19 April 2021

Macro Weekly

Week 16/2021

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

Tina Norden
Phone : (+47) 24 13 37 48
Mobile : (+47) 93 22 62 24
E-mail : tina.norden@sb1markets.no

SpareBank 1 Markets
Phone : (+47) 24 14 74 00
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PO Box 1398 Vika, 0114 Oslo

Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

SpareBank 1 MARKETS

Last week: More countries report more cases but the majority still on the way down

The virus

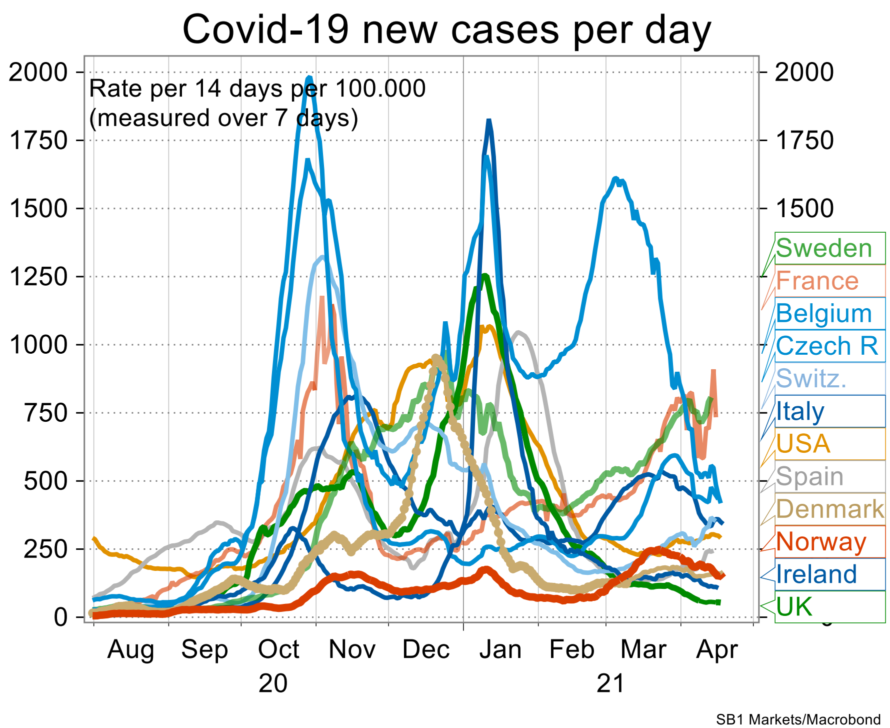
- **The 3rd wave** is on the way down in the majority of countries and the no. of new cases are far below previous peaks. Still, hospital occupancy in Europe har been is on the way up recently, and the US has turned slightly up too
  - Germany, Switzerland and Canada are reporting more cases. Sweden has the highest level of infection in advanced economies (at least tested positive)
- **Mobility** is rising in most countries – a sign that the negative drag from corona restrictions are easing
- **In Norway**, the no. new cases are trending quite steadily if not rapidly down. A decline in new hospitalisations & hospital occupancy confirm the decline in new cases. Some national and local restrictions are eased. Mobility has not yet started to increase
- **Bad vaccine news the previous week**: The AstraZeneca vaccine is partly being used in most of Europe (for older people), but not in Denmark or Norway. In addition, the Johnson & Johnson vaccine distribution was paused in the US, as similar types of special blood clots, as very likely was created by the AZ vaccine in most European countries – some with a deadly outcome, have occurred after J&J vaccinations. It still uncertain if and when the US will start using J&J again – and if EU/Norway will use this vaccine. In Norway, it was expected that J&J could inoculate more than 40% of the entire population by August. If both AZ and J&J are taken out, some sort of herd immunity would be 8 – 12 week delayed
- **… But better news last week, 2 mill more doses:** BioNTech/Pfizer will deliver more than 150 mill. more doses to EU in June – August, of which 2 mill to Norway. If the timing of the 2nd dose is extended to 12 from 6 weeks for the B/P and Moderna vaccines, we estimate a delay in the vaccination process of some 4 weeks, and all Norwegians above 18 years should be vaccinated before end of July. Norwegian authorities have not yet confirmed (and no decision is taken vs the J&J vaccine and the AZ decision is not final)
- **The pace of vaccinations in EU/Norway** has anyway gained substantial speed, and should accelerate further as the 'ordinary' deliveries form B/P is scheduled to increase. Last week, the pace of vaccination rose to 3% of the population in many European countries, Norway included

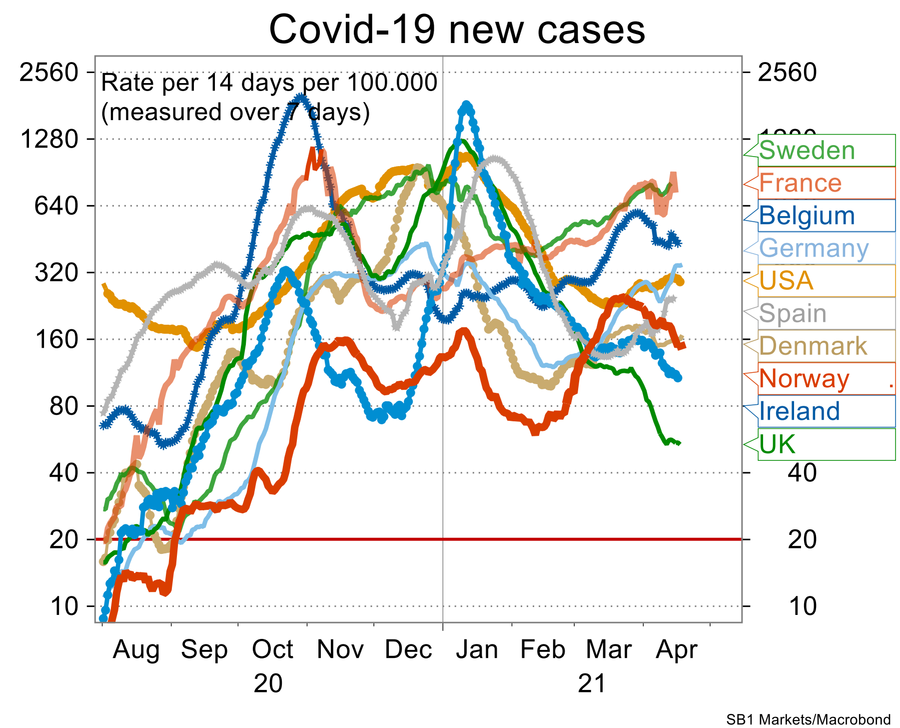
Last week: The economy – strong PMIs/ISM, US jobs report

- **China**
  - » **GDP growth** slowed more than expected in Q1, very likely due to restrictions during the Lunar New Year holiday, and services slowed considerably (in February). GDP grew by 0.6% (not annualised), expected up 1.4% but as Q4 was revised up to 3.2% from 2.6%, the activity level in Q1 was still at a strong underlying growth path. Since Q4-19, Chinese GDP has expanded at a 6.2% pace, above the pre-pandemic level of 6% (which was trending down). The annual 18.3% Q1 growth rate is of course just for the book of records, and tells nothing. The **March data** confirm the underlying strong momentum, both **industrial production**, and even more **service production** rose, as did **retail sales, and investments**. **New home sales** are surging, and starts are following suit. **Exports** are way above the pre-pandemic trend, **imports** clearly above, and both were strong in March too. **Shadow banking** credit fell in March, rather unusual, but **bank lending** rose faster. Underlying credit growth has fallen but is still above nominal GDP growth. Both **exports and imports** rose in March, imports at the fastest pace, both to new ATHs. Export volumes are 15% above the pre-pandemic trend, imports 10% above!
- **USA**
  - » **Retail sales** exploded in March, as some 1/6th of the stimulus cheques were spent (and the **Federal budget** saw the flip side of that (missing) coin, the deficit rose sharply). <u>Core goods are 17% above the pre-pandemic level</u>, and <u>restaurant turnover rose 13% m/m, and is now just 5% below the Feb-20 level</u>! **Housing permits & starts** rose sharply, and are at/close to local peaks. **Manufacturing production** recovered most of the Feb loss (but less than expected). The first April **manuf. surveys** signal strong growth & soaring prices. The **CPI** accelerated sharply, and more than expected but less than feared. The annual rate will climb further in April & May, the headline to well above 3.5%, from 2.6% in March (and 1.7% in Feb). However, <u>underlying core inflation is still muted</u>, the Federal Reserve's last straw of hope? Its **Beige book** survey confirmed decent growth, increasing labour shortages and pressure on wages. These shortages were confirmed by the **SME survey**. Small businesses complain that labour is not available, quality is poor, and wages high – but they still plan to increase them further. Sales are not the problem, of course. The no. of **new jobless claims** fell sharply last week
- **EMU**
  - » **Retail sales** rose more than expected in February, while **manufacturing production** fell as signalled by national data. The **ZEW survey** confirms very high optimism among analysts and investors in Germany
- **Norway**
  - » **Mainland GDP** fell 0.5% in February, slightly more than expected, and Jan was revised down. Consumer services were down, due to new corona restrictions. We are not that optimistic about March but the tide probably turned through April as some restrictions were eased. We expect GDP to contract by 0.7% in Q1, following the 2% lift in Q4.
  - » Mainland exports rose to new ATH in March, and imports have slowed somewhat, from a very high level. The overall trade balance got a boost from higher petroleum prices – the surplus is at 8% of Mainland GDP
  - » **Norges Banks lending survey** did not reveal any new trends
  - » **Unemployment** is so far stable through April, according to weekly NAV data

Some new hot spots but most countries are reporting fewer new cases

Germany, Spain, Switzerland & Canada are reporting more cases. Sweden at the top among DM



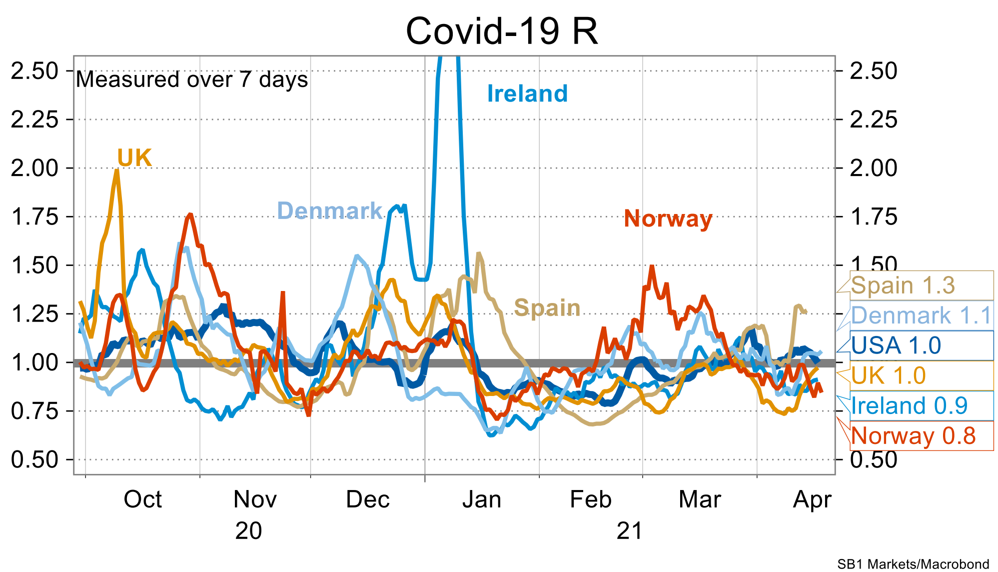


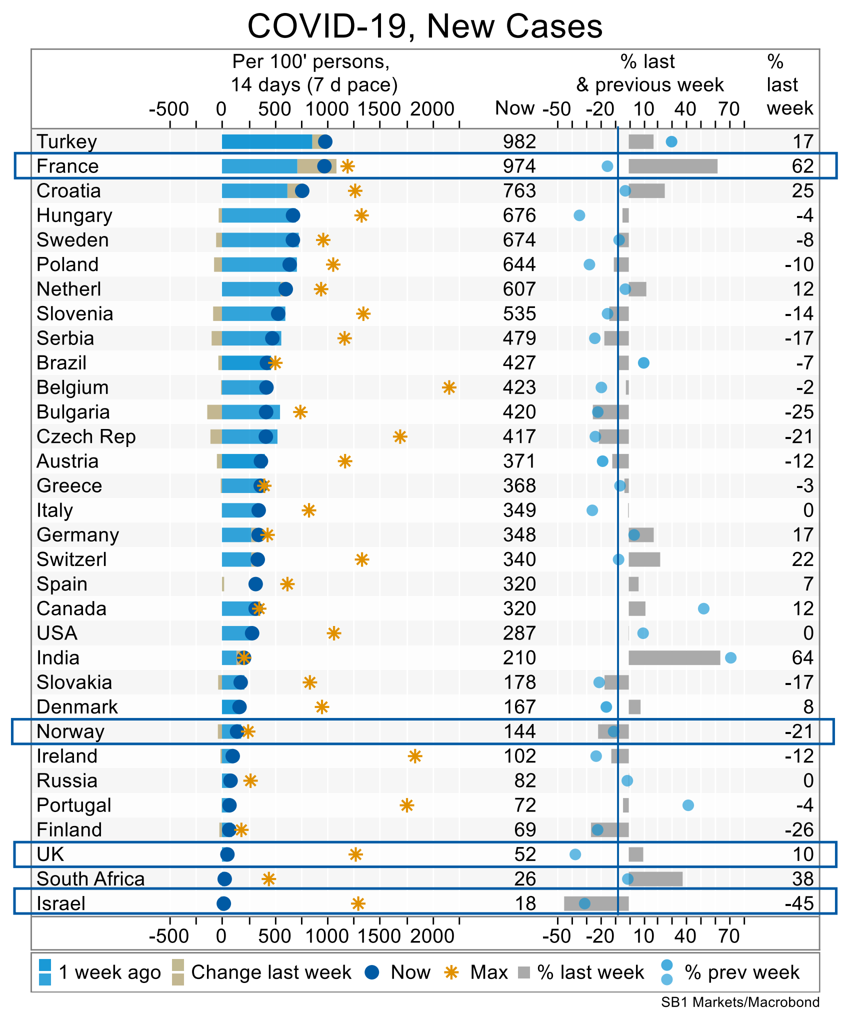
- The overall picture is still clear: The no. of new cases are declining in most advanced (DM) economies. The picture in EM is mixed, Turkey & India is struggling again
- Norway – and the rest of Europe – is now speeding up new vaccinations up to a 'US, UK' level, and from now on, the impact on the spread of the virus, the 'R', will be substantially decrease

SpareBank 1 MARKETS

More countries are reporting more cases but the majority are on the way down

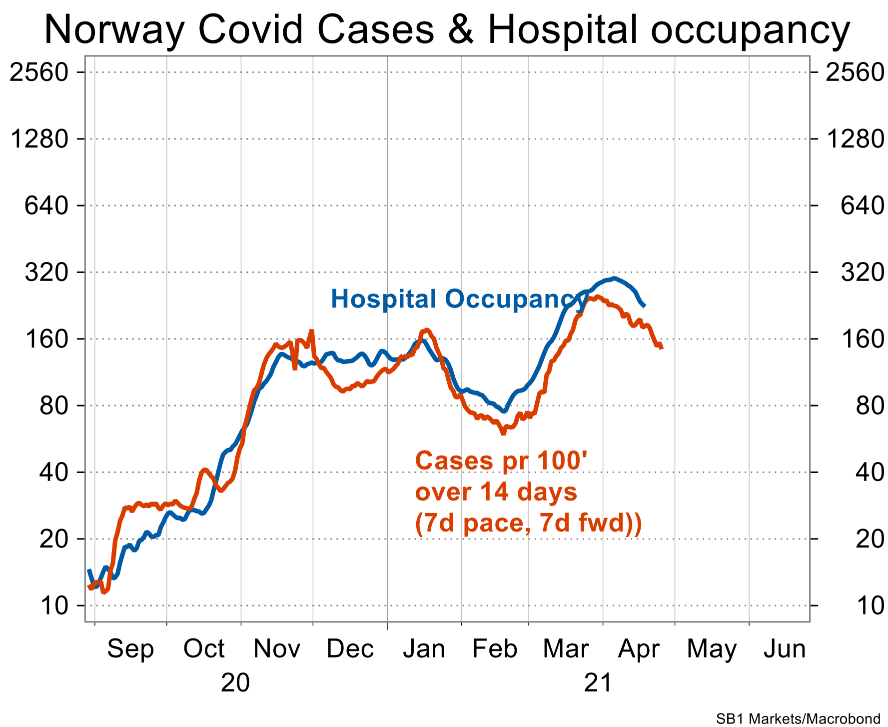
- **Turkey** is at the top of our list, followed by **Sweden** and several **Eastern European** countries, and **France**
- **In the UK** the number of new cases is still falling, but slower, and quite likely that the substantial easing of restrictions and a sharp increase in mobility will turn the R >1 again. However, the level of new infections is low (1/3 of Norway's), and even if vaccinations have slowed recently, the pace will probably pick up steam
- The **US** is reporting some few more cases but the level is rather low – and the vaccination process continues
- **Norway** reported a further decline in new cases last week. The R is below 1
- In **Israel**, the virus has almost disappeared

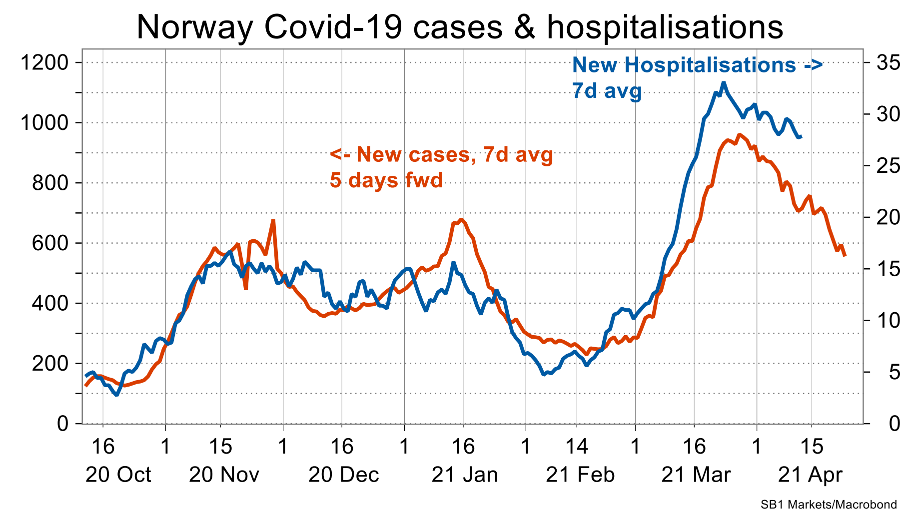


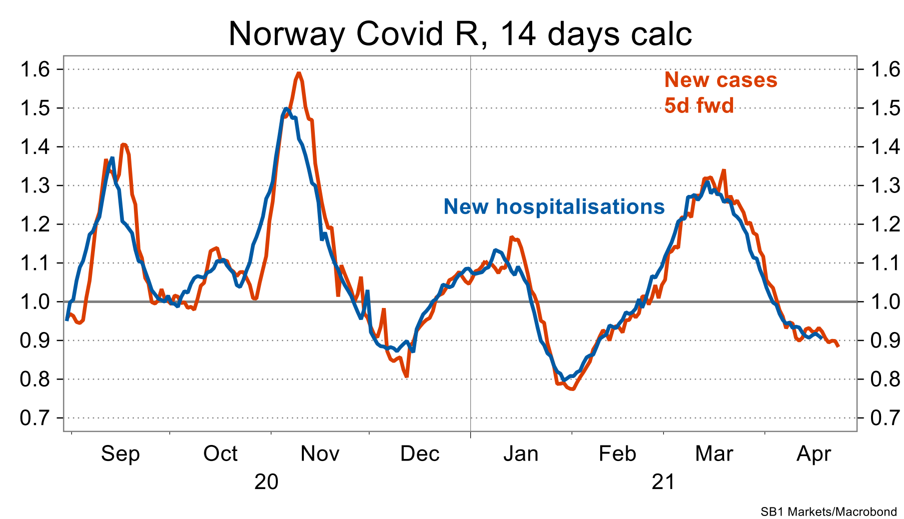


Norway: New cases and new hospitalisations down; No doubt, R<<1 ☺

Hospital occupancy is down 32% too



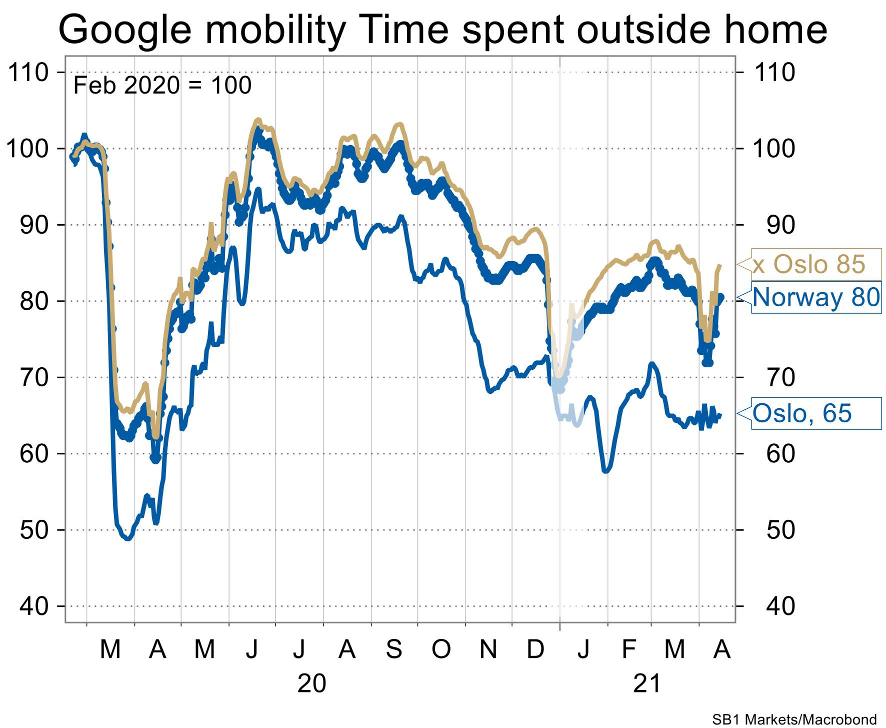




- Data of new hospitalisations are released with some days lag, but the trend is clearly down, even earlier than normal vs. the downturns in no. of new cases
- Even if the oldest part of the population now is vaccinated, 3.5% of the newly infected are hospitalized, which is higher than before! Blame the more aggressive mutants!

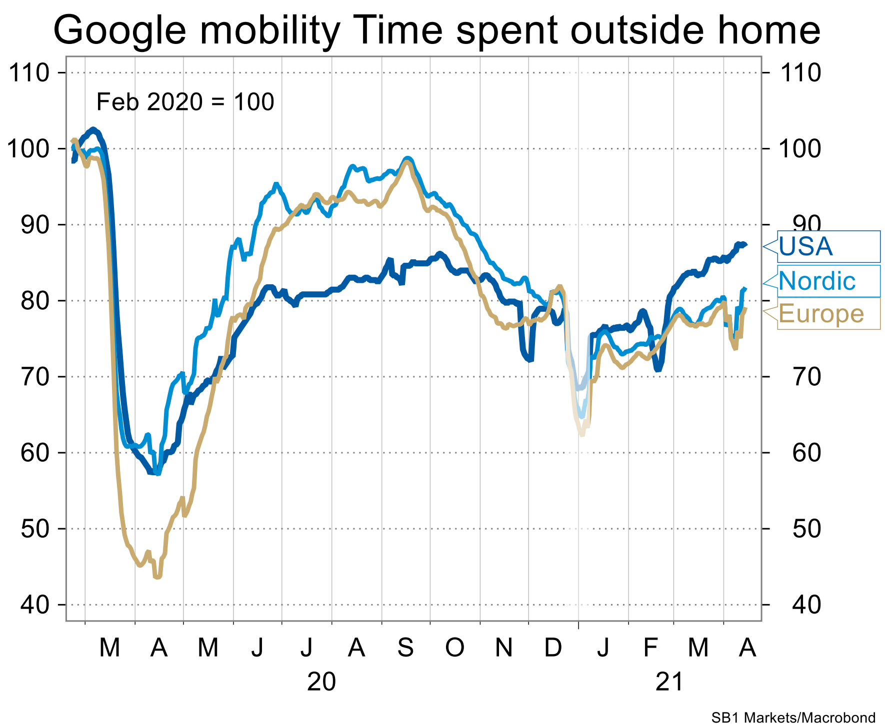
Mobility back to the same level as before Easter

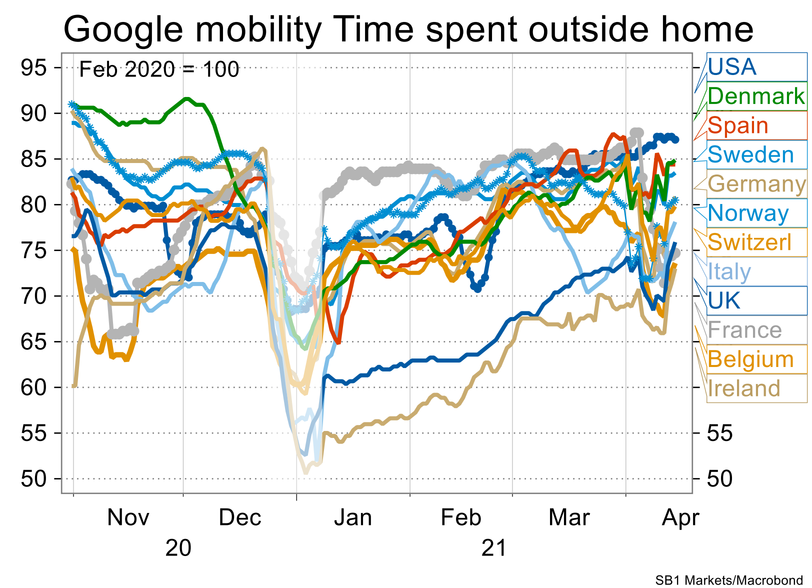
Restrictions are still being eased more than tightened

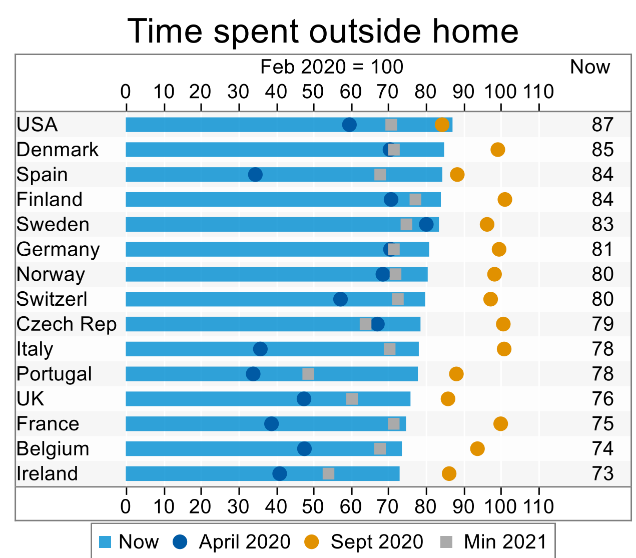


Mobility is trending up most places but not everywhere, France has tightened

Time spent outside home in the U.S. is on the way up, and are at the top. UK sharply up last week



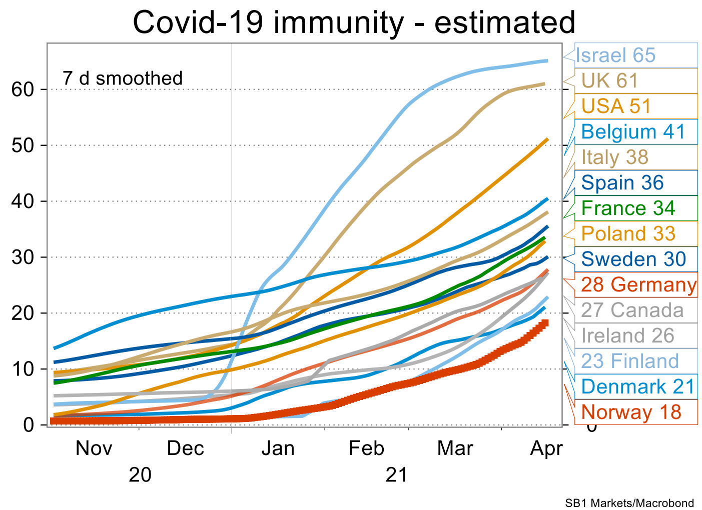


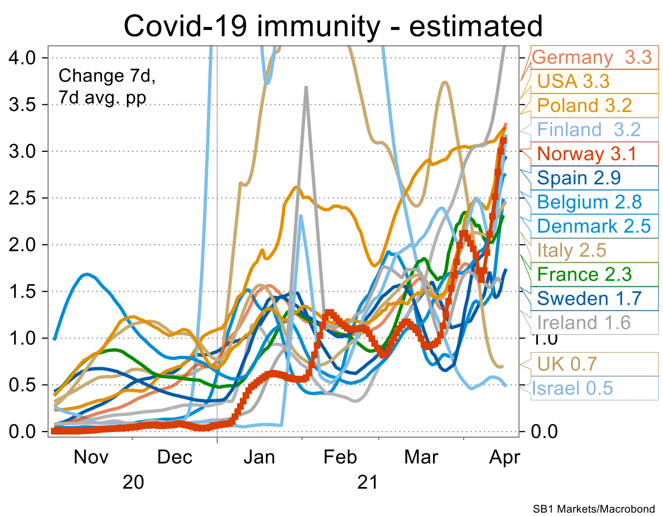


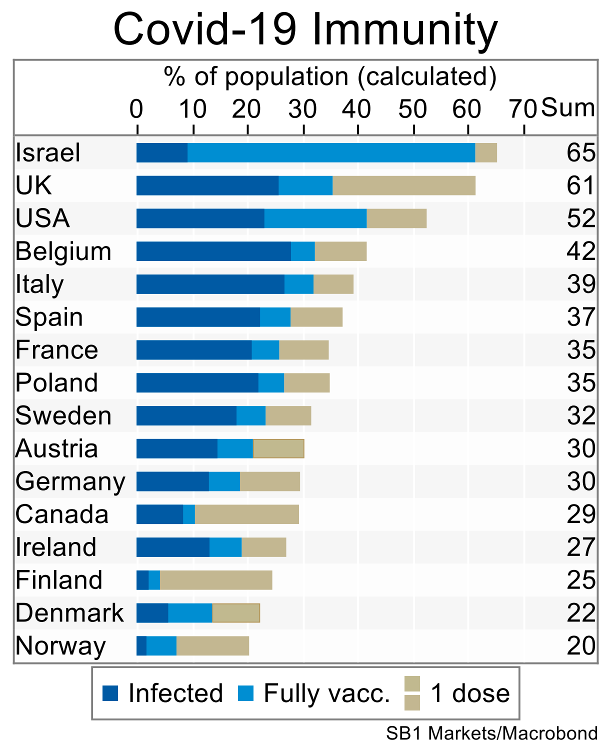
SpareBank 1 MARKETS

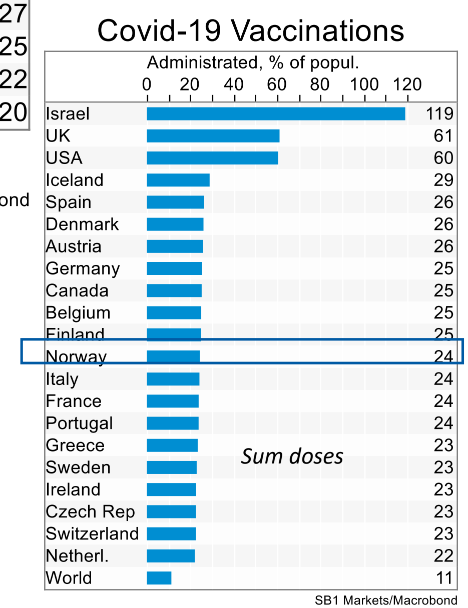
Vaccinations: EU/Norway are gaining more speed, 3% per week are inoculated

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









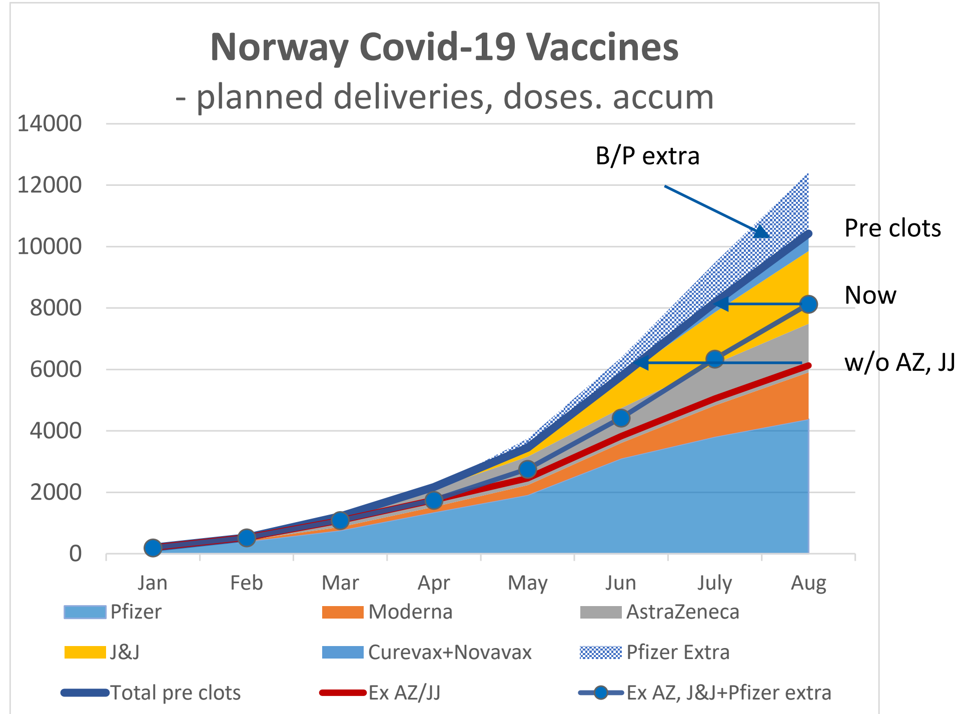
We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others

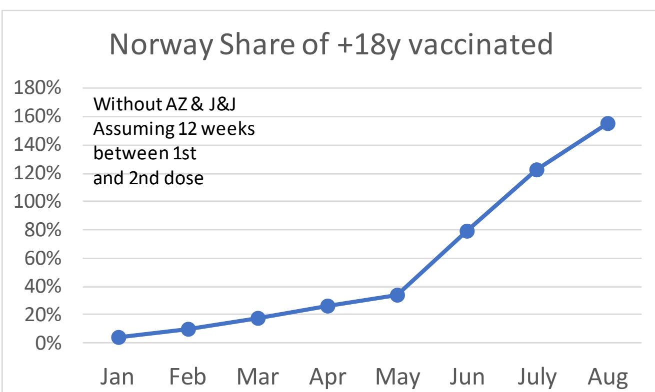
SpareBank 1 MARKETS

AstraZeneca and J&J let us down. *Then BioNTech/Pfizer came to the rescue!!*

Suddenly, B/P is able to deliver >150 mill more doses to the EU; Norway gets 2 mill in Jun/Aug

- Over the past weeks, it has become clear that the traditional vector vaccines (like Oxford/AstraZeneca, Johnson & Johnson & Sputnik) very likely have a serious side effect – blood clots that has been deadly for some few persons, especially among women <60 y
  - » Norway has decided not to use AZ before further checks are done, Denmark has abandoned it
  - » The J&J vaccine is temporarily paused in both the US and EU
  - » <u>If both AZ and J&J are taken out of the Norwegian vaccination program, an 8 - 12 weeks delay will occur</u>
- On Thursday & Friday the EU and Norwegian authorities reported that **BioNTech/Pfizer** was able to deliver large extra quantities in late Q2 and Q3, in sum more than 150 mill doses, <u>of which 2 mill more doses will go to Norway</u>
  - » If these reports are confirmed, parts of the delay in the vaccination program due to the loss of AZ and J&J would be reversed, especially if the time between the 1st and 2nd shot is extended to 12 weeks from 6 weeks – which we now deem to be more likely than before





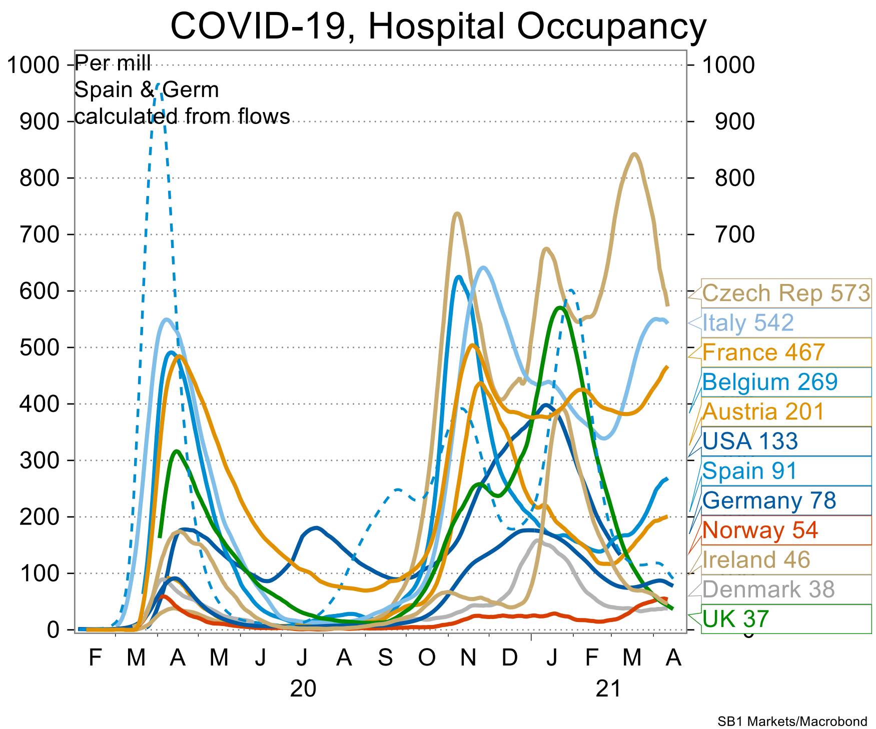
- **J&J** has been a central element in the European program, and as it is a single-dose vaccine, it was assumed to have vaccinated some 40% of the Norwegian population by August
  - » Now, its fate is uncertain, and the AZ vaccine is kept in the fridge
- The impact of the extra BioNTech/Pfizer deliveries are shown at the chart above. The new total line (with dots) is still well below the plan which included AZ & J&J, but if the 2nd dose is delayed from 6 to 12 weeks a substantial immunity will be reached by June/July, check the chart to the left

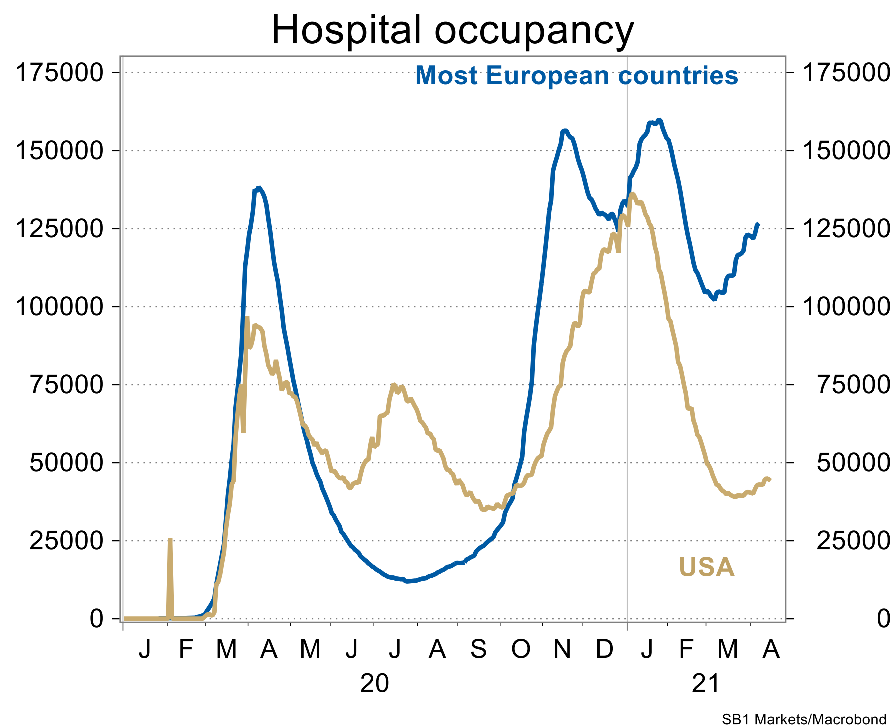
Sources: FHI, media reports, SB1M

SpareBank 1 MARKETS

Hospitalisations on the way up again in Europe, in Italy, France & Spain!

In the US, the no. of hospitalised persons is increasing but slowly and from a low level



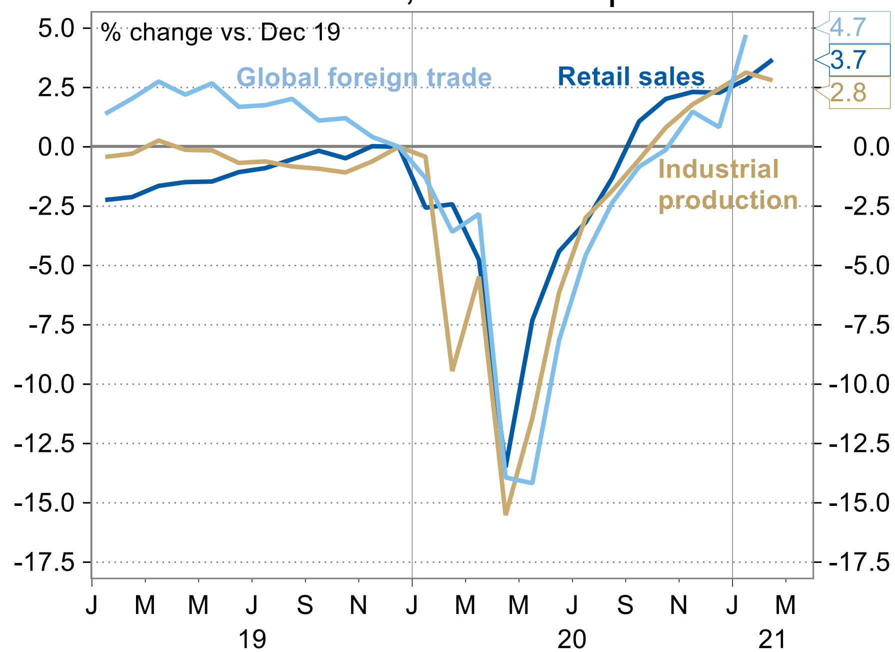


SpareBank 1 MARKETS

Retail sales further up in February but manufacturing production probably down

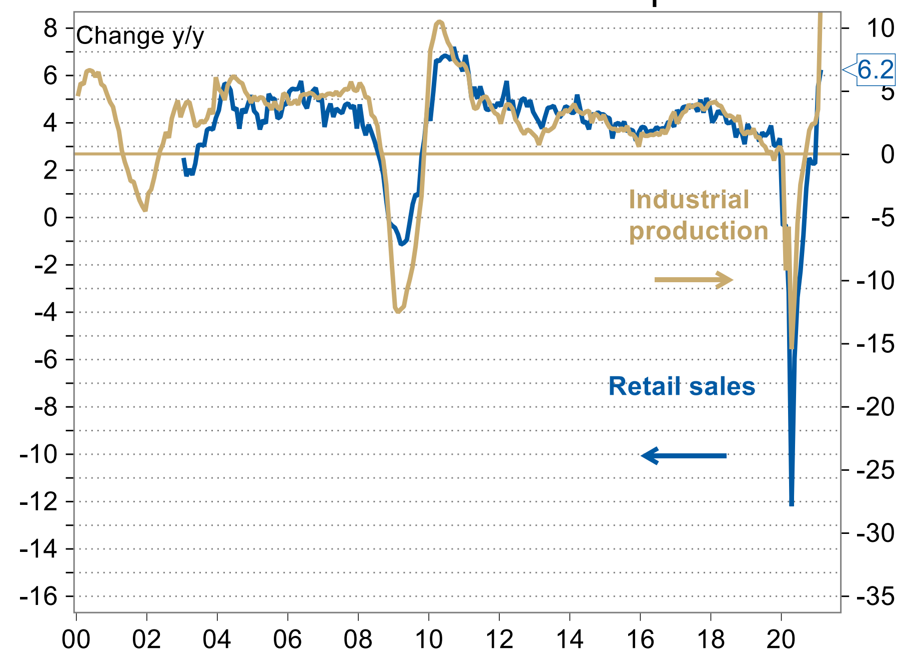
…The latter due to a surprisingly decline in factory output in EMU and in the US. March will be better

Global Retail sales, industrial prod. & trade



SB1 Markets/Macrobond/CPB

Global Retail sales & industrial production



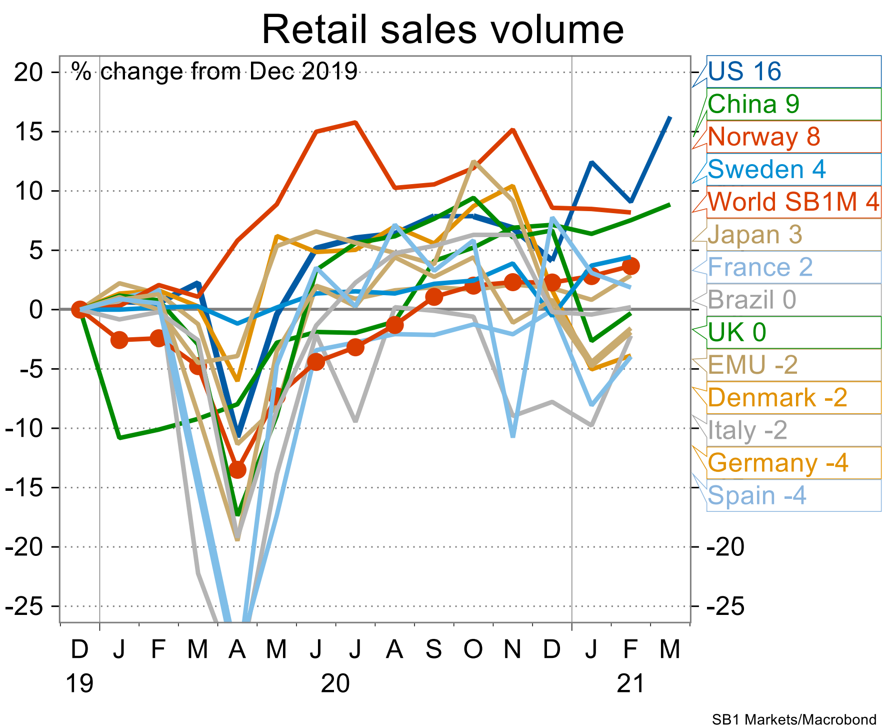
Memo: Keep in mind the different scales at the chart above

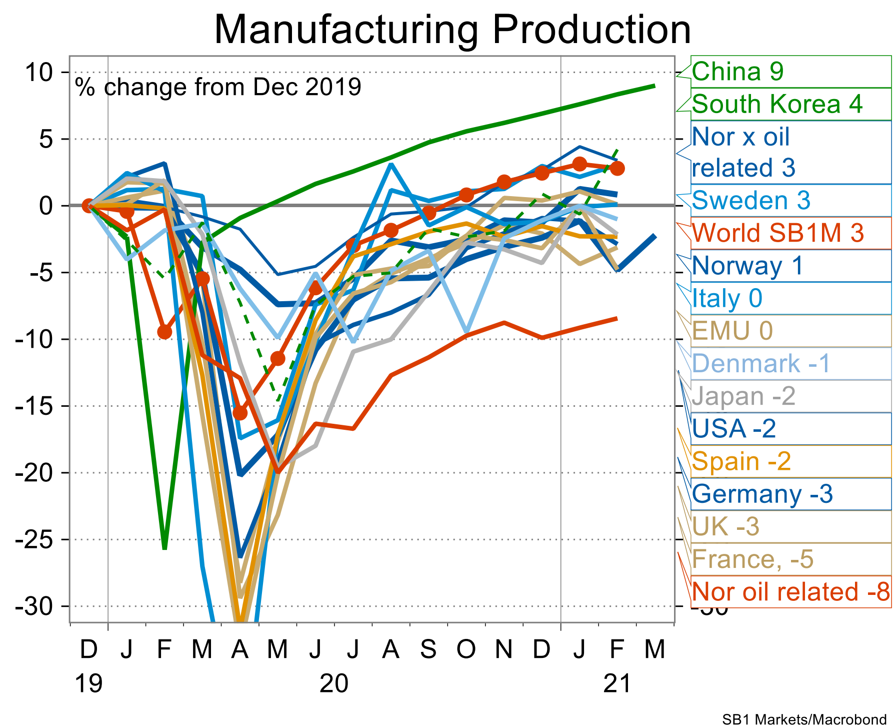
SB1 Markets/Macrobond

- **Retail sales** rose further in February, according to our preliminary estimate. Sales are 3.7% above the pre-pandemic level (China revised its sales data upwards)
- **Manufacturing production** probably contracted marginally, but remains 2.8% above the pre-pandemic level
- **Global foreign trade** rose sharply in January, to almost 5% above pre Covid, according to CBP in Netherlands

Volatile retail trade data, but trend is still up

Manufacturing production flattened in February due to the decline in EMU & the US



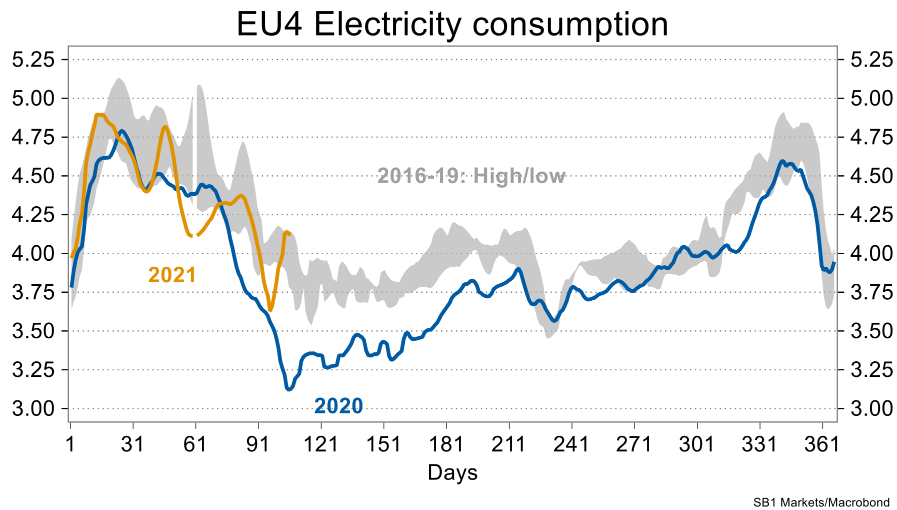


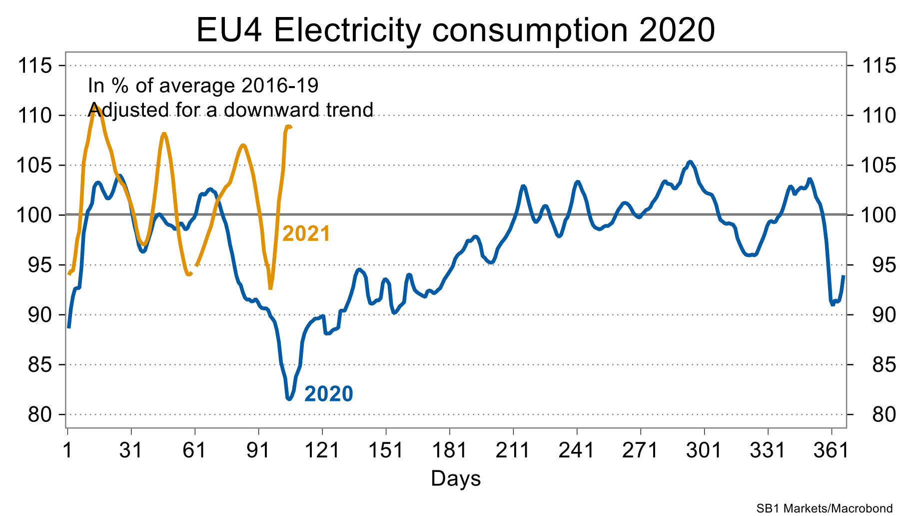
- Global manufacturing production very likely grew in March, witnessing the decent recovery in US, and continued growth in China

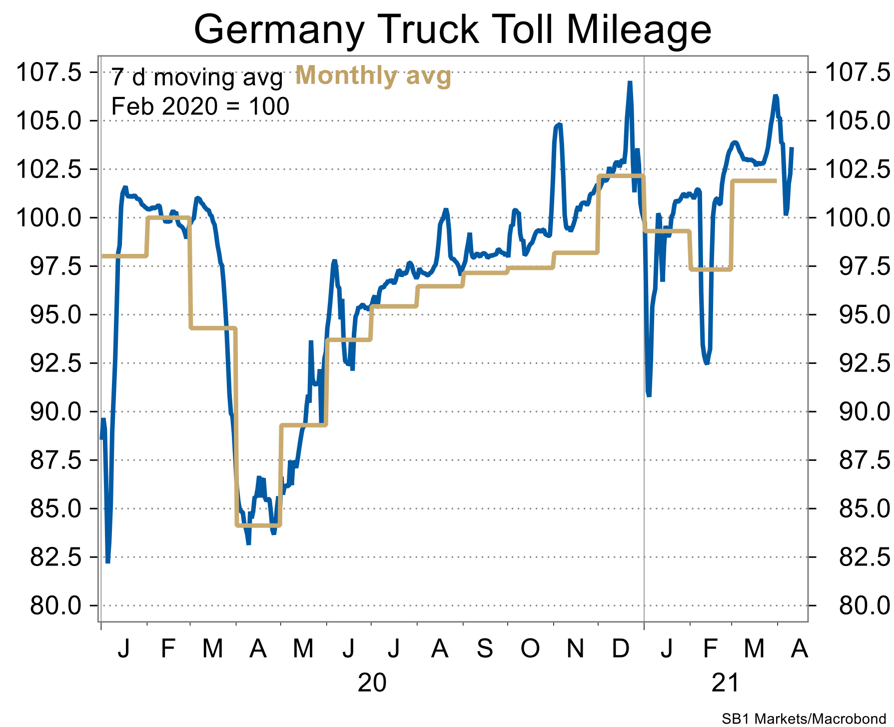
SpareBank 1 MARKETS

EMU: No signs of a slowdown in the 'goods' sectors, even if February was weak

Truck traffic & electricity consumption shows no signs of weakness



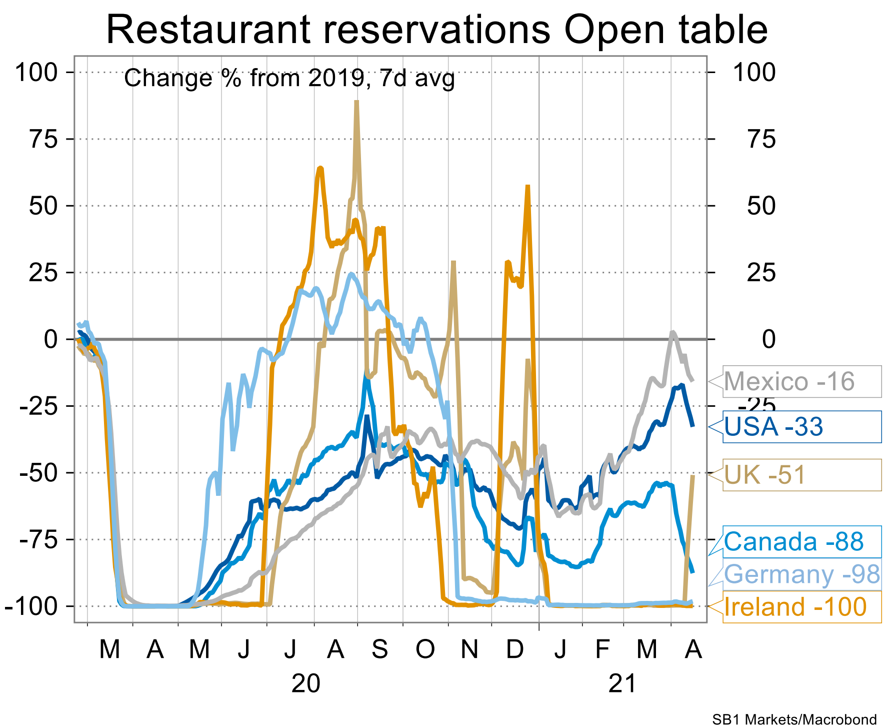


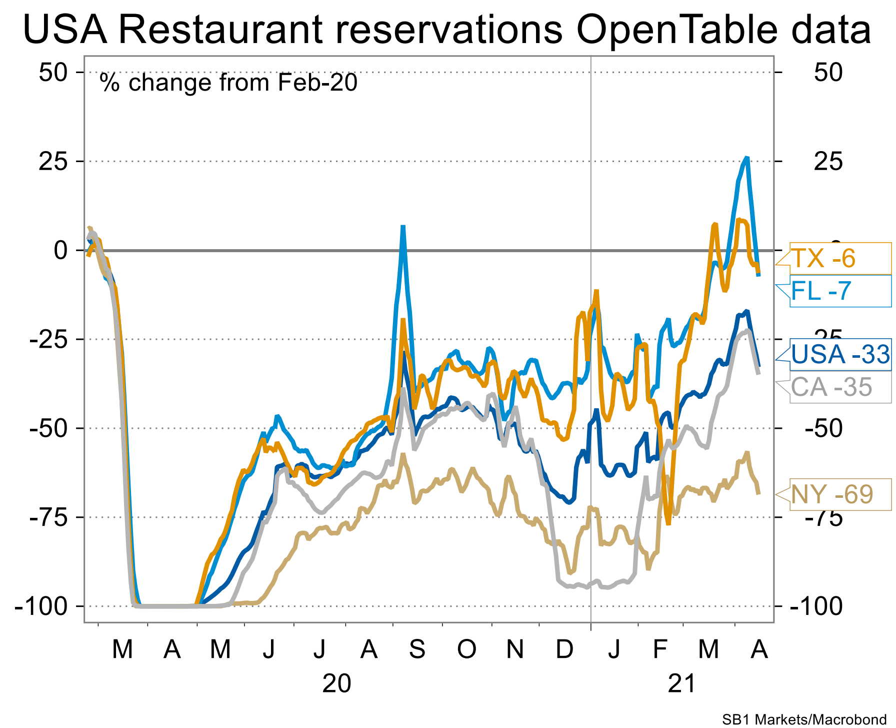


- Manufacturing production fell in Germany and very likely in the EMU in February (when trucking activity fell too). March was much better – but April not further up, so far

UK restaurants reopened last week. Less US bookings, very likely temporary

In March, total restaurant sales (including canteens, Mc D, take-away etc) were down 5% vs. Feb-20

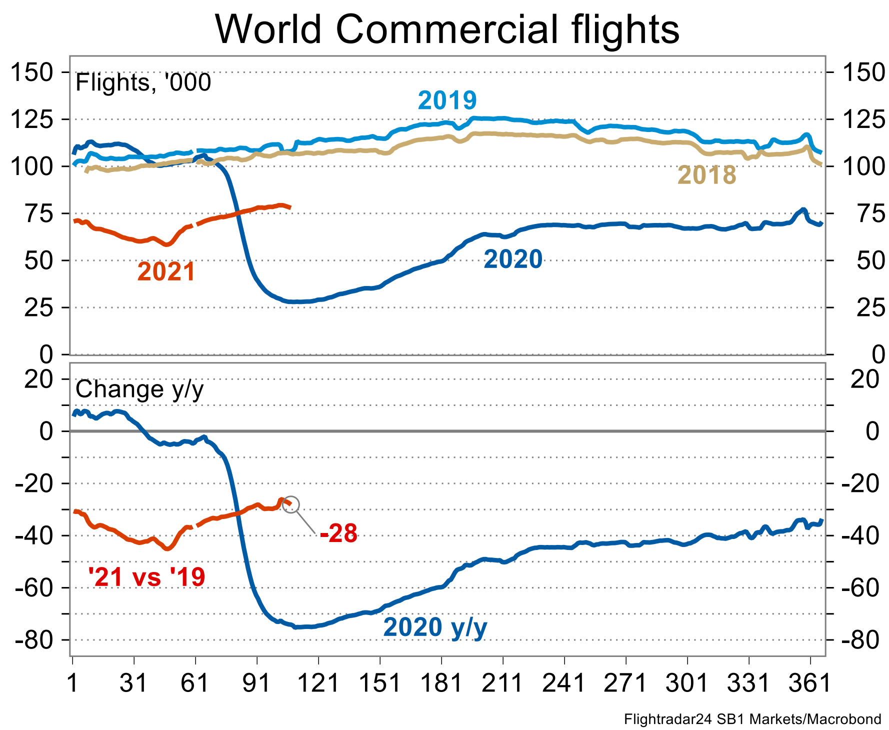


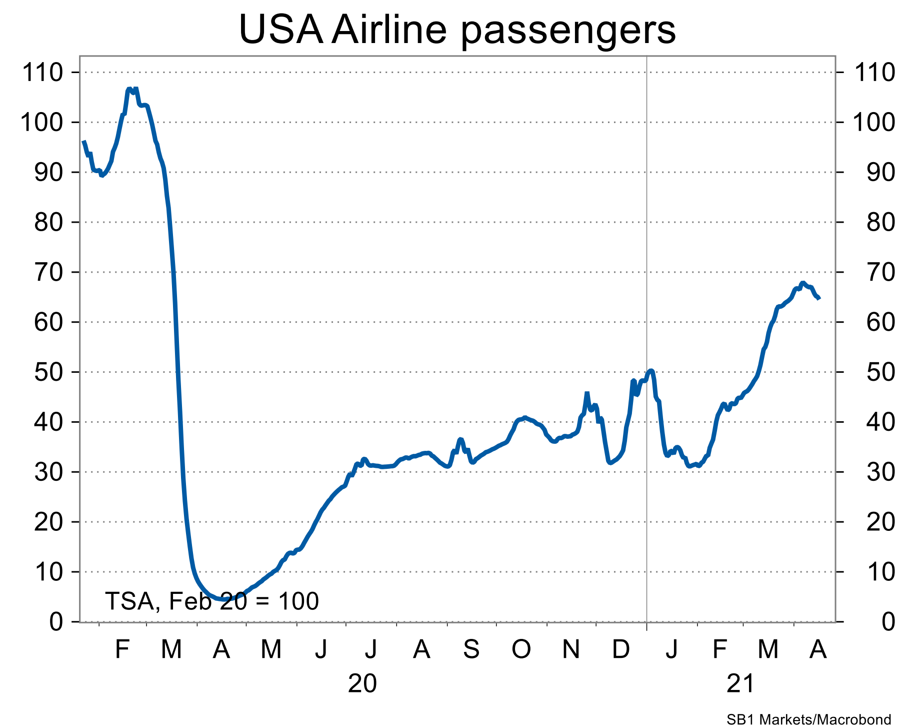


- Restaurants still closed in Germany

Global airline traffic is steadily climbing

Still 28% down vs. the pre-corona (2019) level. US passenger traffic down 35%, but up 110% vs Jan



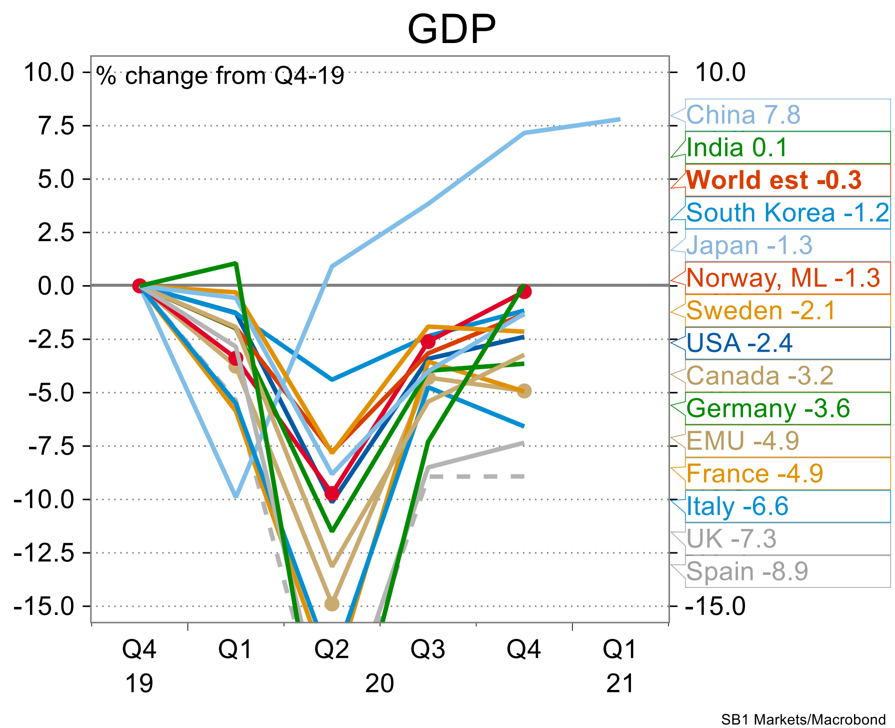


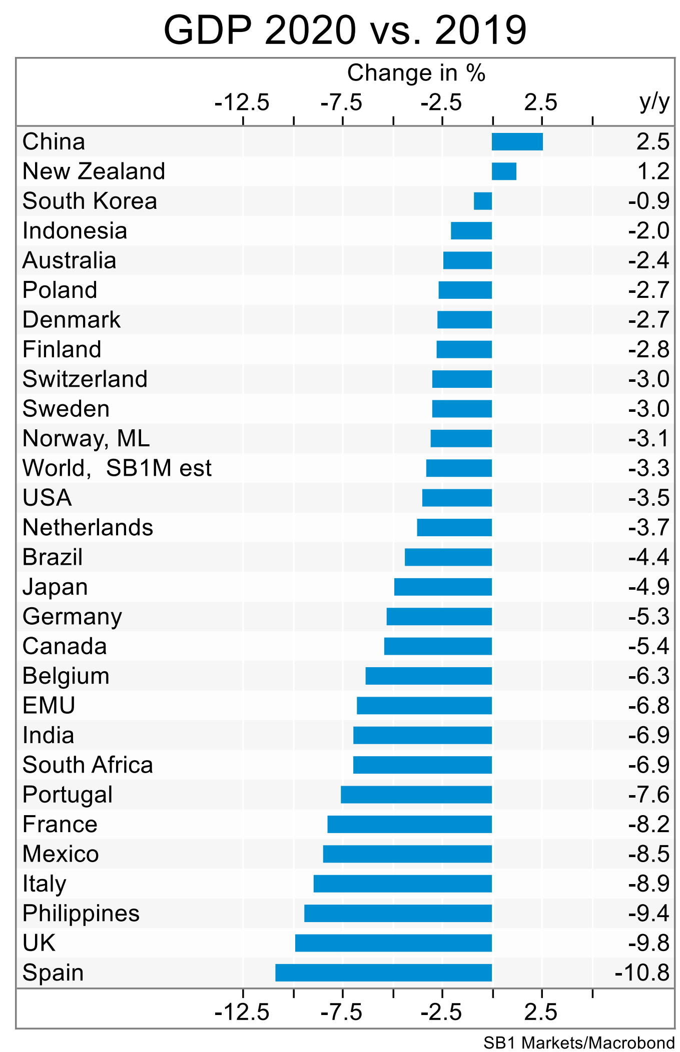
- US domestic traffic is down just some 25% (scheduled seats), international traffic is down 50% (according to OAG/The Economist)

SpareBank 1 MARKETS

GDP fell slightly less than we expected last year (-3.3% vs. -3.4%)

& Q4 was just 0.2% below Q4 ’19. The V is confirmed. Even the IMF recognised that last week ☺



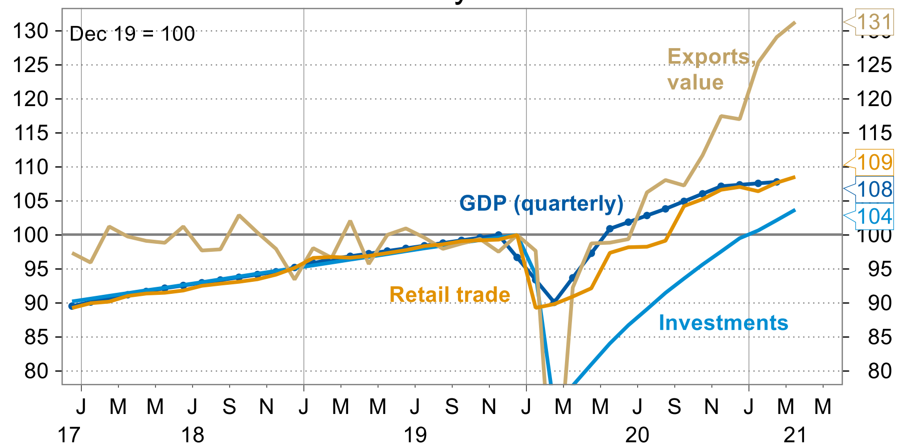


- We estimate that **global GDP** grew by an 8% pace in Q4 – more than double that of underlying trend growth, leaving global GDP down just 0.2% y/y. Last year GDP fell 3.3% (aligned with the most recent IMF estimate)
  - » China, India & the US have reported decent Q4 growth, alongside some Asian countries, UK & Norway – and most others. However, GDP fell in both France & Italy
- **In 2020,** China grew by 2.5% (revised from 2.1%), New Zealand 0.2%, all others down
- **Sweden** -3.0%, **Norway** (Mainland) -3.1% and **US** -3.5%
- **EMU** contracted almost 7%, UK by 10% and Spain by 11%

Lunar NY restrictions dampened activity in Q1, no reason to worry, March OK+

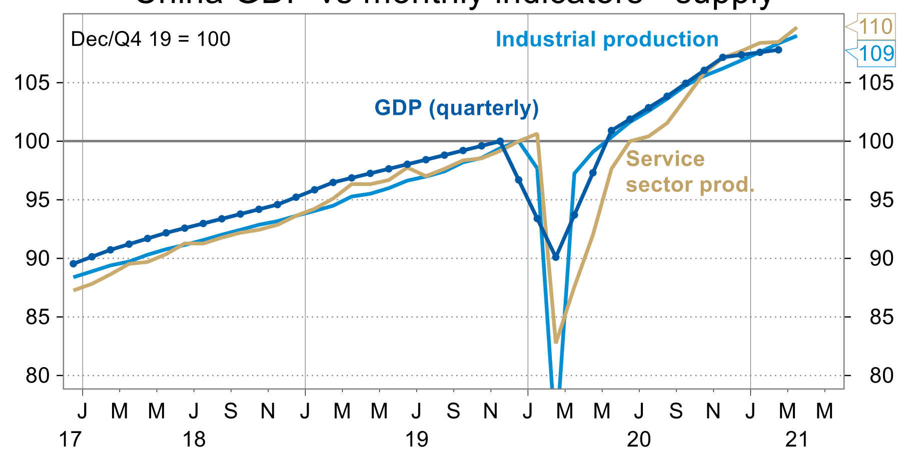
Q1 ended on a strong note, signalling normal growth in Q2

China GDP vs monthly indicators - demand



SB1 Markets/Macrobond

China GDP vs monthly indicators - supply



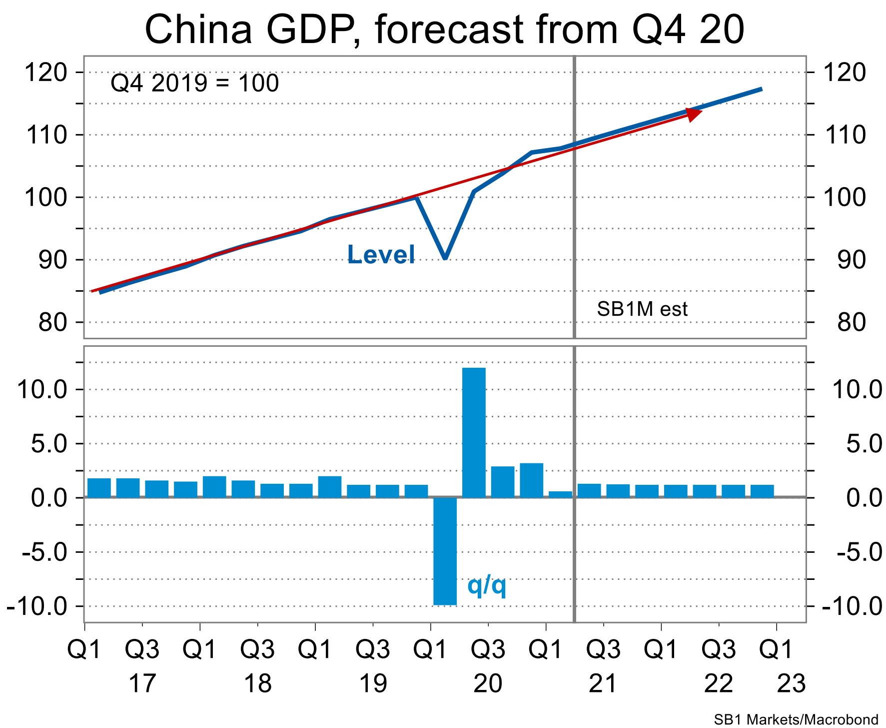
SB1 Markets/Macrobond

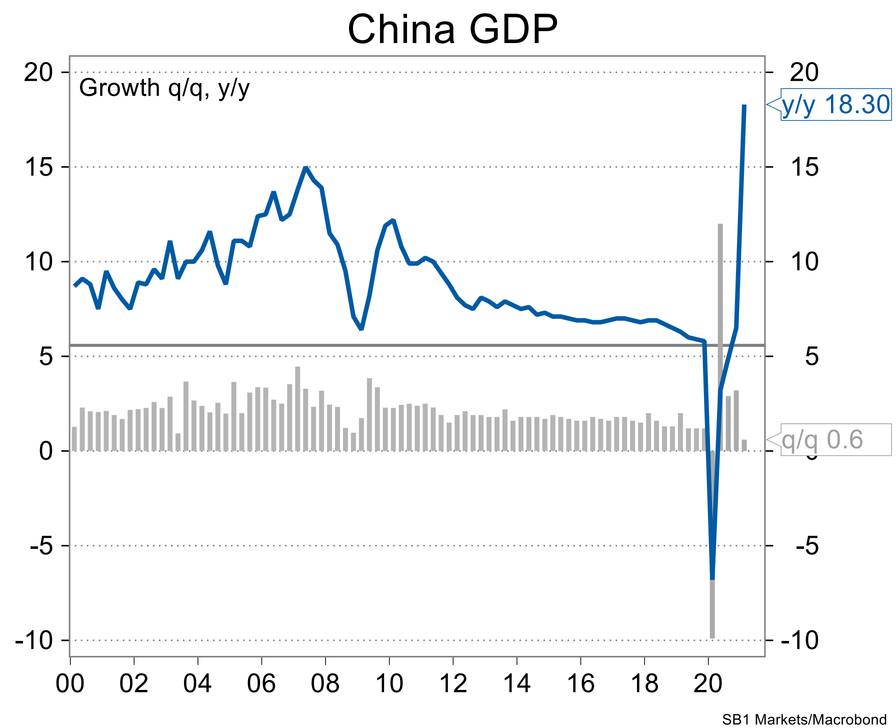
- **GDP** rose 0.6% in Q1 (2.4% annualised), less than the expected 1.4%. However, Q4 was revised up to 3.2% from 2.6%. Since Q4-19, GDP has expanded at a 6.2%, well above the pre-pandemic trend (which was slowing) at 6.0%. Thus GDP is above the pre-pandemic trend path
- **Industrial production** rose 0.6% in March. Measured y/y, production is up 14.1%, somewhat less than expected but these y/y data are now 'impossible' to calibrate. Production is well above the pre-corona trend path, and is growth faster. Growth will now most likely slow
- **Service sector production** growth slowed to almost zero in Feb but rose 1.2% again in March, and is 'back on track'. The slowdown was no doubt due to travel restriction during the Lunar New Year holidays
- **Retail sales volumes** were revised sharply up in Jan/Feb and rose further by 0.8% in volume terms in March, according to our calc. Sales were far higher than expected y/y, but these data are useless
- **Investments** may have slowed somewhat in Q1 but a date revision makes us uncertain. Either way, the gap vs. the pre-corona trend is almost closed. Measured y/y, investments were 1 pp lower than expected, at +25.6%. **New home sales** are soaring, and **starts** are ticking up
- **Exports** rose further in March and the level is far above the pre-pandemic trend. **Imports** rose more, and are above trend too
- **Credit growth** recovered in both Jan & Feb, no credit squeeze
- **Last week: CPI inflation** rose in March, and producer prices rose sharply

In sum: Covid measures held parts of the back economy somewhat during the festive season but March data signals full speed ahead

Q1 GDP up just 0.6% q/q, expected 1.4%. Still up by a 6.2% pace from Q4-19

Q4 was revised up by 0.6 pp to 3.2%. GDP is above the pre-pandemic trend path.

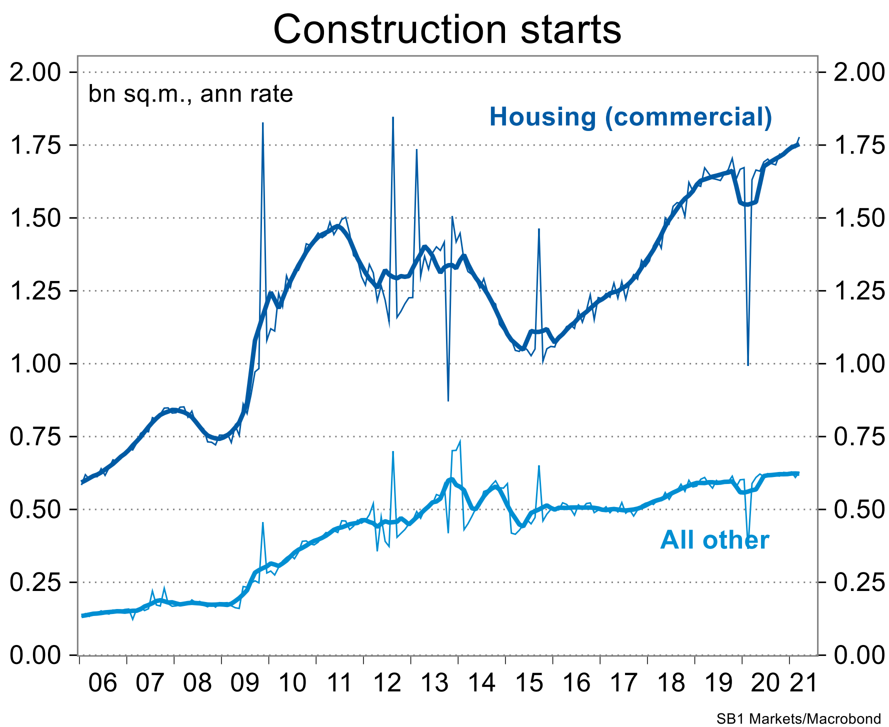


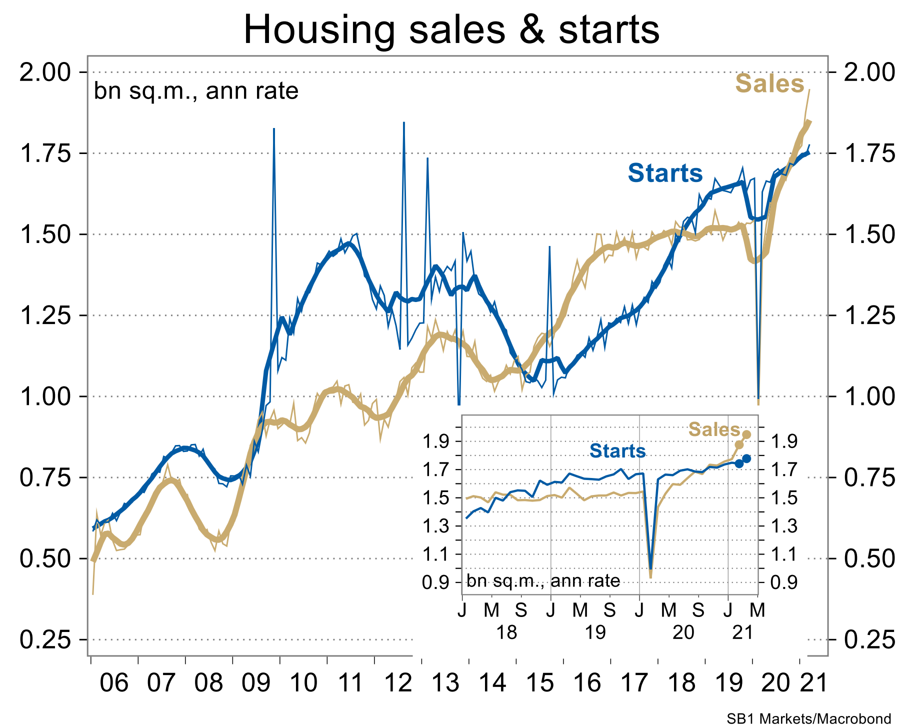


- A 0.6% q/q rate equals a just a 2.4% annualised growth pave, down from an upward revised 3.2%/13.4% in Q4, and far below any estimate of growth in potential GDP. Lower activity during the Lunar New Year is probably to blame for the slow growth in Q1- However, a slowdown to at least the- pandemic trend path is likely
  - » The 18.3% annual rate was marginally below expectations too
- The annual GDP growth rate was sliding down before corona, to 6% in Q4-19. If the gradual decline in growth had continued – and corona had not happened – the annual growth rate would have been below 5.5% by now. The actual rate since Q4-19 at 6.2% is clearly above the pre-corona trend

New home sales are soaring – starts up too

Sales have been very strong since last spring and no signs of slowing. Level +27% vs pre-Covid, at ATH

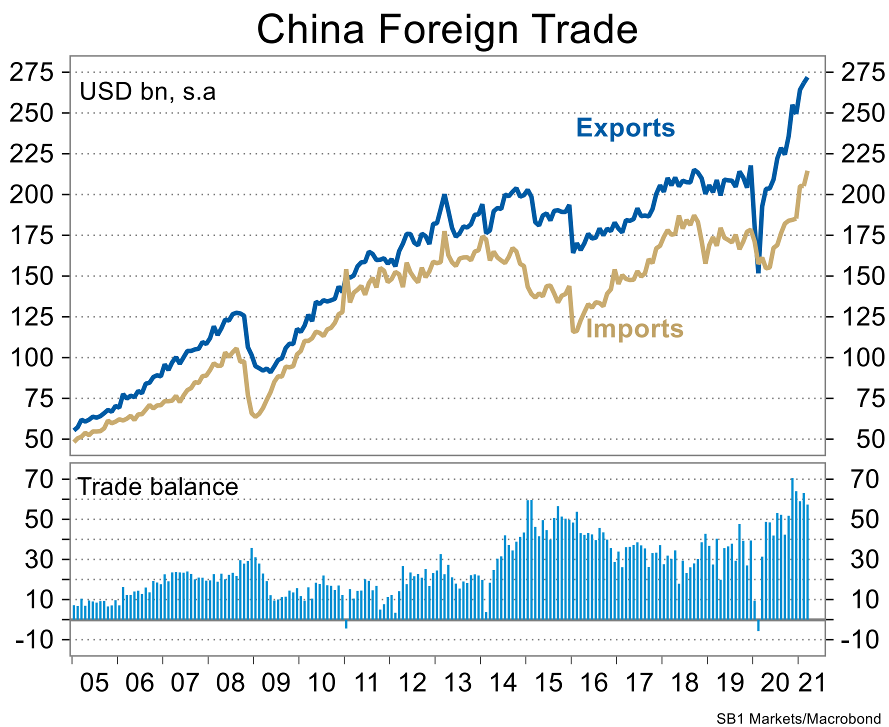




- The rise in new home sales is spectacular, and not driven by strong growth in new home prices
- Starts were higher than sales from mid 2018, to last autumn, new sales are well above the no. of housing starts – and starts are trending clearly up, by 5% vs. the pre-pandemic level – and at a record high level
- Non-residential construction has flattened at a record-high level, up 4% vs the pre-pandemic level
- Thus, construction level is at a record high level!

Both exports and imports are surging

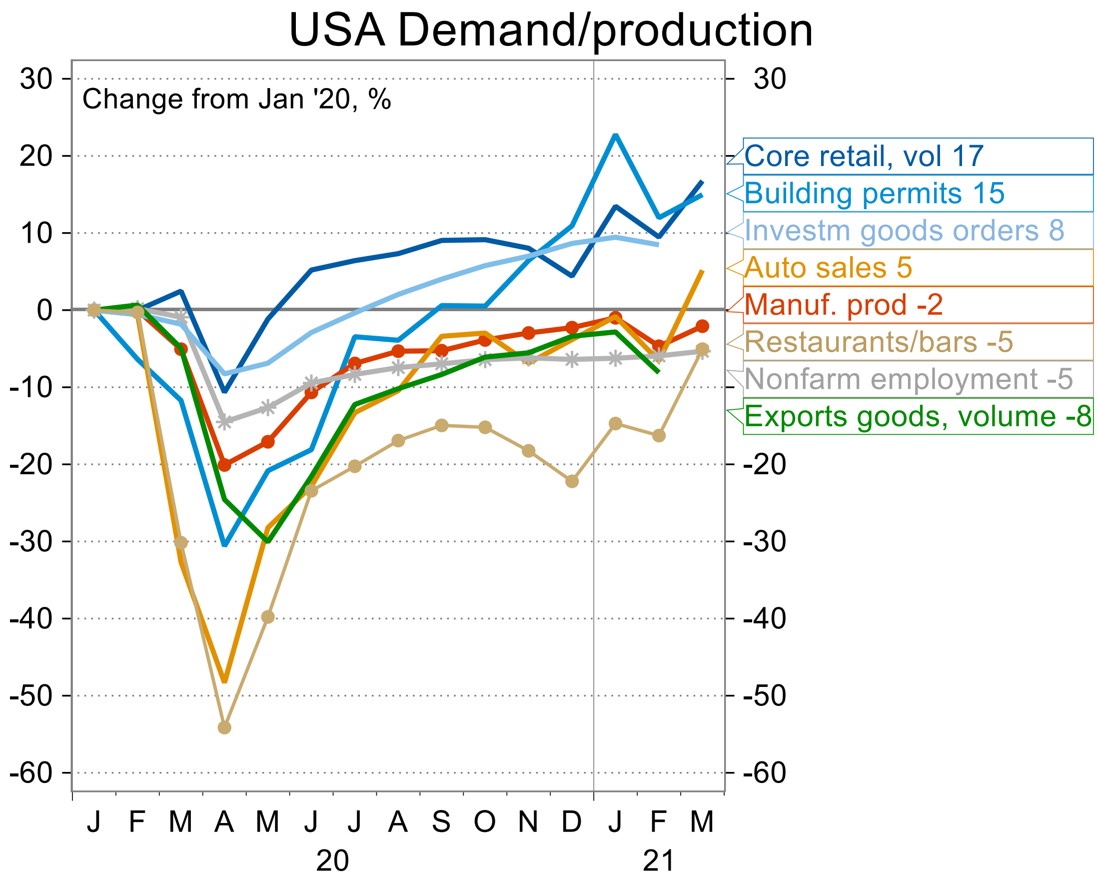
No signs of any slowdown in the global or the Chinese economy



- **Exports** rose by some 1% in March (and by 8% from December) to another ATH . (Annual growth rates are irrelevant due the slump last Feb). In **volume terms** exports very likely kept up too. Exports are far above any reasonable trend path, at least 15%. Global demand for goods is strong
- **Imports** rose some 4% (and by 15% from Dec) to another ATH. In **volume terms** (our price assumptions last 4 m) the lift is less impressive, as we assume import prices rose sharply (oil and other raw materials – but imports volumes are record high and some 10% above the pre-pandemic growth path. Domestic demand is more than OK
- The **trade surplus** is still high, at some USD 60 bn. The surplus has been higher than normal since last March. China is still running a **deficit in services** (but it is narrowing, less Chinese travelled abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks - in % of GDP, that is

The spring arrived in March. Some stimulus cheques as well

Following a cold February, a broad recovery in March



SB1 Markets/Macrobond

This week

- **Retail sales** (core goods) up almost 7 % in March, to a record high level, +17% vs. pre-Covid. 1/6 of the stimulus cheques were spent. More to go
- **Building permits** up 2%, level +15% vs pre-Covid, housing starts splendid too
- **Restaurant sales** rose 13% in March, and are down just 5% (in value terms) vs. Jan-20
- **Manufacturing production** rose 2.7% in March, less than expected, and still 2% below the pre-corona level
- **Nowcasters** are now signalling 6 -8% growth

'Old' data

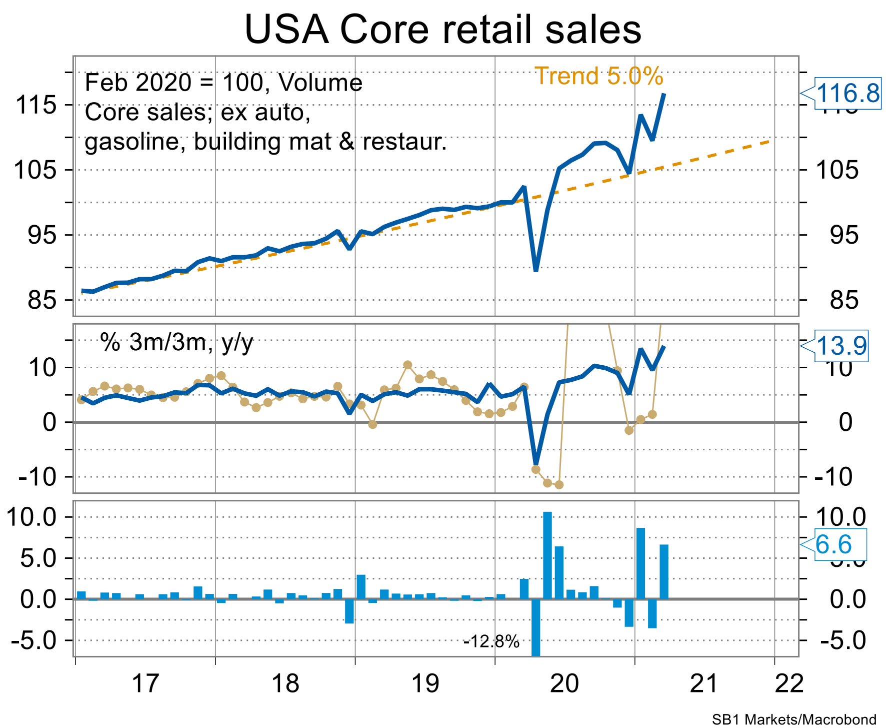
- **Employment** rose sharply in March, still down 5% vs. pre-Covid level (and it should have grown…)
- **Investment orders** ex aircrafts/defence are up 8% vs last Jan, and are flat including aircrafts. Feb data out this week
- **Exports** fell in February, are down 8%, the weakest link in the chain

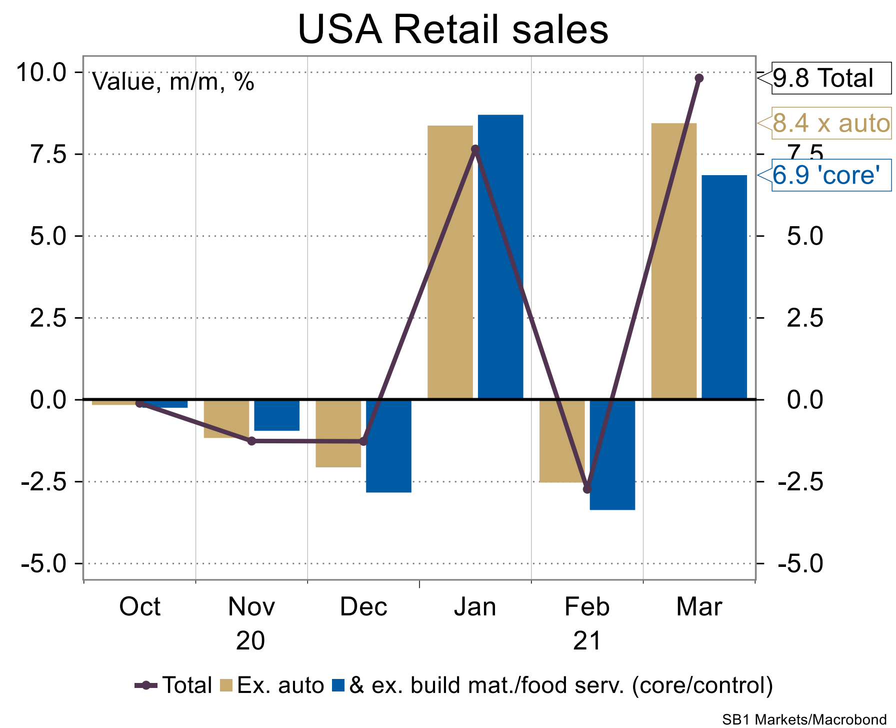
Other data points (in this report)

- **Inflation** is increasing sharply
- Small businesses reports serious **lack of labour**
- The **budget deficit** rose by USD 350 bn, as a small proportion of the 1.9 trl stimulus package was spent. More to come (if not per month)

The best retail sales, ever! Total up 9.8%, core goods volume up 6.6%

Just a small proportion of the stimulus cheques were spent. Total +17 vs. pre-pand., restaur. -5%

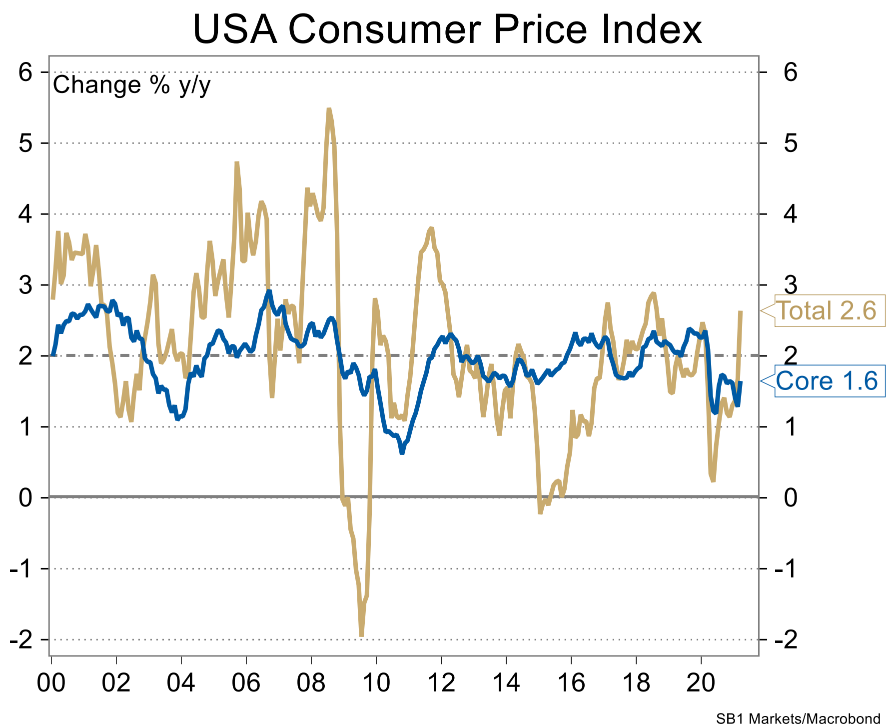


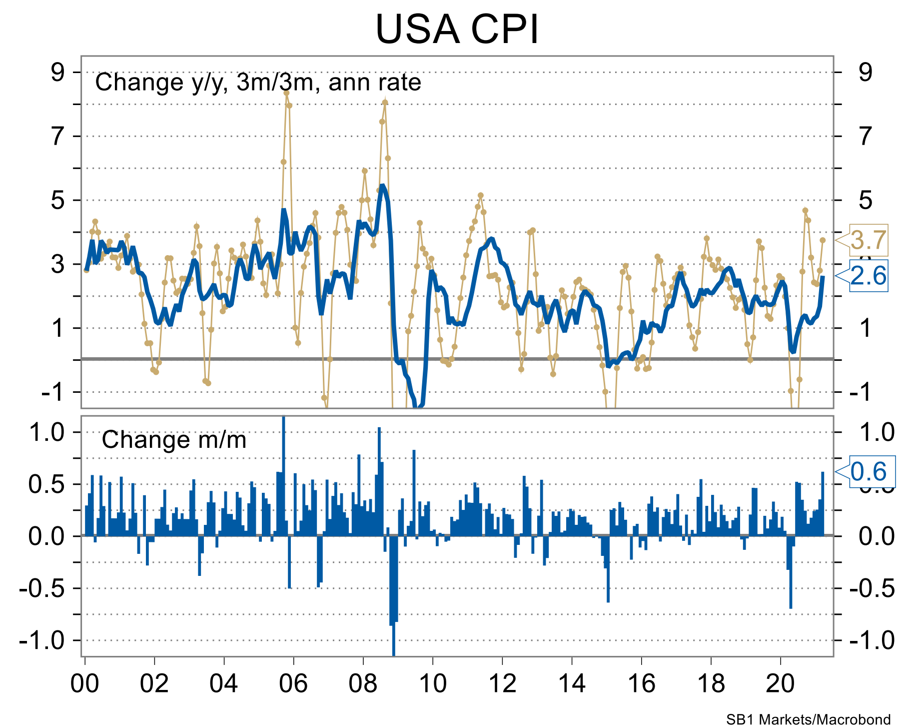


- **Total nominal sales** rose 9.8% in nominal terms, expected up 6.6%. The 2nd highest growth rate ever (but reopening May-20 was even stronger m/m)
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) rose 6.9%, we assume 6.6% in volume terms
- **All sectors reported growth**, even food & beverage in shops. We assumed a huge lift in restaurant sales (was up 13%) would be felt in the groceries. Internet sales grew further but 'just' by 6%. Sport ect. +23%, autos 15%. More next page
- Retail sales rose by USD 56 bn, just a small fraction (1/6th) of the USD 340 bn in stimulus cheques that were sent out during March. Half of the cheques probably arrived too late to be spent. Other consumption than what's included in retail sales very likely grew sharply but most of the cheques were saved anyway. March sales may have been the peak, but demand will not be weak going forward

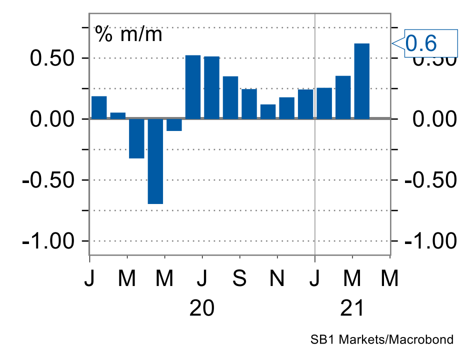
We told you so: Consumer prices sharply up in March!

Biggest m/m increase in the CPI since June ’09, the annual rate up 0.9 pp to 2.6%



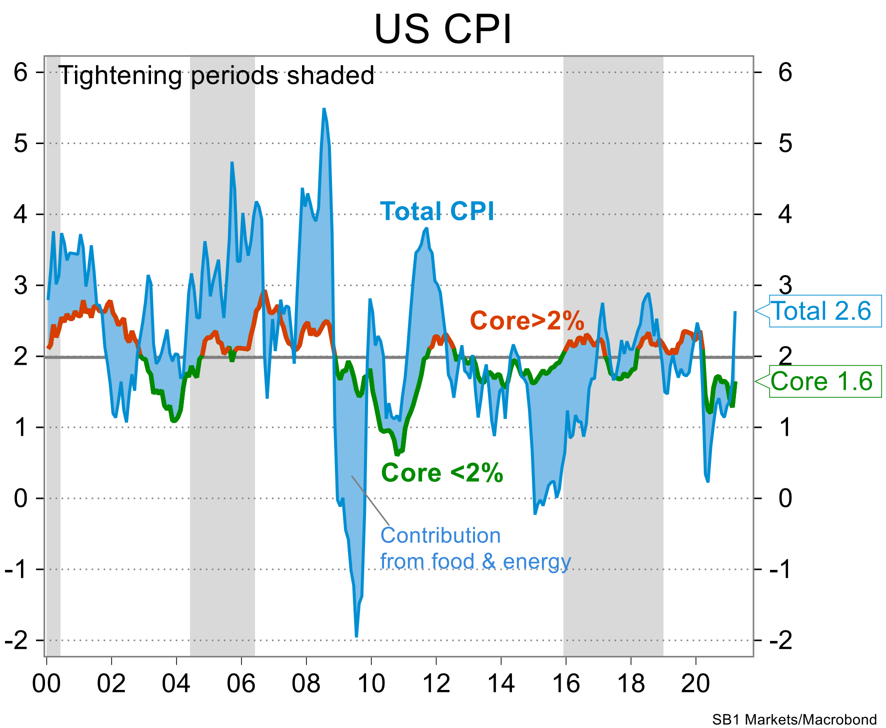


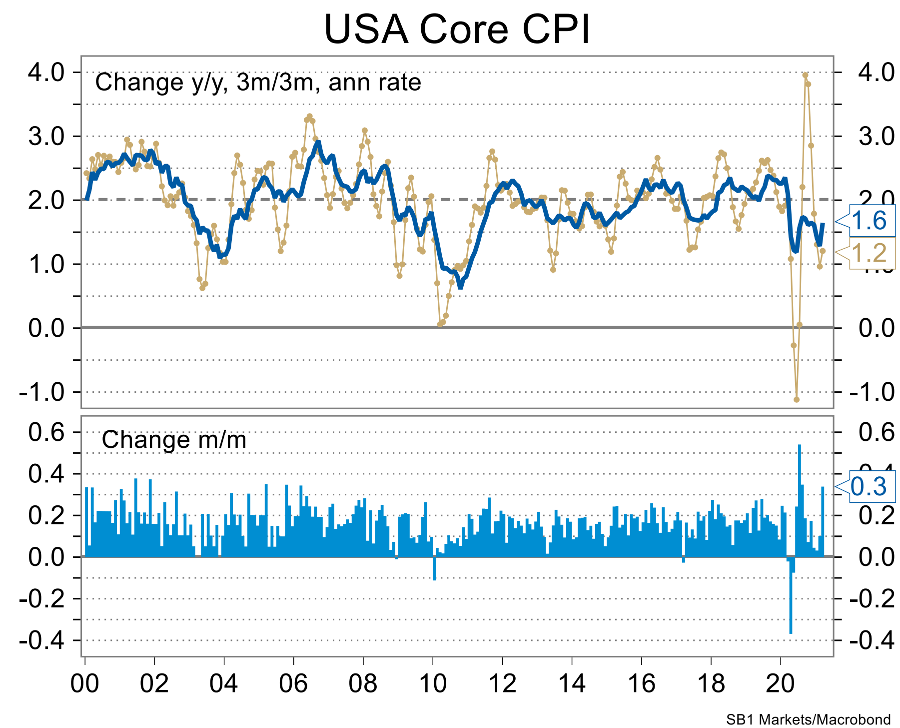
- **Headline CPI** rose 0.6% m/m in March, expected 0.5%. The annual rate rose by 0.9 pp to 2.6%, as prices fell 0.3% last March. Higher gasoline prices were at least partly to blame, up 9% m/m
- Prices have been accelerating m/m since last October, and the 3m/3m rate is now up to 3.7% - but it was even higher last September, at almost 5%.The focus should of course at these the monthly increases, not the annual rate.
- **The annual growth rate** will climb further in April and very likely in May too, just due to the price cuts m/m last spring, down 0.7% in April and 0.1% in May. If prices rise 0.2% m/m the two next months, the annual rate will climb to 3.8%. That is signaled by the PPI too. But then, the annual rate should subside, as prices rose sharply in June and July last years. So, the annual rate is not the right place to look ☺.



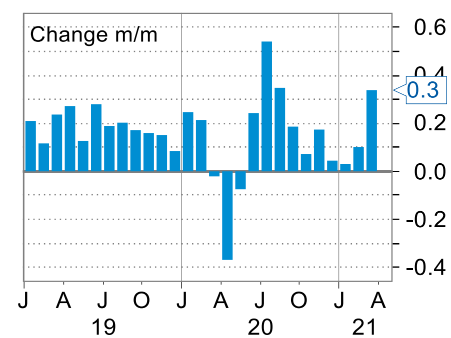
Core inflation is still in check

Prices up 0.3% m/m in March, 1.6% from 1.3 y/y, slightly higher than expected



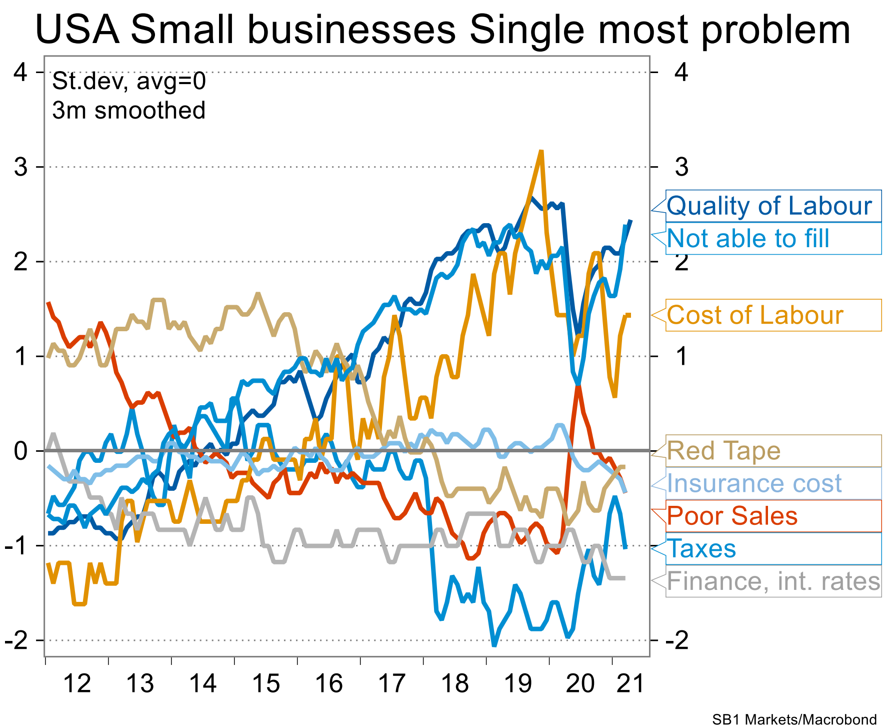


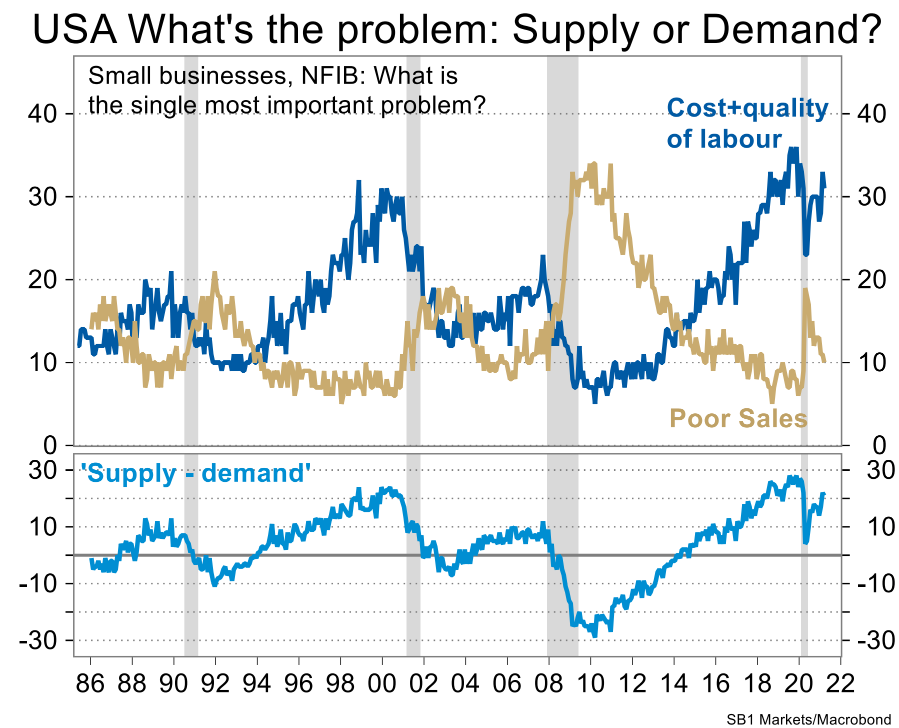
- **Core CPI** rose 0.3% m/m in March, expected 0.2%. The annual rose 0.3 pp to 1.6% (exp. 1.5%). Although this move was larger than expected, it is still far below the 2.4% pre-corona level, and below Fed's 2% target (measured by the national account PCE price deflator, which over time has reported an inflation rate 0.2 – 0.3 pp below the CPI inflation rate)
  - » The 3m/3m underlying price growth at 1.2% confirms modest prices increases, ex. food & energy so far. Which is just what the Fed should 'beg' for now
- The annual core rate will climb further in April, as core prices fell by 0.4% in April last year. Most likely, more will come in May, and the annual rate may get a lift to 2.4% – 2.6%. However, prices rose sharply the following months last year, and the annual rate will most likely decline again, even if we expect even core prices to increase faster rate than normal the coming months



Supply, quality & cost of labour yet again reported as the major problems!

Sales are not. It's really looking like we are at the end of a cycle, not a beginning…

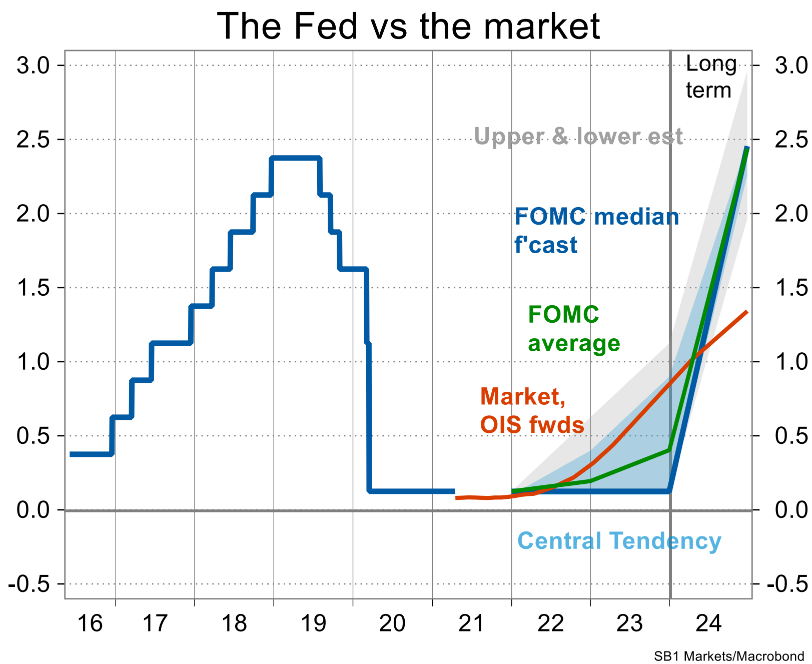




- While more businesses than normal stated **weak sales** as the major problem during the pandemic, there were never that many, and <u>now fewer than the average share of companies say than poor sales is the problem</u>
- **Availability, quality, and cost of labour** is a much more serious problem than normal, the share is now almost back up to the same level as before the pandemic, after subsiding somewhat
- <u>Thus, companies are constrained from the supply side, not from the demand side, they say</u>
- Unusually few companies are complaining about **finance/interest rates** and about **taxes** (and tax concerns have receded in the past couple of months despite messages of increased taxes)

Beige book: Reports of continued upward wage and price pressures

Still a Modest recovery overall but a optimistic outlook as stimulus checks & vaccines are distributed

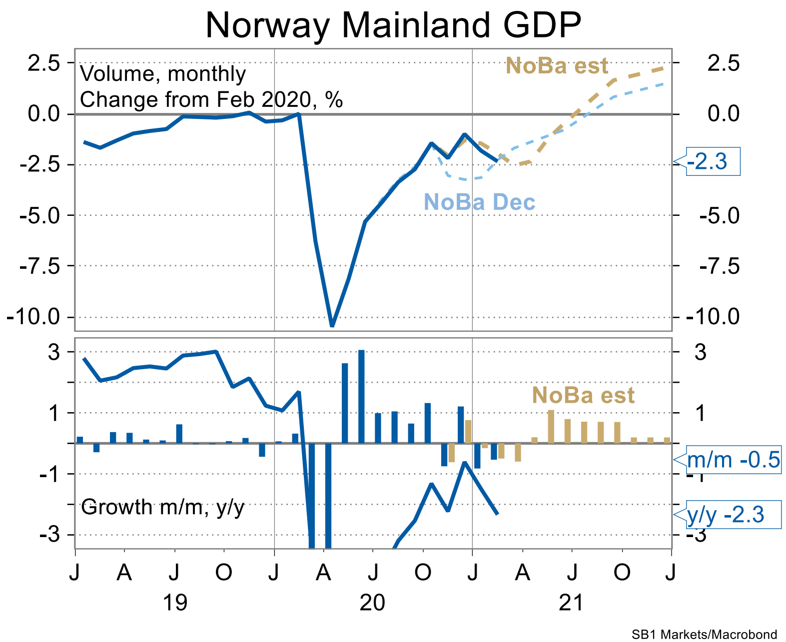


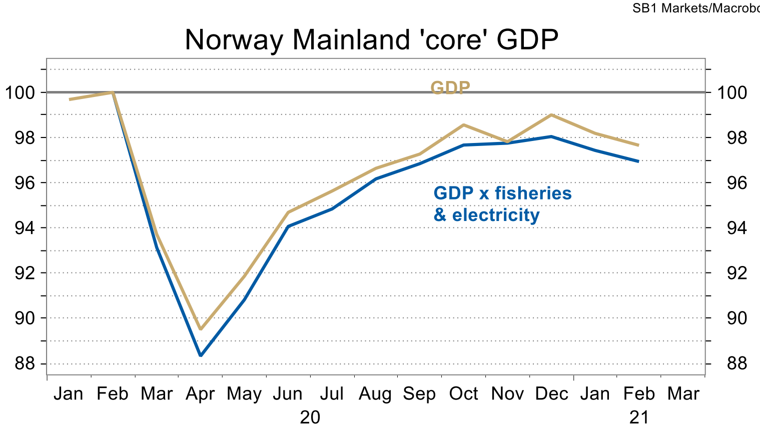
- We assume that the Fed will stay hyper-dovish until
  a) The **corona virus** is brought under control AND
  b) The **unemployment** rate has returned to well below 5% AND
  c) **The employment rate** has recovered most of the losses OR
  d) There are widespread reports of **lack of labour** AND
  e) **wage inflation** is clearly accelerating AND
  f) **Inflation** has been above 2% for a while
- The question is **WHEN** that will happen
- **Gov. Powell keep reiterating his dovish stance – but the market believes he will hike 3-4x before he says he will**

- Growth accelerated to a **moderate pace** in most districts past six weeks, according to the Fed's 12 district banks. Eased restrictions, stimulus checks and increased vaccination cited at reasons for increased activity and outlook
  - 2 districts reported strong growth (NY and Dallas)
  - 10 districts reported modest to moderate growth
- **Demand for leisure/hospitality service** has picked up as restrictions have been eased and vaccinations have continued. Both **retail sales and auto sales** were robust
- **Manufacturing** on the way up, despite supply chain challenges. Energy kept expanding. The **housing market** is still going strong, while the commercial real estate markets are still weak. **House prices** are (of course) still climbing, as supply is limited
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages, which is expected to increase over the coming months
- **Input prices** are on the way up, but there widespread reports of **increased selling prices** as well
- **In sum:** Although the reports out of the 12 districts keep getting more positive, we see no reason to expect the FOMC to change its assessment of the economic outlook at the meeting on April 28th. Markets probably focused more on the signals of a tighter labour market and price pressures

Mainland GDP down 0.5% in February

In line with NoBa/expectations

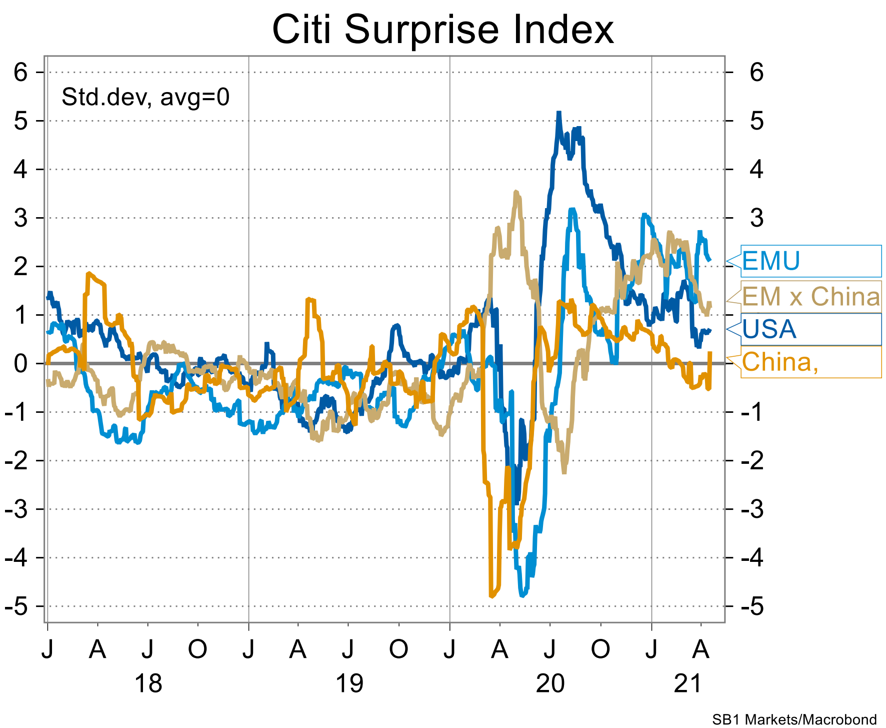


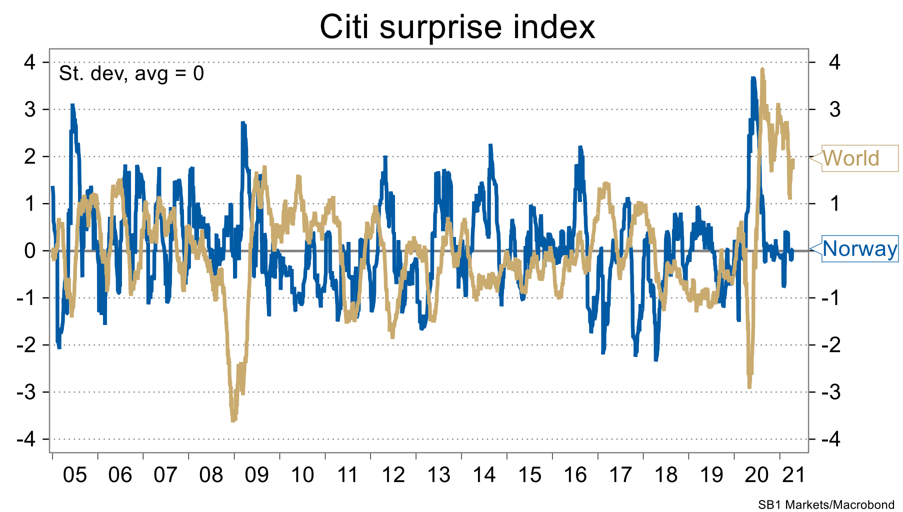


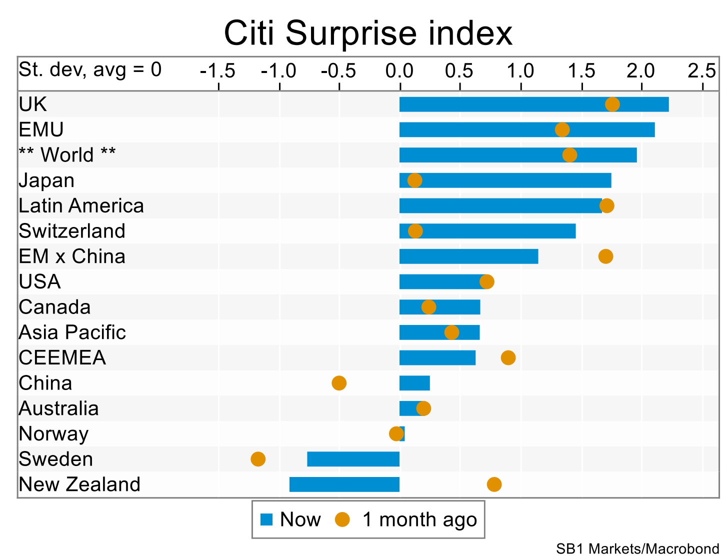
- **Mainland GDP fell by 0.5% m/m in February**, in line with Norges Bank's expectations from the March MPR, we exp. -0.4%. The decline in January was revised to -0.8% from -0.2%, while Dec was revised a tad upwards. In sum, marginally weaker than expected. GDP is close to unch. from last Sep, following a 1.3% decline since Dec
  - No net impact form electricity and fisheries in February
  - **Production:** Private services are of course hampered by restrictions but the decline in Feb was just 0.3%. Still hotels/restaurants, culture entert., transport were all down around 2%. Manufacturing/mining was down 1.9%
  - **Demand:** Norwegians' spending at home rose but foreigners' spending fell more, due to travel restrictions. Mainland & business and housing investments increased, while oil investments fell. Exports x travel flat
- **Mainland GDP is down 2.3% vs the Feb-20 level**
  - **The GDP level** is marginally below Norges Bank estimate in the March MPR. Ex fisheries & electricity, GDP is down 3.0%
  - **Production:** The 4 hard hit services are down 19% (business services) to 47% (hotels & restaurants). The total negative drag equals 3.1% of Mainland GDP. Other sectors are up, with trade, manufacturing & education in the lead. Construction is down 4%, even if housing investments are up
  - **Demand:** Norwegians are spending 1.5% less in Norway than in Feb-19, services down 13%, goods up 11%. Spending abroad has fallen by 97% (equalling 9% of disp. income), and the money is saved. Housing investments are up. Mainland business investments have fallen by 6%, while oil investments are down 8%. Exports ex petroleum (and tourism) are back to the Feb-20 level. Foreigners are not spending anything in Norway, a cut equalling 1.5% of Mainland GDP

The UK & EMU surprises most of all, on the upside. World average is strong too

In the US, expectations have come up, not that easy to beat them anymore







- **UK & EMU** at the top of the list, followed by Japan & Lat-Am
- The **US** surprise index stabilised last week
- **China** recovered last week as March data were OK
- **Norway** is still in a neutral position, close to the bottom

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

The Calendar: The action is at the end of the week

Time	Count.	Indicator	Period	Forecast	Prior
Monday Apr 19					
10:00	EC	ECB Current Account SA	Feb		30.5b
Tuesday Apr 20					
06:00	SW	House prices	Mar		
10:00	NO	Housing starts	Mar		
08:00	UK	Claimant Count Rate	Mar		7.5%
08:00	UK	ILO Unemployment Rate	Feb	5.1%	5.0%
Wednesday Apr 21					
08:00	UK	CPI Core YoY	Mar	1.1%	0.9%
Thursday Apr 22					
08:00	NO	Industrial Confidence	1Q	(8)	3.1
13:45	**EC**	**ECB Deposit Facility Rate**	**Apr-22**	**-0.50%**	**-0.50%**
14:30	US	Chicago Fed Nat Activity Index	Mar		-1.09
14:30	US	Initial Jobless Claims	Apr-17	625k	576k
16:00	US	Leading Index	Mar	0.8%	0.2%
16:00	EC	Consumer Confidence	Apr A	-11	-10.8
16:00	**US**	**Existing Home Sales**	**Mar**	**6.20m**	**6.22m**
Friday Apr 23					
01:30	JN	Natl CPI YoY	Mar	-0.2%	-0.4%
	JN	Manufacturing PMI	Apr P		52.7
08:00	UK	Retail Sales MoM	Mar	1.5%	2.1%
09:15	FR	Manufacturing PMI	Apr P	59.0	59.3
09:15	FR	Services PMI	Apr P	46.3	48.2
09:15	FR	Composite PMI	Apr P	48.9	50.0
09:30	GE	Manufacturing PMI	Apr P	65.8	66.6
09:30	GE	Services PMI	Apr P	51.0	51.5
09:30	GE	Composite PMI	Apr P	57.0	57.3
10:00	**EC**	**Manufacturing PMI**	**Apr P**	**62.0**	**62.5**
10:00	**EC**	**Services PMI**	**Apr P**	**49.1**	**49.6**
10:00	**EC**	**Composite PMI**	**Apr P**	**52.8**	**53.2**
10:30	UK	Manufacturing PMI	Apr P	59.0	58.9
10:30	**UK**	**Services PMI**	**Apr P**	**58.9**	**56.3**
10:30	UK	Composite PMI	Apr P	58.0	56.4
15:45	US	Manufacturing PMI	Apr P	60.5	59.1
15:45	**US**	**Services PMI**	**Apr P**	**61.5**	**60.4**
15:45	US	Composite PMI	Apr P		59.7

- **PMIs**
  - » Markit's **preliminary April PMIs** out on Friday. Overall, the PMIs have been very strong across the board, especially in The U.S., the UK, Sweden and China. Manufacturing PMIs in Europe have also been impressive, however virus restrictions have held back the sentiment in the Service sector. We expect even stronger digits out of the **U.S. and the UK** as restrictions there have been further eased. It may be too early to see some reopening joy in the service sector in the **Euro Area**
- **USA**
  - » The latest **Jobless claims report** was down by 196' to 576', the lowest print since before the pandemic but still a high number, signalling continued hardship in parts of the economy. However, unfilled vacancies are at historically high levels too, and demand is super strong in many sectors, i.e. claims will continue to fall
  - » **Existing home sales** were down in Feb, but remained well above the pre-Covid level. Inventories are at record lows and is no doubt keeping transactions down – and prices up
- **EMU**
  - » The **ECB meeting** will most likely be a 'non event', despite of decent (but still mixed though) macro news out of the region. The virus is still holding back large parts of the economy, and the PEPP is not up for review until the June meeting
  - » **Consumer confidence** increased sharply in March, broadly. As the pace of vaccinations is gaining speed, there is reason to expect a further increase in April
- **Norway**
  - » The **Industrial confidence survey** came in at 3 in Q4, slightly below average. We expect a substantial strengthening in Q1, as signalled by the PMI, at the best level since 2007. Norges Bank's Network survey also reported growth in the manuf. Sector, and actual production data have been decent too

Highlights

The world around us

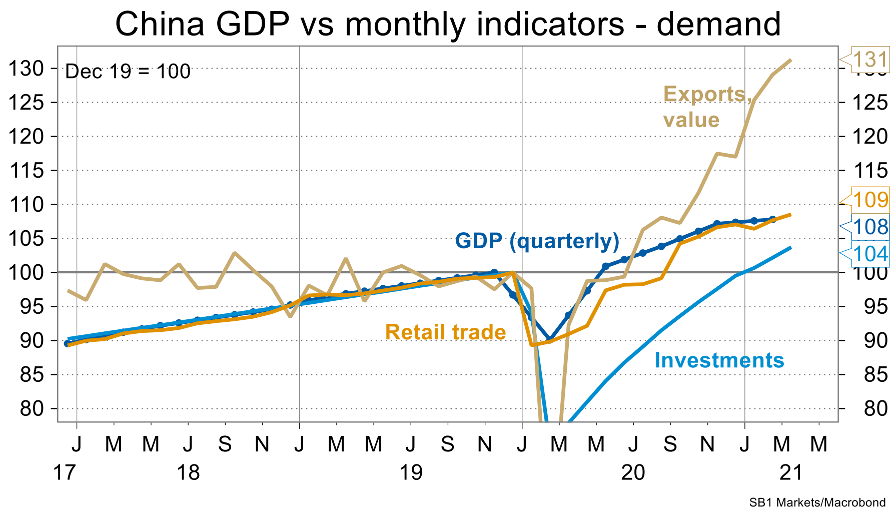
The Norwegian economy

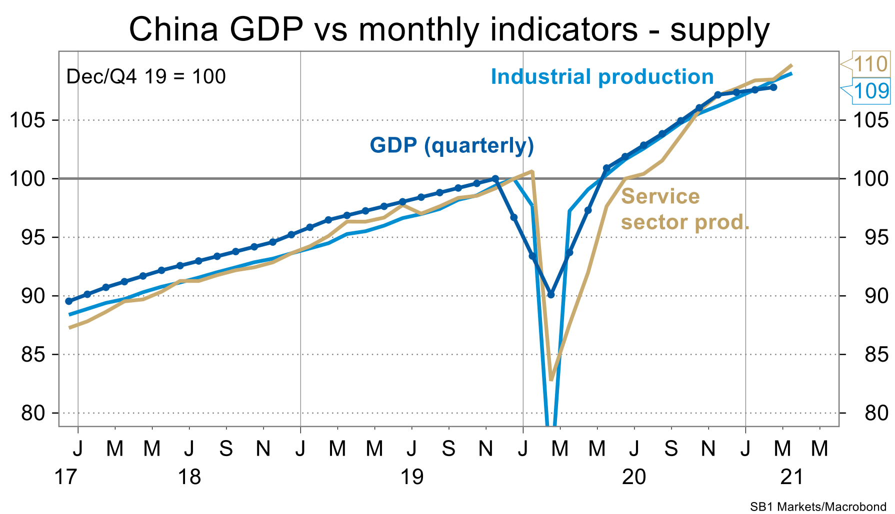
Market charts & comments

SpareBank 1 MARKETS

Lunar NY restrictions dampened activity in Q1, no reason to worry, March OK+

Q1 ended on a strong note, signalling normal growth in Q2



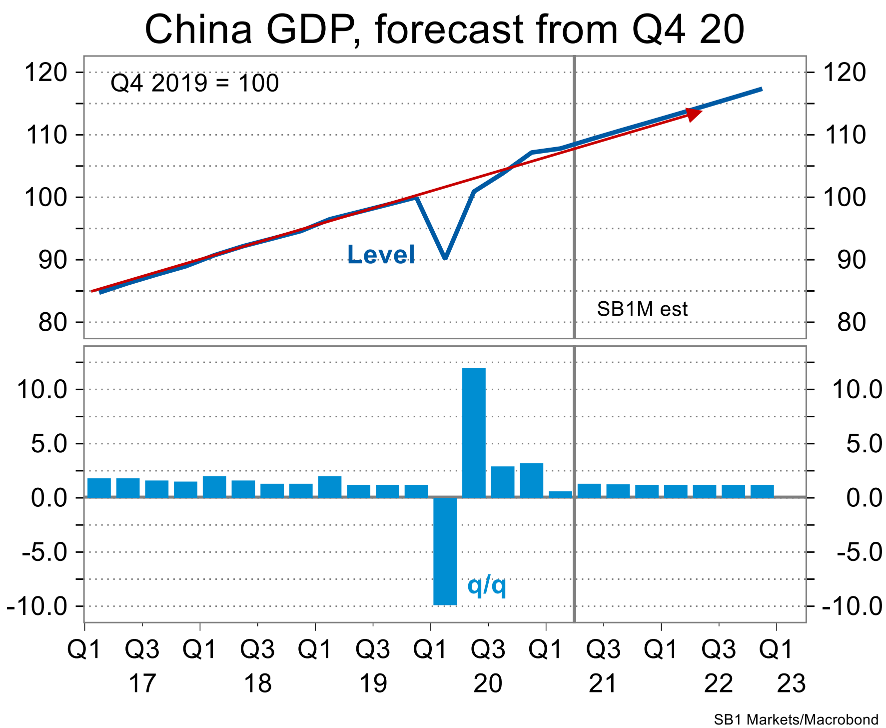


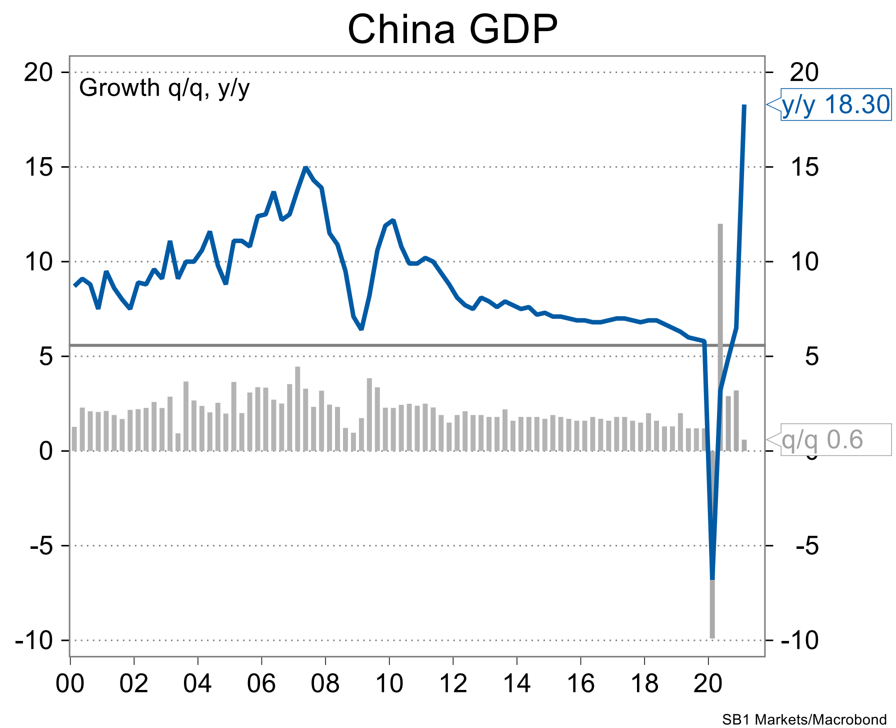
- **GDP** rose 0.6% in Q1 (2.4% annualised), less than the expected 1.4%. However, Q4 was revised up to 3.2% from 2.6%. Since <u>Q4-19</u>, GDP has expanded at a 6.2%, well above the pre-pandemic trend (which was slowing) at 6.0%. Thus GDP is above the pre-pandemic trend path
- **Industrial production** rose 0.6% in March. Measured y/y, production is up 14.1%, somewhat less than expected but these y/y data are now 'impossible' to calibrate. Production is well <u>above the pre-corona trend path, and is growth faster</u>. Growth will now most likely slow
- **Service sector production** growth slowed to almost zero in Feb but rose 1.2% again in March, and is 'back on track'. The slowdown was no doubt due to travel restriction during the Lunar New Year holidays
- **Retail sales volumes** were revised sharply up in Jan/Feb and rose further by 0.8% in volume terms in March, according to our calc. Sales were far higher than expected y/y, but these data are useless
- **Investments** may have slowed somewhat in Q1 but a date revision makes us uncertain. Either way, the gap vs. the pre-corona trend is almost closed. Measured y/y, investments were 1 pp lower than expected, at +25.6%. **New home sales** are soaring, and **starts** are ticking up
- **Exports** rose further in March and the level is far above the pre-pandemic trend. **Imports** rose more, and are above trend too
- **Credit growth** recovered in both Jan & Feb, no credit squeeze
- **Last week: CPI inflation** rose in March, and producer prices rose sharply

In sum: Covid measures held parts of the back economy somewhat during the festive season but March data signals full speed ahead

Q1 GDP up just 0.6% q/q, expected 1.4%. Still up by a 6.2% pace from Q4-19

Q4 was revised up by 0.6 pp to 3.2%. GDP is above the pre-pandemic trend path.

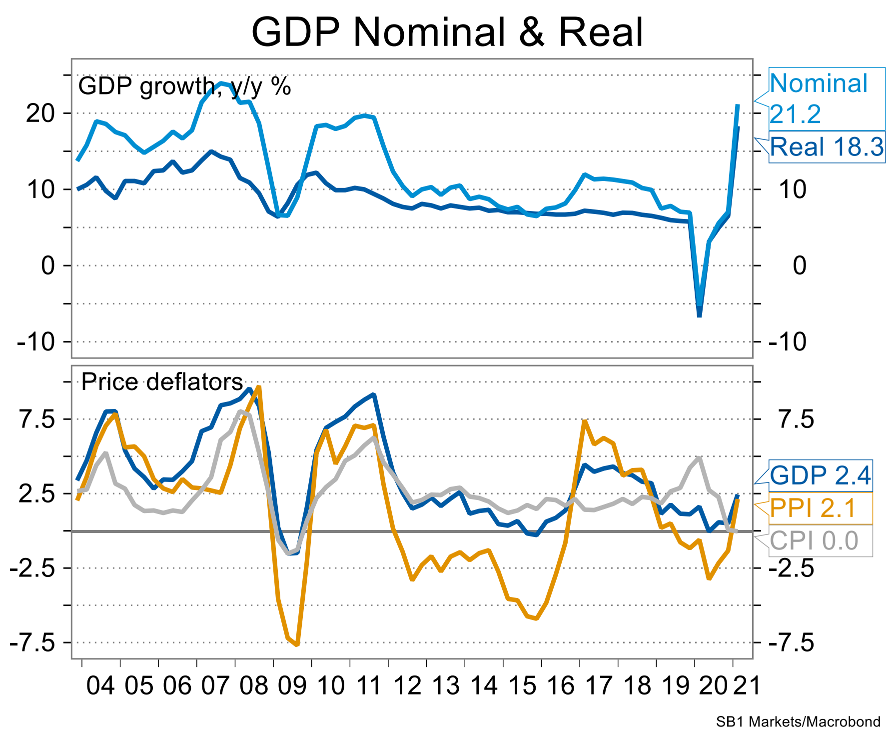




- A 0.6% q/q rate equals a just a 2.4% annualised growth pave, down from an upward revised 3.2%/13.4% in Q4, and far below any estimate of growth in potential GDP. Lower activity during the Lunar New Year is probably to blame for the slow growth in Q1- However, a slowdown to at least the- pandemic trend path is likely
  - » The 18.3% annual rate was marginally below expectations too
- The annual GDP growth rate was sliding down before corona, to 6% in Q4-19. If the gradual decline in growth had continued – and corona had not happened – the annual growth rate would have been below 5.5% by now. The actual rate since Q4-19 at 6.2% is clearly above the pre-corona trend

GDP price deflator up to 2.4%, from close to zero

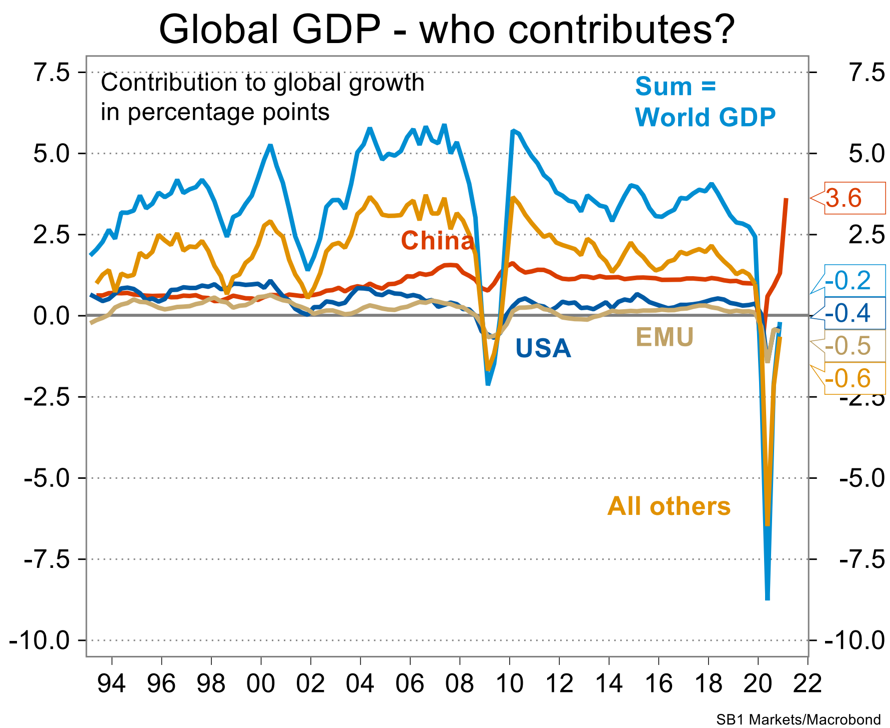
Nominal GDP up by 21.2% y/y

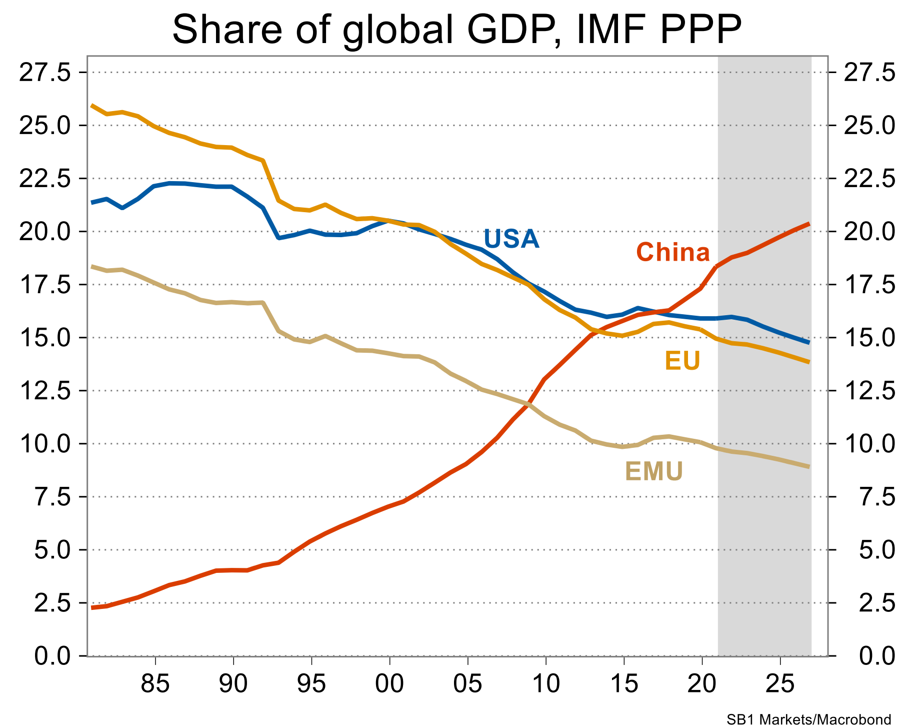


- Manufacturing producer prices (PPI) are down 2.1% y/y (quarterly avg), while CPI prices were flat y/y

We may blame China for many things. But it is not a drag on the global economy

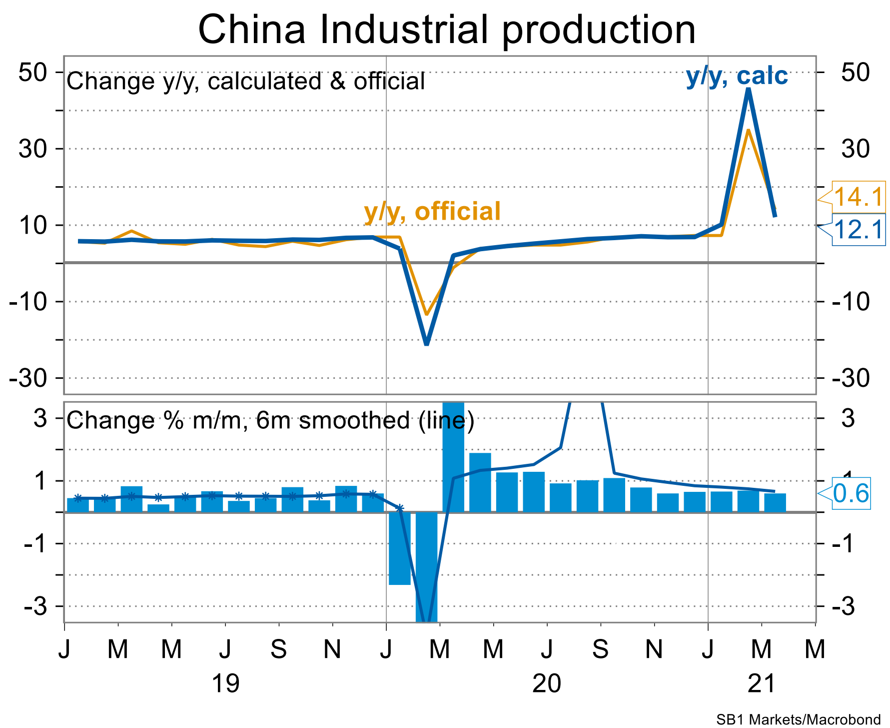
Only China has reported Q1 data as of yet

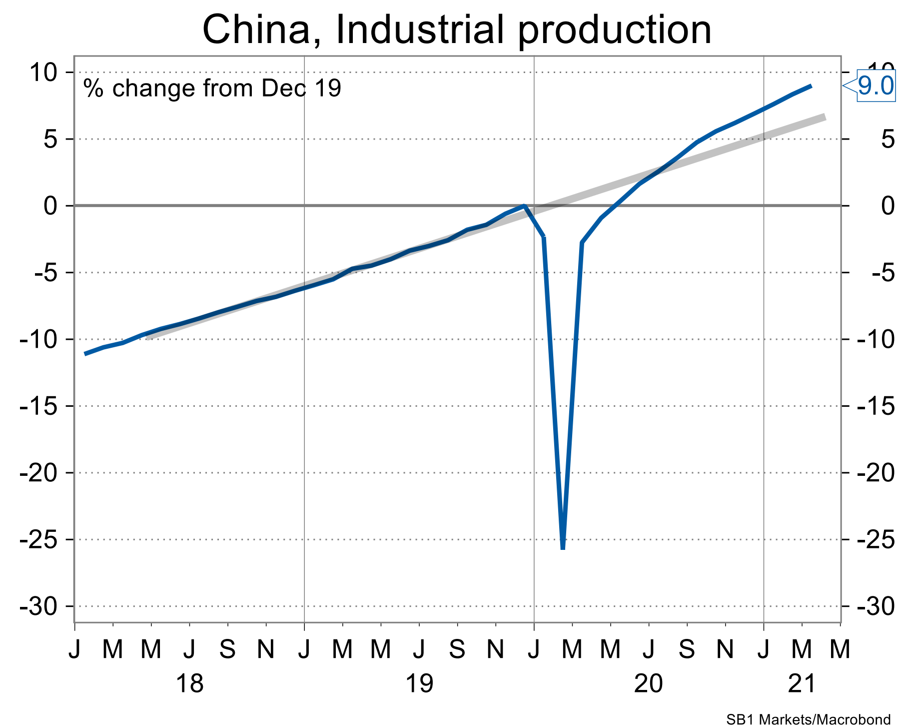




Industrial production up 0.6% in March, level 3% <u>above</u> the pre-corona <u>trend</u>

Annual growth rates are still useless – but production is up 14.1% y/y

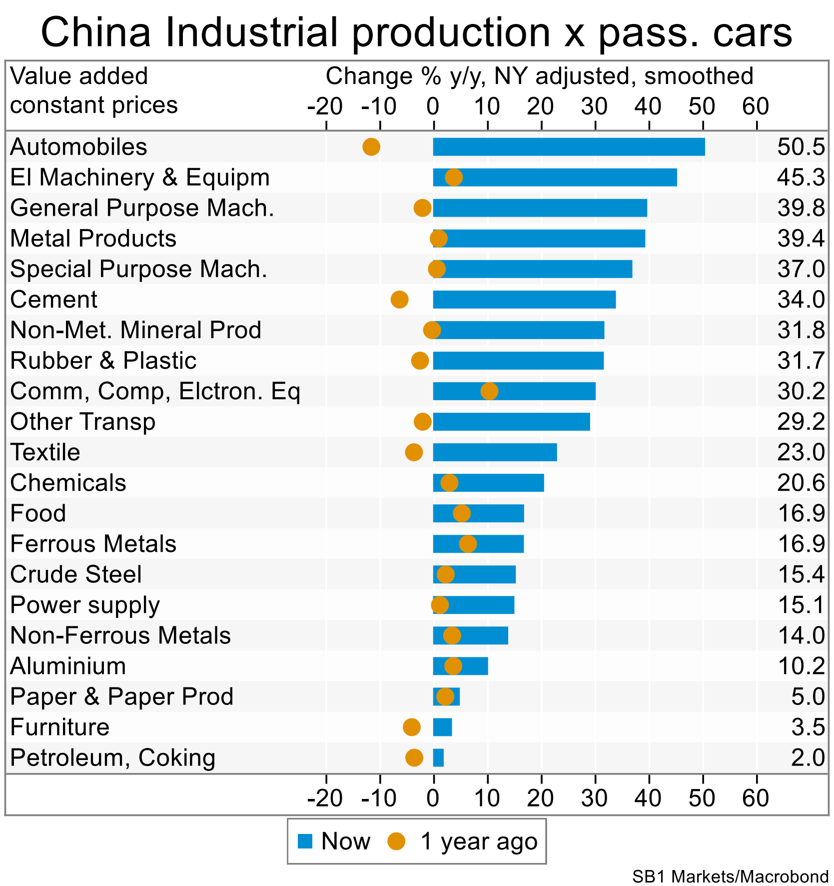




- Production rose less than expected y/y, 14.1% vs 16.5%, down from 35% in average in Jan/Feb
  - » These data are 'useless' to judge what is going on now - but still confirm the recovery through 2020: The annual growth rate was -1.1% last March. Thus from March-19 production has increased by 12.8%, or by 6.2% per year in average, above the 5% pace through 2019
- Production is 9.0% above the Dec 19 level and some 3% <u>above</u> a reasonable pre-corona growth path. <u>Impressive!</u>
  - » As the production level is above the pre-corona growth path we do not expect industrial production to keep growing faster than trend growth, at some 0.5% per month. Both supply and demand may be limiting factors

Annual growth rates: A good picture of the effects of last year's lockdown

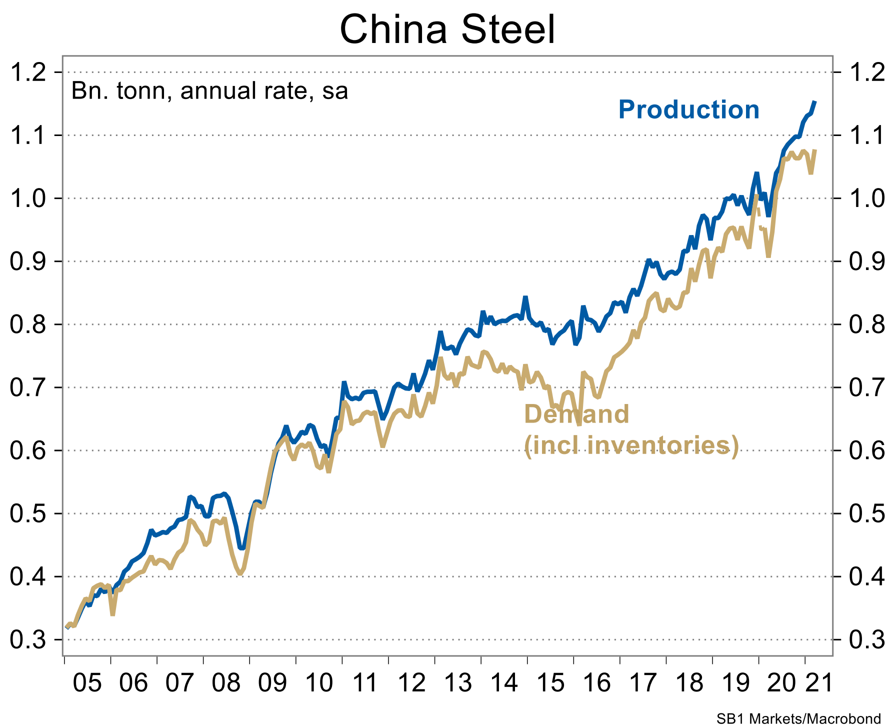
... but nothing more. Still, strong underlying growth in many sectors



- **All construction inputs** are back on brisk pre-corona growth paths, except copper production (no data from Q1)

Construction starts are increasing again, steel demand strong too

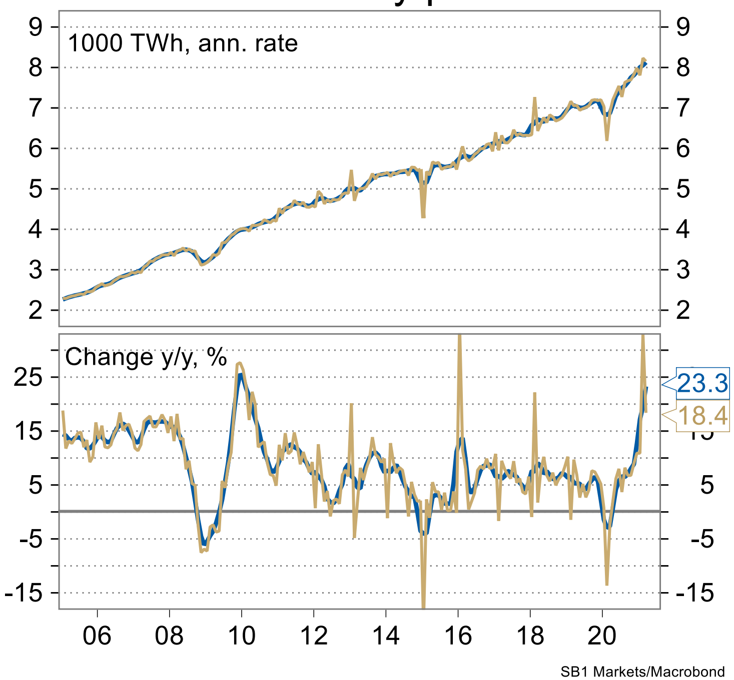
However, production is even stronger, probably limited short term upside

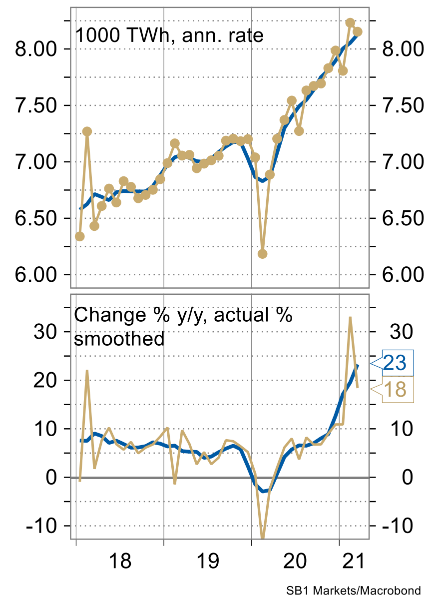


Very strong electricity production data, up 13% vs. the pre-pandemic level

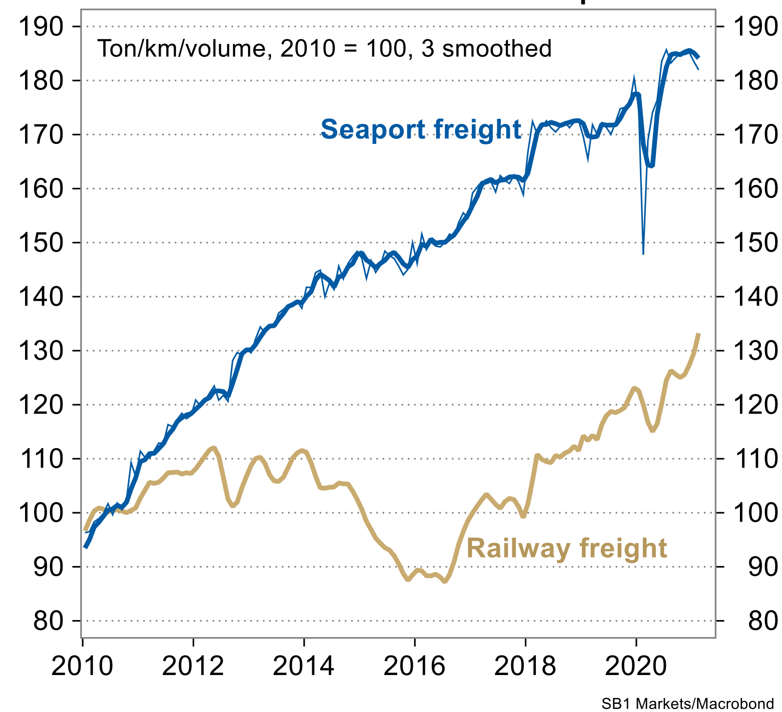
Transport activity robust too, even if shipping activity has flattened recent months

China Electricity production



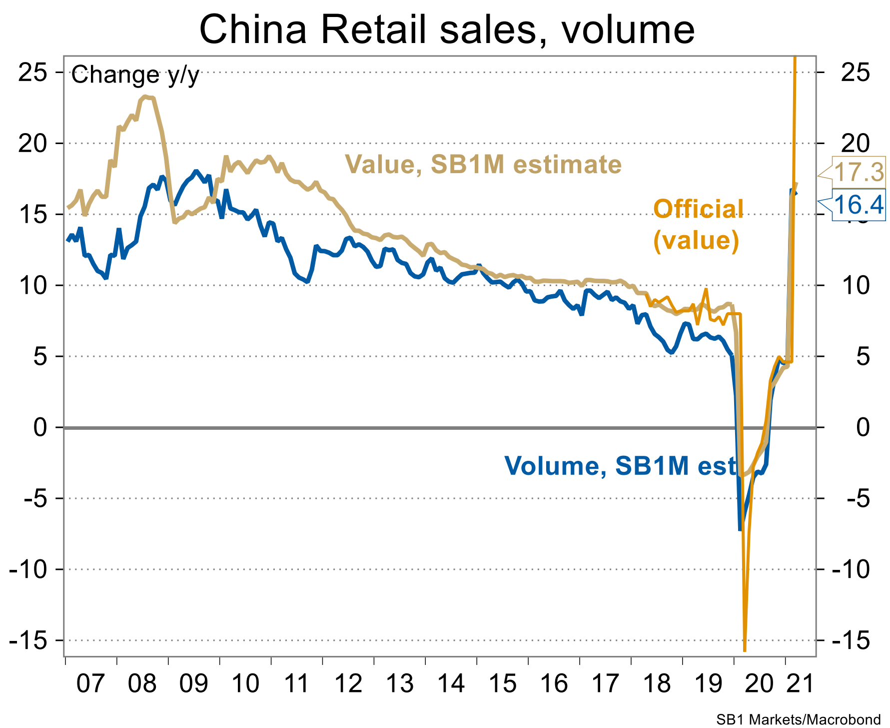


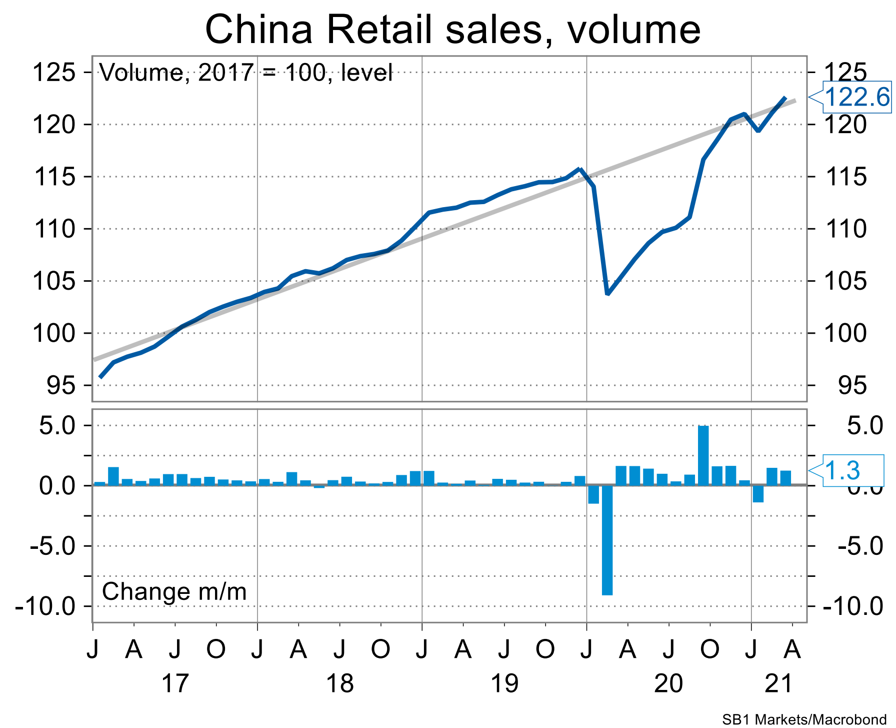
China Trade and transport



Retail sales sharply up in March, Jan/Feb revised up too. Sales are back on track

Sales volumes up 1.3% in March, Jan/Feb revised up by 1.4 pp – no signs of weakness.

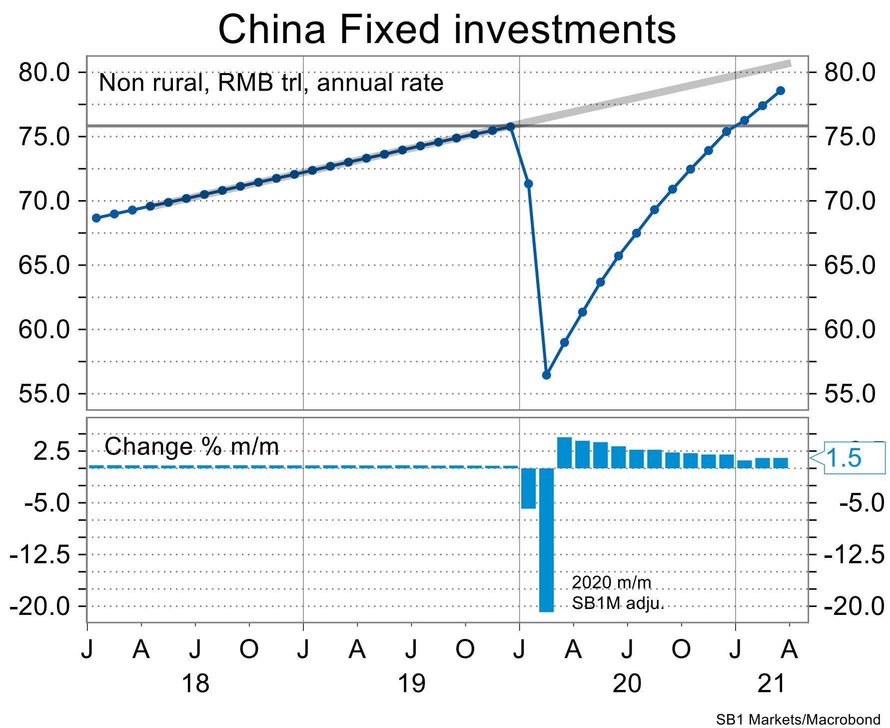




- The previously weak Jan/Feb data (sum down 1.3% was explained by the muted Lunar New Year festivities and travel restrictions. However, following the 1.4% revision and the 1.3% growth in March, no signs of weakness at all.
- The official yearly changes are extreme, of course. March is up 34.2% in value terms (expected 28%, which did not seem reasonable given the 15.9% decline y/y – as it would leave the Mar-21 level up just 7.6% up vs. Mar-19, that is over 2 years. The trend growth is approx. 7% per year, and Dec-Feb was up some 5% y/y
- We have adjusted 2020 m/m seas. adj. data somewhat, as they are not consistent with other published data (and not previously published m/m data)

Investments are (probably) not yet fully back on track

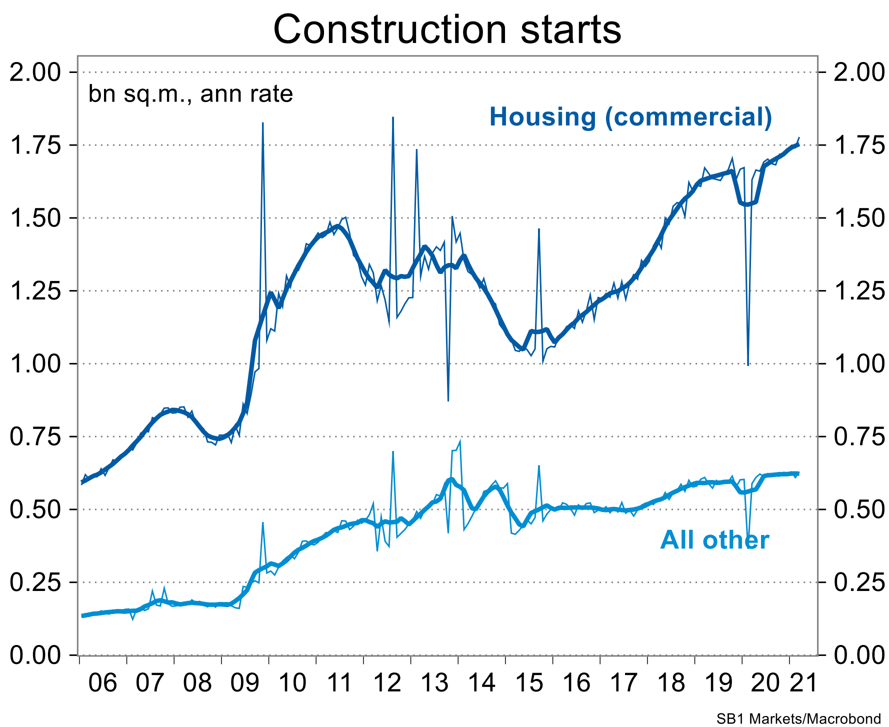
Once more, China's authorities have 'screwed up' their stat…

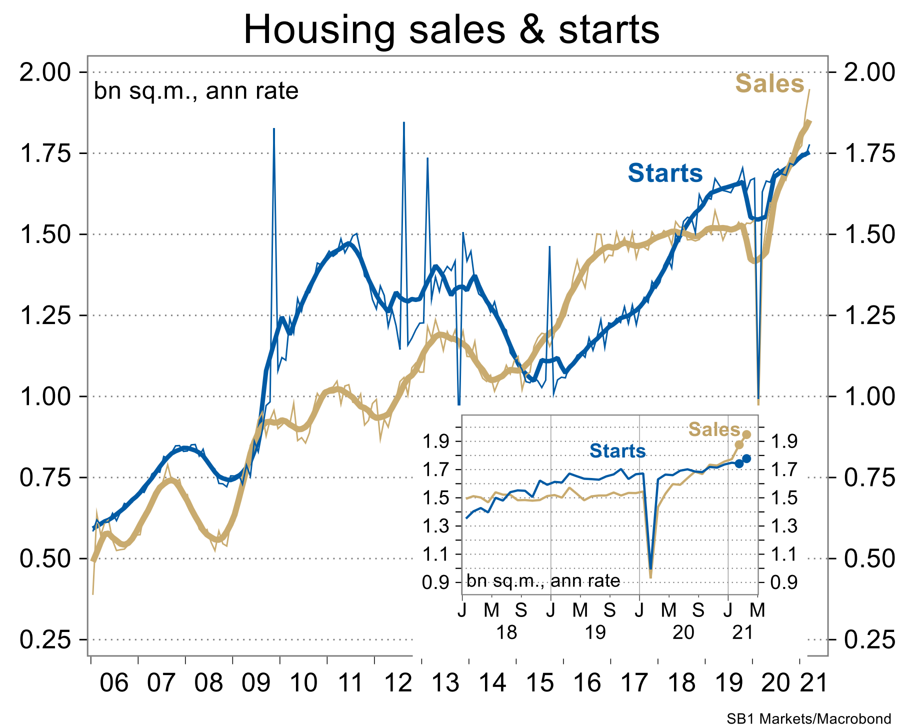


- Measured ytd, investments are up 25.6% y/y in Q1, vs the 16.1% decline the first 3 months last year (as published by NBS). Thus, the level in Q1 is 5.4% above the level in Q1-19, which is a low 2y growth rate – and the investment level is below the pre-pandemic level
  - » NBS har totally revised seasonally adjusted m/m data for the last year, to something than cannot be reasonable. We are applying the previously published data through last year. From January, we apply the official m/m data, even if they may be wrongly calculated
- Growth m/m has probably slowed the past months
- In real terms, investments are up approx. by the same amount as in nominal terms (due to lack of an updated investment price index, we utilise a mix of a producer price index, and a GDP deflator)

New home sales are soaring – starts up too

Sales have been very strong since last spring and no signs of slowing. Level +27% vs pre-Covid, at ATH

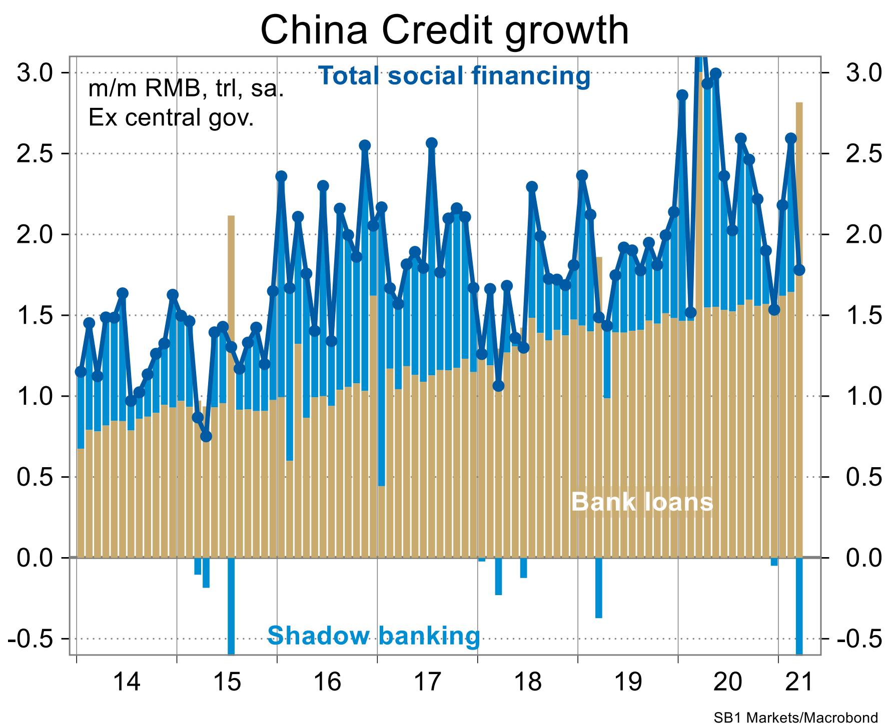


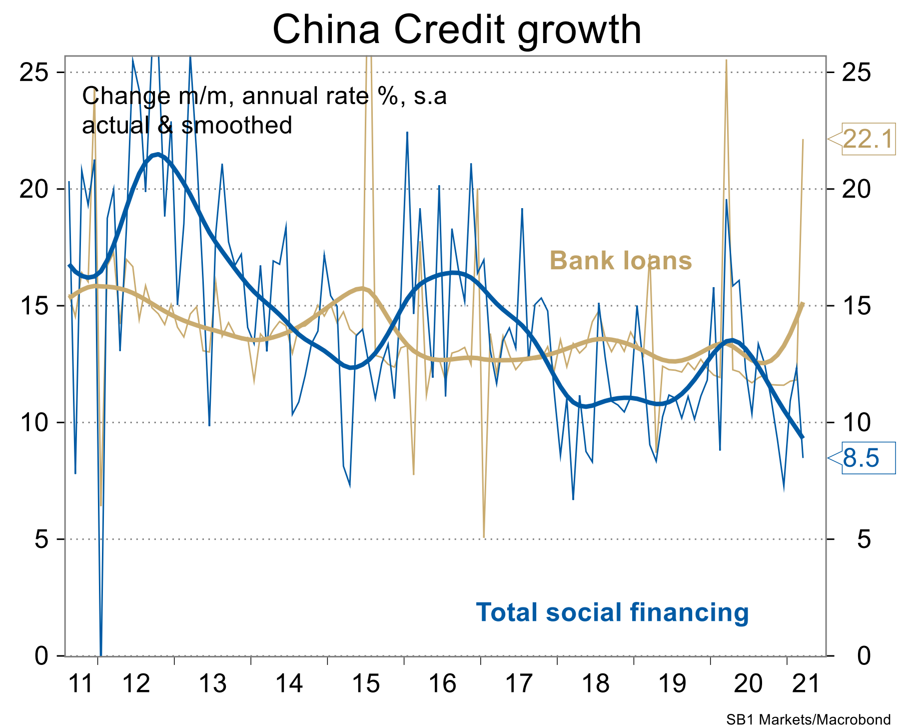


- The rise in new home sales is spectacular, and not driven by strong growth in new home prices
- Starts were higher than sales from mid 2018, to last autumn, new sales are well above the no. of housing starts – and starts are trending clearly up, by 5% vs. the pre-pandemic level – and at a record high level
- Non-residential construction has flattened at a record-high level, up 4% vs the pre-pandemic level
- Thus, construction level is at a record high level!

Bank credit 'exploded' in March but shadow bank credit 'collapsed'

Credit growth has accelerated moderately at the start of 2021

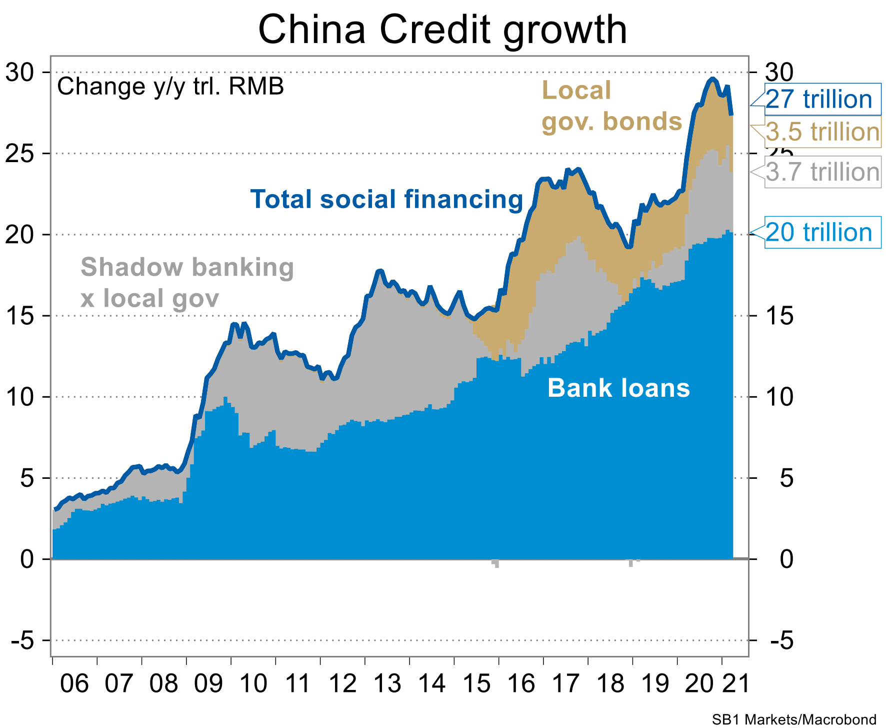


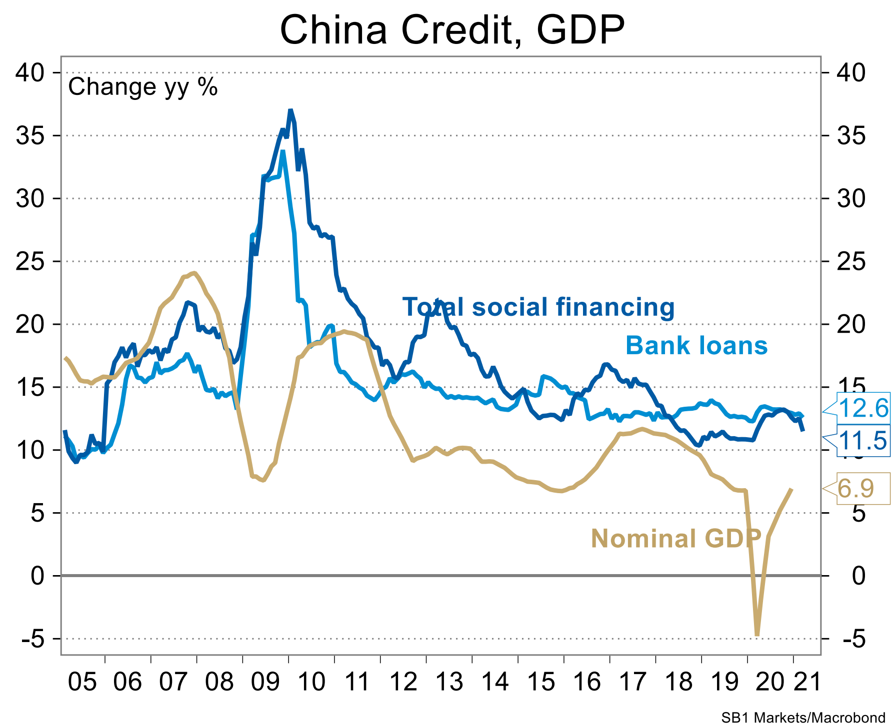


- In March **total credit** grew at just a 8.5% rate (m/m, annualised), down from 11% in Feb. Smoothed, the underlying rate may be some 10%, down from 13% during last spring (and >15% during some months). A 10% growth rate is still above trend growth in nominal GDP
  - **Total credit** rose by RMB 3.2 trl, expected 3.7 trl (not seasonally adjusted, total social financing, including central & local government bond, and corporate equities). Seasonally adjusted the core total social credit (total ex central gov bonds & corporate equites) grew by 1.8 bn, down from 2.6 bn in Feb. The annual rate fell to 11.5% from 12.5%
  - **Bank loans** rose by 2.9 trl, both actual & seas adjusted. Bank loans are up 13% y/y
  - **Shadow banking credit** fell more than RMB 1 trl., the largest decline ever, equalling 1.4% of all outstanding credit outside banks!
- **The Chinese authorities** have signalled that credit growth outside banks should slow, and it has been growing slower than bank credit since 2018, barring an uptick during the pandemic last spring (when all stimulus was needed)

Credit growth curve showed signs of flattening

… at a rather high level

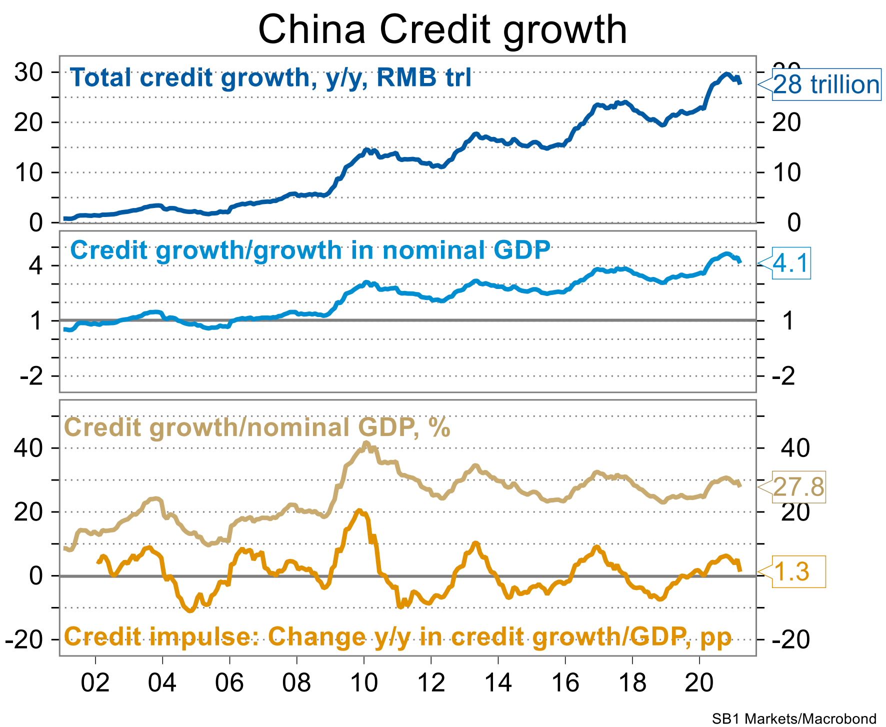


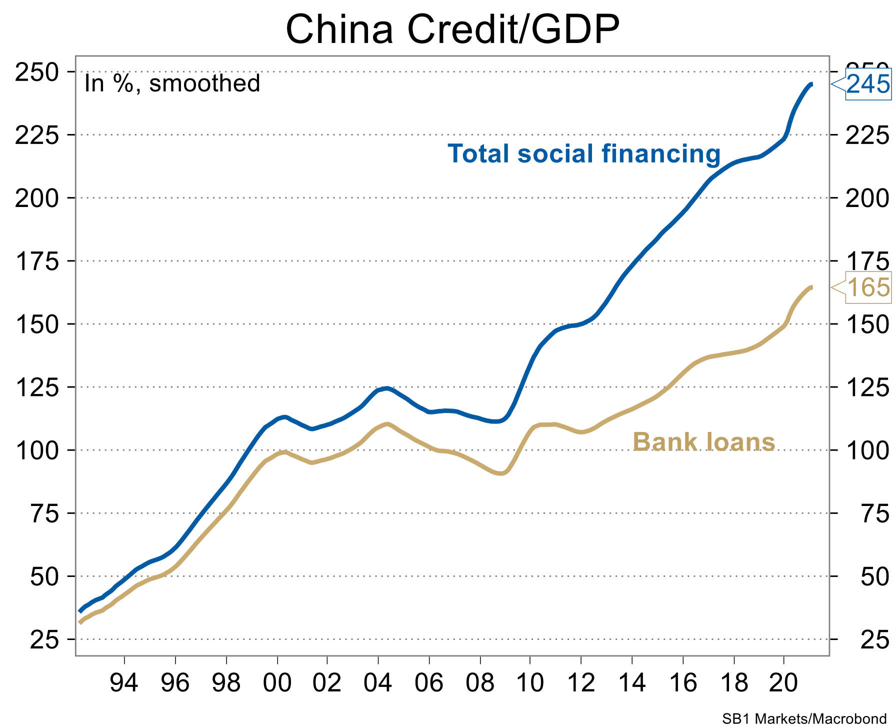


- Over the past year, **total credit** has expanded by CNY 27 trl, equalling 30% of GDP (even before the Q1 '20 collapse)
- Banks supplied CNY 20 trl of the y/y increase
- **Local governments** have not yet accelerated their borrowing by much, at least not in the bond market, still up 3.7 bn y/y
- Other credit – via the **shadow credit market** x local gov bonds gained speed last spring but has slowed substantially in recent months
- Total credit growth at 11.5% is well above nominal GDP trend growth

The credit impulse has slowed markedly

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



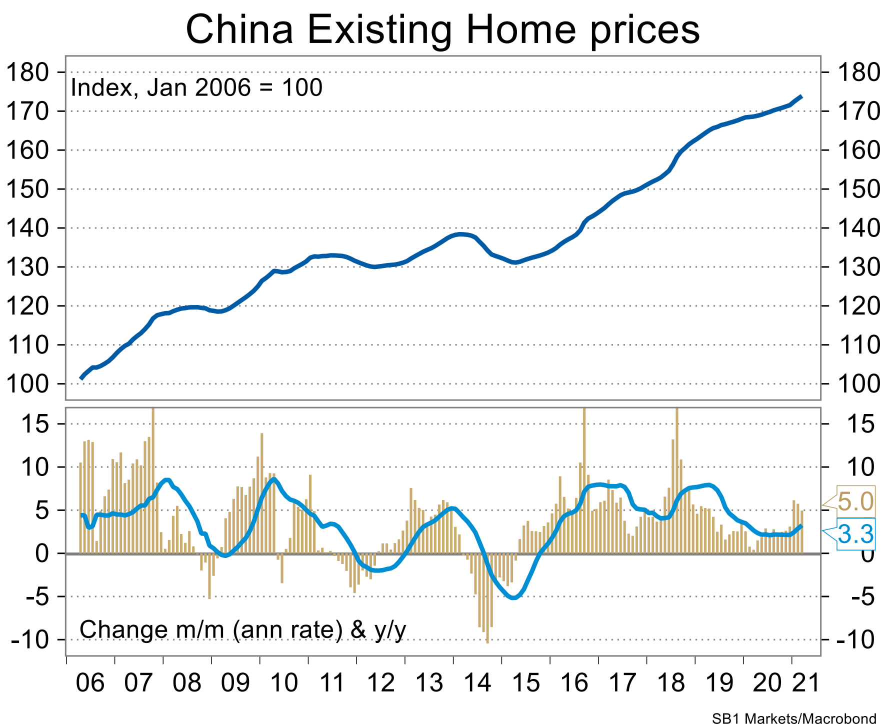


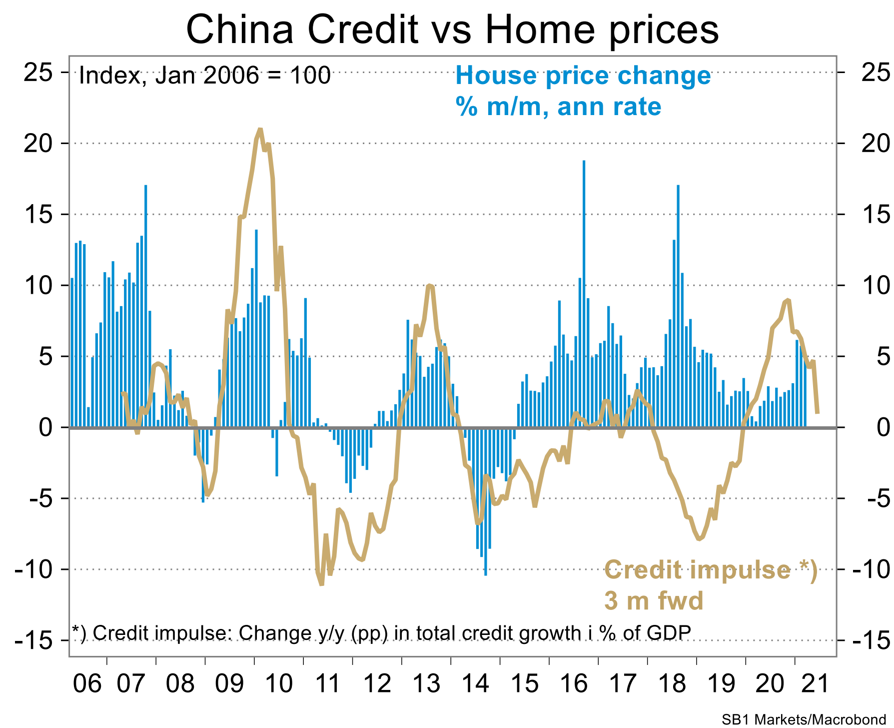
- A positive **credit impulse** implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy
- The credit impulse has been in the positive territory since late 2019, but have peaked – and it is now approaching a neutral territory, measured y/y (while it already negative measured over a shorter time span, but the short term volatility is large)

GDP is smoothed at the calculations at the charts above

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

Prices up 5.0% m/m in March (annualised), slightly down vs Jan/Feb

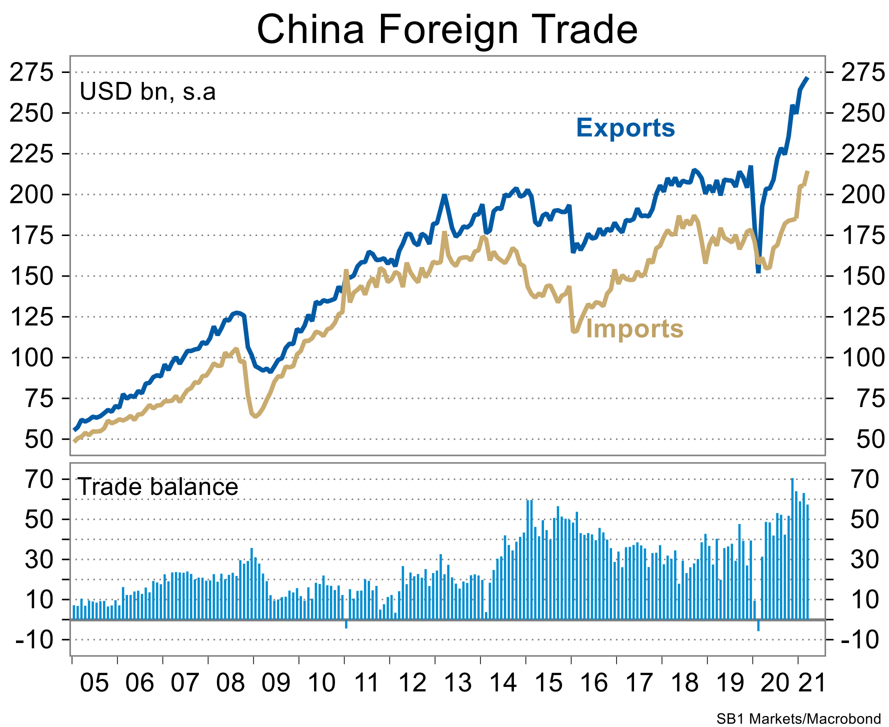




- Credit policy has been supportive, at least until now. Credit growth has slowed and may dampen the housing market – even if the correlation is not that tight

Both exports and imports are surging

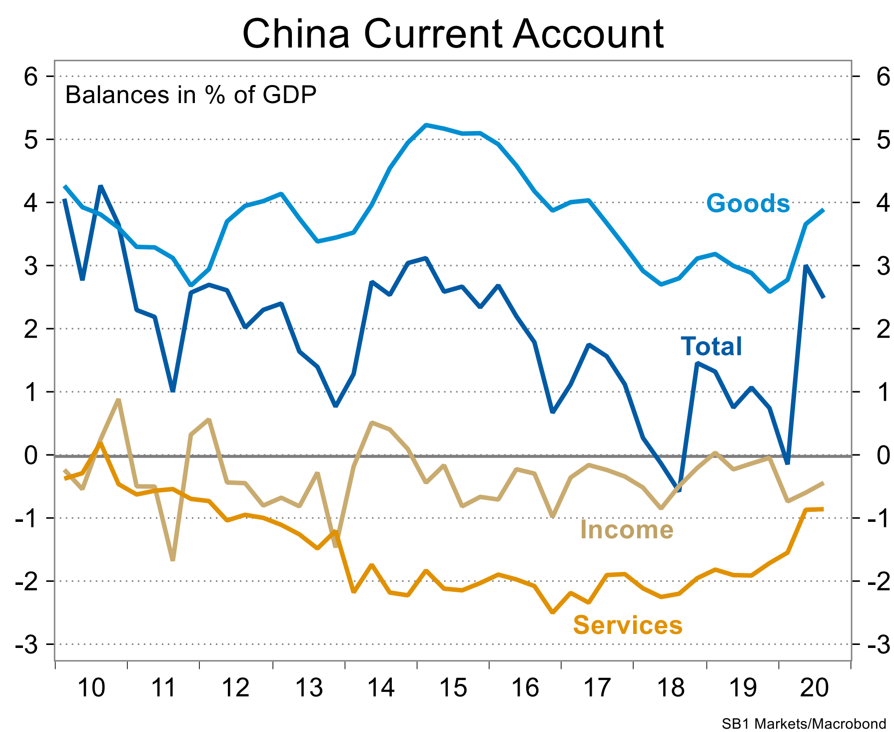
No signs of any slowdown in the global or the Chinese economy



- **Exports** rose by some 1% in March (and by 8% from December) to another ATH . (Annual growth rates are irrelevant due the slump last Feb). In **volume terms** exports very likely kept up too. Exports are far above any reasonable trend path, at least 15%. Global demand for goods is strong
- **Imports** rose some 4% (and by 15% from Dec) to another ATH. In **volume terms** (our price assumptions last 4 m) the lift is less impressive, as we assume import prices rose sharply (oil and other raw materials – but imports volumes are record high and some 10% above the pre-pandemic growth path. Domestic demand is more than OK
- The **trade surplus** is still high, at some USD 60 bn. The surplus has been higher than normal since last March. China is still running a **deficit in services** (but it is narrowing, less Chinese travelled abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks - in % of GDP, that is

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

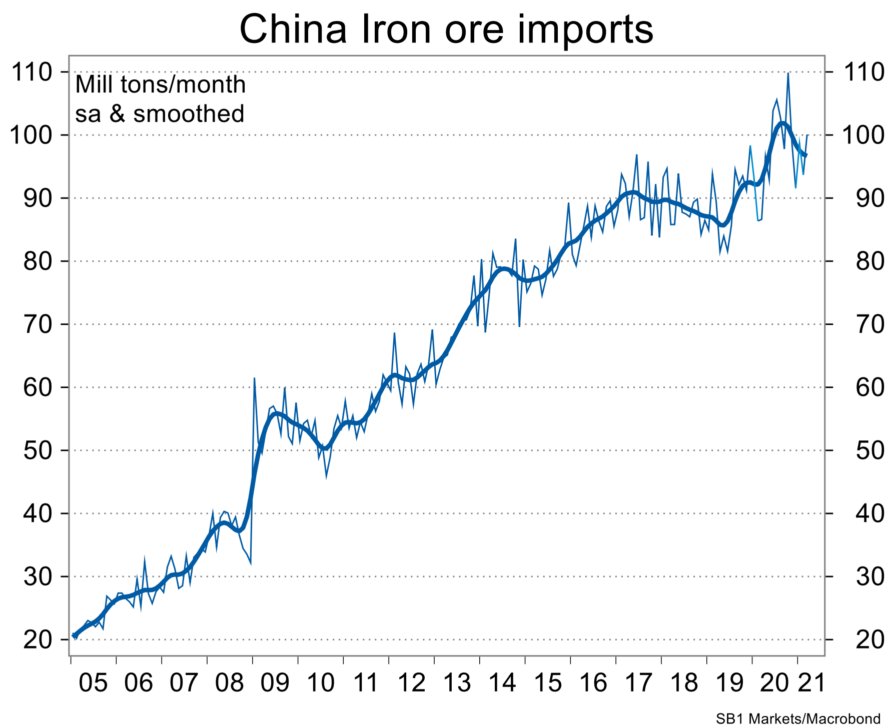
The C/A surplus was above 10% of GDP in 2007

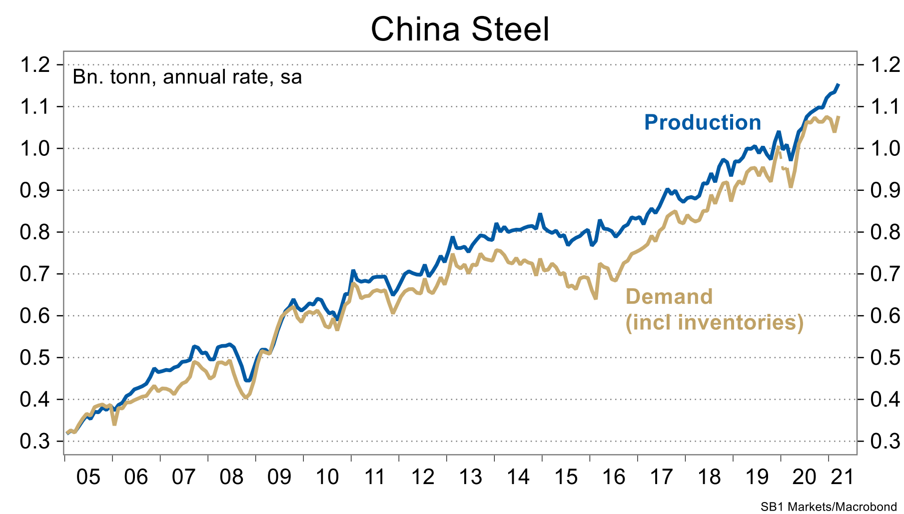


- The trade surplus in goods is now at 4% - 5% of GDP
- In services, China runs a 1% deficit, down from -2% in 2015 – 2019, but from zero 10 years ago. For the time being, the Chinese do not travel abroad
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country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

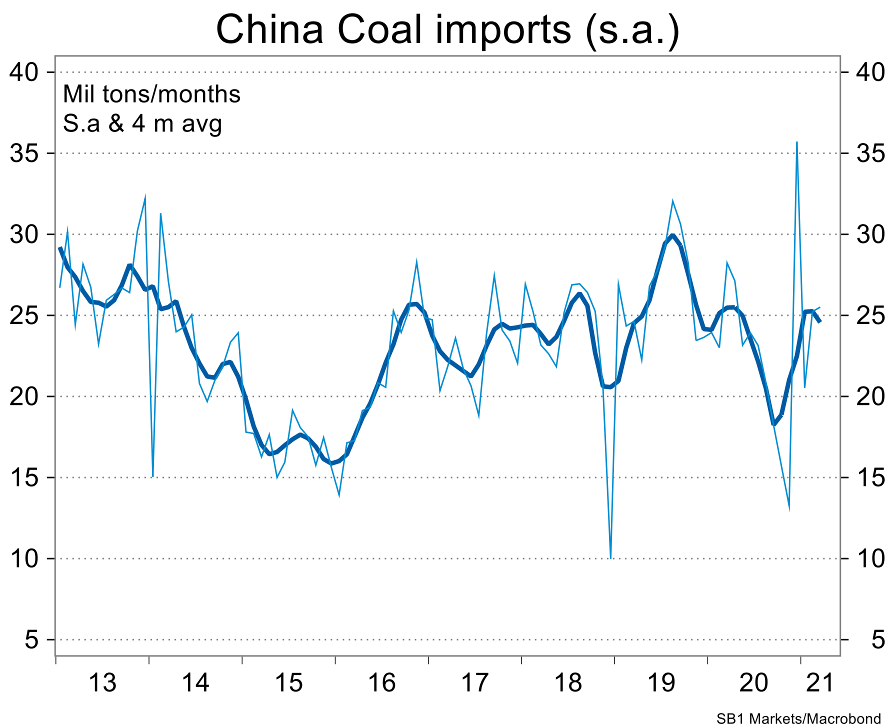
Iron ore imports have stabilised recent months, production still on the way up

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

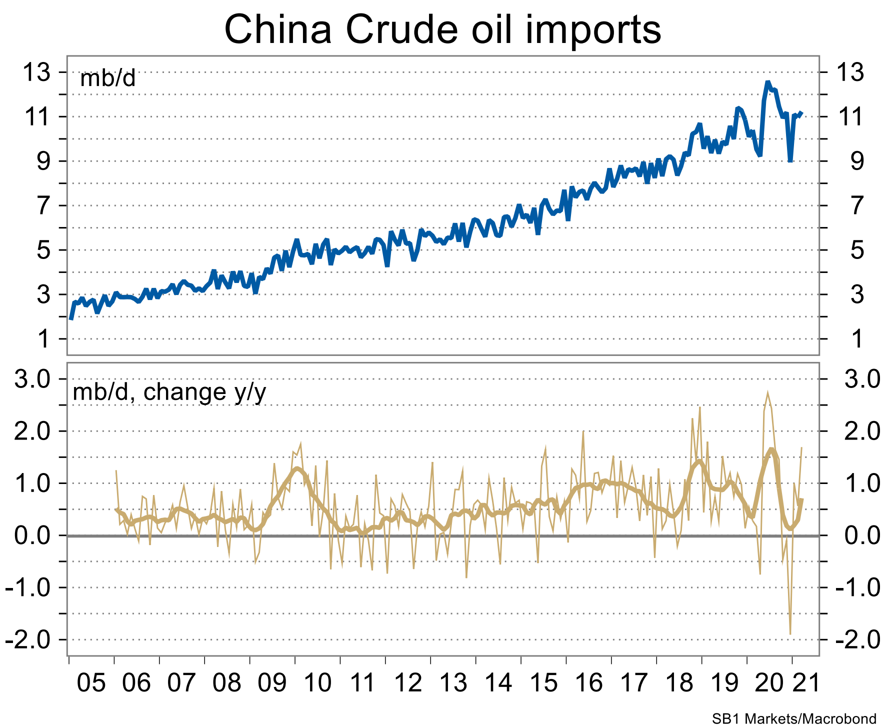


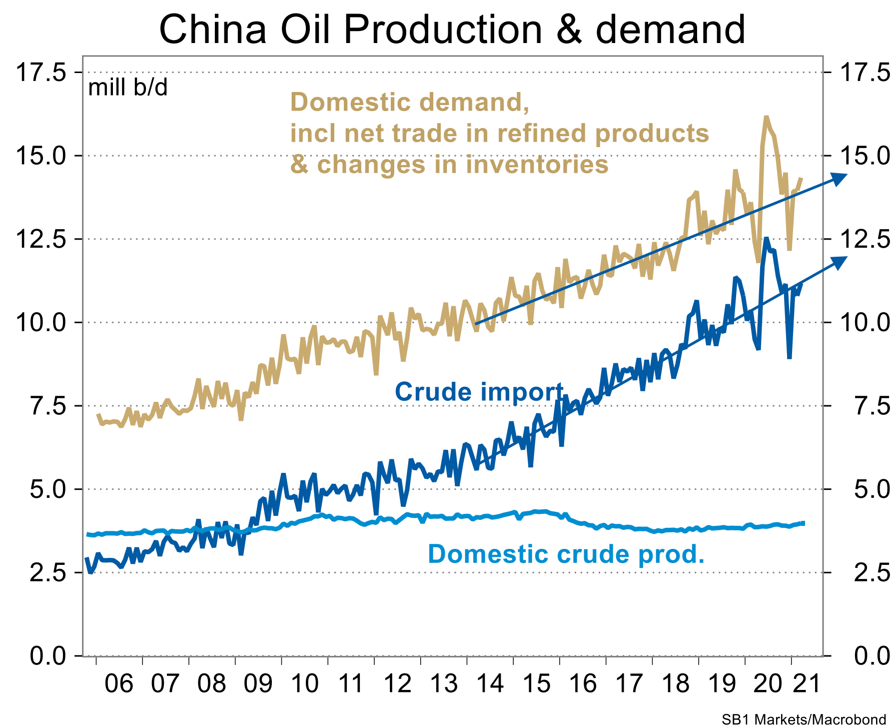


Coal imports have been trending flat since 2016



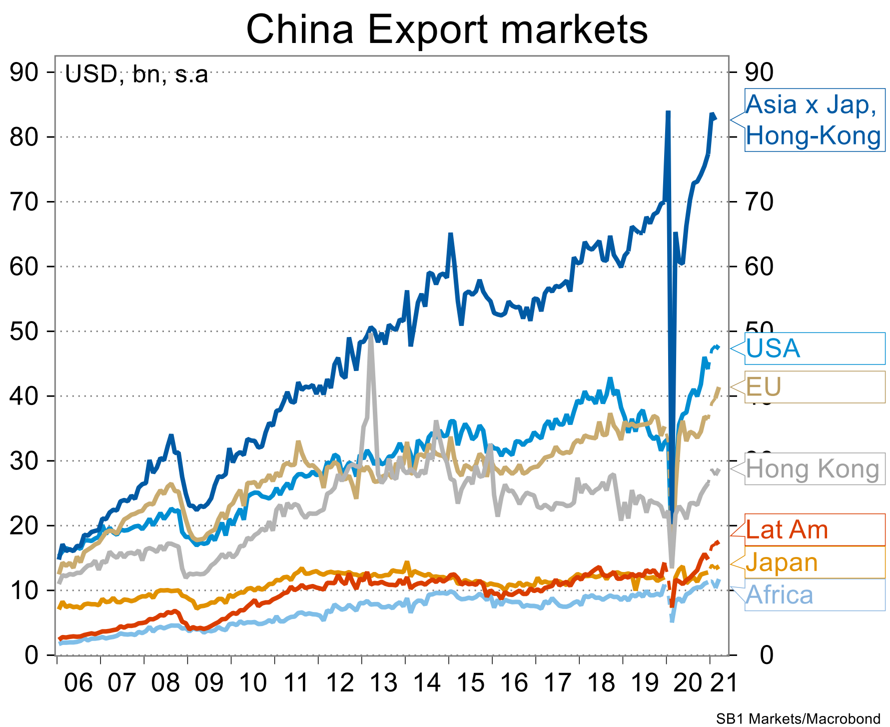
Oil imports up to a normal level in Q1. Trend growth at 0.5 – 1 m/b p.a





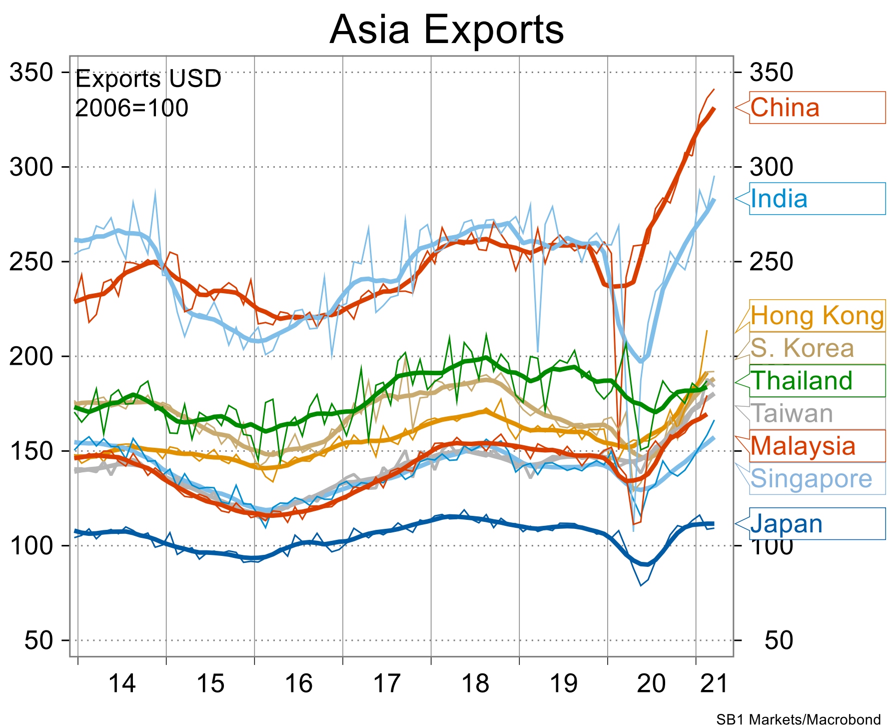
Chinese exports to 'all countries' up, and a further lift in exports the US in Jan/Feb

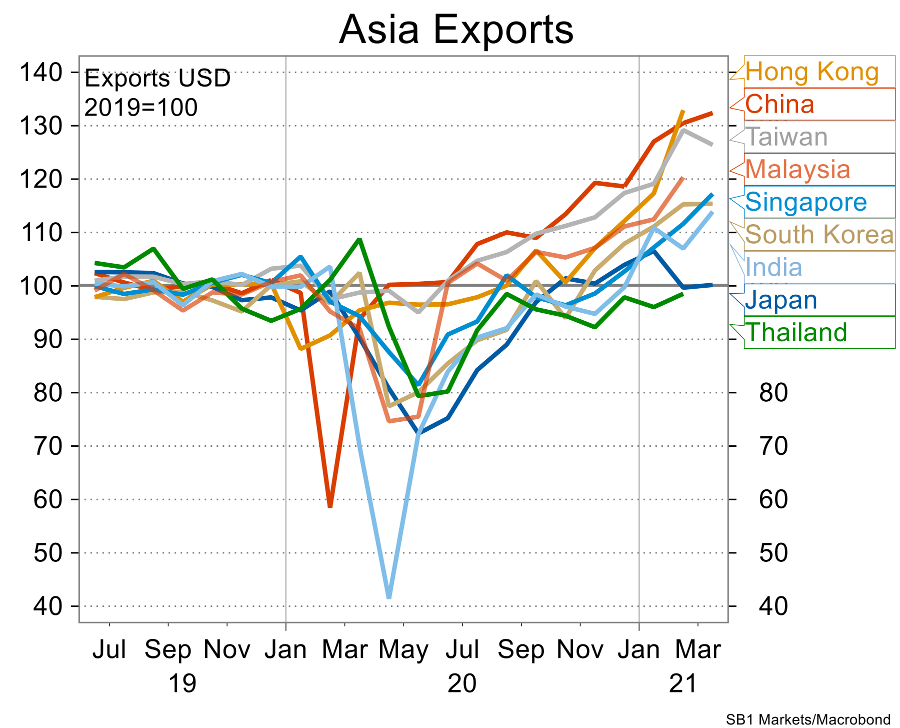
Exports to other countries in Asia strong too



Asian exports are on the way everywhere

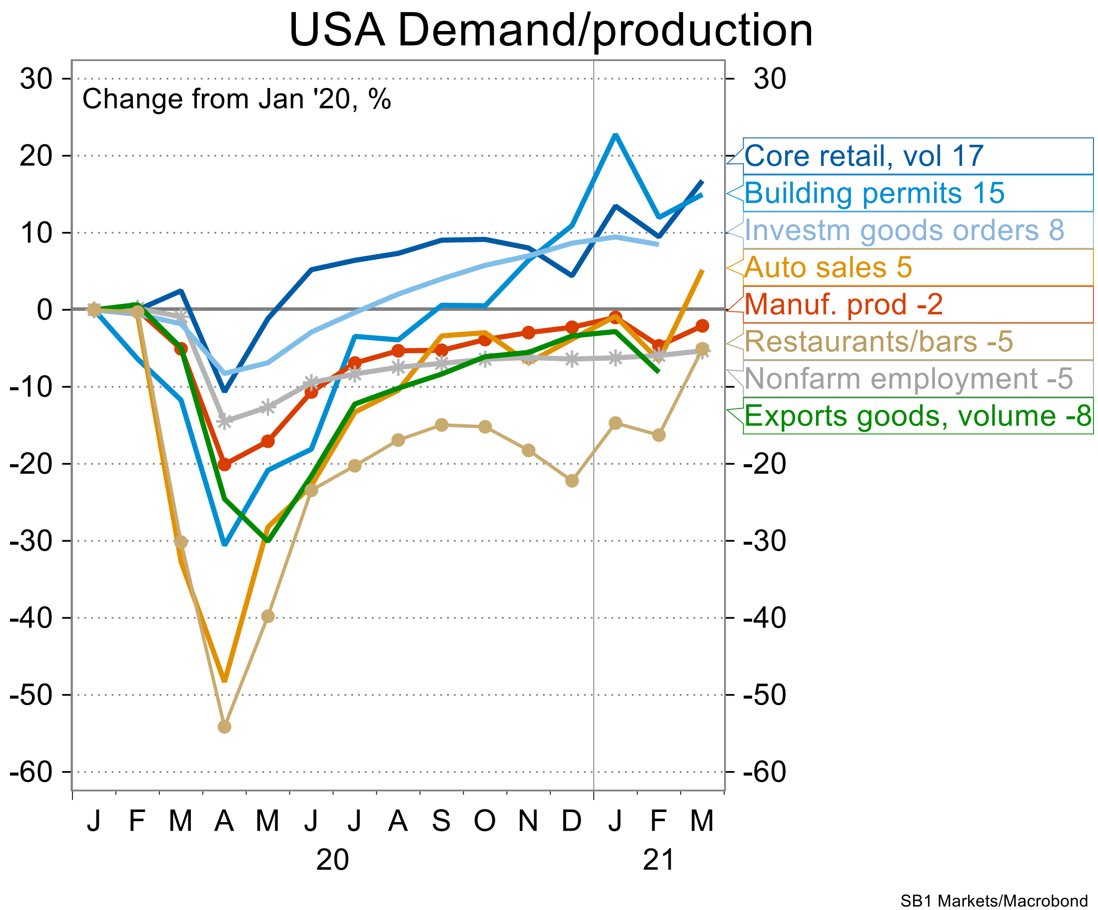
(except for Japan)





The spring arrived in March. Some stimulus cheques as well

Following a cold February, a broad recovery in March



This week

- **Retail sales** (core goods) up almost 7 % in March, to a record high level, +17% vs. pre-Covid. 1/6 of the stimulus cheques were spent. More to go
- **Building permits** up 2%, level +15% vs pre-Covid, housing starts splendid too
- **Restaurant sales** rose 13% in March, and are down just 5% (in value terms) vs. Jan-20
- **Manufacturing production** rose 2.7% in March, less than expected, and still 2% below the pre-corona level
- **Nowcasters** are now signalling 6 -8% growth

'Old' data

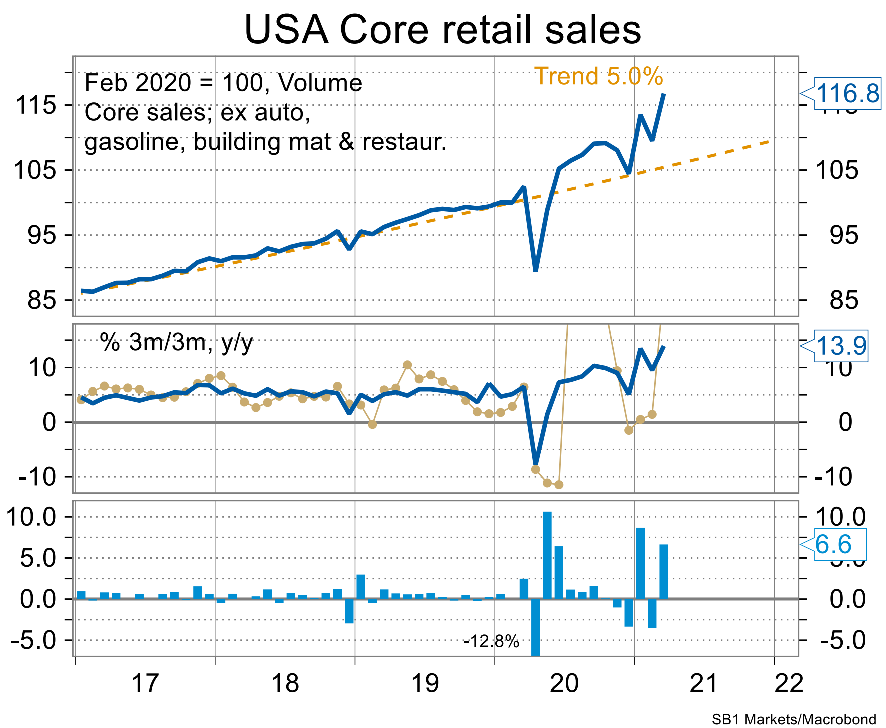
- **Employment** rose sharply in March, still down 5% vs. pre-Covid level (and it should have grown…)
- **Investment orders** ex aircrafts/defence are up 8% vs last Jan, and are flat including aircrafts. Feb data out this week
- **Exports** fell in February, are down 8%, the weakest link in the chain

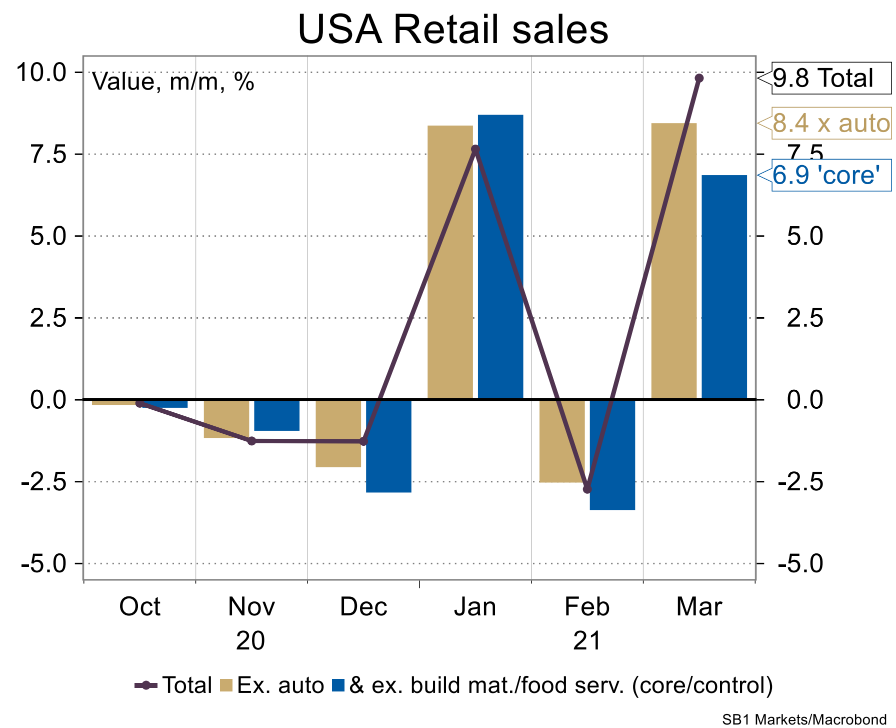
Other data points (in this report)

- **Inflation** is increasing sharply
- Small businesses reports serious **lack of labour**
- The **budget deficit** rose by USD 350 bn, as a small proportion of the 1.9 trl stimulus package was spent. More to come (if not per month)

The best retail sales, ever! Total up 9.8%, core goods volume up 6.6%

Just a small proportion of the stimulus cheques were spent. Total +17 vs. pre-pand., restaur. -5%

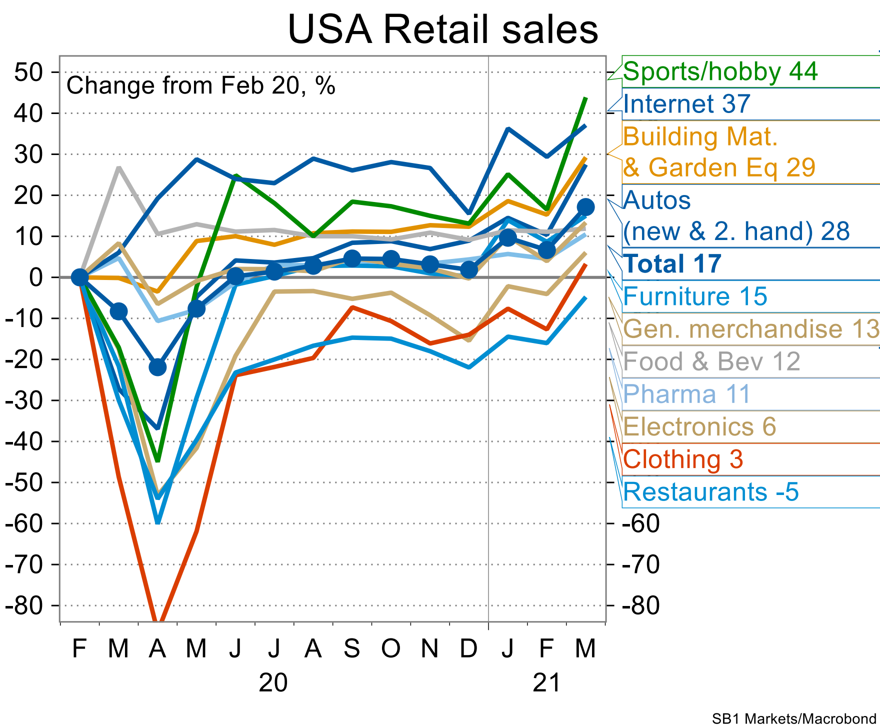


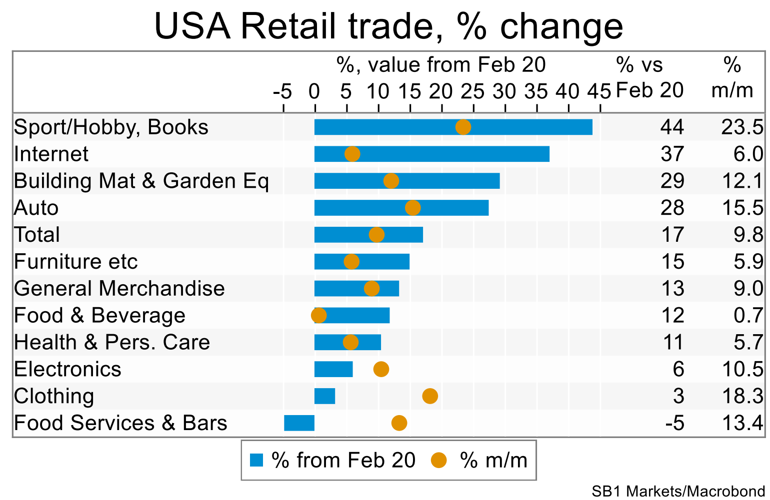


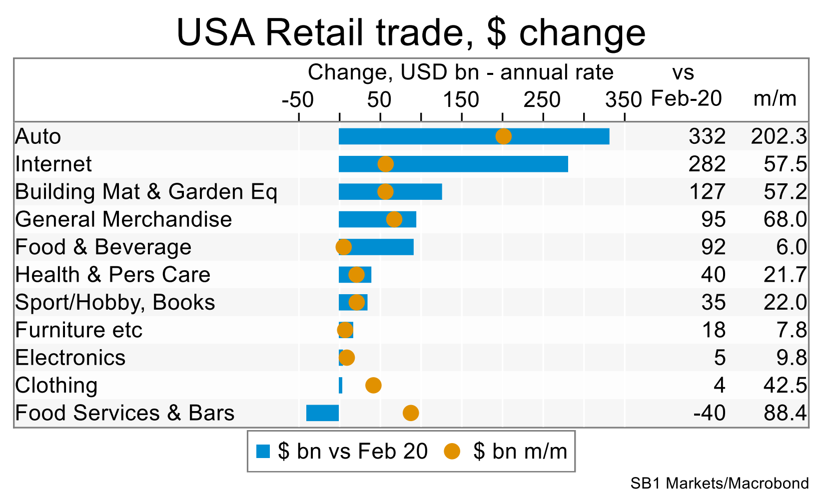
- **Total nominal sales** rose 9.8% in nominal terms, expected up 6.6%. The 2nd highest growth rate ever (but reopening May-20 was even stronger m/m)
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) rose 6.9%, we assume 6.6% in volume terms
- **All sectors reported growth**, even food & beverage in shops. We assumed a huge lift in restaurant sales (was up 13%) would be felt in the groceries. Internet sales grew further but 'just' by 6%. Sport ect. +23%, autos 15%. More next page
- Retail sales rose by USD 56 bn, just a small fraction (1/6th) of the USD 340 bn in stimulus cheques that were sent out during March. Half of the cheques probably arrived too late to be spent. Other consumption than what's included in retail sales very likely grew sharply but most of the cheques were saved anyway. March sales may have been the peak, but demand will not be weak going forward

Everything up in March. Restaurants just 5% below the pre-pandemic level

Sports & hobby is up by 44%, building mat./garden equip. +29%







February

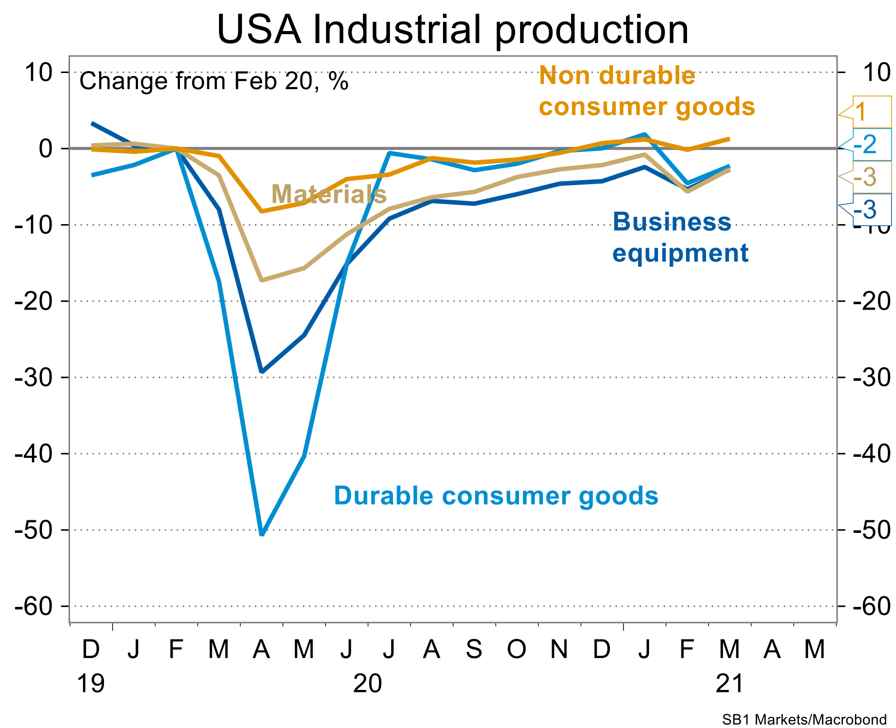
- 11 out of 11 main sectors reported growth in March, sports up 44% even if gyms were reopened

Since pre corona

- Internet has taken a substantial market share, to well above 10%
- Clothing is finally in plus vs Feb-20, but during the last year sales have been down some 20%
- Restaurants are almost back to start, finally. Employment in restaurants is still down far more than sales. Guess more jobs will be added the coming months

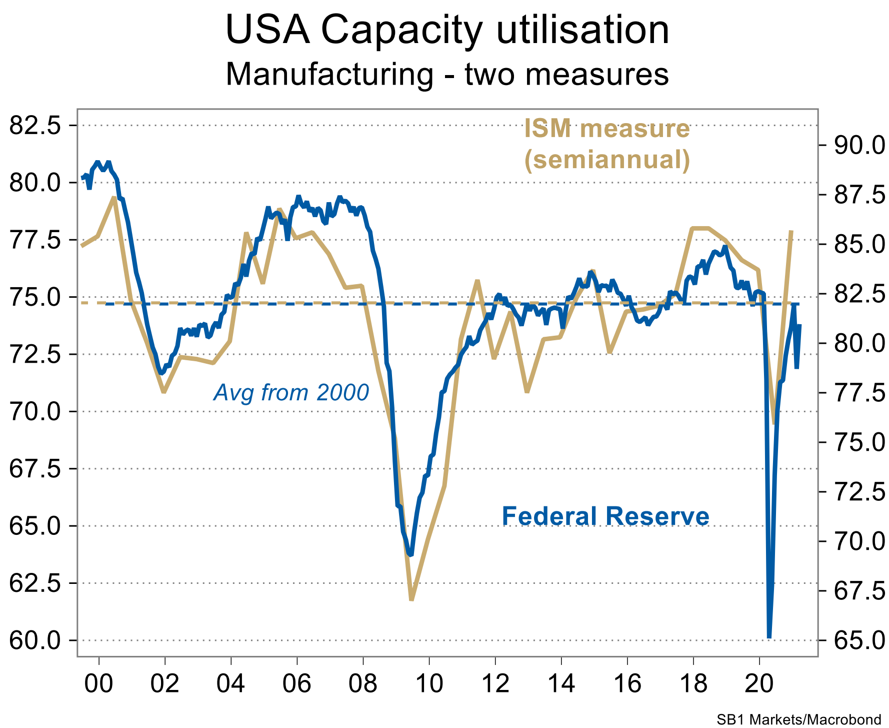
Manufacturing up 2.7% in March, still below the Jan level, and -2.1% vs. Feb-20

Production expected up 4% following the 3.7% setback in Feb (revised from -3.1%)



- **Manufacturing production** rose again after falling in Feb. However the March figure at +2.7% was still weaker than expected
  - » Production rose in all main categories in March. Non-durable consumer goods production is above the pre-pandemic level (the only main sector)
- **Total industrial production**, including utilities, mines/oil production rose 1.4%
- **PMI/ISM and all other surveys** signal a continued, exceptional strong recovery

Is capacity utilisation at or above normal?

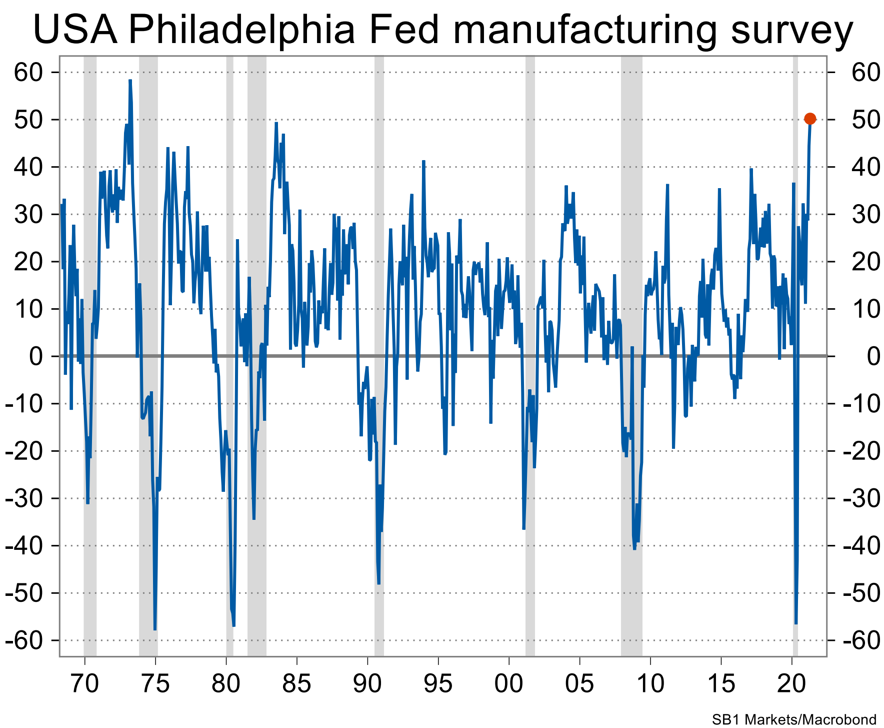


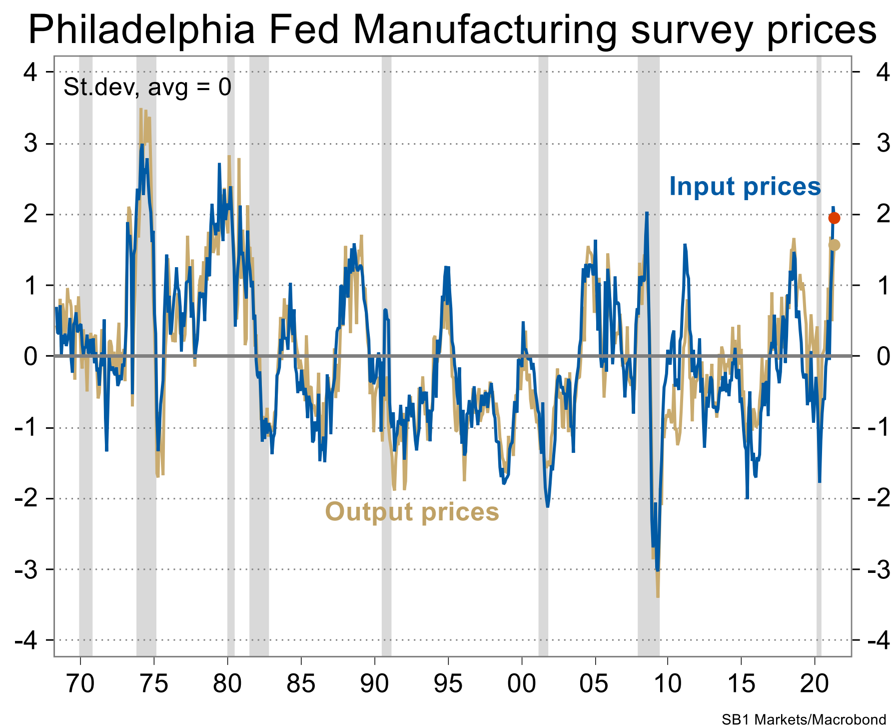
- **The Federal Reserve's** measure yields slightly below normal capacity utilisation rate, and below the pre-pandemic level
- **ISM's semi-annual** survey reported a close to record high utilisation rate, the last survey from Dec last year

SpareBank 1 MARKETS

Philly Fed survey still at the highest level since April 1973, prices are soaring

Index up to 50.2 from 44.5 (revised down from 51.8) but was expected down to 42…

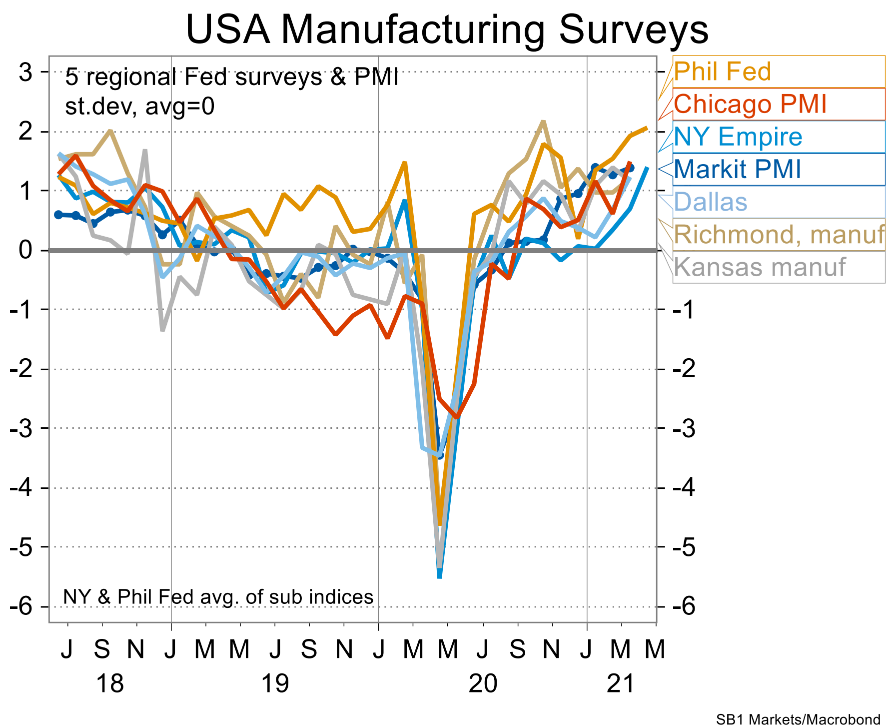


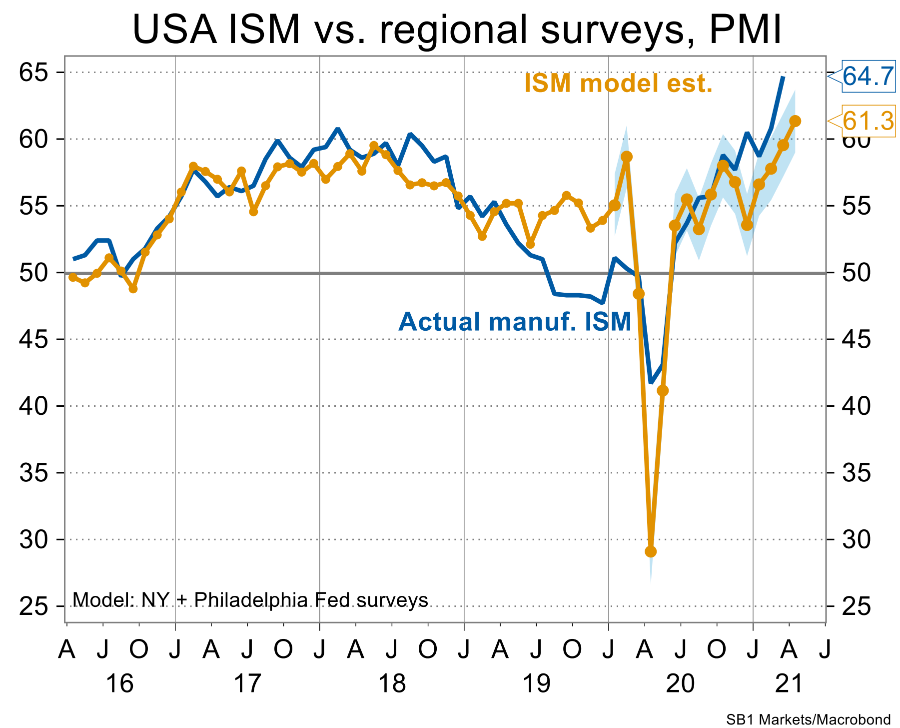


- …and **input prices** are rising fast, and so are **output prices** . In March, the companies reported the fastest input price increases since 1980. I April, this index fell just marginally.
- Equally interesting, almost 65% of the firms indicated increases in **compensation costs** over the past three months and none – none reported decreases. Firms are also expecting to increase wages more and sooner than budgeted!
- Activity is rising from a level that is not low, neither are prices
  - » The average of the most relevant sub-indices are just as strong as the headline (general assessment)

The NY Fed manuf. survey is at the strong side too

Both better than expected, confirming the strong ISM in February

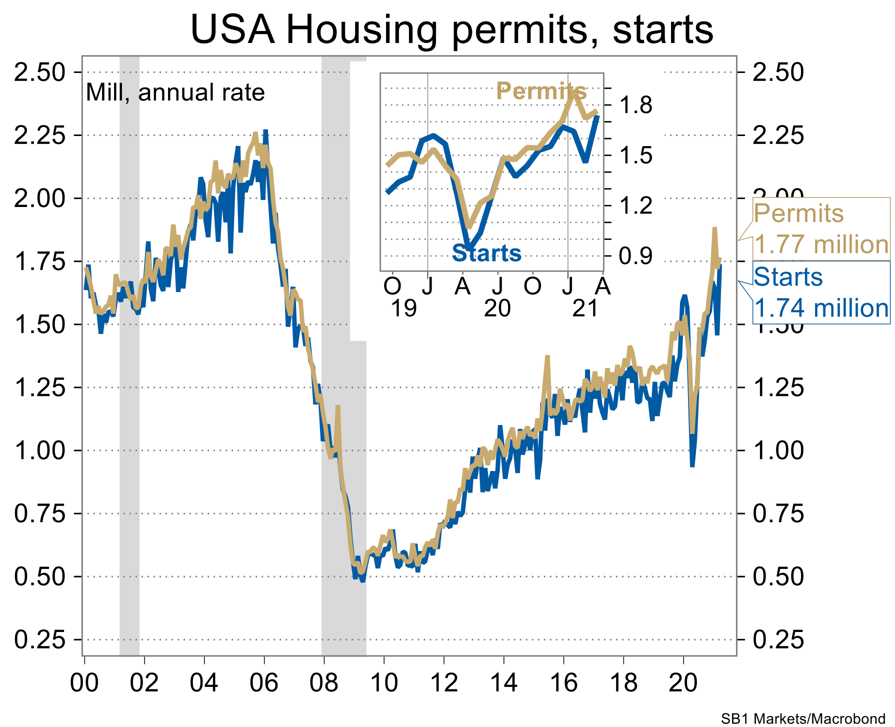


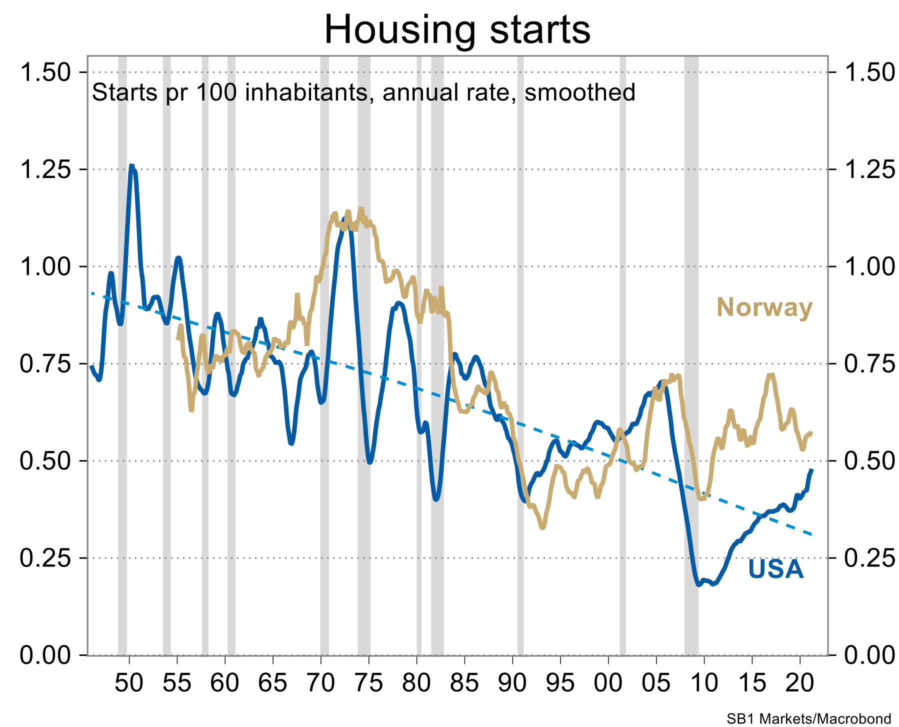


- NY Fed's manufacturing survey rose to 26.3 in April, from 17.4 expected 19.5. Phil Fed's still above 50, check the previous page
  - » The Phil Fed survey is 2 st.dev above avg, the NY Empire is up 1.4
- These – and all other – surveys signal strong growth in manufacturing production

Housing starts more than recovered the February setback

Starts up to the highest level since 2006, 20% above the pre-pandemic trend. Permits confirm

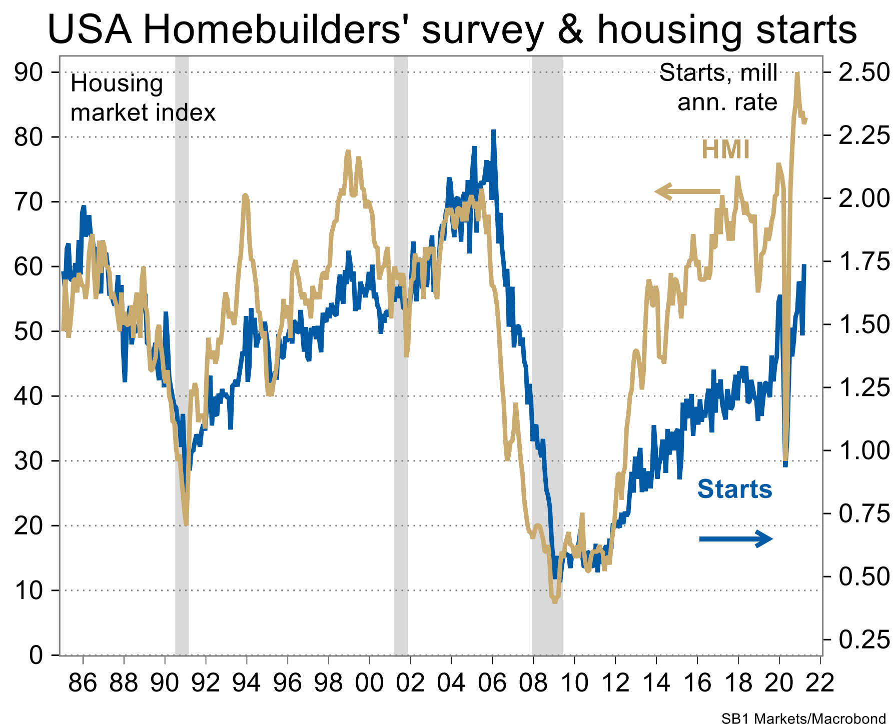


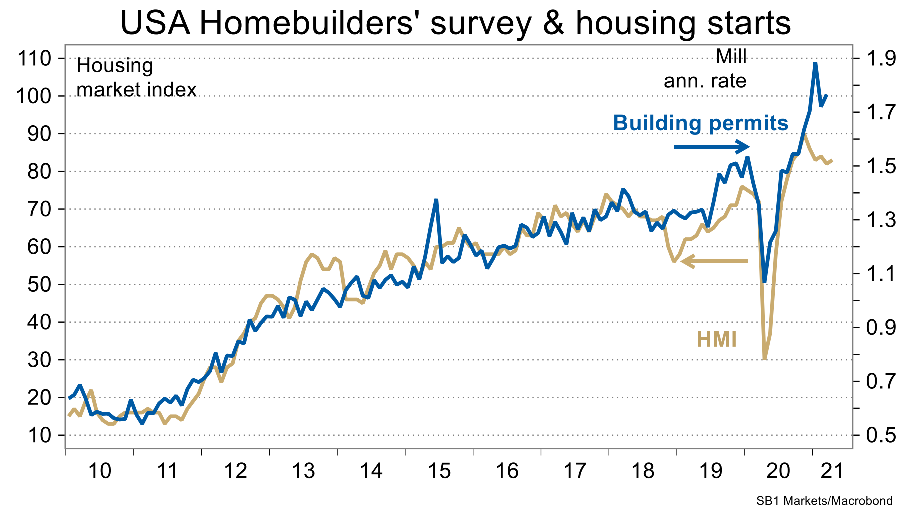


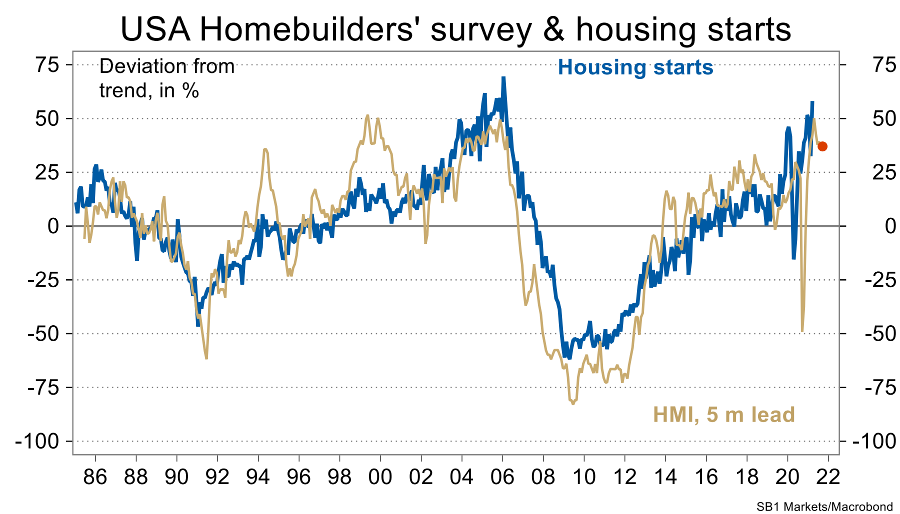
- **Housing starts** rose to 1.74 mill in March, up from 1.46 mill in Feb (revised from 1.42), expected up to 1,61. The level the highest since 2006
- **Building permits** rose to 1.77 mill in March, up from 1.72 mill in Feb (revised from 1.68), expected up to 1.75 mill. Trend is up, level the 2nd highest since 2006 (Jan was higher). Both starts and permits are still 20% below the 2005 peak.
- **Housing investments** are no doubt on the way up. Given the record low inventory of unsold new completed and of existing homes, and the rapid rise in prices, a continued drift upwards seems likely. In 2004 – 2005 the inventory of unsold homes surged

Homebuilders one tick up in April, not far below ATH

Still, the index does not necessarily signal a further increase in housing starts



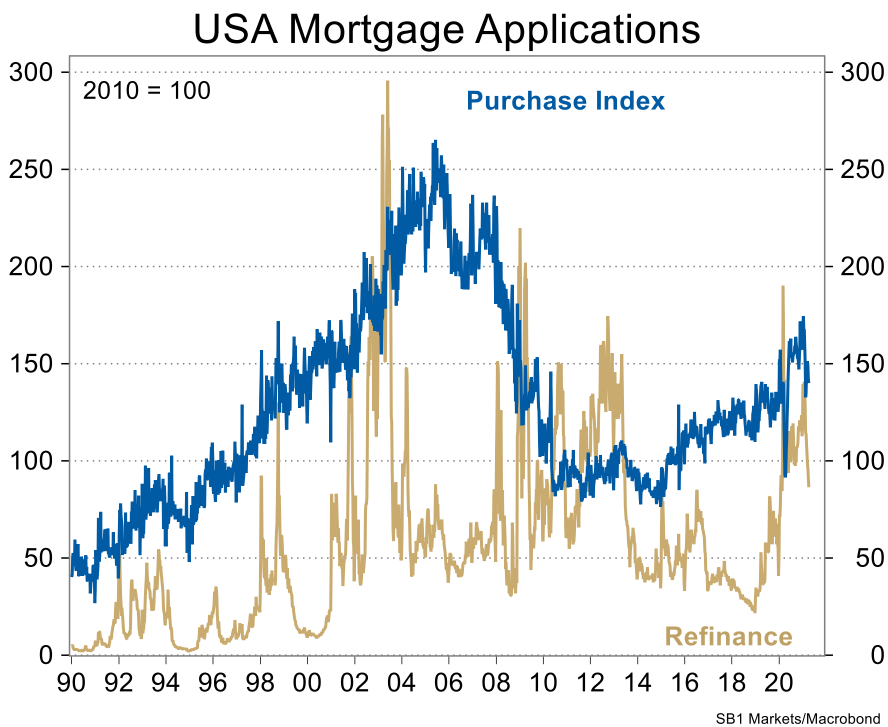


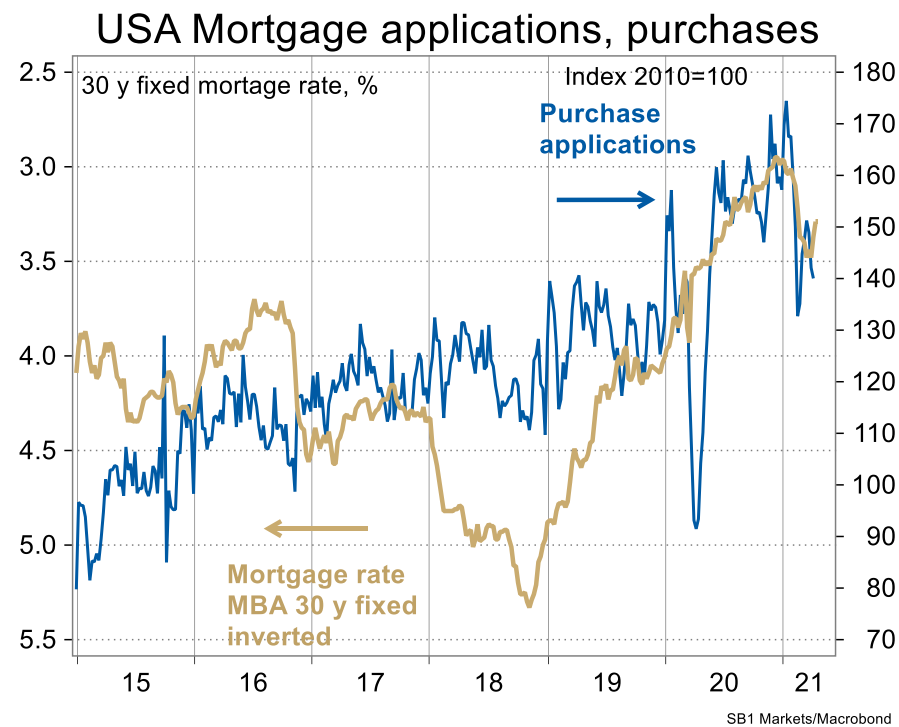


- **The Home Builders Housing Market Index** gained 1 p to 83, expected up to 84. It is down from the Nov record level at 90 but we have never seen anything like this before
- The HMI is not an assessment of growth in housing stars nor the level of housing starts vs. a long term average. The best fit is vs. deviation of starts from a more flexible trend, check the difference between the chart above and the two to the right
- Even if the level is very high, the HMI signals that the surge in starts is now over

Mortgage applications down as mortgage rates move marginally the other way

A good story but the correlation is not that close



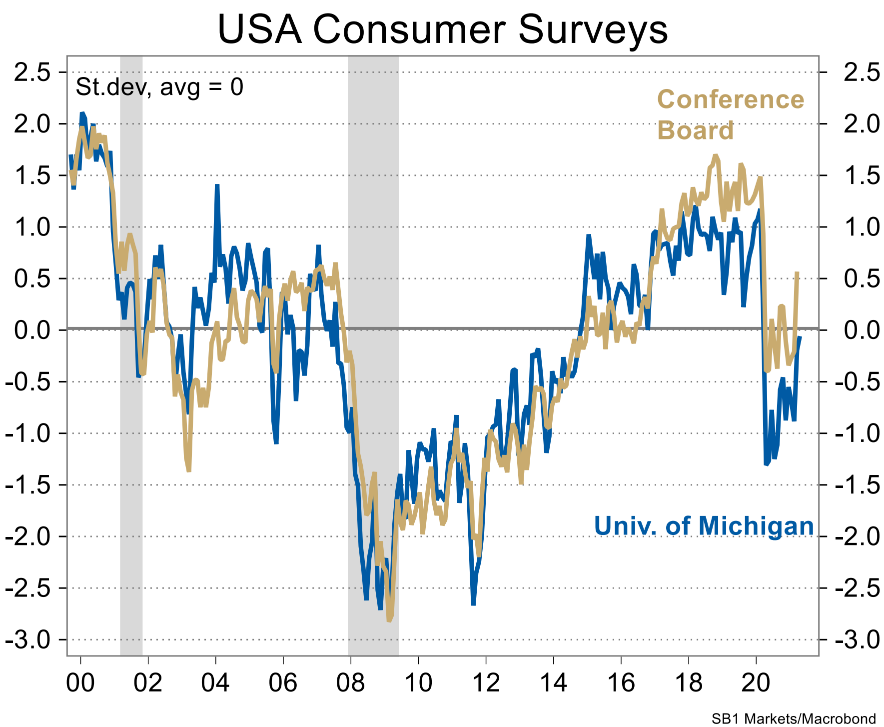


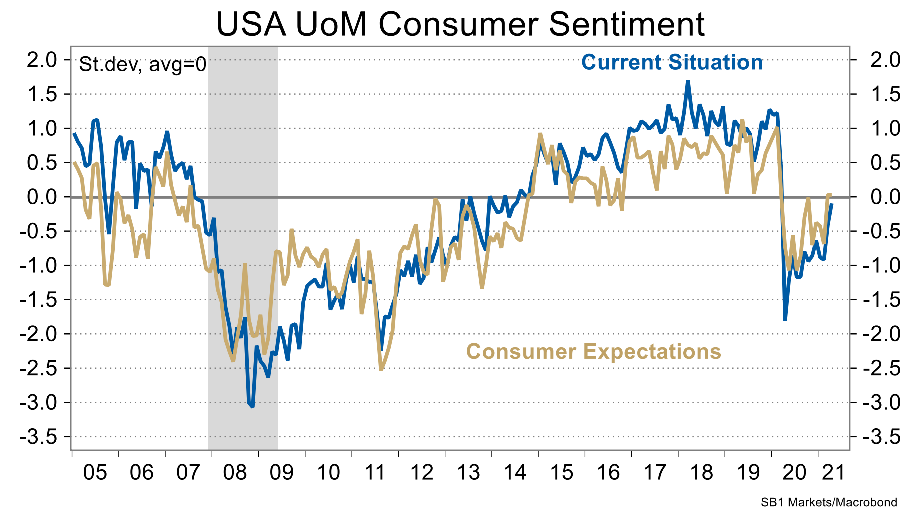
- No doubt, low mortgage rates have stimulated demand, as the 30 y fixed rate fell to a record level, slightly below 3% in late 2020, from 5.25% in late 2018
- The mortgage rate climbed 50 bps, to almost 3.5%, and new mortgage applications fell somewhat. The mortgage rate has fallen by 20 bps, and we do not expect demand for new mortgages to decline inn the near term

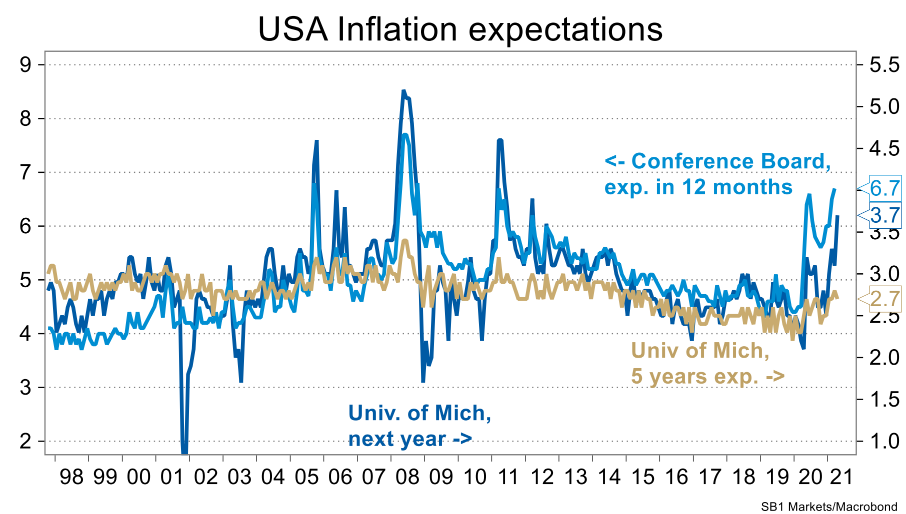
SpareBank 1 MARKETS

Univ. of MI: Consumer sentiment further up in April but still below par

Inflation expectations on the rise, at least short term





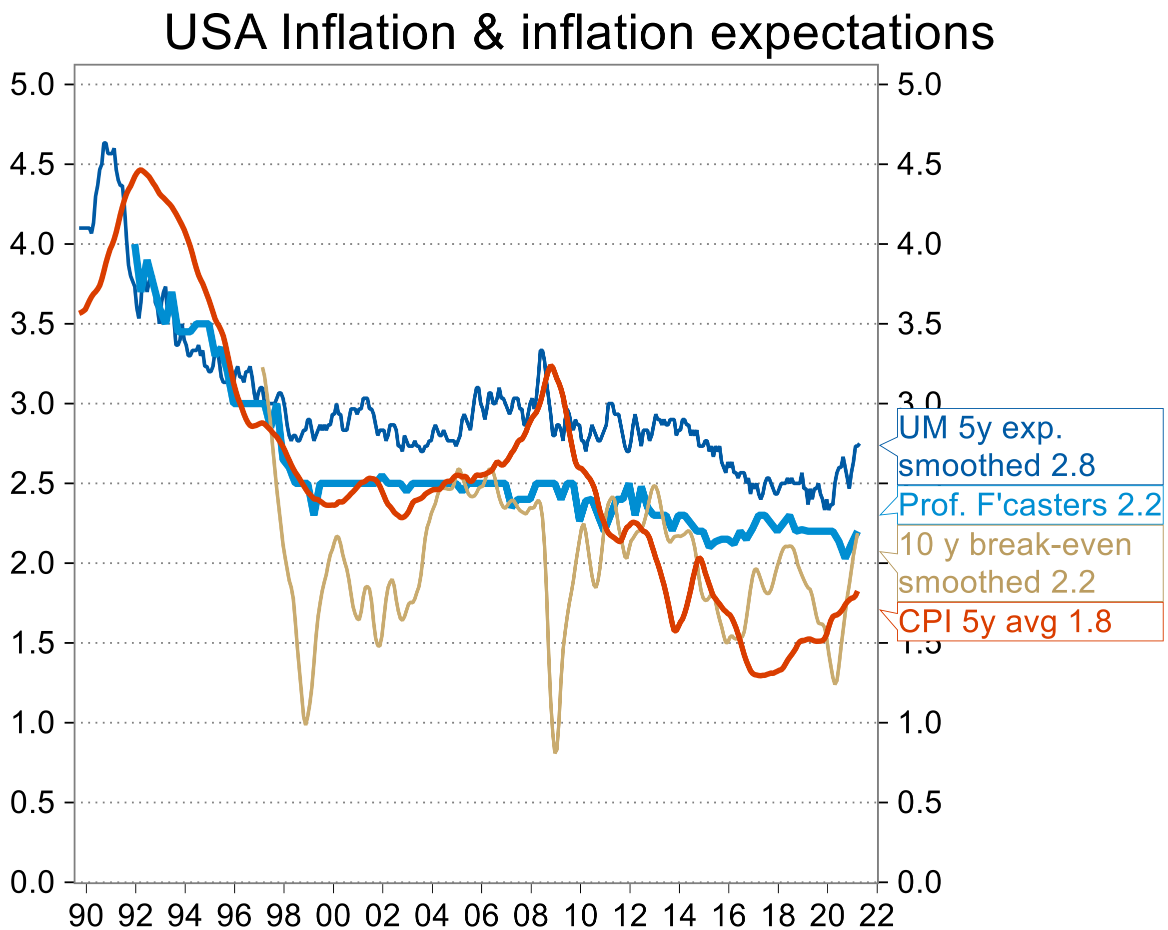


- **The UM sentiment index** rose to 86 in April from 83.6 in March, expected 89! The index level is 0.1% st.dev below average, up from -1.3 at the local bottom last spring, but still well below the +1 st.dev pre-pandemic level
  - » Expectations hardly rose in April, while the assessment of the current situation lifted the overall index. Both are close to average
- **Inflation expectations** are have increased recent months, and are far above recent levels, especially for the coming year

SpareBank 1 MARKETS

Inflation expectations are drifting up but are not yet worryingly high

Univ. of Mich 5 y inflation expectations have climbed to 2.8% from 2.4%

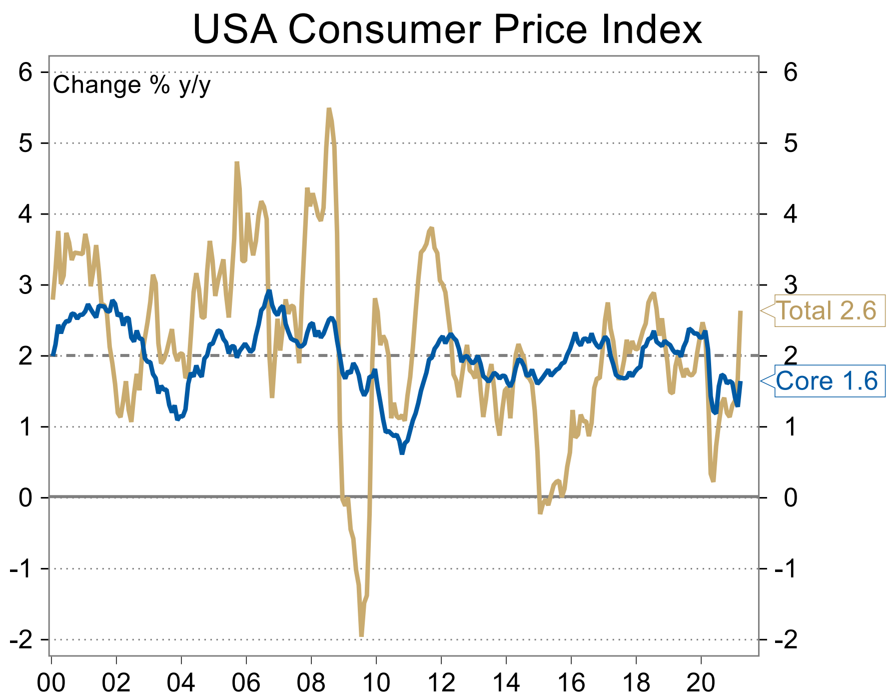


SB1 Markets/Macrobond

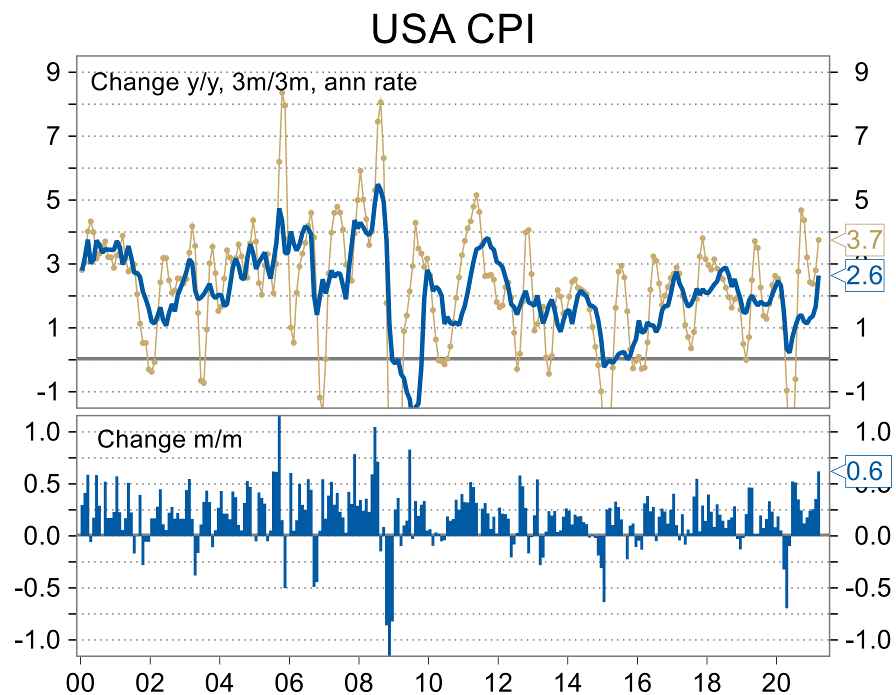
- **The UM's survey's** 2.8% rate is the highest since 2015, but is still at the average level since 2000
  - » The UM short term inflation expectation at 3.7% is the highest since 2012. These expectations usually correlated to recent changes in energy prices
- **Professional Forecasters** expect a 2.2% 10 y rate of inflation in Q1, according to Philadelphia Fed, up from 2.0% in Q4. The Q4 level was the lowest ever, and 2.2% is in line the past 7 years average
  - » The prof's are forecasting the CPI, not the Fed's preferred price indicator, the PCE deflator. The PCE deflator is some 0.3% lower than the CPI, over time
- The raw 10 y **break-even inflation expectation** is almost 2.4%, the highest since 2013 – still not 'dangerously' high for the Federal Reserve

We told you so: Consumer prices sharply up in March!

Biggest m/m increase in the CPI since June '09, the annual rate up 0.9 pp to 2.6%

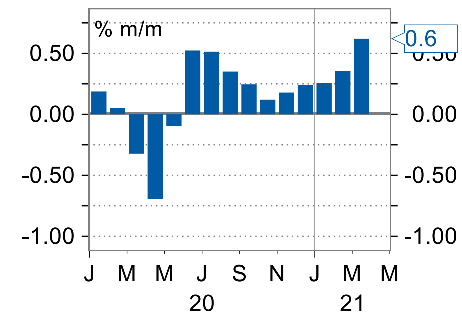


SB1 Markets/Macrobond



SB1 Markets/Macrobond

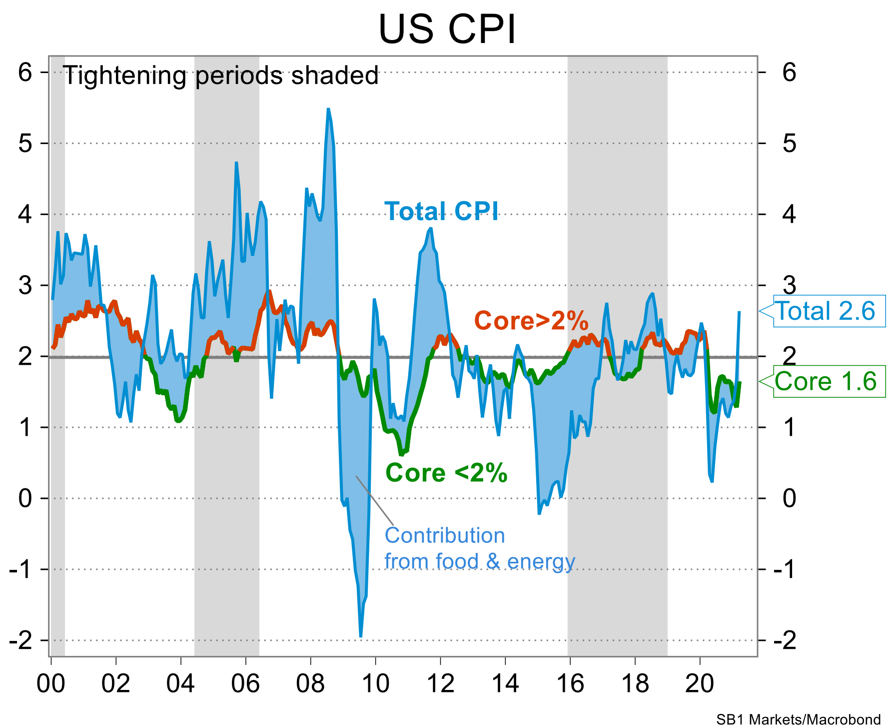
- **Headline CPI** rose 0.6% m/m in March, expected 0.5%. The annual rate rose by 0.9 pp to 2.6%, as prices fell 0.3% last March. Higher gasoline prices were at least partly to blame, up 9% m/m
- Prices have been accelerating m/m since last October, and the 3m/3m rate is now up to 3.7% - but it was even higher last September, at almost 5%.The focus should of course at these the monthly increases, not the annual rate.
- **The annual growth rate** will climb further in April and very likely in May too, just due to the price cuts m/m last spring, down 0.7% in April and 0.1% in May. If prices rise 0.2% m/m the two next months, the annual rate will climb to 3.8%. That is signaled by the PPI too. But then, the annual rate should subside, as prices rose sharply in June and July last years. So, the annual rate is not the right place to look ☺.

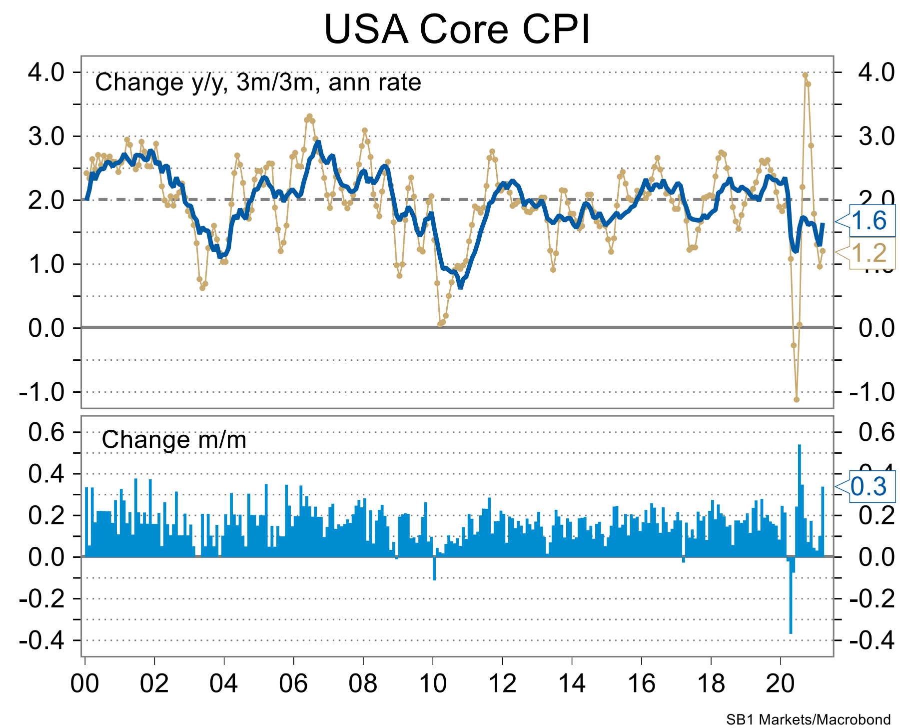


SB1 Markets/Macrobond

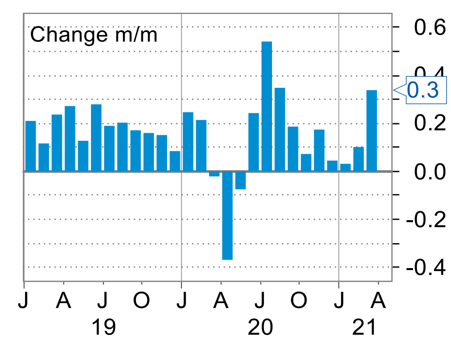
Core inflation is still in check

Prices up 0.3% m/m in March, 1.6% from 1.3 y/y, slightly higher than expected



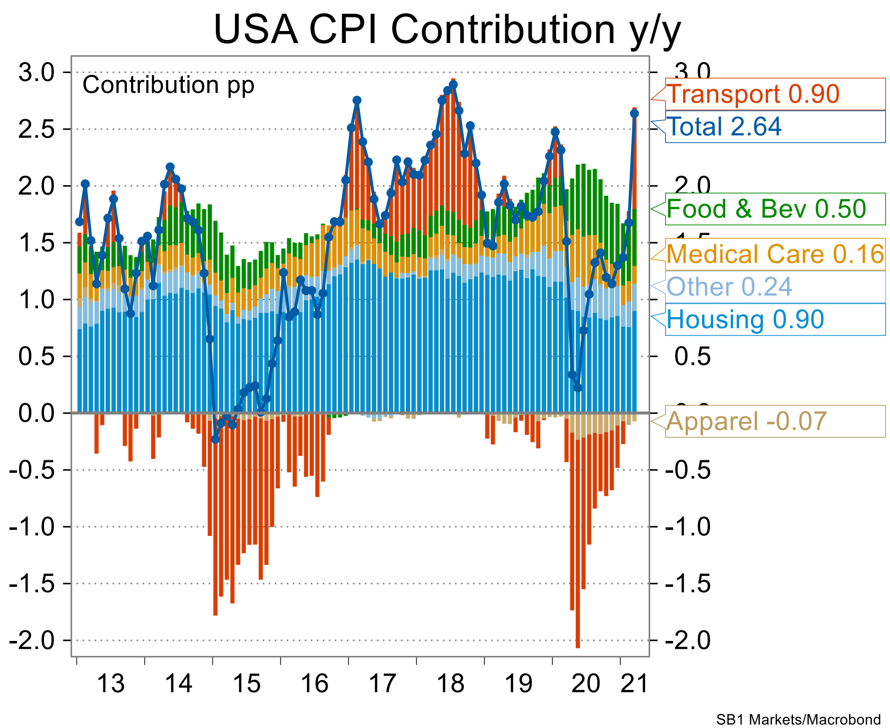


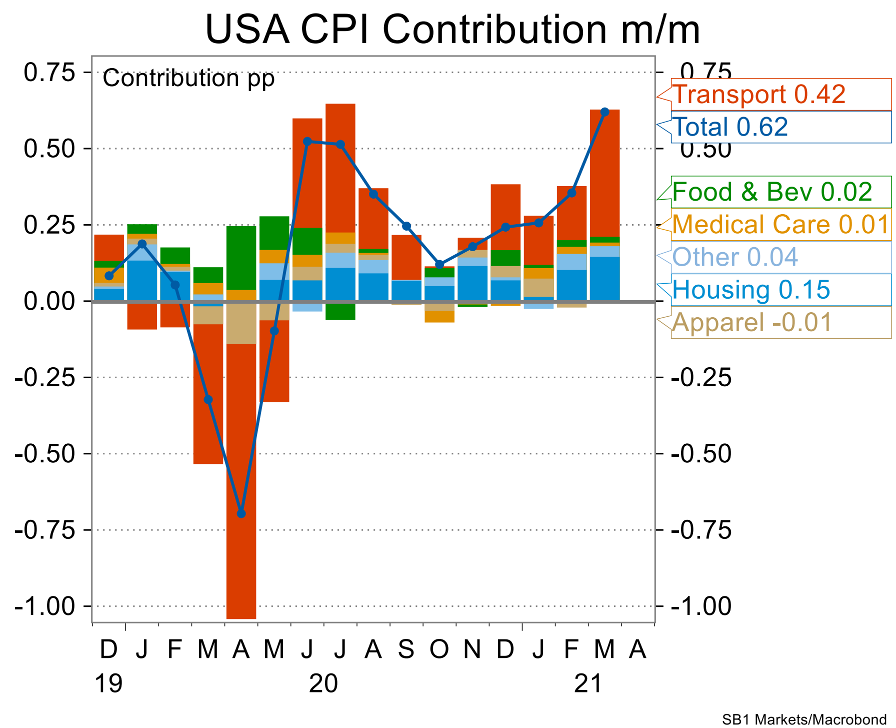
- **Core CPI** rose 0.3% m/m in March, expected 0.2%. The annual rose 0.3 pp to 1.6% (exp. 1.5%). Although this move was larger than expected, it is still <u>far below the 2.4% pre-corona level, and below Fed's 2% target</u> (measured by the national account PCE price deflator, which over time has reported an inflation rate 0.2 – 0.3 pp below the CPI inflation rate)
  - » The 3m/3m underlying price growth at 1.2% confirms modest prices increases, ex. food & energy so far. Which is just what the Fed should 'beg' for now
- The annual core rate will climb further in April, as core prices fell by 0.4% in April last year. Most likely, more will come in May, and the annual rate may get a lift to 2.4% – 2.6%. However, prices rose sharply the following months last year, and the annual rate will most likely decline again, even if we expect even core prices to increase faster rate than normal the coming months



Gasoline the main culprit – and that will not last for long

Modest price increase in other sectors in March – and over the past year

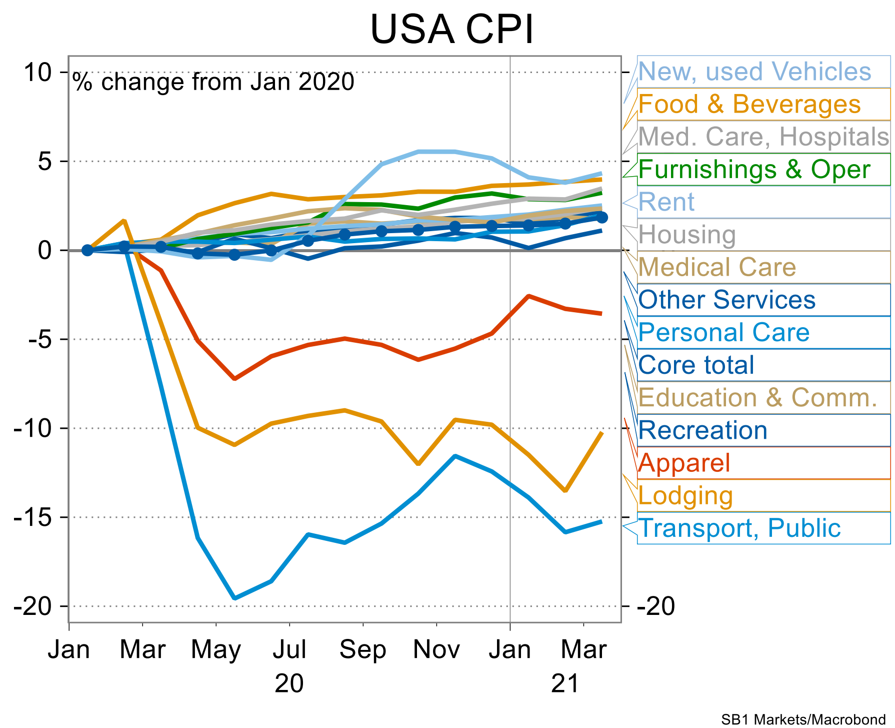


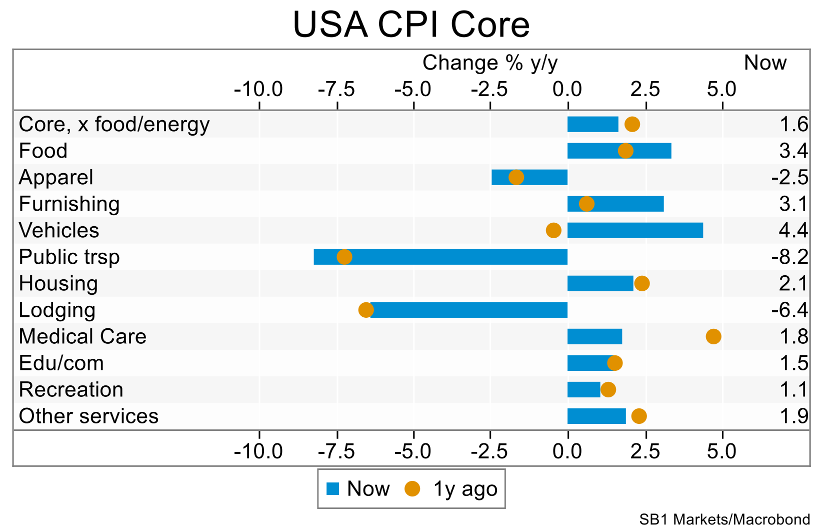


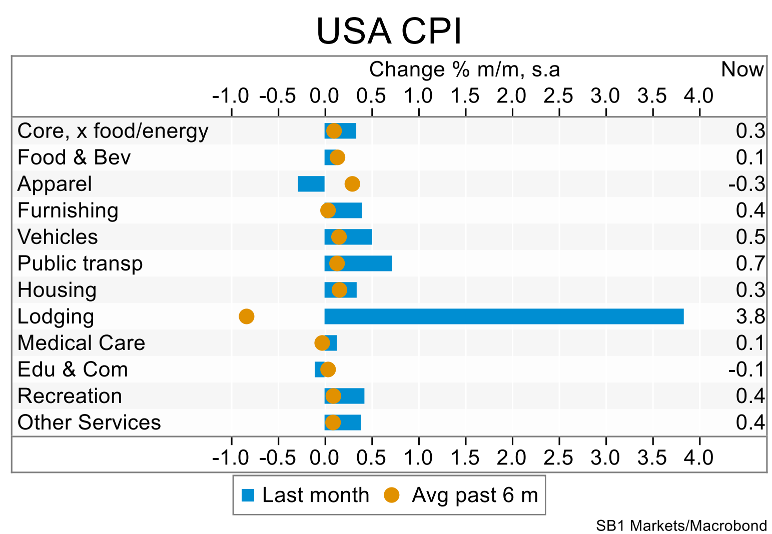
- Lodging away from home and energy for housing is included in housing

Core prices: Lodging up 3.8% - 10% more to go. Public transport 15% below par

Lodging up 3.8%, as more hotels could open up, still 10% more to go!



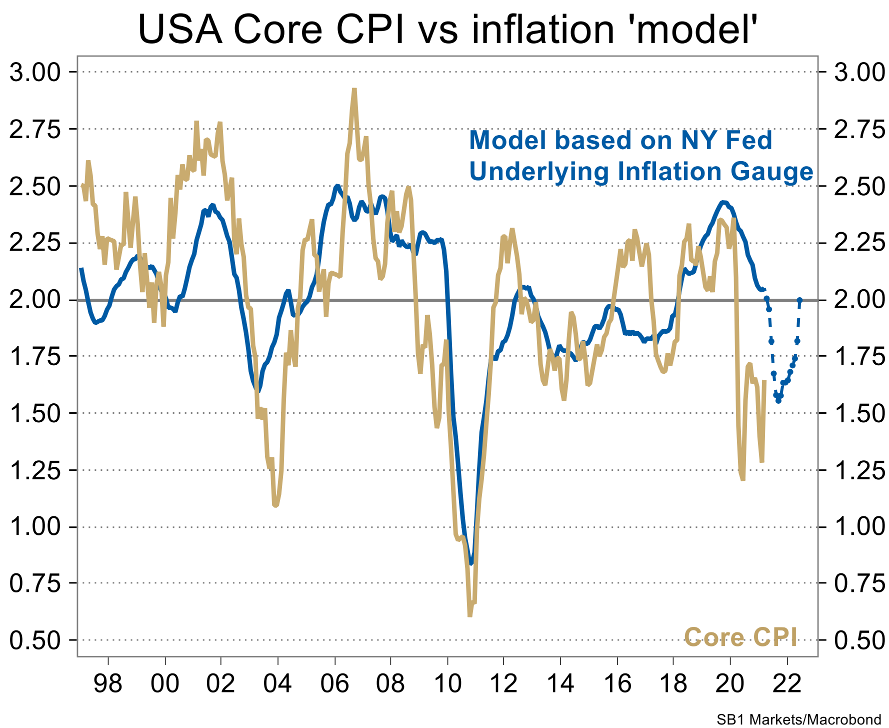




- Just some few components of the CPI contributed to the ‘corona’ setback: Public transport (airline tickets) is down -8.2% y/y, lodging (hotels) -6.4%, and clothing -2.5%. Other components of the CPI have not slowed (recreation contributed on the downside at the start of the pandemic, but has since recovered somewhat)

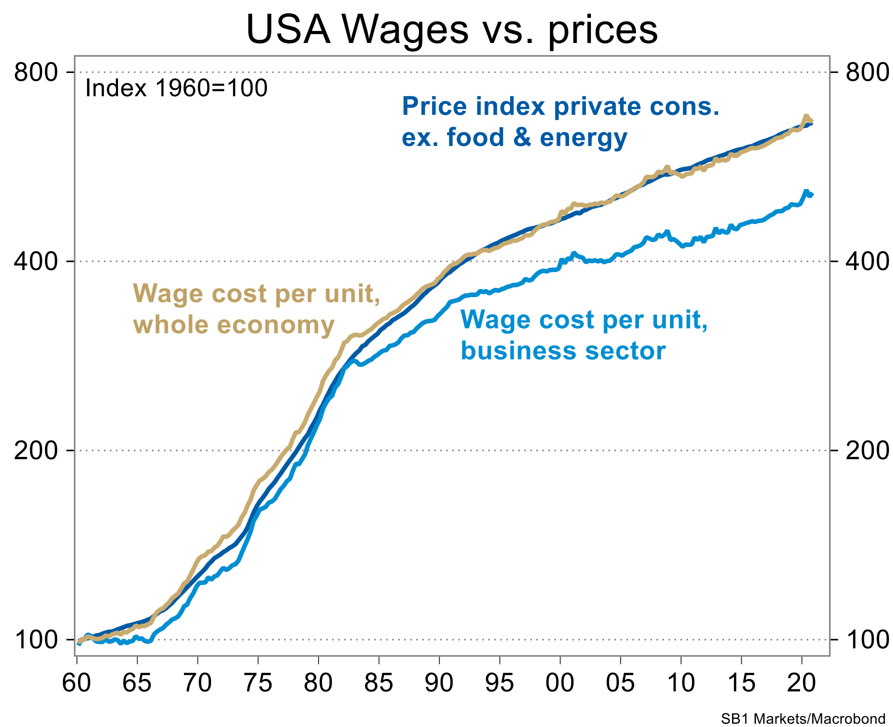
Fed's price model: No (big) warning sign yet

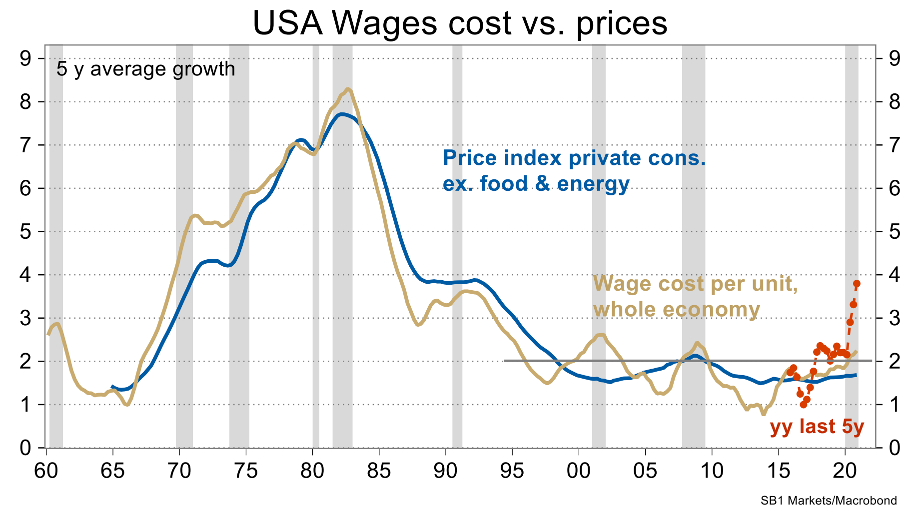
Fed's Underlying Inflation Gauge (UIG) does signal higher inflation, but still not above 2%

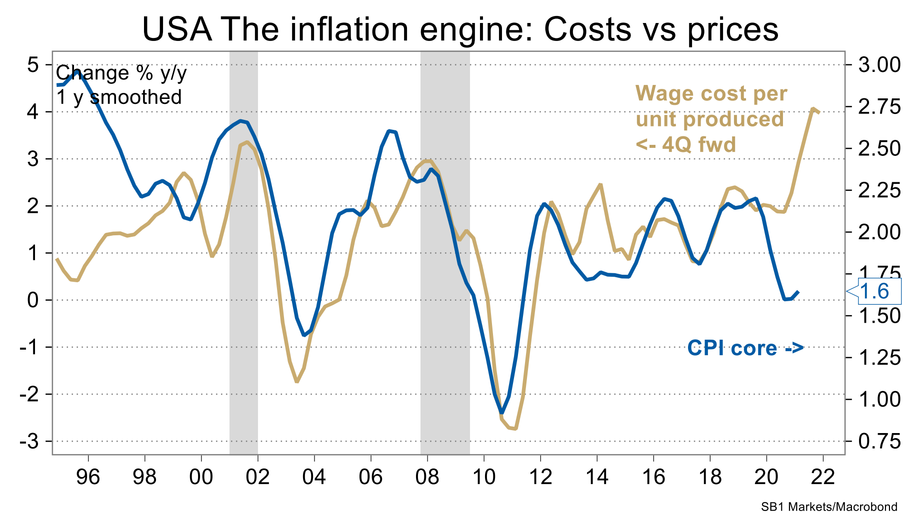


In the long run: Wage costs are driving the price level & inflation cycles

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



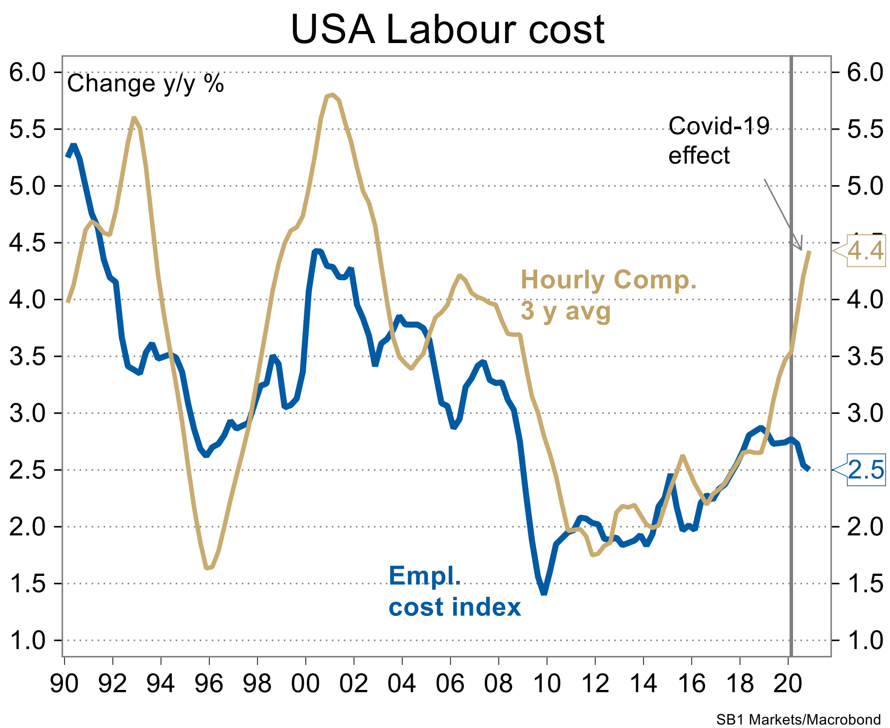




- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- The rapid increase in ULC through last year was very likely not 'for real', check next page

Hourly compensation surged during corona due to changes in employment mix

The Employment Cost Index has slowed during the corona crisis, probably the most relevant measure

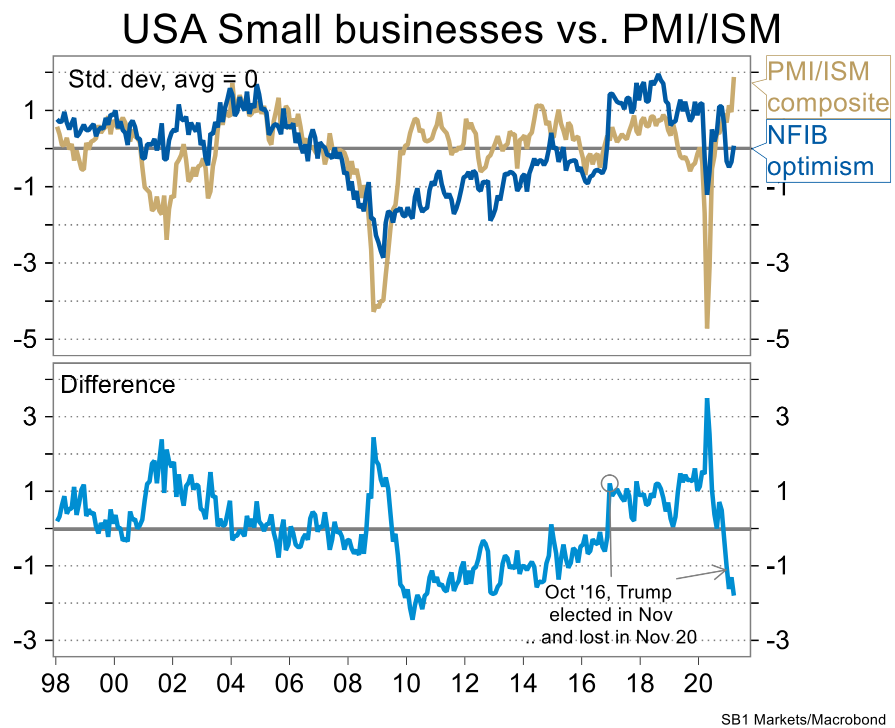


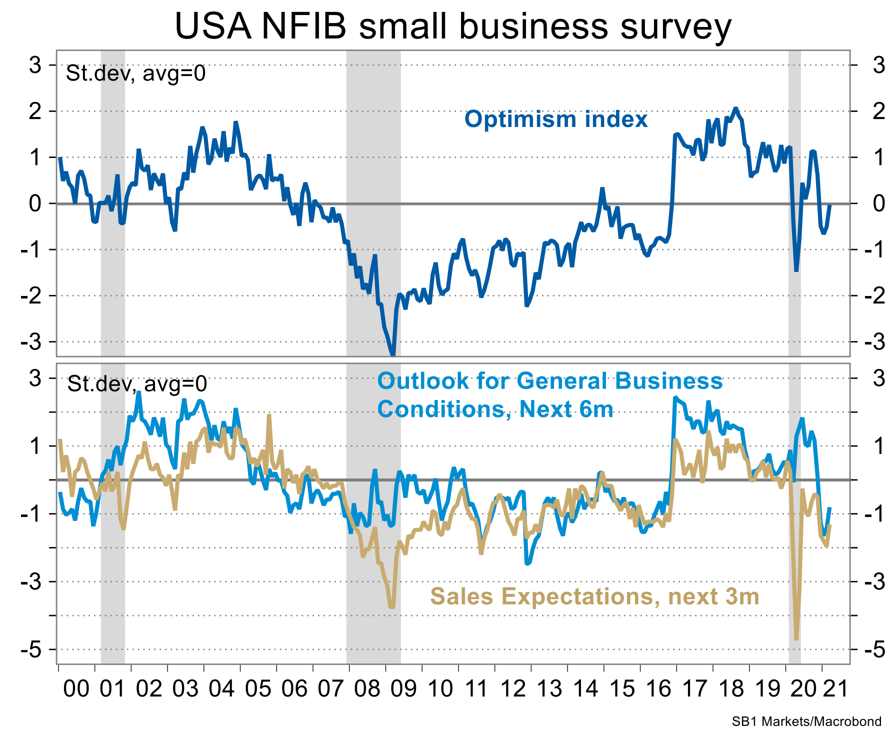
- The lift in average hourly compensation, and in unit labour cost inflation (growth in wage costs per unit produced, wage inflation – productivity growth), is very likely due to the change in the composition of the employment, with job losses concentrated in lower end of the wage scale
  - » In principle, that should not have affected ULC, as productivity should have increased as well, when low productivity/low wage earners quit. It corona has had an impact on other sectors as well – which these data indicates – we assume the impact is temporary, and not create a permanent cost increase for the business sector
- We are quite sure that the quarterly employment cost index gives the most relevant measurement of the wage cost, as it is measured by tracking wage (and other compensation) changes for the same types of jobs, and is not influenced by the changes in the employment mix

SpareBank 1 MARKETS

Small businesses optimism up to average in March, other surveys far stronger

In spite of positive vaccine news, assessment of the outlook, invest. plans are still far BELOW avg!

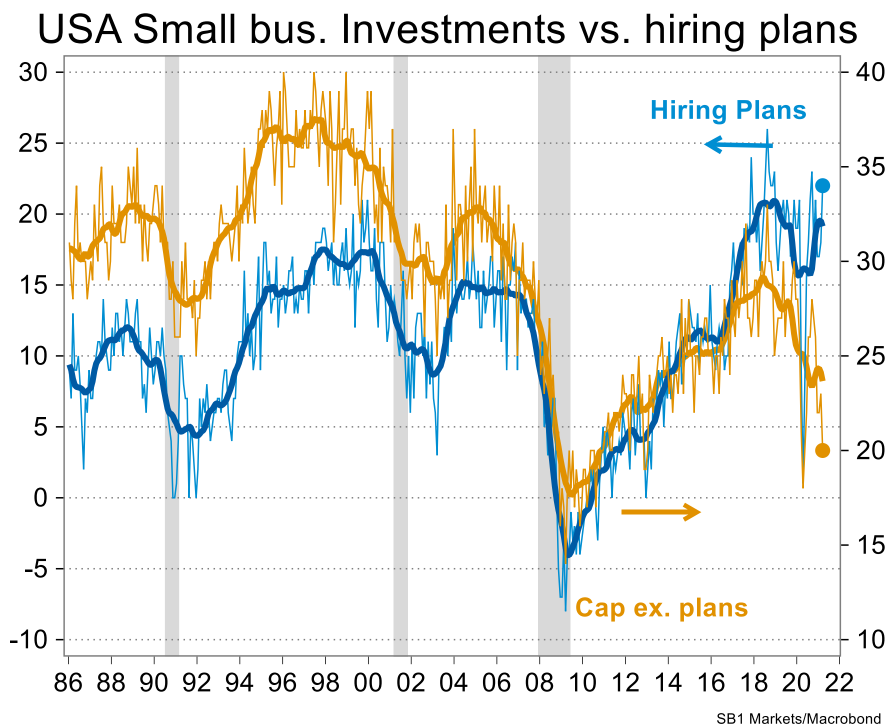


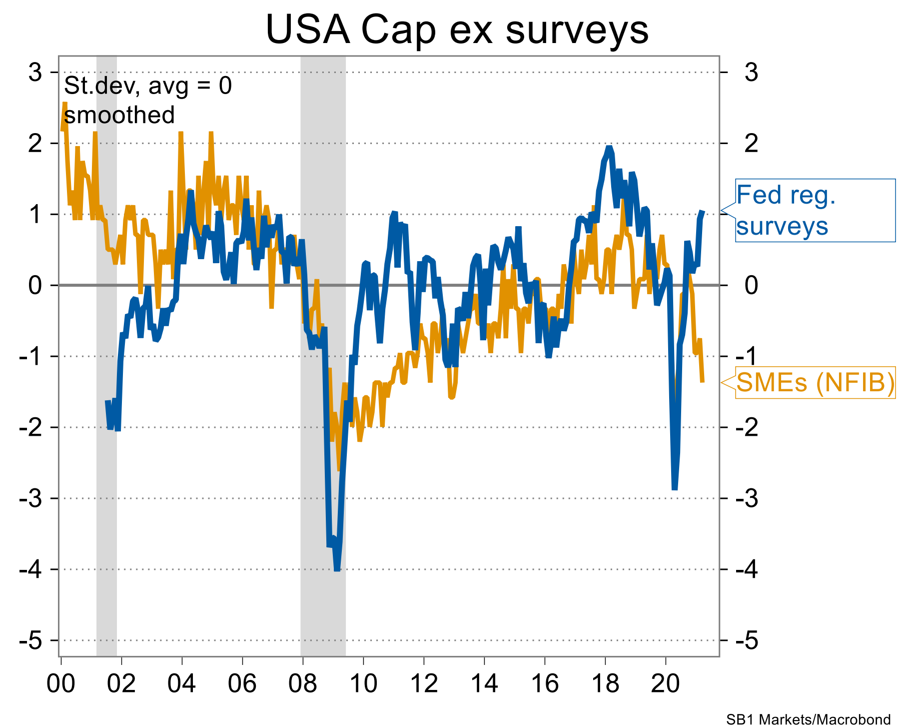


- The **NFIB optimism index** increased to 98.2 in March from 95.8 (expected <u>up</u> to 98.5). 7/10 components improved, while 3/10 fell
- **The expectation index**, the outlook for the next 6 months, increased for the 2nd month – but is still 0.8 st.dev below par
  - » Sectors: Services and professions are the most downbeat, while construction and manufacturing in the lead
- Businesses also increased their **sales expectations** further in March, but the index is still 1.4 st.dev below average, an unusual weak print!
- **Investment plans** index dropped 3 p in March, and is well below an average level, worse than in most recessions
- **Hiring plans** rose further in March and the level is very high. However, the SMEs are not able to **fill their record high level of vacancies**

Hiring plans very high, investment plans not

The gap between hiring and investment plans are record high

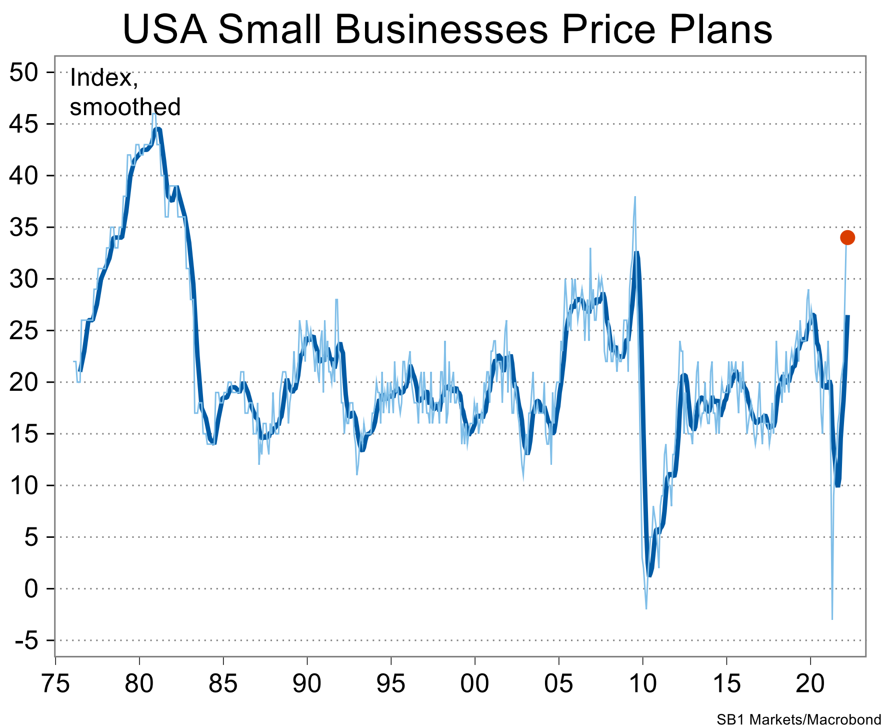


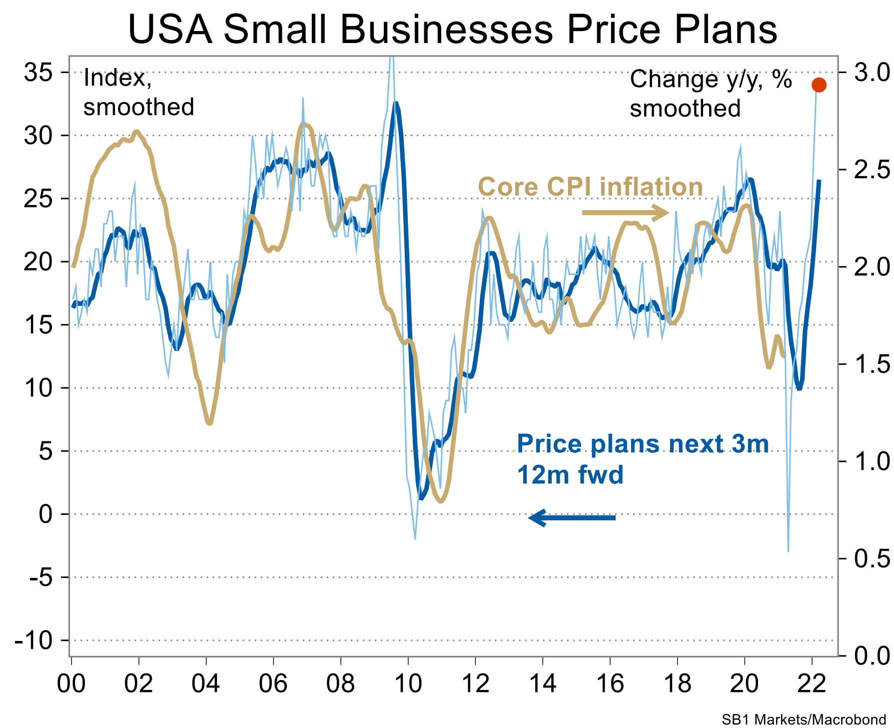


- In addition: Other surveys are not reporting weak investment plans

SMEs' selling price expectations confirmed at the highest level in 12 years

And before that, we have to go back to the early 80'ies…

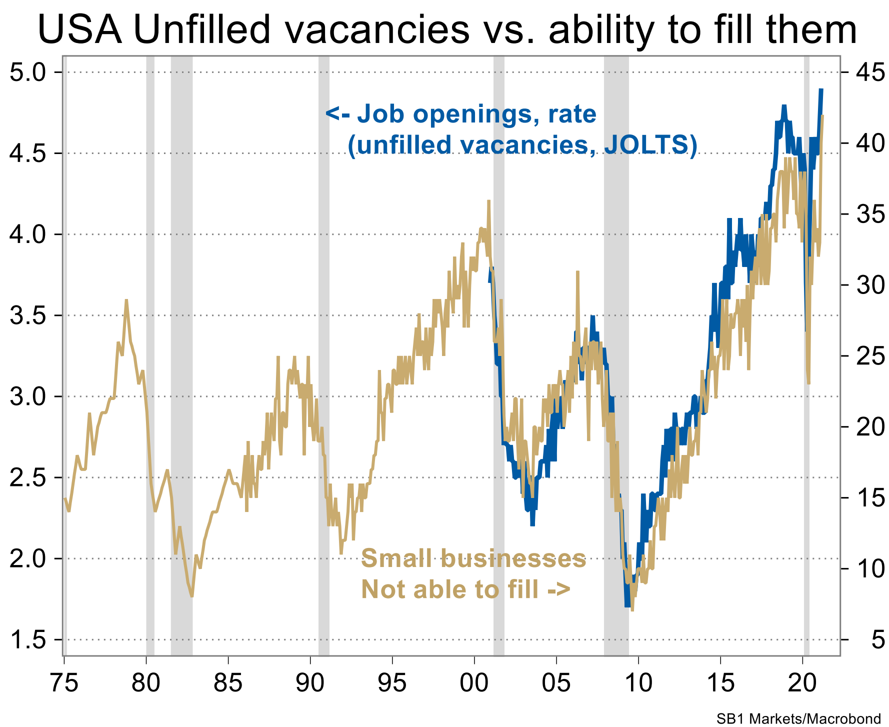


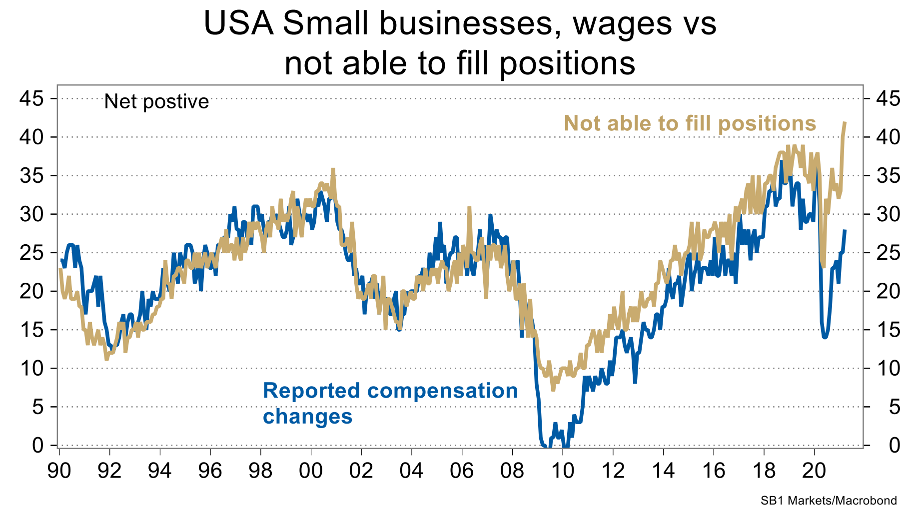


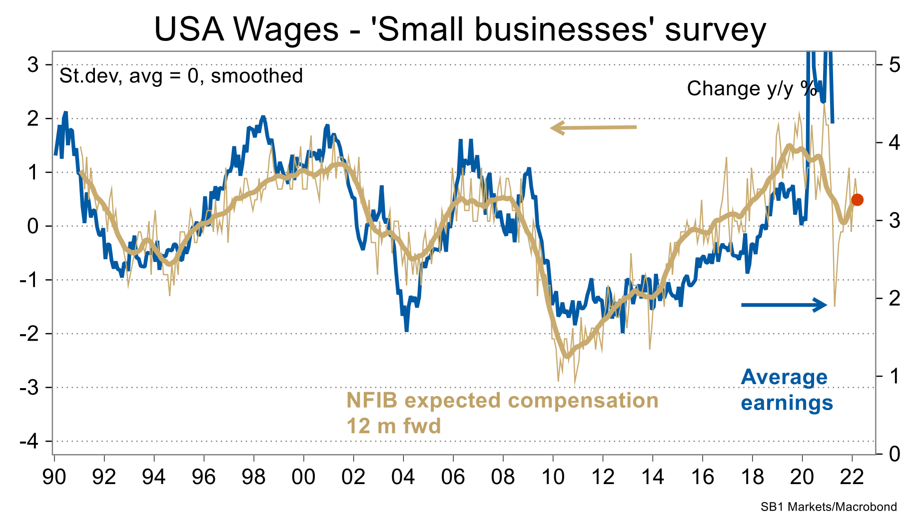
- Companies state that they are planning to increase their prices at an unusually fast pace

SMEs are not able to fill vacant positions, and the no. of vacancies are record high

They could be tempted to increase wages faster?? They have done it already…



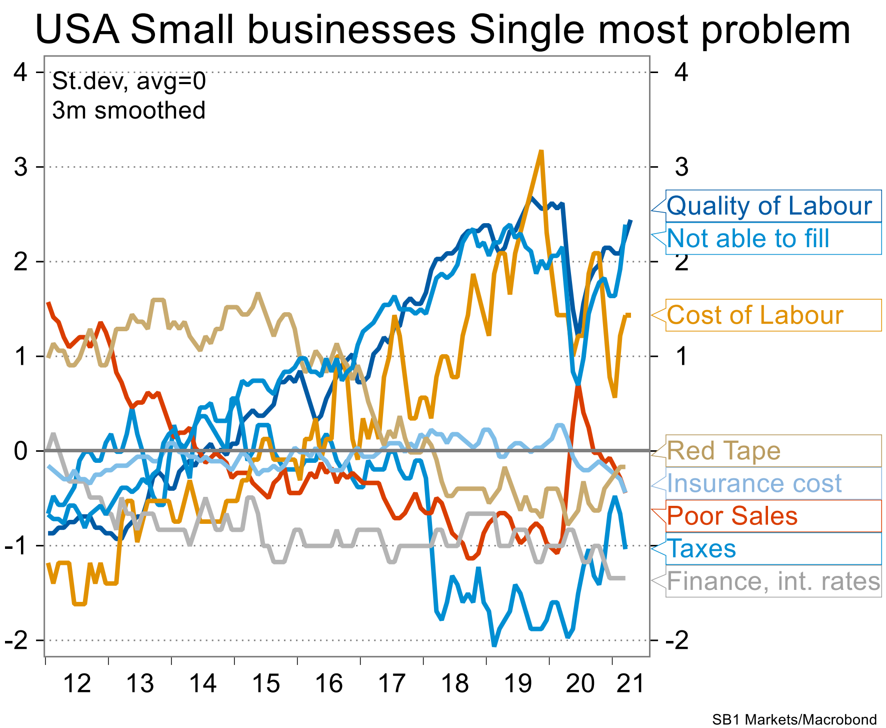


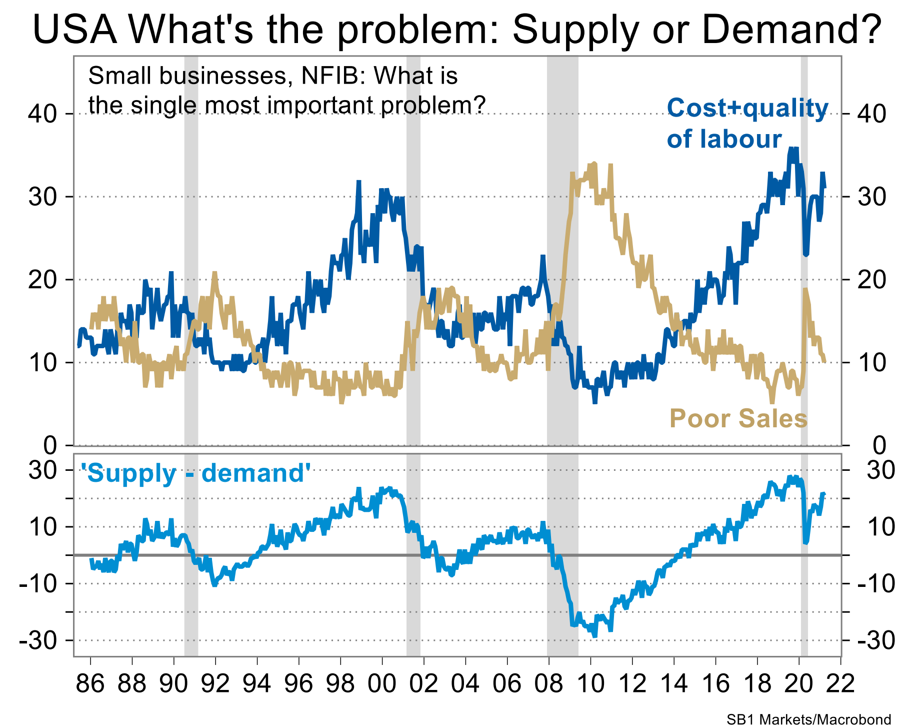


- The fraction of businesses saying that they **actually raised compensation** is at the highest level since before corona
- However, the **expected increases in compensation the next 3 months** are slightly down vs Feb and is not far above an average level (and lower than we expected)

Supply, quality & cost of labour yet again reported as the major problems!

Sales are not. It's really looking like we are at the end of a cycle, not a beginning…

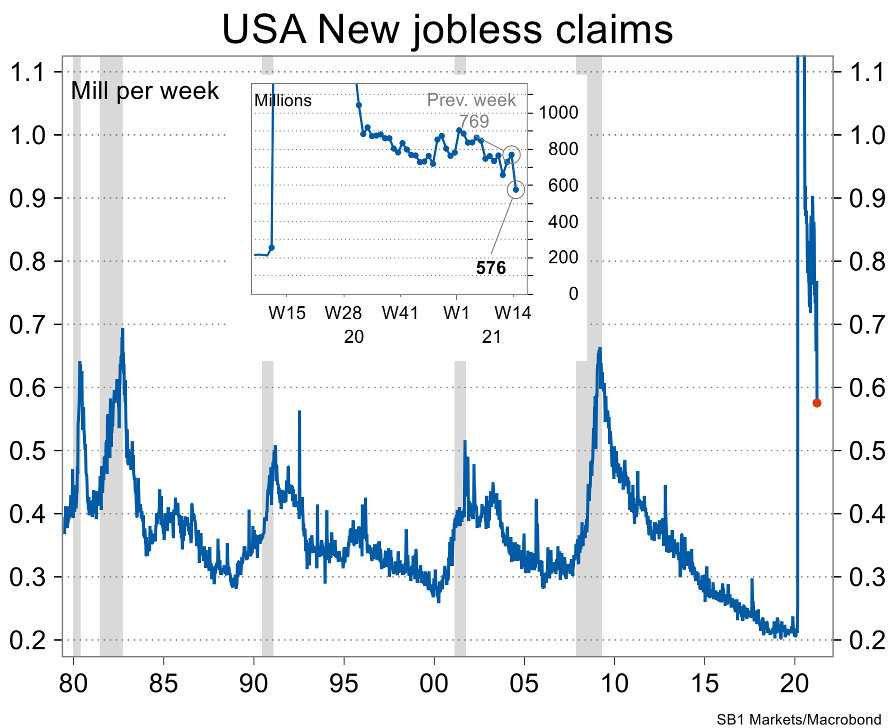


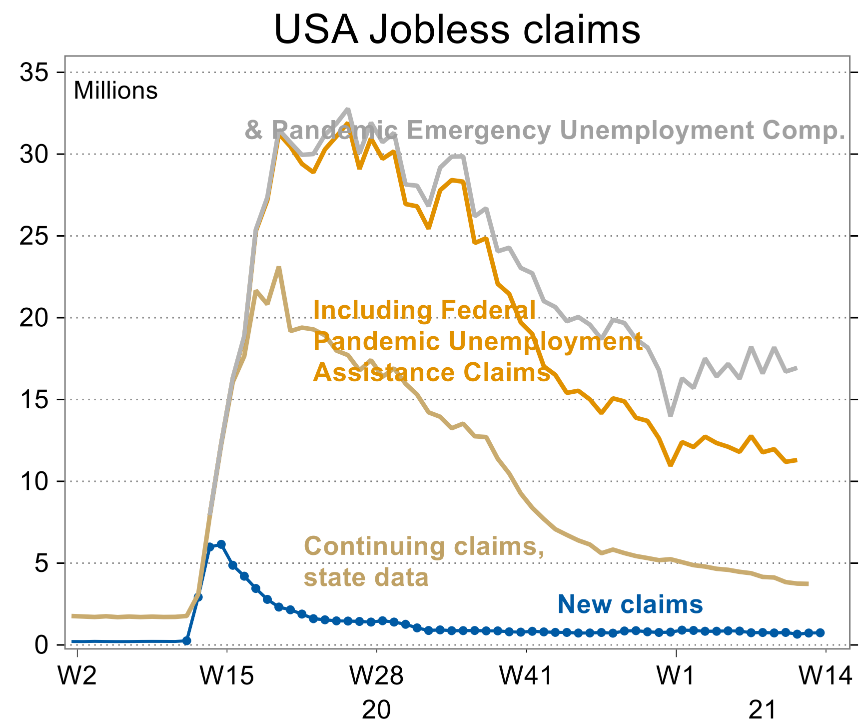


- While more businesses than normal stated **weak sales** as the major problem during the pandemic, there were never that many, and now fewer than the average share of companies say than poor sales is the problem
- **Availability, quality, and cost of labour** is a much more serious problem than normal, the share is now almost back up to the same level as before the pandemic, after subsiding somewhat
- Thus, companies are constrained from the supply side, not from the demand side, they say
- Unusually few companies are complaining about **finance/interest rates** and about **taxes** (and tax concerns have receded in the past couple of months despite messages of increased taxes)

Jobless claims sharply down last week – lowest in a year!

Activity is picking up at restrictions are eased

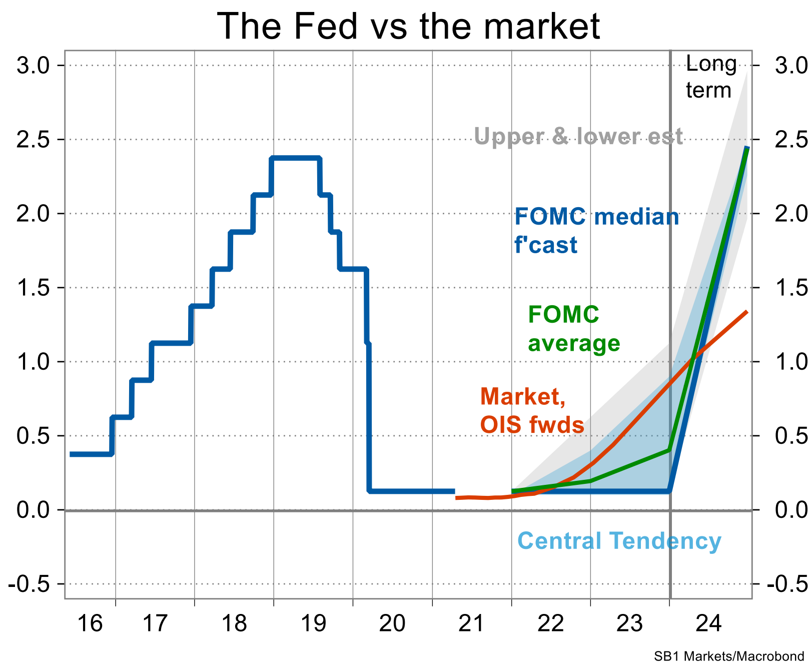




- **New claims** at 576', down from 769' (expected 700')
- **Continuing claims** were virtually unchanged the previous week, but are trending downward. Including the Pandemic support programs the conclusion is more uncertain
- We still find it somewhat strange that the no. of vacancies are close to record high, and companies are reporting they are not able to fill them. Are jobless benefits too attractive?

Beige book: Reports of continued upward wage and price pressures

Still a Modest recovery overall but a optimistic outlook as stimulus checks & vaccines are distributed

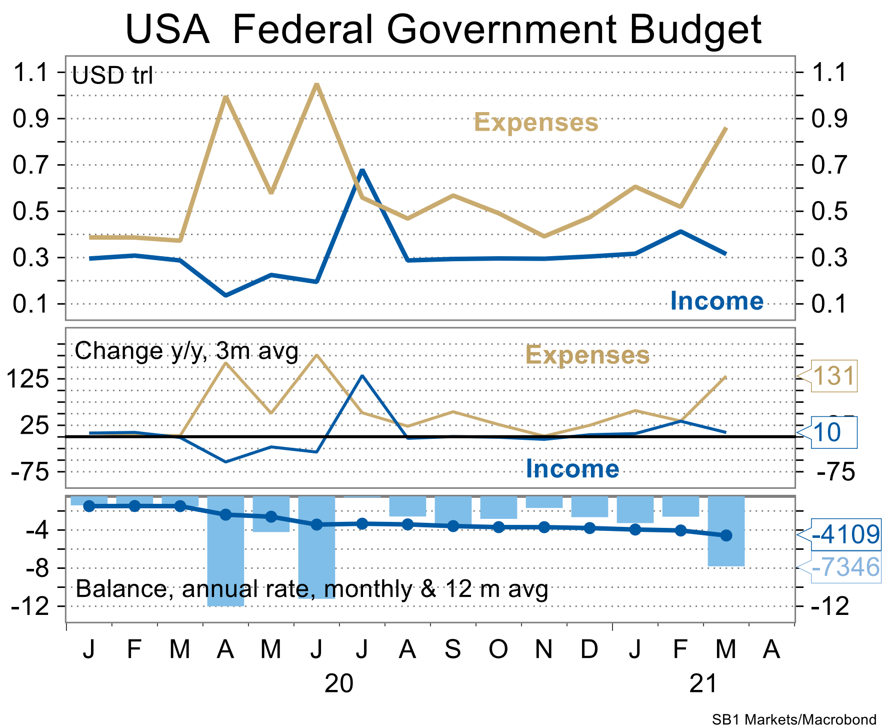


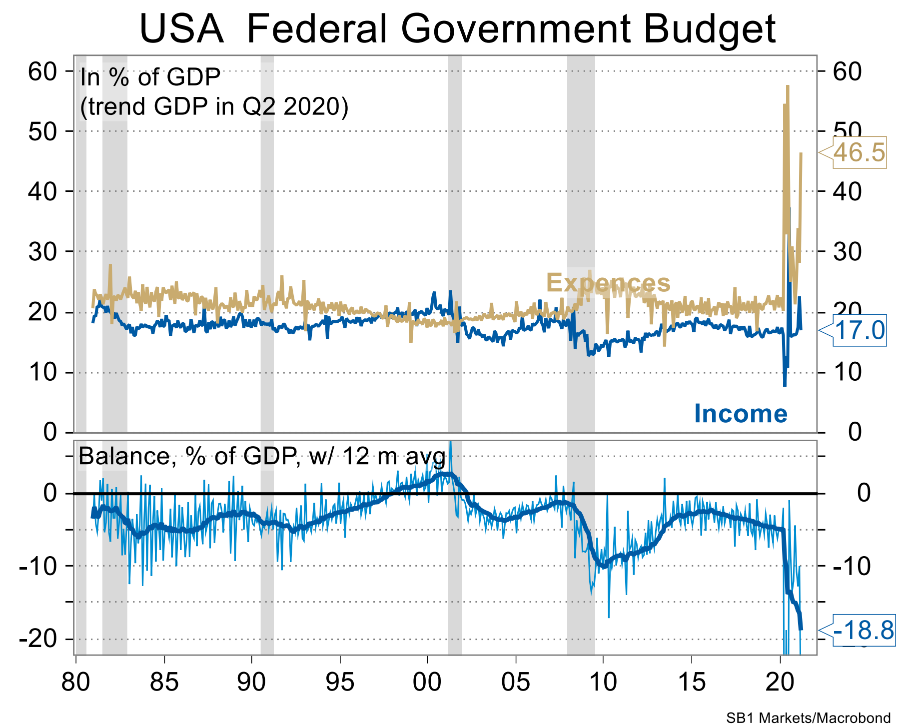
- We assume that the Fed will stay hyper-dovish until
  a) The **corona virus** is brought under control AND
  b) The **unemployment** rate has returned to well below 5% AND
  c) **The employment rate** has recovered most of the losses OR
  d) There are widespread reports of **lack of labour** AND
  e) **wage inflation** is clearly accelerating AND
  f) **Inflation** has been above 2% for a while
- The question is **WHEN** that will happen
- **Gov. Powell keep reiterating his dovish stance – but the market believes he will hike 3-4x before he says he will**

- Growth accelerated to a **moderate pace** in most districts past six weeks, according to the Fed's 12 district banks. Eased restrictions, stimulus checks and increased vaccination cited at reasons for increased activity and outlook
  - » 2 districts reported strong growth (NY and Dallas)
  - » 10 districts reported modest to moderate growth
- **Demand for leisure/hospitality service** has picked up as restrictions have been eased and vaccinations have continued. Both **retail sales and auto sales** were robust
- **Manufacturing** on the way up, despite supply chain challenges. Energy kept expanding. The **housing market** is still going strong, while the commercial real estate markets are still weak. **House prices** are (of course) still climbing, as supply is limited
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages, which is expected to increase over the coming months
- **Input prices** are on the way up, but there widespread reports of **increased selling prices** as well
- **In sum:** Although the reports out of the 12 districts keep getting more positive, we see no reason to expect the FOMC to change its assessment of the economic outlook at the meeting on April 28th. Markets probably focused more on the signals of a tighter labour market and price pressures

The last really big payment?? The budget deficit soared in March, of course

... which was expected. However, a lot of expenditures to come the next months too

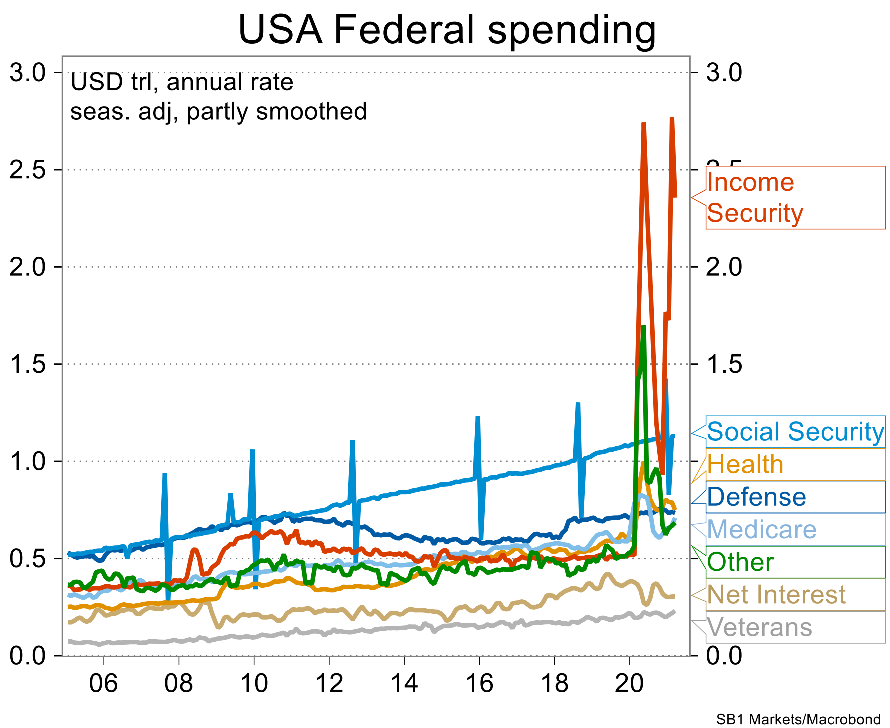


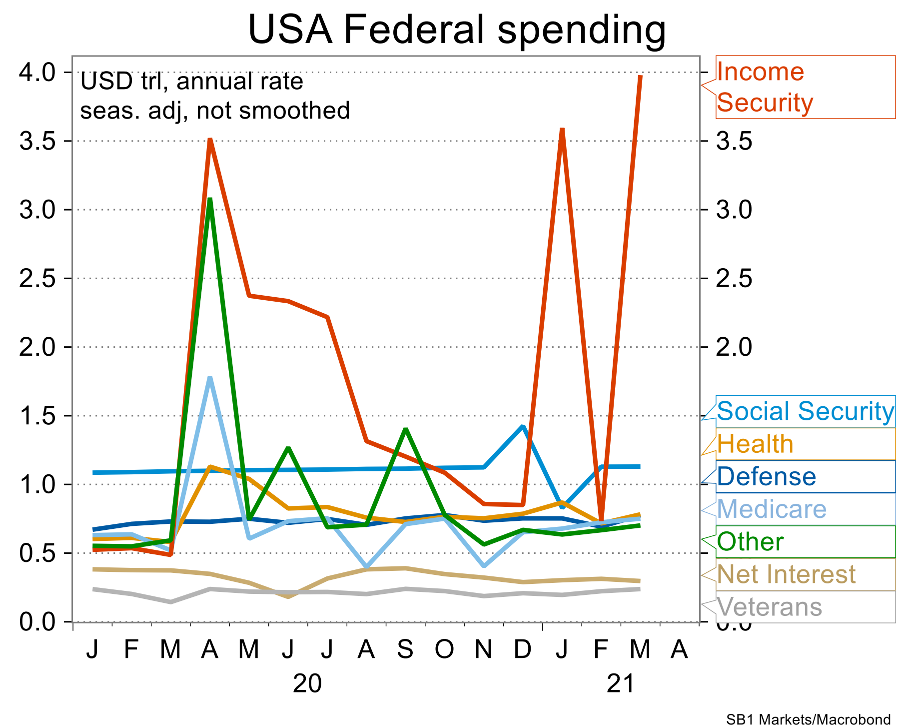


- **Federal expenses rose** USD 340 bn in March, to 860 bn. **Federal income** was 300 bn, or 35% of the expenses (all date seas. adj). This is the first budget impact of Biden's USD 1.900 bn stimulus package. The personal USD 1.400 cheques were explained almost all of the monthly increase in spending, 340 bn out of 350 bn (not seas. adj) distributed in March. So, there is a lot of spending to look forward too the coming months as well, keeping the deficit far higher than normal
- The monthly **deficit** was at USD 560 bn (seas. adj, actual amount 660 bn, as expected), or 2.5% of the <u>annual</u> GDP, the 3rd largest ever (following March and April last year). Over the past 12 months, the deficit equals 19% of GDP

Federal spending back up as USD 340 bn stimulus cheques were distributed

No more cheques in April, but overall spending – and the deficit – will remain high

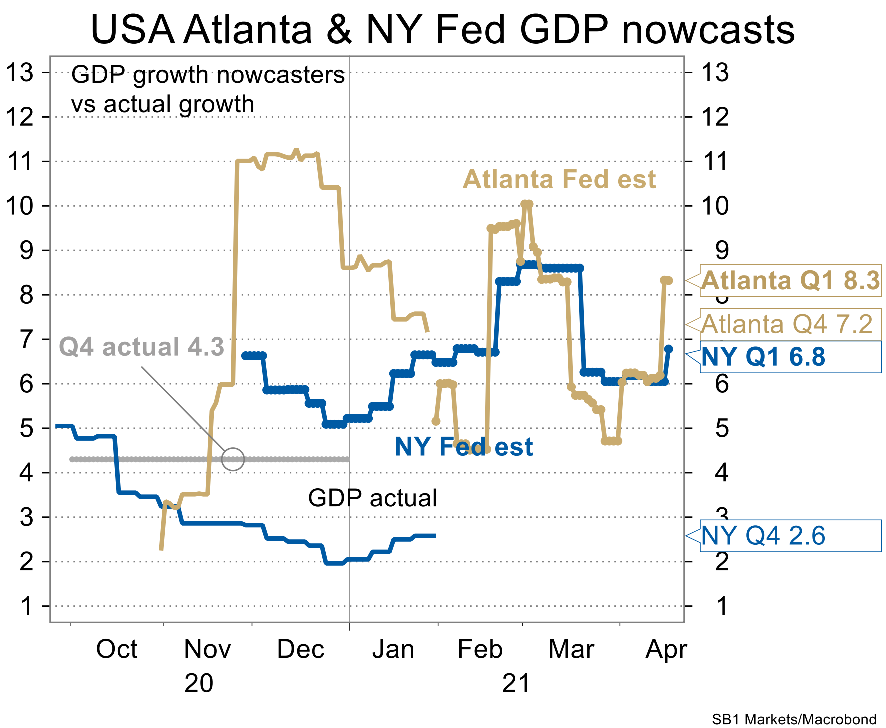


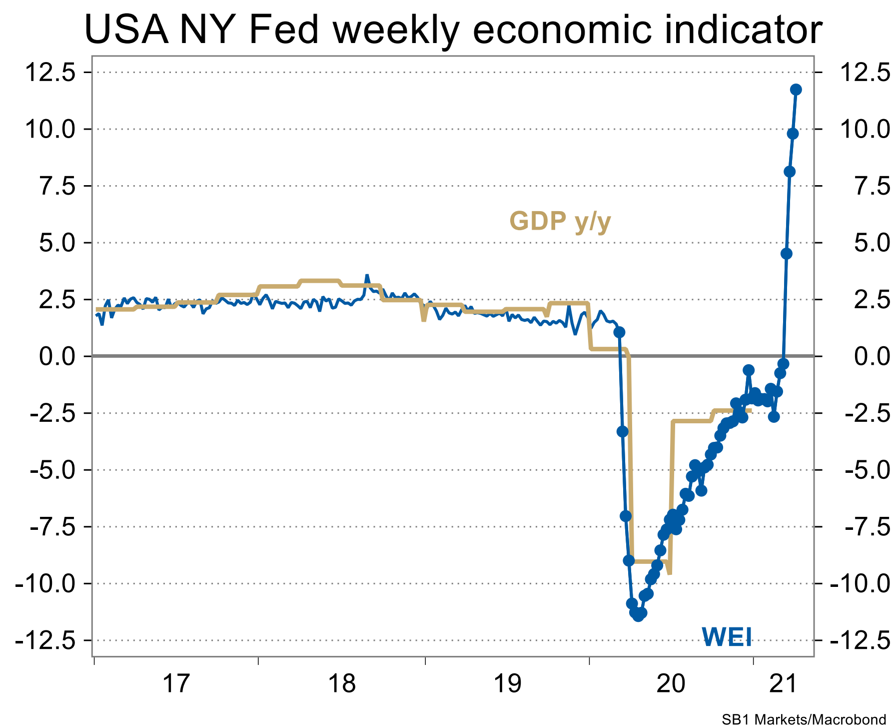


- The rest of the USD 1.9 trl package will finance increased unemployment benefits, larger child tax credit, vaccine distribution, health care, food assistance programs, support for businesses, USD 350 billion to states and local governments, and USD 310 billion to help schools reopen after the pandemic – which will be paid out the coming months and quarters.

Retail sales a shot arm for Fed' Nowcasters. GDP up 8% in Q1?

Both up 1 – 2 pp last week, due to stronger retail & housing data

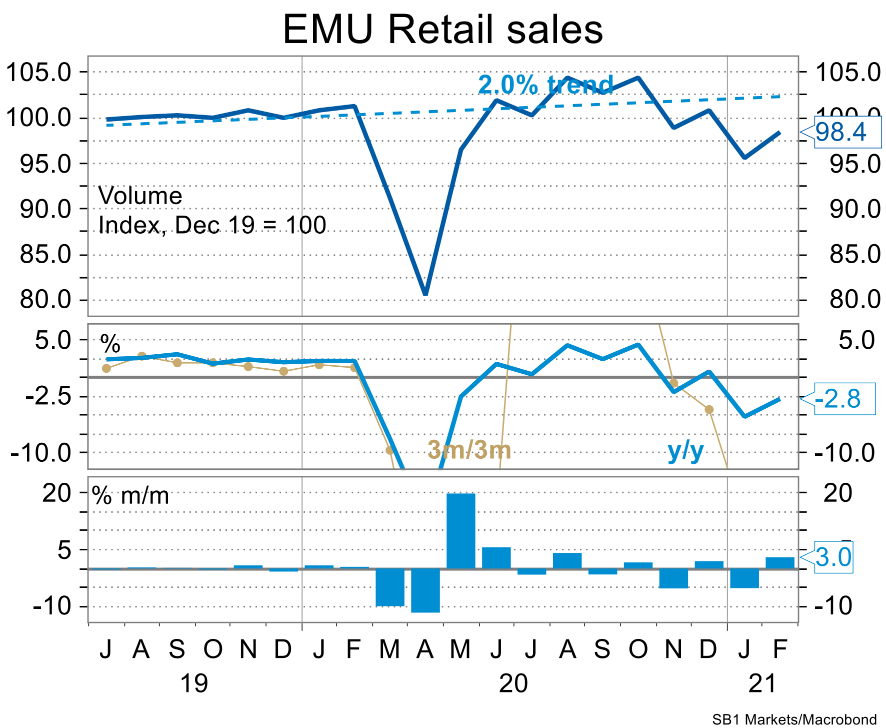


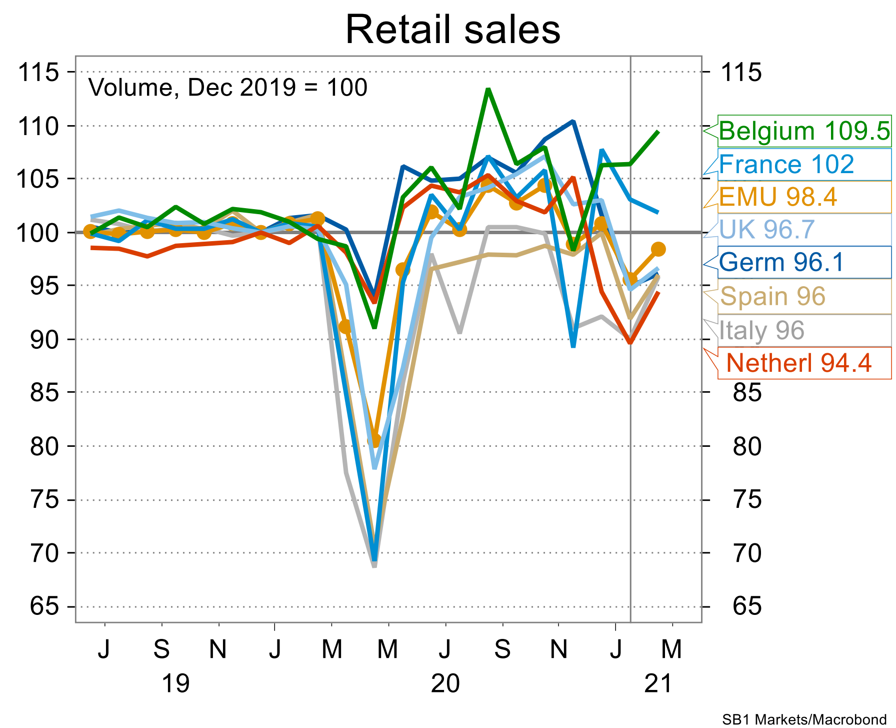


- Atlanta Fed says 8.3% growth in Q1 (annualised, 2.1% 'actual')
- NY Fed hints at 6.8%
- NY Fed's weekly y/y economic indicator up in the sky (vs. last year 10%+ nosedive)

Eurozone retail sales rebounded in February, still well below par

Sales rose 3%, better than the expected up 1.5%. Sales are down 1.5 – 3% below the pre-corona level

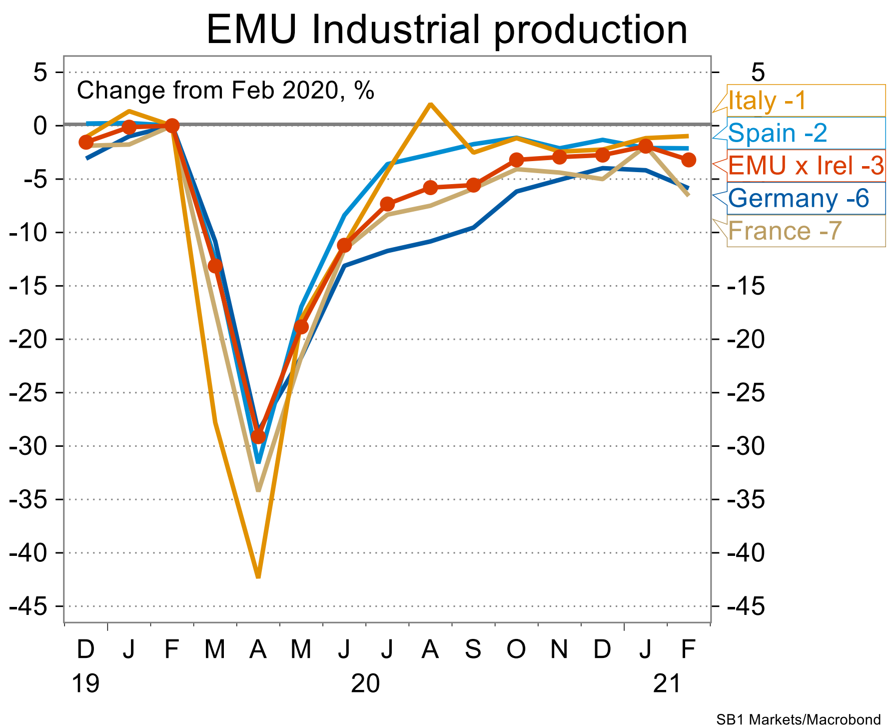


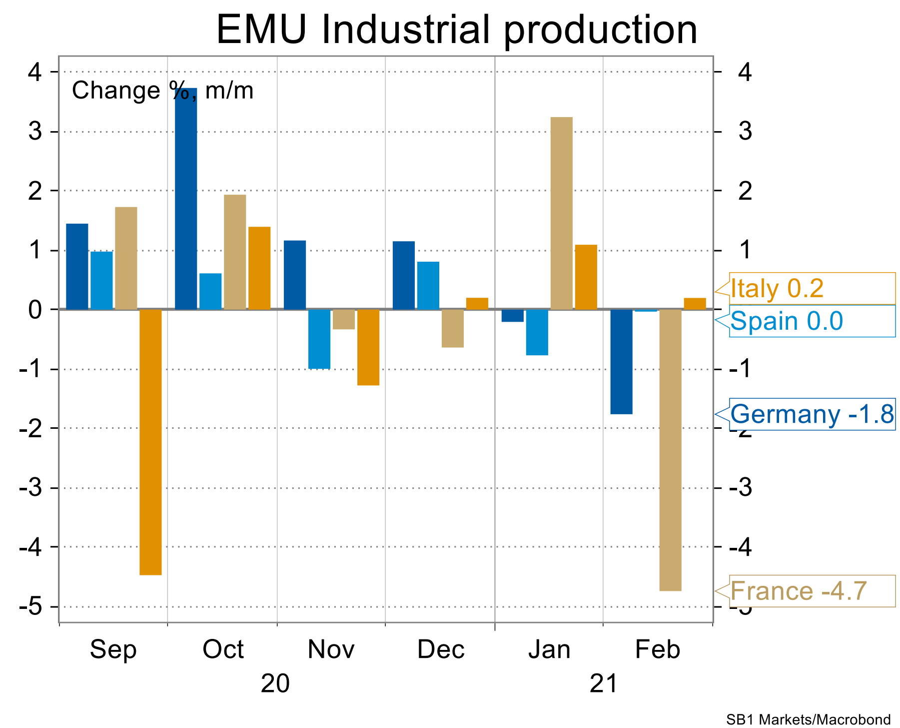


- Sales were up 3% m/m, and the Jan figure was revised up by 0.7 pp to -5.2%.
- Sales were up almost everywhere: 28% in Austria, 8.4% in Italy, and 1.2% in Germany, while sales were down 1.2% in France
- Countries in which the restrictions were eased in February saw large increases in retail sales (naturally), contributing to a higher EMU average. Reports that stores in some courtiers are offering online order and in-store pick-up could also have contributed to the positive Feb figure

March manufacturing production weaker than (downward revised) expectations

Total EMU industrial production down 1% m/m, down 1.6%y/y

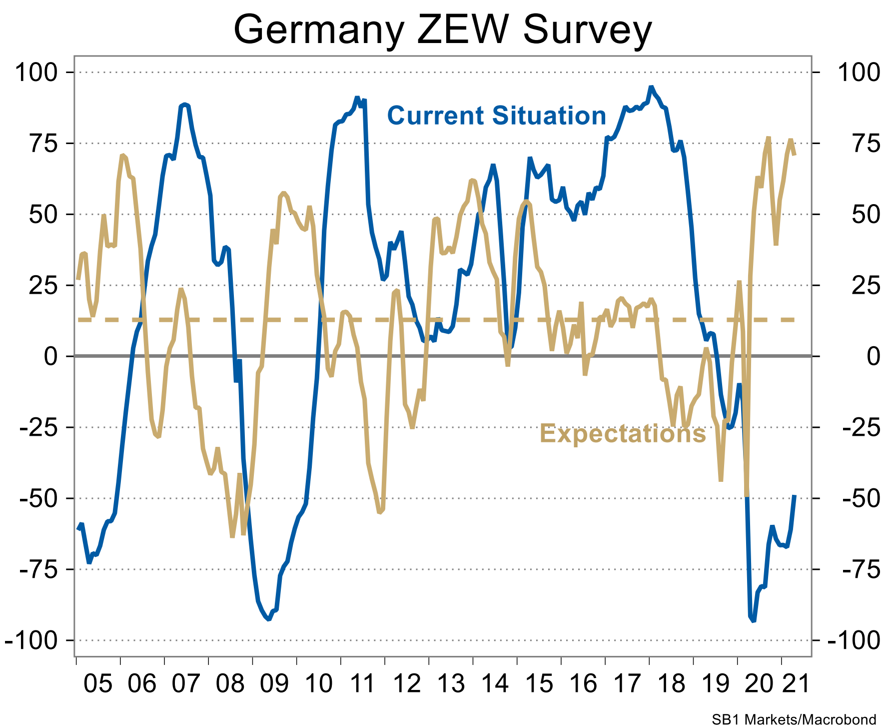


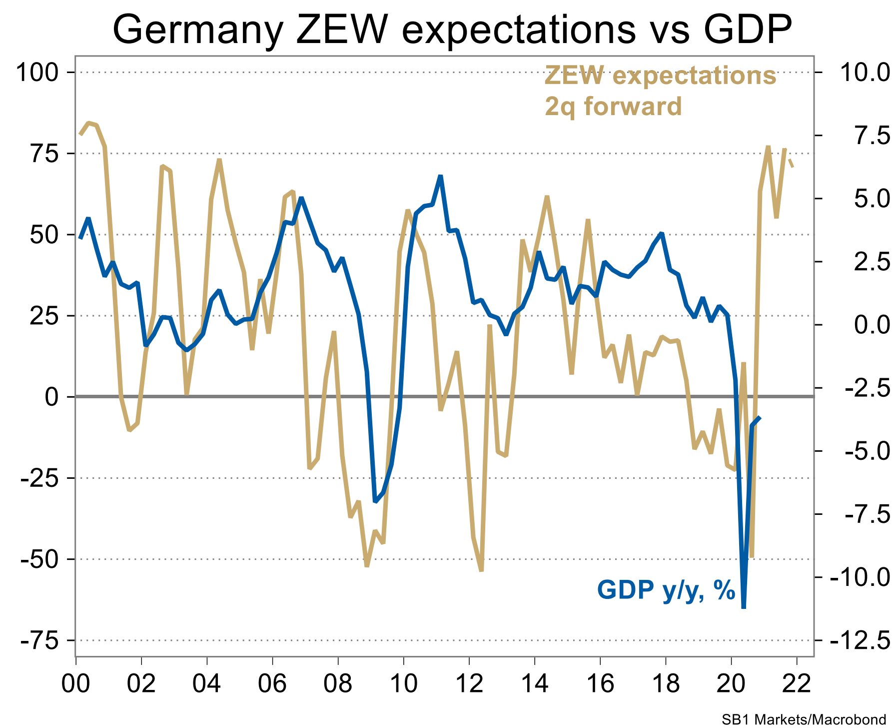


- The recent lockdowns have taken its toll on actual production; Germany down 1.8%, France 4.7%, Spain flat
- Total EMU industrial production down 1.6% y/y, expected -0.9%, while the m/m-figure was 0.1 pp better than expected. Excluding the volatile Irish manufacturing sector, production is down 3%
- At the same time, companies are reporting almost unprecedented strong growth to the PMIs and other surveys
- March – or April (or May?) will be far better!

ZEW analyst/investor sentiment slightly down, still close to 20-year peak levels

Investors are grippling with fear of tighter restrictions amid 3rd Covid wave

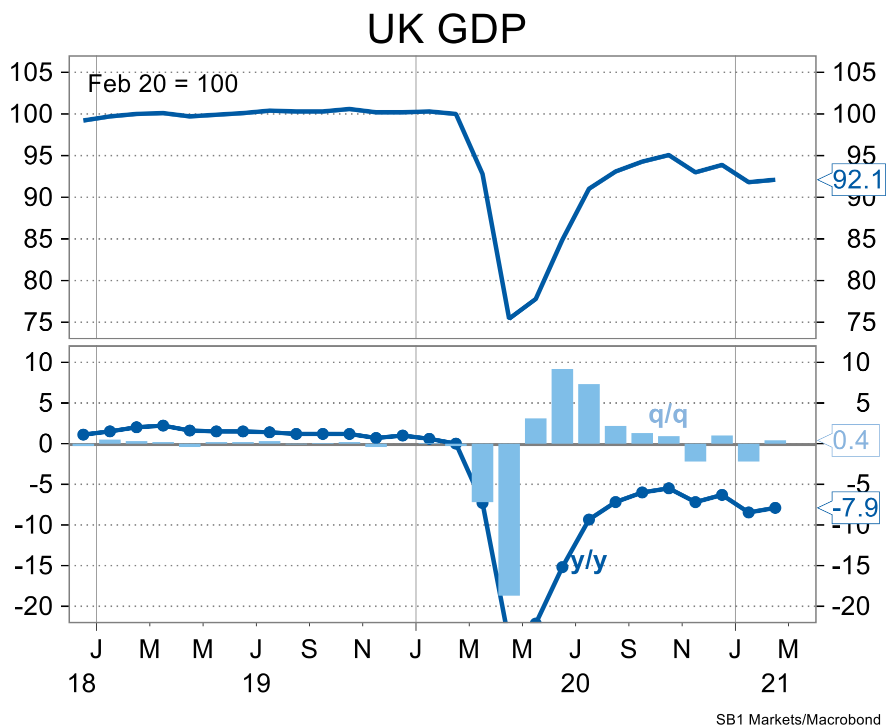


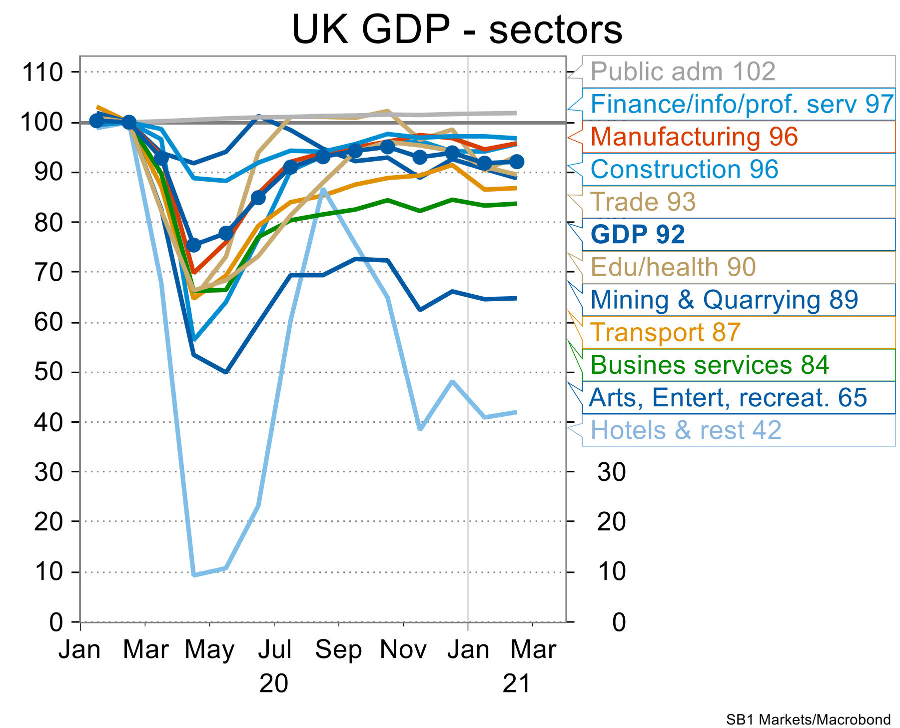


- The ZEW expectation index is fell 5.9 p to 70.7, expected up to 79. However, the decline was marginal (check chart), and the index is still 1.8 st.dev above average, and just marginally below the best prints the past 20 years
  - » Thus, investors and analysts are just pretty sure that the economy will not remain in the basement (or below) forever, and a strong recovery is expected. Which is reasonable
- Assessment of current situation improved in April, as some restrictions have been lifted and vaccinations are under way. During the next months the gap between the two components should narrowed substantially, mostly from the downside

UK GDP grew by 0.4% m/m in Feb, less than expected – but history revised upw.

GDP will decline some 2% in Q1 from Q4 – and GDP is still 7.9% vs. the pre-pandemic level. But now…

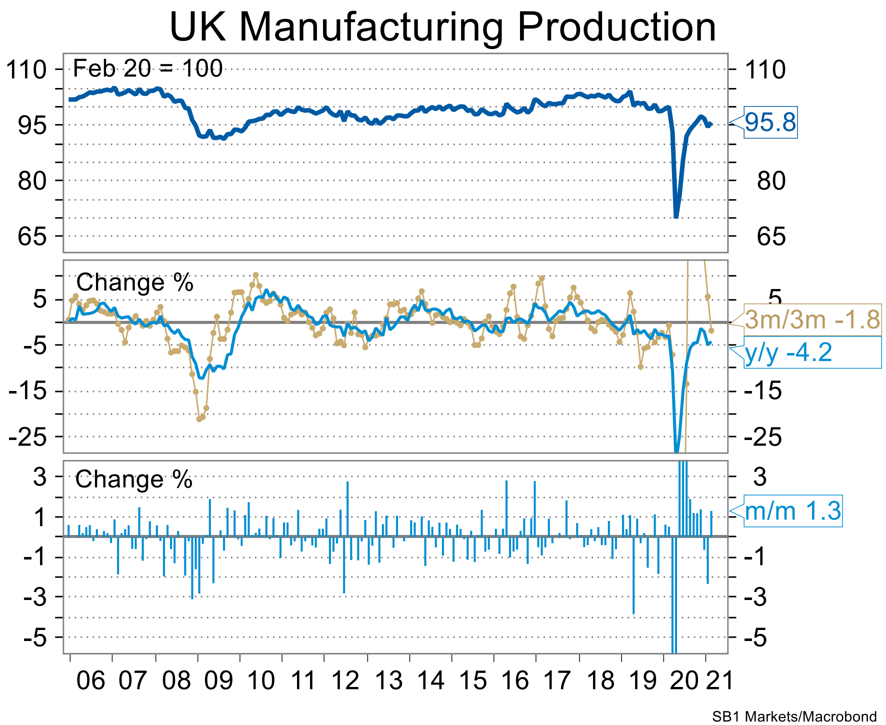


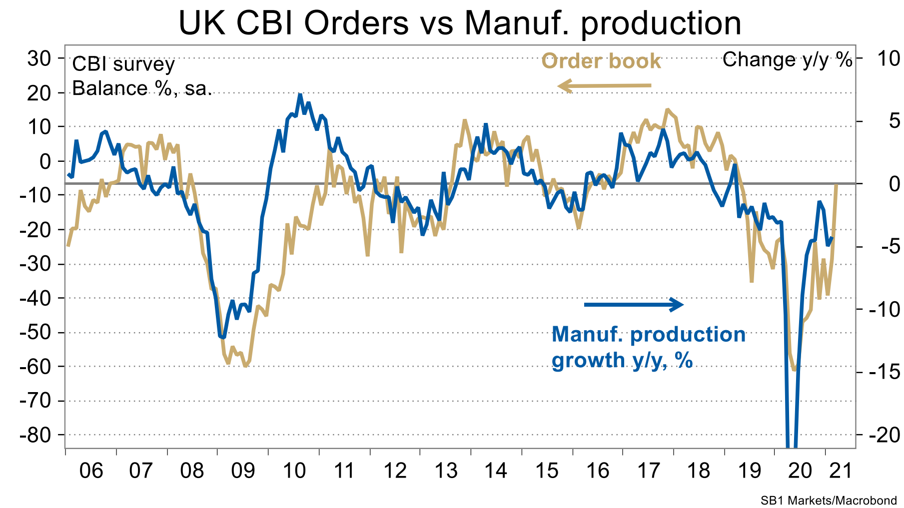


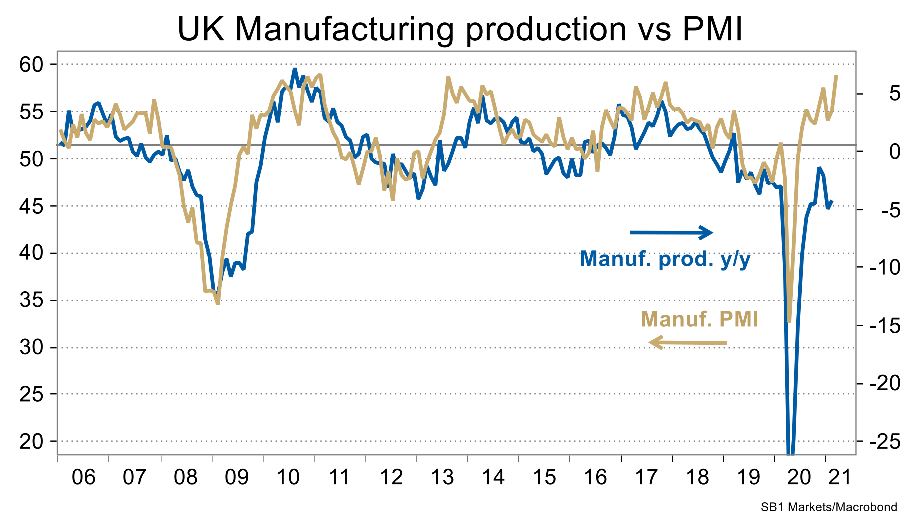
- GDP grew 0.4%, as some restrictions were eased, expected up by 0.5%.
  - » However the decline in Jan was a tad smaller than initially reported, -2.2% vs -2.9%, and the level in February was higher than expected – but of course still terribly low, among the very weakest in the rich part of the world (and even in the world!)
  - » Measured 3m/3m, GDP fell at a 1.6% pace, expected -1.9%
- Education/health and finance were the only sectors with a decline in activity in February
- March were very likely better than February, and as several restrictions were lifted in April…. *Cheers!* (And much more to come in May, June & July!)

Manufacturing indicators up in February & the PMI still strong

Manufacturing production up 1.3% in Feb – beating expectations by 0.8 pp



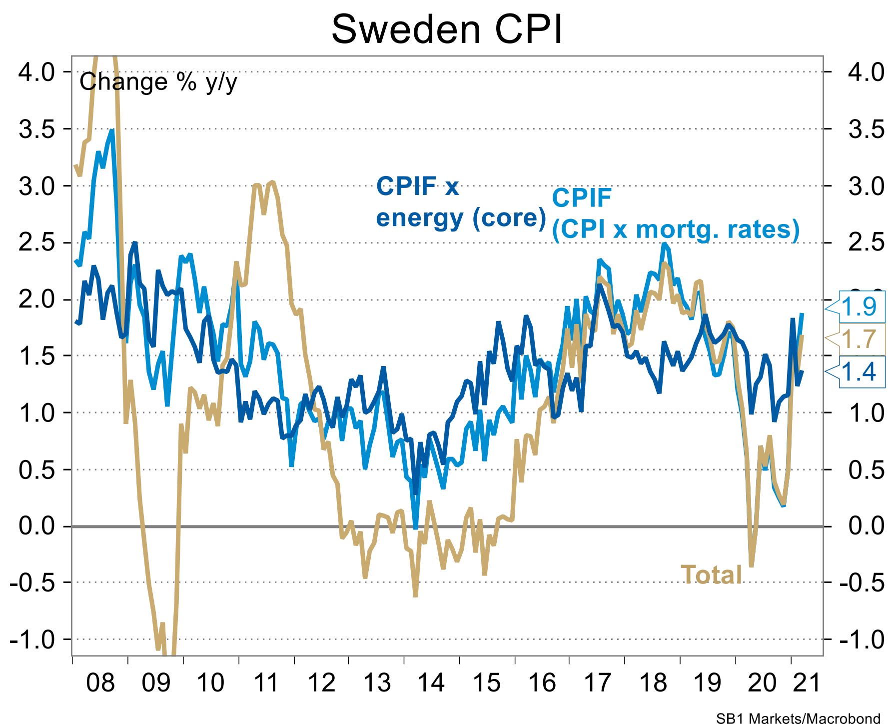


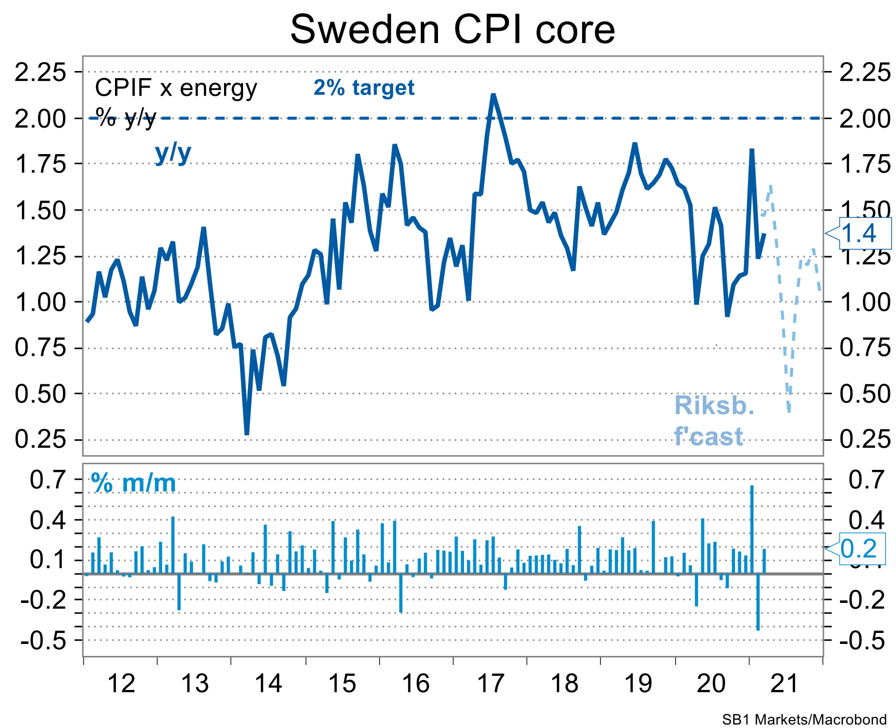


- 7/13 manuf. subsectors saw an increase in Feb
- Industrial production was up 1% m/m (expected 0.5%)
- Manufacturing production is still 4.2% below the pre-pandemic level

Core inflation up 0.2 pp to 1.4% in March

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

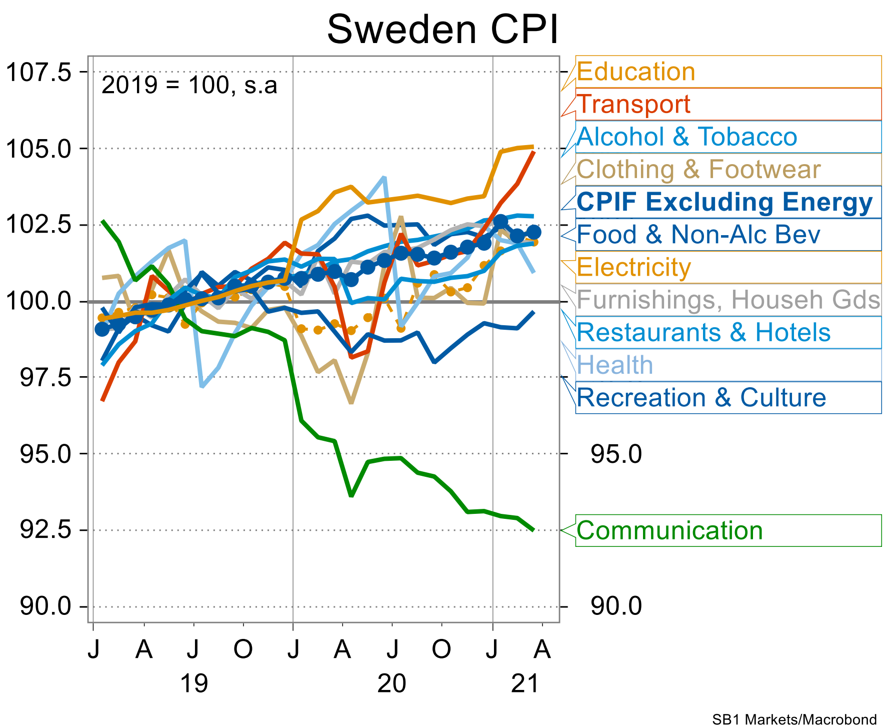


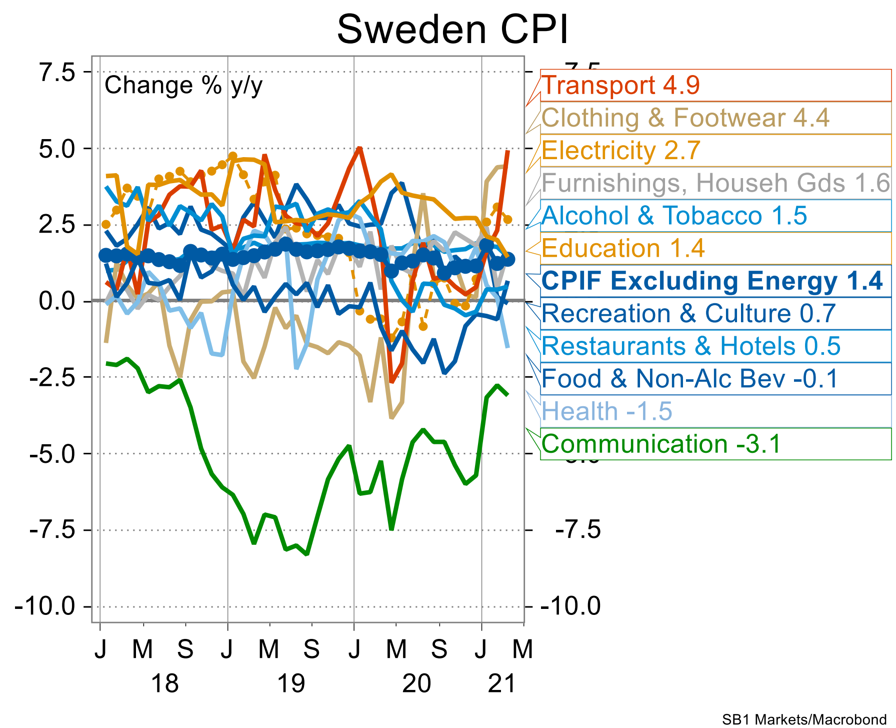


- The constant interest rate inflation (CPI-F x mortgage rates) was up 0.4 pp to 1.9% in March, in line with expectations
- Core prices were up 0.2% m/m. A decline in the prices of food and furnishing were the biggest contributors on the downside
- Total inflation increased to 1.7% y/y from 1.4%.
- Increase in inflation largely driven by increase in transportation/fuel, clothes and vegetable prices, whereas electricity was the largest contributor on the downside

Food and furnishing prices contributing to the decline in CPI

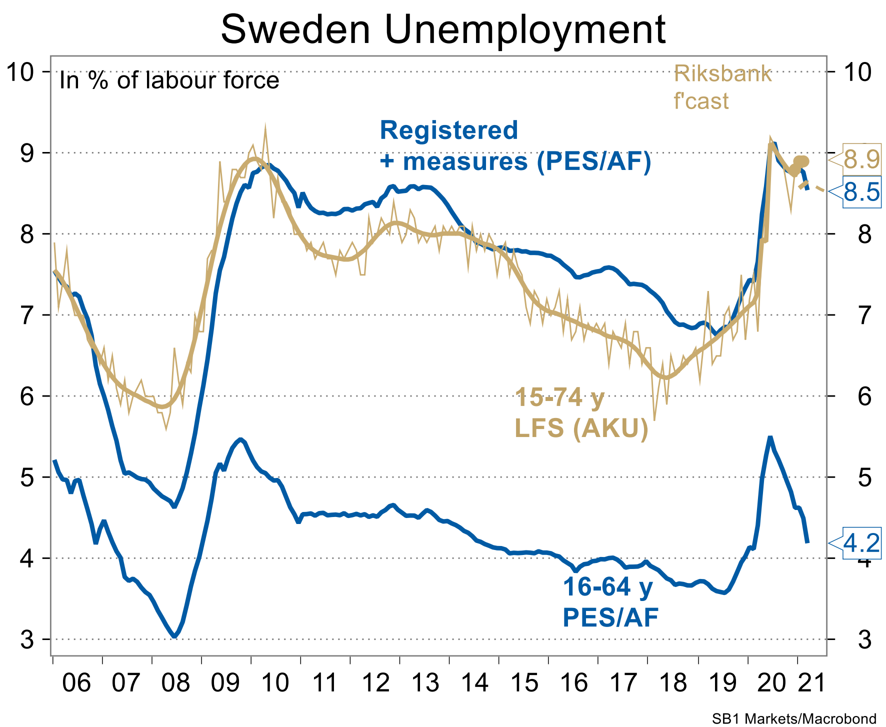
…and the majority of sectors are still reporting inflation below 2%

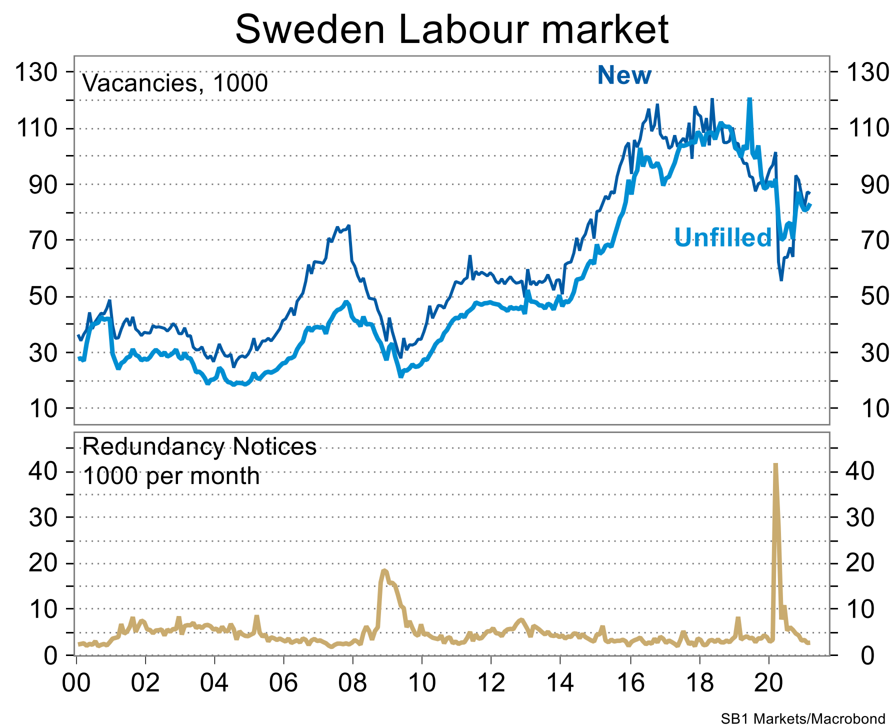




LFS unemployment down in March, but revisions still make data uncertain

New survey method, definitions & calculations makes especially employment data 'useless'

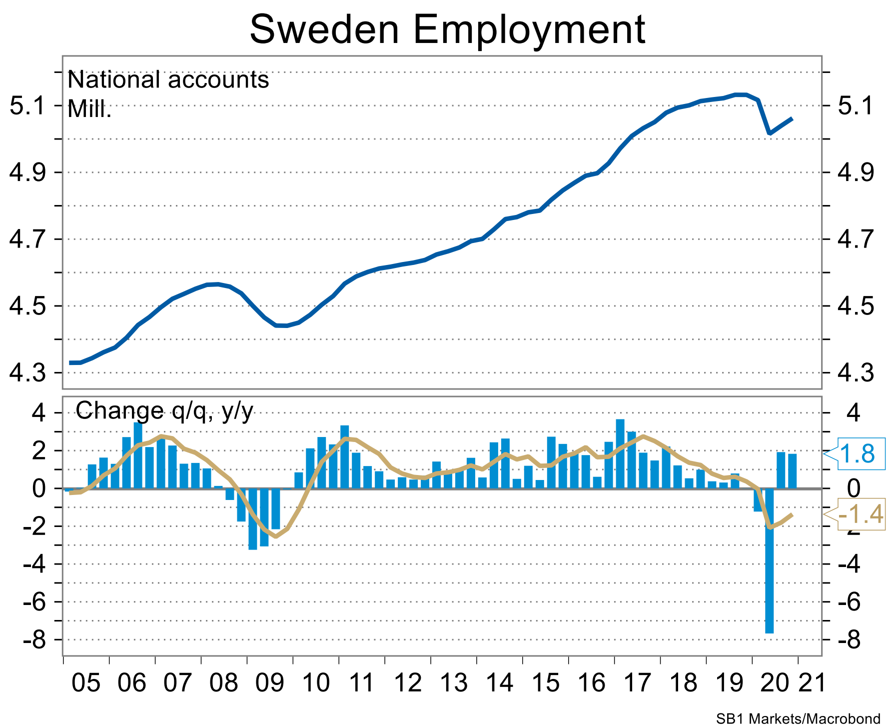


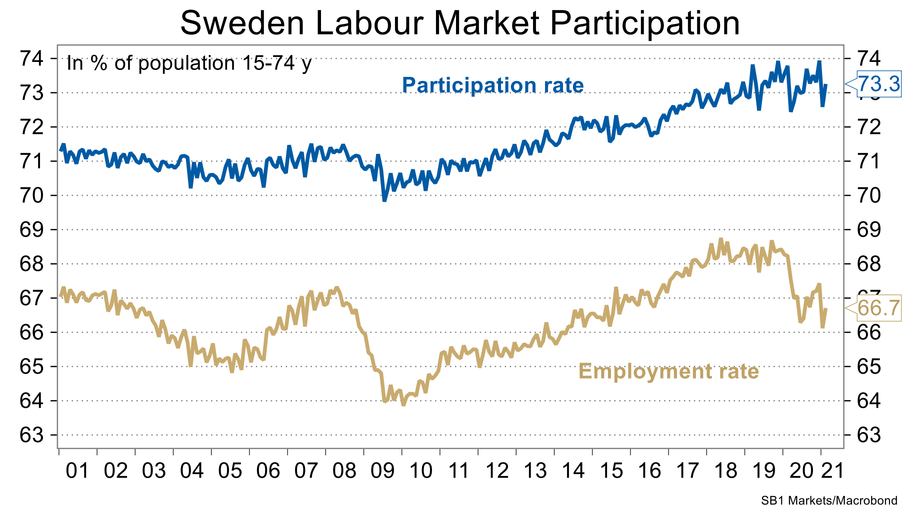


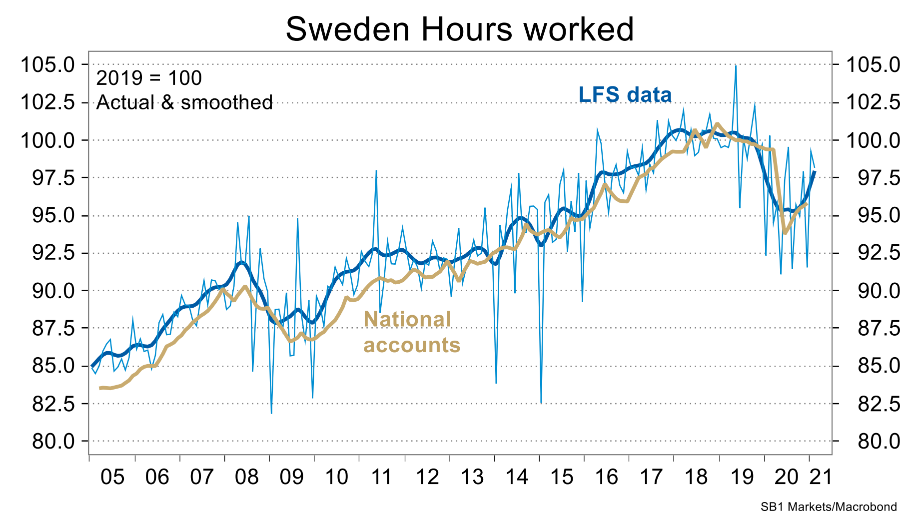
- The seasonally adjusted **LFS unemployment rate** rose 0.1 p to 8.9% - probably. The whole LFS apparatus is revised (EU standards) and the old and new method is not yet directly comparable
- **Registered unemployment** has inched down and currently stands at 4.2%. Incl. labour market measures, unemployment has fallen somewhat less, and is at 8.5%, 0.8 pp higher than a year ago
- The number of **new and unfilled vacancies** increased and **layoffs** were down in March

Some 90’ of the 120’ (2.5%!) drop in employment due to method revisions

…probably. Participation excessively down too. Hours worked probably closer to the ball, and stronger







- Employment is most likely down some 2% from before corona, hours worked are down 2%
- Hours worked has recovered substantially vs last spring, and is still on the way up

Highlights

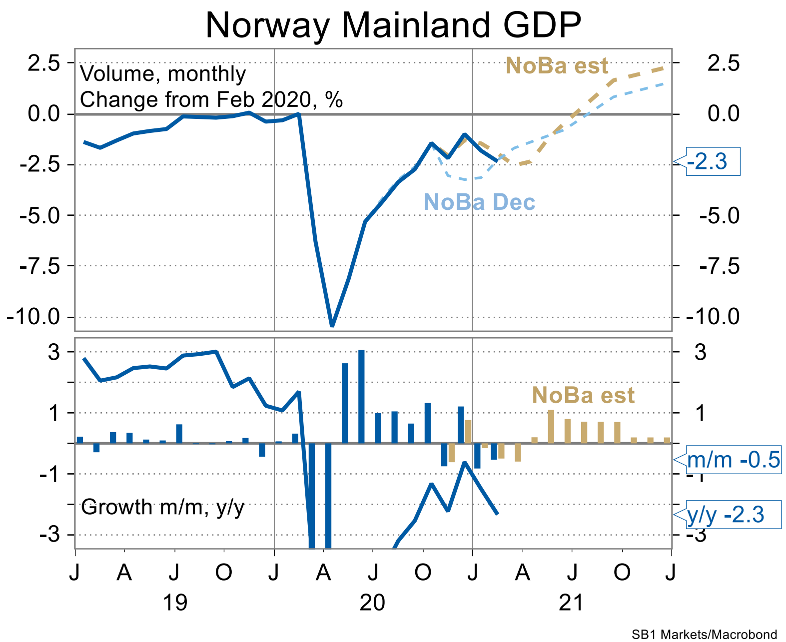
The world around us

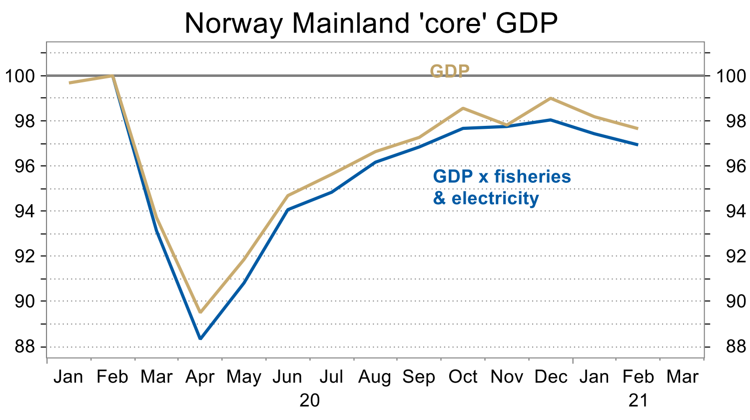
The Norwegian economy

Market charts & comments

Mainland GDP down 0.5% in February

In line with NoBa/expectations

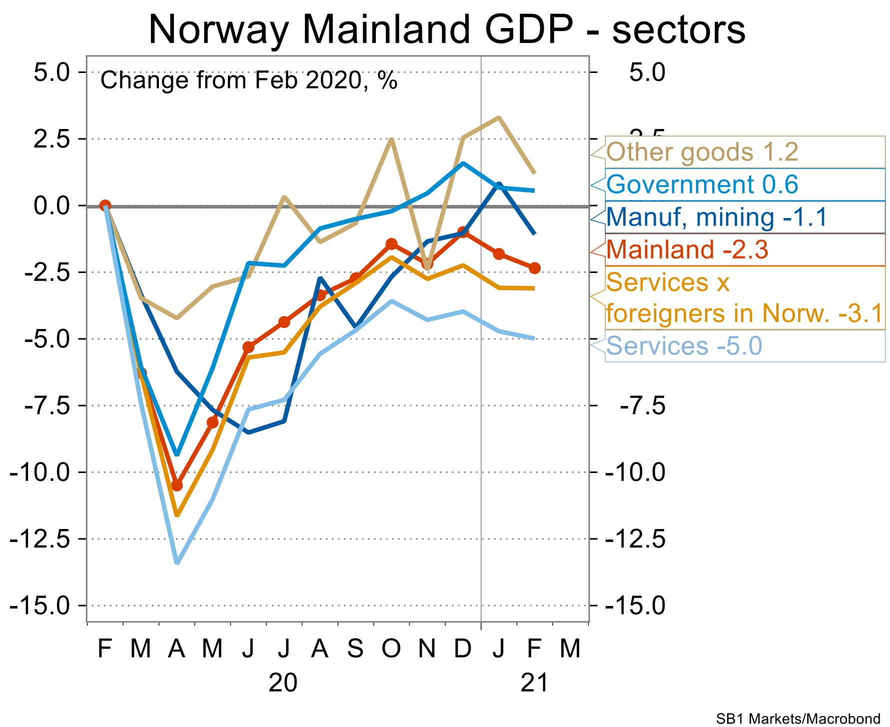


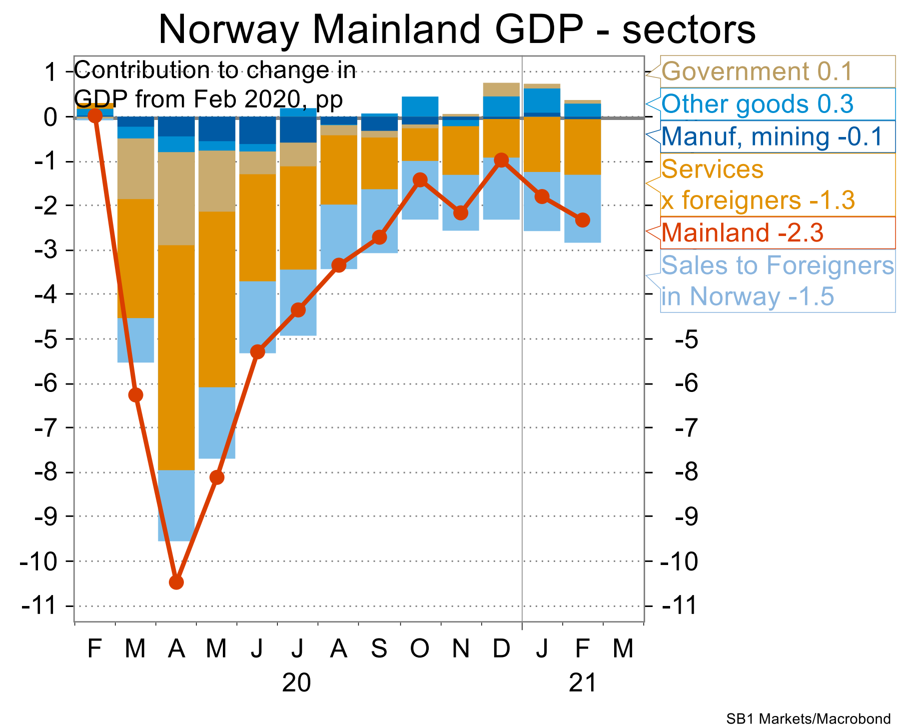


- **Mainland GDP fell by 0.5% m/m in February**, in line with Norges Bank's expectations from the March MPR, we exp. -0.4%. The decline in January was revised to -0.8% from -0.2%, while Dec was revised a tad upwards. In sum, marginally weaker than expected. GDP is close to unch. from last Sep, following a 1.3% decline since Dec
  - » No net impact form electricity and fisheries in February
  - » **Production:** Private services are of course hampered by restrictions but the decline in Feb was just 0.3%. Still hotels/restaurants, culture entert., transport were all down around 2%. Manufacturing/mining was down 1.9%
  - » **Demand:** Norwegians' spending at home rose but foreigners' spending fell more, due to travel restrictions. Mainland & business and housing investments increased, while oil investments fell. Exports x travel flat
- **Mainland GDP is down 2.3% vs the Feb-20 level**
  - » **The GDP level** is marginally below Norges Bank estimate in the March MPR. Ex fisheries & electricity, GDP is down 3.0%
  - » **Production:** The 4 hard hit services are down 19% (business services) to 47% (hotels & restaurants). The total negative drag equals 3.1% of Mainland GDP. Other sectors are up, with trade, manufacturing & education in the lead. Construction is down 4%, even if housing investments are up
  - » **Demand:** Norwegians are spending 1.5% less in Norway than in Feb-19, services down 13%, goods up 11%. Spending abroad has fallen by 97% (equalling 9% of disp. income), and the money is saved. Housing investments are up. Mainland business investments have fallen by 6%, while oil investments are down 8%. Exports ex petroleum (and tourism) are back to the Feb-20 level. Foreigners are not spending anything in Norway, a cut equalling 1.5% of Mainland GDP

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

The service sector down by 1.3% since last October

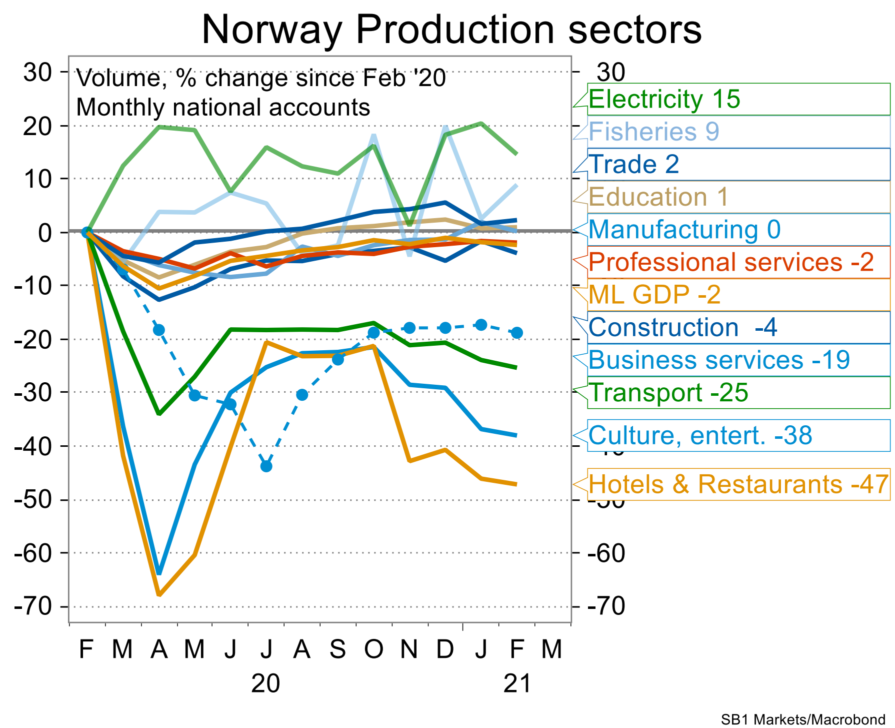


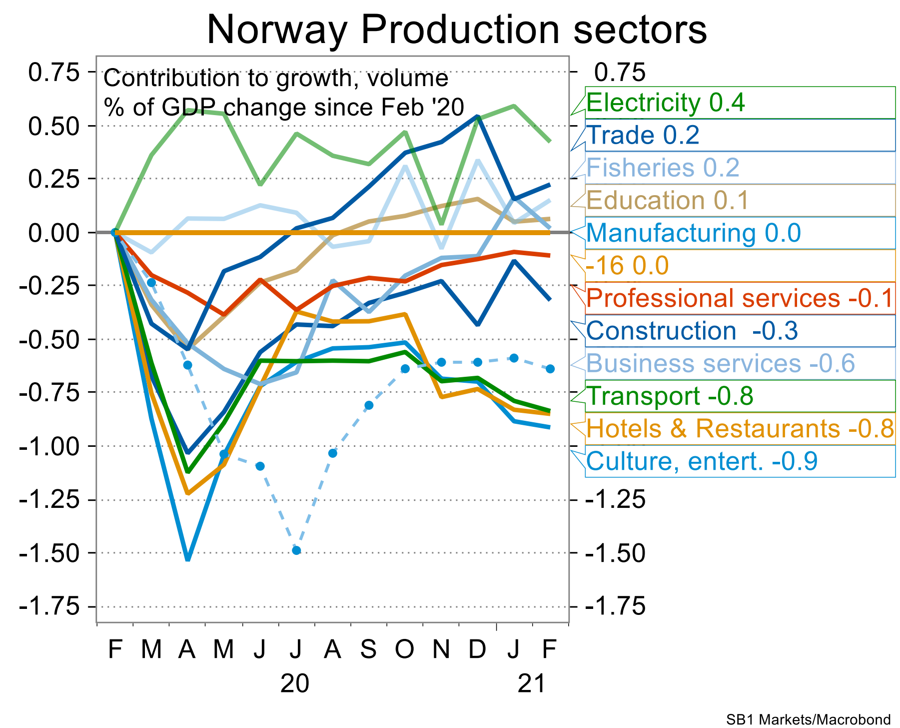


- **Service sector production was down 0.3%** in Feb, amid tighter corona restrictions – but this is nothing compared to the 13% drop last March/April. Hard to see a reversal for the sector before large parts of the population is vaccinated and society opens up
- **Manufacturing production (incl mining)** also hit a rough patch in Feb and was down 1.7% m/m, and it is 1.1% below the Feb-20 level. Keep in mind, the downturn pre-February was solely due to steep decline in oil related industries. Ex oil related manufacturing industries, production is up to well above pre-covid levels
- **Other goods production** is volatile mostly due to (ocean) **fisheries and electricity production** but the net impact from these sectors in Feb was zero

Production details: Trade (Retail+) up 0.7% in Feb, household services down 2%

Peoples' businesses (resturants etc) down 19% - 47% vs Feb-20, in sum a 3.1% neg drag on GDP



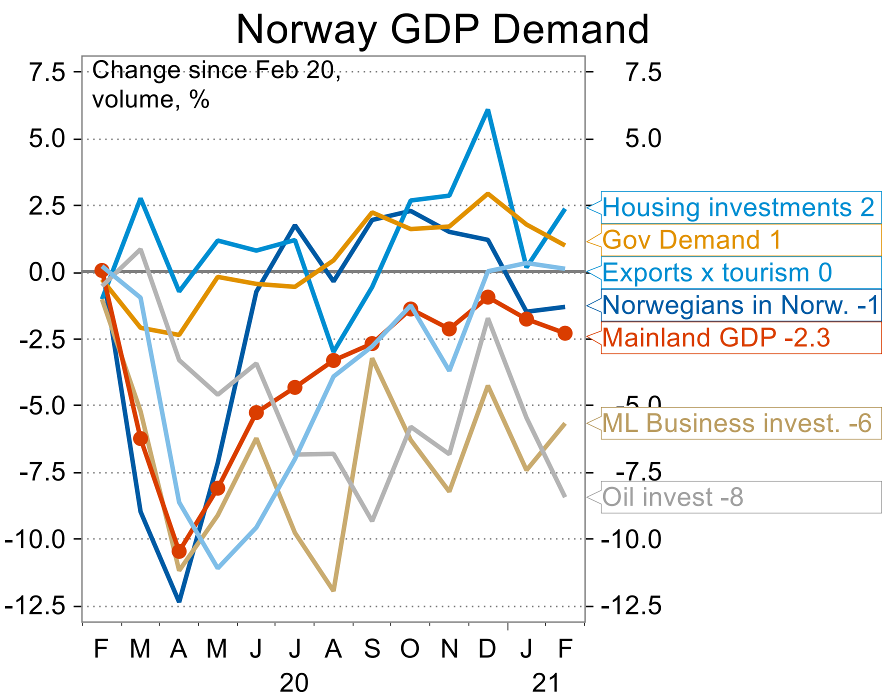


- Further decline in **hotels & restaurants, culture and transport** in Feb, as expected. Pattern likely to carry into March as well
- Only **fisheries & aquaculture, trade,** and **education** reported growth m/m
- Activity in **fisheries & aquaculture** and **electricity production** are extremely volatile, and especially fisheries has been zigzaging the past 6 months. However no net contributions in February

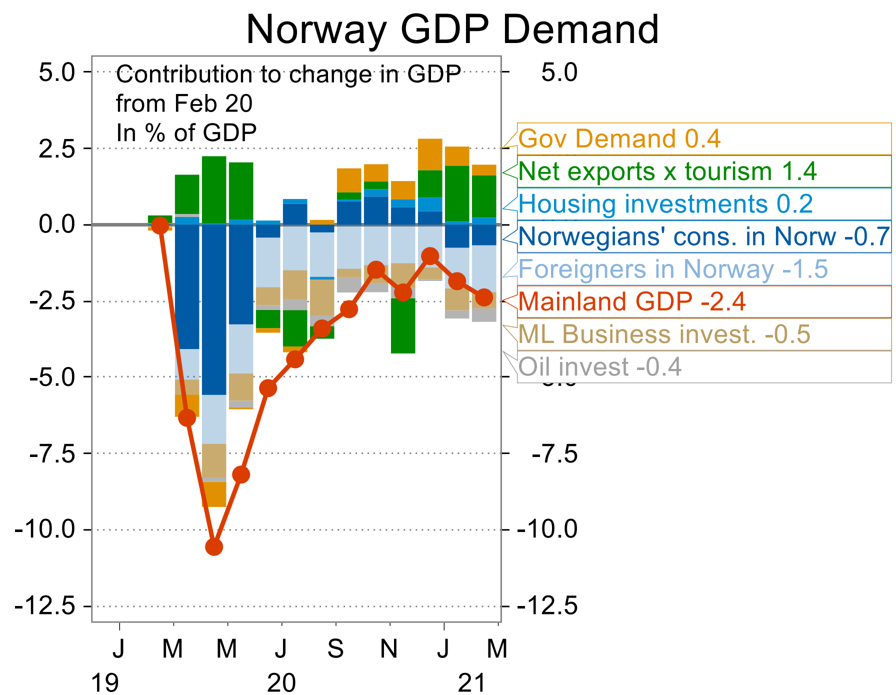
Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing

Demand: Housing and mainland business investments up

Norwegians' consumption in Norway rose marginally. Oil & public demand down



SB1 Markets/Macrobond

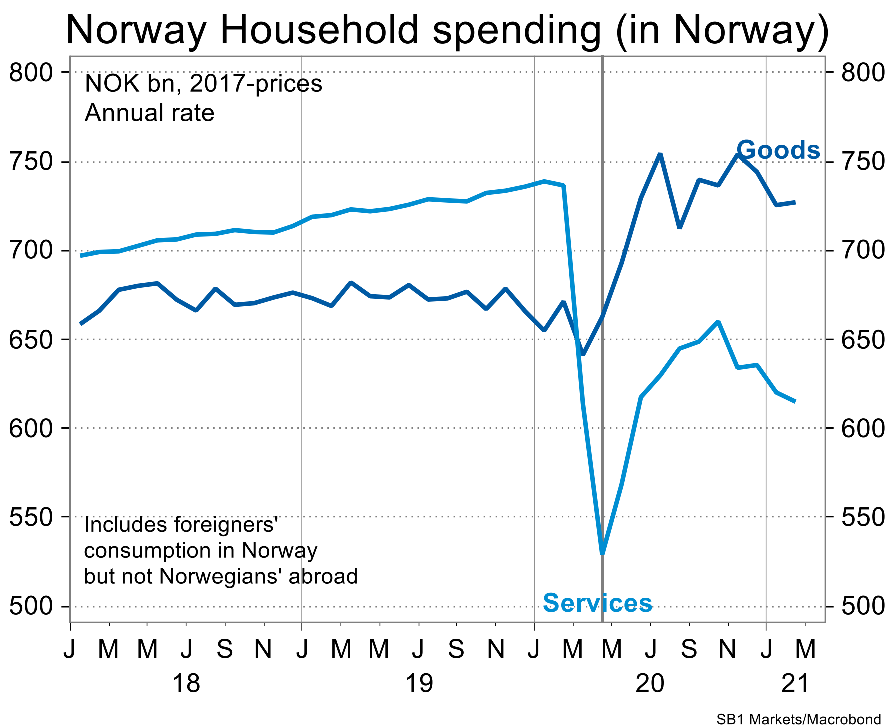


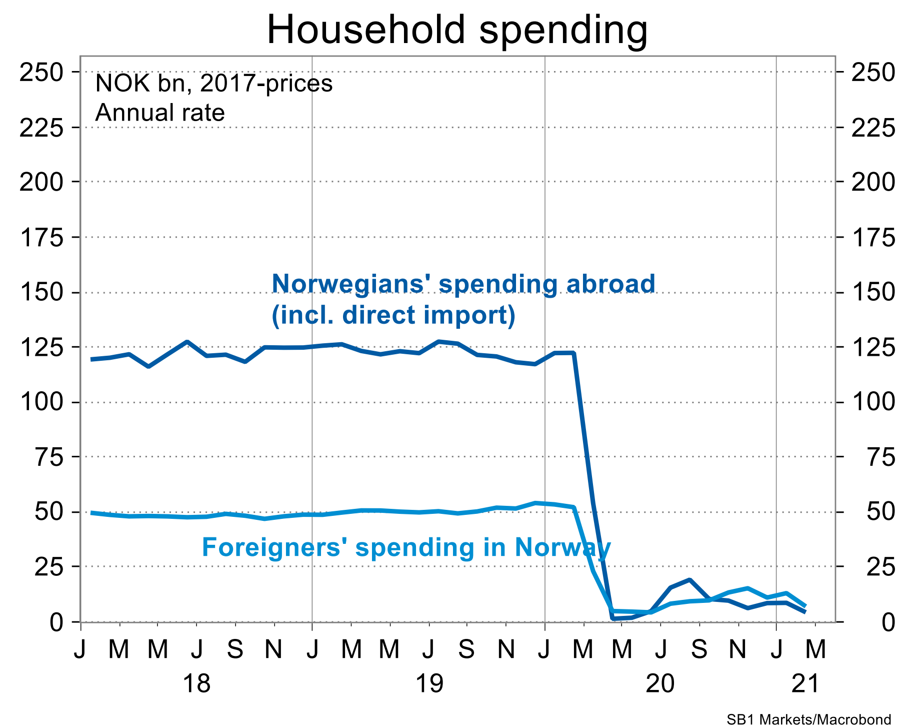
SB1 Markets/Macrobond

- **Norwegians' consumption in Norway** rose 0.2% due to higher consumption of goods. **Foreigners spent** less in Feb and their lack of demand deducts 1.5% from GDP (not adjusted for import content of goods they (used to) buy here)
- **Mainland business** investments rose 1.8% in Feb, bur are still 6% down vs. Feb-20
- **Oil investments** were down 4% in Jan and another 3% in Feb and are now down 8% since Feb-20, deducting 0.4% from GDP
- **Government demand** fell a tad in Feb but is still up 1% vs. Feb-20 and has contributed to a 0.4% increase in GDP
- **Domestic final demand** fell 0.8% m/m
- **Mainland exports** (x tourism) declined by 0.2% in Jan, and are at the Feb-20 level. Net exports are higher than in Feb last year, as **imports** are below the Feb-20 level (in volume terms)
- **The trends:** Norwegians' spending in Norway has weakened by 4% since Oct, government demand & investments have flattened. Exports x tourism are still trending up

SpareBank 1 MARKETS

Virus restrictions now affecting both goods and services





SpareBank 1 MARKETS

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

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

Norway Consumption spending

Sales of consumer goods/ services & consumption	Change from Feb 20, NOK bn, annual rate, const. bn	% Change %
Sales in Norway	-66	-4.7
Goods	56	8.3
Services	-122	-16.5
Norwegians in Norway	-21	-1.5
Goods	74	11.3
Services	-95	-13.4
Foreigners in Norw.	-45	-86.6
Norwegians' consumption	-139	-9.4
In Norway	-21	-1.5
Abroad	-118	-96.5

SB1 Markets/Macrobond

Norway Consumption spending

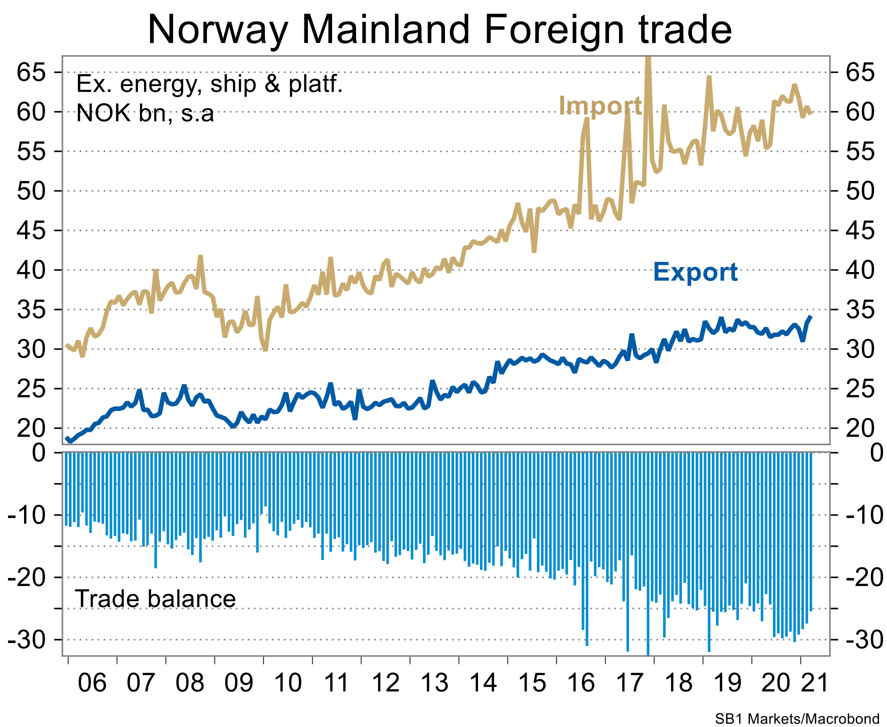
Sales of consumer goods/ services & consumption	Change m/m NOK bn, annual rate, const. pr bn	% Change m/m %
Sales in Norway	-4	-0.3
Goods	2	0.2
Services	-5	-0.8
Norwegians in Norway	2	0.2
Goods	4	0.6
Services	-2	-0.3
Foreigners in Norw.	-6	-46.4
Norwegians' consumption	-2	-0.1
In Norway	2	0.2
Abroad	-4	-49.9

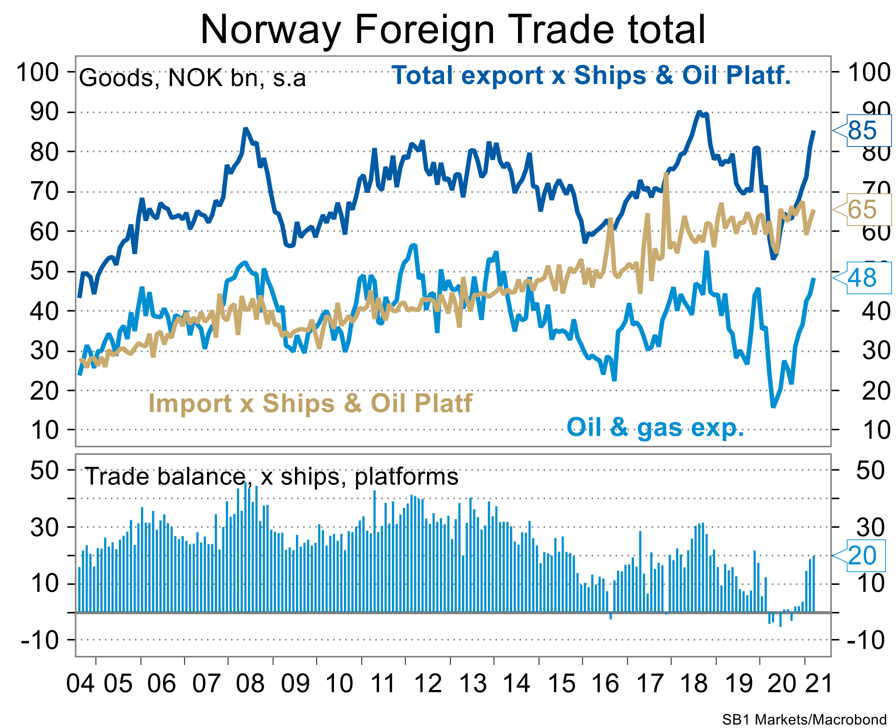
SB1 Markets/Macrobond

- **Sales of consumer goods** in Norway are up 8% vs. Feb-20, while services are down 17%, the sum is down 5%
  - » 3.4 pp is due to lack of foreigners' demand in Norway – which has fallen by 87%
- **Norwegian households** have increased their consumption of goods in Norway by 11% but reduced consumption on services by 13% in sum 1.5% down
- **Total (Norwegian) household consumption** has fallen by 9.4% vs. Feb-20. Of this is almost 8 pp due to the 97% decline in Norwegians' spending abroad
- **In February,** Norwegians increased their domestic spending slightly, while foreigners' spending 'disappeared'
- **We expect consumption to normalise** the coming quarters. Demand for goods will start returning to a normal growth path when it is possible for households to increase spending on services, and to start spending abroad again, probably starting in late Q2 or in Q3. We expect the savings rate to decline substantially from the present level, some 8% above 'normal'

Mainland trade deficit further down in March as exports hit record high

Total balance surplus increased as well, due to higher oil & gas prices

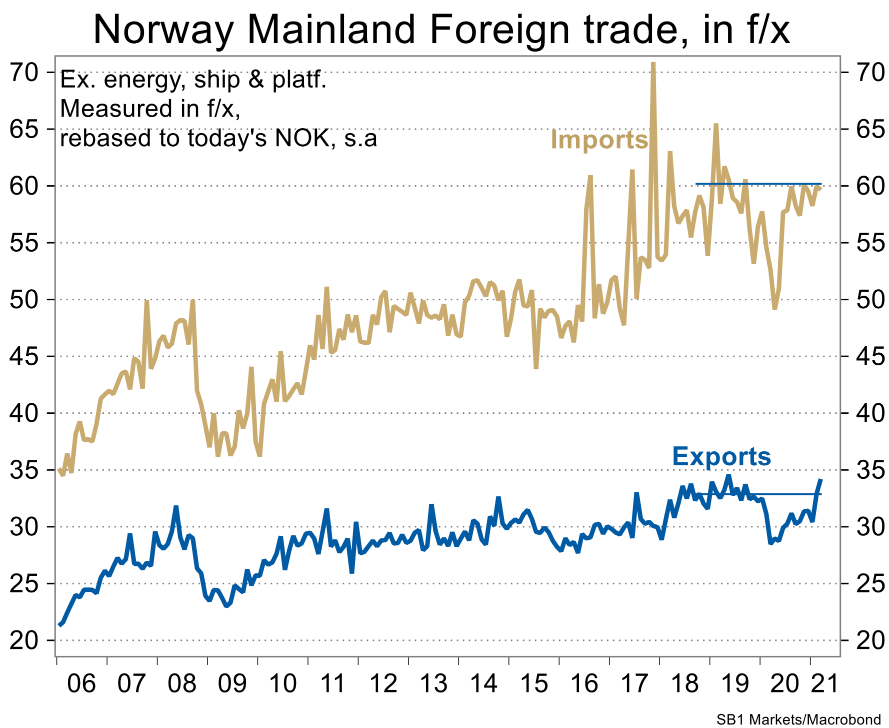


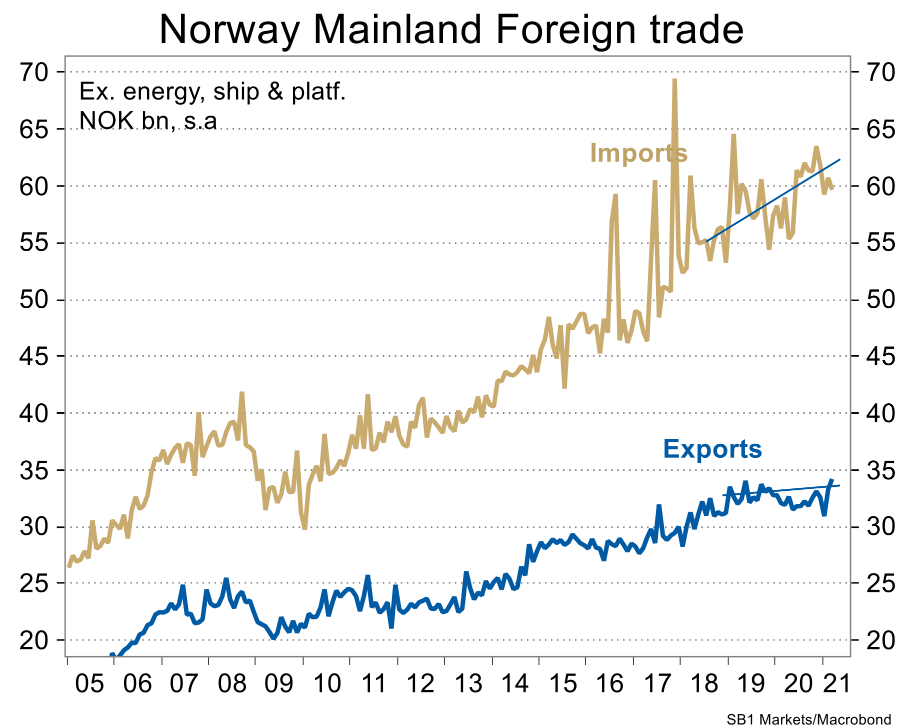


- The Mainland (non energy) trade deficit in goods decreased further in February. Exports have recovered and was at ATH (up 2.7% from Feb, which had the previous record), and are now back above pre-Covid levels.
  - » However, over the past 2 years Mainland exports are not that impressive
- Strong domestic demand for goods have kept imports up (+6% vs pre corona). The demand for vehicles and ICT equipment has been notably strong
- As a result of higher oil and gas prices, exports of oil and gas is now back at pre-corona levels, at 48 bn (+4 bn in March), bringing the total trade surplus to 20 bn, or some 8% of GDP. We are not broke, yet

… in f/x, Mainland trade data not that brisk

The NOK depreciation has lifted trade values, measured in NOK. This impact is now fading

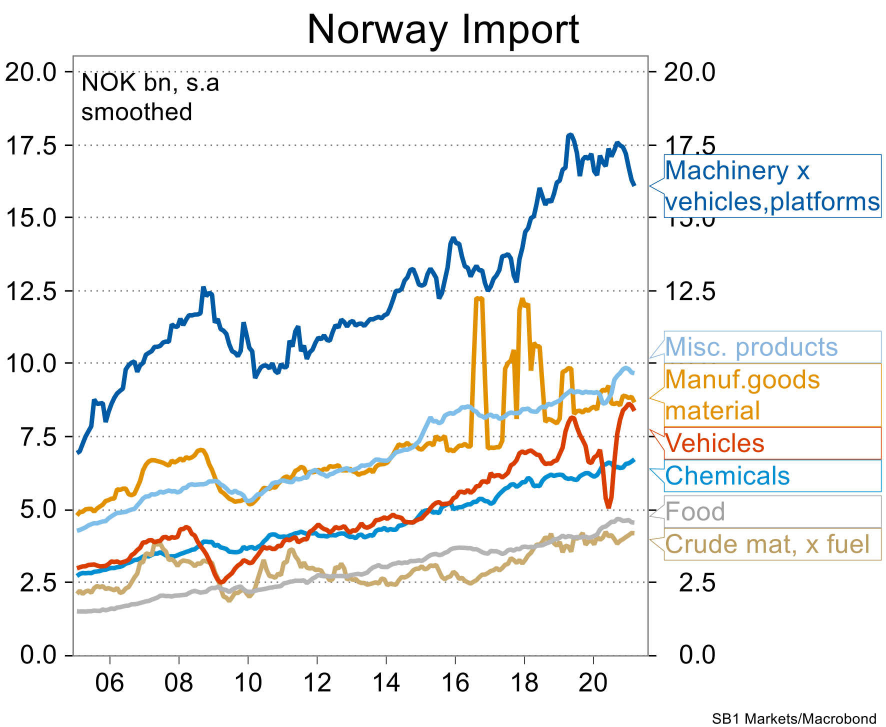


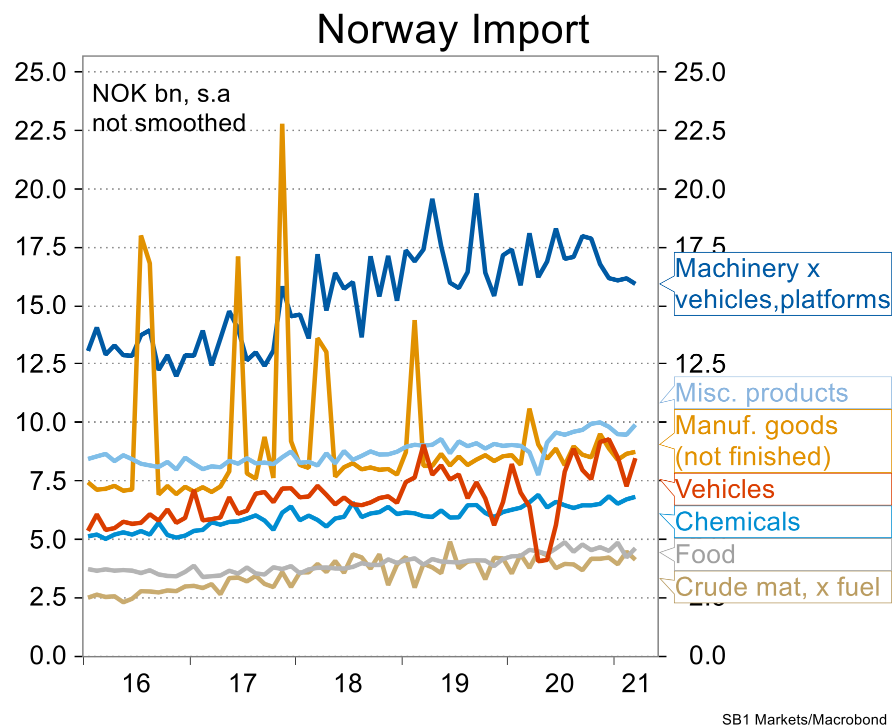


- At the chart to the left, trade values measured in f/x, adjusted by the NOK I-44 index, and rebased to today's NOK I-44 index

Goods imports slightly down in March

Auto imports up 50% since before the virus hit, now far higher than ever before

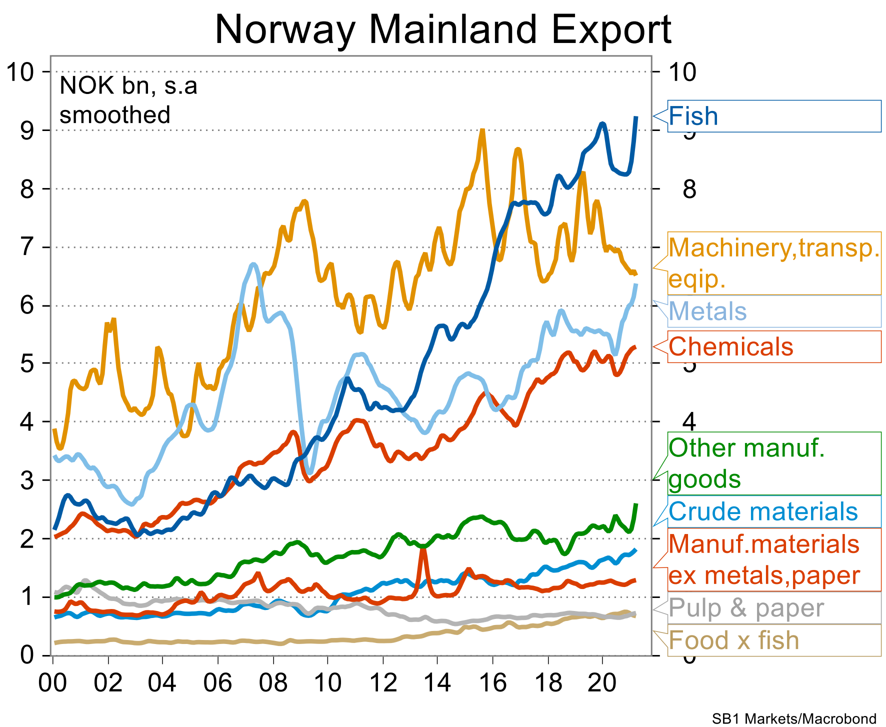


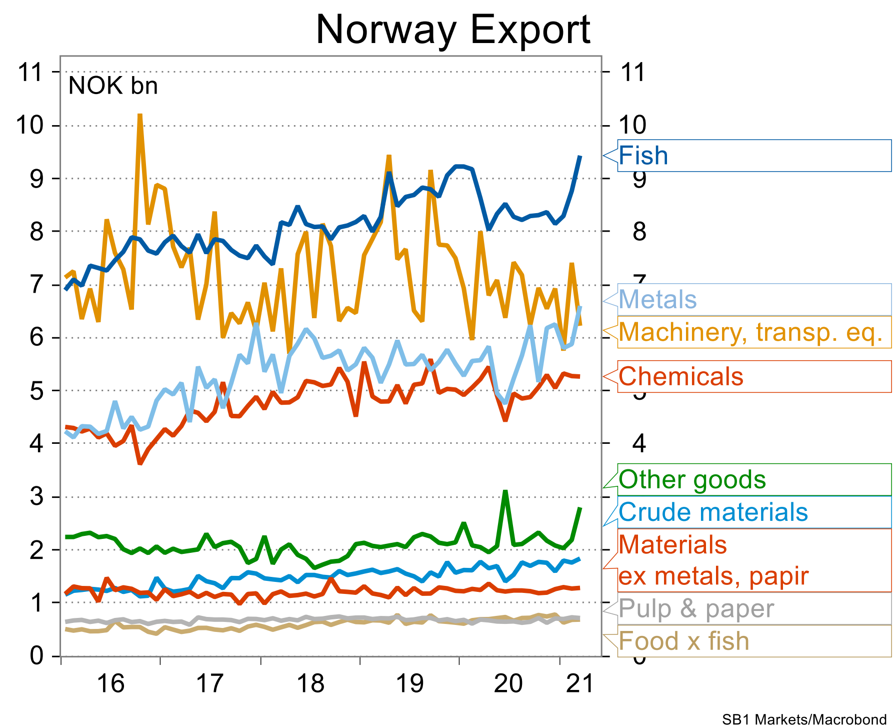


- Imports of chemicals, food, and machinery have all increased y/y. Machinery imports increased steadily until October but have since declined. Manufactured materials more or less flat recent years
- Vehicle imports slowed rapidly in H2 2019 and early 2020, along with auto sales. Since April, imports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

Fish, metals, chemicals, and manufactured goods exports sharply up in March

Fish exports nearly +14% y/y; prices were lower but volumes impressive

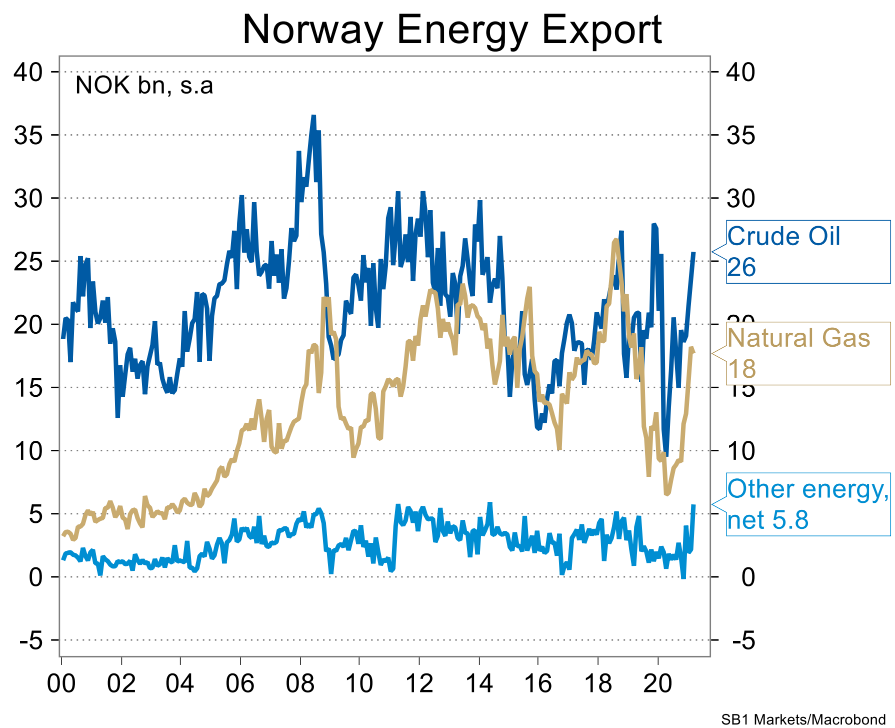


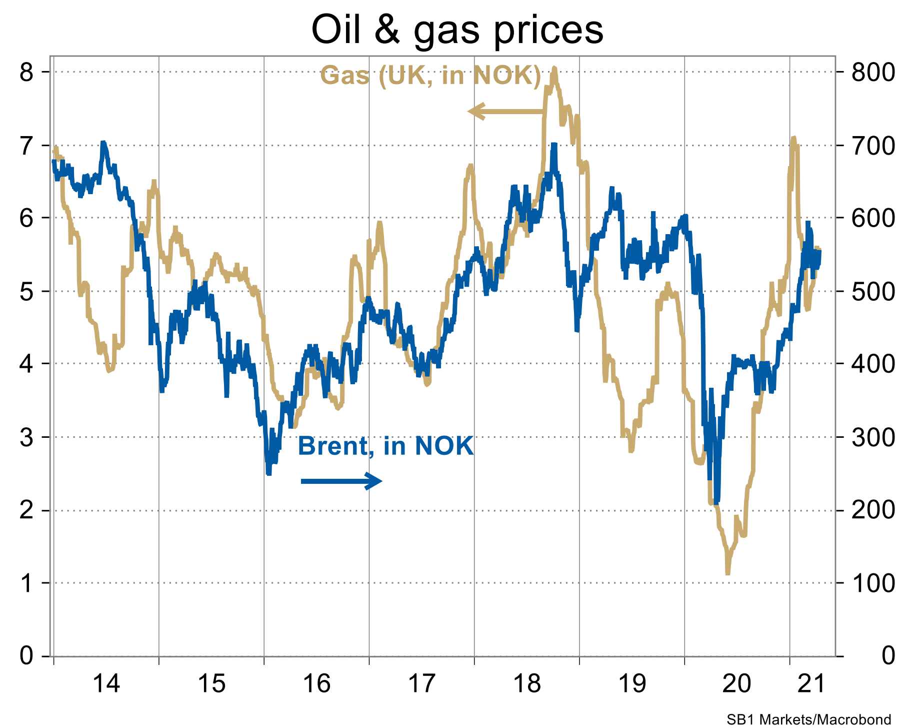


- Exports of machinery and transport equipment (of which much is related to oil activities abroad) is trending down, due to lower oil sector investments abroad

Oil & gas exports sharply up recent months

Oil exports up 117% in value terms, while in volume terms only 10%

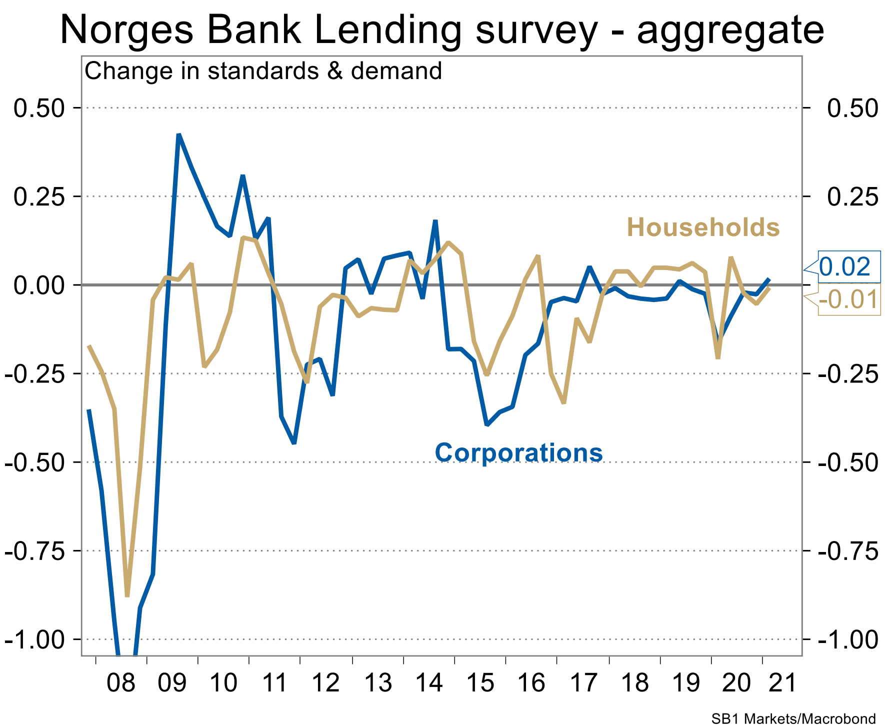


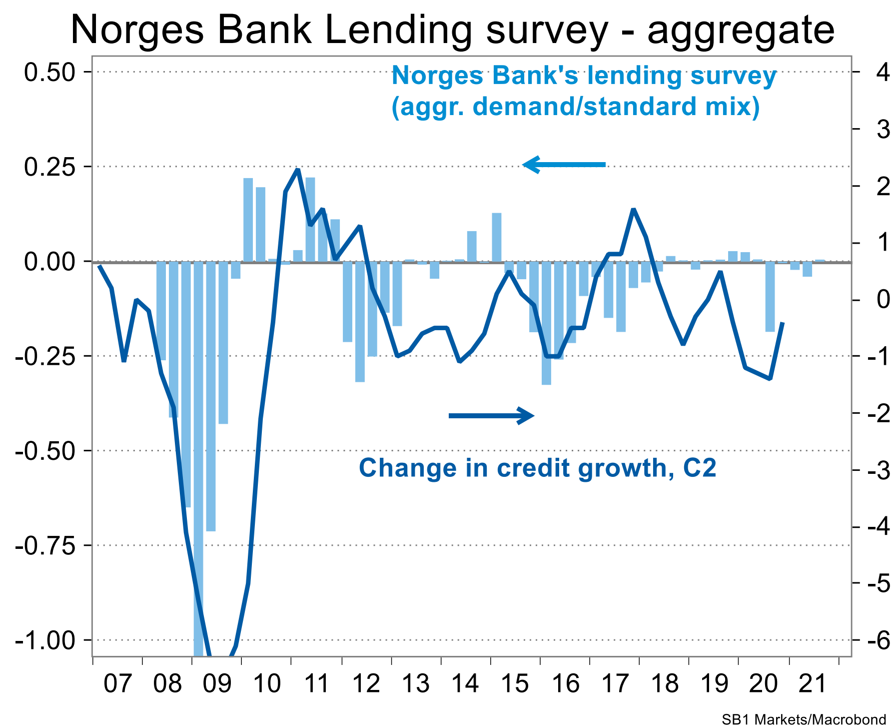


- **Crude oil** exports (in NOK bn) fell rapidly in March and April as the oil price dropped and global demand subsided. Exports have turned up since then, with the oil price, and exports have recovered
- **Gas** export values fell sharply during H1 but has recovered to above pre-corona level as gas prices recovered substantially during H2 last year, and in January. Gas prices then fell in February before increasing again in March. Export volumes have not changed considerable (if any a bit to the downside) y/y

A ‘no news’ bank lending survey

NoBa’s Q1 survey signal close to normal demand for loans, no change in lending standards





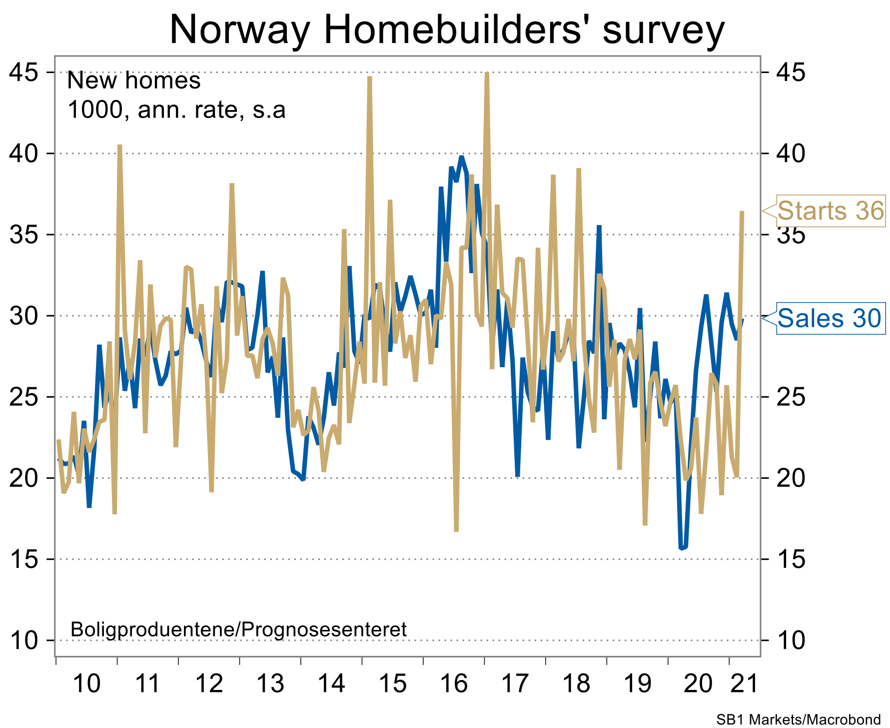
- Banks were right: a marginal weakened demand for household credit in Q1, no change in demand for corporate credit
- Also, banks are not expecting any changes to demand or lending standards in Q2
- Real estate margins lower and loan standards looser, according to survey

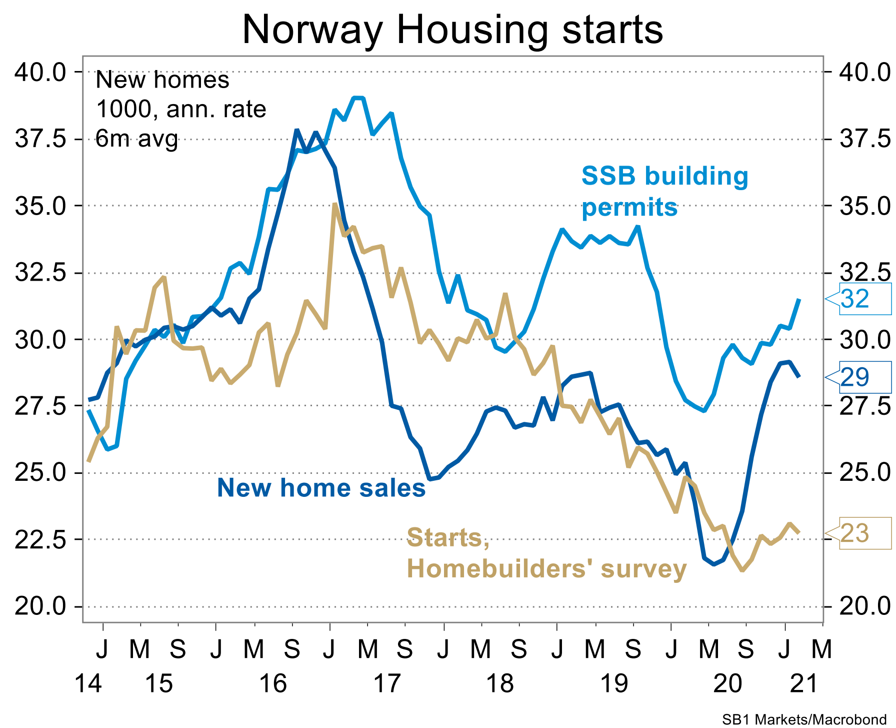
Data in this section are seasonally adjusted

SpareBank 1 MARKETS

Starts finally started. And new home sales are OK

The homebuilders' volatile housing starts number up to 36' in March from 20' in Feb, sales at 30'

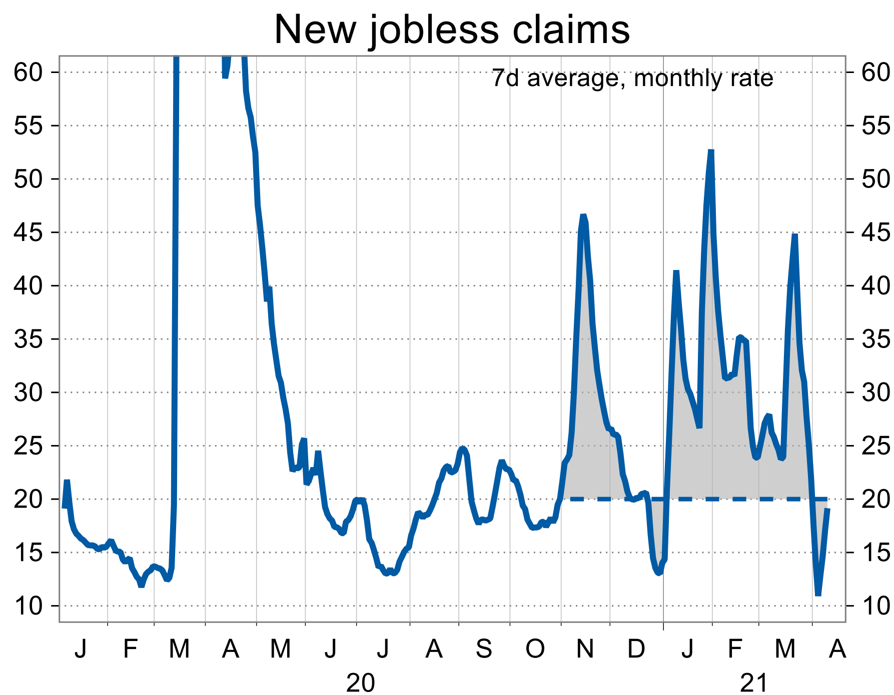




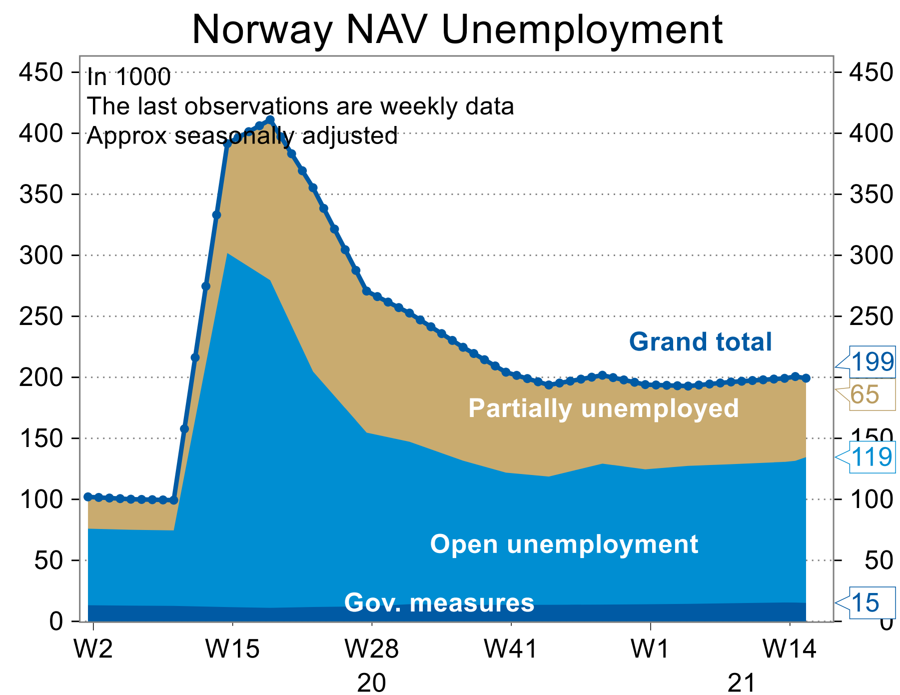
- **Home builders: New home sales up 2'** to 30' in March. Sales have stabilised around 30' recent months (annualised rate)
- **Starts** shot up to 36' from 20'. Starts have been running way below sales for almost a year, and 'something' had to give – and as we assumed, starts yielded. The 36' level is very likely too high, but the some 22' average the previous months was too low vs the sales pace
- **SSB will report its March data next week**
- The conclusion is still rather robust: **Housing investments** (in National accounts) will continue to rise

New jobless claims down during the Easter but has been normal thereafter

The increased inflow of new jobless claims since last October has not materially lifted unemployment



SB1 Markets/Macrobond



SB1 Markets/Macrobond

- The last 5½ months new jobless claims have been 45' higher than 'normal' (some 20' per month)
- Still, the remaining stock of jobless claims is up by less than 5'

Highlights

The world around us

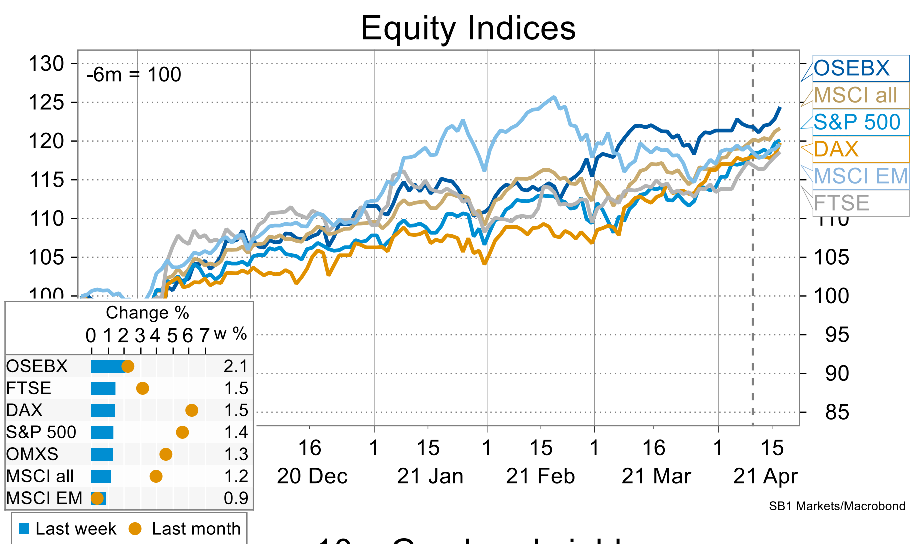
The Norwegian economy

Market charts & comments

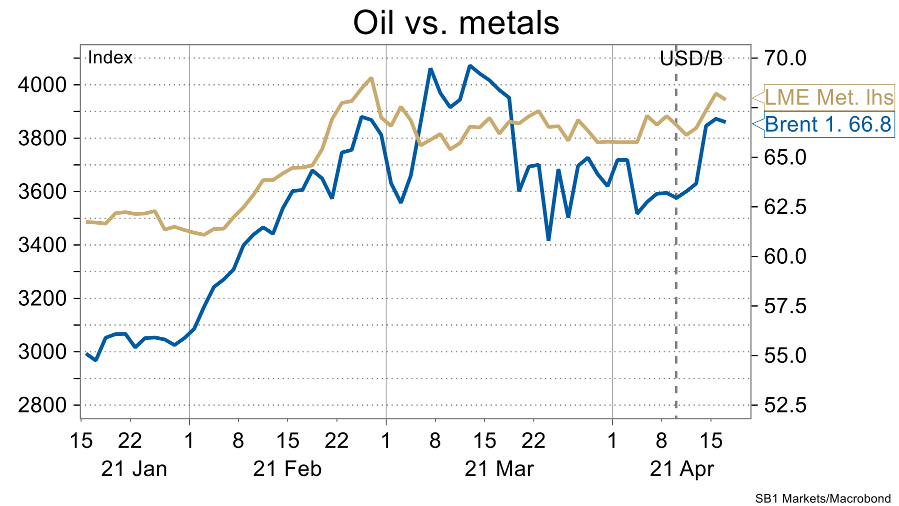
SpareBank 1 MARKETS

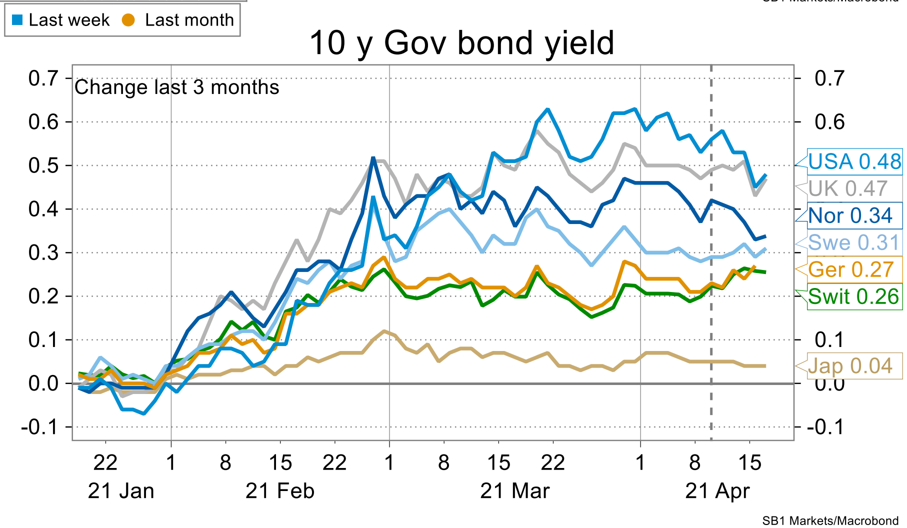
Another strong week and another ATH for equities

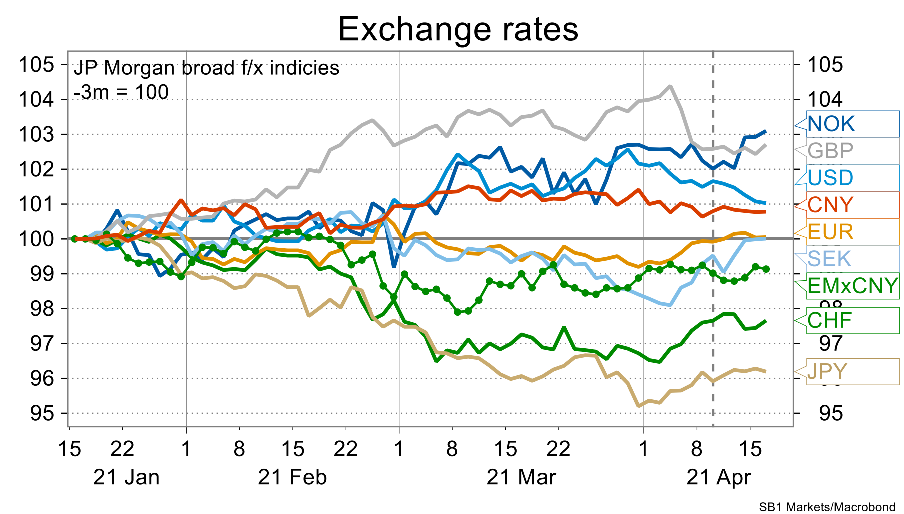
Yields down, metal, oil & the NOK up – while the USD slides



Change %	w %
OSEBX	2.1
FTSE	1.5
DAX	1.5
S&P 500	1.4
OMXS	1.3
MSCI all	1.2
MSCI EM	0.9

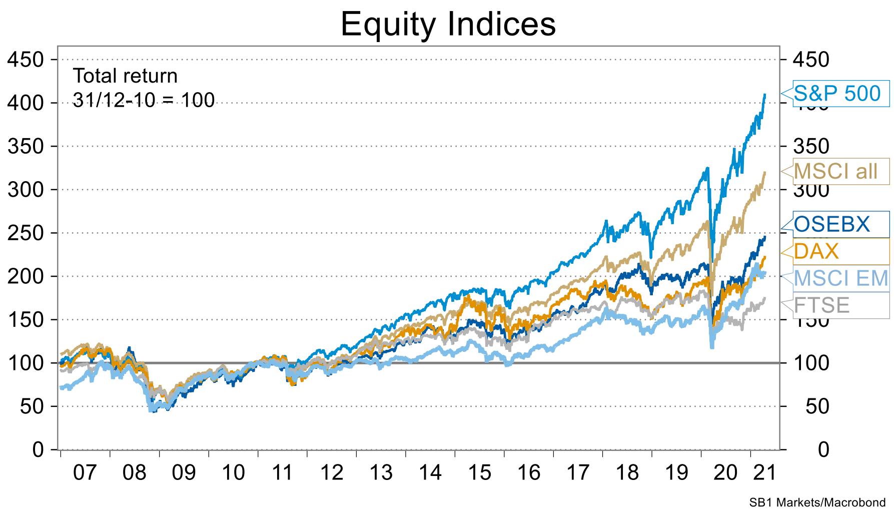


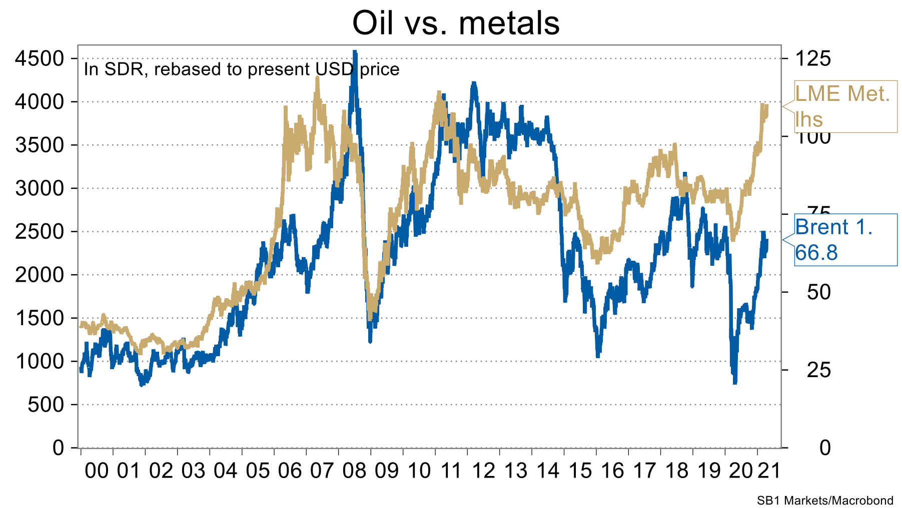


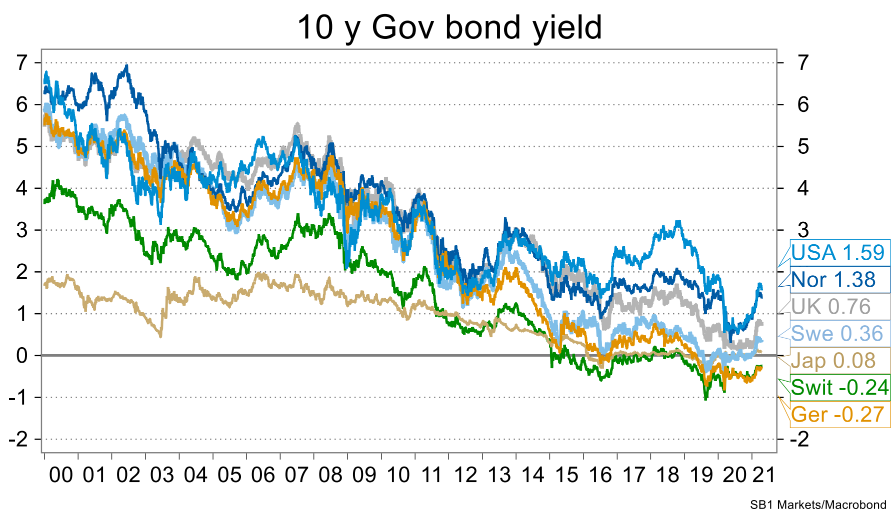


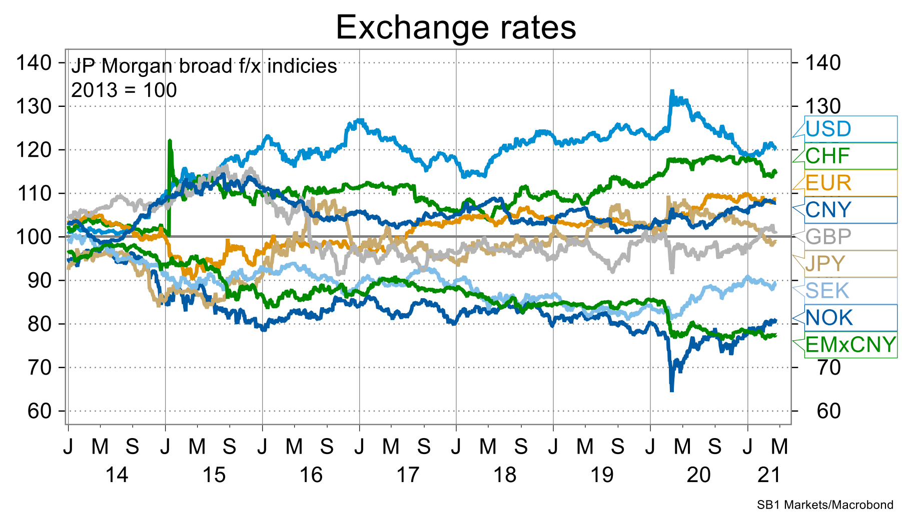
SpareBank 1 MARKETS

Falling yields is a conundrum – we still think the trend is your friend in this case

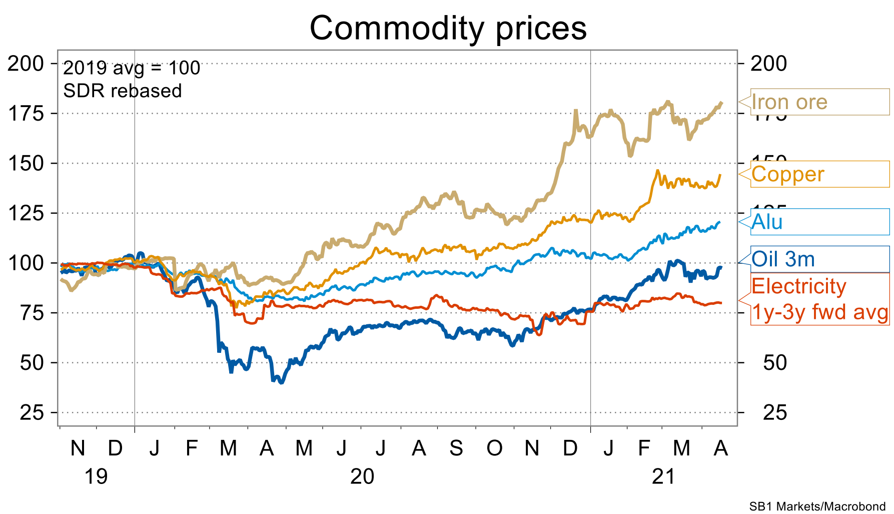


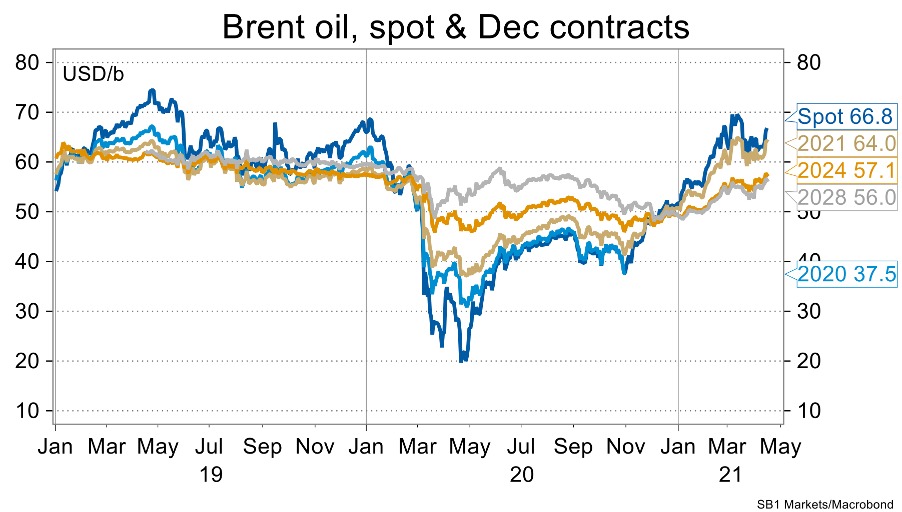


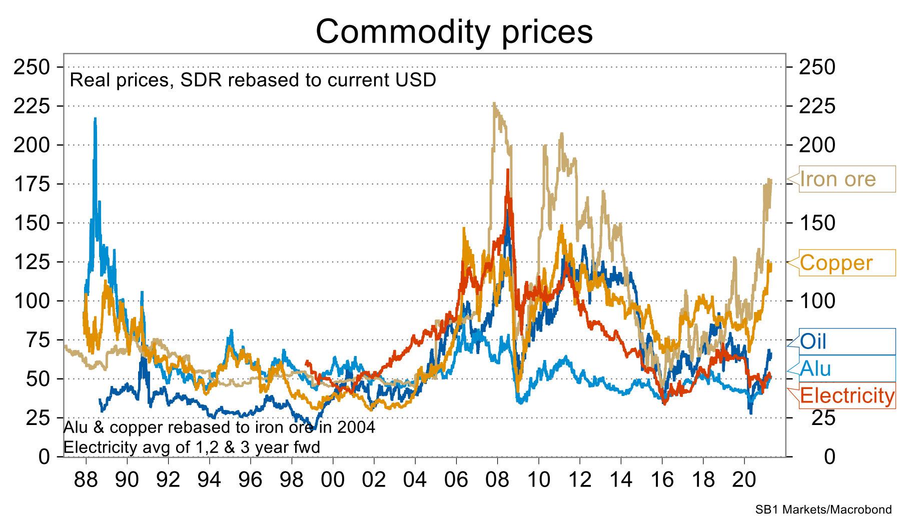


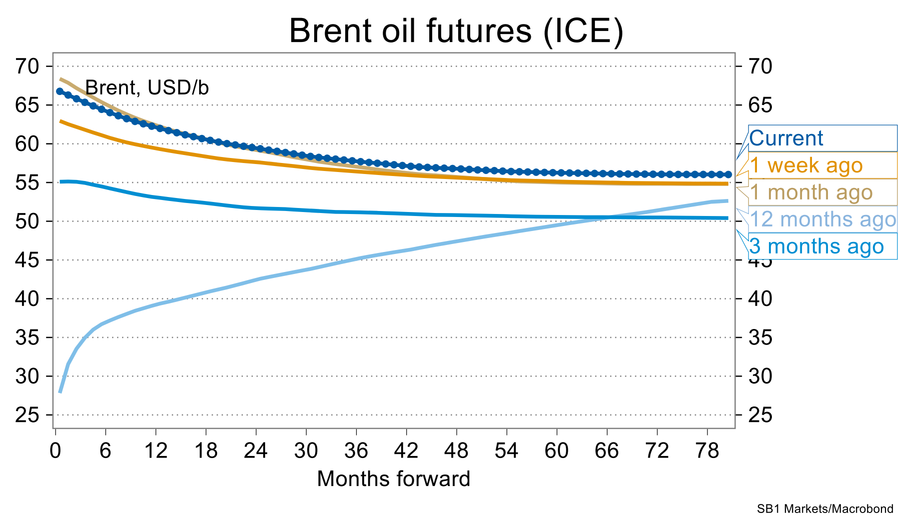


Commodity prices stronger during the week



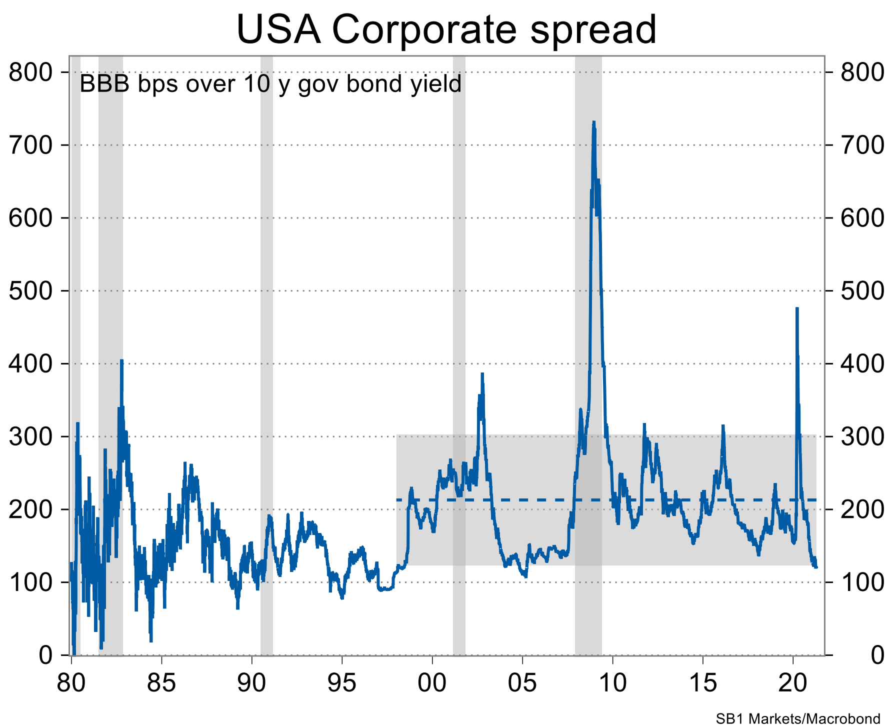


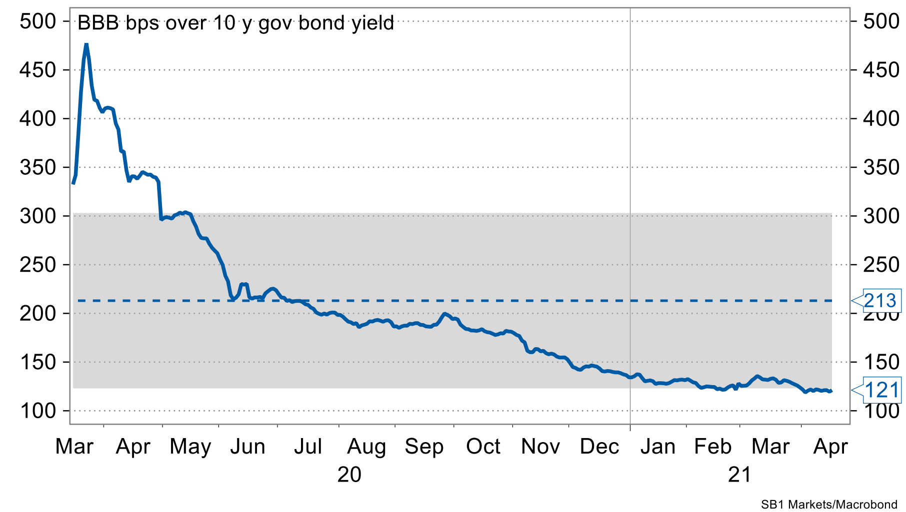


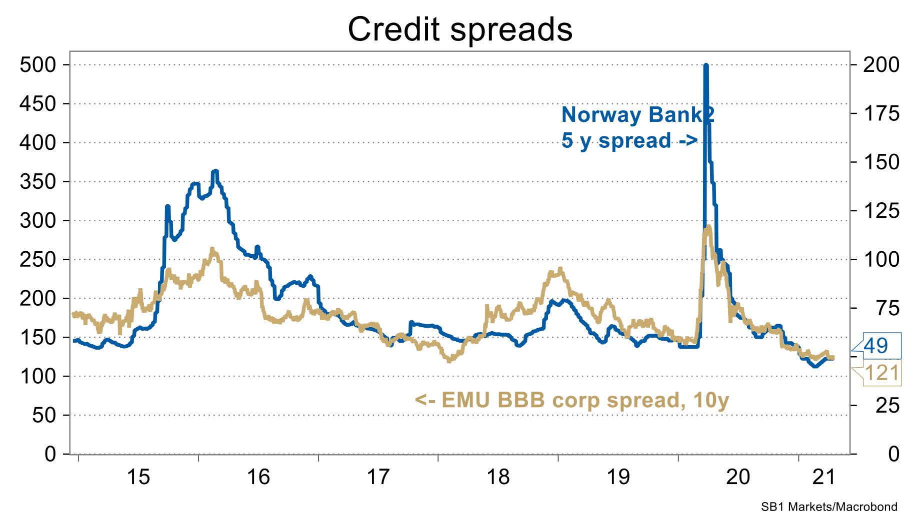


SpareBank 1 MARKETS

Credit spreads have flattened, at low levels

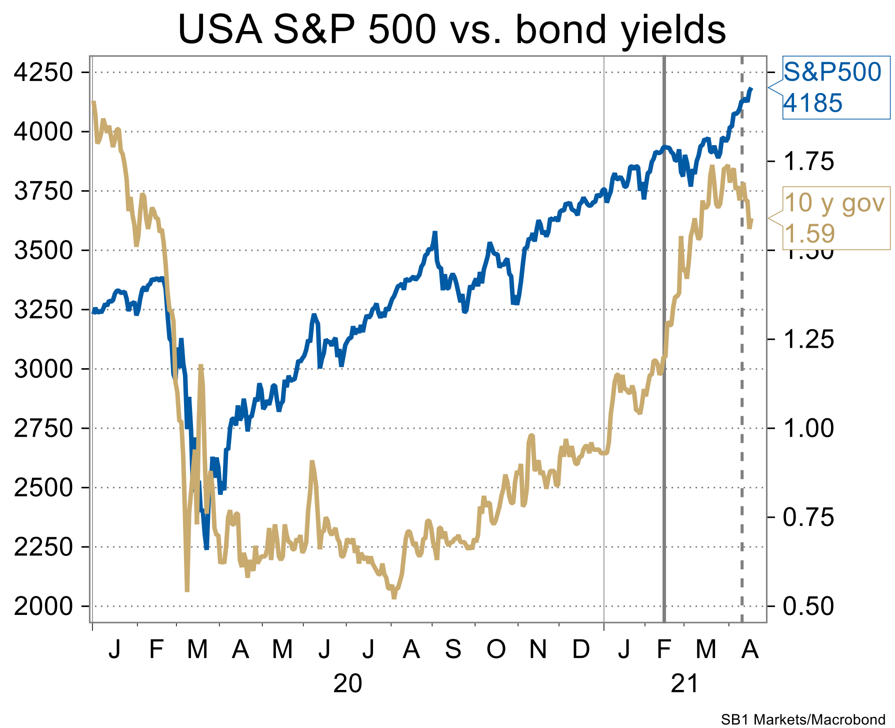


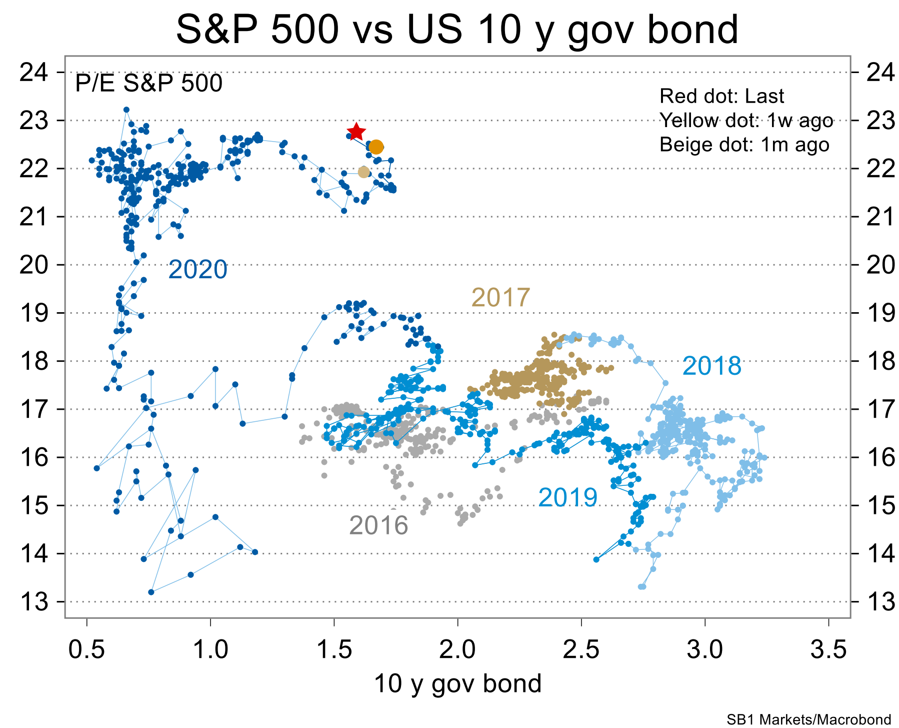




S&P 500 up 1.5%, another ATH. US 10y down 8 bps, even if infl. exp. are up 5bps!

…just reassurance from the Fed that asset purchases will be upheld (which is also not new)

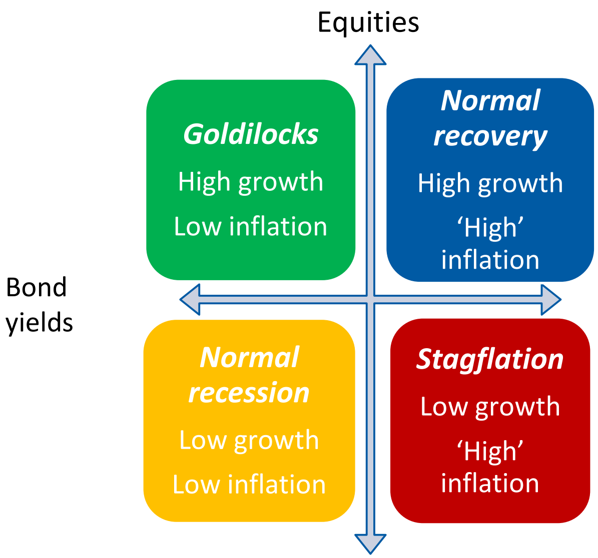


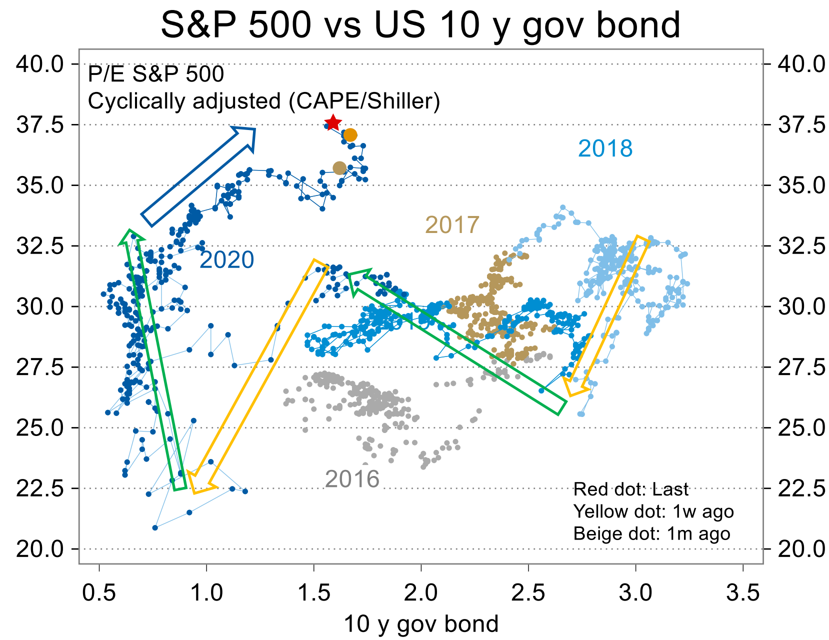


SpareBank 1 MARKETS

A long term view: Back to the 'Goldilocks corner' again

But will markets remain there? Actual wage/price inflation dynamics will in the end decide. And not the Fed…





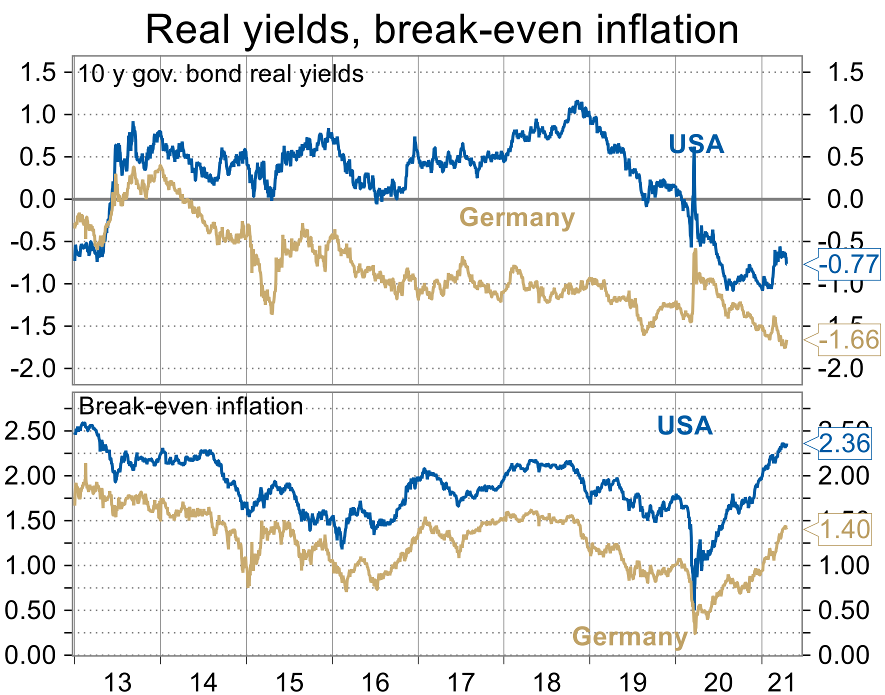
SB1 Markets/Macrobond

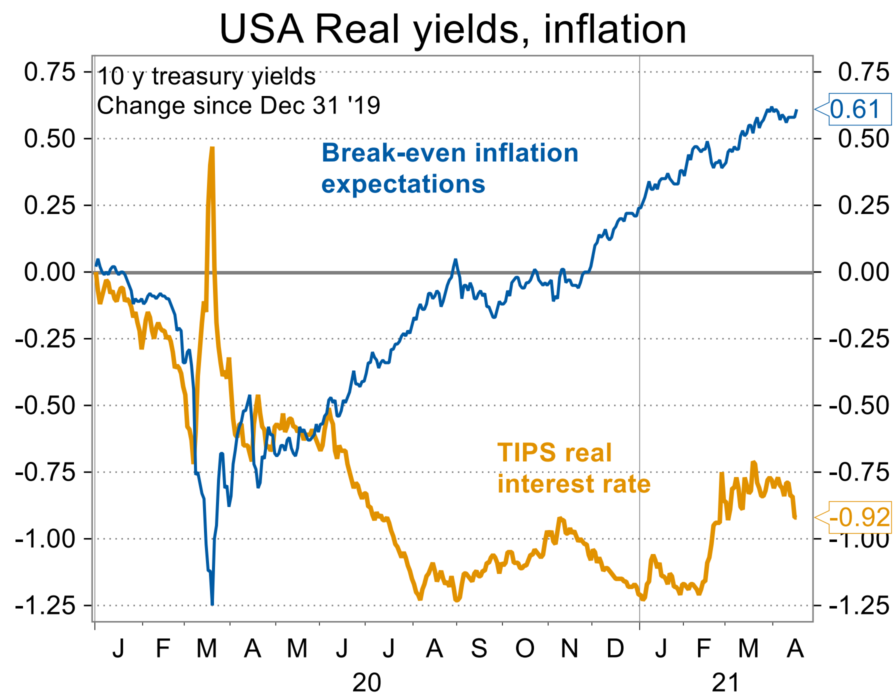
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets

- **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<u>, which is now taking place</u>
- Suddenly, there are alternatives (sorry, TINA) for investors, even if yields still are way below reasonable growth expectations. <u>Probably the best to hope for</u>, is unchanged equity market pricing (P/E-wise) but growing earnings will yield moderate returns even as yields increase. <u>The 2nd best alternative is 'normal multiples' and 'normal' rates.</u> Which is not a 23x 12m fwd P/E, or a 37x Shiller P/E – and not a 10 y bond rate at 1.5 – 1.7% - or even less a -0.77% 10 real TIPS bond yield
- <u>The 3rd alternative, which is not good at all: The stagflation scenario, the red corner.</u> 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 before

U.S. real rate down 13 bps since last Friday, inflation expectations up 5!

Markets believe the Fed will play hard ball?





US & Germany 10 y Gov bond yield

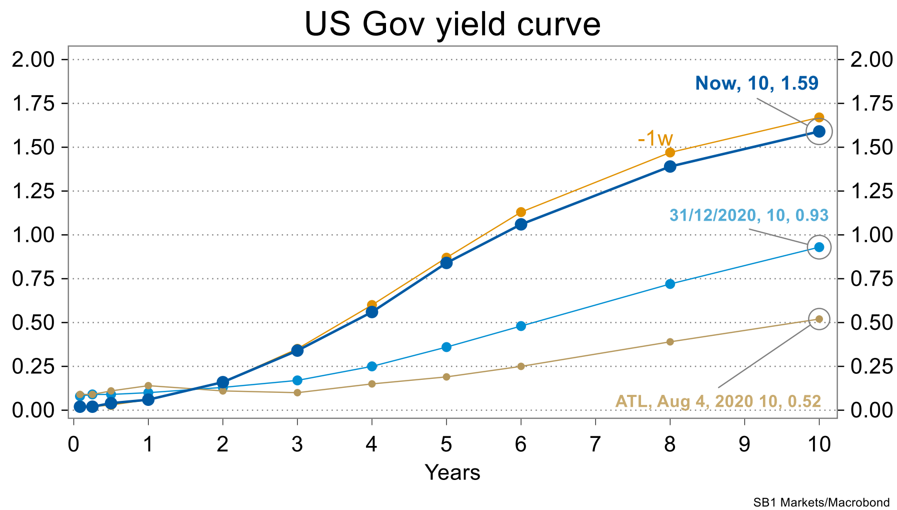
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.59	-0.08	-0.03	0.52
.. break-even inflation	2.36	0.05	0.06	1.06
.. TIPS real rate	-0.77	-0.13	-0.09	-1.08
Germany nominal bund	-0.26	0.05	0.08	-0.65
.. break-even inflation	1.40	-0.04	0.07	0.40
.. real rate	-1.66	0.09	0.01	-1.76

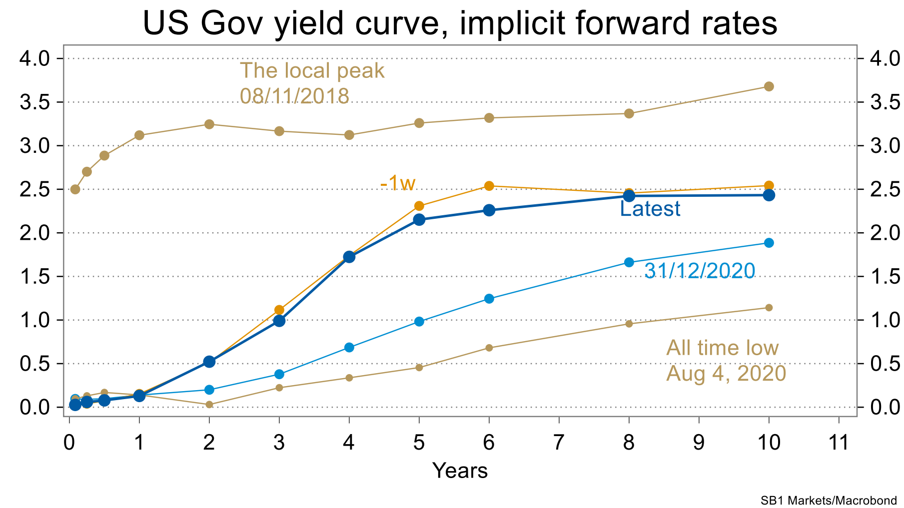
SB1 Markets/Macrobond

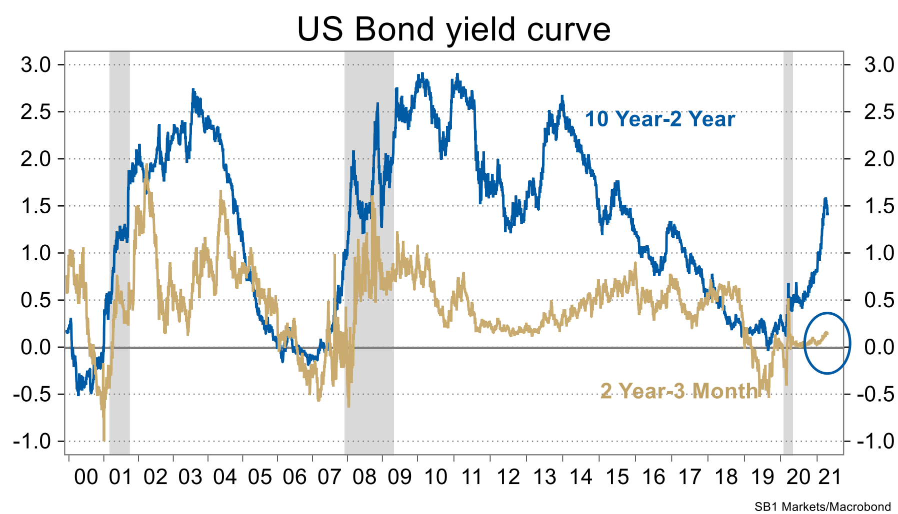
- **US** real yields have fallen sharply, inflation expectation has increased!
- The opposite in **Germany**: Inflation down, real rates up – but the latter are still extremely low!

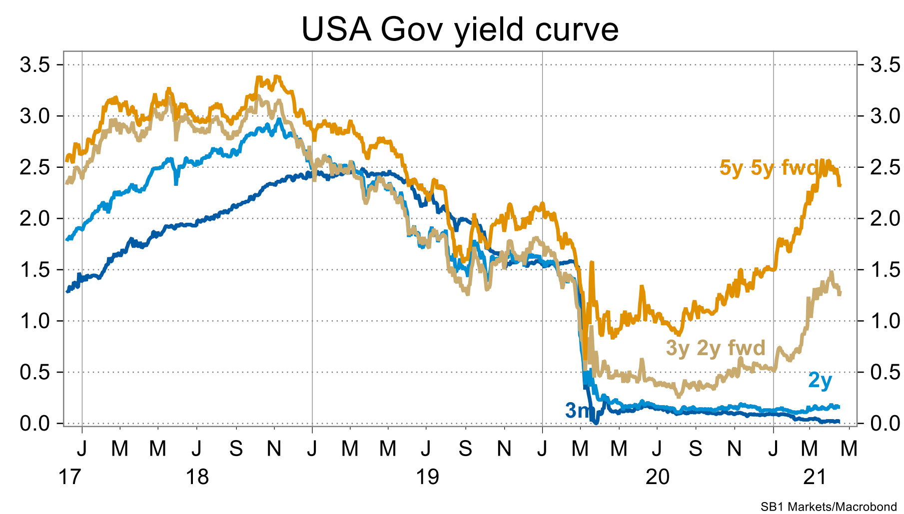
Another downward shift in the US – at the longer end of the curve

It is not just the Fed talking the short end of the curve down



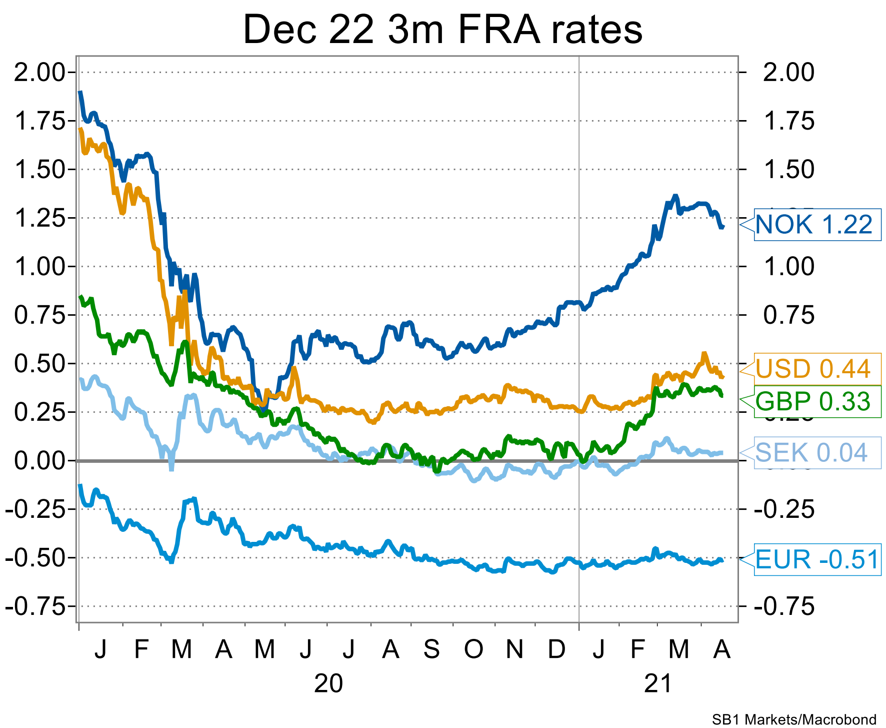


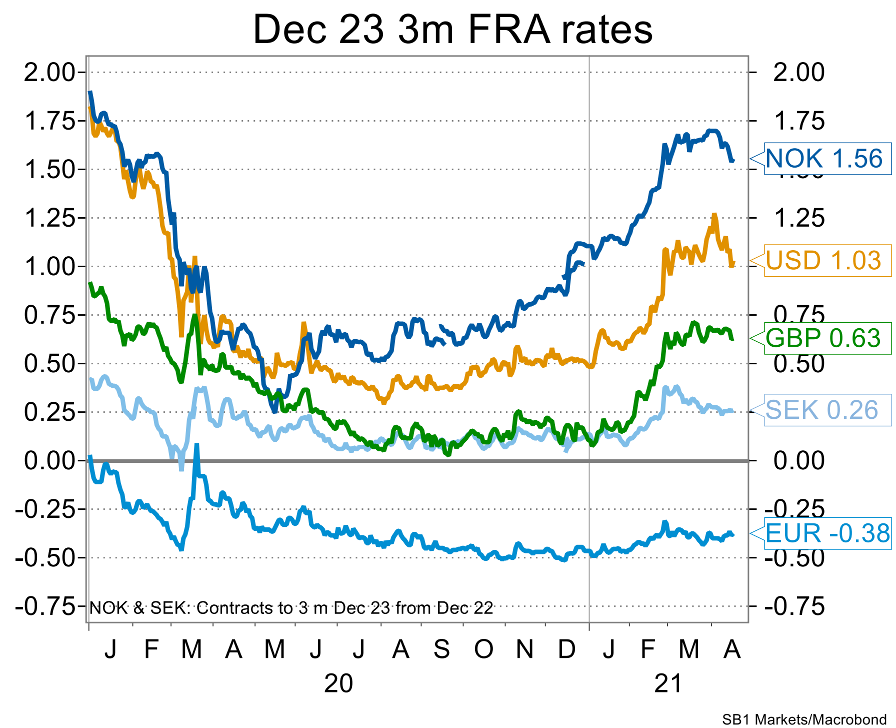




Interest rate expectations: USD, GBP & NOK FRAs down

…even if macro data was strong and risk markets do not signal growth angst. Was it Powell?

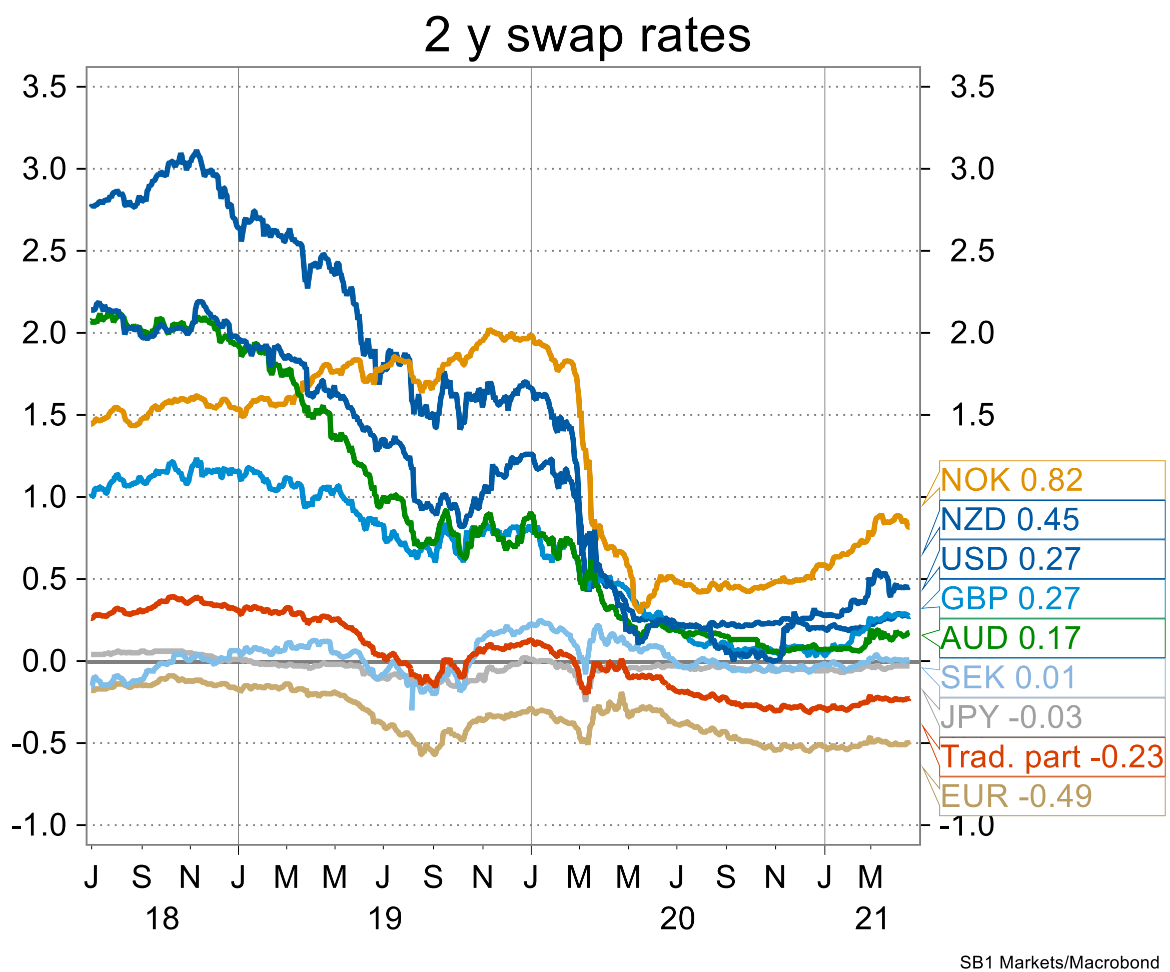


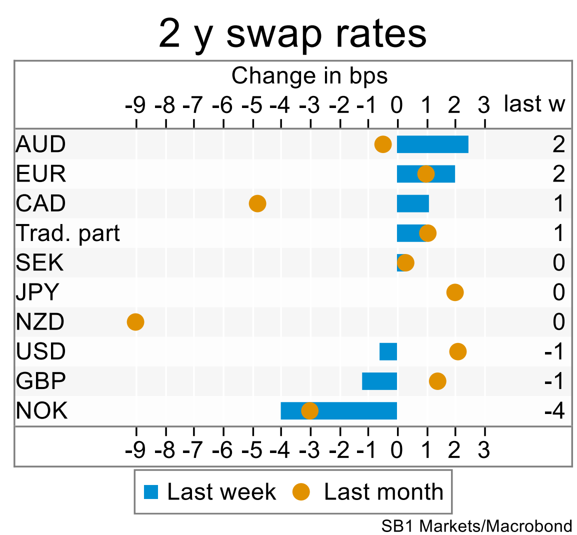


- ... Or just that US CPI inflation did not explode??

USD, GBP and NOK 2y swap rates slightly down

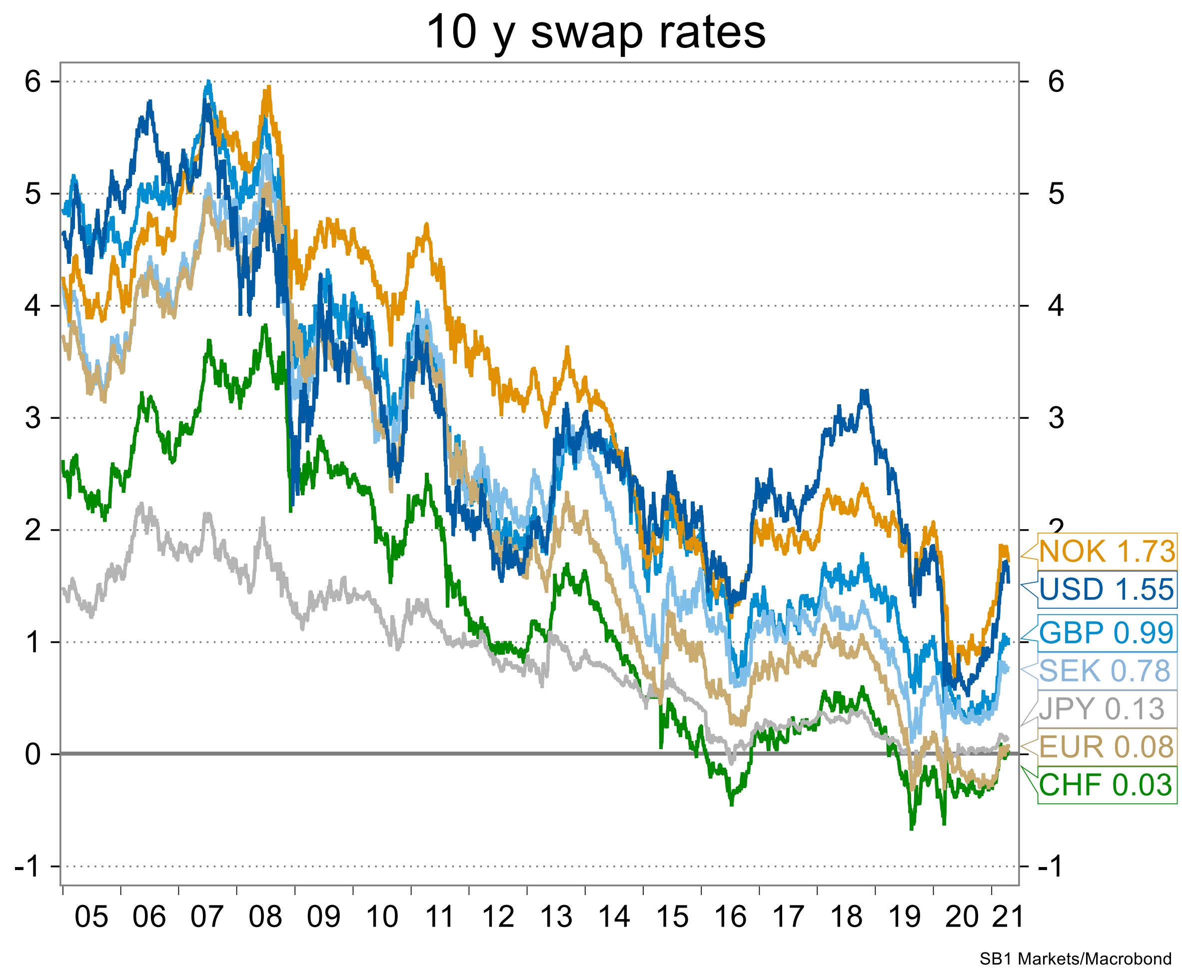
AUD, CAD, EUR 2y swap rates up

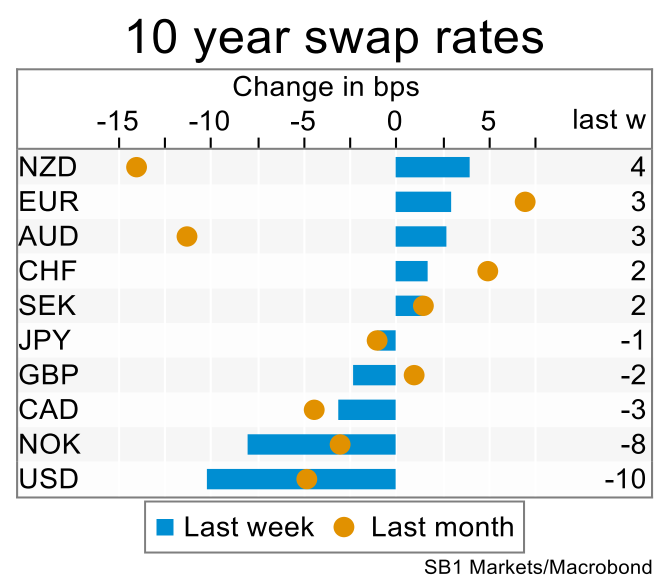




SpareBank 1 MARKETS

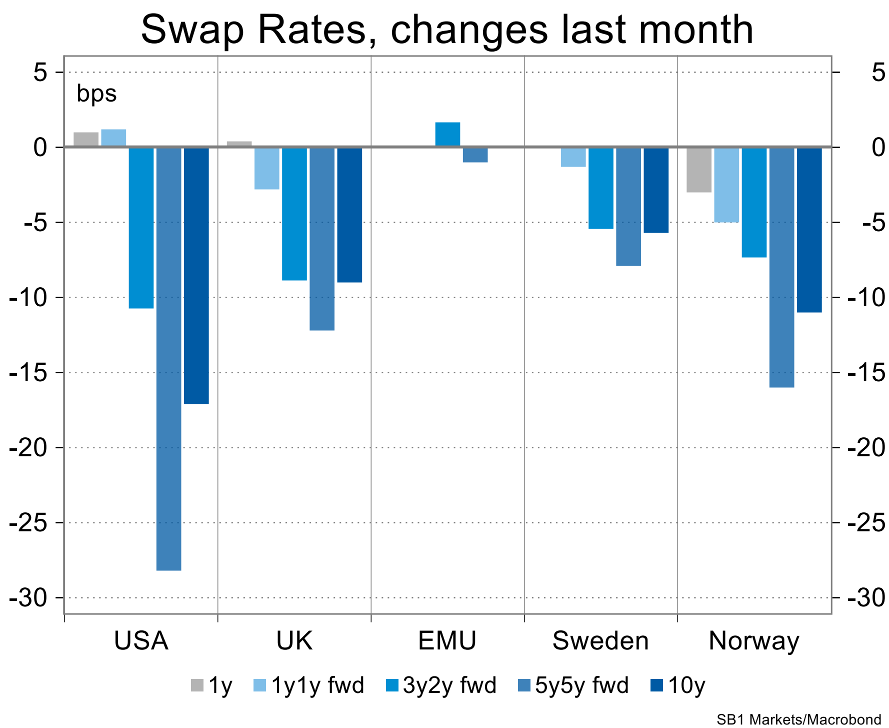
10 y swap rates mixed: USD, GBP and NOK rates down – most others up

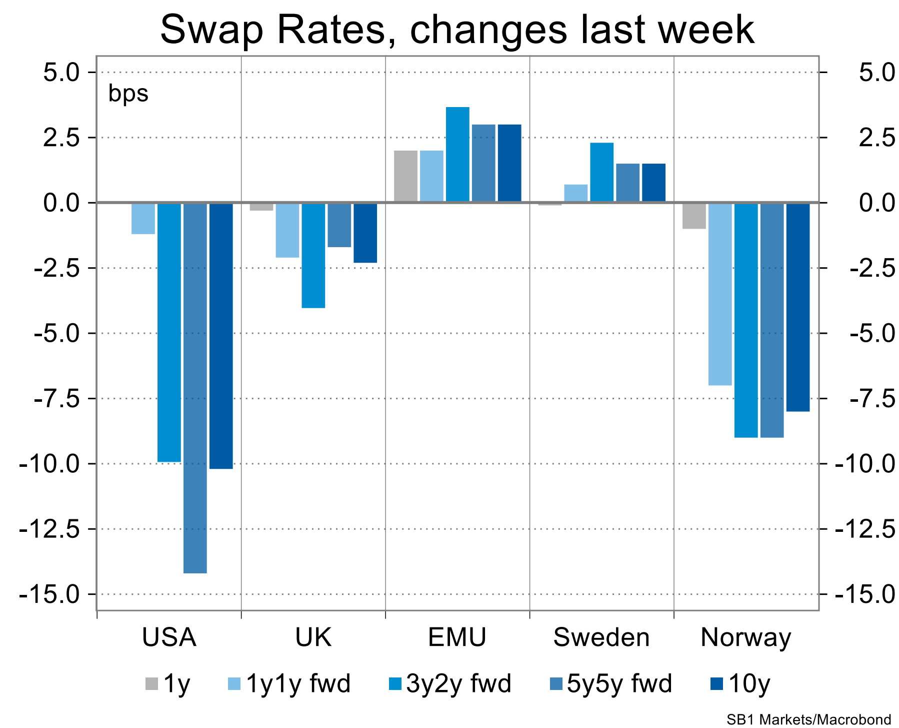




Swap rates: NOK rates followed US rates down last week (too)

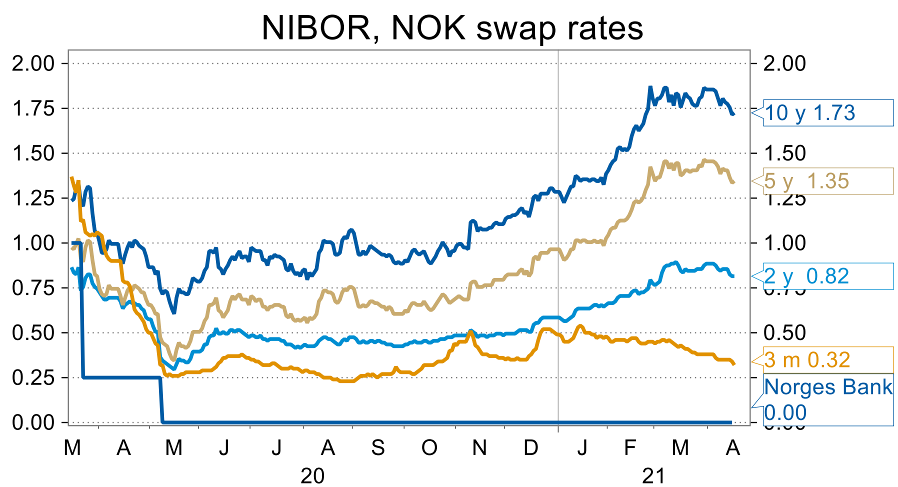
Just rates in the Euro area (and Sweden) up last week. Not that usual these days

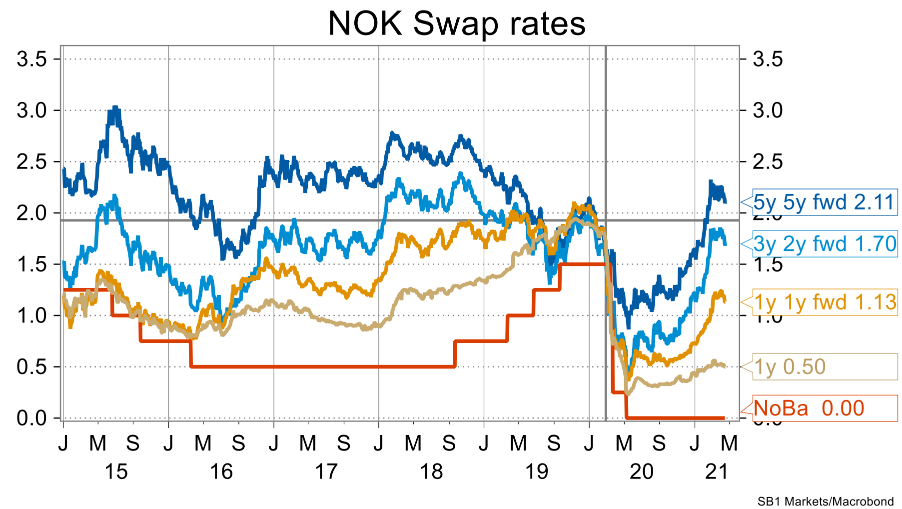


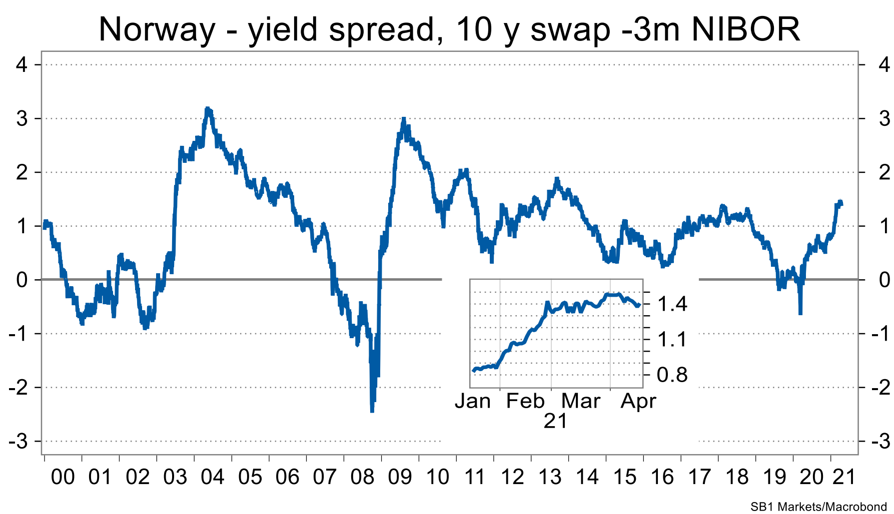


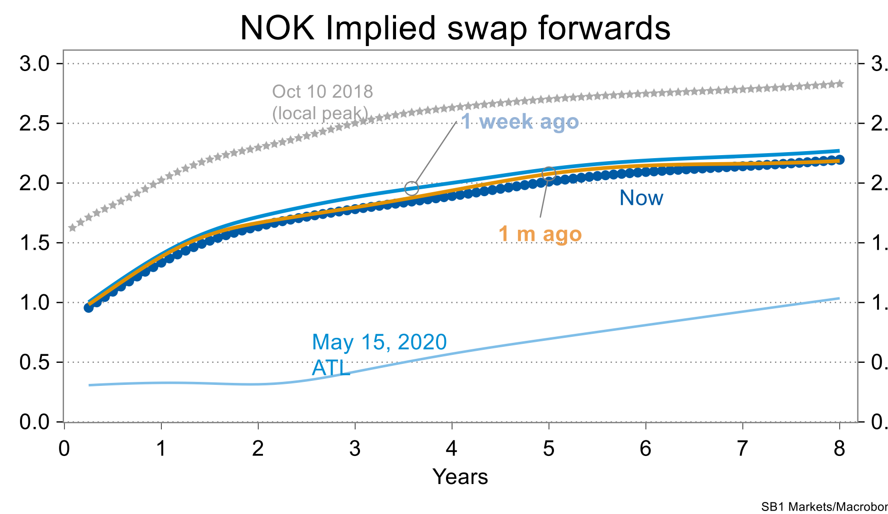
NOK rates down across a somewhat flatter curve

NOK 10 y at 1.73%; down 13 bps since late March, up 122 bps vs last May all time low



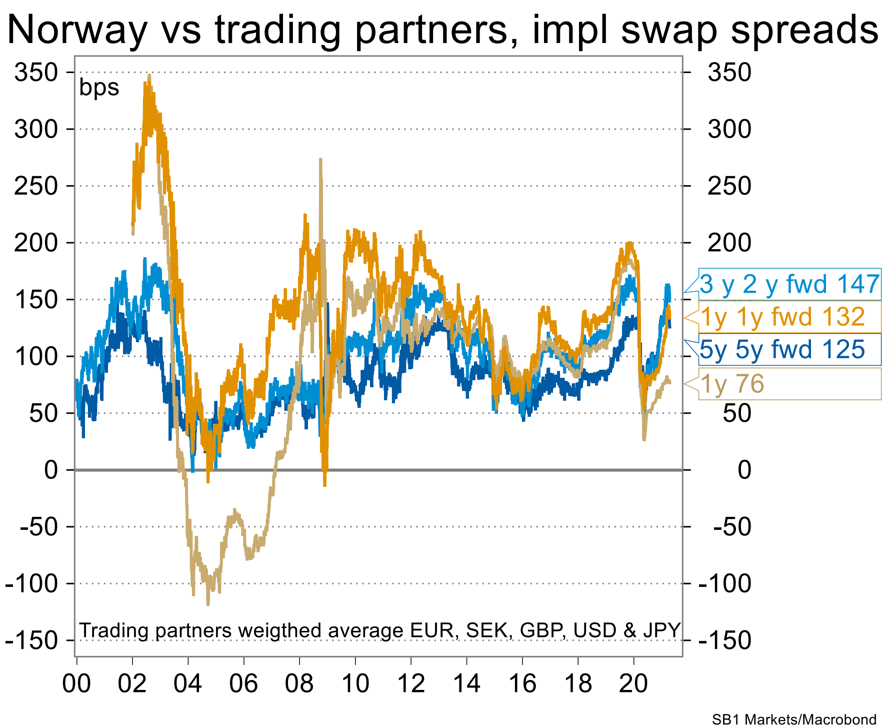


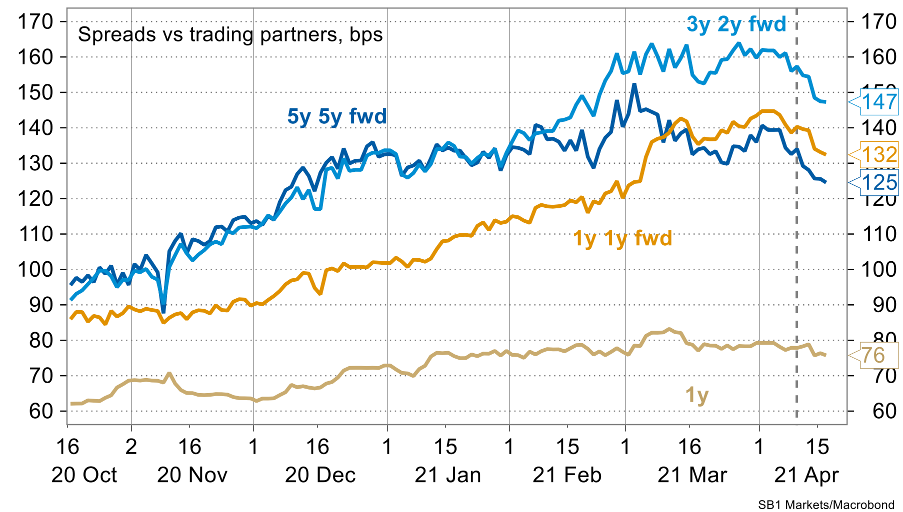


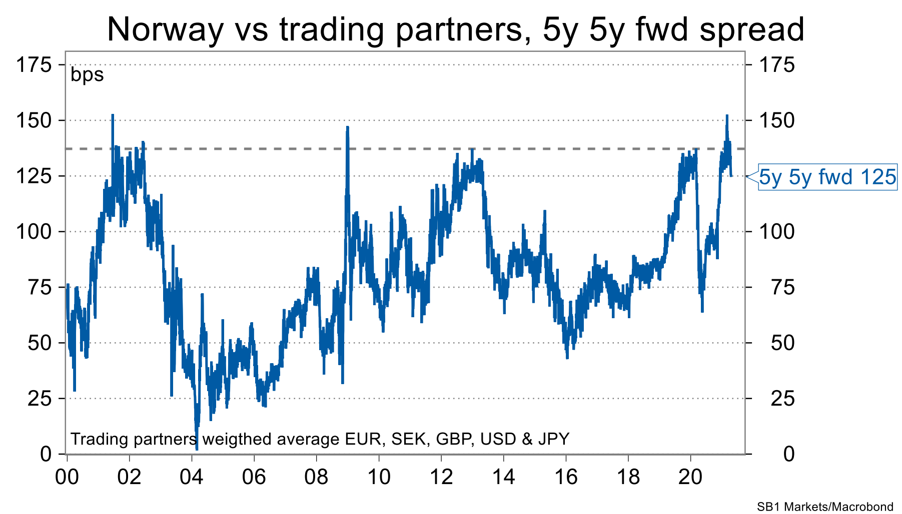


Forward spreads fell last week, all over the curve

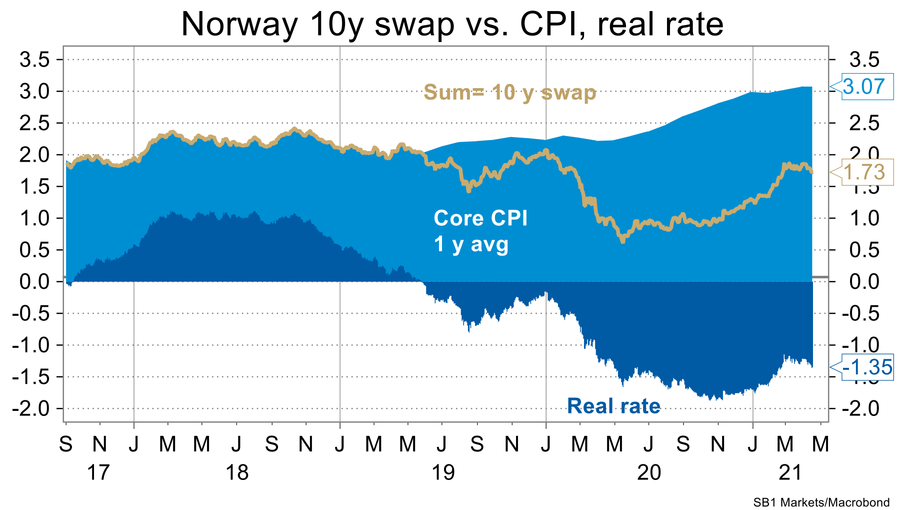
The 5y 5y fwd spread is at the same level as in early Dec – the level was high enough





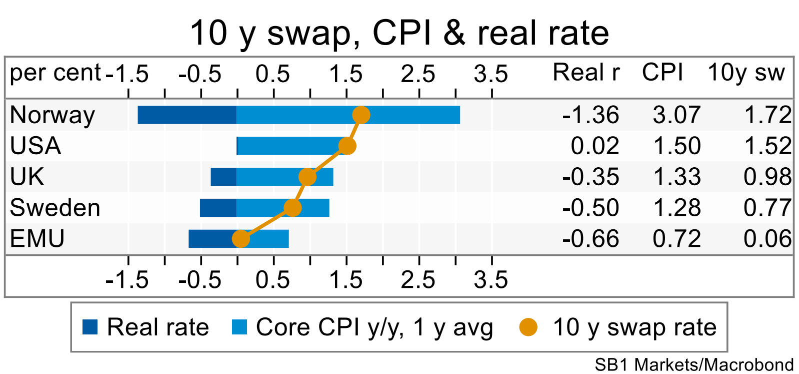


Negative (actual) real interest rates most places – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The **10y NOK swap rate** has climbed by 121 bps since the bottom in May, to 1.73%, even after a 8 bps drop last week
- **The real rate**, after deducting 3.1% average core CPI inflation over the 2 past years equals -1.4%
  - » 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 3.1%
  - » 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 decision makers in the private sector

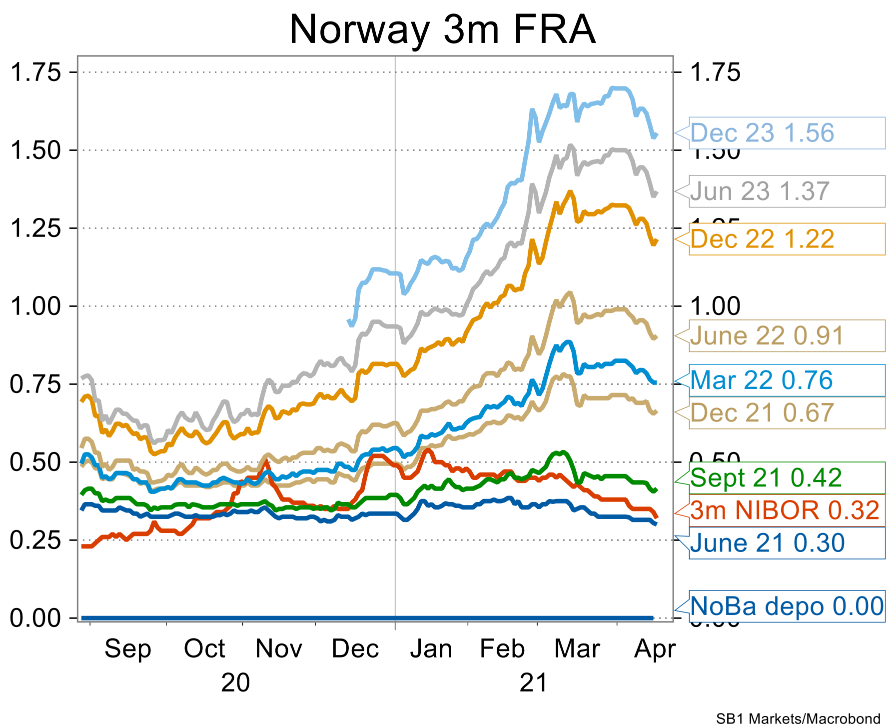


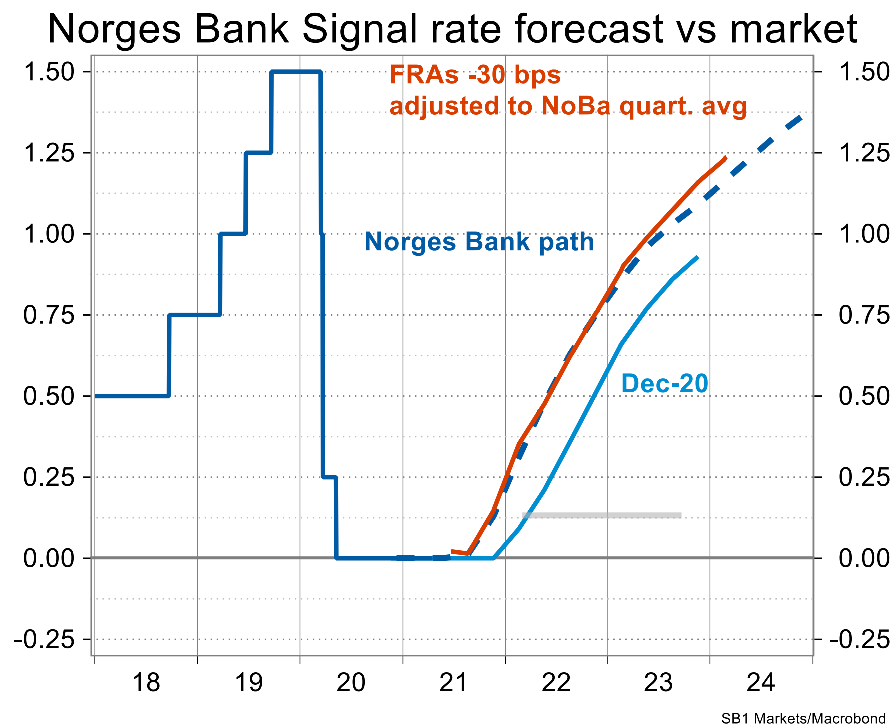
NOK real rates among the lowest, as inflation is at the top

- **Inflation** among Norway and our main trading partners varies between 0.7% to 3.1% (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** among our trading partners, at ranging between 0.0% and -0.7% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.4% is an outlier at the downside, even if the nominal rate is the highest**

The short end of the FRA curve has stabilised, 47% for a Sept hike xx

Longer dated sharply down last week

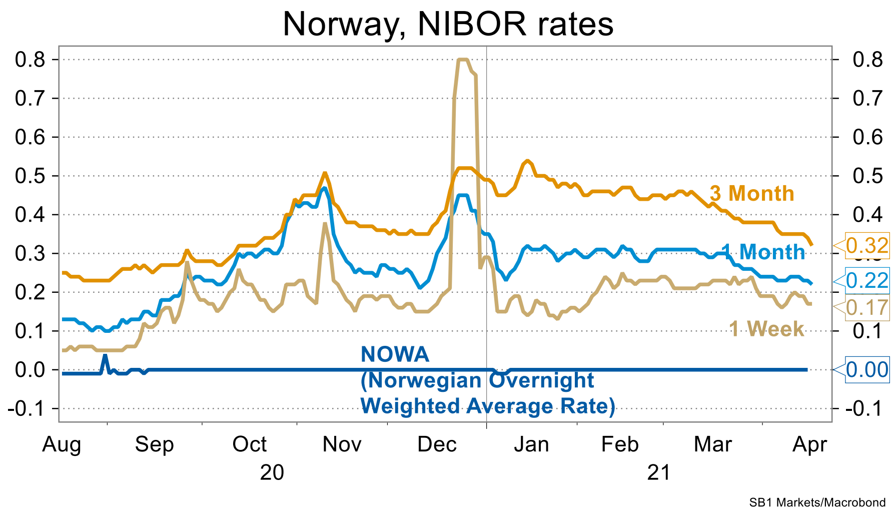


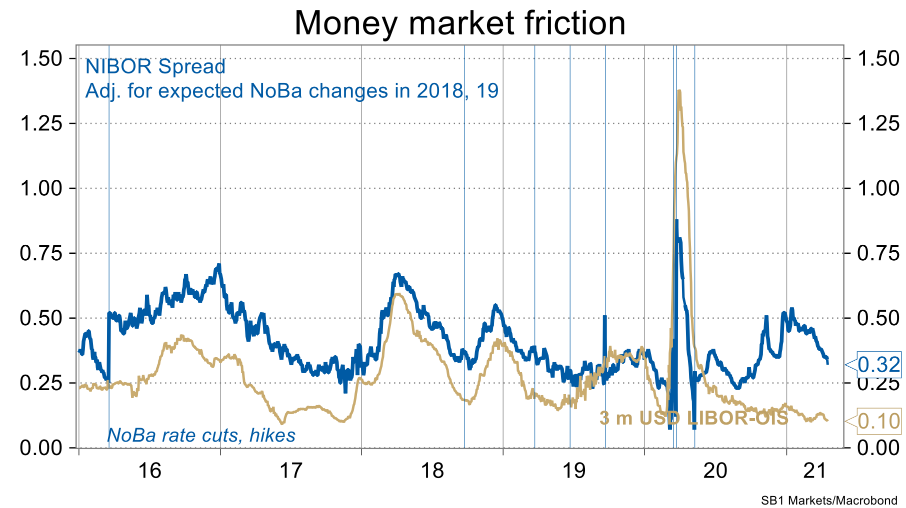


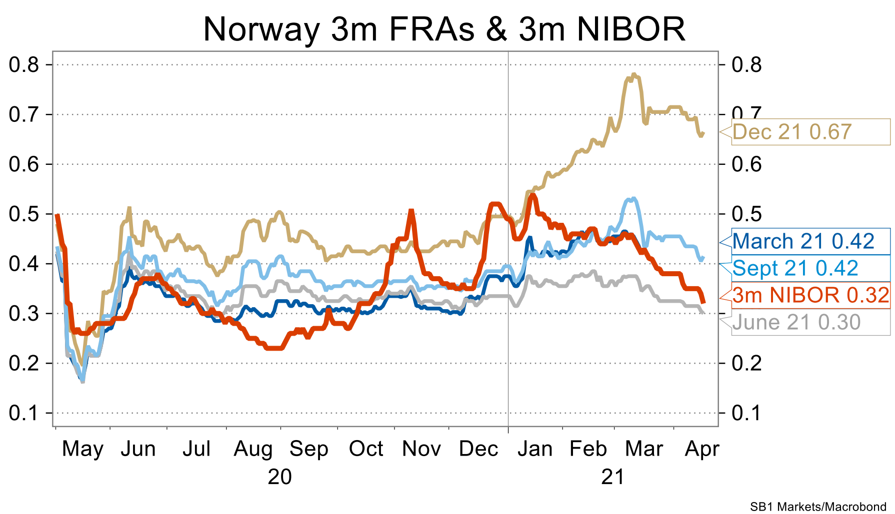
- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 30 bps NIBOR spread the actual 0.42% Sep FRA-rate equals a 0.12% NoBa deposit rate. If so, a slightly above 50% probability for a Sept hike is discounted, very close to what NoBa signalled in its March (50%)
- The Dec-21 FRA at 0.67%, and a 30 bps NIBOR spread, yields a 0.37% 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 0.30%. That implies a 20% probability for a 2nd hike in H2, again close to NoBa's path. A second hike in March-22 (if not in Dec) is almost fully discounted

3m NIBOR -2 bp to 0.32%, and the June FRA is also down 2 bp to 0.30%

The NIBOR spread has normalised!

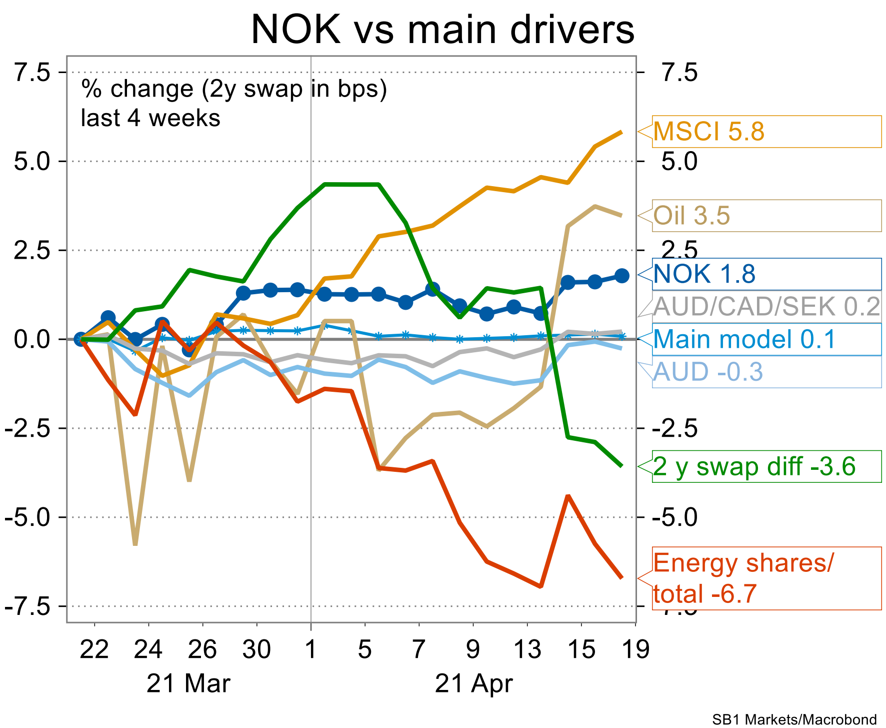


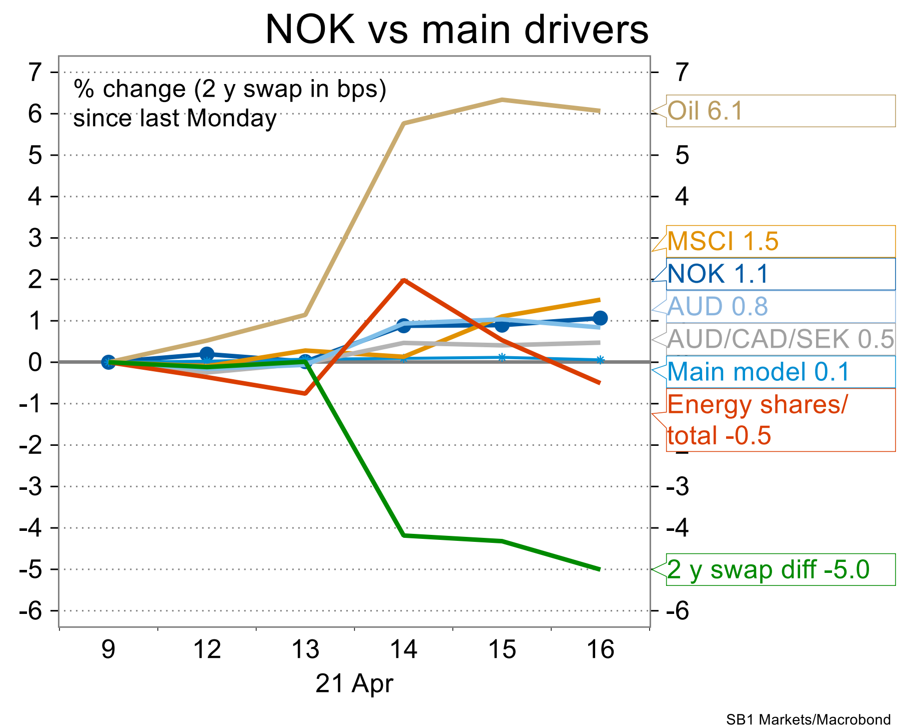




NOK and the usual suspects up

The NOK index up 1.1% last week, well above our model forecast – but oil/stocks/peers rose



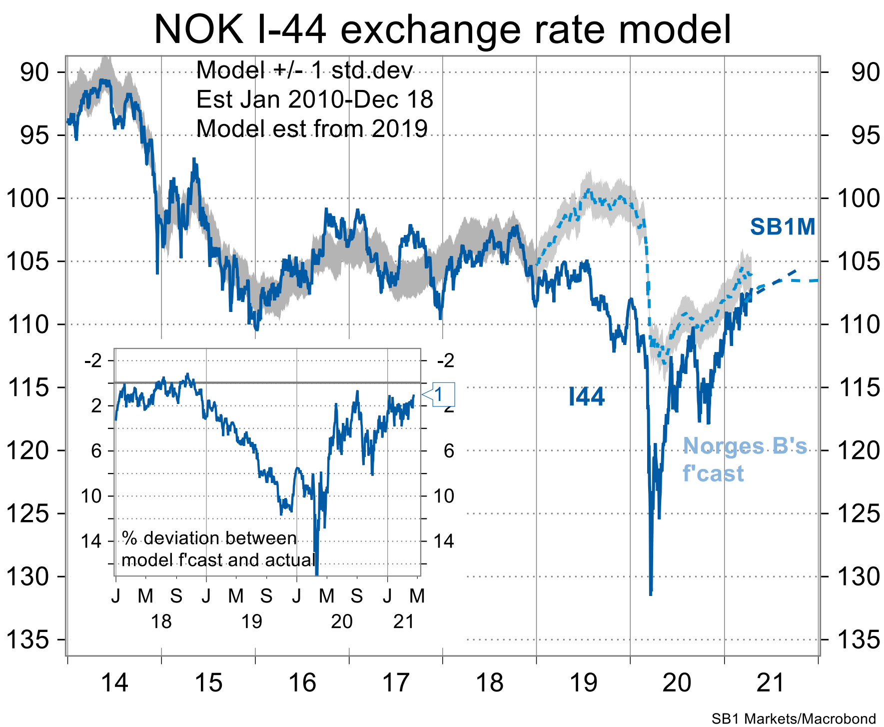


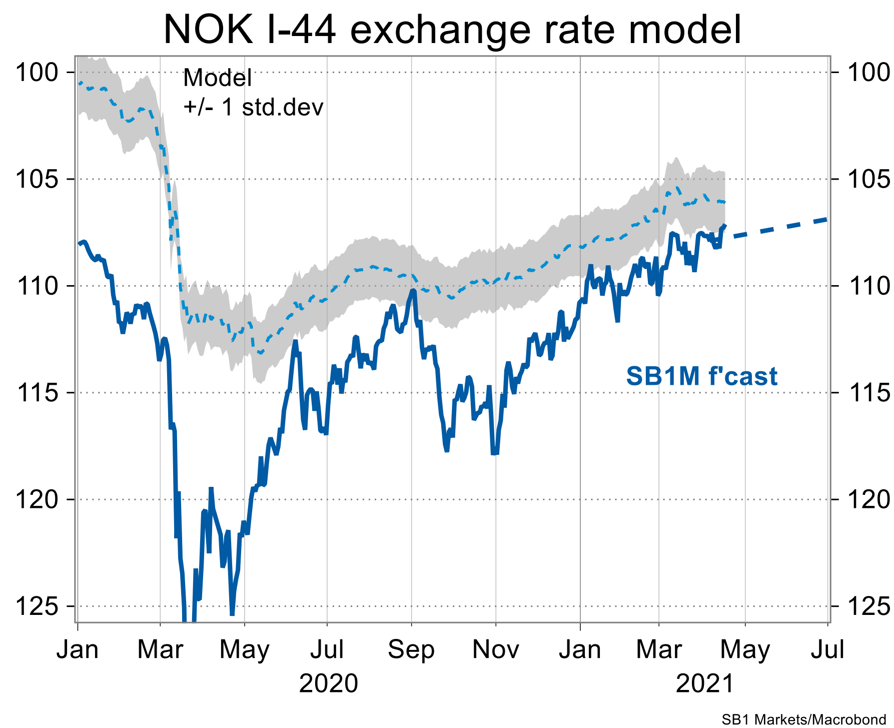
In sum, the NOK is still a buy: xx

- The NOK is 1% weaker than suggested by our standard model
- The NOK is 3% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 6% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts
- On the other hand, the NOK is far (13%) stronger than a model which includes global energy companies equity prices (vs the global stock market)

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

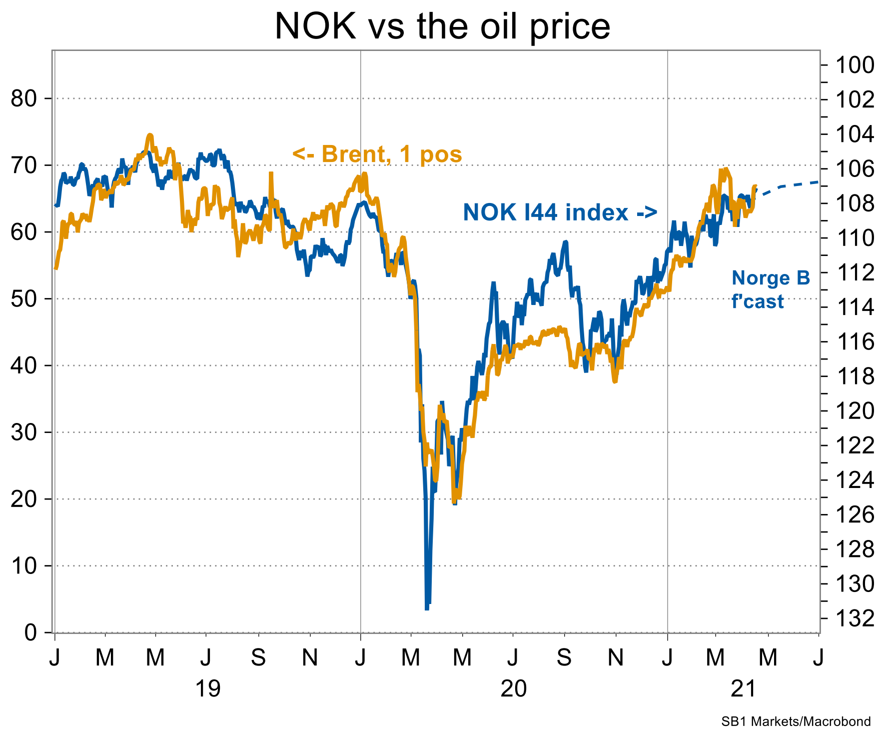
NOK 1% below our main model estimate

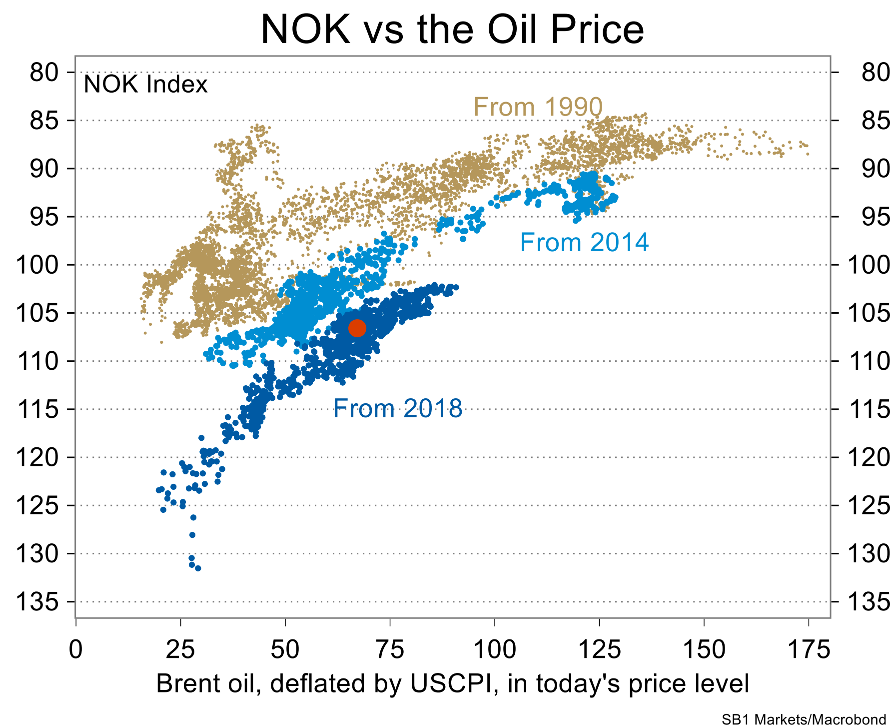




NOK up, but 'less' than the oil price

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

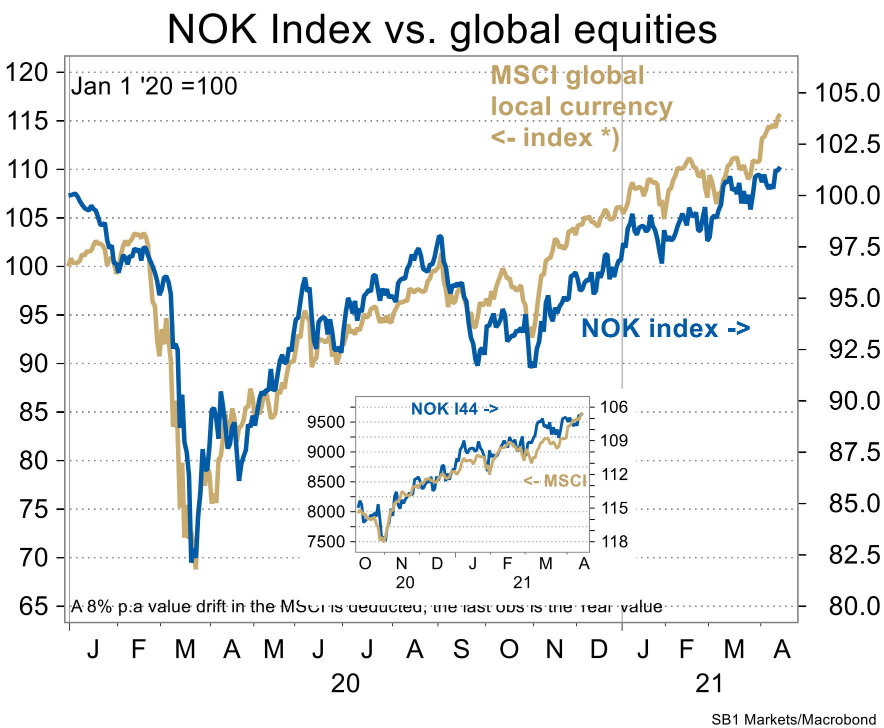


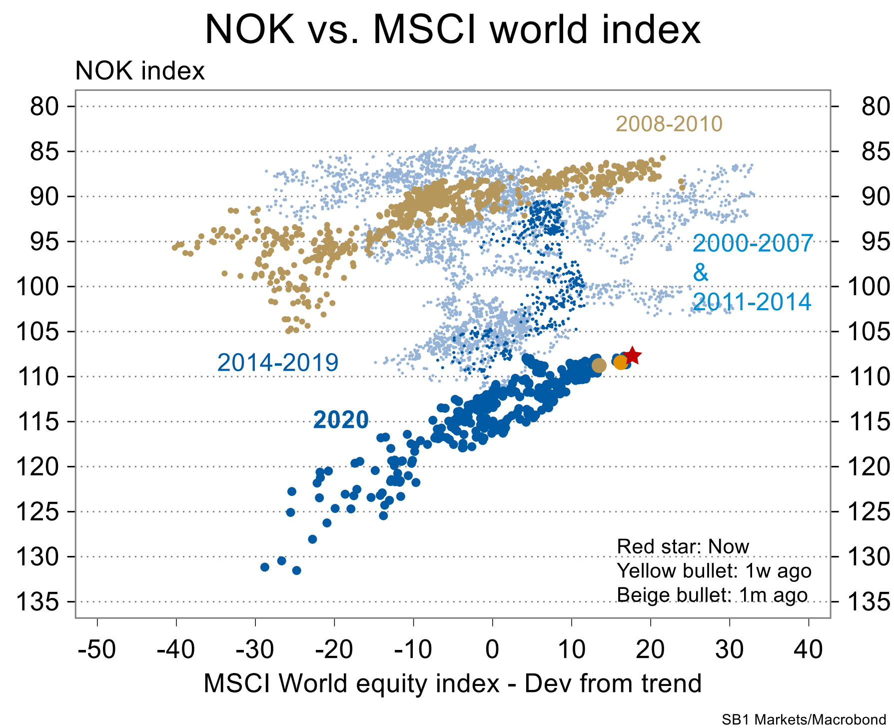


- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

Global stock markets and NOK up

Except for Sept., NOK and global equities since early last year. The gap is at some 3%

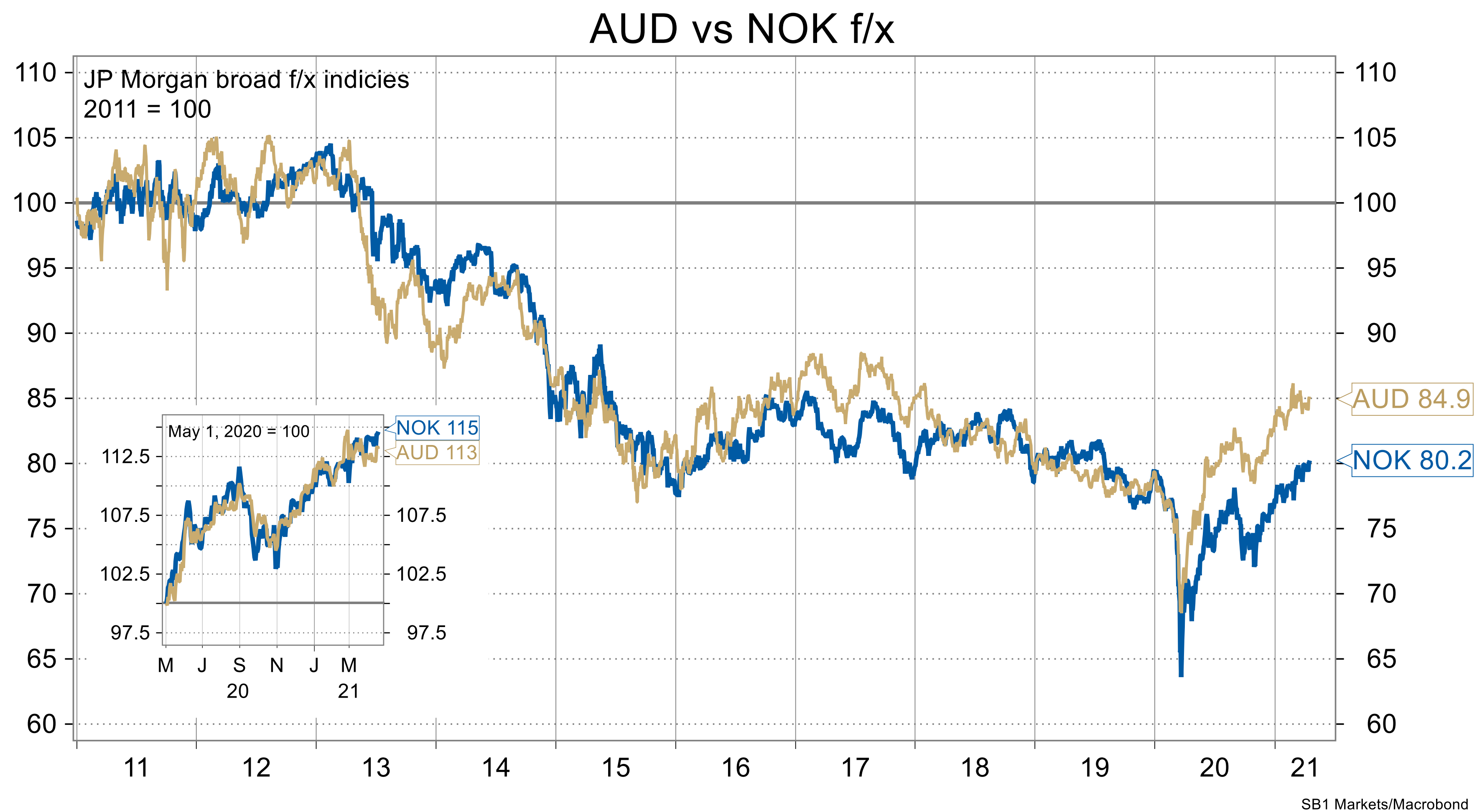




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the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

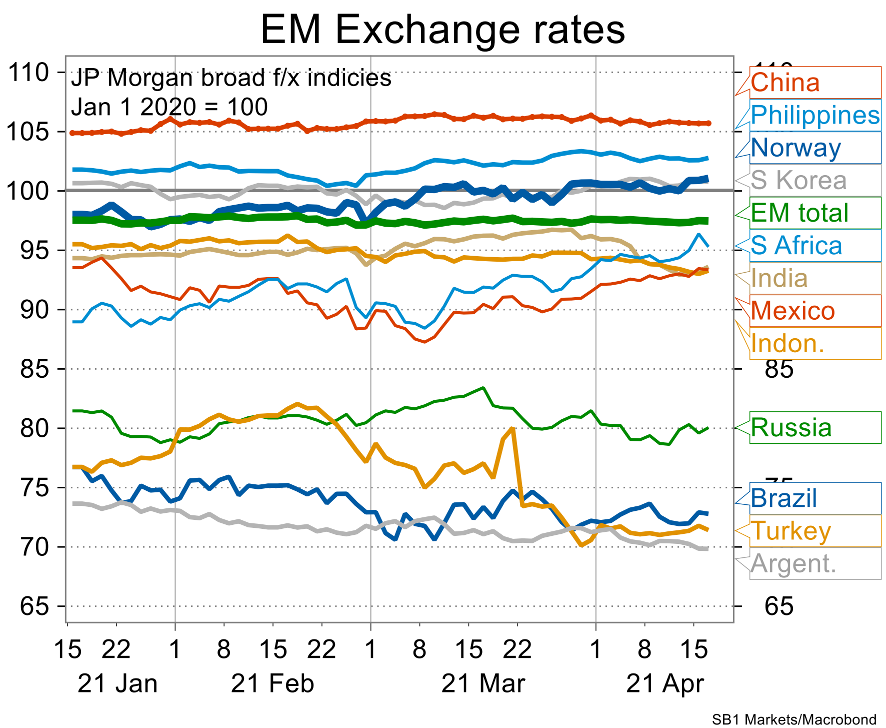
NOK UP 1.1%, the AUD +0.8%

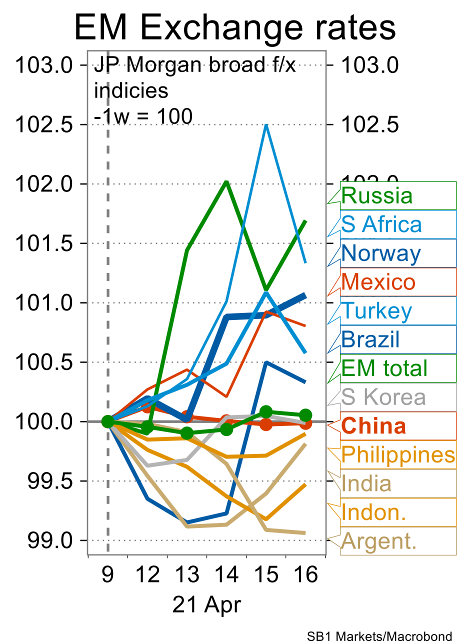
Both are up 13-15% since May 1 – but the NOK still 6% weaker than AUD since last spring

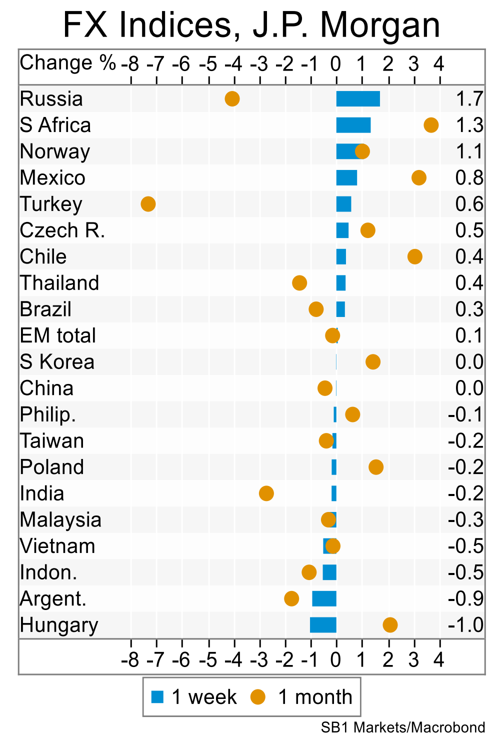


More up than down in EM currencies

The Chinese CNY is trending slowly down







- The Russian rouble is still weak, as is the Brazilian real but mot strengthened last week

DISCLAIMER

DISCLAIMER

SpareBank 1 Markets AS ("SB1 Markets")

This report originates from SB1 Markets' research department. SB1 Markets is a limited liability company subject to the supervision of The Financial Supervisory Authority of Norway (Finanstilsynet). SB1 Markets complies with the standards issued by the Norwegian Securities Dealers Association (VPFF) and the Norwegian Society of Financial Analysts.

No investment recommendation

Any views and opinions relating to securities mentioned in this report should be interpreted as general market commentary, and not as investment recommendations within the meaning of section 3-10 of the Norwegian Securities Trading Act.

No personal recommendation

The information contained in this publication is general and should not be construed as a personal recommendation within the meaning of the Norwegian Securities Trading Act, section 2-3 (4). It does not provide individually tailored investment advice regarding a particular financial situation, investment experience, risk profile or preferences of the persons who may receive this report. For tailored investment advice regarding stocks mentioned in this publication, please consult our brokerage desk or your individual investment advisor.

Research for the purposes of unbundling

This report is deemed to constitute a minor non-monetary benefit for the purposes of the inducement rules under MiFID II. The report is publicly available on our website (no log-in required).

Conflicts of interest

SB1 Markets, affiliates and staff may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) in any stock mentioned in this publication. To mitigate possible conflicts of interest and counter the abuse of confidential information and insider knowledge, SB1 Markets has set up effective information barriers between divisions in possession of material, non-public information and other divisions of the firm. Our research team is well versed in the handling of confidential information and unpublished research material, contact with other divisions, and restrictions on personal account dealing. The views expressed in this report accurately reflect the analyst's personal views about the companies and the securities that are subject of the report, and no part of the research analyst's compensation is related to the specific recommendations or views expressed in this report.

Accuracy of sources

All opinions and statements in this publication are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication and may be subject to change without notice. SB1 Markets has taken all reasonable steps to ensure that the information contained in this report is true and not misleading. Notwithstanding such efforts, we make no guarantee as to its accuracy or completeness.

Risk information

Return on investments is inherently exposed to risks. The value of an investment position may both rise and fall during the investment period. If the return on investments is positive at one time, there is no guarantee that it will remain such in future. In certain cases, losses may exceed the sum of the original investment.

Limitation of liability

Any use of information contained in this report is at your own individual risk. SB1 Markets assumes no liability for any losses caused by relaying on the information contained in this report, including investment decision taken on the basis of this report.

Limitation on distribution

This publication is not intended for, and must not be distributed to, individuals or entities in jurisdictions where such distribution is unlawful.