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# Macro Weekly

## Week 22/2021

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Highlights, corona update
The world around us
The Norwegian economy
Market charts & comments

# Last week:

## The virus

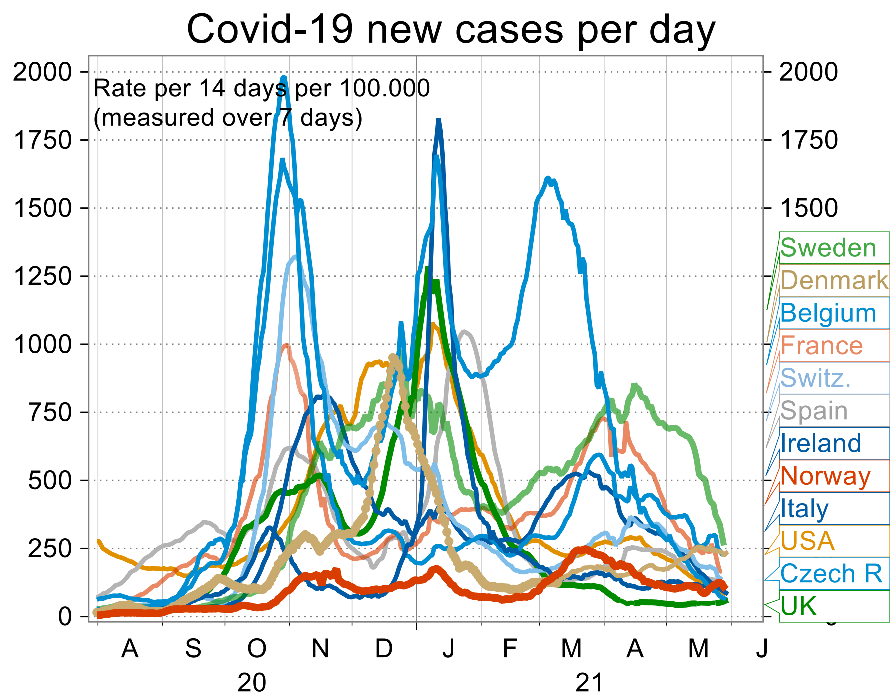
- **Good news** from most corners of the world. However, **UK reported a steep rise** in new infections last week, and that the Indian variant has gained a large market share (50 – 75%). Some other mutants may be around too. So it's clear where the corona risk remains, it's the mutants
- **Mobility** is rising everywhere in DM as the negative drag from corona restrictions/cautious behaviour are easing

# Last week: The economy

- **China**
  - The **NBS PMI** rose marginally in May, due to a small increase in services. The manufacturing index fell marginally. The NBS survey signal a 8% growth path
- **US**
  - The **PCE (consumption) deflator** rose 0.7% m/m, and by 3.1% y/y, 0.1 – 0.2 pp above expectations. The April price level is on line or just marginally below Fed 2% price level target path. Still, the Fed can take comfort that the prices increases are not widespread, and the transitory story is not (yet) dead. However, the risk picture has changed and the 'tapering' discussion will probably start in earnest at the June meeting – without any precise schedule, in order to prepare markets on the inevitable (if growth keeps up), that the QE program will be gradually scaled back not before too long. Check our 16 pages analysis on US inflation
  - **Household spending** flattened in April, while **income** fell by as just few stimulus cheques were distributed, and the **savings rate** collapsed. Still, the savings rate is still at almost 15%, as just 30% of the stimulus cheques are spent. Bank accounts are still swelling: The wall of money is build even higher
  - **Corporate profits** flattened in Q1, according to National Accounts, as profits before government subsidies rose sharply while those subsidies were cut back. Even so, S&P 500 profits surged 25% q/q in Q1. The medium term profit outlook is muted as unemployment probably will decline rapidly
  - **Durable orders** fell marginally in April, due to trouble in the auto sector (probably due to lack of semi-conductors). Investment goods orders still on the way up
  - **House prices** are surging, at or close to or record high rates. New home sales fell, probably mostly due to lack of supply, at least of completed homes.
- **EMU**
  - **Economic confidence rose** sharply to a record high level in May, signalling strong growth
- **Sweden**
  - **The KI business sentiment survey** rose to the highest level, ever. GDP was 1% below the pre-pandemic level in Q1, but March was 0.5% above
- **Norway**
  - **NAV unemployment** fell sharply in May, new jobless claims are 'collapsing', and the inflow of new vacancies is very high, even in travel/transport! Unemployment fell by 12' to 100' the grand total -12' to 182', and the unemployment rate was slightly below Norges Bank's forecast. We expect much more to come in June & July, especially in Oslo
  - **The oil investment survey** signals that investments have flattened – and Norges Bank will probably have to revise its forecasts slightly upwards. Investments in **manufacturing** has bottomed, while they are still falling in the **power supply** sector
  - **Retail sales** rose by 0.3% in April – and is 7% above the pre pandemic level, even if shops in Oslo and some other cities were closed

# The virus is losing (almost) everywhere – but UK is on the way up again?

## New cases in India is falling rapidly, as mobility has fallen to a very low level

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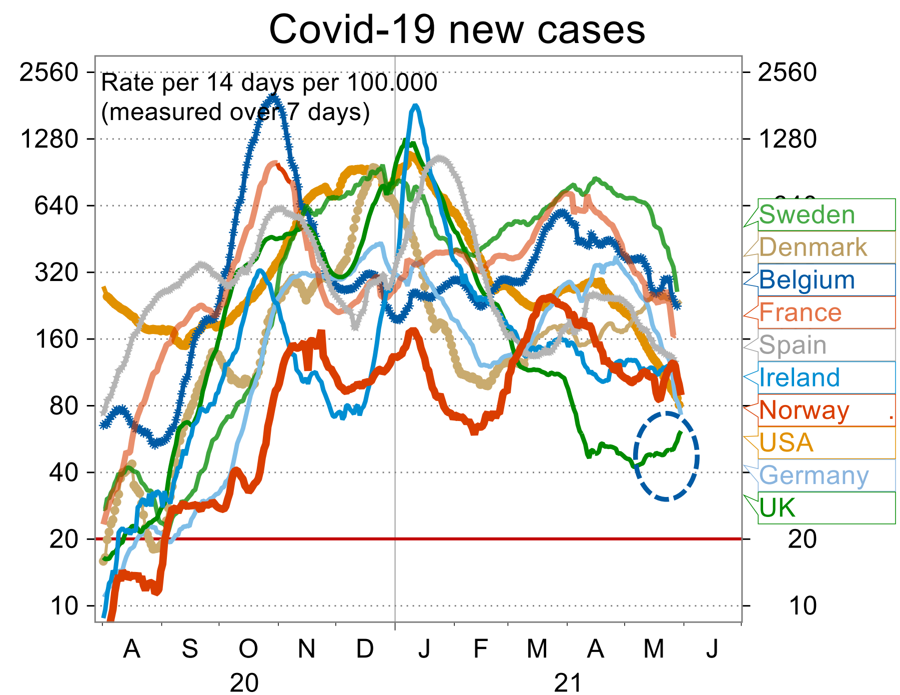
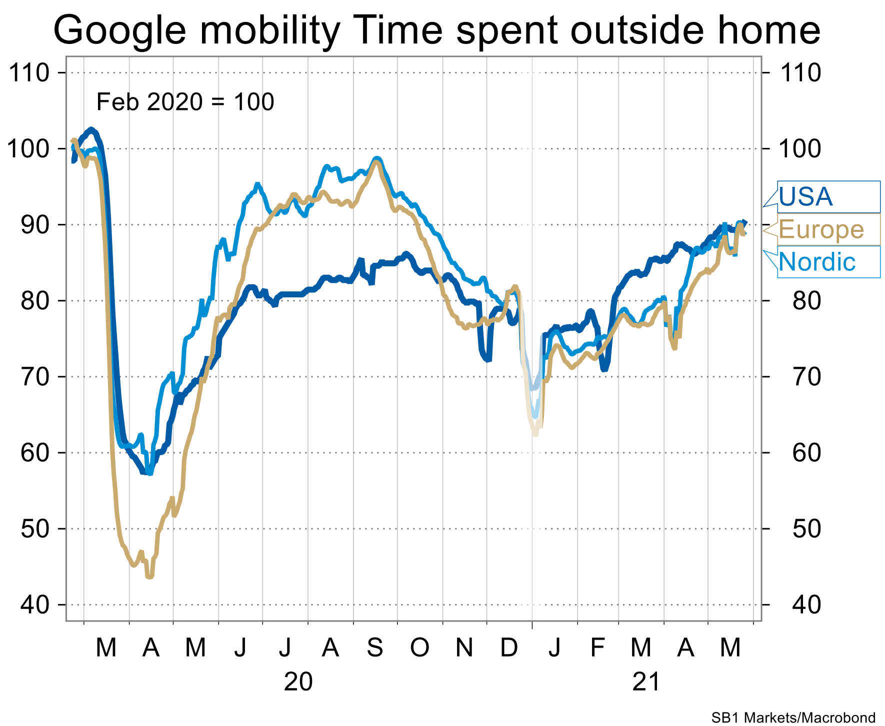


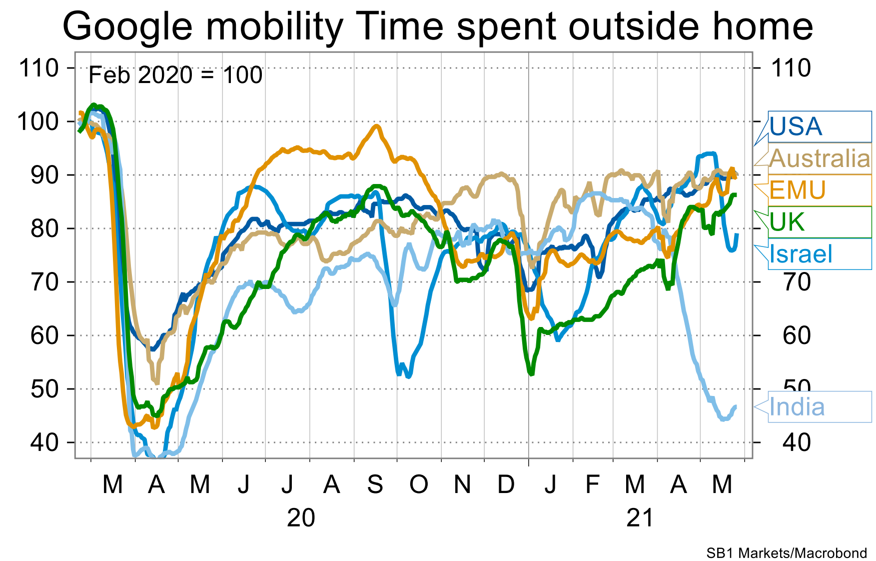

SB1 Markets/Macrobond

- **UK** has reported a sharp increase in new infections, at least partly due to the new Indian mutant, which in some few weeks have gained a 50 - 75% 'market share'. The new variant may be some 20 – 30% more contagious than the British variant (which was substantially more contagious than the original corona virus). We estimate that almost 70% of the total British population is vaccinated or have been infected, and the rate is increasing by just 1.5% per week.
  - » Both AstraZenica & BioNTech/Pfizer protects well against the Indian version but first after the 2. dose. 3 weeks after the first doses, just 30% may be protected (vs. 50% against the British variant), yielding a much higher 'R' (which is at 1.5 in UK now). If so, the single dose strategy may have some costs
  - » Still, the UK infection level is very low, just 5% of the Jan peak, and hospital occupancy is at 2% of the peak level (and is still just flat)
- In other rich countries, barring and uptick in Norway after the Constitution (party) day. The most recent infection data are better, and hospital occupancy is still falling

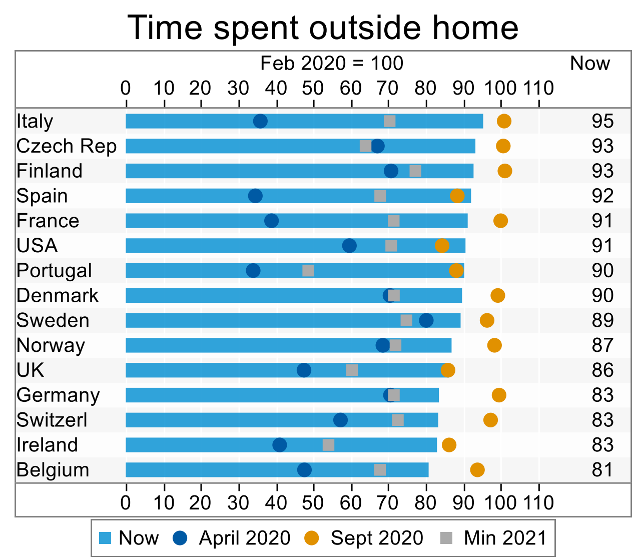
# Mobility is trending rapidly upwards everywhere in DMs

## Even India turned up last week – from a low level



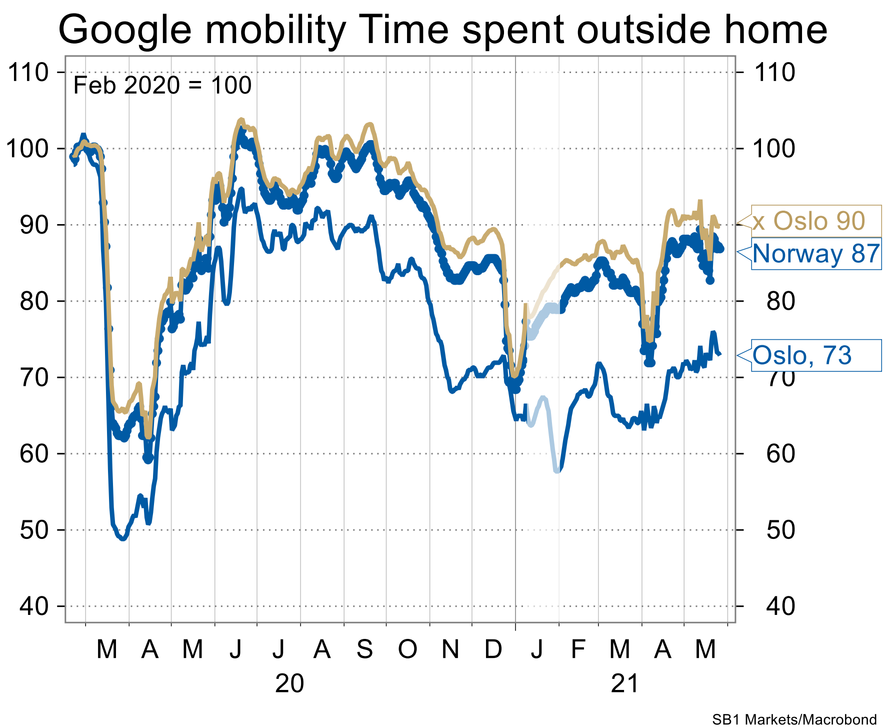




- Mobility still some 10% below par – which illustrates the substantial social & economic upside potential in the coming months
  - » In Q1, mobility was 25% below a normal level



# Mobility has flattened in Norway x Oslo

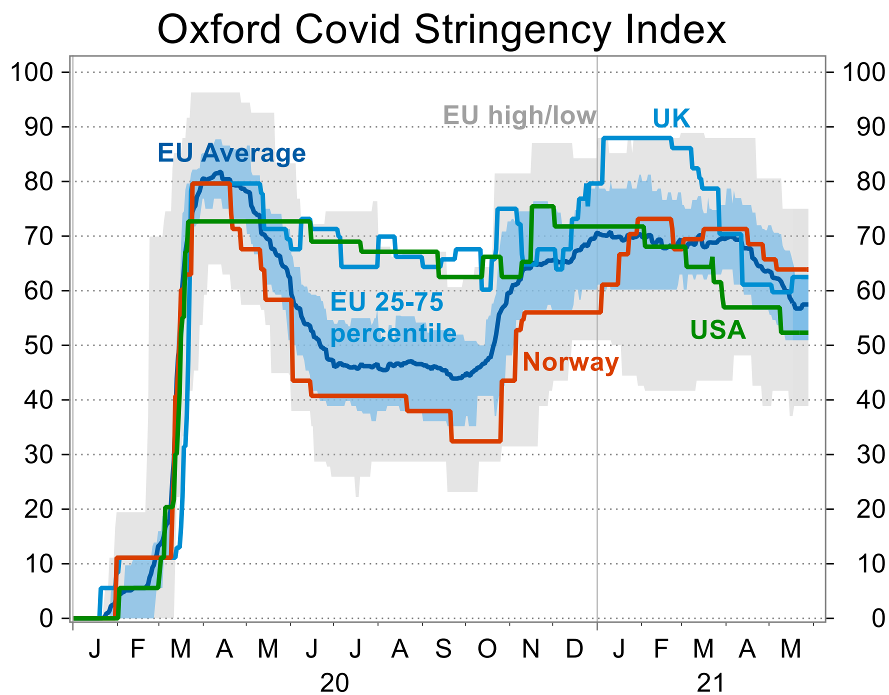
## Some local covid outbreaks, but (yet) not important at a national level




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

# Restrictions are eased by most are still in place

Some have small economic costs, others may have more




- The remaining measures will be eased when the immunity rates is sufficiently liftet to keep even mutated viruses at bay
- Norway lifted many restrictions last week which is not yet recognised by this survey
- Data are from the Oxford Covied stringency project, that at least are the best at hand

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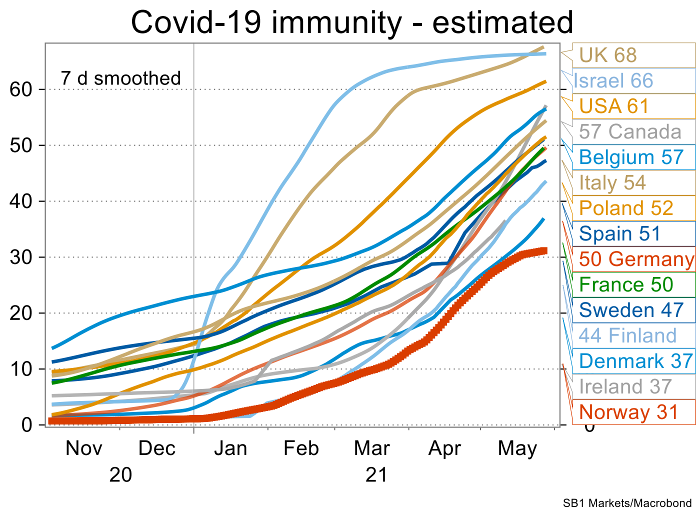
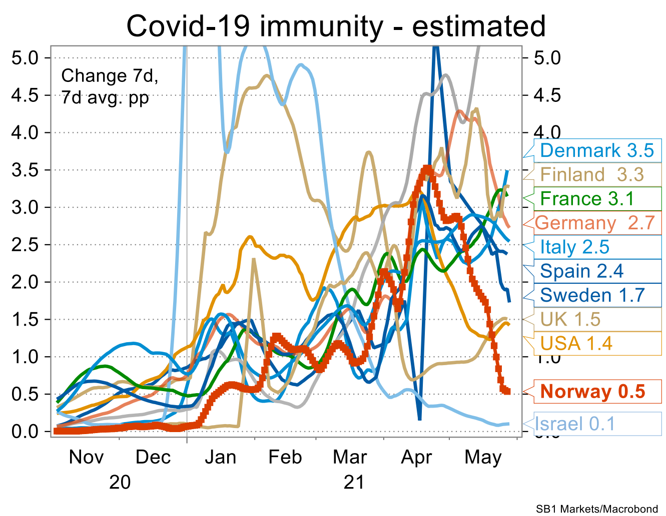
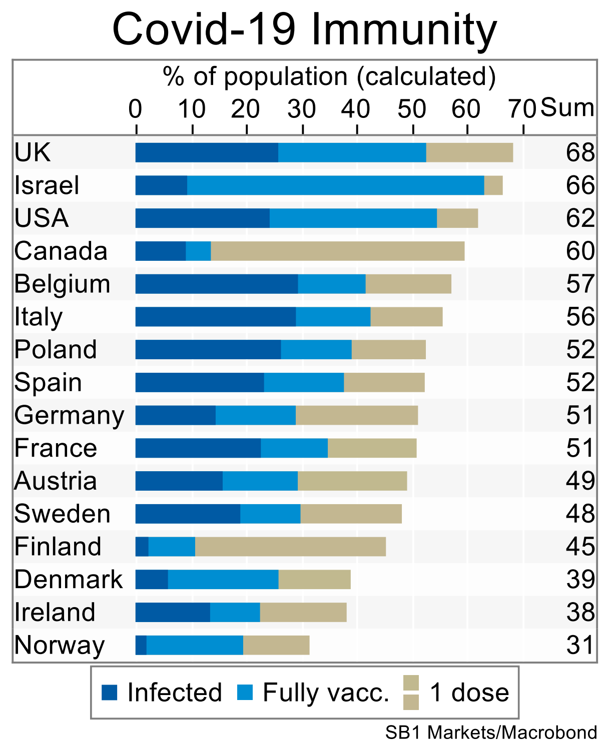
# Vaccinations: Ups & downs, but the direction in EU/Norway is up

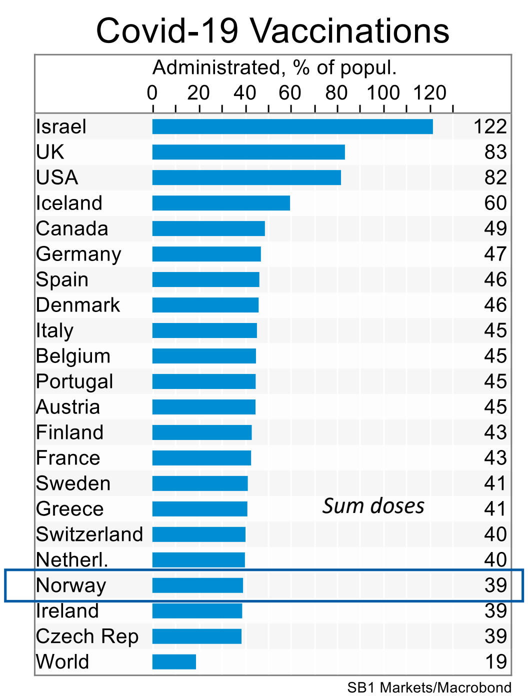
## Few 1st dose vaccinations in Norway due to public holidays and more 2nd doses. Will soon change



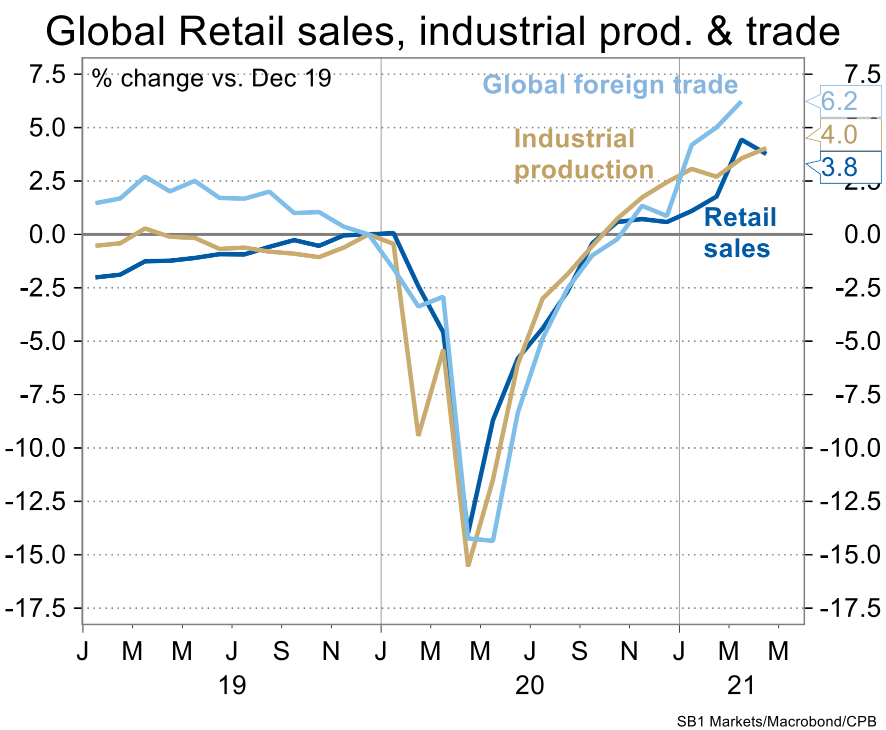

- The supply of BioNTech/Pfizer will soon accelerate sharply, and Norway will spend most of them for a first inoculation
- Norway is not using AstraZeneca nor Johnson & Johnson vaccines and is now a laggard in Europe vs. total no of doses – and the gap will widen

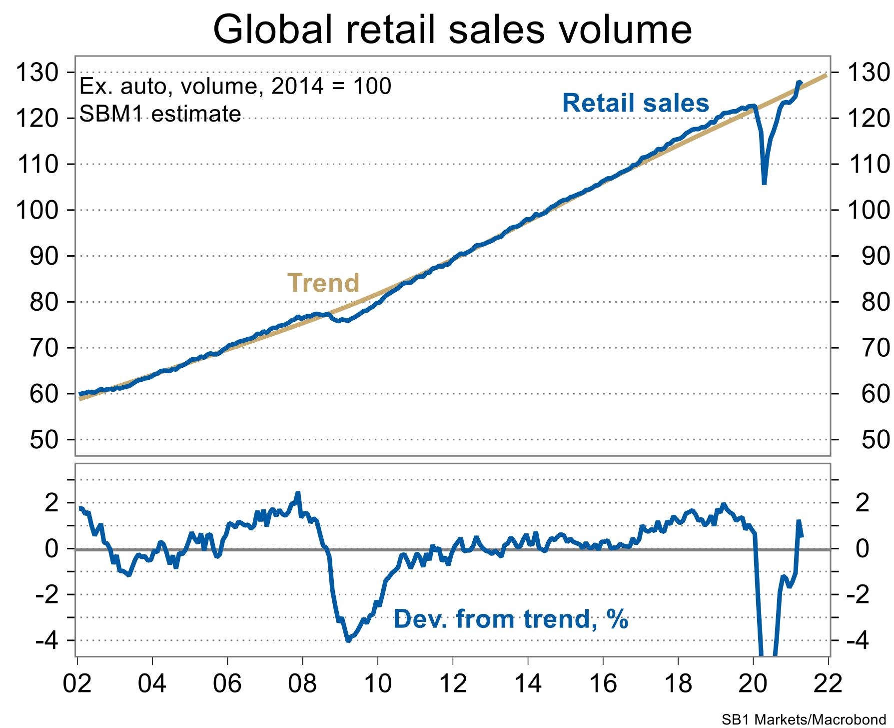



We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others

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

Retail sales may have fallen in April, due to EMU & India. Still the trend is up

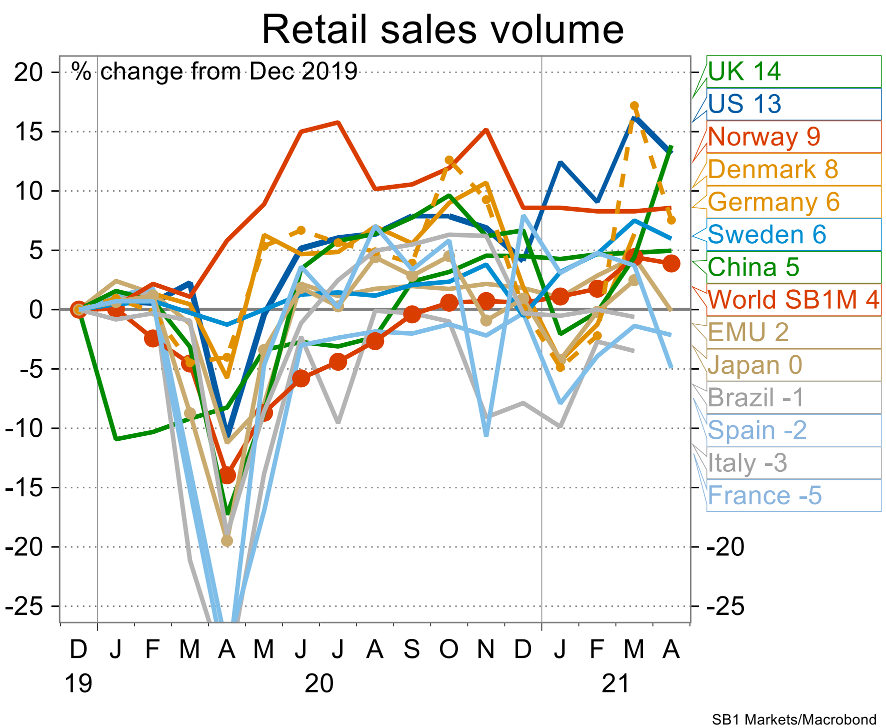


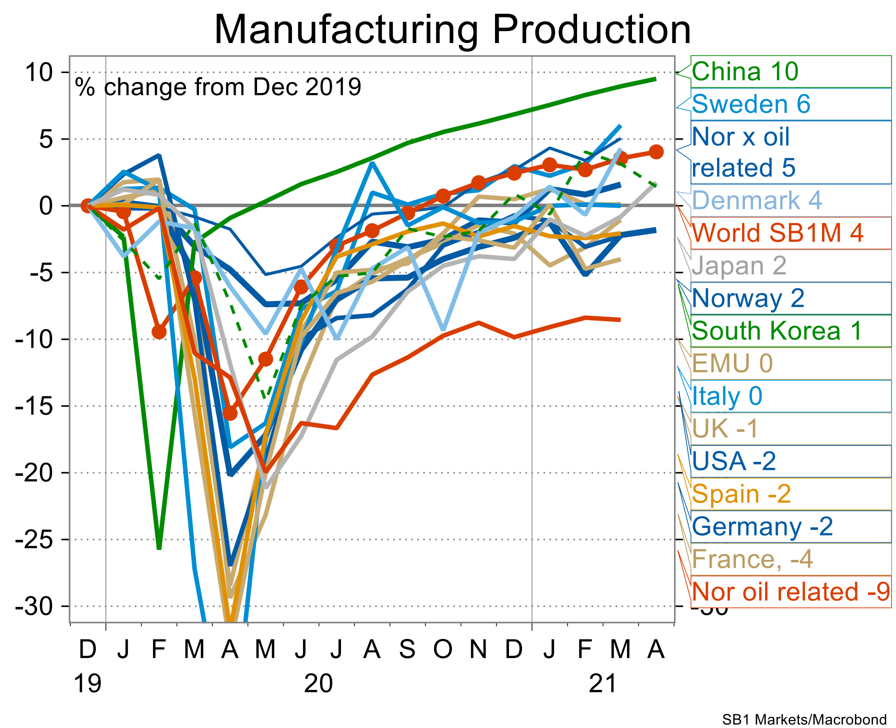




- **Retail sales** rose sharply in March, mostly due to the lift in US and partly also EMU retail sales. Our preliminary April estimate implies a small decline, due to a (likely) decline US, and probably in EMU and India. Global sales are some 4% above the pre-pandemic level
- **Manufacturing production** rose more than 1% in March, but probably slowed somewhat in April due corona trouble in India- and is 4% above the pre-pandemic level
- **Global foreign trade** rose further in March, to 6% above pre Covid, according to CBP in Netherlands – and the trend is straight upwards

# Volatile retail trade data, but the trend is still up

EMU very likely surprised us at the downside in April (vs. our original est). A better May?




- Global manufacturing production grew some 1% in March, and probably slightly less in April
- Retail sale rose much more in March (2.6%, due to large gains in the US, EMU) but may have likely fallen in April, due to (expected) declines in EMU and India – and an actual decline in US

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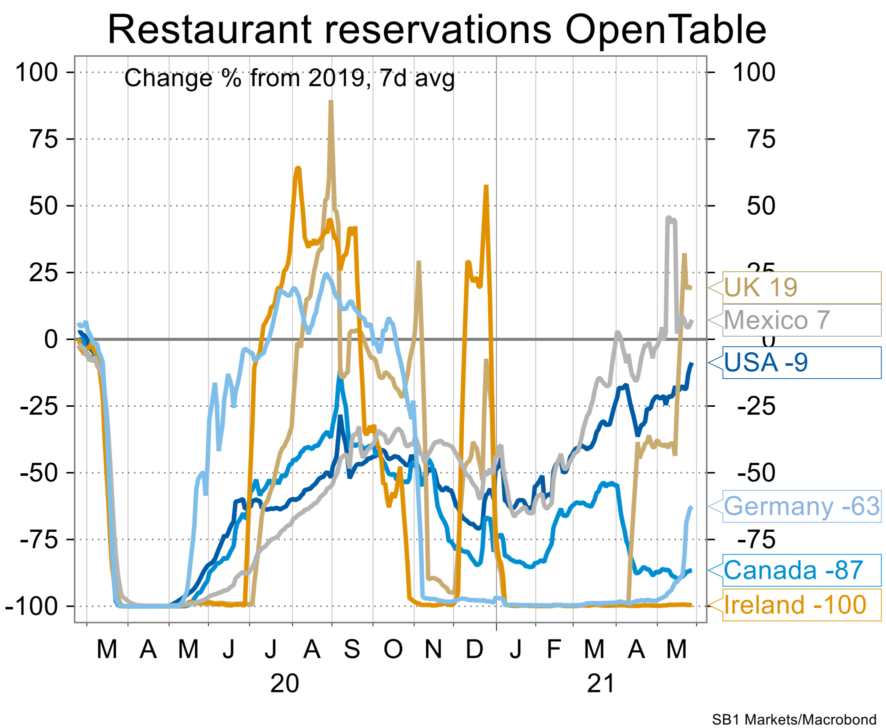
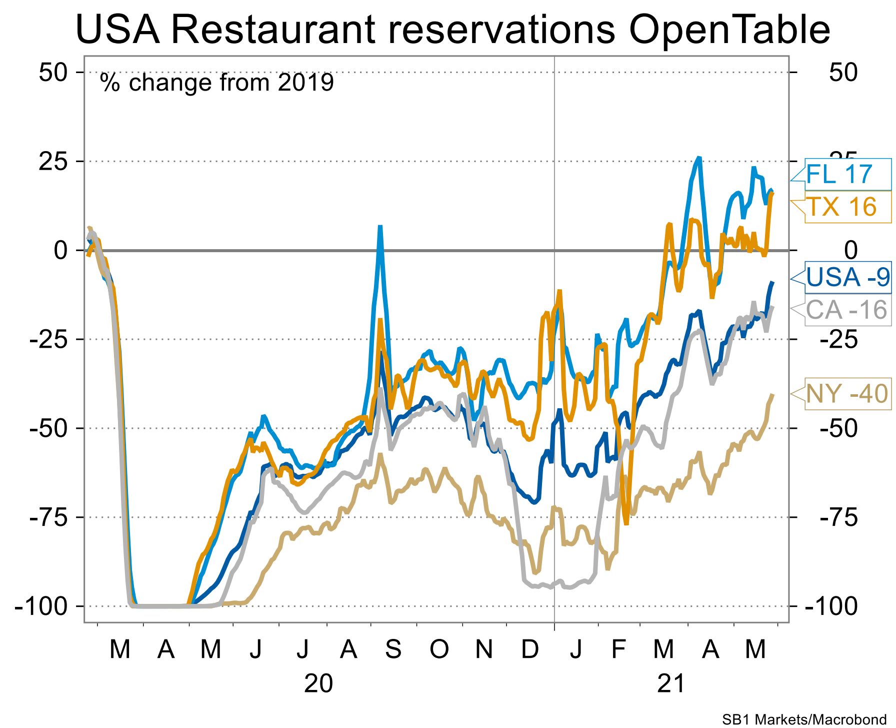
# The UK restaurants opened up their doors, and the guests turned up, en masse

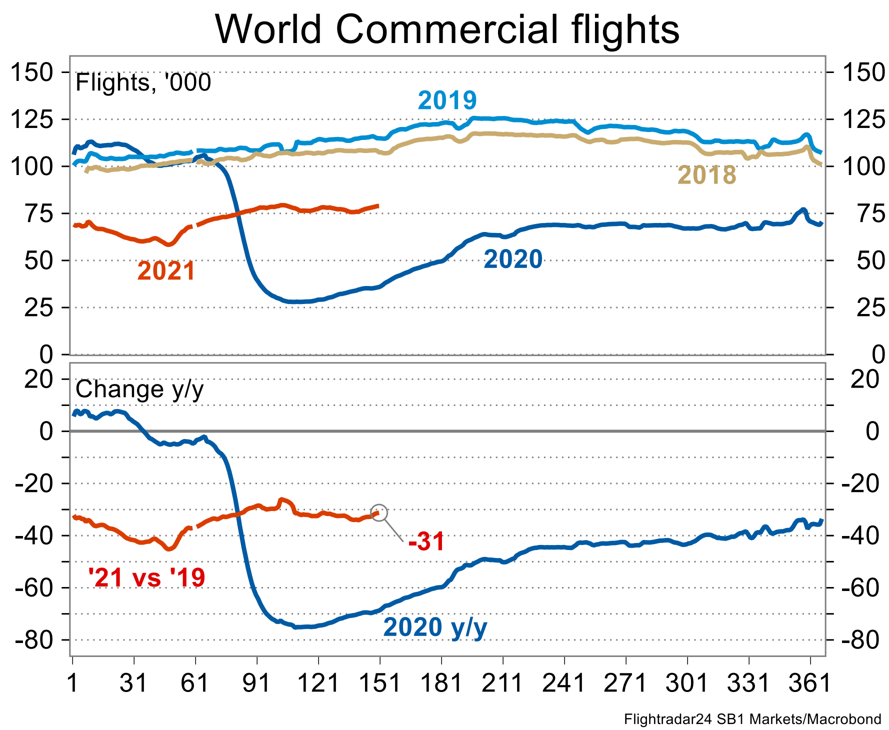
At least according to OpenTable reservation data. The US is gradually returning to normality

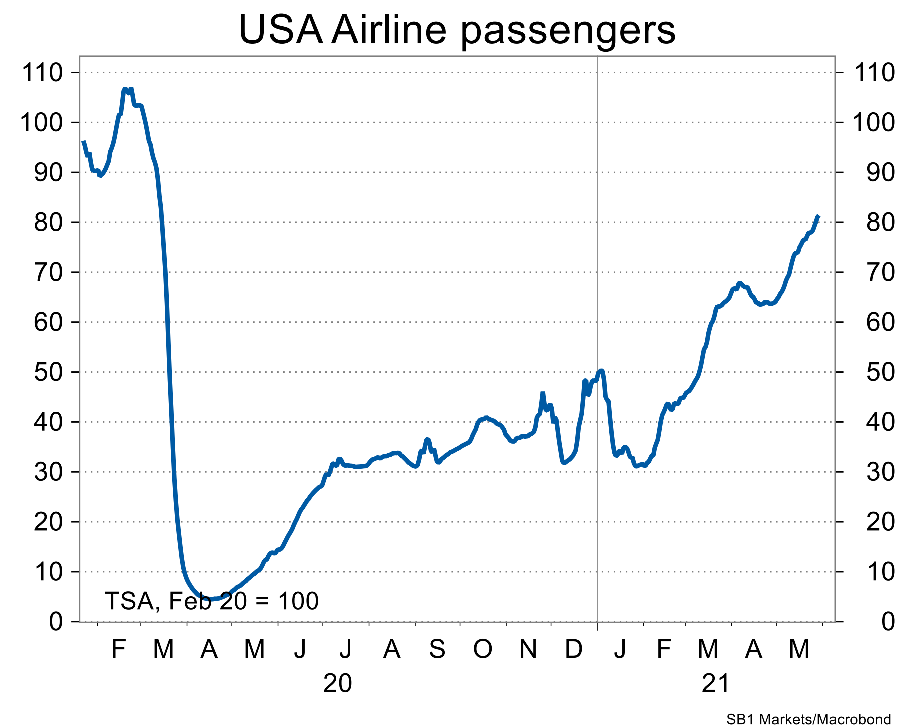



- Restaurants still mostly closed in Germany and fully closed in Ireland, at least those who are tracked by OpenTable
- Sales in restaurants in the US were down 2% in April vs. the Feb-20 level, far better than indicated by OpenTable data

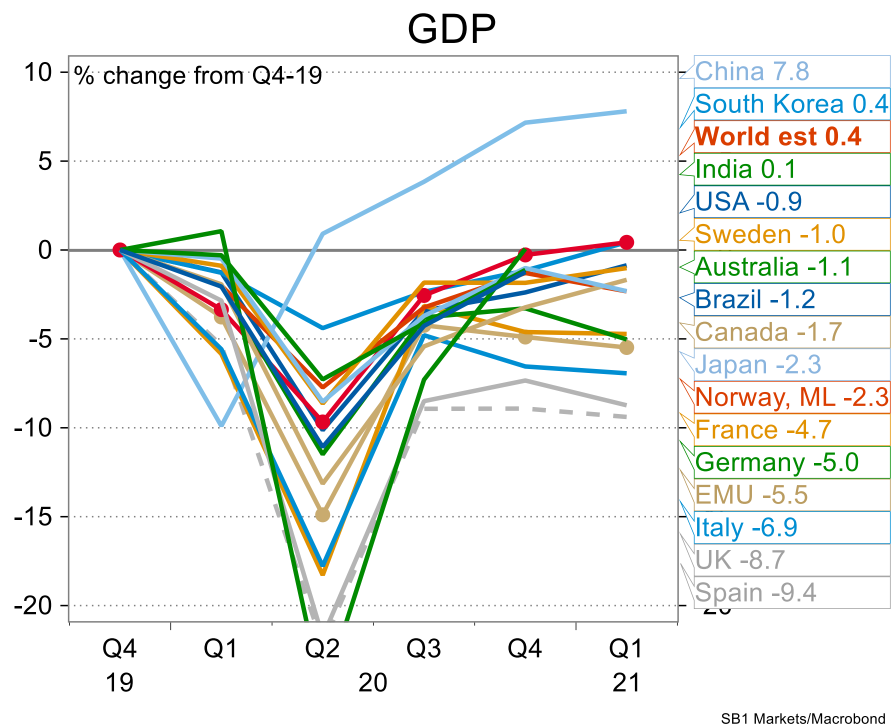
# Global airline traffic on the way up again? US straight up

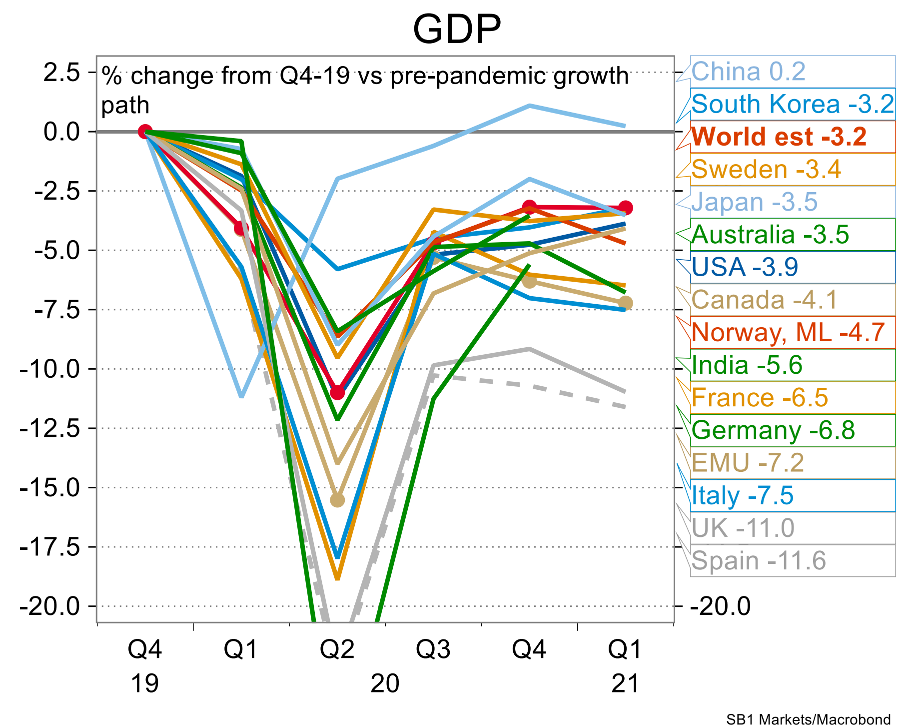


# A 3% global GDP growth pace in Q1, level 0.4% above Q4-19

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



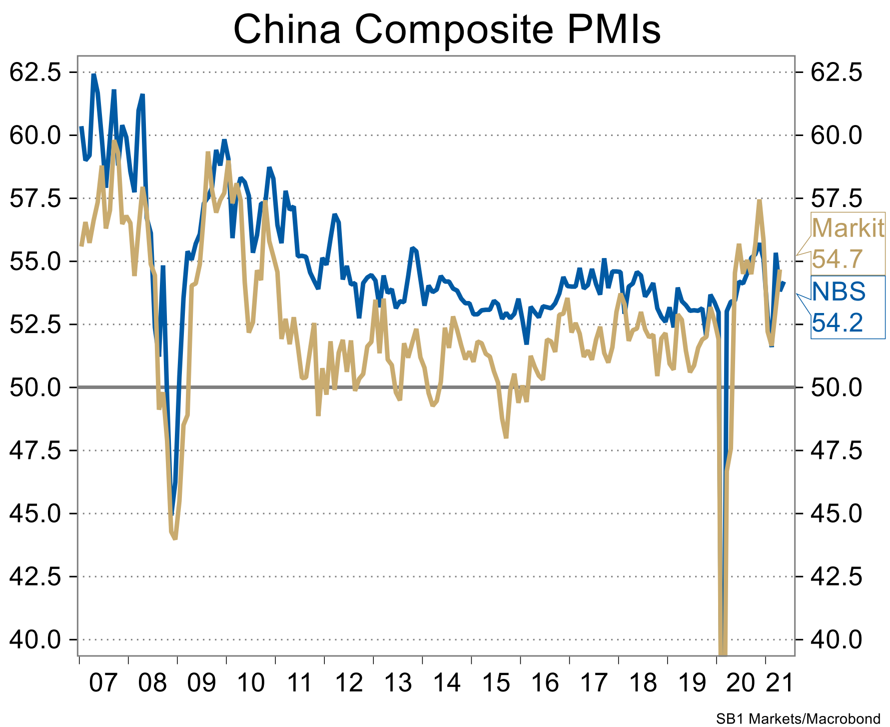



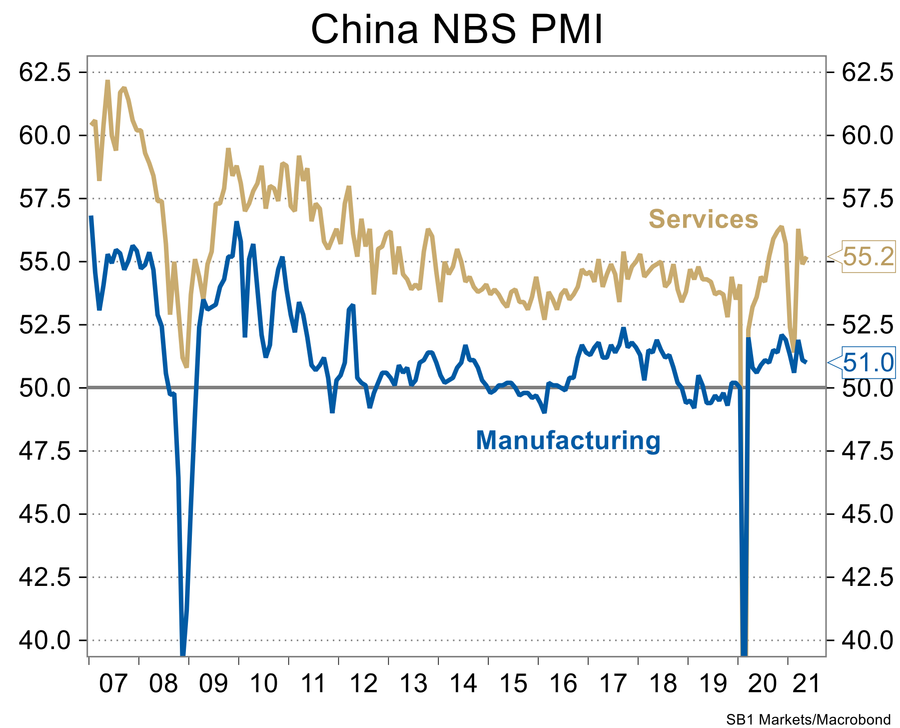

- Following an 8% growth pace in Q4, we estimate 4% growth through Q1 (1% not annualised)
  - » GDP growth in **China** slowed to a 'trickle' (a 2.4% pace…), and GDP in the **EMU** contracted further
  - » In the **US**, GDP grew at a 6.4% pace, up from 4.3% in Q4 – and the level is just 0.9% below GDP in Q4-19
  - » **Sweden** is just 1% below the Q4-19 level, Norway is 2.3% below

- When measured vs. the pre-pandemic trend growth path, China is the only country above – all other are below
- The global economy is 3.2% below the pre-pandemic growth path – and the negative output gap is substantial
- US is 3.9% below, EMU 7.2%, and UK 11%
- Norway is down 4.7% vs. 3.4% for Sweden, due to the different response to the 2nd wave (by Q4, the positions were the opposite)

# The NBS slightly up in May, level signals decent growth

NBS' composite +0.4 p up to 54.7, du to an increase in the service sector PMI




- The manufacturing index fell by 0.1 p, to 51.0, expected unchanged
- The service sector index rose by 0.3 p to 55.2, marginally better than expected
- We expect GDP growth to accelerate in Q2 vs the sub-par growth in Q1, but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend
  - » Credit policy is tightened

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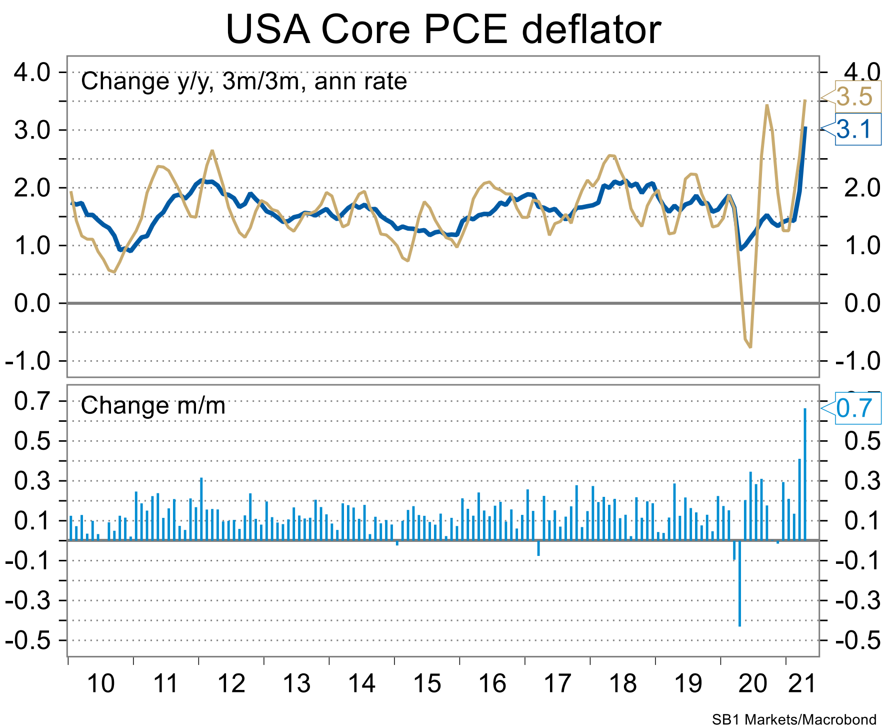
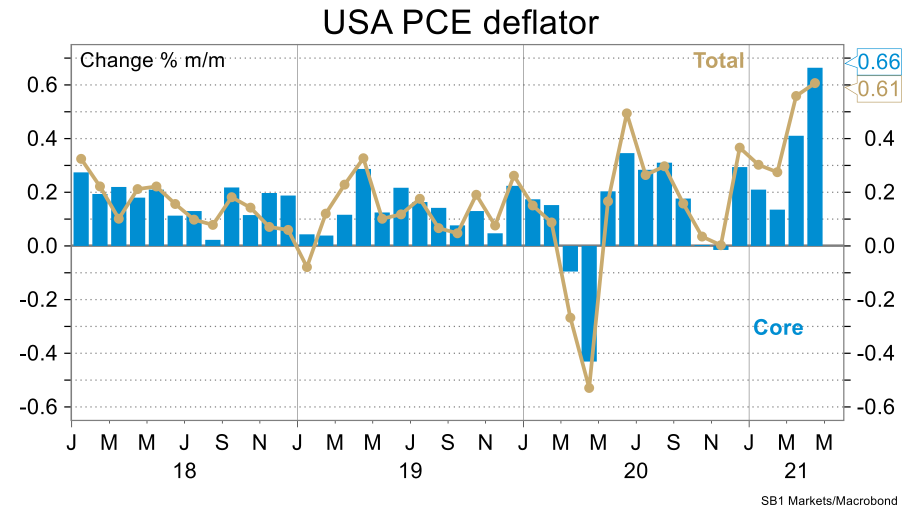
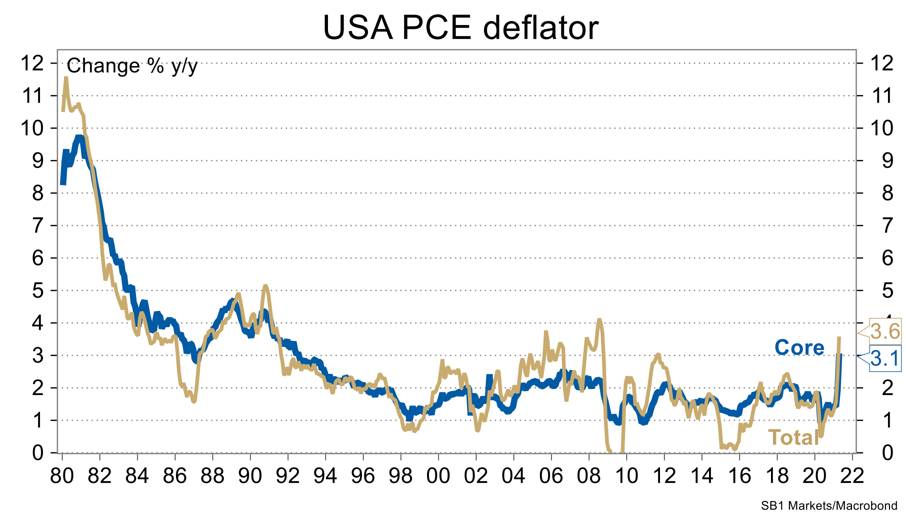
# Core PCE up 0.7% in April, 3.1% y/y, above consensus – to the highest in 30 years

## …and the Fed has pledged to stay calm, to wait and see




- **The core price deflator** rose 0.7% in April, 0.1 pp more than expected. The previous months were slightly revised up. In Q1 prices rose 2.5%, up from initially reported 2.3%. In April last year core prices fell by 0.4%. Thus, the annual rate rose to 3.1% from 1.9% (rev from 1.8%) – 0.2 pp 0.2 pp above expectations.
  - » Last April the annual inflation was 0.9%. Since April 19, the average inflation rate has been 2.0%, spot on Fed's target
- **Total PCE deflator** rose by 0.6%, and the annual rate accelerated 1.2 pp to 3.6%, as expected

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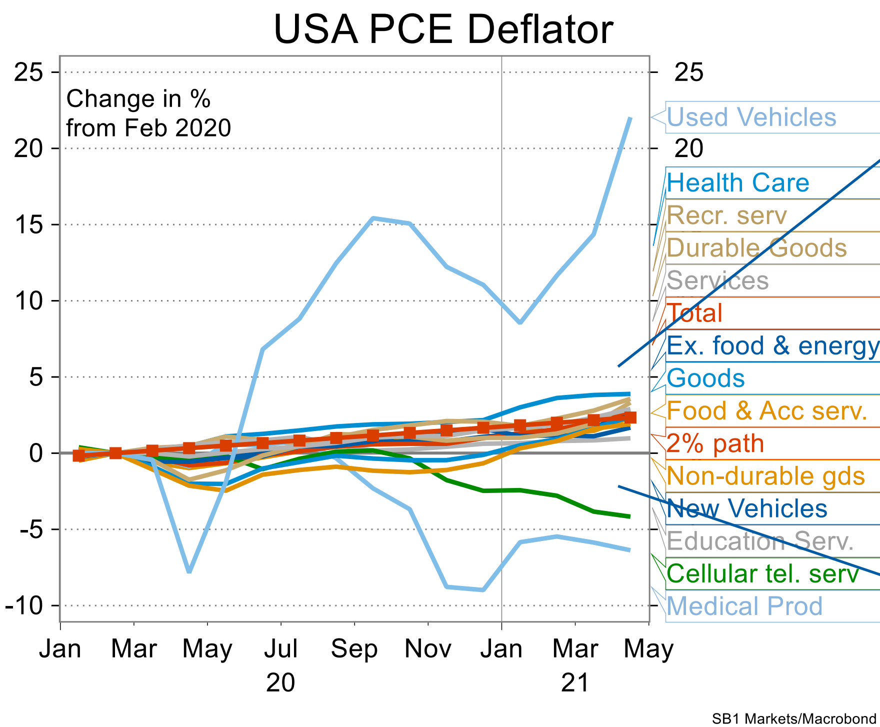
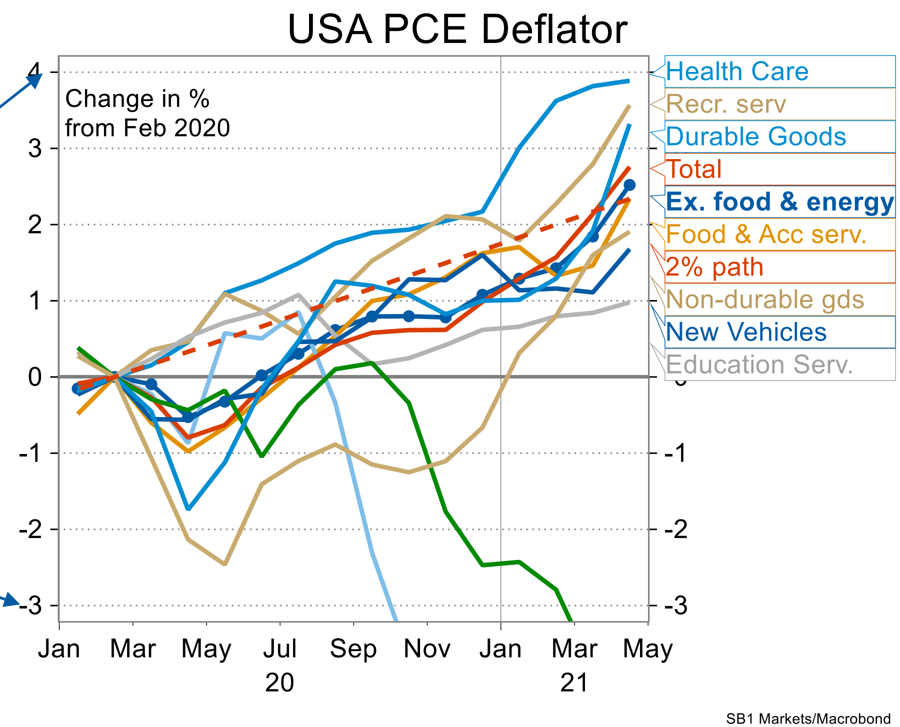
# Most prices up in April too, recreational services, durable (autos)

Still unclear what is due to a 'reopening surge' – and what is permanent

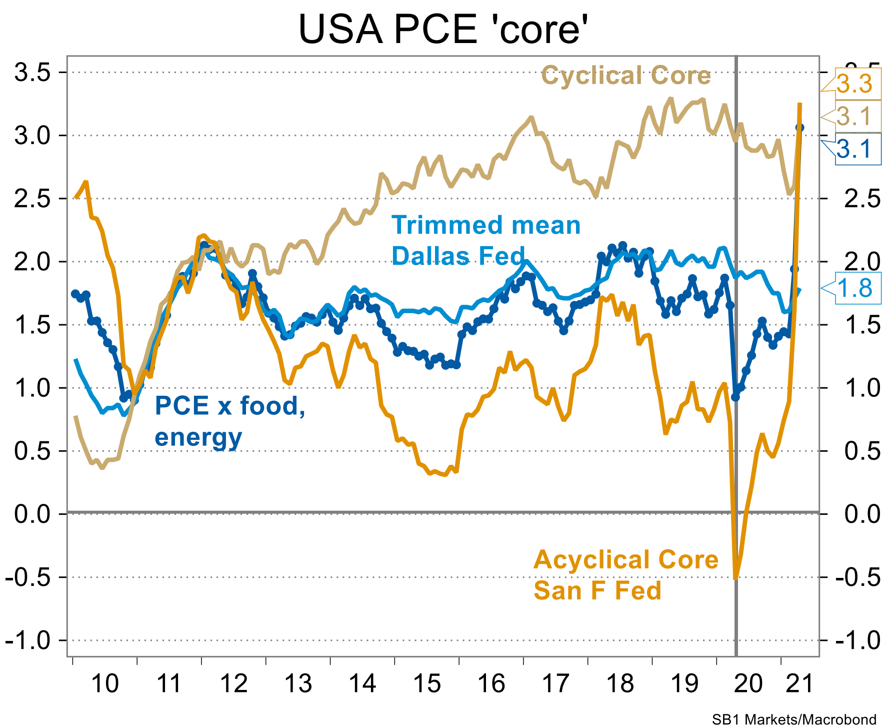


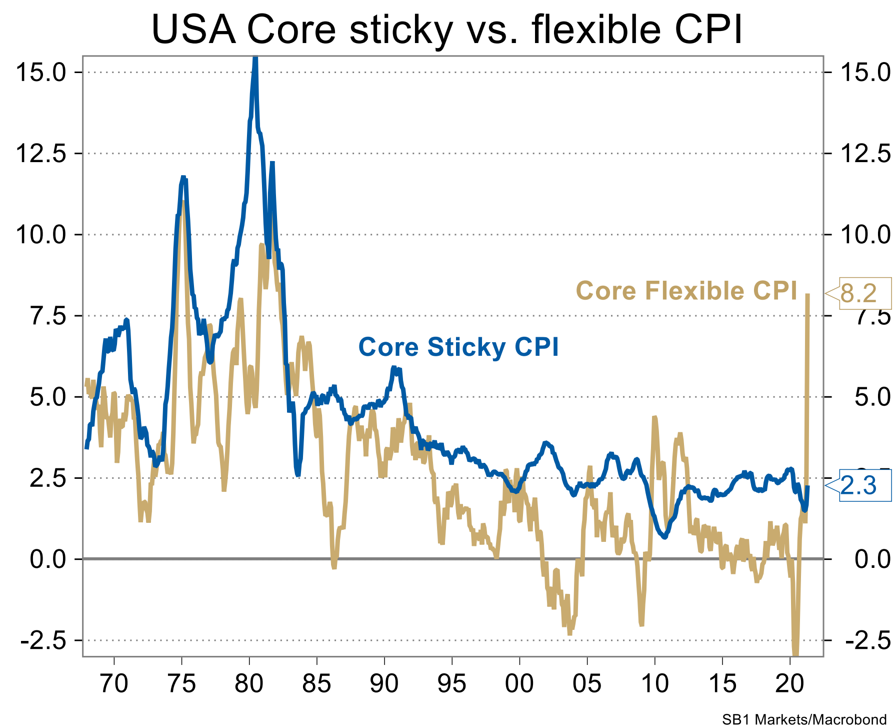




- Used car prices rose sharply, as measured by the PCE – and the price level is probably higher than a long term equilibrium
- Health care costs have increased sharply recent months
- Medical products & cell phone services became cheaper in  May (too)

# There are still some possible (and not unreasonable) excuses…

There are still just some few goods/services that have done the heavy lifting




- The **trimmed PCE mean** is at 1.8%, and lower than one year ago. The trimmed mean is probably the best gauge of 'underlying" PCE
- An index for typical **acyclical core PCE goods & services** are up 3.3%, up from -0.5% in April last year. The 2 y avg is at 1.4%
- The **cyclical core PCE** at 3.1%, as it was one year ago: inflation for these goods & services have been at a high level quite long – but it has not become worse
- In the CPI, almost all of the lift in **core CPI** has been due to prices on good & services that normally are **flexible** – and they are more up than since 1982. However, these prices are flexible both ways, and the cycles are normally short. The **sticky components** of the CPI is up 2.4%, below the average recent years. For inflation really to take hold, these sticky prices have to accelerate (like from 1973). However, the flexible component has contributed substantially to keep inflation low the past 8 years

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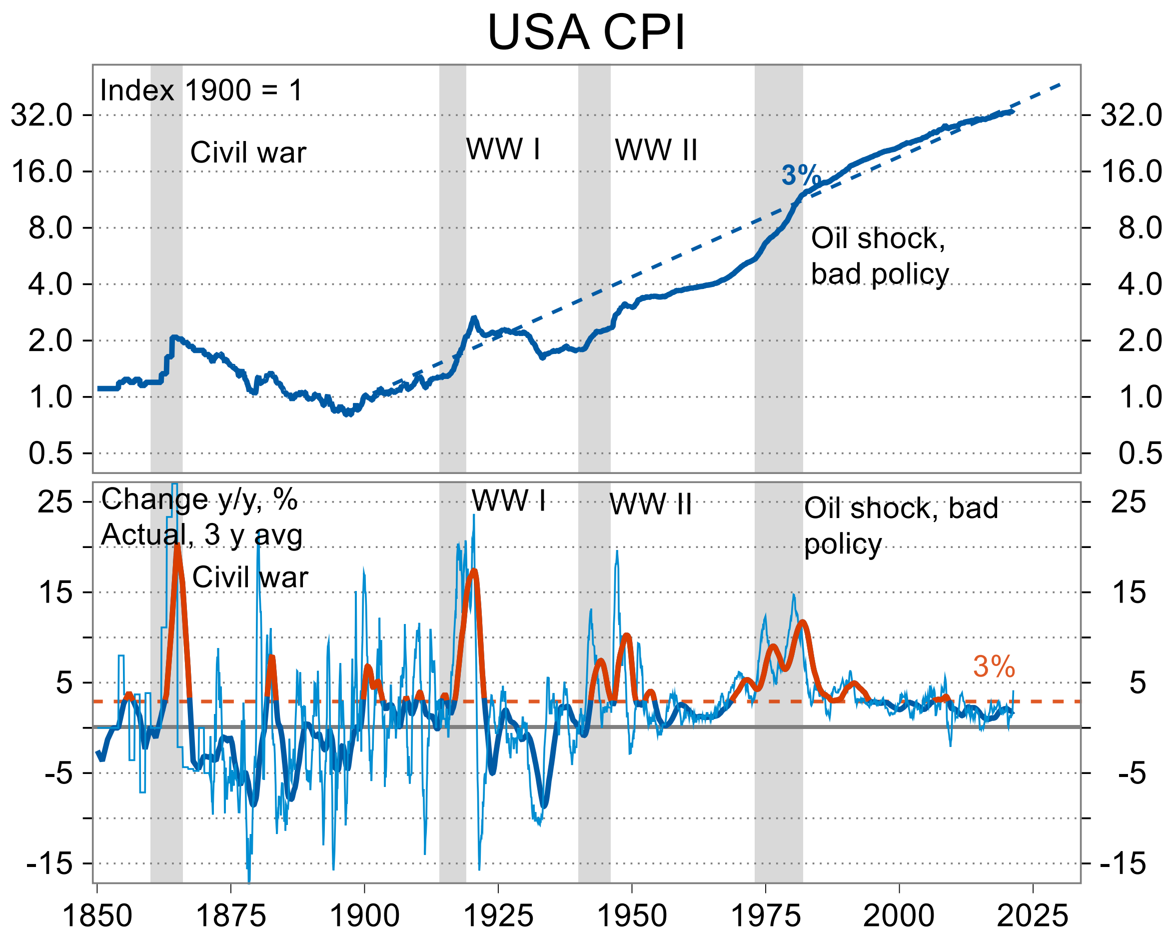
# The long inflation history: Wars have created inflation

The 1970’ies the main exception (but US was engaged in a war in Vietnam)

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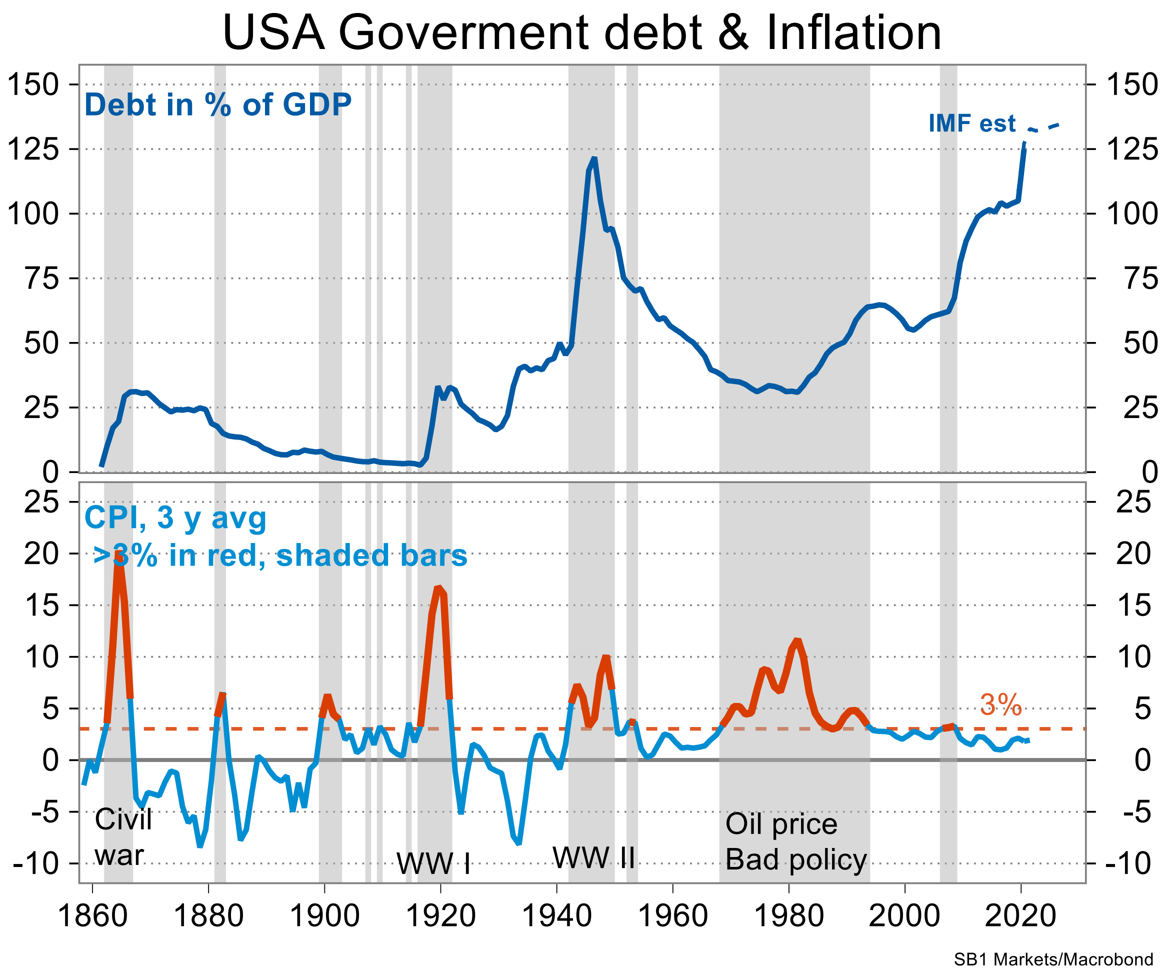
- Inflation has been 3% in average since year 1900 – and -0.7% in to 1900 from 1800
- Inflation has been above 3% over some time 3 times when the US has been at war, with itself or others
- The 4th inflation wave, in the 1970’ies, the US was engaged in the Vietnam war but not comparable to the earlier wars. The US abolished the Bretton Wood fixed exchange rate cooperation /gold exchange standard (not a gold standard vs. the public) 1971 – 73
- The ‘war on the virus’ may of course turn out to be an inflation trigger. Will it?
- *More on US inflation the next 10 pages*

# Does Government's debt create inflation? Yes, during wars

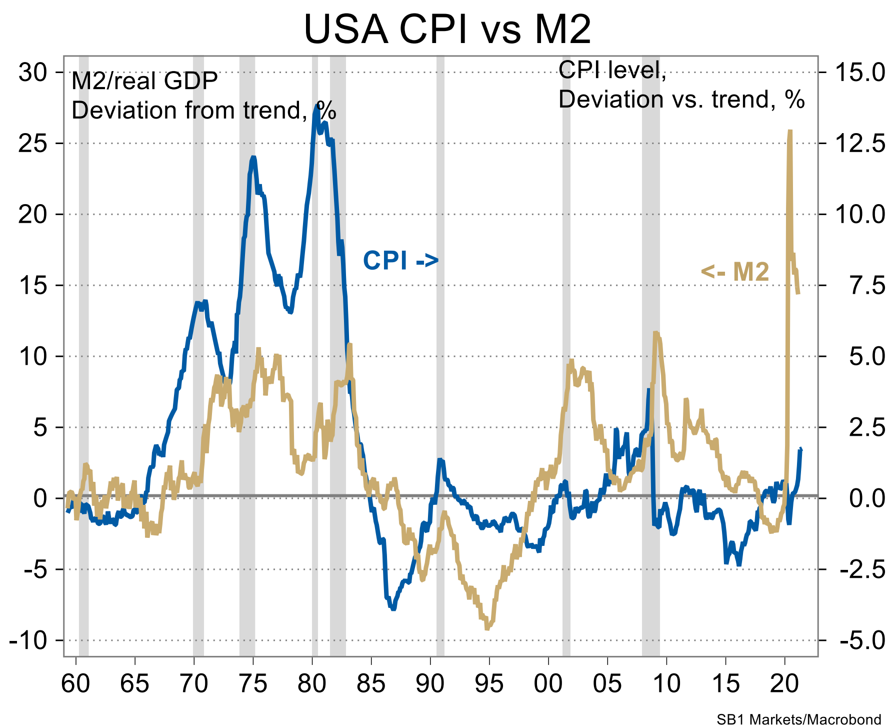
The 'bad policy' regime in the 1970's was NOT caused by a steep increase in Gov't debt

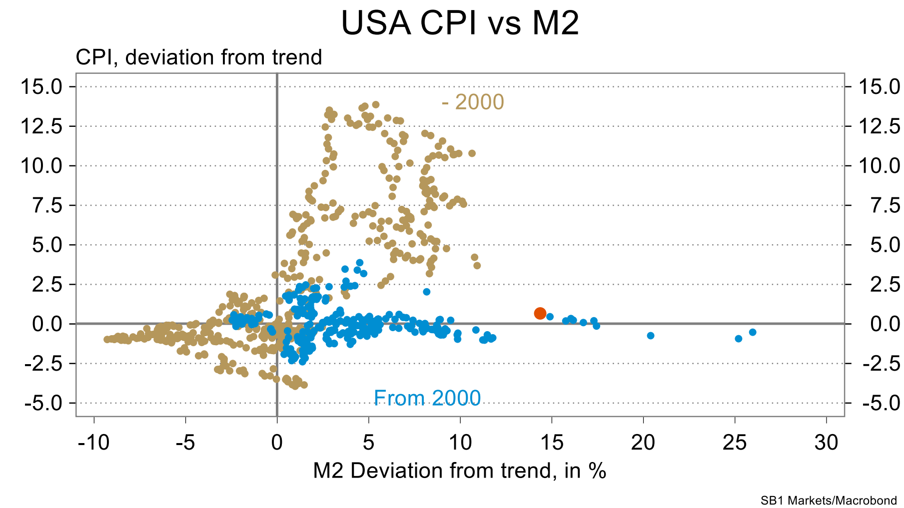


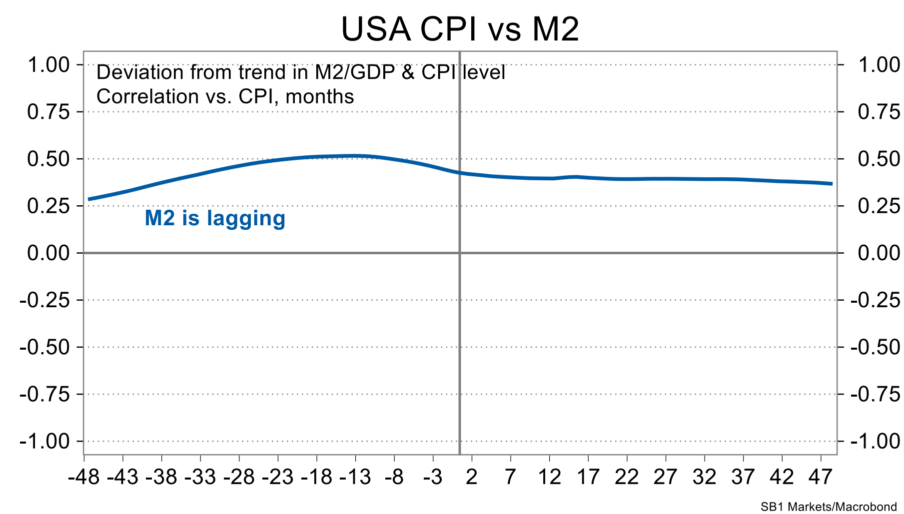

- The Debt/GDP ratio fell during the '1970's, although the growth in nominal GDP was high, partly due to an expansionary fiscal policy

# Money vs. inflation: «Money» is rather lagging than leading CPI inflation

In anything, <u>prices are leading «money», not lagging</u> – and correlation has been weak since 2000



# So, what now? The US labour market will decide

So far, mostly a US history. But the fate of most financial markets are decided in the US

### There are some red lights blinking!

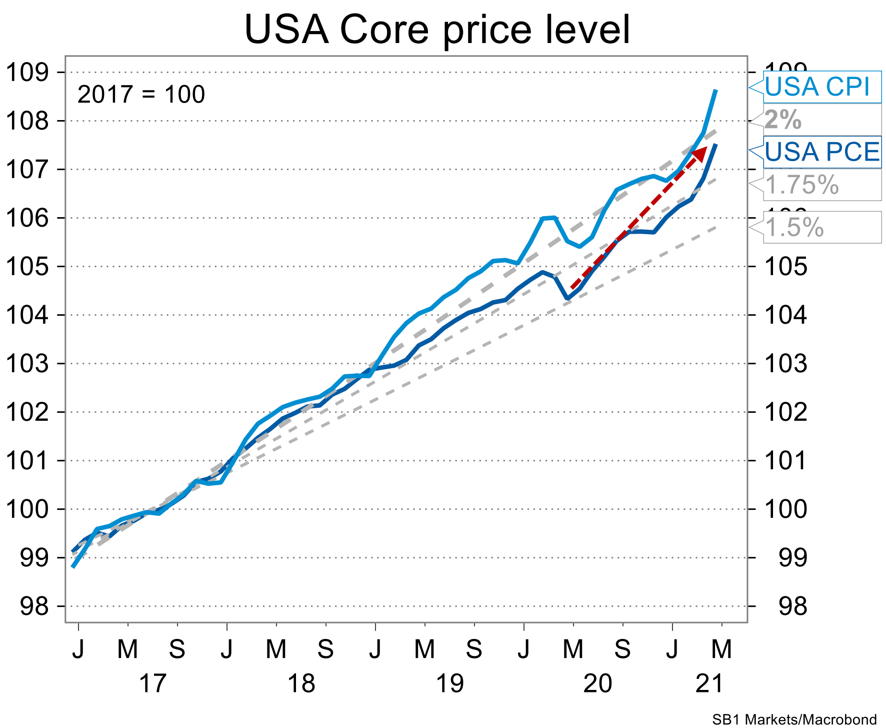
- Growth in **money** in the US has been extreme, mostly due to an extreme **fiscal policy**, the **government debt** has leapfrogged and has been financed by Federal Reserve's extreme **QE program**
- The intellectual climate has changed: Fear of public deficits or inflation has faded. The **Modern Monetary Theory** may legitimate an even more expansionary fiscal policy than we have seen over the past years, which at one stage may have an impact on inflation
- We are witnessing extreme **shortages** in the global supply chain, delays in **delivery times**, and extreme increases in **raw material prices**, and companies are reporting extreme increases in **input and output prices**
- At the same time, US businesses are reporting **extreme shortages of labour**, and the authorities a **record high number of unfilled vacancies**
- <u>The inflation risk is certainly larger than we have been witnessing for the past few decades</u>

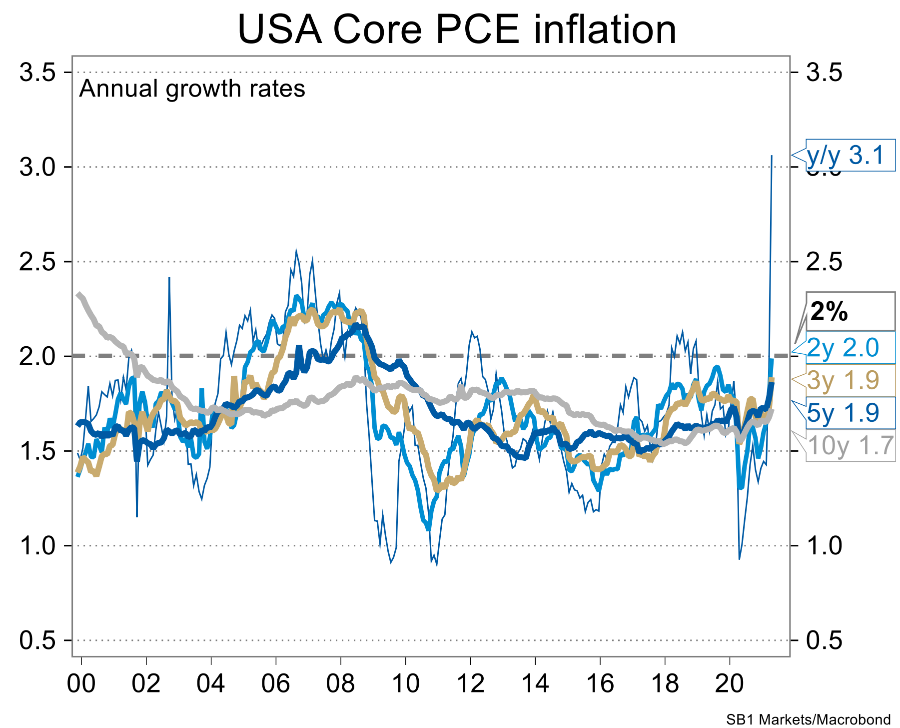
### What could happen?

- **Money, deficits & debt or QE** do not create inflation by themselves (and even not together)
- **Raw material prices/corporate margins** never rise 'forever' or even for many years – and margins do not 'explain' sustained surges in inflation (check our analysis in Macro weekly no. 20/21)
- **What's needed to push inflation substantially up, over time**
  - » **Strong aggregate demand** (private + public)
  - » **Tight labour markets** over several quarters, at least in the start of the wage/price spiral
  - » **Lack of confidence in the monetary regime** or at least low/moderate inflation outlook
  - » No adjustment in **fiscal or monetary policy**
  - » **No market reaction** (or market reaction supressed by public measures (like QE, yield curve control)
- In the first round, the main uncertainty is not whether demand will be strong or not – it will (savings are extreme etc). <u>The question is whether most of the millions US workers who left the US labour market during the pandemic will return, at current wage offerings, during the coming few months</u>

# The Fed vs. inflation: We believe there will be talk about tapering in June

## Fed now aims for 2% inflation over time: we're there, or quite close to

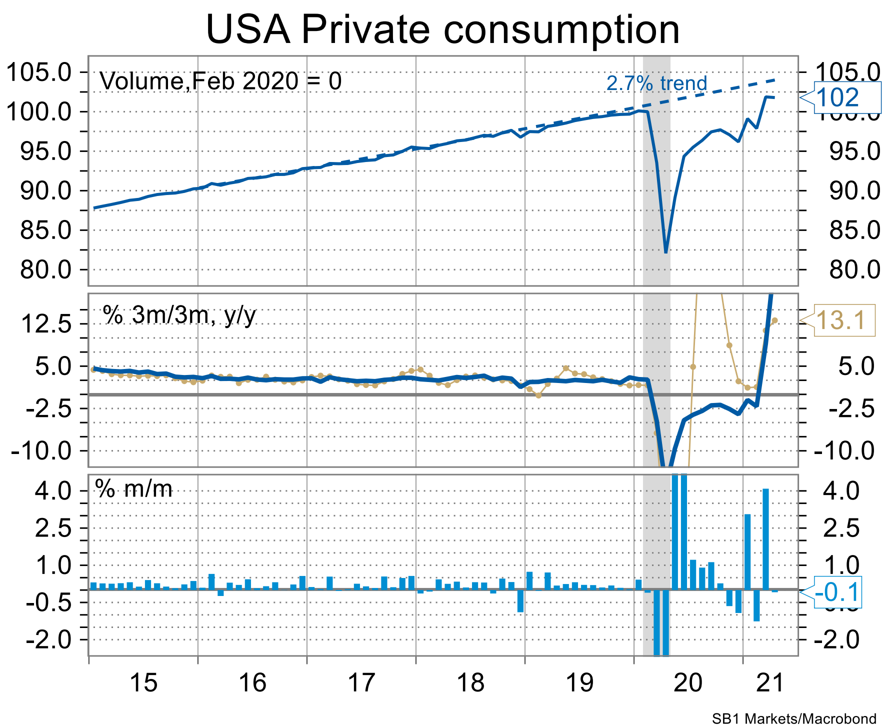


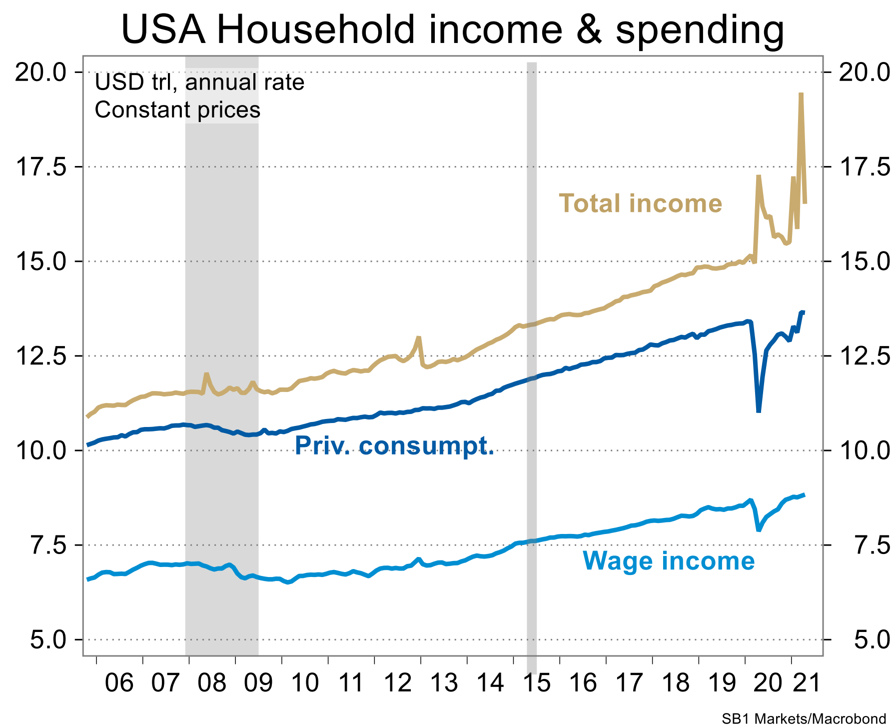




- The Fed has not defined its **time horizon**, should the average 2% inflation target be reached over 2, 3, 5 or 10 years? We guess 2 years is too short, and 10 years is a too long period. So something around 3 – 5 years?
- The 3 y & the 5 y rates are now at 1.9% - thus not much below 2%. At the chart to the left, the core PCE price level now is now close to the 2% line, starting at the average price level in 2017 (4 years ago)
- **Measured vs. the CPI**, the average core inflation is at or well above 2%, whatever period we check
- The 3.1% y/y lift in prices in April is of course both due to the price cuts last April – but just as much due the brisk increase in prices past (check the red arrow), and by itself not reason for panic
- **Inflation expectations** are way above 2% in markets & among households and very likely among companies as well

# The majority of checks were sent out in March: Income -13.1% in April

## Spending up 0.5%, in line with consensus

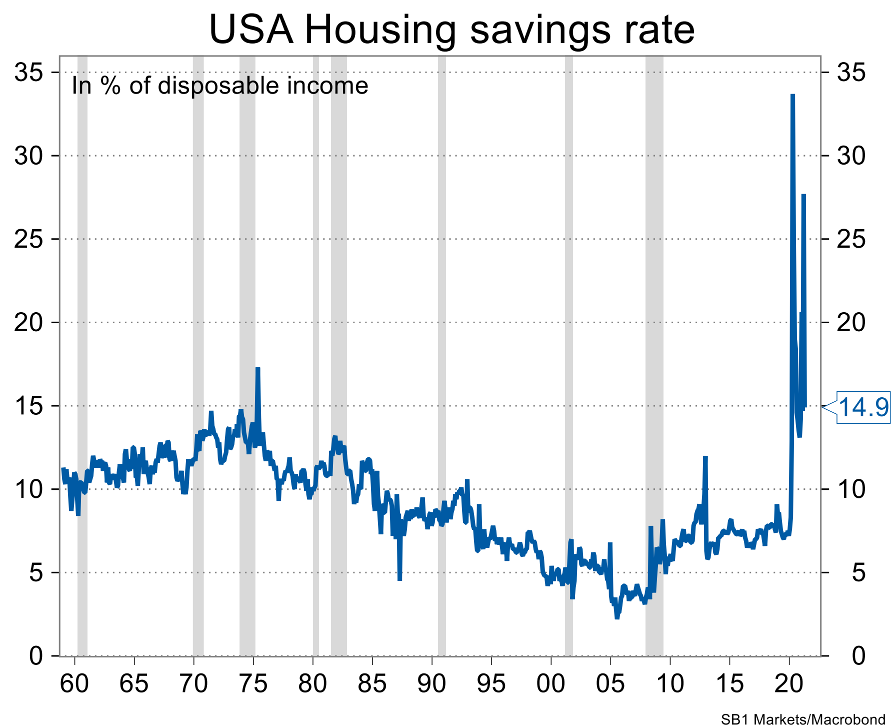


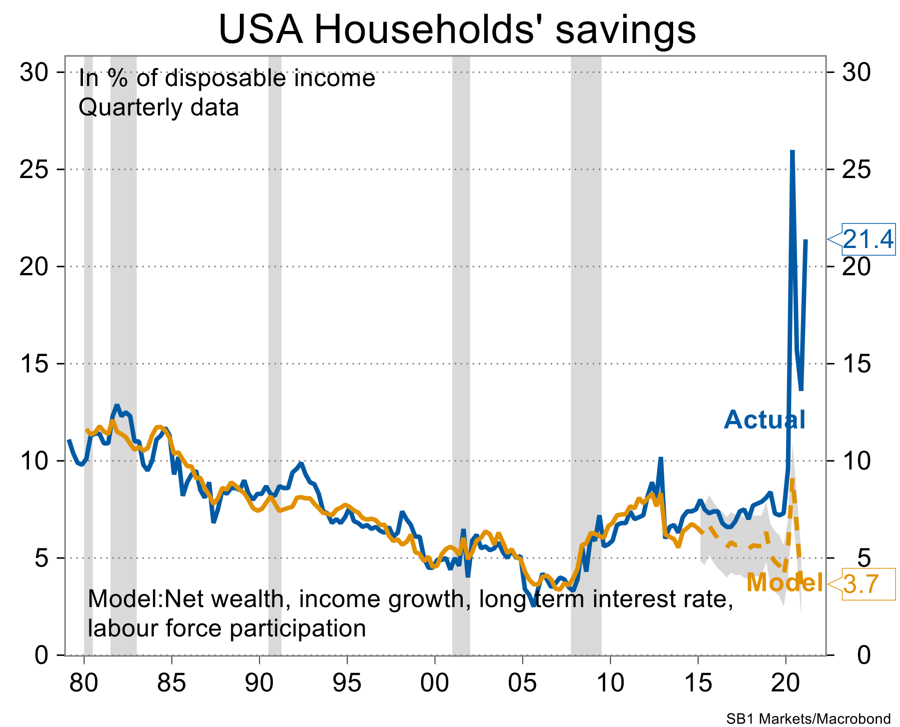




- **Private consumption** fell 0.1% in real terms in April (+0.5% in nominal terms, in line with expectations)
- **Personal disposable real income** fell by 13.1% in April, as the majority of the stimulus checks were sent out in prior months. In fact, wages & capital incomes were up in April, like over the previous months
- **The savings rate** fell sharply to 14.6%, still way above the pre-pandemic level. As the transfer bonanza more or less is behind us, we expect a further increase in consumption of services to be funded by a savings rate decline
  - » Over the first 4 months in 2021 nominal spending is up by some USD 200 bn more than implied by a 'normal' growth in spending. Income is up by an extra USD 670 bn. Thus, approx. just 30% of the 'stimulus cheques' have been spent, while 70% have been saved for a rainier day – equalling 2.7% of annual income. In addition, the current savings rate is far above a normal level! The wall of money is high!!

# The savings rate down 9 pp but remains far above the above pre-pandemic level

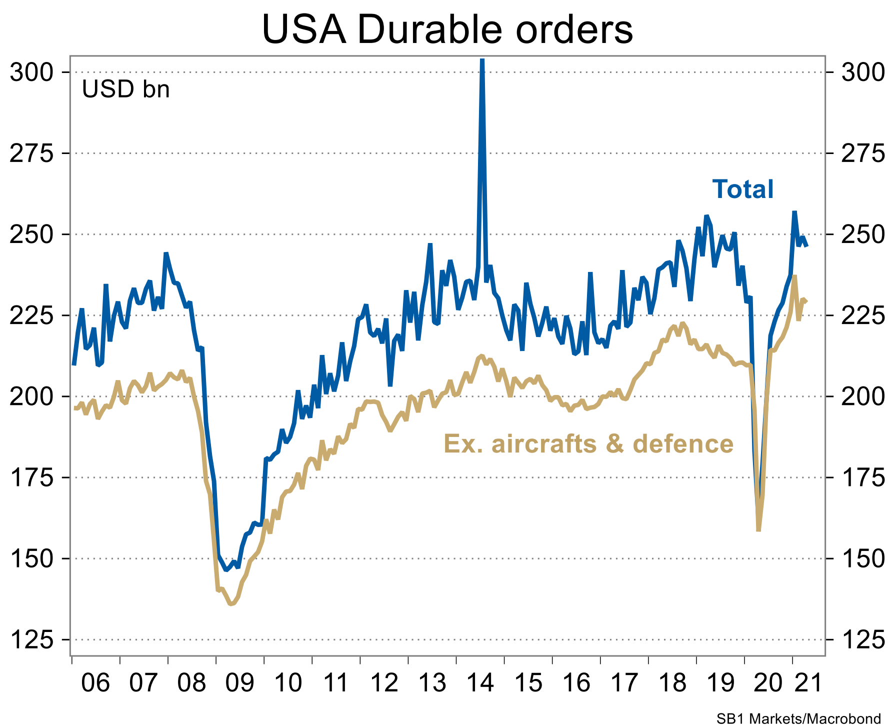
We still doubt the savings rate will remain at the current level for long

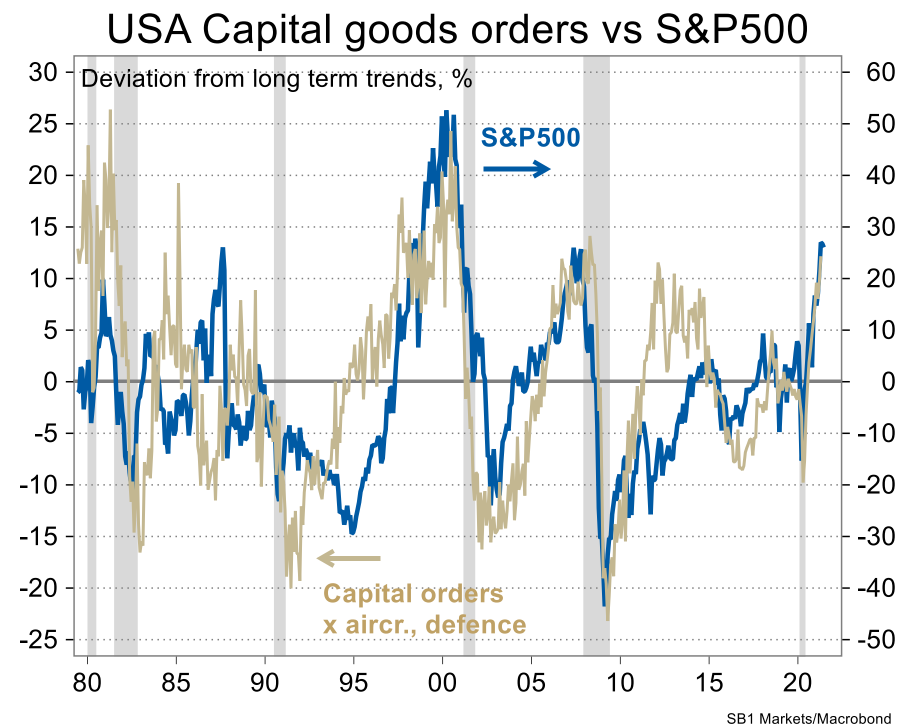


# Durable orders down in April, but level is still high & core orders were up

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

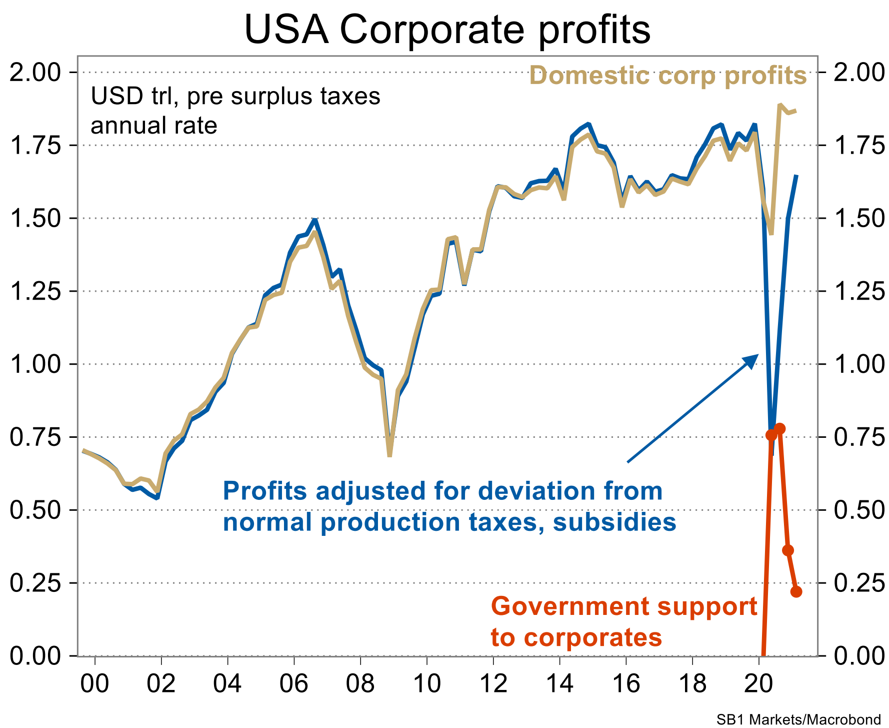


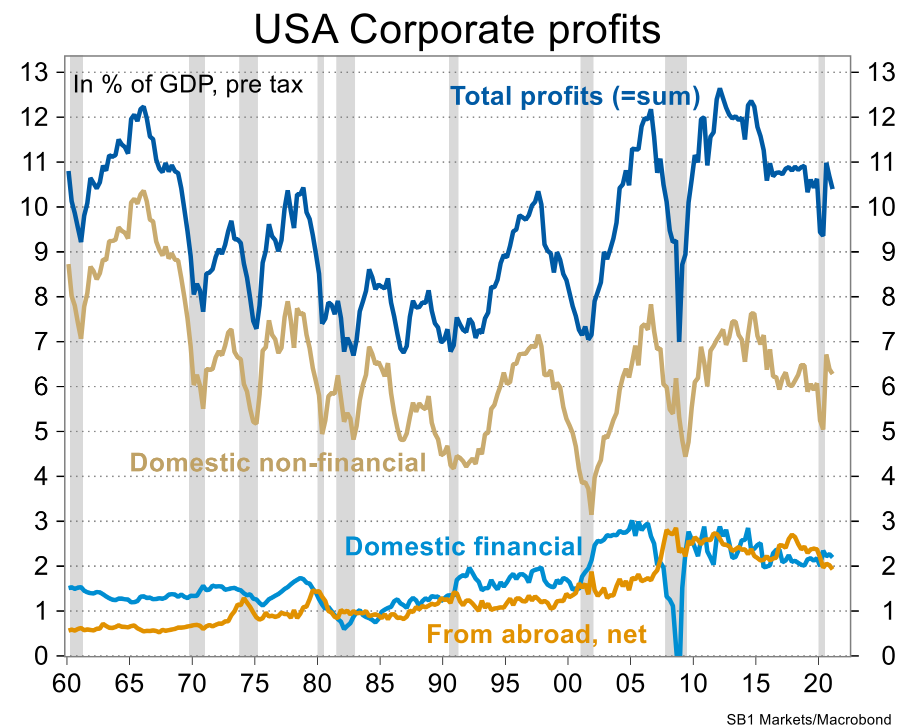




- **Total durable orders** fell by 1.3% in April, expected +0.7%
- **Core orders** (ex aircrafts & defence) fell buy 0.5%, expected slightly up, following the 3.1% increase in March. The decline was due to lower auto orders – very likely due to supply chain challenges (like semiconductor shortages). Ex auto, core orders were up 2%
- **Core investment goods orders** was up 2.3%, expected up 0.8%, and business investments will very likely grow further in Q2
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

# Less government subsidies but profits still grew in Q1

## ‘Ordinary’ profits are still 9% below the pre-pandemic level, but gov. support more than compensates

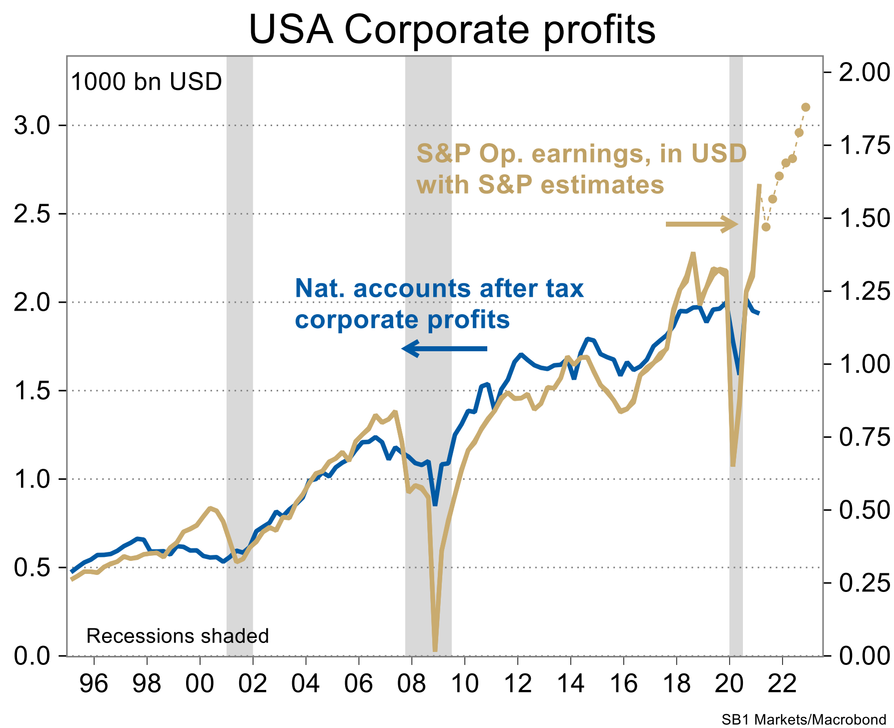


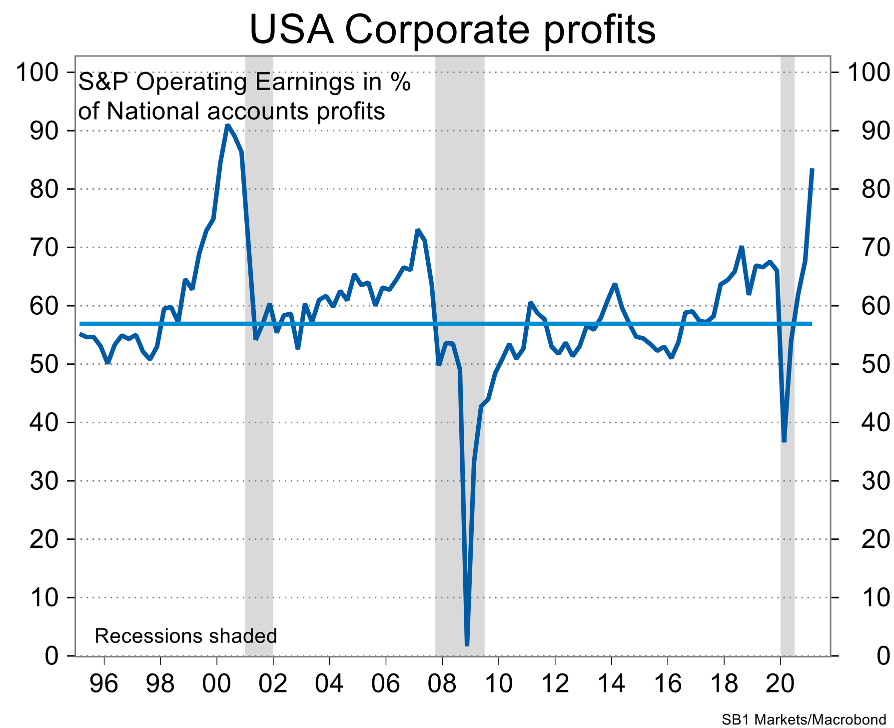




- **Government pandemic programs** have lifted **domestic corporate profits** at an unbelievable scale
  - » Profits have been kept up, even if the ‘normal’ profit generation collapsed in Q2 and Q3 as public support equalled >40% of a normal profit level!
- **Domestic corp. pre tax profits** rose marginally in Q1, but is below the Q3 level – when government subsides were at the highest
- **Total after tax profits** fell slightly – and the profit cycles have been on the way south since 2015
- **We expect ‘ordinary’ profits** (profits before subsidies) to strengthen the next quarters – but the longer term outlook is probably not that good
  - » The remaining government support programs will probably be abolished in Q2 and Q3
  - » The corporate tax rate will probably be lifted, if not as much as president Biden has proposed
  - » Wage inflation may accelerate

# ‘National’ profits marginally down in Q1, S&P earnings up 25%

An unusual discrepancy, and S&P earnings level is pretty high vs national profits too



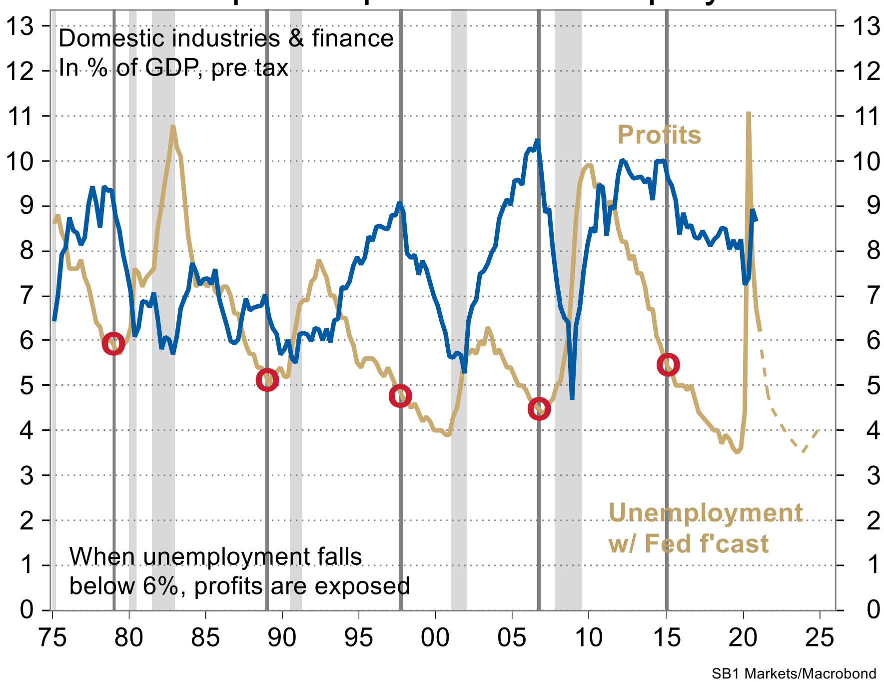




- Usually, that has not been a good omen, but the data is all over the place these days

# Profits were under pressure prior to corona – as usual when unemployment falls

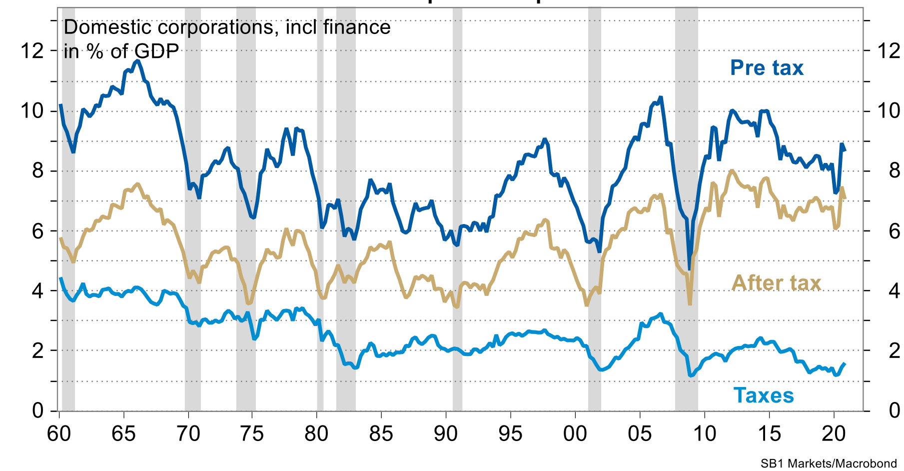
… and for how long will unemployment remain high enough to 'protect' profits?

USA Corporate profits vs unemployment

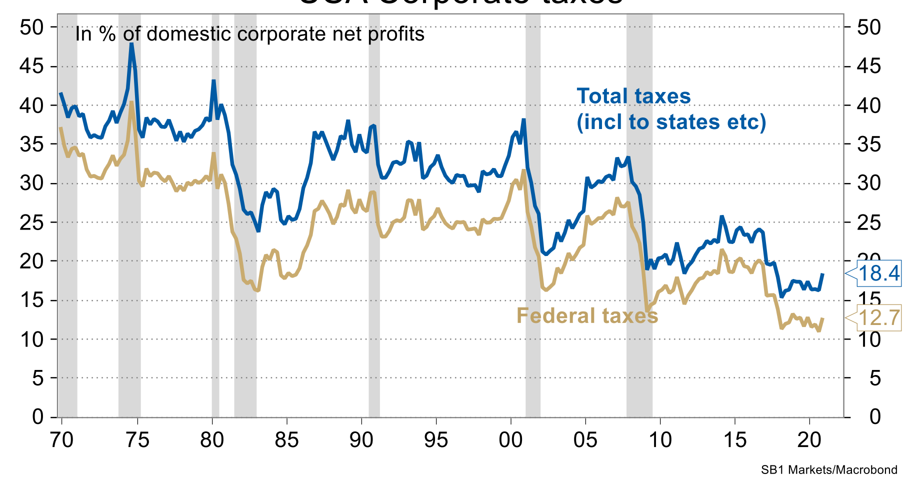



- When **unemployment falls below 6%,** corporate profits are exposed; at one stage the profit share will start to decline because wage earners will get the upper hand vs. employers. At least it has always happened in the past
  - » Before the corona crisis, the pre-tax profit share had fallen substantially since the 2015 peak, because unemployment was 'too low'
- Taxes were cut substantially in 2018, equalling some 8% of corporate profits. Biden has pledged to reverse half of these cuts, say some 4% of profits, equalling 0.3% of GDP. A drop in the ocean vs. the huge structural budget deficit, of at least 8% of GDP

USA Corporate profits

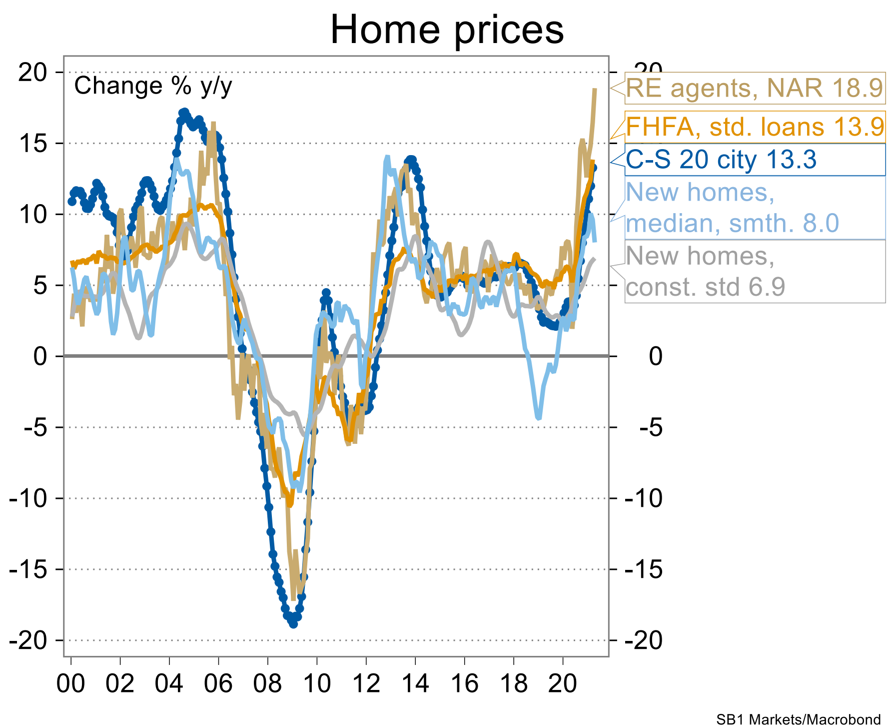


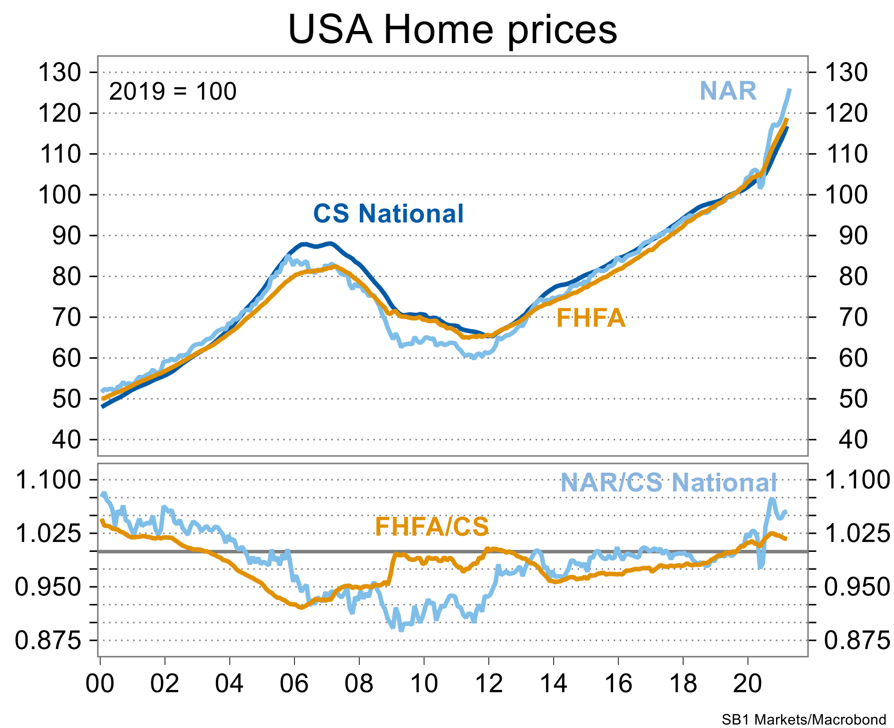

USA Corporate taxes



# New home prices are still lagging – but up 7% – 8% y/y

National real prices back to the 2005/6 peak, still much lower vs. wages

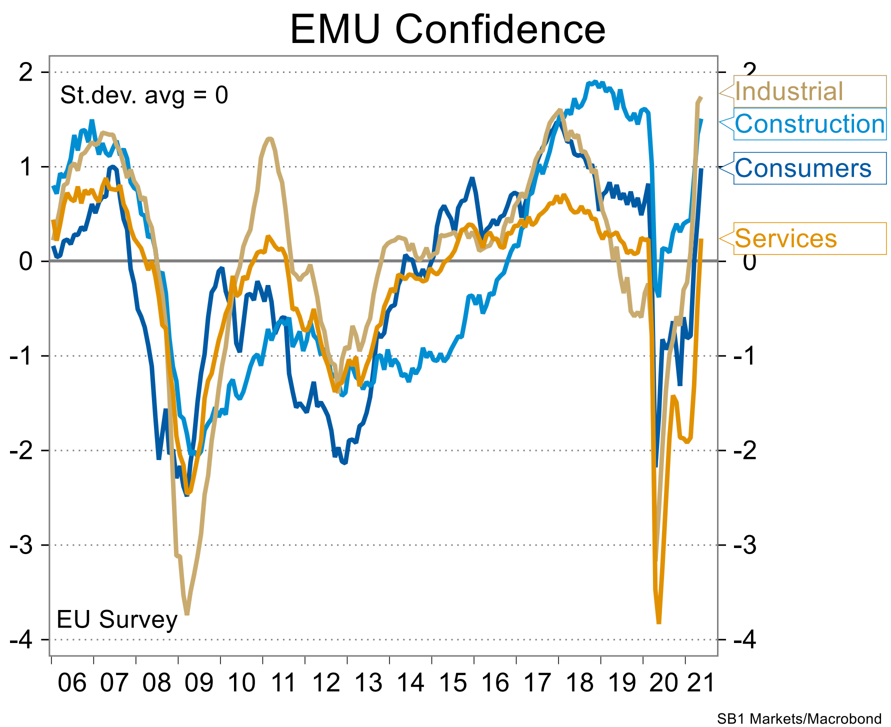


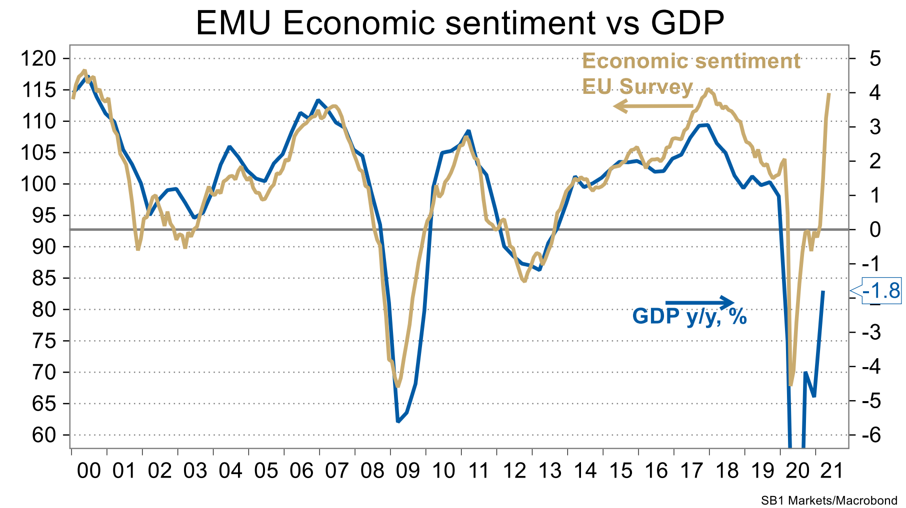



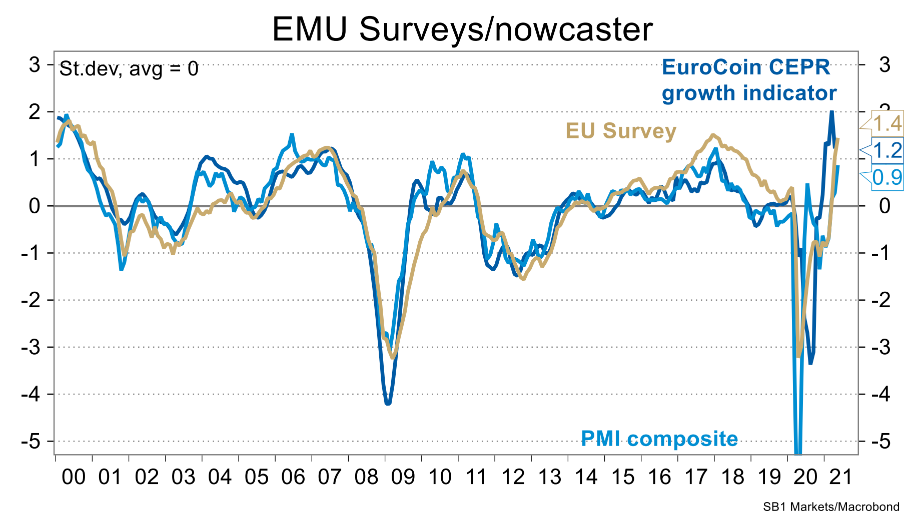

- **New home prices** are still not appreciating that fast, even if lumber and other raw material prices have soared
- **The realtor's (NAR)** median price for actual transactions may be somewhat distorted as the share of high-end homes transactions may has increased recent months. This index is more volatile and far less reliable than the repeated sales based Case-Shiller or FHFA indices (which though are smoothed by 3 months)
  - » However, both CS and FHFA are reporting close to unprecedented (or unprecedented) price hikes since last summer – and the annual rate will very likely climb further the coming months – to record highs, also for the CS index (FHFA is already at ATH)

# Economic sentiment surprised on the upside for the 3rd month

## … and just as important: sentiment improved in all sectors, signalling some 4% GDP growth




- EU's confidence survey for the Euro area rose to 114.5 in May from 110.5 in April, expected up to 112.1!
  - The **main index** is 1.4 st.dev above average, signalling roughly 4% GDP growth
  - **All sectors** are now signalling above average growth, even manufacturing. Manuf. is at all time high
  - **Consumer confidence** is surging, even in the times of covid & continued restrictions. Although, some restrictions were indeed eased in May
  - This survey has been useless to calibrate quarterly (q/q) growth rates during the pandemic. The same goes for most other surveys (like the PMI/ISMs). Still, when all now are surging, no doubt a positive signal

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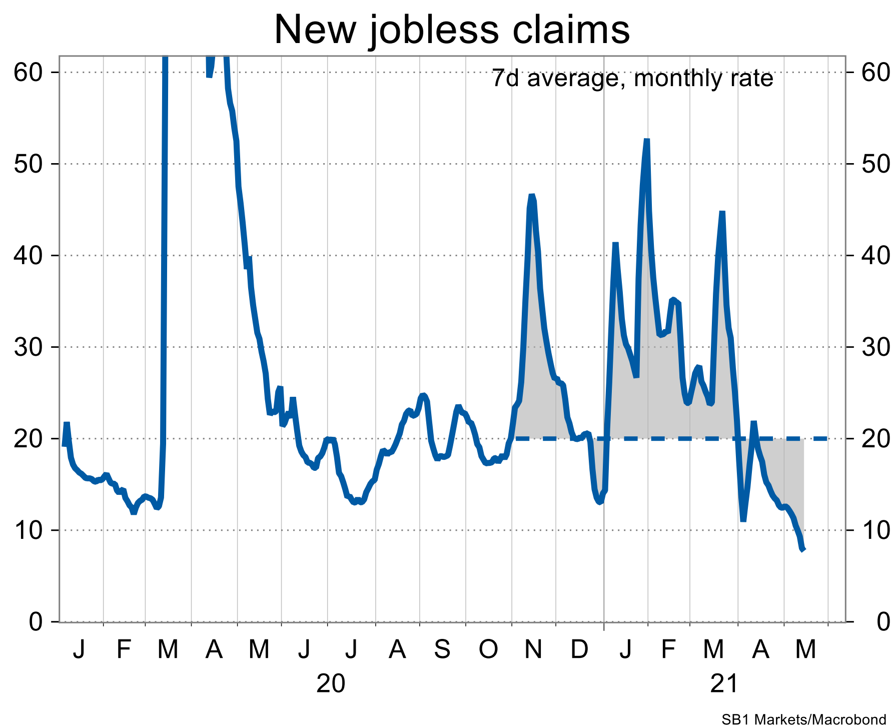
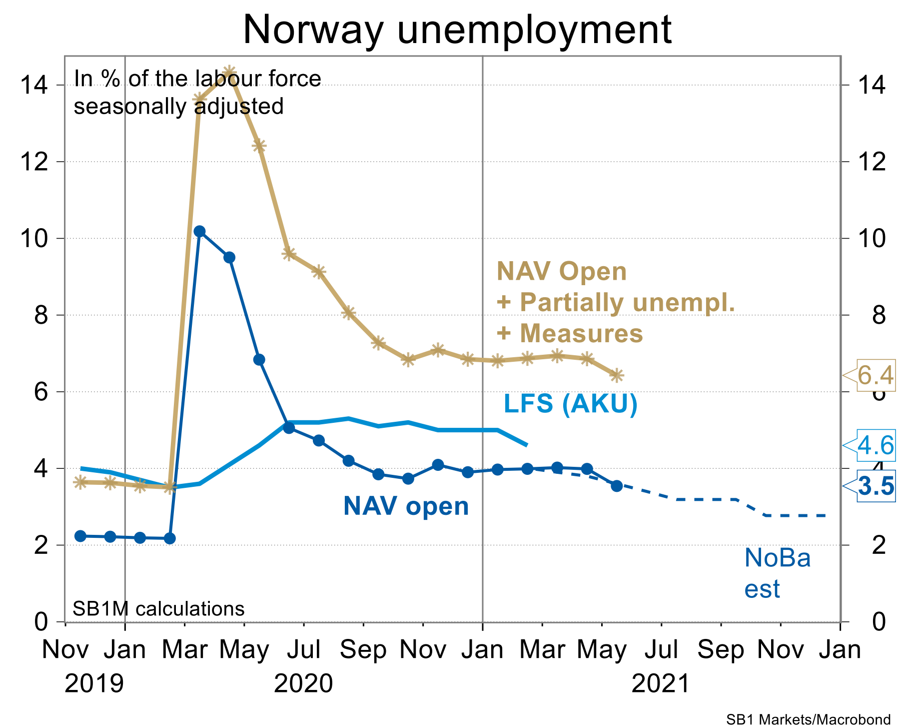
# NAV unemployment fell sharply in May – to marginally below NoBa's path

...and much more to come in June & July? We think so. "No" new claims, vacancies at very high level!

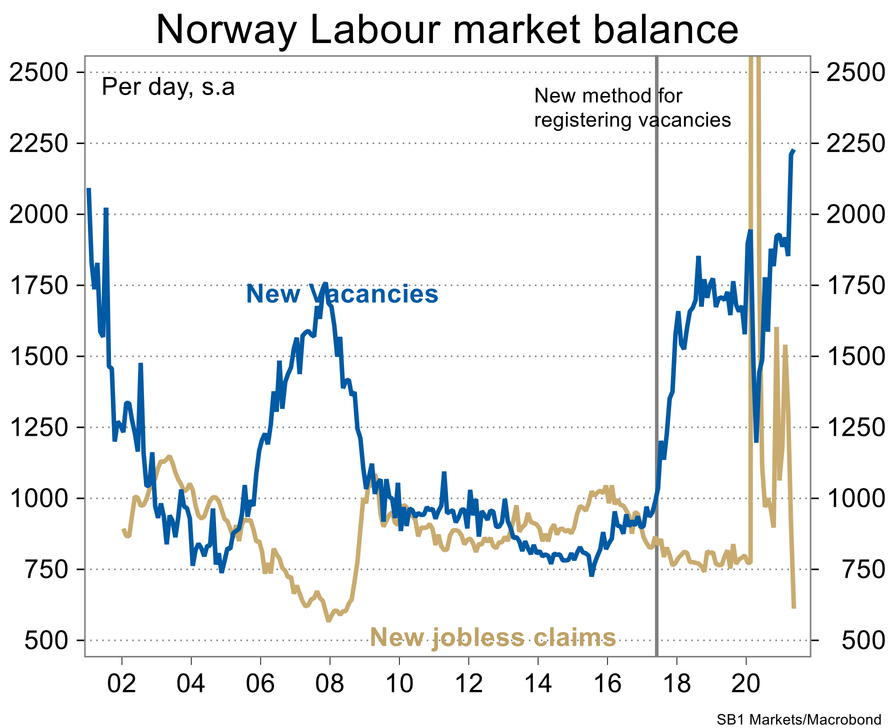


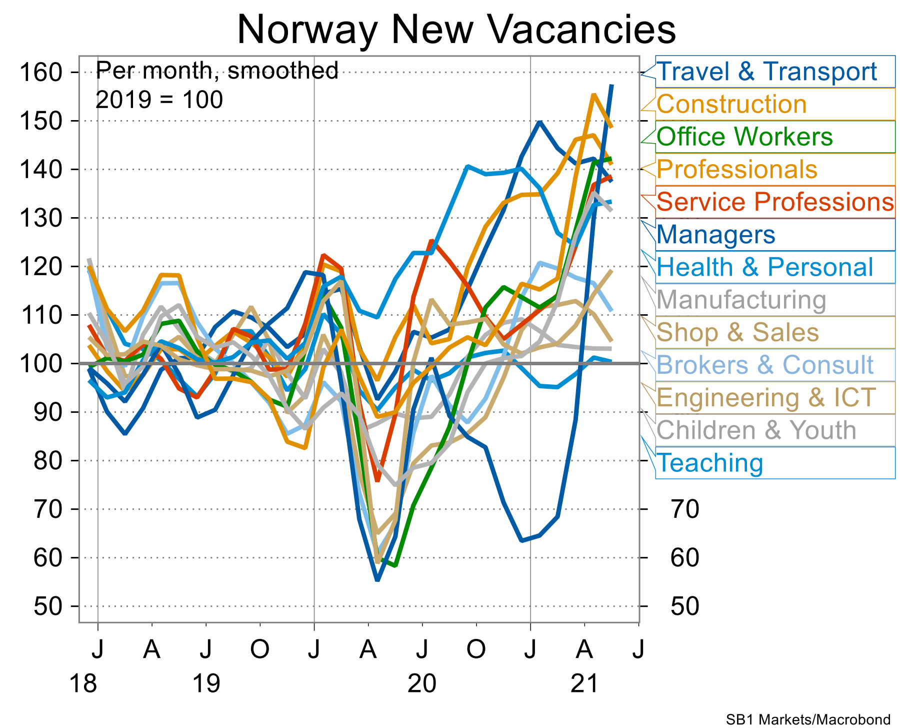




- **The 'full time' open NAV unemployment**, which includes furloughed workers fell by 13' in May (seas adj), we expected -14' – down to 100' persons, from 278' last May. The rate fell to 3.3% from 4.0%, as we expected. Consensus was 3.4%. Seasonally adjusted, the rate fell 0.5 pp to 3.5%, and marginally below NoBa's 3.6% f'cast. The m/m decline in unemployment was the largest ever, barring 4 months last year. The reopening of restaurants in Oslo came too late to have any impact on the May data
- The number of **partially unemployed** was unchanged at 67', leaving the grand total at 182' (including measures), - 12' (NAV says -6' but we trust our seas adjust. no.), equalling 6.4% of the labour force. Before the corona crisis, grand total unemployment rate was at 3.8%. The no. of furloughed workers fell by 7' to 70'. We expect a sharp decline in June/July too
- The inflow of **new job seekers** collapsed in May, to the lowest level since 2008
- The inflow of **new vacancies** remained at the very high April level in May – and shot up in travel/transport
- All in all: **The labour market is turning at a dime**, just as we expected. We think Norges Bank will revise down the near end of it's NAV unempl. estimate

# A large jump in new vacancies – and travel/transport at the top!!

… they need even more employees than the furloughed workers??? Or have they gone elsewhere?



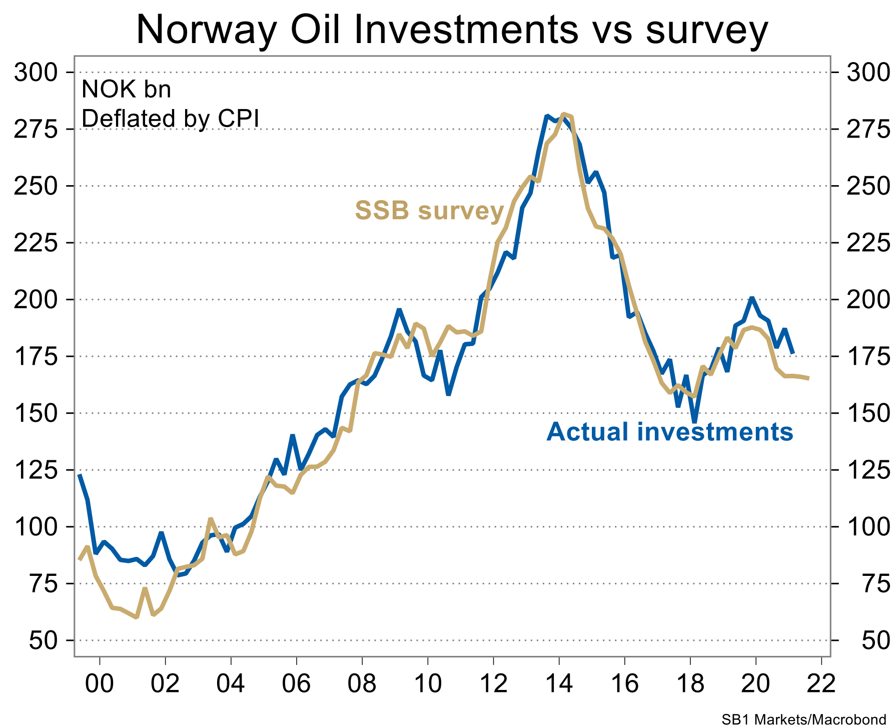



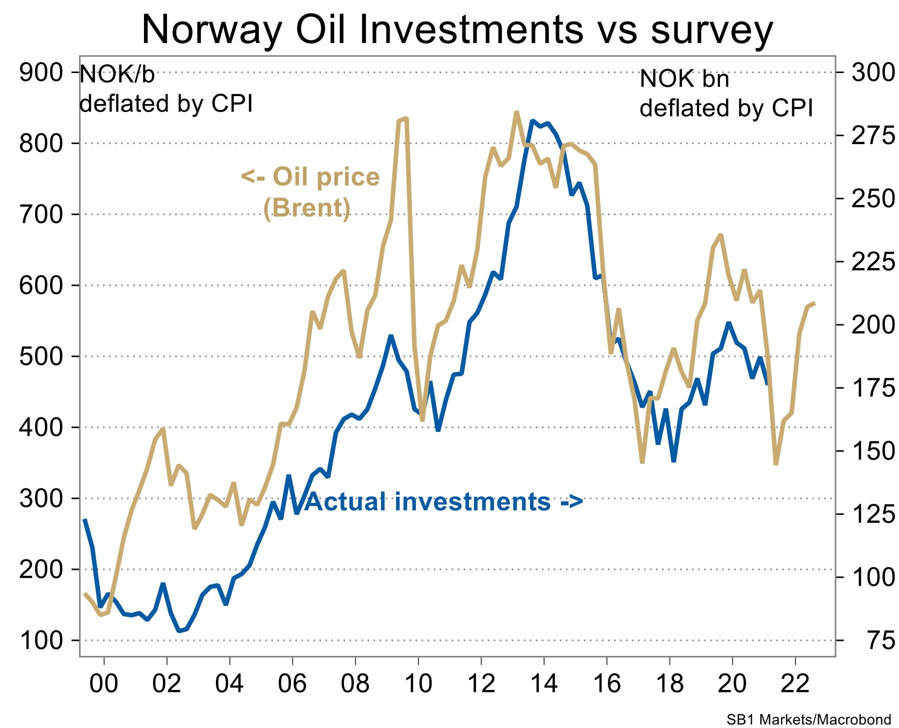

- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)

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

# Oil investments: Q2 survey better than expected

Tax cuts & the oil price save the day

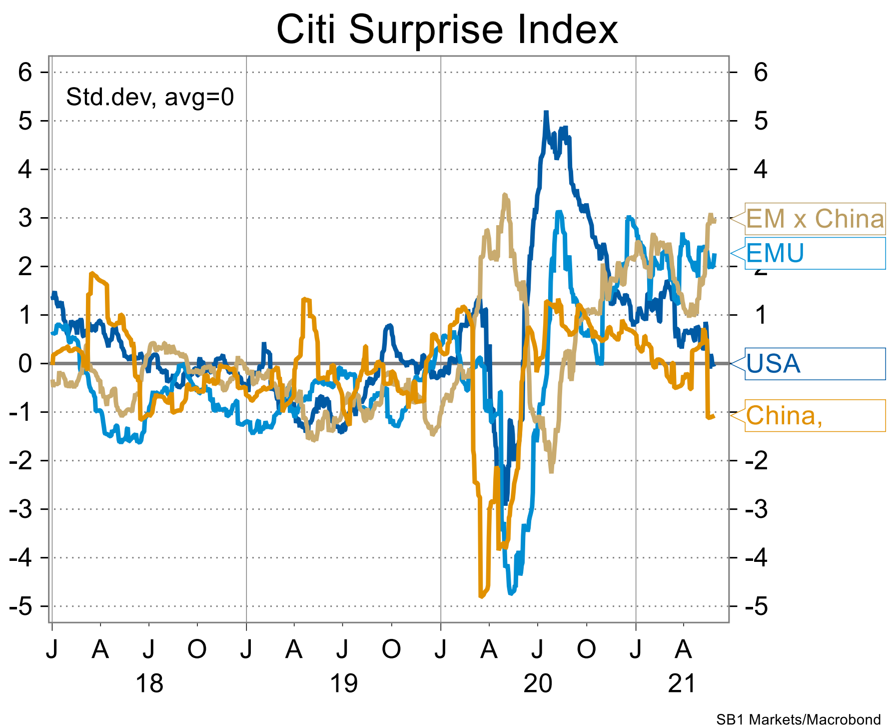


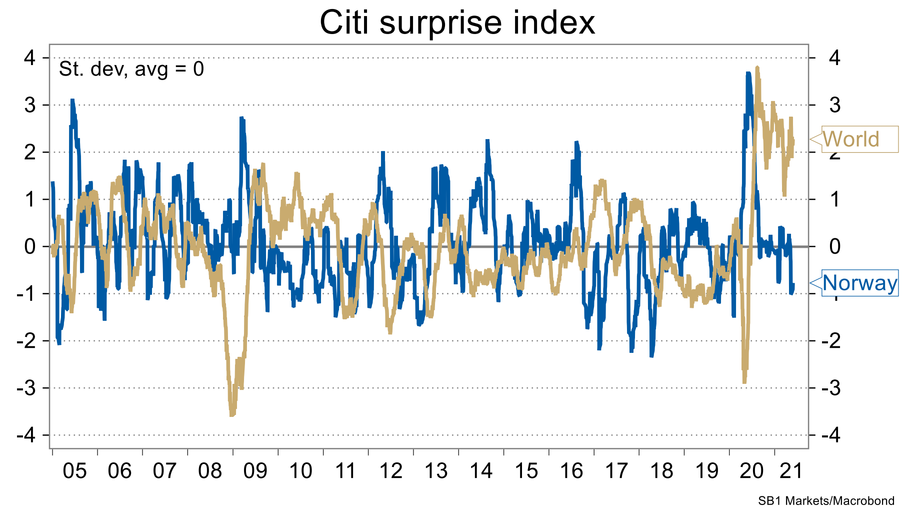




- Oil companies revised their **2021 investment forecast** up by 5% to NOK 184 bn (we exp. 174 bn), and slightly above the equivalent 2020 estimate. Still, we assume a 1% decline in nominal terms, -3% in volume terms, and not far above NoBa's estimate -4% f'cast
- **The 2022 estimate** was revised up by 3%, less than we expected. The estimate is 2% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) during this and next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. <u>We expect 2022 investments to remain unchanged (volume terms) vs. 2021. In March, Norges Bank assumed a 5% volume decline next year</u>

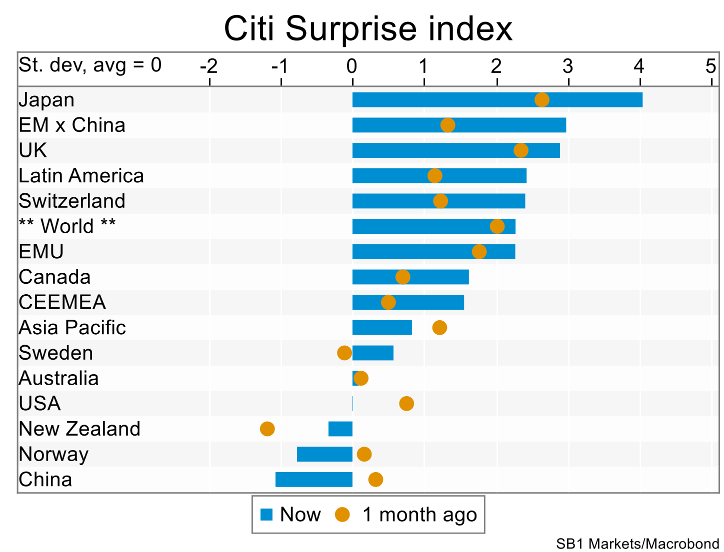
# Economic data are still surprising on the upside (but not Chinese & Norw. data)

… 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 <u>much better</u> 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

# The Calendar: PMI/ISM, US labour market, Norwegian house prices

| Time | Count. | Indicator | Period | Forecast | Prior |
|---|---|---|---|---|---|
| **Monday May 31** | | | | | |
| 08:00 | NO | C2 Credit Indicator YoY | Apr | (5.0) | 5.0% |
| 11:00 | WO | OECD Economic Outlook | | | |
| **Tuesday June 1** | | | | | |
| 03:45 | CH | Manufacturing PMI, Caixin | May | 52 | 51.9 |
| 08:30 | SW | Manufacturing PMI | May | | 69.1 |
| 10:00 | NO | Manufacturing PMI | May | (58) | 59.1 |
| 10:00 | EC | Manufacturing PMI | May F | 62.8 | 62.8 |
| 11:00 | EC | Unemployment Rate | Apr | 8.1% | 8.1% |
| **11:00** | **EC** | **CPI Core YoY** | **May P** | **0.8%** | **0.7%** |
| 15:45 | US | Manufacturing PMI, Markit | May F | 61.5 | 61.5 |
| 16:00 | US | Construction Spending MoM | Apr | 0.6% | 0.2% |
| **16:00** | **US** | **Manufacturing ISM** | **May** | **60.9** | **60.7** |
| 17:00 | WO | Manufacturing PMI | May | 56.3 | 55.8 |
| **Wednesday June 2** | | | | | |
| 08:00 | NO | Households' savings rate | 1Q | (19.6%) | 14.5% |
| 08:00 | GE | Retail Sales MoM | Apr | -2.8% | 7.7% |
| 11:00 | EC | PPI YoY | Apr | 7.30% | 4.30% |
| 20:00 | US | Federal Reserve's Beige Book | | | |
| | US | Auto Sales | May | 17.5m | 18.51m |
| **Thursday June 3** | | | | | |
| 03:45 | CH | Caixin Composite PMI | May | | 54.7 |
| 03:45 | CH | Caixin Services PMI | May | 56.0 | 56.3 |
| 10:00 | EC | Services PMI | May F | 55.1 | 55.1 |
| 10:00 | EC | Composite PMI | May F | 56.9 | 56.9 |
| 10:30 | UK | Services PMI | May F | 61.8 | 61.8 |
| 10:30 | UK | Composite PMI | May F | 62.0 | 62.0 |
| **11:00** | **NO** | **House prices, MoM** | **May** | **0.2%** | **-0.1%** |
| 14:15 | US | ADP Employment Change | May | 650k | 742k |
| 14:30 | US | Initial Jobless Claims | May-29 | 395k | 406k |
| 15:45 | US | Markit Services PMI | May F | 70.1 | 70.1 |
| **16:00** | **US** | **ISM Services** | **May** | **63.0** | **62.7** |
| 17:00 | WO | Services PMI | May | 58.6 | 56.6 |
| **17:00** | **WO** | **Composite PMI** | **May** | **57.6** | **56.3** |
| **Friday June 4** | | | | | |
| 08:00 | NO | SSB Economic trends | Q2 | | |
| 11:00 | EC | Retail Sales MoM | Apr | -1.7% | 2.7% |
| **14:30** | **US** | **Nonfarm Payrolls** | **May** | **650k** | **266k** |
| **14:30** | **US** | **Unemployment Rate** | **May** | **5.9%** | **6.1%** |
| 14:30 | US | Participation Rate | May | 61.8% | 61.7% |
| 14:30 | US | Average Hourly Earnings MoM | May | 0.2% | 0.7% |

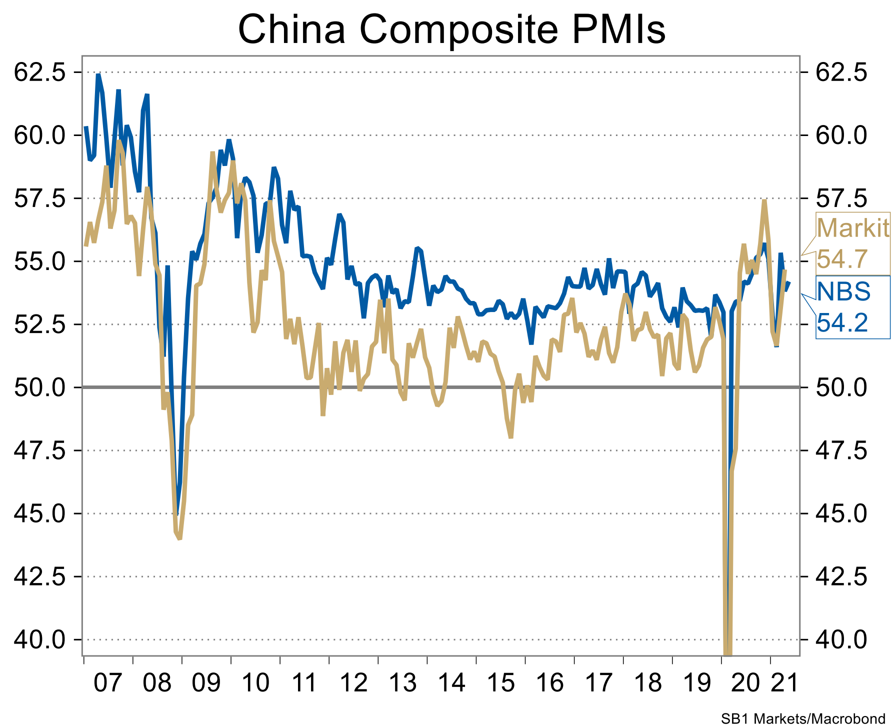
- **PMIs & ISMs**
  - » The preliminary European & US PMI surveys signal another big leap upwards in the **global PMI**, mostly due to a recovery in services. The manufacturing sector is a record strong levels already. We expect some slowing in H2, but we are not there yet. In the US, the ISM confirms, growth is very strong. The flip side is of course supply chain stress, and very rapid price increases
- **USA**
  - » **Employment** surprised at the downside in April, and the **unemployment** rate rose – at the same time as the no of unfilled vacancies has climbed to a record high level, by far as the service sector is opening up. The next few months will be extreme exciting, will people return to the labour market and accept the low paid jobs that are vacant – when corona and extra unemployment benefits both are gone? The outcome will decide 'everything', including returns on financial markets. In May, a middle of the road outcome is expected, nonfarm employment up 'just' 650k, unemployment down 0.2 pp to 5.9%
  - » How will the **Beige Book's** respondents ('the Network') describe the labour market? We expect more complaints of labour shortages & some more pressure on wages
- **EMU**
  - » **Inflation** is still muted – and is expected to remain so in May, with the core up 0.8% y/y. Producer prices are sharply up but as long as wage inflation remain low, underlying inflation pressures remain low
  - » **Retail sales** are expected down more than 1.5%, as France has reported a deep decline in consumption of goods
- **Norway**
  - » **House prices** surprisingly fell in April, and realtors report some weakness in May as well (even if the seasonal factor still is positive). Our short term model suggests decent price appreciation, as does NBBL's survey. However, the impact of the decline in interest rates may have run its course – and some buyers are now factoring in higher rates. We expect a modest increase in May
  - » **Credit growth** is trending up but very slowly. Growth in household credit has flattened, while business debt is accelerating somewhat. The record low interest rate has so far not ignited a credit boom
  - » **Household saving** very likely rose sharply in Q1, perhaps towards 20%. Plenty of capacity to increase spending on services in Q2 and even more in Q3

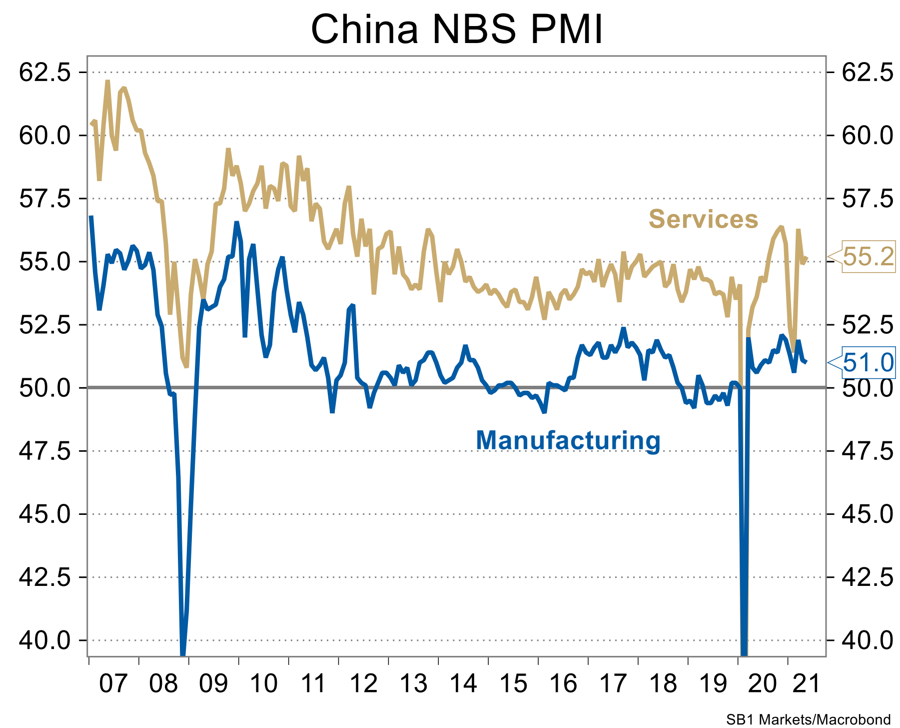
Sources: Bloomberg. SB1M est. in brackets. Key data points are highlighted, **the most important in bold**

- Highlights
- **The world around us**
- The Norwegian economy
- Market charts & comments

# The NBS slightly up in May, level signals decent growth

## NBS' composite +0.4 p up to 54.7, du to an increase in the service sector PMI

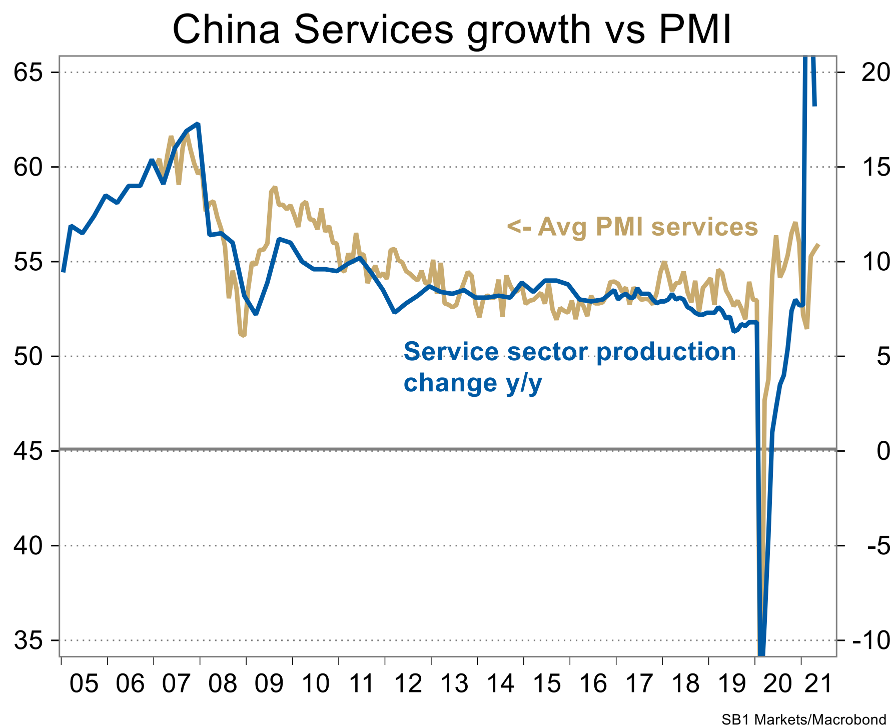


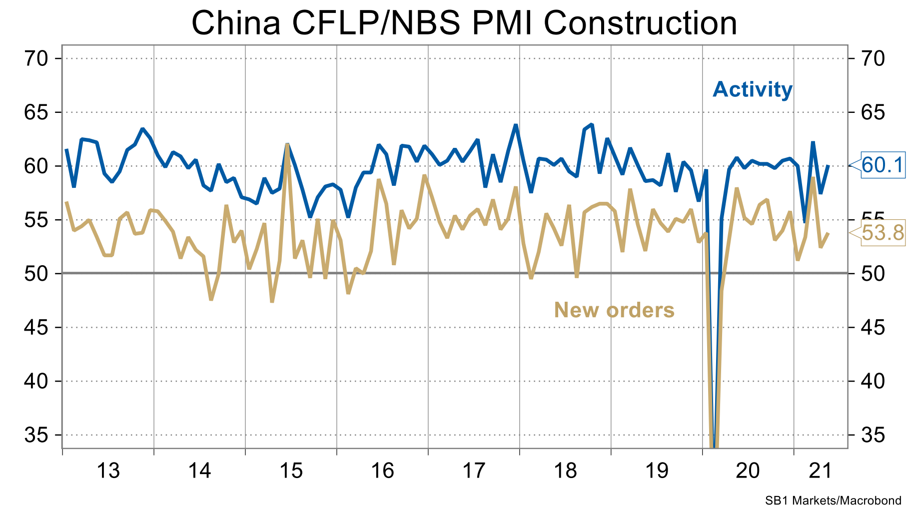



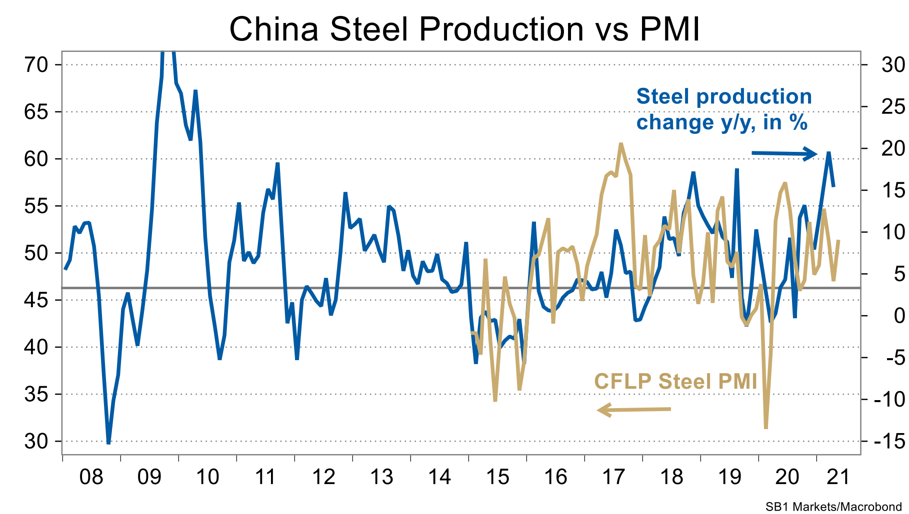

- The manufacturing index fell by 0.1 p, to 51.0, expected unchanged
- The service sector index rose by 0.3 p to 55.2, marginally better than expected
- We expect GDP growth to accelerate in Q2 vs the sub-par growth in Q1, but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend
  - » Credit policy is tightened

# Services are reporting growth far above trend

## The construction & steel PMIs recovered some of the March/April losses, levels are ‘normal’



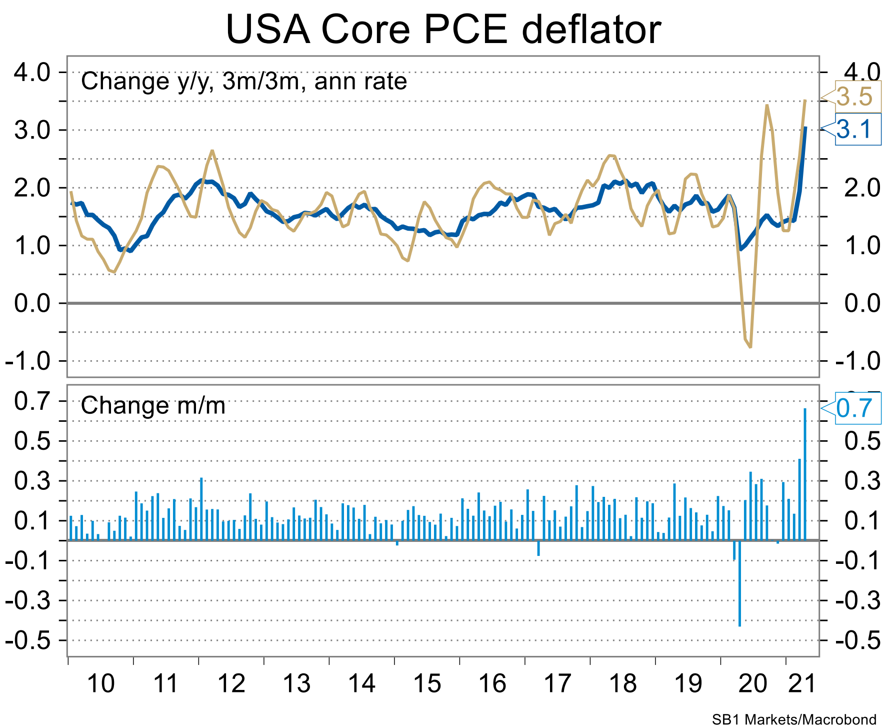



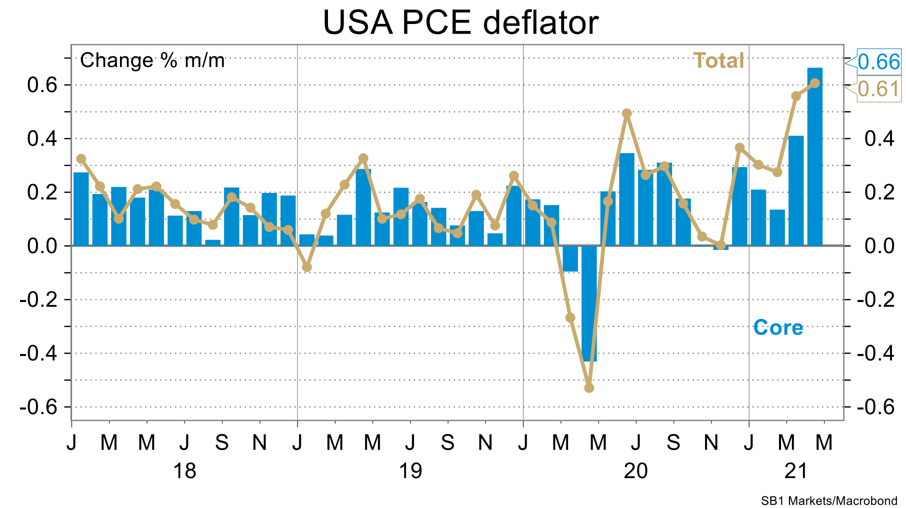

- Activity in the service sector has been below par recent months but the PMIs signal somewhat better

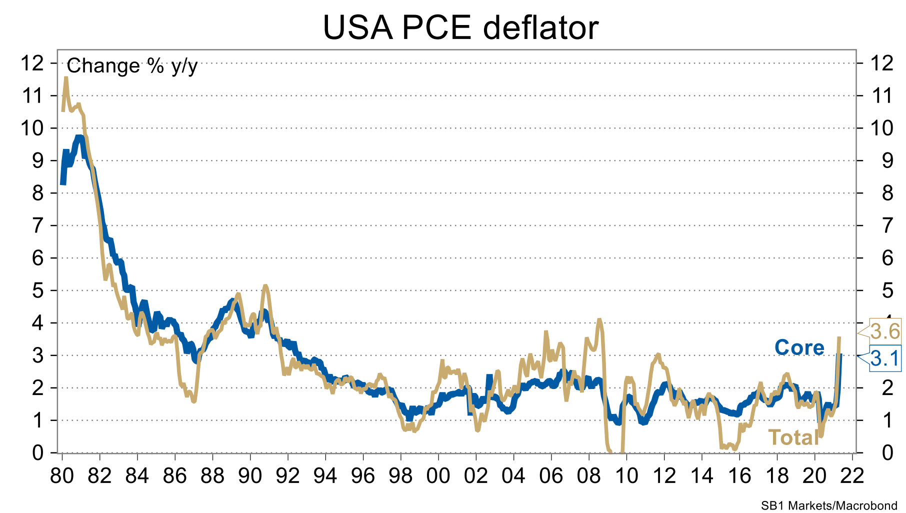
*The last PMI services observation is based on the change in the NBS survey*

# Core PCE up 0.7% in April, 3.1% y/y, above consensus – to the highest in 30 years

## …and the Fed has pledged to stay calm, to wait and see




- **The core price deflator** rose 0.7% in April, 0.1 pp more than expected. The previous months were slightly revised up. In Q1 prices rose 2.5%, up from initially reported 2.3%. In April last year core prices fell by 0.4%. Thus, the annual rate rose to 3.1% from 1.9% (rev from 1.8%) – 0.2 pp 0.2 pp above expectations.
  - » Last April the annual inflation was 0.9%. Since April 19, the average inflation rate has been 2.0%, spot on Fed's target
- **Total PCE deflator** rose by 0.6%, and the annual rate accelerated 1.2 pp to 3.6%, as expected

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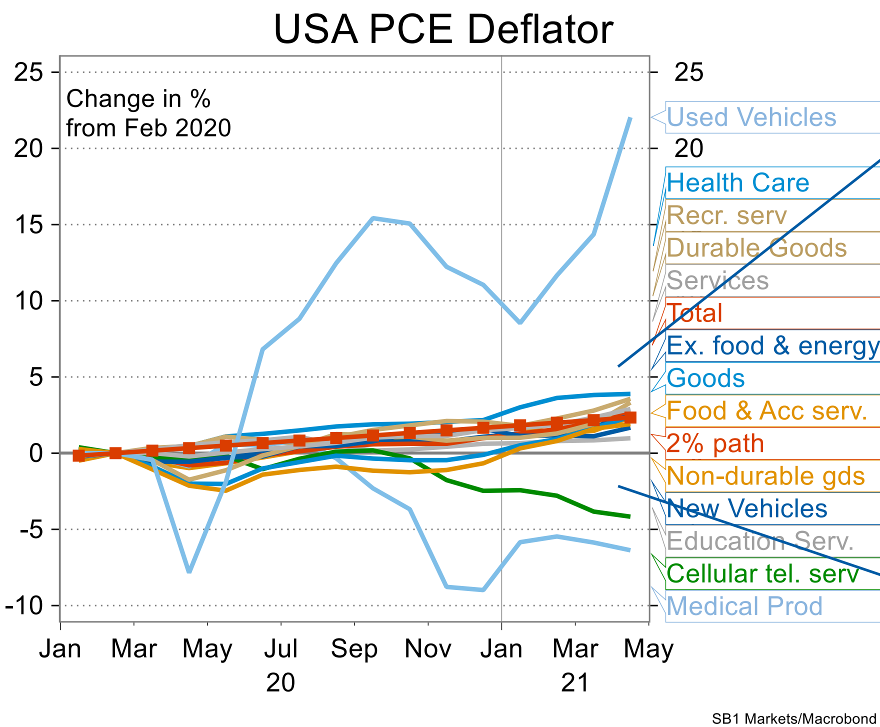
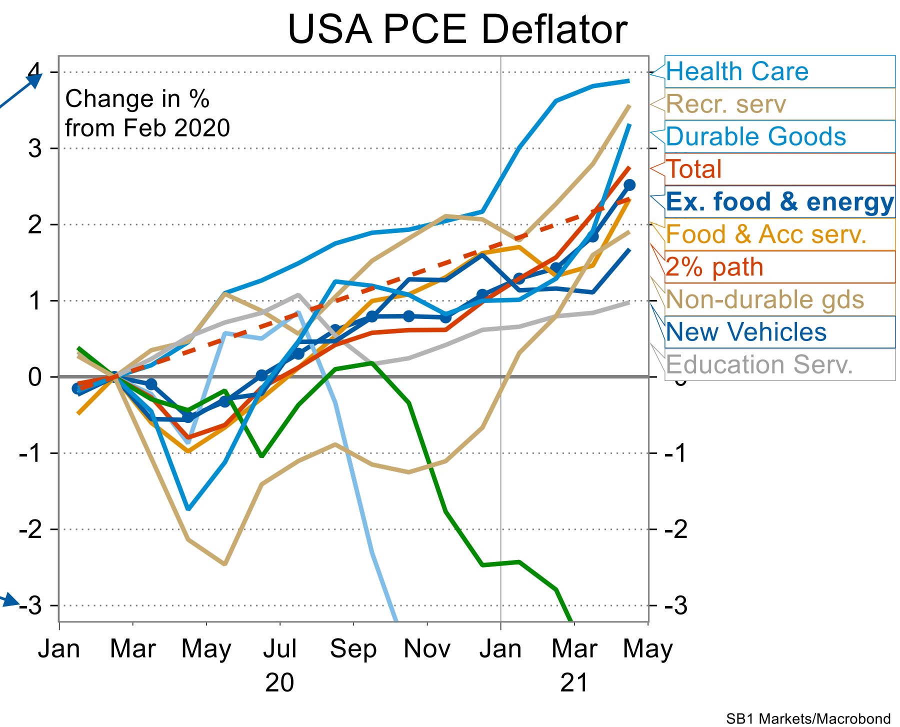
# Most prices up in April too, recreational services, durable (autos)

Still unclear what is due to a 'reopening surge' – and what is permanent

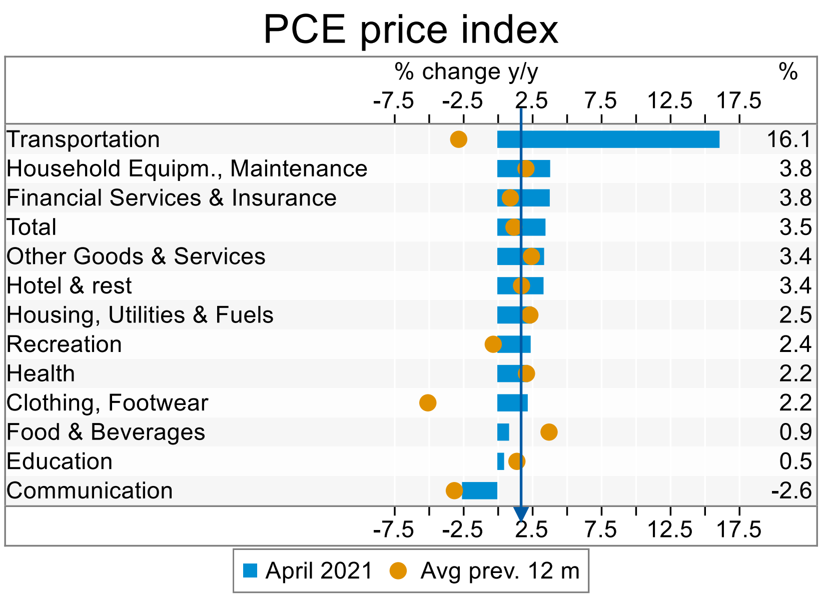



- Used car prices rose sharply, as measured by the PCE – and the price level is probably higher than a long term equilibrium
- Health care costs have increased sharply recent months
- Medical products & cell phone services became cheaper in  May (too)

# PCE by main sector: Transportation (autos & gasoline) explains a lot

## However, most sectors reports >2% pace of price increase the past 3m/3m

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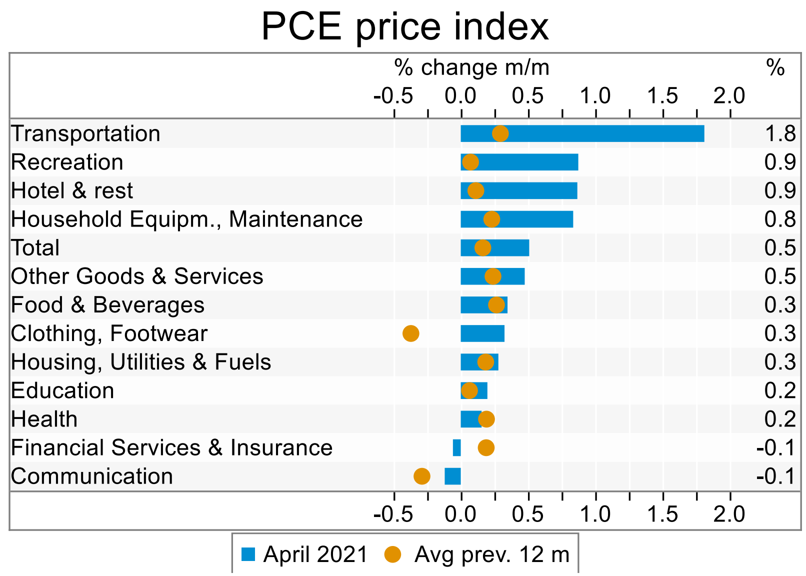
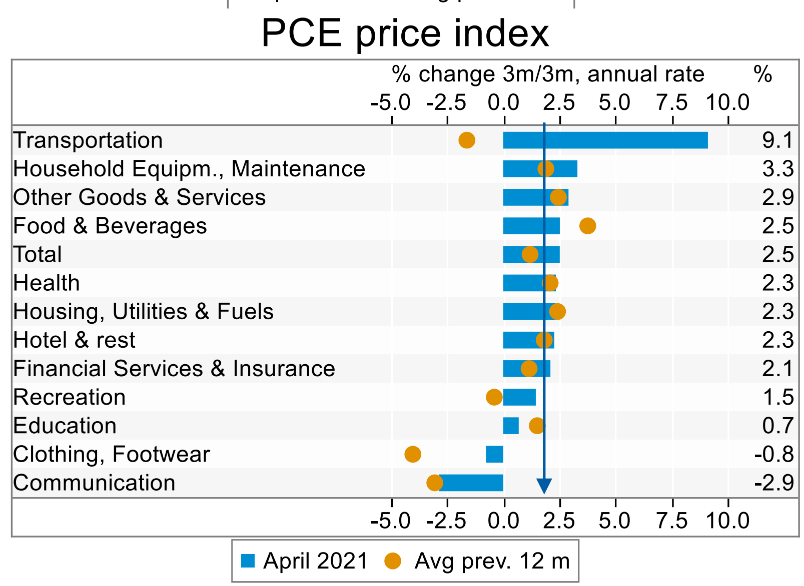
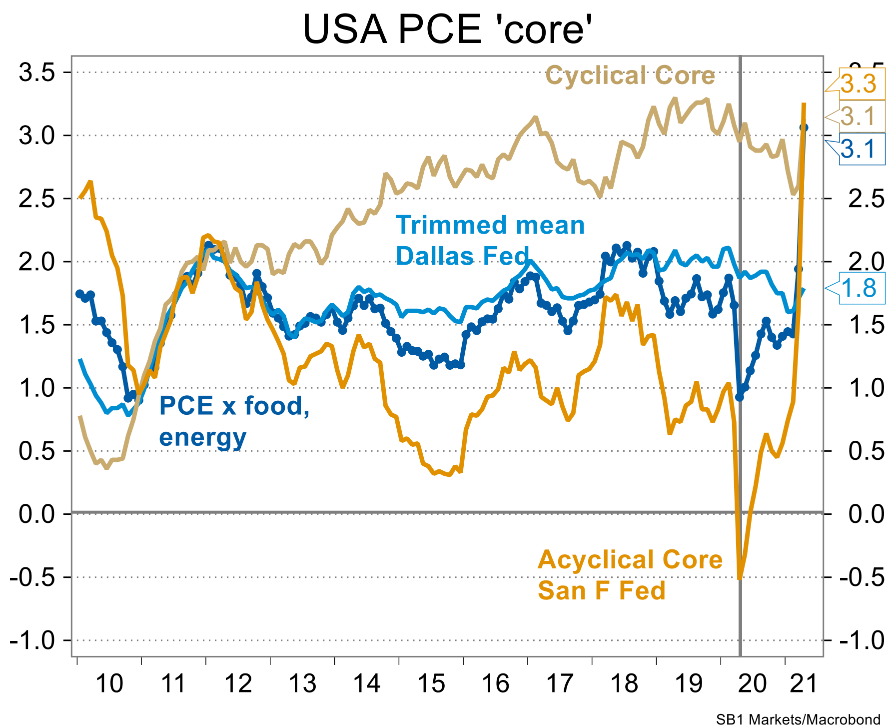


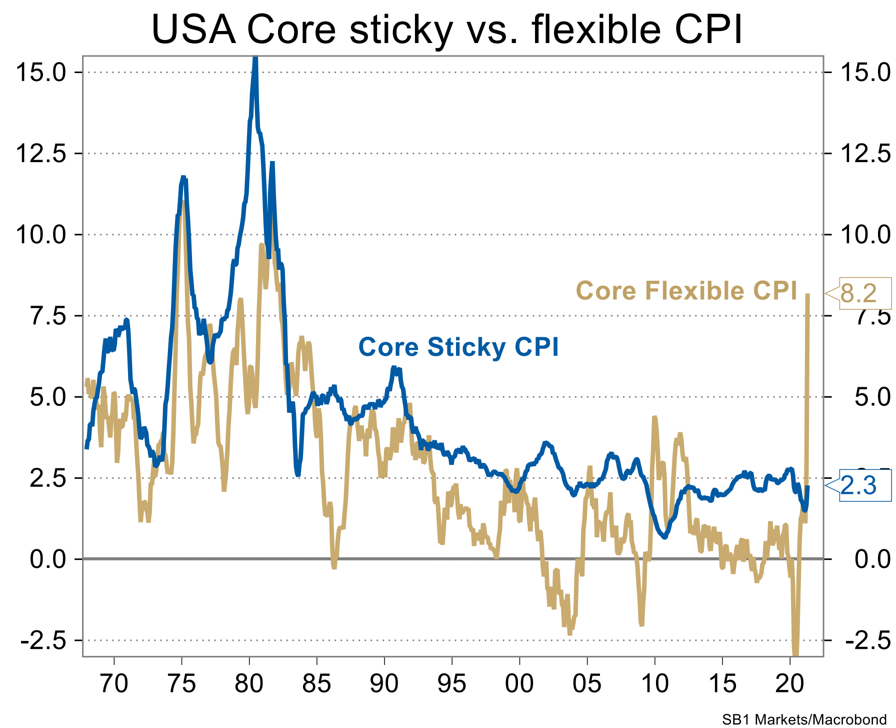




- However, the y/y growth rate is not representative for the underlying growth prices now

# There are still some possible (and not unreasonable) excuses…

There are still just some few goods/services that have done the heavy lifting

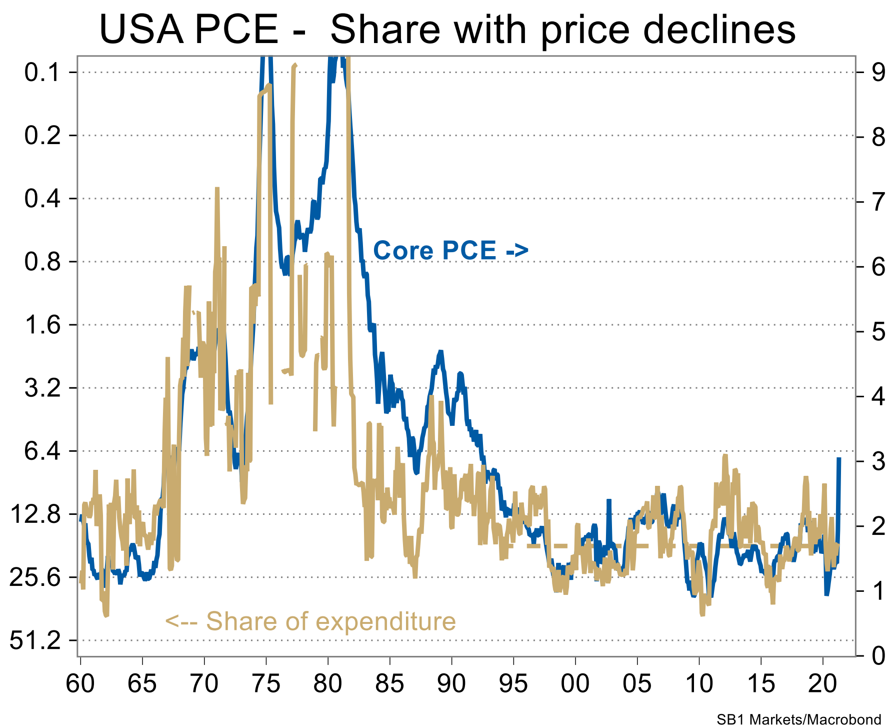


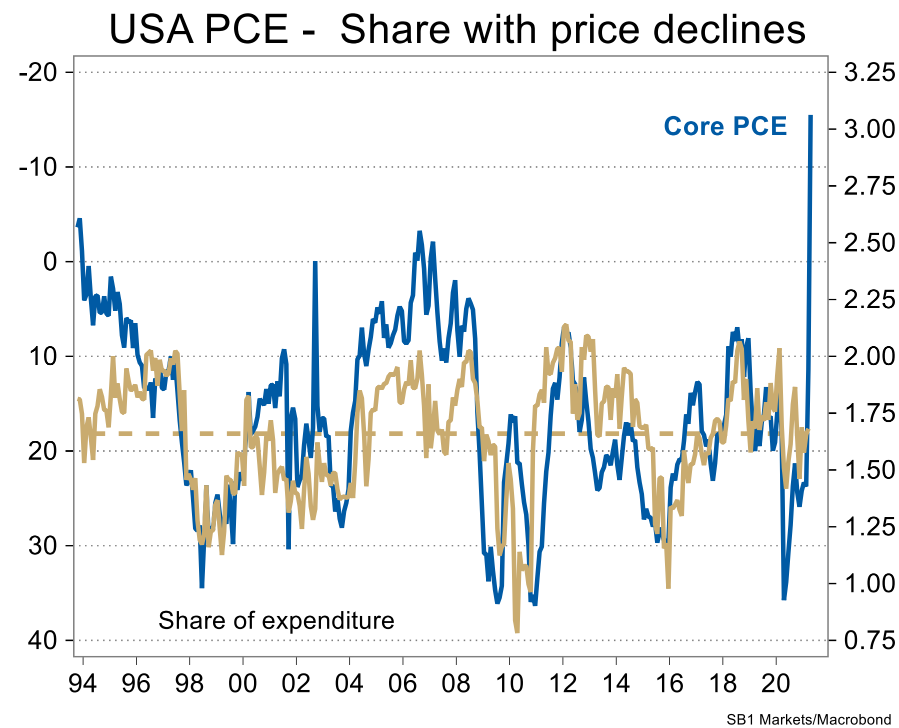




- The **trimmed PCE mean** is at 1.8%, and lower than one year ago. The trimmed mean is probably the best gauge of 'underlying" PCE
- An index for typical **acyclical core PCE goods & services** are up 3.3%, up from -0.5% in April last year. The 2 y avg is at 1.4%
- The **cyclical core PCE** at 3.1%, as it was one year ago: inflation for these goods & services have been at a high level quite long – but it has not become worse
- In the CPI, almost all of the lift in **core CPI** has been due to prices on good & services that normally are **flexible** – and they are more up than since 1982. However, these prices are flexible both ways, and the cycles are normally short. The **sticky components** of the CPI is up 2.4%, below the average recent years. For inflation really to take hold, these sticky prices have to accelerate (like from 1973). However, the flexible component has contributed substantially to keep inflation low the past 8 years

# PCE: A normal proportion of prices are still falling

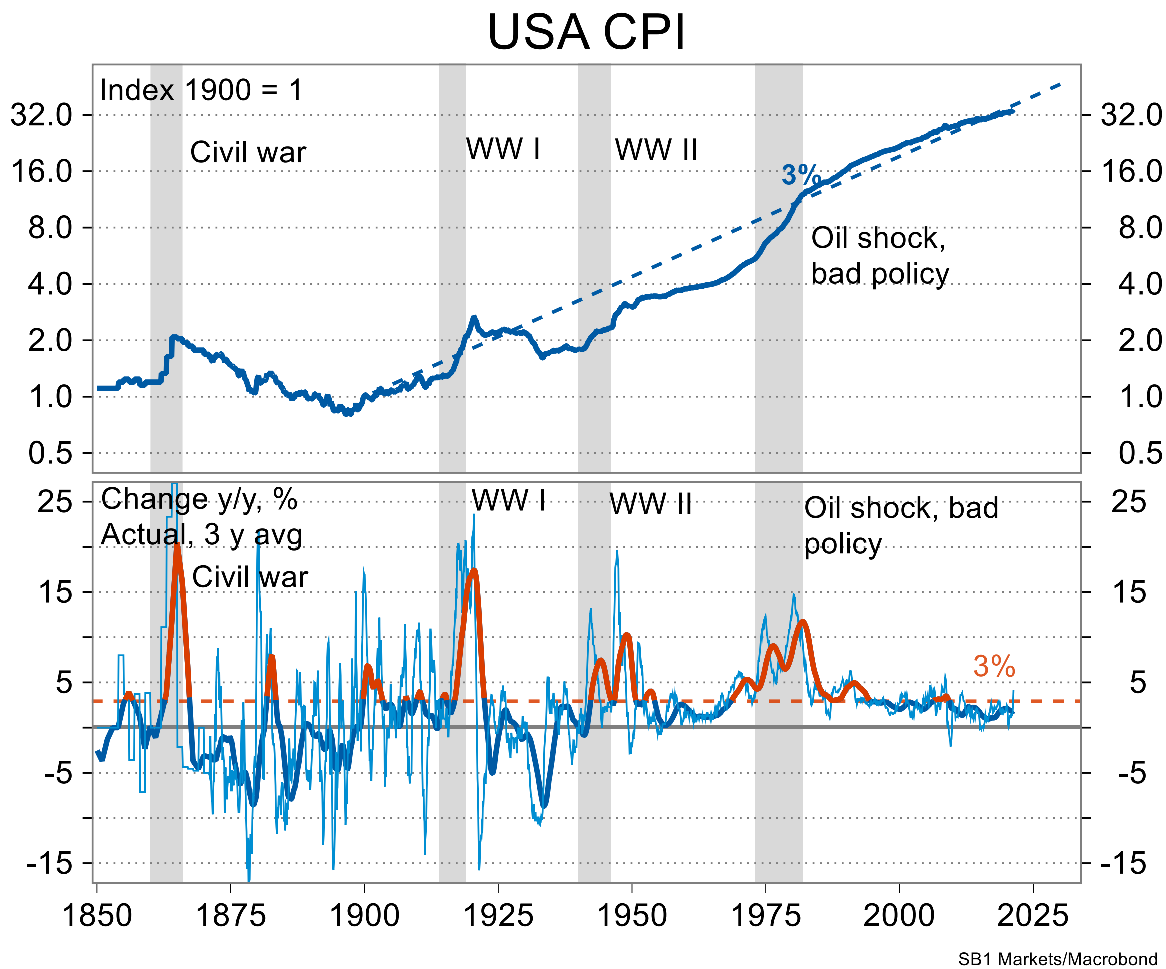
… though not an early bird to watch



# The long inflation history: Wars have created inflation

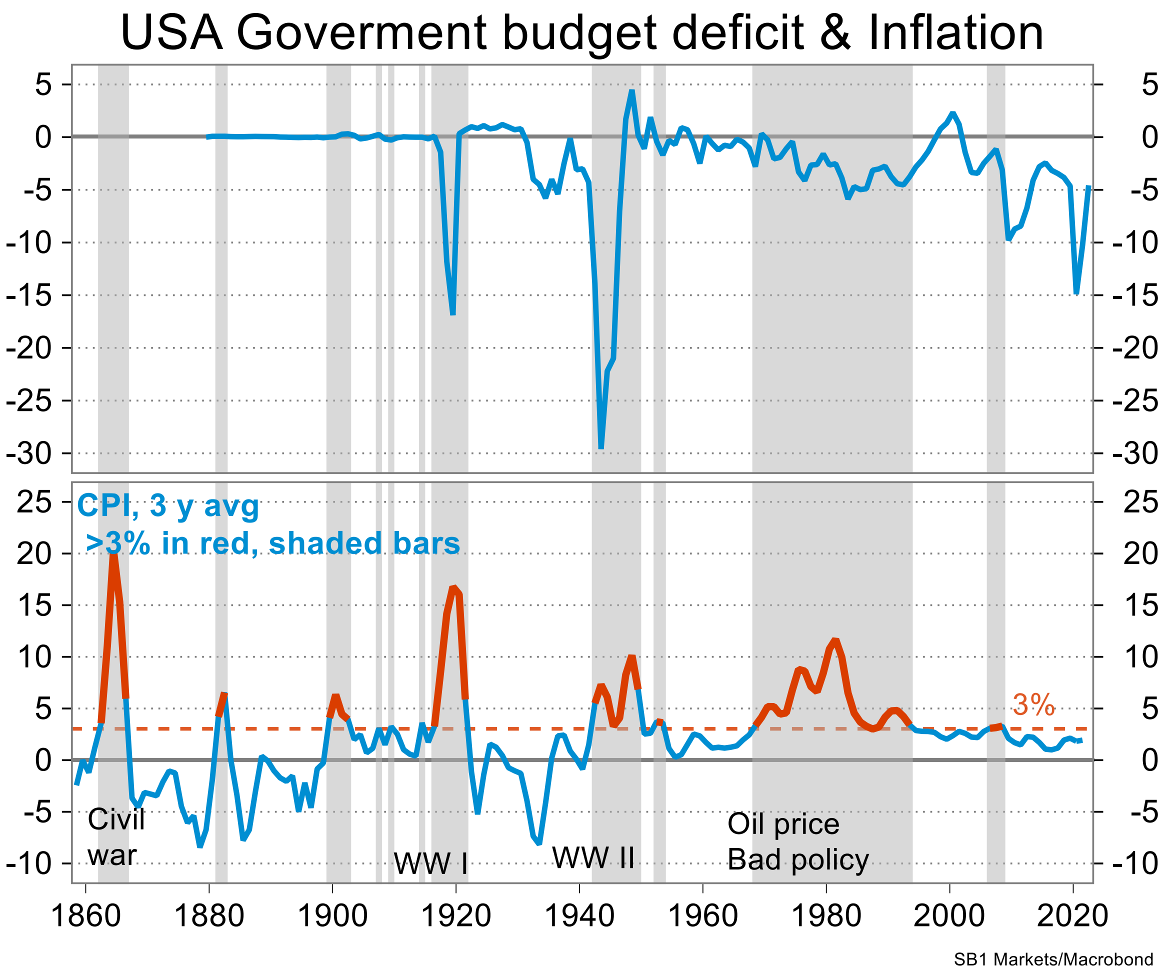
## The 1970'ies the main exception (but US was engaged in a war in Vietnam)




- Inflation has been 3% in average since year 1900 – and -0.7% in to 1900 from 1800
- Inflation has been above 3% over some time 3 times when the US has been at war, with itself or others
- The 4th inflation wave, in the 1970'ies, the US was engaged in the Vietnam war but not comparable to the earlier wars. The US abolished the Bretton Wood fixed exchange rate cooperation /gold exchange standard (not a gold standard vs. the public) 1971 – 73
- The 'war on the virus' may of course turn out to be an inflation trigger. Will it?
- *More on US inflation the next 10 pages*

# Do Government's deficits create inflation? Yes, sometimes

During wars, yes. During the 1970's, inflation accelerated before the deficit started to increase




- The deficit fell as inflation rose to above 3% in 1990
- No hike in inflation following the fiscal expansion in 2008/2010 financial crisis recession
- The aggregate deficit during the virus downturn will very likely be less than the fiscal cost of the financial crisis

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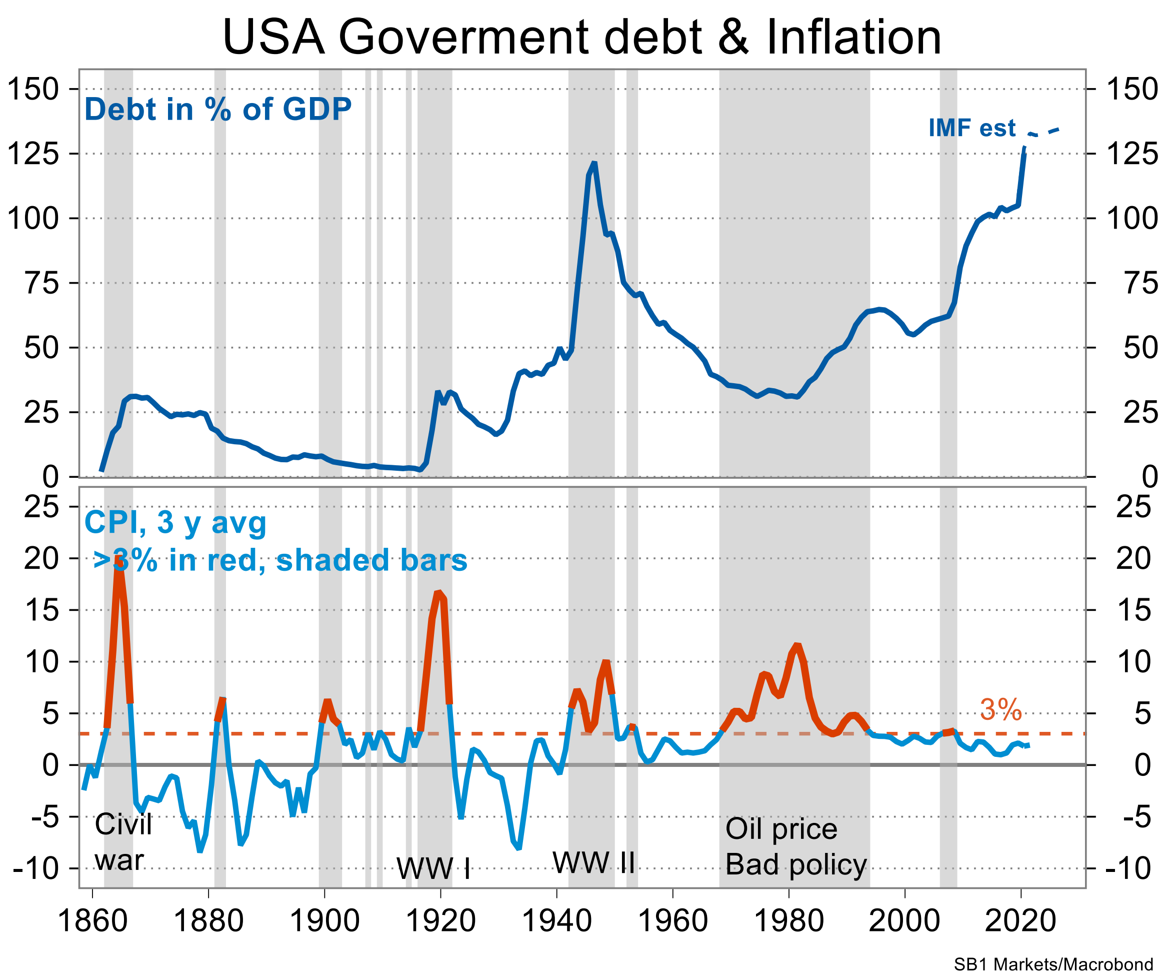
# Does Government's debt create inflation? Yes, during wars

The 'bad policy' regime in the 1970's was NOT caused by a steep increase in Gov't debt




- The Debt/GDP ratio fell during the '1970's, although the growth in nominal GDP was high, partly due to an expansionary fiscal policy

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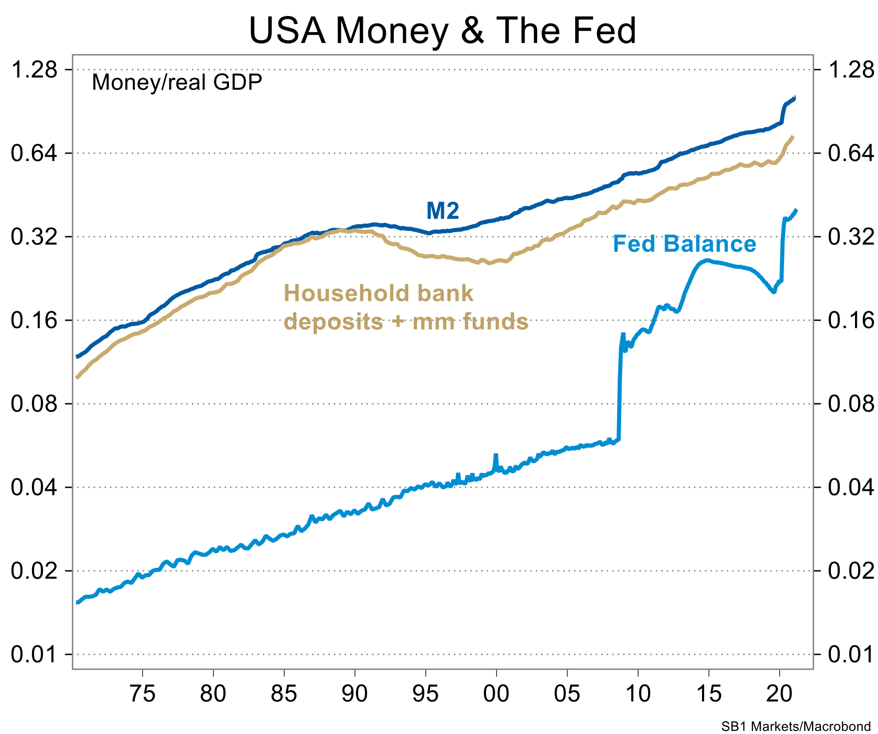
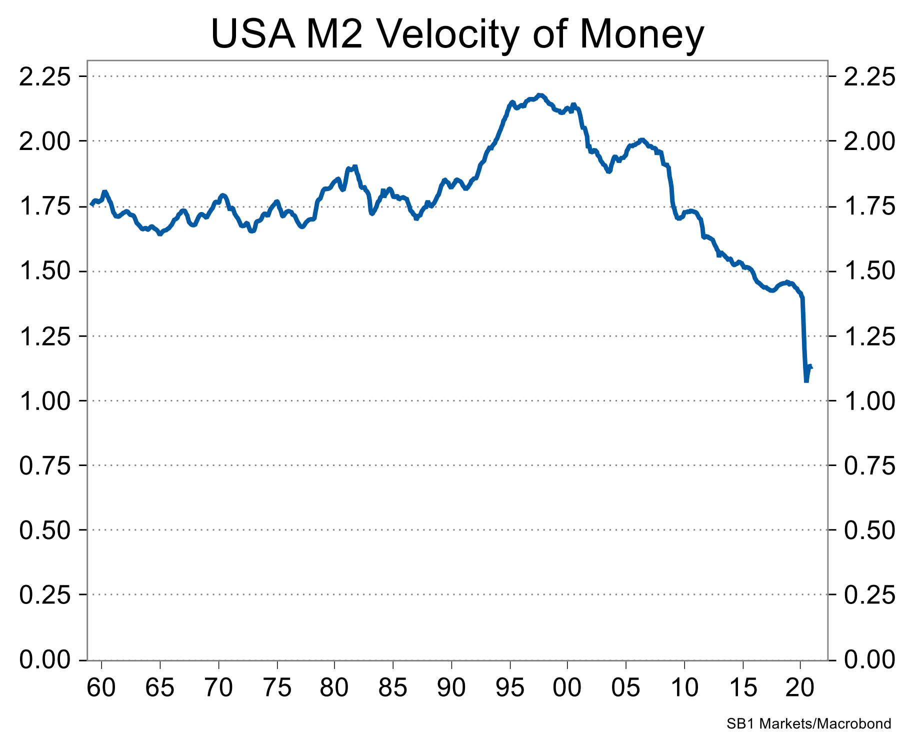
# The money supply has exploded: A real danger?

## The challenge: No stable correlation. And money is not printed only by the Gov.




- **M*V = P*Y** Per definition (Money x velocity of money = Prices x Real GDP)
- However, the **V** has not been anything close to constant since 1990 – no correlation
- **«Money»** is not printed by the government alone. Money is created both by private banks when the lend money and by the government by supplying banks with bank reserves (Fed's balance) – and the correlation between the Fed's balance and all measures of "money" has not been that close

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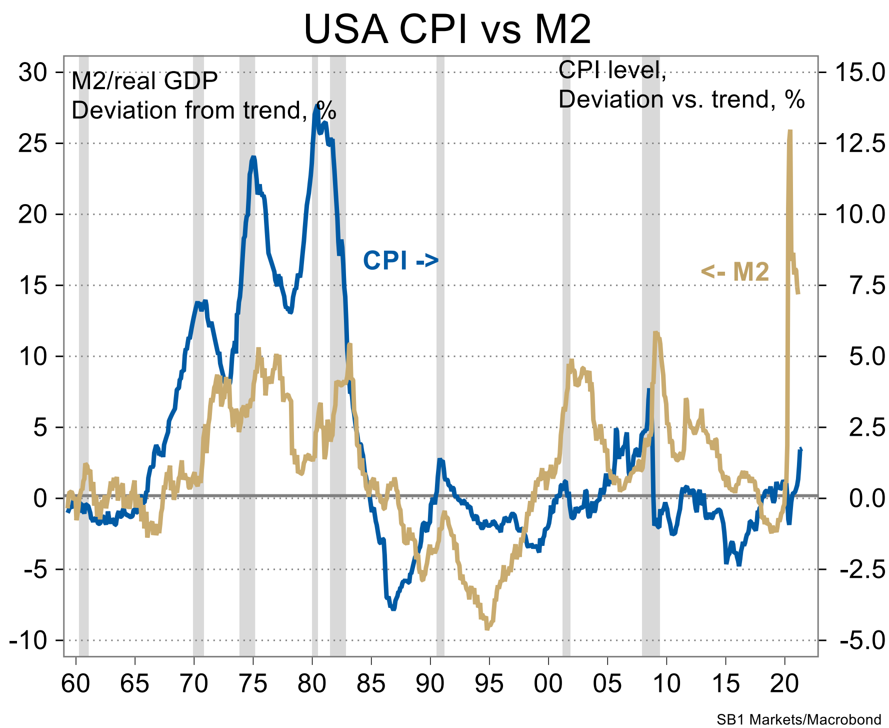
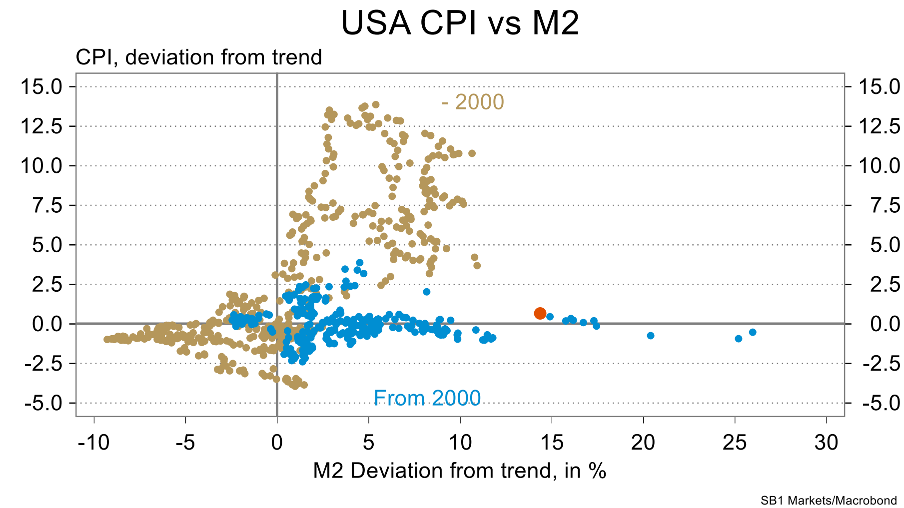
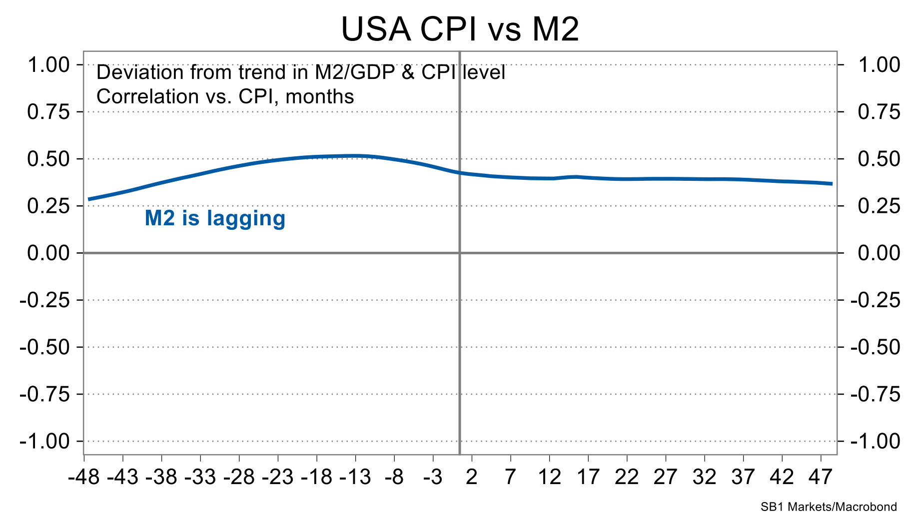
# Money vs. inflation: «Money» is rather lagging than leading CPI inflation

In anything, <u>prices are leading «money», not lagging</u> – and correlation has been weak since 2000



# So, what now? The US labour market will decide

So far, mostly a US history. But the fate of most financial markets are decided in the US

## There are some red lights blinking!

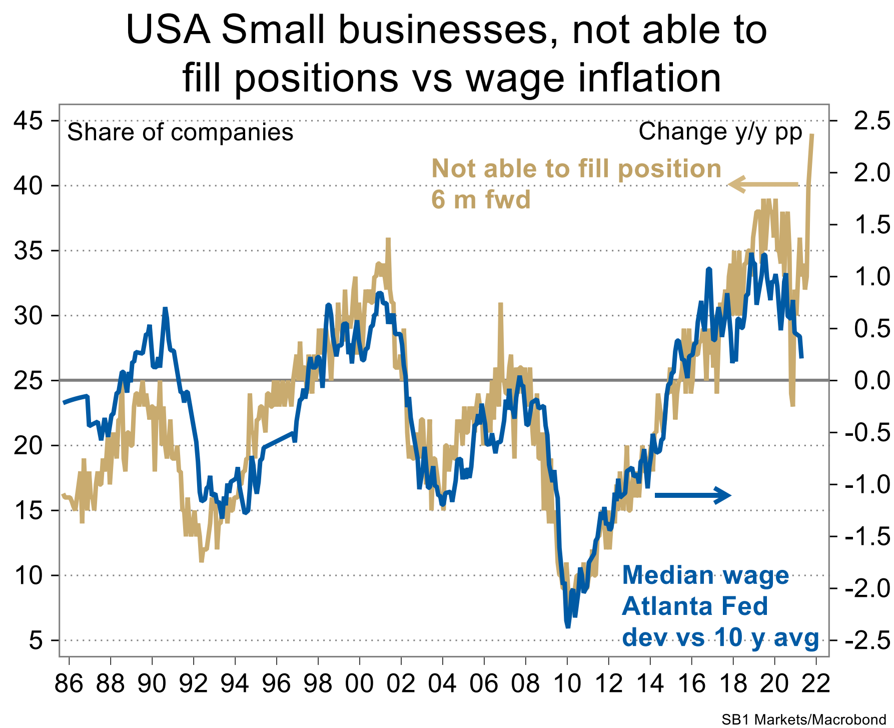
- Growth in **money** in the US has been extreme, mostly due to an extreme **fiscal policy**, the **government debt** has leapfrogged and has been financed by Federal Reserve's extreme **QE program**
- The intellectual climate has changed: Fear of public deficits or inflation has faded. The **Modern Monetary Theory** may legitimate an even more expansionary fiscal policy than we have seen over the past years, which at one stage may have an impact on inflation
- We are witnessing extreme **shortages** in the global supply chain, delays in **delivery times**, and extreme increases in **raw material prices**, and companies are reporting extreme increases in **input and output prices**
- At the same time, US businesses are reporting **extreme shortages of labour**, and the authorities a **record high number of unfilled vacancies**
- <u>The inflation risk is certainly larger than we have been witnessing for the past few decades</u>

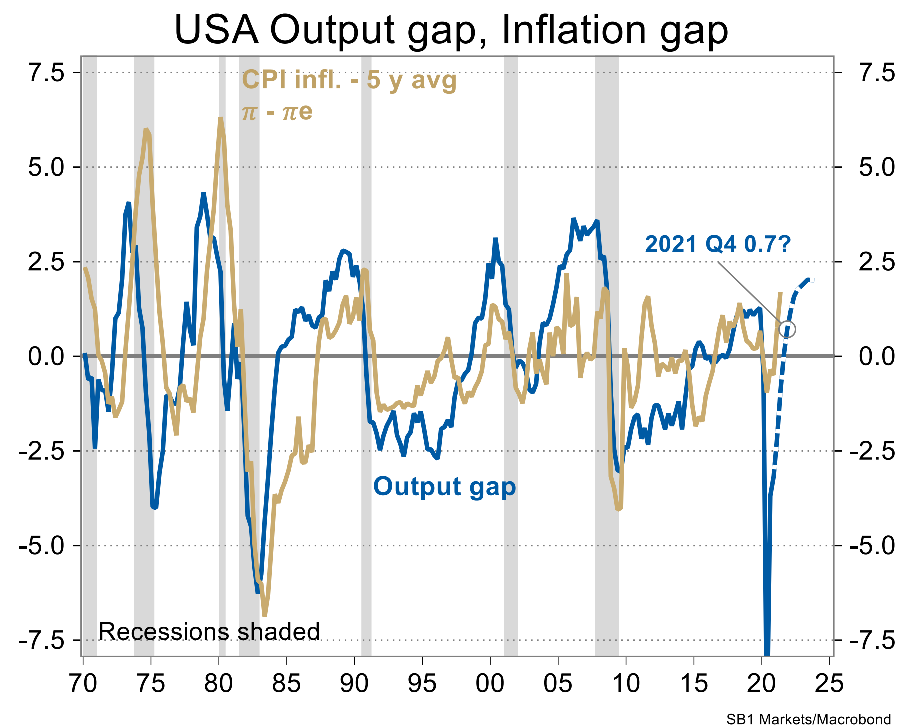
## What could happen?

- **Money, deficits & debt or QE** do not create inflation by themselves (and even not together)
- **Raw material prices/corporate margins** never rise 'forever' or even for many years – and margins do not 'explain' sustained surges in inflation (check our analysis in Macro weekly no. 20/21)
- **What's needed to push inflation substantially up, over time**
  - » **Strong aggregate demand** (private + public)
  - » **Tight labour markets** over several quarters, at least in the start of the wage/price spiral
  - » **Lack of confidence in the monetary regime** or at least low/moderate inflation outlook
  - » No adjustment in **fiscal or monetary policy**
  - » **No market reaction** (or market reaction supressed by public measures (like QE, yield curve control)
- In the first round, the main uncertainty is not whether demand will be strong or not – it will (savings are extreme etc). <u>The question is whether most of the millions US workers who left the US labour market during the pandemic will return, at current wage offerings, during the coming few months</u>

# Wages – and then prices – are decided by the tightness of the labour market

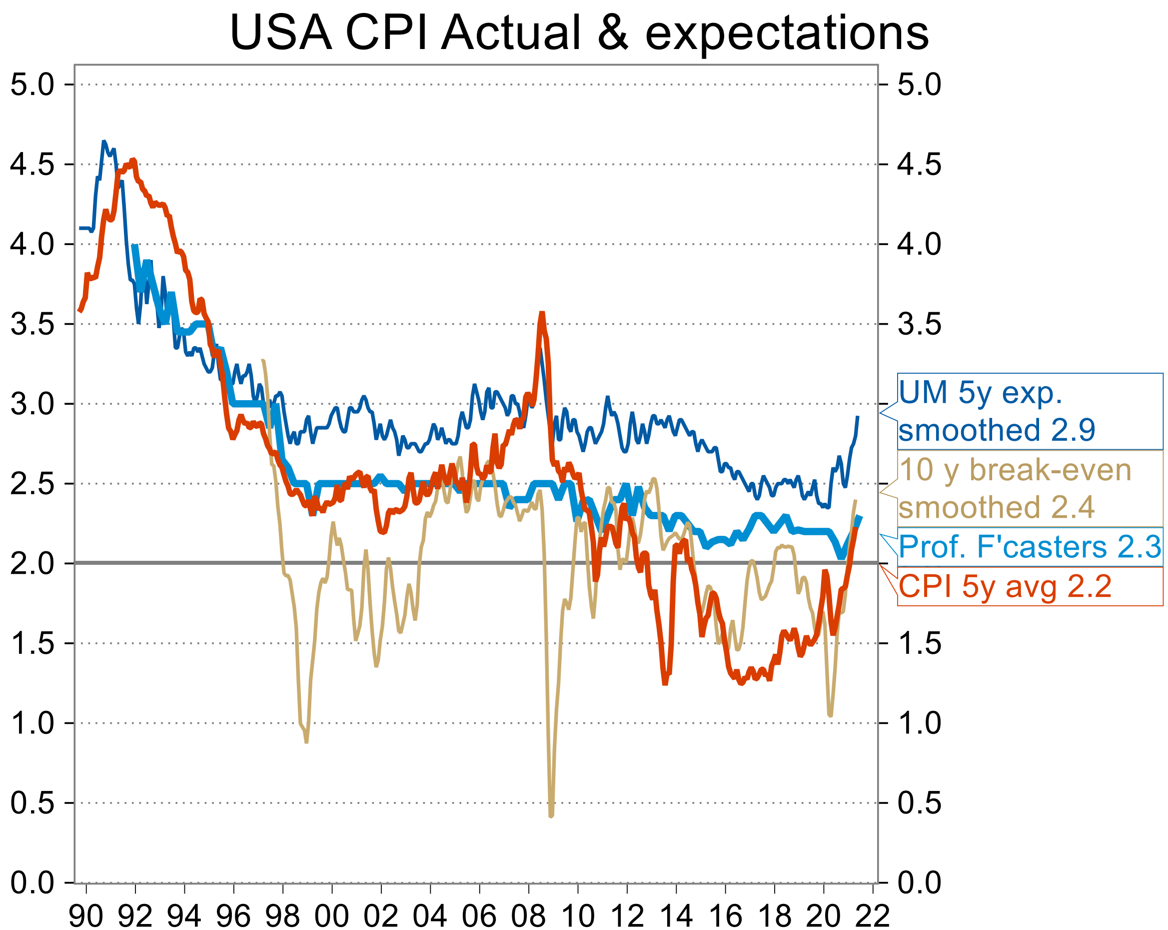
The Phillips curve is far from dead!



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

## Univ. of Mich. survey 5 y inflation expectations have climbed to 3% from 2.4%

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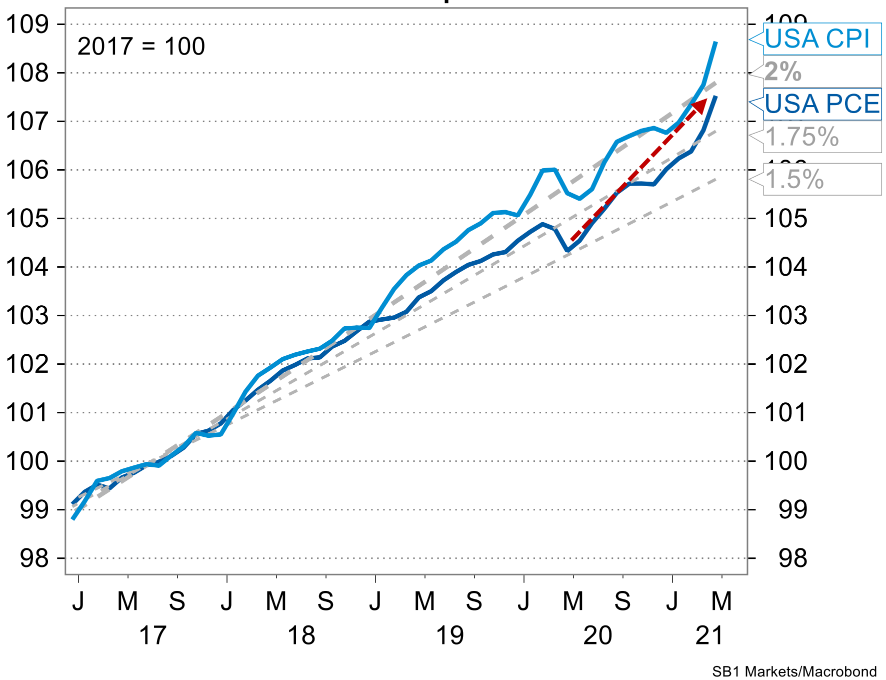
- **The UM's survey's** 3% rate is the highest in 10 years (2.9% smoothed at the chart to the left), and it is 0.5 pp higher than before the pandemic (2.5%)
  - » Still the level is not far above the past 10-year average – but it is a sign for the Fed, of course
  - » The UM short term inflation expectation at 4.6% is the highest since 2011, up 0.9% from March. These expectations usually correlated to recent changes in energy prices – like now
- **Professional Forecasters** expect a 2.3% 10 y rate of inflation, according to Philadelphia Fed Q2 survey, up from 2.0% in Q4. The Q4 level was the lowest ever, and 2.3% is just marginally above the past 7 years average, and it refers to CPI. The 10 y PCE forecast is at 2.1%, close to Fed's long term target
- The 10 y **break-even CPI inflation expectation** is at 2.4% among the highest prints since 1998. Still not far too high for Federal Reserve (after deducting an average 0.3 pp differential between the two)
  - » However the direction is not that comforting?

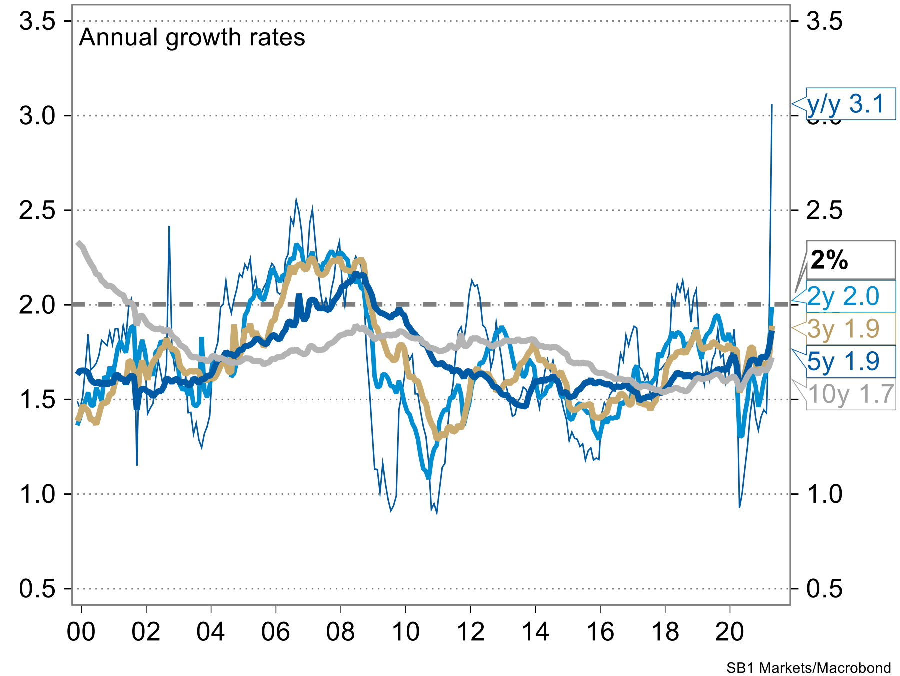
# The Fed vs. inflation: We believe there will be talk about tapering in June

## Fed now aims for 2% inflation over time: we're there, or quite close to

USA Core price level



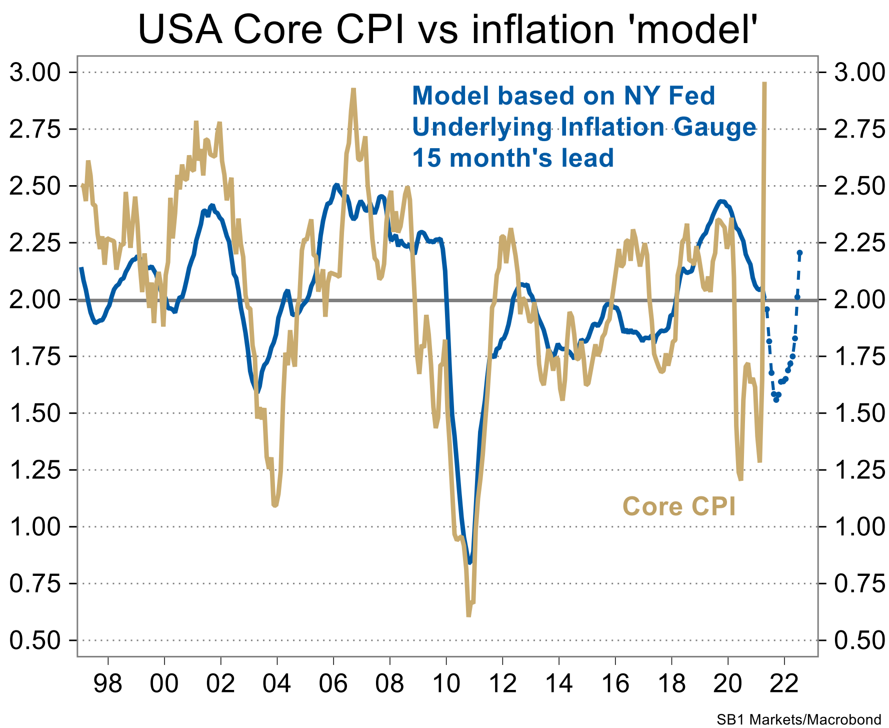

USA Core PCE inflation

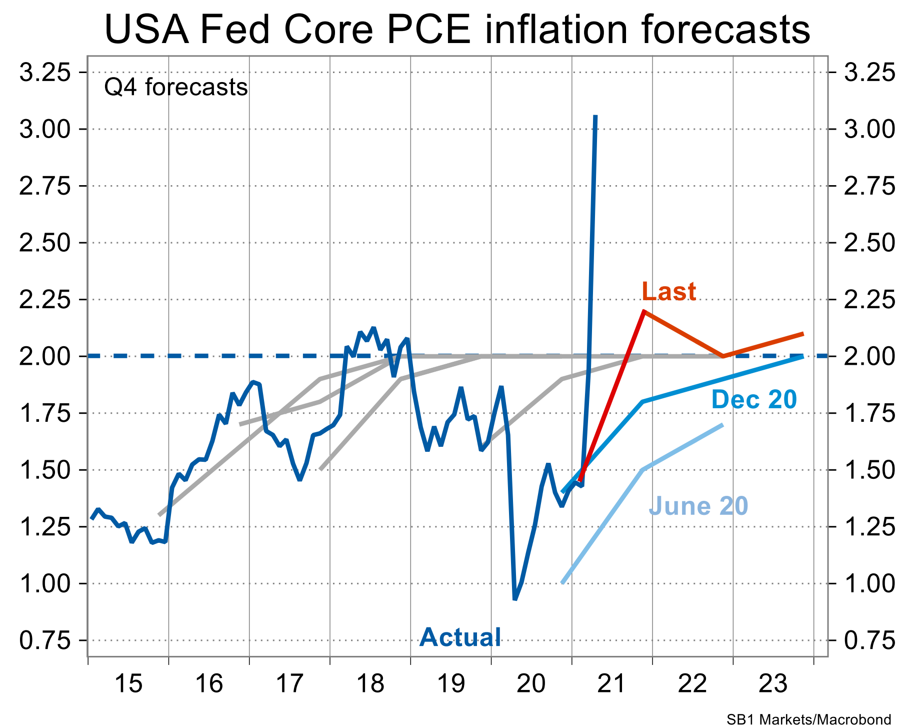



- The Fed has not defined its **time horizon**, should the average 2% inflation target be reached over 2, 3, 5 or 10 years? We guess 2 years is too short, and 10 years is a too long period. So something around 3 – 5 years?
- The 3 y & the 5 y rates are now at 1.9% - thus not much below 2%. At the chart to the left, the core PCE price level now is now close to the 2% line, starting at the average price level in 2017 (4 years ago)
- **Measured vs. the CPI**, the average core inflation is at or well above 2%, whatever period we check
- The 3.1% y/y lift in prices in April is of course both due to the price cuts last April – but just as much due the brisk increase in prices past (check the red arrow), and by itself not reason for panic
- **Inflation expectations** are way above 2% in markets & among households and very likely among companies as well

# NY Fed's underlying inflation model is not yet crying WOLF

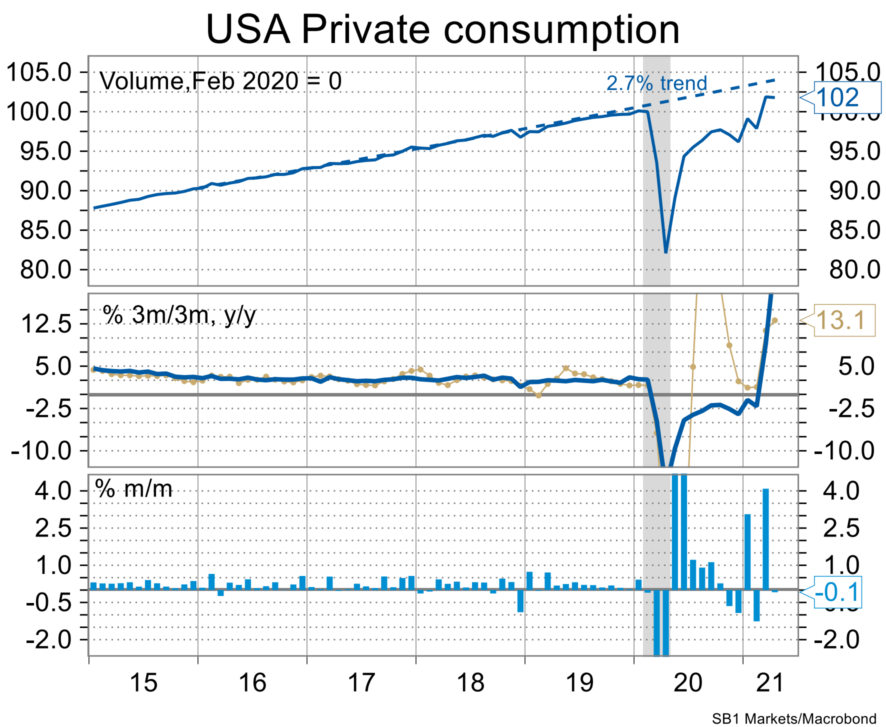
However, it does not seem that likely that the core PCE deflator has slowed to 2.2% by Dec either

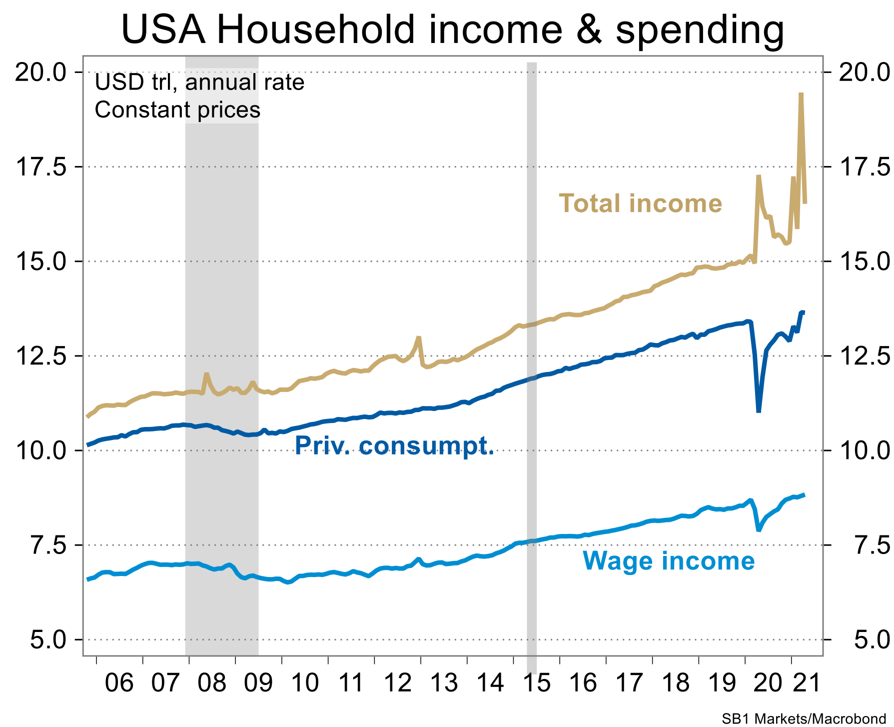


# The majority of checks were sent out in March: Income -13.1% in April

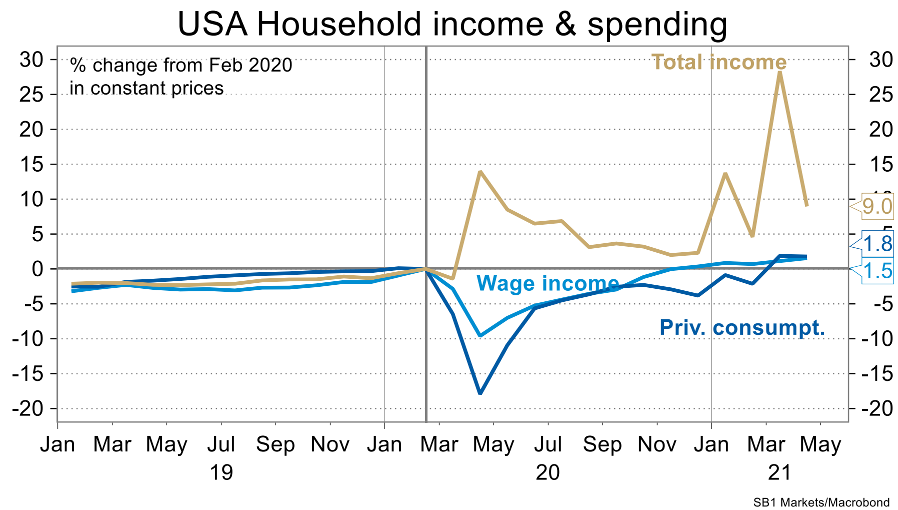
## Spending up 0.5%, in line with consensus

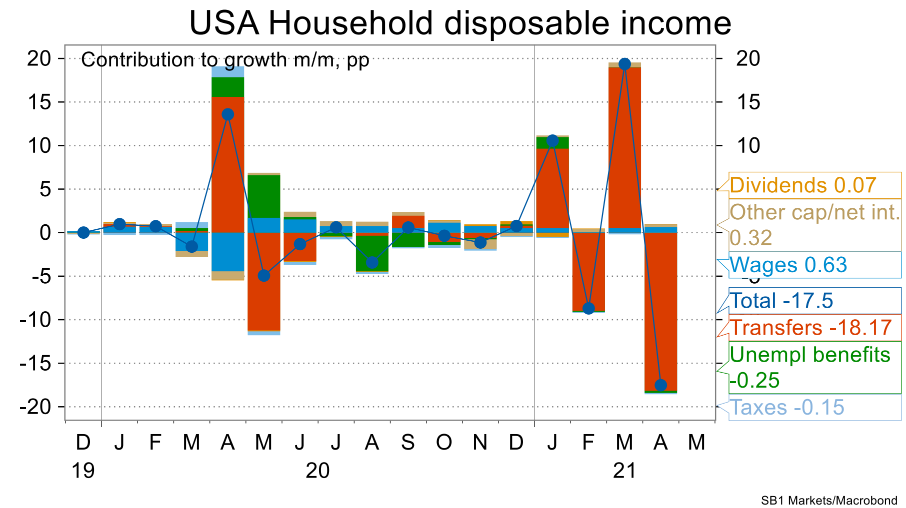


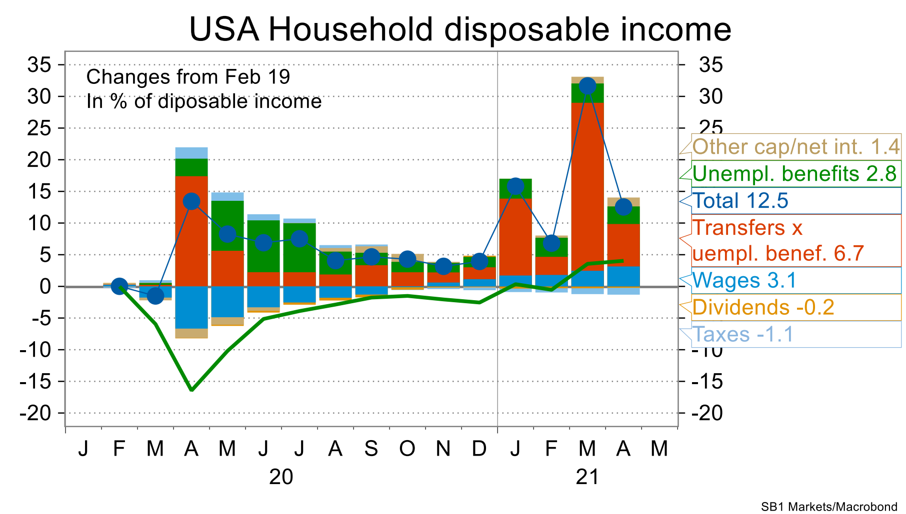

- **Private consumption** fell 0.1% in real terms in April (+0.5% in nominal terms, in line with expectations)
- **Personal disposable real income** fell by 13.1% in April, as the majority of the stimulus checks were sent out in prior months. In fact, wages & capital incomes were up in April, like over the previous months
- **The savings rate** fell sharply to 14.6%, still way above the pre-pandemic level. As the transfer bonanza more or less is behind us, we expect a further increase in consumption of services to be funded by a savings rate decline
  - » Over the first 4 months in 2021 nominal spending is up by some USD 200 bn more than implied by a 'normal' growth in spending. Income is up by an extra USD 670 bn. Thus, approx. <u>just 30% of the 'stimulus cheques' have been spent</u>, while 70% have been saved for a rainier day – equalling 2.7% of <u>annual</u> income. In addition, the current savings rate is far above a normal level! The wall of money is high!!

# Some extra transfers in April too but probably not much more to wait for?




- **Household disposable income** nosedived 17.5% in April, as far fewer stimulus cheques were distributed
  - » Household disp. real income is up 9%, and by 12.5% in nominal terms
  - » Nominal wage income is 3.5% above the Feb-20 level, even if hours worked still is far below, as the average wage is sharply up
  - » Unemployment benefits are up equalling 2.8% of disp. income. Total 'labour' income is up 6.3%, a normal income growth
  - » In addition, other transfers are up eq. 6.7% of disp. income
  - » Government transfers have in sum lifted household income in an unprecedented way, by grossly overcompensating weakness in market based income
- All these extra incomes (and more) have been saved, as it has not been possible to spend them where consumers wanted (check more 4 pages forward)



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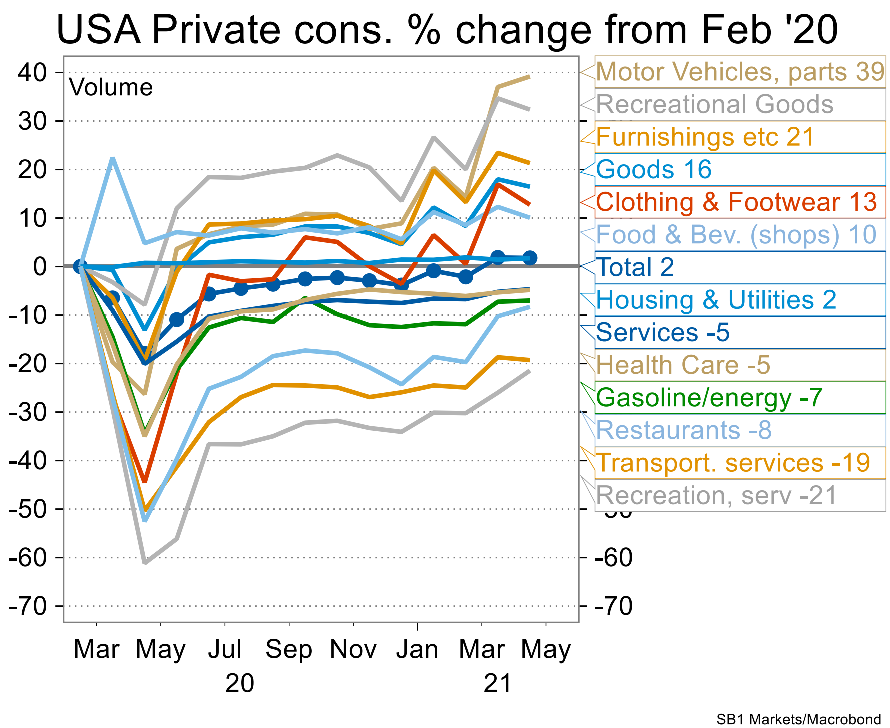
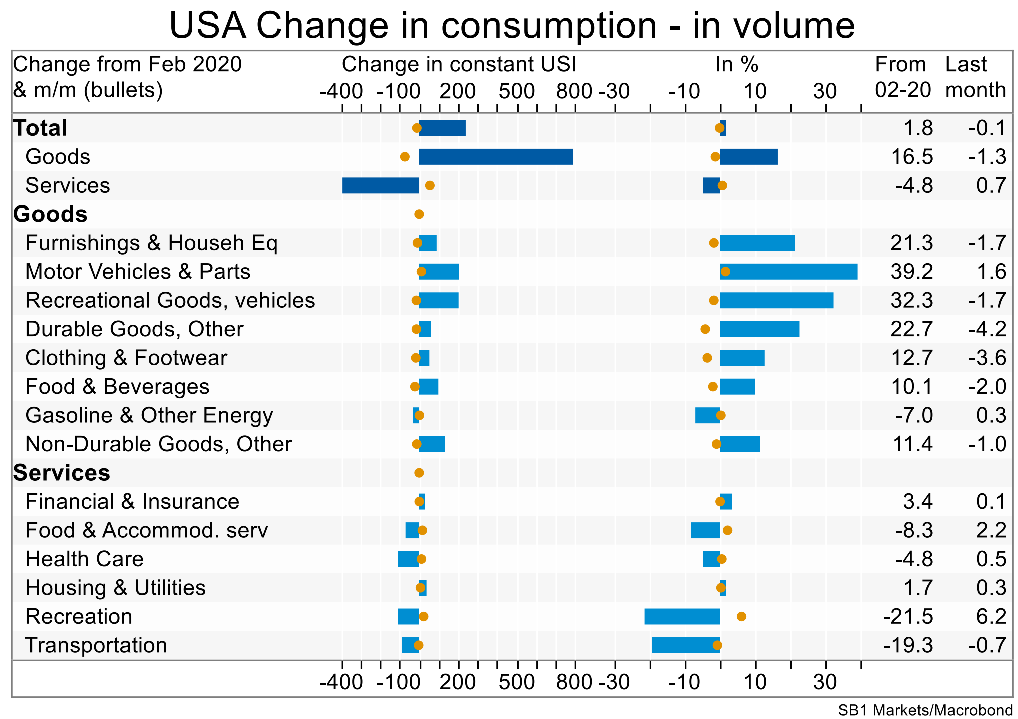
# Goods (x auto) down, services up in April – more to come

In volume terms, April consumption of goods is 17% higher than pre corona, services are down 5%

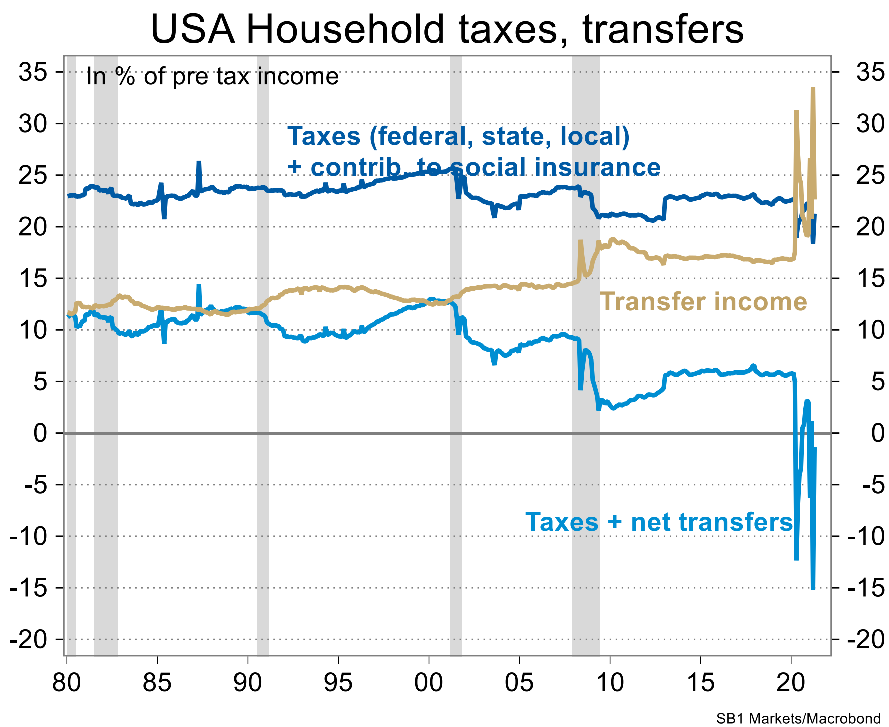


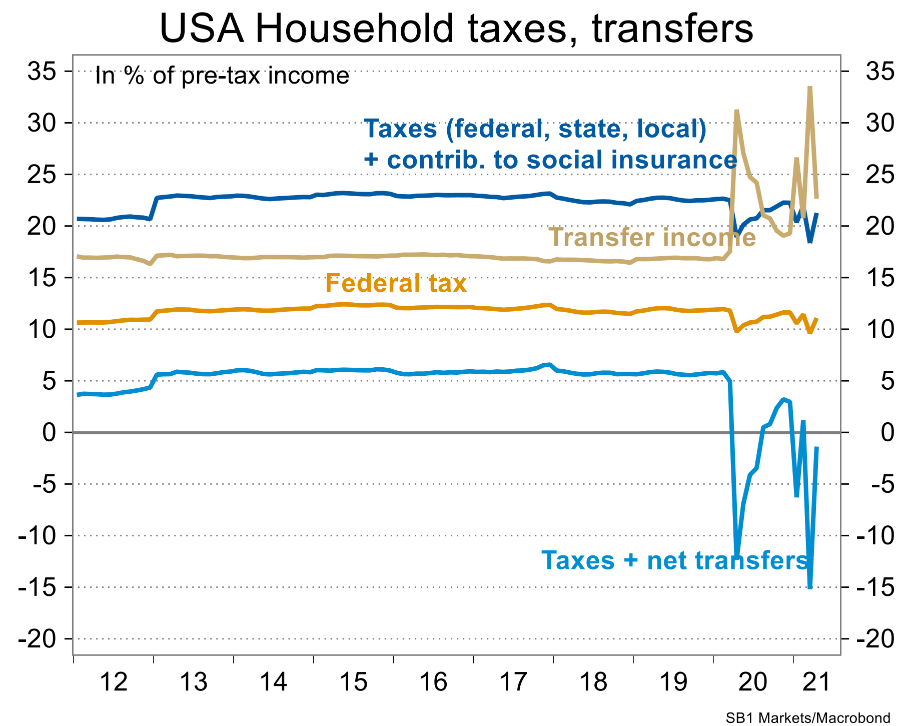




- Growth in **consumption of goods** has been driven by food & beverages (at home), autos (2nd hand), recreational goods & vehicles. Consumption of goods fell by 1.3% in April – but the level is sky high!
- **Consumption of services** rose 0.7% in April – and broadly. Spending is now 5% below the Feb-20 level, in volume terms. Restaurants are down 8%, transportation -22%, recreation -19%
- Will consumers continue to return to more **normal spending habits**, i.e. go to restaurants, theatres, parks, go travelling, attend schools etc. when it is safe, and allowed? No doubt. At the same time: <u>Consumption of goods will have to normalise too!</u>

# Some strange things are happening….

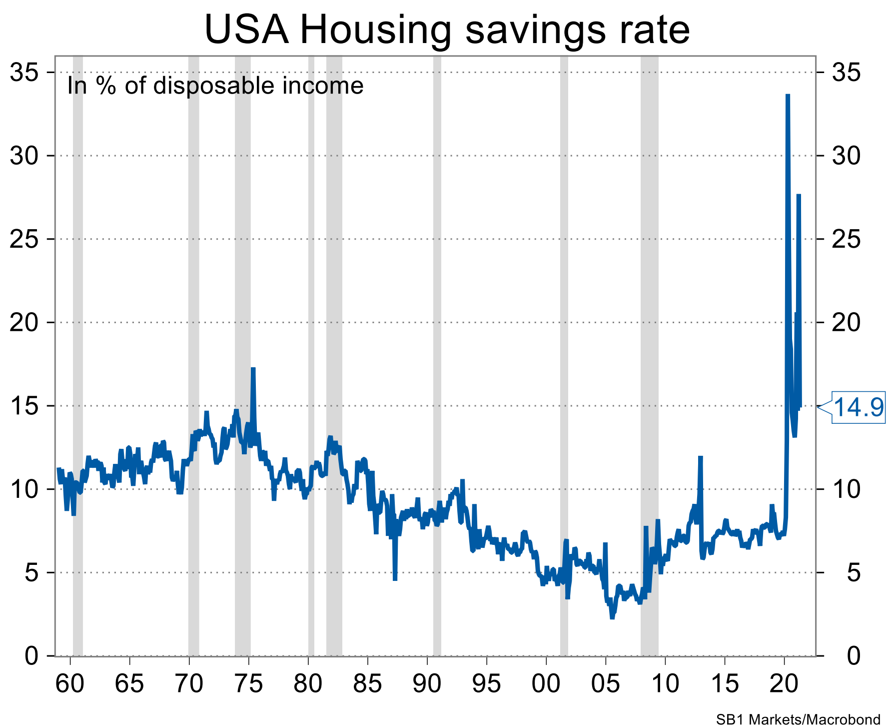
At one stage, Uncle Sam will need to get his money back

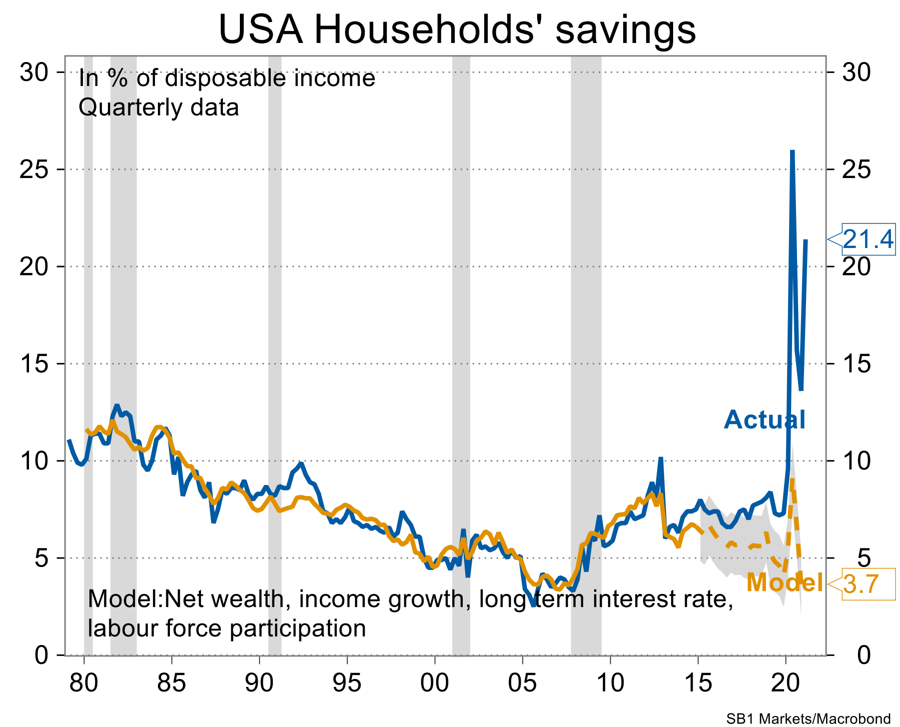


# The savings rate down 9 pp but remains far above the above pre-pandemic level

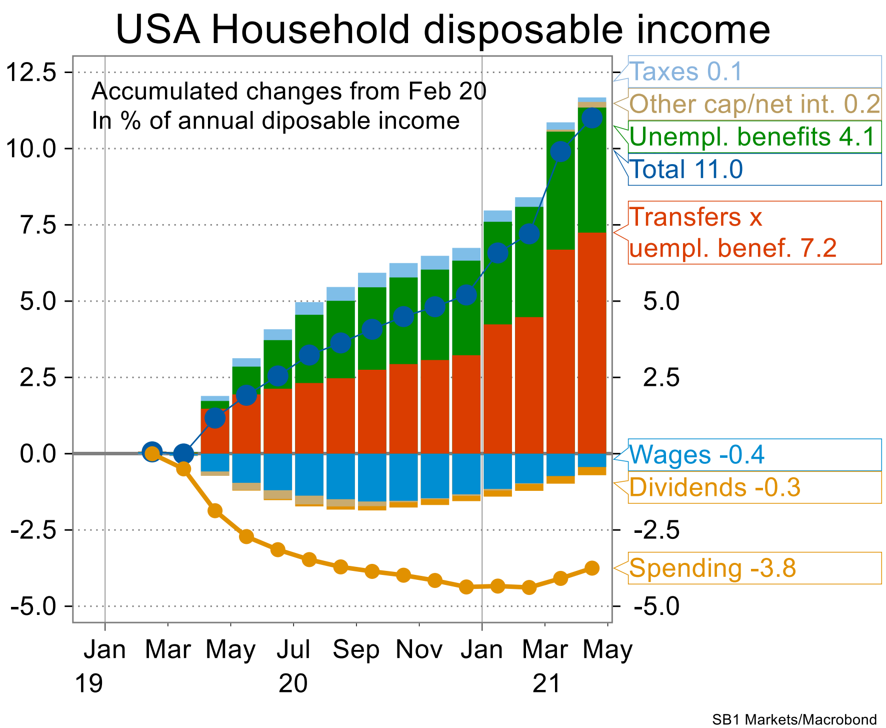
We still doubt the savings rate will remain at the current level for long

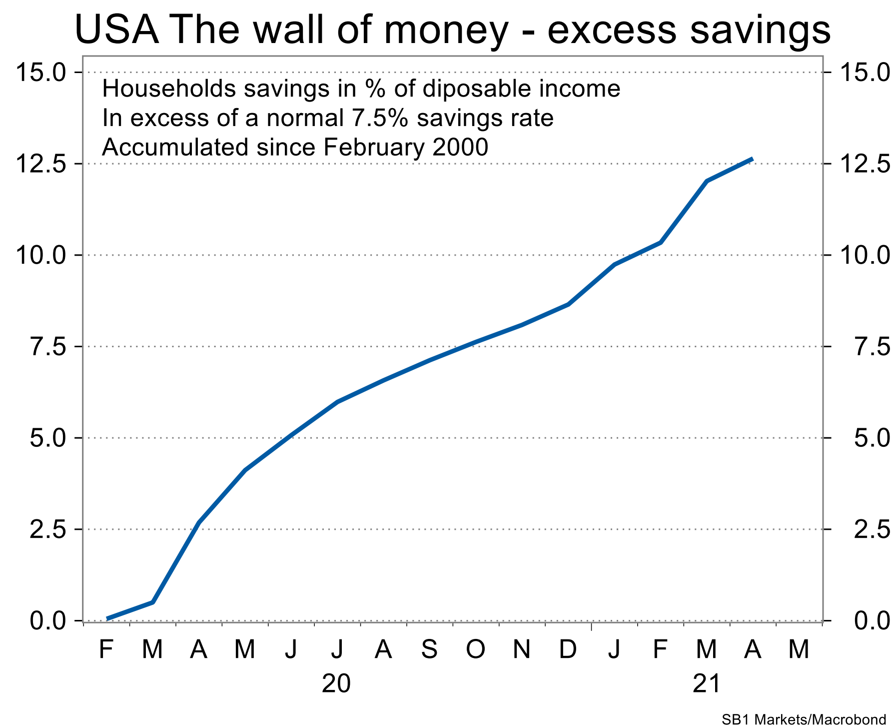


# The wall of money: How it is built – and the height

Transfers to households, both the cheques & the extra jobless benefits far larger than income losses



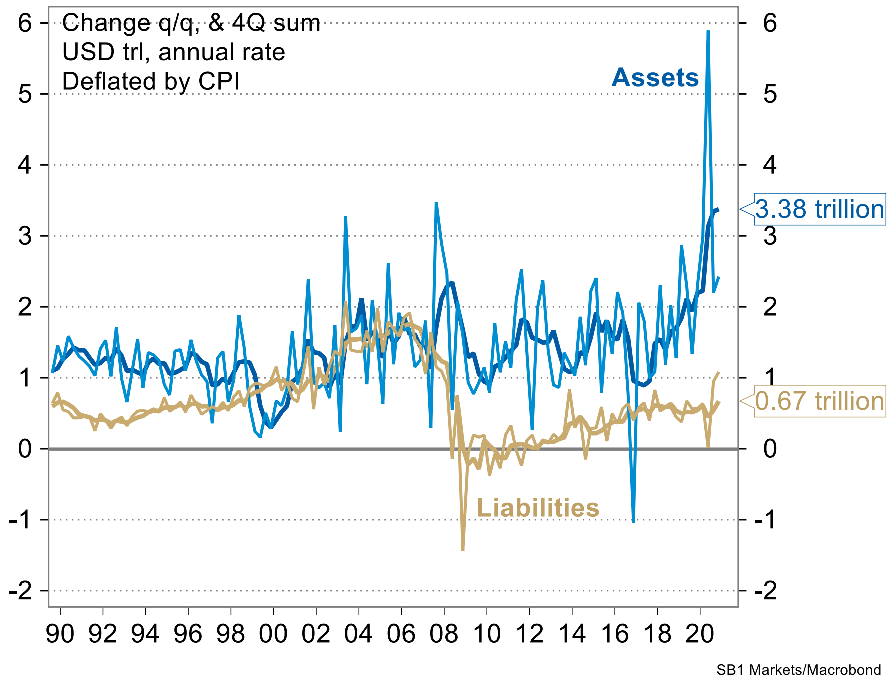




- … That is, income losses from ‘the market’, wages, dividends & other capital income

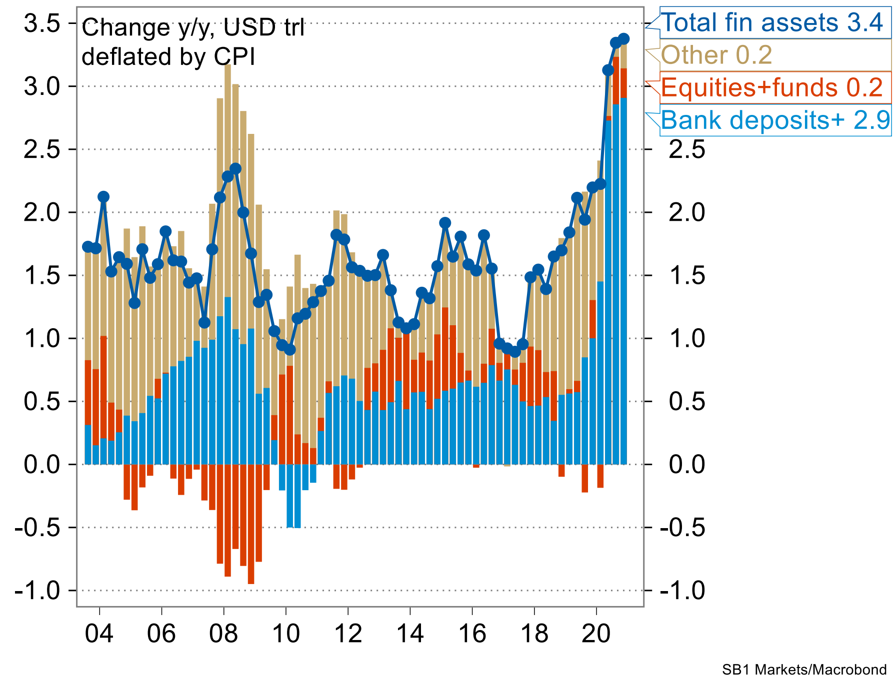
# The savings glut has not been used to pay down debt or to buy equities

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

USA Households' assets & liabilites

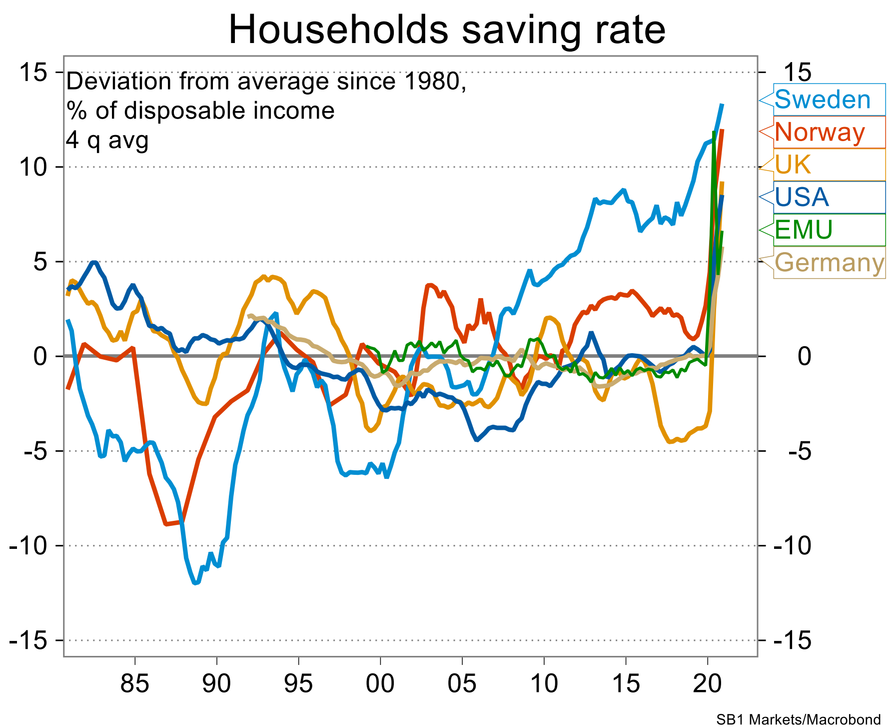


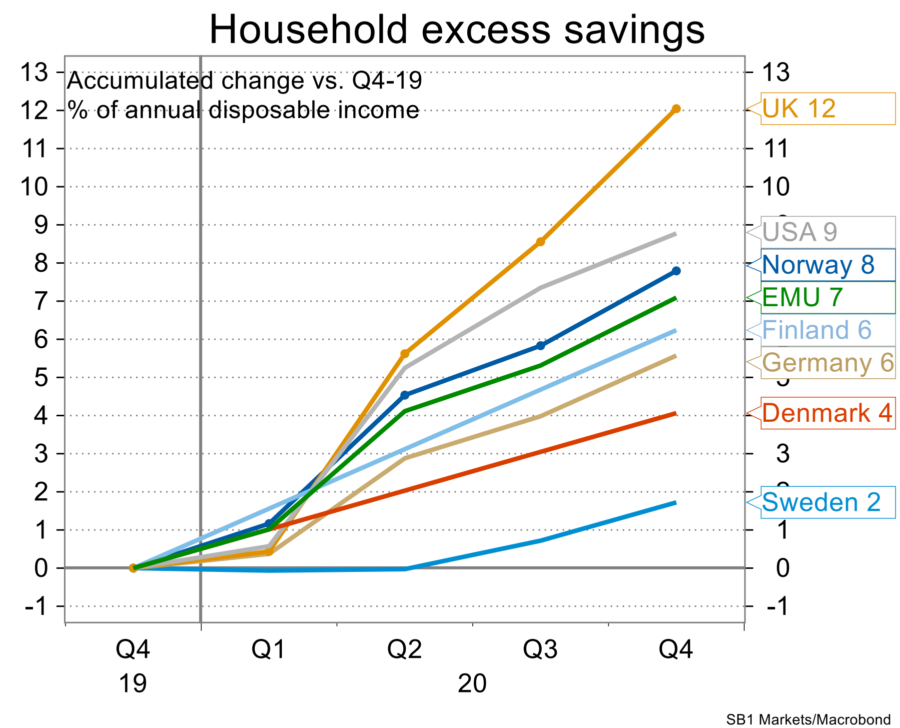

USA Households' assets



# It is not just in America, of course

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

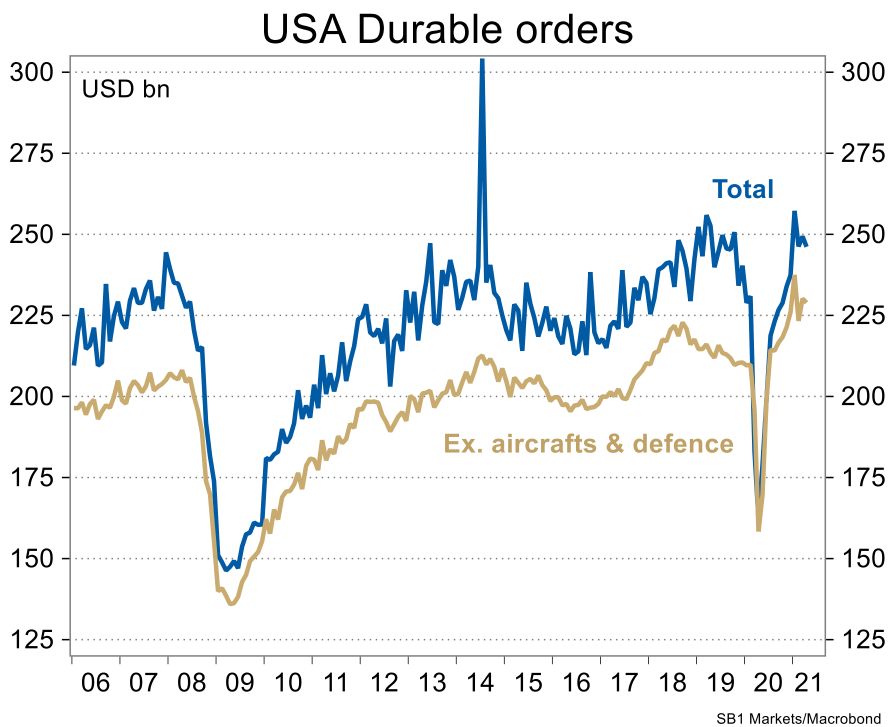


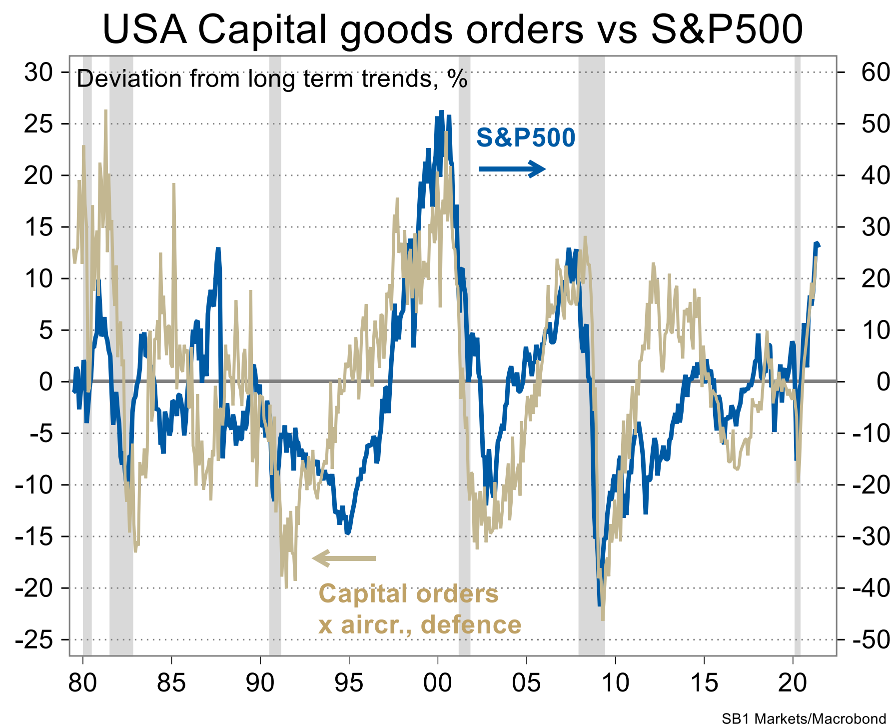




- We very much doubt these synchronised and unprecedented increases in savings are due to a monumental change in savings aspirations

# Durable orders down in April, but level is still high & core orders were up

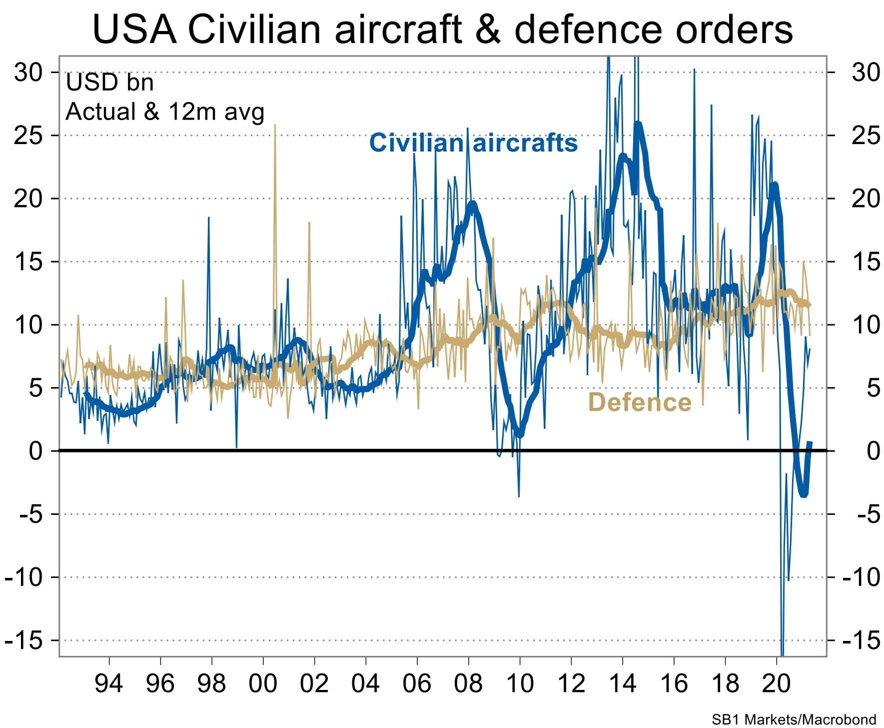
The order inflow was still below the Jan level. However, surveys indicate further growth in Q2




- **Total durable orders** fell by 1.3% in April, expected +0.7%
- **Core orders** (ex aircrafts & defence) fell buy 0.5%, expected slightly up, following the 3.1% increase in March. The decline was due to lower auto orders – very likely due to supply chain challenges (like semiconductor shortages). <u>Ex auto, core orders were up 2%</u>
- **Core investment goods orders** was up 2.3%, expected up 0.8%, and business investments will very likely grow further in Q2
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

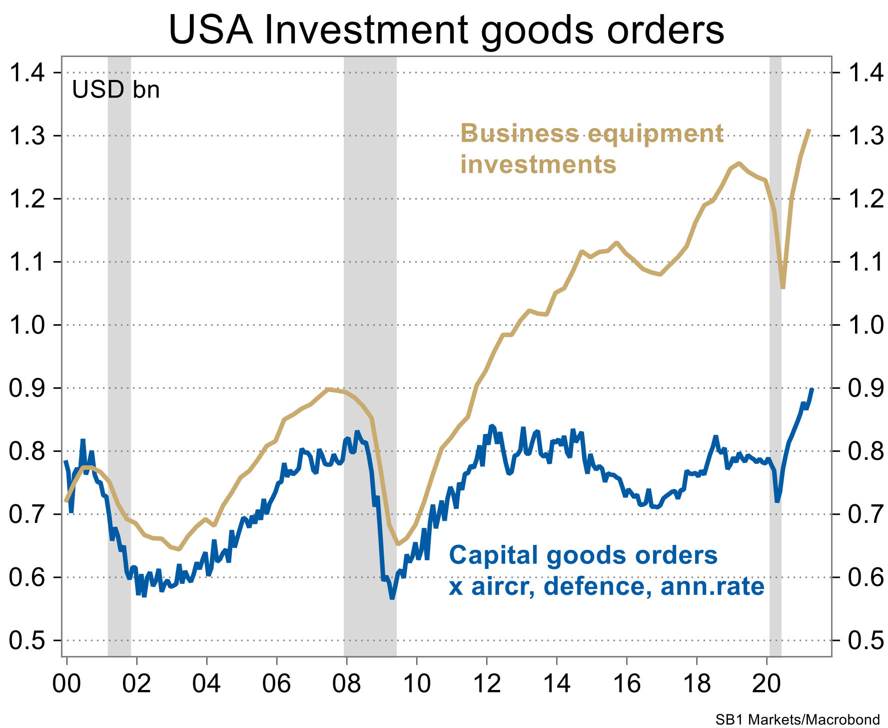
# Aircraft orders marginally up in April – Defense lower

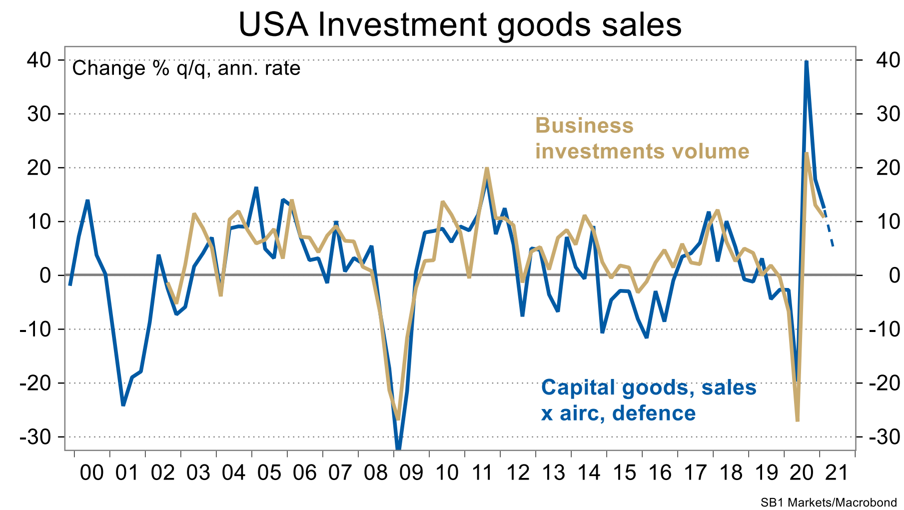



- Compared to ‘normal’ turbulence in this industry, the weakness over the past 3 quarters is not surprising at all – even if the USD 40 bn <u>net</u> cancellations to August from March were unprecedented

# Core capital goods orders & sales up in April

## Signals growth in business investments in Q2 as well – but at a slower pace than the prev. 3 quarters



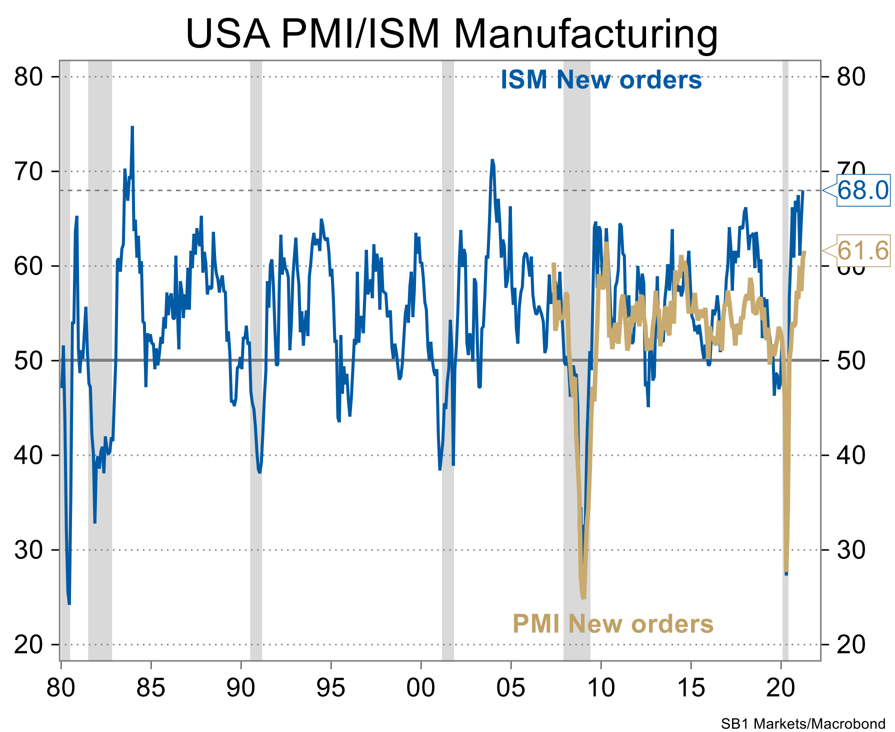



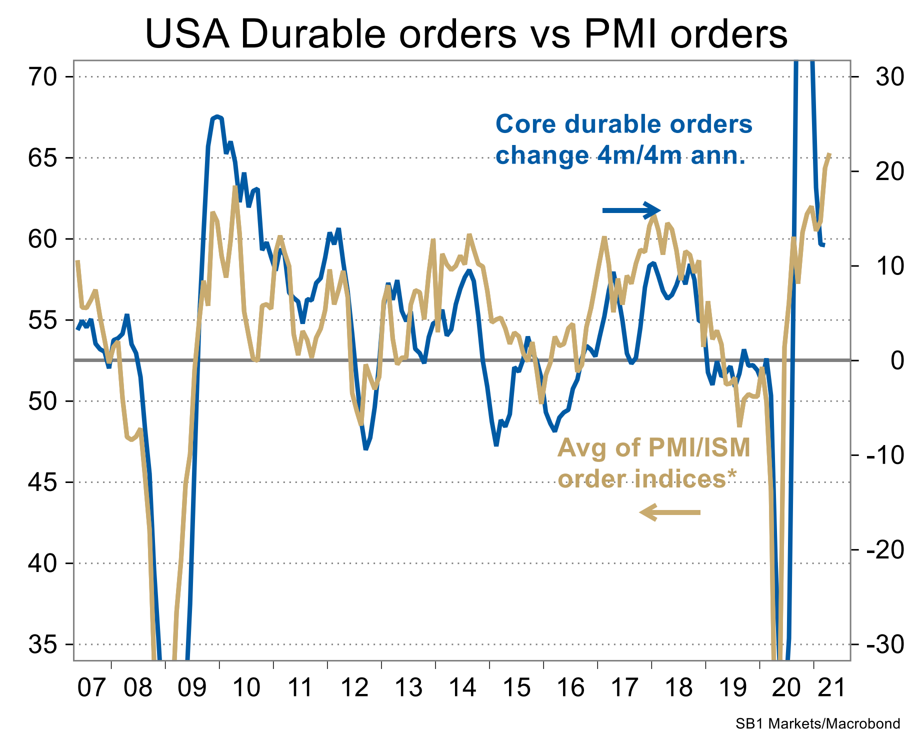


- Business investments rose by 2.3% in April, and sales were strong too. Business surveys signal a further increase in Q2 as well

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

These surveys are reporting a unprecedented increase in order backlogs as well

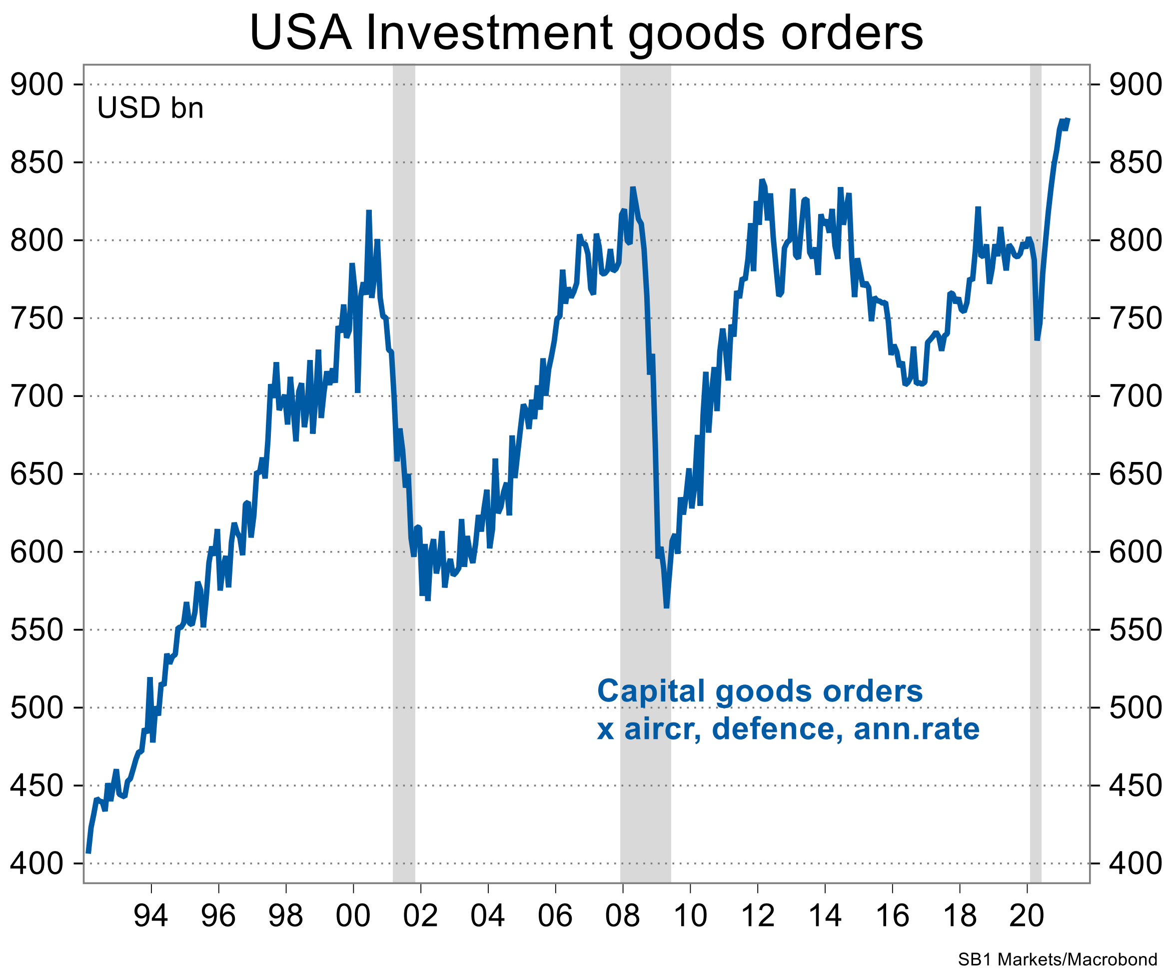


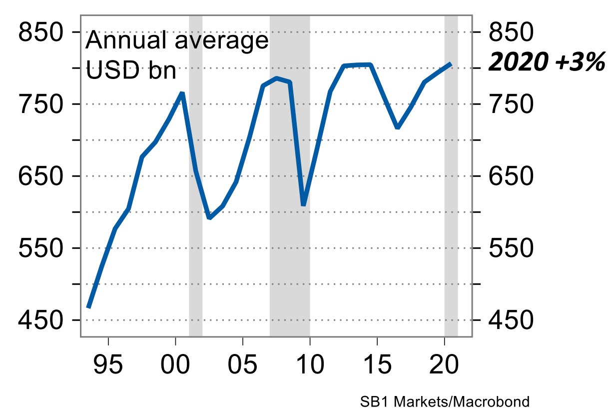

* The ISM order index is

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

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




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



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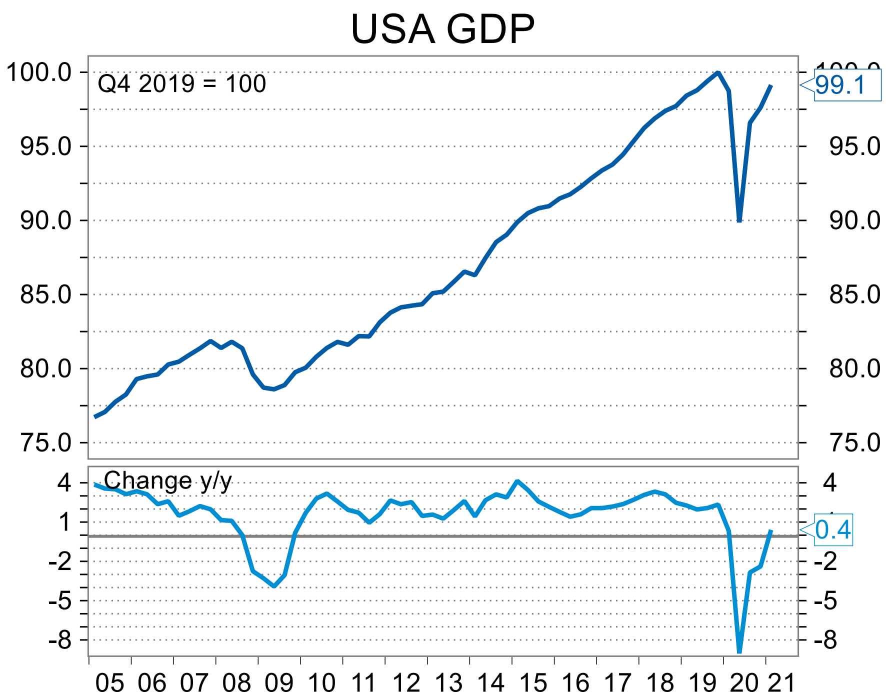
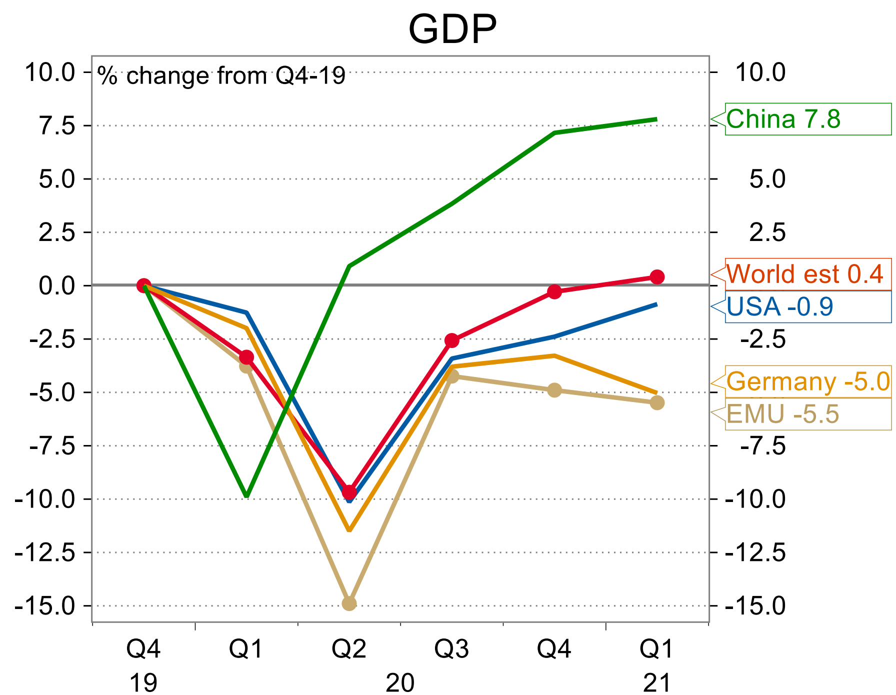
# Q1 GDP confirmed up 6.4% (1.6% not annualised) in Q1, down 0.9% vs. Q4-19

## Services are still deep under water, goods far above

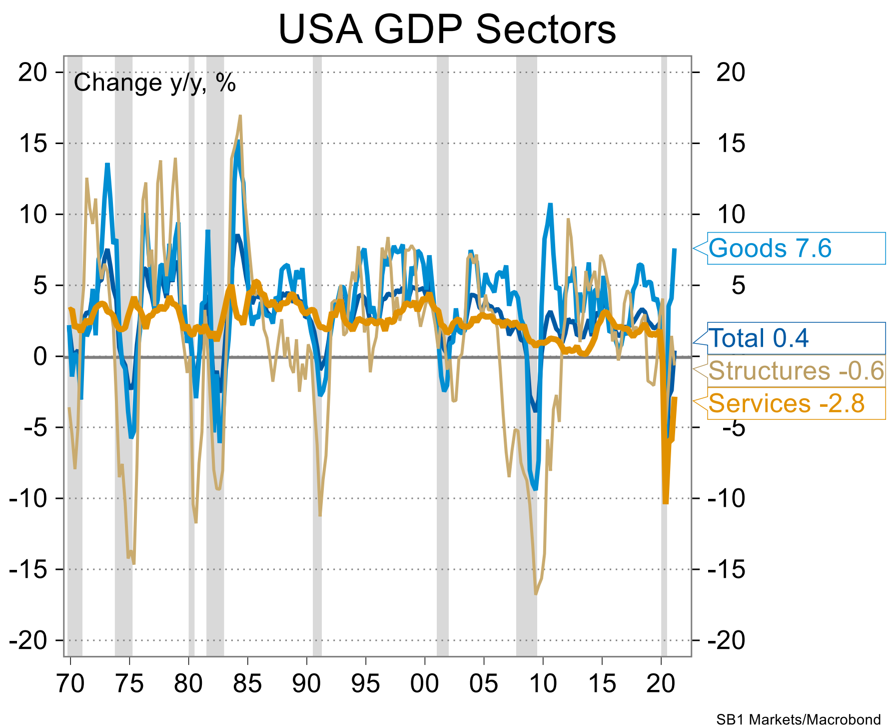


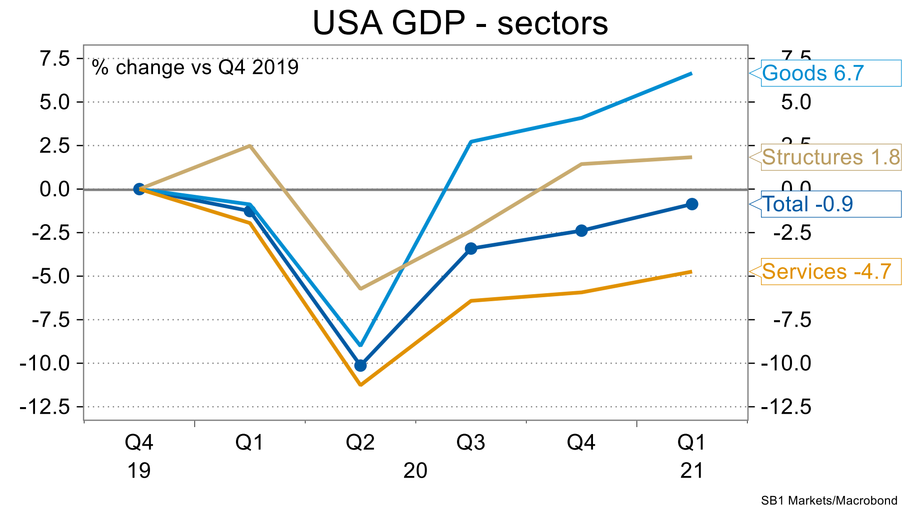



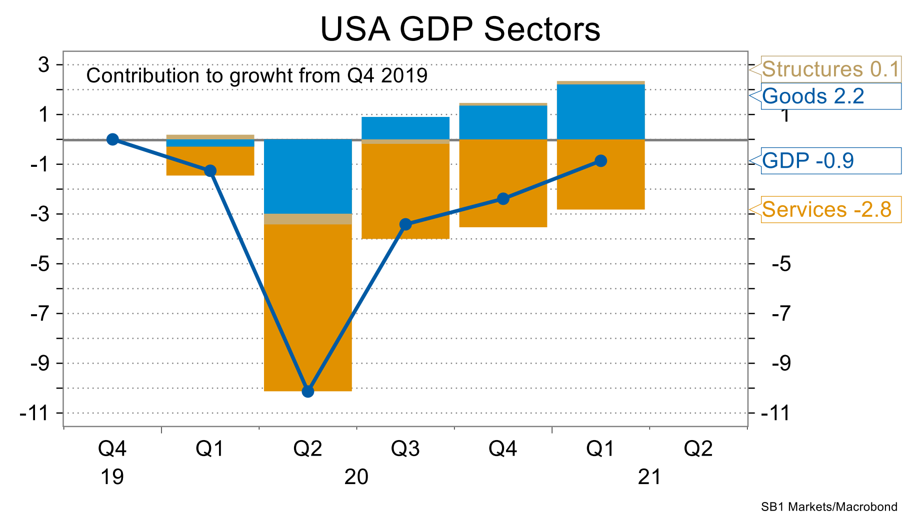

- **GDP** grew by 1.6% not annualised in Q1, is up 0.4% vs. Q1-20, but more important, just 0.9% below the pre-pandemic level in Q4-19
  - » GDP is still 4.8% below FOMC's Q4 estimate, and in order to reach that level, GDP has to grow by 6.5% (annualised rate) the coming 3 quarters
- **US is now well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

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

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



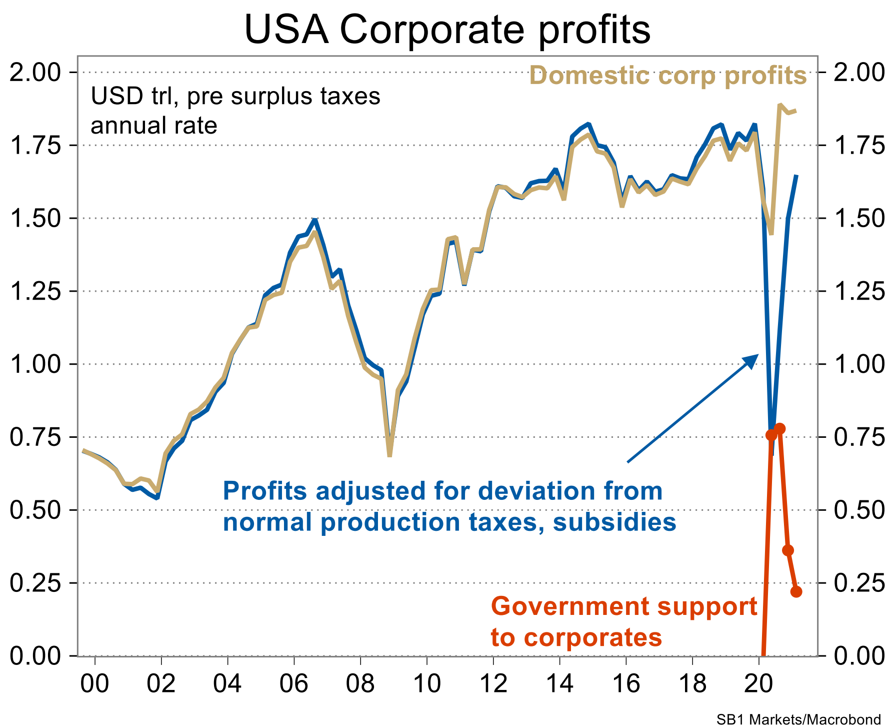



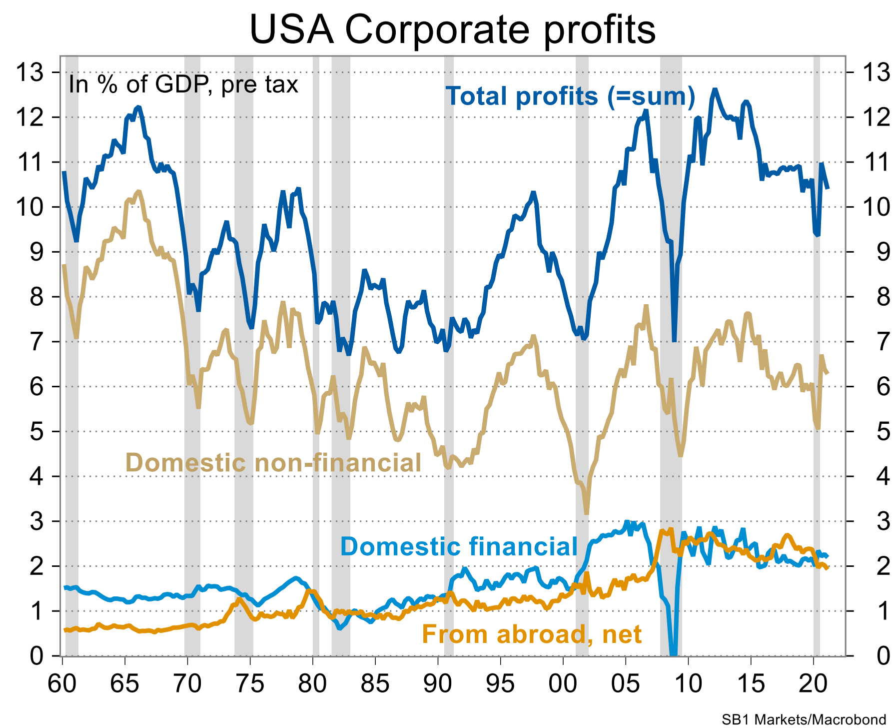




- Normally goods, including structures, are the main culprit, the volatile element in the economy. Now it is services – and services only
- And the recovery will of course be driven by services in the coming quarters, as soon as the virus is brought under control

# Less government subsidies but profits still grew in Q1

‘Ordinary’ profits are still 9% below the pre-pandemic level, but gov. support more than compensates

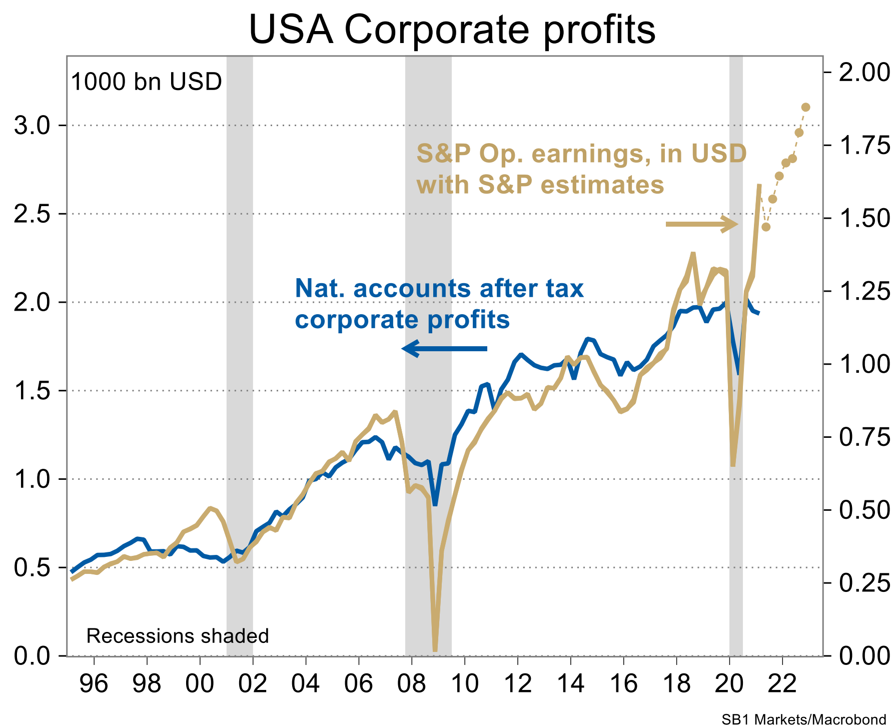


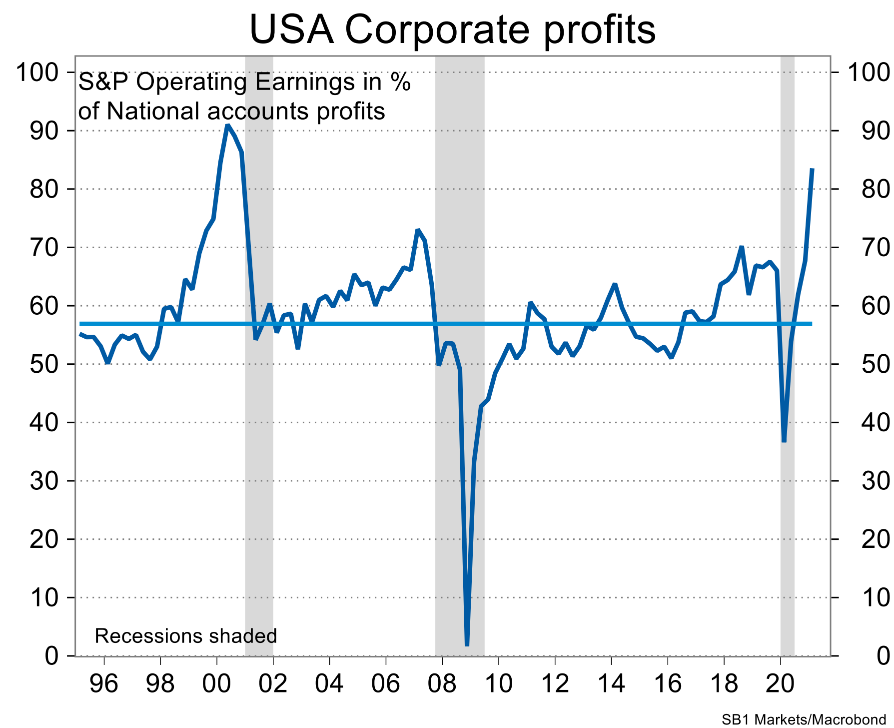




- **Government pandemic programs** have lifted **domestic corporate profits** at an unbelievable scale
  - » Profits have been kept up, even if the ‘normal’ profit generation collapsed in Q2 and Q3 as public support equalled >40% of a normal profit level!
- **Domestic corp. pre tax profits** rose marginally in Q1, but is below the Q3 level – when government subsides were at the highest
- **Total after tax profits** fell slightly – and the profit cycles have been on the way south since 2015
- **We expect ‘ordinary’ profits** (profits before subsidies) to strengthen the next quarters – but the longer term outlook is probably not that good
  - » The remaining government support programs will probably be abolished in Q2 and Q3
  - » The corporate tax rate will probably be lifted, if not as much as president Biden has proposed
  - » Wage inflation may accelerate

# ‘National’ profits marginally down in Q1, S&P earnings up 25%

An unusual discrepancy, and S&P earnings level is pretty high vs national profits too

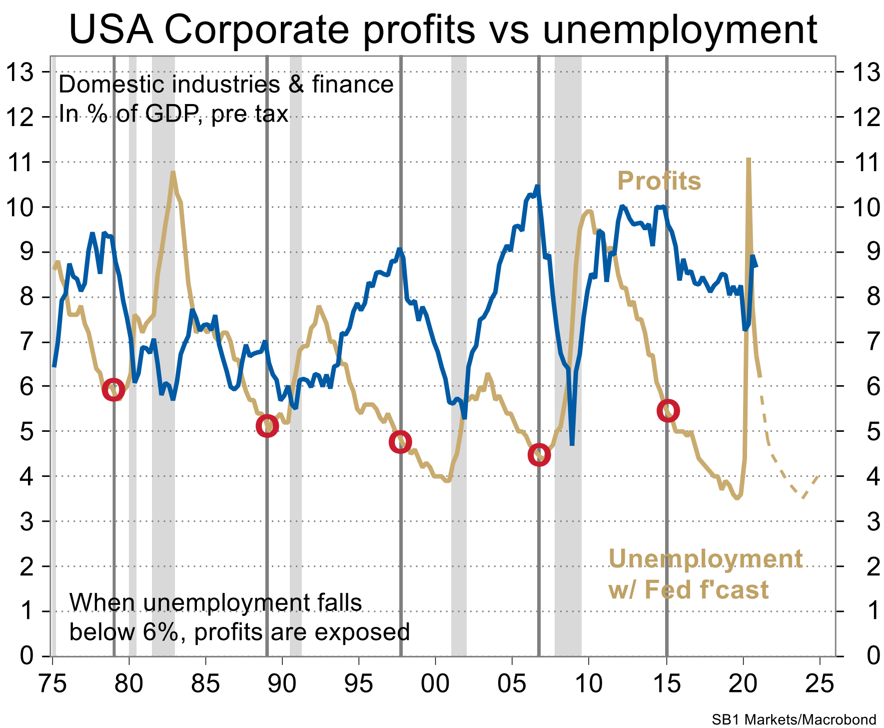


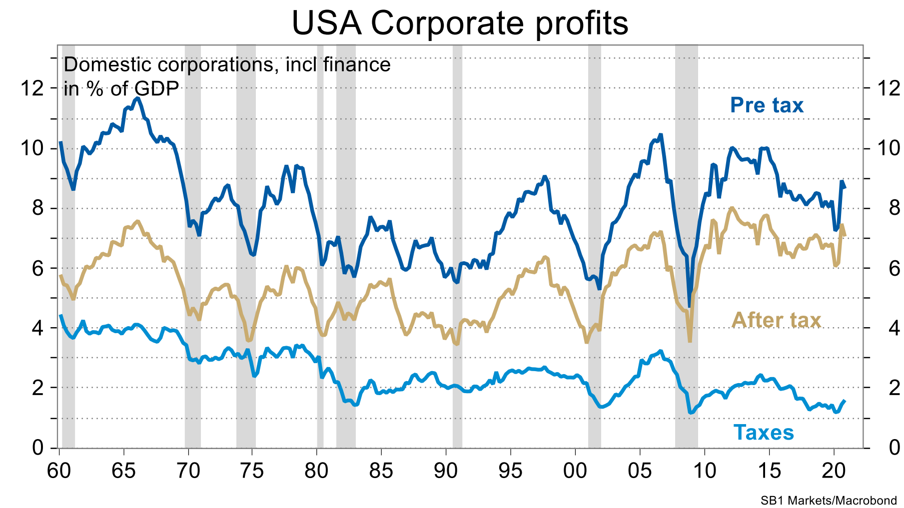



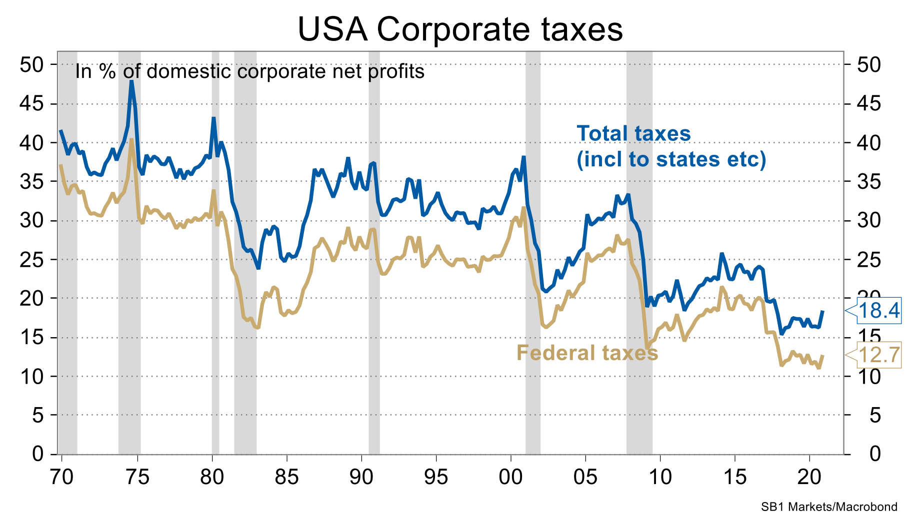

- Usually, that has not been a good omen, but the data is all over the place these days

# Profits were under pressure prior to corona – as usual when unemployment falls

… and for how long will unemployment remain high enough to ‘protect’ profits?



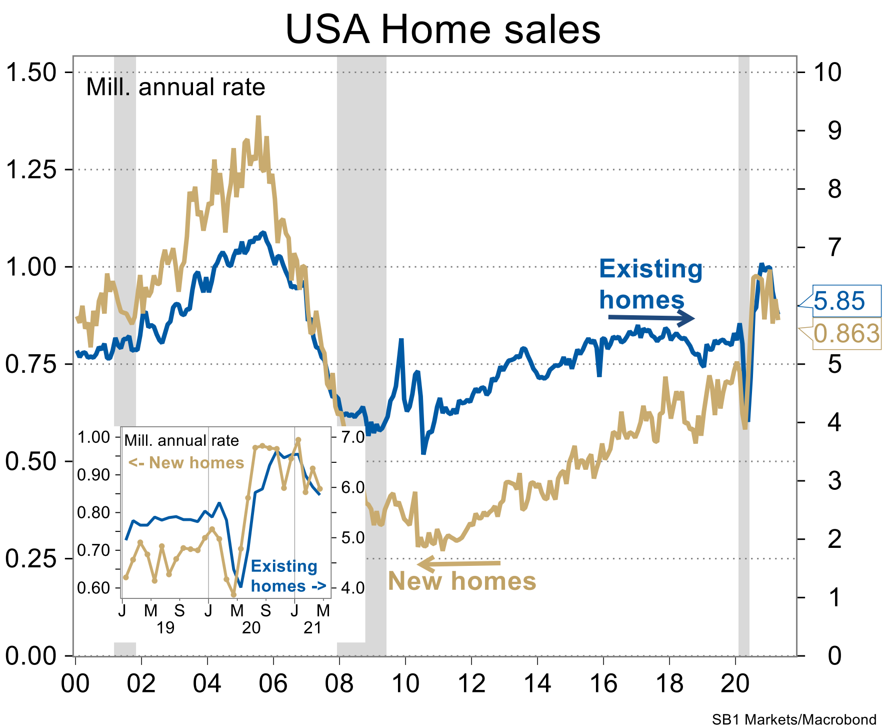



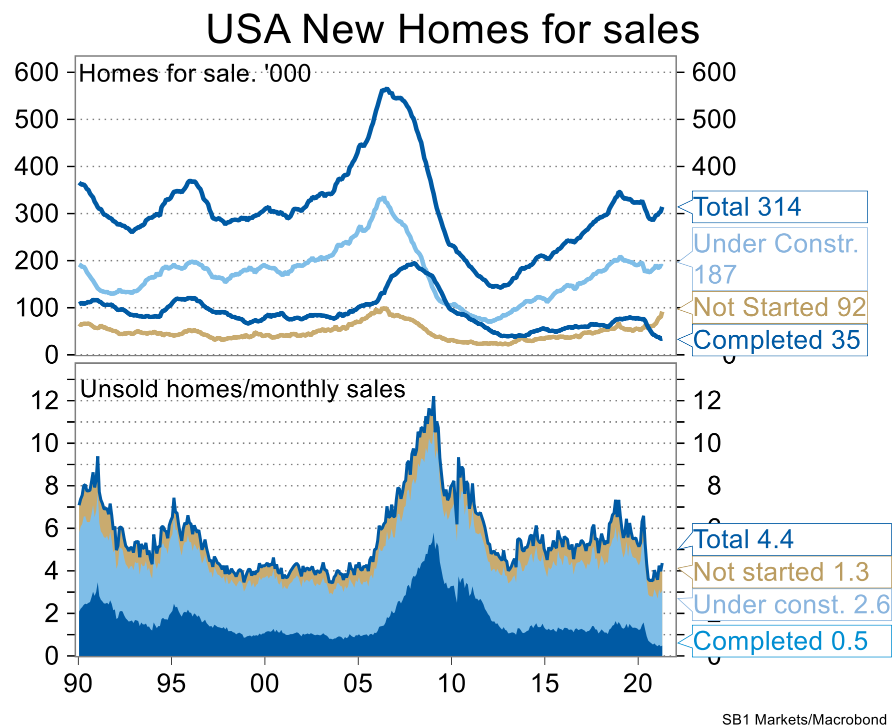




- When **unemployment falls below 6%,** corporate profits are exposed; at one stage the profit share will start to decline because wage earners will get the upper hand vs. employers. At least it has always happened in the past
  - » Before the corona crisis, the pre-tax profit share had fallen substantially since the 2015 peak, because unemployment was ‘too low’
- Taxes were cut substantially in 2018, equalling some 8% of corporate profits. Biden has pledged to reverse half of these cuts, say some 4% of profits, equalling 0.3% of GDP. A drop in the ocean vs. the huge structural budget deficit, of at least 8% of GDP

# New home sales 10% weaker than prev. reported/expected

## Too few completed homes to chose between? However, more projects are entering the market




- **New home sales** fell to 862' (annualised rate) in April, from 917' in March, revised down from 1.021', expected 950'. In sum 10% lower than previously reported/expected
  - » The inventory of unsold homes has increased somewhat the past 6 months but primarily because many projects that haven't started yet have been added, almost to the highest level ever, a sign that the supply side is responding the strong demand. The no. of completed homes for sales is still declining, and the level is extremely low
  - » Prices are up 7% – 8% y/y, not much given the increase in building costs
- Existing home sales have also fallen recently. The inventory of homes for sale is record low, and prices are surging

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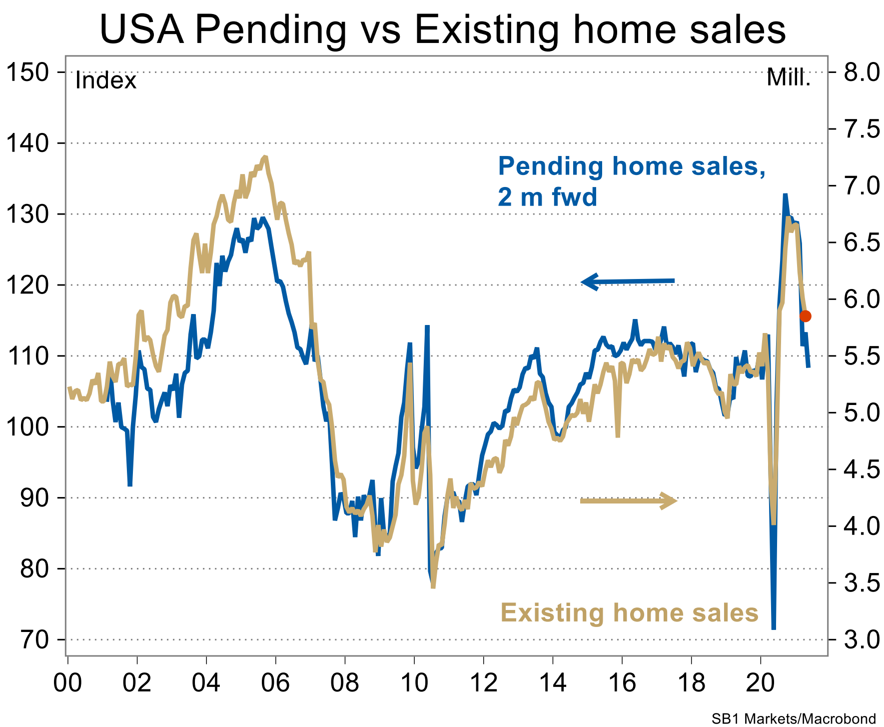
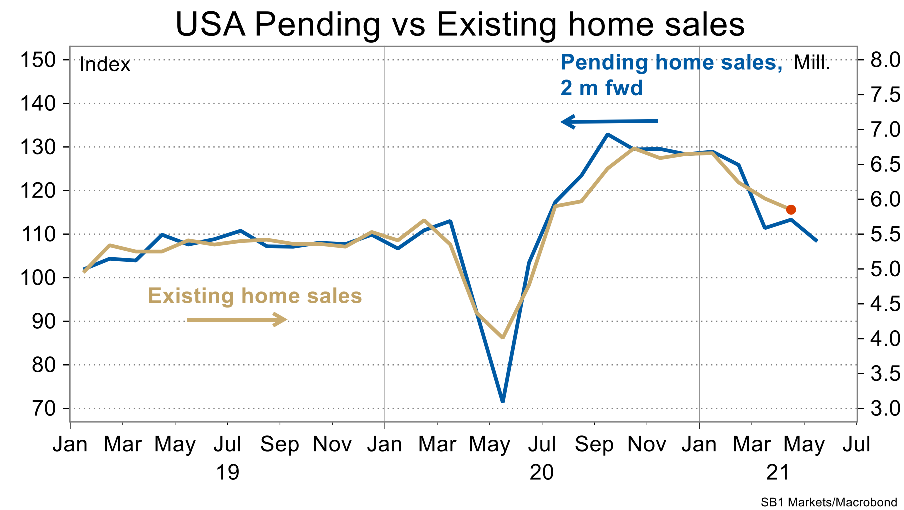
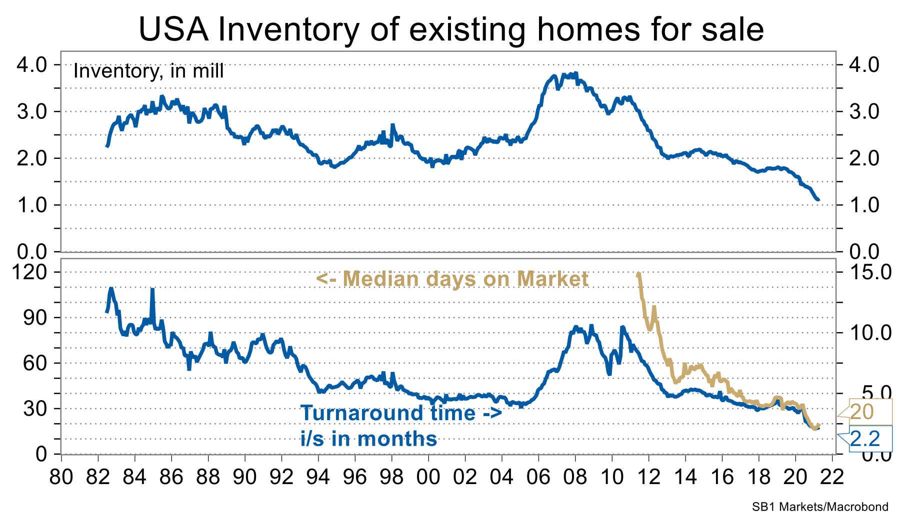
# Pending sales further down in April, back to the pre-pandemic level

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



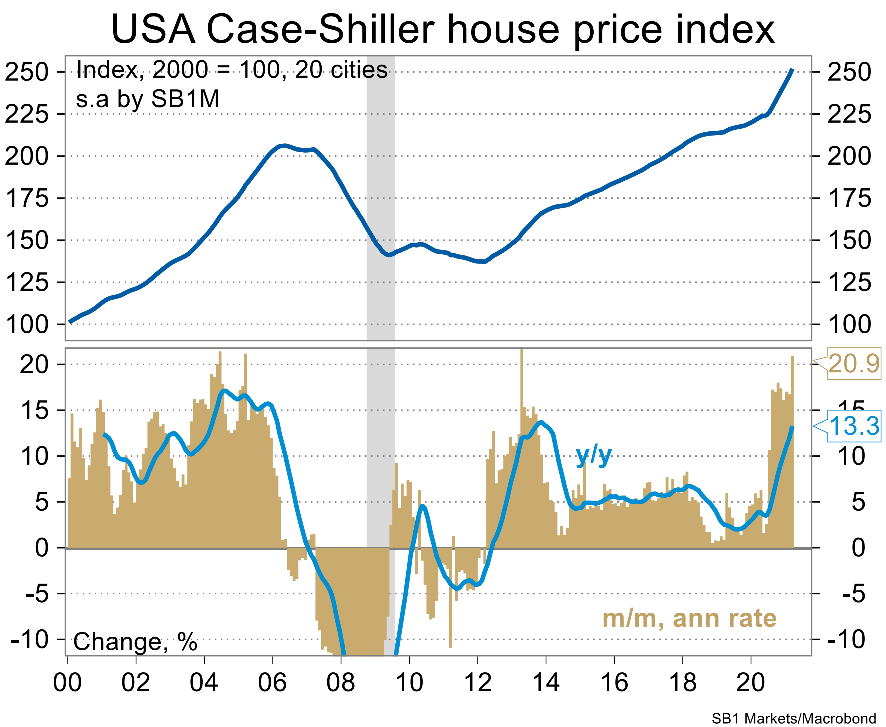



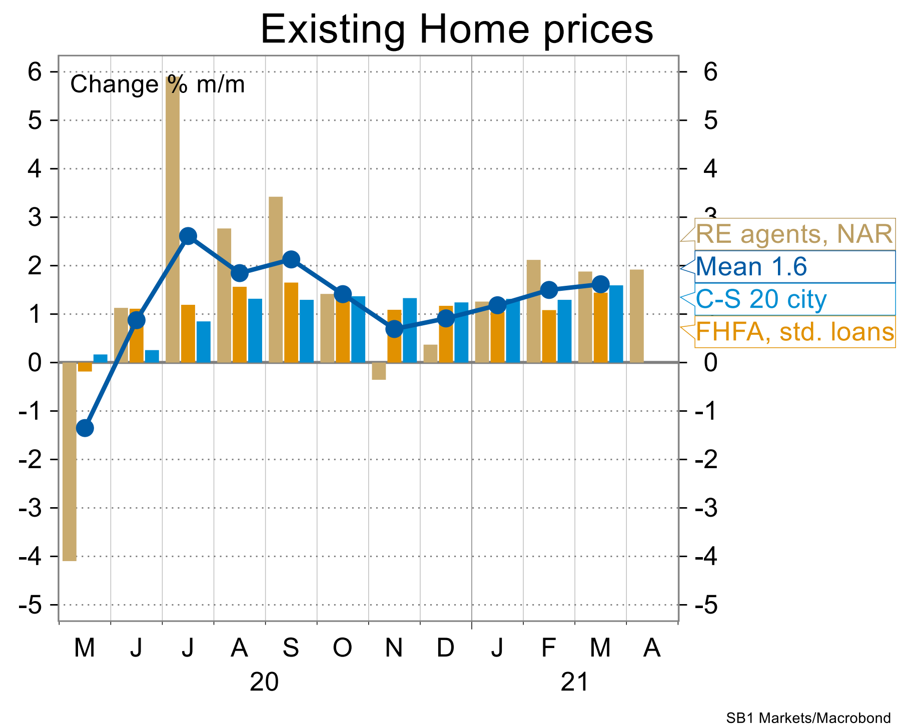

- Pending home sales fell by 4%, expected up 1%
- The no. of agreed transactions have fallen by 17% from the all time high level last September

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

# House prices climb even faster, Case-Shiller up 13.3% y/y

## Prices up 1.6% m/m (21% annualised), one of the highest on record – underlying pace 18%

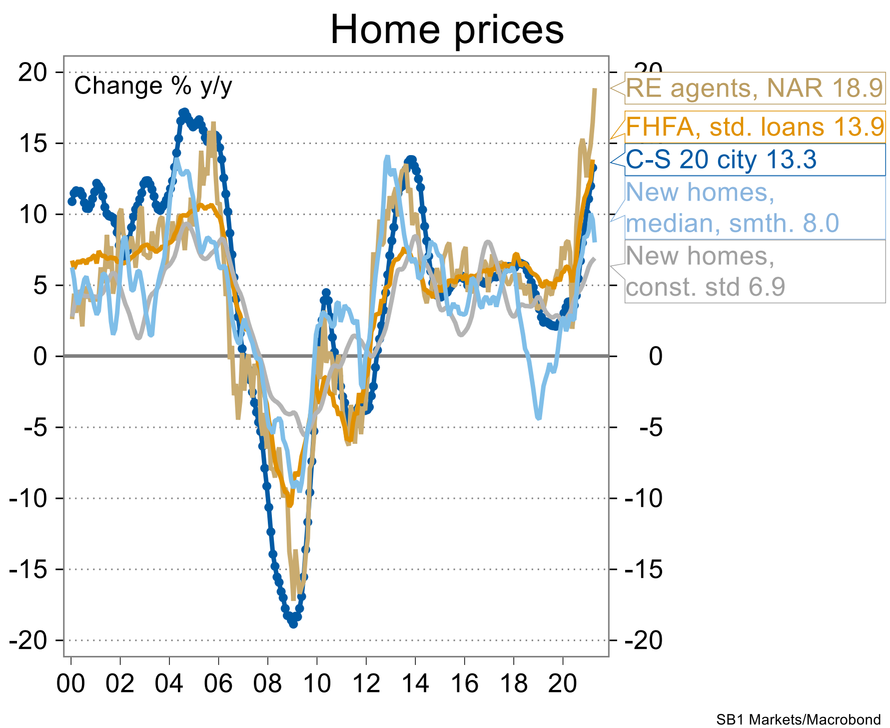


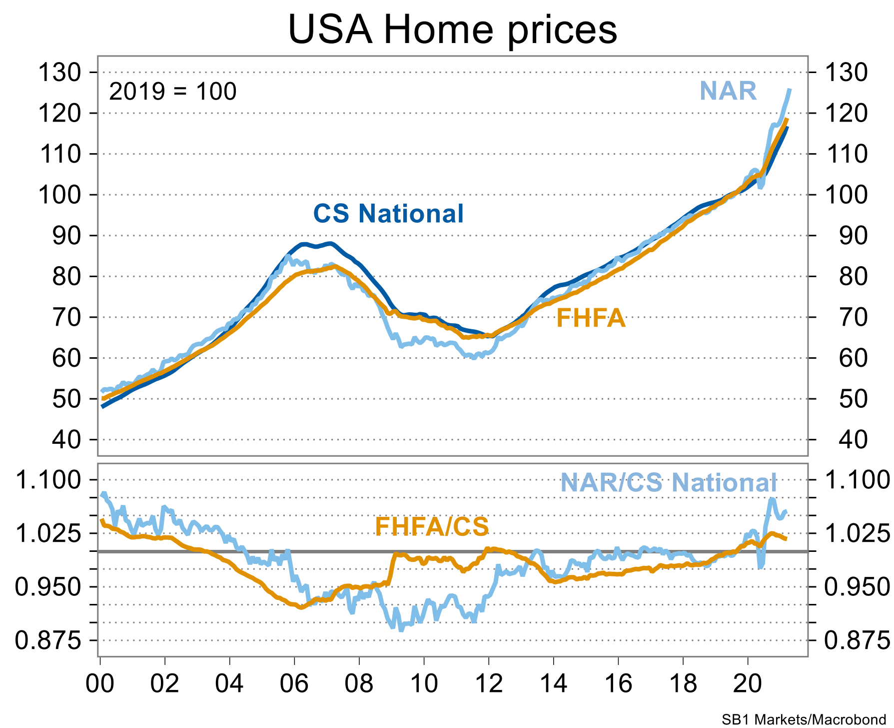




- **S&P's Case/Shiller's** price index rose 1.6% m/m in March (Feb-April 3 m moving avg), well above the growth rate the previous months, and above expectations (which have been far to low 7 of the past 8 months!)
  - » The 8-month pace at 18% is just marginally below the ATHs in 2004. A corona crisis was just what the housing market needed, at least the decline in mortgage rates was appreciated ☺. The annual growth rate climbed by 1.3 pp to 13.2%, as expected, still somewhat below the 2004/5 peak
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene"), has shot up too recent months, and quicker than anytime before. The annual rate at 13.9% is far higher than before the housing bust
- **Relators** reported almost 2% price growth in both February, March & April, and prices are 18.9% up y/y. In May, well north of 20% ☺

# New home prices are still lagging – but up 7% – 8% y/y

## National real prices back to the 2005/6 peak, still much lower vs. wages

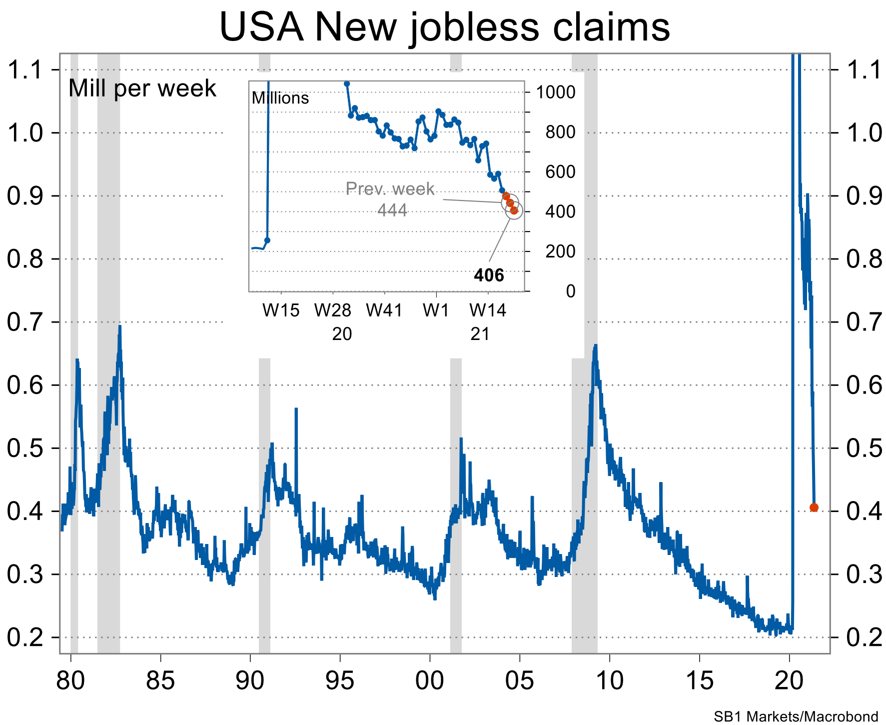


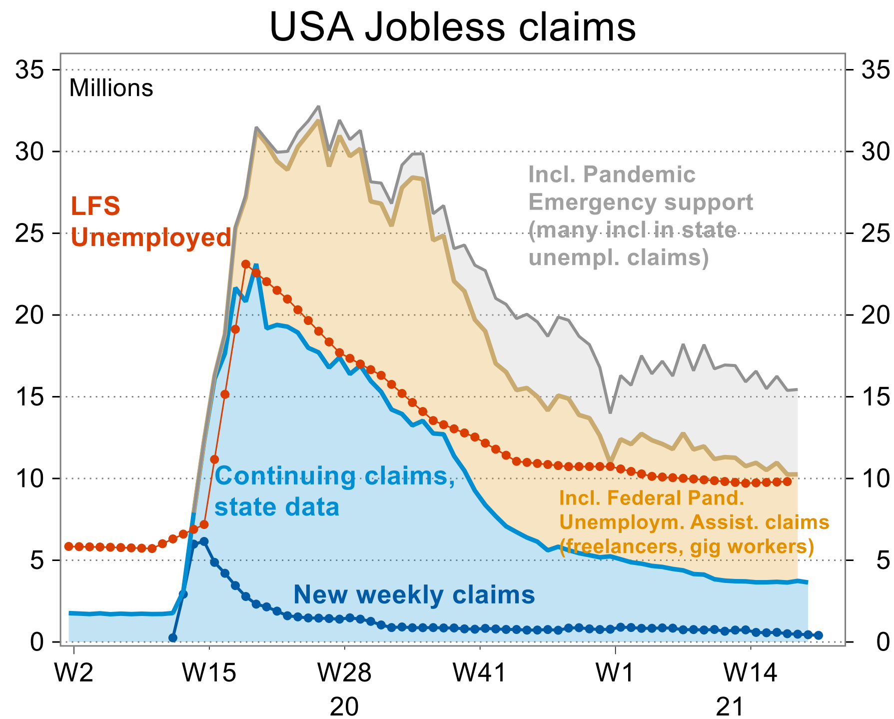




- **New home prices** are still not appreciating that fast, even if lumber and other raw material prices have soared
- **The realtor's (NAR)** median price for actual transactions may be somewhat distorted as the share of high-end homes transactions may has increased recent months. This index is more volatile and far less reliable than the repeated sales based Case-Shiller or FHFA indices (which though are smoothed by 3 months)
  - » However, both CS and FHFA are reporting close to unprecedented (or unprecedented) price hikes since last summer – and the annual rate will very likely climb further the coming months – to record highs, also for the CS index (FHFA is already at ATH)

# Jobless claims further down as economy opens up, but still a ways to go

## …and continuing claims were virtually unchanged

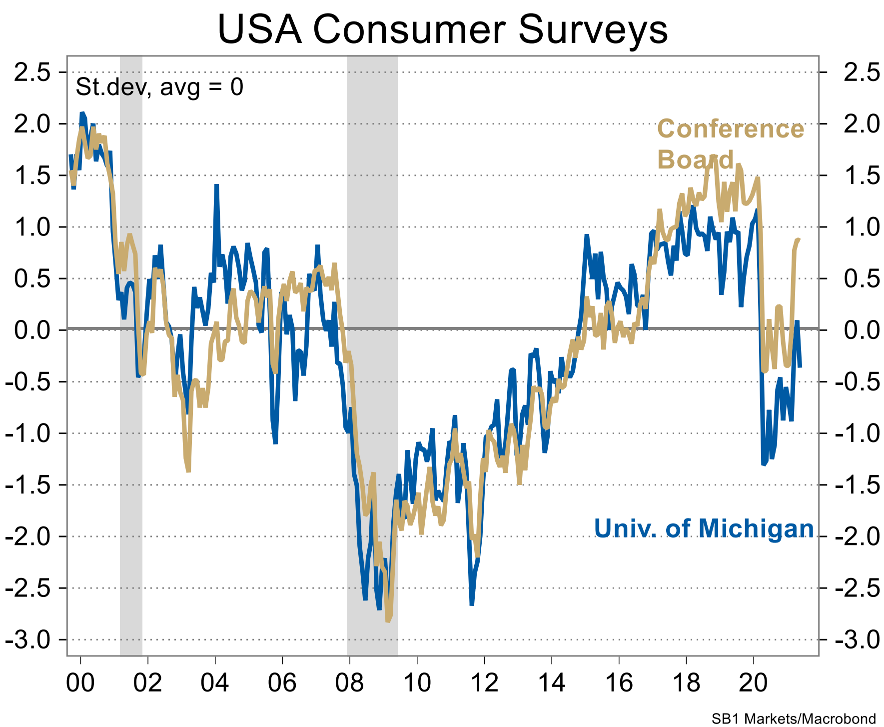


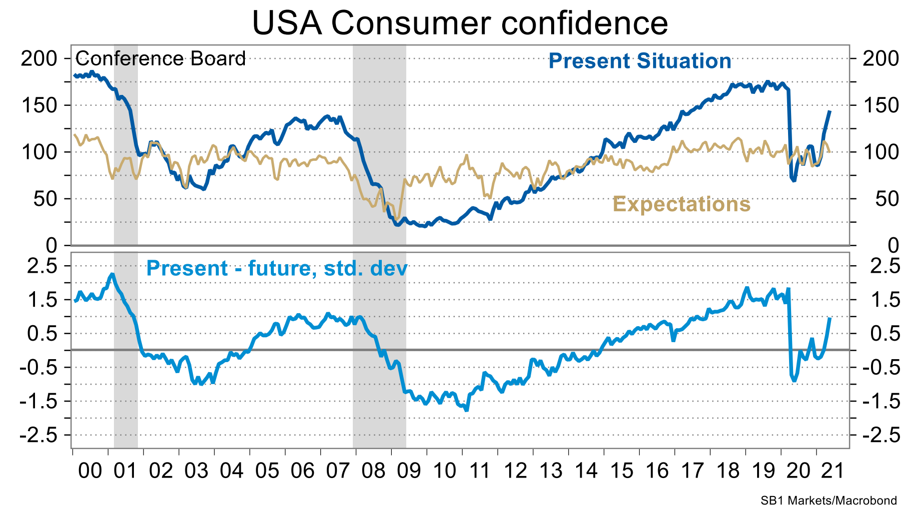

- **New claims** at 406'down from 478' (revised up from 444') the previous week, expected 425'. At the current speed (past 10 weeks), a low level of new weekly claims (200') will be <u>reached in just 7 weeks time</u>
- **Ordinary continuing claims** is trending slowly down as are the no. of receivers of the Pandemic Emergency Support Program (52 weeks instead of 26, and USD 300 extra/week) and the Pandemic Assistance Program (gig & freelancers). These programs runs until September
  - » However, 23 GOP led states have decided or are considering abolishing these programs immediately. If they do, a natural experiment: Will cuts in benefits increase labour supply – which is badly needed?

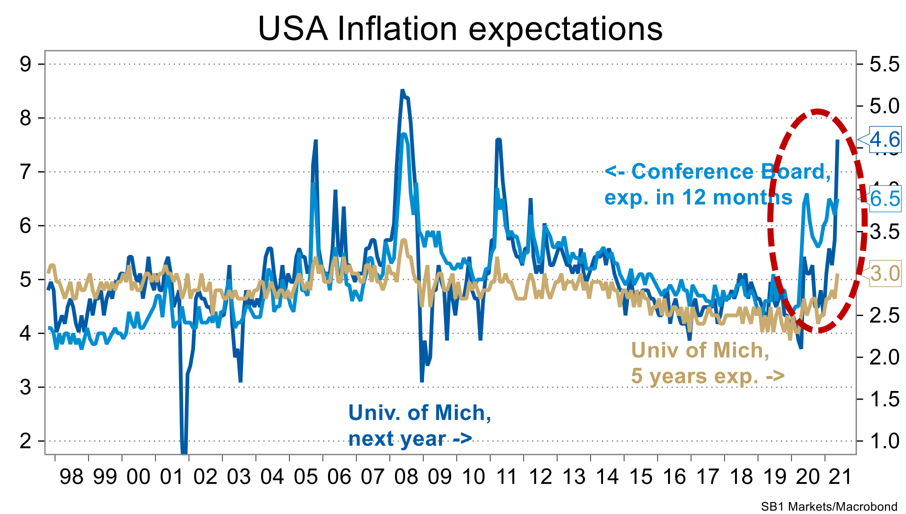
# Consumer confidence flattened/fell in May, still below pre-pandemic level

## House buying plans down but jobs are very easy to get. Inflation expectations are high



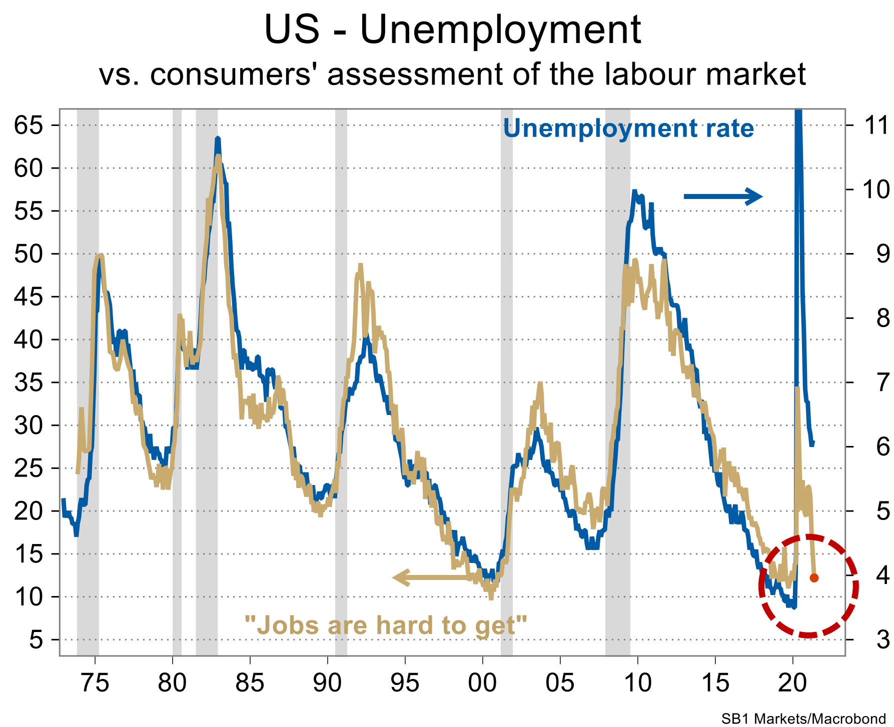

- **Conference Board's consumer confidence** index fell by 0.3 p in May to 117.2, 1 pp better than expected (adjusted for the new rebased series), <u>following the strongest 2-months surge in 50 years</u>. The level is 0.9 st.dev. above average but still well below the pre-pandemic level
  - » The assessment of the current situation rose further, while expectations fell – perhaps a reasonable reaction as the economic recovery now is well underway
  - » Inflation expectations rose in May, to a rather high level
- **The UM May sentiment index** was confirmed down 0.4 st. dev

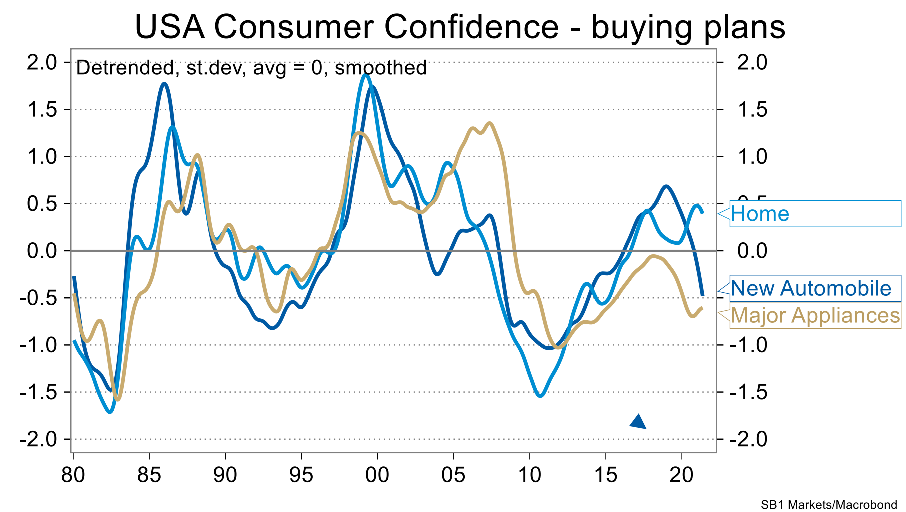


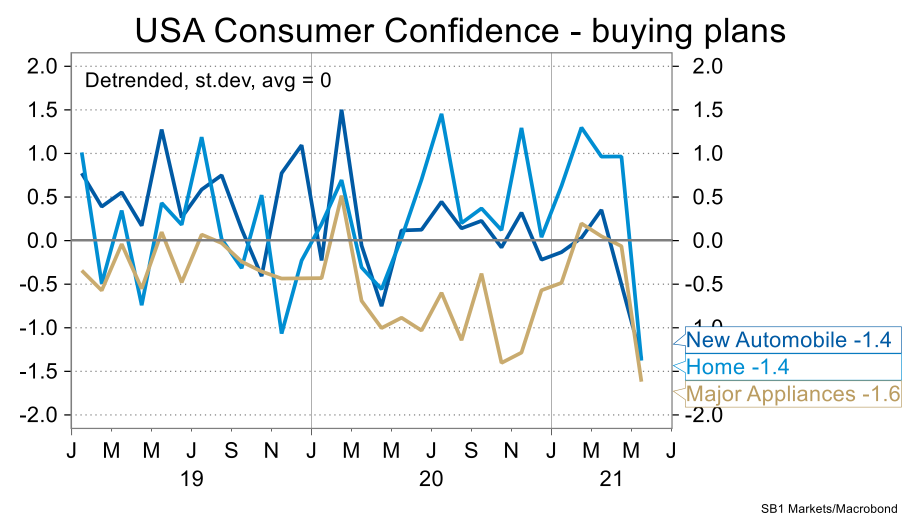



# It has almost never been easier to get a job, households say

As though the unemployment rate were 4%, not 6%. Still, buying plans weak in May



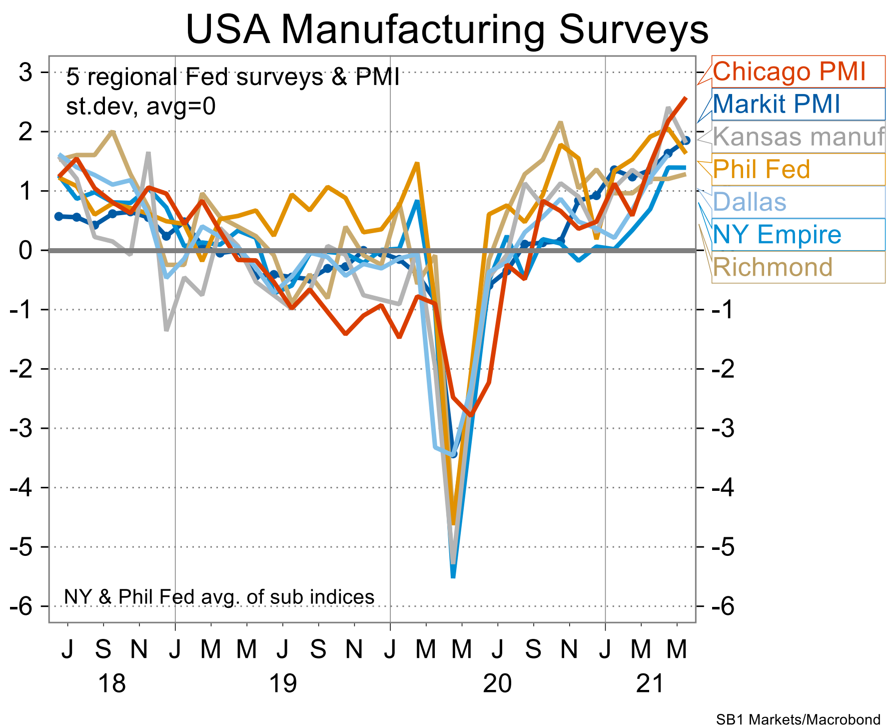



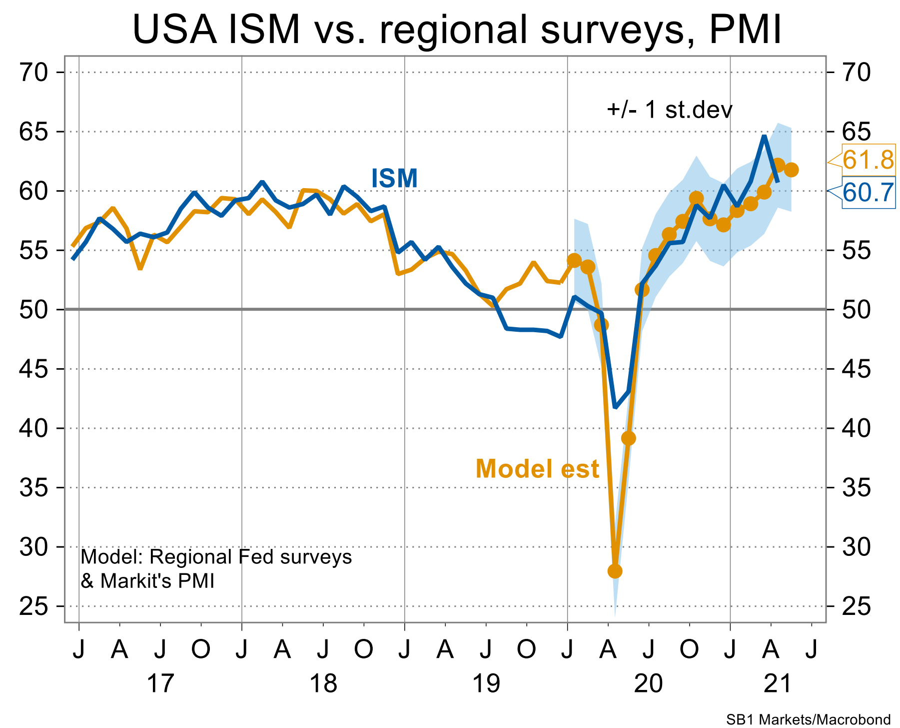

- Strange decline in plans for buying a new car, major appliances, and unusually few report they plan to buy a home. Too little on the market of both?? Or are households just planning to spend more on services?

*The long term trends in buying plans have been revised in the charts above*

# 2 regional manufacturing surveys down, 2 up & PMIs up

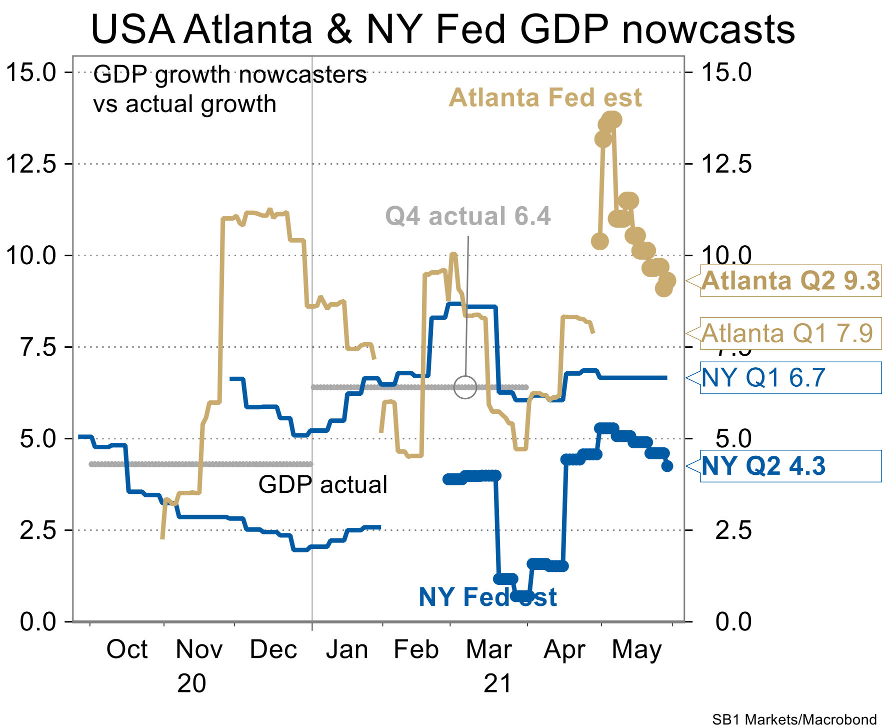
Anyway, the ISM will remain at an unusually elevated level

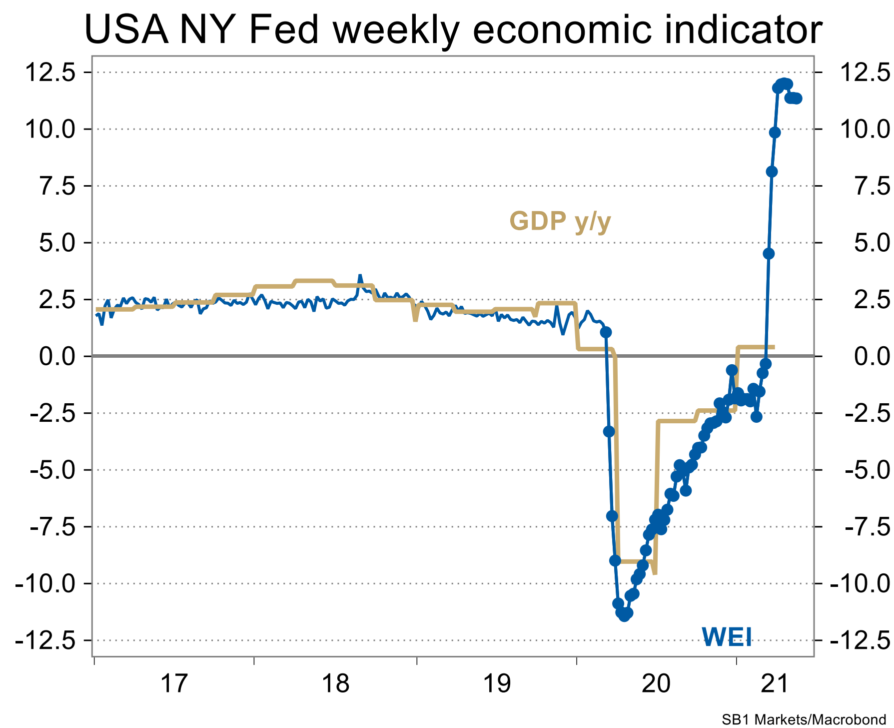


# The nowcasters signal 4% to … 9% GDP growth in Q2

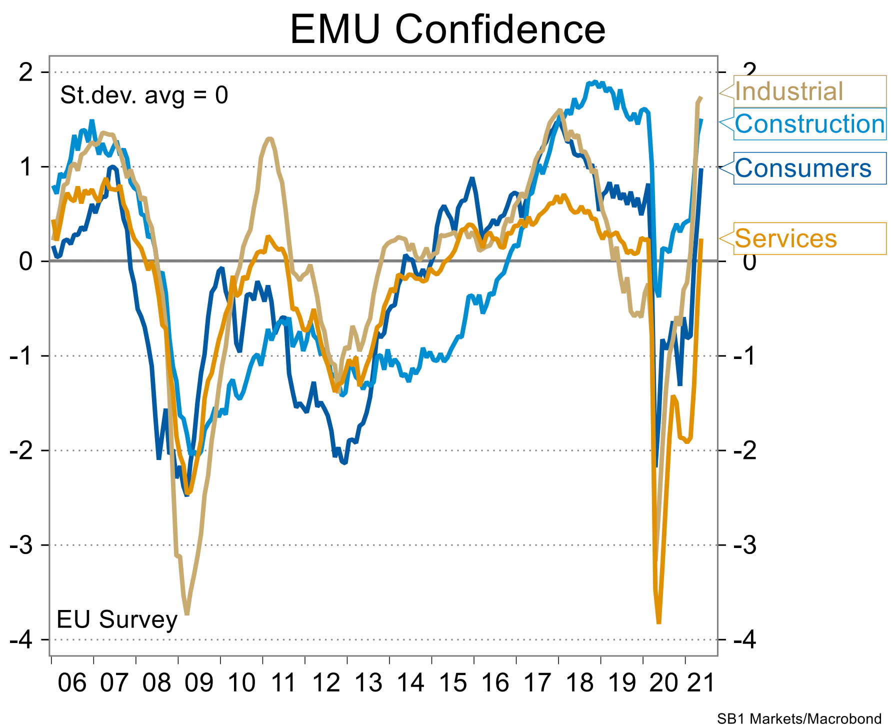
Growth estimates are sliding down but are on average still at an elevated level

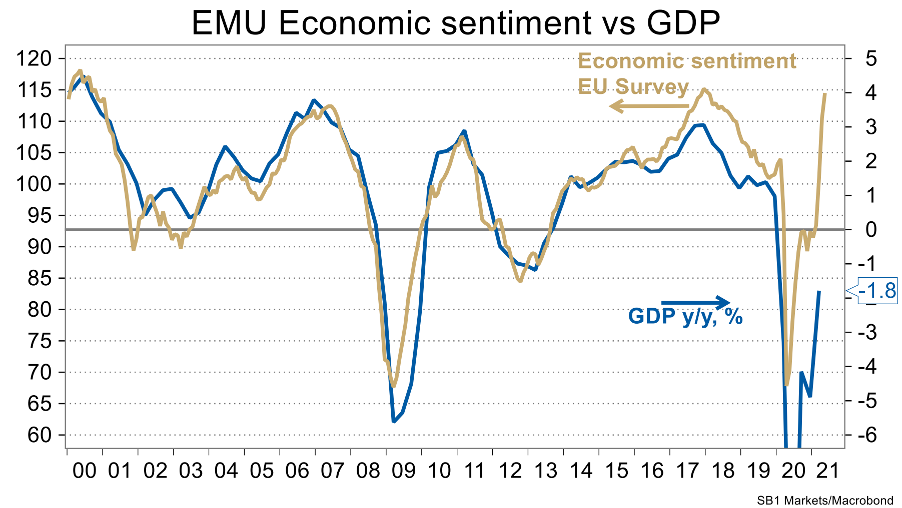


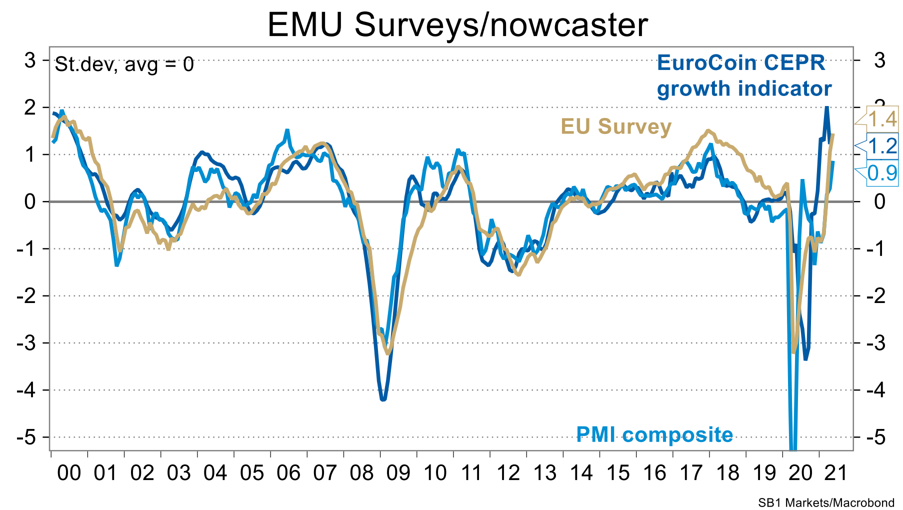



# Economic sentiment surprised on the upside for the 3rd month

## … and just as important: sentiment improved in all sectors, signalling some 4% GDP growth



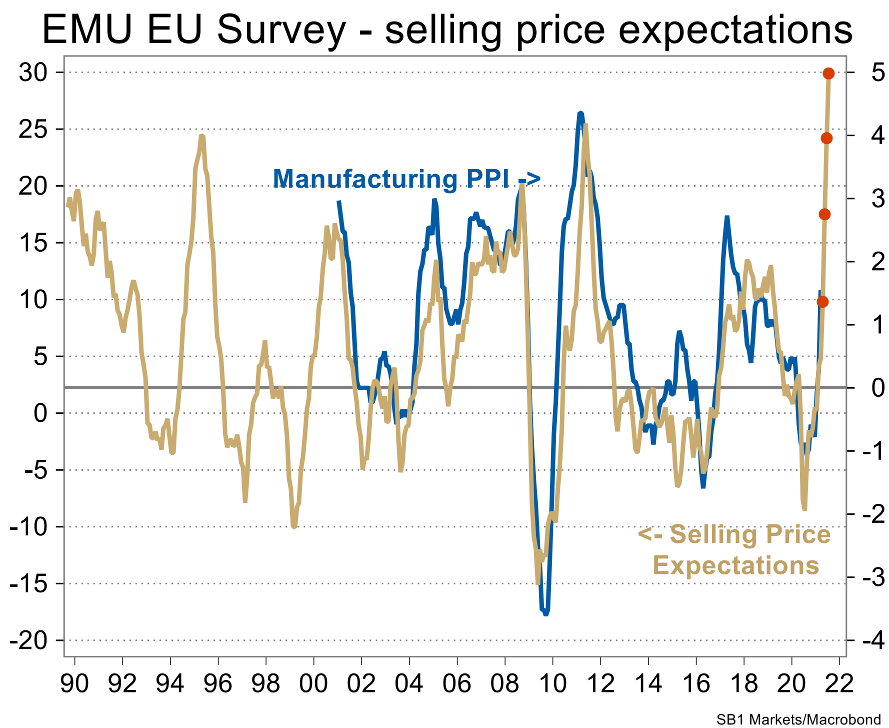




- EU's confidence survey for the Euro area rose to 114.5 in May from 110.5 in April, expected up to 112.1!
  - » The **main index** is 1.4 st.dev above average, signalling roughly 4% GDP growth
  - » **All sectors** are now signalling above average growth, even manufacturing. Manuf. is at all time high
  - » **Consumer confidence** is surging, even in the times of covid & continued restrictions. Although, some restrictions were indeed eased in May
  - » This survey has been useless to calibrate quarterly (q/q) growth rates during the pandemic. The same goes for most other surveys (like the PMI/ISMs). Still, when all now are surging, no doubt a positive signal

# EMU companies are reporting the highest selling price expectations ever

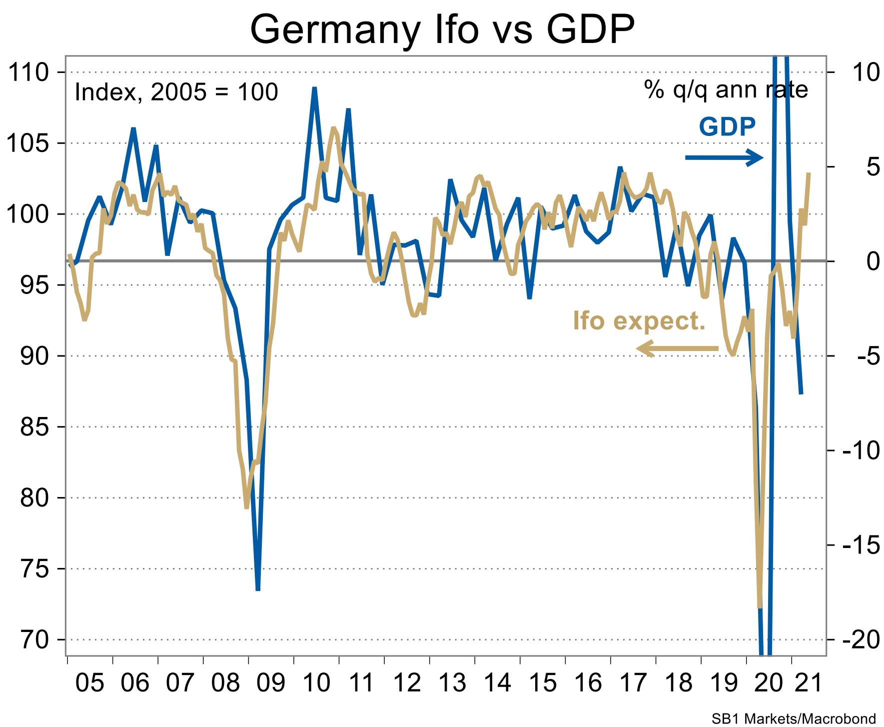
And the total PPI is expected up 7.3% in April, from 4.3% in March




- The **manufacturing PPI** was up 1.5% y/y in March, and will very likely climb further in April

# German business managers even more optimistic in May, services up to average

… and others well above. The Ifo expectation index rose 3.7p to 102.9, expected up to 101.4

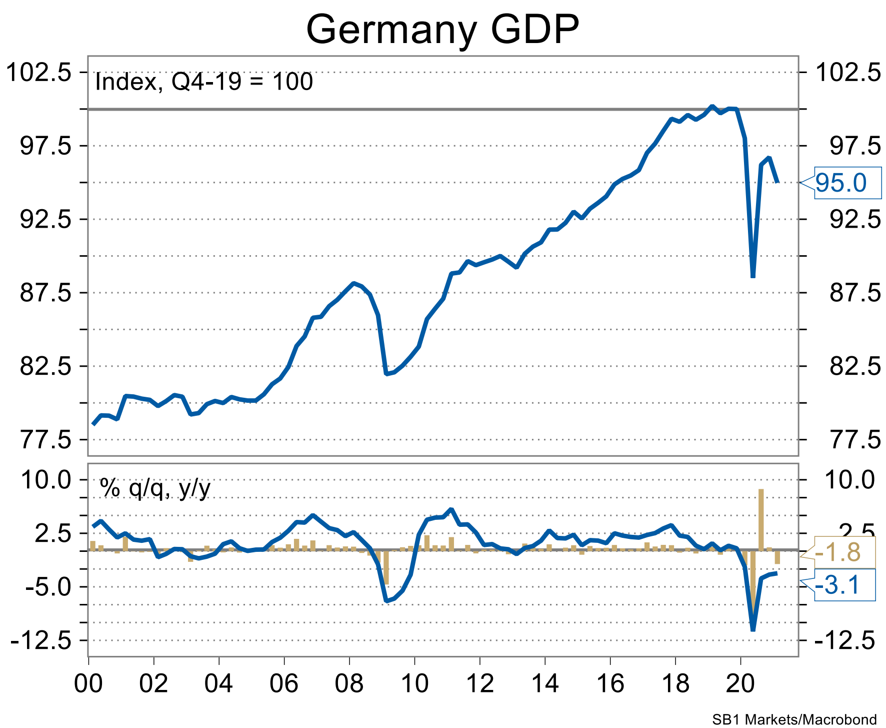


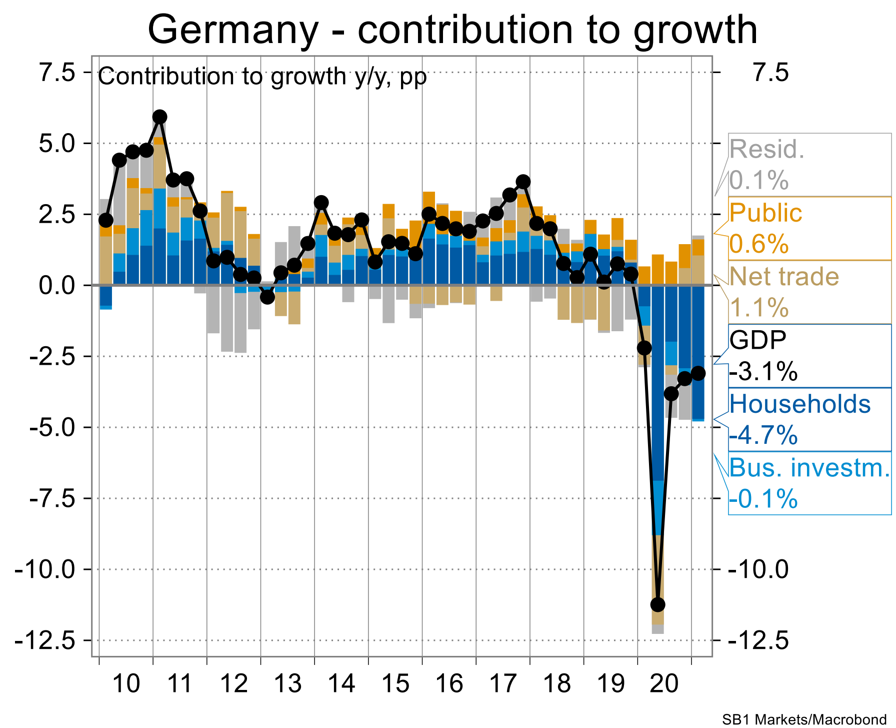


- In May, the **expectations index** was 1.1 st.dev above average level, up from +0.4 in April
- The assessment of the **current situation** rose to 95.7, up from 94.2 the previous month. Now, 0.2 st.dev above average
- **Manufacturing** business climate (average of current situation & expectation) is at the highest level since May '18. All of the sector indices were up in May, however, the **service sector index** is still below average
- **All other German surveys** have climbed rapidly up recent months – and all are above average. They signal some 4.6% GDP growth rate

# German GDP down 1.8% q/q in Q1, a tad more than initially estimated

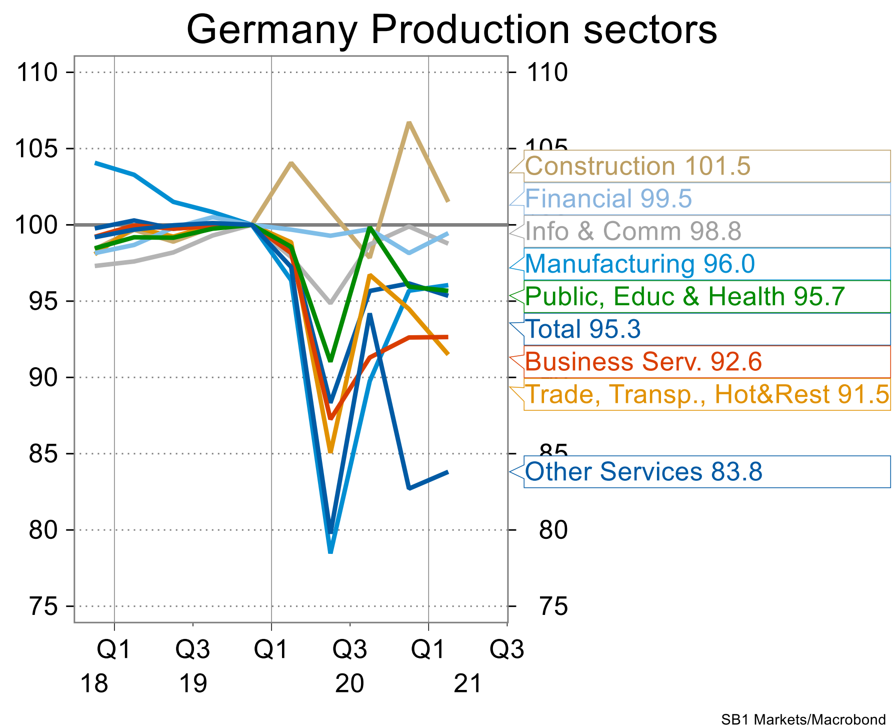
GDP is down 5% vs. Q4-19. But that's history now. Some other figures are expected in Q2, Q3



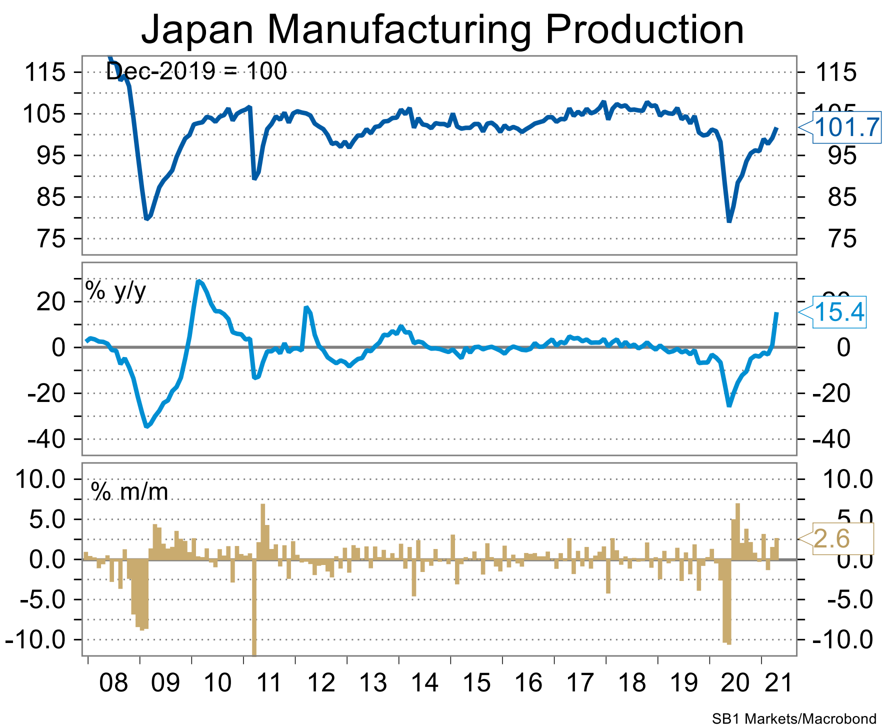

- Net trade was positive y/y in Q1, as was public demand
- Business investments were flat
- Household demand collapsed, contributed almost 5 pp on the downside – as spending on services had to be but cut back

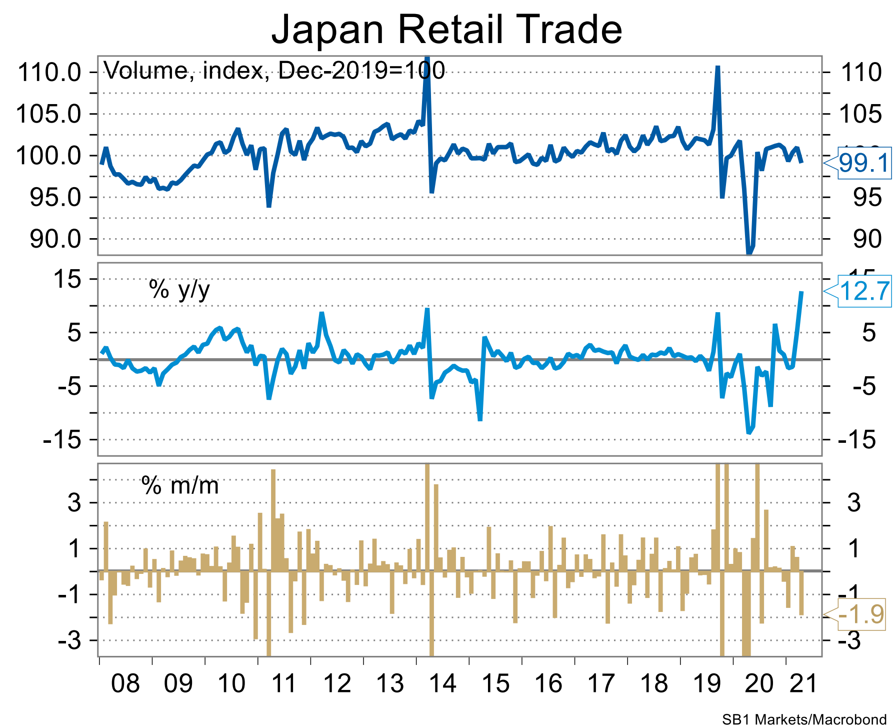
# Services have taken the hardest hits, in Germany as everywhere



# Manuf. production up 2.6% in April, is 1.7% above (a low) pre-pandemic level

Still, production was weaker than expected. Retail sales fell by 1.9%, and are 1% below, close to exp.

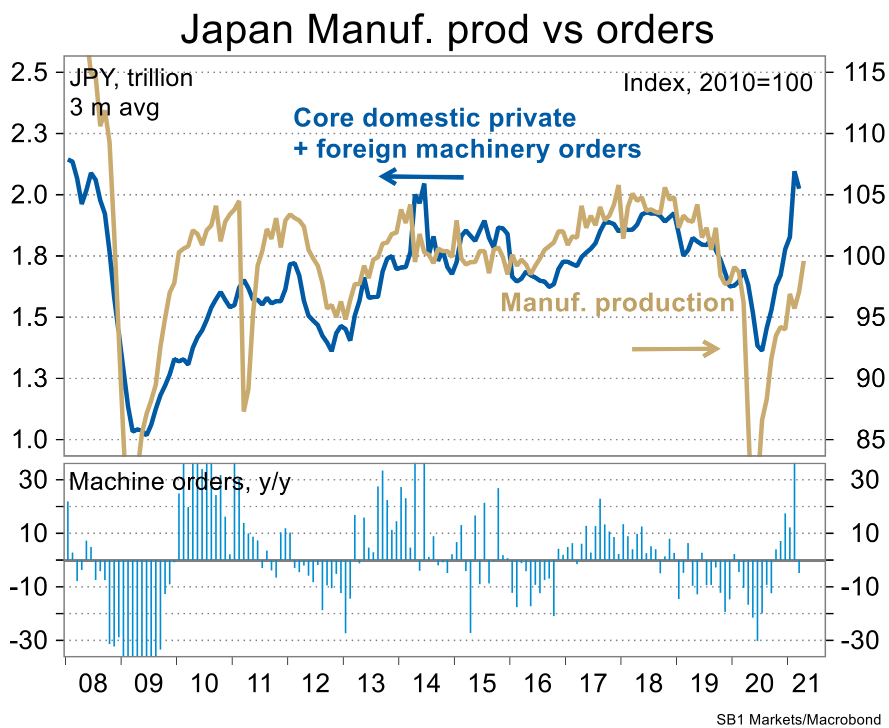


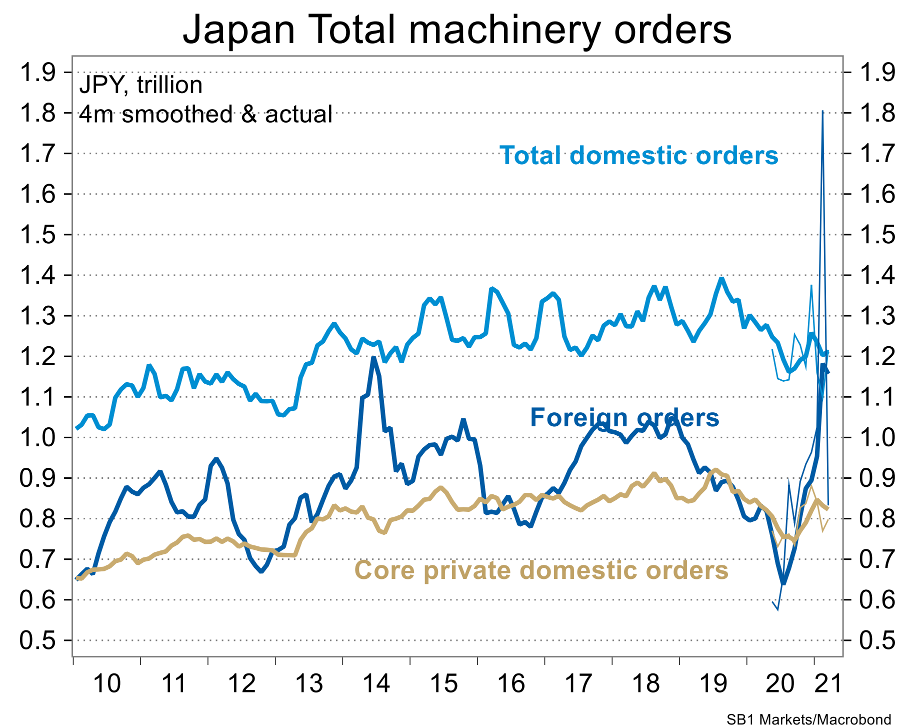




- **Manufacturing production** has recovered substantially, even if surveys are still weak
  - » The increase in production in April was smaller than expected. Companies report that they plan to increase production by 5% in May
  - » **Order inflow from abroad** has strengthened substantially recent months (but a 80% lift in foreign orders in Feb is an obvious outlier)
- **Retail sales fell by 1.9%** (our calculation, official data states says -4% nominally), expected down 1.7%. Sales are almost 1% below the Dec-19 level – which is a low bar, given the decline in sales in Q4-19, following the VAT hike in Oct-19

# Manufacturing orders are surging – production will follow suit?

Foreign orders were surging, even before the Feb lift (and the Feb + Mar average is strong too)




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

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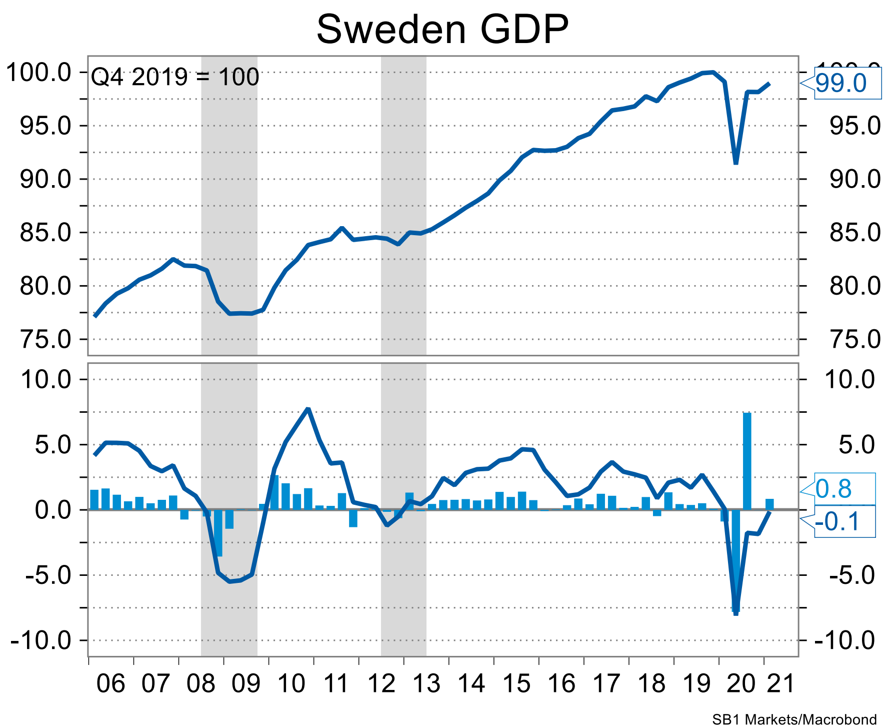
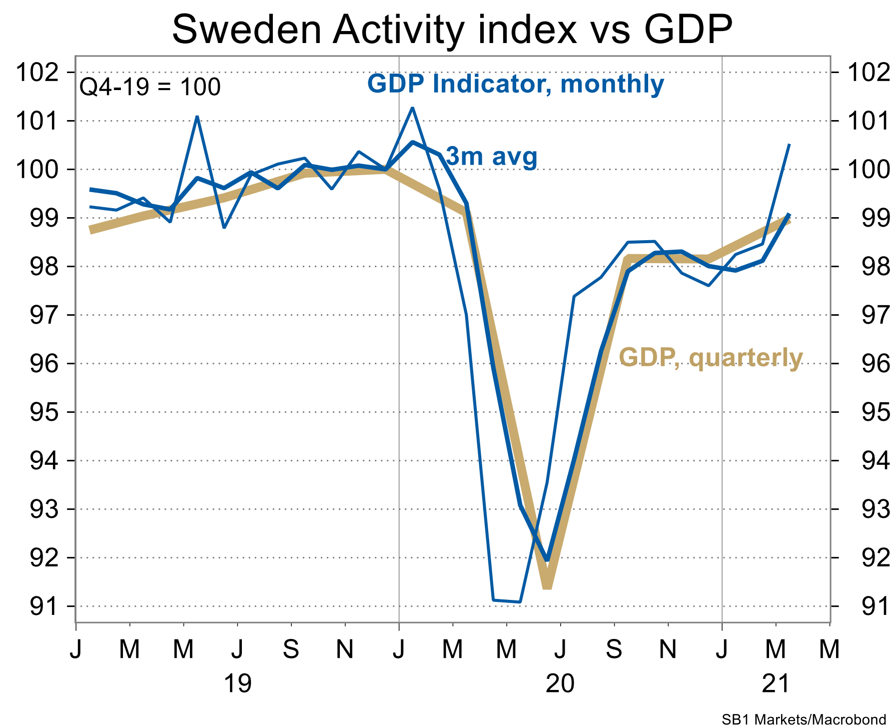
# Swedish GDP grew by 0.8% in Q1 – lower than first reported/expected, still strong

GDP was 1% below the pre-pandemic level in Q1 – but March alone was 0.5% above

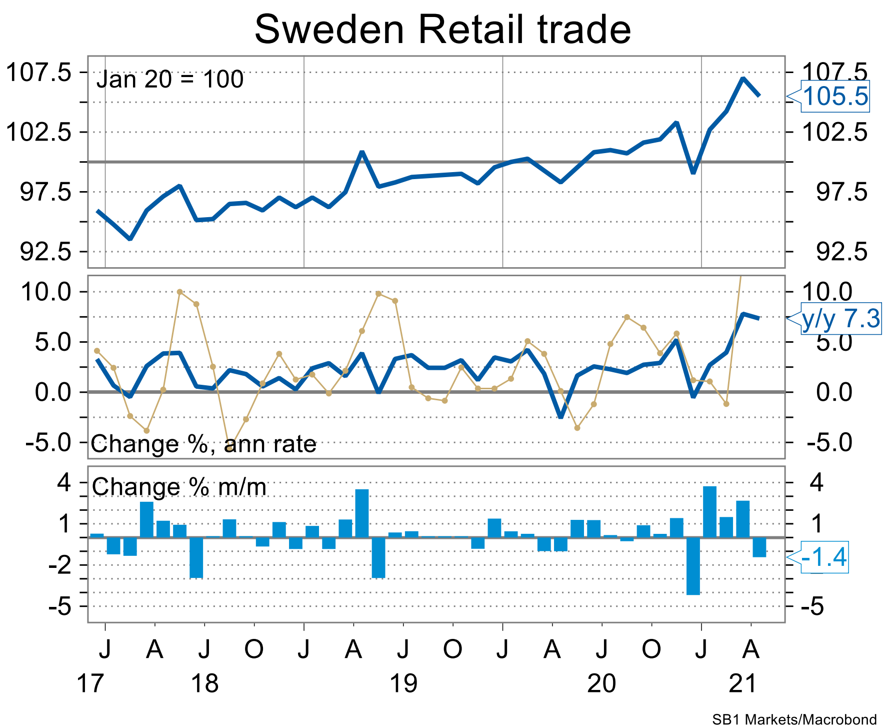


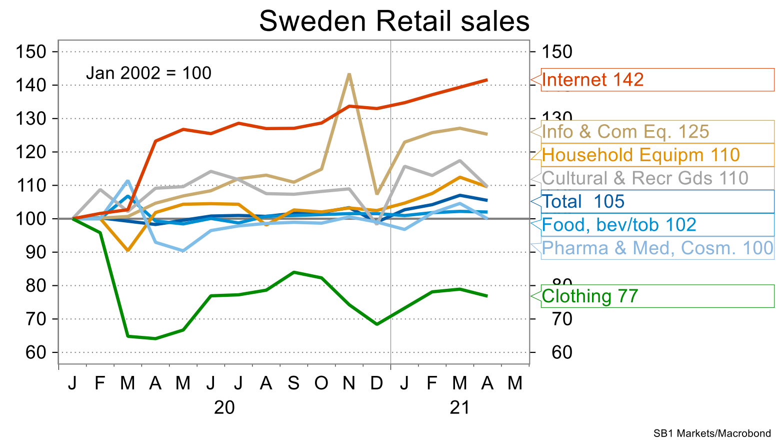



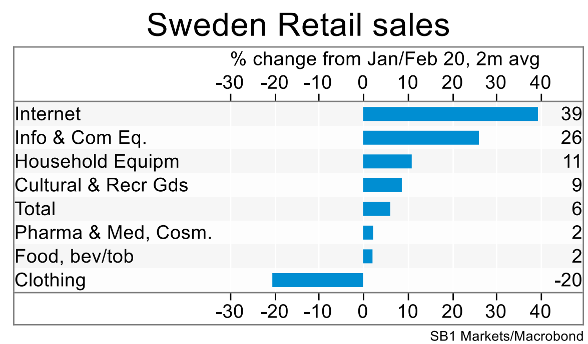

- **Q1 GDP** grew by 0.8%, below expectations at 1.1%. We did think the March figure at +2.1% growth m/m was a bit at the high end. Still, the current data signals upside risk to the Riksbank's upward revised 2021 growth forecast

# Retail sales down by 1.4% in April, still strong – up 5.5% vs pre pandemic

Sales were expected down 1%, following a 2.7% lift in March



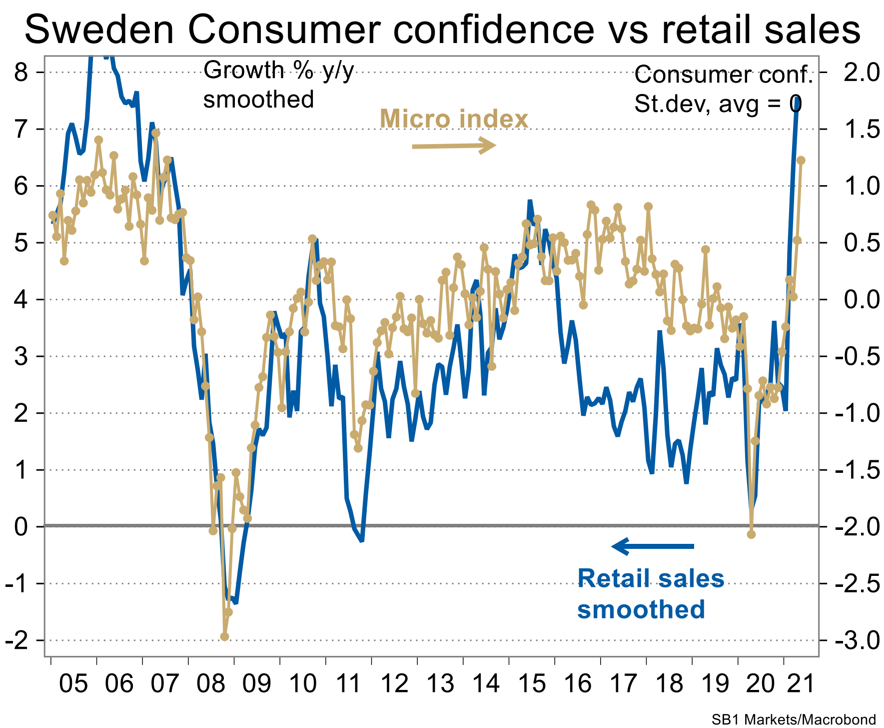



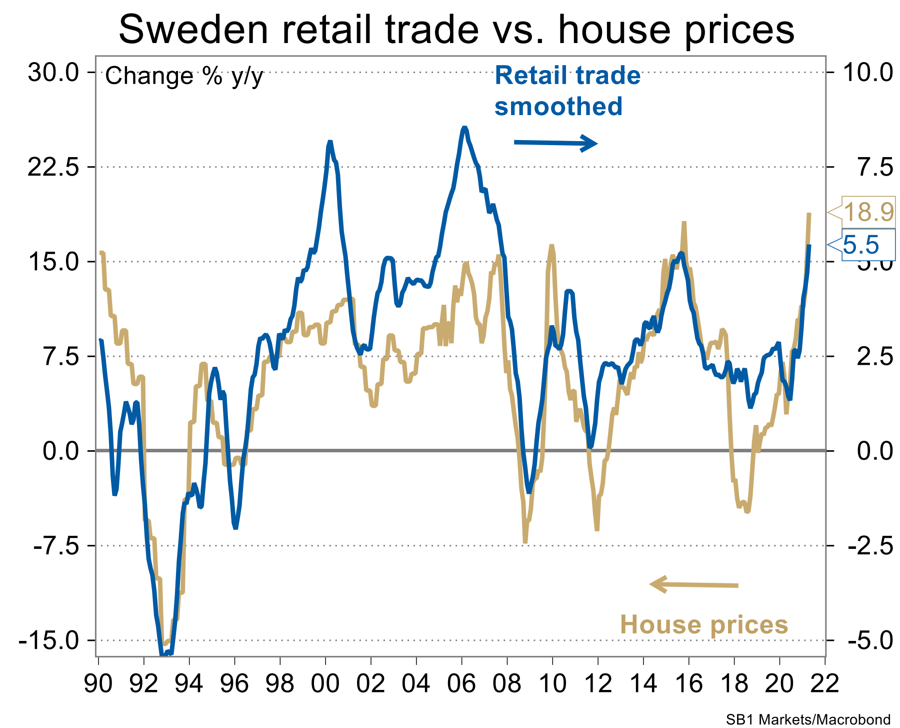




- Huge sectoral differences. Clothing still down 20 % vs Jan/Feb last year. Internet sales up 39% (here like in many other countries), info/communication +26%. Food sales are close to flat, which is strange, given far less activity at restaurants (and Norwegians do not normally buy that much in Sweden, do we??)
- As for Norway and several other countries: We expect retail sales in Sweden fall further and to return to a long term trend path over the coming months (and quarters) as spending on services (and abroad) normalises

# Consumer confidence up in May, best since 2007!

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

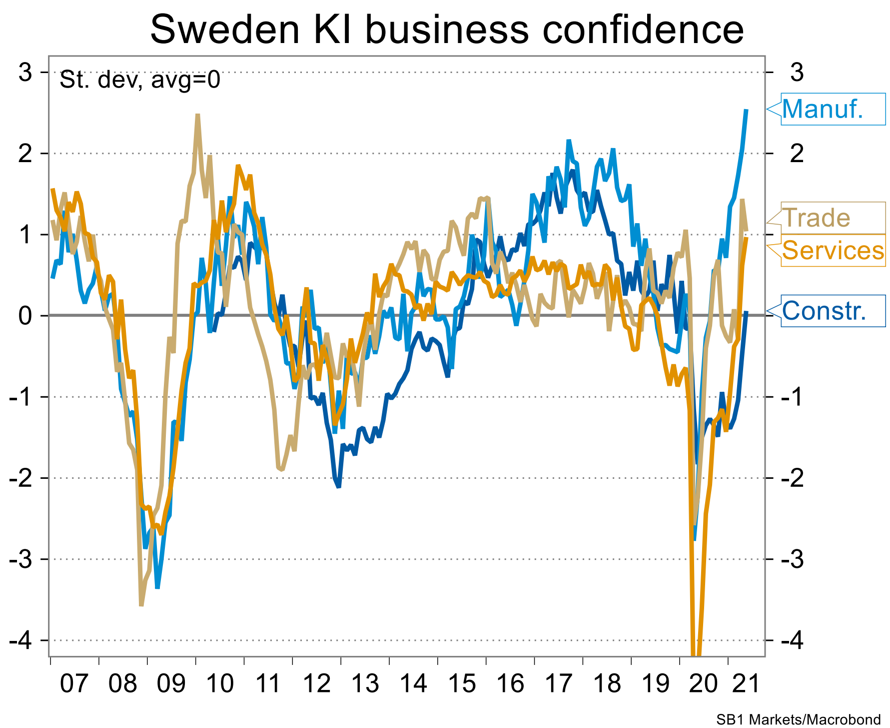


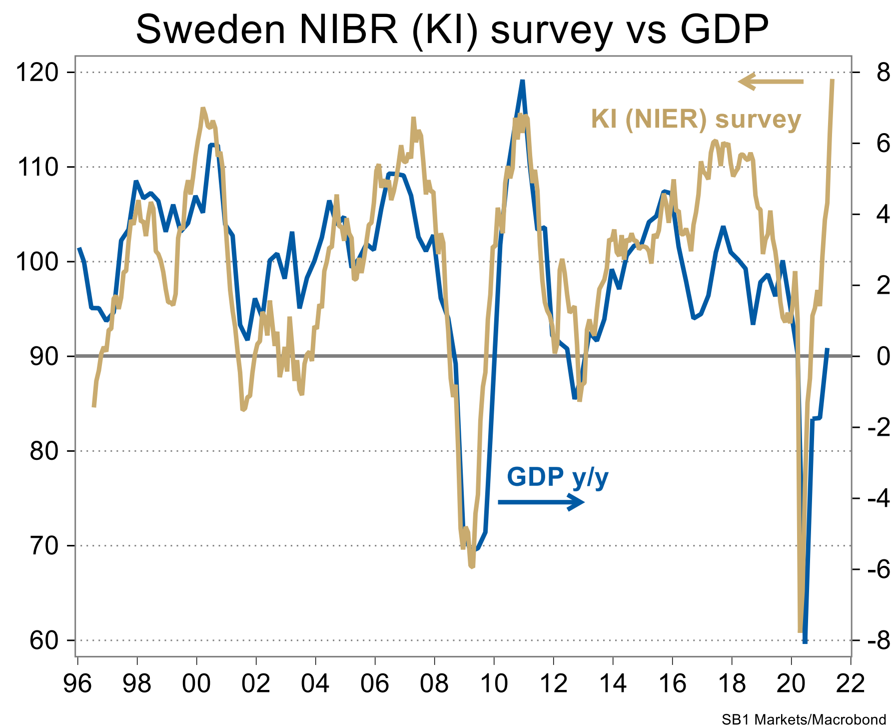




- The **total consumer confidence** index climbed to 112.3 in May from 103.6 in April, expected up to 104.3. Both the **macro and the micro index** rose contributed
- **Confidence** has more than recovered, alongside retail sales - and a booming housing market signals that households are not worried for anything at all
- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened. So no reason the expect Swedes to stop spending now

# KI business survey takes off in May, best ever!!!

…signalling close to 8% GDP growth!

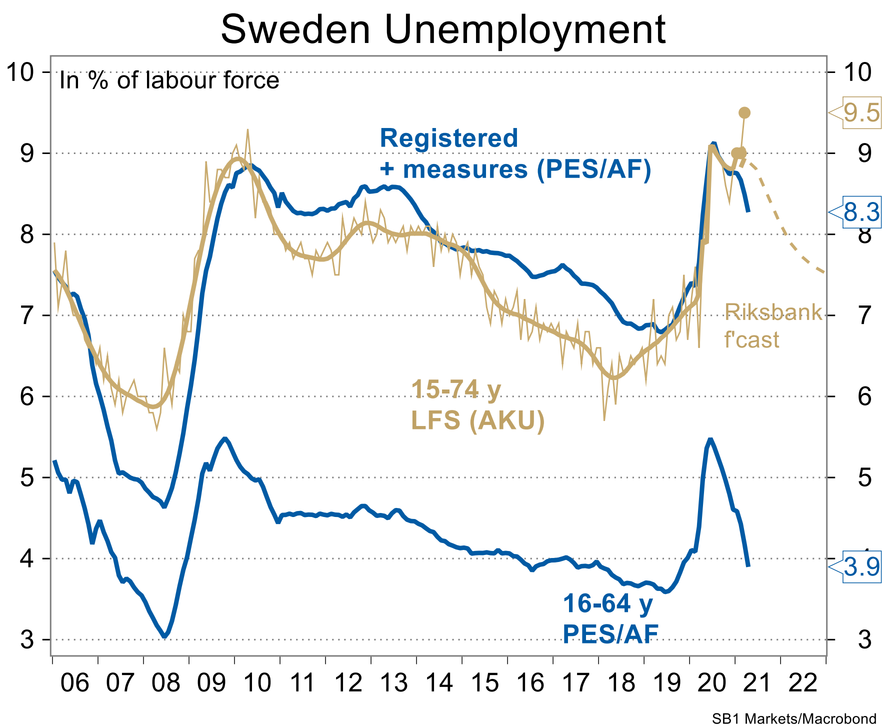


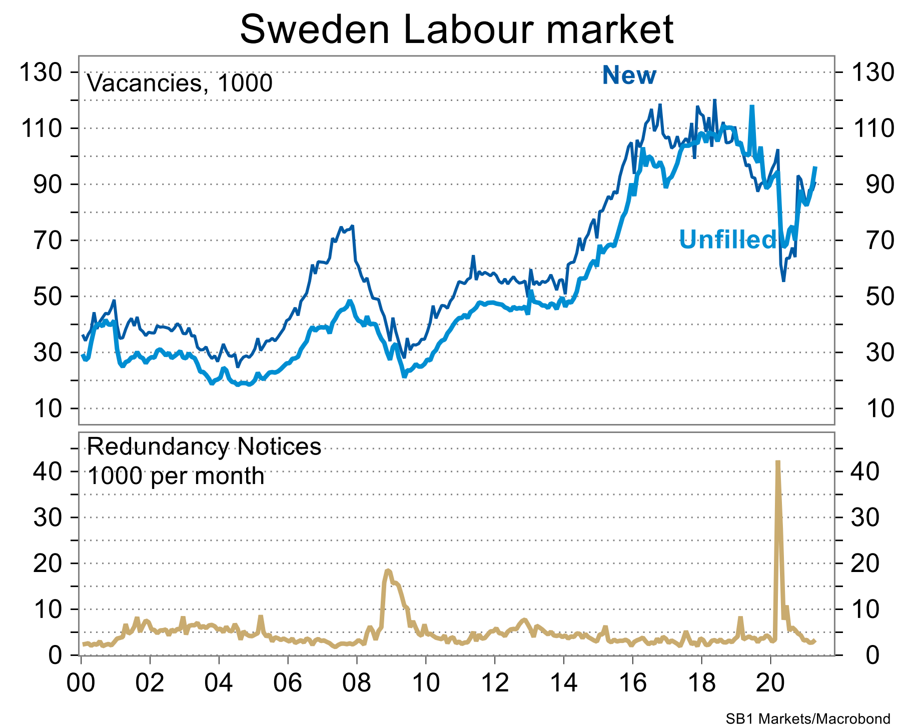




- **The composite index** rose to 119.3 in May from 113.5 in April, up to the highest level in the 23 year history of this index. The survey signals a very rapid growth in GDP
- **3 out of 4 sub-sectors** contributed to the lift. Even **services** now reports growth in activity above average. Take-off among **manufacturers**, while the **retail sector** confidence fell . **Construction** is also signalling growth at or above average
- Still the **Riksbank** is concerned about the impact of the corona crisis, and buys large quantities of government bonds, and thinks it will keep the policy rate at zero forever. At least until Q2-24

# LFS unemployment up in April. Perhaps. However, vacancies <u>are</u> on the way up

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



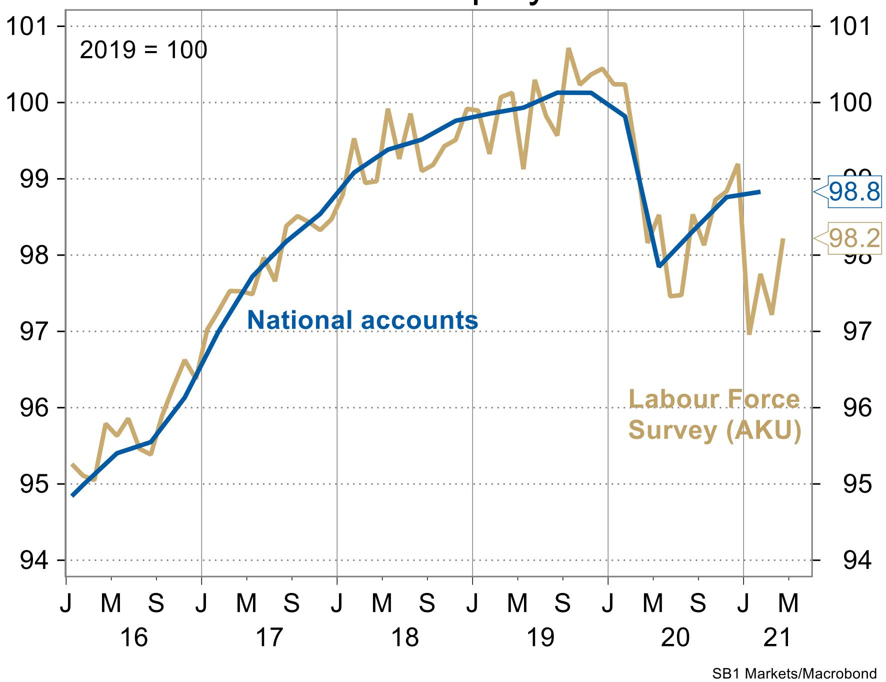




- The seasonally adjusted **LFS unemployment rate** rose 0.5 p to 9.0% - probably. The whole LFS apparatus is revised (EU standards) and the old and new method is not yet directly comparable in Sweden. SSB in Norway seems to have done a better job making now and old data comparable
- **Registered unemployment** has inched down and currently stands at 3.9%. Incl. labour market measures, unemployment has fallen somewhat less, and is at 8.3%, 0.1 pp higher than a year ago
- The number of **new and unfilled vacancies** increased, and **layoffs** were up in April

# Employment/hours worked are on the way back, still below par

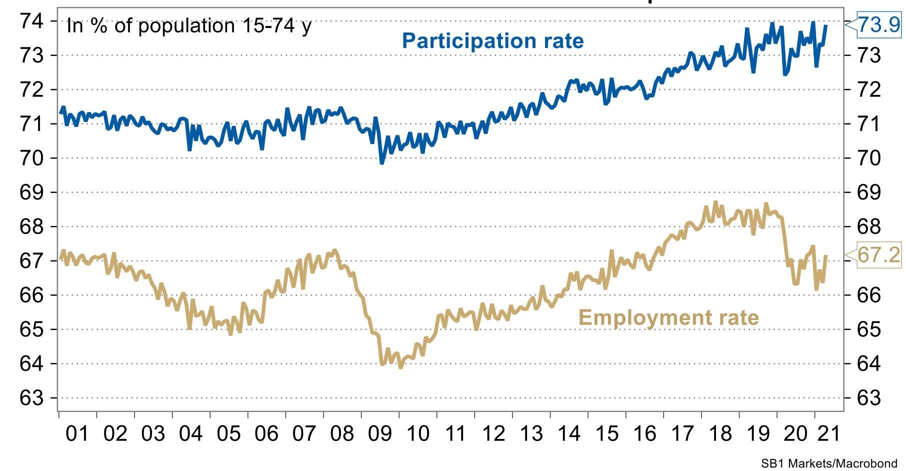
The National accounts are no doubt the best data source, based on much more input than the LFS

Sweden Employment

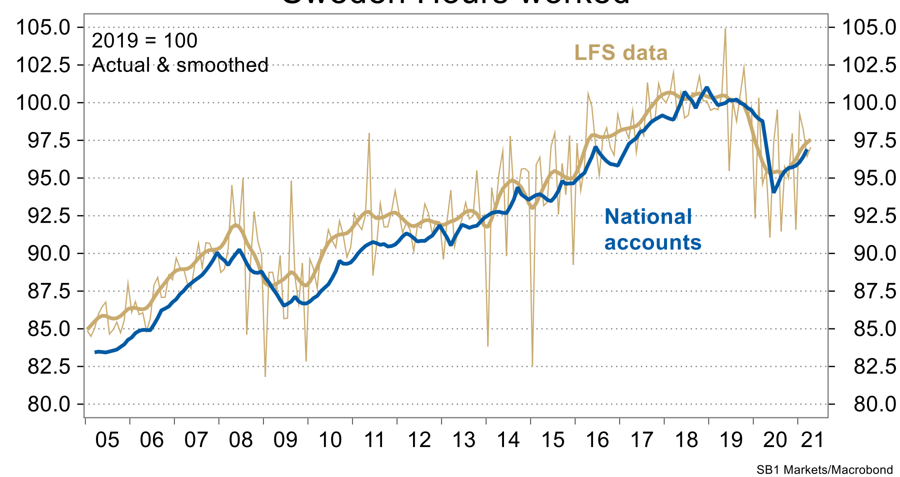



- Employment is most likely down some 1.2% from before the pandemic
- Hours worked has recovered substantially vs last spring, and are still on the way up - but remain 3% below the Q4-19 level

Sweden Labour Market Participation




Sweden Hours worked



Highlights

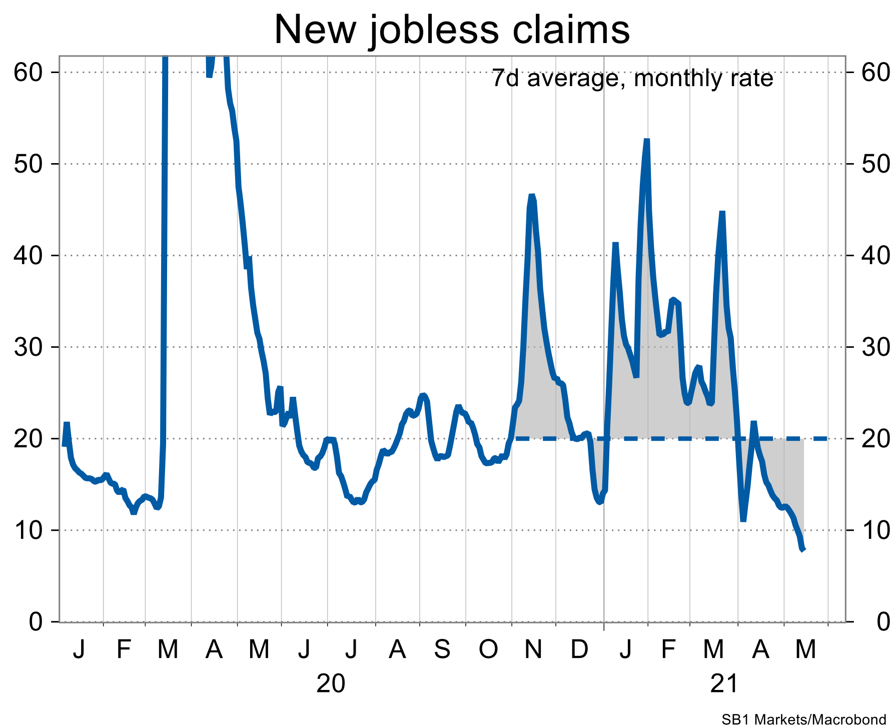
The world around us

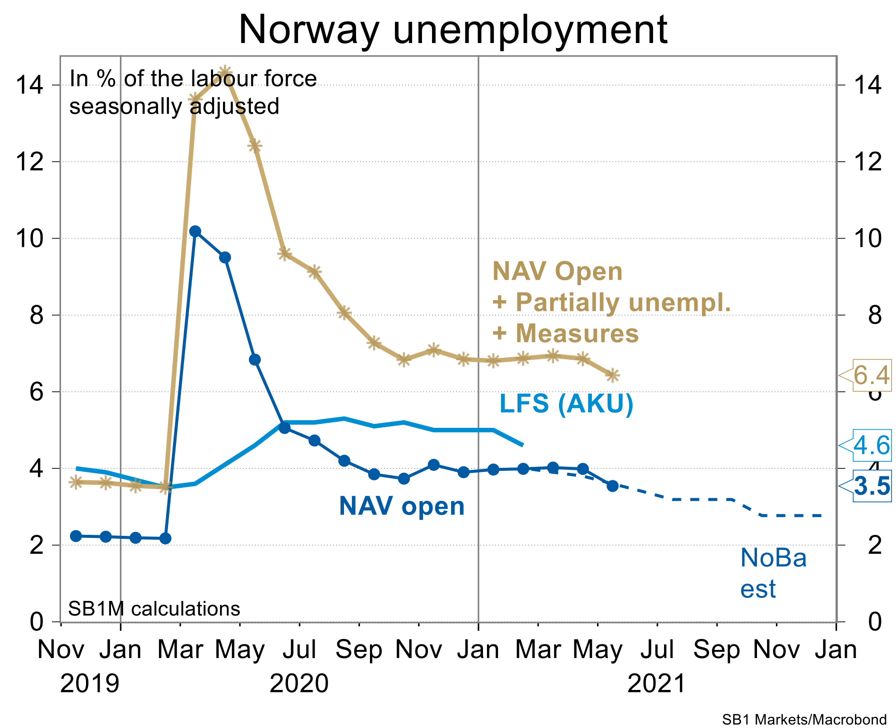
The Norwegian economy

Market charts & comments

# NAV unemployment fell sharply in May – to marginally below NoBa's path

…and much more to come in June & July? We think so. "No" new claims, vacancies at very high level!

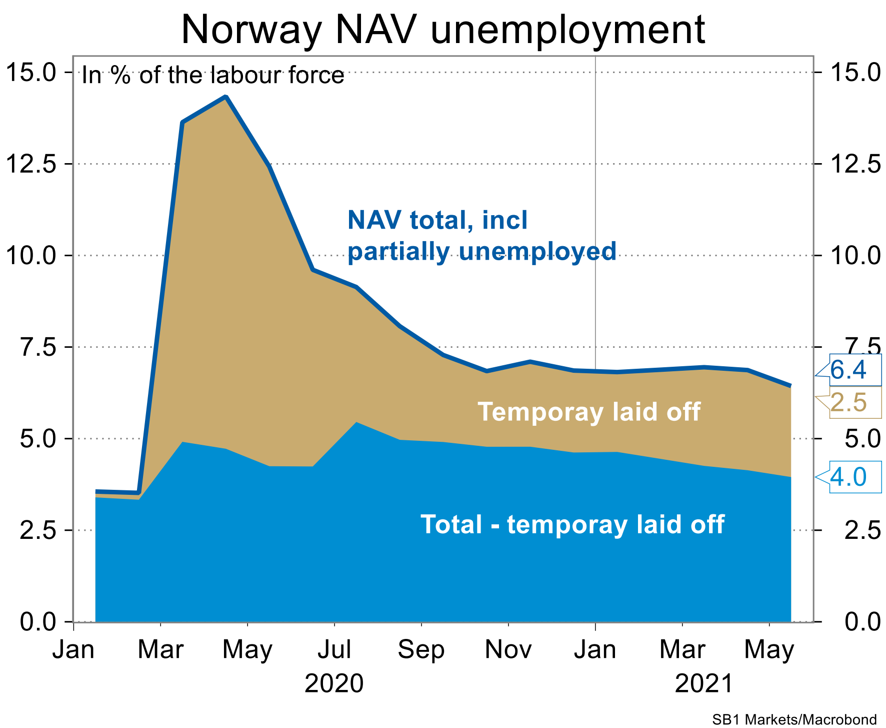


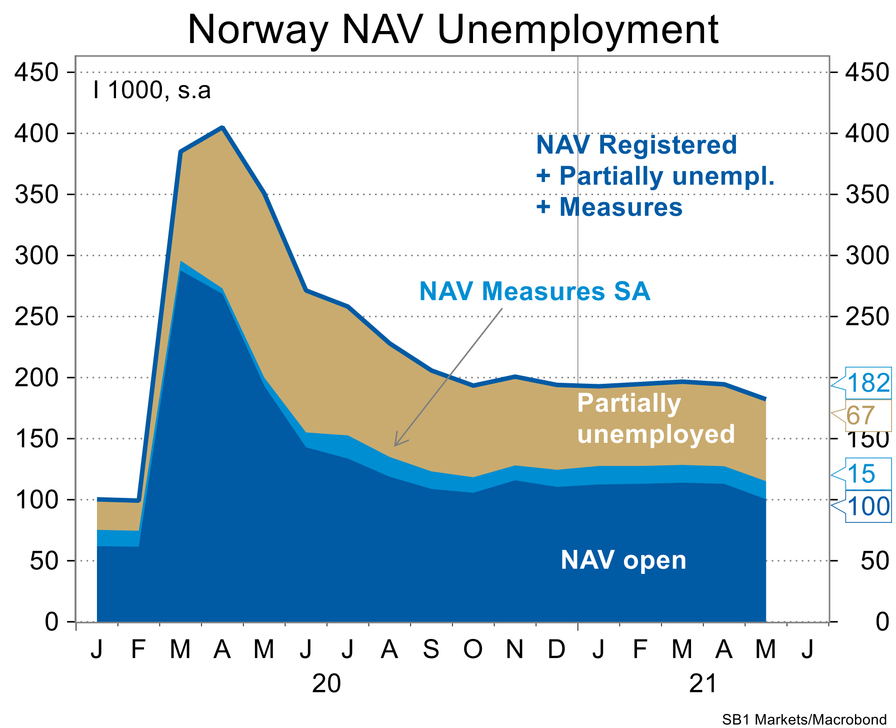




- **The 'full time' open NAV unemployment**, which includes furloughed workers fell by 13' in May (seas adj), we expected -14' – down to 100' persons, from 278' last May. The rate fell to 3.3% from 4.0%, as we expected. Consensus was 3.4%. Seasonally adjusted, the rate fell 0.5 pp to 3.5%, and marginally below NoBa's 3.6% f'cast. The m/m decline in unemployment was the largest ever, barring 4 months last year. The reopening of restaurants in Oslo came too late to have any impact on the May data
- The number of **partially unemployed** was unchanged at 67', leaving the grand total at 182' (including measures), - 12' (NAV says -6' but we trust our seas adjust. no.), equalling 6.4% of the labour force. Before the corona crisis, grand total unemployment rate was at 3.8%. The no. of furloughed workers fell by 7' to 70'. We expect a sharp decline in June/July too
- The inflow of **new job seekers** collapsed in May, to the lowest level since 2008
- The inflow of **new vacancies** remained at the very high April level in May – and shot up in travel/transport
- All in all: **The labour market is turning at a dime**, just as we expected. We think Norges Bank will revise down the near end of it's NAV unempl. estimate

# All segments down, except partially unemployed (they moved from full time)

Full time ordinary unemployment fell more in any single month, except for last spring/summer

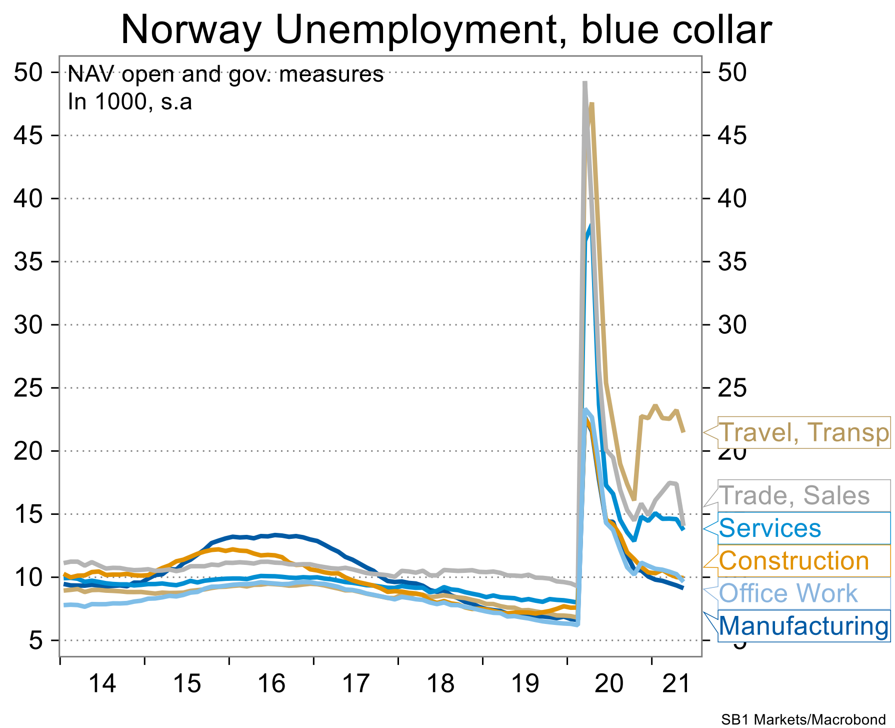


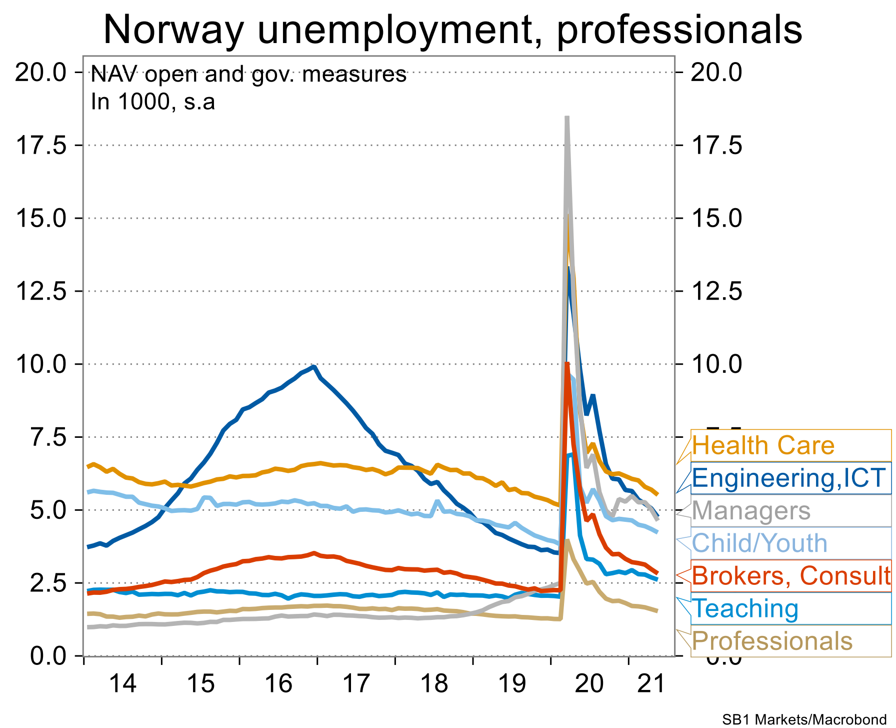




- The no. of furloughed workers fell sharply too

# Unemployment sharply down in trade/travel/transport

… and fell in all other groups as well

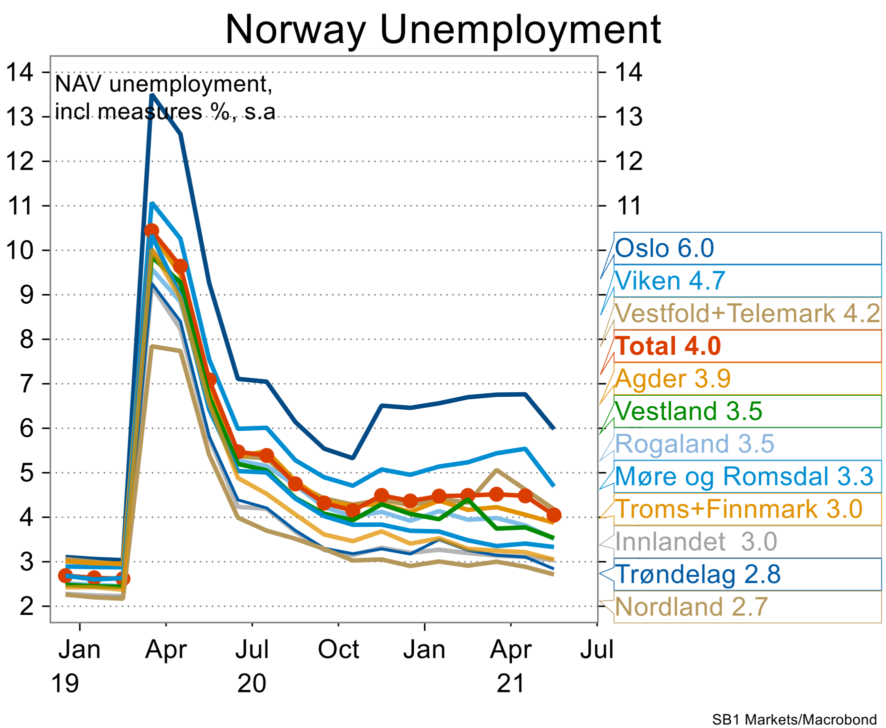


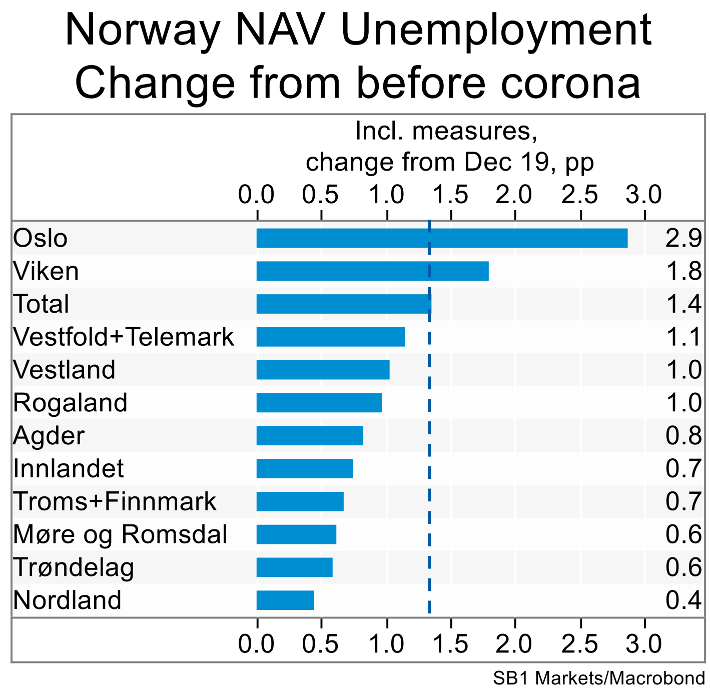




- Sure, unemployment is still high in the hospitality/travel industry – but the sector has turned the corner following the partial reopening last two months. Much more to come in June & July!

# The loser regions gained some ground in May, but unemployment down everyw.

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




- **Oslo** has by far been the hardest hit county, due to a much more stringent lockdown than other places. In May, unemployment fell by almost 1 pp to 6% (partially unemployed not included). The decline was just as impressive in **Viken**, the 2nd hardest hit county
- However, unemployment fell in **all counties** in May (and for the majority, a continued decline since early 2021
  - » In 8 of 11 counties, the unemployment rate is up 1 pp or less since before corona (again, partially unemployed are not included, the national average is still 2.4%, up from the 0.9% pre-pandemic level)

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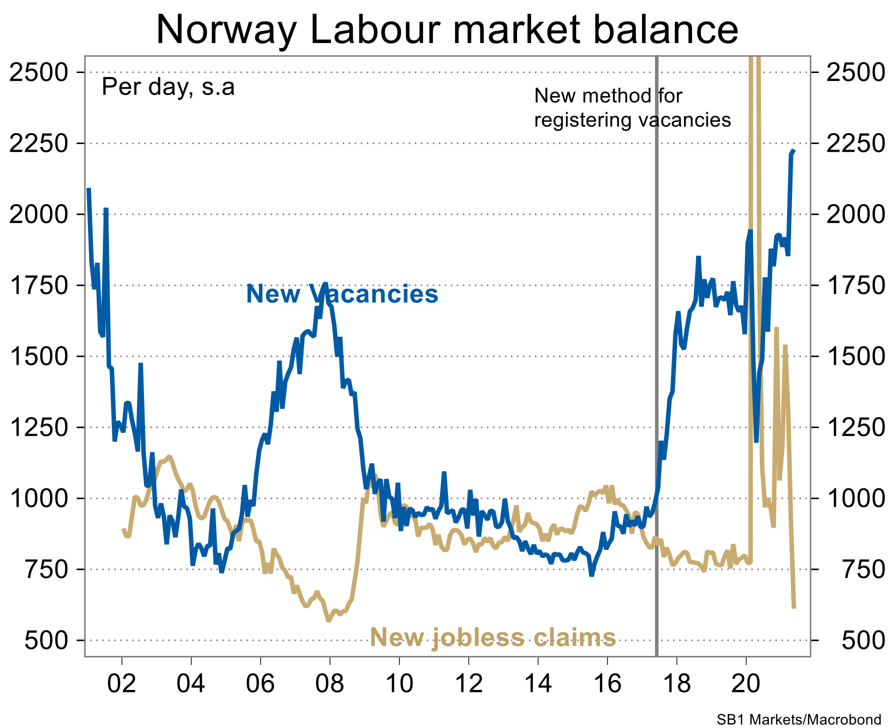
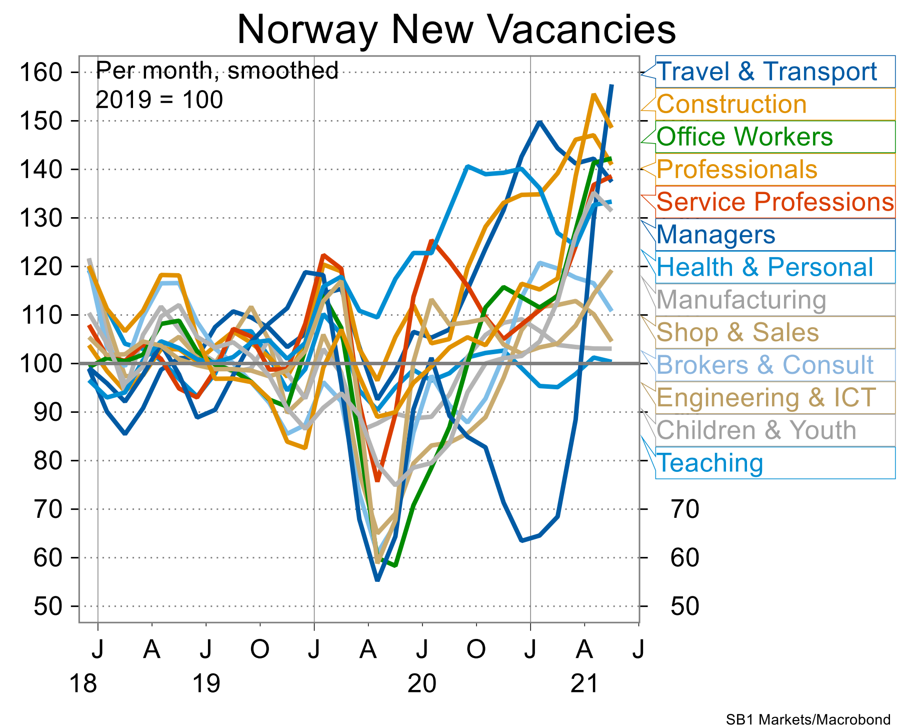
# A large jump in new vacancies – and travel/transport at the top!!

… they need even more employees than the furloughed workers??? Or have they gone elsewhere?



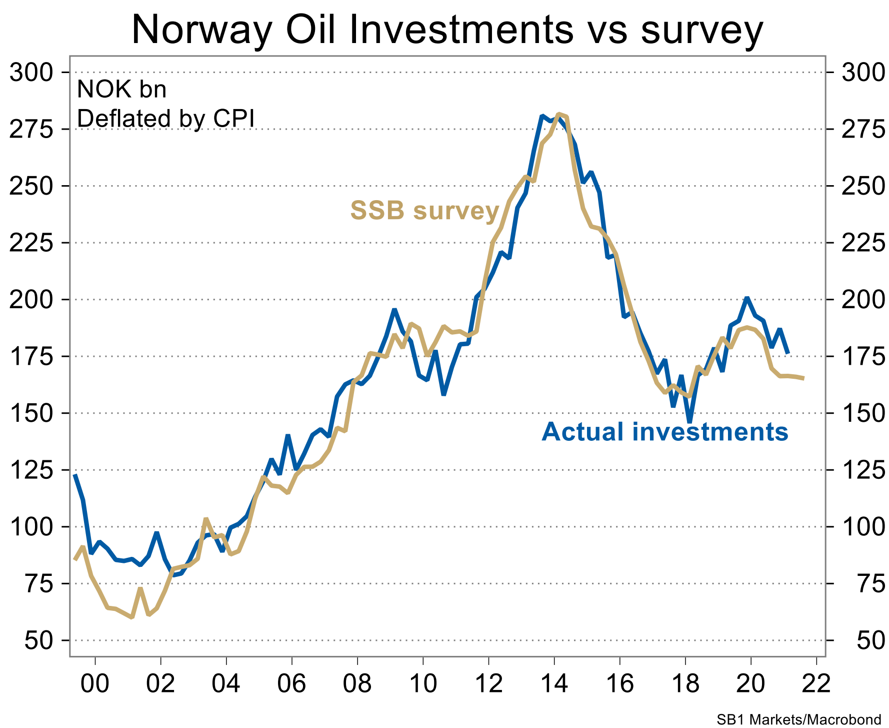



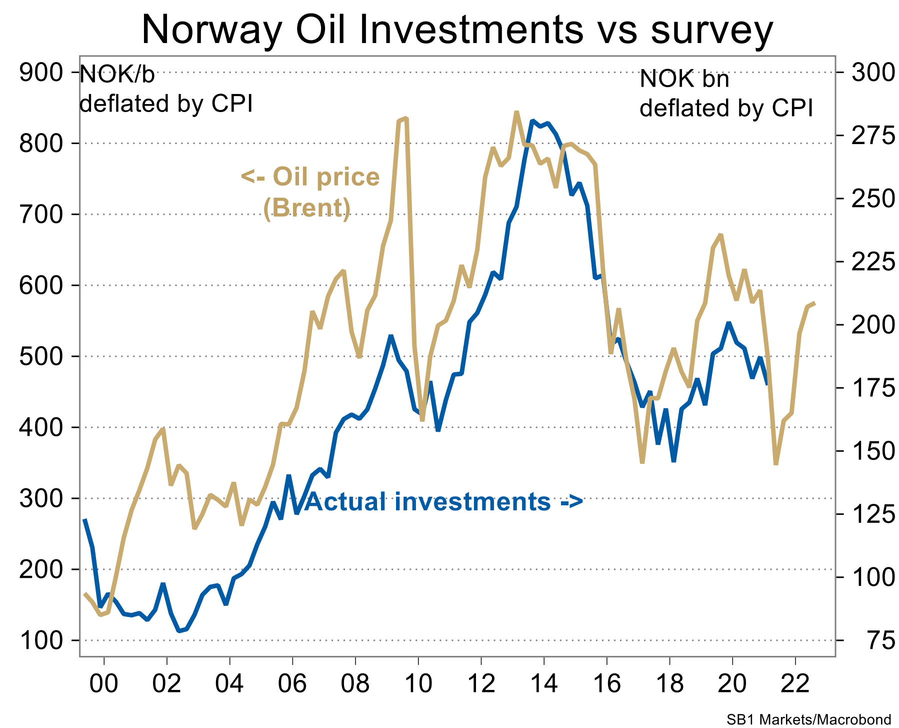

- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)

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

# Oil investments: Q2 survey better than expected

## Tax cuts & the oil price save the day

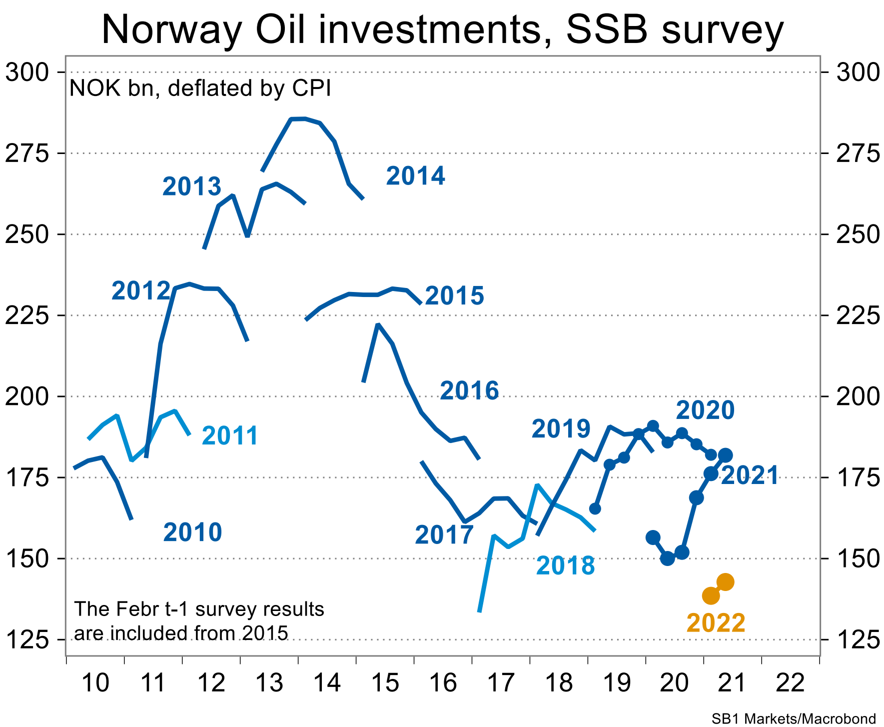



- Oil companies revised their **2021 investment forecast** up by 5% to NOK 184 bn (we exp. 174 bn), and slightly above the equivalent 2020 estimate. Still, we assume a 1% decline in nominal terms, -3% in volume terms, and not far above NoBa's estimate -4% f'cast
- **The 2022 estimate** was revised up by 3%, less than we expected. The estimate is 2% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) during this and next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. <u>We expect 2022 investments to remain unchanged (volume terms) vs. 2021. In March, Norges Bank assumed a 5% volume decline next year</u>

# An upward revision of the 2021 and the 2022 oil investment forecasts

## 2021 investment forecast lifted by 5% from Feb, 5% above our estimate




- In SSB's Q1 oil & gas investment survey, companies adjusted their **2021 investment f'cast** up by 5% or by NOK 8 bn to 182 bn (we expected unch. at 174 bn) as two more field investments were added. The current estimate is 1% higher than the equivalent 2020 f'cast but we assume the final outcome rather be -1% (up from -4% following the Feb investment survey). Last year prices rose sharply, partly due to the weak NOK, and this effect should be reversed in 2021. On the other hand, steel and other raw material prices are on the way up. In sum, we expect a 3% decline in volume terms, which is just 1 pp above NoBa's -4% estimate in the MPR
  - » In 2021, exploration & investments in existing fields contributes at the upside, while investments in new fields are down some 15% as projects are completed
- **The Q2 2022 investment estimate** was revised up by 3%, a tad less than we expected. At NOK 143 bn, the estimate is still 2% below the equivalent '21 f'cast. SSB assumes that several producing plans for development and operation (PDO) to be delivered to the authorities before Dec 31st-22, to qualify for the favourable tax treatment, and some costs will be booked next year. Thus, the trajectory for the 2022 forecast is even more uncertain than usual. We expect a NOK 180 bn outcome, +2% in value terms and flat in volume terms, substantially up vs. NoBa's -5% estimate
  - » The decline largely driven by a 20% drop in investments in new fields. Exploration and concept studies are on the way up – we assume in order to utilise the temporary tax reform – and more will come
- **If we are right, Norges Bank will have to revise up its 2022 Mainland GDP growth estimate by some 0.15 pp**

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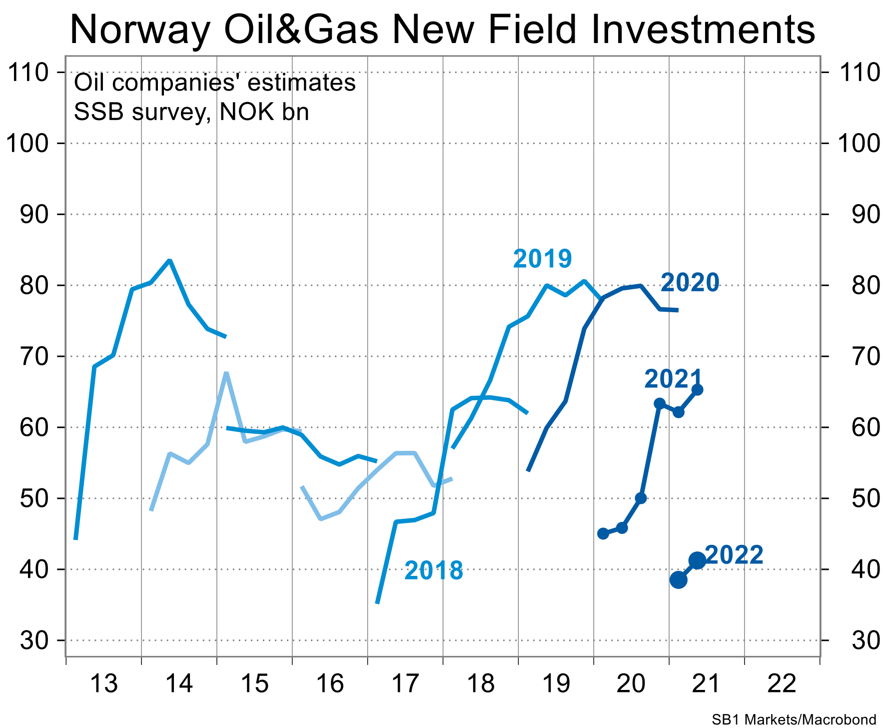
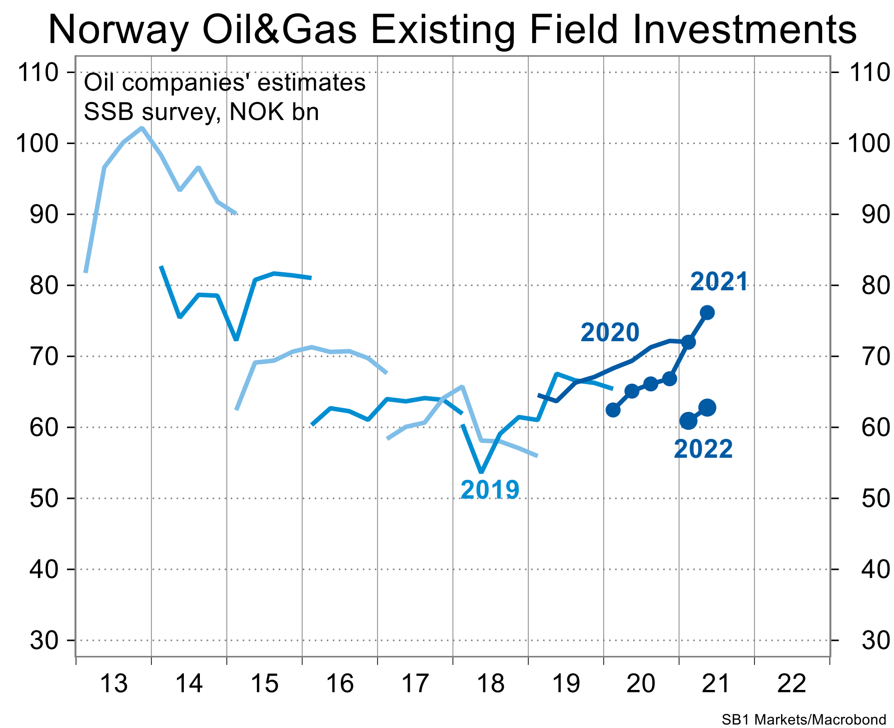
# A 20% drop in new field investments in 2021 – a further decline in '22?

## Most likely, even more projects will be added

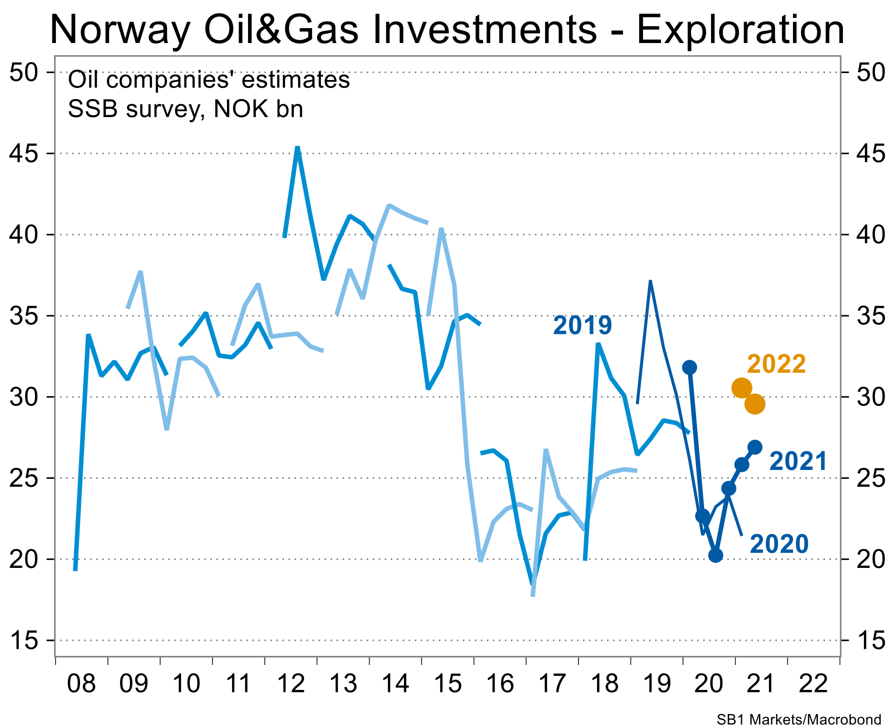


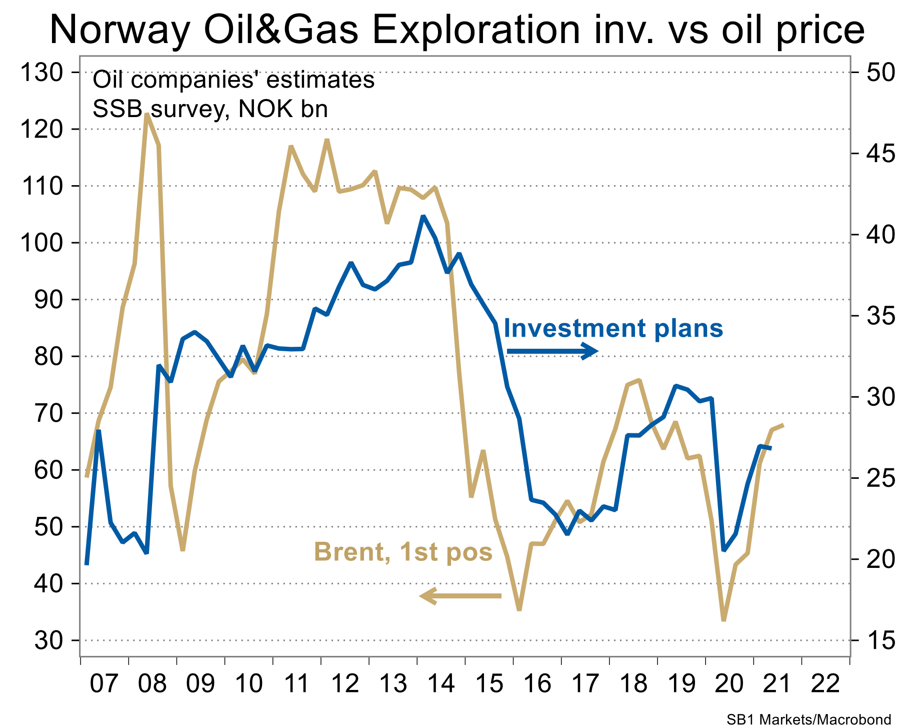




- **Investments in new fields:** The 2021 estimate was revised up by 5%. Companies signal a 15% drop in 2021 vs 2020, as big projects were completed last year (like Johan Sverdrup). This is up from a 20% drop estimated in February
- The first 2022 forecast was one of the weakest on record, down 9% vs. the first (low) 2021 estimate (published one year ago). This estimate was revised upward by 7% in the May survey. Several projects will be added, and more costs to existing will probably be added. To benefit from the temporary tax subsidies, companies will have to submit applications for new projects to the authorities 'PDOs' (PUD). We expect a several PDOs to be delivered before end of 2022, and then spending on these projects will be labelled as 'oil investments'. <u>Still, the 2022 outlook is not that favourable as spending on these new projects will be limited in the 'first' year  - but more will follow the coming years</u>
- **Investments in field on stream:** were revised up by 6% in 2021, and 3% in 2022. More projects will likely be added the coming quarters

# Exploration & concept studies on the way up – supported by tax cuts, oil prices

## 2022 estimate still revised down by 3% from last quarter's high estimate

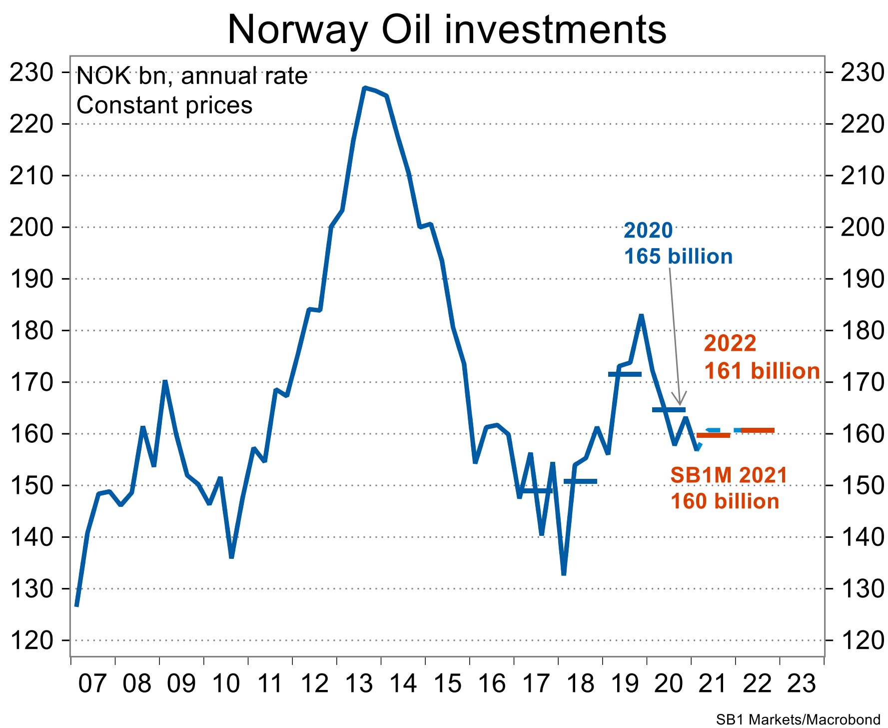


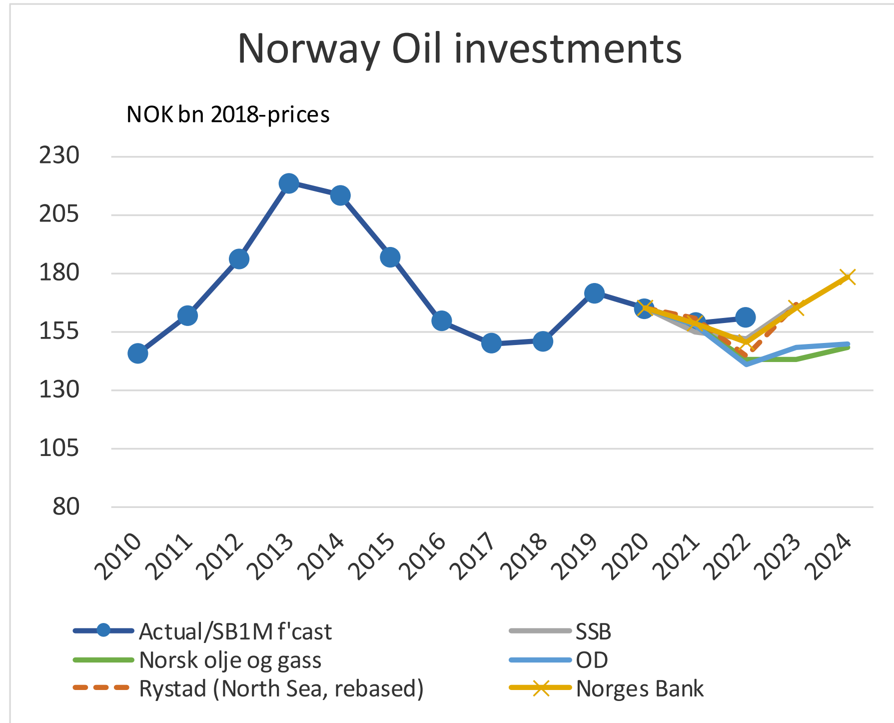




- Oil companies lifted their 2021 investment forecast further in May (+4%), and a 20% - 25% lift in spending seems likely
- The 2022 forecast signals a further increase next year – very likely due to tax stimulus – and the lift in the oil price that have always been important to these investments

# Oil investments are probably stabilising, for now

## Our forecasts imply a flattening from now and through 2022

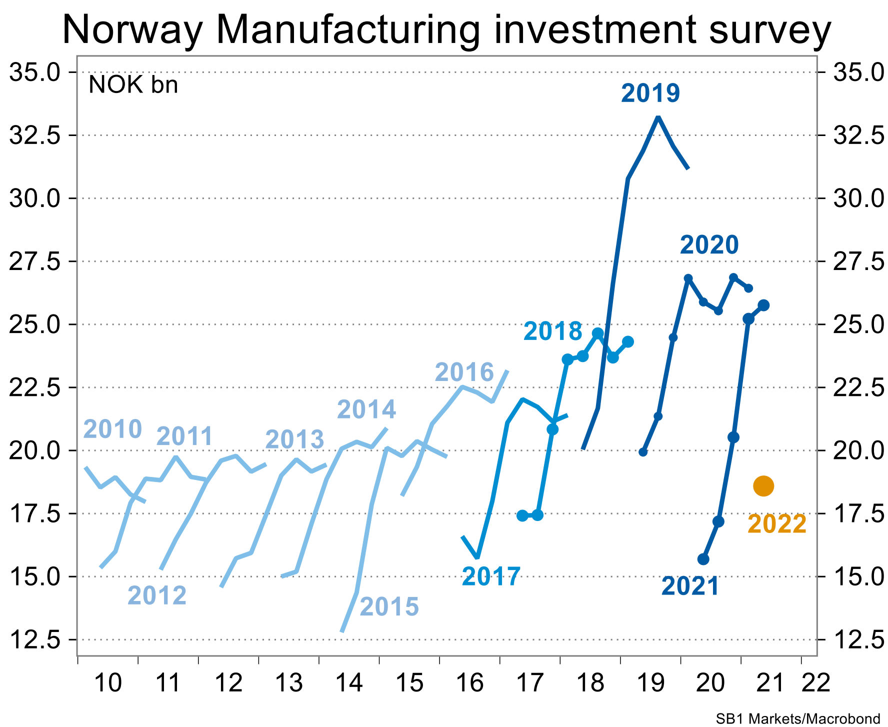


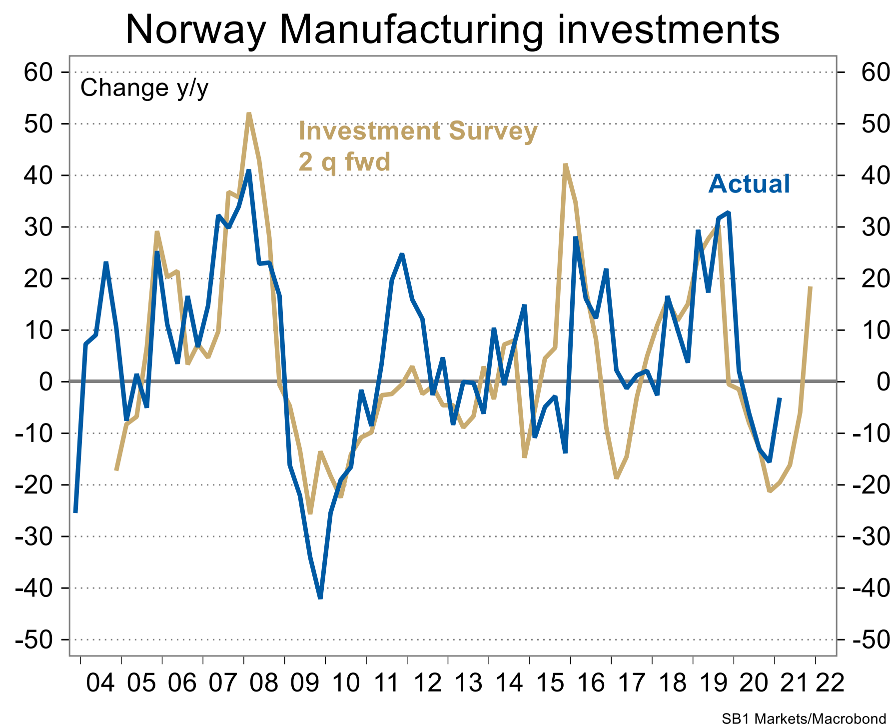




- Other forecasters are expecting a decline in 2022 investments – and upward revisions are likely

# Manufacturing investments have stabilised

No growth in 2021, and probably no growth in 2022, even if the first estimate is up 18%

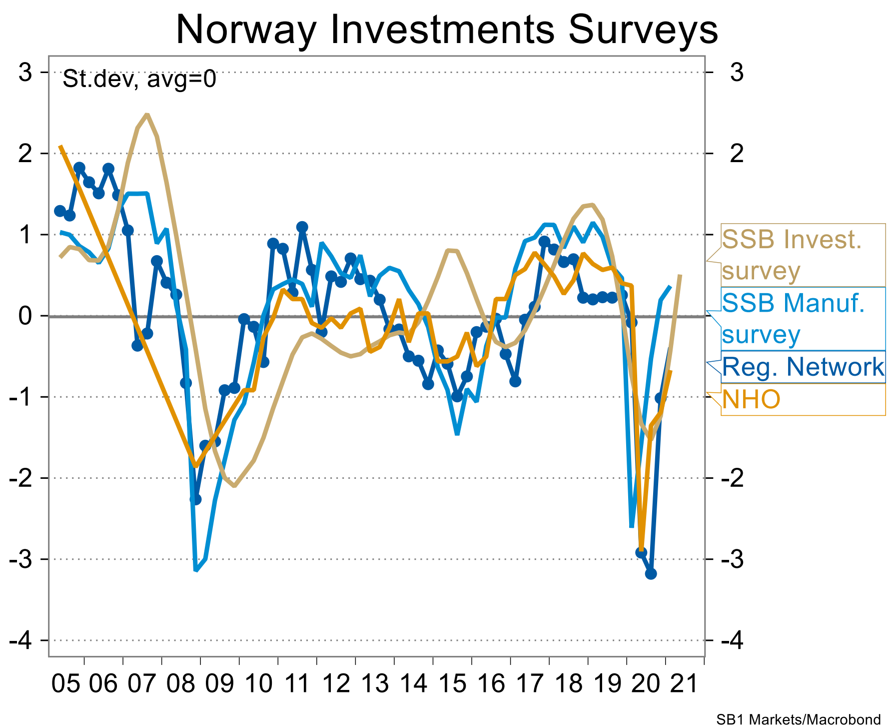



- **Manufacturing companies** adjusted their 2021 investments up by 2% in the Q2 survey, after having revised their estimate by an unprecedented 46% over the 2 previous quarters (in total). Still we expect a small decline in manufacturing investments in both value & volume terms in 2020
- **The first 2022 estimate** is 18% above the first 2021 forecast. However, the upward revision of the 2021 estimate was unusual, almost twice as much than normal (66% vs. 37%, the 2nd highest is up 56%). We expect a more normal upward revision of the 2022 investment estimate, but still somewhat more than average as the business cycle is rather strong, and more projects may be included. Thus, we deem the current estimate to signal just a moderate lift in manufacturing investments in 2022, and somewhat weaker than we expected

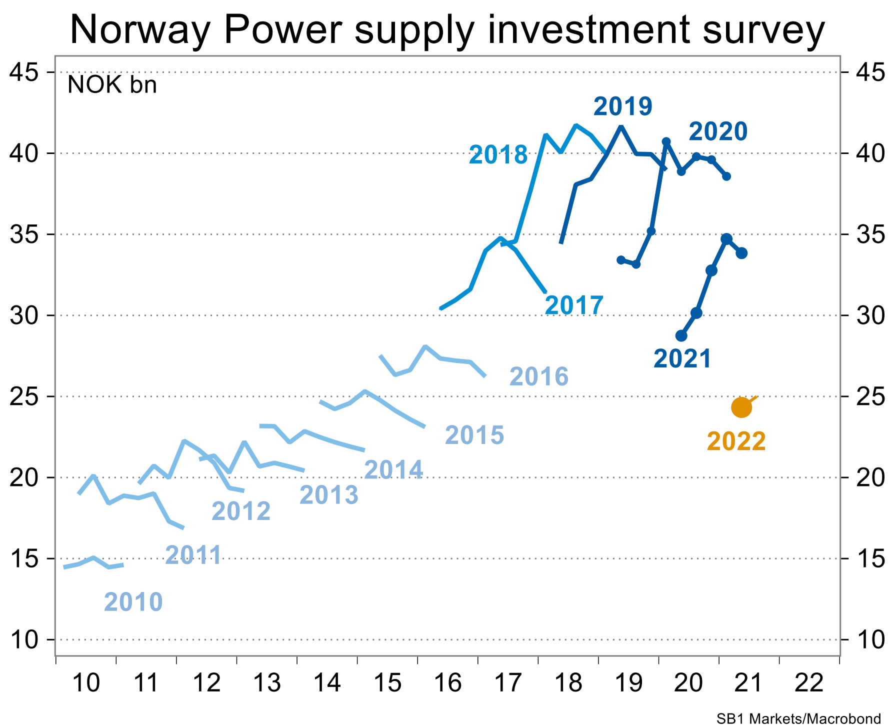
# Other surveys are at least moving upwards

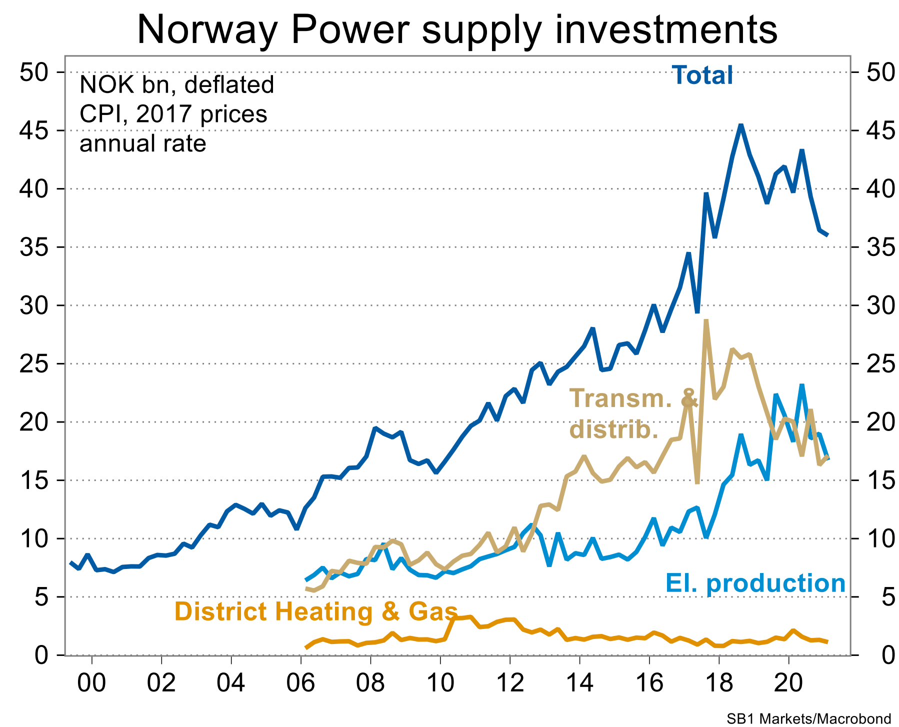
But 2 surveys still signal growth below par



# Power supply: Investments have peaked

## The 2021 f'cast is 13% below the equivalent 2020 f'cast – and the 2022 f'cast further 15% below

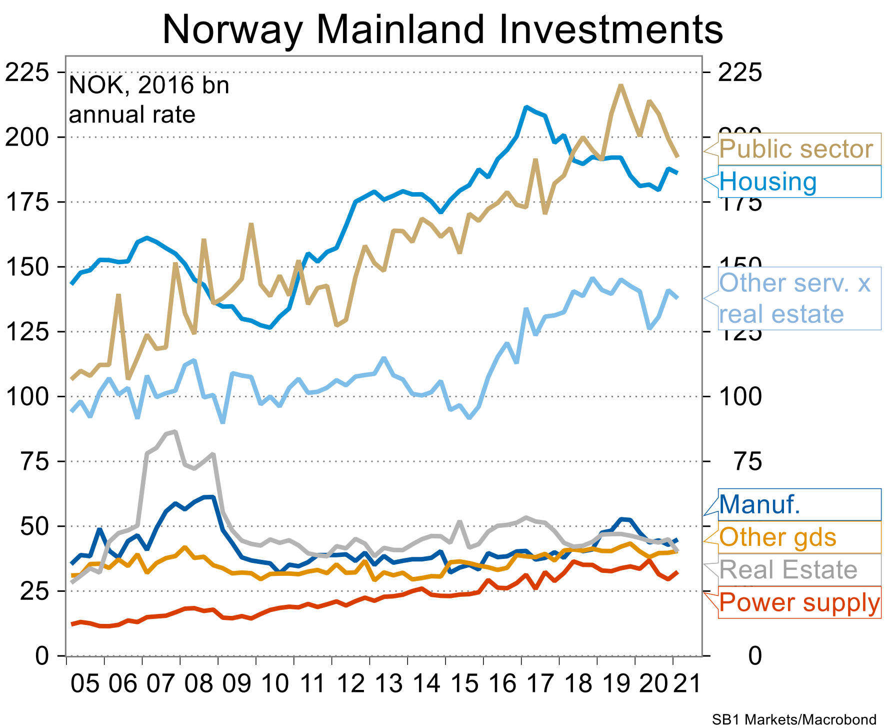


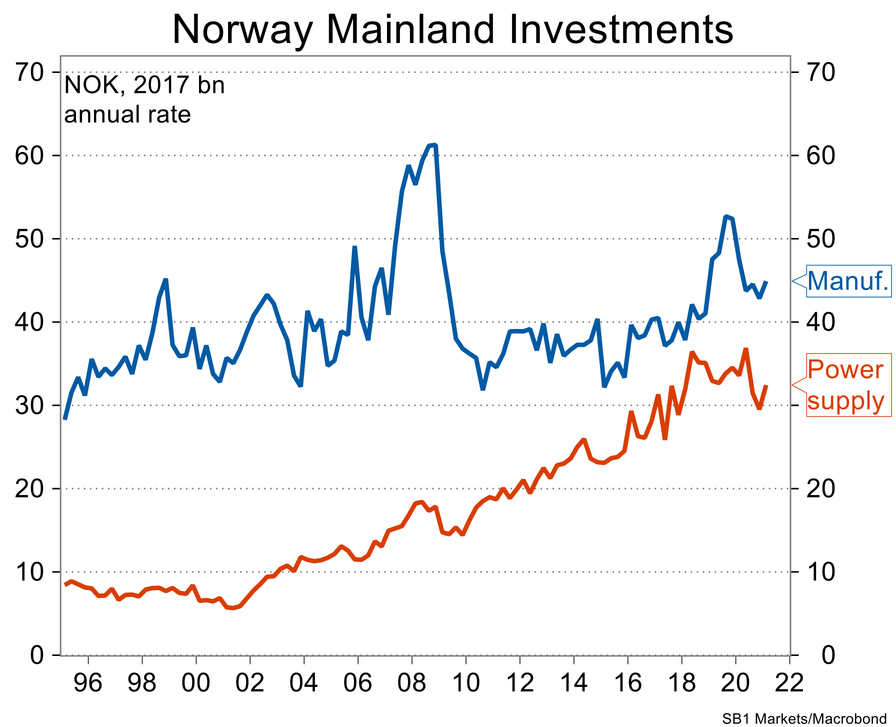




- Power supply (production & distribution) companies revised their 2021 investment forecast down by 3% in the Q2 survey vs the Q1 survey. The downward revision is normal at this stage of the planning process. The forecast is 13% below the equivalent 2020 forecast
  - » Some big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- The first estimate for 2022 is 15% below the equivalent estimate for 2021, most of the fall is attributed to lower investments in production. We expect the 2022 estimate to follow the same path as for the previous years, and assume a 15% – 17% decline
- Investments have more than quadrupled in 25 years, by more than 10% p.a in average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades

# Both manufacturing and power supply investments have peaked

## Each equal 1% - 2% of Mainland GDP and 5% - 8% of total Mainland investments



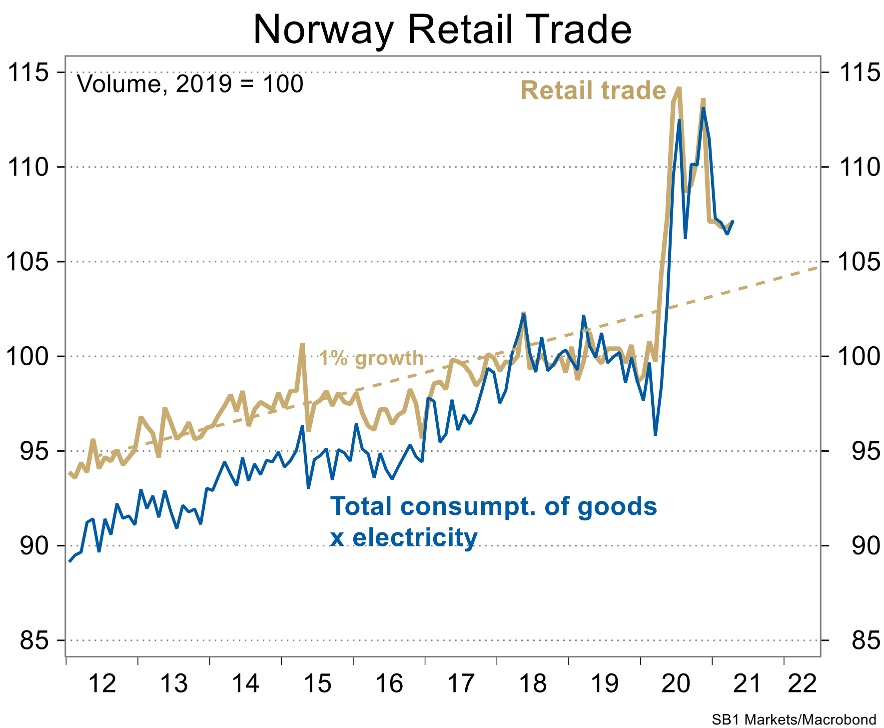



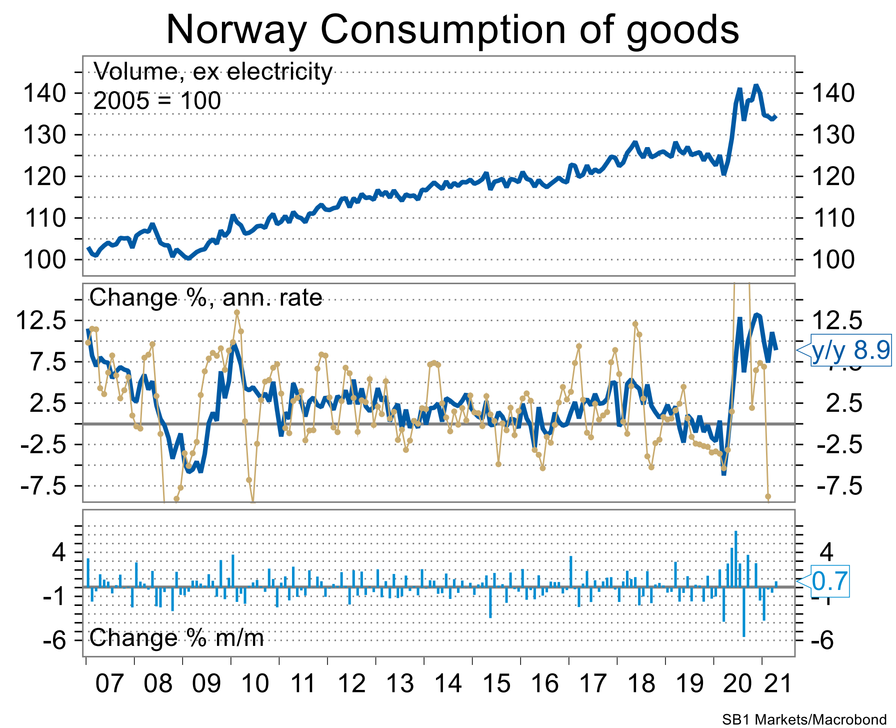

- In volume terms, investments in the manufacturing have accelerated sharply the past two years, but investments fell in 2020, and companies are only signalling a marginal increase in 2021
- The outlook for Mainland business investments has brightened recent months. Investment surveys have recovered substantially, and actual investments flatted in H2 last year

SpareBank 1 MARKETS

# Retail sales up 0.3% in April – and 7% up vs. pre corona. More to come in May

## Clothing sales contributed the most on the upside in April – food on the downside

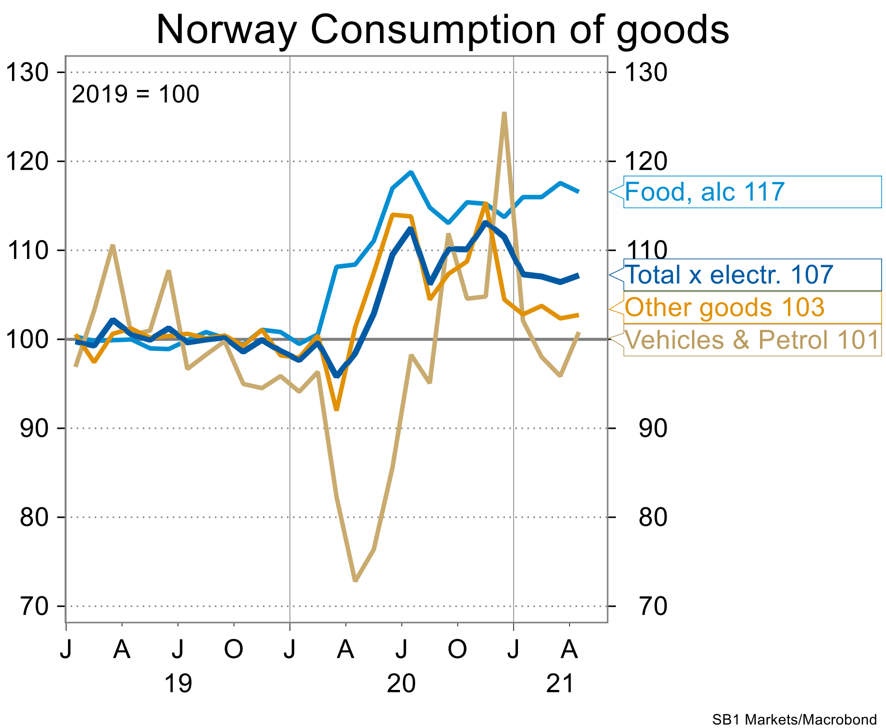


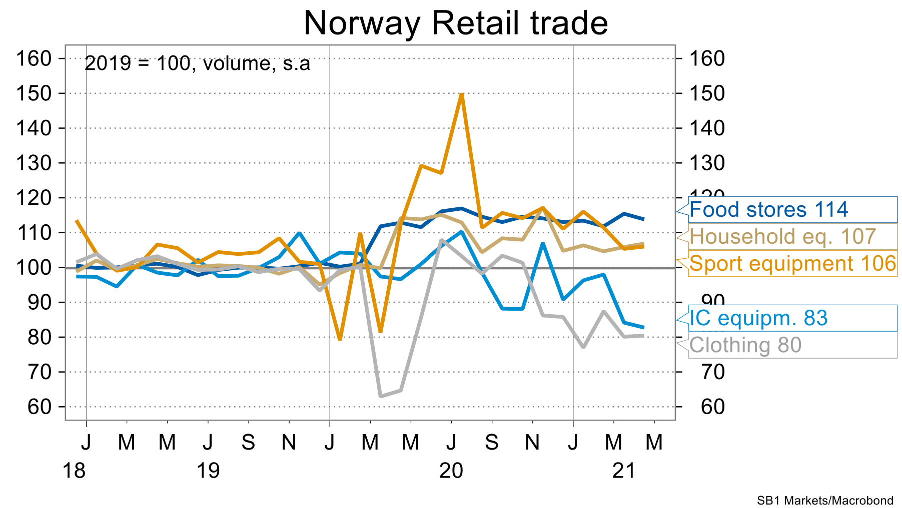



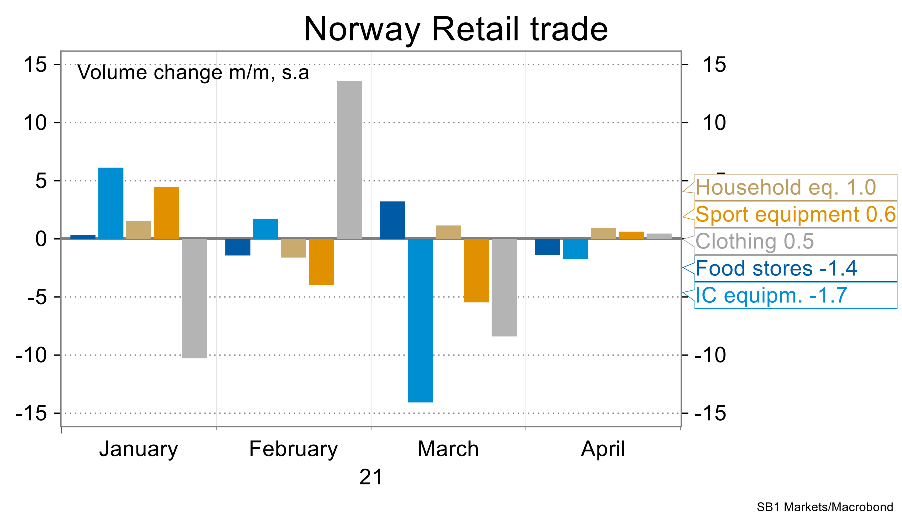

- Even though non-essential retail was closed down in Oslo and some other cites in March and April, **national sales volumes** have kept up well
- **Retail sales** were up 0.3% m/m, expected unch. (we assumed +1%). Sales are up 7% from the pre-corona level
  - » Non-food shops reported an increase in May, while food sales fell. Internet sales rose as well, and the net has increased its market share to 10% from 6% during the pandemic ('click and collect' sales from ordinary stores are counted as normal sales, not internet sales)
- **Total consumption of goods** (x electricity) rose by 0.7% in April – and is 7% above the pre-pandemic level
- **We still expect sales** to slow the coming quarters, back the pre-corona trend path – when it becomes possible to spend more on services. However, we expect an upswing in May, as stores in the greater Oslo area were allowed to open again
- **Service consumption** is of course far below a pre-corona level but are not included in retail sales data

# Clothing still 20% down, for good reasons. But why are info/comm. down 17%?

…while food sales (in shops) are up 14% (and 17% including Vinmonopolet ☺). Sport equipm. +6%



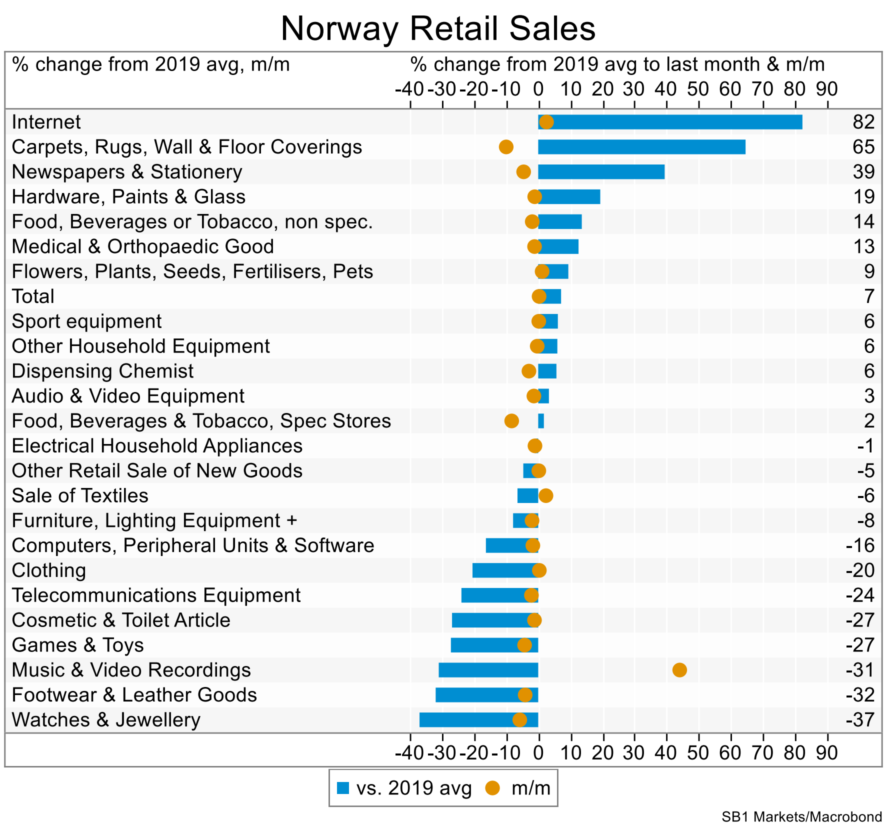



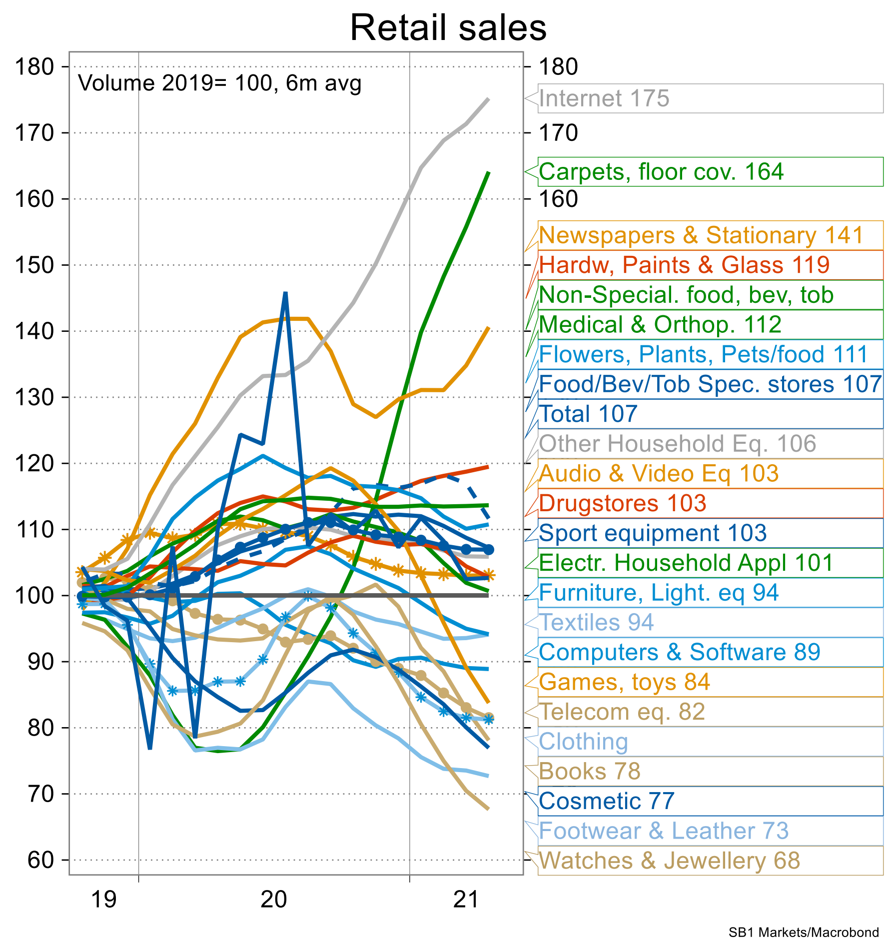




- Sales of sport equipment, household equipment, and clothing were up 0.5% – 1% in April, while food and IC equipment were down 1.4% and 1.7% respectively
- Sales of food & beverages are up 17%% vs. the pre-corona level as many restaurants, cantinas are closed, and there are no x-border trade in Sweden
- We expect the apparel sector to blossom the coming months

# Net sales the big winner. And carpets ☺. Huge sectoral differences

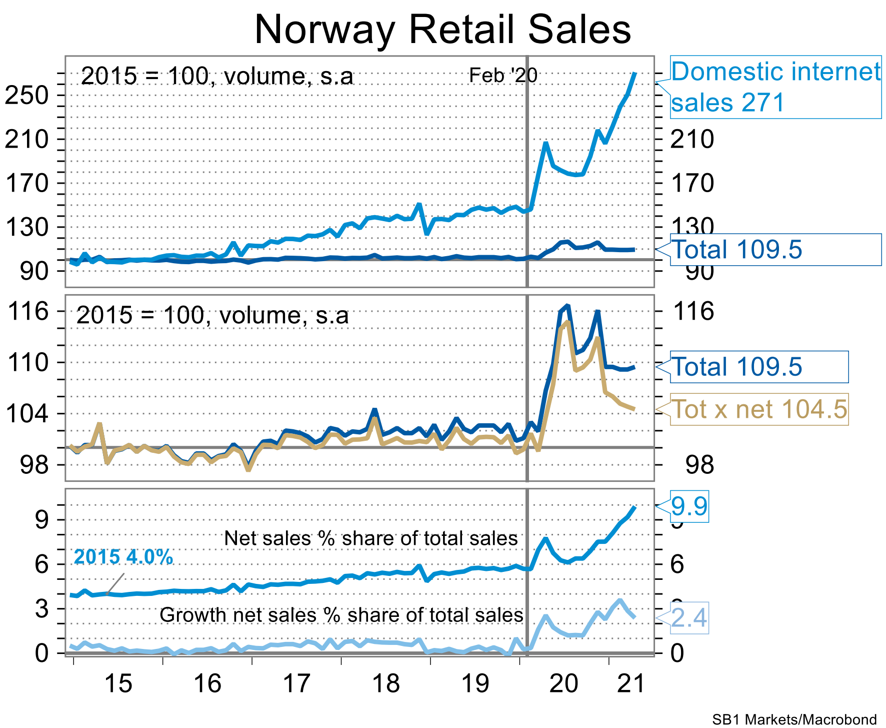
Sales in most sectors are now trending down, mostly from 'too high' levels during the pandemic

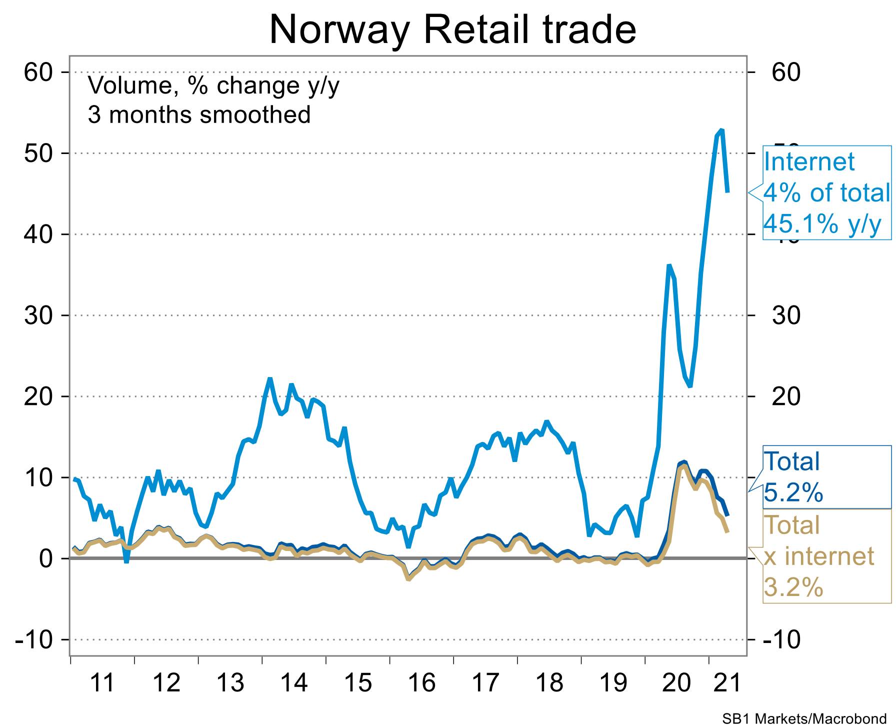


# Internet sales (domestic) up 45% - same trend as in most other countries

The market share has increased to 10% from 6% - and the trend is indisputable

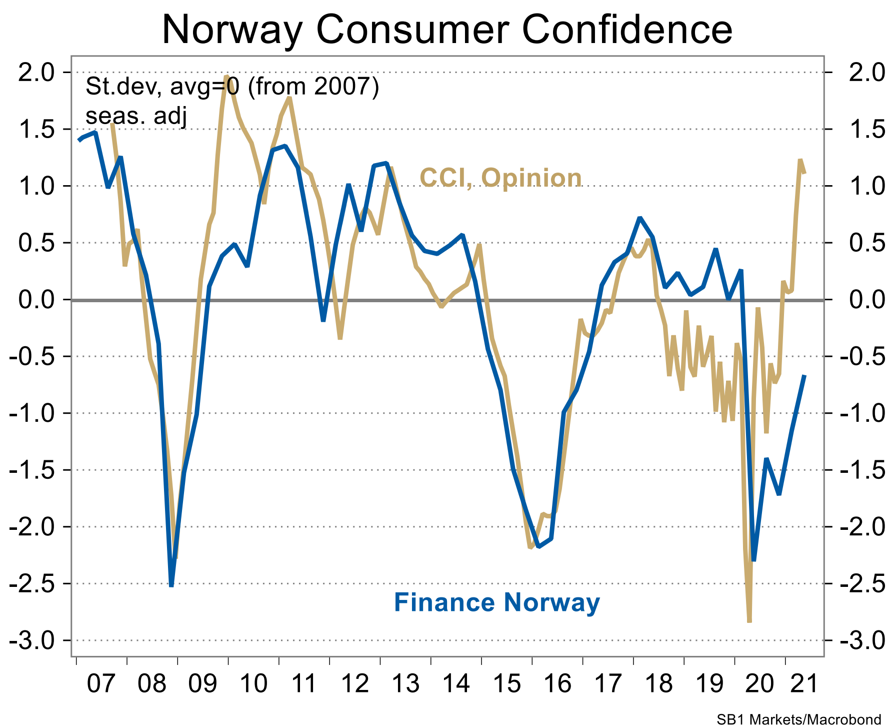



- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to 10% from 6%, of which half the of the lift since last Feb
- Since 2015, domestic internet sales have contributed to 60% of the increase in total sales
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

# Consumer confidence marginally down in May, from a high April level

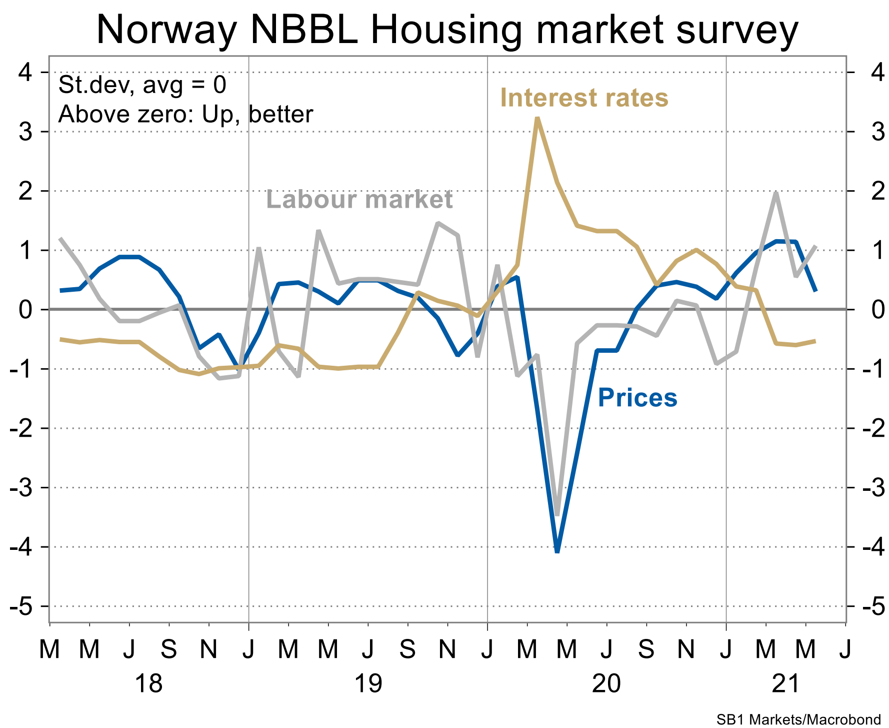
Following a steep increase in March and April, the CCI fell slightly in May

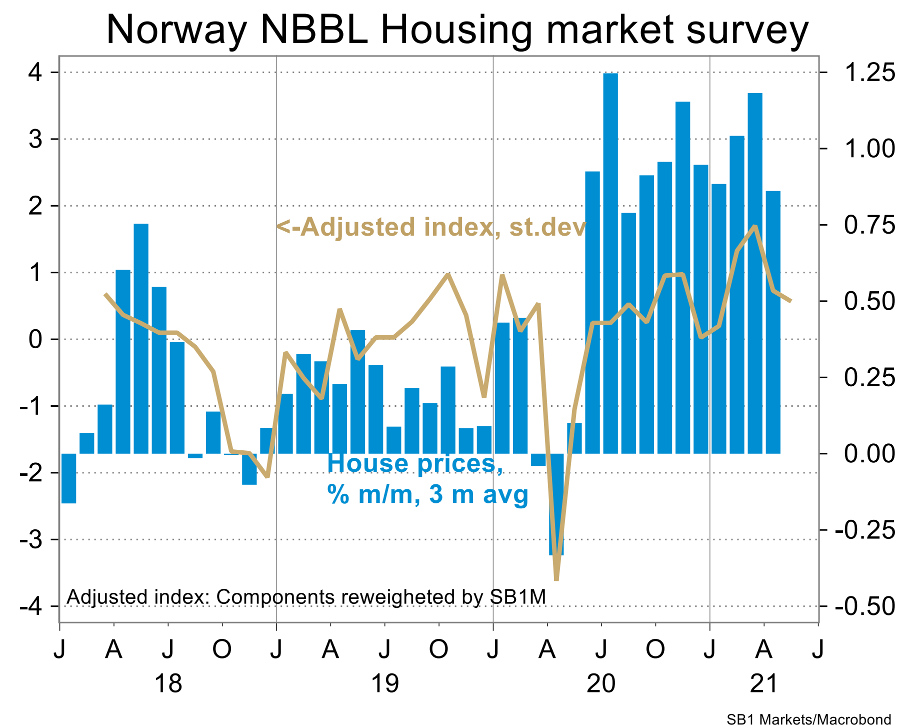



- The CCI index from Opinion is 1.1 st.dev above average
- Finans Norges confidence quarterly survey was weaker than we expected Q2, at -0.7 st.dev below average. This surveys has been far weaker than the CCI survey. We have no good explanation for the discrepancy
  - » Given retail sales & the housing market the Finans Norge survey seems weak

# NBBL Housing Market Survey: A little less hot (and far from cold)

Households still expect a more than average price appreciation but recognises higher interest rates




- **Our aggregate index** signals a further lift in house prices, albeit not as steep as the index signalled back in Feb/March – where the index was at ATH
- The share of households expecting **higher house** prices fell in May but still a higher proportion than average expect prices to appreciate further (net +46%, just 9% expect prices to decline)
- The assessment of the **labour market** strengthened - which is reasonable
- Households have nudged up their **interest rate expectations** since last spring, and now more than usual expect higher interest rates (in fact 70%, and nobody expect lower rates)

We have adjusted the assessment of the labour market in August 2019, and reweighted the index to take different amplitudes for the 3 sub-indices into account.

Highlights

The world around us

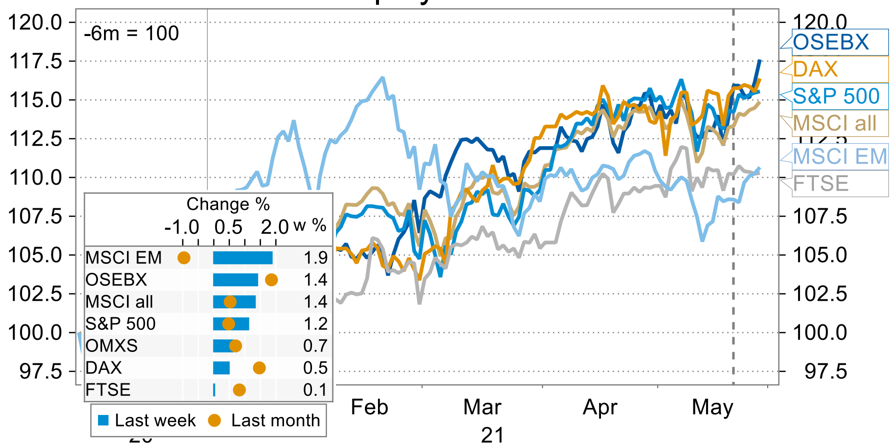
The Norwegian economy

Market charts & comments

# OSE further up, to ATH – oil & metals up too. Still, bond yields down

## Metal prices fell too. Stock markets up, bond yields down. NOK marginally stronger

Equity Indices

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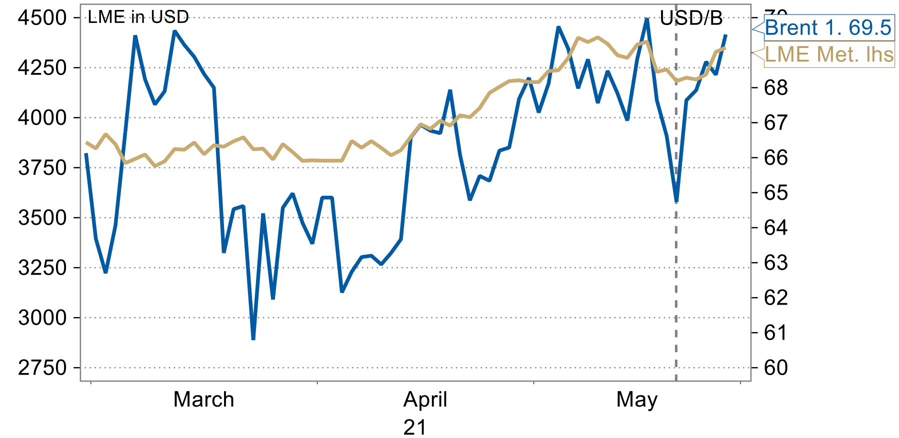
Oil vs. metals

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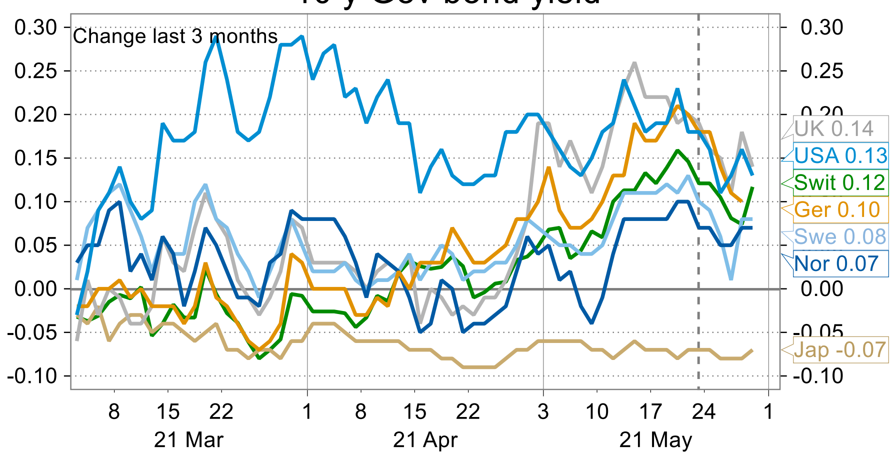
10 y Gov bond yield

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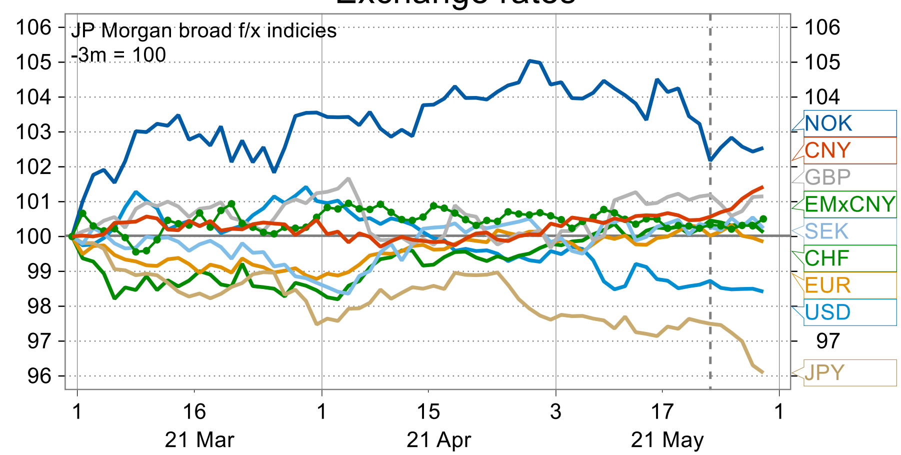
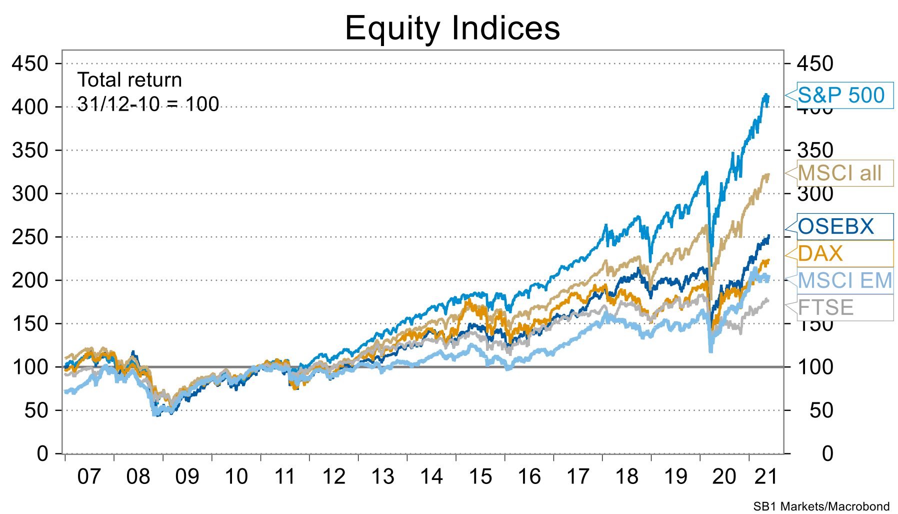
Exchange rates

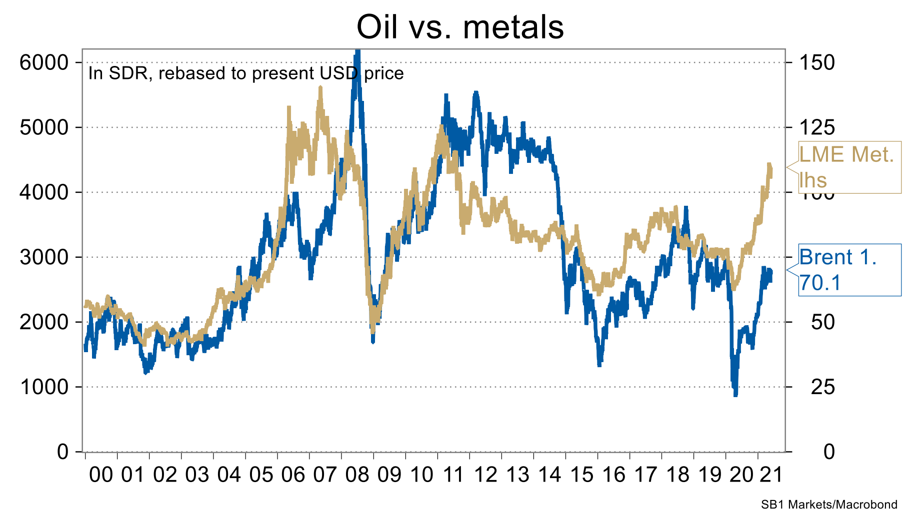


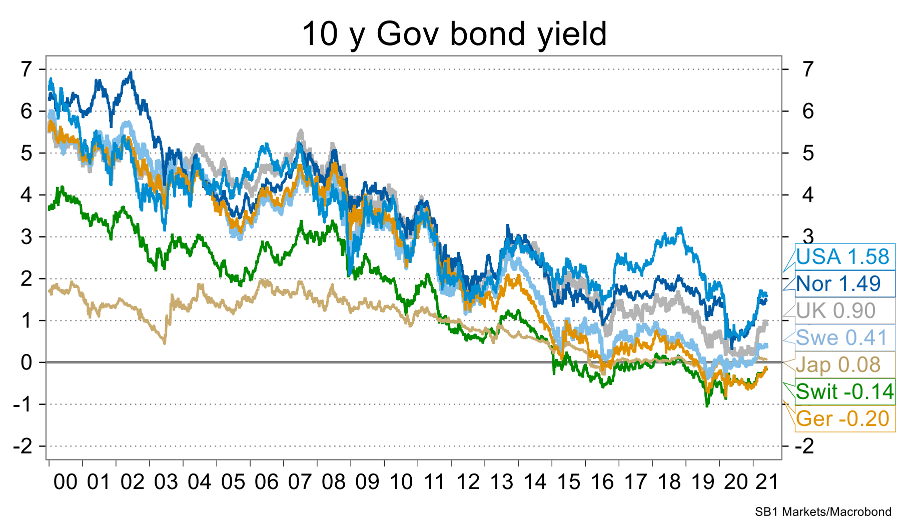

SB1 Markets/Macrobond

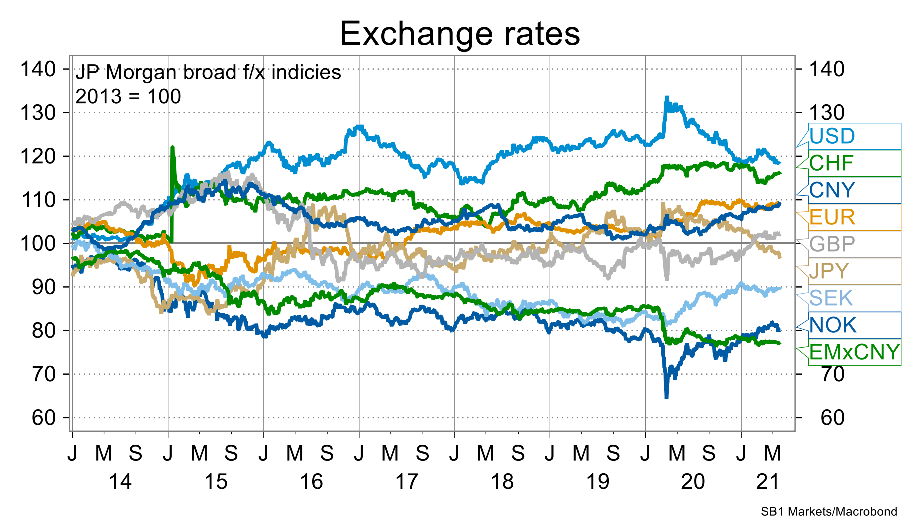
# The big picture: Strong stock & commodity markets, the USD is still sliding down

## The MSCI World at ATH on Friday, as was OSEBX, DAX

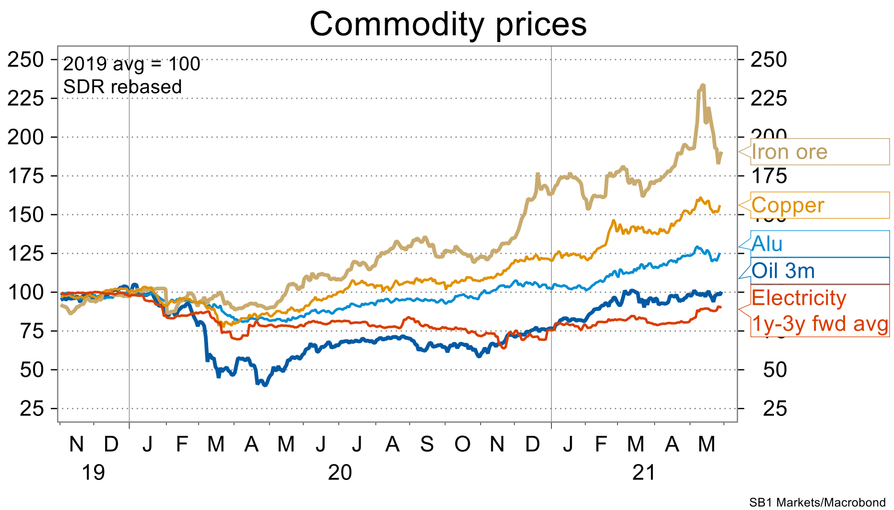


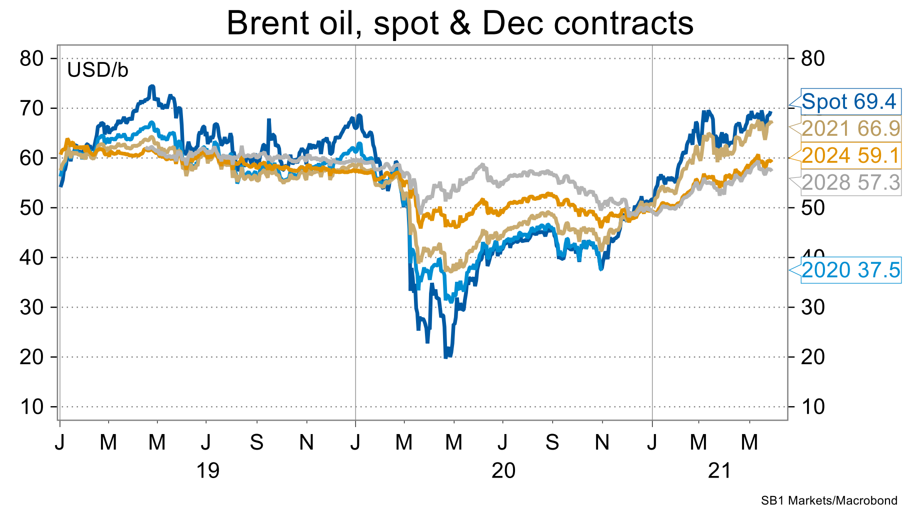



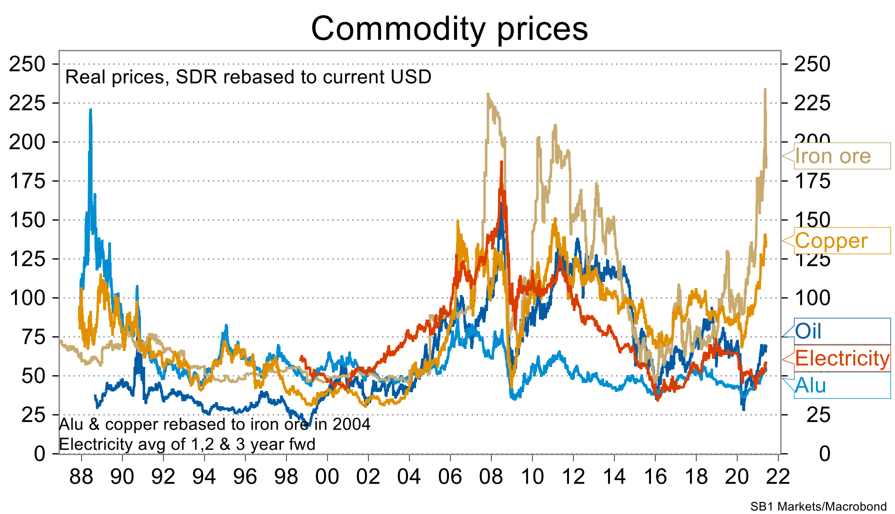



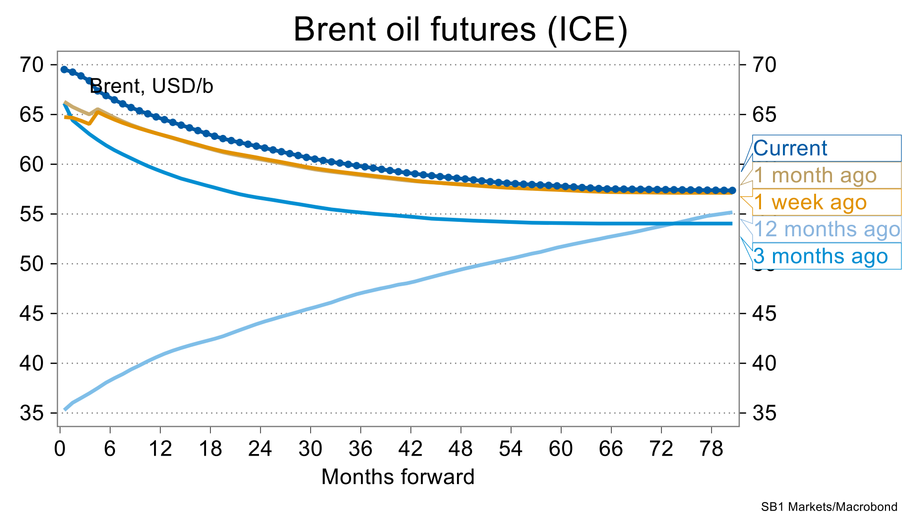



# Iron ore, copper & other metal stabilised, oil up



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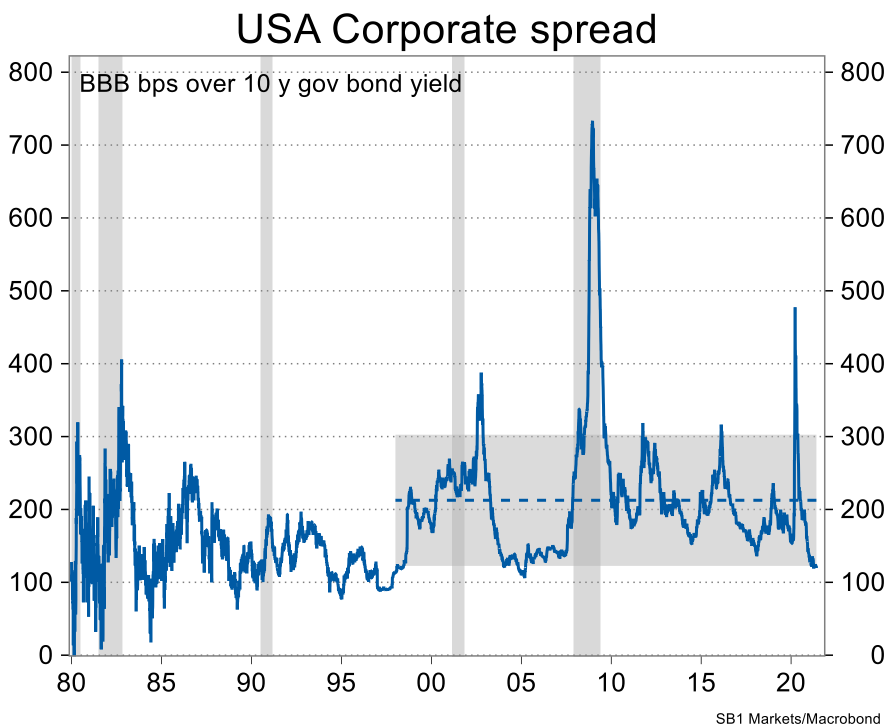
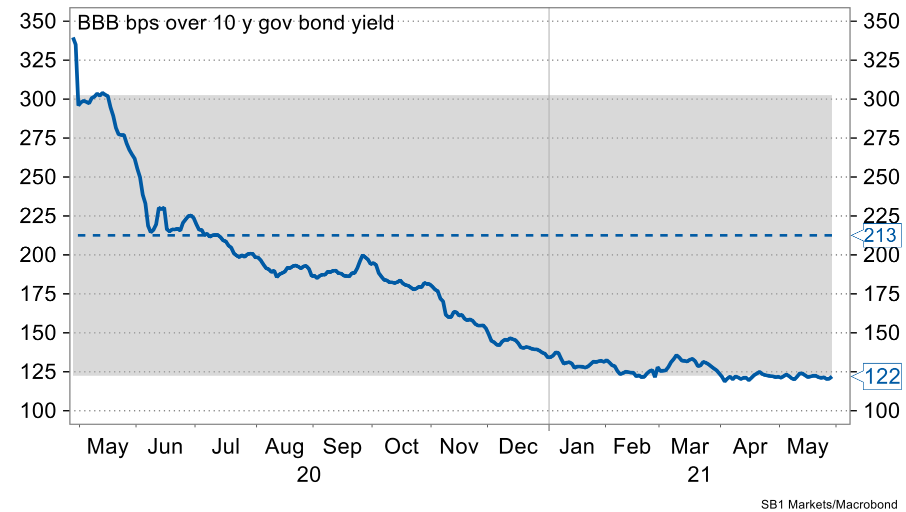
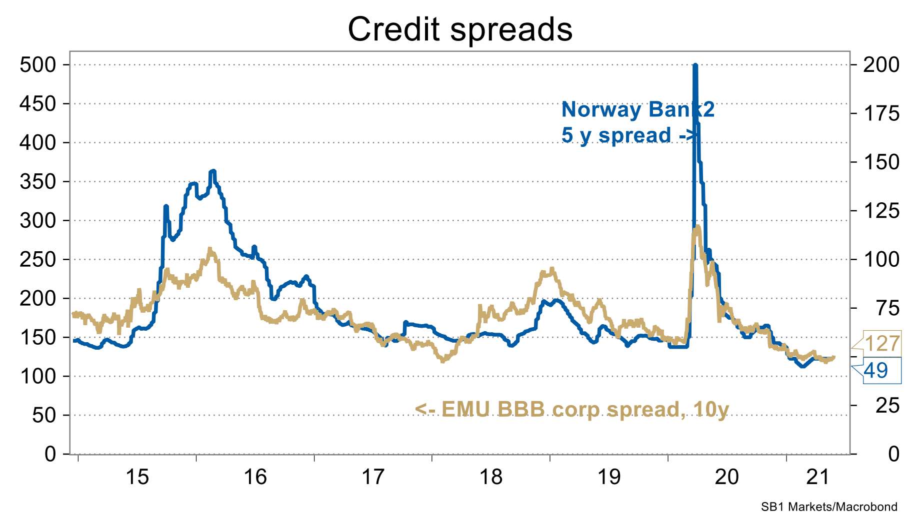
# Credit spreads have flattened, at low levels

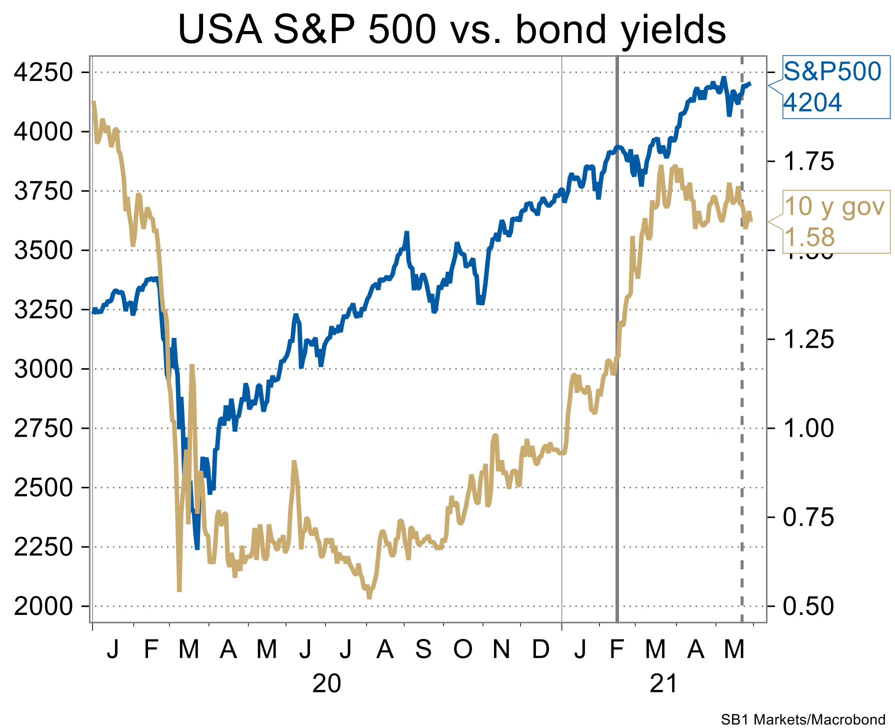


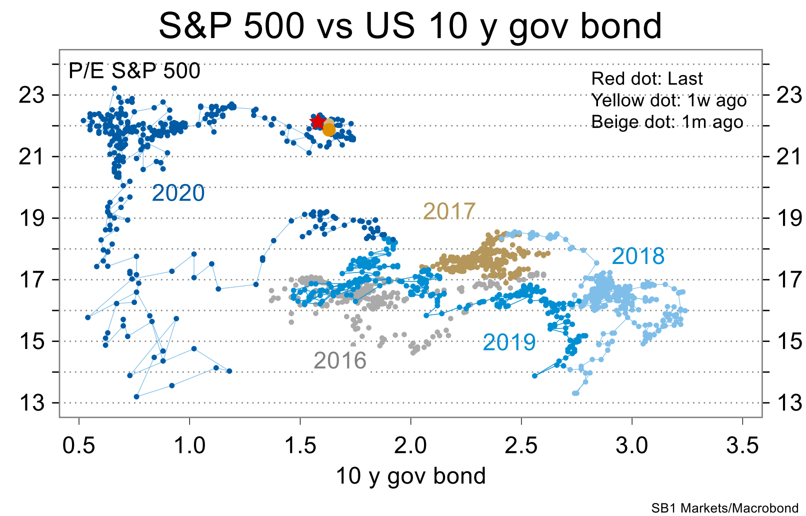



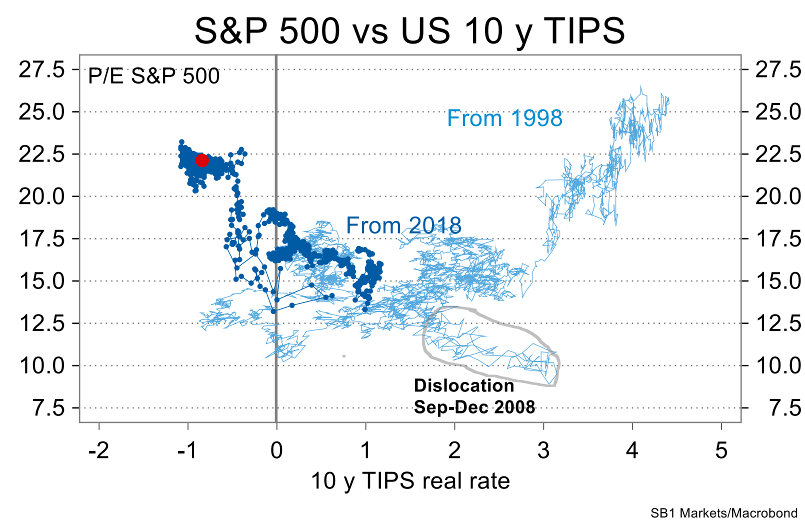



# S&P 500 up 1.2%, the 10 y bond yield down 5 bps, to 1.58%

Neither high inflation nor the first tapering signal have scared markets



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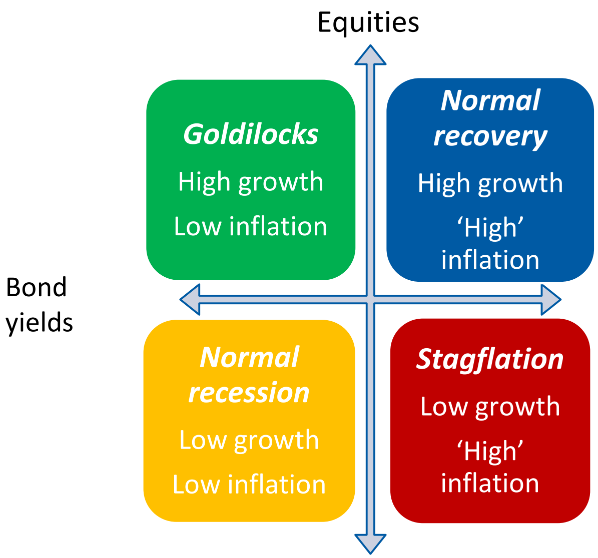
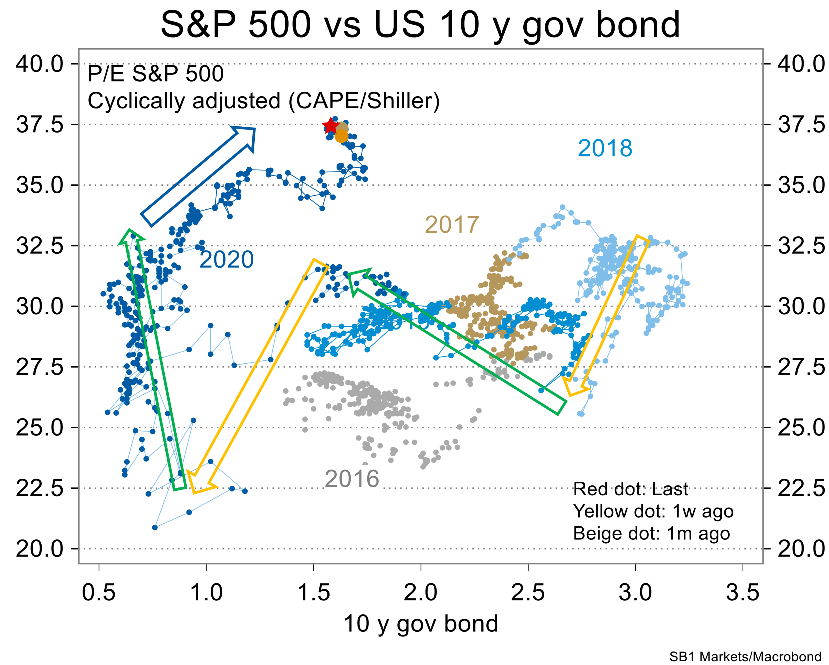
# A long term view: Still in the 'Goldilocks corner'

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



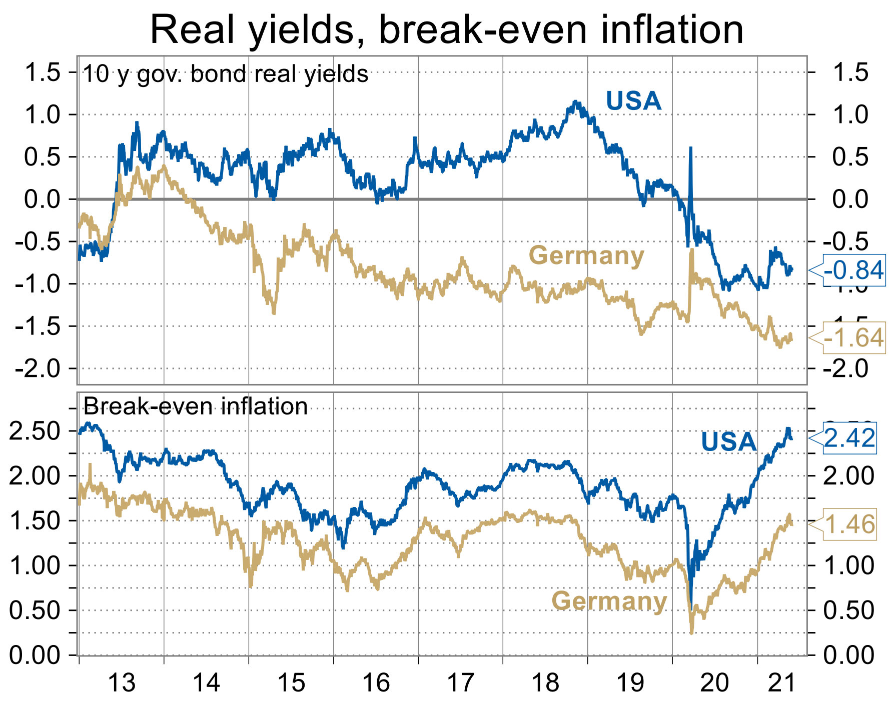



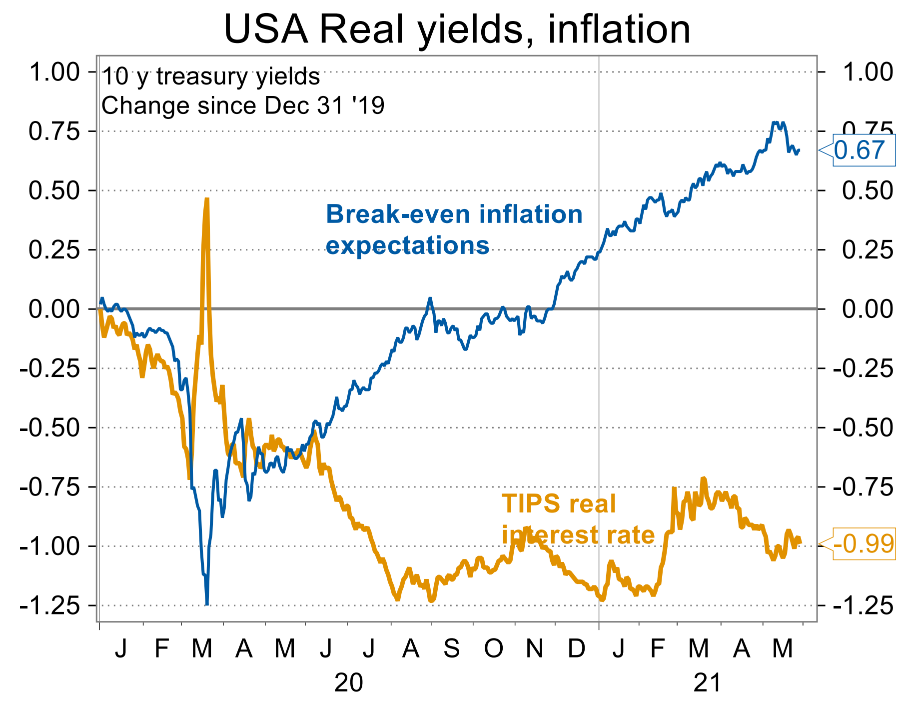

- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets

- **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 befo

# US inflation expectations have stabilised below 2.5%, TIPS rate down again

## TIPS rates still up from before the (cautious) tapering signal the previous week




US & Germany 10 y Gov bond yield

| | Yield | Change 1w | Change 1m | Min since April-20 |
|---|---|---|---|---|
| **USA nominal treasury** | 1.58 | -0.05 | -0.05 | 0.52 |
| .. break-even inflation | 2.42 | -0.01 | 0.01 | 1.06 |
| .. TIPS real rate | -0.84 | -0.04 | -0.06 | -1.08 |
| | | | | |
| **Germany nominal bund** | -0.18 | -0.06 | 0.04 | -0.65 |
| .. break-even inflation | 1.46 | -0.01 | 0.03 | 0.40 |
| .. real rate | -1.64 | -0.05 | 0.01 | -1.76 |

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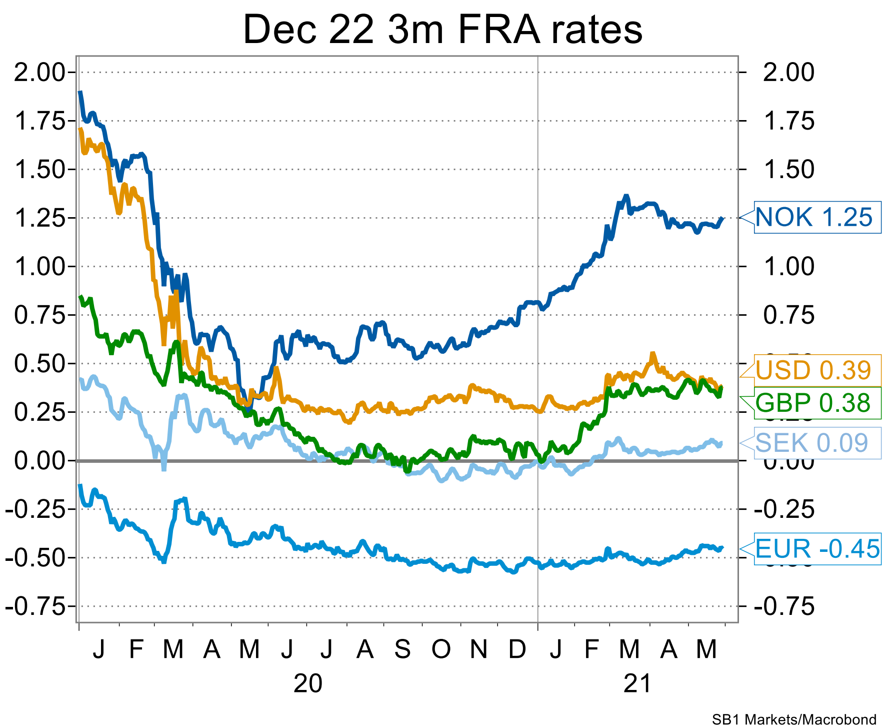
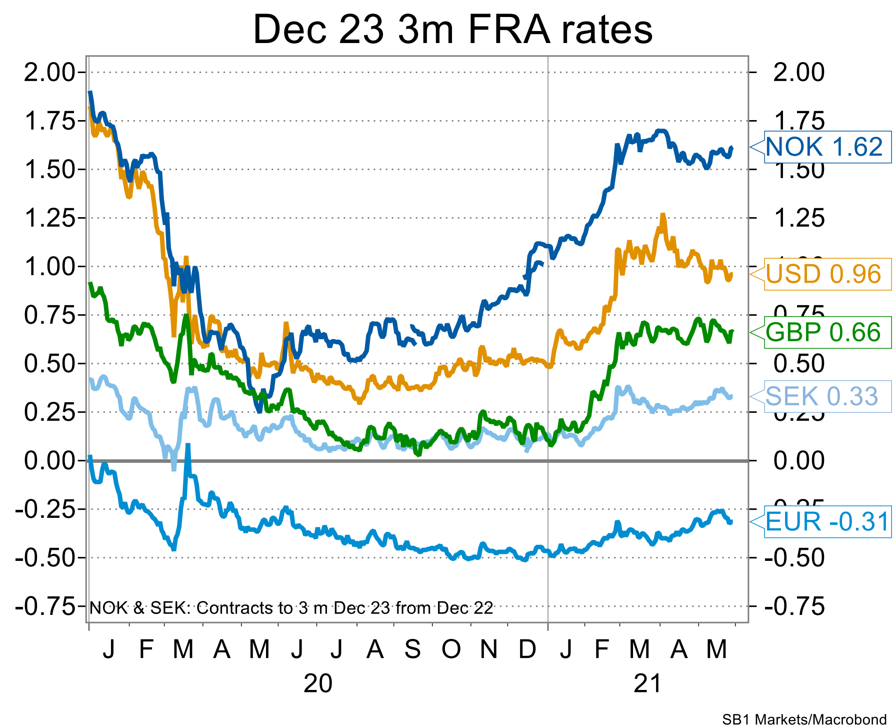
- Inflation expectations are still in the high zone vs. Fed's 2% PCE inflation target – and real rates are still extremely low
- German yields too, mostly due to lower real rates

# FRAs: NOK rates up, others down

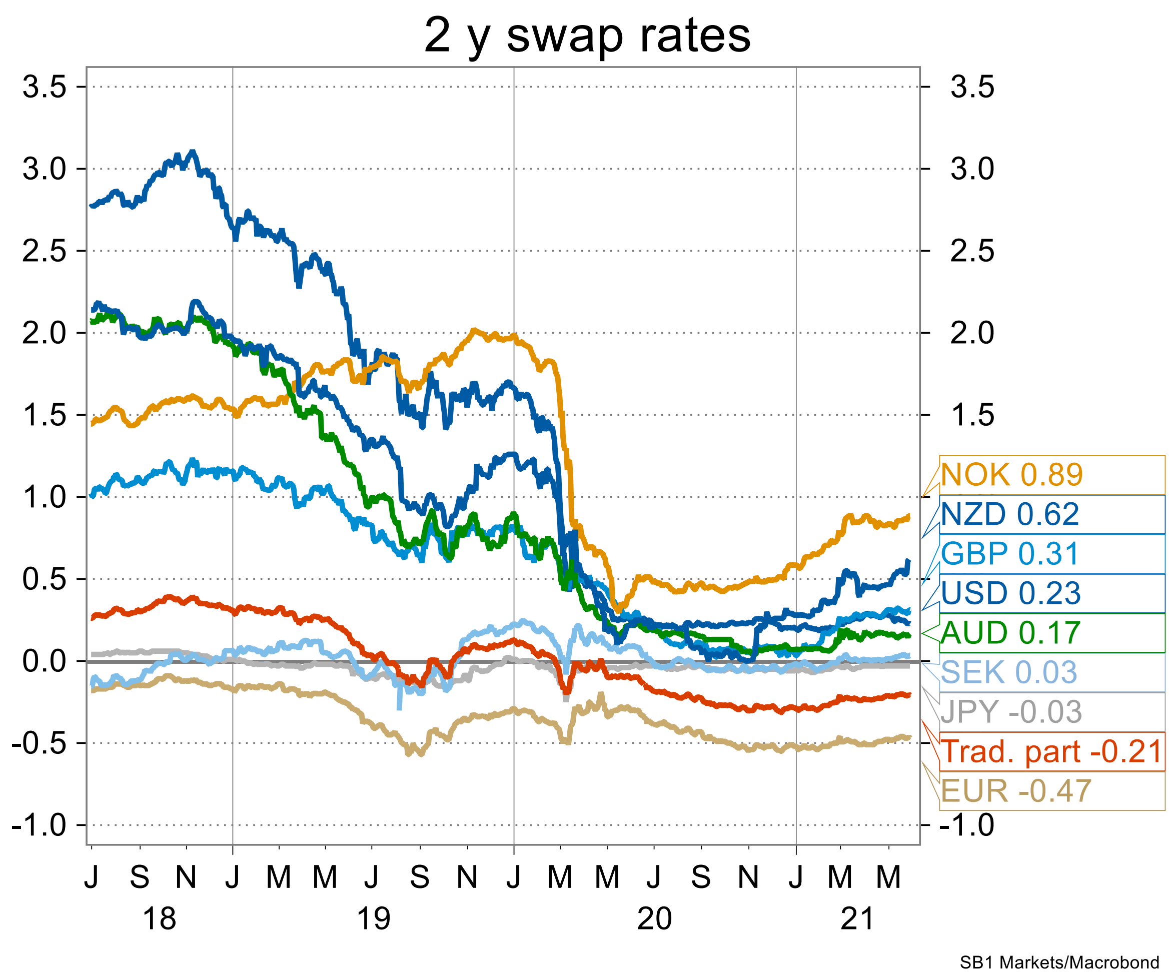
The US curve is still pricing in a hike next year, earlier than the Fed has signalled until now

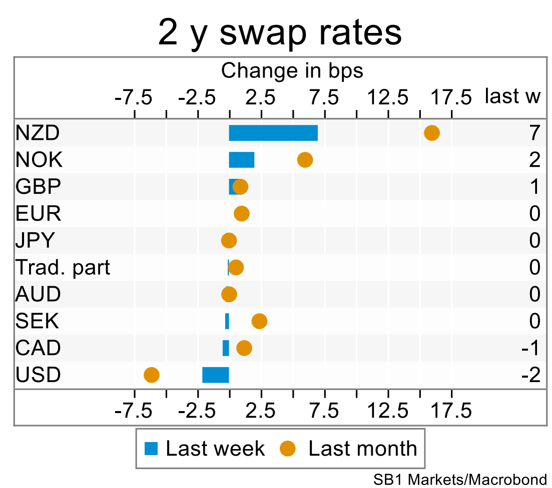


# 2 y NOK swaps up, others down

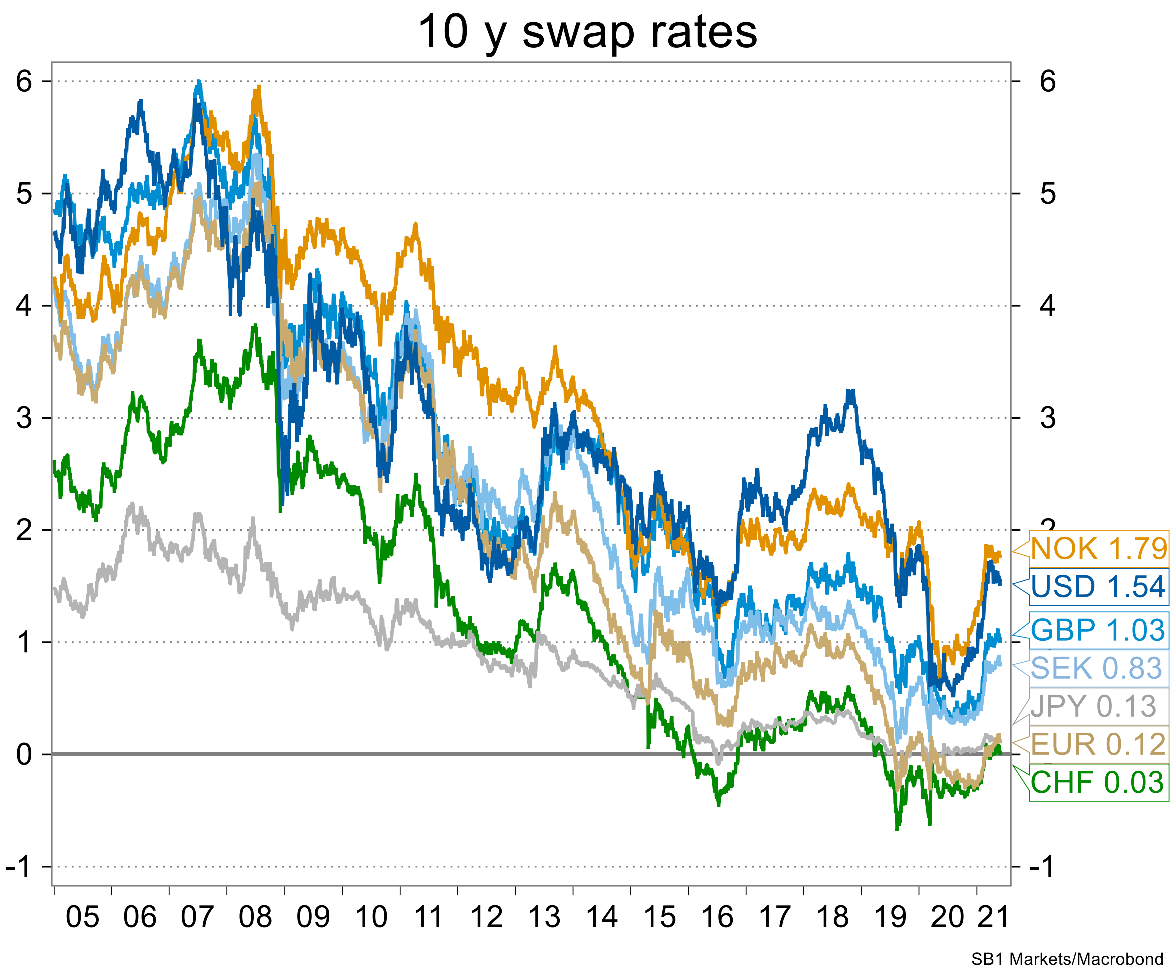
(barring the NZD rates)

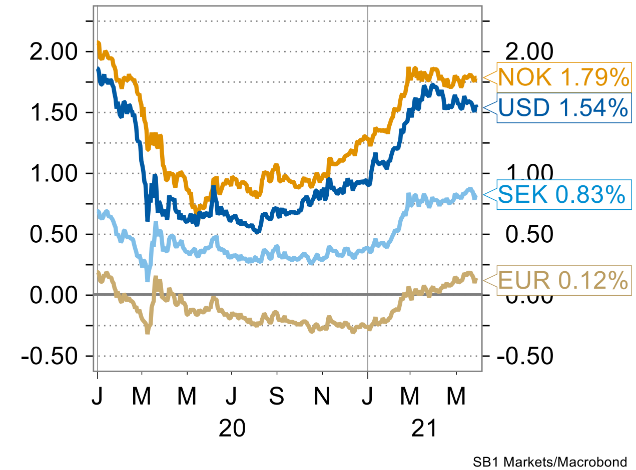


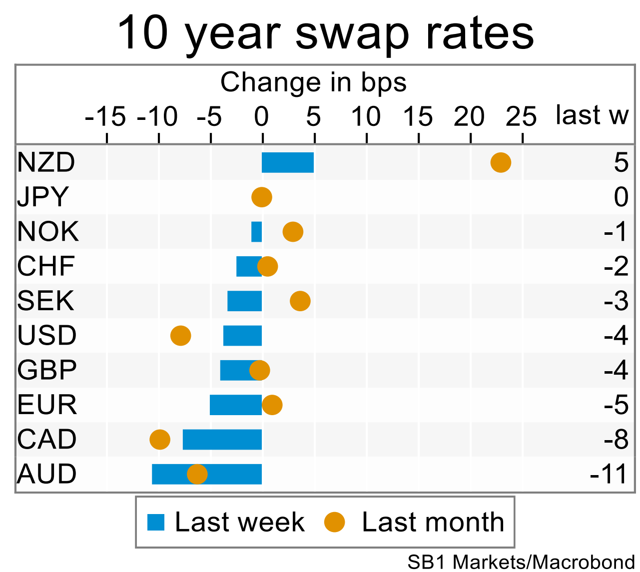



# 10y swap rates further down, broadly

EUR & SEK rates have kept up better than others

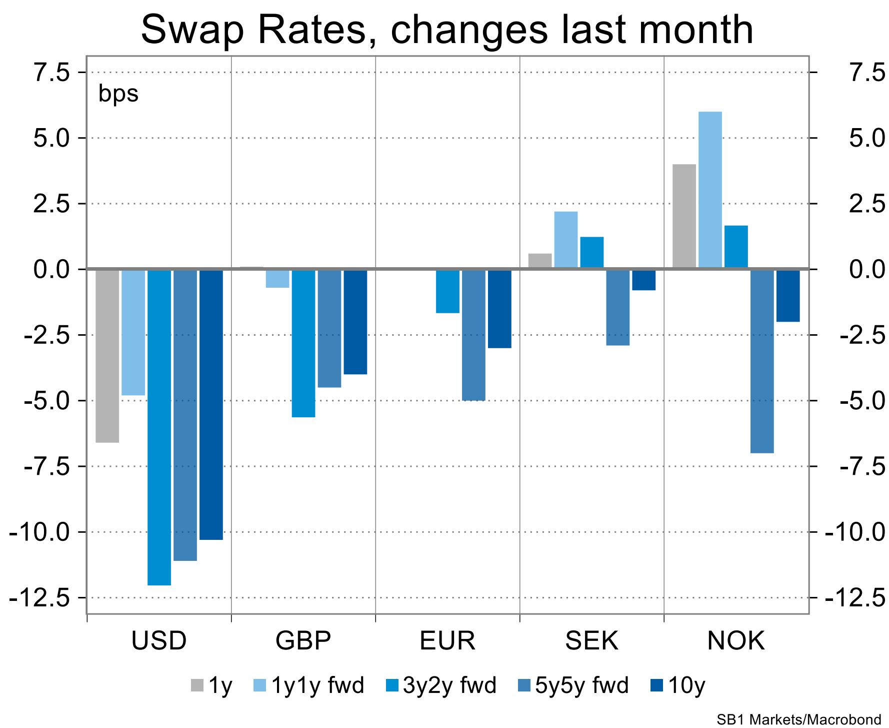


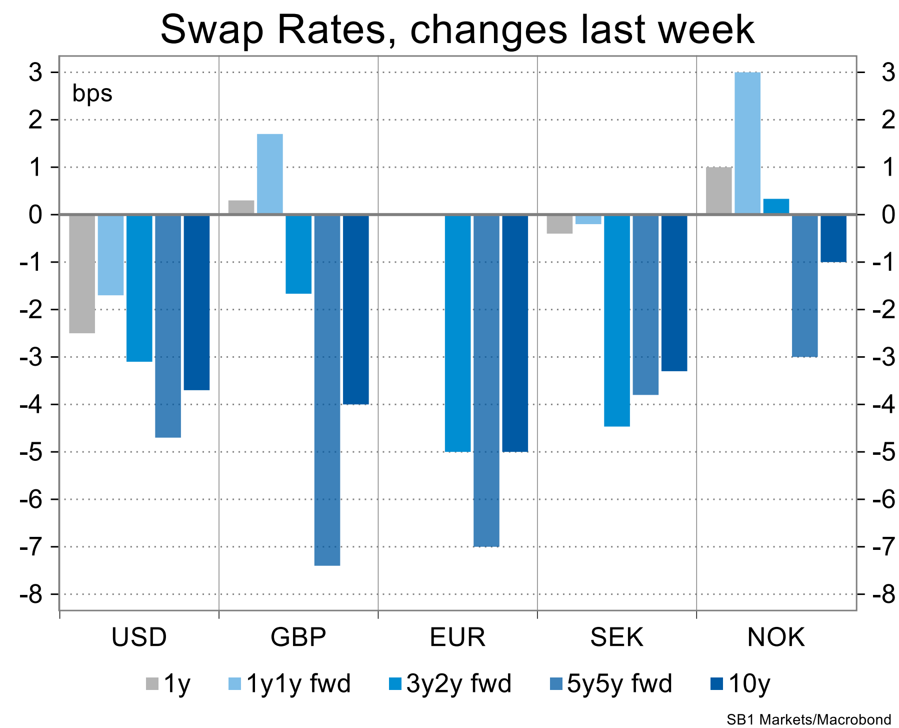



# US rates are trending down, even if the inflation debate is heating up

European rates yielded too. The short end of the Norwegian curve still rose



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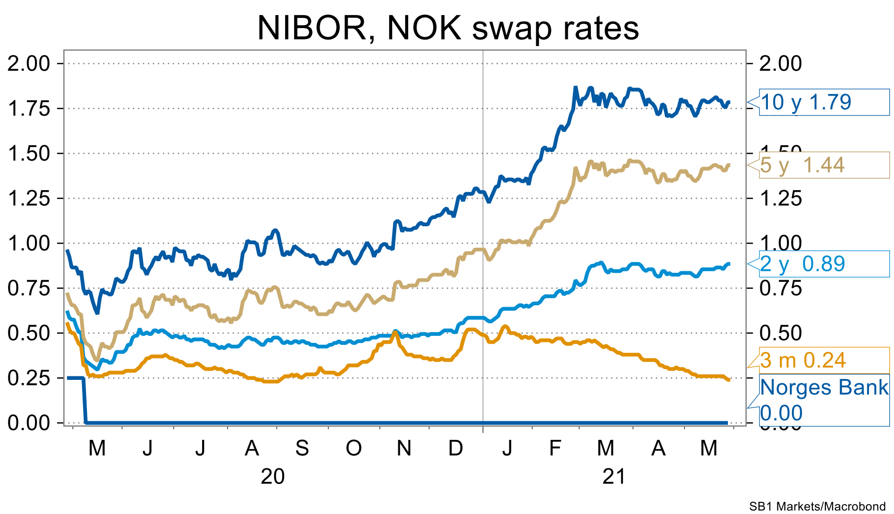
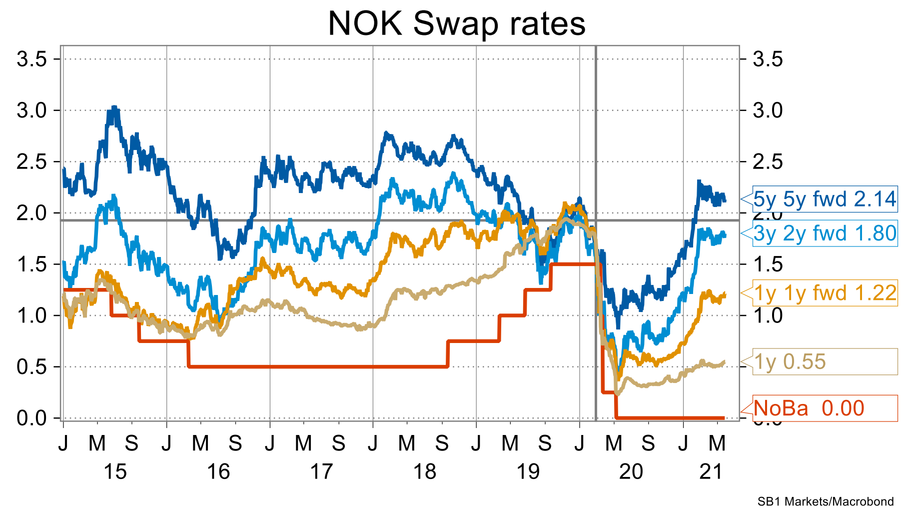
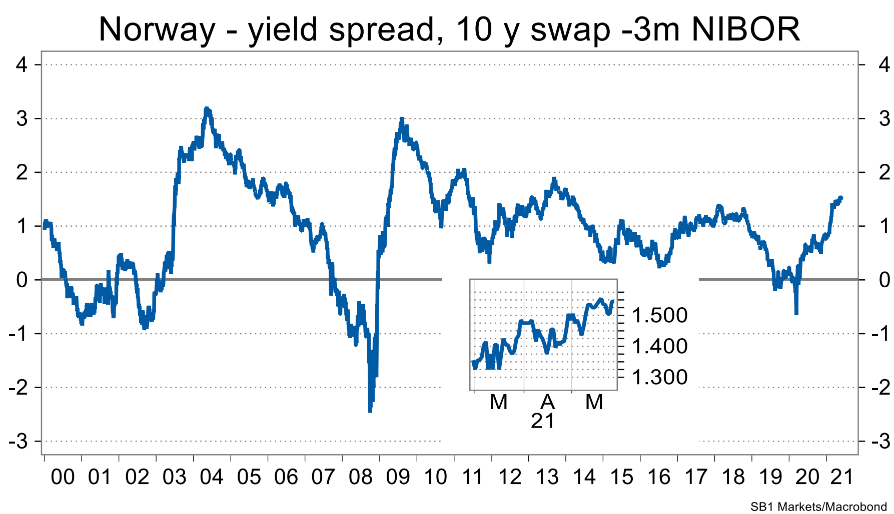
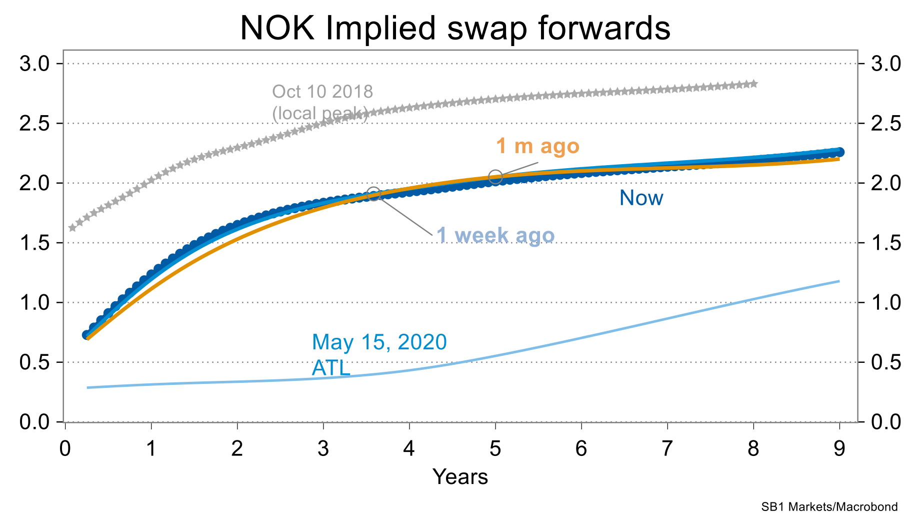
# The first part of the curve is still trending up – the long end flattish



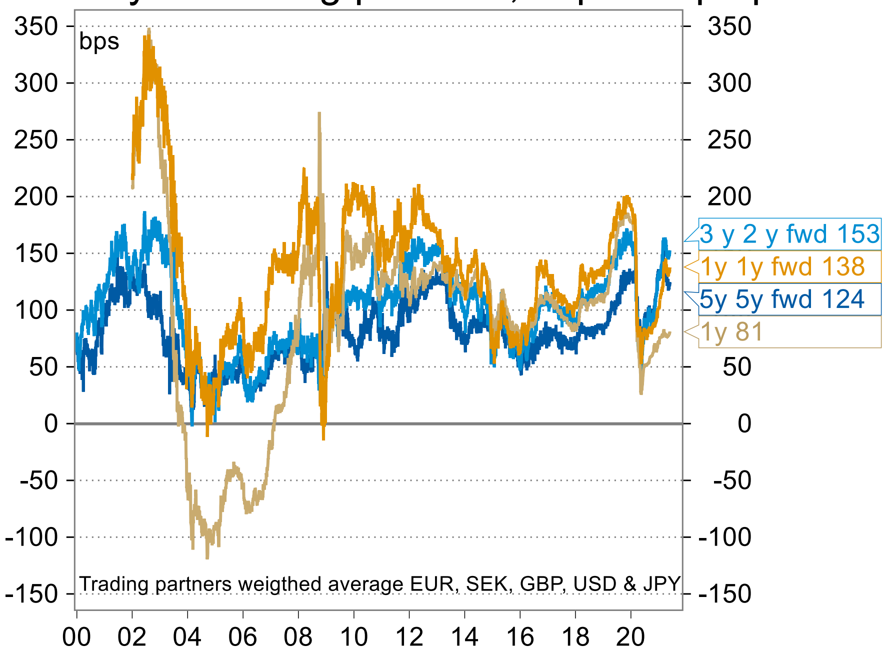



# Forward spreads vs trading partners further up last week

… all over the curve

Norway vs trading partners, impl swap spreads

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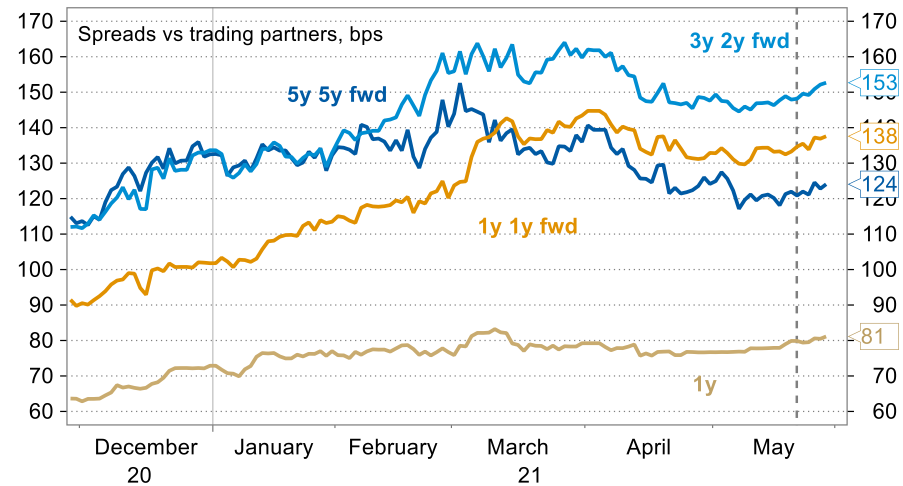


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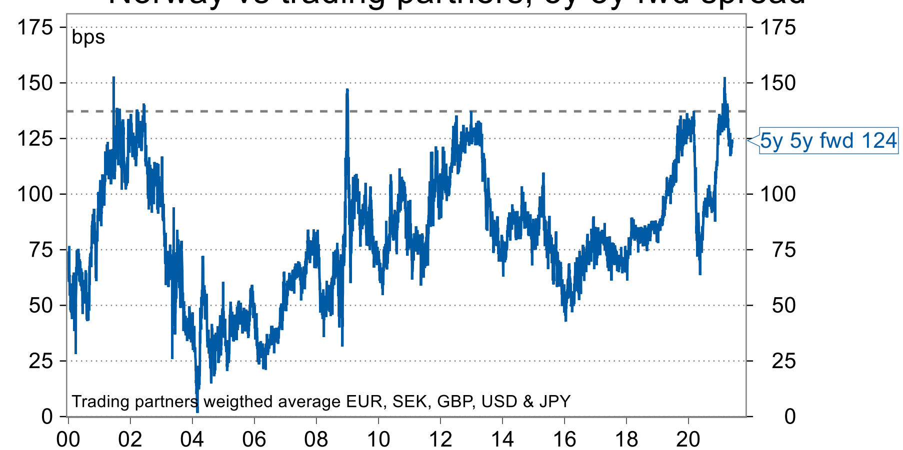
Norway vs trading partners, 5y 5y fwd spread

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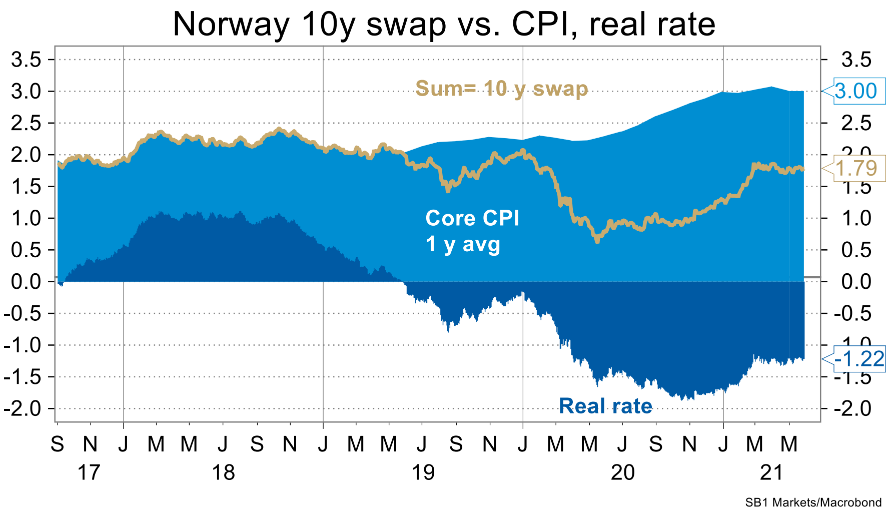
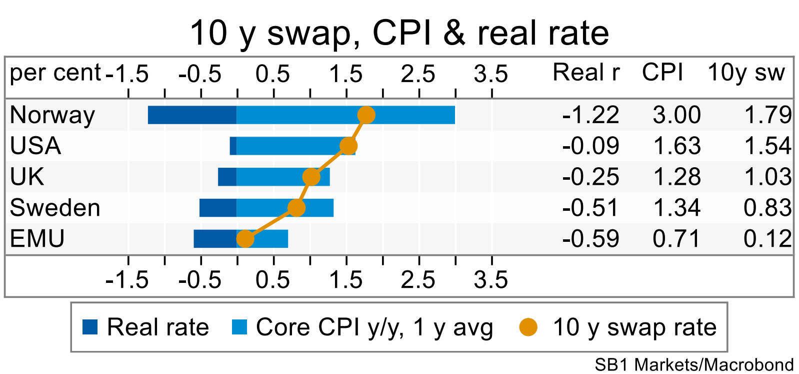
# Negative (actual) real interest rates most places – NOK at the bottom




## NOK 10 y swaps are drifting upwards

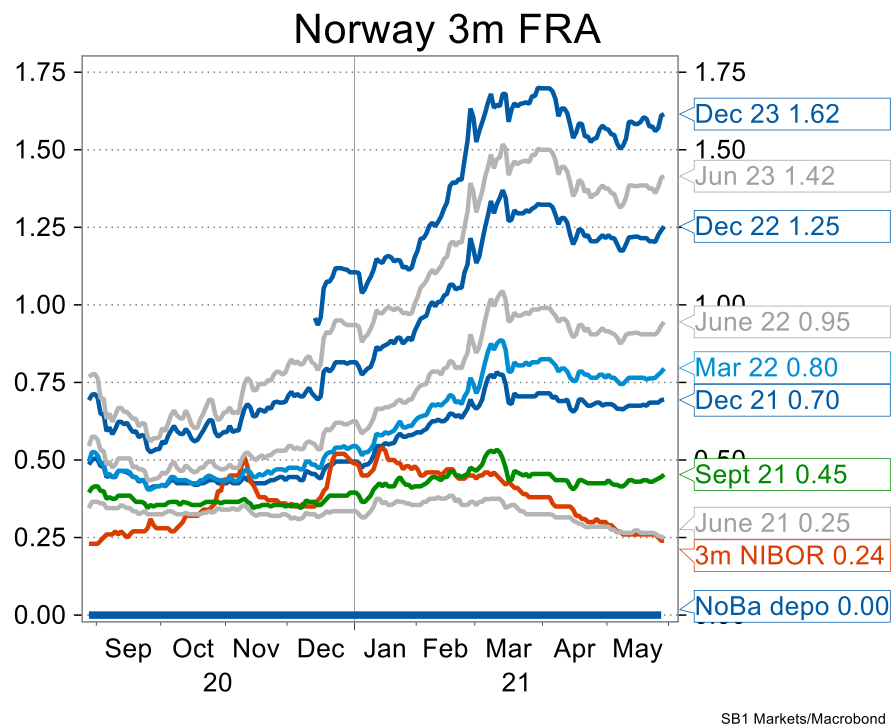
- The **10y NOK swap rate down 1** bps to 1.79%
- **The real rate**, after deducting 3.0% average core CPI inflation over the 2 past years equals -1.2%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 3.1%
  - » 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

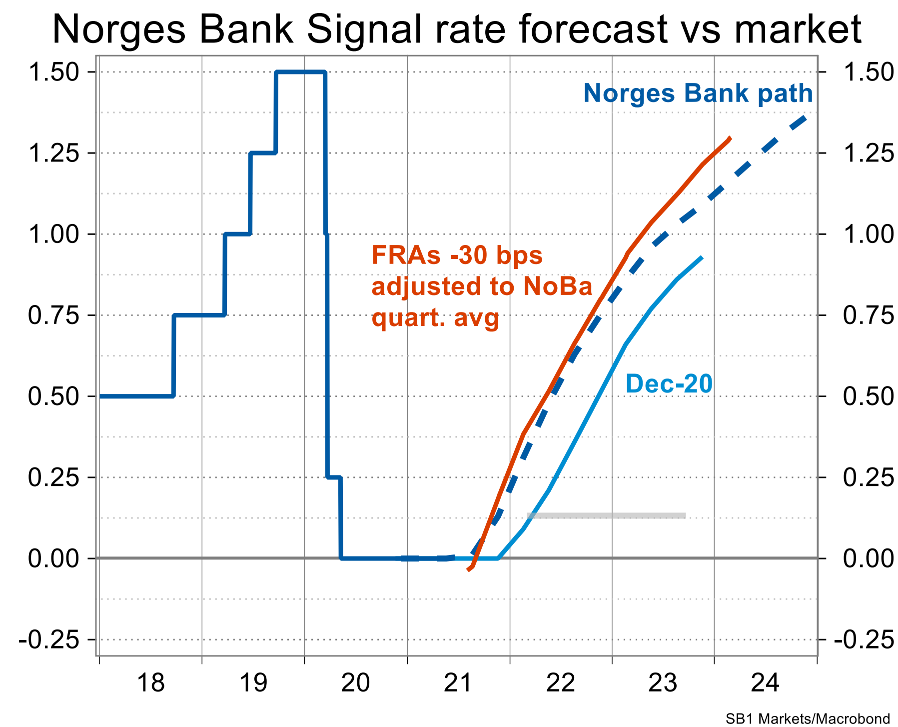



## NOK real rates among the lowest, as inflation is at the top

- **Inflation** among Norway and our main trading partners varies between 0.7% to 3.0% (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 -0.6% 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 are trending up again – the September hike

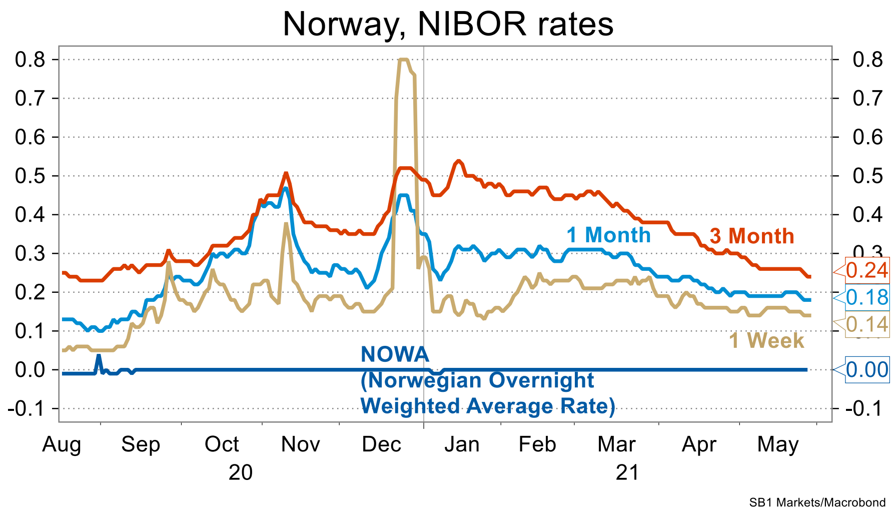


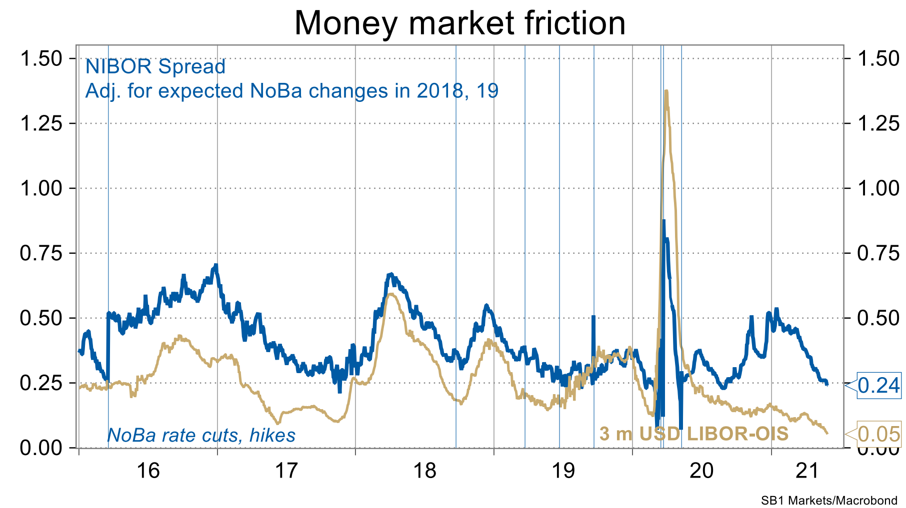



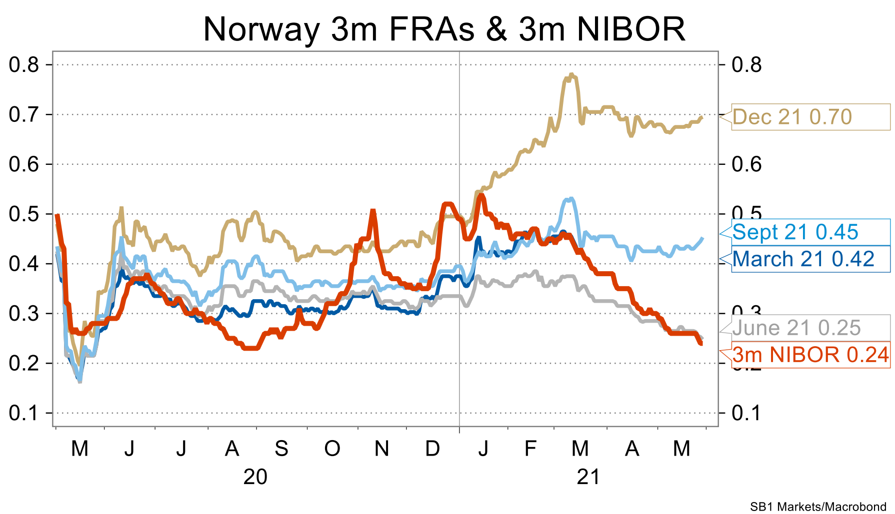

- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 30 bps NIBOR spread the 0.45% Sep FRA-rate equals a 0.15% NoBa deposit rate. If so, a somewhat above 2/3rd probability for a Sept hike is discounted, more than NoBa signalled in its March MPR (50%). If a 25-bps NIBOR spread is assumed, there is an 87% probability for a Sept hike.
- The Dec-21 FRA at 0.70%, and a 30-bps NIBOR spread, yields a 0.40% 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. 0.33%. That implies 1/3rd probability for a 2nd hike in H2, marginally above NoBa's path. A second hike in March-22 (if not in Dec) is fully discounted

# The NIBOR further down, to the last August ATL, 0.24%

## The spread to NoBa's signal rate is very close to ATL too



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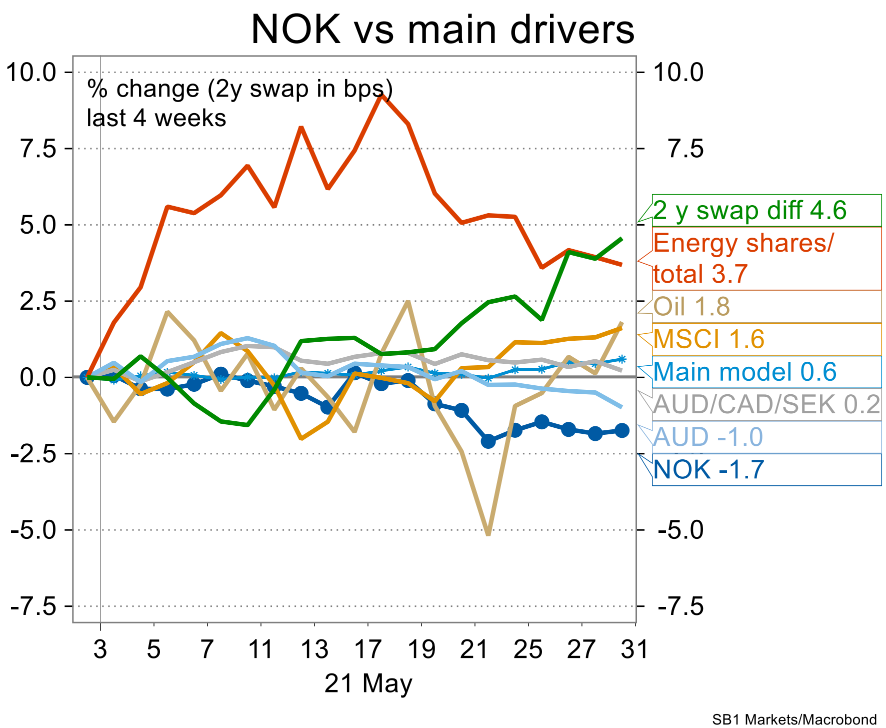
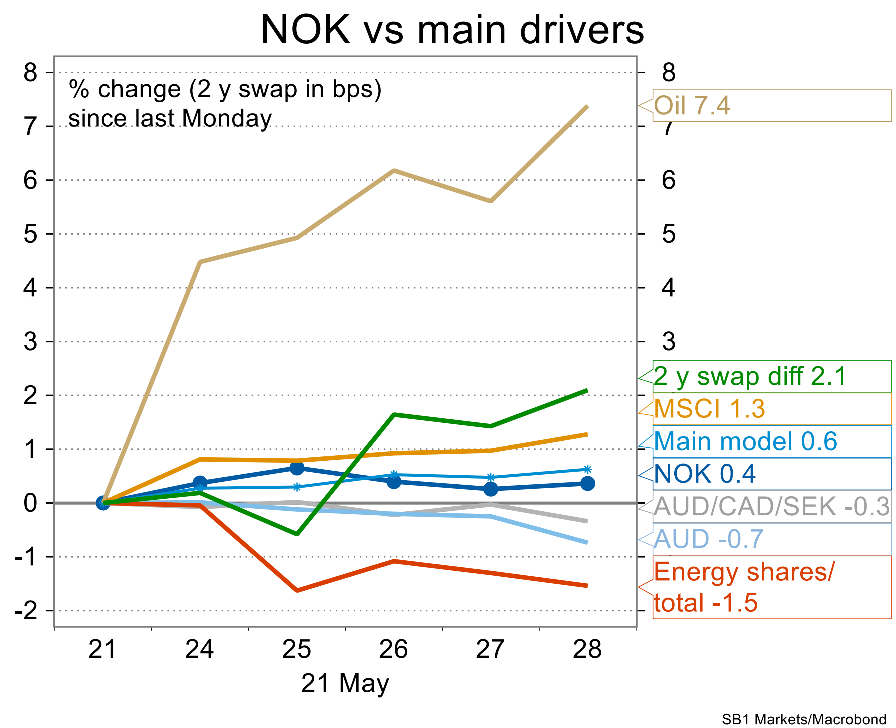
# The NOK up 0.4%, our model said 0.6%, as the oil price rose sharply

## The int. rate diff rose too, as did global equities. However, our f/x 'peers' fell, as well as energy shares



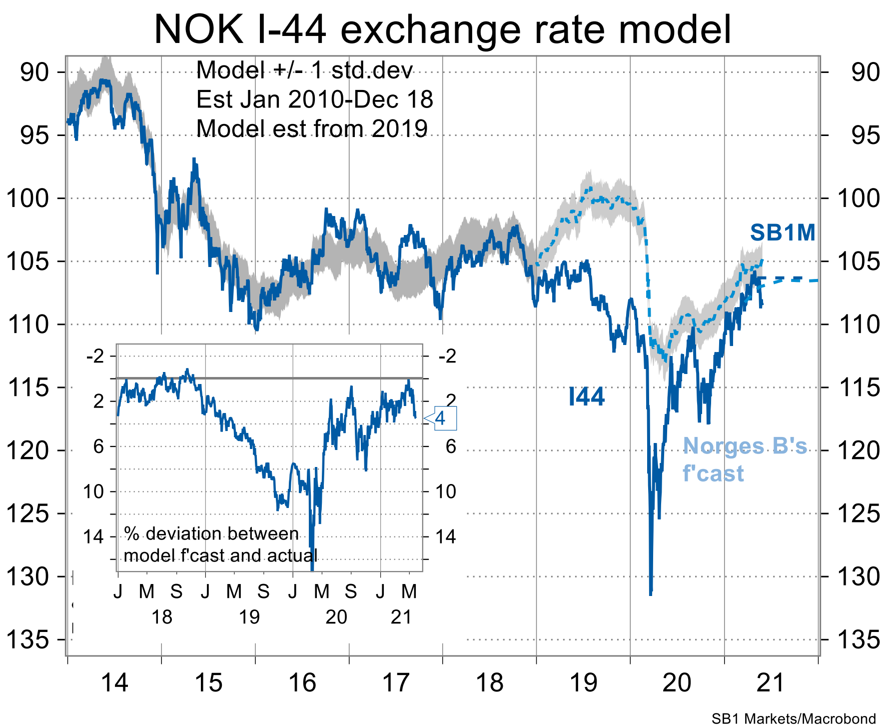

The AUD fell 0.7%, and oil companies lost 1.5% vs the stock market (some uncertainty on their business model??)

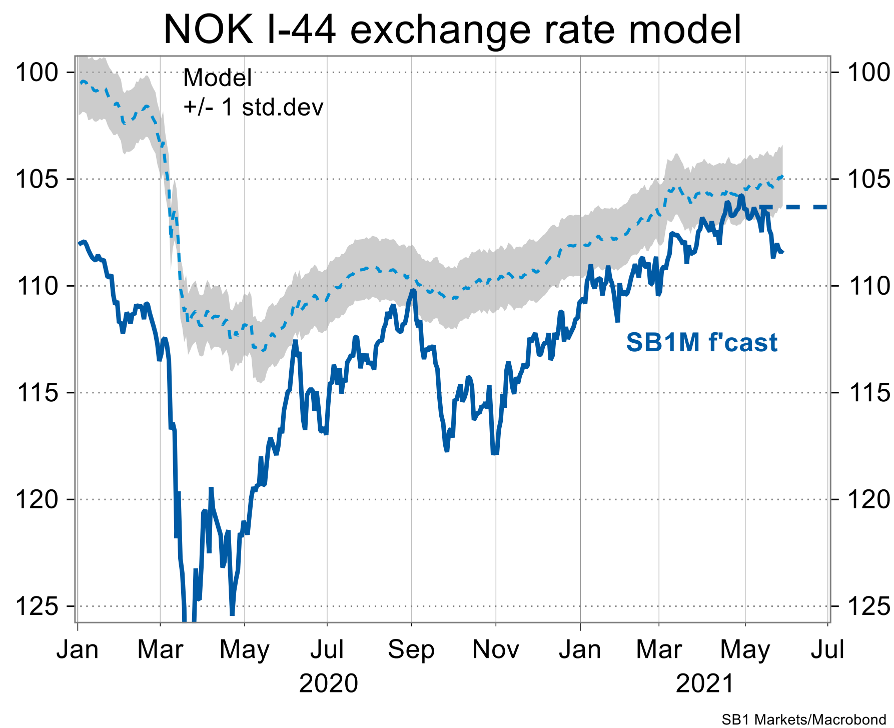
The status vs. the normal drivers:

- The NOK is 4% weaker than suggested by our standard model (calculated from Friday's data, from -3)
- The NOK is 3% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from -2)
- The NOK is 9% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- 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 4% below our main model estimate, still not cheap enough for a buy?

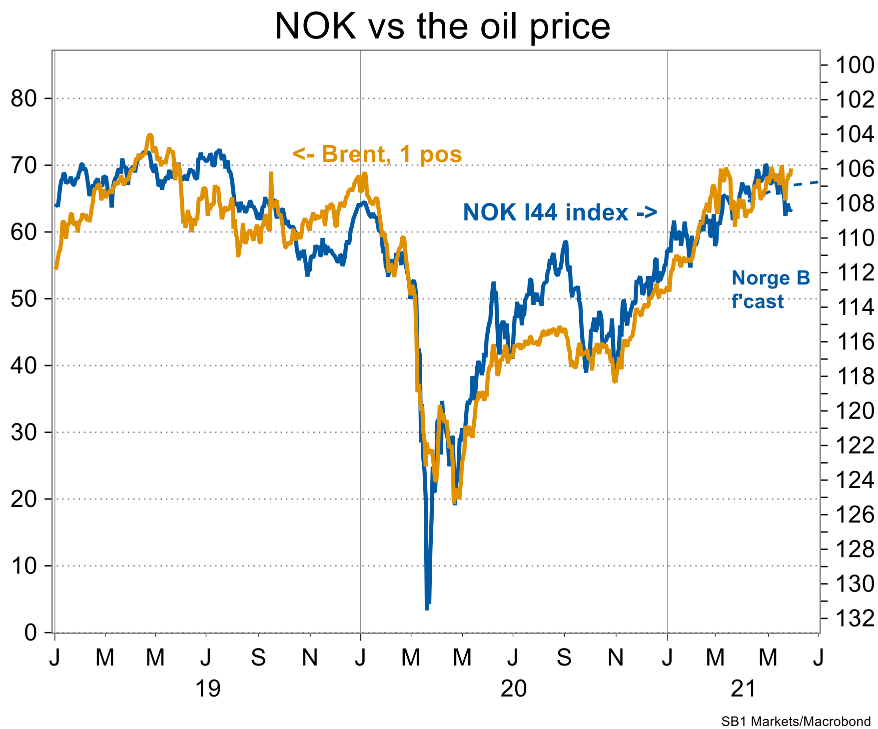


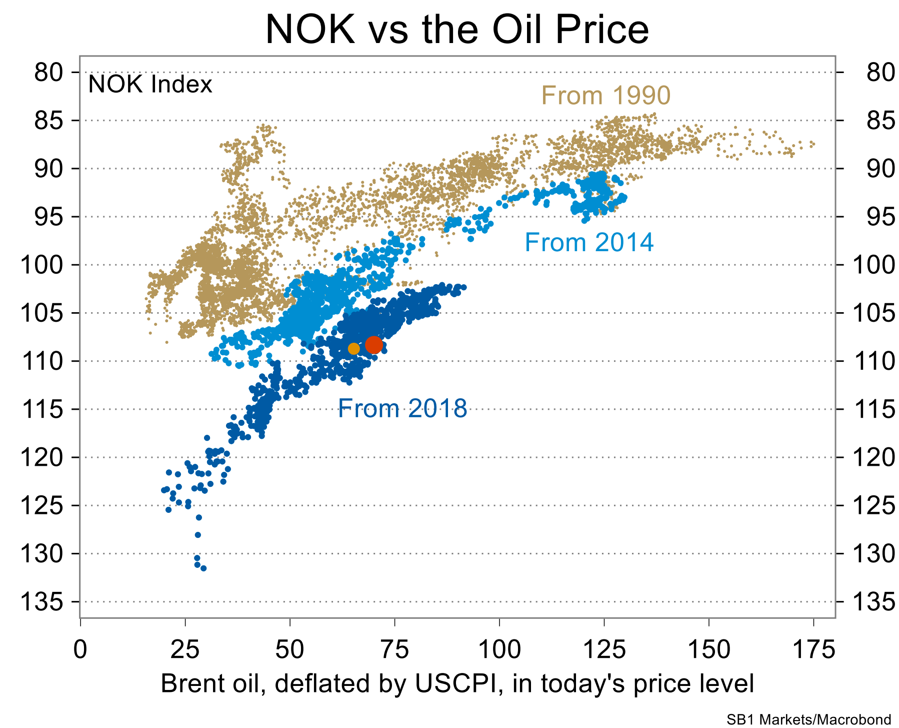




- The NOK is still above the pre-pandemic level and not that far below our workhorse model estimate

# Oil up 'more' than the NOK

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

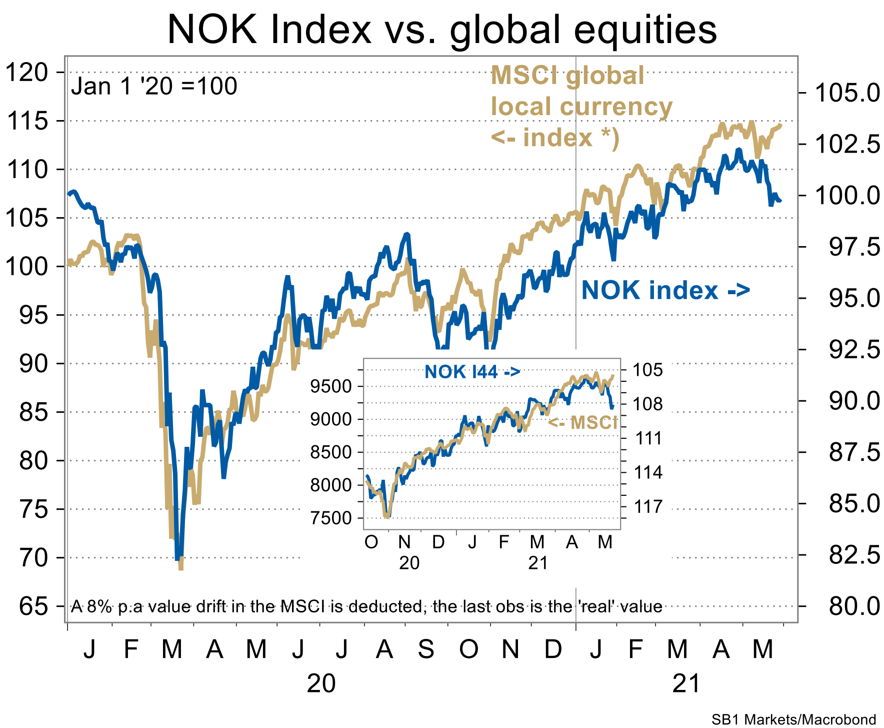


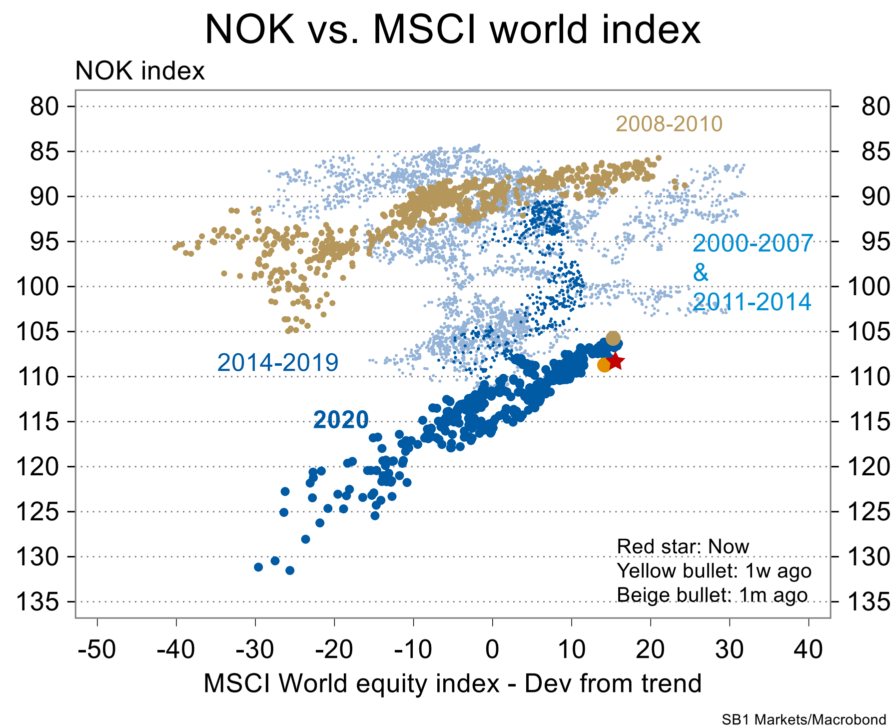




- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

# Global stock markets further up, the NOK followed

## Except for Sept., NOK and global equities has been closely correlated since early last year




- 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

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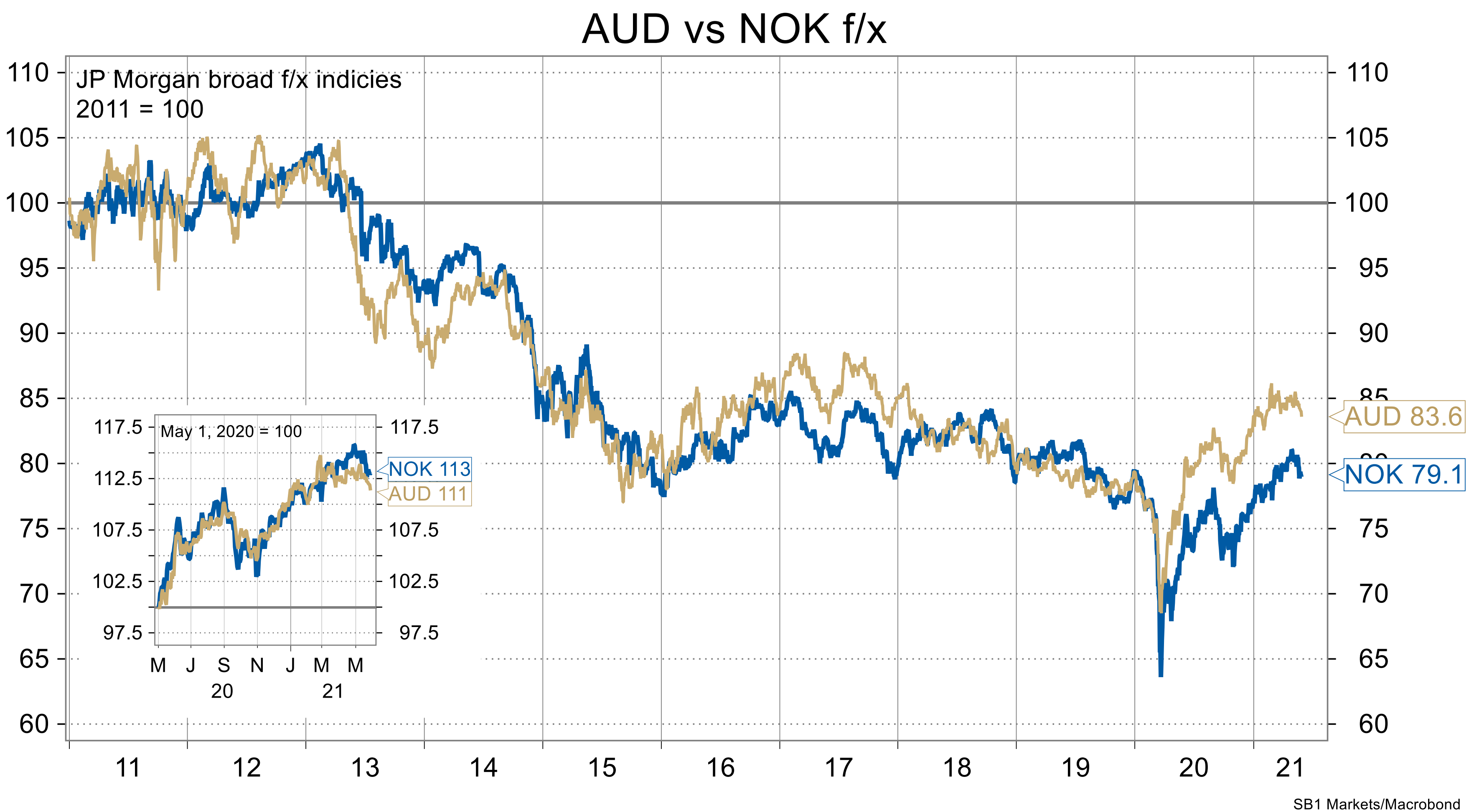
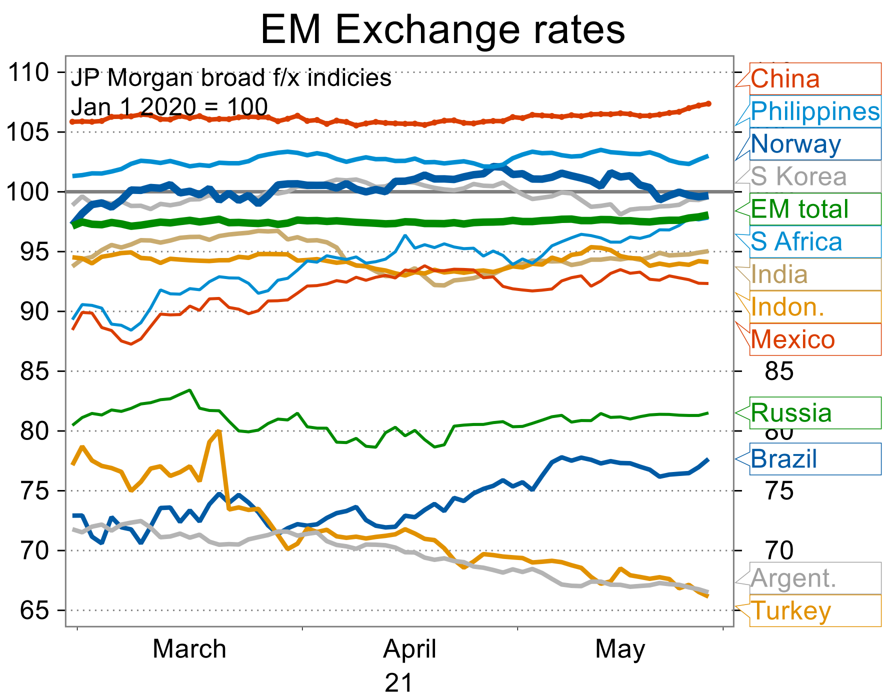
# NOK & AUD still in tandem – the AUD fell slightly less than the NOK last week

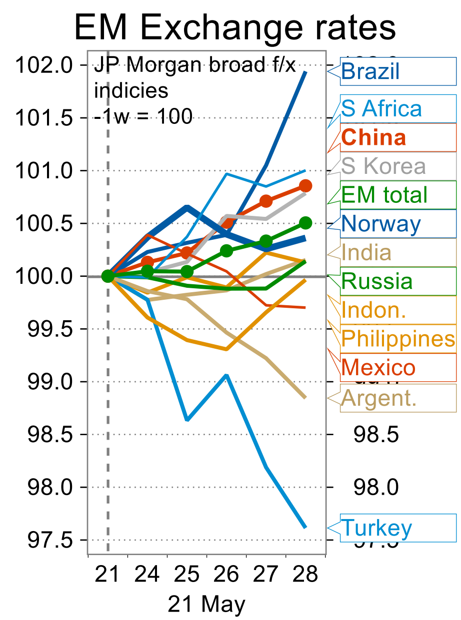
Both are up 11% - 13% since May 1st – but the NOK still 5% weaker than AUD since last spring



# EM f/x strengthened last week – the CNY to the best level in 5 years




SB1 Markets/Macrobond

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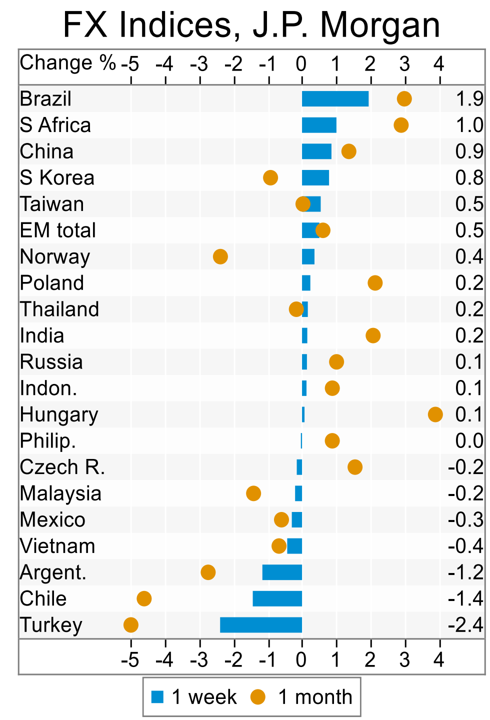
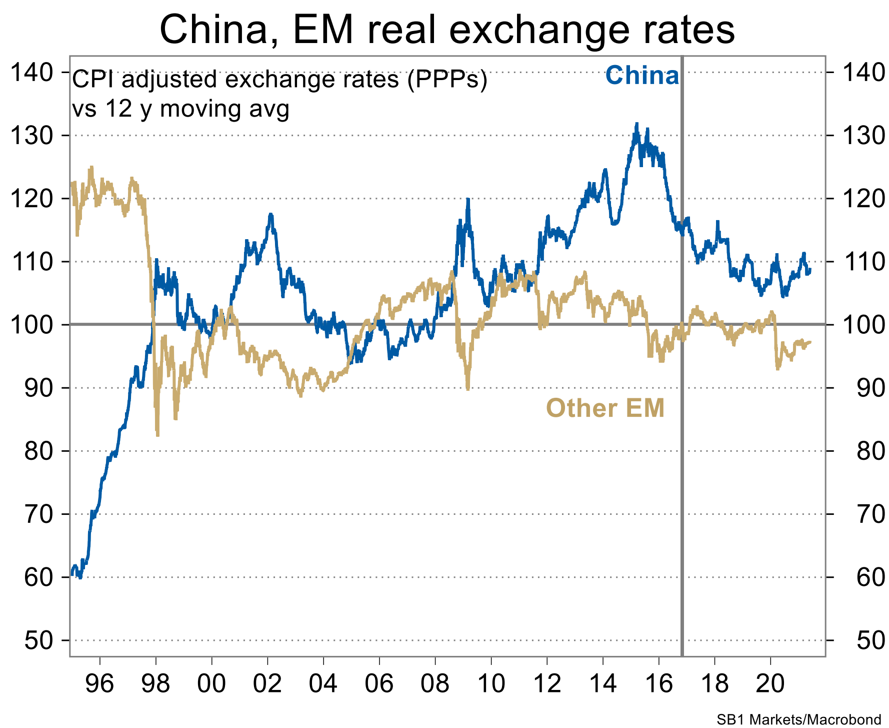


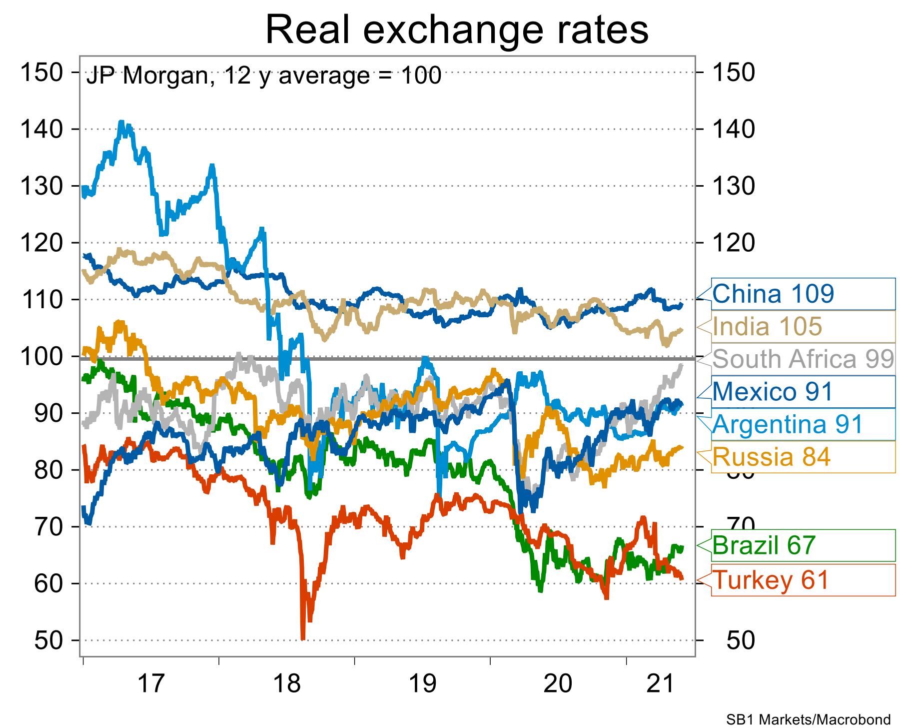

SB1 Markets/Macrobond

- Turkey & Argentina are still der Prügelknaben in the f/x market. For good reasons

# EM x China currencies down as Covid-19 broke out, have recovered somewhat

Some seem to be rather cheap, inflation differentials

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