25 May 2021

Macro Weekly

Week 21/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week: Our pandemic section is getting even shorter ☺

The virus

- **Good news on new cases, vaccination & the impact of vaccines** in the rich part of the world, as well from most other countries as well. Cases in India has fallen sharply past two weeks. Just a really bad mutation will prevent a rapid normalisation of activity the coming weeks/few months
- **Mobility** is rising almost everywhere in DM as the negative drag from corona restrictions/cautious behaviour are easing

The Economy, part I

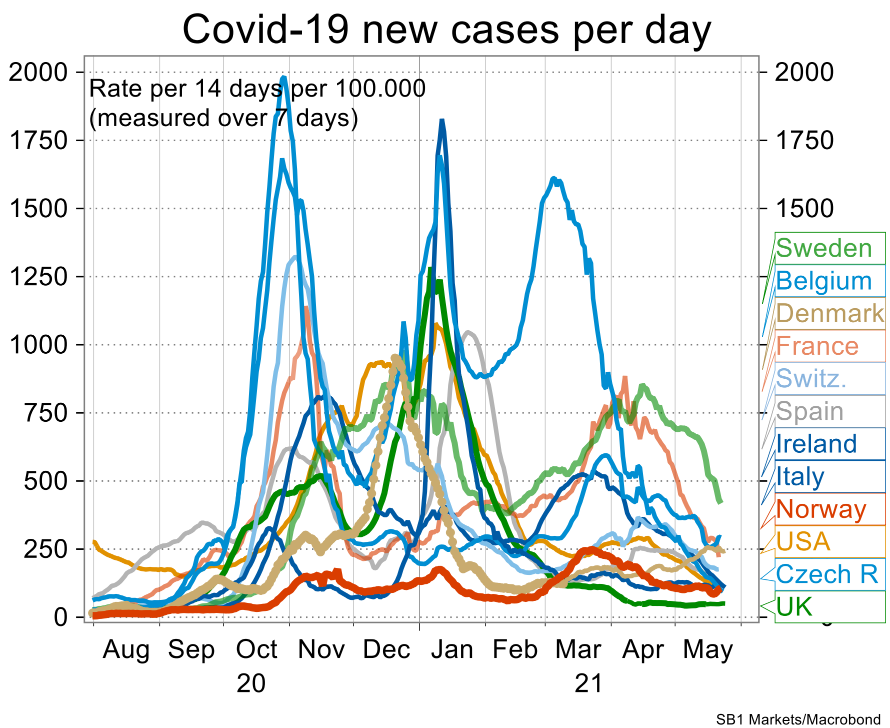
- **Global PMI**
  - » **The composite global PMI** very likely surged in May as the preliminary PMIs rose sharply in US, EMU & UK – and much more than expected, due to a growth spike in **services**, of course due to the easing of restrictions. The composite index at 57.6 (our est.) signals 6% global GDP growth, twice the trend growth. The momentum in the manufacturing sector is record strong, with order backlogs at ATH too. Delivery times, input and output prices are still on the way up, and are at or close to all time high most places. April was not the last month with some unwelcome inflation 'surprises'

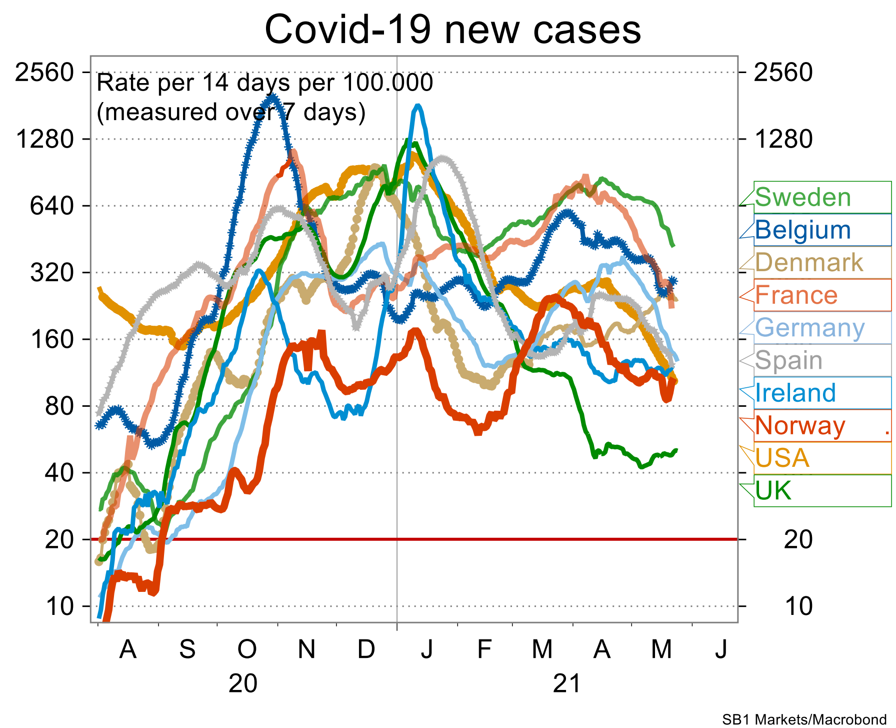
Last week: The economy, part II

- **US**
  - **The minutes from at April FOMC meeting** revealed that members were talking about when to start talking about reducing the QE program, even if Powell until now has stressed that they not even had started thinking about when to start thinking about it. However, a central bank never loses confidence by saying (or doing) the right thing. Given the rapid strengthening of economy, and the risk for the Fed being wrong on the inflation outlook, the bank gains credibility by stating the obvious, that some stimulus may be removed earlier than so far indicated. Inflation expectations fell, real rates rose: a rational response
  - **Existing home sales** fell further in April, very likely due to lack of supply – the inventory of unsold homes are record low, by far – and prices rose another 2% m/m, and by 19% y/y. **Housing starts** was weaker than expected, still at a high level, and **permits** kept up. **Homebuilders** are still upbeat, even if high lumber prices are a headache
- **EMU**
  - **Consumer confidence** rose sharply in May too, to 1.2 st.dev above average, and higher than in 2019 – which bodes well for their willingness to increase spending as soon as the corona situation allows
- **UK**
  - **Retail sales** rose 9% in April, far more than expected, and sales are up 10% vs Feb-19. Now, the service sector will get its boost
  - **CPI** inflation remains muted, at 1.3% (core) – 1.5% (total), at least before adjusting for the 1.7 pp impact of the restaurant support scheme, and indirect tax cuts, implemented last August. However, monthly prices increases have been modest recently
- **Sweden**
  - **House price** inflation slowed to 'just' 0.9% m/m in April but the annual rate is 19%, equal the underlying rate the past months
- **Norway**
  - A **major easing of Covid restrictions** was decided last week, which will rapidly increase the activity in some of the beaten down services sectors. **Weekly unemployment numbers** have been falling sharply recent weeks, and we expect more of the same the coming weeks/months
  - **Consumer confidence** from Finans Norge rose in Q2 but remains below par – and weaker than we assumed. Expectations towards households' personal economy fell, even if the confidence in the country's economy rose to a very strong level
  - In **Norges Bank's expectation survey**, companies became even more optimistic on the growth outlook, and they plan to increase their product prices at a faster pace. Inflations expectations stable (and just some economists believe in the 2% target)

The virus is losing everywhere – and soon it is gone in the rich part of the world

Even in Denmark, the no. of new cases has turned south





- Vaccines work very well: The no. of new infections, hospitalised, and even more, the no. of deaths has fallen rapidly in all rich countries
- Most rich countries are likely to be able to return to ‘a normal life’ during the summer, at the latest in August
- The situation in Emerging Markets is mixed, and India is still struggling with it’s 2nd wave – with limited access to vaccines & hospital capacity, but at least growth in new cases is now pointing downwards (as has happened everywhere when mobility collapses during serious outbreaks)

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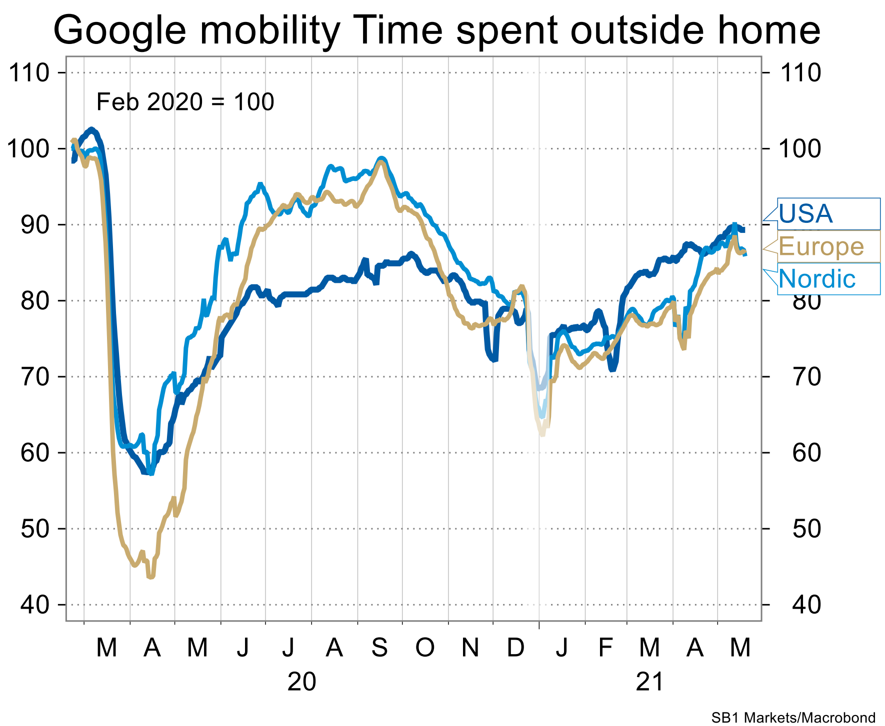
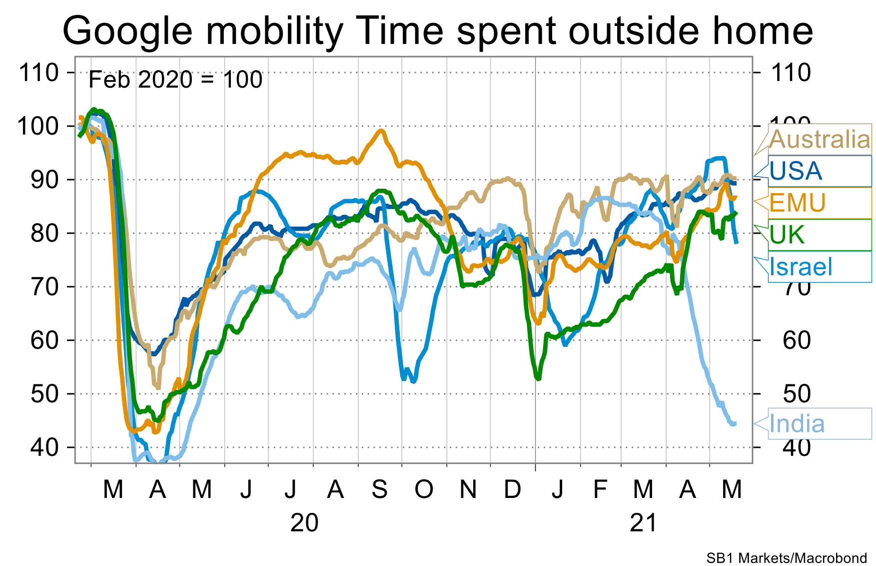
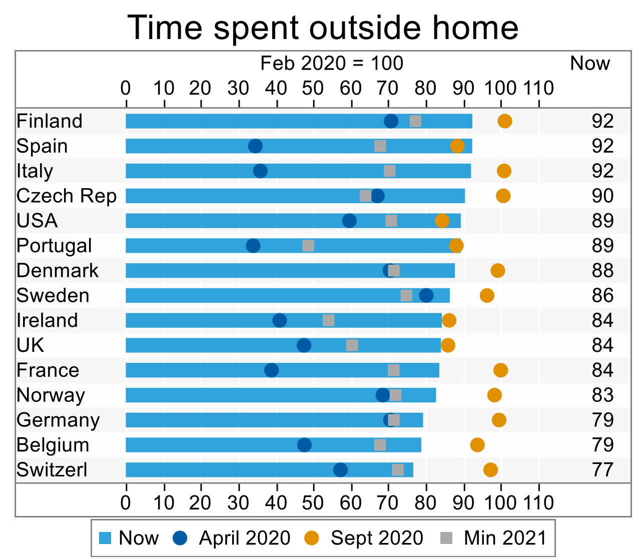
Mobility is trending rapidly upwards everywhere

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





- Mobility still some 10% – 13% below par – which illustrates the substantial social & economic upside potential in the coming months
  - » In Q1, mobility was 25% below a normal level



Mobility down in Norway x Oslo, probably due to May holidays

Some local covid outbreaks, but not important at a national level

Google mobility Time spent outside home

- Several restrictions will be eased from May 26, implying increased activity in most of the badly hurt service sectors

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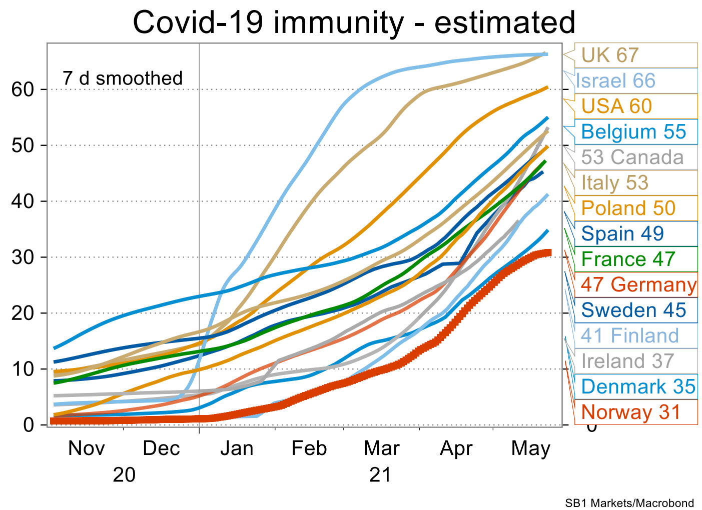
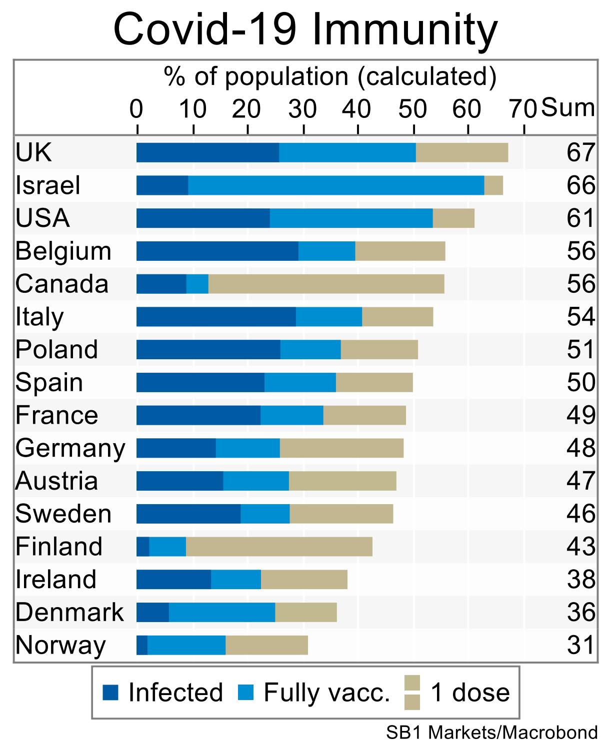
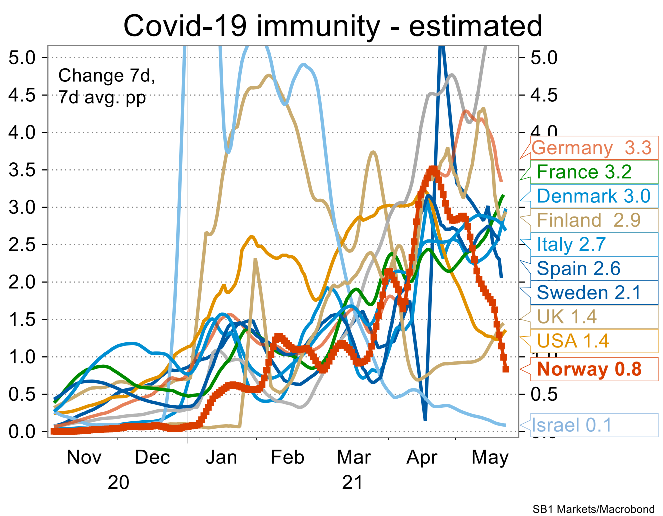
Vaccinations: Ups & downs, but the direction in EU/Norway is up

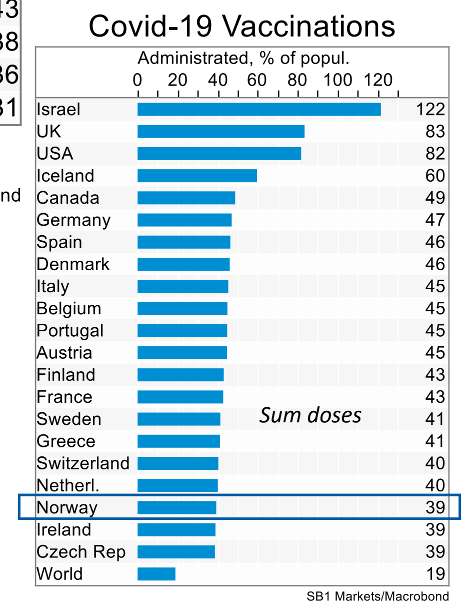
Few 1st dose vaccinations in Norway due to public holidays and more 2nd doses. Will soon change







- The supply of BioNTech/Pfizer will soon accelerate sharply



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

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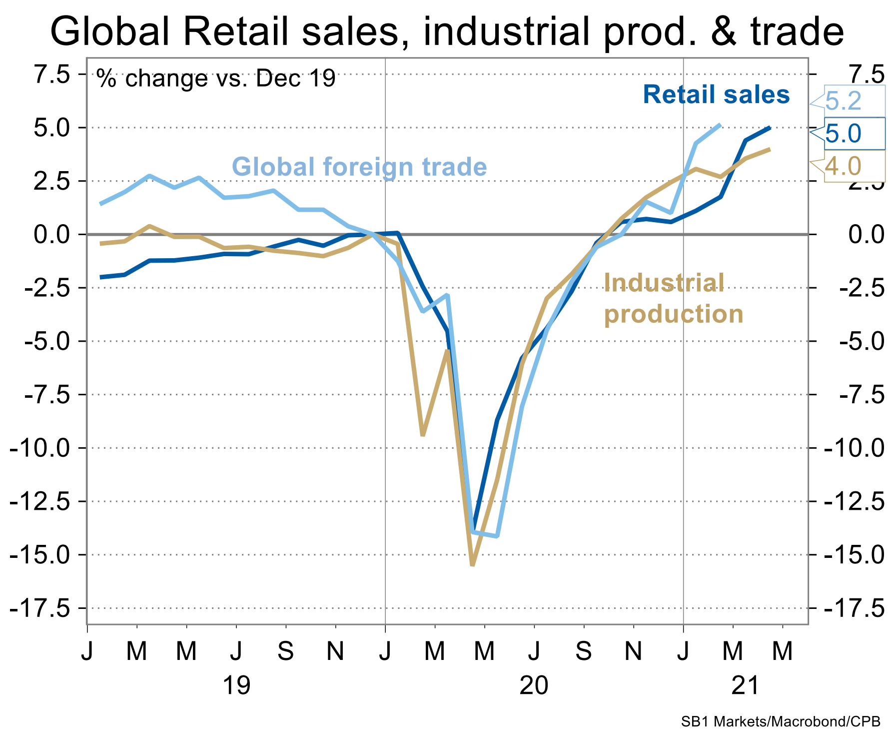
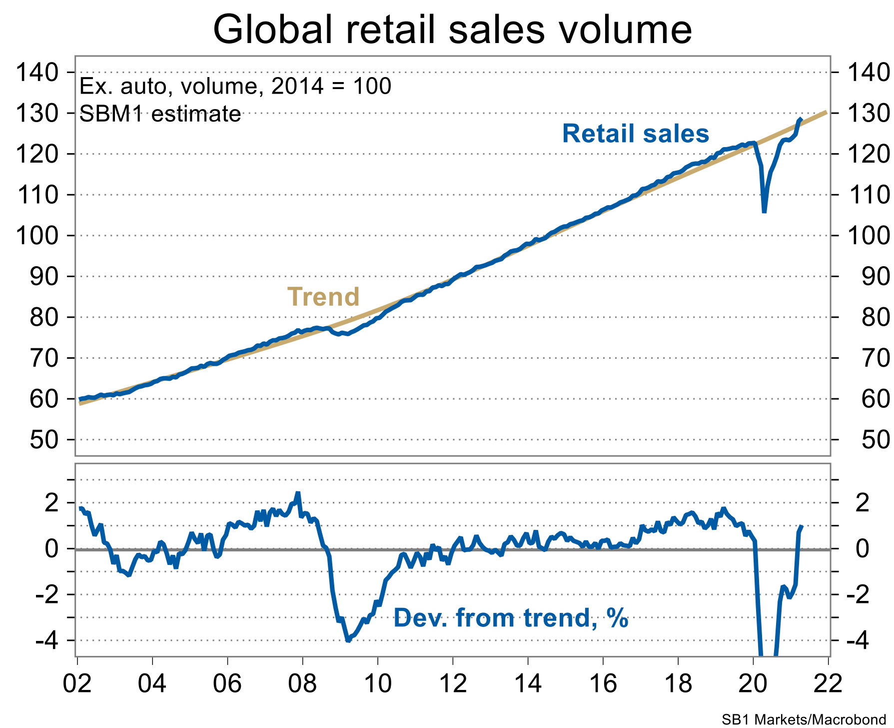
The recovery in the goods sector continues – level up 4% – 5% vs pre Covid

Both retail sales & industrial production probably further up in April

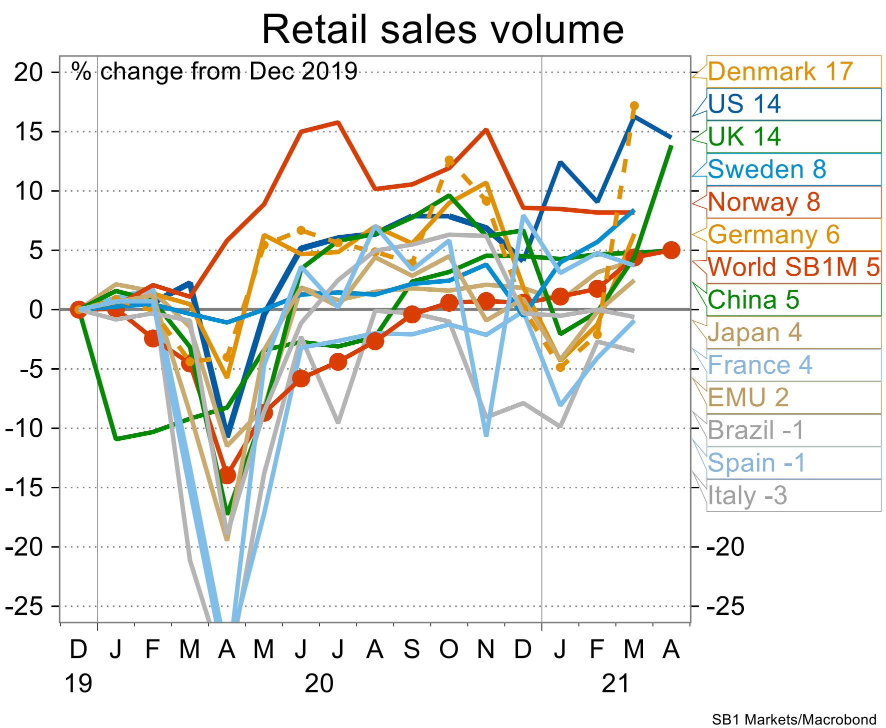


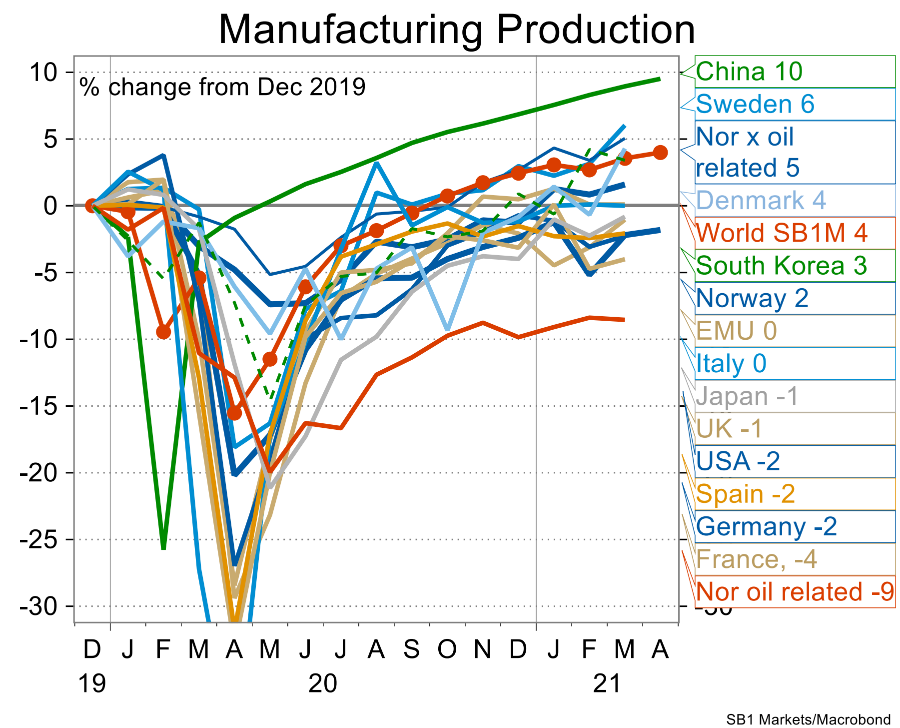


- **Retail sales** rose sharply in March, mostly due to the lift in US retail sales (ex. autos!). Our very preliminary April estimate implies that growth slowed in April, as both China and US have reported weaker data. However, we assume stronger sales in EMU, not as much as in the UK, where sales rose 10% in April. Global sales are some 5% above the pre-pandemic level
- **Manufacturing production** rose more than 1% in March, but probably slowed somewhat in April due corona trouble in India
- **Global foreign trade** rose further in February, to 5% above pre Covid, according to CBP in Netherlands

Volatile retail trade data, but the trend is still up

Manufacturing production flattened in Feb due to the decline in EMU & the US, up again in March

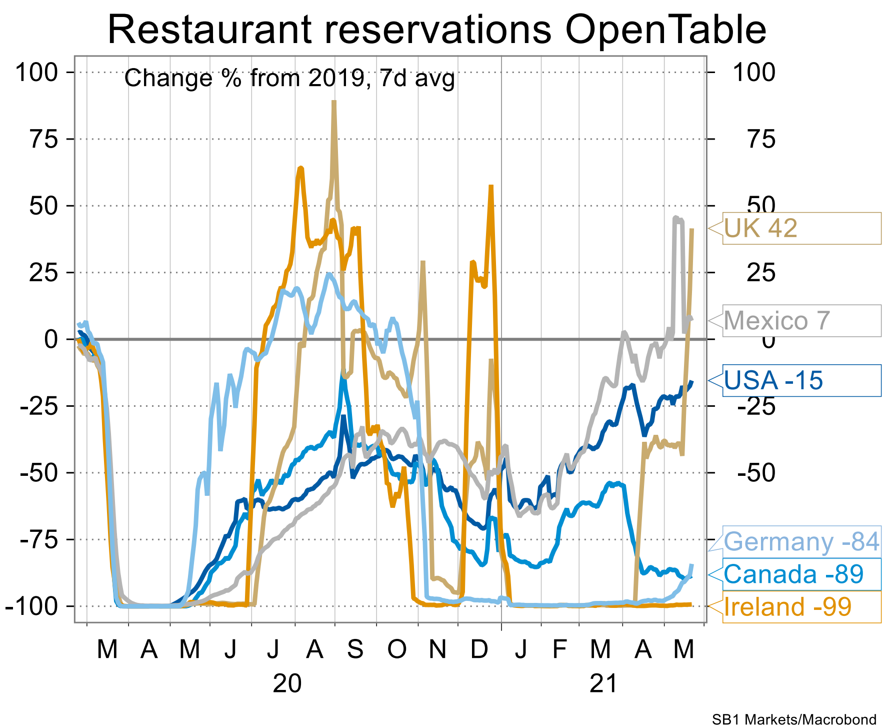


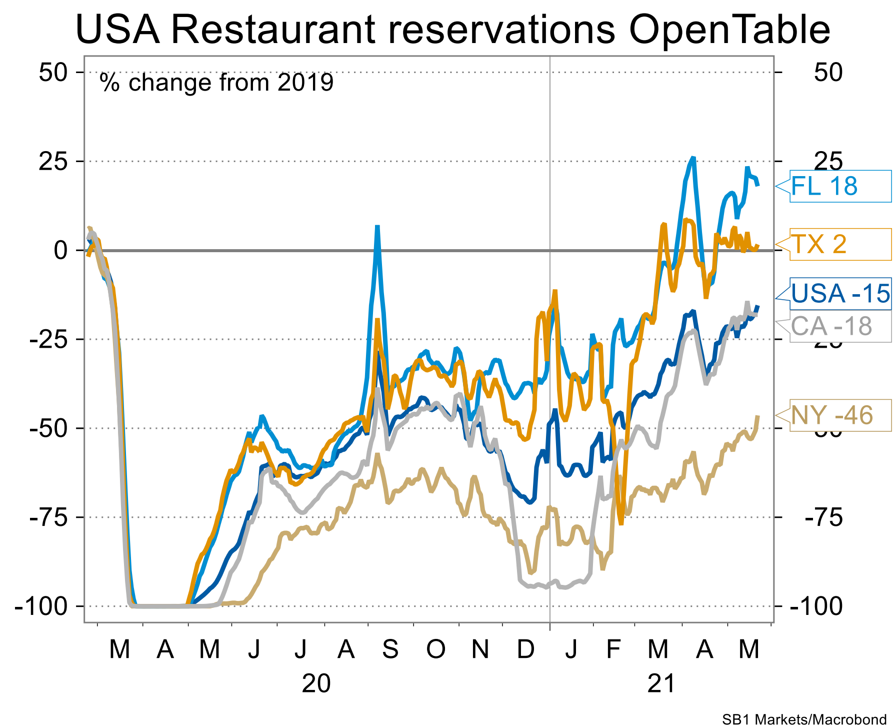


- Global manufacturing production grew some 1% in March
- Retail sale rose much more, following some weaker months where sales in several European countries fell during the 3rd wave

The UK restaurants opened up their doors, and the guests turned up, en masse

At least according to OpenTable reservation data. The US is gradually returning to normality

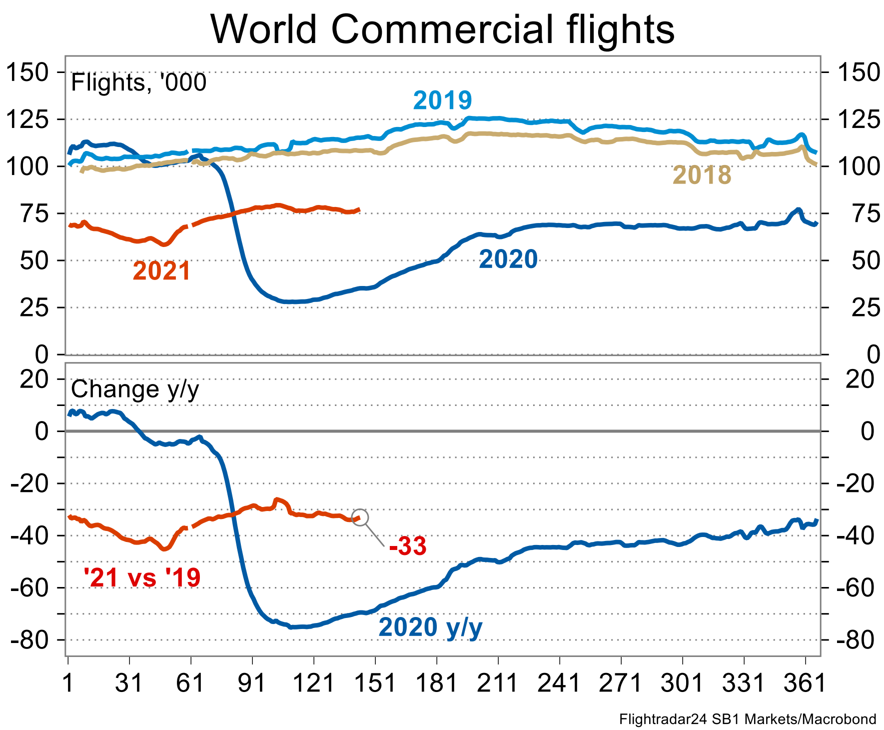


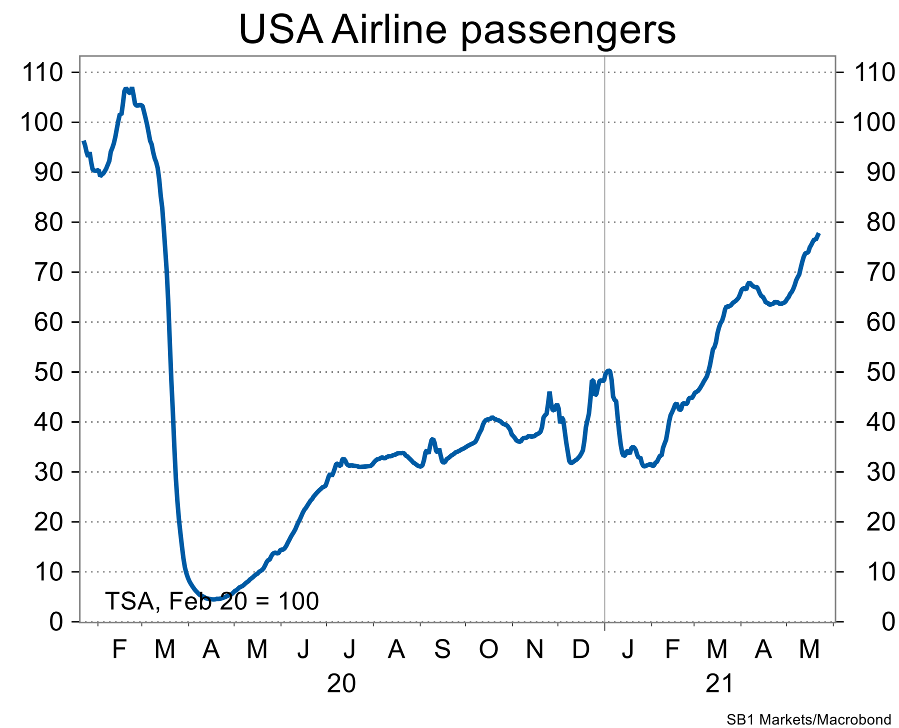


- Restaurants still mostly closed in Germany and fully closed in Ireland, at least those who are tracked by OpenTable
- Sales in restaurants in the US were down 2% in April vs. the Feb-20 level, far better than indicated by OpenTable data

Global airline traffic has stalled. No further lift past 6 weeks

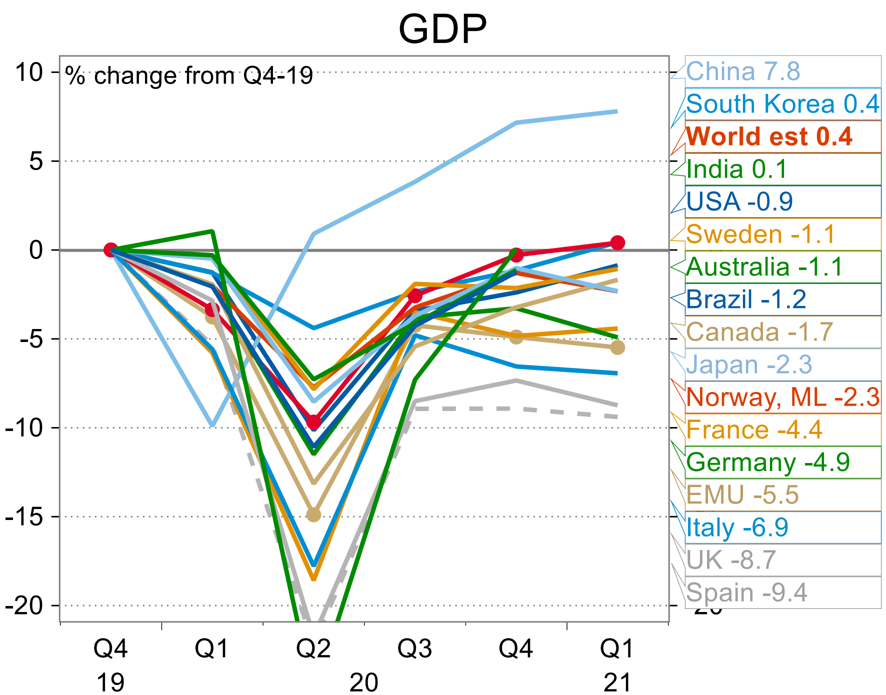
The Indian/Asian Covid wave at least partly to blame? However, many more US airline passengers



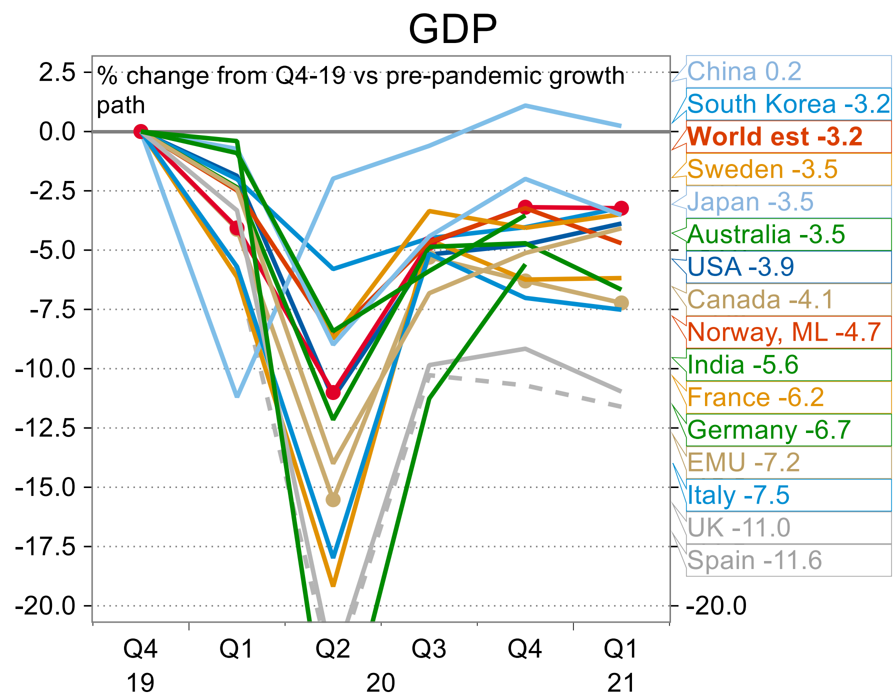


A 3% global GDP growth pace in Q1, level 0.4% above Q4-19

China in the lead, US only down 0.9% vs Q4-19. EMU down 5.5%, UK 8.7%



SB1 Markets/Macrobond



SB1 Markets/Macrobond

- Following an 8% growth pace in Q4, we estimate 4% growth through Q1 (1% not annualised)
  - » GDP growth in **China** slowed to a 'trickle' (a 2.4% pace…), and GDP in the **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

- Accumulated losses in activity vs. the pre-pandemic trend growth (the accumulated pandemic output gap) is substantial everywhere except for China – which has closed the gap
- The global loss is 3.2%, US 3.9%, and EMU is down 7.2%
- Norway is down 4.7% vs. 3.5% for Sweden, due to the different response to the 2nd wave (by Q4, the positions were the opposite)

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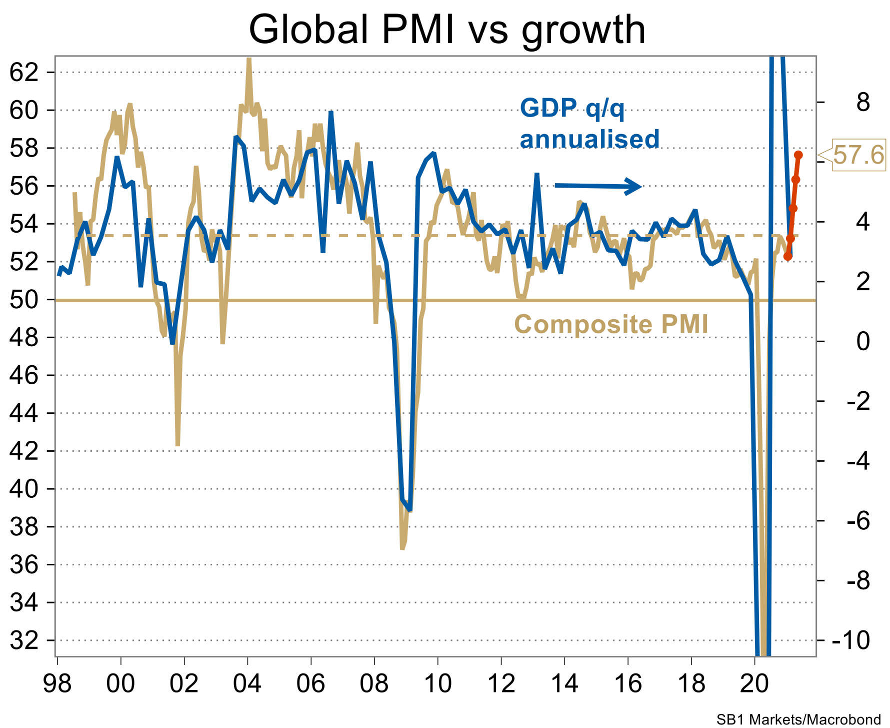
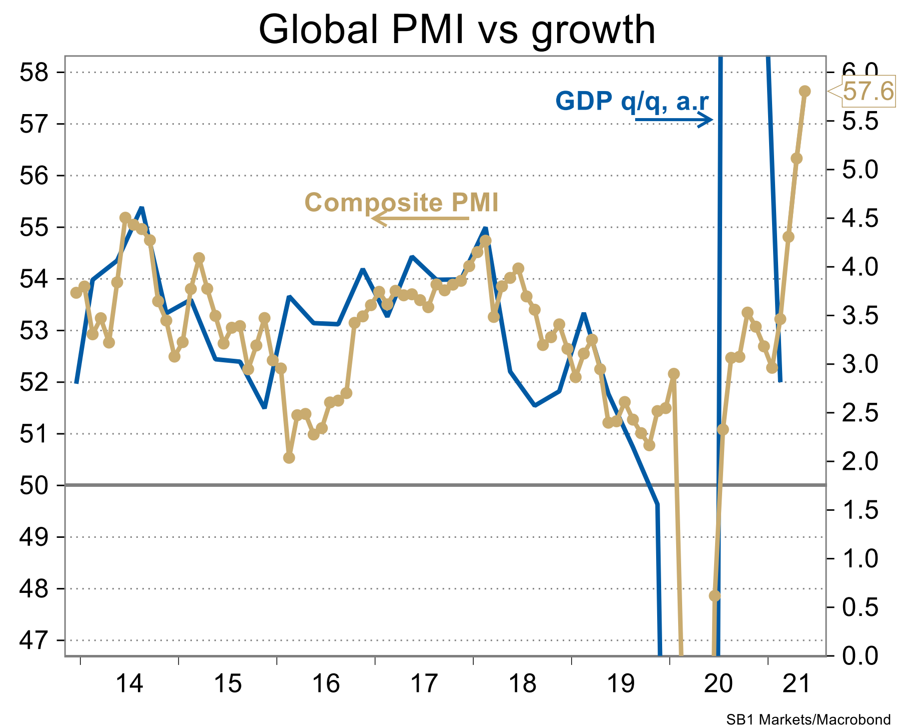
Economies reopen, the global PMI marches upwards, signals 6% global GDP

We estimate 1.3 p lift in the comp. PMI to almost 57.6, supported by a surge in services the US, EMU



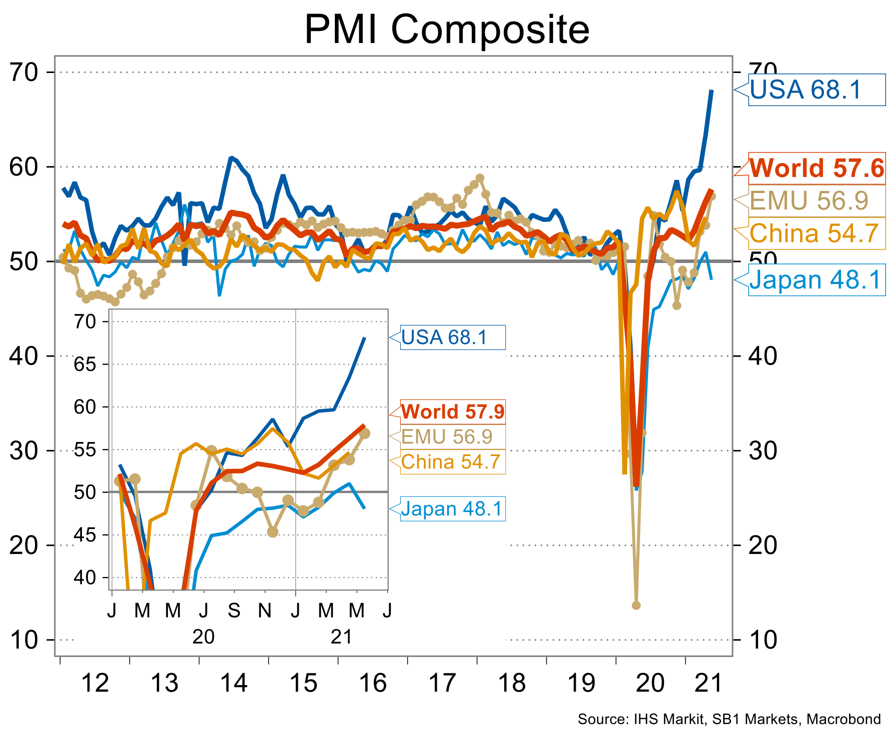


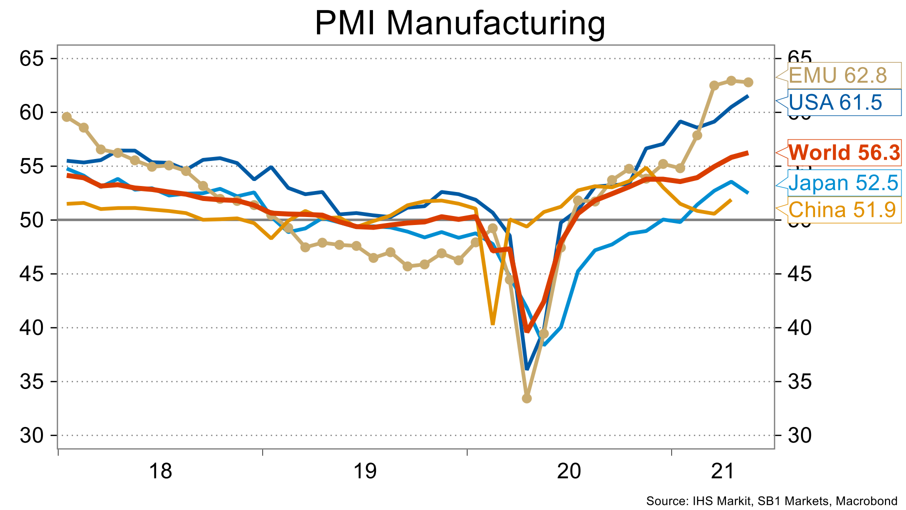
- **Both the US, EMU & UK** surveys were far better than expected, as the impact of reopening economies were challenging to calibrate
- **The global PMI** is at the highest level in 14 years
- **Delivery times, input & output** prices are increasing faster – and faster than ever. April was probably not the last month with high CPI prints some places
- We have adjusted our global PMI estimate down vs. our model forecasts as we assume Emerging Markets will not report the same gains due to less favourable (or bad) corona circumstances

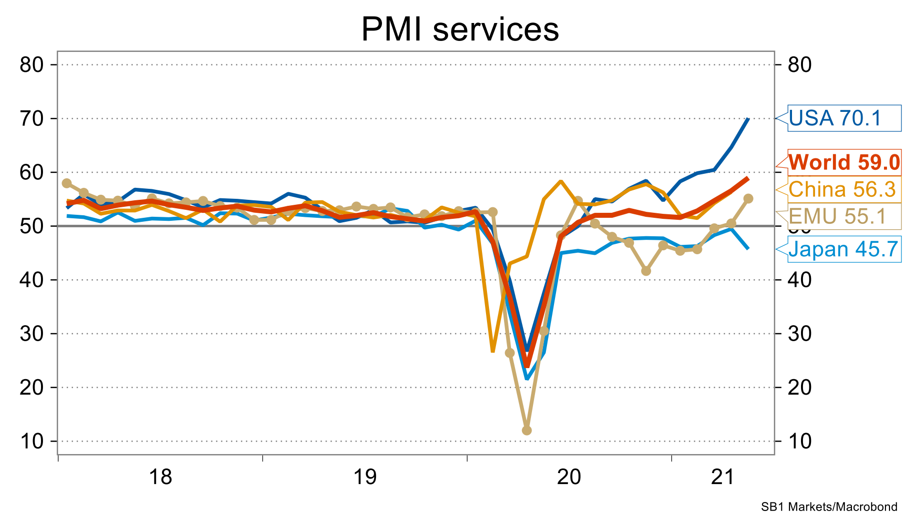
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

The US in the lead, the service sector PMI up to 70!

EMU services up to 55, and the manuf. PMI still at a record high level. Just Japan a tad down



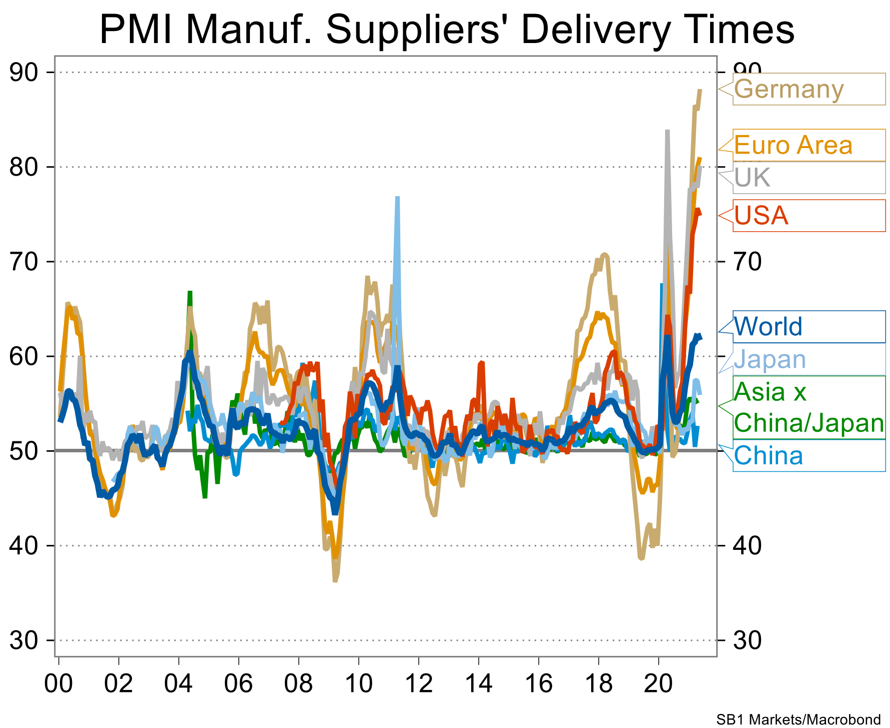


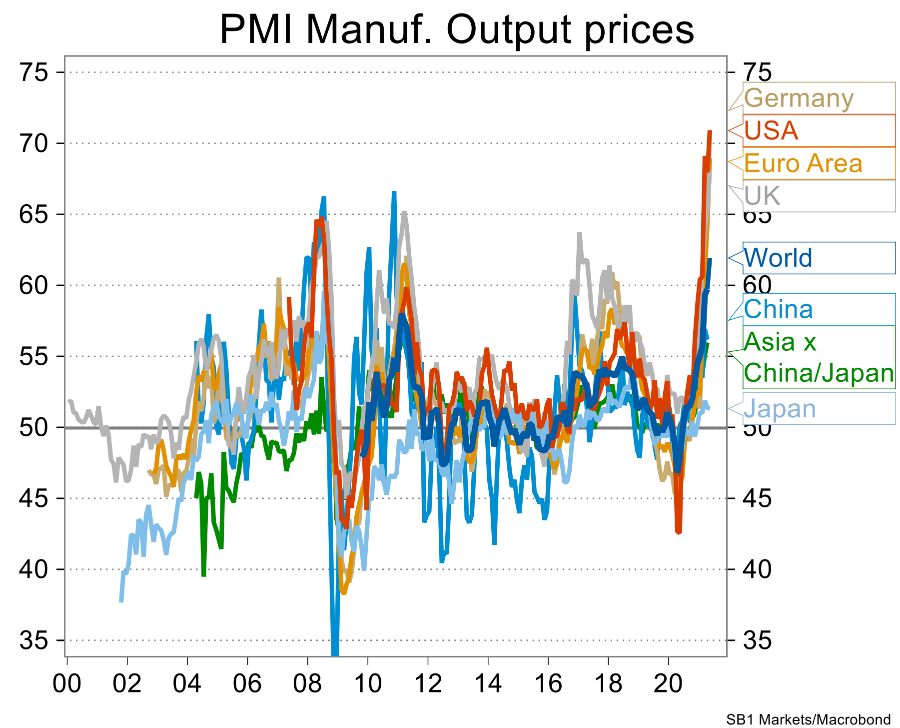


- The US PMIs are hinting at an 8% – 10% growth pace, confirming the most upbeat nowcasters
- The EMU PMIs are signalling a 5% GDP growth
- UK also reported a brisk recovery in the service sector

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

… and probably <u>not mostly</u> due to specific corona challenges – it's a booming activity, stupid!





- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) may have reached new global all-time high in April. Germany/Europe is in the lead but also the UK and the US are reporting the most rapid increases in delivery times ever (barring covid-19 related trouble last April in the UK)
  - » **Brexit and partly the covid-19 surge** may explain some of the delivery problems in the UK, perhaps even in Germany – but production is surging too
- **The global manufacturing output price index** is at the highest level ever, as both the US, EMU, Germany, UK are reporting the fastest price rises ever

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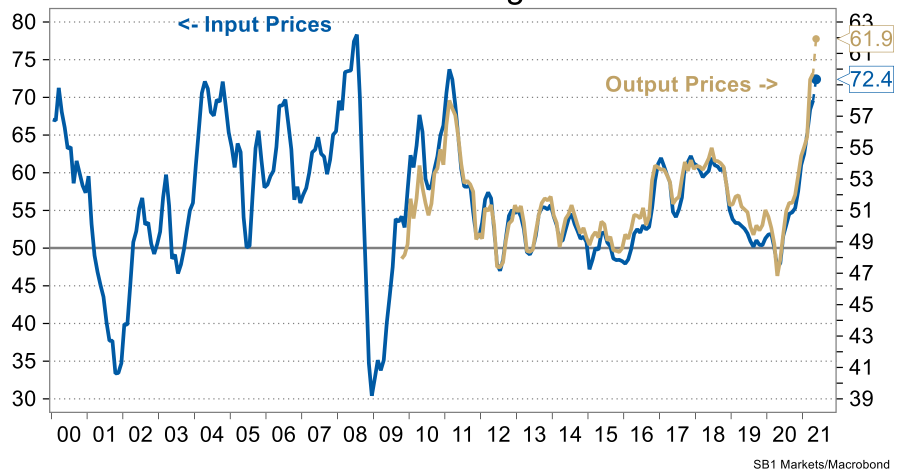
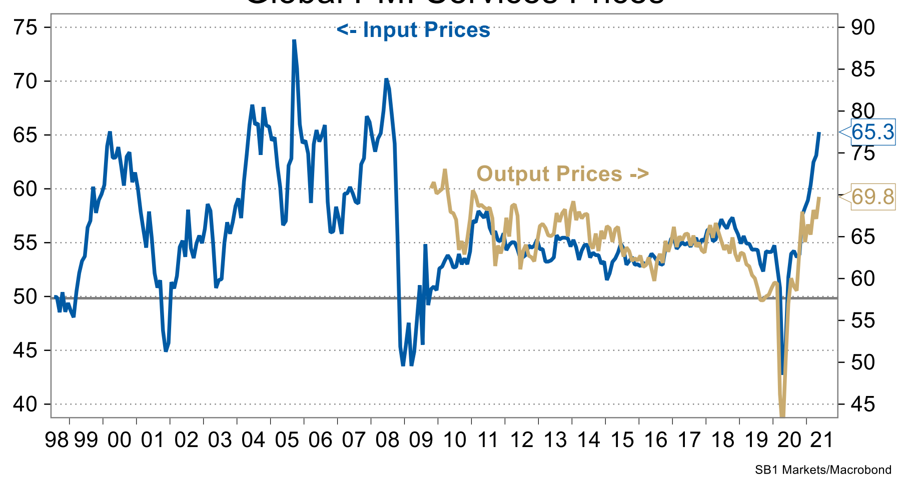
Businesses keep reporting even faster growth in input/output prices

Still more to come in the CPIs, at least in the headline indices

Gobal Manufacturing PMI Prices

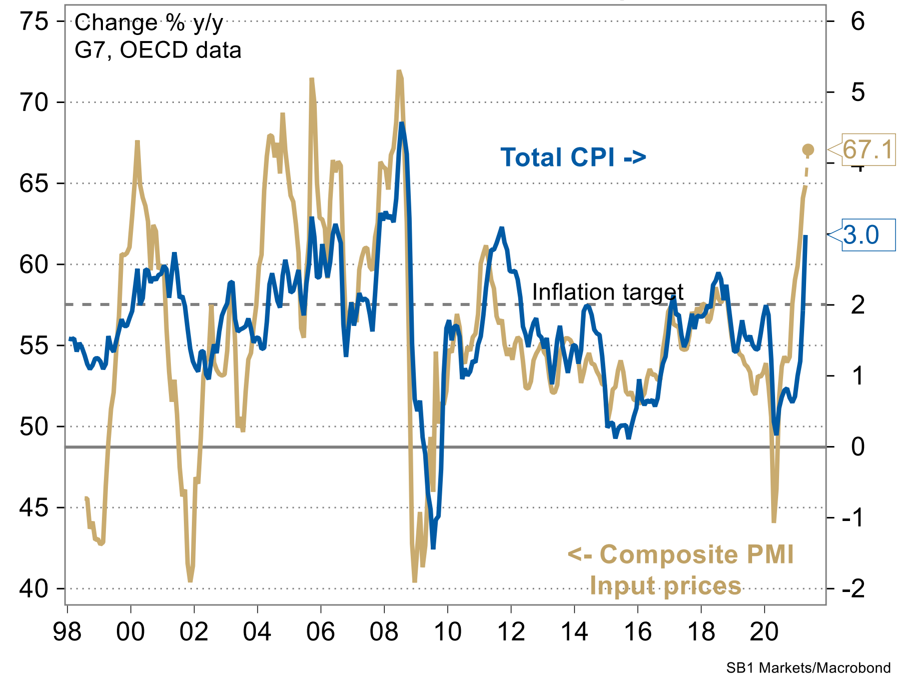


Global PMI Services Prices



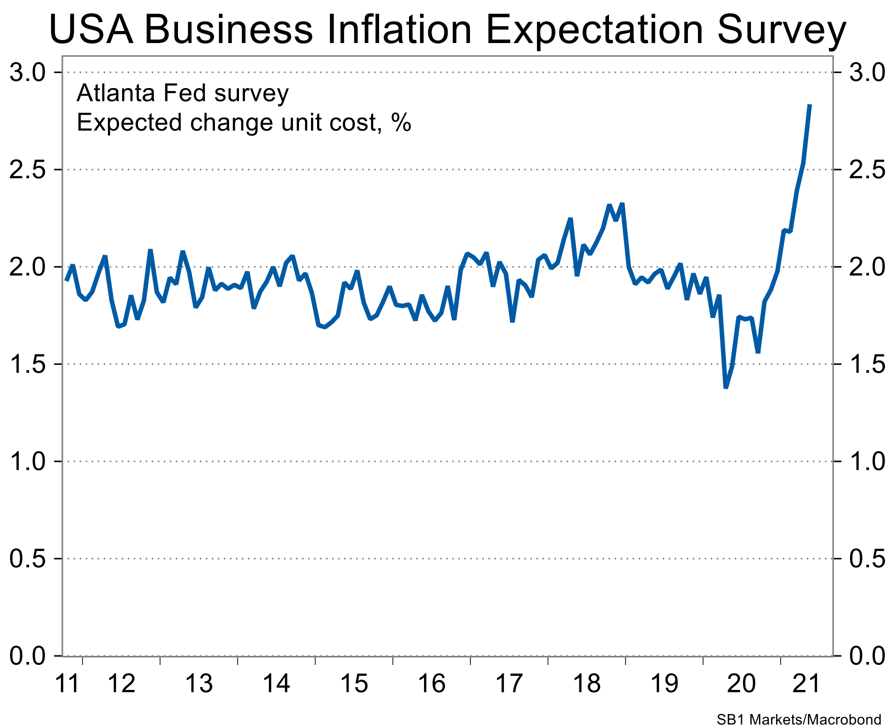
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

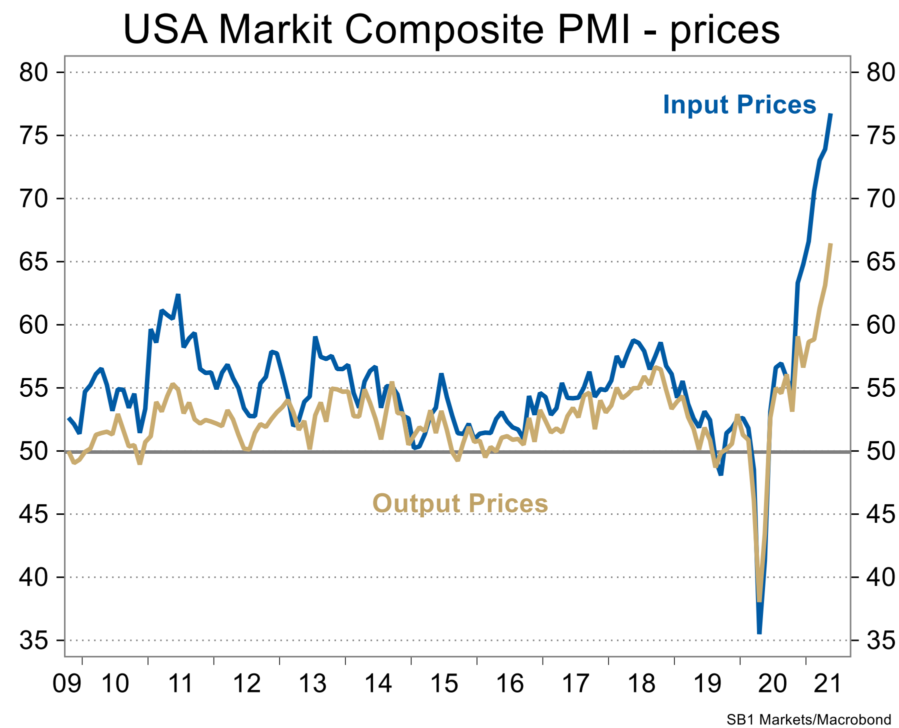
OECD Inflation vs PMI prices



- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- Luckily, the correlation to **core inflation** is far less precise, as energy prices are the main driver for the up and downs in both the PMIs and in short term variations in headline inflation

Another survey, Atlanta Fed's: Businesses are expecting a sharp lift in costs/prices

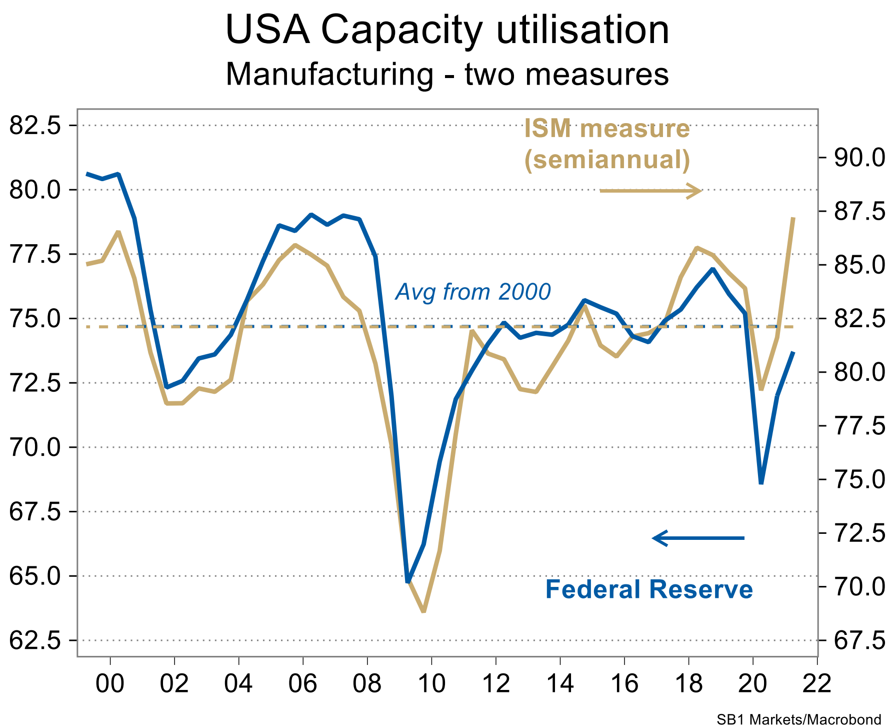


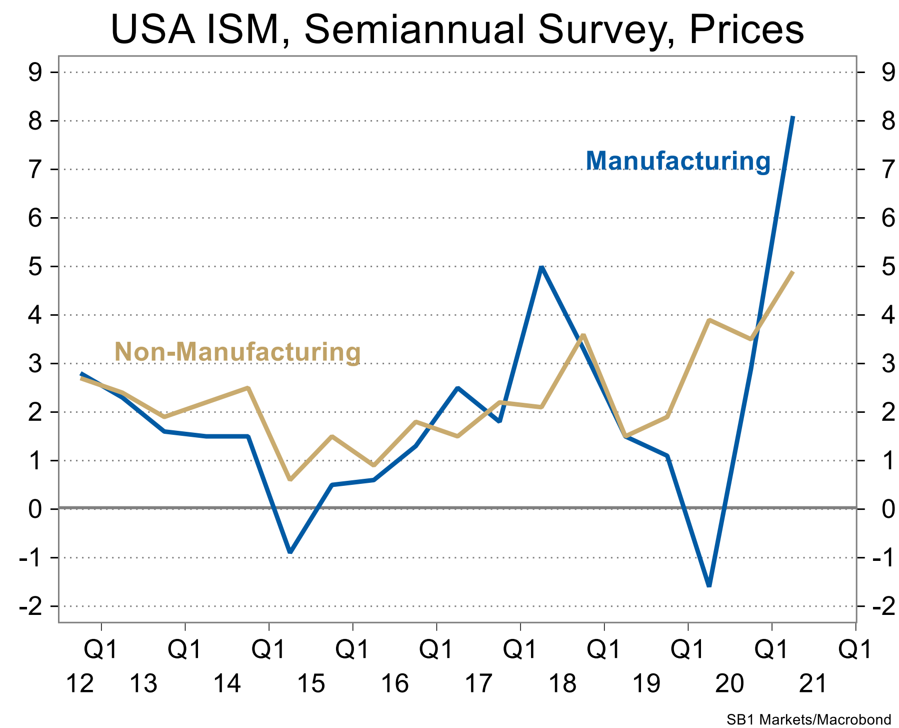


- For both of the series above, the history is too short for calibrating vs actual inflation. However, businesses are reporting something else than have done over the past 10+ years

Is the capacity utilisation in manufacturing at average or record high?

Fed's measure yields a close to an average level, ISMs survey reports the highest utilisation ever!





- In the ISM's semi-annual survey, the companies reported a utilisation at 88%, a new ATH – though with data just back to 1999
- The Federal Reserve's estimates a 73% utilisation (so far in H1), close to average. The gap between the two measures has never been larger
- In the ISM survey, companies in both manufacturing and non-manufacturing are reporting the highest expected prices increases ever – however with data just back to 2012. But is surely illustrates the price risk on the upside

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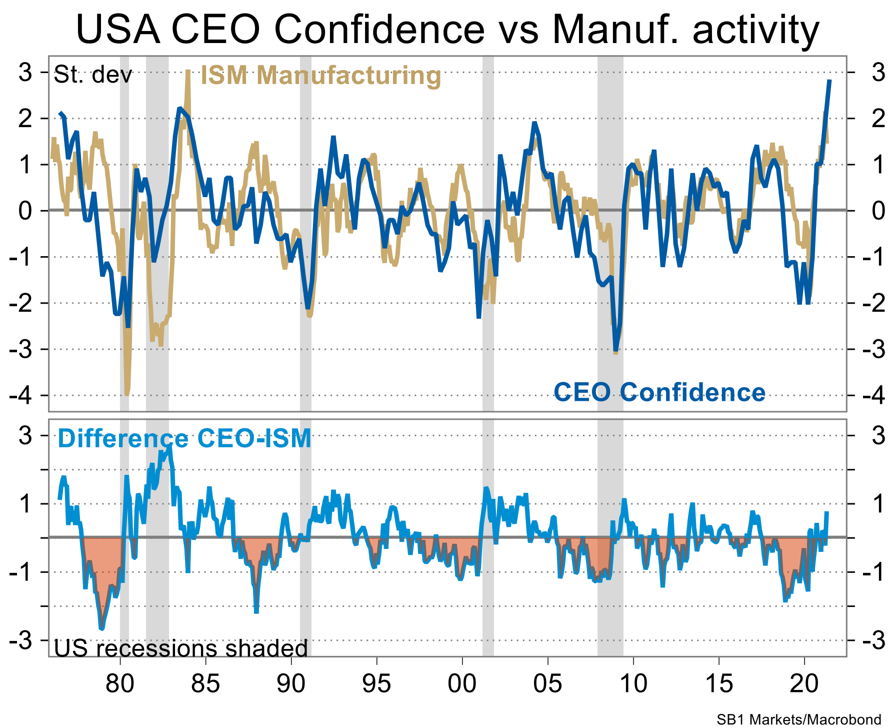
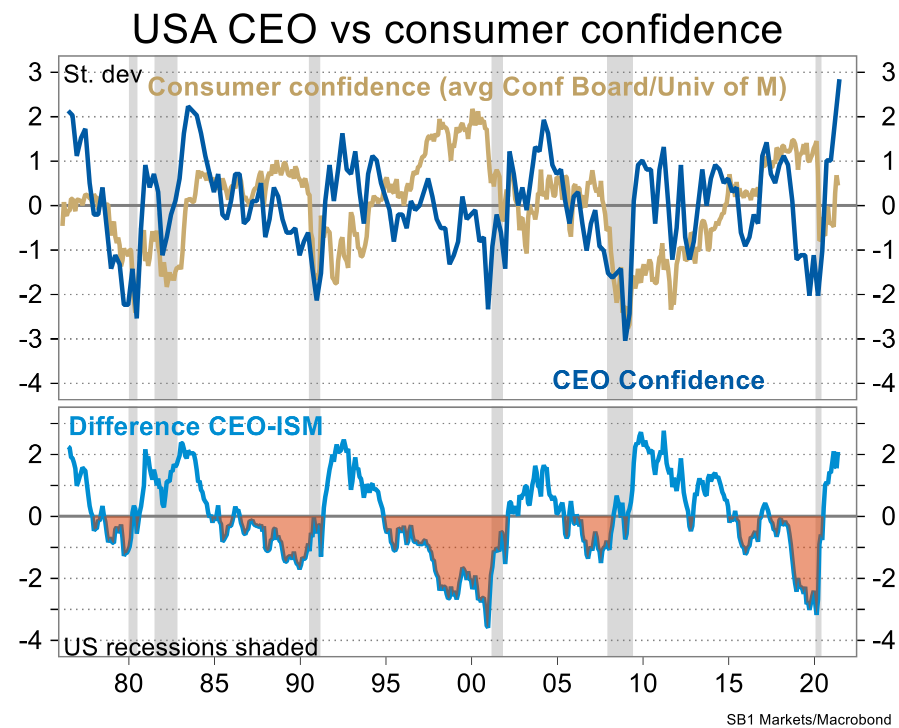
CEOs even more optimistic than current activity reports (PMI/ISMs), a good sign

... and CEOs have never been as optimistic as they are in Q2-21 (data from '76)

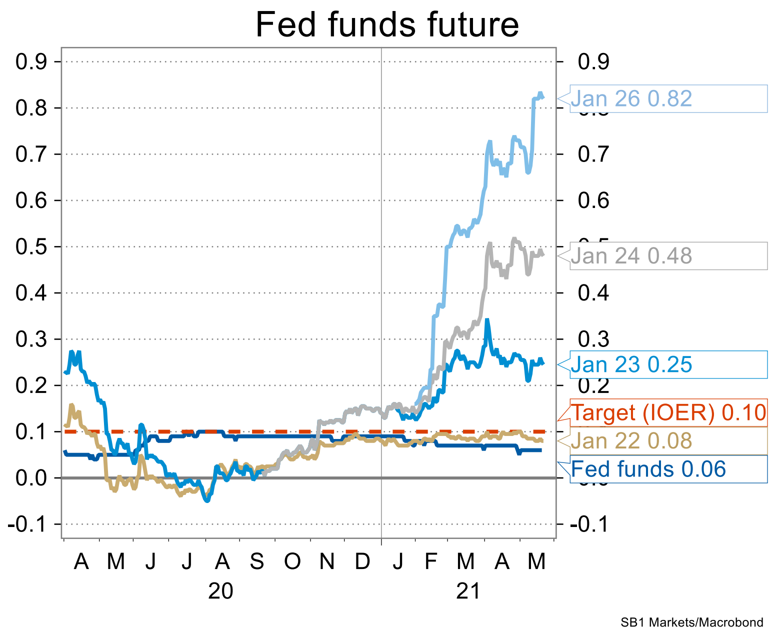




- ... and usually high CEO confidence is a goods sign. They usually become more pessimistic well before activity peaks and the economy thereafter enters recessions – and well before consumers recognise that the party is over (check the red areas before recessions)

FOMC members talked about start talking about tapering!

…despite Powell's press conference comment that "it's not even time to talk about tapering"

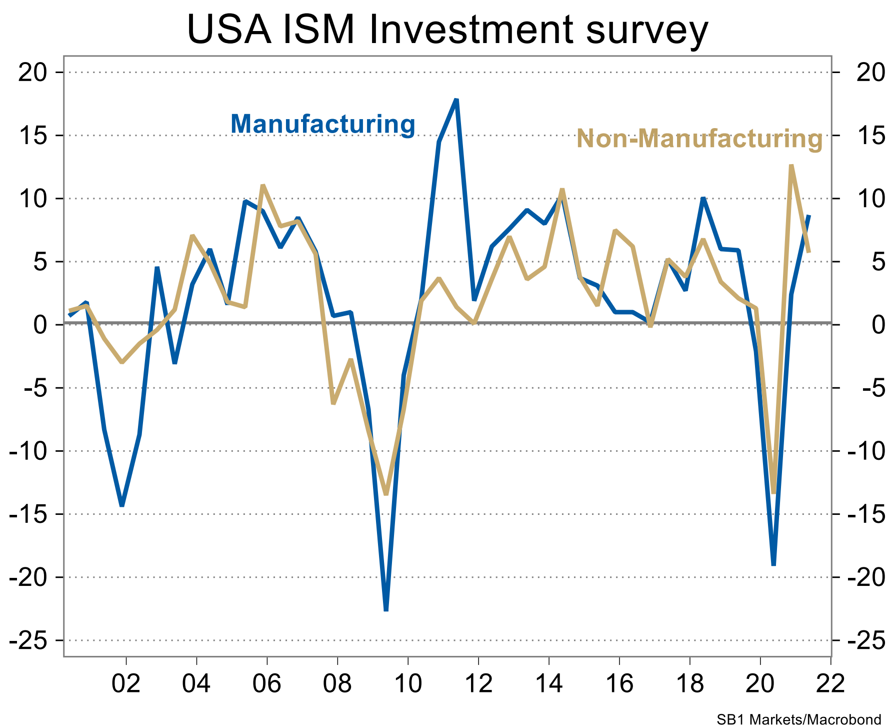


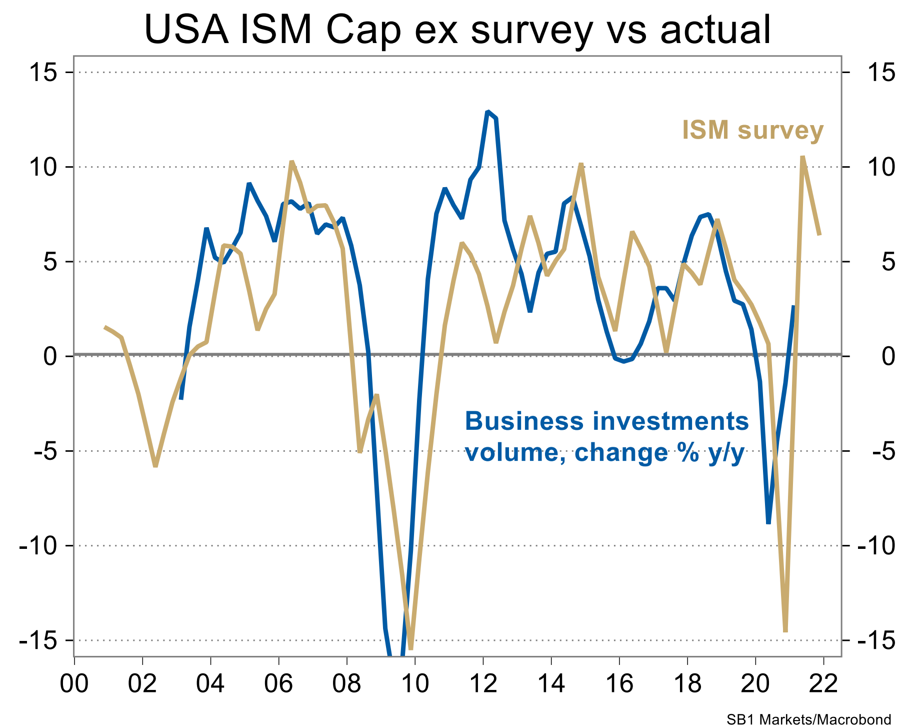
- OIS and Fed funds future contracts stipulates a 60% probability for a first hike before early 2023

- The Fed stood by its policy at the April 27-28 meeting, and kept the Fed funds rate unchanged and decided it would keep buying USD 120 bn in assets (Treasuries and MBS) "until substantial further progress" is made
- In the minutes, the FOMC members stated that:
  - » …participants generally noted that the economy remained far from the Committee's maximum-employment and price-stability goals.
  - » Participants agreed that the economy was still far from the Committee's longer-run goals. Moreover, the path ahead continued to depend on the course of the virus, and risks to the economic outlook remained. Consequently, participants judged that the current stance of policy and policy guidance remained appropriate … to achieve inflation that averages 2 percent over time and longer-term inflation expectations that continue to be well anchored at 2 percent
  - » A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings **to begin discussing a plan for adjusting the pace of asset purchases.**
- So while Powell time after time has said the FOMC had not yet even started thinking about thinking when to start tighten policy, they have in fact already started TALKING about when to start TALKING about adjusting policy
- Bond yields rose initially but rapidly fell back, and yields are now down vs. pre minutes. The important market response was a reasonable decline in inflation expectations, and higher real rates
- While we do think that the Fed will have to start tapering and raise interest rates much sooner than what has been communicated thus far, we do not expect an abrupt change of tack. Still, it is wise to signal that policy could be adjusted earlier so far indicated. The 'dot-plot' in June will be exciting!

ISM semi-annual investment survey: Decent growth, no take-off

The non-manufacturing sector cut back on their plans, manufacturers added more projects

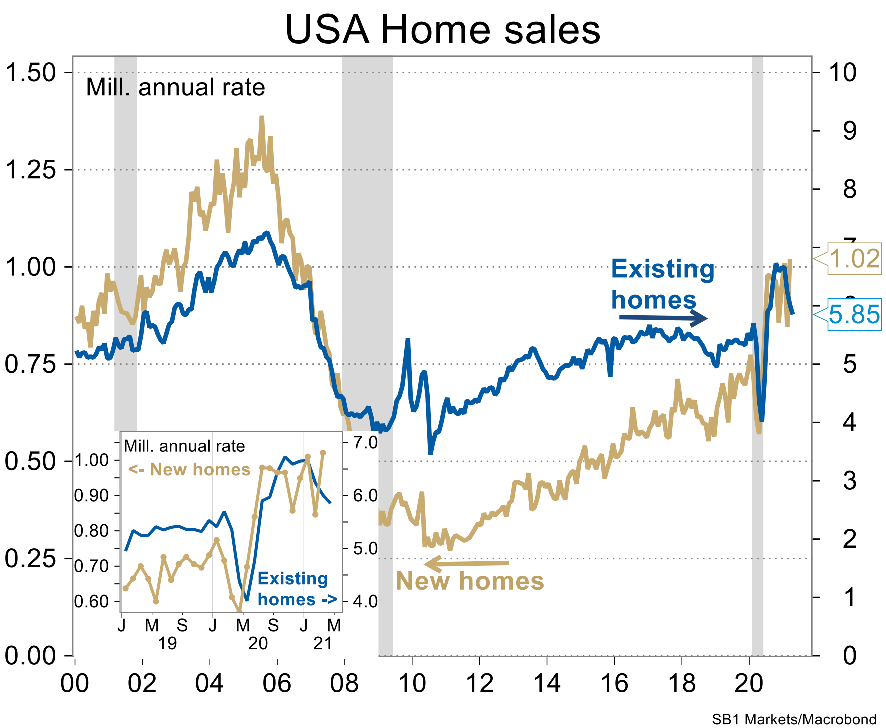


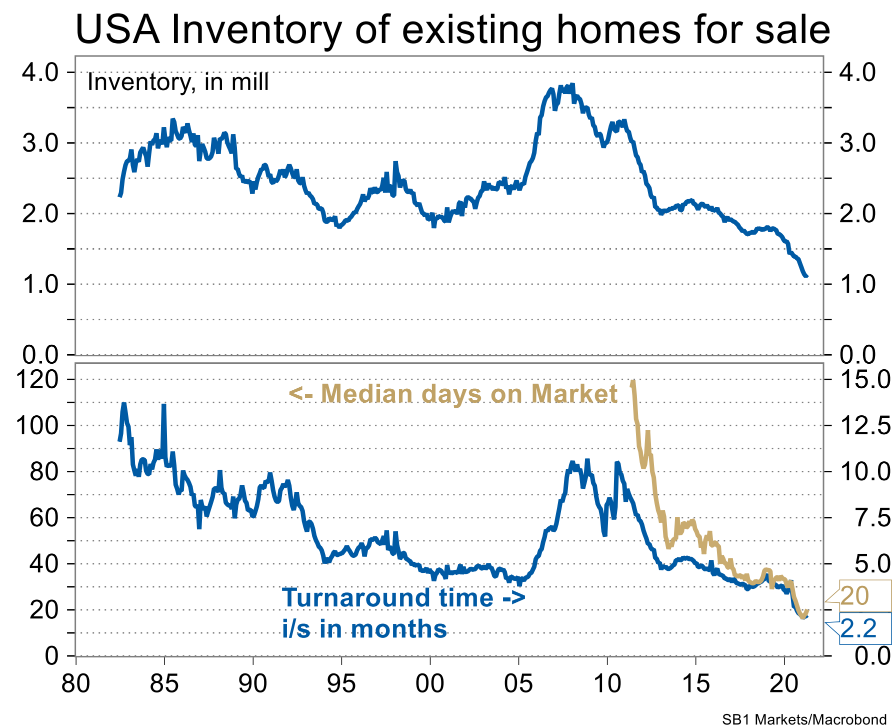


- Both are still reporting growth in investments well above trend growth

Existing home sales are sliding down – and not due to lack of supply

There are 'no' 2nd hand homes to buy, the inventory is 'empty'





- Sales of **existing homes** fell to 5.85 mill (ann. rate) in April from 6.01', expected 6.07'. The sales level is still well above the pre-pandemic level. Sales are no doubt kept down due to an unprecedented lack of supply
  - » **The inventory of unsold homes** fell further from a record low level, and equals just 2.2 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times 10 months. For those home sold, the median time on market is 20 days (all data seas. adj)
  - » **The median price** rose by an another 2% m/m in April, and are up 19% y/y, the highest print ever. Sales of expensive homes constitutes a larger share of total sales than normal, and even the median price may be influenced by this sales mix

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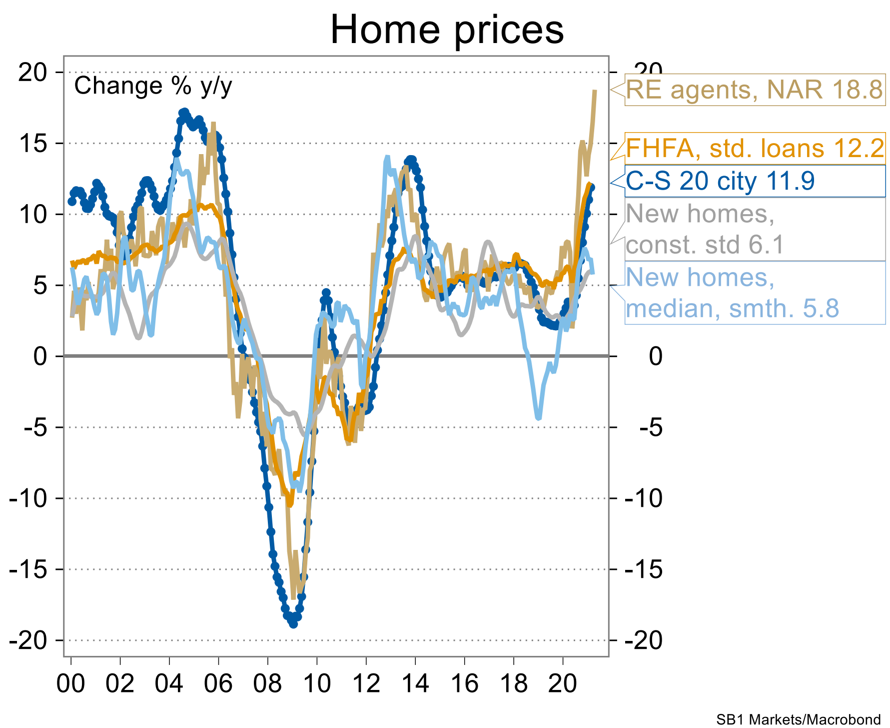
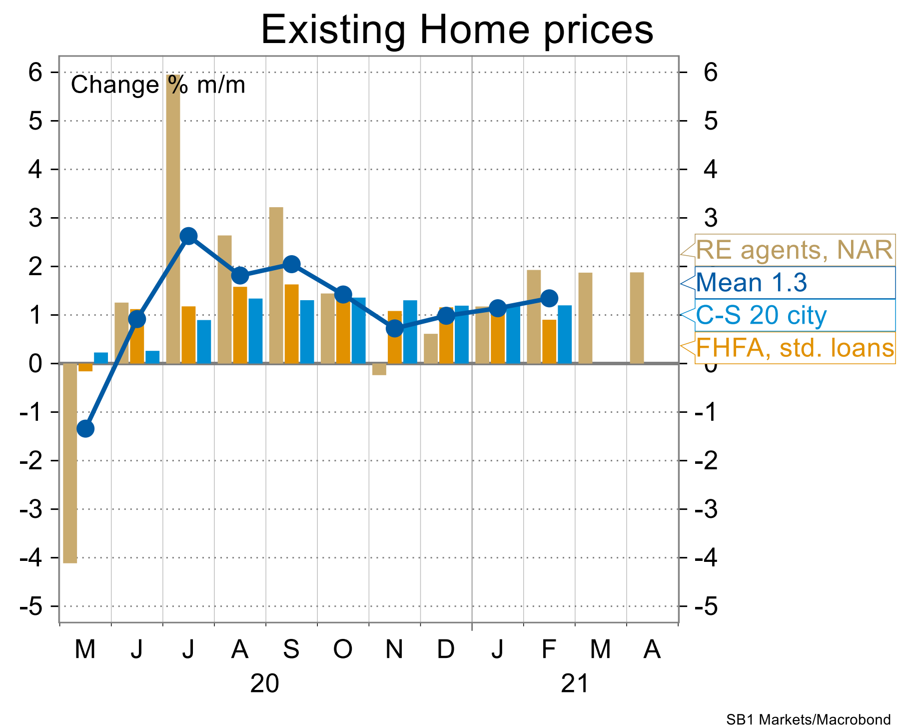
Realtors report another 2% m/m price hike, up 18.8% y/y%, ATH

So far in 2021, prices have been increasing at 25% pace, in case you wondered

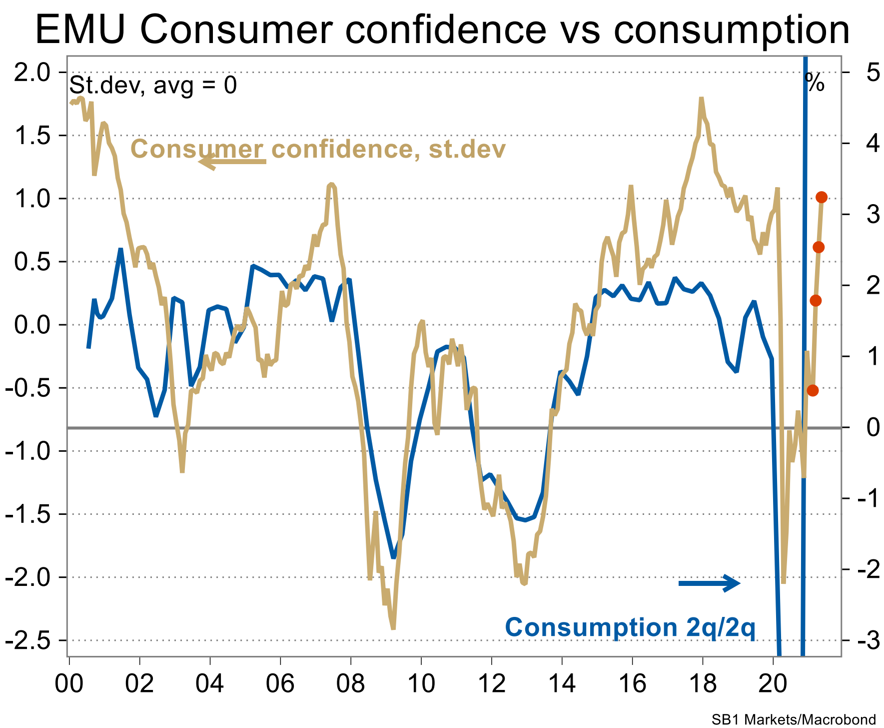


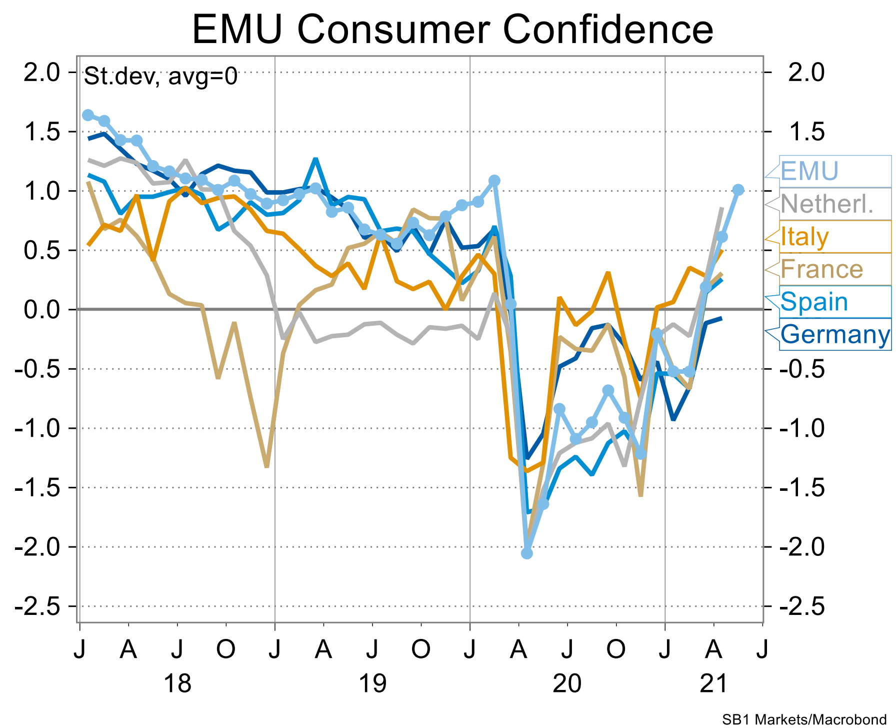


- Other, and better, price indices that adjust for the mix of homes sold (and characteristics of each home) are reporting lower growth rates but all are reporting very rapid price increases since last spring/summer (more data out this week)

Consumer confidence further up in April, to above the 2019 level!

The confidence up 0.5 st.dev to +0.7 above average, to the same level as in 2019!

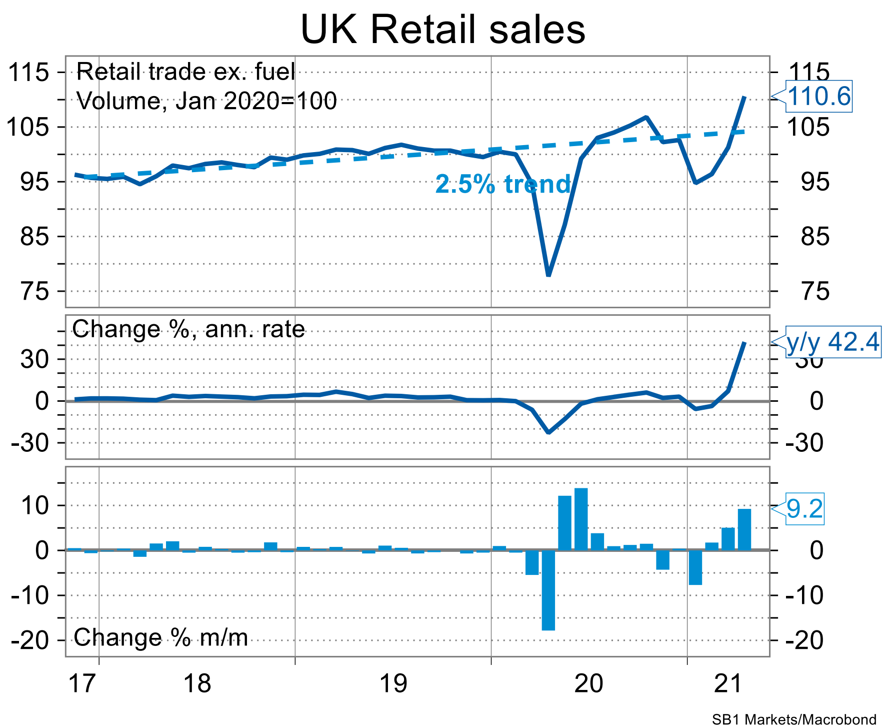


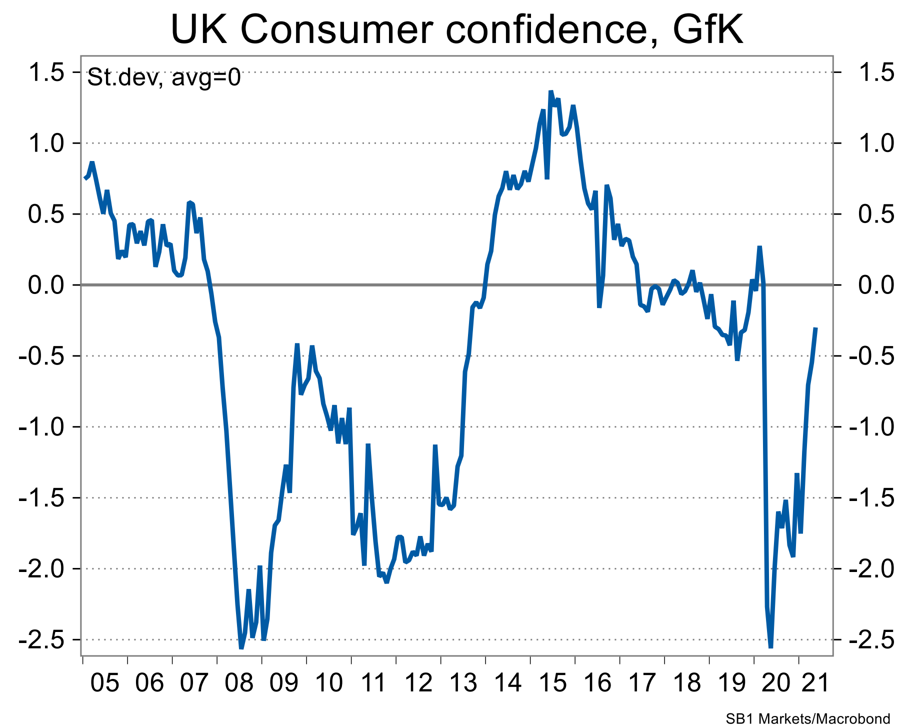


- **The consumer confidence index** rose to -5.1 in May from -8.1 in April, once more far better than expected. The lift equalled 0.4 st.dev, and the level is now 1 st.dev above average
- A consumer confidence at the present level has normally equalled a decent growth in consumption
- No May country data yet
  - » Just Germany reported confidence below par in April. Italy has been above average since December

Retail sales exploded in April (too), up 9.2% m/m!!!

Expected up 4.2%. Sales rose 5.1% in March, and sales are now 10% above pre-Covid level!

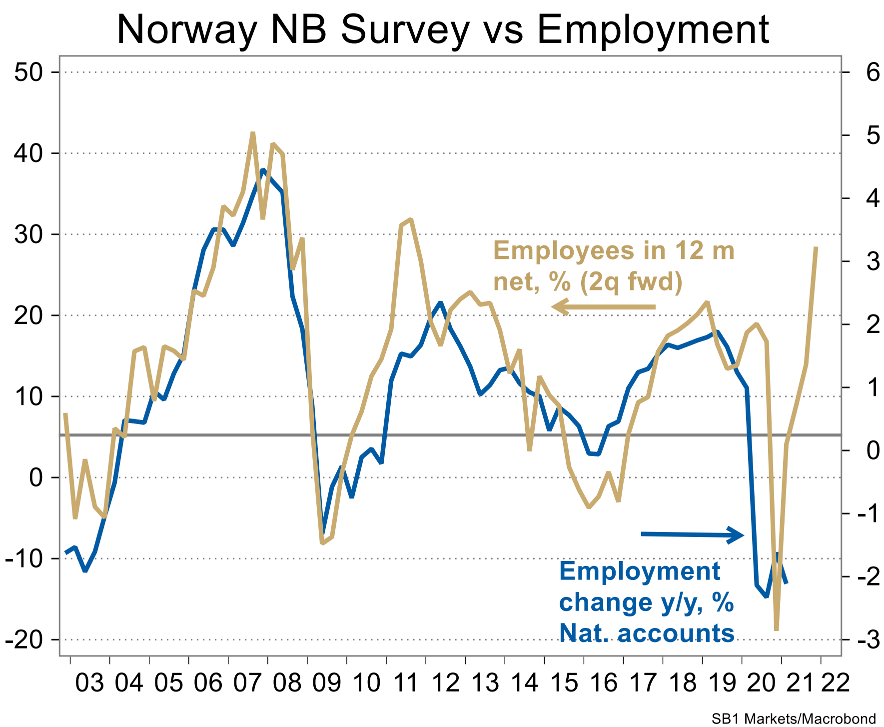


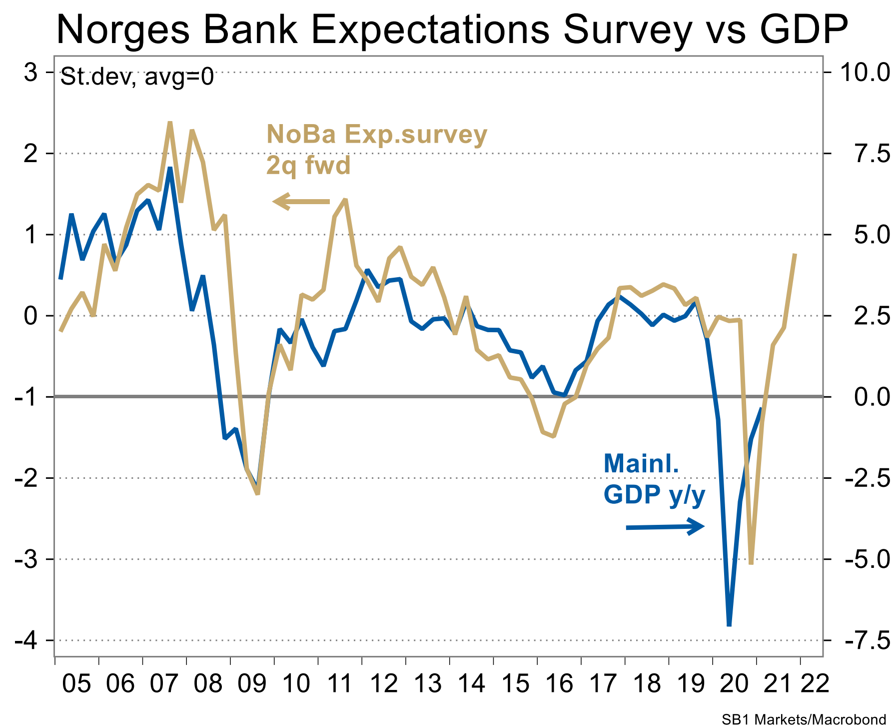


- **A ton of pent-up demand** was unleashed as restrictions on shopping were eased; retail sales were up 9.2% m/m in April following the 5.1% growth in March. Sales are 10% above the pre-pandemic level, and 6% – 7% above the pre-pandemic trend growth path
  - » Online sales counts for 30% of retail sales, down from 34.7% the previous month
  - » Food store sales were down 0.9% (as restaurant were allowed to serve outside), but are still almost 9% higher than the pre-pandemic level
- **Consumer confidence** continued up in May, according to the GfK survey. The level is still below normal – but the direction is set. Other surveys a signalling a higher confidence level

NoBa Expectation survey: A strong recovery ahead

Companies are reporting aggressive employment plans, expects growth in profits too

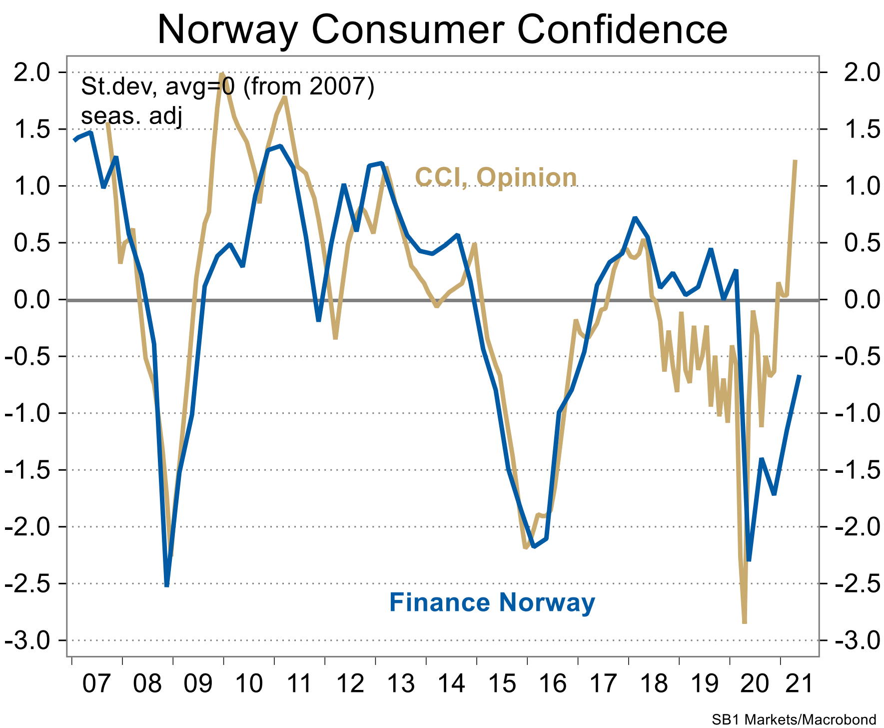


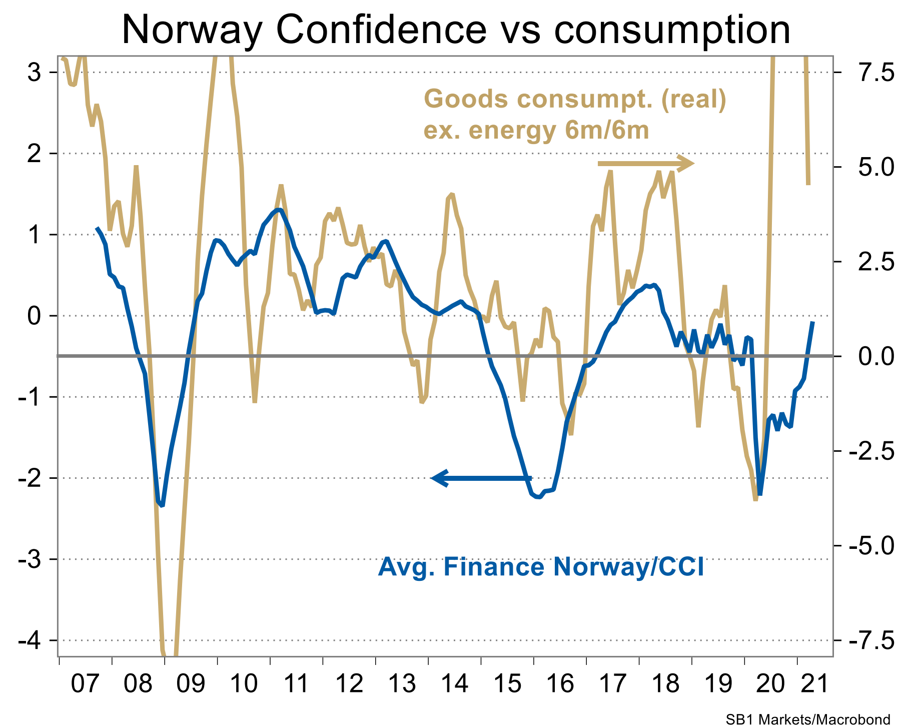


- Companies adjusted their employment plans up in Q2, and signals a 3% growth in employment the coming year – which of course will bring unemployment significantly down
- The mix of employment plans, and the companies expectations regarding profit margins signal a 4% – 5% Mainland GDP growth

Finans Norges' Q2 consumer confidence up but far less than we assumed

The survey rose to -0.7 st. dev below average, from -1.2, we expected something far better

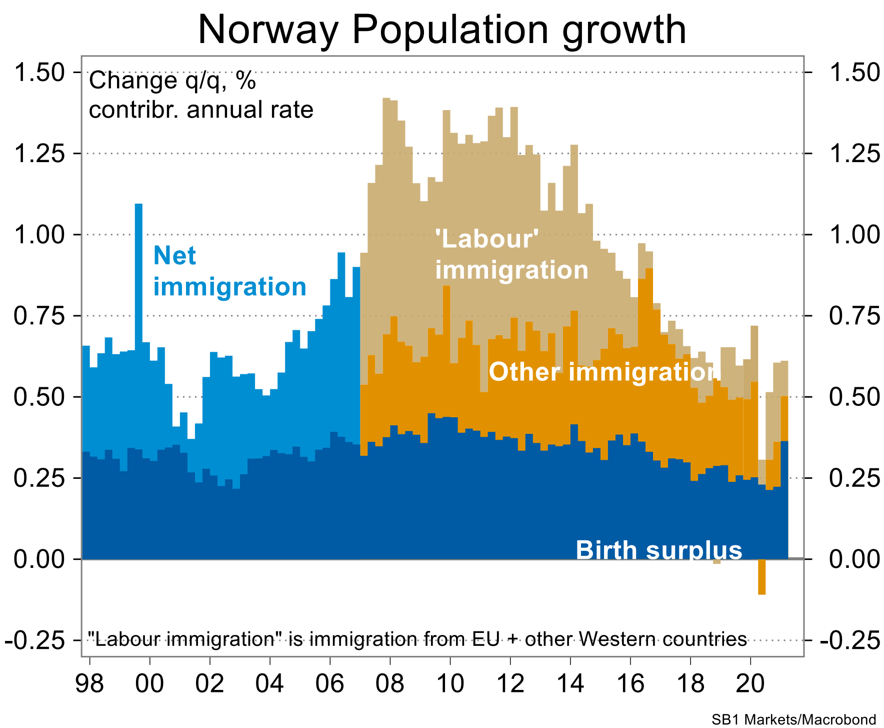


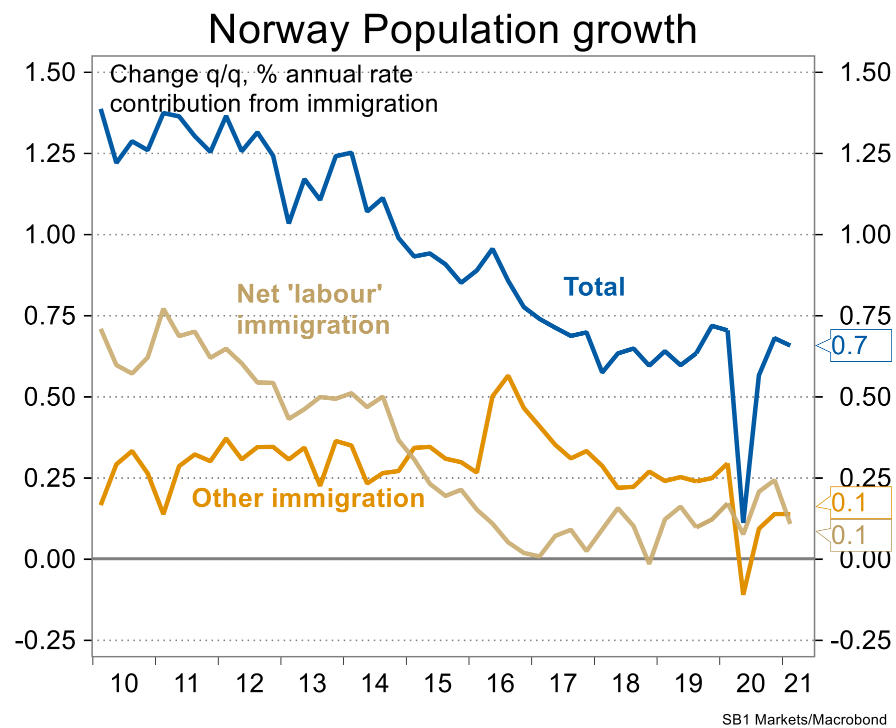


- Finance Norway's quarterly consumer confidence index climbed to +2.5 in Q1 from -3.2 in Q1 but the average index is approx. 12 since 2007 – which was a modest estimate, we thought
  - » The monthly CCI from Opinion is 1.2 st.dev above average, to the best level since 2011, following a surge the recent months. The gap between the two surveys is strange
- Big item purchases are still out of favour (barring buying a house, of course), as is understandably travel

Large birth surplus in Q1 – highest in 5 years

More births and far fewer deaths following the pandemic

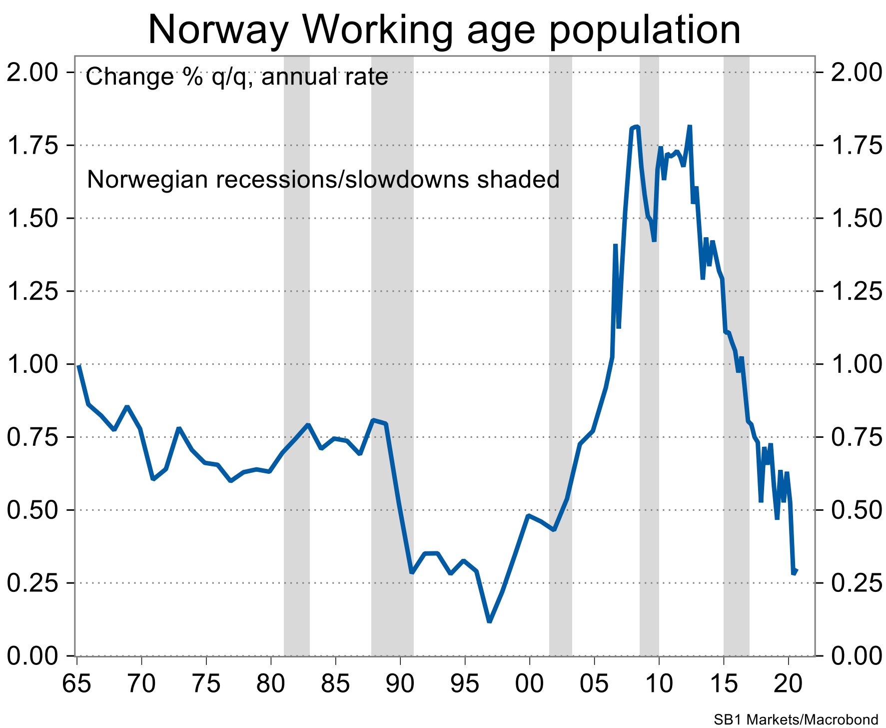




- Total population grew by 7,400 in Q1, equalling some 0.6% annual rate
  - » Both labour immigration and other immigration have been low during the pandemic, and it is safe to assume that immigration outside of work purposes will increase ('normalise' as the virus recedes. Labour (EU/Western) immigration depends on demand for labour in Norway, and in the EU
- In Q4, and partly in Q3 and in Q1 '21, labour immigration was quite high. Have more foreign workers chosen 'to stay', instead of travelling back and forth?

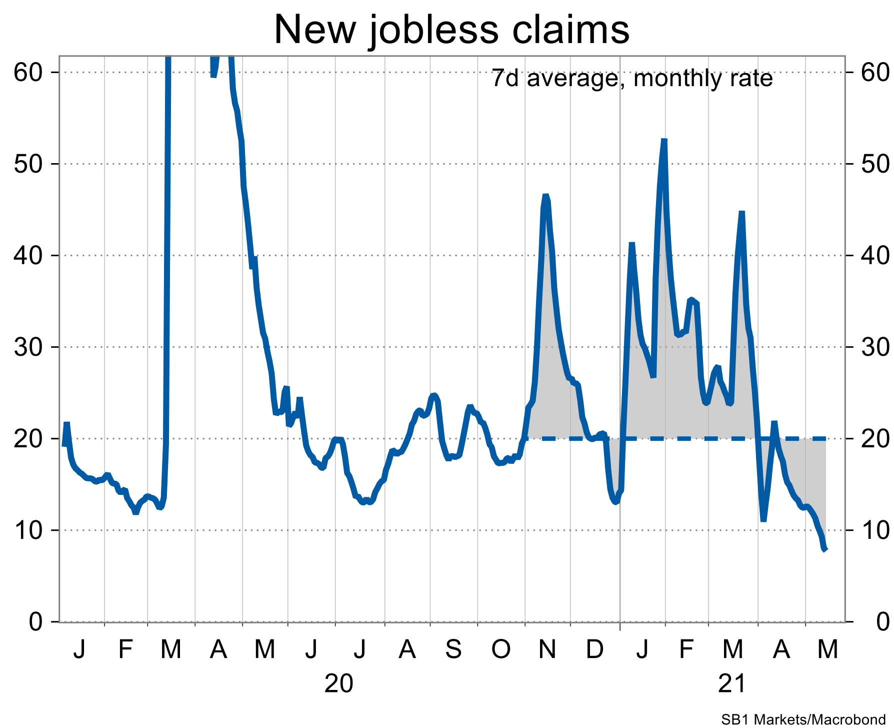
Working age population growth has fallen to the lowest level since late 90'ies

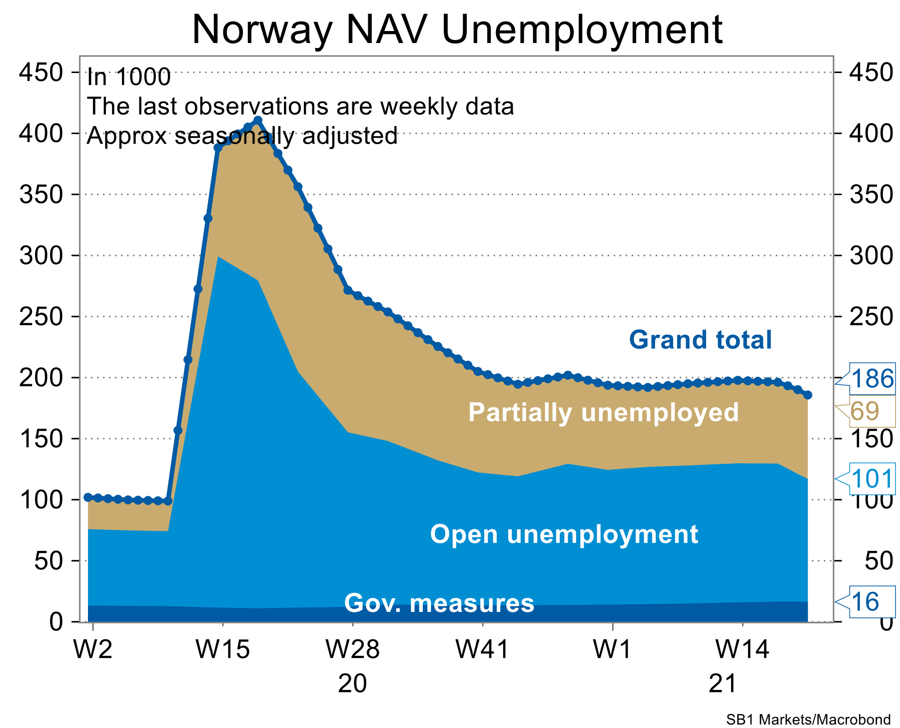
Growth at 0.3% last year and in Q1. At the peak some few years ago: 1.7%



‘No’ new jobless claims, unemployment will fall sharply in May

And May will not be the last month…





- The no of fully unemployed is declining by some 5’ per week, and we expect more than a 0.5 pp reduction in the seasonally adjusted unemployment rate in March

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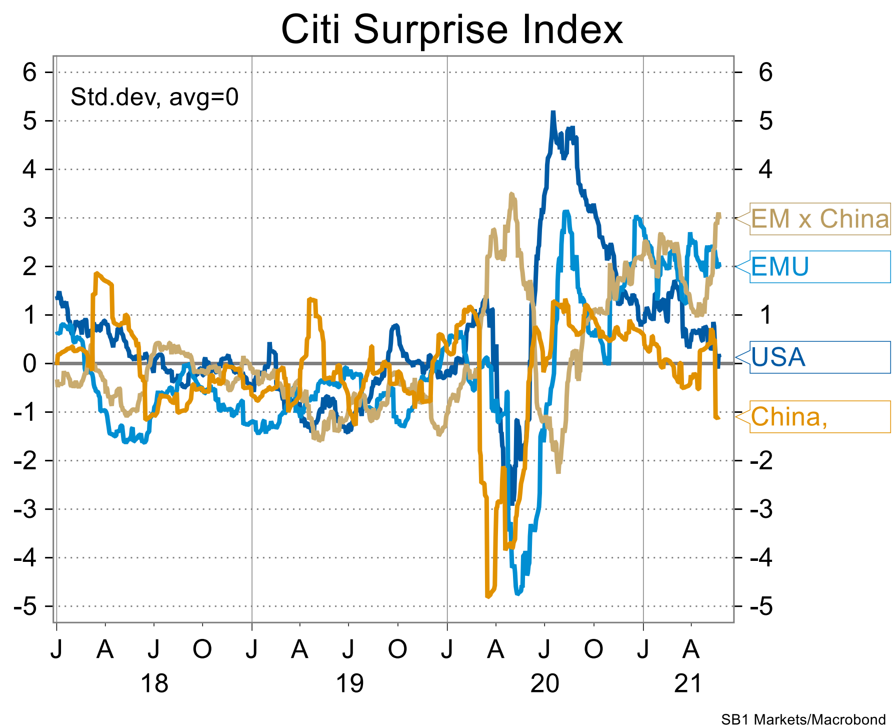
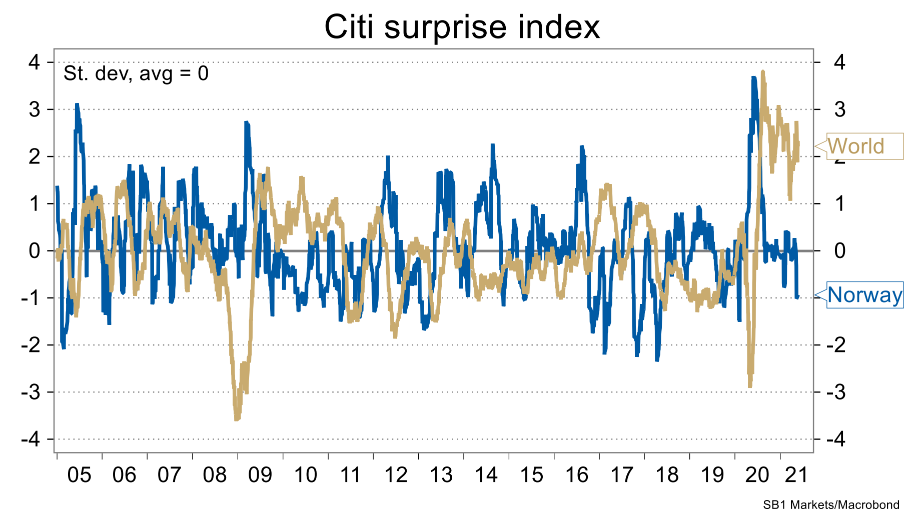
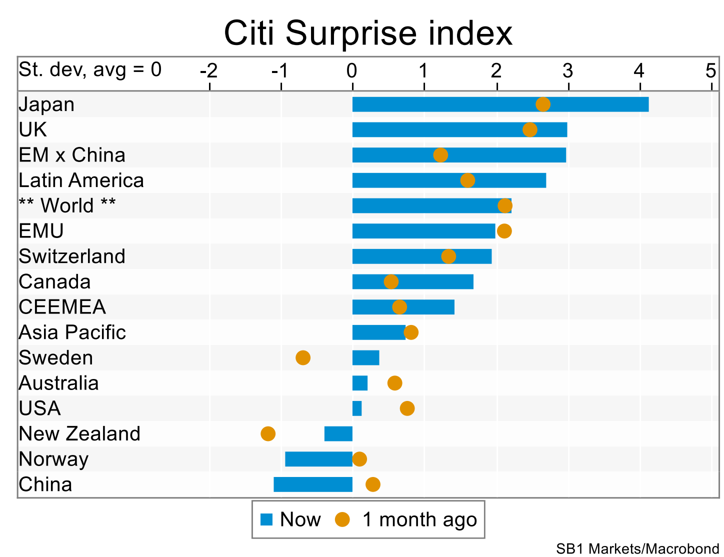
Economic data are still surprising on the upside (but not Chinese & Norw. data)

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







- The **US** surprise index has fallen to neutral
- **China** surprised on the downside with its mixed April data, according to Citi
- **Emerging Markets x China** are reporting much better data than expected
- **Norway** has surprised on the downside, due to GDP & CPI data

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

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The Calendar: US PCE deflator & housing, NOR manuf. & oil sector investments

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday May 25					
08:00	GE	GDP SA QoQ	1Q F	-1.7%	-1.7%
10:00	GE	IFO Expectations	May	101	99.5
15:00	US	S&P CoreLogic CS 20-City MoM	Mar	1.4%	1.2%
16:00	US	New Home Sales	Apr	950k	1021k
16:00	US	Conf. Board Consumer	May	119.5	121.7
Wednesday May 26					
08:00	**NO**	**Oil sector investment plans '22**	**2Q**	**(4%)**	**-9.0%**
08:00	NO	Manuf., power supply inv. plans	2Q		
09:30	SW	Unemployment Rate SA	Apr		9.5%
Thursday May 27					
09:00	SW	Economic Tendency Survey	May		113.4
09:00	SW	Consumer Confidence	May		103.2
14:30	**US**	**Durable Goods Orders**	**Apr P**	**0.8%**	**0.8%**
14:30	US	Cap Goods Orders Nondef Ex Air	Apr P	1%	1.2%
14:30	US	GDP Annualized QoQ, 2nd rev	1Q	6.4%	6.4%
14:30	US	Initial Jobless Claims	May-22	425k	444k
16:00	US	Pending Home Sales MoM	Apr	1.2%	1.9%
Friday May 28					
08:00	**NO**	**Retail Sales W/Auto Fuel MoM**	**Apr**	**(1%)**	**0.0%**
	NO	**Opinion Consumer Confidence**	**May**		**4.9**
09:30	SW	GDP QoQ	1Q	1.1	-0.2%
09:30	SW	Retail Sales MoM	Apr		2.6%
10:00	**NO**	**NAV Unemployment Rate**	**May**	**(3.3)**	**4.00%**
11:00	EC	Economic Confidence	May	112.1	110.3
14:30	US	Advance Goods Trade Balance	Apr	-$93.5b	-$90.6b
14:30	US	Personal Income	Apr	-14.8%	21.1%
14:30	US	Personal Spending	Apr	0.3%	4.2%
14:30	**US**	**PCE Core Deflator MoM**	**Apr**	**0.6%**	**0.4%**
14:30	**US**	**PCE Core Deflator YoY**	**Apr**	**3.0%**	**1.8%**
15:45	US	Chicago PMI	May	69.5	72.1
16:00	US	U. of Mich. Sentiment	May F	83	82.8

- **USA**
  - » The 2nd **GDP revision** will probably not alter the growth estimate. Some new details, like corporate profits, are of more interest
  - » The **PCE deflator** will be the most awaited figure in the household income & spending report. The CPI showed the way, with the core up to 3%. Spending on goods will remain high (retail sales told us so), while personal income will fall sharply as far fewer stimulus cheques were distributed. Thus, the savings rate fell sharply but will remain far above normal levels. More spending to come!
  - » **House prices** very likely grew further in March, measured by best price indices. Realtors report 2% per month & 19% y/y price increases
  - » **Durable orders** are at very high level but surveys suggest a further increase
- **EMU**
  - » **Economic confidence** was incredibly strong in April, and in March too for that matter. In April, only the service sector came in below average, and the industrial sector confidence was at ATH (the PMI is also at ATH)! We expect strong May data, with still high price expectations. (Consumer confidence rose sharply in May too).
- **Norway**
  - » We expect an unusual large drop in **NAV unemployment** in May – even if the impact of the substantial easing of restrictions this week came too late have any impact. We forecast at decline to below NoBa's estimate. The inflow of new jobless claims has nosedived, and in April the no. of new vacancies soared
  - » **Retail sales** were far better than we expected in March, and we do not expect any material increase in April, even if some restrictions were eased
  - » The first 2022 **oil investment survey** was weaker than we expected, and we now forecast a substantial upward revision vs the Feb survey. In 2021, we expect companies to stick to their 5% cut vs. 2020

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

Highlights

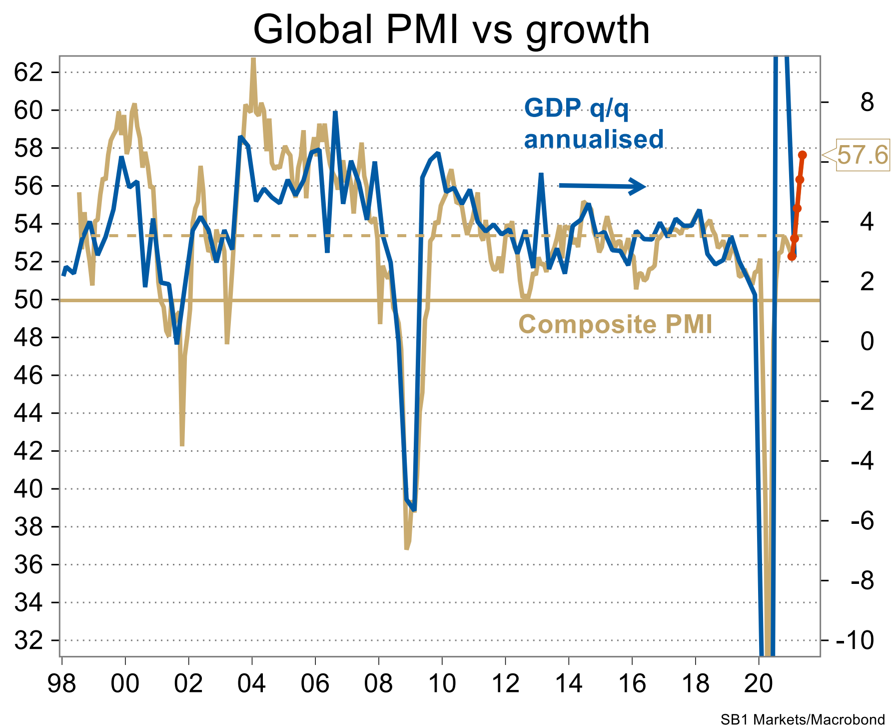
The world around us

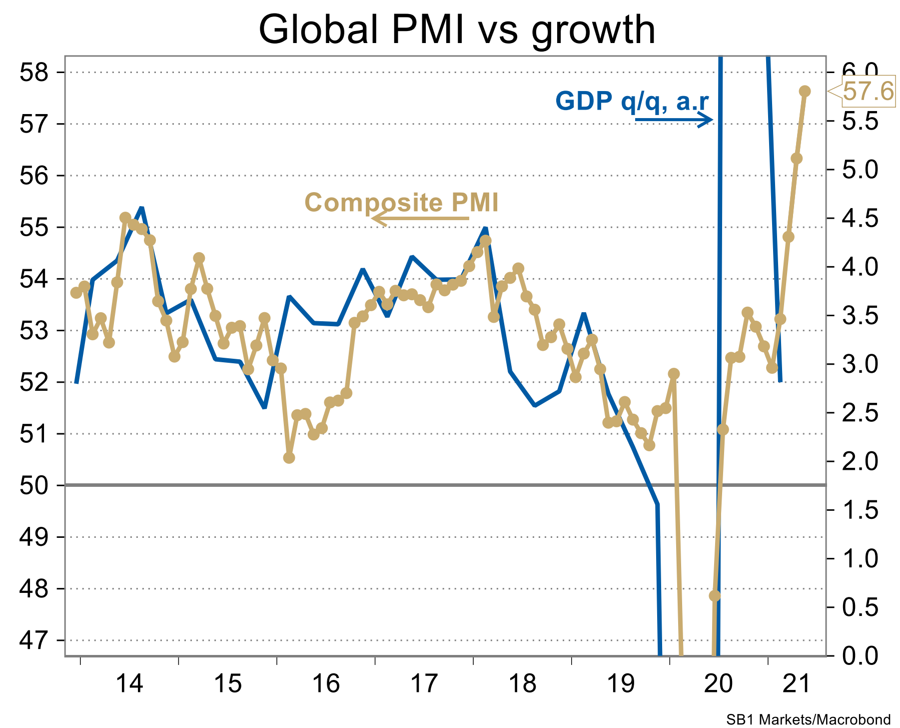
The Norwegian economy

Market charts & comments

Economies reopen, the global PMI marches upwards, signals 6% global GDP

We estimate 1.3 p lift in the comp. PMI to almost 57.6, supported by a surge in services the US, EMU



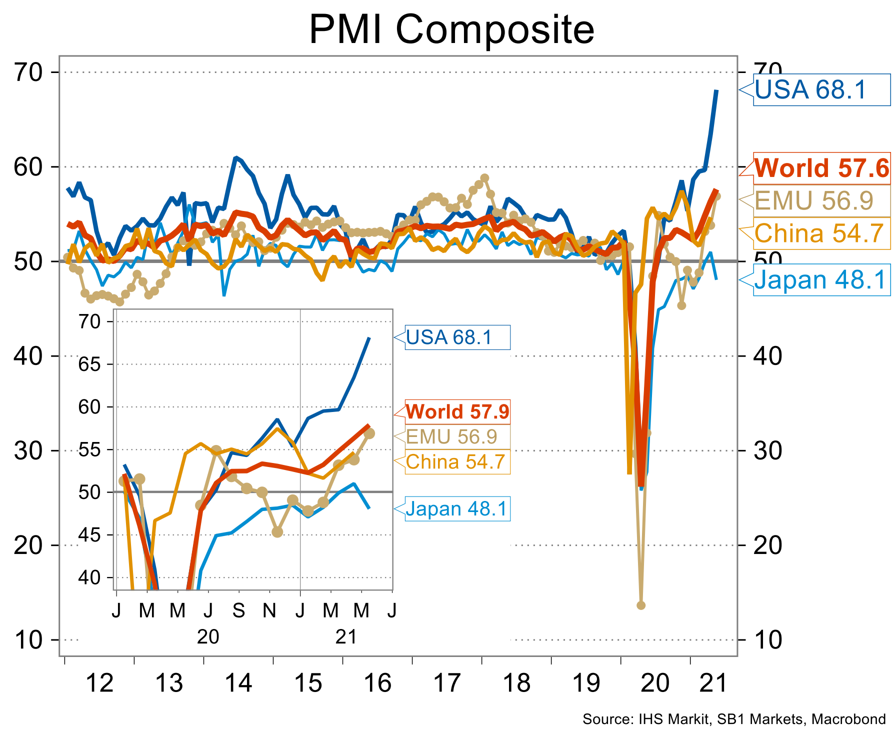


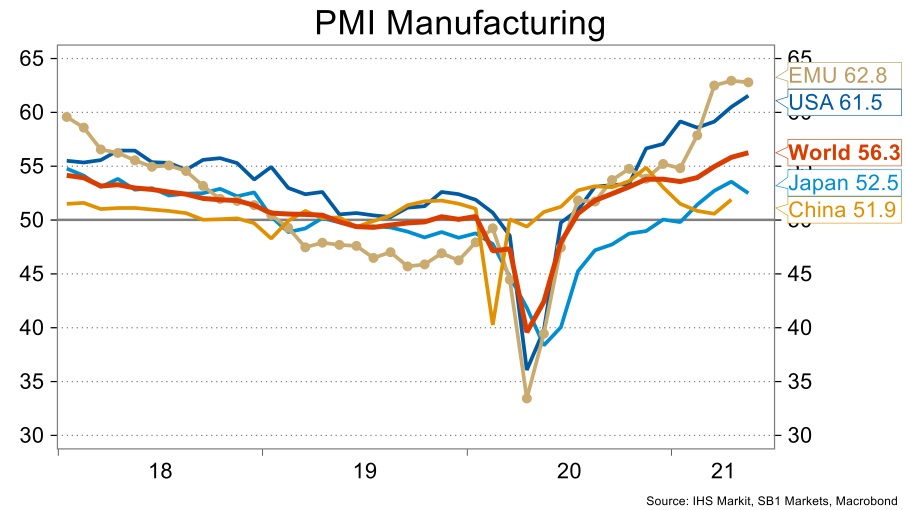
- **Both the US, EMU & UK** surveys were far better than expected, as the impact of reopening economies were challenging to calibrate
- **The global PMI** is at the highest level in 14 years
- **Delivery times, input & output** prices are increasing faster – and faster than ever. April was probably not the last month with high CPI prints some places
- We have adjusted our global PMI estimate down vs. our model forecasts as we assume Emerging Markets will not report the same gains due to less favourable (or bad) corona circumstances

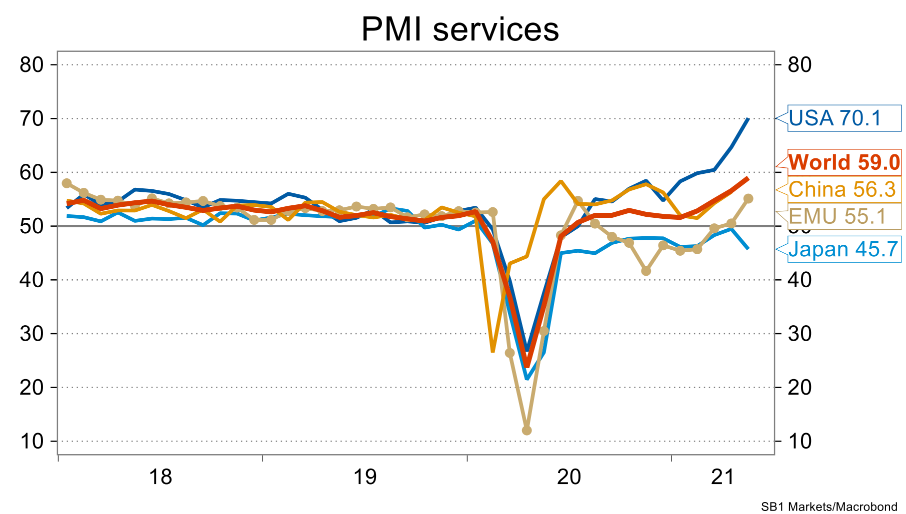
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

The US in the lead, the service sector PMI up to 70!

EMU services up to 55, and the manuf. PMI still at a record high level. Just Japan a tad down



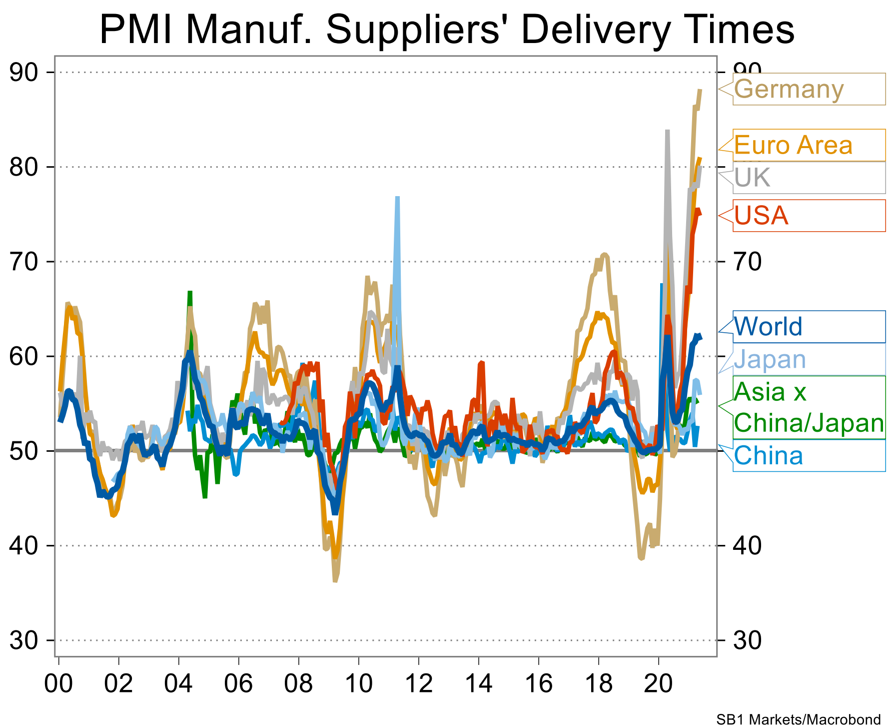


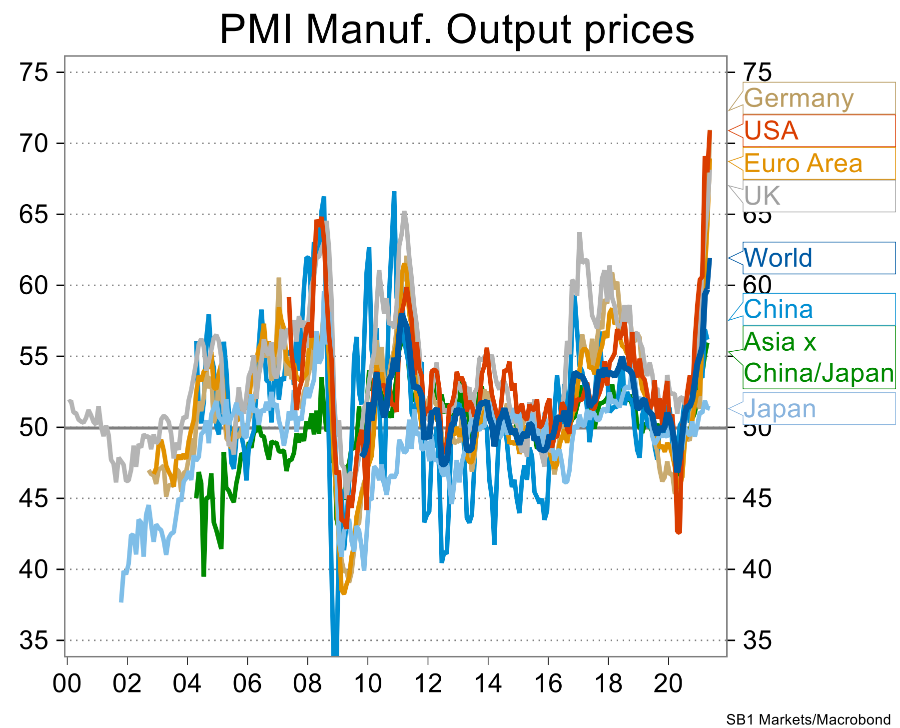


- The US PMIs are hinting at an 8% – 10% growth pace, confirming the most upbeat nowcasters
- The EMU PMIs are signalling a 5% GDP growth
- UK also reported a brisk recovery in the service sector

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

… and probably <u>not mostly</u> due to specific corona challenges – it's a booming activity, stupid!

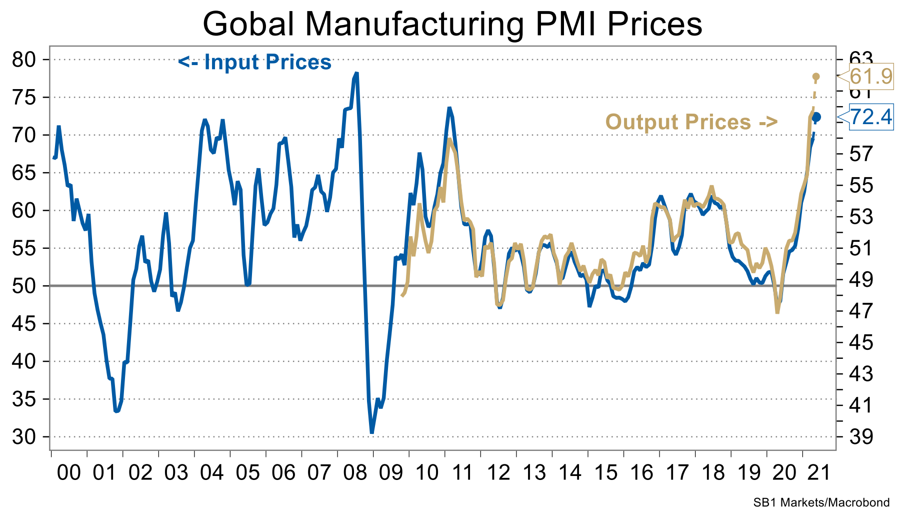


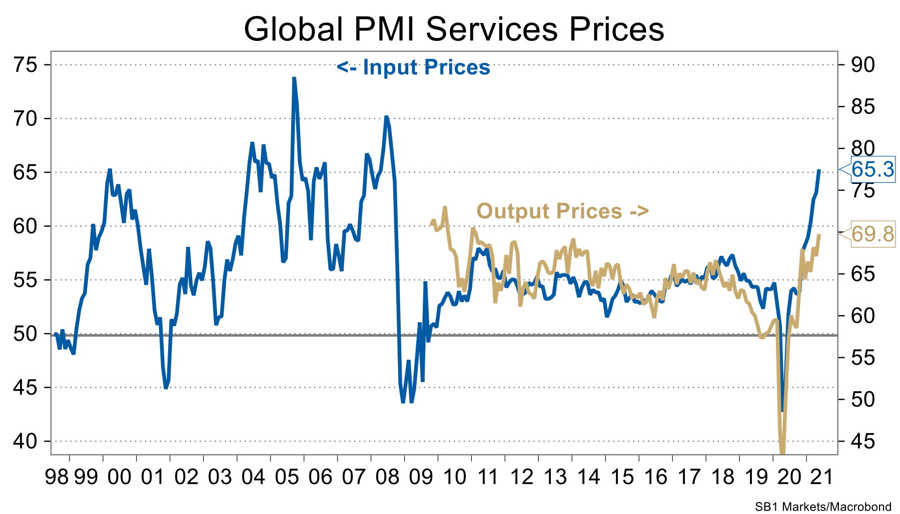


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) may have reached new global all-time high in April. Germany/Europe is in the lead but also the UK and the US are reporting the most rapid increases in delivery times ever (barring covid-19 related trouble last April in the UK)
  - » **Brexit and partly the covid-19 surge** may explain some of the delivery problems in the UK, perhaps even in Germany – but production is surging too
- **The global manufacturing output price index** is at the highest level ever, as both the US, EMU, Germany, UK are reporting the fastest price rises ever

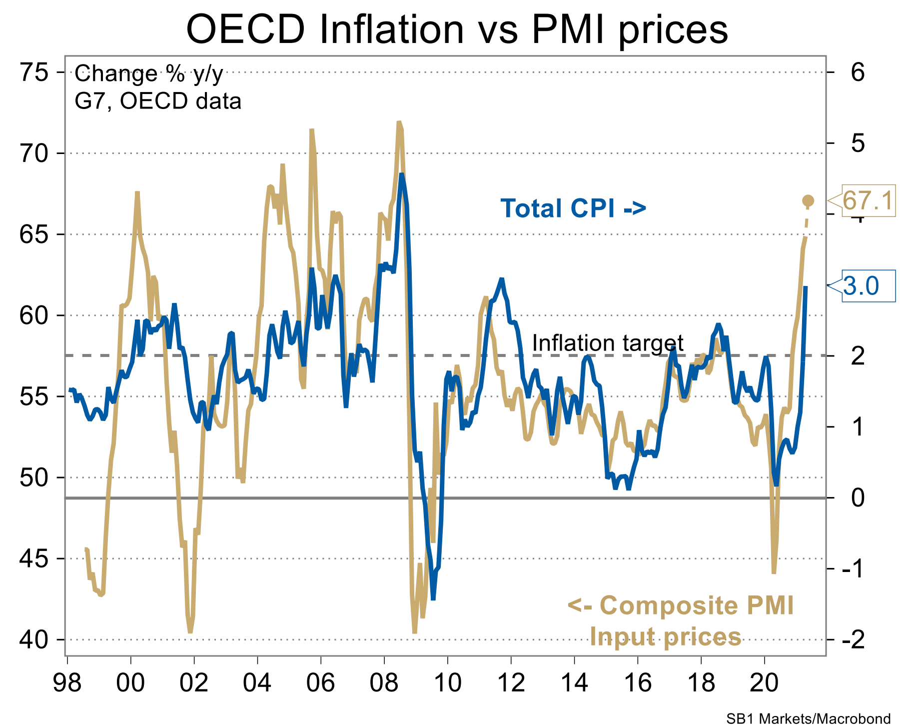
Businesses keep reporting even faster growth in input/output prices

Still more to come in the CPIs, at least in the headline indices





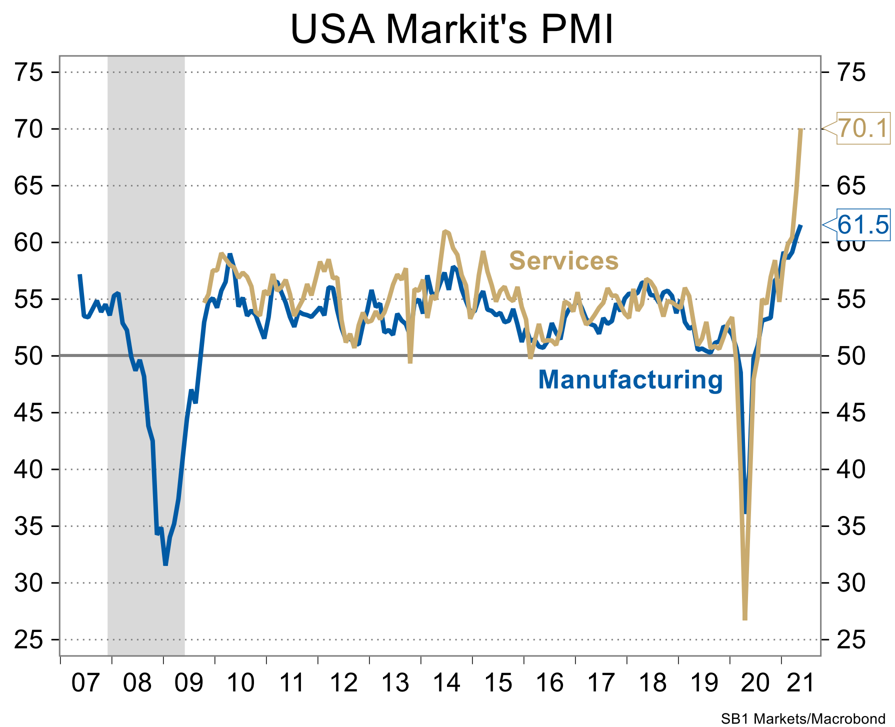
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

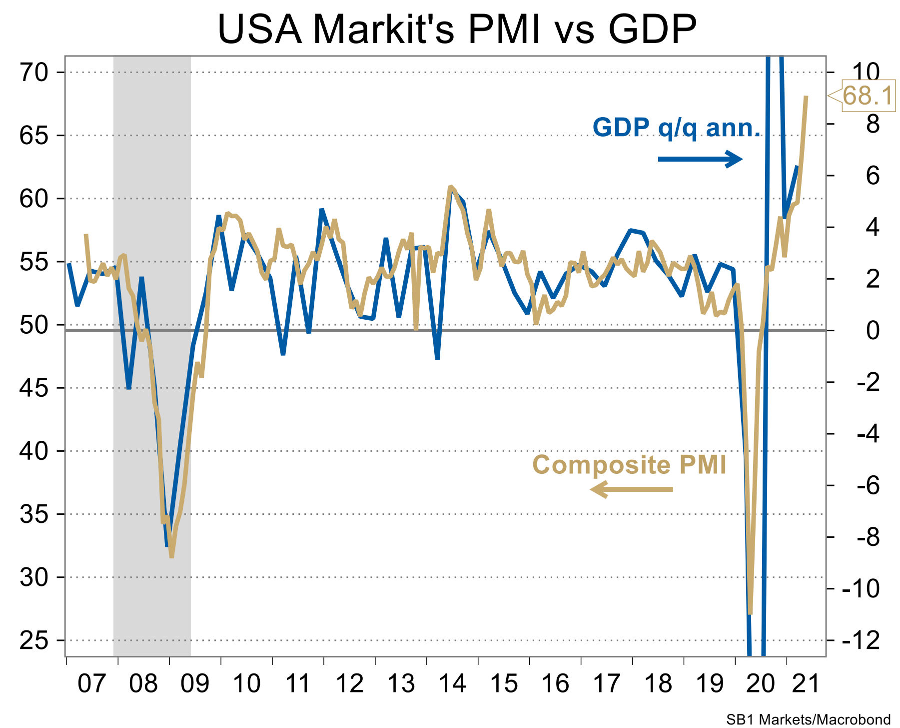


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- Luckily, the correlation to **core inflation** is far less precise, as energy prices are the main driver for the up and downs in both the PMIs and in short term variations in headline inflation

Something is happening in the service sector in the US, for good reasons

The service sector PMI rose by 5.3 p to 70.1 a spectacular ATH, manufact. up 1.0 to 61.5 (also an ATH)

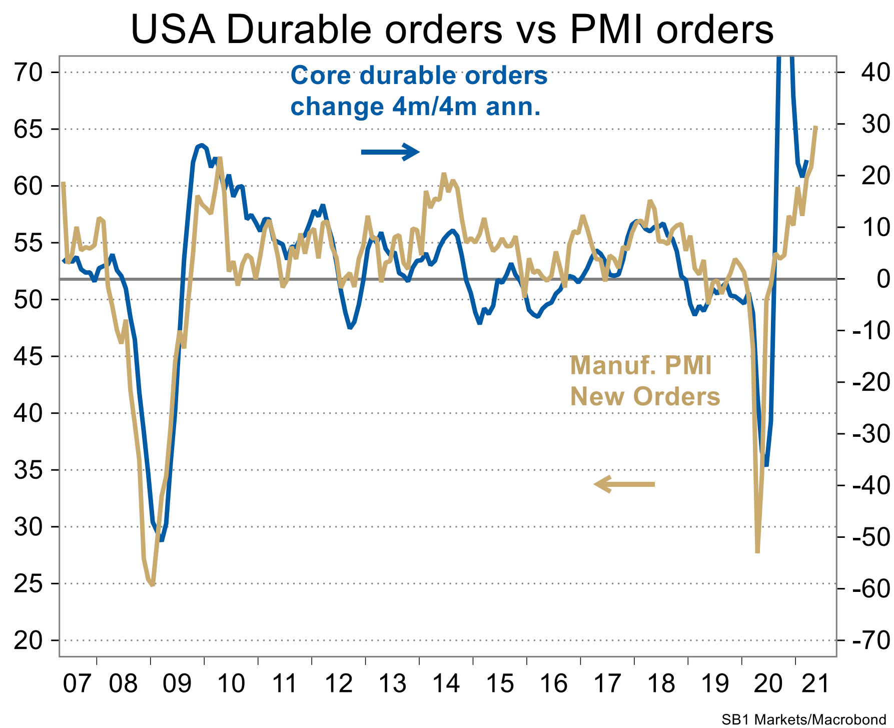


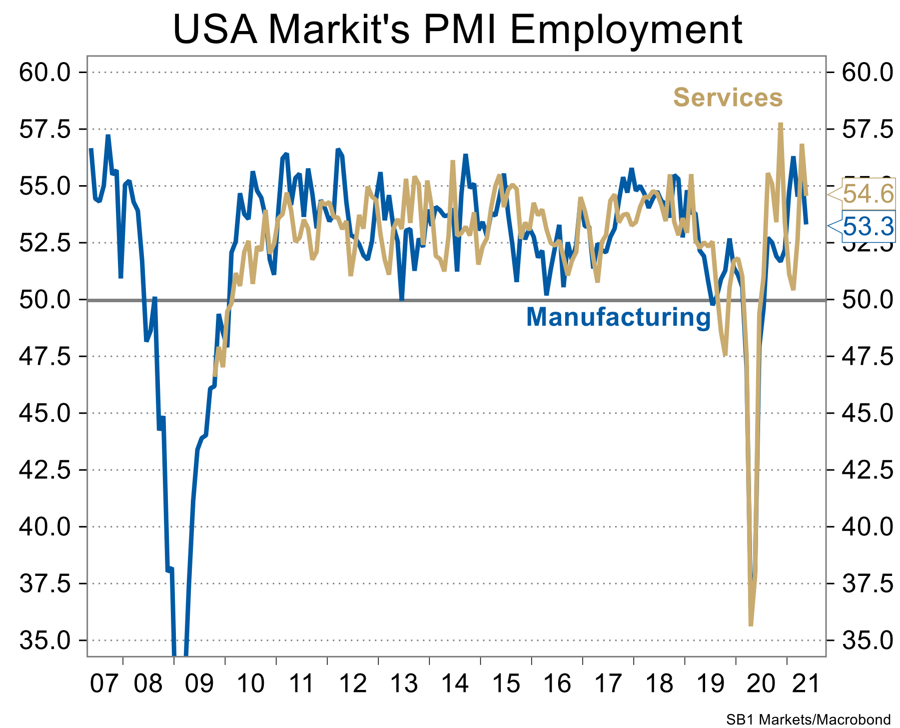


- The composite PMI signal an 8% – 10% growth rate as the society & economy reopens

Orders are soaring, employment not that impressive

… are the businesses not able to fill their positions?

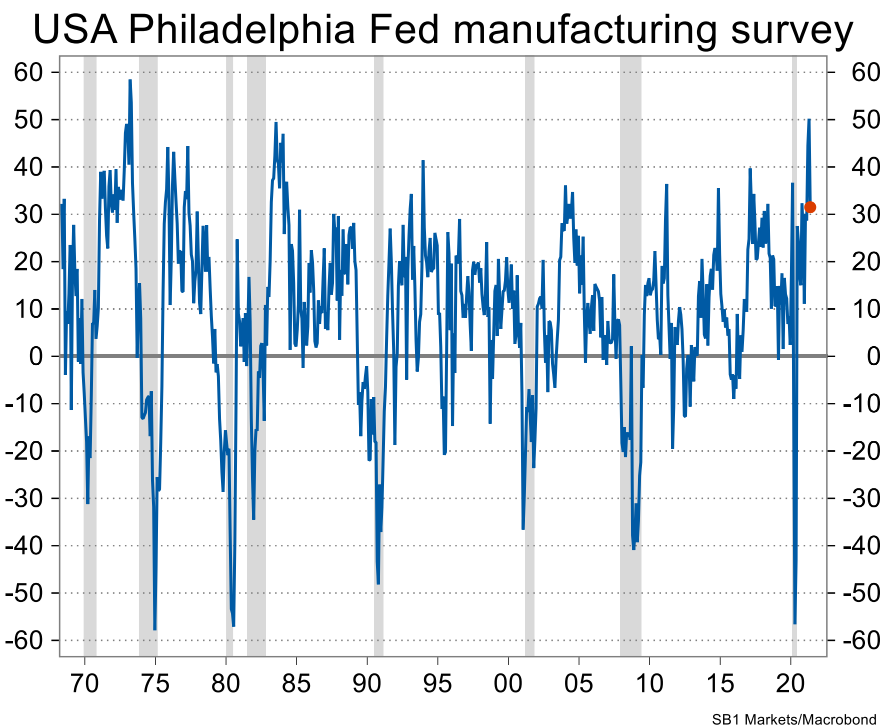


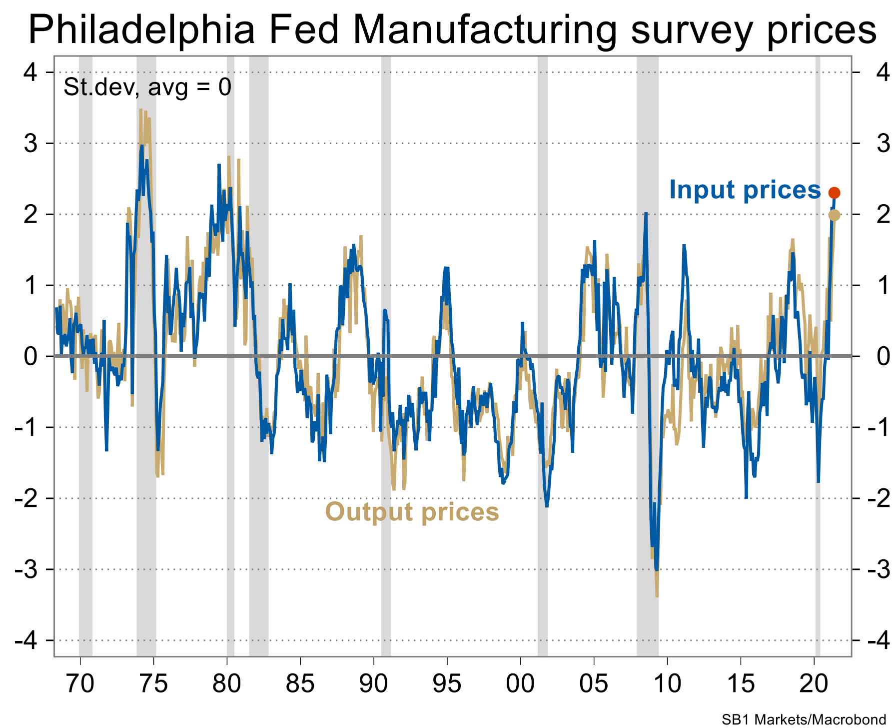


- We expect a surge in employment through Q2, as most services will reopen

Philly Fed survey closer to Mother Earth, still at an unusually high level

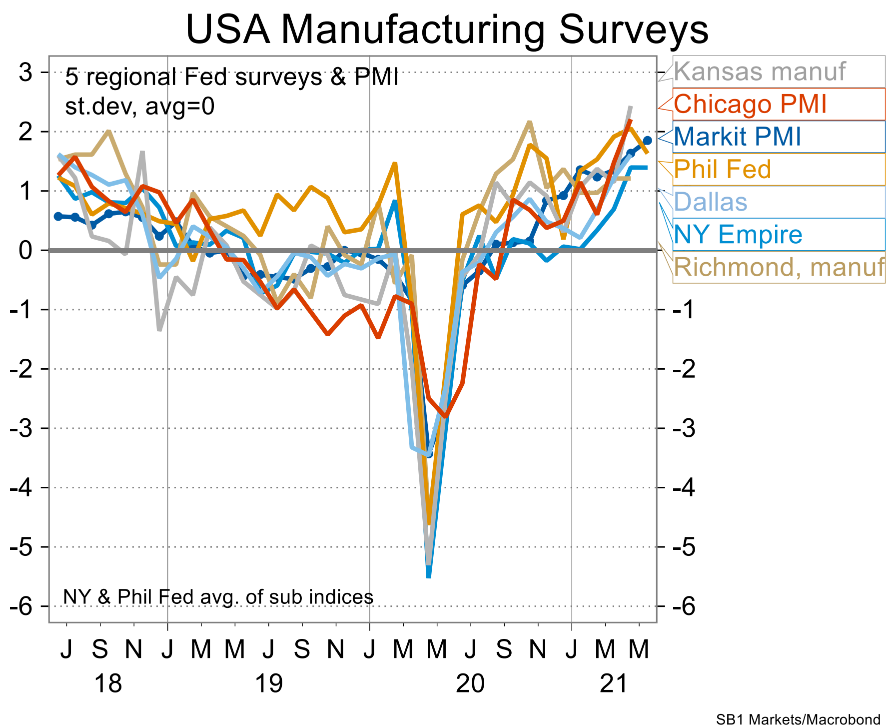
The headline index fell to 31.5 in May, from 50.2 (just 2 mos. in '73 higher), expected down to 40.5

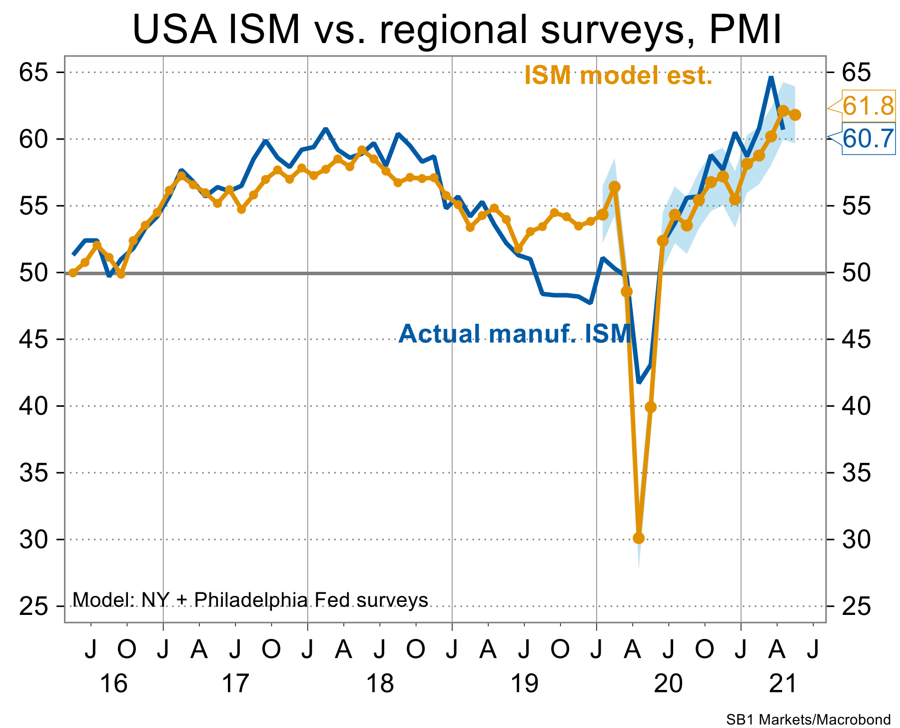




- Still, both **input prices** and **output prices are increasing even** faster – and the fastest pace in 40 years
- In a special survey, companies report that they plan to hike price on their products by 5%, up from 3% three months ago. Expected labour compensation growth is revised to 4% from 3%. Their CPI estimate for the coming 12 months is lifted to 4% from 3%, while the 10 y average is at 3% (just like companies/consumers in Norway, they do not believe in the central bank's inflation target
  - » The average of the most relevant sub-indices are just as strong as the headline (general assessment)

The regional surveys, Markit's PMI signal an unchanged, strong ISM in May

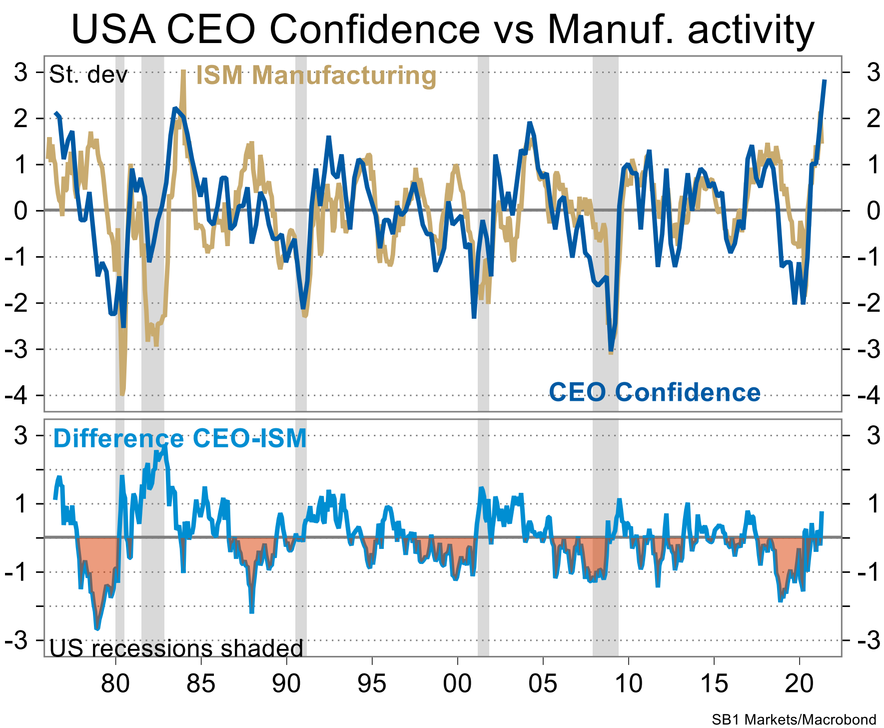


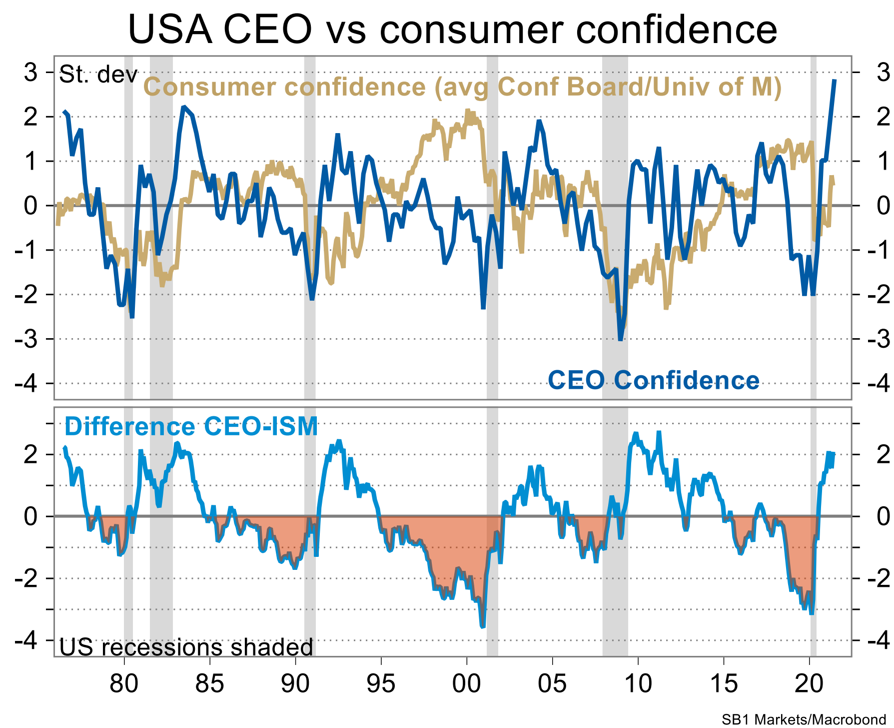


- The NY Fed's survey flattened, at the high level

CEOs even more optimistic than current activity reports (PMI/ISMs), a good sign

… and CEOs have never been as optimistic as they are in Q2-21 (data from '76)





- … and usually high CEO confidence is a goods sign. They usually become more pessimistic well before activity peaks and the economy thereafter enters recessions – and well before consumers recognise that the party is over (check the red areas before recessions)

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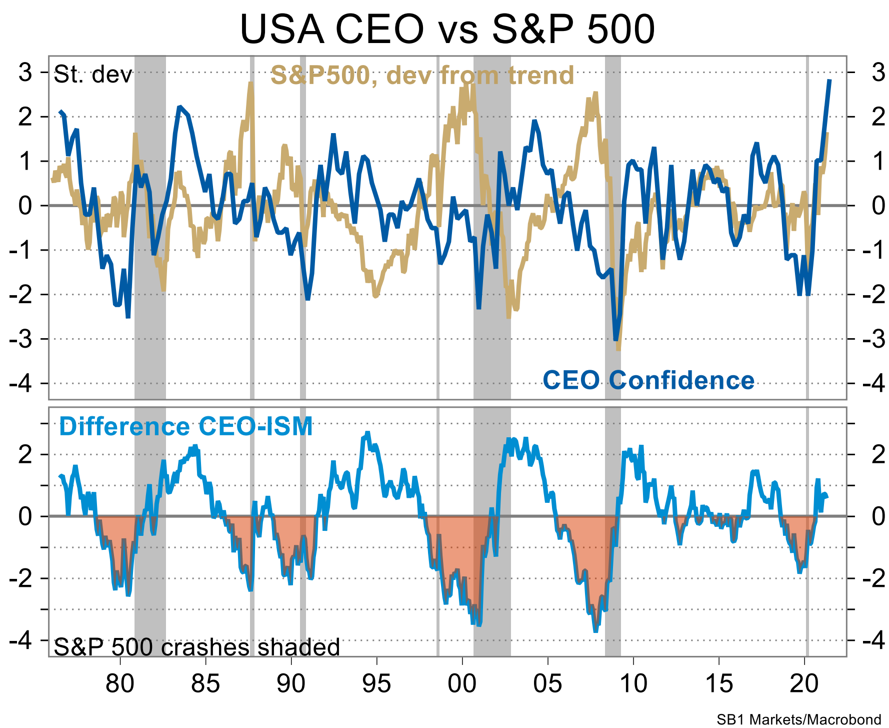
CEO confidence always wanes vs. the stock market's 'confidence'

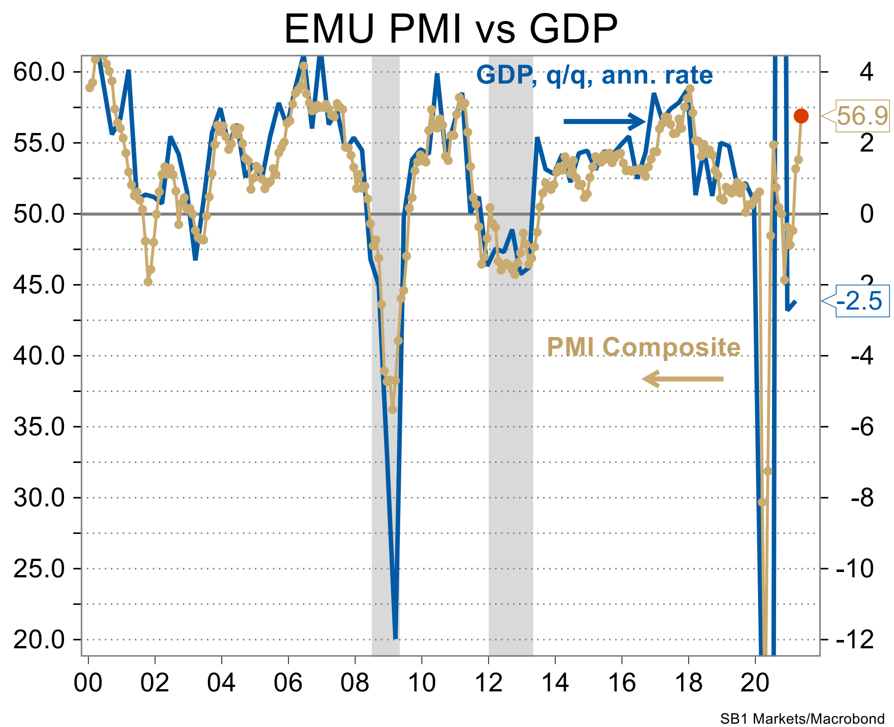
… before the stock market 'confidence' wanes. However, without stable lags

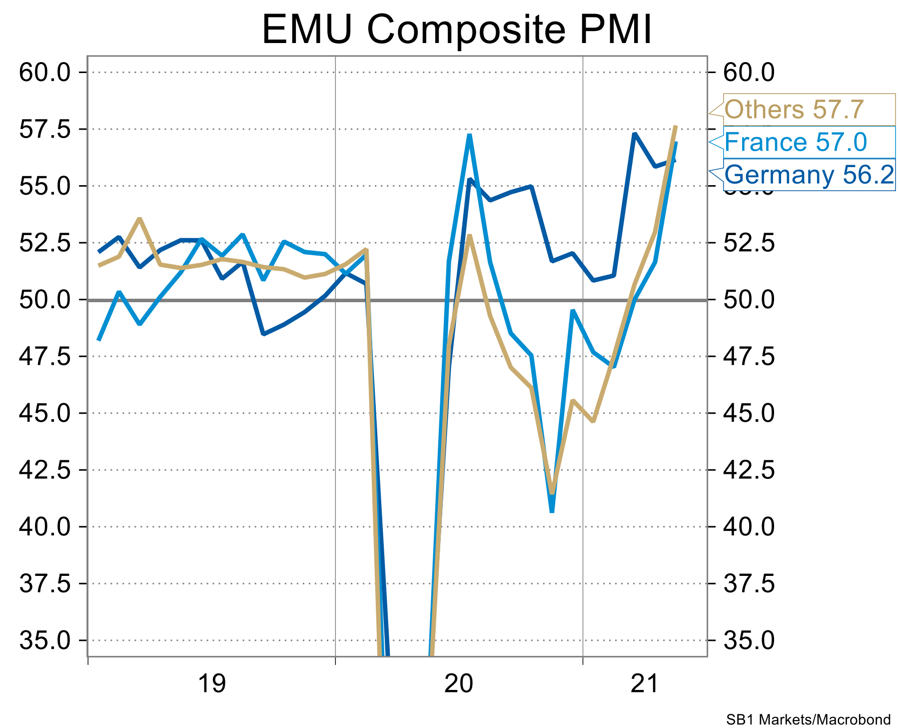


- ***Now: No warning signal from the bosses!***

Another jump in May, services are starting up. The comp PMI +3.1 p to 56.9

Expected just up to 55.1. Still no big 'surprise', growth confirmed, amid still ongoing Covid-19 restrict.

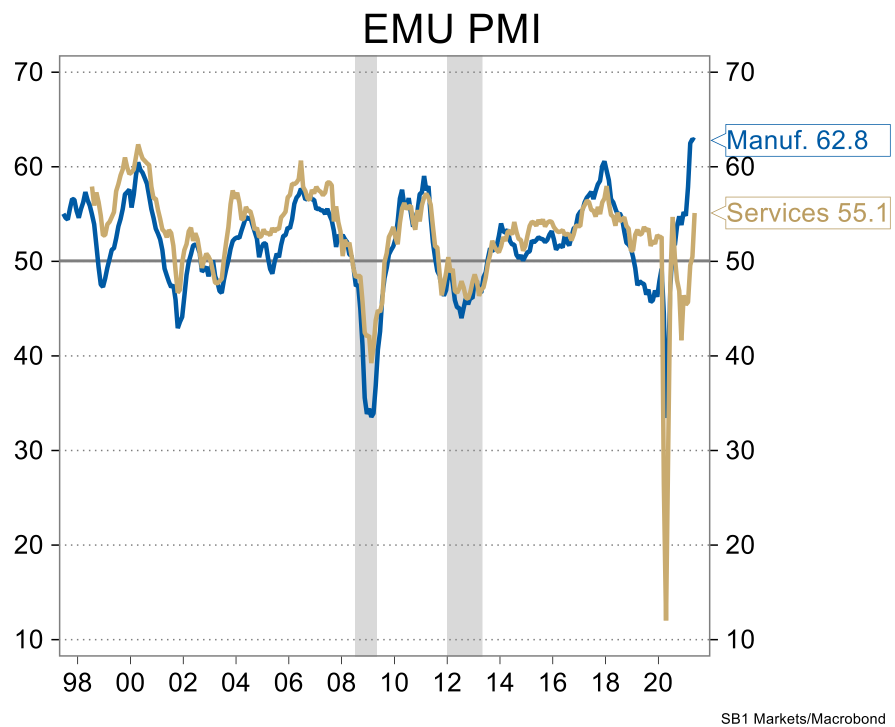


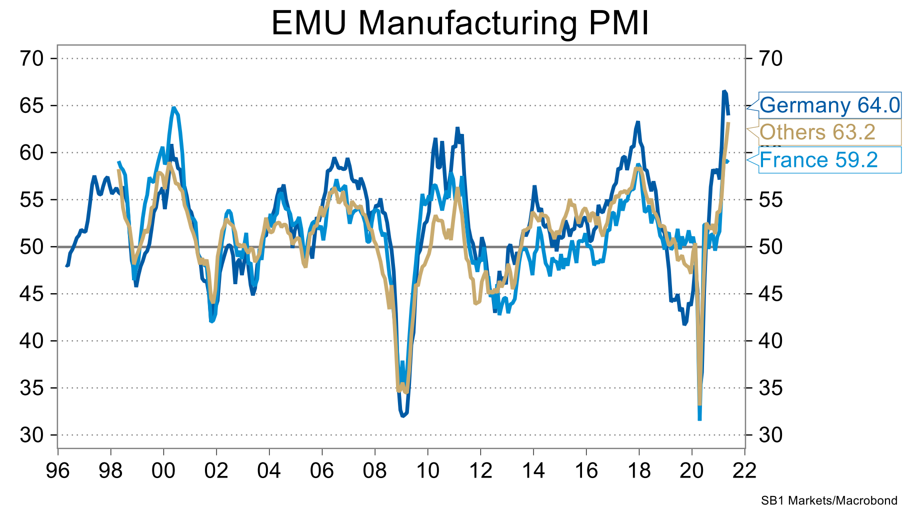


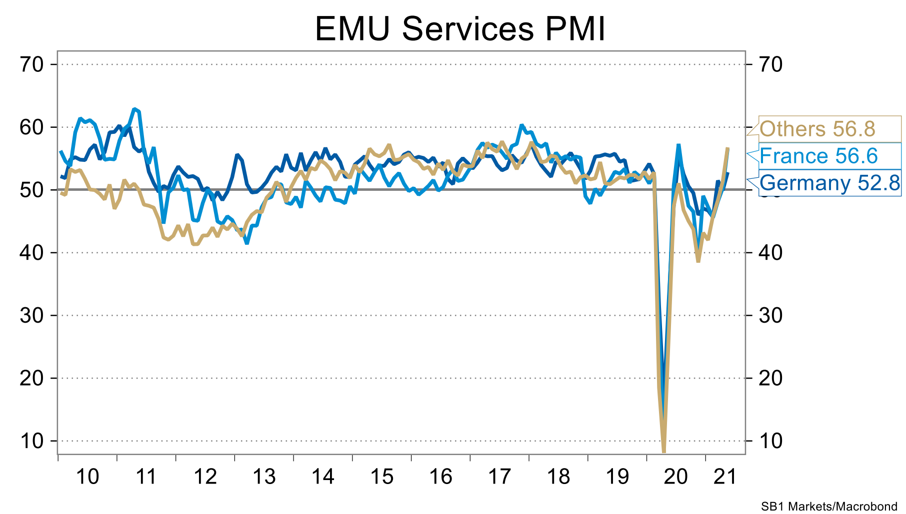
- **The composite PMI** at 56.9 signals a 3% pace of growth in GDP (or 0.7 % per quarter), as the corona restrictions are eased, and mobility is steady on the way up
  - » The composite index rose sharply in France, and somewhat in Germany too. The average of Spain & Italy (and very likely both countries) also accelerated – and reported the highest composite PMI
- *More details the next pages*

Services are growing again in the EMU after <u>some</u> restrictions were eased

Manufacturing PMI slightly down due to a little less extremely strong German data



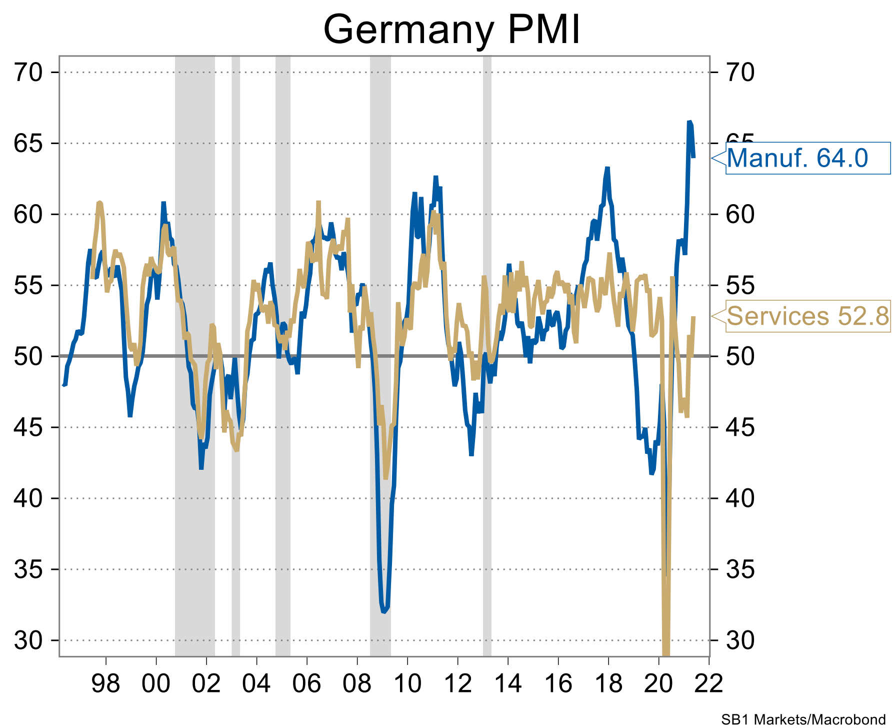


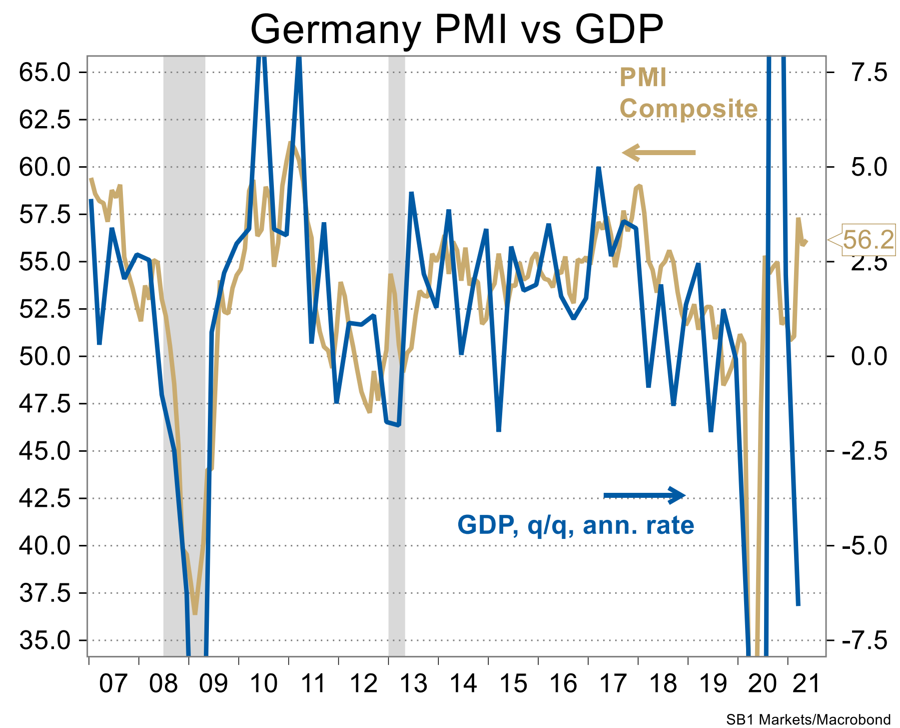


- The **EMU manufacturing PMI** fell 0.1 p to 62.8 – from the highest level ever in April
- **The Germany manuf. PMI** fell marginally in May to 64.0 (66.6 in March was ATH), France up 0.3 to 59.2, still at the best level since 2002, and <u>others (Italy, Spain) climbed 2.2, up to 63.2, and ATH by far</u>!
- **Services** started the recovered in May, as the PMI climbed 4.8 p to 55.1, expected up to 52.3 – and now decent <u>growth</u> is signalled. The <u>activity level</u> is still far below normal, of course. All countries well above the 50 line

Germany: Composite PMI up due a lift in service PMI (which is still at a low level)

However, manufacturing PMI fell 2.2 p, but remains at historically high levels

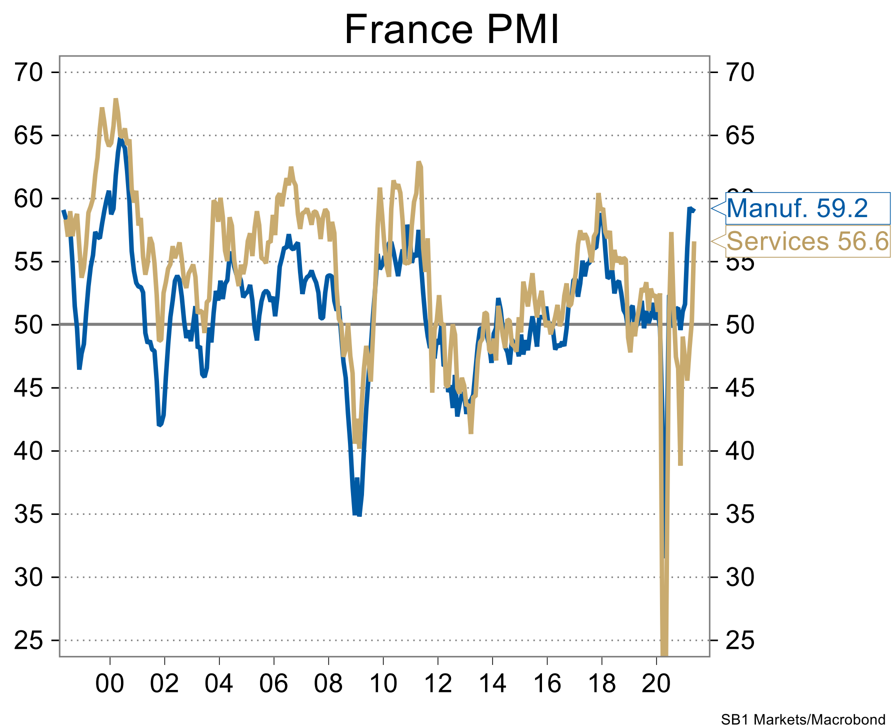


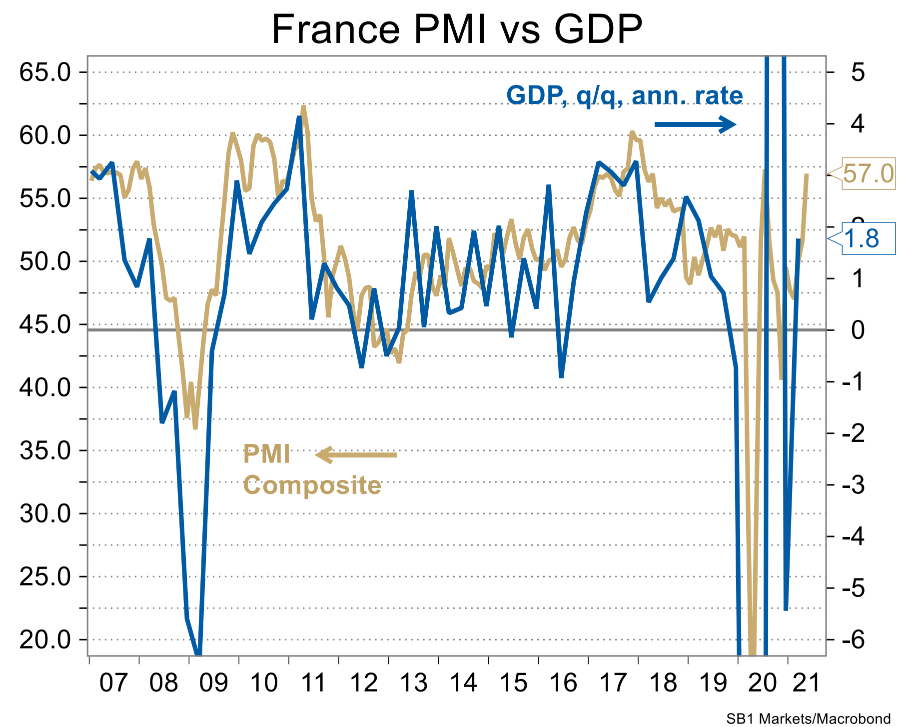


- **The prelim. manufacturing PMI** fell 2.2 p to 64.0, below expectations of 65.9 , but level is still strong. There were also reports of input prices rising at the fastest pace in the history of the PMIs, and employment is ticking up in order to increase capacity and meet demand
- **The service sector PMI** rose 2.9 p to 52.8 and the sector is expanding, thanks to an increase in demand after the first round of easing of restrictions – there is still much more to go, at the activity level is still way too low
- **The composite index** was up 0.4 p to 56.2, a tad weaker than expected but still far above average, signalling a 3% growth pace
- Germany has been in a **partial lockdown** since the beginning of Nov. Restrictions were eased somewhat since March and further in May

France: Services PMI straight up despite continued restrictions

The composite PMI up 5.4 p to 57.0, expected at 53.7, signalling 3% GDP growth





- **The composite** PMI was far better than expected despite continued restrictions, and virus outbreaks in France
- The **service sector** index was up by 6.3 p to 56.6 (by the way, as we assumed one month ago)
- **Manufacturing PMI** rose 0.3 p to 59.2, from the best print since 2002
- Overall **input cost inflation,** eased somewhat but costs are still increasing at the 2nd fastest pace since Jan-18, while the output price inflation has not risen faster since Aug. 2011

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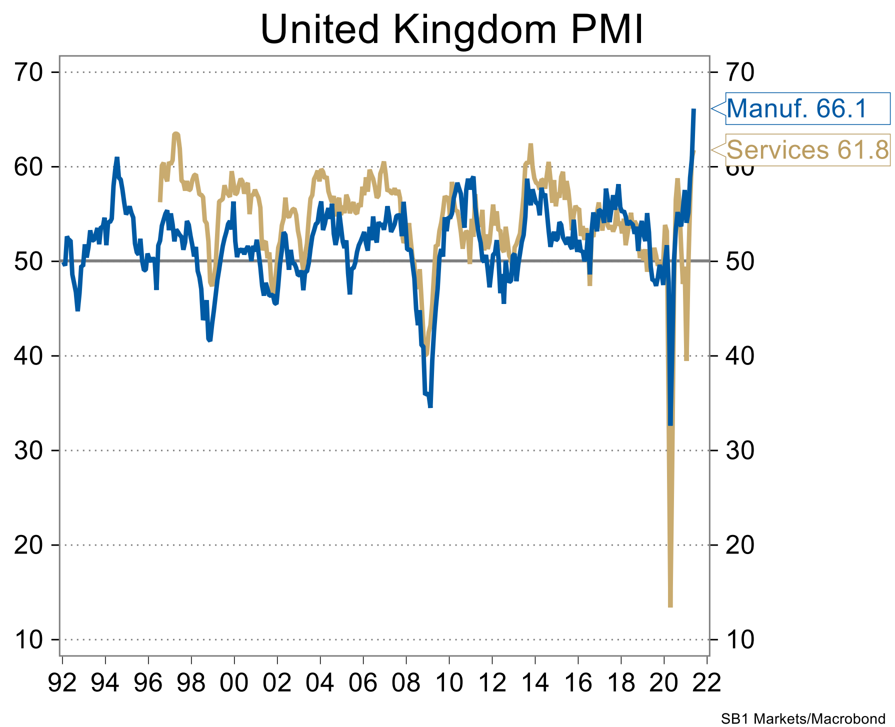
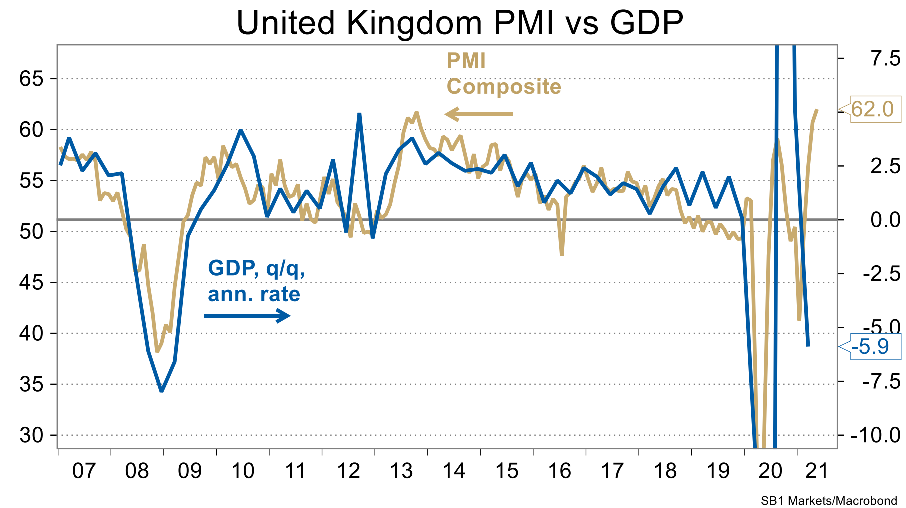
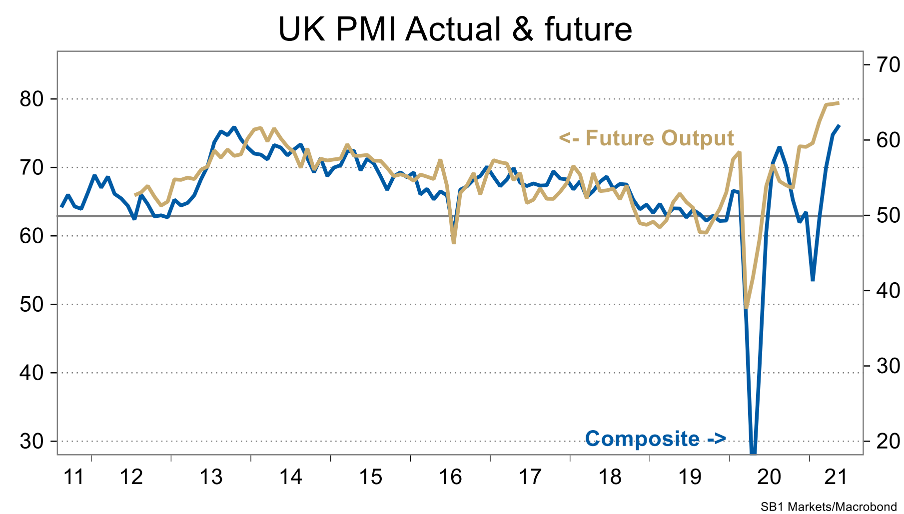
The UK PMIs further up; manufacturing and composite PMIs at ATH, 5% growth?

A 5% growth rate is signalled – which is badly needed as the activity level is far too low



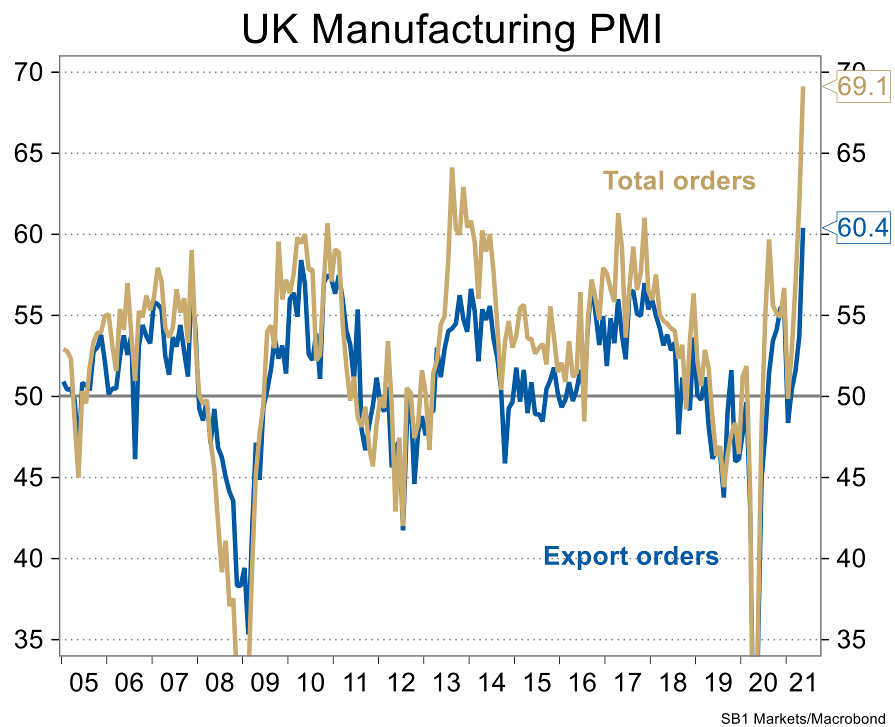


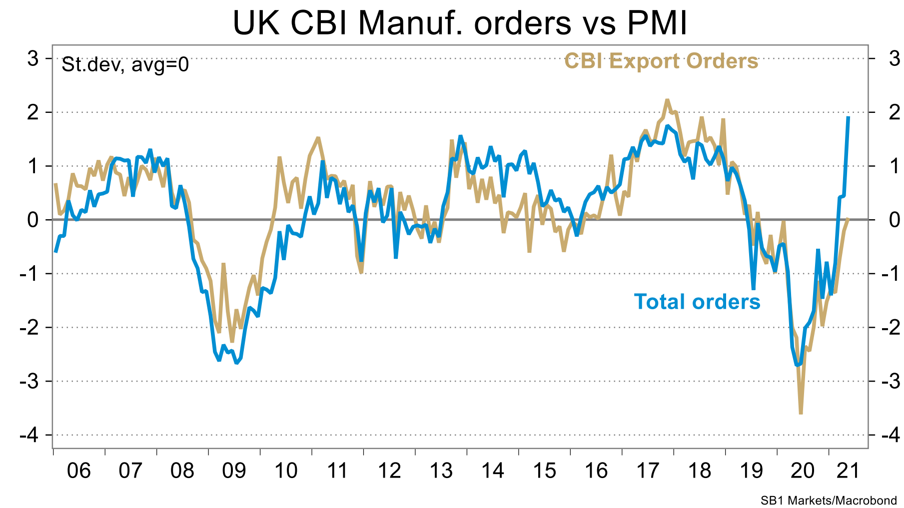


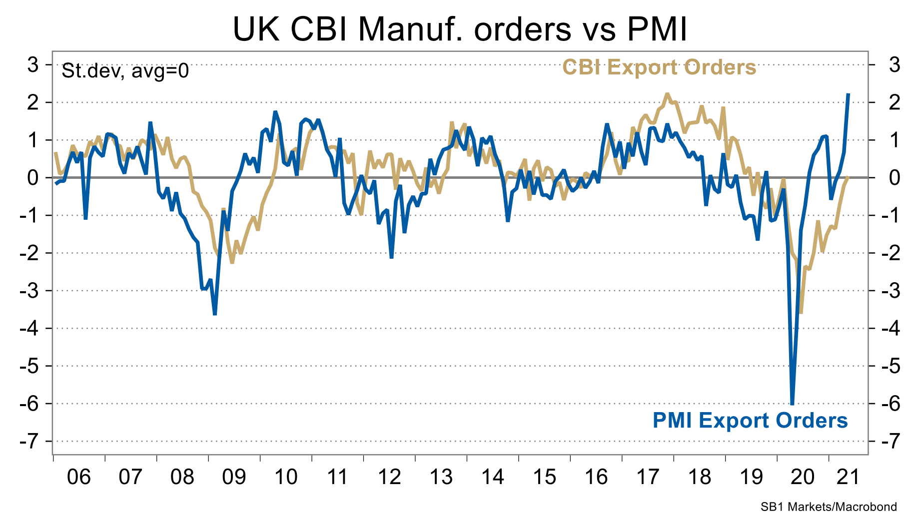
- **The composite PMI** rose 2 p to 62, 2 p above expectations
- **The manuf. PMI** up 5.4 p to 66.1, the best level ever
- **Services PMI** increased by 1.7 p to 61.8, well above expect. & the highest level since 2013. The UK vaccination strategy is paying off, according to Markit's respondents
- In addition: Companies are still extremely positive vs. **the outlook** – may be due to both the low starting point; In March, GDP was still down 6% (!!) vs Feb 20, and perhaps down 2%-3% in May or 5% -6% below the pre-pandemic GDP trend growth path. Growth is needed!

Export orders are on the way up, in spite of Brexit & Covid challenges in UK/EMU

Some UK exporters have reported Brexit trouble, but no signs of a broad setback

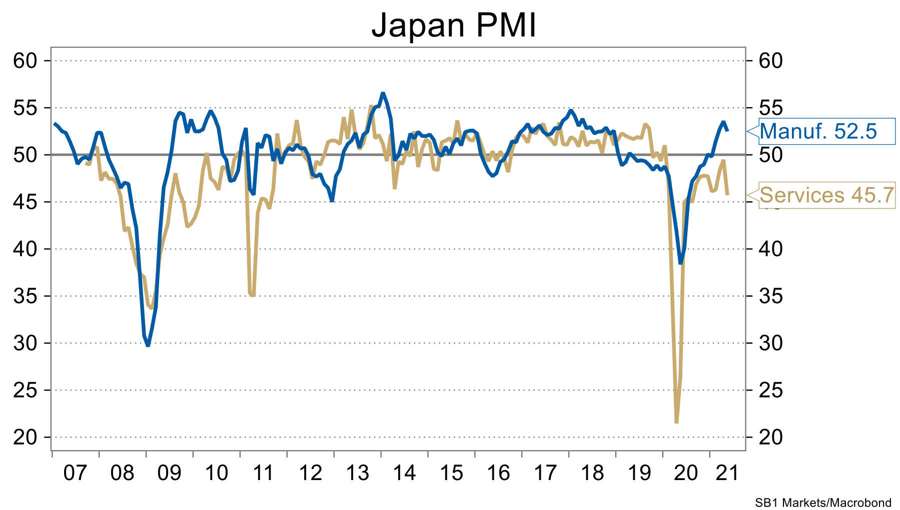


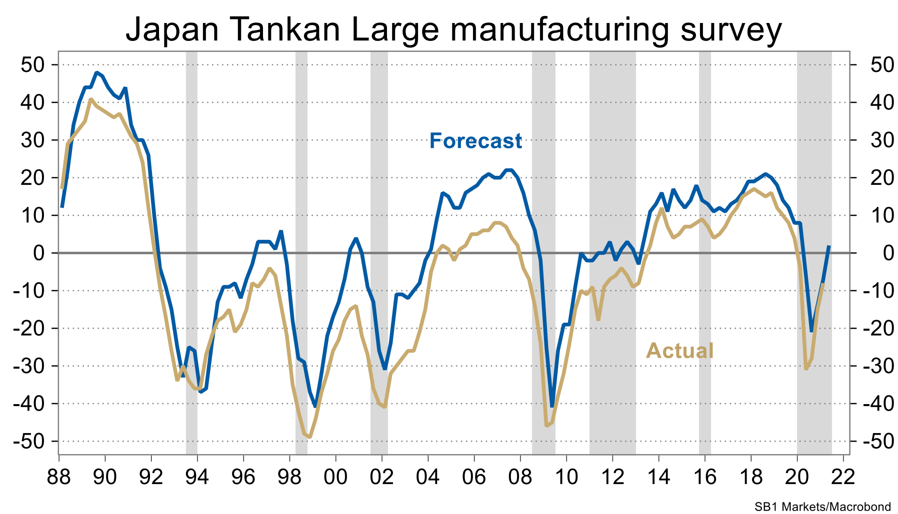


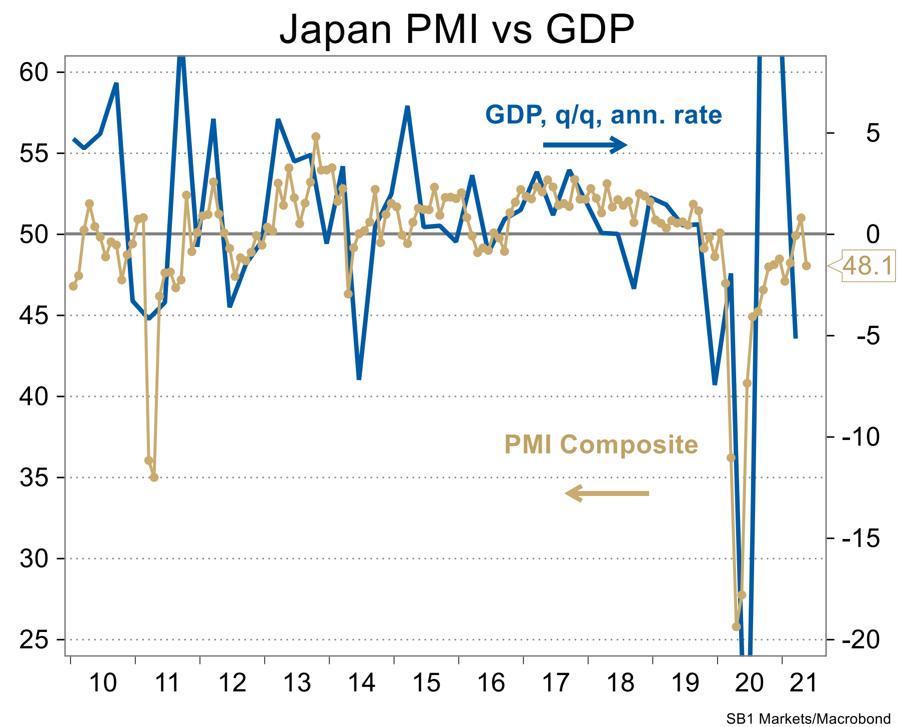


No recovery in Japan yet, surveys are still in contraction mode

Manuf. PMI down 1.1 p to 52.5, services PMI down 2.6 p (!) to 45.7



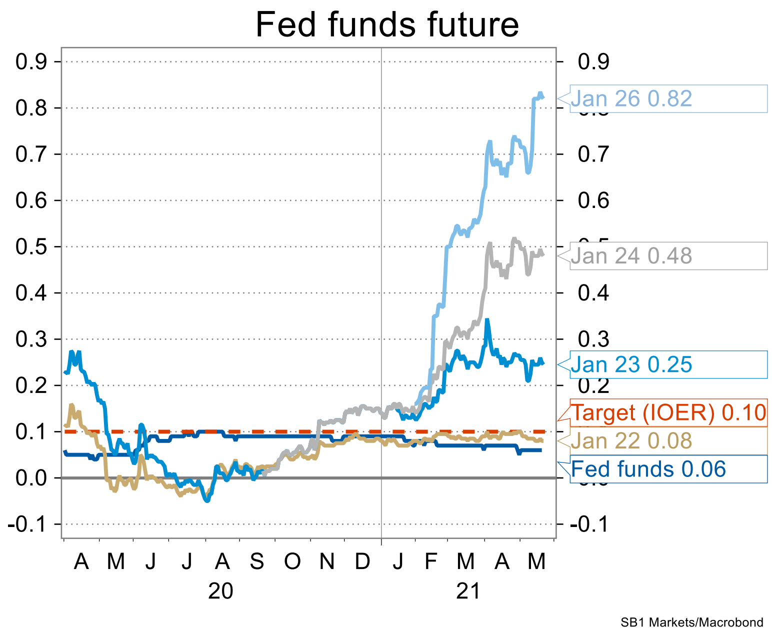




- No forecast was available but very likely weaker than most assumed
- The composite PMI fell to 48.1 from 50.2, signals a contraction in GDP but the correlation is not impressive

FOMC members talked about start talking about tapering!

…despite Powell's press conference comment that "it's not even time to talk about tapering"



- OIS and Fed funds future contracts stipulates a 60% probability for a first hike before early 2023

- The Fed stood by its policy at the April 27-28 meeting, and kept the Fed funds rate unchanged and decided it would keep buying USD 120 bn in assets (Treasuries and MBS) "until substantial further progress" is made
- In the minutes, the FOMC members stated that:
  - » …participants generally noted that the economy remained far from the Committee's maximum-employment and price-stability goals.
  - » Participants agreed that the economy was still far from the Committee's longer-run goals. Moreover, the path ahead continued to depend on the course of the virus, and risks to the economic outlook remained. Consequently, participants judged that the current stance of policy and policy guidance remained appropriate … to achieve inflation that averages 2 percent over time and longer-term inflation expectations that continue to be well anchored at 2 percent
  - » A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings **to begin discussing a plan for adjusting the pace of asset purchases.**
- So while Powell time after time has said the FOMC had not yet even started thinking about thinking when to start tighten policy, they have in fact already started TALKING about when to start TALKING about adjusting policy
- Bond yields rose initially but rapidly fell back, and yields are now down vs. pre minutes. The important market response was a reasonable decline in inflation expectations, and higher real rates
- While we do think that the Fed will have to start tapering and raise interest rates much sooner than what has been communicated thus far, we do not expect an abrupt change of tack. Still, it is wise to signal that policy could be adjusted earlier so far indicated. The 'dot-plot' in June will be exciting!

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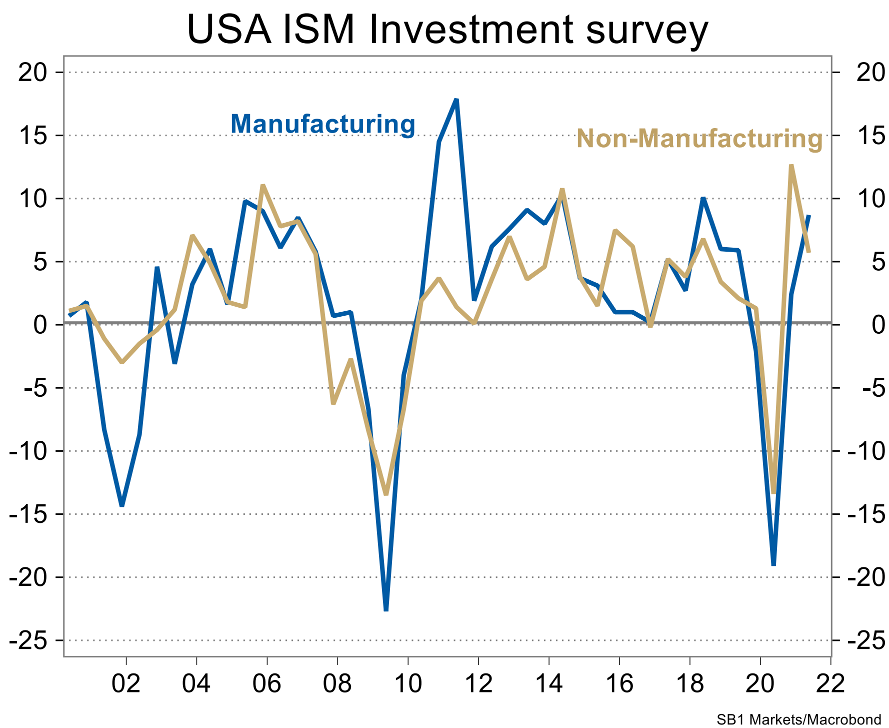
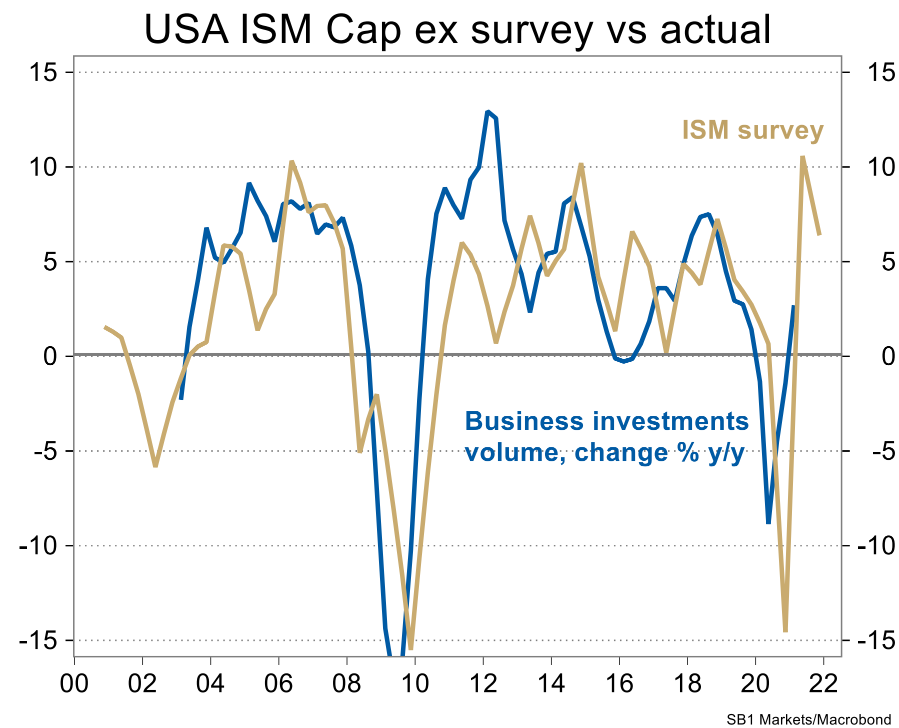
ISM semi-annual investment survey: Decent growth, no take-off

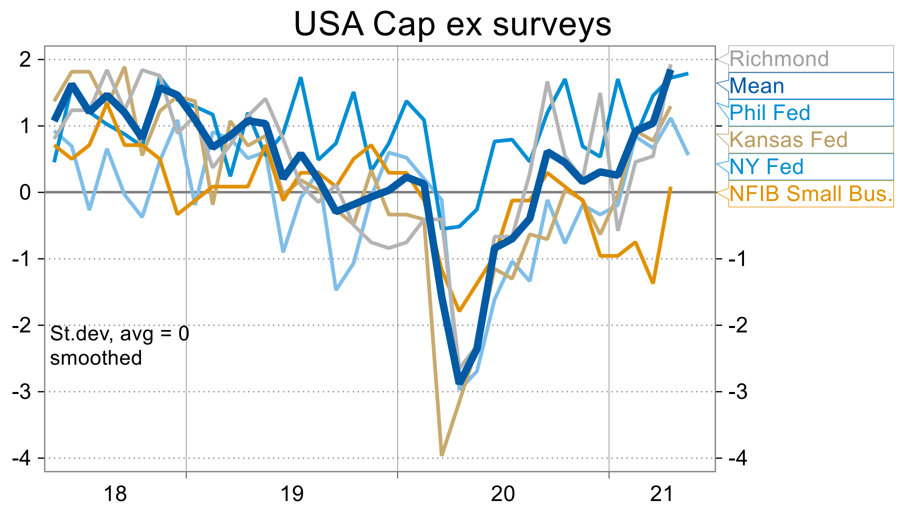
The non-manufacturing sector cut back on their plans, manufacturers added more projects

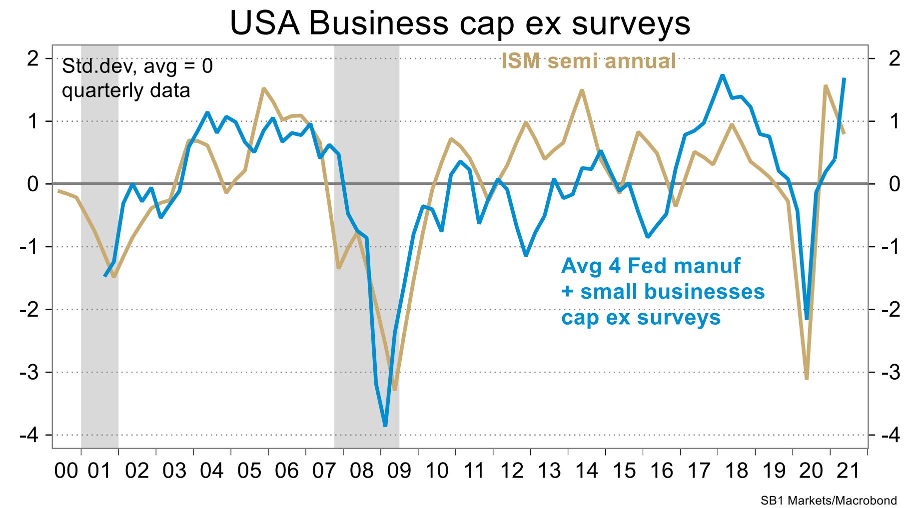


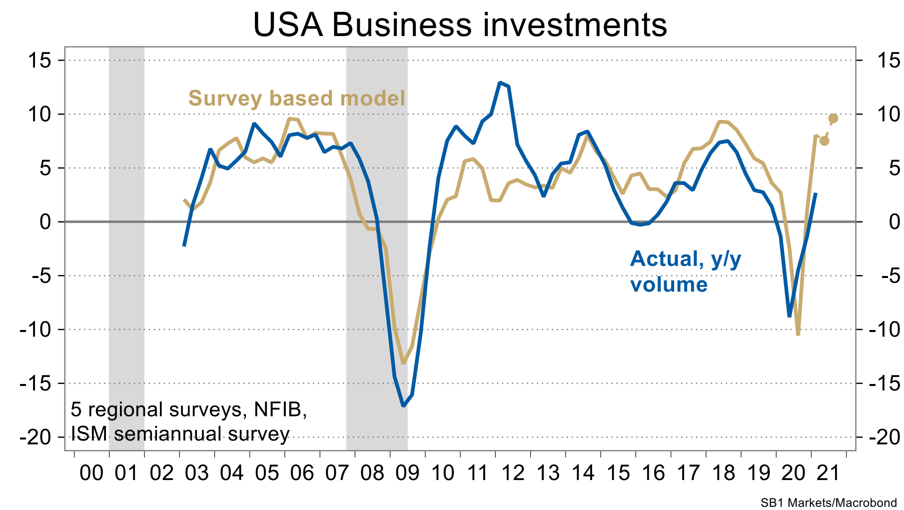


- Both are still reporting growth in investments well above trend growth

Other investment surveys signal strong growth in business investments



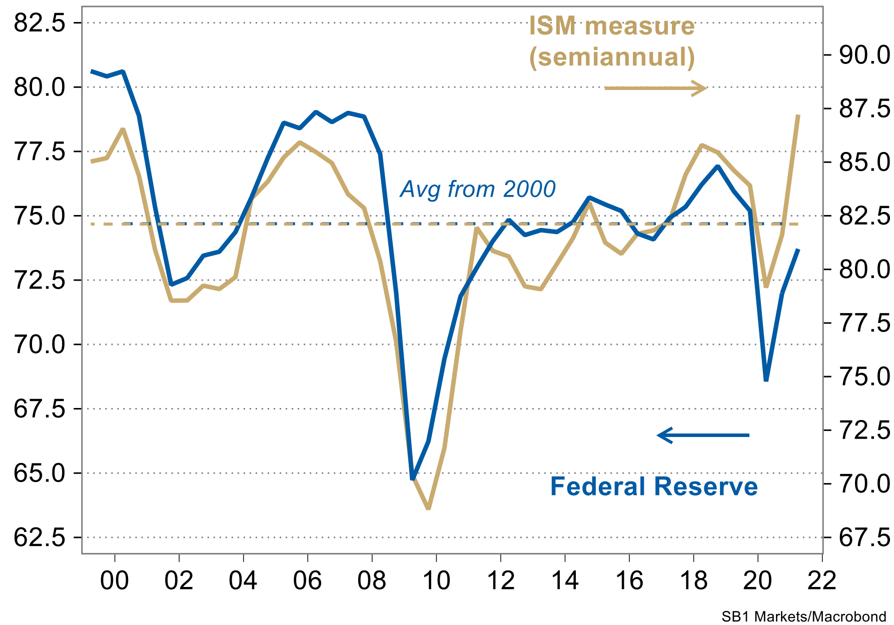




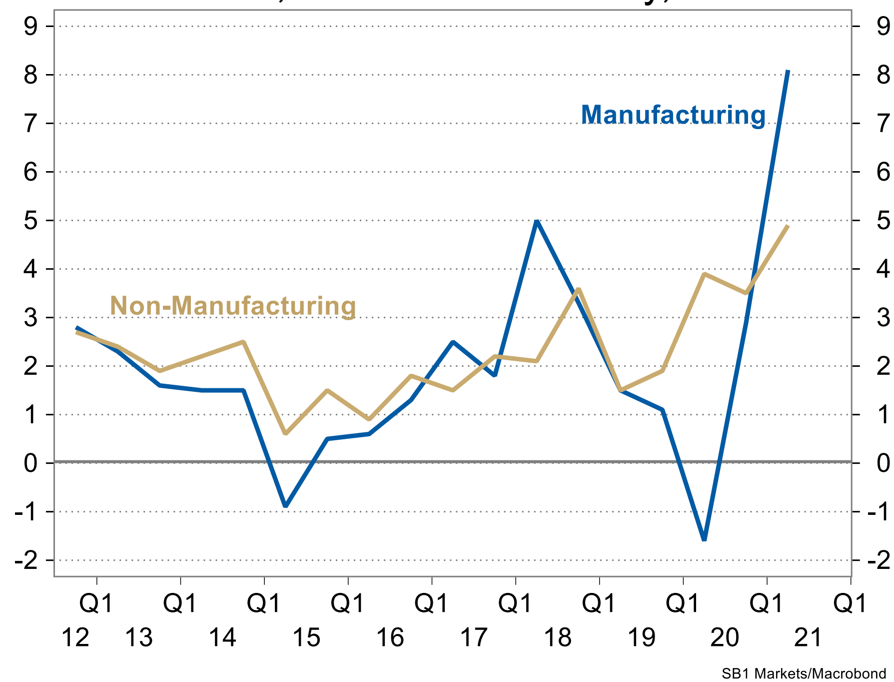
Is the capacity utilisation in manufacturing at average or record high?

Fed's measure yields a close to an average level, ISMs survey reports the highest utilisation ever!

USA Capacity utilisation
Manufacturing - two measures

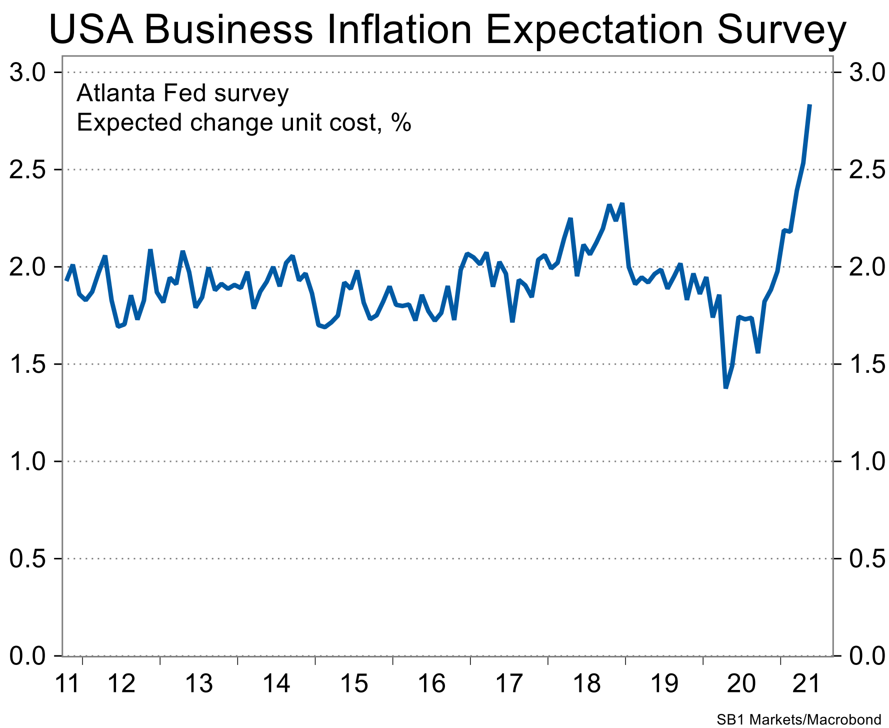


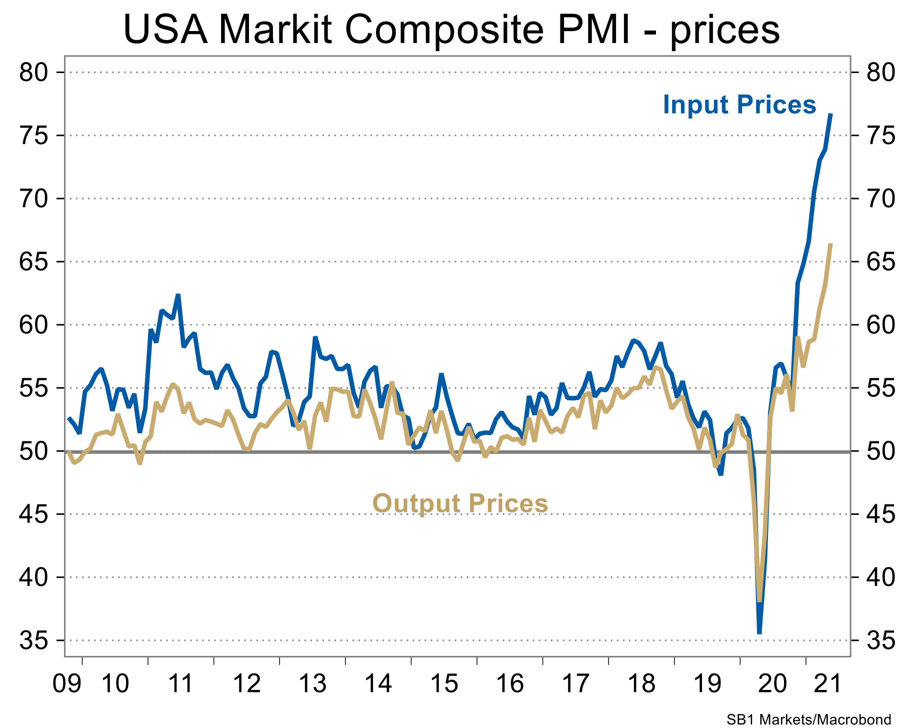
USA ISM, Semiannual Survey, Prices



- In the ISM's semi-annual survey, the companies reported a utilisation at 88%, a new ATH – though with data just back to 1999
- The Federal Reserve's estimates a 73% utilisation (so far in H1), close to average. The gap between the two measures has never been larger
- In the ISM survey, companies in both manufacturing and non-manufacturing are reporting the highest expected prices increases ever – however with data just back to 2012. But is surely illustrates the price risk on the upside

Another survey, Atlanta Fed's: Businesses are expecting a sharp lift in costs/prices

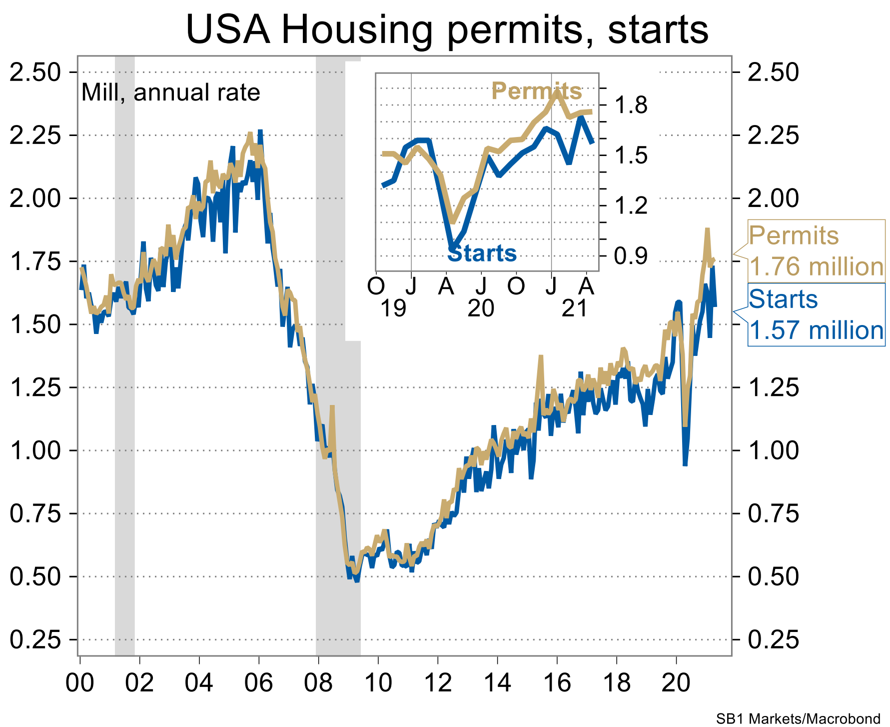


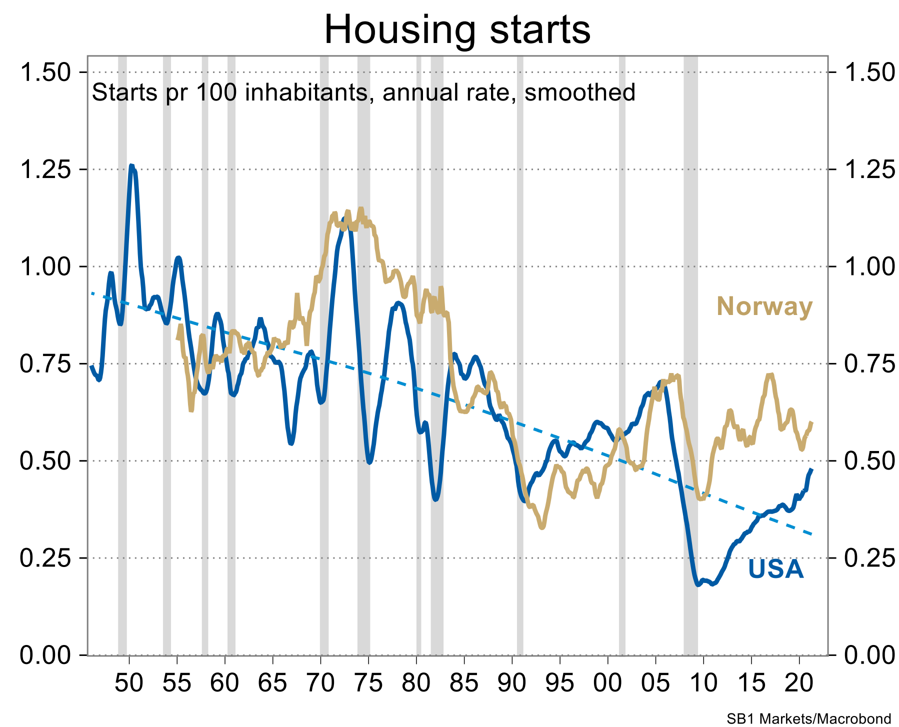


- For both of the series above, the history is too short for calibrating vs actual inflation. However, businesses are reporting something else than have done over the past 10+ years

Housing starts down, permits marginally up in April, levels high

Starts still at a high level, above the pre-pandemic trend. Permits confirm

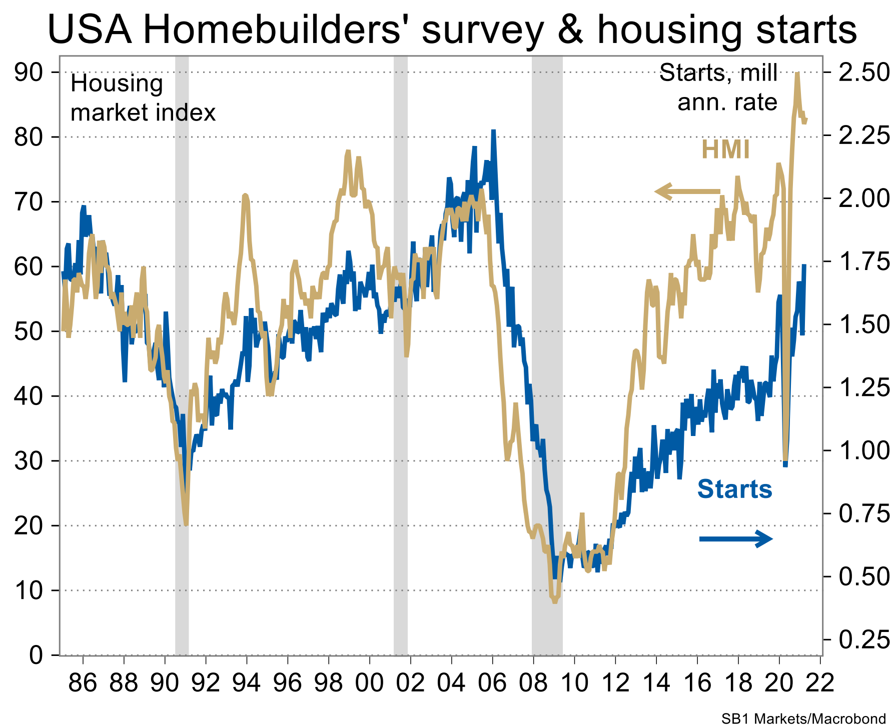


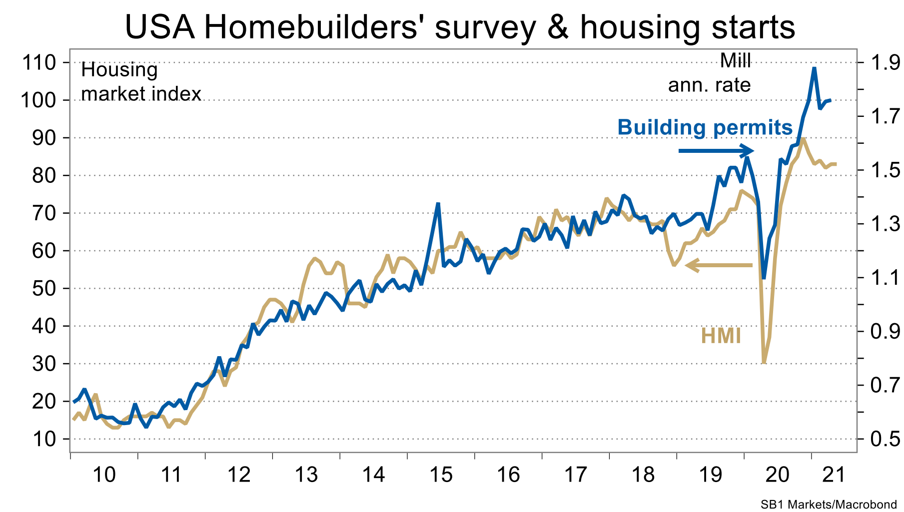


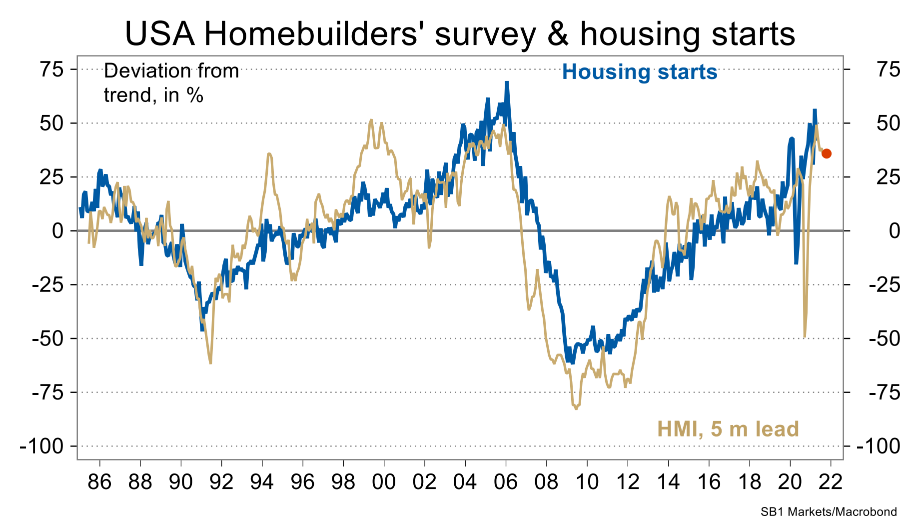
- **Housing starts** fell to 1.57 mill in April, down from 1.73 mill in March (revised from 1.74), expected down to 1.71. The trend is still up, and the level is high
- **Building permits** rose marginally to 1.76 mill in April, spot on expectations. Trend is up, level the 3rd highest since 2006 (Jan and March were higher). However, both starts and permits are still over 20% below the 2005 peak.
- **Housing investments** are no doubt on the way up. Given the record low inventory of unsold new completed and of existing homes, and the rapid rise in prices, a continued drift upwards seems likely. However, increasing lumber prices could dampen activity somewhat

Homebuilders market index stable at a high level in May

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



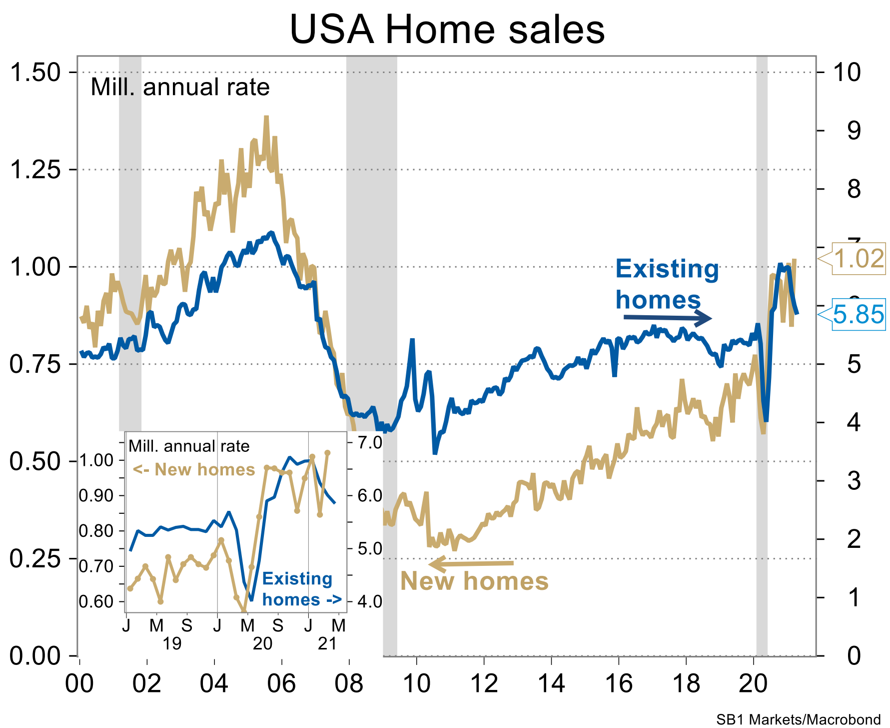


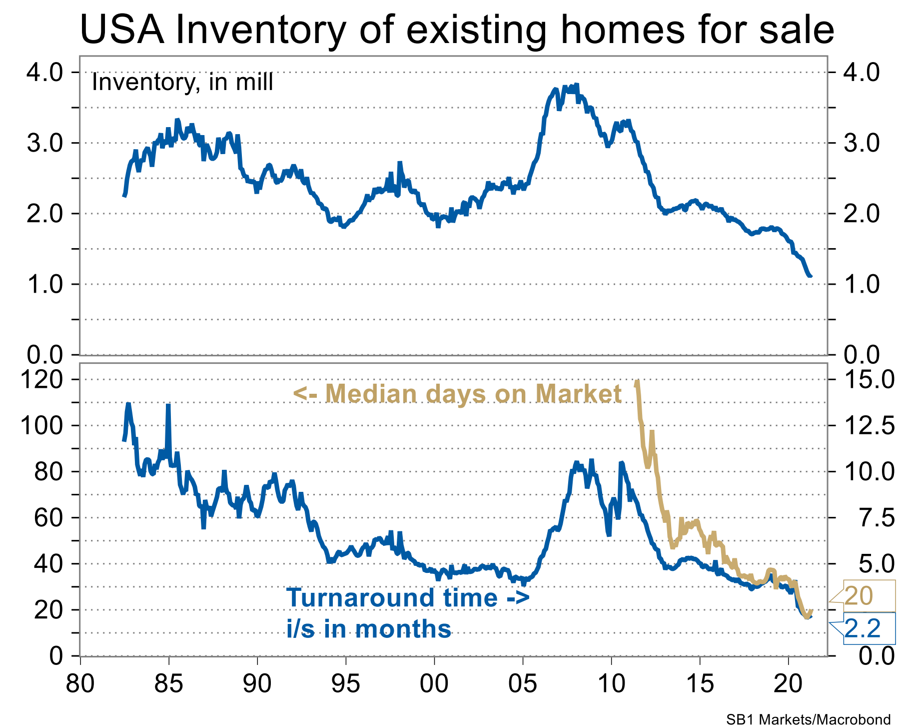


- **The Home Builders Housing Market Index** was flat at 83 in May, as expected. The level is down from the ATH at 90 last Nov but still higher than anytime before last Sept (data from 1986)
- The HMI is neither an assessment of growth in housing stars nor the level of housing starts. The best fit is vs. deviation of starts from a semi-flexible trend, check the difference between the chart above and the two to the right
- Even if the level is very high, the HMI signals that the surge in starts is now over

Existing home sales are sliding down – and not due to lack of supply

There are 'no' 2nd hand homes to buy, the inventory is 'empty'

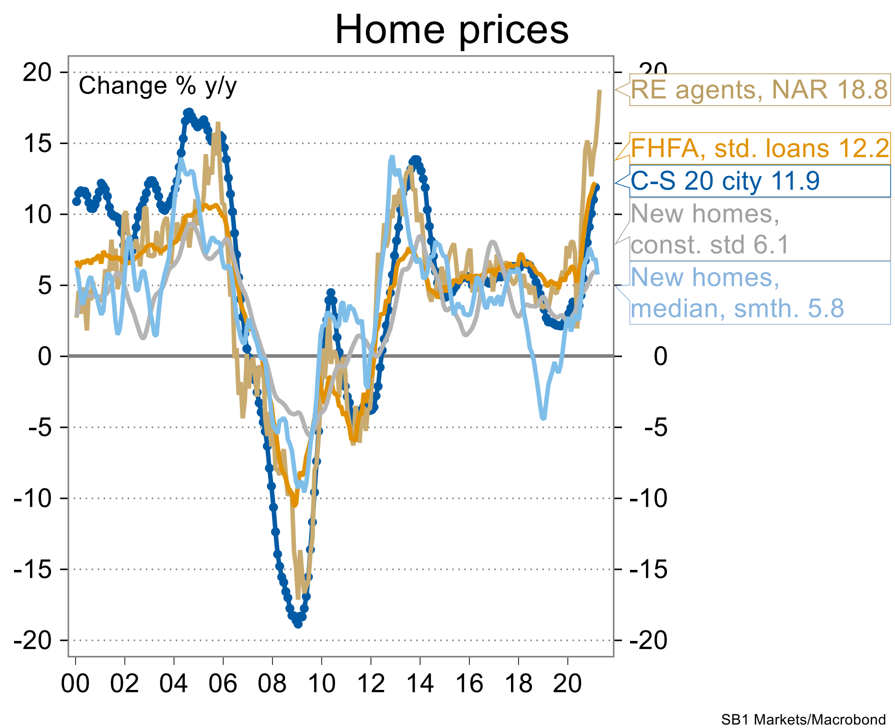


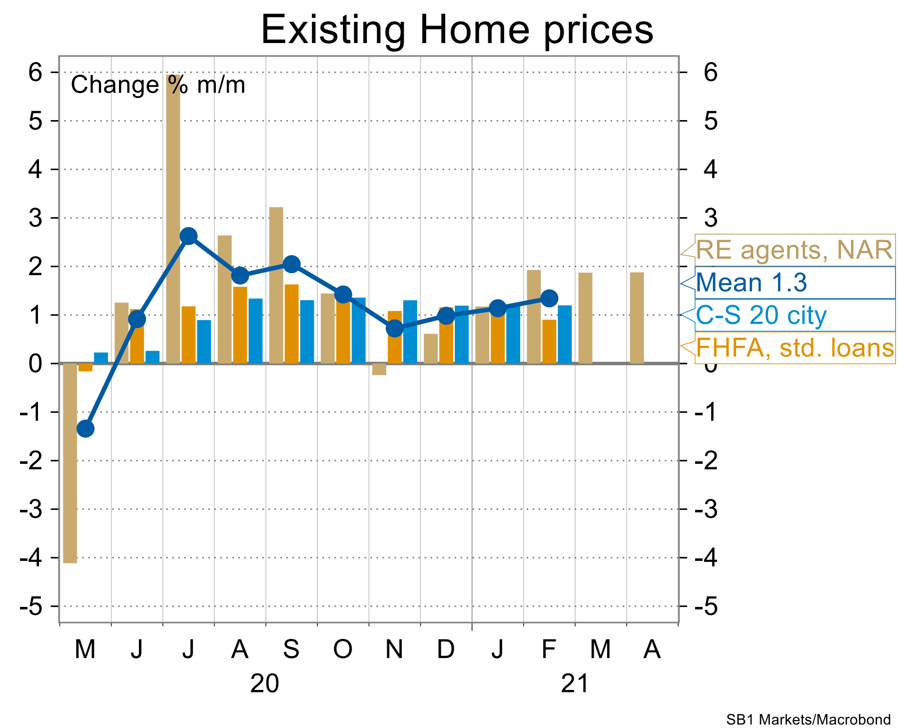


- Sales of **existing homes** fell to 5.85 mill (ann. rate) in April from 6.01', expected 6.07'. The sales level is still well above the pre-pandemic level. Sales are no doubt kept down due to an unprecedented lack of supply
  - » **The inventory of unsold homes** fell further from a record low level, and equals just 2.2 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times 10 months. For those home sold, the median time on market is 20 days (all data seas. adj)
  - » **The median price** rose by an another 2% m/m in April, and are up 19% y/y, the highest print ever. Sales of expensive homes constitutes a larger share of total sales than normal, and even the median price may be influenced by this sales mix

Realtors report another 2% m/m price hike, up 18.8% y/y%, ATH

So far in 2021, prices have been increasing at 25% pace, in case you wondered

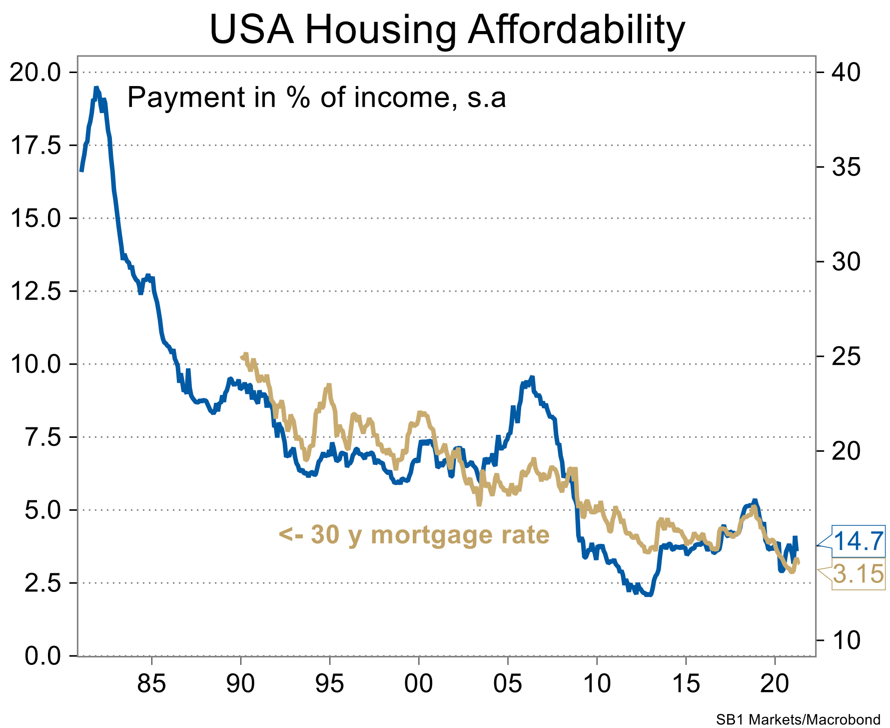




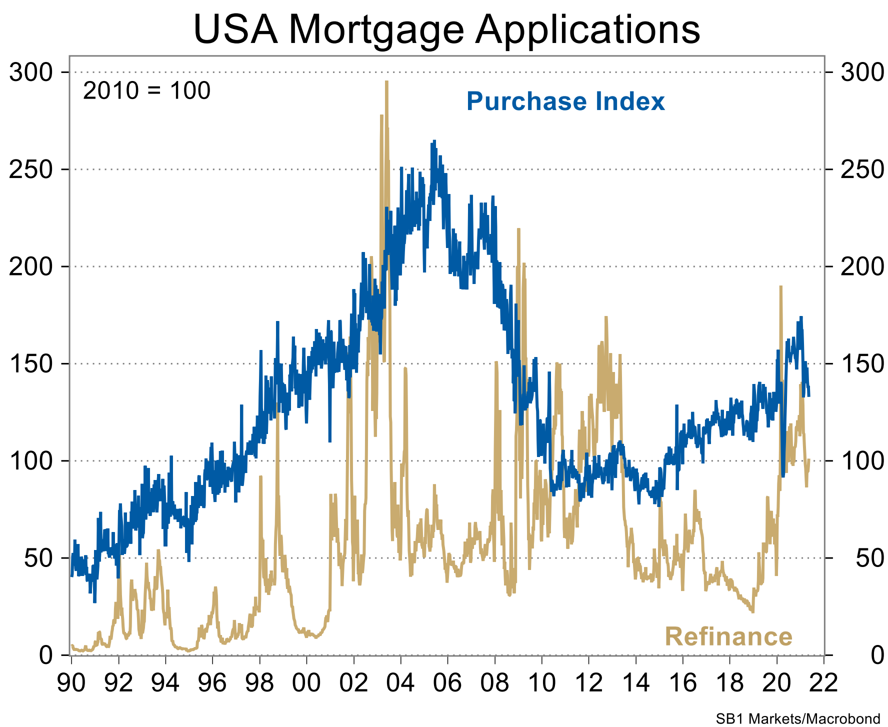
- Other, and better, price indices that adjust for the mix of homes sold (and characteristics of each home) are reporting lower growth rates but all are reporting very rapid price increases since last spring/summer (more data out this week)

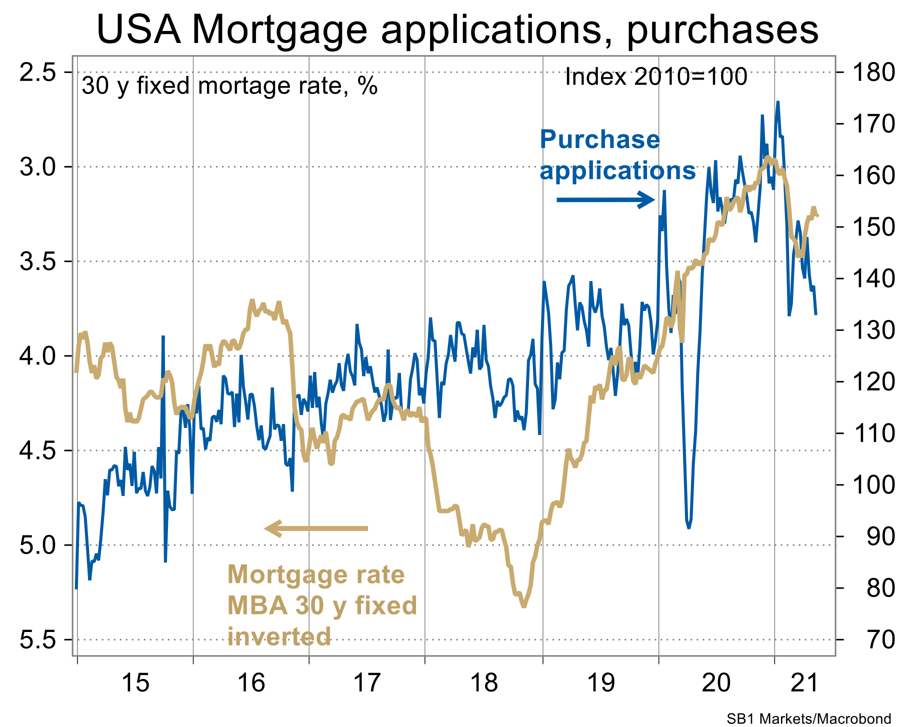
Homes are still very affordable, because the mortgage rate is so low!

The recent rise in interest rates is so far minimal



Mortgage applications further down even if mortgage rates has fallen somewhat

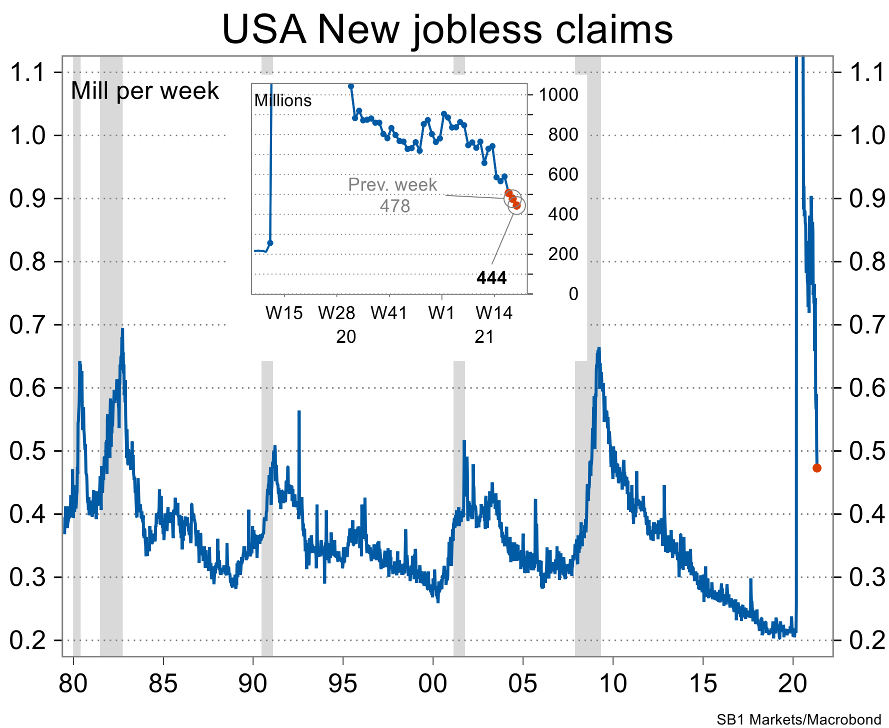


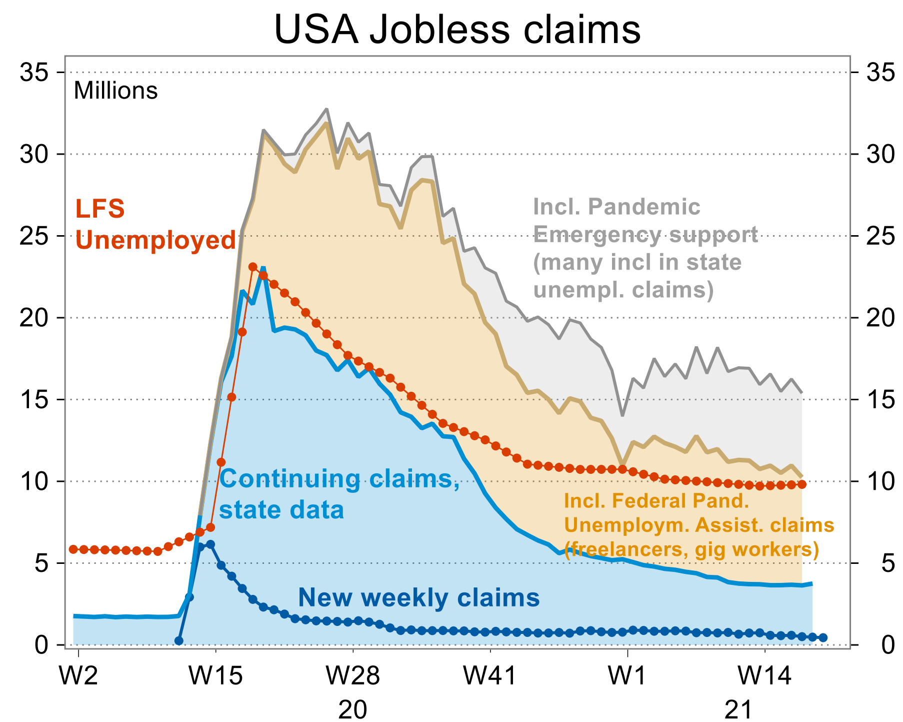


- No doubt, low mortgage rates have stimulated demand, as the 30 y fixed rate fell to a record level, slightly below 3% in late 2020, from 5.25% in late 2018
- The mortgage rate climbed 50 bps through March, to almost 3.5%, and new mortgage applications fell somewhat. The mortgage rate has since fallen by 25 bps to 3.25% - but application has still fallen
- One likely explanation is that to no of existing transactions has fallen somewhat, due to lack of supply

Jobless claims further down as economy opens up, still above pre-Covid level

…and continuing claims are trending down too but remain suspiciously high, given demand for labour



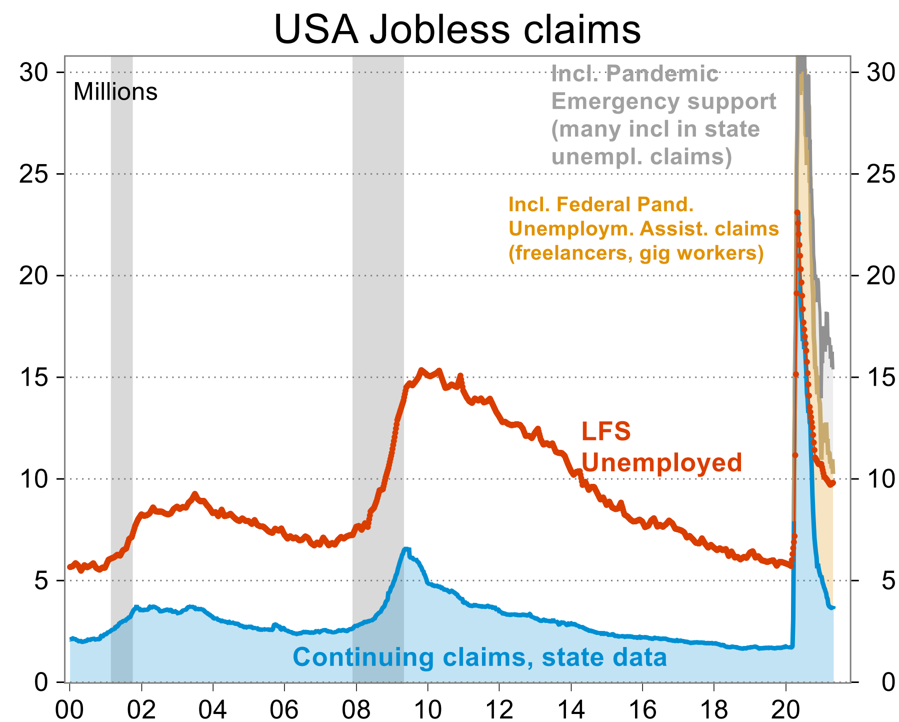


- **New claims** at 444'down from 578' the previous week, expected 450'. At the current speed, a low level of new claims will be reach in 12 weeks time
- **Continuing claims** was up by 111' from prev. week, while the applic. for the two pandemic support programs were marginally down (2 weeks ago)
  - » The **Pandemic Unemployment Assistance** extends federal support to freelancers & gig workers who are not covered by state unemployment schemes. The federal **Pandemic Emergency Unemployment Compensation** adds USD 300/week to state programs, which on average pays somewhat above USD 300/week, and can be paid for a longer period (so these claims are partly included in number of the ordinary state benefit receivers, so there is some double counting in the grey area at the chart to the right). Both programs run until September, unless states decide to abolish them earlier (22 states do)

Why are so many on the dole?

... vs. the number of regularly unemployed (in the Labour Force Survey?)

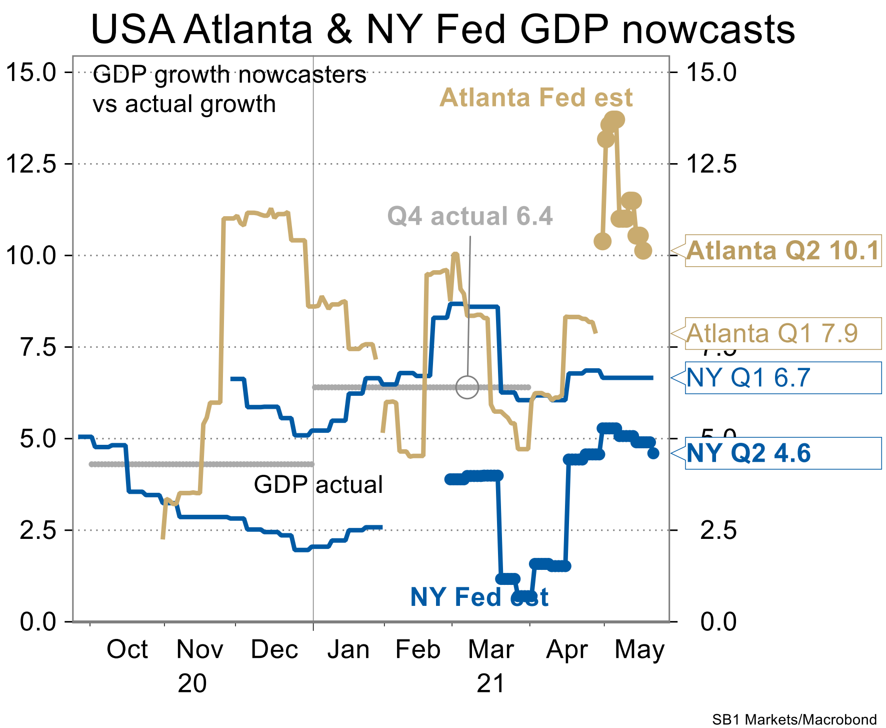
- Normally, the number of unemployed in the LFS is some 2x – 3x higher than number of receivers of unemployment benefits ('continuing claims') from the states
  - » State unemployment insurance schemes normally just covers the first 26 weeks of the unemployment period
  - » There are restrictions who can get these benefits – and which are low, just above USD 300/week in average
- Following the strengthening & extension of the benefit programs, the to of recipients have increased sharply, and much more than the rise in the official (LFS) unemployment rate can explain
- Now, there are more receivers of unemployment benefits than the no. of people that report that they are actively seeking for work (and thus counted as unemployed in the LFS).
- <u>Most likely, there are many receivers of unemployment benefits that rather want to stay on the dole, than take a low or for many, a lower paid job</u>

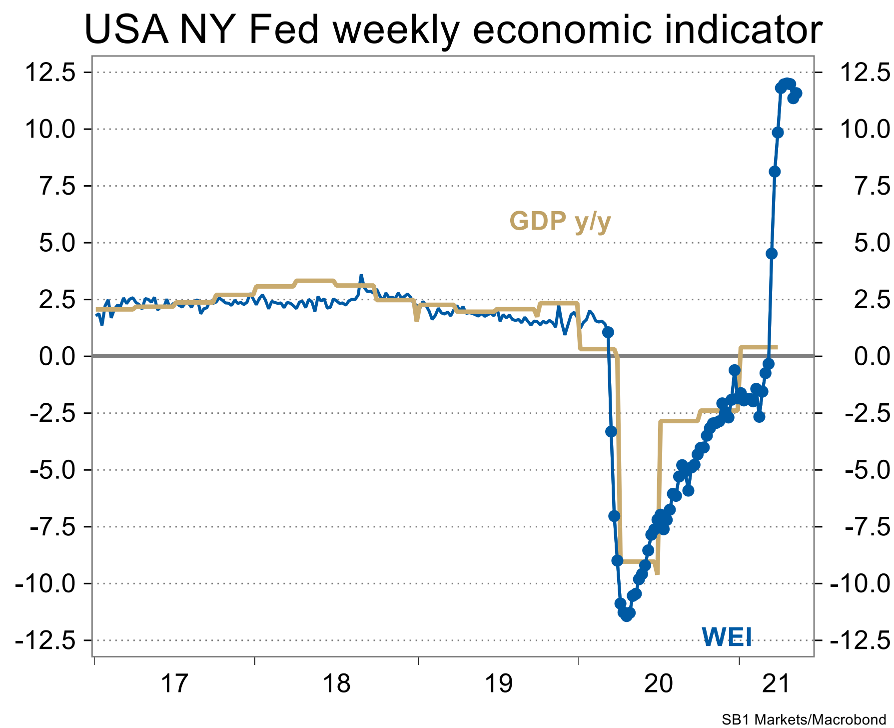


- **The debate is of course heating up**: Do the 'generous' unemployment programs make it too attractive to stay on the dole, instead of trying to find a job? The record high no. of unfilled vacancies & the record high share of companies reporting that that are not able to fill vacancies, very likely signal that something is 'wrong'
- **23 (GOP governed) states** (up from 7 two weeks ago) have decided or is contemplating to say 'no, thank you' to the federal support programs immediately in order to 'push' more unemployed workers back to the labour market now, and not in September. It is disputed whether states in fact can opt out of these federal programs of behalf of their citizens

The nowcasters signal 5% to … 11% GDP growth in Q2

Friday's job report shaved 2.5% from Atlanta Fed's Q2 GDP growth estimate, still at 11%





- NY Fed hints close to 7%
- NY Fed's weekly y/y economic indicator up in the sky (vs. last year 10%+ nosedive), implying a 8% growth pace in Q2
- The PMI/ISM signal a 8% growth pace

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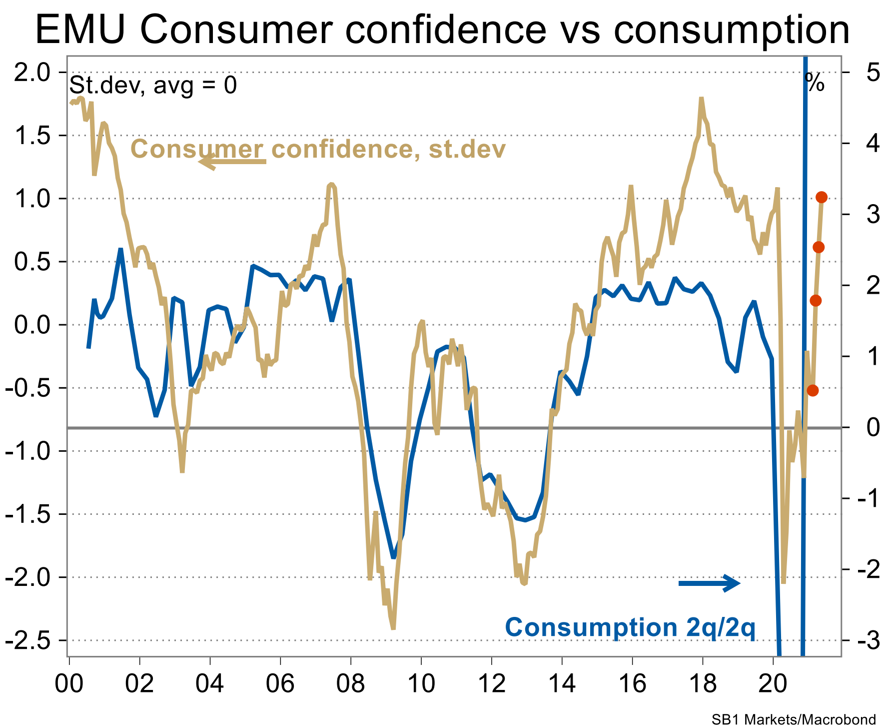
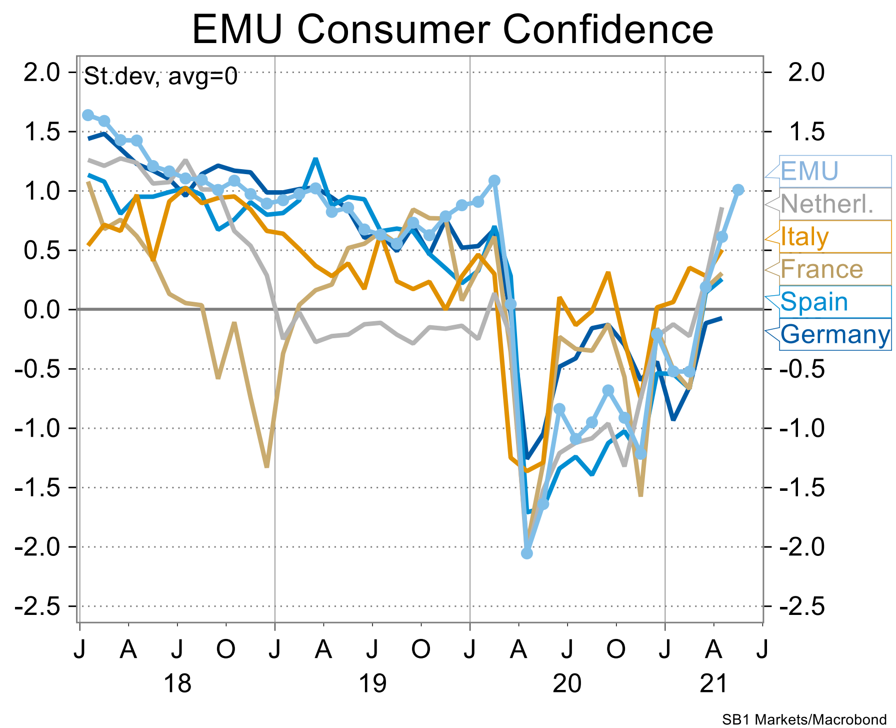
Consumer confidence further up in April, to above the 2019 level!

The confidence up 0.5 st.dev to +0.7 above average, to the same level as in 2019!

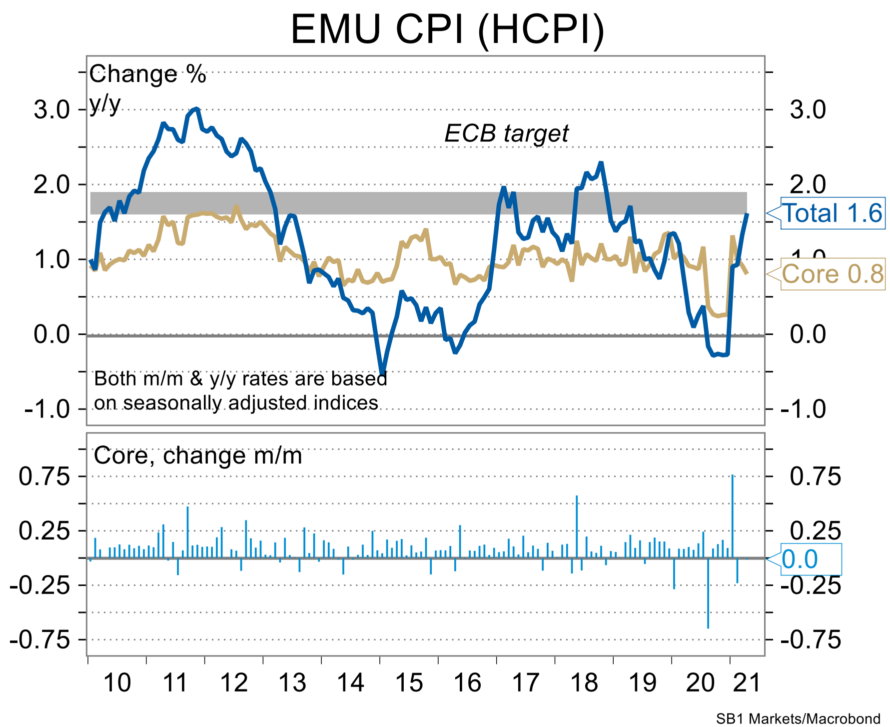


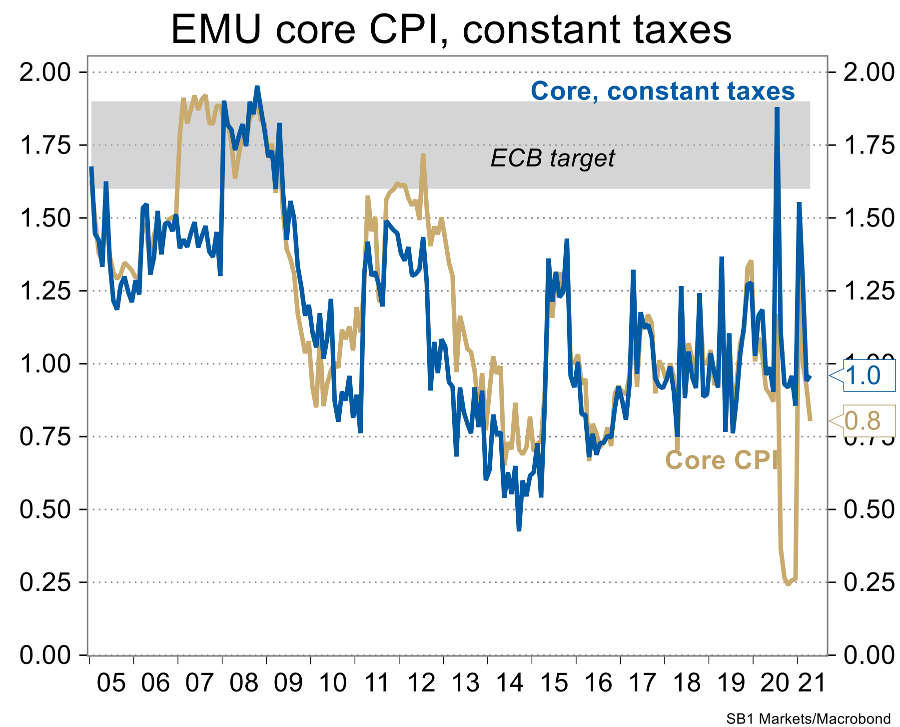


- **The consumer confidence index** rose to -5.1 in May from -8.1 in April, once more far better than expected. The lift equalled 0.4 st.dev, and the level is now 1 st.dev above average
- A consumer confidence at the present level has normally equalled a decent growth in consumption
- No May country data yet
  - » Just Germany reported confidence below par in April. Italy has been above average since December

Core inflation confirmed down to 0.7%, headline up to 1.6%

Inflation is still far below ECB's inflation target

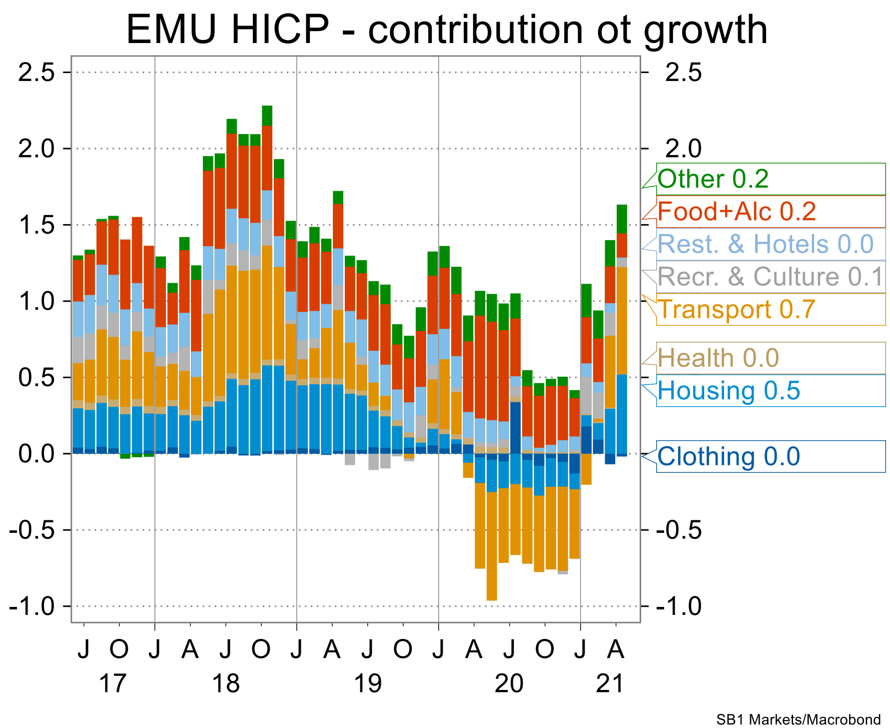


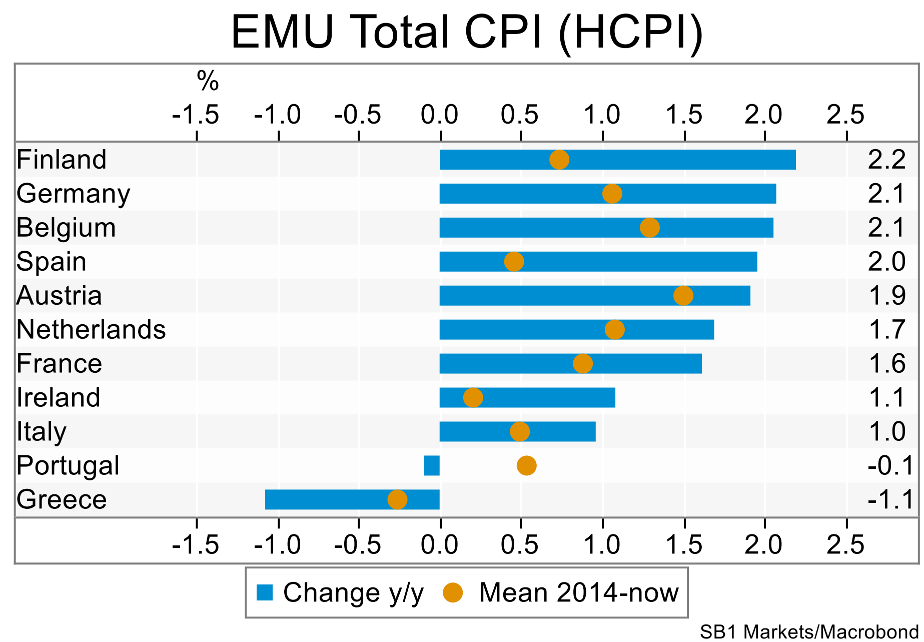


- Core prices were unch. m/m and the annual rate fell 0.2 pp to 0.7% (we use our season. adjusted annual rate, 0.8%)
- Energy prices have contributed by a 0.7 pp lift to the 1.6 headline CPI y/y, and will probably contribute even more in May, as prices fell one year ago. (The core CPI does not have such a base effect in May)
- Adjusted for changes in taxes, the core is at 1% y/y, and unch. from April. The 'supercore' index is at 0.7% y/y
- Greece is still in deflationary territory, while the headline inflation is at or above 2% in Germany, Belgium, Finland and Spain (Although central banks usually targets core inflation, and this number is more sticky)

Transport & housing (energy) are the main reasons for the hike in headline CPI

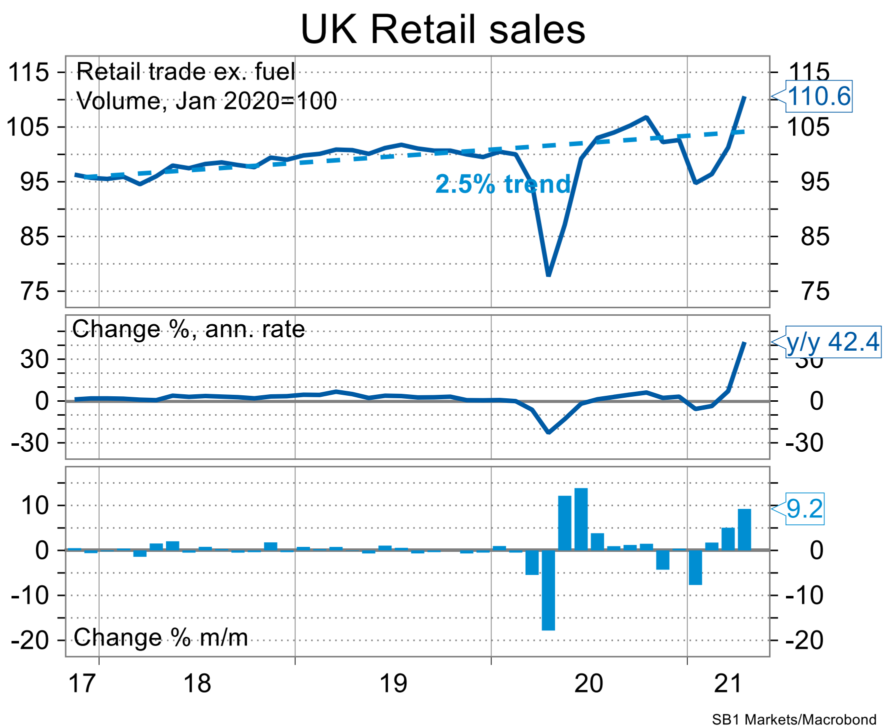
Still deflation in Greece – some few headlines are close to 2%

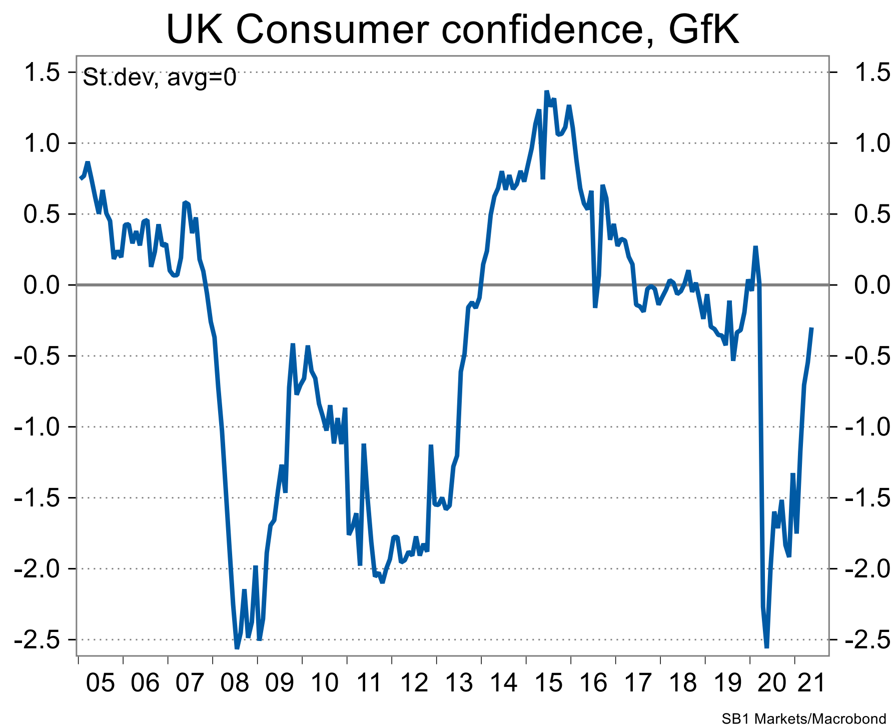




Retail sales exploded in April (too), up 9.2% m/m!!!

Expected up 4.2%. Sales rose 5.1% in March, and sales are now 10% above pre-Covid level!

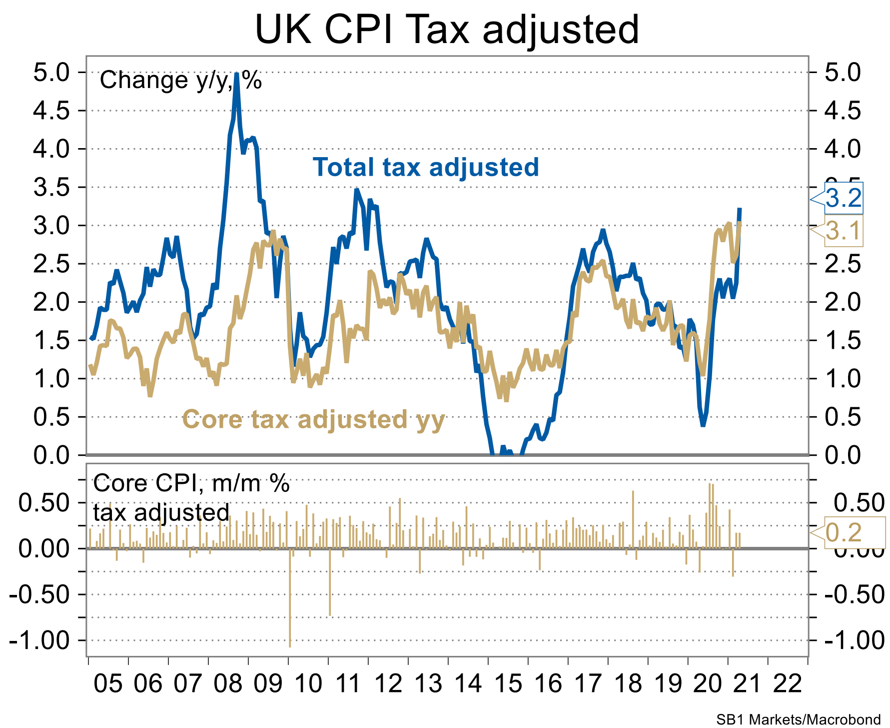


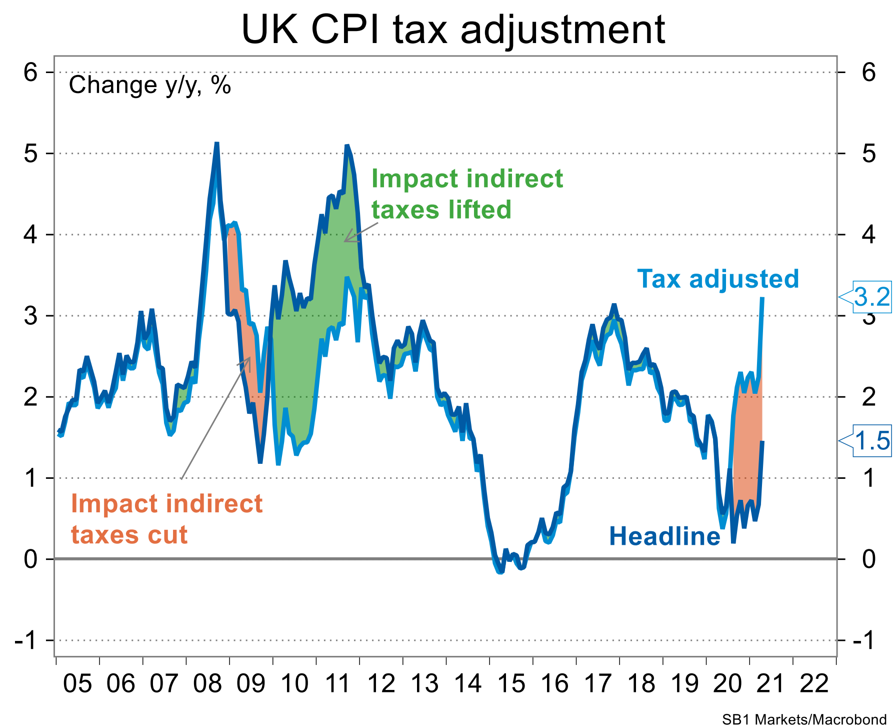


- **A ton of pent-up demand** was unleashed as restrictions on shopping were eased; retail sales were up 9.2% m/m in April following the 5.1% growth in March. Sales are 10% above the pre-pandemic level, and 6% – 7% above the pre-pandemic trend growth path
  - Online sales counts for 30% of retail sales, down from 34.7% the previous month
  - Food store sales were down 0.9% (as restaurant were allowed to serve outside), but are still almost 9% higher than the pre-pandemic level
- **Consumer confidence** continued up in May, according to the GfK survey. The level is still below normal – but the direction is set. Other surveys a signalling a higher confidence level

Tax adjusted inflation at 3%, but no take off m/m recent months

Core prices up 0.2% m/m as in March, the annual rate up 0.3 pp to 1.3 – but 3.1% tax adjusted

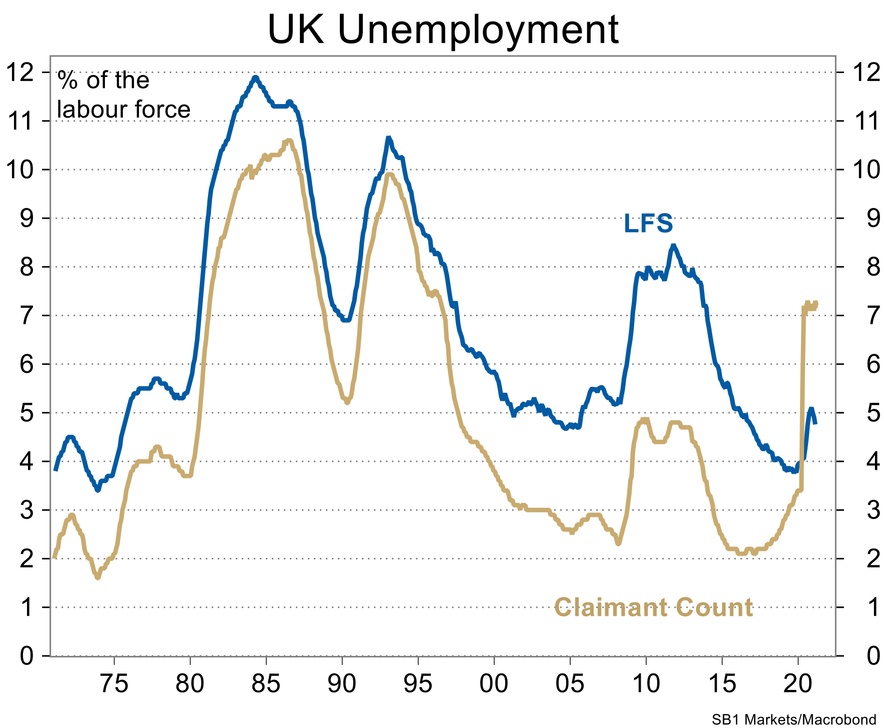


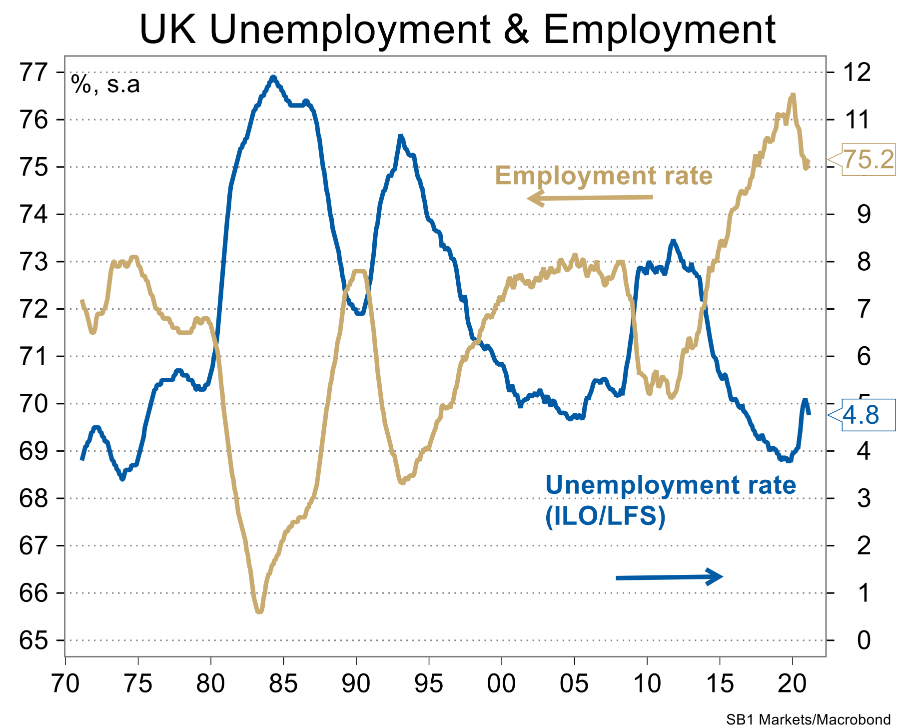


- Total inflation accelerated 0.7 pp to 1.5% - or to 3.2% adjusted for the cuts in indirect taxes (Eat Out to Help Out Scheme and some other support programs implemented last August). Last year, the April CPI fell by 0.4%, and now it climbed 0.4% (s.a)
  - » Most likely, some of these tax cuts were not transferred to the households, as pre-tax prices rose sharply when taxes were cut
- Core inflation is close to headline inflation even if energy prices are higher than one year ago
- Our calculation of the core tax adjusted rate is an approximation Over the past months, there have been no signs of any faster increase in prices m/m
- Annual **CPIH** (including housing) inflation, accelerated by 0.2 pp to 1.3% in April

‘Open’ unemployment at 7.2% in April

The ILO unemployment data probably does not yet reflect the actual labour market conditions

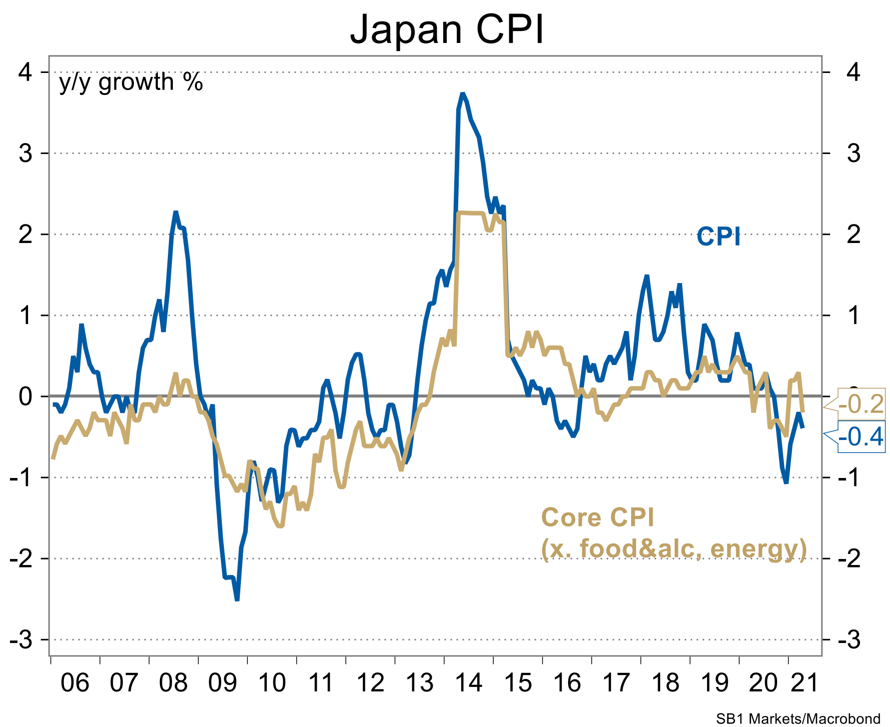


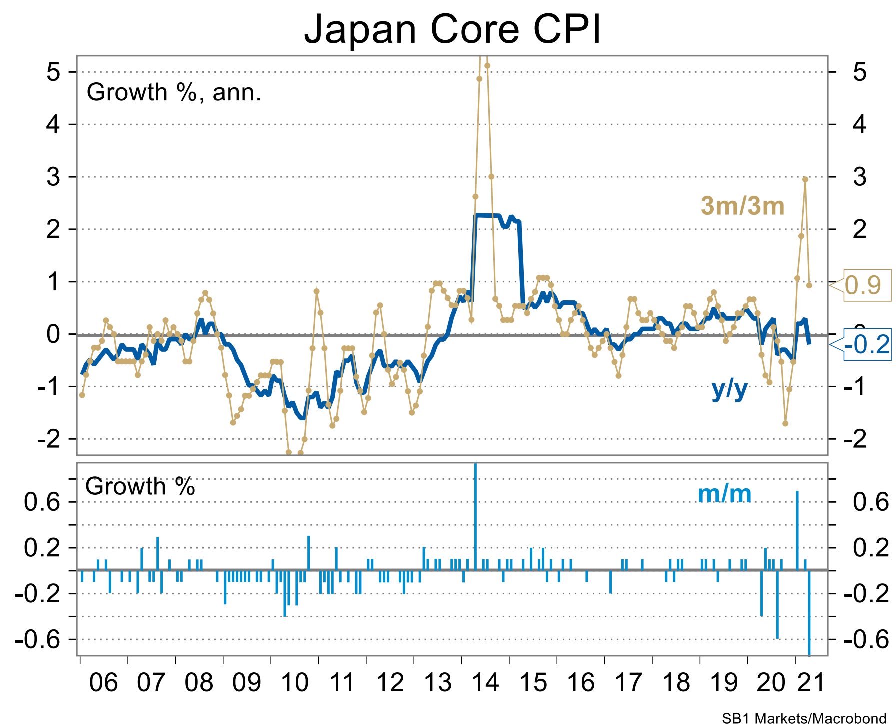


- The ILO/LFS unemployment rate was 4.8% in March, 0.1 pp below consensus, but this measure does not include furloughed/temporary laid off workers until after 3 months. On the other hand, payrolls and the no. of vacancies increased in April
- According to the claimant count data (registered unemployment), the unemployment rate is now running at 7.2%, up from 3.4% before corona. Still, compared to many other Western countries, the upturn has been limited. This is probably related to the generous rescue program for businesses, as the UK government has compensated businesses for a share of workers salaries. The decline in GDP has been among the largest among rich countries, just Spain has lost more, due to tourism (which is far less important for UK)

CPI still in the negative

Falling prices a result of Covid restrictions putting a clamp on activity

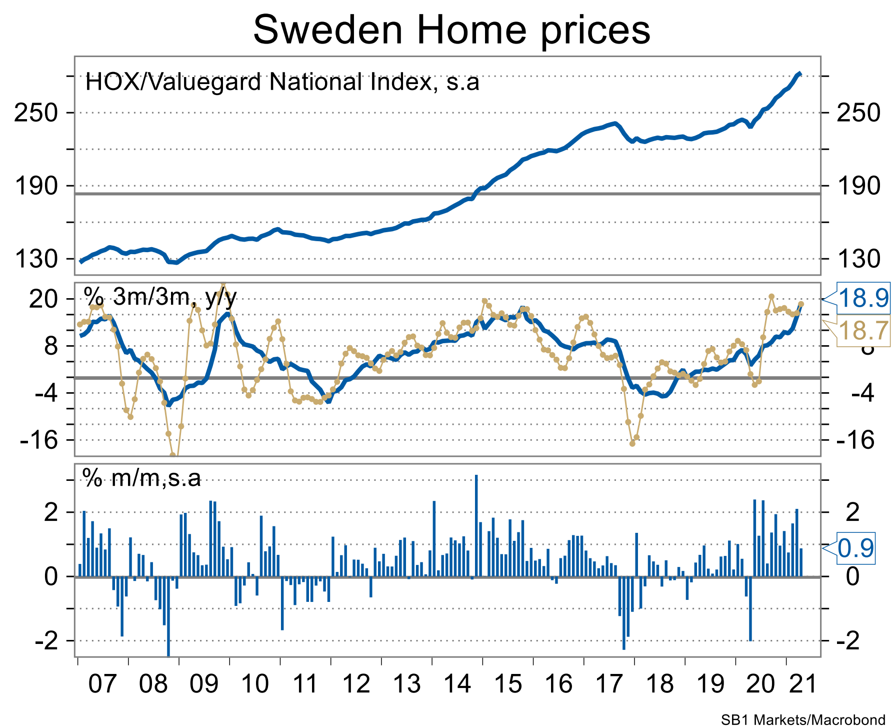


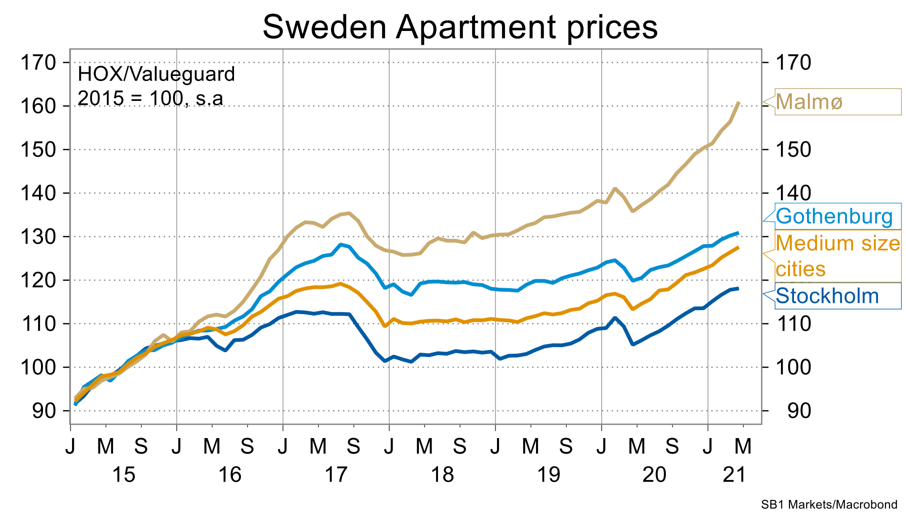


- Core CPI (ex food, energy) fell by 0.9% m/m, bringing the y/y rate to -0.2% from +0.3%
- Total CPI was down by 0.4% m/m, down 0.4% y/y
- Anyway, Bank of Japan has not succeeded in bringing inflation up to the 2 % target…

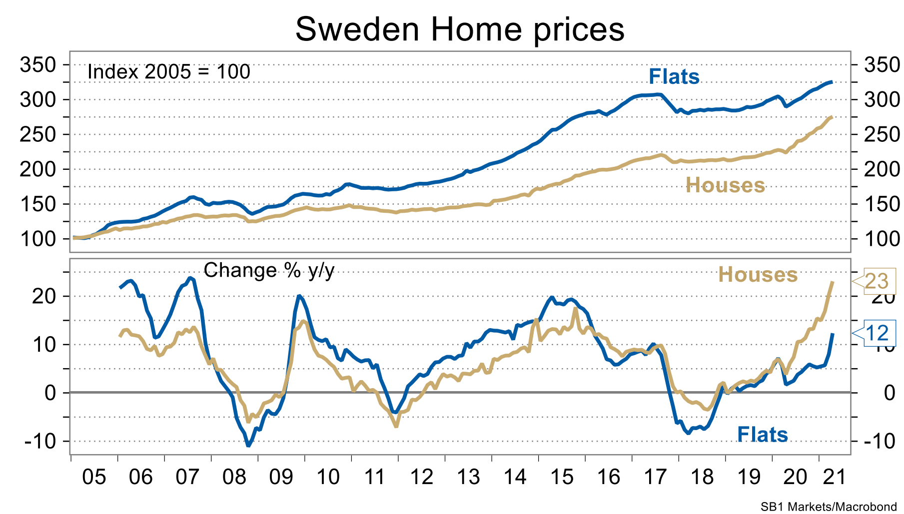
Swedish house prices up ‘just’ 0.9% m/m in April – still up 19% y/y

Prices are rising everywhere – and houses (23%) MUCH faster than flats (12%)!

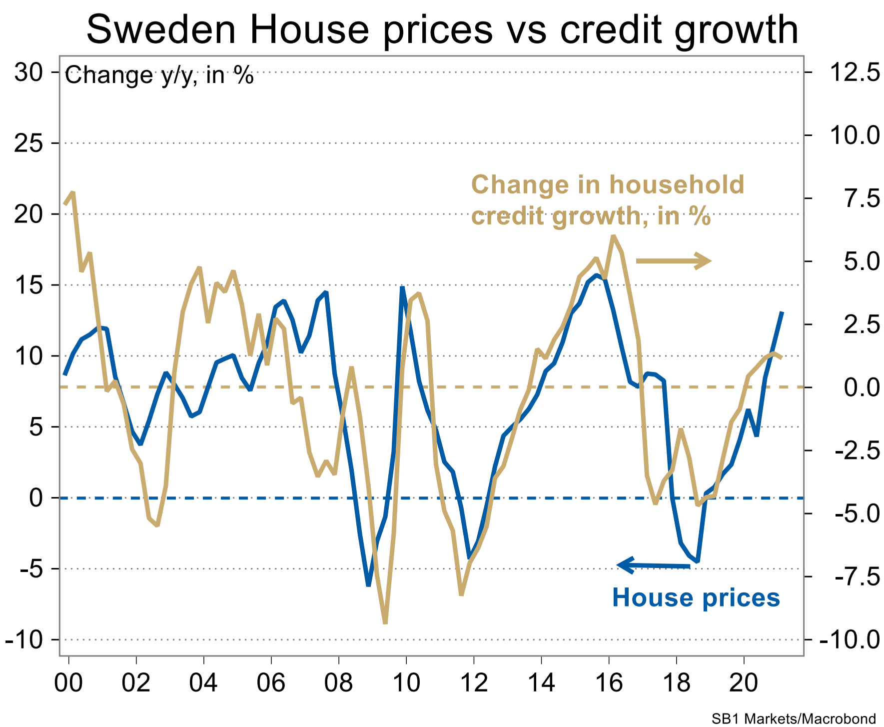


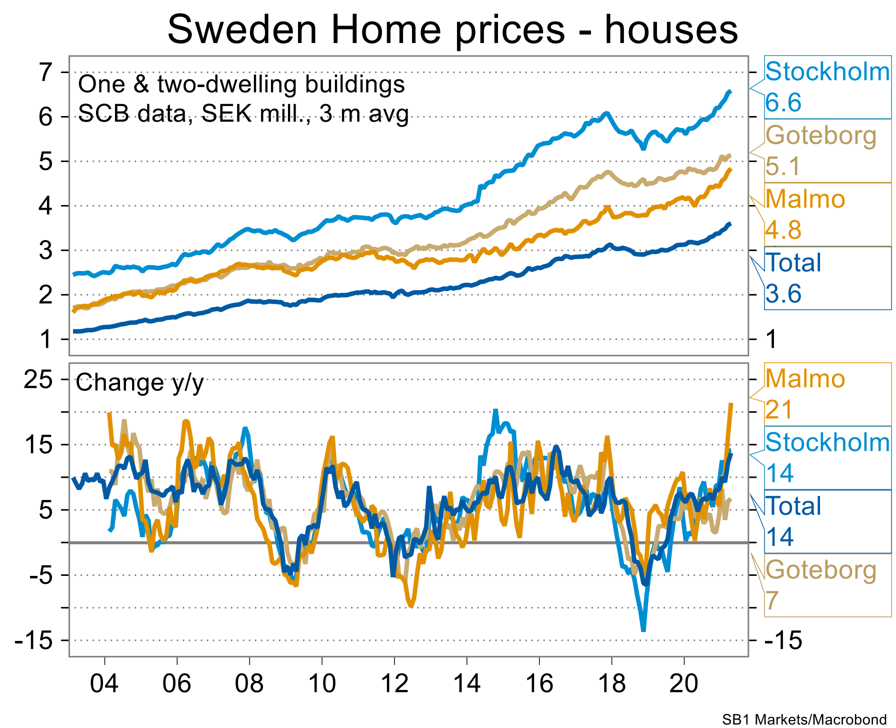


- The rapid increase in house prices vs. flats is broad based (in all sub regions). A corona impact – a flight to the suburbs?
- Underlying price growth (3m/3m) is rather stable at approx. 19%
- At one stage, the housing market will become a matter for the Riksbank, that so far has signalled that rates will stay at zero at least until 2024



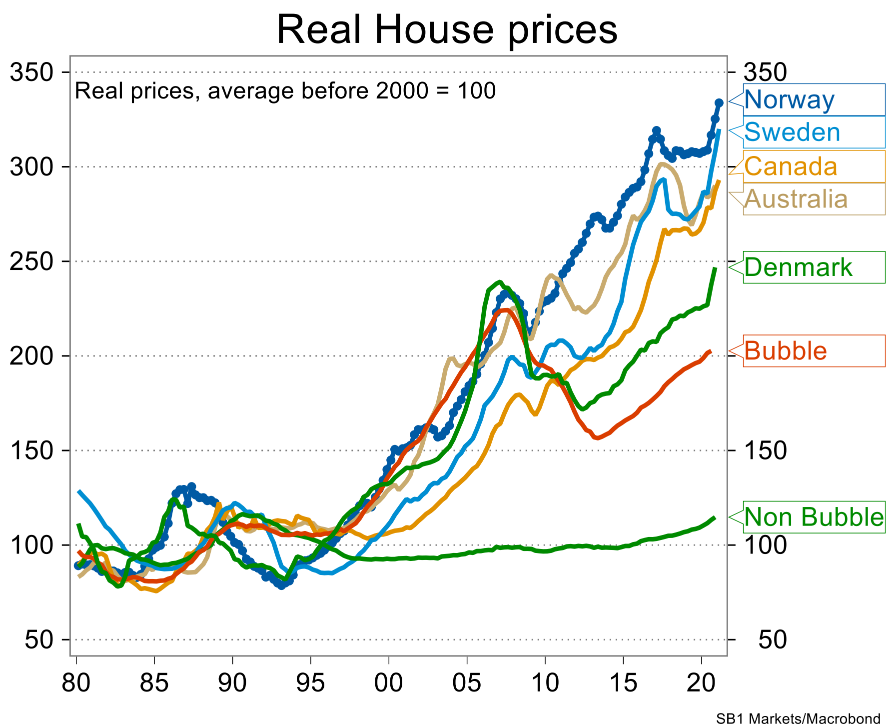
House prices inflation accelerates, as does credit growth

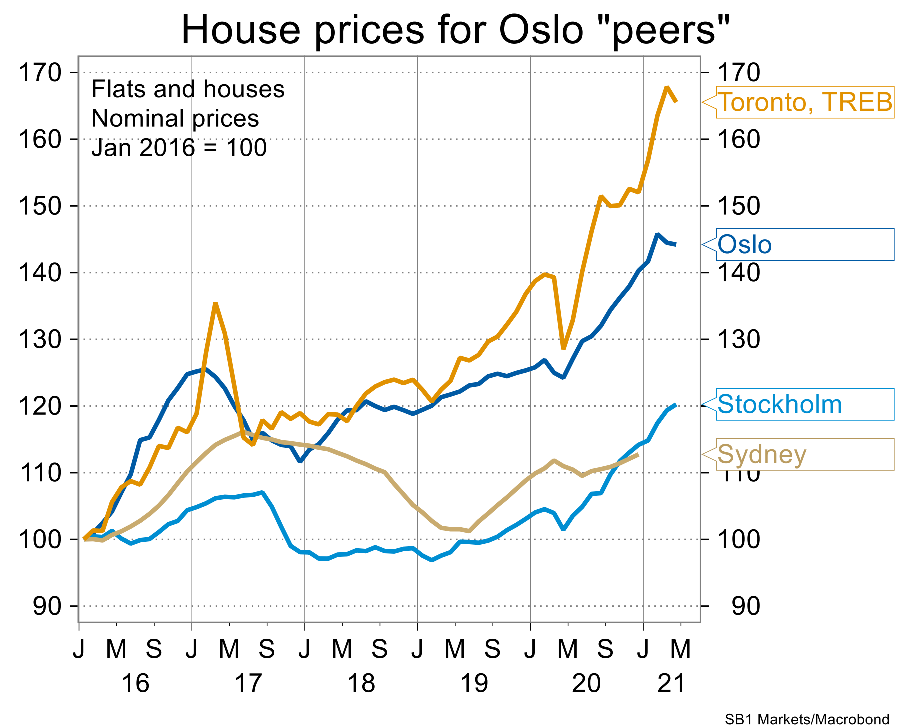




Zero-interest rates are just wonderful!

Prices are soaring in many countries – with the 'supercycle' countries in the lead





- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Almost all OECDs countries are reporting higher house prices over the previous years, just Ireland & Japan are in the downside

Highlights

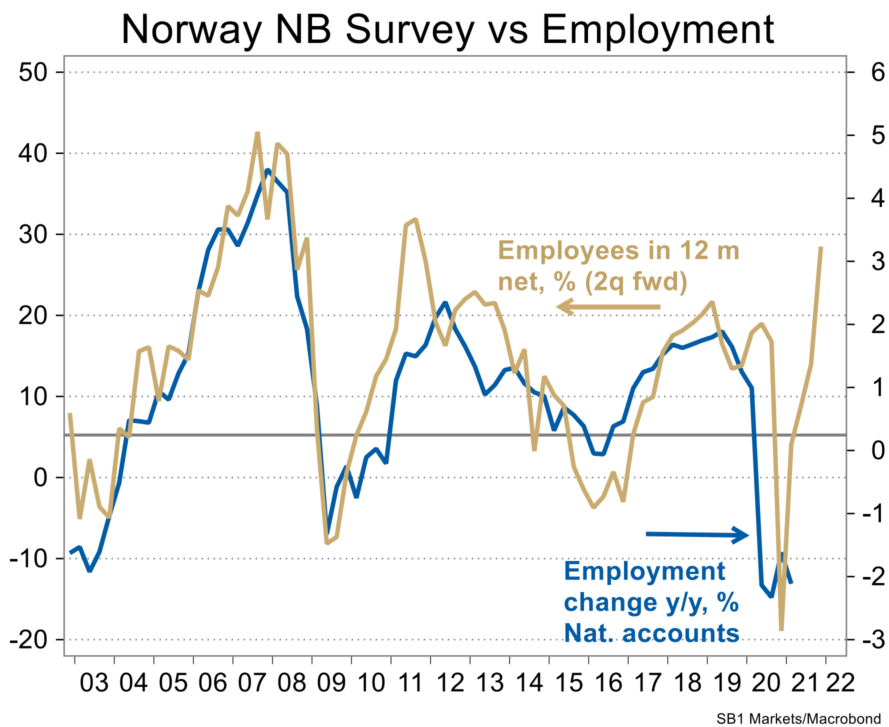
The world around us

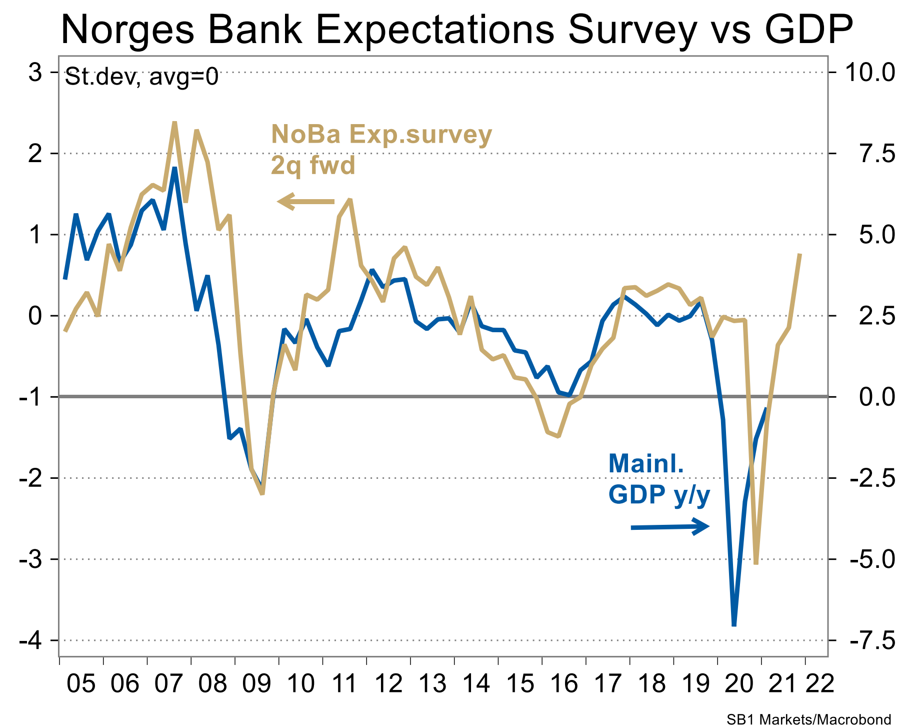
The Norwegian economy

Market charts & comments

NoBa Expectation survey: A strong recovery ahead

Companies are reporting aggressive employment plans, expects growth in profits too

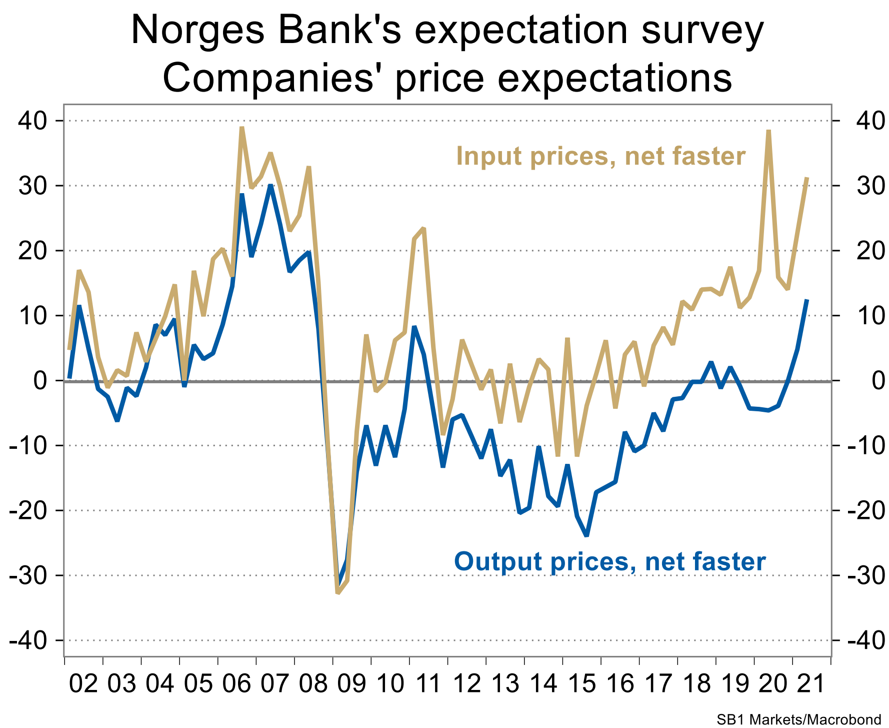




- Companies adjusted their employment plans up in Q2, and signals a 3% growth in employment the coming year – which of course will bring unemployment significantly down
- The mix of employment plans, and the companies expectations regarding profit margins signal a 4% – 5% Mainland GDP growth

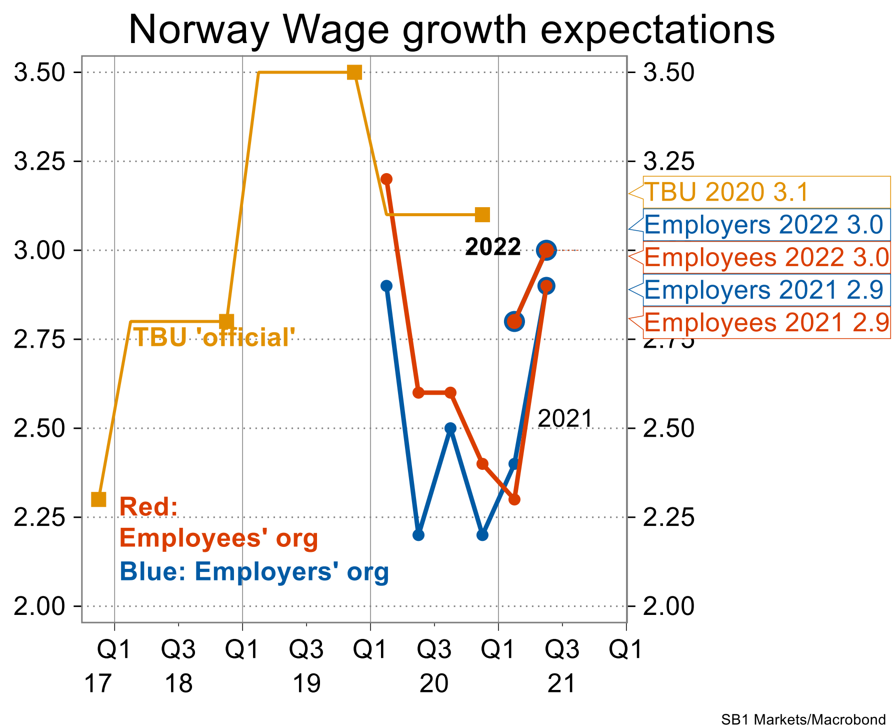
Businesses expect faster growth in input & output prices

Not surprising, given reports like this from all corners these days



NoBa Expectation survey: It's charming, employers' & employees' org. agree!

They both expect 2.9% wage inflation in 2021, up from 2.3/2.4%. Next year they both expect 3.0%



2020

- National Accounts reported a 3.1% growth in the average annual wage

2021

- Leaders in employers' organisations revised their forecast up by 0.4 pp to 2.9%, leaders in unions 0.5 pp to the same level
- Norges Bank assumed 2.4% in the March MPR
  - » Change in the mix of high/low paid workers influences actual average wage growth, both in 2020 (up, and higher than the parties assumed) and 2021 (down, that is actual average wage growth will be lower than what parties expect)

2022

- Both the employers and union leaders expect 3% wage inflation next year, up 0.2 pp. Perhaps they should cut a deal right away?
- Norges Bank assumed a 2.6% growth rate

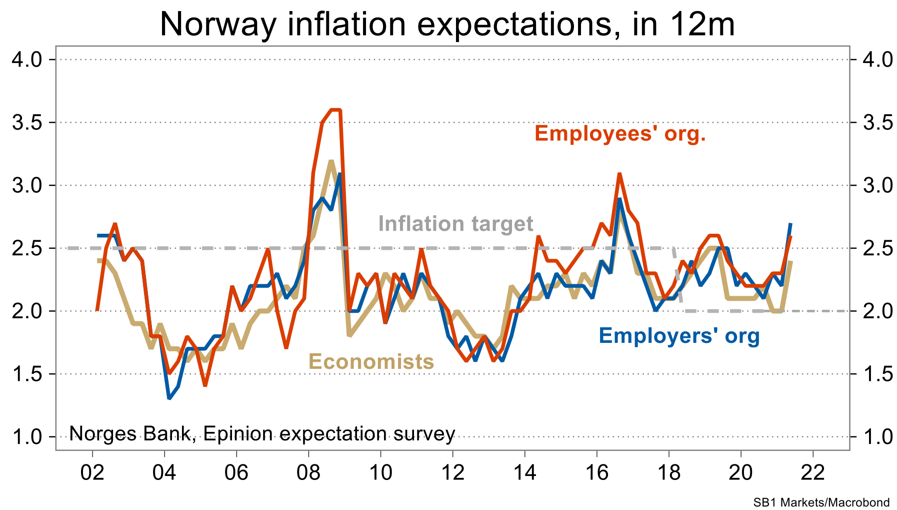
In sum

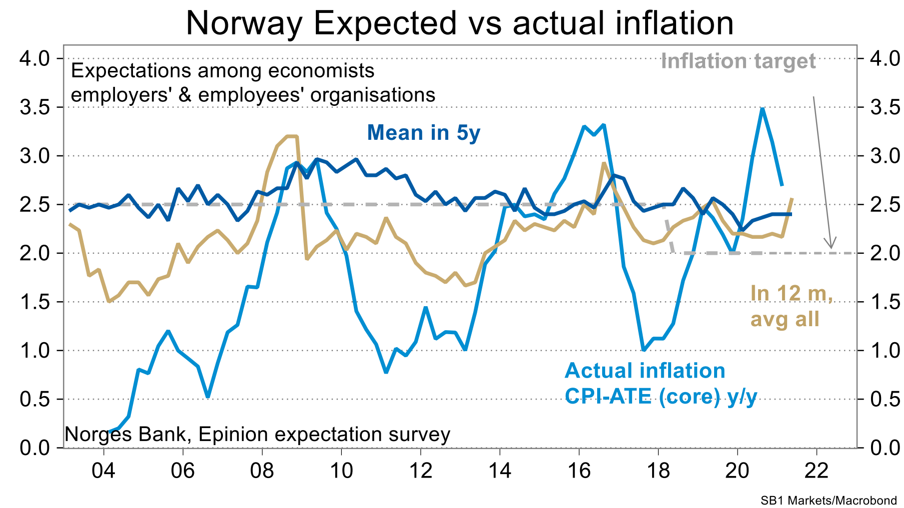
- Wage inflation is picking up steam but remains moderate – and, <u>will not – at the current levels – challenge the 2% inflation target</u>

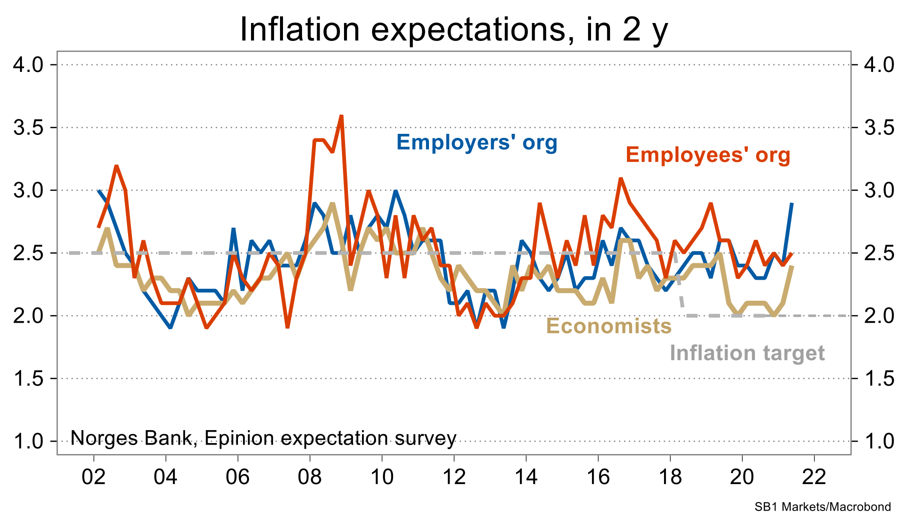
SpareBank 1 MARKETS

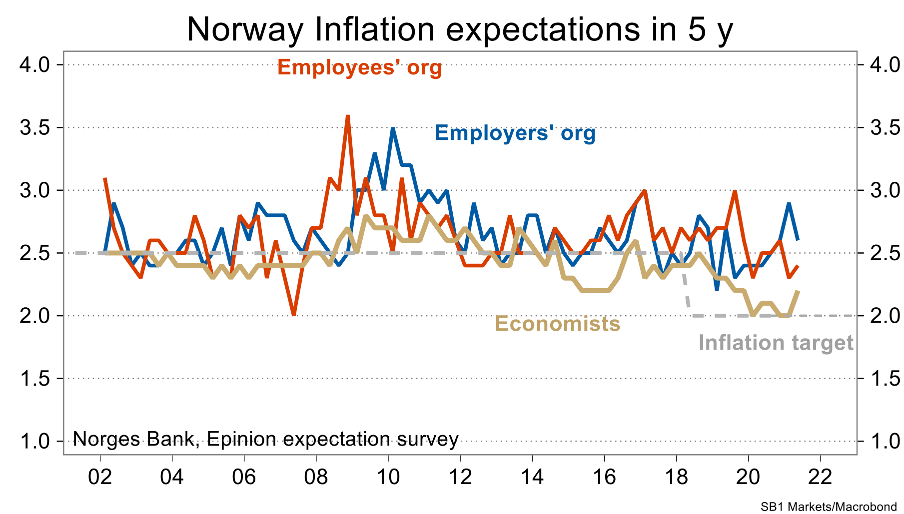
Short term Inflation expectations up, not longer term expectations

Labour market organisations expect some 2.5% inflation long term, just economists (almost) believe in the 2% targ









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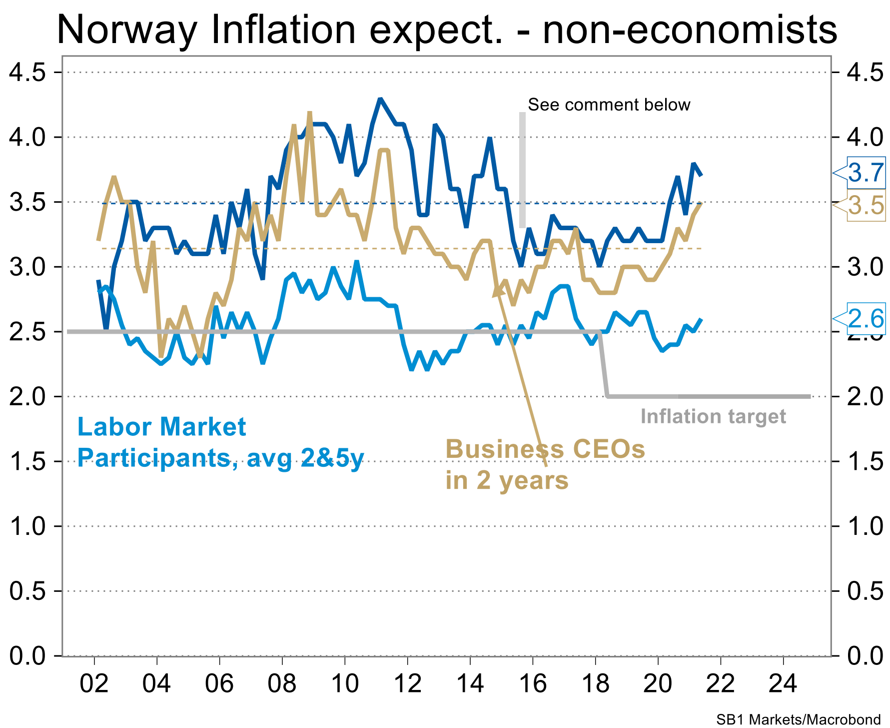
Inflation expectations: Nobody (barring some few economists) believes in the inflation target?

We assume that business leaders' & households' expectations are more important than economists'



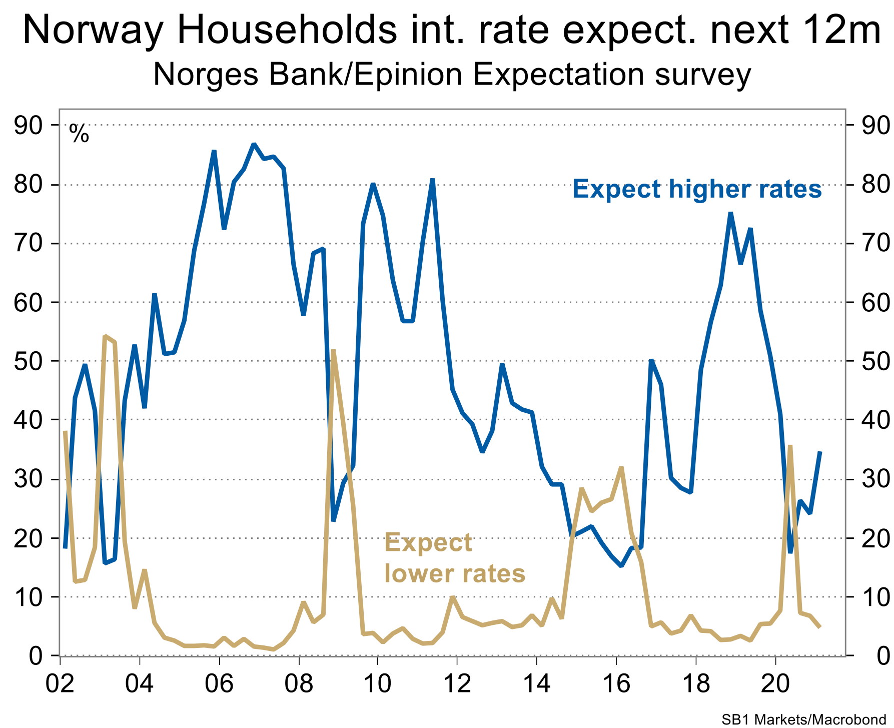
Business leaders' & households' expectations are rising sharply to well above normal (very high) levels

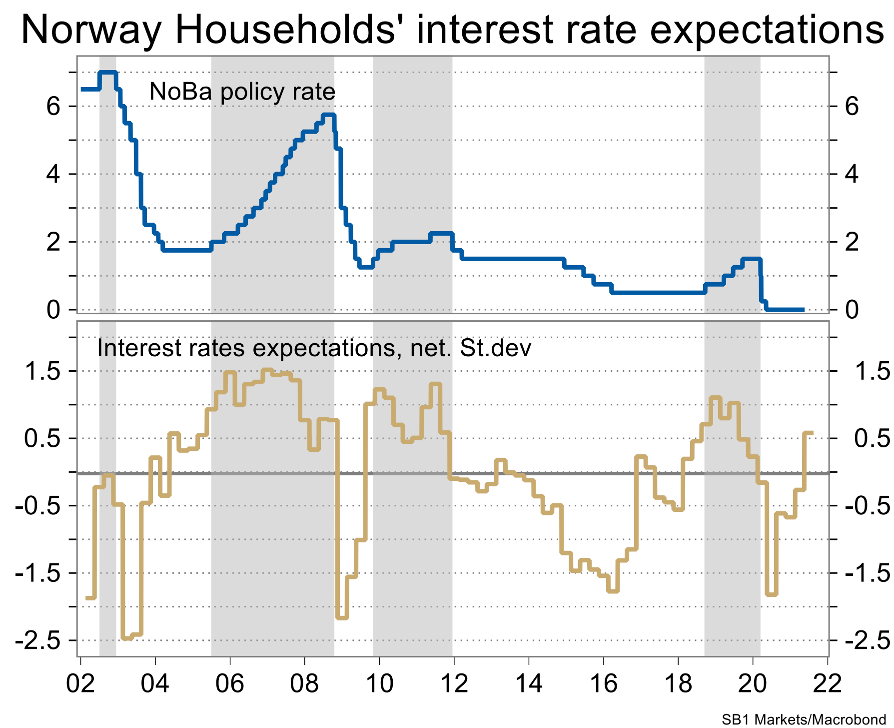
- **Labour market participants** (leaders in trade unions & employees' assoc.) are probably listening to their economists, and they expect a 2.6% longer term rate of inflation, in line with their average expectations (2.6%) – but unaffected by the 50 bps cut in the inflation target in 2018
- **Business leaders** are expecting a 3.5% inflation rate in 2 years time – up 0.6 pp since before corona, and higher than their average expectation (3.1%) (and no impact of the lower inflation target)
- **Households** have always expected incredibly high inflation going forward (even after an adjustment of data prior to Q1 '15, due to a clarification of 'inflation', see below) – on average 3.5%. Now, **they expect 3.7% in** 2 to 3 years time, up 0.5 pp from before corona
  - » Should we just ignore these 'silly' expectations, or should we reflect on them?
  - » We should at least put some emphasis on the significant rise in inflation expectations – to above average levels
  - » **Perhaps we could even explain demand for credit from households by the 2 pp negative gap between mortgage lending rates and expected inflation?**

The questions regarding expected inflation in 2 or 2 – 3 years time for business leaders and households were slightly altered in Q1 2015 survey. Since then, they have been asked about the expected rate of annual inflation in 2/2-3 year time, not just 'inflation' which could have an unambiguous interpretation. Household revised their expectations down by 0.6 pp in the Q1 '15 vs the Q4 '14 survey due to this clarification. Business CEO's revised their expectations a tad upwards. Since there were no other major change in actual inflation or inflation expectations among other groups during these months, we have just revised households' expectations down by 0.6 pp pre Q4 '14.

Interest rate expectations have turned upwards, as they should

Households are often ahead of the curve when NoBa (well communicated) starts hiking

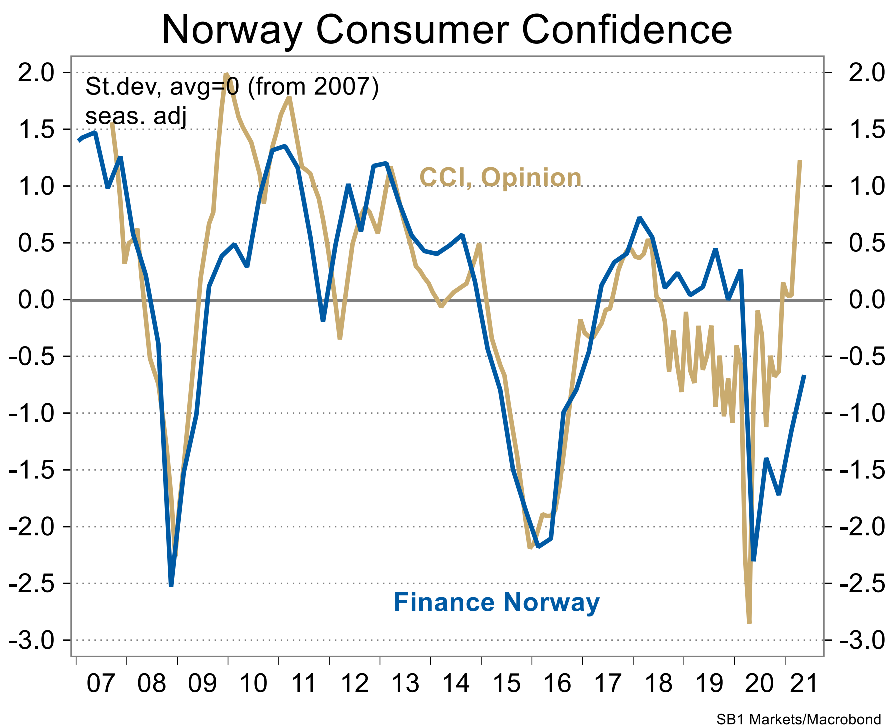


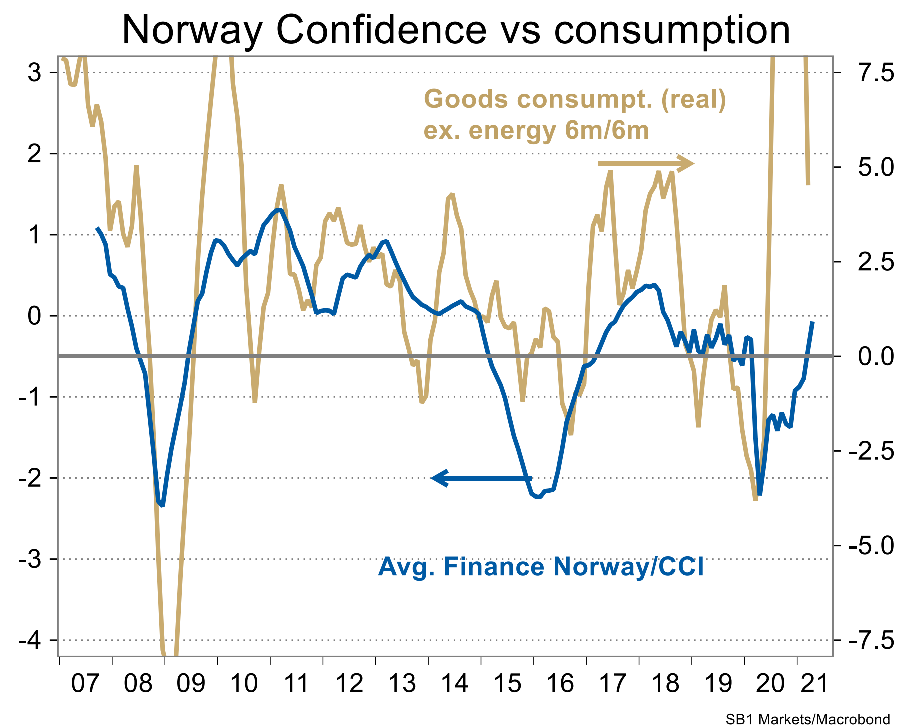


- Still, just 35% of households expect Norges Bank to hike the policy rate the coming 12 months. Wonder what they know, that NoBa, markets or we do not?
- 5% expect Norges Bank to cut its signal rate

Finans Norges' Q2 consumer confidence up but far less than we assumed

The survey rose to -0.7 st. dev below average, from -1.2, we expected something far better



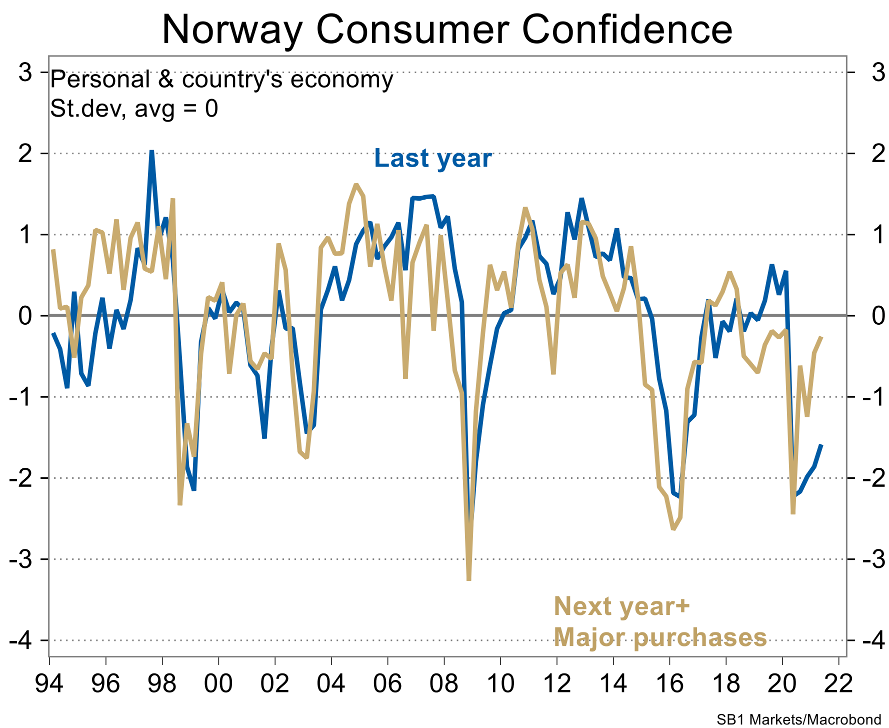


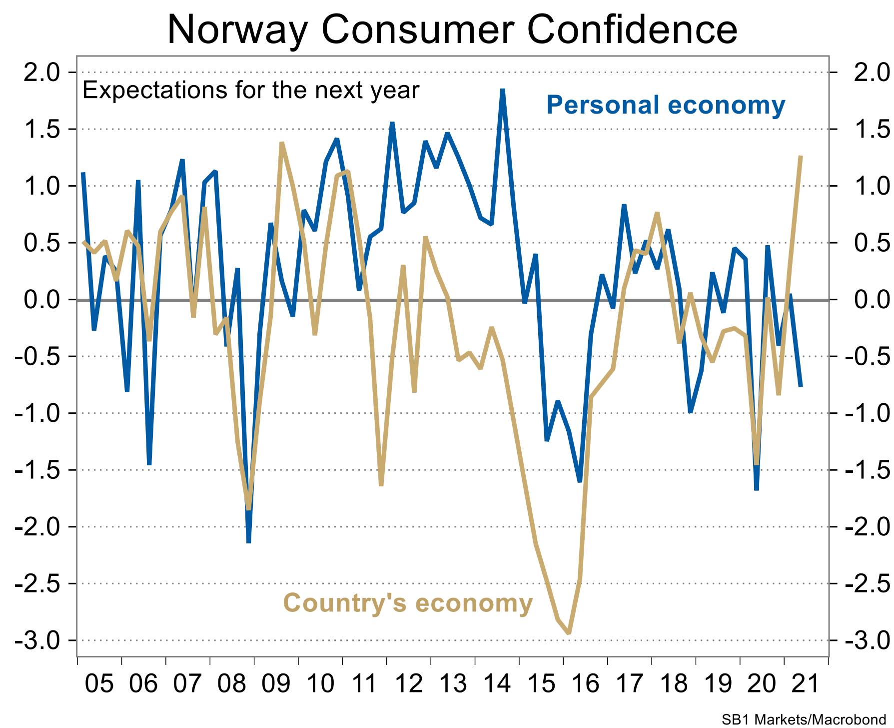
- Finance Norway's quarterly consumer confidence index climbed to +2.5 in Q1 from -3.2 in Q1 but the average index is approx. 12 since 2007 – which was a modest estimate, we thought
  - » The monthly CCI from Opinion is 1.2 st.dev above average, to the best level since 2011, following a surge the recent months. The gap between the two surveys is strange
- Big item purchases are still out of favour (barring buying a house, of course), as is understandably travel

SpareBank 1 MARKETS

Households very optimistic on the behalf of the economy, less so with own ec.

The outlook for their own economy fell to well below average

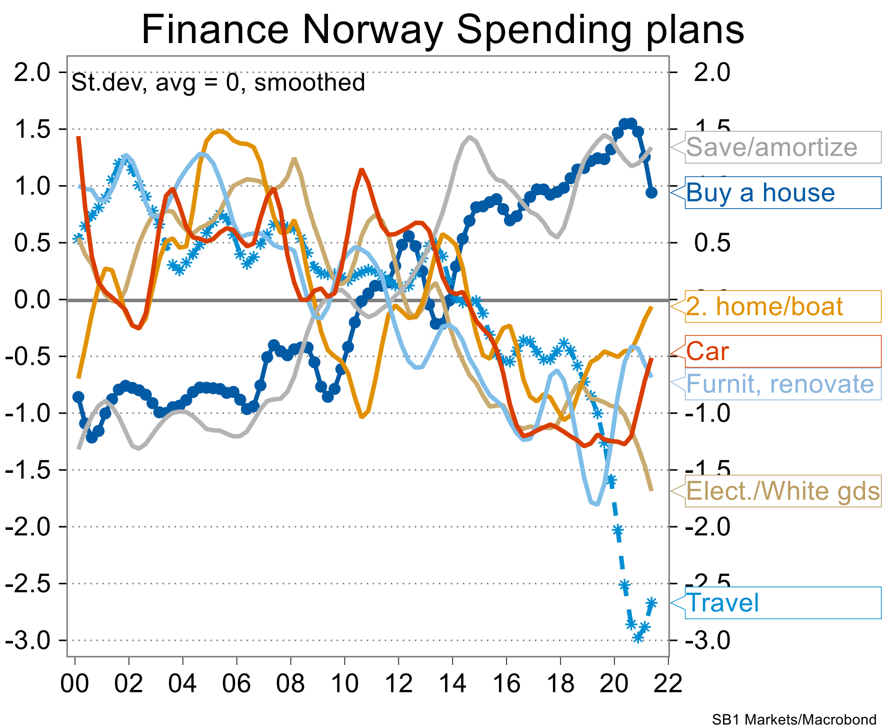


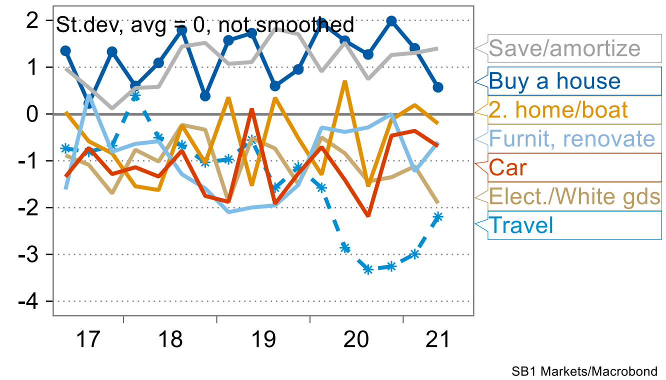


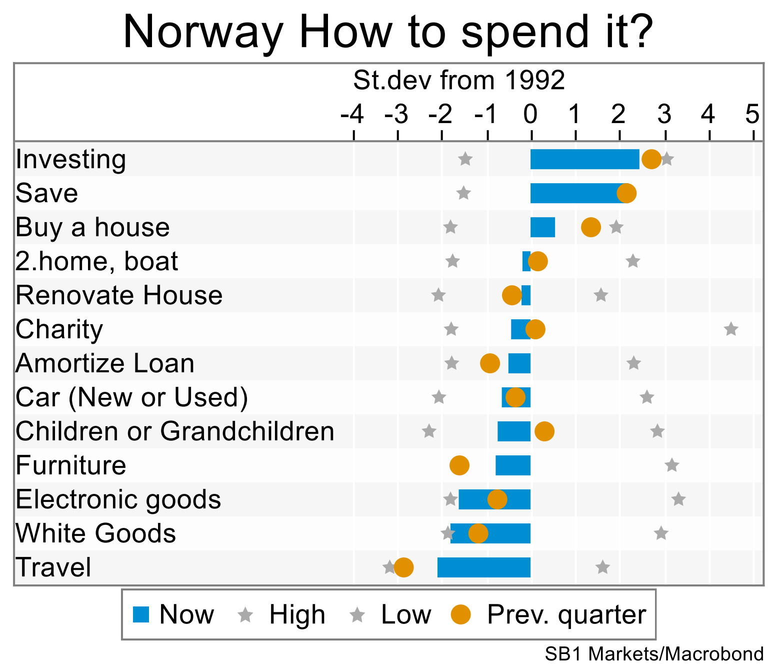
- The **forward looking components** in the index (equally weighted by us) rose in Q2 but not impressively
- Household expect their **personal economy** to be weaker than normal the coming year – in contrast with the outlook for the overall economy. Households do not think the timing for buying big ticket items is favourable (the only reasonable explanation may be that they have bought all the big ticket items they need for a while?)
- There are no recognisable **regional, age or income** differences, as usual
  - » Even during the 'oil crisis', confidence in South/West was just marginally below other regions

Travel plans up, still (understandable) well below par. Investing/saving in vogue

Less appetite for new home – and 2nd homes/boats just at average, cars below





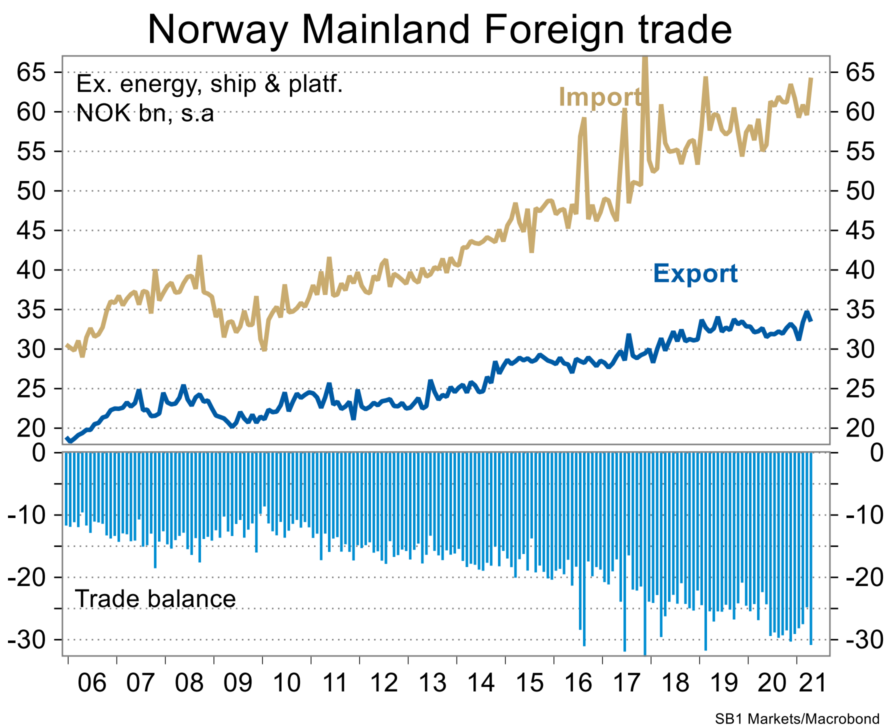


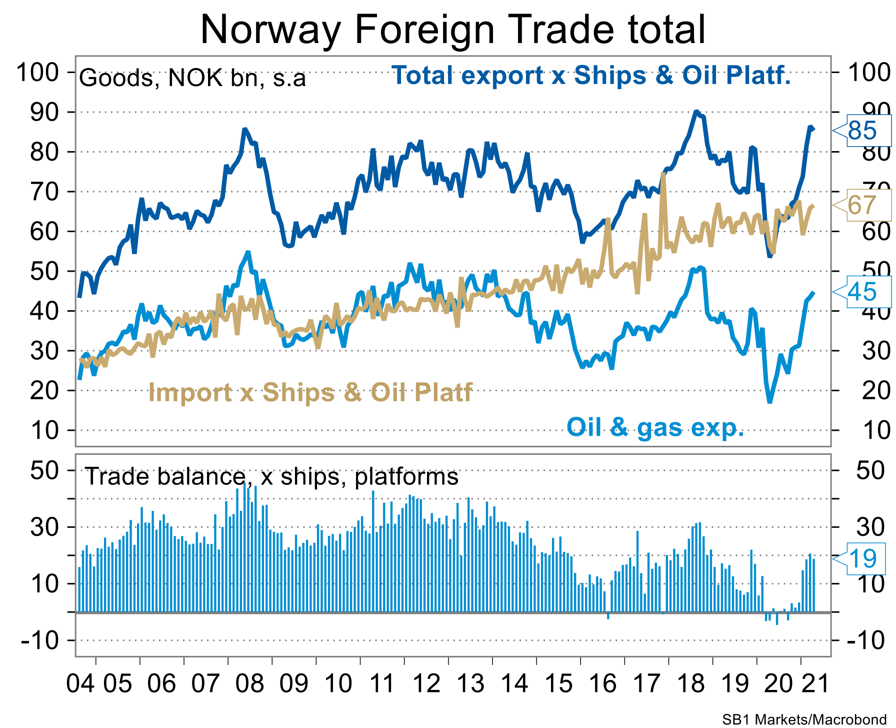
- Demand for 2. homes and boats has been reported very strong, while consumers say they do not plan to buy more of the stuff than they normally to

SpareBank 1 MARKETS

Mainland trade deficit sharply higher in April as imports jumped 8%

Total balance surplus was kept almost unchanged, equaling 8% of GDP

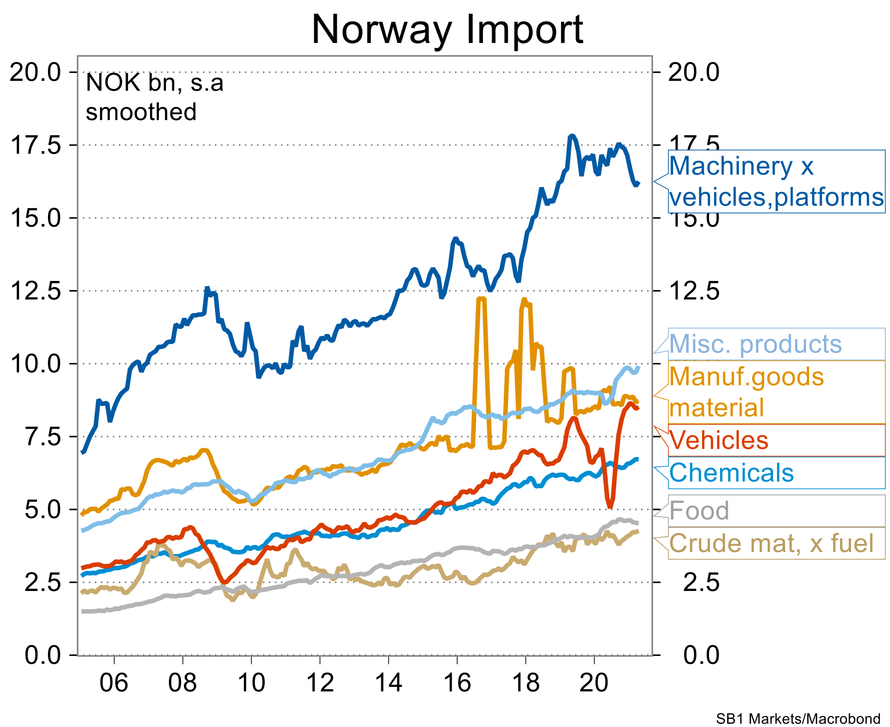


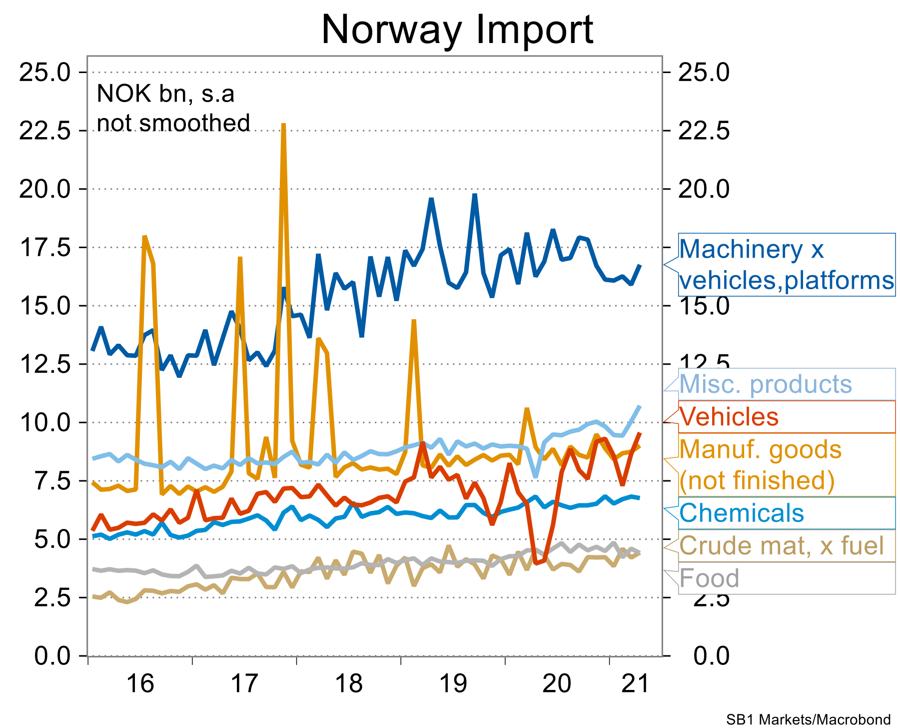


- The Mainland (non energy) trade deficit in goods rose sharply in April, after decreasing the 4 previous months. Non-energy exports were at ATH in March, and although exports were down NOK 1.3 bn in April, the level is still strong. The main contributors on the downside for exports were fish, metals, and other manufactured goods
  - » However, over the past 2 years Mainland exports are not that impressive
- Strong domestic demand for goods have kept imports up (+9% vs pre corona). The import of vehicles were up by almost 11% m/m, while machinery was down 5%
- Export of oil and gas, helped by higher prices, is well above pre corona levels, totalling 42 bn in April (+1 bn m/m), bringing the total trade surplus to 19 bn, or some 8% of GDP. We are not broke, yet

Vehicle and machinery imports up in April

Auto imports up 46% since before the virus hit, now far higher than ever before

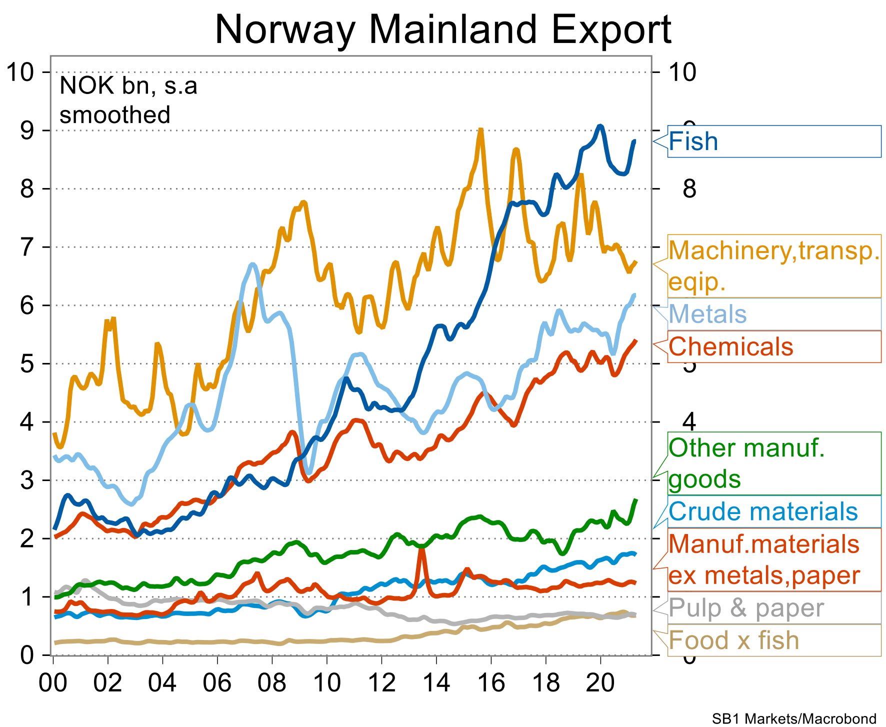


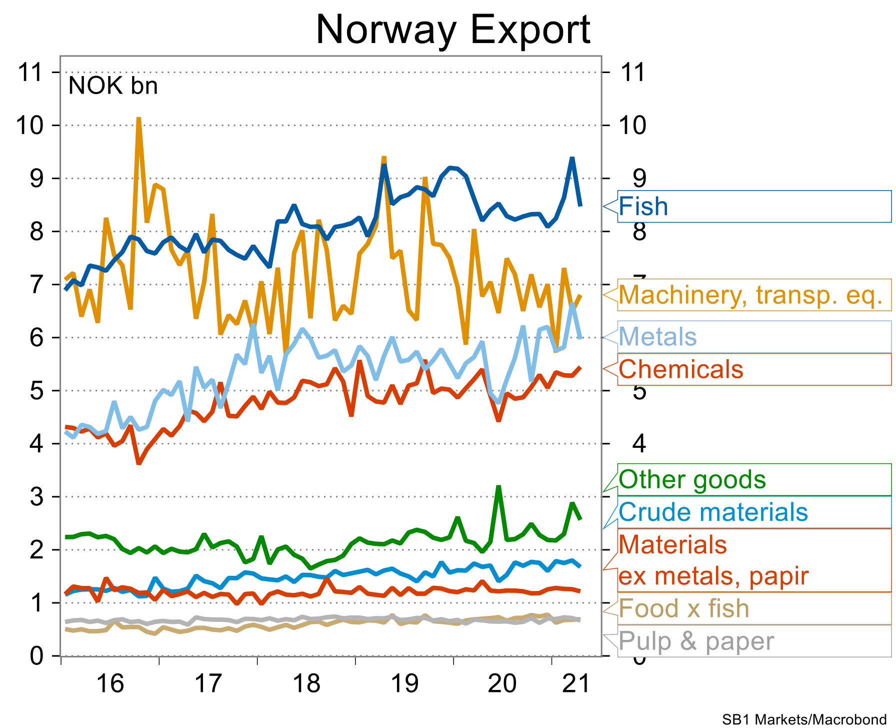


- Imports of chemicals, food, and machinery have all increased y/y. Machinery imports declined from October till March, and increased by 0.9 bn (5%) in April. Manufactured materials more or less flat recent years
- Vehicle imports slowed rapidly in H2 2019 and early 2020, along with auto sales. Since April ‘20, imports have shot up to the highest level ever

Fish, metals, and manufactured goods exports lower in April

Fish exports up 5% y/y, but cod exports down almost 30% y/y; both lower prices & volumes to blame



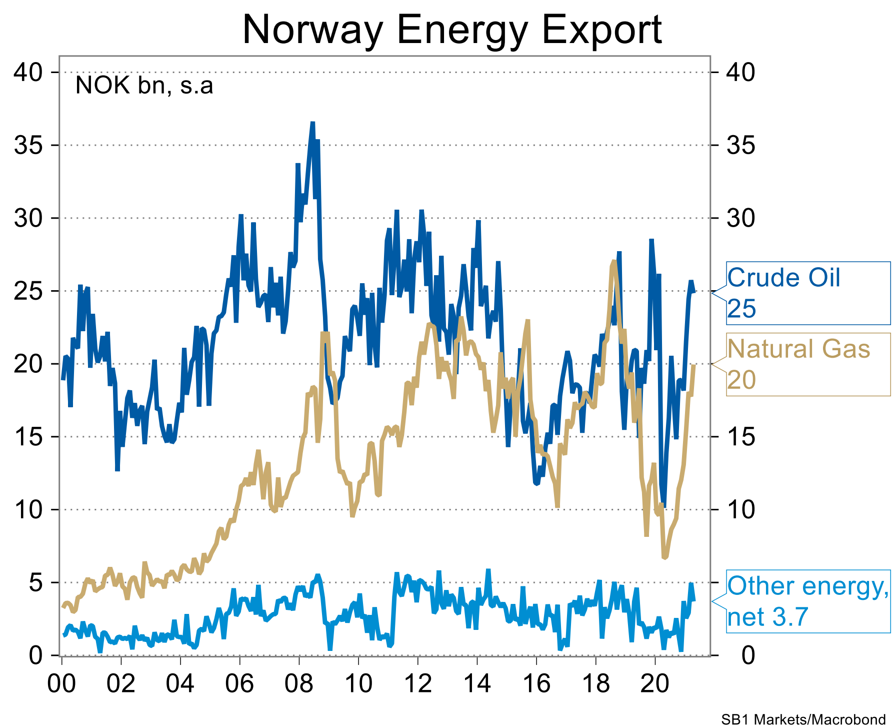


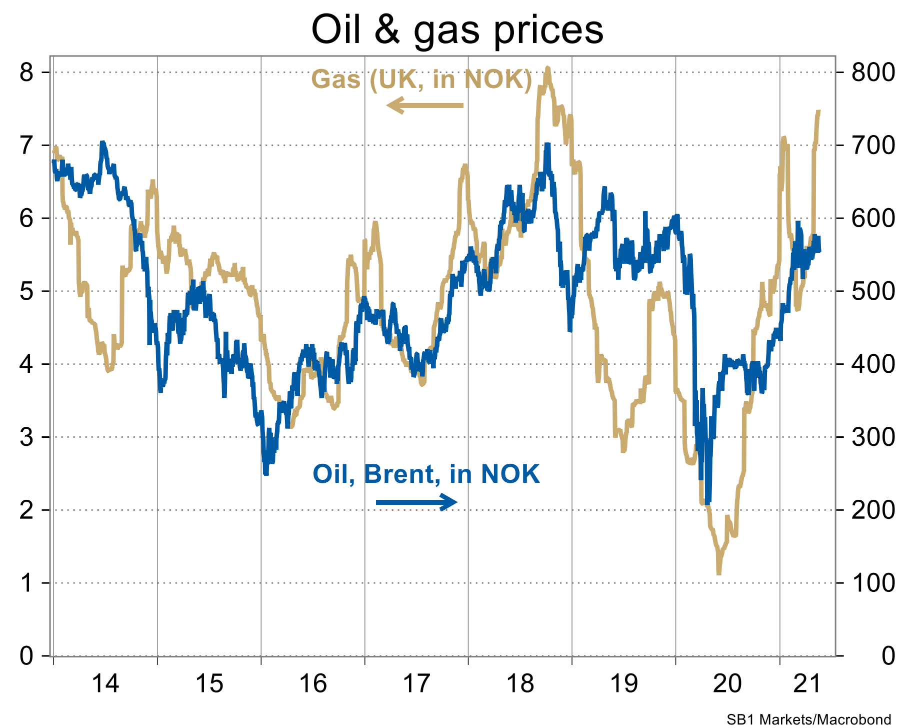
- Exports of machinery and transport equipment (of which much is related to oil activities abroad) is trending down, due to lower oil sector investments abroad
- The main contributors to the m/m decline in exports were fish, metals, and other manufactured goods

SpareBank 1 MARKETS

Oil & gas exports sharply up recent months

Oil exports up 150% in value terms from last year, while in volume terms practically unchanged

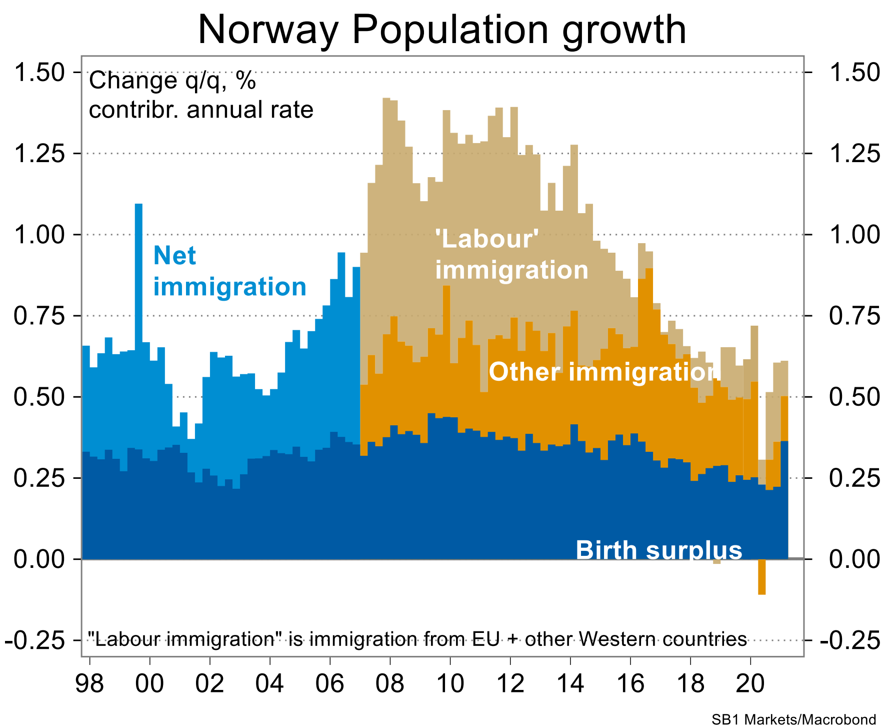


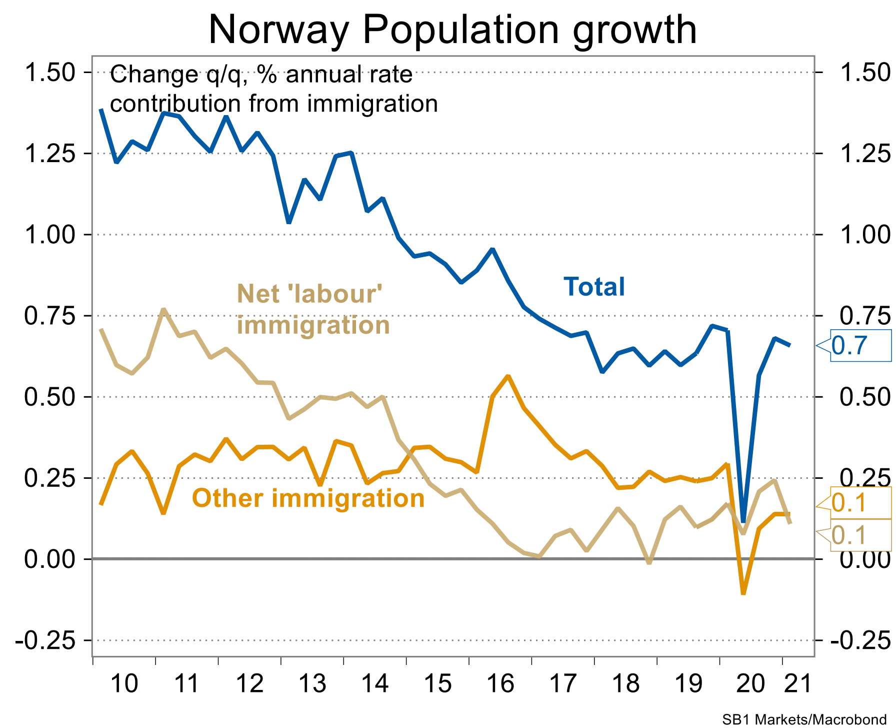


- **Crude oil** exports (in NOK bn) fell rapidly in March and April 2020 as the oil price dropped and global demand subsided. Exports have turned up since then, with the oil price, and exports have recovered
- **Gas** export values fell sharply during H1 but has recovered to above pre-corona level as gas prices recovered substantially during H2 last year, and in January. Gas prices then fell in February before increasing again in March and April. Export volumes are up almost 7% y/y

Large birth surplus in Q1 – highest in 5 years

More births and far fewer deaths following the pandemic

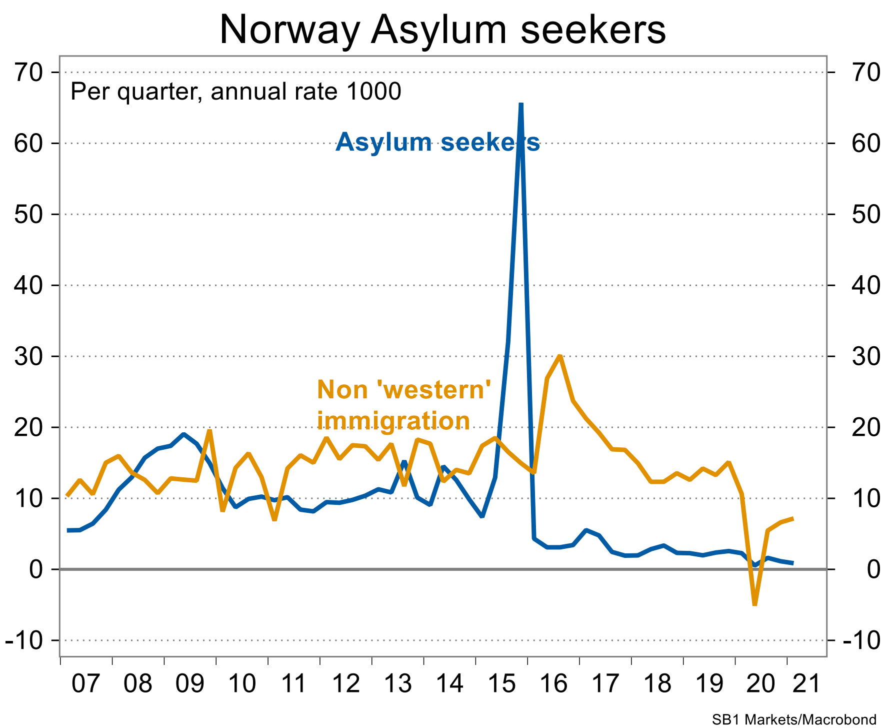


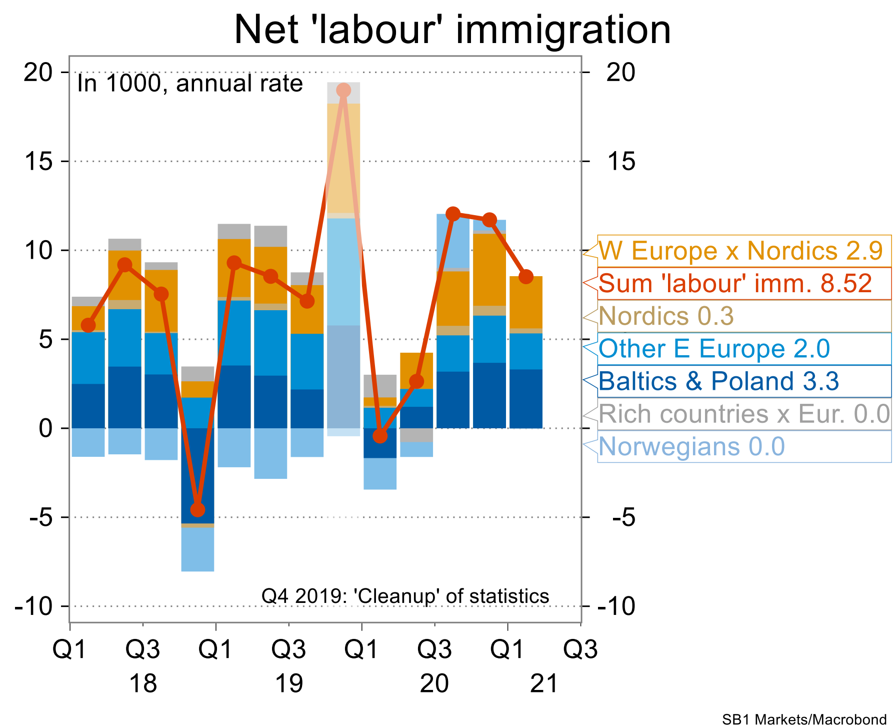


- Total population grew by 7,400 in Q1, equalling some 0.6% annual rate
  - » Both labour immigration and other immigration have been low during the pandemic, and it is safe to assume that immigration outside of work purposes will increase ('normalise' as the virus recedes. Labour (EU/Western) immigration depends on demand for labour in Norway, and in the EU
- In Q4, and partly in Q3 and in Q1 '21, labour immigration was quite high. Have more foreign workers chosen 'to stay', instead of travelling back and forth?

SpareBank 1 MARKETS

Non ‘western’ immigration higher in Q1, while ‘labour’ immigration fell

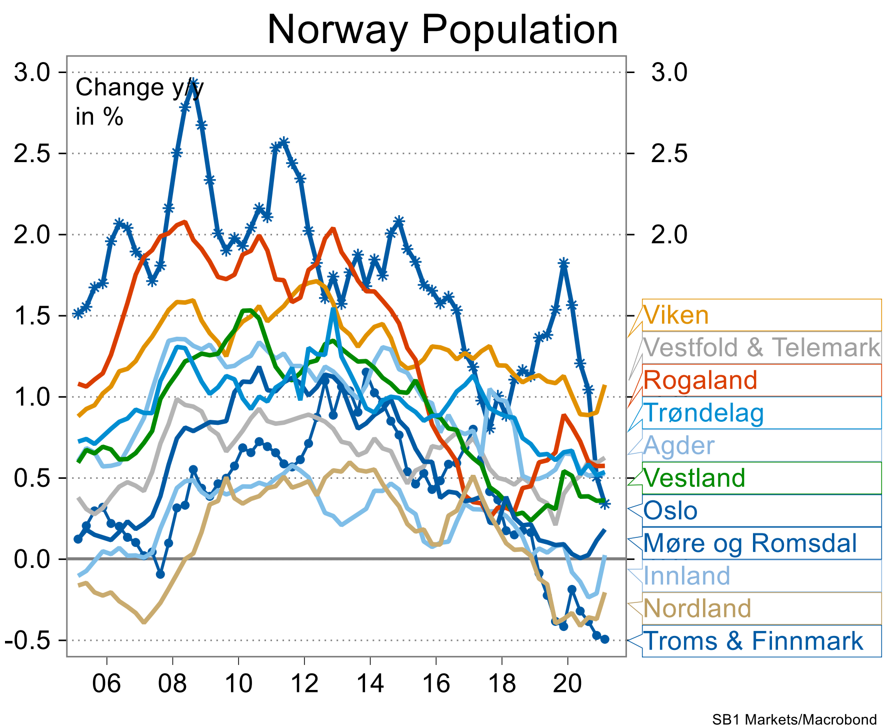


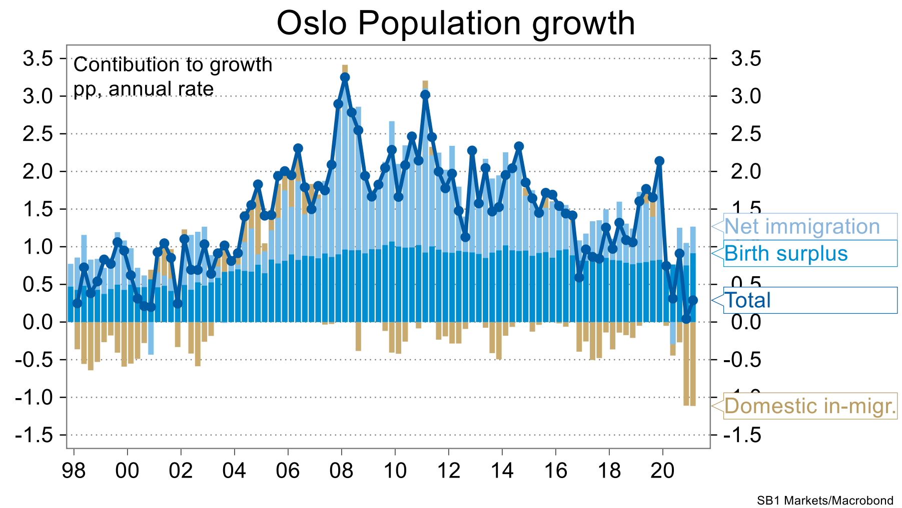


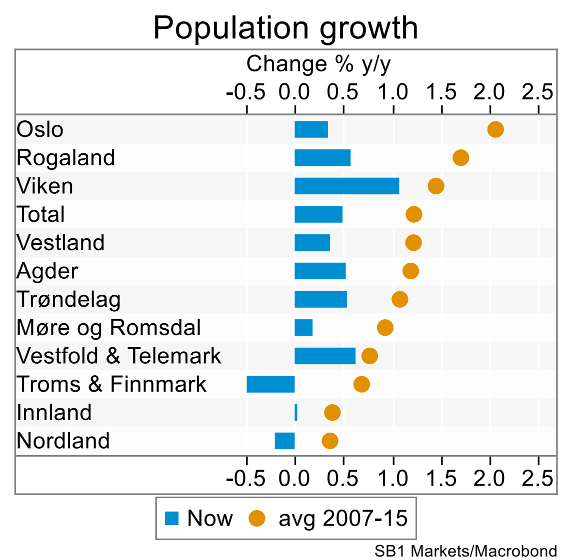
- Growth in non-western immigration fell back to ‘normal’ before corona, following the ‘Syrian’ surge in 2016. During the corona quarters, non-western immigration fell to the lowest level ‘ever’ in 2020, but increased somewhat in the first quarter this year
  - » The inflow of asylum seekers fell further, from a low level
- Immigration from European countries was down in Q1, apart from immigration from Eastern European countries ex. Baltics & Poland, and the level is somewhat lower that before the pandemic

Record large domestic out migration from Oslo and larger cities

…and a continued decline in the North



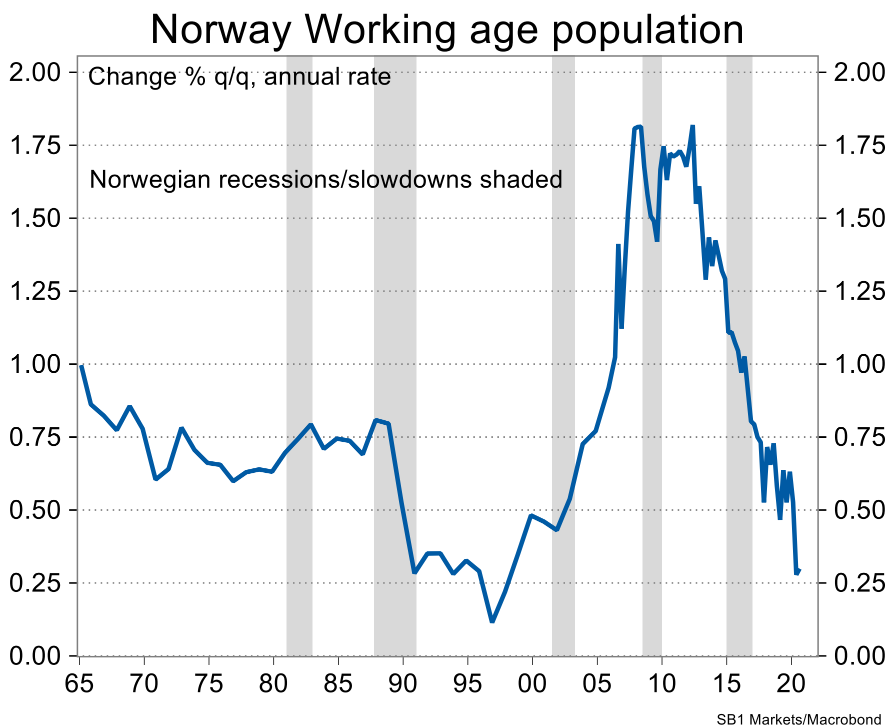




- From 2012/13 until 2018, population growth slowed in most regions – but the least in Viken (Akershus kept up best). Following a mini immigration wave in 2019, growth is slowing sharply in Oslo, and the population grew by only 18 persons in Q1, mainly due to a substantial out migration to other parts of Norway
- Population growth has cooled substantially in all other regions, to below 2010-2015 levels. <u>Due to accelerated domestic out migration, population is falling rapidly in the 2 northern counties</u>

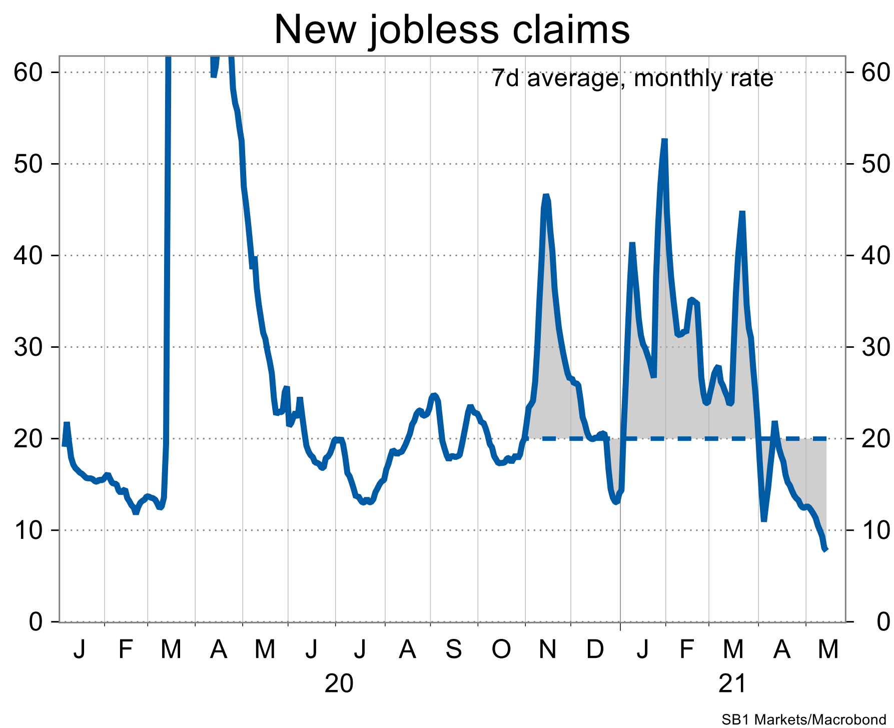
Working age population growth has fallen to the lowest level since late 90'ies

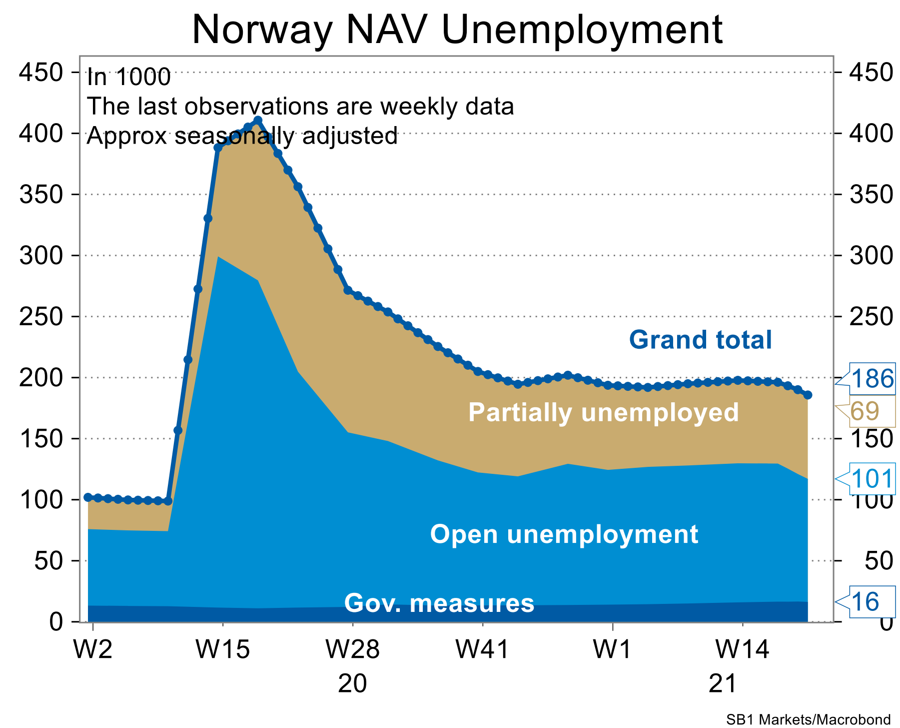
Growth at 0.3% last year and in Q1. At the peak some few years ago: 1.7%



‘No’ new jobless claims, unemployment will fall sharply in May

And May will not be the last month…

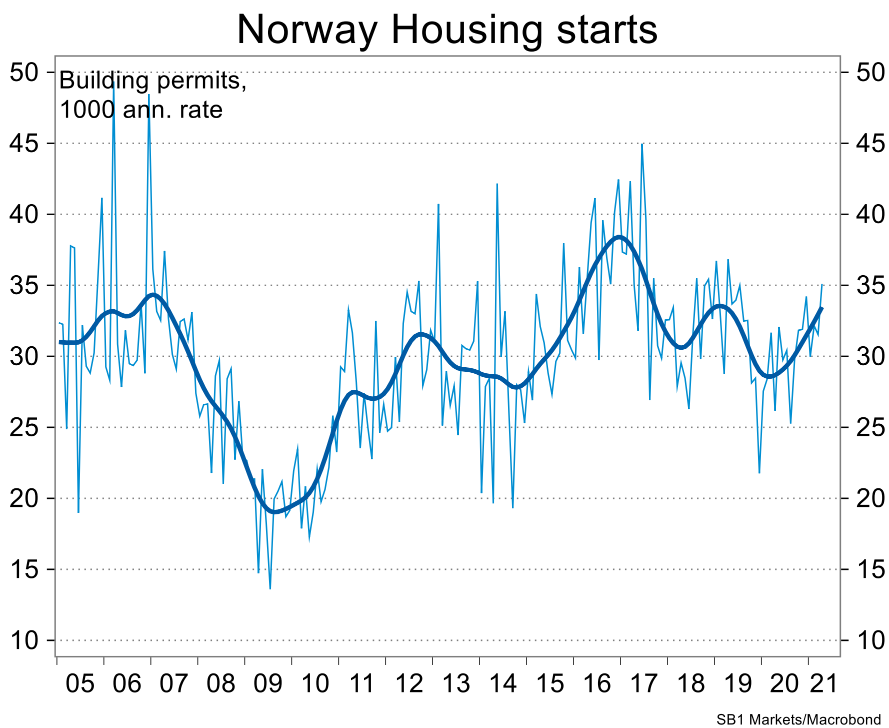


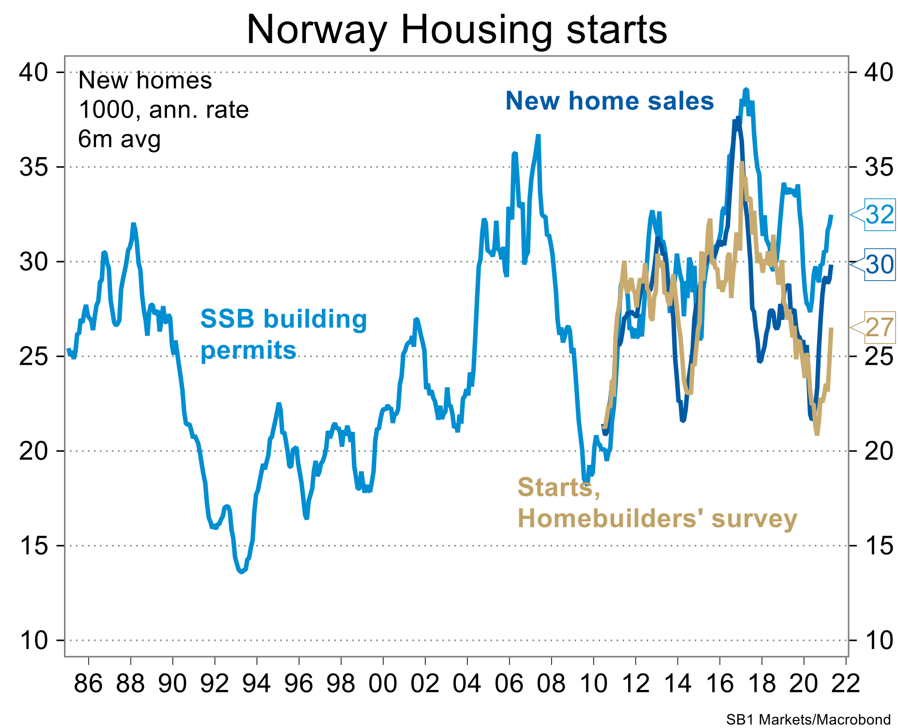


- The no of fully unemployed is declining by some 5’ per week, and we expect more than a 0.5 pp reduction in the seasonally adjusted unemployment rate in March

SSB: Building permits sharply up in April, trend sharply up too – well above 30’

Confirm Homebuilders’ sales & start data

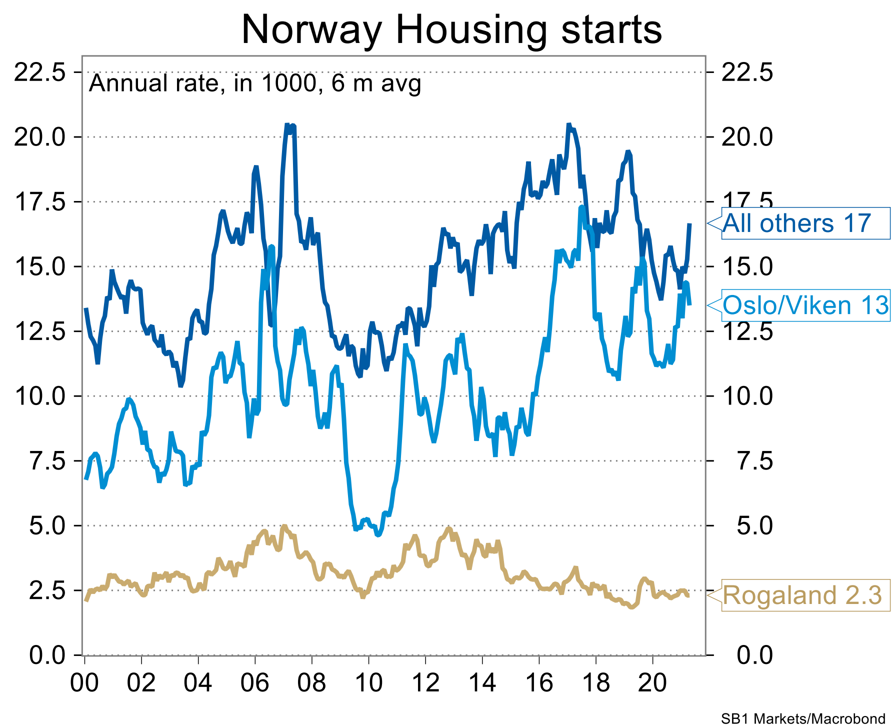


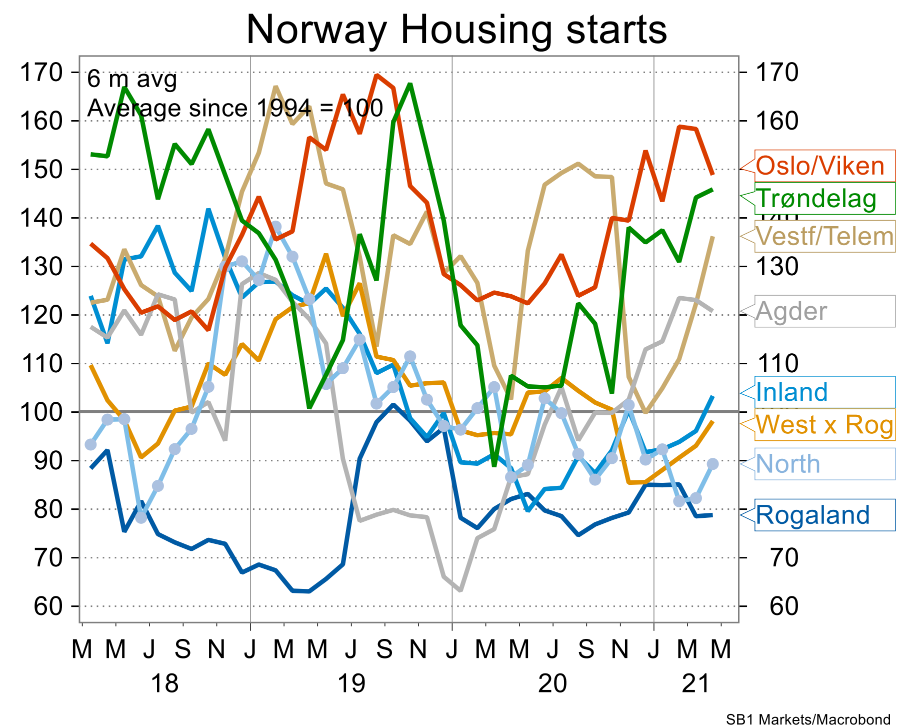


- According to **SSB**, building permits climbed to 35’ in April up from 31’ in March – a smoothed trend is at 33’ up from a local through at 28’ in early 2020
- **Homebuilders** reported an unusual lift in housing starts in March, to 36’ from 20’ (which was far below sales), and the level was unchanged in April (the 6 m avg is still just at 27’)

Starts down in Oslo/Viken, but are still at a high level. Starts down in Agder too

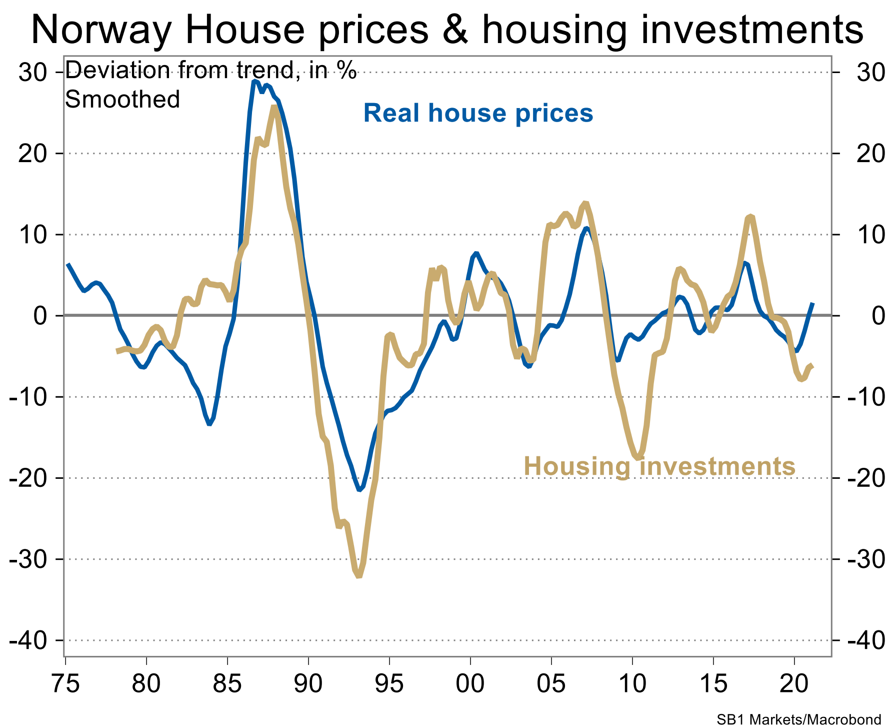
Starts up everywhere else, but below par in Rogaland, Vestland, and in the North

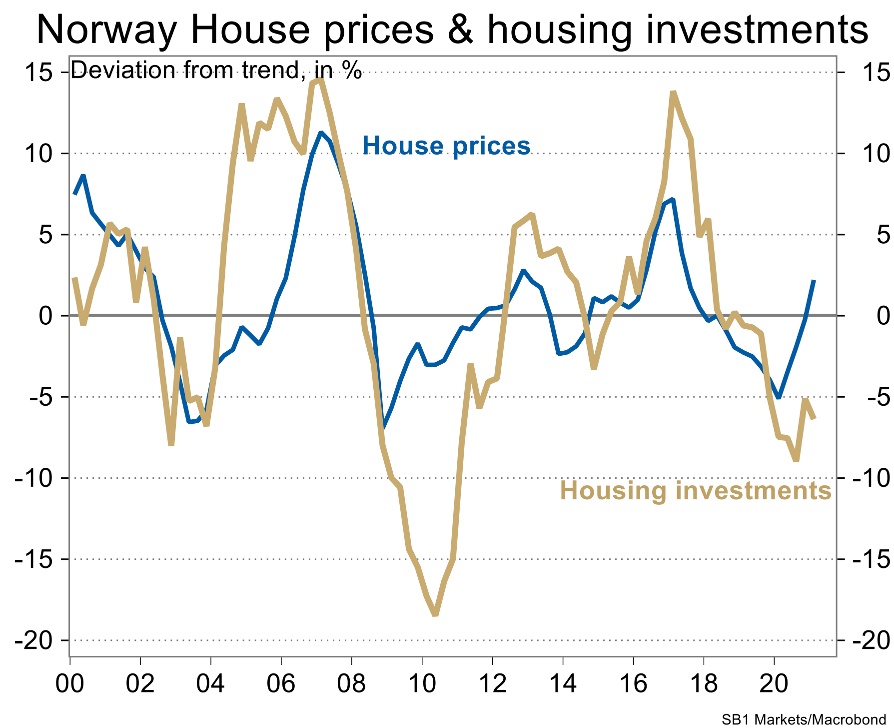




Housing starts/investments normally in tandem with house prices, no surprise

Prices have turned sharply up; housing starts/housing investment will follow

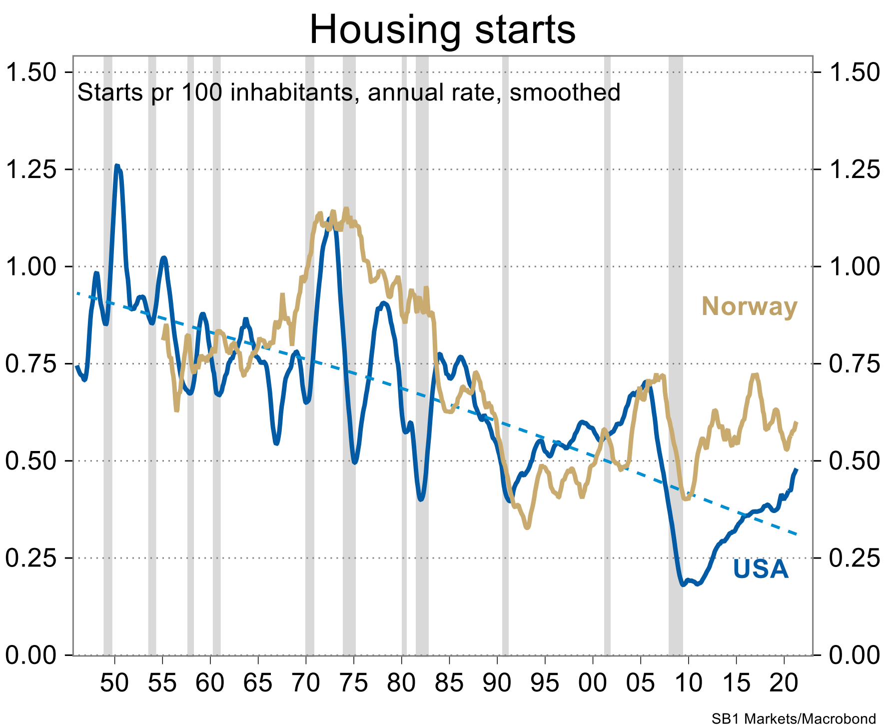


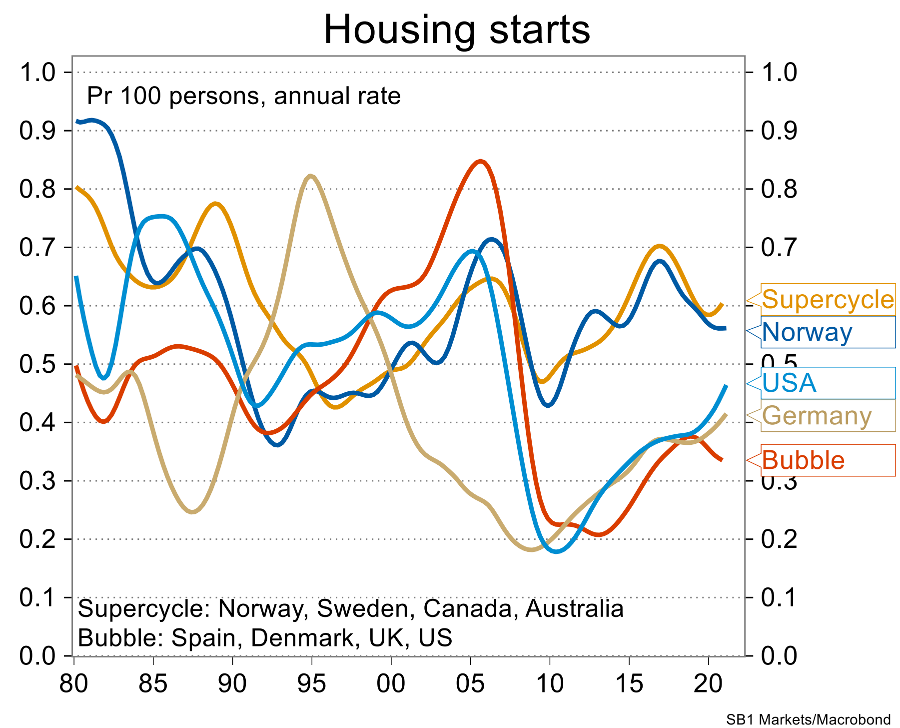


- But investments were marginally down in April

Home building in Norway has been high vs. most other countries

However, Norwegian housing starts are in line with other 'super-cycle' countries



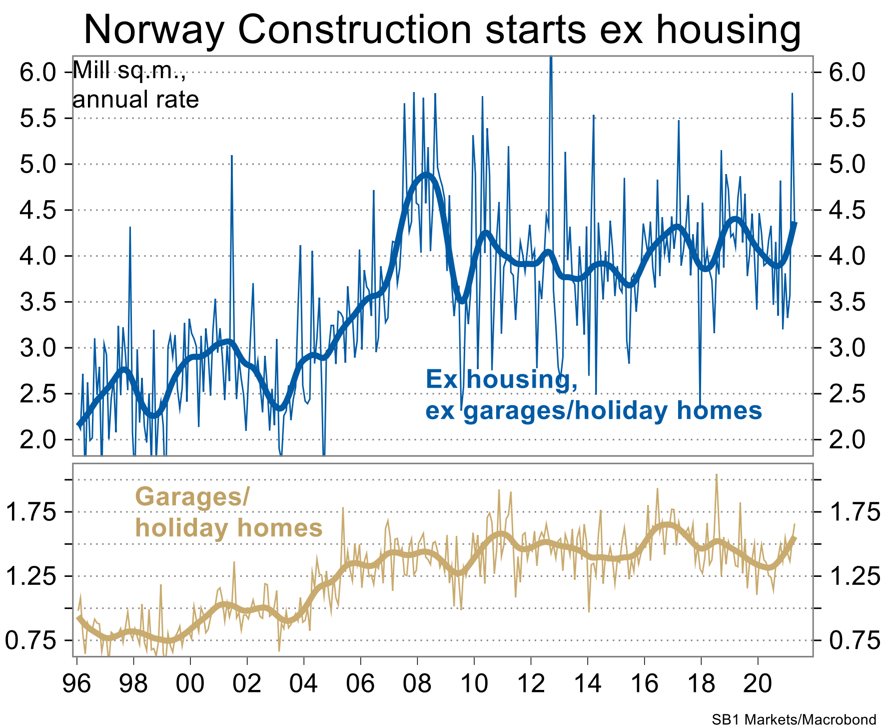


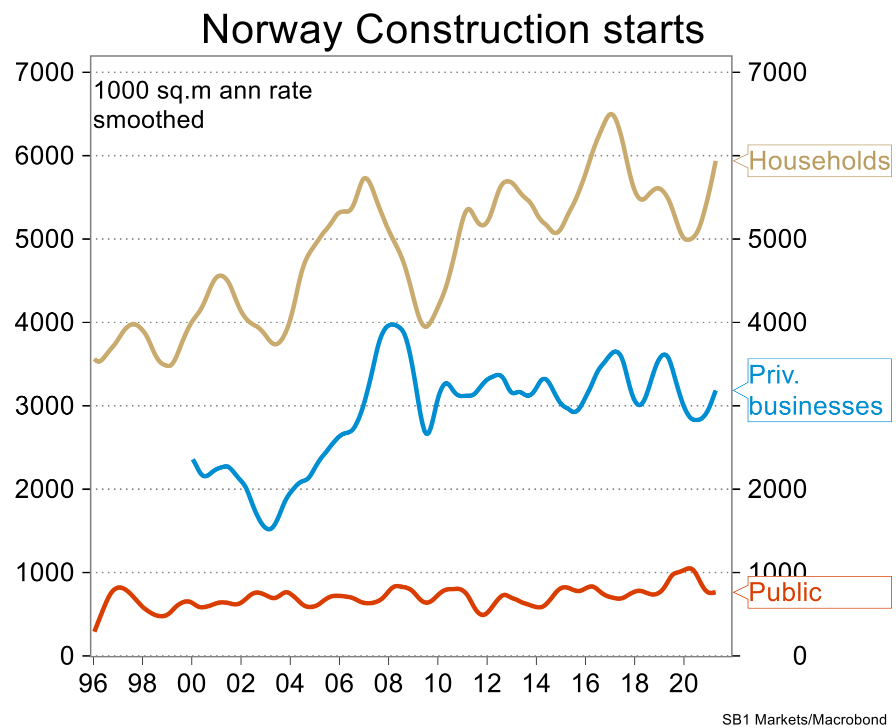
- The housing start cycles among the super-cyclicals (Australia, Canada, Norway, Sweden) have been closely correlated the past decades (for a better picture, flip to the next page). Since 2017, starts fell in both Australia, Sweden and Norway, and more modestly in Canada. We guess the boom in the 2nd hand house markets in these countries will stimulate new starts – which we just now are seeing
- House prices and debt inflation are higher and rental yields are lower in these super-cycle countries than other DMs. We guess it's because interest rates have been too low for too long, as rates fell more or less to the same level as in countries that actually needed a strong monetary stimulus after 2008 housing market/financial/real economy crisis

SpareBank 1 MARKETS

Non-residential construction on the strong side in both March & April

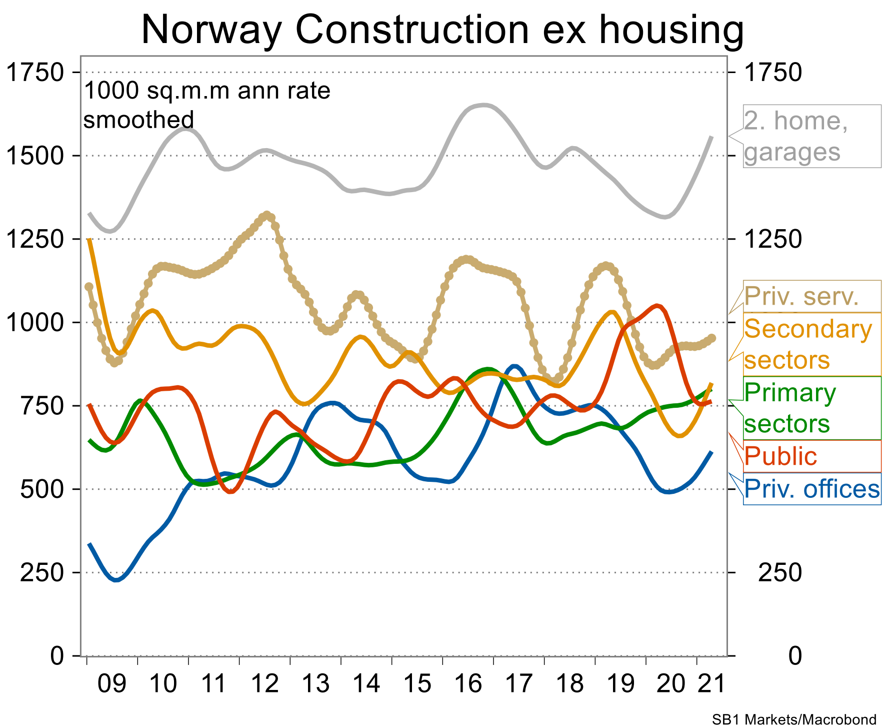
The private sector has turned cautiously upwards

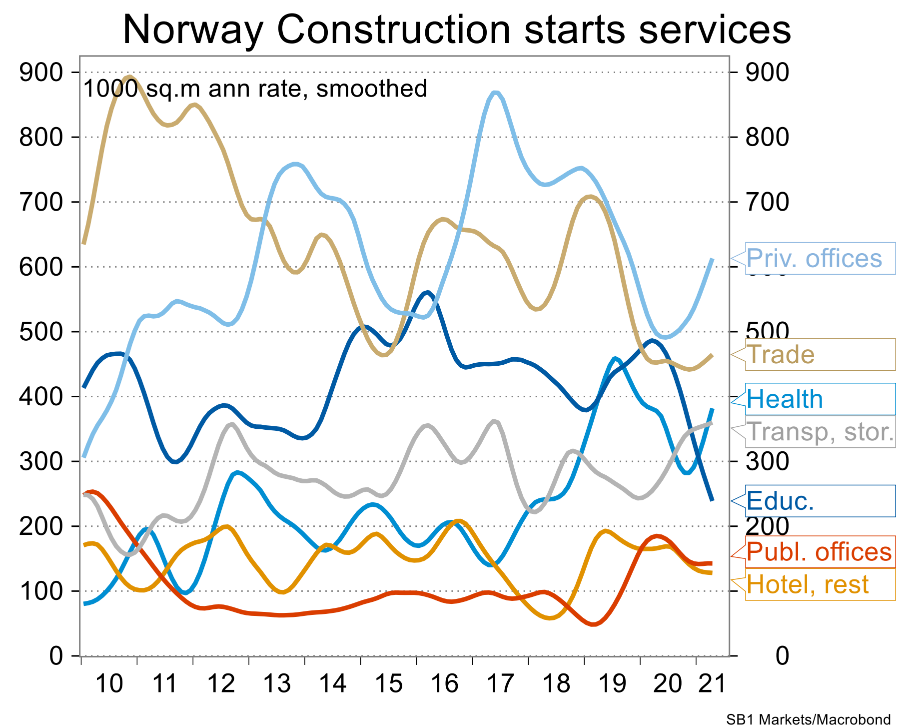




- **Construction starts ex housing & garages/cabins** peaked in early 2019, and trended down until recently
  - » **Private non-residential starts** have increased somewhat recent months, from a rather low level
  - » **Public sector construction starts** have been trending down, the level is close to normal
- **Construction starts of cabins/garages** is heading sharply up, following a decline from the peak in 2016. Given the surge in demand for second homes, that's not surprising. The level is still not above the past 10-year average (at least not smoothed)

Volatile details: More private sectors' building activities are heading up



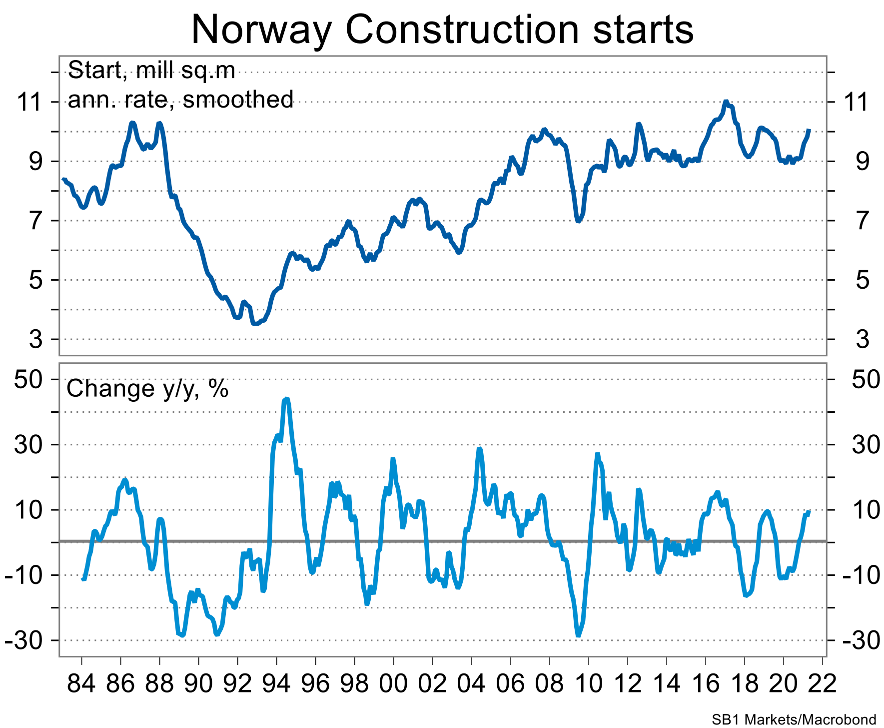


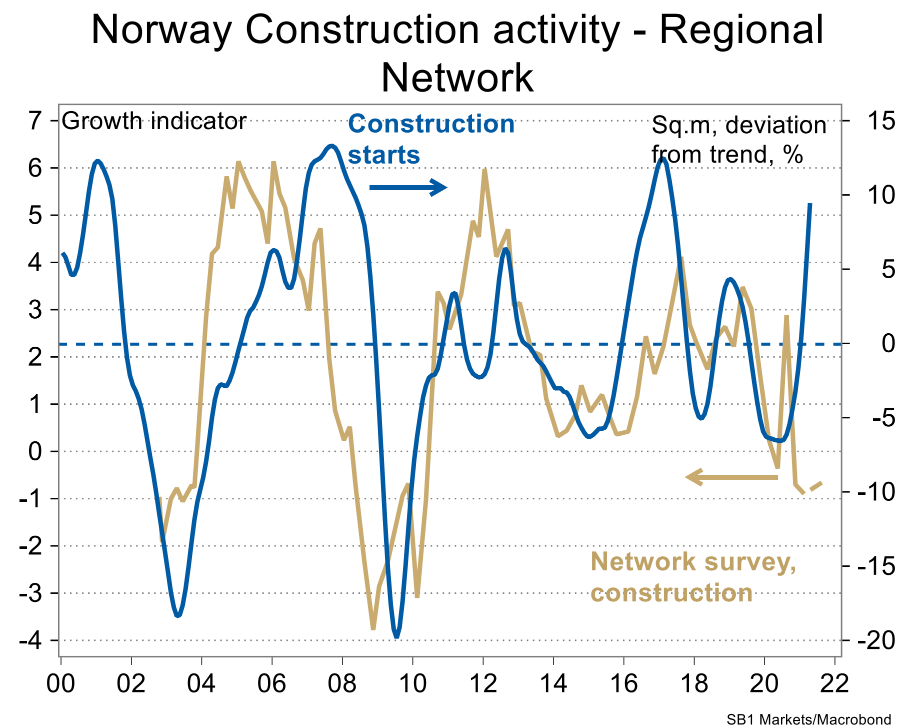
- Education has lost steam, no big projects started recently

Public on the chart to the left, and at the previous page: Construction starts in public administration, education and health

The Q1 NoBa Regional Network signalled weak construction activity

Network report/expect activity below par. Actual data not weak at all





- Actual starts are marginally up y/y, residential up, non-residential down. The level is below average over the past 15 years, and below our mechanical trend

Highlights

The world around us

The Norwegian economy

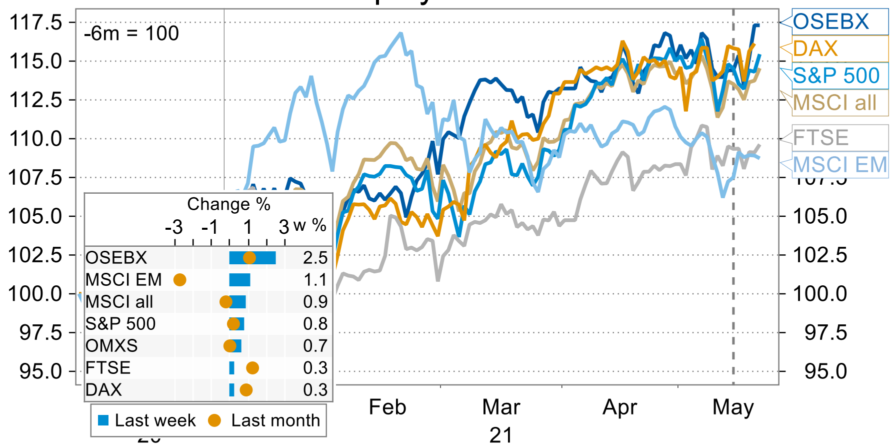
Market charts & comments

SpareBank 1 MARKETS

OSE straight up, even though the oil price declined (recovered on Monday)

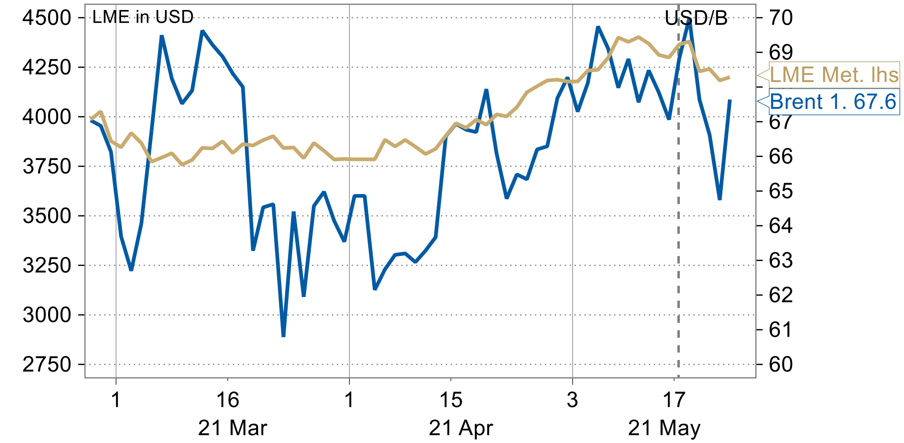
Metal prices fell too. Stock markets up, bond yields down. The NOK nosedived

Equity Indices



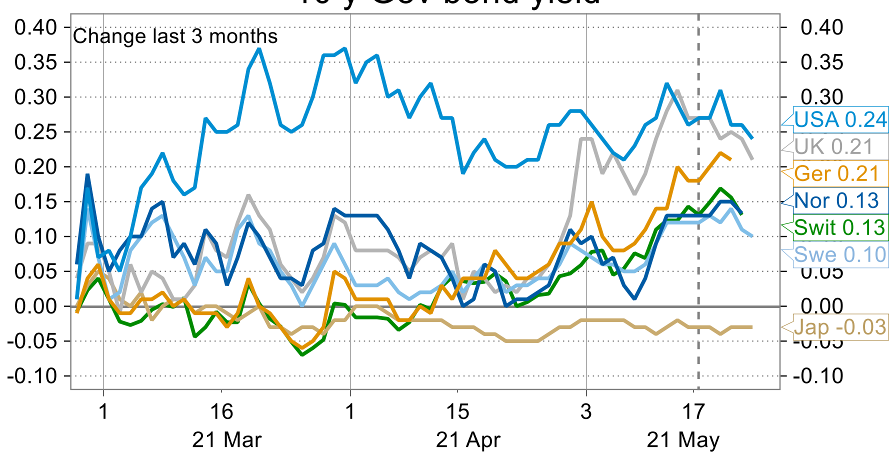
SB1 Markets/Macrobond

Oil vs. metals



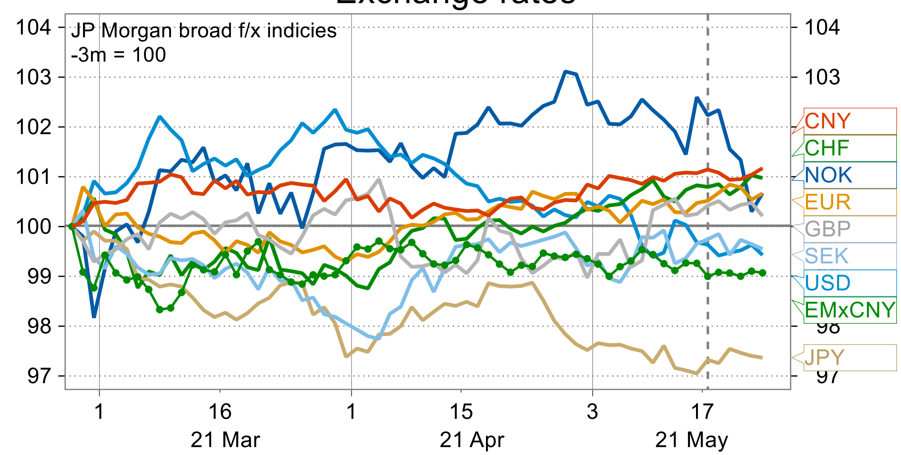
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

Exchange rates

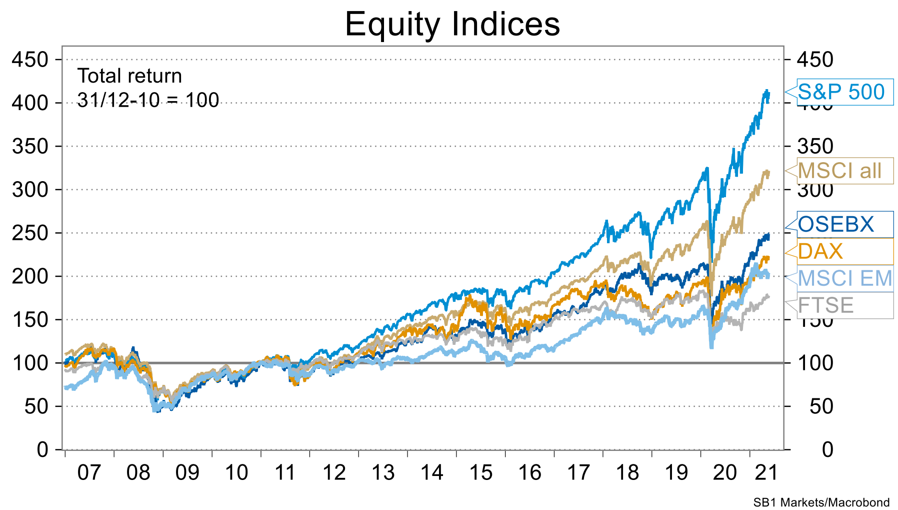


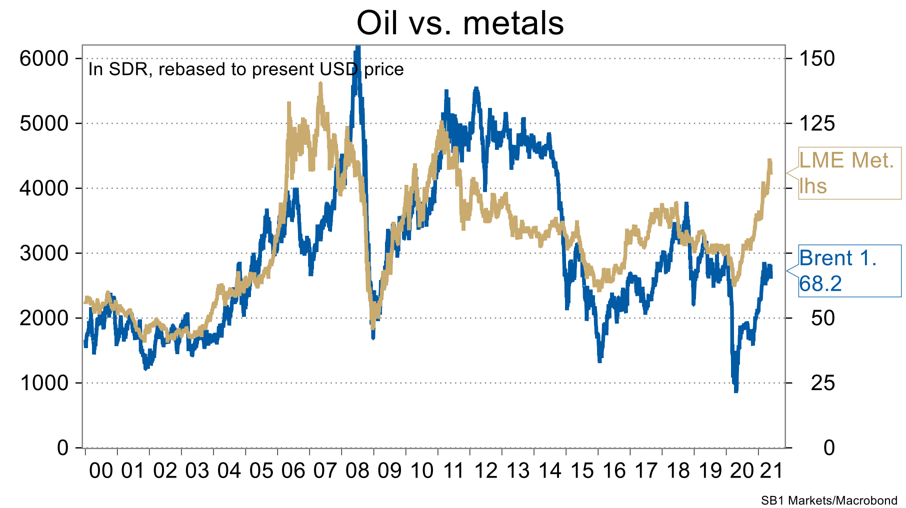
SB1 Markets/Macrobond

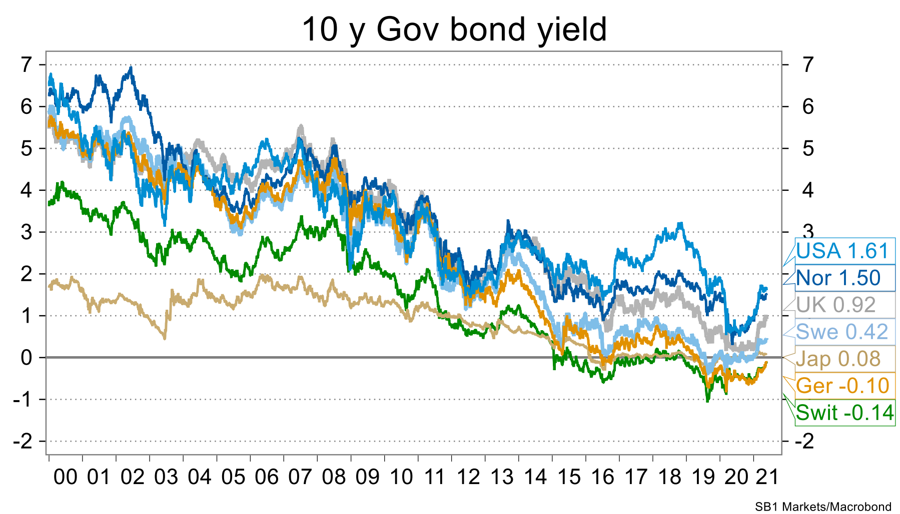
SpareBank 1 MARKETS

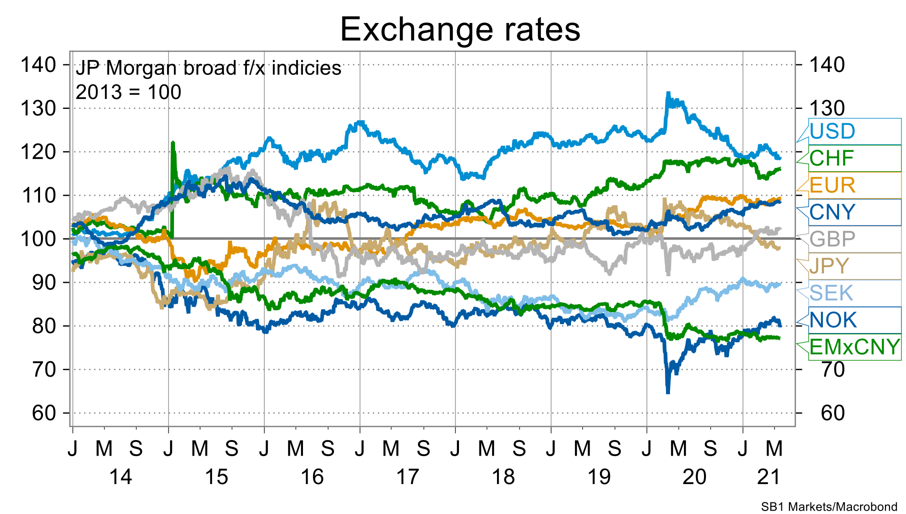
The big picture: Strong stock markets, commodity prices record high

... The latter in nominal USD, at least. The real price, in SDRs is still below the 2007 peak



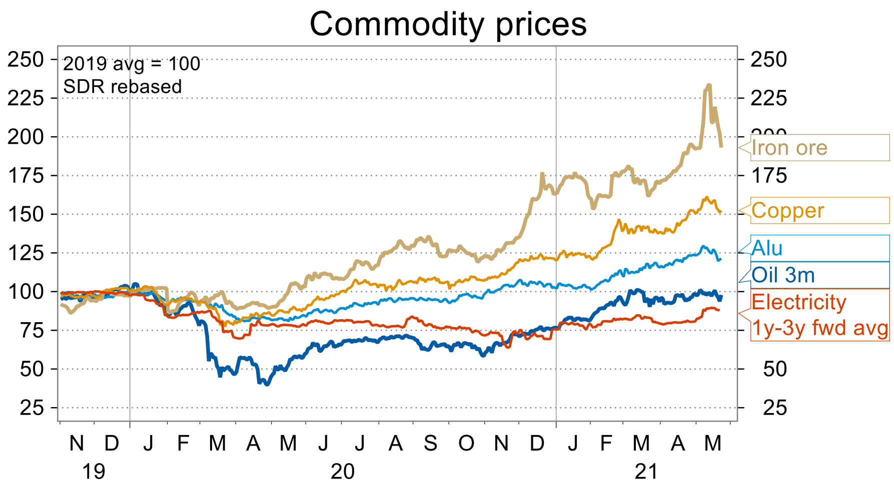


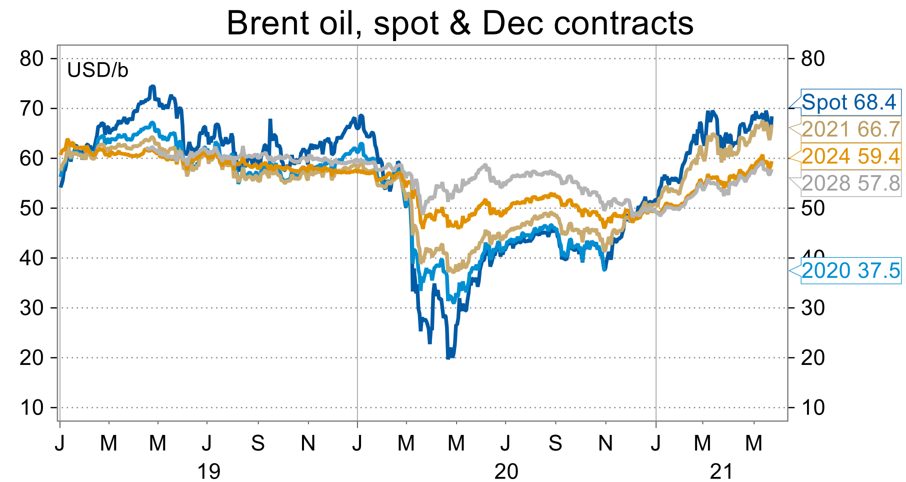


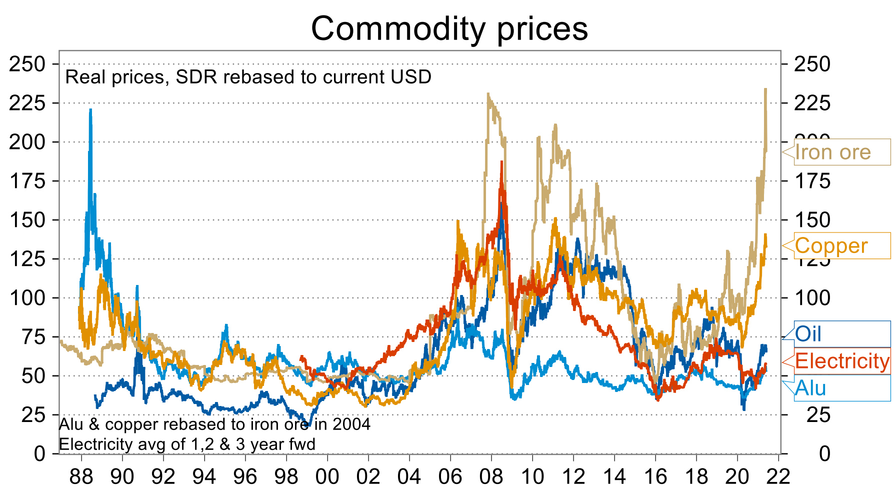


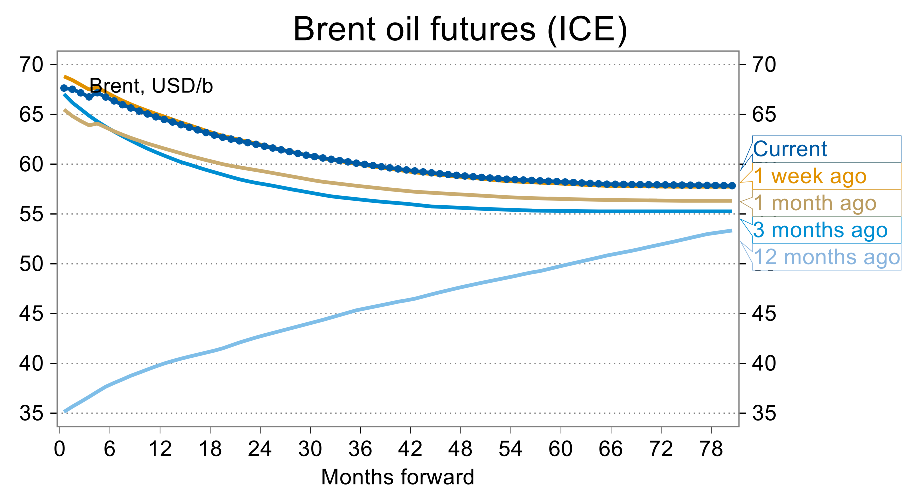
Iron ore, copper & other metal further down, still at very high levels

Iron ore down partly due to warning of excessive speculation from Chinese authorities





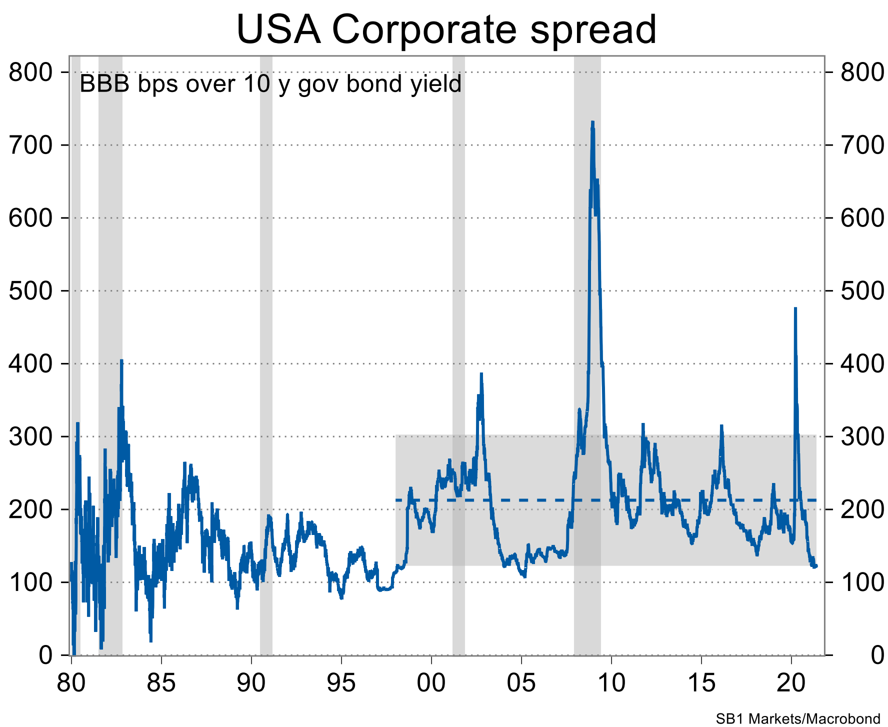


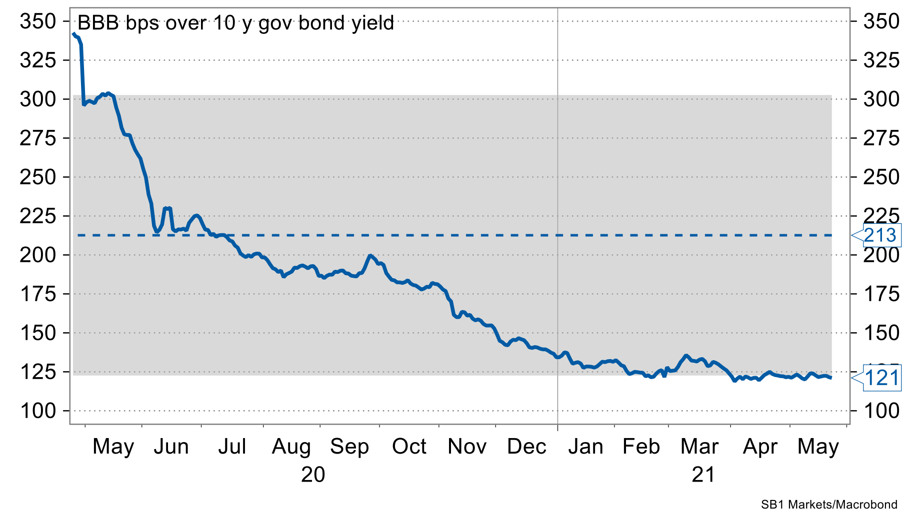


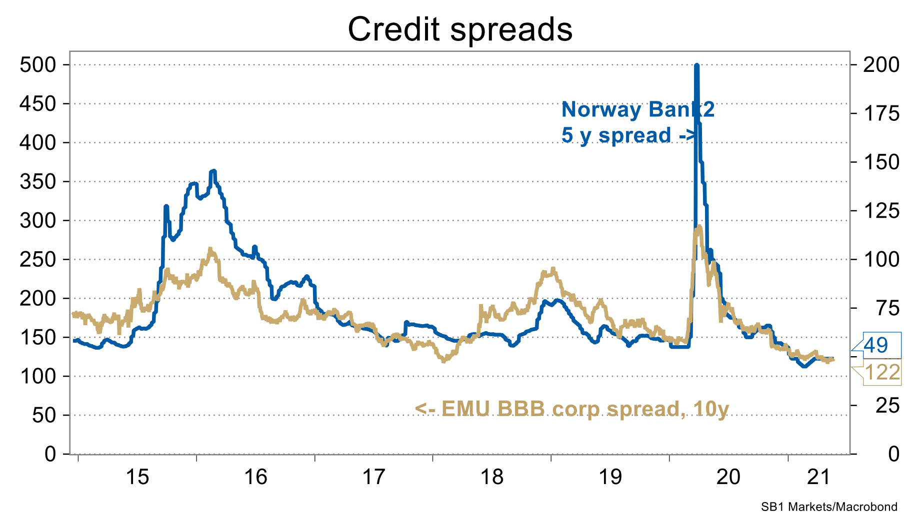
SpareBank 1 MARKETS

Credit spreads have flattened, at low levels

The US corp. BBB spread marginally up

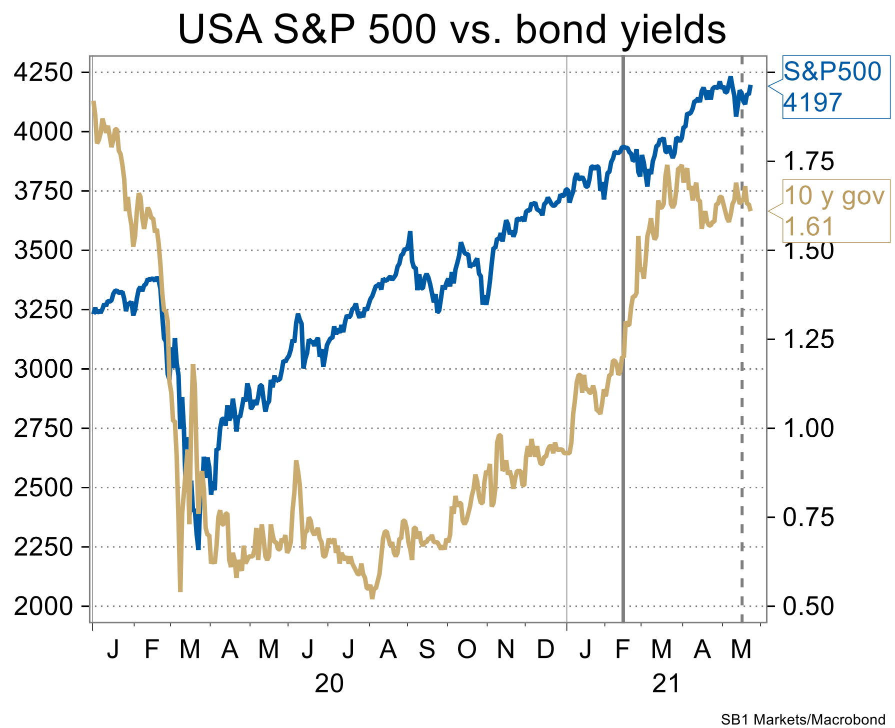


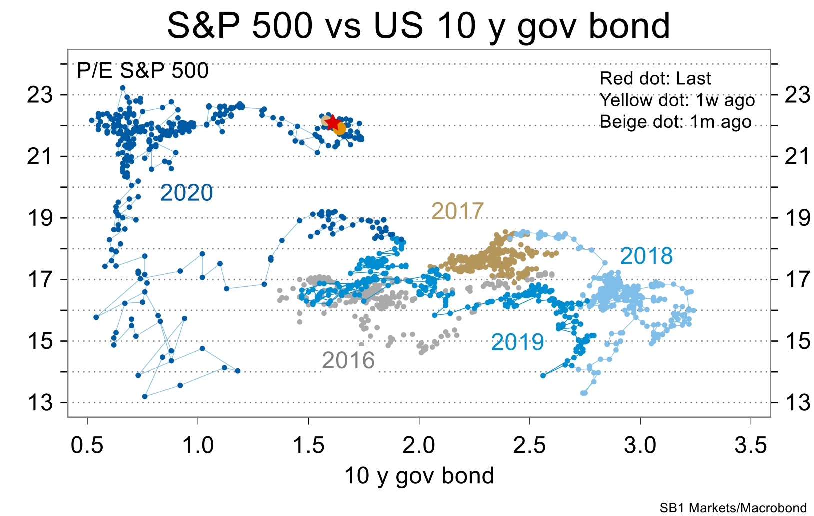


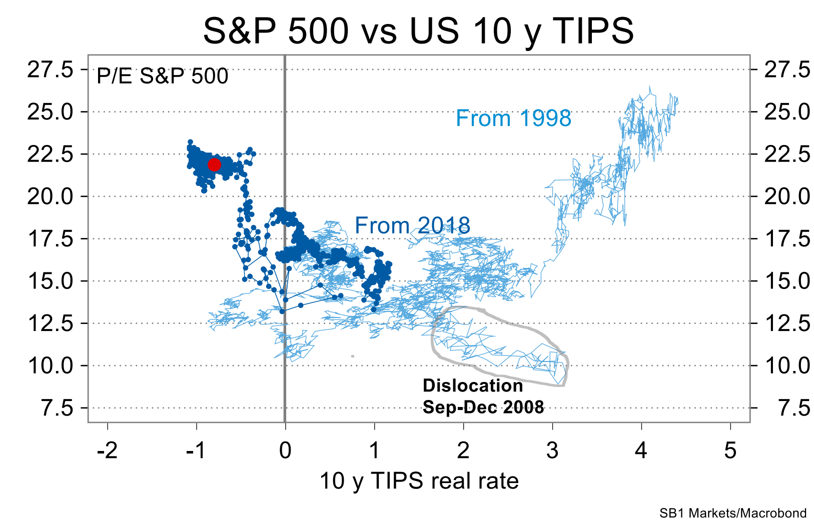


S&P 500 up 0.8% thanks to a lift yesterday, the 10 y bond yield down 3 bps

Neither high inflation nor the first tapering signal have scared markets

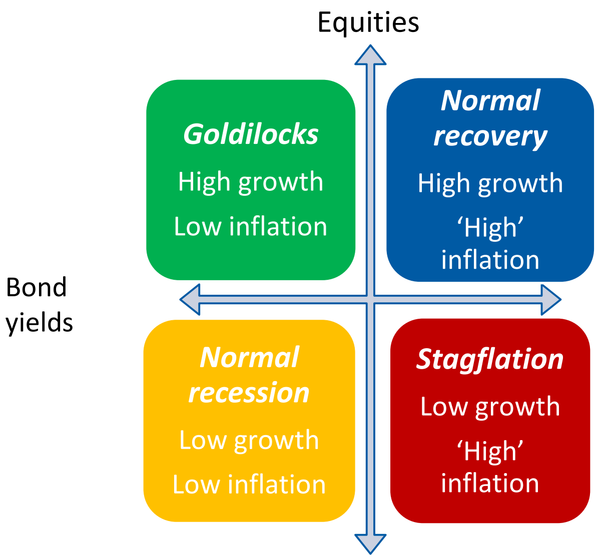


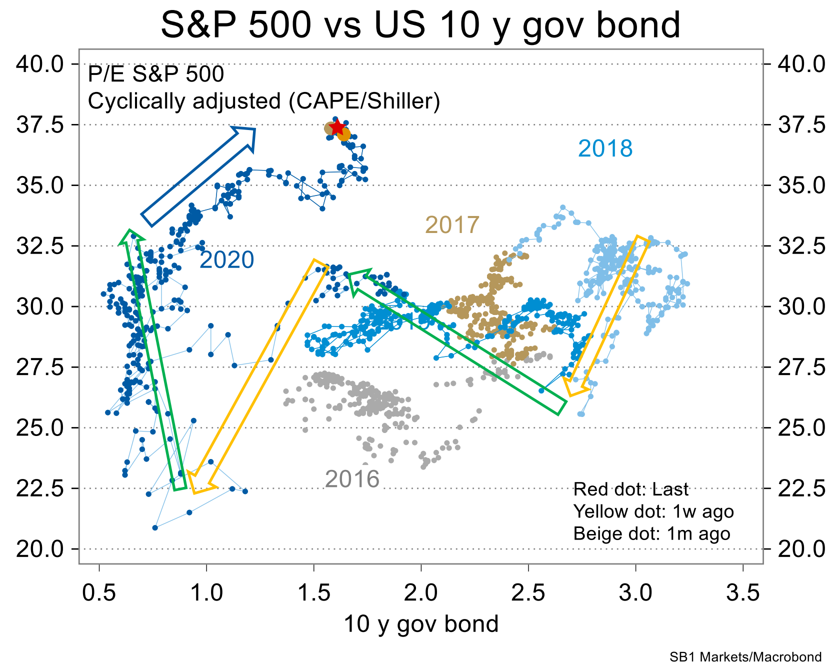




A long term view: Still in the 'Goldilocks corner'

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



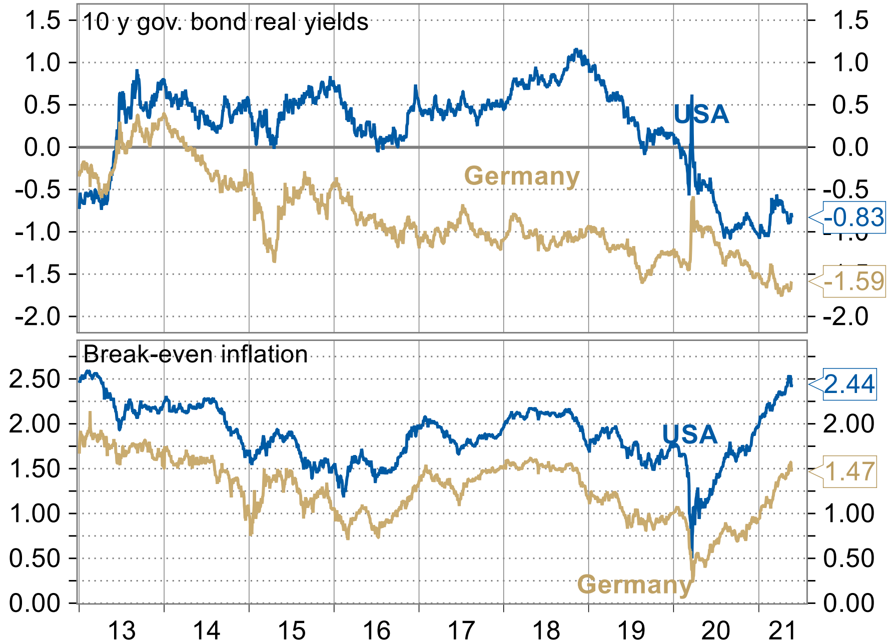


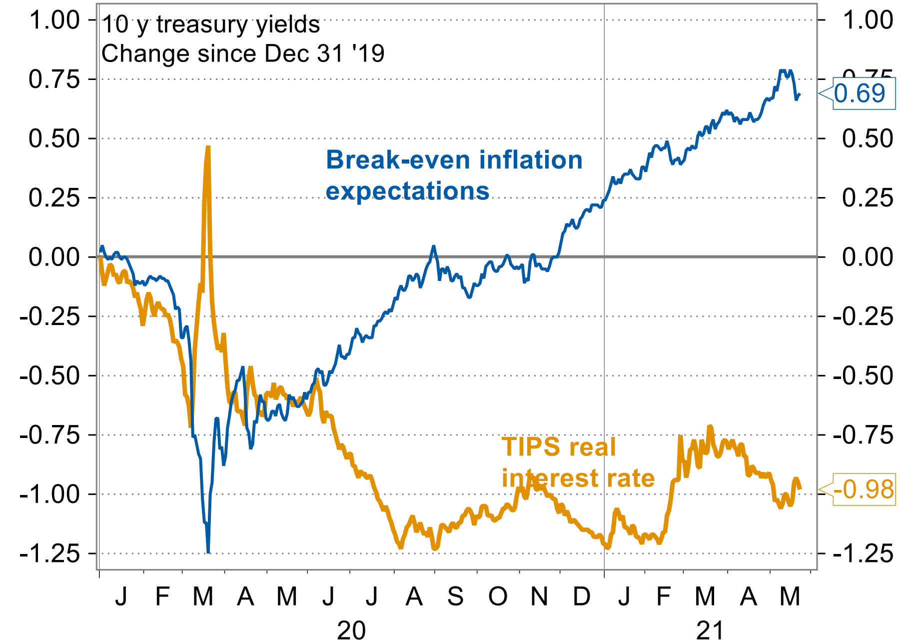
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets

- **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

The FOMC was talking about when to start talking about tapering the QE program

The Fed gained some credibility, inflation expectations down 10 bps, the real interest rate up 7 bps





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.61	-0.03	0.03	0.52
.. break-even inflation	2.44	-0.10	0.10	1.06
.. TIPS real rate	-0.83	0.07	-0.07	-1.08
Germany nominal bund	-0.12	0.01	0.13	-0.65
.. break-even inflation	1.47	-0.07	0.06	0.40
.. real rate	-1.59	0.08	0.07	-1.76

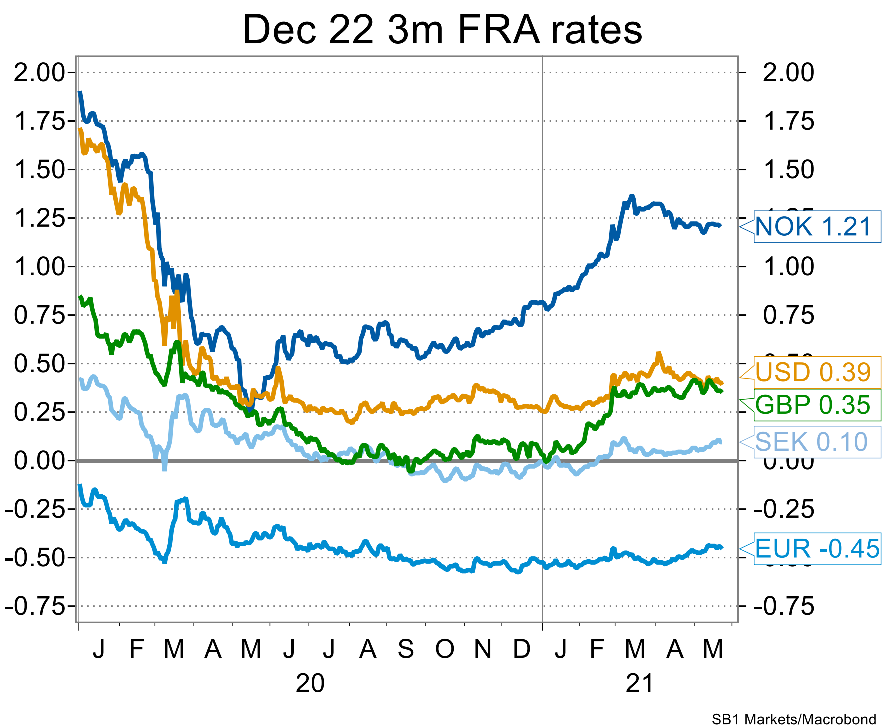
SB1 Markets/Macrobond

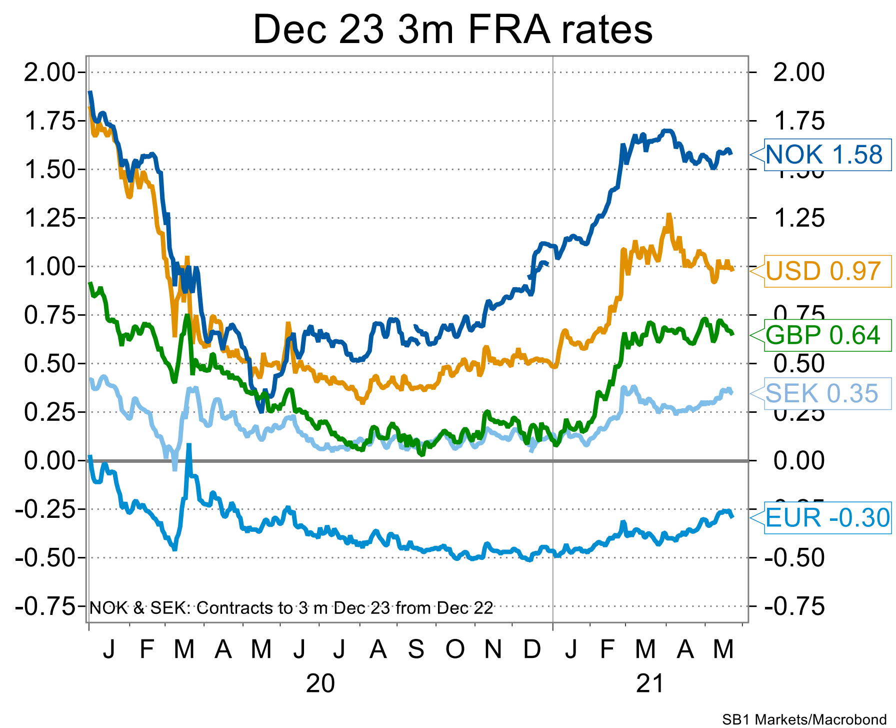
- Inflation expectations are still in the high zone vs. Fed’s 2% PCE inflation target – and real rates are still extremely low
- The same mix in Germany, inflation expectations down, real rates up

SpareBank 1 MARKETS

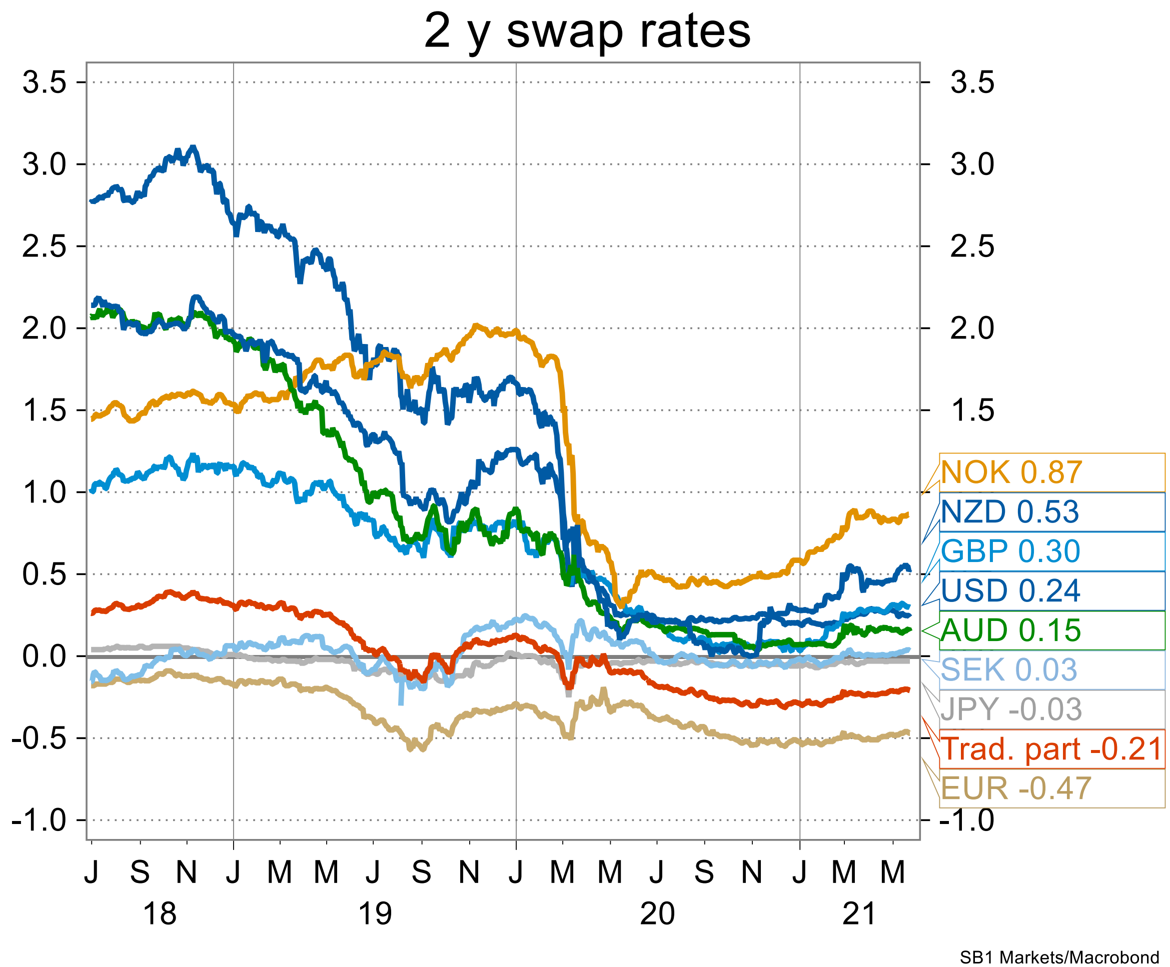
Interest rate expectations: Those at the bottom on the way up…

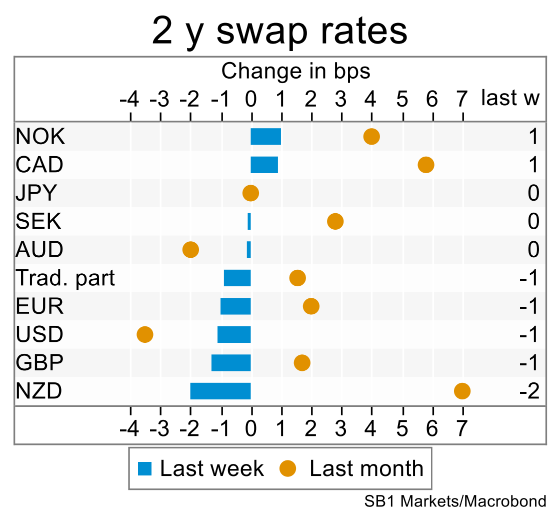
While those at the top have fallen from recent peaks





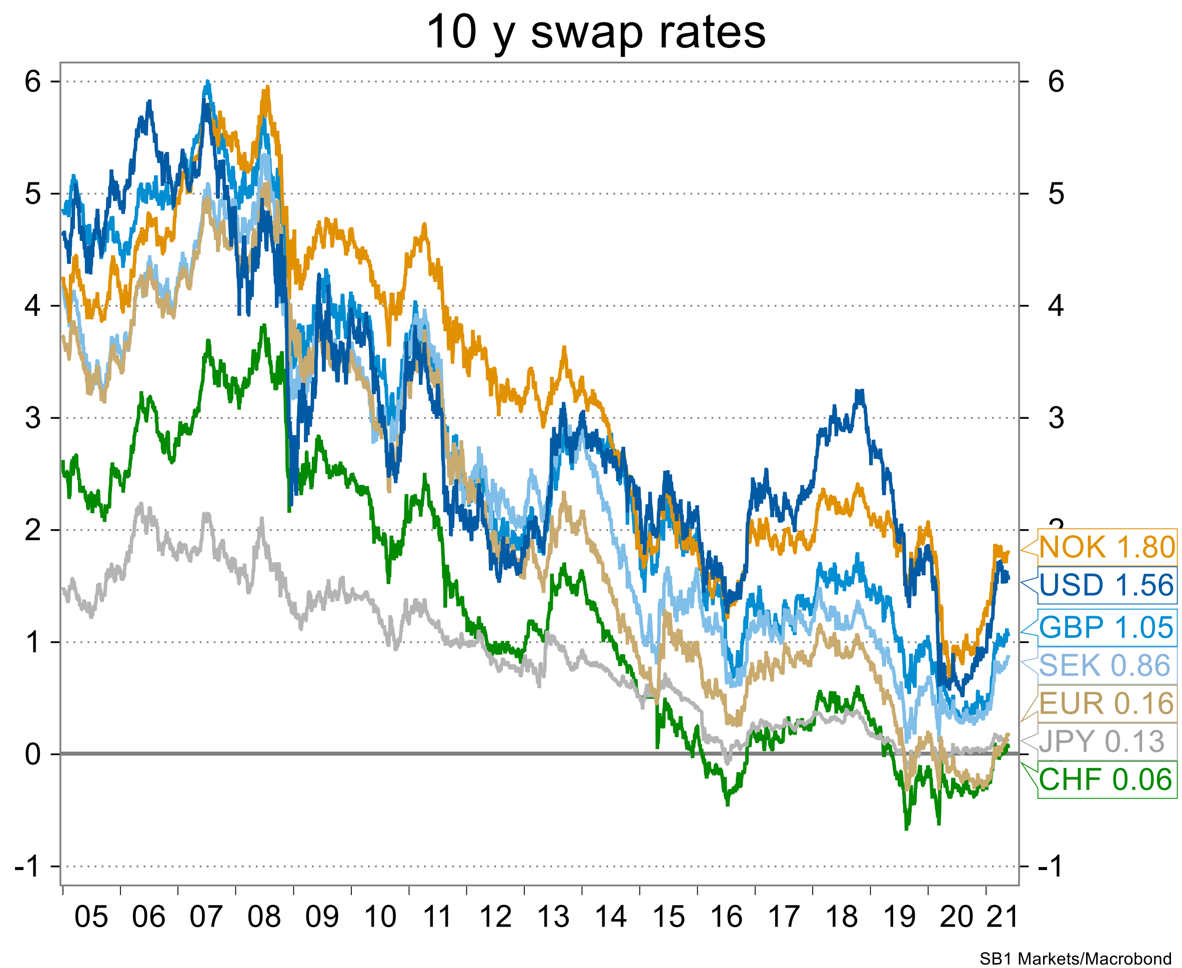
Little movement in short term swap rates

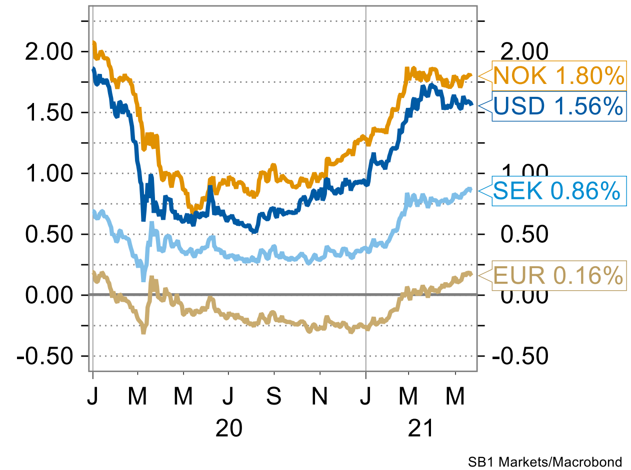


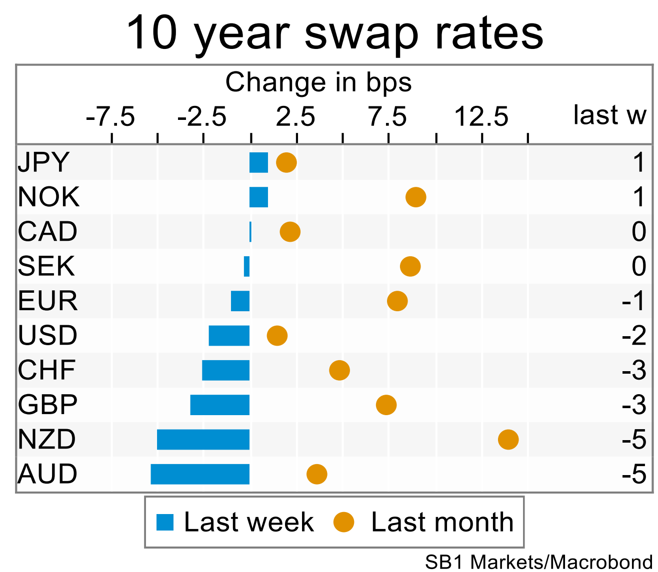


10y swap rates more down than up

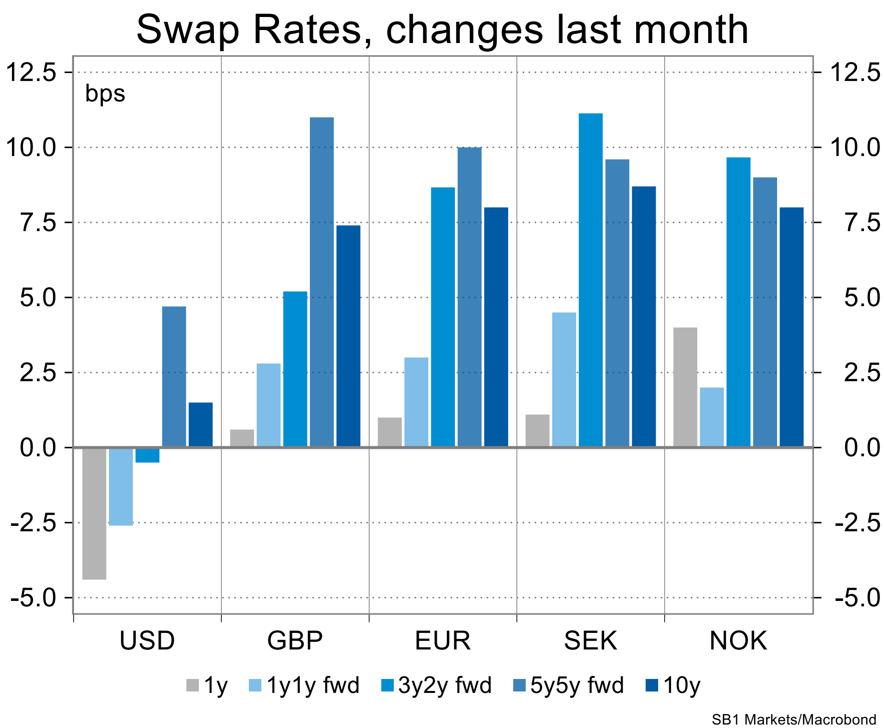
EUR & SEK rates are still trending upwards, from low levels

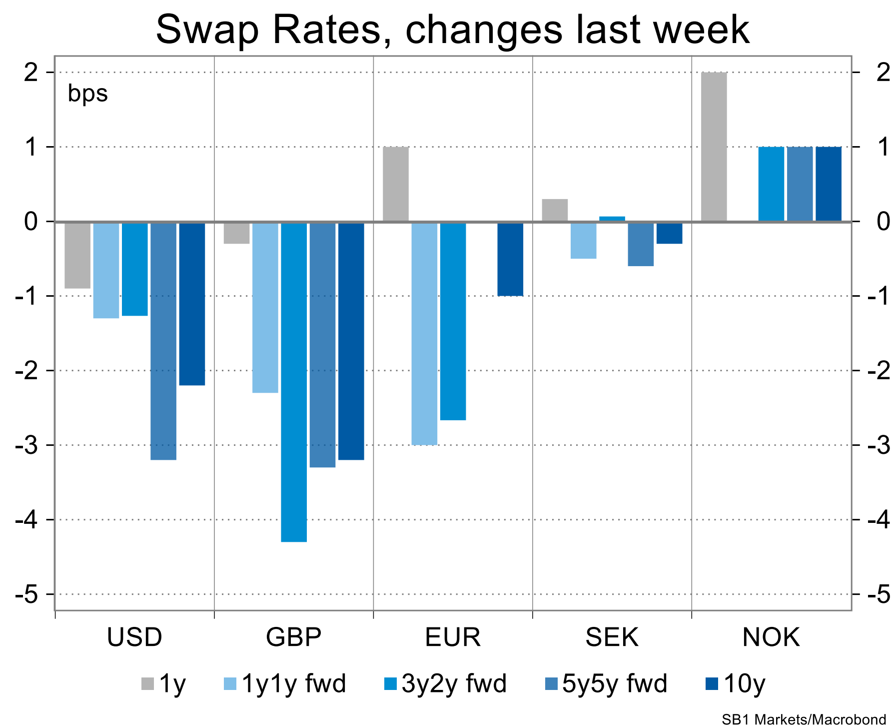




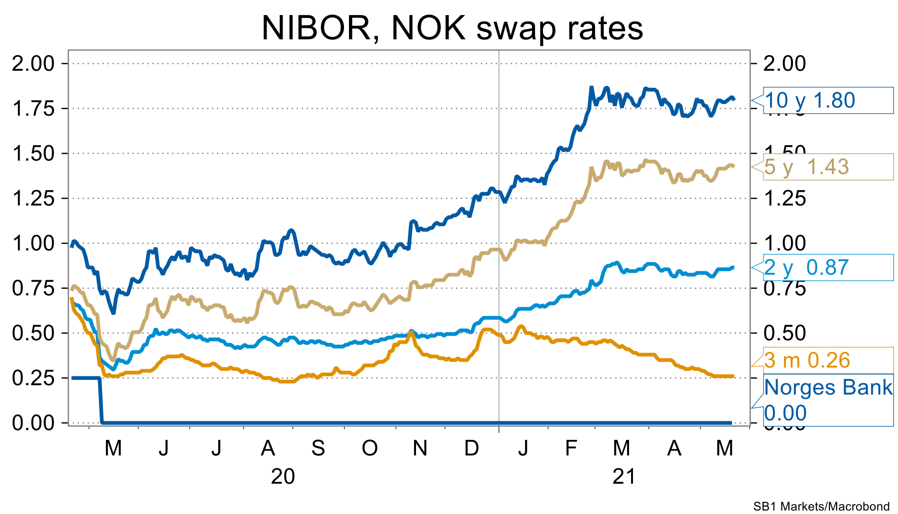


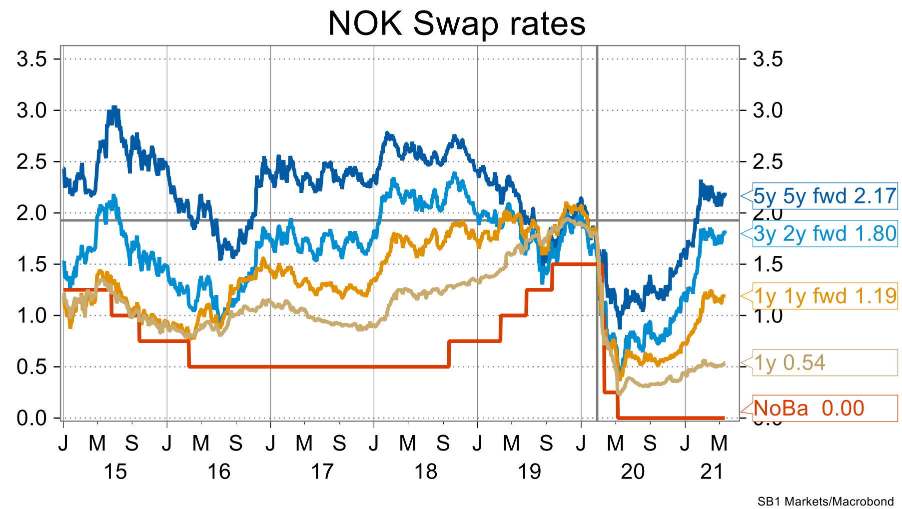
US rates has flattened last month/week, others have been trending up

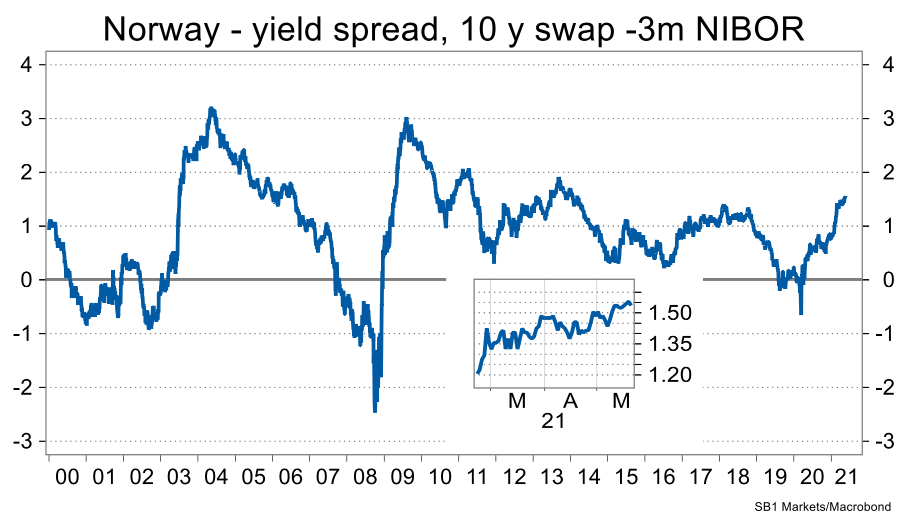


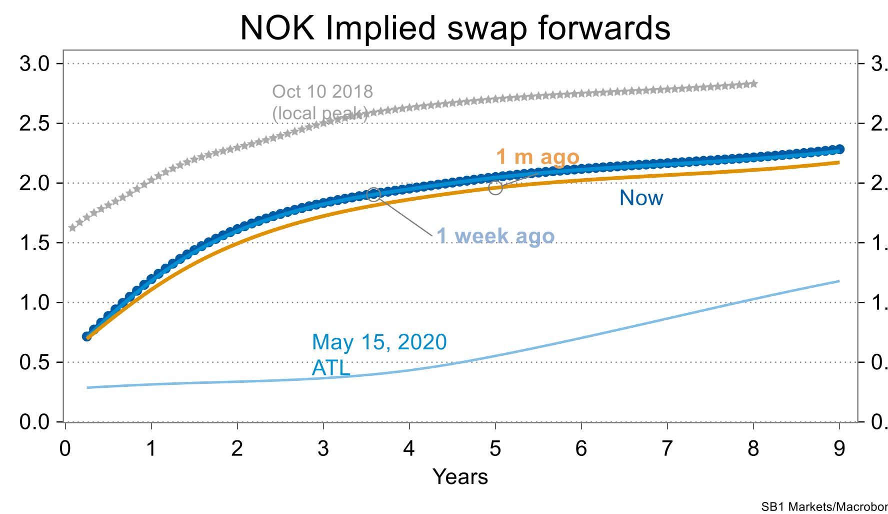


NOK swap rates are trending slowly upwards, except in the very short end

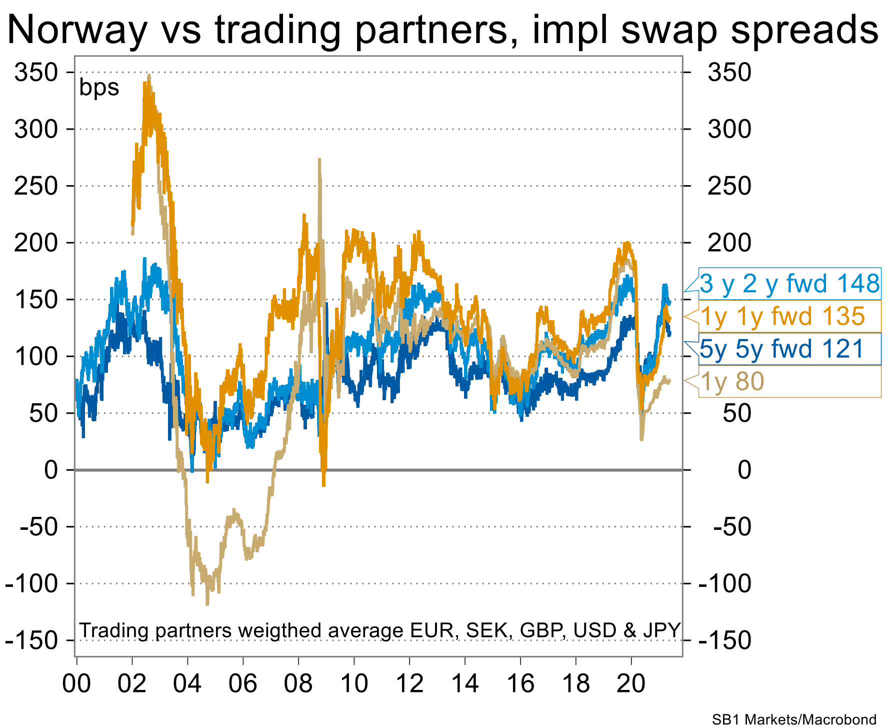


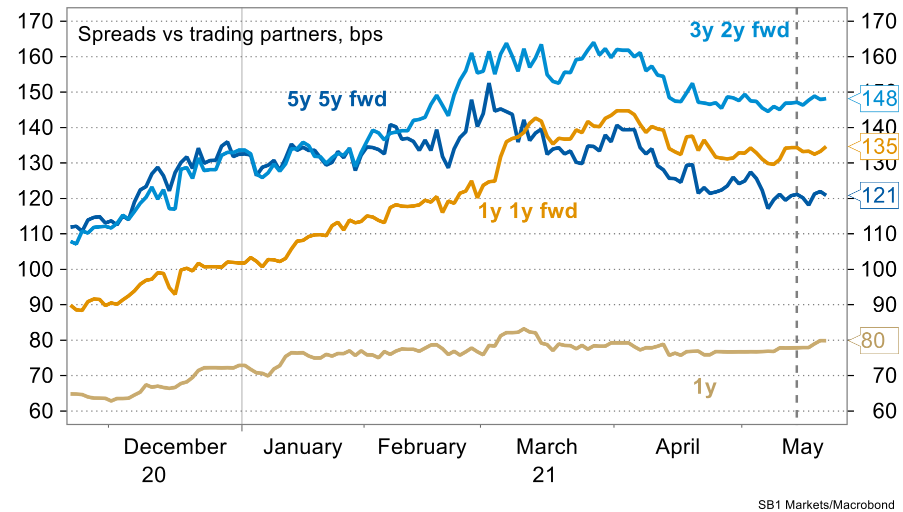


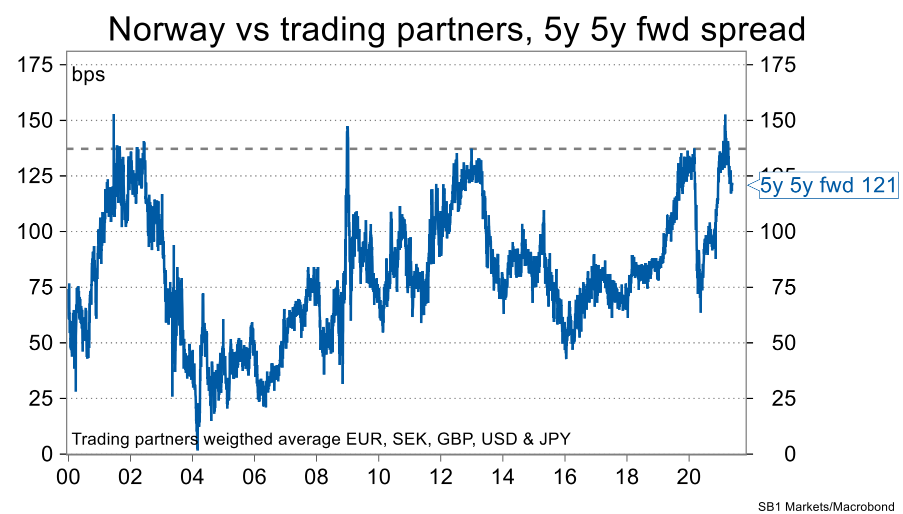




Forward spreads vs trading partners slightly up last week, without strong data

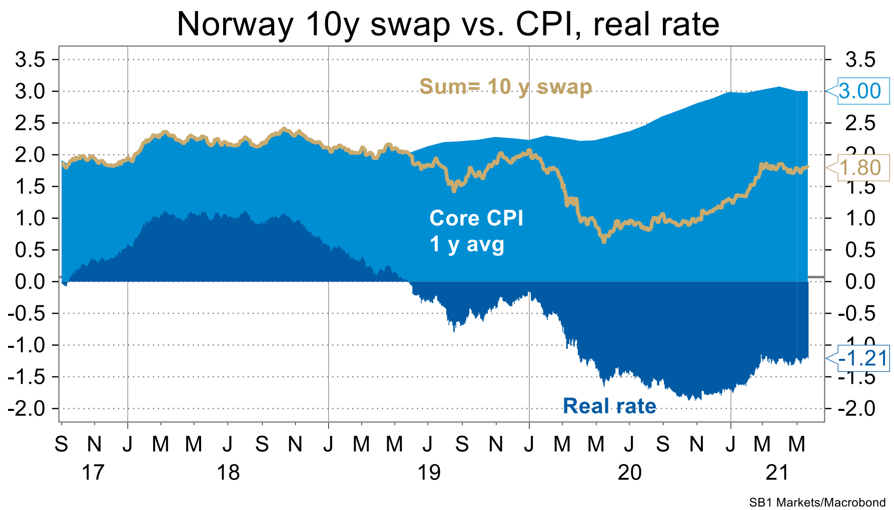






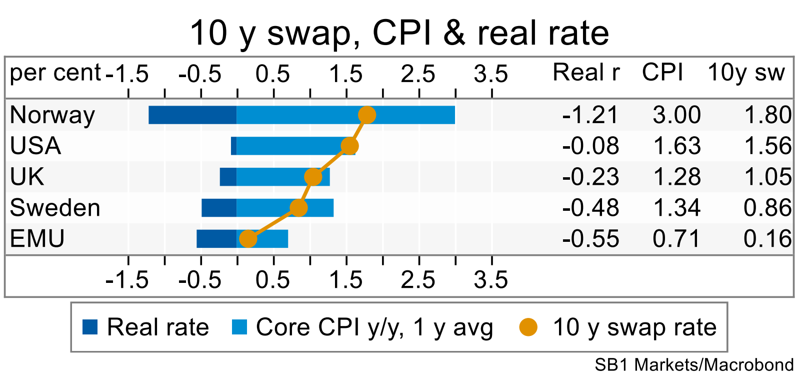
SpareBank 1 MARKETS

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



NOK 10 y swaps are drifting upwards

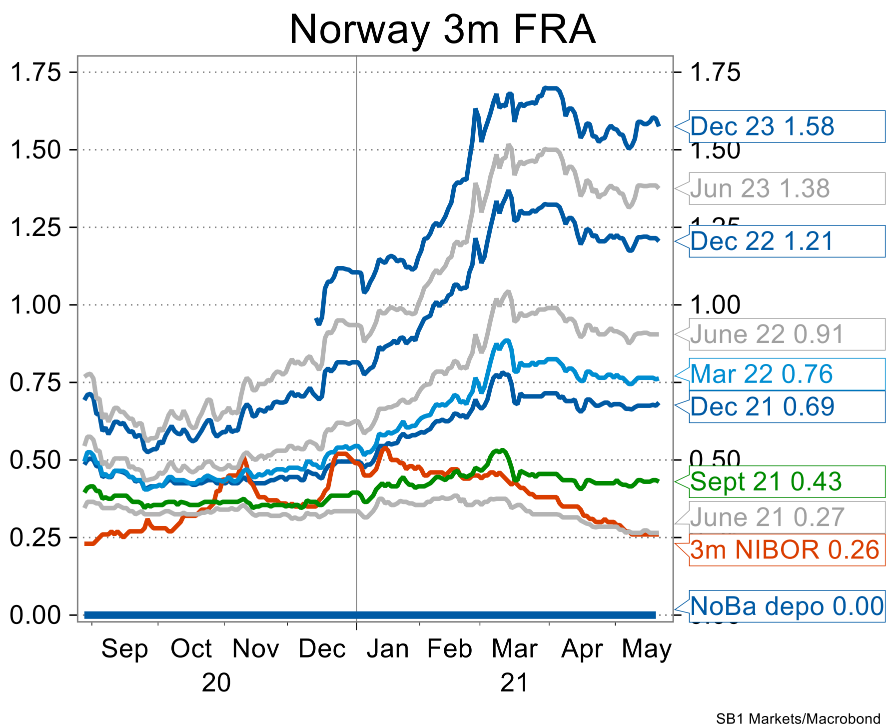
- The **10y NOK swap rate** up **1** bps to 1.80%
- **The real rate**, after deducting 3.0% average core CPI inflation over the 2 past years equals -1.2%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 3.1%
  - » On the other hand, barring economists' in academia & finance, nobody else believe in the 2% inflation target. Other economists say 2.5% as to leaders in labour market organisations, business leaders 3.5% and households 3.7% (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

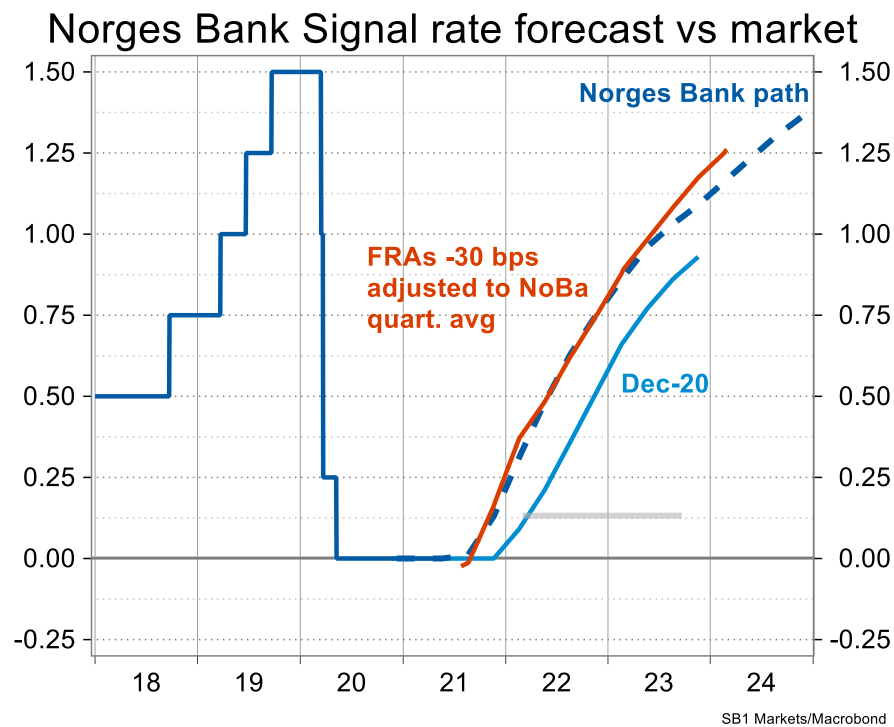


NOK real rates among the lowest, as inflation is at the top

- **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, and ranging between -0.1% and -0.5% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.2% is an outlier at the downside, even if the nominal rate is the highest**

FRAs close to unchanged last week, a hike in September still quite likely



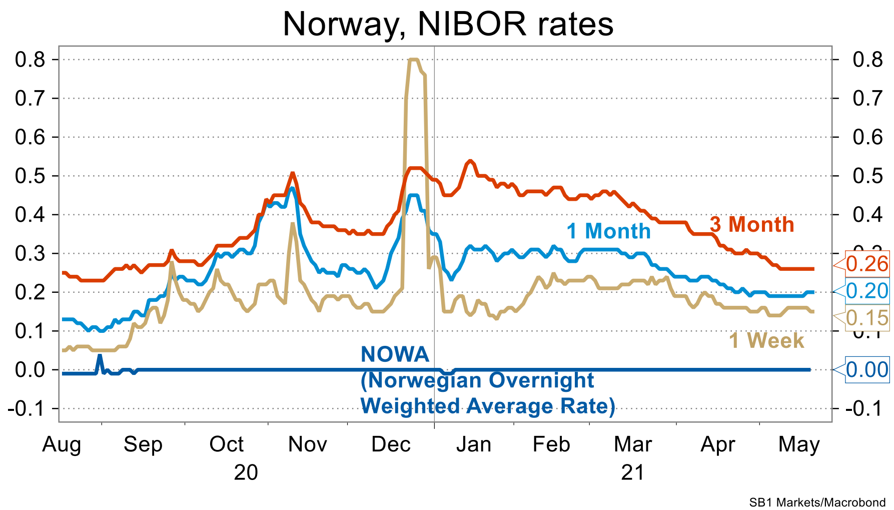


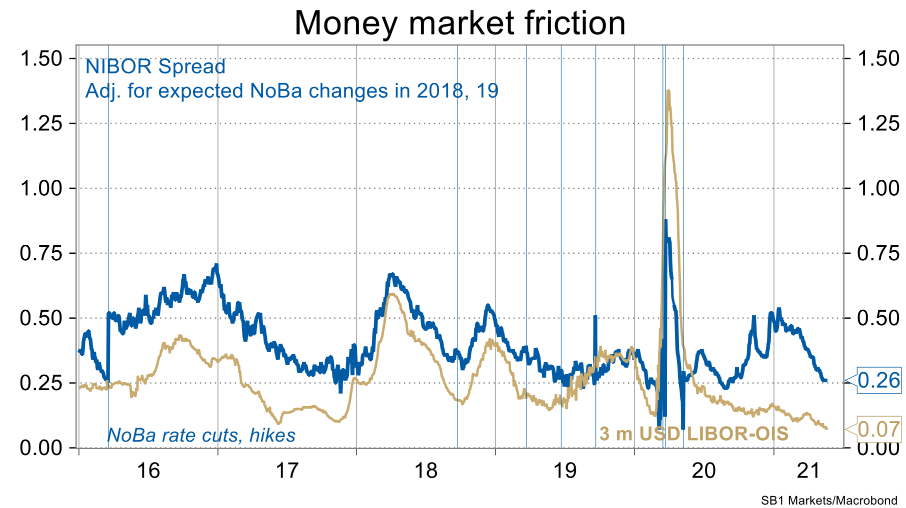
- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 30 bps NIBOR spread the actual 0.43% Sep FRA-rate equals a 0.13% NoBa deposit rate. If so, a somewhat above 50% probability for a Sept hike is discounted, marginally above what NoBa signalled in its March MPR (50%)
- The Dec-21 FRA at 0.69%, and a 30 bps NIBOR spread, yields a 0.39% NoBa rate. However, the Dec FRA is normally some 5 – 8 bps 'too high' due to year end liquidity adjustments at banks. We deduct this extra liquidity premium, and assumes market's 'real' NoBa expectation at approx. 0.32%. That implies almost a 30% probability for a 2nd hike in H2, marginally above NoBa's path. A second hike in March-22 (if not in Dec) is almost fully discounted

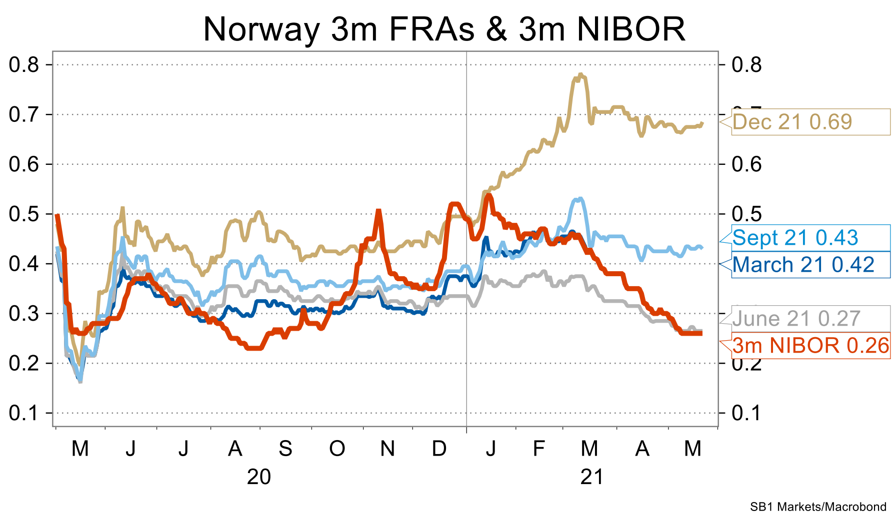
SpareBank 1 MARKETS

The NIBOR has stabilised at 0.26% - and that's probably the bottom

The spread to NoBa's signal rate has not been much lower

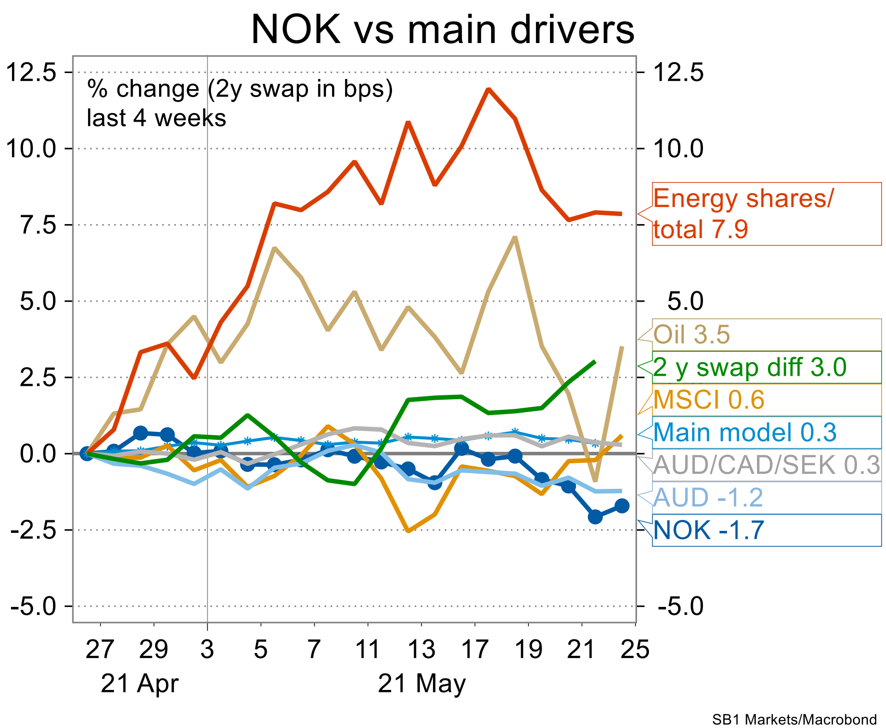


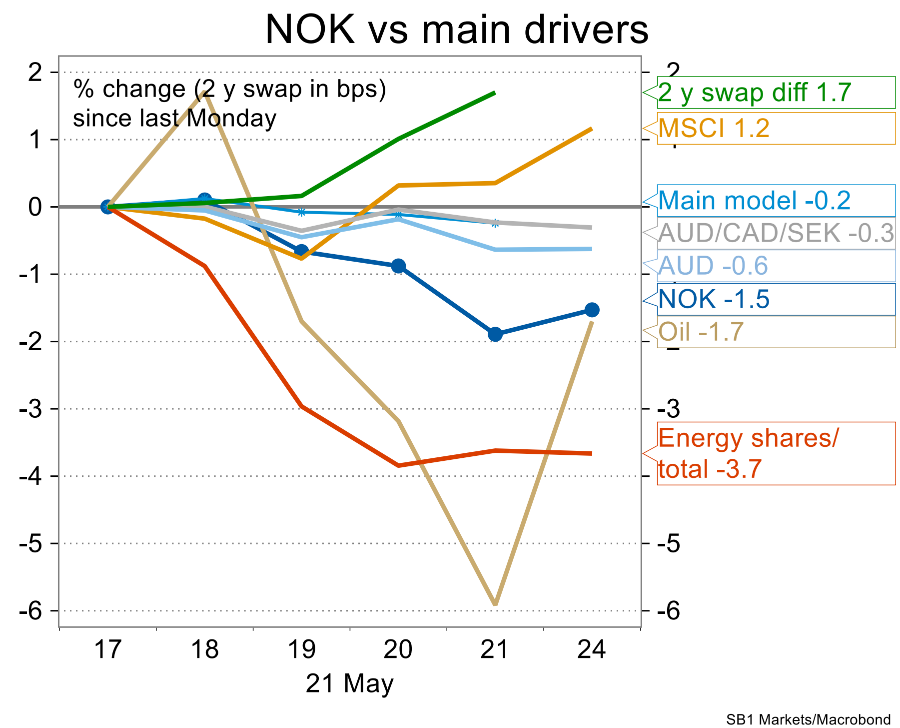




The NOK down 1.5%, more than oil and our models can explain

At Monday, the oil price recovered much of the losses last week





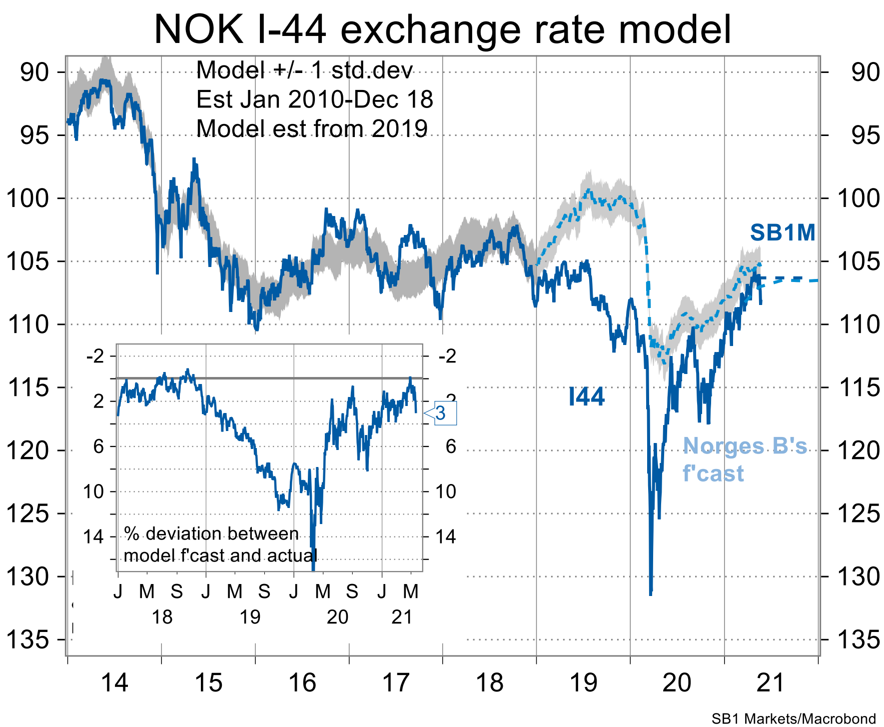
The AUD fell 0.6%, and oil companies lost 3.7% vs the stock market

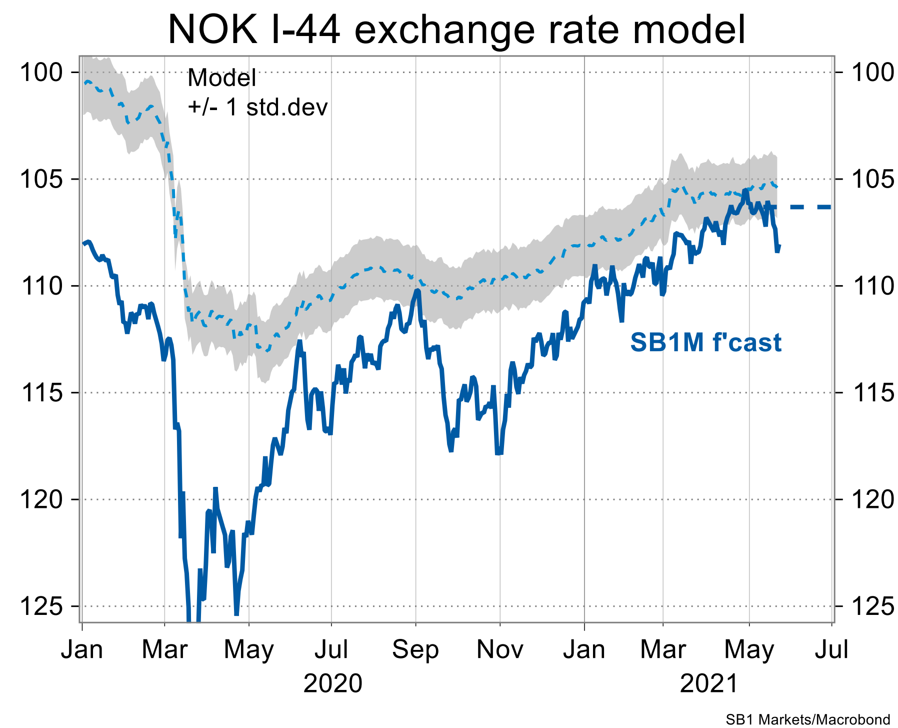
The status vs. the normal drivers:

- The NOK is 3% weaker than suggested by our standard model (calculated from Friday's data, from -1)
- The NOK is 2% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from -4)
- The NOK is 9% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 8)
- On the other hand, the NOK is far (11%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (from -12)

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

NOK 3% below our main model estimate, still not cheap enough for a buy?

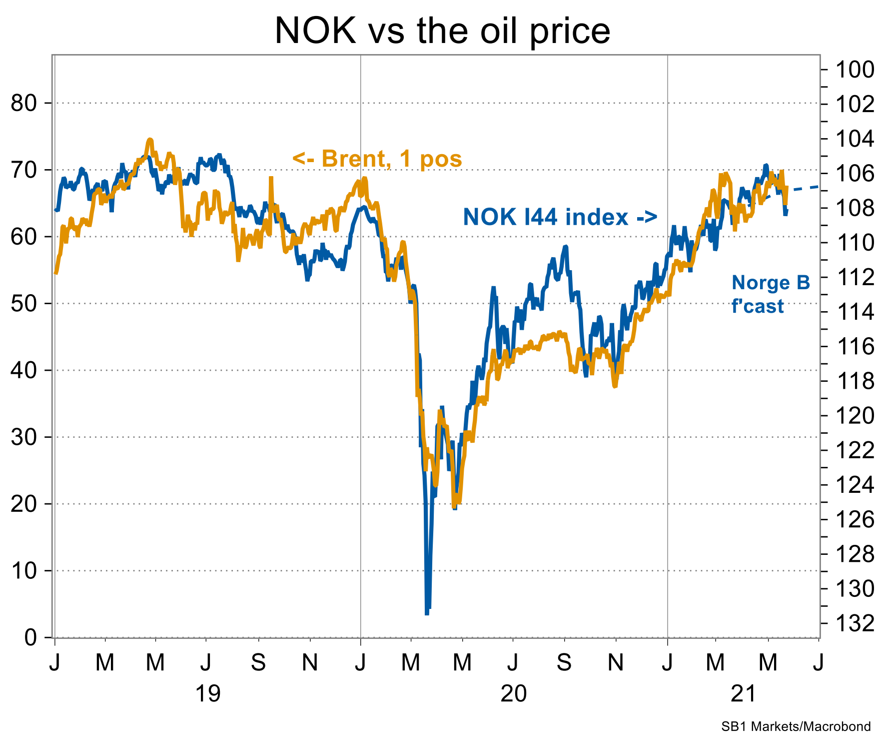


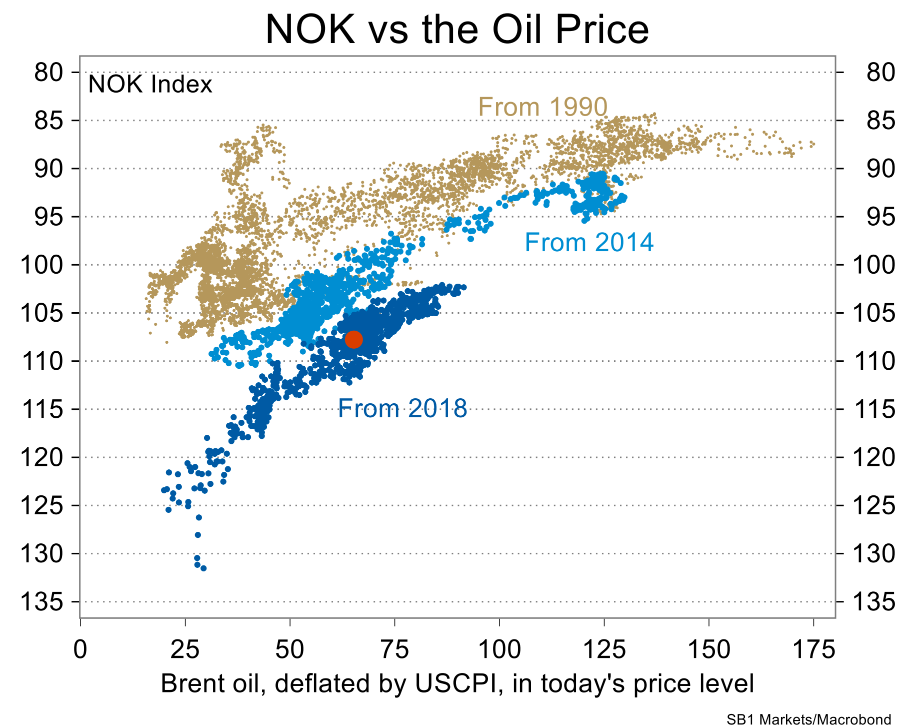


- The NOK is still above the pre-pandemic level and not that far below our workhorse model estimate

Oil down, NOK even more

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



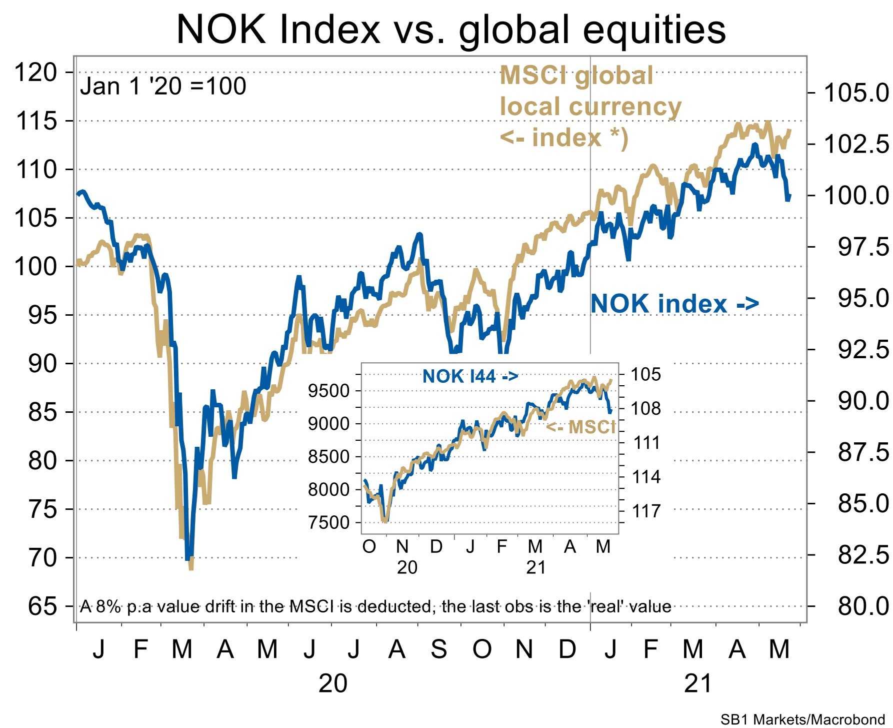


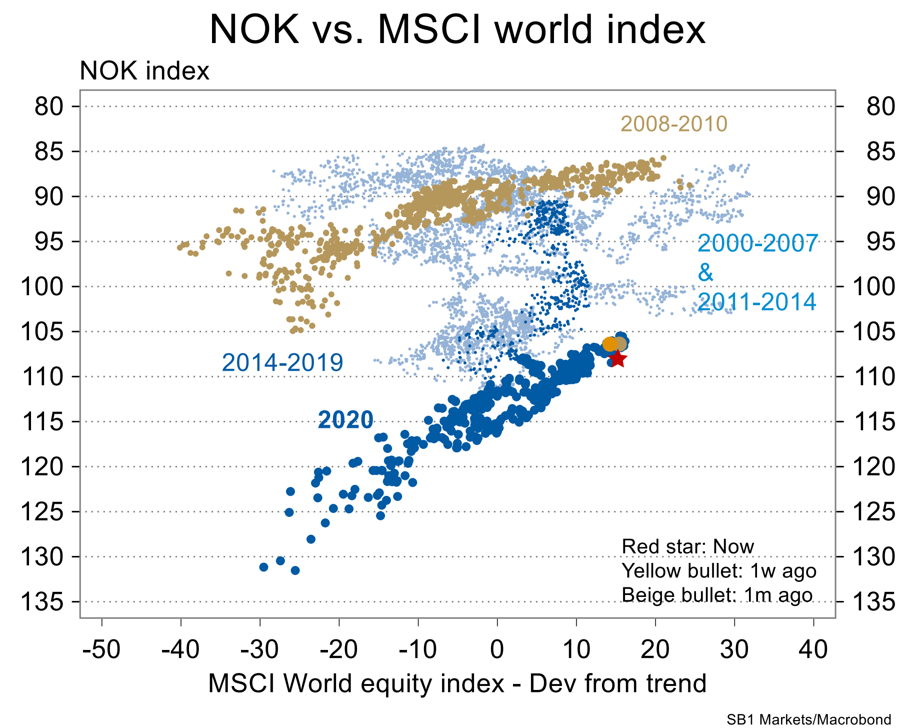
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

SpareBank 1 MARKETS

Global stock markets lost some height last week, the NOK not

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

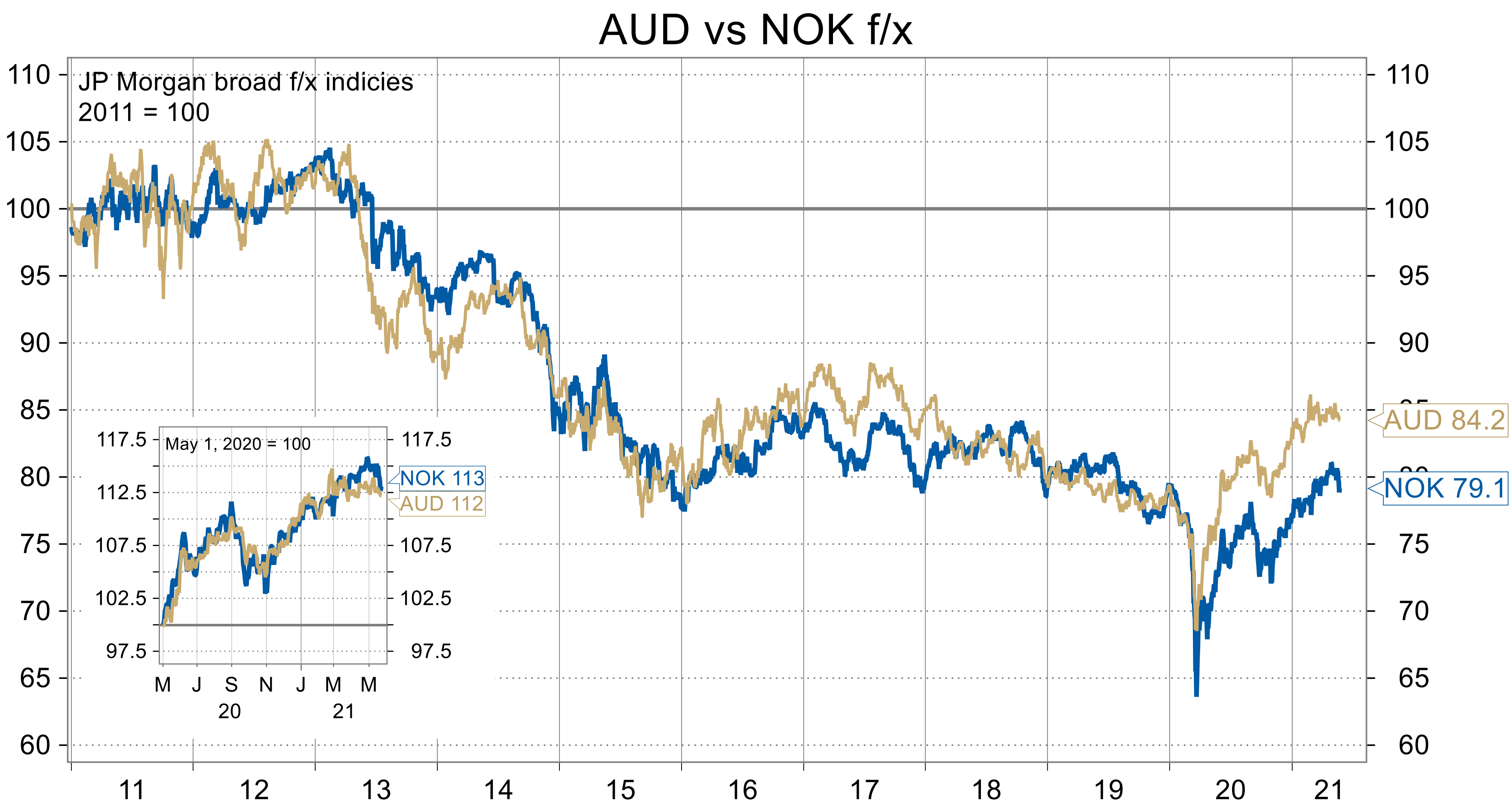




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the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

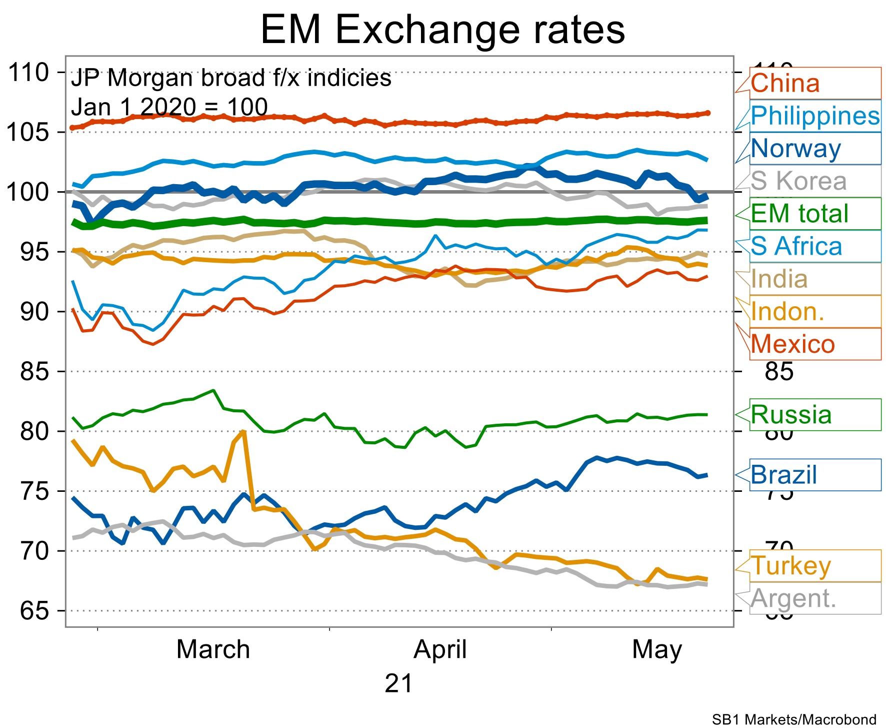
NOK still in tandem with the AUD – the AUD fell slightly less than the NOK last w.

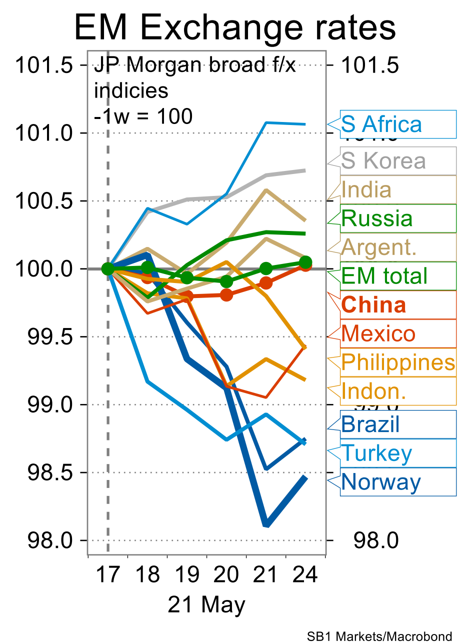
Both are up 12%-13% since May 1st – but the NOK still 6% weaker than AUD since last spring

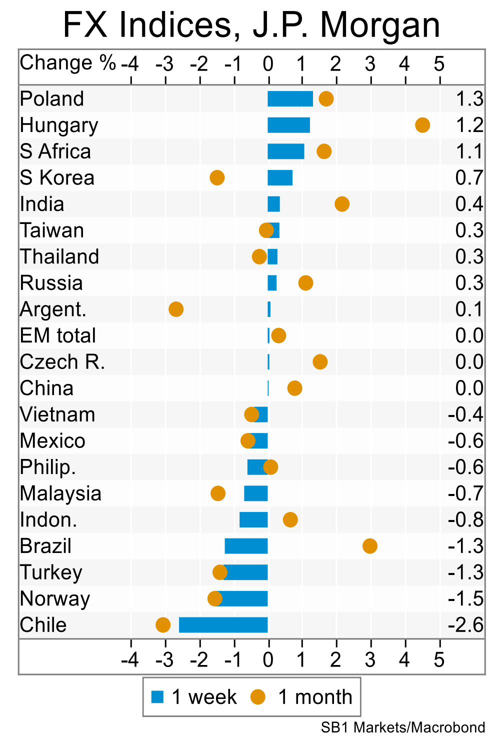


SB1 Markets/Macrobond

EM f/x rates stabilised through the week







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