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Macro Weekly

Week 27/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week

The virus

- **The Delta variant** is gaining market share, rapidly. In **UK, Portugal & Russia**, the Delta is found in 96% – 98% of new cases, and the no. of cases in rising rapidly, even if 70%+ of the population UK is vaccinated (or have been infected). In the UK, hospital admissions & deaths are up too, but not by much and the level (and rates vs. new cases) is still low, and falling – as the most exposed groups have been vaccinated. So far, it seems that even the Delta mutation will not create serious problems
- **Elsewhere**, the no. of cases is falling most places. **Norway** has turned marginally up but the number of hospitalised patients have fallen to below 30 (=zero)
- **Mobility** is rising everywhere in DM as the negative drag from corona restrictions/cautious behaviour is easing

The economy, part I

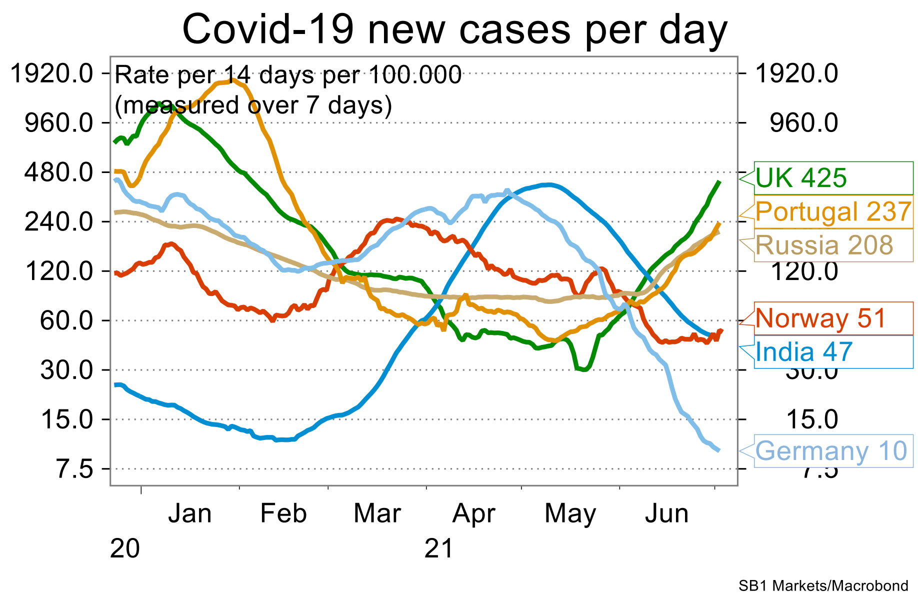
- **PMI**
  - **Peak PMI?** The **global manufacturing** index fell a tad more than we expected. An index at 55.5 is far above average, and signals strong growth. Global demand is strong, delivery times rose further, and prices rose sharply, albeit a tad slower than in May. Growth may have peaked but most likely more due to supply than demand weakness.
  - **European countries** occupy 16 of the top 18 top positions, and **US PMI & ISM** the two others. **Norwegian** manufacturers also reported strong growth (no. 13 at the list). **Emerging markets** are on the 2nd half of the list. **China** reported weaker PMIs in June, and growth is very likely slowing but these surveys still signal growth above trend
- **Auto sales**
  - **US** auto sales fell sharply in June, very likely due to lack of supply. Sales in the **Euro area** was probably very weak in June too. Some preliminary **Chinese** surveys suggest a significant drop in June, while date from **other Emerging Markets** so far are mixed. In total, global sales very likely fell sharply in June. **Norwegian** sales rose to one of the better months on record

Last week: The economy, part II

- **USA**
  - **Not too hot, not too cold: Employment** grew faster than expected, but unemployment grew too, and annual wage inflation was lower than expected. However, the participation rate remained flat – and low, even if far fewer workers say they are 'temporary covid leavers'. Small businesses are still reporting desperate lack of labour, and that they have & will increase compensation more than ever before. Even if wages did not surprise on the upside in the payrolls report, average wages are almost 2.5% higher than the pre-pandemic growth path, and have not slowed, even if many low-paid hospitality workers have been employed. Productivity has not witnessed any take-off, and unit labour costs have soared (like in most other countries)
  - **House prices** are soaring, at least until April, according to all available indices – all are reporting 30 y high to unprecedented y/y increases
  - Q2 growth nowcasts/forecast have been gradually lowered during the past two months
- **EMU**
  - **Retail sales** probably rose close to 5% in May, following the 3% April drop. **CPI Inflation** remains in check, both headline & core, but producer prices are soaring and EUs business survey reports strong growth – and a super rapid growth in prices
- **Sweden**
  - Brighter outlook & higher home prices, but the Swedish Riksbank kept the policy unchanged at zero, as expected – and the bank assume it will stay there for a long as the Bank can see (till Q3 2024). However, the bank revised up its growth forecast for all years
- **Norway**
  - **NAV unemployment fell** sharply, and as we assumed faster than Norges Bank assumed – by 0.5 pp to 3.0% or 0.9 pp above the pre-pandemic level. Including part-time unemployment, the rate fell to 5.7%, or 2.3% above the p-p level. Unemployment is declining in all sectors, and all regions – and at the fastest pace where it still I highest, in travel & transport (hospitality incl), and in Oslo. The inflow of new vacancies remained high in June and we expect no. of unfilled vacancies to soar in Q2
  - **Retail sales** rose almost 6% in May, far above and others' expectations. Sales are 15% above the pre-pandemic level, way above any sustainable level. As services opens up, and travel to abroad picks up the coming months/quarters, sales of goods will normalise
  - **Credit growth** was higher than expected in May, due to more aggressive corporate borrowing than we expected. On the household side, no credit boom to be seen, even if rates are record low

The delta virus will take the market everywhere, and it may become a challenge

And now a Delta plus variant is found in India…



- The **Delta virus** will very likely capture the corona virus market in most countries
- **India** has managed to get it under control, without killing the economy. However, in the **UK, Russia and Portugal**, where the new variant has become totally dominant (close to 100%), the no. of cases are surging **Israel** is reporting as surge in cases, as are some other countries with rather high level of vaccinations
- On the other hand, while the no. of **hospitalisations** and even more **deaths** in the UK are on the way up, the level is low, and the hospitalisation rate is still falling. Thus, there will not be a health crisis anytime soon but at the current growth rate (40 – 70% per week, R = 1.3 – 1.5) there are some clouds on the horizon. (See more next page)
- In **Norway**, the no. of new cases is increasing slowly but the no. of hospitalised has fallen until now (to below 30 = zero)
- In most **other rich countries**, the no. of new cases are stable or are still falling, even if restrictions are eased and mobility has increased sharply

Source: Financial Times, June 20

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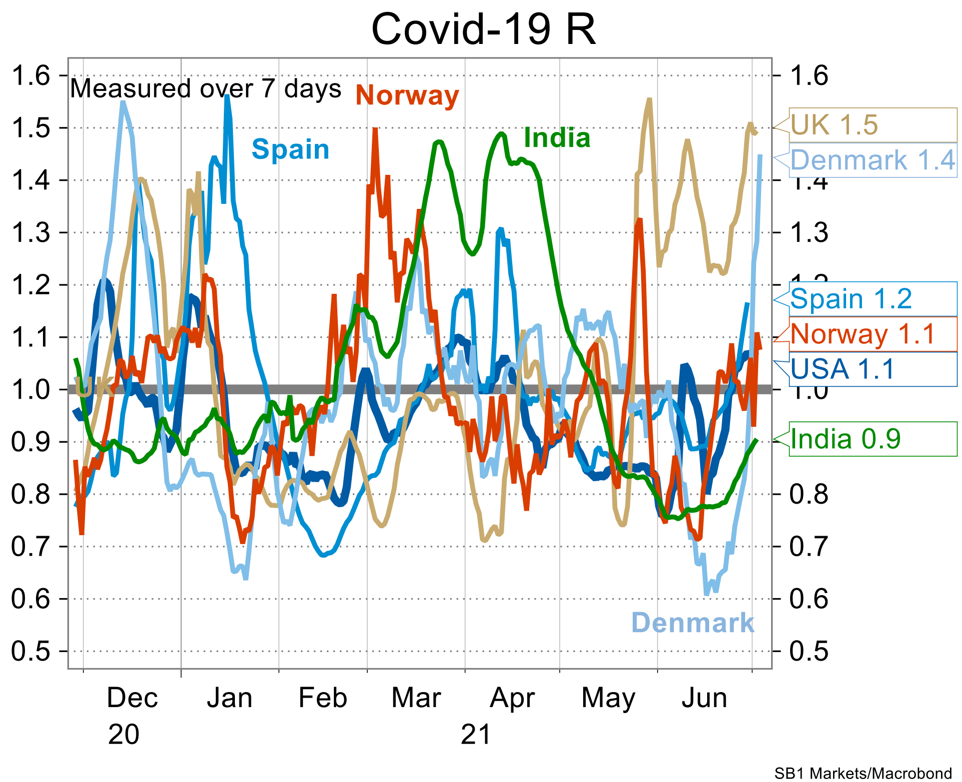
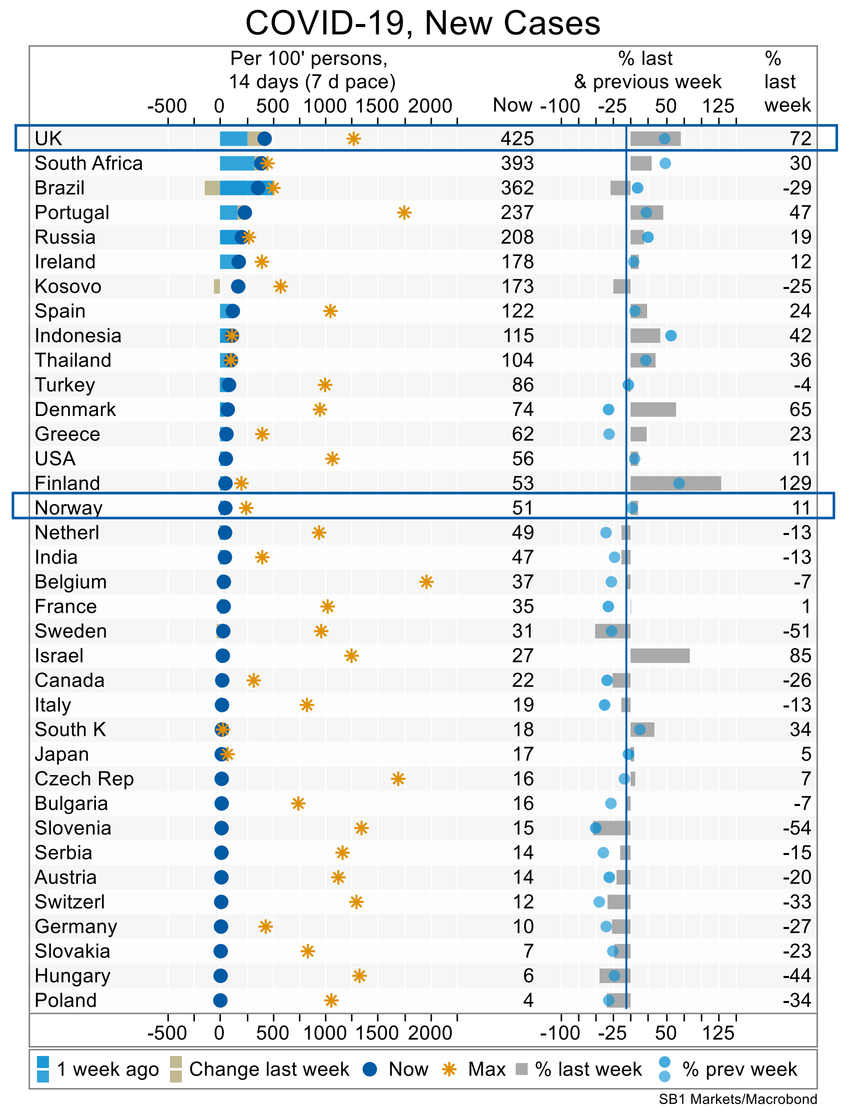
More countries are reporting more case, the Delta to blame

UK at the top of the list, up 70% last week





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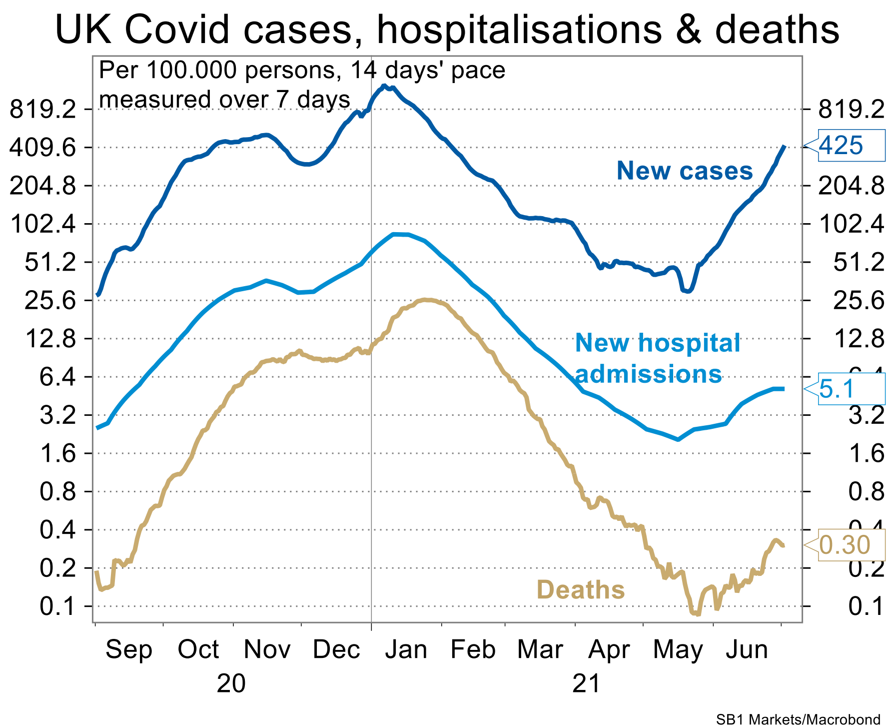
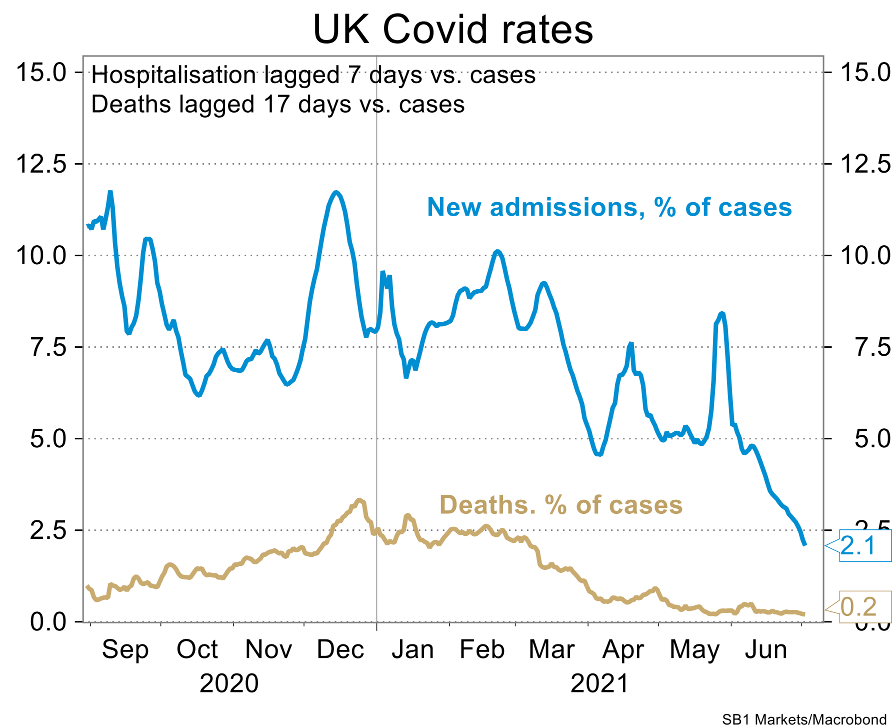
UK: Still a moderate increase in new hospital admissions, deaths

… And from very low levels, compared to before the vaccination process





- The no. of **new cases per day** is steadily growing, by 40% - 70% per week (R=1.3 – 1.5), and will reach the January peak by the end of the month – and by that time the immunity rate will have increase further (albeit not by much, UK immunity is increasing by just 1.5 pp per week now)
- However, the **hospitalization rate** has fallen sharply as both the old and other risk groups are vaccinated. The rate is approaching 2% from appox. 8% in January – and it is still declining. On the other hand, UK hospitals will be filled up once more if nothing changes the coming months. Hopefully, vaccination will speed up again, from the present 1.5% of population per week
- The **case fatality rate** (of those tested positive) has fallen even more, to 0.2% from close to 3%
- **Implication:** The Delta variant spreads like a wildfire but the number of infected will have to increase to very high levels before the UK will run into a health crisis

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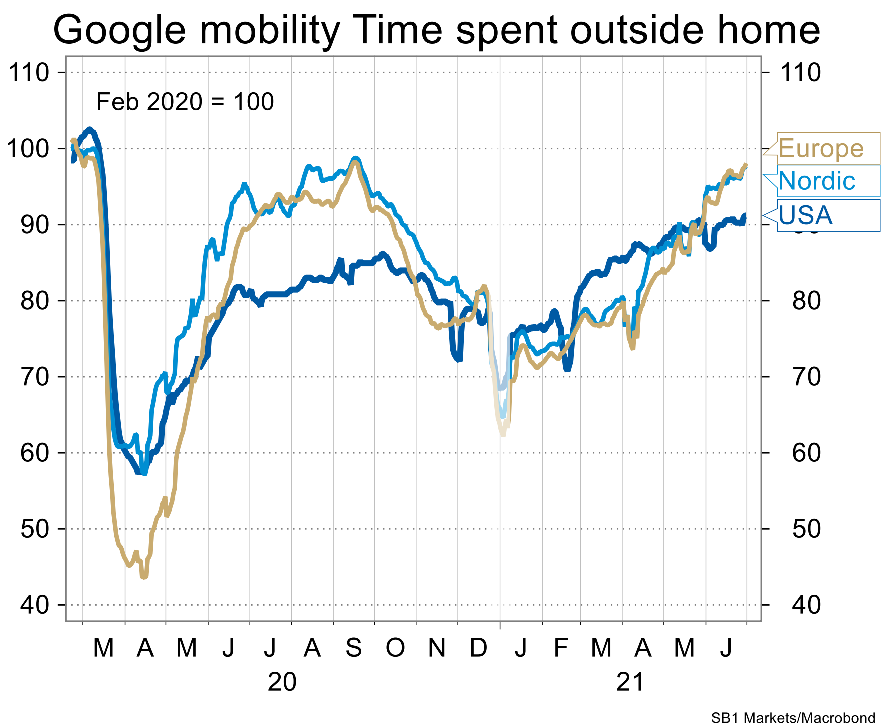
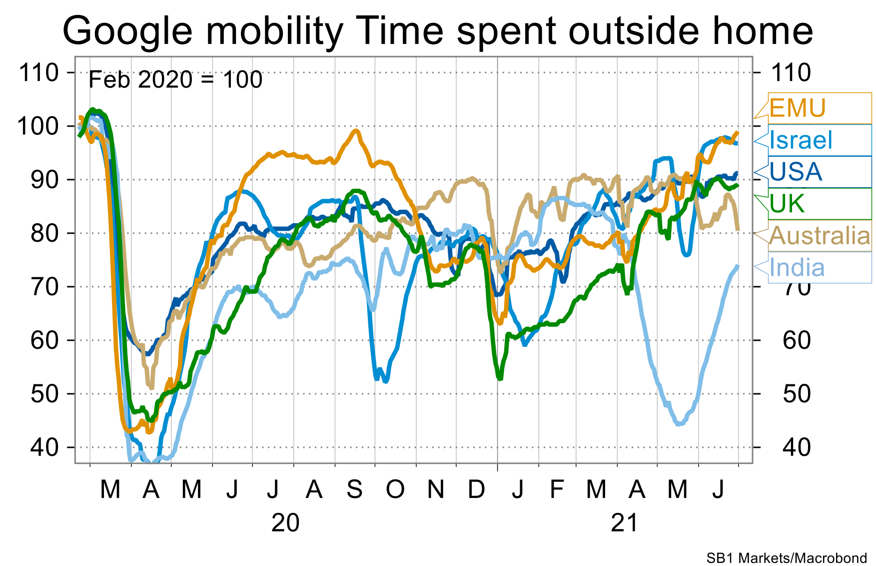
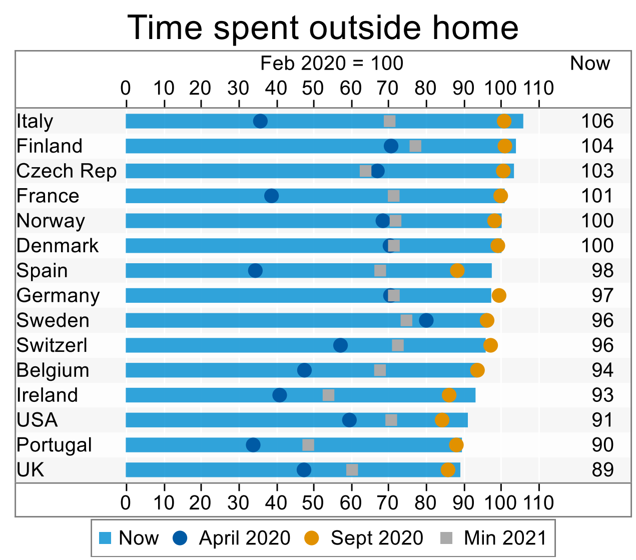
Mobility on the way back to a normal level – sharply up in Europe (Nordics incl.)

Even India turned up in mid May



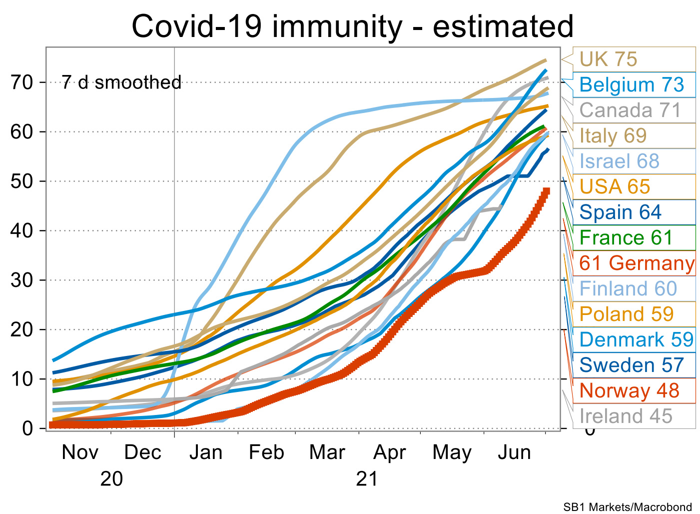


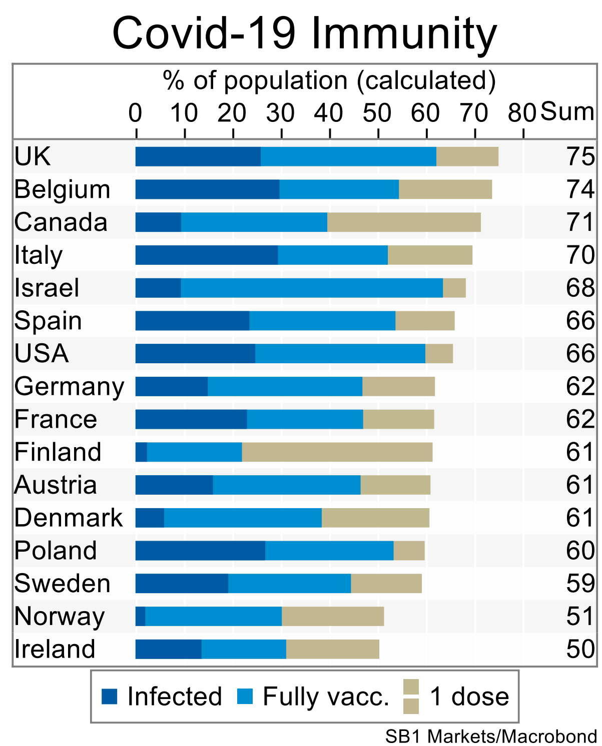


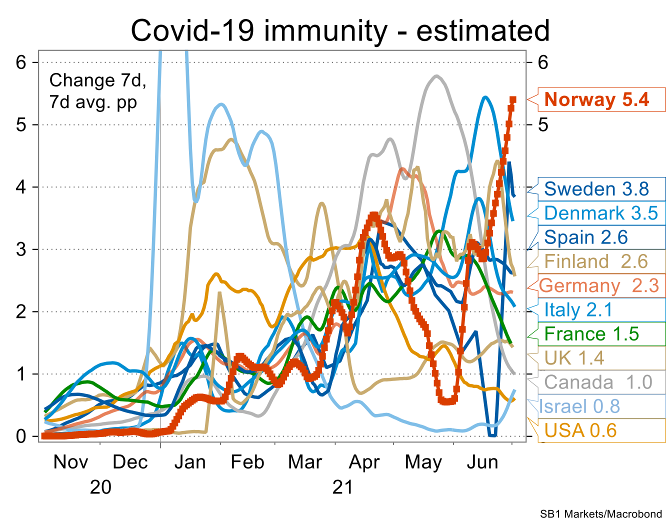
- Mobility still some 5% - 10% below par – some upside left

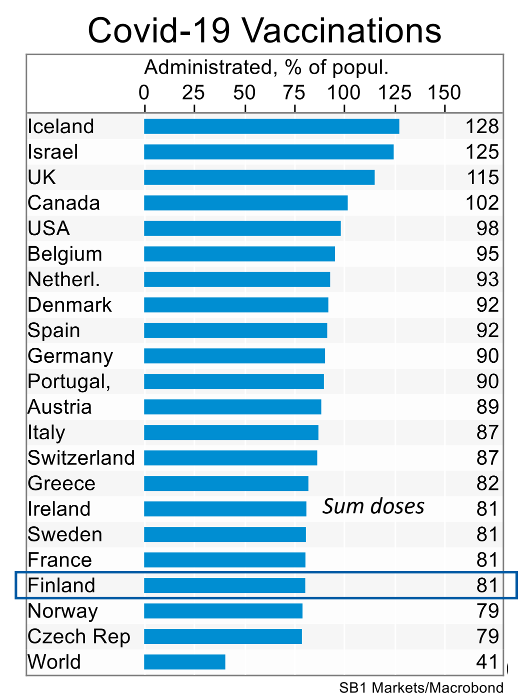
Vaccinations: Finally, Norway in the lead, at least with regards to pace

Norway is a laggard, as we not use AstraZeneca or Johnson & Johnson's vaccines





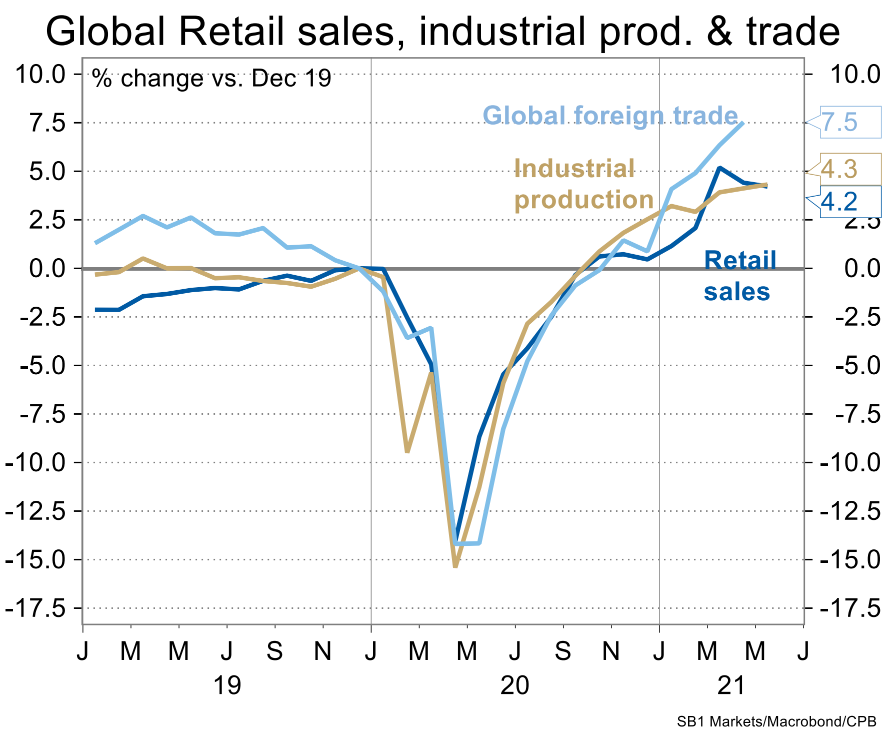


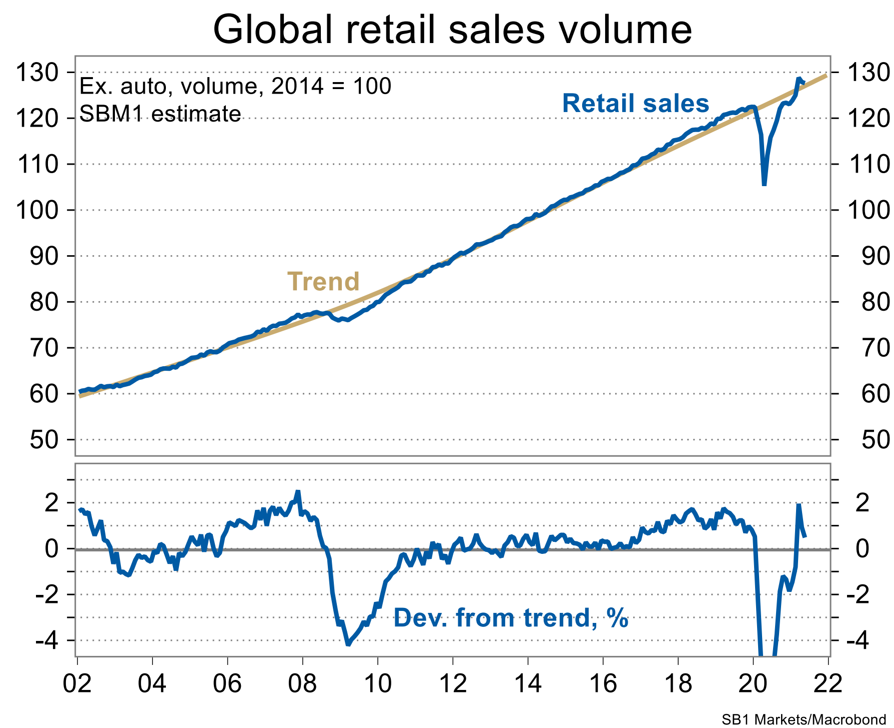


We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others. Denmark not fully updated

Global retail sales have flattened

…just to our (very) uncertain estimates of consumption in India

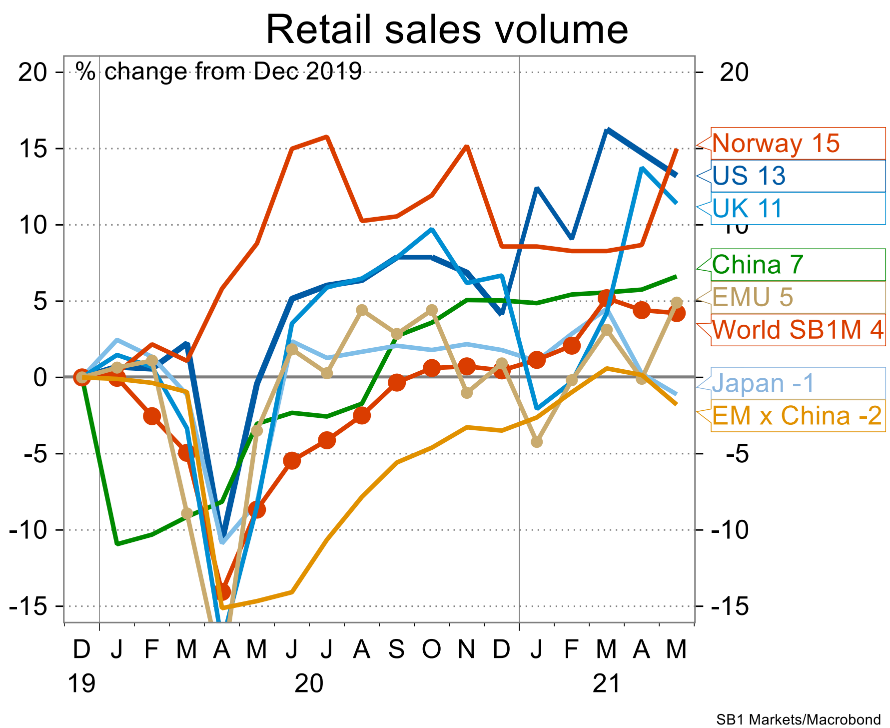


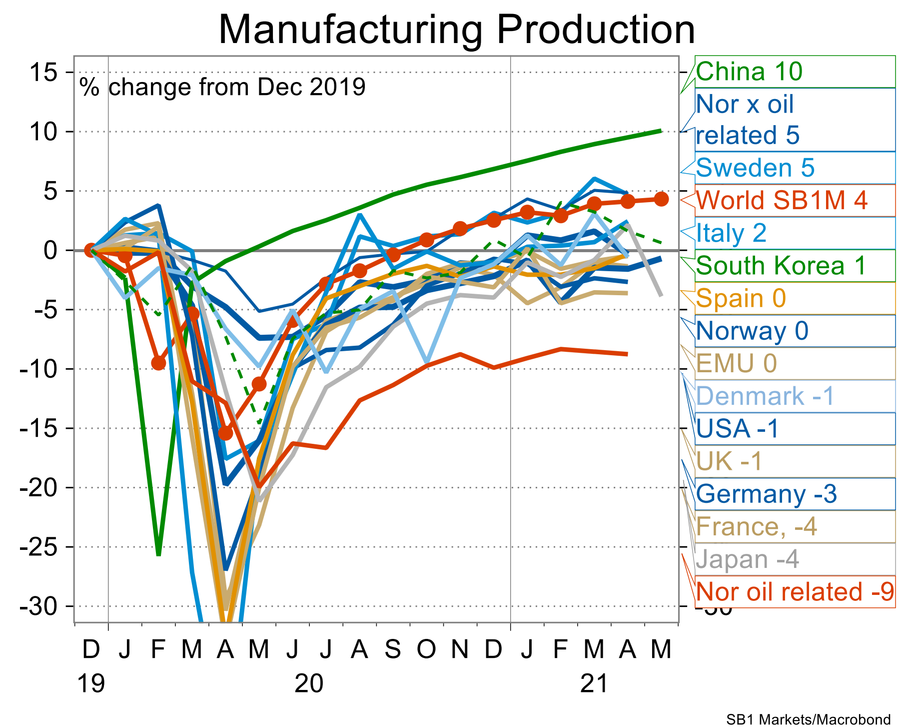


- **Retail sales** probably fell slightly in May, even if EMU sales rose close to 5%. Sales rose just marginally in China, fell in the US and we assume in India too. Sales are still 4% above the pre-pandemic level
- **Manufacturing production** climbed further in May, and is also 4% above the pre-pandemic level
- **Global foreign trade** rose further in April, to 7.5% above the pre-Covid level, according to CBP in Netherlands – and the trend is straight upwards

Volatile retail trade data, but the trend is up

… At least until we can spend more money on services. Manufacturing production is growing steadily





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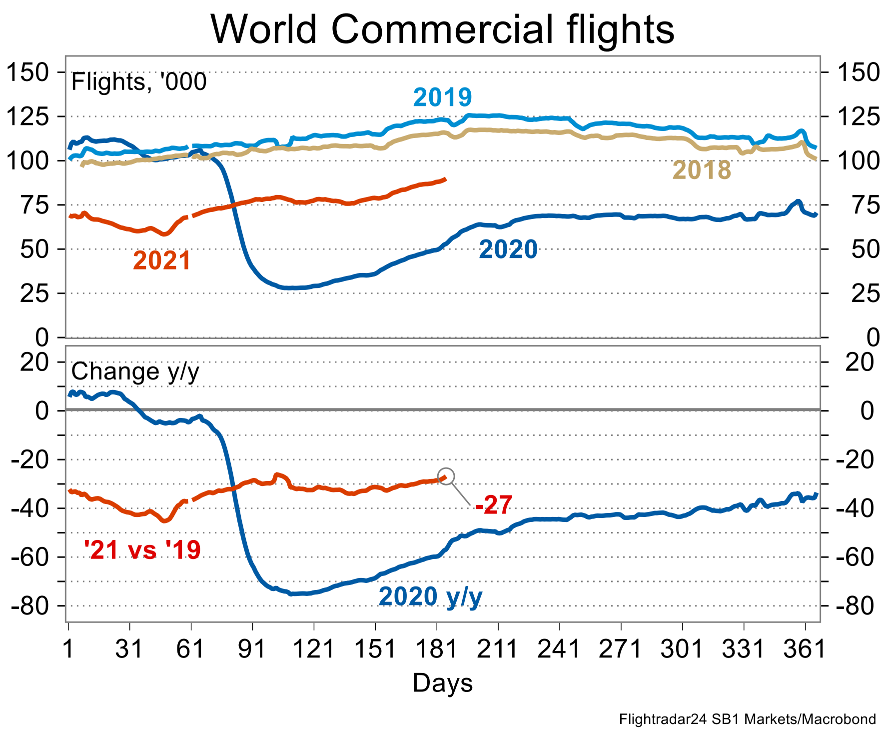
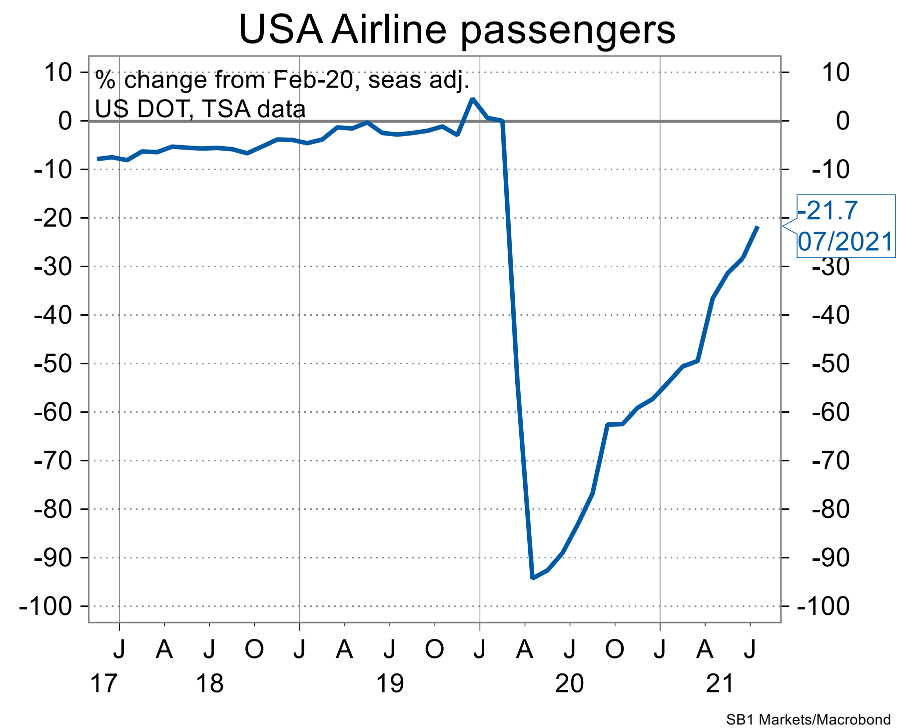
Global airline traffic on the way up again – by almost 1% per week

US airline traffic straight up, but still ~~28~~ 22% below par due to still little travel abroad

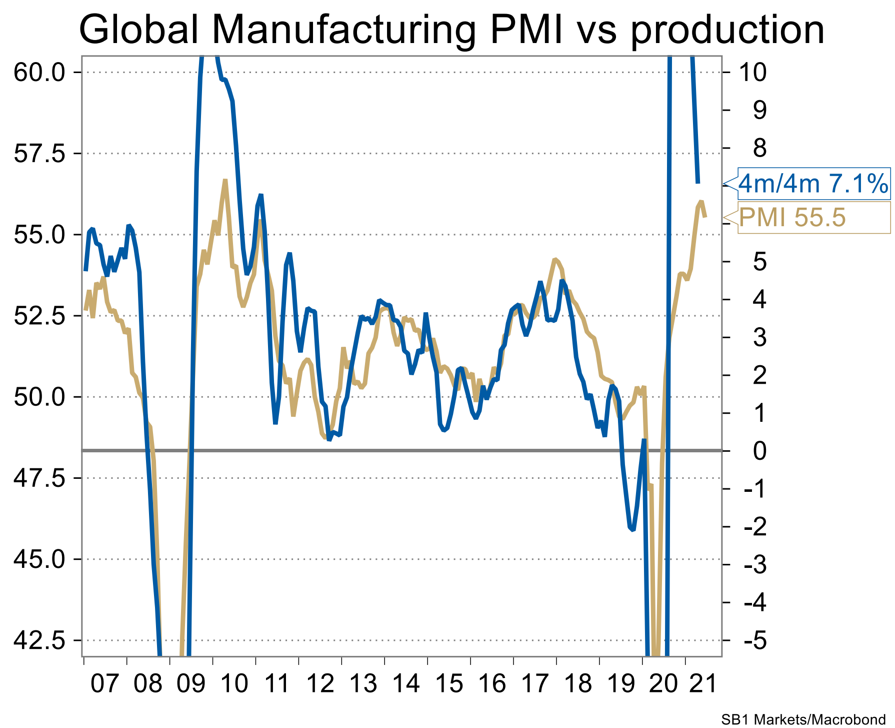


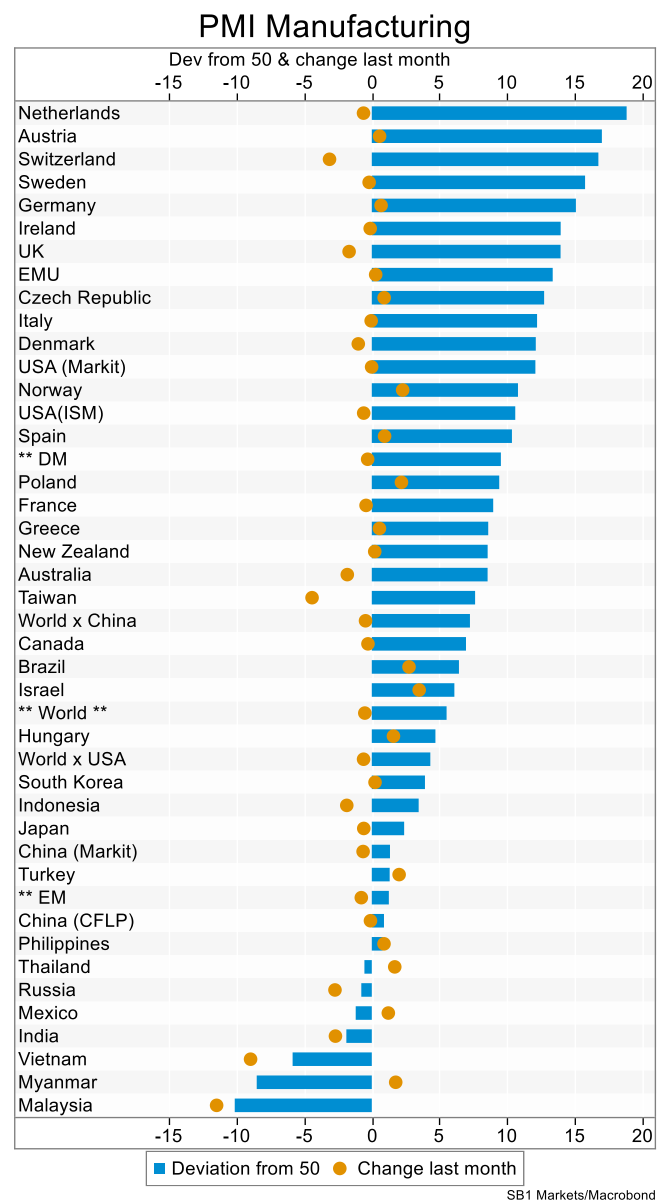


- We have revised our calculus of US airline passengers and added a seasonal adjustment – which substantially reduced the June level – still the trend is straight up!

Manufacturing PMI fell slightly, 80% are still above 50. Europe in the lead

The PMI fell by 0.5 p to 55.5 in June, still an unusually high level

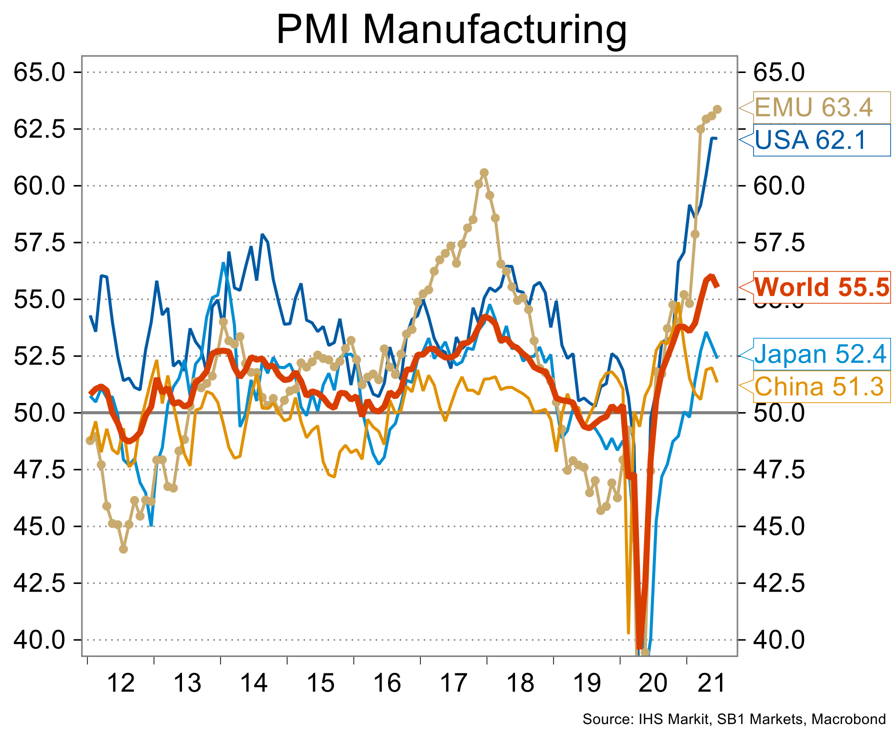


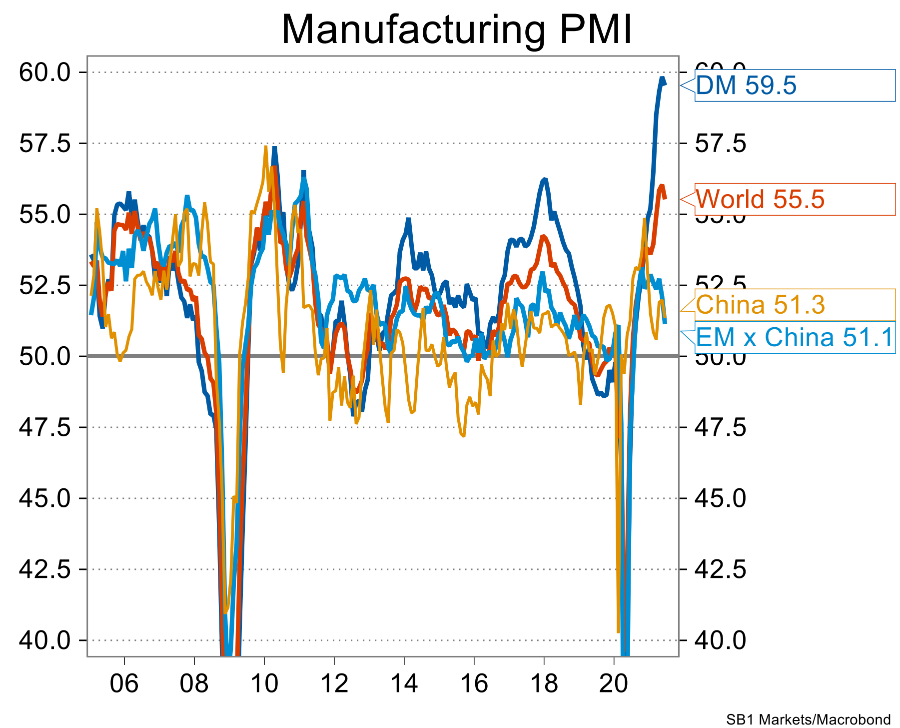


- The **global manufacturing PMI** was marginally below our f'cast
  - » 43% of the countries/regions reported higher PMIs in June than in May
  - » Almost 80% of countries reported a PMI> 50
  - » 15 **European countries** among the 16 at the top of the list, which has never happened before. Both Markit's **USA PMI & ISM** fell marginally in June
  - » The **Chinese PMIs** were also but still signals growth above trend
  - » **India** fell to below 50 but not by much

The boom in the manufacturing is broad, in rich countries

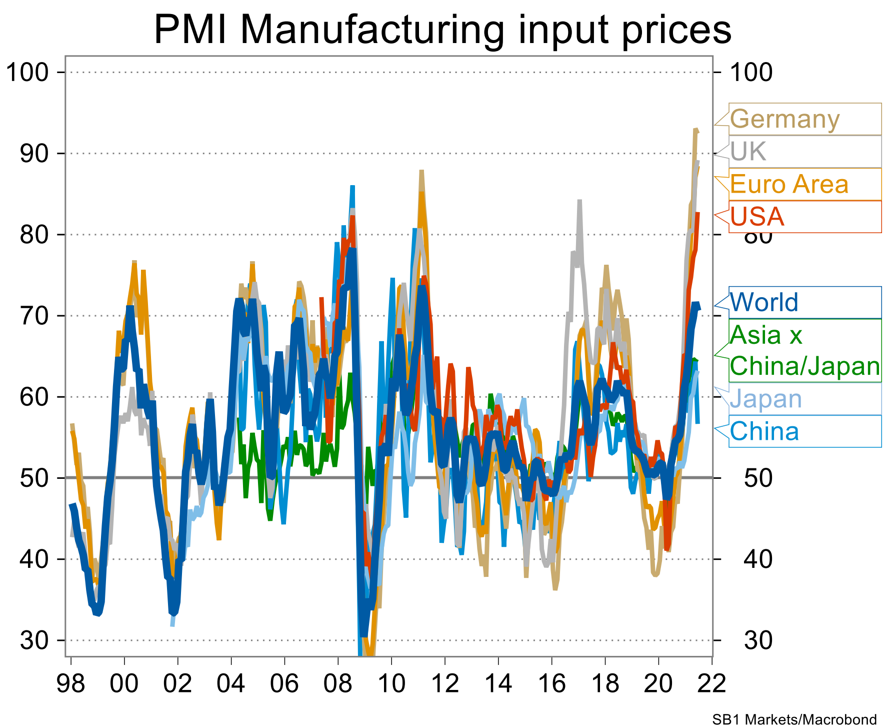
Emerging markets are lagging – the last corona wave is visible!

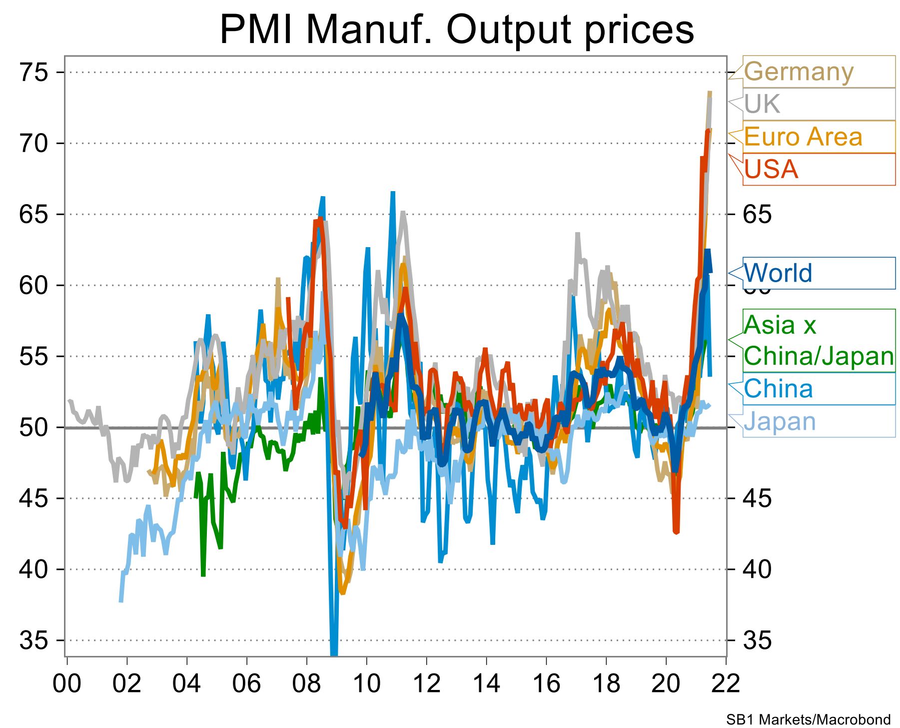




Prices are rising fast everywhere (and the fastest ever most places)

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

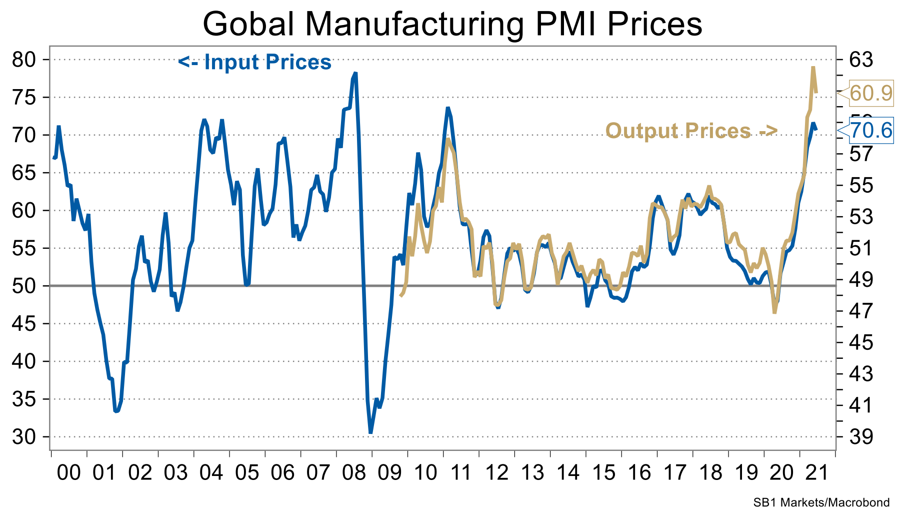


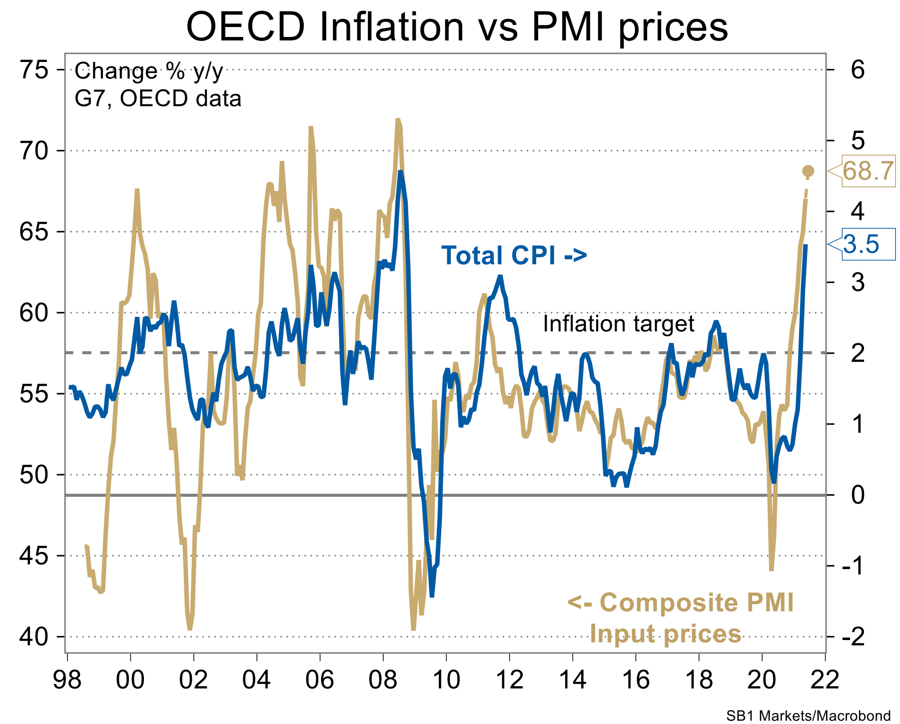


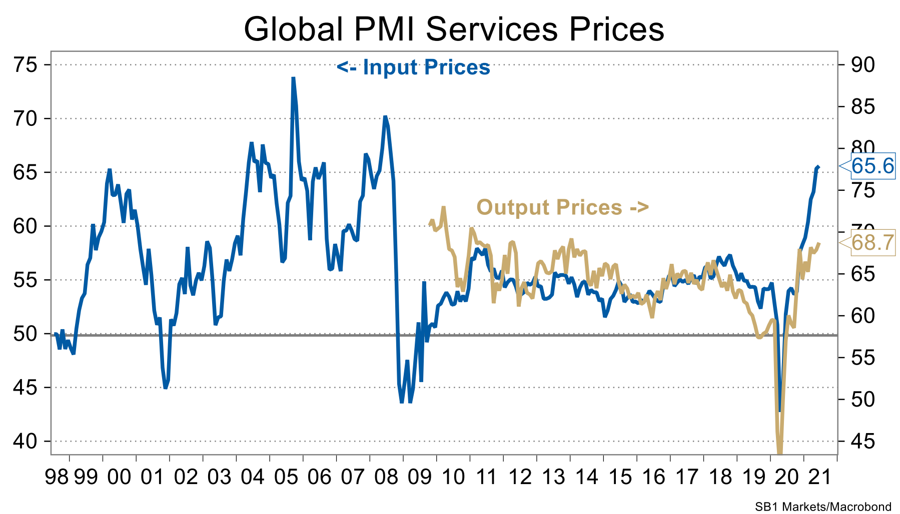
- **Input prices** grew a tad slower in June but still close to the fastest pace since 2011, according to the companies
- **Output prices** grew at a slower pace to, but still far above anything we have seen before - data back to 2009 (but several countries are reporting the fastest increase even back to year 2000)
- The marginal slowdown global price indices in June is due to sharp decline price increases in **China** in June
- **Still, the overall picture is clear:** rapid growth, longer delivery times and higher prices look like something familiar – *check the next page!*

Businesses keep reporting a rapid growth in input/output prices

CPI inflation has probably not peaked – but the peak may be close!





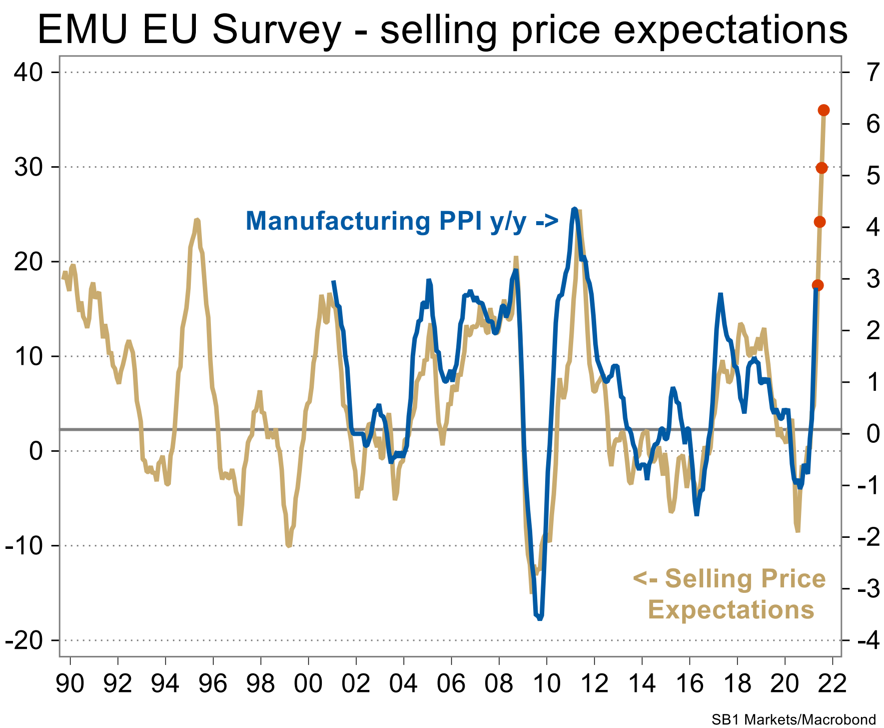


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a further lift in headline inflation, from 3.5% in rich countries now

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

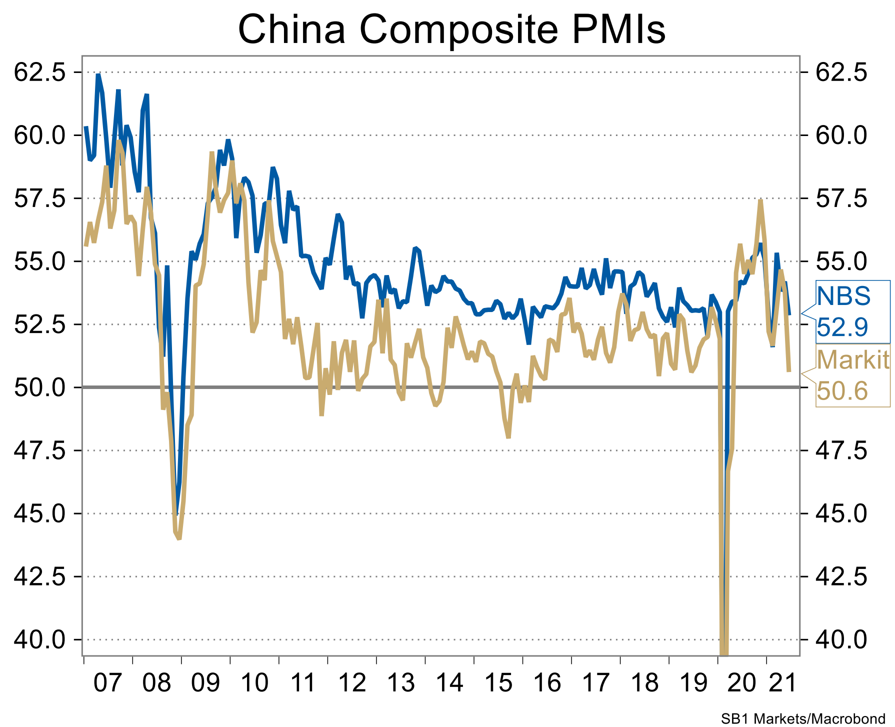
EMU companies are reporting the highest selling price expectations ever

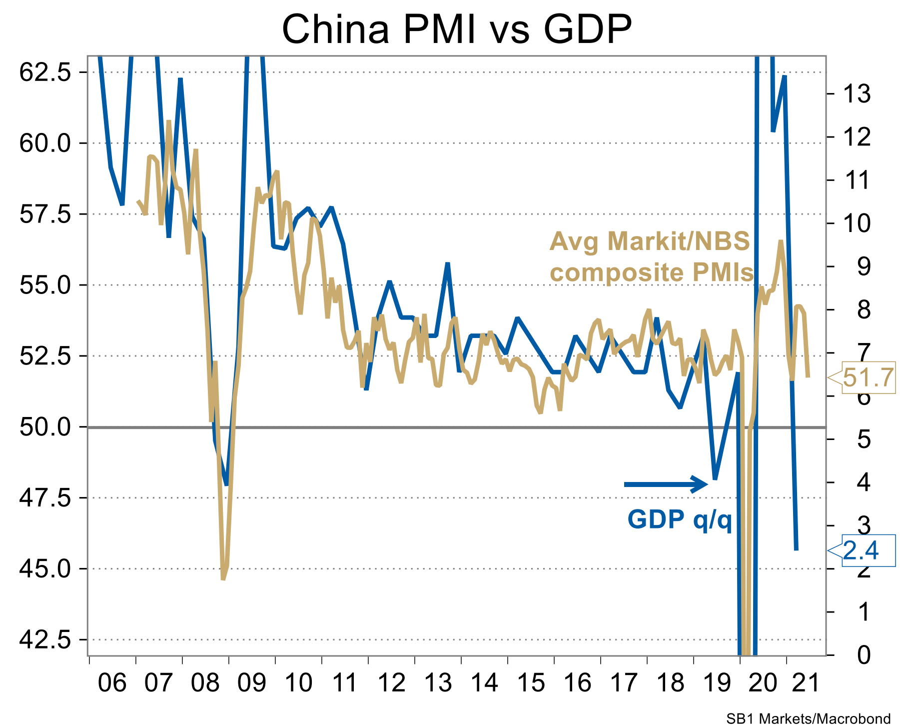
… signalling a further increase in PPI (and CPI) inflation



Weaker June PMIs confirm a Chinese slowdown, both data sets below average

Both NBS' & Markit's PMIs down, still signalling growth >6%. Markit/Caixin services the weakest link





- The NBS index fell by 1.3 p to 59.9, while Markit's composite PMI fell by 3.2 p to 50.6, a rather steep decline
  - » Both surveys are below the 2012 – 2019 average (53.8 for the NBS, 51.4 for Markit/Caixin's index)
- Both manufacturing & services reported slower growth in both surveys. In the Markit/Caixin survey, the services PMI fell by 4.8 p to 50.3, a rather weak print
- We still expect GDP growth to accelerate in Q2 from the low level in Q1 (2.4%), but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend, credit policy is tightened & surveys are now clearly less upbeat

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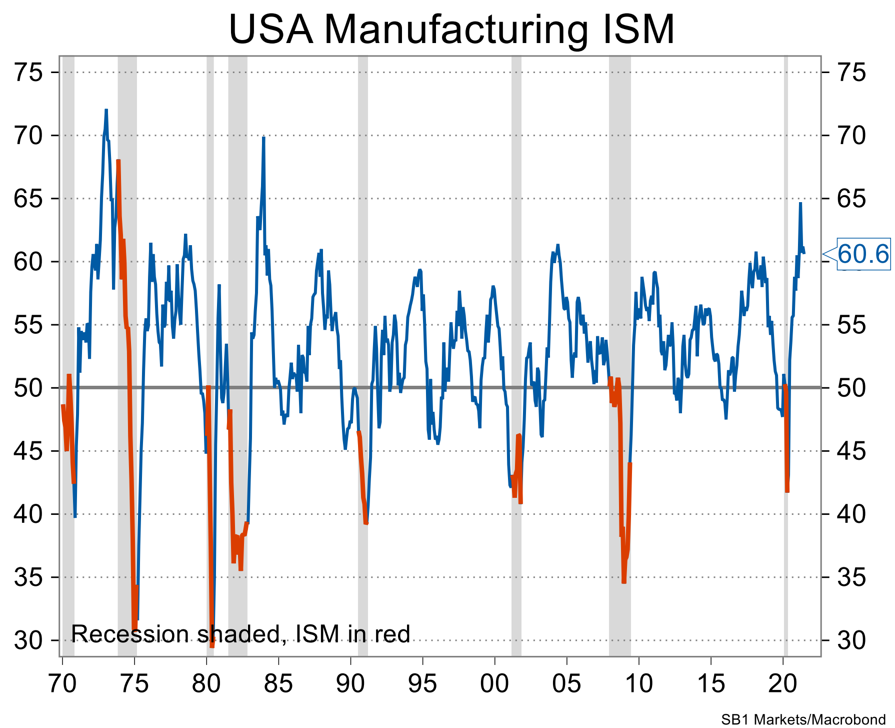
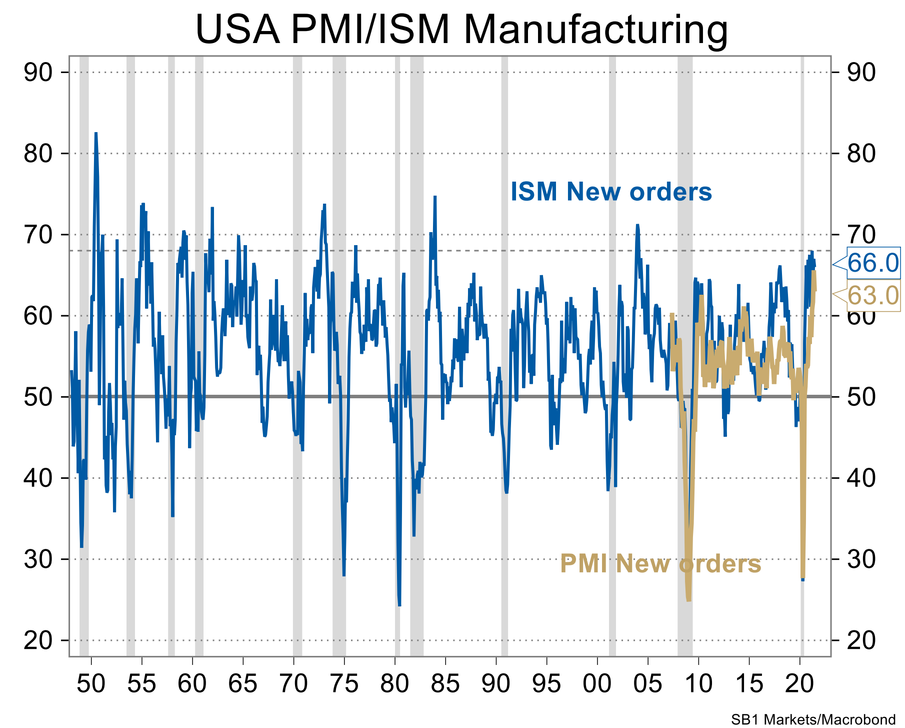
Manufacturing ISM below expectations, but level is still solid

The ISM fell 0.6 p to 60.6, exp. 61.0. The price index surges to the 2nd highest level ever (since '79)

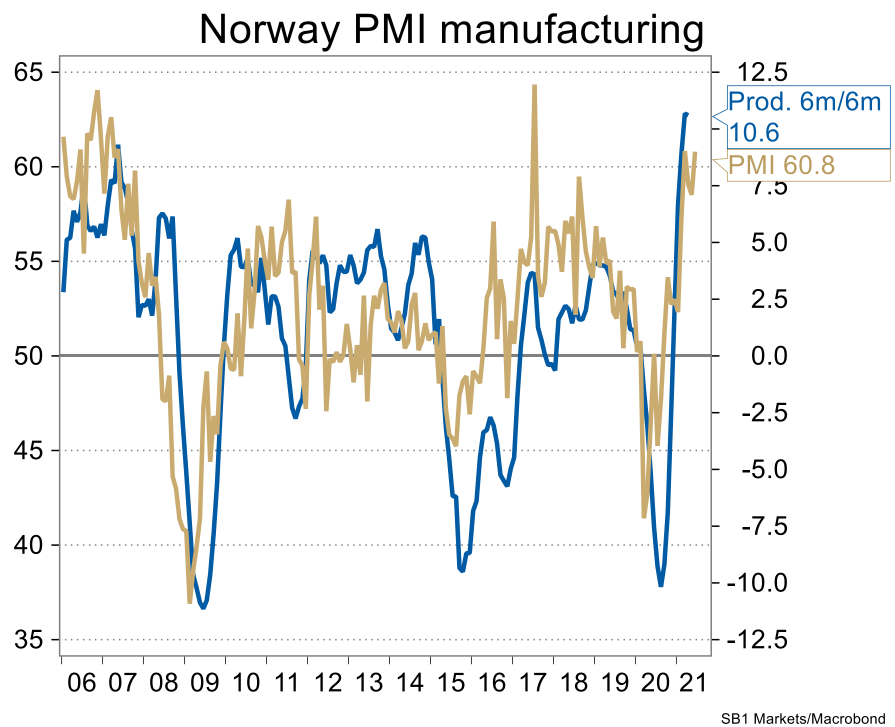


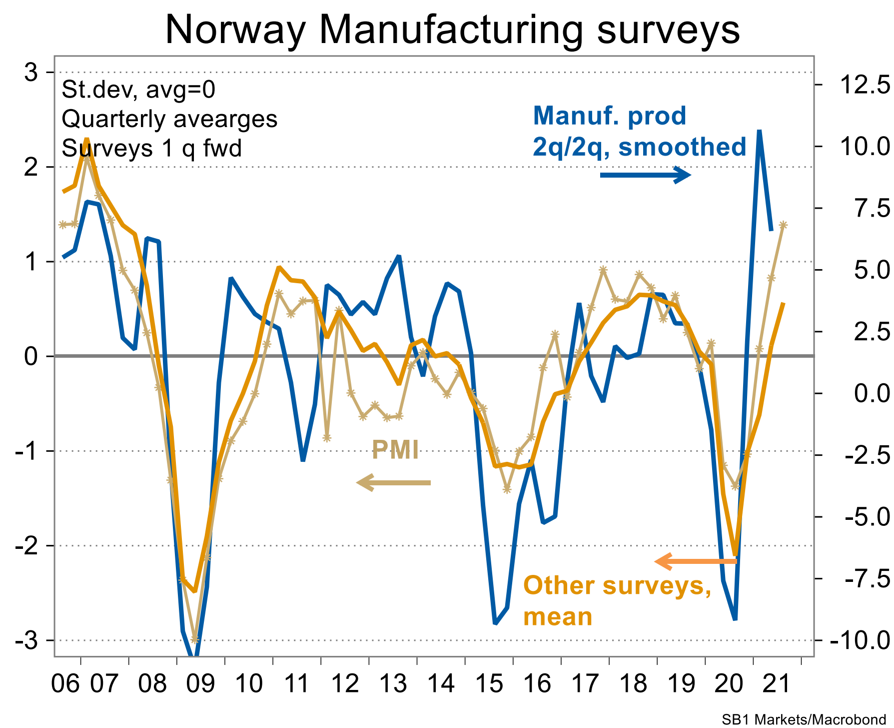


- The ISM fell slightly in June, in line with other June manufacturing surveys
- In June, 17 of 18 manufacturing sectors reported growth, while no sector repored a decrease in June!
- Prices are surging, broadly – the price index rose to the highest level ever. 51 groups of commodities were up in price m/m. Just one, acetone, was down in June. A large number of commodities were in short supply as well
- The ISM new orders index was down 1 p to 66, while Markit's new order survey came in at 63 down 2.6 p from May
- Prices are surging

Norwegian manufacturing PMI up to above 60 again – strong growth confirmed

The Norwegian PMI was up 2.3 p to 60.8, we expected 58. Actual growth the best in 50 years

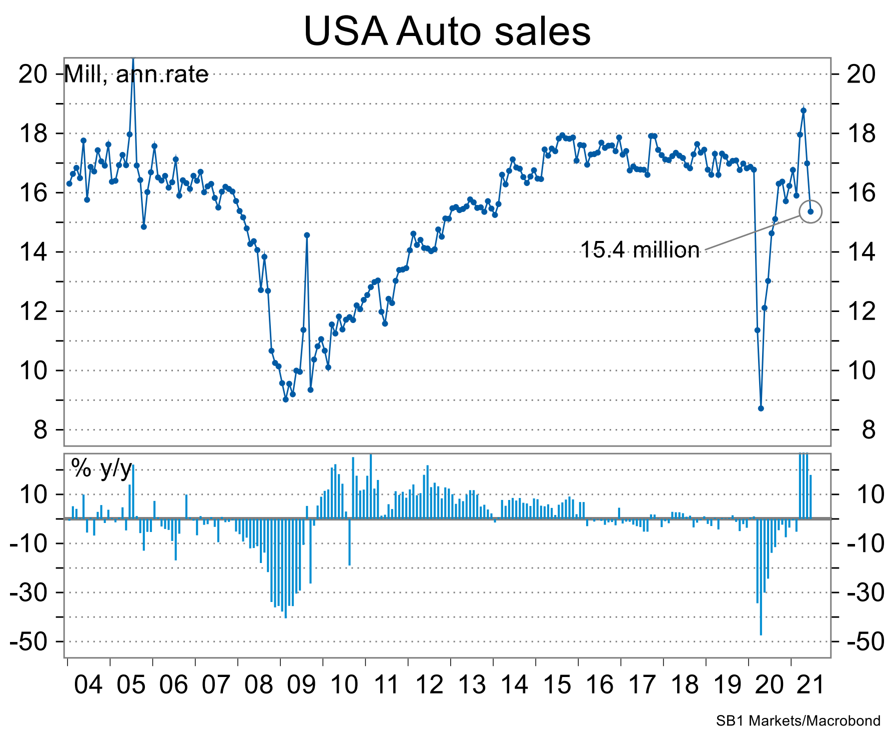


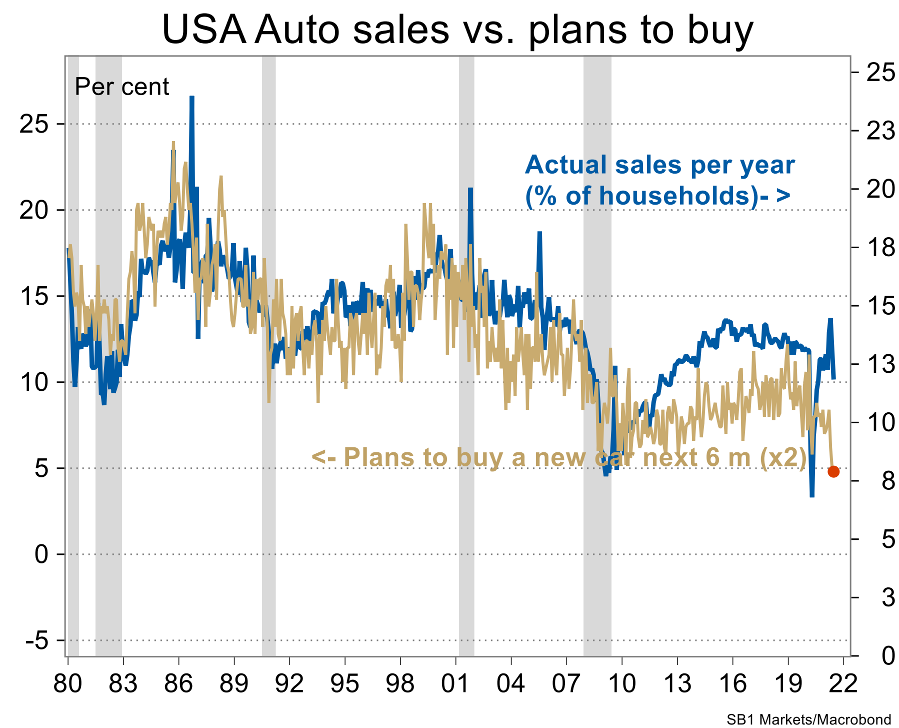


- The **inventories** sub-index was the only index that was down
- Other **surveys** have turned up lately to above-average levels
- **Actual production** is growing faster than since 1972, at least measured 6m/6m. However, that is due to a low starting point last year. The production level was marginally below the pre-pandemic level in April (but we expect something better in May)

US auto sales surprised sharply on the downside in June – lack of supply

Sales down to 15.4 mill, down from 17 mill, expected 16.1. Production cuts due to lack of data chips

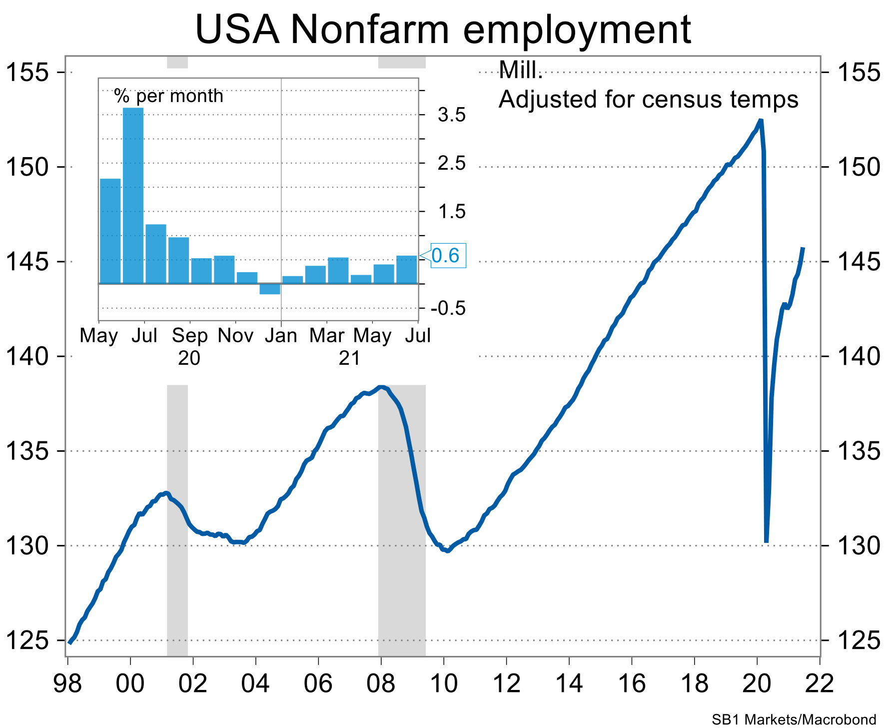


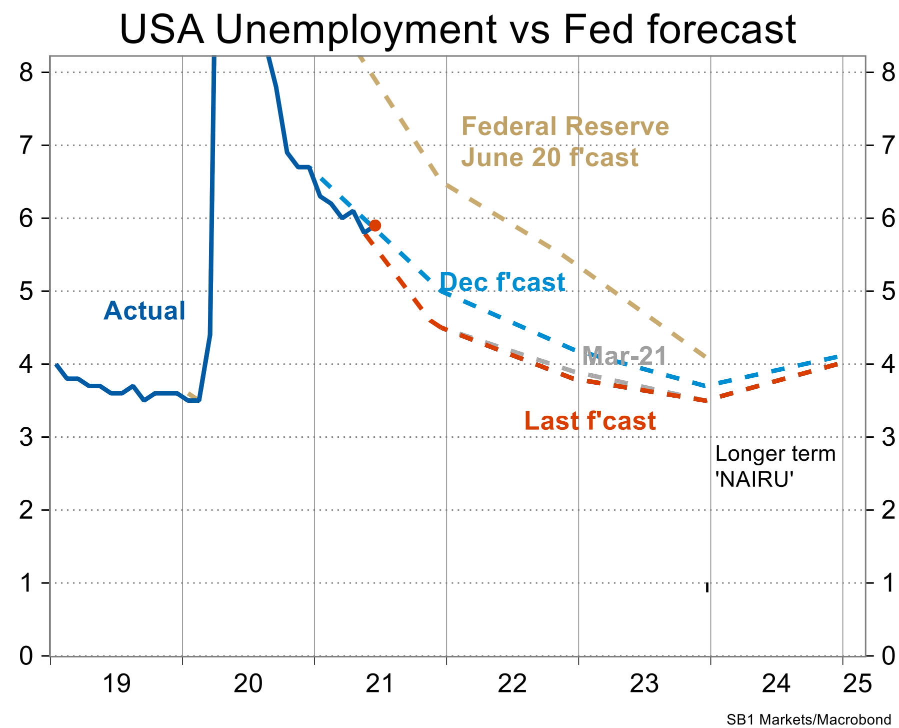


- We were surprised too, as auto production rose in May
- However both Ford and other producers have lowered their production targets as they have not received critical data components – and the problems will not be gone anytime soon
- New auto prices rose in May – as did 2nd hand auto prices – so it is no reason to blame weak demand for low sales

The labour market: Not too cold, not too hot – but the mismatch is extreme

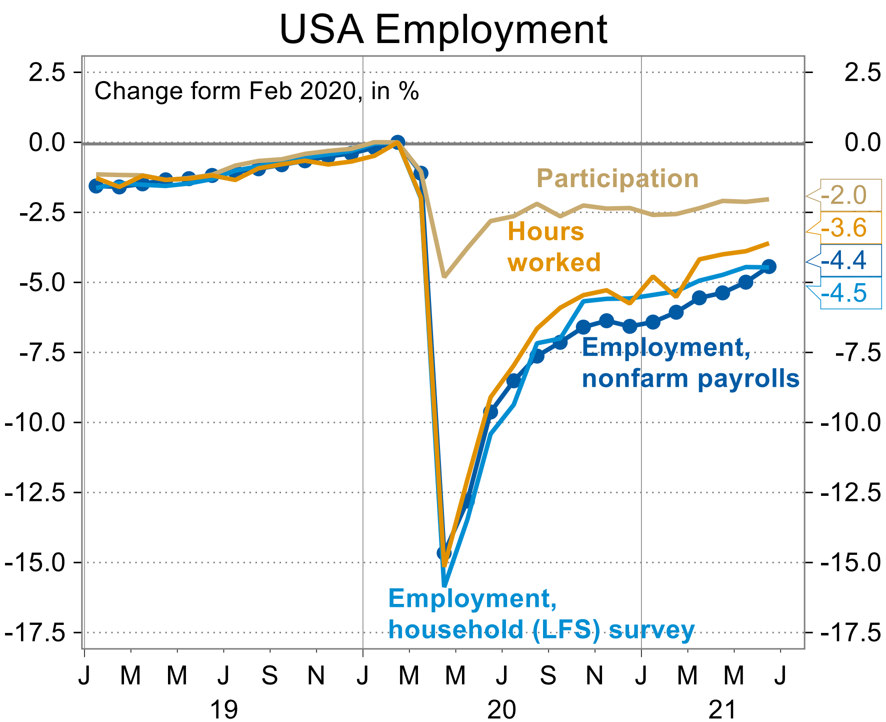
Employment rose more than expected but unemployment rose too. Wage inflation on the way?



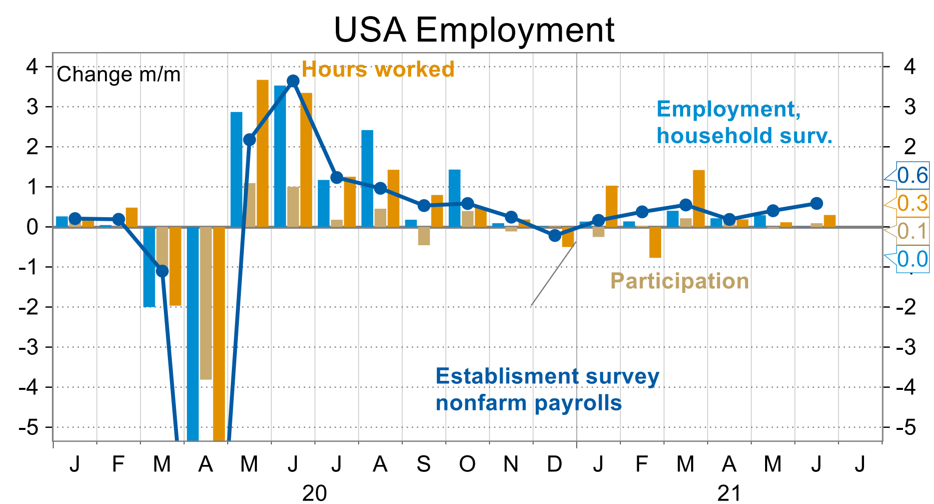


- **Employment** rose by 850' (0.6%), finally more than expected (720', revisions just marginal). Employment in restaurants, education in the lead in June too but remain far below pre-pandemic levels. Total employment is still 4.5% below the early 2020 level
- **Unemployment** rose 0.1 pp to 5.9%, expected down to 5.6%- 5.7%, and above Fed's (implied) f'cast. Unemployment is 2.4 pp higher than before the pandemic. The participation rate was flat in June – and 2.7% below the participation rate before Covid
  - » 1.6 mill. persons (down from 2.5 mill in May) report that they were prevented from looking for a job due to the pandemic. Last summer 5.2 mill persons were outside the labour market for that reason. However, the labour force participation has not increased since then - others have withdrawn! The gap between 9+ mill vacant positions and the 9.5 mill unemployed is unprecedented
- **Average wages** rose by 0.3%, as expected. Even if employment is increasing in the low-paid sectors, the average wage is still increasing at a fast rate. A one time shift or something more? Small businesses are reporting record high wage increases!
- **Goldilocks: Bond yields ended down, stocks up employment grew more than expected but unemployment rose to, and wage did not surpr. at the upside**

Labour market is gradually recovering, still well below the starting point



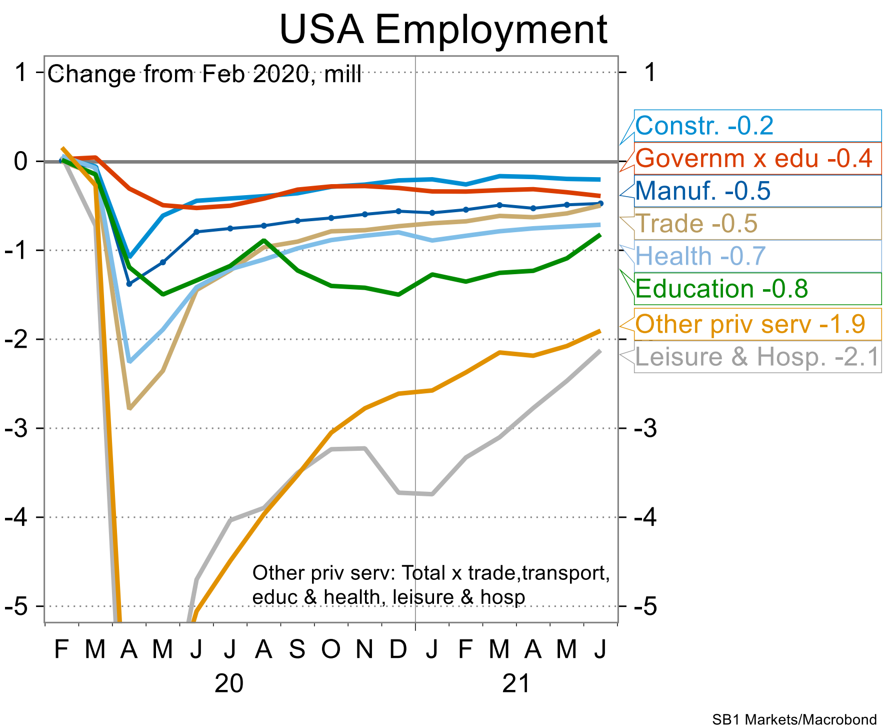
- **Labour market participation** rose marginally in June (in number, the rate was flat). The rate is down some 2.7% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 4.4% vs Feb '20, while **employment** measured by the **household survey** (LFS/'AKU') is 4.5% below (the household survey reported a decline in empl. m/m). The **employment rate** is 5.1% below par
  - » LFS employment fell marginally, and participation rose, enough to lift the unemployment rate 0.1 pp to 5.9%
- **Sum hours worked** rose 0.3% in June (and May was revised sharply down). The level is down 3.6% vs. Feb-20

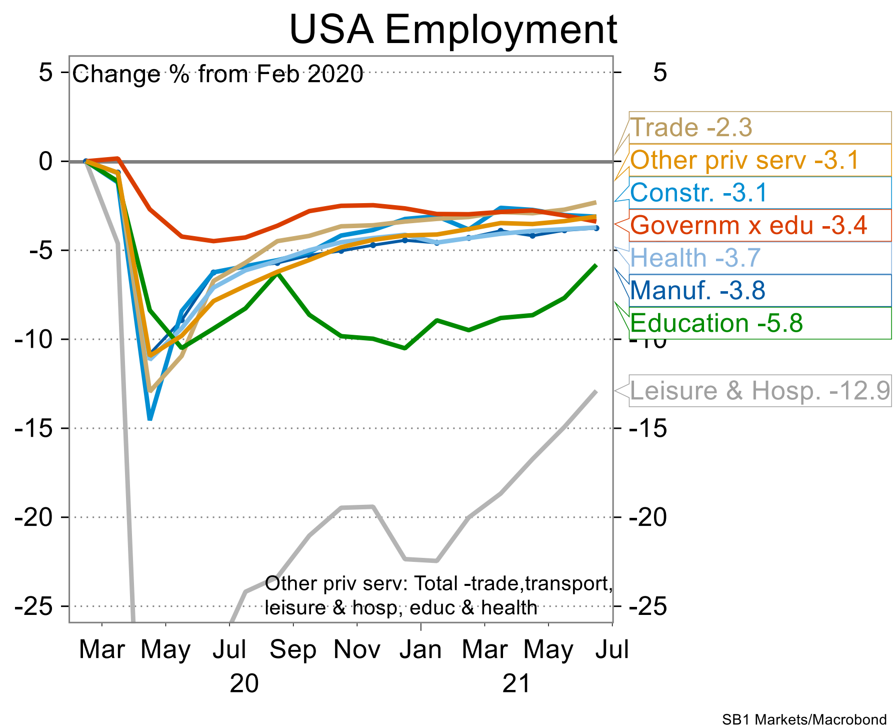


SB1 Markets/Macrobond

From Feb-20: No sector is back yet, not even trade

4.8 mill jobs in leisure/hospitality, education & other services are still ‘missing’





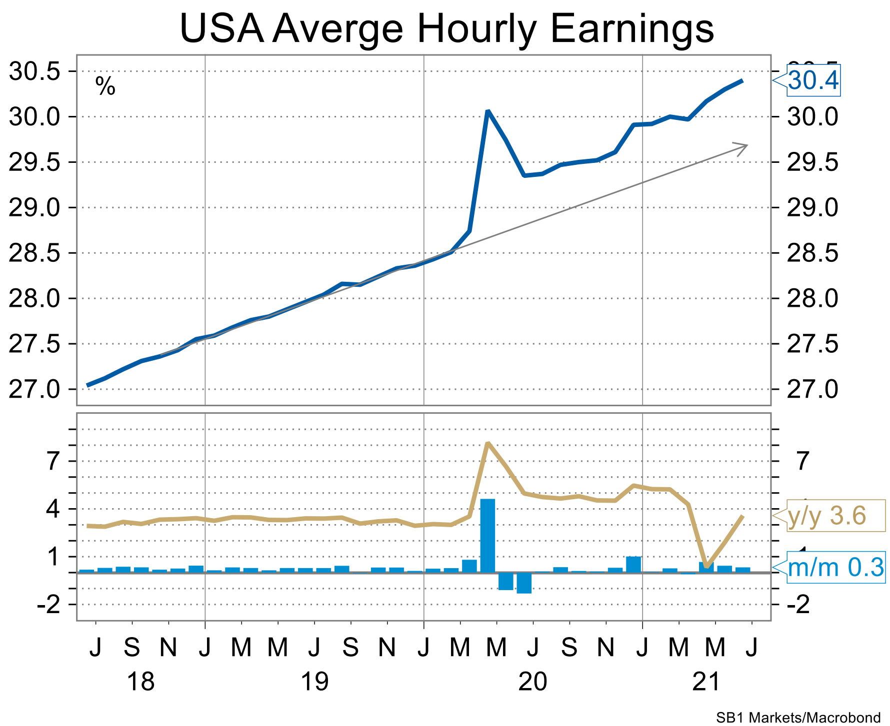
- **From February last year**
  - No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits!
  - **Manufacturing** is down 3.8% (0.5 mill), **trade & transport** -2.3% (0.5 mill), **construction** -3.1% (0.2 mill)
  - **Education** is down 5.8% (1.1 mil), many schools are still closed
  - **Leisure & hospitality** is down 12.9% (2.1 mill)
  - Even **government employment** x education is down 3.4% (0.4 mill), which is rather remarkable

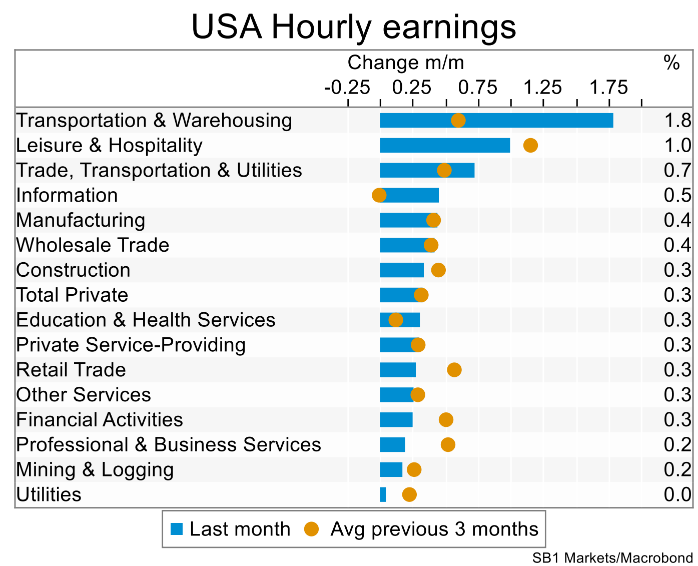
SpareBank 1 MARKETS

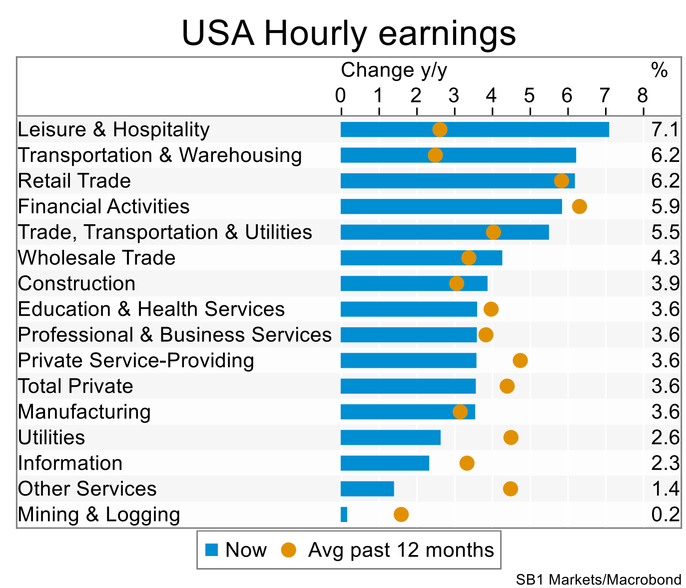
The average wage up 0.3% in June, as expected – May revised down

… but wage inflation is higher than it 'should' have been

And the wage level is 2.4% above the pre-Covid path



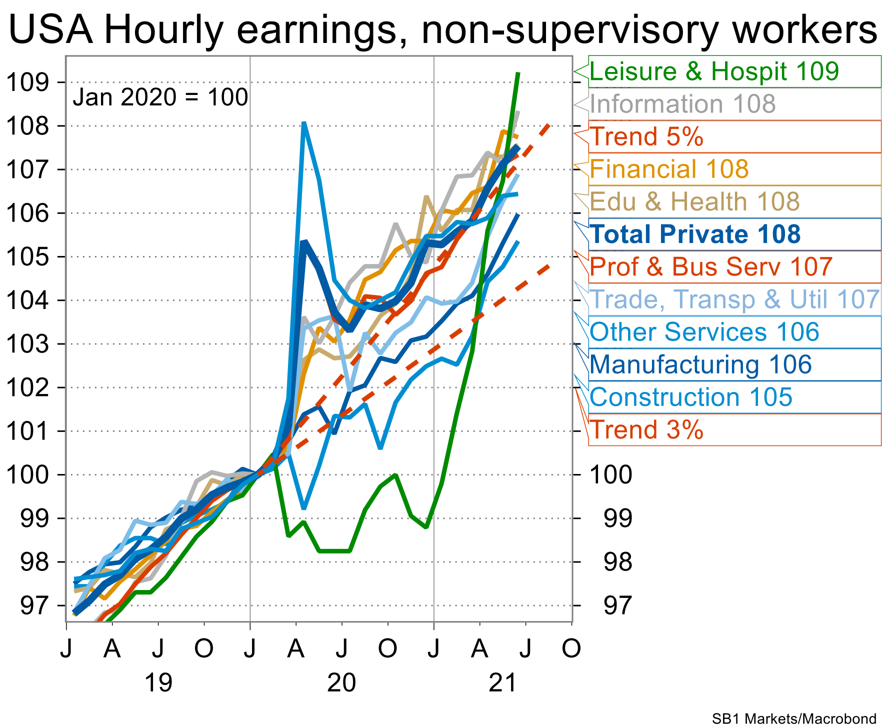




- We are still sceptical to over-interpret average wage data, also at the sectoral level, as employment mix has changed sharply between sectors and probably within sectors
- However, in both April, May, and June wage increases have been strong, given than most of the increase in employment has been in the low paid sectors – which should have taken the average level down
- In June, wages shot up in transportation & warehousing, and in leisure & hospitality
- The wage level is some 2.4% above the pre-pandemic wage growth path

Wages are up 6% – 9% vs the pre-pandemic level

.. And well above the pre-pandemic growth path

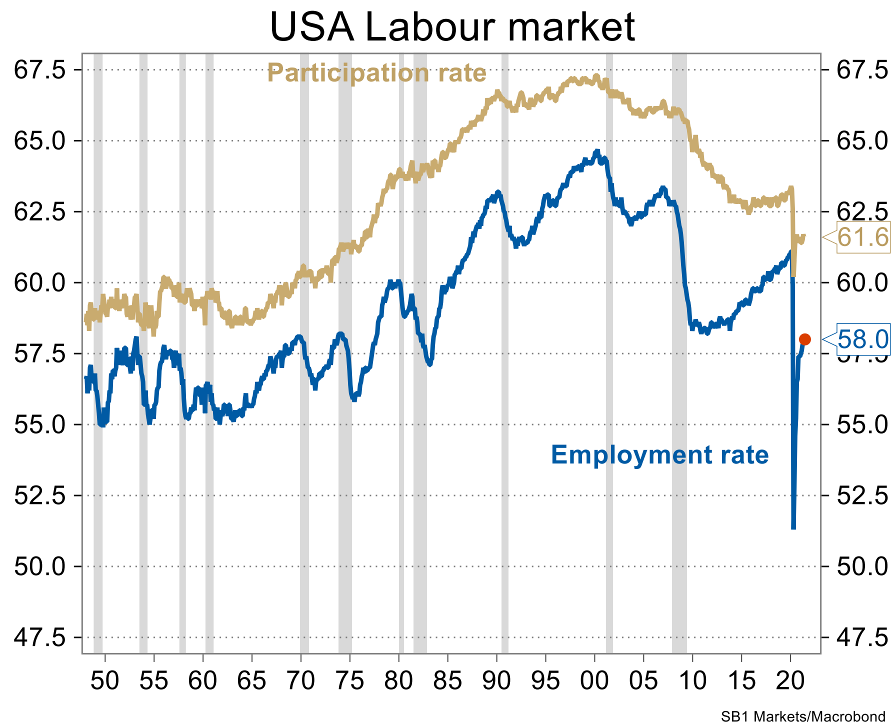


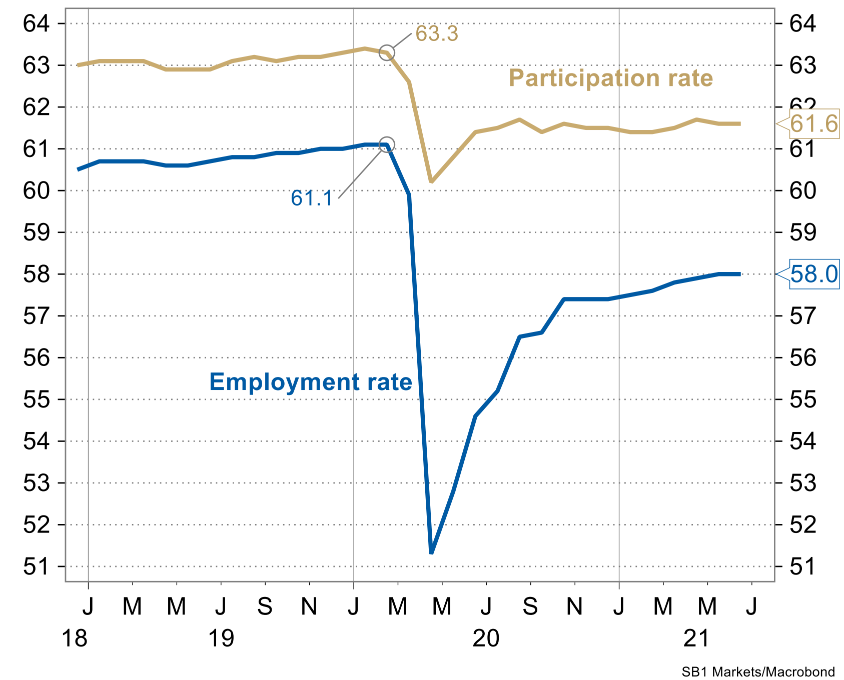
- Changes in the employment mix, even within sectors, still make these sectoral data uncertain
- However, it may be that these data reflects a <u>real increase in wages recent months</u>
  - » Say, why should the average wage in leisure & hospitality be 9% above the pre-pandemic level if wages in the sector have not increased quite broadly?
    - At least, it seems unlikely that higher paid staff has increased its share of total employment in the sector when wages have jumped by 10% (since last December)
- Atlanta Fed's median wage indicator has NOT reported any increase in wage inflation but rather the opposite

- In the chart above, wages for <u>non-supervisory workers</u> are shown. When all employees are included, growth is slightly lower in most sectors

The participation rate is flat, even if far fewer say they are out due to Covid

The participation rate was flat in June, is down 1.7 pp (2.7%, 3.5 mill) vs Feb-19



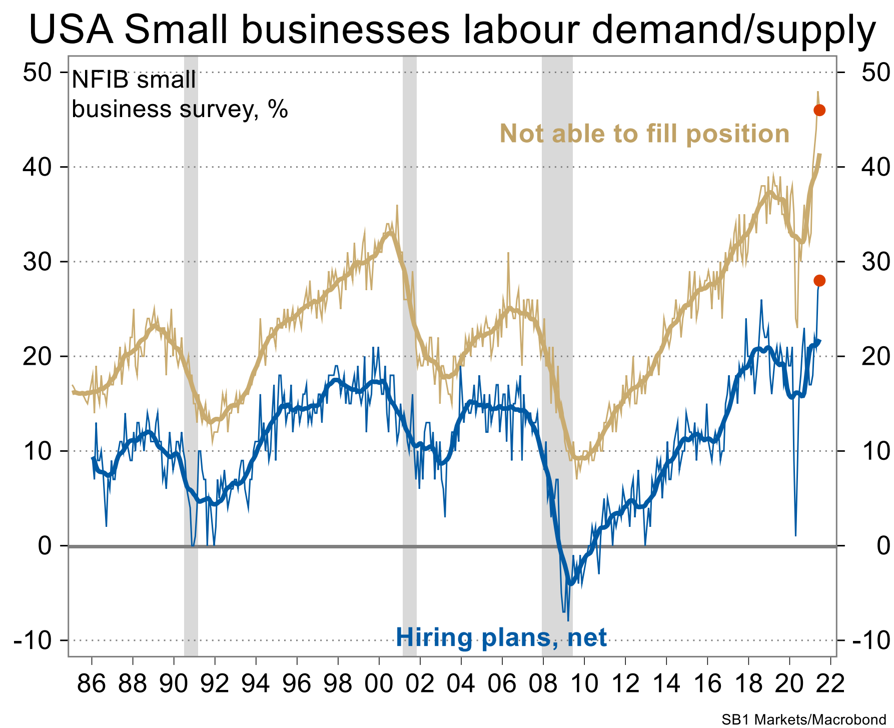


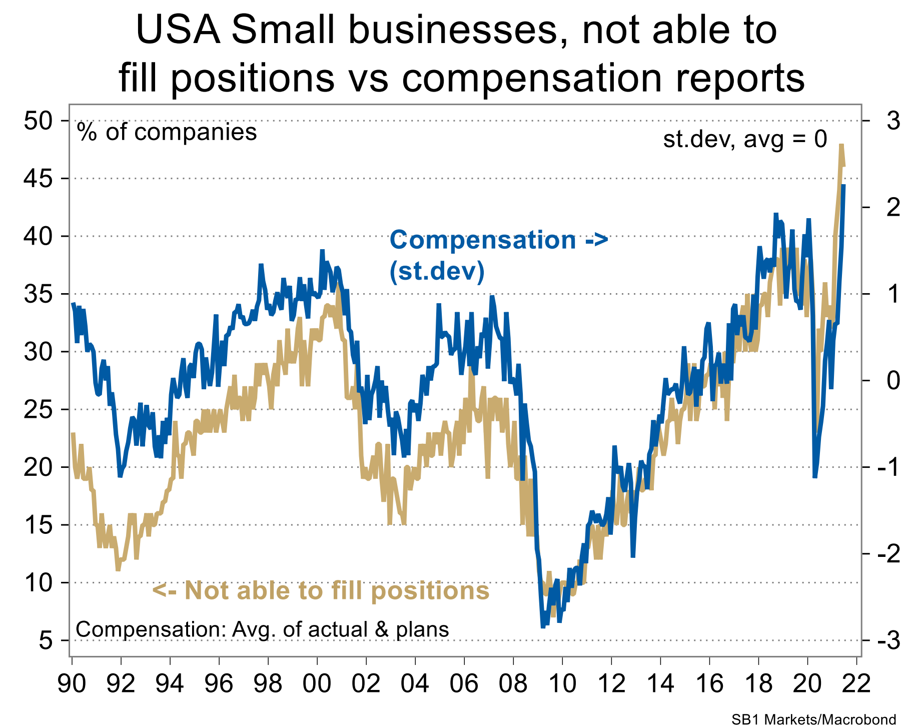
- The initial decline in the participation rate was Covid-19 related, and it may still be. In May 1.6 mill. persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down), down from 2.5 mill in May, and down from 5.2 mill last summer. <u>These 1.6 mill persons equal 1% of the labour force, and represents a reserve but it has fallen rapidly recent months, without lifting the overall participation rate!</u>
- **So, the conundrum remains:** <u>Have most of those 'temporary covid leavers' permanently left the labour market – or has others left the market at the same pace as the 'temp leavers' have returned – and if so temporary, or permanently. And even just as important: Why have those who report they are searching for a job (and being counted as unemployed), not been able/willing to fill more of the 9+ mill vacant positions? Check the benefit story at the next pages</u>

SpareBank 1 MARKETS

Marginally less difficult to fill open positions, according to small businesses

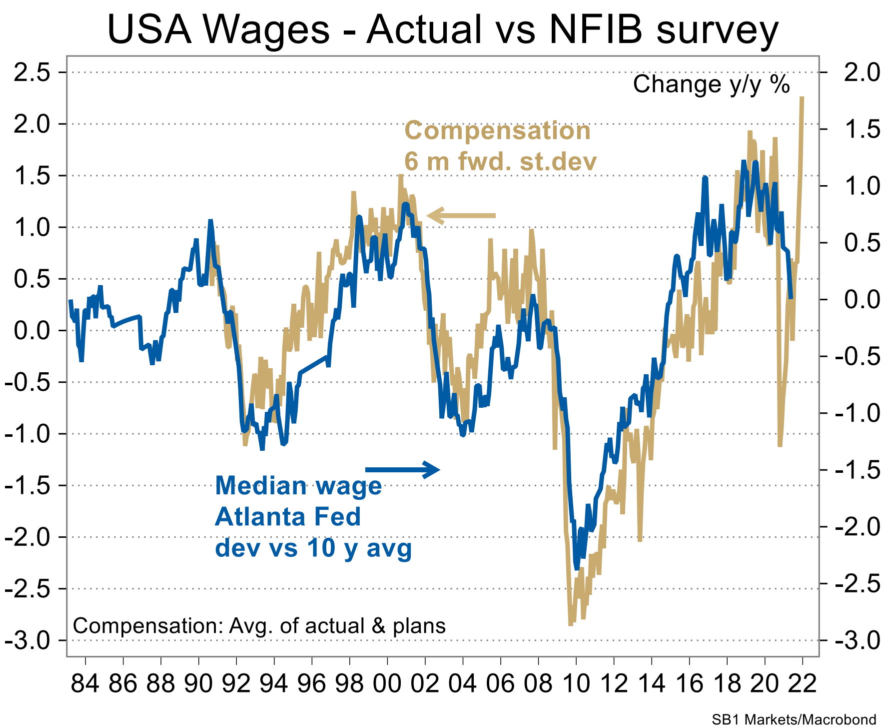
They plan to hire at a record pace – and they say are prepared to pay up, more than ever

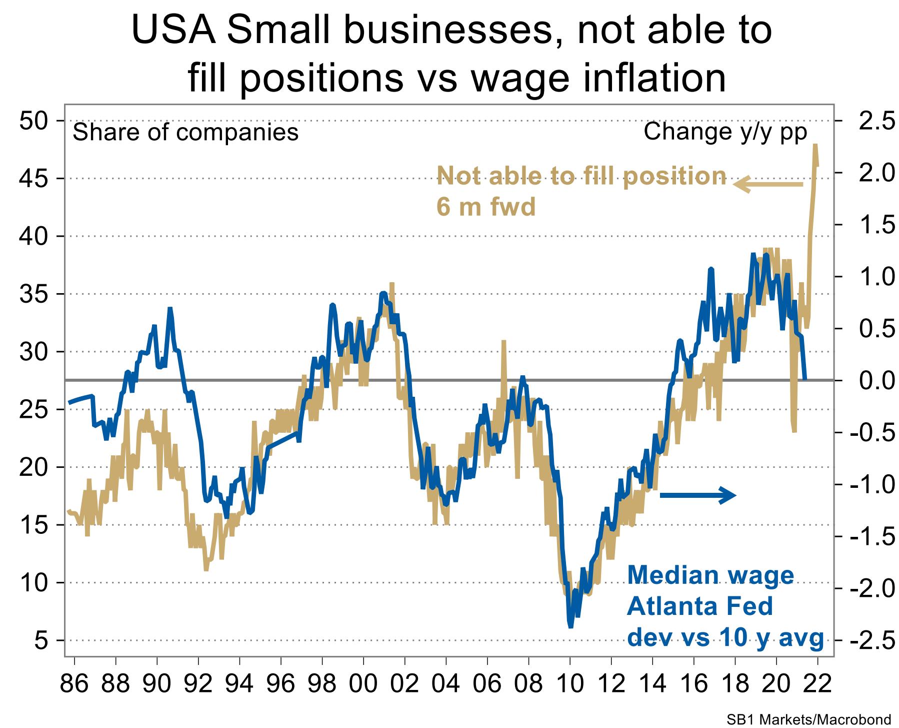




- Even after a small decline in the **not-able-to-fill-position** index in June, the level is far above anything we have ever seen – with data back to 1986
- **Hiring plans** are extreme too – ATH in June
- And guess what – companies are reporting the most aggressive **wage increase plans** ever (data from 1980). The correlation to actual wage growth is pretty close, check the next page

The most obvious risk vs. inflation, growth, corporate earnings, short & long term interest rates, stock market multiples, credit spreads, real estate…

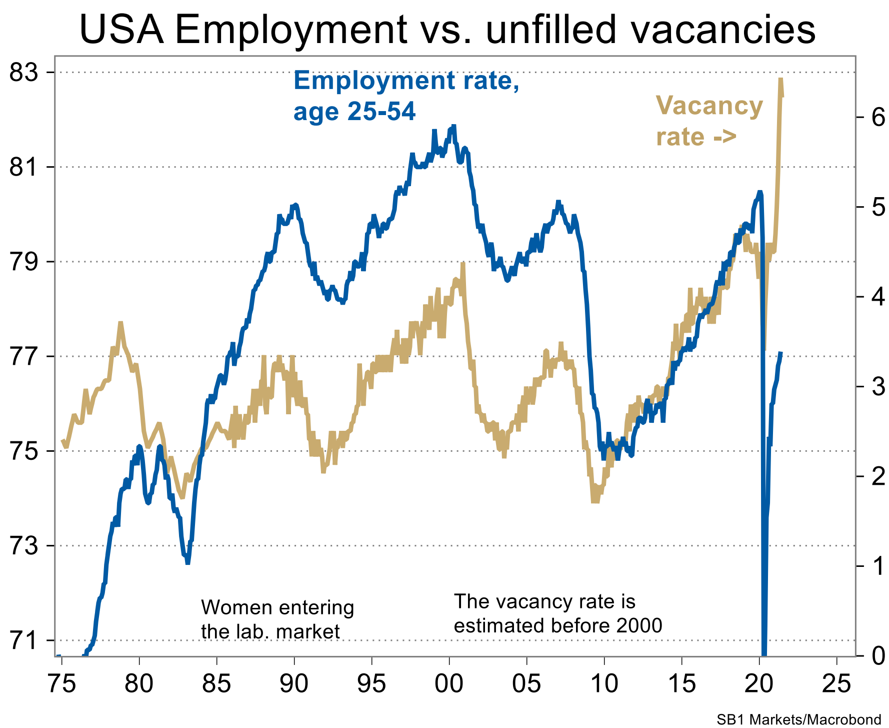


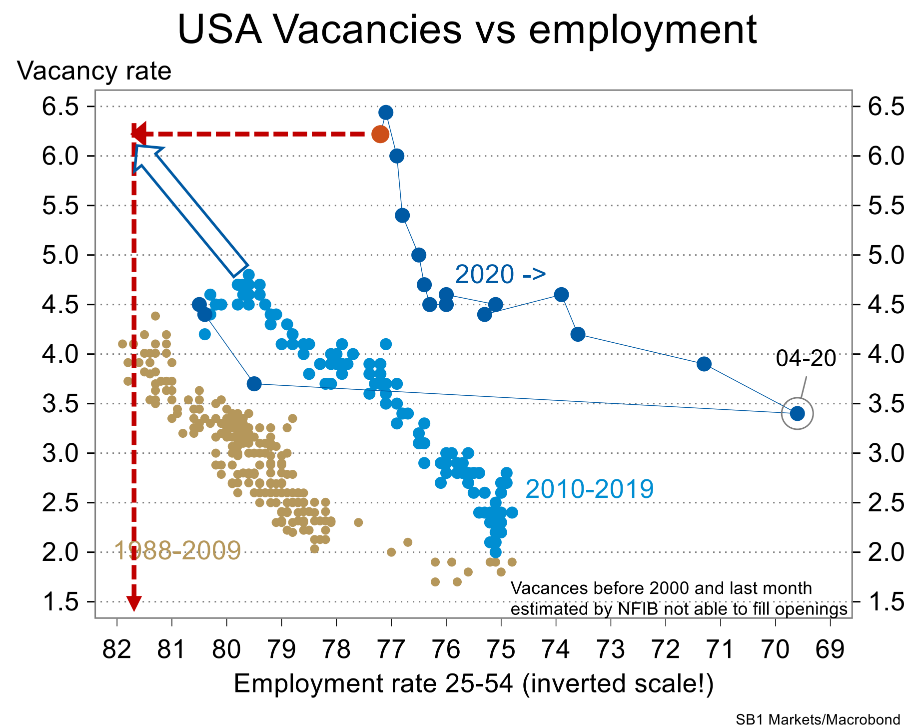


- Should wage inflation accelerate by 1 – 1.5 pp, inflation will drift above 2%, both in the short and medium term

This chart will 'decide everything': Now it looks like the worst mismatch ever!

Something will have to give: Vacancies must come down, employment up



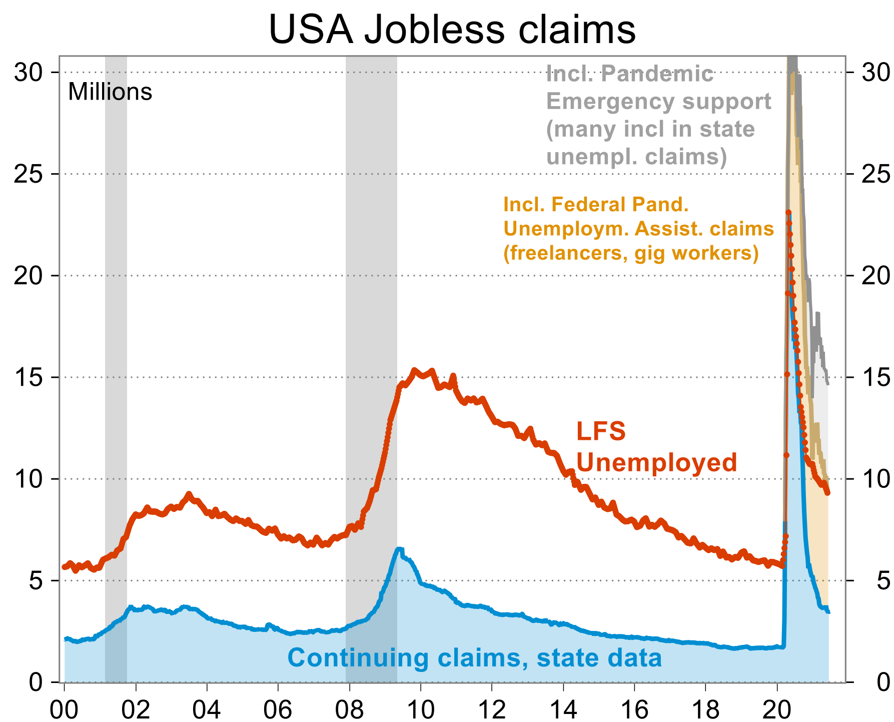


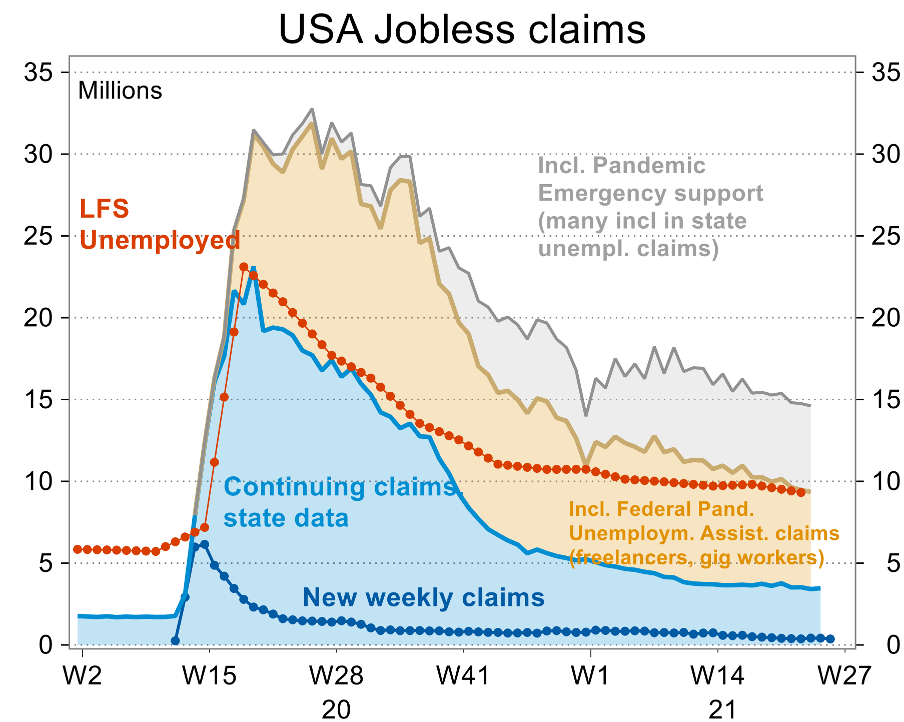
- Check the next page for be most obvious 'solution'

SpareBank 1 MARKETS

8 – 10 mill more receivers of unemployment benefits than normal

… Given the 5.9% unemployment rate

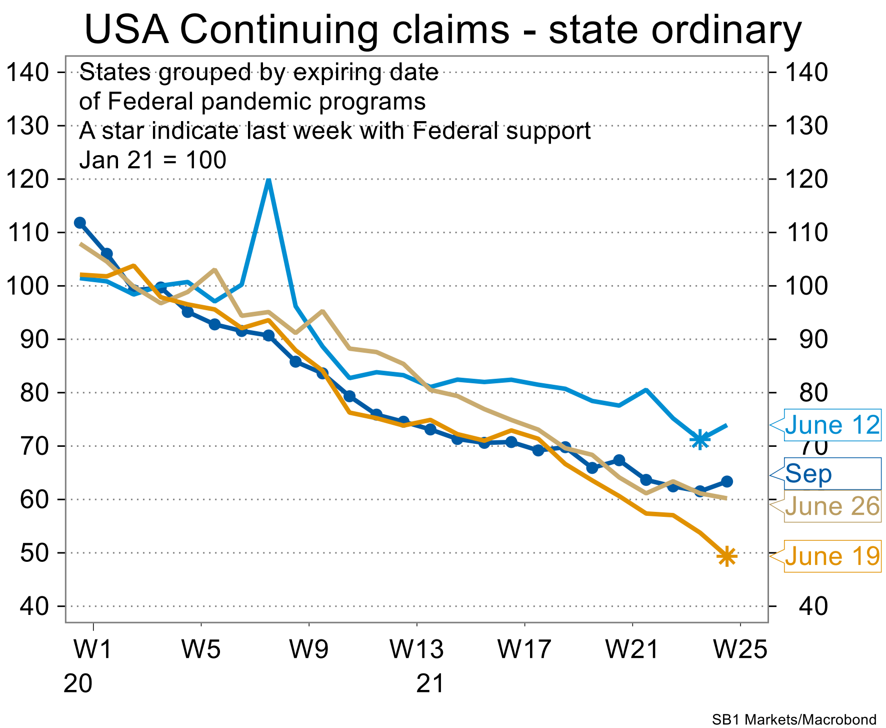




- Almost 3 mill workers receive **ordinary state unemployment benefit support**, which is close to normal, given that 9.5 mill workers are unemployed
- However, some additional 12 mill workers (incl. freelancers, gig workers) receive **temporary Federal unemployment benefit support**, partially in addition to the ordinary state programs (the net extra equals some 8 – 10 mill, we estimate). How many of these workers will return to the labour market the coming weeks & months?
- 24 states have **opted out** of these federal program (which anyway will expire in September). The impact from the first leavers will be visible in the no. of benefit receivers from next week but we will still not know if these workers will try to find a job or to stay outside the labour market. State employment data, perhaps also some survey data, will tell the coming months

Will the cancelling of pandemic federal benefit programs lift employment?

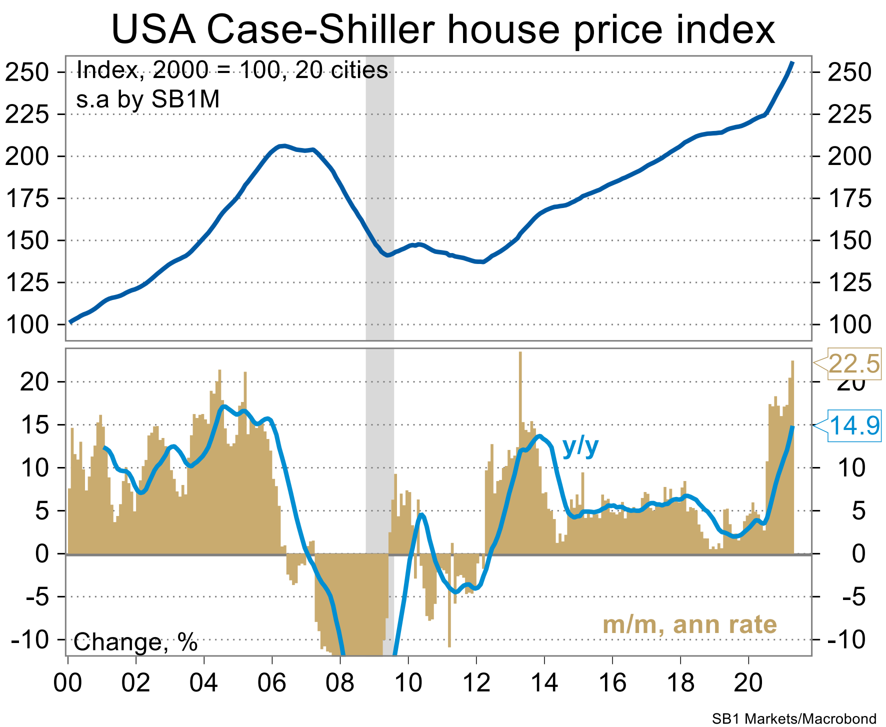
One positive signal: The number of ordinary continued claims may be falling in early leaver states

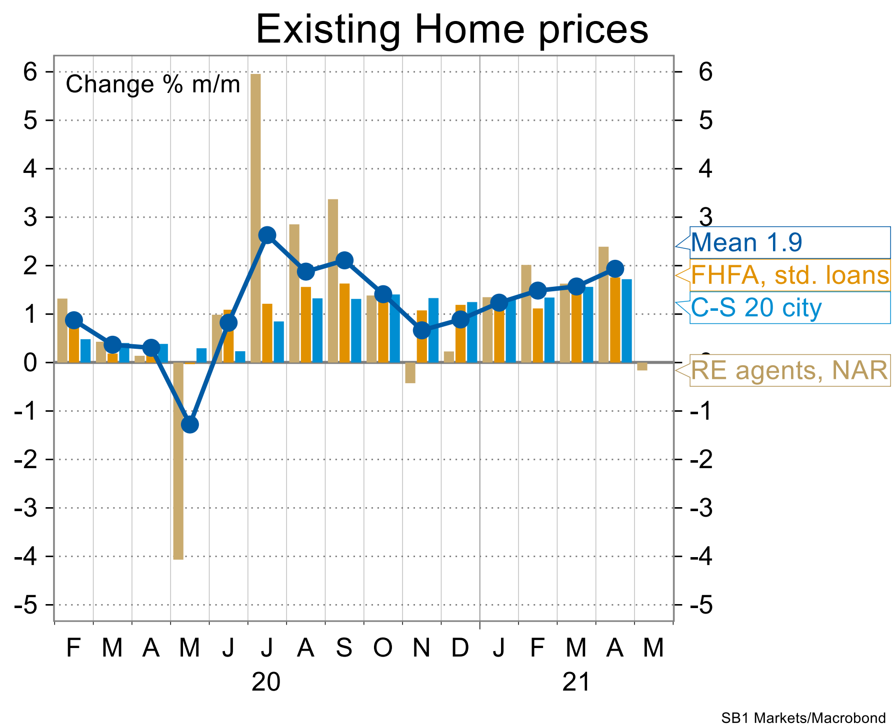


- 4 stated dropped out of the federal unemployment benefit programs at June 12 (end of week 23), and another 8 states left June 19, which is the last week state unemployment benefit data are available
  - The no. of continued claims fell more than the national average before this cut-off day
  - However, in the first week after abolishing the federal programs, the no. of continued claims rose in the 4 (first) states
- Anyway, we do not know what these former recipients do now – are they now trying to find a job?
- Some media reports suggest that employers in these states have been able to find more workers, but other reports have told other stories
- Most likely, we will have to wait for state employment data, which are published 2 – 3 weeks after the national payrolls report
  - We doubt we will find much information in the June state employment data (date are gathered mid-month), but July data (published in August) could reveal some information whether labour supply increases or not. We think the odds of finding some impact are pretty good

House prices climb even faster, Case-Shiller up 14.9% y/y, highest since 2005

Prices up 1.7% m/m (22.5% annualised), the 2nd highest on record, underlying pace 18% (ATH)



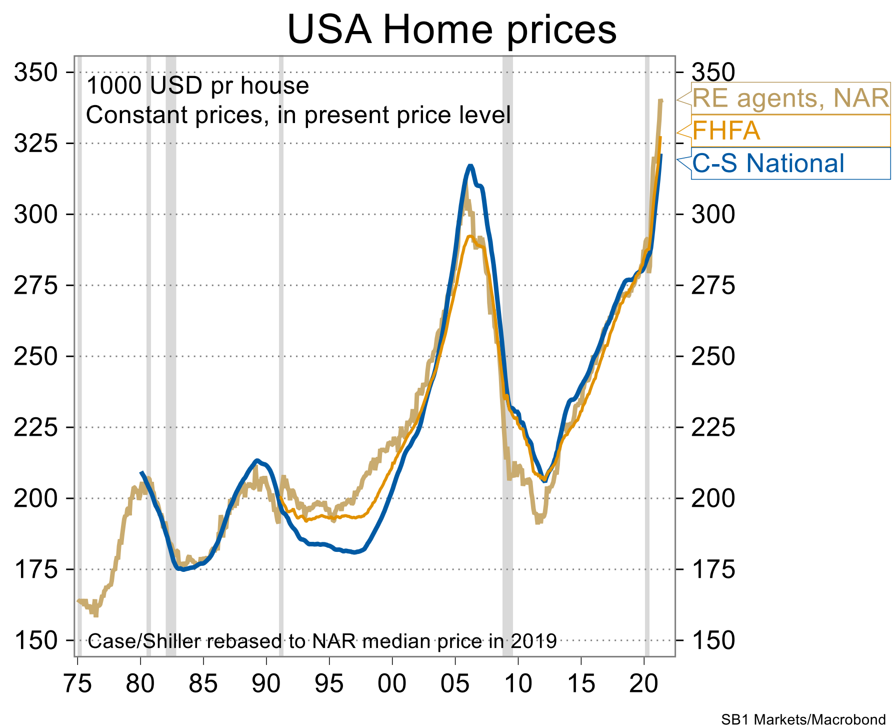


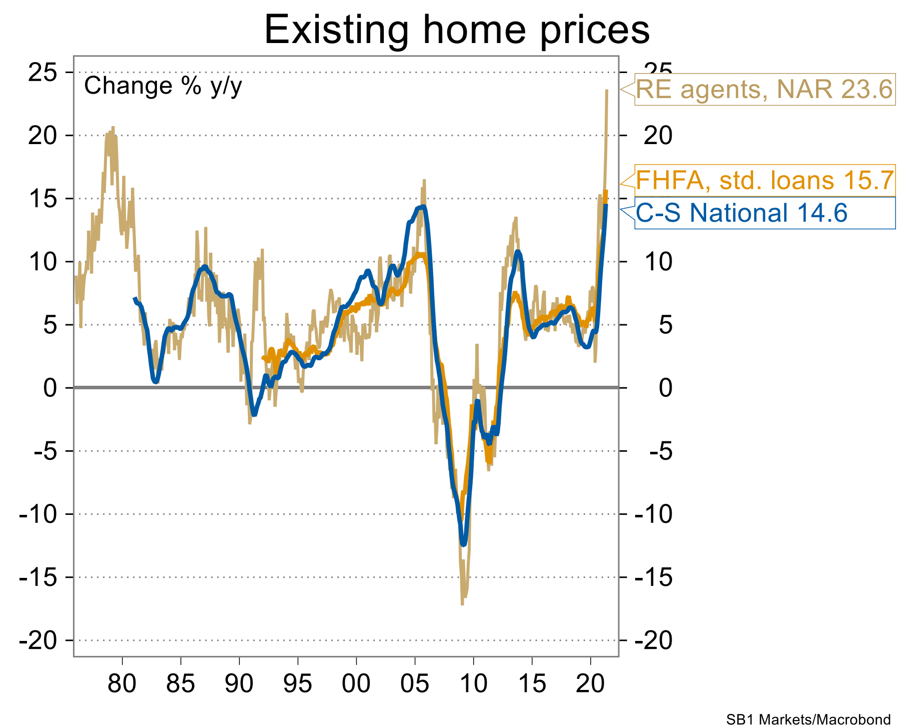
- **S&P's Case/Shiller's 20 cities** price index rose 1.7% m/m in April (March – May avg). The annual growth rate at 14.9% is the highest since 2006. The **national C-S index** is up 14.6% y/y, the highest on record data from 1980
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene", has a countrywide coverage), has shot up too recent months too. The annual rate at 15.7% is far higher than before the housing crisis 15 years ago (chart next page)
- **Relators** reported close to zero price growth m/m May (but an extreme annual growth rate, as prices fell sharply in May-20)

SpareBank 1 MARKETS

Some special house data – both measured y/y & the real price level

Even some Fed officials is now questioning the continued strong QE support of the mortgage market

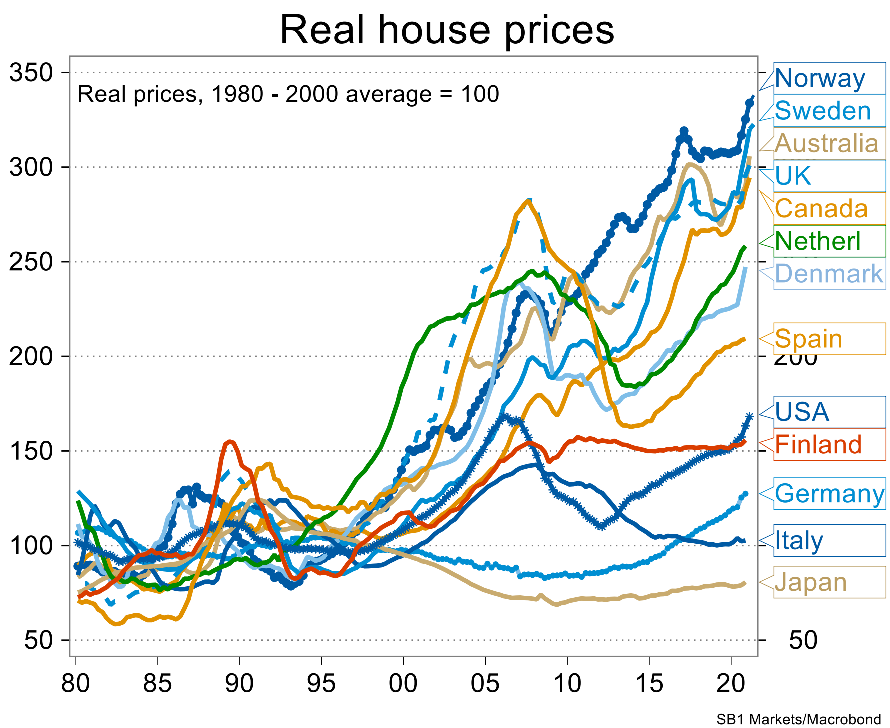


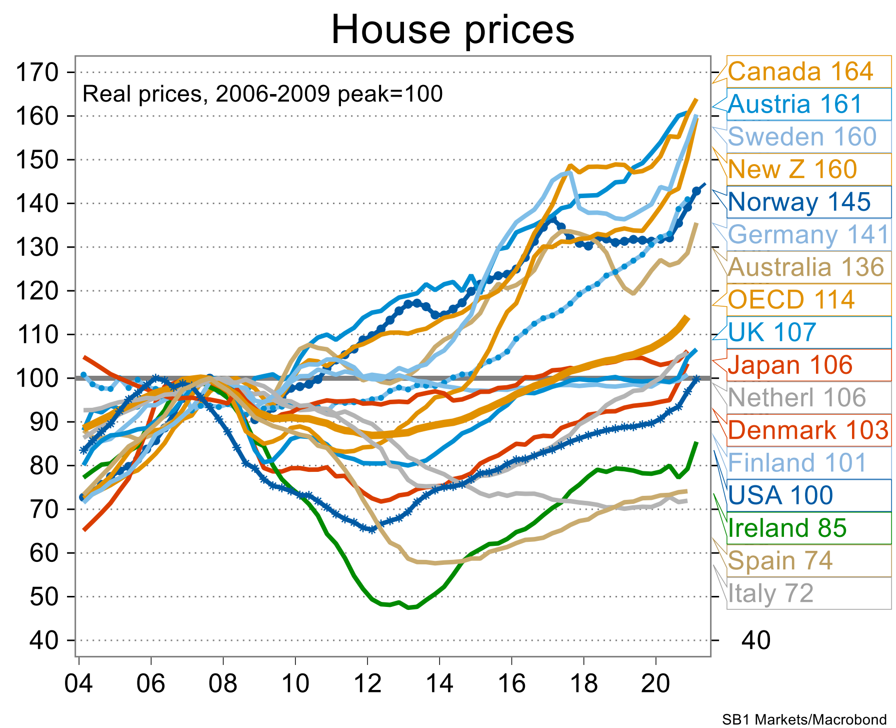


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever and record high real price levels, with data covering the past 30 – 45 years
- There are some big differences to 2005/6 price inflation & level peak
  - » Housing starts are at far lower level. The inventory of new & 2nd home for sale is record low (vs high 15 – 16 years ago)
  - » The debt/income ratio has fallen sharply since the peak before the financial crisis – and it is now just slowly increasing
  - » The running savings rate/net financial investment rate is high – vs far too low 15 years ago

Some significant developments the past 20 years

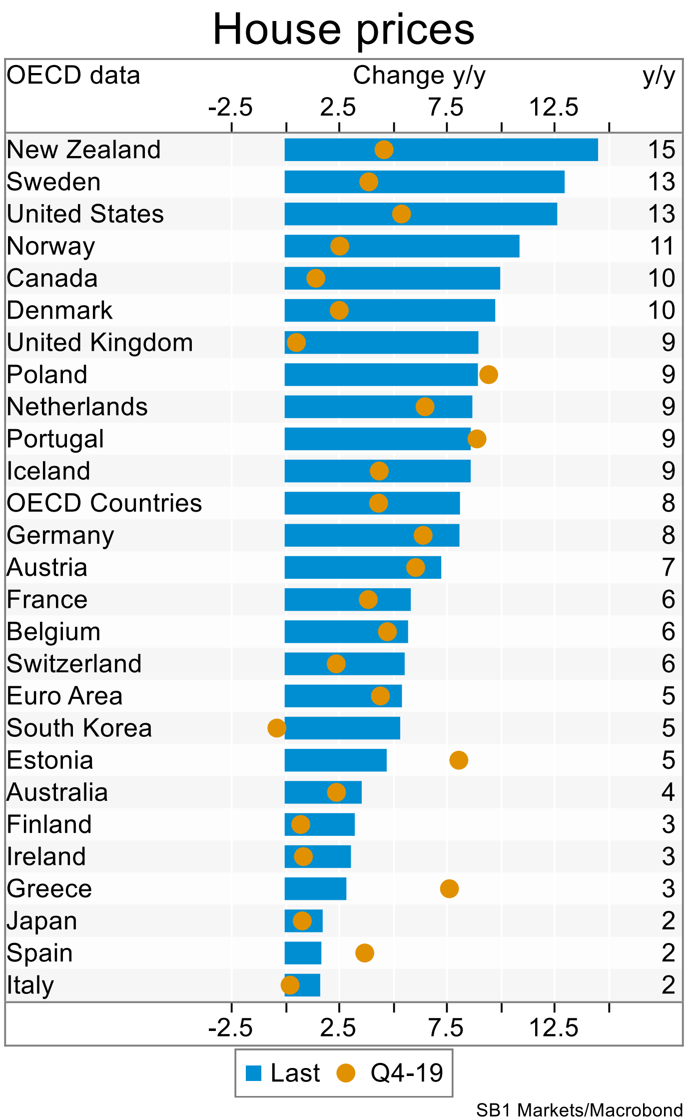
And now we go again, almost everywhere





Now, all house prices are on the way up

… and price inflation has accelerated through the pandemic, almost everywhere

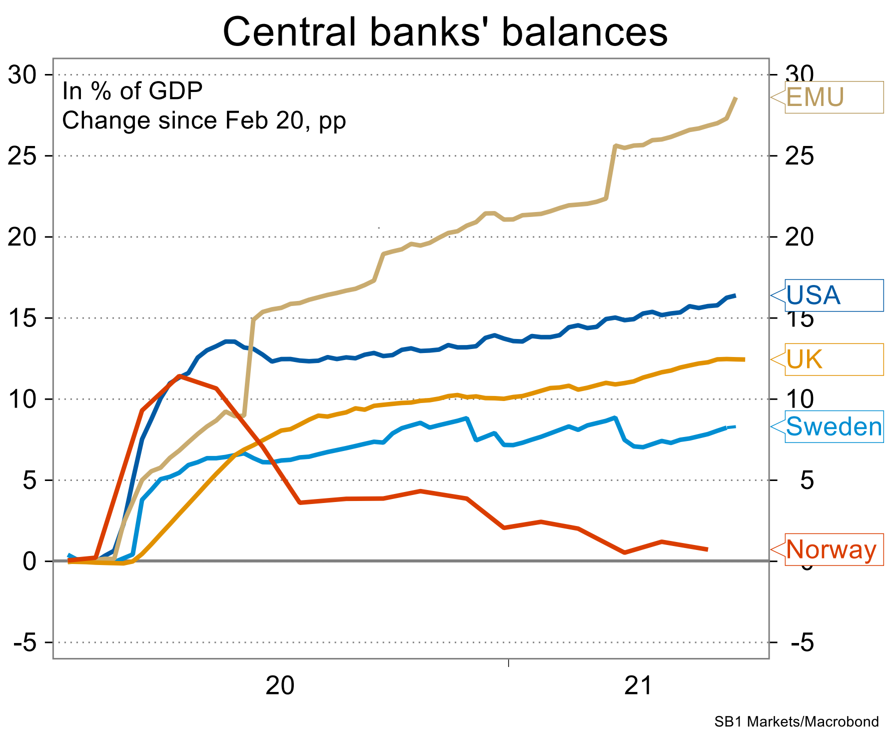


- No doubt, housing demand has strengthened through the pandemic, both due to low interest rates/easy access to credit and due to demand for more space
- Nominal income growth per capita (or household) is at some 1% – 3% in most countries

- Data are from the OECD, last datapoint Q4-20 or Q1-21. National indices in several countries report higher price inflation in Q2, like in the US, UK, and Sweden

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

2021 GDP growth forecast raised by 0.5 pp to 4.2%

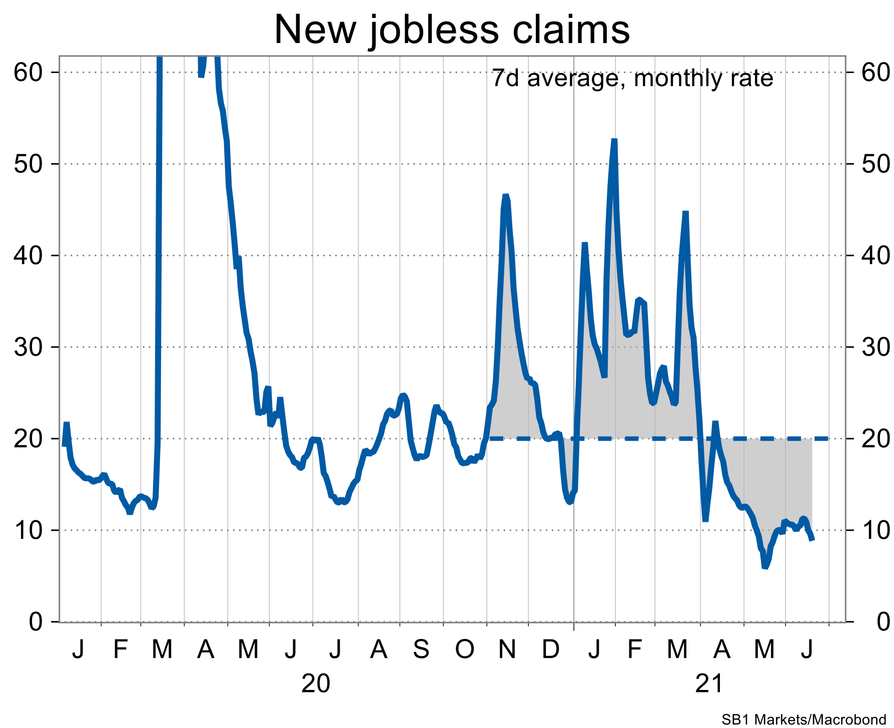


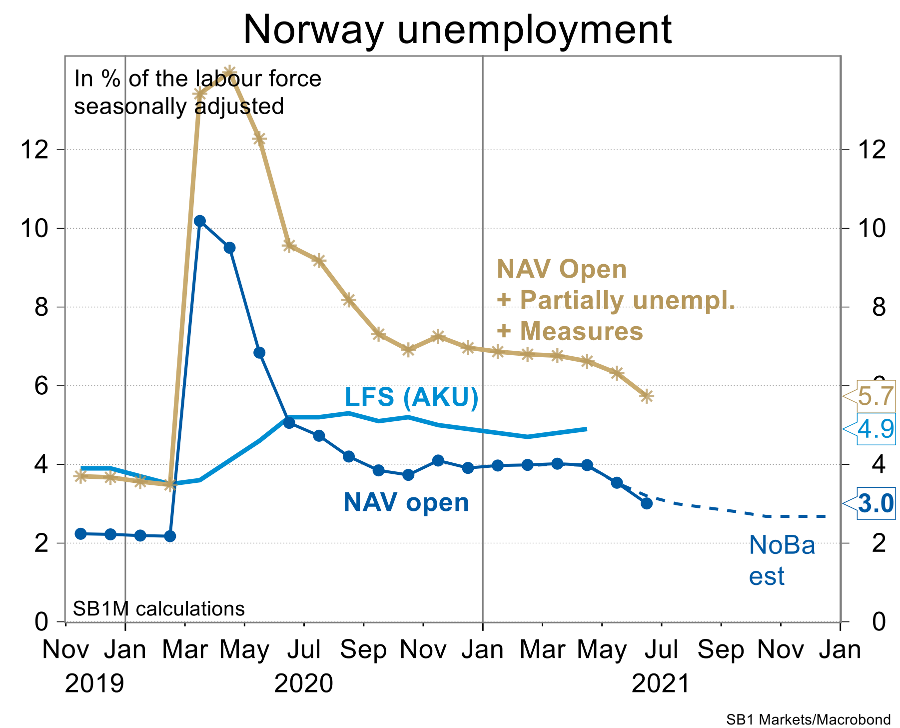
- The US Fed, ECB & BoE has been more aggressive vs QE than the Riksbank
- All the other banks plan to continue their QE programs – and will end up higher than the Rix now signals

- The Riksbank kept the **signal rate unchanged at zero**, as expected – and the bank assume it will stay there for a long as the Bank can see (till Q3 2024)
- The Bank keeps the **target QE level at SEK 700 bn,** as announced at the Nov meeting, until the end of 2021,– in order *'to give further support in an uncertain time, improve the conditions for a recovery, and to help inflation rise towards the target'*
- The Bank revised its growth projections :
  - » The 2021 forecast is raised 0.5 pp to 4.2% - citing that the economy is now is more resilient to the effects of the virus, while the growth forecasts for 2022 and 2023 were both revised up by 0.1 pp to 3.7% and 1.9% respectively
  - » The unemployment rate will still increase from 8.3% in 2020 to 8.7% in this year (+0.1 pp)
  - » Inflation f'cast was revised up for all years, and will be above the 2% target Q3 2024, according to the Riksbank
- **The Riksbank remains dovish, as the new corona variants may push the Swedish economy down again**
- So far however, there are no signs of that to happen
  - » An example: The Swedish PMIs is one the strongest in the world, have been so for quite some time now. We think the bank is too pessimistic – as it has been for a long while now

NAV unemployment dropped in June too, but grand total still 2.2 pp too high

Unempl. down 0.6 pp (-0.3 pp in May), 0.2 pp below NoBa. "No" new claims, new vacancies at ATH

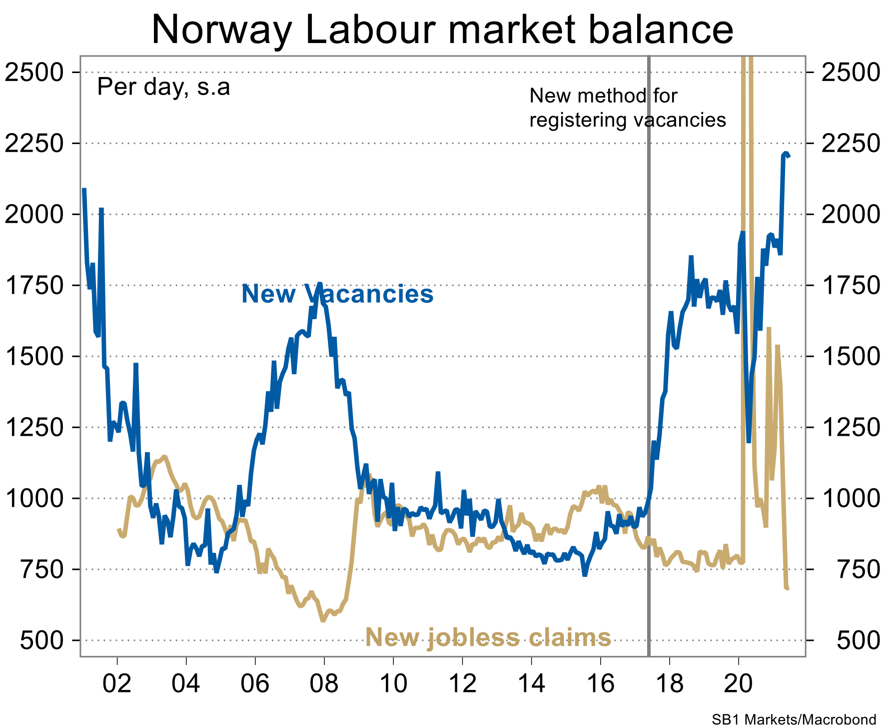


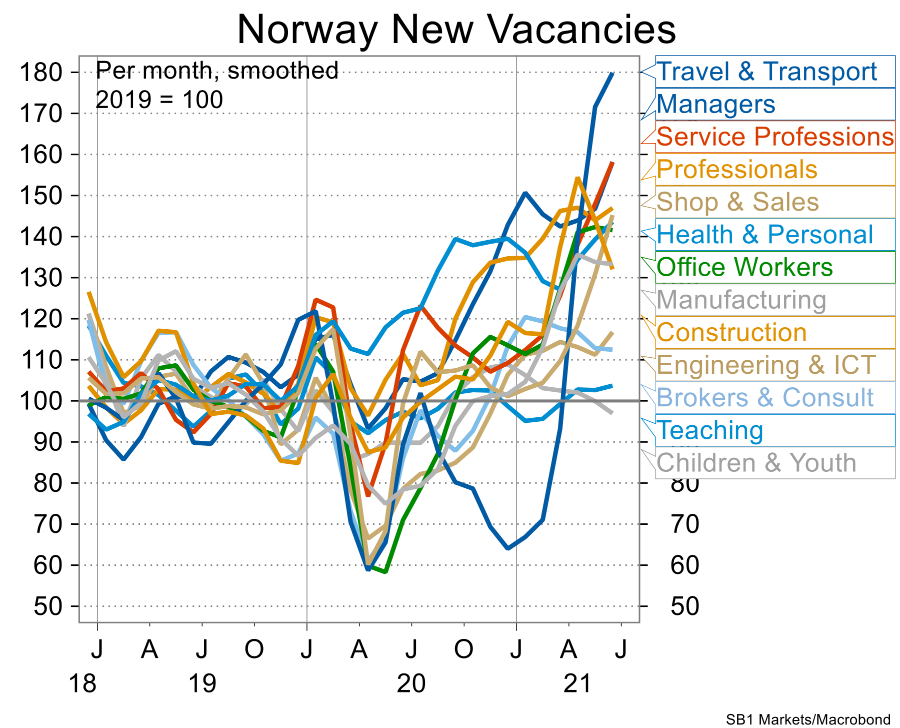


- **The 'full time' open NAV unemployment**, which includes furloughed workers fell by 15' in June (seas adj), we expected -14' – down to 85' persons. The rate fell to 2.9% from 3.3%, as we expected. Seas. adj, the rate fell 0.5 pp to 3.0%, to well below NoBa's 3.2% f'cast. The m/m decline in unemployment was the largest ever, barring 4 months last year
- The number of **partially unemployed** fell by 7' to at 60', leaving the grand total at 163' (including measures), - 18', equalling 5.7% of the labour force. Before the corona crisis, grand total unemployment rate was at 3.8%. The no. of furloughed workers fell by 18' to 50'
- The inflow of **new job seekers** remained at very low level in June, while the inflow of new vacancies was very high for the 3rd month in row
- The **LFS survey** (AKU) reported a marginally higher unemployment in March/April – up to 4.9%. The trend is still down. Employment rose sharply
- All in all: **The labour market has turned on a dime**, just as we expected. We expect the unemployment rate to remain below NoBa's f'casts

A huge inflow of new vacancies for the 3rd month in row

Travel/transport (restaurants incl.) at the top. A sharp decline (from high level) in construction



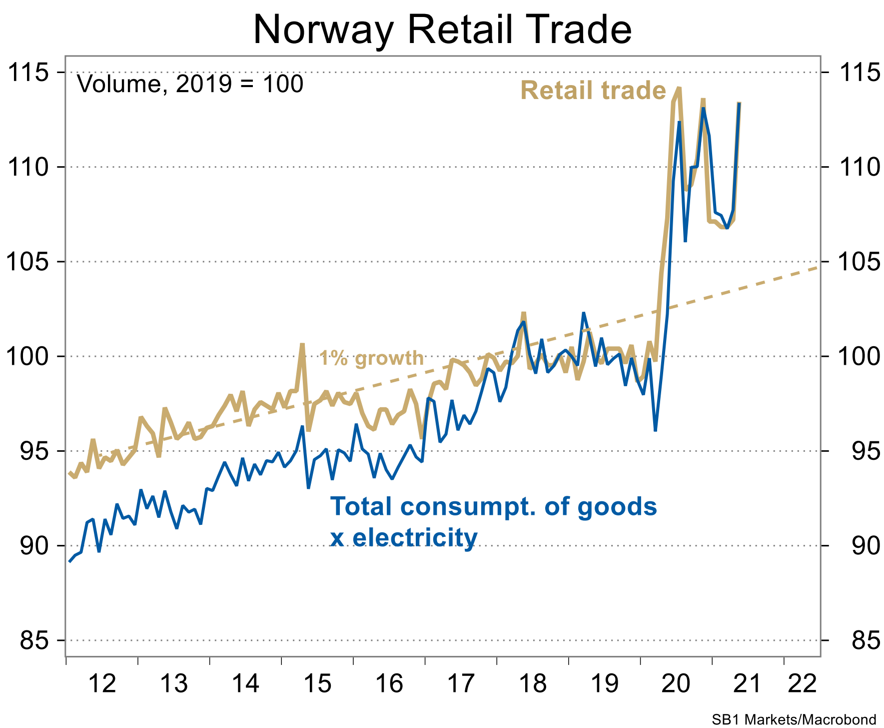


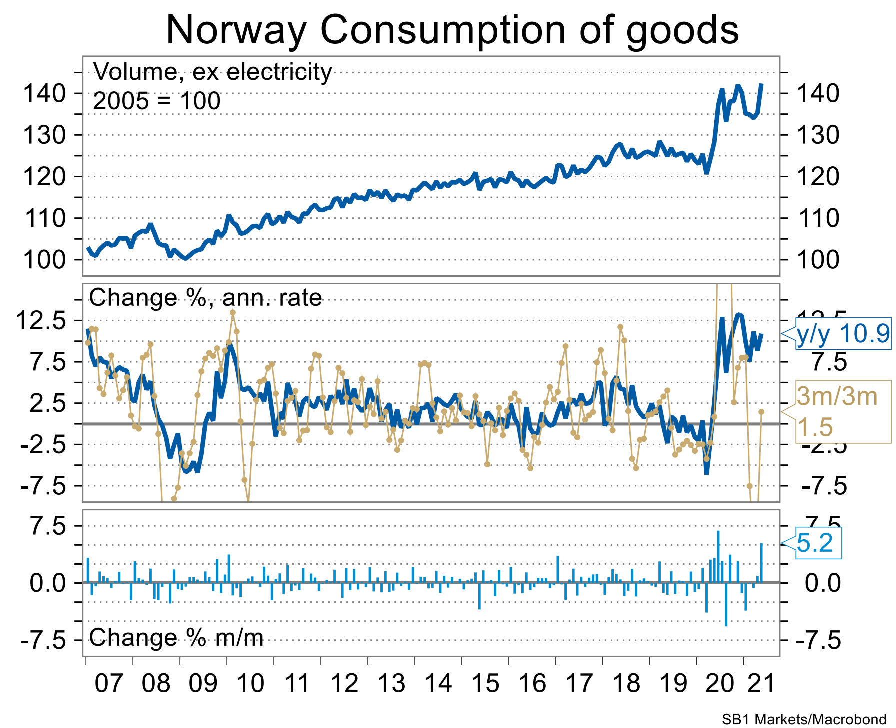
- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)

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

Retail sales up 5.8% in May – and 13% up vs. pre corona!

Clothing sales contributed the most on the upside – food and internet sales on the downside





- **Retail sales** were up 5.8% m/m, we expected +2%. Sales are up 13% from the pre-corona level
  - » **Some pent-up demand** was released as stores and shopping malls opened up again Oslo/Viken in May
  - » Non-food shops reported an increase in May, while food sales fell. Internet sales rose as well, and the internet has increased its market share to 8.6% (down from 10% in April) 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 5.2% in May – and is also 13% 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

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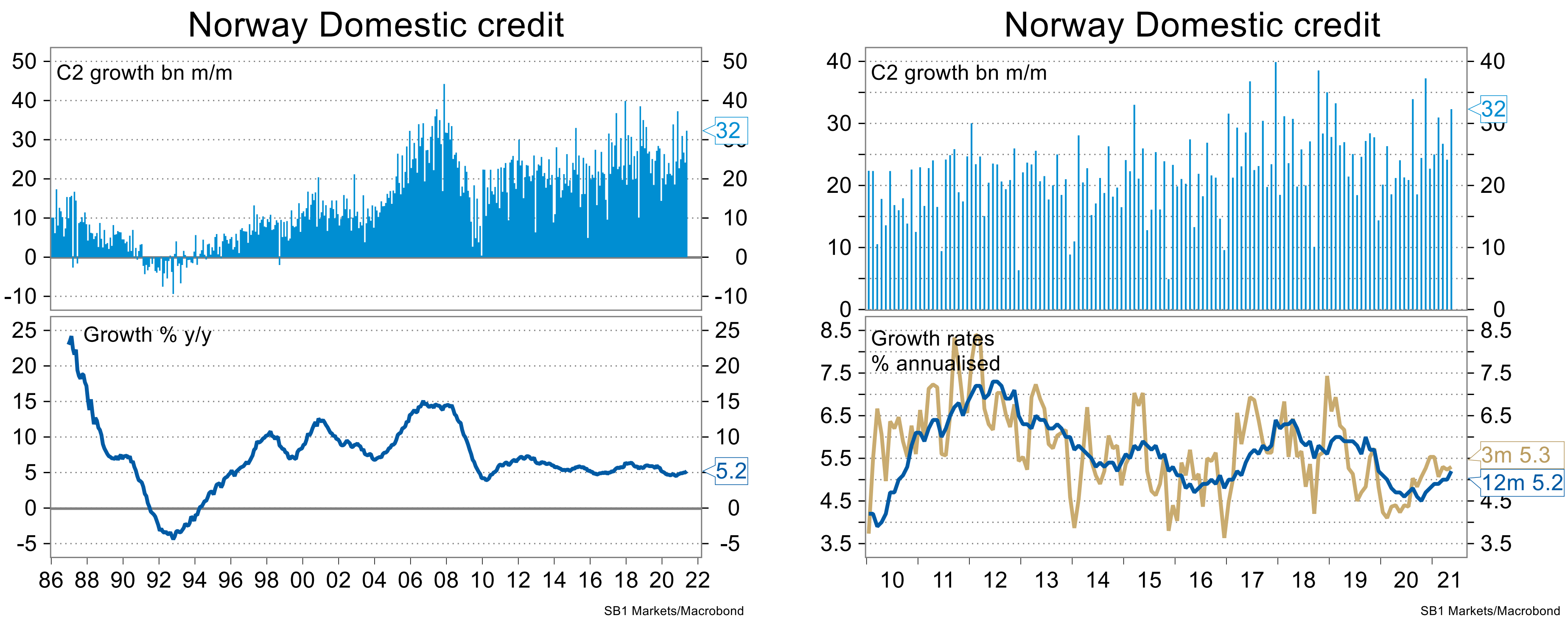
Credit growth up to 5.2%, still no credit boom to been seen

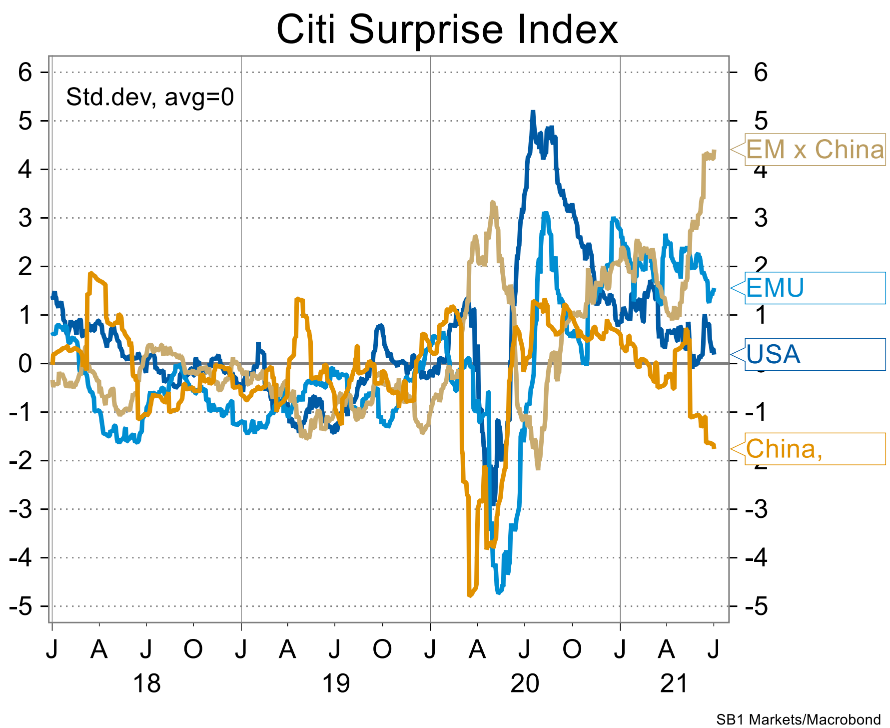
Total domestic credit growth (C2) rose more than we expected, due to corporates & local governments

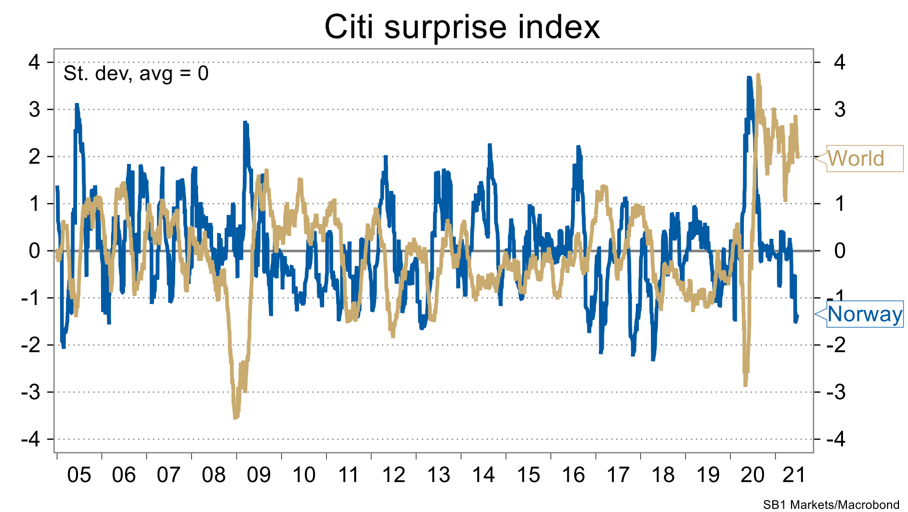


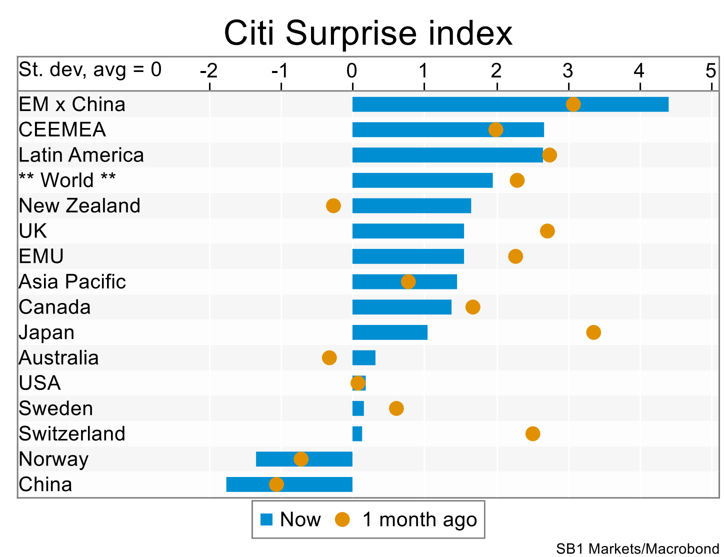
- **Total domestic debt** (C2) rose by NOK 32 bn in May, down from 24 bn in April, we expected NOK 25 bn. The annual growth rate accelerated 0.2 pp to 5.2%, we expected unch. (consensus 5.1%). We are not witnessing a any credit boom, even if growth is accelerating slowly
- **Household credit** rose by NOK 14 bn in May, as we assumed, down from 16 bn in April. The annual rate climbed 0.1 to 5.1%, as we expected. The underlying rate below 5%, as credit growth has slowed somewhat – and is not much above income growth anymore
- **Corporate C2 credit**, rose by NOK 13 bn (up from 5 bn), we expected 8 bn. The annual growth rate was rose was unch at 4.4%, we expected 4.41%. **Mainland corporations** increased their debt by 5.1% y/y (from 5.0%)
- **Local governments** borrowed heavily in May – NOK 5 bn. The annual growth rate is at 8.3%, up from 7.8% - way above income growth

China is surprising sharply on the downside, other EMs on the upside

… according to Citi's surprise index. EMU and the US also in positive territory. Norway not







- **China** slides down, to well below neutral, alongside a credit tightening
- **Japan** has lost substantial height the past month
- **Emerging Markets x China** are reporting much better data than expected, and it is rather extreme (>4 st.dev above avg.)
- The **EMU** is still surprising on the upside, but less so
- The **US** surprise index is marginally on positive side
- **Norway** has surprised sharply on the downside recent weeks

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

The Calendar: Comp PMIs, FOMC minutes, EMU retail. NO GDP, CPI, house prices

Time	Count.	Indicator	Period	Forecast	Prior
Monday July 5					
08:30	SW	PMI Services	Jun		71.7
10:00	NO	House prices, MoM	Jun	0.6%	0.6%
10:30	UK	PMI Services	Jun F	61.7	61.7
10:00	EC	PMI Services	Jun F	58.0	58.0
10:00	EC	PMI Composite	Jun F	59.2	59.2
Tuesday July 6					
08:00	GE	Factory Orders MoM	May	1.1%	-0.2%
11:00	GE	ZEW Survey Expectations	Jul	75.4	79.8
11:00	EC	Retail Sales MoM	May	4.2%	-3.1%
15:45	US	PMI Services, Markit	Jun F	64.8	64.8
15:45	US	PMI Composite, Markit	Jun F	63.9	63.9
16:00	**US**	**ISM Services Index**	**Jun**	**63.6**	**64.0**
17:00	**WO**	**PMI Composite**	**Jun**	**(56.8)**	**58.4**
Wednesday July 7					
08:00	GE	Industrial Production SA MoM	May	0.5%	-1.0%
08:00	NO	Ind Prod Manufacturing MoM	May	(2.0%)	-1.9%
08:00	NO	GDP MoM	May	0.9% (0.9)	0.3%
08:00	**NO**	**GDP Mainland MoM**	**May**	**0.9% (0.9)**	**0.3%**
09:30	SW	Industrial Orders MoM	May		-2.5%
09:30	SW	GDP Indicator SA MoM	May		-1.4%
16:00	**US**	**JOLTS Job Openings**	**May**	**9388k**	**9286k**
20:00	**US**	**FOMC Meeting Minutes**	**Jun-16**		
Thursday July 8					
08:00	GE	Trade Balance	May	15.8b	15.5b
14:30	US	Initial Jobless Claims	Jul-03	350k	364k
Friday July 9					
03:30	CH	CPI YoY	Jun	1.3%	1.3%
08:00	**NO**	**CPI Underlying YoY**	**Jun**	**1.5% (1.6)**	**1.5%**
08:00	NO	CPI YoY	Jun	2.8% (2.9)	2.7%
08:00	NO	Trade Balance	Jun		15.5b
08:00	UK	Monthly GDP (MoM)	May	1.8%	2.3%
08:00	UK	Manufacturing Production MoM	May	0.9%	-0.3%
08:45	FR	Manufacturing Production MoM	May		-0.3%
During the week					
	CH	**Aggregate Financing CNY**	**Jun**	**2700b**	**1920b**

- **Global services/composite PMI**
  - **Peak PMI?** The manufacturing PMI fell a tad more than we expected, and the preliminary service sector PMIs pointed sharply down due to a slowdown in the US (from an extreme level to a less extreme level). We expect the composite index to retreat by 1.7 p to 56.6 – still a very high level
- **Global auto sales**
  - Sales in the **US and Europa** (x Norway, of course) surprised on the downside, and preliminary reports from **China** are negative too. The main problem is supply – as deliveries of data chips have been far lower than needed. Normally, auto sales are good gauge of household demand
- **USA**
  - **FOMC minutes:** How hawkish were the hawkish members of the FOMC? The 'dot plot' was substantially lifted, and almost half of the members expected rates would be hiked in 2022, and many may like to reduce QE, at least for mortgage backed bonds. Powell has probably succeeded in keeping Fed's 'official' rhetoric dovish, until further notice, but what if the hawks sounds aggressive?
  - Even more **unfilled vacancies**? A huge lift in April – and another increase in expected in May. The discrepancy between the low employment rate and record level of unfilled vacancies
- **EMU**
  - **Retail sales** rose by 4% – 5% in May, more than recovering more than the April loss
- **Sweden**
  - **GDP** fell in April but should recover nicely in May - even if the level in March probably was an outlier
- **Norway**
  - **Mainland GDP** is expected up 0.8% – 1% in May, as parts of the economy reopened – and more will come in June and July. Retail sales rose almost 6% and we expect strong growth rate in other services – as in the manufacturing sector
  - **Core CPI inflation** has surprised sharply on the downside recent months, and the annual rate has fallen to 1.5%. We expect a small uptick in June. Total inflation is close to 3% due to the lift in electricity prices
  - **House prices** flattened in April but rose 0.6% again in May, due to higher prices outside Oslo – where prices fell for the 3rd month in row. We do not expect any recovery in Oslo, as the market balance has weakened substantially – which is not the case in the rest of the country. Reports from the realtors have been better than we assumed, also from Oslo
  - **Manufacturing production** fell sharply (and surprisingly) in April, and we expect a brisk recovery in May. Surveys are strong, as is the production cycle abroad

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

Highlights

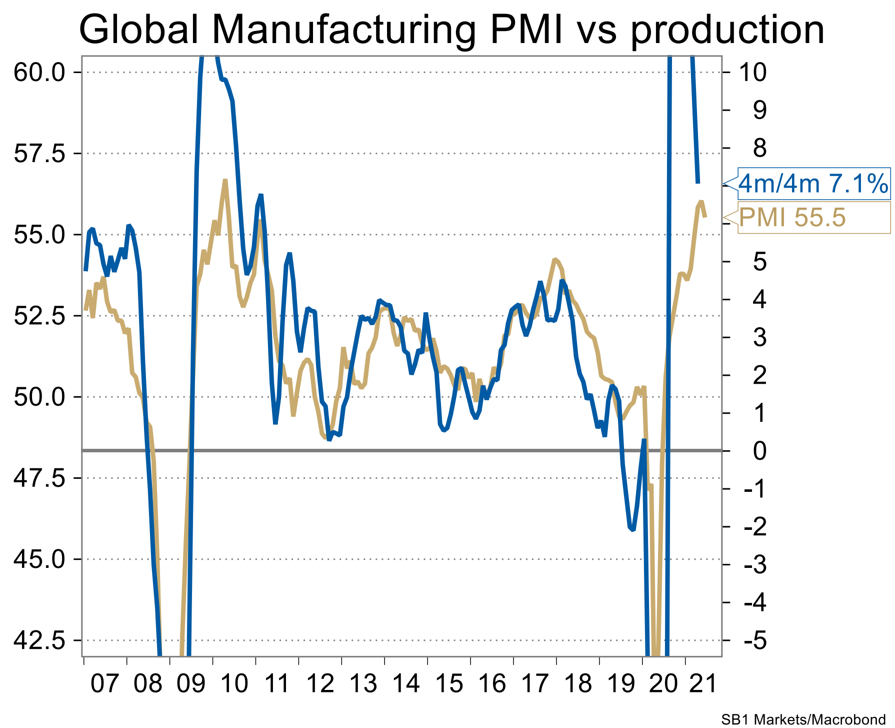
The world around us

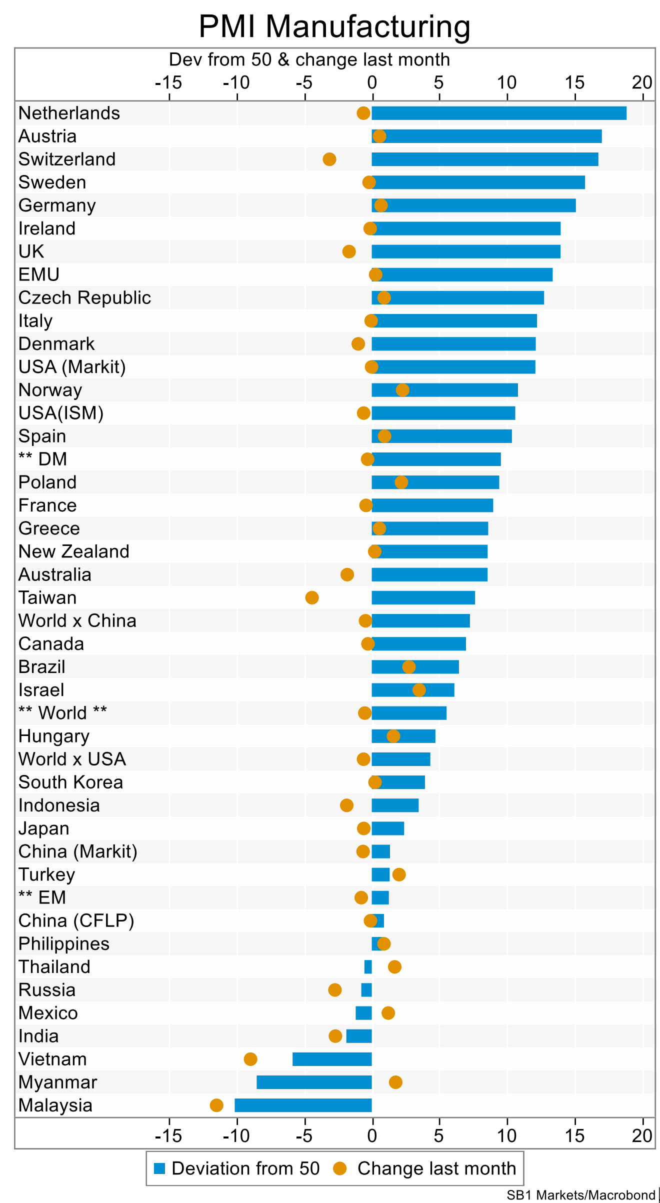
The Norwegian economy

Market charts & comments

Manufacturing PMI fell slightly, 80% are still above 50. Europe in the lead

The PMI fell by 0.5 p to 55.5 in June, still an unusually high level

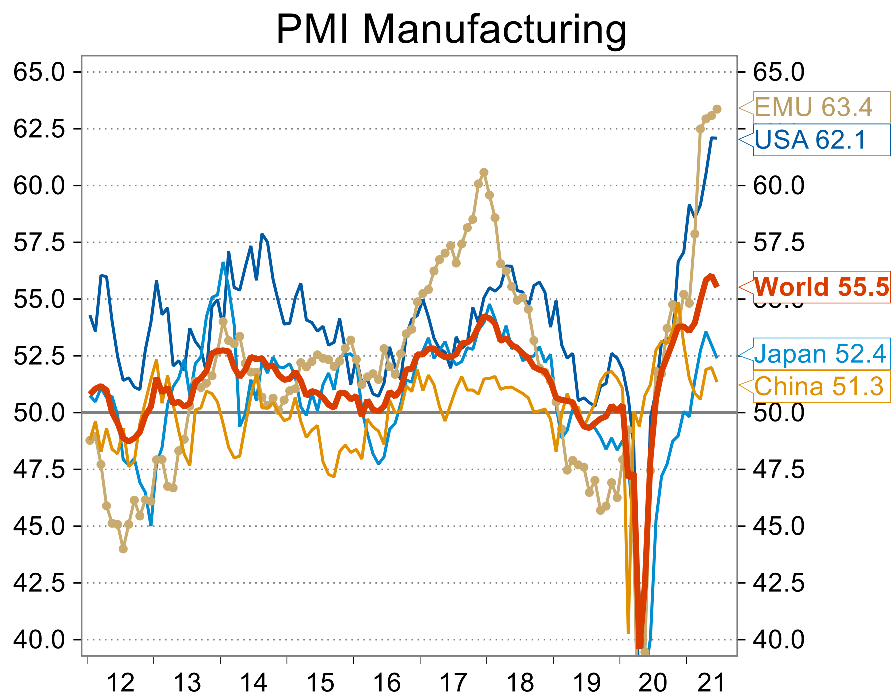




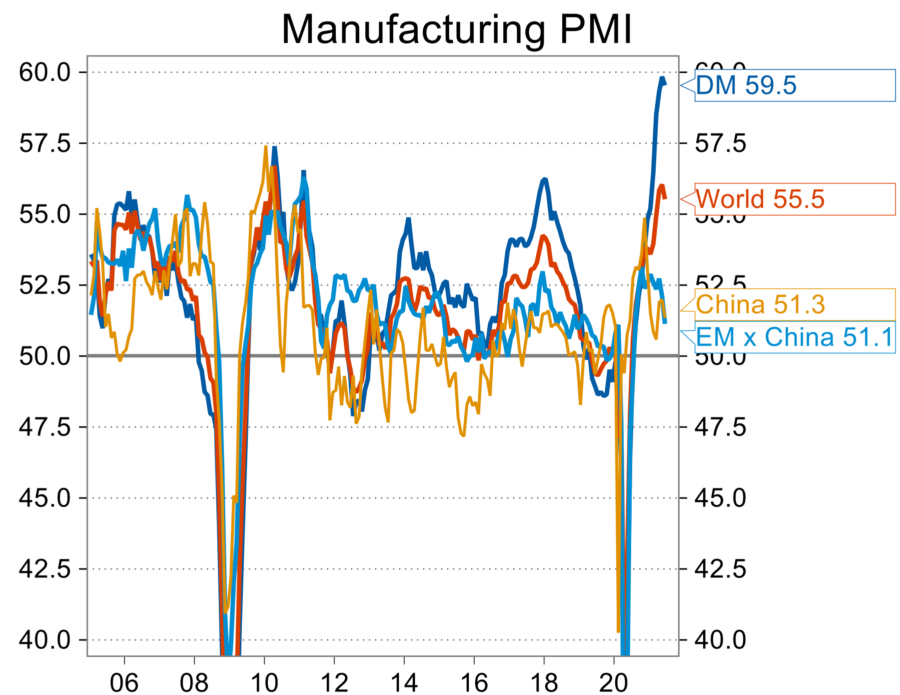
- The **global manufacturing PMI** was marginally below our f'cast
  - » 43% of the countries/regions reported higher PMIs in June than in May
  - » Almost 80% of countries reported a PMI> 50
  - » 15 **European countries** among the 16 at the top of the list, which has never happened before. Both Markit's **USA PMI & ISM** fell marginally in June
  - » The **Chinese PMIs** were also but still signals growth above trend
  - » **India** fell to below 50 but not by much

The boom in the manufacturing is broad, in rich countries

Emerging markets are lagging – the last corona wave is visible!



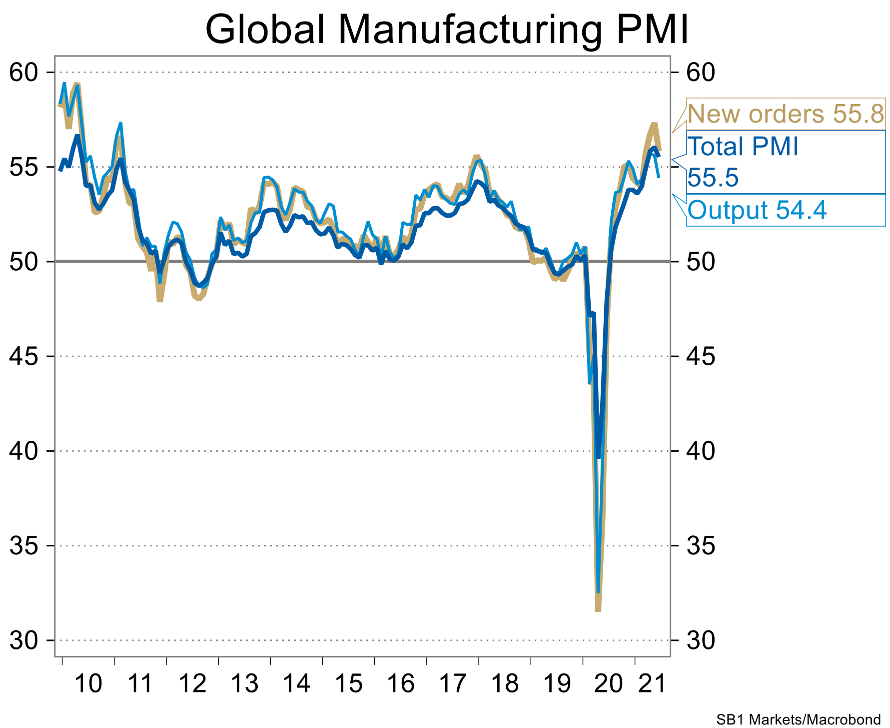
Source: IHS Markit, SB1 Markets, Macrobond

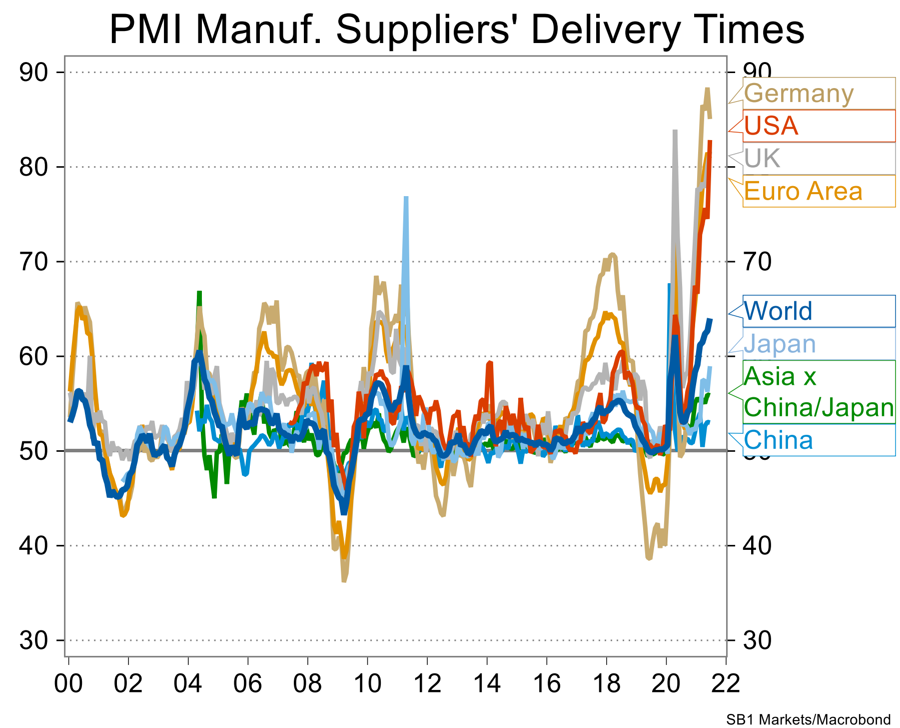


SB1 Markets/Macrobond

Orders, output grew at a slower pace in June

We are probably close to the local peak in growth in the goods sector globally

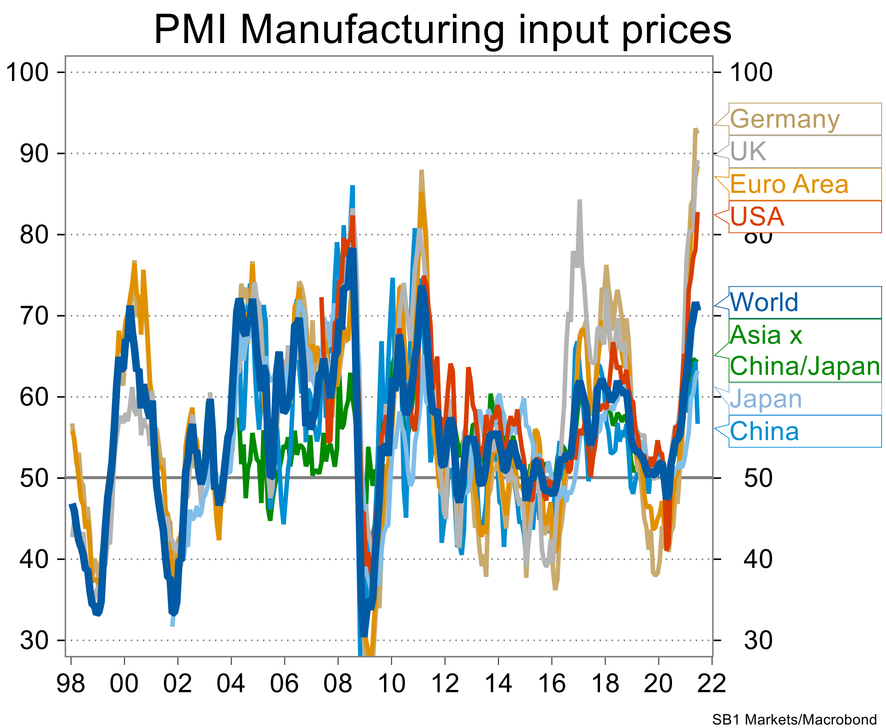


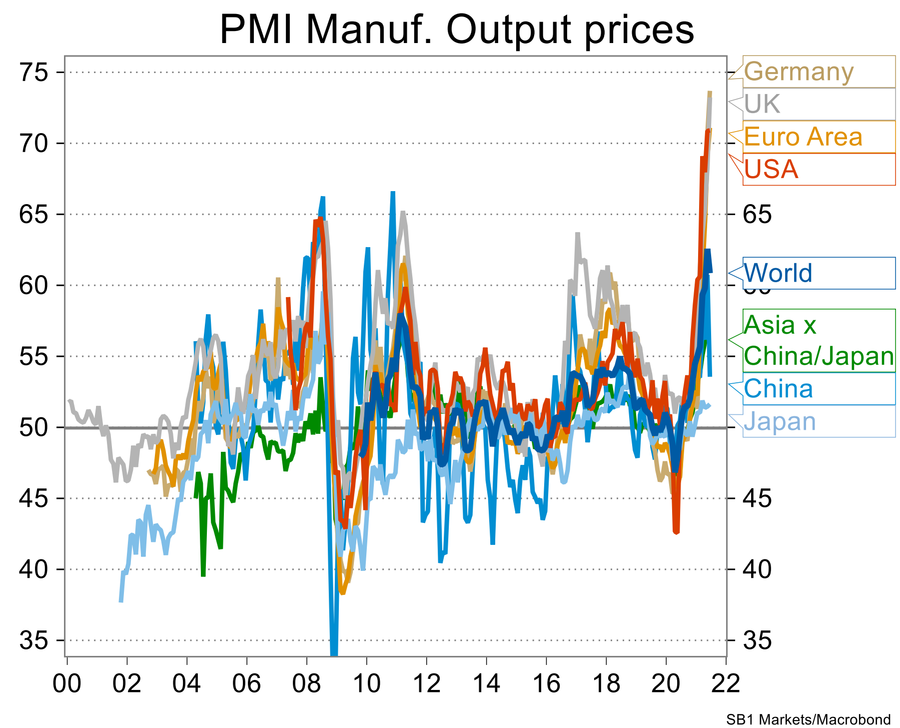


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) rose further in June, to the highest level ever. One year ago delays were entirely due to corona related supply chain challenges – and prices tumbled. Now, some of the delays may be somewhat corona related but demand is very strong
  - » However, delivery times rose at a slower pace (but still very fast!) in Europe in June

Prices are rising fast everywhere (and the fastest ever most places)

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





- **Input prices** grew a tad slower in June but still close to the fastest pace since 2011, according to the companies
- **Output prices** grew at a slower pace to, but still far above anything we have seen before - data back to 2009 (but several countries are reporting the fastest increase even back to year 2000)
- The marginal slowdown global price indices in June is due to sharp decline price increases in **China** in June
- **Still, the overall picture is clear:** rapid growth, longer delivery times and higher prices look like something familiar – *check the next page!*

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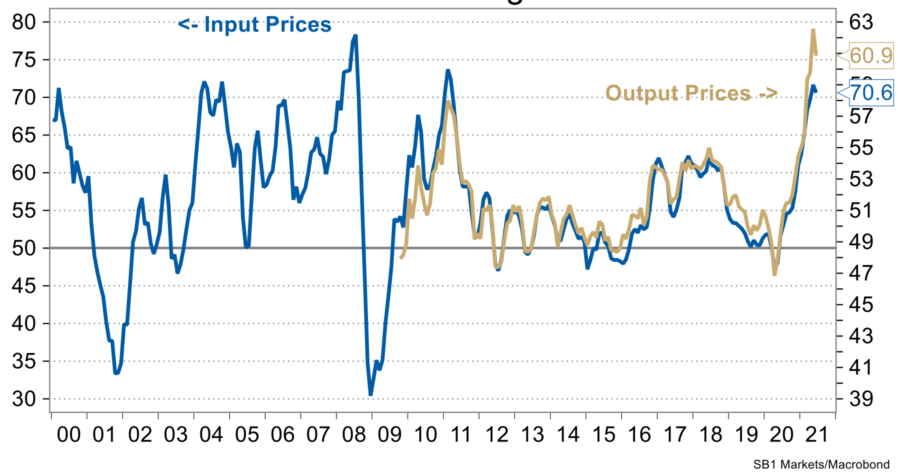
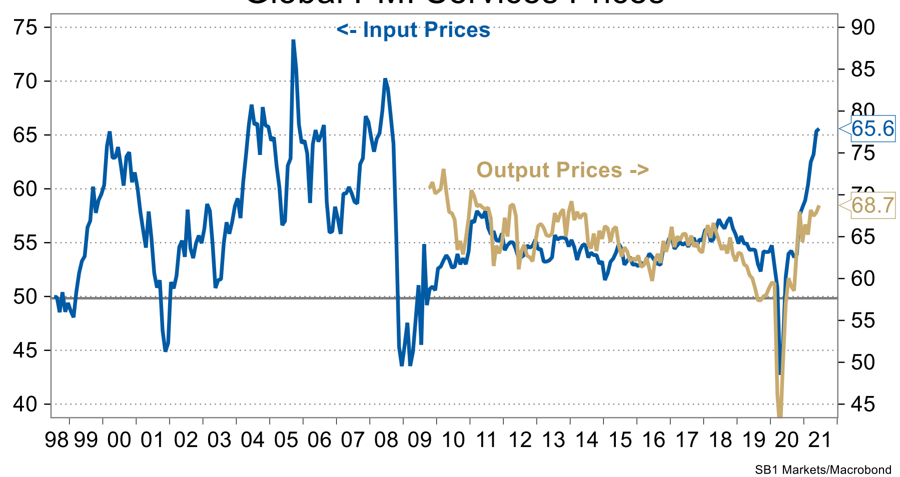
Businesses keep reporting a rapid growth in input/output prices

CPI inflation has probably not peaked – but the peak may be close!

Gobal Manufacturing PMI Prices

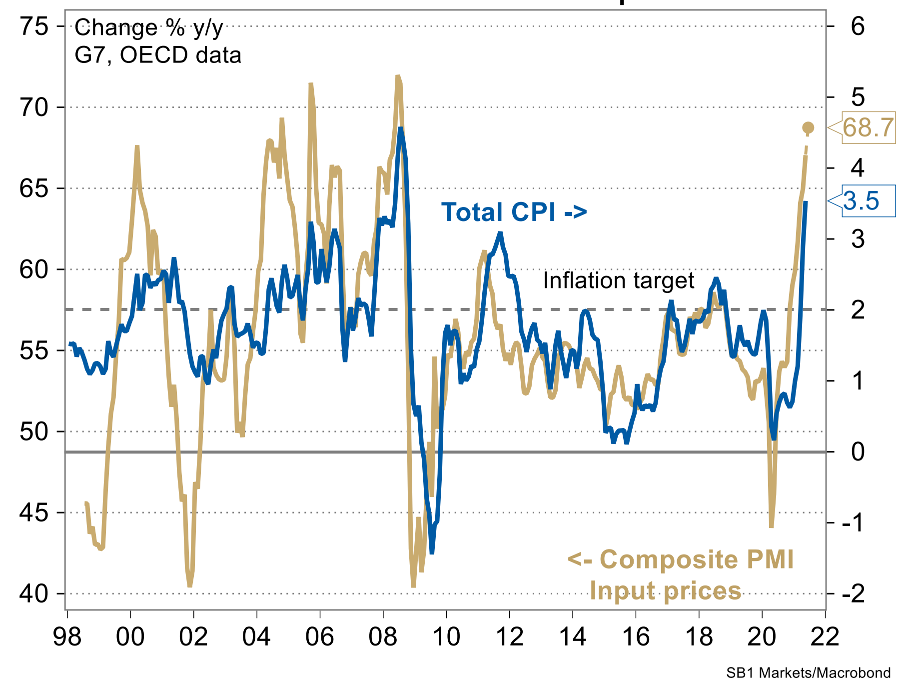


Global PMI Services Prices



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

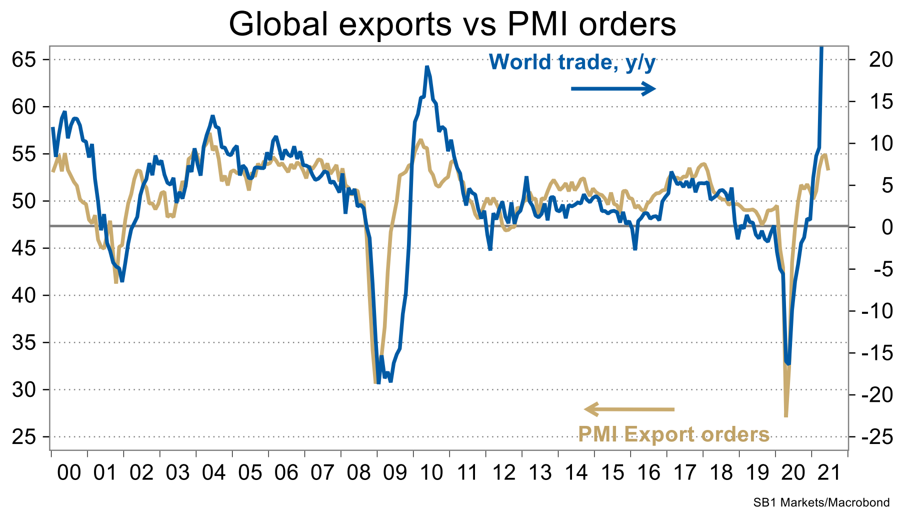
OECD Inflation vs PMI prices



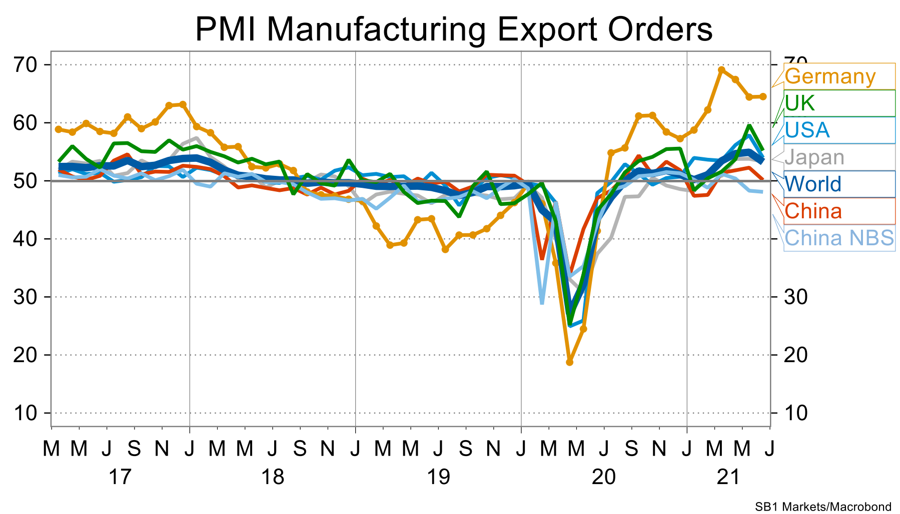
- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a further lift in headline inflation, from 3.5% in rich countries now

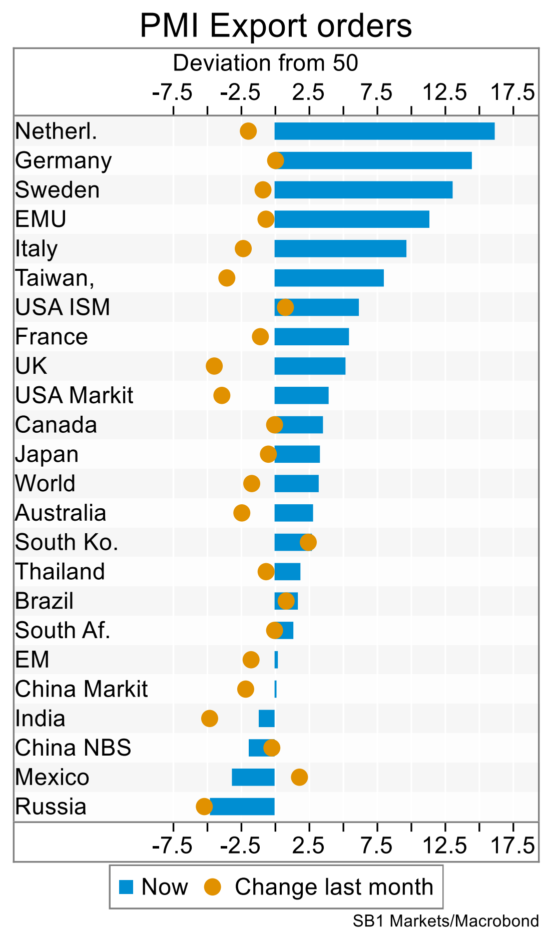
Most export order PMIs fell in June, but level is still well above average

EMU in the lead, China close to the bottom



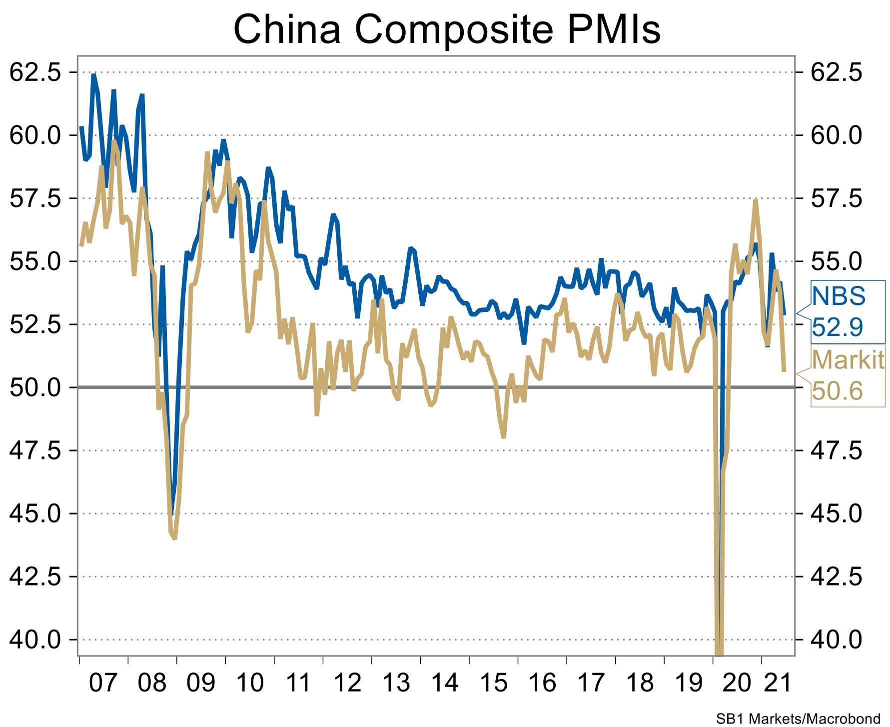
- Most countries are now reporting an increase in export orders (index >50)
- UK does not have any specific 'Brexit problems' at least not in aggregate, according to the PMI

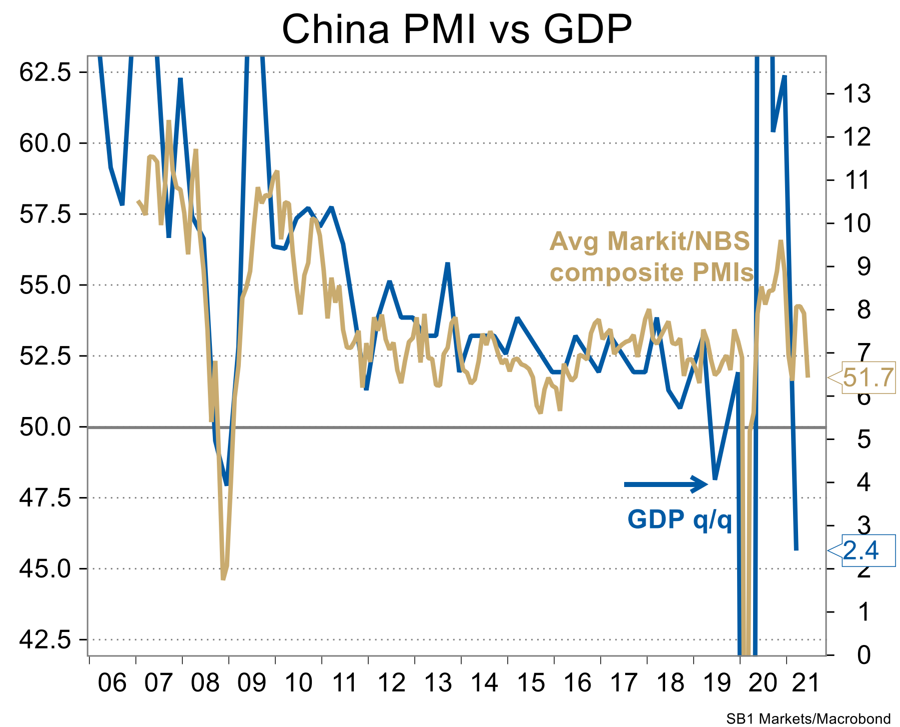




Weaker June PMIs confirm a Chinese slowdown, both data sets below average

Both NBS' & Markit's PMIs down, still signalling growth >6%. Markit/Caixin services the weakest link

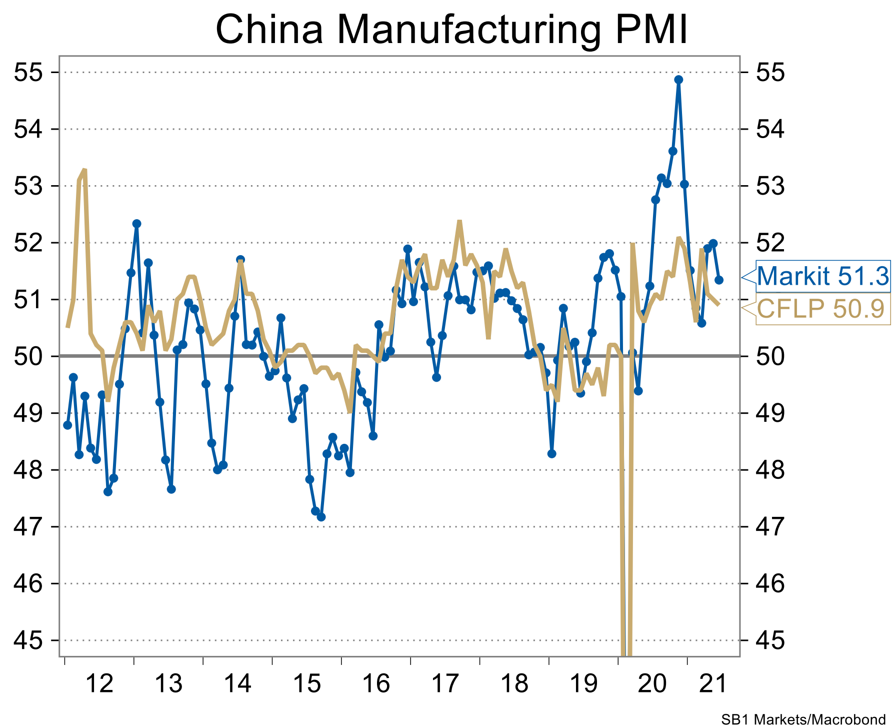


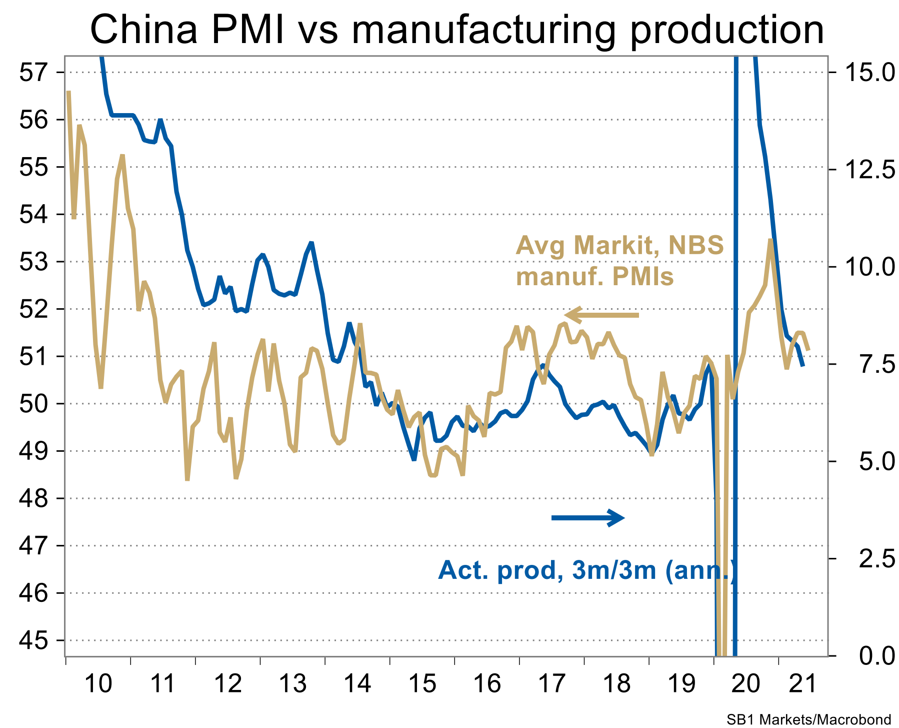


- The NBS index fell by 1.3 p to 59.9, while Markit's composite PMI fell by 3.2 p to 50.6, a rather steep decline
  - » Both surveys are below the 2012 – 2019 average (53.8 for the NBS, 51.4 for Markit/Caixin's index)
- Both manufacturing & services reported slower growth in both surveys. In the Markit/Caixin survey, the services PMI fell by 4.8 p to 50.3, a rather weak print
- We still expect GDP growth to accelerate in Q2 from the low level in Q1 (2.4%), but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend, credit policy is tightened & surveys are now clearly less upbeat

NBS manufacturing PMI marginally down, Markit's marginally up

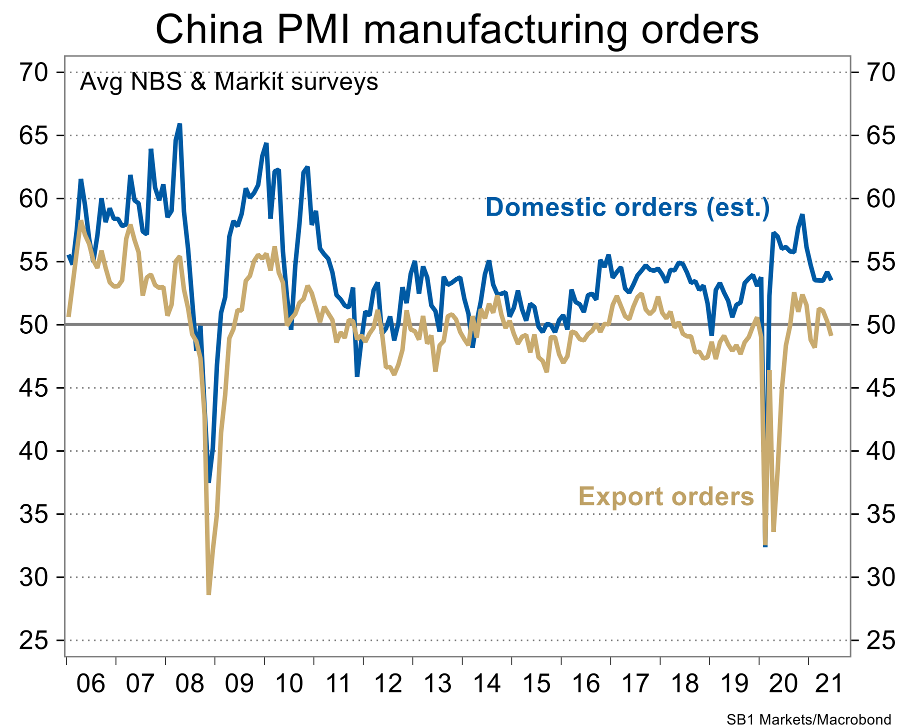
The PMIs are on average signalling growth well above trend in the manufacturing sector



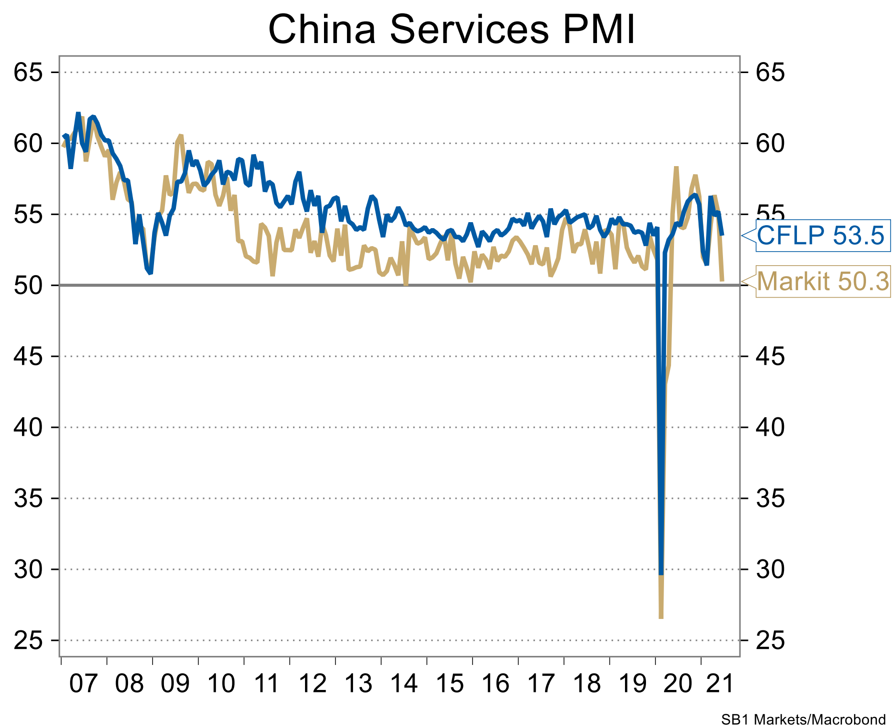


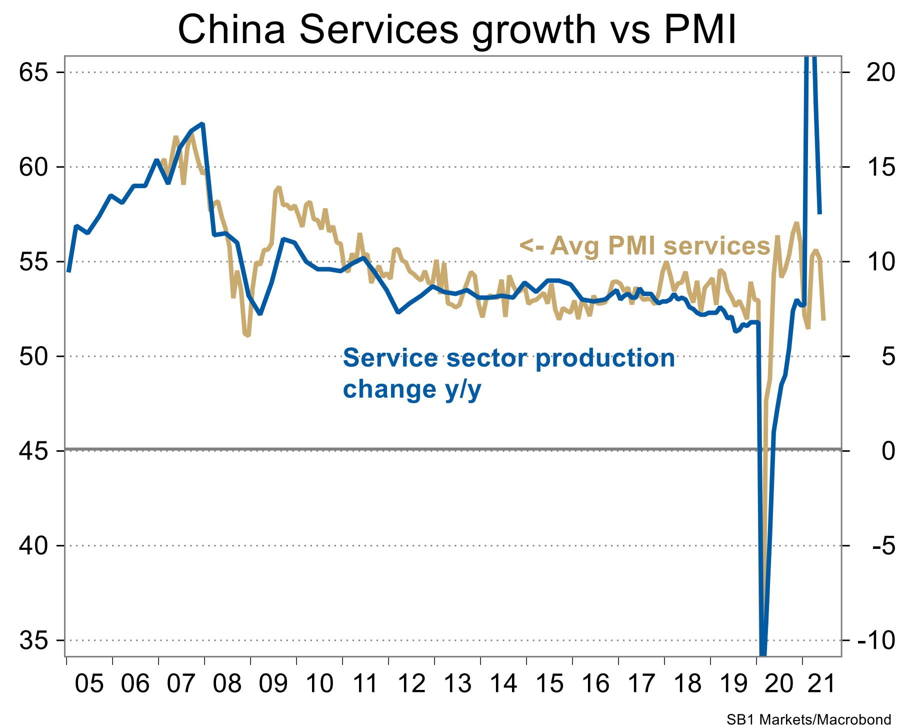
- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

Export orders are contracting again – but domestic orders are still going strong



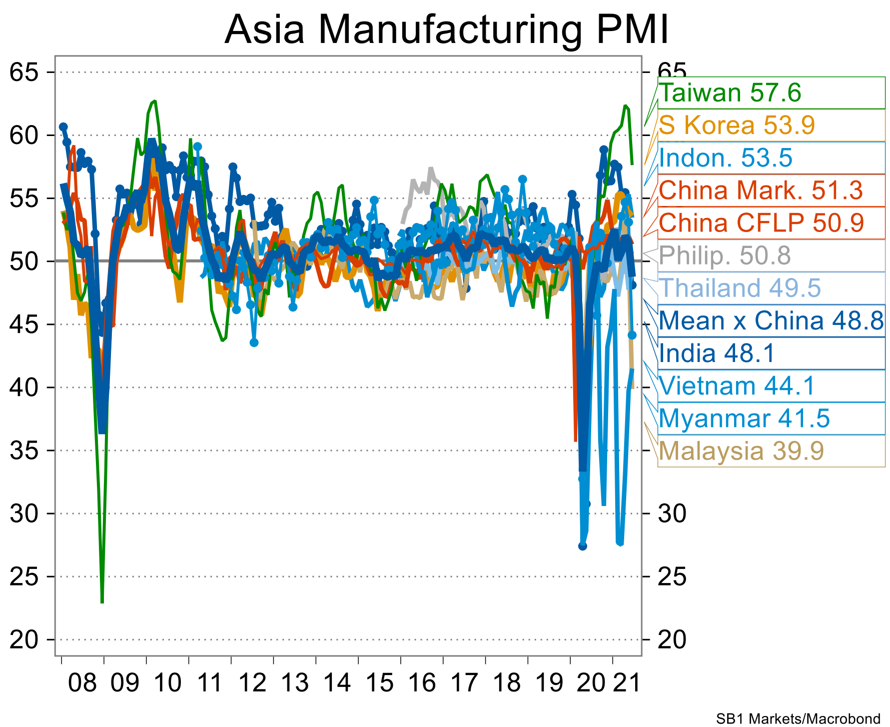
Markit's services PMI on the weak side in June

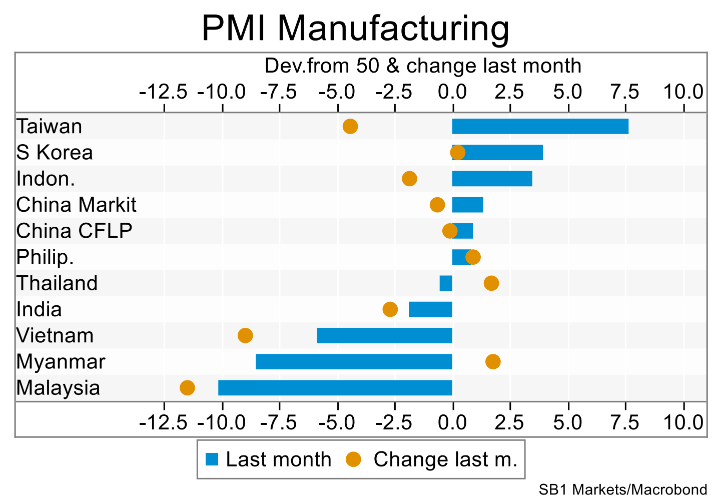


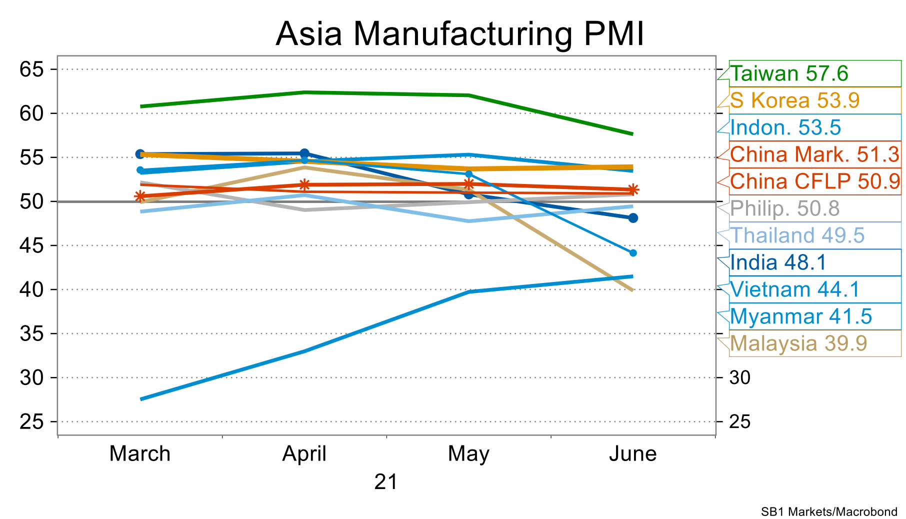


Rest of Asia: More down than up in June too. The Indian PMI down to below 50

6 manufacturing PMIs are above the 50-line (from 8), 5 are below (from 3)







- Taiwan, South Korea, and Indonesia are reporting decent growth
- Myanmar is not working well anymore – but activity is falling at a gradually slower pace

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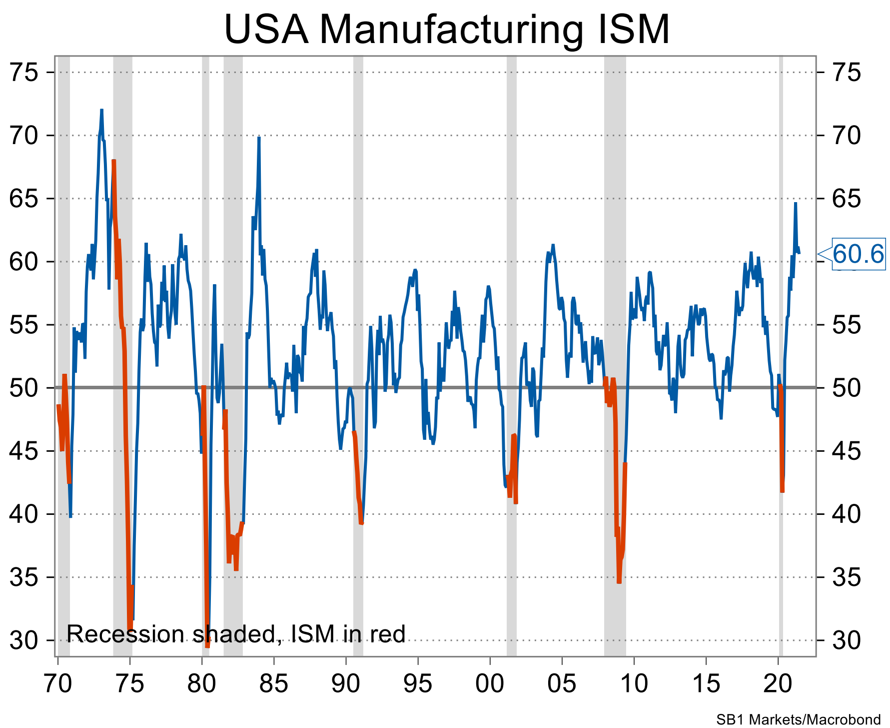
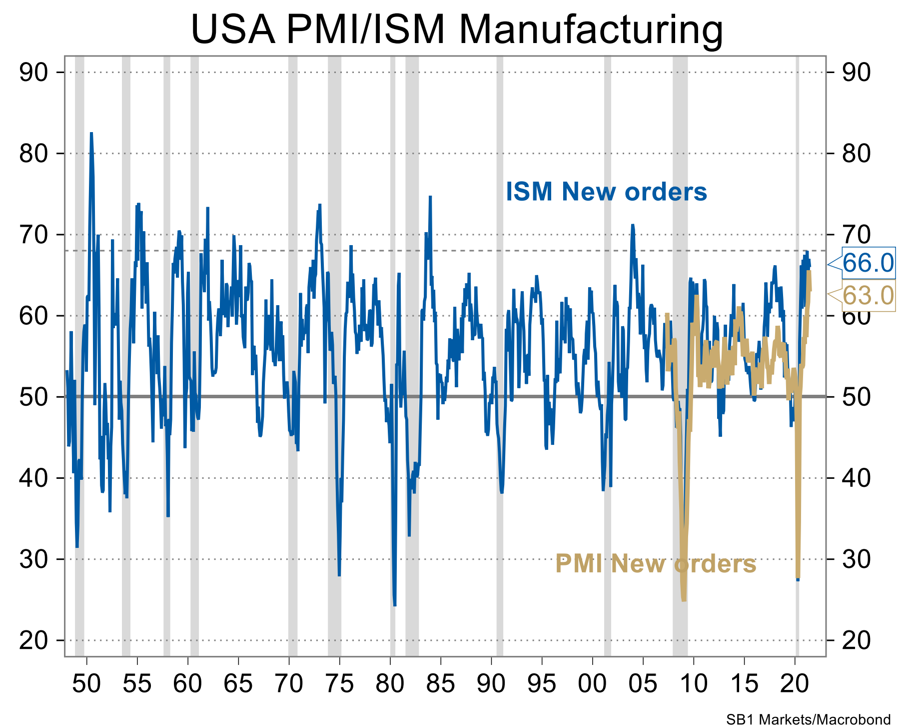
Manufacturing ISM below expectations, but level is still solid

The ISM fell 0.6 p to 60.6, exp. 61.0. The price index surges to the 2nd highest level since 1975





- The ISM fell slightly in June, in line with other June manufacturing surveys
- In June, 17 of 18 manufacturing sectors reported growth, while no sector reported a decrease in June!
- Prices are surging, broadly – the price index rose to the highest level ever. 51 groups of commodities were up in price m/m. Just one, acetone, was down in June. A large number of commodities were in short supply as well. The input price index was the 2nd highest since 1975, at 92.2!
- The ISM new orders index was down 1 p to 66, while Markit's new order survey came in at 63 down 2.6 p from May

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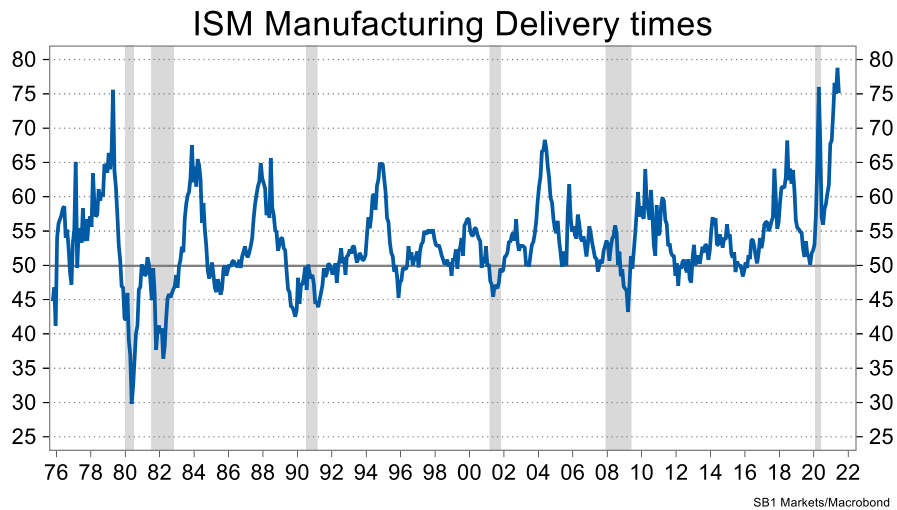
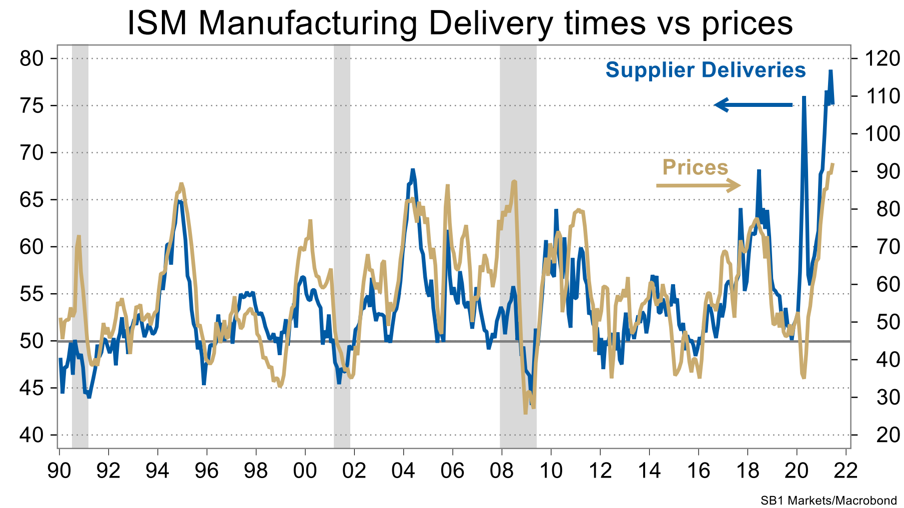
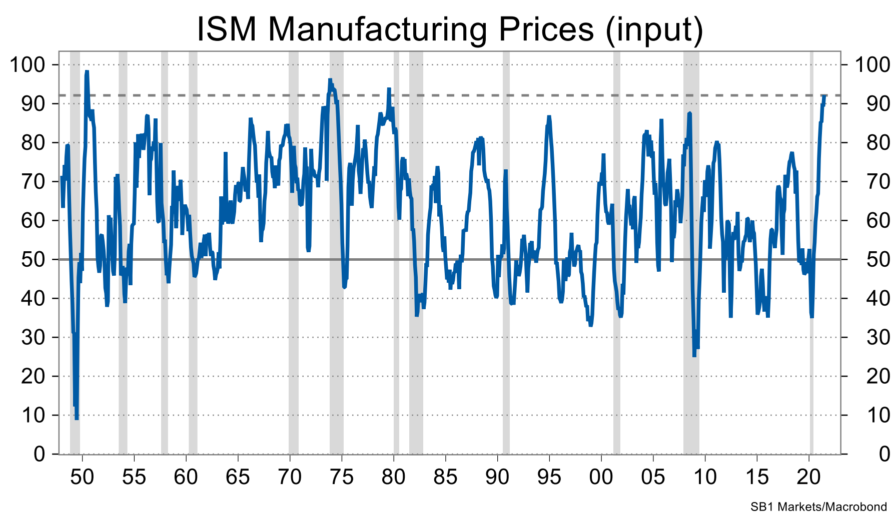
Delivery times rose marginally slower – but still extremely fast

Prices are soaring even faster – and the 2nd fastest since 1975. Just July 1979 worse







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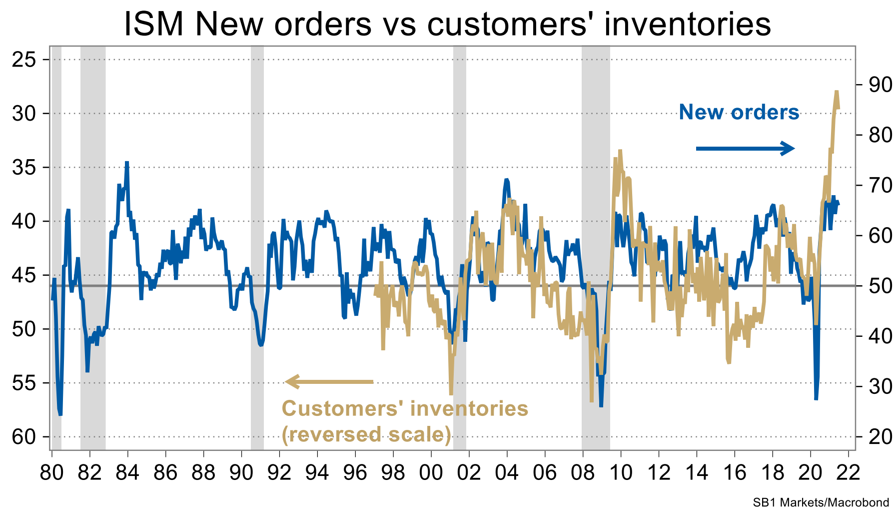
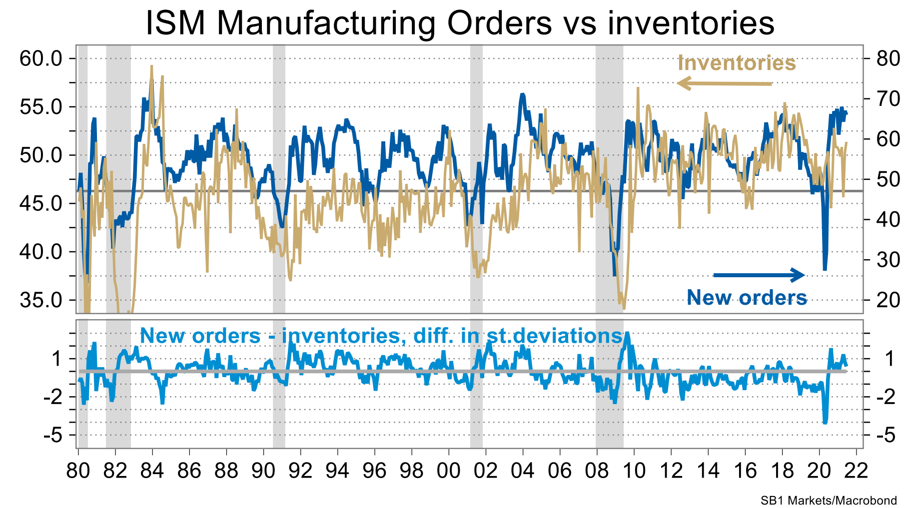
Customers inventories are 'emptied' – signals strong orders for still a while

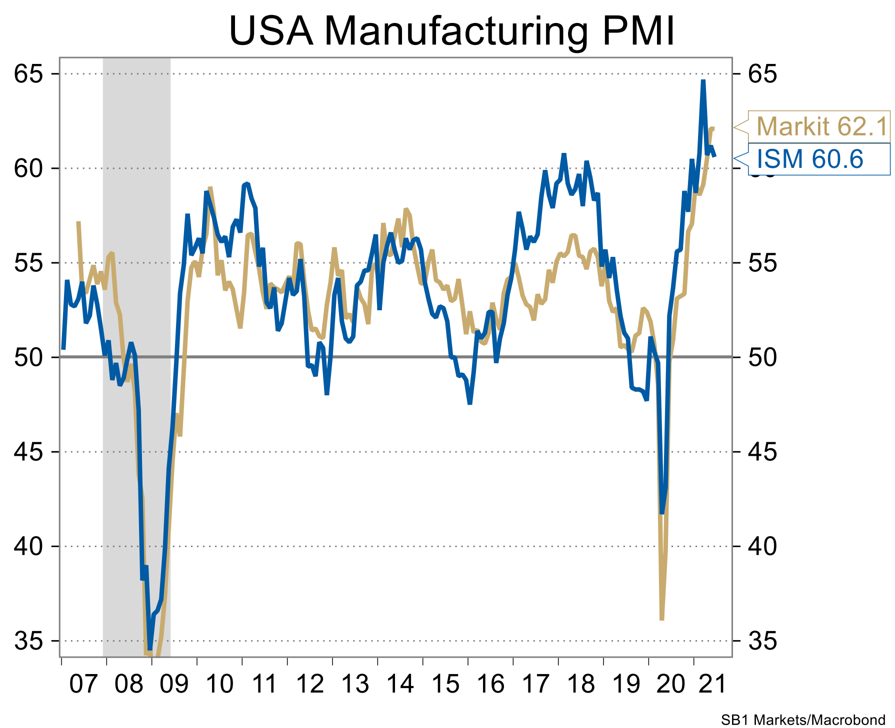


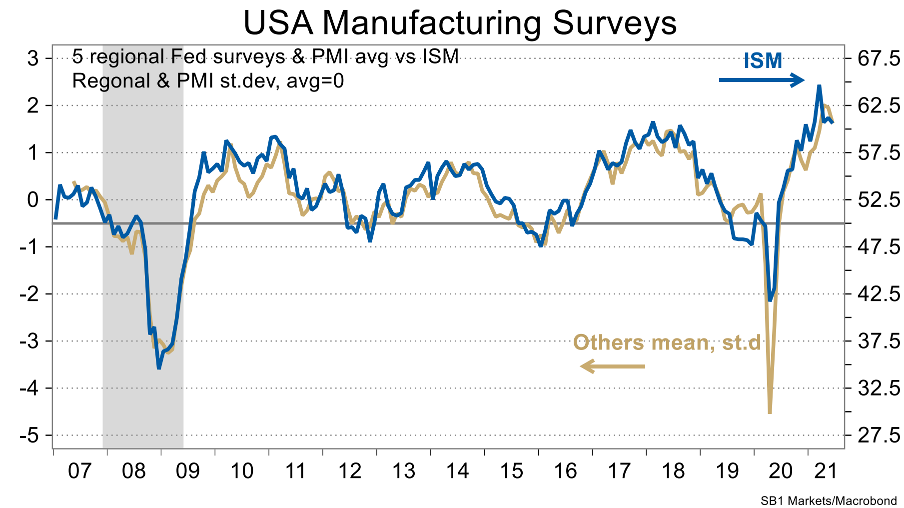


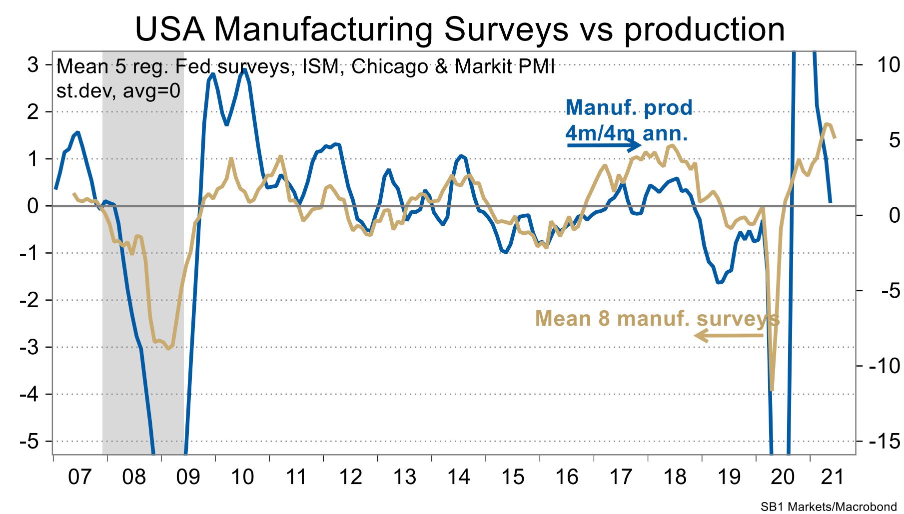
- The only 'soft' spot: Manufacturers' own inventories are not declining

Other manuf. surveys have peaked too, in average

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



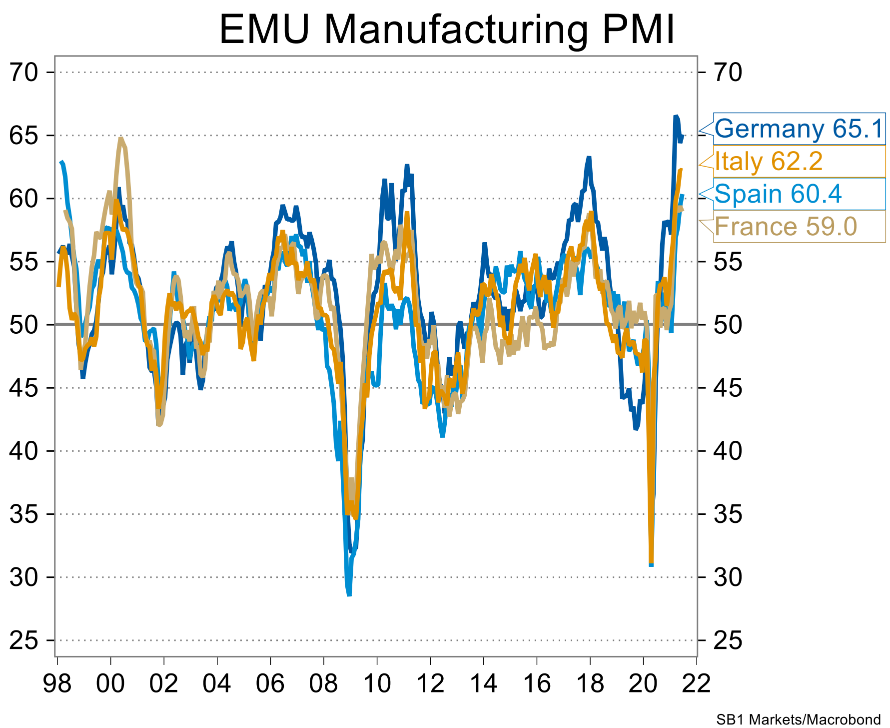


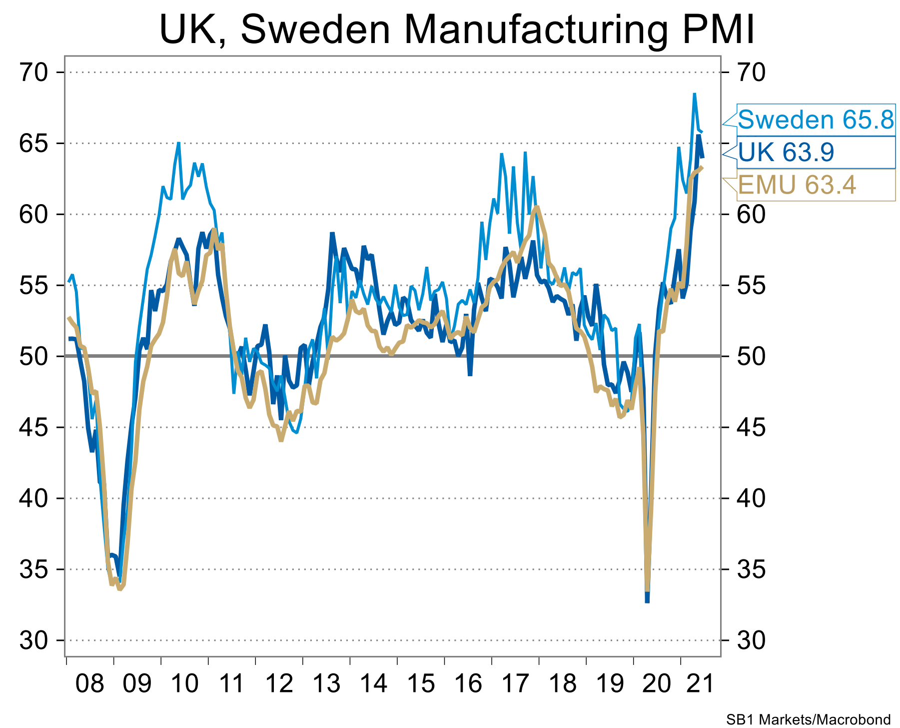


- Actual manufacturing production is on the recovery track but has not yet reached the pre-pandemic level (0.5% below in May)
- We expect a continued growth the coming months. Core durable goods orders are above the pre-corona level and goods consumption is strong

Eurozone manufacturing recovery is rock solid. UK & Sweden even better

The PMI was up 0.3 p to 63.4 in June. All four main countries close to or above 60!

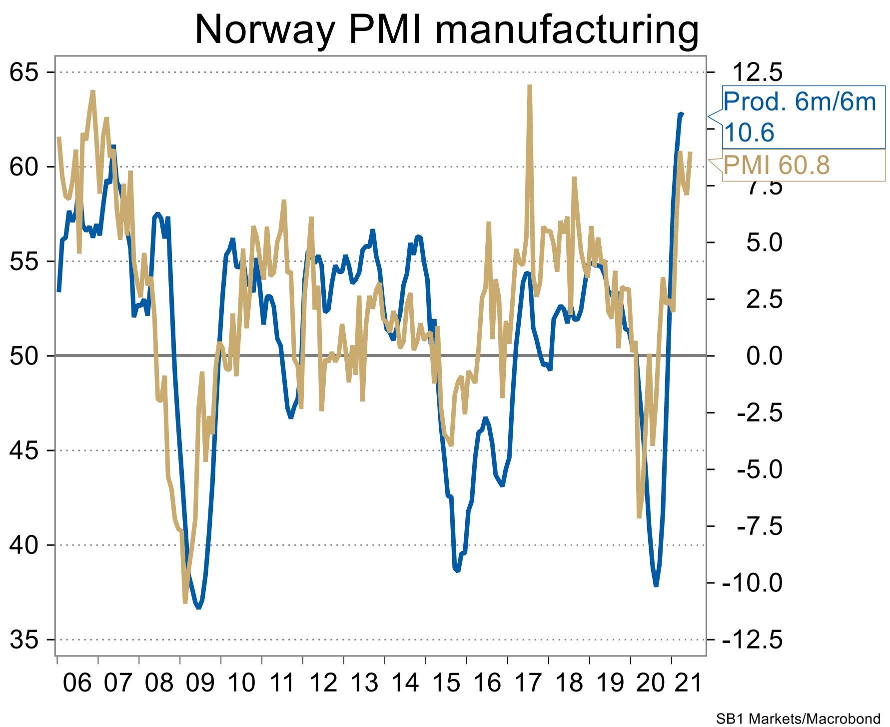


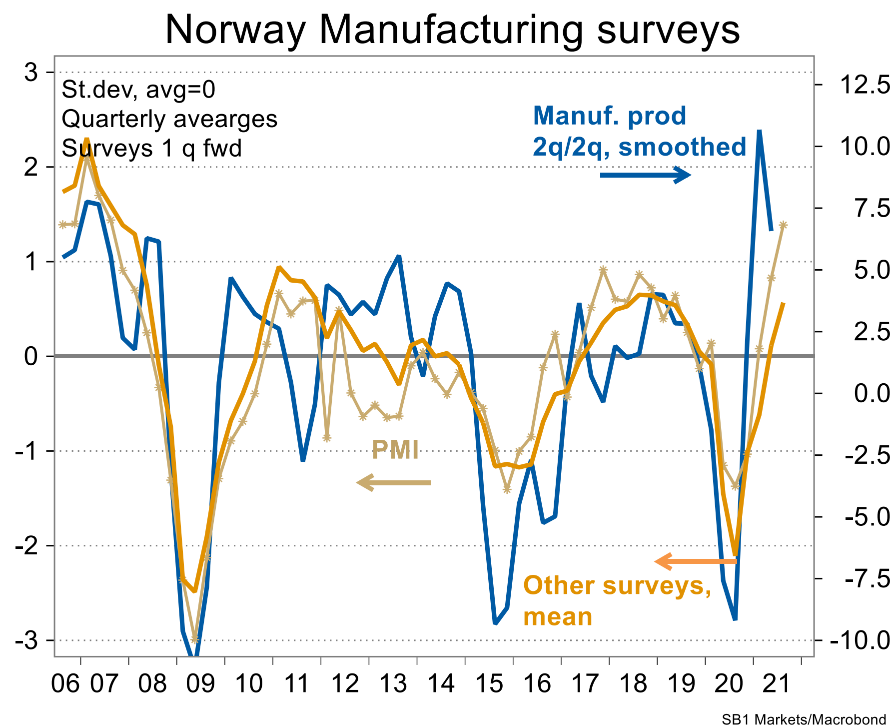


- Swedish PMI down 0.2 p, while the UK PMI was down 0.3 p. Both still very strong

Norwegian manufacturing PMI up to above 60 again – strong growth confirmed

The Norwegian PMI was up 2.3 p to 60.8, we expected 58. Actual growth the best in 50 years

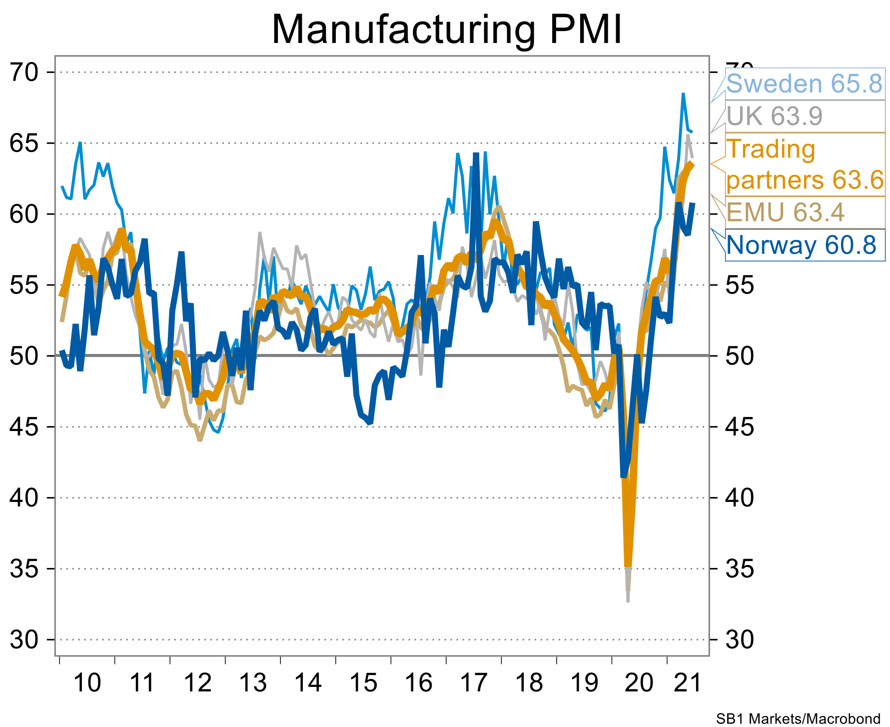




- The **inventories** sub-index was the only index that was down
- Other **surveys** have turned up lately to above-average levels
- **Actual production** is growing faster than since 1972, at least measured 6m/6m. However, that is due to a low starting point last year. The production level was marginally below the pre-pandemic level in April (but we expect something better in May)

Norwegian manufacturers lagged its peers on the way up

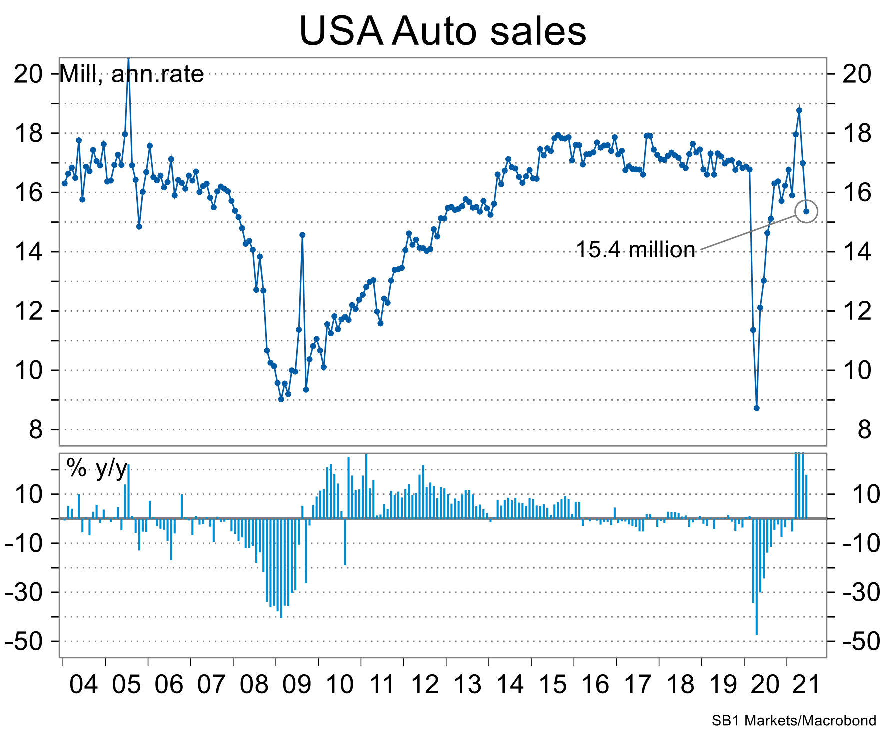
... And surveys are still not reporting that strong growth

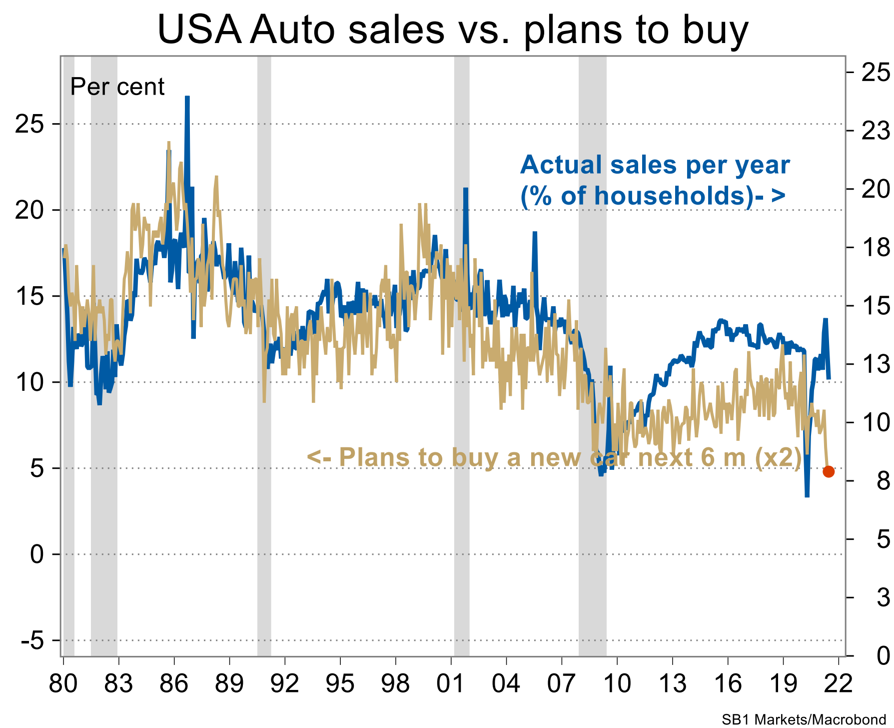


- The downturn in oil investments (until now) is very likely the explanation for Norway lagging our trading partners somewhat

US auto sales surprised sharply on the downside in June – lack of supply

Sales down to 15.4 mill, down from 17 mill, expected 16.1. Production cuts due to lack of data chips

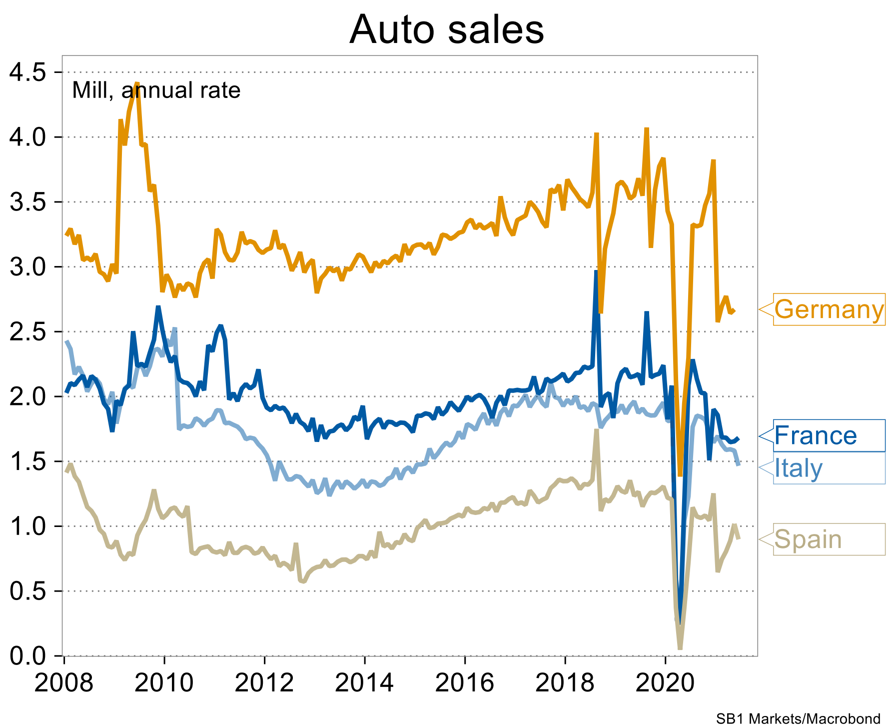


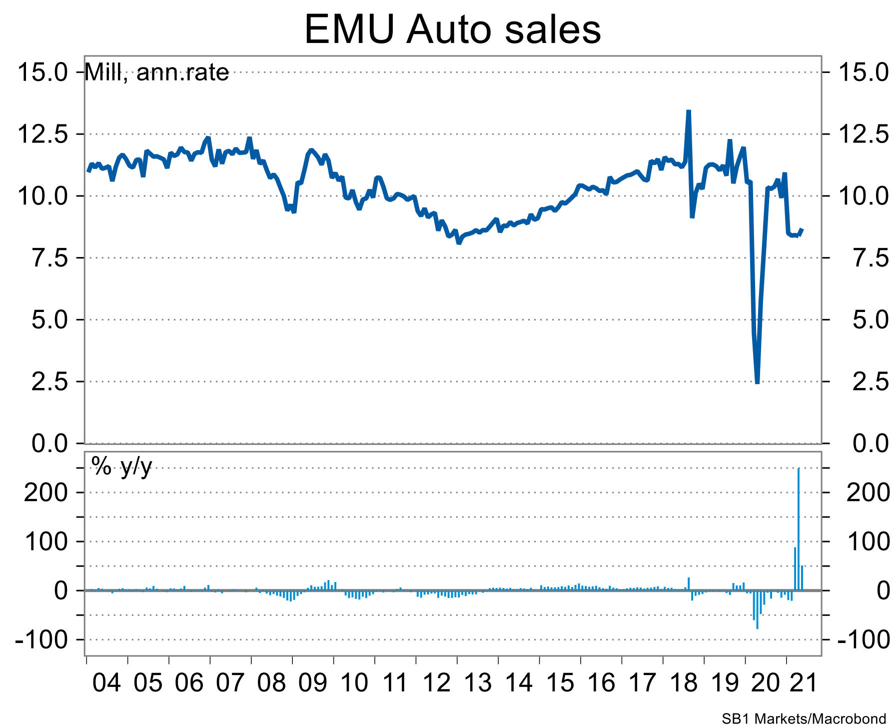


- We were surprised too, as auto production rose in May
- However both Ford and other producers have lowered their production targets as they have not received critical data components – and the problems will not be gone anytime soon
- New auto prices rose in May – as did 2nd hand auto prices – so it is no reason to blame weak demand for low sales

EMU: Auto sales down in Spain, Italy, France slightly up

… while Germany has not yet reported sales (or production)





- Auto sales have fallen sharply this spring – and we think more due to lack of demand than supply

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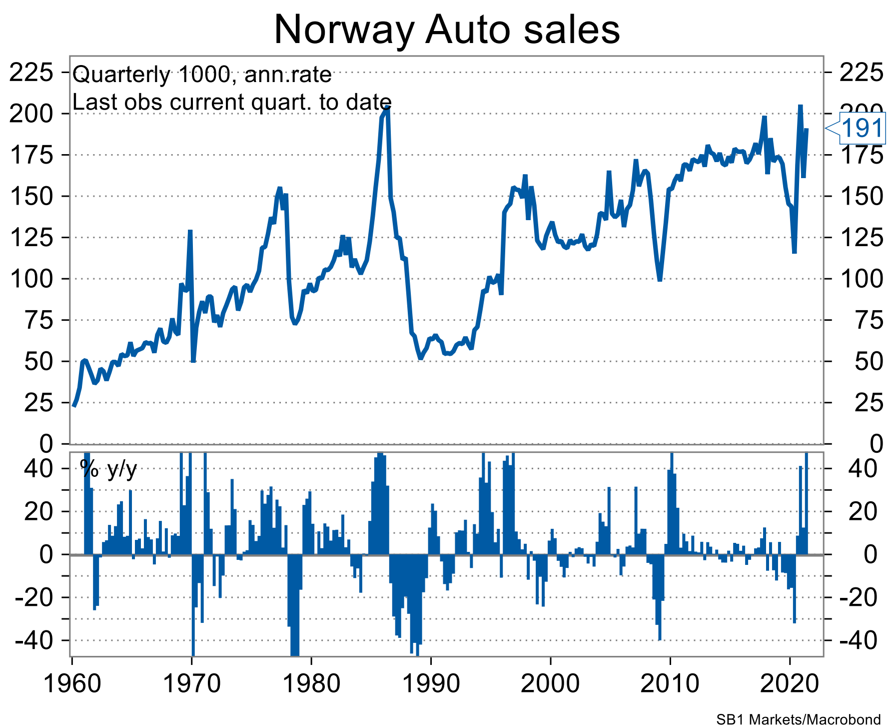
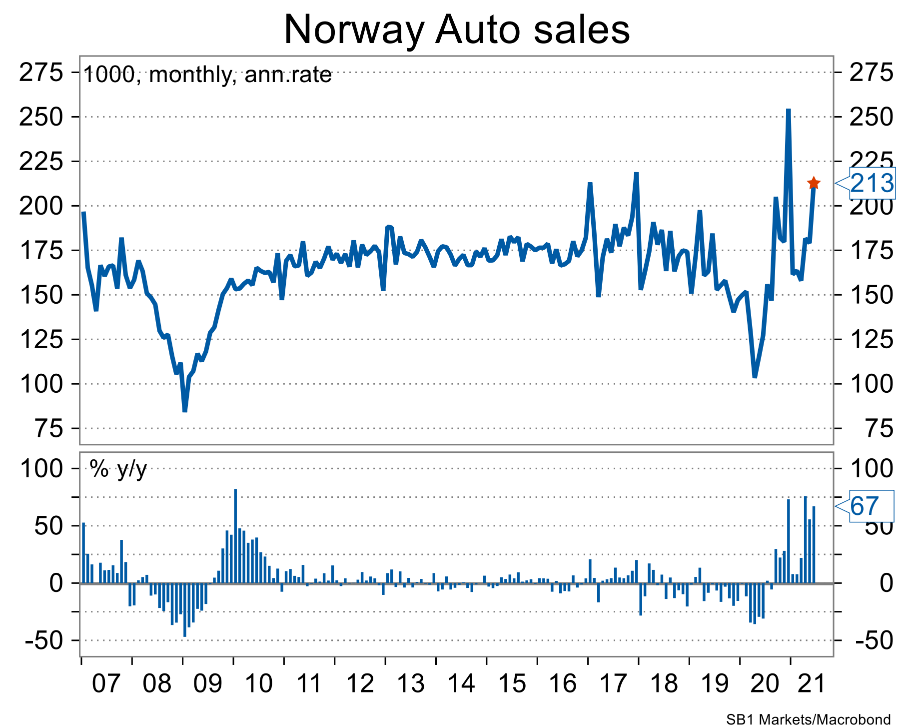
Norway: Auto sales sharply up in June – among the best ever

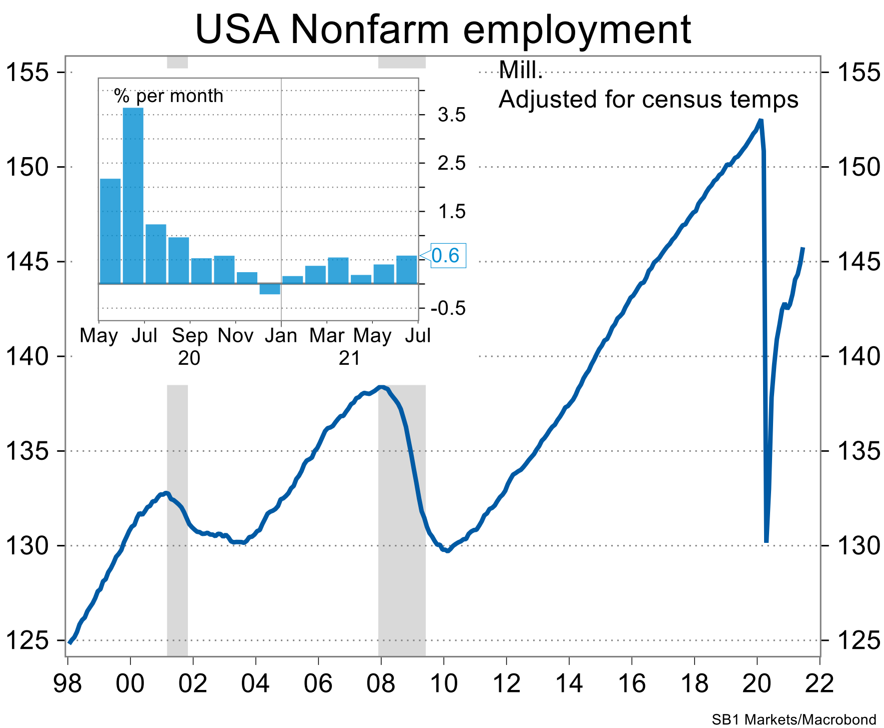
Even Q2 was the 3rd best since 1986

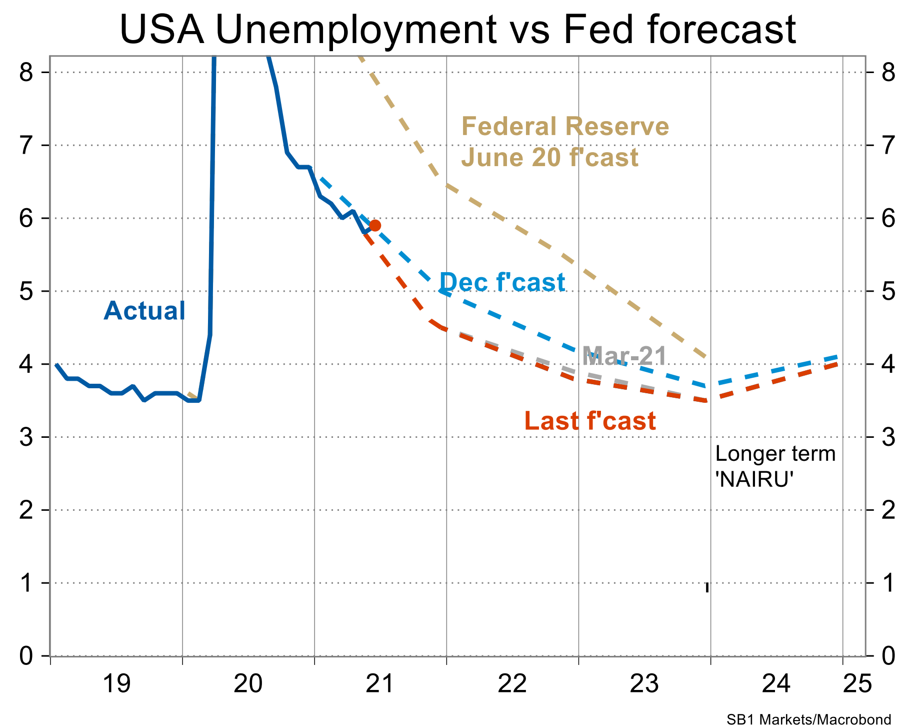




The labour market: Not too cold, not too hot – but the mismatch is extreme

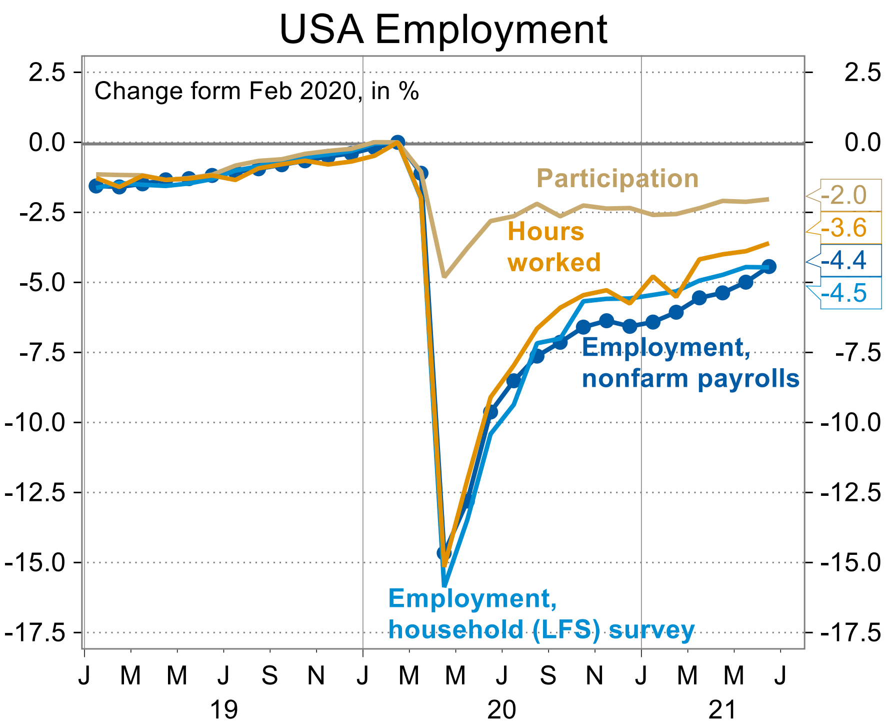
Employment rose more than expected but unemployment rose too. Wage inflation on the way?



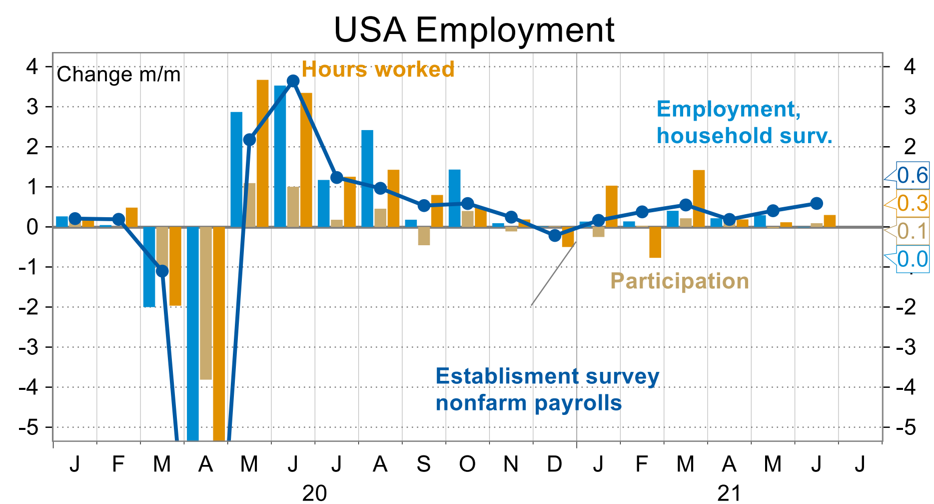


- **Employment** rose by 850' (0.6%), finally more than expected (720', revisions just marginal). Employment in restaurants, education in the lead in June too but remain far below pre-pandemic levels. Total employment is still 4.5% below the early 2020 level
- **Unemployment** rose 0.1 pp to 5.9%, expected down to 5.6%- 5.7%, and above Fed's (implied) f'cast. Unemployment is 2.4 pp higher than before the pandemic. The participation rate was flat in June – and 2.7% below the participation rate before Covid
  - » 1.6 mill. persons (down from 2.5 mill in May) report that they were prevented from looking for a job due to the pandemic. Last summer 5.2 mill persons were outside the labour market for that reason. However, the labour force participation has not increased since then - others have withdrawn! The gap between 9+ mill vacant positions and the 9.5 mill unemployed is unprecedented
- **Average wages** rose by 0.3%, as expected. Even if employment is increasing in the low-paid sectors, the average wage is still increasing at a fast rate. A one time shift or something more? Small businesses are reporting record high wage increases!
- **Goldilocks: Bond yields ended down, stocks up employment grew more than expected but unemployment rose to, and wage did not surpr. at the upside**

Labour market is gradually recovering, still well below the starting point

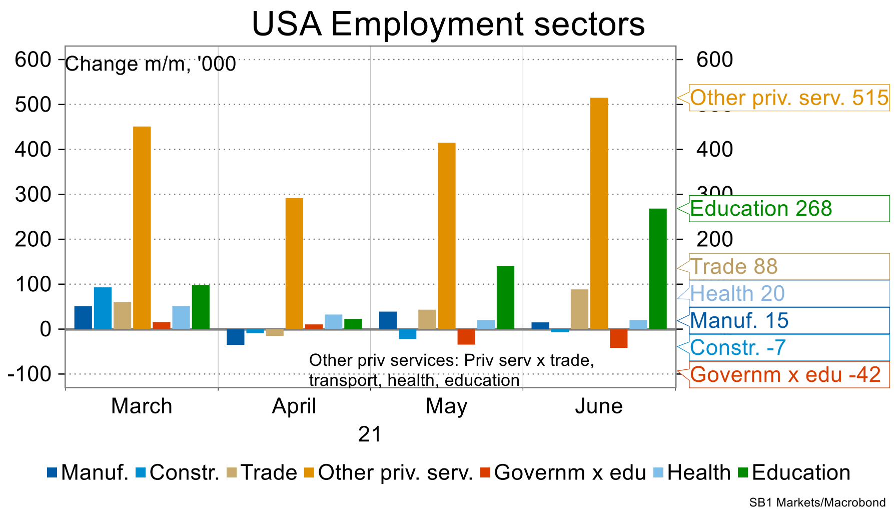


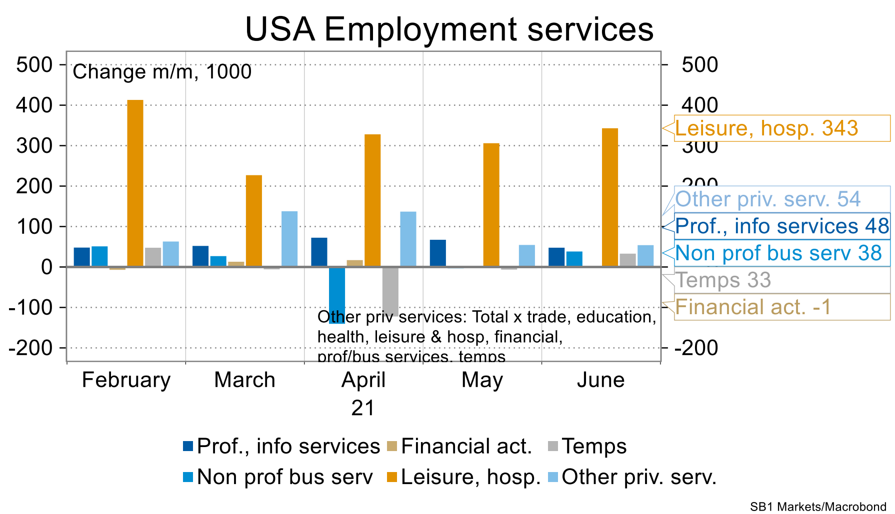
- **Labour market participation** rose marginally in June (in number, the rate was flat). The rate is down some 2.7% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 4.4% vs Feb '20, while **employment** measured by the **household survey** (LFS/'AKU') is 4.5% below (the household survey reported a decline in empl. m/m). The **employment rate** is 5.1% below par
  - » LFS employment fell marginally, and participation rose, enough to lift the unemployment rate 0.1 pp to 5.9%
- **Sum hours worked** rose 0.3% in June (and May was revised sharply down). The level is down 3.6% vs. Feb-20



SB1 Markets/Macrobond

In June: Leisure & hospitality, education in the lead in June too

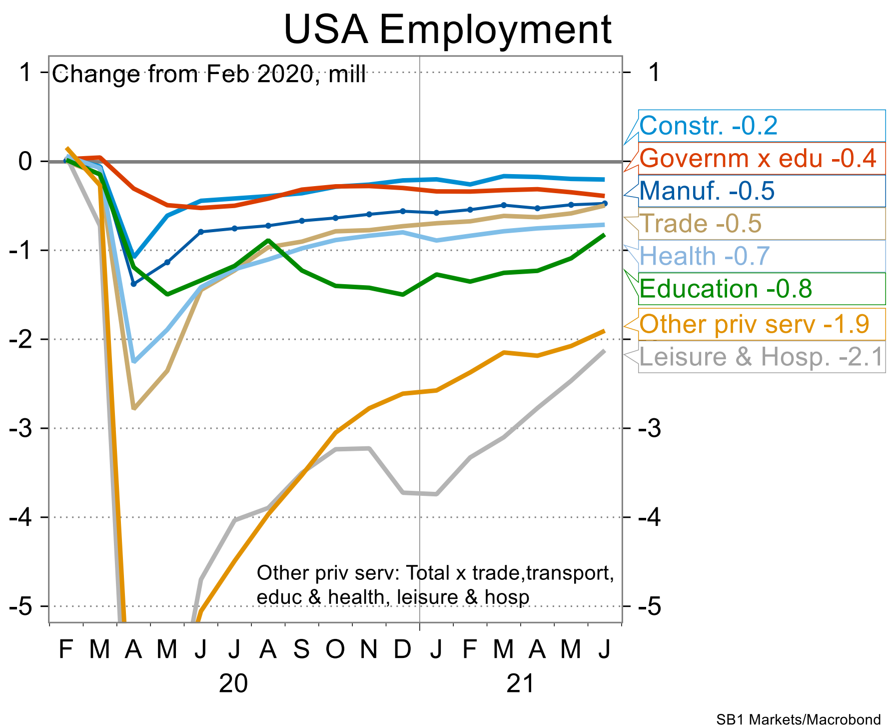


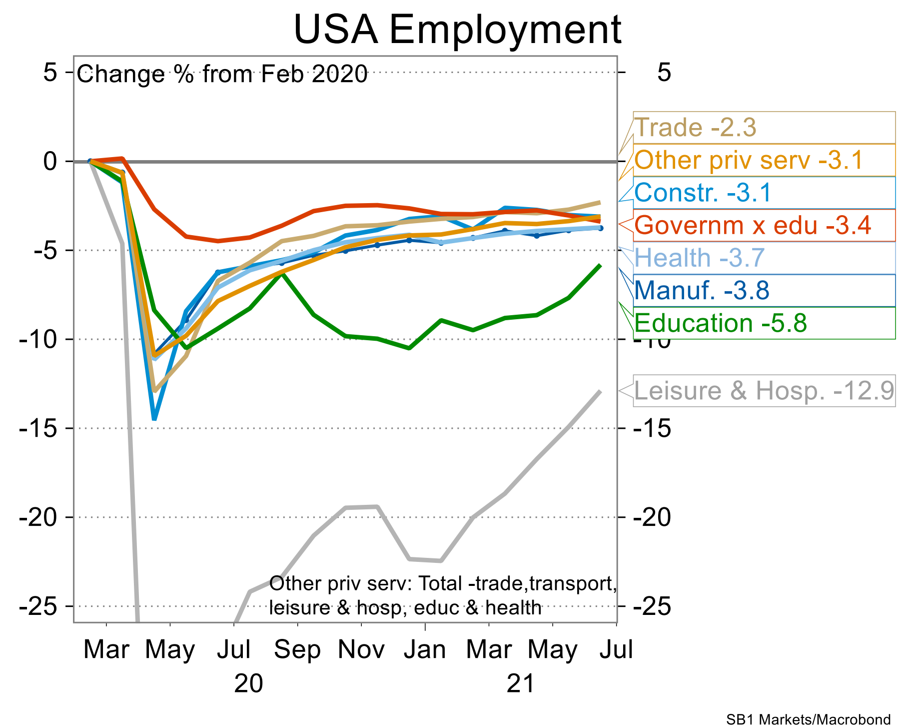


- **Last month**
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 343' workers, +2.8%, following the 1.8% May lift
  - **Education** (private & public) added 268' jobs (2.0%) as more schools were opened
  - **Other services** added more jobs too
  - **Manufacturing & trade** added 103' jobs, the best in a while. Employment in the auto industry fell again in June, as production probably was cut due to lack of components
  - **Construction** has fallen marginally recent months but is still the best performing sector since Feb-19
  - Employment in **Government** (ex education) fell by 42'

From Feb-20: No sector is back yet, not even trade

4.8 mill jobs in leisure/hospitality, education & other services are still 'missing'

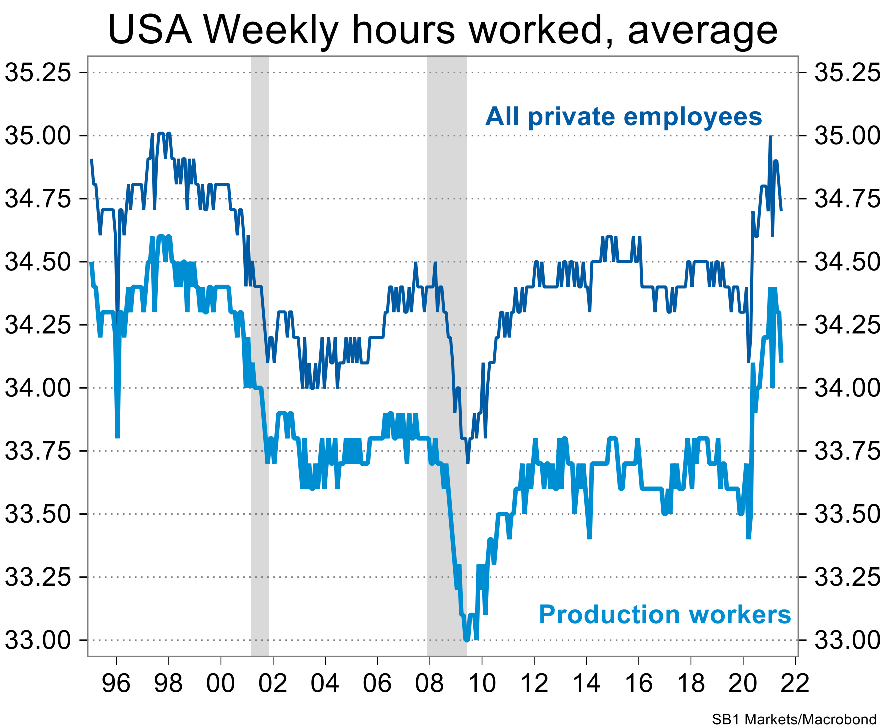


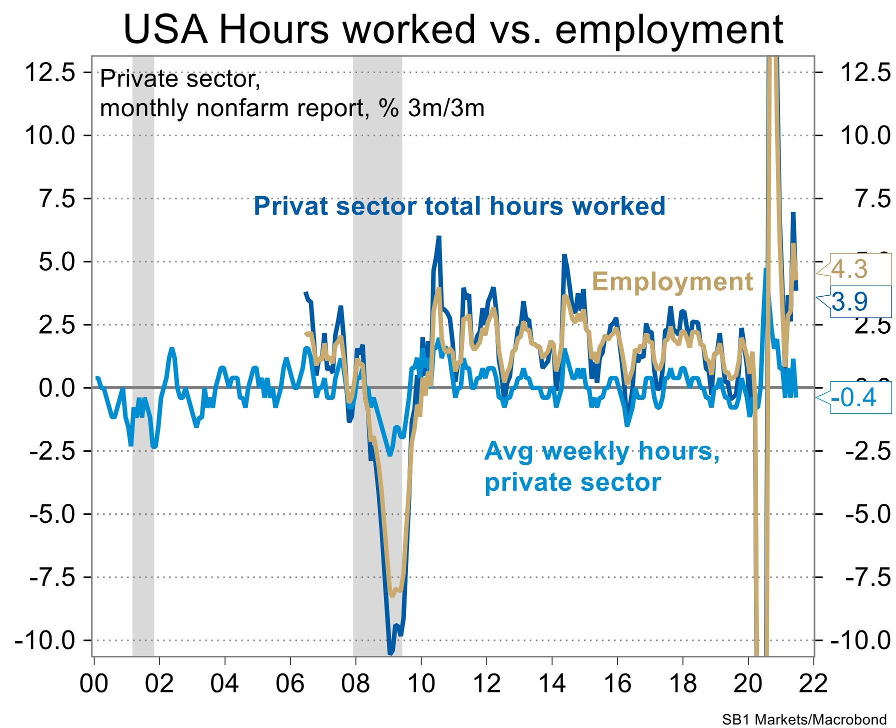


- **From February last year**
  - No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits!
  - **Manufacturing** is down 3.8% (0.5 mill), **trade & transport** -2.3% (0.5 mill), **construction** -3.1% (0.2 mill)
  - **Education** is down 5.8% (1.1 mil), many schools are still closed
  - **Leisure & hospitality** is down 12.9% (2.1 mill)
  - Even **government employment** x education is down 3.4% (0.4 mill), which is rather remarkable

Average weekly hours down in June, from high levels

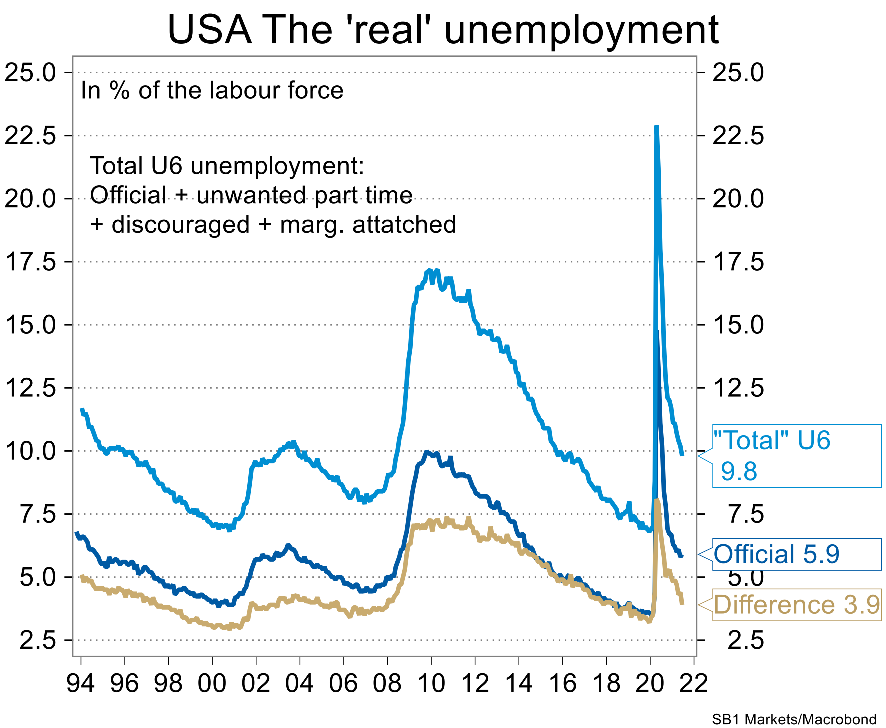
Total hours worked are up 3.9% 3m/3m, 4.3% due to higher employment, -0.4% due to weekly hours

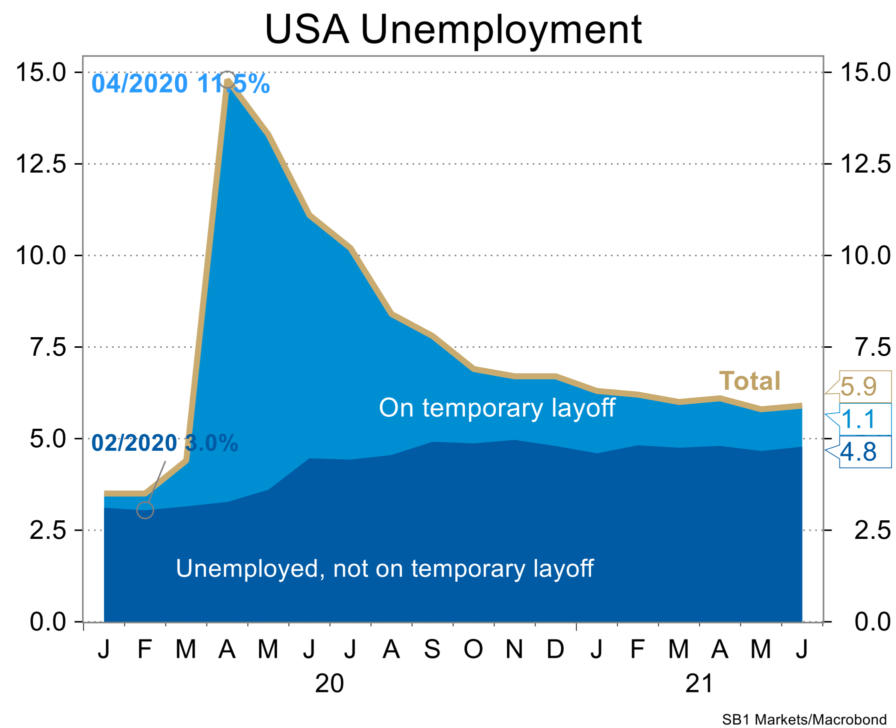




- The lift in average weekly hours early in the pandemic was mostly due to employees with few working hours lost their job first
- Average weekly hours are up 1.2% from before the pandemic

Grand total employment is falling sharply





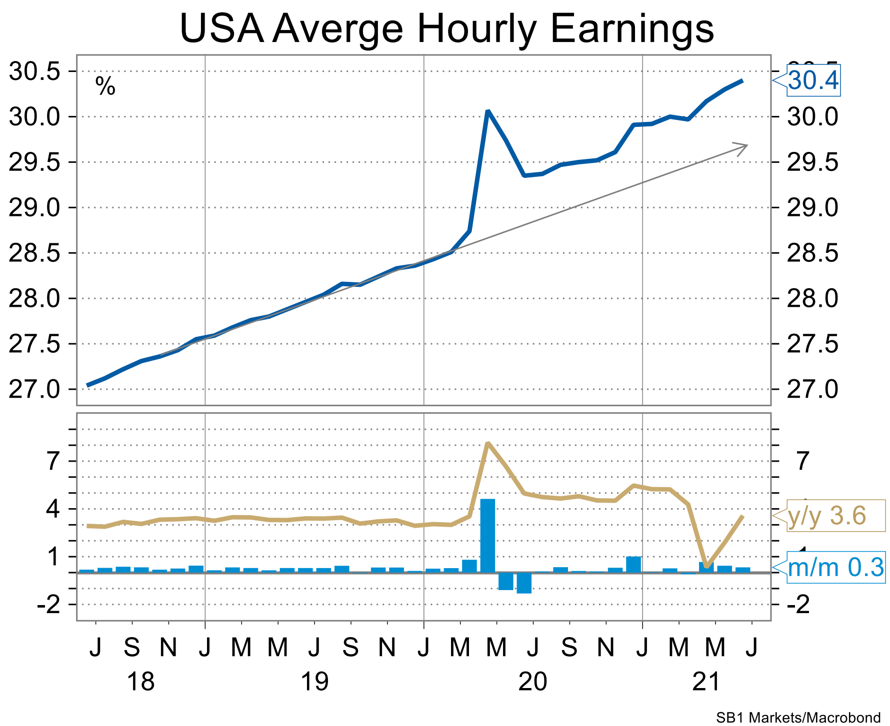
- In June, the ordinary **unemployment rate** rose by 0.1% to 5.9% due to an increase in the ‘permanently’ unemployment rate (and not due to an increase in the temp. layoff rate)
- **The ‘total’ unemployment rate** still fell 0.4 pp to 10.8%. This rate includes workers in unwanted part time positions or those who do not search for work because no work is available anyway, even if they want a job. (We assume the 1.6 mill workers that are not searching for work due to Covid is included in these figures, even if there are some differences in definitions)
- **The 3.9% difference** to the ordinary unemployment rate is far below the average since 1994, and far below levels seen in ‘bad times’ – but still above the spread during booming time levels – which implies here are some labour reserves here

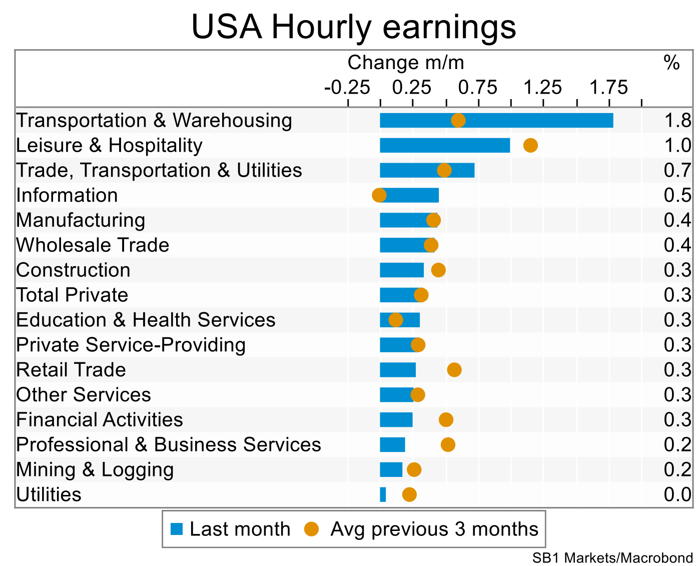
SpareBank 1 MARKETS

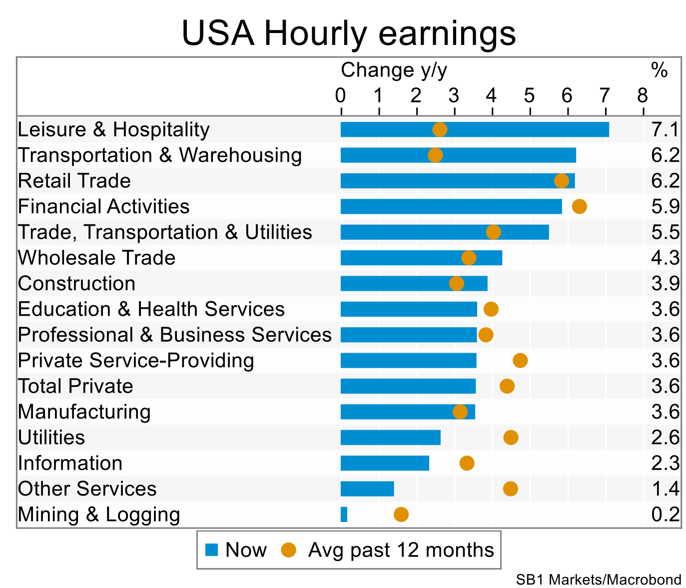
The average wage up 0.3% in June, as expected – May revised down

… but wage inflation is higher than it 'should' have been

And the wage level is 2.4% above the pre-Covid path



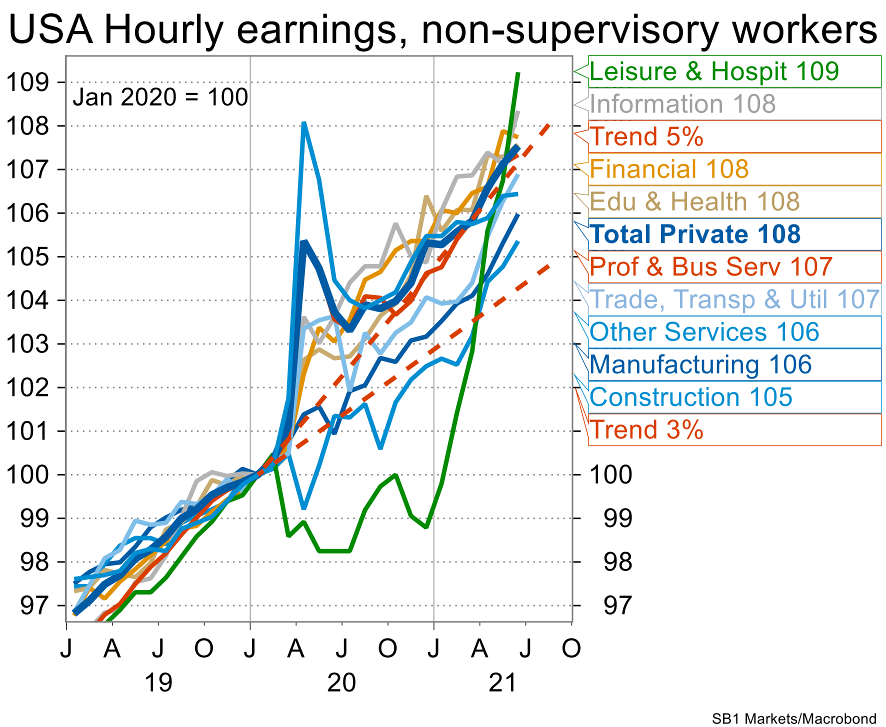




- We are still sceptical to over-interpret average wage data, also at the sectoral level, as employment mix has changed sharply between sectors and probably within sectors
- However, in both April, May, and June wage increases have been strong, given than most of the increase in employment has been in the low paid sectors – which should have taken the average level down
- In June, wages shot up in transportation & warehousing, and in leisure & hospitality
- The wage level is some 2.4% above the pre-pandemic wage growth path

Wages are up 6% – 9% vs the pre-pandemic level

.. And well above the pre-pandemic growth path

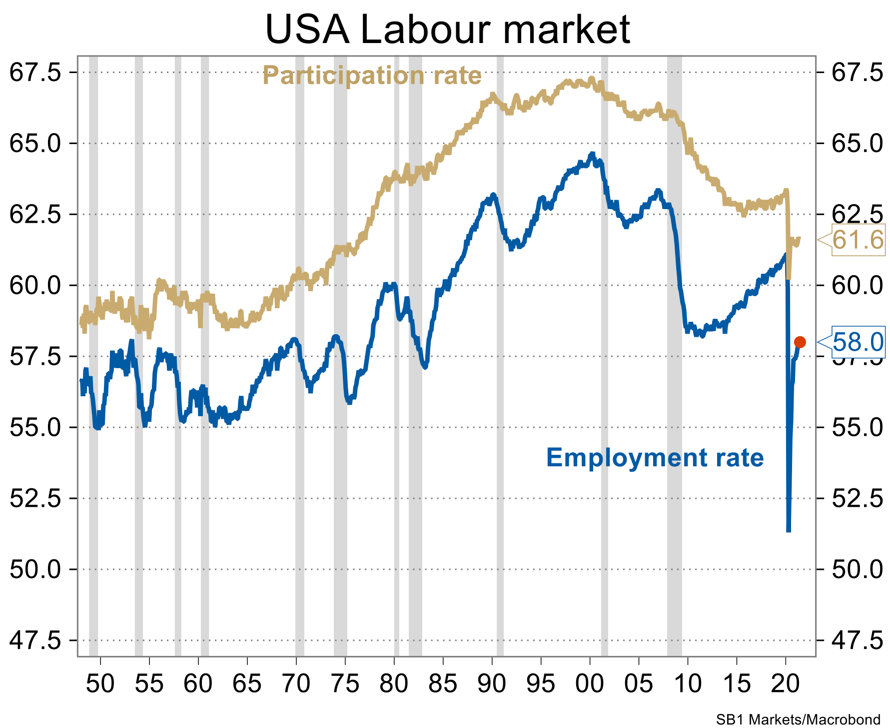


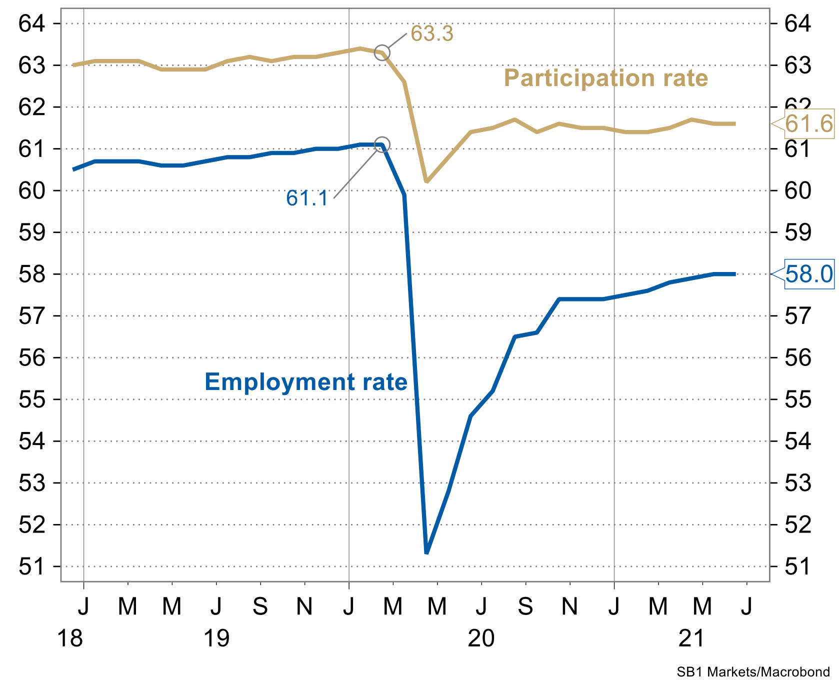
- Changes in the employment mix, even within sectors, still make these sectoral data uncertain
- However, it may be that these data reflects a <u>real increase in wages recent months</u>
  - » Say, why should the average wage in leisure & hospitality be 9% above the pre-pandemic level if wages in the sector have not increased quite broadly?
    - At least, it seems unlikely that higher paid staff has increased its share of total employment in the sector when wages have jumped by 10% (since last December)
- Atlanta Fed's median wage indicator has NOT reported any increase in wage inflation but rather the opposite

- In the chart above, wages for <u>non-supervisory workers</u> are shown. When all employees are included, growth is slightly lower in most sectors

The participation rate is flat, even if far fewer say they are out due to Covid

The participation rate was flat in June, is down 1.7 pp (2.7%, 3.5 mill) vs Feb-19

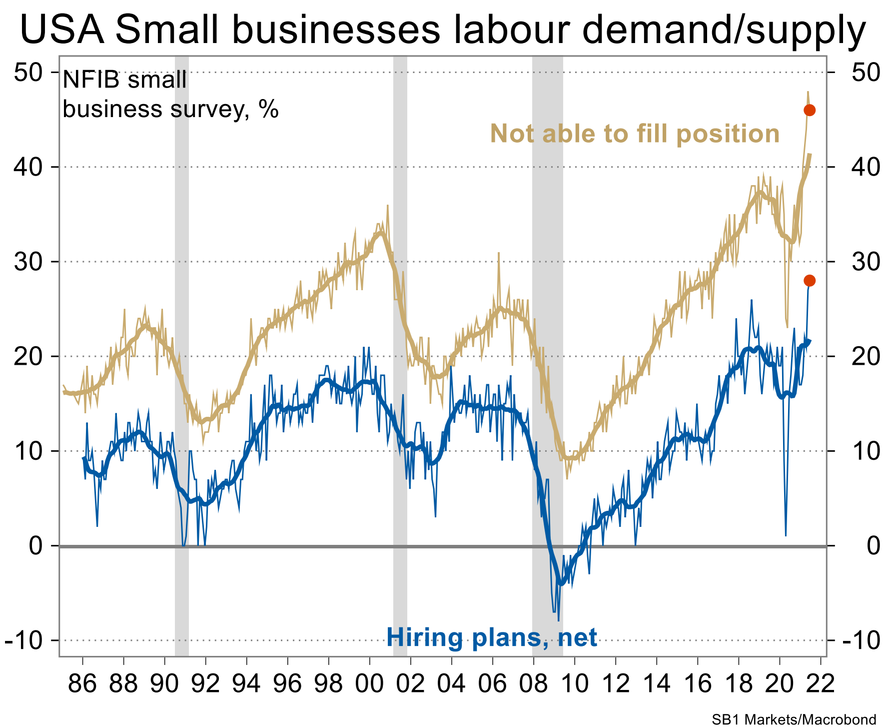


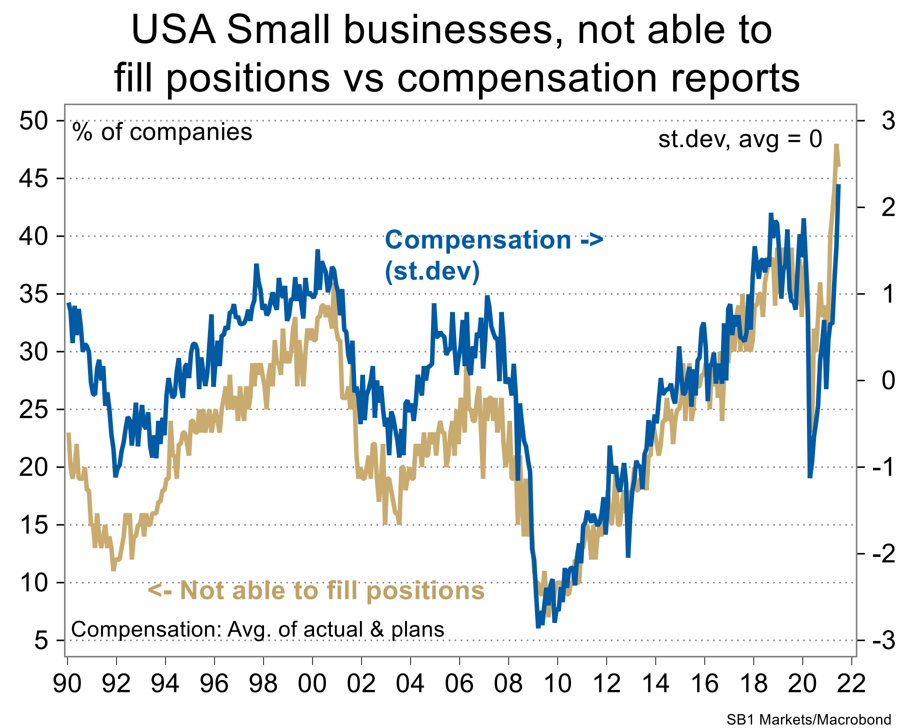


- The initial decline in the participation rate was Covid-19 related, and it may still be. In May 1.6 mill. persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down), down from 2.5 mill in May, and down from 5.2 mill last summer. <u>These 1.6 mill persons equal 1% of the labour force, and represents a reserve but it has fallen rapidly recent months, without lifting the overall participation rate!</u>
- **So, the conundrum remains:** <u>Have most of those 'temporary covid leavers' permanently left the labour market – or has others left the market at the same pace as the 'temp leavers' have returned – and if so temporary, or permanently. And even just as important: Why have those who report they are searching for a job (and being counted as unemployed), not been able/willing to fill more of the 9+ mill vacant positions? Check the benefit story at the next pages</u>

Marginally less difficult to fill open positions, according to small businesses

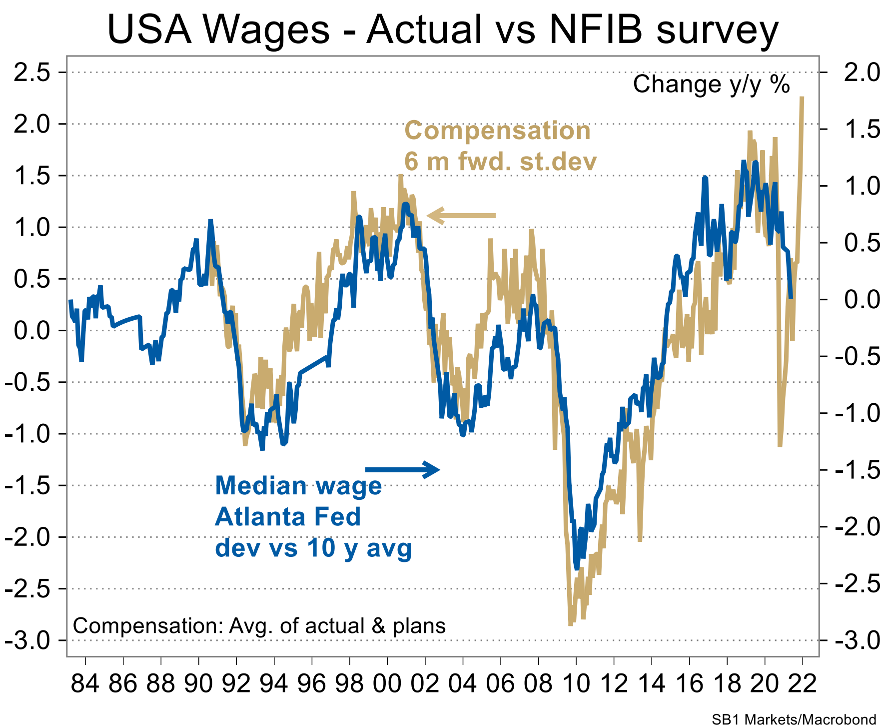
They plan to hire at a record pace – and they say are prepared to pay up, more than ever

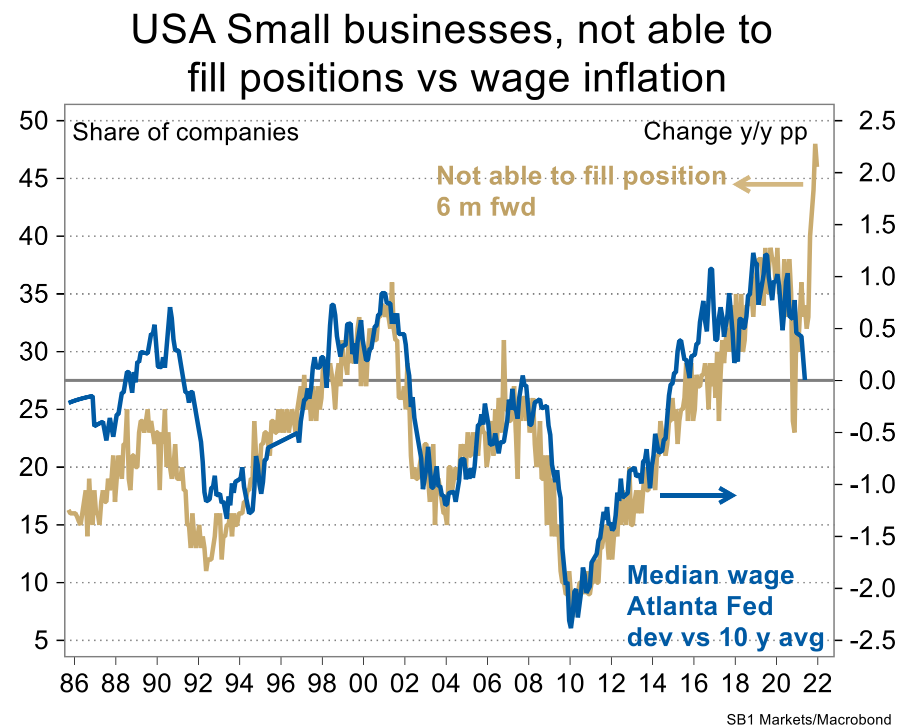




- Even after a small decline in the **not-able-to-fill-position** index in June, the level is far above anything we have ever seen – with data back to 1986
- **Hiring plans** are extreme too – ATH in June
- And guess what – companies are reporting the most aggressive **wage increase plans** ever (data from 1980). The correlation to actual wage growth is pretty close, check the next page

The most obvious risk vs. inflation, growth, corporate earnings, short & long term interest rates, stock market multiples, credit spreads, real estate…



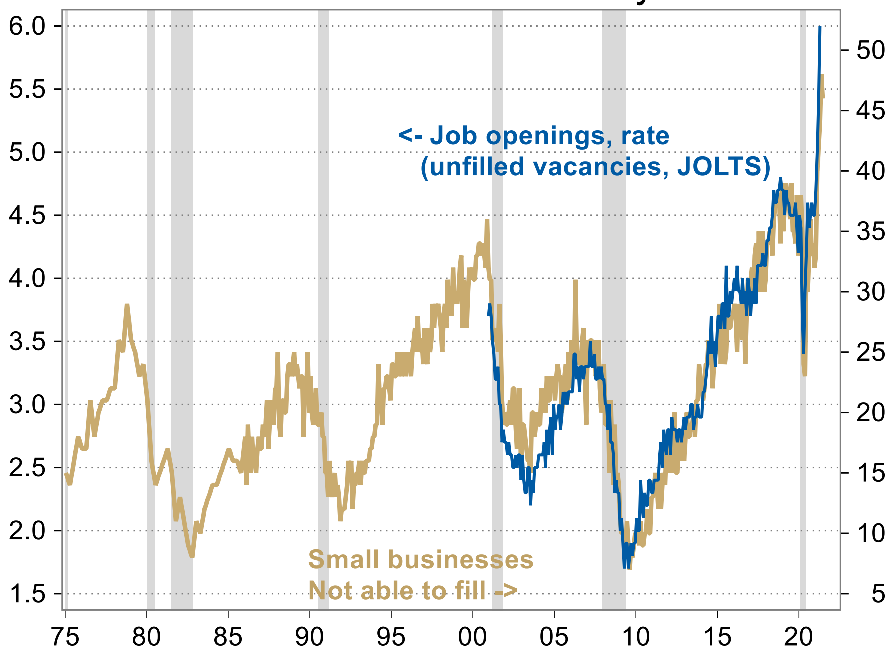


- Should wage inflation accelerate by 1 – 1.5 pp, inflation will drift above 2%, both in the short and medium term

Small businesses are not able to fill vacant positions

... Which is confirmed by the official number of unfilled job openings

USA Unfilled vacancies vs. ability to fill them

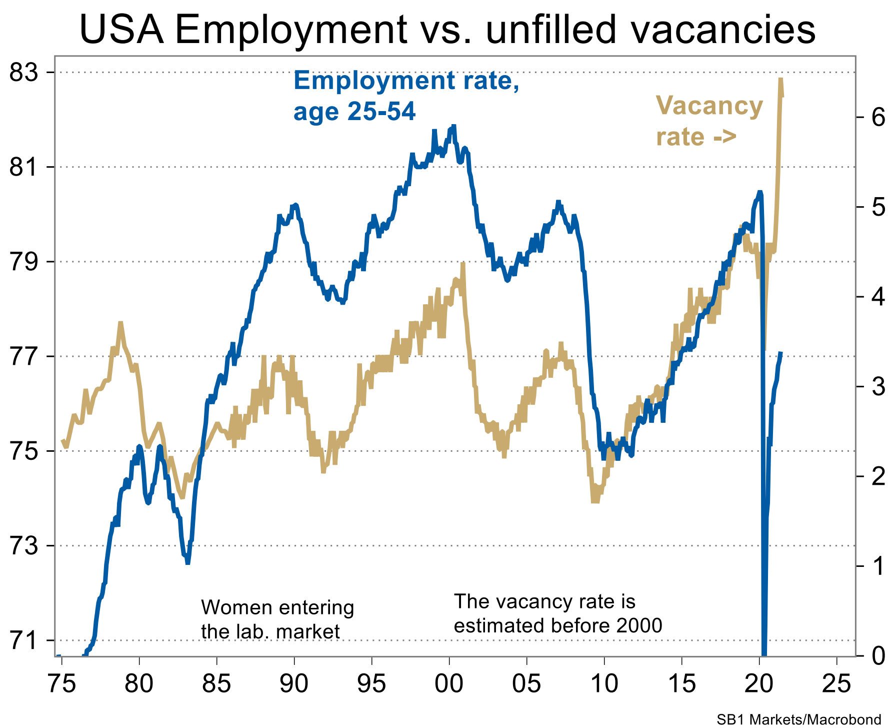


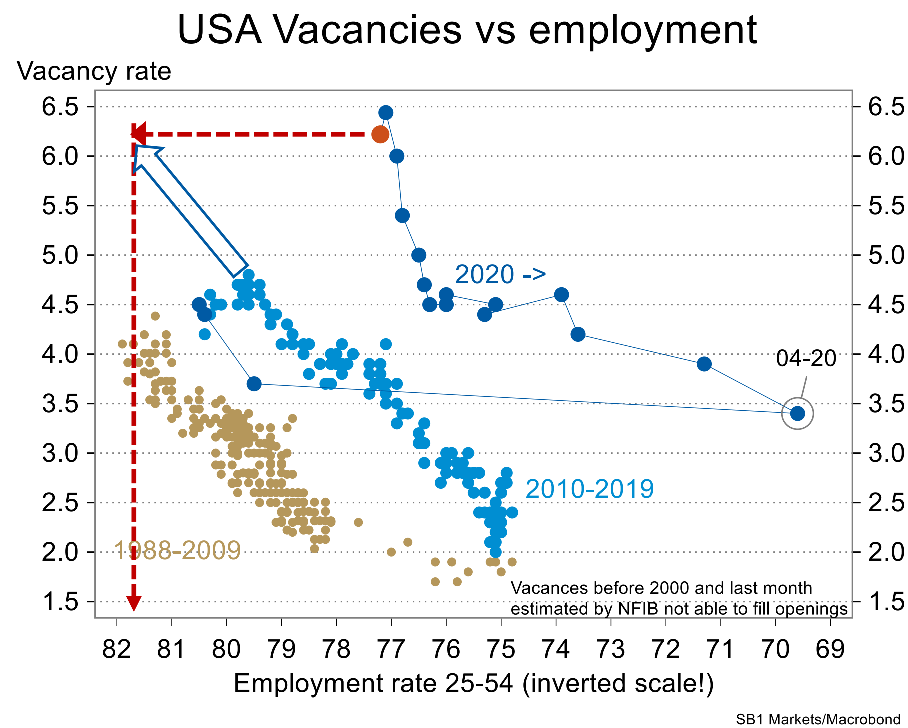
SB1 Markets/Macrobond

- The share of companies that reported they were unable to fill positions fell marginally in June but remains close to a record high level

This chart will 'decide everything': Now it looks like the worst mismatch ever!

Something will have to give: Vacancies must come down, employment up

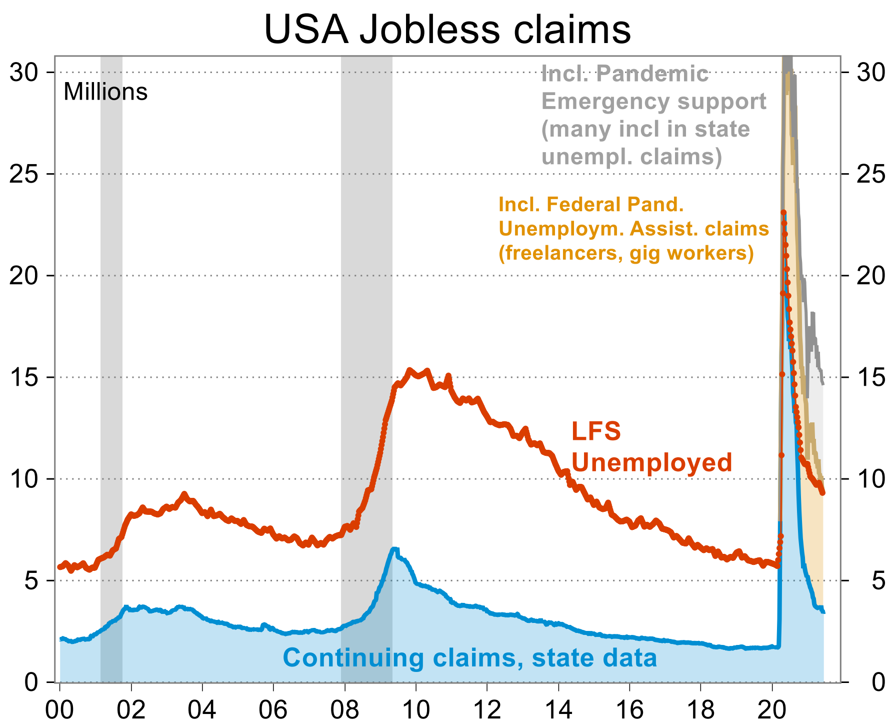


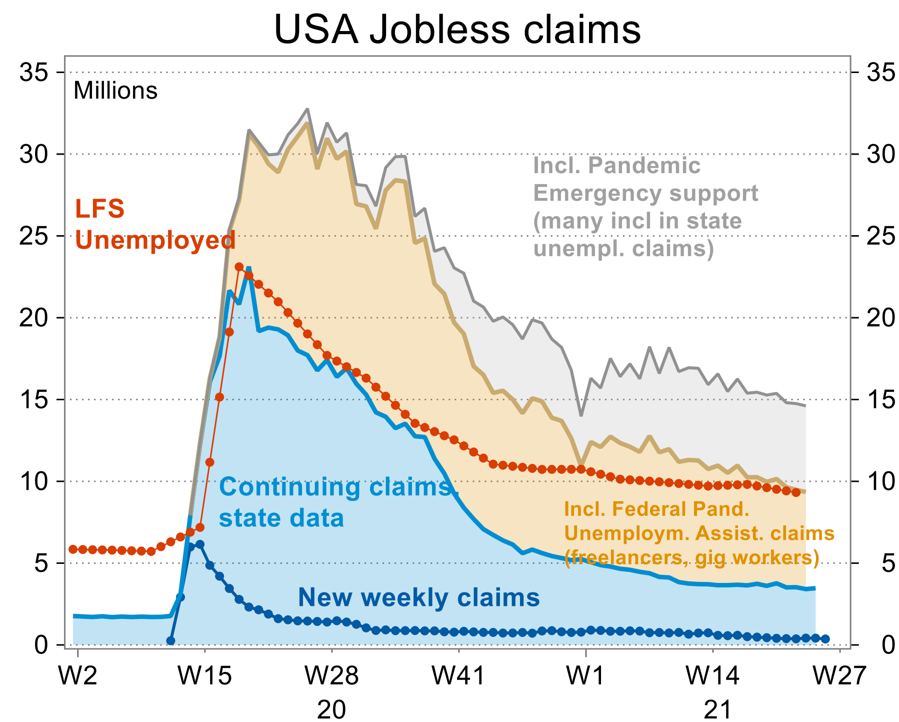


- Check the next page for be most obvious 'solution'

8 – 10 mill more receivers of unemployment benefits than normal

… Given the 5.9% unemployment rate

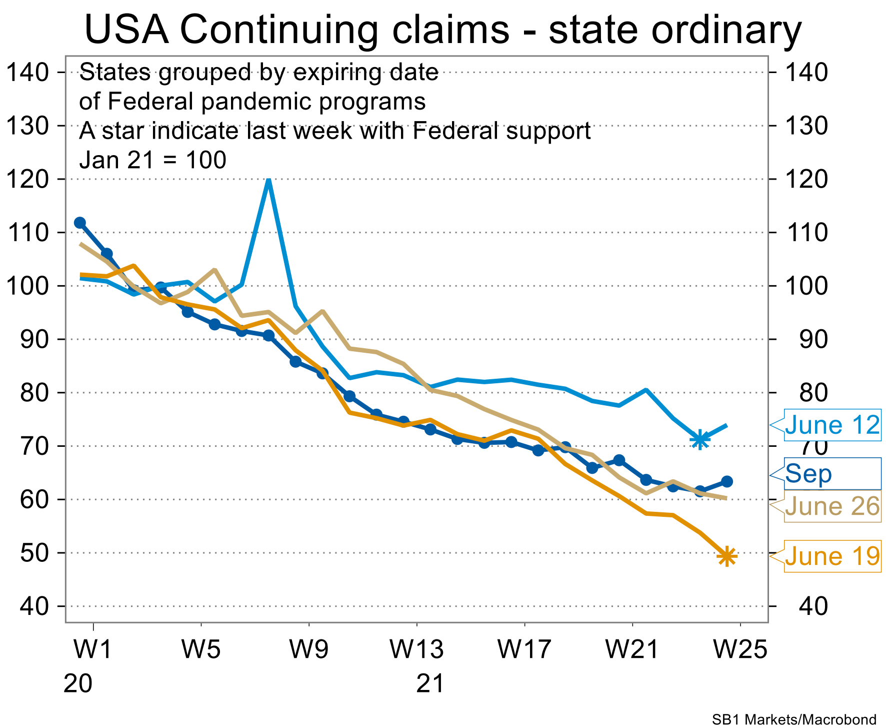




- Almost 3 mill workers receive **ordinary state unemployment benefit support**, which is close to normal, given that 9.5 mill workers are unemployed
- However, some additional 12 mill workers (incl. freelancers, gig workers) receive **temporary Federal unemployment benefit support**, partially in addition to the ordinary state programs (the net extra equals some 8 – 10 mill, we estimate). How many of these workers will return to the labour market the coming weeks & months?
- 24 states have **opted out** of these federal program (which anyway will expire in September). The impact from the first leavers will be visible in the no. of benefit receivers from next week but we will still not know if these workers will try to find a job or to stay outside the labour market. State employment data, perhaps also some survey data, will tell the coming months

Will the cancelling of pandemic federal benefit programs lift employment?

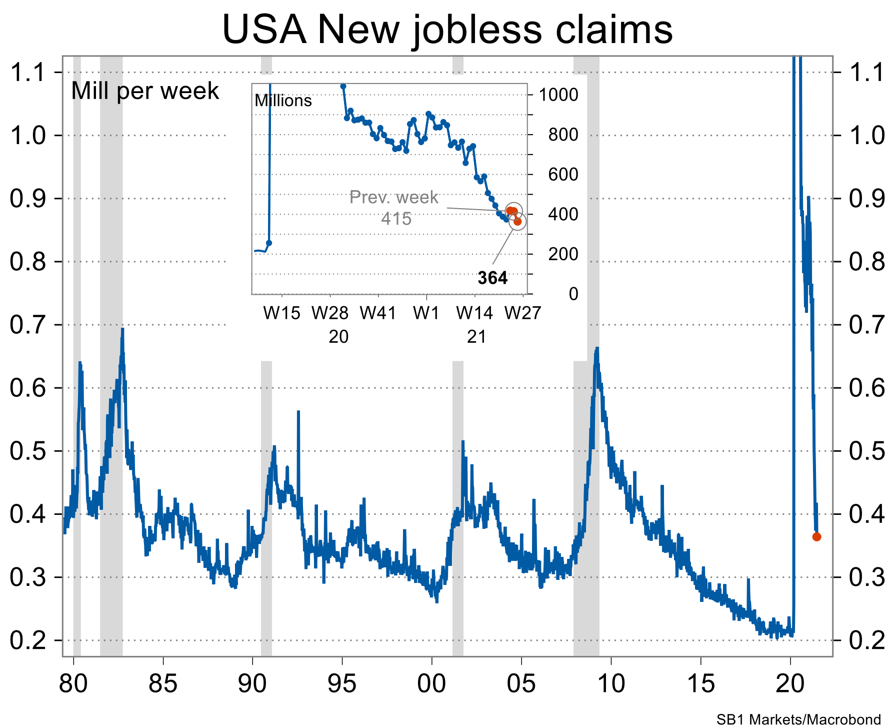
One positive signal: The number of ordinary continued claims <u>may</u> be falling in early leaver states

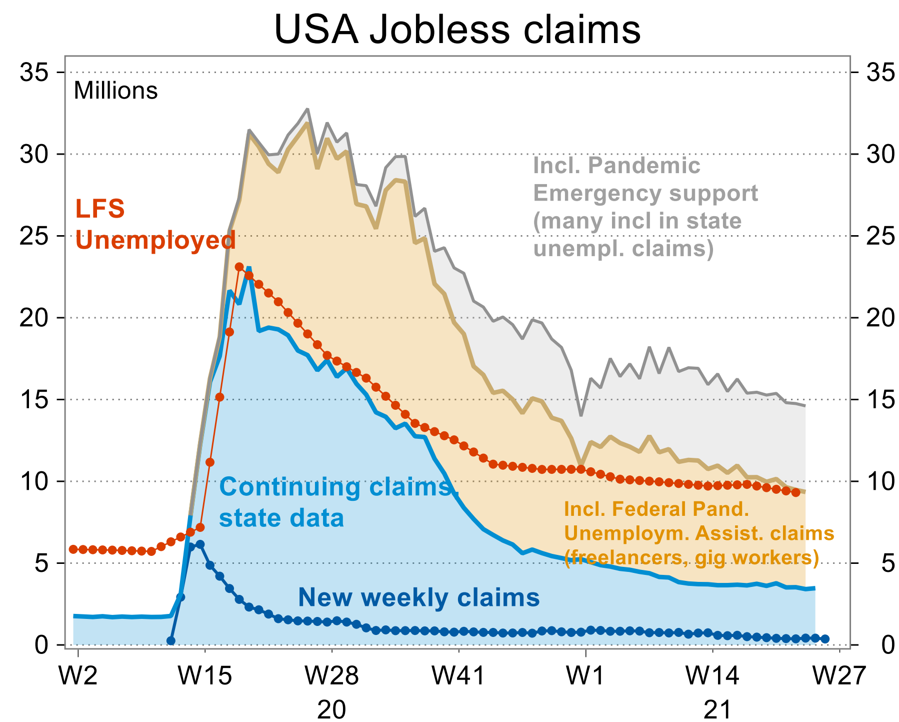


- 4 stated dropped out of the federal unemployment benefit programs at June 12 (end of week 23), and another 8 states left June 19, which is the last week state unemployment benefit data are available
  - » The no. of continued claims fell more than the national average before this cut-off day
  - » However, in the first week after abolishing the federal programs, the no. of continued claims rose in the 4 (first) states
- Anyway, we do not know what these former recipients do now – are they now trying to find a job?
- Some media reports suggest that employers in these states have been able to find more workers, but other reports have told other stories
- Most likely, we will have to wait for state employment data, which are published 2 – 3 weeks after the national payrolls report
  - » We doubt we will find much information in the June state employment data (date are gathered mid-month), but July data (published in August) could reveal some information whether labour supply increases or not. We think the odds of finding some impact are pretty good

New jobless claims down last week, still well above the ol' path

Lowest number of new claims since before the pandemic, but level still 'too' high

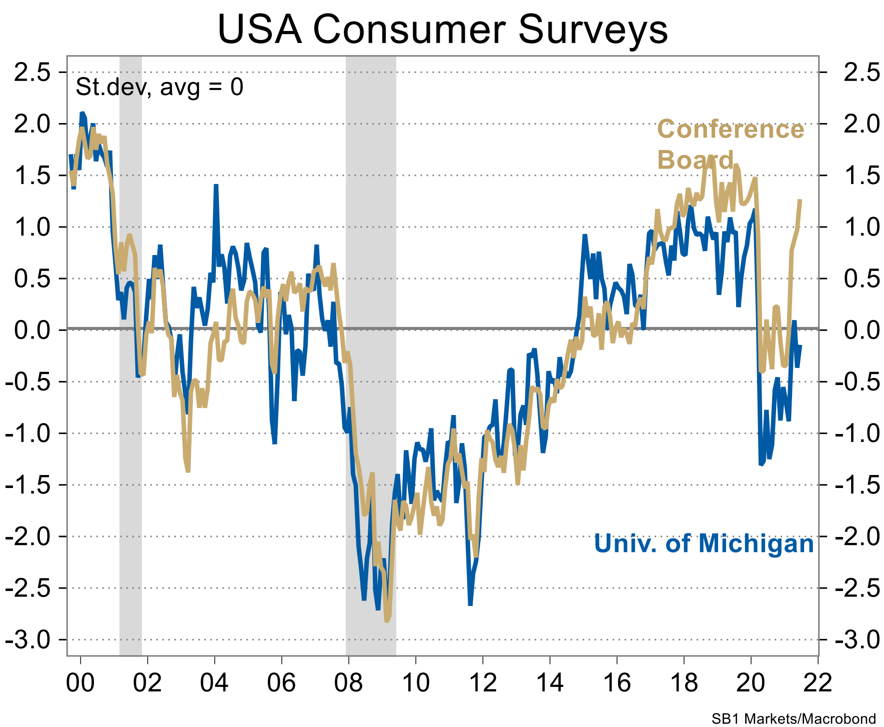


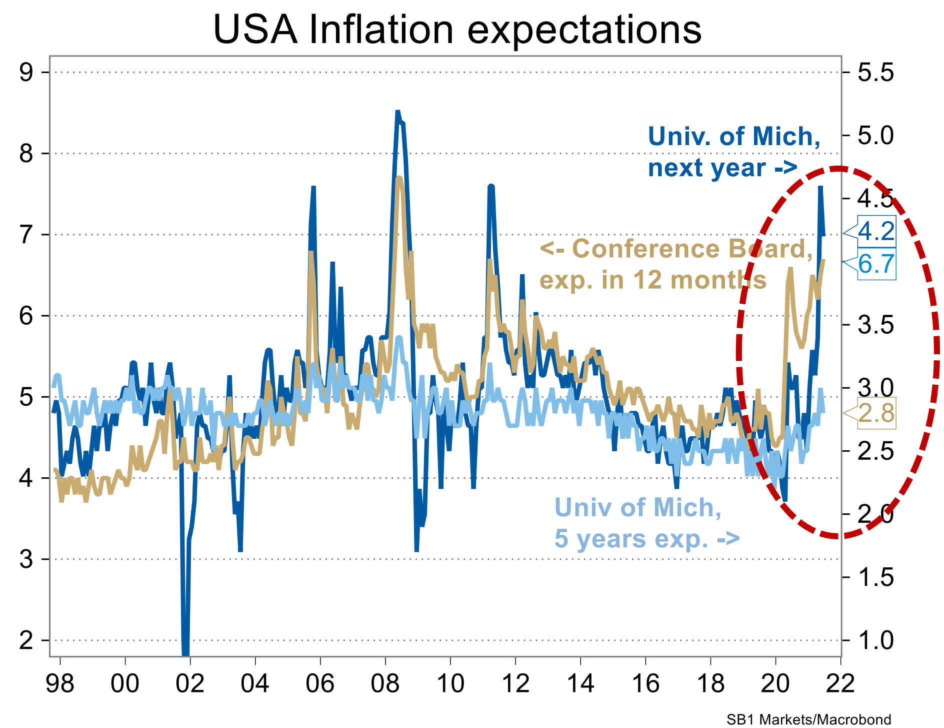


- **New claims** fell to 364' from 415' (revised up from 411') the previous week, expected down to 390'. Over the three previous weeks, claims have been much higher than we and the market had expected, despite the rapid improvement in the economy – 4 weeks ago, just 375' asked for a new benefit, and had the trend been intact, the weekly inflow should have been below 280' by now. Whether this week's drop is solely a result of several states ending the extra benefit programs or whether these people are actually back in the labour market remains to be seen
- **Ordinary continuing claims** increased by 56' to 3.45 mill, while the no. of receivers of the Pandemic Emergency Support Program (52 weeks instead of 26, and USD 300 extra/week) decreased by 12' to 5.26 mill, and the no. of receivers of the Pandemic Assistance Program (gig & freelancers) fell by 15' to 5.94 mill.

Consumer *confidence* sharply up in June, and strong. *Sentiment* is still weak…

Conference Boards index much stronger than expected. Univ. of Mich. sentiment still below par

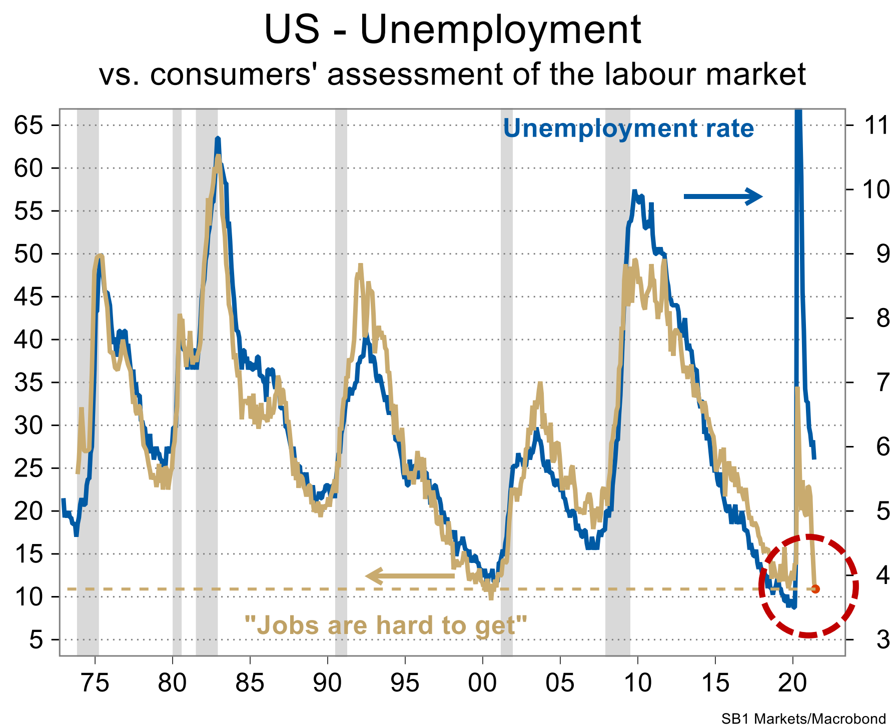


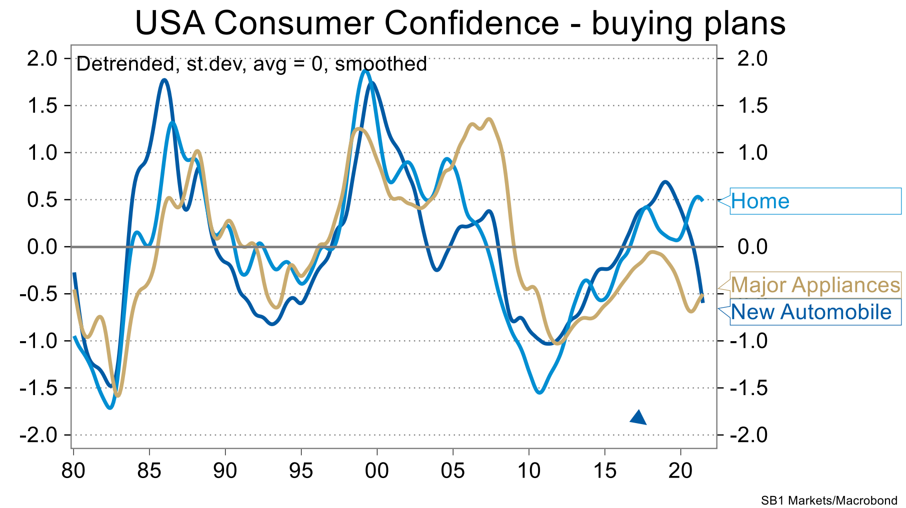


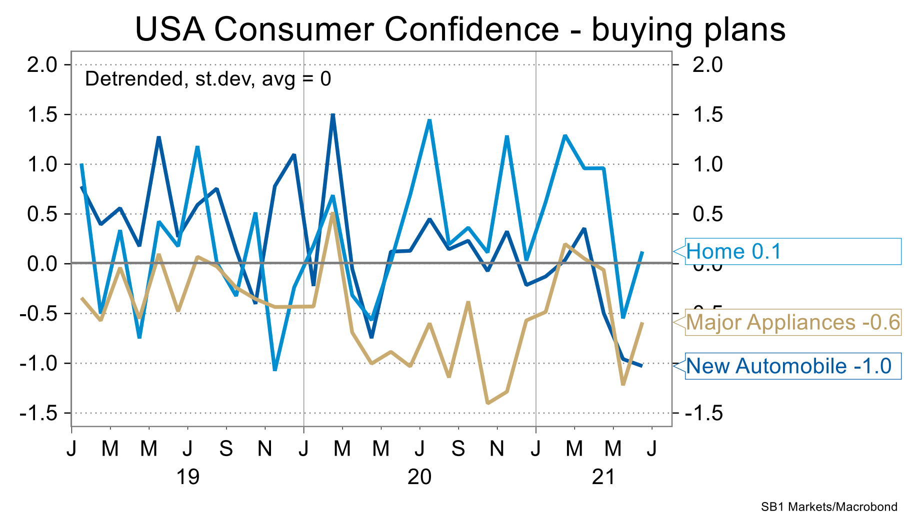
- **Conference Board's consumer confidence** index climbed to 127.3 in June from 120 in May, expected up 2 p from previously reported 117.2. The past 5 months have seen the quickest recovery in confidence, by far. The level is 1.3 st.dev above average, as households judge the present situation to be good (and the future is OK too). Confidence is almost on par with the pre-pandemic level
- **The UM May sentiment index** rose in June too, but less than CB's index, and the level is below average, and far below pre-Covid levels
- **Inflation expectations** are still elevated

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

As though the unemployment rate were 3.5%, not 5.9%. Buying plans up, still not strong

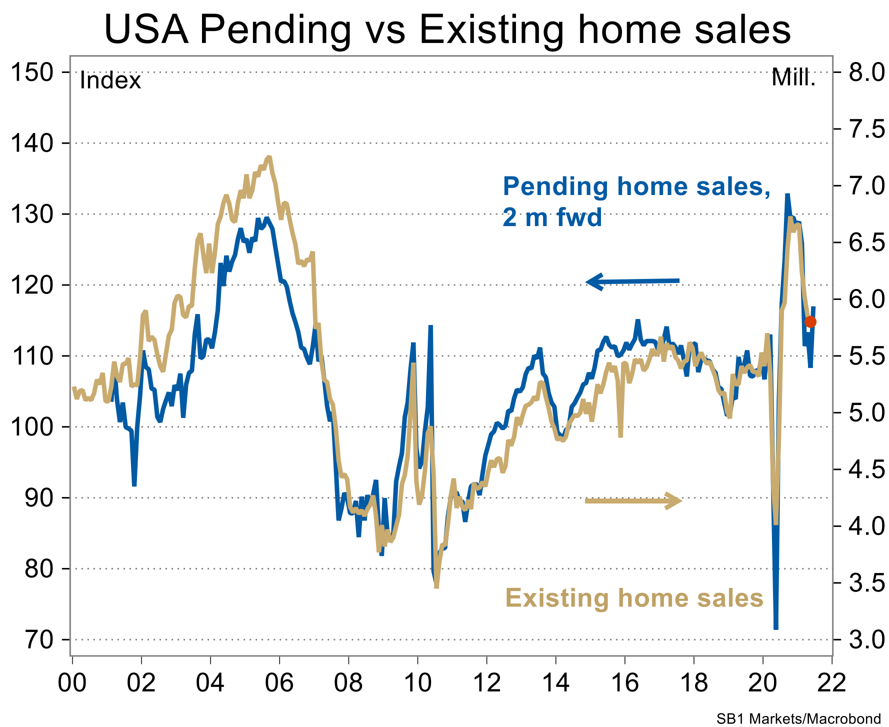


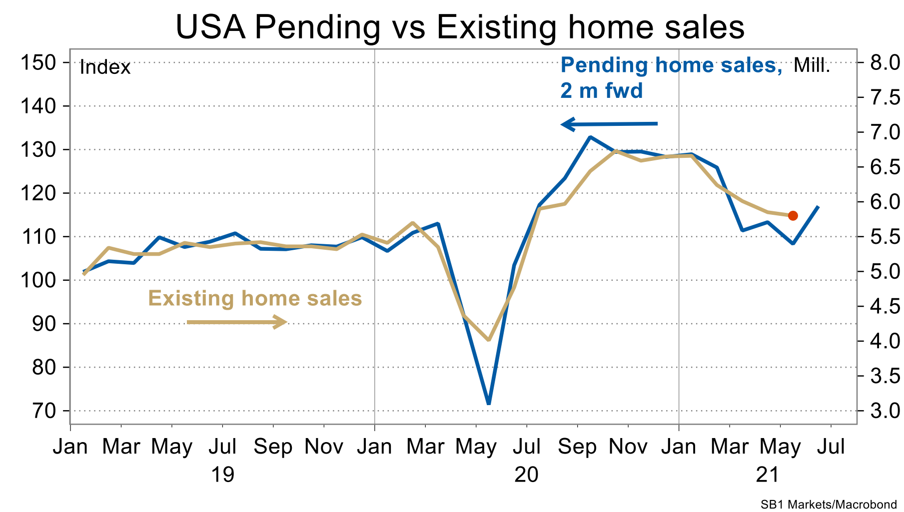


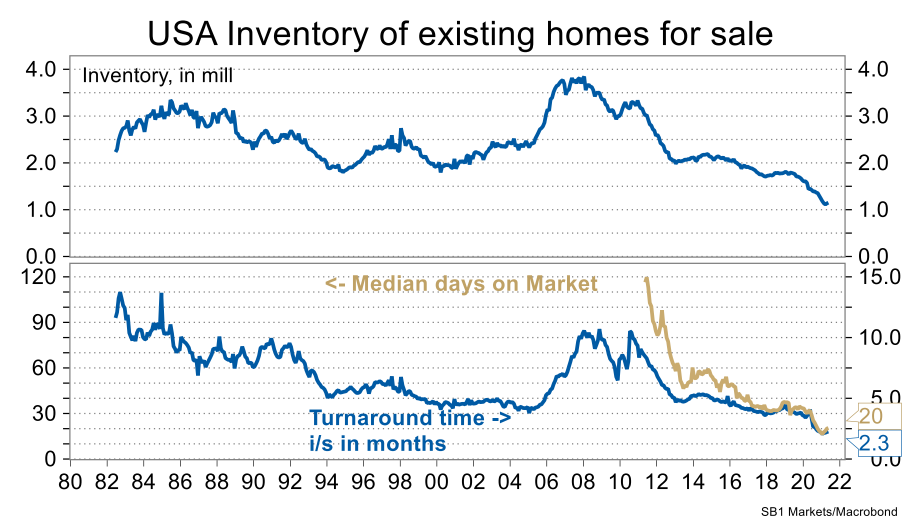


- Just one time back in history, in June 2001, households have been reporting that has been easier to find a job than in June 2021!
- Plans for buying big ticket items (a home, a new car, major appliances) remains a low level. New cars may be explained by lack of supply, homes perhaps due to high prices (due to lack of supply), but what about major appliances?

Pending existing home sales further sharply up in May, but the trend is down





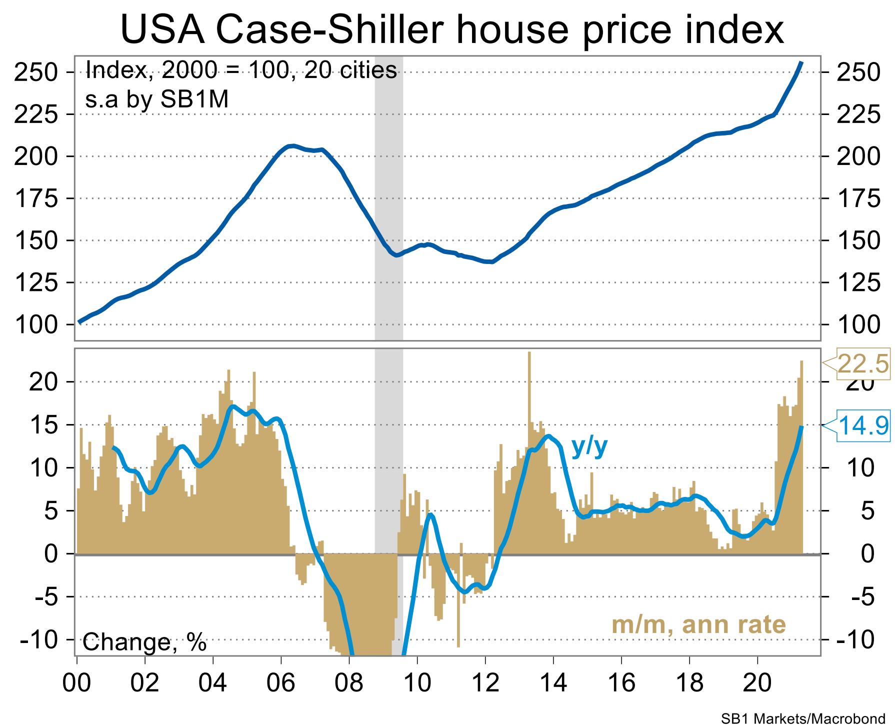


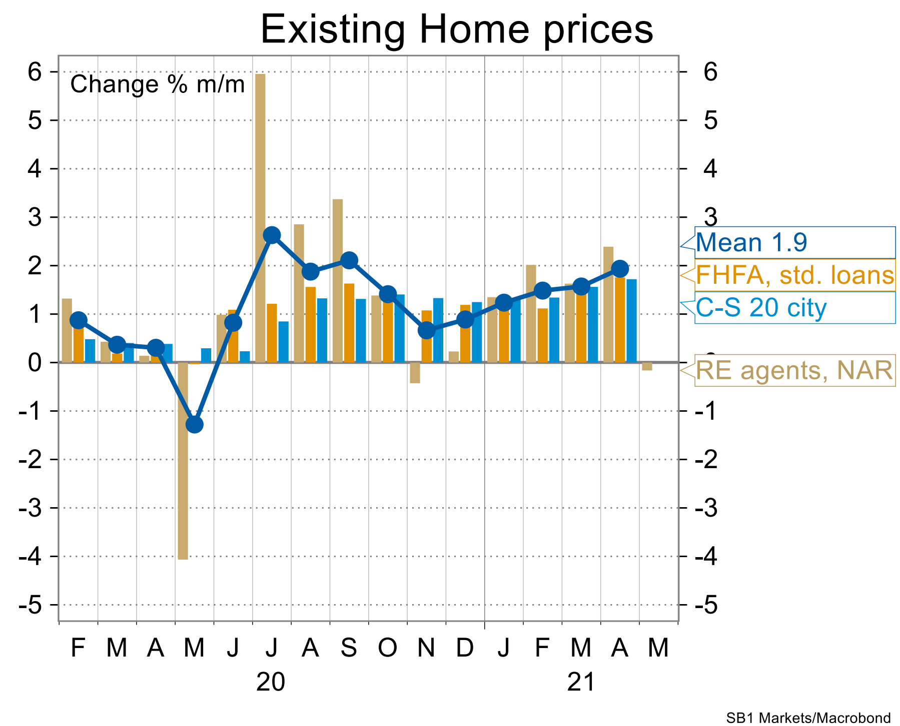
- Pending home sales rose by 8%, expected down 1%
- Still the trend for both pending sales and existing home sales is down, until now due to lack of homes for sale – the inventory is record low. Now, some buyers have become sceptical to the price level – for understandable reasons, check the next pages

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 14.9% y/y, highest since 2005

Prices up 1.7% m/m (22.5% annualised), the 2nd highest on record, underlying pace 18% (ATH)

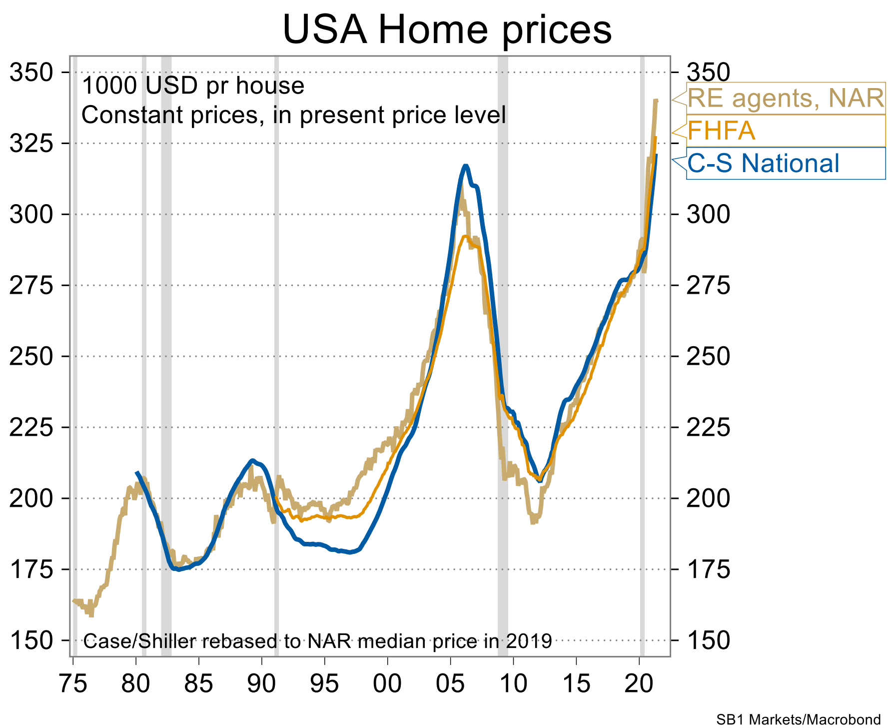


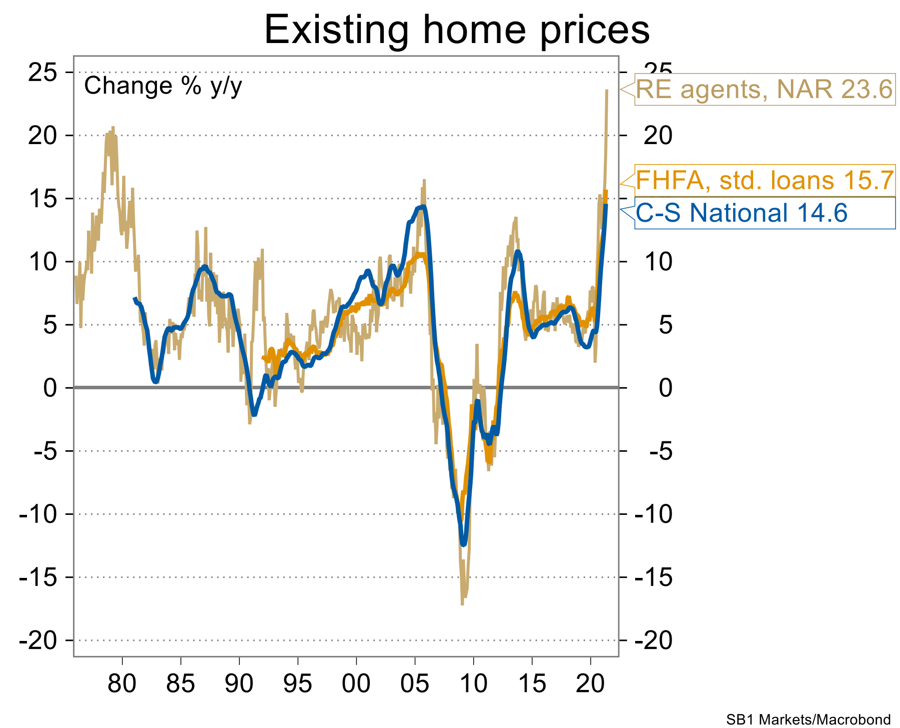


- **S&P's Case/Shiller's 20 cities** price index rose 1.7% m/m in April (March – May avg). The annual growth rate at 14.9% is the highest since 2006. The **national C-S index** is up 14.6% y/y, the highest on record data from 1980
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene", has a countrywide coverage), has shot up too recent months too. The annual rate at 15.7% is far higher than before the housing crisis 15 years ago (chart next page)
- **Relators** reported close to zero price growth m/m May (but an extreme annual growth rate, as prices fell sharply in May-20)

Some special house data – both measured y/y & the real price level

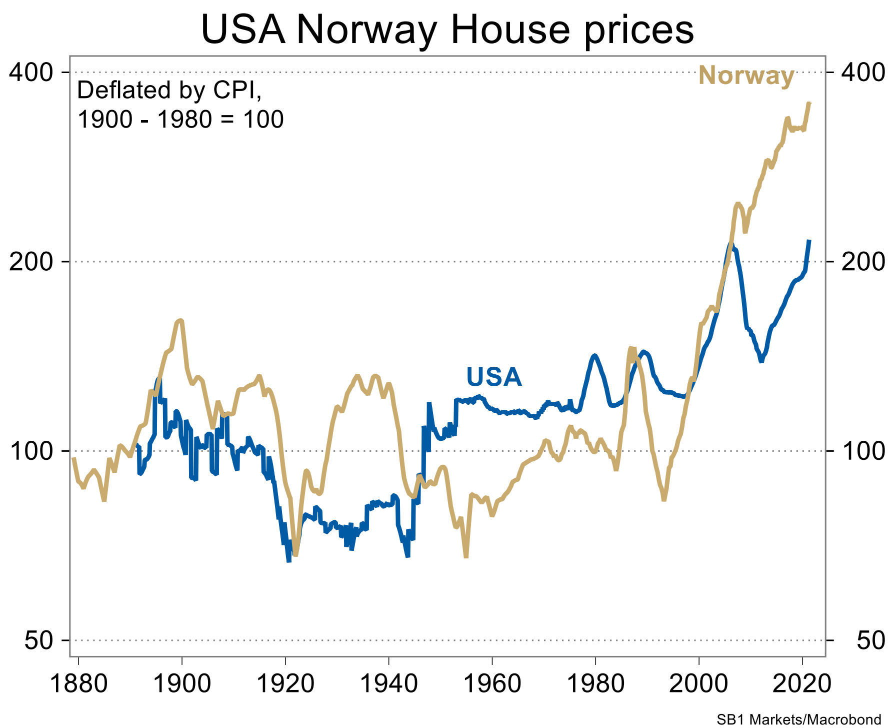
Even some Fed officials is now questioning the continued strong QE support of the mortgage market

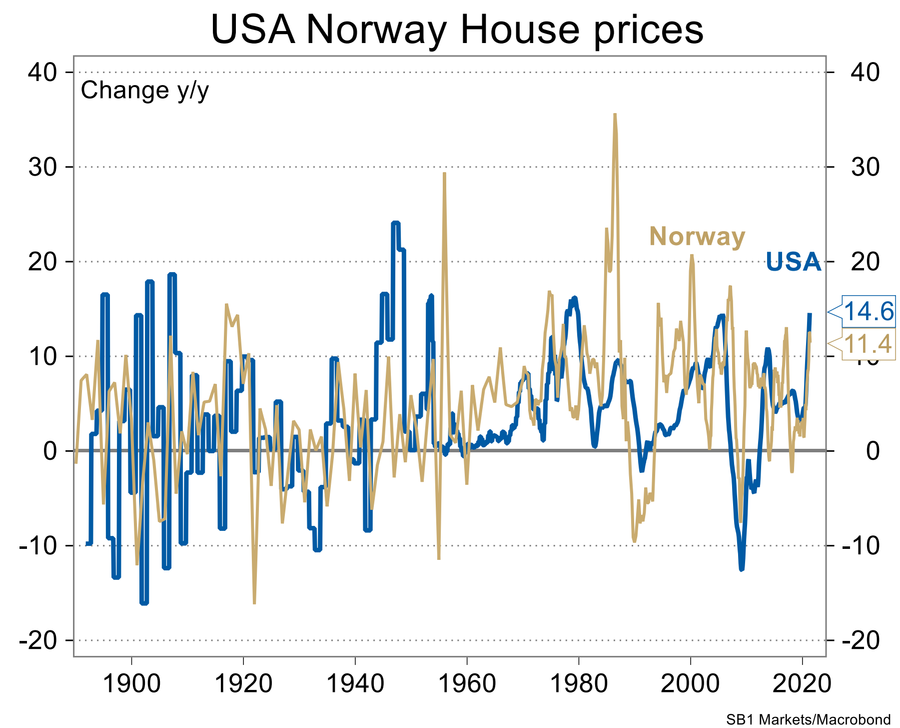




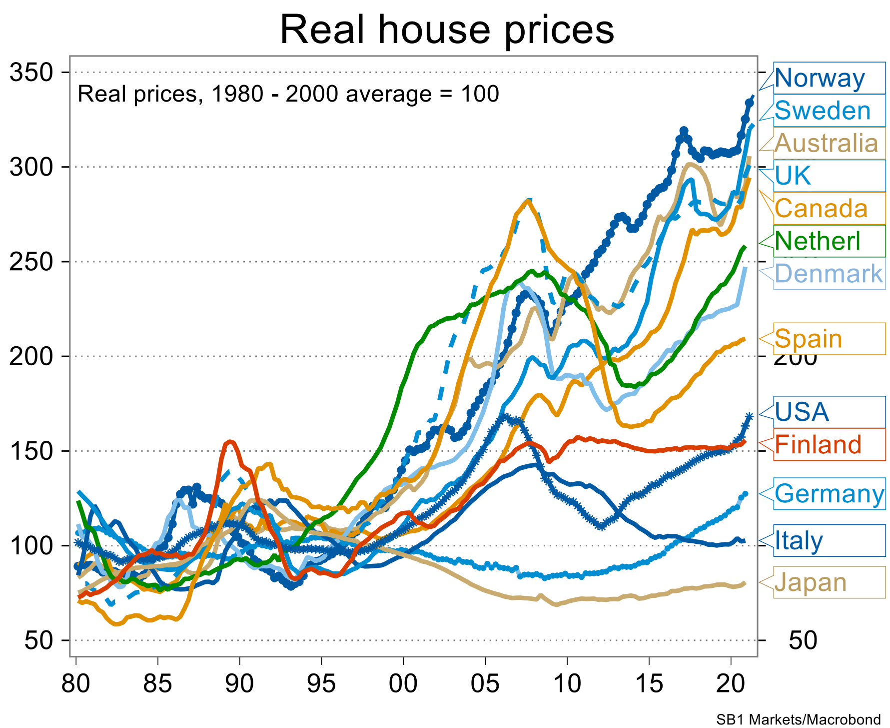
- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever and record high real price levels, with data covering the past 30 – 45 years
- There are some big differences to 2005/6 price inflation & level peak
  - Housing starts are at far lower level. The inventory of new & 2nd home for sale is record low (vs high 15 – 16 years ago)
  - The debt/income ratio has fallen sharply since the peak before the financial crisis – and it is now just slowly increasing
  - The running savings rate/net financial investment rate is high – vs far too low 15 years ago

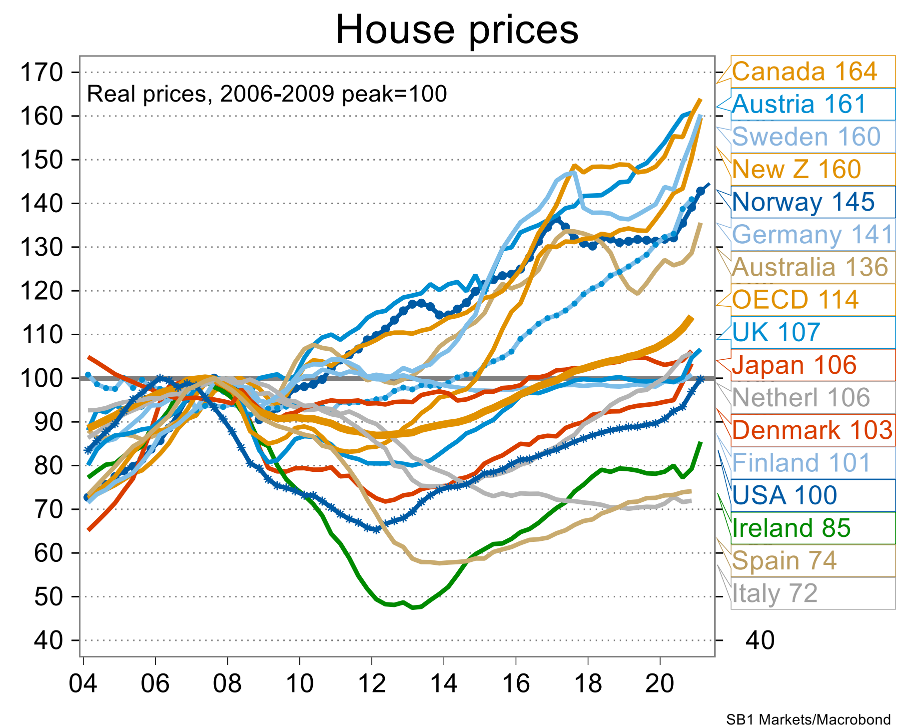
It happens from time to time, both here and there





Some significant developments the past 20 years

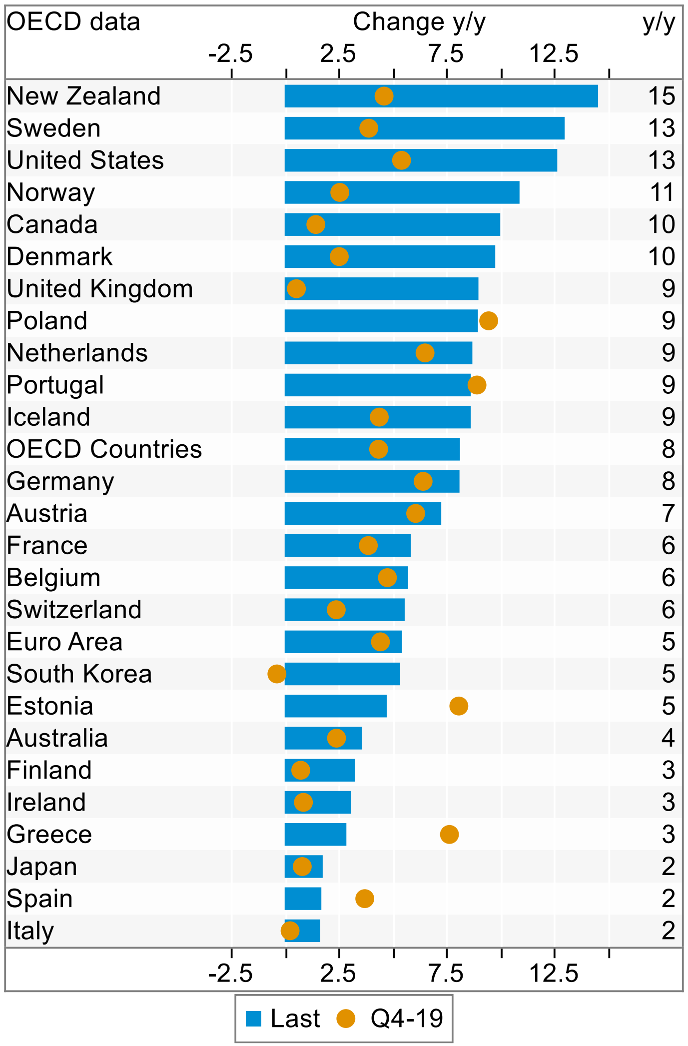




Now, all house prices are on the way up

… and price inflation has accelerated through the pandemic, almost everywhere

House prices



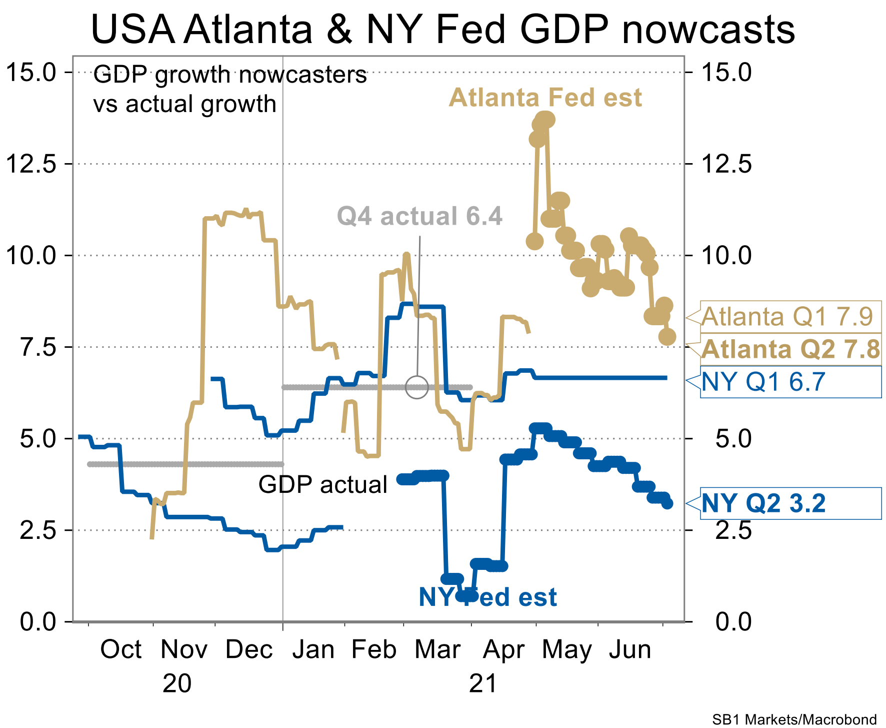
SB1 Markets/Macrobond

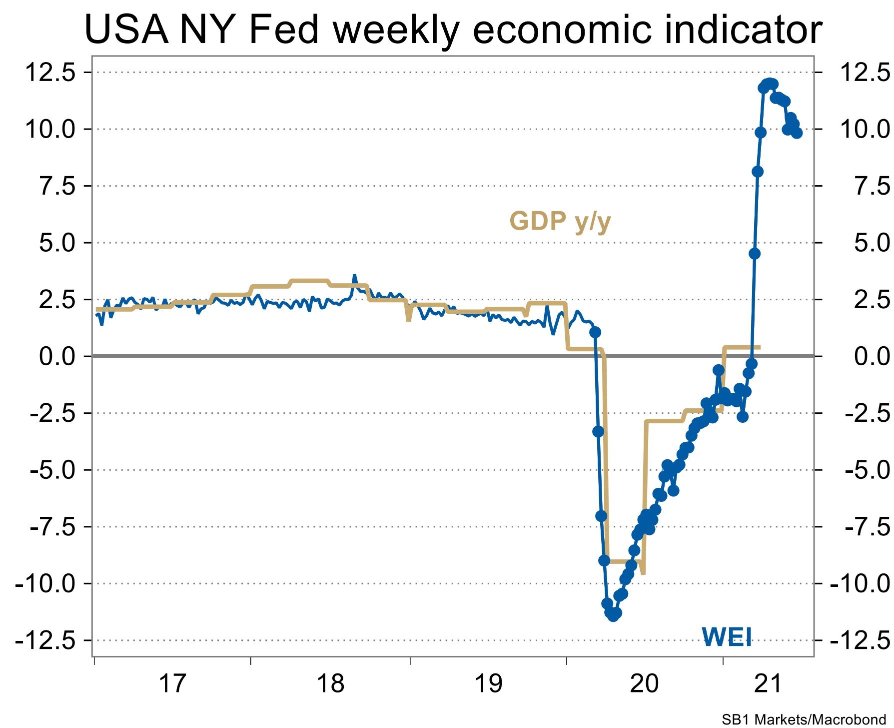
- No doubt, housing demand has strengthened through the pandemic, both due to low interest rates/easy access to credit and due to demand for more space
- Nominal income growth per capita (or household) is at some 1% – 3% in most countries

- Data are from the OECD, last datapoint Q4-20 or Q1-21. National indices in several countries report higher price inflation in Q2, like in the US, UK, and Sweden

The nowcasters signal 3% to 8% GDP growth in Q2

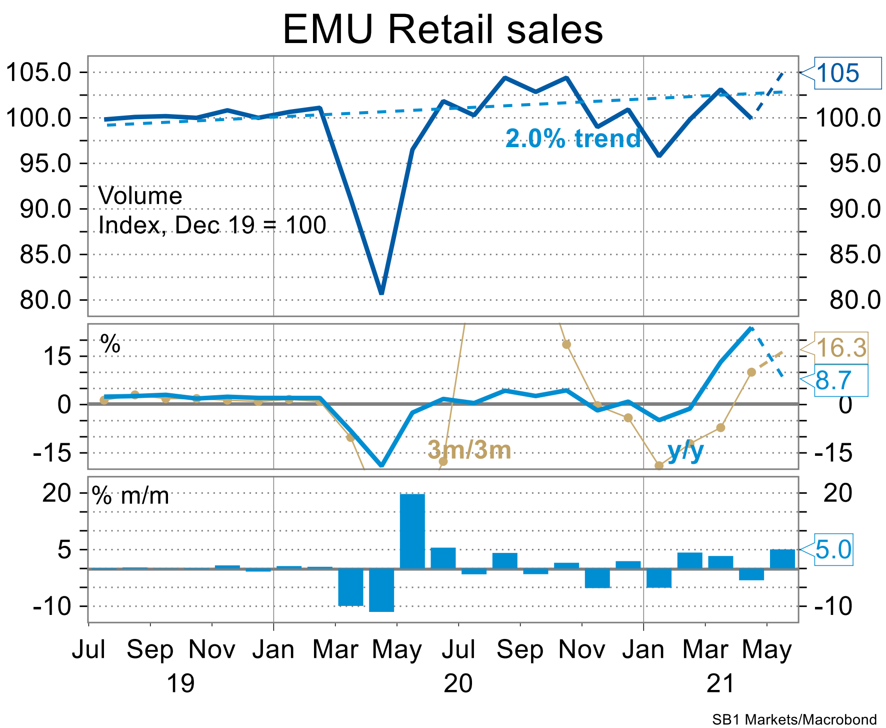
… as growth nowcasts have been gradually slashed past two months

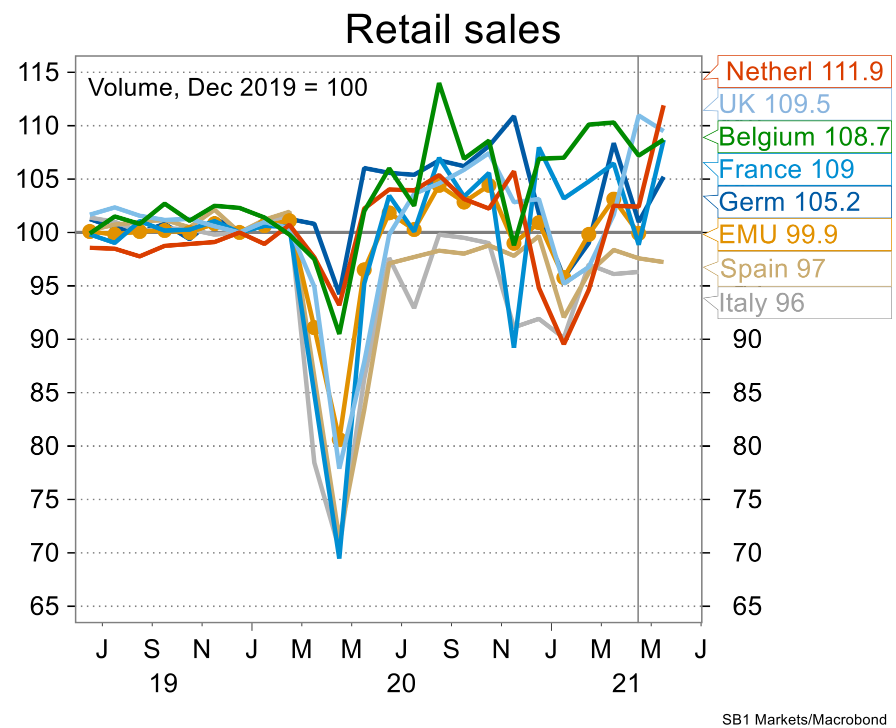




Eurozone retail sales sharply up in May – and probably more to go

We expect a 5% lift in sales in May, after the 3% April drop. If so, sales are 5% above pre-Covid level

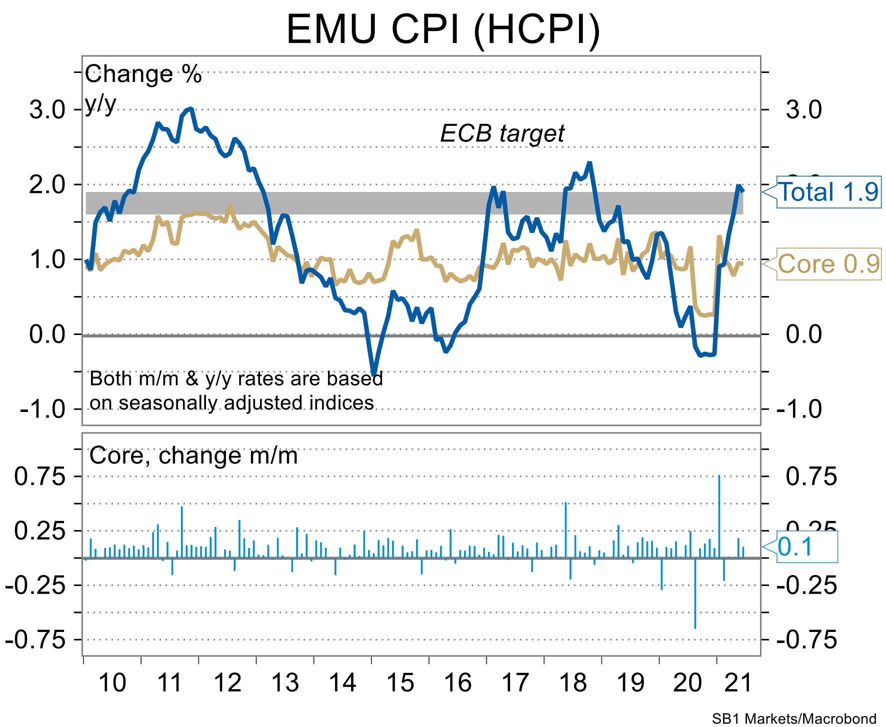


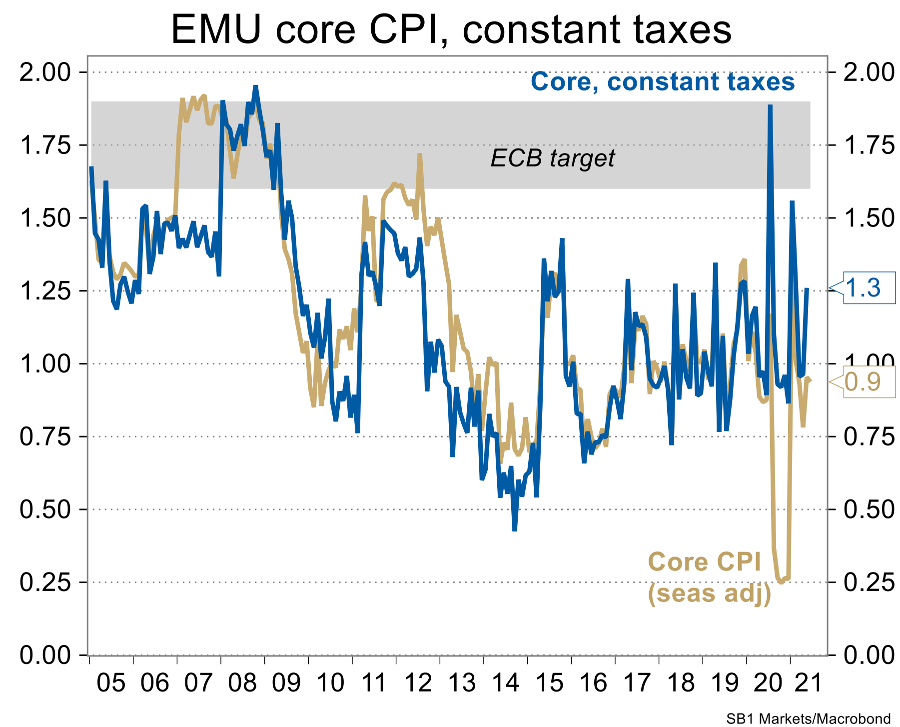


- Sales rose sharply in most EMU countries in May – except for Spain (which did not receive the normal inflow of tourists that always lifts sales in June (and the rest of the summer season, not seasonally adjusted). Italy has not yet reported

Eurozone core inflation still soft at 0.9% y/y. Headline down to 1.9% in June

Core inflation at 1.0% is still far below ECB's inflation target

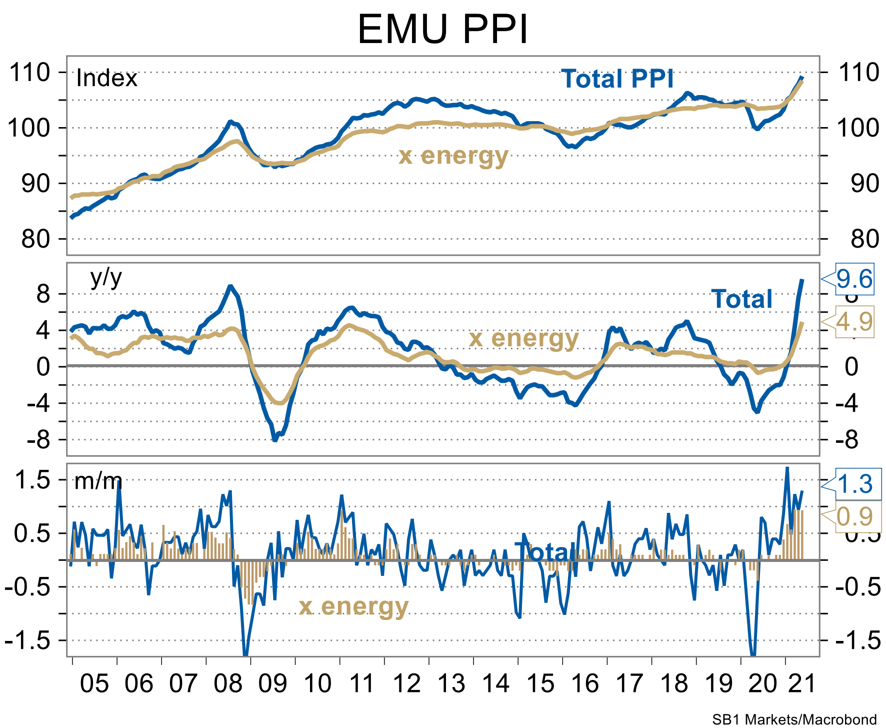


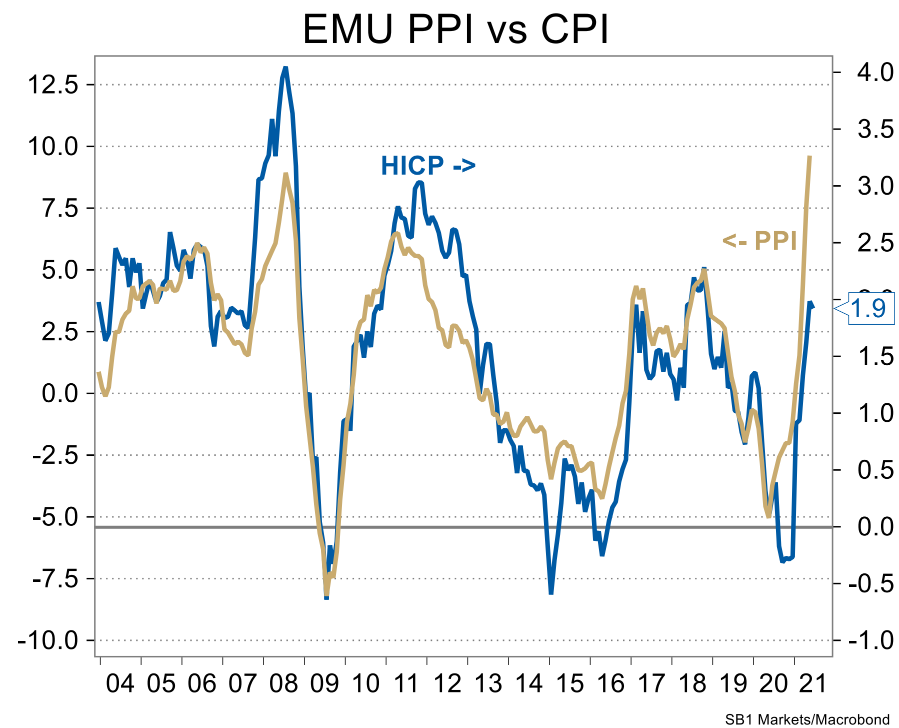


- **Core prices** were up 0.1% m/m and the annual rate fell 0.1 pp to 0.9%, according to the preliminary estimate
- **Headline inflation** was down 0.1 pp to 1.9% in June, at the top of ECB slightly below 2% range
  - » Energy, industrial goods, and services prices were the biggest contributors to the increase in headline inflation.
- **Adjusted for changes in taxes**, the core was at 1.3% y/y in June. The 'supercore' index is at just 0.8% y/y in June
- The prelim. estimate shows that Greece is out of deflationary territory (0.6% y/y), while the headline inflation is at or above 2% in many of the member countries, including Germany, Belgium, Austria, Finland and Spain (Although central banks usually targets core inflation, and this number is more sticky)

PPI further up in May, also x energy

PPI up to 1.3% m/m, up 9.6 y/y as expected. Signals ‘somewhat’ higher CPI inflation





- The PPI ex energy added 0.9% in May, and is up 4.9% y/y, the highest level on record – data from 2000

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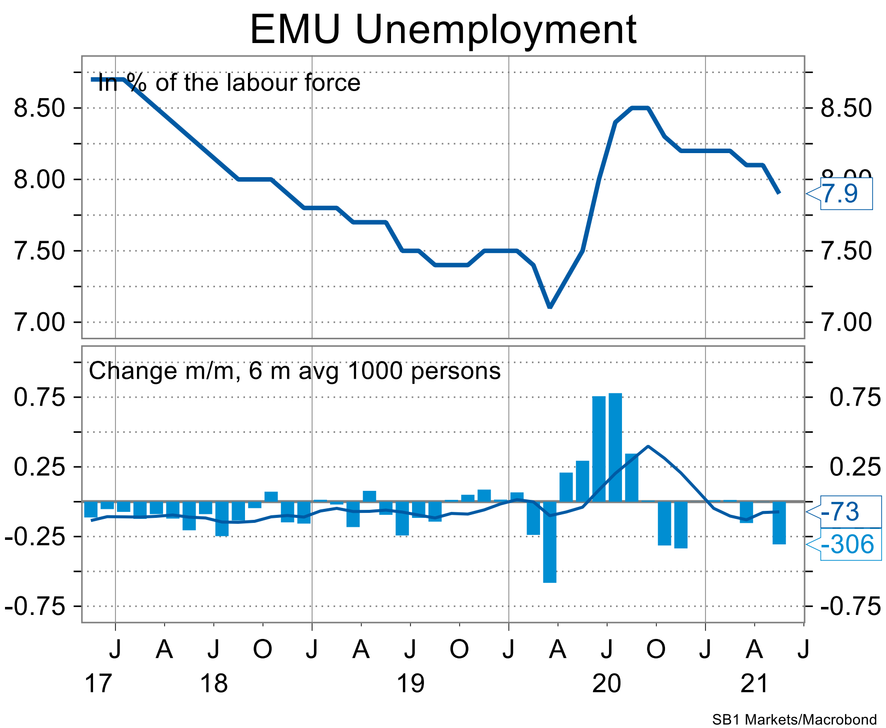
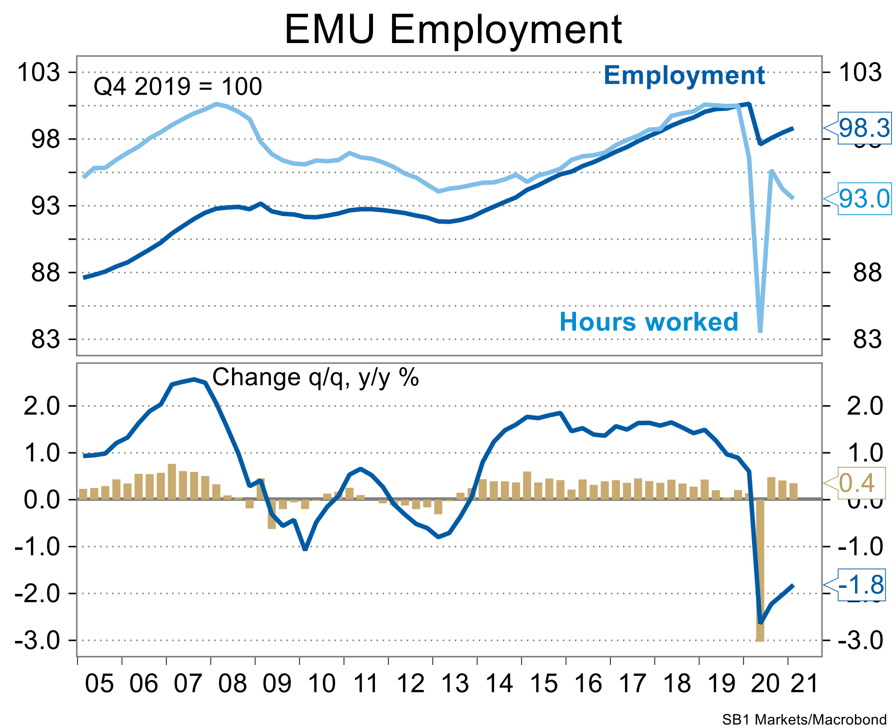
Unemployment down to 7.9% in May, from 8.0%

Unemployment stats are probably still not that useful due to gov. emp. subsidies/furlough schemes

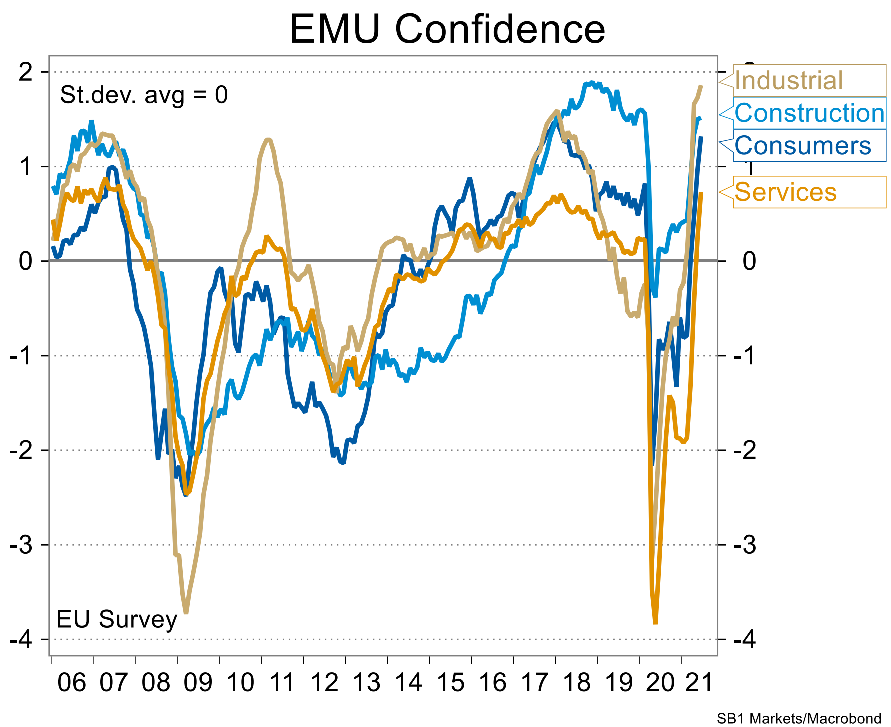


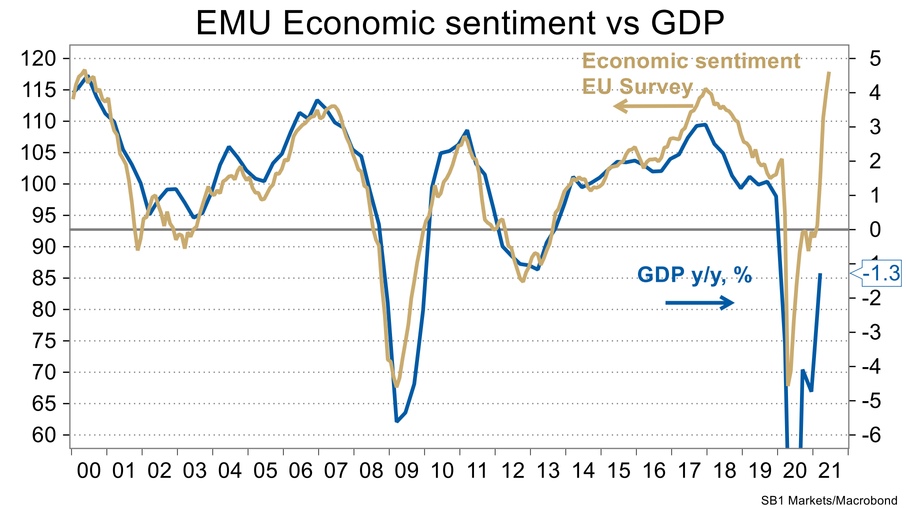


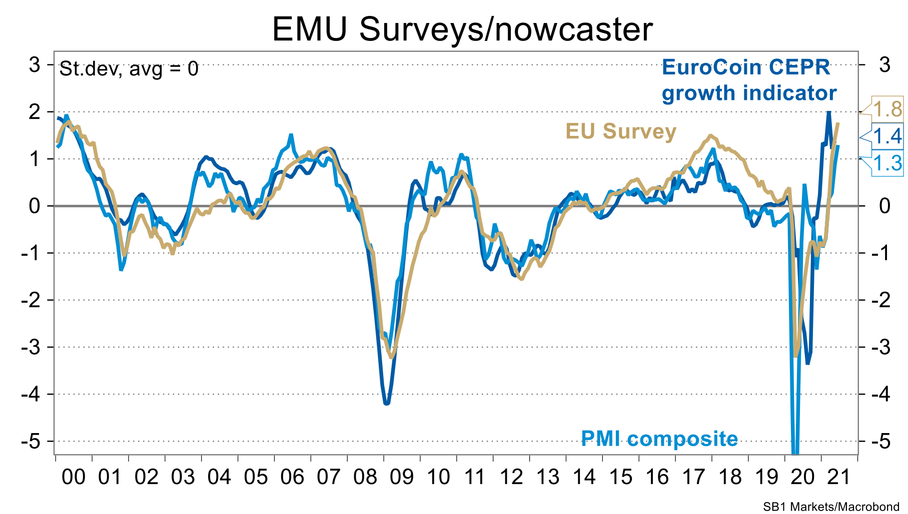
- **Unemployment** fell by 300' in May, no doubt due to easing of restrictions and increased activity in the service sector in May – but the no of unemployed is far above the pre-pandemic level
- The best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of hours worked. In Q1, hours worked were down 7%, while the no. of employed was down just 1.7% - as average working hours were cut substantially. Q1 hours worked will probably be published this week, and we aim to take a closer look at wages & unit costs in EMU

Economic sentiment highest since May 2000

… and just as important: sentiment improved in all sectors, signalling some 4.5% GDP growth



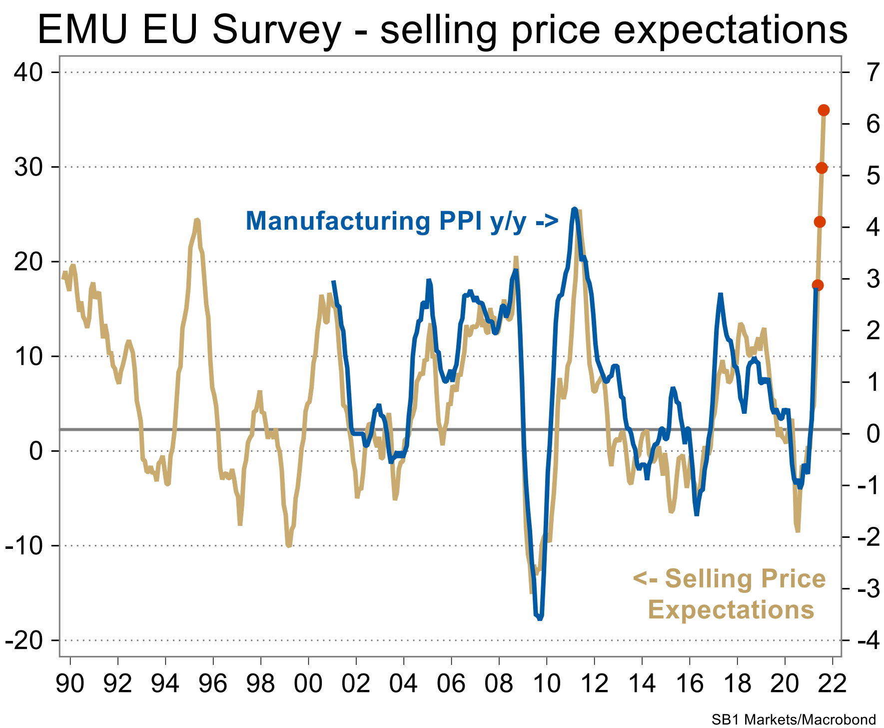




- EU's confidence survey for the Euro area rose to 117.9 in June from114.5 in May, expected up to 116.5!
  - » The **main index** is 1.8 st.dev above average, signalling roughly 4.5% GDP growth
  - » **All sectors** are now signalling above average growth, even services. Manuf. is at all time high
  - » **Consumer confidence** is surging, even in the times of covid & continued restrictions. Although, some more restrictions were eased in June
  - » 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

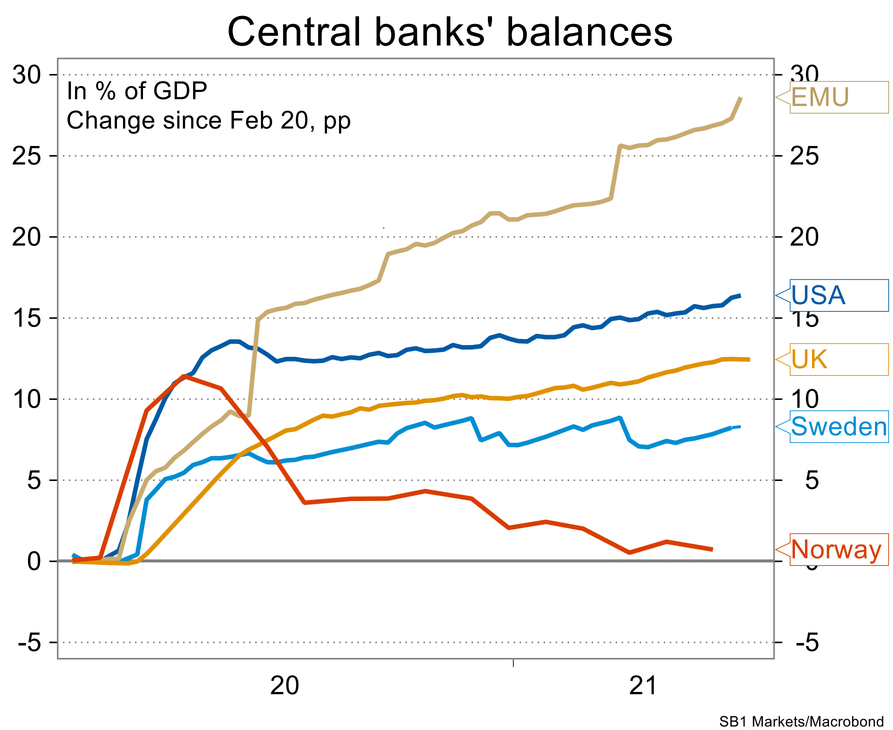
EMU companies are reporting the highest selling price expectations ever

… signalling a further increase in PPI (and CPI) inflation



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

2021 GDP growth forecast raised by 0.5 pp to 4.2%



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

- The Riksbank kept the **signal rate unchanged at zero**, as expected – and the bank assume it will stay there for a long as the Bank can see (till Q3 2024)
- The Bank keeps the **target QE level at SEK 700 bn,** as announced at the Nov meeting, until the end of 2021,– in order *'to give further support in an uncertain time, improve the conditions for a recovery, and to help inflation rise towards the target'*
- The Bank revised its growth projections :
  - » The 2021 forecast is raised 0.5 pp to 4.2% - citing that the economy is now is more resilient to the effects of the virus, while the growth forecasts for 2022 and 2023 were both revised up by 0.1 pp to 3.7% and 1.9% respectively
  - » The unemployment rate will still increase from 8.3% in 2020 to 8.7% in this year (+0.1 pp)
  - » Inflation f'cast was revised up for all years, and will be above the 2% target Q3 2024, according to the Riksbank
- **The Riksbank remains dovish, as the new corona variants may push the Swedish economy down again**
- So far however, there are no signs of that to happen
  - » An example: The Swedish PMIs is one the strongest in the world, have been so for quite some time now. We think the bank is too pessimistic – as it has been for a long while now

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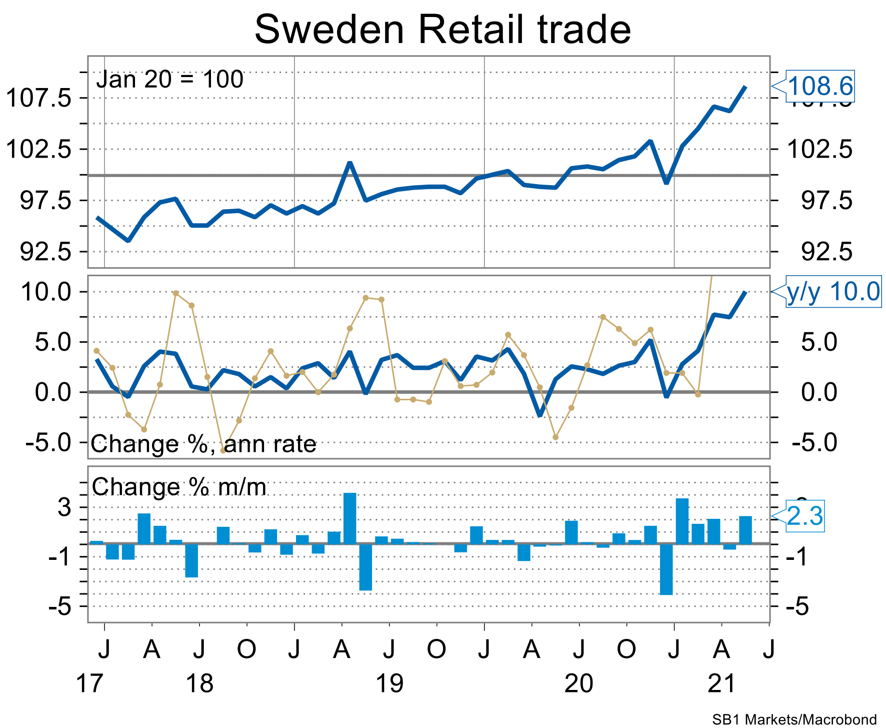
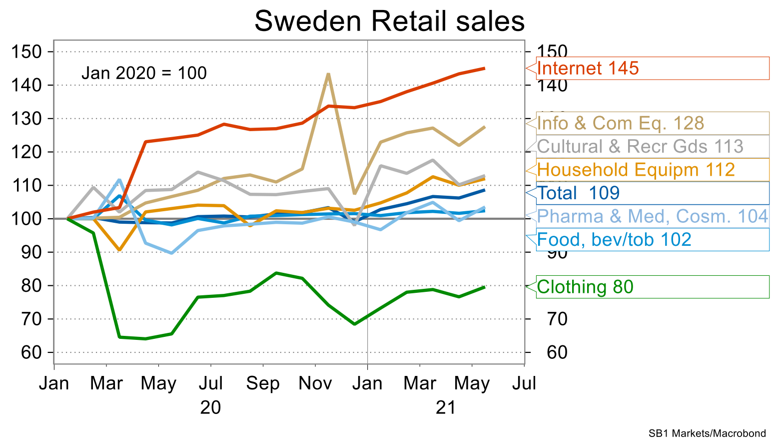
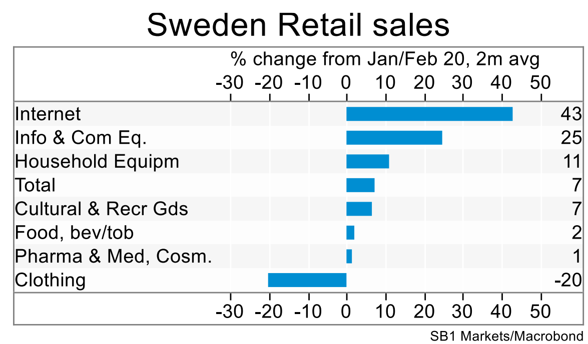
Retail sales up by 2.3% in May – up 8.6% vs pre-pandemic level; 4% above trend?

All sectors reported higher sales in May. Clothing sales still 20% vs Jan-20







- Huge sectoral differences. Internet sales up 45% (here like in many other countries), info/communication +28%. 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??). And clothing is still way below par
- 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

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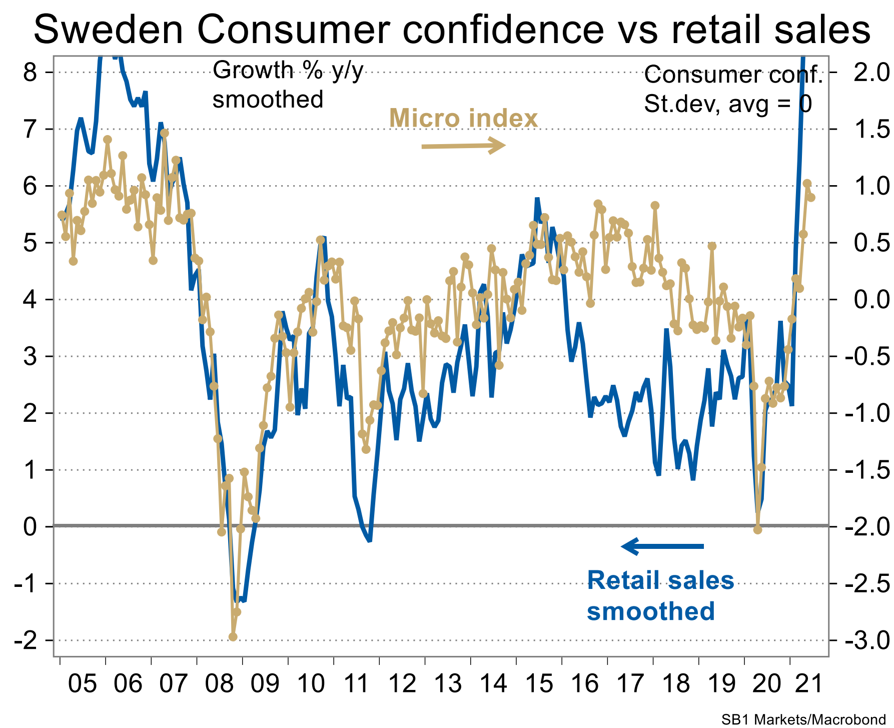
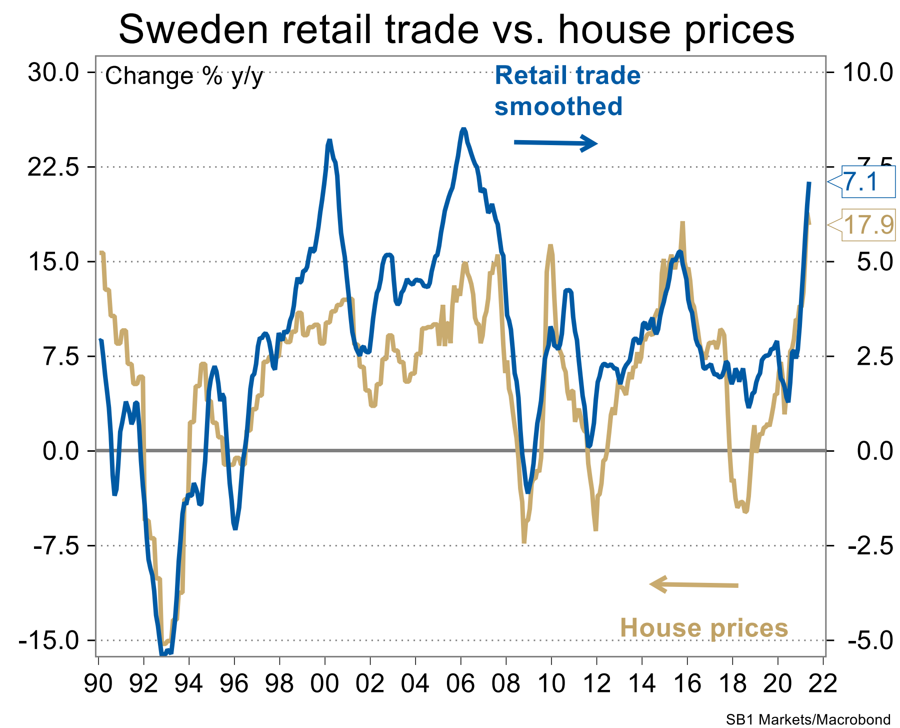
Consumer confidence marginally down in June, still at a high level

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

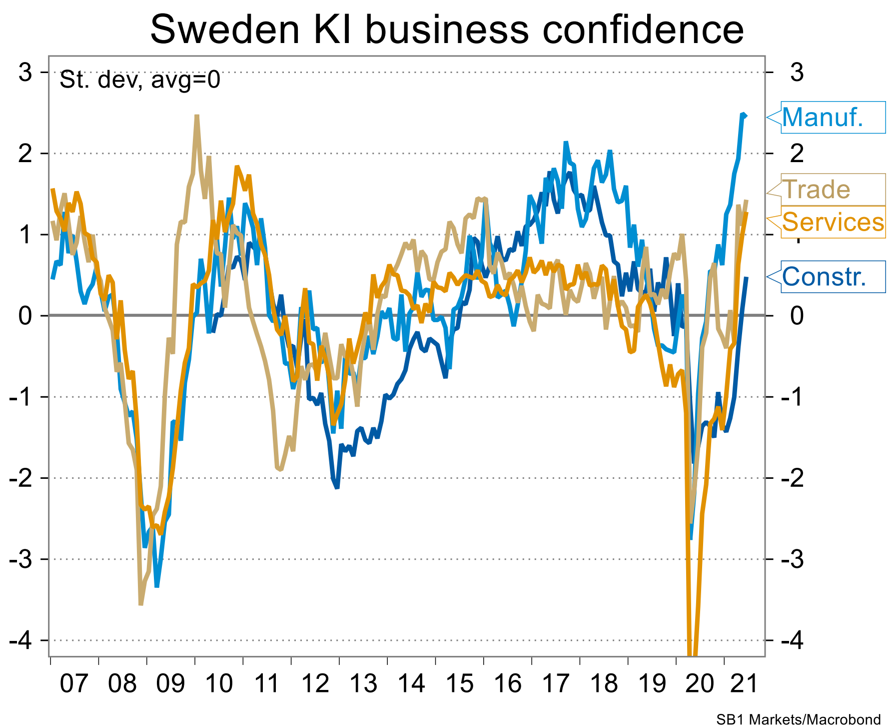


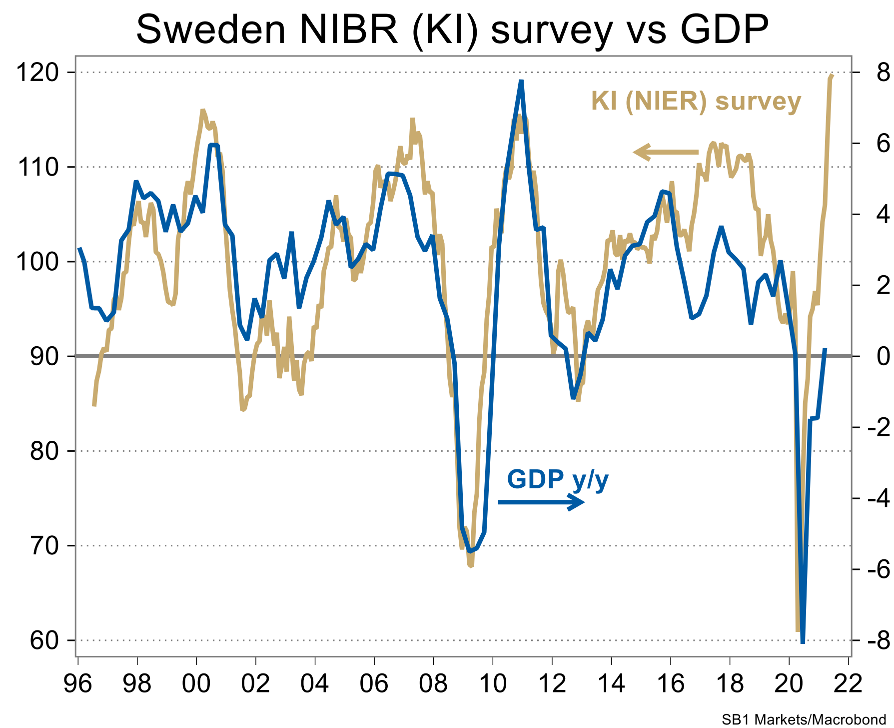


- The **total consumer confidence** index fell 109.4 in June from 112.2 in May. The 'macro' index rose further, while the 'micro' index fell slightly
- **Confidence** has more than recovered, alongside retail sales - and a booming housing market (house prices up more than in over 30 years) signal that 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. <u>So no reason the expect Swedes to stop spending now</u>

KI business survey further up in June, 8% growth signalled

The ‘post’-pandemic recovery is broadening, all sectors are contributing. We are close to the peak?

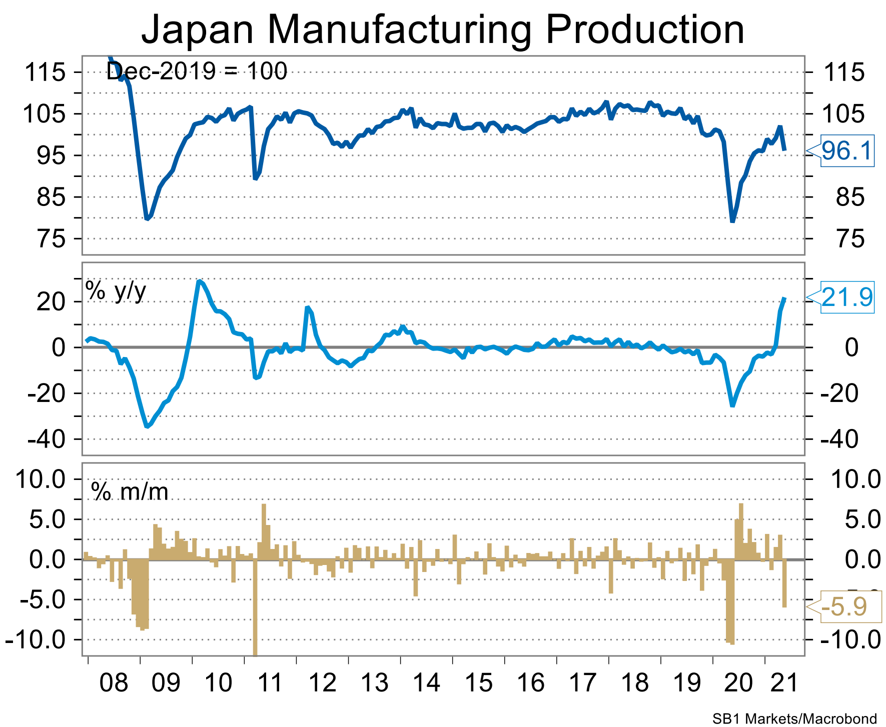


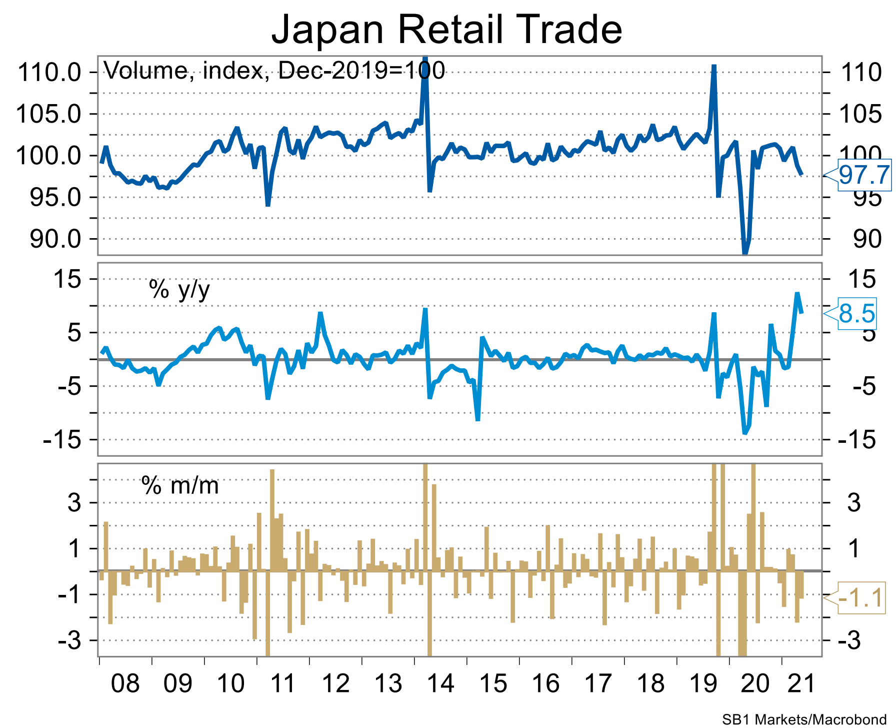


- **The composite index** rose to 119.8 in June from 119.3 in May, up to another ATH . The survey signals a very rapid growth in GDP
- **All 4 main sub-sectors** contributed to the lift, and all are reporting growth above average. Take-off among **manufacturers**, but both **retail trade** and **services** are reporting the fastest growth in a decade. **Construction** is also signalling growth above average
- Most likely, growth is now close to peaking as the gap to the pre-pandemic growth path most likely will be closed during H2
- 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 Q3-24

Manuf. production down 5.9% in May – and retail sales down another 1.1%

Production dragged down by a 20% decline in auto production! A sharp recovery is expected in June

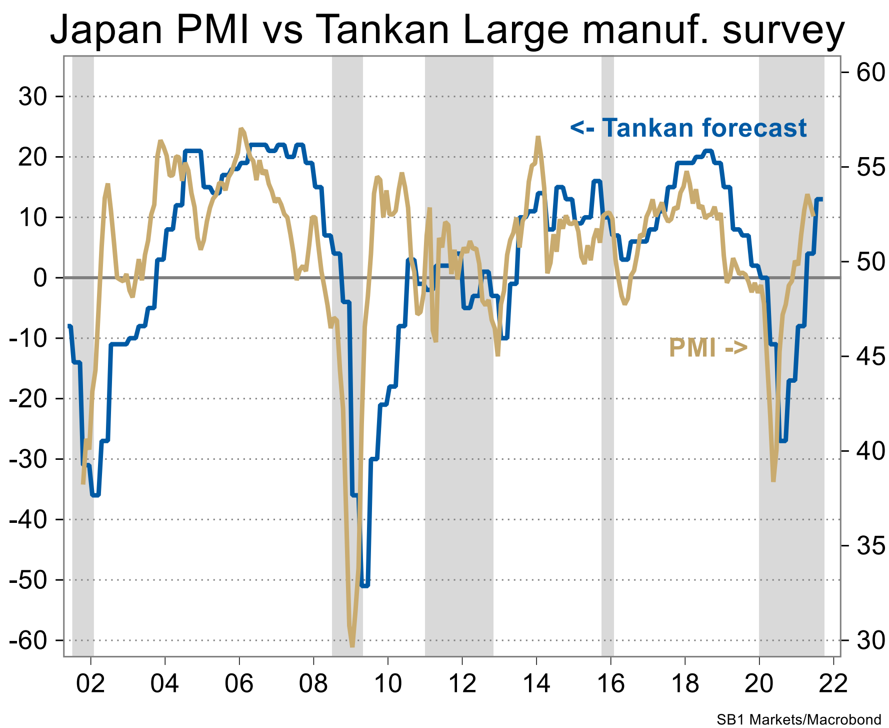


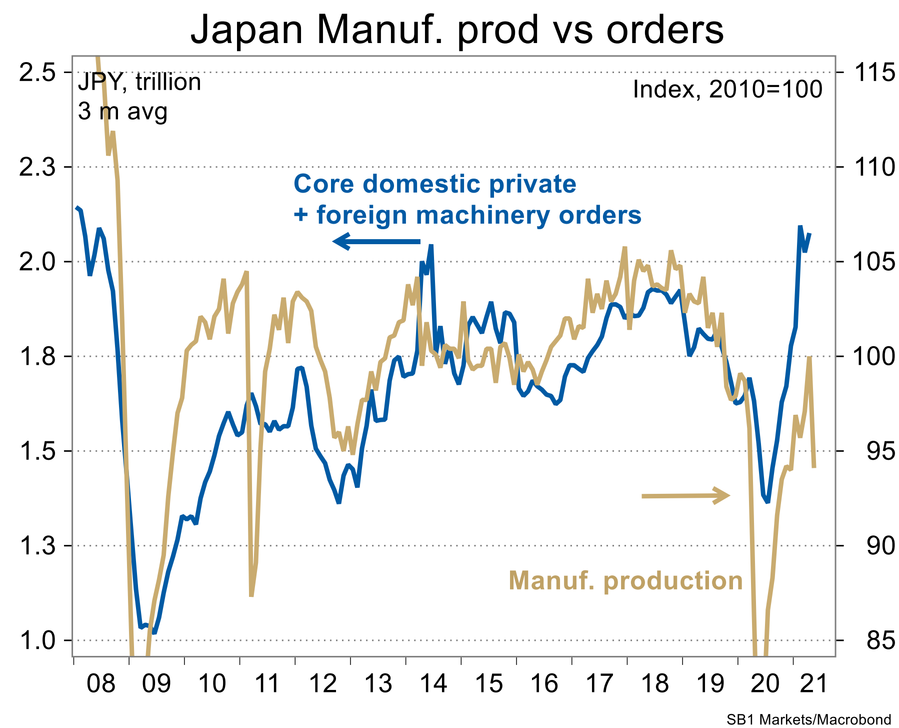


- The setback in **manufacturing production** setback in May was surprisingly large. More than 1/3 of the decline was due to the drop in auto production – which mostly was due to lack of components (data chips). However, other sectors also reported significant declines in production in May. Production was 4% below a low pre-pandemic level. Companies report they plan to increase production by 9% in June, far too optimistic – but a substantial lift is very likely
  - **Manufacturing surveys** growth far above normal (check next page)
  - **Order inflow** has strengthened substantially recent months, especially from abroad (but a 80% lift in foreign orders in Feb is an obvious outlier
- **Retail sales** fell further in May, by 1.1%, following a 2.2% drop in April. Sales are still just 2% below the (low) pre-pandemic level

Both PMI & Tankan signal a decent recovery

Bank of Japan's Tankan survey rose less than expected (to 13 from 4, expected 18), still an OK level





Highlights

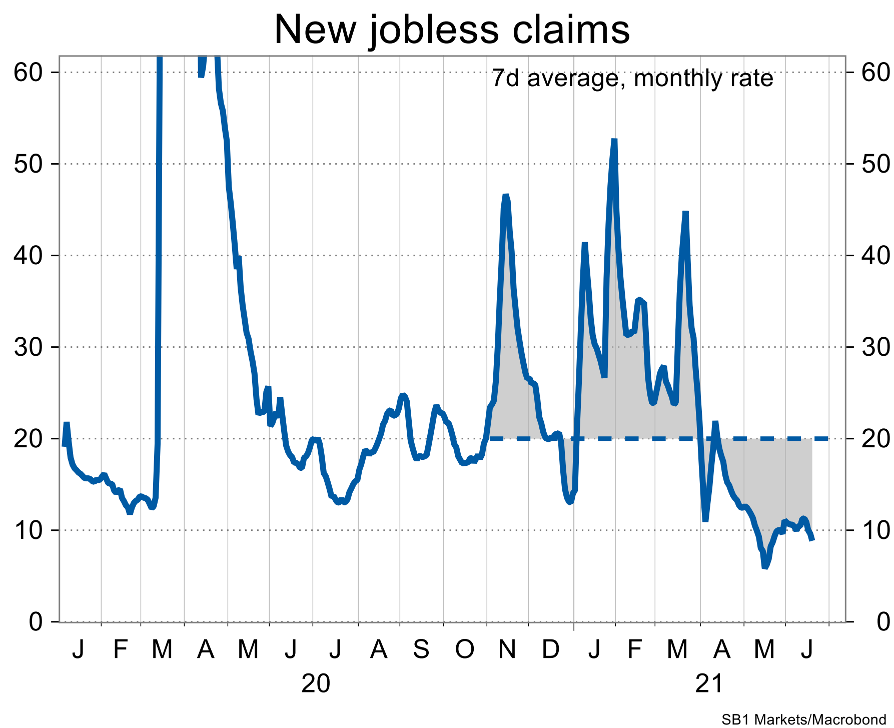
The world around us

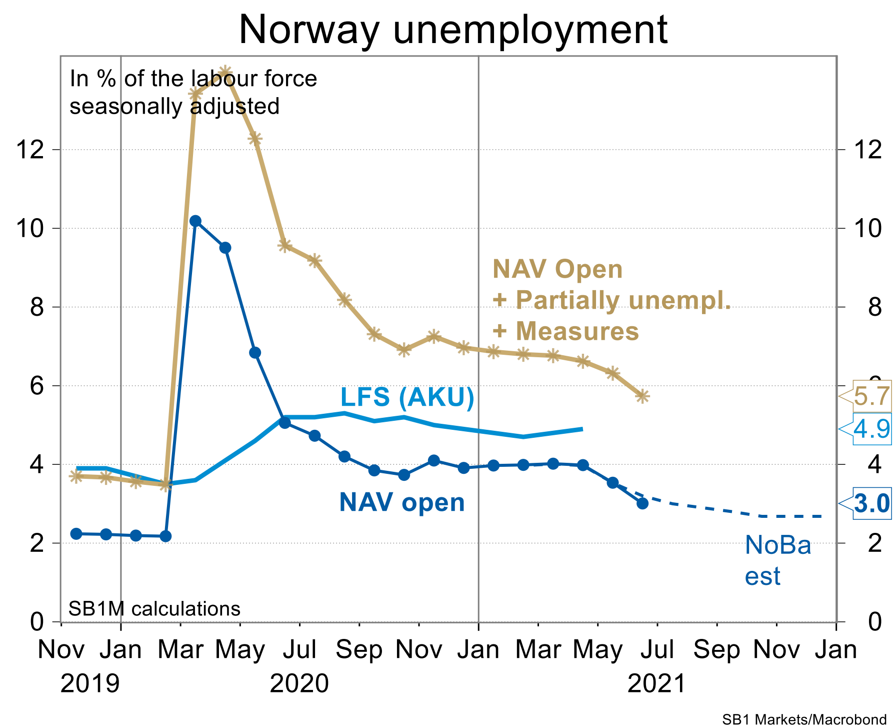
The Norwegian economy

Market charts & comments

NAV unemployment dropped in June too, but grand total still 2.2 pp too high

Unempl. down 0.6 pp (-0.3 pp in May), 0.2 pp below NoBa. "No" new claims, new vacancies at ATH

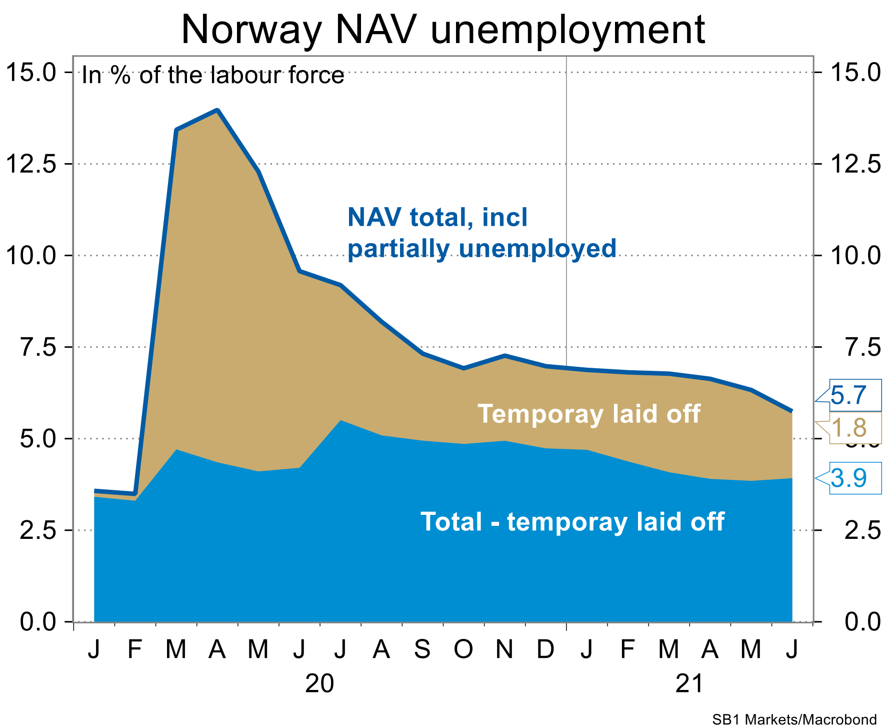


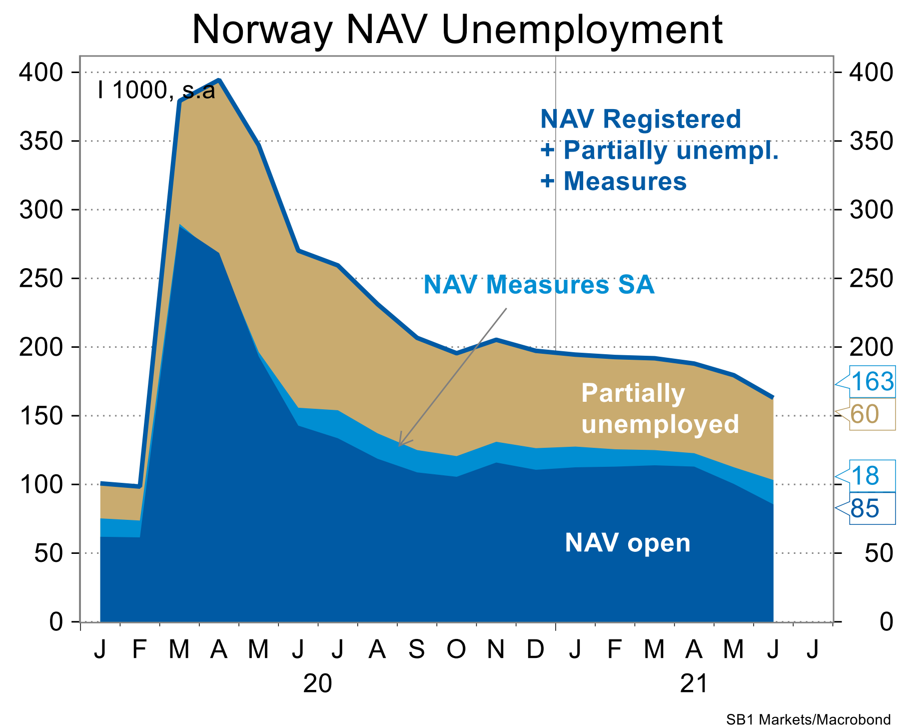


- **The 'full time' open NAV unemployment**, which includes furloughed workers fell by 15' in June (seas adj), we expected -14' – down to 85' persons. The rate fell to 2.9% from 3.3%, as we expected. Seas. adj, the rate fell 0.5 pp to 3.0%, to well below NoBa's 3.2% f'cast. The m/m decline in unemployment was the largest ever, barring 4 months last year
- The number of **partially unemployed** fell by 7' to at 60', leaving the grand total at 163' (including measures), - 18', equalling 5.7% of the labour force. Before the corona crisis, grand total unemployment rate was at 3.8%. The no. of furloughed workers fell by 18' to 50'
- The inflow of **new job seekers** remained at very low level in June, while the inflow of new vacancies was very high for the 3rd month in row
- The **LFS survey** (AKU) reported a marginally higher unemployment in March/April – up to 4.9%. The trend is still down. Employment rose sharply
- All in all: **The labour market has turned on a dime**, just as we expected. We expect the unemployment rate to remain below NoBa's f'casts

All segments down

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

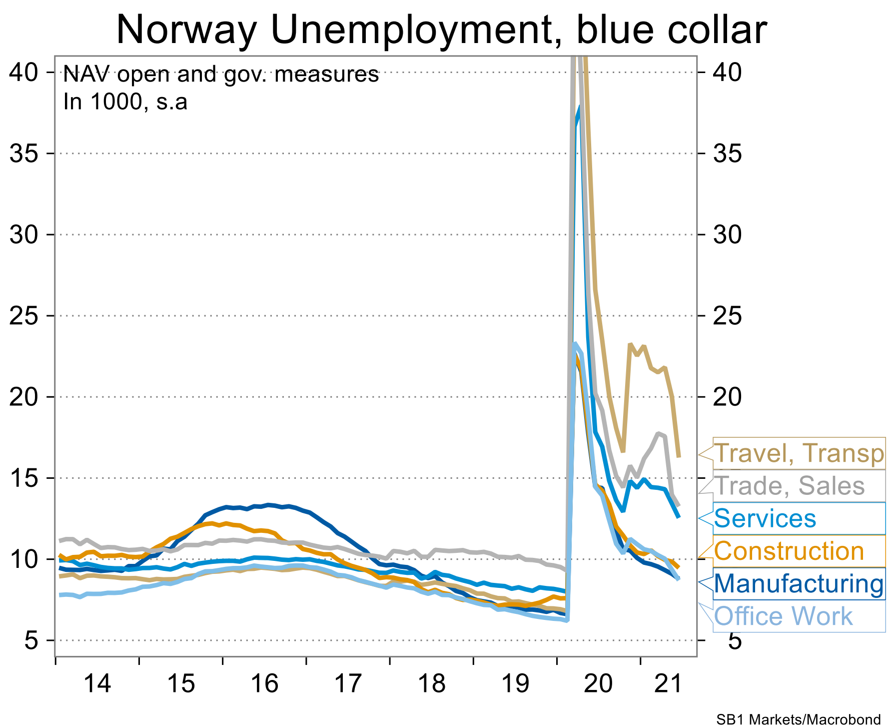


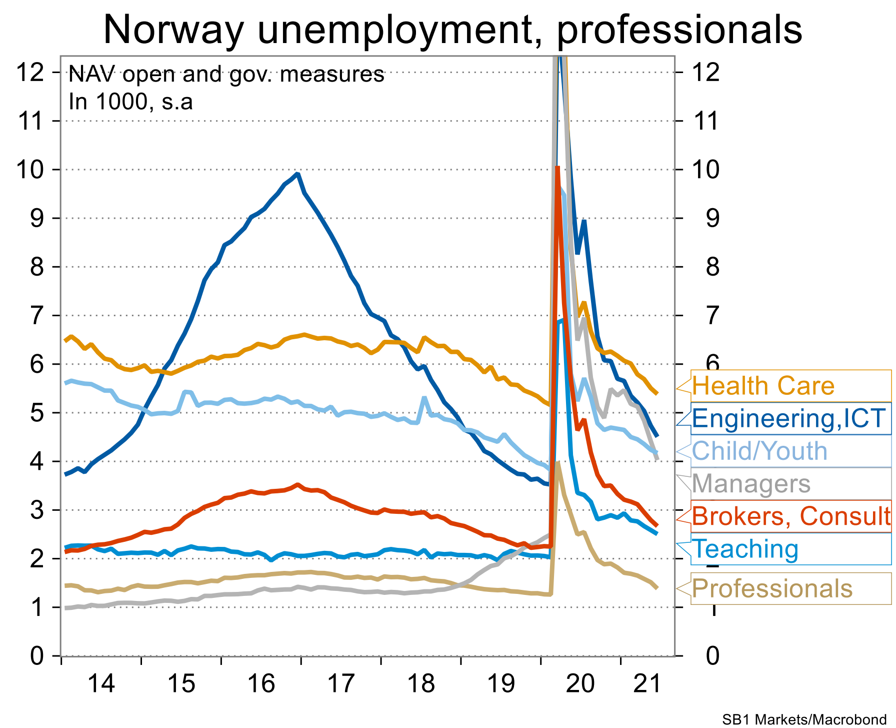


- The no. of furloughed workers fell more than the total no. of unemployed

Unemployment sharply down in trade/travel/transport

… and fell in all other groups as well

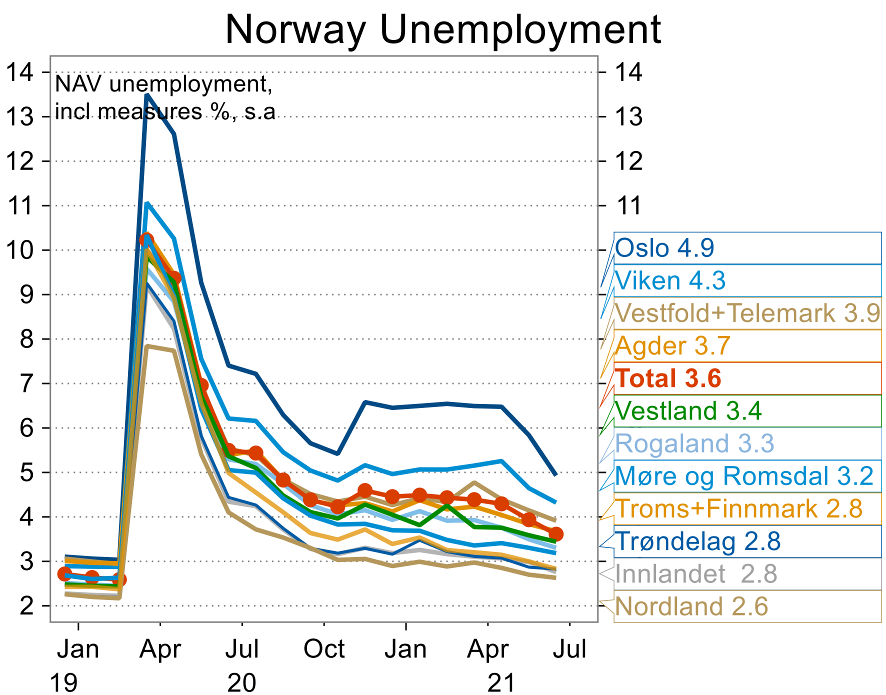


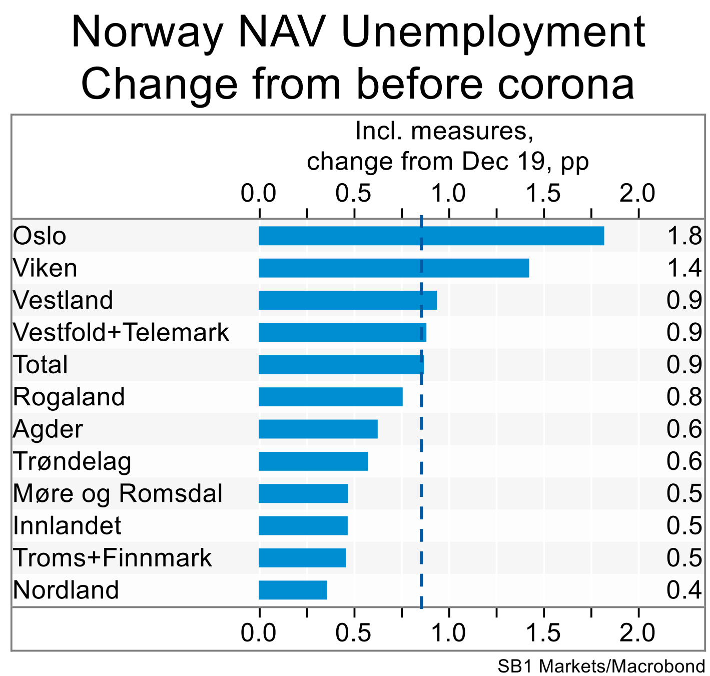


- Sure, unemployment is still higher than normal in the hospitality/travel industry – but the sector has turned the corner following the partial reopening past three months. More to come in July!

Oslo is reporting the steepest decline in unemployment – but still the highest

Unemployment is falling everywhere

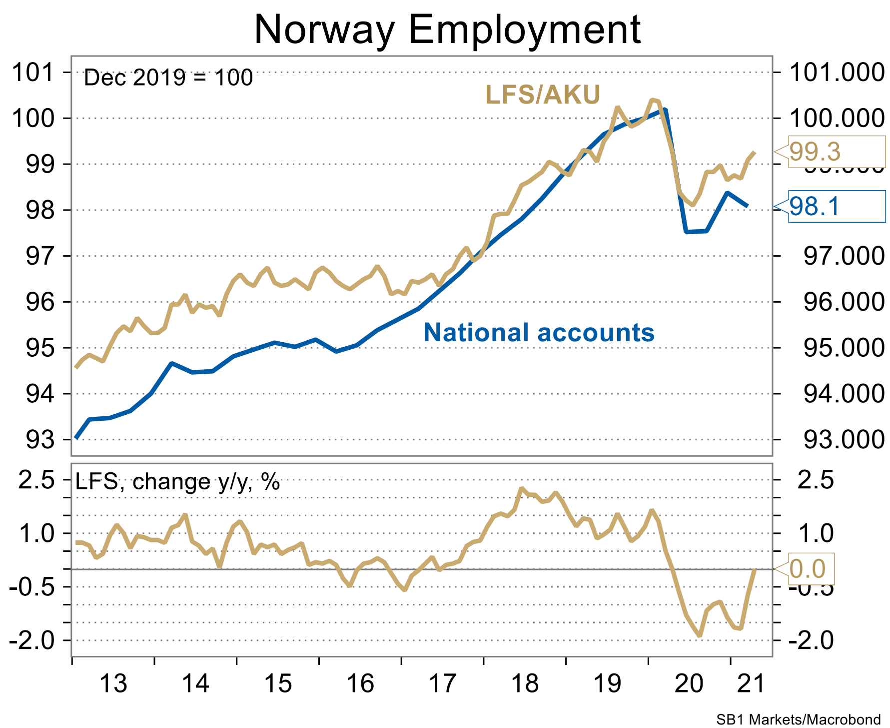




- **Oslo** has by far been the hardest hit county, due to a much more stringent lockdown than other places. In May and June total unemployment fell by 1.5 pp (measures included, partially unemployed not). The decline was substantial in **Viken** too, the 2nd hardest hit county
- Unemployment fell in **all counties** in both May and June (and for the majority, a continued decline since early 2021)
  - » In 9 of 11 counties, the unemployment rate is up less than 1 pp since before corona.
  - » The national average is 3.6%, up 0.9% above the pre-pandemic level

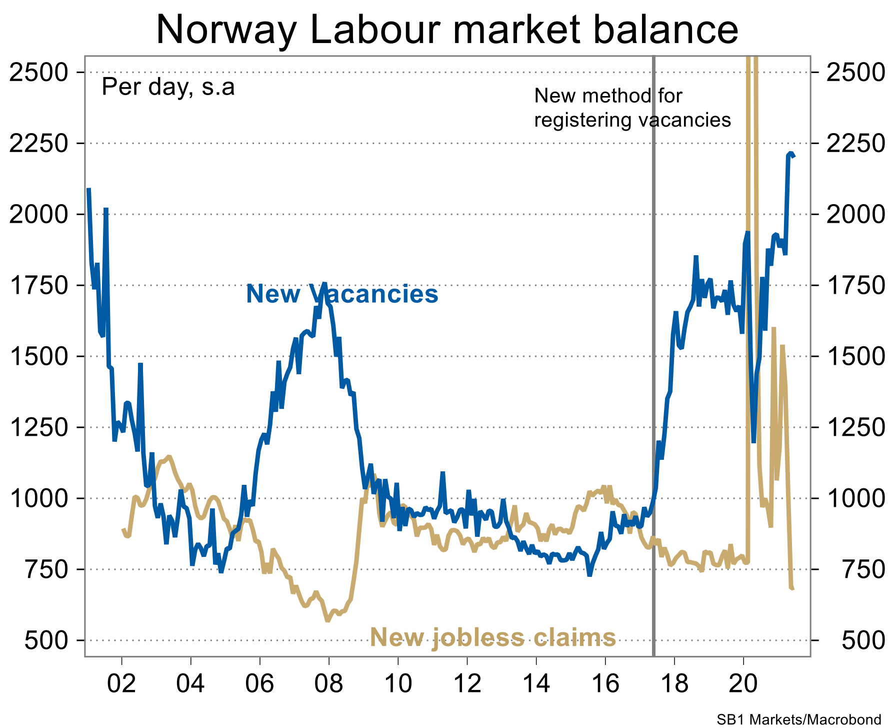
LFS (AKU) employment on the way up, still 0.7% below the pre-pandemic level

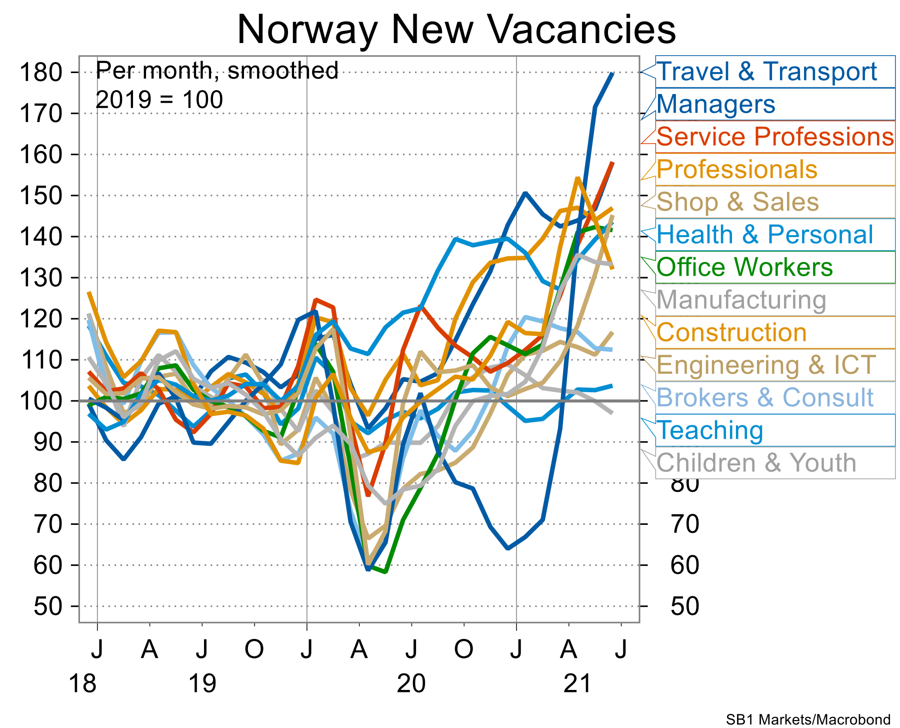
Employment grew in both March and April, according to the LFS



A huge inflow of new vacancies for the 3rd month in row

Travel/transport (restaurants incl.) at the top. A sharp decline (from high level) in construction





- 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

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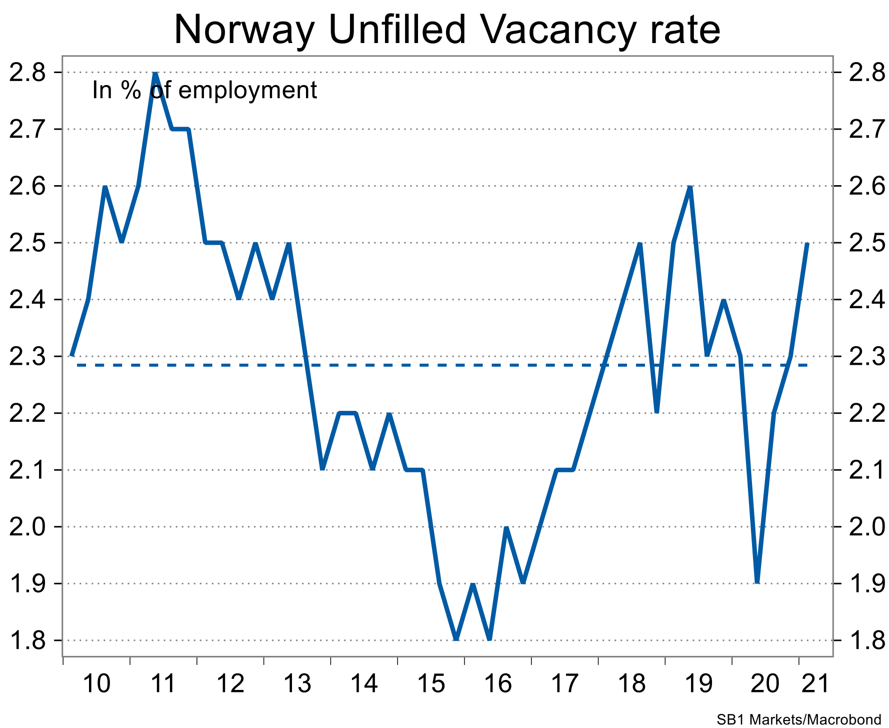
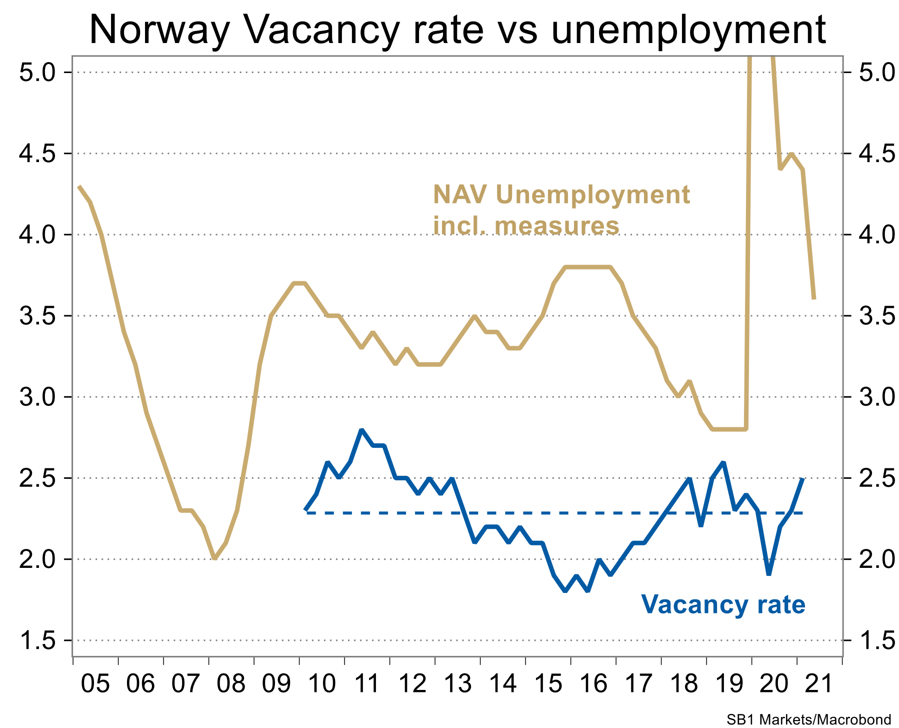
The (unfilled) vacancy rate was rather high already ultimo Q1

How many vacancies are unfilled now? We guess substantially more than 3 months ago

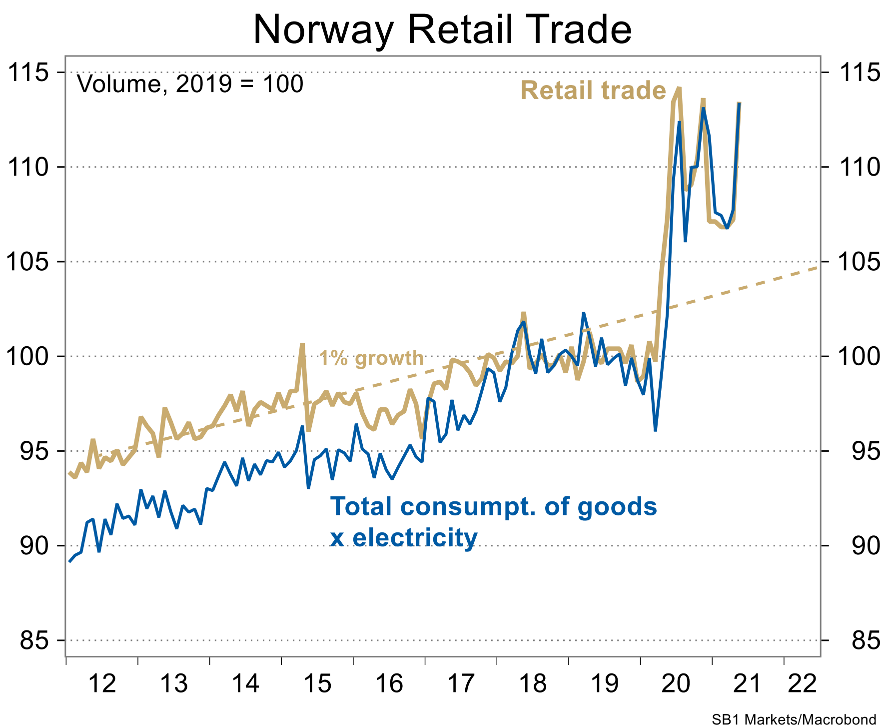


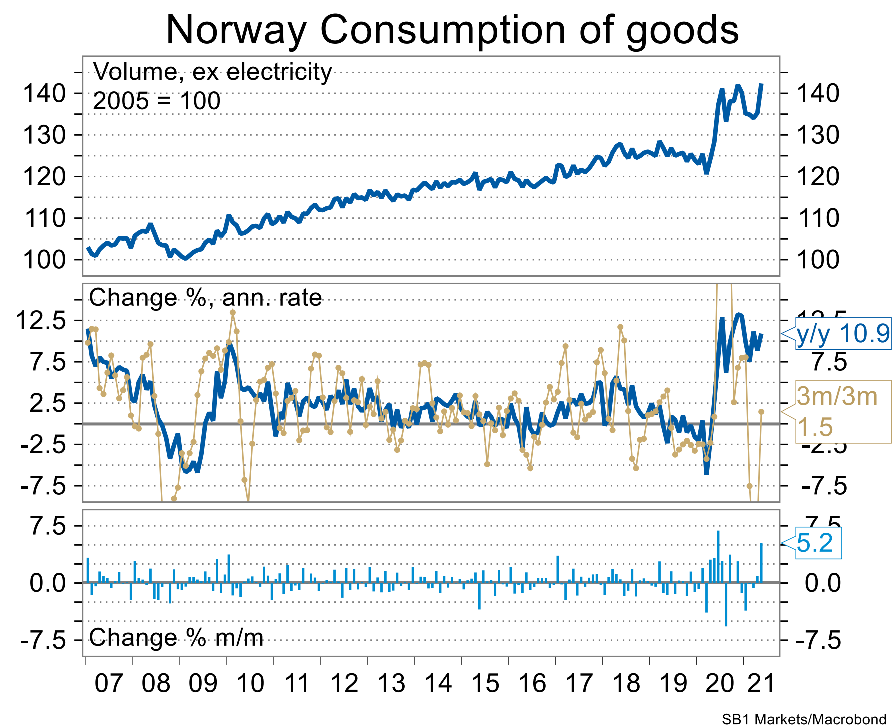


- Lack of access to foreign workers may explain a high number of unfilled vacancies – at the same time as the reported unemployment rate was rather high

Retail sales up 5.8% in May – and 13% up vs. pre corona!

Clothing sales contributed the most on the upside – food and internet sales on the downside

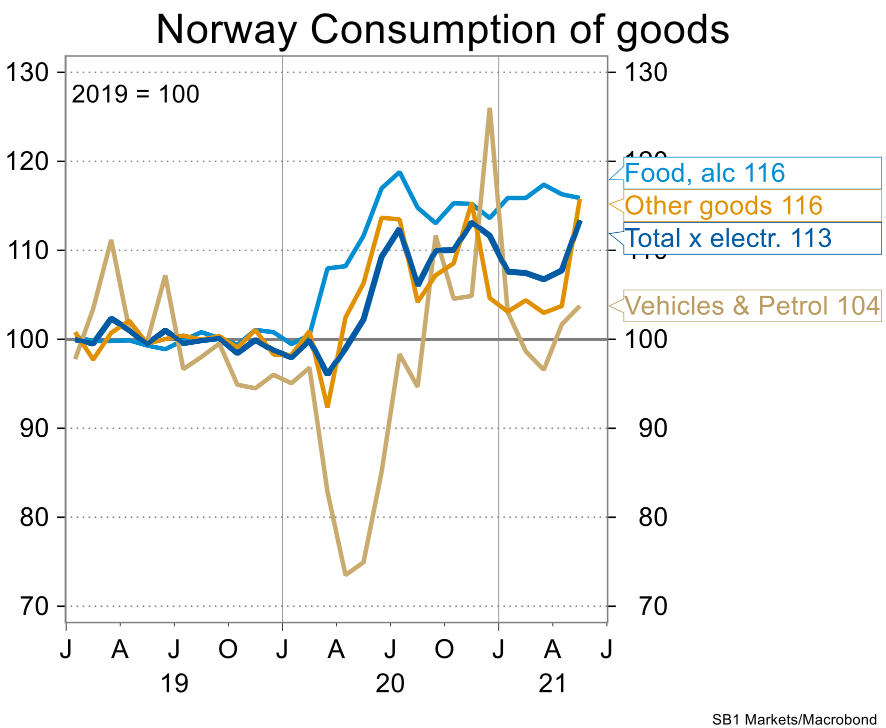


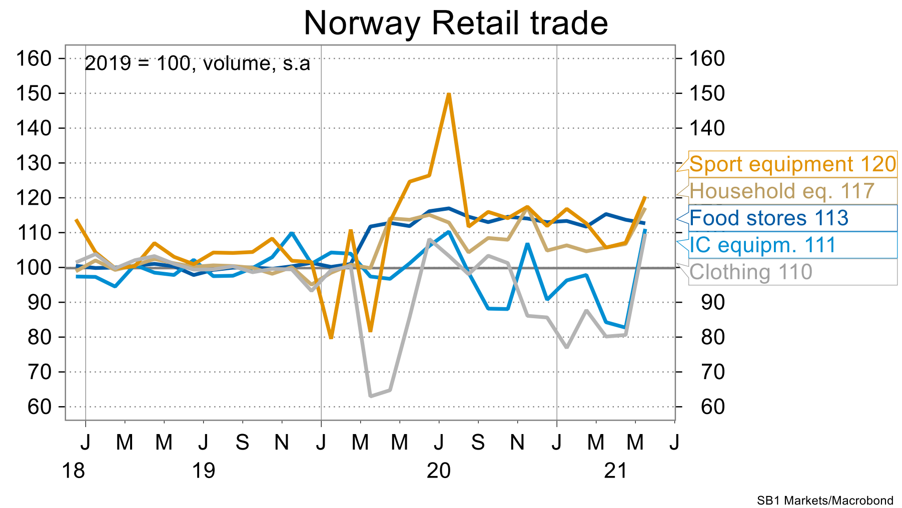


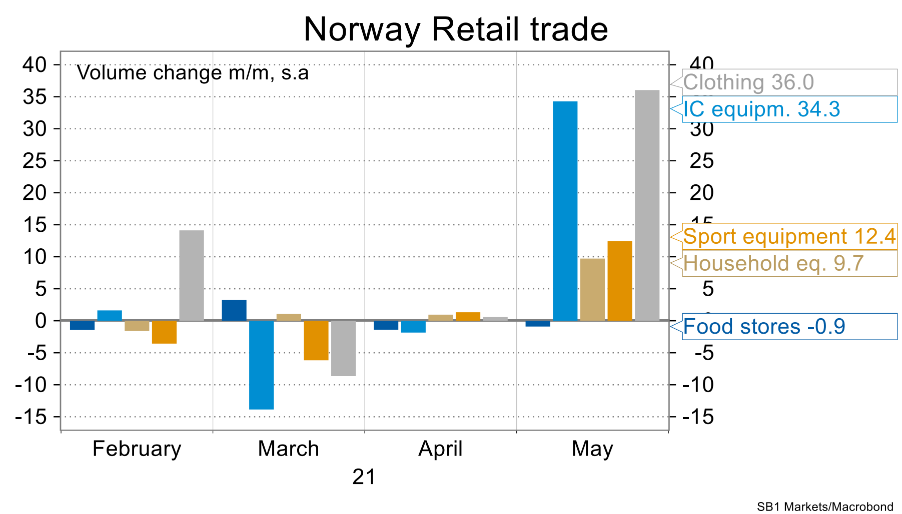
- **Retail sales** were up 5.8% m/m, we expected +2%. Sales are up 13% from the pre-corona level
  - » **Some pent-up demand** was released as stores and shopping malls opened up again Oslo/Viken in May
  - » Non-food shops reported an increase in May, while food sales fell. Internet sales rose as well, and the internet has increased its market share to 8.6% (down from 10% in April) 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 5.2% in May – and is also 13% 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

Clothing up 36% m/m, ICT up 34% - and all categories above pre-covid level

…while food sales (in shops) were down 0.9%, as restaurants were reopened



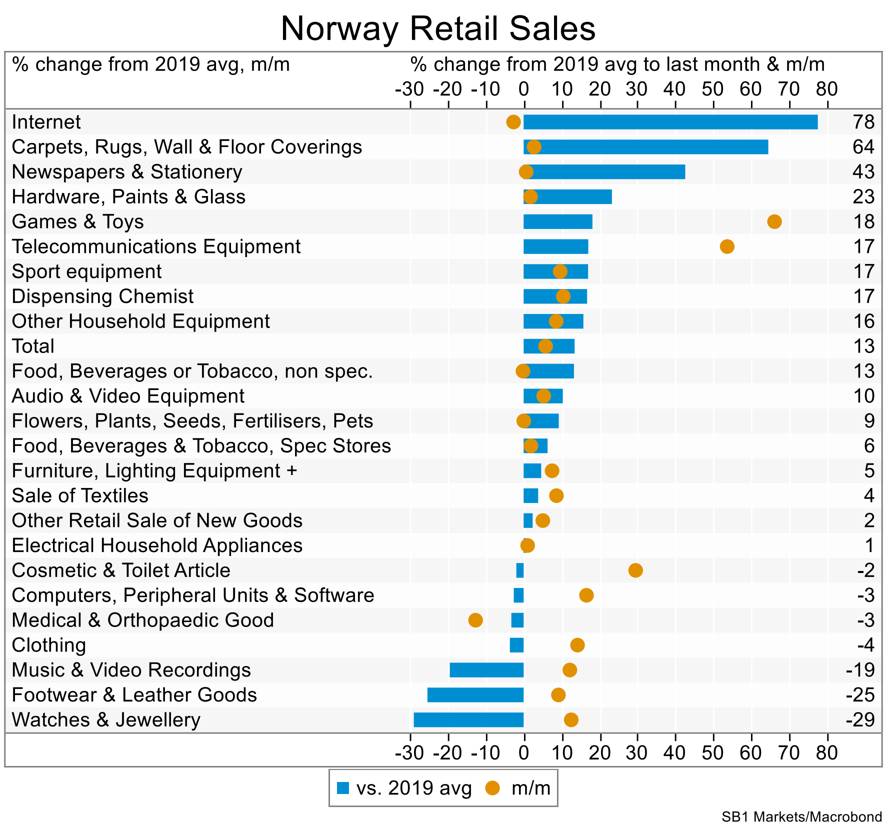


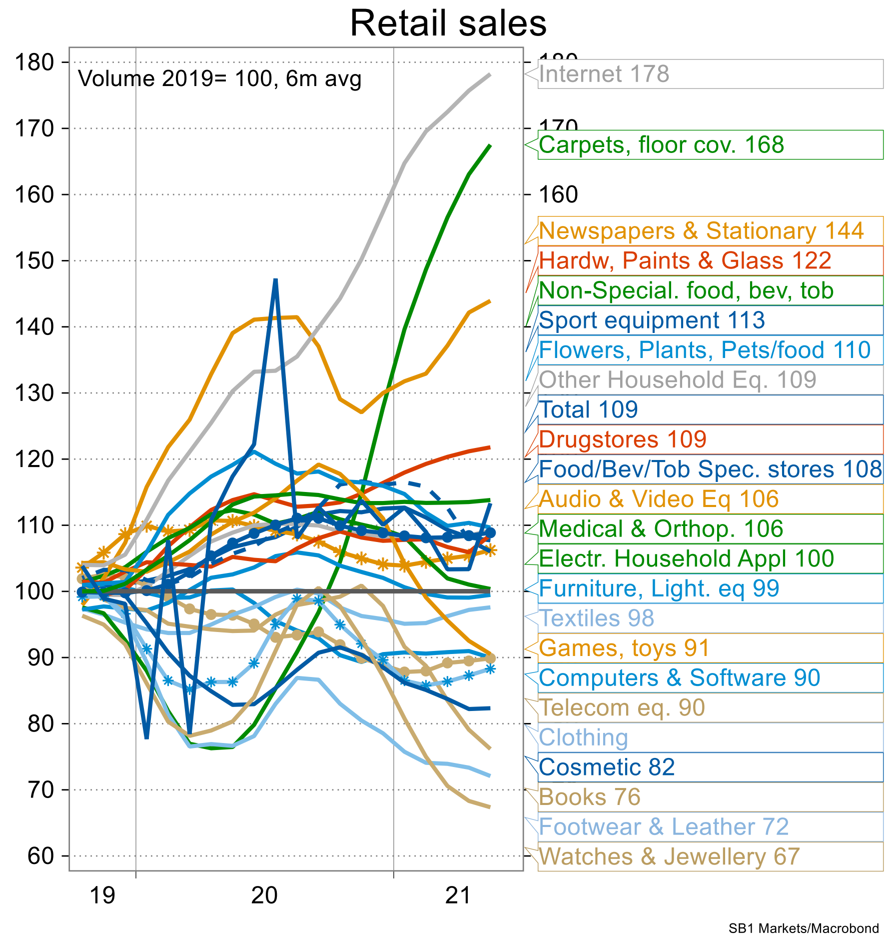


- Sales of sport equipment, household equipment, ITC, and clothing were up 10% – 36% in May, while food sales were down 0.9%
- Sales of food & beverages are still up 16% vs. the pre-corona level

Big sectoral differences, but most were up in May

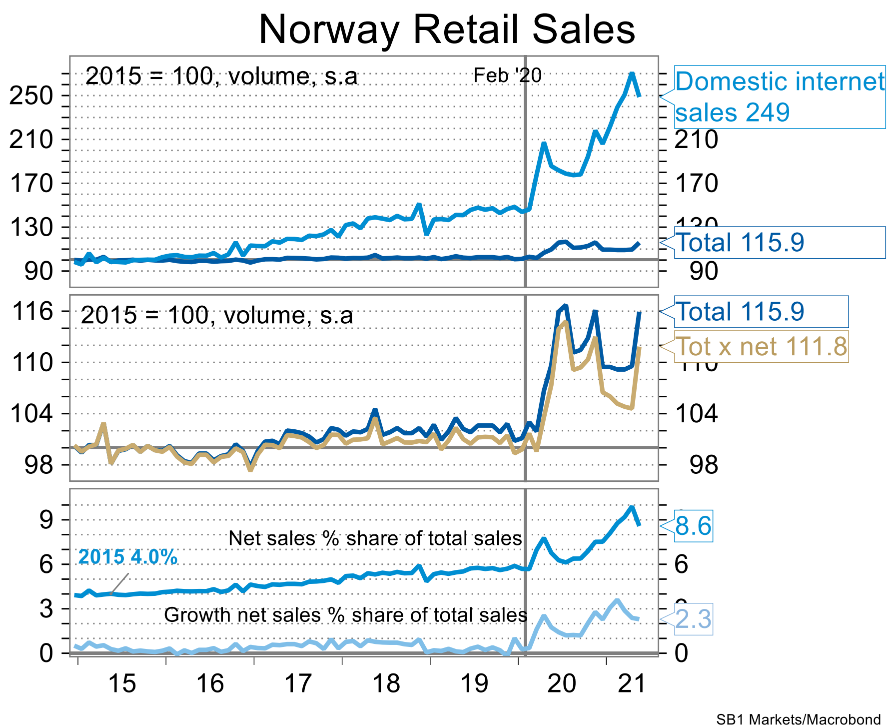
…and most sectors are trending down, mostly from ‘too high’ levels during the pandemic

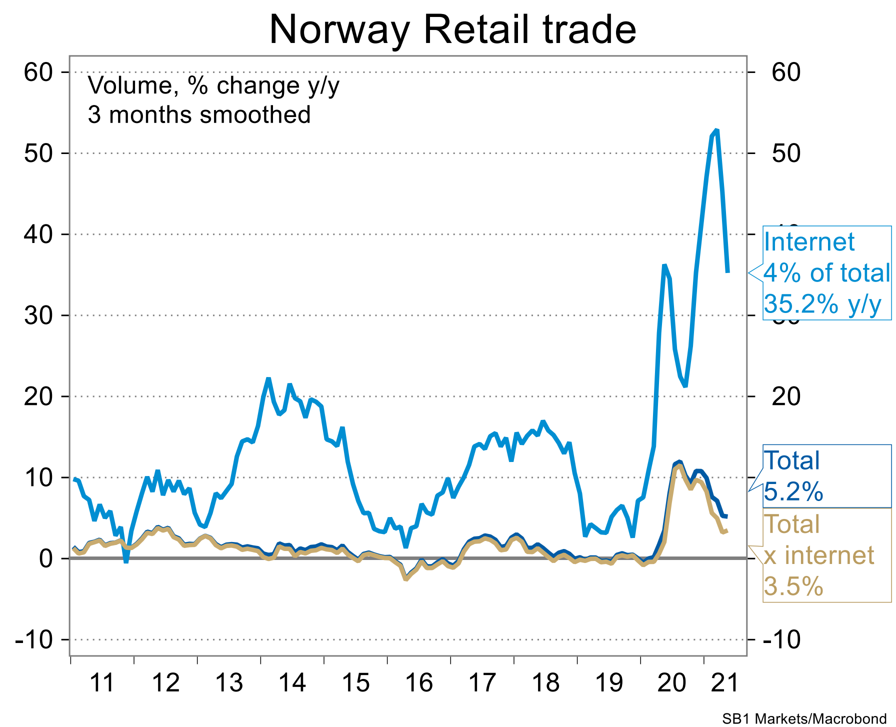




Internet sales (domestic) up 35% - same trend as in most other countries

Still, the market share fell to 8.6% in May from 10% in April (still up from 6% before the pandemic)

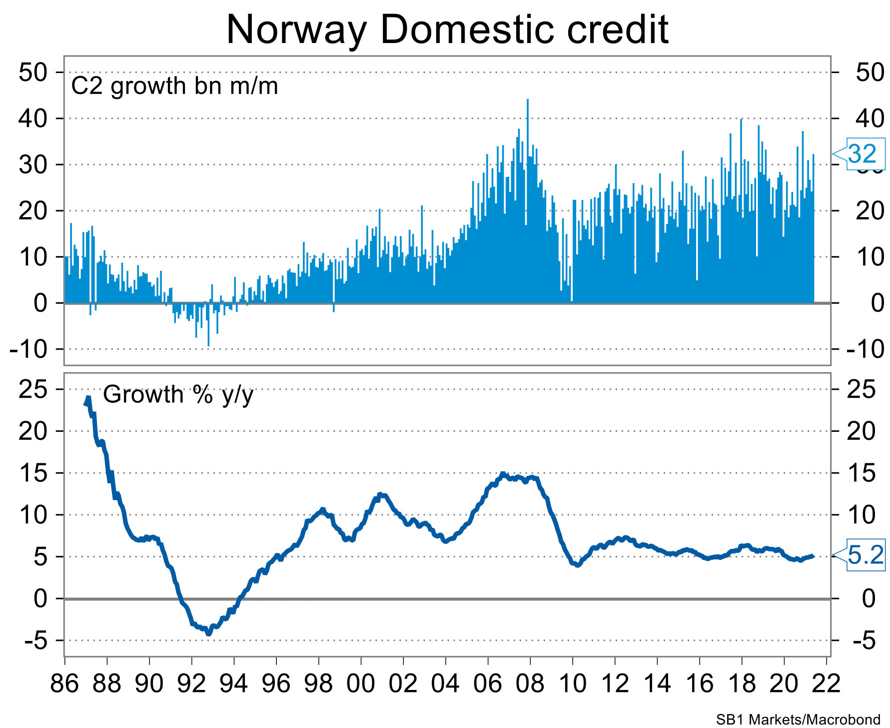


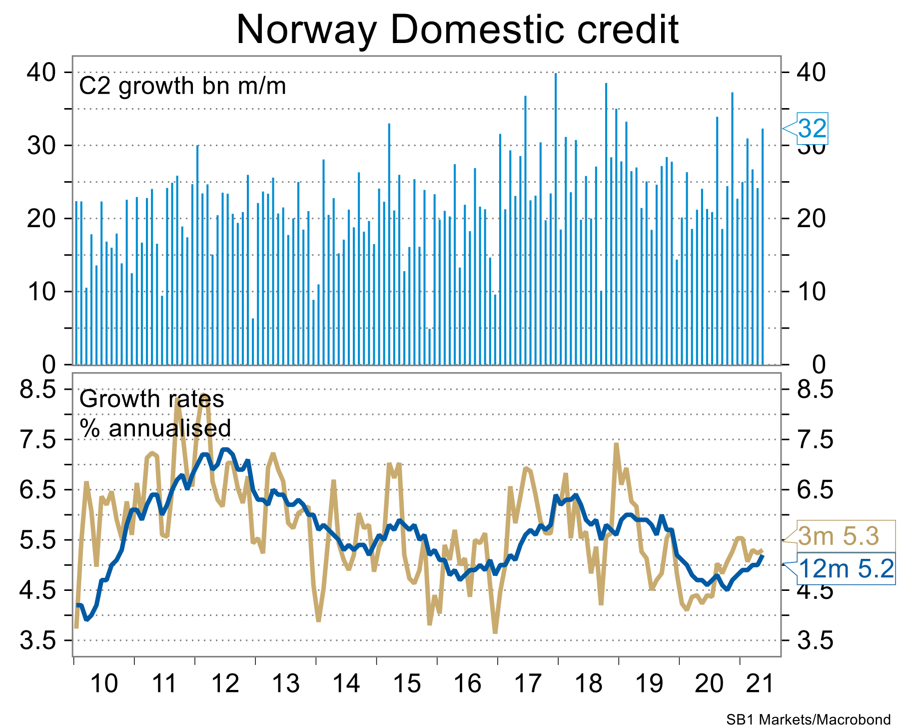


- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to 8.6% from 6%, of which half the of the lift since last Feb
- Since 2015, domestic internet sales have contributed to 60% of the increase in total sales
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

Credit growth up to 5.2%, still no credit boom to been seen

Total domestic credit growth (C2) rose more than we expected, due to corporates & local governments

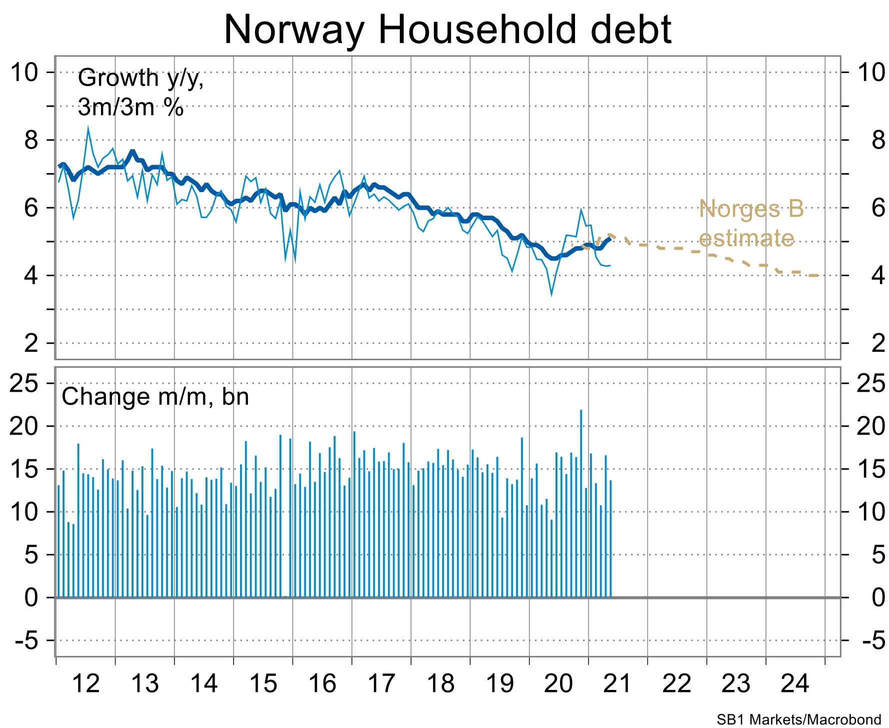


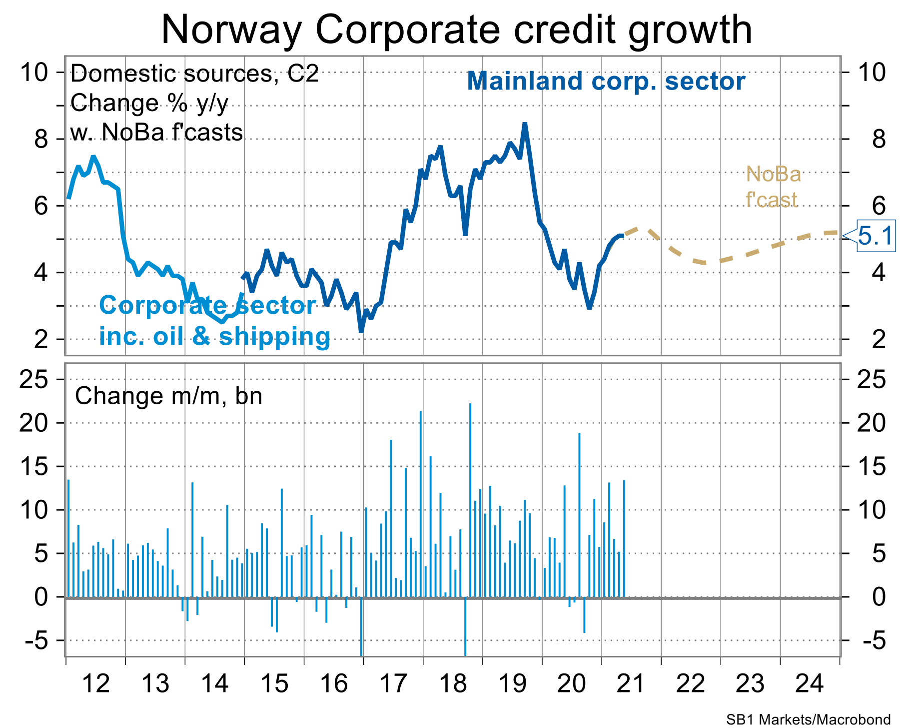


- **Total domestic debt** (C2) rose by NOK 32 bn in May, down from 24 bn in April, we expected NOK 25 bn. The annual growth rate accelerated 0.2 pp to 5.2%, we expected unch. (consensus 5.1%). We are not witnessing a any credit boom, even if growth is accelerating slowly
- **Household credit** rose by NOK 14 bn in May, as we assumed, down from 16 bn in April. The annual rate climbed 0.1 to 5.1%, as we expected. The underlying rate below 5%, as credit growth has slowed somewhat – and is not much above income growth anymore
- **Corporate C2 credit**, rose by NOK 13 bn (up from 5 bn), we expected 8 bn. The annual growth rate was rose was unch at 4.4%, we expected 4.41%. **Mainland corporations** increased their debt by 5.1% y/y (from 5.0%)
- **Local governments** borrowed heavily in May – NOK 5 bn. The annual growth rate is at 8.3%, up from 7.8% - way above income growth

Strong growth in corporate credit in May, households are not that aggressive

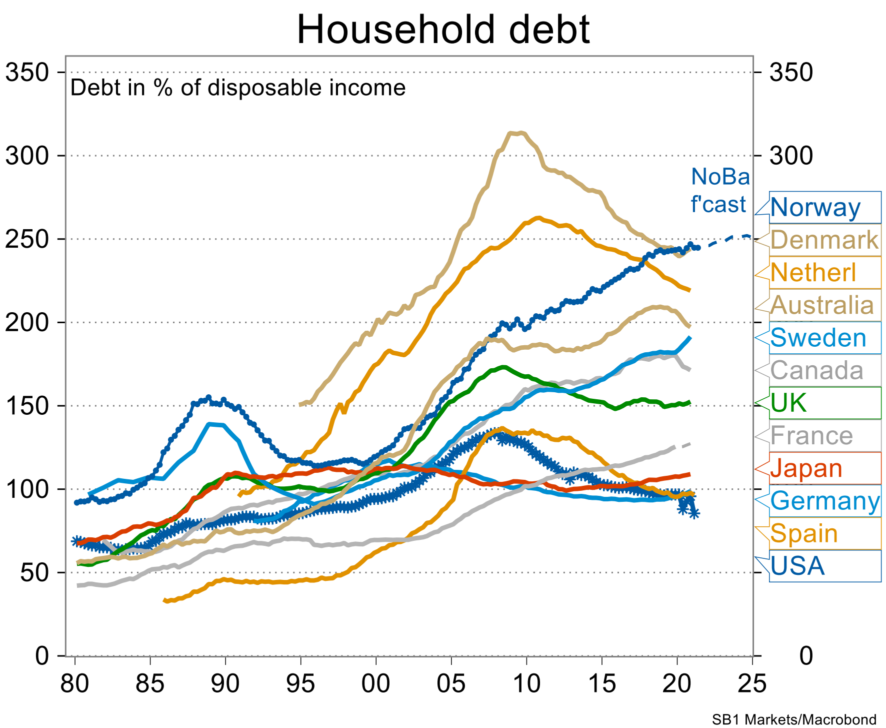
Corporate credit growth in accelerating, household credit growth not

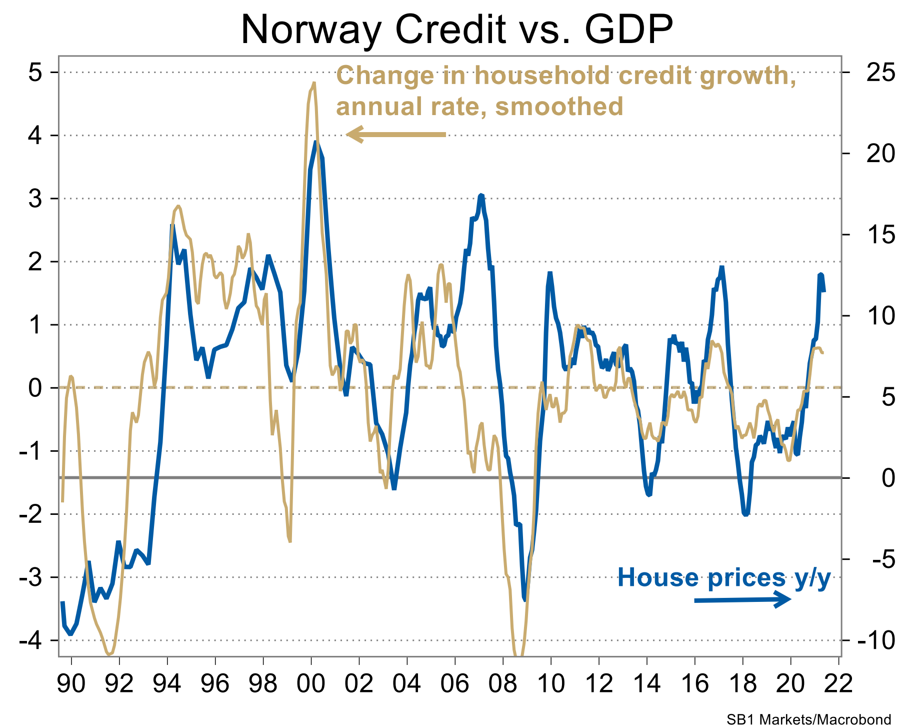




- Following a mild slowdown during the corona spring, **household credit** growth has now recovered. The annual rate is 5.1% in May, up from 5.0% in April and 4.5% last summer. Underlying growth recent months has fallen to 4.5% - there is no "take-off". Norges Bank expects a 5.2% annual growth rate in Q2 on average, which seems a bit too aggressive
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year, and further in Q1. The y/y rate was unchanged at 5.1% in May (and up from 2.9% last Oct). Norges Bank estimate for Q2 is an annual rate of 3.7%

The household debt/income at ATH. We are no. 1 (or tied with Denmark?)

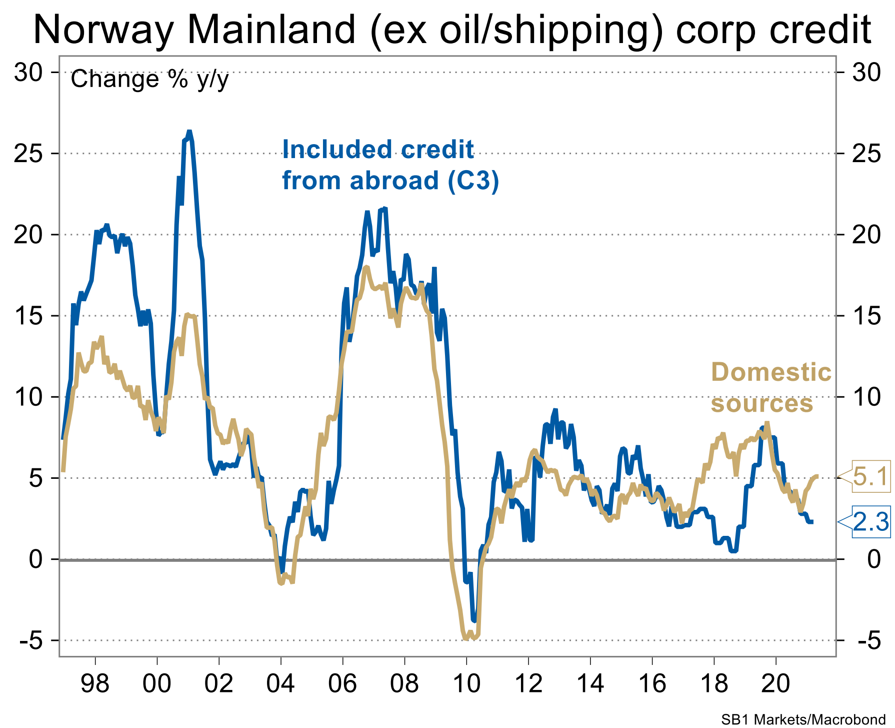


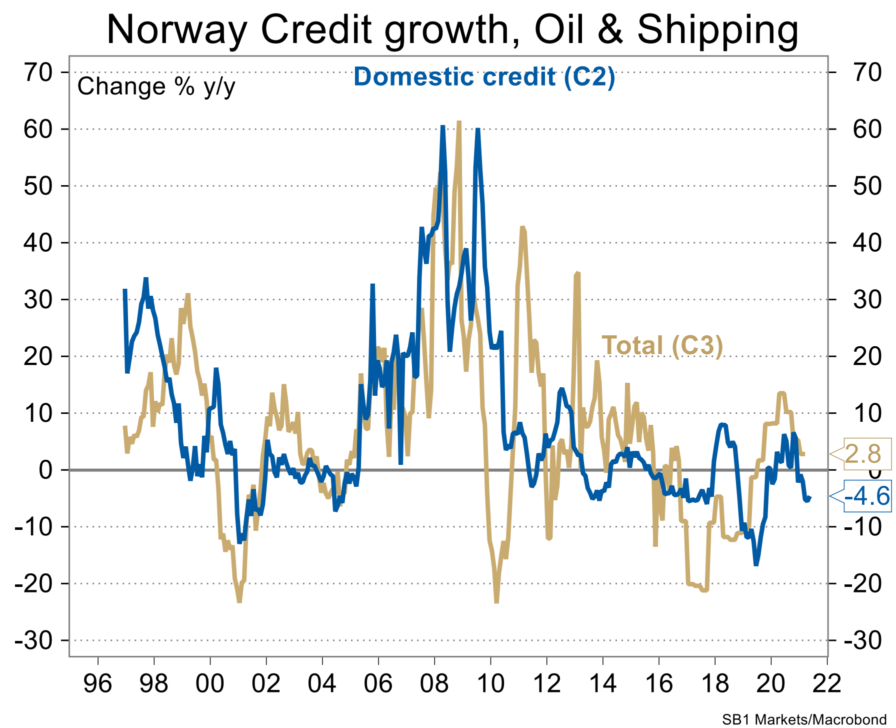


- Norwegians households' debt steady been growing faster than income but just marginally since early 2018
- A slow retreat in the debt ratio will be healthy in the long run, and if it is gradual, it will not be too painful - even not for the housing market
  - » *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market – if the decline in the growth rate moderate, say some 1 pp per year
- Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic (like the decline in the debt/income ratio in the US due to the temporary surge in household income

Mainland corporates aren't necessarily more in debt, they're borrowing at home

… and oil/shipping businesses are not reducing their debts in total, even if domestic C2 debt is up





- While domestic credit supply to Mainland businesses have accelerated, their total debt, including credit from foreign sources, have slowed further, at least until Q1

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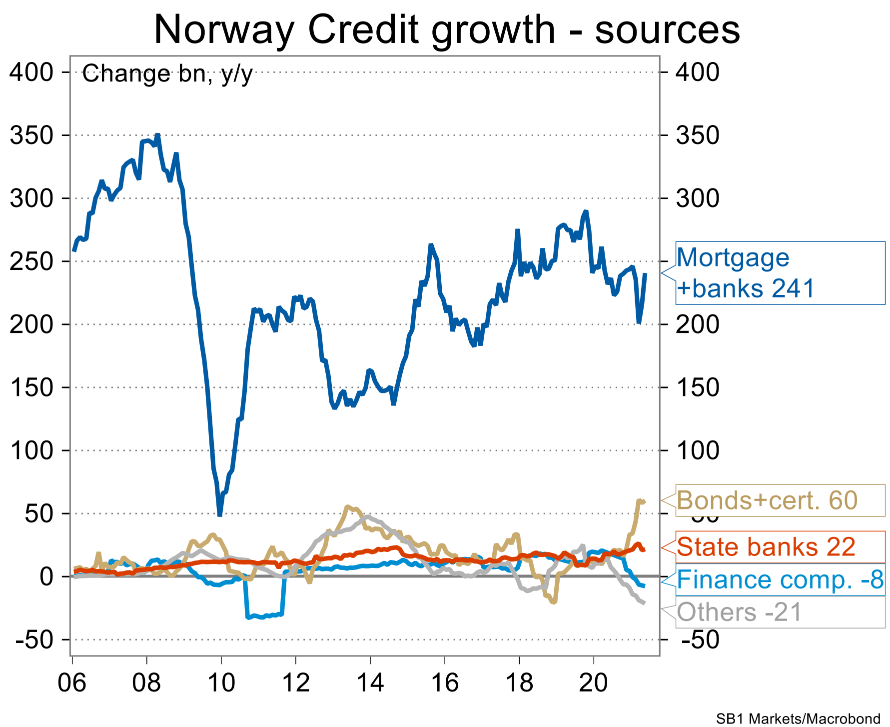
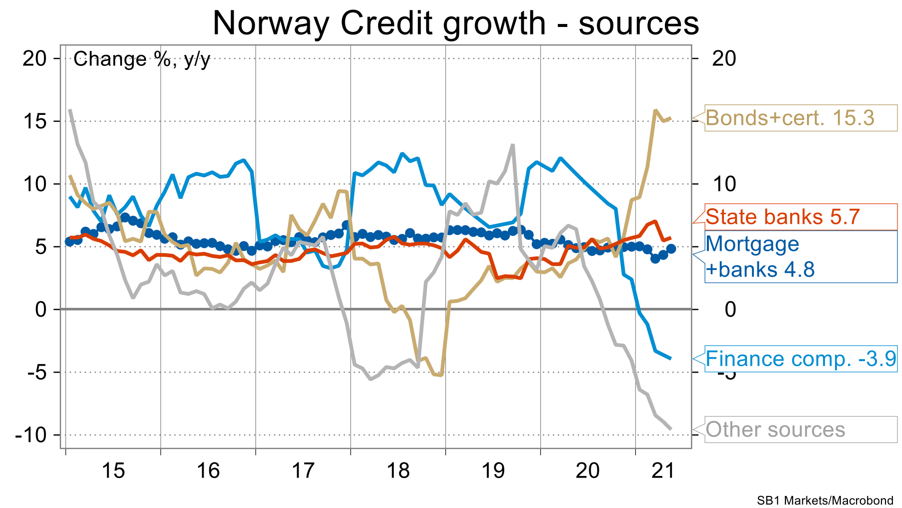
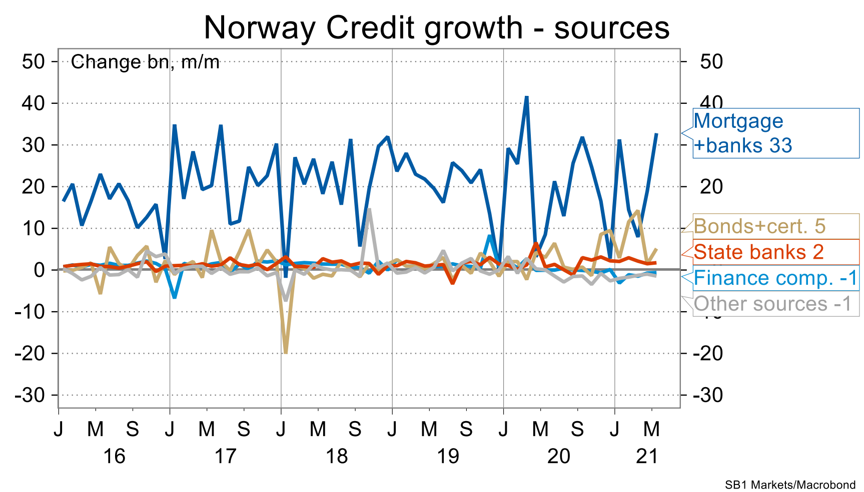
Bond borrowing has slowed somewhat m/m but still up NOK 60 bn y/y (15%)

Still, banks and their mortgage institutions are totally dominating the domestic credit market



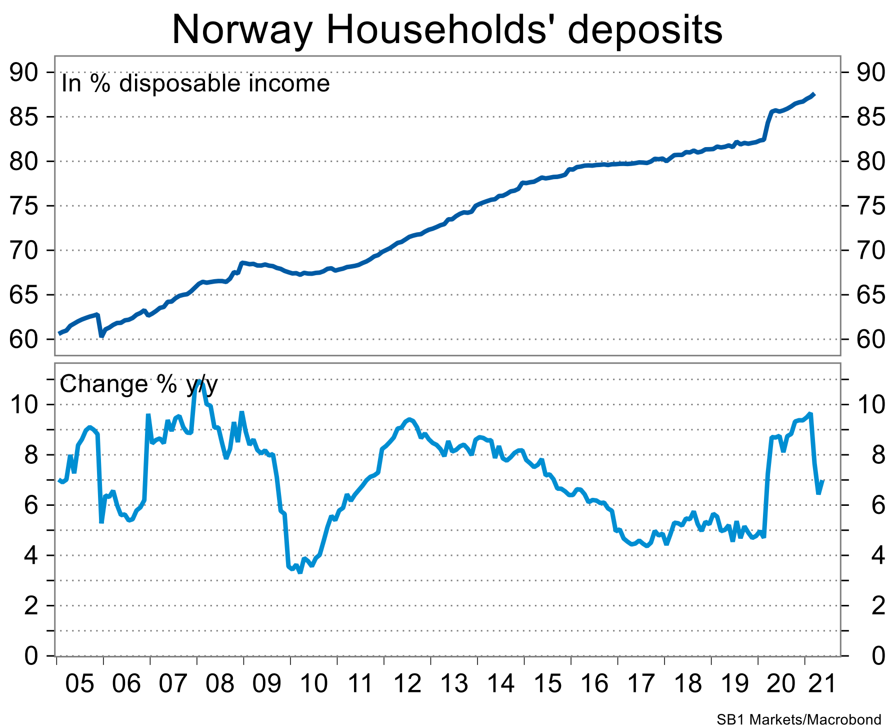


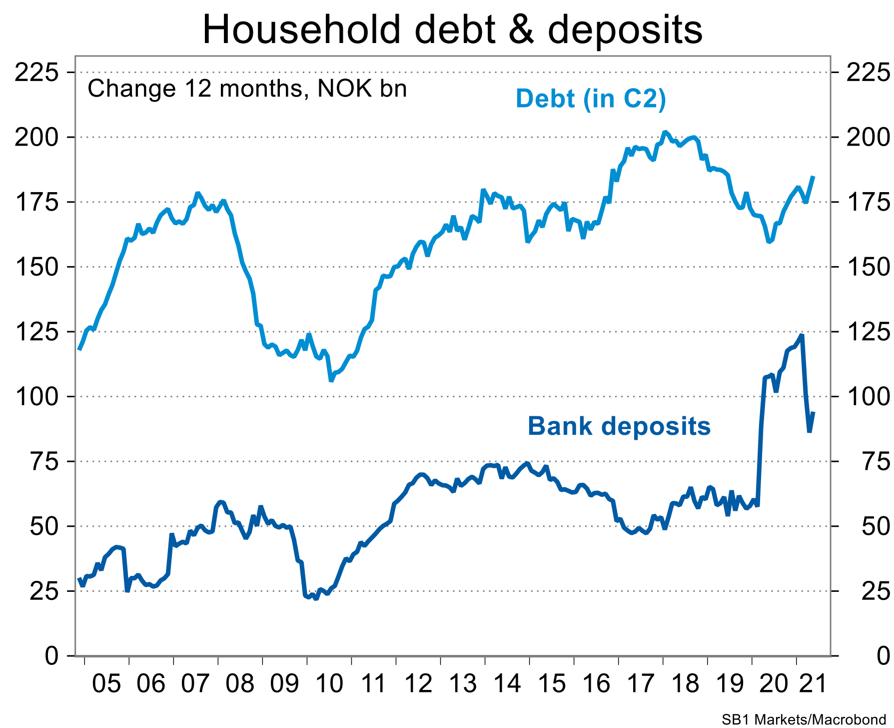


- Net issuance of bonds (to non-financial sector) is up NOK 60 bn (15%)y/y, highly unusual – but growth may have peaked – monthly growth has at least slowed
- Banks/mortgage companies are up 241 (5%) y/y
- Finance companies and 'others' are reducing their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt is included in our residual 'others', but just the sum of SL & Eksportkreditt is down

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

Households' bank deposits are still growing faster than normal, but slower



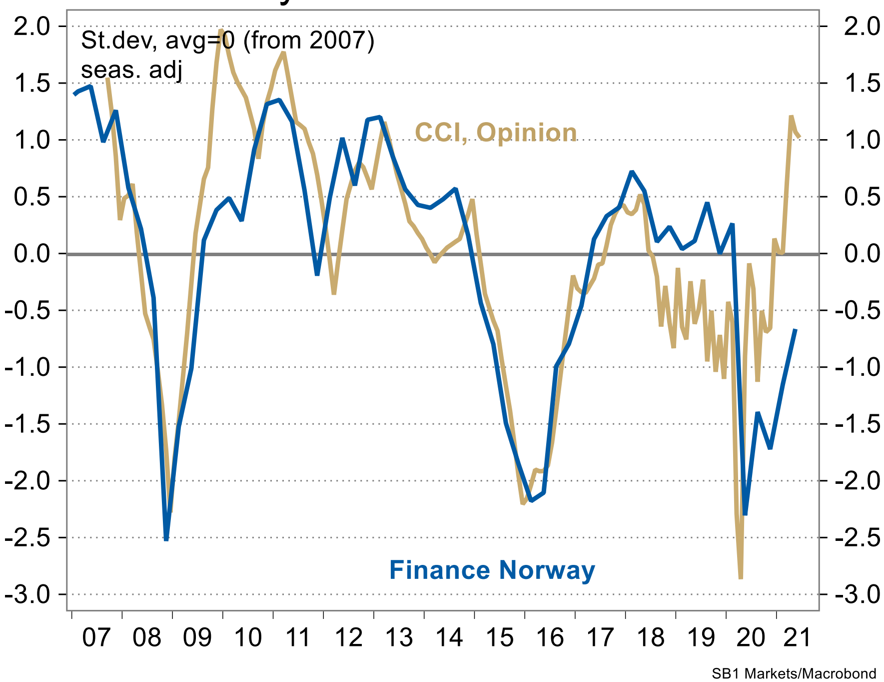


- Households' deposits are now growing by some 6% - 7%, 2 pp more than in the years before the pandemic
- Households' borrowing are growing at some 5% but since debt is far larger than deposits, measured in NOK, household debt is growth much faster than household deposits

Consumer confidence marginally down in June, still at high level

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

Norway Consumer Confidence



- The CCI index from Opinion is 1 st.dev above average, following in 0.1 st.dev decline in June
- Finans Norges confidence quarterly survey was weaker than we expected in Q2 (May), at -0.7 st.dev below average. This survey has been far weaker than the CCI survey the last year. We have no good explanation for the discrepancy
  - » Given retail sales & the housing market the Finans Norge survey seems too weak

Highlights

The world around us

The Norwegian economy

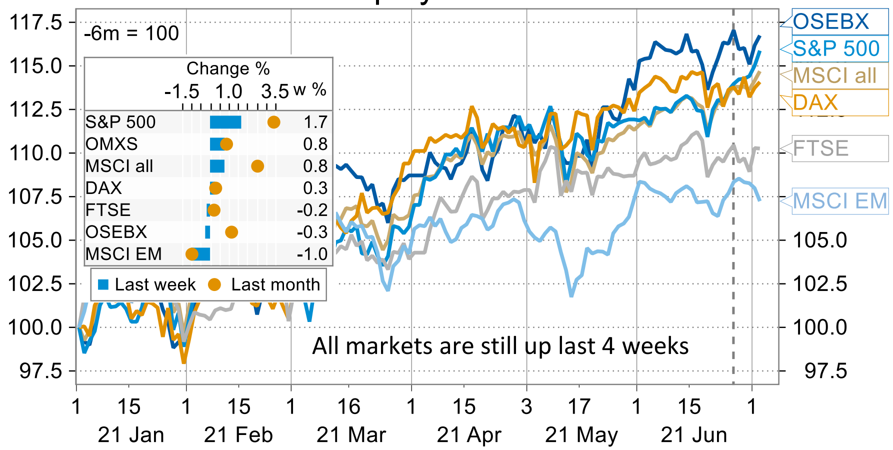
Market charts & comments

SpareBank 1 MARKETS

Stock markets mixed, DM up, several ATHs; EM (& OSE) down.

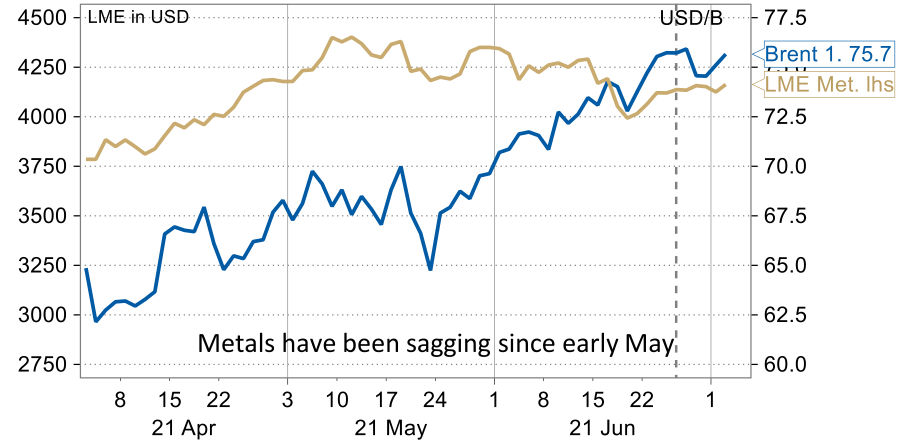
Bond yields sharply down. Oil, metals close to flat. The USD up, EUR & NOK down

Equity Indices



SB1 Markets/Macrobond

Oil vs. metals



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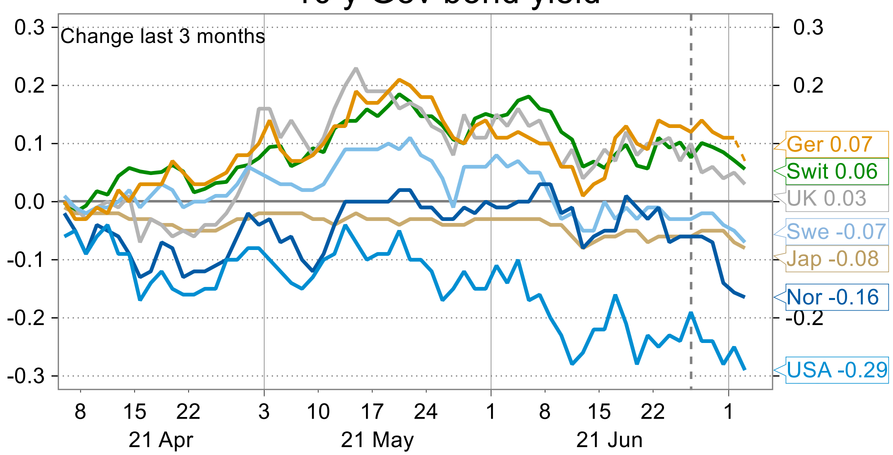
10 y Gov bond yield



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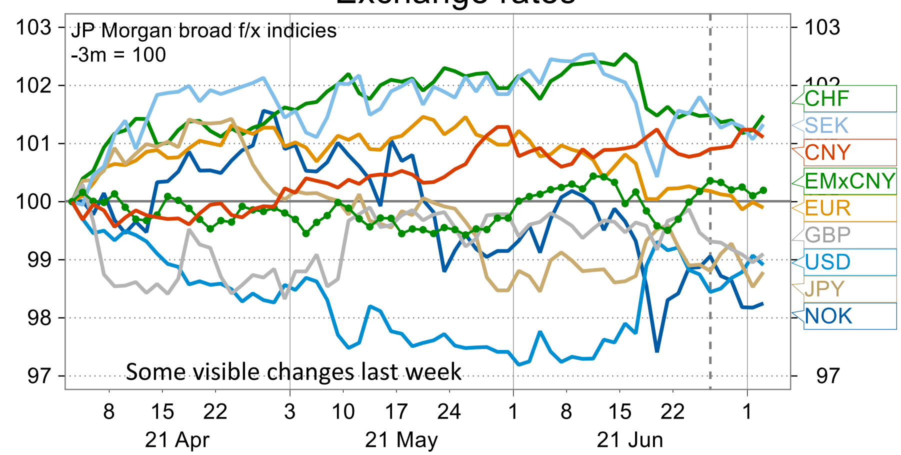
Exchange rates

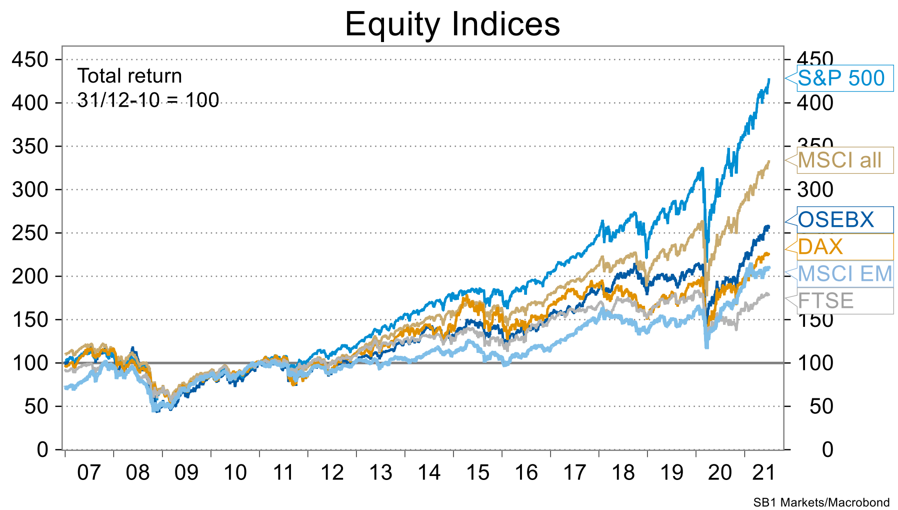


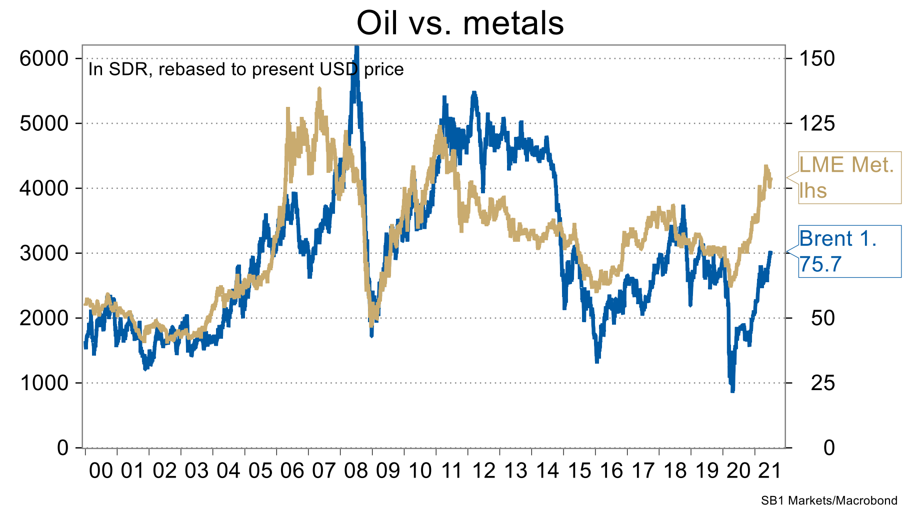
SB1 Markets/Macrobond

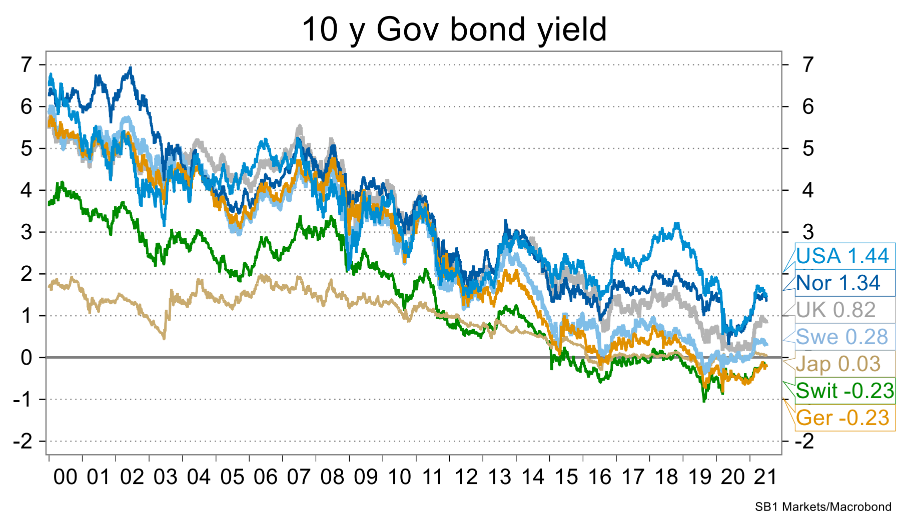
SpareBank 1 MARKETS

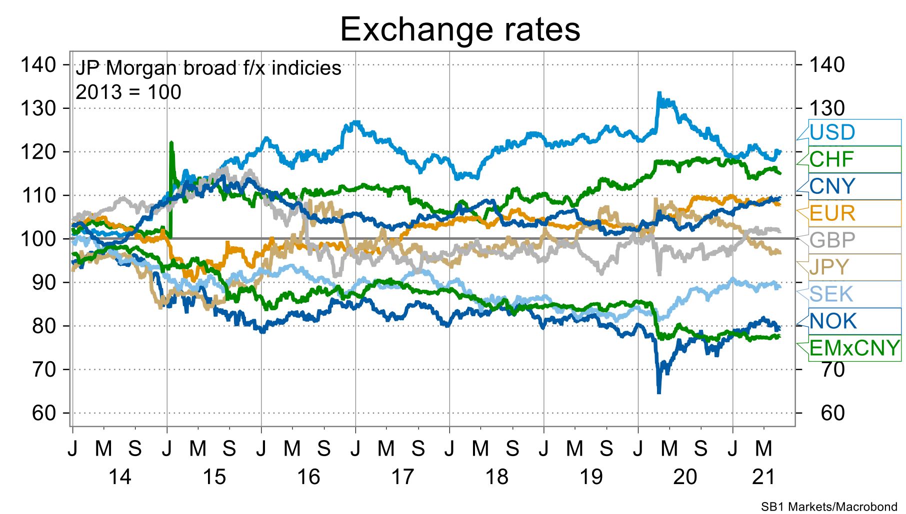
The big picture: Strong stock & commodity markets. USD trend is still down

The MSCI World at ATH this Friday too, as were several local markets. And bond yields trend down!

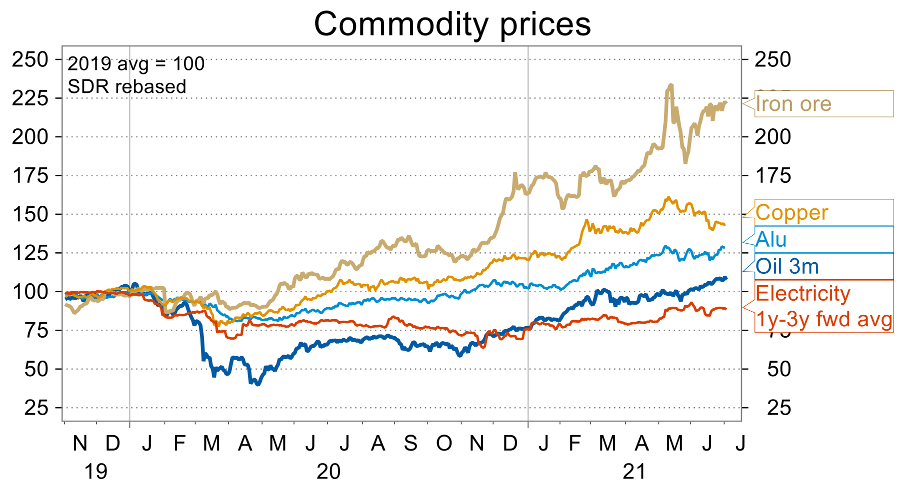


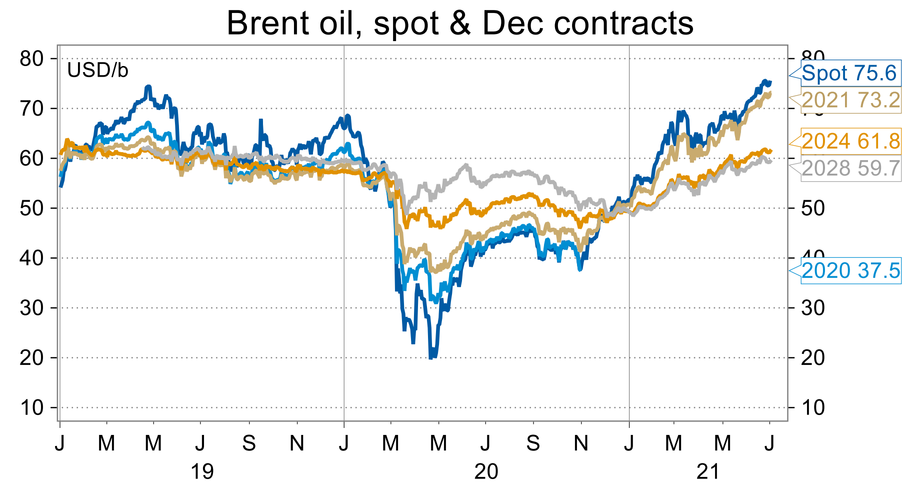


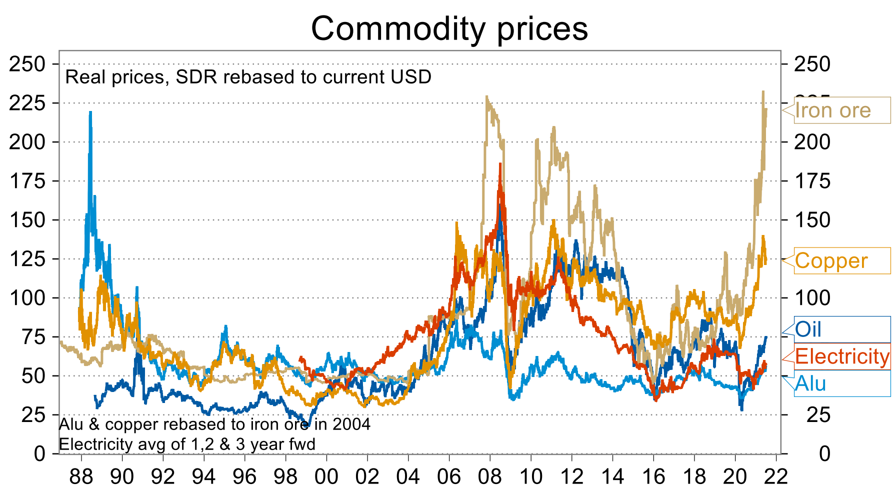


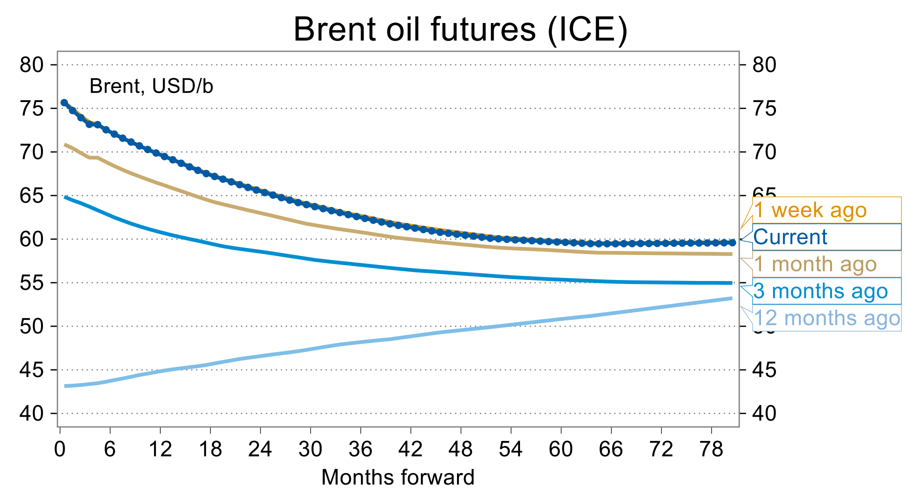


Oil above USD 75/b, metals turned up again – after having been sliding down









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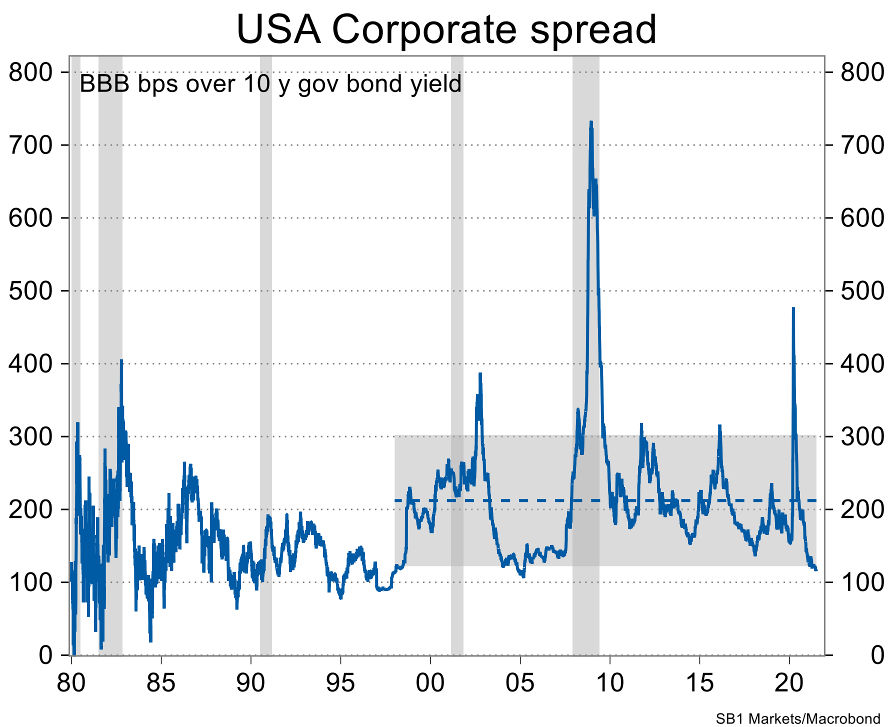
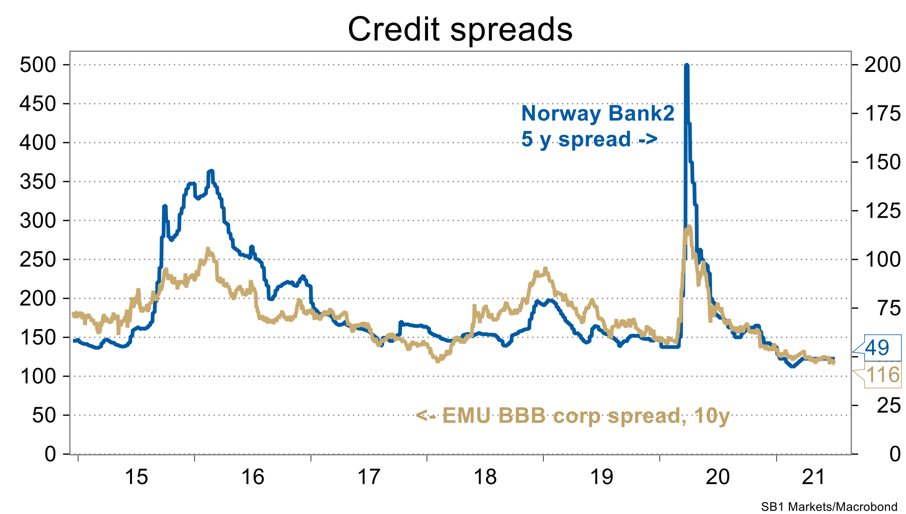
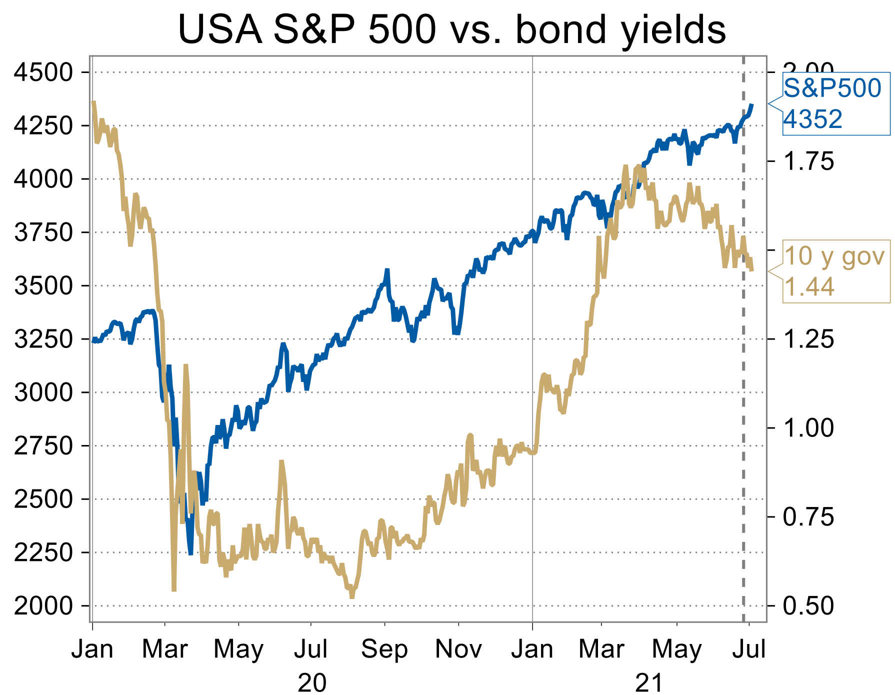
No worry at all, not anywhere – credit spreads remain very low

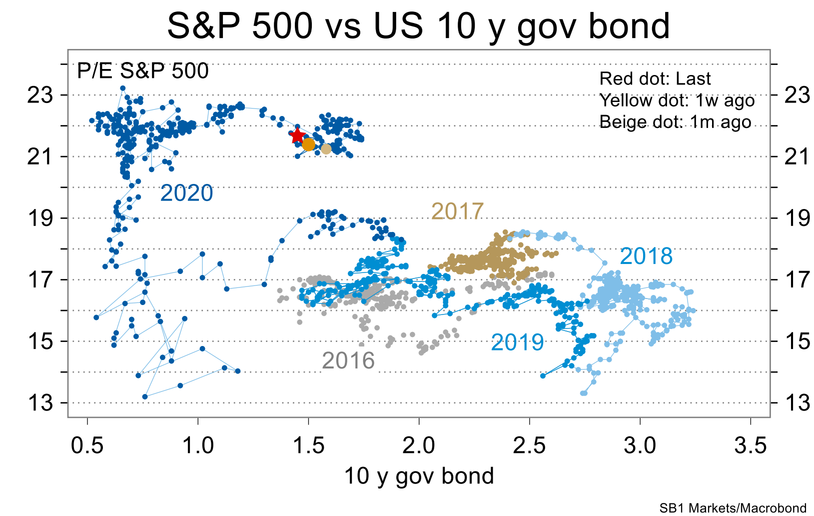


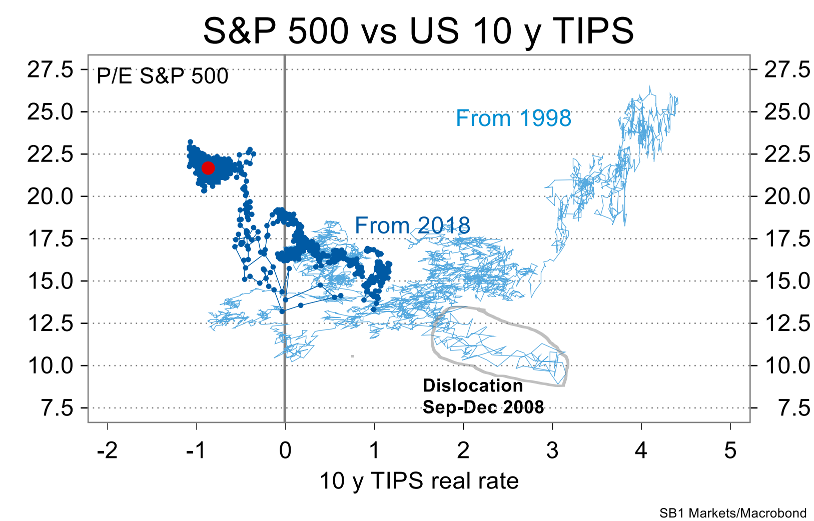


SpareBank 1 MARKETS

S&P 500 +1.7% to another ATH, the 10 y bond yield -10 bps, to 1.44%

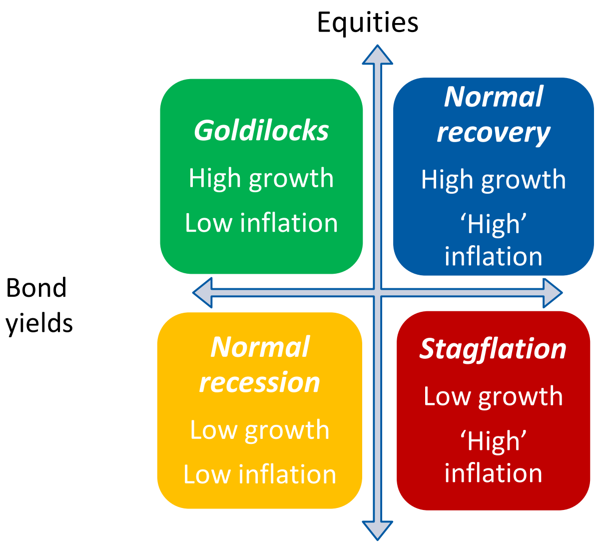


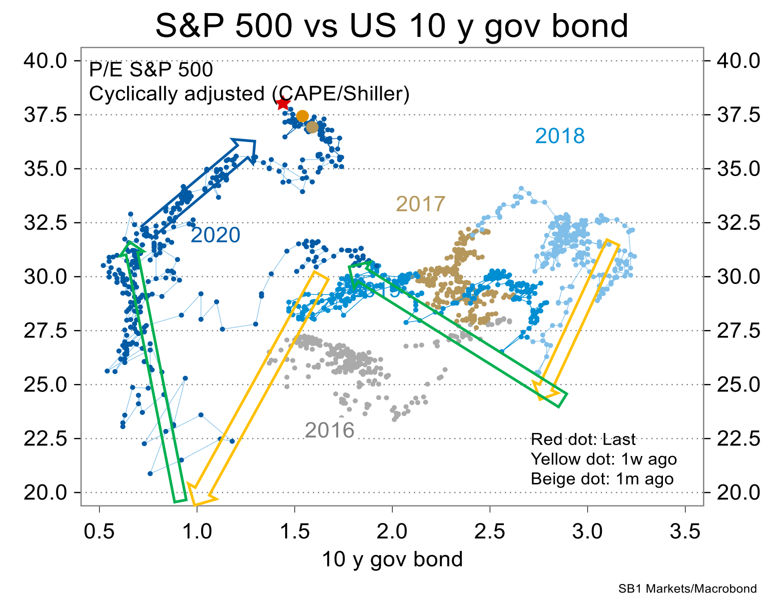




Further into the ‘Goldilocks corner’

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

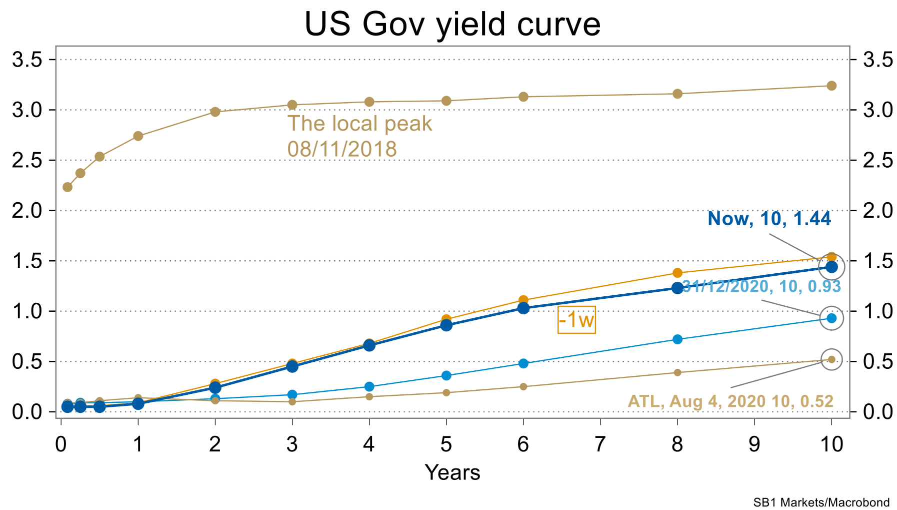


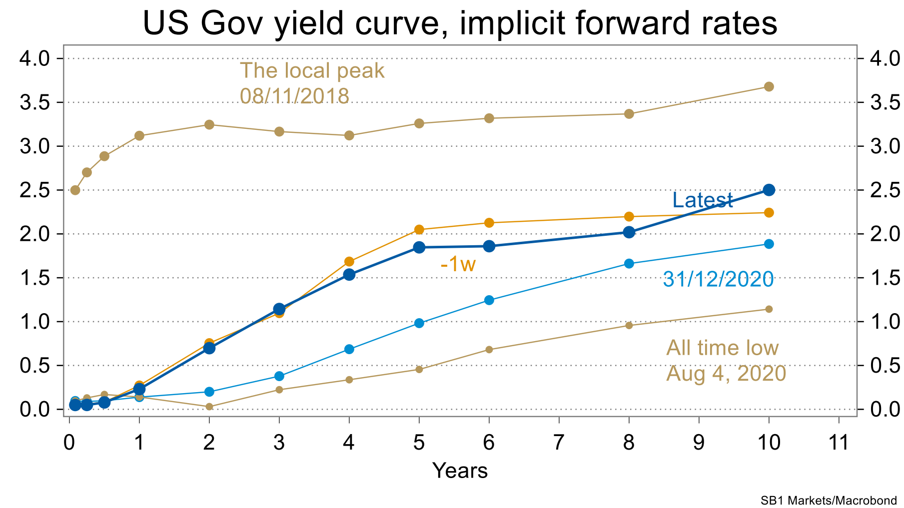


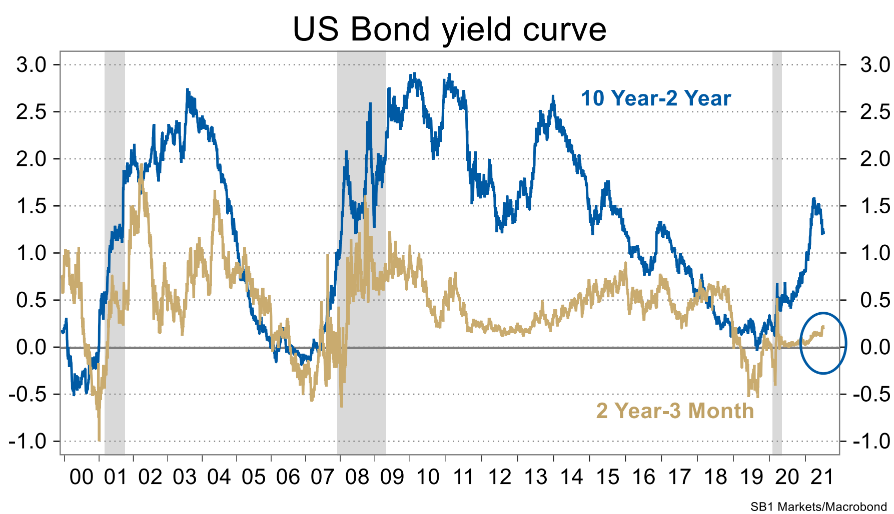
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level to qualify for the “Goldilocks” corner (especially the real bond yield, check the chart on the previous page). Where to go from here?
- The inflation/growth mix will decide:
  - » If ‘nothing’ happens, we can stay in this Green quadrant. Raw material prices normalise, wage inflation is kept in check because the US labour supply finally returns to normal. Inflation turned out to be transitory, profits are OK, yields remain low
  - » If the labour supply in the US does not yield, wage inflation will very likely accelerate
    - If companies are able to increase their selling prices, profits will be kept up, but higher inflation well very likely push the Fed to tighten monetary policy, which is challenging for high multiples. Move to the blue quadrant. However, after a while profits will anyway come under pressure. The stock market will be rewarded with lower profits & lower multiples (it will resemble the Red corner, before moving to the Yellow
    - If companies are not able to increase their selling prices, inflation will be kept in check but profits will decline rapidly. A 2% lift in wages, cuts profits by well above 10%. That’s the Yellow corner

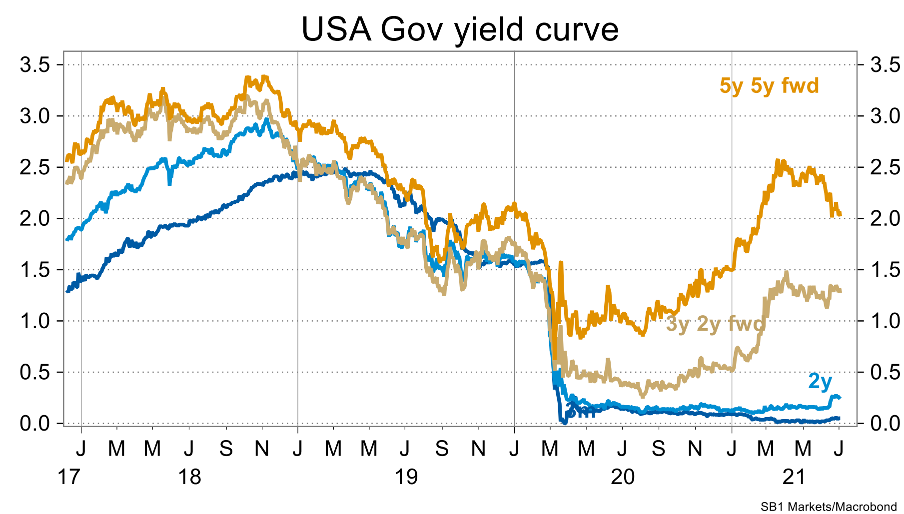
SpareBank 1 MARKETS

Dovish Fed signals lifted the long end of the curve (inflation expectations)



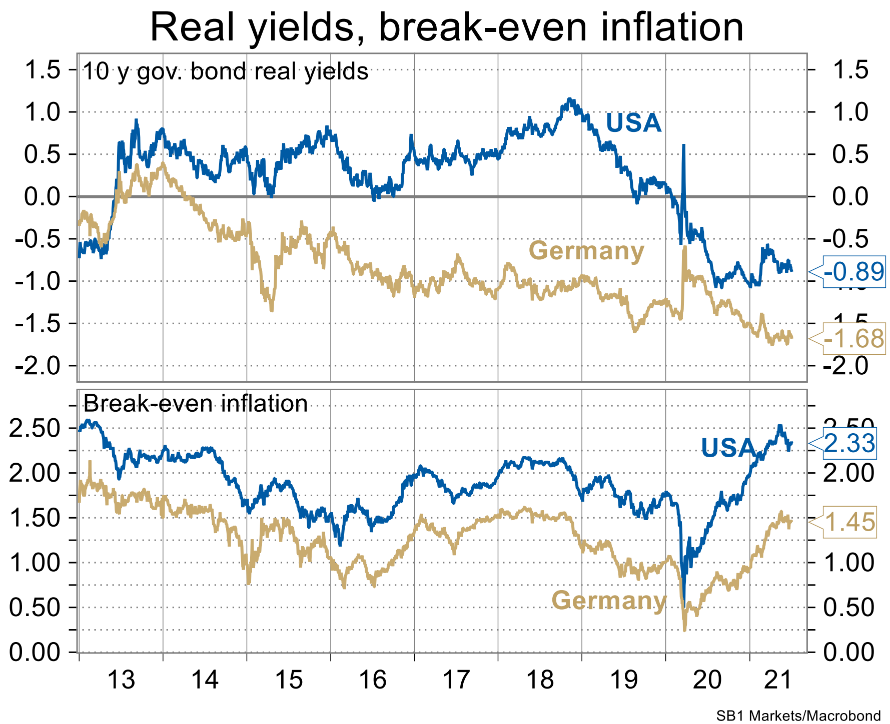


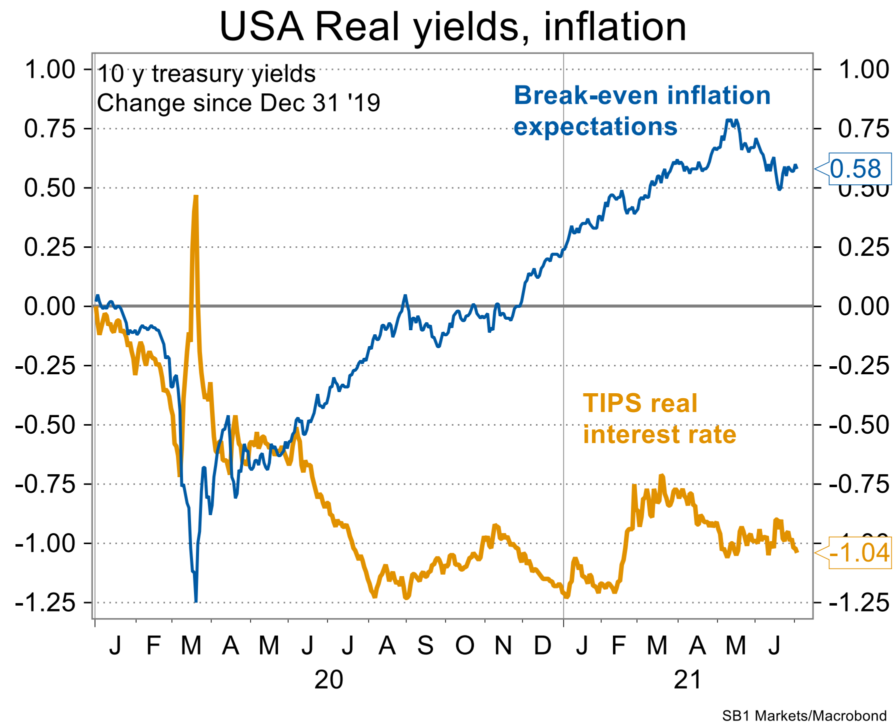




US real rates straight down, less angst for Fed tightening

Inflation expectations slightly up last two weeks





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.44	-0.10	-0.15	0.52
.. break-even inflation	2.33	-0.01	-0.11	1.06
.. TIPS real rate	-0.89	-0.09	-0.04	-1.08
Germany nominal bund	-0.23	-0.05	-0.04	-0.65
.. break-even inflation	1.45	0.01	-0.03	0.40
.. real rate	-1.68	-0.06	-0.01	-1.76

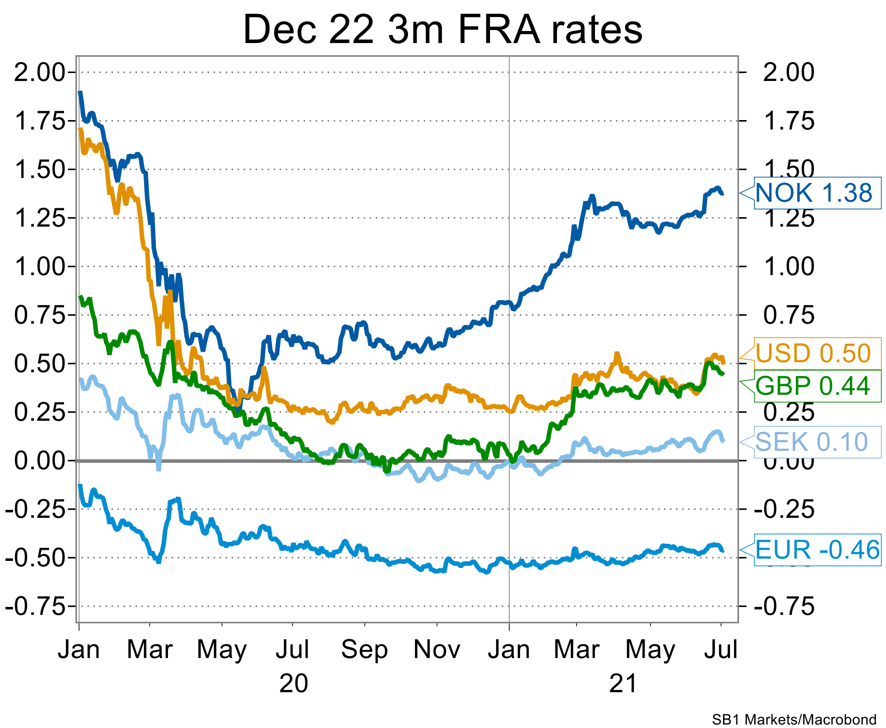
SB1 Markets/Macrobond

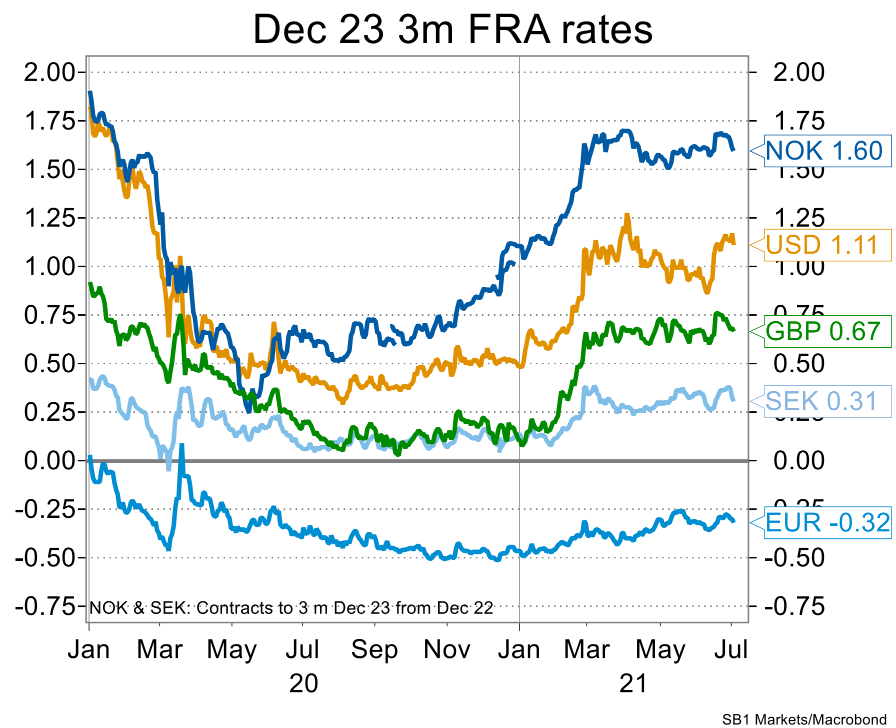
- German yields fell last week too – driven by lower real rates

SpareBank 1 MARKETS

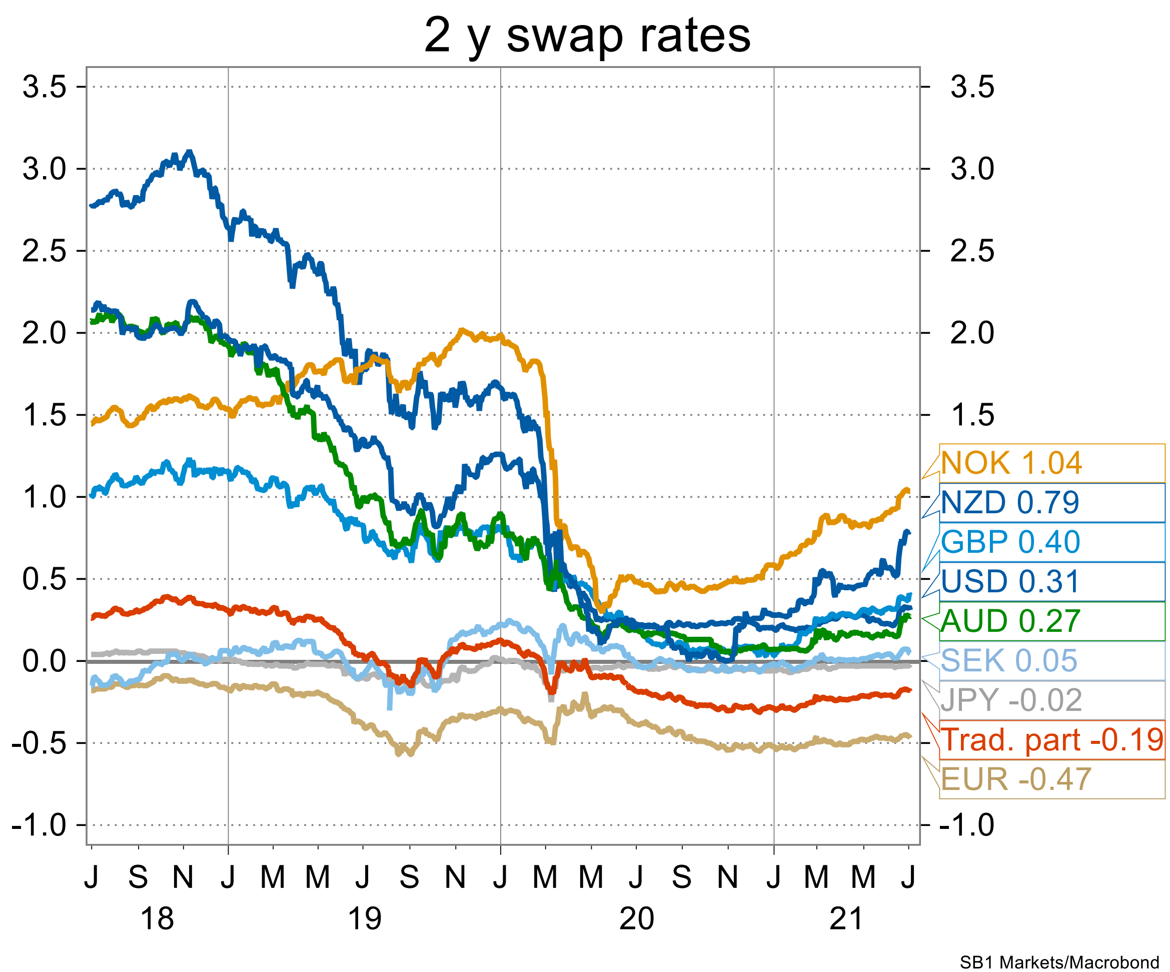
FRAs: rates down across the board

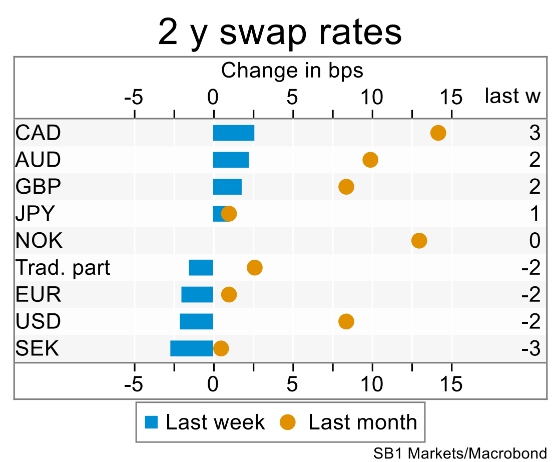
The US curve is discounting the first Fed hike in Q3/Q4-22 – and 2 more in 2023



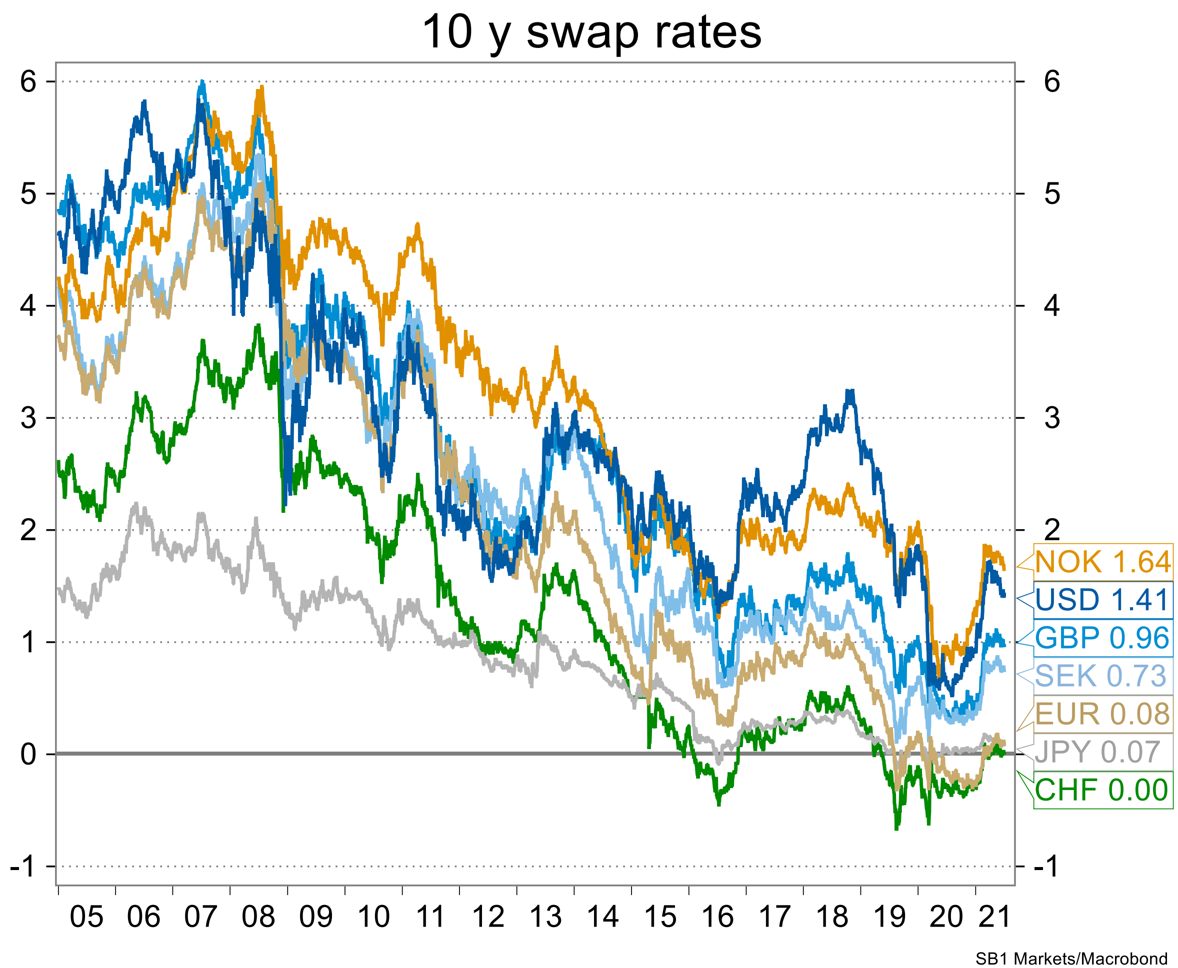


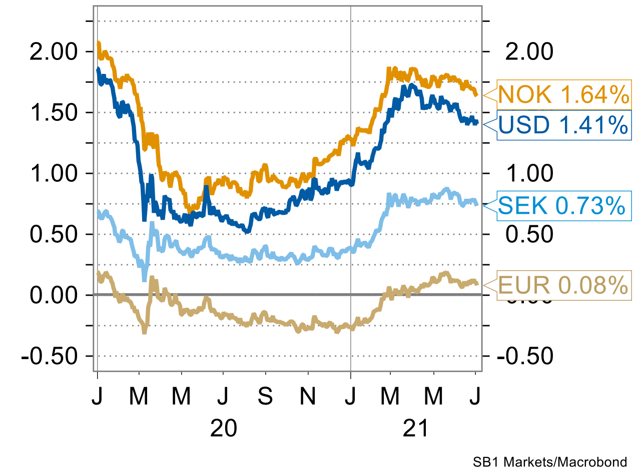
Mixed in the short end of the curve

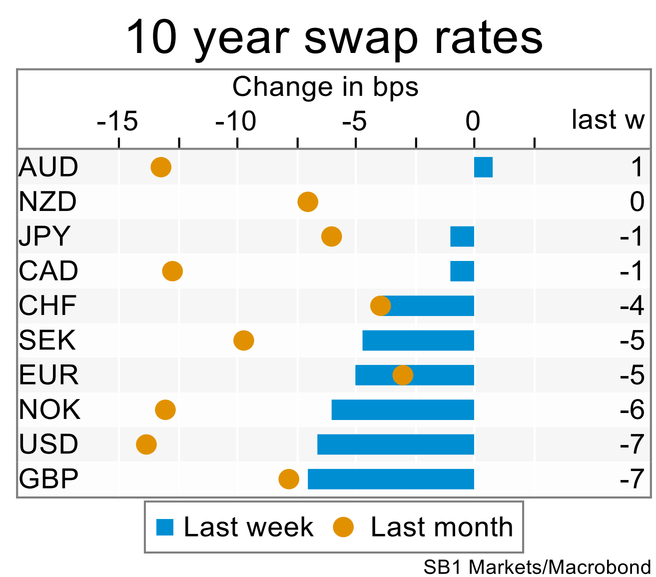




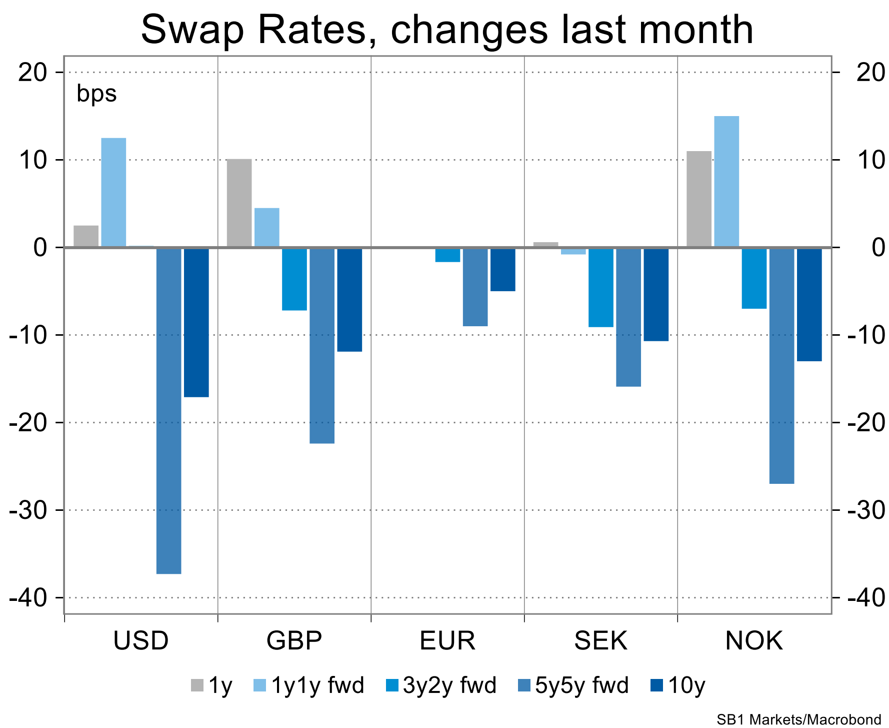
The long end of the curve down, everywhere

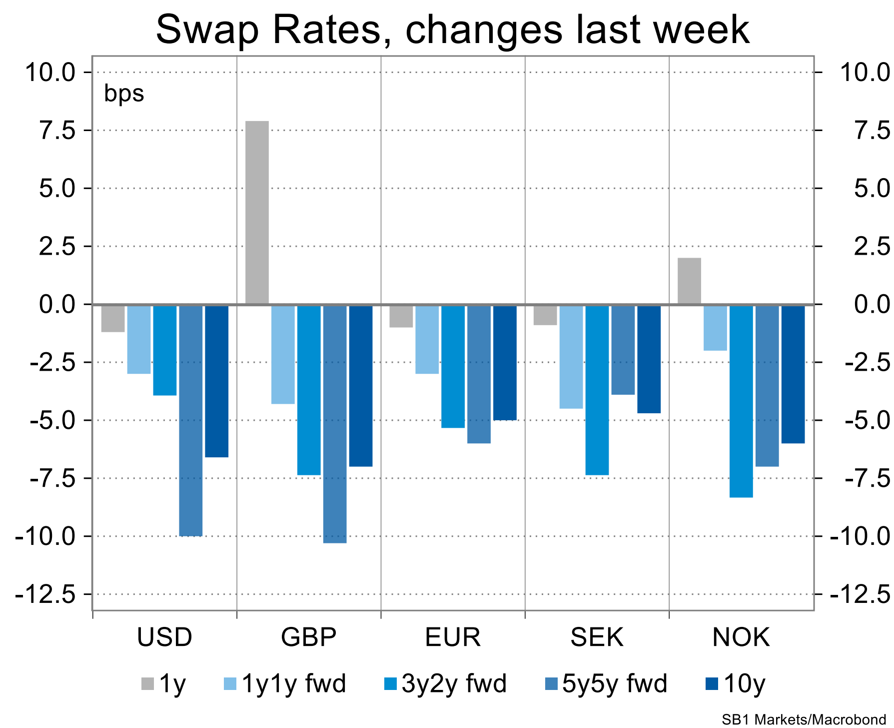




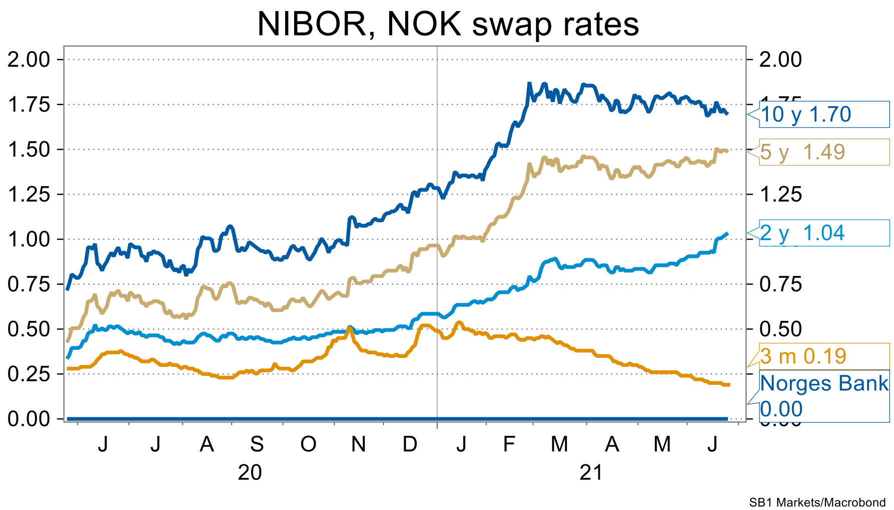


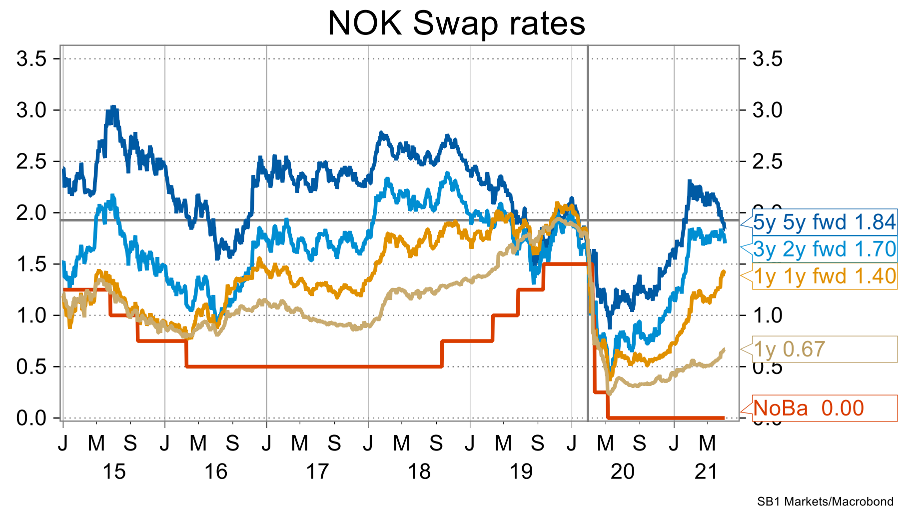
(Almost) all rates down everywhere

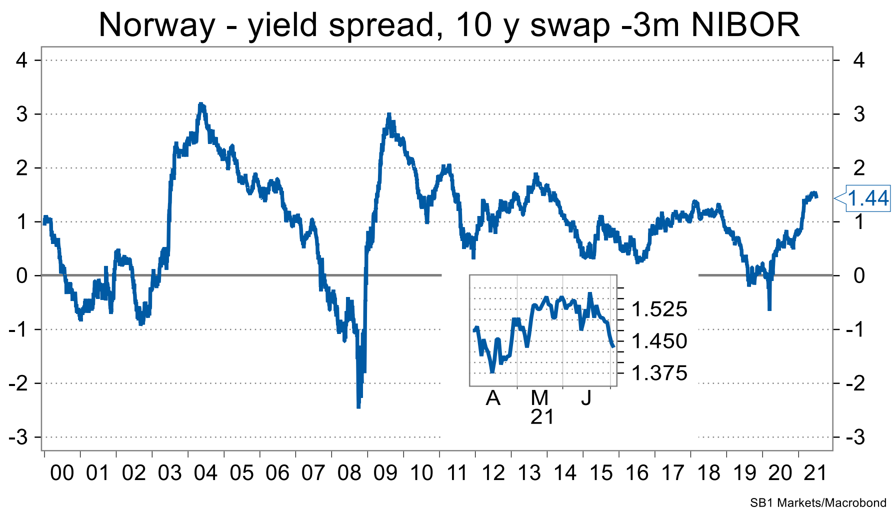


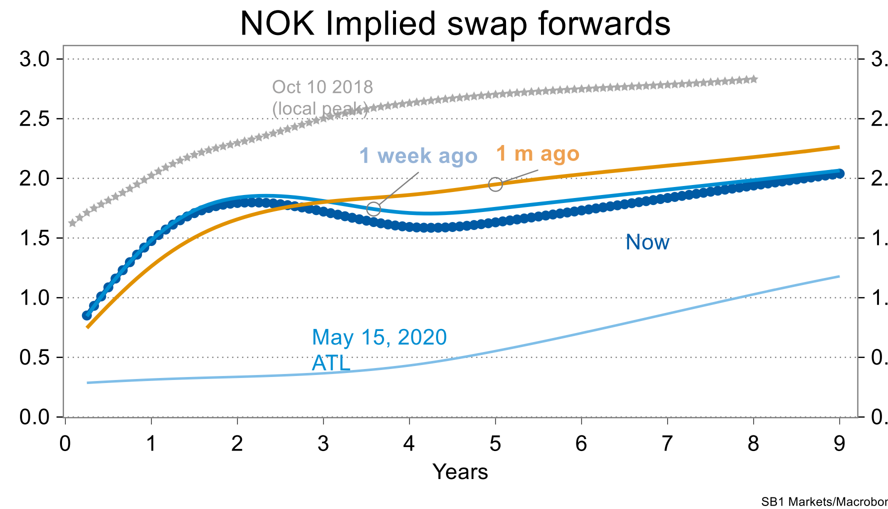


Implied swap rates down from 2 y onwards









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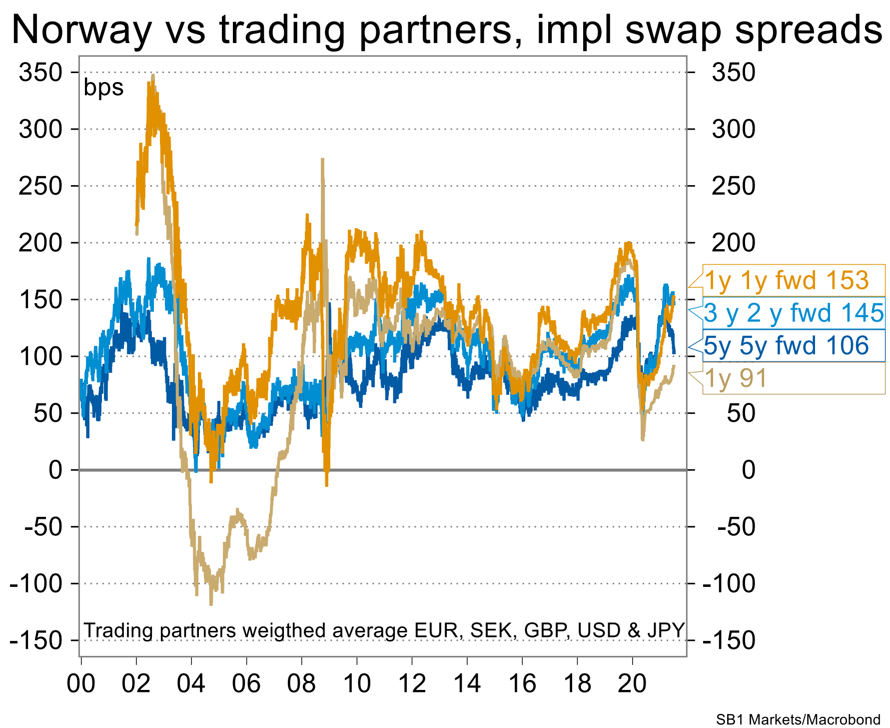
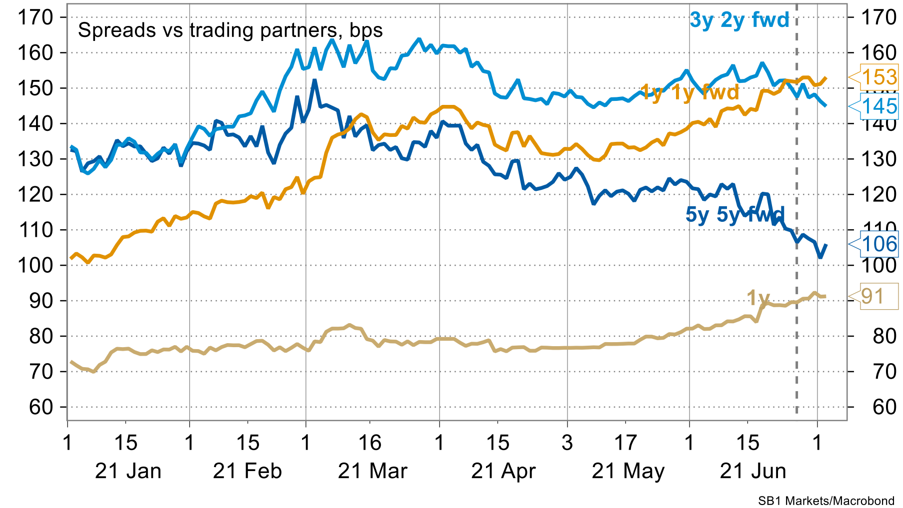
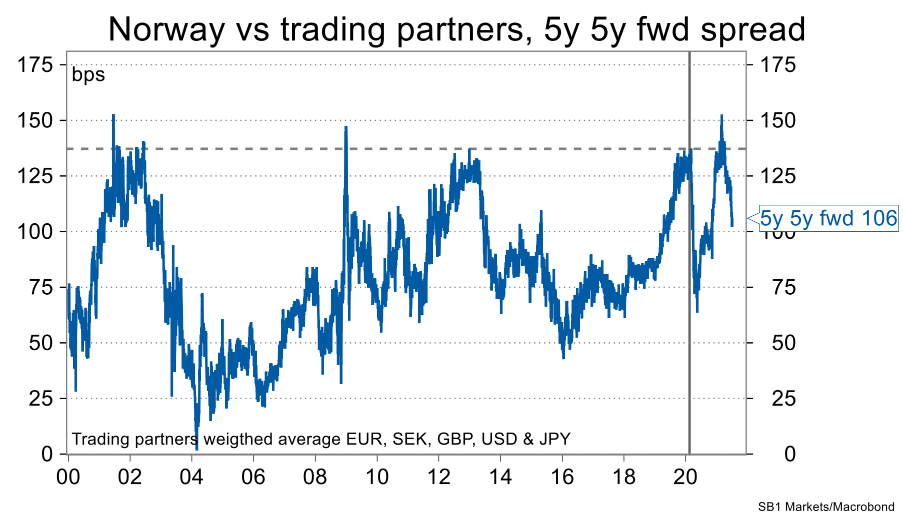
Forward spreads are twisting, up in the short end, sharply down in the long end







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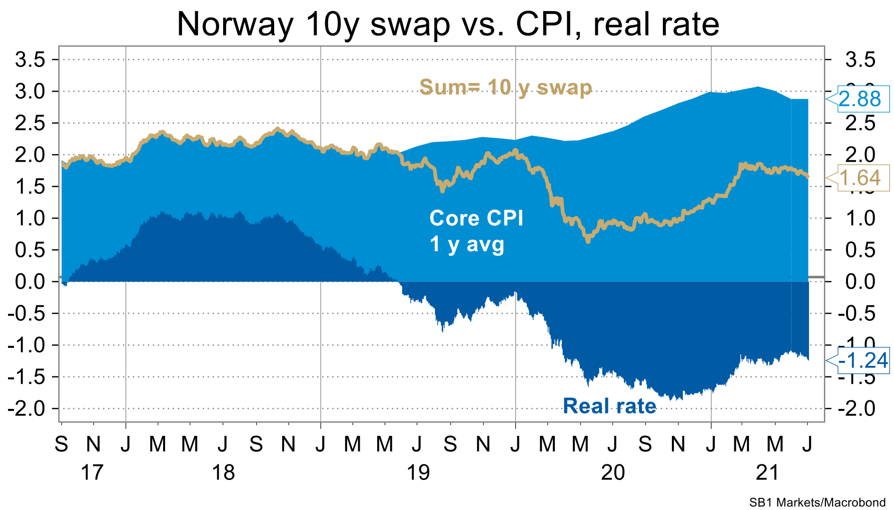
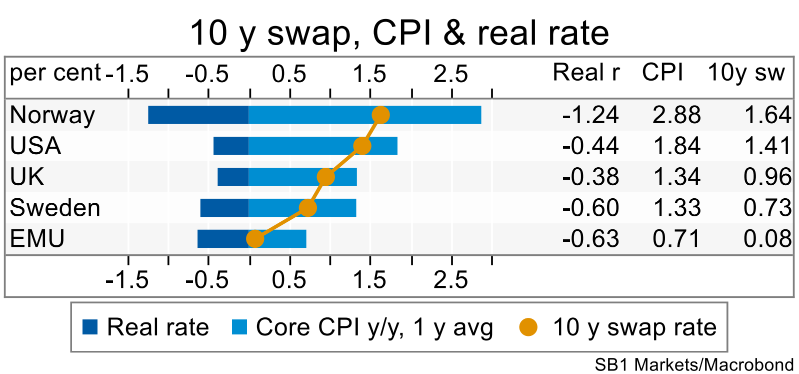
Negative (actual) real interest rates most places – NOK at the bottom



NOK 10 y swaps have flattened

- The **10y NOK swap** rate fell by 6 bps to 1.64%
- **The real rate**, after deducting 2.9%, an 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 2 y avg at 2.9%
  - » 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

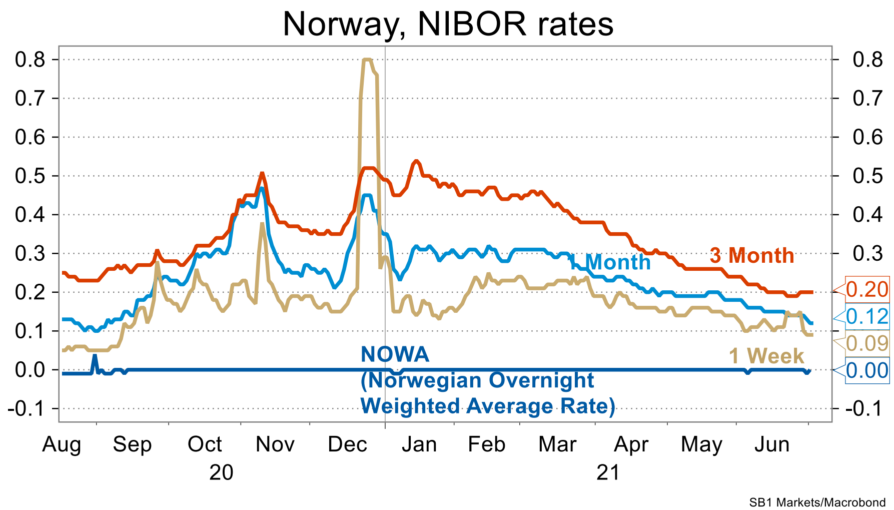


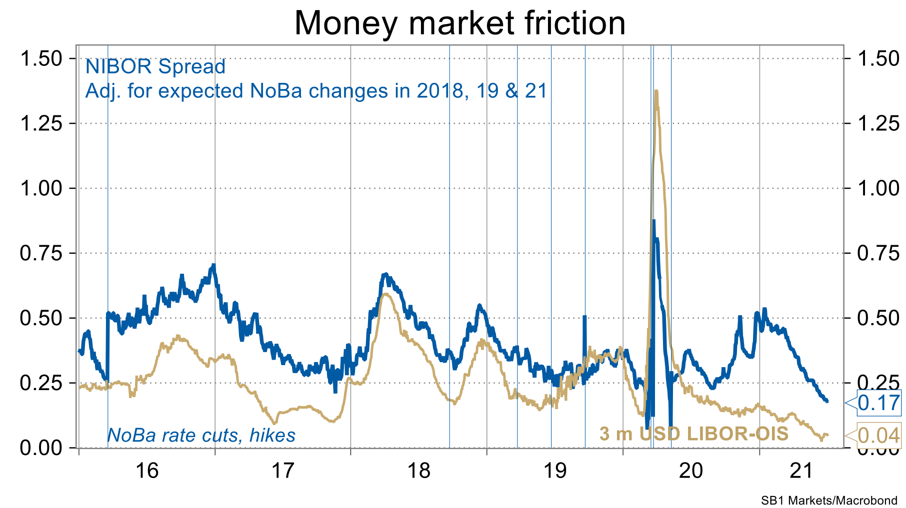
NOK real rates among the lowest, as inflation is at the top

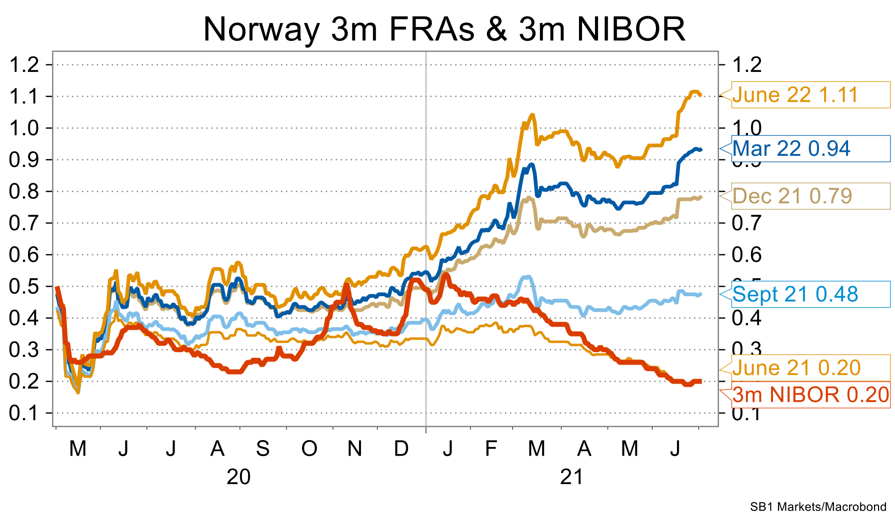
- **Inflation** among main trading partners varies between 0.7% to 1.8% (here again measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US at the top, the latter will climb rapidly the coming months
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- **Real rates** among our trading partners, and ranging between -0.4% 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 still an outlier on the downside, even if the nominal rate is the highest**

3 m NIBOR 1 bp up to 0.2% - and 0.19% was the ATL? Probably

The 3 m NIBOR runs into the first NoBa hike, will drift up by 2 – 3 bps per week



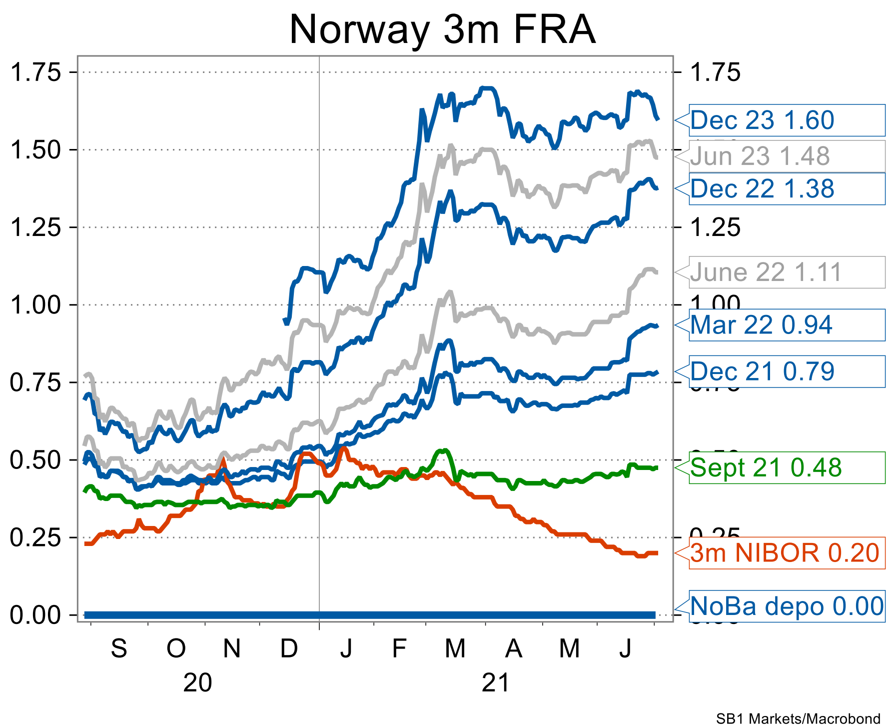


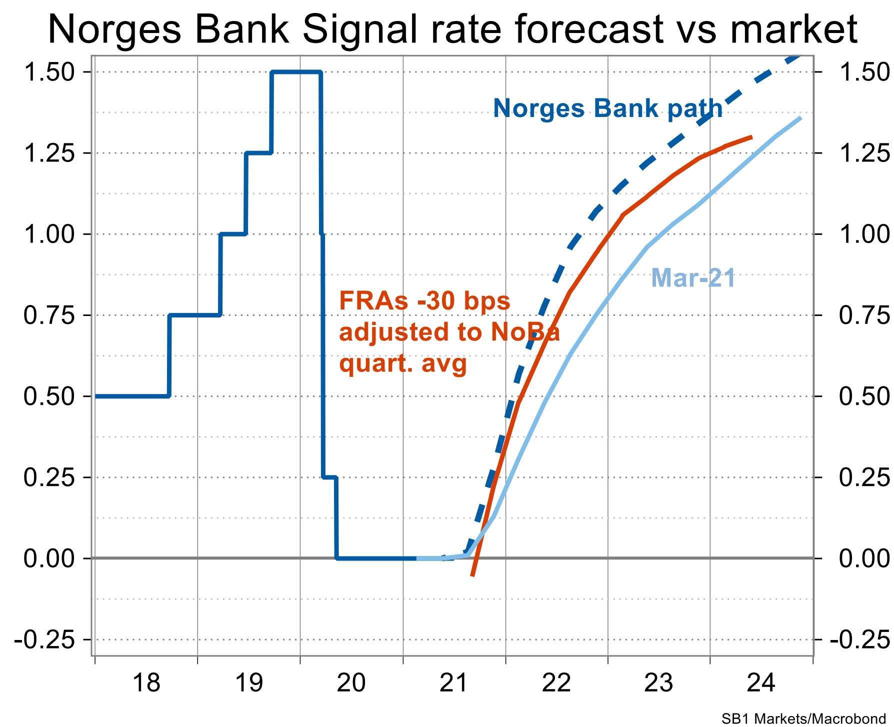


- The Fed now offers an 0.05% interest compensation on their reversed repos in order to prevent market rates to fall below zero – and even more banks placed their excess liquidity at the central bank. As a result, the LIBOR spread has widened marginally
- The Sept-21 3 m contract at 0.48% bps is 28 bps above the current 3 m NIBOR. If the Sept contract remains at 0.48%, the 3 m NIBOR will climb by 2.6 bps pr week until 15 September and thereafter by 2 bps per week until NoBa stops hiking the signal rate by 25 bps per quarter (if the record low NIBOR spread remains unchanged). A 0.48% Sept-21 FRA implies a 25 bps NIBOR spread, if the market is assuming 100% probability for a hike
- The average NoBa signal rate the coming 3 months is now creeping upwards, assuming NoBa will hike 23 September. Consequently, the 'real' spread has fallen to 17 bp (and will decline by 2 bps per week, if the 3m NIBOR remains at 0.20%). That is not impossible for some days but we think it is more likely that the 3 m NIBOR will continue upwards the coming weeks

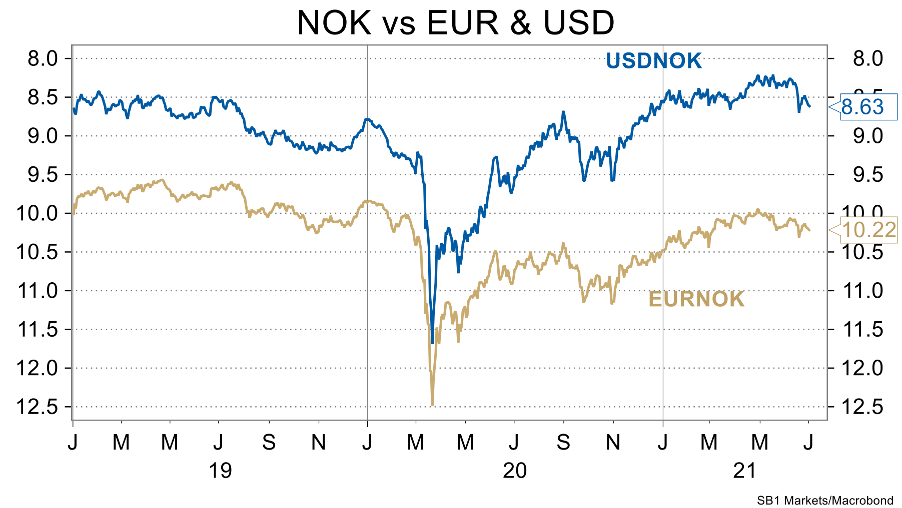
Longer dated FRAs sharply down last week

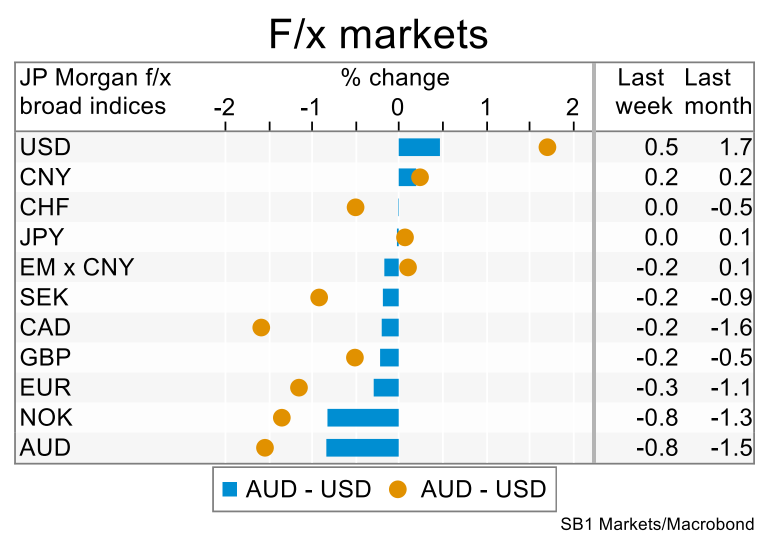
.. But the 3 m NIBOR has started it's long march upwards





USD the winner last week, even with falling US bond yields

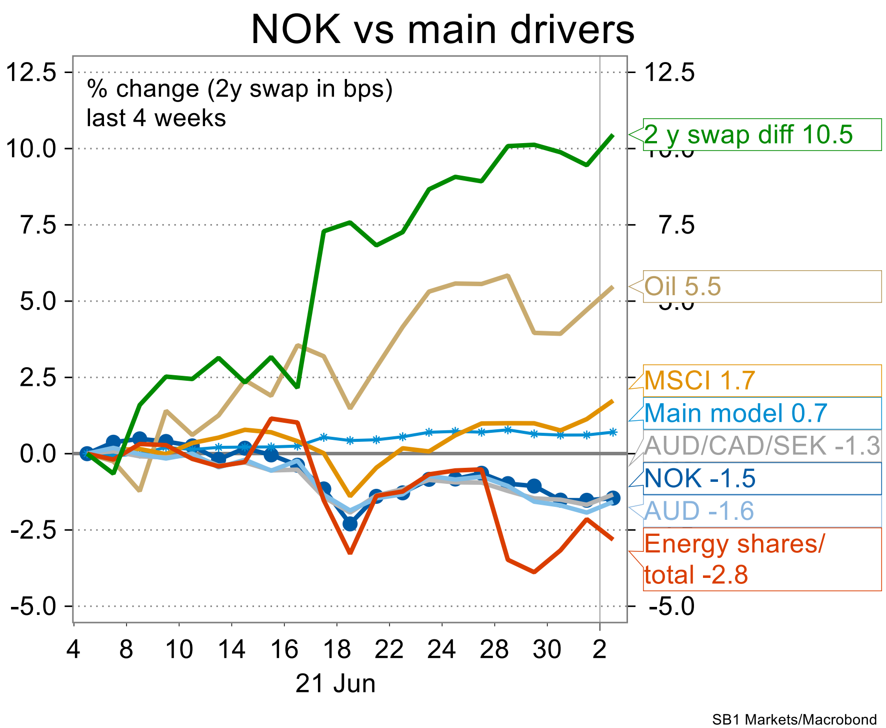


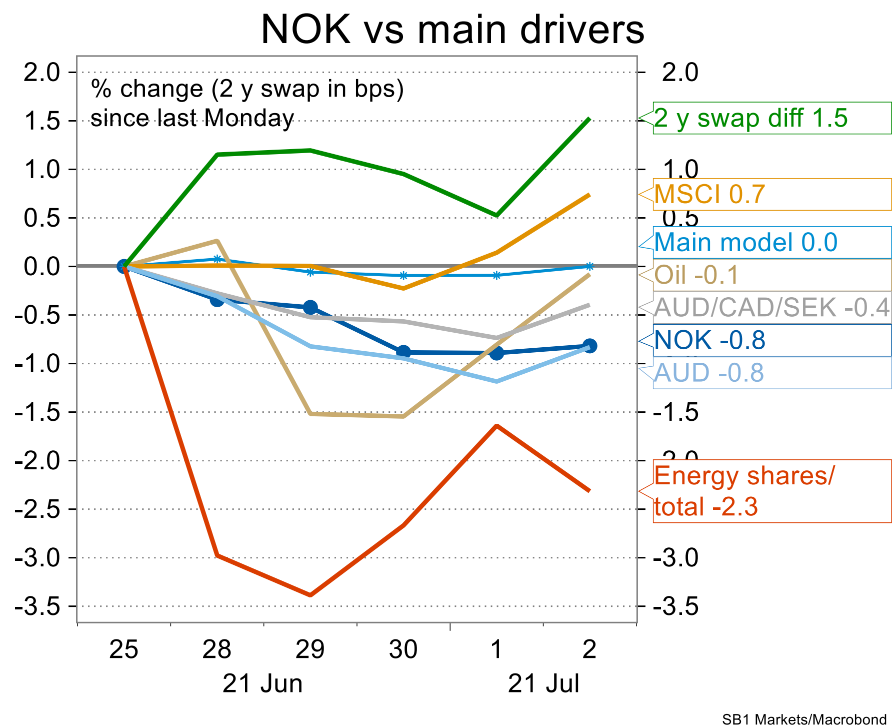


NOK

The NOK down 0.8%, our model said unch. Oil flat, equities up

However, our f/x peers also fell last week





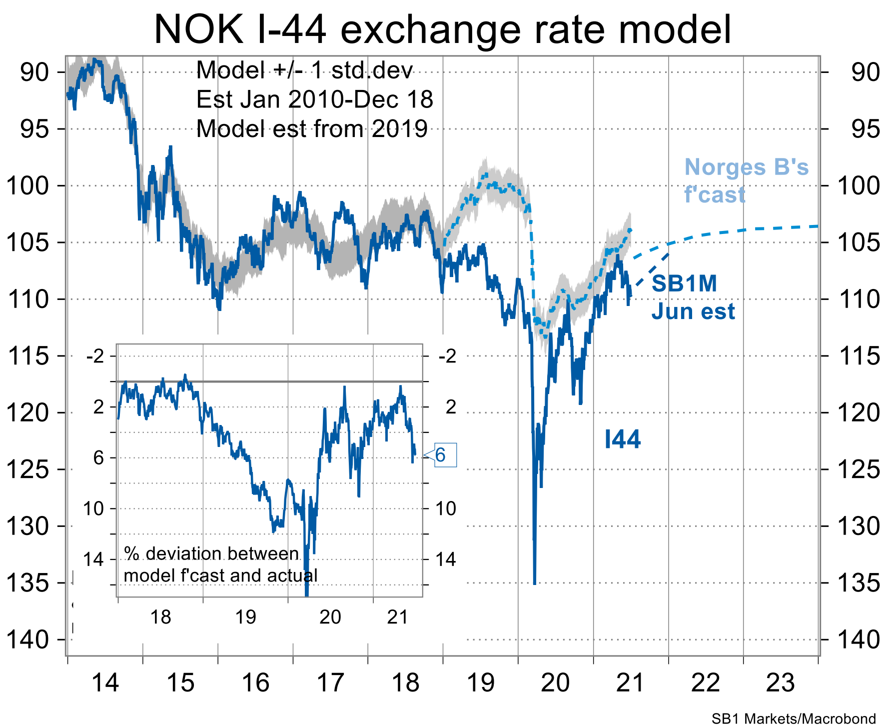
The status vs. the normal drivers:

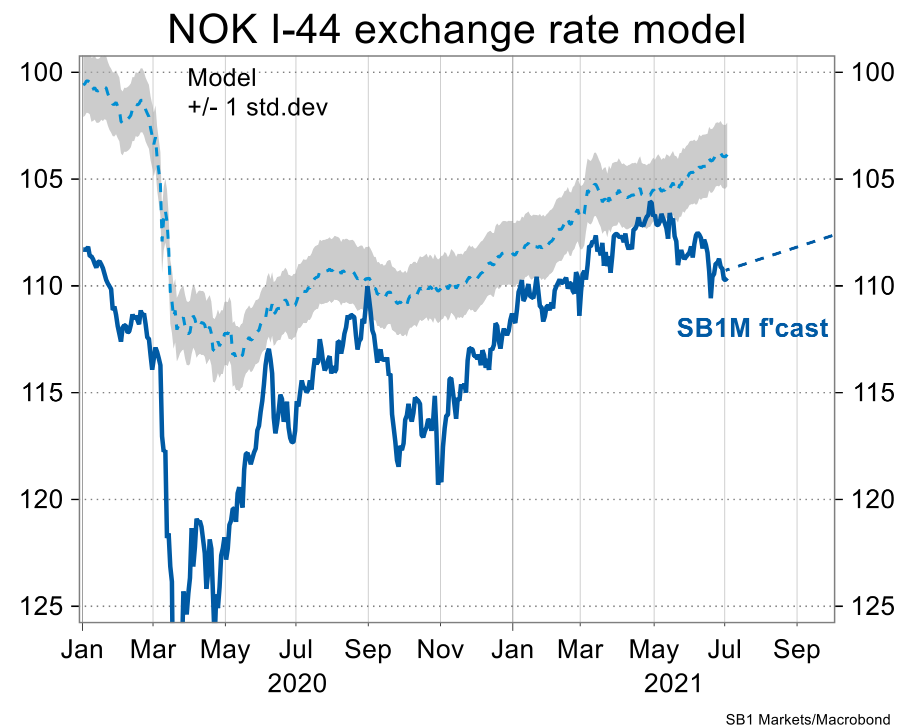
- ***The NOK is 6% weaker than suggested by our standard model (from -4%)***
- The NOK is 6% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from -4%)
- The NOK is 9% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 8%)
- NOK is far (9%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (unch)

From early of May we have been neutral vs. NOK (from buy). The recent decline may have created a short term trading opportunity

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

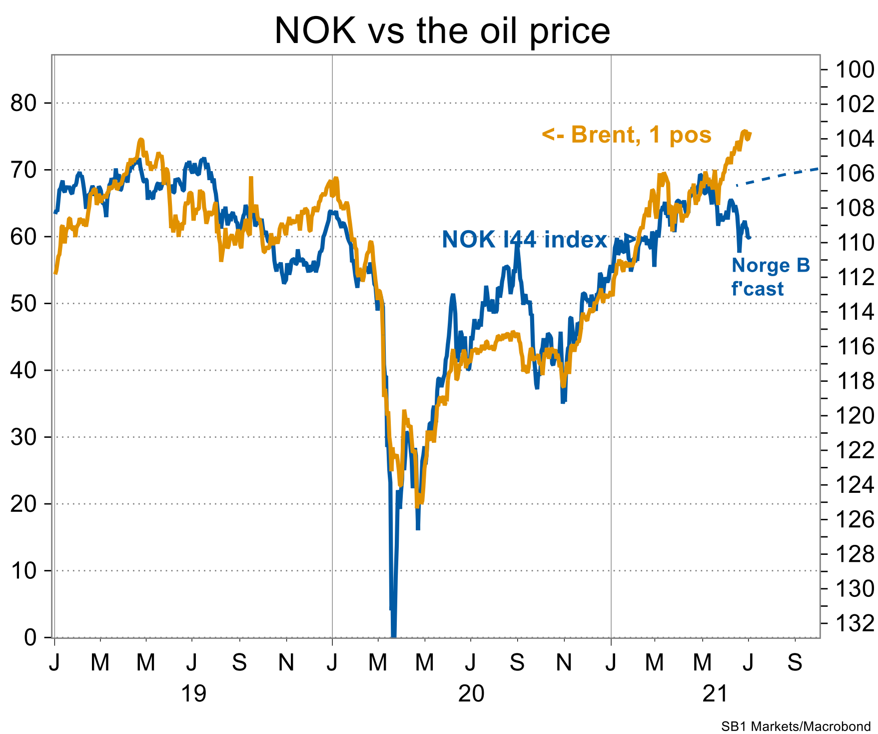
NOK now 6% below our model estimate

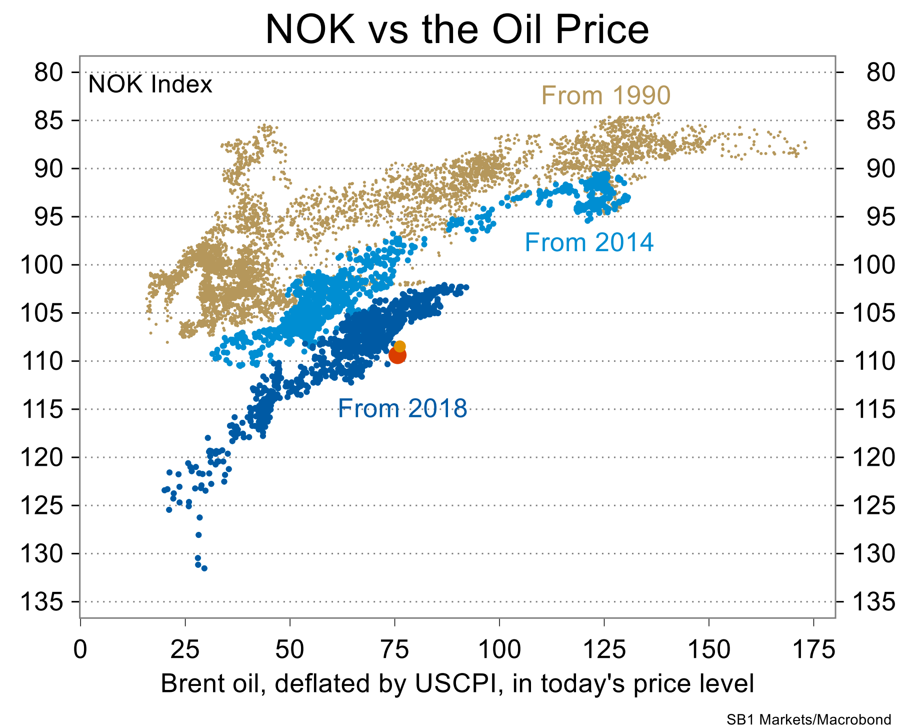




Oil marginally down, NOK down 0.8%

The correlation is still quite close but at a much lower NOK level than before

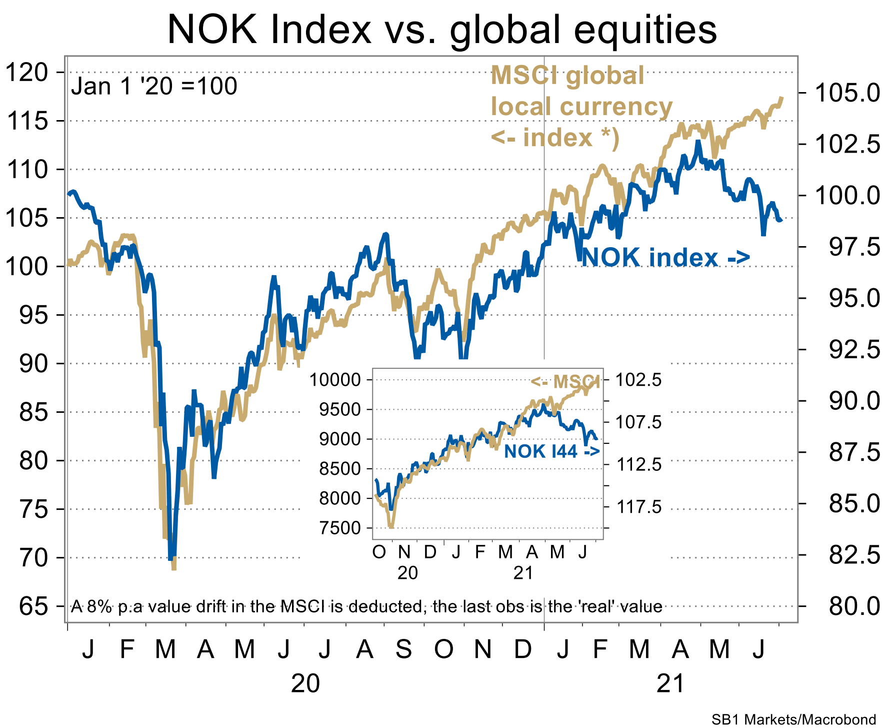


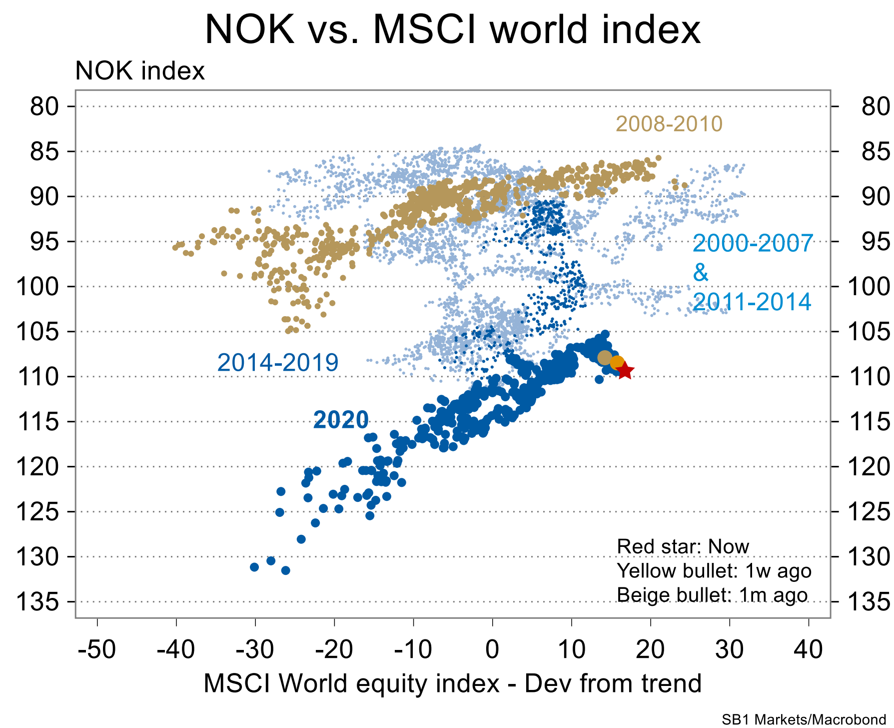


- NOK is still correlating quite closely to the oil price but at a lower level than before 2018
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

Global stock markets up, NOK down – the gap is wide

NOK has lost some 6% vs. global stocks over the past months/weeks

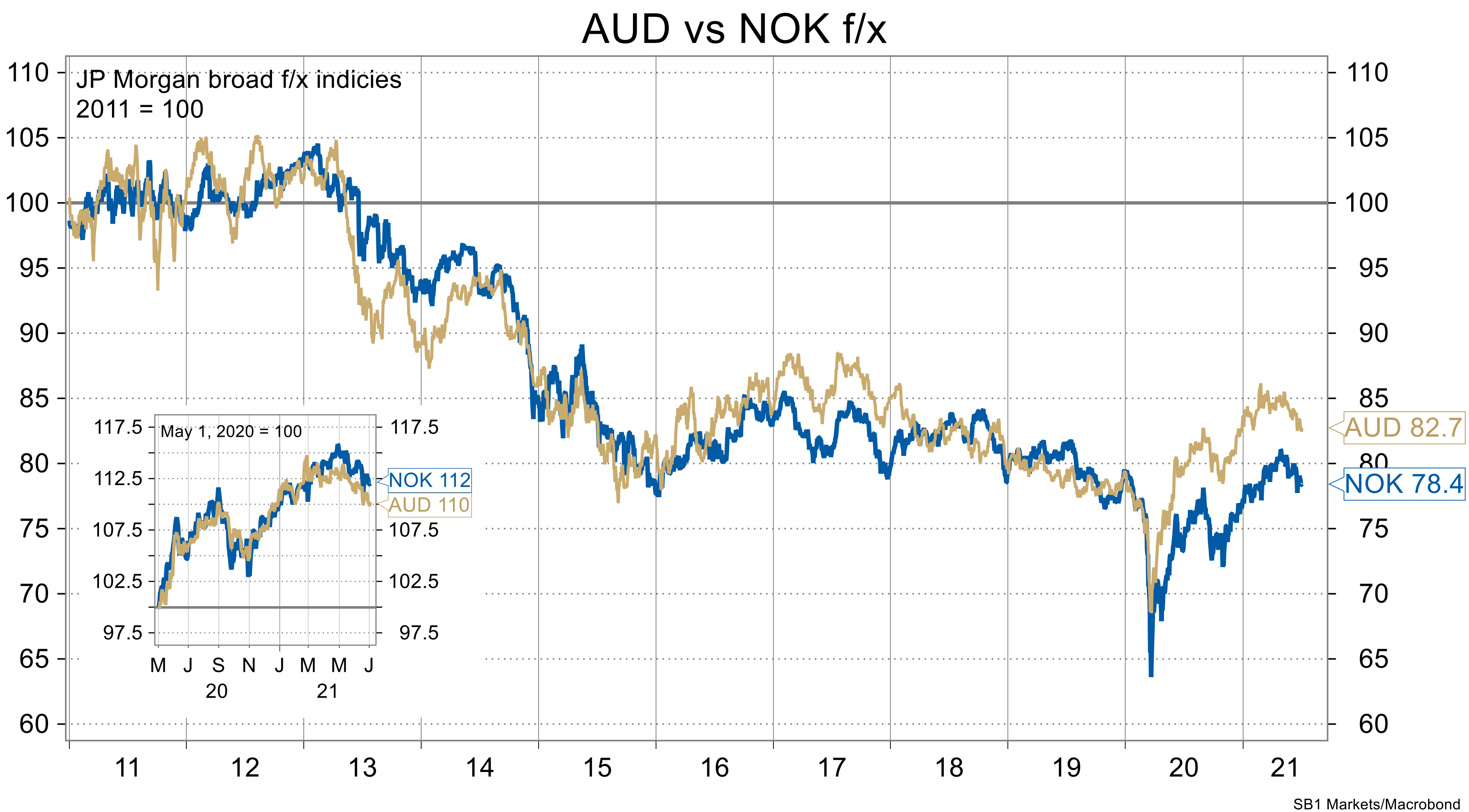




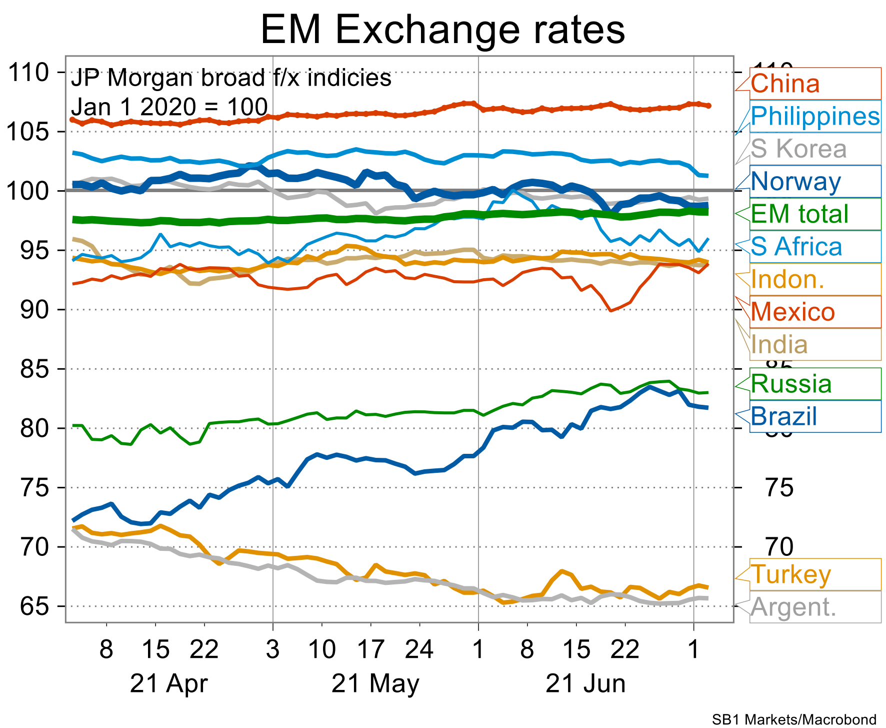
- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - Now, the NOK is somewhat weaker than 'normal' vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020).
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund are larger than the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually

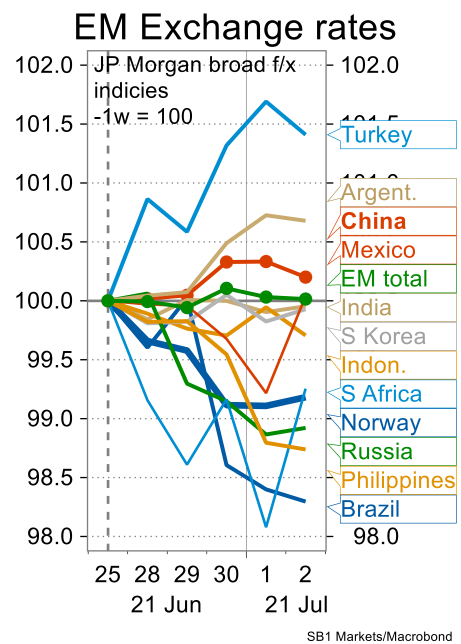
NOK & AUD still in tandem – both down 0.8% last week

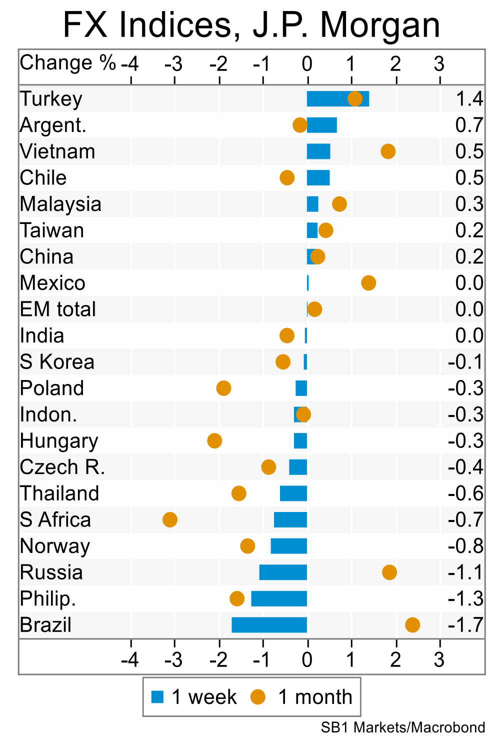
Both are up 10% - 12% since May 1st '20 – but the NOK still 5% weaker than AUD since last spring



EM f/x mixed, on average flat







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