
3 May 2021

# Macro Weekly

## Week 18/2021

**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

# Last week: Cases are on the way down in all rich countries, not in all EMs

## The virus

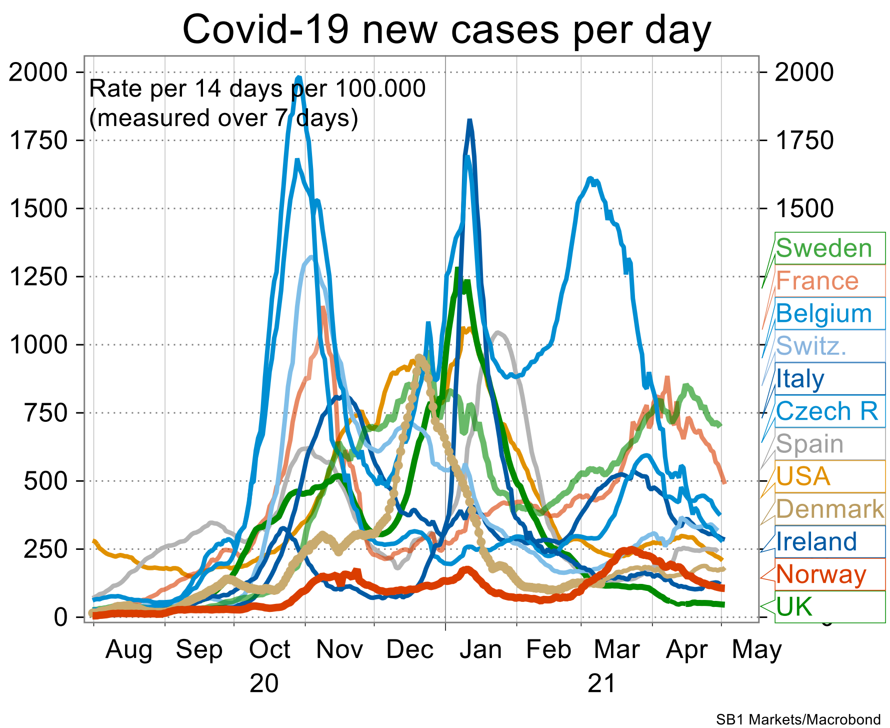
- **The 3rd wave** is on the way down in all rich countries
- **Mobility** is rising almost everywhere in DM as the negative drag from corona restrictions/cautious behaviour are easing
- **In Norway**, the no. new cases are trending steadily down. A decline in new hospitalisations & hospital occupancy confirm the decline in new cases. More local restrictions were eased last week too. Mobility has turned sharply up – and faster than the immunity increases due to vaccinations. Norway will probably not use AstraZeneca's nor Johnson&Johnson's vaccines, which of course will slow the vaccination process vs. rest of Europe. At the other hand, newly vaccinated will from now have to wait 12 weeks in order to get the second inoculation of BioNTech/Pfizer's or Moderna's vaccines, from 6 weeks. The adult population will get the first shot before end of July
- Last week, the **pace of vaccination** stayed at +/- 3% of the population in most EU countries, as in Norway. Norway will not be able to speed up before larger quantities of vaccines from B/P arrives in June
- **India** is still struggling, but as mobility has fallen sharply the past two weeks and the growth in new cases has slowed substantially (but we know too little about testing policy/capacity to judge these infection data properly – and the underreporting is of course anyway massive)

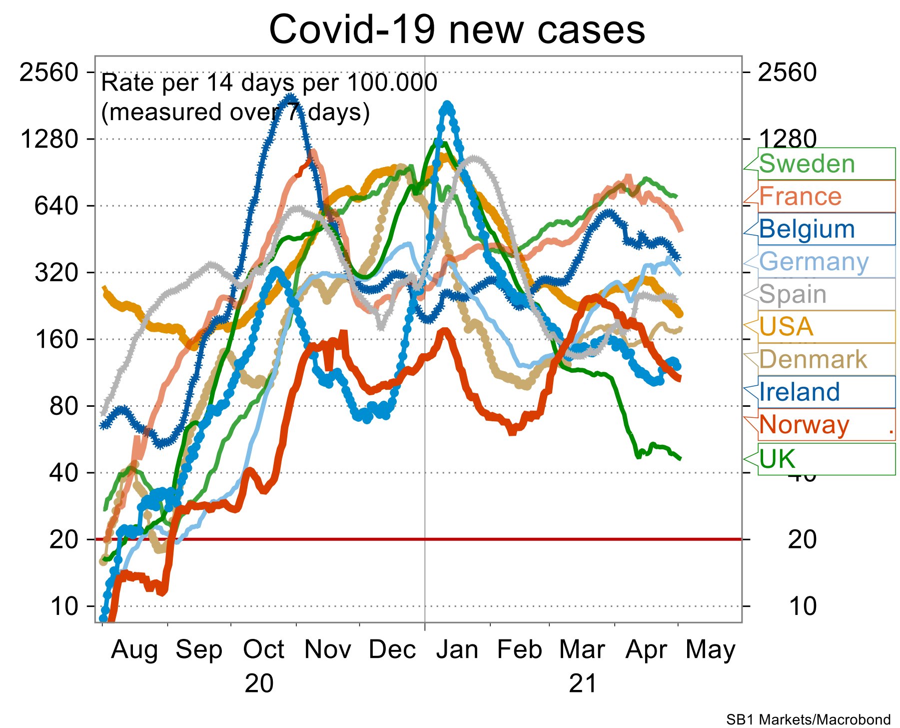
# Last week: The economy

- **China**
  - Mixed April **PMIs** but the level is still high and signals growth above trend into Q2. Rest of Asia reported mixed data but more are up than down
- **USA**
  - **FOMC** recognises that the US economy is recovering but as we all expected, policy measures were not touched, and Powell repeats that inflation have to stay above 2% for a while before the bank will change tack
  - **GDP** grew by 6.4% (1.6% not annualised) in Q1, as expected. Consumption rose >10%, no doubt supported by the stimulus cheques (but some 6/7th of the extra transfers were saved. Business investments are above the Q4-19 level. Goods in sum are far above, services are still below.
  - **Households spending** grew 4.1% in March, while income rose 20%, almost fully due to the last stimulus cheques. In Q1, income grew 12.7%, (not annualised), and consumption 2.6%. We deem that just 1/7th of stimulus transfers were spent in Q1. The wall of saved money grew even higher. The PCE deflator accelerated but the core remained below 2%. Next month…
  - **Consumer confidence** rose sharply in April too, and the two past months are the best since 1973. Inflation expectations are on the way up, jobs are very easy to get – and 'everybody' plans to buy a home. **House prices** are still rising rapidly, and the inventory of unsold homes is record low
  - President Biden proposed the **American Families Plan**, USD 1.7 trl over the next 10 years (0.8% of GDP), funded by higher taxes, mostly on 'the rich'
- **EMU**
  - **GDP** fell by 2.4% (-0.6% not annualised) in Q1, less than expected and Q4 was marginally revised up
  - **Core CPI** inflation fell 0.1 pp to 0.8%, as expected. Total inflation up 0.3% to 1.6%. In sum: Far below ECBs target
  - The April **EU business survey** surprised on the upside – big time – and signals 3% GDP growth. The manufacturing sector is reporting ATH growth, and services are approaching trend growth
- **Sweden**
  - The Riksbank kept the policy unch. at zero. The Bank revised the growth outlook upwards but will continue to buy bonds, and promises to keep the signal rate unchanged at least into 2024
  - **GDP grew** 4.5% (1.1% not annualised) in Q1, twice as much as expected. The level is just 1.1% below the Q4-19 level. In March GDP surged 2.1% m/m, and was in line/above the pre-pandemic level
  - The April **KI business survey** surprised on the upside - big time - and signals 6% GDP growth! Manufacturing and retail trade in the lead but services are reporting growth above trend too.
- **Norway**
  - **Retail sales** kept up in the partially locked down March, we expected a substantial decline. The 3rd virus wave has not killed the economy. **Consumer confidence** surged in April, according to Opinion's survey
  - **NAV ordinary unemployment** fell marginally in April, and total employment (incl. part time unemployed) declined a tad more.
  - **Credit growth** is accelerating but very slowly, and the growth rate is not frightening, at 5.0%

# Most rich countries are on the way down

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



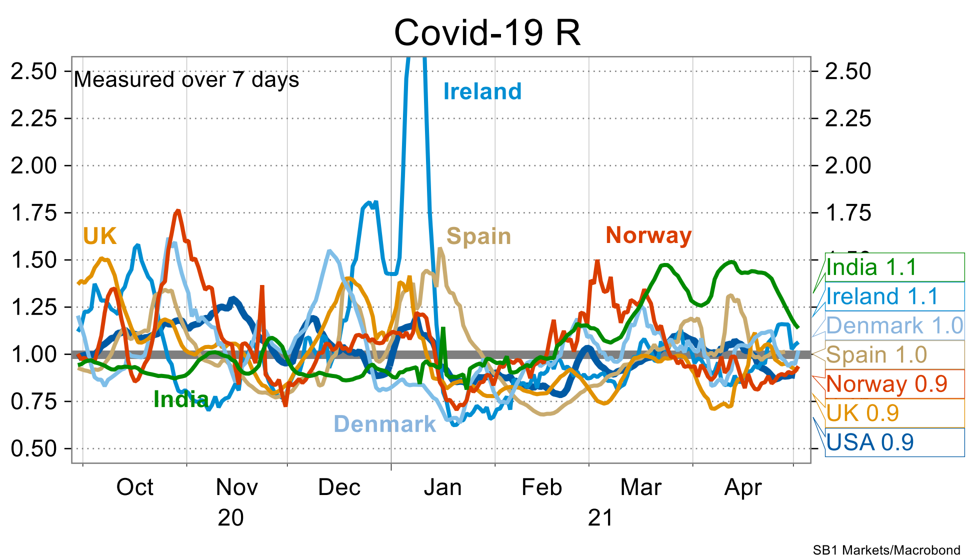



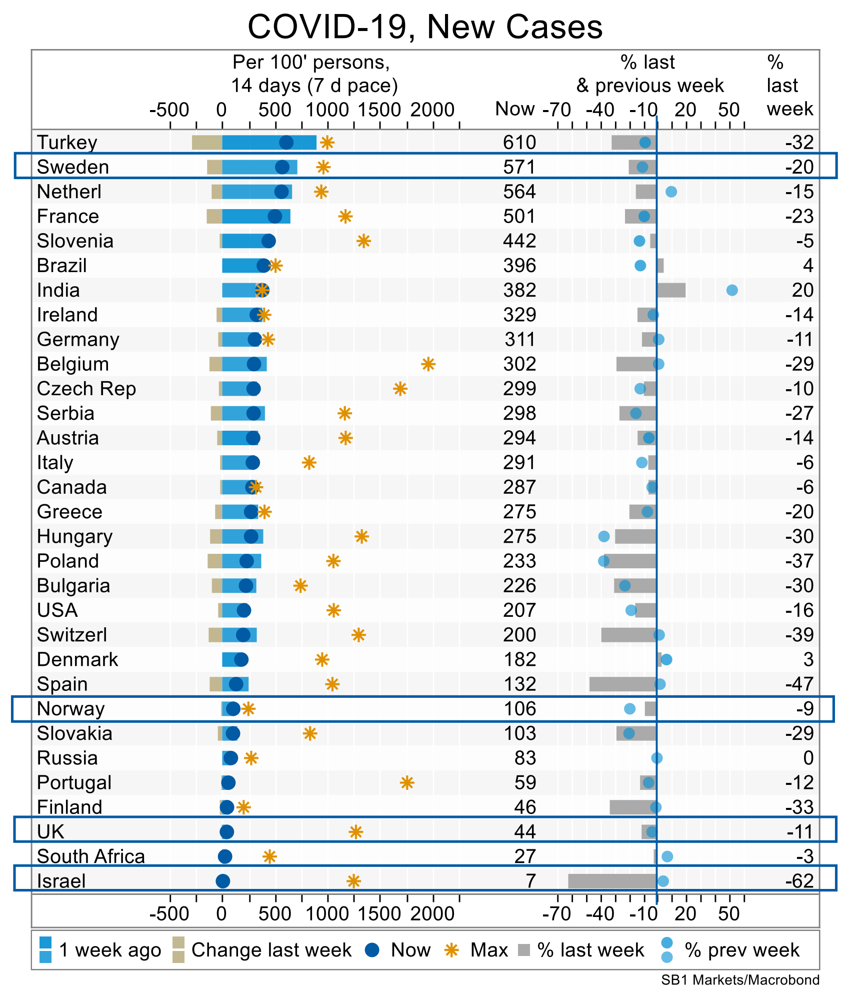

- The situation in EM is mixed, and India is struggling with it's 2nd wave – with limited access to vaccines & hospital capacity, but at least growth in new cases is slowing rapidly, and will reach zero this week?
- Norway – and the rest of Europe – are now speeding up new vaccinations up to a 'US, UK' level, and from now on the rate of immunity will increase at a fast pace

# Just India reported more cases last week, but growth is rapidly slowing there too

(but we have not analysed Indian testing policy/capacity)

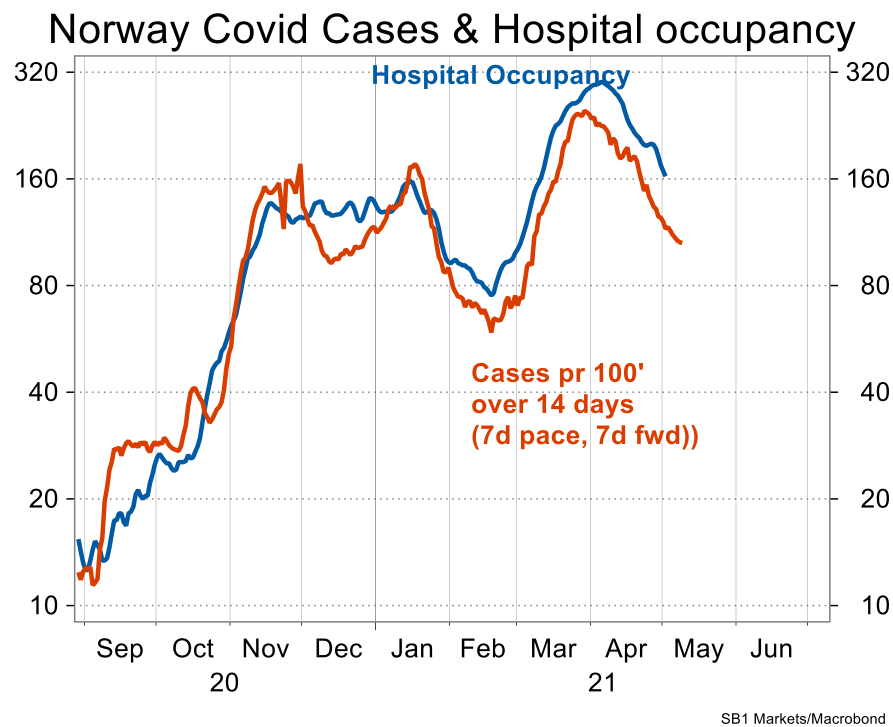
- **The broad decline in new cases continues and all rich countries are reporting fewer cases**
- **Sweden** is at the top among rich countries at our list, with 6 times more cases per day than in Norway
- **Turkey, the Netherlands and France is high up too**
  - » The no. of new cases dropped slightly in Sweden last week
- **In the UK** the number of new cases is still sliding down
- The no. of cases in the **US** has turned down again, and hospital occupancy has flattened
- **Norway** reported a further decline in new cases last week. The R is well below 1
- In **Israel**, the virus has almost disappeared
- However, **India** is struggling with its second wave, and the no. of new cases is likely far higher than reported. However, growth in new cases is slowing.

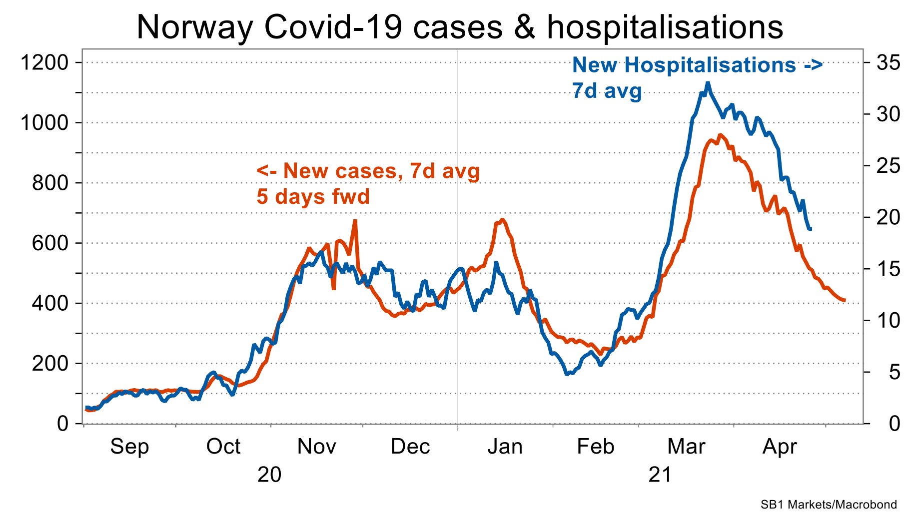


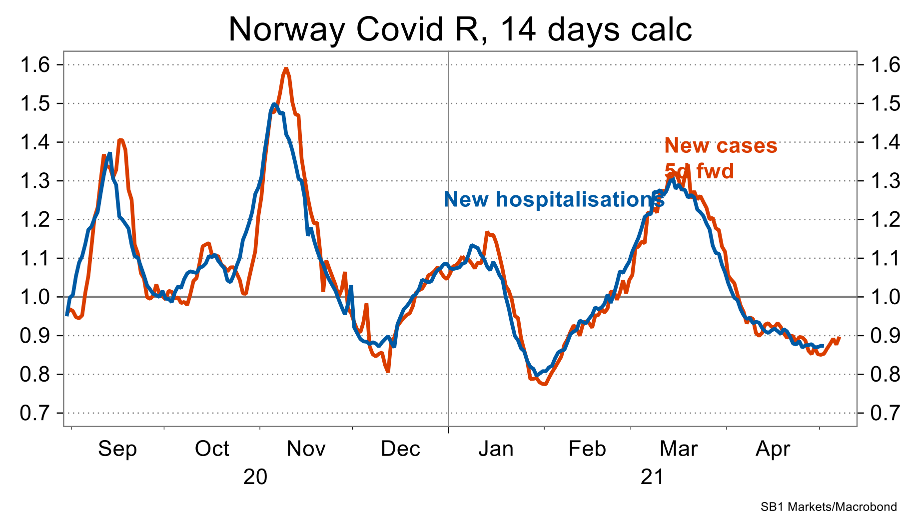



# Norway: New cases and new hospitalisations down; confirm an R<<1 ☺

Hospital occupancy is declining rapidly too



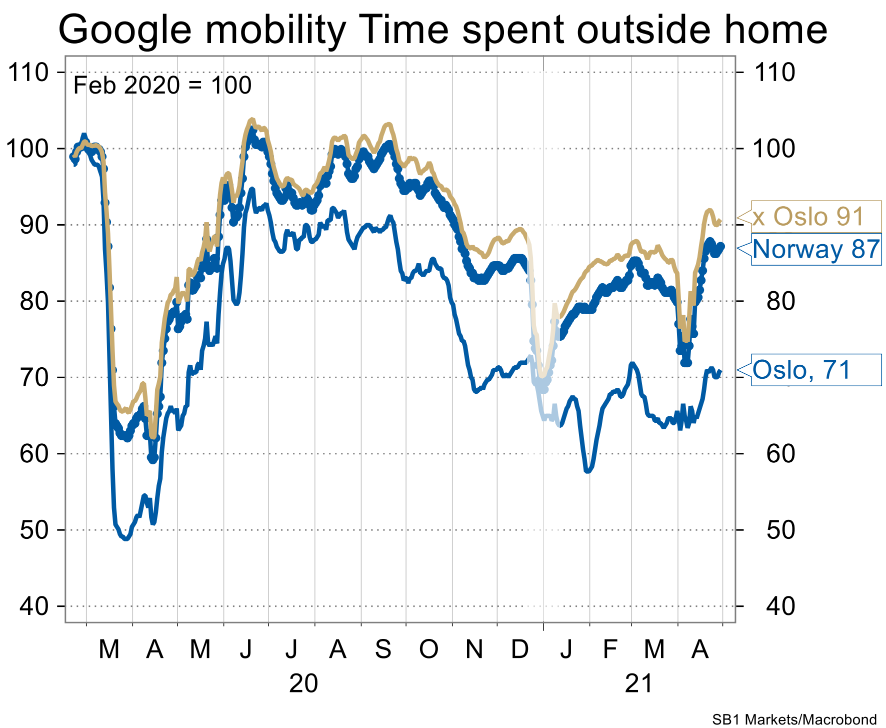




- Data of new hospitalisations are released with some days lag, but the trend is clearly down, even earlier than normal vs. the downturns in no. of new cases
- Even if the oldest part of the population now is vaccinated, 3.5% of the newly infected are hospitalized, which is higher than before! Blame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

# Mobility sharply on the way up, so far without more cases. Can it last?

## More restrictions were eased last week

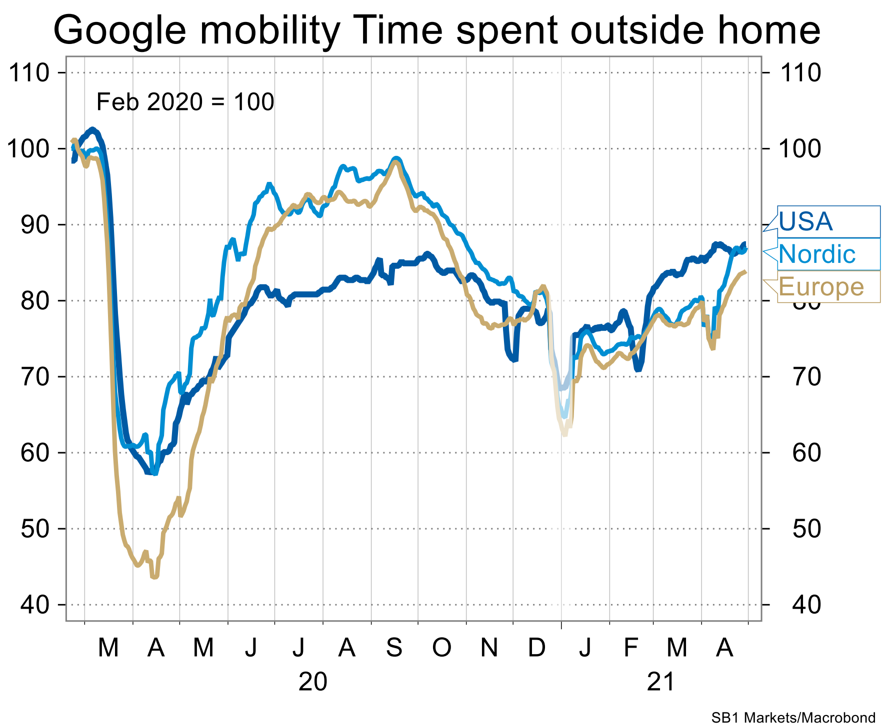


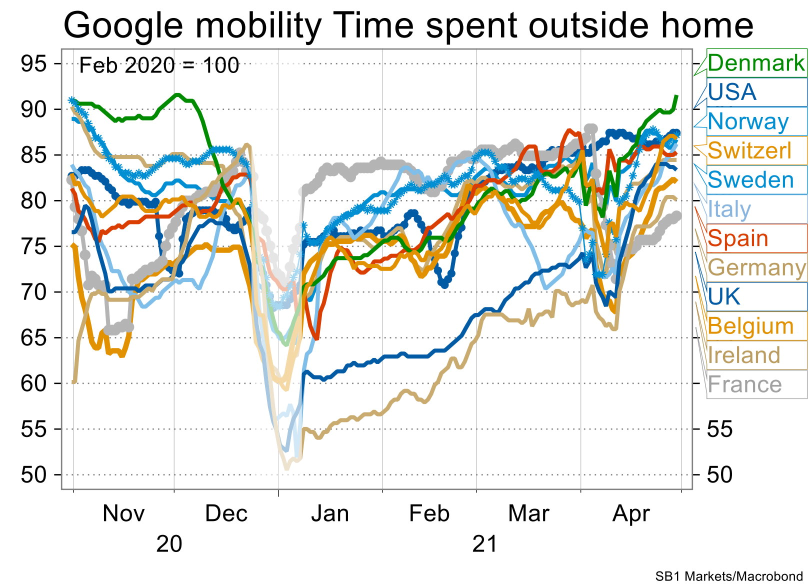

- Some 3% of the population is vaccinated per week, leaves room for more mobility without lifting the R

SpareBank 1 MARKETS

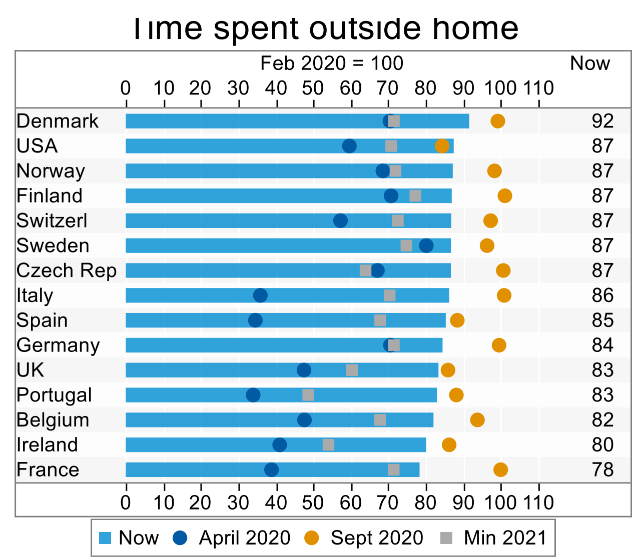
# Mobility is trending up everywhere, the Nordics close to the top

Time spent outside home is on the way up in all rich countries – even in France, from a low level

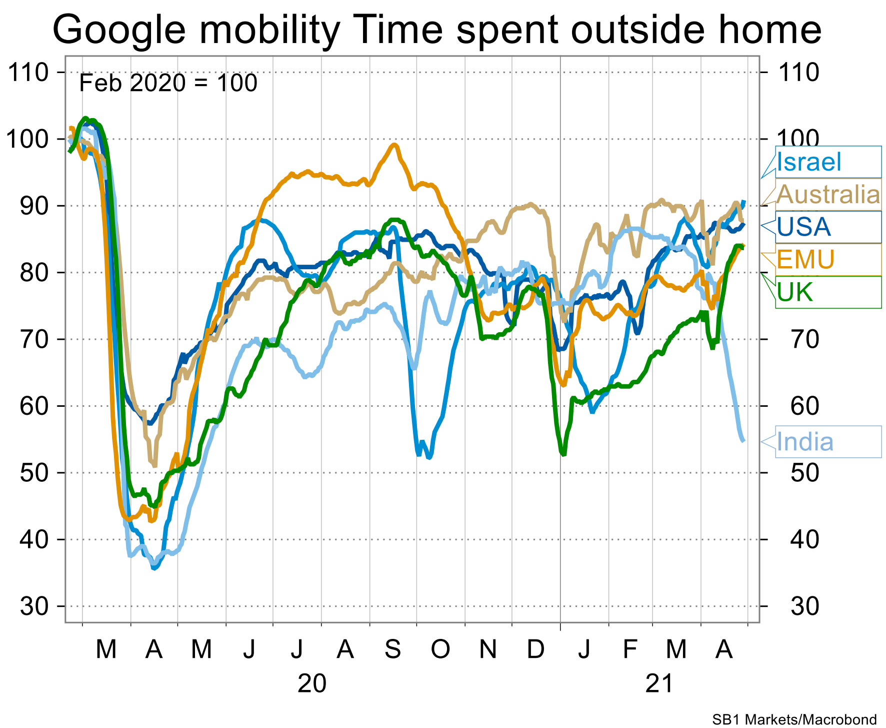



- Mobility still some 15% below par – illustrates the substantial upside social & economic potential the coming months
  - » In Q1, mobility was 25% below a normal level



# Israel & Australia at the mobility top, India has fallen rapidly to the bottom

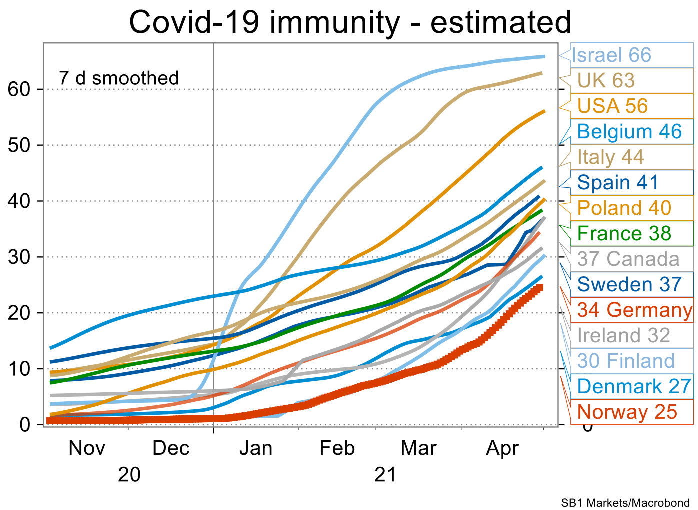


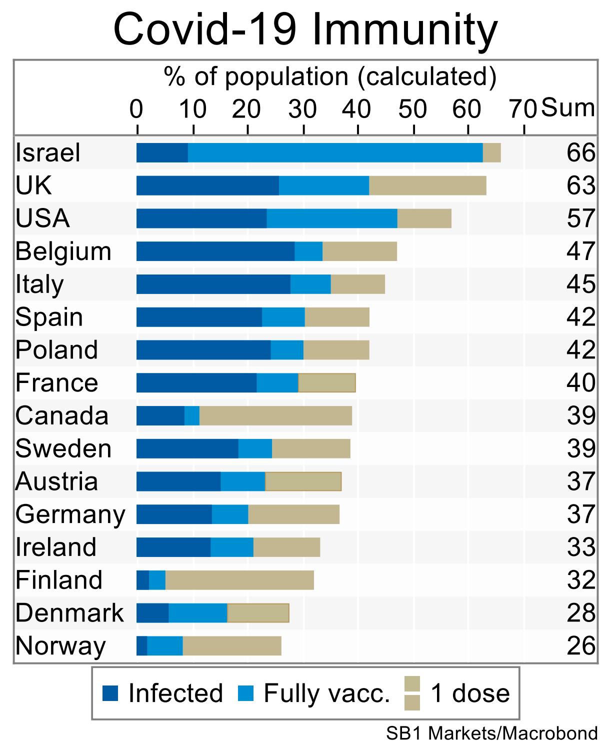

- Mobility in Vietnam, South Korea and Japan is even higher than in Israel

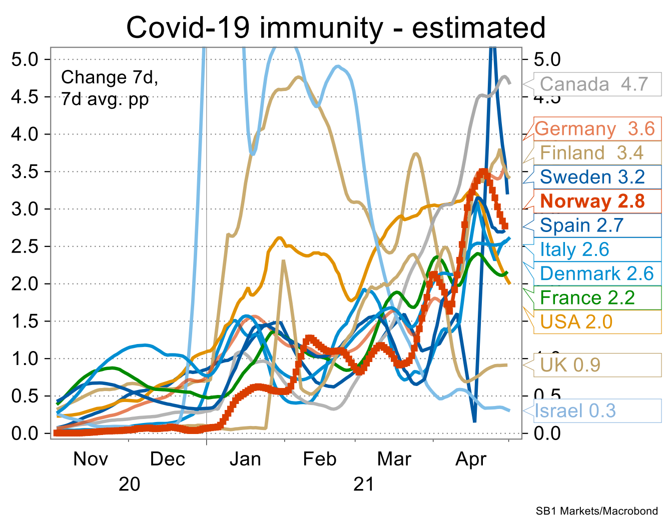
SpareBank 1 MARKETS

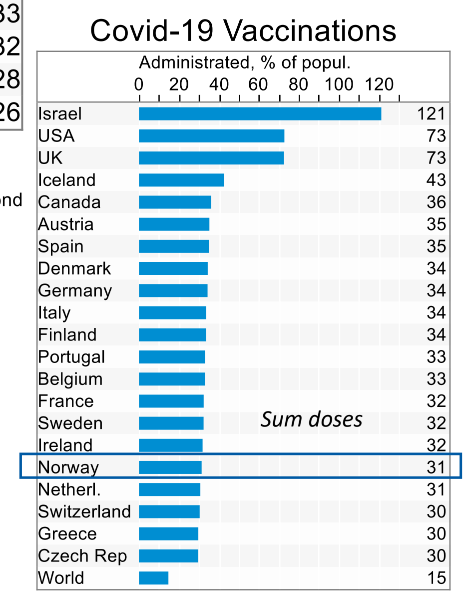
# Vaccinations: EU/Norway are gaining more speed, 3% are inoculated per week

## The US is slowing to 2%, UK remains below 1% - from high levels



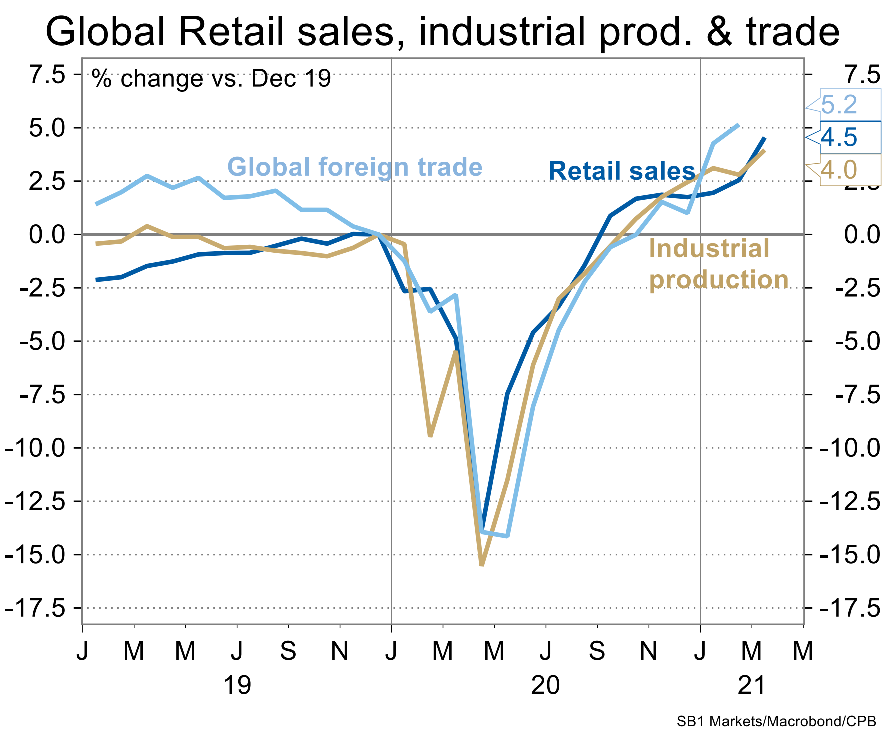



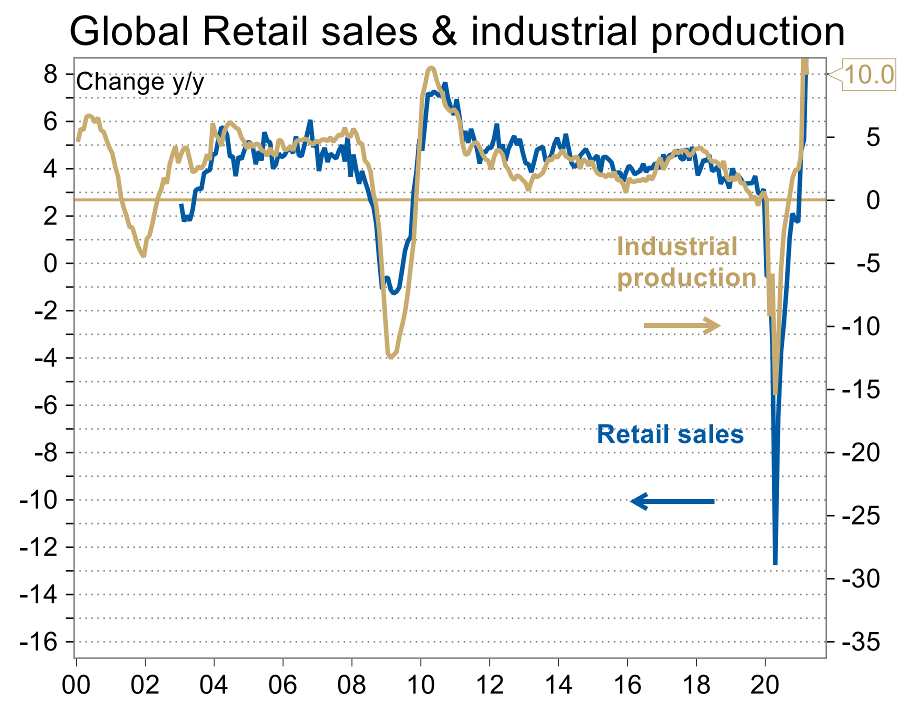




We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others

# The recovery in the goods sector continues – level up 4% – 5% vs pre Covid

Both retail sales & industrial production sharply up in March. Global trade was strong in February



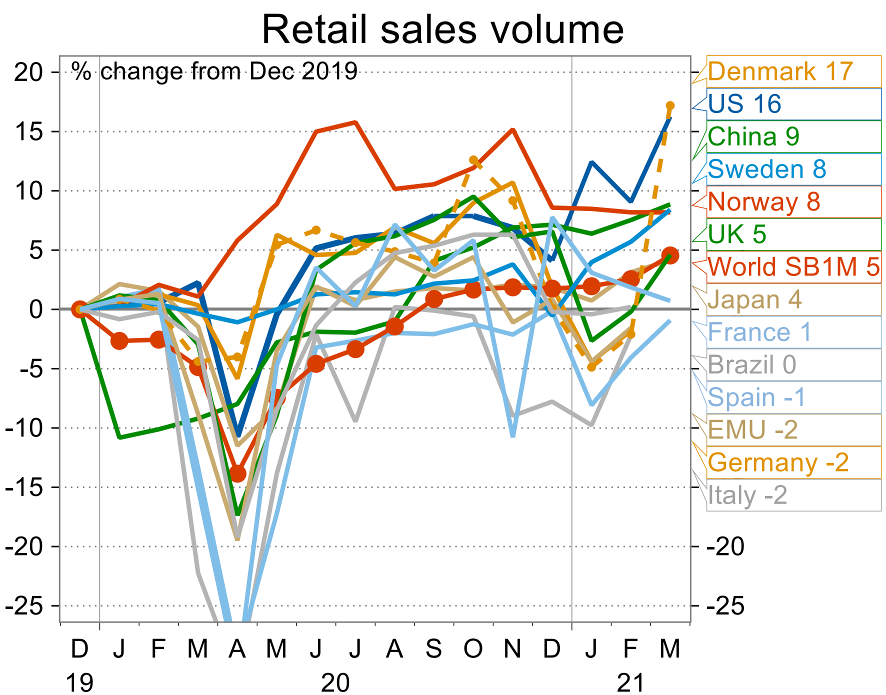



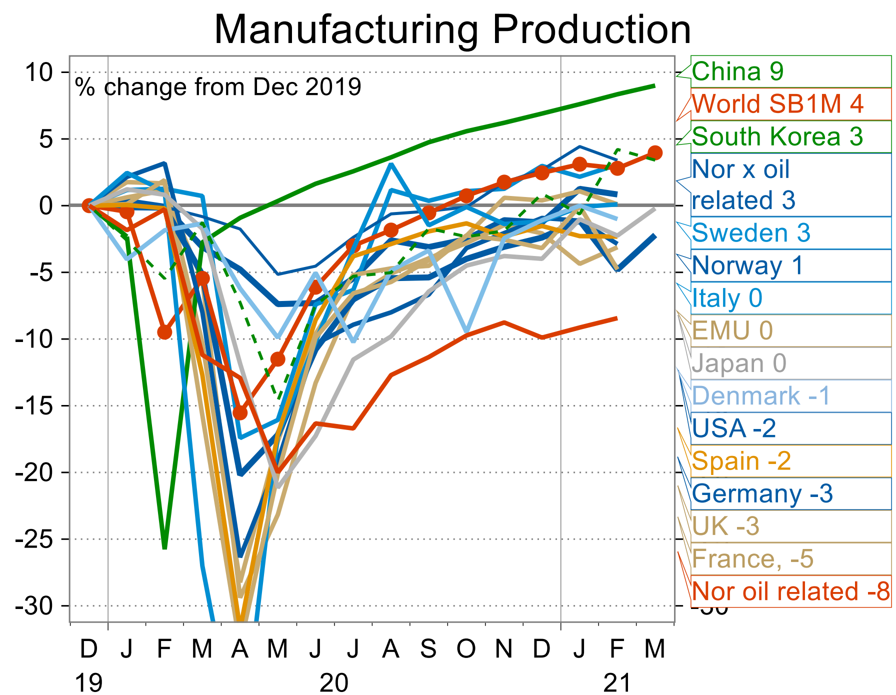

Memo: Keep in mind the different scales at the chart above

- **Retail sales** rose sharply in March, according to our preliminary estimate, mostly due to the lift in US retail sales (ex. autos!). Global sales are 4.5% above the pre-pandemic level
- **Manufacturing production** rose more than 1% in March (prelim. estimate), and is up 4% vs. Dec-19
- **Global foreign trade** rose further in February, to 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

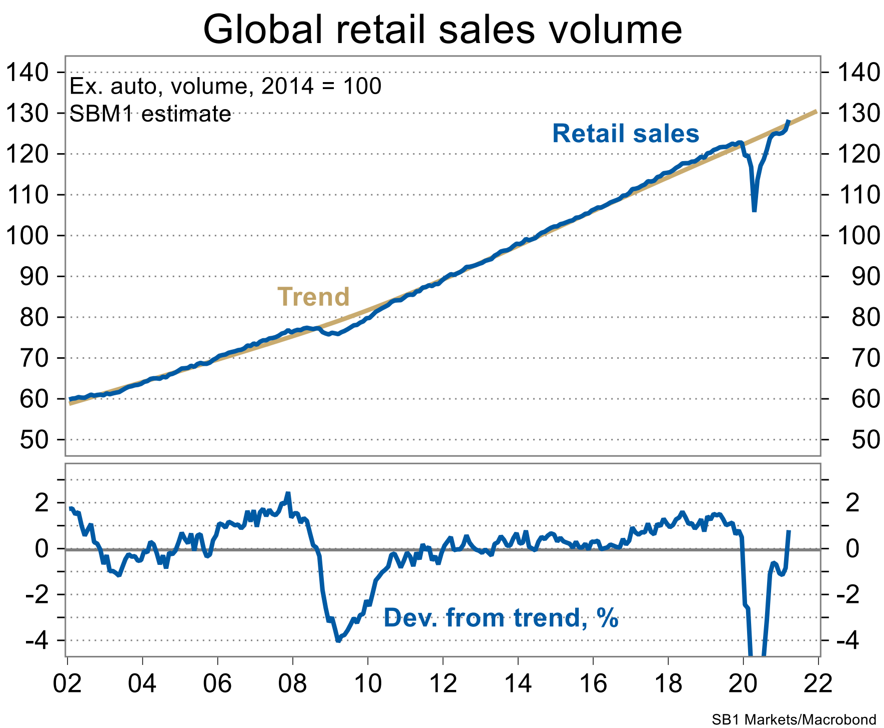


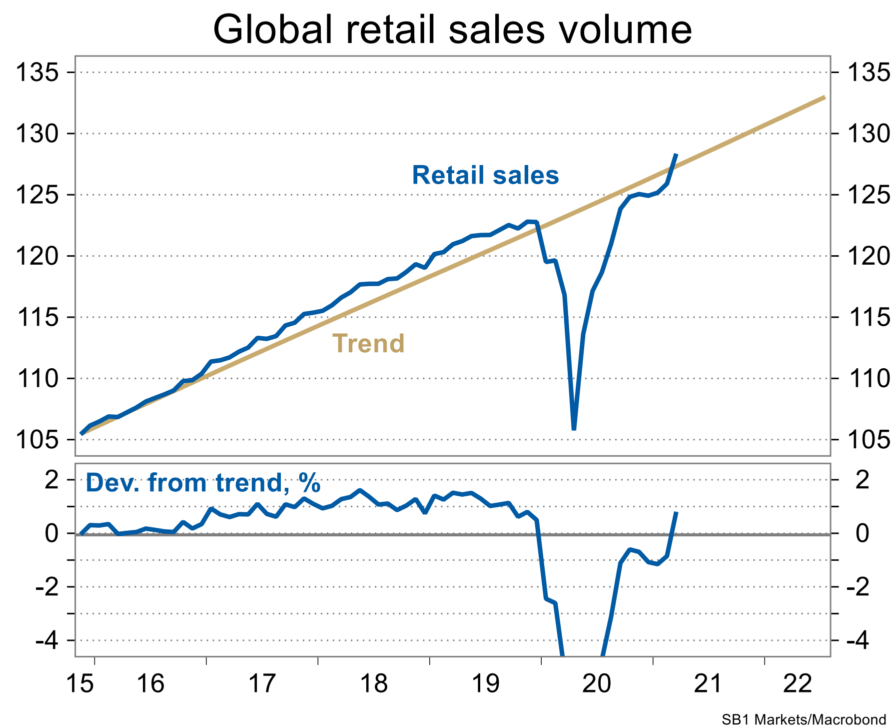




- Global manufacturing production very likely grew in March, witnessing the decent recovery in US, and continued growth in China
- Denmark reported a 20% growth in sales in March, following the easing of restrictions. Sales are now 17% above the pre-pandemic level. US is 16% above. Norway & Sweden are 8% higher than in Dec-19

# Global retail sales probably at or above long-term trend – but likely not far above

Thus, no reason to expect a sharp post pandemic setback, globally

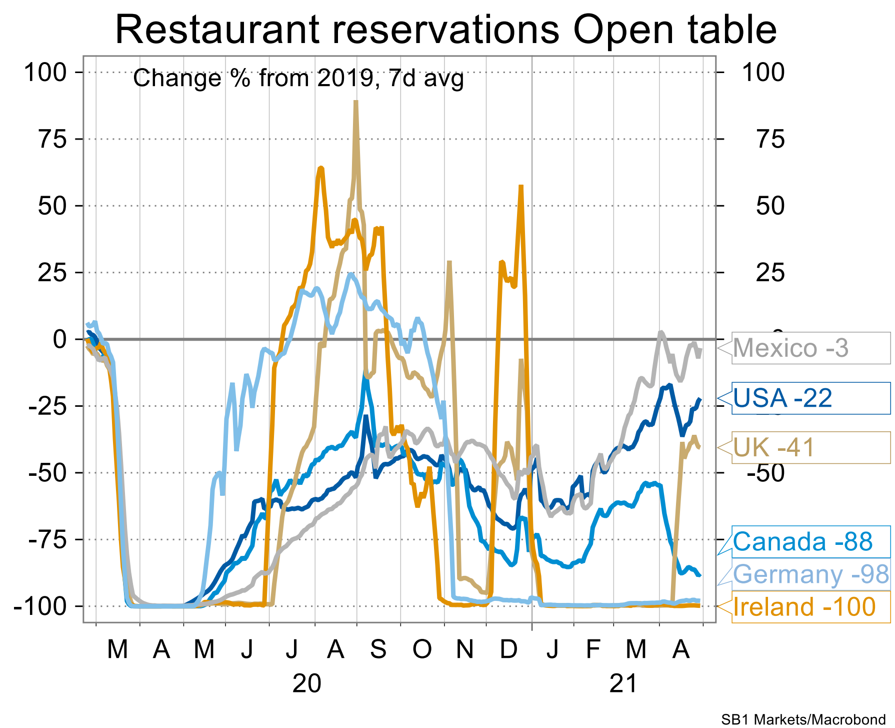


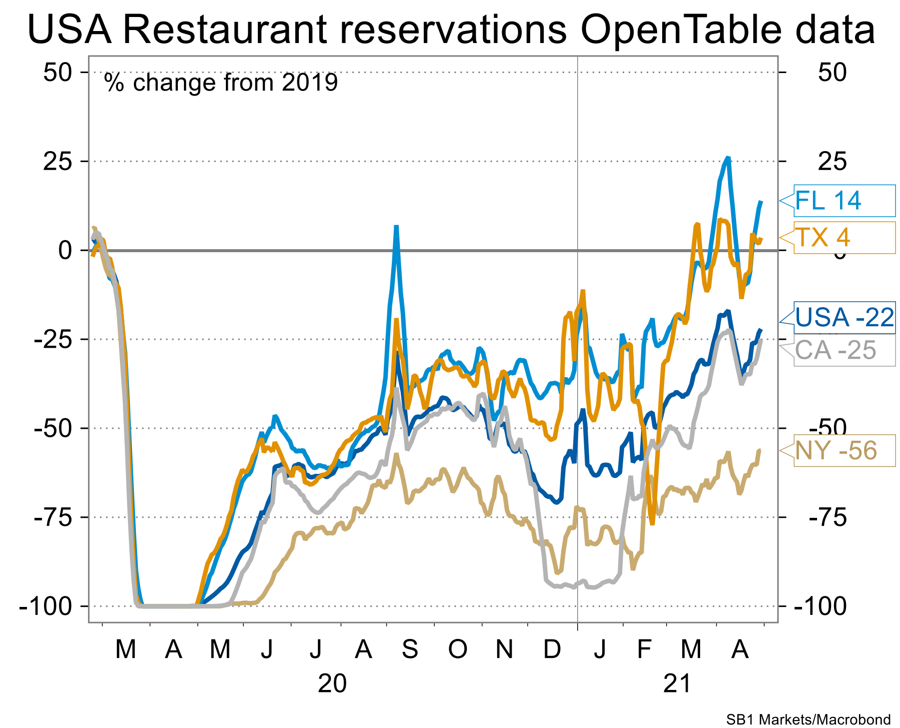




- In several rich countries sales will have to normalise, though (and as Europe now reopens retail sales earlier than most services, that would go for most rich countries, barring Japan)

# Some restaurants are still closed, more are opening up

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

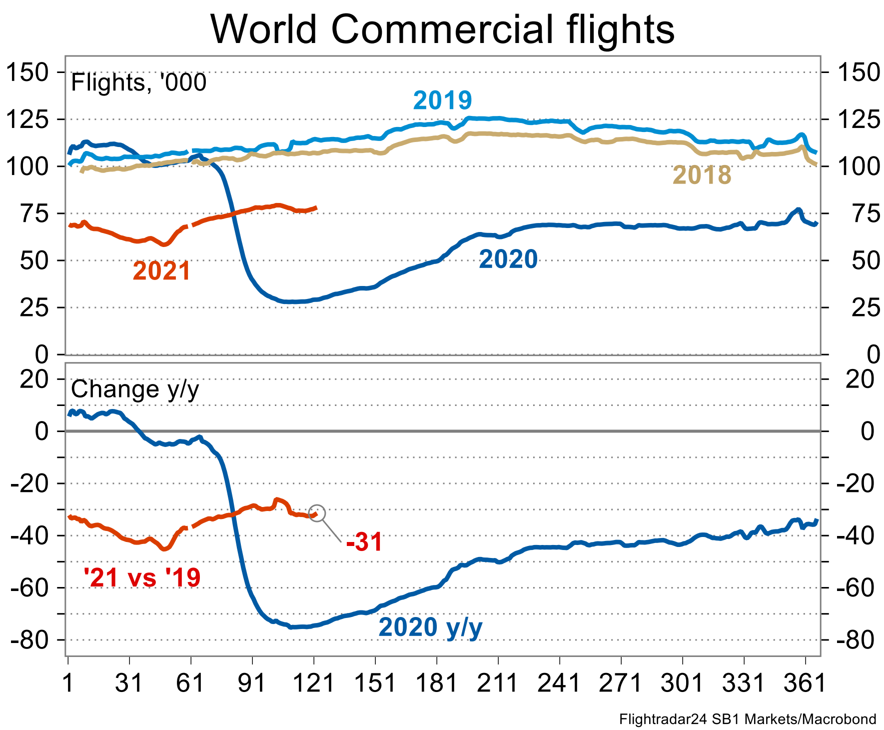


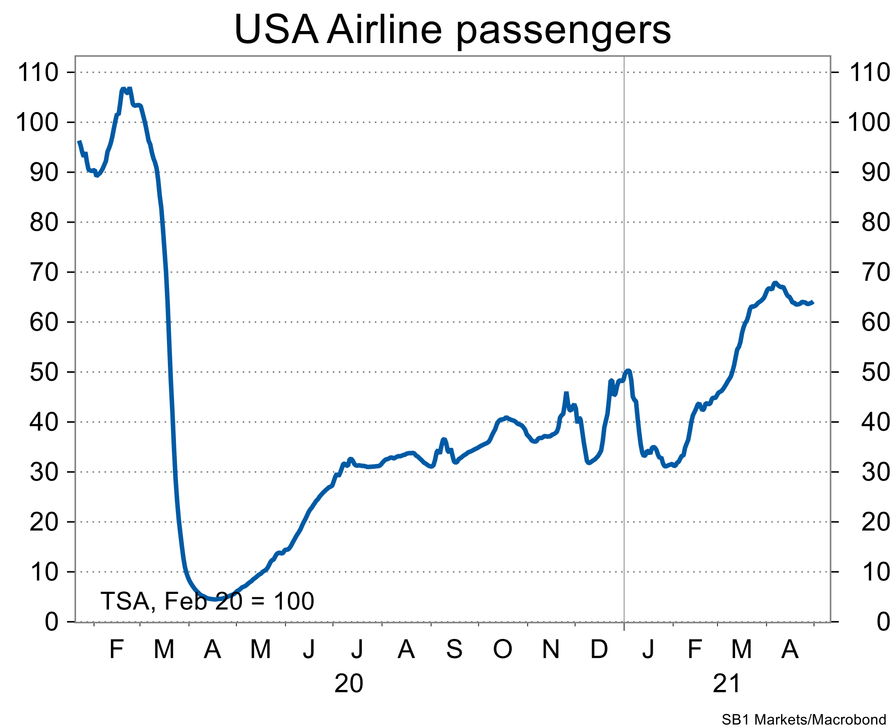




- Restaurants still closed in Germany and in Ireland, at least those who are tracked by Open Table

# Global airline traffic is... stalling?? No further lift past three weeks

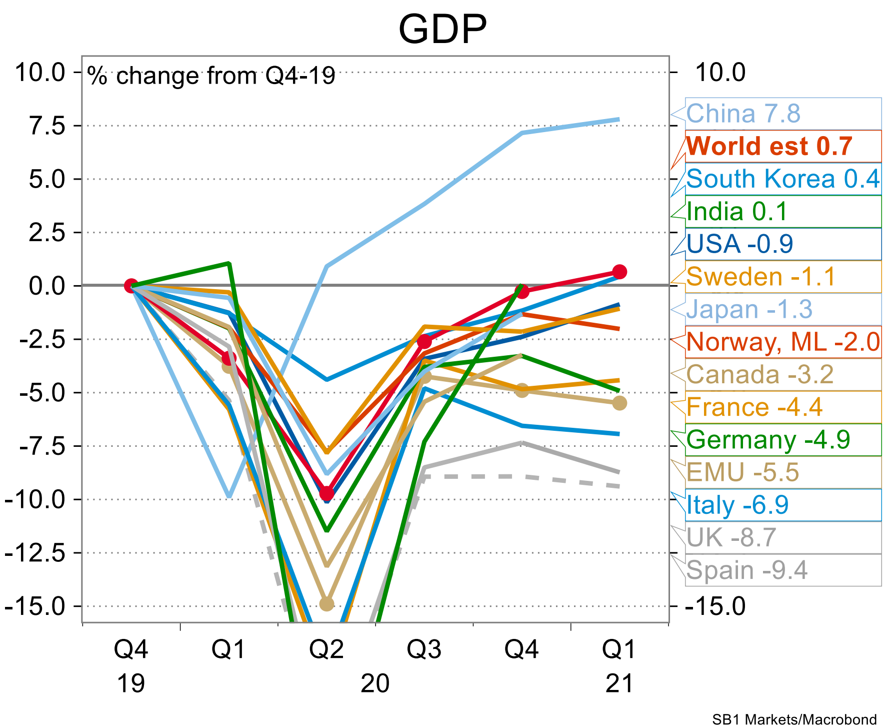
The no. of US passengers has stalled too, down 25% vs the pre-pandemic level, internat. traffic. low

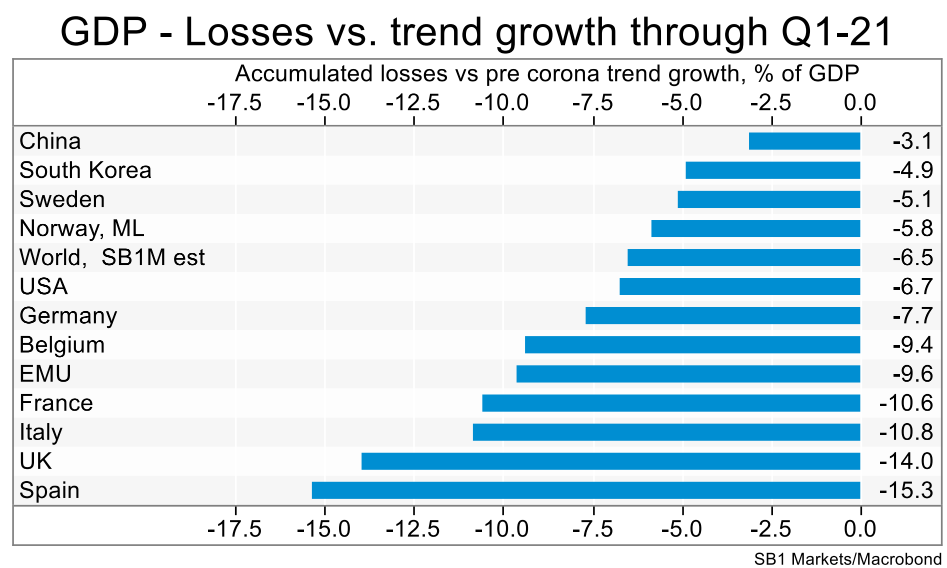


# Some 1% global Q1 GDP growth, even if EMU contracted

## China in the lead, US only down 1.1% vs Q4-19. EMU down 5.5%



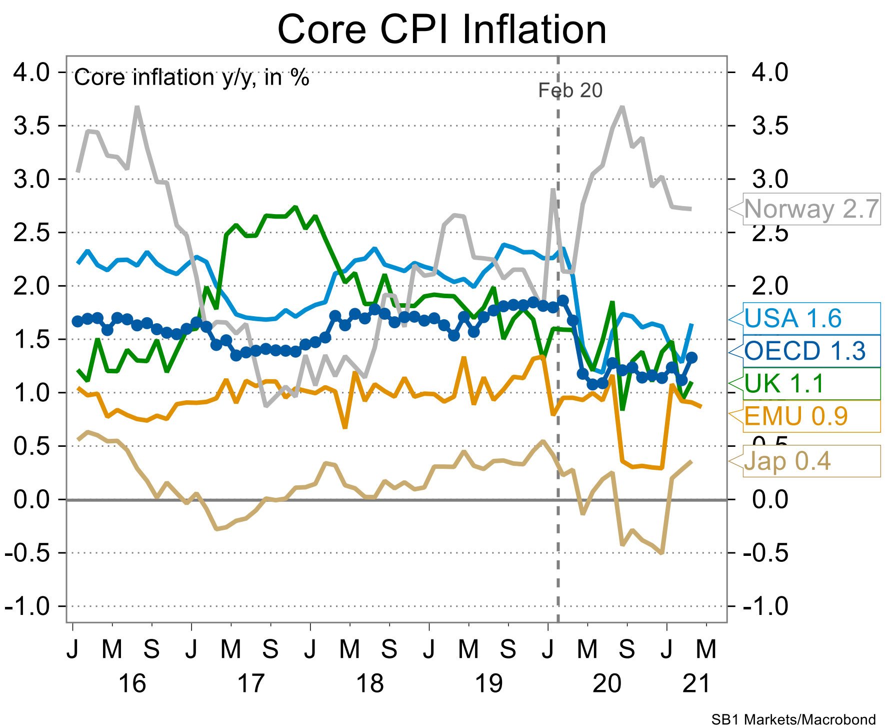



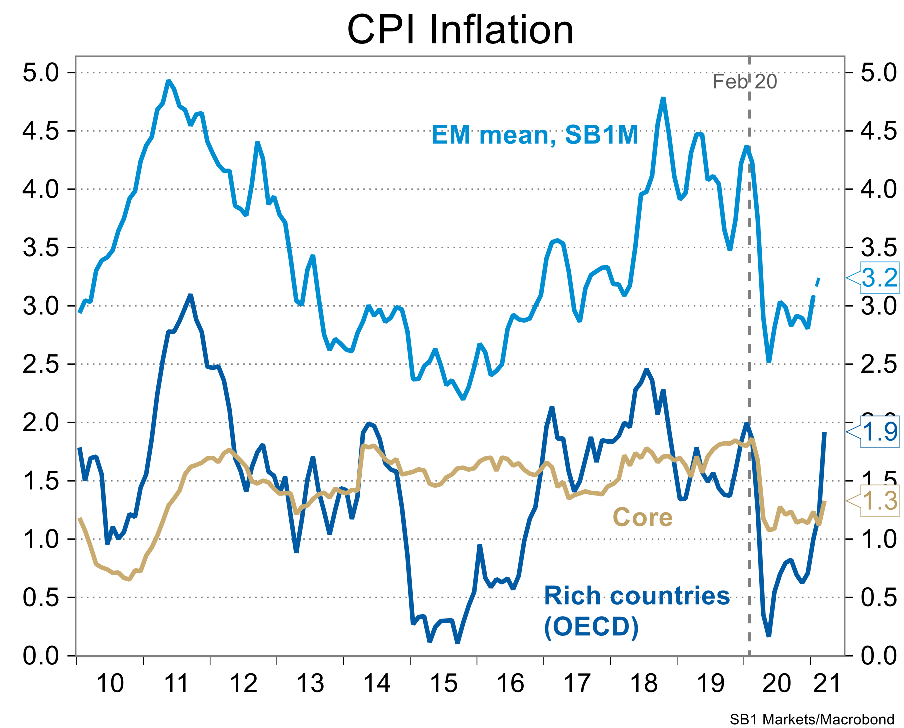

- Following an 8% growth pace in Q4, we estimate 1% growth through Q1
  - » GDP growth in **China** slowed to a ‘trickle’ (a 2.4% pace…), and GDP in **EMU** contracted further
  - » In the US, GDP grew at a 6.4% pace, up from 4.3% in Q4 – and the level is just 0.9% below GDP in Q4-19
  - » **Sweden** surprised on the upside in Q1, and is just 1.1% below the Q4-19 level
- We expect a far higher growth rate in Q2, as China returns to a more ‘normal’ growth rate, and Europe (at least) partially reopens
- *Q1 for **Norway & UK** at the charts above are our forecasts!*

SpareBank 1 MARKETS

# Inflation is on the way up, some places – and on average

Energy prices the main culprit, core inflation not much up, so far

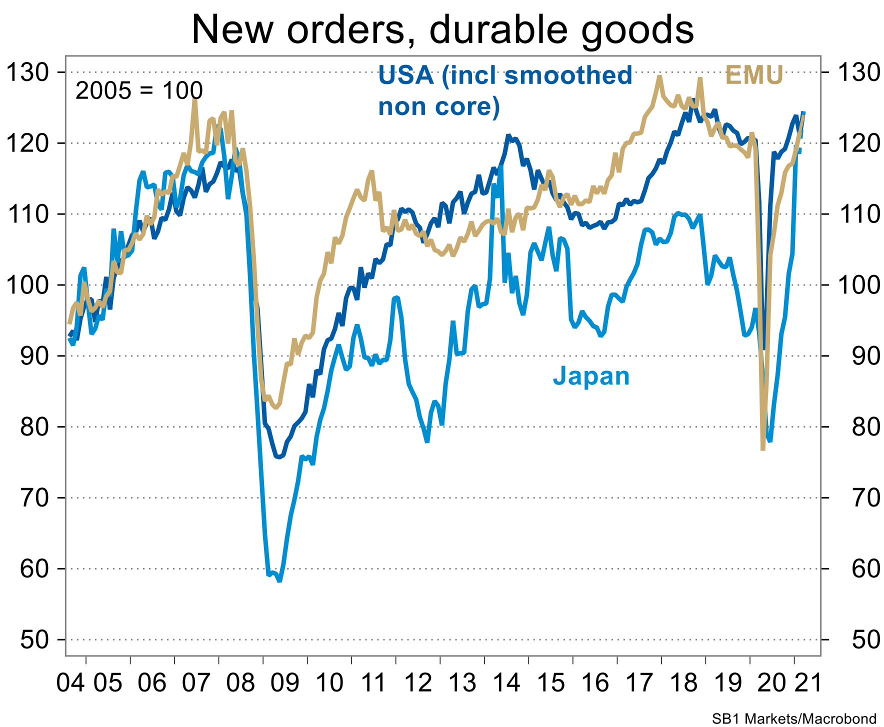


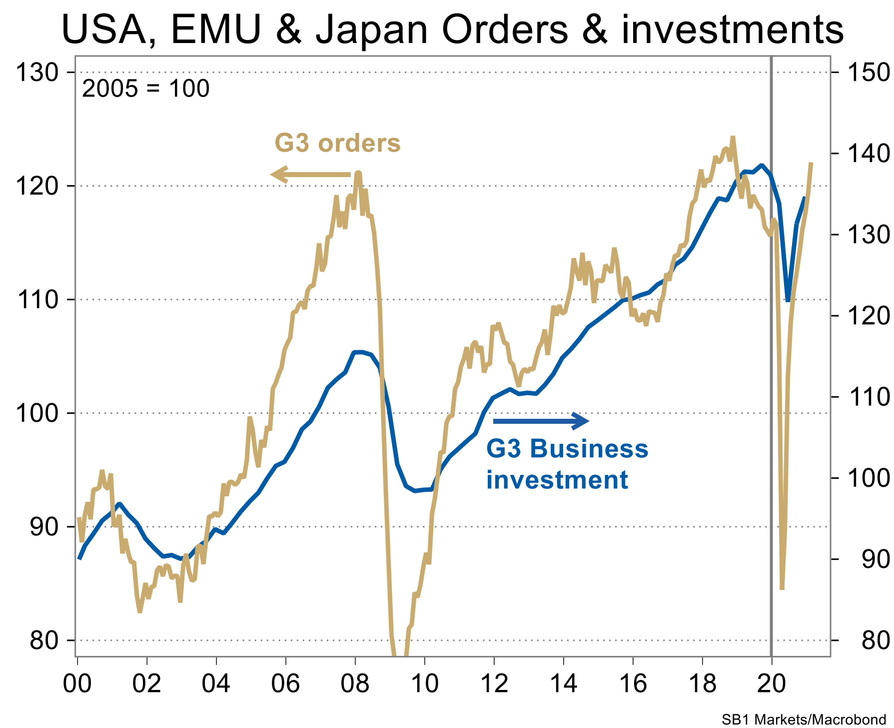




- **The PMI surveys** report that the increase in raw material prices are pushing both total input and output prices upwards. The correlation to headline inflation is very close, and a substantial lift in headline inflation is now inevitable
- However, the **correlation to core (ex food, energy) inflation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

# DM orders are back to well above the pre-corona level

## …and investments were probably not far below in Q1



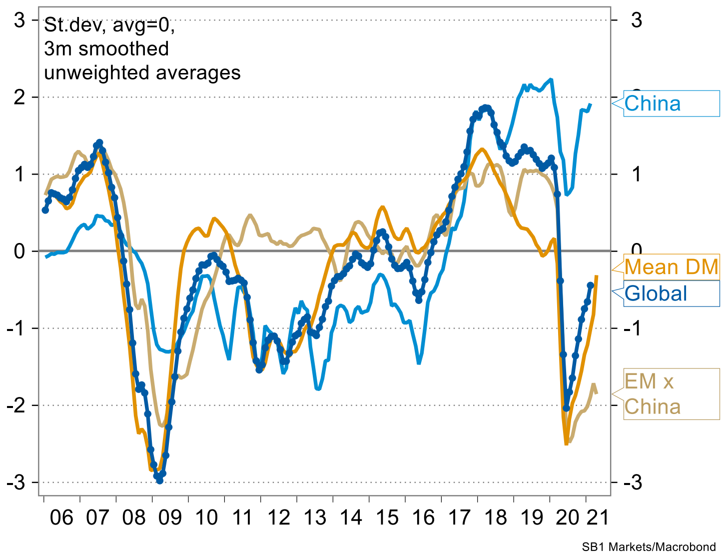

- Manufacturing order inflows fell quickly last spring, but recovered almost just as rapidly
- Business investments slowed pre-corona, fell marginally in Q4-19 and then sharply in Q1 and Q2 last year. The recovery in Q3 and Q4 was impressive, and very likely continued in Q1 – and will in Q2 too – to above the pre-pandemic level

SpareBank 1 MARKETS

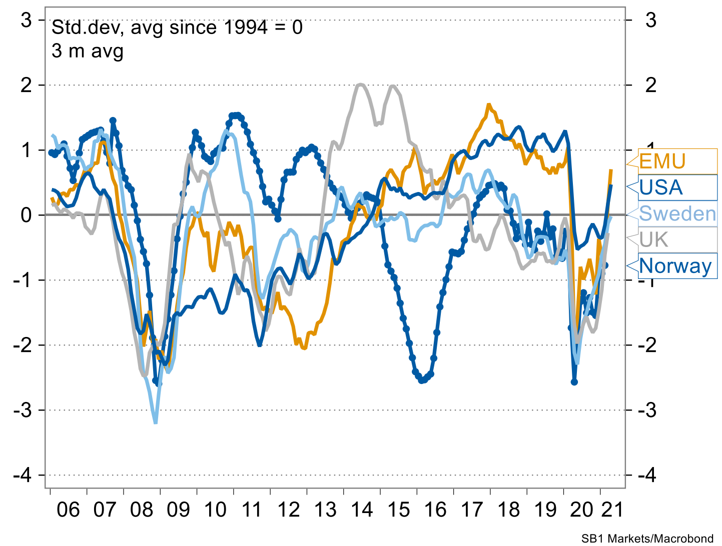
# Consumer confidence is recovering – but remains below par in EM x Ch

## In both Europe & the US, confidence is > avg, not far below pre-Covid level

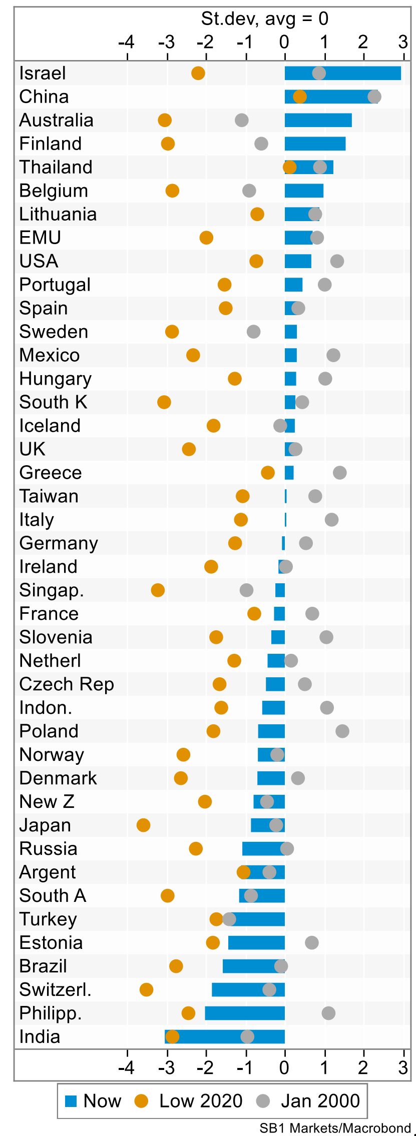
### Global consumer confidence



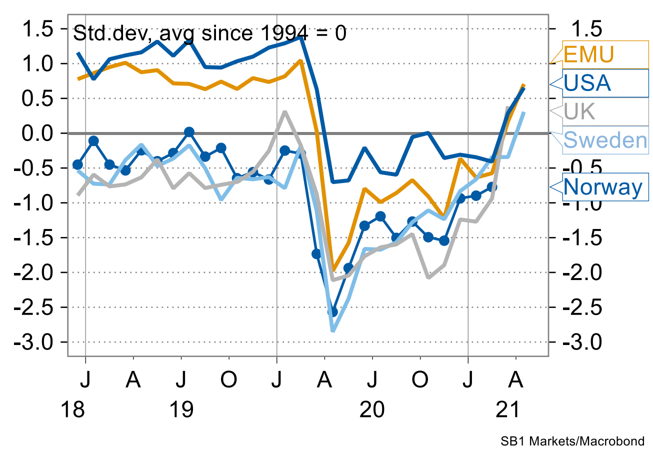

### Consumer confidence




### Consumer confidence



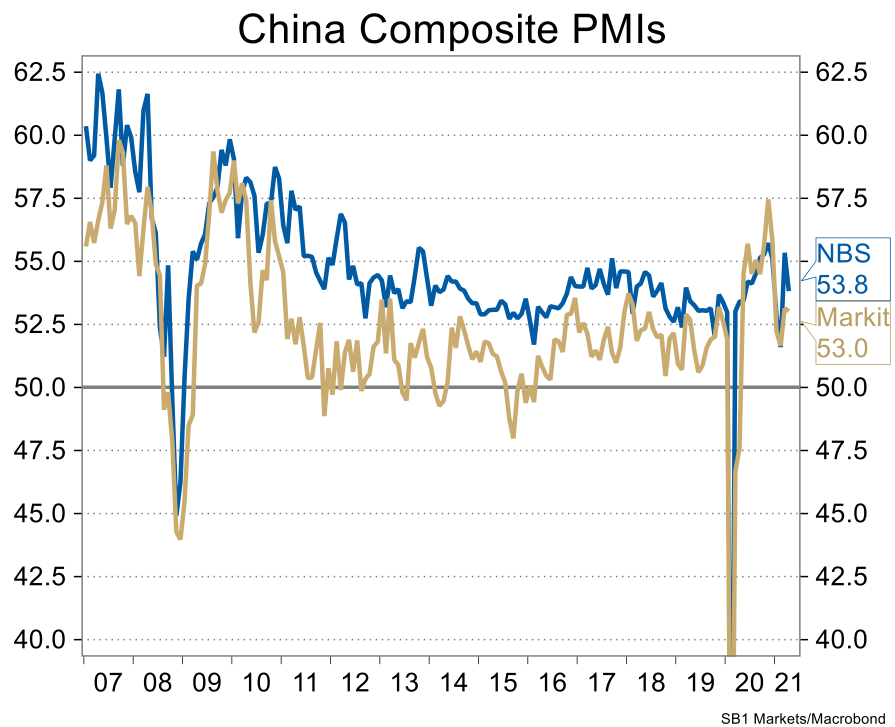

- In most EM x China, sentiment is below par
- India is at the bottom, for good reasons
- Israel is at the top, for goods reasons too

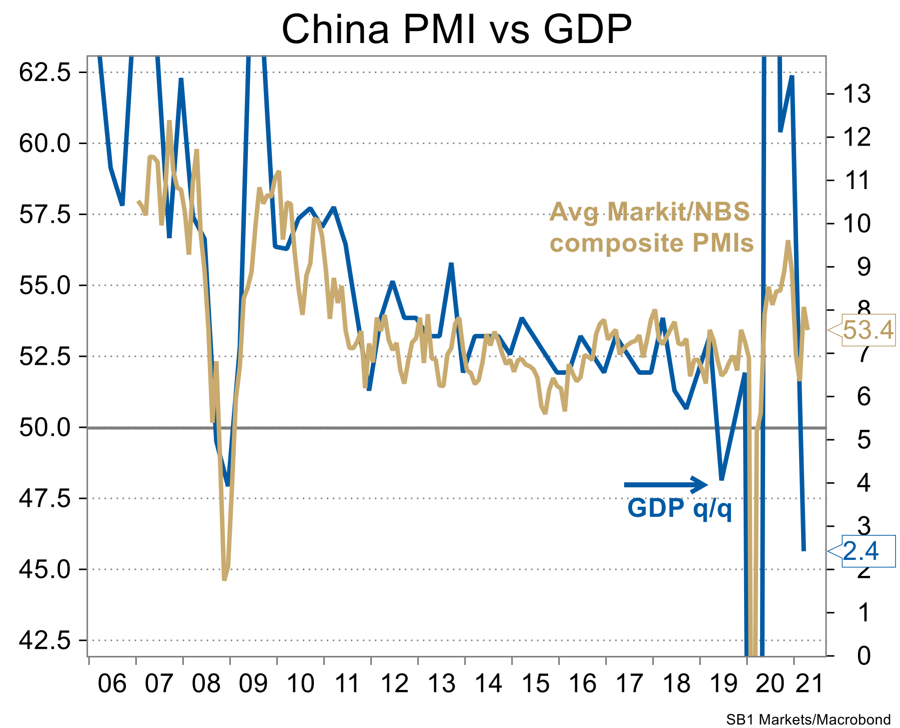



Last observation. Total EMU is leading 1 month on member countries
Norway is the average of Finans Norge & opinion

# Mixed April PMIs, growth above trend is still signalled anyway

NBS' composite PMI down, Markit's manufacturing PMI up. A 7% – 8% GDP growth signalled

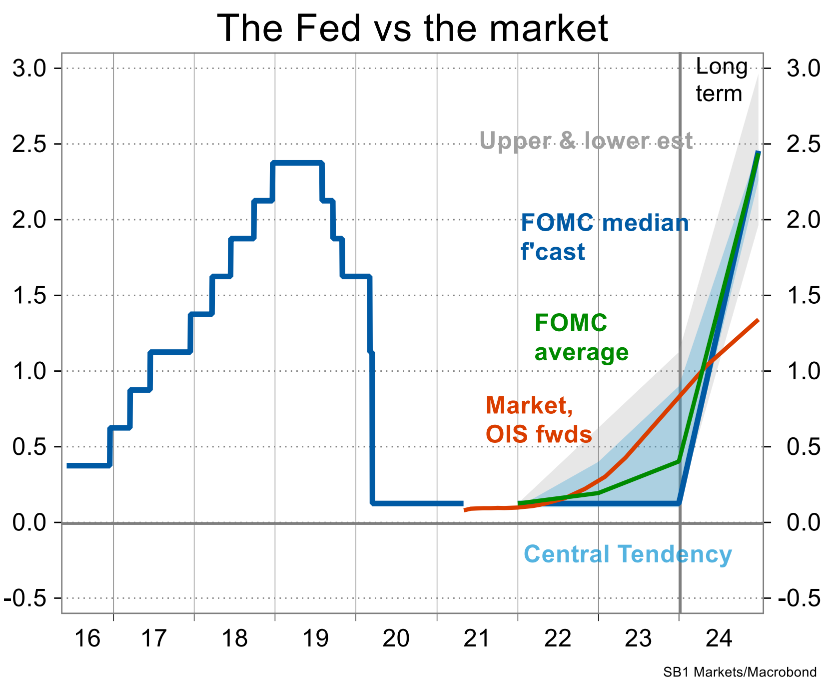



- GDP was substantially weaker than expected in Q1 (up just 0.6% q/q), mostly due to travel restrictions during the NY holidays. Activity accelerated in March
- The decline in the April PMI average is moderate (barring a surprise in Markit's service sector index, not yet published), and does not signal any material change in growth
- We expect growth to accelerate in Q2 from the low level in Q1, but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend
  - » Credit policy is tightened

# FOMC on repeat: ZIRP until “substantial further progress is made”

## … and Powell still assumes that will take years. Could a tighter labour market change his mind?

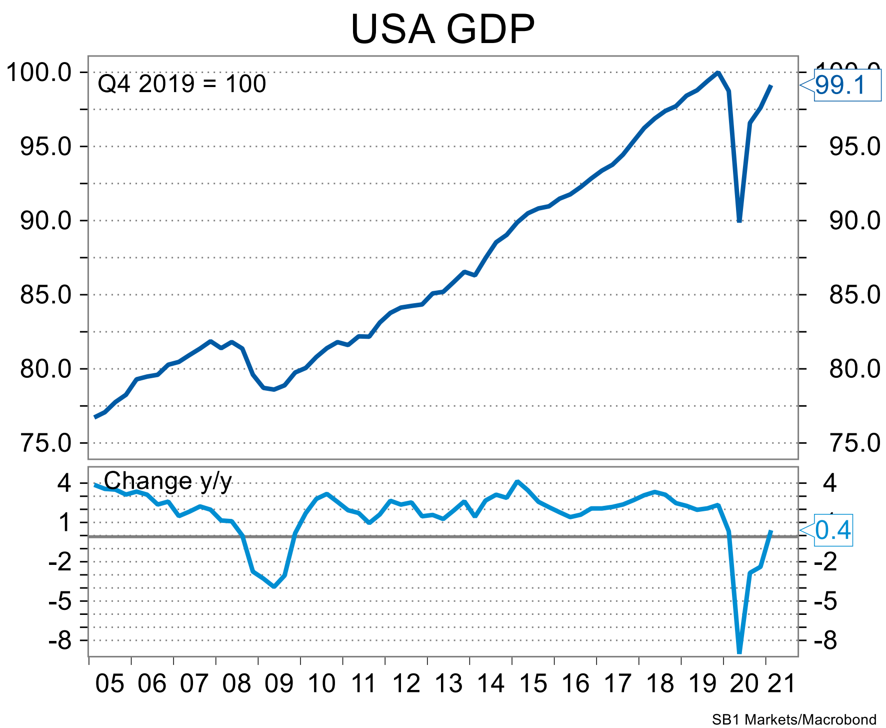


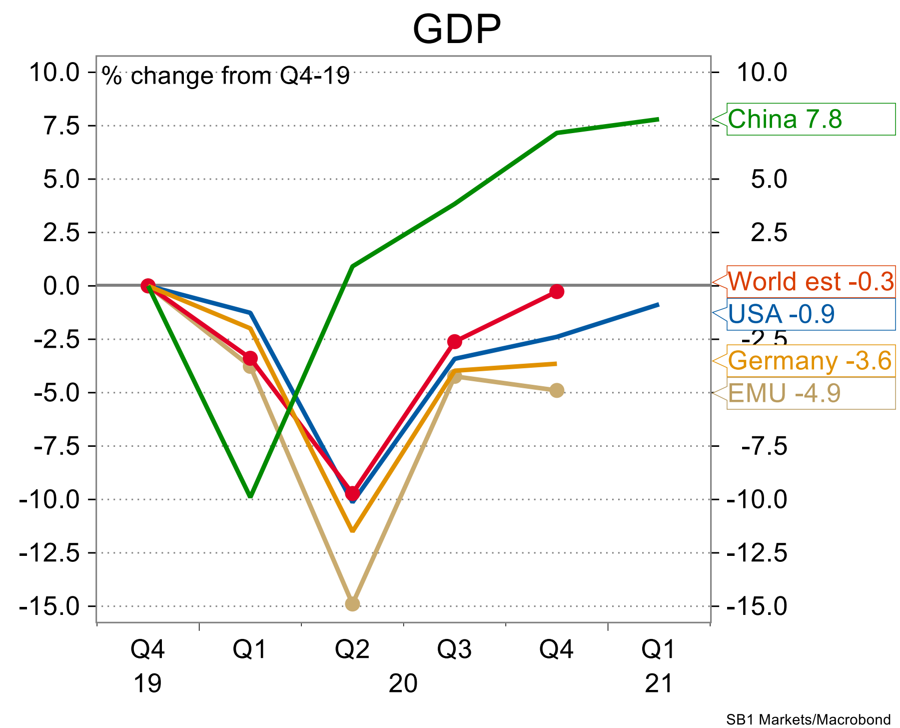

The market is pricing in the first hike in the signal rate in Dec 2022 or in early 2023

- The FOMC left the **target rate** unchanged at 0-0.25%. No change on the **QE volume** either, USD 120 bn per month in Treasury bonds (80 bn) and mortgage bonds (40 bn) – everything as all expected
- The FOMC acknowledged *‘Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement’.* In addition the wording ‘*considerable risks’* now has the softer wording ‘risks… remain’
  - » Despite positive job numbers, and employment being one of the Fed’s main indicators, the chairman referred to the data at not being even close to substantial further progress
- Powell reiterated that rates will not be hiked before inflation has reached 2%, and is expected to stay above 2% for a while, in order to reach a 2% average over time (and not 1.7%, he stated at the press conference)
  - » On the other hand, he also assured the public that there should be no doubt that the Fed will use its tools should inflation start to creep up above the long-term target
- What to gain from an otherwise repetitive Fed:
  - » The Fed is not seeing wage pressures, and believe that the equilibrium in the labour market will resolve itself once more people are vaccinated and the extra unemployment benefits expire
  - » The bank would rather risk inflation on the high end than not meeting its goal for the labour market
- **All of this taken into account:** The FOMC still thinks rates may stay low for longer than the market thinks. As we have stated for a while: The Fed should not take short terms up and downs in inflation into account. The Fed believes the current uptick in inflation will turn out to be transitory, as most such energy/raw material cycles turn out to be. Whether it is or not this time, depends as always on the labour market and wage inflation. Without higher wage growth, no permanent hike in inflation. The FOMC has no doubt decided to wait an see. The market does not believe the bank will have to wait until 2024 before it will have to start normalising its policy rate
- **Market reactions:** Muted, but bond yields rose somewhat

# Q1 GDP up 6.4%, close to expectations. Level just 0.9% below Q4-19!

Services are still deep under water, goods far above

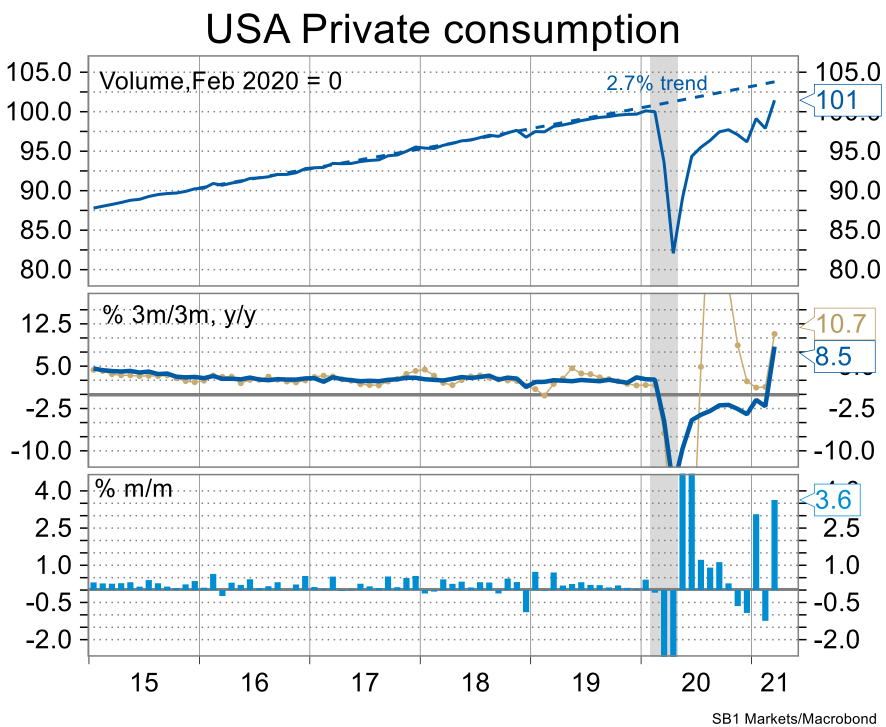


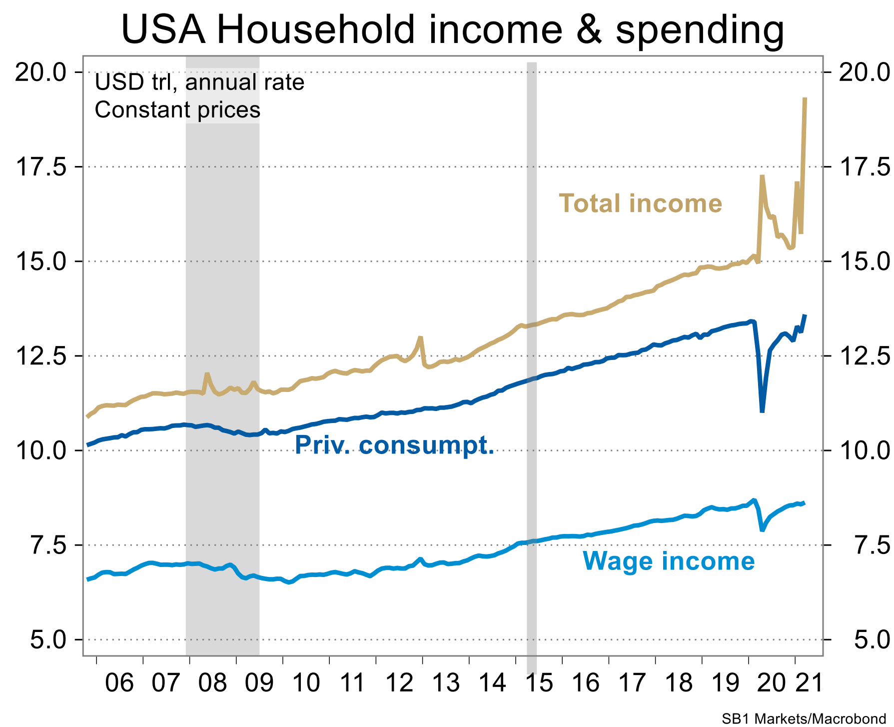




- **GDP** grew by 1.6% not annualised in Q1, is up 0.4% vs. Q1-20, but more important, just 0.9% below the pre-pandemic level in Q4-19
  - » GDP is still 4.8% below FOMC's Q4 estimate, and in order to reach that level, GDP has to grow by 6.5% (annualised rate) the coming 3 quarters
- **US is now well ahead** of European countries. The extreme fiscal policy measures taken in both 2020 and in Q1-21 explains parts of the difference in performance, but differences in the virus situation are of course also important
- We expect **a continued brisk recovery in Q2** – and very likely through H2

# The cheques arrived. Income +21%, spending +4%. So the most were saved

Consumption above the Feb-20 level, for the first time. In Q1, just 1 of 7 stimulus cheques were spent

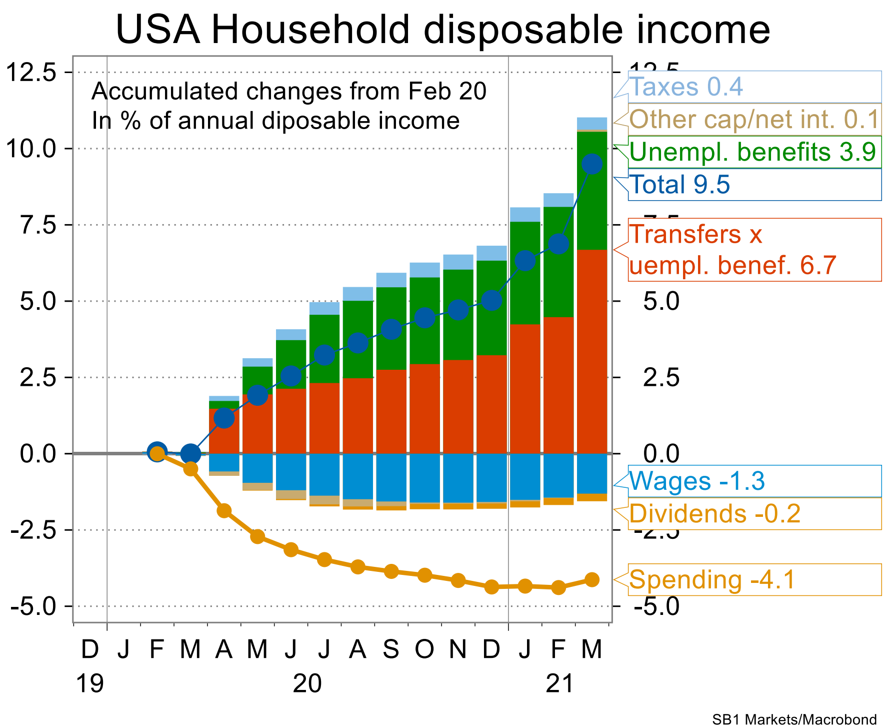


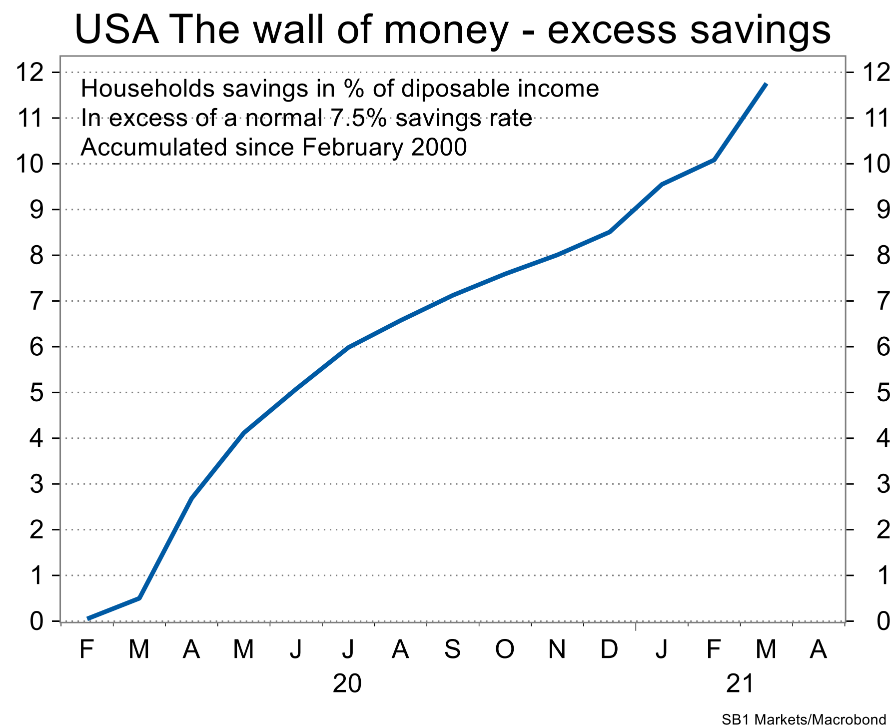




- **Private consumption** rose 3.6% in real terms in March (4.2% in nominal terms, 0.1 pp faster than expected)
- **Personal disposable real income** rose an unprecedented 19.5% (in March 21% before taxes etc, slightly more than expected), of which 18.5 pp was due to the USD 1.400 per person stimulus cheques distributed during the month. Wages & capital income contributed by 1 pp, in fact twice as more than a normal income growth rate per month
- **The savings rate** shot up 13.7% to of disposable income to 27.6% in March. In Q1 the savings rate rose by 7% to 21%.
  - » Income grew 12.7% in Q1, spending 2.6% (not annualised). Approx 11.5% of the Q1 income lift Q1 was due to the two stimulus packages. Spending rose some 1.6% faster than 'normal'. Thus, some 1/7th of the extra stimulus transfers were spent – and 6/7th have been saved – almost all of it very likely in bank accounts, as through last year. In addition, the Q4 savings rate was at least 6 pp 'too high'

USA

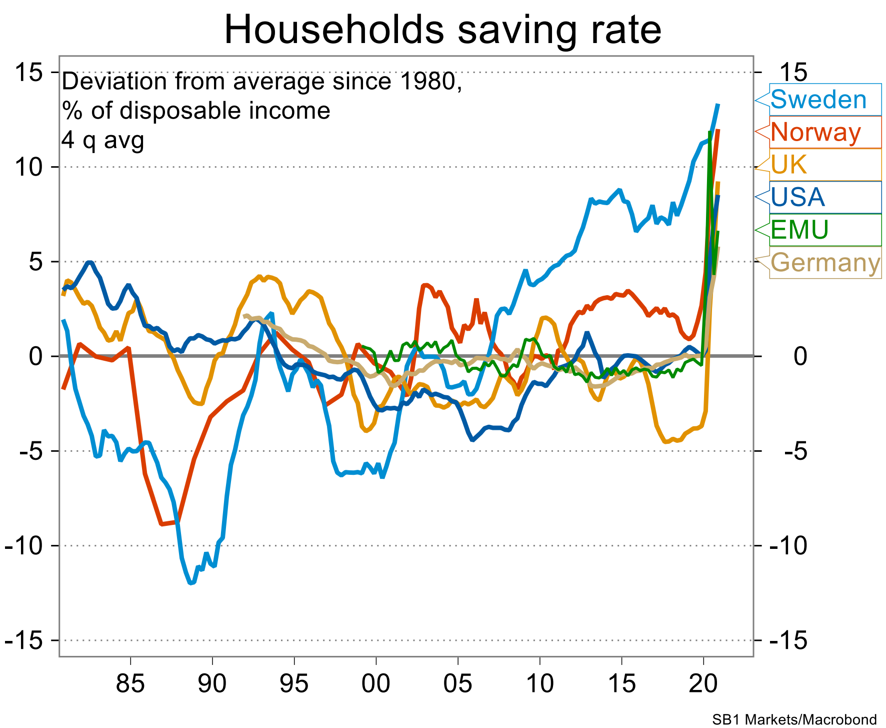
# The wall of money: How it is built – and the height

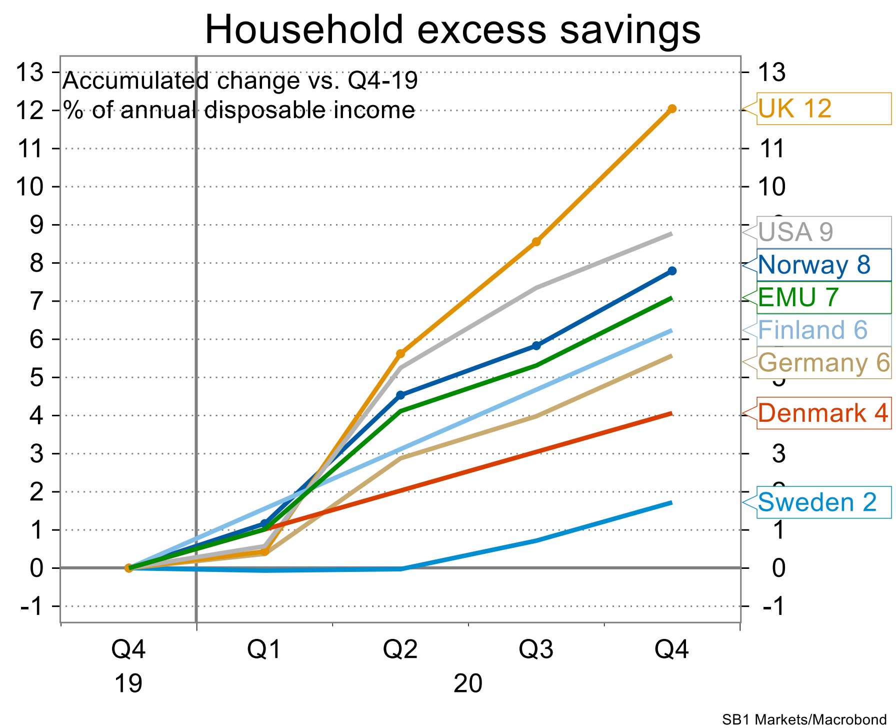


# It is not just in America, of course

Household savings have soared almost everywhere as consumption of services have fallen sharply

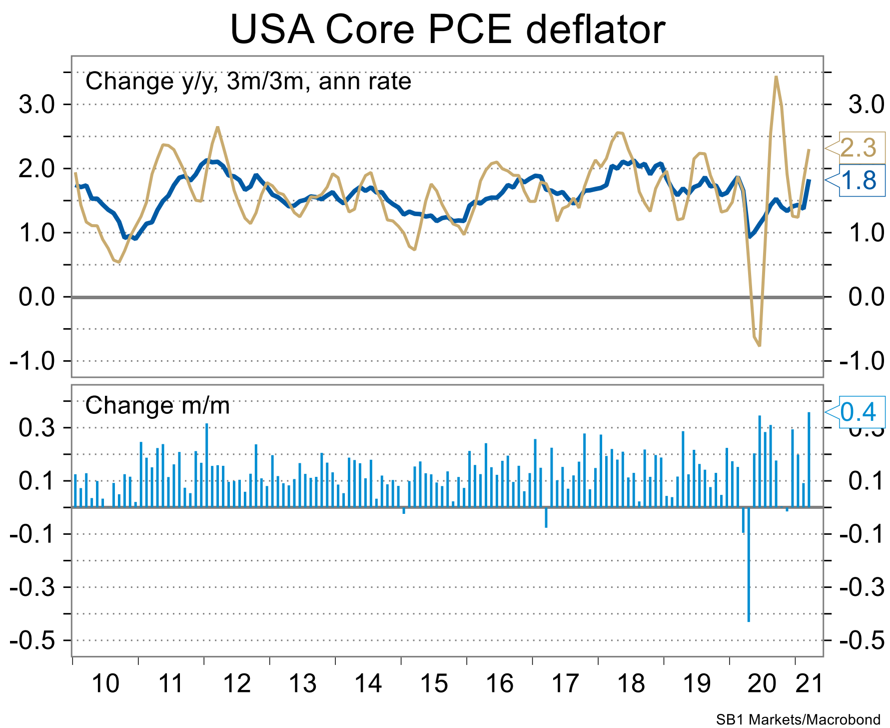


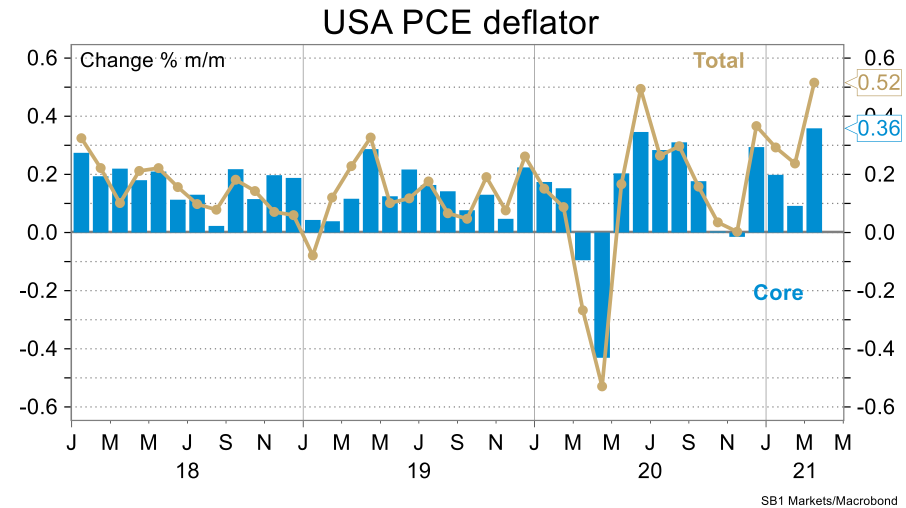



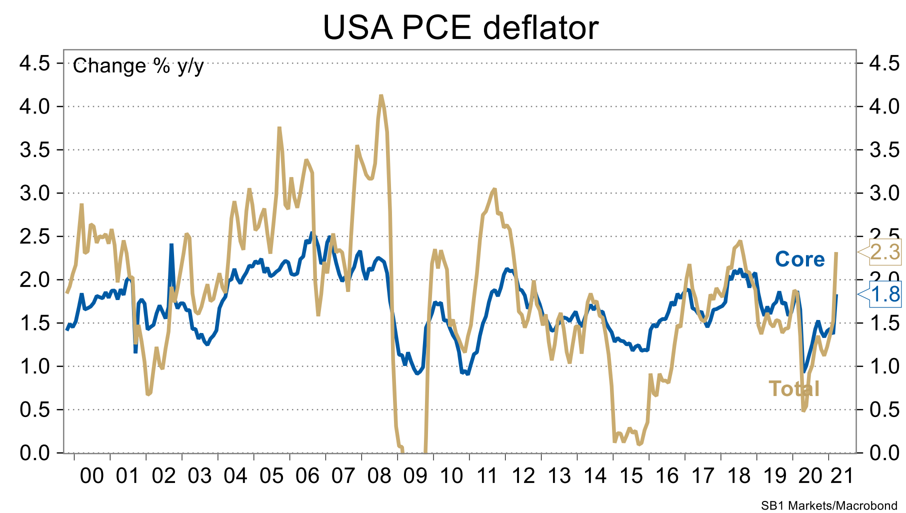

- We very much doubt these synchronised and unprecedented increases in savings are due to a monumental change in savings aspirations

# Core consumer prices (PCE) up 0.4% in March, +0.4 pp to 1.8% y/y, close to exp.

## The annual rate will climb to well above 2% in April, but the Fed has pledged to stay calm



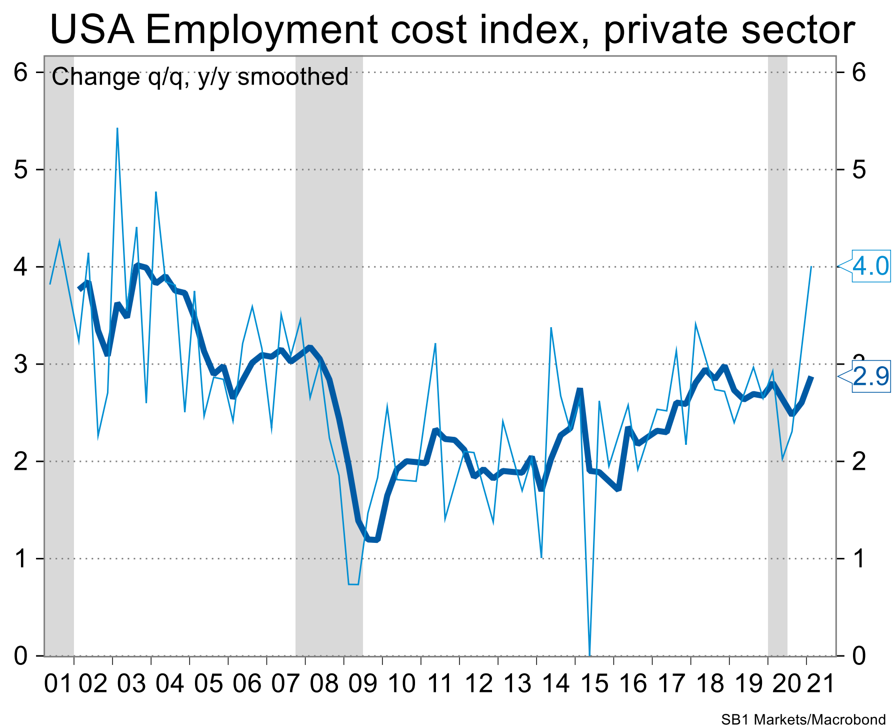



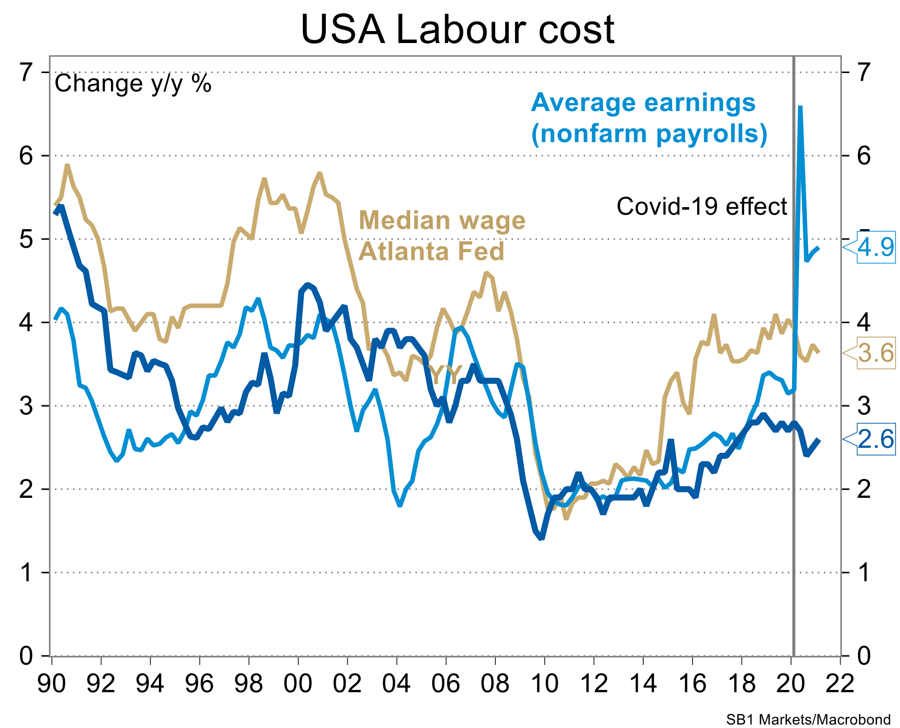




- **The core price deflator** rose 0.4% in March, 0.1 pp more than expected but the lift in the annual rate to 1.8% was as expected. In Q1, prices rose at a 2.3% pace
  - » I April last year the core PCE fell by 0.4%, and another hike in the annual rate is likely
- **Total PCE deflator** rose 0.5% too, and the annual rate rose 0.7 pp to 2.3%, as expected. In April, another hike in the annual growth rate is likely

# Employment Cost Index 'exploded' in Q1. Still much more needed…

… before the Federal Reserve really has to worry. However, Q1 is a warning sign…

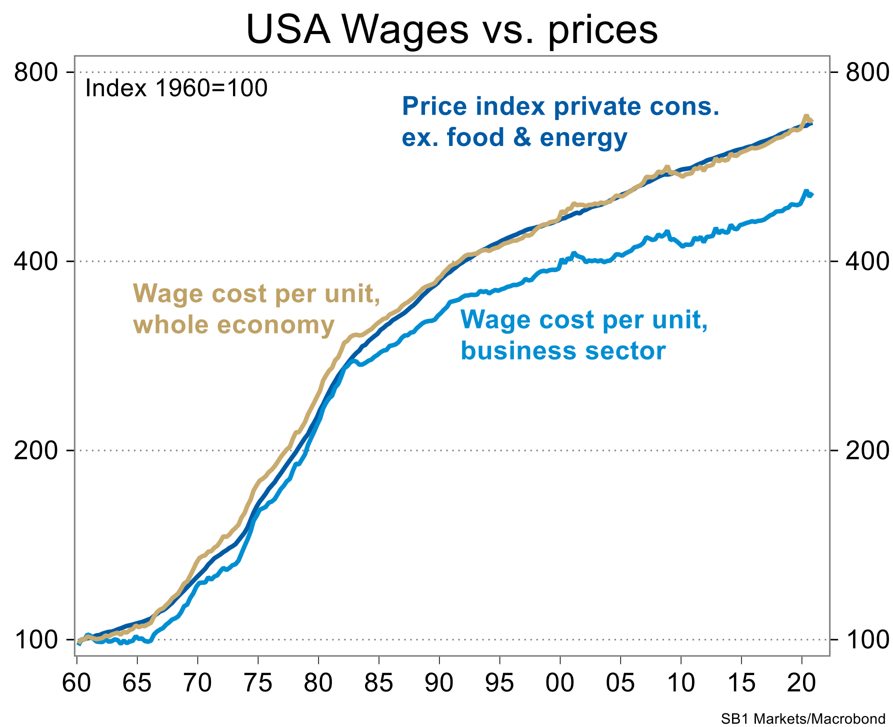


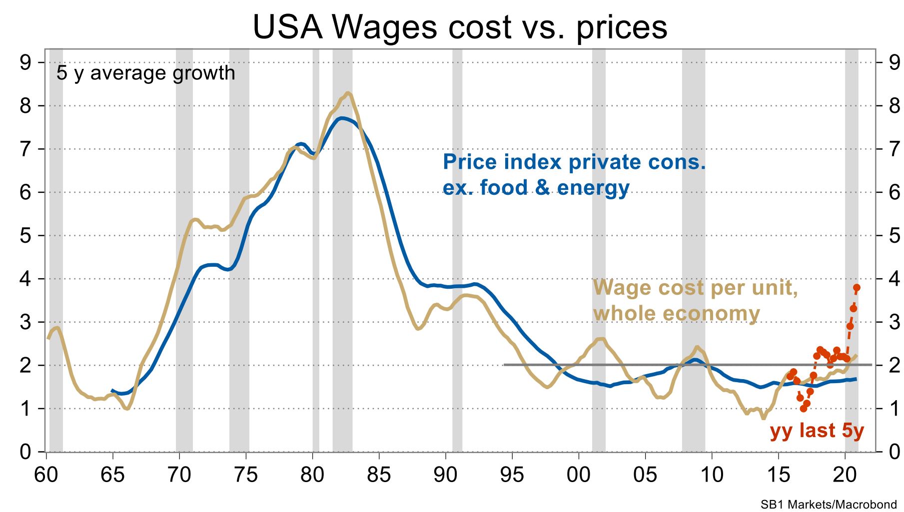



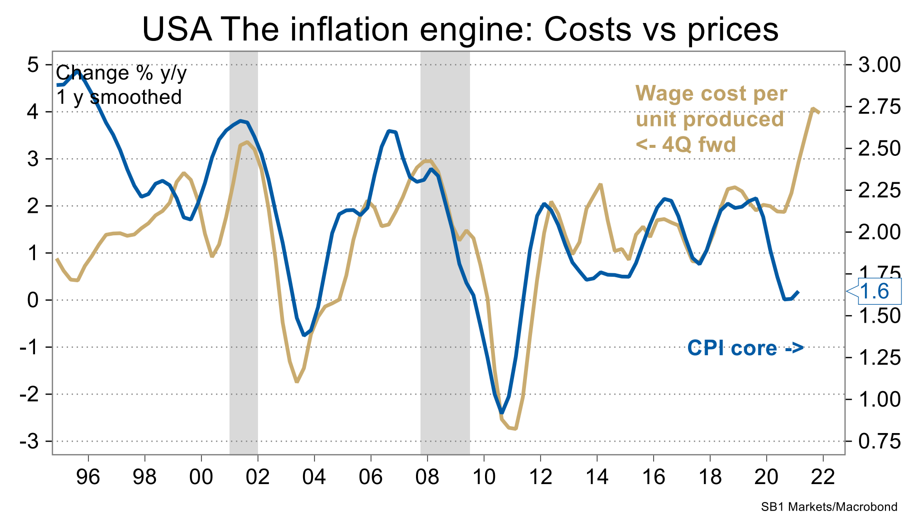

- The **ECI for all civilian workers**, which measures wages for the same types of jobs, rose by 0.9% q/q in Q1, 0.2 pp more than expected. Wages rose 1% q/q, benefits 0.5%
  - » The annual rate rose by 0.1 pp to 2.6%. The annual growth rate has been trending down the past two years, but less than the acceleration to 2018 from 2010. The last year, growth in **Atlanta Fed's median wage** has fallen somewhat too
- In the **private sector** wages rose by 1% q/q, the highest quarterly rate since 2004. The annual rate rose to 2.9%
  - » **Financial activities** contributed heavily to the lift in average wages, by 0.3 pp to the 1% growth in private sector wages
- **Average wages** (monthly nonfarm data) or **average hourly compensation** (quarterly national accounts) have been useless in monitoring wage growth through the pandemic
  - » As the employment mix changed dramatically when low paid workers were discharged at much faster pace than higher paid during the pandemic, these averages told nothing about the 'normal' wage growth

# Just a reminder: Wage costs are driving the price level & inflation cycles

Before corona: Unit wage costs were drifting upwards to above 2%, but has not accelerated (for real)



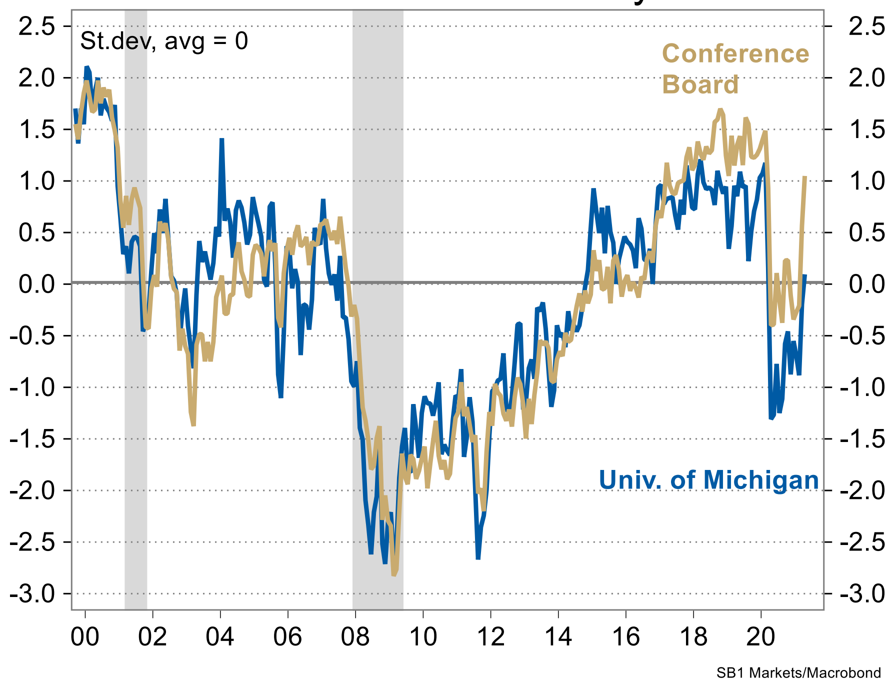




- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- The rapid increase in ULC through last year was very likely not 'for real', even if the ULC in principle should have been neutral vs the employment mix, as both average wages and average productivity should have changed at the same pace.
- We deem the ECI to yield the best description of wage inflation now

# Consumer confidence straight up in April too, UM sentiment up as well

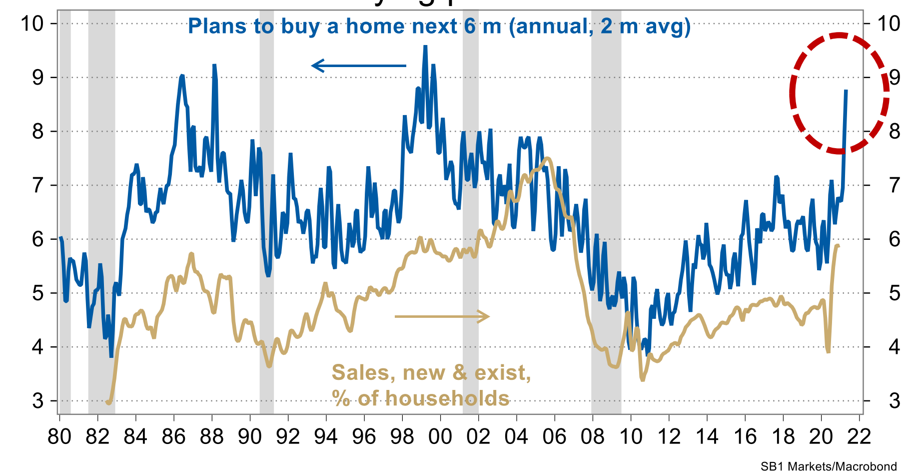
House buying plans through the roof. Jobs are easy to get. Inflation expectations trend up

USA Consumer Surveys

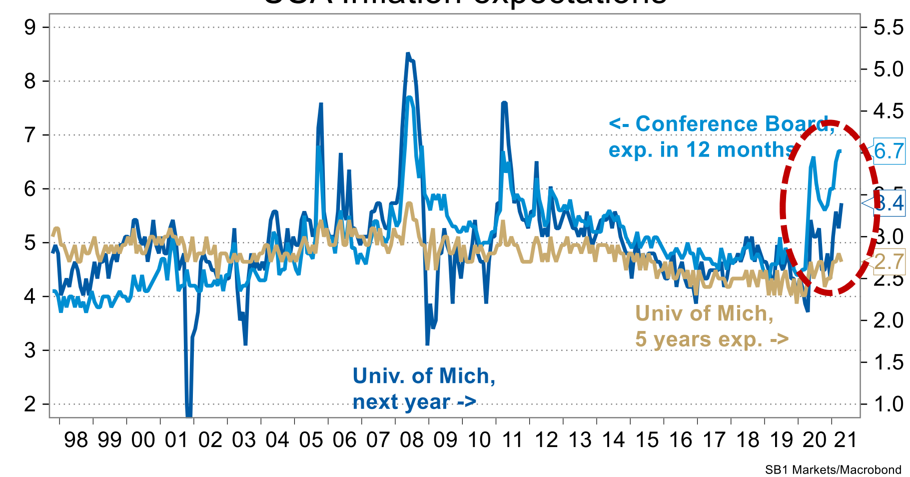



- **Conference Board's consumer confidence index** rose by 12 p to 121.7 in April, miles above expectations of a + 2.3 p lift to 112, following the 19.3 p lift in March. The lift the two past months is the strongest since May 1973! The index is 1.0 st.dev above avg, not far below the pre-pandemic level. Details very strong too
- **The UM sentiment index** rose to 88.3 in April (0.8 higher than first reported) from 83.6 in March. The index level is 0.1 st.dev above average, up from -1.3 at the local bottom last spring, but still well below the +1 st.dev pre-pandemic level
- **Inflation expectations** are have increased recent months, and are far above recent levels, especially for the coming year

USA Home buying plans vs actual sales

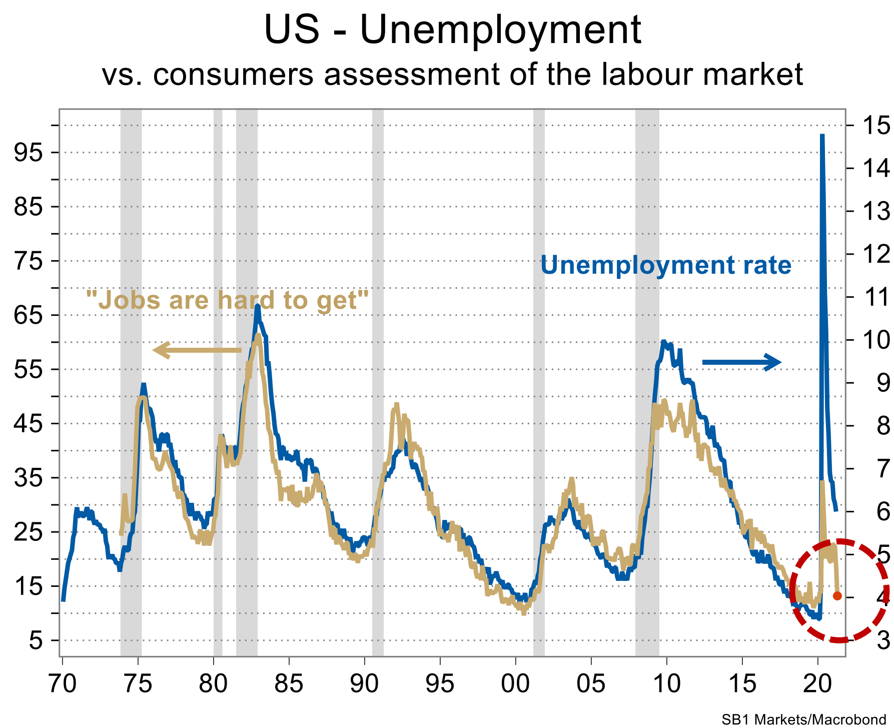


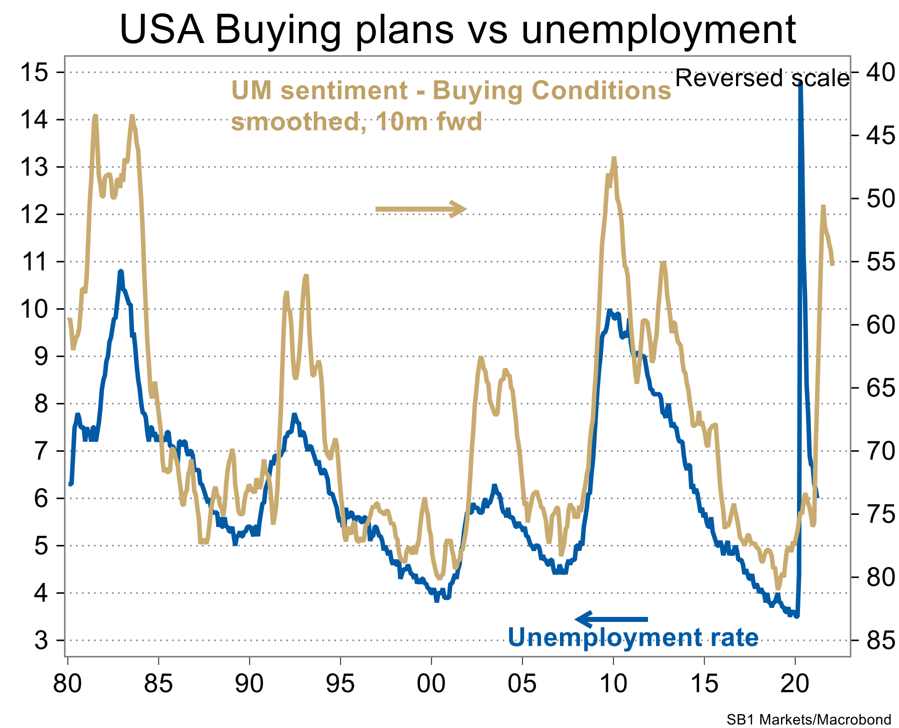

USA Inflation expectations



# It has almost never been easier to get a job, households say

As though the unemployment rate was 4%, not 6%. Another signal that the labour market is tight!

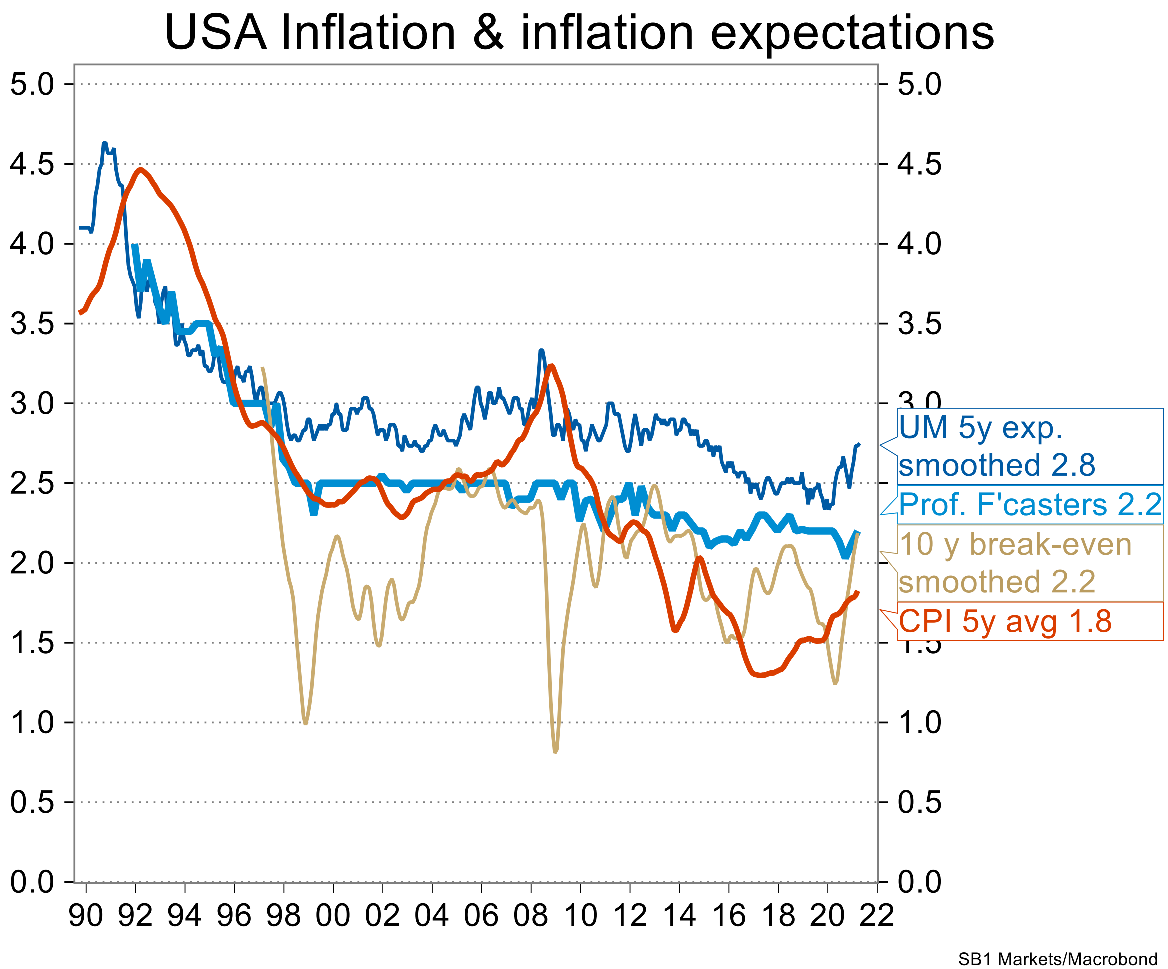



- On the other hand: The measure of buying conditions from UoM are still at low level (scale is inverted on the chart to the right) – strange given the general mood among households, and their accumulated savings recent years

# Inflation expectations are drifting up but are not yet worryingly high

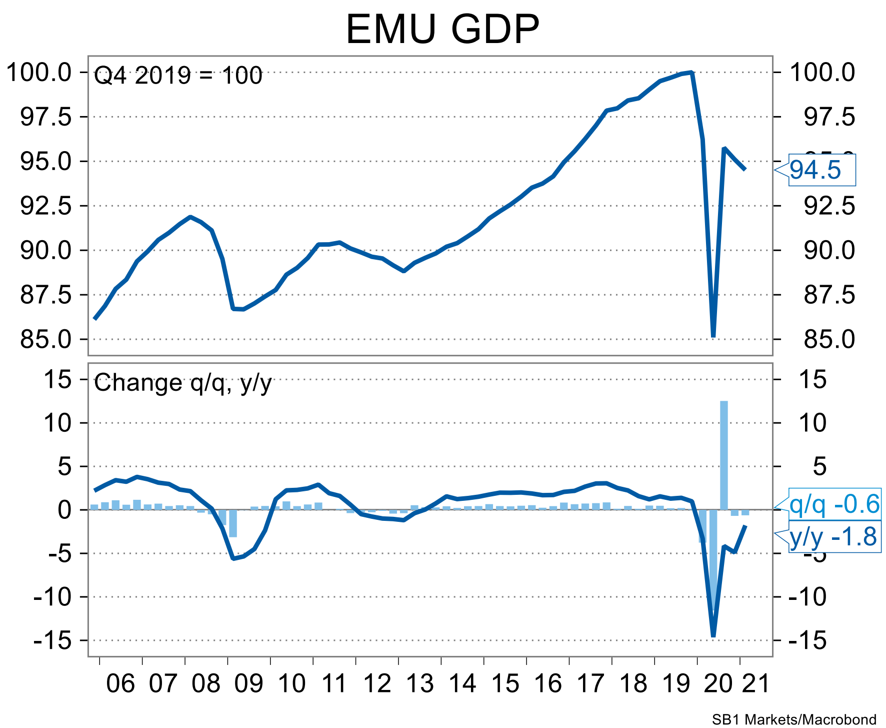
Univ. of Mich 5 y inflation expectations have climbed to 2.8% from 2.4%

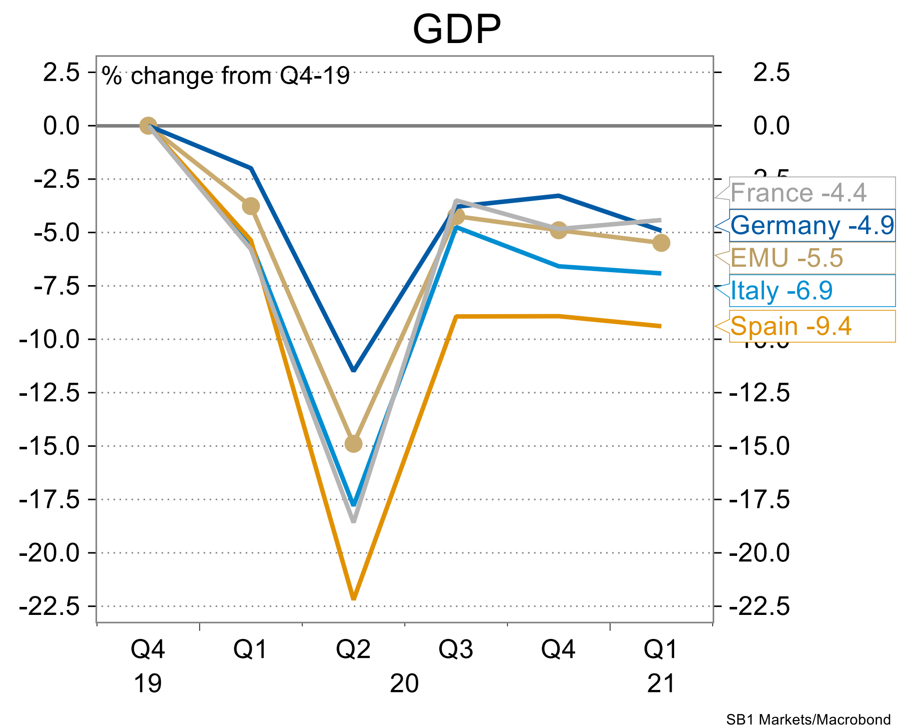



- **The UM's survey's** 2.8% rate is the highest since 2015, but is still at the average level since 2000
  - » The UM short term inflation expectation at 3.7% is the highest since 2012. These expectations usually correlated to recent changes in energy prices
- **Professional Forecasters** expect a 2.2% 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

# Preliminary data: GDP down 0.6% in Q1, expected -0.8%. Down 5.5% vs Q4-19

Per (one) definition a recession, but it is a short-lived one. Activity will pick up in Q2

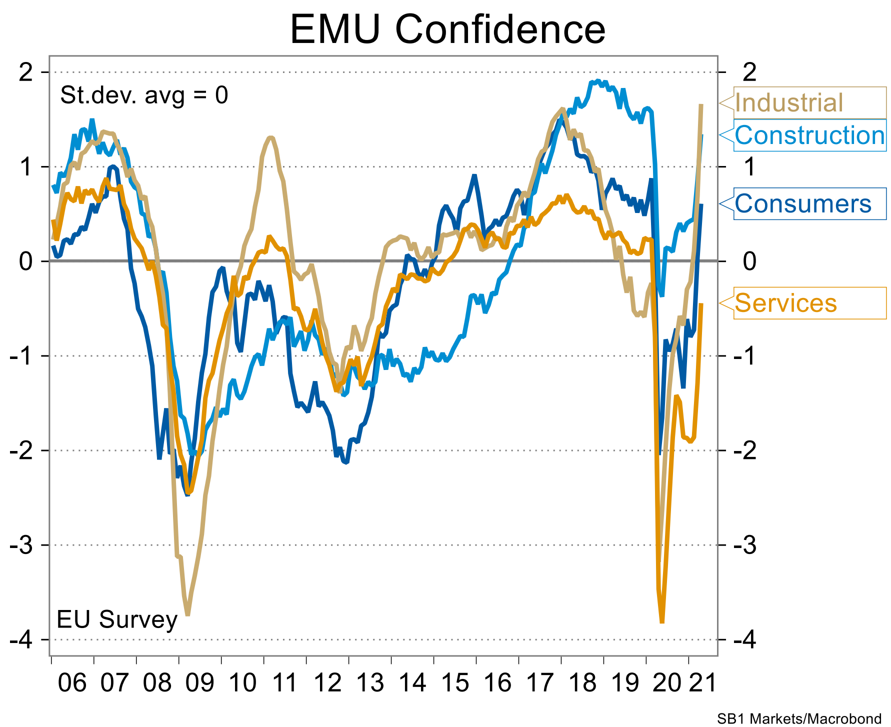


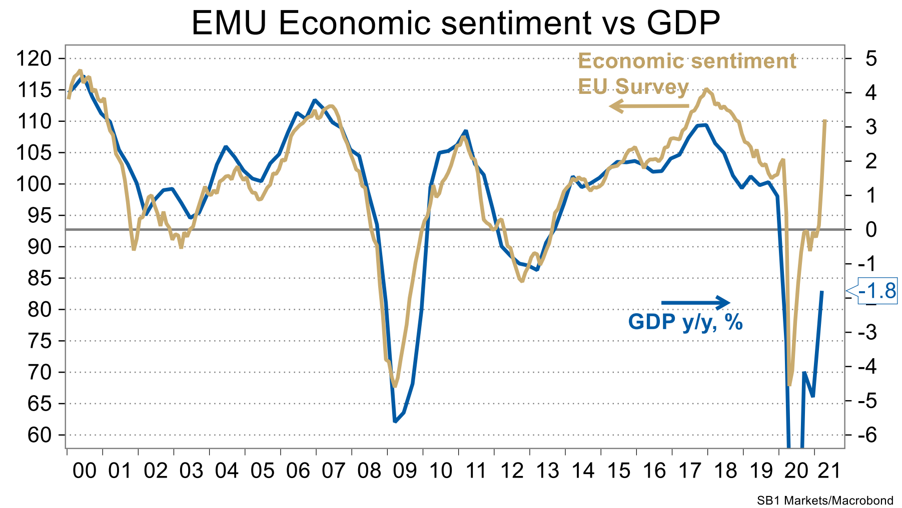

- Euro Area GDP fell by 6.6% in 2020 (revised from -6.7%) and GDP is still 5.5 % below the pre-corona level
- GDP grew by 0.4% q/q in France (expected +0.1%), while GDP decreased by 1.7% q/q in Germany (exp -1.5%), -0.4% in Italy, and -0.5% in Spain
  - » In Germany, the GDP level in Q4 was revised up by 0.3%, and the level in Q1 was marginally higher than expected
- France, Germany, Spain and Italy were down 4.4% - 9.4%% vs Q4 '19
- No demand details available as of yet

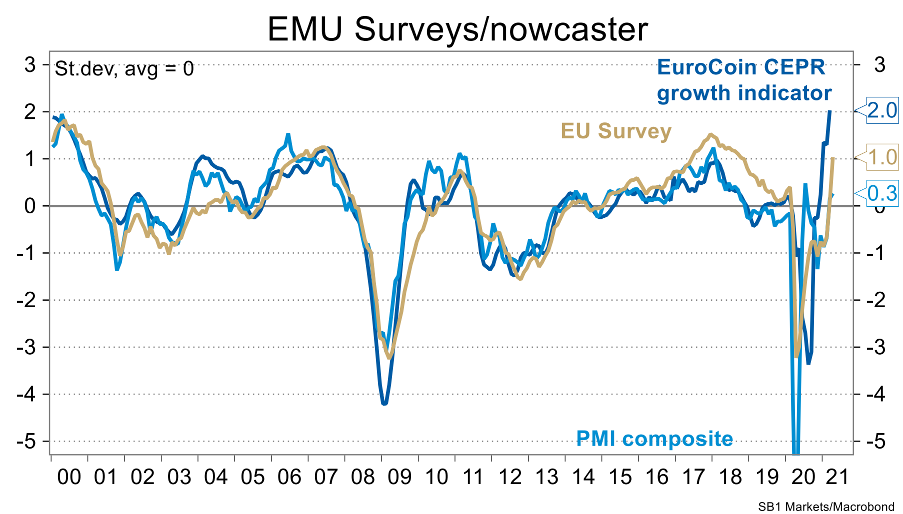
# Economic sentiment surged for the 2nd month

## … and just as important: sentiment improved in all sectors, signalling some 3% GDP growth




- EU's confidence survey for the Euro area rose to 110.3 in April from 100.9 in March, expected up to 102.2!
  - » The **main index** is 1 st.dev above average, signalling 3% GDP growth
  - » **Construction** and **manufacturing** signal above trend growth, while services are still struggling, but less in April than in March. Manuf. is at all time high
    **Consumer confidence** is surging, even in the times of covid & lockdowns
  - » This survey has been useless to calibrate quarterly (q/q) growth rates during the pandemic. The same goes for most other surveys (like the PMI/ISMs). Still, when all now are surging, no doubt a positive signal

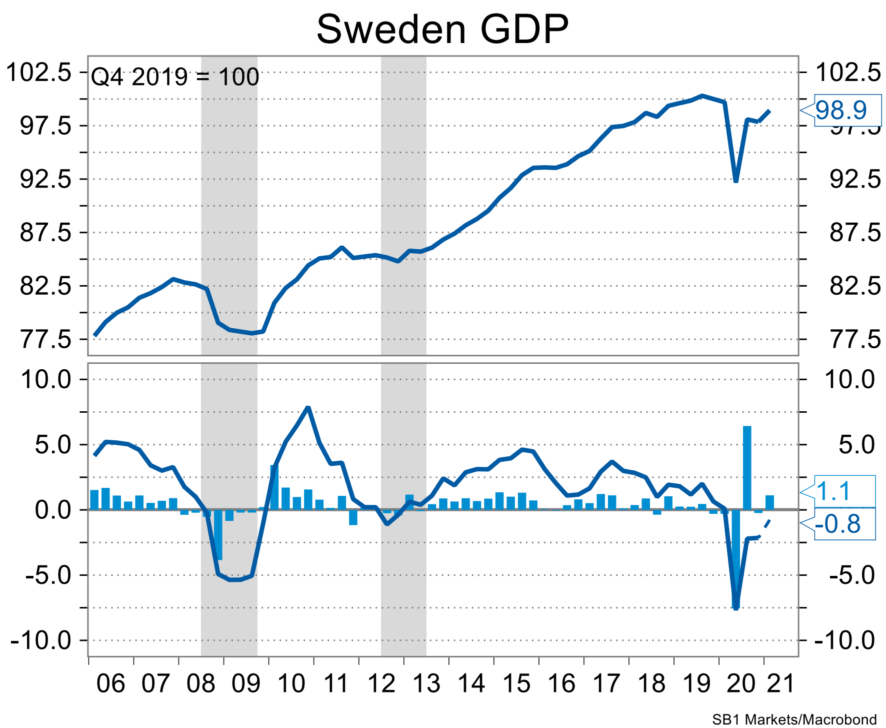


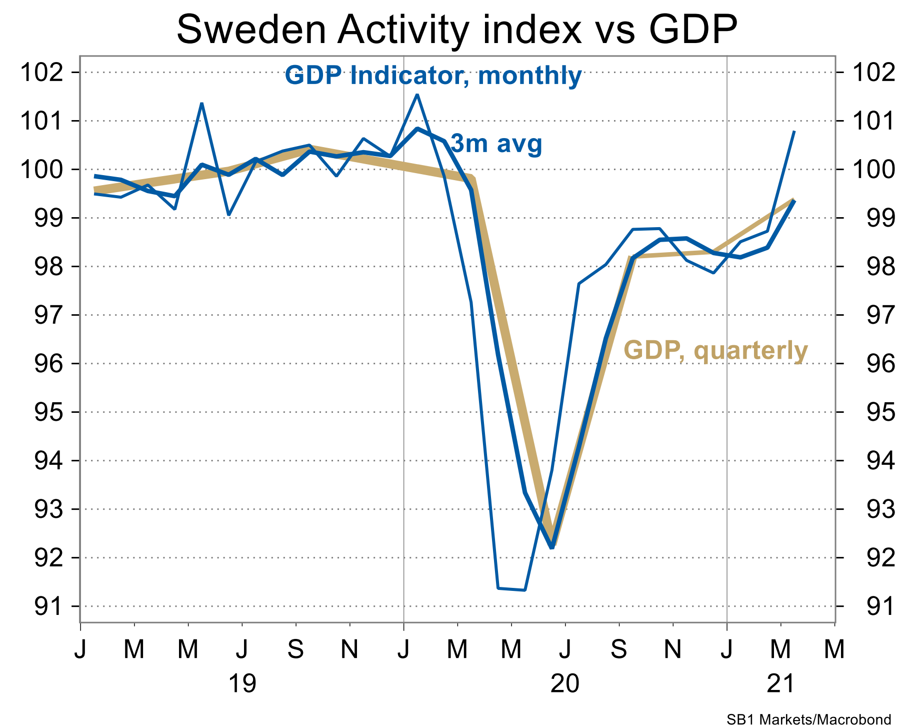



SpareBank 1 MARKETS

# March GDP above the pre-pandemic level (but that can't be for real?)

GDP grew 2.1% m/m in March, and contributed heavily to the 1.1% lift in GDP in Q1

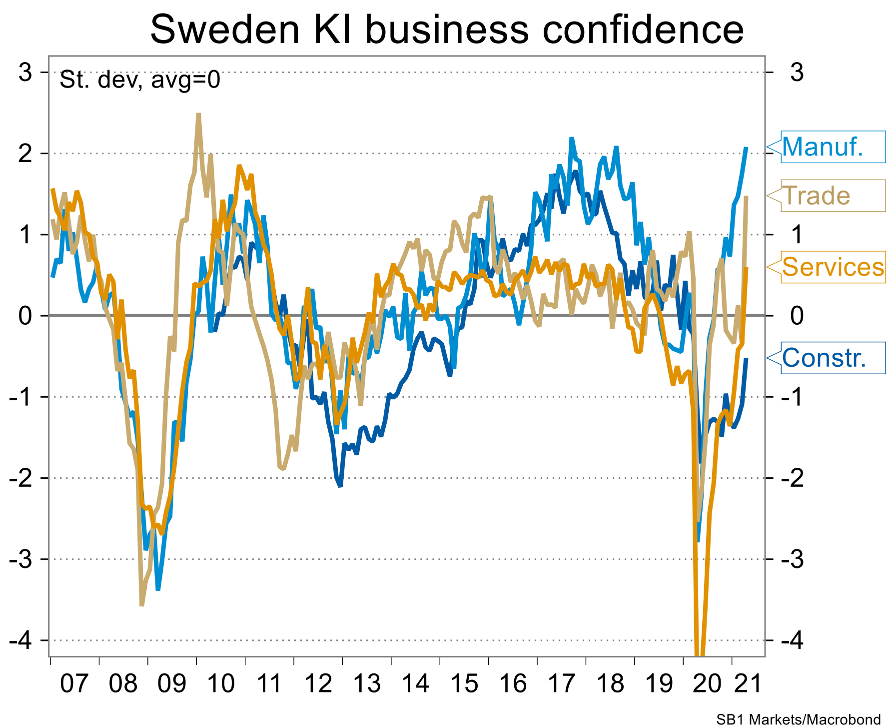


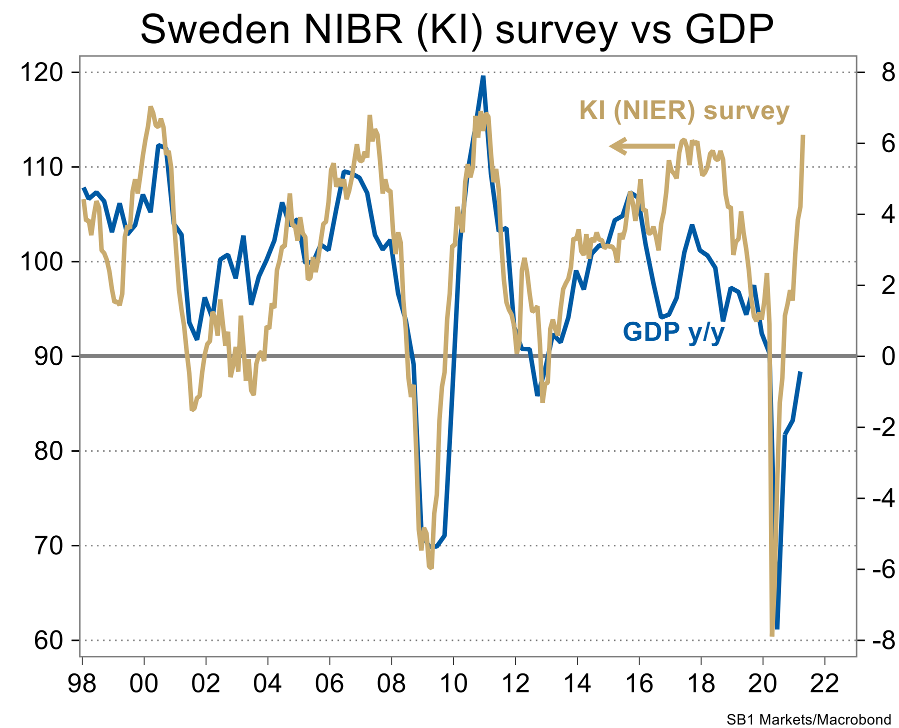




- The **March GDP** figure seems to on the high side, and may be revised down – or followed by a weaker print in April
- Face value: March GDP is higher than (the smoothed) GDP pre-pandemic level
  - » March-21 is slightly below Jan-20, which was the peak – on par with a 2 m average early 2020 – but below a 3 m average
- **Q1 GDP** grew by 1.1%, well above expectations at 0.5%. However, Q4 was revised down by 0.4 pp to 0.1%, and the 'real growth' was just 0.2% vs the level in Q1. Still, it signals upside risk to the Riksbank's upward revised 2021 growth forecast
  - » In Q1, the GDP level was 1.1% below the Q4-19 level – among the best in the rich part of the world these days?

# KI business survey takes off in April, best since 2010, signalling 6% GDP growth

The index is close to historical peaks (before the economy rolls over, of course…). All sectors up

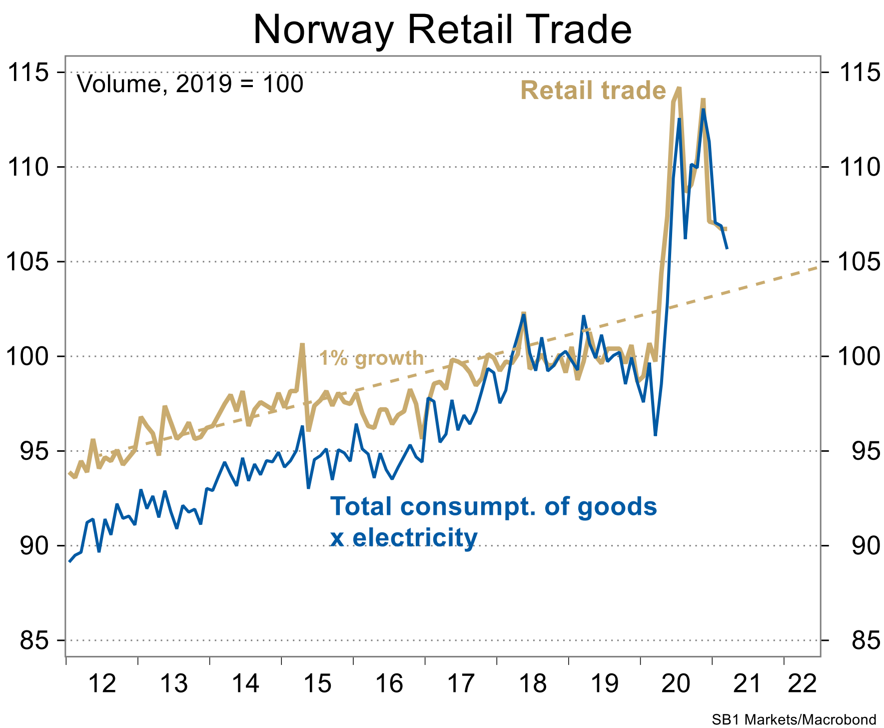


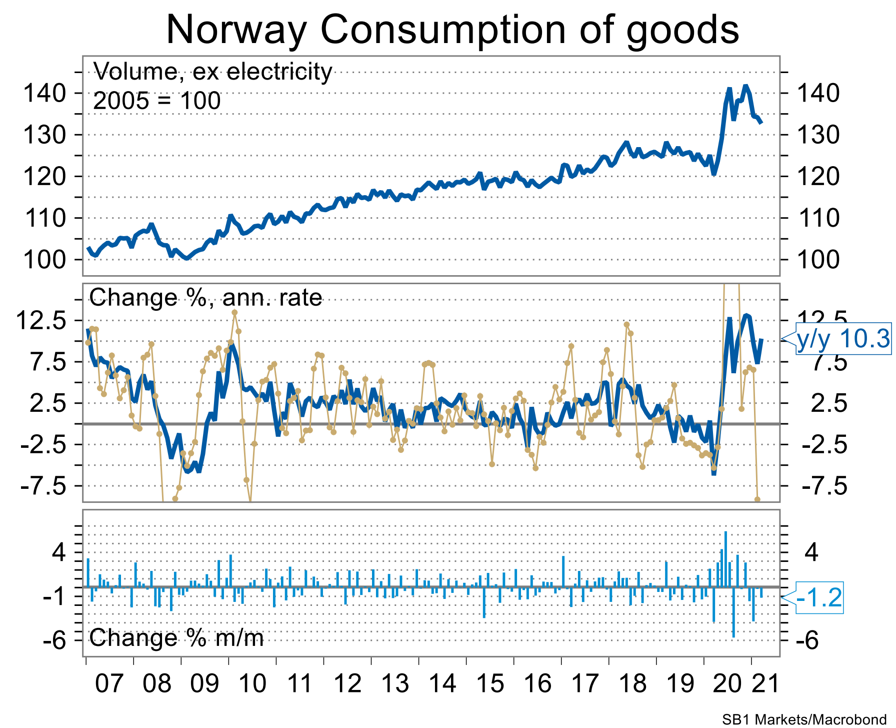




- **The composite index** rose to 113.4 in April from 105.8 in March, the 5th larges m/m increase (2 of them in June/July last year) up to among the highest levels in the 23 year history of this index. The survey signals a very rapid growth in GDP
- **All sectors** contributed to the lift. Even **services** now reports growth in activity above average. Take-off among **retailers**, and **manufacturers** are close to heaven. Just **construction** still below par
- Still the **Riksbank** is concerned about the impact of the corona crisis, and buys large quantities of government bonds, and thinks it will keep the policy rate at zero forever. At least until Q2-24

# Retail sales unchanged in March - level 7% above pre Covid

Sales flat, we expected a huge contraction (-6%), consensus was at -0.9%. Level is still 'too high'

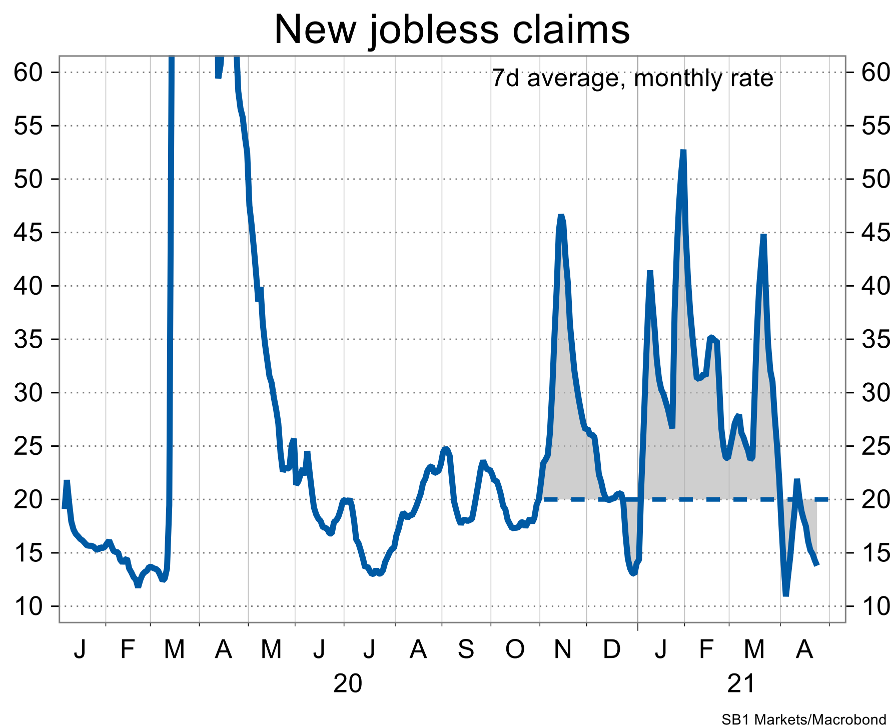


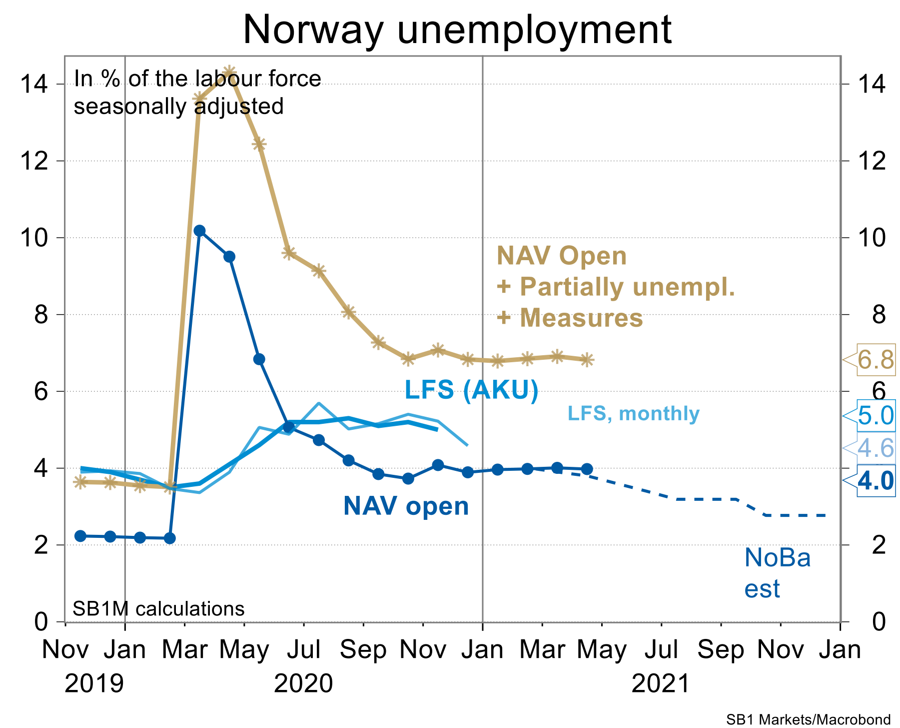




- **The partial lockdown in the greater Oslo region** and other areas with a rise in Covid-19 cases clearly had an impact on retail sales in March, but the total was anyway far better than we assumed. **Non-food shops** reported a decent decline, while **food sales** rose. **Internet sales** rose as well, and the net has increased its market share to 9% from 6% during the pandemic ('click and collect' sales from ordinary stores are counted as normal sales, not internet sales)
- **Total consumption of goods** (x electricity) fell by 1.2% in March
- **Retail sales** are up 7% from the pre-corona level, as are total consumption of goods. Demand for goods will very likely return to a 'natural' trend path when households one day are allowed (and dare) to start spending more on 'locked down' services, and to go abroad again
- **We still expect sales** to slow the coming quarters, back the pre-corona trend path – when it becomes possible to spend more on services
- **Service consumption** is of course far below a pre-corona level but are not included in retail sales data

# NAV unemployment marginally down in April

## … and the inflow of new jobless has fallen sharply



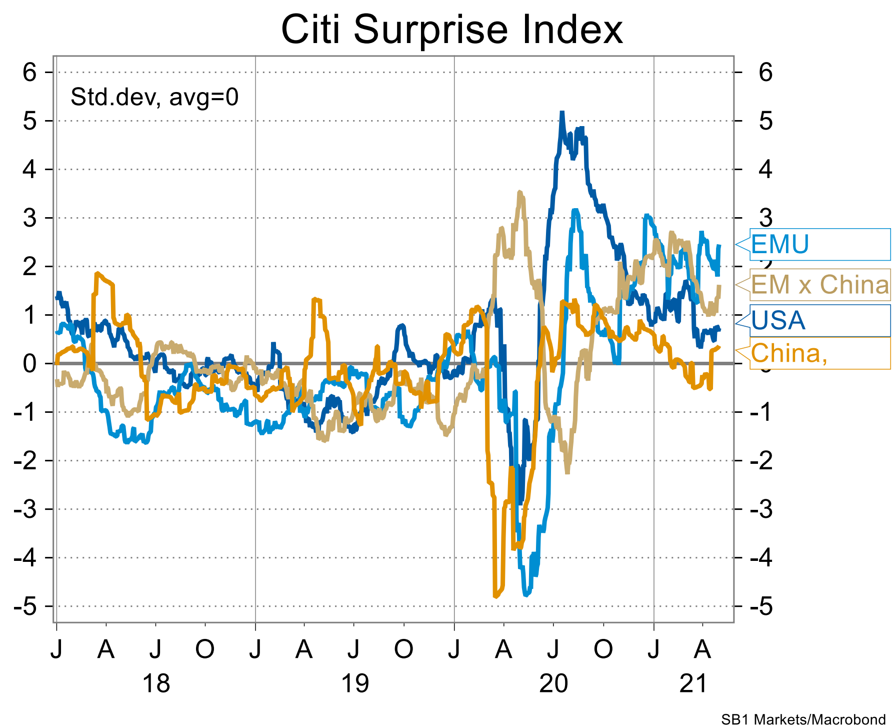



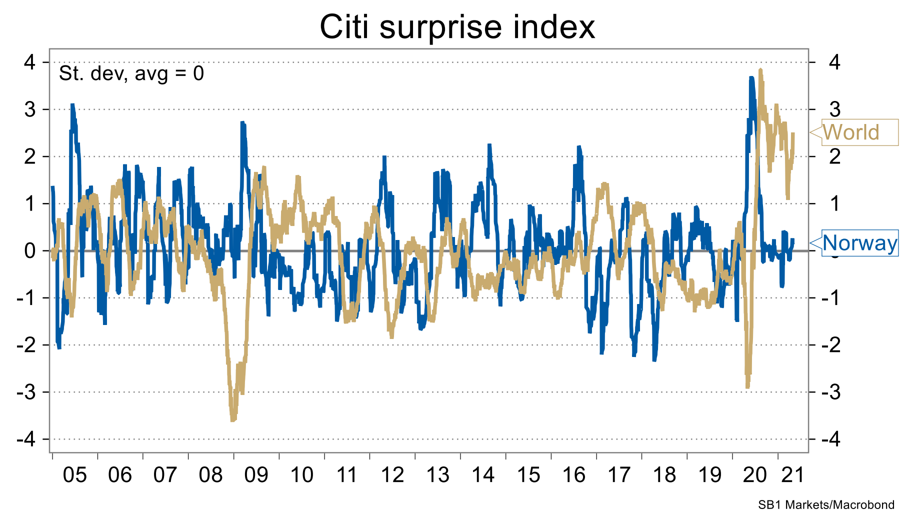

- **The open NAV unemployment**, which includes furloughed workers fell by 1' March (seas adj), we expected +3'. The rate was unchanged at 4.0%, 0.2 pp above NoBa's March estimate. The unadjusted rate was at 4.0% was 0.2% - 0.3% below our estimate & consensus
- The number of **partially unemployed** fell by 1' to 67', leaving the grand total at 194', equalling 6.8% of the labour force. Before the corona crisis, this unemployment rate was at 3.8%
- **Since November**, the number of ordinary unemployed has increased by 8', while the number of partially unemployed has fallen by 9' persons
- Since November, 35' persons more than normal have **applied for claims** (the net above a 20' per month normal inflow these 5 months, data not seas. adj). This increase is no doubt due to the stricter corona restrictions imposed in 4-5 rounds in early Nov, and then further in early & late Jan, and in March. However, this substantial extra inflow has not lifted the no. of unemployed!

SpareBank 1 MARKETS

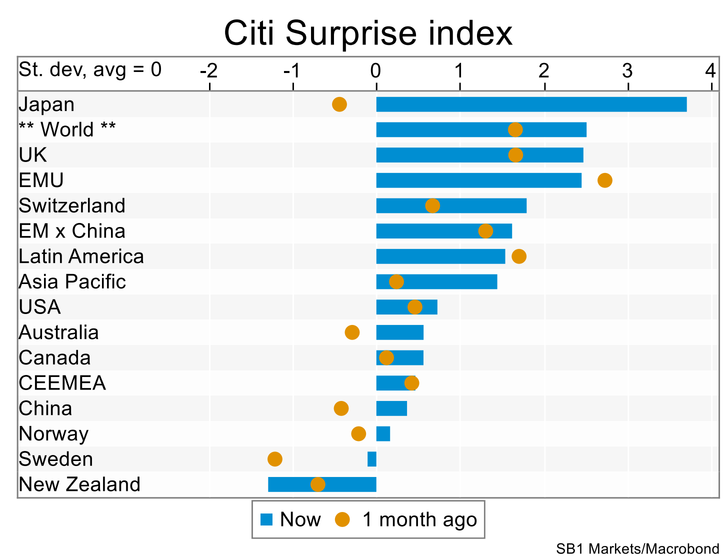
# Surprises heavily on the upside again

… according to Citi's surprise index. Japan at the top, together with UK & EMU




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



SpareBank 1 MARKETS

# The Calendar: PMI/ISMs, US employment, EMU retail sales, Norw. house prices

| Time | Count. | Indicator | Period | Forecast | Prior |
|---|---|---|---|---|---|
| **Monday May 3** | | | | | |
| 08:00 | GE | Retail Sales MoM | Mar | 3.0% | 1.2% |
| 08:30 | SW | PMI Manufacturing | Apr | | 63.7 |
| 10:00 | NO | PMI Manufacturing | Apr | (60) | 60.4 |
| 10:00 | EC | PMI Manufacturing | Apr F | 63.3 | 63.3 |
| 15:45 | US | PMI Manufacturing | Apr F | 60.7 | 60.6 |
| 16:00 | US | Construction Spending | Mar | 1.9% | -0.8% |
| **16:00** | **US** | **ISM Manufacturing** | **Apr** | **65.0** | **64.7** |
| 17:00 | WO | PMI Manufacturing | Apr | (55.5) | 55.0 |
| | US | Auto sales | Apr | 17.50m | 17.75m |
| **Tuesday May 4** | | | | | |
| 14:30 | US | Trade Balance | Mar | $74.1b | -$71.1b |
| **Wednesday May 5** | | | | | |
| 08:00 | NO | Unemployment Rate AKU | Mar | stats rev. | |
| 08:30 | SW | PMI Services | Apr | | 61.3 |
| 10:00 | EC | PMI Services | Apr F | 50.3 | 50.3 |
| 10:00 | EC | PMI Composite | Apr F | 53.7 | 53.7 |
| **10:00** | **NO** | **Home prices, MoM** | **Apr** | **0.9%** | **1.1%** |
| 11:00 | EC | PPI YoY | Mar | 4.5% | 1.5% |
| 14:15 | US | ADP Employment Change | Apr | 888k | 517k |
| 15:45 | US | PMI Services | Apr F | 63.1 | 63.1 |
| **16:00** | **US** | **ISM Services** | **Apr** | **64.2** | **63.7** |
| 17:00 | WO | PMI Composite | Apr | (55.8) | 54.8 |
| **Thursday May 6** | | | | | |
| 08:00 | GE | Factory Orders MoM | Mar | 1.8% | 1.2% |
| 08:00 | NO | Ind Prod Manufacturing MoM | Mar | (1%) | -0.4% |
| **10:00** | **NO** | **Norges Bank deposit rate** | | **0%** | **0%** |
| **11:00** | **EC** | **Retail Sales MoM** | **Mar** | **1%** | **3%** |
| 13:00 | UK | Bank of England Bank Rate | | 0% | 0% |
| 14:30 | US | Nonfarm Productivity | 1Q P | 4.1% | -4.2% |
| 14:30 | US | Unit Labor Costs | 1Q P | -1.0% | 6.0% |
| 14:30 | US | Initial Jobless Claims | May-1 | 540k | 553k |
| **Friday May 7** | | | | | |
| | CH | Exports YoY | Apr | 23.5% | 30.6% |
| | CH | Imports YoY | Apr | 43.9% | 38.1% |
| 03:45 | CH | PMI Services, Markit | Apr | 54.2 | 54.3 |
| 08:00 | GE | Industrial Production SA MoM | Mar | 2.1% | -1.6% |
| **14:30** | **US** | **Nonfarm Payrolls MoM** | **Apr** | **950k** | **916k** |
| **14:30** | **US** | **Unemployment Rate** | **Apr** | **5.7%** | **6.0%** |
| 14:30 | US | Average Hourly Earnings MoM | Apr | 0.0% | -0.1% |
| **During the week** | | | | | |
| | CH | Aggregate Financing CNY | Apr | | 3340b |
| | CH | New Yuan Loans CNY | Apr | 1600b | 2730b |

- **PMI**
  - » **The global composite PMI** probably rose another 1 p to slightly below 56 in April – signalling GDP growth far above trend, as both the manufacturing and services PMIs rose further. US & Europe have already reported unusual strong PMIs, as will many other countries. India will probably not. In the US, the **ISM** manufacturing is expected to remain at the highest level since 1983 – and the services ISM to climb to another ATH (but the history is short, just back to 1998…)
- **China**
  - » **Foreign trade** data have been impressive, especially exports. At one stage growth will slow. Do not look at the annual growth data, they are partly influenced by what happened last year
  - » Is **credit growth** slowing? Yes, and in March non-bank credit actually fell. The authorities have recognised that the economy is more than strong enough to bring credit expansion down
- **USA**
  - » **Nonfarm employment** is expected to grow another 'million' in April, and unemployment to decline to 5.7%. There is still a long way to go, according to Federal Reserve, as the employment is still far below the pre-pandemic level. However, businesses are reporting unprecedented problems filling their record high no. of unfilled vacancies, even if the no. of active jobseekers (the unemployed) is still rather high
  - » **Productivity** surged in Q1 but not more than it fell in Q4. Unit labour cost inflation is not low but data are more than usually uncertain, due to the impact of the pandemic
- **EMU**
  - » Both **retail sales** and **industrial production** (the latter in just some countries) are expected sharply up in March, signalling that Q1 very likely was the last quarterly contraction due to the pandemic. BTW, **producer prices** are expected sharply up too
- **Norway**
  - » Walkover: **Norges Bank** will not say anything new or do anything
  - » Will **house price inflation** slow? We expect prices to continue upwards in April, like in every month since last May and just tad slower than in the previous months. We expect the annual growth rate to peak at 13.7% in April. If Norges Bank delivers what it has 'promised' during the autumn, a real slowdown is more likely
  - » **The LFS (AKU) survey** has undergone a major revision, and we are not sure the new stats will yield a precise picture of the labour market

Highlights

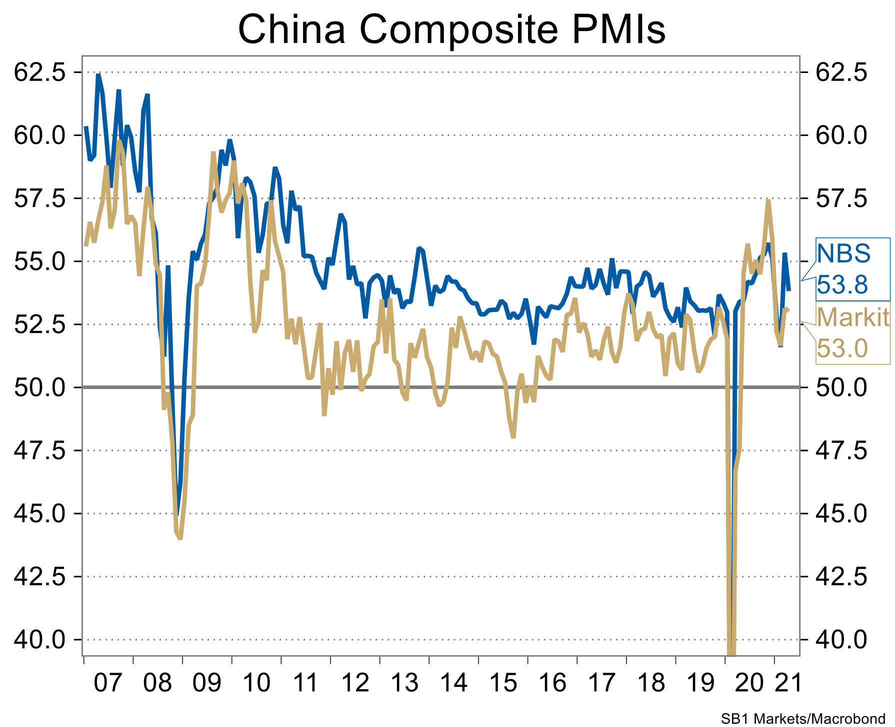
The world around us

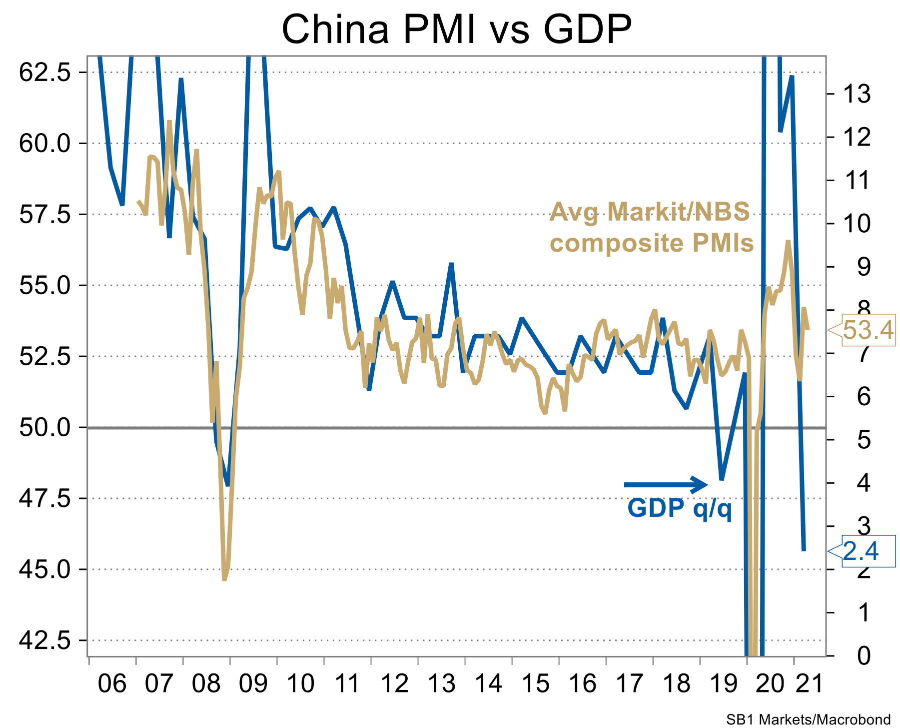
The Norwegian economy

Market charts & comments

# Mixed April PMIs, growth above trend is still signalled anyway

NBS' composite PMI down, Markit's manufacturing PMI up. A 7% – 8% GDP growth signalled

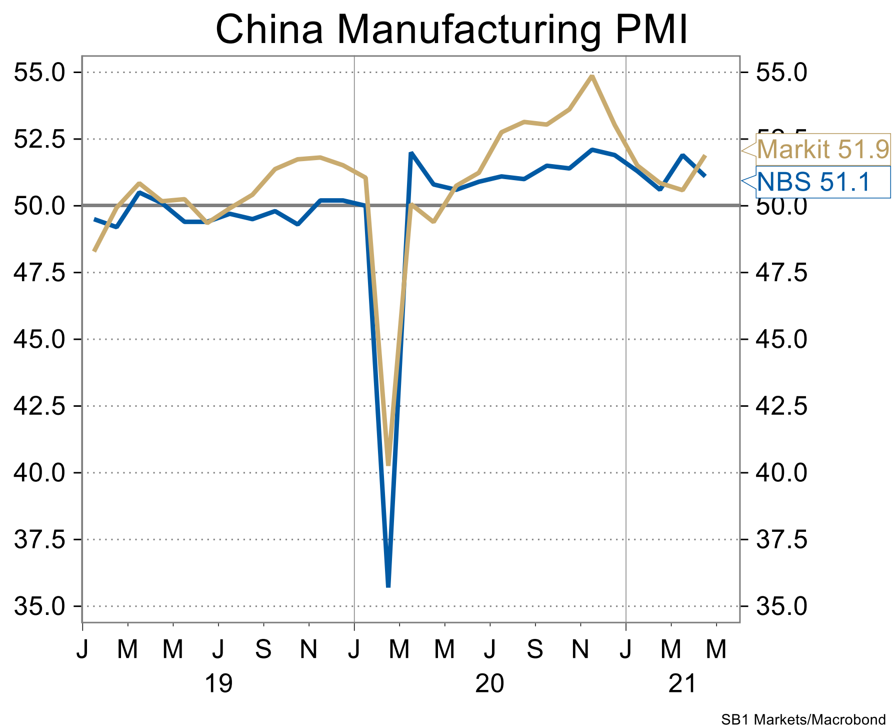


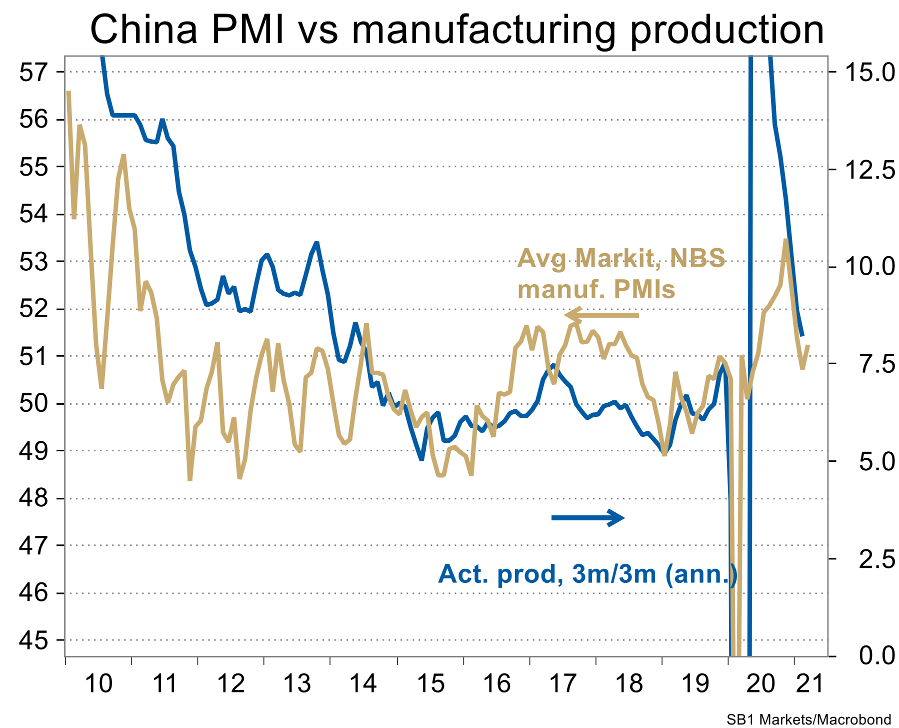




- GDP was substantially weaker than expected in Q1 (up just 0.6% q/q), mostly due to travel restrictions during the NY holidays. Activity accelerated in March
- The decline in the April PMI average is moderate (barring a surprise in Markit's service sector index, not yet published), and does not signal any material change in growth
- We expect growth to accelerate in Q2 from the low level in Q1, but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend
  - » Credit policy is tightened

# NBS manufacturing PMI a tick down, Markit's more up. Average level above par

The PMIs are signalling growth above trend



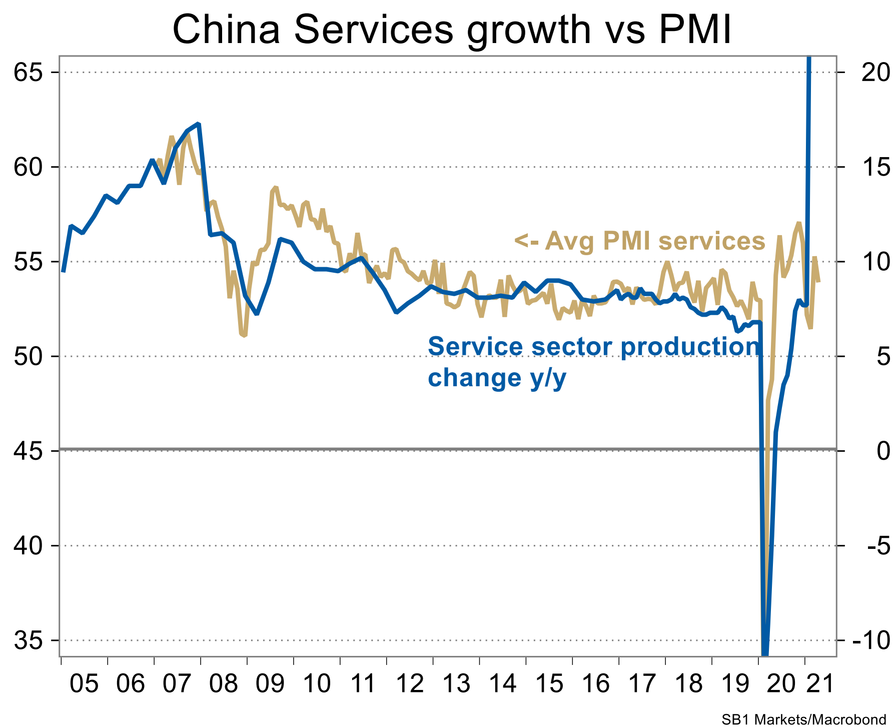



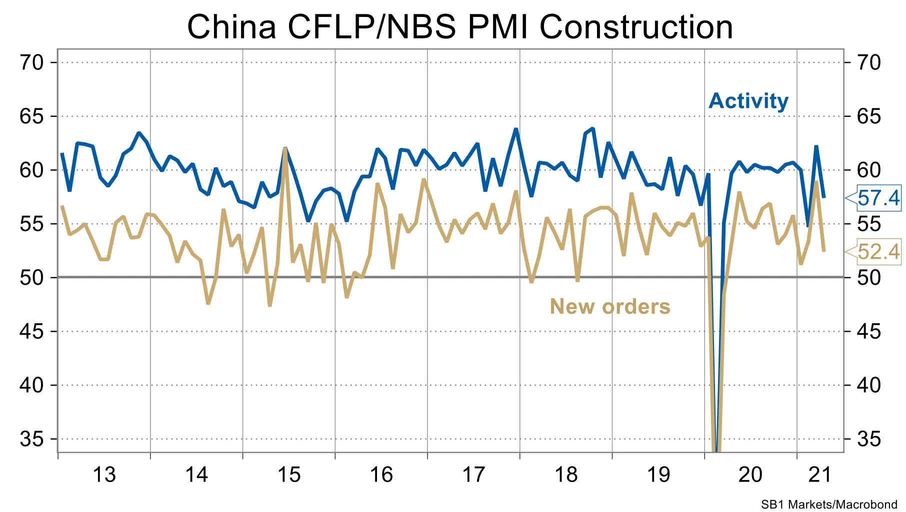

- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

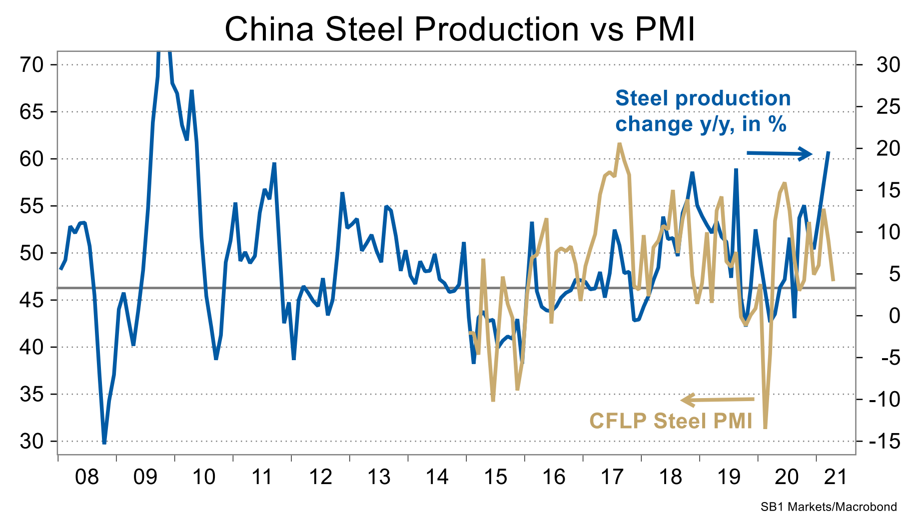
# Export orders are growing again – and domestic orders are still going strong


# Services are reporting growth well above trend

## The construction & steel PMIs fell, and both are slightly below average



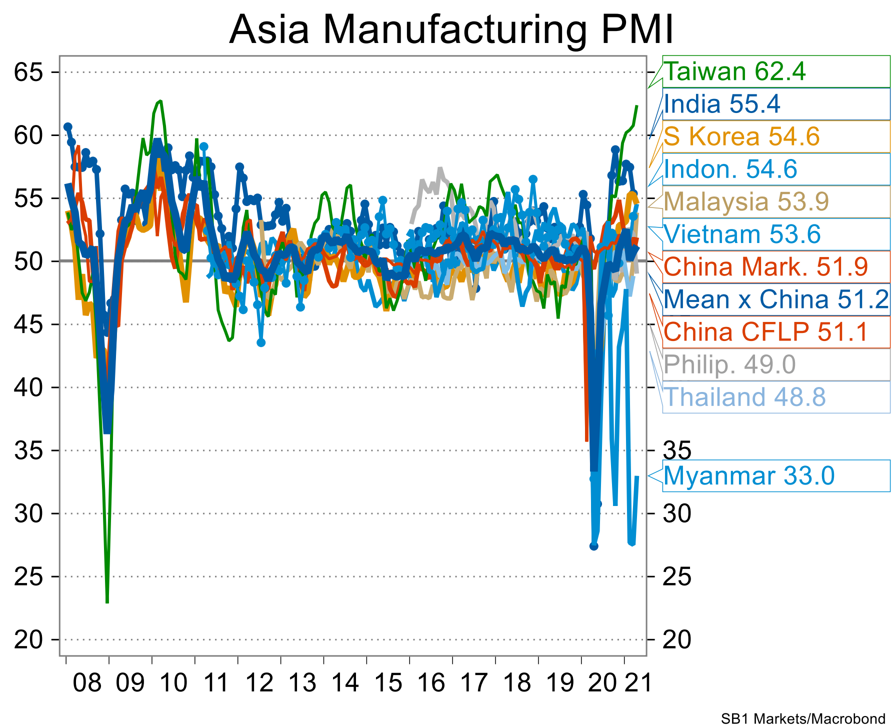



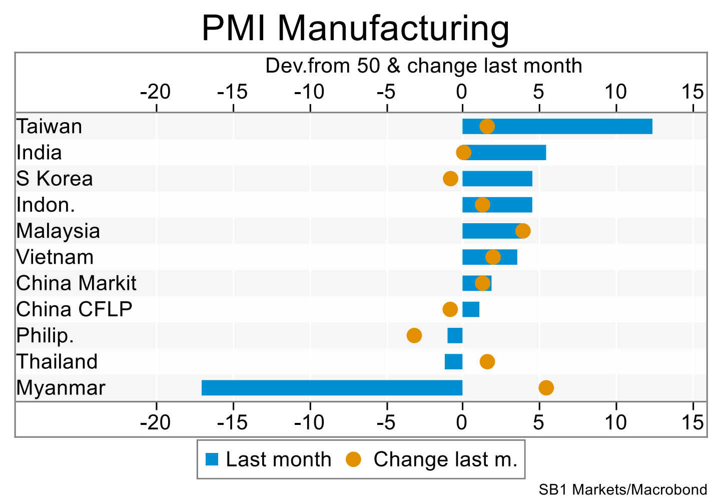

- Activity in the service sector was back at the pre-pandemic trend in March, following at weak February (very likely due to Lunar New Year holiday travel restrictions)

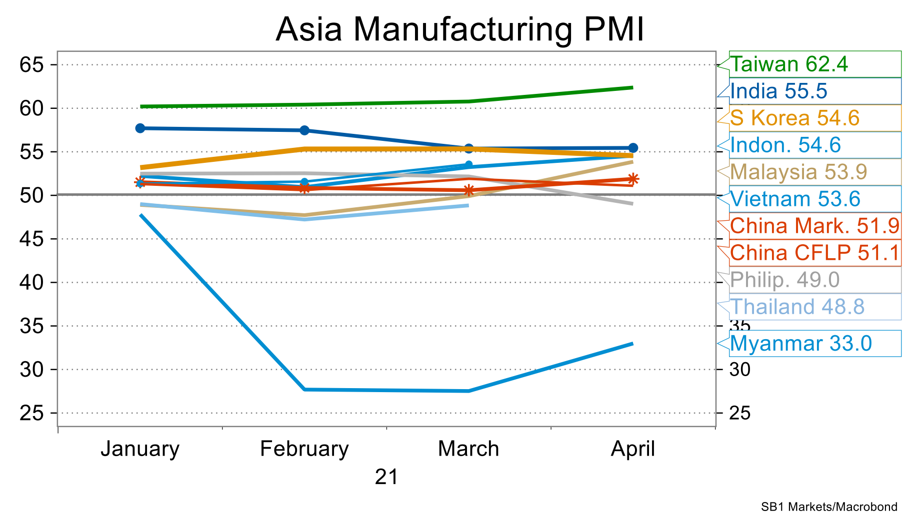
*The last PMI services observation is based on the change in the NBS survey*

# Rest of Asia: More up than down in April. No decline in the Indian PMI

## 8 manufacturing PMIs are above the 50-line, 3 below



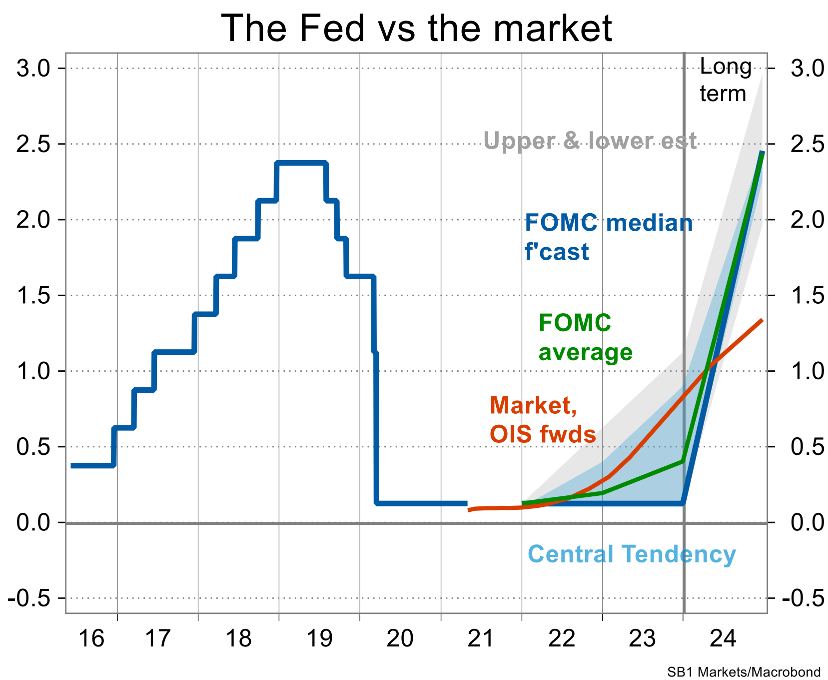




- Taiwan is reporting strong growth – and so is in fact Indian manufacturers too
- Myanmar is not working anymore

# FOMC on repeat: ZIRP until "substantial further progress is made"

## … and Powell still assumes that will take years. Could a tighter labour market change his mind?

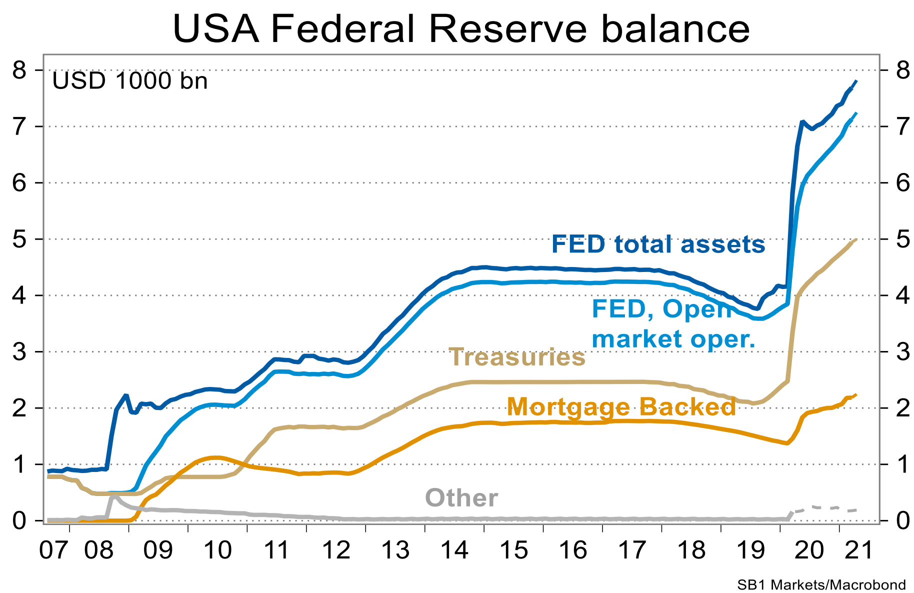



The market is pricing in the first hike in the signal rate in Dec 2022 or in early 2023

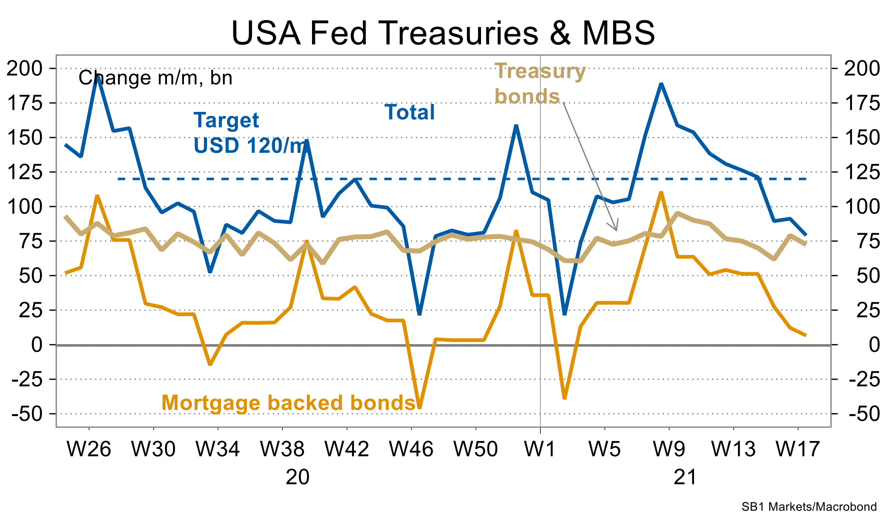
- The FOMC left the **target rate** unchanged at 0-0.25%. No change on the **QE volume** either, USD 120 bn per month in Treasury bonds (80 bn) and mortgage bonds (40 bn) – everything as all expected
- The FOMC acknowledged *'Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement'*. In addition the wording '*considerable risks'* now has the softer wording 'risks… remain'
  - » Despite positive job numbers, and employment being one of the Fed's main indicators, the chairman referred to the data at not being even close to substantial further progress
- Powell reiterated that rates will not be hiked before inflation has reached 2%, and is expected to stay above 2% for a while, in order to reach a 2% average over time (and not 1.7%, he stated at the press conference)
  - » On the other hand, he also assured the public that there should be no doubt that the Fed will use its tools should inflation start to creep up above the long-term target
- What to gain from an otherwise repetitive Fed:
  - » The Fed is not seeing wage pressures, and believe that the equilibrium in the labour market will resolve itself once more people are vaccinated and the extra unemployment benefits expire
  - » The bank would rather risk inflation on the high end than not meeting its goal for the labour market
- **All of this taken into account:** The FOMC still thinks rates may stay low for longer than the market thinks. As we have stated for a while: The Fed should not take short terms up and downs in inflation into account. The Fed believes the current uptick in inflation will turn out to be transitory, as most such energy/raw material cycles turn out to be. Whether it is or not this time, depends as always on the labour market and wage inflation. Without higher wage growth, no permanent hike in inflation. The FOMC has no doubt decided to wait an see. The market does not believe the bank will have to wait until 2024 before it will have to start normalising its policy rate
- **Market reactions:** Muted, but bond yields rose somewhat

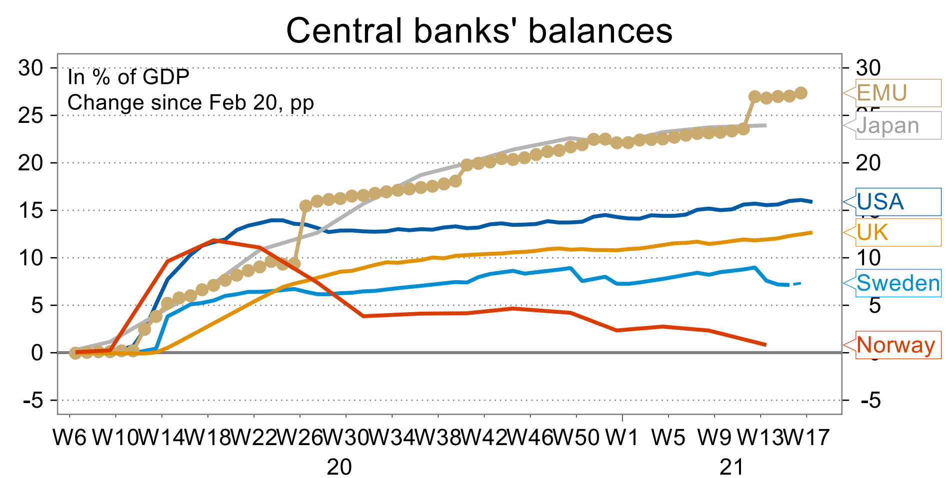
# FOMC: It's not even time to talk about tapering

## The large QE program continues



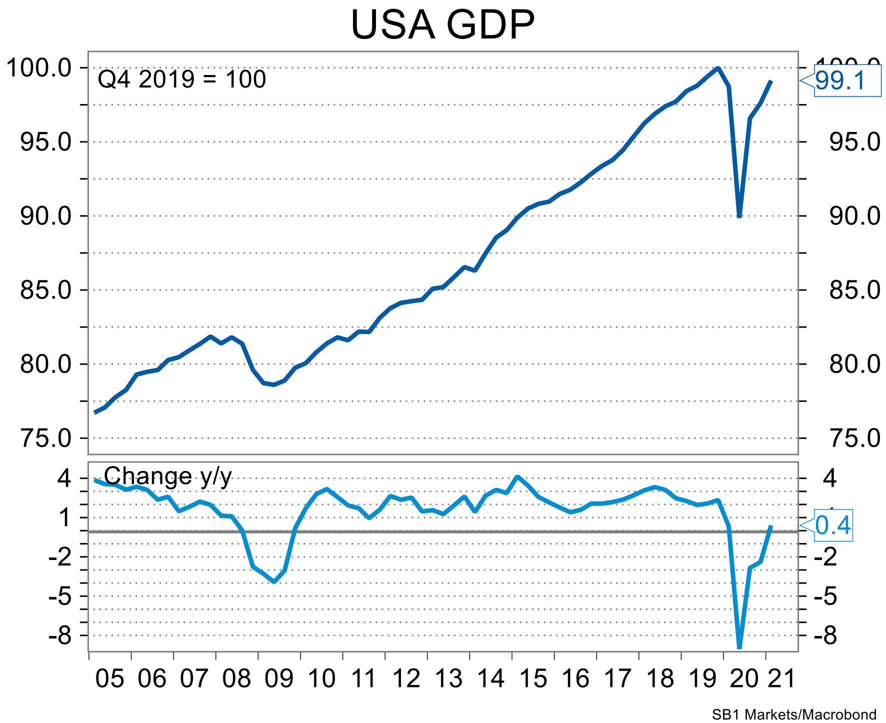

- Federal Reserve will increase its holdings of Treasury bonds and agency mortgage-backed bonds by USD 120 bn/month (80 + 40), which has been the pace so far in 2021
- USD 120 bn/month equals 7% of GDP per year, a substantial share of the net increase in government og mortgage-backed bonds. Since last February, the Fed's balance sheet has increased by 15% of GDP (and now equals an unprecedented 35% of GDP)
  - » Just so you know: *In the land of the free, and home of the brave, it is the central bank that is securing funding of the housing market*

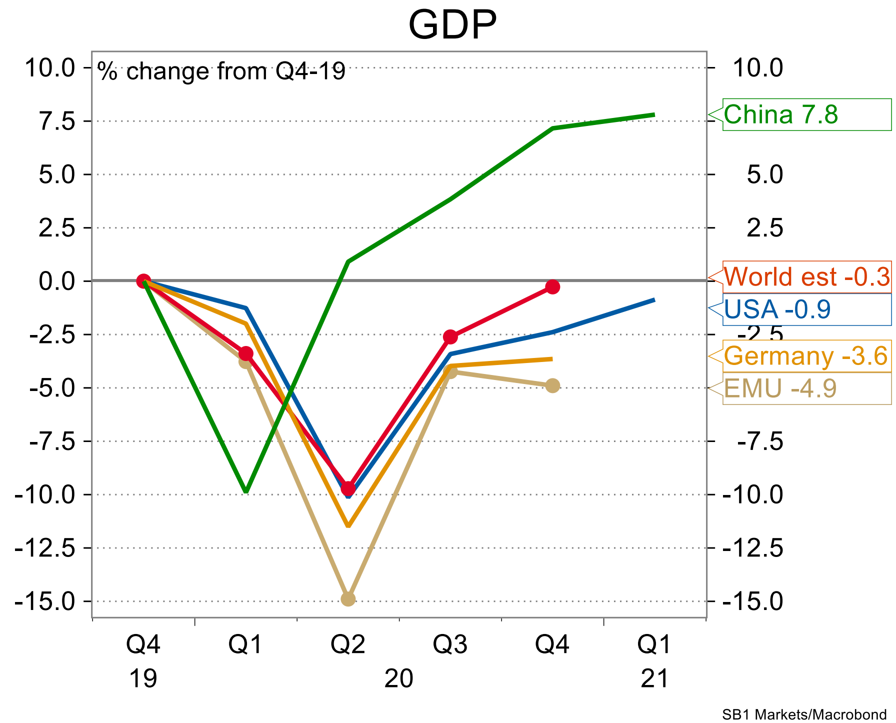


# Q1 GDP up 6.4%, close to expectations. Level just 0.9% below Q4-19!

Services are still deep under water, goods far above

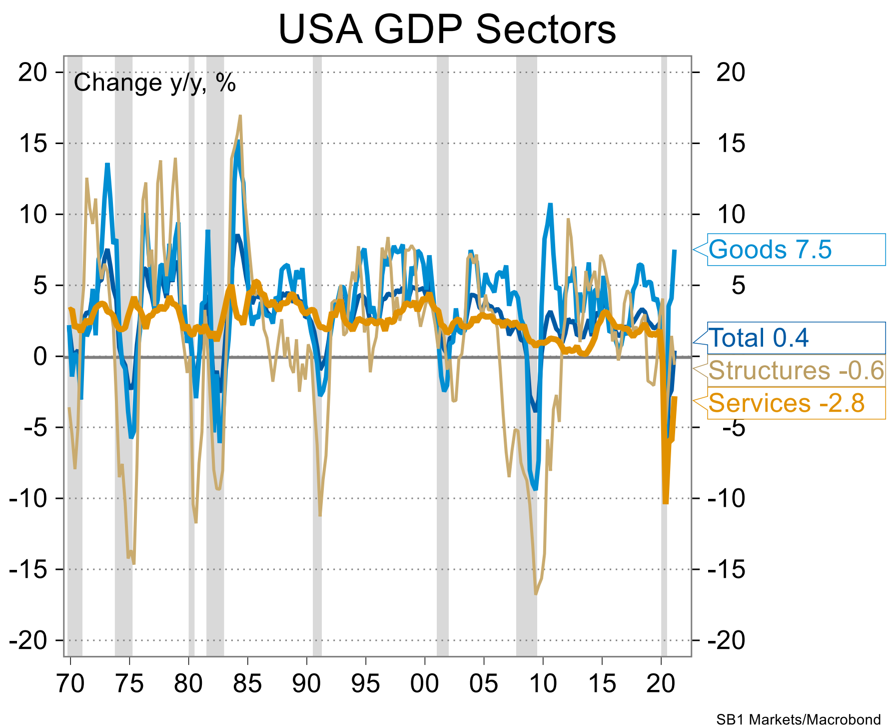


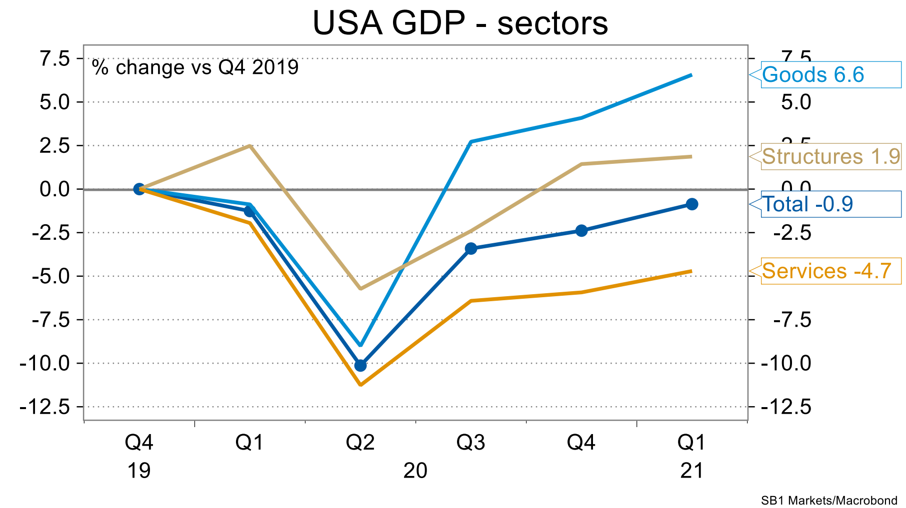



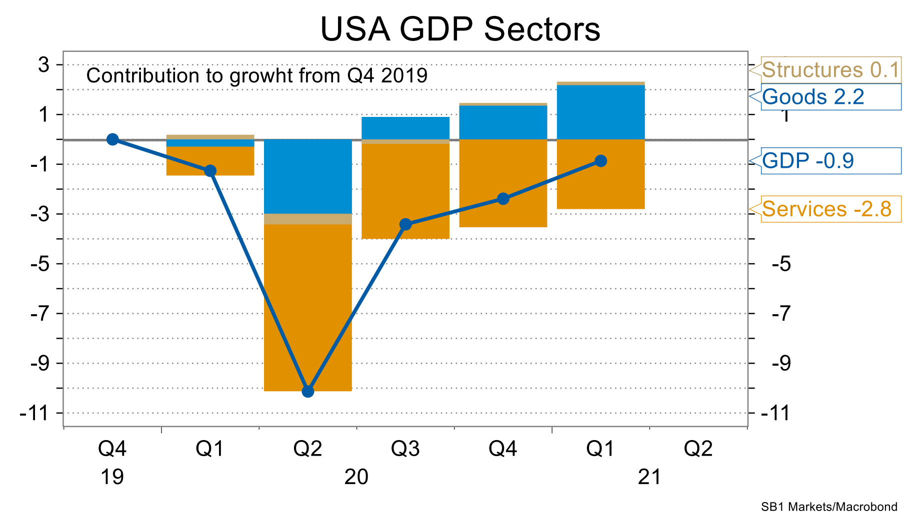

- **GDP** grew by 1.6% not annualised in Q1, is up 0.4% vs. Q1-20, but more important, just 0.9% below the pre-pandemic level in Q4-19
  - » GDP is still 4.8% below FOMC's Q4 estimate, and in order to reach that level, GDP has to grow by 6.5% (annualised rate) the coming 3 quarters
- **US is now well ahead** of European countries. The extreme fiscal policy measures taken in both 2020 and in Q1-21 explains parts of the difference in performance, but differences in the virus situation are of course also important
- We expect **a continued brisk recovery in Q2** – and very likely through H2

# A quite unusual recession. Services are still sharply down, goods far above

Services are on the way up but the level is still 7% below the pre corona growth path. For how long?



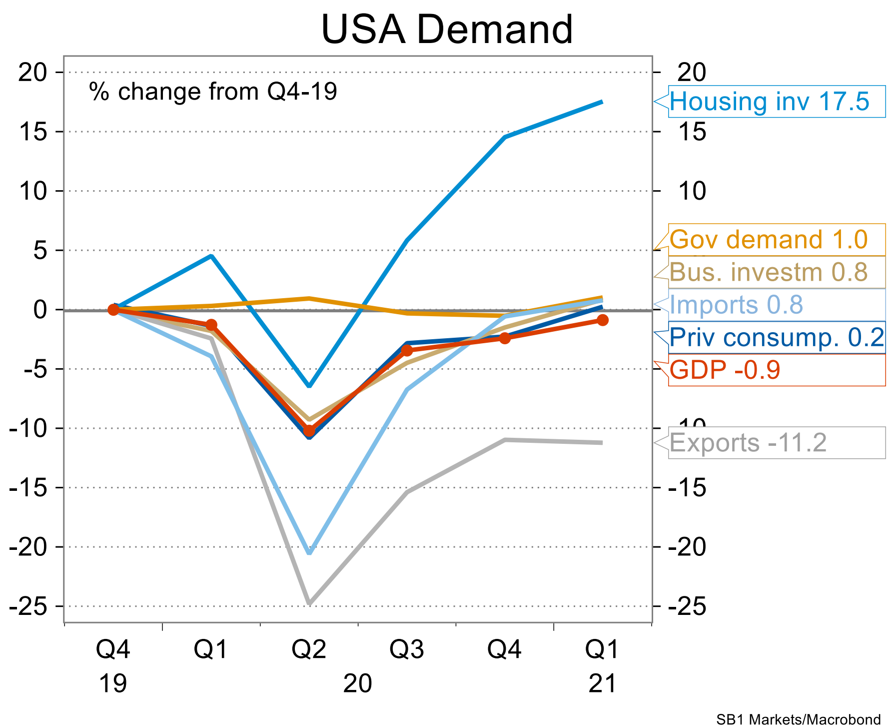



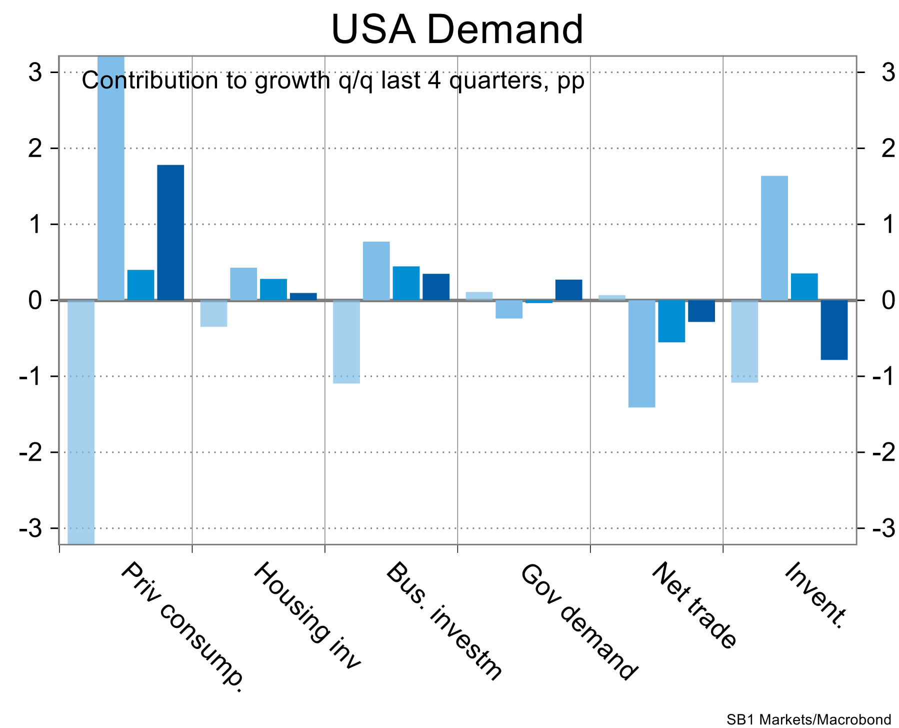




- Normally goods, including structures, are the main culprit, the volatile element in the economy. Now it is services – and services only
- And the recovery will of course be driven by services in the coming quarters, as soon as the virus is brought under control

# Housing is going strong – exports the weakest link in the chain

Business investments are above the Q4-19 level too.

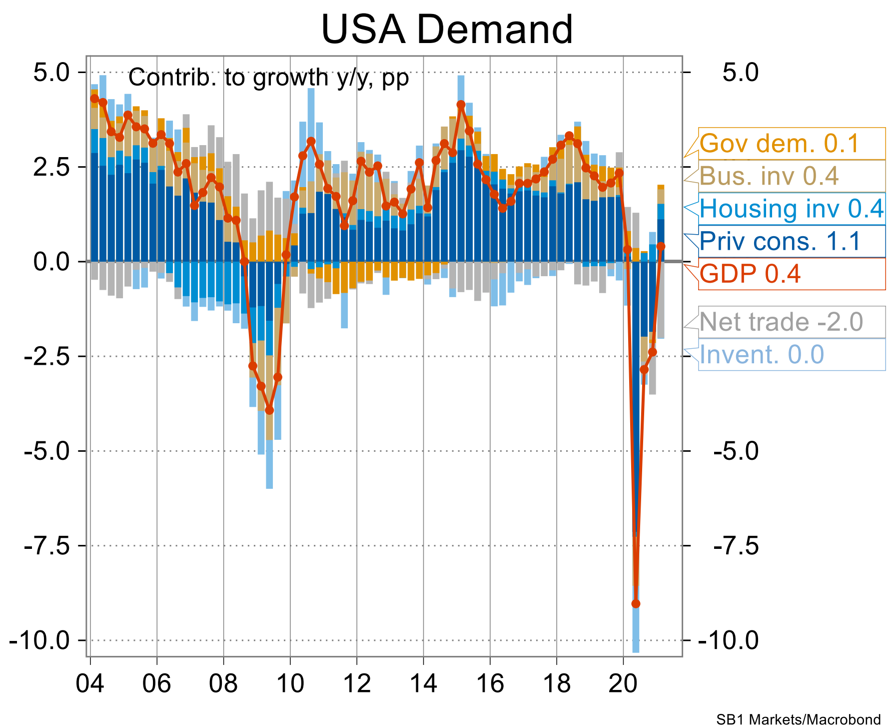


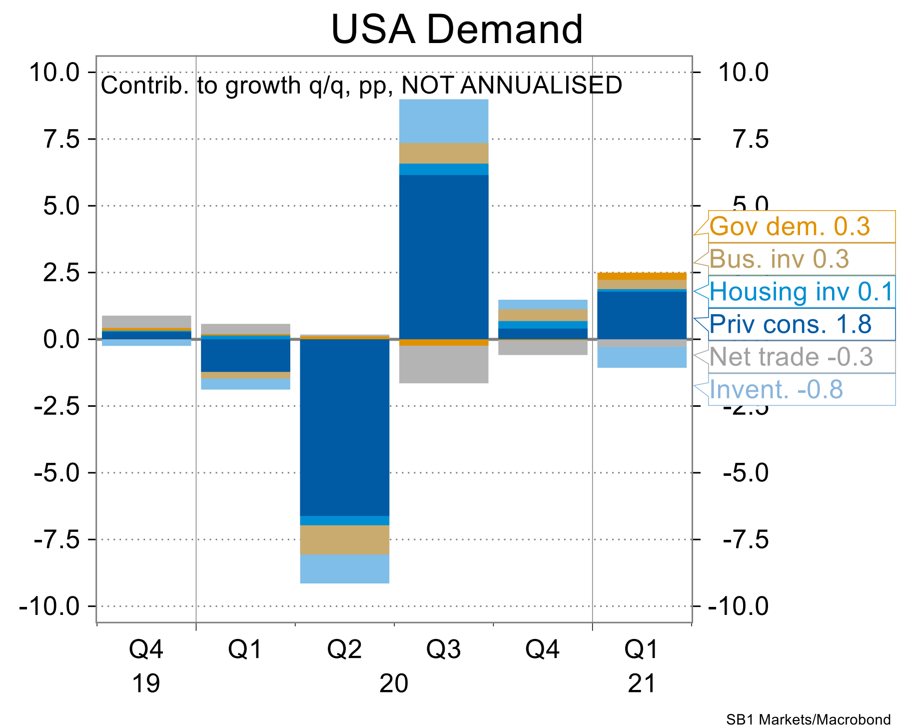




- **Private consumption** grew at a 10.8% pace in Q1, contributing 4.9 pp to GDP growth. Consumption is still below the Q4-19 level (but not in March, check here). Just some 1 out of 7 stimulus dollars households received was spent, the other 6 saved for another day
- **Housing and business investments** grew further in Q1. Housing investments are up 17.5 y/y vs. Q4-19, business investments are up 0.9%
- **Government demand** grew rapidly in Q1, by 6.3%, contributing 1.1 pp to the growth in GDP
- **Exports fell 1.1% in Q1, while imports grew 5.7% - and net trade deducted 1.1 pp from growth in GDP**
- A substantial part of the close to 10% growth in **domestic final demand** was covered by a rapid drawdown of **inventories** – which deducted 3.1 pp from the quarterly growth rate! Quite special numbers…

# Private consumption the main swing factor, now on the way back

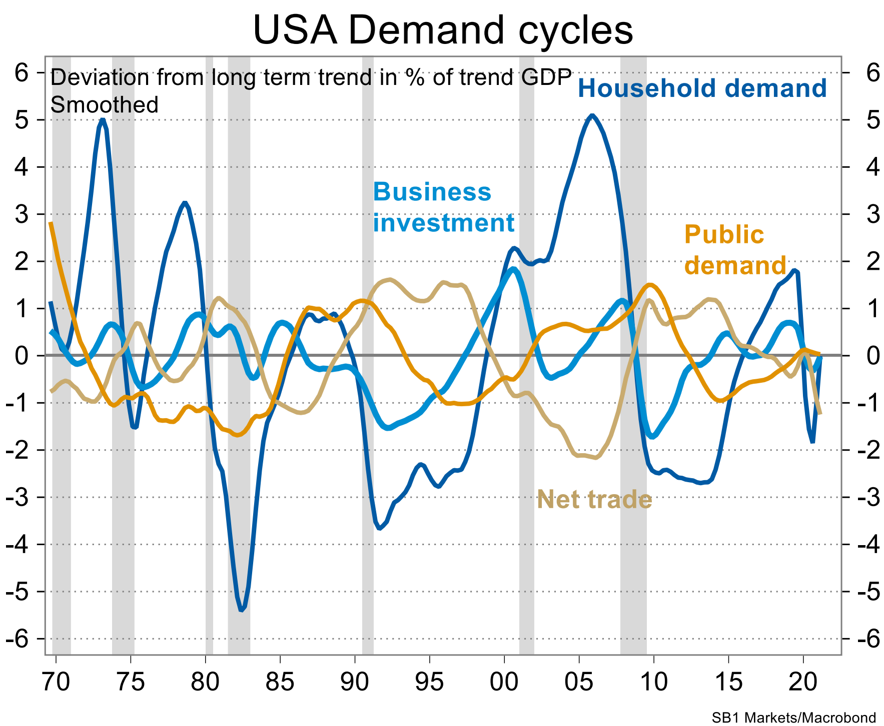
Just net trade and inventories contributed on the downside in Q1 (and net trade measured y/y)

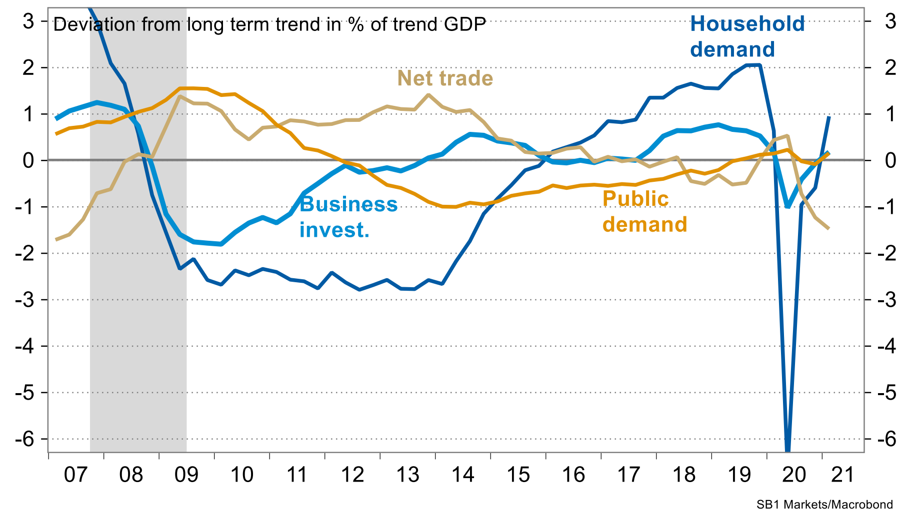


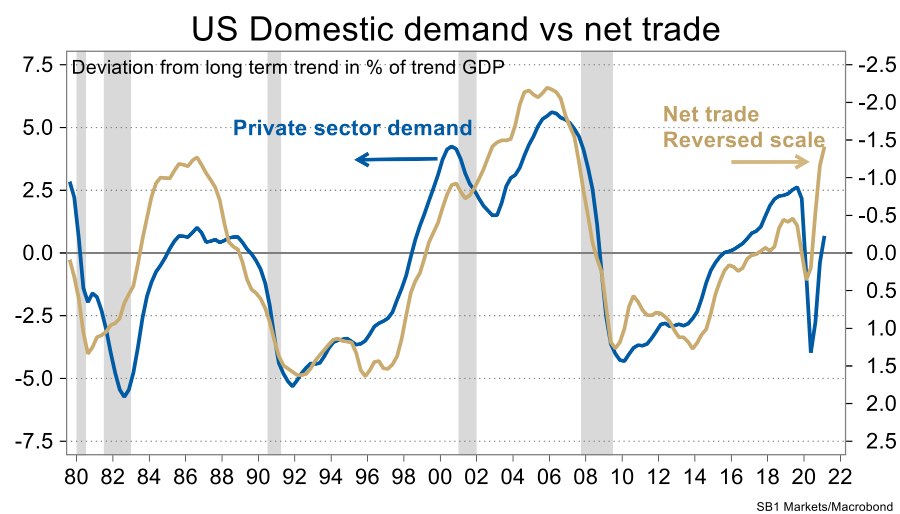



# A private consumption cycle. Or rather, a virus cycle…

A shallow & short business investment downturn.  Net trade is on the weak side, but exports will recover?



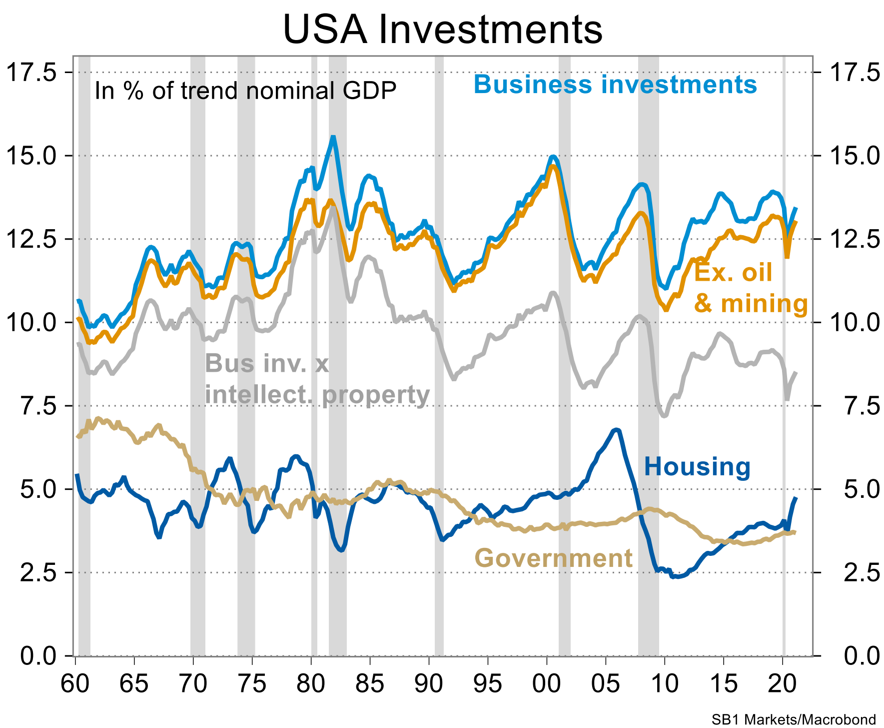



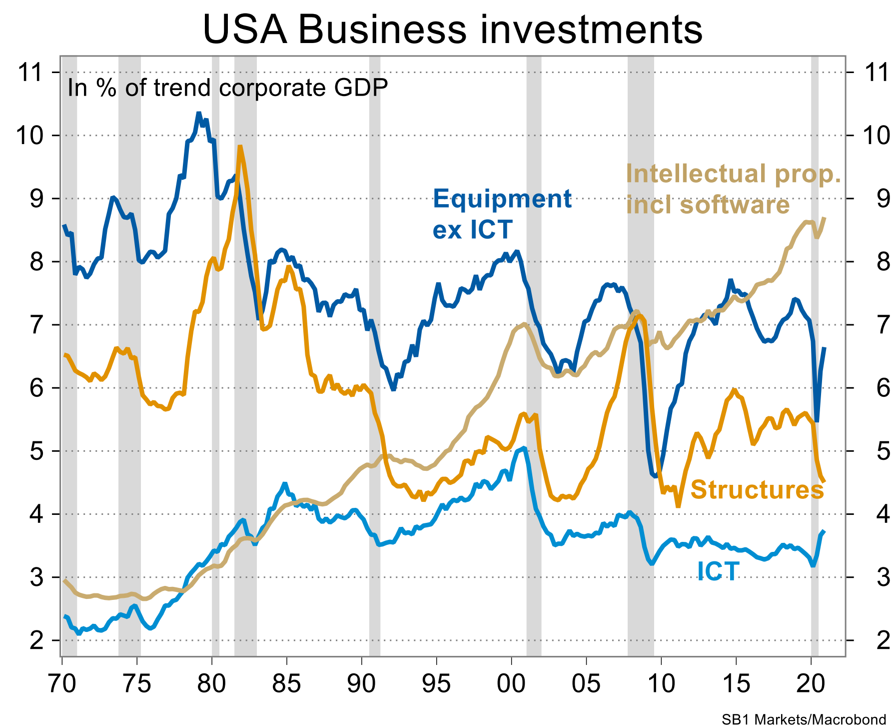




- *Check more on the household sector some few pages forward*

# Investments: On trend in Q1? Just because investments in structures are below

Investments in structures still on the way down, for the 6th quarter in row. All other investments up

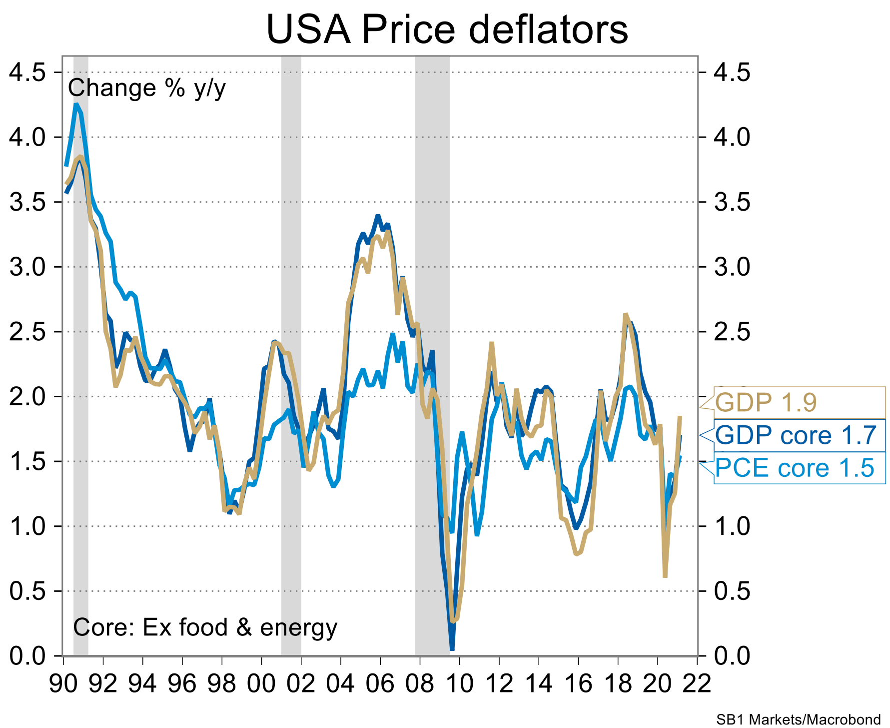


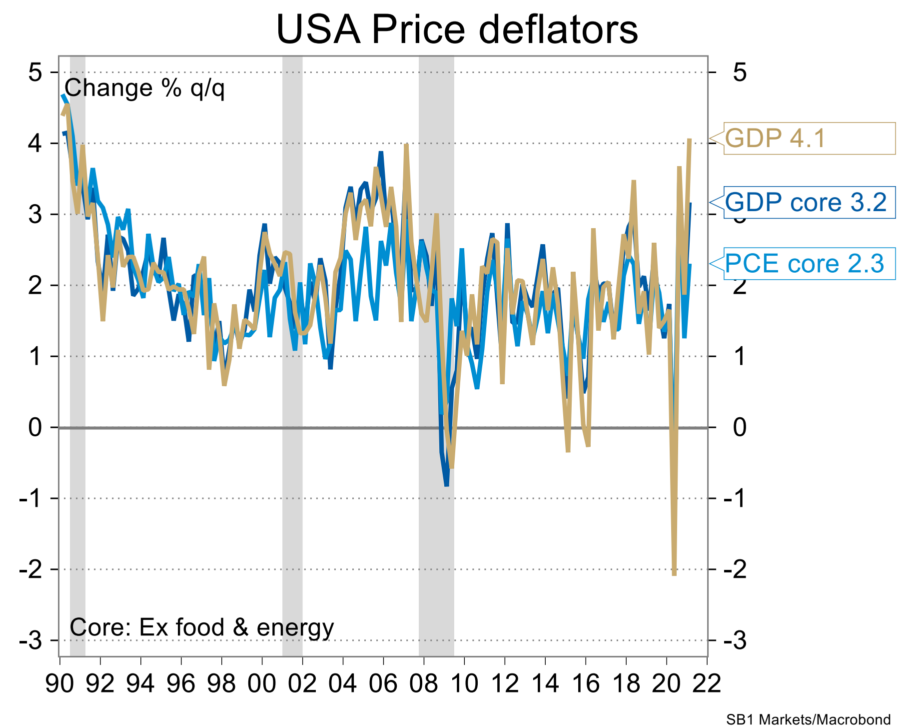




- Business investments are up 0.9% vs. the Q4-19 level, driven by machinery/equipment & software/IP. Investments in structures are down 17%
- Housing investments rose sharply in Q1 too – housing investments are above the long term trend (our assessment)
- Government investment as share of GDP is on the way up – but probably still too low

# Prices on the way up but so far no drama

The GDP deflator rose at the fastest pace in 20 years in Q1 but annual inflation still modest

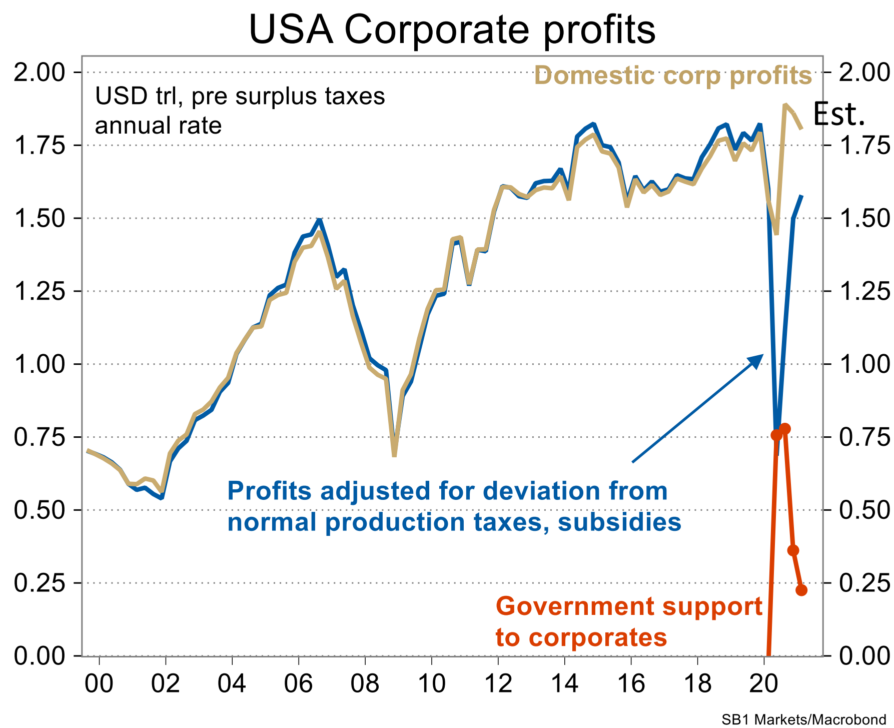


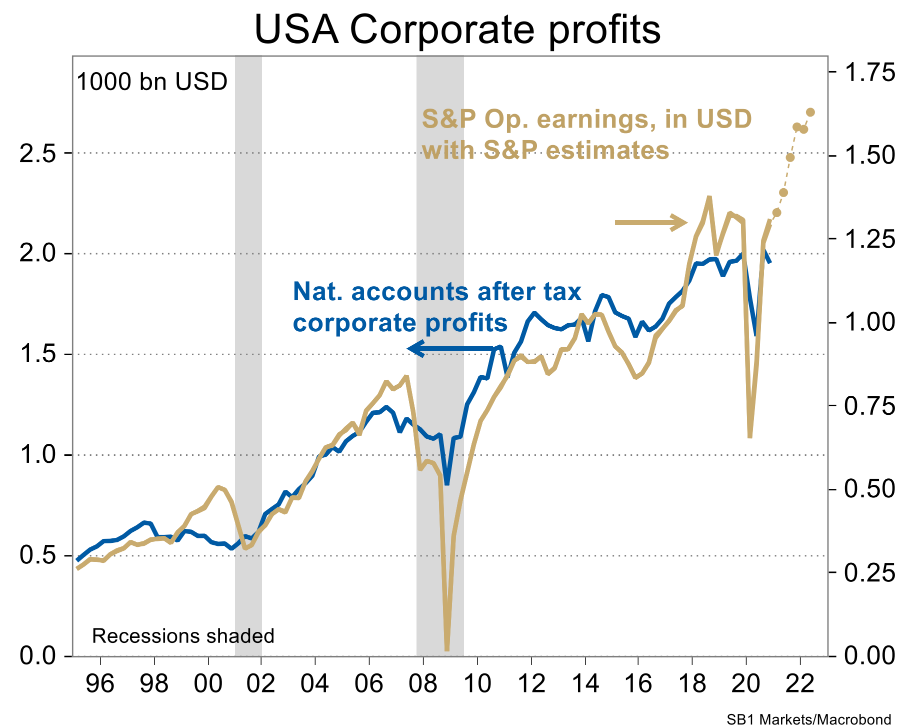




- Higher energy prices partly to blame but other prices rose faster as well in Q1
- The core PCE deflator (Fed's preferred measure) is up 1.5% y/y
- Nominal GDP grew at a 10.5% pace in Q1

# Less government subsidies in Q1, and a decline in corporate profits?

'Ordinary' profits probably rose sharply in Q1 but government support fell more?

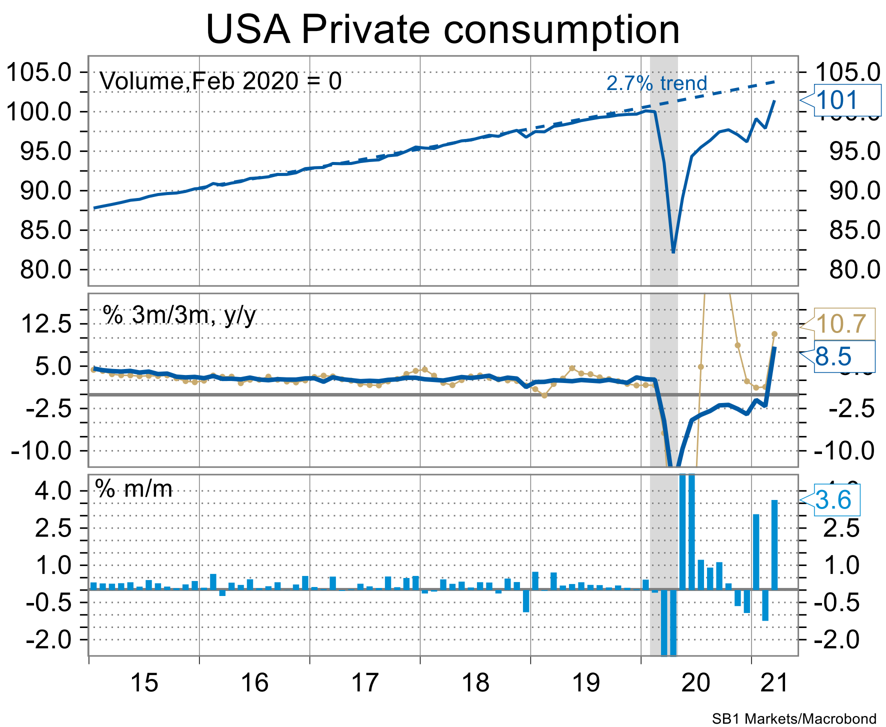


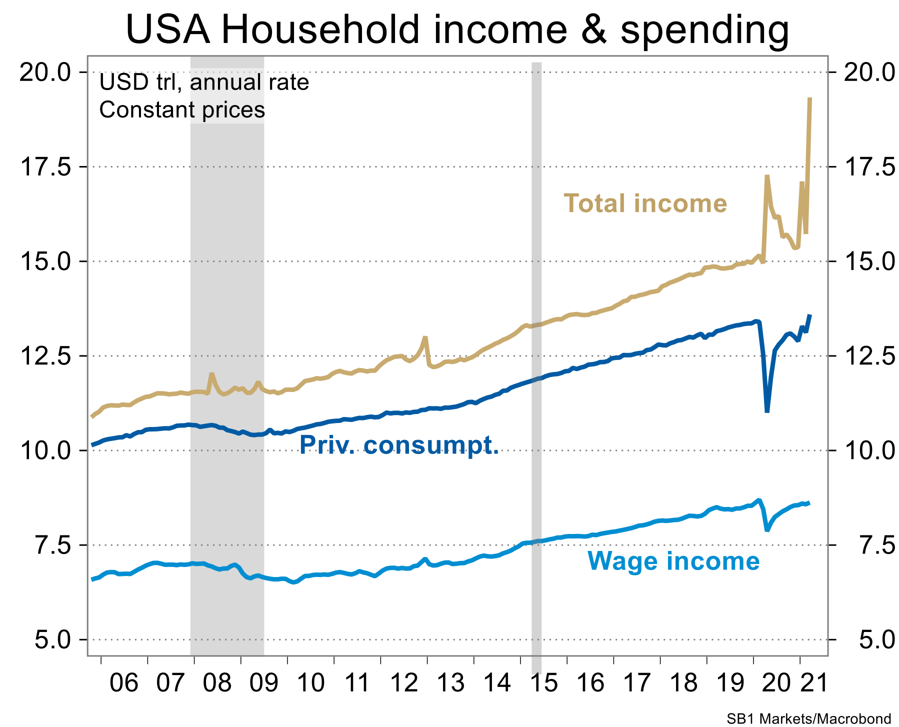




- **Government pandemic programs** have lifted **domestic corporate profits** at an unbelievable scale
  - » Profits have been kept up, even if the 'normal' profit generation collapsed in Q2 and Q3 as public support equalled >40% of a normal profit level!
- **Total profits** fell marginally in Q4, and we assume another decline q/q in Q1 as subsidies fell more than 'ordinary' profits rose
  - » This calculation is still rather uncertain as all data needed are not published yet
- We expect 'ordinary' profits (profits before subsidies) to strengthen the next quarters – but the longer term outlook is probably not that good
  - » The corporate tax rate will probably be lifted, if not as much as president Biden has proposed
  - » Wage inflation may accelerate

# The cheques arrived. Income +21%, spending +4%. So the most were saved

Consumption above the Feb-20 level, for the first time. In Q1, just 1 of 7 stimulus cheques were spent

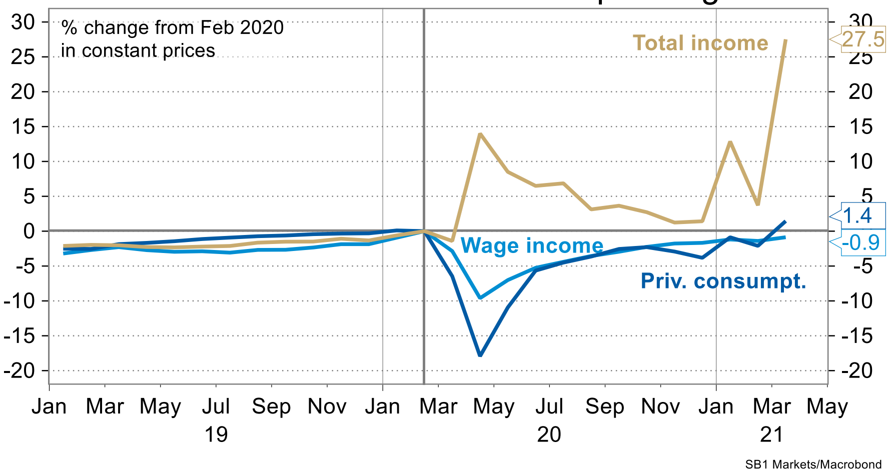


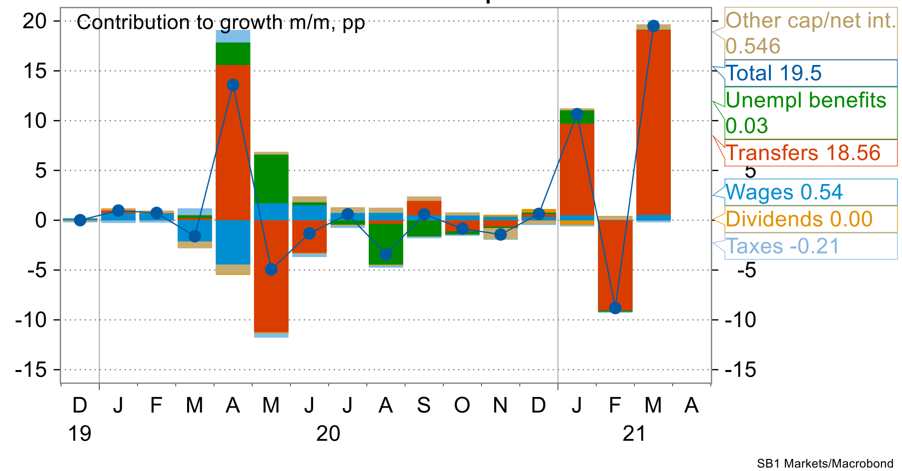

- **Private consumption** rose 3.6% in real terms in March (4.2% in nominal terms, 0.1 pp faster than expected)
- **Personal disposable real income** rose an unprecedented 19.5% (in March 21% before taxes etc, slightly more than expected), of which 18.5 pp was due to the USD 1.400 per person stimulus cheques distributed during the month. Wages & capital income contributed by 1 pp, in fact twice as more than a normal income growth rate per month
- **The savings rate** shot up 13.7% to of disposable income to 27.6% in March. In Q1 the savings rate rose by 7% to 21%.
  - » Income grew 12.7% in Q1, spending 2.6% (not annualised). Approx 11.5% of the Q1 income lift Q1 was due to the two stimulus packages. Spending rose some 1.6% faster than 'normal'. Thus, some 1/7th of the extra stimulus transfers were spent – and 6/7th have been saved – almost all of it very likely in bank accounts, as through last year. In addition, the Q4 savings rate was at least 6 pp 'too high'

# The last stimulus cheque is transferred. From here, wages will take the lead

USA Household income & spending

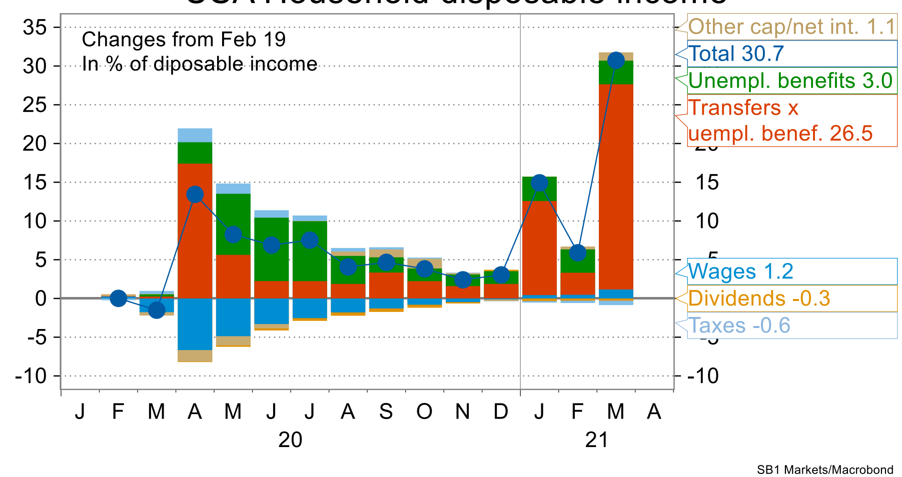



USA Household disposable income



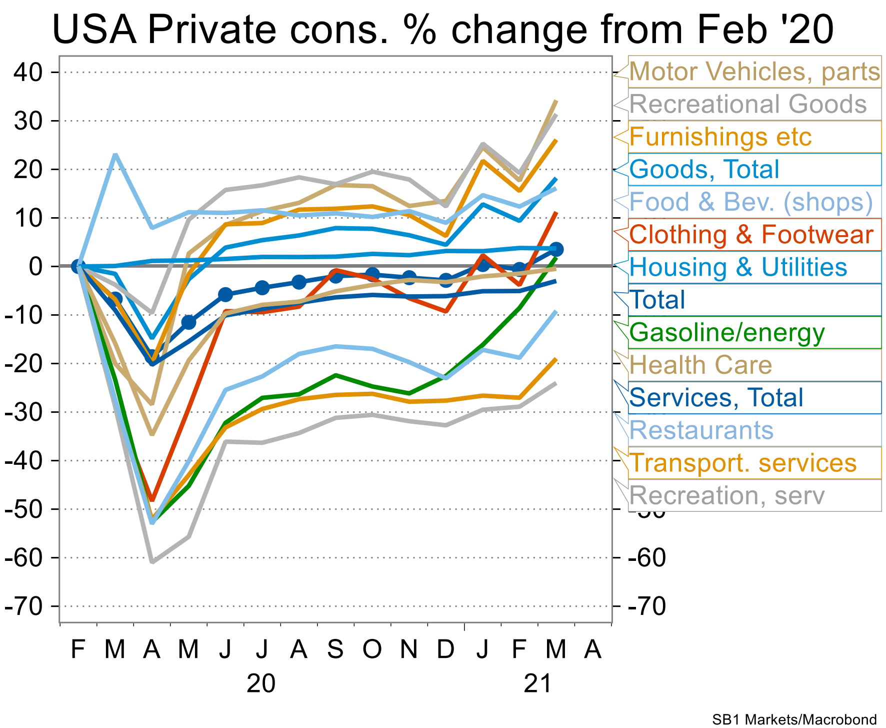

- **Household disposable income** shot up by 19.5% nominally in March. The extra stimulus transfers contributed with 18.6 pp of the lift
- Since before corona: Households have – in aggregate – been overcompensated big time by government support
  - » Household disp. real income is up 27.5% from Feb 2020, and by 30.5% in nominal terms
  - » Nominal wage income is slightly above the Feb-20 level, even if hours worked still is far below, as the average wage is sharply up
  - » Unemployment benefits are up equalling 3.0% of disp. income
  - » Other transfers are up equalling 26.5% of disp. income
  - » Government transfers have in sum been much larger than the decline in wages and other market-based incomes
- All these extra incomes (and more) have been saved, as it has not been possible to spend them where consumers wanted

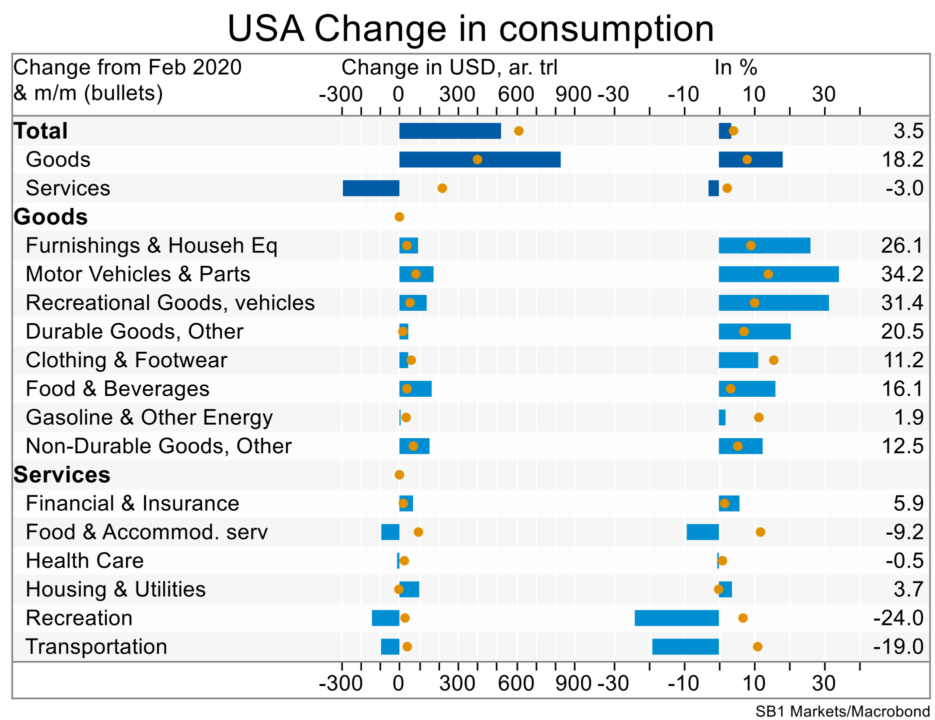
USA Household disposable income



# Spending up, everywhere – and finally the sum is above the pre-pandemic level

In value terms, March consumption of goods is 18% higher than pre corona, services are down just 3%

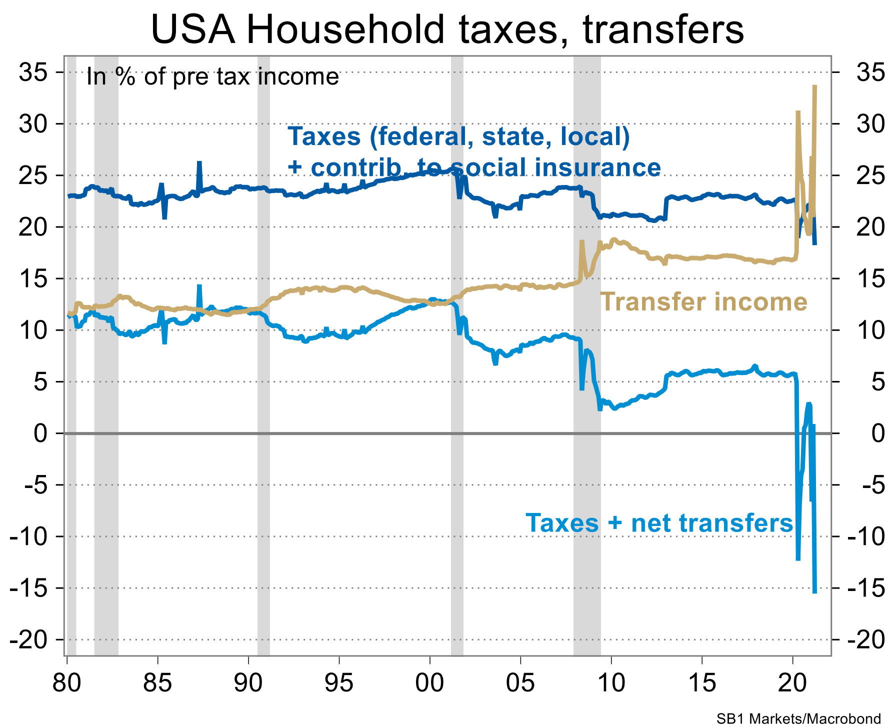


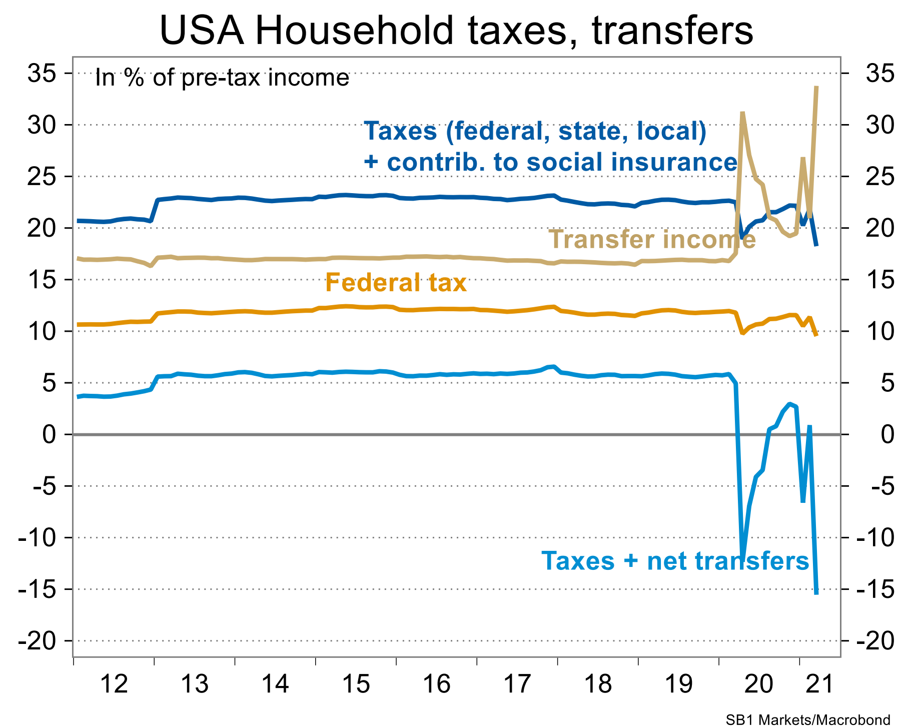




- Growth in **consumption of goods** has been driven by food & beverages (at home), autos (2nd hand), recreational goods & vehicles, and even clothing sales crossed the pre-Covid line in March!
- **Consumption of services** is down 3% vs Feb 2020, due to a 9% shortfall in restaurants/hotels, and 24% in recreational services. Transport is still down 19%
- Will consumers continue to return to more **normal spending habits**, i.e. go to restaurants, theatres, parks, go travelling, attend schools etc. when it is safe, and allowed? No doubt. At the same time: Consumption of goods will have to normalise too!

# Some strange things are happening….

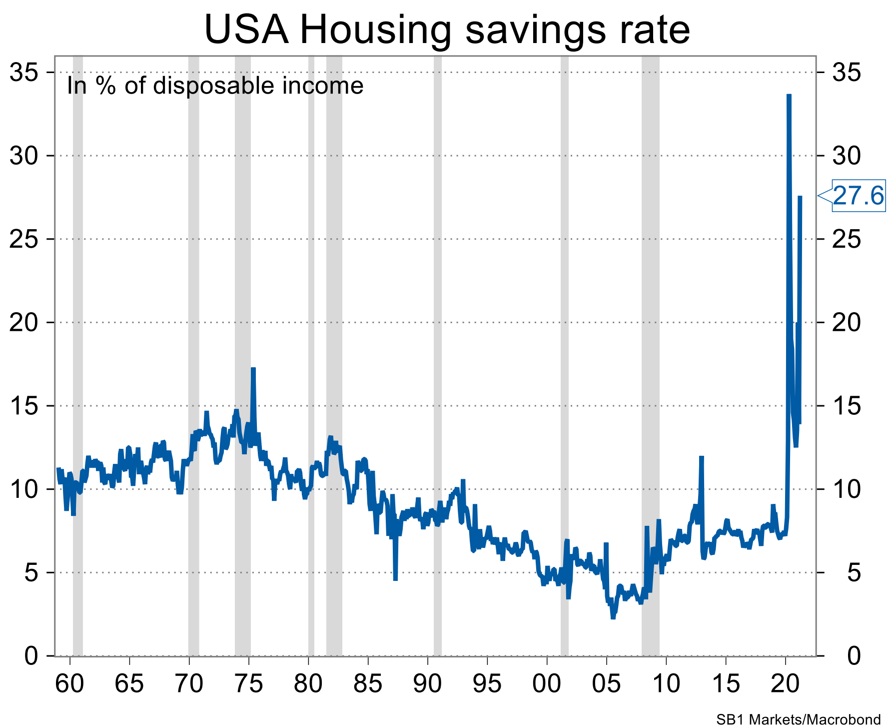
At one stage, Uncle Sam will need to get his money back

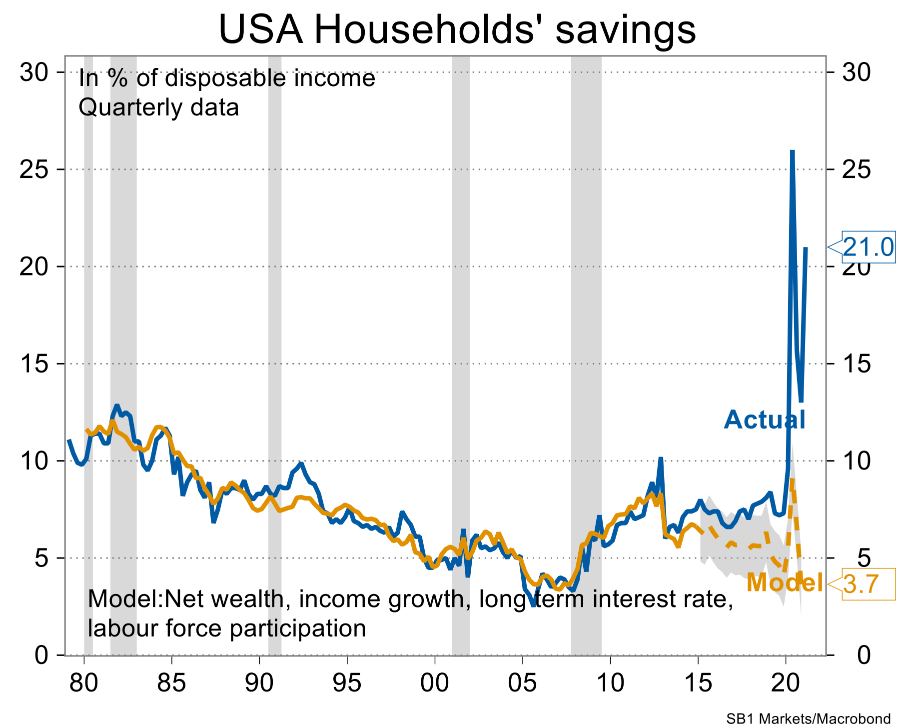


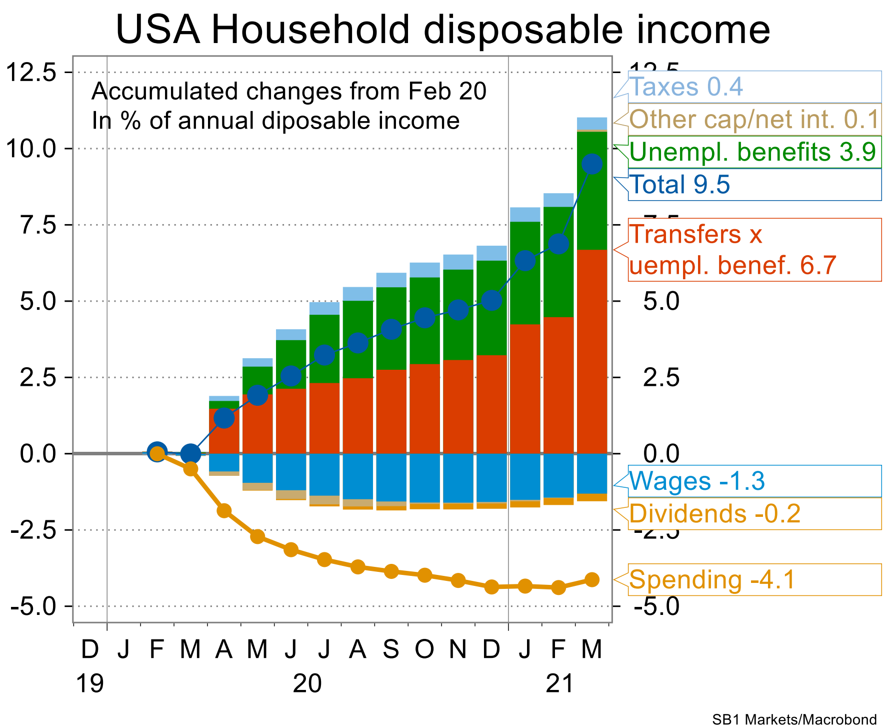
# The wall of money: The savings rate the 2nd highest ever in April

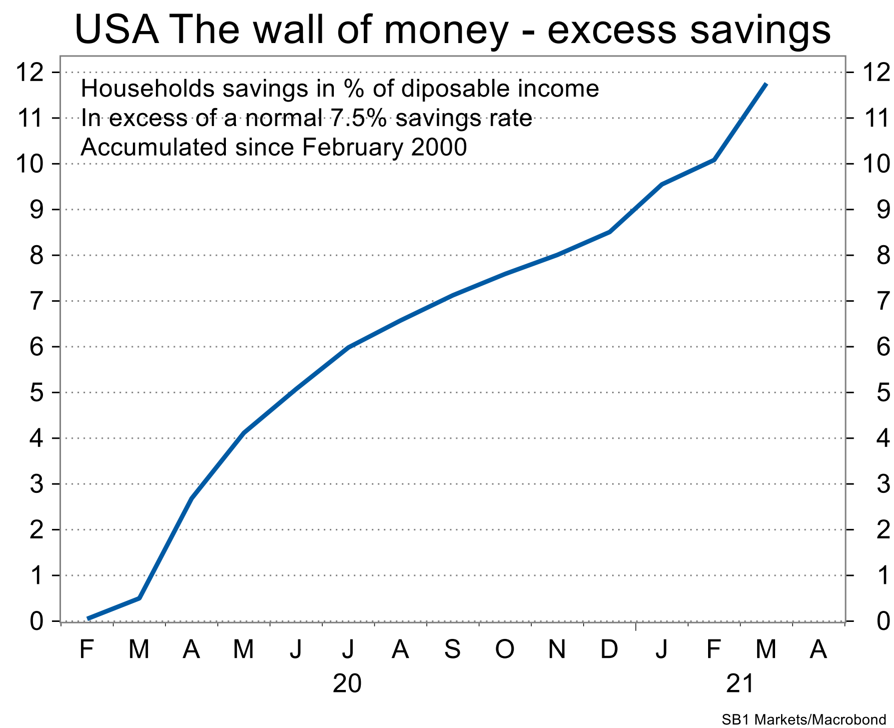
Just the stimulus cheques & virus can explain the extreme savings rate, no normal model



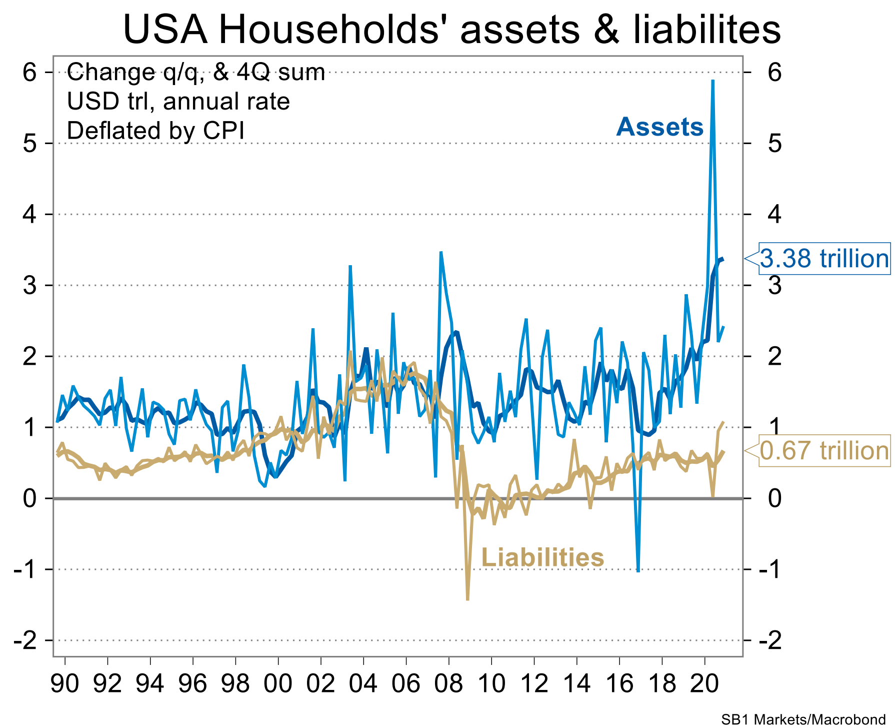
# The wall of money: How it is built – and the height

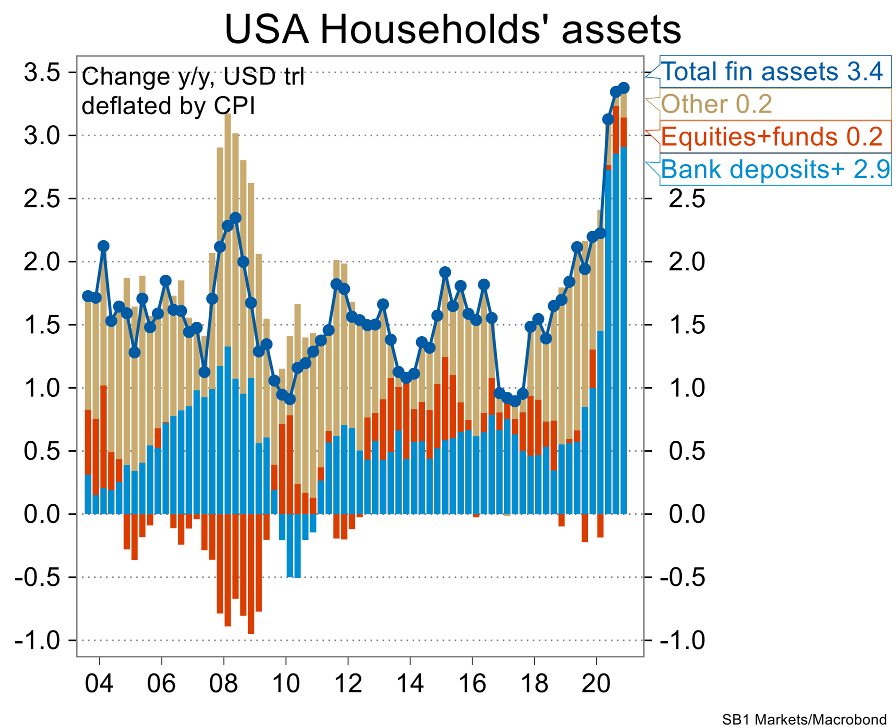


# The savings glut has not been used to pay down debt or to buy equities

Household debt has increased faster than normal. 90% of the excess savings remains in the bank!

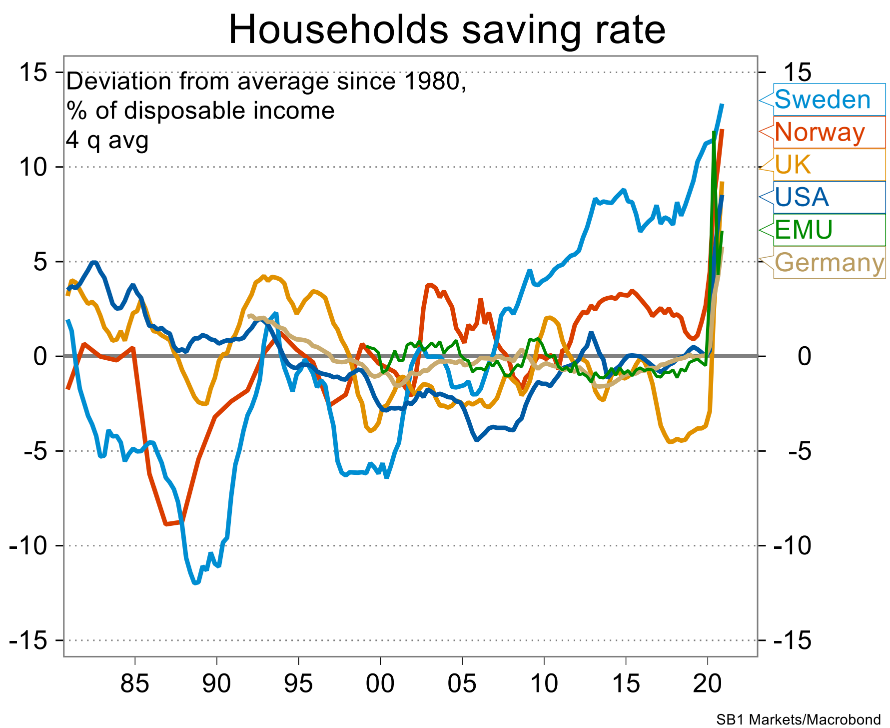


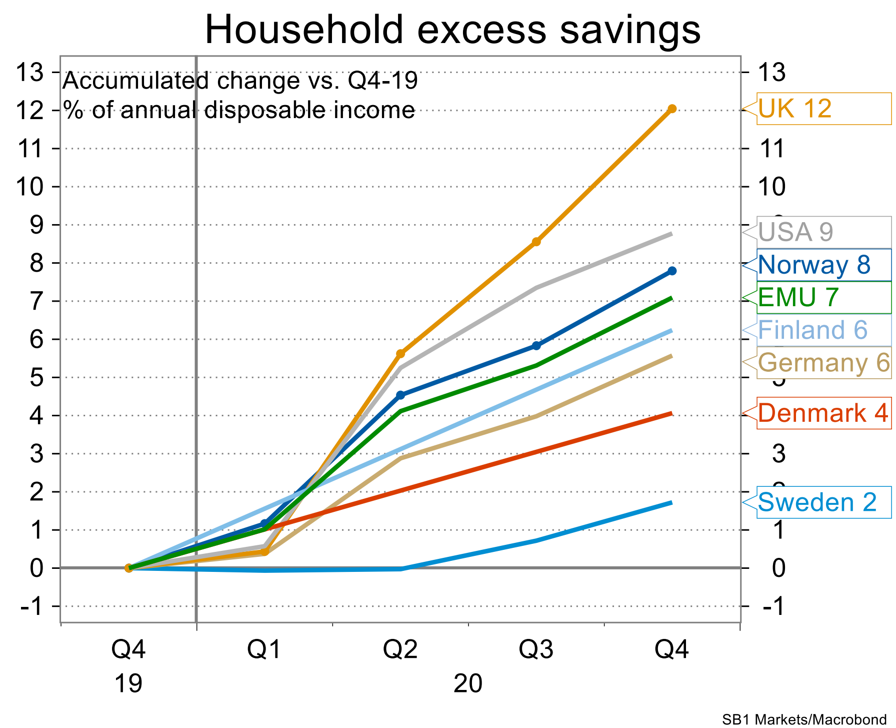



SpareBank 1 MARKETS

# It is not just in America, of course

Household savings have soared almost everywhere as consumption of services have fallen sharply

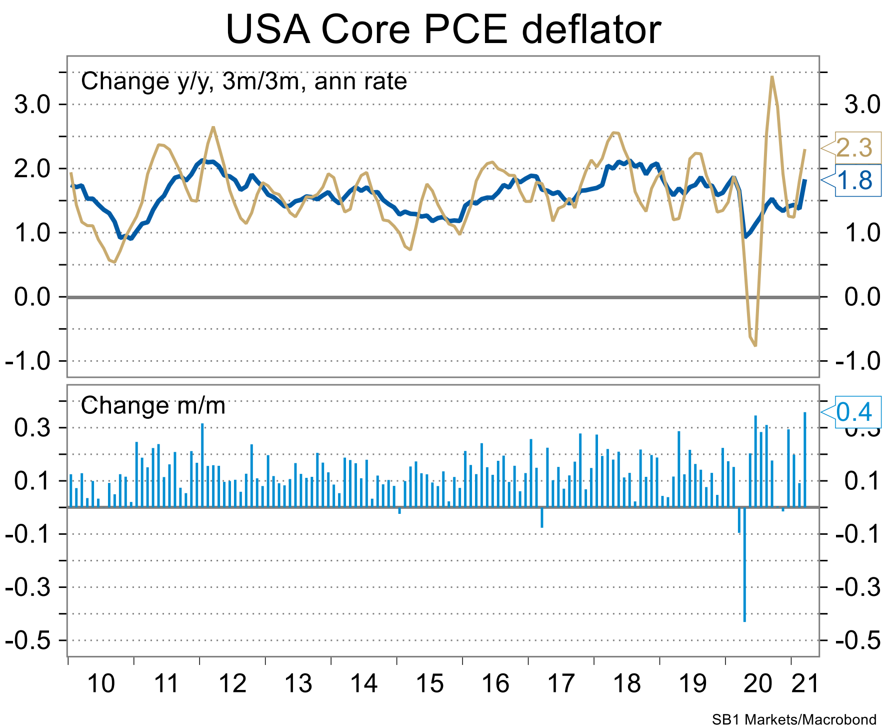


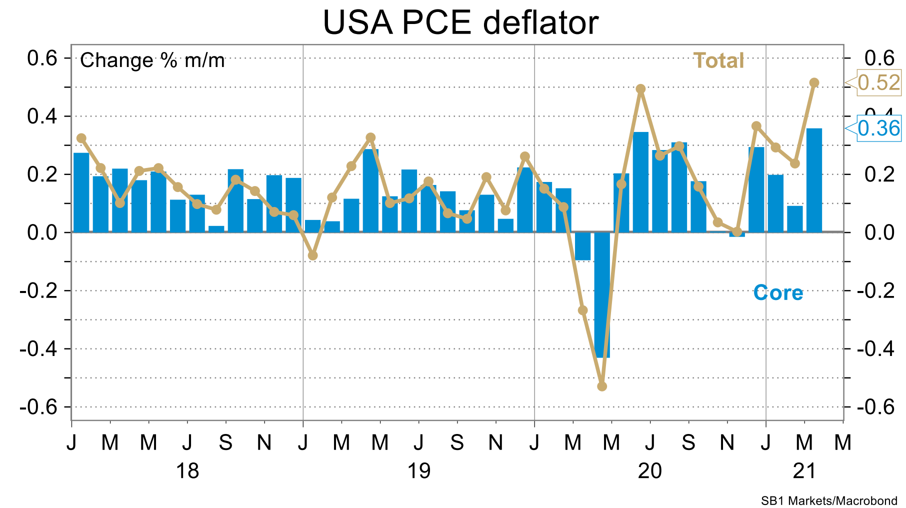



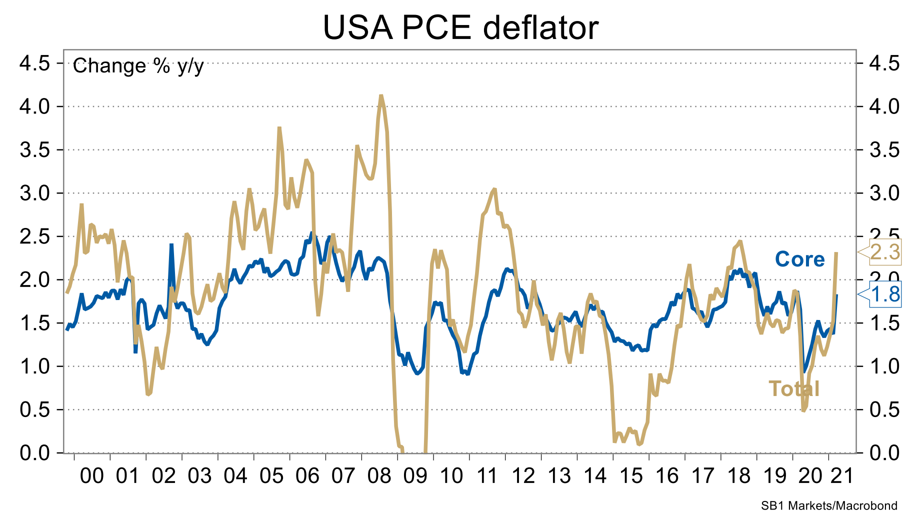

- We very much doubt these synchronised and unprecedented increases in savings are due to a monumental change in savings aspirations

# Core consumer prices (PCE) up 0.4% in March, +0.4 pp to 1.8% y/y, close to exp.

## The annual rate will climb to well above 2% in April, but the Fed has pledged to stay calm

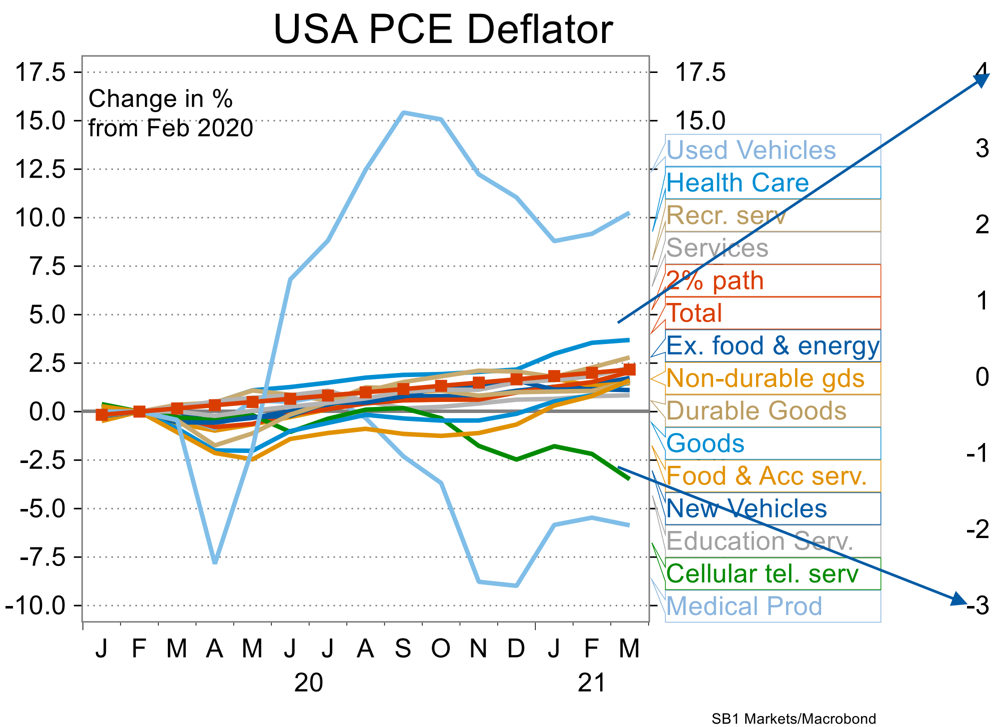


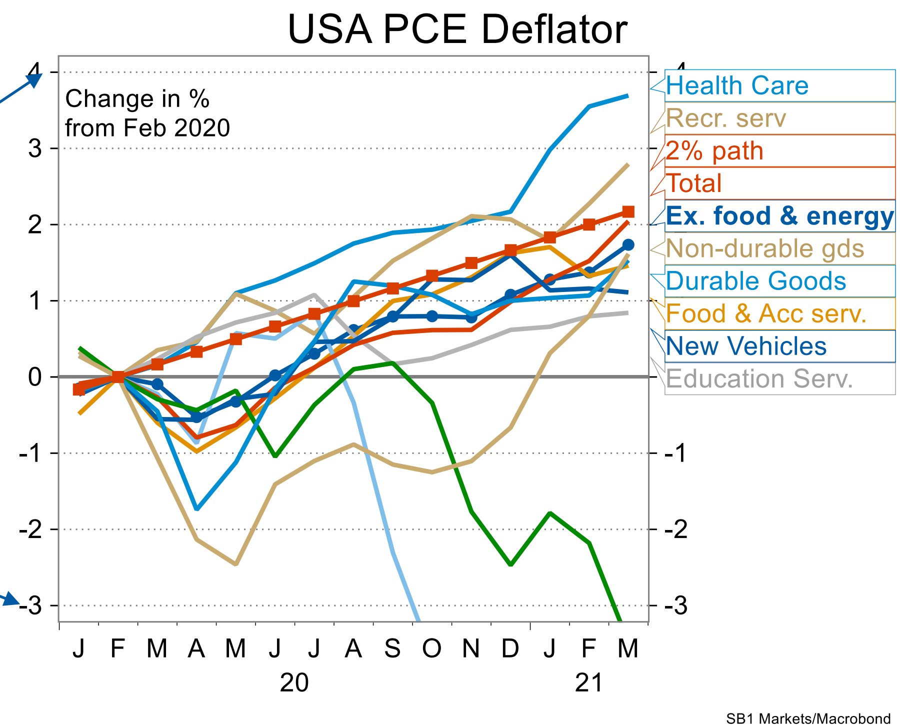




- **The core price deflator** rose 0.4% in March, 0.1 pp more than expected but the lift in the annual rate to 1.8% was as expected. In Q1, prices rose at a 2.3% pace
  - » I April last year the core PCE fell by 0.4%, and another hike in the annual rate is likely
- **Total PCE deflator** rose 0.5% too, and the annual rate rose 0.7 pp to 2.3%, as expected. In April, another hike in the annual growth rate is likely

# Most prices up in March, recreational services & goods to blame the most

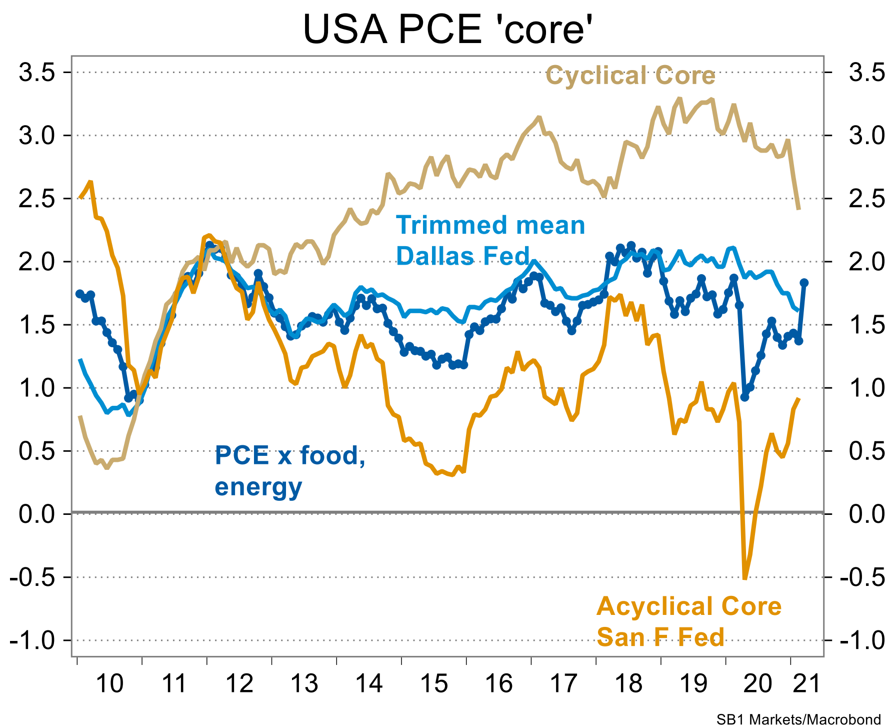



- Medical products & cell phone services became cheaper

# Mixed price signals: Typical cyclical price inflation down, as is the trimmed mean

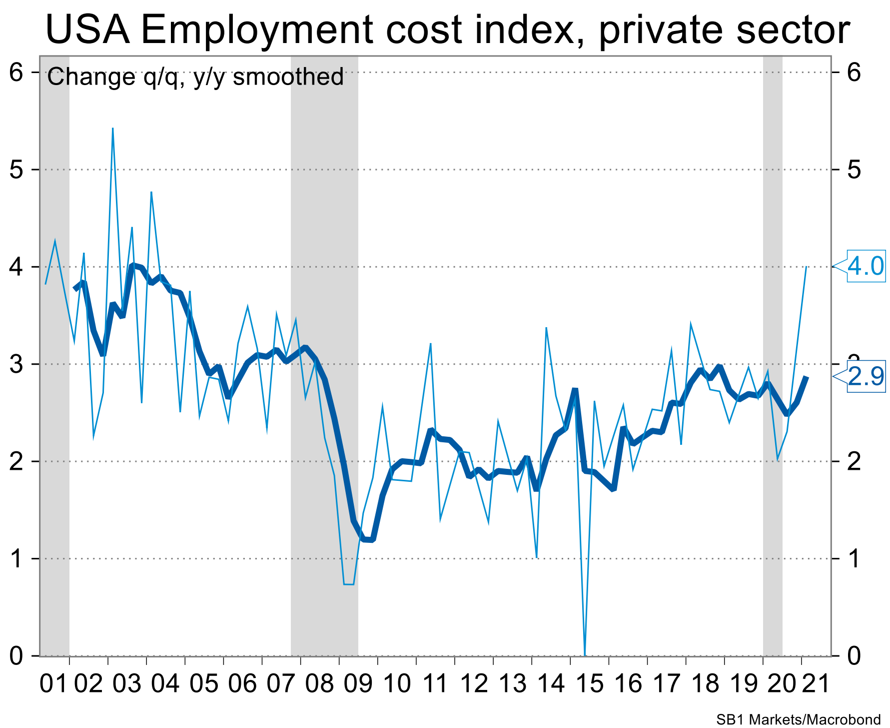
The a-cyclical index at 0.9% - and on the way down

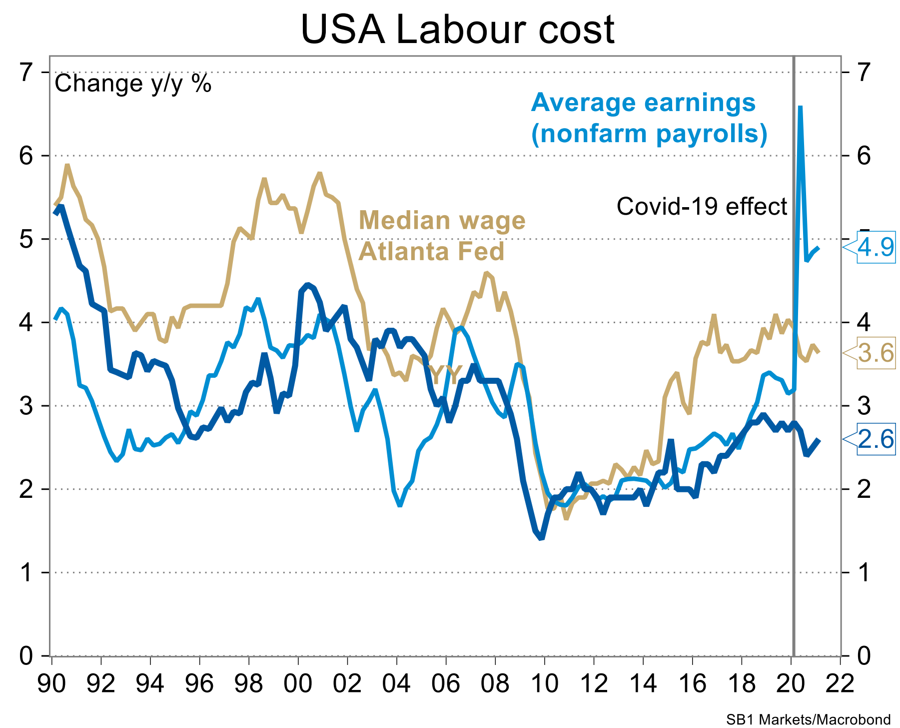



- The trimmed mean has fallen to 1.6% (in March), from 2% in 2019

# Employment Cost Index 'exploded' in Q1. Still much more needed…

… before the Federal Reserve really has to worry. However, Q1 is a warning sign…

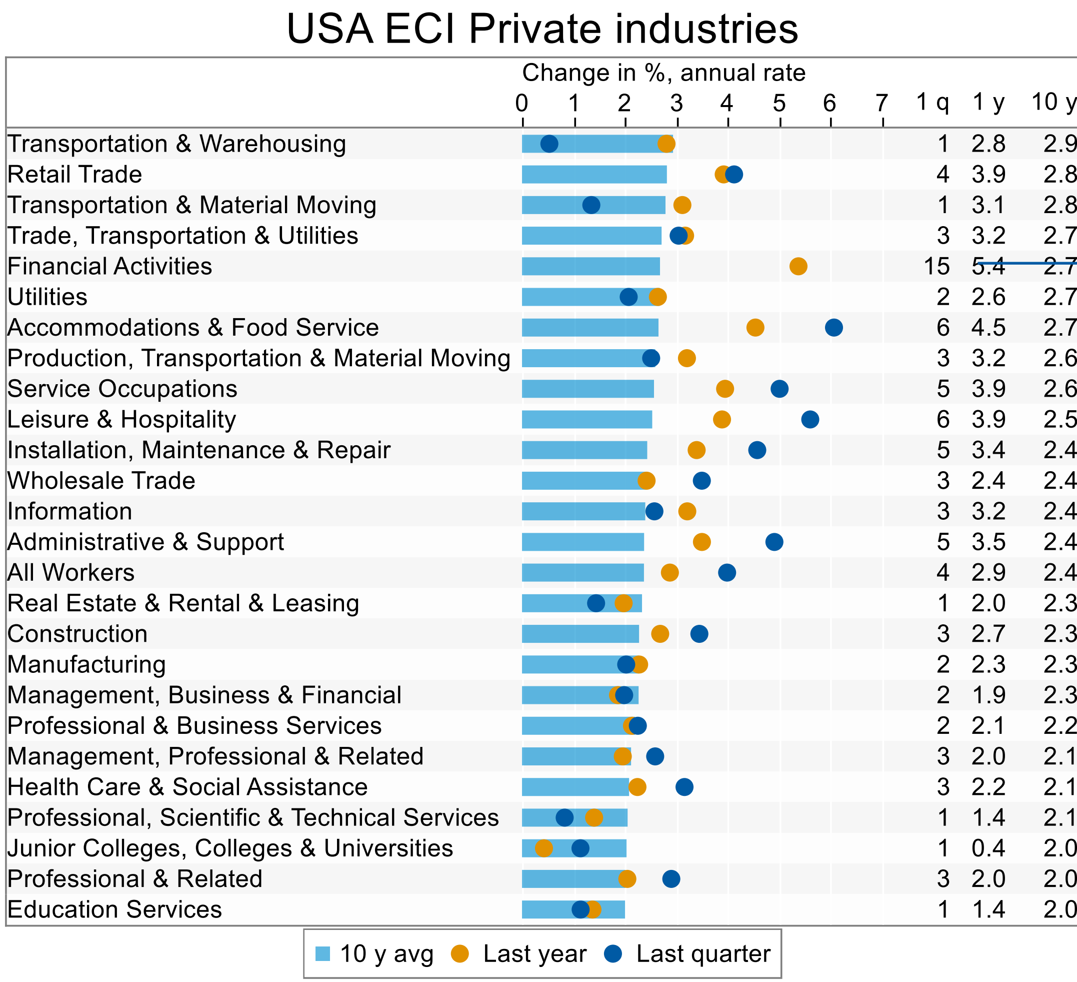



- The **ECI for all civilian workers**, which measures wages for the same types of jobs, rose by 0.9% q/q in Q1, <u>0.2 pp more than expected</u>. Wages rose 1% q/q, benefits 0.5%
  - » The annual rate rose by 0.1 pp to 2.6%. The annual growth rate has been trending down the past two years, but less than the acceleration to 2018 from 2010. The last year, growth in **Atlanta Fed's median wage** has fallen somewhat too
- In the **private sector** wages rose by 1% q/q, the highest quarterly rate since 2004. The annual rate rose to 2.9%
  - » **Financial activities** contributed heavily to the lift in average wages, by 0.3 pp to the 1% growth in private sector wages
- **Average wages** (monthly nonfarm data) or **average hourly compensation** (quarterly national accounts) have been useless in monitoring wage growth through the pandemic
  - » As the employment mix changed dramatically when low paid workers were discharged at much faster pace than higher paid during the pandemic, these averages told nothing about the 'normal' wage growth

# Wages in the financial sector rose sharply in Q1…

## But overall wage inflation is slowly accelerating

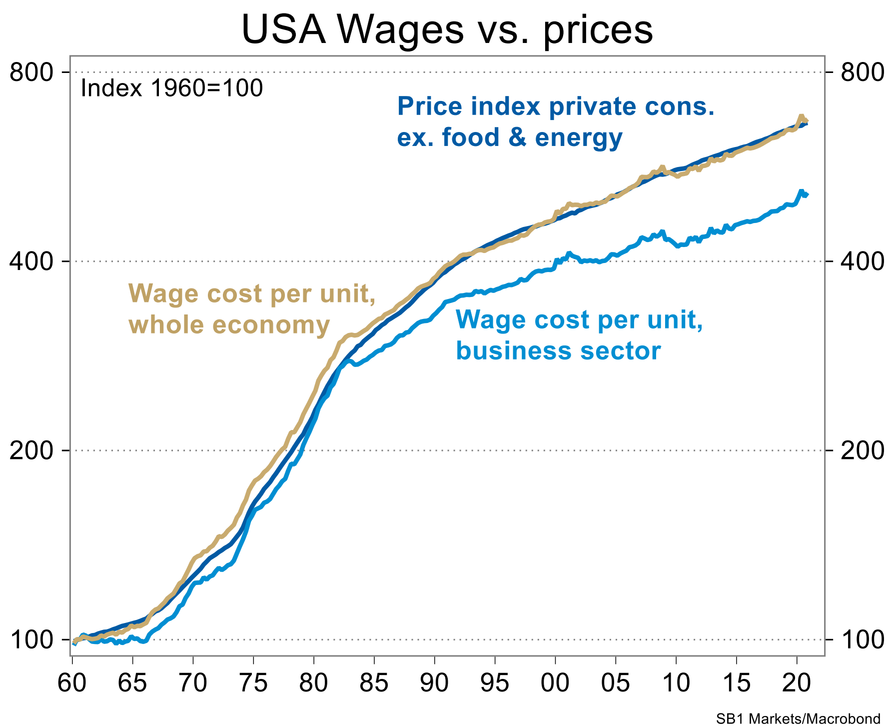


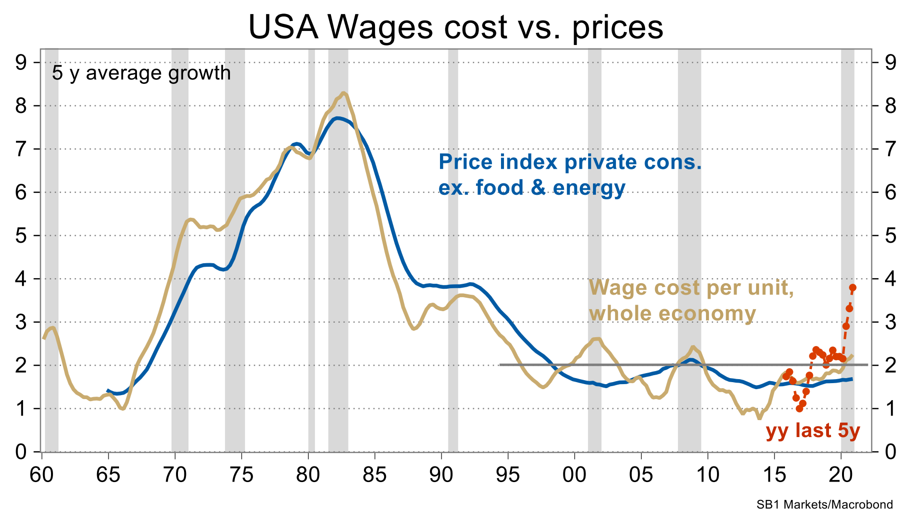

SB1 Markets/Macrobond

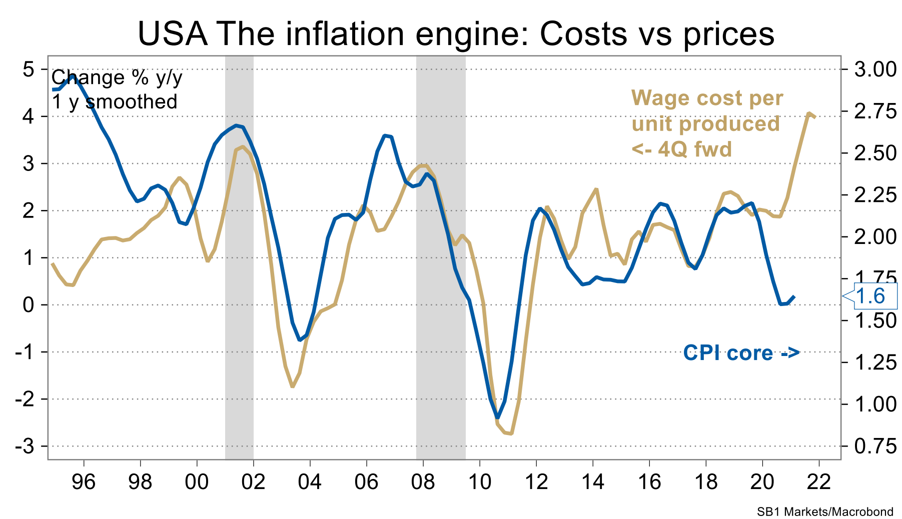
- **Wages in financial activities** rose by 3.6% q/q (15 annualised, bullet showed off the chart below ☺) and contributed by almost 0.3 pp to the 1.0% lift in employment costs in the private sector
- Thus, **ex finance**, the average lift in ECI in Q1 was in line with expectations (0.7%)
- However, 16 sectors reported higher q/q employment cost inflation in Q1 than over the past year, 9 sector slower growth
- In addition, 14 sectors are reporting higher annual wage growth than the average of the past 10 years, just 7 sectors are reporting lower than average wage growth
- Employment cost were drifting upwards before the corona crisis

# Just a reminder: Wage costs are driving the price level & inflation cycles

## Before corona: Unit wage costs were drifting upwards to above 2%, but has not accelerated (for real)



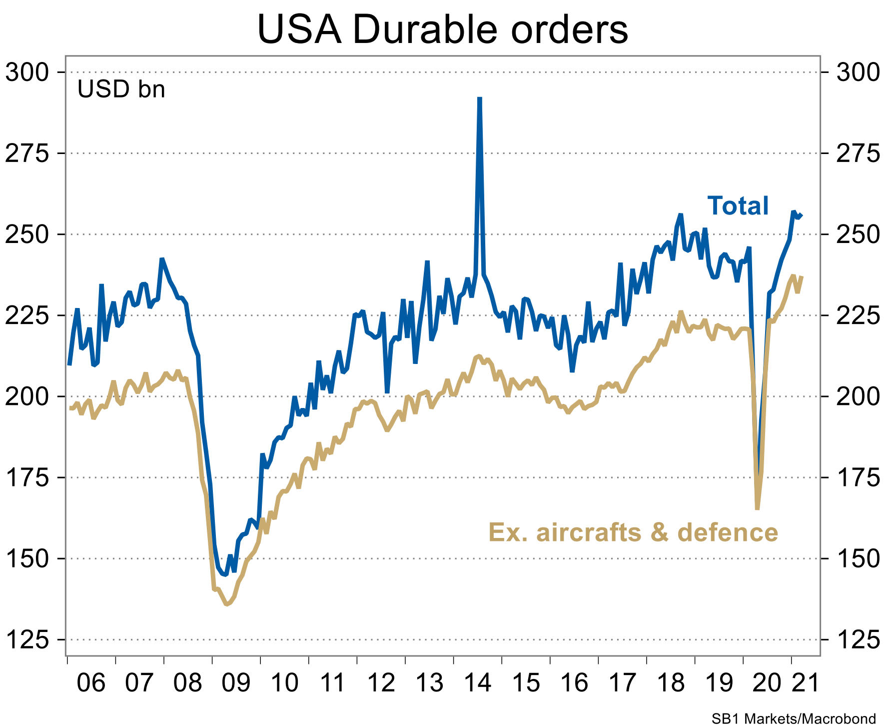



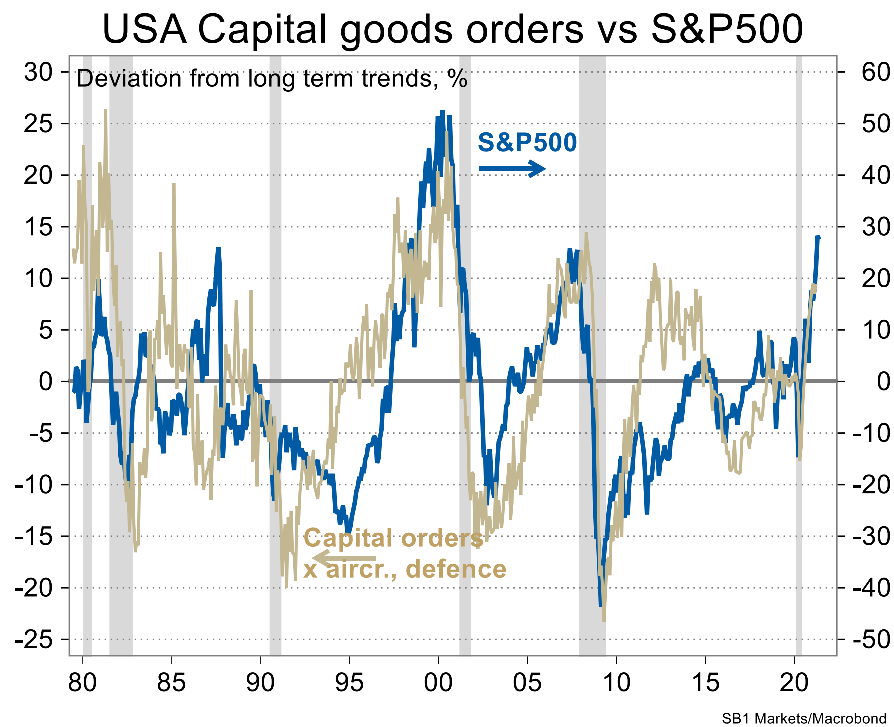




- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- The rapid increase in ULC through last year was very likely not ‘for real’, even if the ULC in principle should have been neutral vs the employment mix, as both average wages and average productivity should have changed at the same pace.
- We deem the ECI to yield the best description of wage inflation now

# Durable orders up again in March, levels very high – and surveys still strong

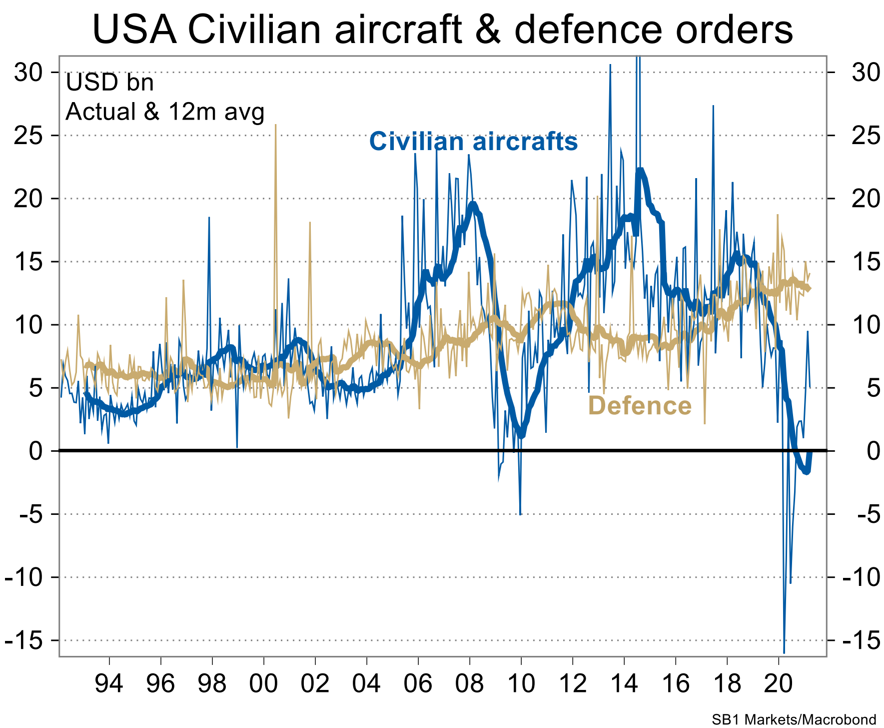
## The order inflow was still below the Jan level. However, surveys indicate further growth in Q2



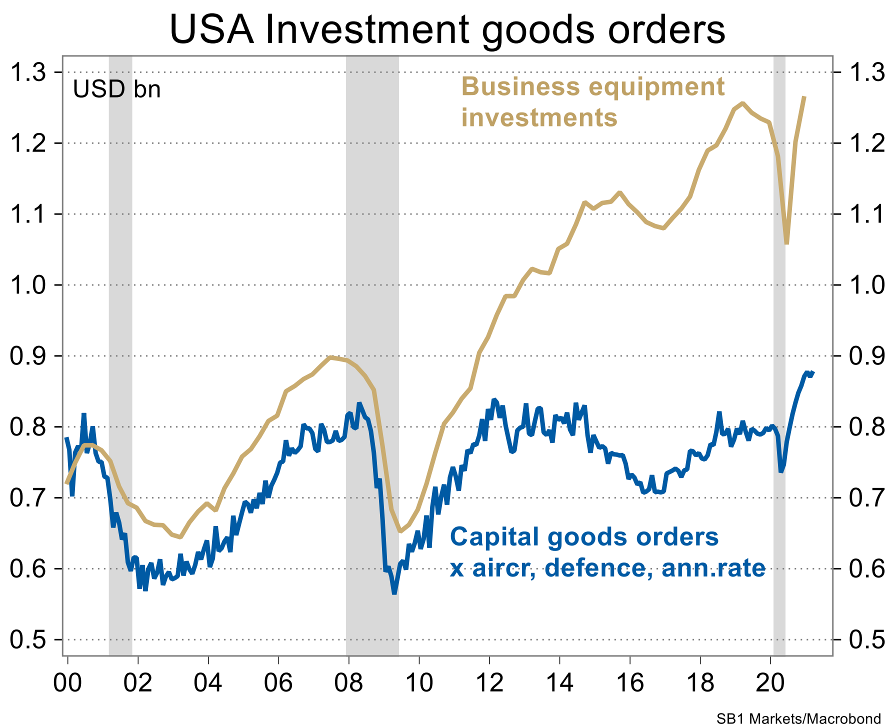

- **Total durable orders** rose by 0.5% in March, expected +2.2% following the 1% drop in February
- **Core orders** (ex aircrafts & defence) grew by 2.3%, expected up some 1%, following the 2.4% decline in Feb
- **Core investment goods orders** was up 1.2%, slightly more than expected and more than the decline in Feb
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

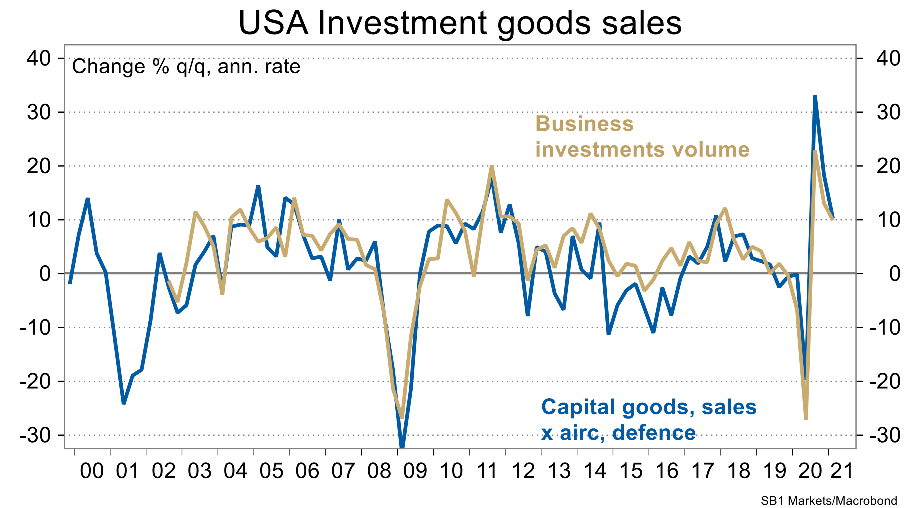
# Aircraft orders down in March, still net positive




- Compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters is not surprising at all – even if the USD 40 bn <u>net</u> cancellations to August from March were unprecedented

# Core capital goods orders & sales up in March & in Q1, +10%

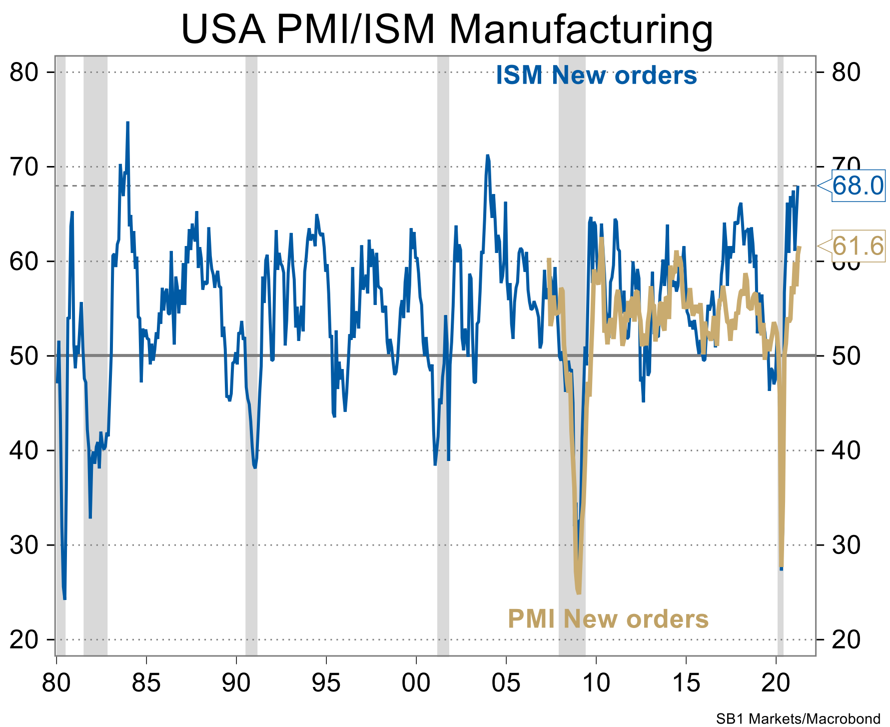


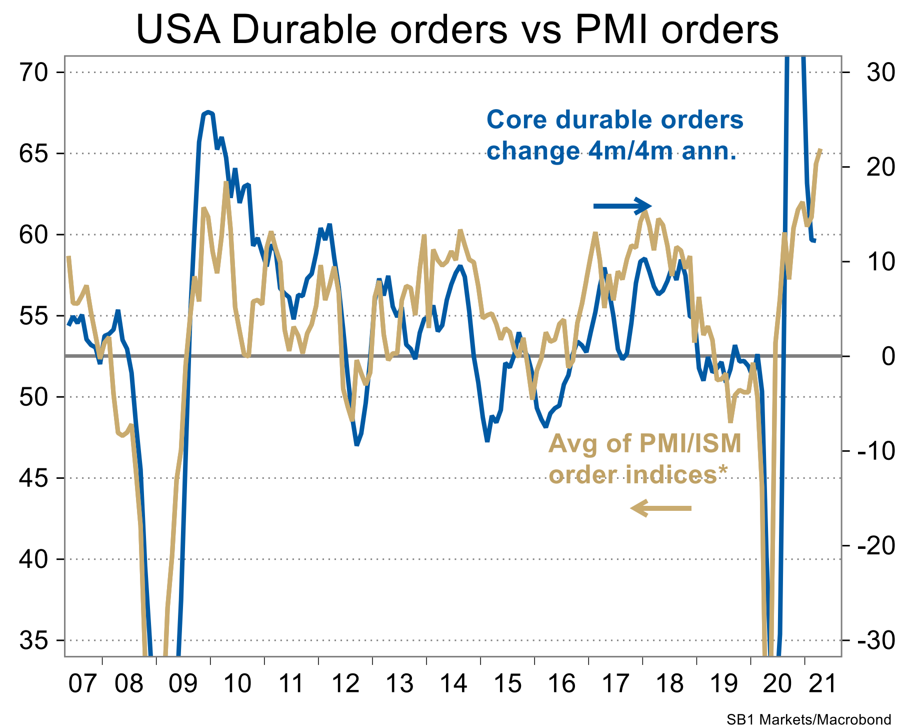





- Business investments rose by 9.9% in Q1. Business surveys signal a further increase in Q2 as well – while the order inflow stagnated through Q1

# The ISM/PMIs are signalling a further substantial lift in order inflow

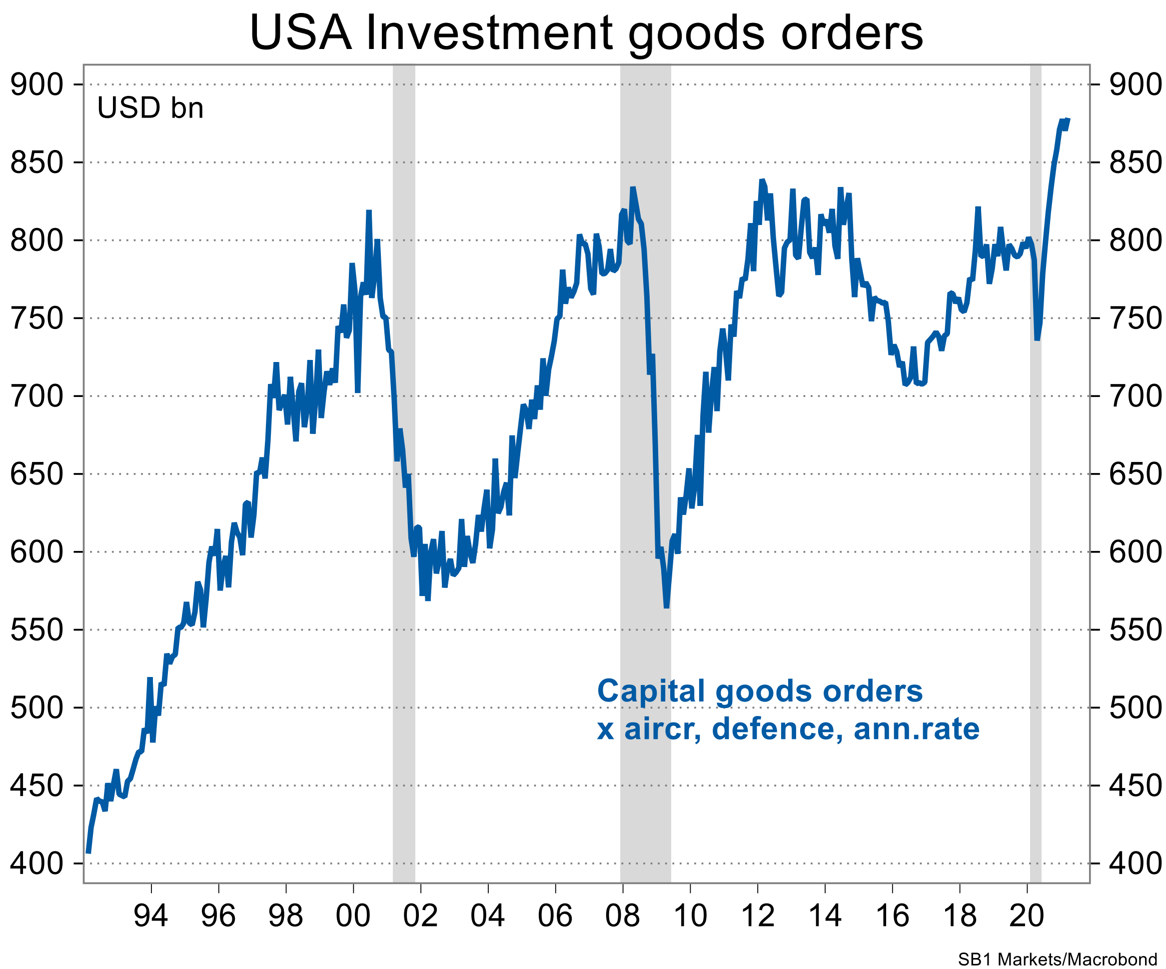


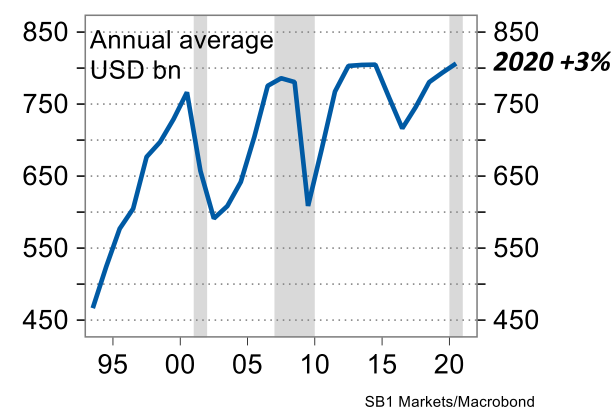

* The ISM order index is

# Investment orders: The most shallow and the shortest downturn ever

Can you spot if anything happened around 2020? Investment goods orders rose 3% from 2019



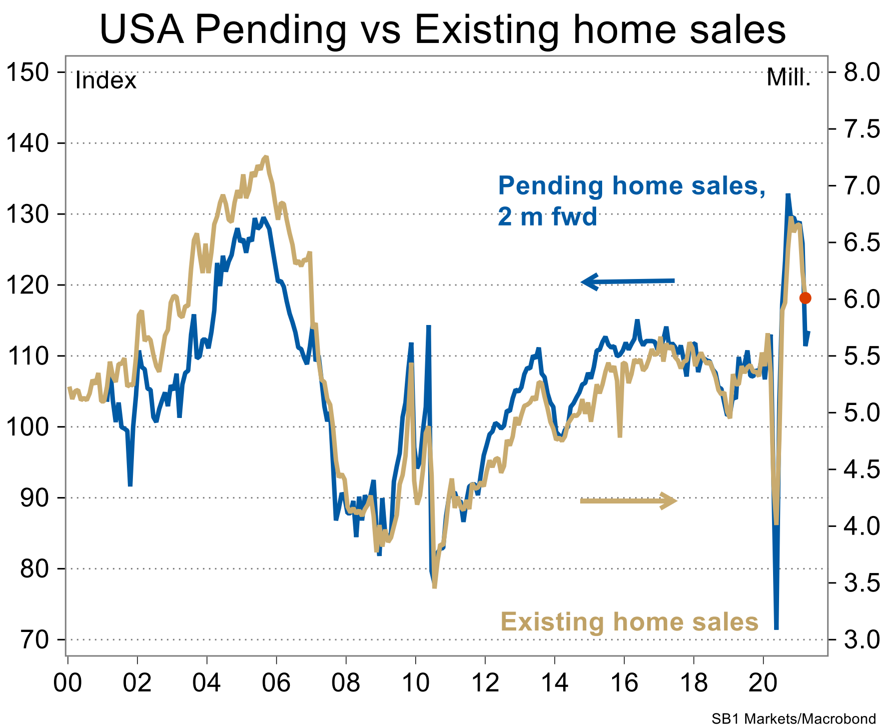

- The areas in the 'Vs' or 'Us' describe the aggregated losses during downturns
- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
  - » Usually, the decline in investment goods orders, as well as in actual business investments, are stretched out over time, typically one year or even more. Then it takes 1- 2 years to recover back up to the pre-recession level. Now, the decline lasted 2 months, and the recovery up to the pre-crisis level lasted just 3 months ☺

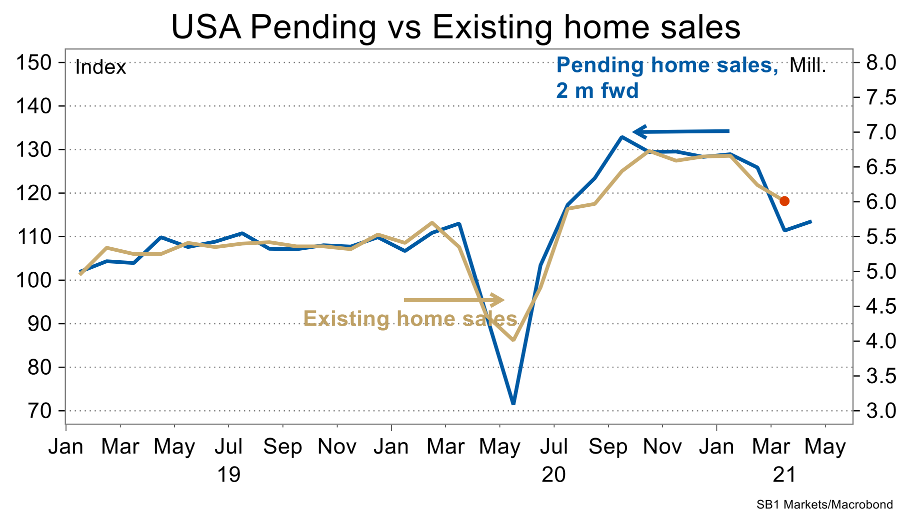


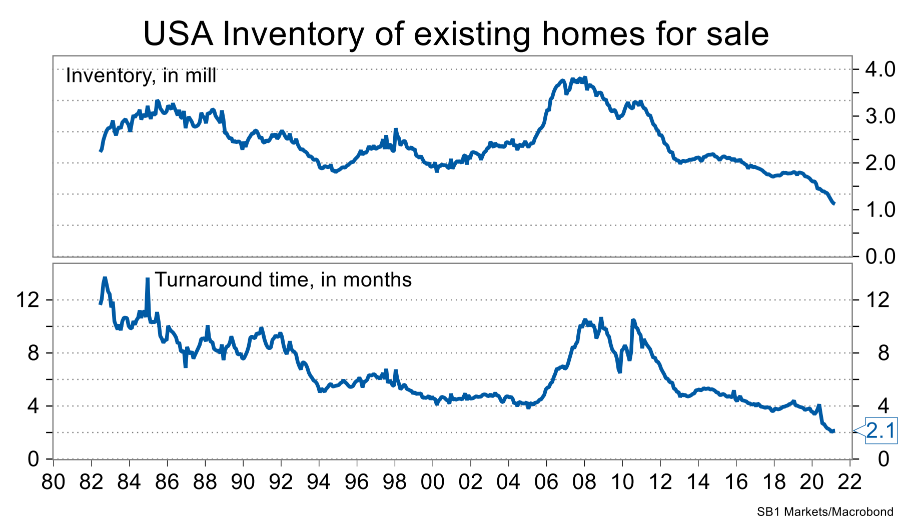
SpareBank 1 MARKETS

# Pending sales marginally up in March but still down 15% from the local peak

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



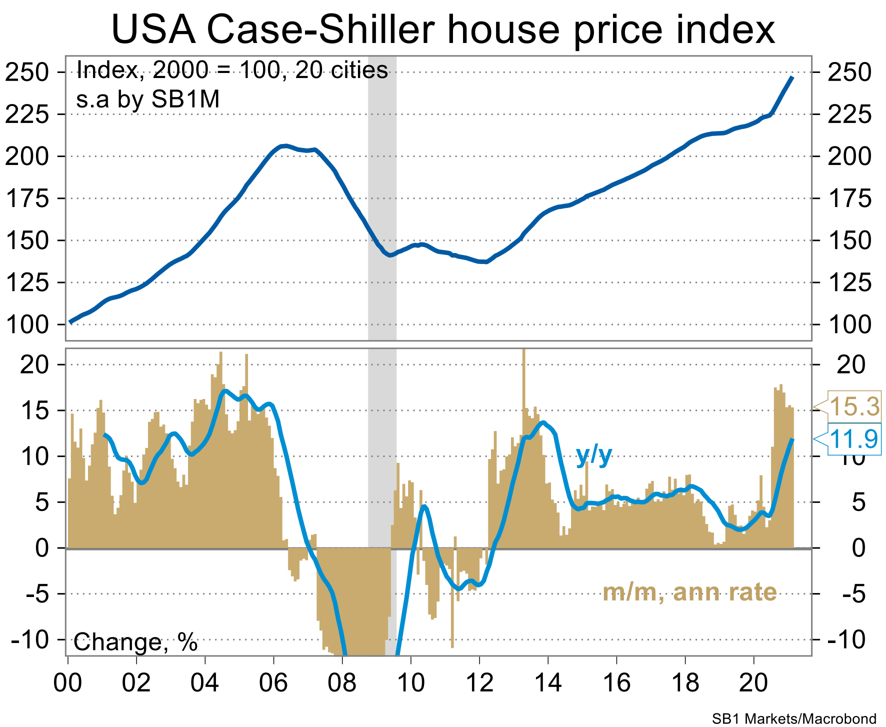



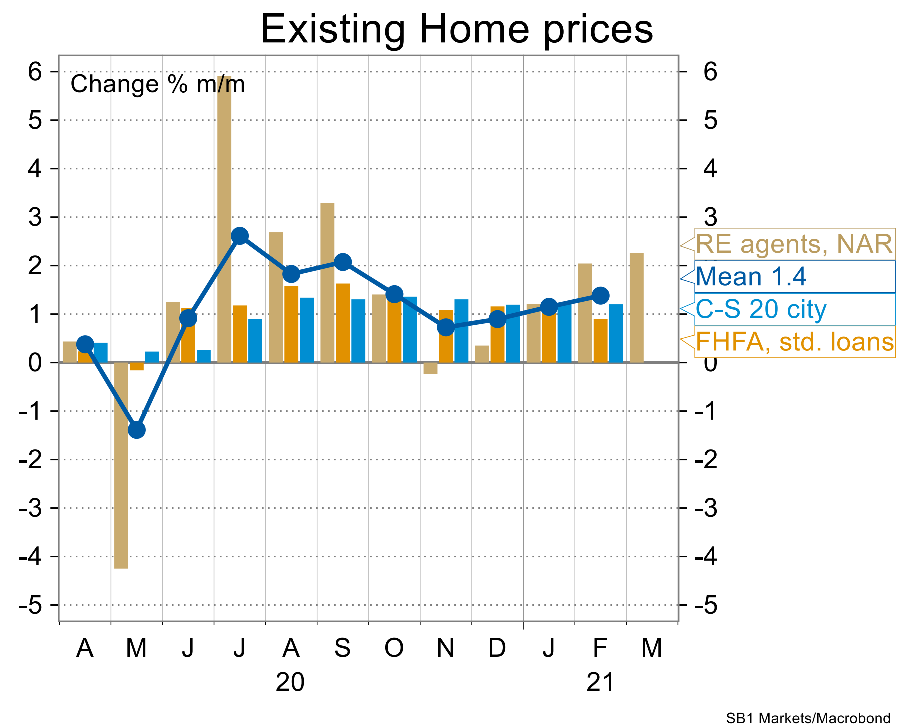

- Pending home sales rose by 1.9%, expected up 4.0%

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

# House price prices are still climbing fast – Shiller’s index up at a 16% pace

.. and by 12% y/y

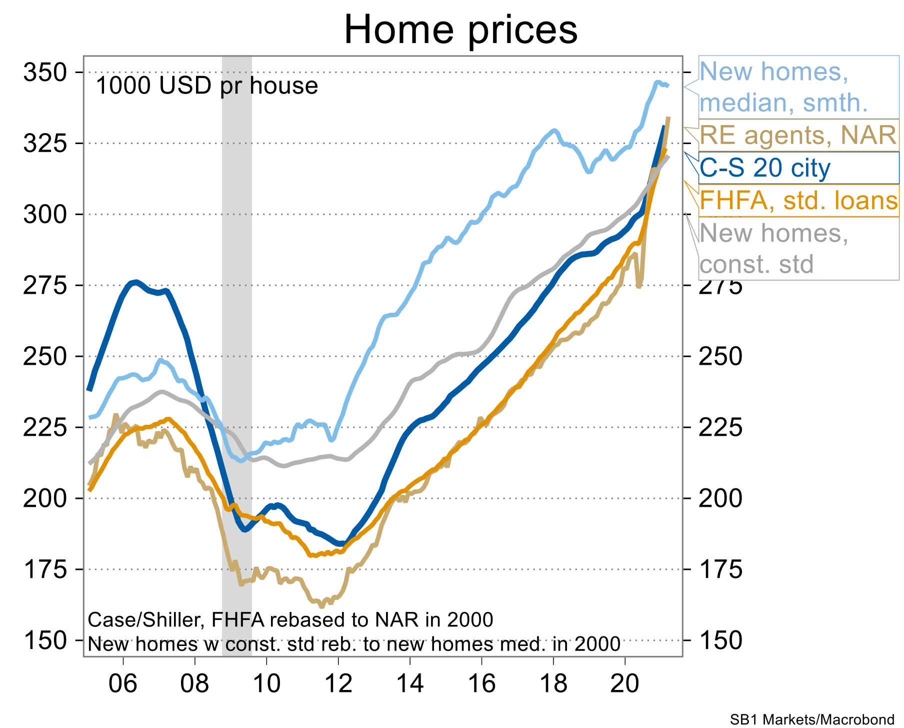


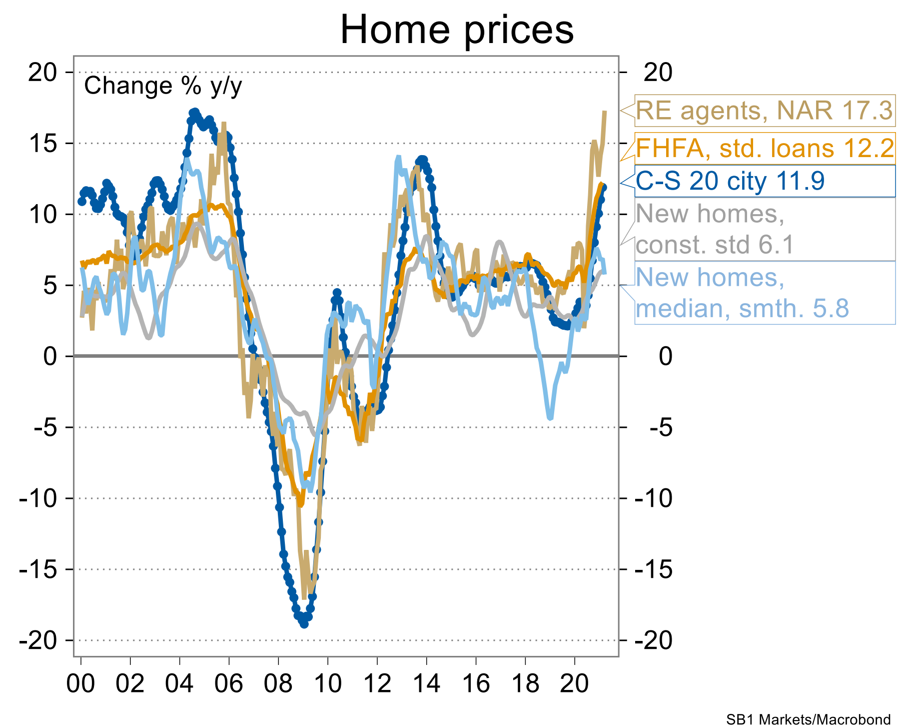




- S&P’s Case/Shiller’s price index rose 1.2% m/m in Feb (3 m moving avg), in line with the previous months, and a tad stronger than expected, and the annual rate at 11.9% was 0.1 pp higher than expected
  - » The 8-month (since the take off last July) pace at 16% is just marginally below the ATHs in 2004 and 2005. A corona crisis was just what the housing market needed, at least the decline in mortgage rates was appreciated ☺
- Other price indices have also reporting a sharp increase from July last year onwards. In Feb the ‘official’ FHFA index rose by 0.9%. Relators reported 2.0% in Feb, and then another 2.3% m/m in March. Check the annual rates next page

# The realtors reported a 17% y/y price appreciation in March

## The 'official' FHFA price index is up 12.2% y/y



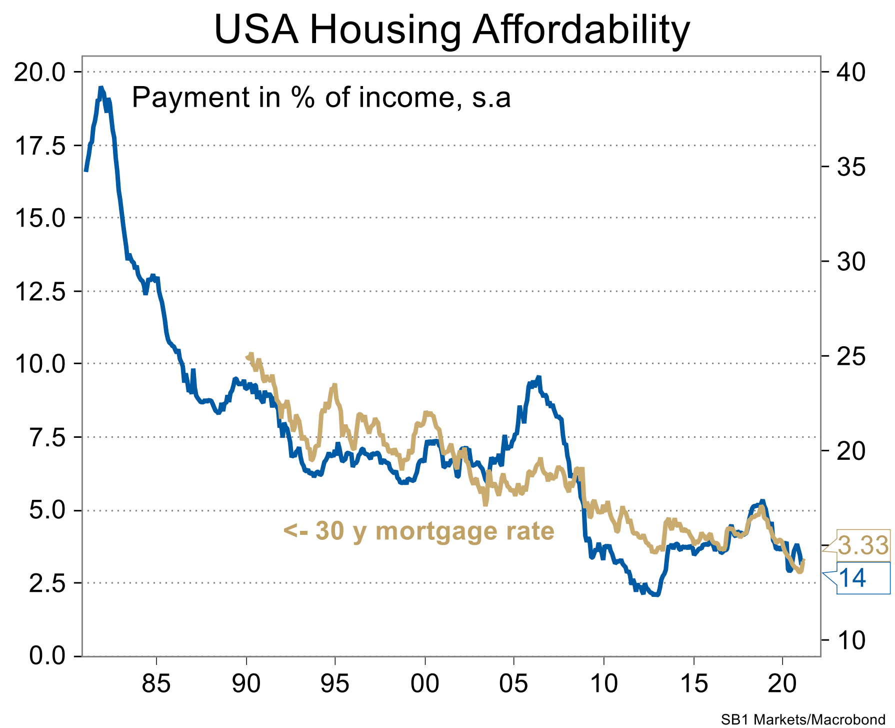



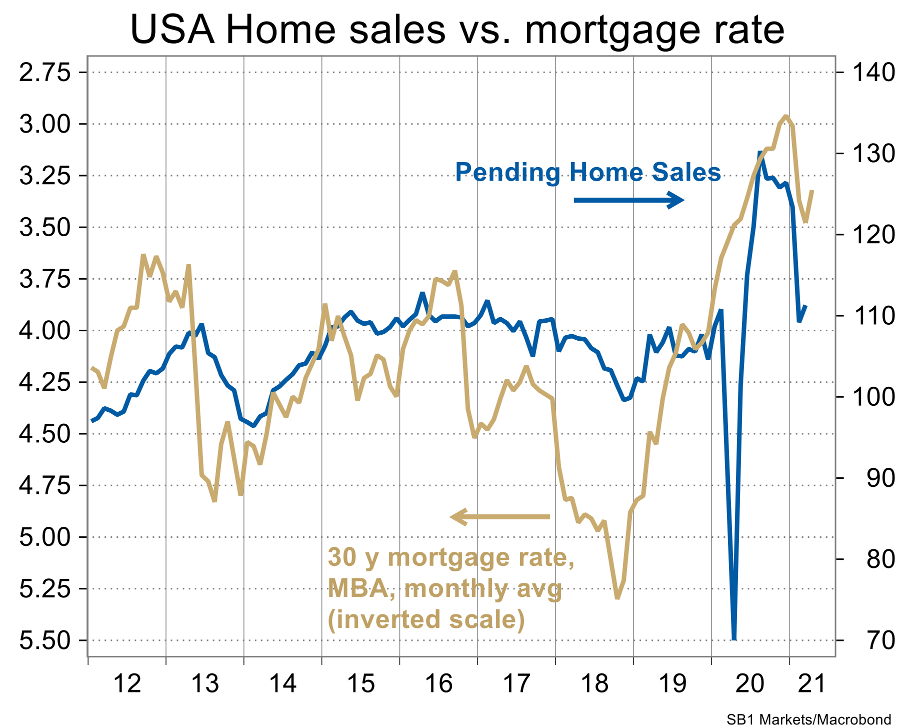

- New home prices just up some 6%

SpareBank 1 MARKETS

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

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

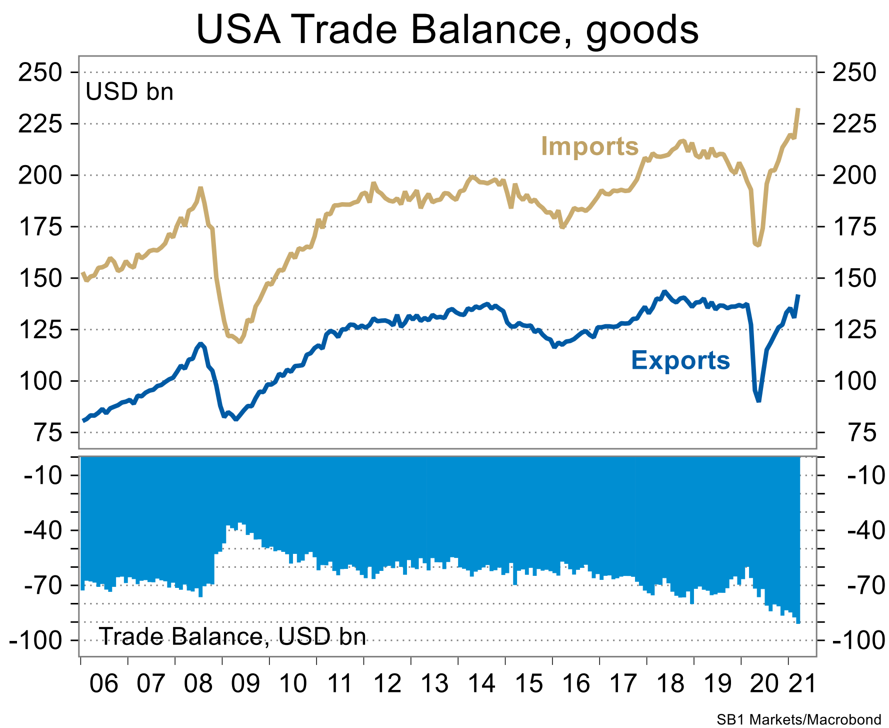


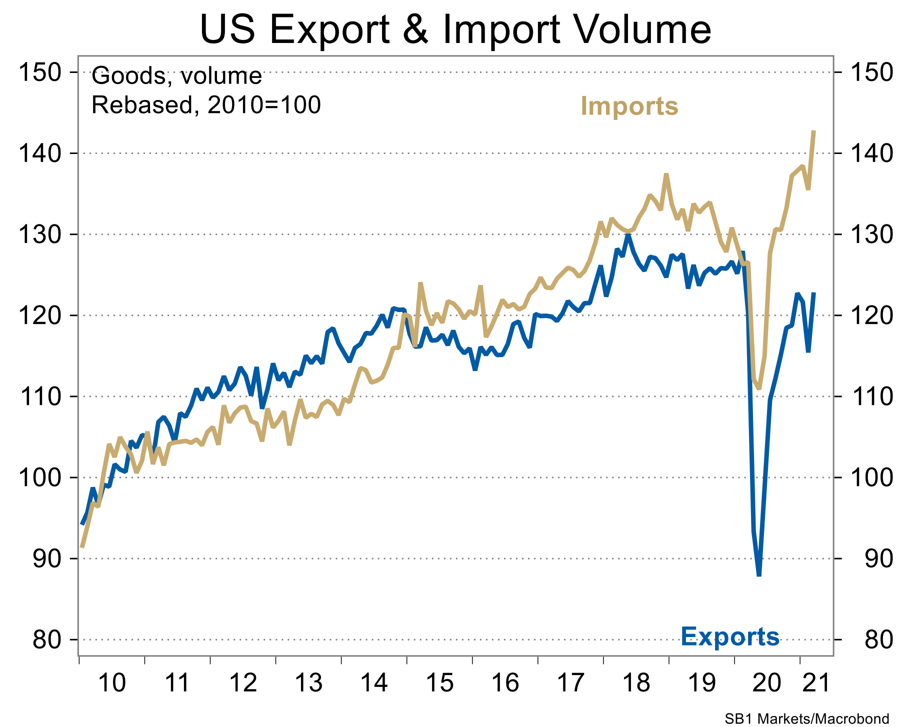




- …induced by too high prices

# Both export & imports of goods sharply up in Mar, the deficit record high

## Export vol. +6%, imports +5%, imports record high, export volumes just 3% below pre-pandemic level

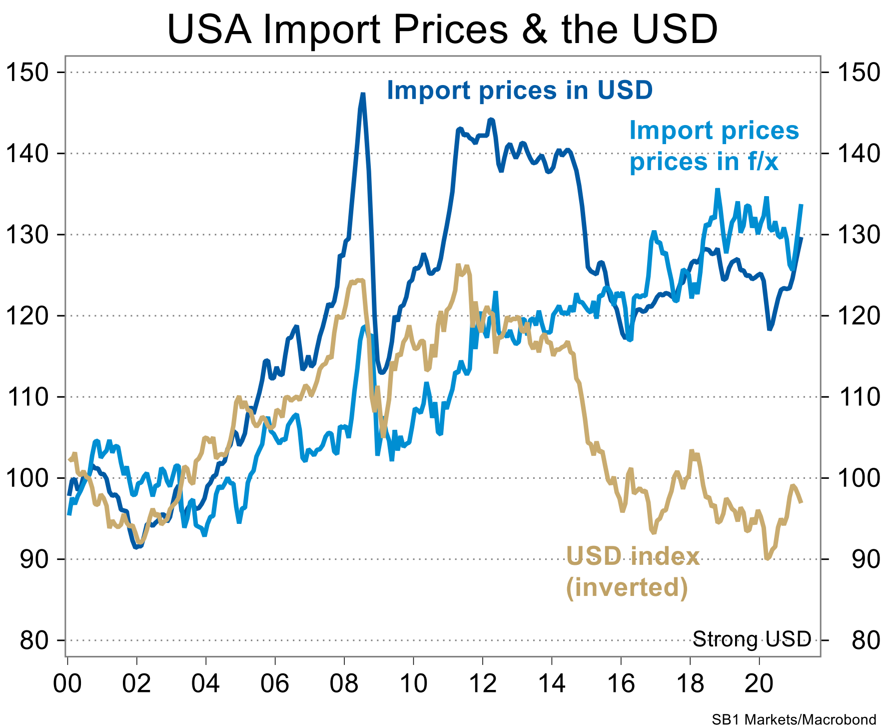


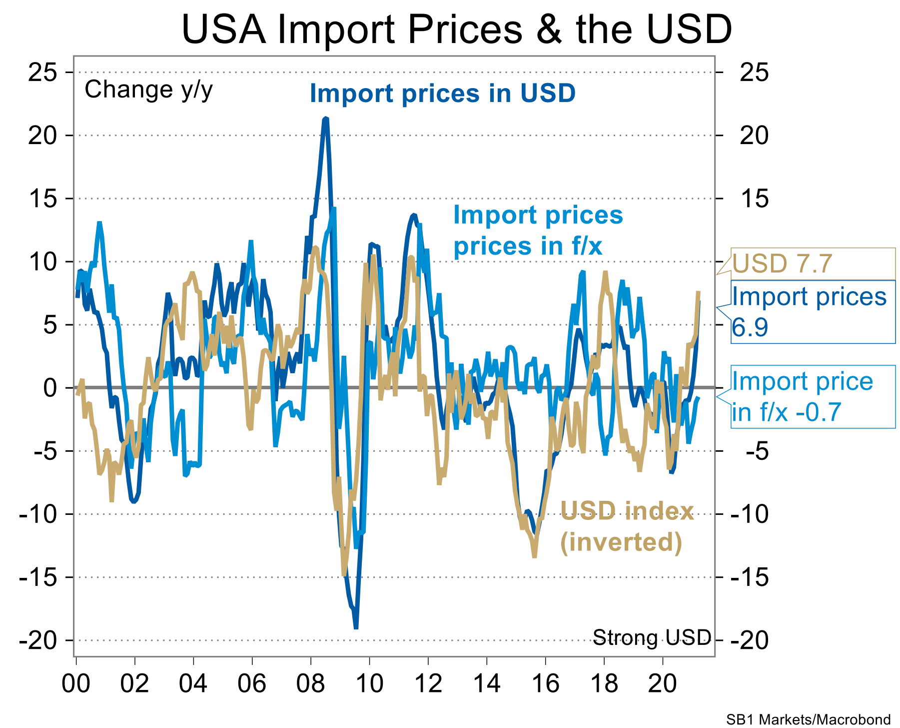




- … and the **trade deficit** in goods rose to USD 91 bn
  - » According to preliminary trade data (in goods, services not included)
- **Imports** are strong due to the rapid rise in demand for goods in the USA, both consumption & investments
- **Exports** in value terms are higher than before the pandemic in nominal terms, but still 3% below in volume terms
  - » Global trade volumes are some 5% higher than early last year

# No import price drama: Total import prices are up 7% - ‘due to’ a 8% USD decline

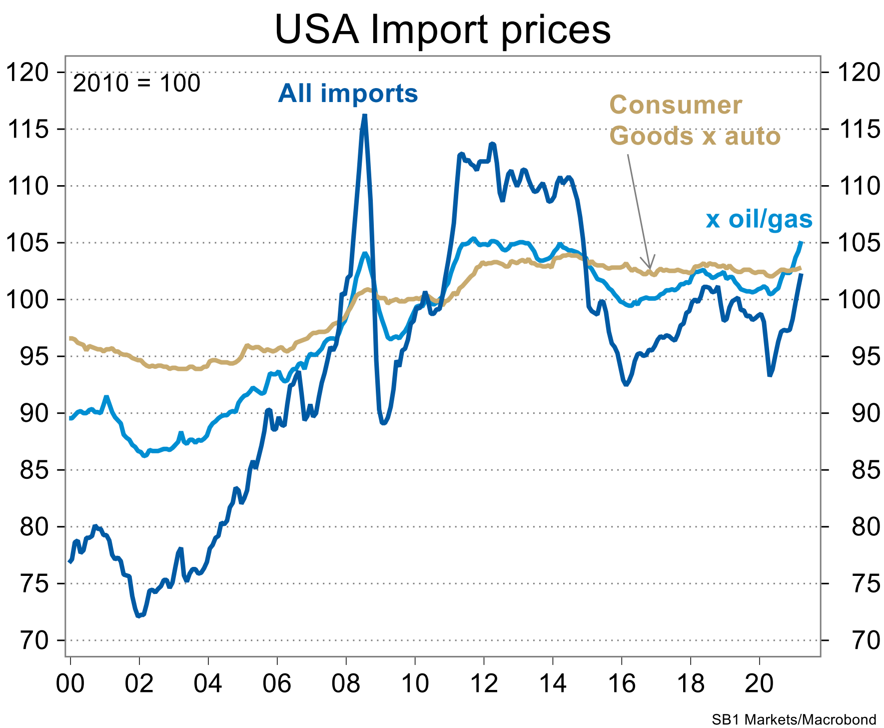
Measured in exporter currencies, prices are marginally down y/y, but are increasing m/m now

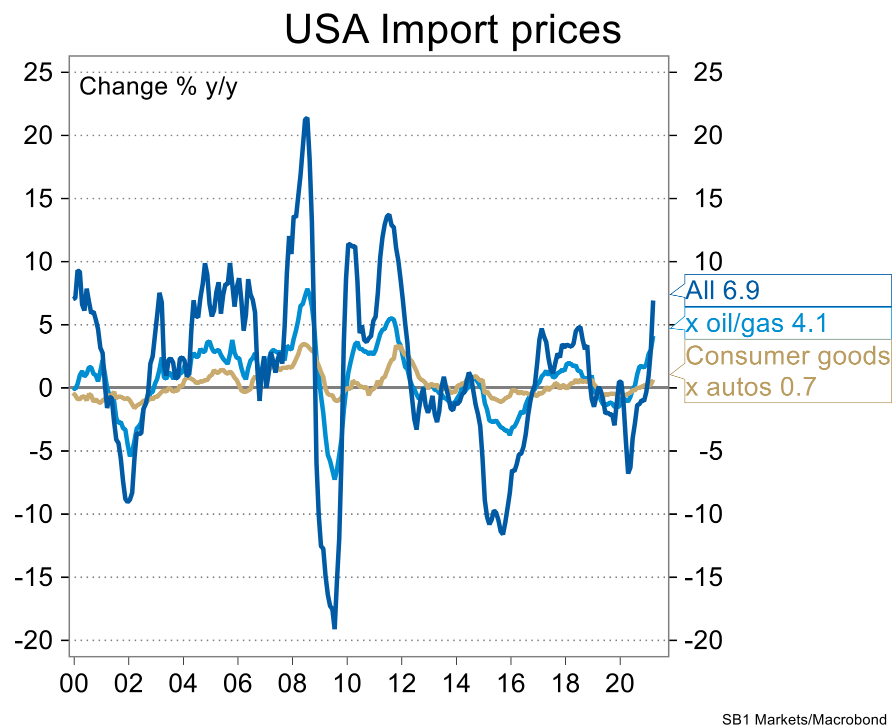


# Still no growth in imported consumer goods, even measured in a 8% weaker USD

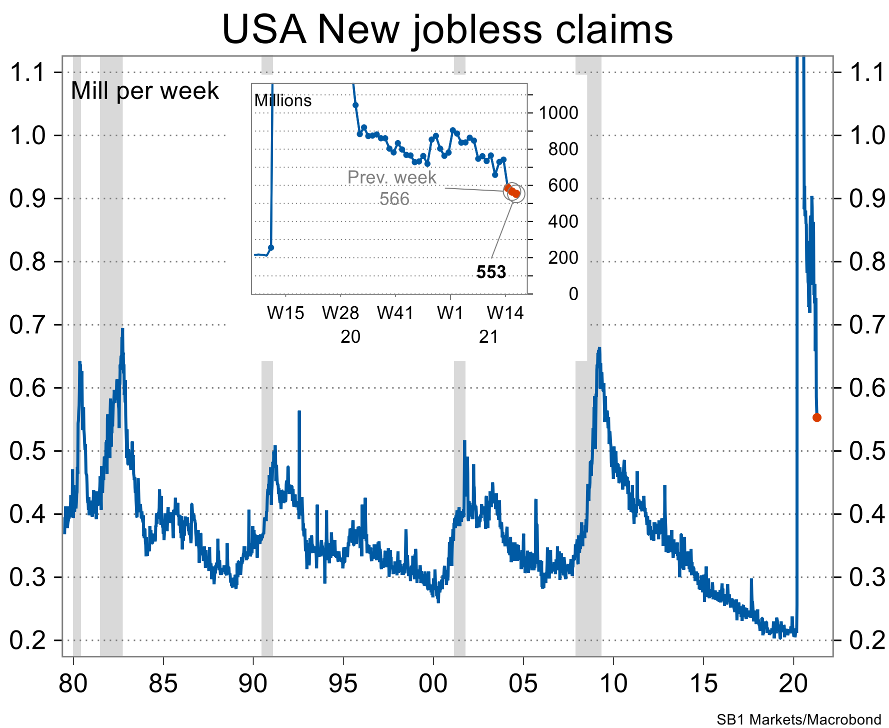
Total import prices up, also ex petroleum – but consumer goods prices are still not up

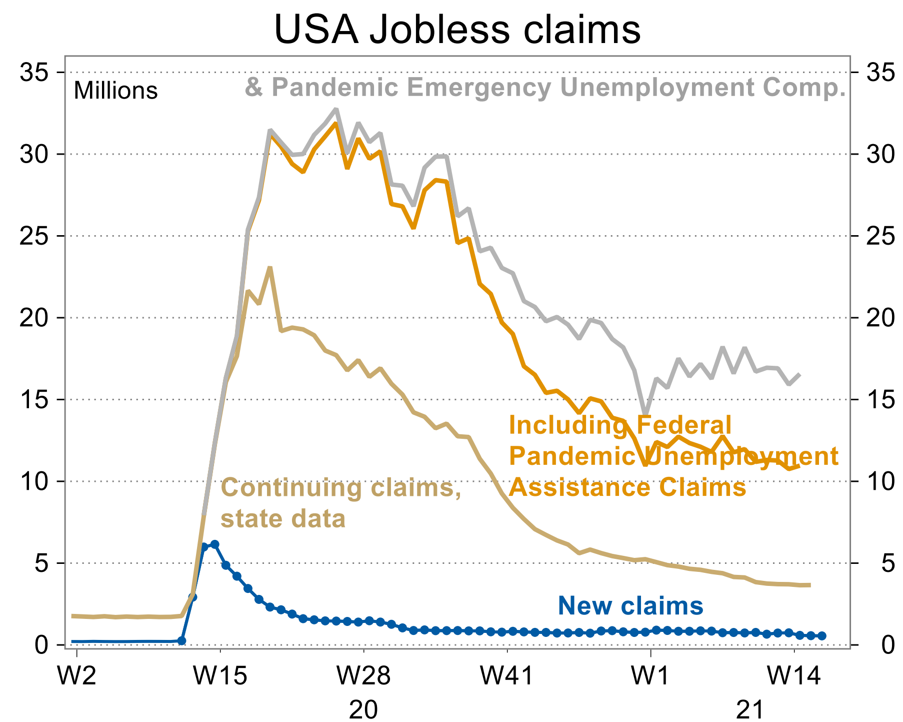


# Jobless claims continue to fall as economy opens up

## The trend is clearly down

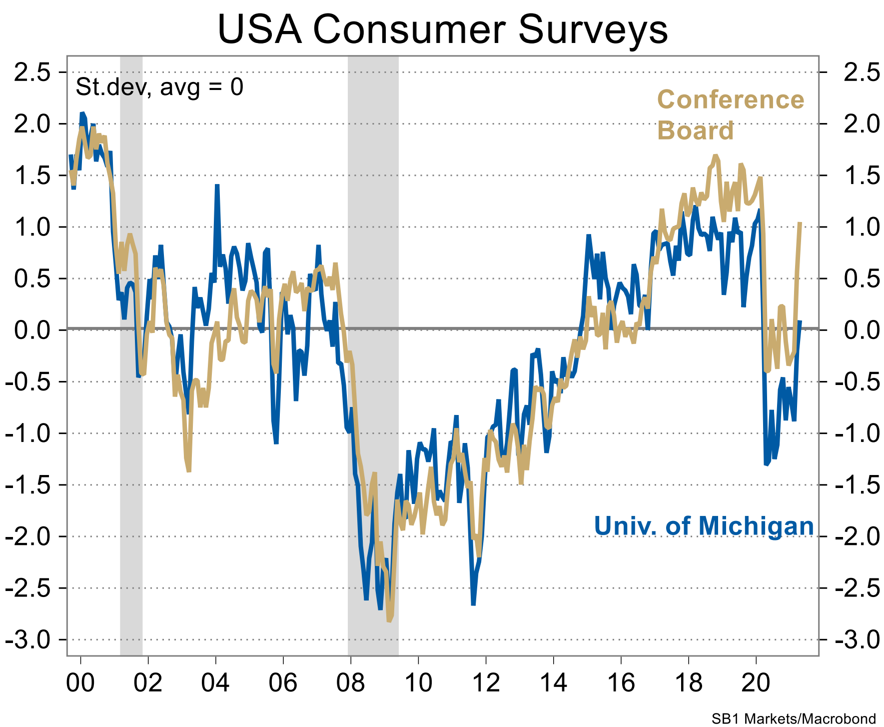


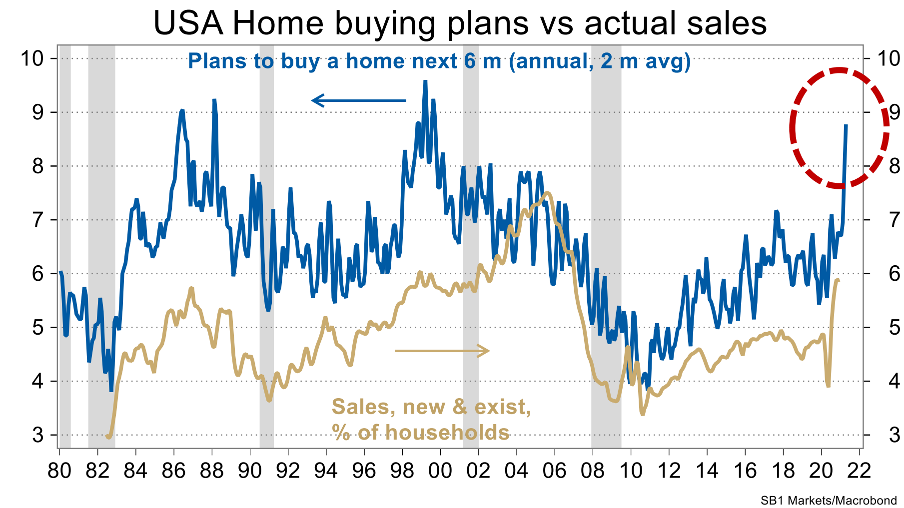



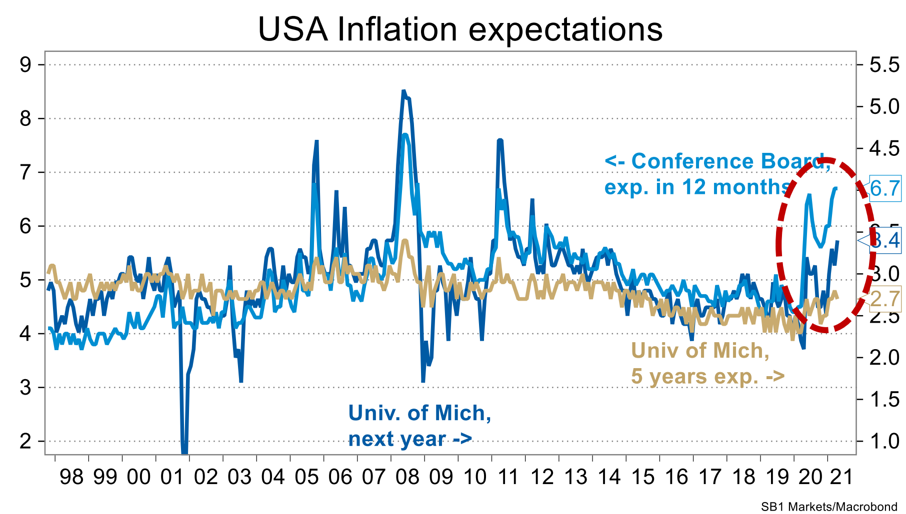

- **New claims** at 553', down from 566' (revised up from 547', expected 549')
- **Continuing claims** was up by 9' from previous week – the first rise in 2021, and hence the trend is downward. The applications for the Pandemic support programs also rose slightly
- We still find it somewhat strange that 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?

# Consumer confidence straight up in April too, UM sentiment up as well

## House buying plans through the roof. Jobs are easy to get. Inflation expectations trend up



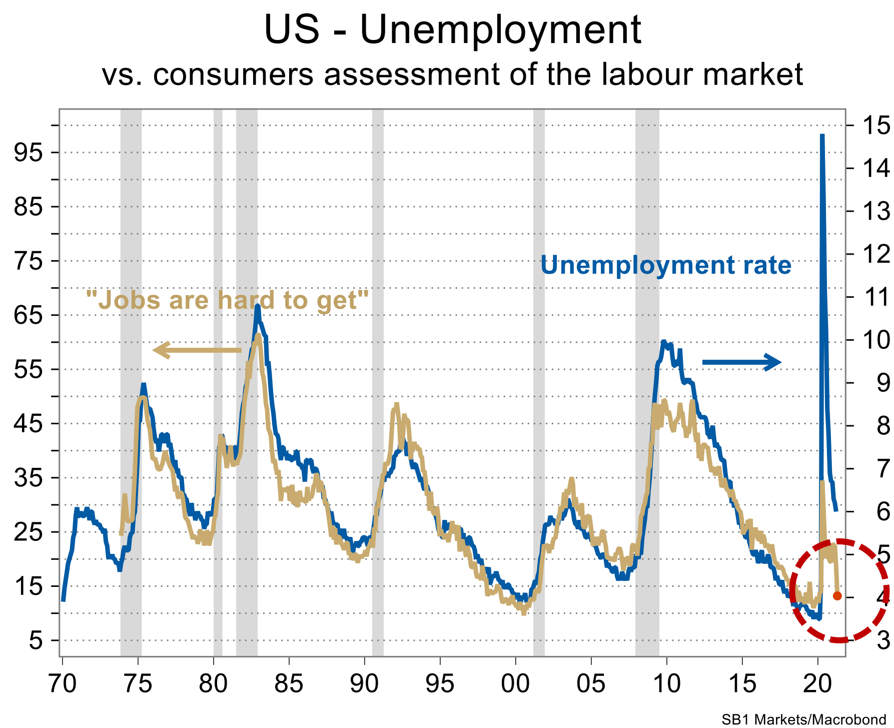



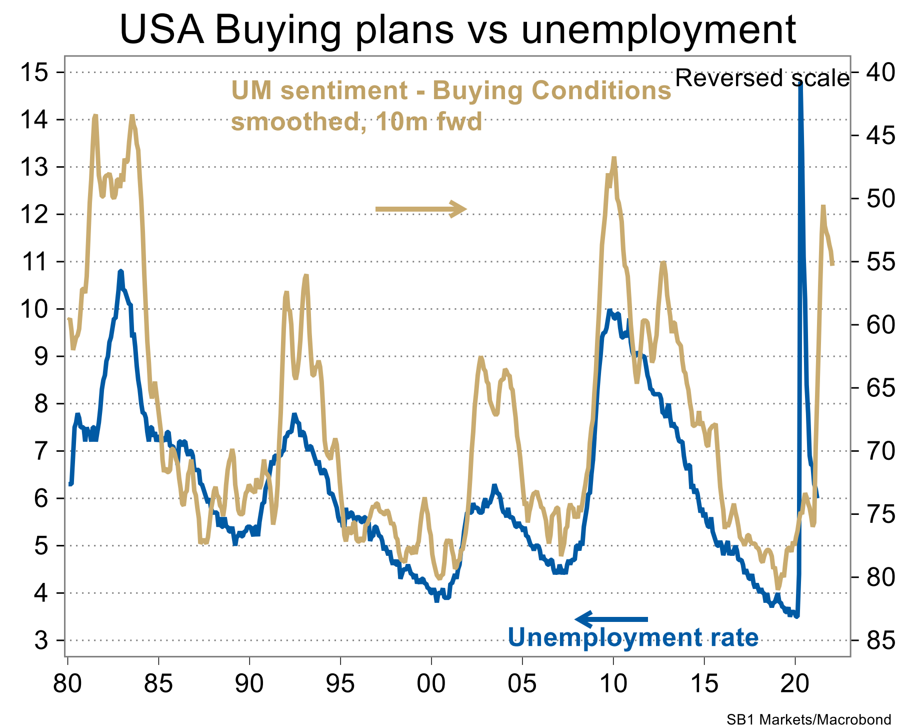




- **Conference Board's consumer confidence index** rose by 12 p to 121.7 in April, miles above expectations of a + 2.3 p lift to 112, following the 19.3 p lift in March. The lift the two past months is the strongest since May 1973! The index is 1.0 st.dev above avg, not far below the pre-pandemic level. Details very strong too
- **The UM sentiment index** rose to 88.3 in April (0.8 higher than first reported) from 83.6 in March. The index level is 0.1 st.dev above average, up from -1.3 at the local bottom last spring, but still well below the +1 st.dev pre-pandemic level
- **Inflation expectations** are have increased recent months, and are far above recent levels, especially for the coming year

# It has almost never been easier to get a job, households say

As though the unemployment rate was 4%, not 6%. Another signal that the labour market is tight!

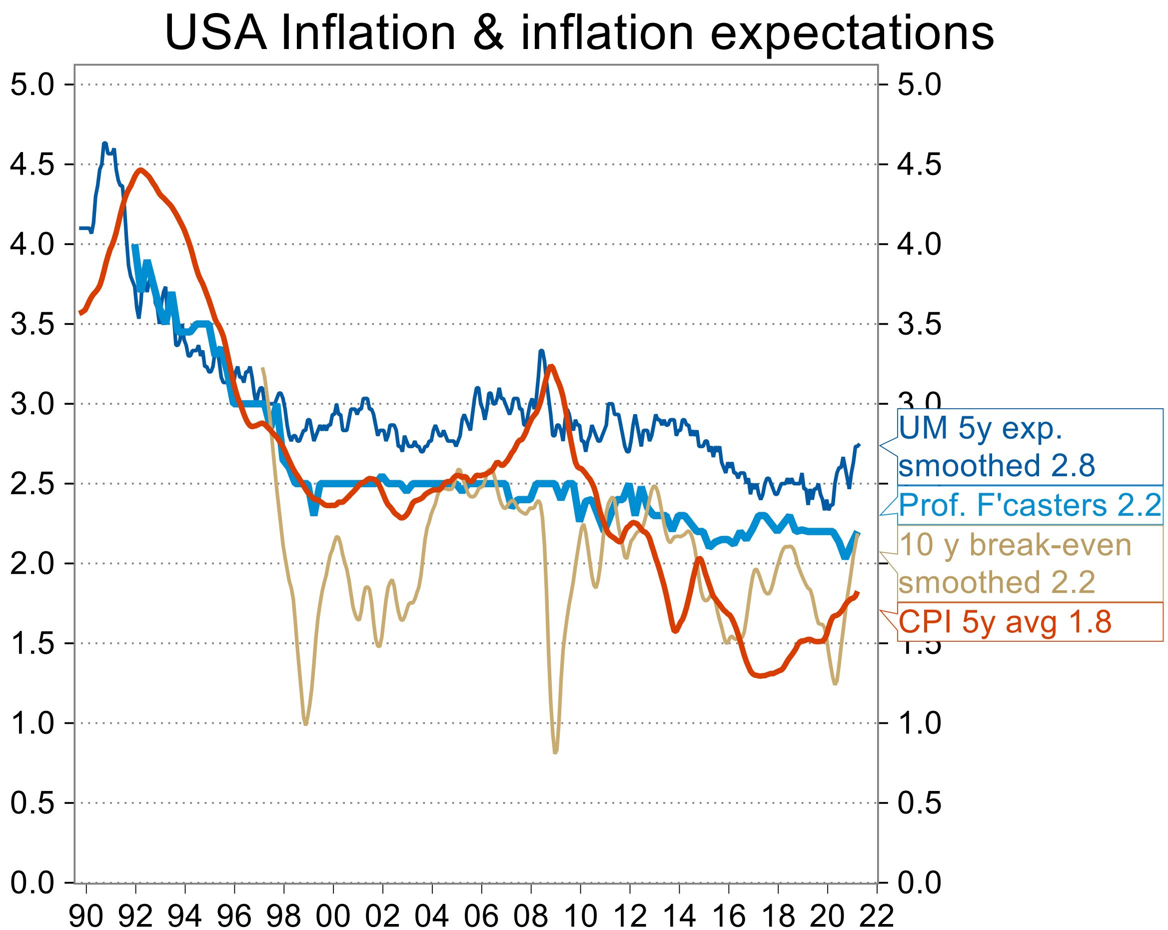



- On the other hand: The measure of buying conditions from UoM are still at low level (scale is inverted on the chart to the right) – strange given the general mood among households, and their accumulated savings recent years

# 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%

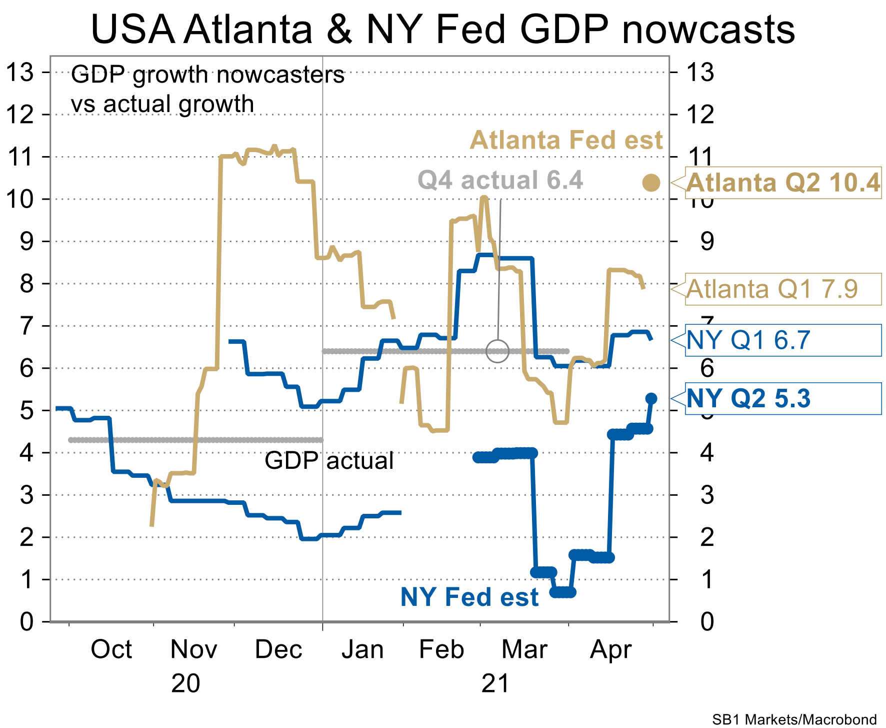


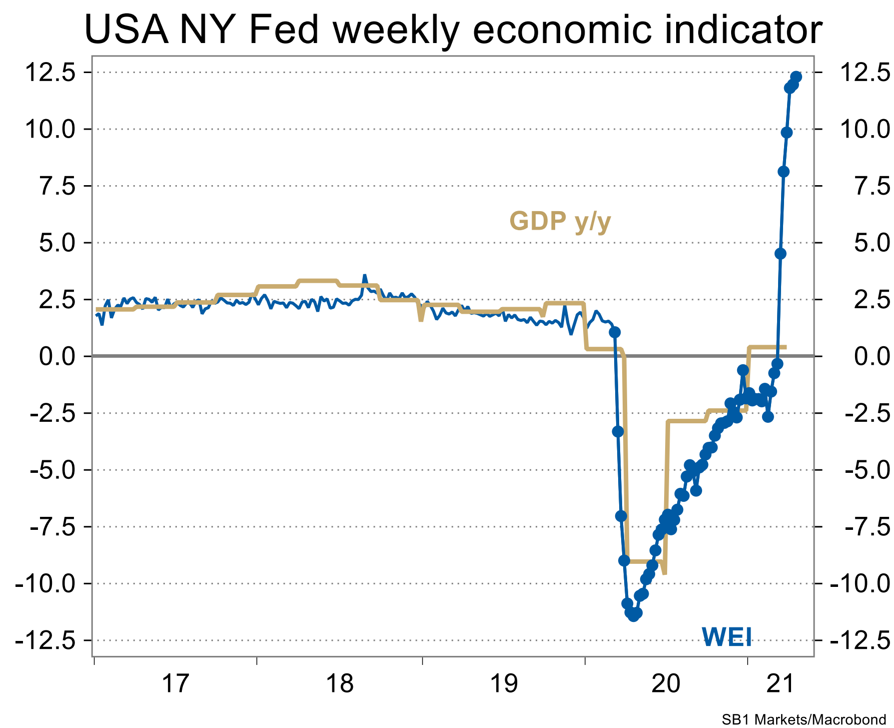

SB1 Markets/Macrobond

- **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

# The nowcasters signals 5 – 10% GDP growth in Q2

NY Fed was closest to the ball vs Q1 GDP growth at 6.4%

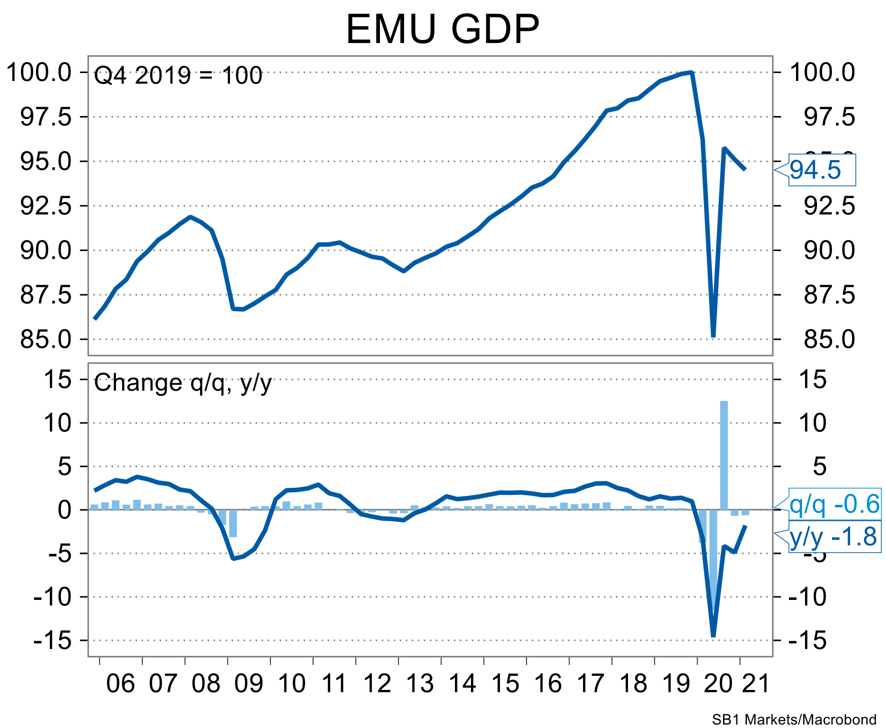


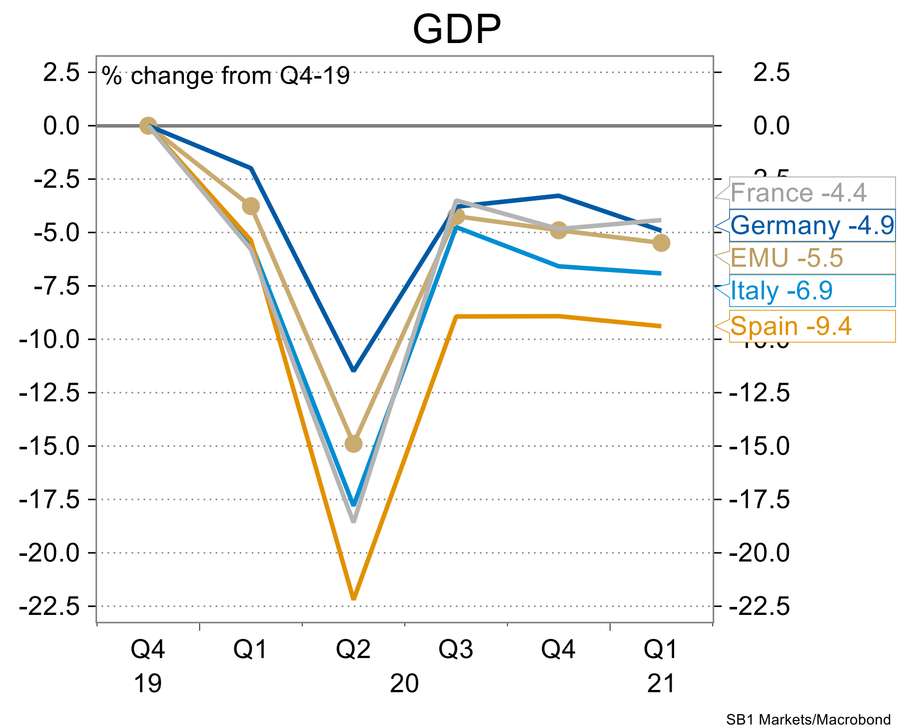




- Atlanta Fed ‘s nowcaster yields a 10.4% growth Q2 estimate
- NY Fed hints at 5.4%
- NY Fed’s weekly y/y economic indicator up in the sky (vs. last year 10%+ nosedive), implying a 8% growth pace in Q2

# Preliminary data: GDP down 0.6% in Q1, expected -0.8%. Down 5.5% vs Q4-19

Per (one) definition a recession, but it is a short-lived one. Activity will pick up in Q2

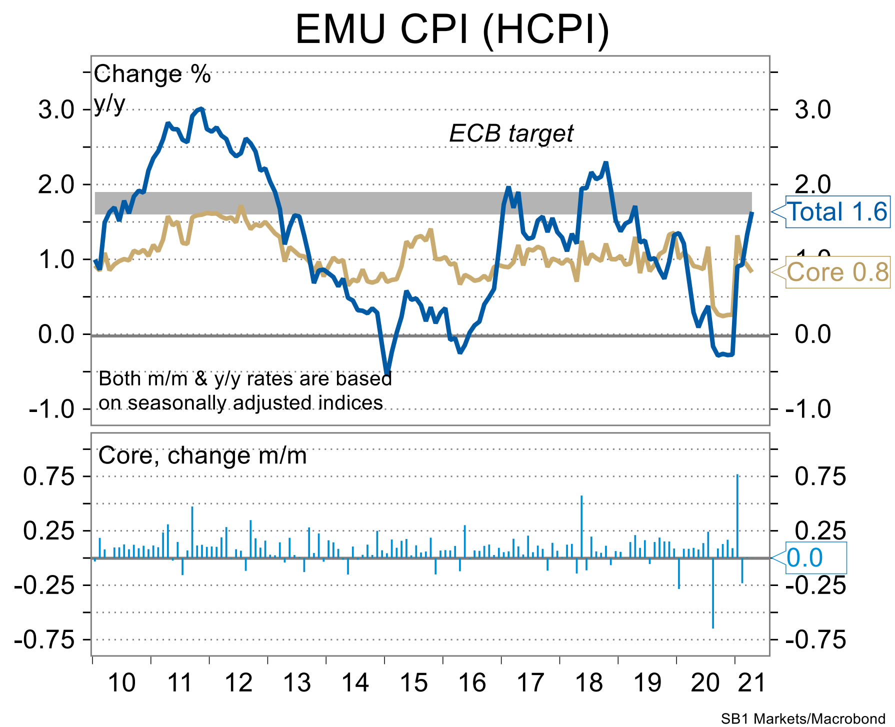


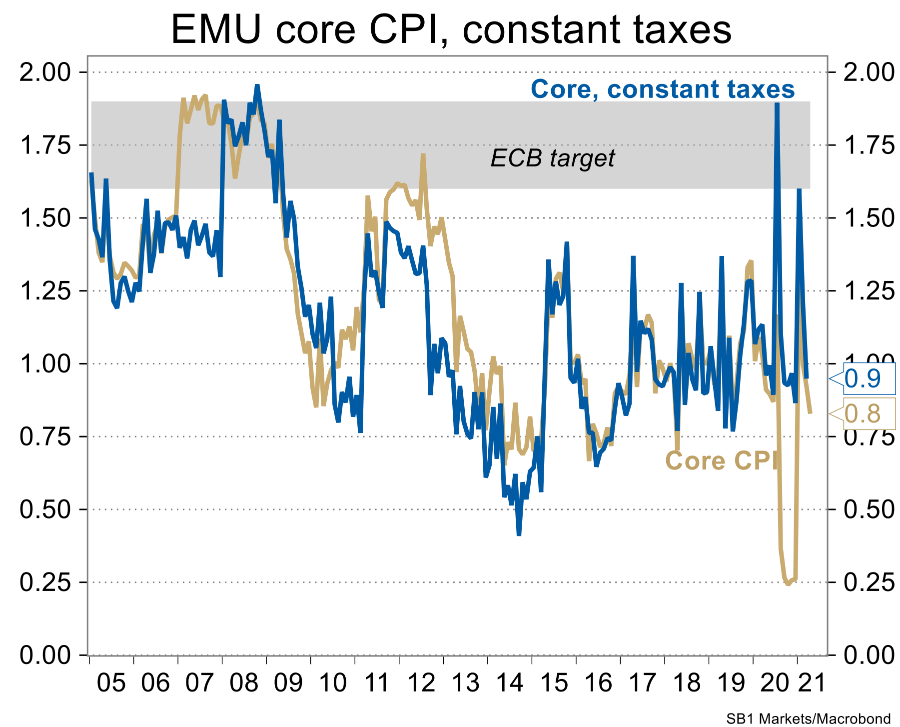




- Euro Area GDP fell by 6.6% in 2020 (revised from -6.7%) and GDP is still 5.5 % below the pre-corona level
- GDP grew by 0.4% q/q in France (expected +0.1%), while GDP decreased by 1.7% q/q in Germany (exp -1.5%), -0.4% in Italy, and -0.5% in Spain
  - » In Germany, the GDP level in Q4 was revised up by 0.3%, and the <u>level</u> in Q1 was marginally higher than expected
- France, Germany, Spain and Italy were down 4.4% - 9.4%% vs Q4 '19
- No demand details available as of yet

# Core inflation down 0.1 pp to 0.8%, headline up 0.3 pp to 1.6%

## April flash estimate shows inflation is still far below ECB's target

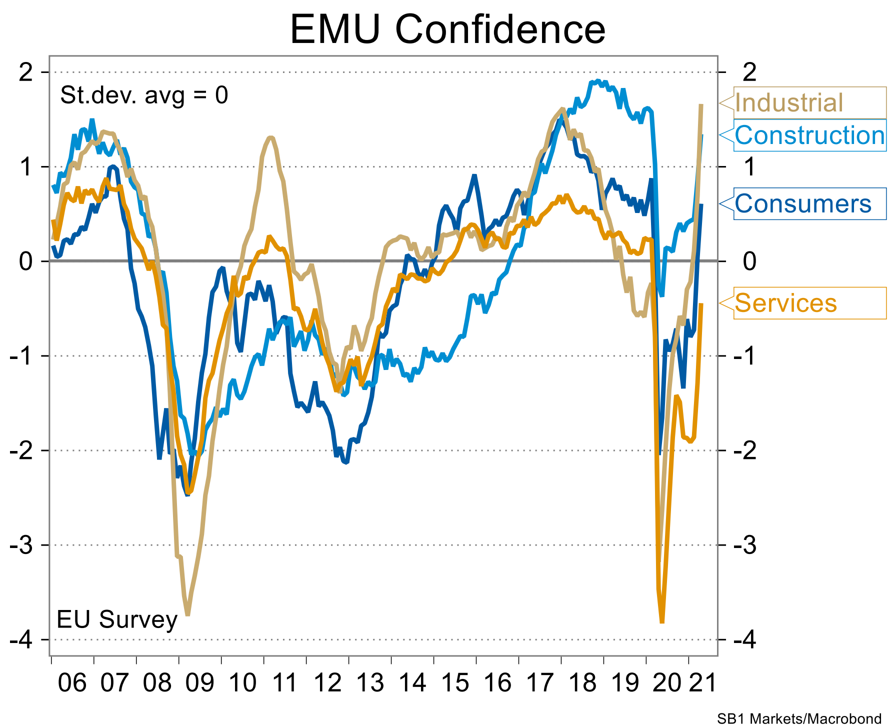


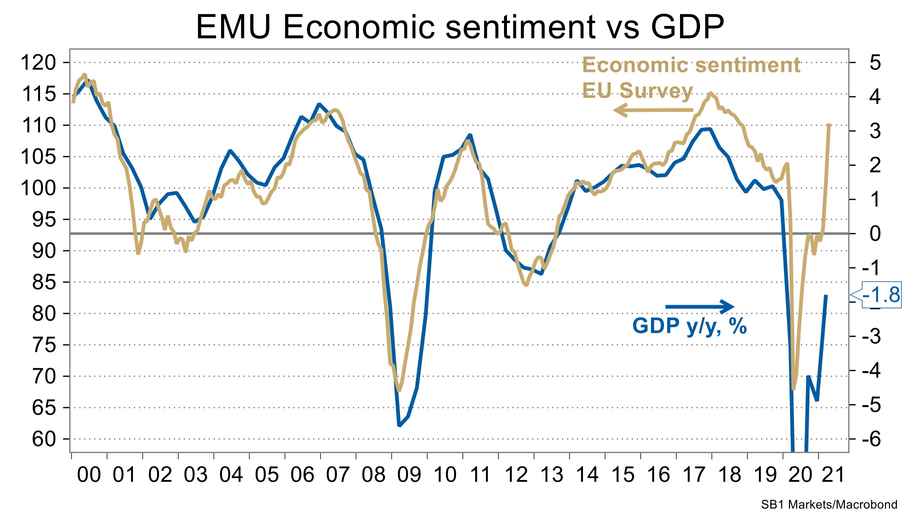



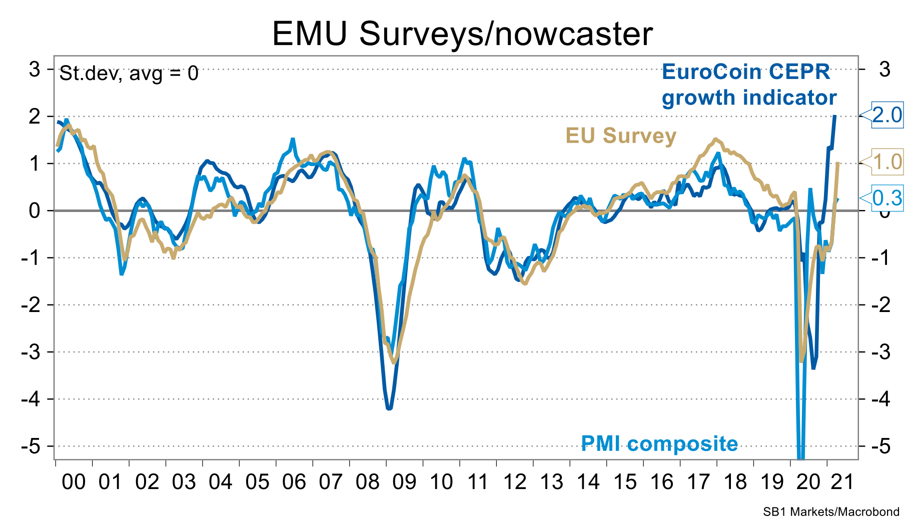

- In April, core prices were unchanged m/m and the annual rate declined to 0.8% from 0.9%
- Headline HICP accelerated to 1.6% y/y in April from 1.3% in March. This is still below the ECB target, and the bank has calculated on temporary higher inflation, thus the current print will not have any effect on their policy
- In April, as in March, energy prices contributed on the upside and were up 10.3% y/y as base effects kicked in
- Greece is still in deflationary territory (and Portugal dipped to -0.1% y/y), while the headline inflation is at or above 2% in Germany, Belgium, Luxembourg, Lithuania, Slovenia, and Finland (Although central banks usually targets core inflation, and this number is more sticky)

# Economic sentiment surged for the 2nd month

## … and just as important: sentiment improved in all sectors, signalling some 3% GDP growth



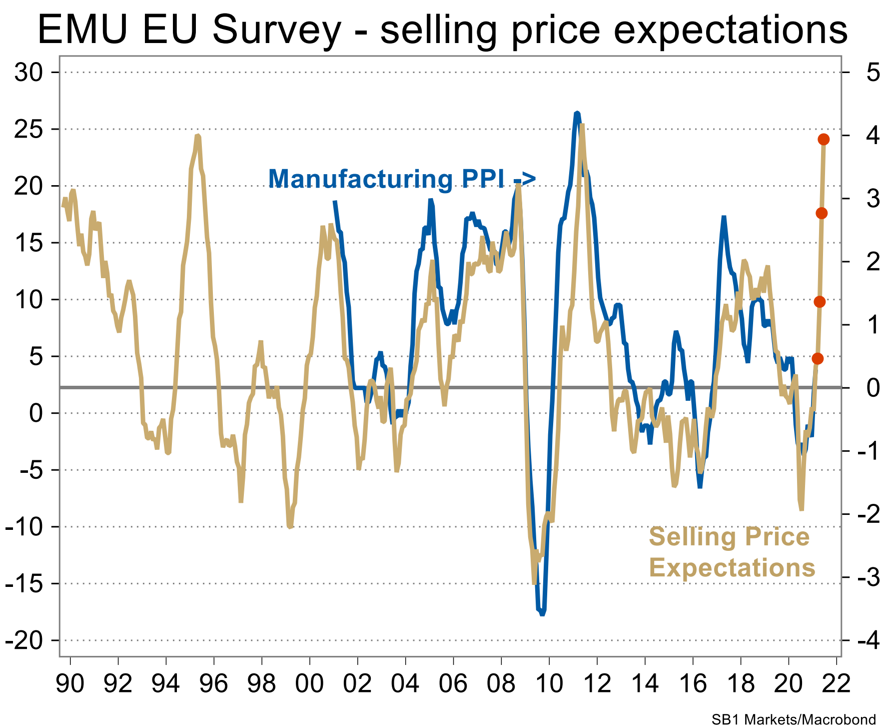




- EU's confidence survey for the Euro area rose to 110.3 in April from 100.9 in March, expected up to 102.2!
  - » The **main index** is 1 st.dev above average, signalling 3% GDP growth
  - » **Construction** and **manufacturing** signal above trend growth, while services are still struggling, but less in April than in March. Manuf. is at all time high
    **Consumer confidence** is surging, even in the times of covid & lockdowns
  - » This survey has been useless to calibrate quarterly (q/q) growth rates during the pandemic. The same goes for most other surveys (like the PMI/ISMs). Still, when all now are surging, no doubt a positive signal

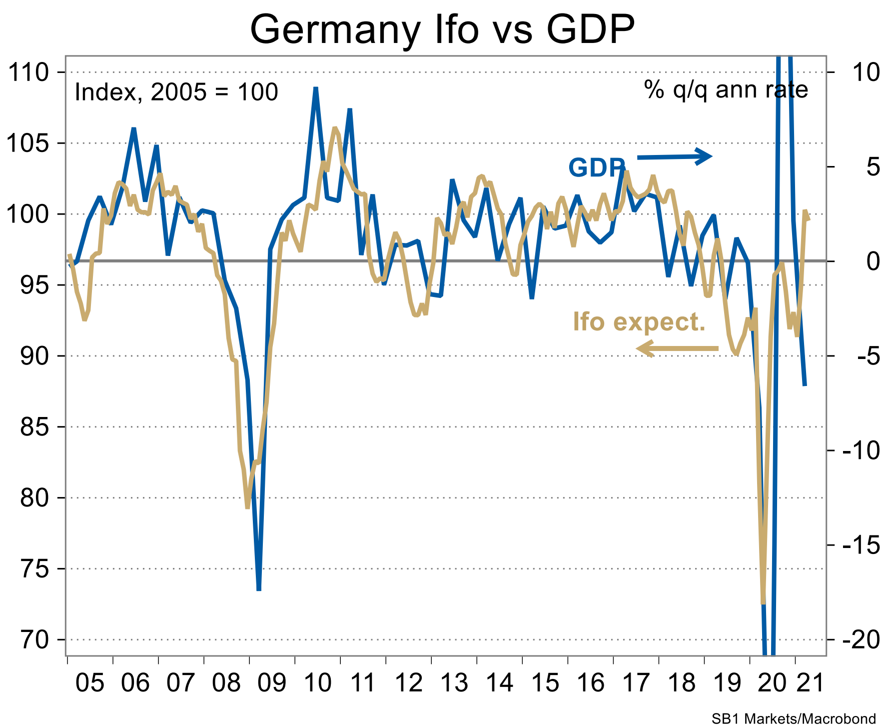
# EMU companies are reporting the highest selling price expectations 10 years

And the PPI is expected up 4.5% in March



# German business managers a tad less upbeat in April, still quite optimistic

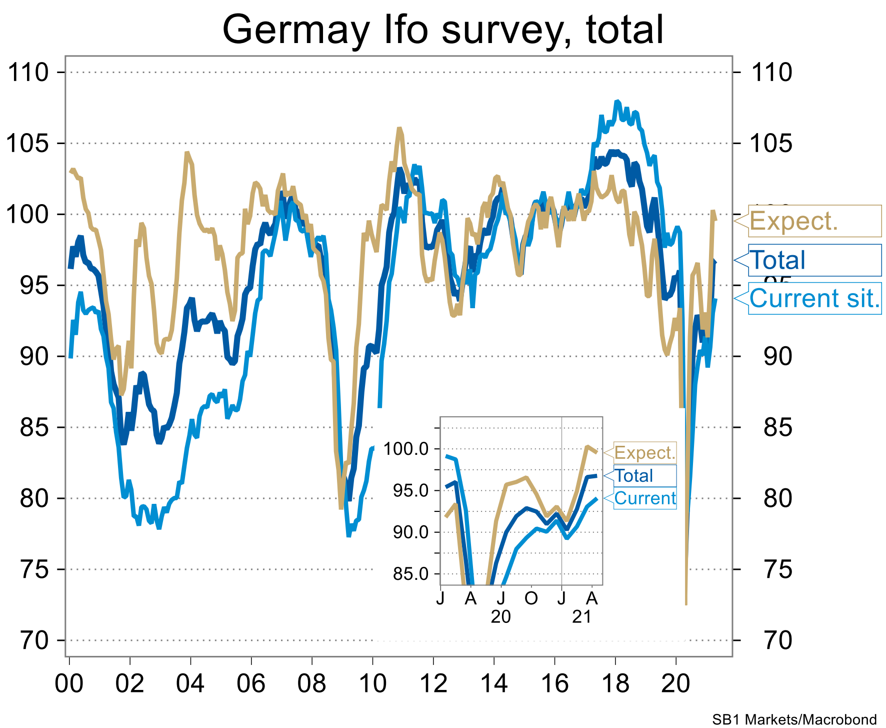
## The Ifo expectation index fell 0.8p to 99.5, expected down 0.2 p

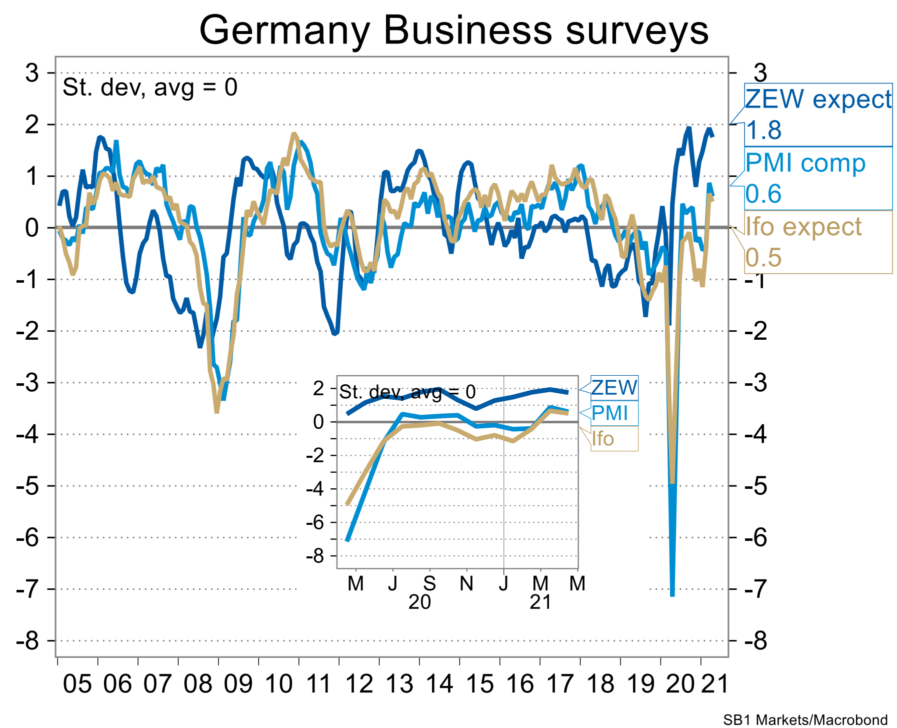




- In April, the **expectations index** was 0.5 st.dev above average level, compared to 0.7 in March
- The assessment of the **current situation** rose to 94.1, up from 93.1 the previous month, still below average.
  - » Not that strange in a still partially locked down economy – but the current sit index barely yielded in January when the lockdown hit the hardest, and now the level is far above the December level! (Chart next page)
- **Manufacturing** business climate (average of current situation & expectation) is at the highest level since May '18, while the **service sector** and **construction** business climate indicators fell. In **trade** the mood is less optimistic, and although the indicator improved somewhat, the digits are still in the negative
- **All other German surveys** have climbed rapidly up recent months – and all are above average. They signal a 2.5% GDP growth rate

# ZEW (analysts, investors) in the lead but businesses are following suit

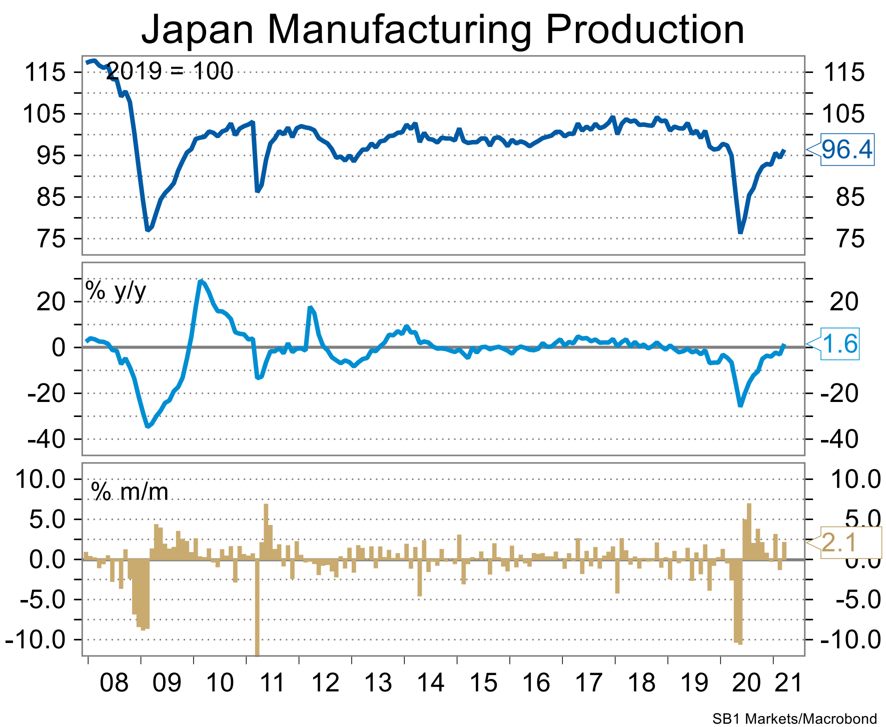


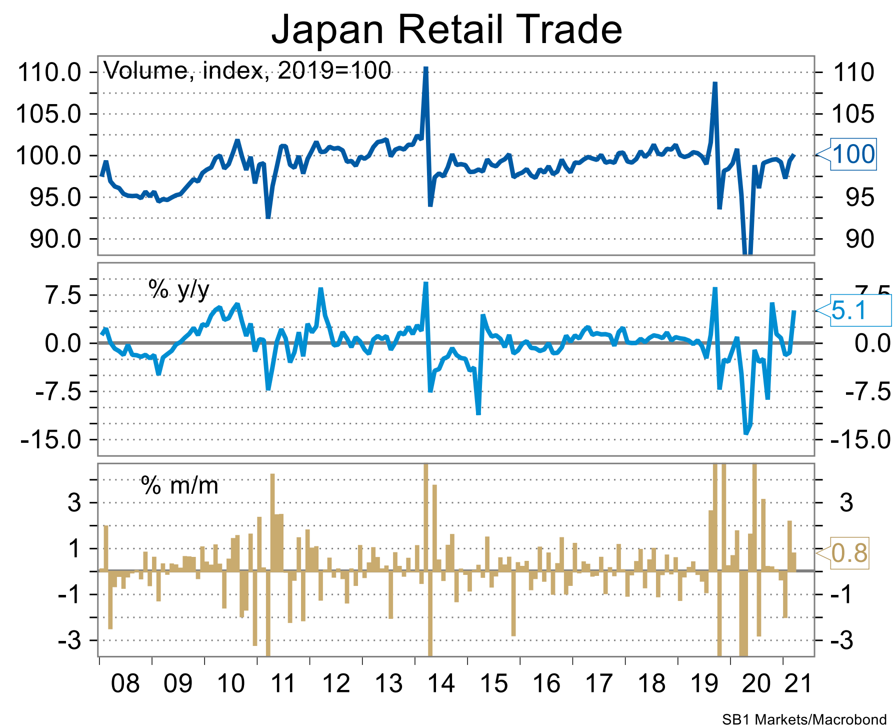




- The ZEW expectation survey (which is a survey among economists and investors, not a business survey) is the most upbeat
- The Ifo & PMI are 0.5 – 0.6 st.dev above an average level
- **The average of the 3 surveys still indicates <u>growth</u> in the German economy**

# Manuf. production up 2.1% in March, Feb revised up. Retail sales up 0.8%

Manufacturing production was expected down 2%, Feb revised up to -1.2% from -2.1%

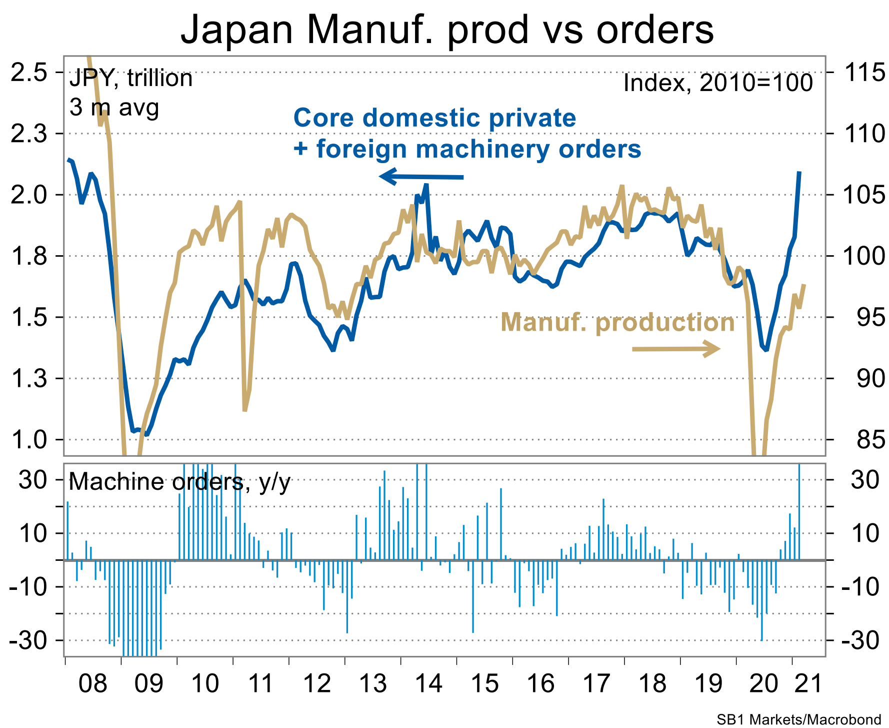


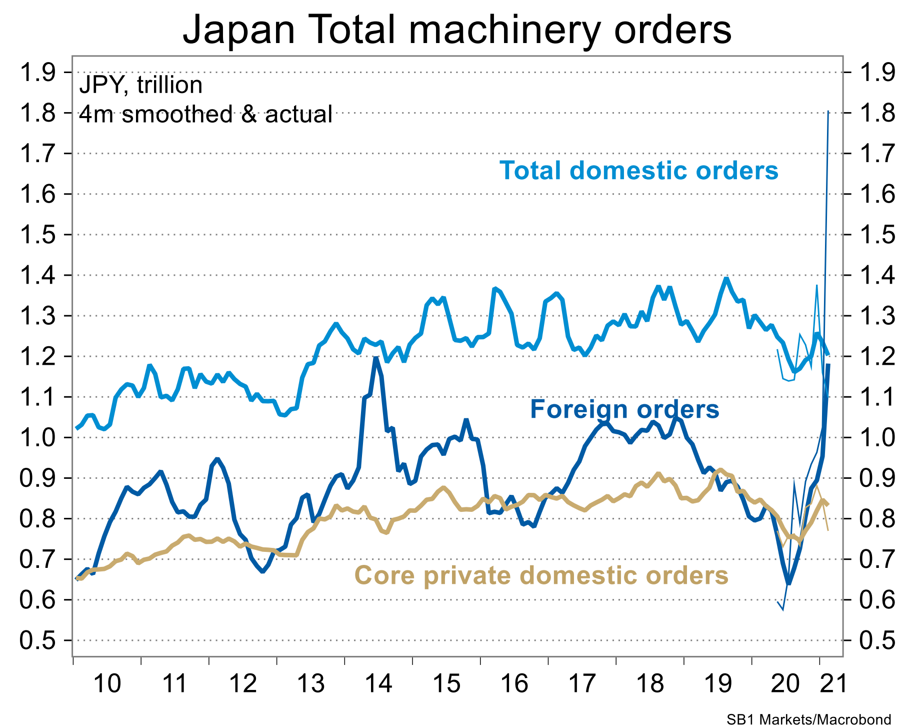




- **Manufacturing production** was far better than expected in March, in sum 5% - which seems strange, given that production still is 3.6% below the 2019 average (though just 1% below the Feb-19 level)
  - » **Manufacturing surveys** do not signal strong growth – but a continued recovery. According to the authorities, companies expect a huge lift in production in April (but a 8.4% increase is 'impossible')
  - » **Order inflow** has strengthened substantially recent months, especially from abroad (but a 80% lift in foreign orders in Feb is an obvious outlier
- **Retail sales** rose by 0.8% according to our calculation (official data states 0.9%), expected up 0.6%. Sales are in line with the pre-pandemic level

# Manufacturing orders are surging – production has to follow suit?

## Foreign orders are surging, even before the large February lift



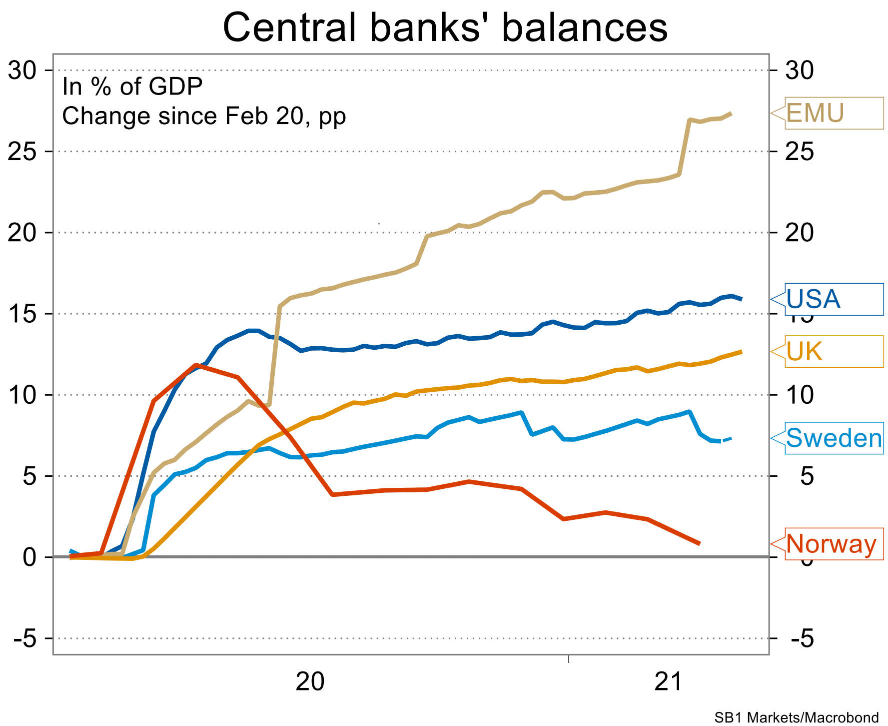




- **Domestic order inflow** is still muted but foreign orders have climbed substantially. The Feb print is very likely an outlier but even the previous months were strong
- **Manufacturing production** is best correlated with private domestic orders + foreign orders, not just domestic orders. Production has not recovered to the pre-corona level yet but order inflow signals that may happen the coming months

SpareBank 1 MARKETS

# Brighter outlook & higher home prices, but Riksbank keeps policy unchanged

## 2021 GDP growth forecast raised by 0.7 pp to 3.7%

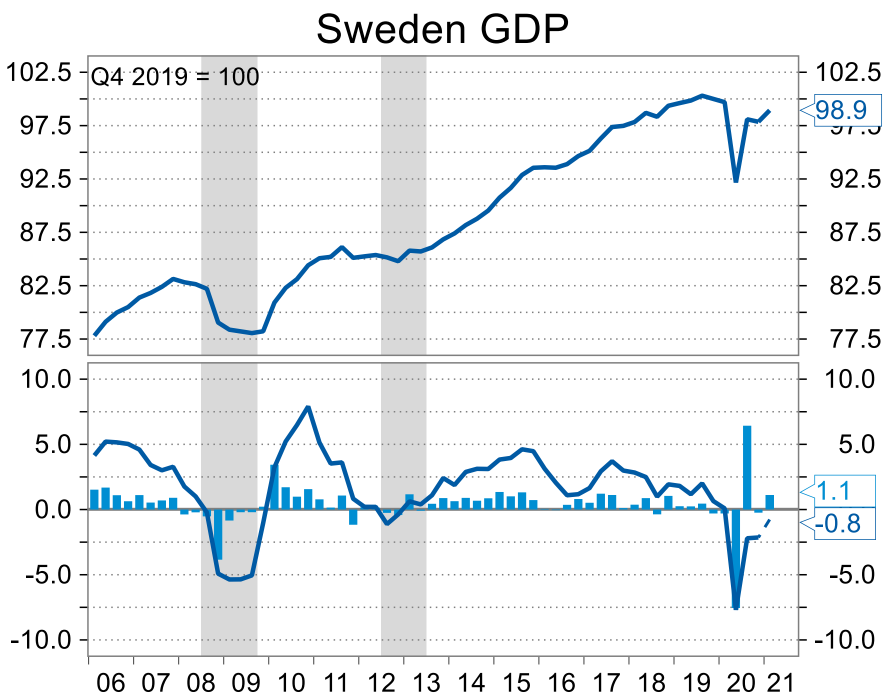


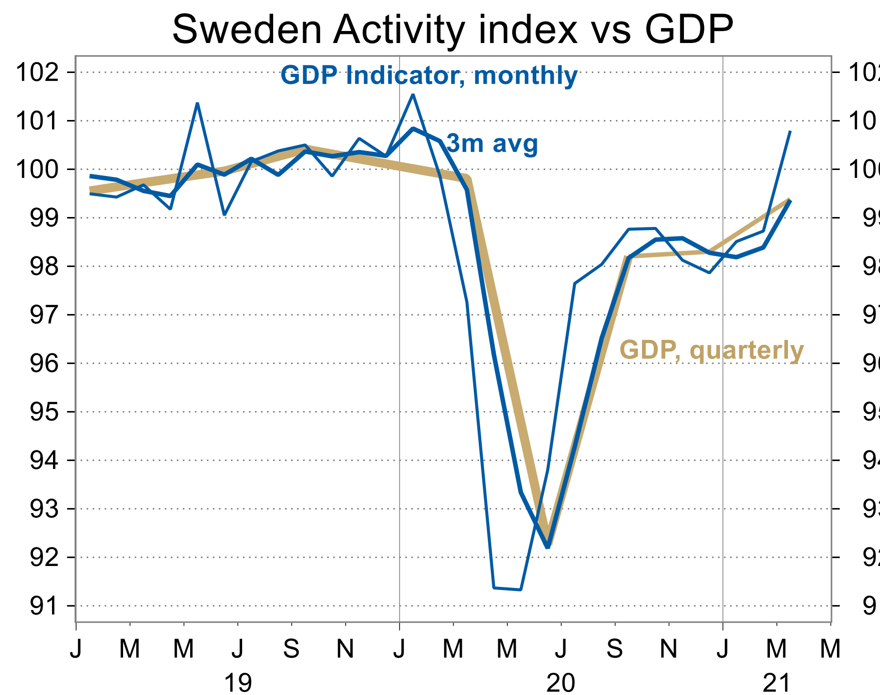

- The US Fed, ECB & BoE has been more aggressive than the Riksbank
- All the other banks plan to continue their QE programs – and will end up higher than the Rix now signals

- The Riksbank kept the **signal rate unchanged at zero**, as expected – and the bank assume it will stay there for a long as the Bank can see (till Q2 2024)
- The Bank keeps the **target QE level at SEK 700 bn,** as announced at the Nov meeting, until the end of 2021,– in order *'to give further support in an uncertain time, improve the conditions for a recovery, and to help inflation rise towards the target'*
- The Bank emphasises that it '*is making it clear that comprehensive monetary policy will be available* ***as long as it is needed***'
- The Bank revised its growth projections :
  - » The 2021 forecast is raised 0.7 pp to 3.7% - citing that the economy is now is more resilient to the effects of the virus, while the growth forecasts for 2022 and 2023 were revised by the same amount: down to 3.6 (-0.3 pp) and 2.0 (-0.4 pp) respectively
  - » The unemployment rate will still increase from 8.3% in 2020 to 8.6% in this year (+0.1 pp)
  - » Inflation will remain well below the 2% target 'forever'
- **The Riksbank remains dovish, and takes out another insurance, as the new corona challenges may push the Swedish economy down again**
- So far however, there are no signs of that to happen
  - » An example: The Swedish PMIs is one the strongest in the world, have been so for quite some time now. We think the bank is too pessimistic

# March GDP above the pre-pandemic level (but that can't be for real?)

GDP grew 2.1% m/m in March, and contributed heavily to the 1.1% lift in GDP in Q1

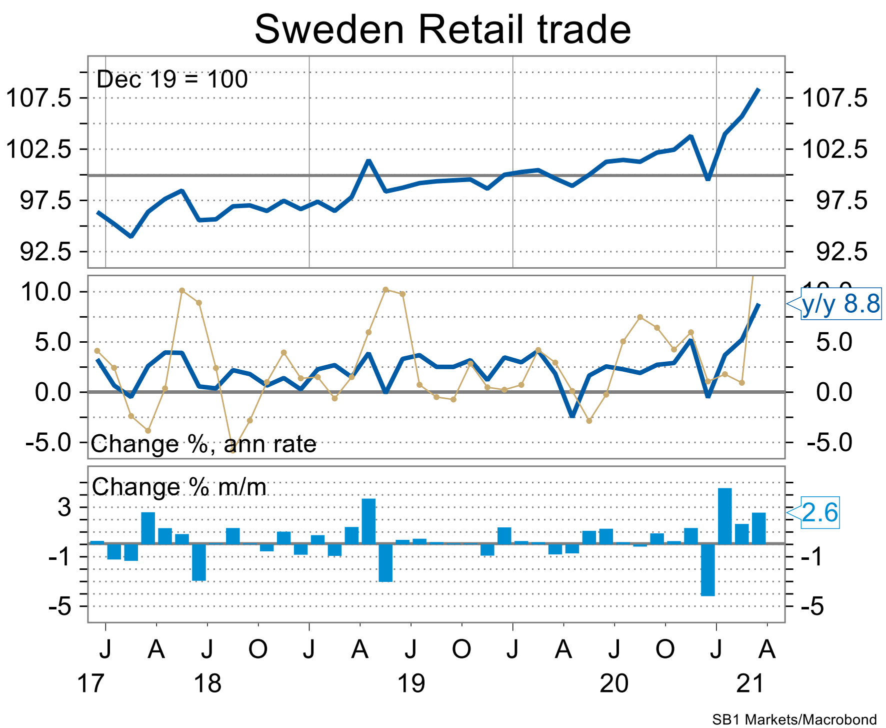


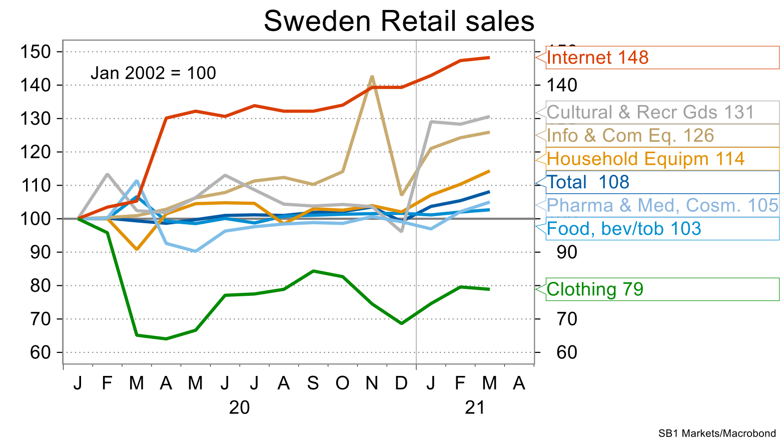



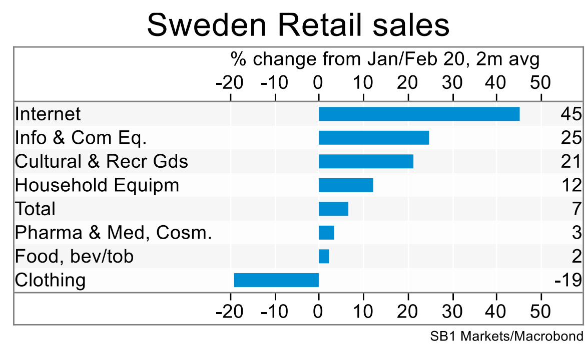

- The **March GDP** figure seems to on the high side, and may be revised down – or followed by a weaker print in April
- Face value: March GDP is higher than (the smoothed) GDP pre-pandemic level
  - » March-21 is slightly below Jan-20, which was the peak – on par with a 2 m average early 2020 – but below a 3 m average
- **Q1 GDP** grew by 1.1%, well above expectations at 0.5%. However, Q4 was revised down by 0.4 pp to 0.1%, and the 'real growth' was just 0.2% vs the level in Q1. Still, it signals upside risk to the Riksbank's upward revised 2021 growth forecast
  - » In Q1, the GDP level was 1.1% below the Q4-19 level – among the best in the rich part of the world these days?

# Retail sales further up in March, 8% above the pre-pandemic level

Sales rose by 2.6% (consensus +0.1%) and Jan was revised up by 1 pp to +1.7%. Sales up to new ATH



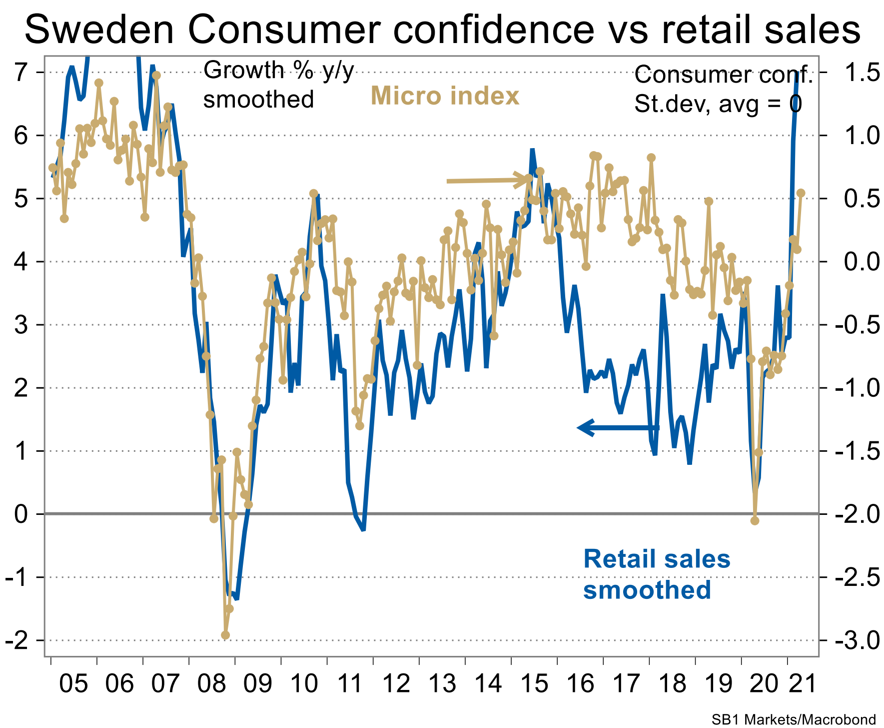



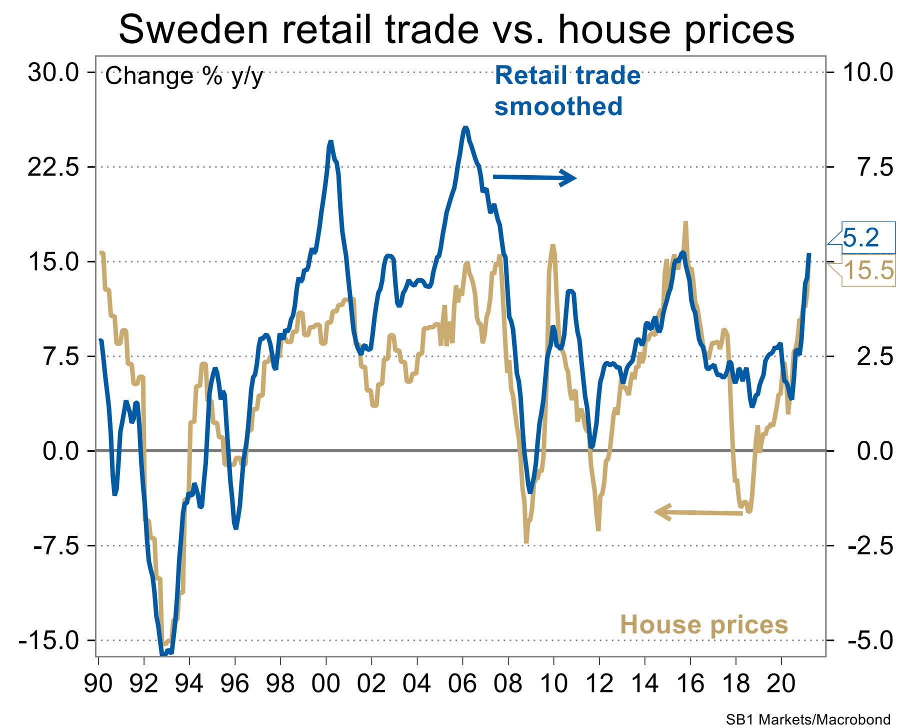




- Huge sectoral differences. Clothing still down 19 % vs Jan/Feb last year. Internet sales up 45% (here like in many other countries), info/communication +25%. Food sales are close to flat, which is strange, given far less activity at restaurants (and Norwegians do not normally buy that much in Sweden, do we??)
- As for Norway and several other countries: We expect retail sales in Sweden to return to a long term trend path over the coming months (and quarters) as spending on services (and abroad) normalises

# Consumer conf. up in April, best since ‘17 - not far below the post GFC peak

A double x-check: Retail sales are blooming, and house prices are soaring

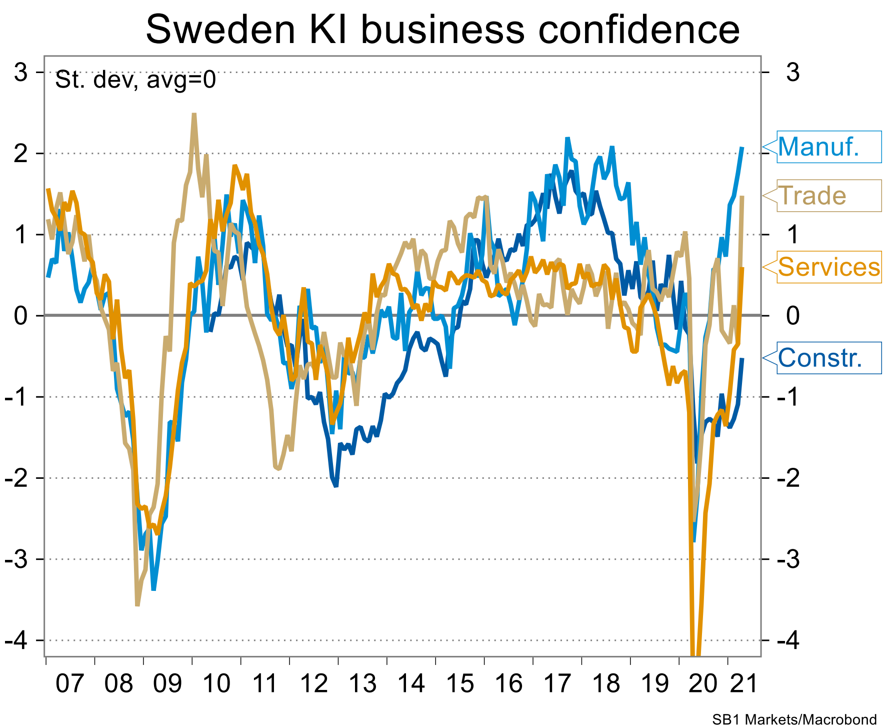


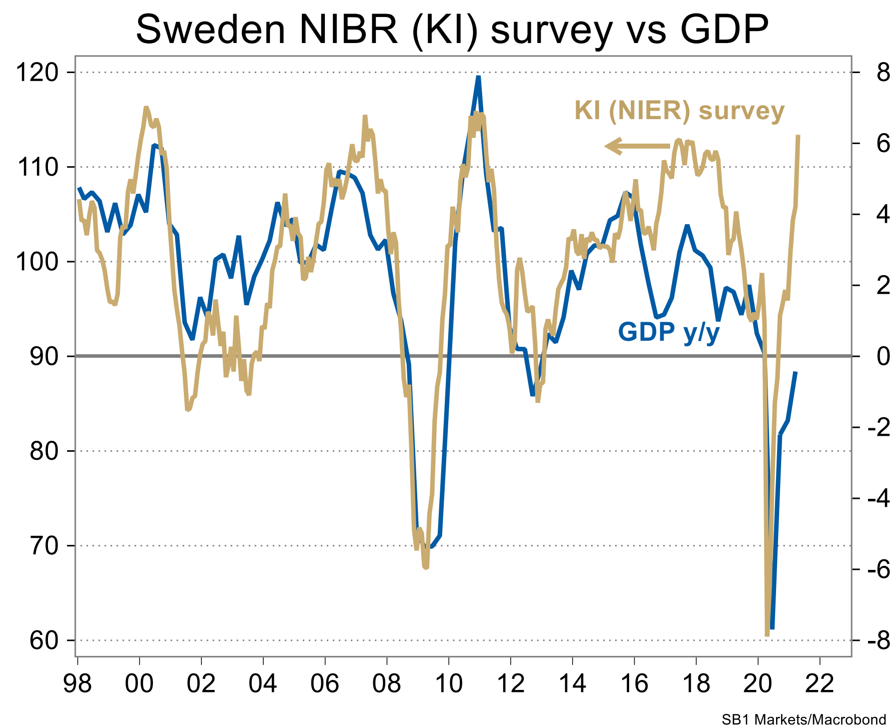




- The **total consumer confidence** index climbed to 103.2 in April from 97.4 in March, expected up to 98.1. Both the **macro and the micro index** rose contributed
- **Confidence** has more than recovered, alongside retail sales - and a booming housing market signals that households are not worried for anything at all
- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened

# KI business survey takes off in April, best since 2010, signalling 6% GDP growth

## The index is close to historical peaks (before the economy rolls over, of course…). All sectors up

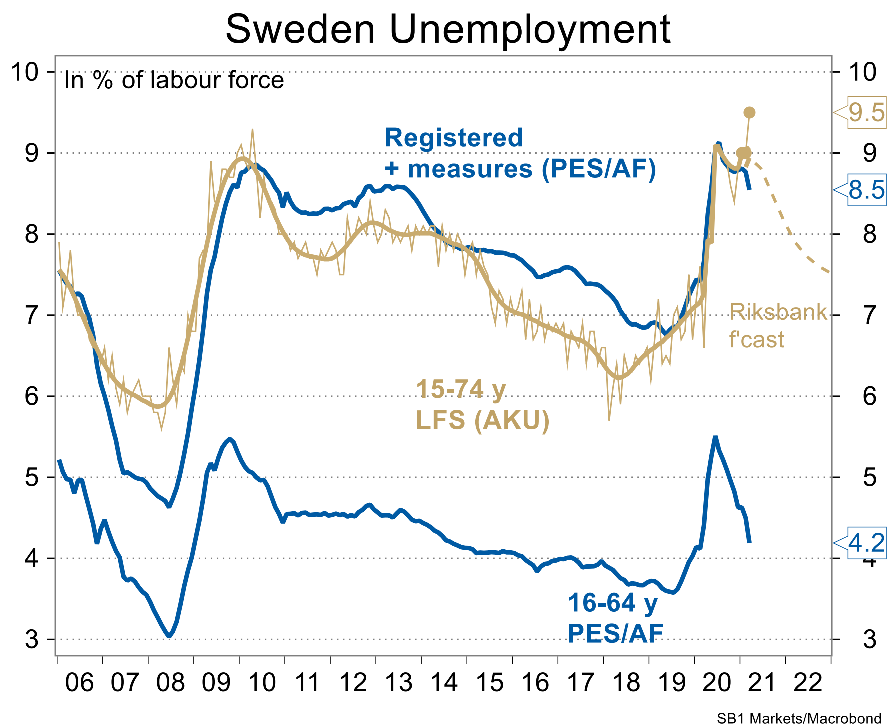


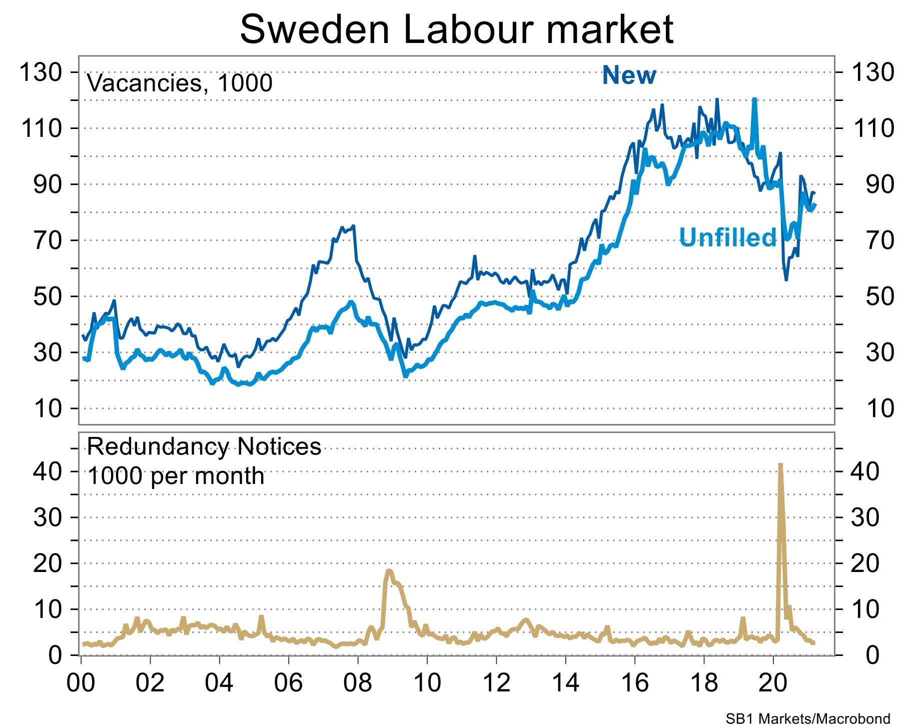




- **The composite index** rose to 113.4 in April from 105.8 in March, the 5$^{th}$ larges m/m increase (2 of them in June/July last year) up to among the highest levels in the 23 year history of this index. The survey signals a very rapid growth in GDP
- **All sectors** contributed to the lift. Even **services** now reports growth in activity above average. Take-off among **retailers**, and **manufacturers** are close to heaven. Just **construction** still below par
- Still the **Riksbank** is concerned about the impact of the corona crisis, and buys large quantities of government bonds, and thinks it will keep the policy rate at zero forever. At least until Q2-24

# LFS unemployment at 9.5% in March, up from 8.9% in Feb

## New survey method, definitions & calculations makes especially employment data ‘useless’

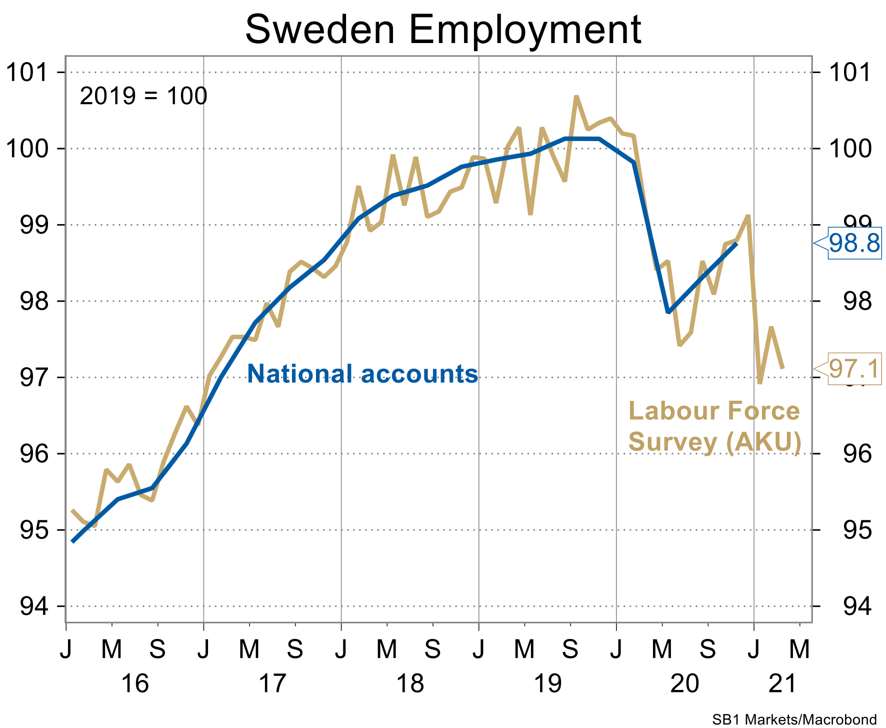


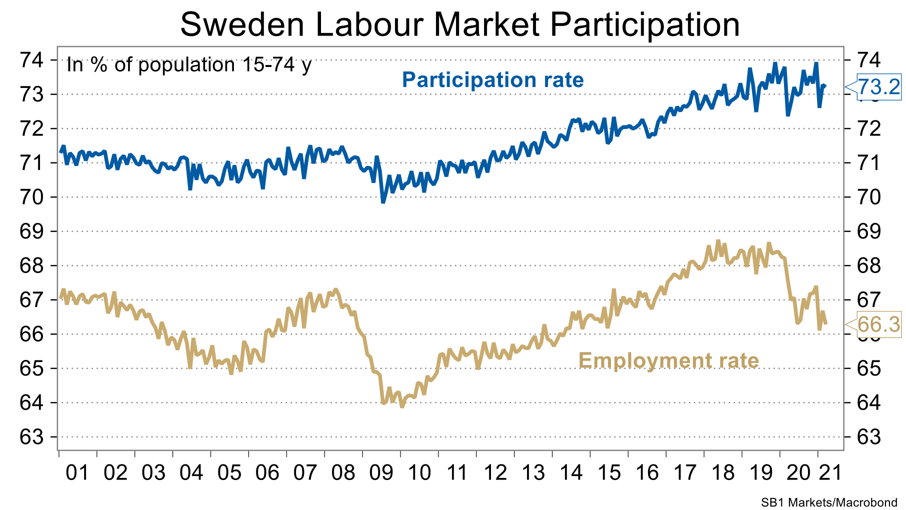

- The seasonally adjusted **LFS unemployment rate** rose 0.6 p to 9.5%. Keep in mind, the whole LFS apparatus is revised (EU standards) and the old and new method is not yet directly comparable
- **Registered unemployment** has fallen sharply and currently stands at 4.2% incl. labour market measures, vs 5.5% at t top last year, and 3.6% before the pandemic. **Total unemployment** (including measures) 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

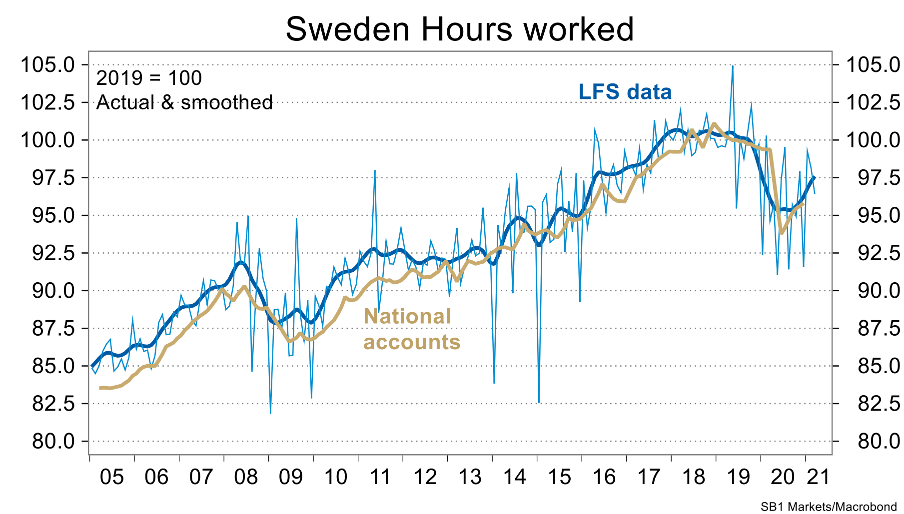
# The revision of the Labour Force Survey (AKU) yields silly results

## The decline in employment in January was not for real. We hope Nat. accounts will clarify



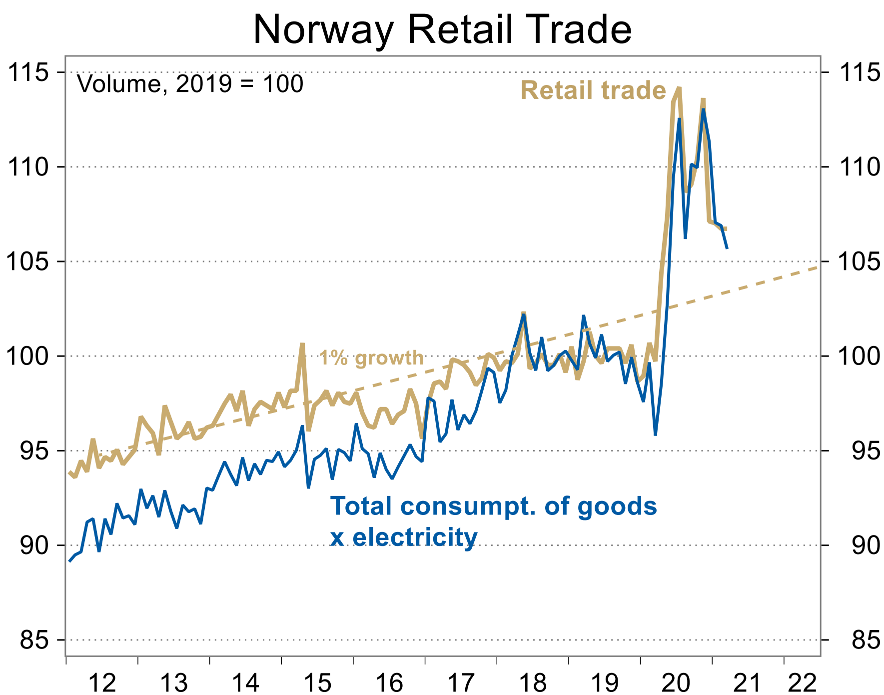

- Employment is most likely down some 2% from before corona, hours worked are down 2%
- Hours worked has recovered substantially vs last spring, and is still on the way up
- This week, SSB will publish new LFS /AKU data, hopefully with some adjustments for the breaks due to revision of the methology



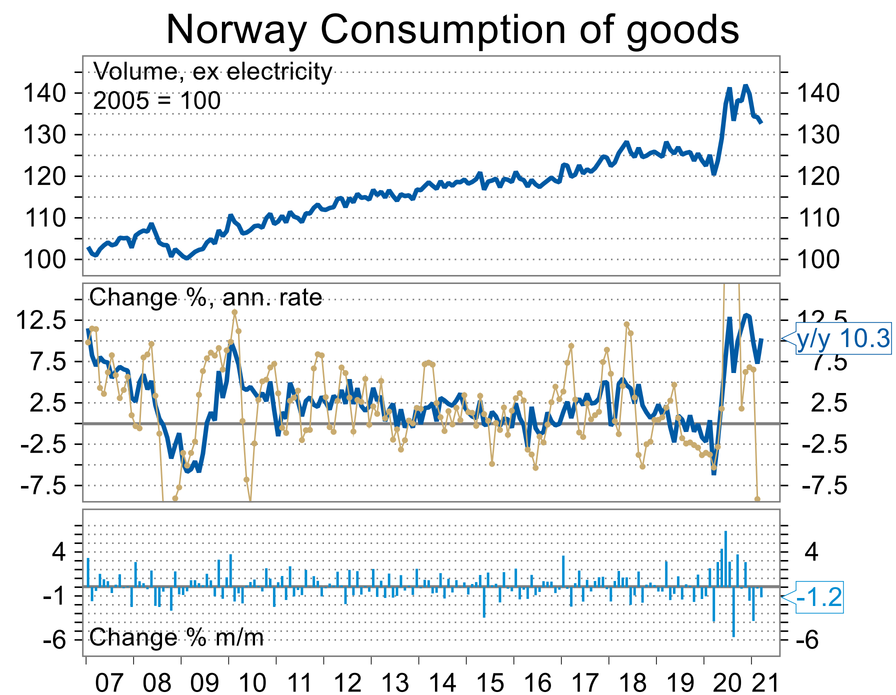



# Retail sales unchanged in March - level 7% above pre Covid

Sales flat, we expected a huge contraction (-6%), consensus was at -0.9%. Level is still ‘too high’




SB1 Markets/Macrobond

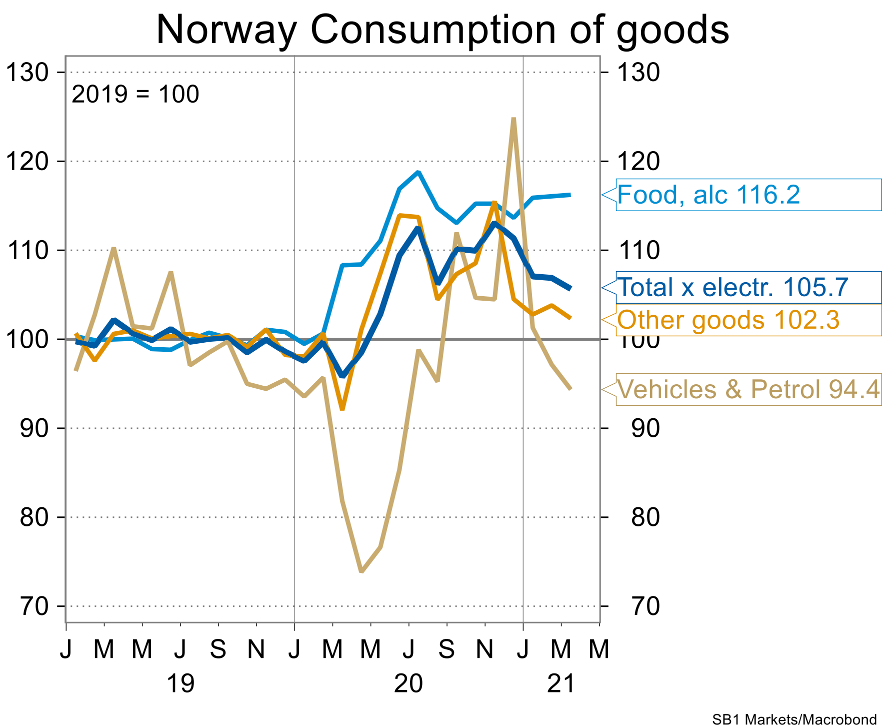


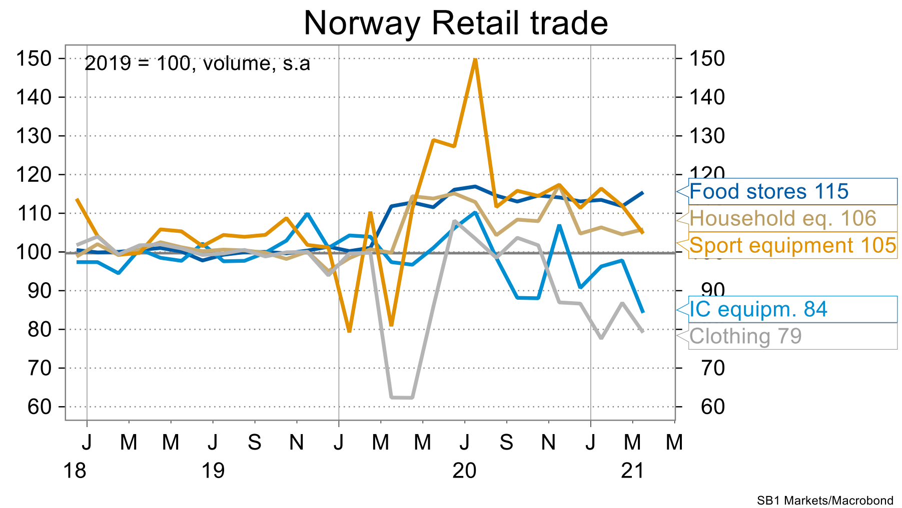

SB1 Markets/Macrobond

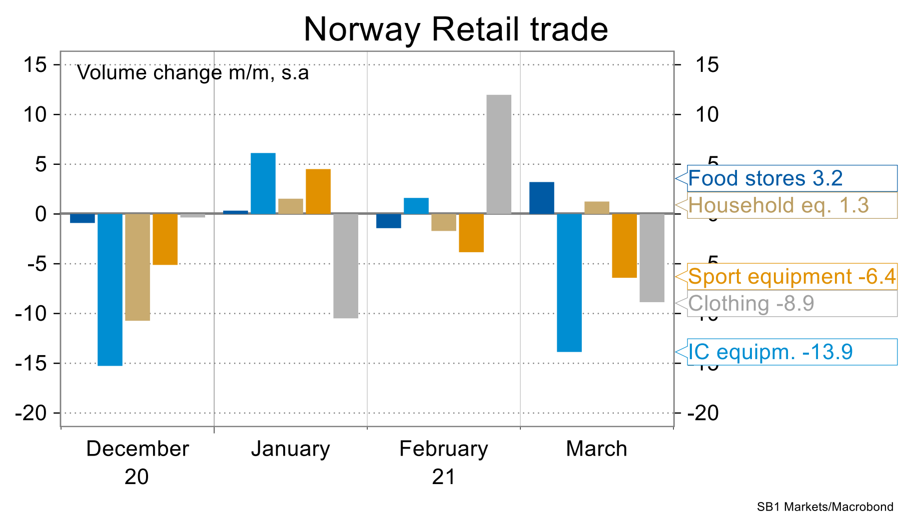
- **The partial lockdown in the greater Oslo region** and other areas with a rise in Covid-19 cases clearly had an impact on retail sales in March, but the total was anyway far better than we assumed. **Non-food shops** reported a decent decline, while **food sales** rose. **Internet sales** rose as well, and the net has increased its market share to 9% from 6% during the pandemic (‘click and collect’ sales from ordinary stores are counted as normal sales, not internet sales)
- **Total consumption of goods** (x electricity) fell by 1.2% in March
- **Retail sales** are up 7% from the pre-corona level, as are total consumption of goods. Demand for goods will very likely return to a ‘natural’ trend path when households one day are allowed (and dare) to start spending more on ‘locked down’ services, and to go abroad again
- **We still expect sales** to slow the coming quarters, back the pre-corona trend path – when it becomes possible to spend more on services
- <u>**Service consumption**</u> is of course far below a pre-corona level but are not included in retail sales data

# Clothing sales have been volatile: -9% in March, after +19% in Feb, -16% in Jan

## …while the sale of vehicles and gasoline are down 24% from the high December levels



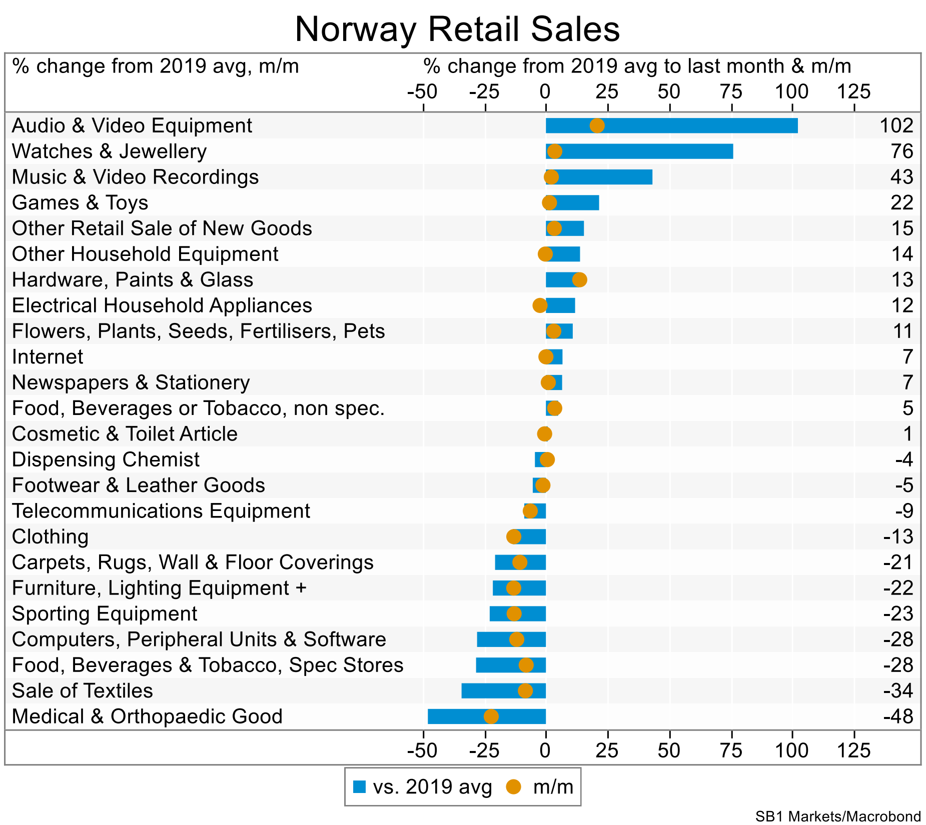



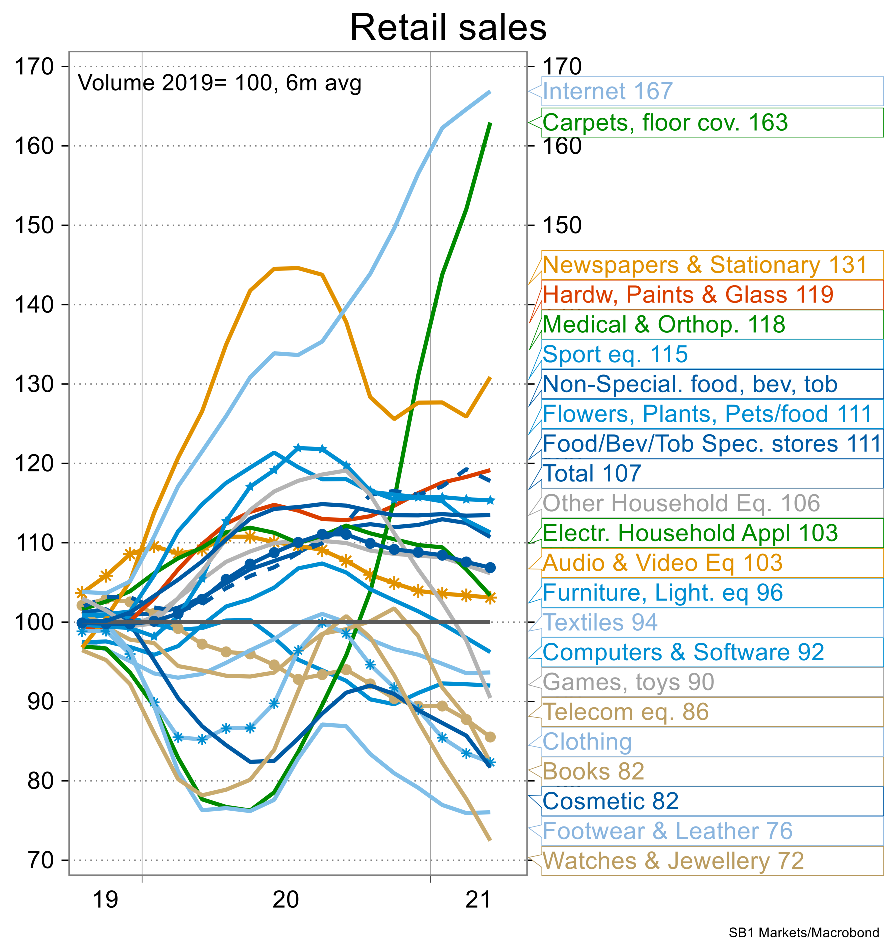

- Sales of sport equipment, ICT equipment, and clothing were down 6 – 14% in March, while food and household equipment were up 3.2% and 1.3% respectively
- Sales of food & beverages are up 15% – 16% vs. the pre-corona level as many restaurants, cantinas are closed, and there are no x-border trade in Sweden

SpareBank 1 MARKETS

# Internet sales flat m/m but has understandably gained share during pandemic

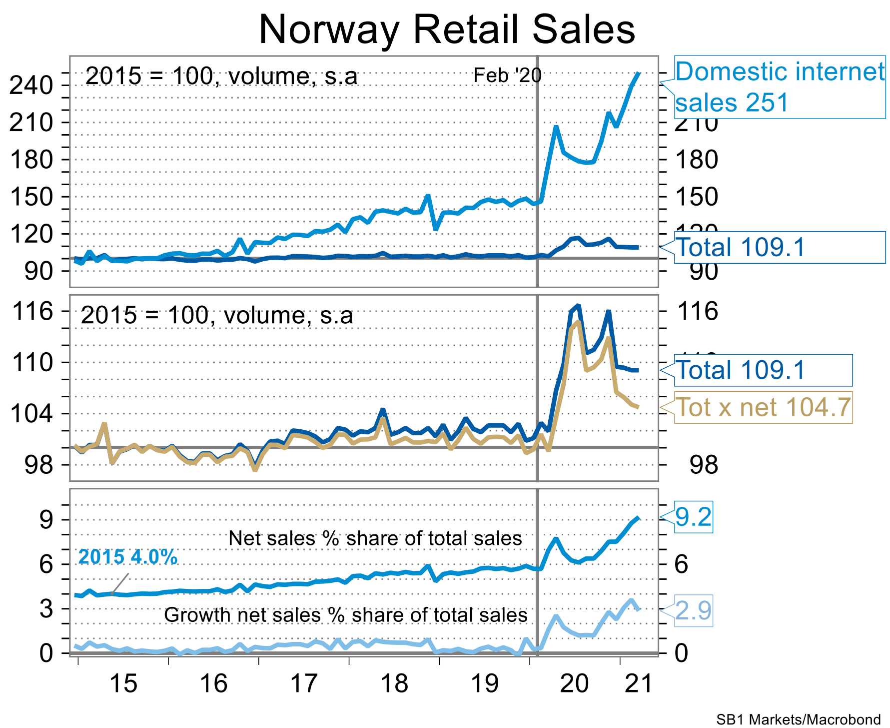
And: Sales in most sectors are now trending down, mostly from ‘too high’ levels during the pandemic

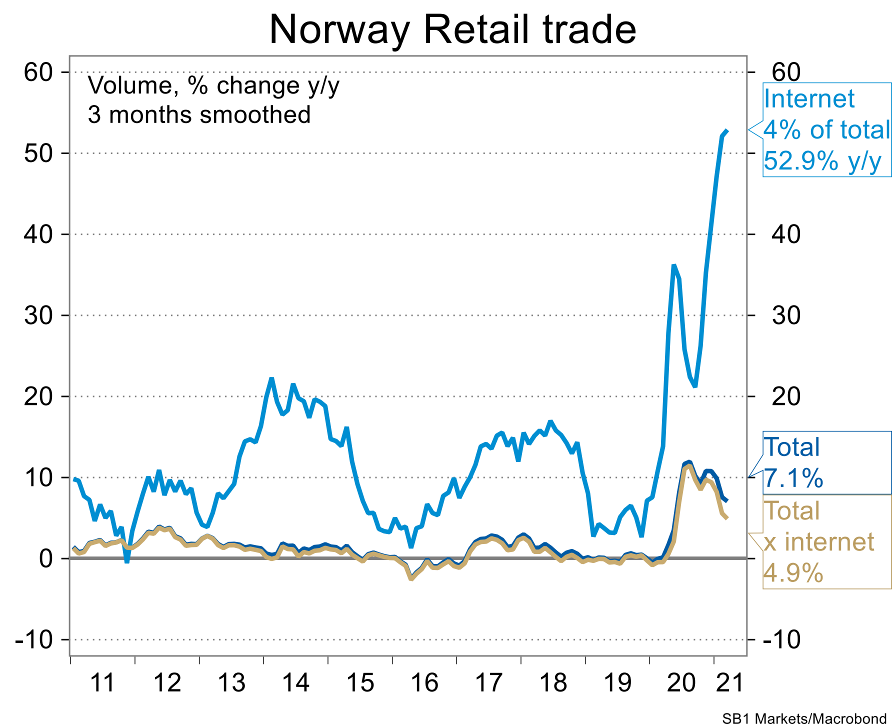


# Internet sales (domestic) up 53% - same trend in many countries

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

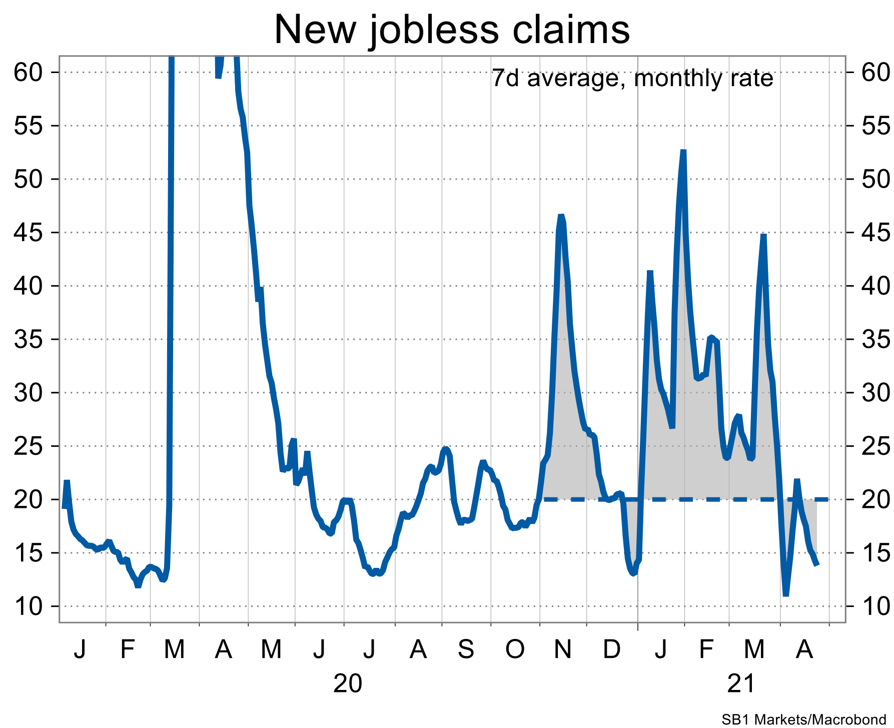


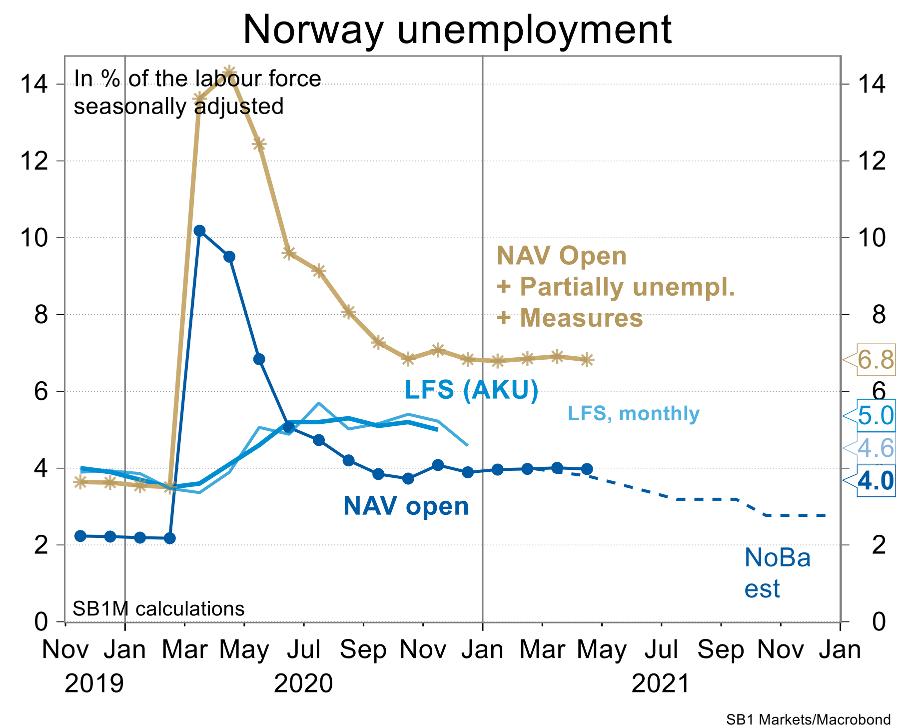




- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to 9% from 6%, of which half the of the lift since last Feb
- Since 2015, domestic internet sales have contributed to 60% of the increase in total sales
- ICT equipment, cosmetics/drugs, clothing, food and sport equipment are the 5 largest product categories sold from net outlets

# NAV unemployment marginally down in April

## … and the inflow of new jobless has fallen sharply

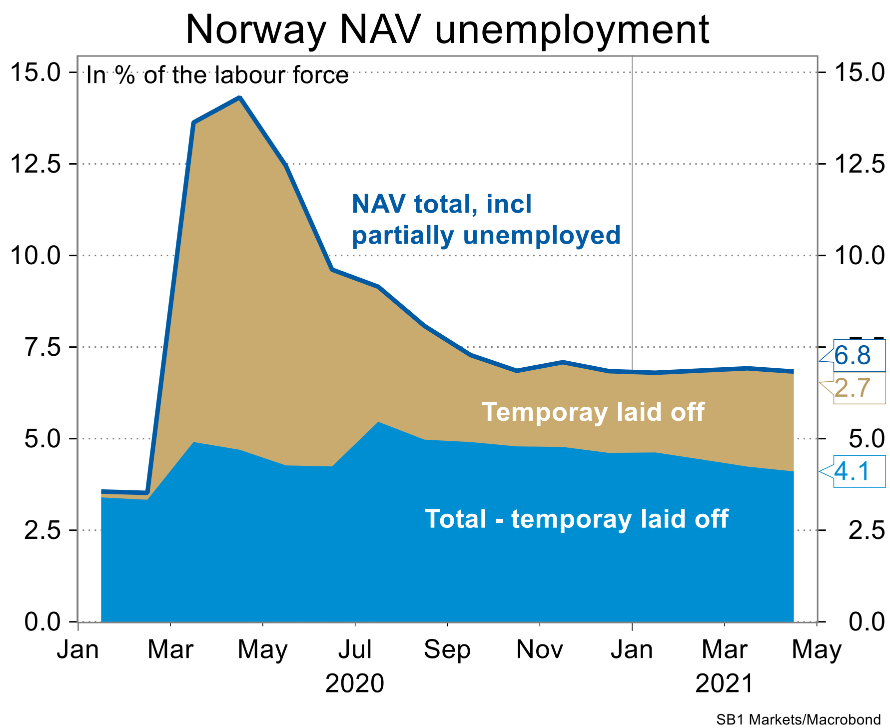


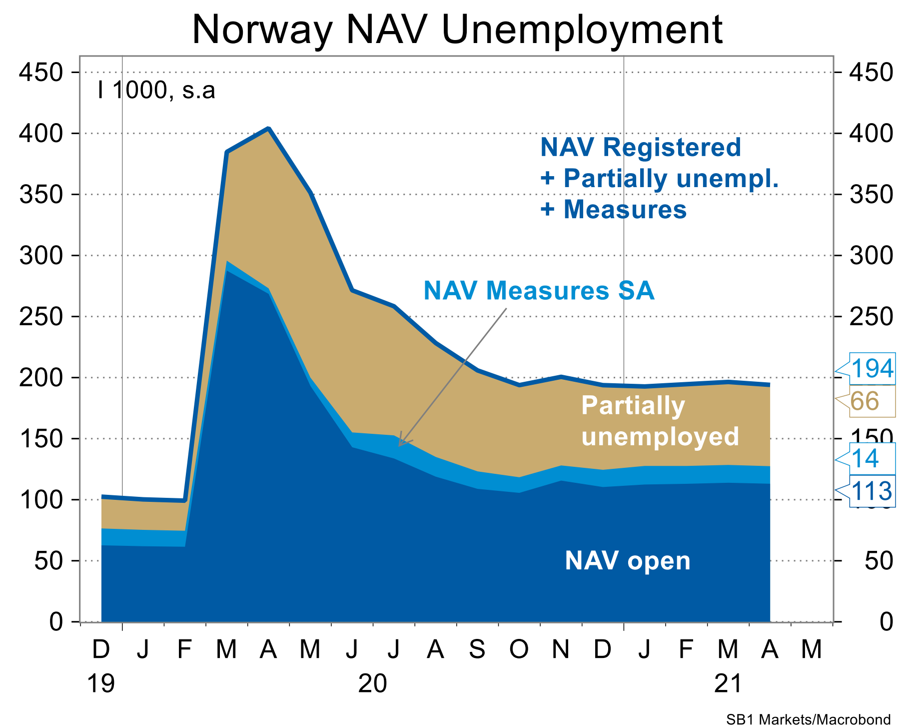




- **The open NAV unemployment**, which includes furloughed workers fell by 1’ March (seas adj), we expected +3’. The rate was unchanged at 4.0%, 0.2 pp above NoBa’s March estimate. The unadjusted rate was at 4.0% was 0.2% - 0.3% below our estimate & consensus
- The number of **partially unemployed** fell by 1’ to 67’, leaving the grand total at 194’, equalling 6.8% of the labour force. Before the corona crisis, this unemployment rate was at 3.8%
- **Since November**, the number of ordinary unemployed has increased by 8’, while the number of partially unemployed has fallen by 9’ persons
- Since November, 35’ persons more than normal have **applied for claims** (the net above a 20’ per month normal inflow these 5 months, data not seas. adj). This increase is no doubt due to the stricter corona restrictions imposed in 4-5 rounds in early Nov, and then further in early & late Jan, and in March. However, this substantial extra inflow has not lifted the no. of unemployed!

# More furloughed workers since October, to 2.7% from 2.0%

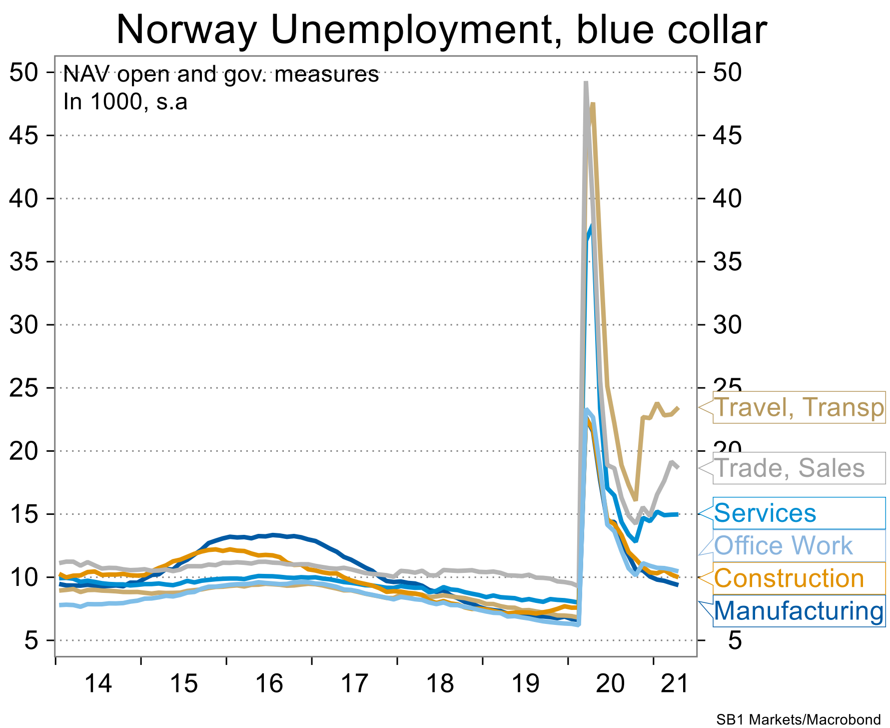
## While 'ordinary' unemployment (partially or fully unemployed) is trending steadily down

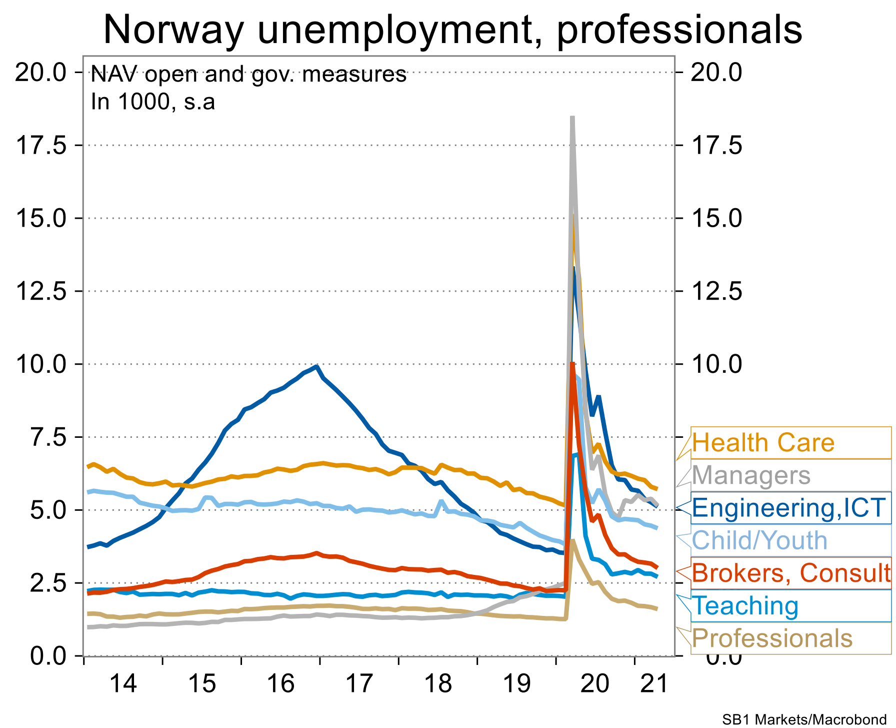



- … which is good news, and it is likely that most of the temporary laid off will be able to return to work as the society re-opens the coming months
- The no. of partially unemployed has fallen slightly too

# In April, more unemployed only among travel/transport

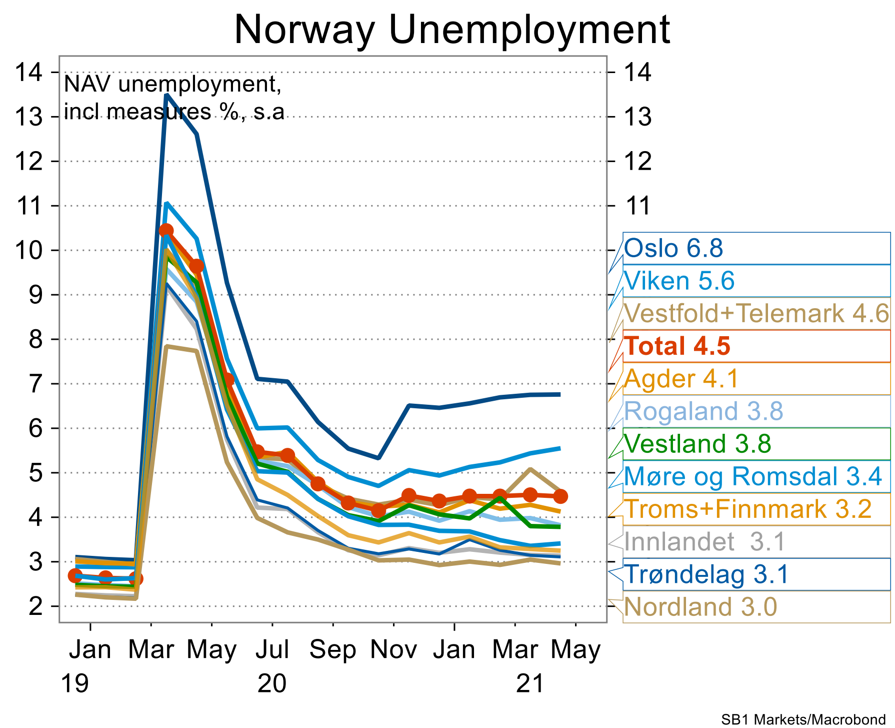


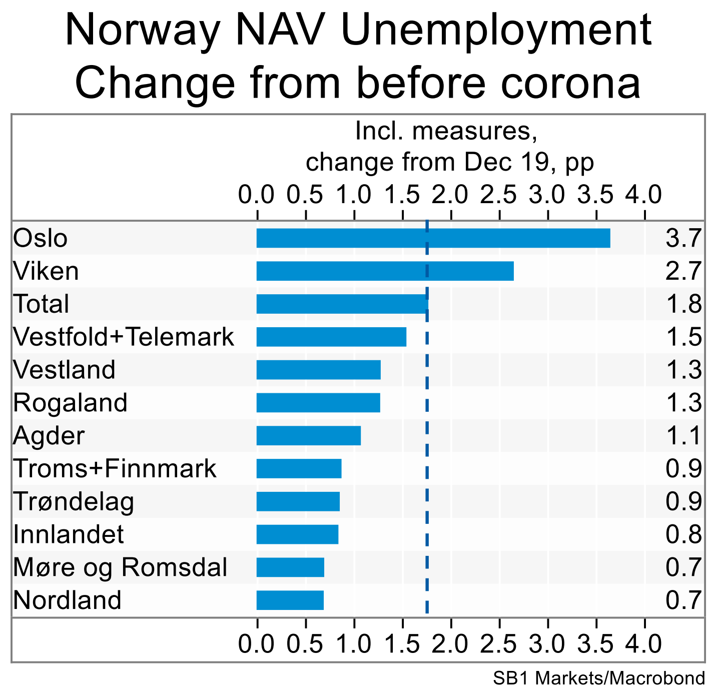




- The contrast to what happened last spring is striking. During the 2nd/3rd wave just retail trade, and travel/transport are hit

# Unemployment up in Oslo, Viken and Vestfold & Telemark

Due to closure of some shops in these areas. Elsewhere, unemployment flat or down in March

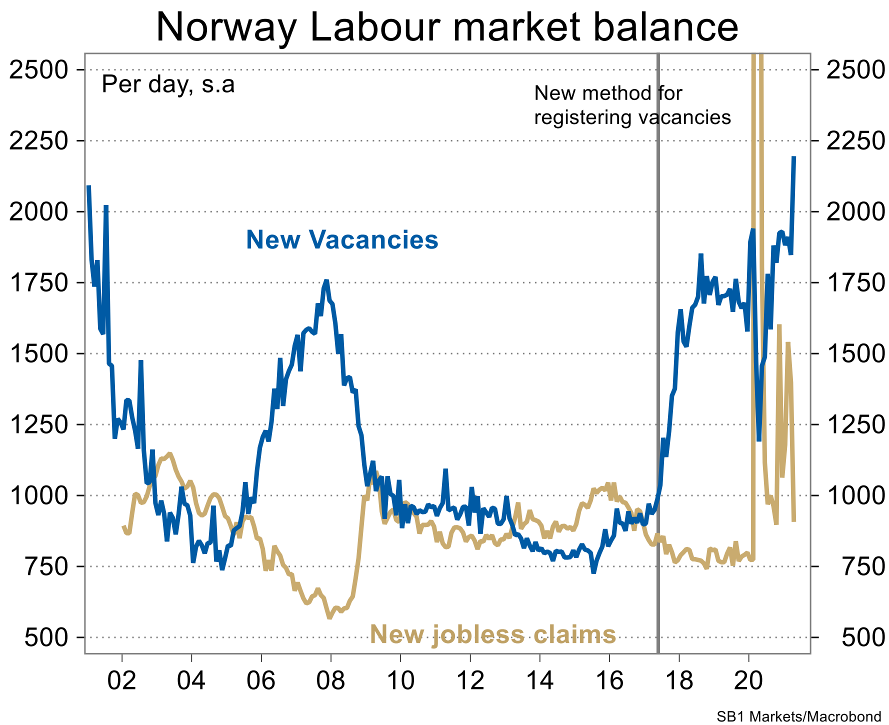


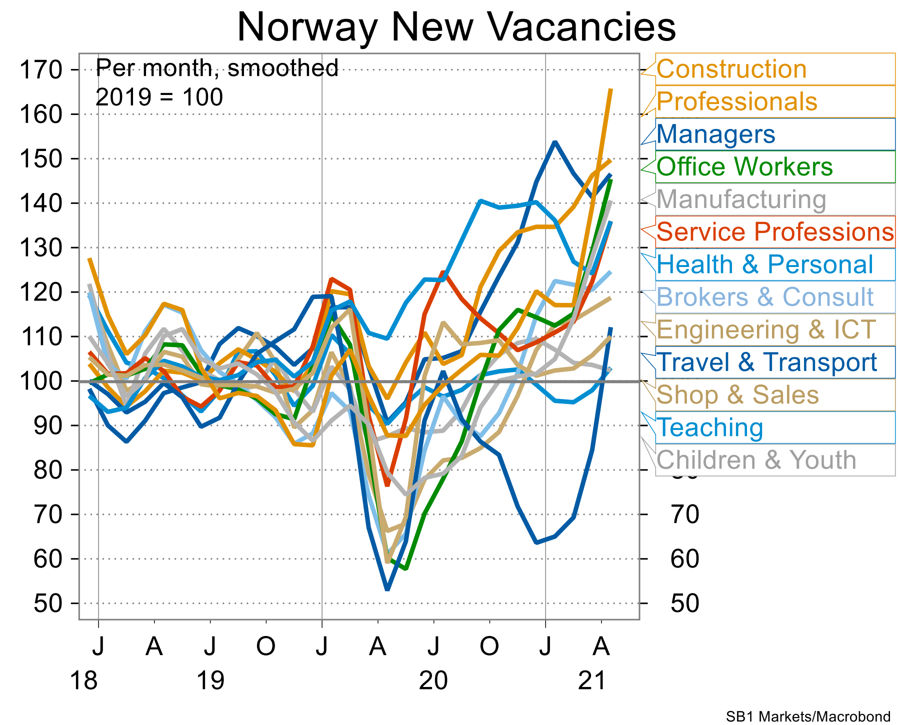




- **Oslo** is by far the hardest hit, unemployment is up by 3.7 pp since before corona, and the level is at 6.8% (not included partially unemployed)
  - » And that of course explains why house prices in Oslo have climbed faster than any other place in Oslo last year ☺
  - » Well, it probably better explains why the rental market in Oslo has weakened substantially
- Unemployment in Viken and Vestfold & Telemark is on the way up too, no doubt due to the recent corona restrictions
- In other parts of the country, flat or declining

# A large jump in new vacancies – even in travel & transport

… before restrictions are eased. Is somebody planning for something to turn up?

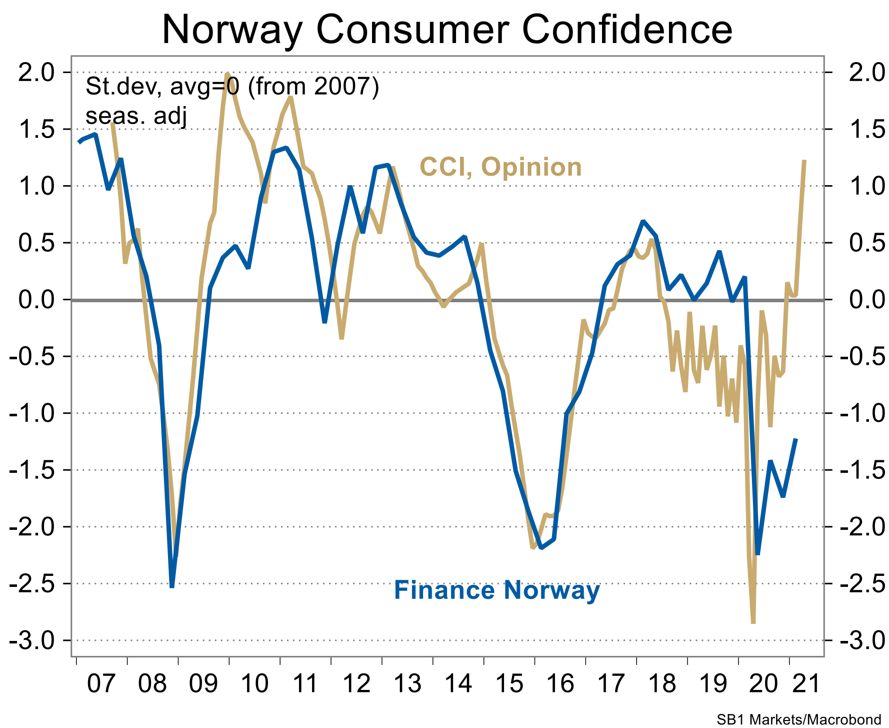



We have made a preliminary adjustment of the 2020 vacancy data due to a NAV reporting error which have led to under reporting of new positions through the year. NAV reports that the no. of new vacancies is at the same level in January 2021 as one year ago

# Consumer confidence sharply up in April too, according to CCI

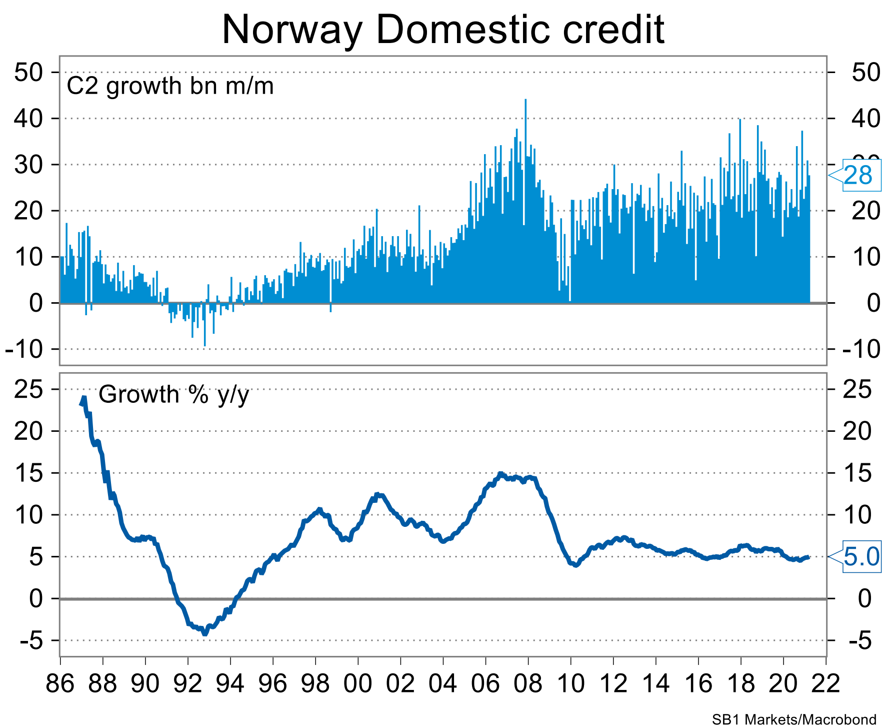
The index rose 0.6 st.dev, to 1.2 above an average level, best since 2011

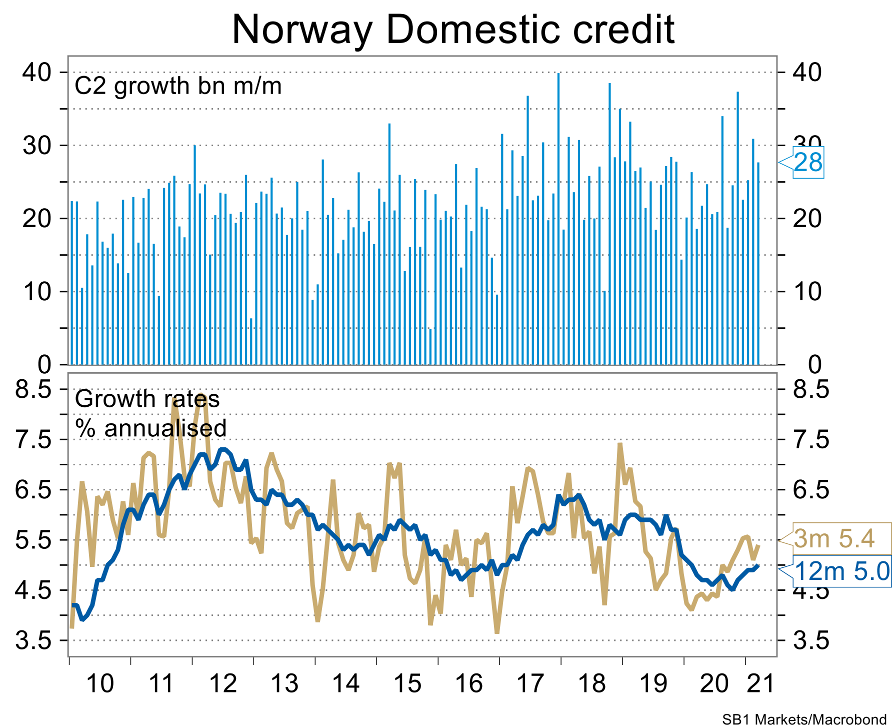



- ... as vaccines are distributed and
- Finans Norges confidence quarterly survey was far weaker in Q1 (data from Jan/early Feb)
- Even so, the lift in Opinion's monthly, and more volatile survey, does not temper our optimistic view on the recovery in demand for services as soon as the virus/restrictions allow!

# Credit growth is accelerating but very slowly, and the growth rate is not very high

Total domestic credit growth (C2) accelerated by 0.1 pp to 5.0%, due to higher local government borrowing



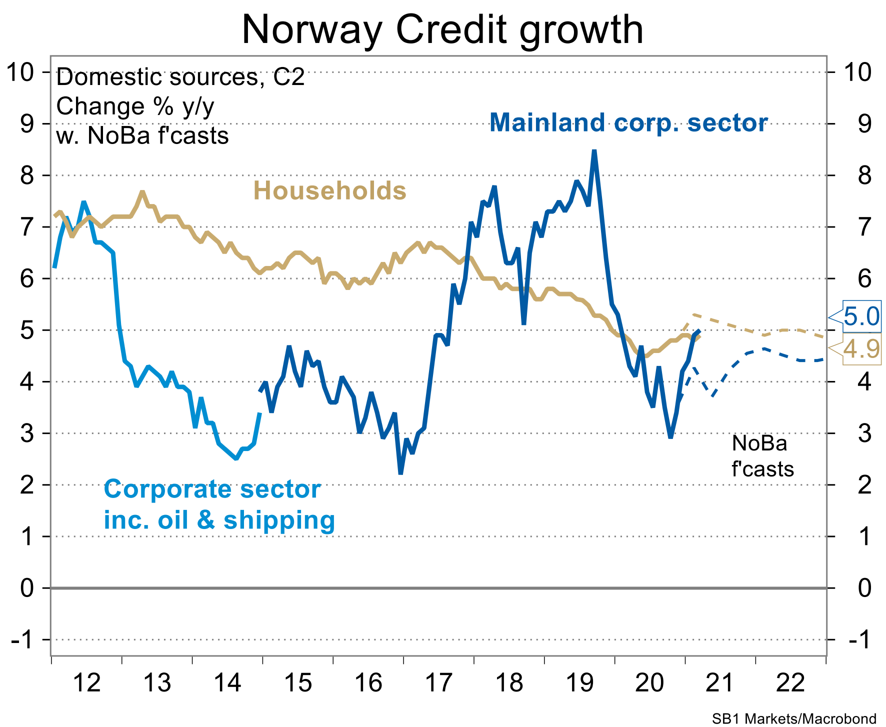



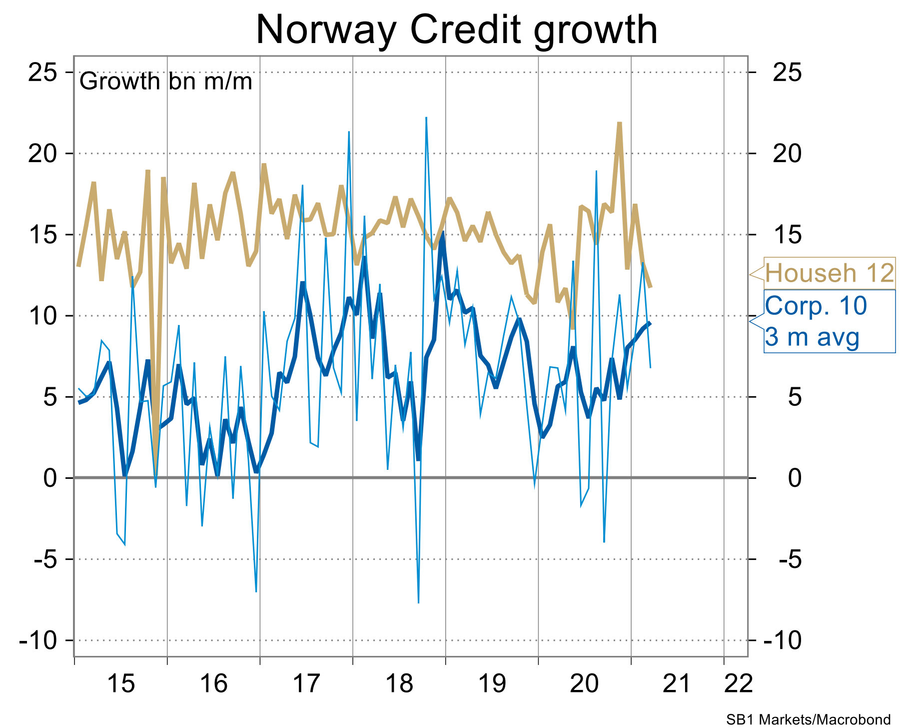

- **Total domestic debt** (C2) rose by NOK 28 bn in March, down from 31 bn in Feb, we expected NOK 27 bn. The annual growth rate climbed 0.1 pp to 5.0%, from a downward revised 4.9%. We are not witnessing a any credit boom, even if growth is accelerating slowly
- **Household credit** rose by NOK 12 bn in March, 1 bn less than in Feb, we expected 16 bn. The annual rate up 0.1 to 4.9%, we expected 5.0%. The underlying rate is slightly above 5%, somewhat higher than a reasonable estimate of long term nominal income growth
- **Corporate C2 credit**, rose by NOK 7 bn (down from 13 bn), we expected 8 bn. The annual growth rate was flat at 4.4% **Mainland corporations** increased their debt by 5.0% y/y (from 4.9%) vs Norges Bank's 4.3% Q1 forecast
- **Local governments** borrowed far more than we assumed, NOK 9 bn. The annual growth rate is at 8.5%

SpareBank 1 MARKETS

# Corporates have been tapping the bond market - credit growth is accelerating

## Moderate growth in household debt, well below NoBa's estimate

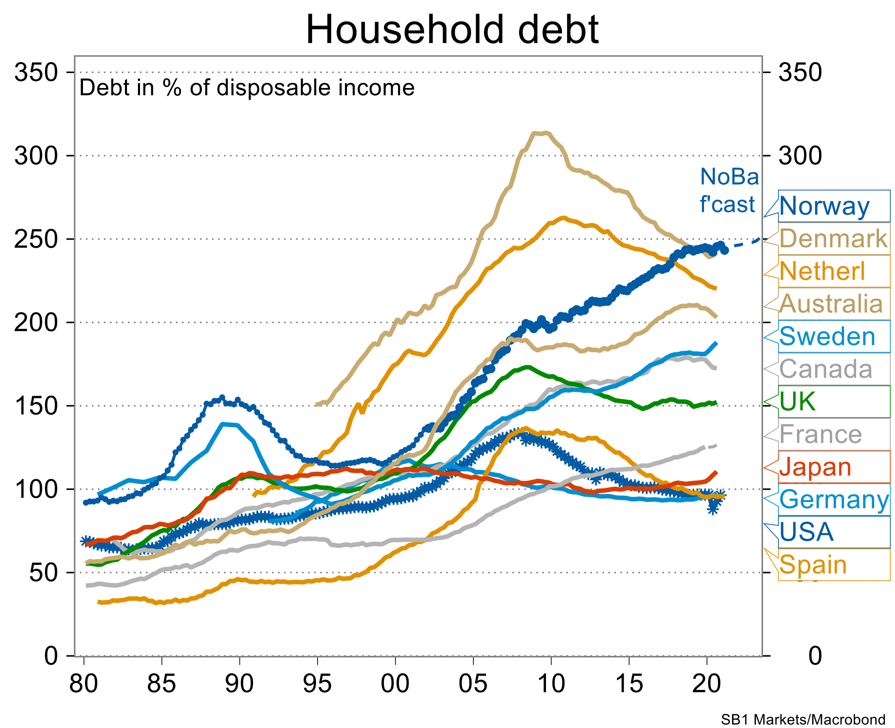


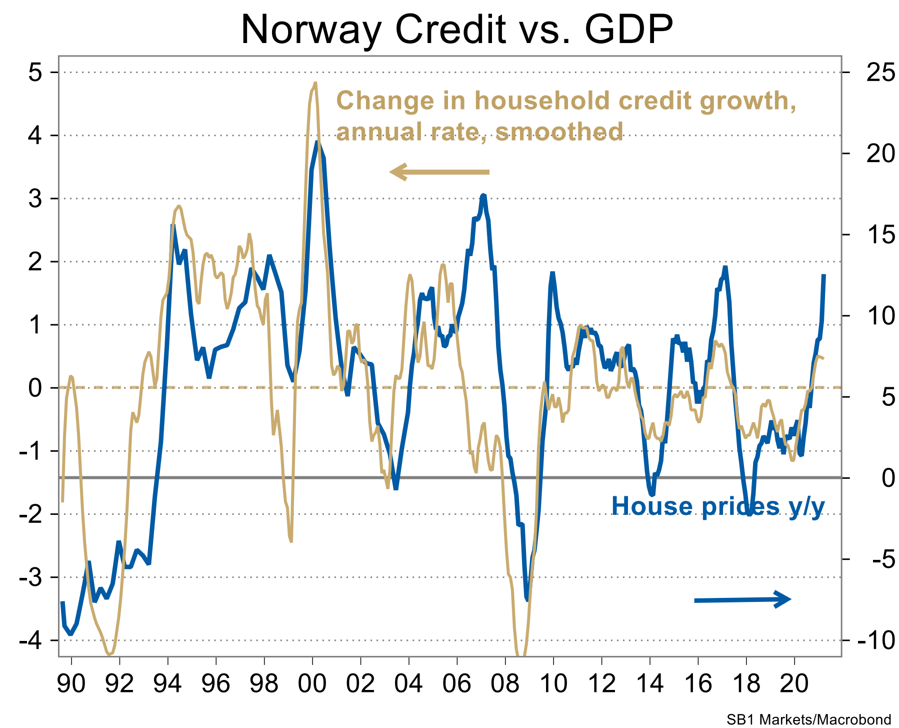




- Following a mild slowdown during the corona spring, **household credit** growth has recovered somewhat. The annual rate is now 4.9%, up from 4.5% last summer. Underlying growth recent months is above 5% - but there is no "take-off". Norges Bank expected a 5.3% annual growth rate in Q1 on average
  - » Consumer credit has been declining at some NOK 1 -1.5 bn/month over the past year, which has reduced the annual total credit growth by some 0.5 pp
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year, and further in Q1. The annual rate for Mainland corporates tilted up to 5.0% in March, from 2.9% last Oct. Underlying growth has increased to well above 5%. Norges Bank revised up its growth forecast in the March MPR but the Q1 estimated average at 4.3% turned out to be too low

# The household debt/income at ATH, and now highest in the world!

The Norwegian debt/income ratio have overtaken Denmark's. *WE ARE FINALLY AT THE TOP!*

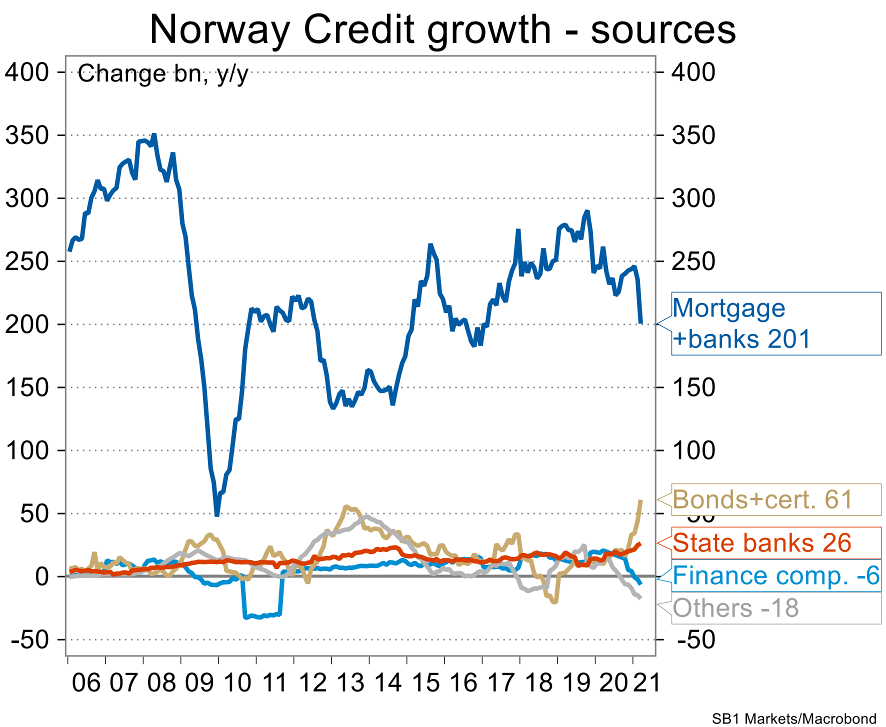


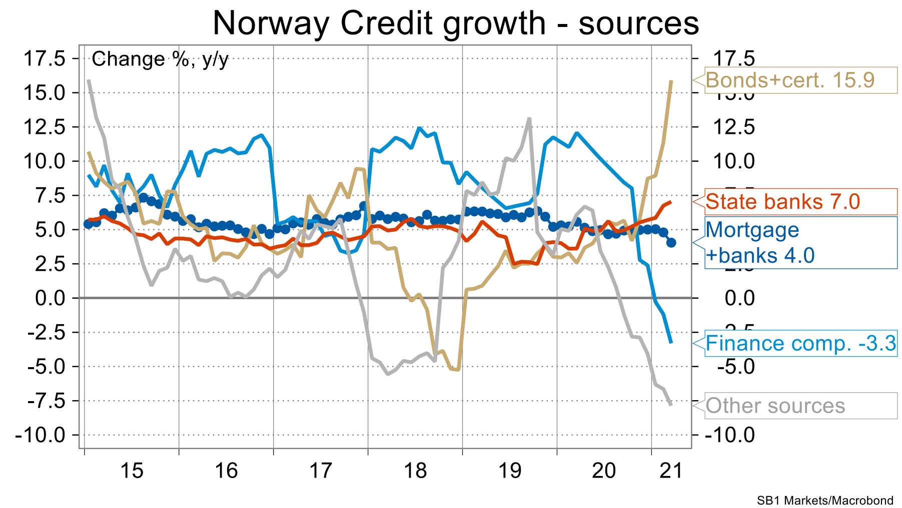




- Norwegians households' debt has been growing slower than household disposable income since late 2018, for the first time in 30 years (barring some minor turbulence in 2008/09). A small decline in household income lifted the debt ratio in Q3
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market. Now, however, the interest rate cuts may have boosted credit appetite more than the economic setback has restrained it
  - » Now, credit growth is not declining anymore – and the correlation to house prices is still to be seen, check the chart on the right

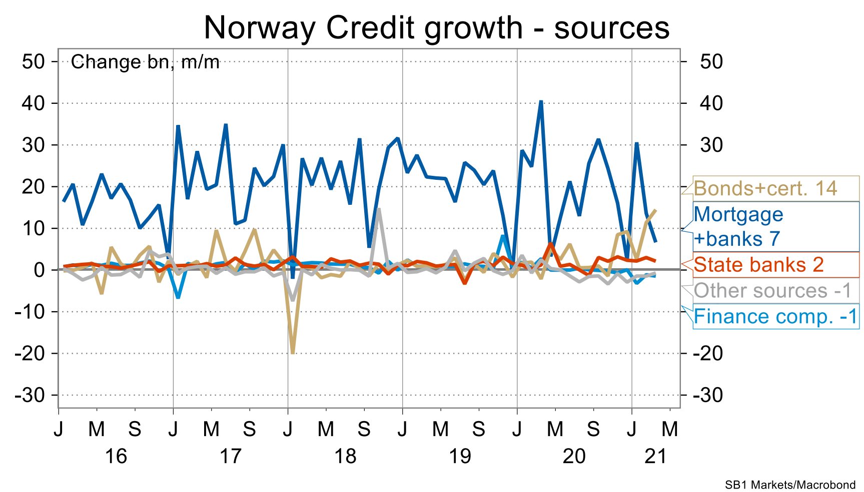
# More bonds for gentlemen; An unusual rapid growth, up 11% y/y

## But banks and their mortgage institutions are totally dominating the domestic credit market




- Net issuance of bonds have increased recently too – the stock is up over 16% y/y, highly unusual
- Banks/mortgage companies are up 4% y/y
- Finance companies and 'others' are reducing their debt
  - » Both insurance/pension funds as well as Statens Lånkasse, Eksportkreditt is included in our residual 'others', but just the sum of SL & Eksportkreditt is down




The seasonally adjusted 'sum of the parts' seasonally adjusted credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

Highlights

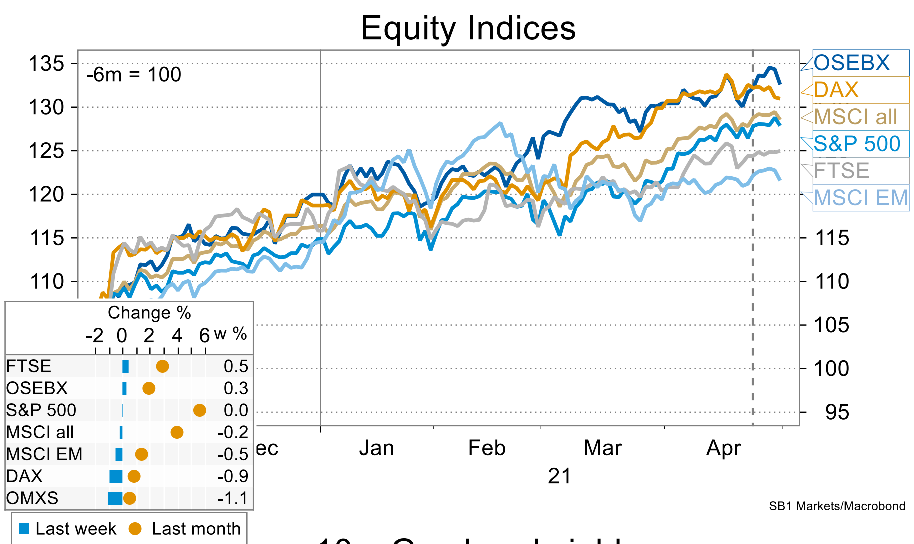
The world around us

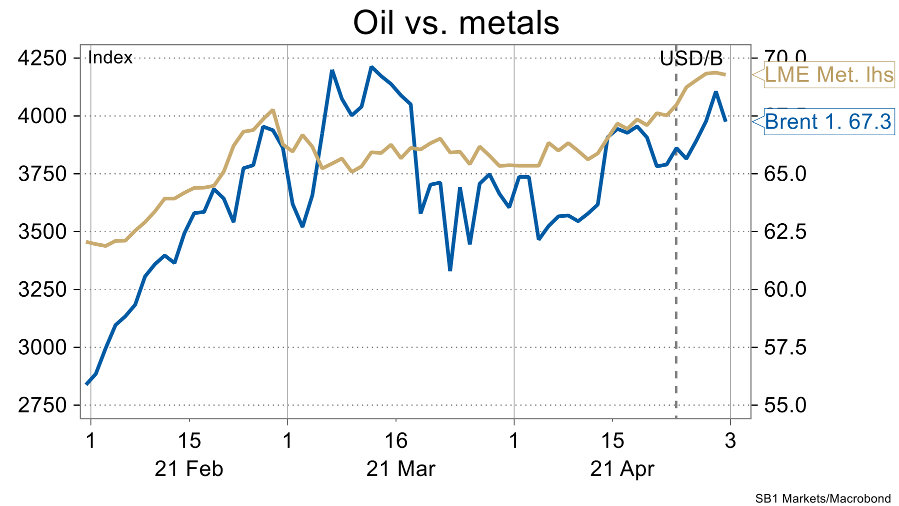
The Norwegian economy

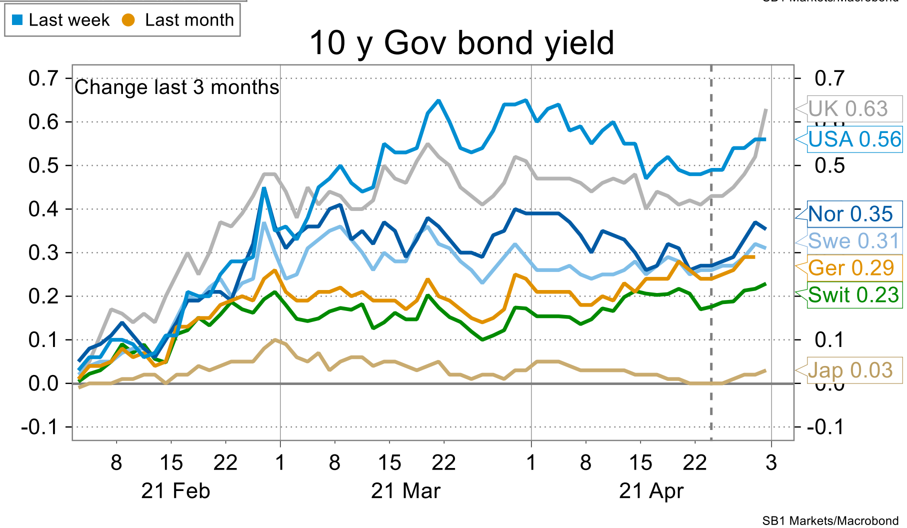
Market charts & comments

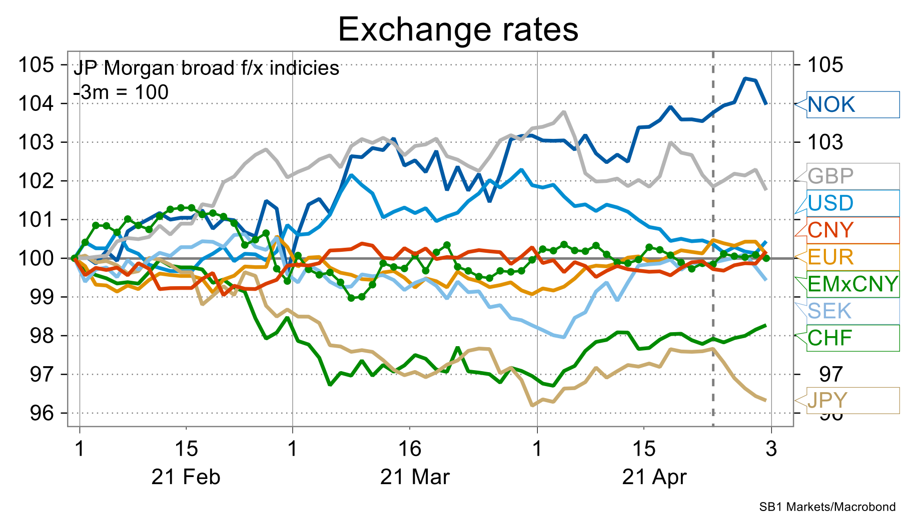
SpareBank 1 MARKETS

# Stocks flattish, commodities, yields up – and NOK stronger



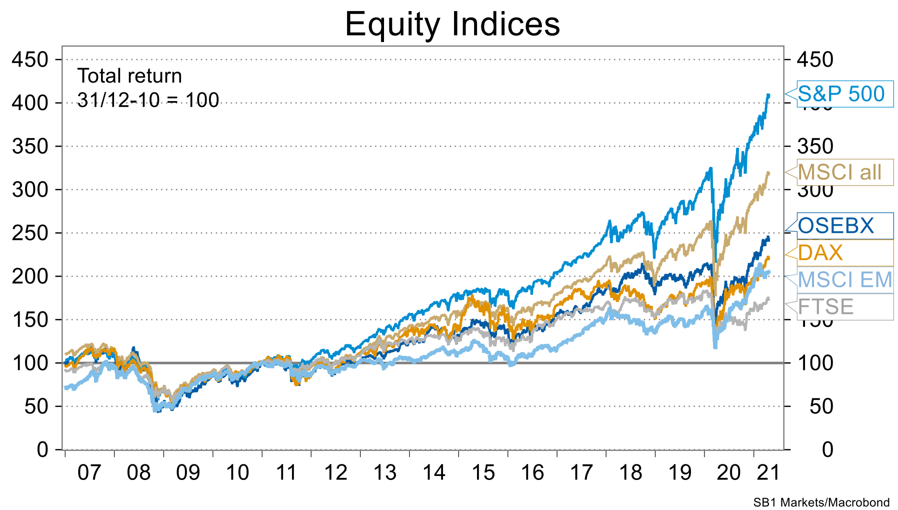



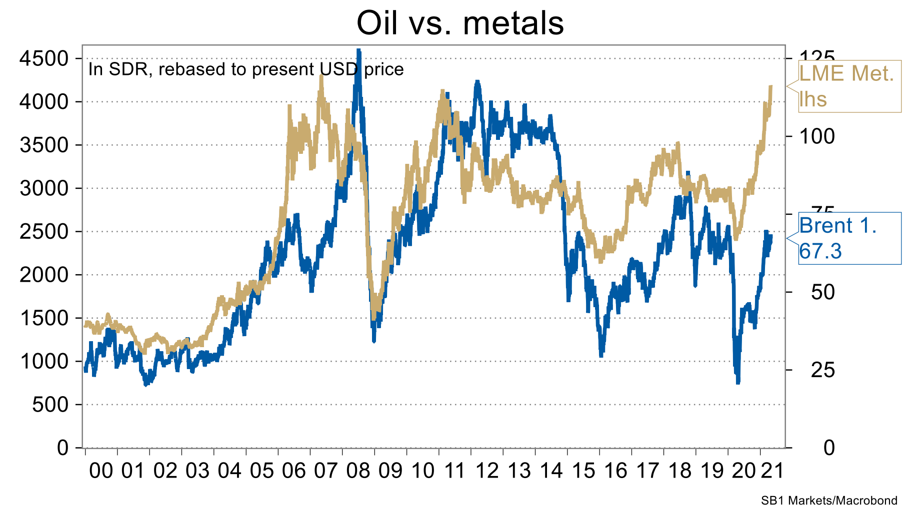



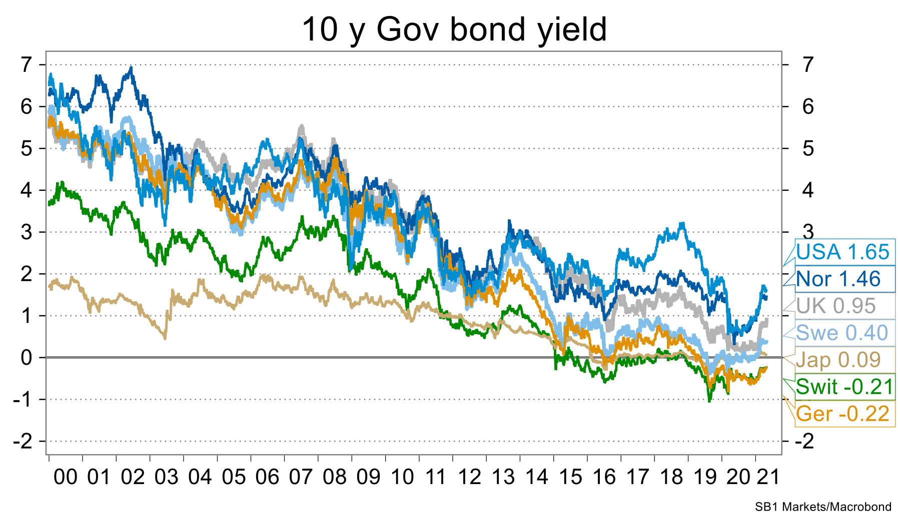



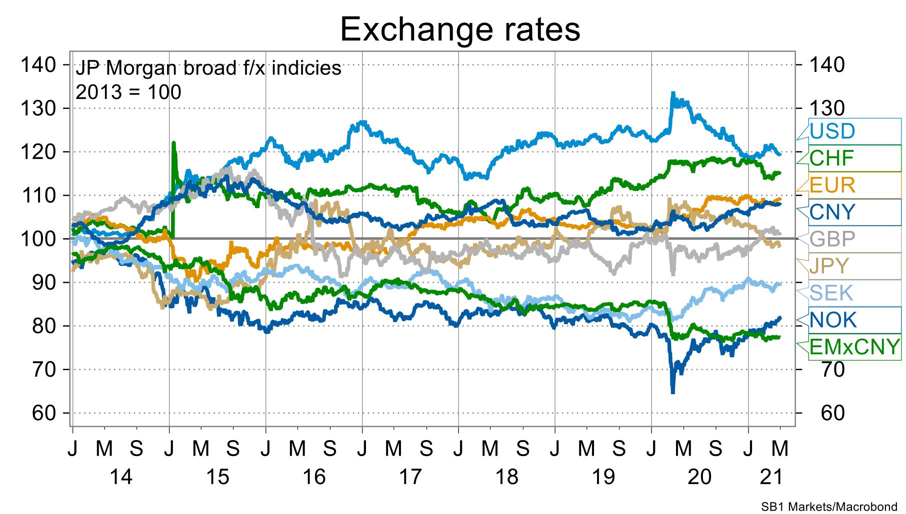
SpareBank 1 MARKETS

# The big picture: Strong stock markets, commodity prices



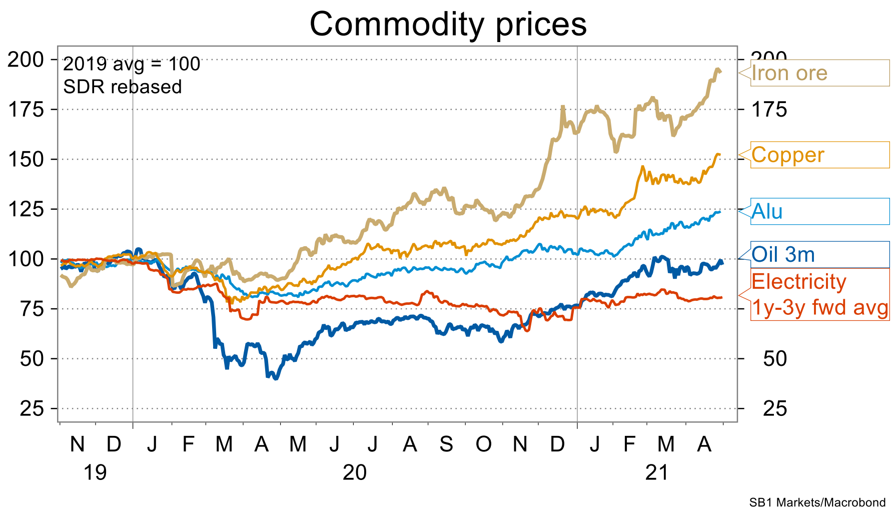



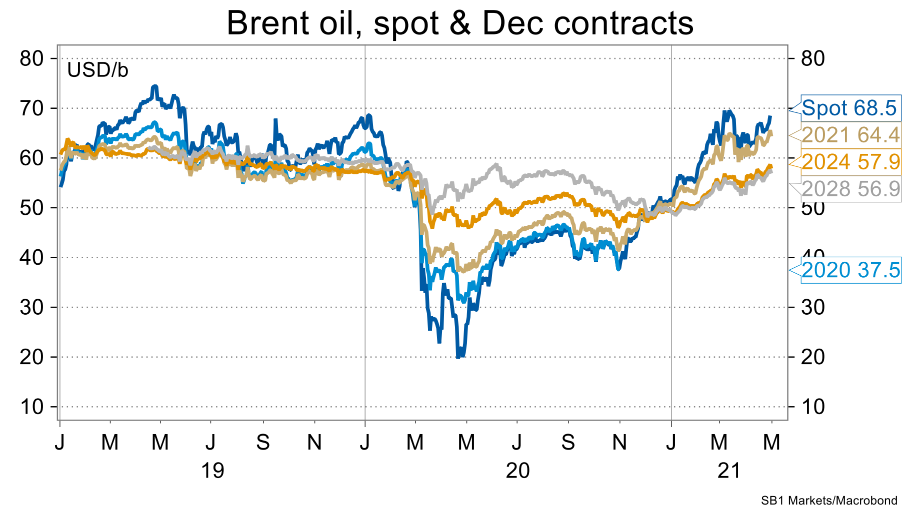



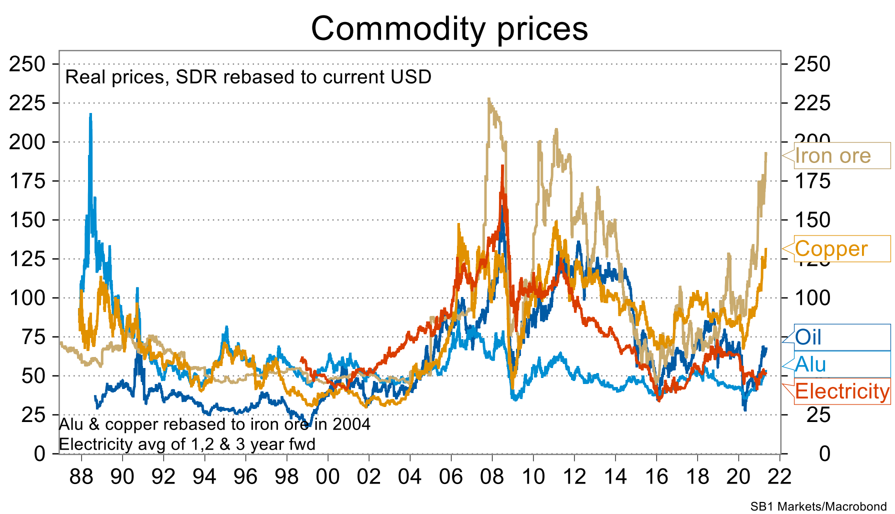



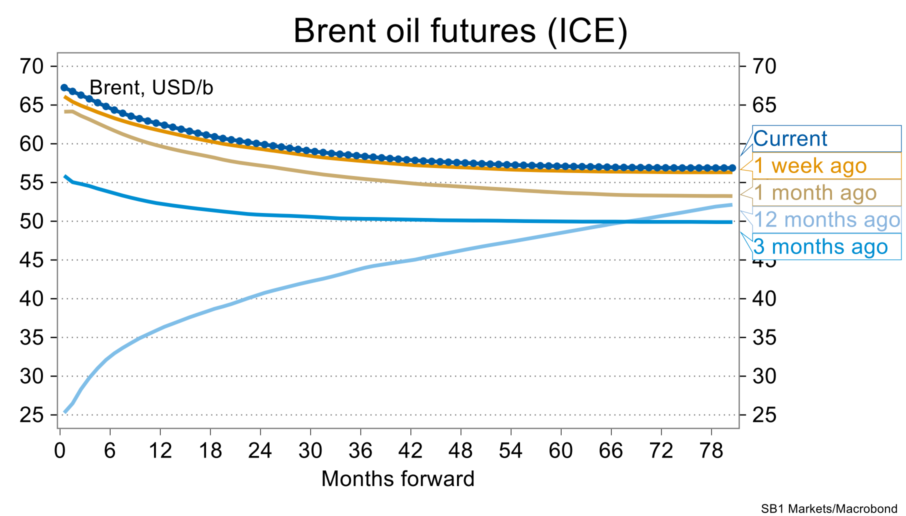
# Commodity prices stronger during the week, including oil

## Iron ore, copper not far below ATH, measure in real SDRs

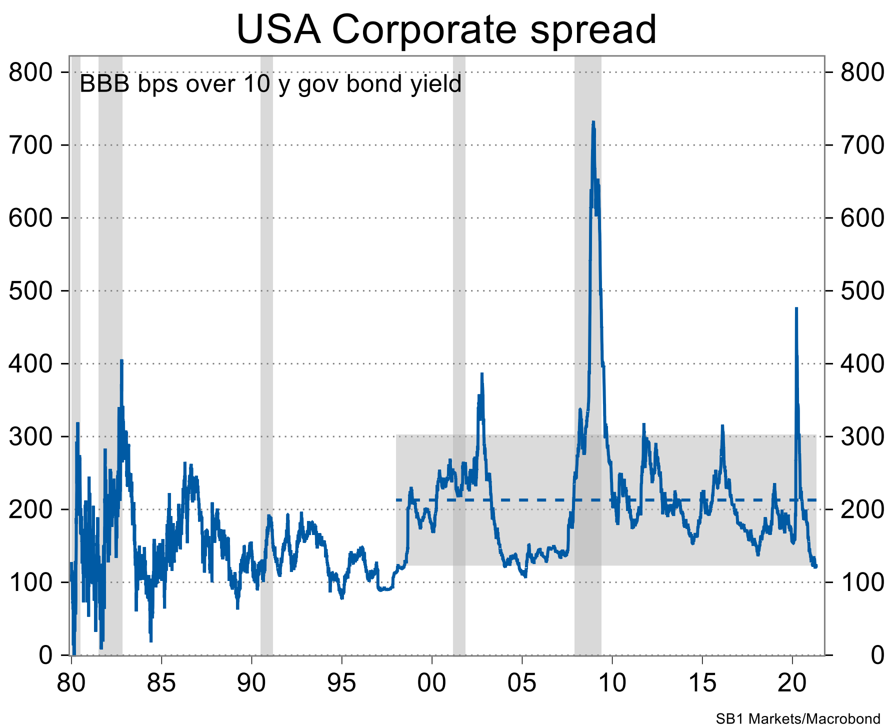


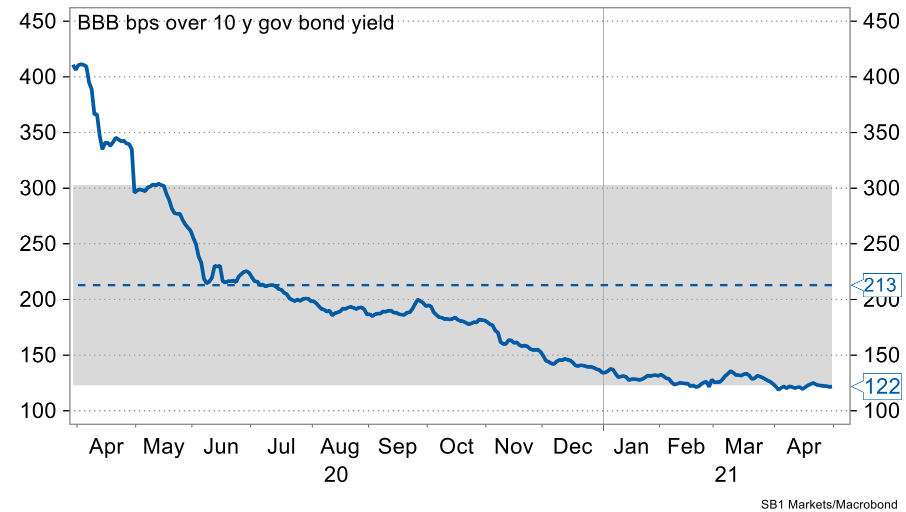



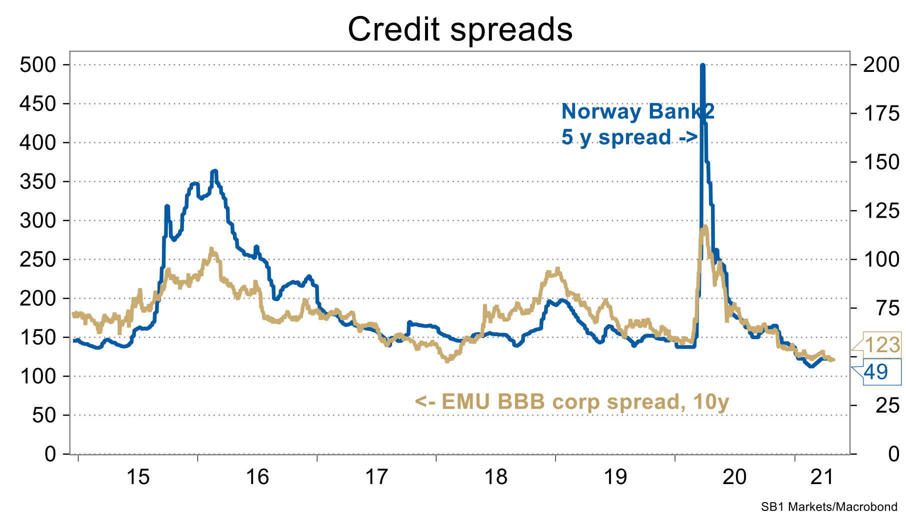



# Credit spreads have flattened, at low levels

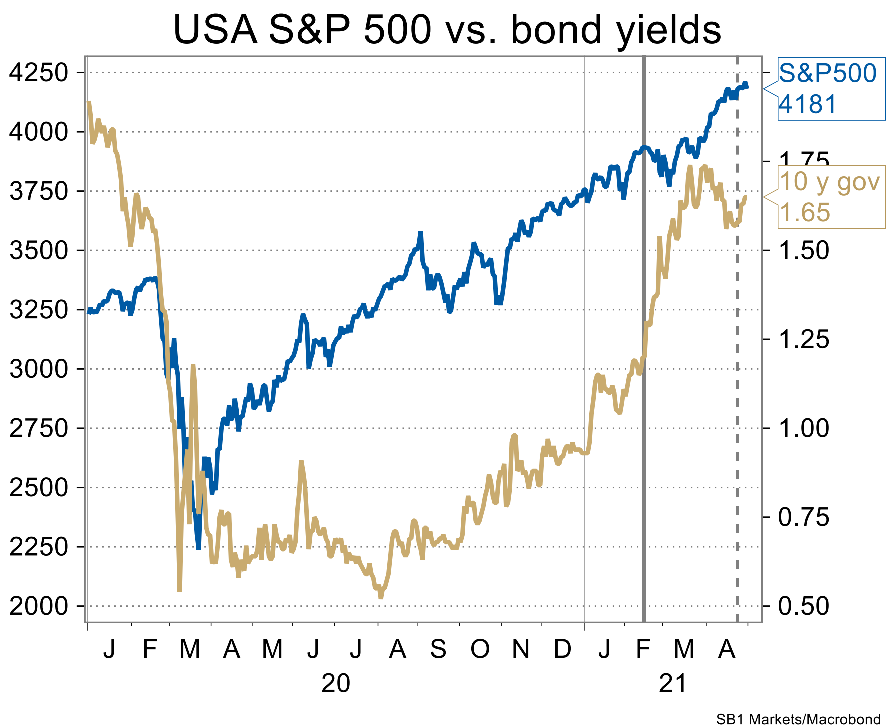


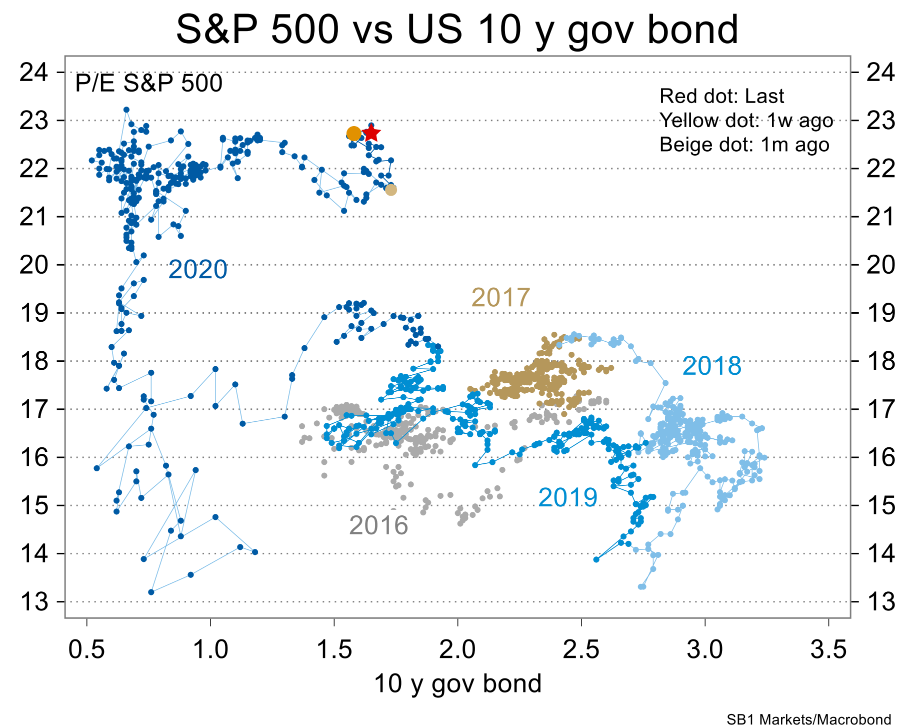



SpareBank 1 MARKETS

# S&P 500 flat, the 10 y bond yield up 7 bps

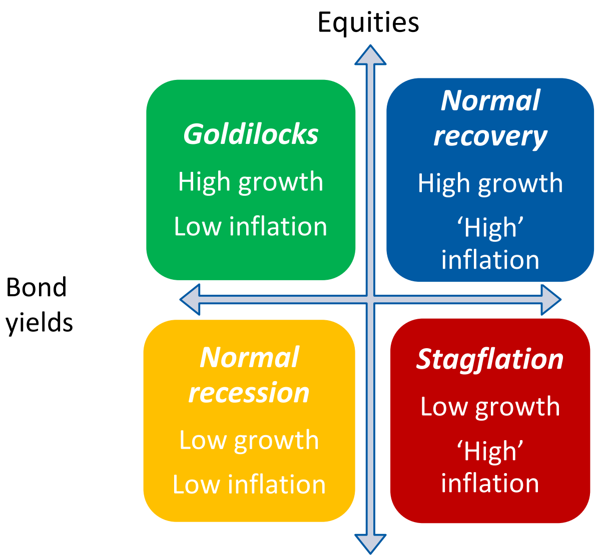


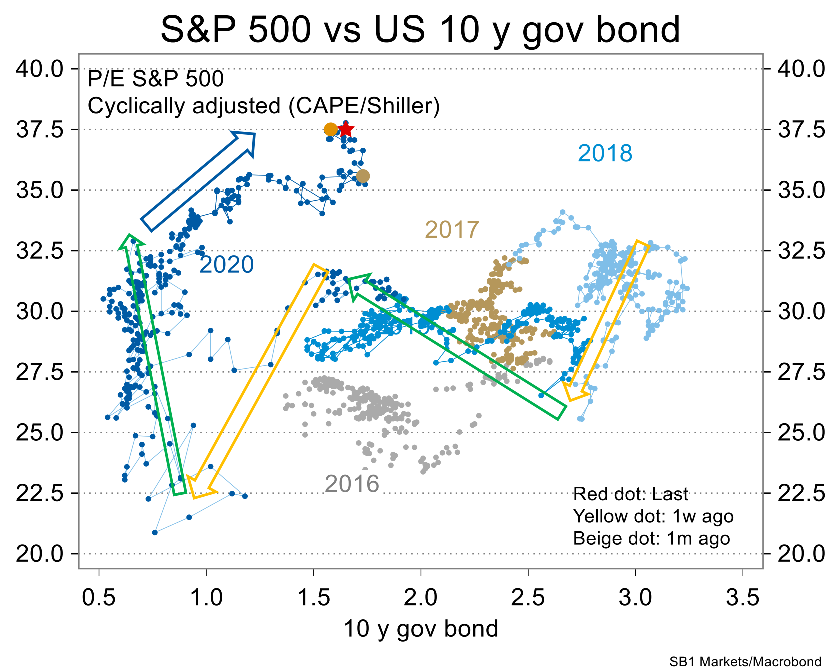



SpareBank 1 MARKETS

# 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...



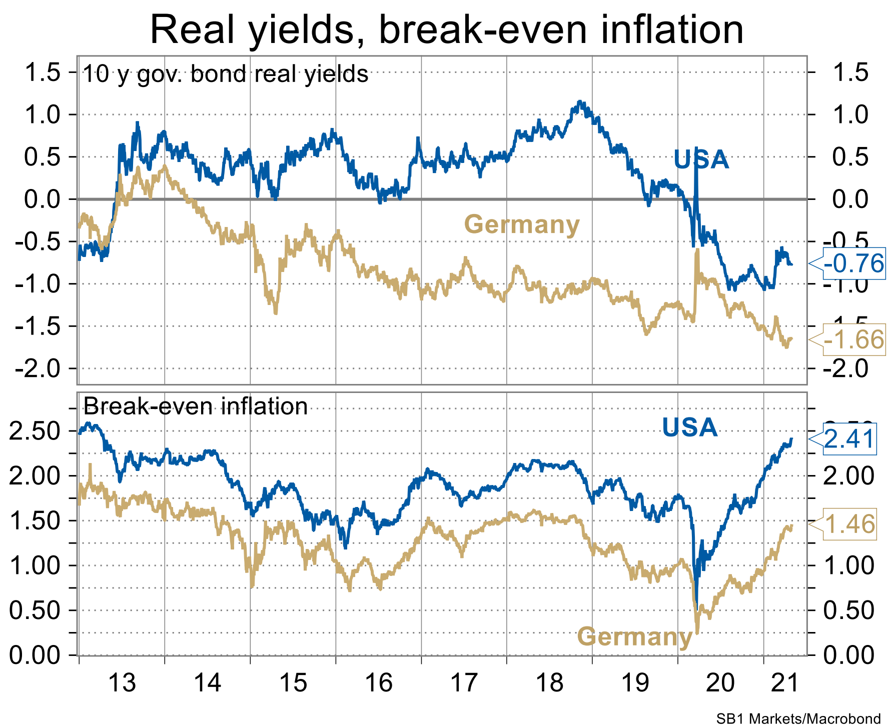



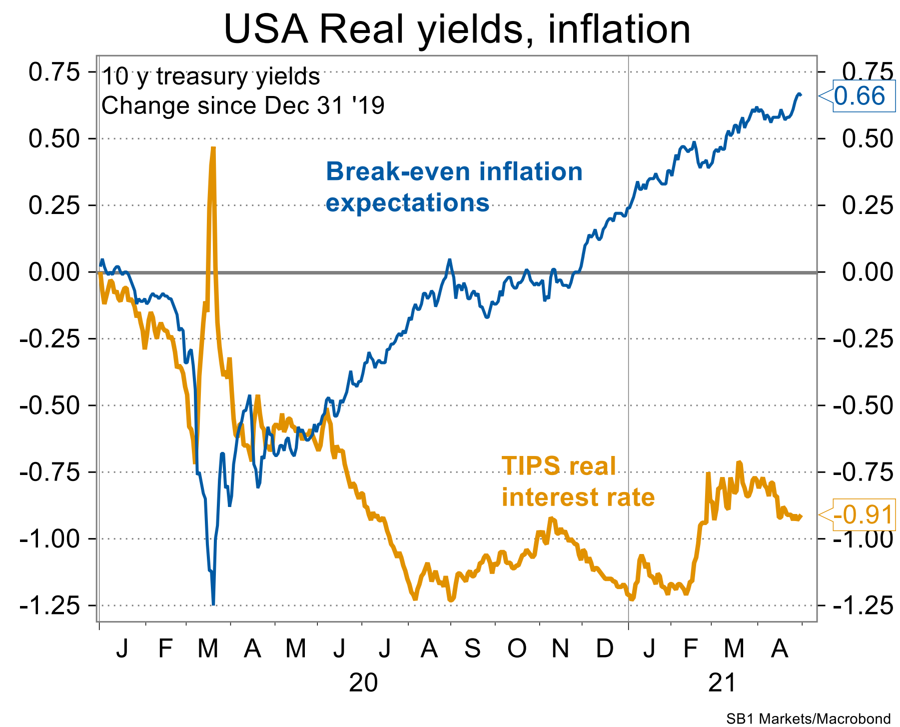

- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets

- **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

# Inflation expectations are drifting upwards, by some 10 bps per month

## Over time, that's something, even for the über-dovish Fed, to contemplate



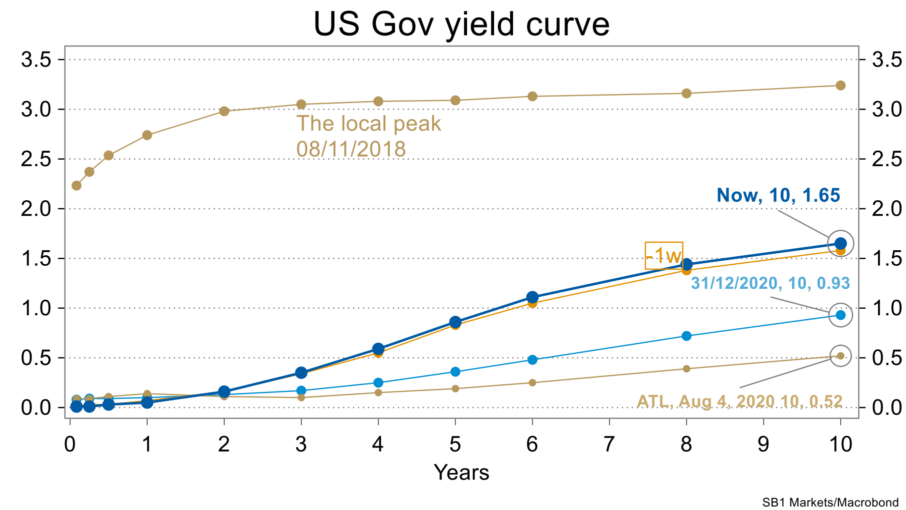

US & Germany 10 y Gov bond yield

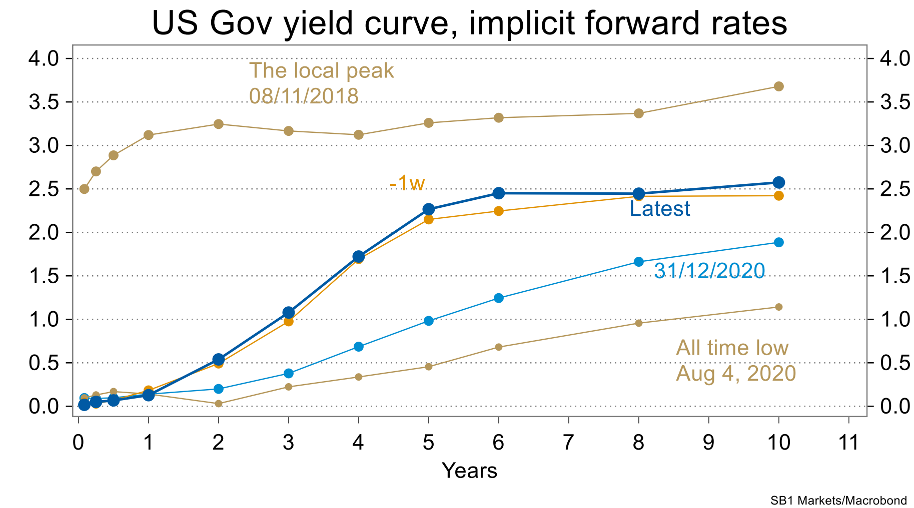
| | Yield | Change 1w | Change 1m | Min since April-20 |
|---|---|---|---|---|
| **USA nominal treasury** | 1.65 | 0.07 | -0.08 | 0.52 |
| .. break-even inflation | 2.41 | 0.07 | 0.06 | 1.06 |
| .. TIPS real rate | -0.76 | 0.00 | -0.14 | -1.08 |
| | | | | |
| **Germany nominal bund** | -0.20 | 0.07 | 0.06 | -0.65 |
| .. break-even inflation | 1.46 | 0.06 | 0.06 | 0.40 |
| .. real rate | -1.66 | 0.01 | 0.00 | -1.76 |

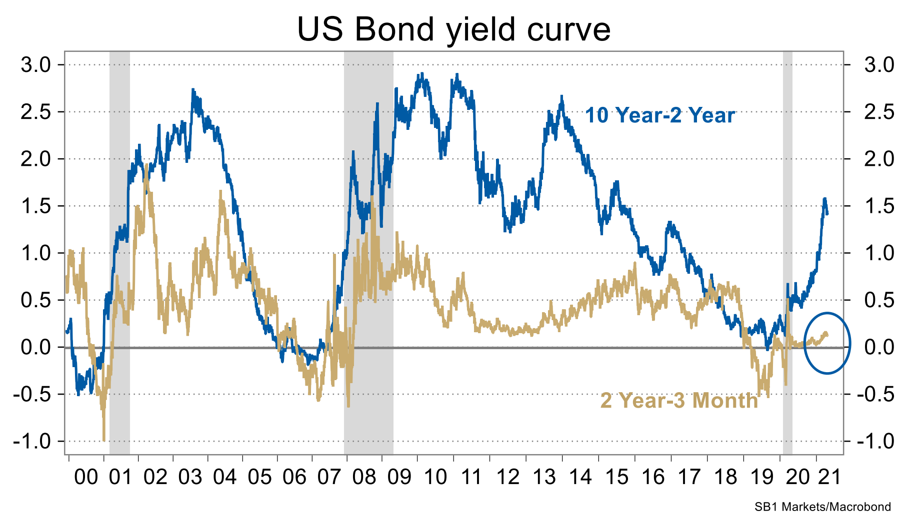
SB1 Markets/Macrobond

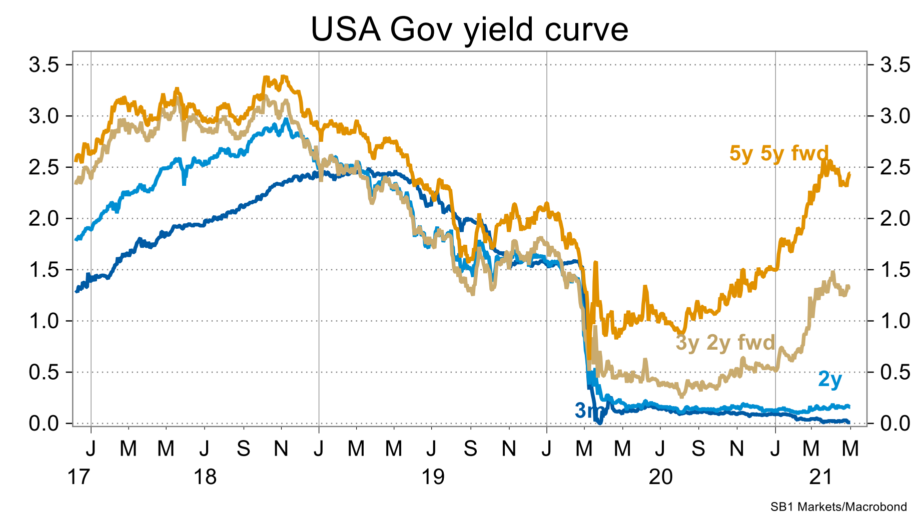
- Real rates flat last week – and flat/down last month

# A minor shift upwards/steepening og the yield curve last week



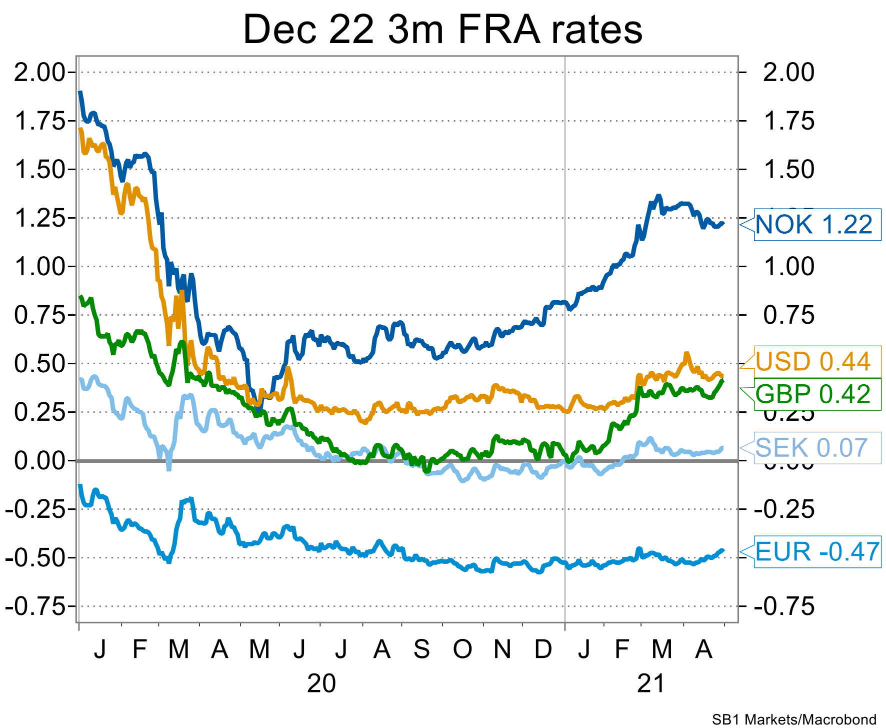



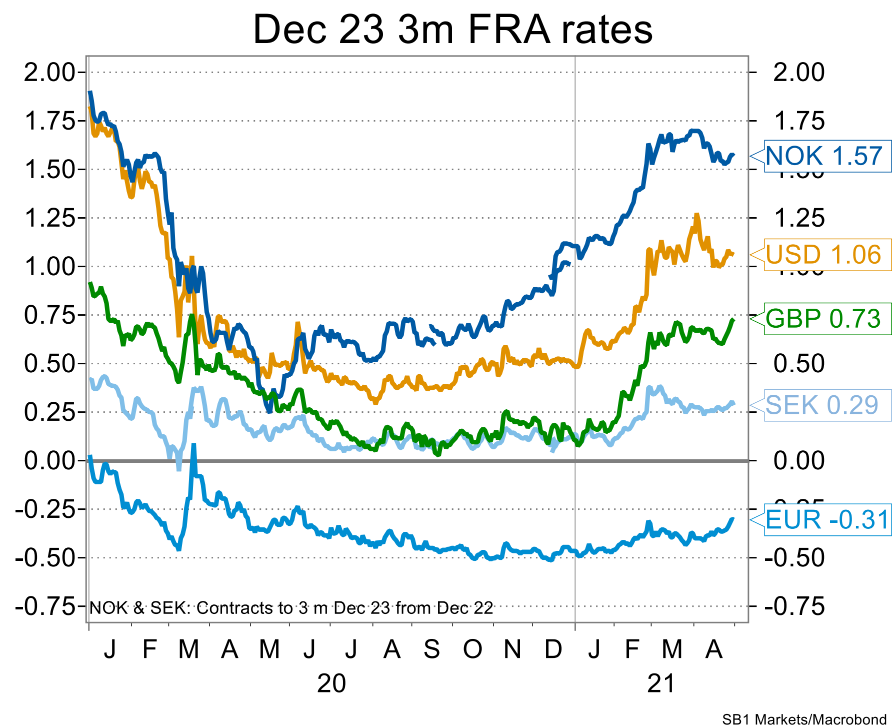



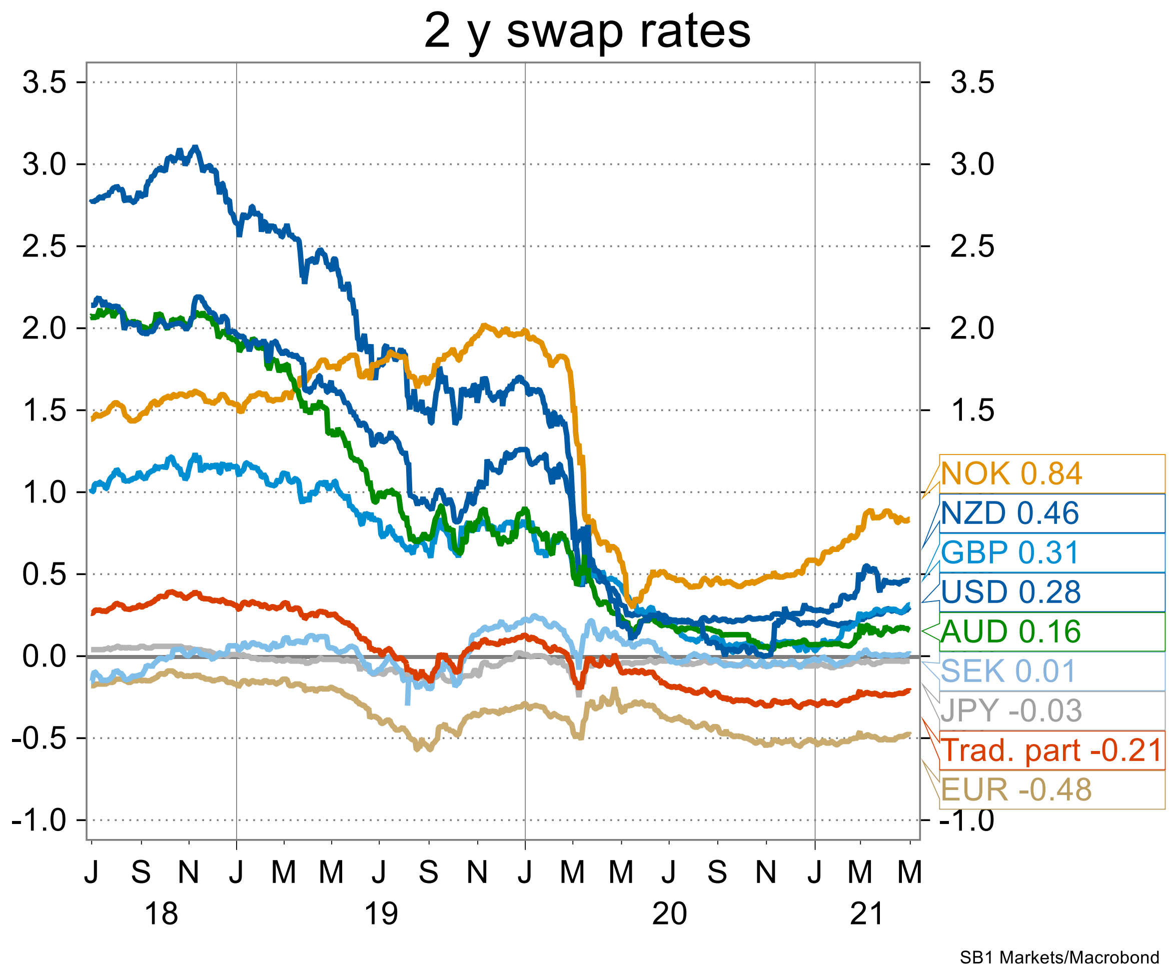
# Interest rate expectations: A small tick upwards last week – GBP in the lead

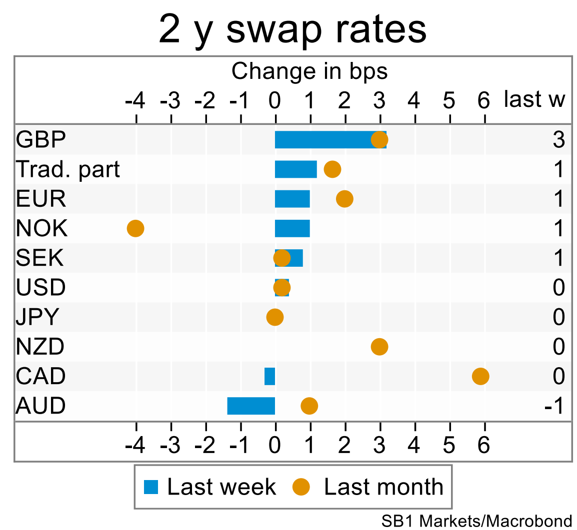
A Fed hike is priced into the curve by Q4-22



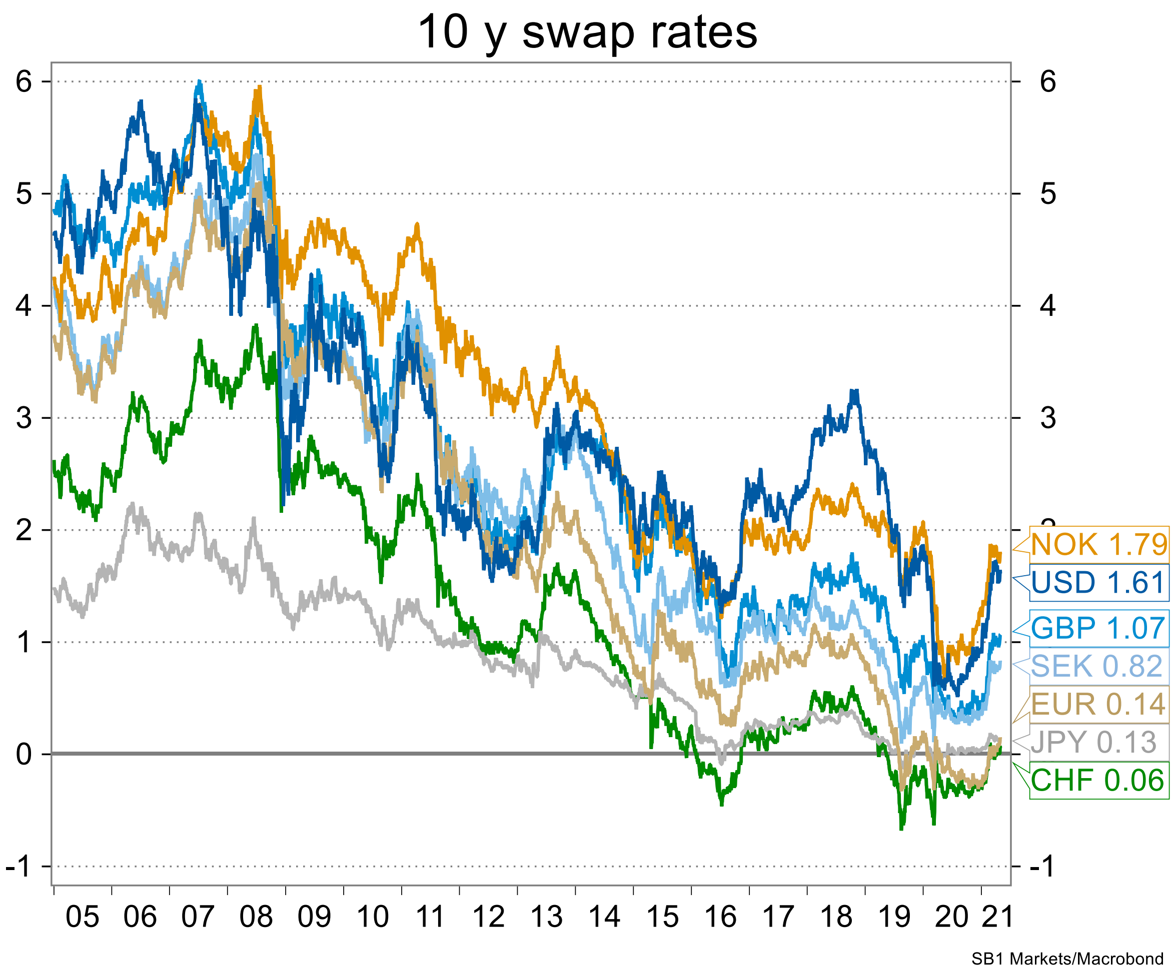
# A further small lift in 2 y swap rates

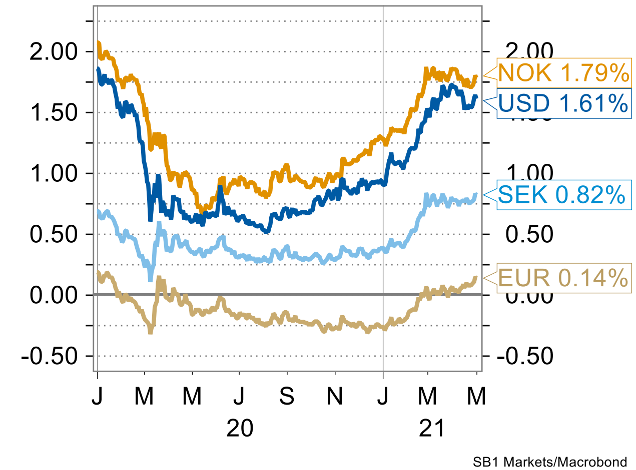


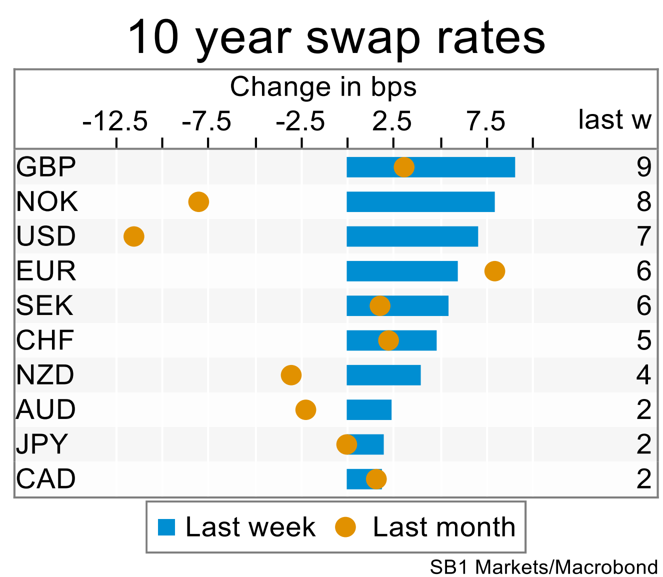



# 10 y swap rates up: GBP, NOK the most, CAD the least

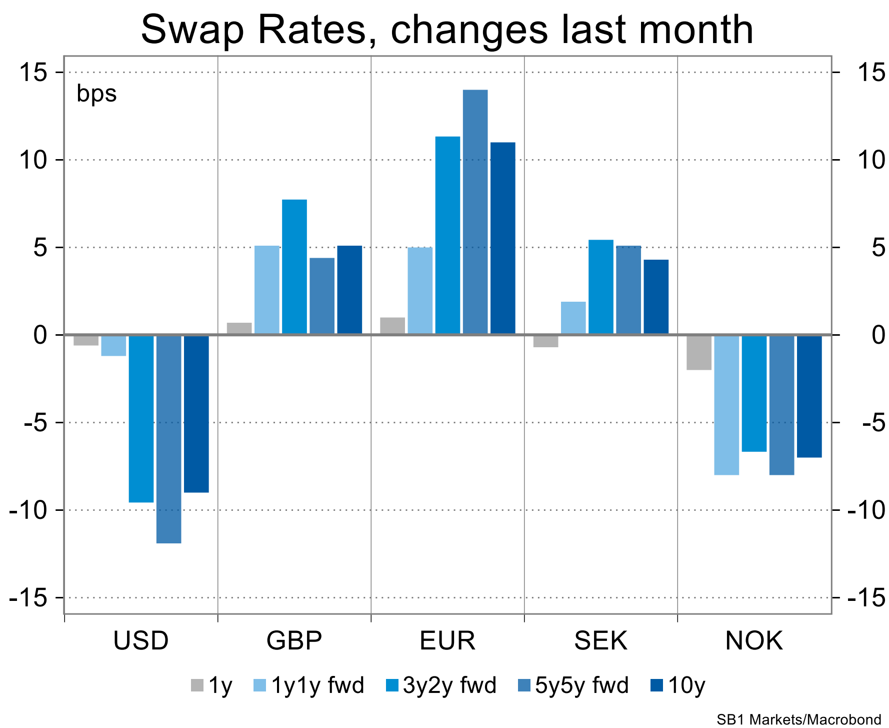
Even CAD down, despite Bank of Canada decision to scale down the QE program somewhat

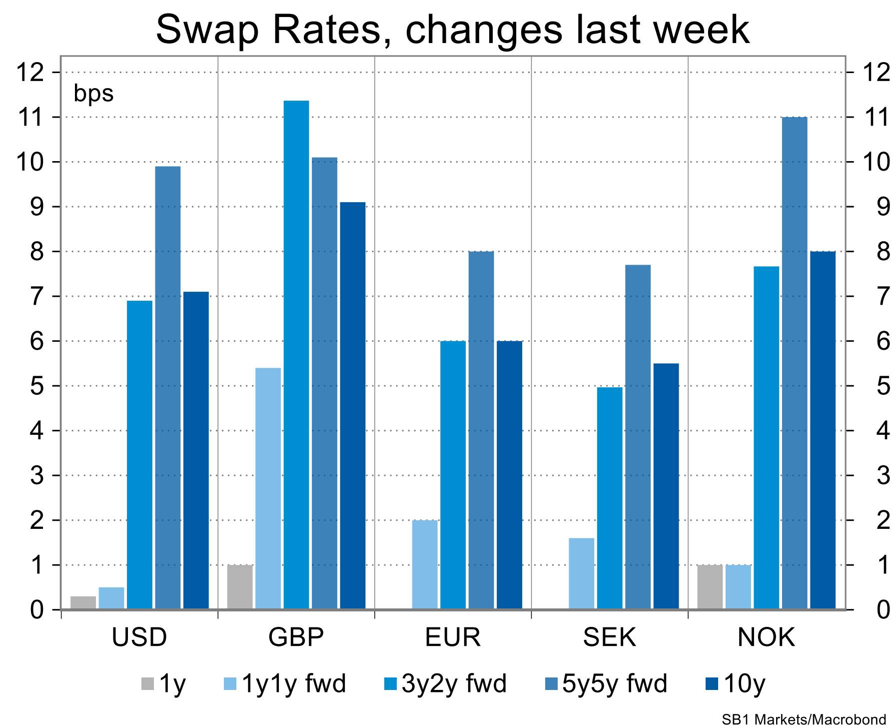


# Swap rates: Up everywhere

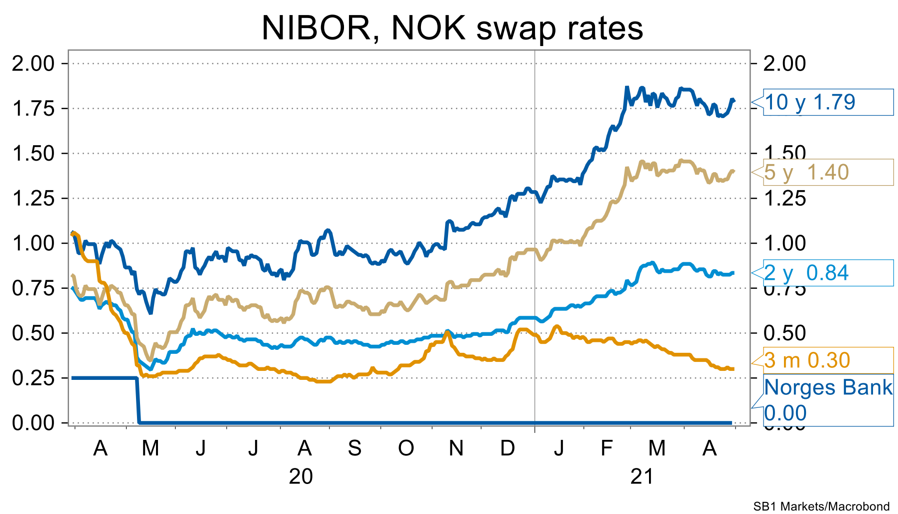


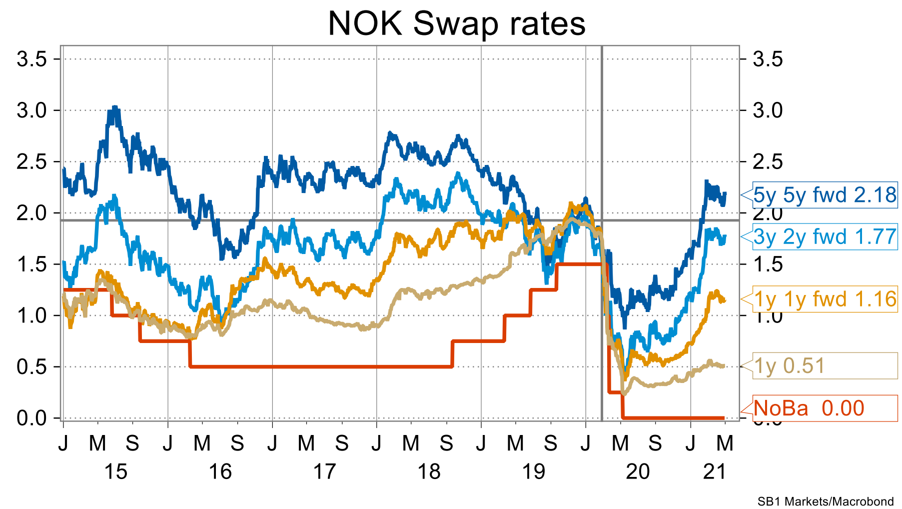



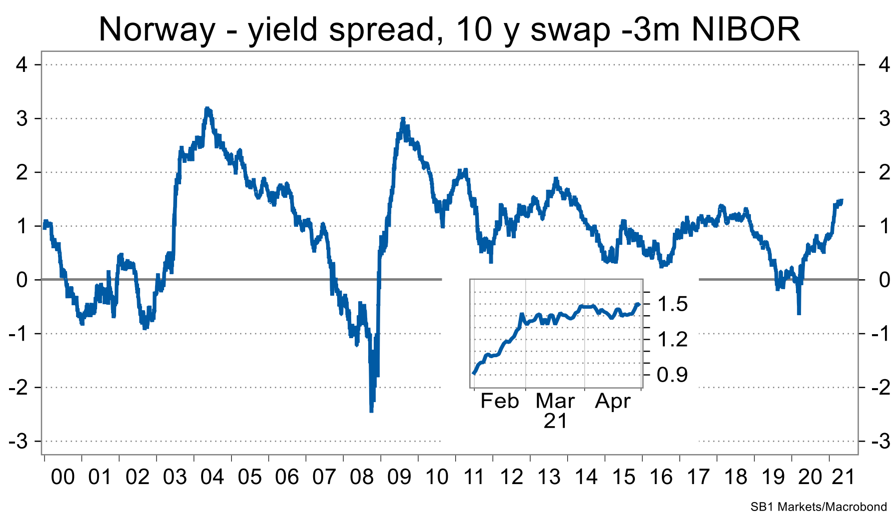
SpareBank 1 MARKETS

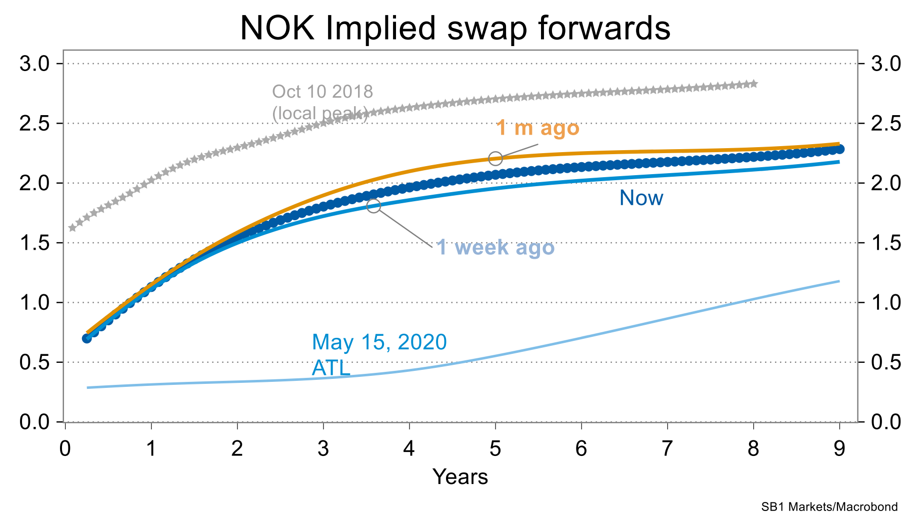
# NOK rates marginally up from 2 years onwards

## NOK 10 y at 1.79, up 8 bps last week



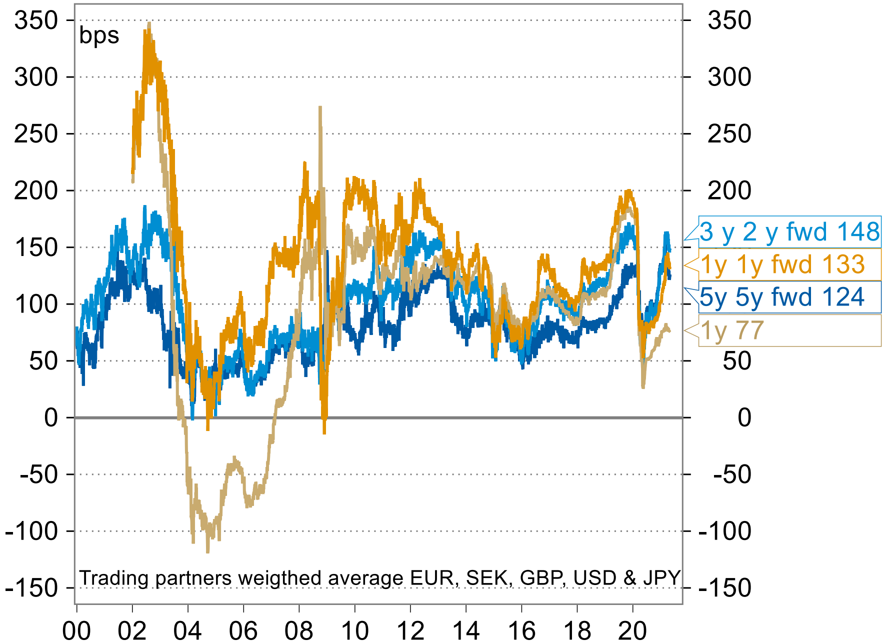



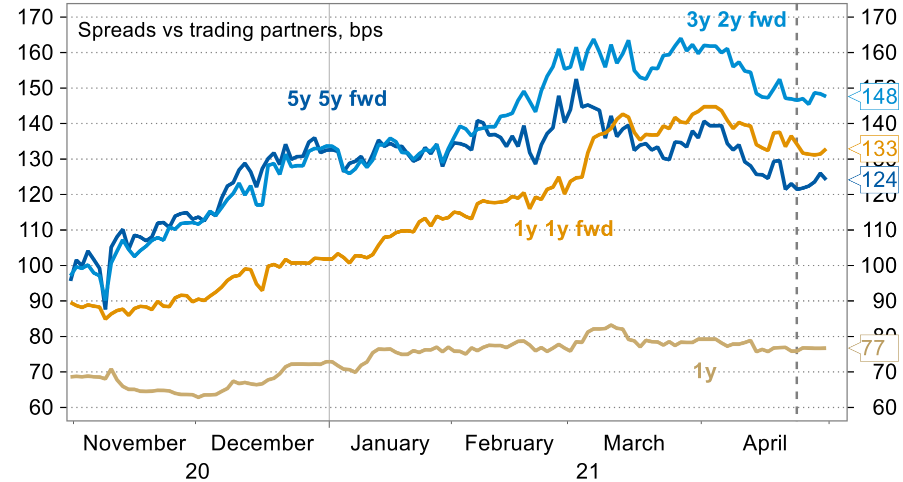



# Forward spreads slightly up last week

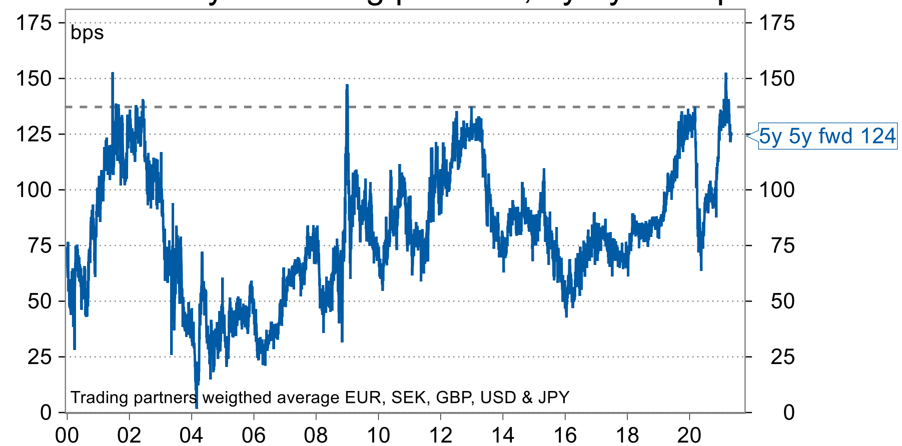
## The 5y 5y fwd spread is at the same level as in early Dec – the level was high enough

Norway vs trading partners, impl swap spreads



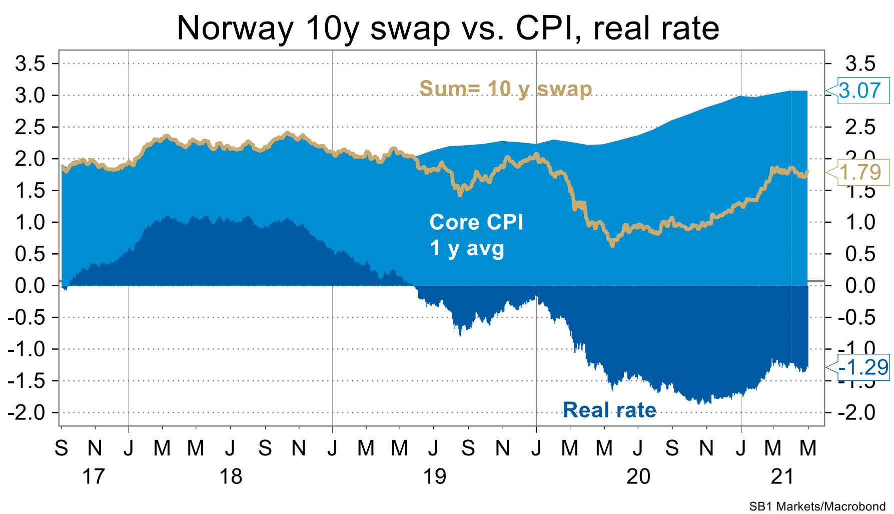




Norway vs trading partners, 5y 5y fwd spread



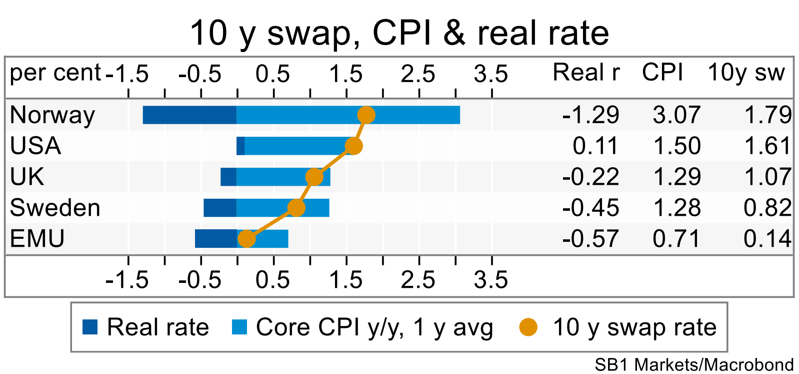
SpareBank 1 MARKETS

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




## NOK 10 y swaps are drifting upwards

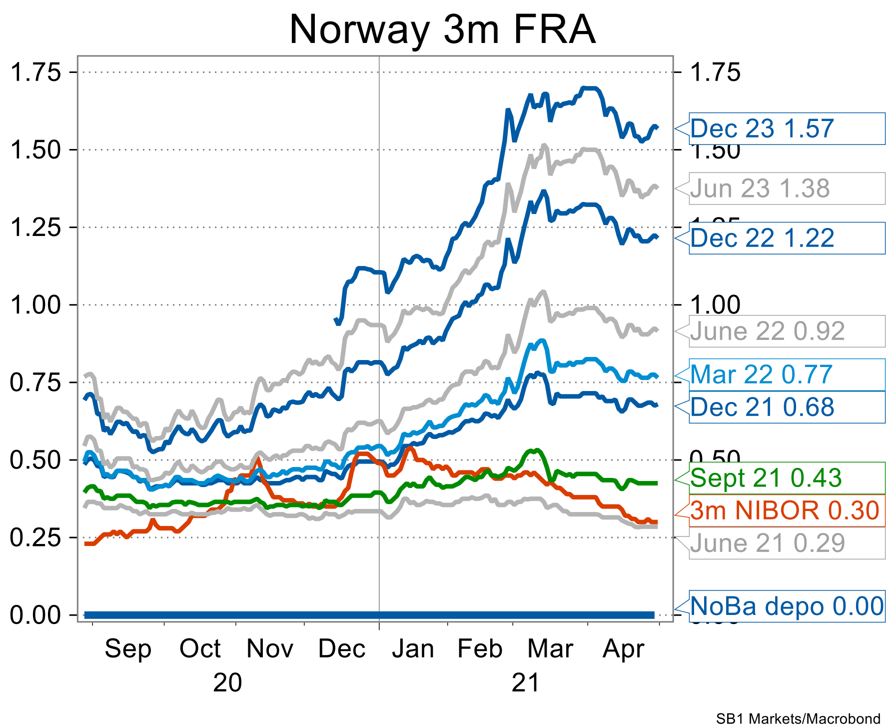
- The **10y NOK swap rate** rose 8 bps to 1.79%
- **The real rate**, after deducting 3.1% average core CPI inflation over the 2 past years equals -1.3%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 3.1%
  - » 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

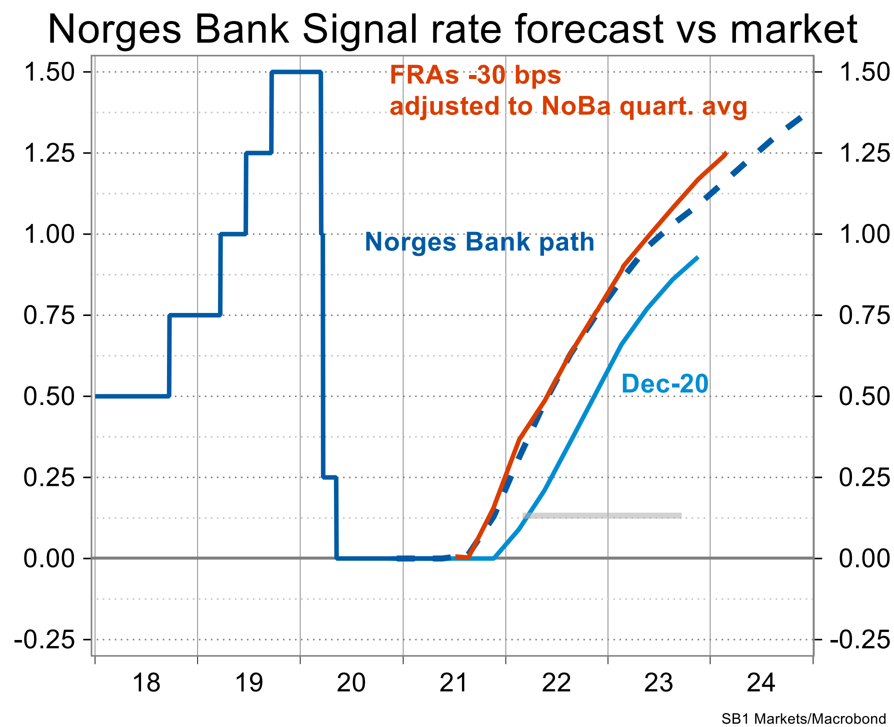



## NOK real rates among the lowest, as inflation is at the top

- **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 -0.6% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.3% is an outlier at the downside, even if the nominal rate is the highest**

# The longer dated FRAs edged upwards last week

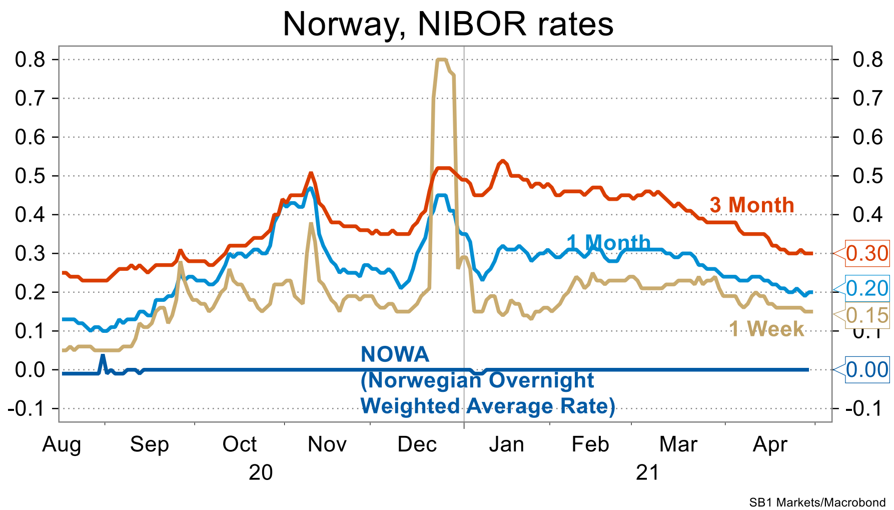


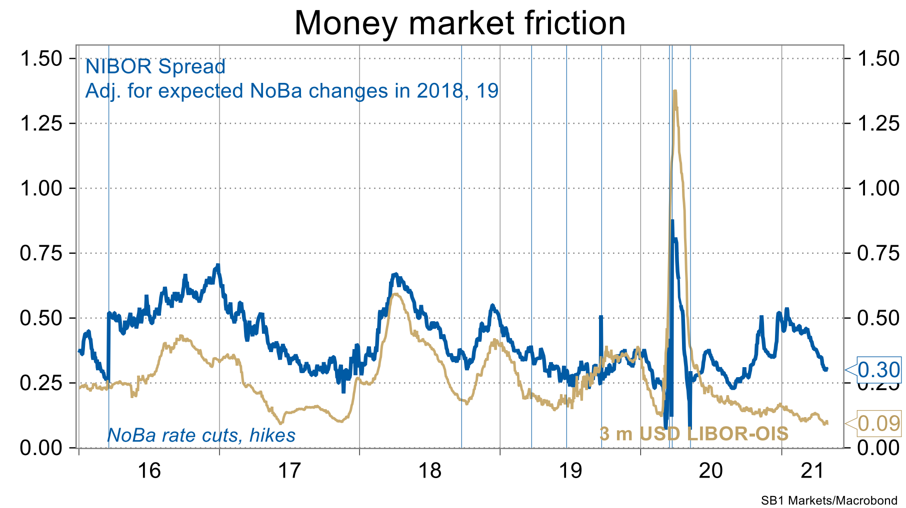



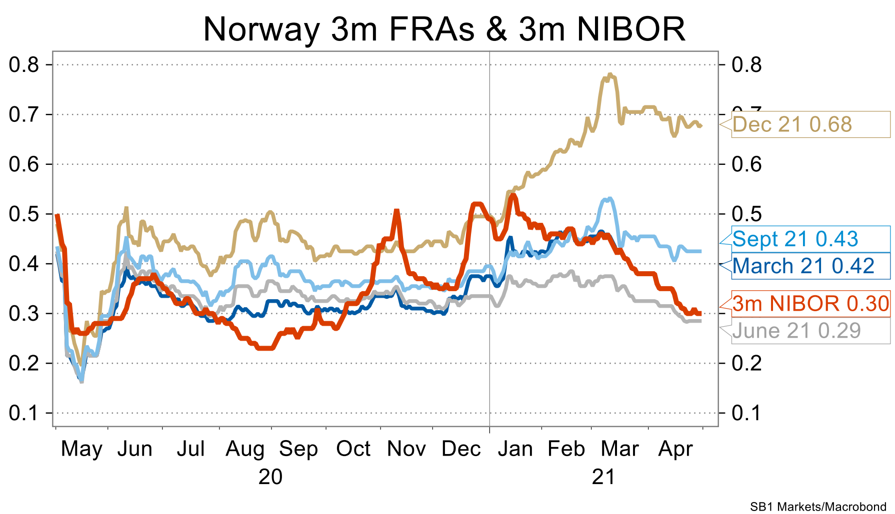

- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 30 bps NIBOR spread the actual 0.43% Sep FRA-rate equals a 0.13% NoBa deposit rate. If so, almost a 60% probability for a Sept hike is discounted, marginally above what NoBa signalled in its March MPR (50%)
- The Dec-21 FRA at 0.68%, and a 30 bps NIBOR spread, yields a 0.38% 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 slightly above 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 flat at 0.30%, and the June FRA at 0.29%

## The NIBOR spread has normalised

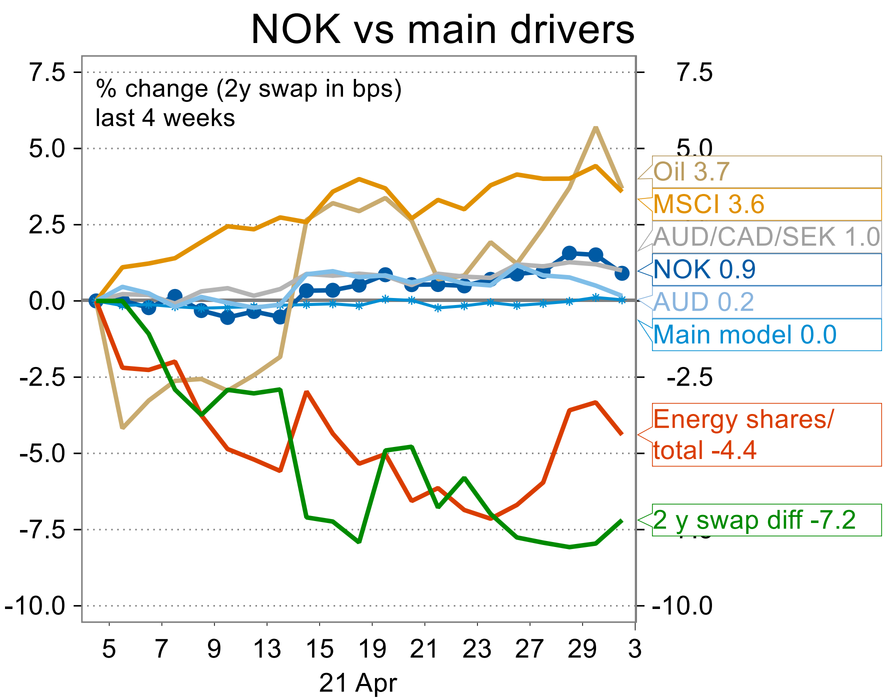


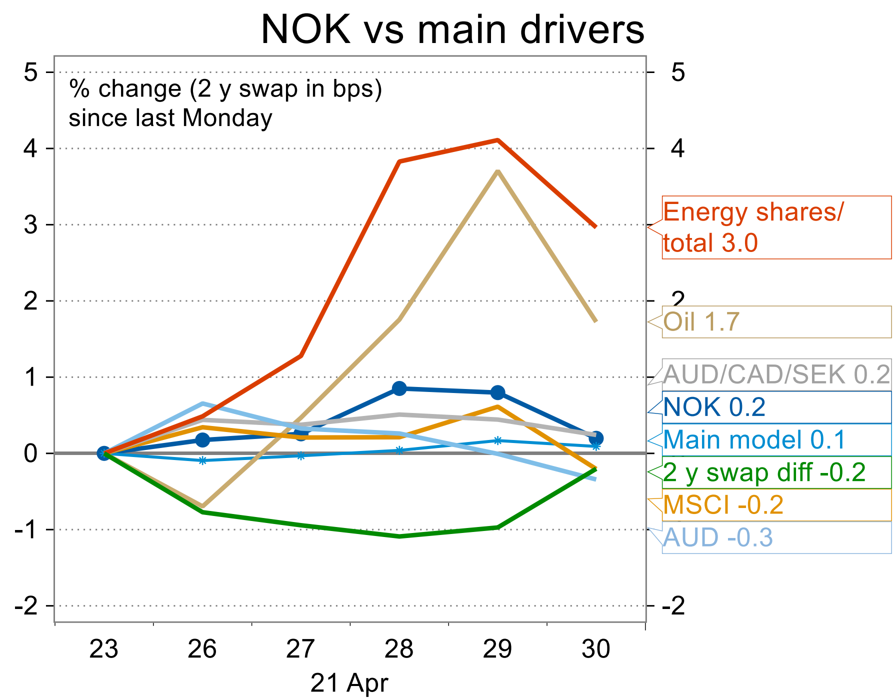



# NOK marginally up, supported by the oil price

## The NOK index up 0.2% last week, our model signalled 0.1%




**In sum, the NOK is just a moderate buy…**

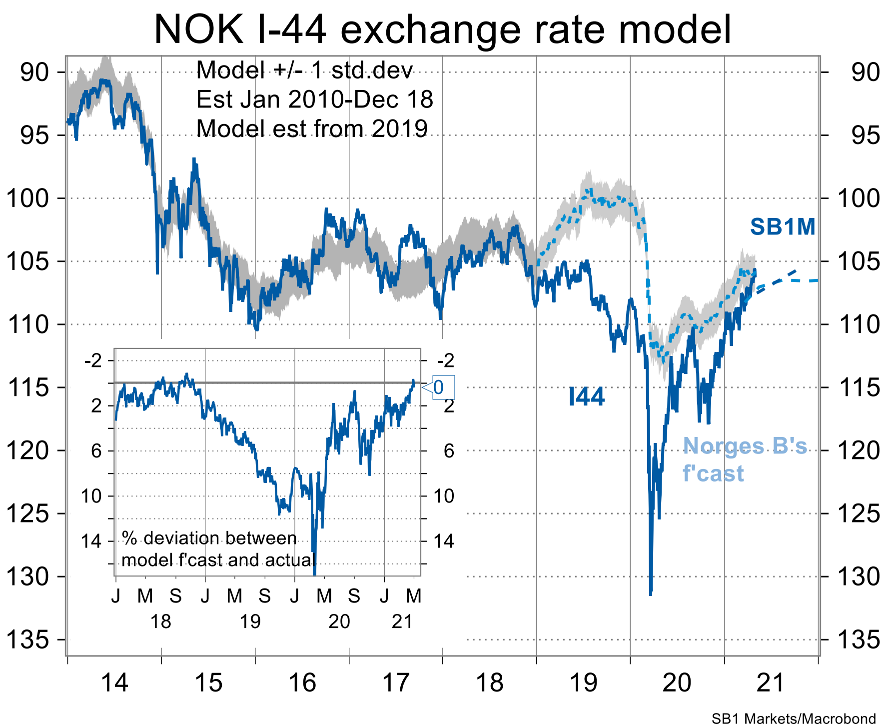
- The NOK is < 1% weaker than suggested by our standard model
- The NOK is 2% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 6% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts
- On the other hand, the NOK is far (13%) stronger than a model which includes global energy companies equity prices (vs the global stock market)

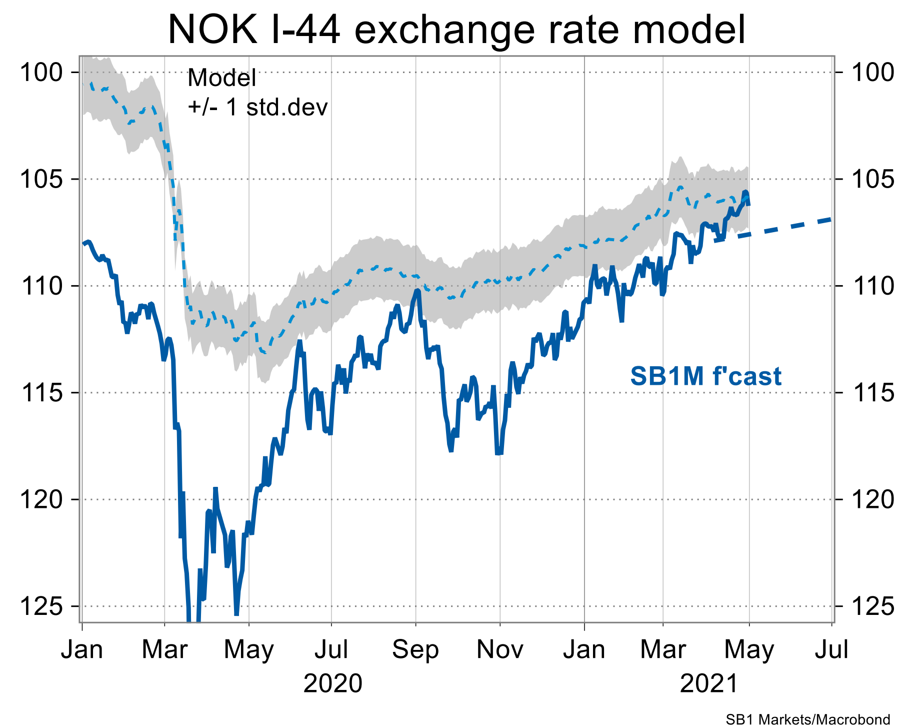
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index for the last 25 observations. The I44 has an earlier closing time than the 'official' closing time for fx crosses, which is the same as for JP Morgan's indices. Thus, JP Morgan's index correlates closer 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

SpareBank 1 MARKETS

# NOK less than 1% below our main model estimate

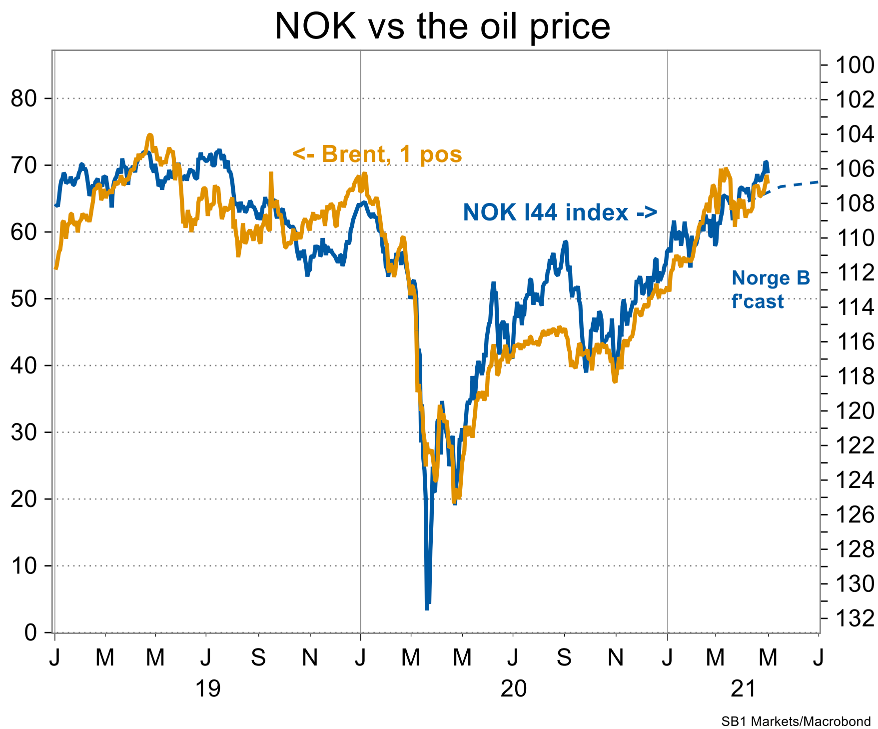
The gap is closing. NOK needs more support from here. Will it get it? Not so sure…

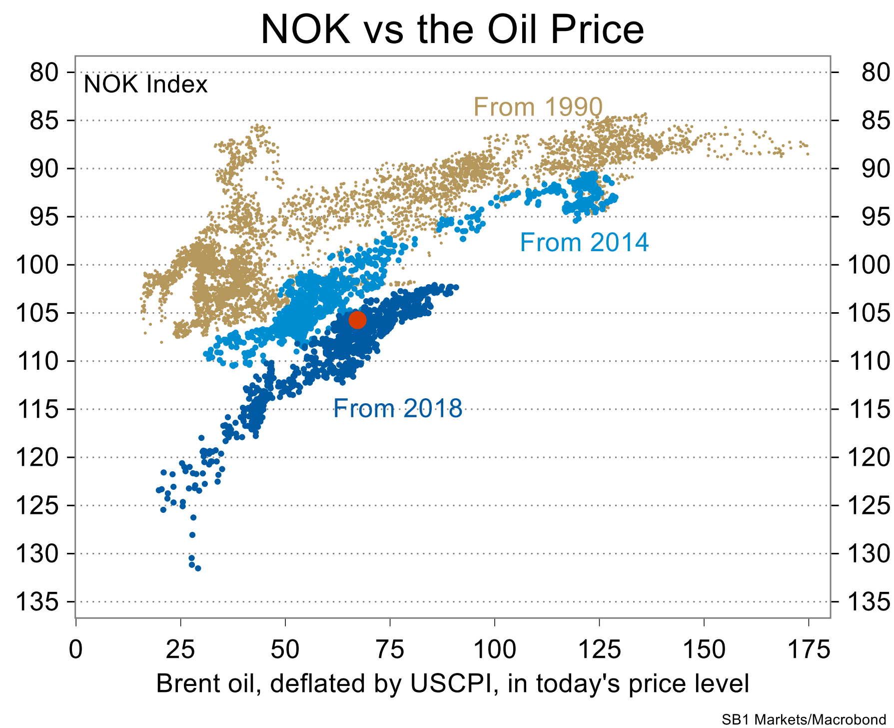


# NOK marginally up, oil marginally down

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

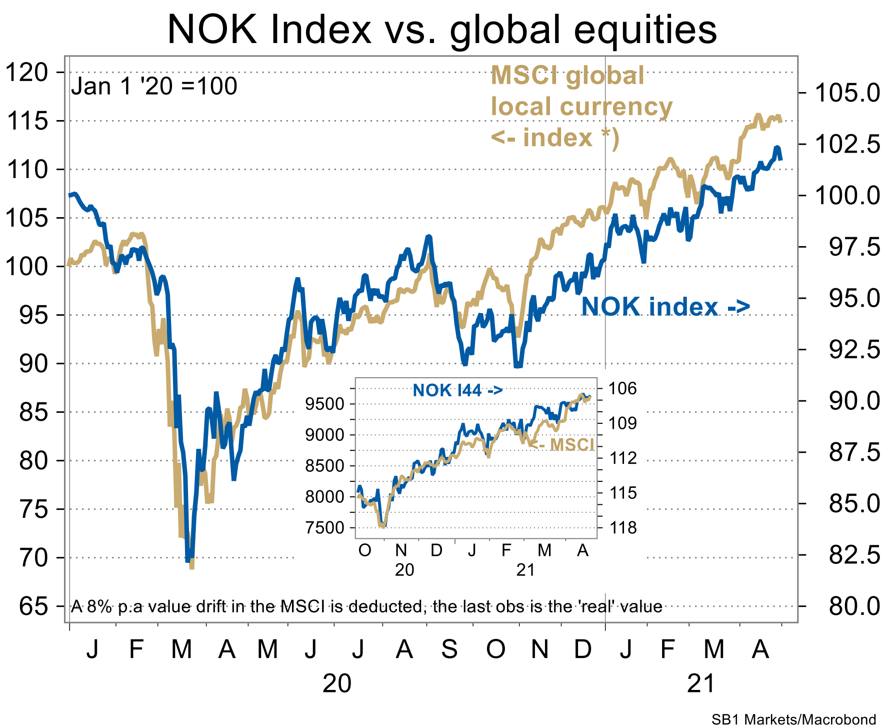


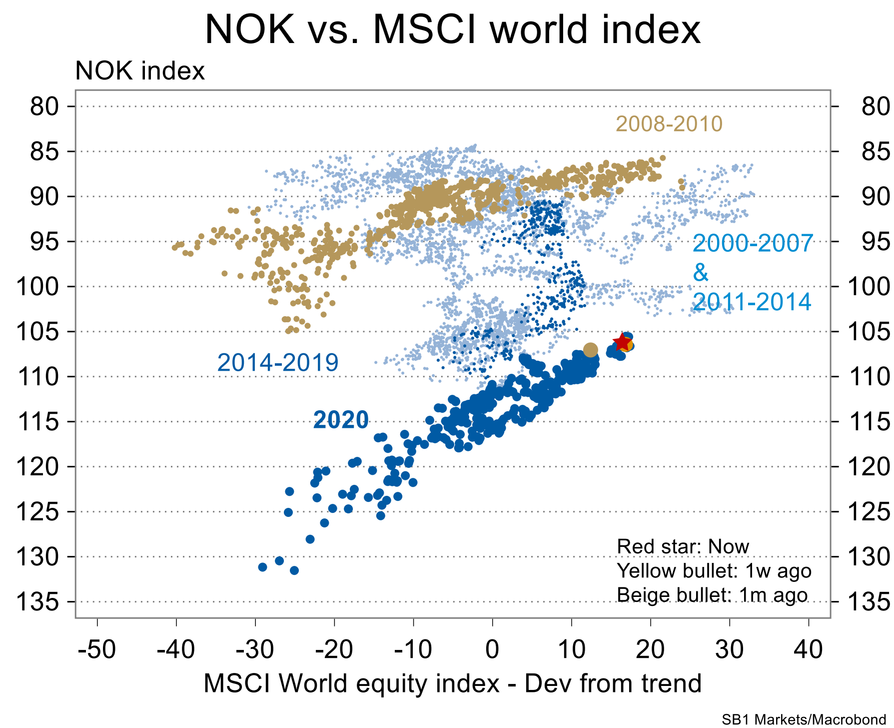




- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

# Global stock markets slightly down, NOK up

## Except for Sept., NOK and global equities since early last year. The gap is at some 2%

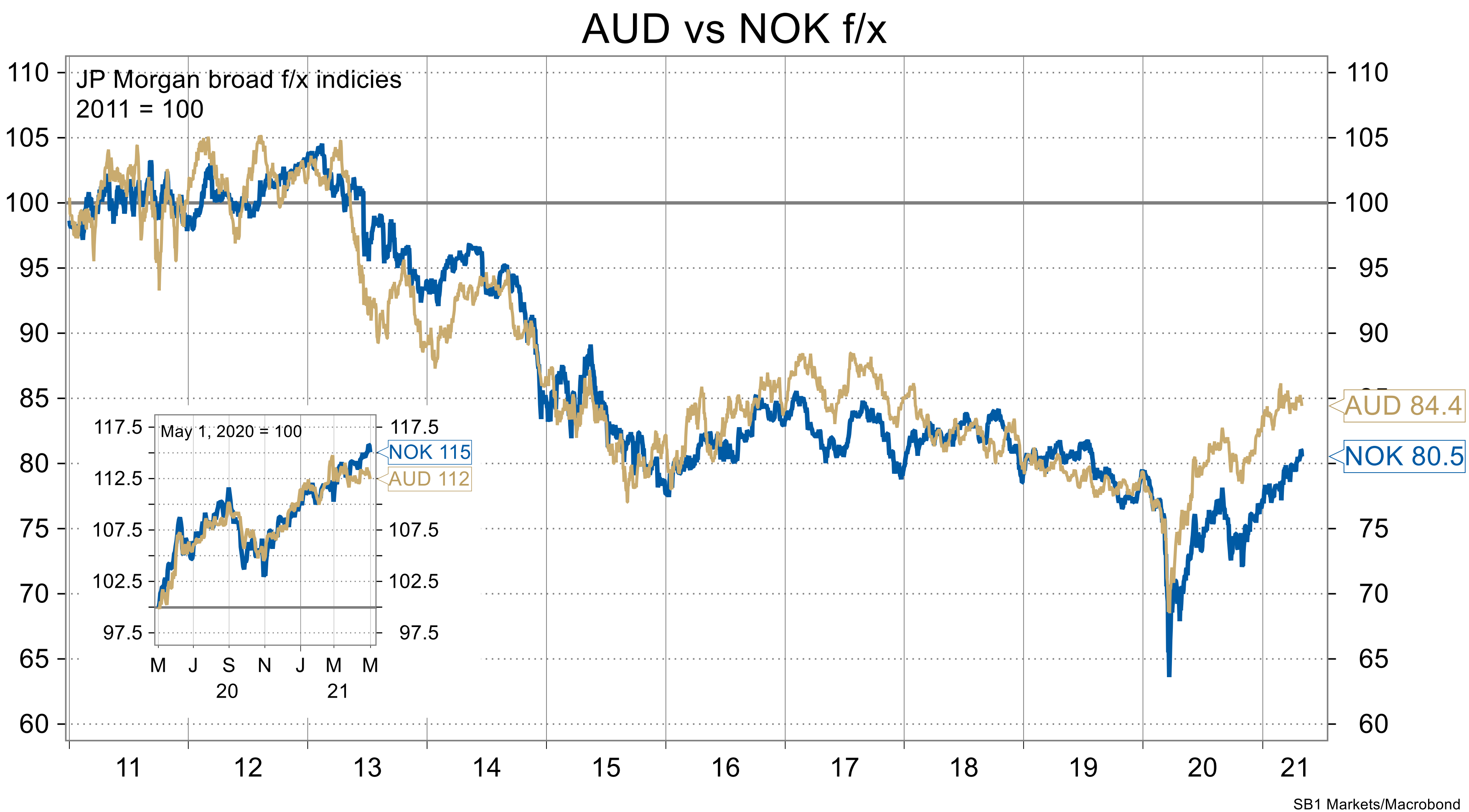


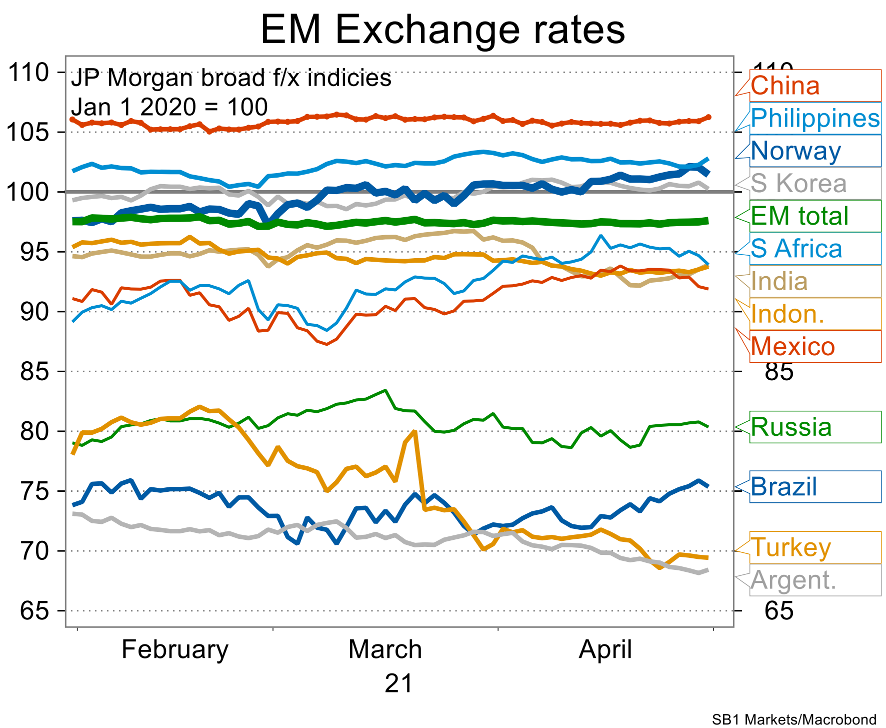

- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the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

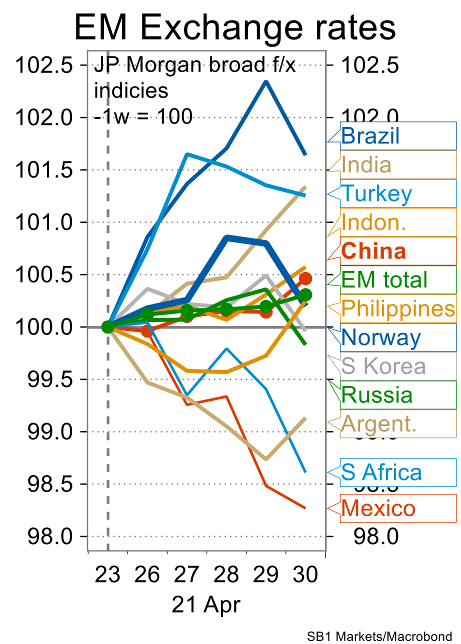
# NOK is gaining traction vs the AUD! The 'gap' is closing

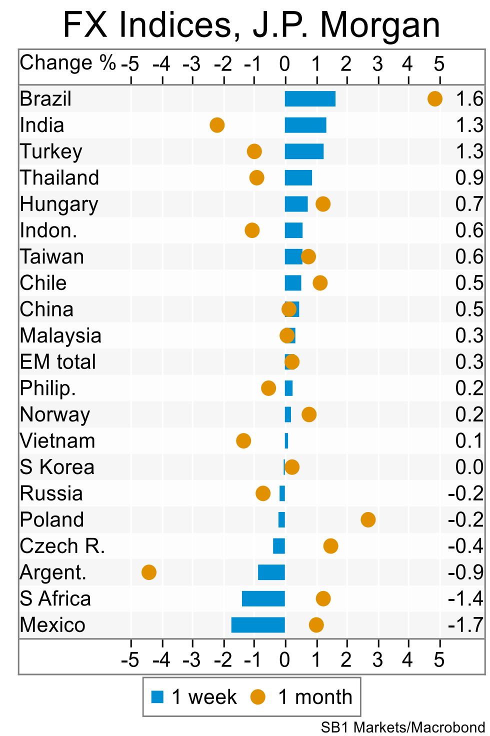
Both are up 12-15% since May 1 – but the NOK still 4.5% weaker than AUD since last spring



# Mixed EM f/x, the average slightly up – supported by China (and even India)



# 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.