markets/Macrobond

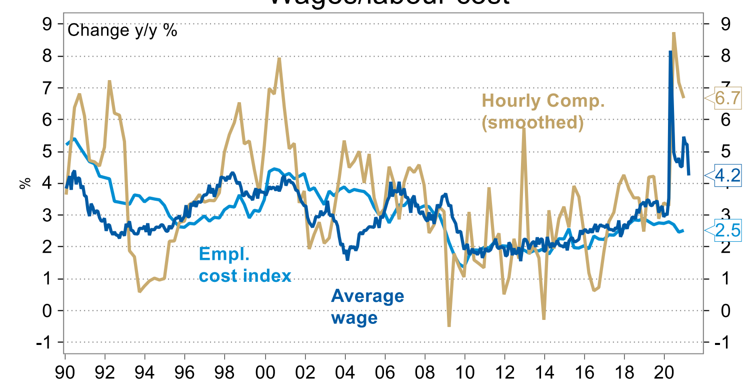
USA Hourly earnings



SB1 Markets/Macrobond

- The average hourly wage fell 0.1% m/m in March, and the annual rate fell 0.9 pp to 4.2%
- According to national accounts, the wage cost grew 6.7% in Q4
- However, the employment cost for 'the same job' was up just 2.5% y/y in Q4 *(check the chart to the right)*
- The 'strange' wage inflation data are just due to changes in the mix of high and low paid workers

Wages/labour cost

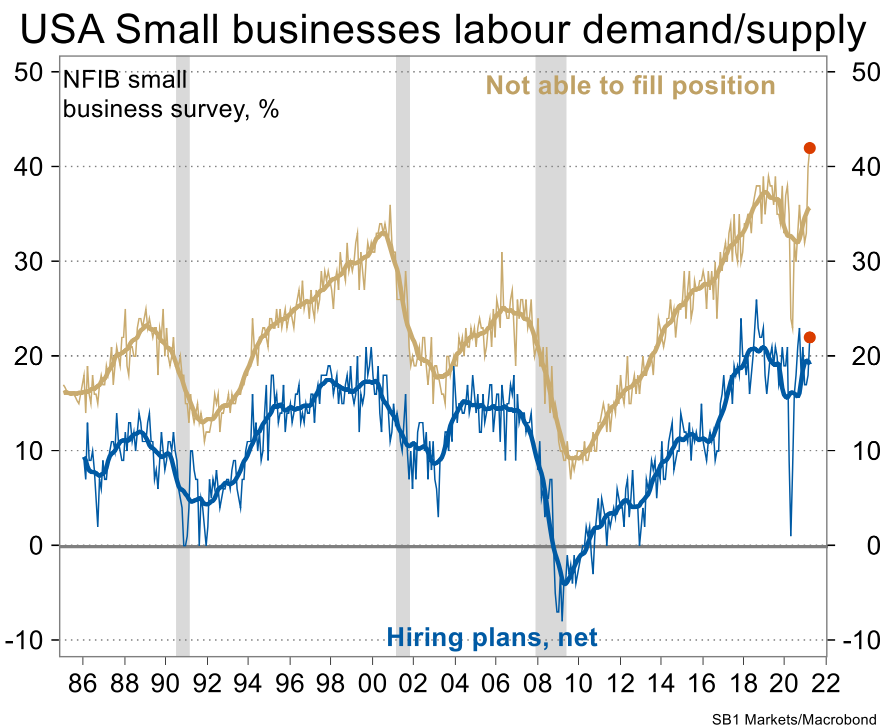


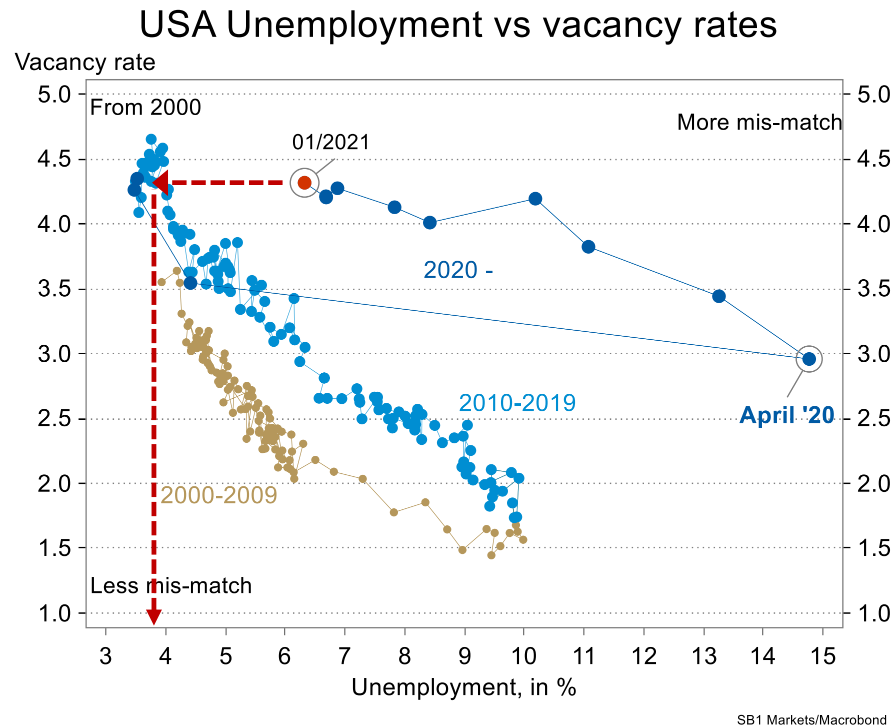
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Small businesses: More companies than ever are not able to fill positions

… and hiring plans are not far below ATH (which is not that surprising), according to NFIB

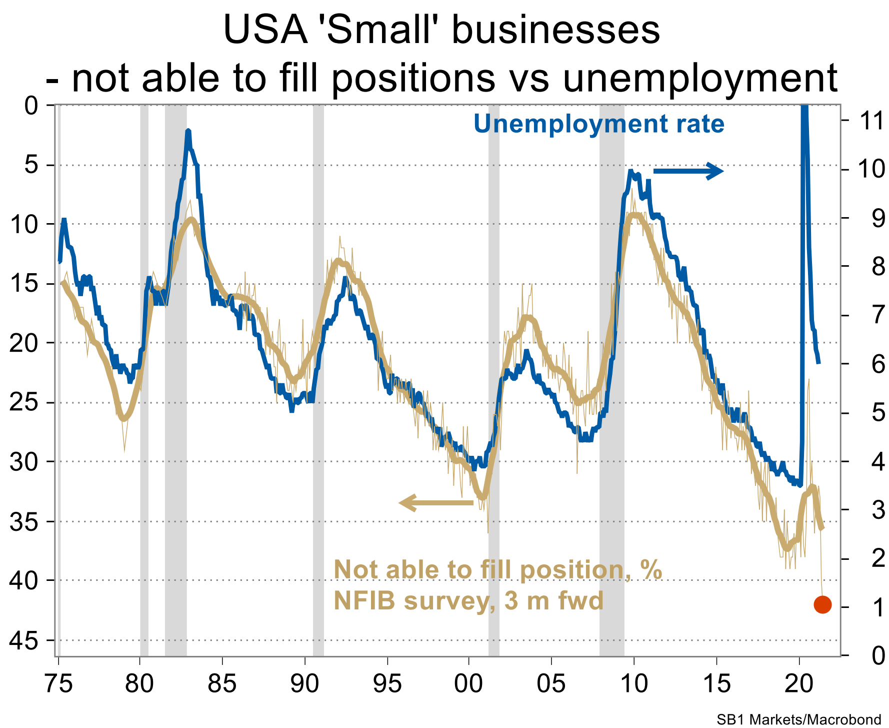


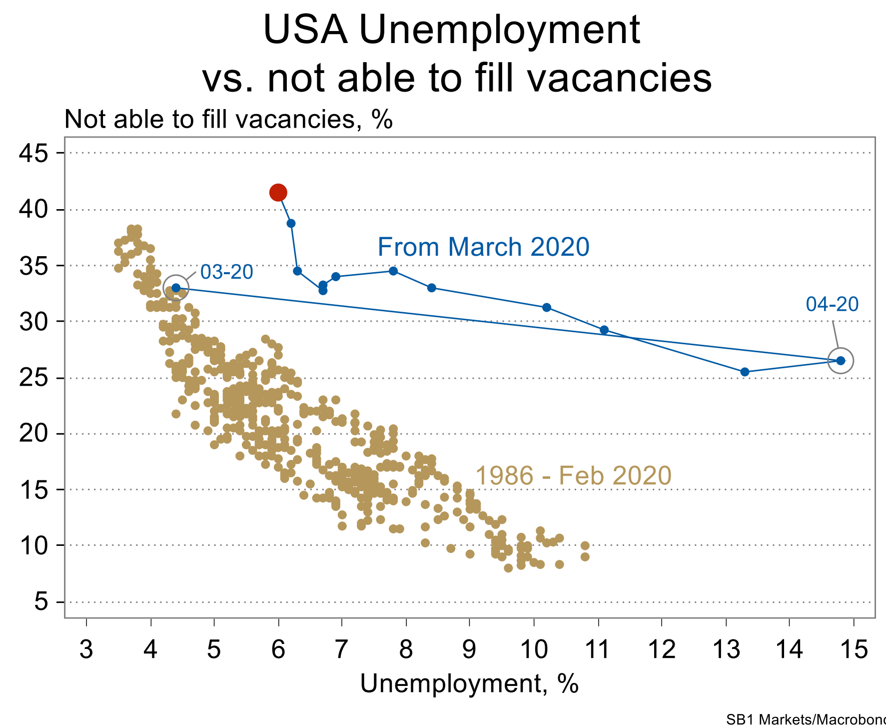


- SMBs are not able to fill vacancies, the index rose further in March, from ATH in February
- The **number of unfilled vacancies** is also high, according to official statistics (last obs. Jan) – as if the unemployment rate was less than 4%, not 6.3% (as it was in Jan)
  - The U/V curve moved outwards after the financial crisis (the light blue dots)
  - Will it shift outwards once more – or is large parts of the labour market very tight?

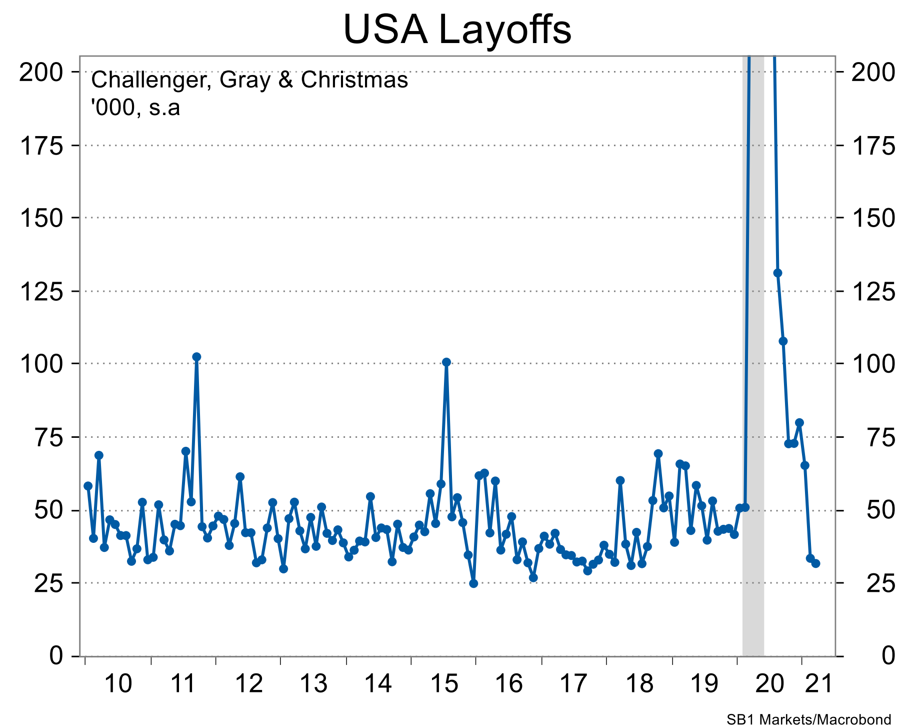
A x-check: Not able to fill positions vs. actual unemployment

Is the mismatch corona-related – or for real? That's the… billion dollar question!



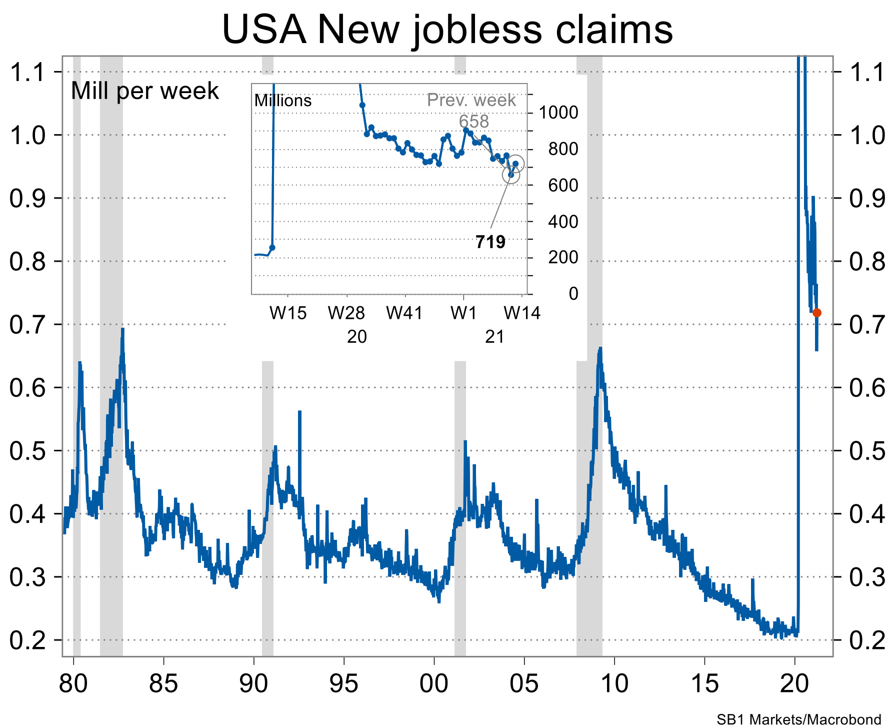


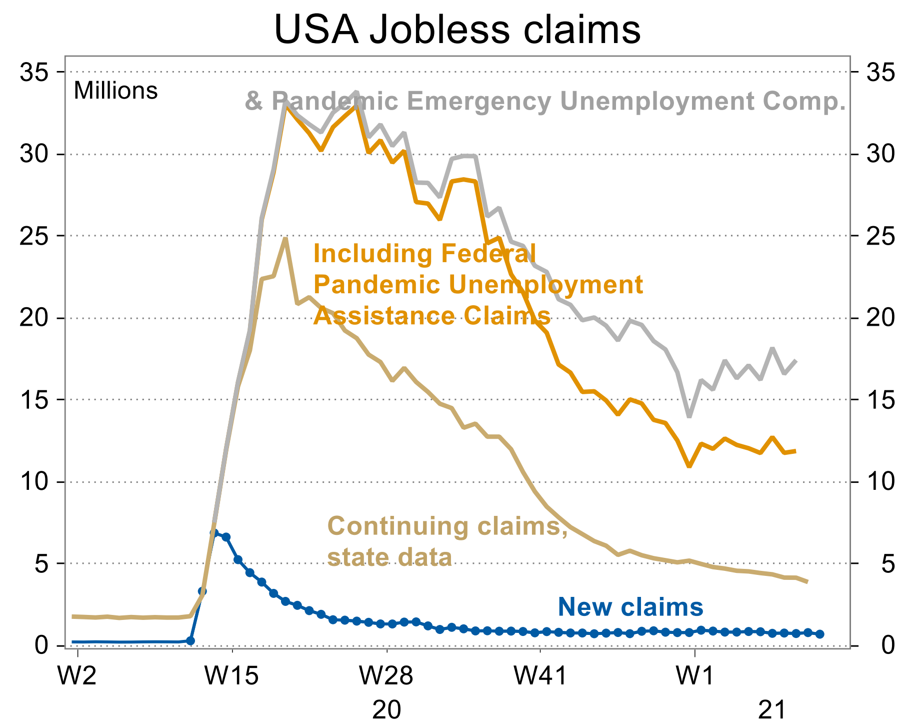
Few layoffs in March too – both below a normal level in 'good times'



Jobless claims up last week but the trend is down

The level is still higher then at earlier peaks during recessions

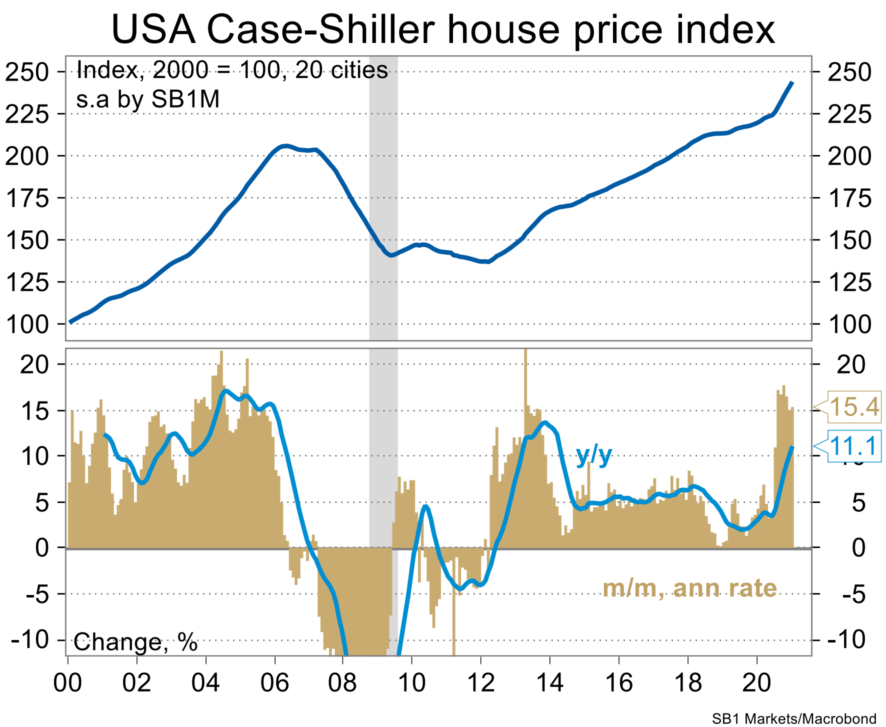


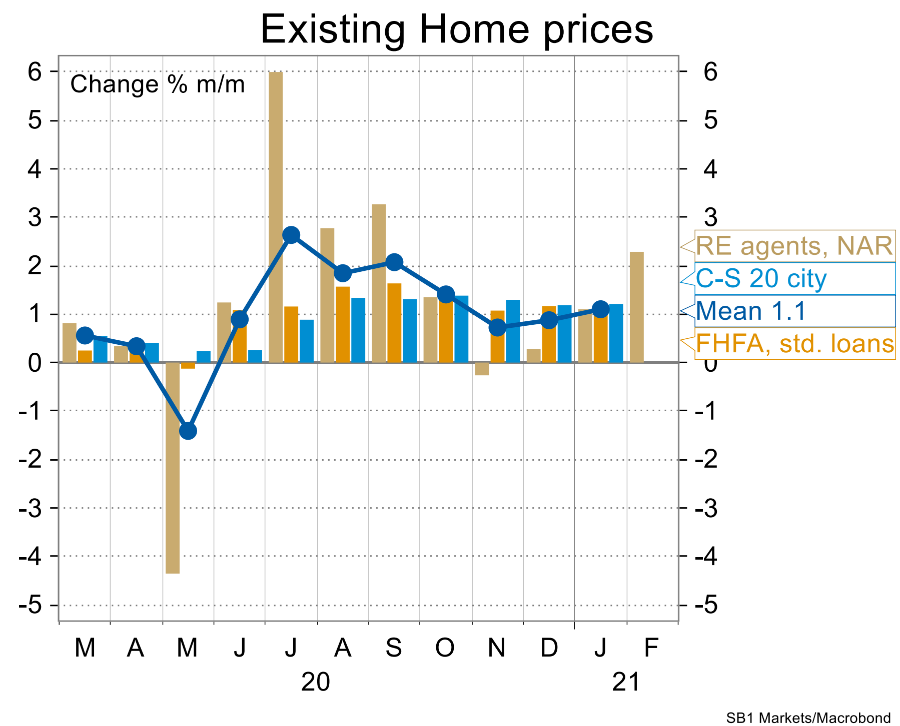


- New claims up 719' last week from 658' the previous week (expected 675')
- Continuing claims are trending downward, at least the ordinary claims. Including the Pandemic support programs the conclusion is more uncertain
- We still find it somewhat strange that the flow of new jobless claims are far higher than ever before (except last spring), as the no. of vacancies are high and companies are reporting they are not able to fill them. Are jobless benefits too attractive?

House price inflation may have peaked (m/m) but prices are still climbing fast!

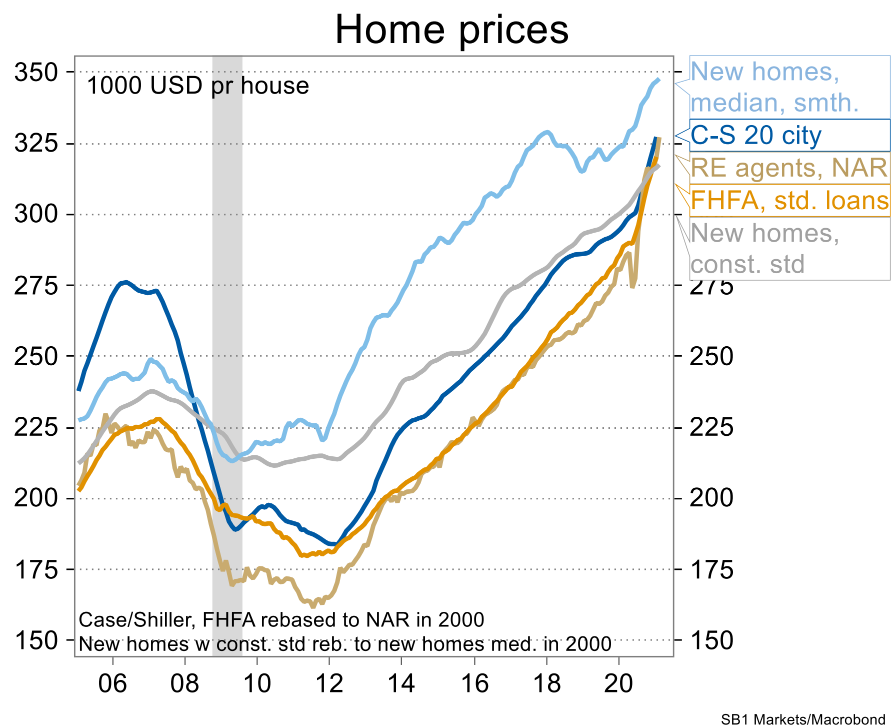
C-S prices up 15.4% m/m (a.r) in Jan, slightly more than in Dec. The annual growth rate at 11%

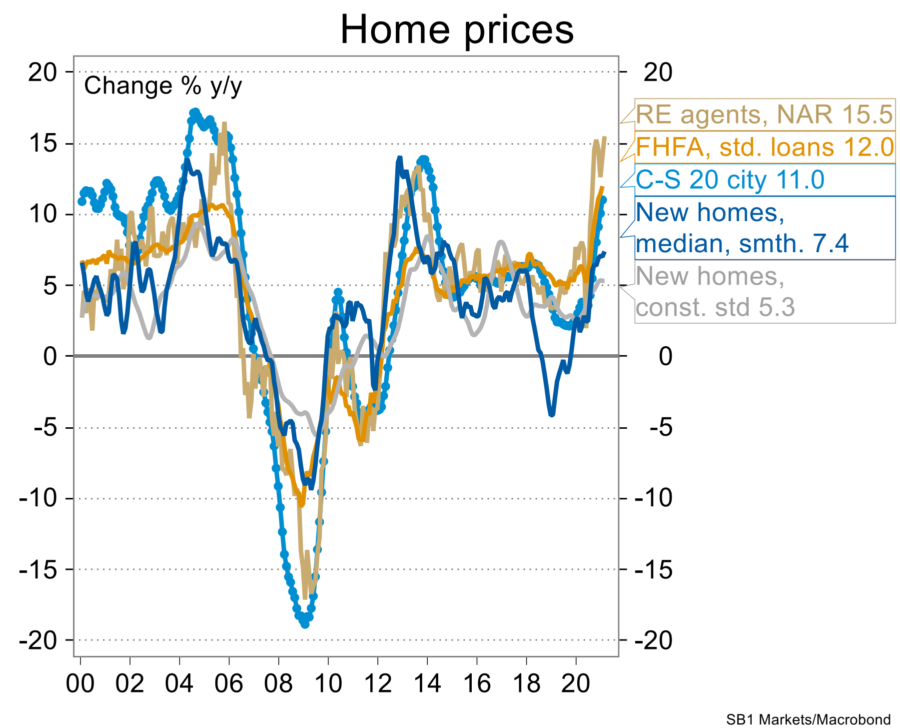




- S&P's Case/Shiller's price index rose 1.2% m/m in Jan (3 m moving avg), marginally slower than over the previous 3 months, finally as expected (forecasts have been far loo low for the previous 6 months)
  - » The 6-month pace at 16% is just marginally below the ATHs in 2004 and 2005. A corona crisis was just what the housing market needed, at least the decline in mortgage rates was appreciated ☺. The annual growth rate climbed by 1 pp to 11.1%, as expected
- Other price indices have also reporting a sharp increase from July last year onwards. In Jan the 'official' FHFA index rose by 1.2%. Relators reported 1.1% in Jan, and then another 2% m/m in Feb

New home prices are starting to move too

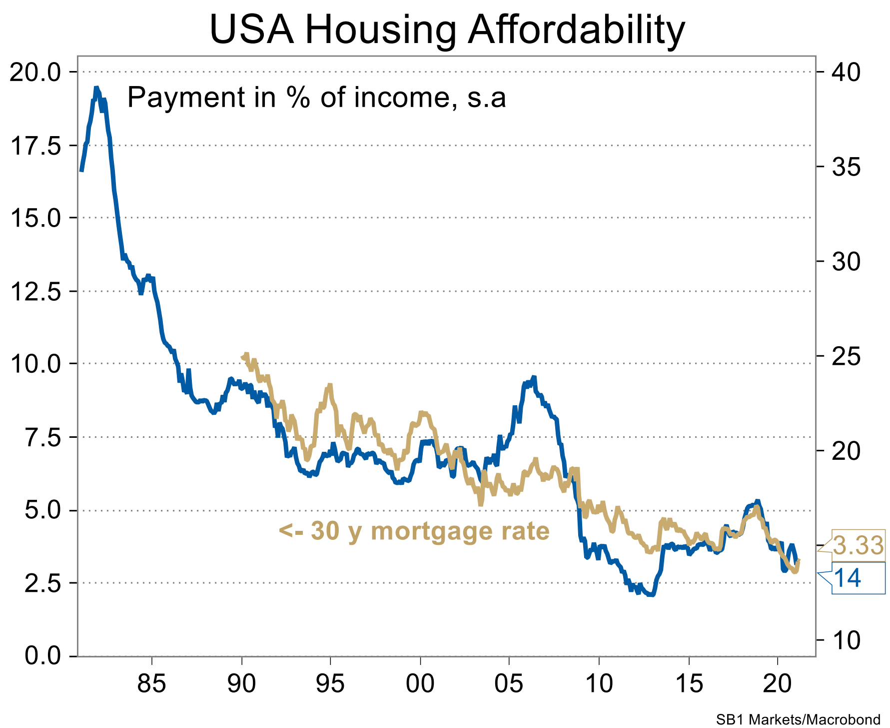




- Existing home prices are up at least 11% y/y
- New home prices just up some 5% – 7% (5% standard adjusted)

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

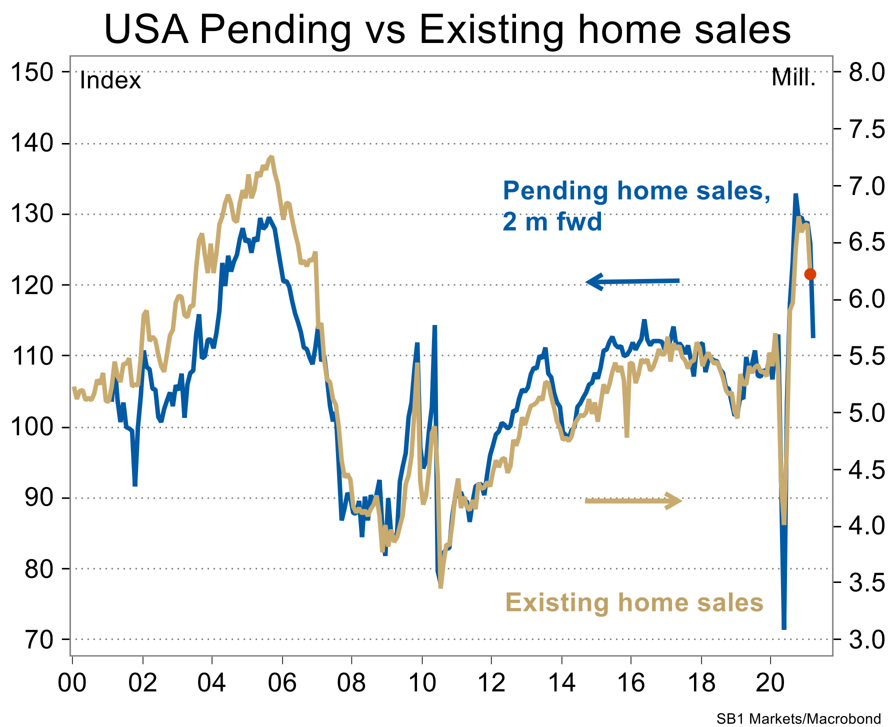
BTW, it was not high mortgage rates that killed the housing market in 2006. It was oversupply…

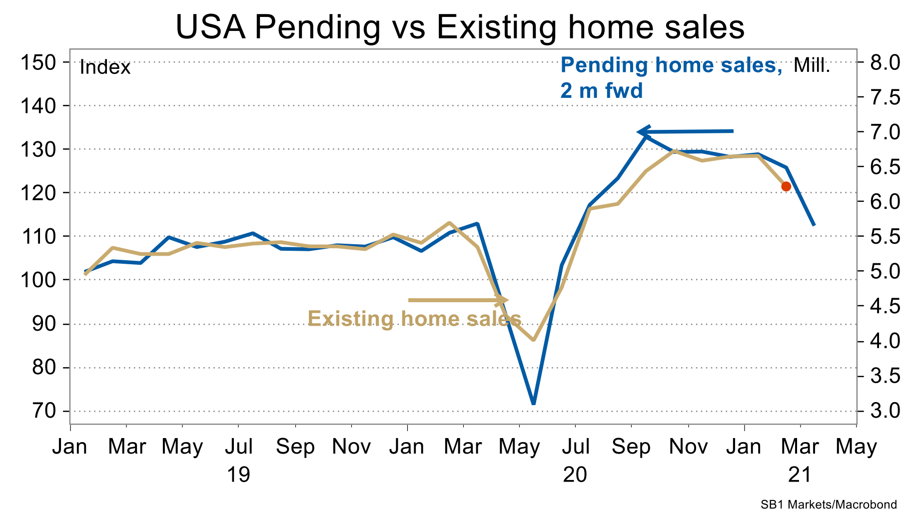


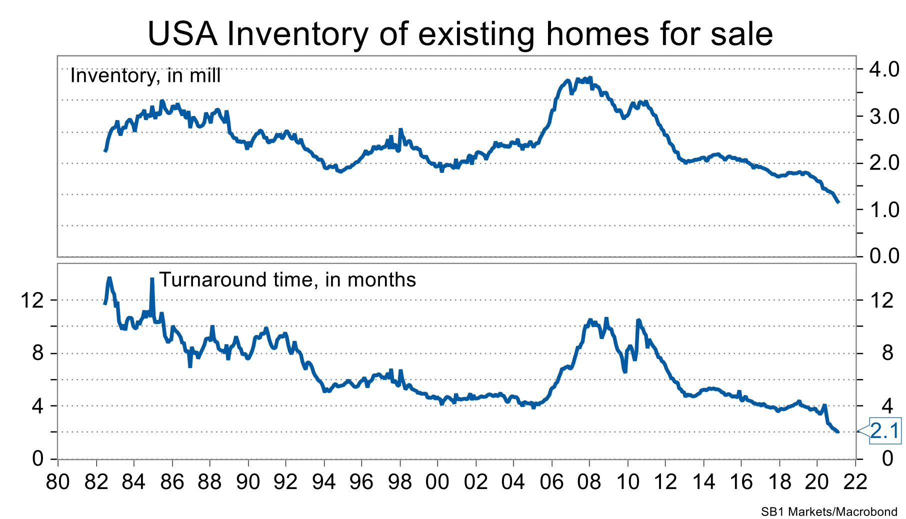
- …induced by too high prices

Pending sales sharply down in March: Supply or demand?

Our bet is still supply: The inventory of homes for sale is record low, by far







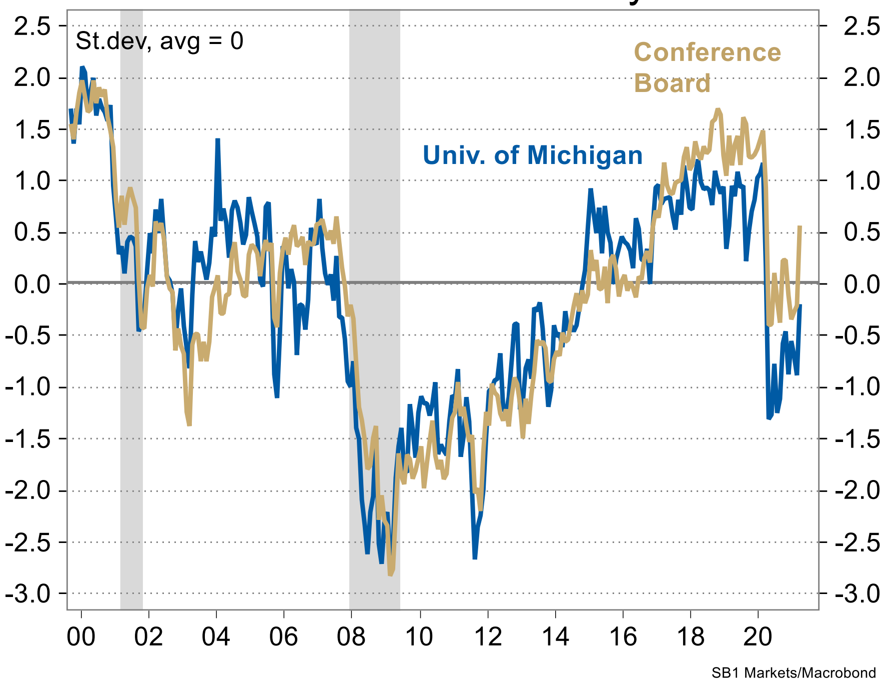
- Pending home sales fell by 10.6% in February, far more than expected (-3%)

Pending home sales: Deals signed. Existing home sales: The actual transaction, typically 1 – 2 months after signing

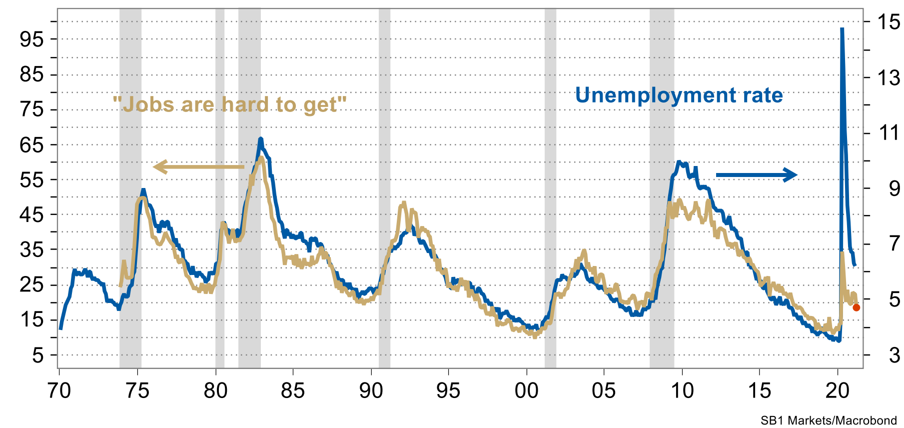
SpareBank 1 MARKETS

Consumer confidence sharply up in March, to well above average

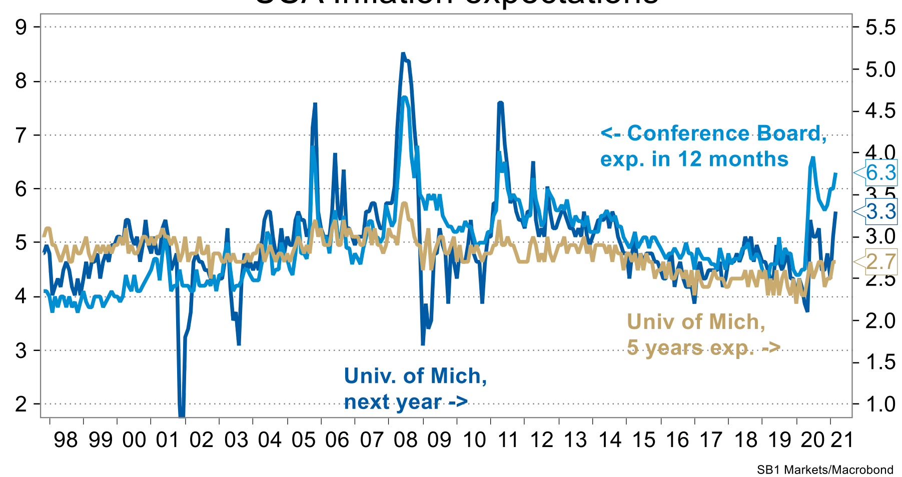
Conf. Board’s consumer confidence up 18 p (+0.8 st.dev to +0.6), expected +6p. Inflation expect. up



USA Consumer Surveys



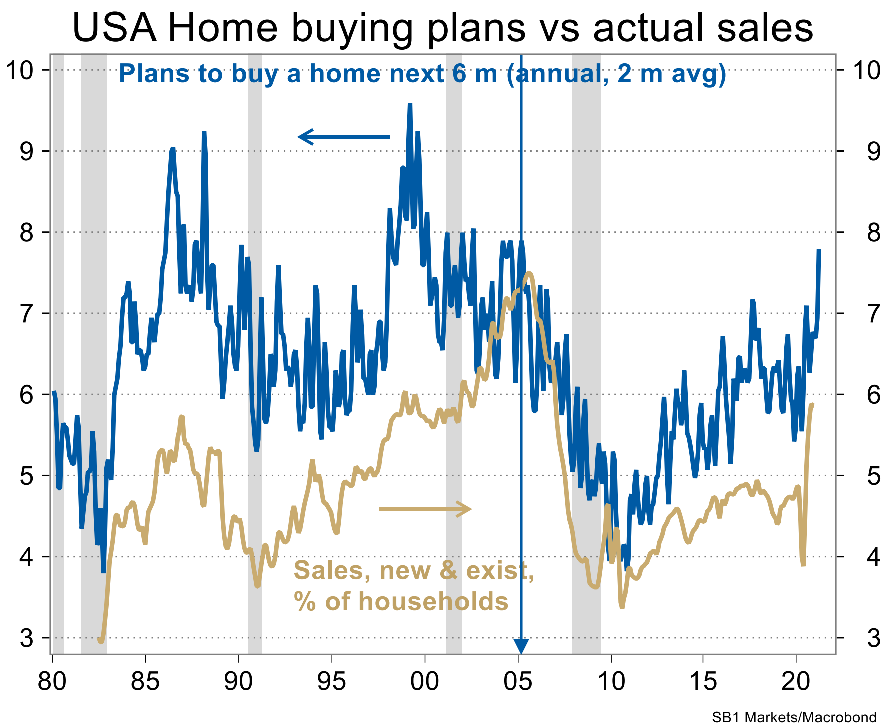
US - Unemployment
vs. consumers assessment of the labour market

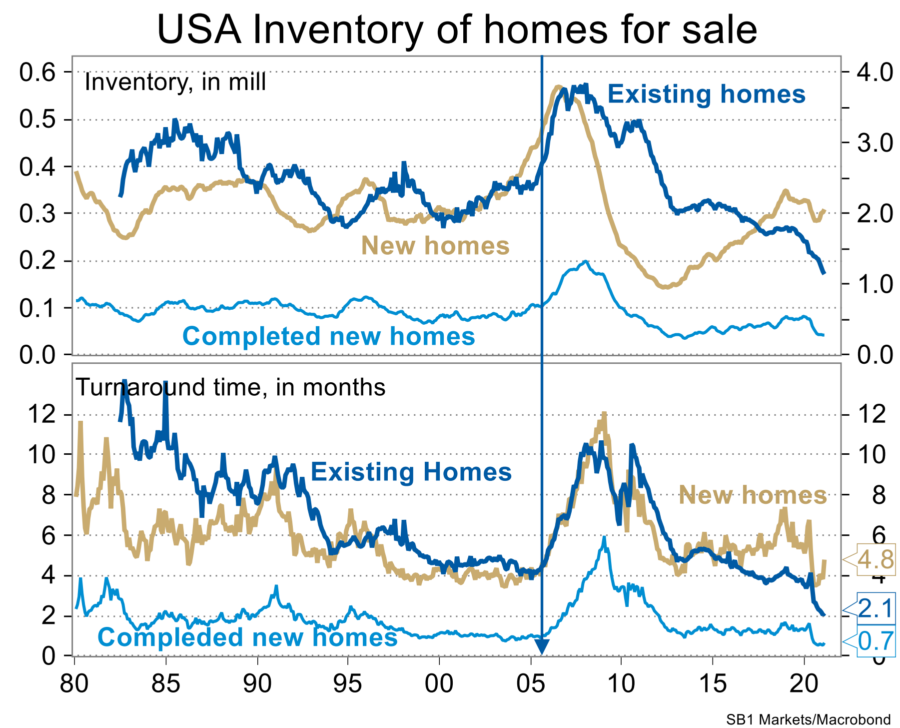


USA Inflation expectations

- Both the assessment of the **current situation and expectations** rose, according to Conf. Board
- **Inflation expectations** are have increased sharply in recent months, and are far above average levels, especially for the coming year
- **Jobs are easy to get**, as if the unemployment rate was below 5%, not like the actual 6.0% rate, according to the survey (chart next page)
- **House buying plans** rose to the highest level in 16 years
- **Univ. of Michigan's sentiment** rose sharply too in March (+0.7 st.dev) but remained 0.2 st.dev below average

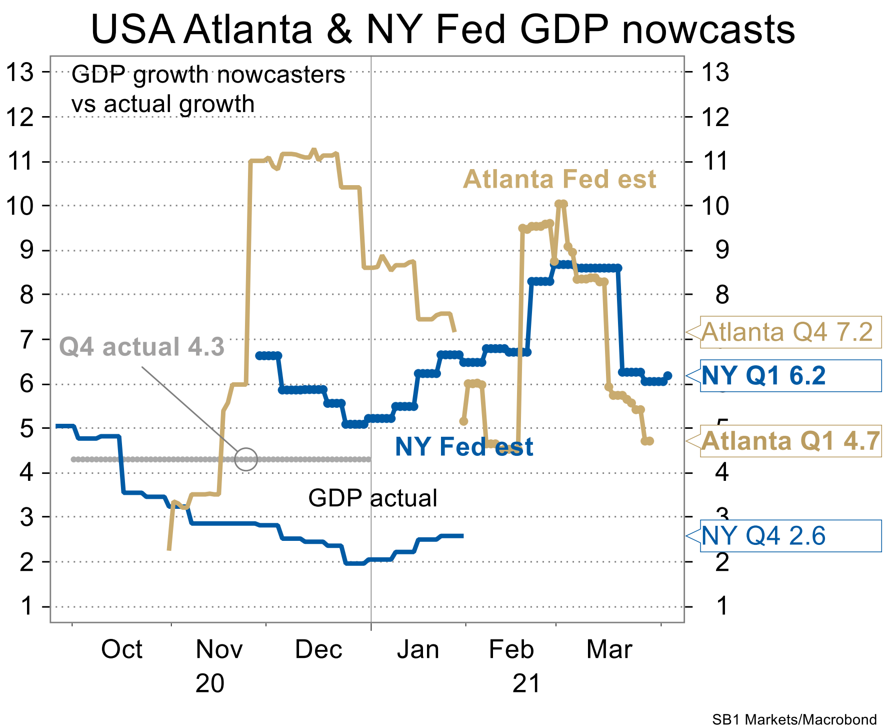
Home buying plans the highest since 2005 but this time, no homes for sale

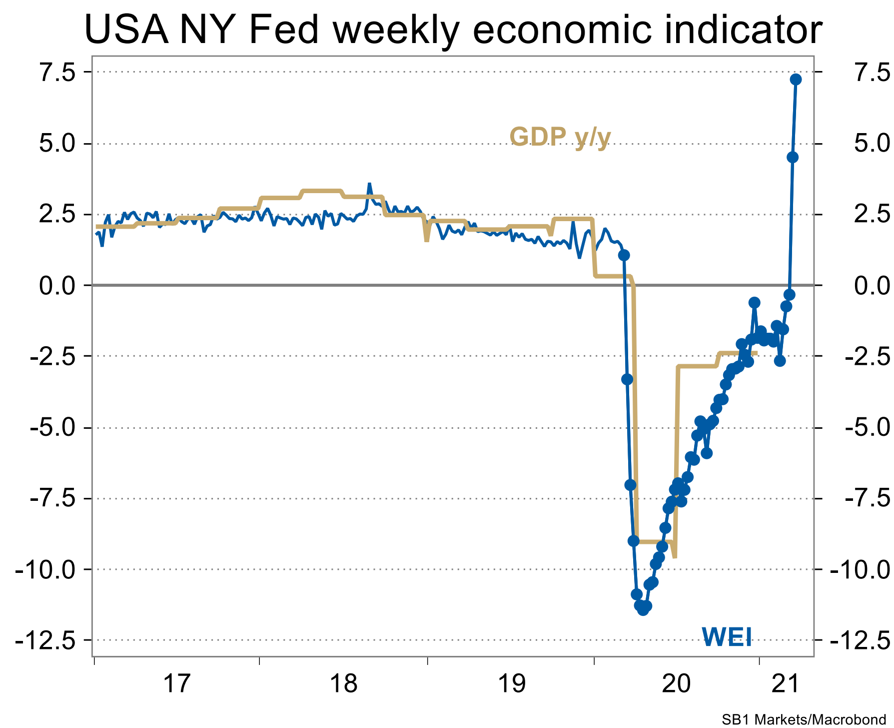




Nowcasters down last week too, 5% – 6% growth signalled

NY Fed's weekly y/y economic indicator up in the sky (vs. last year 10%+ nosedive)

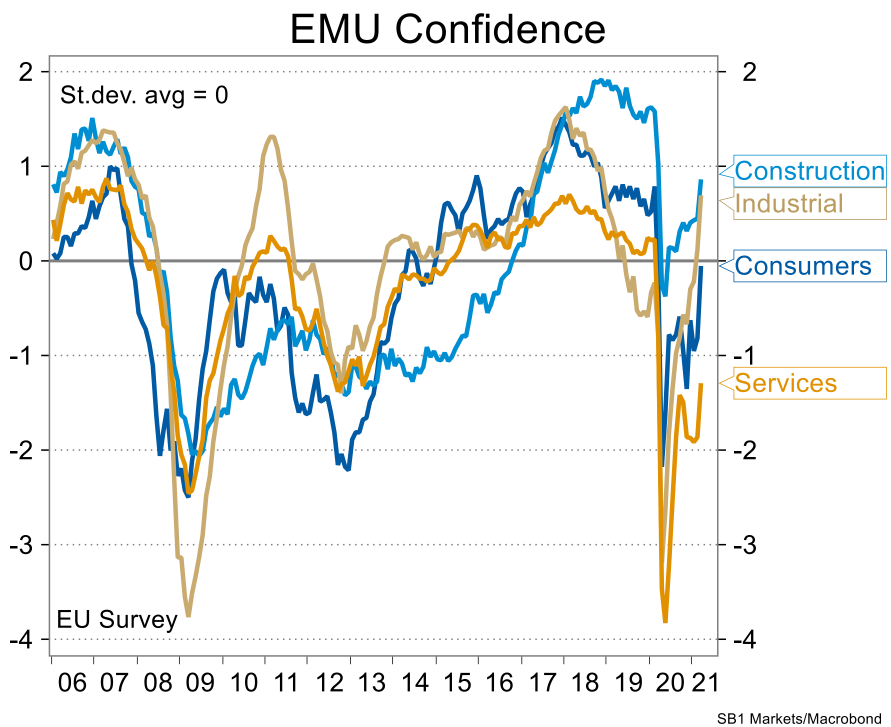


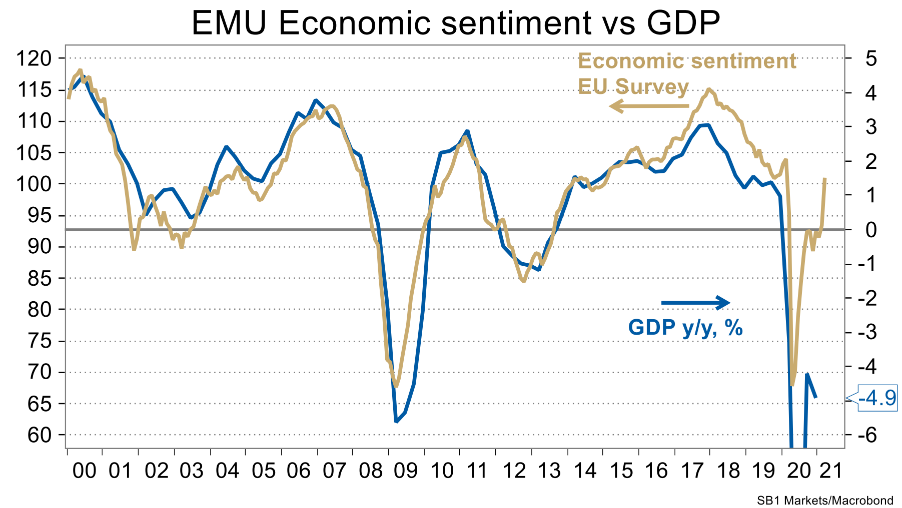


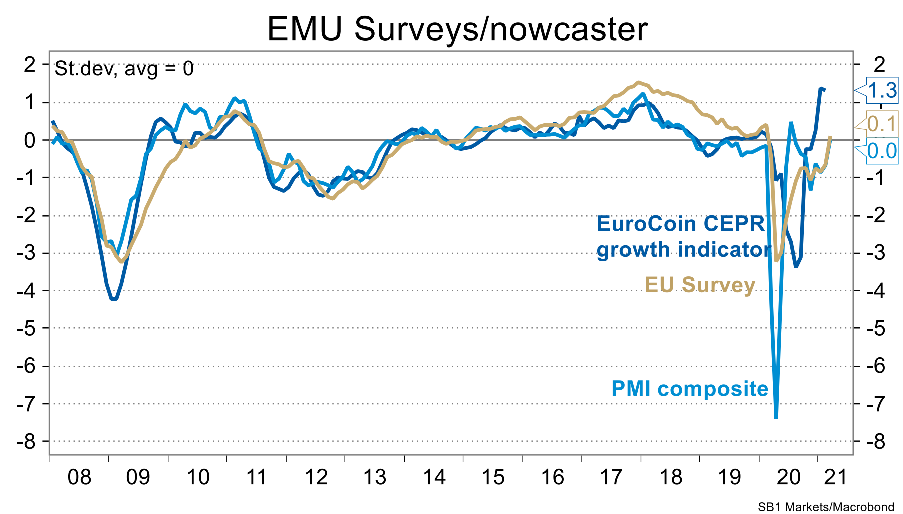
- Atlanta Fed overestimated growth in Q4, NY Fed underestimated the real outcome
- Alas, no model is perfect ☺

Economic sentiment sharply up in March

… and just as important: sentiment improved in all sectors, signalling some 1.5% GDP growth







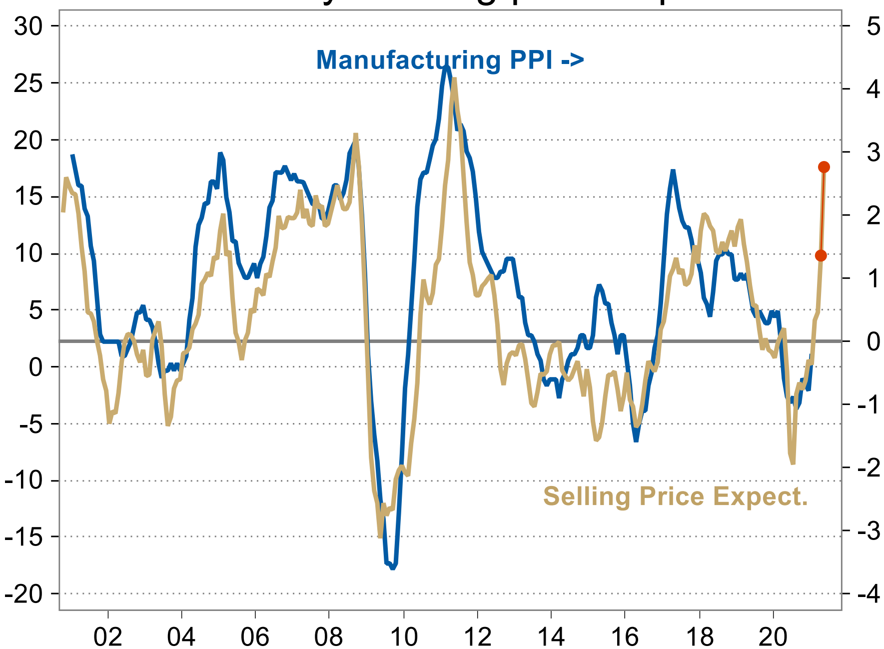
- EU's confidence survey for the Euro area rose to 101 from 93.4 in Feb, expected up to 96!
  - » The **main index** is 0.1 st.dev above average, signalling 1%-2% GDP growth
  - » **Construction** and **manufacturing** signal above trend growth, while services are still struggling, but less in March than in Jan/Feb. **Consumer confidence** back at an average level too
  - » This survey has been useless to calibrate quarterly (q/q) growth rates during the pandemic. The same goes for most other surveys (like the PMI/ISMs). Still, when all now are surging, no doubt a positive signal

SpareBank 1 MARKETS

EMU companies are reporting the highest selling price expectations in 10 years

No drama in the EU survey, we said one month ago. Well, we can't say that this time around

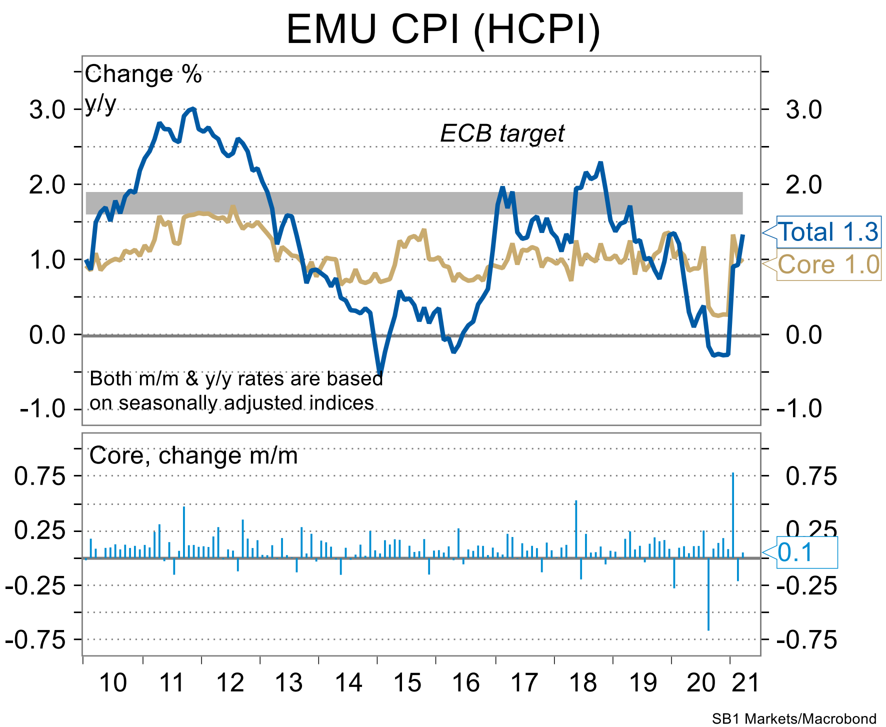
EMU EU Survey - selling price expectations

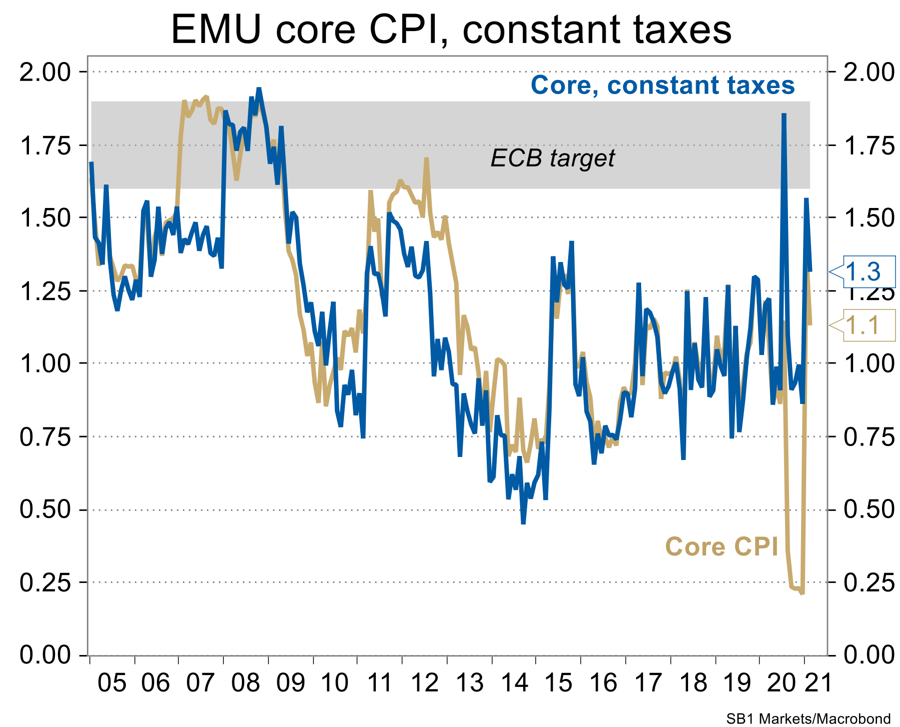


SB1 Markets/Macrobond

Core inflation slightly down to 1%, while headline up to 1.3%

Inflation is still far below ECB's inflation target

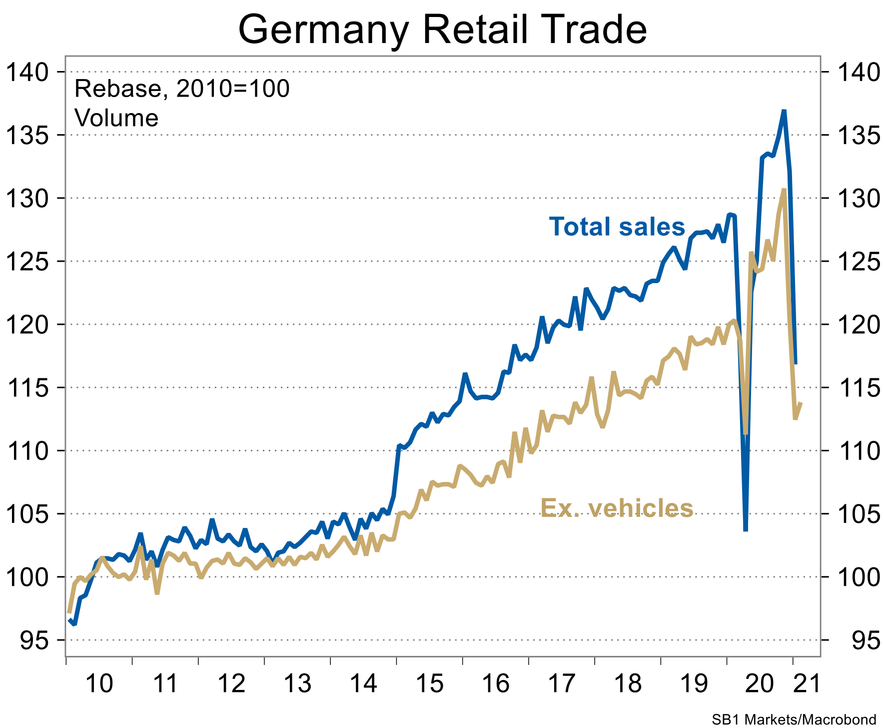


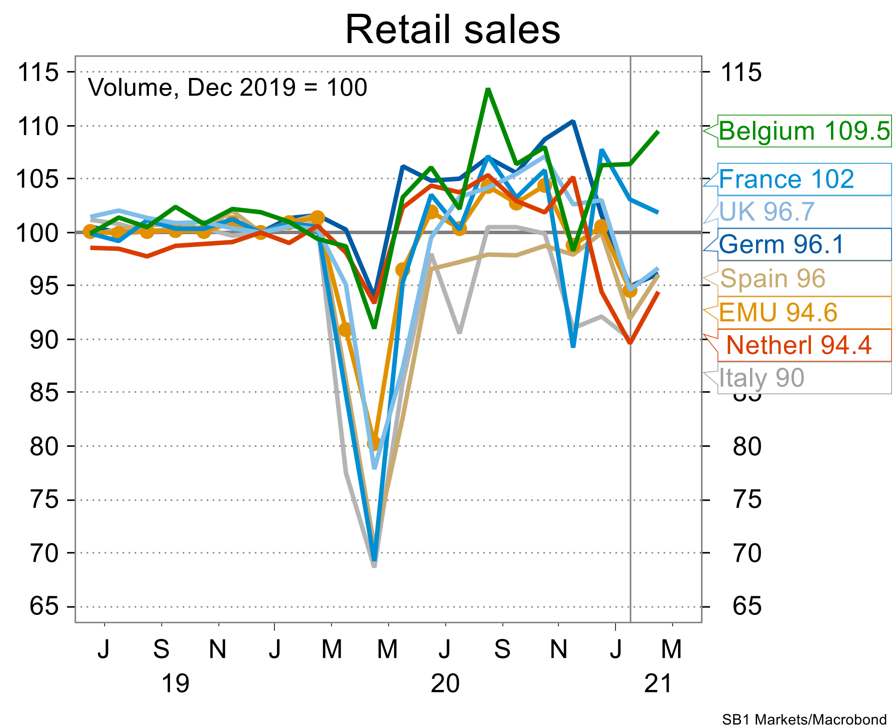


- In March, core prices rose by 0.1% m/m and the annual rate declined to 1.0% from 1.1%.
  - » The core, constant taxes CPI was 1.1% in March
- Headline HICP came in at 1.3% y/y in March compared to 0.9% in Feb, according to preliminary numbers. This is still below the ECB target, and the bank has calculated on temporary higher inflation, thus the current print will not have any effect on their policy
- As we have been saying, energy prices will contribute on the upside, and it seems like they did just that in March as energy prices were up 4.3% y/y as base effects kicked in
- Greece is still in deflationary territory, while the headline inflation is at or above 2% in Germany, Austria and Luxembourg (Although central banks usually targets core inflation, and this number is more sticky)

Retail sales up in February, but still very low during the last lockdown

Sales rose by 1.2% in Feb, expected +2%, following the almost 14% decline from Nov

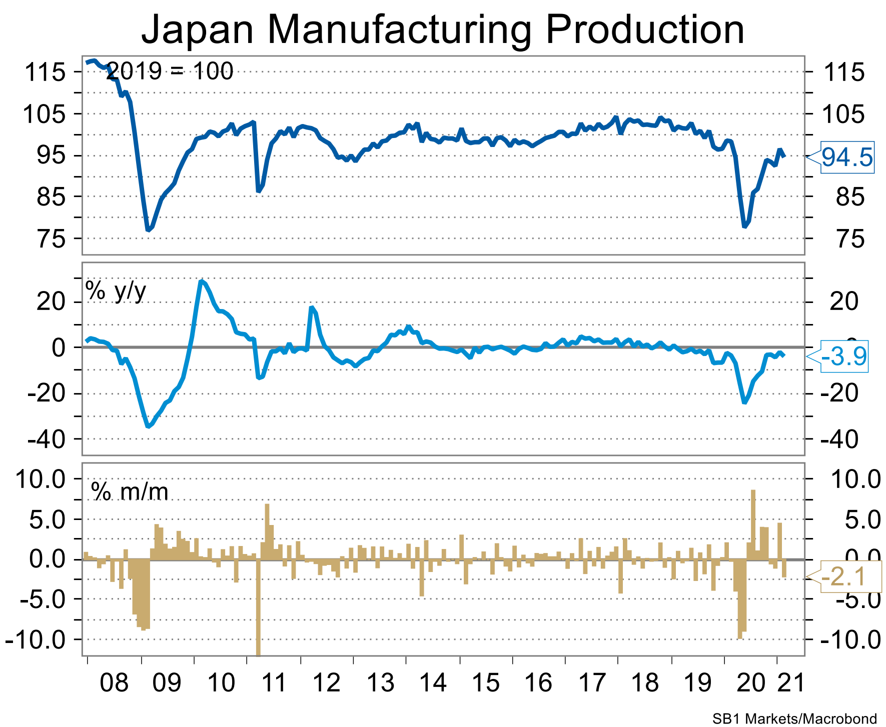


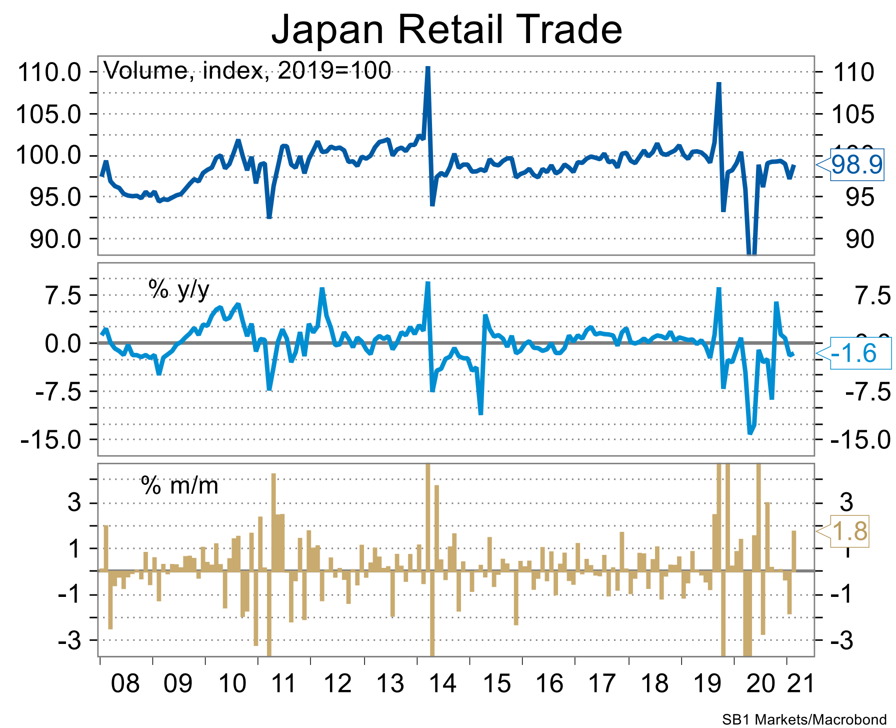


- The recent setback in sales is larger than during last spring – in Germany. Most other EMU countries were harder hit last year than they are now, as is the total Euro area

Manuf. production down 2.1% in February – retail sales up

Manufacturing production fell more than expected, retail sales rose more

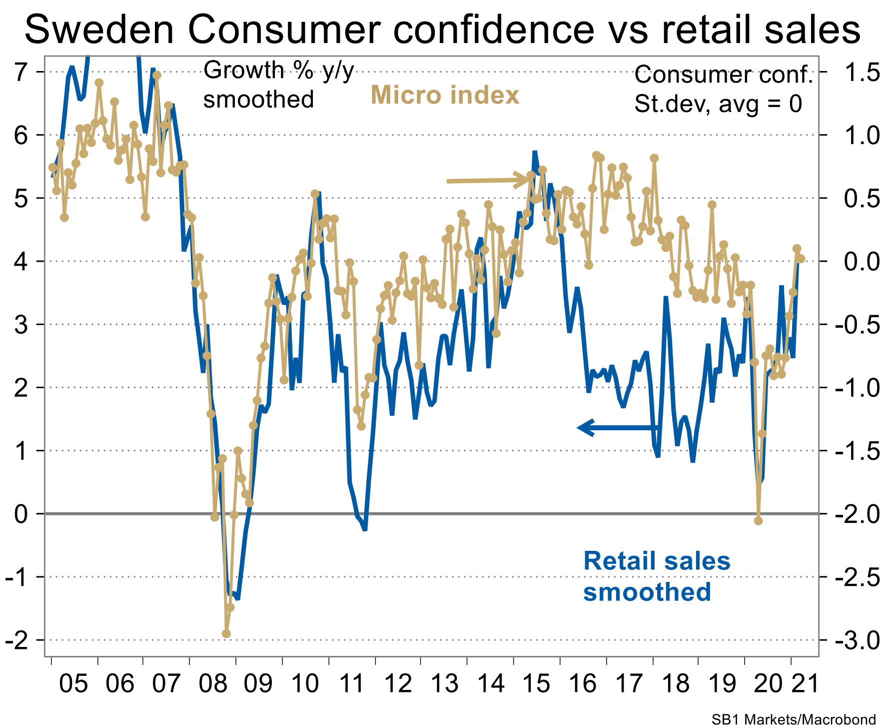


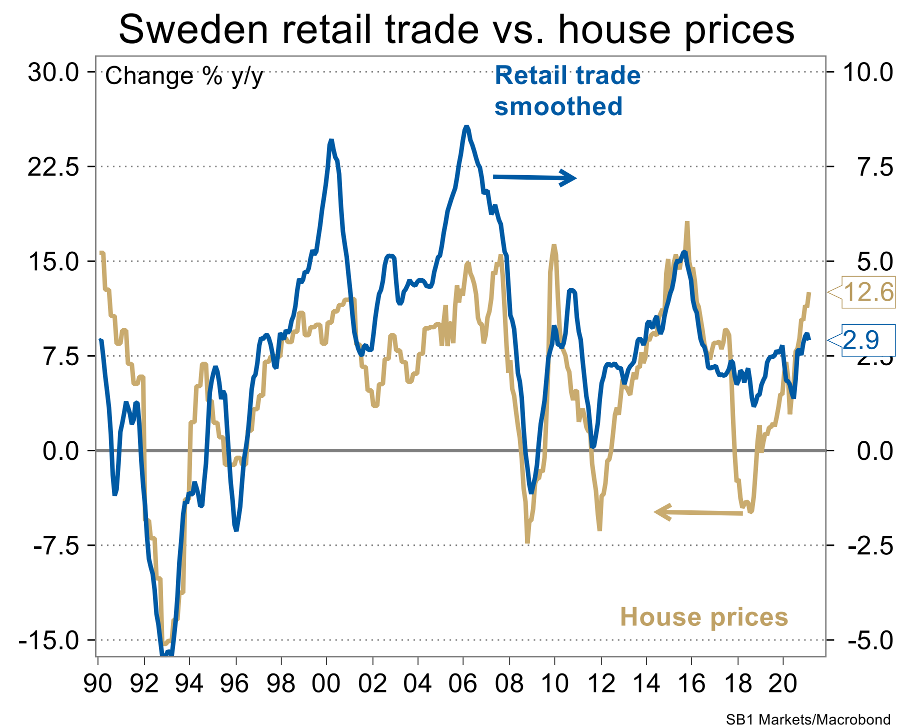


- **Manufacturing production** was expected down by 1.2% but fell by 2.1%
  - » **Manufacturing surveys** do not signal strong growth – but a continued recovery.
  - » **Order inflow** has strengthened substantially recent months, especially from abroad, and the private sector domestically
- **Retail sales** rose by 1.8% according to our calculation, official data are +3%, anyway better than expected

Consumer confidence flat at 97.1 in March

Still... Retail sales are OK, the housing market is booming



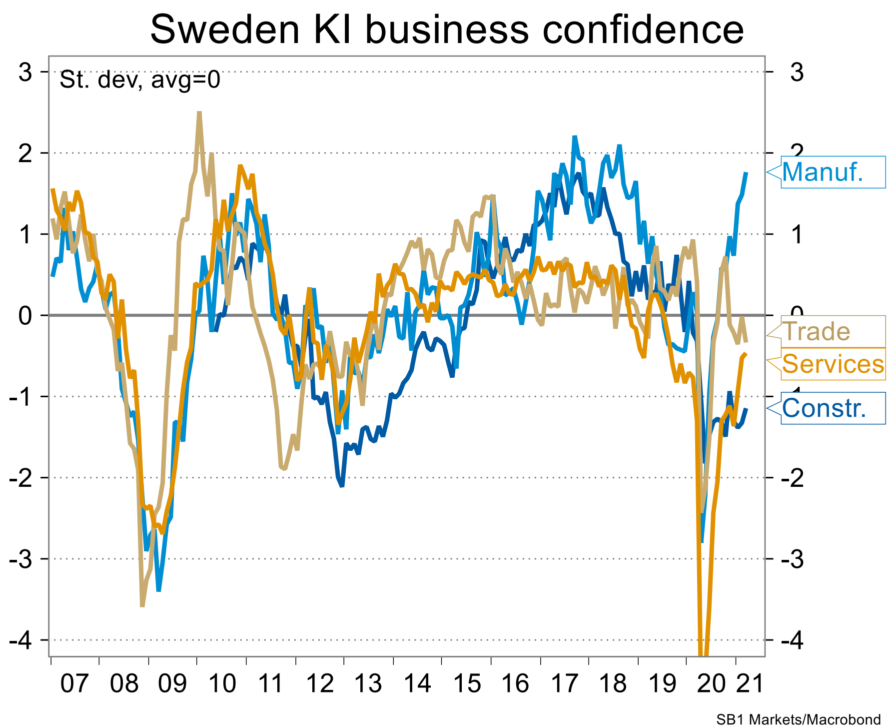


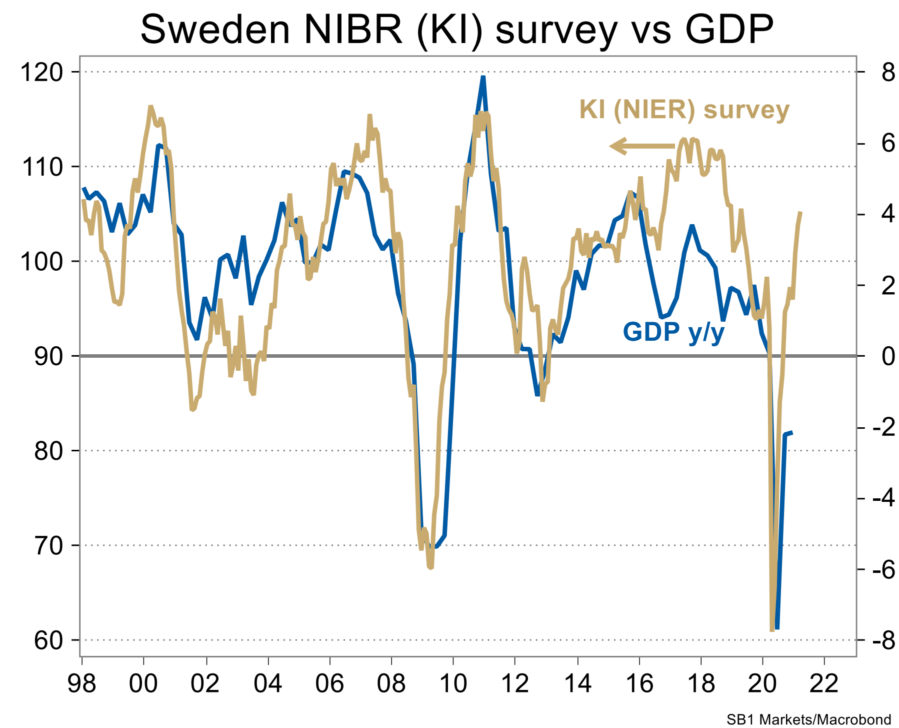
- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened
- Confidence has recovered, alongside retail sales (though some volatility in Dec/Jan) - and a booming housing market signals that households are not worried.
- However, service consumption remains weak, in Sweden as elsewhere

SpareBank 1 MARKETS

KI business survey further up in March, due to strong manufacturing sector

The overall index well above an avg. level, signalling a 4% GDP growth rate





- **The composite index** rose to 105.5 from 103.9, mainly driven by an increase in manufacturing. The services and construction sectors were marginally up but remain below an average level. Still a strong print overall, confirming the PMIs (Sweden is reporting the best PMIs in the world, these days.)
  - » Still the Riksbank is very concerned about the impact of the corona crisis (that is not over yet, though) and buys large quantities of government bonds
- The **service sector** index rose 0.6 p in March, but remains below an average level (but just 0.5 st.dev). Construction not upbeat either, in spite the housing market upturn, a bit strange
- **Manufacturing** is booming! **Trade** was weaker in March and sales expectations fell

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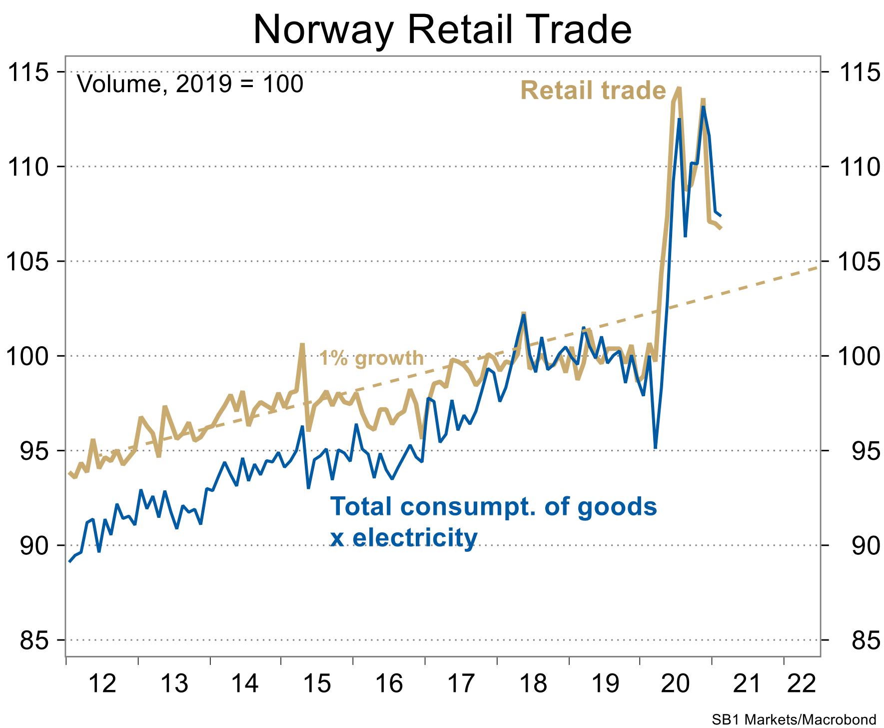
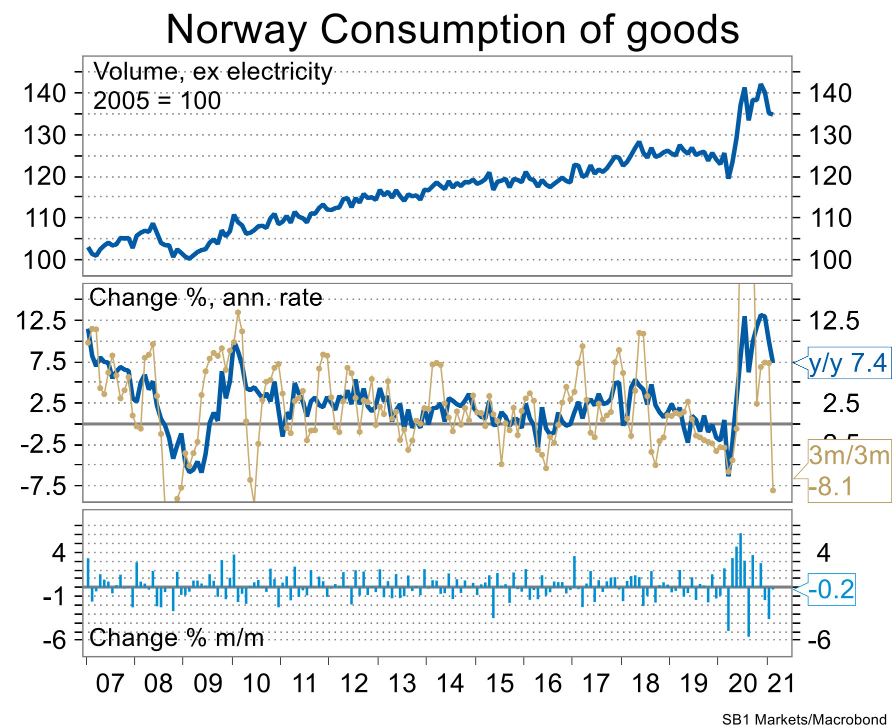
Retail sales further down in February, but level still far above pre Covid

Sales fell by 0.3%, we expected -3%, and consensus was at -0.9%. Level is still 'too high'

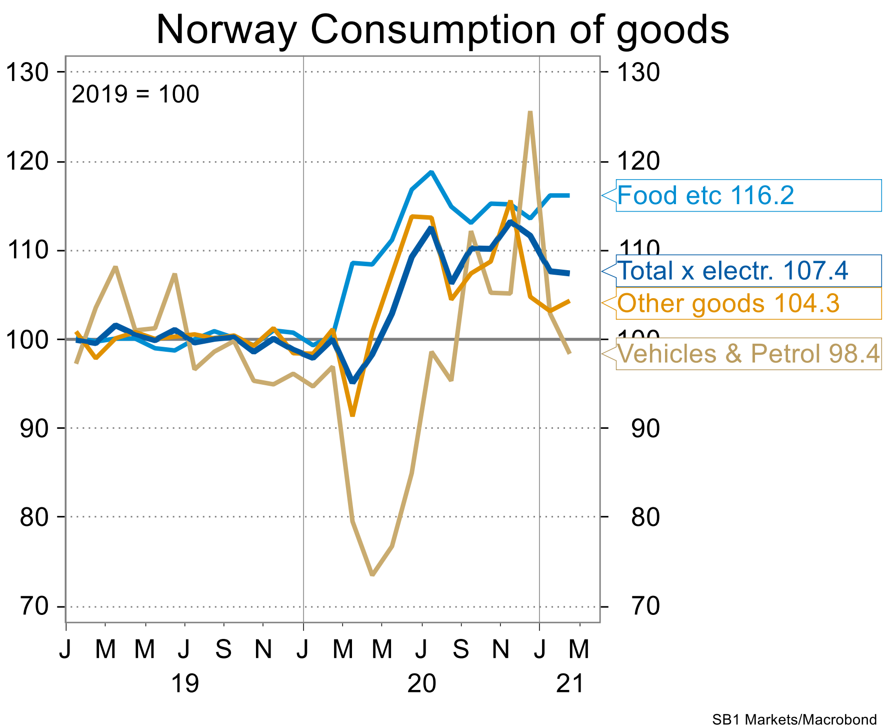


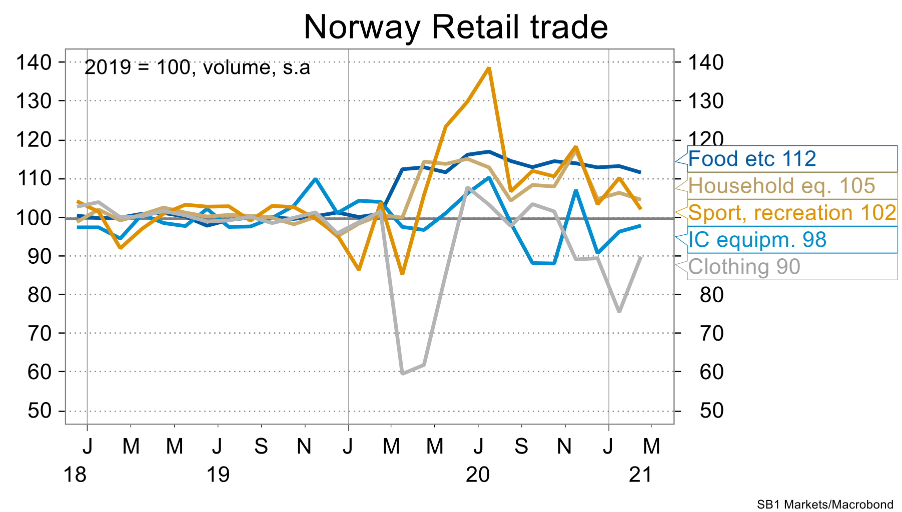


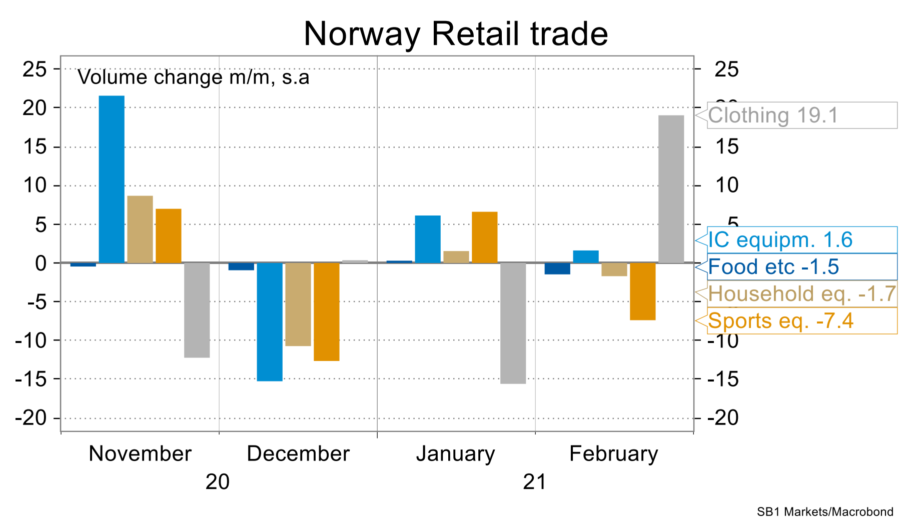
- **The partial lockdown in the greater Oslo region** and other areas with a rise in Covid cases definitely contributed to the fall in retail sales in February, a trend that is likely to continue into March and April as even tighter restrictions were imposed in both Oslo, Viken and some other cities
- **Total consumption of goods** (x electricity) fell by 0.2% in February, as auto sales returned to a more normal level, following an incredible surge in December. In February, auto sales were stable vs. the Jan level
- **Retail sales** are up 7% from the pre-corona level, consumption of goods is up almost 10%. Demand for goods will very likely return to a 'natural' trend path when households one day are allowed (and dare) to start spending more on 'locked down' services, and to go abroad again
- **We still expect sales** to slow the coming quarters, back the pre-corona trend path – when it becomes possible to spend more on services again
- **Service consumption** is of course far below a pre-corona level, no data included in these retail sales data

Clothing up 19% m/m, after -16% in Jan, still down 10% vs pre corona

…while the sale of vehicles and gasoline are down 22% since Dec – down to an average level!



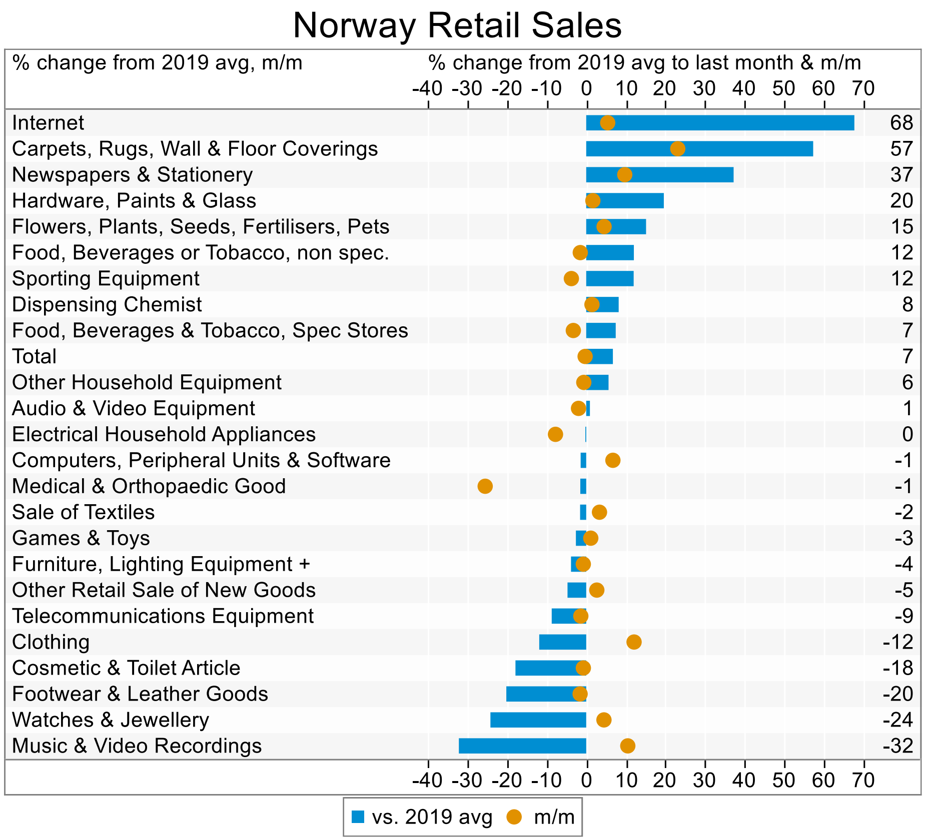




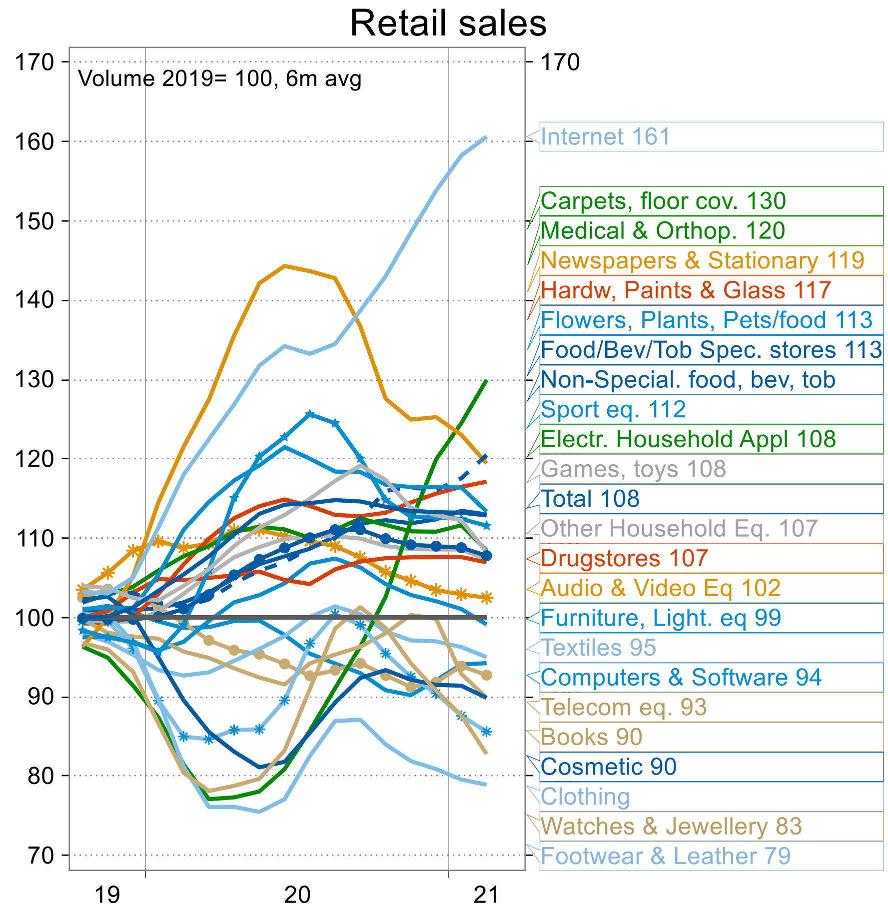
- Sales of sport equipment, household equipment, and food sales were all down in Feb, while information and communication technologies were up for the 2nd month in a row.
- Food sales were down 1.5% m/m but still up 11% vs. pre corona, as many restaurants, cantinas are closed, and no x-border trade in Sweden

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

And: Sales in most sectors are now trending down, mostly from 'too high' levels during the pandemic



SB1 Markets/Macrobond

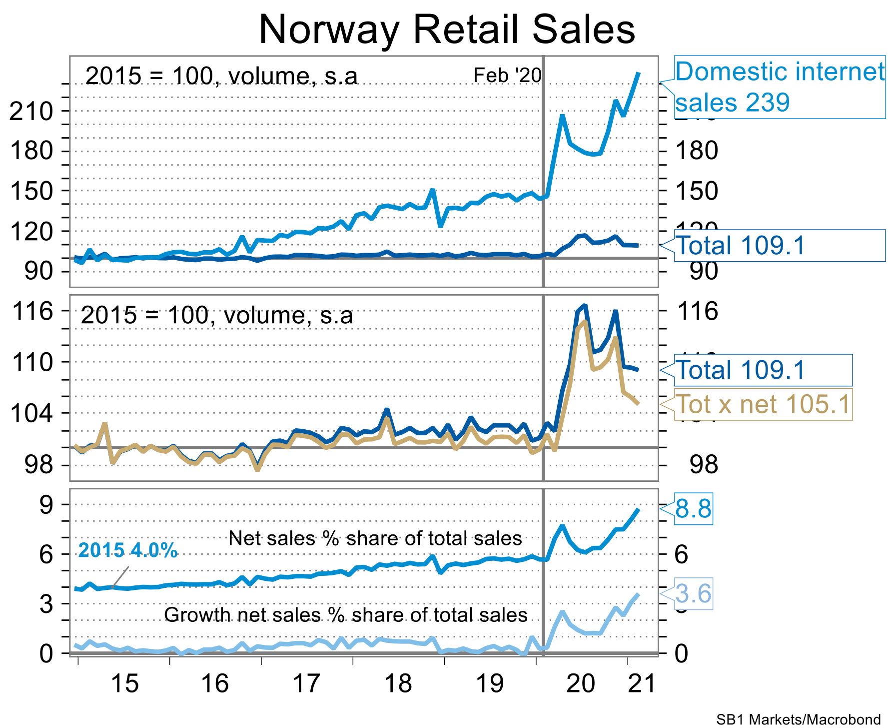


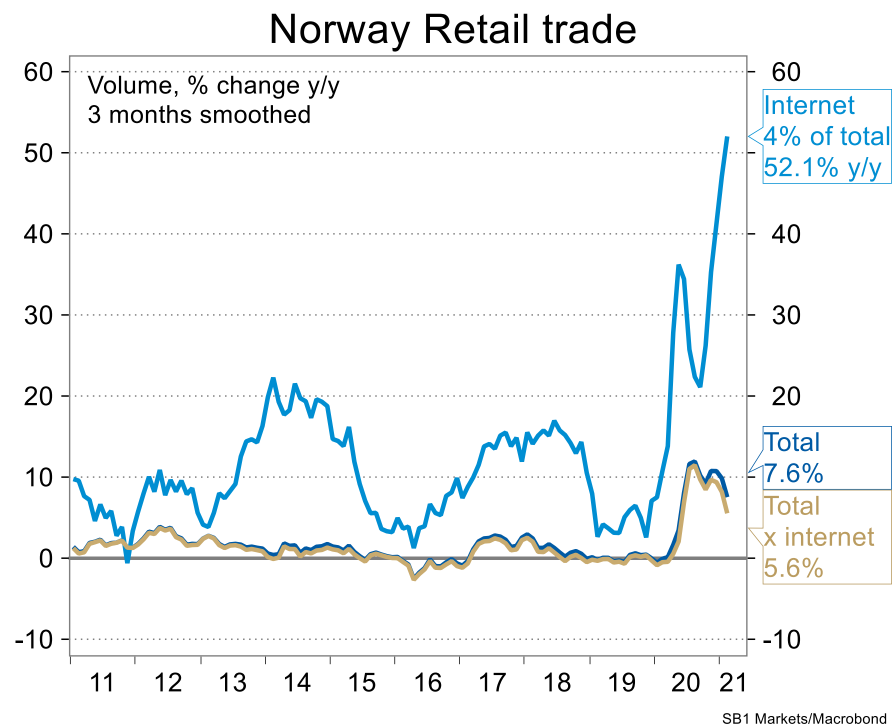
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Internet sales (domestic) up 52% - same trend in many countries

The market share has increased to 9% from 6% - and the trend is indisputable





- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to almost 9 from 4%, of which half the of the lift since last Feb
- Since 2015, domestic internet sales have contributed to 60% of the increase in total sales
- ICT equipment, cosmetics/drugs, clothing, food and sport equipment are the 5 largest product categories sold from net outlets

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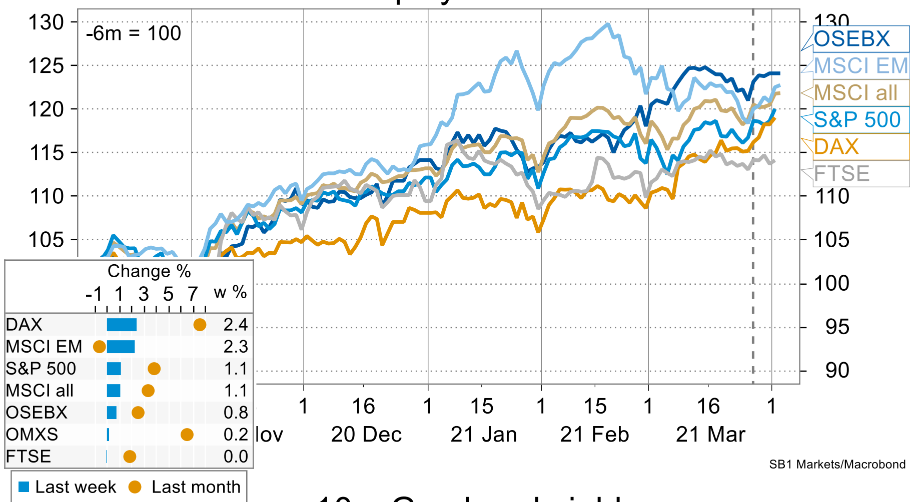
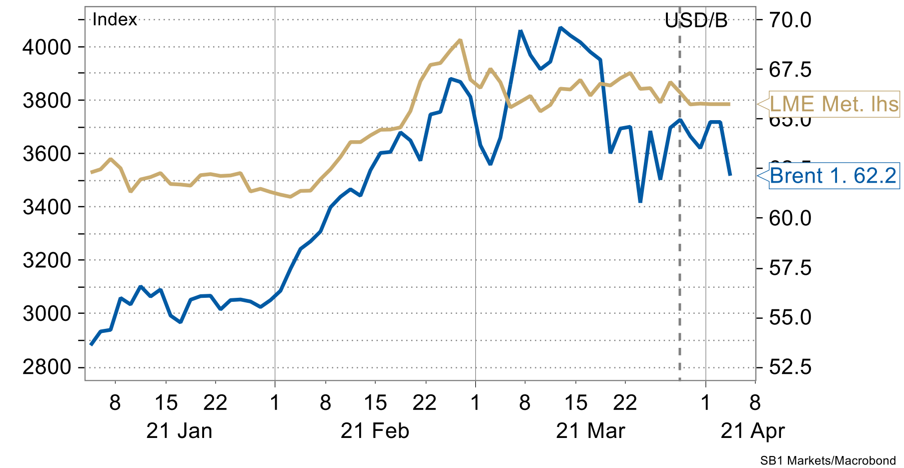
Equities in the green and bond yields up across the board

Metals still stable, oil up. NOK stronger

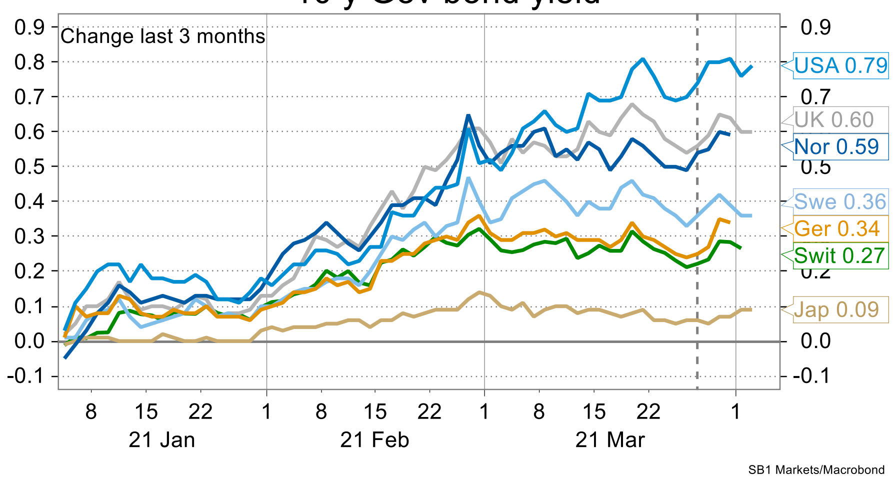
Equity Indices



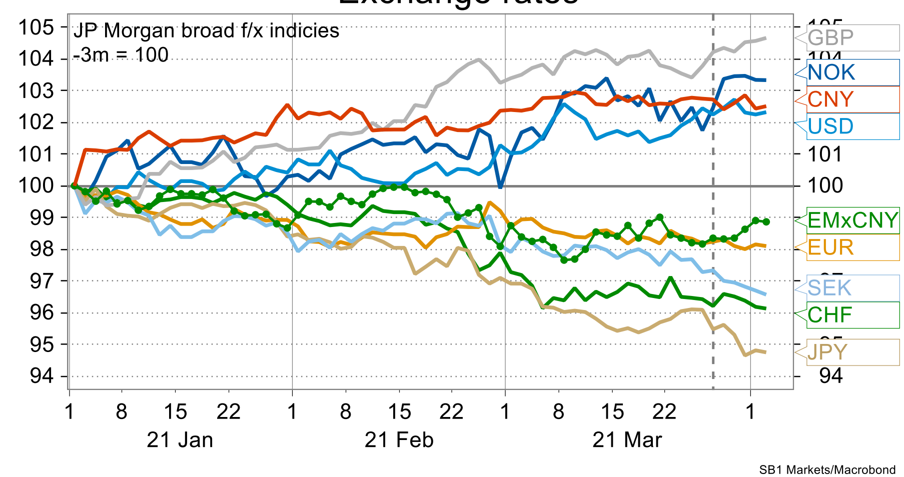
Oil vs. metals



10 y Gov bond yield



Exchange rates



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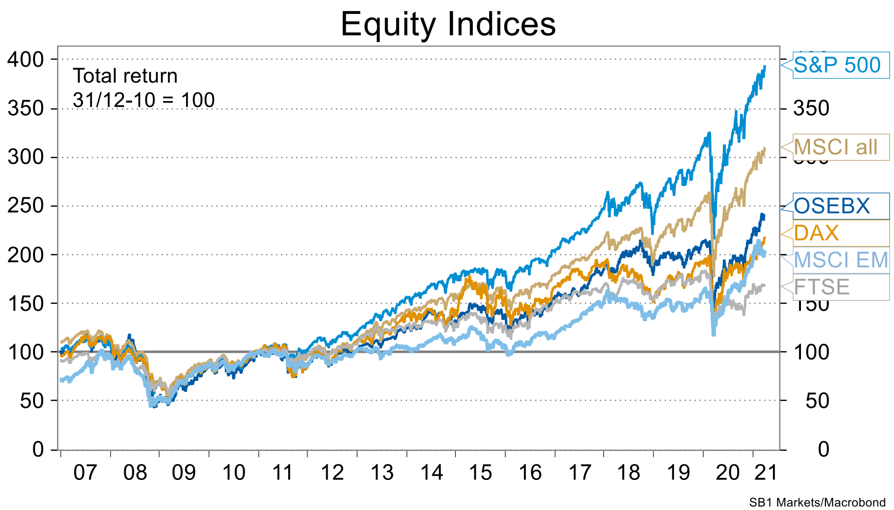
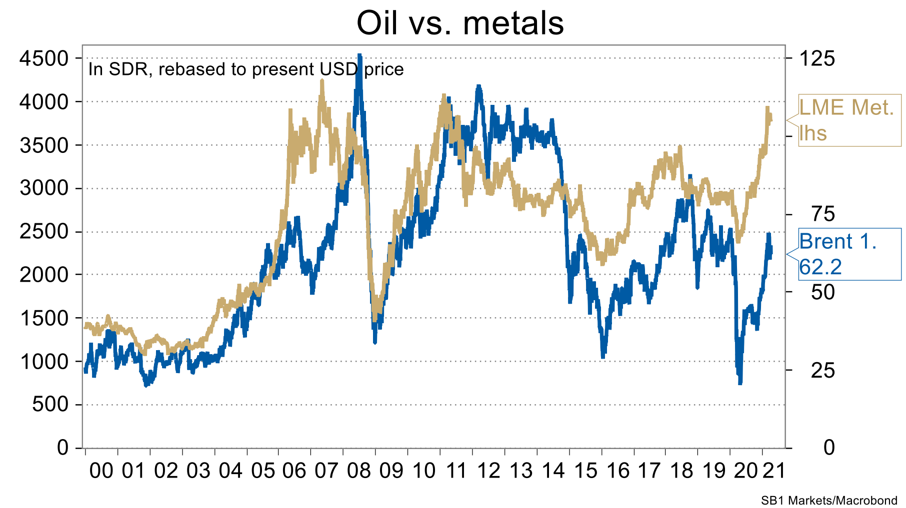
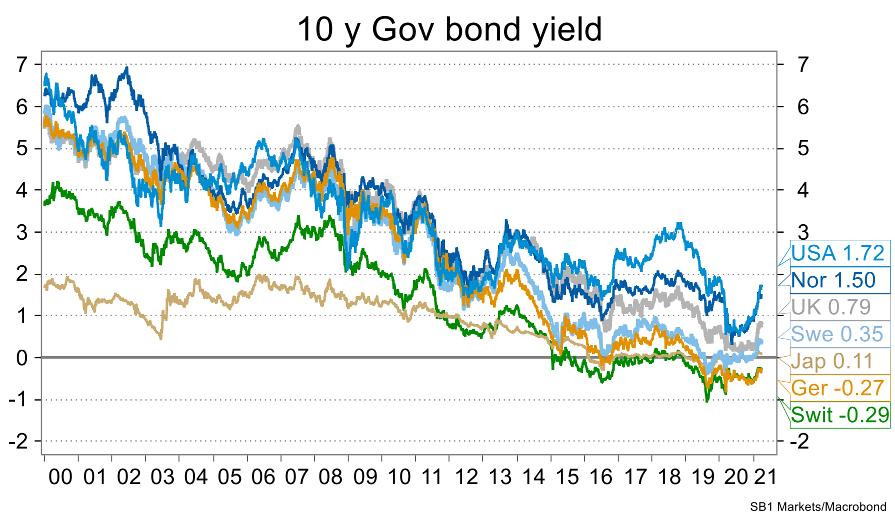
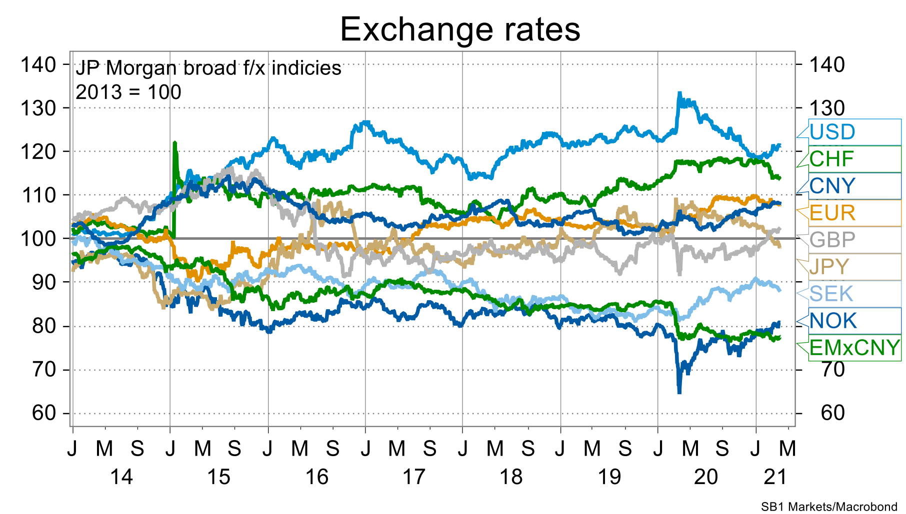
Positive growth expectations: the trend for longer yields and commodities is up

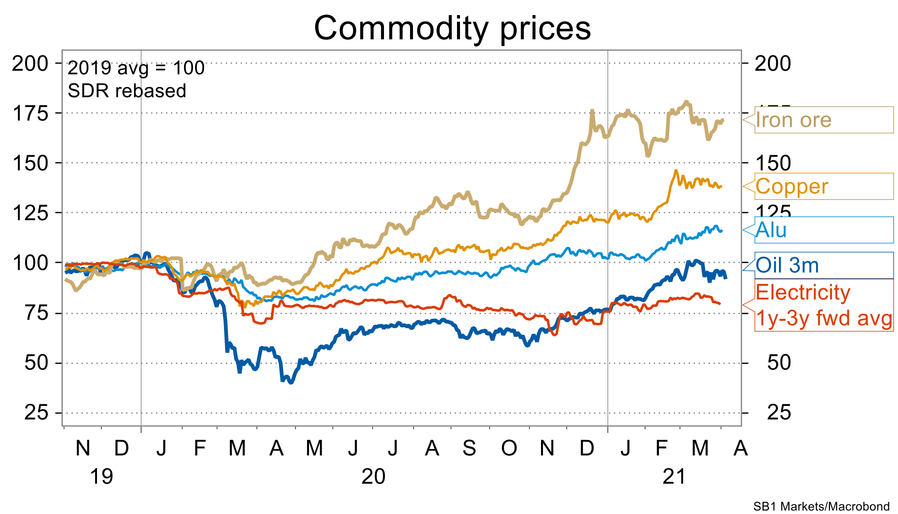


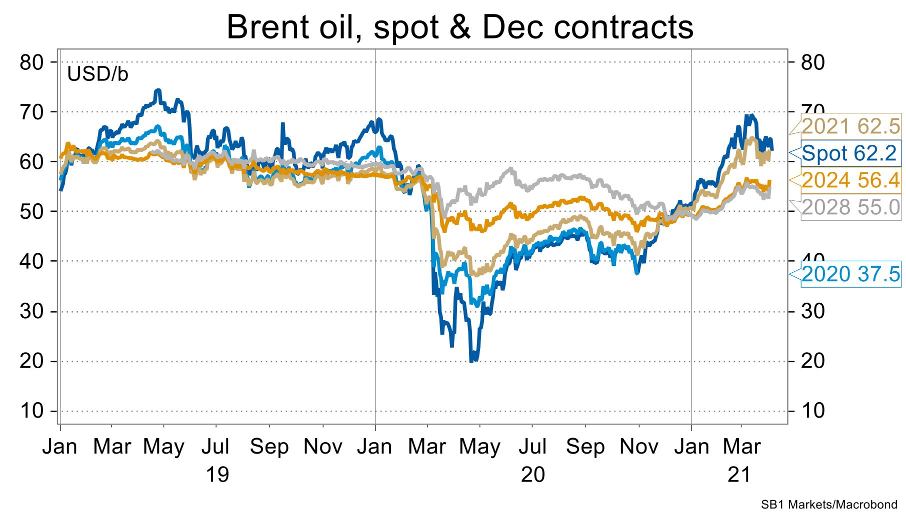


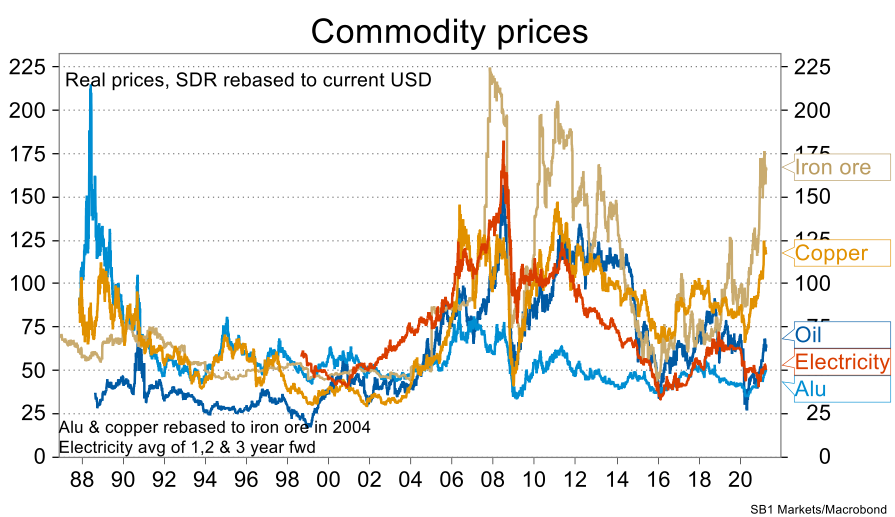


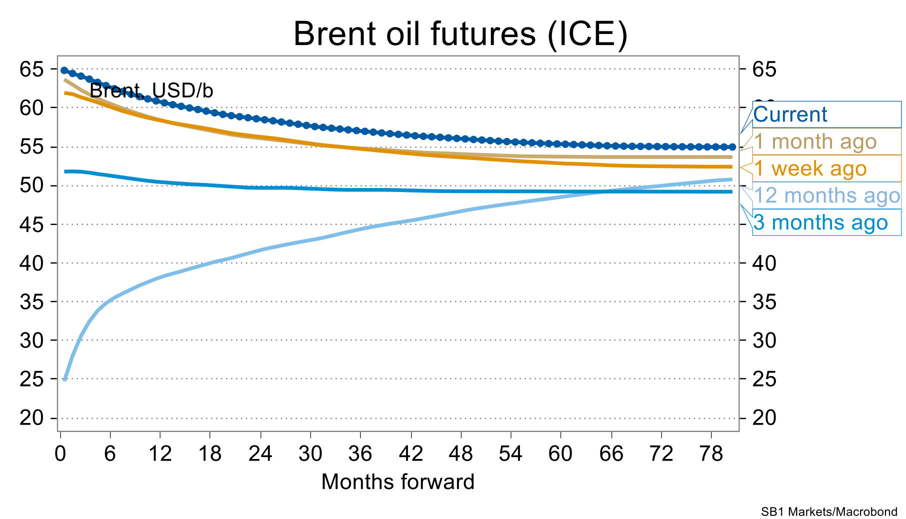


Commodity prices have stabilised – iron ore up last week – oil down





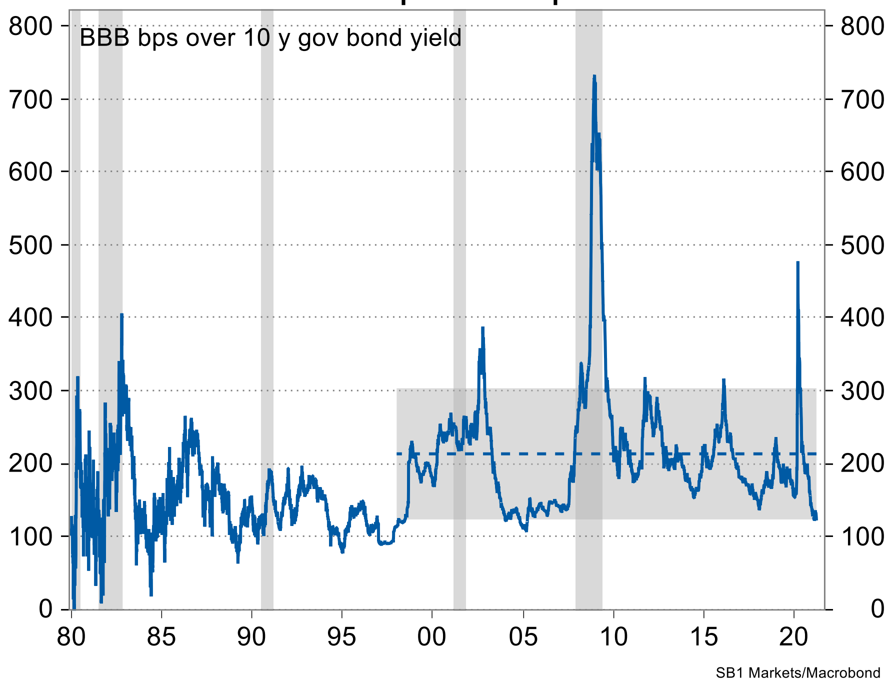


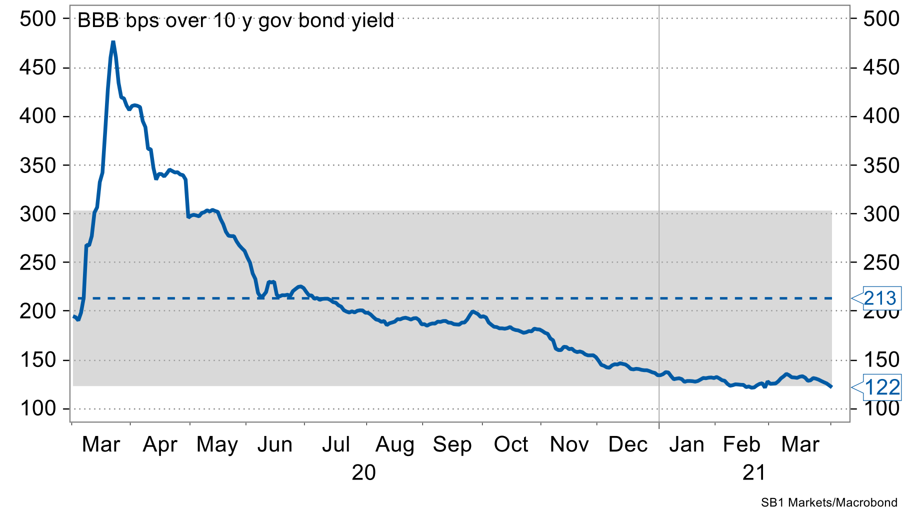


European and U.S. credit spreads (BBB) tighter

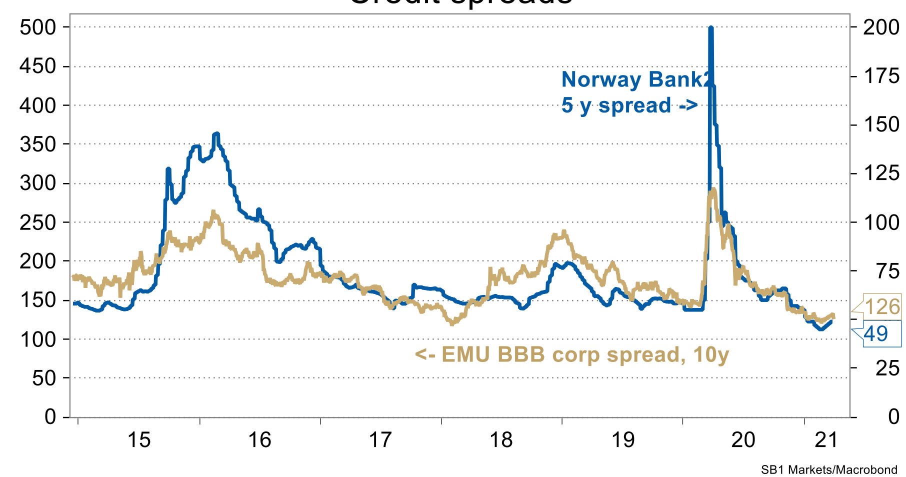
Norwegian spreads flat

USA Corporate spread

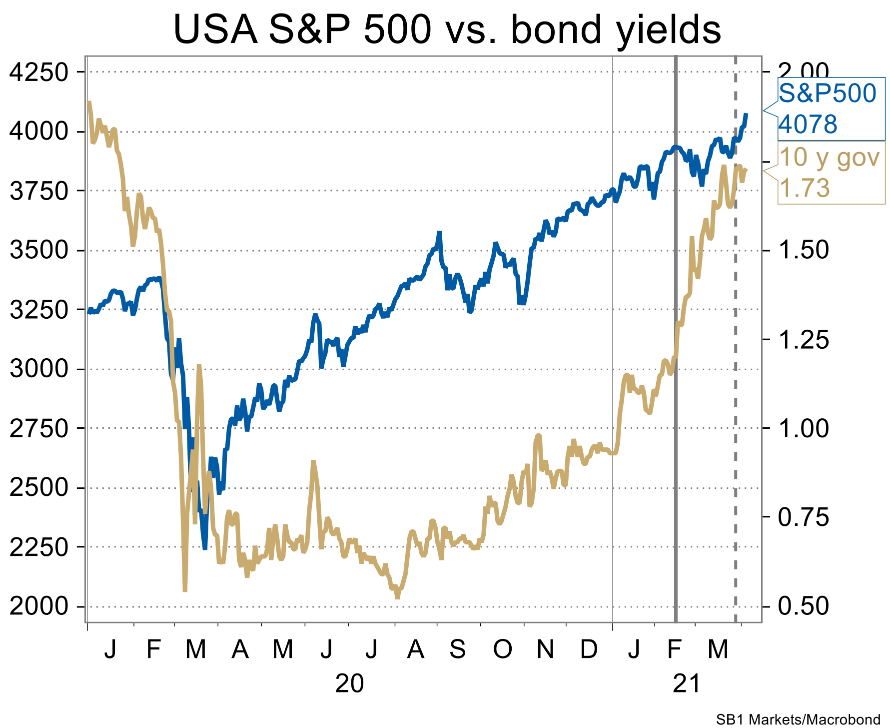


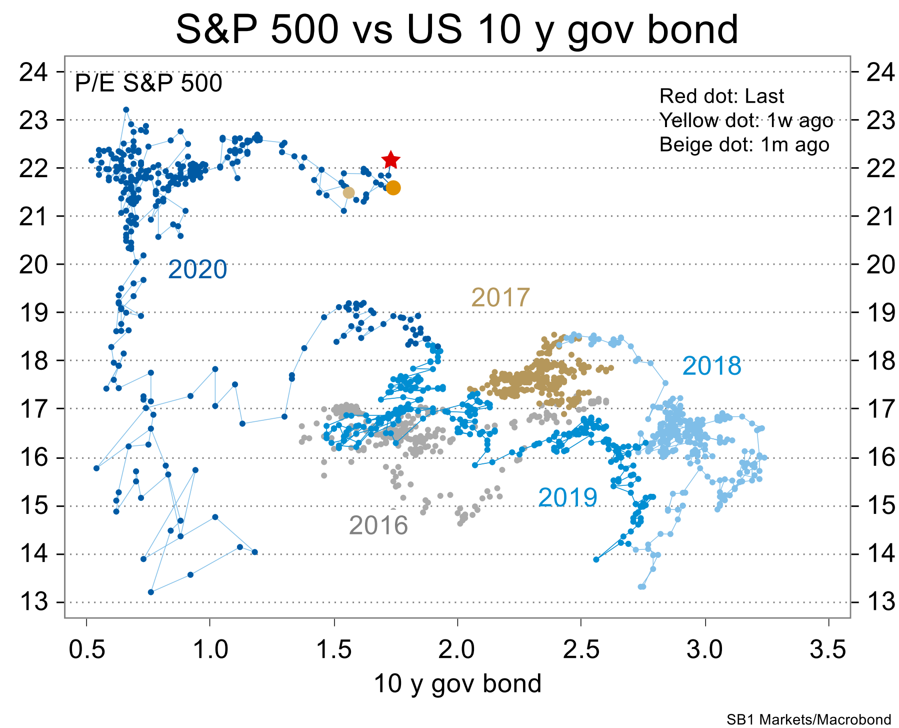


Credit spreads



10 y yields unch at 1.73%, S&P up 1.1%

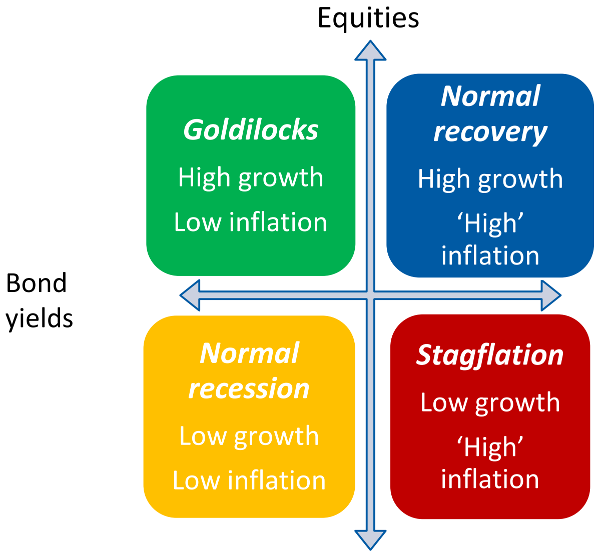


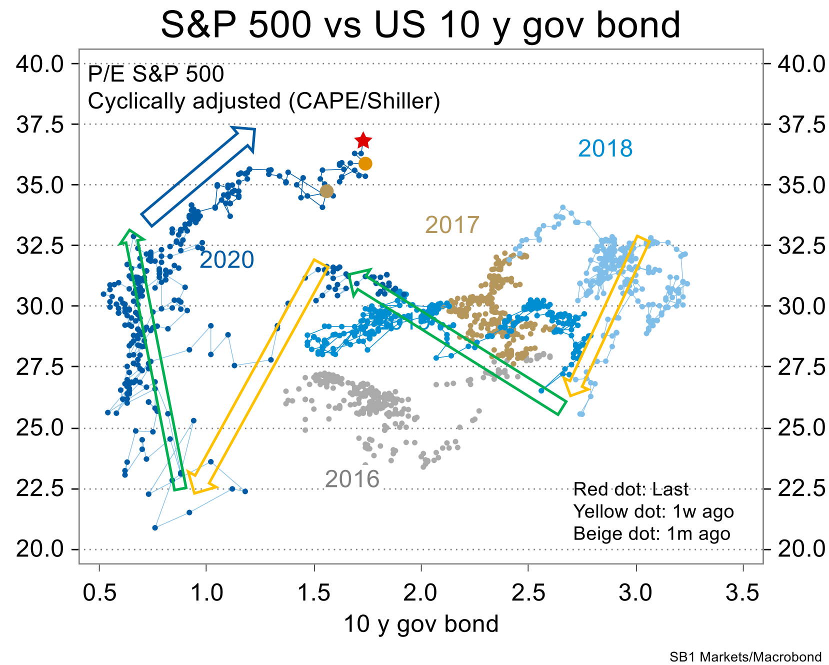


- Since the **through in yields** in early August, 130 bps ago (10 y gov), the stock market has climbed 22%. Higher bond yields are normally not a disaster for stocks. In fact, over the past 20+ year the correlation between bond and equity return have been quite consistent, <u>the stock market has gained when yields rose and vice versa, because changes in growth expectations were dominant for both markets, not fears of too high inflation</u>
- 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. **The main risk now: inflation turns upwards.** ***More on the next page***

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

The stock market is still tolerating a steady increase in bond yields



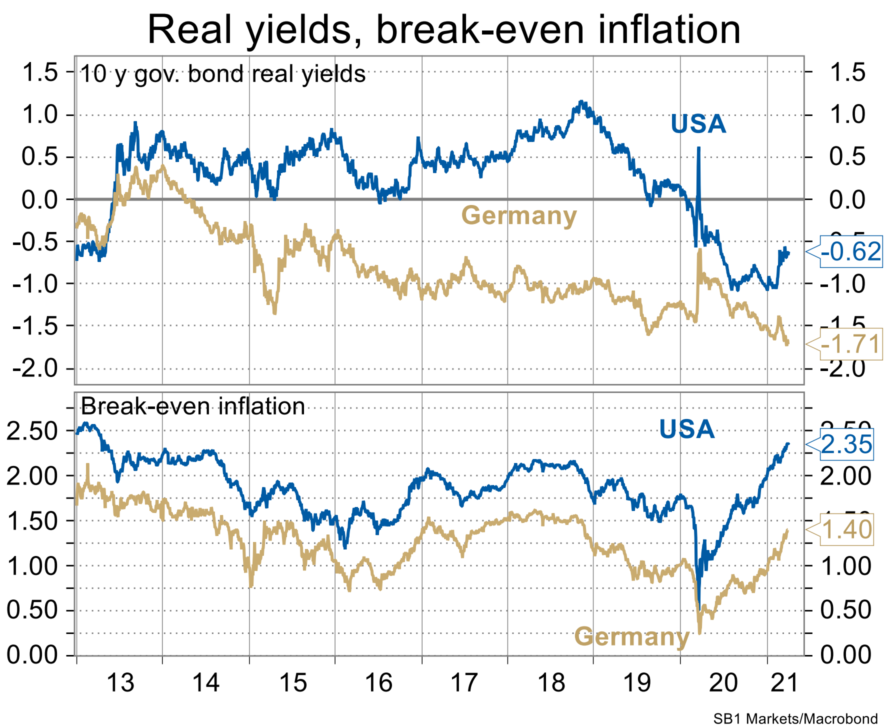


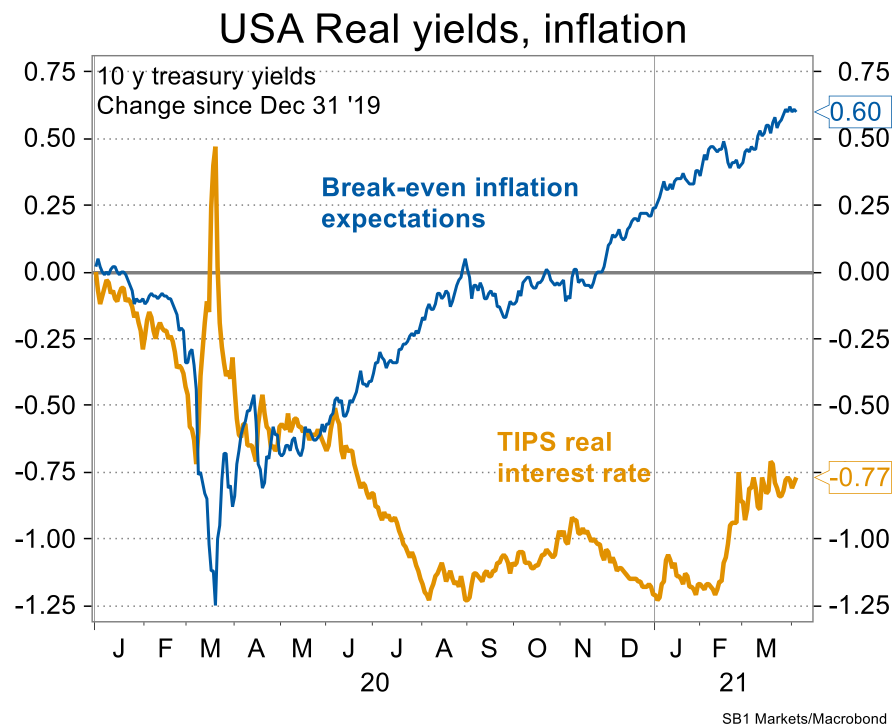
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets

- **The FOMC/Powell** has reiterated that the bank will not hike its signal rate before the economy has recovered, unemployment is brought down, and inflation has increased to above 2% and is expected to remain above 2% for a while – and that the bank plans to keep the Fed funds rate at zero at least until 2024. A modest increase in bond yields in a such positive growth environment without the Fed hiking could be associated with a move towards the recovery corner, which is positive for stock markets too… if the starting point were in the normal recession (yellow) corned, low yields & cheap equities
- However, since H2 2018 bond yields have fallen, and the equity market has climbed – and markets moved well into the 'green corner', as growth expectations have not fallen together with lower yields, as has 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). The Fed had to revise its growth forecast sharply. The equity market has for a long time discounted a rapid recovery – without having to take into account the normalisation of bond yields, 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 for, is unchanged equity market pricing (P/E-wise), but growing earnings will yield moderate returns even as yields increase. The 2nd best 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 1.72% - or even less a -0.55% 10 real TIPS bond yield
- The 3rd alternative, which is not good at all: The stagflation scenario, the red corner. At the least, the probability has increased recent months. And the Fed did not calm these fears last week, by giving some nods to the market. Thus, markets may start to fear central banks are running crazy too. It has happened befo

Real yields up more than inflation expectations

10 y break-even inflation now at 2.35% in the US

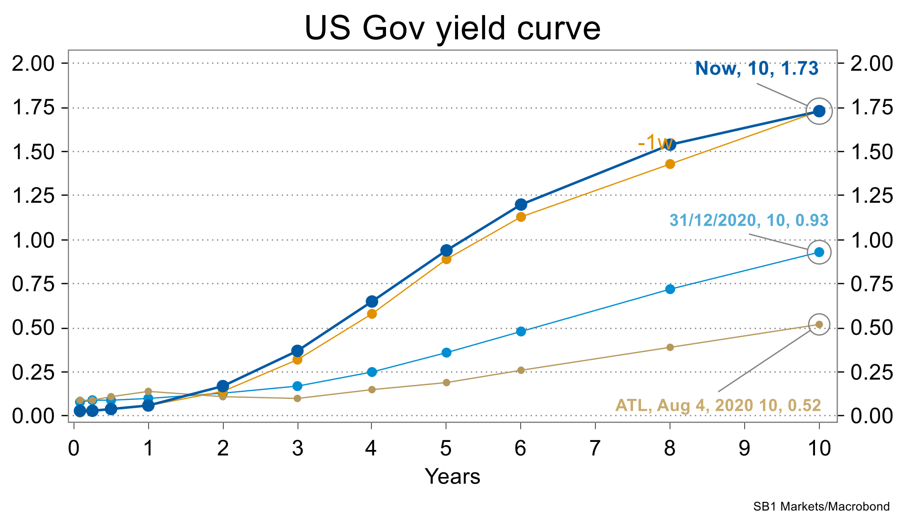


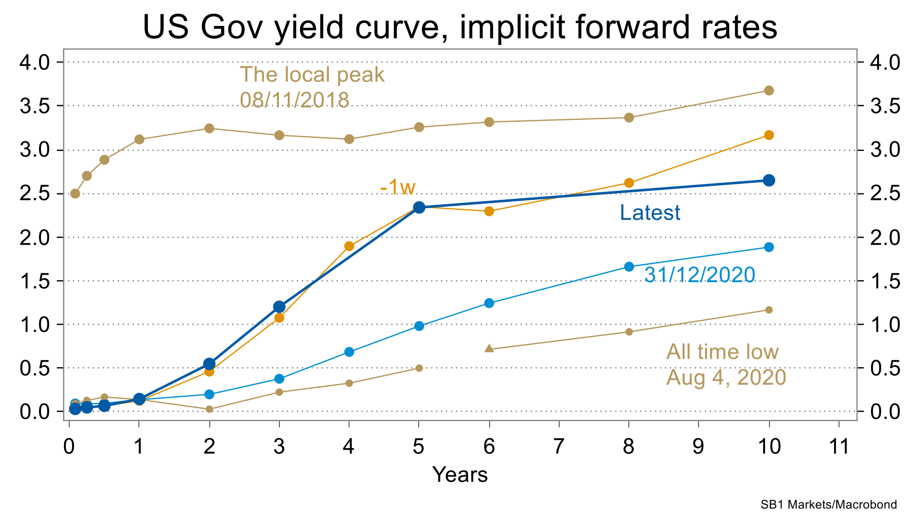


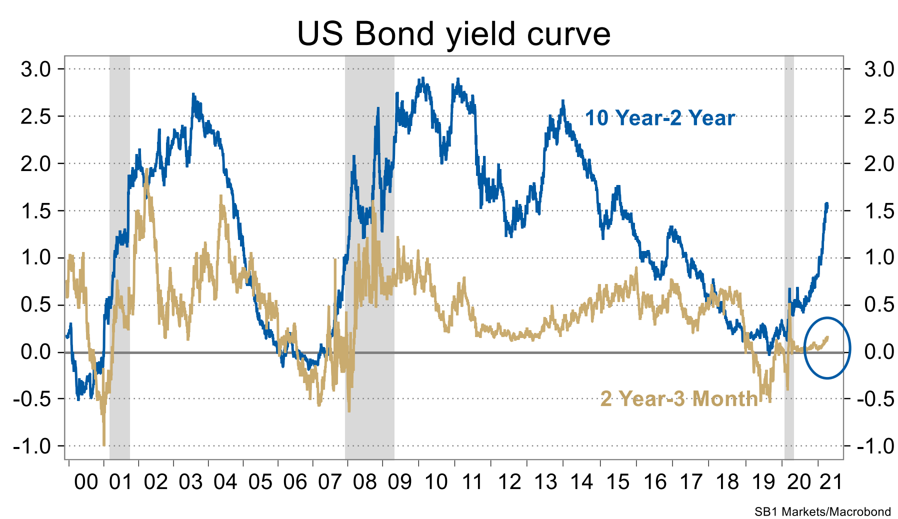
- **US 10 y <u>unch at 1.73%</u>**
  - » Inflation expectations -1 bp to 2.35%, **still close to high since 2013**
  - » The TIPS real rate +1 bps to -0.62 – **<u>up by 46 bps since mid Feb</u>**
- **Germany <u>10y +9 bps -0.27%</u>**
  - » Inflation expectations +8 bp to 1.40%, highest since 2018
  - » Real rate +1 bps -1.71%, from an ATL at -1.72%

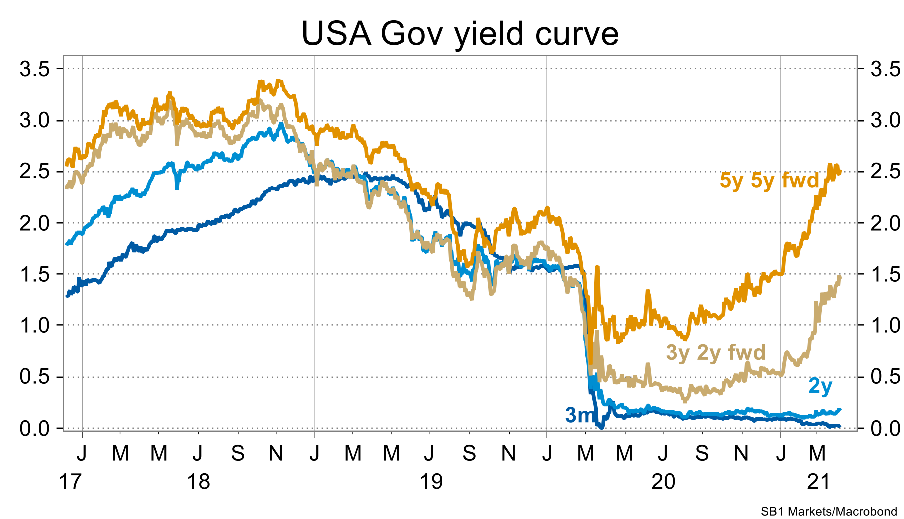
Powell still 'controls' the curve in the short end…

From 2 years onward, the curve is steepening rapidly. The 5y 5y fwd down last week, still 'high'









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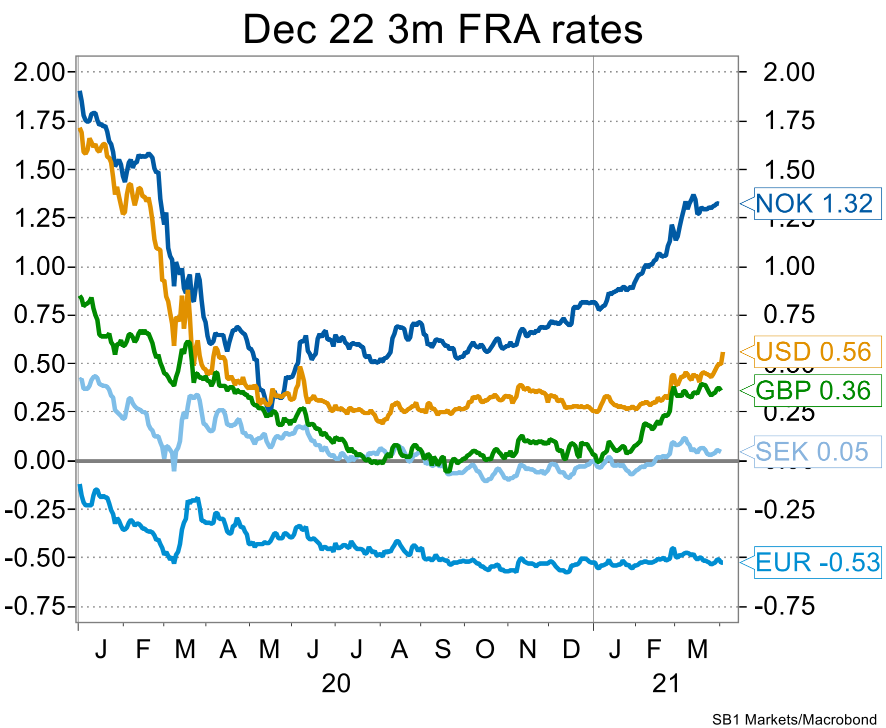
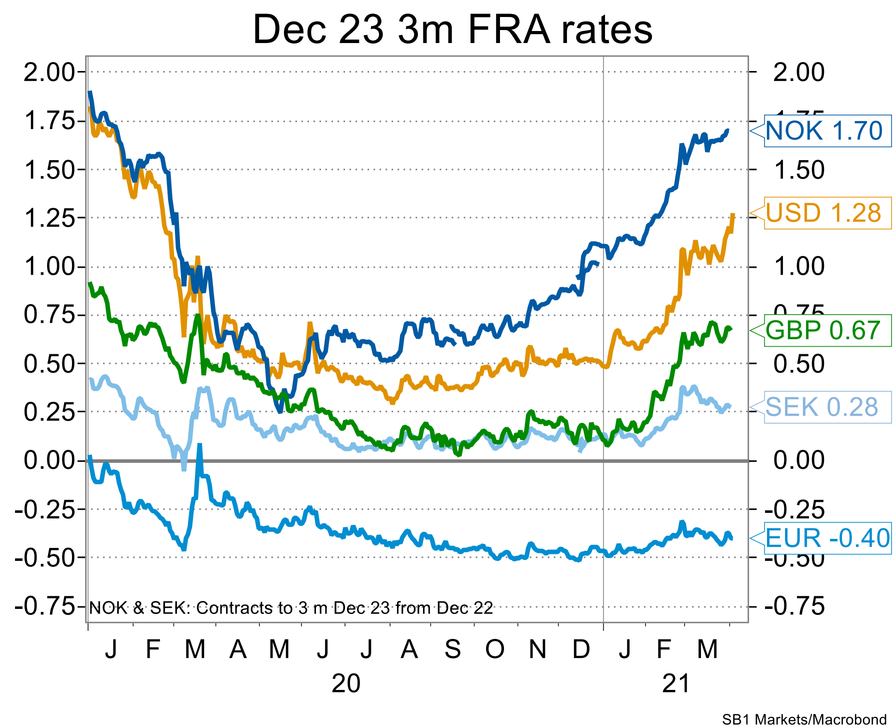
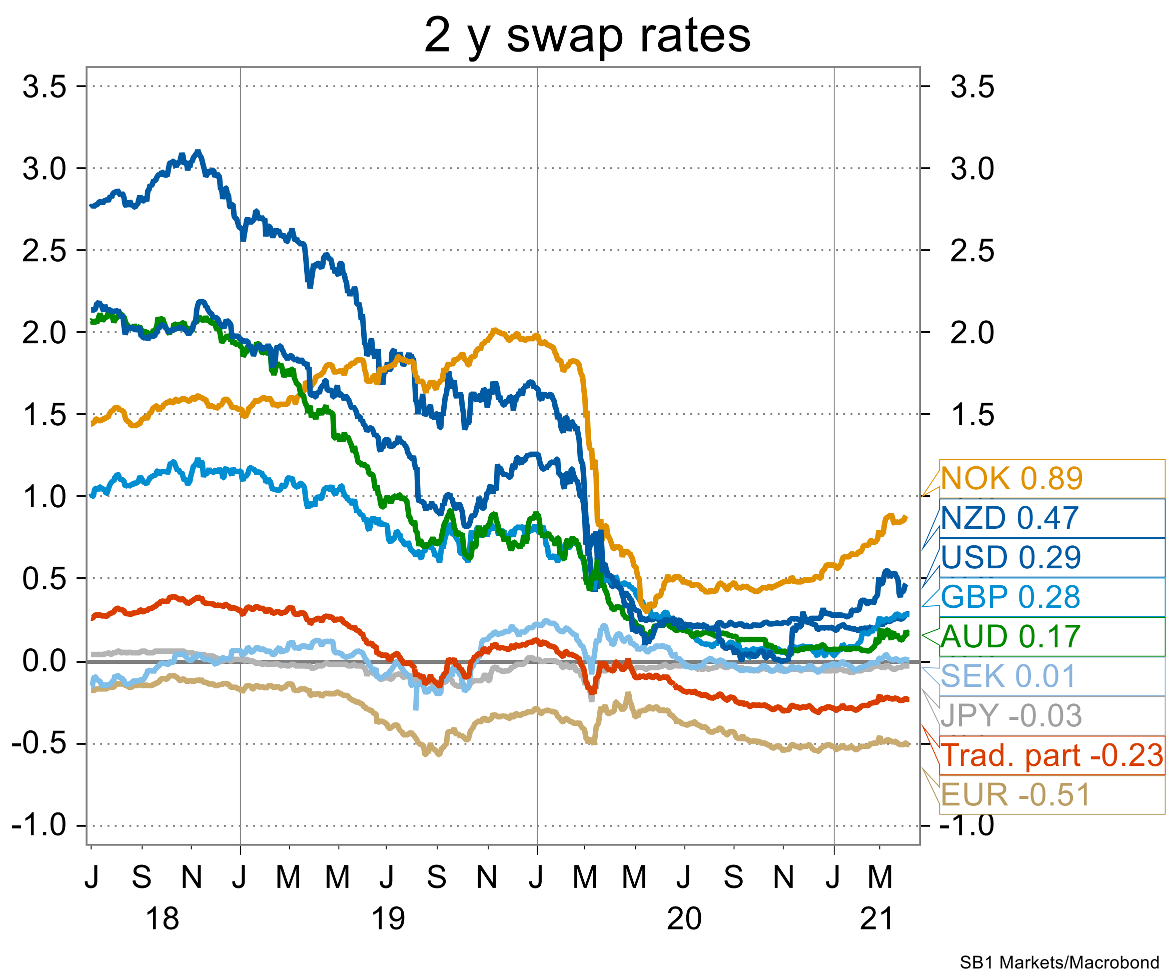
Interest rate expectations: Norway in the lead – but others are following suit

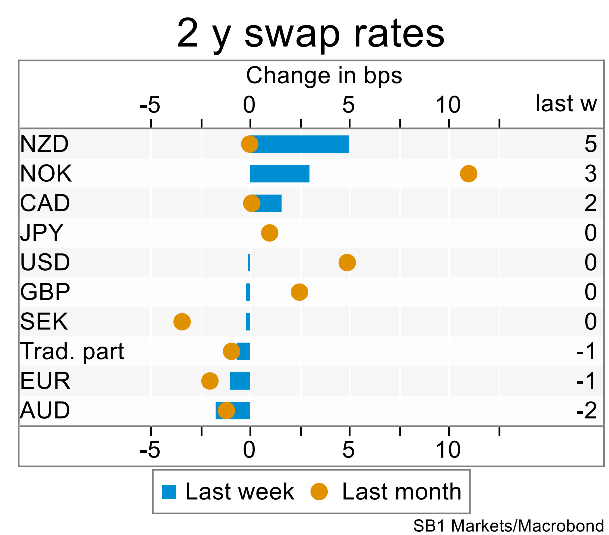




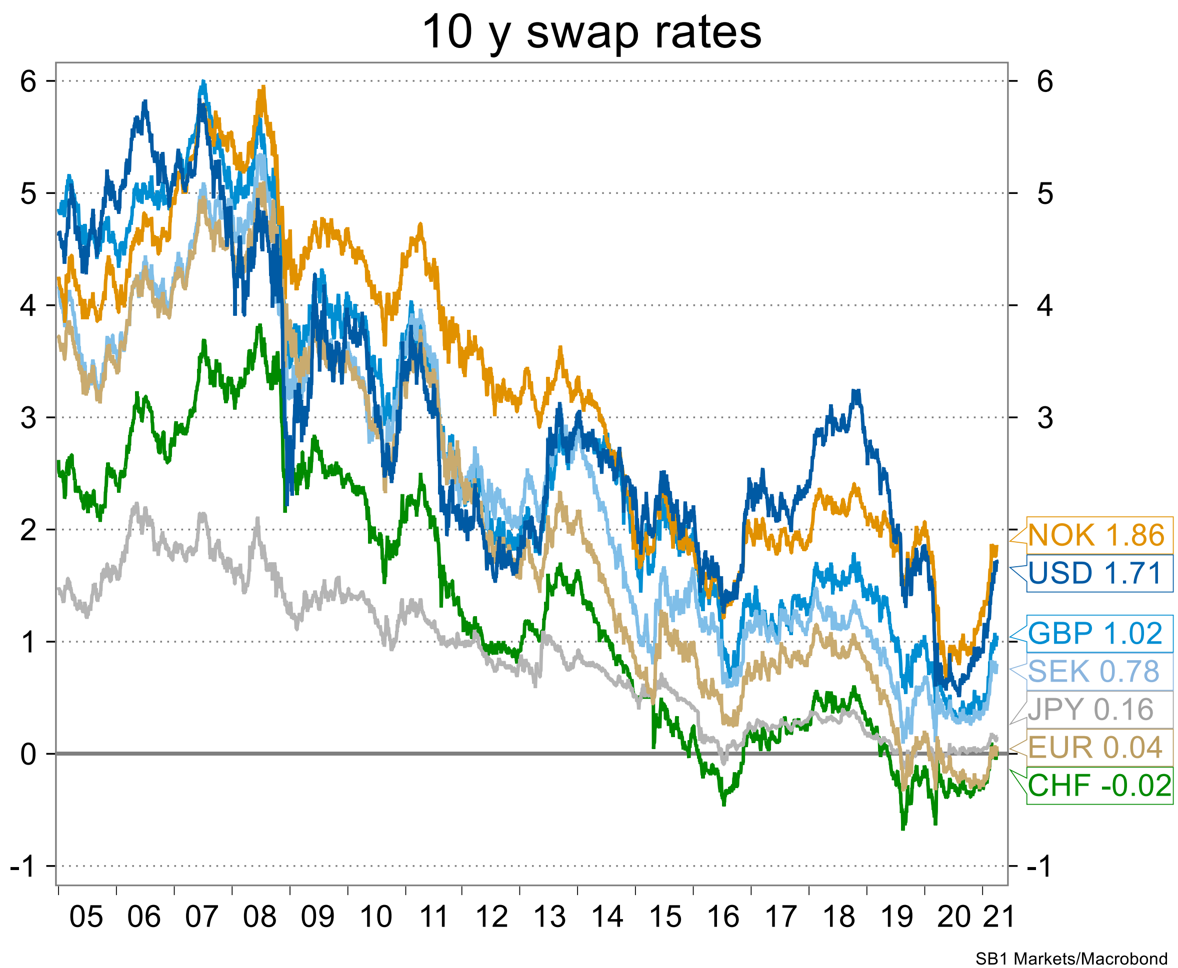
2y swap rates up over the past week

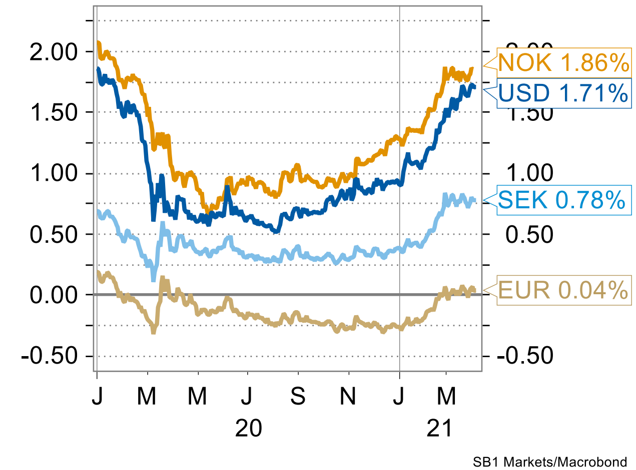
NOK 2y swap up 11 bps over the past month

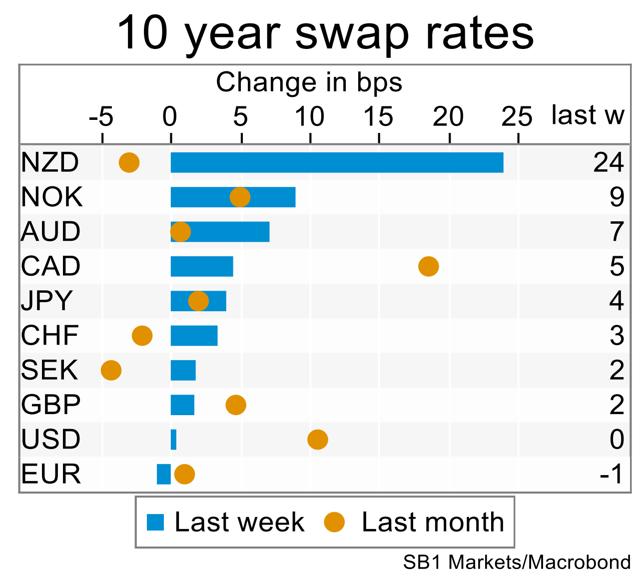




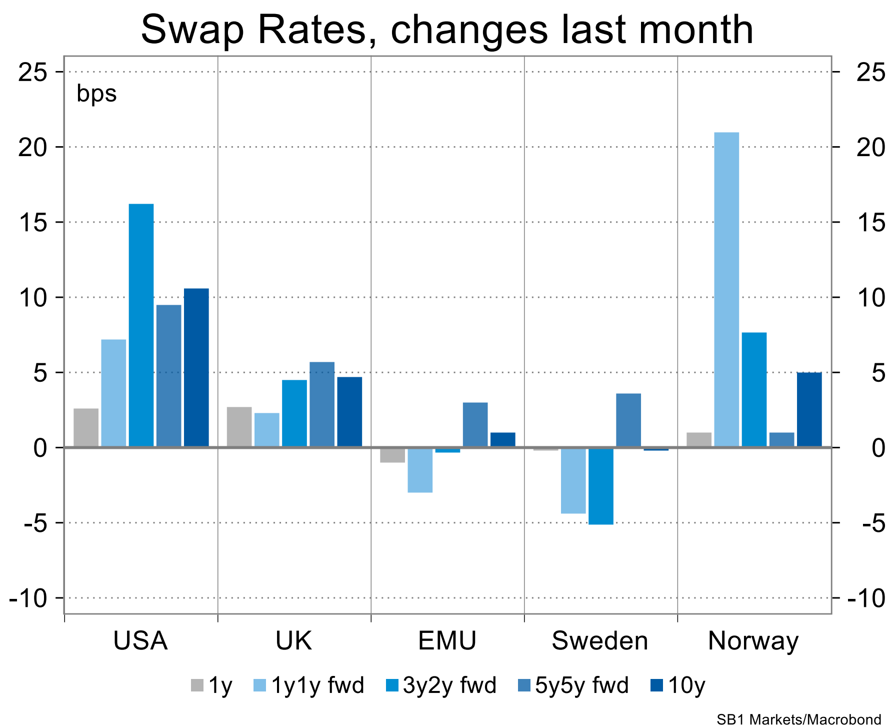
Even the long end inched upwards everywhere

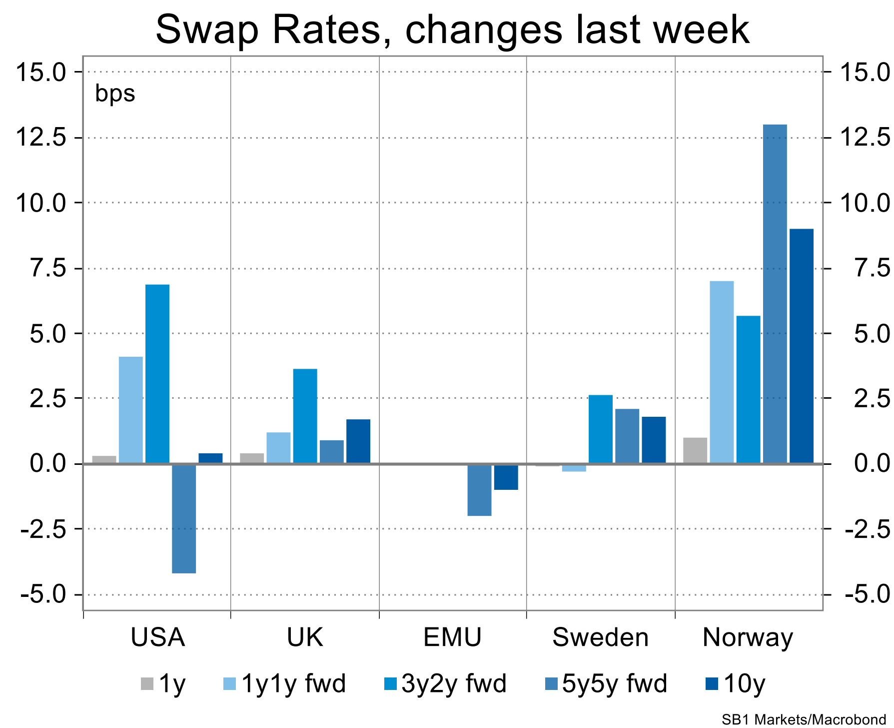






Swap rates: USD in the lead last month; NOK rates in the last week

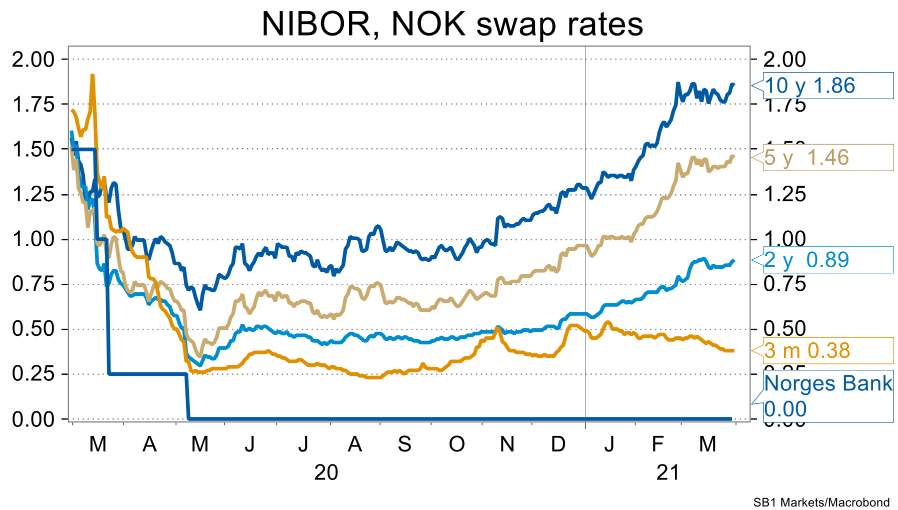


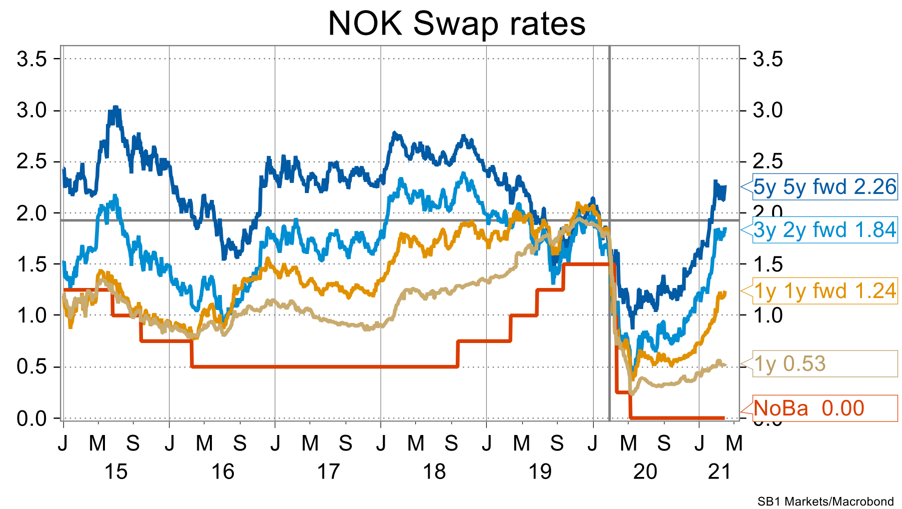


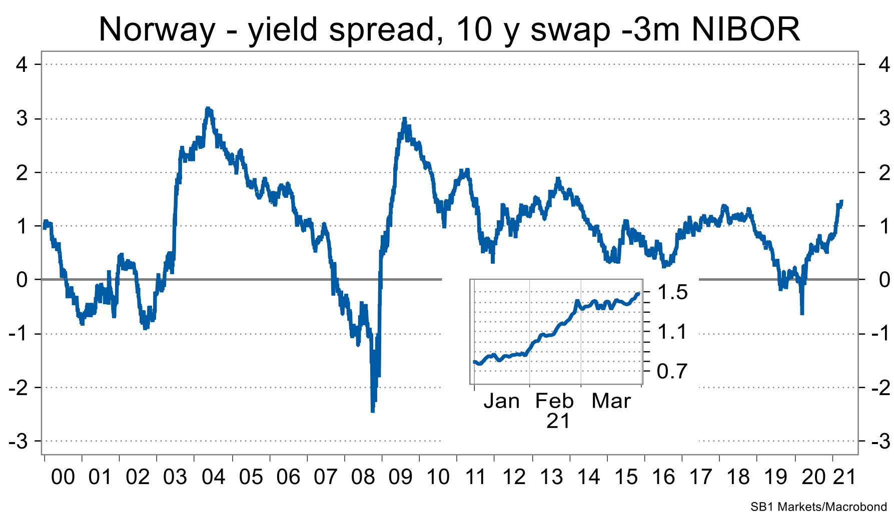
- NOK rates are changes until 31 March, the others until April 5

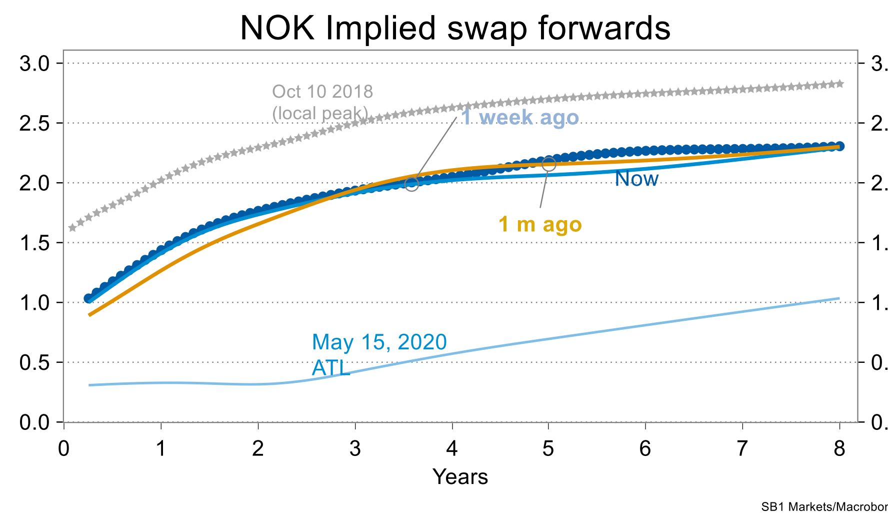
NOK rates up last week (until Wednesday)

NOK 10 y at 1.86%; up 136 bps vs May all time low



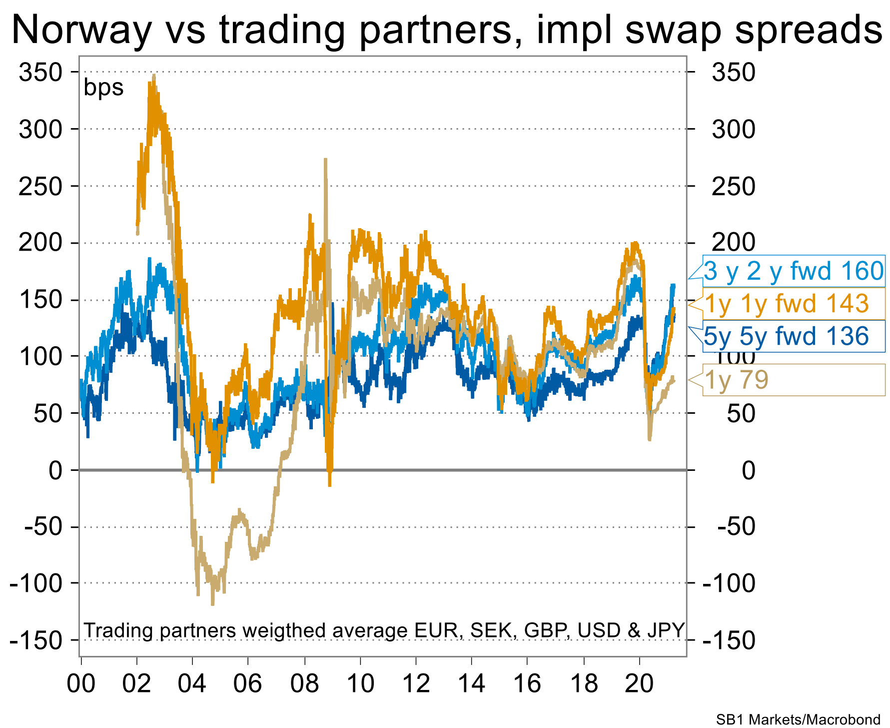


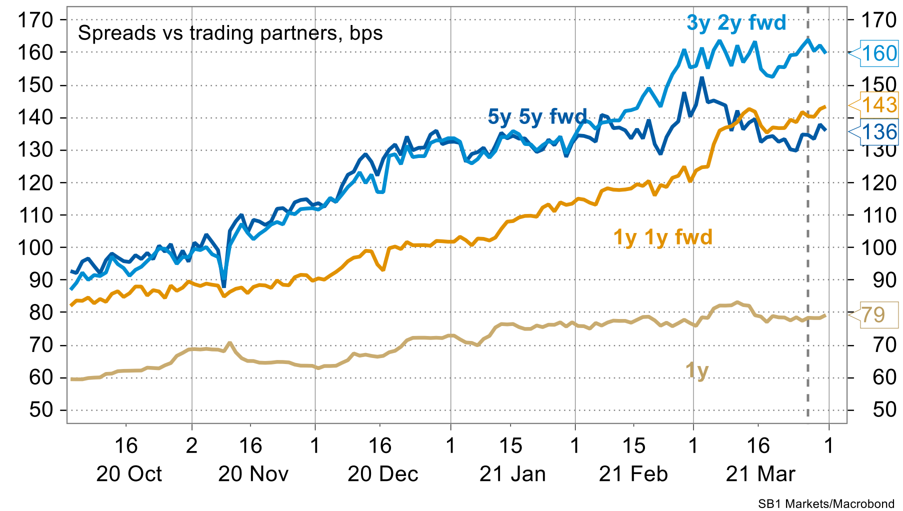


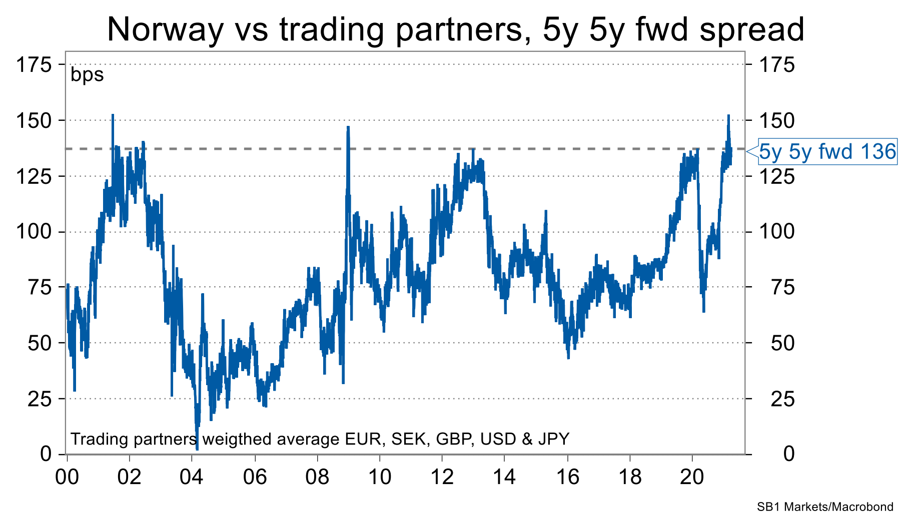


Forward spreads are still on the way up on the short end of the curve

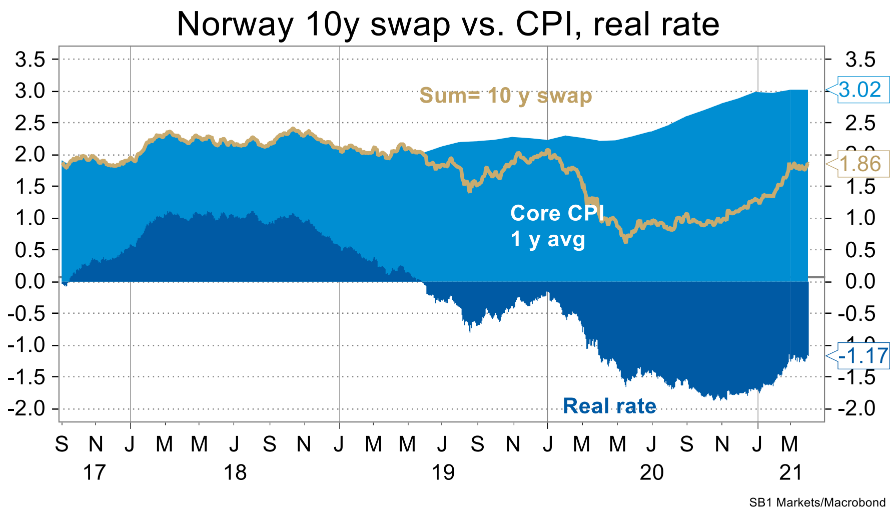
Th 5 y 5y fwd spread at the same level as in late 2020, the 'cap' was hit, at the normal peak level





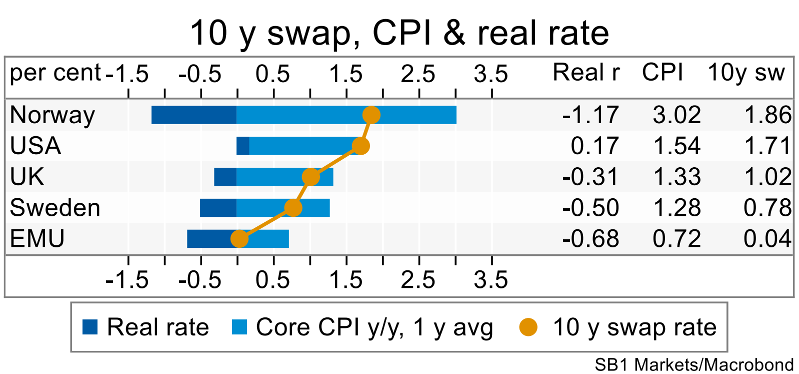


Negative (actual) real interest rates most places – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The **10y NOK swap rate** has climbed by 130 bps since the bottom in May, to 1.86%, after a 5 bps increase last week
- **The real rate**, after deducting 3% average core CPI inflation over the 2 past years equals -1.17%
  - » 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 assume an expected inflation 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 0.17% to -0.68% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.17% is an outlier at the downside, even if the nominal rate is the highest**

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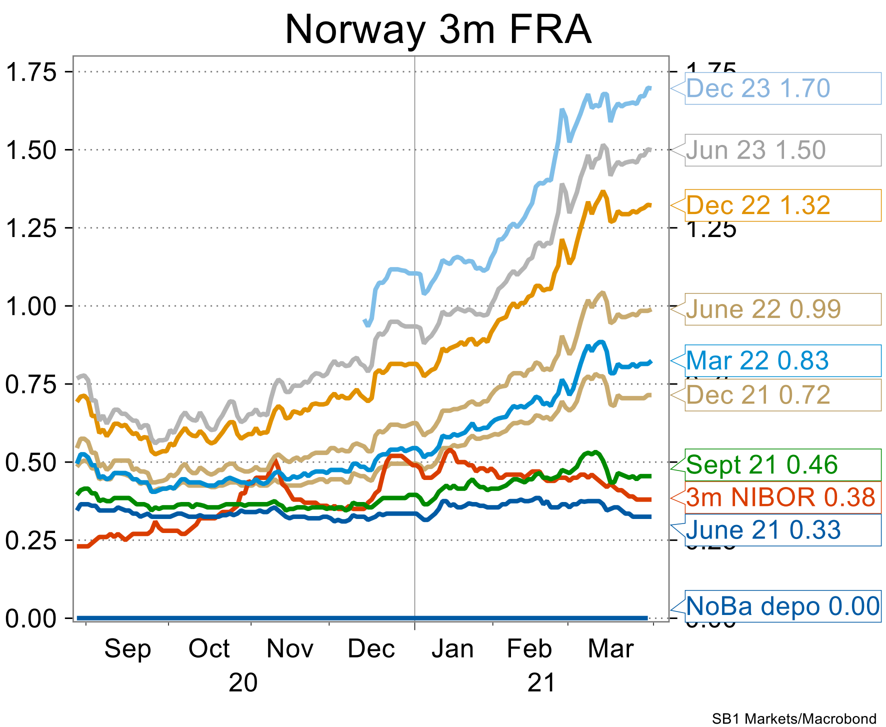
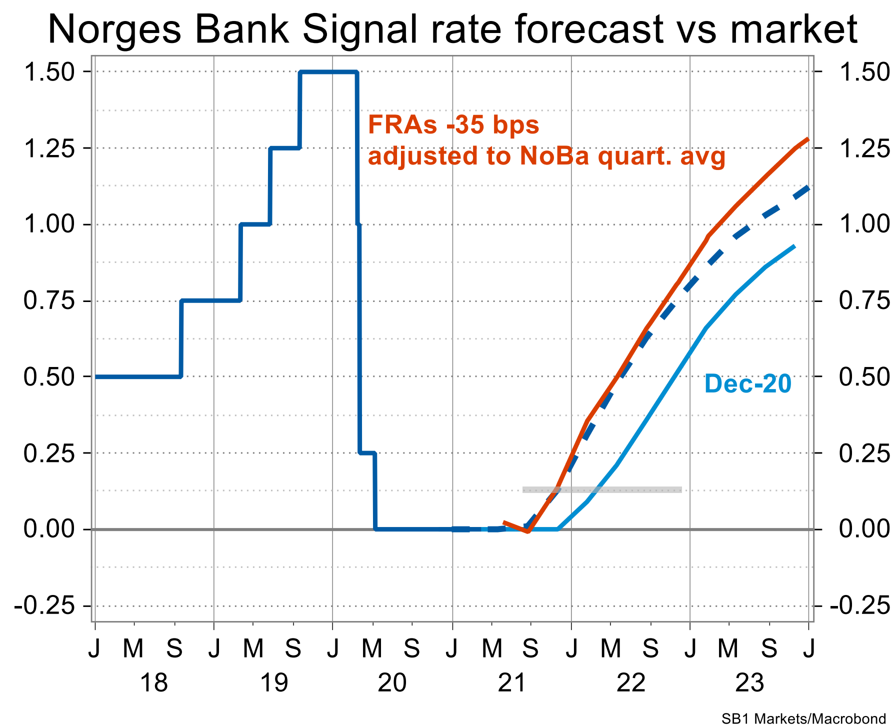
The short end of the FRA curve has stabilised, 50/50 for a Sept hike

Longer dated FRAs still on the way up

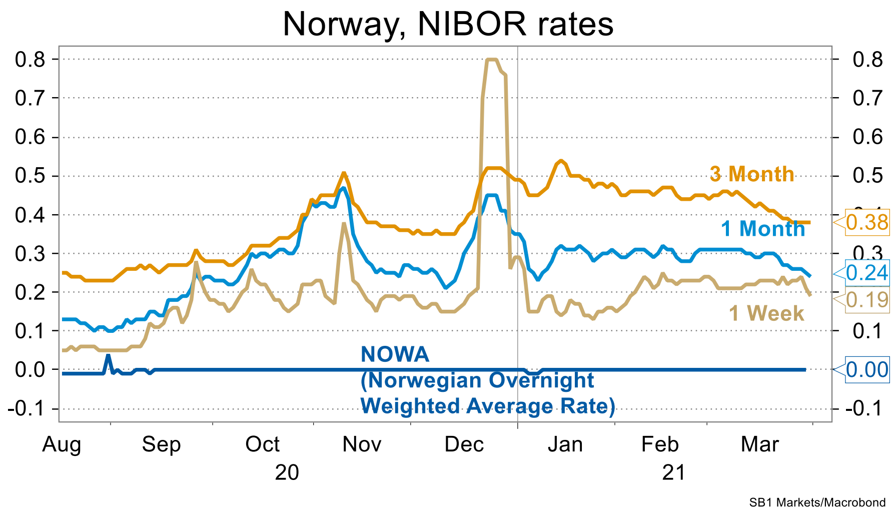


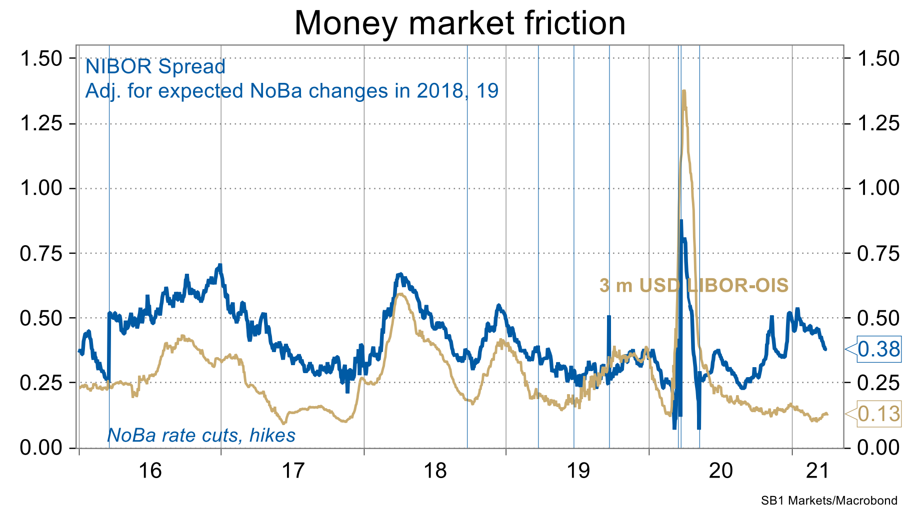


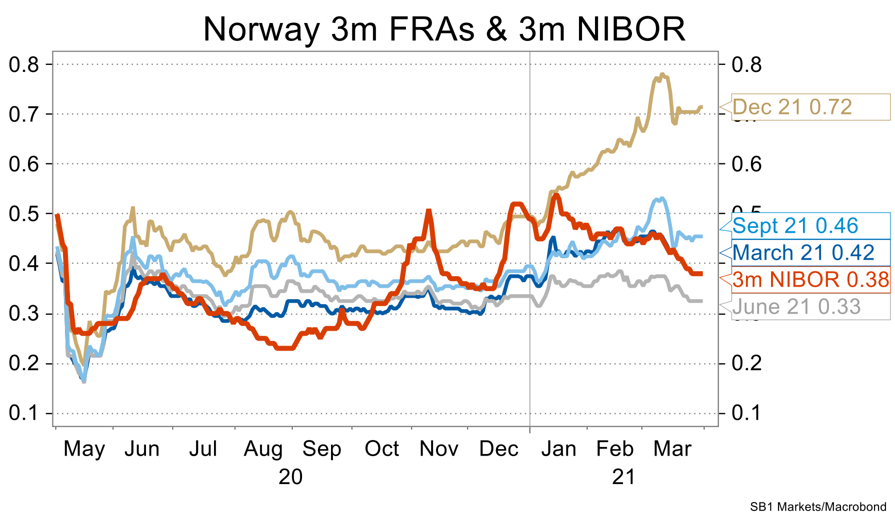
- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 33 bps NIBOR spread, the actual 0.46% Sep FRA-rate equals a 0.13% NoBa deposit rate. <u>If so, a 50% probability for a Sept hike is discounted, just what NoBa signalled in its March interest rate path</u>
- The Dec-21 FRA at 0.72%, and a 33 bps NIBOR spread, yields a 0.39% NoBa rate. However, the Dec FRA is normally some 5 – 8 bps 'too high' due to year liquidity adjustments at banks. We deduct this extra liquidity premium, and assumes market's 'real' NoBa expectation at 0.32%. That implies <u>a 30% probability for a 2nd hike in H2, marginally above to NoBa's path. A second hike in March-22 (if not in Dec) is almost fully discounted</u>

The 3 m NIBOR rate flat at 0.38%

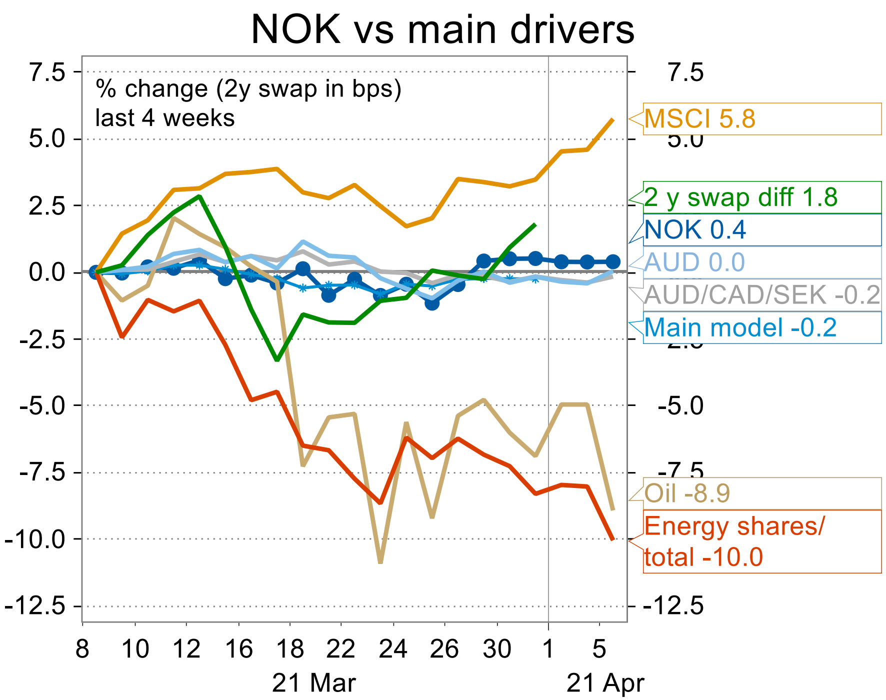
The June FRA signals a decline to 0.33% (also flat last week)







NOK flat through the Easter week



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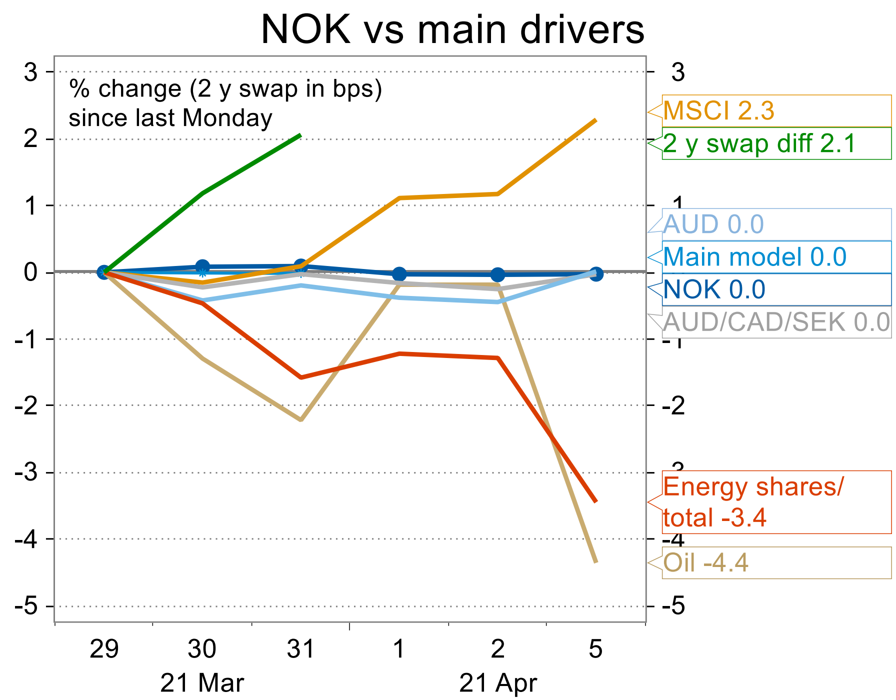

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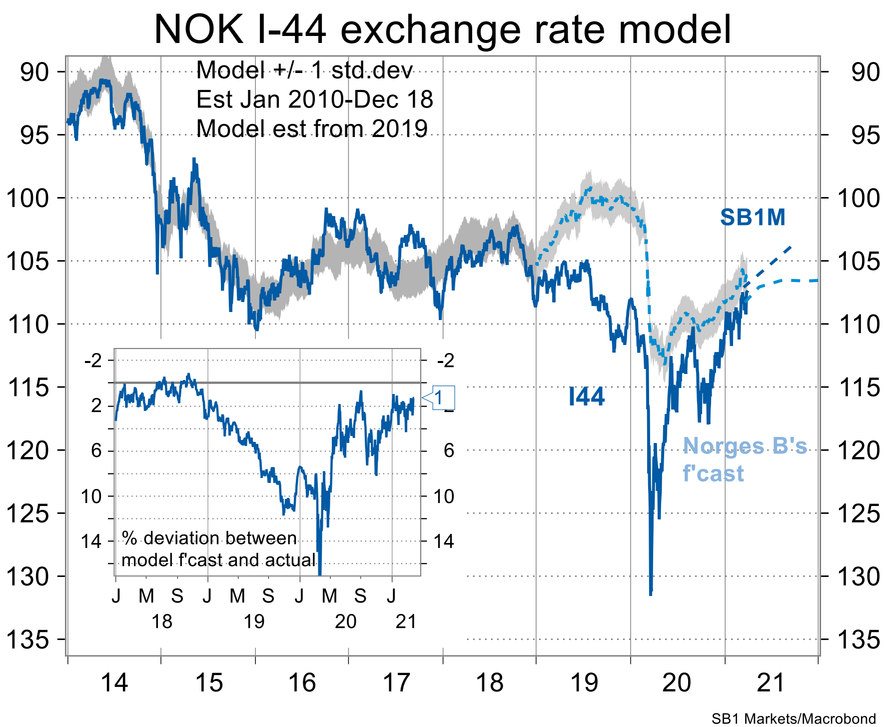
In sum, the NOK is still a buy:

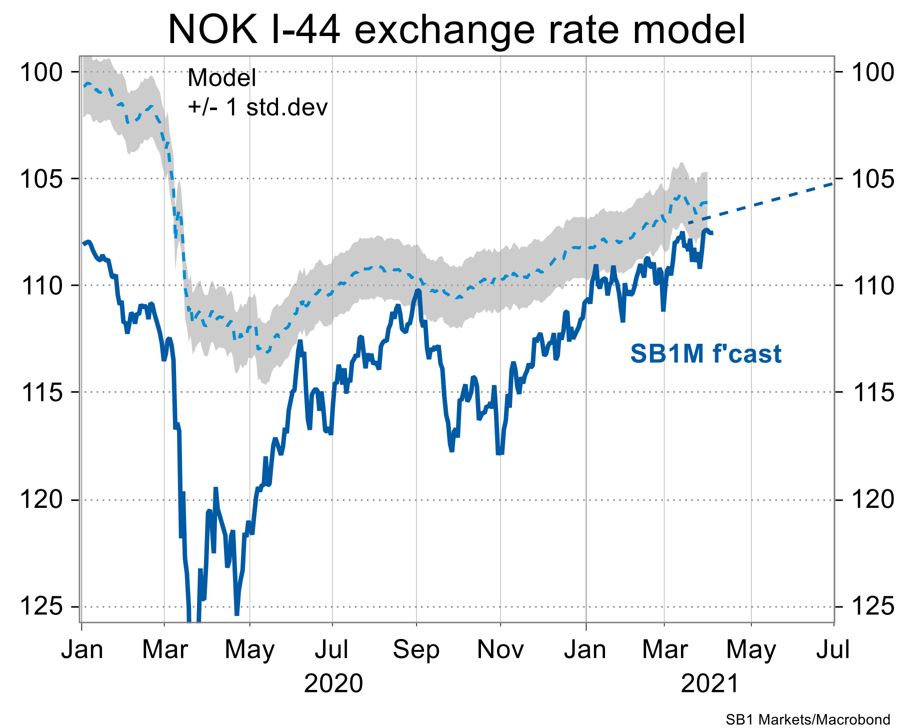
- The NOK is 1% <u>weaker</u> than suggested by our standard model
- The NOK is 3% '<u>weaker</u>' than the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 6% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts
- On the other hand, the NOK is far (11.6%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market)

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

NOK I44 flat last week

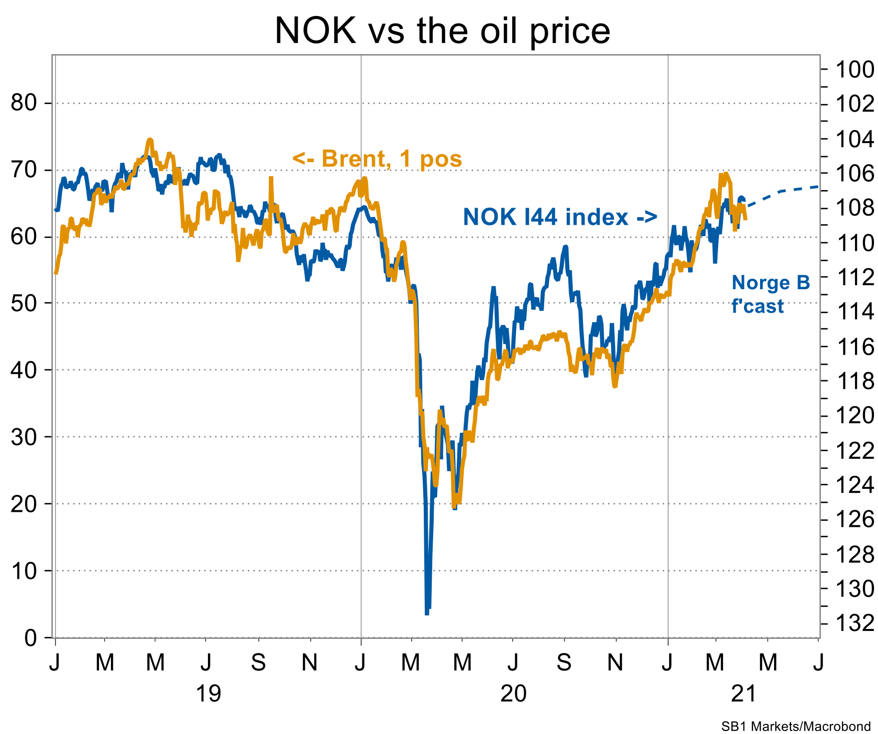
The NOK is now 1% below our traditional NOK model forecast

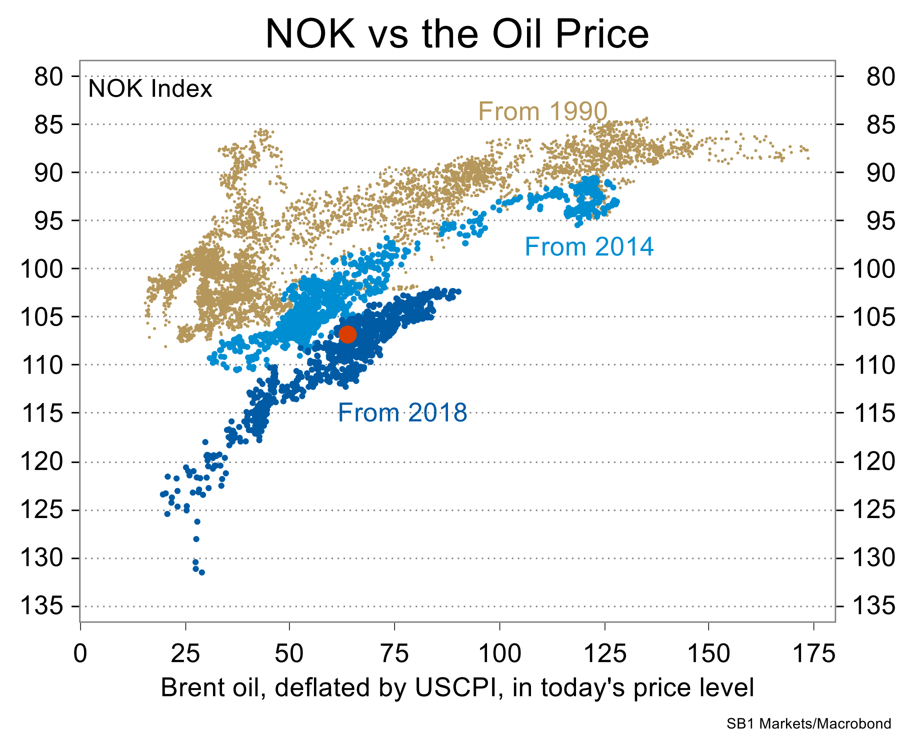




NOK flat, oil down

NOK is still correlating quite closely to the oil price but at a lower level than before 2018

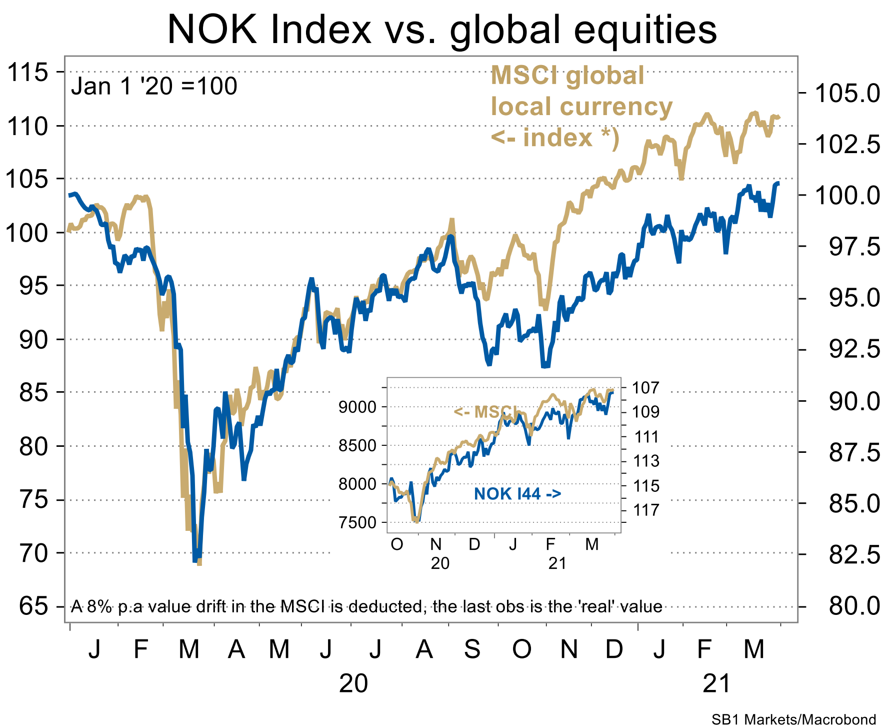


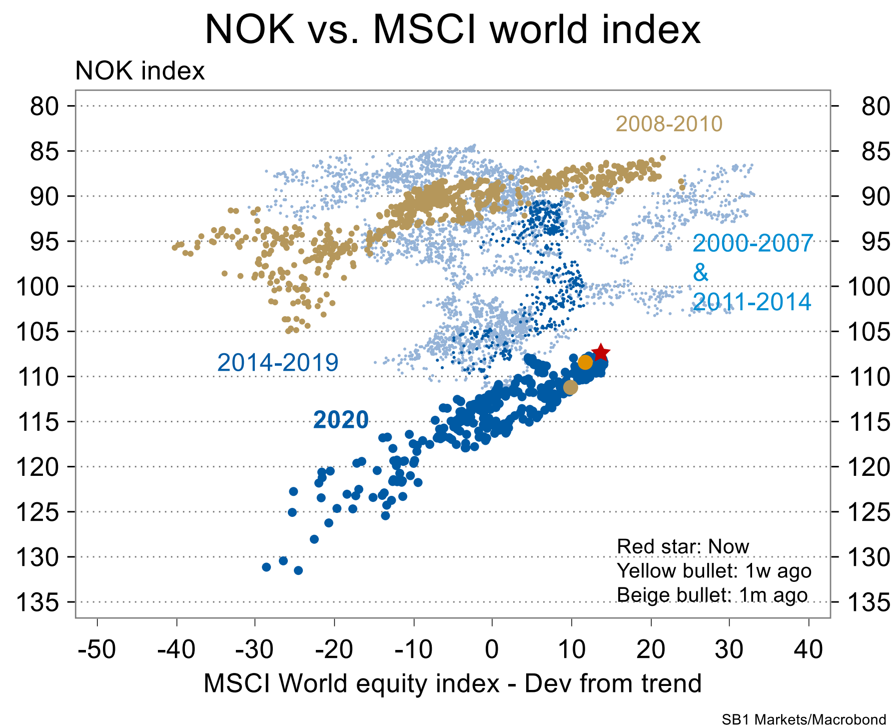


- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

NOK flat, the stock market up – but correlation still quite close

Except for Sept., NOK and global equities since early 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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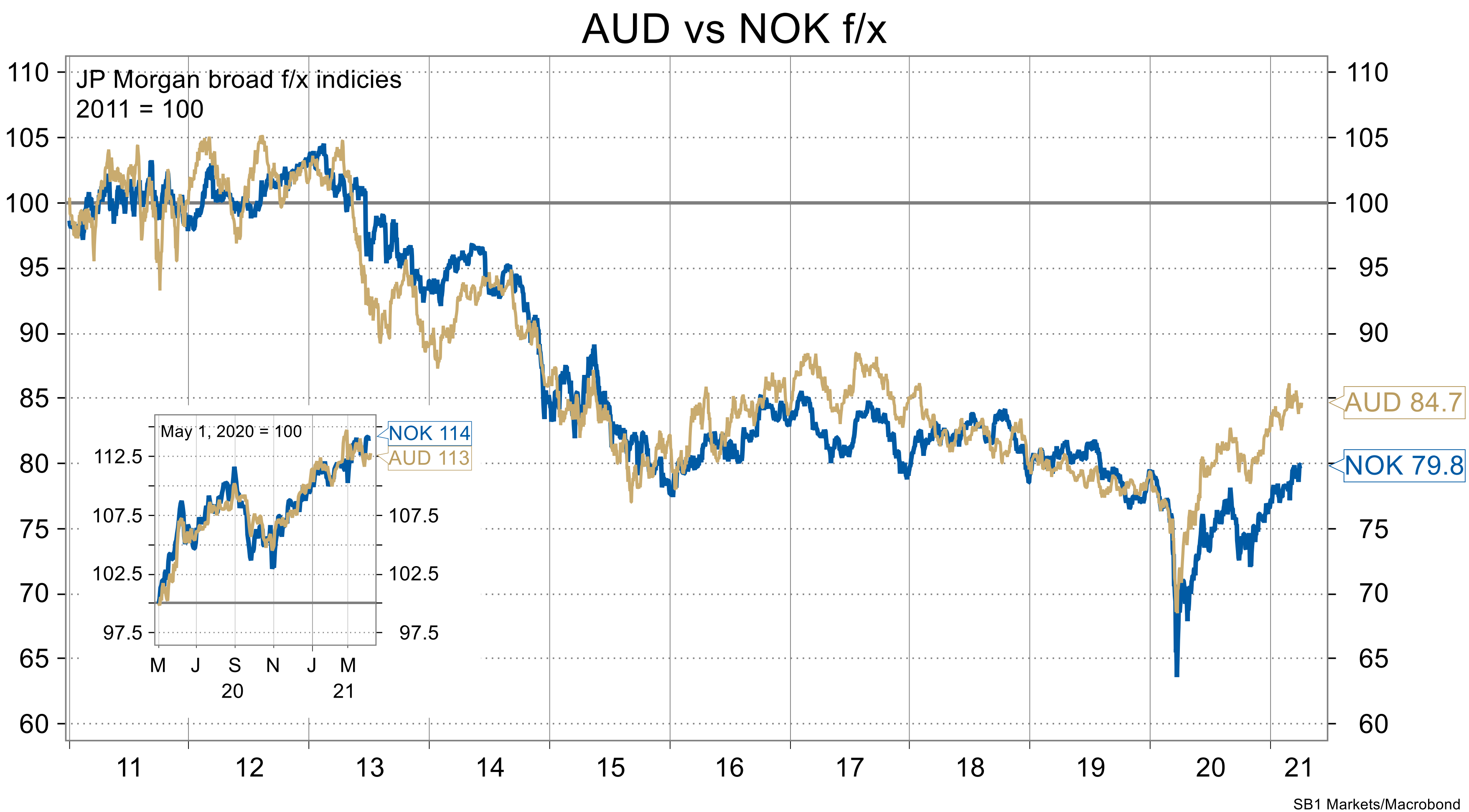
NOK & AUD flat last week

Both are up 12-13% since May 1 – but the NOK still 5% weaker than AUD since last spring



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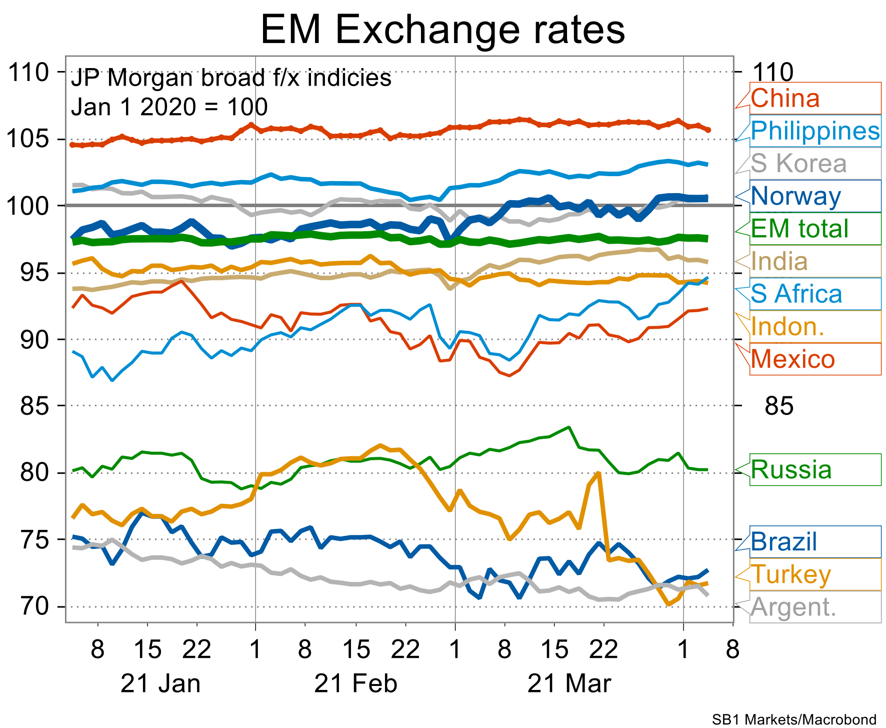
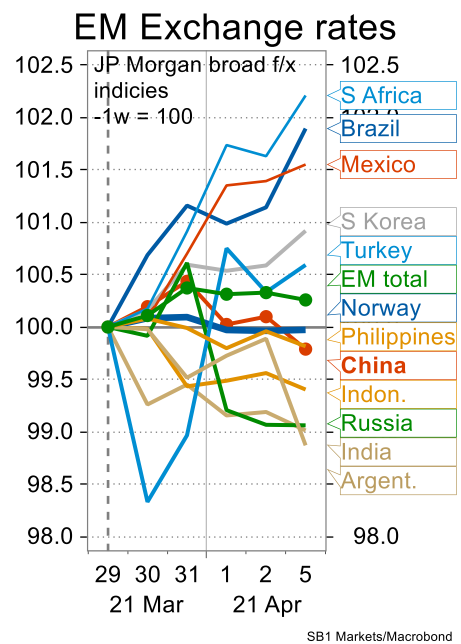
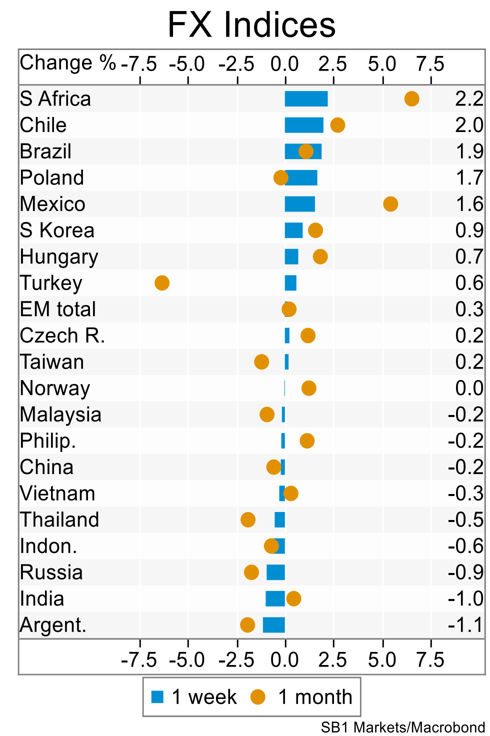
More up than down last week, even the Turkish lira stabilised







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