26 July 2021

Macro Weekly

Week 30/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week

The virus

- Most countries are still reporting **growth in new virus cases**, thanks to the Delta variant. However, growth has slowed in several countries past two weeks (but some are still growing just as fast/faster
- In Europe, **hospitalisation & death rates** (CFRs) have fallen sharply and are low levels. That has not been the case in the US, suggesting diverging testing policies. (The US has in reality relatively more cases than Europe vs. the reported number).
- Norway reports a small increase in new cases but very few a hospitalised (21 persons!)
- **New vaccinations** are still rising rapidly in most EU countries and in Norway compared to the US & UK. All available information suggest that vaccines are very effective, also vs. the Delta variant vs. serious illness and death
  - Countries/areas with low vaccination ratios are of course exposed to the Delta variant, like Japan and Australia
- **Italy** has reintroduced some restrictions, others may follow – but we still think the economic impact will be limited
- **Mobility** flattened/declined marginally last weeks. It may be due to the spread of the Delta variant
- We have added some chart on **life expectancy at birth**, confirming that 'something' happened most places last year
- (Another sort of virus seem to be spreading in **China**, where authorities are becoming more aggressive vs. markets and 'global capitalism' by the day. Today educational companies were outed. The expectations ahead of the official diplomatic talks between US & China in China today are limited, but perhaps they could agree that Biden and Xi should meet)

Last week: The economy

- **July PMIs**
  - » The global PMI has peaked, so has very likely global growth. Still, both remains far above an average level. We estimate a 1.4 p decline in the global composite, to 55.2, following the 1.3 p drop in June, due to weaker indices in US, UK and Japan - with US services contributing the most on the downside. The EMU PMIs were far better than expected. Barring a decline in the French services PMI, the Delta outbreak has not dampened growth in EMU services (so far). Delivery times, prices are still rising at brisk rates, but a tad slower in July
- **USA**
  - » **Housing start** have flattened but permits are still pointing down. Homebuilders are reporting less traffic, and are signalling a small decline in starts. Households have scaled back their buying plans
  - » **Existing home sales** rose marginally (but less than expected) in June. The inventory of homes for sale is emptied. Still, price inflation may be slowing, just 0.5% per month in May/June
  - » BTW, the **Covid recession ended in April**. Last year, of course. The recession was the deepest, and the shortest – and far the most expensive. Some recession chars are enclosed in the report
- **EMU**
  - » **The ECB** did not change QE programs (or the interest rate) but talked as if something had been decided following the lift of the inflation target to 2% two weeks ago. Reports indicate that not all are onboard for expanding/extending the EQ programs. Still bond and the EUR fell. (But Lagard's tone was über-dovish, of course)
- **Sweden**
  - » **House prices** rose further in June but a slower pace than over the previous months
- **Norway**
  - » **SSBs manufacturing survey** rose further in Q2, as we expected. Growth well above trend is signalled. Demand/competition is not the problem, supply side factors are. There is no desperate lack of labour but some. And prices are rising faster than ever, of course
  - » **Construction activity** is on the way up, both residential and non-residential

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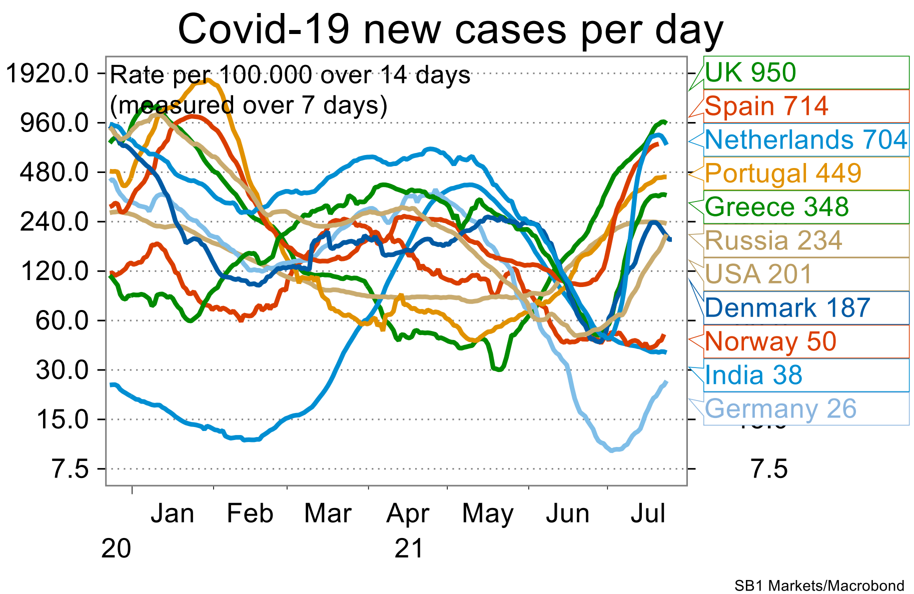
Is Delta growth slowing? Some encouraging signs

(If not in Norway)



- The **Delta virus** will is now dominating in many countries, and will very likely capture the corona virus market everywhere
- A large majority of countries is reporting an increase in new cases, even where the vaccination/immunity rate is high. However, growth has slowed in many countries the past two weeks
- **Vaccines** are protecting very well against sickness & deaths (and the risk of being infected)
- Still, the no. of **hospitalisations,** and even more, **deaths** are on the way up in many of these countries. On the other hand the levels of hospitalisations and deaths are still low. Hospitalisation rates are still falling – and death rates (CFR) remains very low
- Even so, if the spread continues unchecked, several countries may run into health challenges that are comparable what they experienced in early 2021. More vaccinations and some minor changes in behaviour may be needed
- Norway is reporting a slight increase in new cases but the level is low and just 20 persons are hospitalised

Source: Financial Times, June 20

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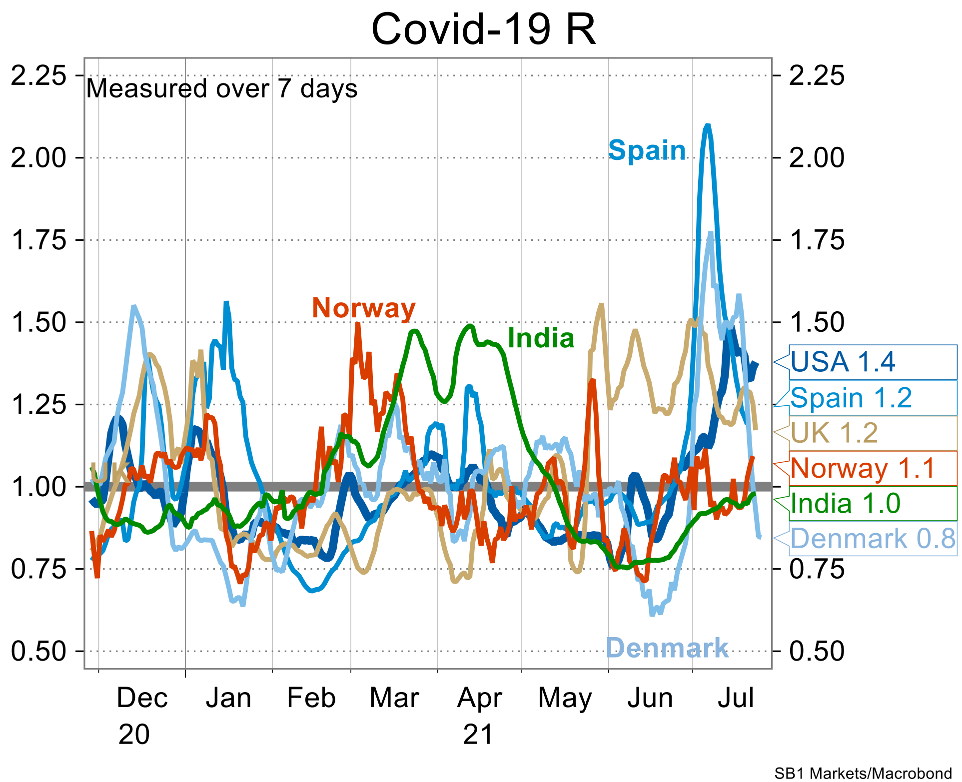
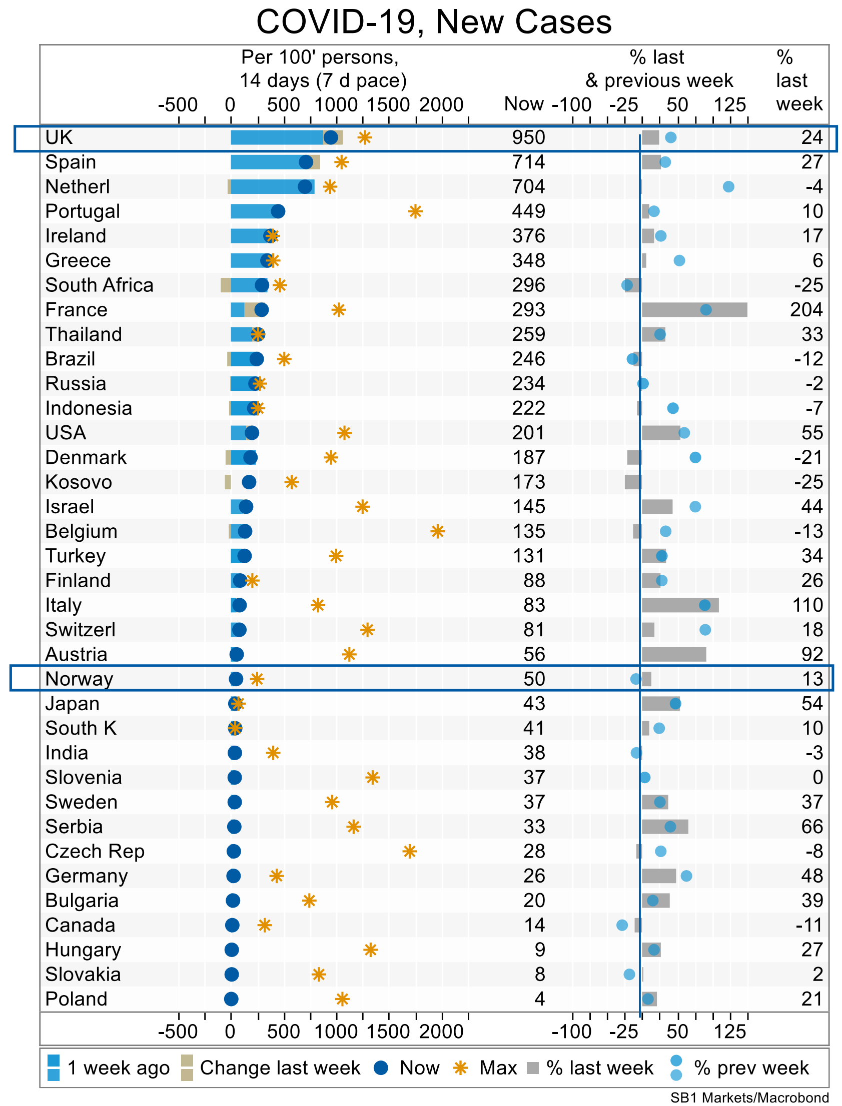
A majority of countries are reporting more cases but most are now slowing

France is reporting a sharp increase, as is Italy

Growth is slowing in UK, Netherland. Still high in the US





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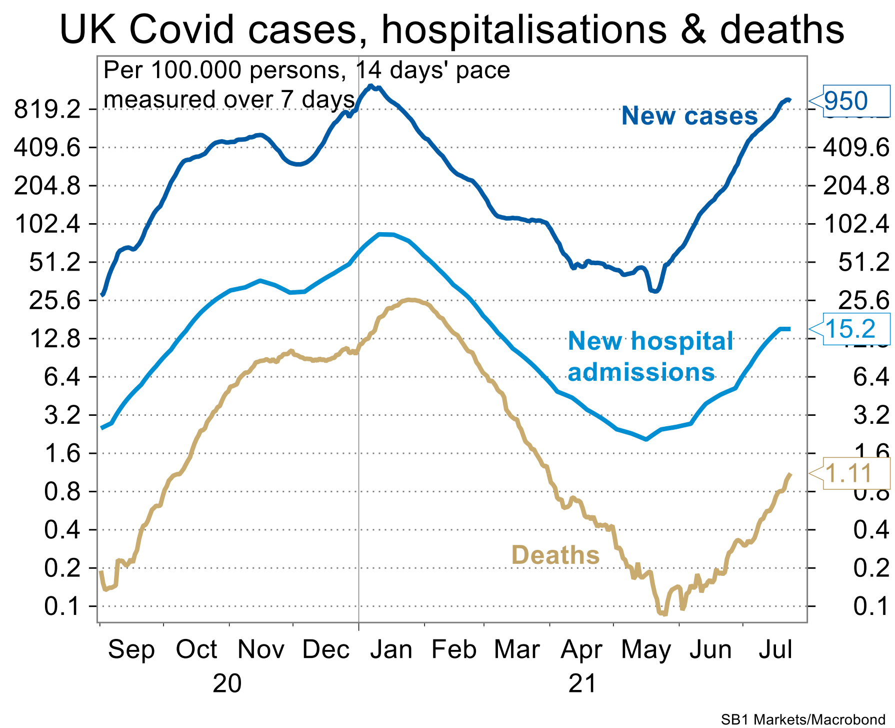
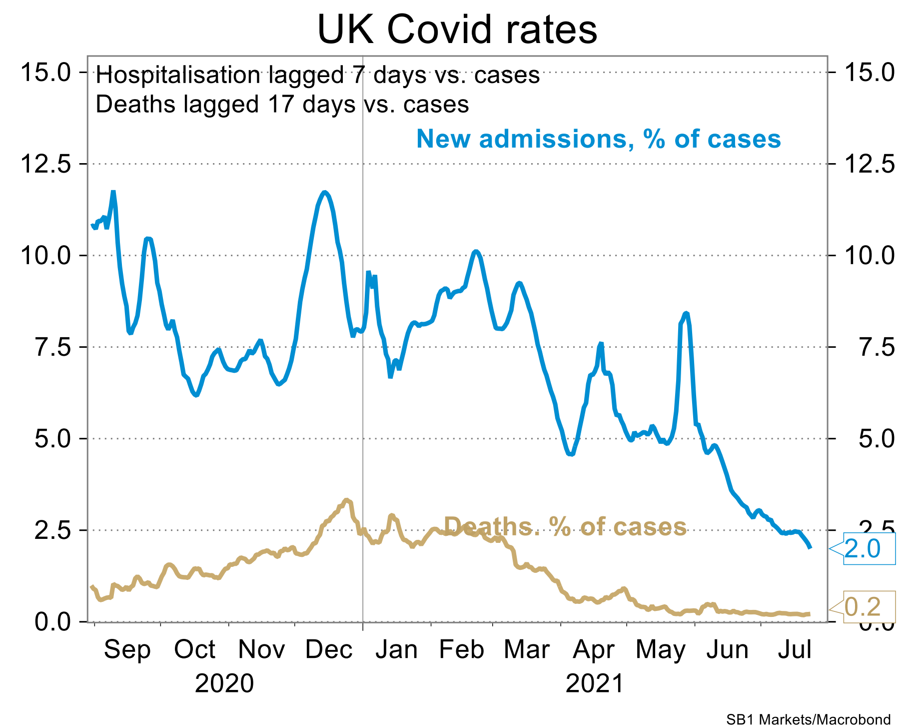
UK: Still a low level of hospital admissions, deaths but the direction is clearly up

Something will probably have to give before herd immunity is reached the natural way (by infections)

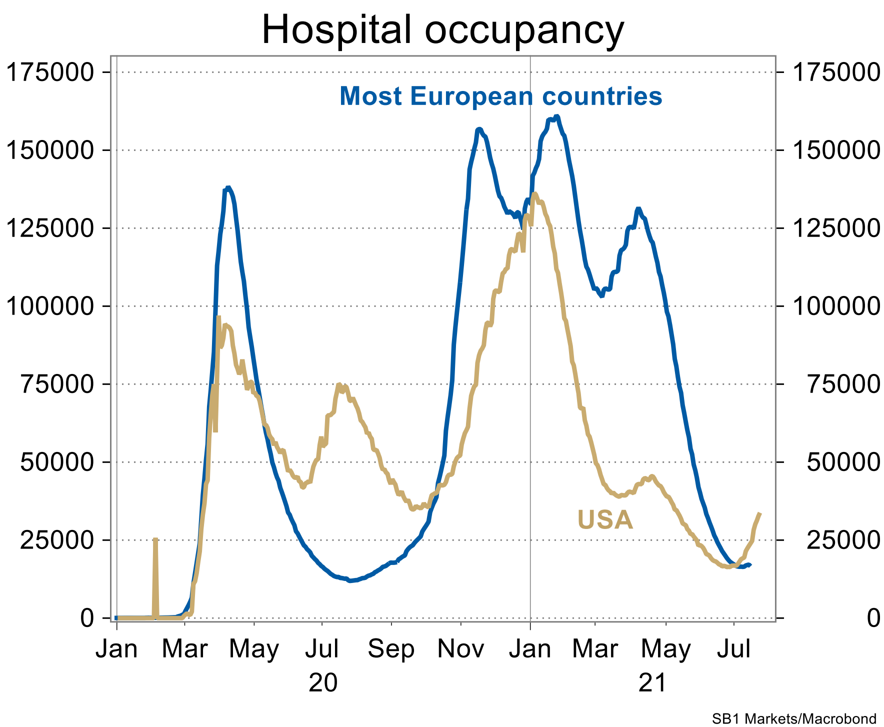


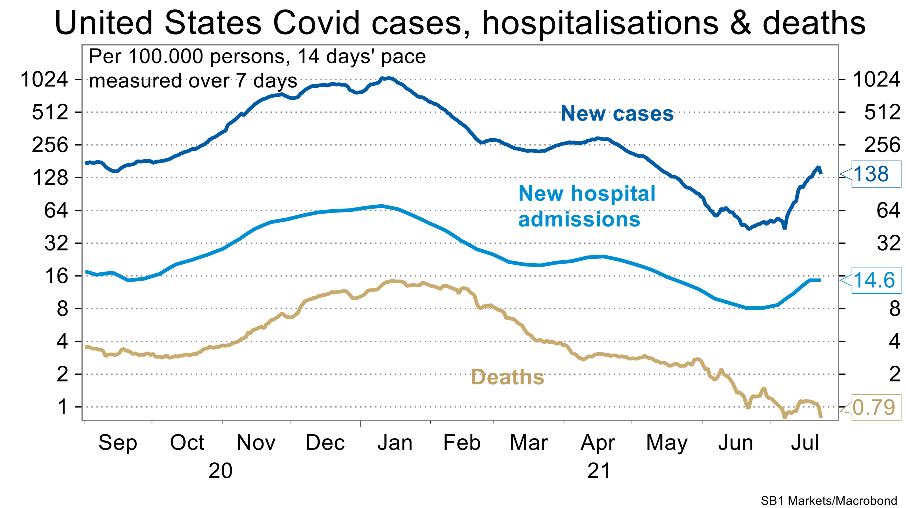


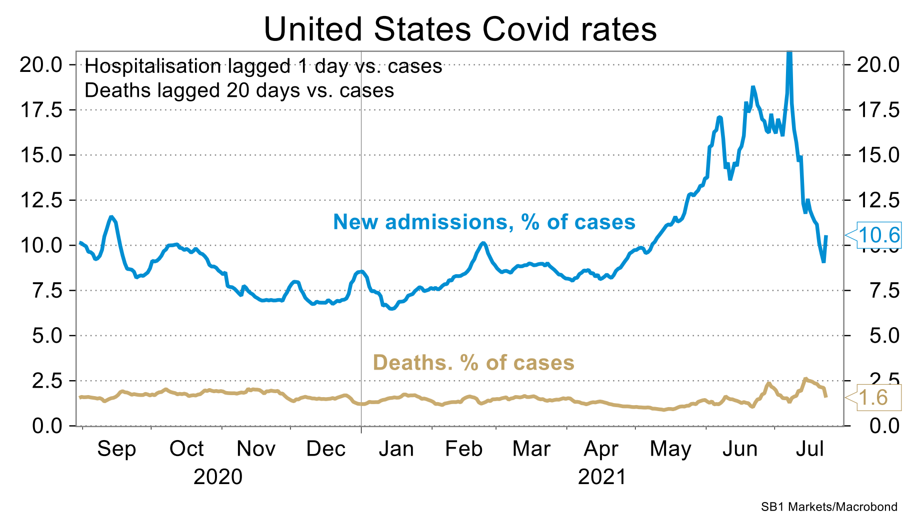
- The no. of **new cases per day** has slowed but the level is not far below the peak in January
- The no. of daily hospital admissions has increased almost 8-fold from the bottom in May, but the still just above 1/6th of the level in January. The no of death is more than 10 times, still at just 4% of the January level
- Thus, the **hospitalization rate** has fallen sharply as both old persons and other risk groups are vaccinated, to 2% from 8%
- The **case fatality rate** (of those tested positive) has fallen even more, to 0.2% from close to 3% in Jan/Feb
- **Implication:** The Delta variant has spread like a wildfire but the number of infected will have to increase to very high levels before the UK will run into another health crisis – and now growth is slowing. However, something will have to give the coming weeks/few months; either a speed up in vaccinations or changes in behaviour, voluntarily or by new restrictions
- Other European countries are reporting low hospitalisation & deaths rate, while the US is not (probably because testing is far below European levels)

Something may be brewing in America

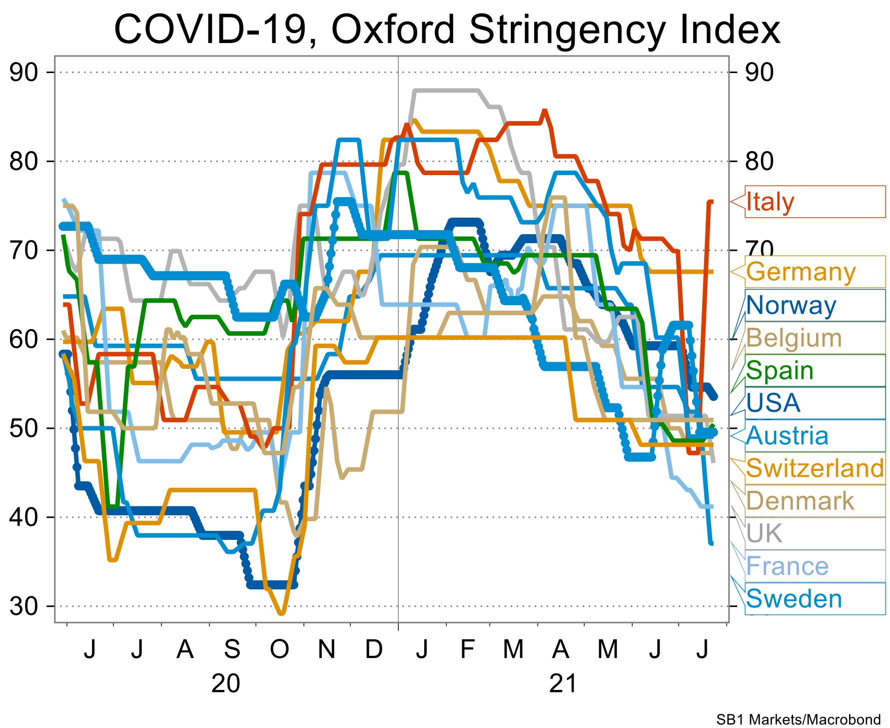
Hospitalisation & death rates signal that the real no of new cases

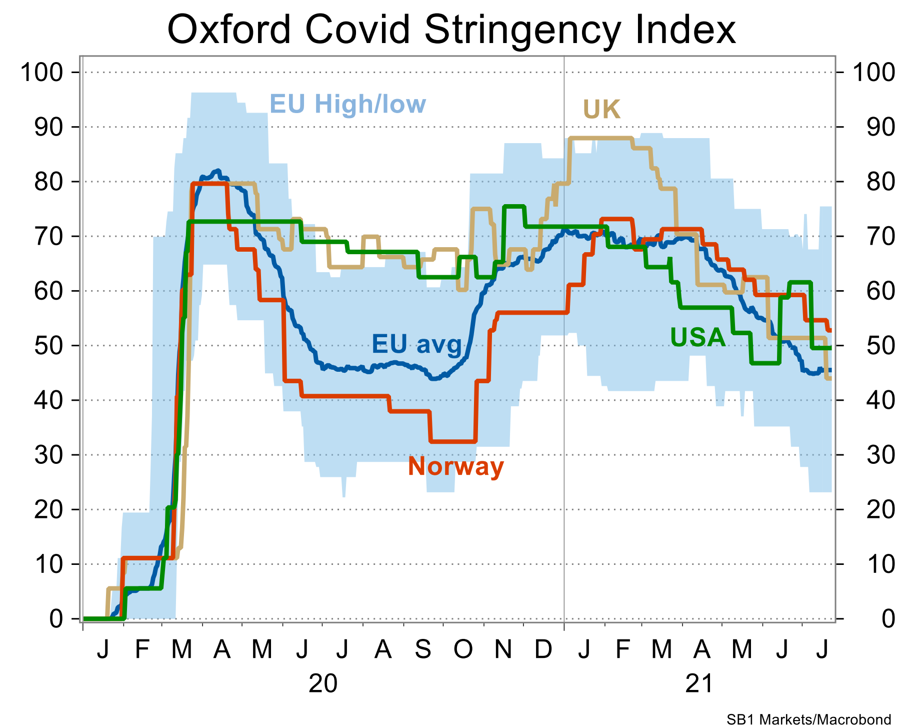






Italy has tightened Covid-19 restrictions again, most other are still easing





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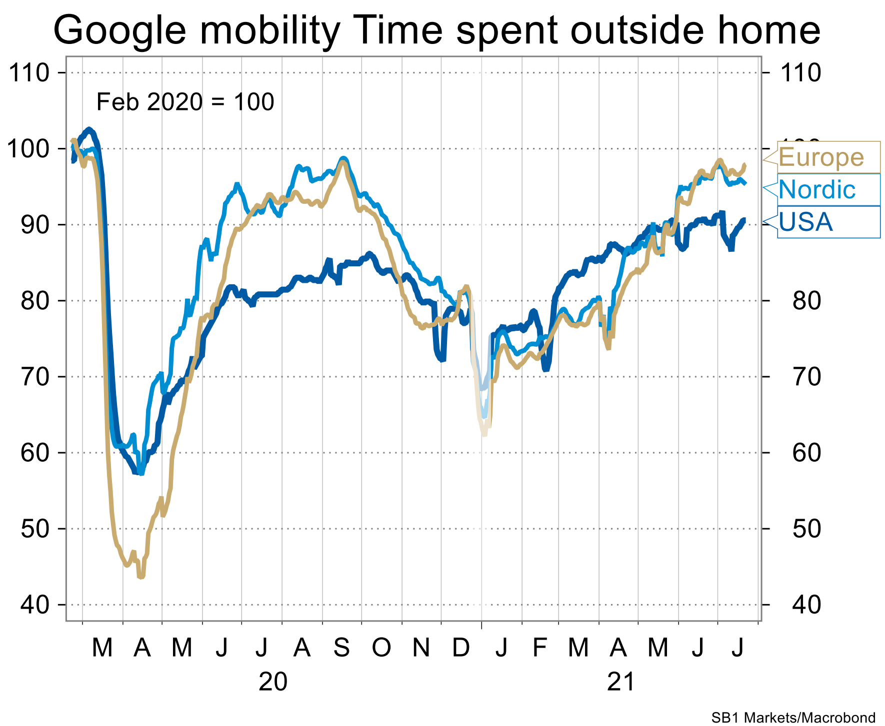
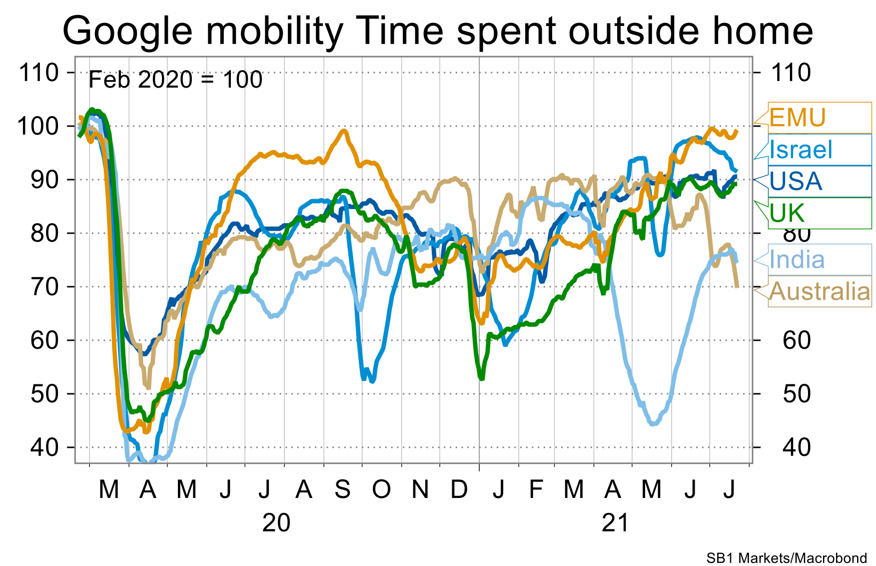
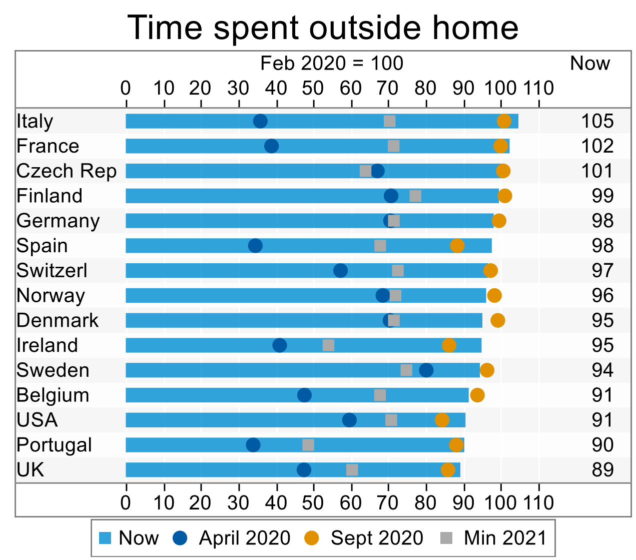
Are we seeing some impact of the Delta on mobility? Trends have flattened

Mobility sharply down in Australia, and Israel is sliding – after being attacked by the Delta virus

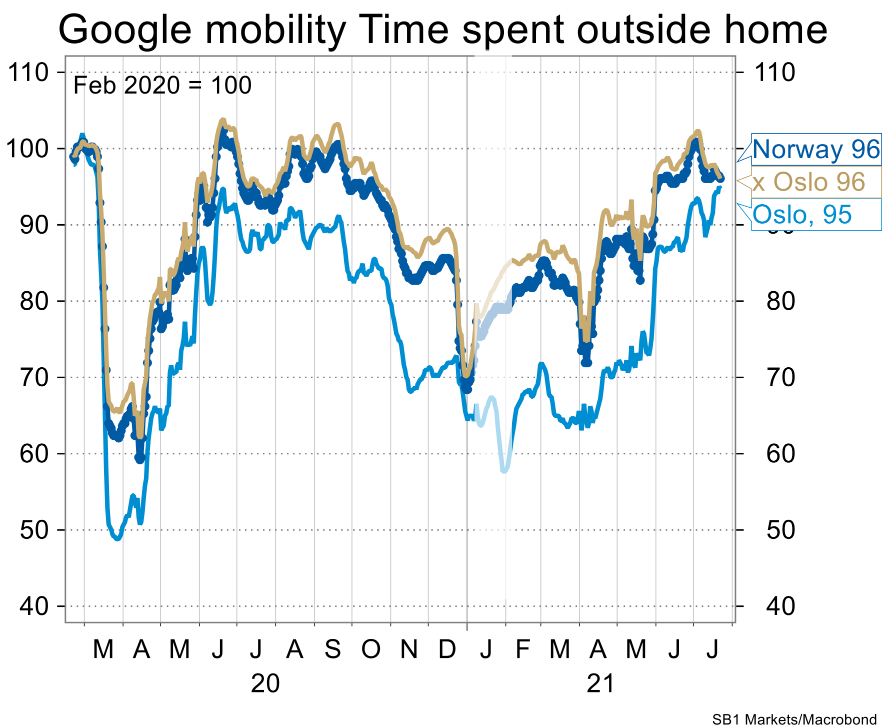


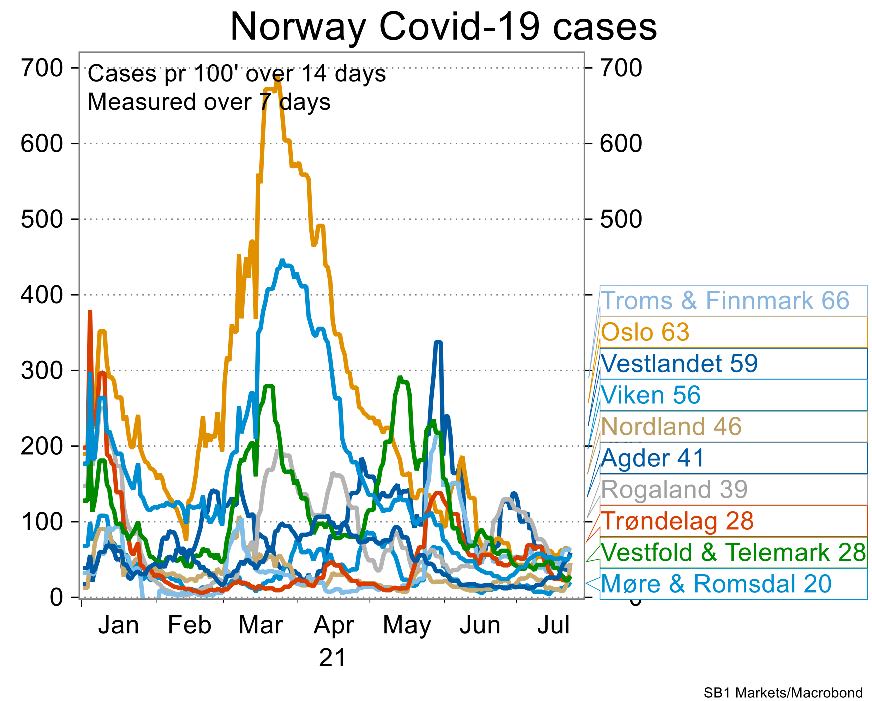




Mobility almost back to normal most places in Norway

Some local virus outbreaks, seems manageable





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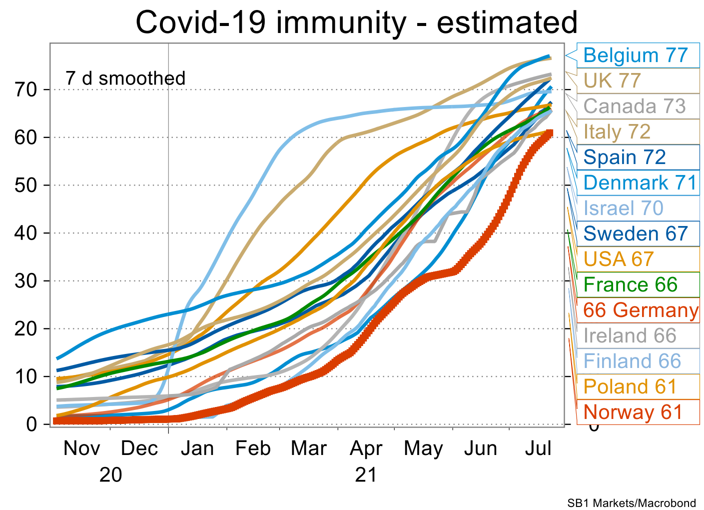
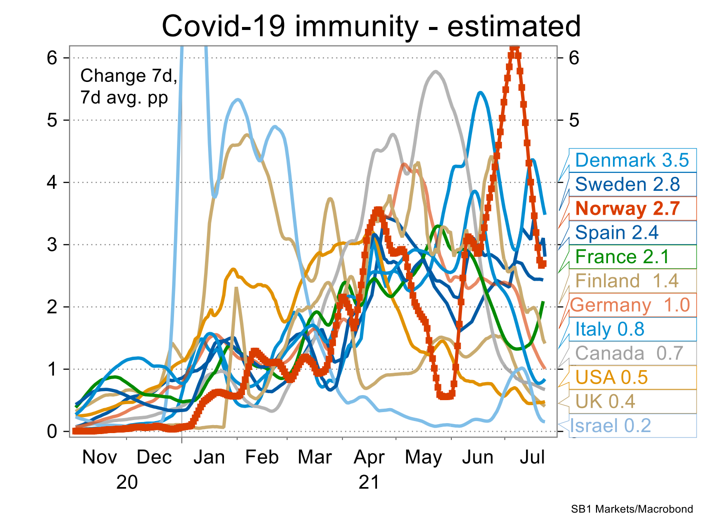
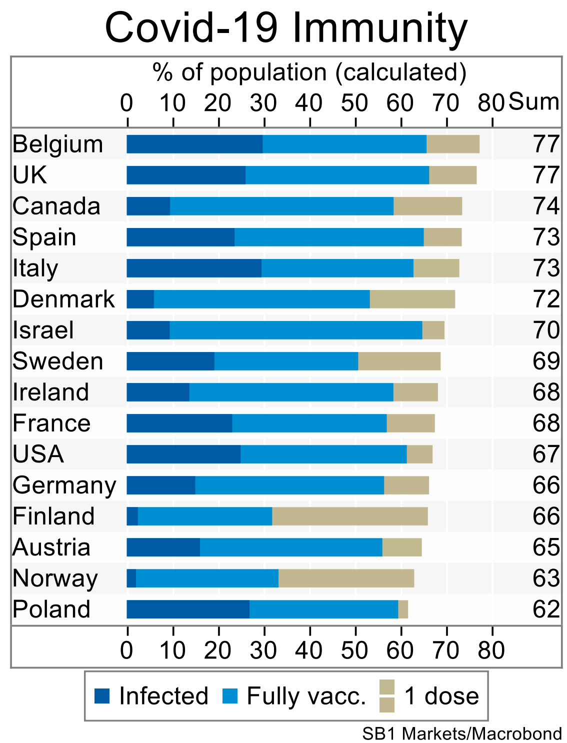
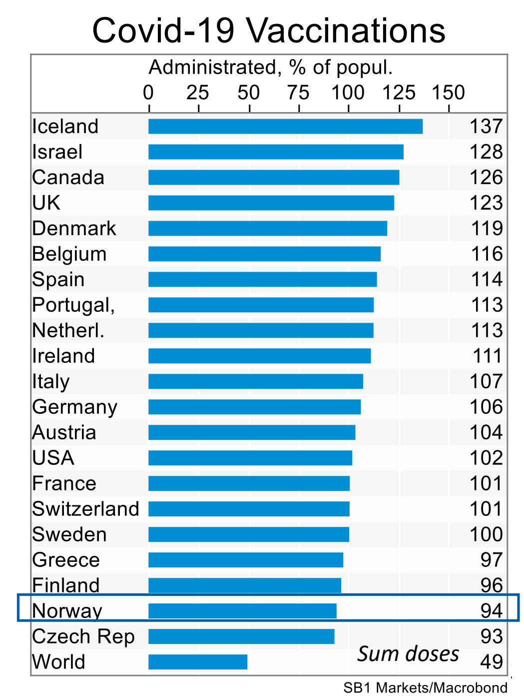
Vaccinations: EU/Norway are keeping the pace better up than US/UK

Even with high vaccination rates, the Delta variant is spreading rapidly. More vaccines needed









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 (a conservative assumption)

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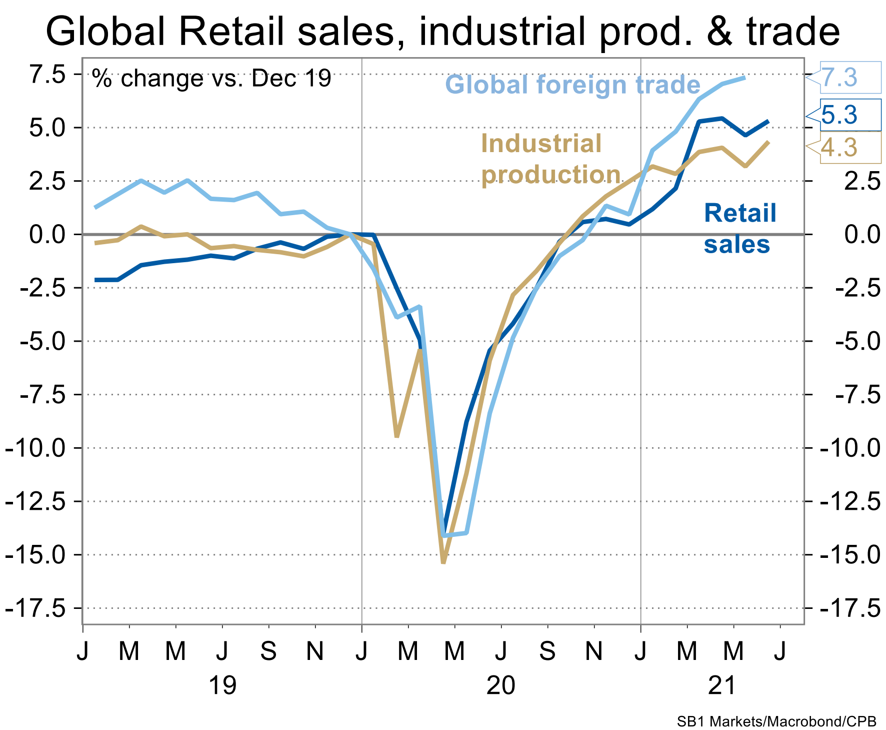
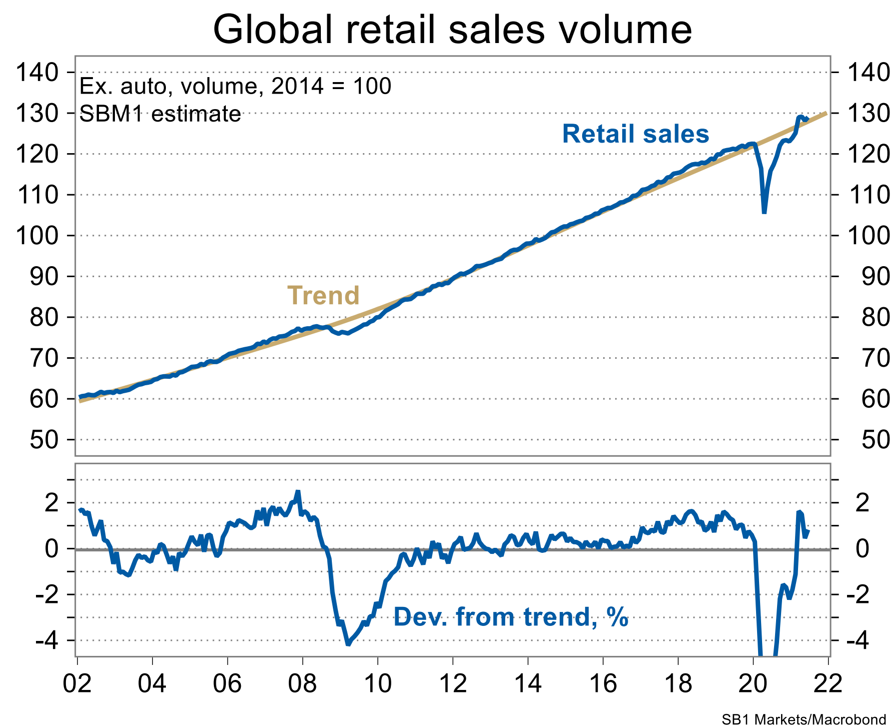
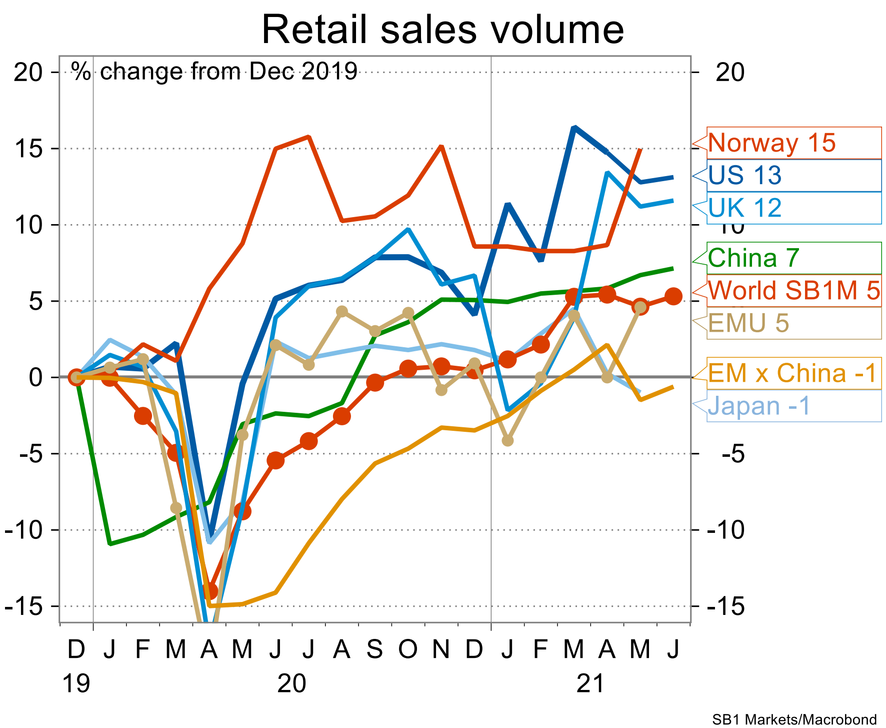
Global retail sales & manufacturing production up in June but has flattened?

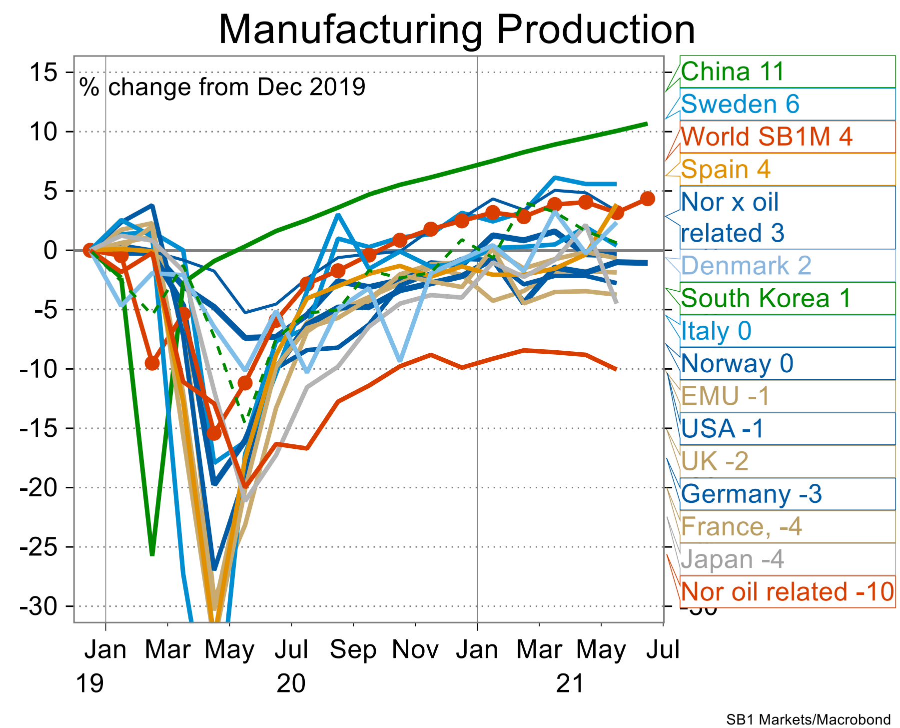




- **Retail sales** probably rose in June, according to our very preliminary forecast – but sales have flattened recent months, partly due to an assumed setback in India. The level is approx. 5% up vs the pre-pandemic level
- **Manufacturing production** probably rose too (a very preliminary estimate) – and may still be trending upwards. The level is some 4% above the pre-pandemic level. Trouble in India and in the auto industry globally has contributed at the downside
- **Global foreign trade** rose further in May, to 7.3% above the pre-Covid level, according to CBP in Netherlands – and the trend is straight upwards

So far, mostly good news in June, both for retail sales & manufacturing prod.





- Retail sales in emerging markets x China is the laggard – and not just due to (an assumed) weakness in India recent months

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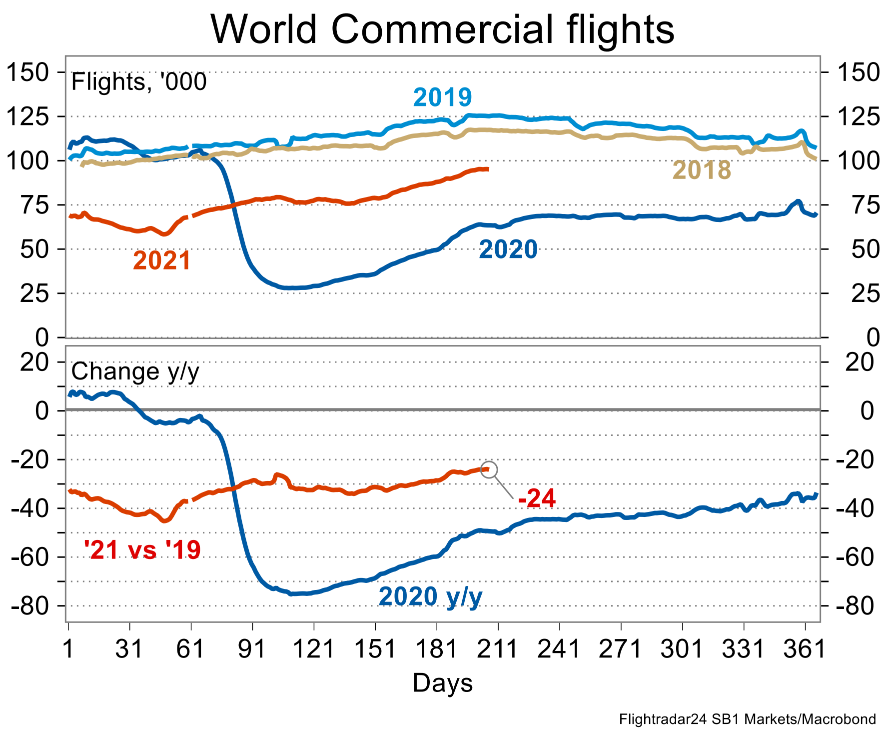
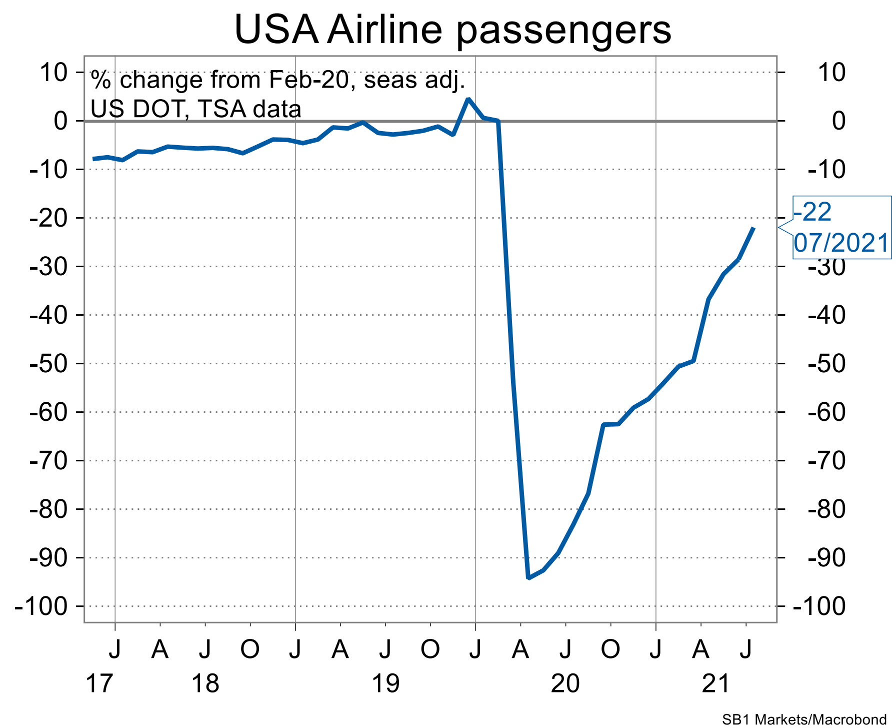
Global airline traffic on the way up again – still 24% below the 2019 level

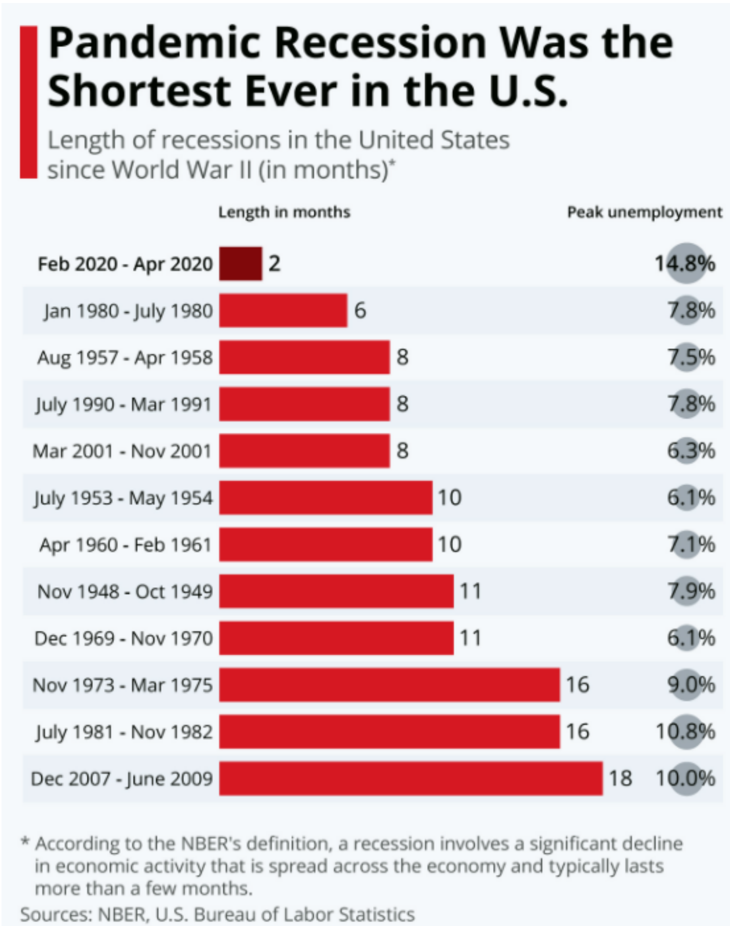
US airline traffic straight up, but still 22% below par due to still little travel abroad





The Covid-19 recession ended in April! (Last year, that is)

Finally, the official arbiter of US recession decided the obvious, the economy bottomed in April-20

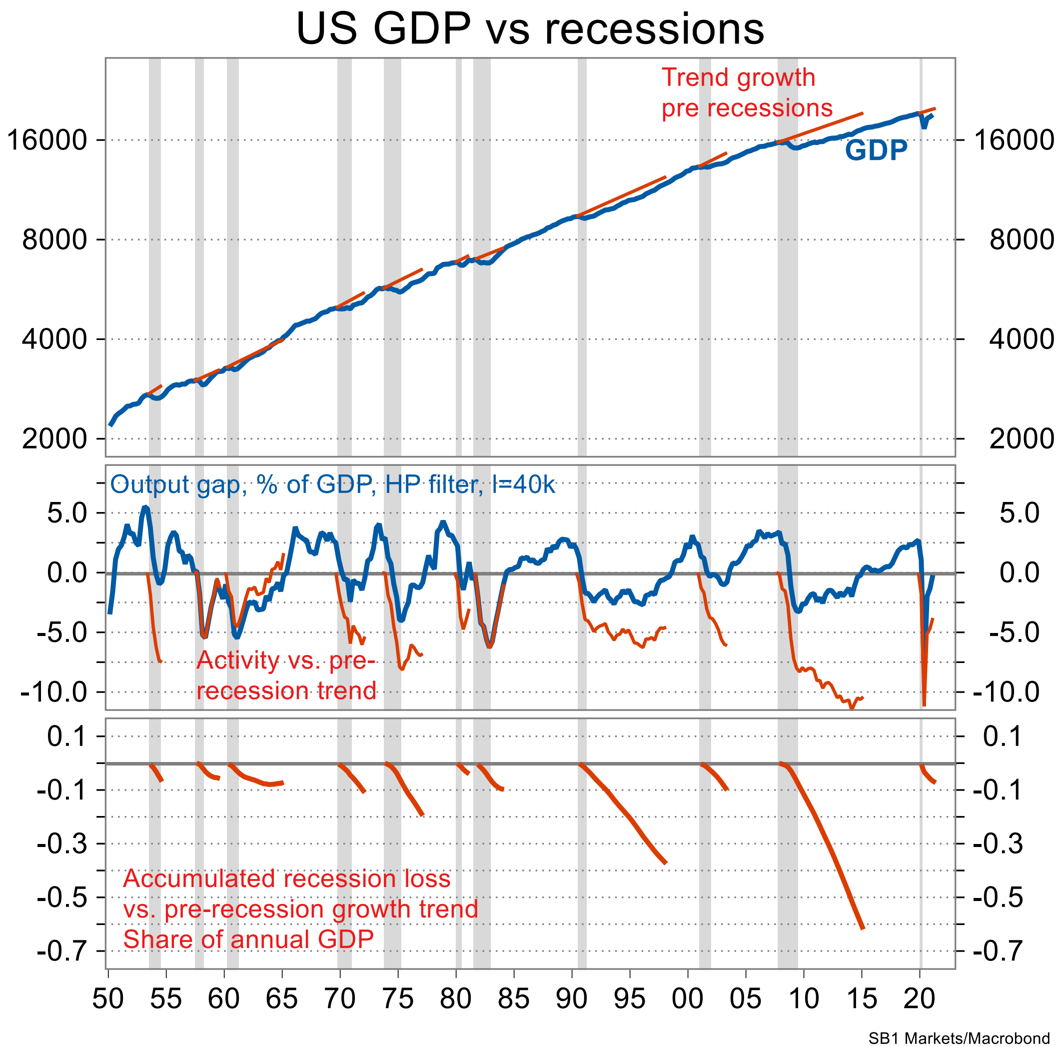


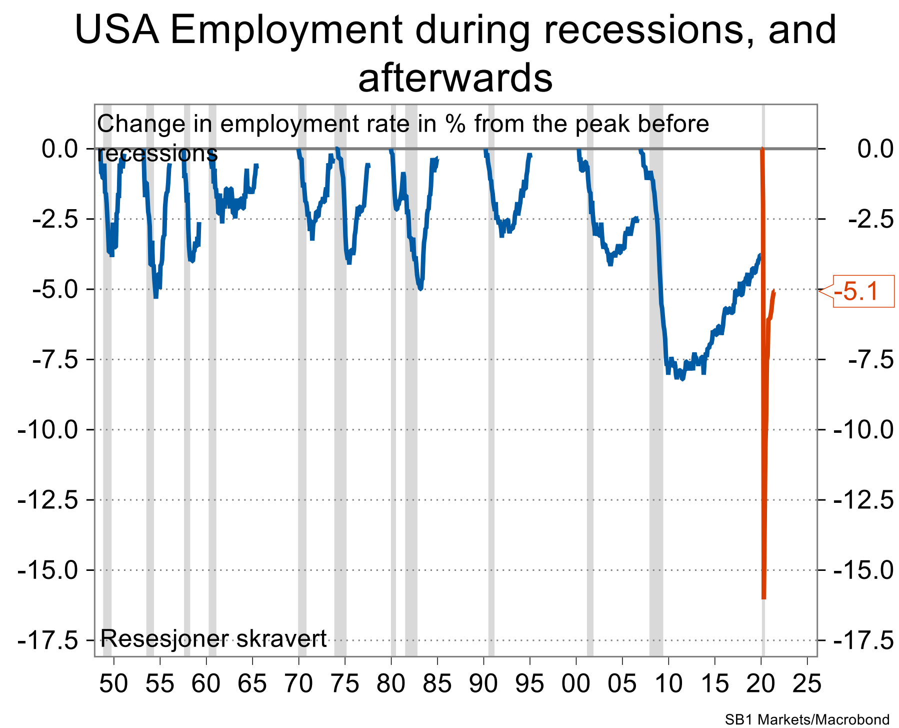
- The extreme deep Covid-19 setback lasted just 2 months. The economy peaked in February, activity fell sharply in March and April. The economy bottomed in April, and the recovery started in May
  - Given the definition, that a decline in economic activity should last more than a few months, the Covid-19 setback hardly justifies to be labelled a recession
  - Usually, a recession last several months, from 6 to 18 months – and by up to above 60 months
- However, the number of months the economy contracts is not that important
  - The speed/depth of the decline, the speed of the recovery, how long it takes before the economy has returned to the activity level before the recession or back to a neutral output gap is just as telling
  - The best measure may be the accumulated loss of production, employment or income vs. a normal activity level, or vs. what economic actors may reasonably had expected ahead of the recession may be the most important figures

Chart to the left: statista

Some recession illustrations. The pandemic downturn was deep but very short

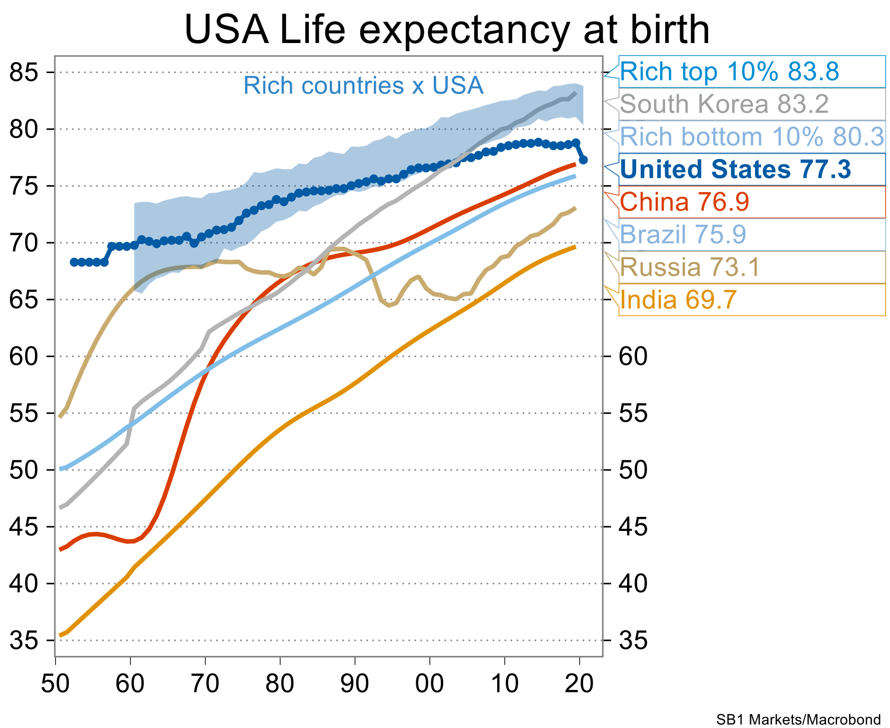
The accumulated economic loss is very likely among the smallest in history

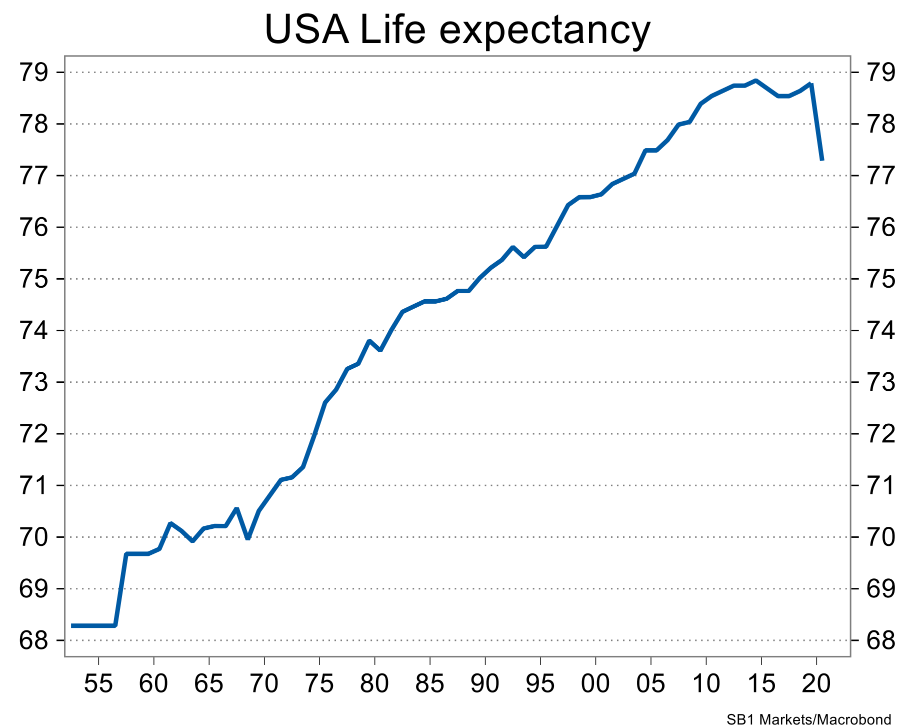




- The accumulated loss at the bottom chart to the left is based on the gap to reasonable growth forecasts based on actual growth trends the 3 – 5 years before the recession (adaptive expectations). The calculus runs until the traditional output gap is closed (which is an arbitrary ending point of course, and unknown real-time)
- Most metrics will conclude that the Financial crisis created the hardest economic downturn since WWII

Life expectancy took a beating in many countries last year



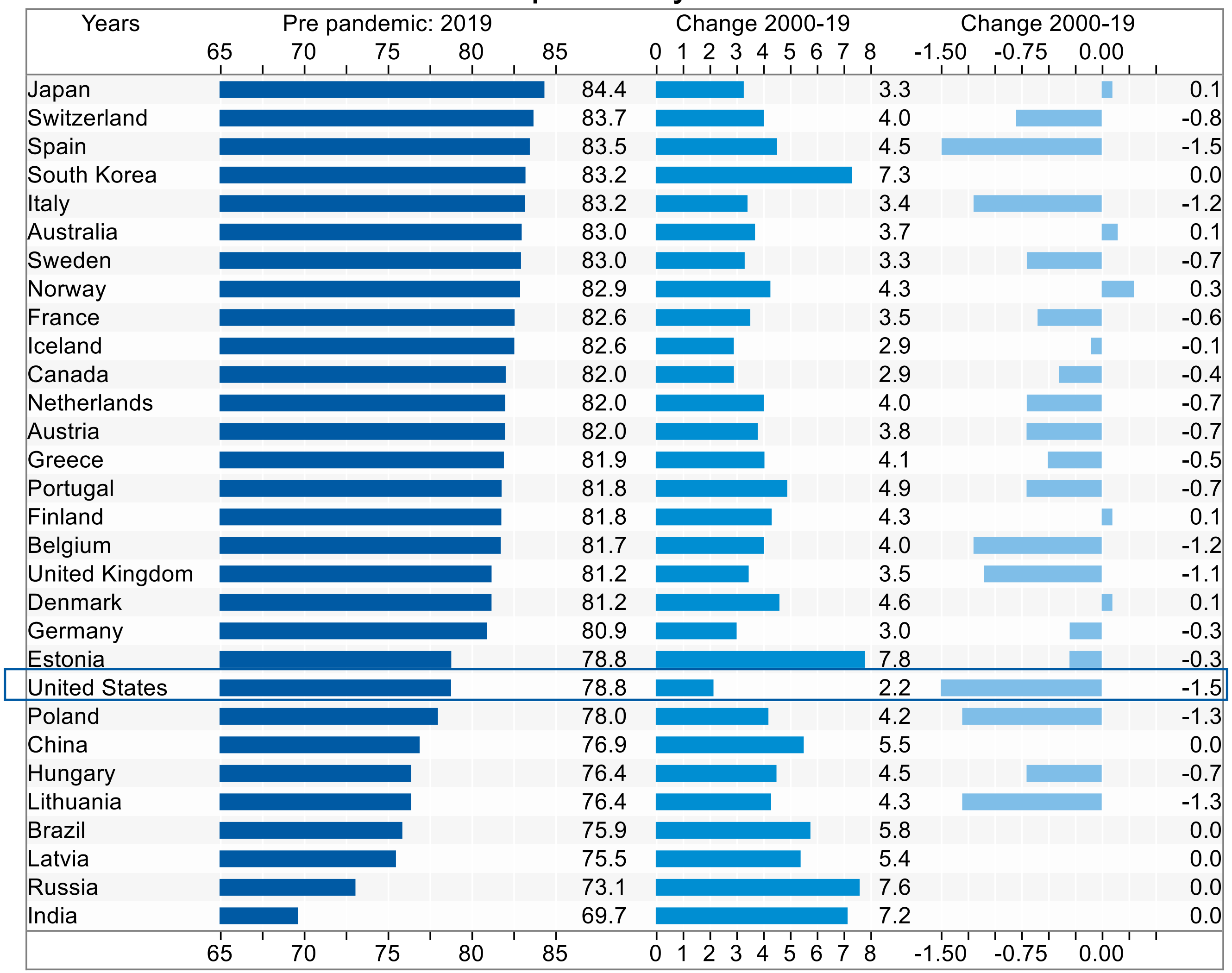


- USA has been a laggard among rich countries since the early 80'ies, with far smaller increases than in other countries. Life expectancy has stagnated since 2012, mostly due to the opioid crisis. In 2019, the US LE was the west in the rich part of the world (see more next page)
- The decline in US life expectancy in 2020 at 1.5 years was the highest among rich countries (on par with Spain)
  - » The setback in the US was the largest since 1943 – and the level was back to the level in 2003

Life expectancy: US an outlier among rich countries

Germany has been an outlier in Europe

Life expectancy at birth



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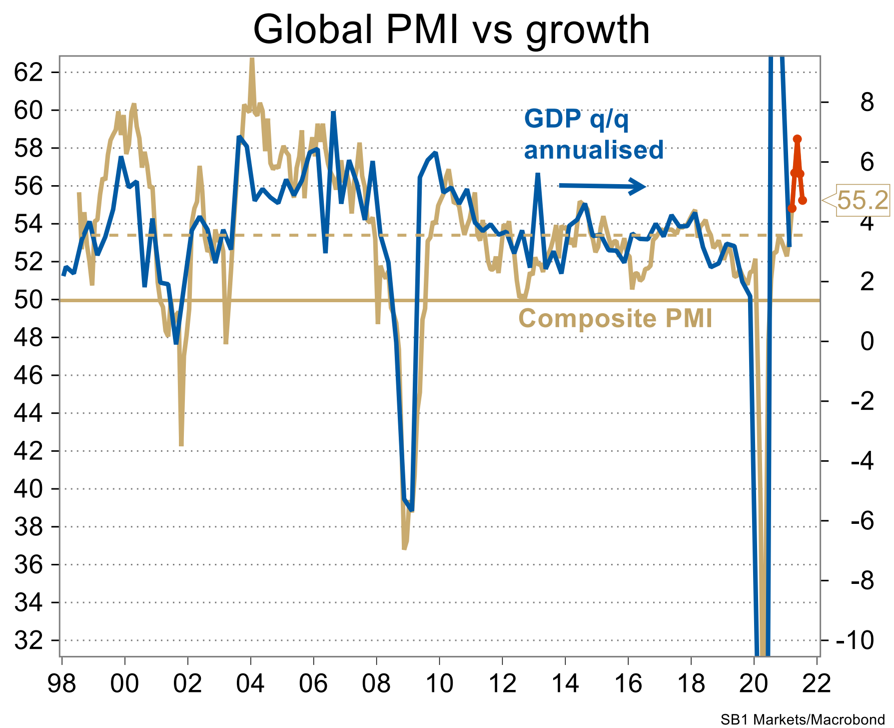
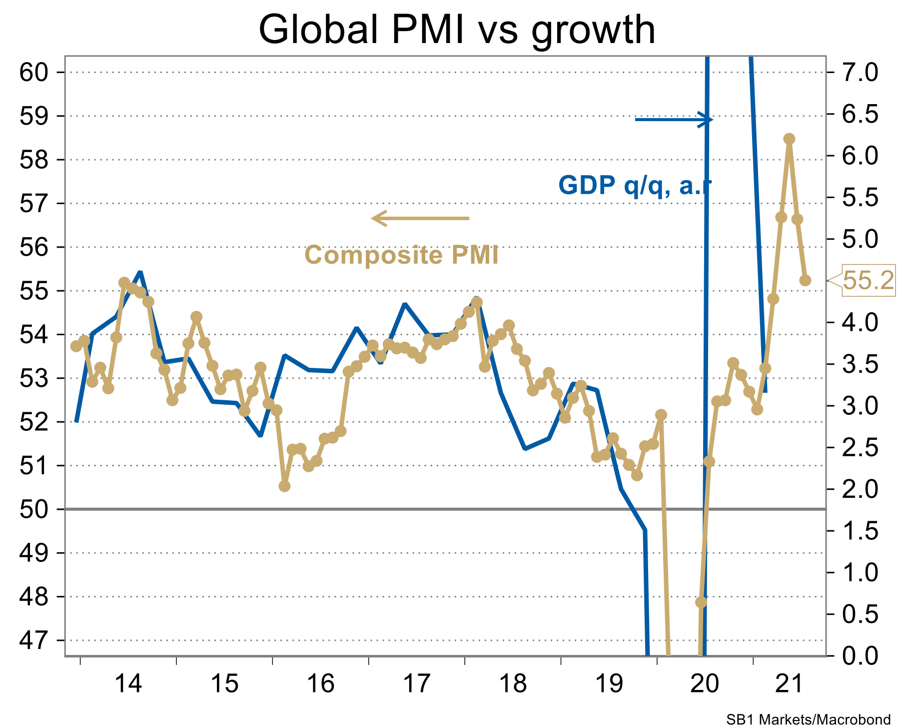
- US life expectancy has increased just 2.2 years to 2019 from 2000, and the level is the lowest among rich countries
- Japan, Switzerland and Spain is at the top, Norway in the upper half among rich countries. Russia is lagging 10 years most rich countries (US 4 years)
- Most countries have reported a decline in LE in 2020
  - » US and Spain lost the most. UK and Belgium also at a high level. Sweden lost 0.7 years, Norway gained 0.3%, the best on our list
  - » In many countries, 2021 Covid-19 death rates will be far higher than in 2020
  - » <u>*The 'zero' countries (the bar to the right) have not yet reported 2020 data*</u>

PMI very likely down in July too, level still OK – signalling 5% GDP growth

We estimate 1.4 p decline in the comp. PMI to 55.2 dragged down by a 3.9 p drop in the US PMI





- **The global PMI** has peaked, so has very likely global growth – but it remains far above an average level
- **The US PMI** was weaker but still close to 60, signalling almost 5% GDP growth
- **The EMU PMI** rose more than expected, to above 60 (ATH), signalling 4% GDP growth
- Both **Japan** and **UK** reported a decline in their PMIs in July
- **Delivery times, input & output** prices are still increasing at a rapid pace but slower in July than in June

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

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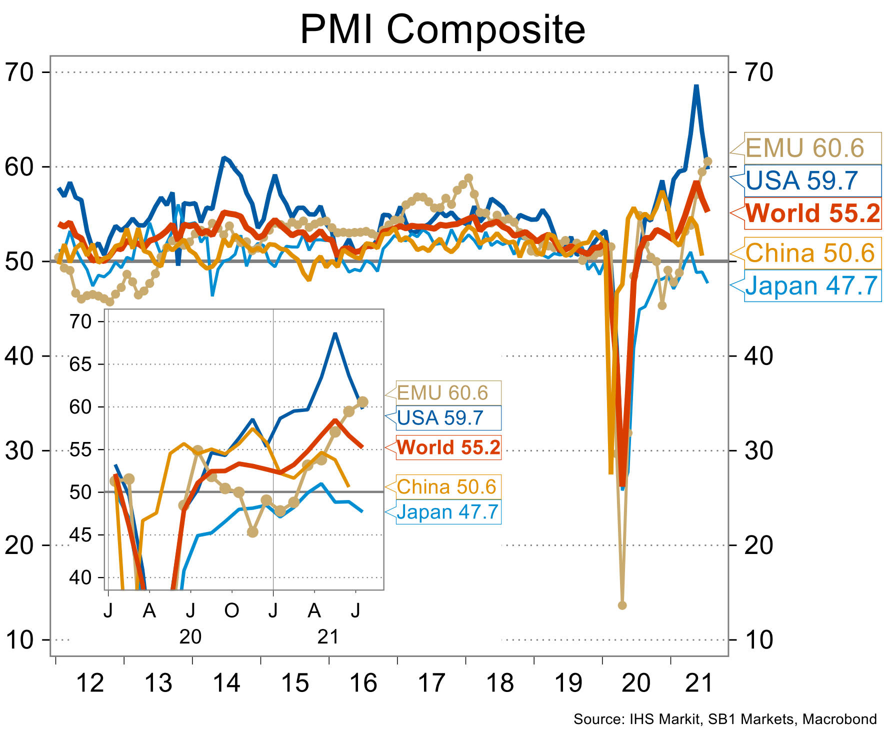
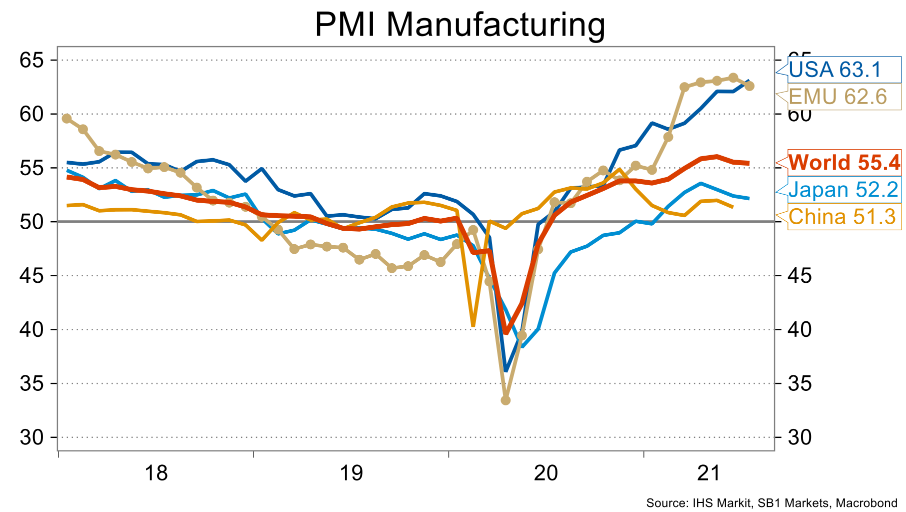
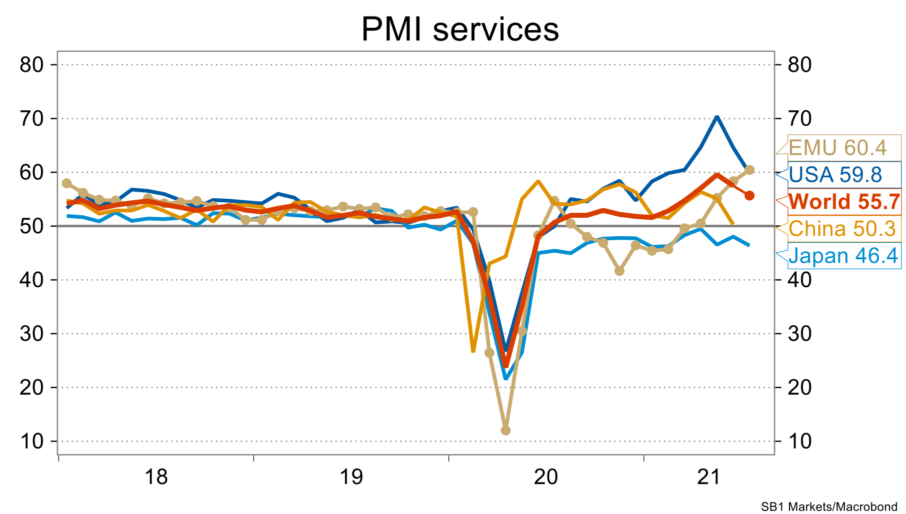
The EMU up in the lead, as services expands faster

Still, services was the drag on the global composite PMI as US services reported slower growth







- The total **manufacturing PMI** was close to unch, while the **services PMI** fell almost 2 p
- Peak growth behind us in the **US** but as the GDP level has come close to the pre-pandemic trend, that's not a sign of weakness. And now crisis yet, PMI says 5% growth ☺
- The **EMU** PMIs rose to ATH, and signals a 5% GDP growth
- **The UK** fell too, but is still signalling 3% GDP growth
- **Japan** is still sagging, the PMI further down, signal a GDP decline

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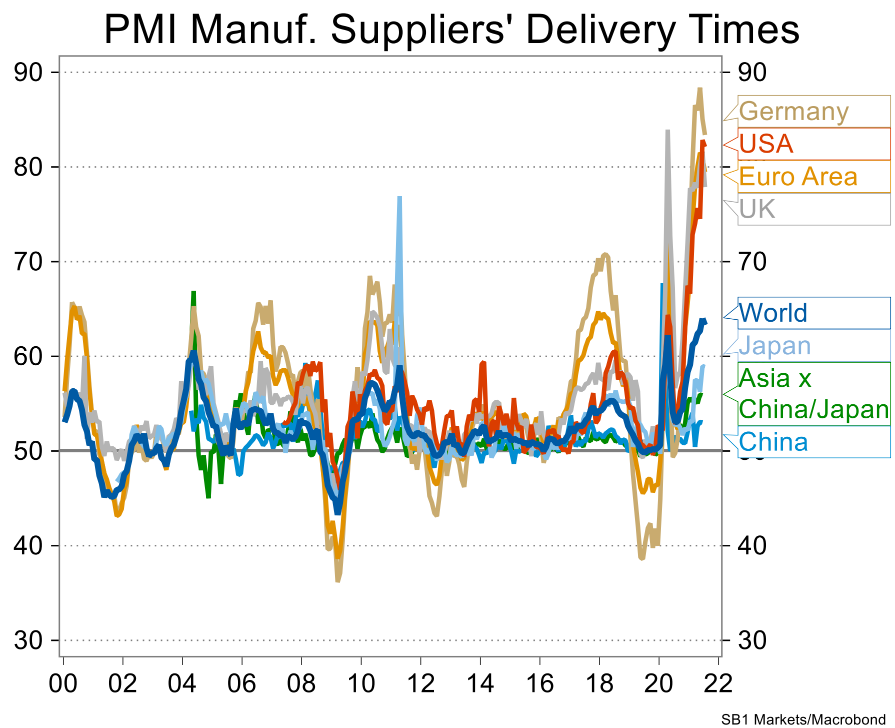
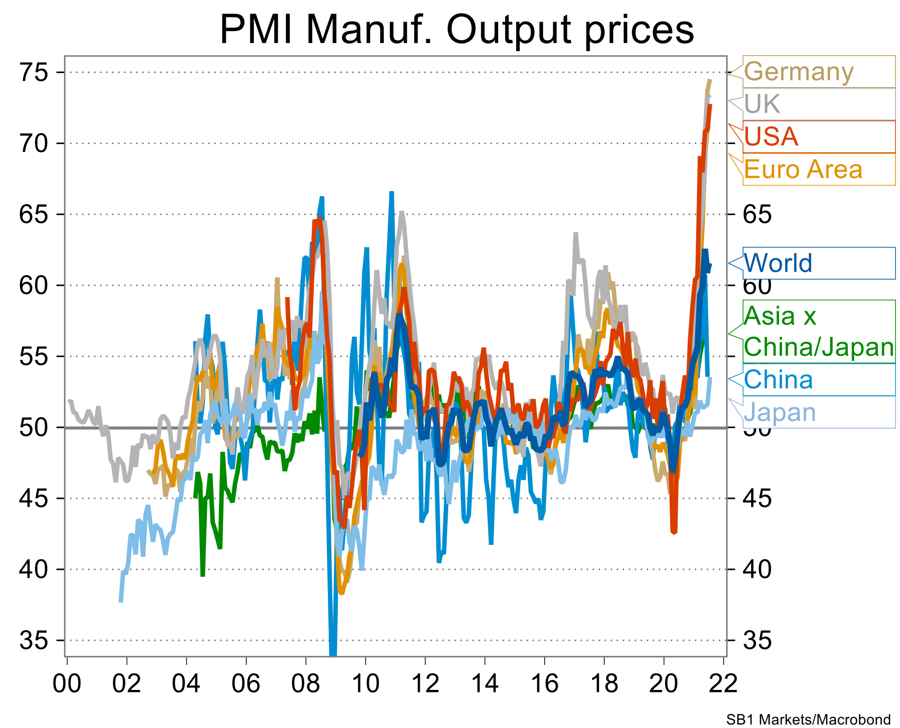
Delivery times are still rising but at a marginally slower pace

Prices are rising at a rapid pace but a tad slower in July, as in June

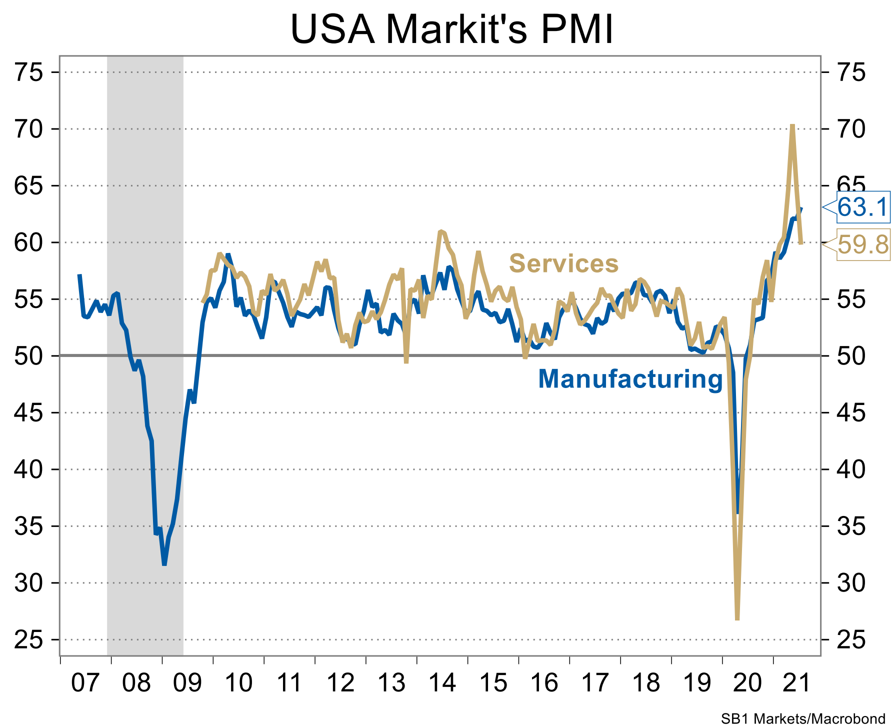


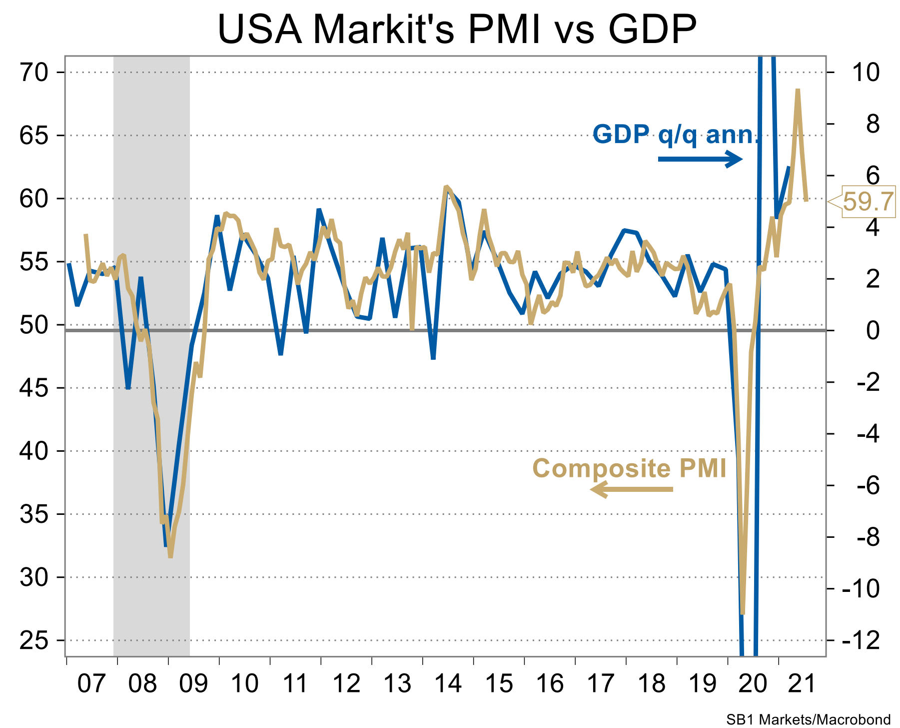


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) probably fell slightly in July, signalling that delivery times rose at a slower pace in July
- **The global manufacturing output price index** rose marginally in July, following a small decline in June. Other price indices fell slightly

Services are expanding at a less explosive pace – manufacturing still accelerating

The service sector PMI fell by 4.9 p to 59.8, manuf. up 1 to 63.6 (ATH, again). Comp. -3.9 p to 59.7

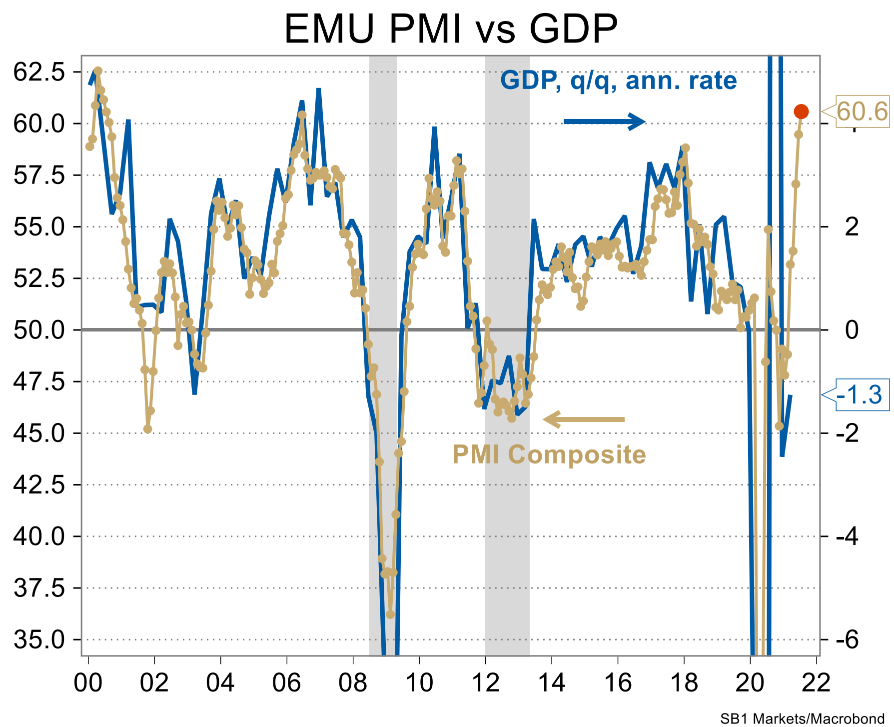


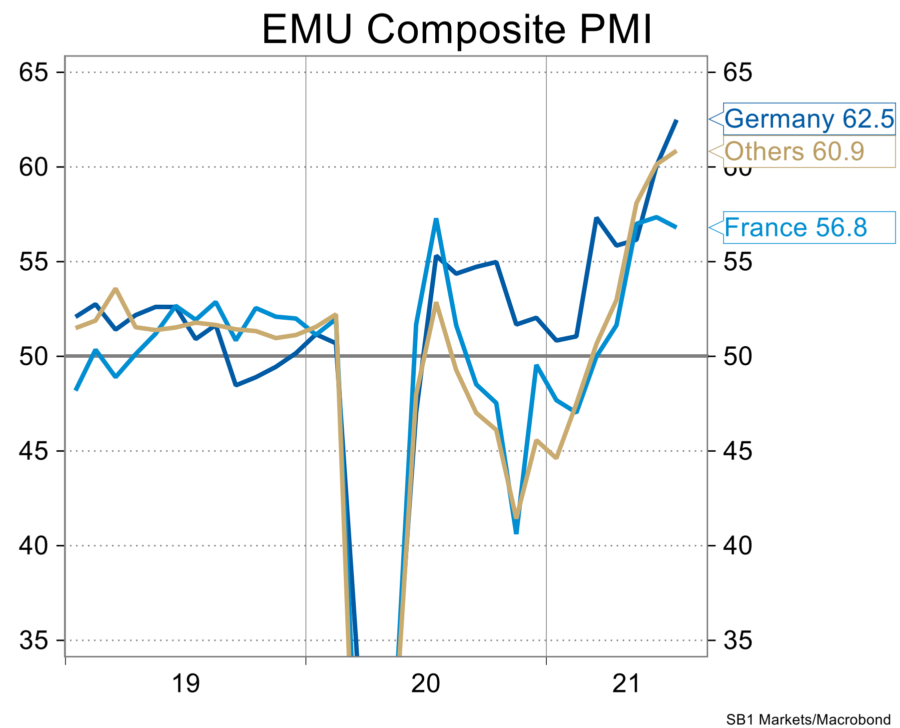


- Both the services and the manufacturing PMIs were expected 0.1 p down
- The composite PMI is still far above an average levels and signals a 5% growth rate, down from 7% in June and 9% in May
  - » Thus, the PMI is signalling growth well above trend into Q3 – but growth has no doubt peaked
- Prices are soaring – and faster than anytime since the composite index was introduced in 2009

Another PMI lift in July, the strongest print in 21 years

EMU composite PMI up 1.1 p to 60.6, expected up to 60.0 – the best level since 2006

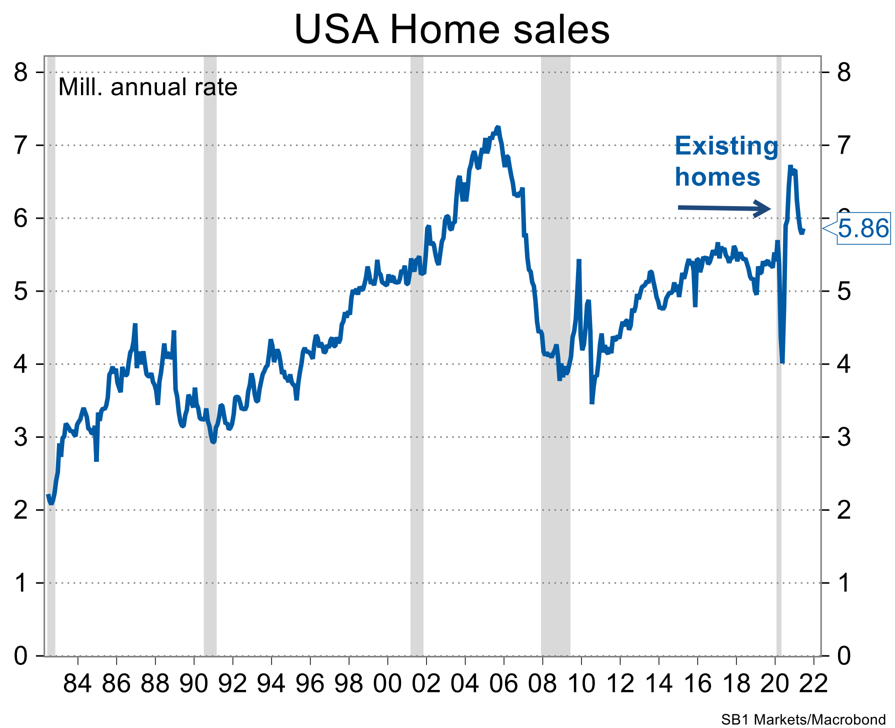


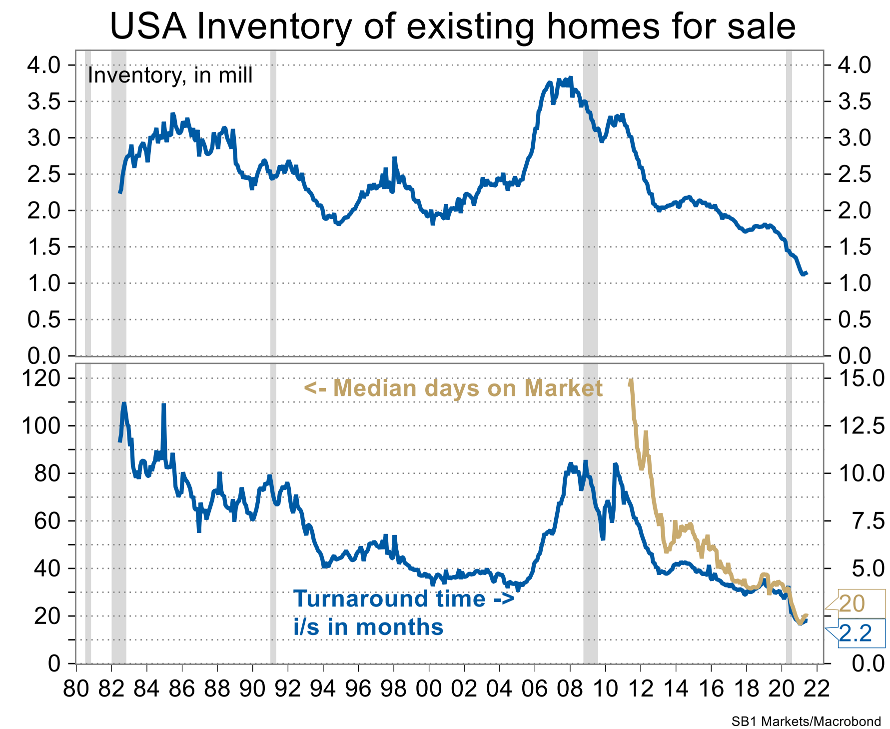


- **The composite PMI** at 60.6 signals a 4% pace of growth in GDP (or 0.9 % per quarter)
  - » The composite index rose sharply in Germany, but fell marginally in France. The average of Spain & Italy (and very likely both countries) also accelerated – and reported the highest composite PMI ever
  - » The service sector PMI rose further amid the surge of the Delta variant and was far better than expected, while the manufacturing PMI fell marginally – but is still at a very high level, 62.6

Existing home sales slightly up in June – still well down from the local peak

The 2nd hand housing market is 'emptied', the inventory is record low. But prices are flattening??

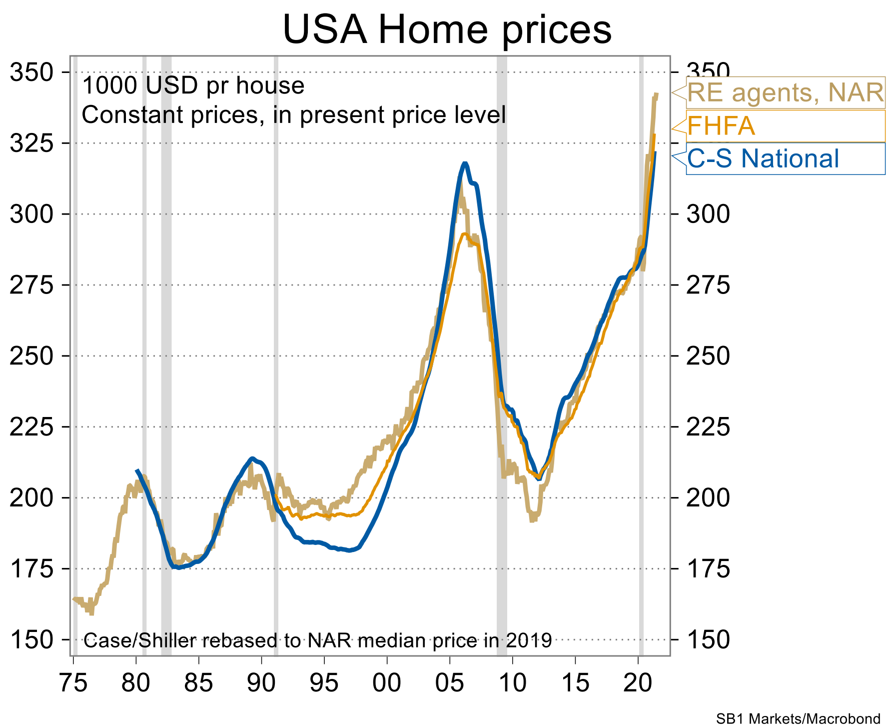


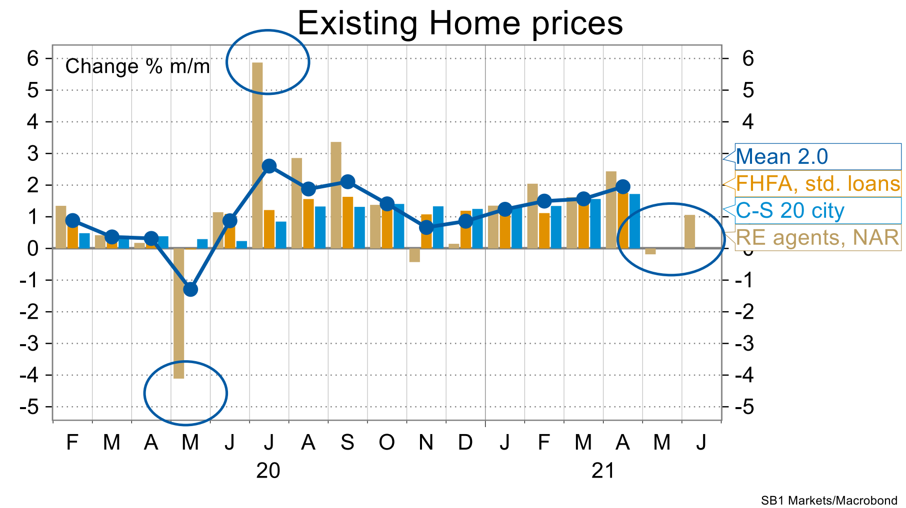


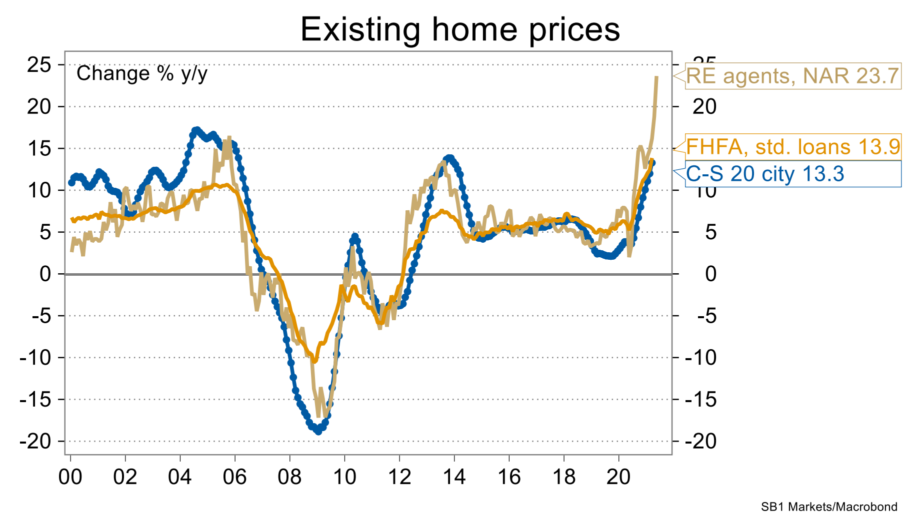
- Sales of **existing homes** rose to 5.86 mill (ann. rate) in June from 5.78 mill in May, expected up to 5.9 mill. Sales are down 10 from the local peak but still above 10% above the pre-pandemic level. Sales are do doubt kept down due to an unprecedented lack of supply. However, there are reports on buyers becoming more cautious following the steep rise in prices
  - » **The inventory of unsold homes** rose marginally but is still extremely low, and equals just 2.2 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times is at 10 months
  - » **Prices** rose 'just' 0.5% m/m in June, following the 0.1% setback in May. The annual rate at 23.7% is some 5.5 pp inflated due to the steep price decline last May. Just wait, in July the annual growth rate will tuble ☺

Existing home prices are flattening? +0.5% in average last 2 months

… but these NAR prices are very volatile



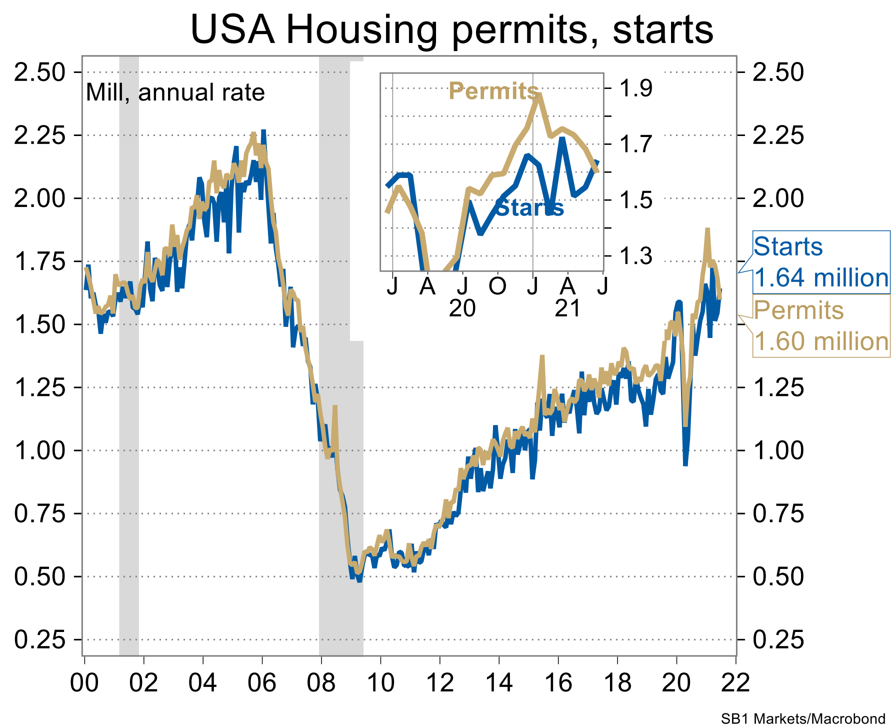


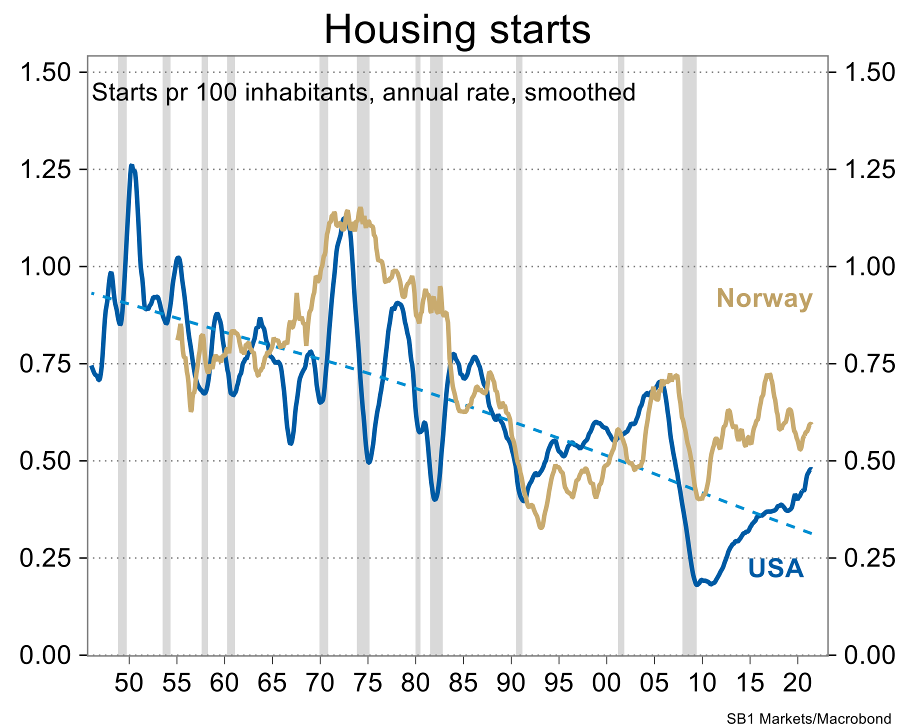


- **Prices** rose 1.1% m/m in June, up from -0.2% in May, in average 0,5% per month, substantially less than over the previous months
  - » The annual rate at 23.2 is record high – but partially because prices fell sharply last spring
- **Other price indices** confirm the red hot housing markets, prices are rising extremely fast, even after adjusting for the decline/slow growth last spring

Housing starts up, permits marginally down up in June

Both starts and permits have flattened recently, even if the existing home market has been red hot

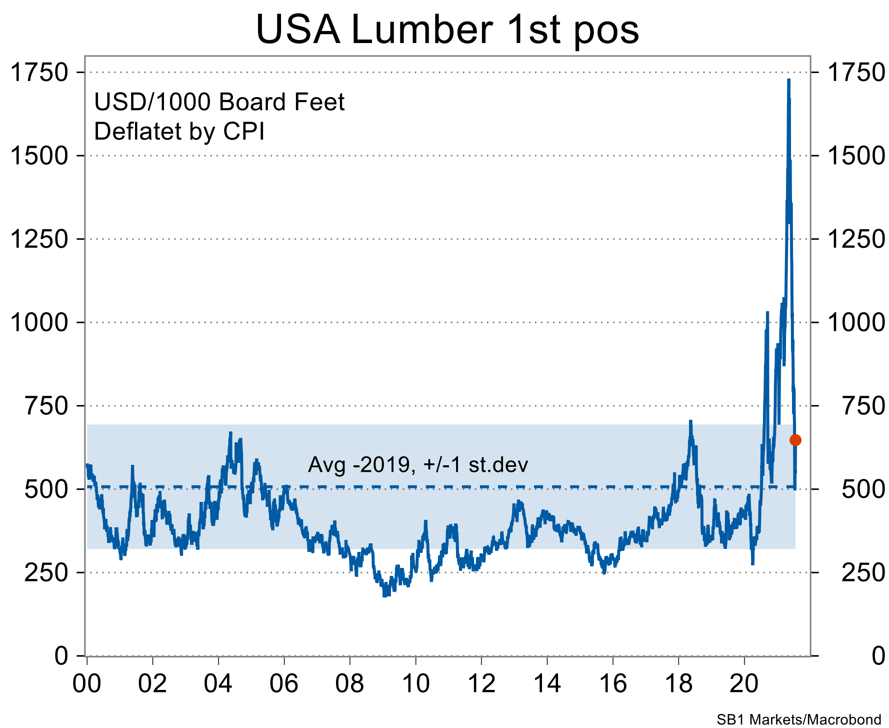




- **Housing starts** rose to 1.64 mill in June, up from 1.54 mill in May, expected up to 1.59 mill. The trend over the recent months is more or less flat
- **Building permits** fell to 1.64 mill from 1.68 mill in May, expected up to 1.70 mill. Permits have fallen 15% since January but the level is far from low, in fact close to the pre-pandemic trend upward path. We usually put most emphasis on permits since they are less volatile m/m and less influenced by weather etc.
- The sharp **decline in lumber prices** signals that some of the supply problems are easing, which they usually do after (often a rather short) while

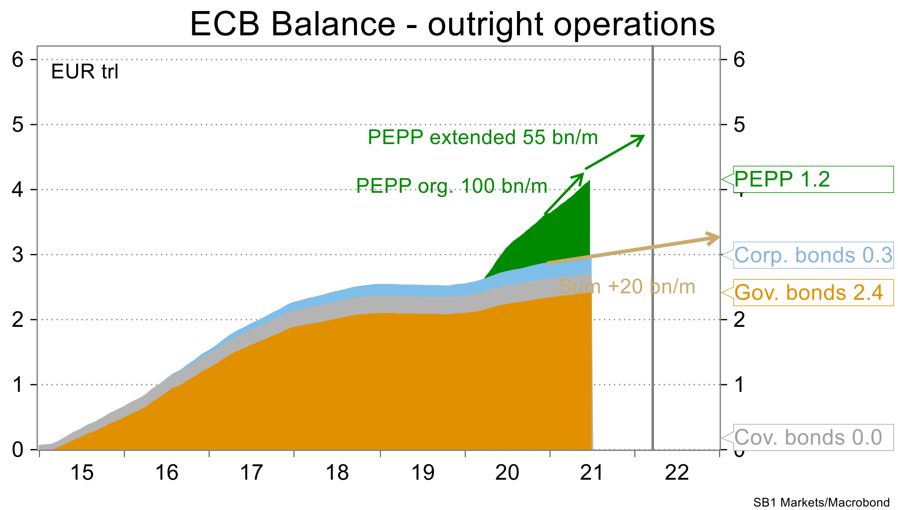
Lumber prices have fallen sharply – still above normal levels

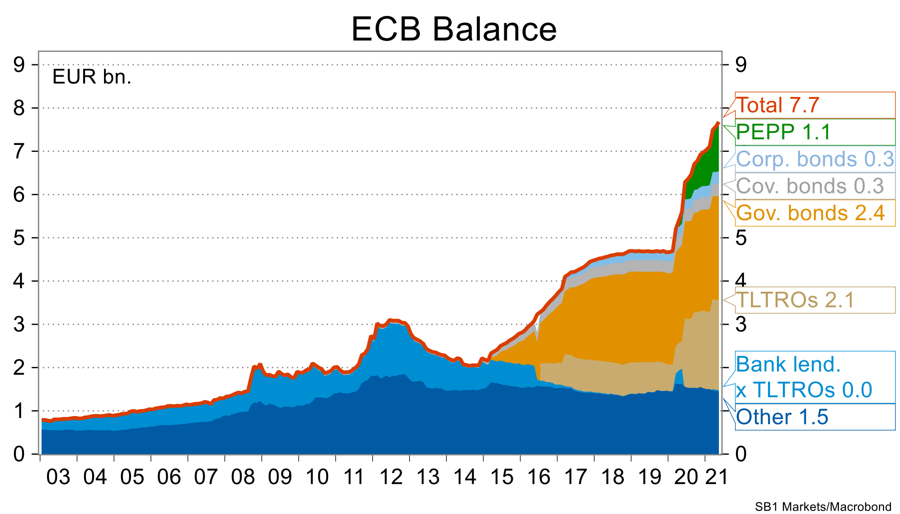
Some of the cost pressure is eased recent weeks



ECB: Low for even longer, following the lift of the inflation target

However, no new initiatives – perhaps because the board is split



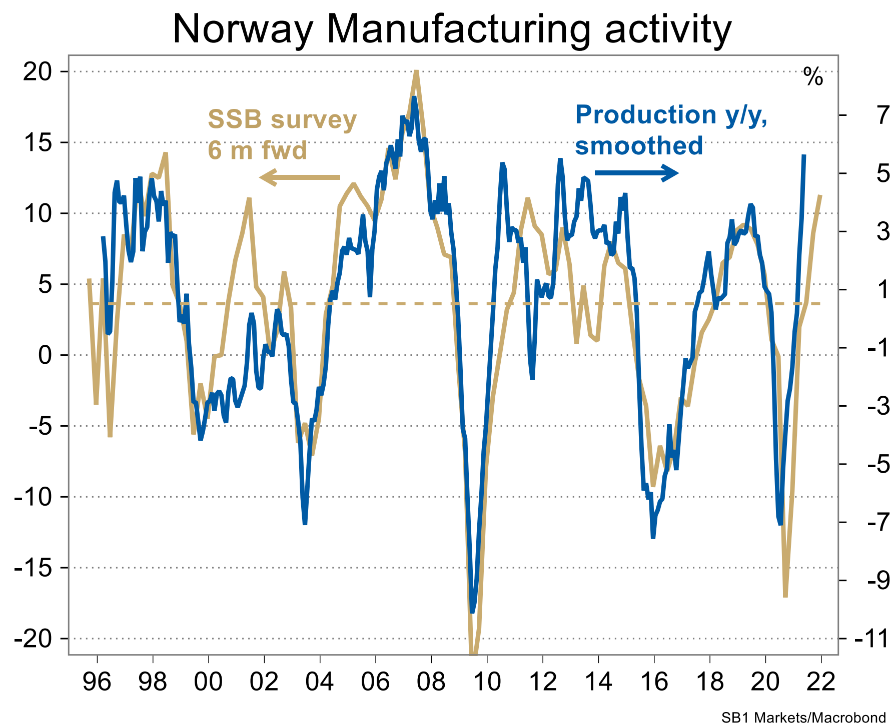


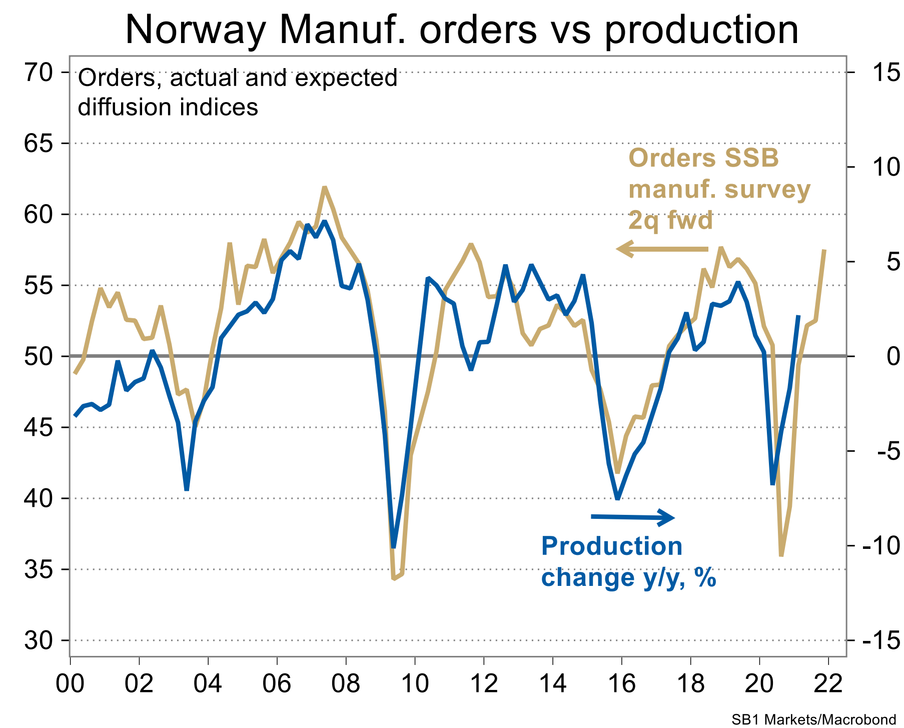
- **QE programs not expanded/extended, and no change in signal rates. But the talk was dovish**
- However, the bank (Lagarde) signalled that policy rates will be kept low for longer, following the upward revision of the bank's inflation target to (symmetric around) 2% two weeks ago, and she sounded like more QE soon could be a reality
- While the lifting of the inflation target to 2% was unanimous, the media reports suggest Germany and Belgium opposed the low-for-longer message or more aggressive QE actions
- Bond yields still fell some few basis points across the member countries

SpareBank 1 MARKETS

SSB's manufacturing survey up to the best level in 14 years

Signals growth well above trend the coming months, broad based

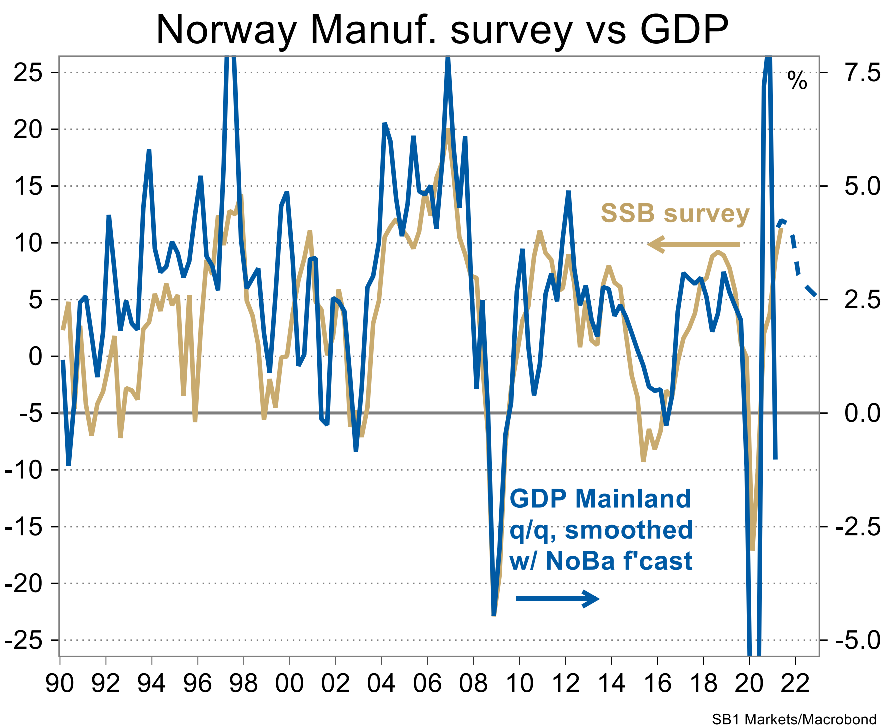


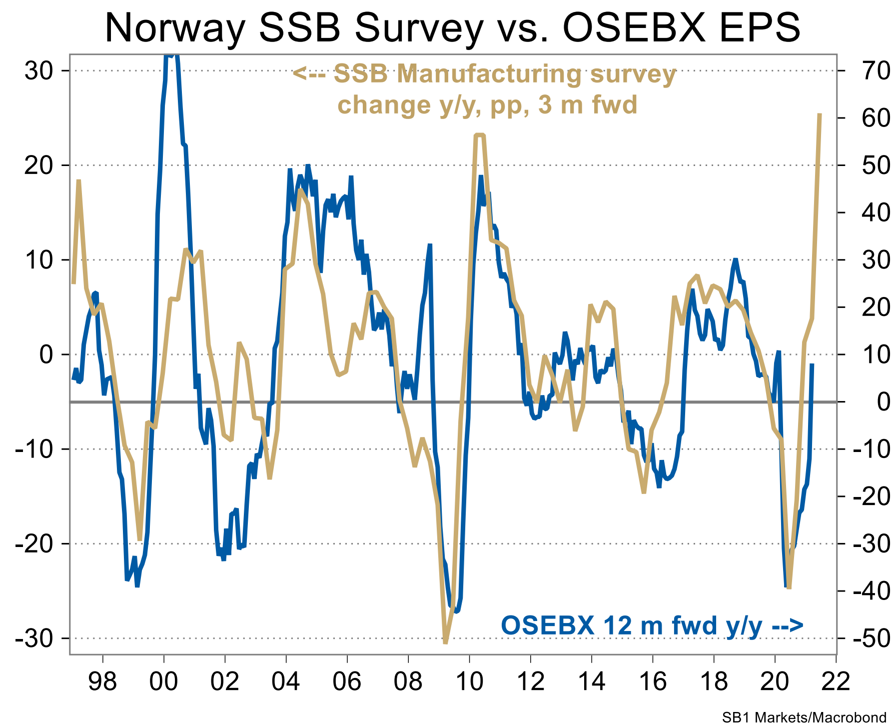


- The composite index in SSB's manufacturing survey rose to 11 in Q2, from 9 in Q1 (rev. up from 8), we expected up to 12. The level is 7 p above the average (or +1.0 st.dev above avg, following a 0.4 st.dev lift in Q2)
  - » The index signals growth well above trend in the manufacturing sector, almost 3% GDP growth and a 60% growth in expected corporate earnings (from subdued levels last year)
- Orders are growing rapidly. Foreign orders are now increasing faster than domestic orders
- ***Supply constraints the most serious since 2008. Demand/competition is far less of a problem than normal***
- ***Companies are reporting they expect prices to rise faster than ever (data from 1990)***

SSB's manufacturing survey signals 4% GDP growth, and a very high EPS growth

However, take care when applying these relationships, given a special (corona) starting point

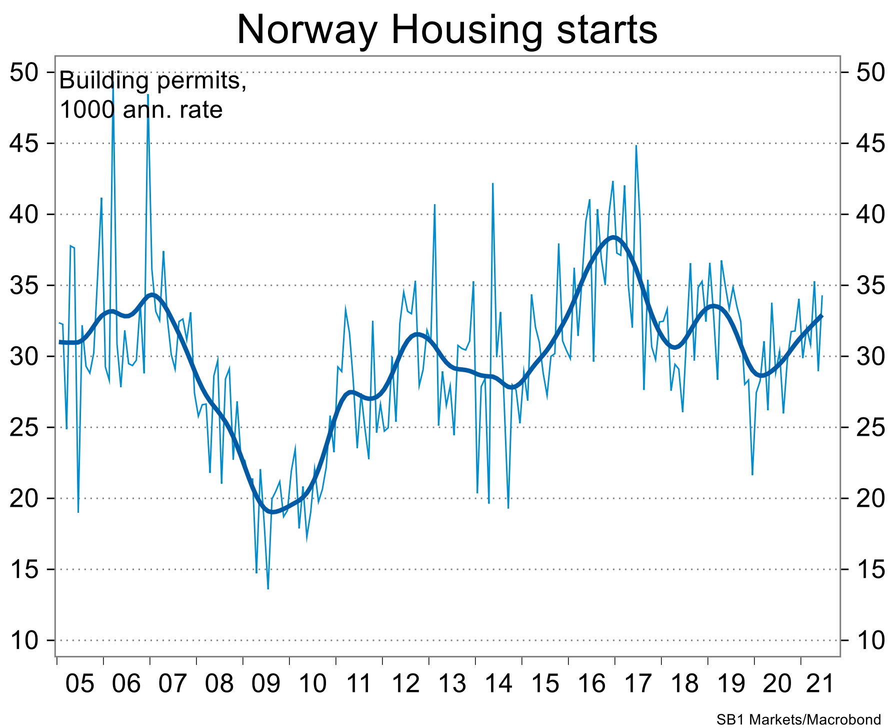


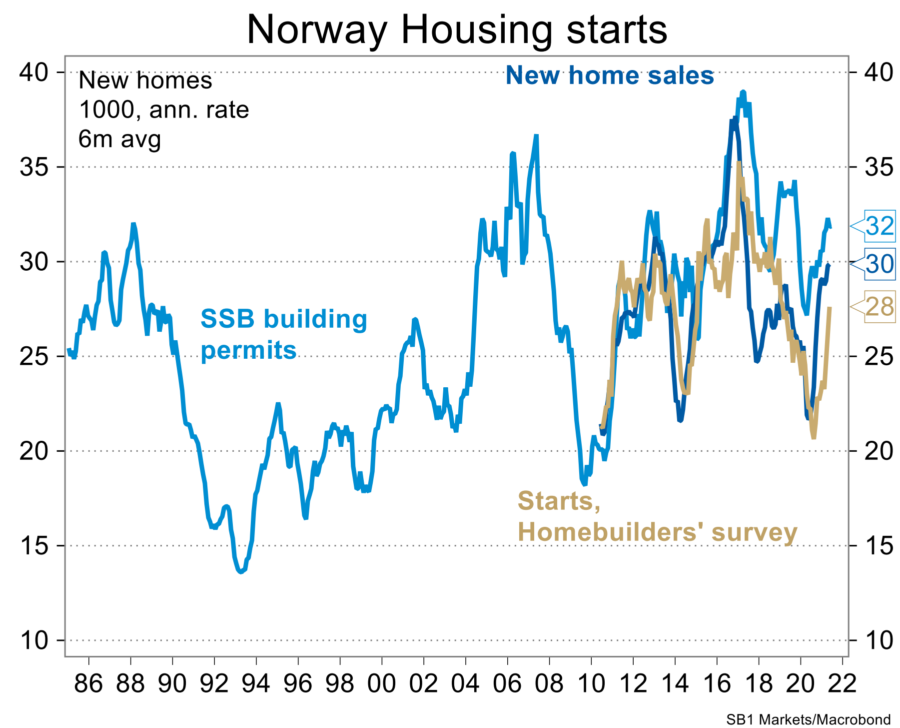


- Our simple EPS-model is not perfect when oil prices are volatile

SSB: Building permits up in June trend is clearly up

Confirm Homebuilders’ sales & start data. Other construction up too, especially garages/2nd homes

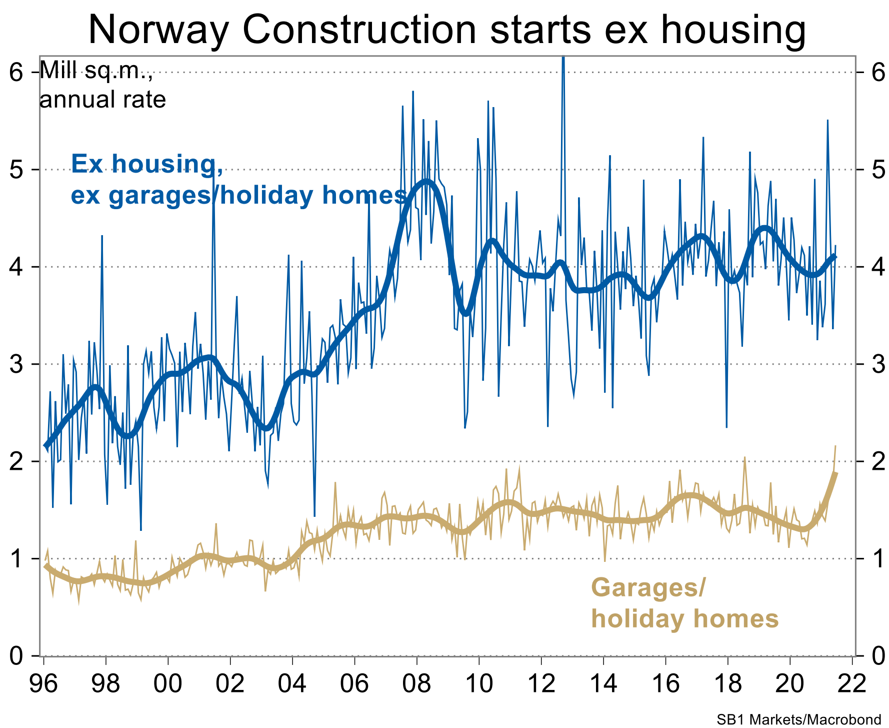


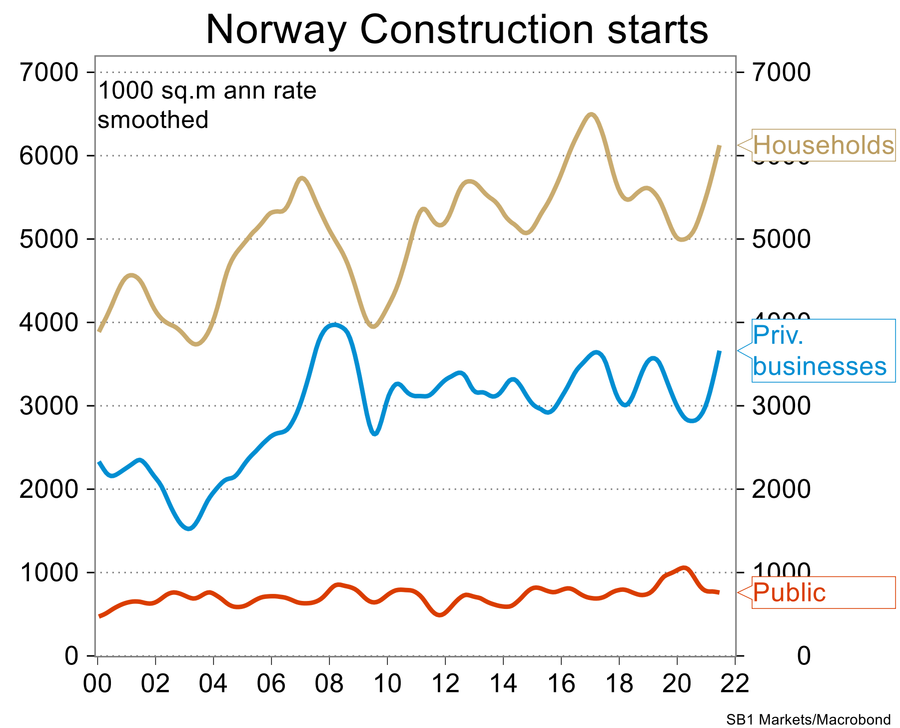


- According to **SSB**, building permits rose to 34’ in June from 29’. The average level over the recent months is at 32’
- **Homebuilders** reports a 30’ pace for new starts, and sales at 28’ – both rapidly on the way up

Non-residential construction on the way up, especially garages/2nd homes

The private sector has turned cautiously upwards





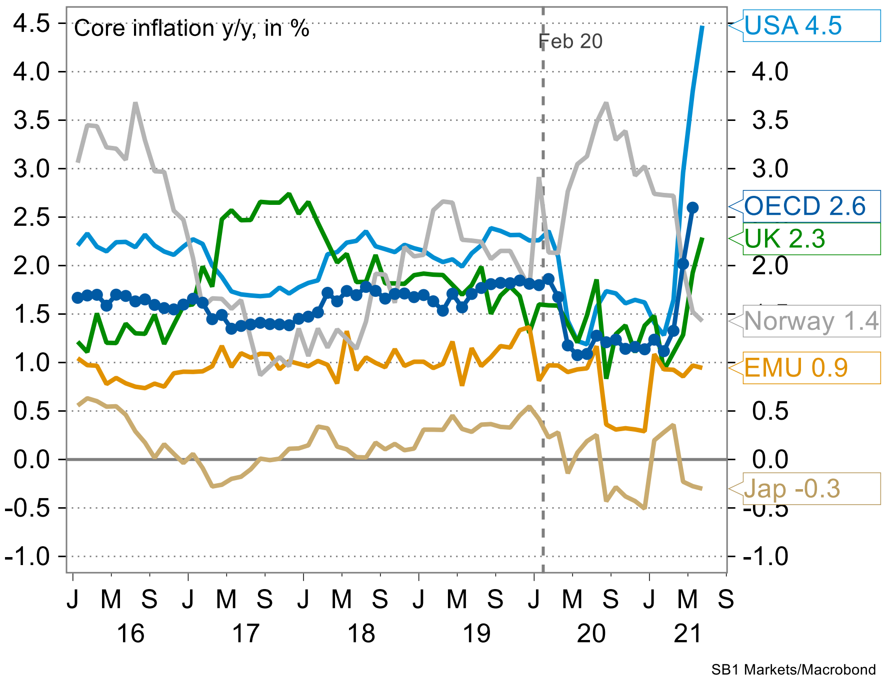
- **Construction starts ex housing & garages/cabins** have increased in an unprecedented way recent months
  - » **Private non-residential starts** have increased somewhat recent months, from a rather low level
  - » **Public sector construction starts** have been trending down, the level is close to normal
- **Construction starts of cabins/garages** is heading sharply up, following a decline from the peak in 2016. Given the surge in demand for second homes, that's not surprising. The level is now well above the 10 past years average

SpareBank 1 MARKETS

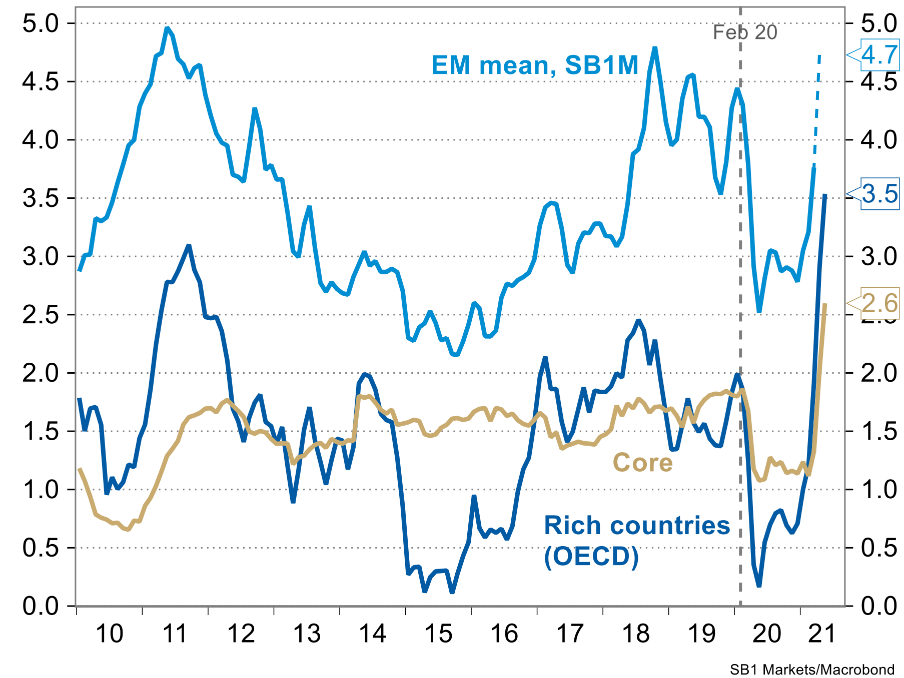
Inflation is on the way up, many places – and in average

Energy prices the main culprit, core inflation not much up outside the US and UK (so far)

Core CPI Inflation

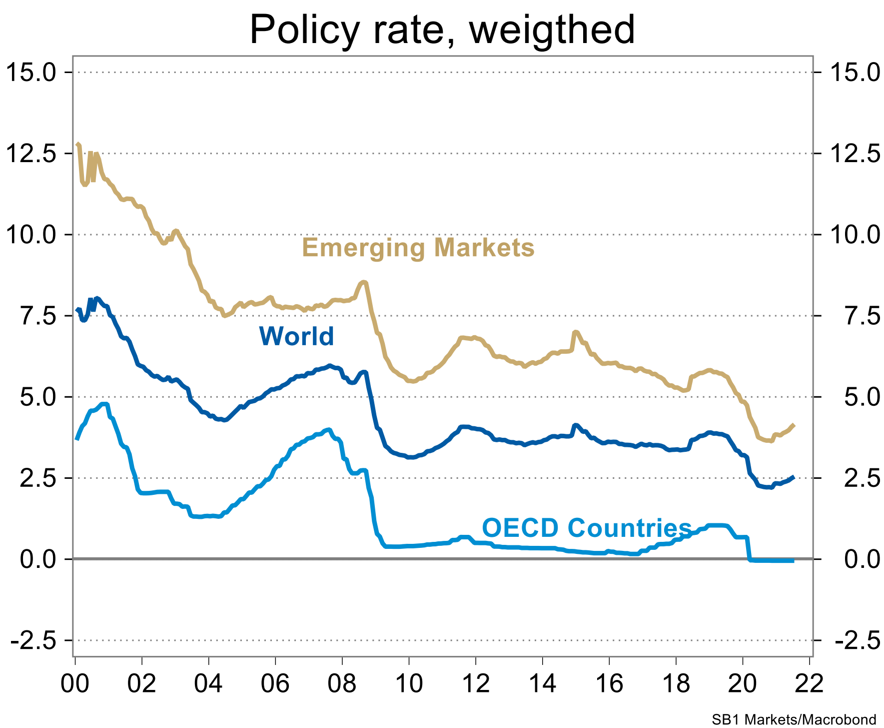


CPI Inflation



7 Emerging Markets have lifted their signal rates recently

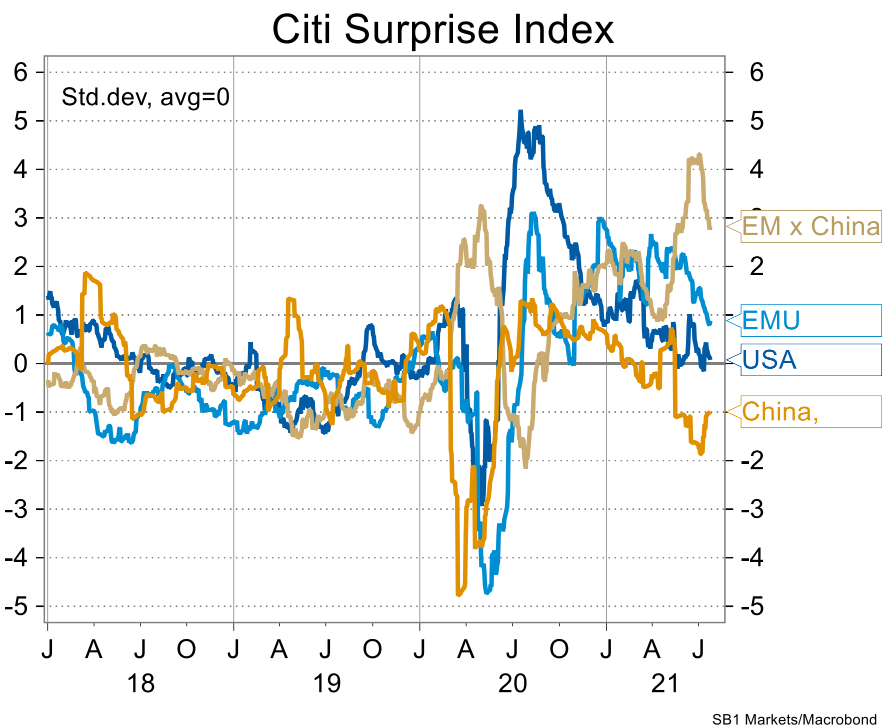
… and the global average is on the way up, even if rich countries have not moved (yet)

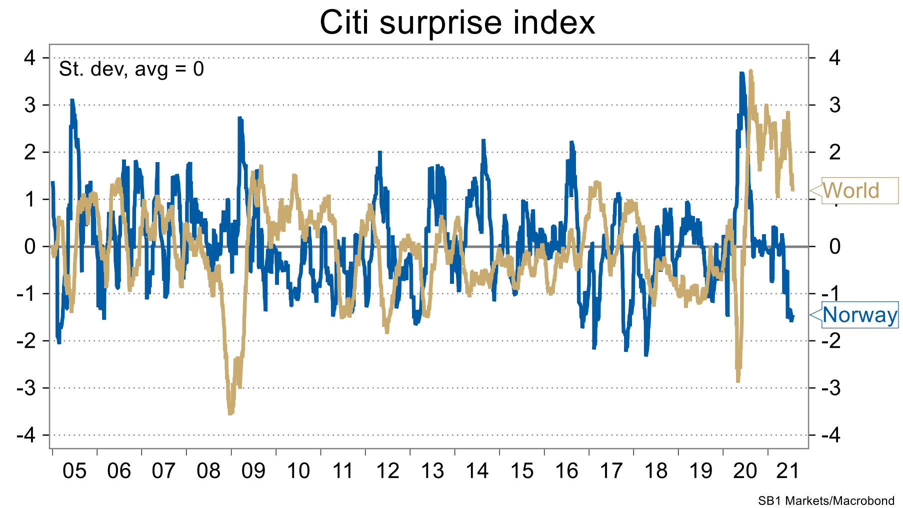


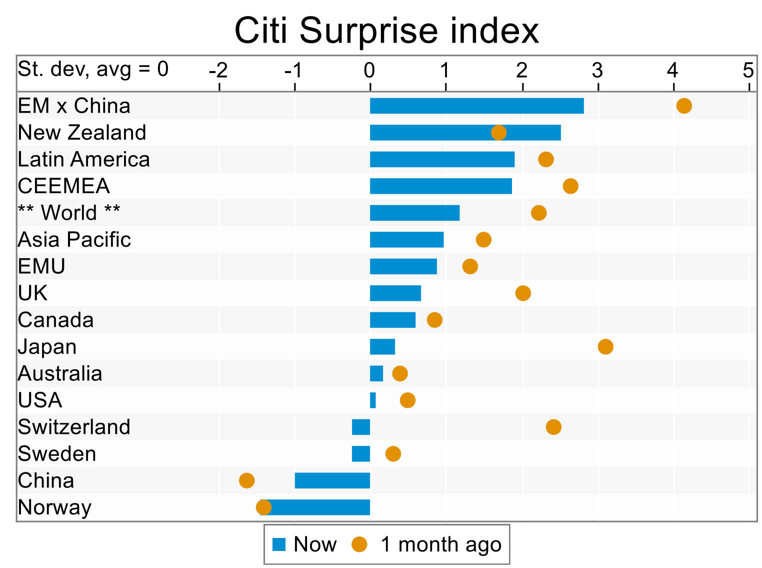
- Russia, Brazil, Mexico, Turkey, Argentina, Singapore and Chile have all lifted thir signal rates

Growth surprises still on the upside but many countries are heading down

… according to Citi's surprise index. The US in neutral territory, China (and Norway) below







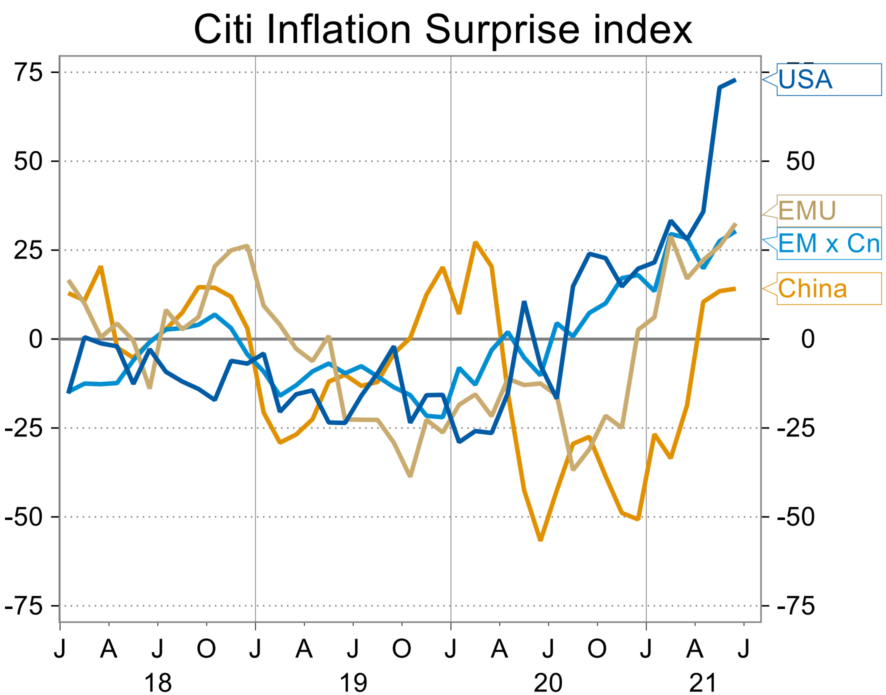
- **China** has recovered somewhat due to better than expected Q2/June data
- **Emerging Markets x China** are reporting much better data than expected, and it is still rather extreme (>3 st.dev above avg, down from 4)
- The **EMU** is still surprising on the upside, but steadily less so
- The **US** surprise has stabilised around zero
- **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

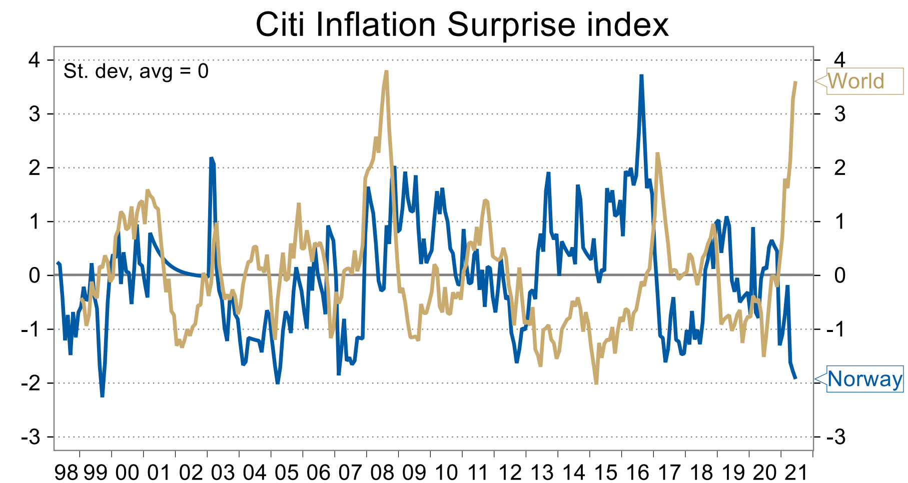
SpareBank 1 MARKETS

Inflation surprises have been on the upside lately, almost everywhere

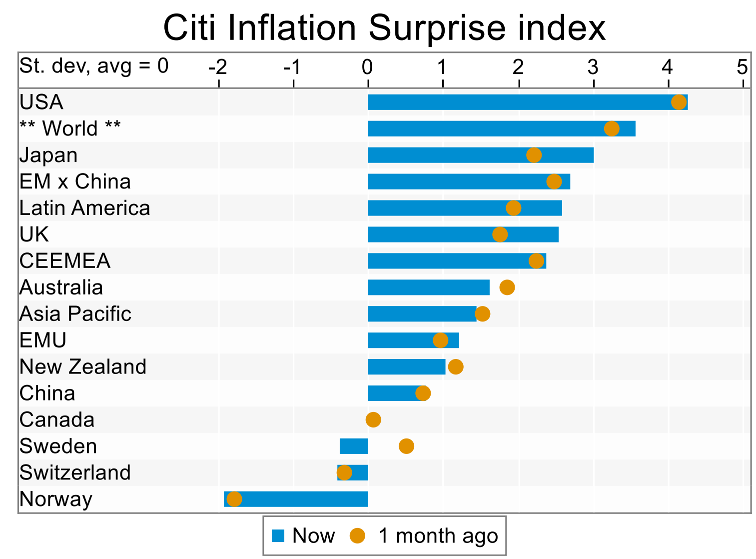
Just Norway, Sweden and Switzerland below par. US at the top, of course



SB1 Markets/Macrobond



SB1 Markets/Macrobond



SB1 Markets/Macrobond

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

The Calendar: US & EMU GDP, prices, US employ. cost. FOMC. Norw ret. sales, NAV

Time	Count.	Indicator	Period	Forecast	Prior
Monday July 26					
10:00	GE	IFO Expectations	Jul	103.6	104
16:00	US	New Home Sales	Jun	800k	769k
Tuesday July 27					
10:00	EC	Credit suppy/M3	Jun		
14:30	US	Durable Goods Orders	Jun P	2.0%	2.3%
14:30	**US**	**Cap Goods Orders Nondef Ex Air**	**Jun P**	**0.5%**	**0.1%**
15:00	US	S&P CoreLogic CS 20-City MoM	May	1.4%	1.6%
16:00	US	Conf. Board Consumer	Jul	124.1	127.3
Wednesday July 28					
08:00	**NO**	**Retail Sales W/Auto Fuel MoM**	**Jun**	**(0)**	**5.8%**
14:30	US	Advance Goods Trade Balance	Jun	-$88.0b	-$88.1b
20:00	**US**	**FOMC Rate Decision**	**Jul-28**	**0.0%**	**0.0%**
Thursday July 29					
09:00	SW	Manufacturing Confidence SA	Jul		125.2
09:30	SW	GDP Indicator SA QoQ	2Q	0.7%	1.1%
09:30	**SW**	**GDP Indicator SA MoM**	**Jun**		**0.4%**
09:30	SW	Unemployment Rate SA	Jun		9.1%
11:00	EC	Economic Confidence	Jul	118.5	117.9
14:00	GE	CPI YoY	Jul P	3.20%	2.30%
14:30	US	Initial Jobless Claims	Jul-24	378k	419k
14:30	**US**	**GDP QoQ**	**2Q A**	**8.5%**	**6.4%**
14:30	US	Core PCE QoQ	2Q A	6.0%	2.5%
16:00	US	Pending Home Sales MoM	Jun	0.8%	8.0%
Friday July 30					
01:50	JN	Industrial Production MoM	Jun P	5.0%	-6.5%
01:50	JN	Retail Sales MoM	Jun	2.9%	-0.4%
07:30	FR	Consumer Spending MoM	Jun	0.7%	10.4%
10:00	**NO**	**Unemployment Rate**	**Jul**	**(2.8)**	**2.9%**
11:00	EC	Unemployment Rate	Jun	7.9%	7.9%
11:00	**EC**	**CPI Core YoY**	**Jul P**	**0.7%**	**0.9%**
11:00	EC	GDP QoQ (not annualised)	2Q A	1.5%	-0.3%
14:30	**US**	**Employment Cost Index**	**2Q**	**0.9%**	**0.9%**
14:30	US	Personal Income	Jun	-0.5%	-2.0%
14:30	**US**	**Personal Spending**	**Jun**	**0.6%**	**0.0%**
14:30	**US**	**PCE Core Deflator MoM**	**Jun**	**0.6%**	**0.5%**
14:30	US	PCE Core Deflator YoY	Jun	3.7%	3.4%
16:00	US	U. of Mich. Sentiment	Jul F	80.8	80.8
Saturday July 31					
03:00	CH	Non-manufacturing PMI	Jul		53.5
03:00	**CH**	**Manufacturing PMI**	**Jul**	**50.8**	**50.9**
03:00	CH	Composite PMI, NBS	Jul		52.9
Monday Aug 2					
03:45	**CH**	**Manufacturing PMI, Caxin**	**Jul**	**51**	**51.3**

- **PMIs**
  - **China** will reports most of its PMIs at Saturday & Monday. Growth is very likely slowing but not sharply, and June data were better than expected. During next Monday, all manufacturing PMIs will be reported
- **USA**
  - **Q2 GDP** is expected up by 8.5%, up from 6.4% in Q1 as service sector boosted output sharply. Manufacturing production has been weak, partly due to the setback in the auto industry. Both private consumption and business investment rose sharply.
  - The **PCE deflator** very likely followed the CPI up in June – and a 'shocking' figure will be no surprise. Household income probably fell, while spending rose somewhat
  - We think the most important data point this week is the Q2 **Employment Cost Index**, which measures changes the average of labour costs for specific jobs (and not the average for all employees). A 0.9% q/q increase is expected, unch from Q1, equalling a 3.6% annualised pace – still no problem for the Federal Reserve. A 1.0% increase will not be big surprise – and 1.1% is on the high end
  - The **Federal Reserve** will probably not signal any changes in its policy stance at this 'mid' meeting, even if more members probably are tilting towards remove some pressure from the accelerator. As of now, we expect the FOMC to announce some tapering at its September meeting
  - Check out **durable goods orders**, and **house prices** too
- **EMU**
  - **Q2 GDP** is expected up 6.0% (1.5% not annualised), more than reversing the -1.2% decline in Q1
  - **Core CPI inflation** is far below any inflation target, and that will not change in July. The annual rate is expected down to 0.7% from 0.9%
- **Sweden**
  - **Q2 GDP** is expected up 2.8% (0.7% not annualised), down from a 4.4% growth pace in Q1
- **Norway**
  - We expect unchanged **retail sales** in June, from a high level in May. The risk may be at the upside as there may be more 'pent up' demand following the regional 'lockdowns' earlier in the spring
  - **NAV unemployment** very likely fell sharply in June too but probably not as fast as during May and June. We expect 10' decline in July (seas adj), and a 2.8% unemployment rate (not seas. adj)

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

Highlights

The world around us

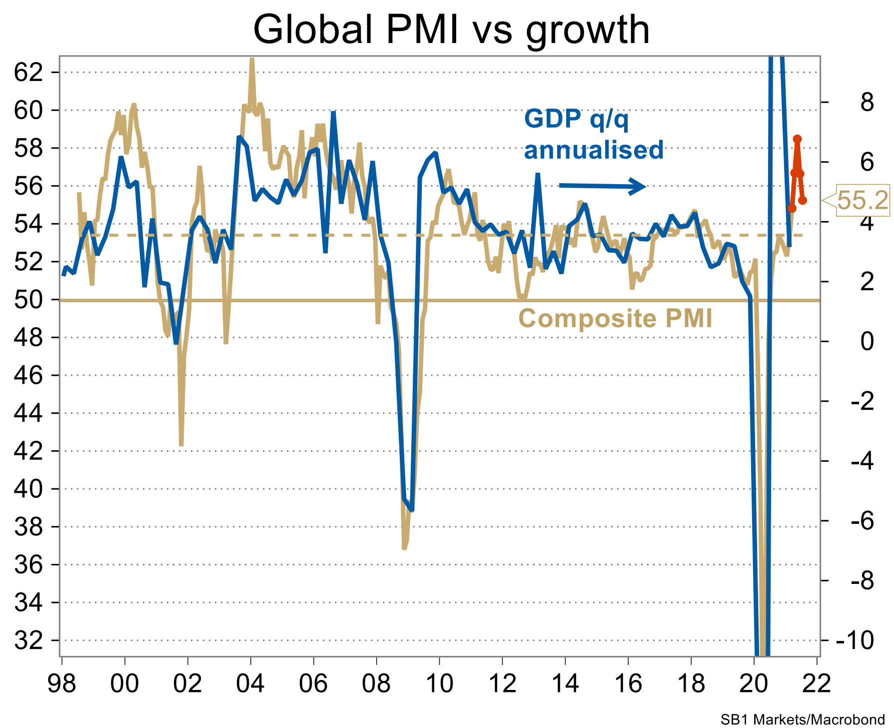
The Norwegian economy

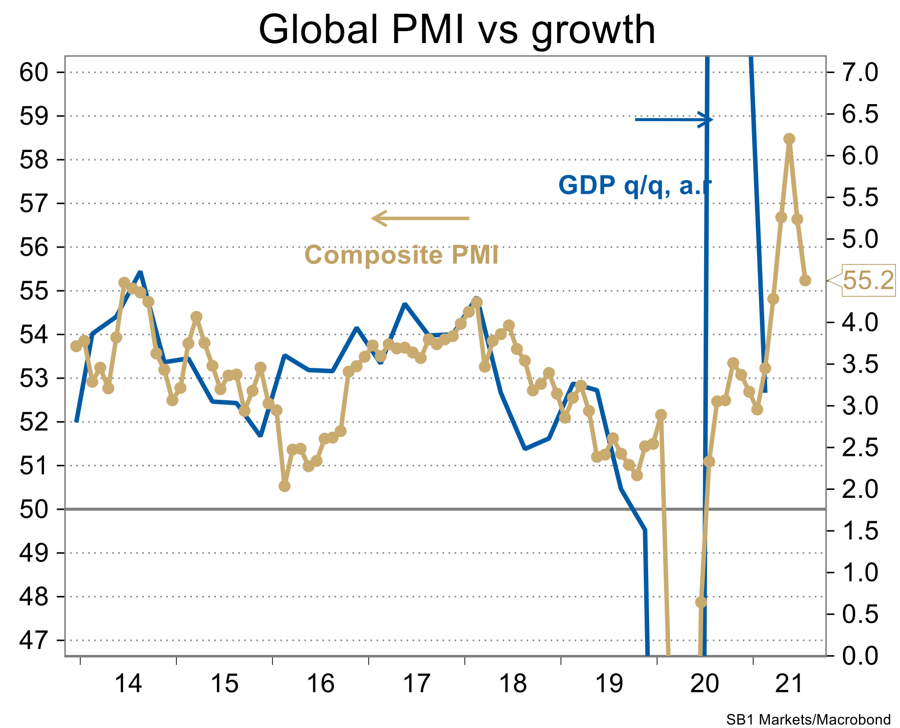
Market charts & comments

SpareBank 1 MARKETS

PMI very likely down in July too, level still OK – signalling 5% GDP growth

We estimate 1.4 p decline in the comp. PMI to 55.2 dragged down by a 3.9 p drop in the US PMI



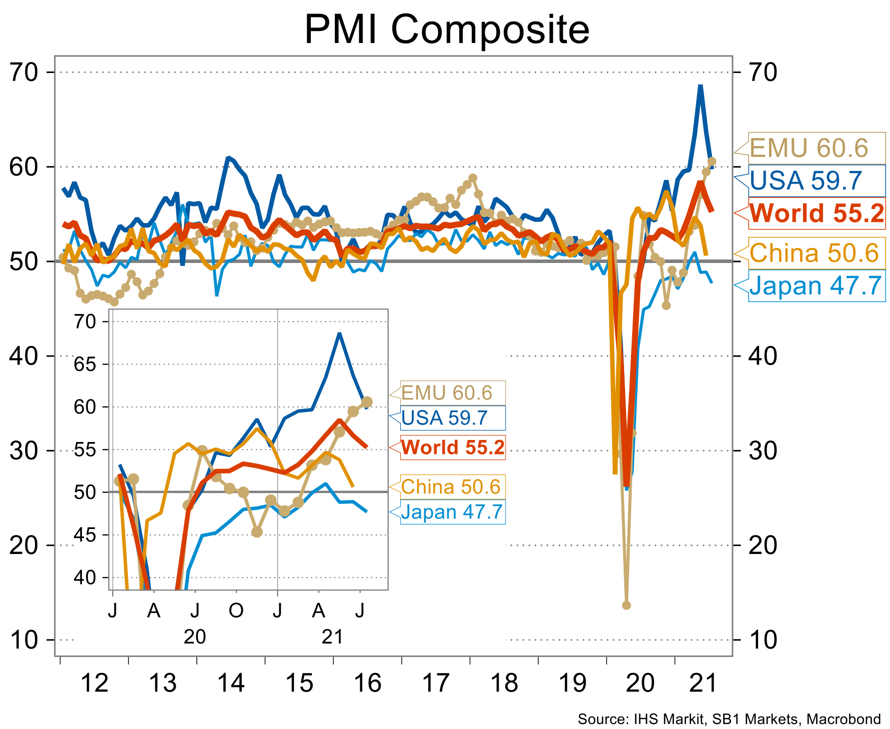


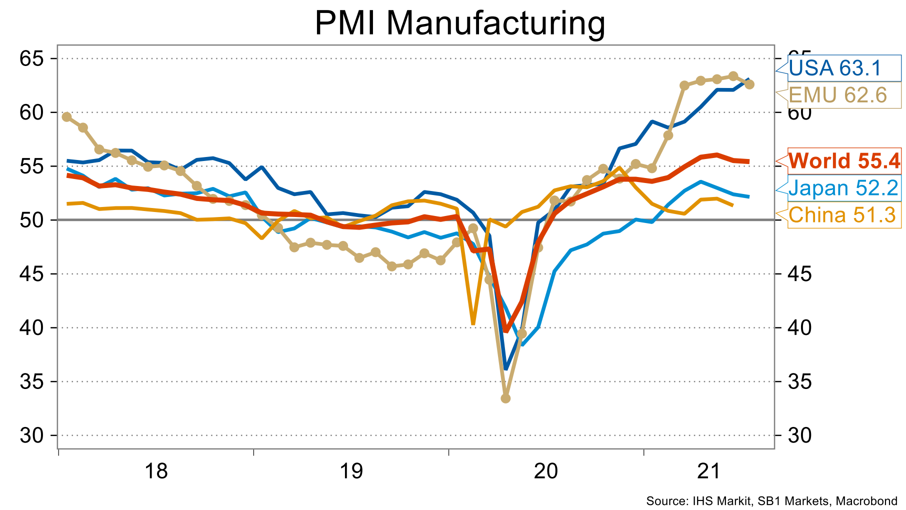
- **The global PMI** has peaked, so has very likely global growth – but it remains far above an average level
- **The US PMI** was weaker but still close to 60, signalling almost 5% GDP growth
- **The EMU PMI** rose more than expected, to above 60 (ATH), signalling 4% GDP growth
- Both **Japan** and **UK** reported a decline in their PMIs in July
- **Delivery times, input & output** prices are still increasing at a rapid pace but slower in July than in June

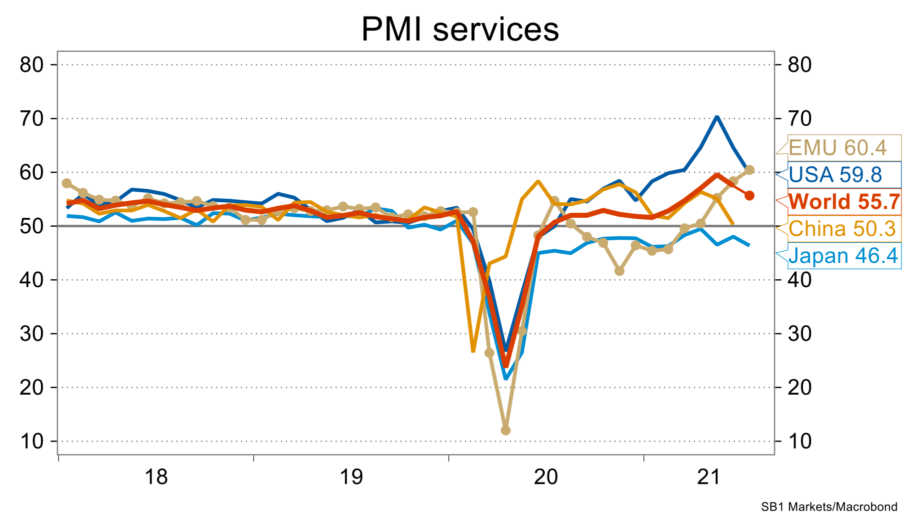
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

The EMU up in the lead, as services expands faster

Still, services was the drag on the global composite PMI as US services reported slower growth



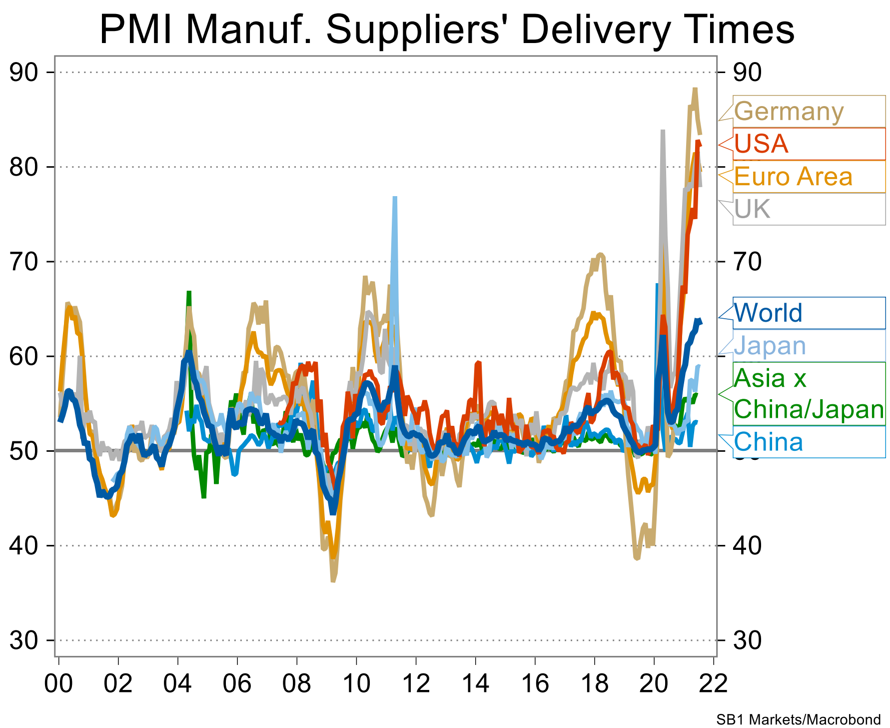


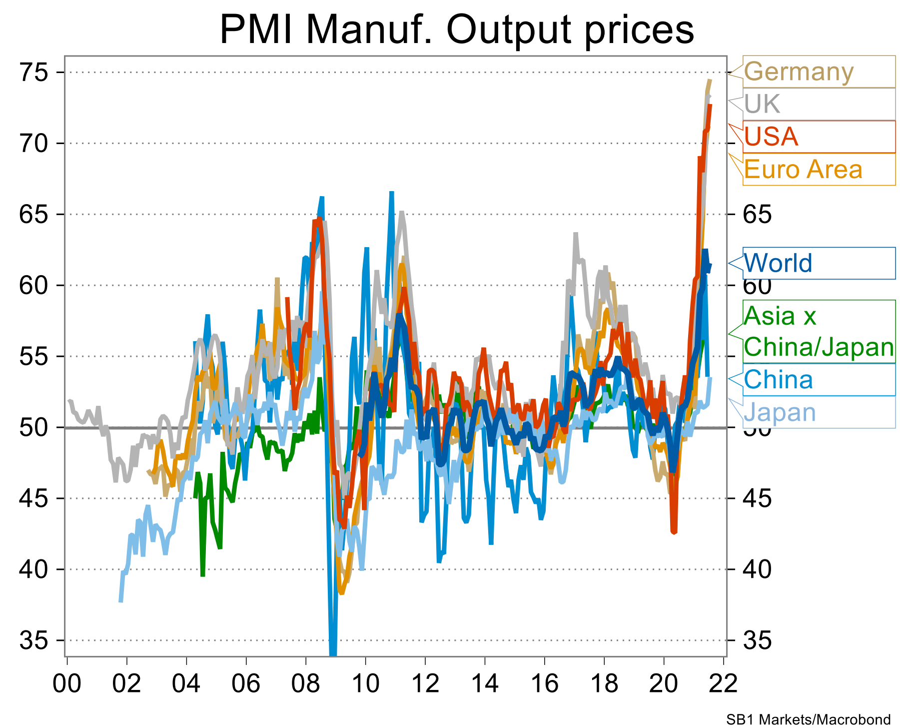


- The total **manufacturing PMI** was close to unch, while the **services PMI** fell almost 2 p
- Peak growth behind us in the **US** but as the GDP level has come close to the pre-pandemic trend, that's not a sign of weakness. And now crisis yet, PMI says 5% growth ☺
- The **EMU** PMIs rose to ATH, and signals a 5% GDP growth
- **The UK** fell too, but is still signalling 3% GDP growth
- **Japan** is still sagging, the PMI further down, signal a GDP decline

Delivery times are still rising but at a marginally slower pace

Prices are rising at a rapid pace but a tad slower in July, as in June



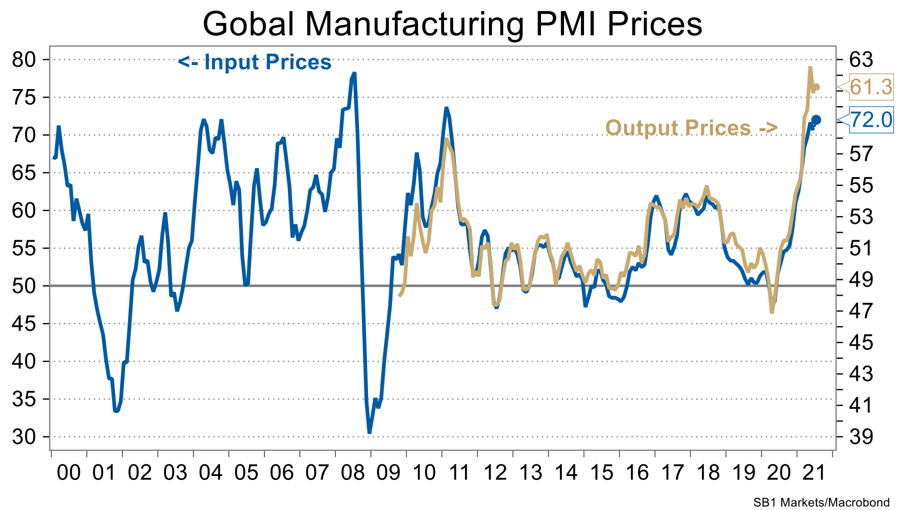


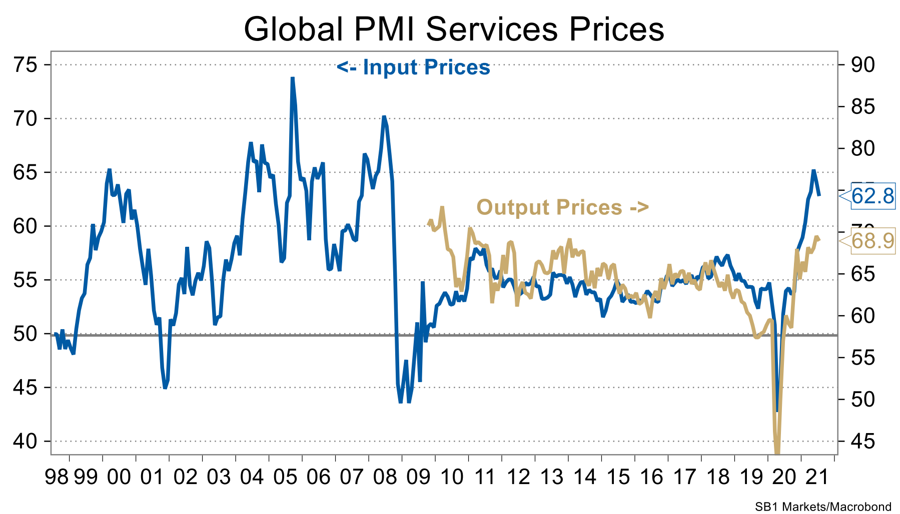
- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) probably fell slightly in July, signalling that delivery times rose at a slower pace in July
- **The global manufacturing output price index** rose marginally in July, following a small decline in June. Other price indices fell slightly

SpareBank 1 MARKETS

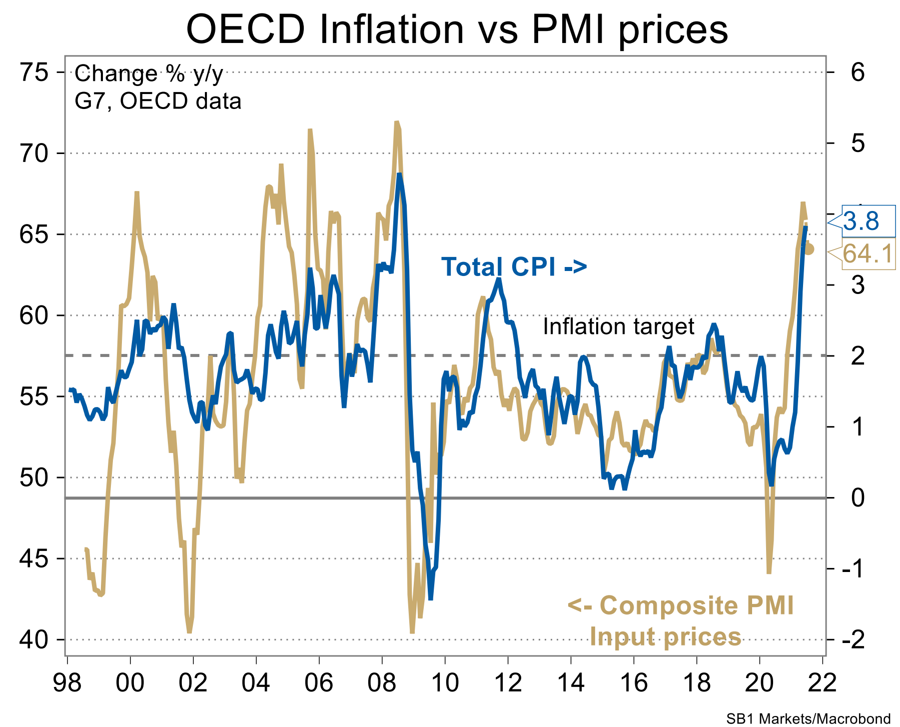
The global PMI price indices prob. further down in July – but levels remain high

We are still not that worried about the raw material price cycle, as they tend to be short-lived





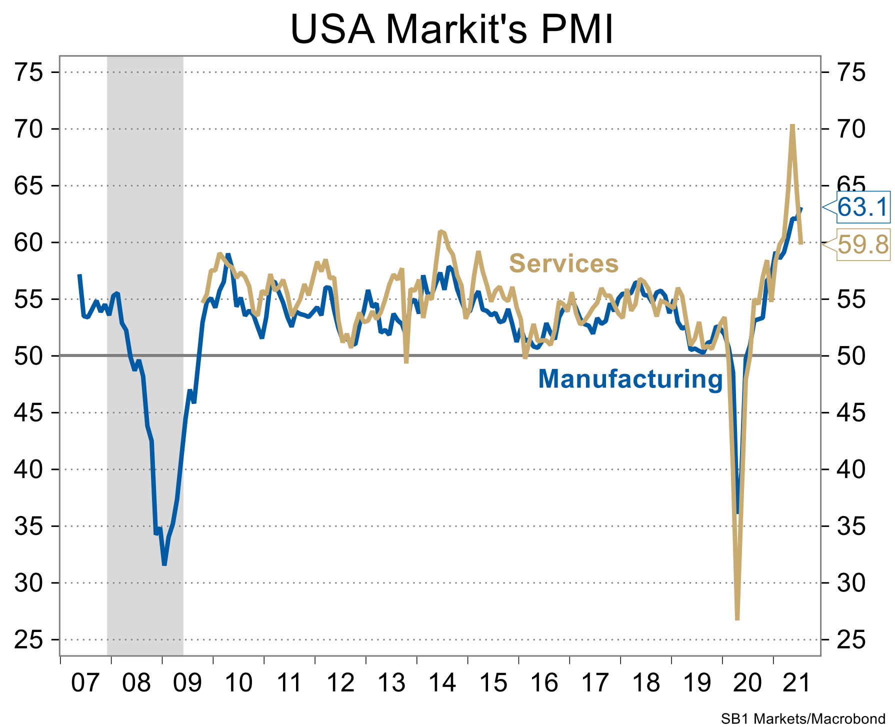
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and the US

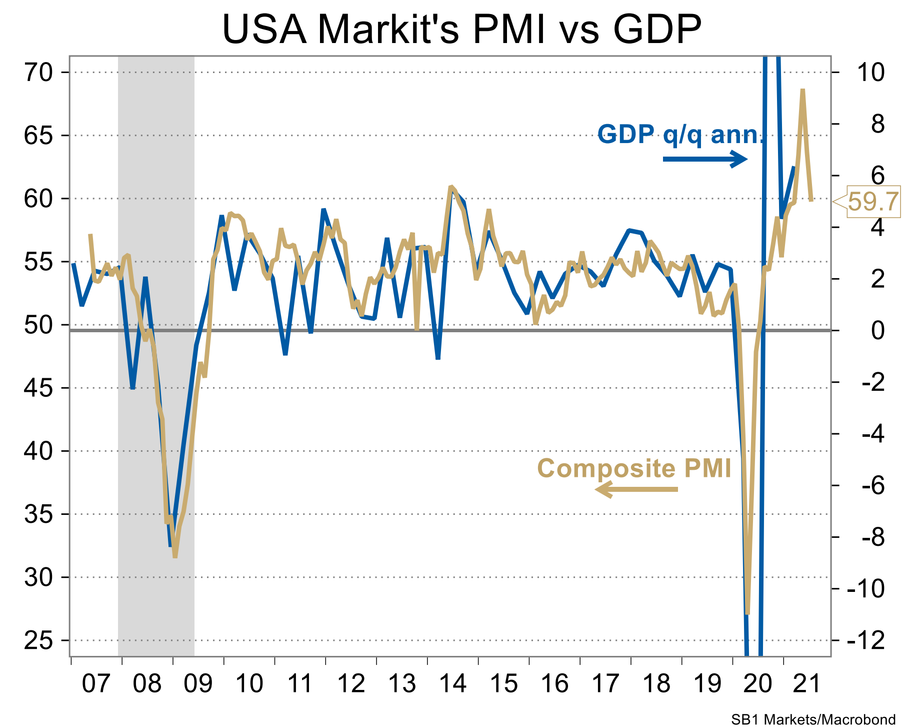


- Sure, companies world wide are reporting price increases far above normal level, and actual inflation prints will remain elevated for months (at least annual growth rates)

Services are expanding at a less explosive pace – manufacturing still accelerating

The service sector PMI fell by 4.9 p to 59.8, manuf. up 1 to 63.6 (ATH, again). Comp. -3.9 p to 59.7



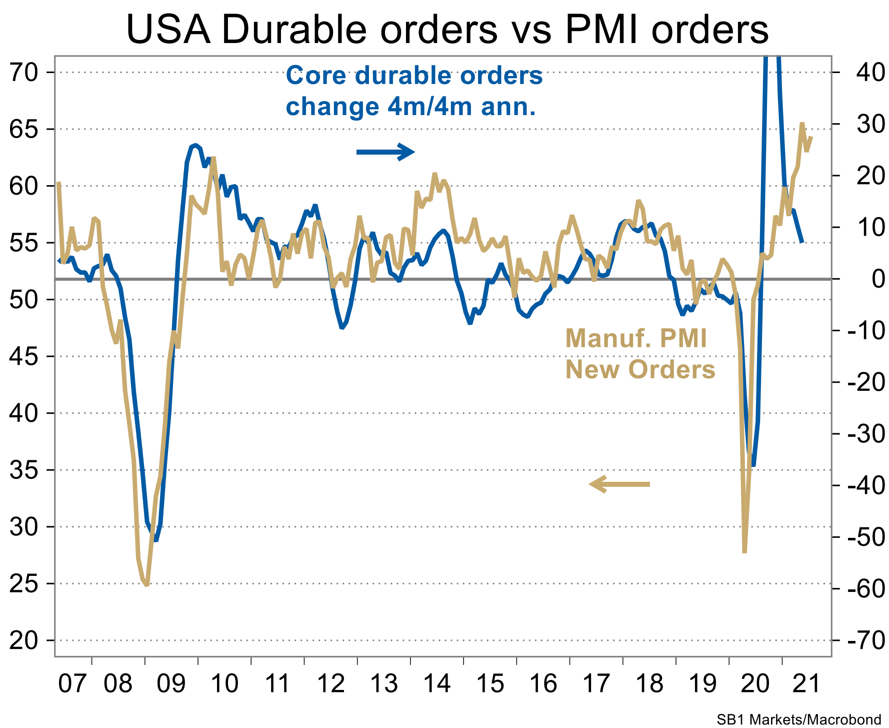


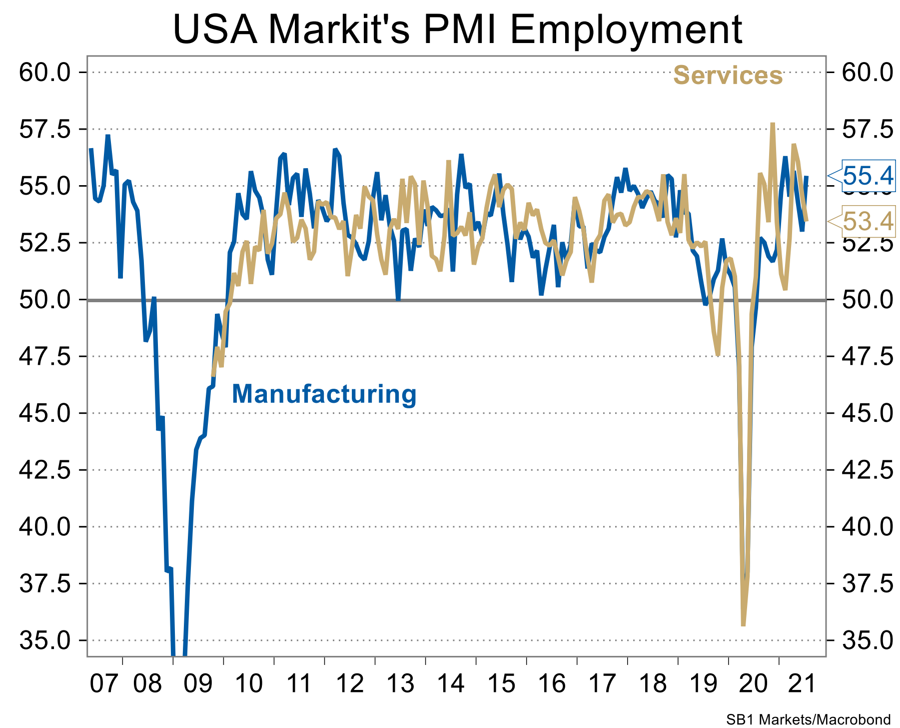
- Both the services and the manufacturing PMIs were expected 0.1 p down
- The composite PMI is still far above an average levels and signals a 5% growth rate, down from 7% in June and 9% in May
  - » Thus, the PMI is signalling growth well above trend into Q3 – but growth has no doubt peaked
- Prices are soaring – and faster than anytime since the composite index was introduced in 2009

SpareBank 1 MARKETS

Orders index up in July, signals a continued strong growth

Employment indices mixed and not at a very high level





- The employment index, which measures actual change in employment from the previous month, may be 'moderate' both due to moderate demand and to supply constraints. Given comments from companies in this survey, other surveys, and the number of unfilled vacancies, supply constraints are no doubt the main culprit
  - » That said, manufacturers are reporting a decent growth in employment, even if the auto industry is still struggling with component shortages

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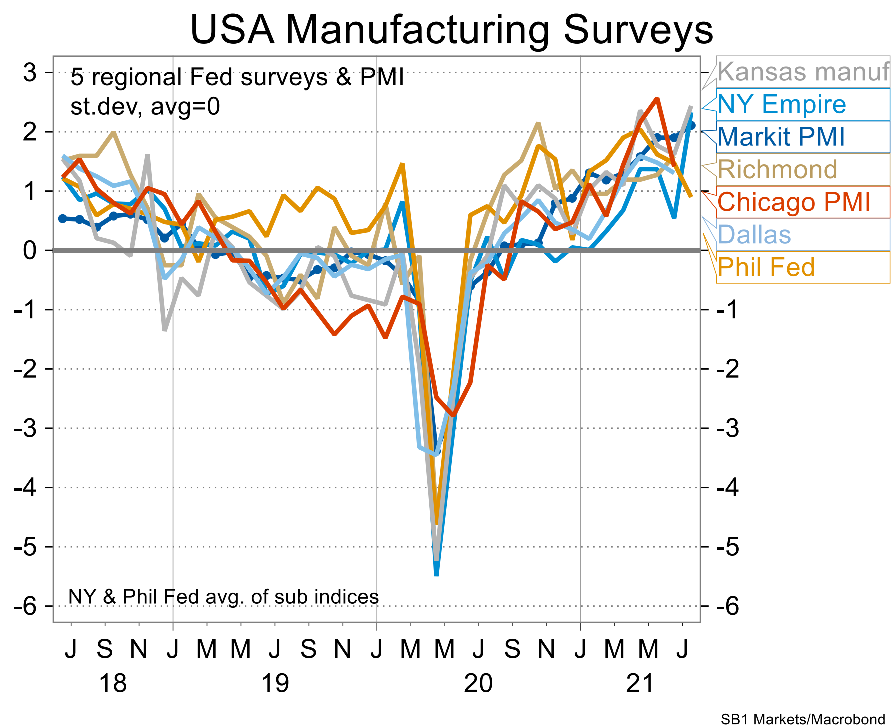
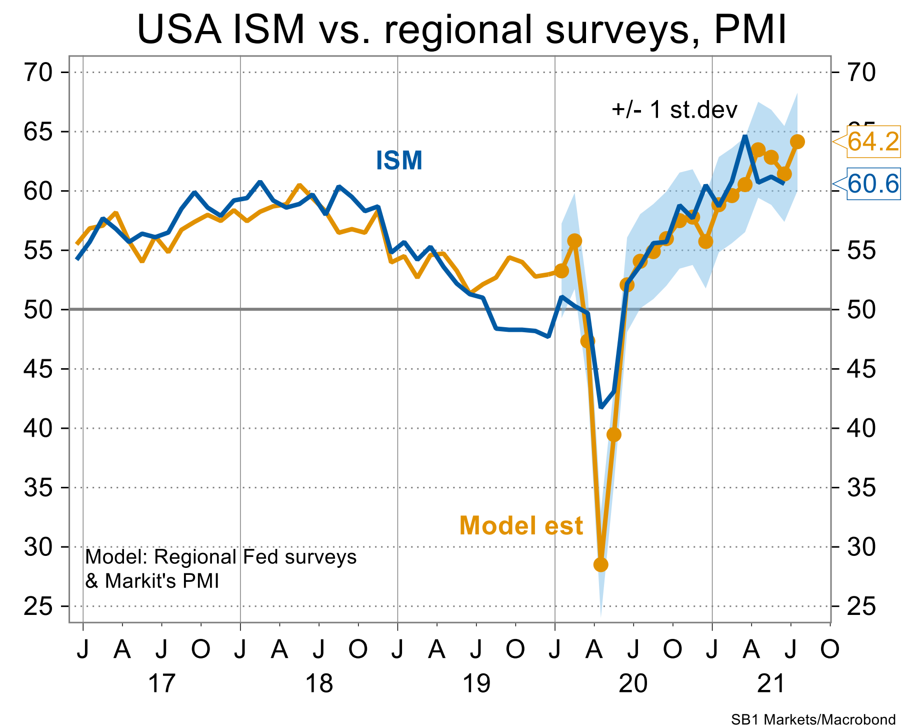
Philadelphia Fed down NY, Kansas Fed surveys up, as is the PMI

... and these surveys signal a hike in the ISM manufacturing survey in July





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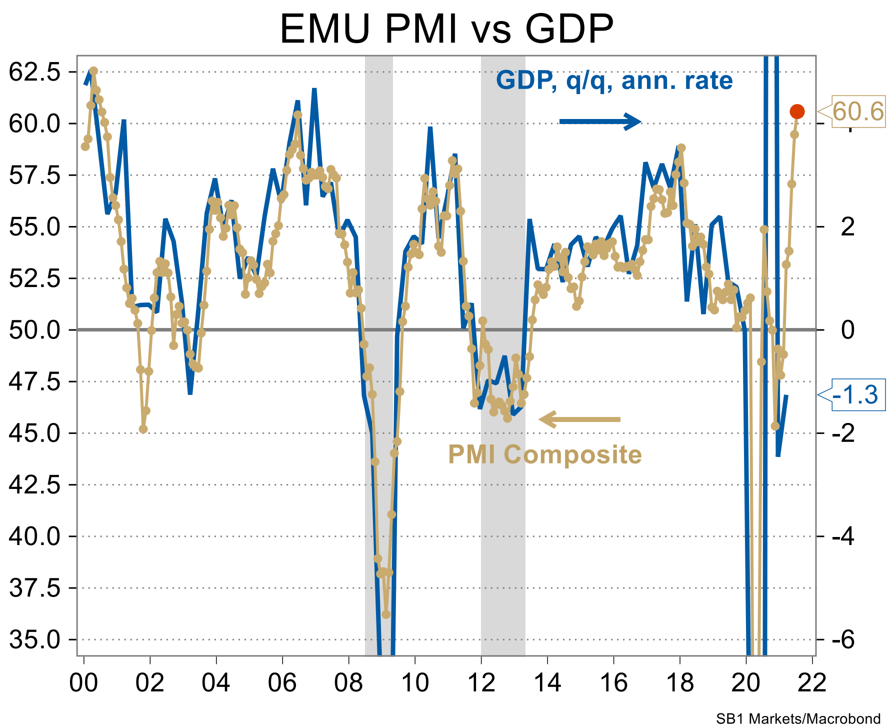
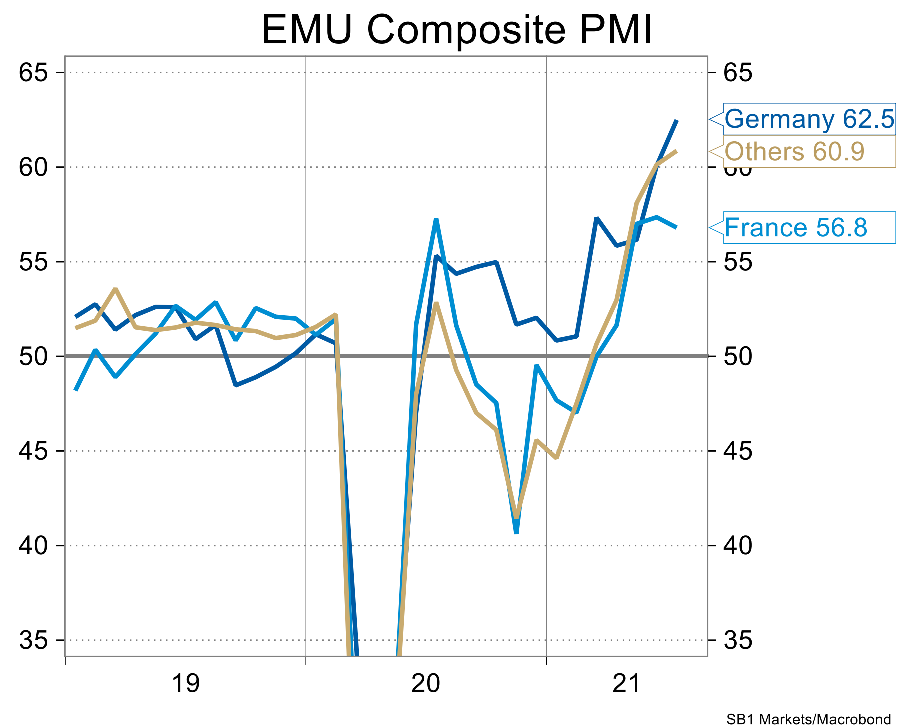
Another PMI lift in July, the strongest print in 21 years

EMU composite PMI up 1.1 p to 60.6, expected up to 60.0 – the best level since 2006

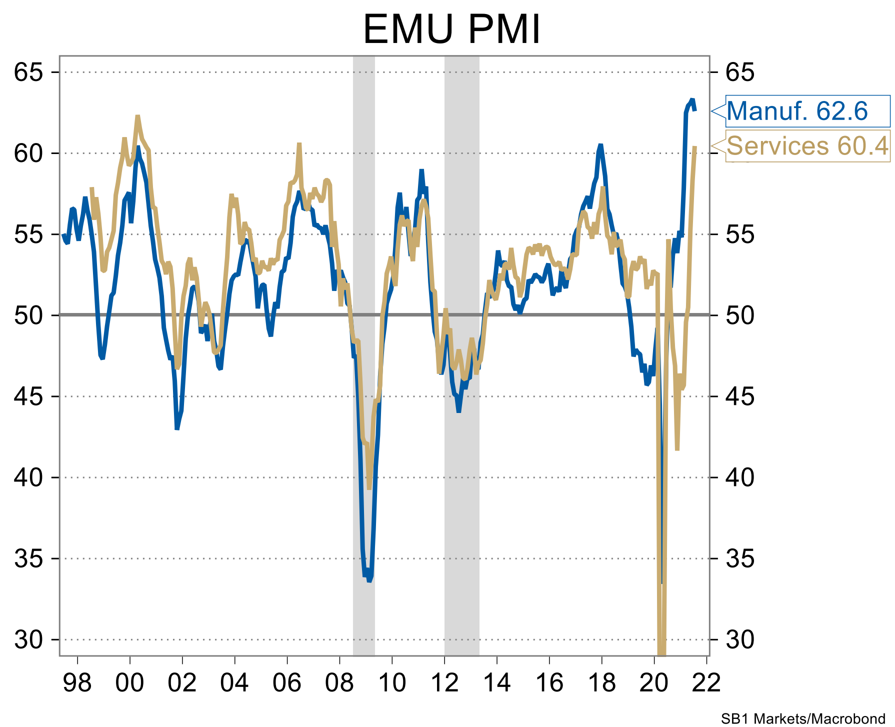


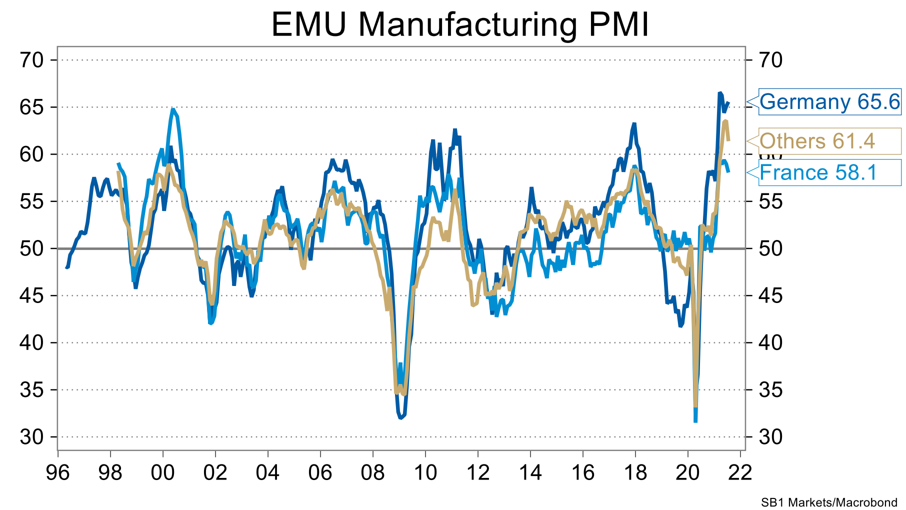


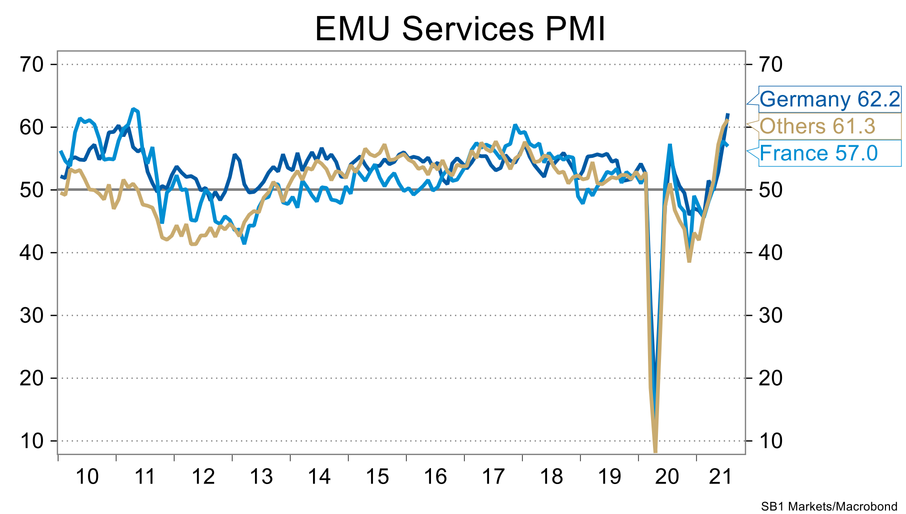
- **The composite PMI** at 60.6 signals a 4% pace of growth in GDP (or 0.9 % per quarter)
  - » The composite index rose sharply in Germany, but fell marginally in France. The average of Spain & Italy (and very likely both countries) also accelerated – and reported the highest composite PMI ever
  - » The service sector PMI rose further amid the surge of the Delta variant and was far better than expected, while the manufacturing PMI fell marginally – but is still at a very high level, 62.6

Services PMI further up; the Delta variant has not derailed the recovery (so far)

Manufacturing PMI marginally down from ATH







- **Services** continued the recovery in July, as the PMI climbed 2.1 p to 60.4, expected up to 59.5. All countries are far above the 50 line
- The **manufacturing PMI** declined 0.8 p to 62.6
  - » **The Germany manuf. PMI** rose other fell – all are at very high levels

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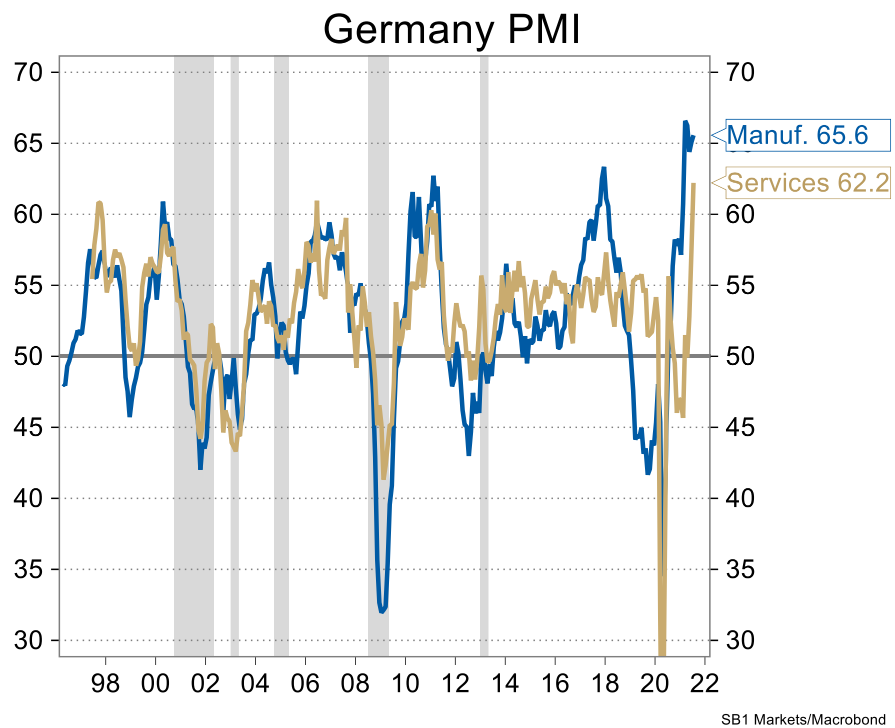
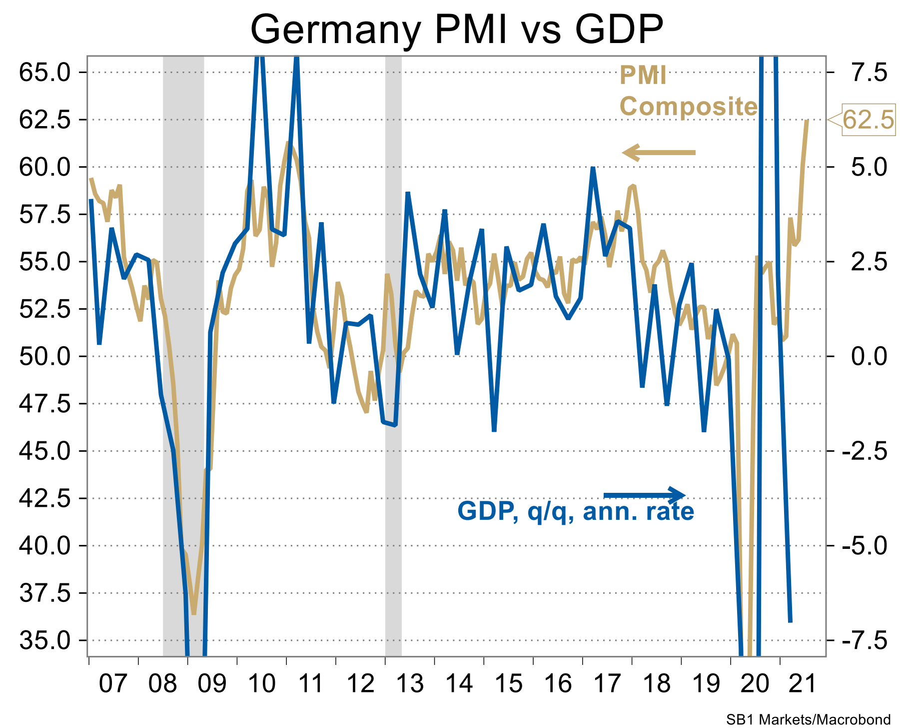
Germany: Services are gaining speed – the composite signals 6% GDP growth

The composite PMI rose by 2.4 p to 62.5, the best level ever – expected 60.7

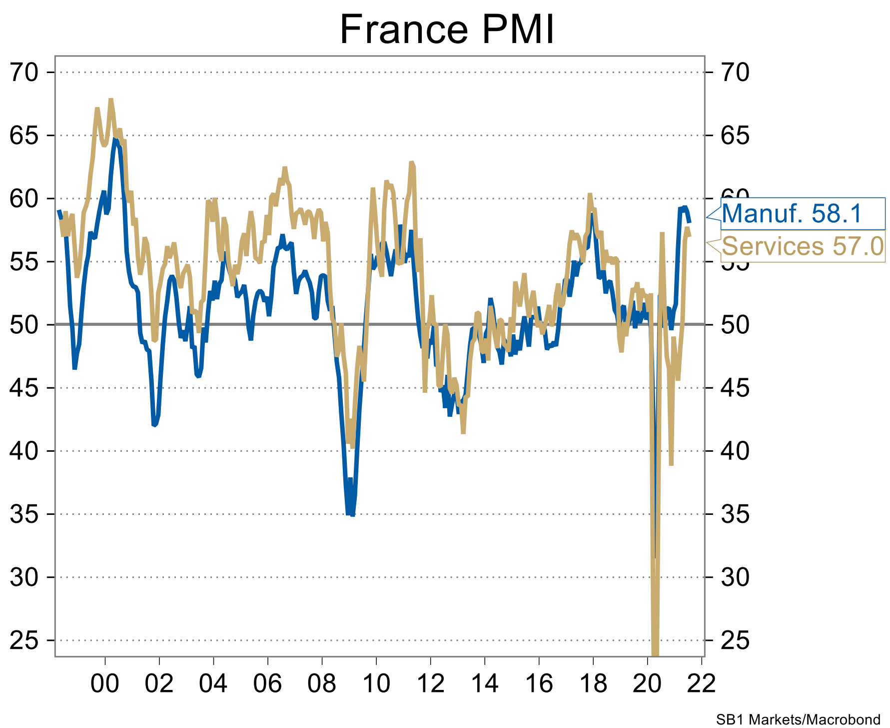


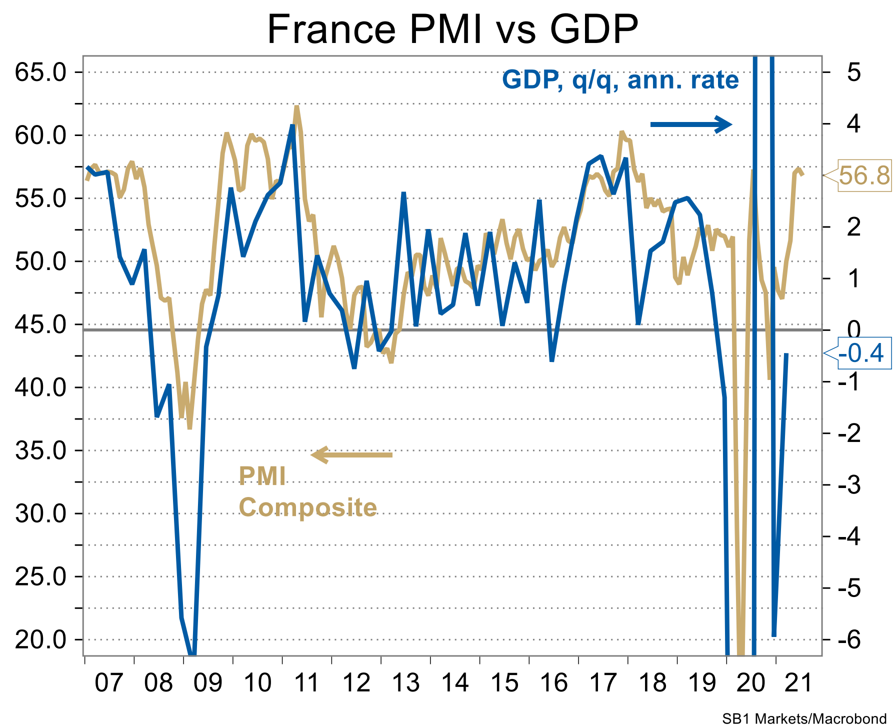


- **The prelim. manufacturing PMI** increased by 0.5 p to 65.6, expected down to 64.1
- **The service sector PMI** rose 4.8 p to 62.2, to ATH far above expectations

France: The PMIs marginally down, are signalling 3% growth

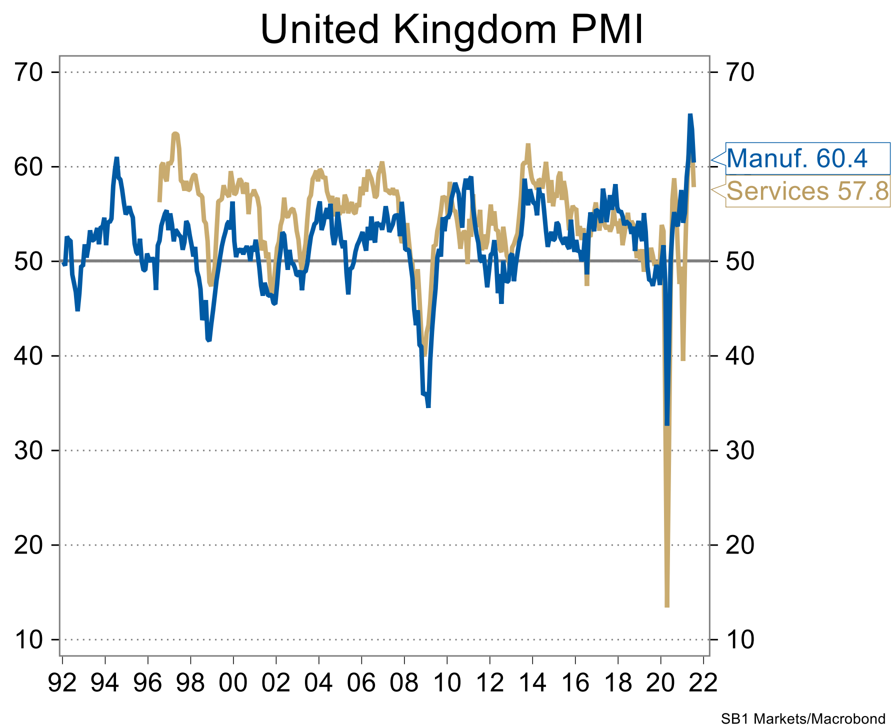
… which is not that impressive. The composite index fell 0.6 p to 56.8, expected up 58.4

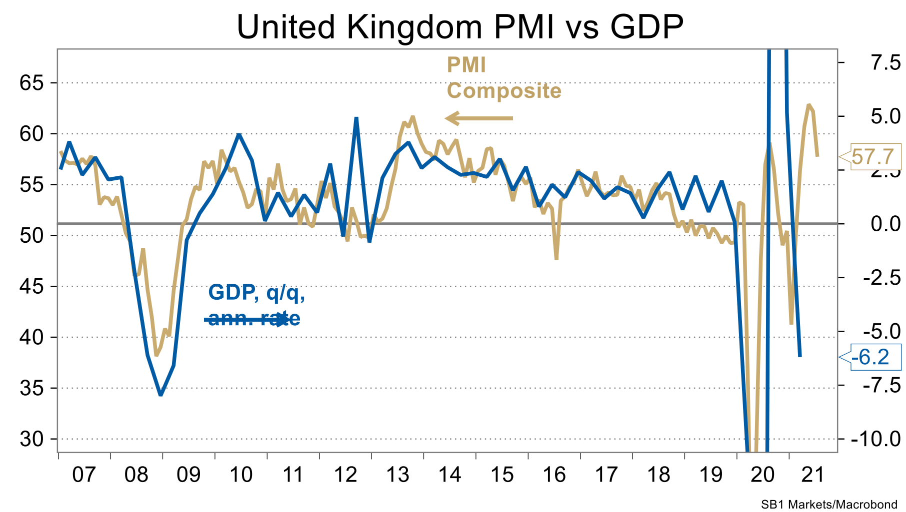


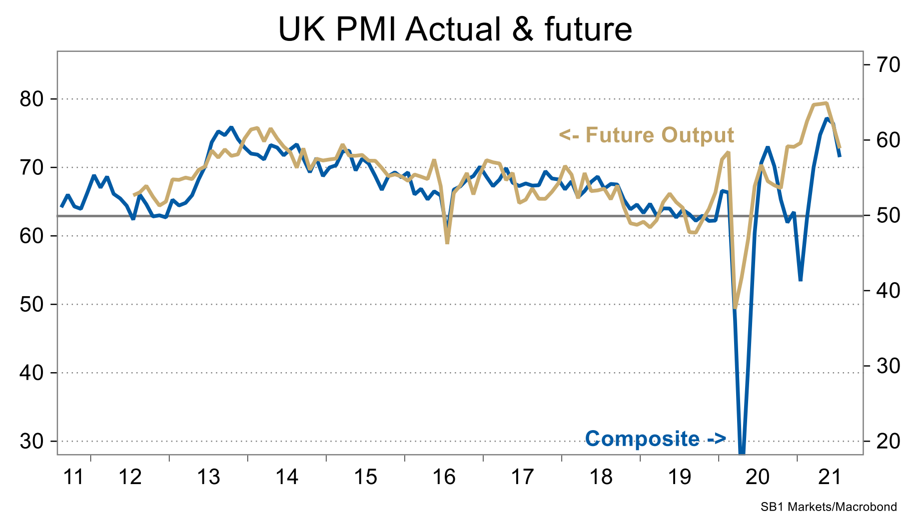


The UK PMIs disappoint in July too. However, the levels are still OK

A 3% growth rate is signalled as Delta variant most likely dampens

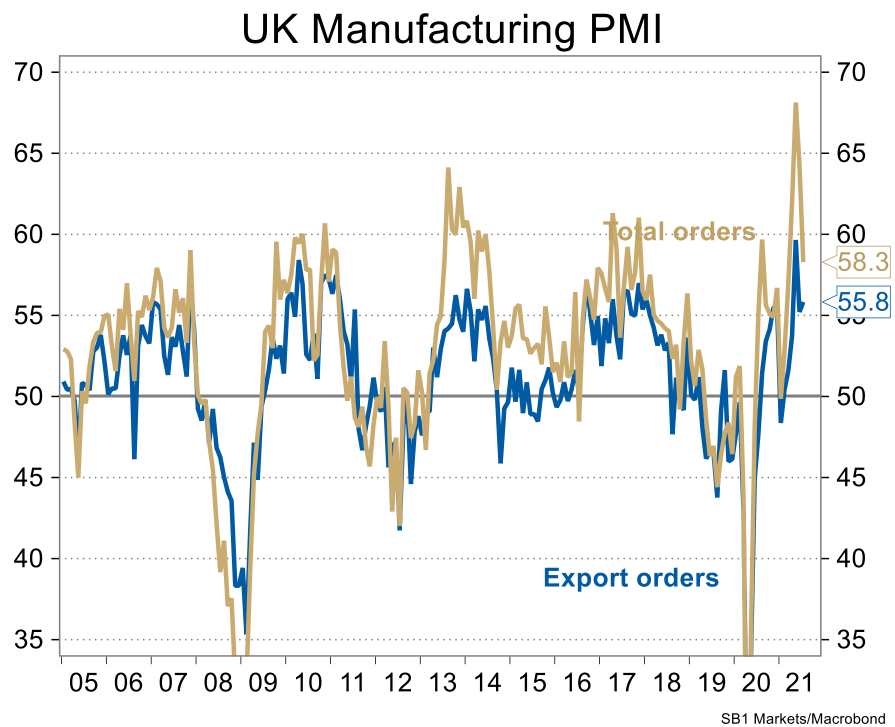


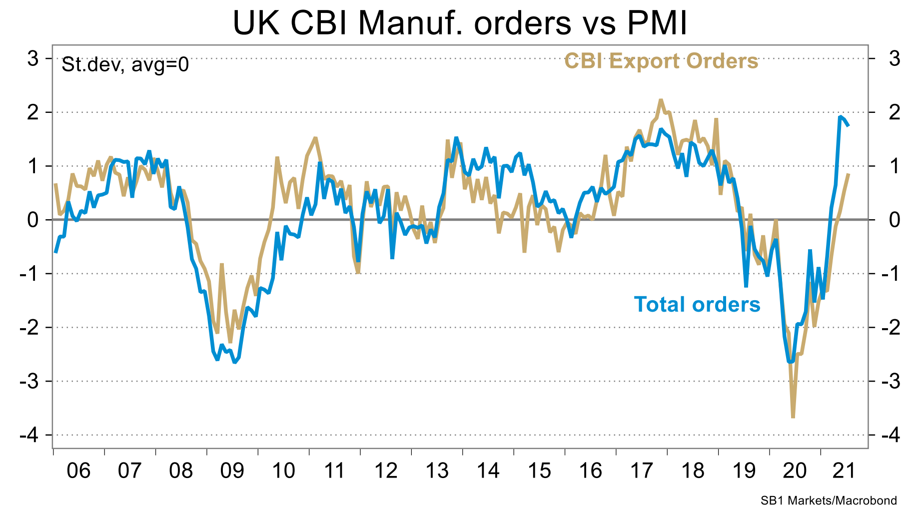


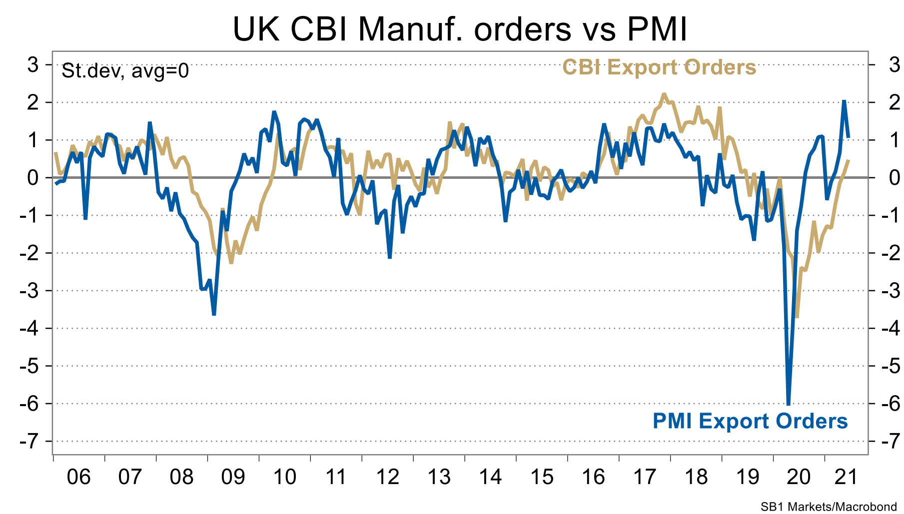


- **The composite PMI** fell 4.6 p to 57.7, 3.7 p below expectations. Most likely, the spread of the Delta variant has dampened growth somewhat –but growth is still well above trend
- **The total manuf. PMI** was down 3.5 p to 60.4, 2.2 p below expectations
- **Services PMI** decreased by 4.6 p to 57.8, expected 62.
- The **input cost index** rose to the highest level on record, while the **output price index** slowed marginally
- **Employment growth** slowed but remained strong

Still rapid growth in orders, but not like in May. No specific export problems

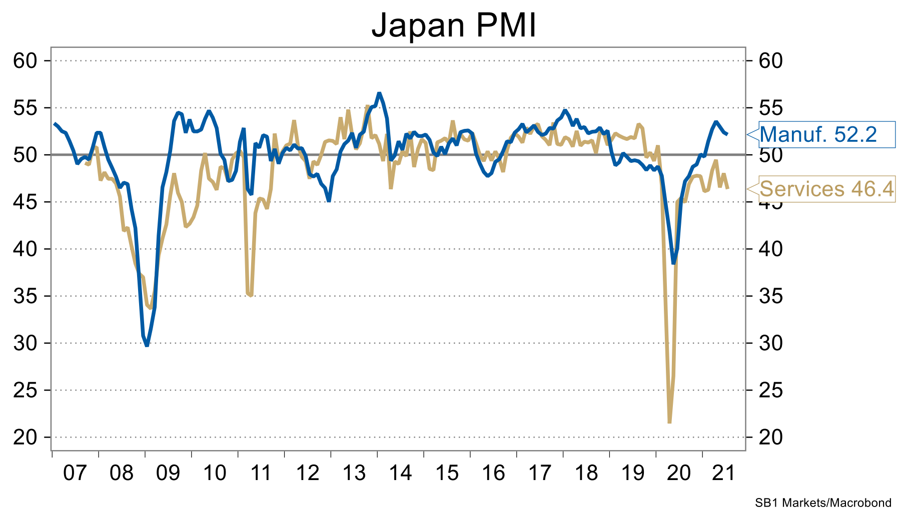


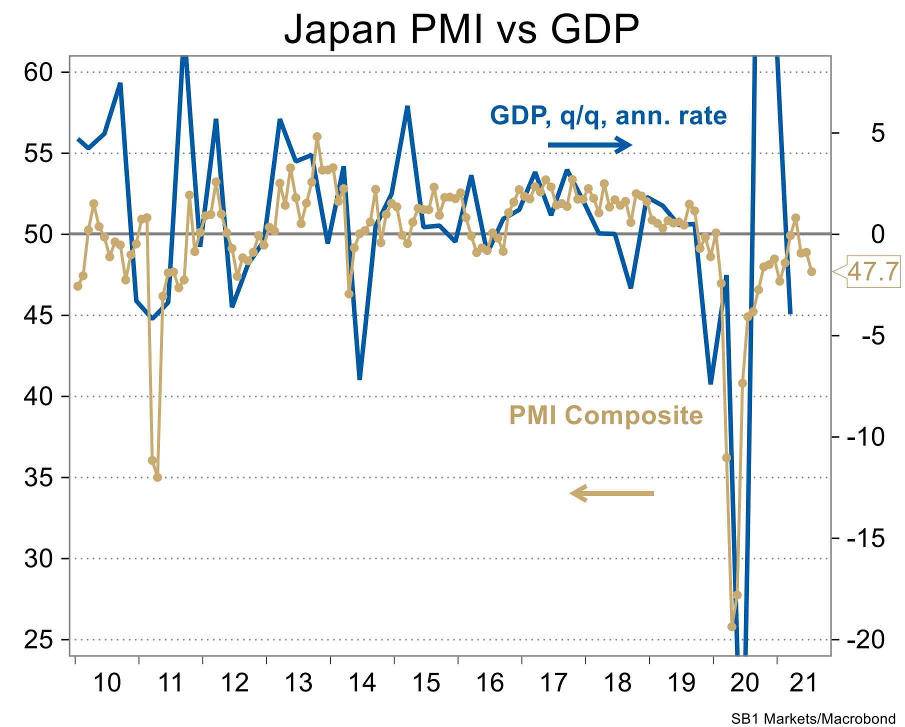


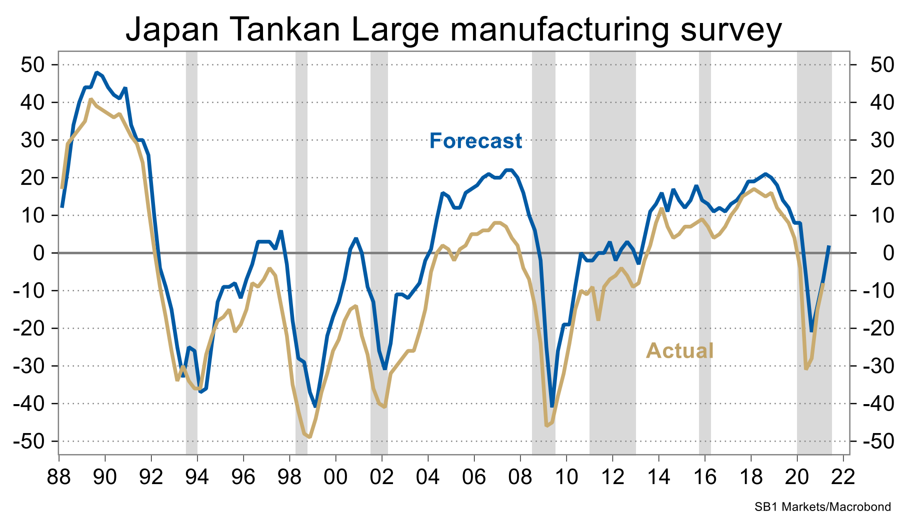


Japan further into contraction mode, the composite PMI at 47.7 signals -2% grwt.

Manuf. PMI down 0.2 p to 52.2, services PMI -1.7 p to 46.4, and the composite down 1.2 p



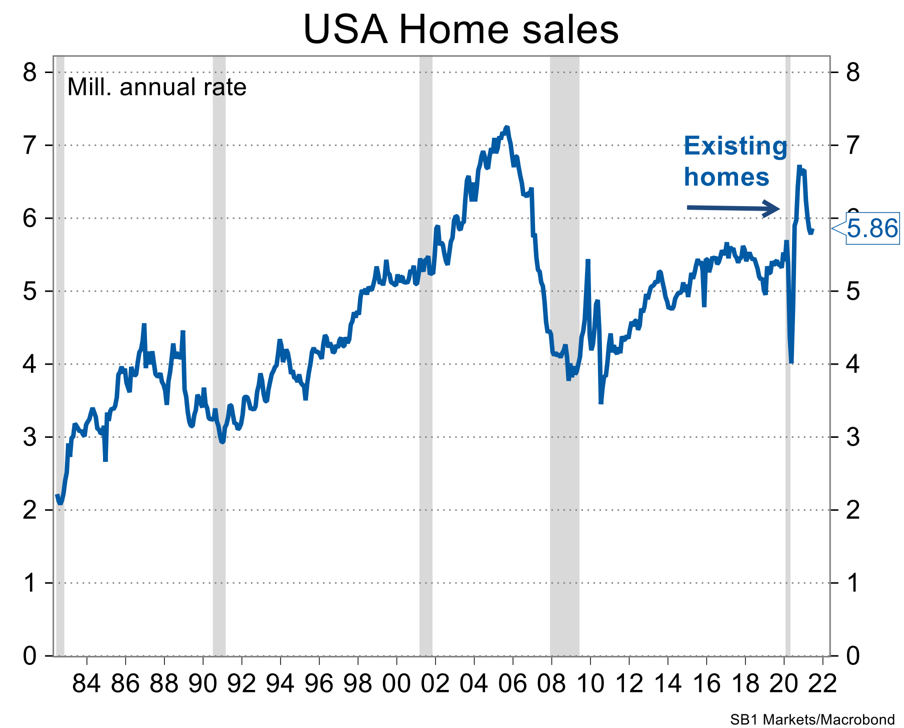


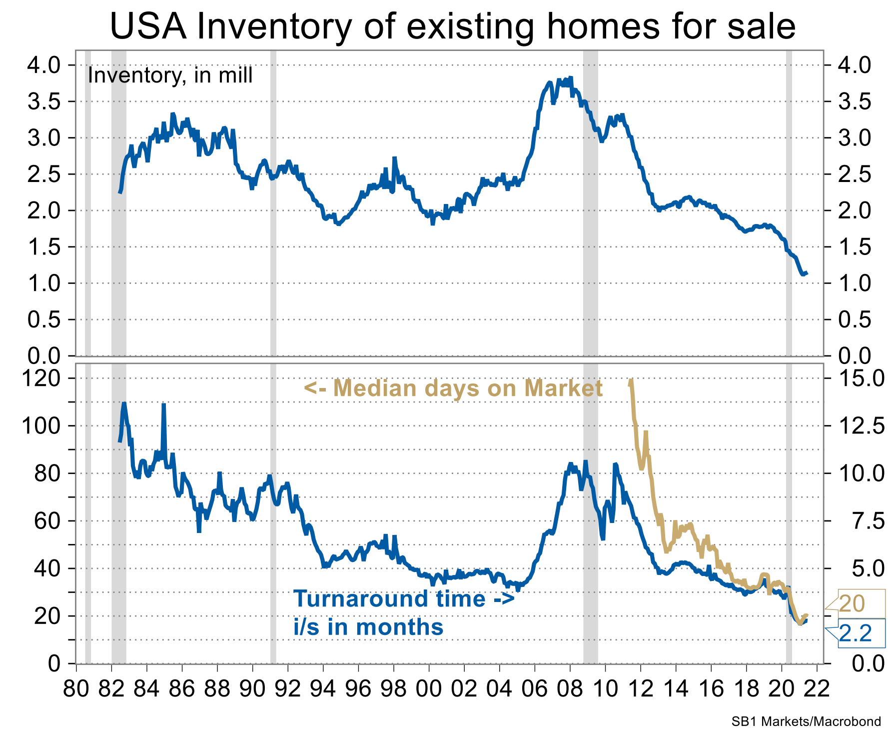


- No consensus forecast was available but very likely weaker than most assumed
- The composite PMI at 47.7 signals a moderate contraction in GDP but the correlation is not impressive

Existing home sales slightly up in June – still well down from the local peak

The 2nd hand housing market is ‘emptied’, the inventory is record low. But prices are flattening??

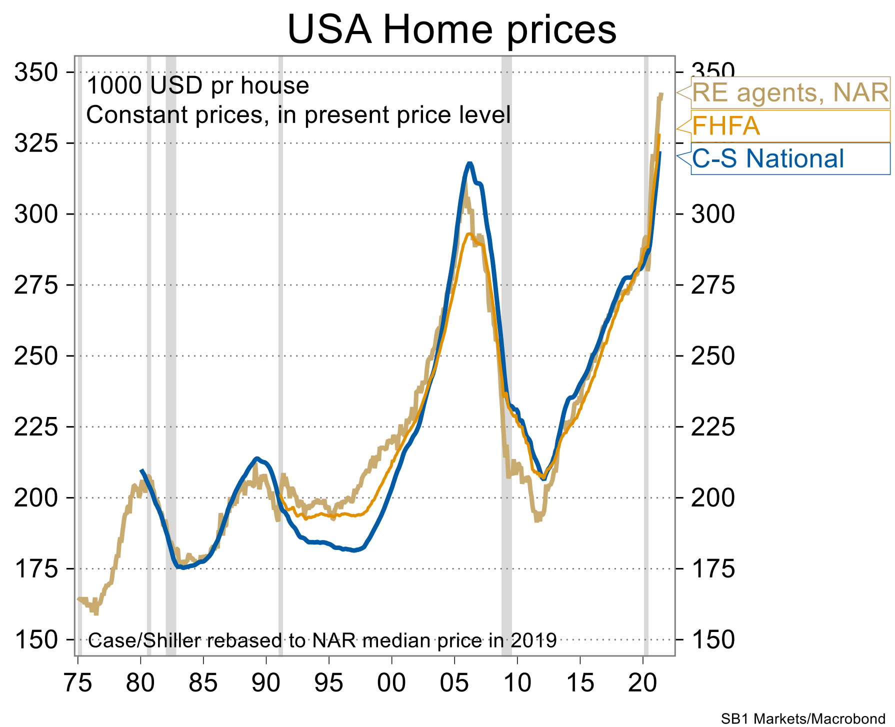


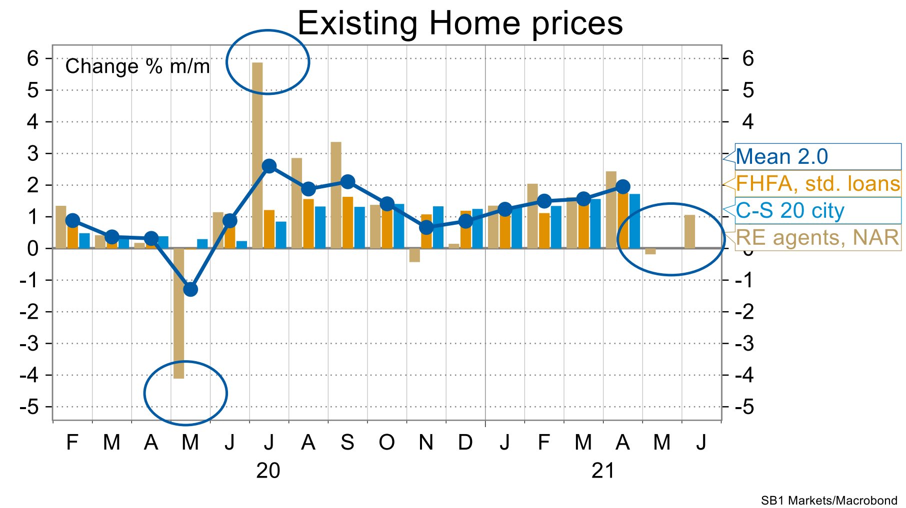


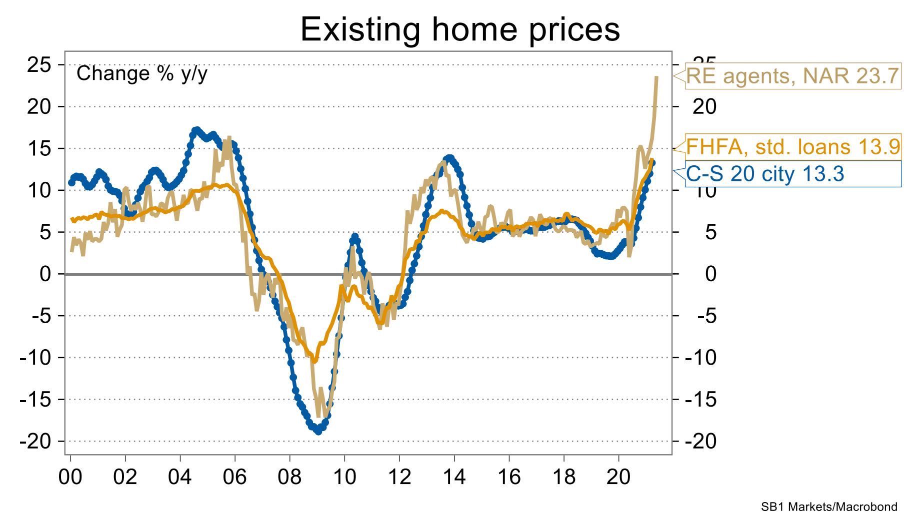
- Sales of **existing homes** rose to 5.86 mill (ann. rate) in June from 5.78 mill in May, expected up to 5.9 mill. Sales are down 10 from the local peak but still above 10% above the pre-pandemic level. Sales are do doubt kept down due to an unprecedented lack of supply. However, there are reports on buyers becoming more cautious following the steep rise in prices
  - **The inventory of unsold homes** rose marginally but is still extremely low, and equals just 2.2 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times is at 10 months
  - **Prices** rose ‘just’ 0.5% m/m in June, following the 0.1% setback in May. The annual rate at 23.7% is some 5.5 pp inflated due to the steep price decline last May. Just wait, in July the annual growth rate will tuble ☺

Existing home prices are flattening? +0.5% in average last 2 months

… but these NAR prices are very volatile



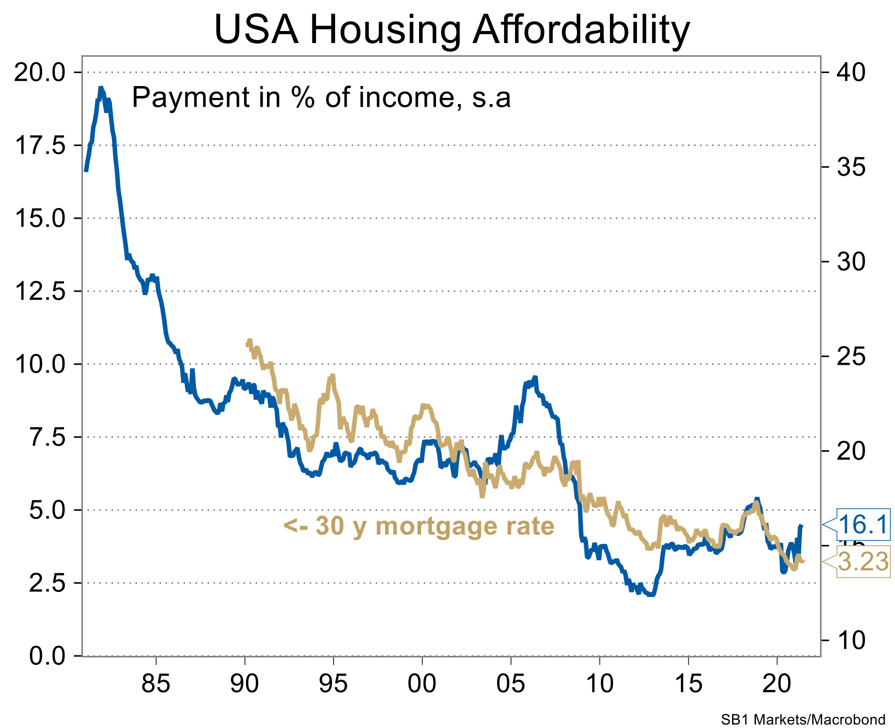


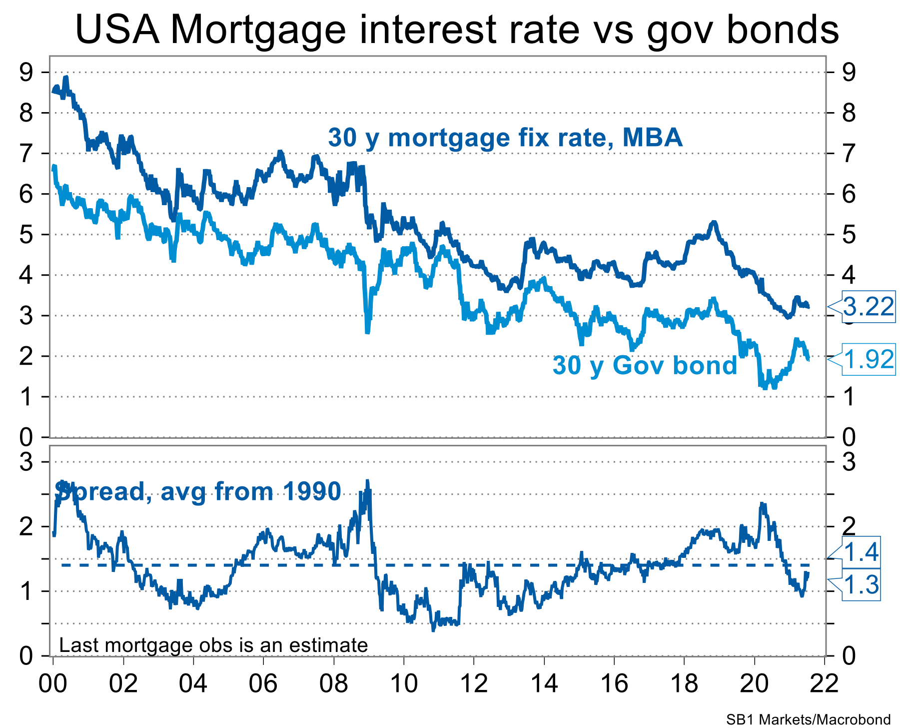


- **Prices** rose 1.1% m/m in June, up from -0.2% in May, in average 0,5% per month, substantially less than over the previous months
  - » The annual rate at 23.2 is record high – but partially because prices fell sharply last spring
- **Other price indices** confirm the red hot housing markets, prices are rising extremely fast, even after adjusting for the decline/slow growth last spring

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

However, mortgage rates have more or less flattened – and home prices are sharply up

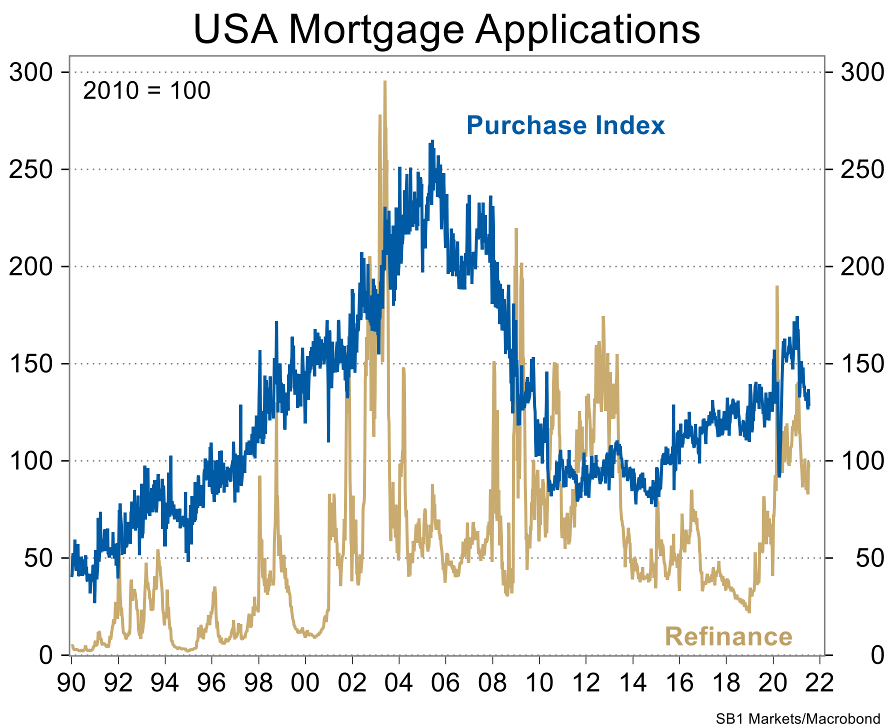


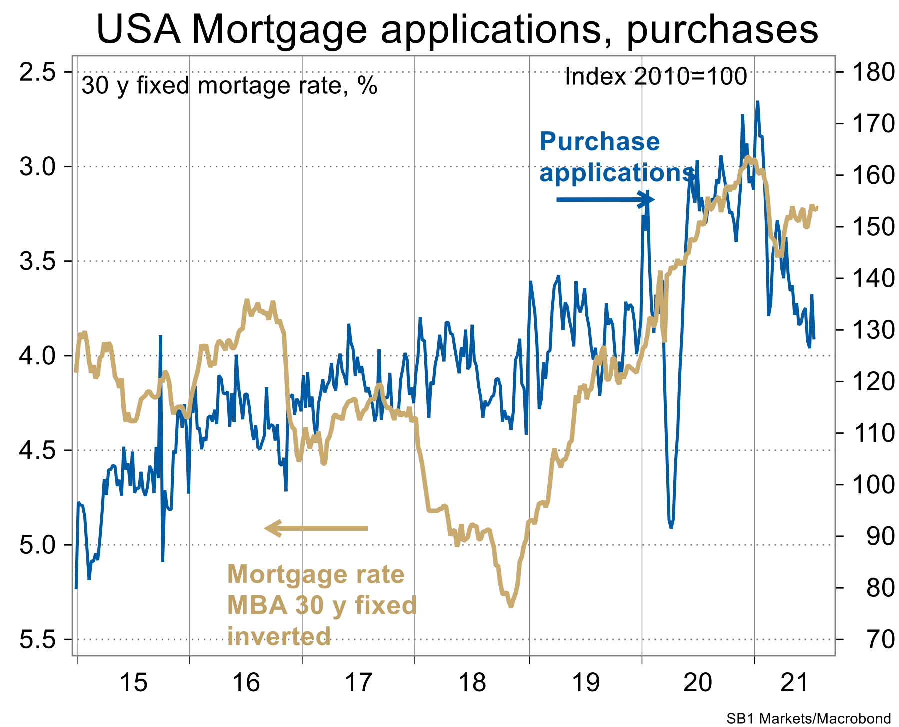


- The lift in prices is felt, no doubt

- **The spread** between the fixed 30 y mortgage rate and the 30 y gov bond rate has widened 40 bps recently probably because investors doubt the Federal Reserve will continue the hoarding of mortgage bonds as a part of the QE program forever
- **Household mortgage** debt is up USD 500 bn y/y. Fed is buying USD 40 bn per month, 480 bn per year. The Fed is funding the housing party, all of it! Cheers ☺

Mortgage rates fell – and more applications arrived

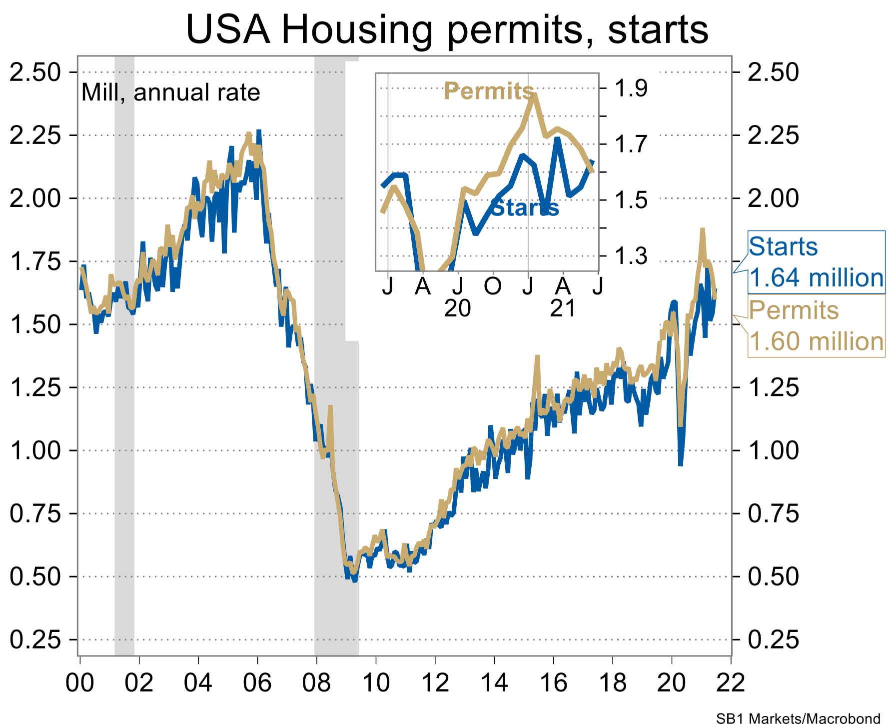


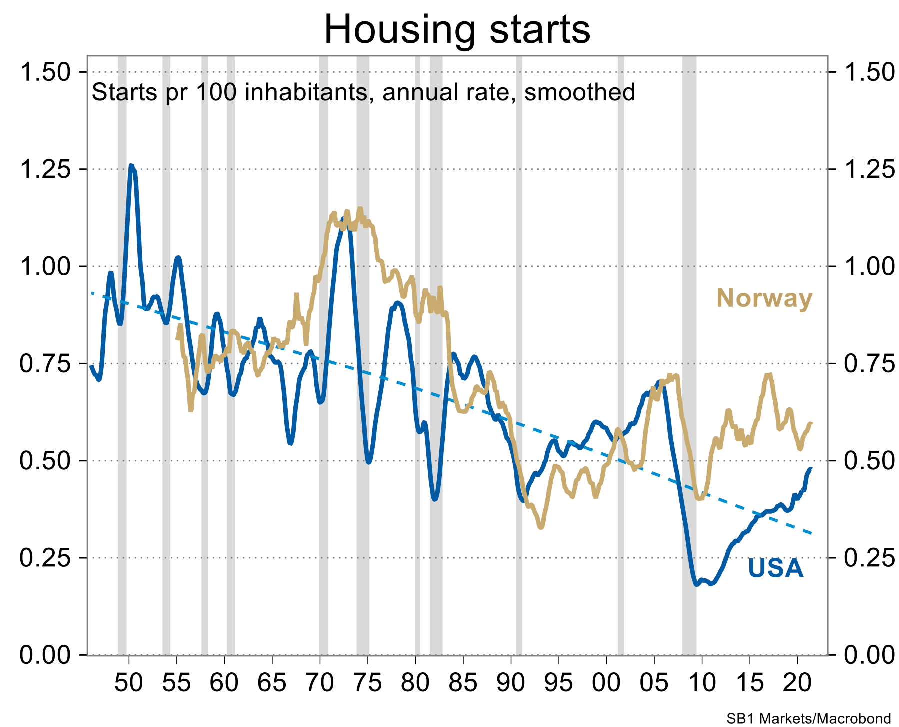


- Demand for mortgages is not closely correlated to mortgage rates but the increase in demand last year was influenced by the steep decline in mortgage rates
- The moderate increase in rates in early 2021 has probably contributed to a decline in demand for loans for purchases recent months. Lack of homes for sale (both new and existing) has dampened transaction volumes, which also may have contributed to the decline

Housing starts up, permits marginally down up in June

Both starts and permits have flattened recently, even if the existing home market <u>has been</u> red hot

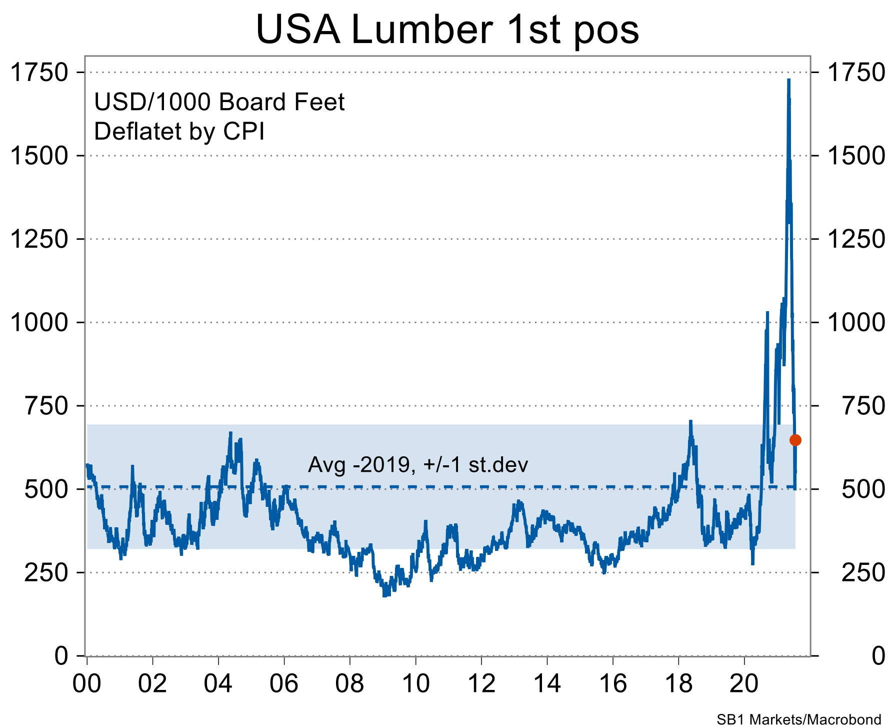




- **Housing starts** rose to 1.64 mill in June, up from 1.54 mill in May, expected up to 1.59 mill. The trend over the recent months is more or less flat
- **Building permits** fell to 1.64 mill from 1.68 mill in May, expected up to 1.70 mill. Permits have fallen 15% since January but the level is far from low, in fact close to the pre-pandemic trend upward path. We usually put most emphasis on permits since they are less volatile m/m and less influenced by weather etc.
- The sharp **decline in lumber prices** signals that some of the supply problems are easing, which they usually do after (often a rather short) while

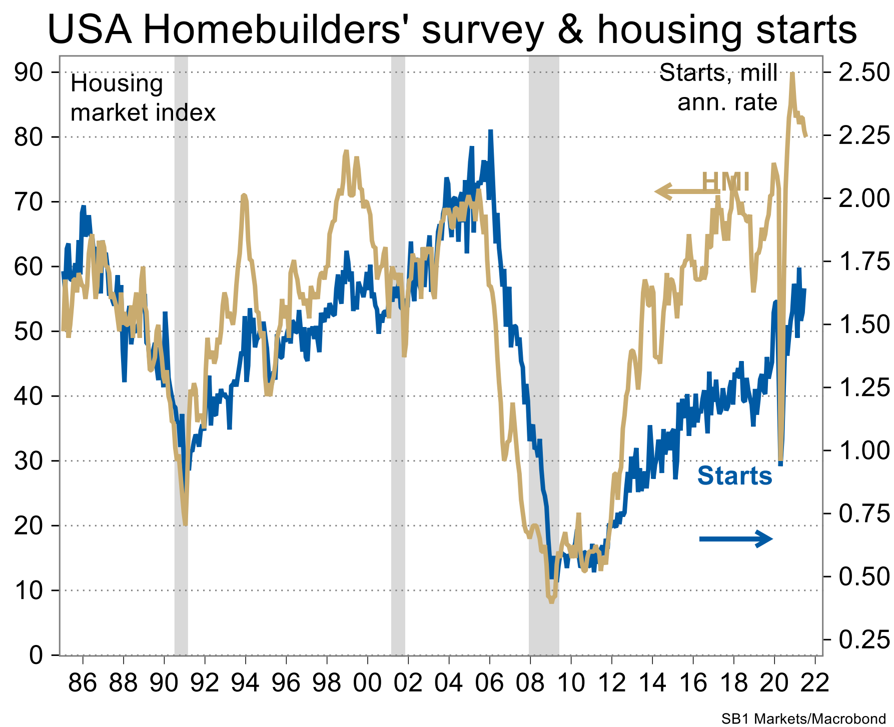
Lumber prices have fallen sharply – still above normal levels

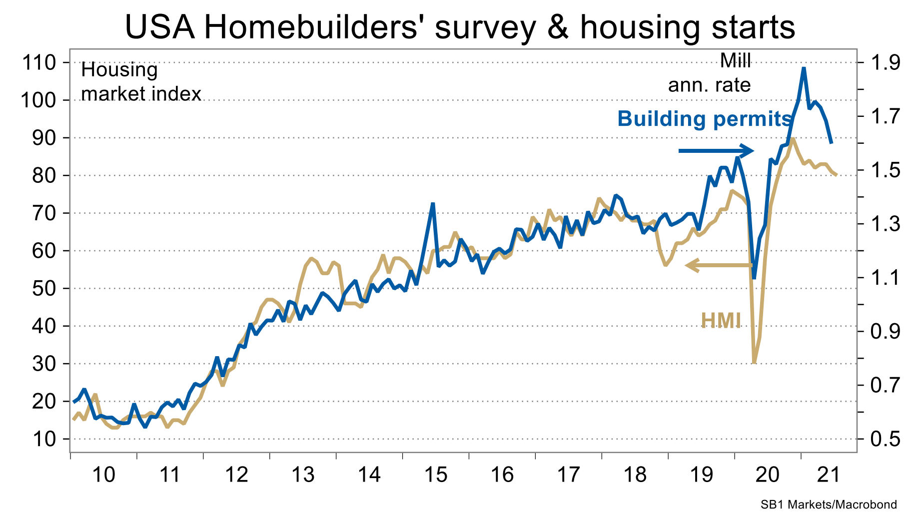
Some of the cost pressure is eased recent weeks

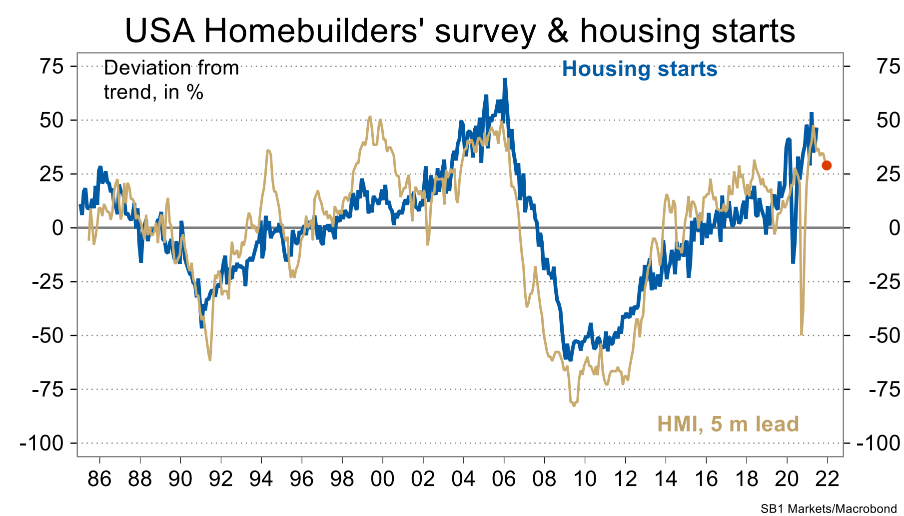


Home builders market index another tick down in July, signals a mild slowdown?

The HMI is still at a high level, but is sliding slowly down. Both supply & demand concerns





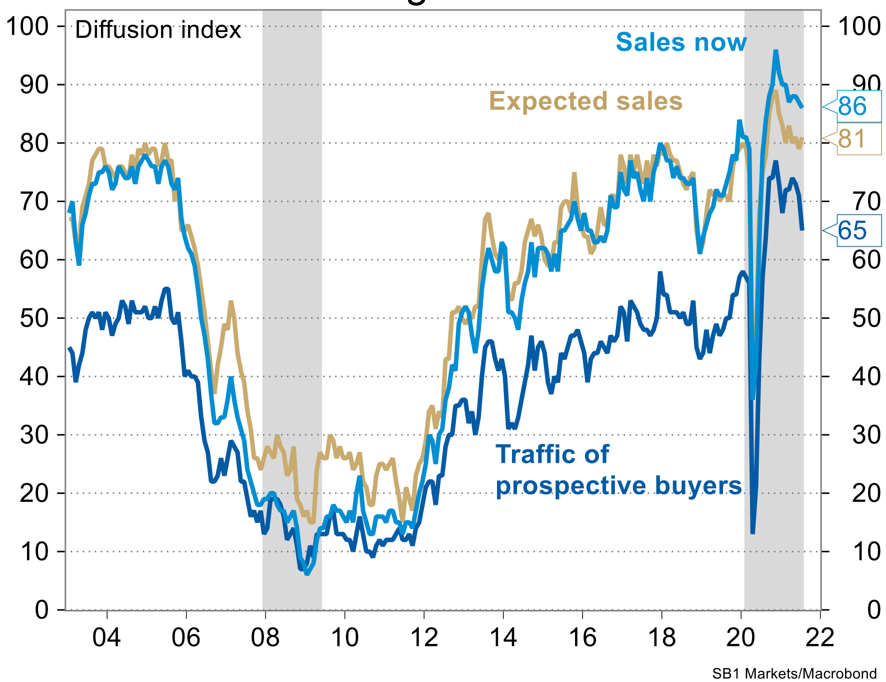


- **The Home Builders Housing Market Index** fell 1 p to 80 in July, expected up to 83. The level is high but still down from 90 last Nov. Traffic from prospective buyers fell sharply, and h**ouseholds** are reporting a decline home buying plans (in consumer surveys)
- **Rising material prices and supply chain shortages** are creating challenges for the home builders, according to the NAHB
- <u>Even if the level is very high, the HMI signals a moderate decline in housing starts, cfr the chart to the bottom right</u>

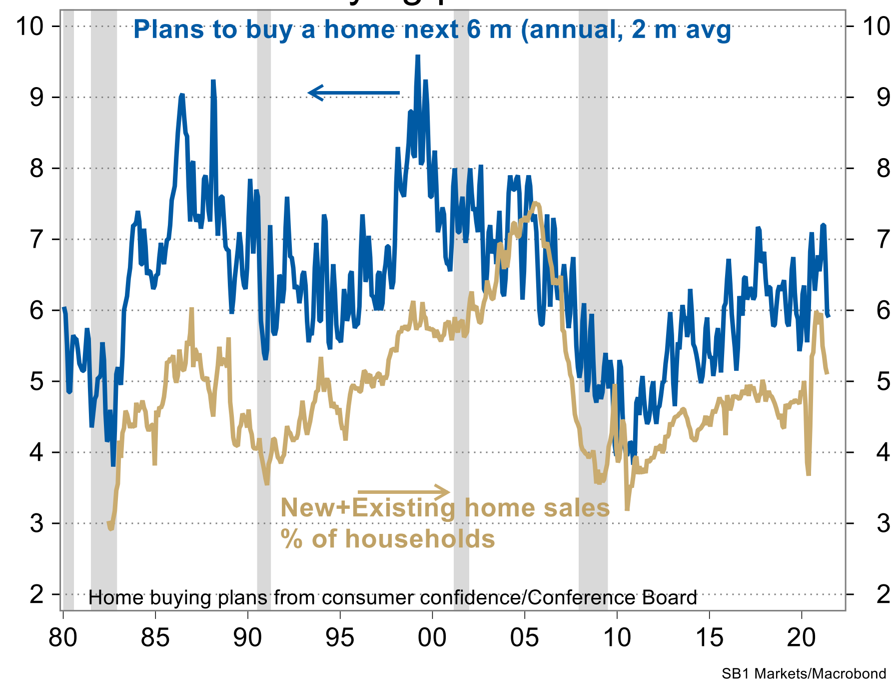
Home builders report a little less interest from buyers

… and home buying plans are down, households report to the consumer confidence survey

US Housing market index



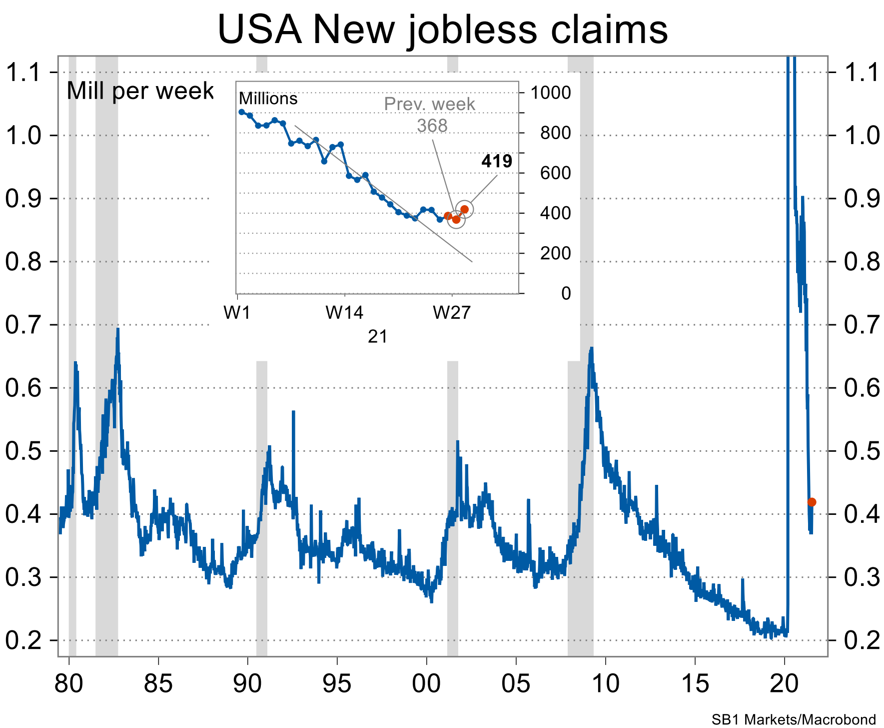
USA Home buying plans vs actual sales

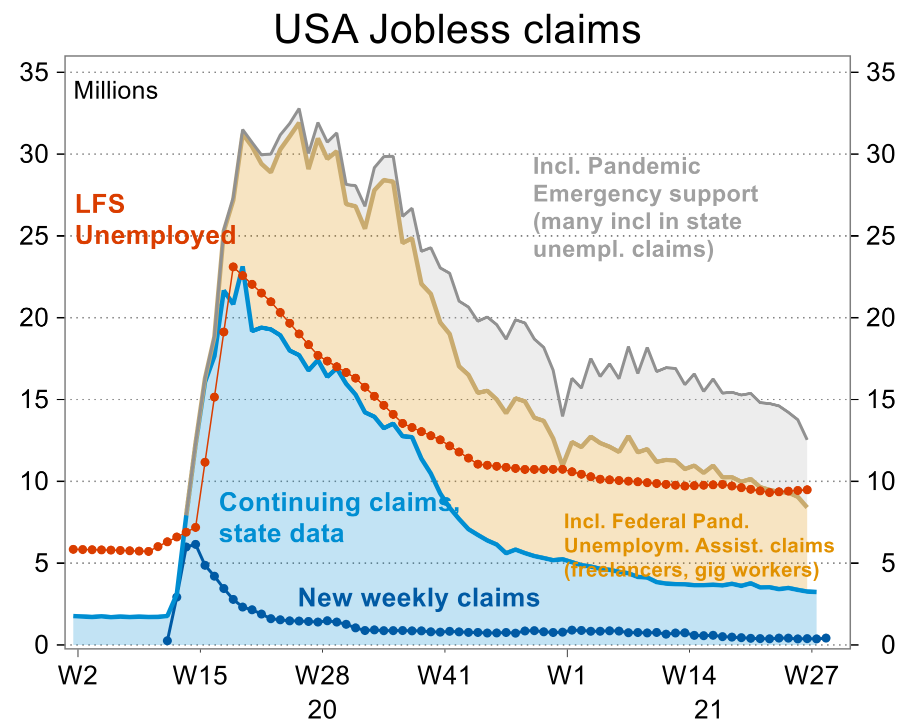


- University of Michigan sentiment survey reports that households deem buying conditions to be poor, due to the high price level. However, in April respondents expected prices to climb, at a very rapid pace the coming year, and above average the coming 5 years. So no panic yet

New jobless claims up last week – as federal programs are scaled down

New claims surprisingly rose by 51' to 419, expected 350'. Problems in the auto industry?

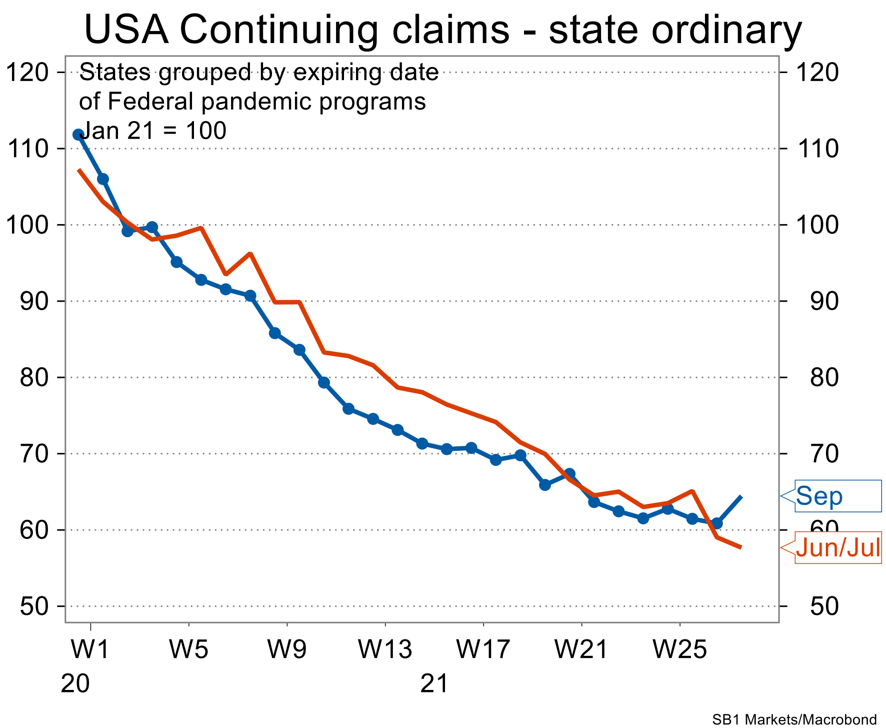


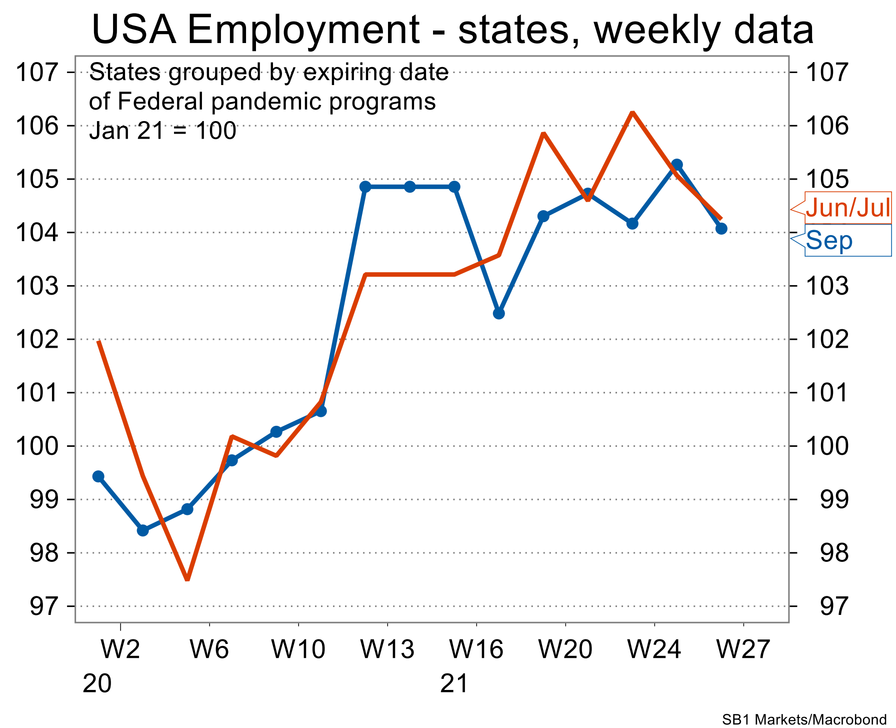


- **New jobless claims** have been heading upwards recent weeks, even if the no of unfilled vacancies are at the highest level ever, and companies are reporting a very low number of layoffs – and more workers are quitting their jobs voluntarily. Still, there may be sectoral challenges, like in the auto industry
- **Ordinary continuing claims** fell by 29' to 3.24 mill, while the no. of receivers of the Pandemic Emergency Support Program (52 weeks instead of 26, and USD 300 extra/week) decreased by 198' to 4.13 mill, and the no. of receivers of the Pandemic Assistance Program (gig & freelancers) fell by 553' to 5.13 mill as half of the states have left the federal programs
- As many have received both state and federal support, the downscaling of the federal programs could have led to a decline in the no of recipients of ordinary state support (the extra federal support made it more attractive to remain unemployed). So far, there are no signs of such an impact (check next page)

Will the cancelling of pandemic federal benefit programs lift employment?

No clear evidence so far but data are lagging!

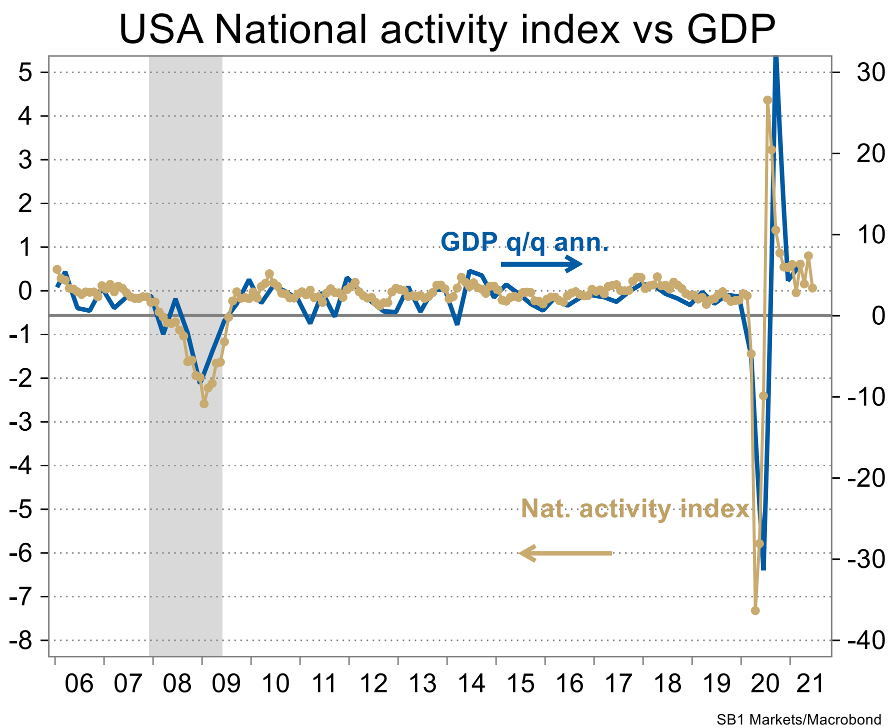




- 4 states dropped out of the federal unemployment benefit programs on June 12 (end of week 23), 8 states left June 19, and 10 states June 26, and 3 more states July 3 and 10
- We do not know what these former recipients do now – are they now trying to find a job?
- If we pool the 'early leavers' in one group, we have not yet seen a significant reduction in the no. of recipients of ordinary state benefits among these states, but the no. of recipients have fallen past two weeks
- Weekly employment data (available just through week 26) do not indicate lift in the early leaver states

The National activity index signals a 3 – 4 growth pace now

… which confirms that growth probably is gradually slowing



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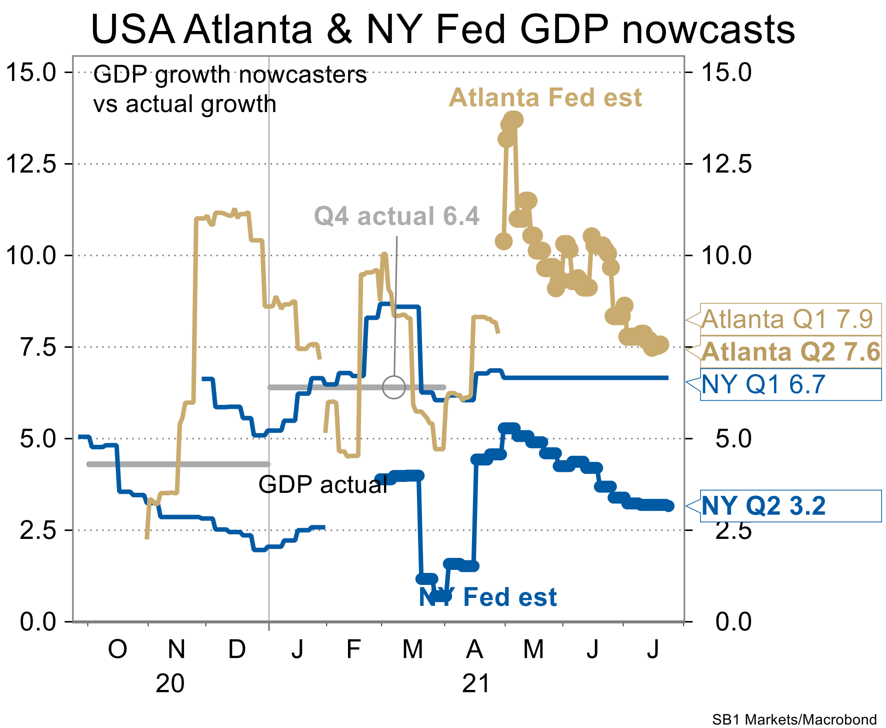
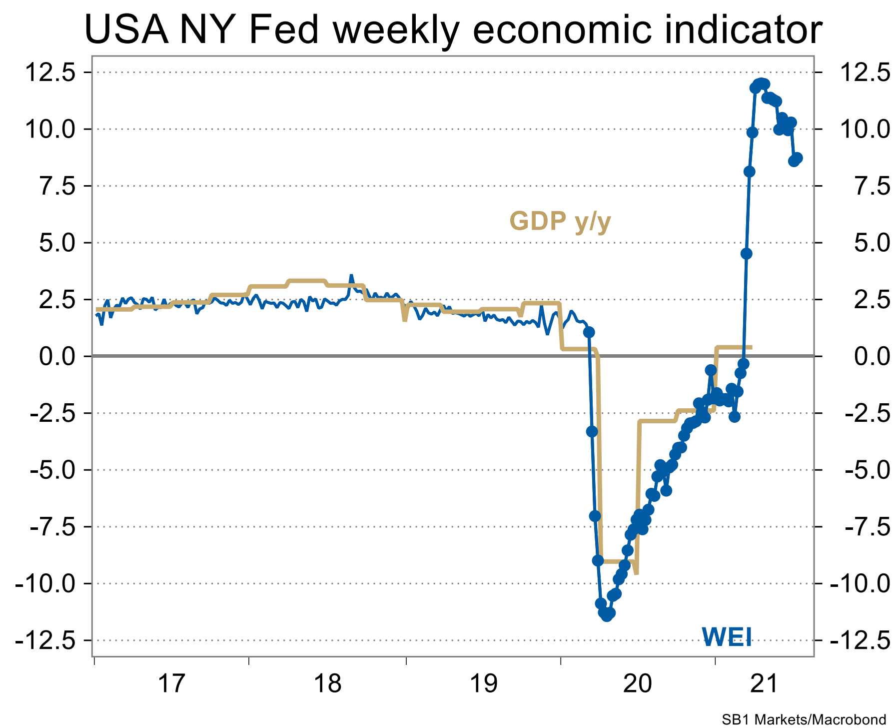
The nowcasters signal 3% to 7.5% GDP growth in Q2

… as growth nowcasts have been gradually slashed past two months





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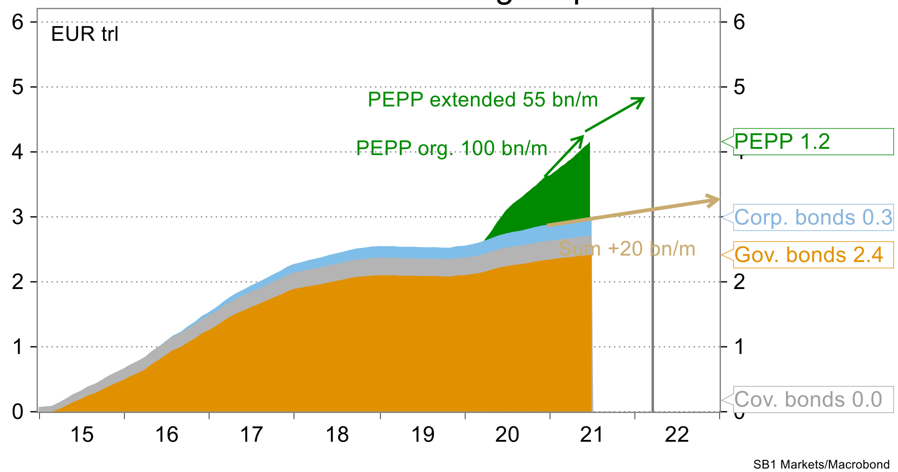
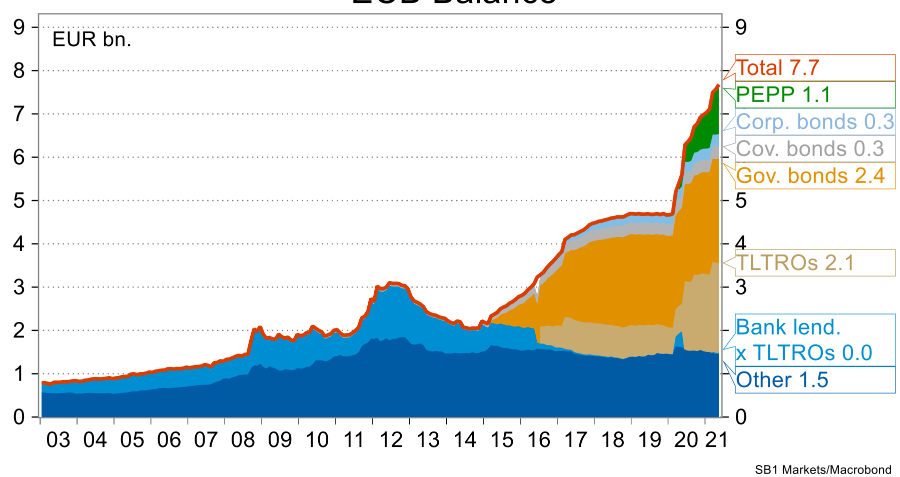
ECB: Low for even longer, following the lift of the inflation target

However, no new initiatives – perhaps because the board is split

ECB Balance - outright operations



ECB Balance



- **QE programs not expanded/extended, and no change in signal rates. But the talk was dovish**
- However, the bank (Lagarde) signalled that policy rates will be kept low for longer, following the upward revision of the bank's inflation target to (symmetric around) 2% two weeks ago, and she sounded like more QE soon could be a reality
- While the lifting of the inflation target to 2% was unanimous, the media reports suggest Germany and Belgium opposed the low-for-longer message or more aggressive QE actions
- Bond yields still fell some few basis points across the member countries

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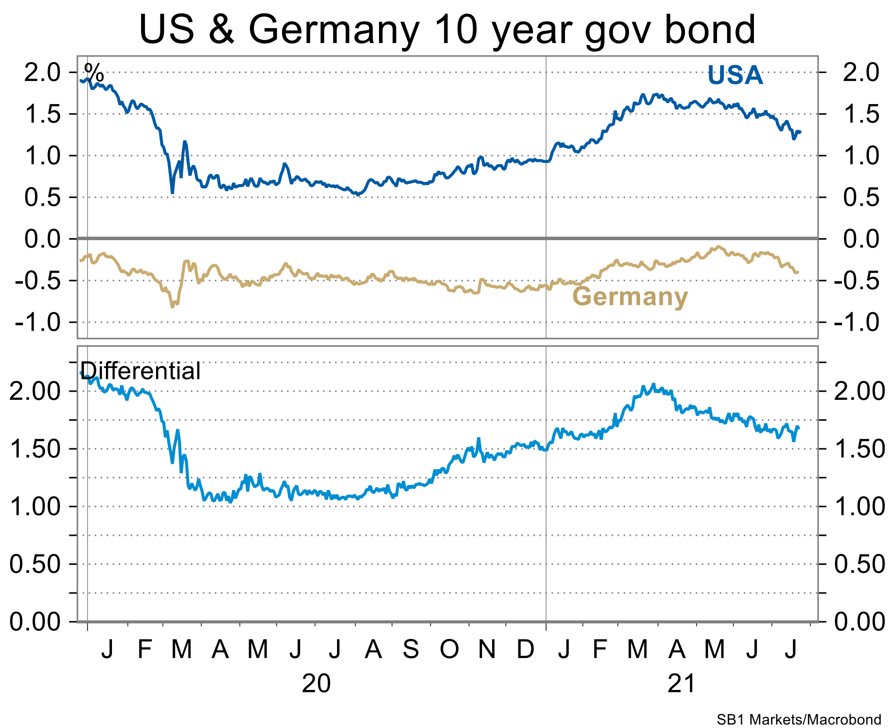
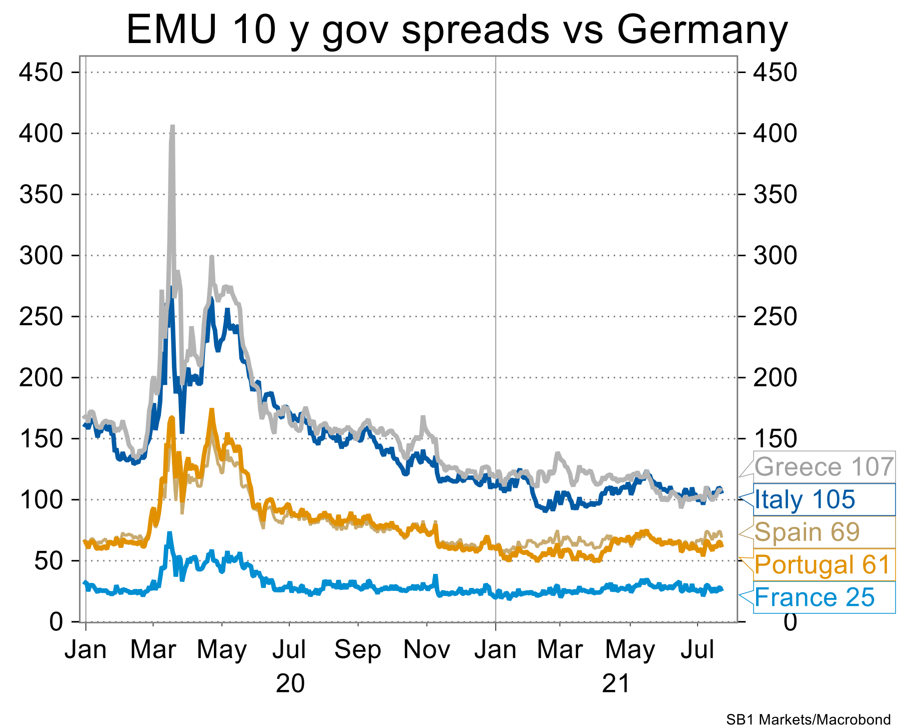
Long bond yield have fallen recent months – and fell further last week

.. And by 2 bps more than in the US. Intra EMU spreads were more or less stable





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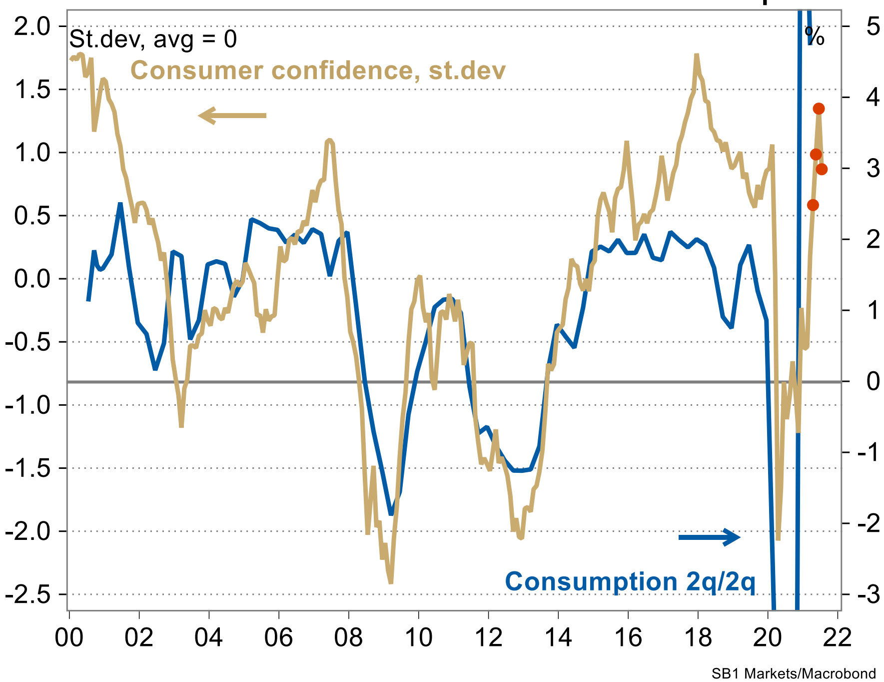
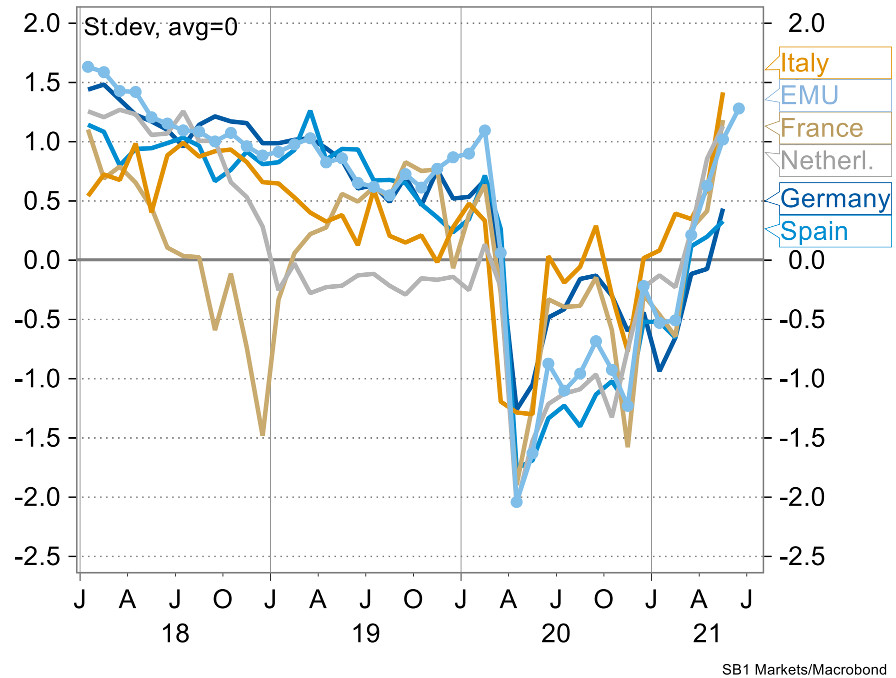
Consumer confidence down in July, we can probably blame the Delta variant

The confidence down 0.5 st.dev, still 0.8 st.dev above average

EMU Consumer confidence vs consumption



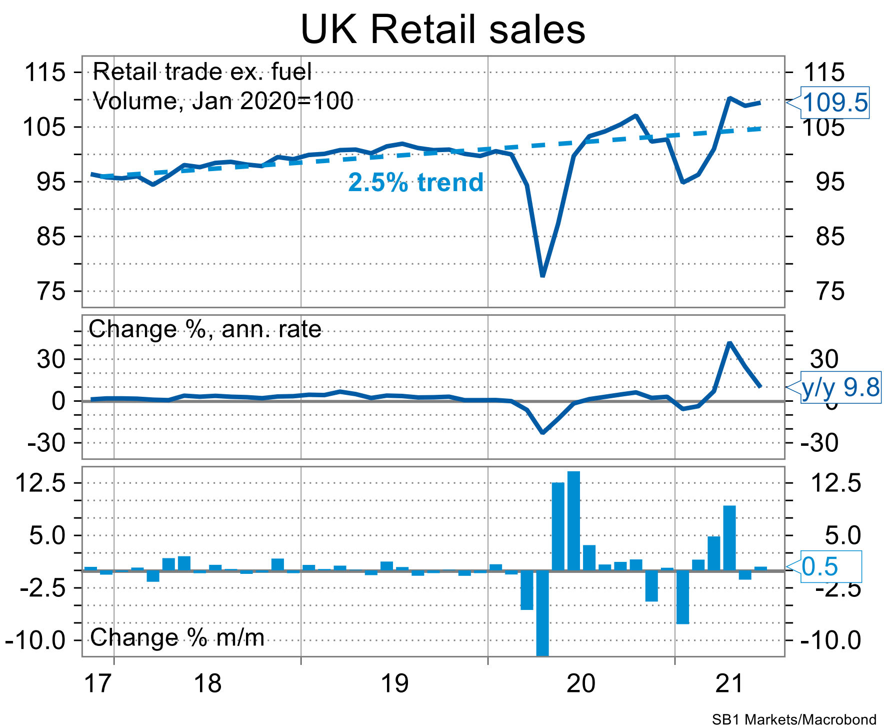
EMU Consumer Confidence

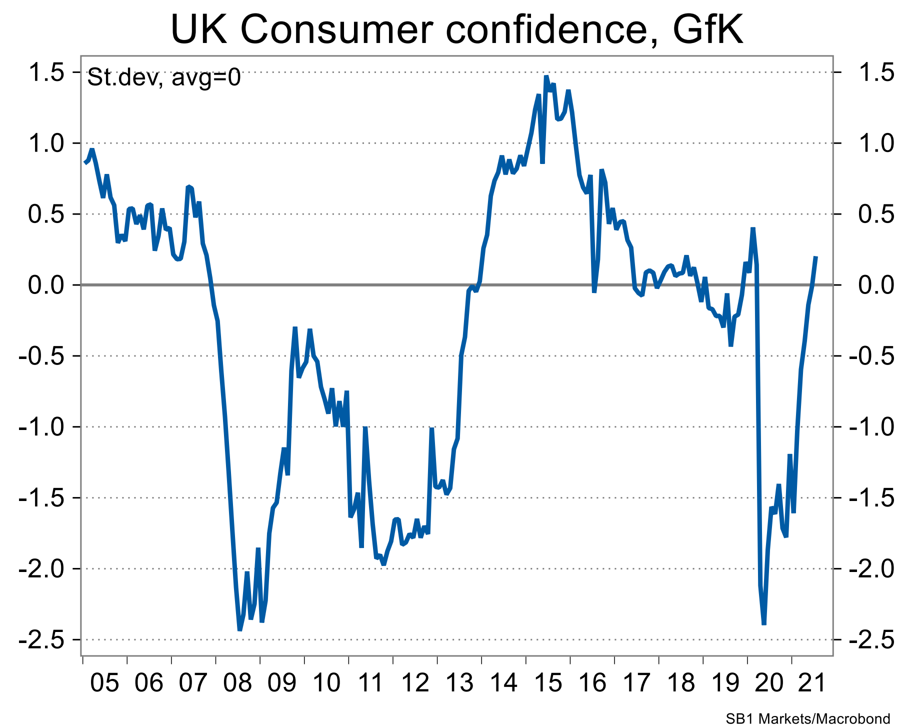


- **The consumer confidence index** decreased to -4.4 in July from -3.3 in June, expected up to -2.5
  - » We assume that the corona outbreak has contributed to the first decline since January
- Even after the decline, the level is high and does not signal a cut in household demand
- No July country data yet
  - » All of the large EMU economies reported confidence above par in June. Italy has been above average since December, and in the lead

Retail sales have flattened – at 5% above a 'normal' level

Sales up 0.5% in June, expected 0.2% - and are 9.5% above the pre-pandemic level



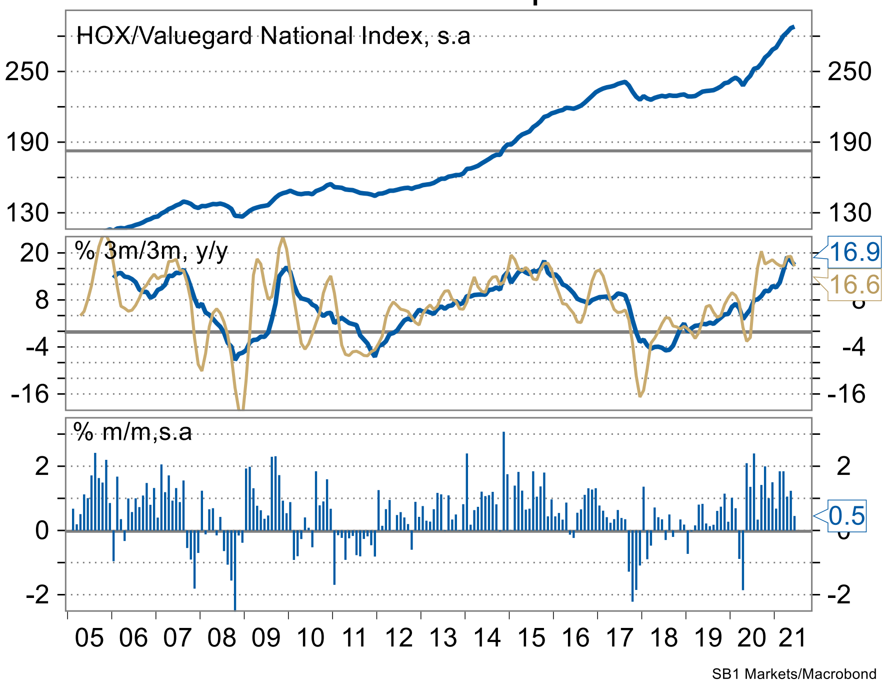


- **Sales have stabilised at this level the past 3 months. Households are increasing their spending on services, so far without cutting back on their consumption of goods.**
  - » The recovery in total retail sales to April from January was broad based – except for food – as restaurants were gradually opened
- **Consumer confidence** continued up in June, according to the GfK survey. The level is finally above average but still below a local spike just before the pandemic

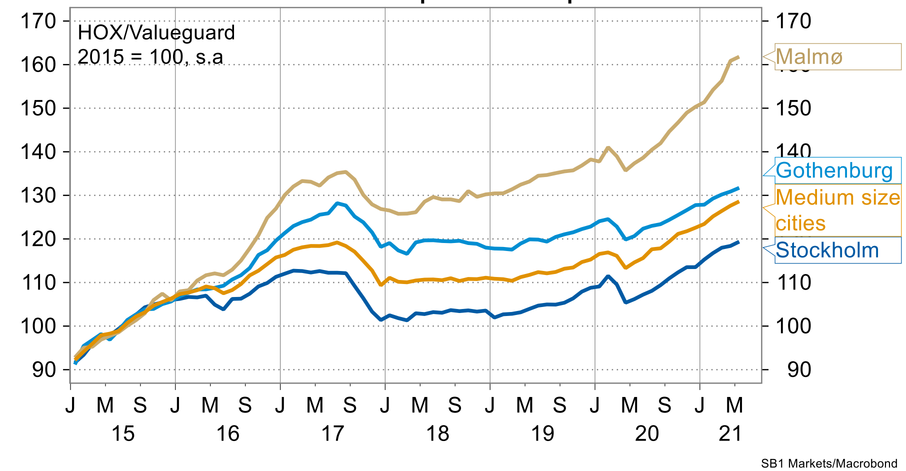
Swedish house prices up ‘just’ 0.5% m/m in June – up 17% y/y

At one stage, house price inflation has to slow down – and it might be happening now

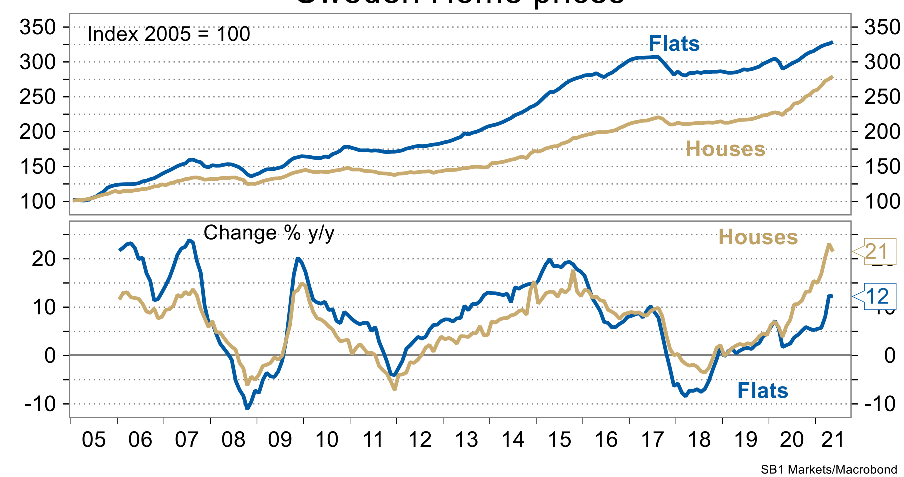
Sweden Home prices



Sweden Apartment prices



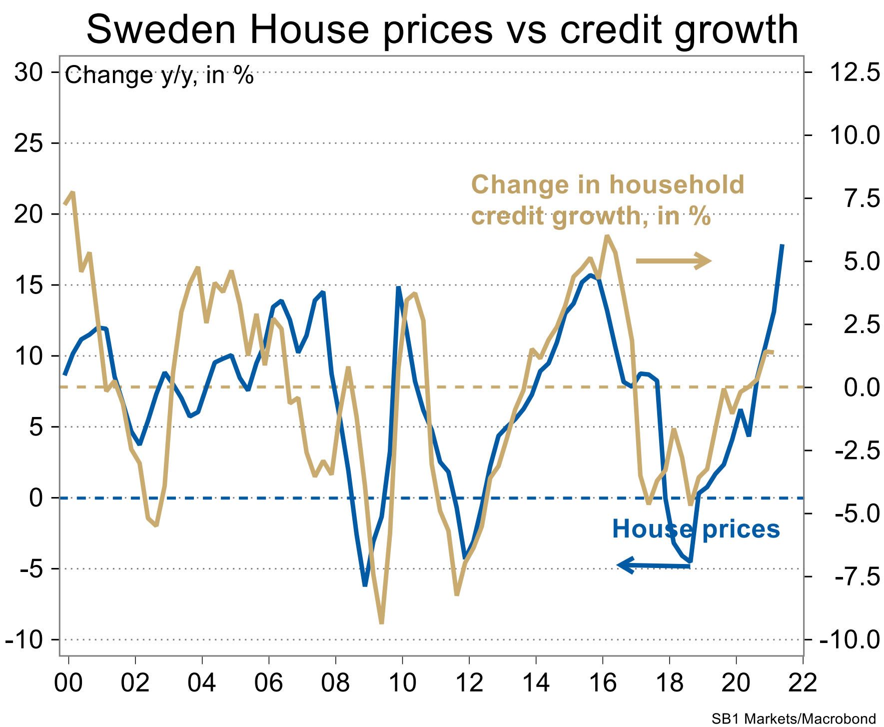
Sweden Home prices

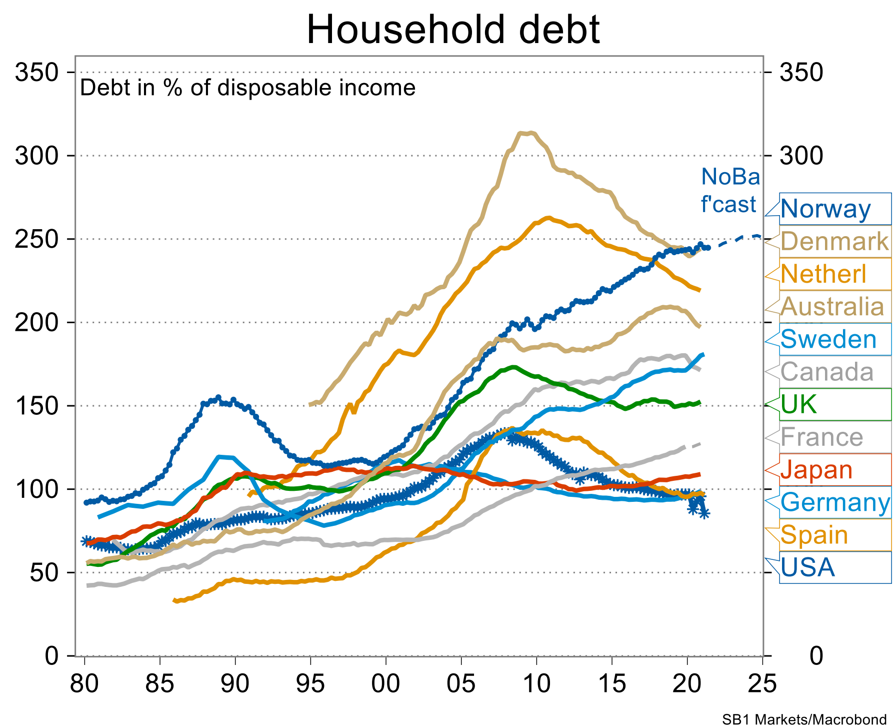


- Apartment prices rose in all major cities
- House prices have climbed much faster than apartment prices since last spring (up 21% vs. 12%), and in all regions – most likely a corona effect (need for space etc)
- The Riksbank has so far not signalled any change in its monetary policy

Credit growth has accelerated sharply

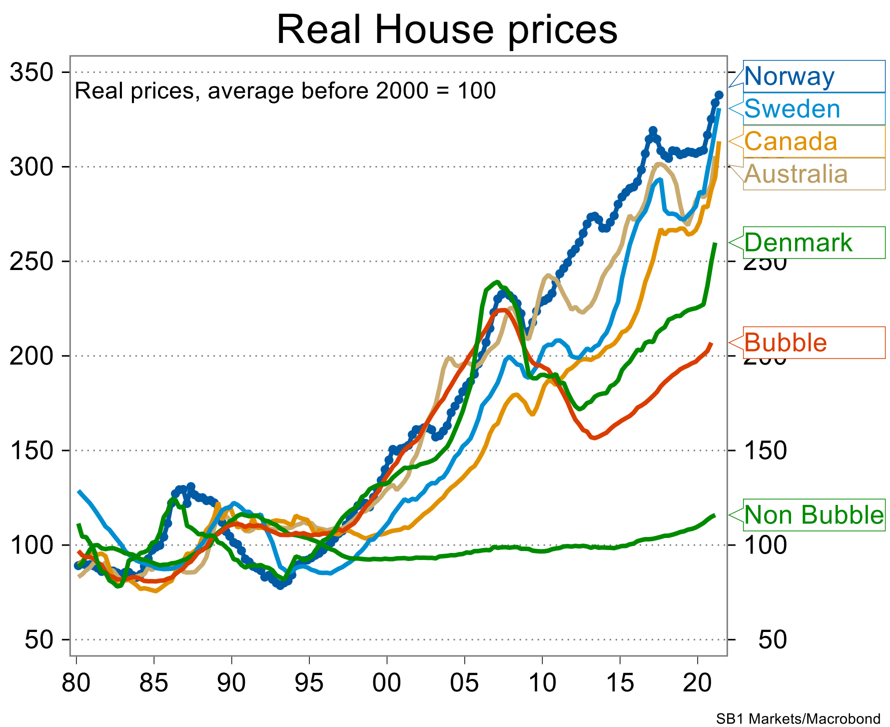
… and more than in any other rich country, without cuts in (record low) mortgage rates

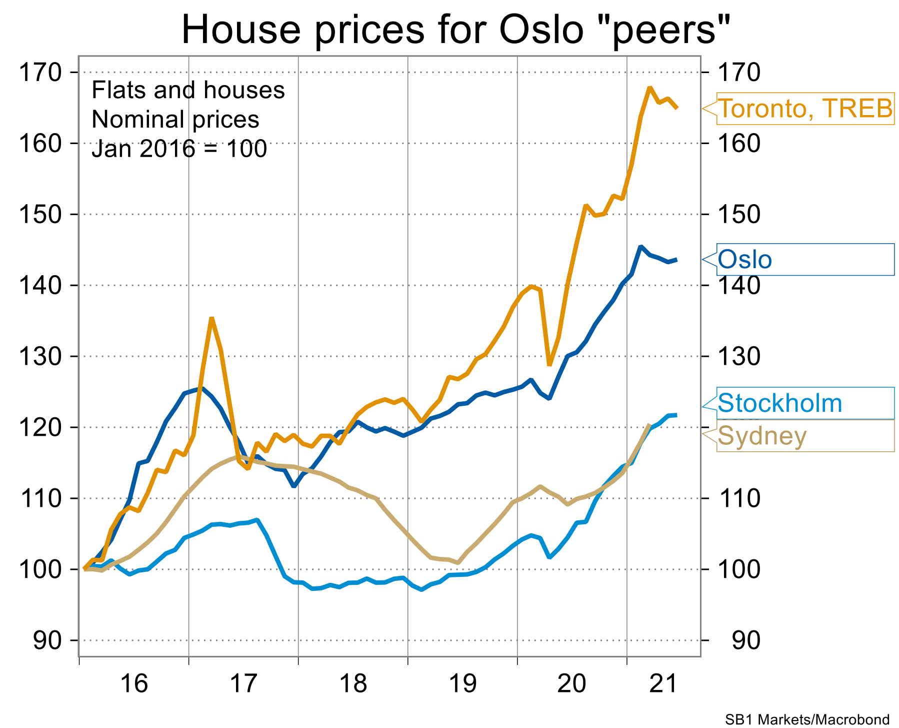




Zero-interest rates are just wonderful! At least for a while

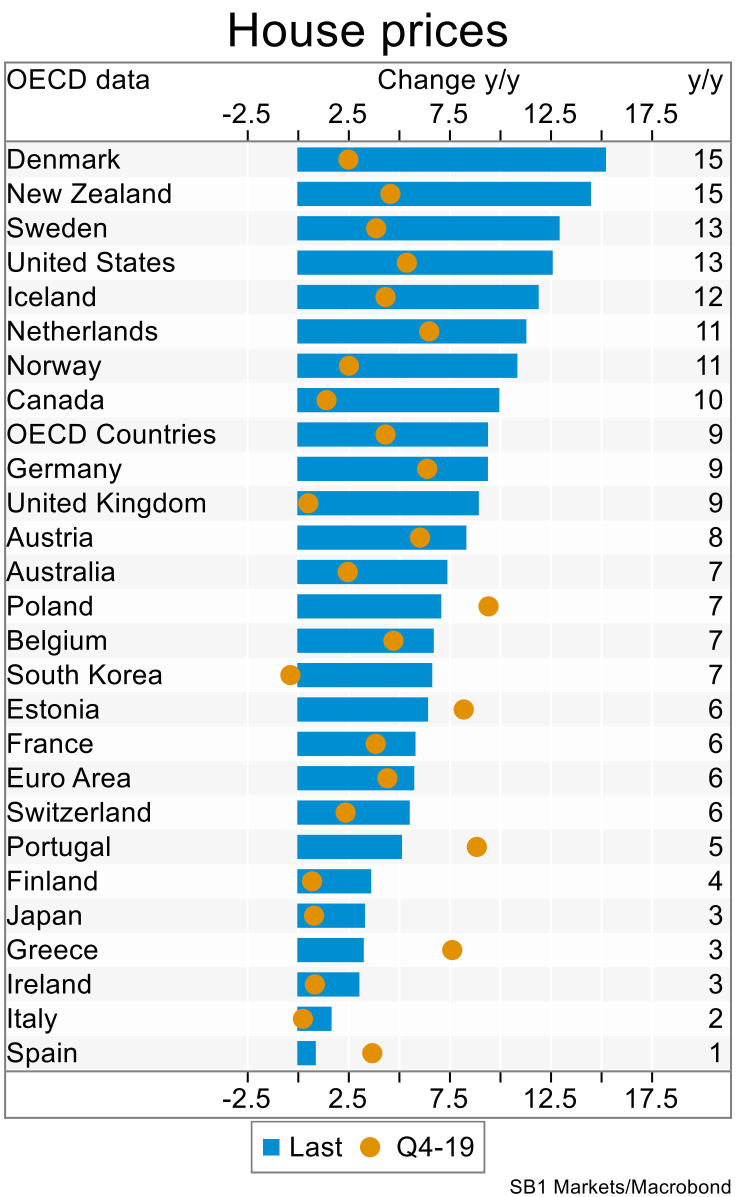
Prices have been soaring in most countries – with the ‘super-cycle’ countries in the lead





- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Home prices in the capitals in these countries are mixed recent months, as Oslo and Toronto has taken a break – Stockholm and Sidney to take a break?

House prices up everywhere, and have accelerated in 21 of 26 countries



- The average price appreciation in the OEDC area has been 9%, up from a 5% pace one year ago – and twice the average pace since year 2000
- Denmark, New Zealand, Sweden and Norway have reported the steepest acceleration vs. pre-corona growth rates
- Price inflation has slowed the most in Greece, for good reasons – the tourist country has been through a harsh downturn. The house market in Spain has been hurting, for the same reason

OECD quarterly data, the last quarter Q4-20 or Q1-21

Highlights

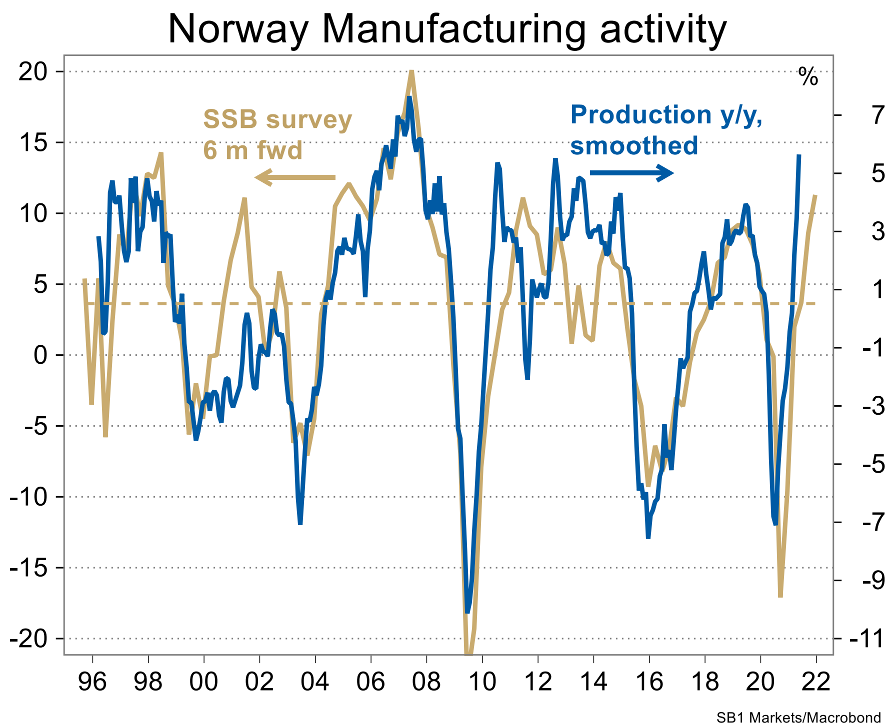
The world around us

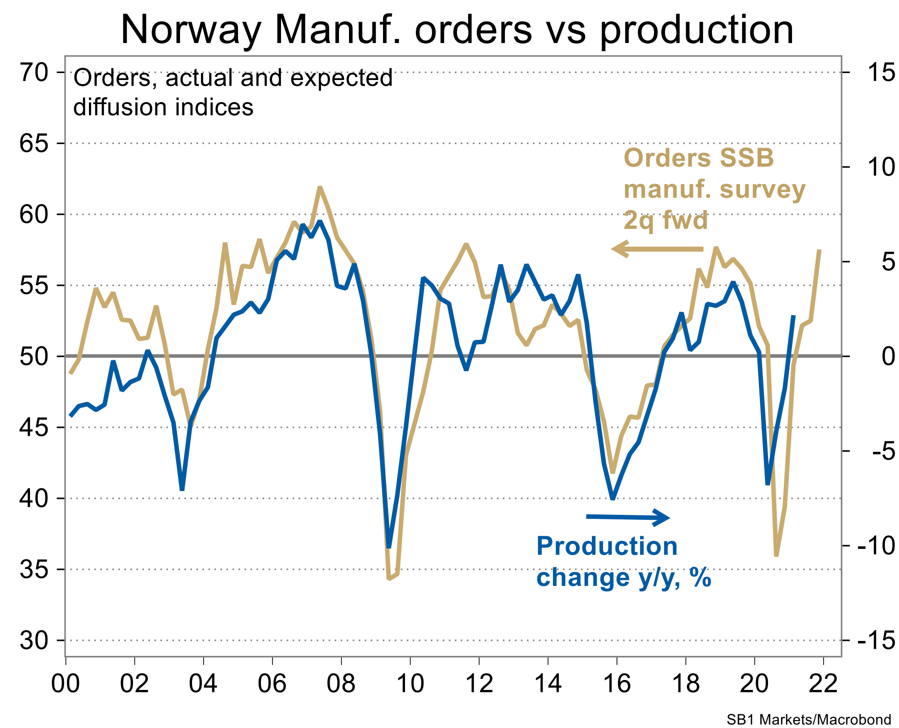
The Norwegian economy

Market charts & comments

SSB's manufacturing survey up to the best level in 14 years

Signals growth well above trend the coming months, broad based

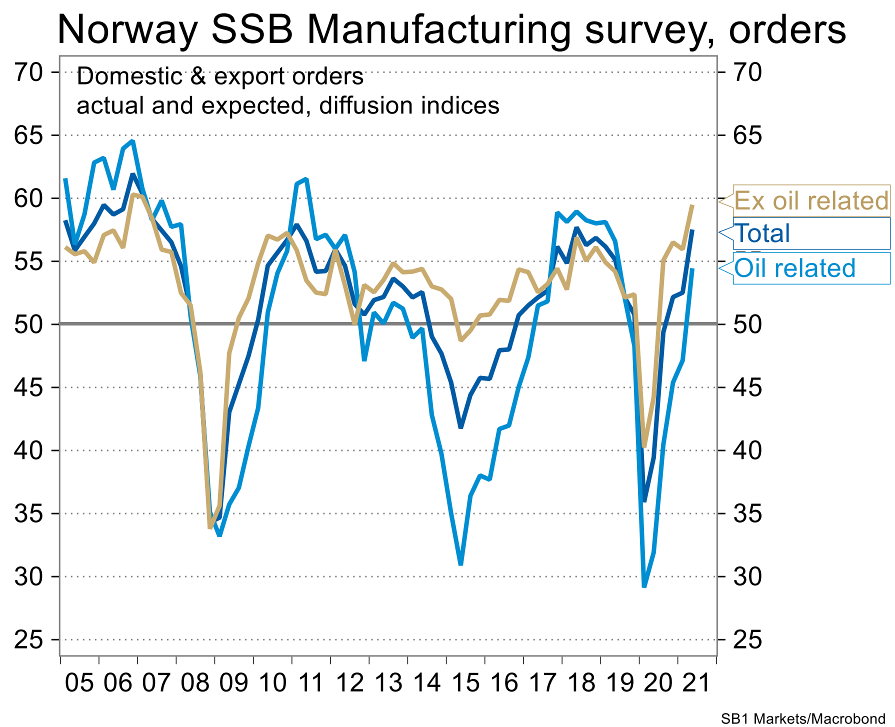


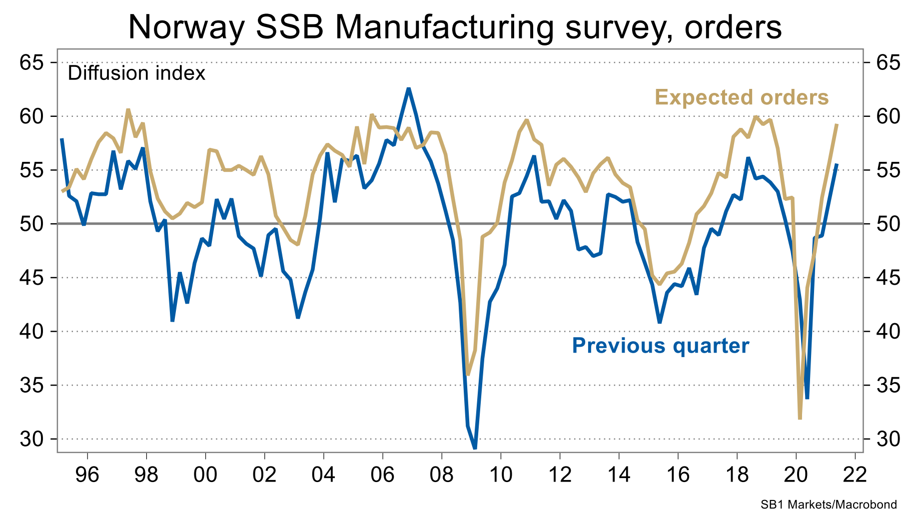


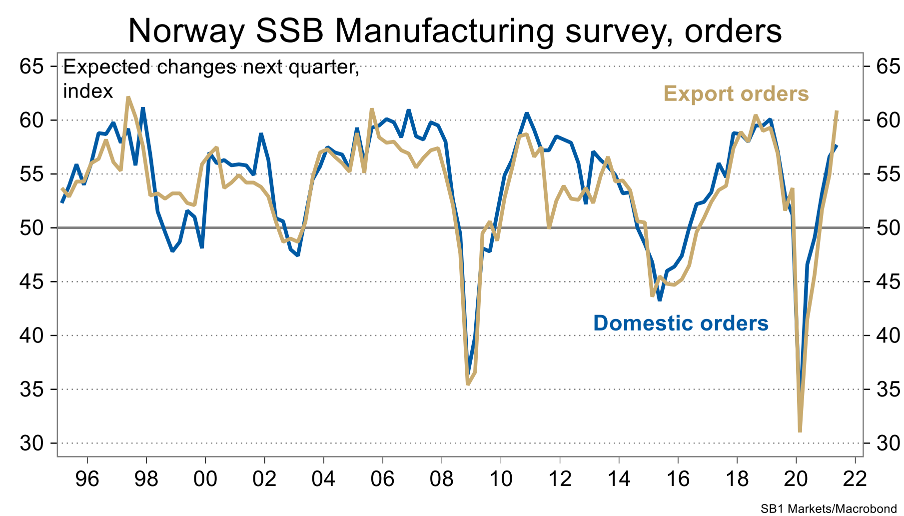
- The composite index in SSB's manufacturing survey rose to 11 in Q2, from 9 in Q1 (rev. up from 8), we expected up to 12. The level is 7 p above the average (or +1.0 st.dev above avg, following a 0.4 st.dev lift in Q2)
  - » The index signals growth well above trend in the manufacturing sector, almost 3% GDP growth and a 60% growth in expected corporate earnings (from subdued levels last year)
- Orders are growing rapidly. Foreign orders are now increasing faster than domestic orders
- ***Supply constraints the most serious since 2008. Demand/competition is far less of a problem than normal***
- ***Companies are reporting they expect prices to rise faster than ever (data from 1990)***

The order inflow is increasing faster, from all quarters

Both domestic & foreign orders are recovering, exports orders the most. Oil related are recovering

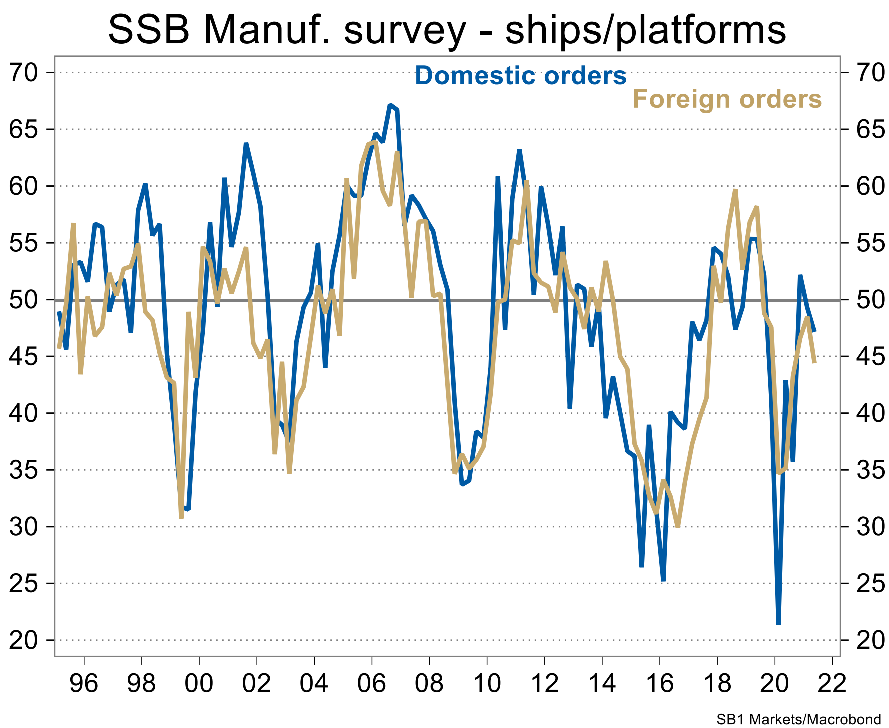






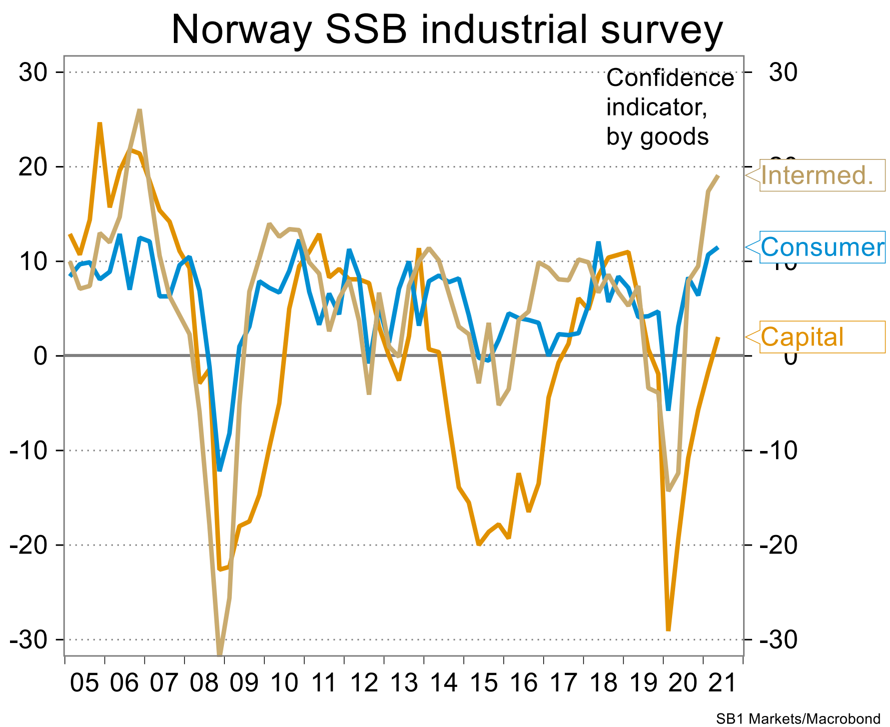
Ships/platforms: Orders slowed in Q1/Q2

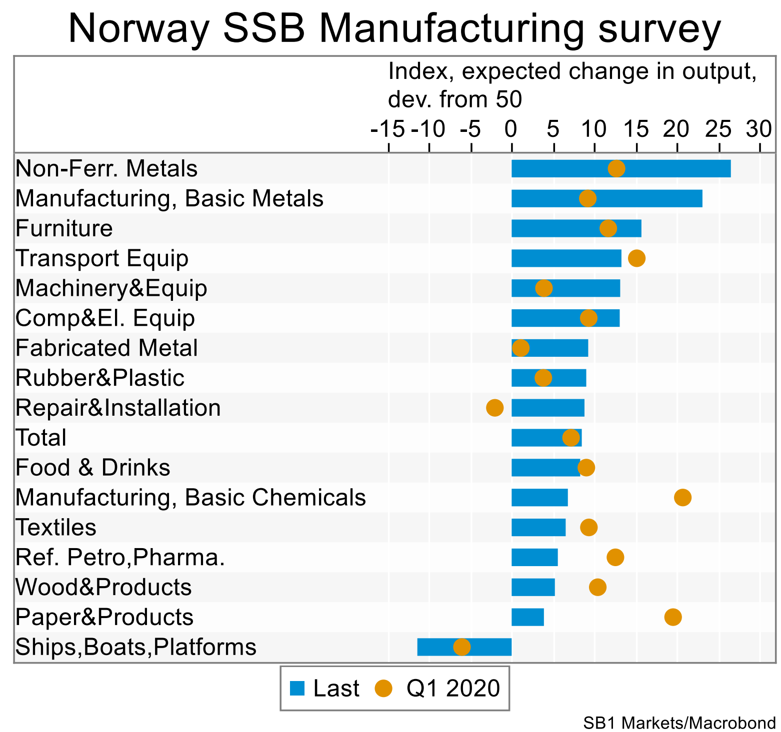
Both domestic & foreign orders lost some momentum



Capital goods the weakest link, intermediates best since ‘06

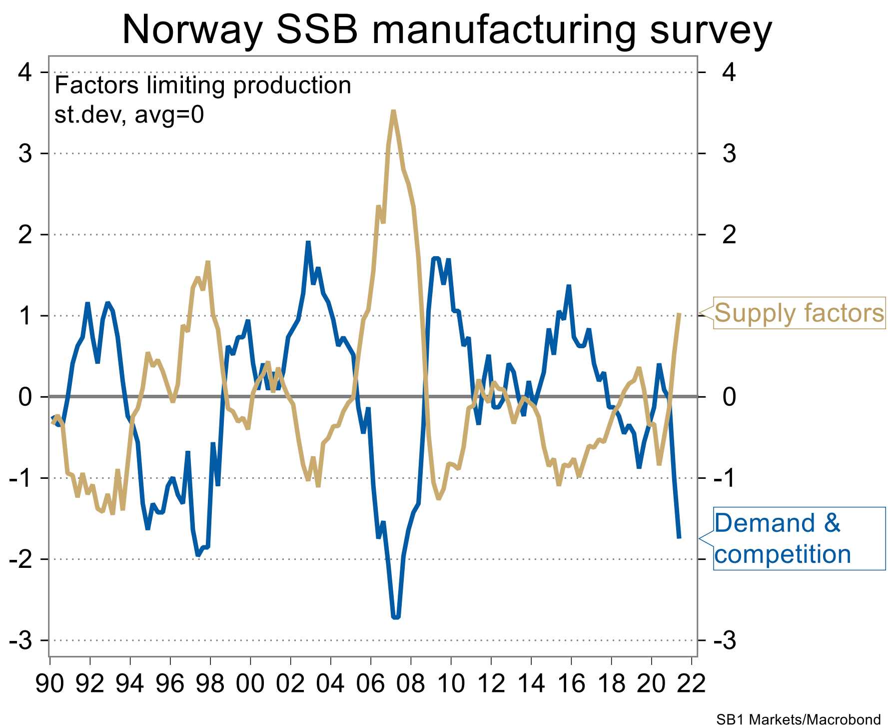
Manufacturers are reporting higher growth in production than in Q1-20 but mixed sector wise

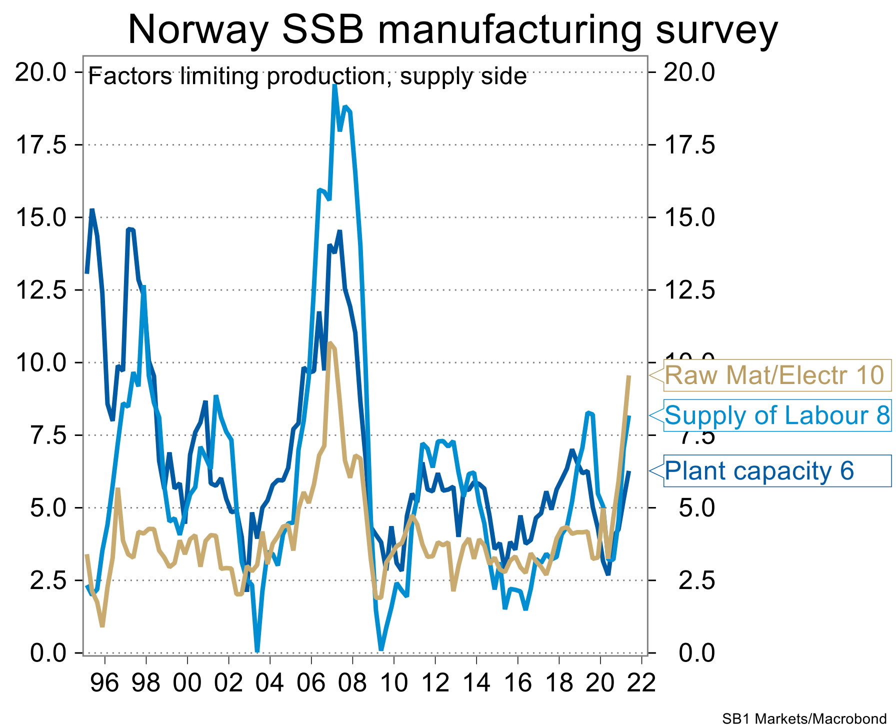




Limiting production: Supply factors far above average, demand far below

As if we were in a booming economy…

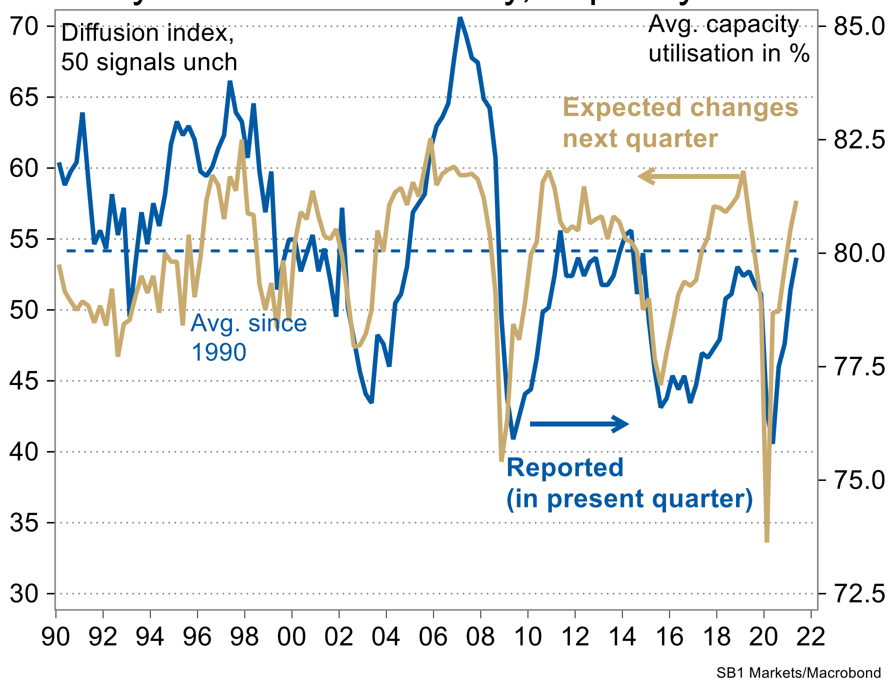




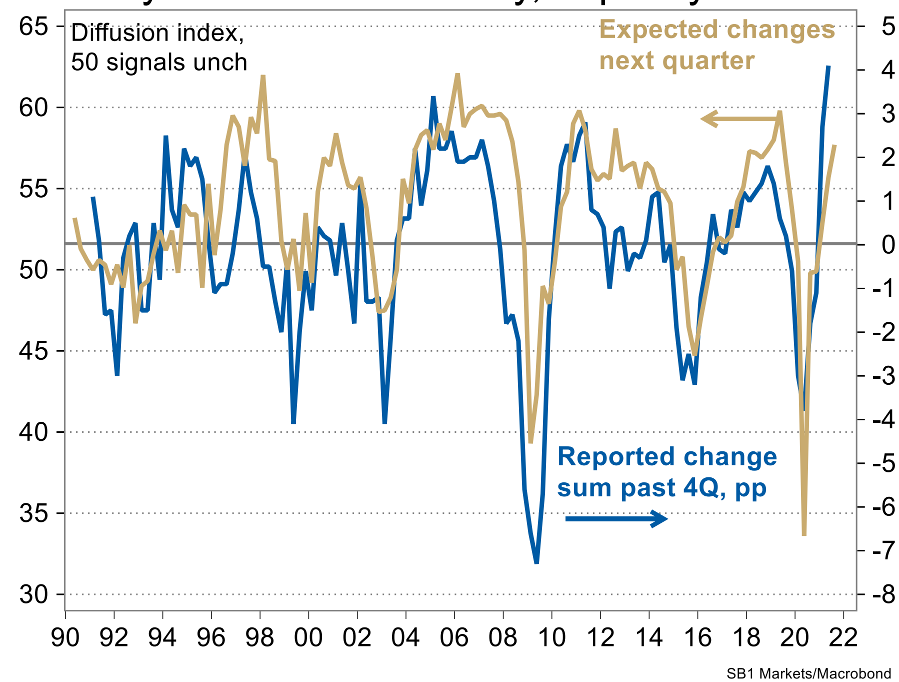
- More companies are reporting supply side factors as limiting production, up to the highest share since 2008
  - » More companies are reporting lack of labour, raw materials, plant capacity as limiting factors, lack of raw materials the highest since 2009
- Far fewer companies reported lack of demand or competition has limiting factor – down to the lowest share since 2008
- ***No demand crisis – and it never was during the pandemic***

Reported capacity utilisation sharply up, still not high – more to come

Norway SSB Manuf. survey, capacity utilisation



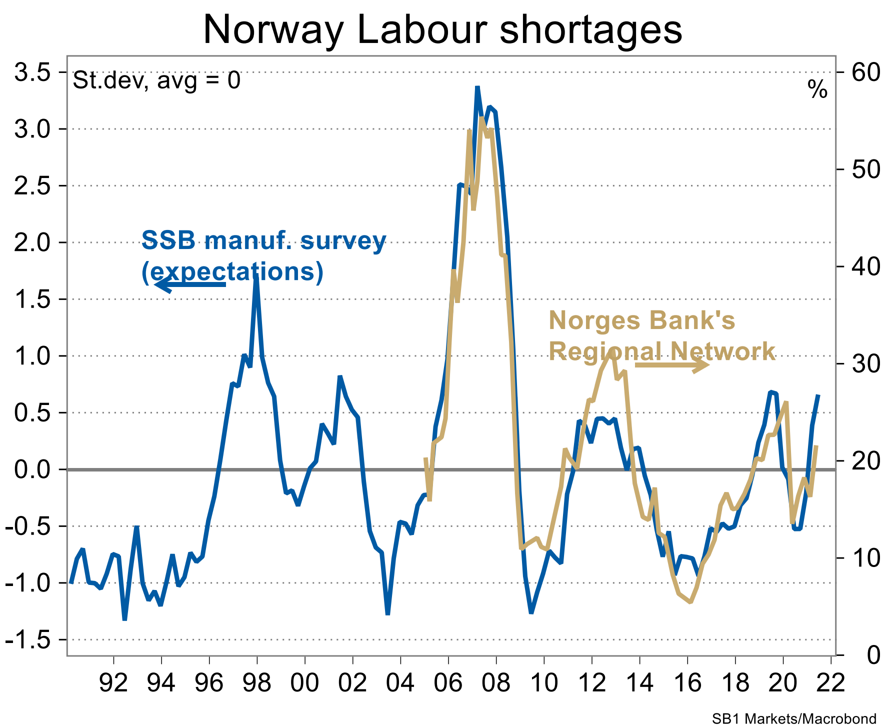
Norway SSB Manuf. survey, capacity utilisation

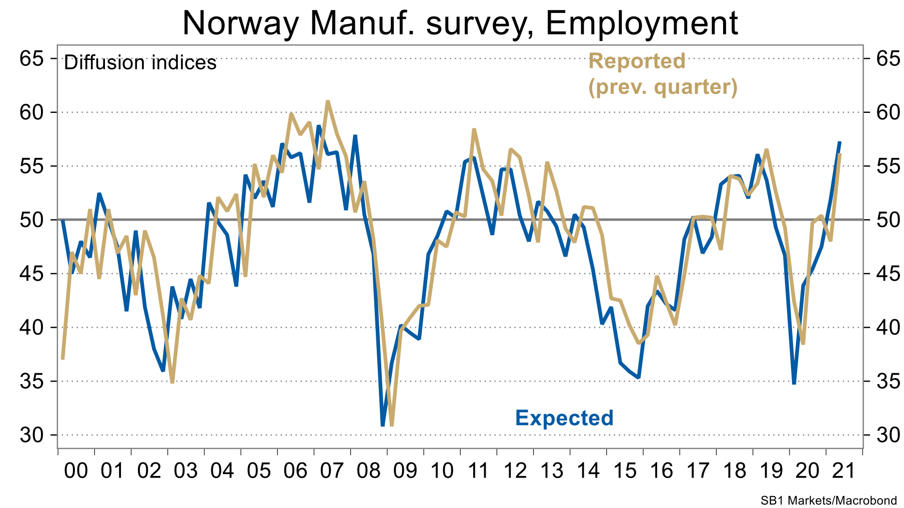


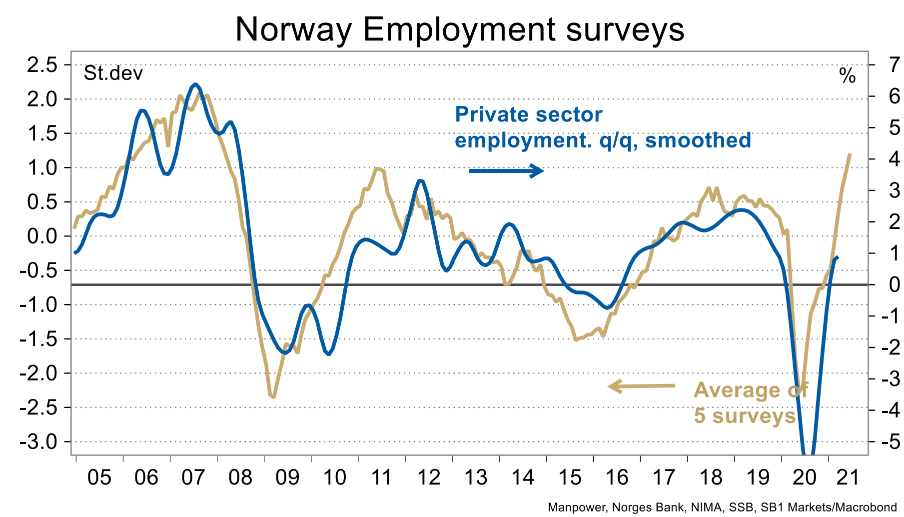
- The lift in capacity utilisation recent quarters have been impressive – from a low level last spring
- Companies expect a higher capacity utilisation in Q3, and they are usually right

Labour shortages up close to the highest level since 2008

Manufacturers have employed more people, and expect to continue to employ more



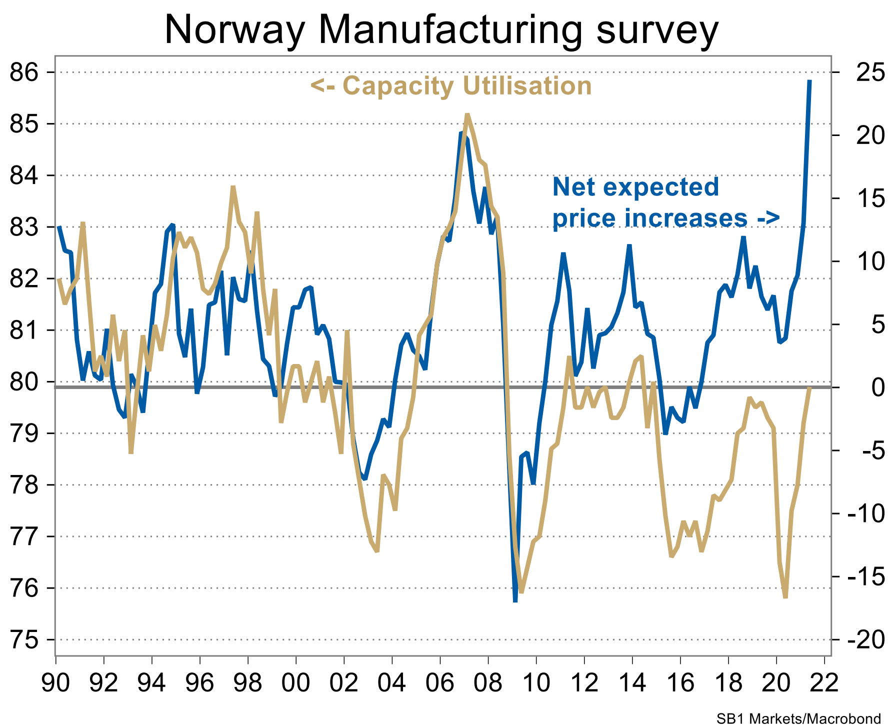




- Taken together with other surveys, SSBs manufacturing survey signals strong employment growth – at the fastest pace since 2008

Ehm... Prices are expected straight up, here too!

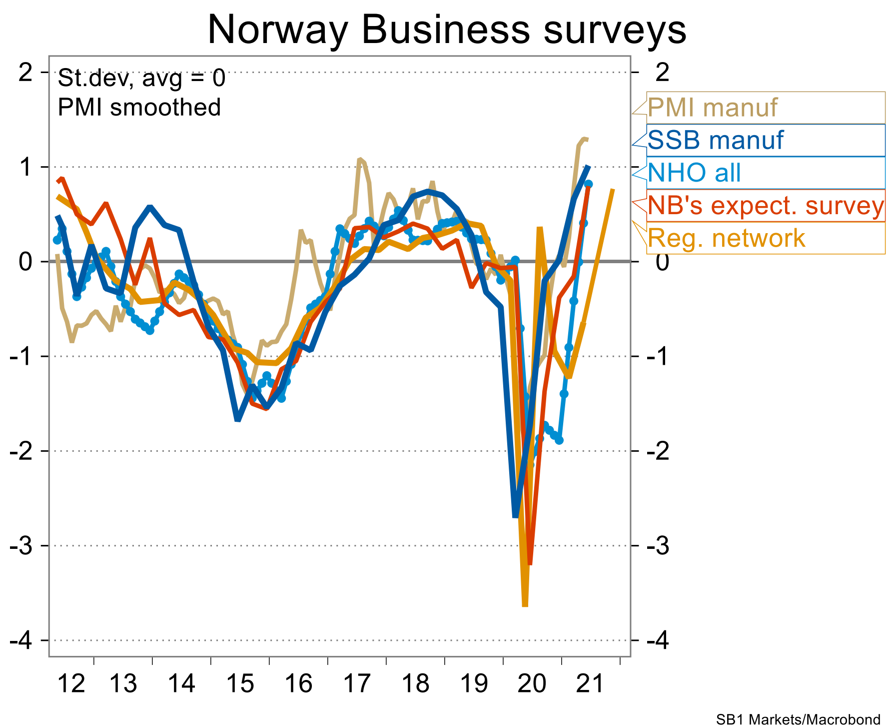
The price index shot further up in Q2, to a level we have not yet seen before (data from 1990)

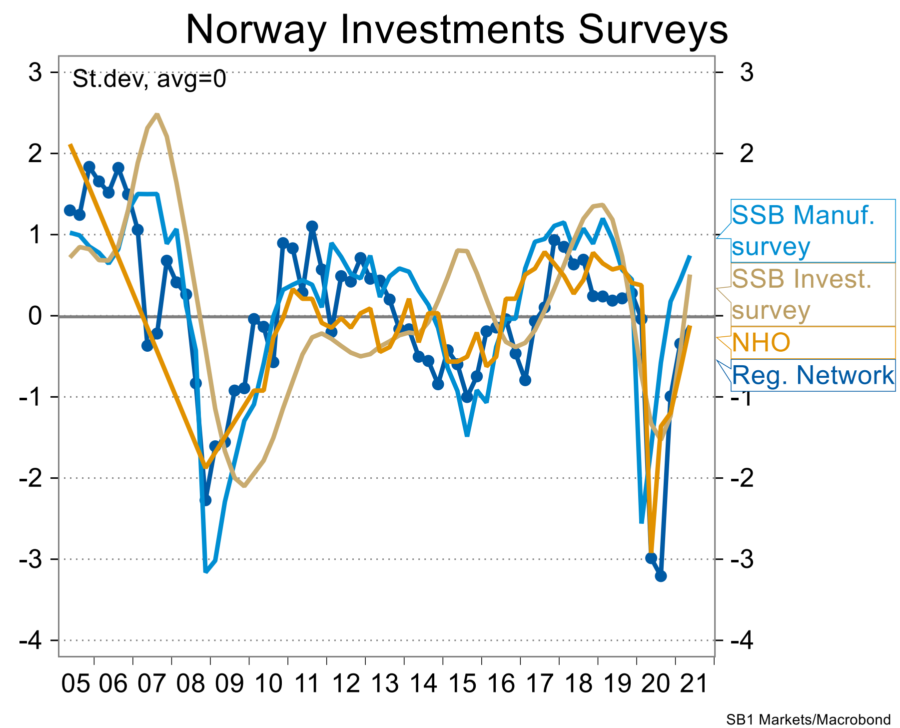


- Prices are expected up far more than suggested by the reported capacity utilisation

Surveys: On the way up all are well above an average level

SSB's manufacturing survey, and the PMI at the top. Investments plans up, but not above avg, on avg.





- In the current manufacturing survey, companies upgraded their **investment plans further,** and they are now signalling an above average growth
- Other surveys are signalling growth at average or above

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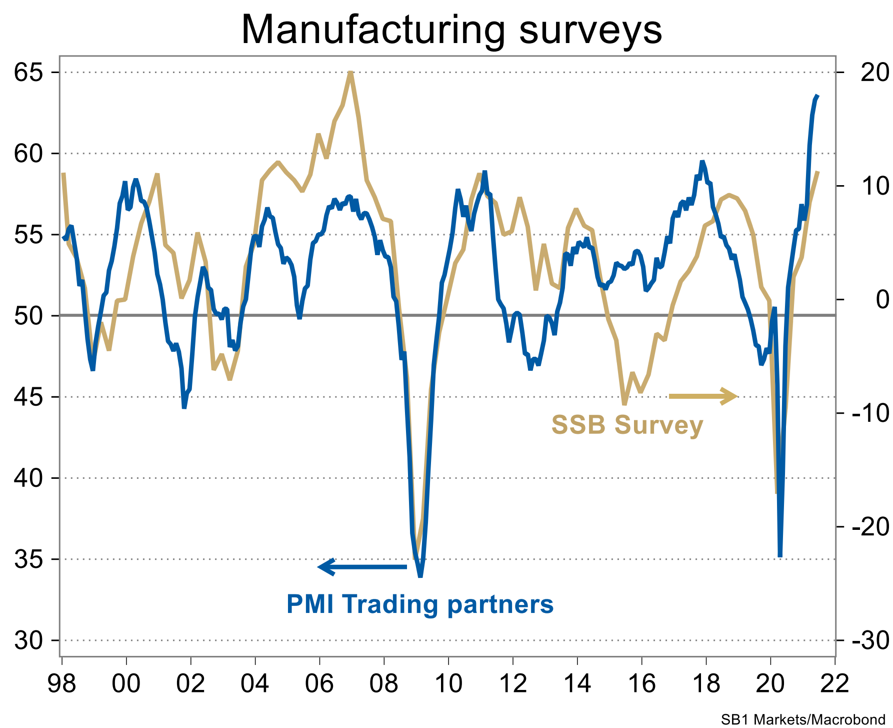
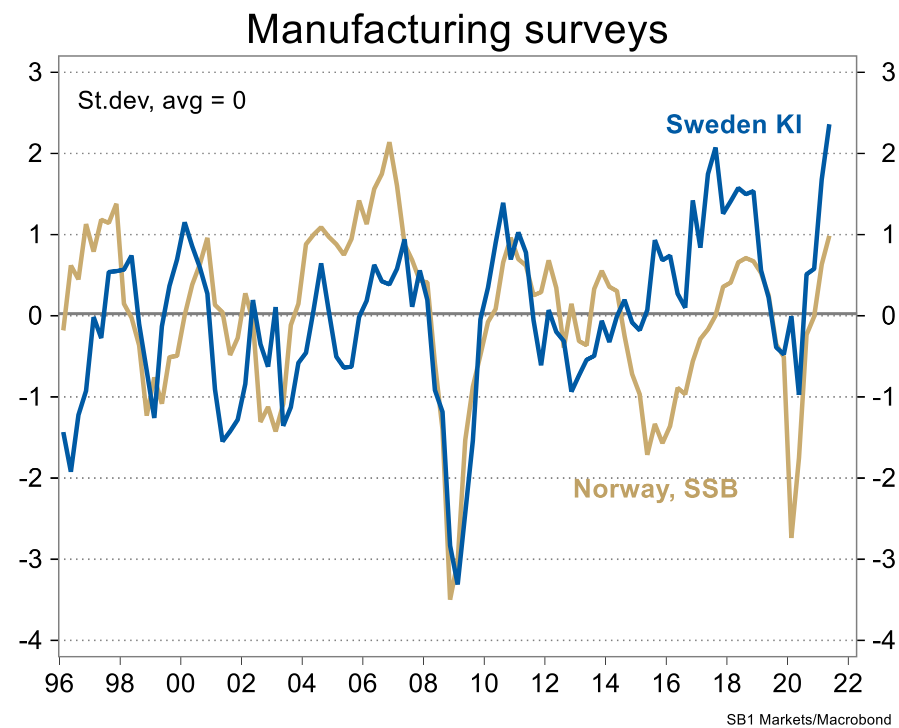
Foreign manufacturers are reporting even higher growth than ours





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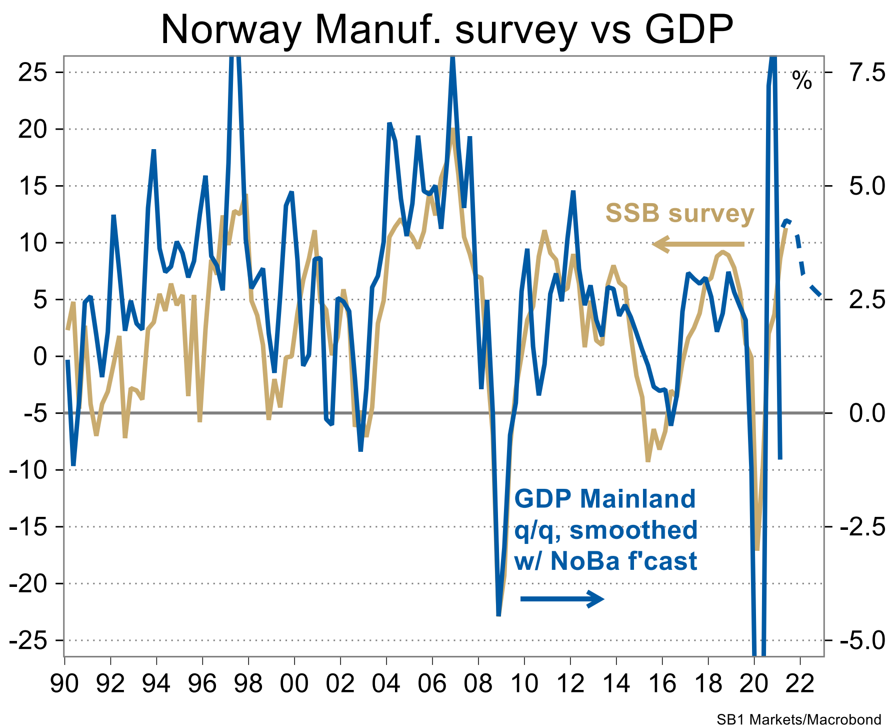
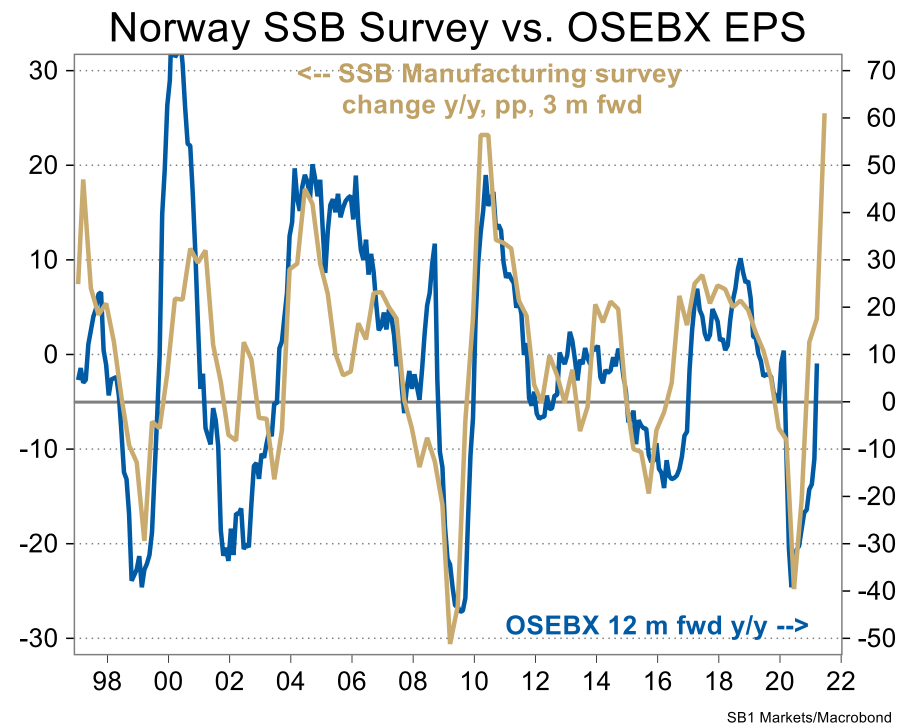
SSB's manufacturing survey signals 4% GDP growth, and a very high EPS growth

However, take care when applying these relationships, given a special (corona) starting point

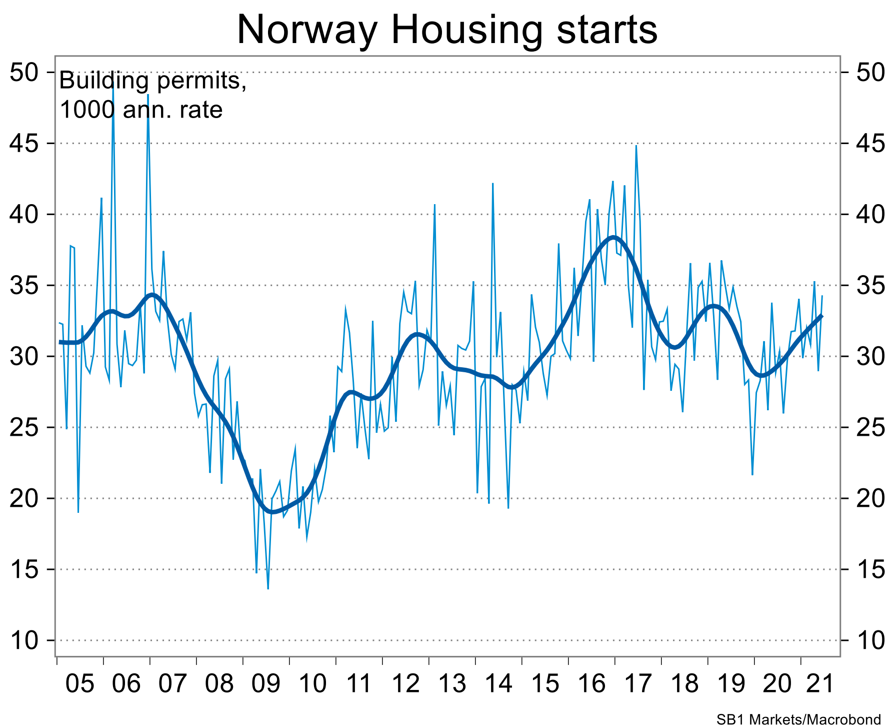


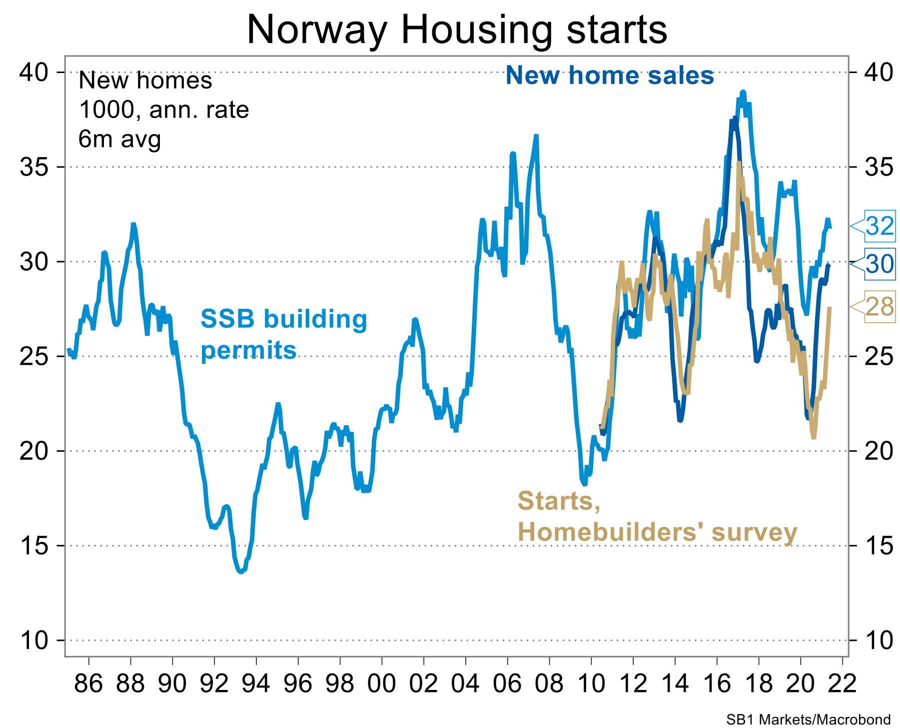


- Our simple EPS-model is not perfect when oil prices are volatile

SSB: Building permits up in June trend is clearly up

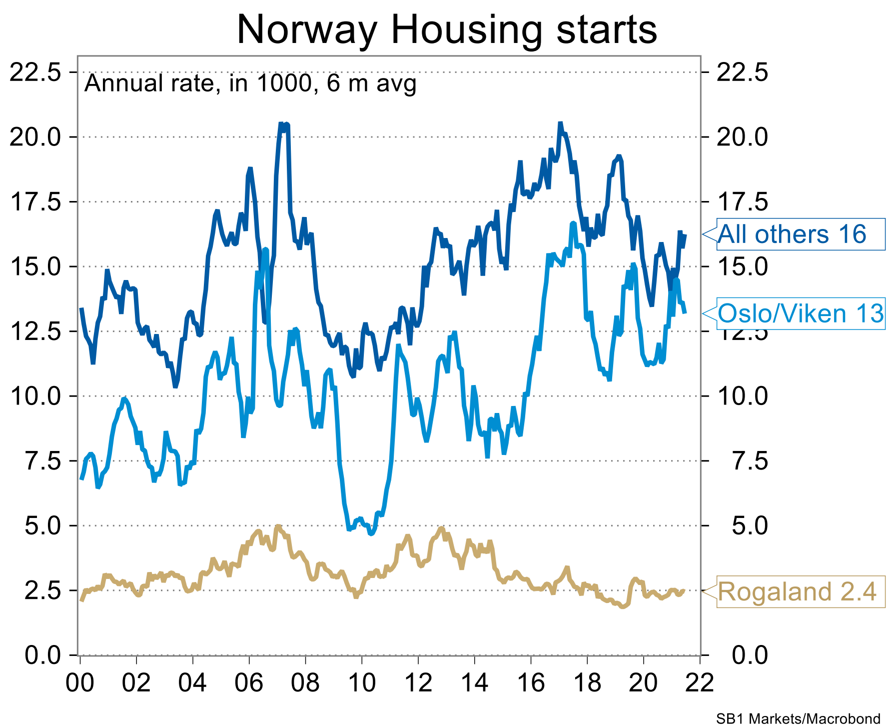
Confirm Homebuilders’ sales & start data. Other construction up too, especially garages/2nd homes

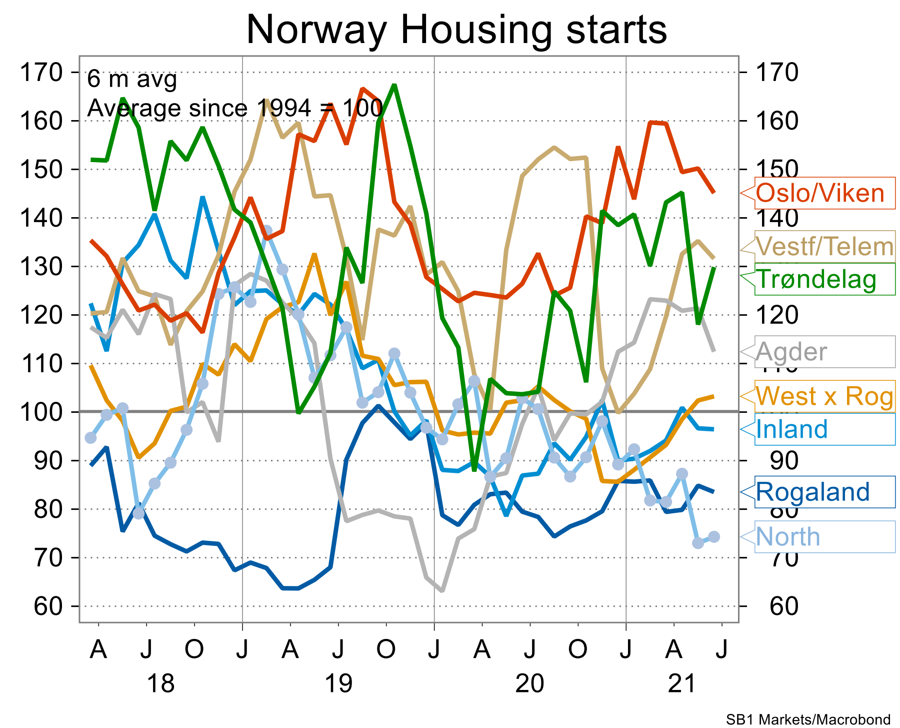




- According to **SSB**, building permits rose to 34’ in June from 29’. The average level over the recent months is at 32’
- **Homebuilders** reports a 30’ pace for new starts, and sales at 28’ – both rapidly on the way up

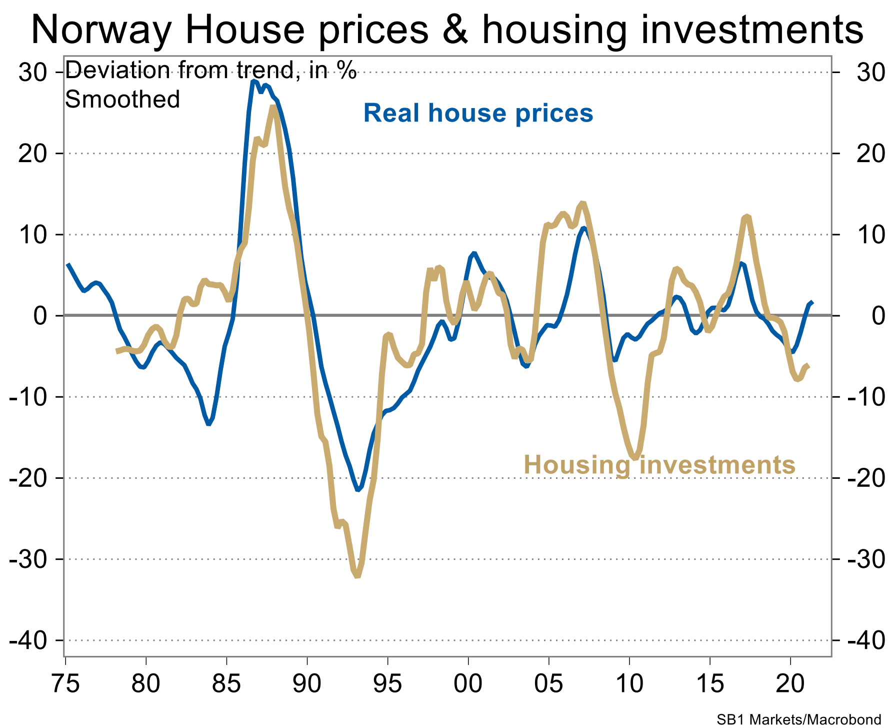
Mixed between regions, Oslo/Viken in the lead, North is lagging (vs own history)

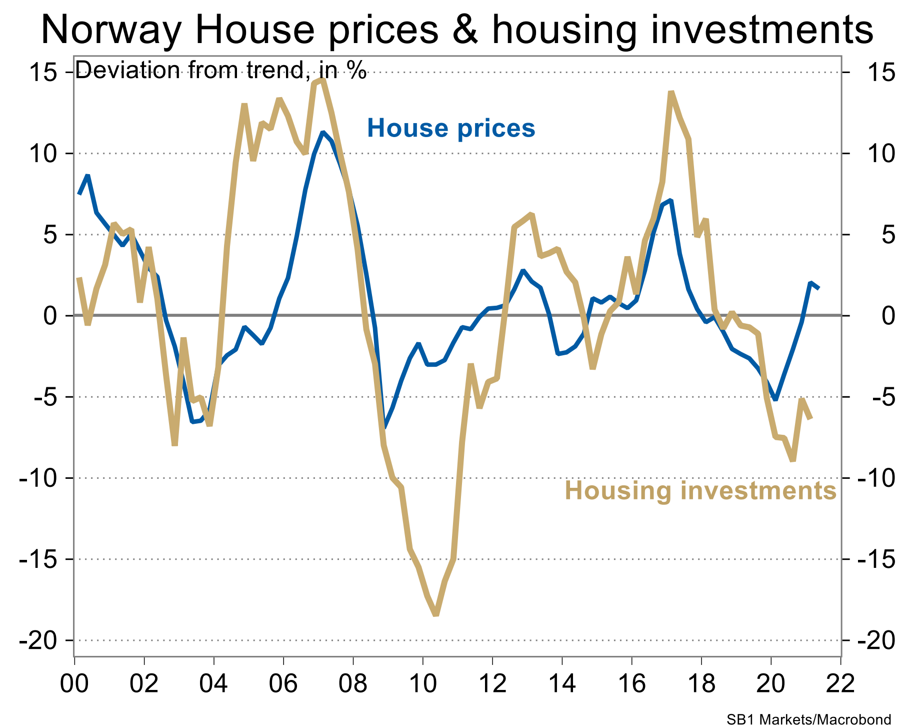




Housing starts/investments normally in tandem with house prices, no surprise

Prices have turned sharply up; housing starts/housing investment has turned upwards

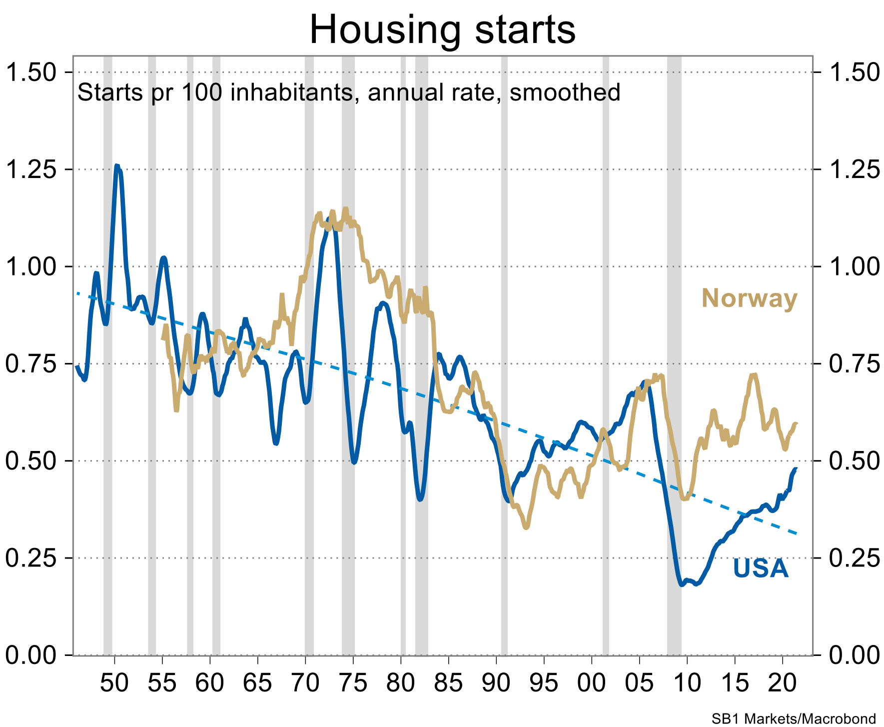


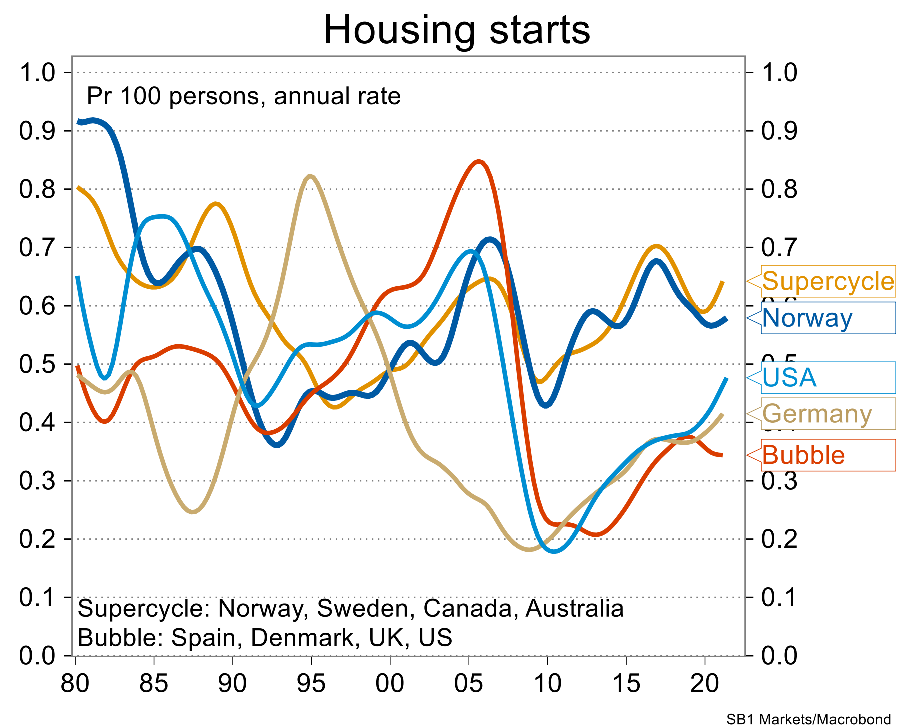


- But investments were marginally down in Q1

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

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

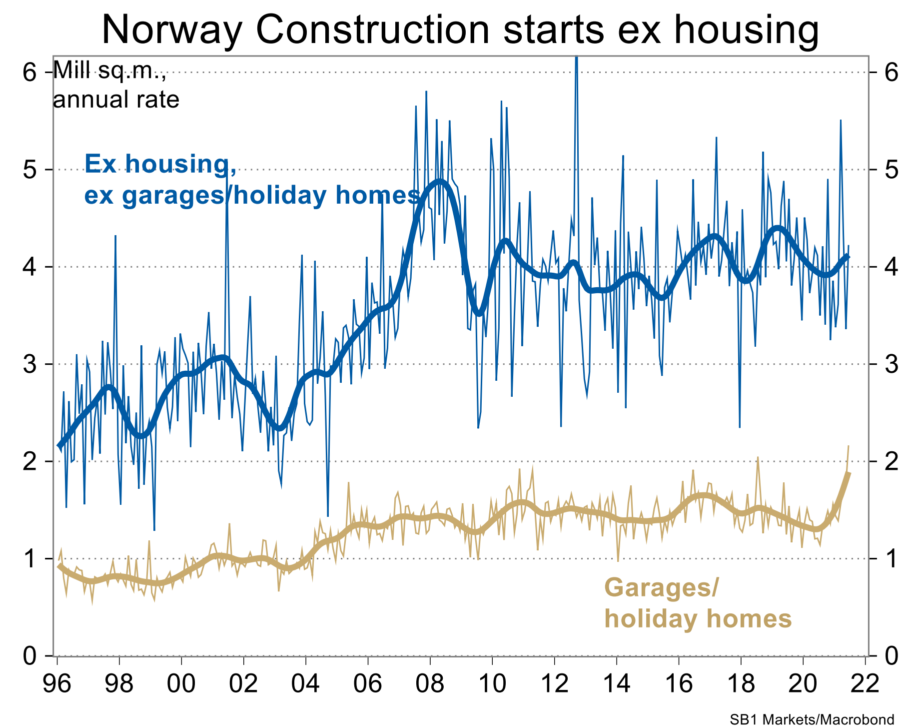


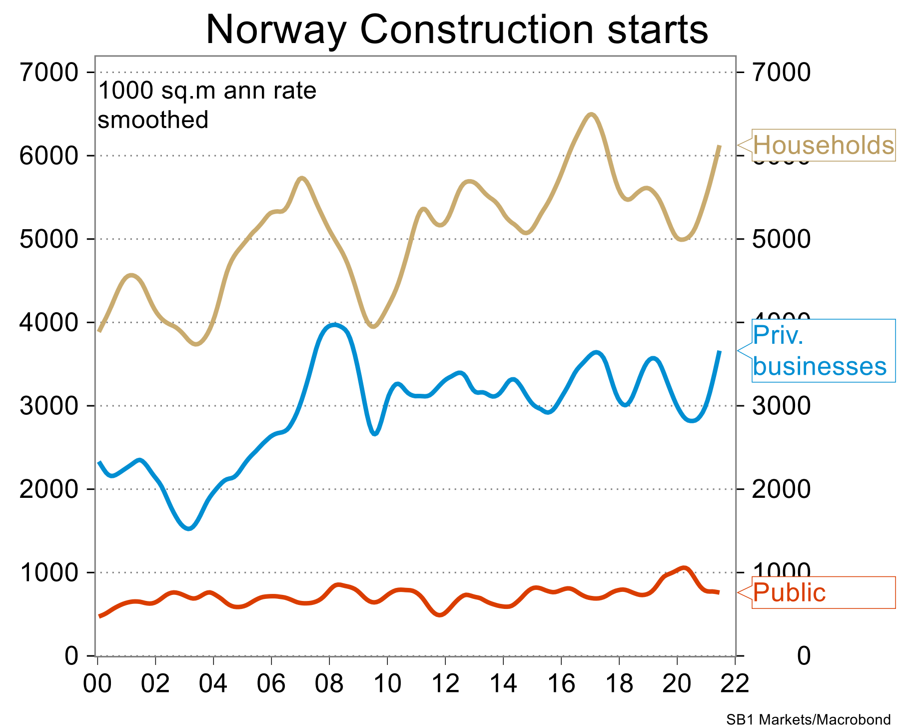


- The housing start cycles among the super-cyclicals (Australia, Canada, Norway, Sweden) have been closely correlated the past decades (for a better picture, flip to the next page). Since 2017, starts fell in both Australia, Sweden and Norway, and more modestly in Canada. We guess the boom in the 2nd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

Non-residential construction on the way up, especially garages/2nd homes

The private sector has turned cautiously upwards





- **Construction starts ex housing & garages/cabins** have increased in an unprecedented way recent months
  - » **Private non-residential starts** have increased somewhat recent months, from a rather low level
  - » **Public sector construction starts** have been trending down, the level is close to normal
- **Construction starts of cabins/garages** is heading sharply up, following a decline from the peak in 2016. Given the surge in demand for second homes, that's not surprising. The level is now well above the 10 past years average

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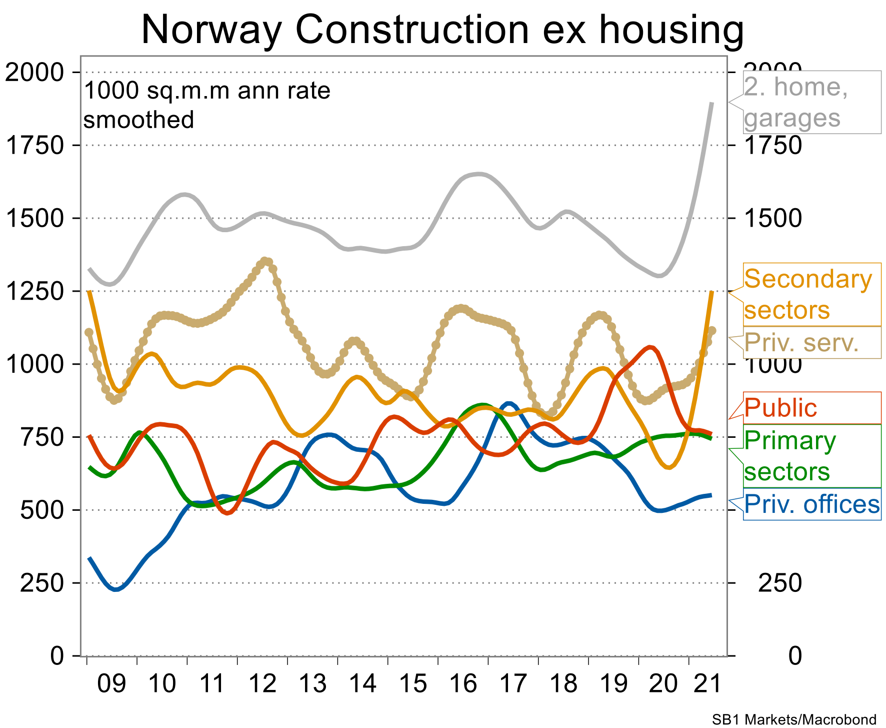
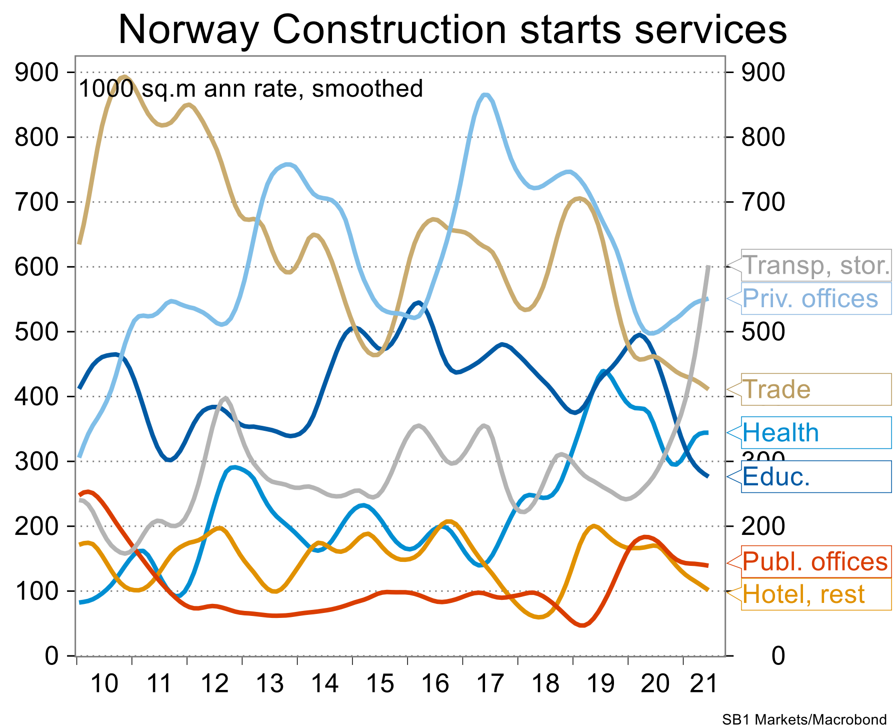
Volatile details: Some private sectors' building activities are heading up

Education, hotels & restaurants down. Trade not strong either. Transport, offices up





- Education has lost steam, no big projects started recently

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

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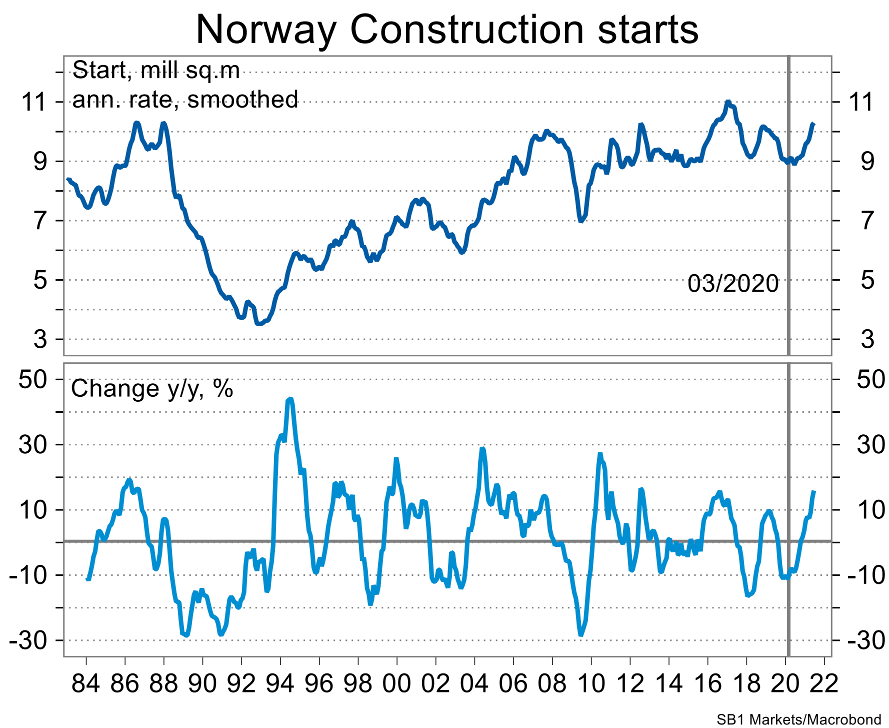
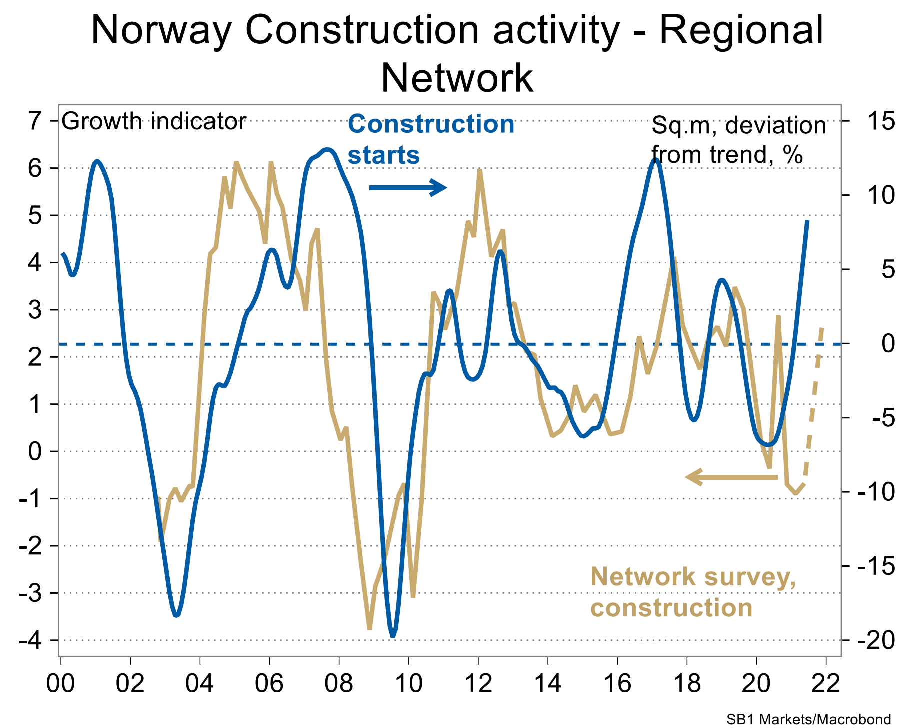
The Q2 NoBa Regional Network signalled growth in construction activity

... and activity turned up before the Network turned optimistic





- Actual starts are up 15 y/y, due to higher private sector activity
- The activity is above the past 15 y average, and above our calculated trend

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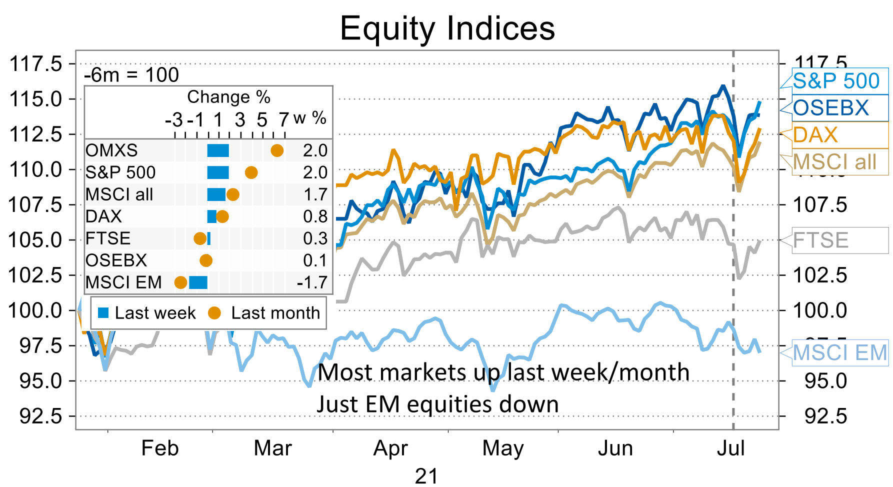
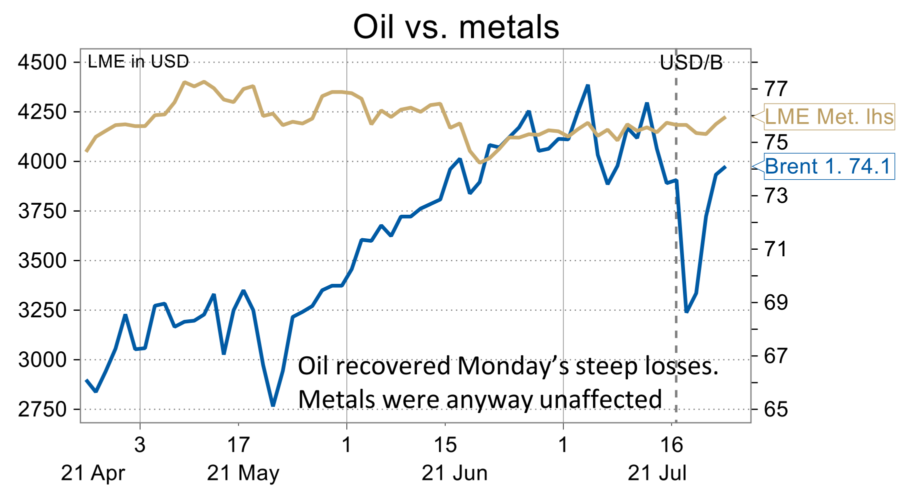
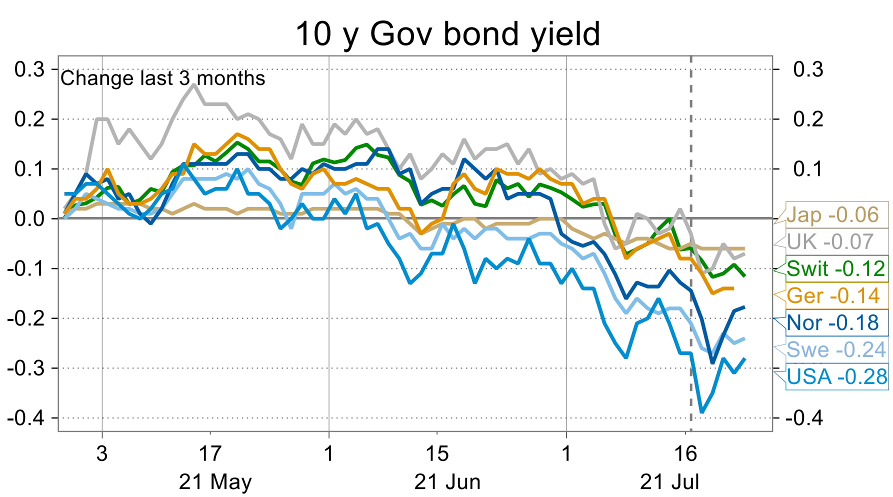
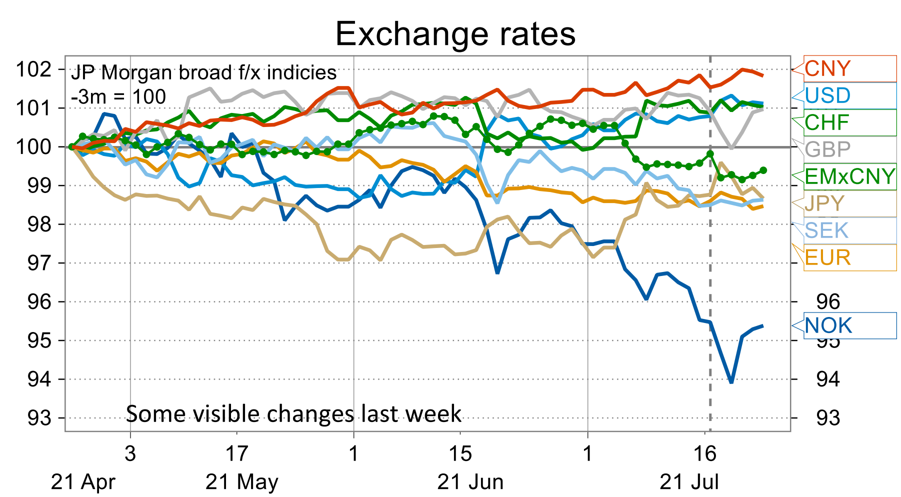
The crisis lasted just one (Mon)day, and then new ATH's in the US









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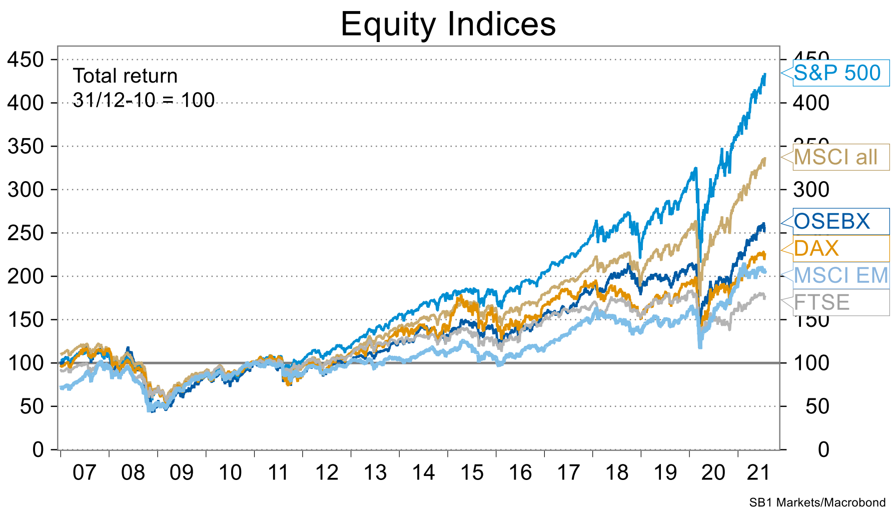
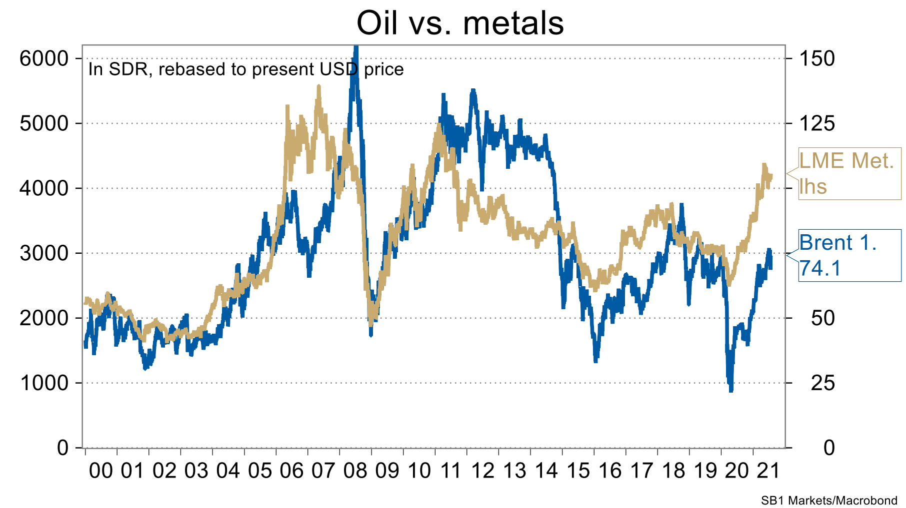
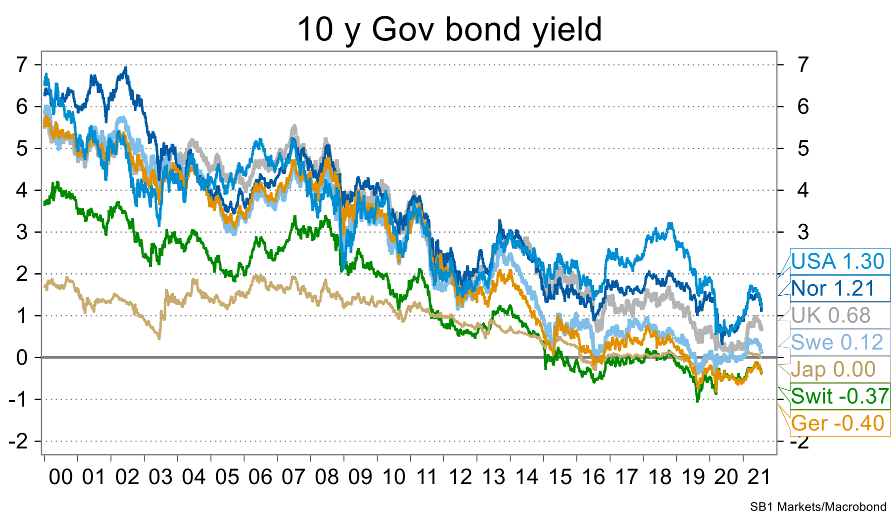
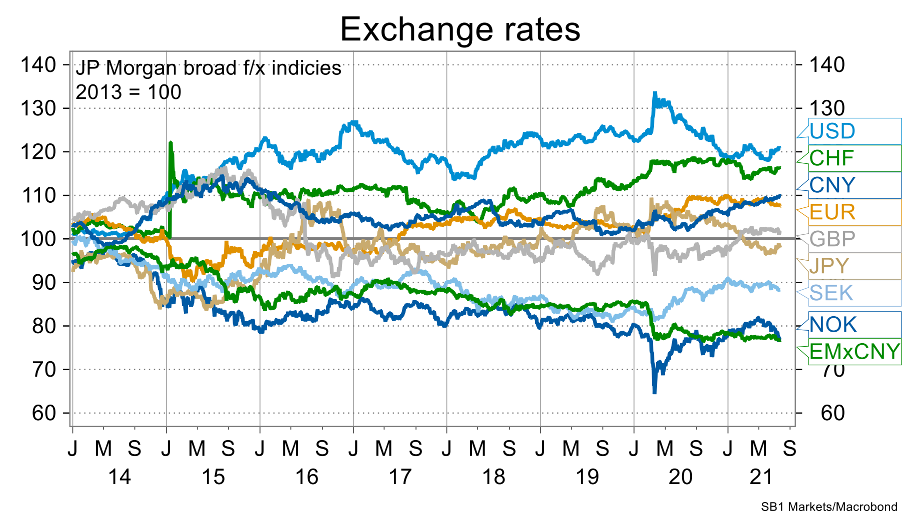
The big picture: Strong stock & commodity markets

Super strong equities, commodities OK too. Still, yields are heading down everywhere









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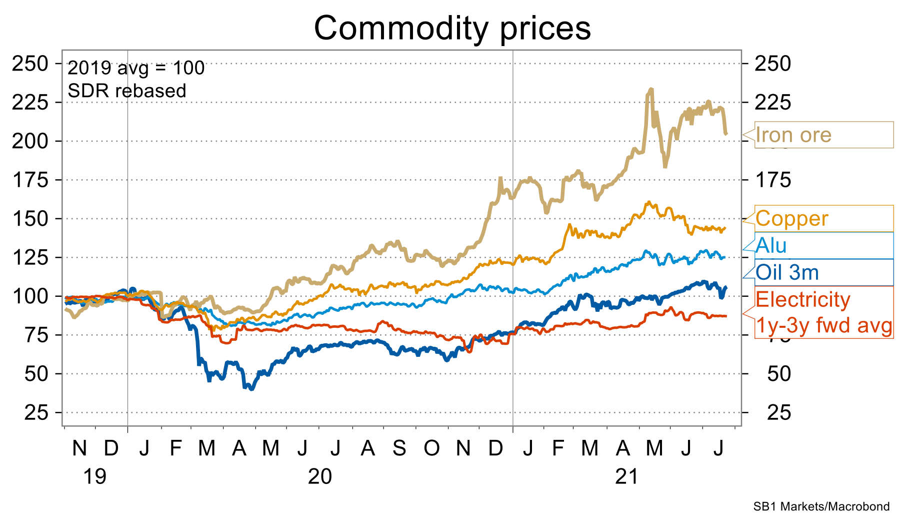
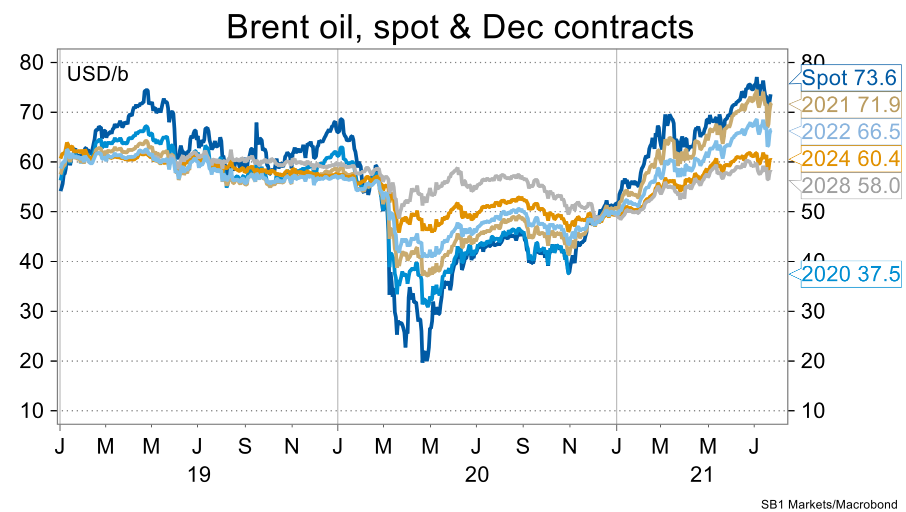
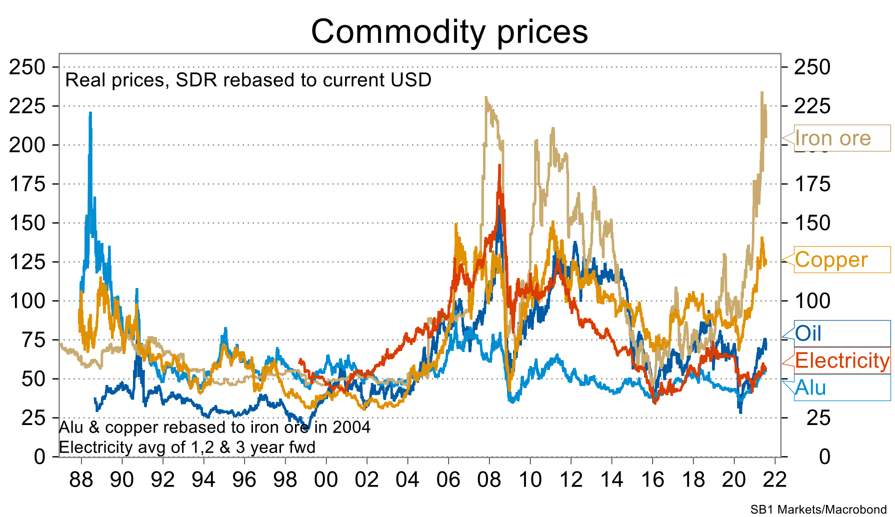
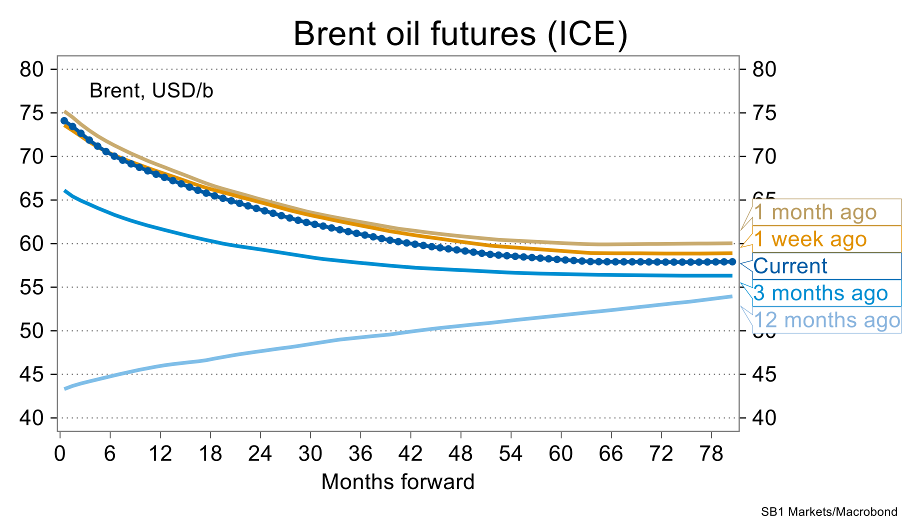
Iron ore sharply down as China puts new brakes on steel production

Other commodity flat to up last week









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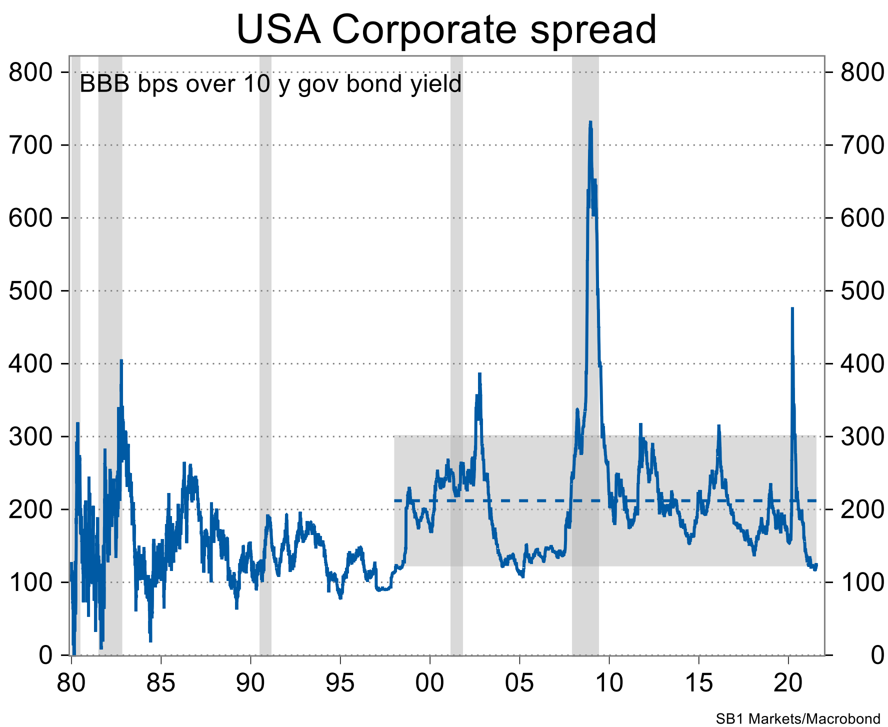
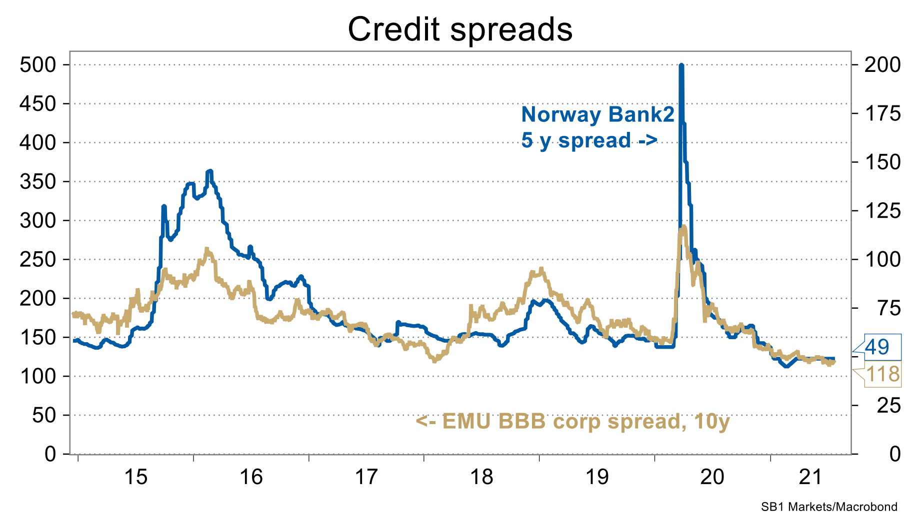
The US BBB credit spread stable last week – but is slightly up from the through

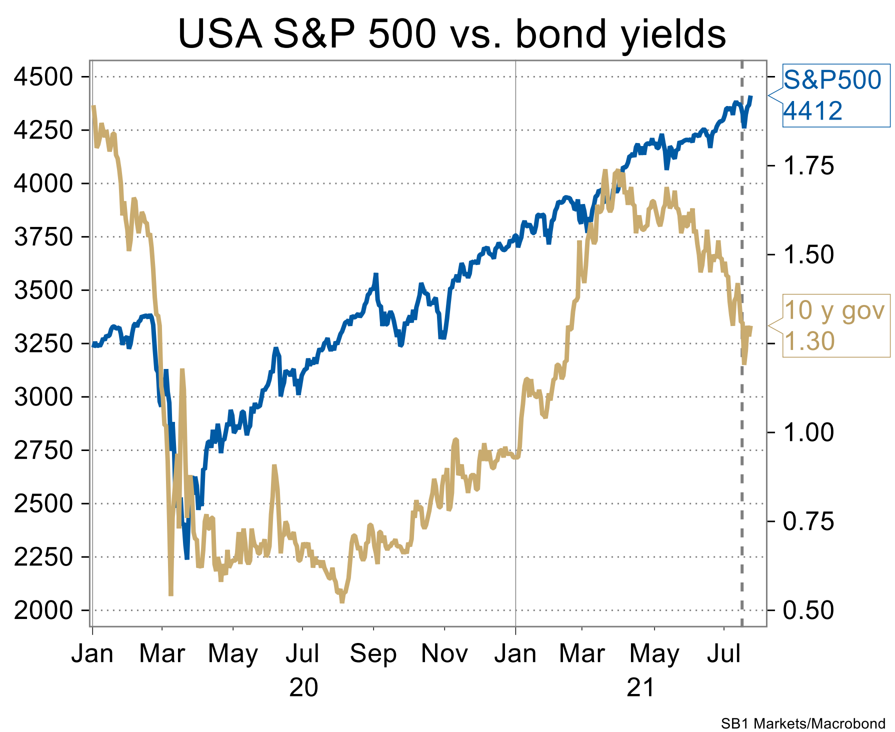
European/Norwegian spreads flat or down

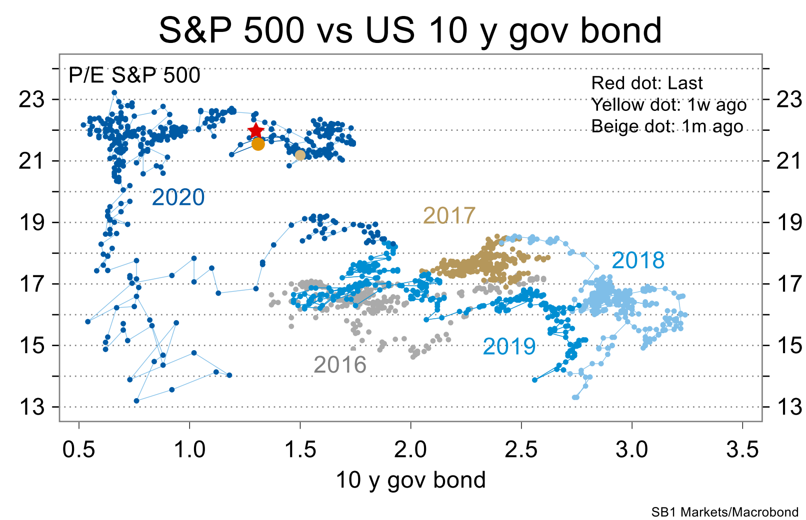


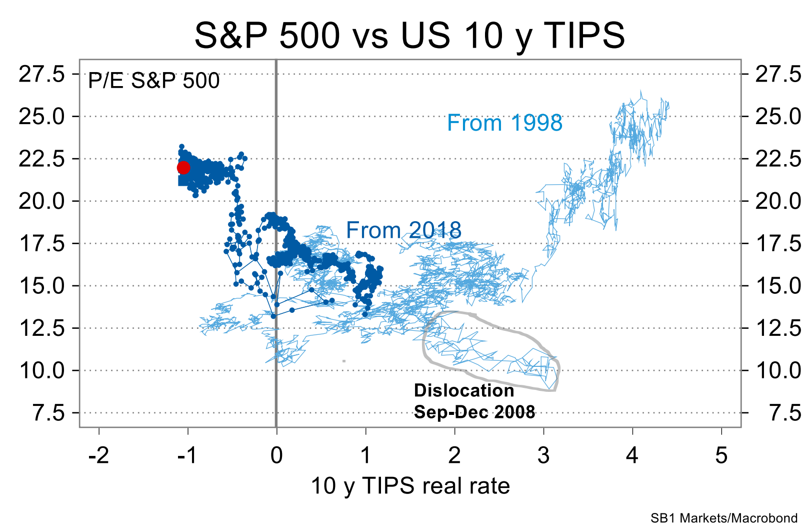


Happy days are here again – another AHT in the US (all 3 major indices)

Monday was not a good day, but that's all folks. S&P500 up 1%, 10 y gov up just 3 bps







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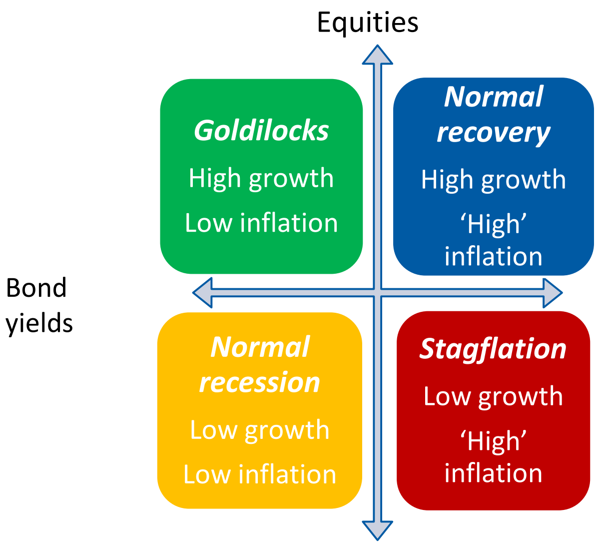
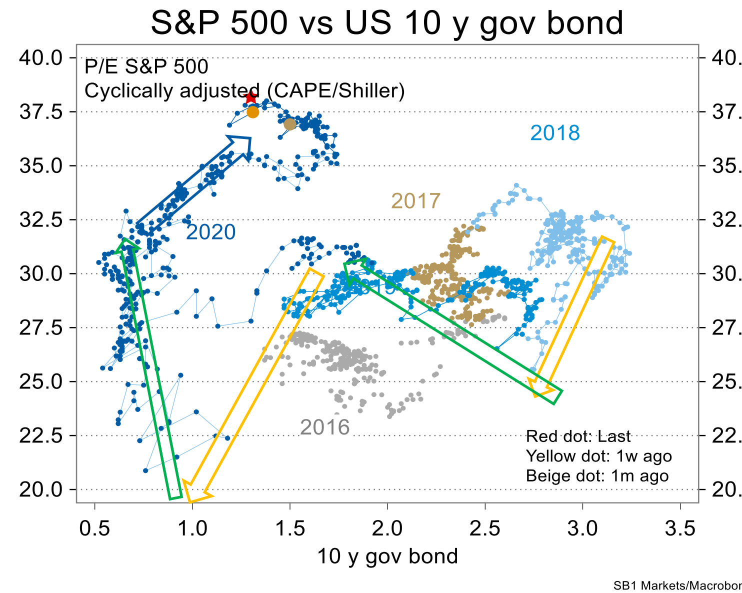
Still well into the 'Goldilocks corner'

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

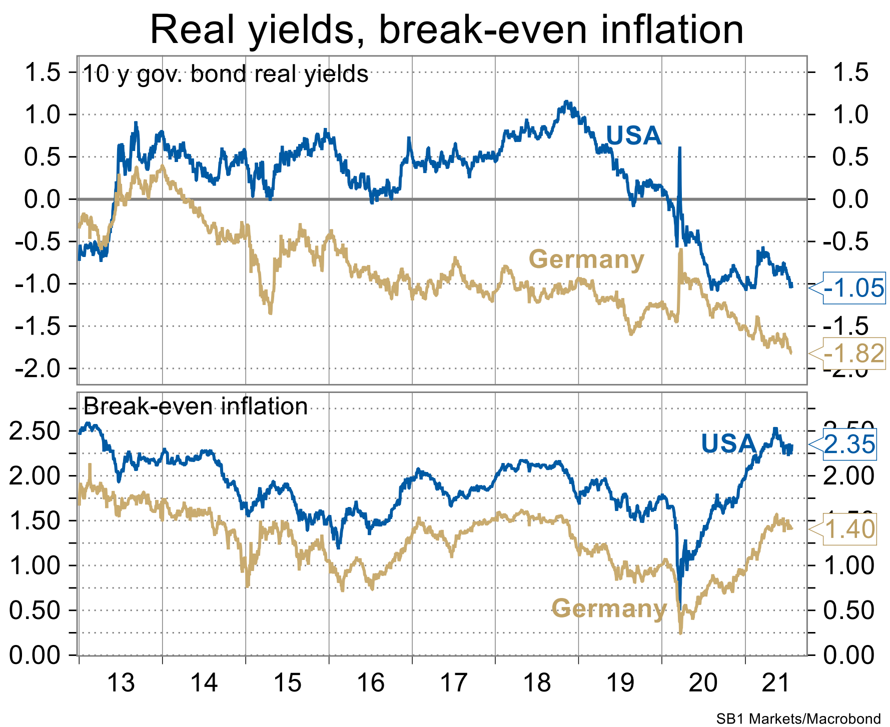


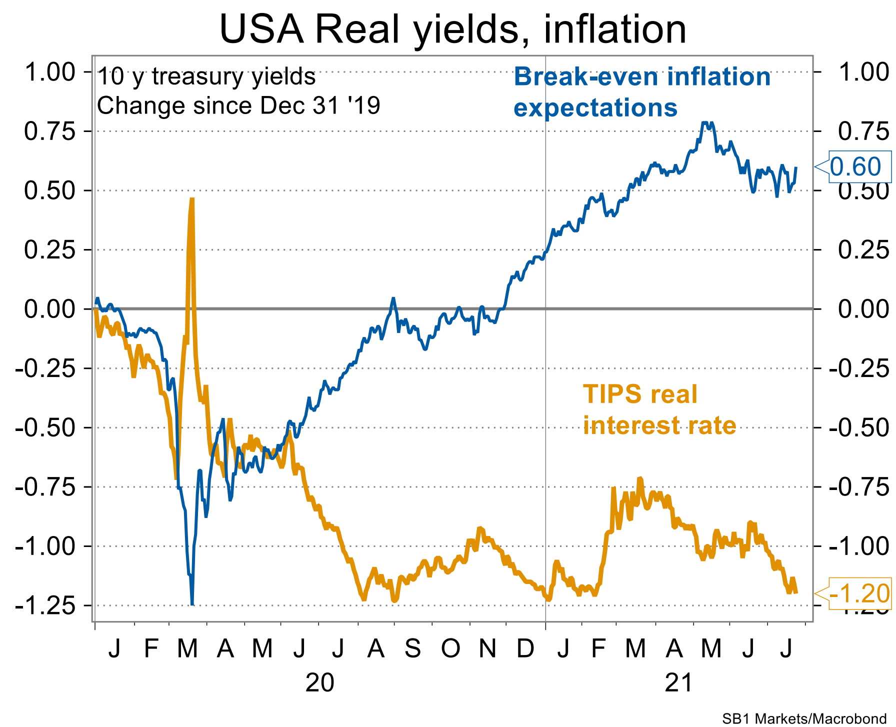


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield 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
    - <u>If companies are able to increase their selling prices</u>, 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)
    - <u>If companies are not able to increase their selling prices</u>, 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

Real rates further down in both US & Germany

In Germany, the real rate is the lowest ever at -1.82% p.a the next 10 years, US below -1% again!





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.30	-0.01	-0.20	0.52
.. break-even inflation	2.35	0.02	0.01	1.06
.. TIPS real rate	-1.05	-0.03	-0.21	-1.08
Germany nominal bund	-0.42	-0.08	-0.25	-0.65
.. break-even inflation	1.40	-0.04	-0.04	0.40
.. real rate	-1.82	-0.04	-0.21	-1.82

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- Inflation expectations have more or less stabilised – at ‘fair’ levels

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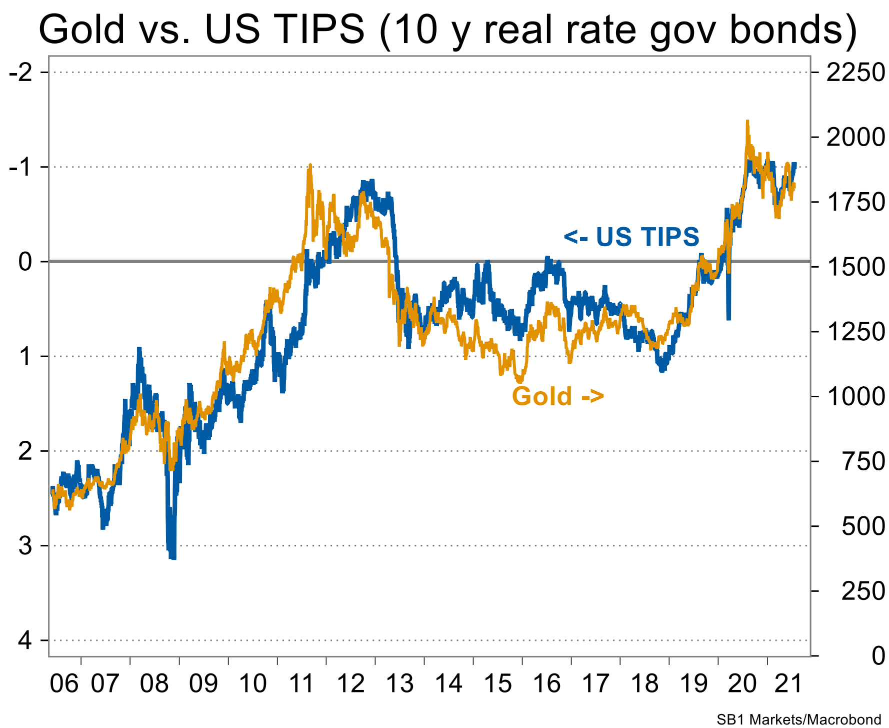
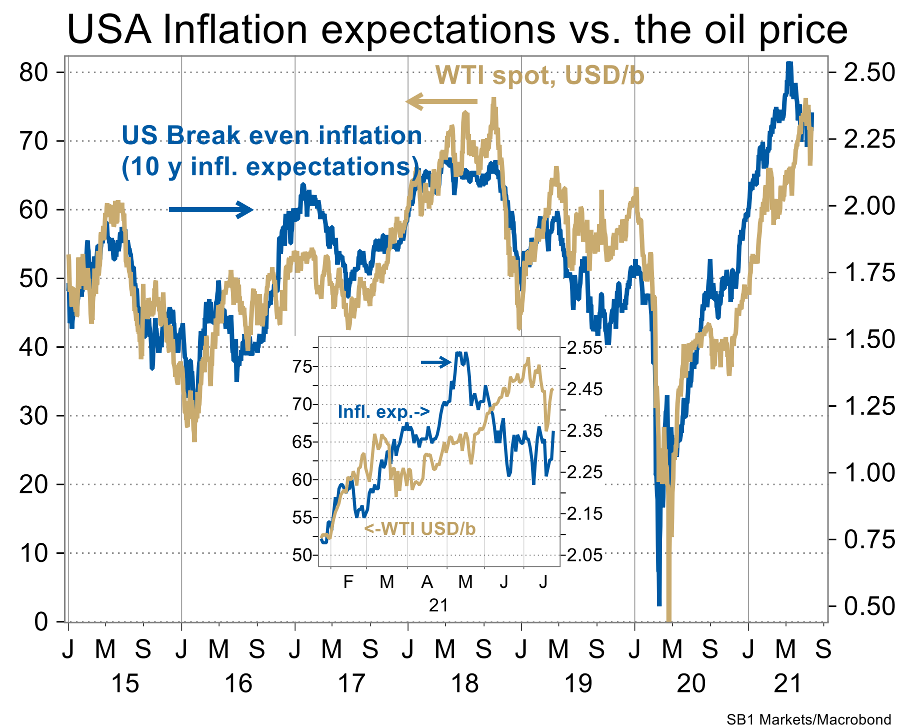
Gold ⇔ –TIPS real rates. Oil ⇔ Inflation expectations

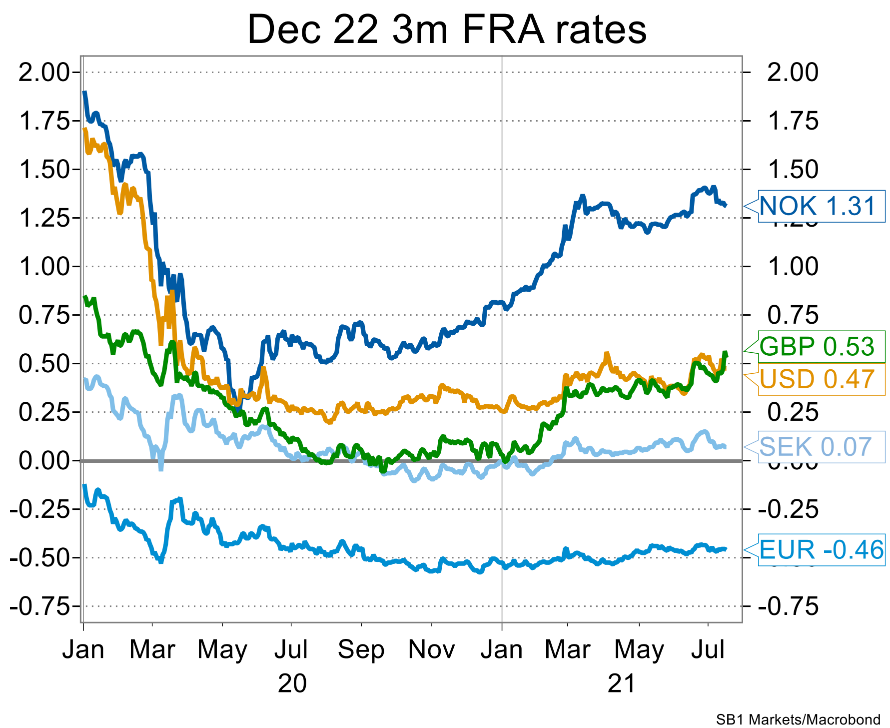
However, the link between the current oil price inflation expectations has not worked recently

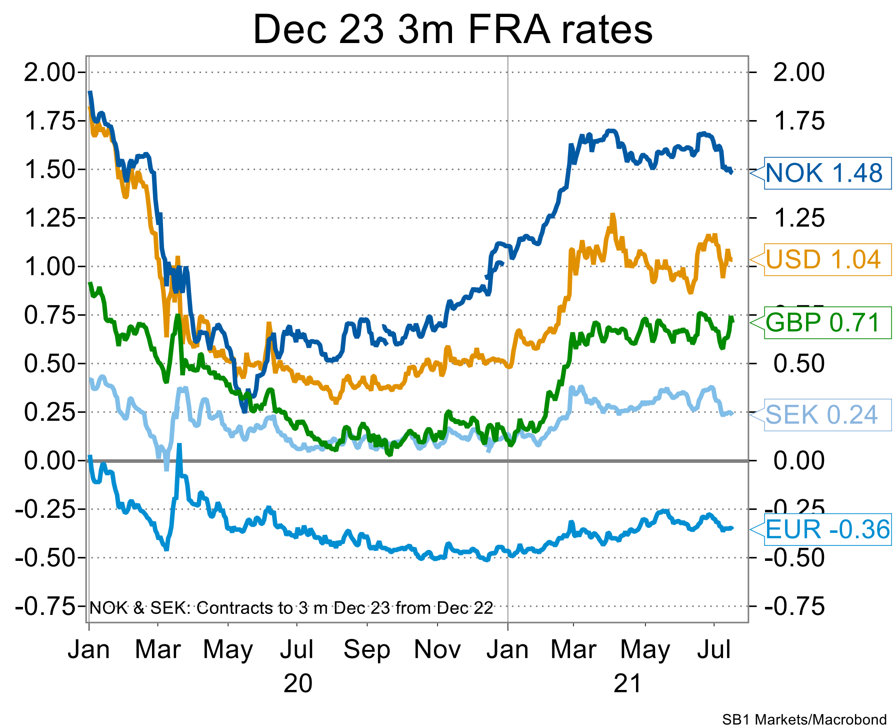




FRAs: rates down up in UK & US, down elsewhere

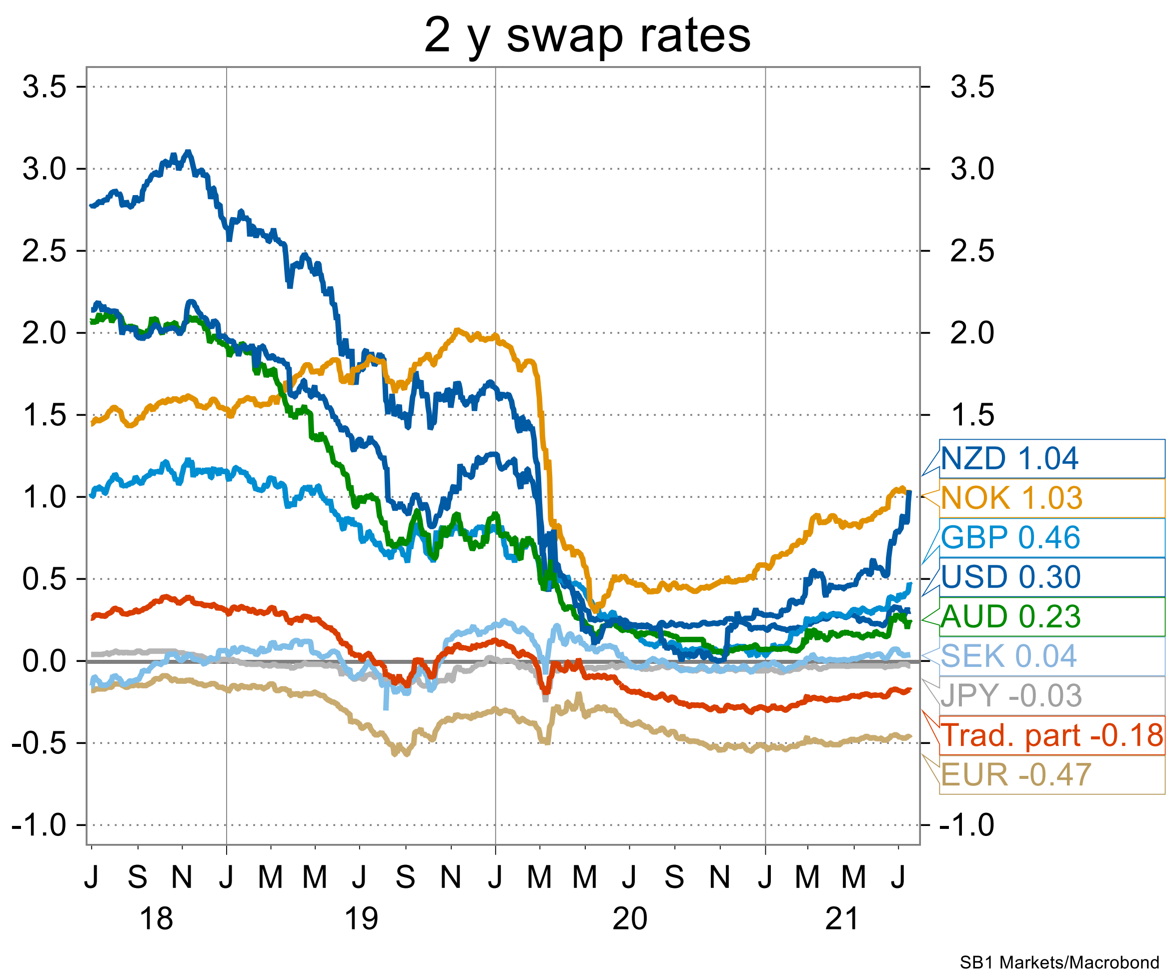
Still, the market discounts a first Fed hike in 2022

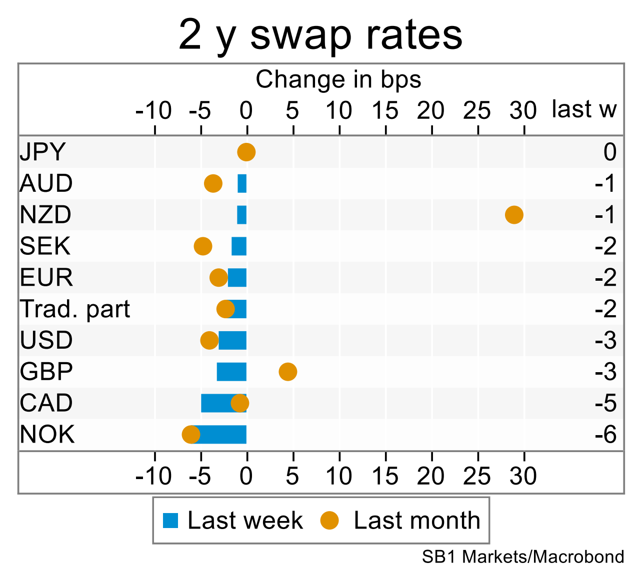




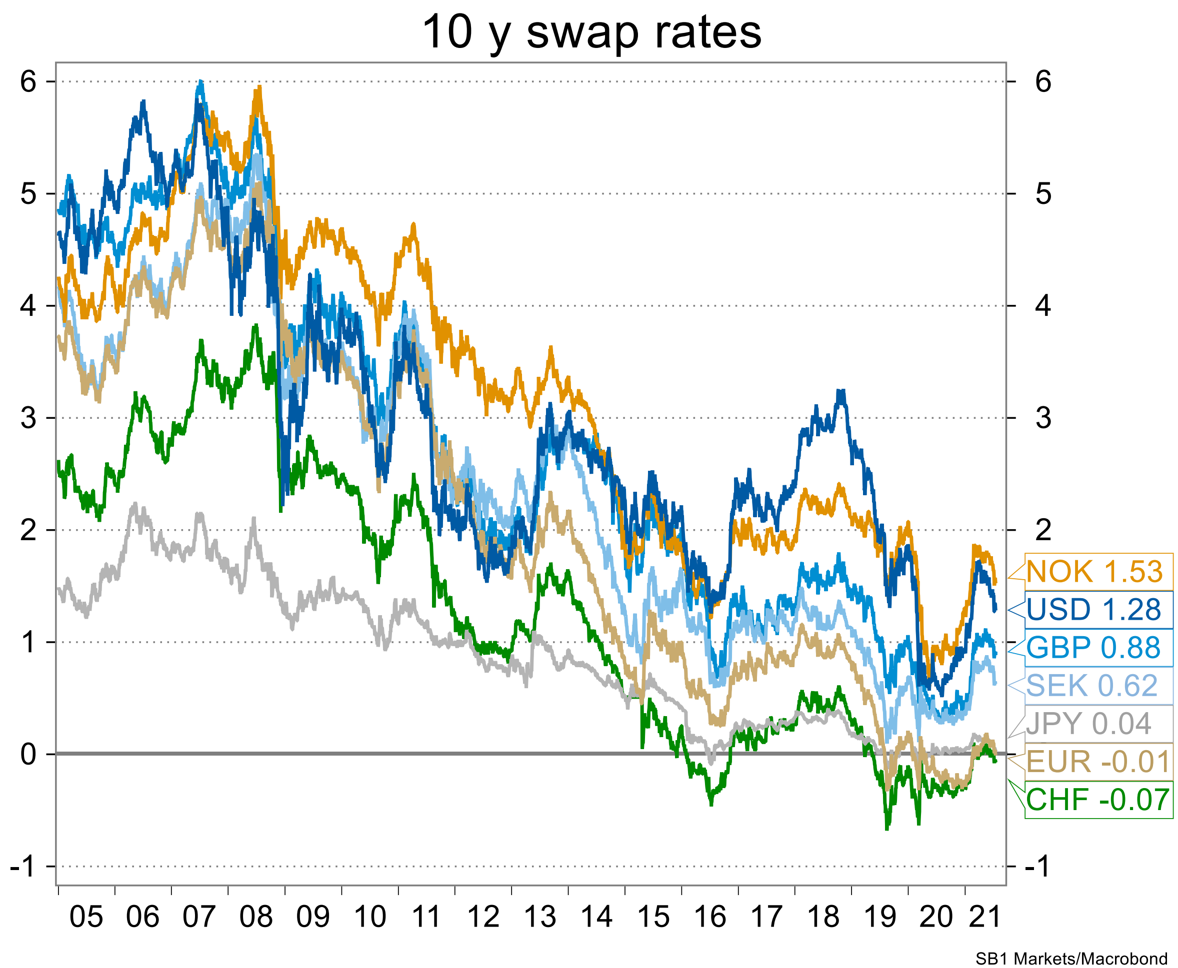
Short rates down everywhere last week & month (the latter barring in GBP, NZD)

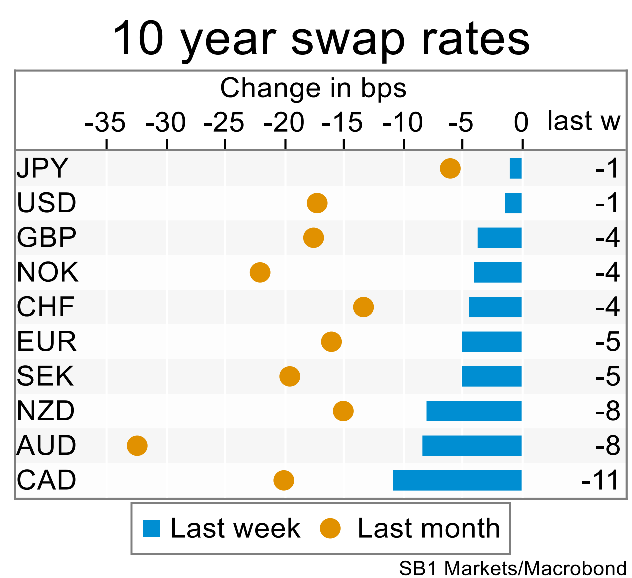
Still, the trend among Norway's trading partners is upwards





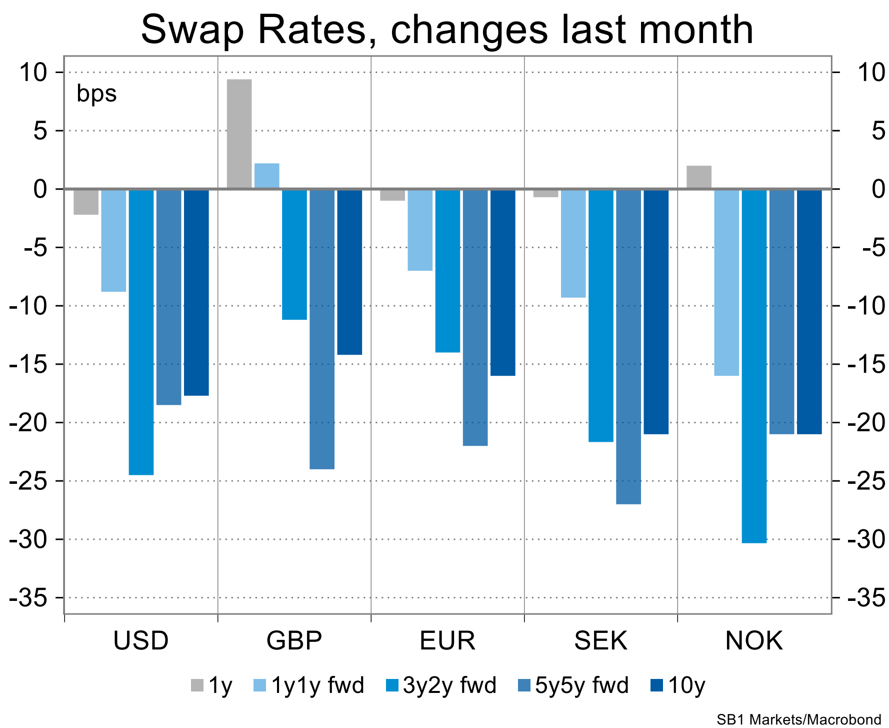
The long end of the curve down everywhere last week & last month

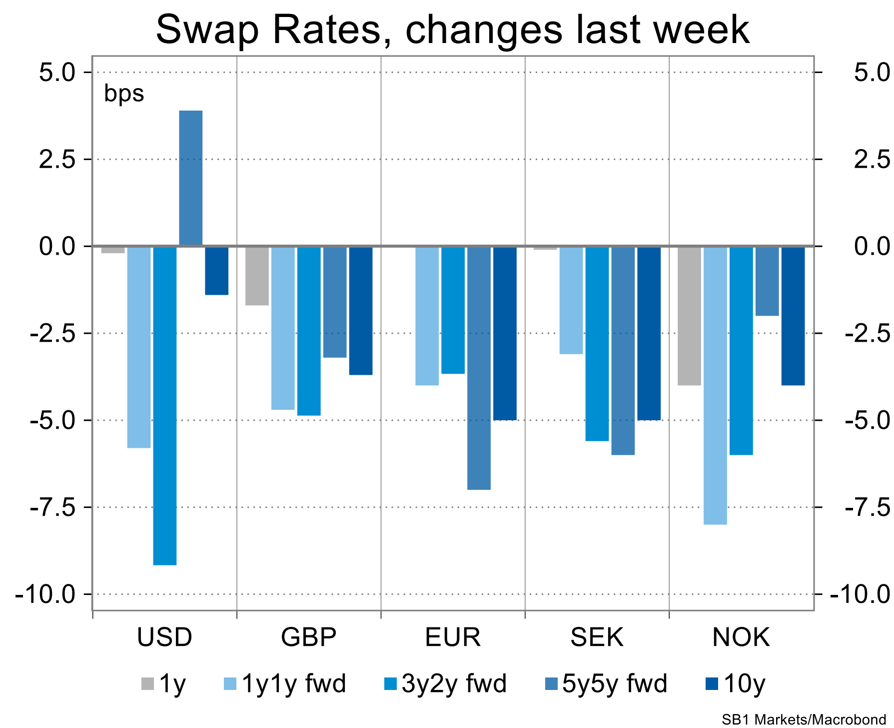




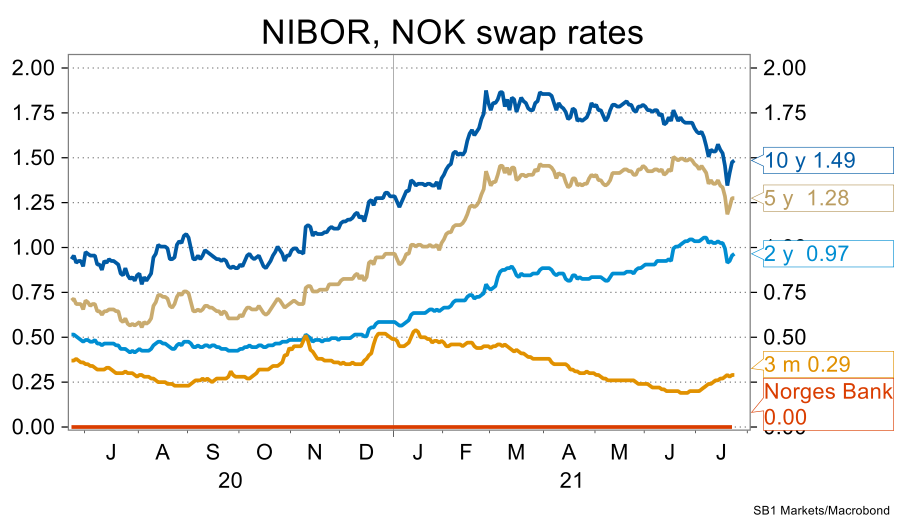
(Almost) all rates down everywhere, most at the mid segments at the curves

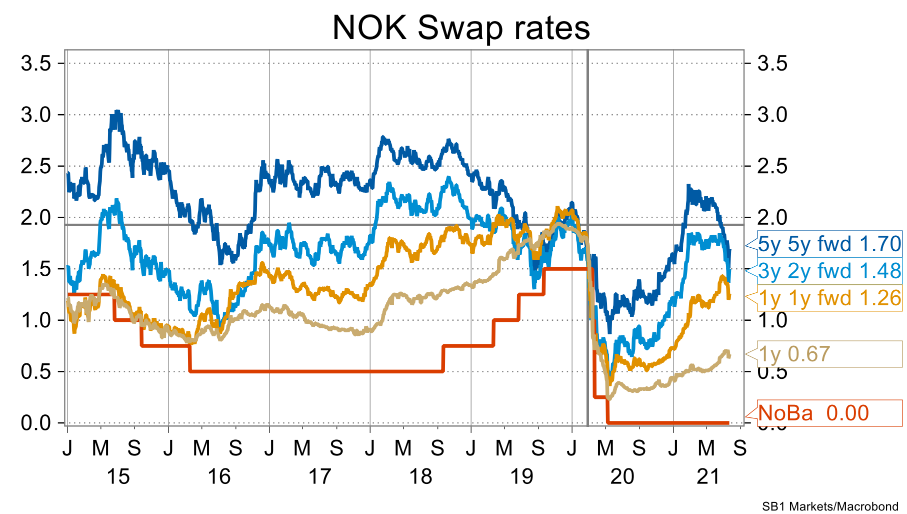
Just the 5 y 5y fwd in the US up last week

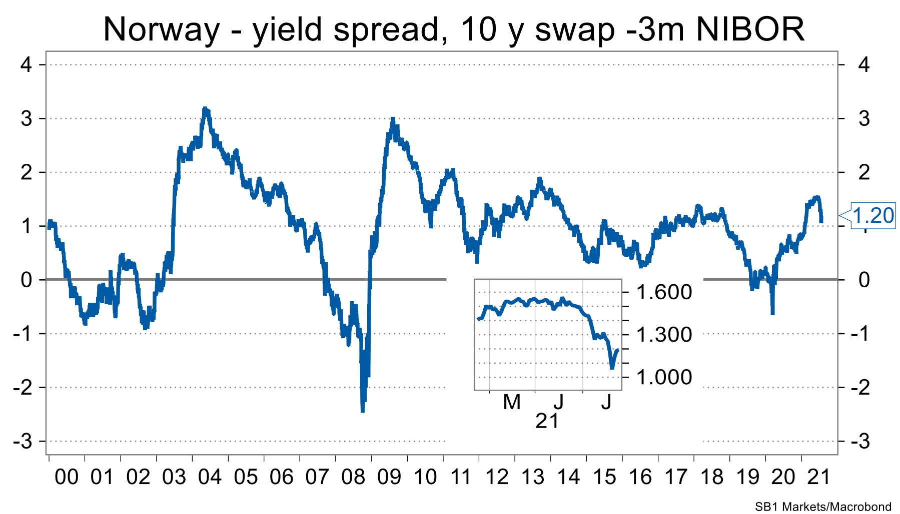


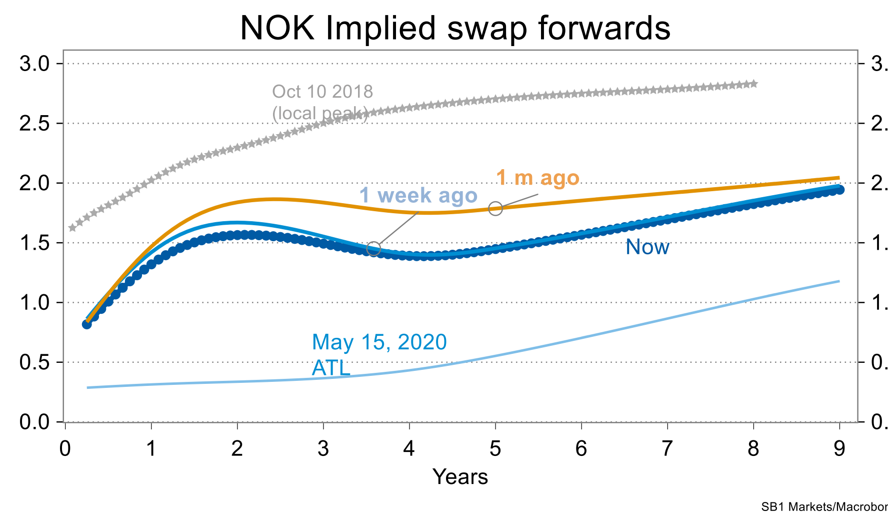


The curve has flattened – at least until last week





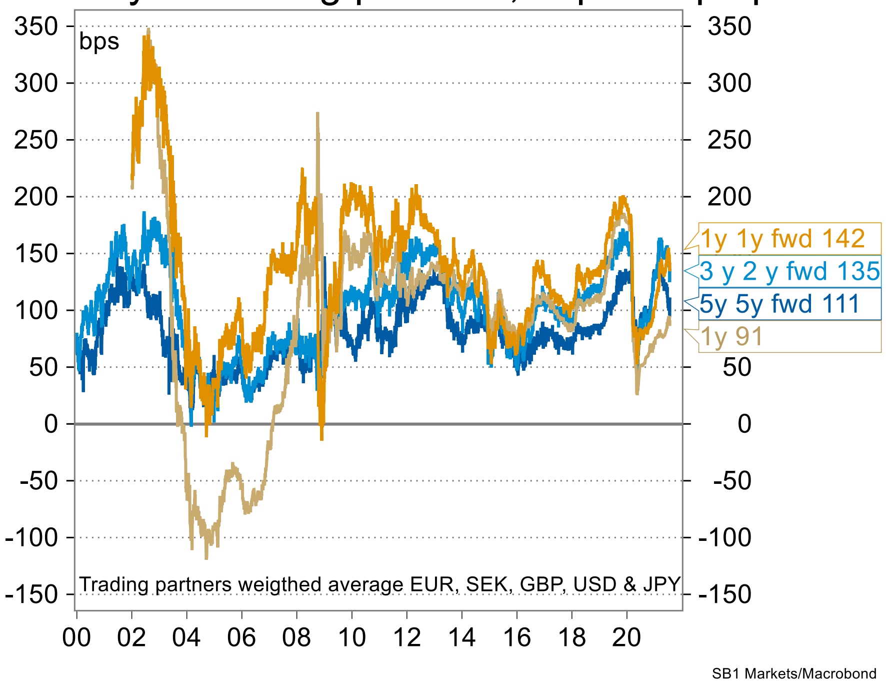


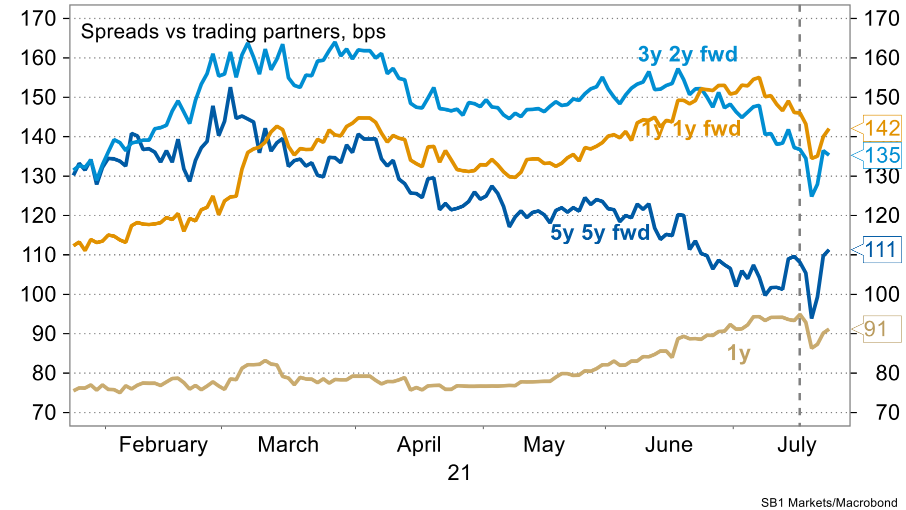


Forward spreads both up and down last week

Down at the first half of the curve, up at the 2nd half

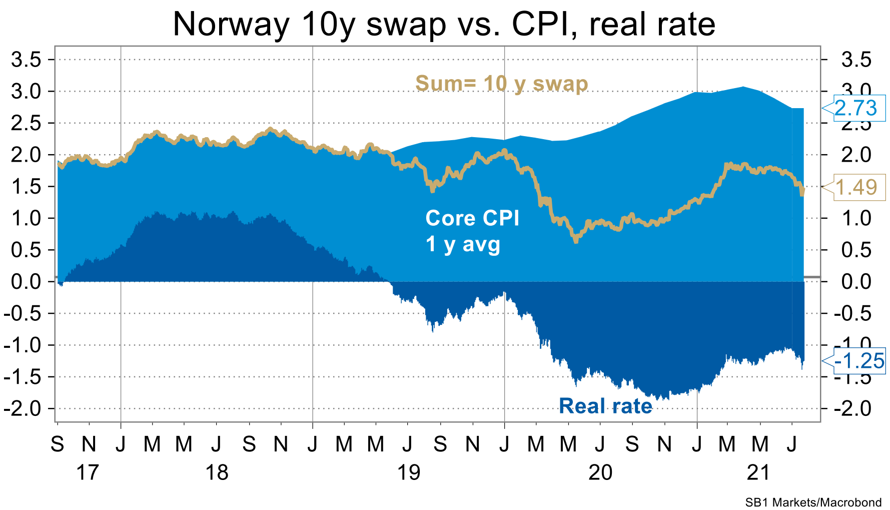
Norway vs trading partners, impl swap spreads





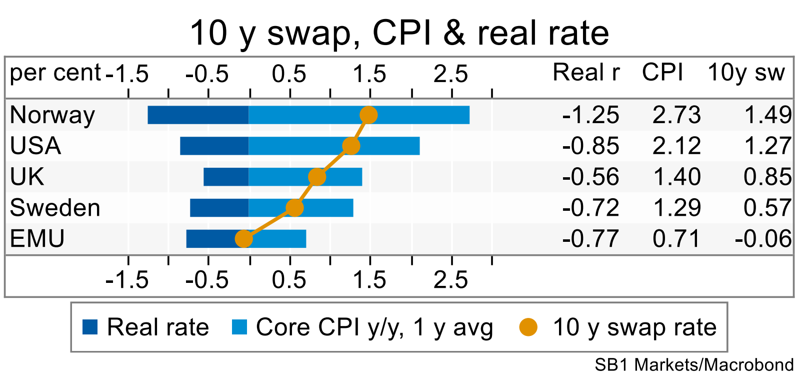
Norway vs trading partners, 5y 5y fwd spread

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 1.49% - and the trend has been down since March
- **The real rate**, after deducting 2.7%, an average core CPI inflation over the 2 past years equals -1.3%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 2 y avg at 2.7%
  - » 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)
  - » <u>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</u>



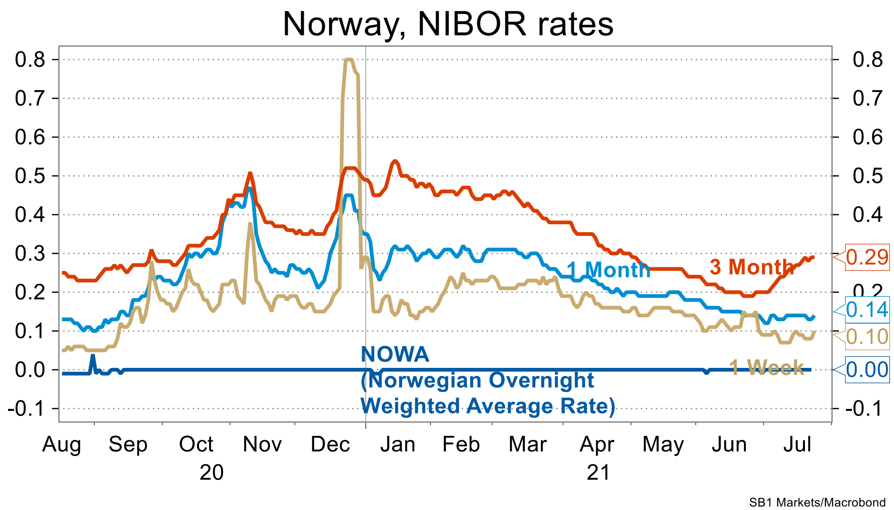
per cent	Real r	CPI	10y sw
Norway	-1.25	2.73	1.49
USA	-0.85	2.12	1.27
UK	-0.56	1.40	0.85
Sweden	-0.72	1.29	0.57
EMU	-0.77	0.71	-0.06

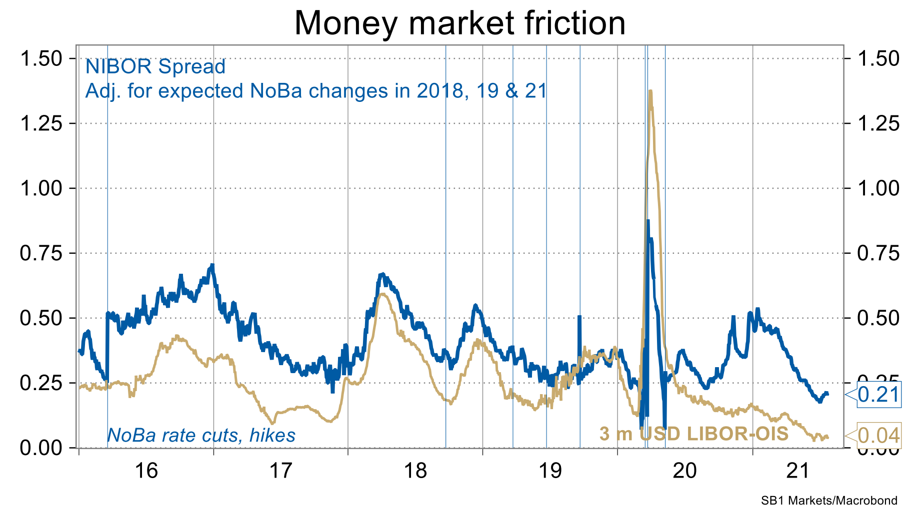
NOK real rates among the lowest, as inflation is at the top

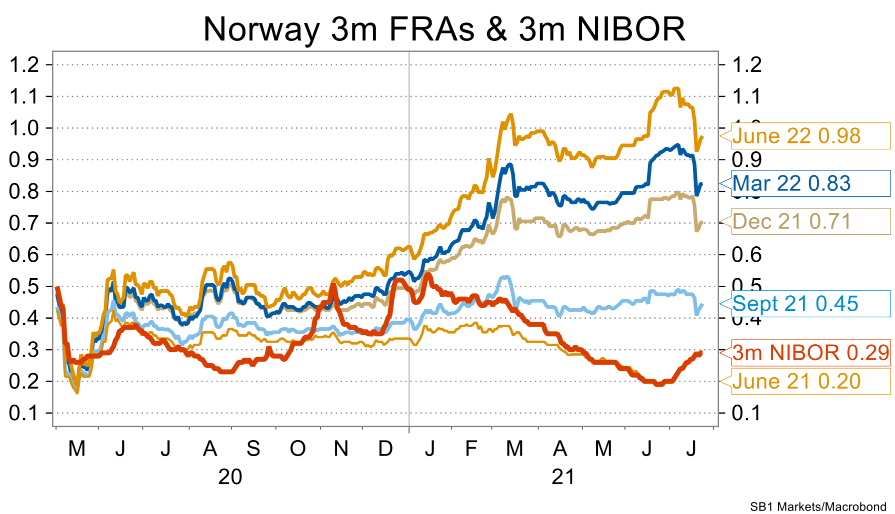
- **Inflation** among main trading partners varies between 0.7% to 2.1% (here again measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US at the top, the latter is now climbing rapidly)
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- **Real rates** among our trading partners, and ranging between -0.6% and -0.9% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.3% is still an outlier on the downside, even if the nominal rate is the highest**

3 m NIBOR 2 bp up to 0.29%, the 'real' NIBOR spread probably slightly up

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



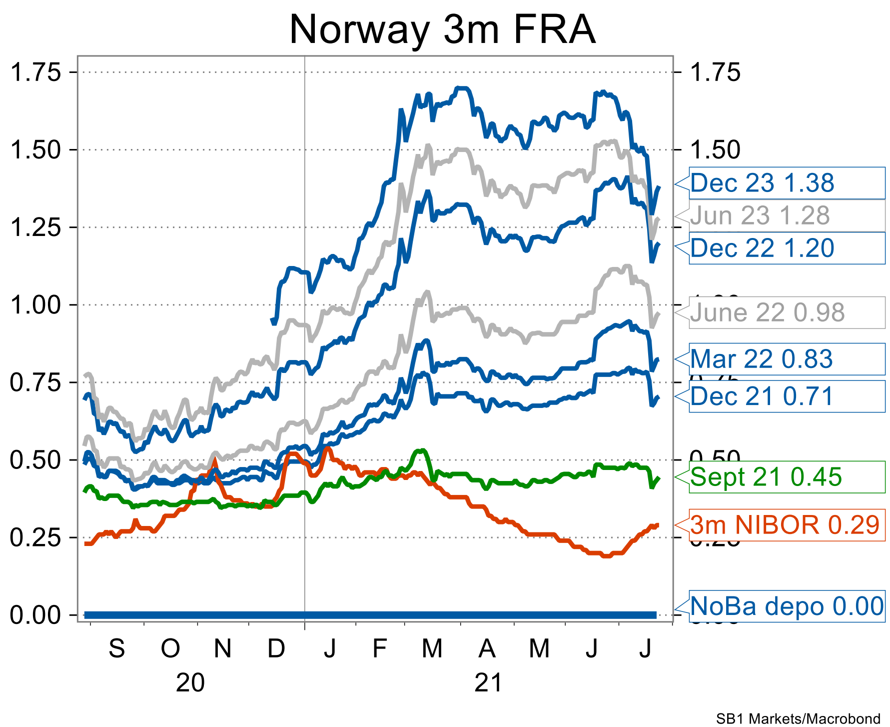


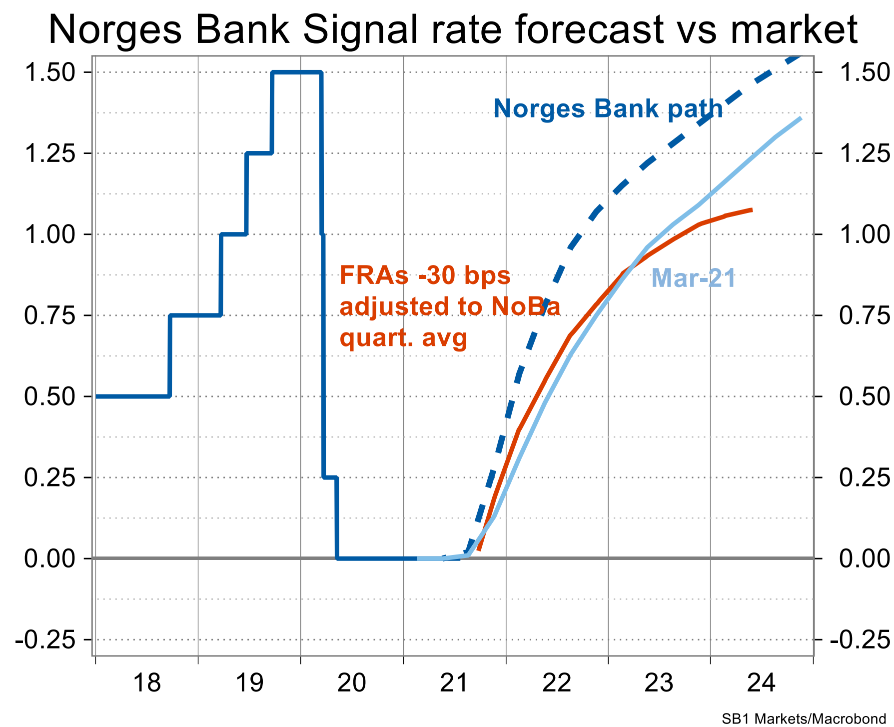


- The LIBOR OIS spread is still low – but has stabilised as the Fed offers 0.05% on excess bank liquidity (via reversed repos)
- The Sept-21 3 m contract at 0.45% bps is 16 bps above the current 3 m NIBOR. Thereafter the 3 m NIBOR will climb by 2 bps per week until NoBa stops hiking the signal rate by 25 bps per quarter (if the low NIBOR spread remains unchanged)
- Last week the 'real' spread rose 1 bps to 21 bps. We expect the spread to drift upwards the coming months

A substantial decline in FRA-rates last week, by 8 – 11 bps from

.. and all FRAs are lower than before NoBa lifted its interest rate path in mid June!

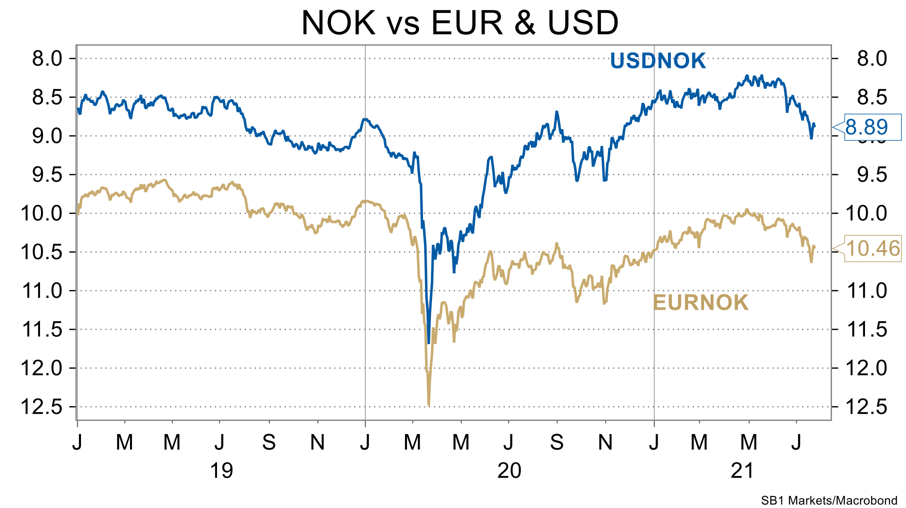


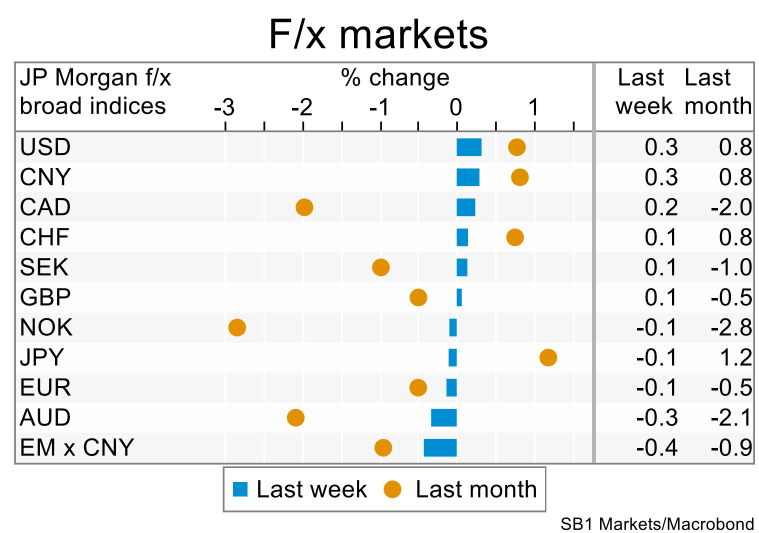


- The market is still betting on a NoBa hike in Sept – and more than fully if the NIBOR spread remains at 0.21 bps (check next page). A 30 bps spread is assumed, a the implied probability falls to 79%
- The Dec-21 FRA at 0.71%, after deducting a Q4 liquidity premium at 7 bp, implies 70% probability for a 2nd hike in December if the spread remains at the current 21 bps. However, if the spread is assumed to be 30 bps, just a 40% probability is discounted (in June, NoBa assumed a 35 bps spread)

The USD & the CNY the winners last week & month

EM x China weakest link in the chain last week – and NOK the big loser last month

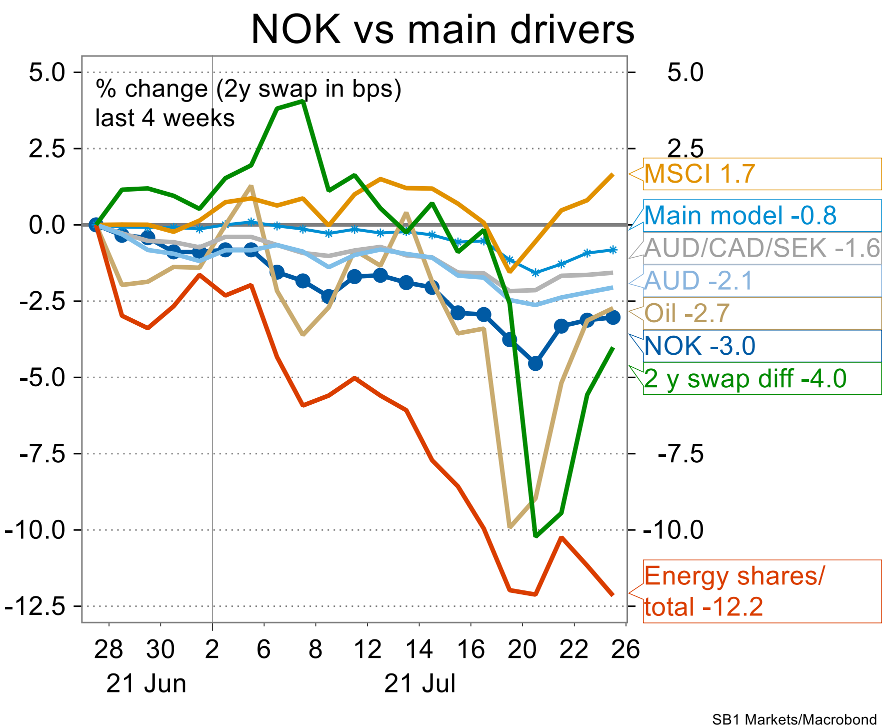


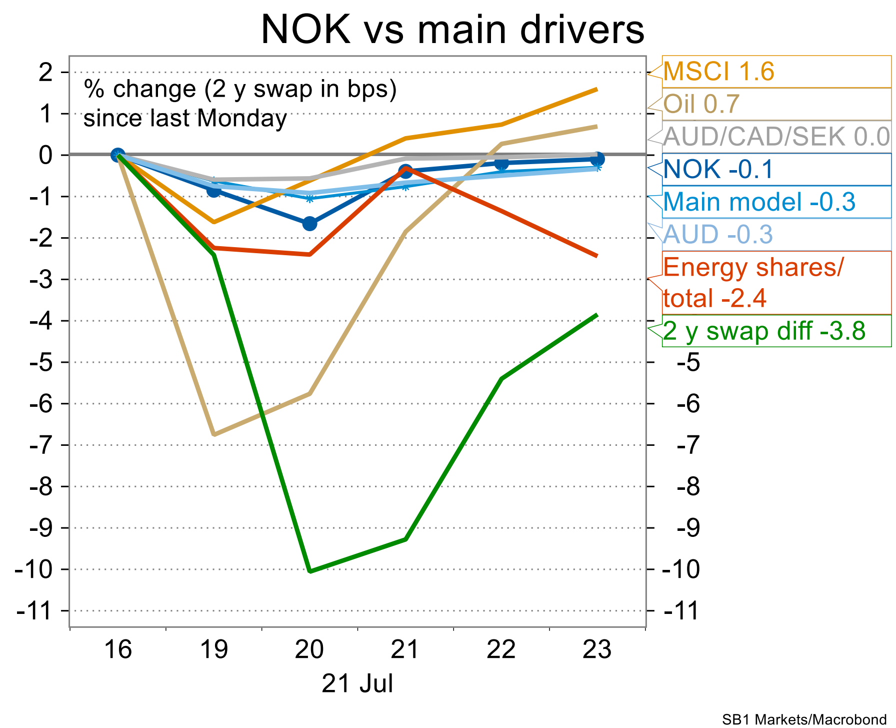


JP Morgan f/x broad indices	Last week	Last month
USD	0.3	0.8
CNY	0.3	0.8
CAD	0.2	-2.0
CHF	0.1	0.8
SEK	0.1	-1.0
GBP	0.1	-0.5
NOK	-0.1	-2.8
JPY	-0.1	1.2
EUR	-0.1	-0.5
AUD	-0.3	-2.1
EM x CNY	-0.4	-0.9

Stock markets, oil recovered Monday's 'crash' – the NOK too

NOK down just 0.1%, our main model suggested -0.3%. NOK still down 3% last month





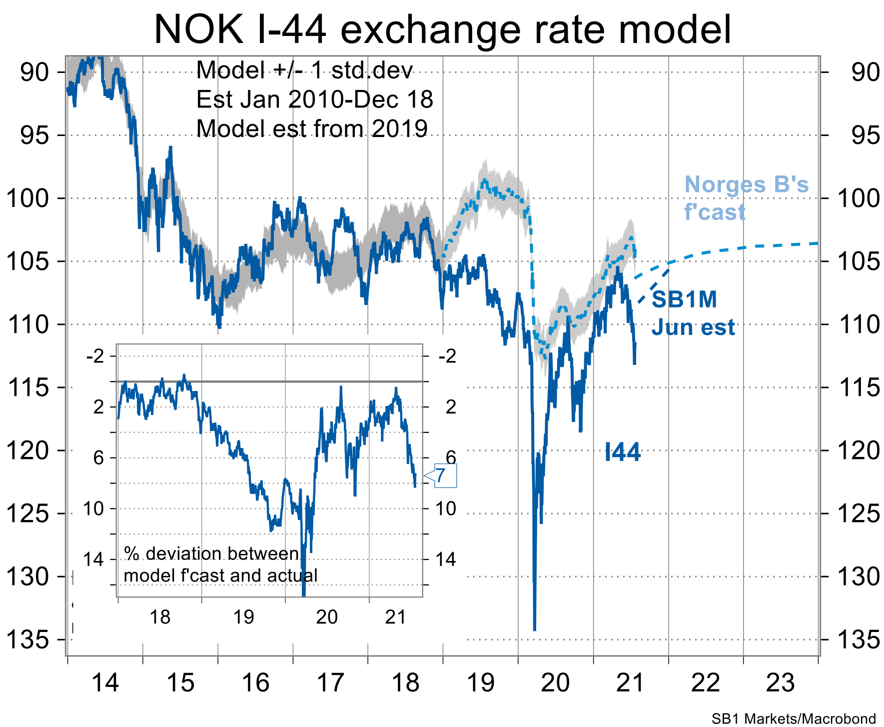
The status vs. the normal drivers:

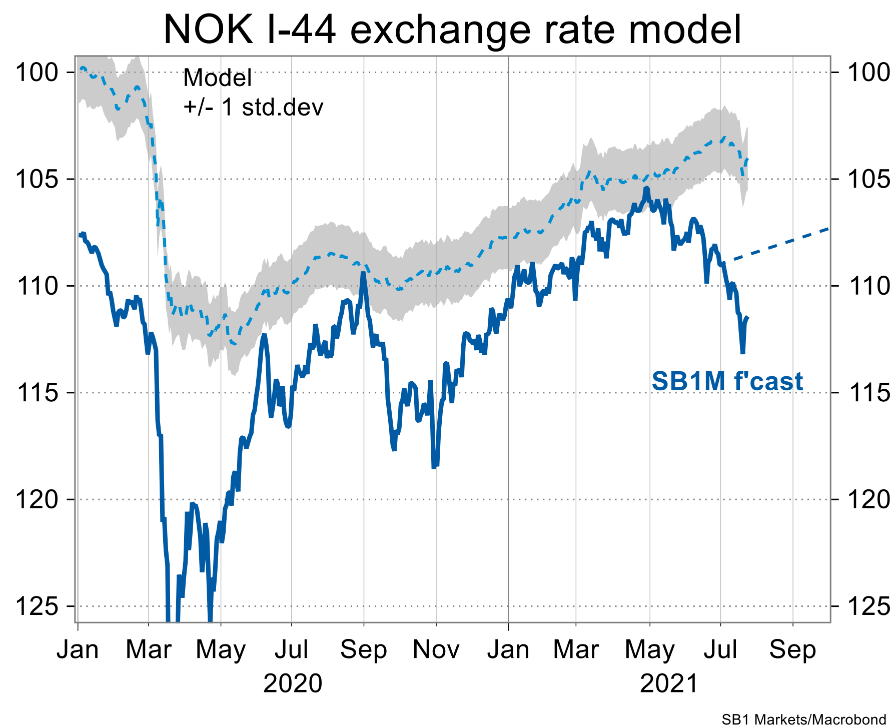
- ***The NOK is 7% weaker than suggested by our standard model (from -8%)***
- The NOK is 6.5% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from 6)
- The NOK is 10% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -9)
- NOK is far (10%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (from +9)

After been neutral vs NOK from May, we turned positive in early July, as the gap vs. our models had widened. *So far without any success*

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

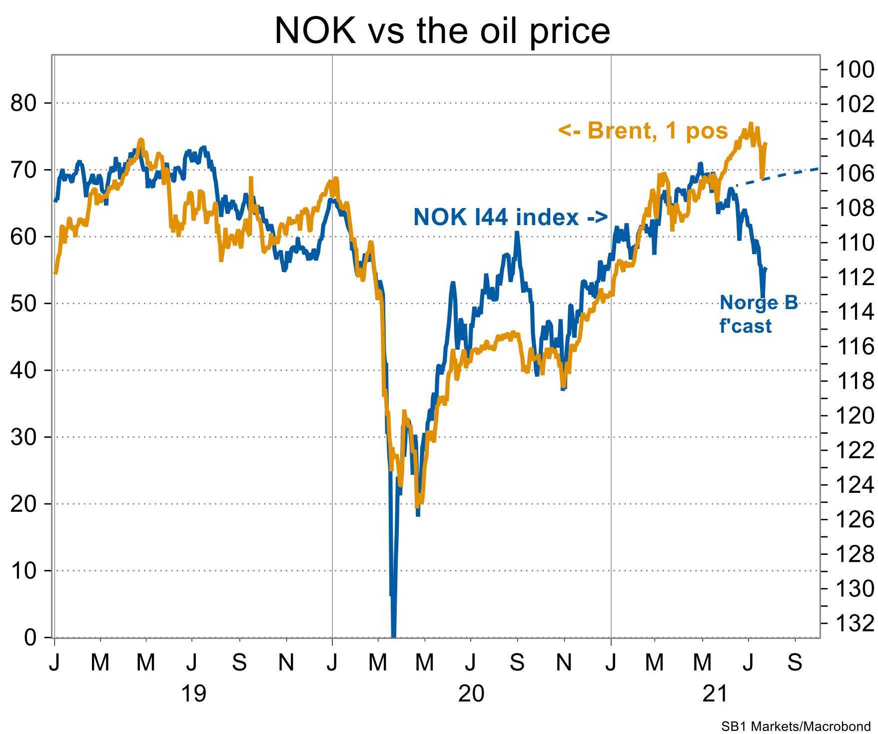
NOK now 7% below our model estimate!

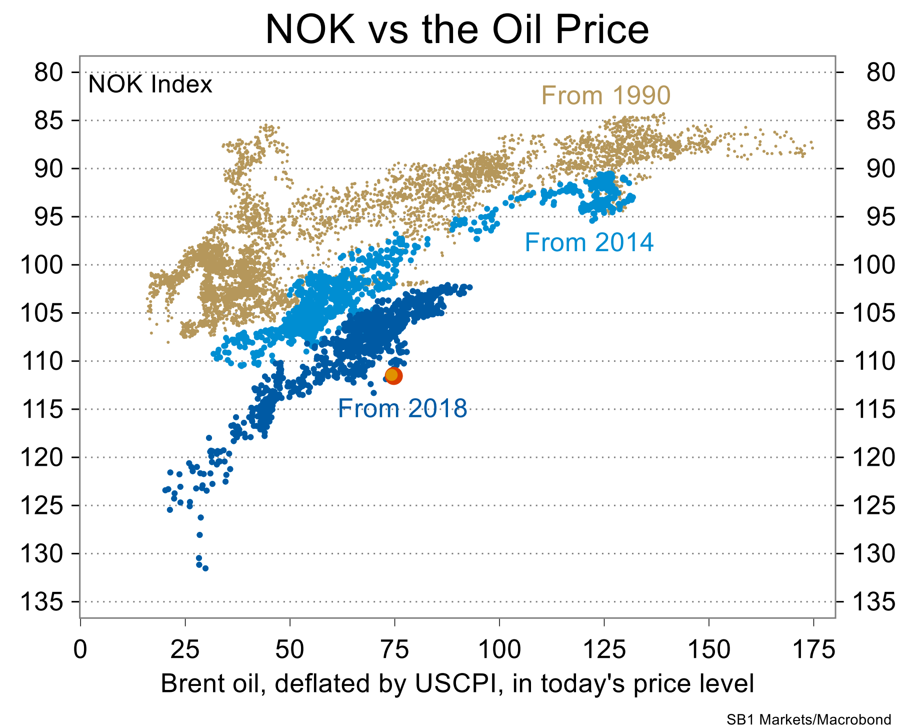




Oil down, up. NOK down, up.

Just March last year 'worse' than today

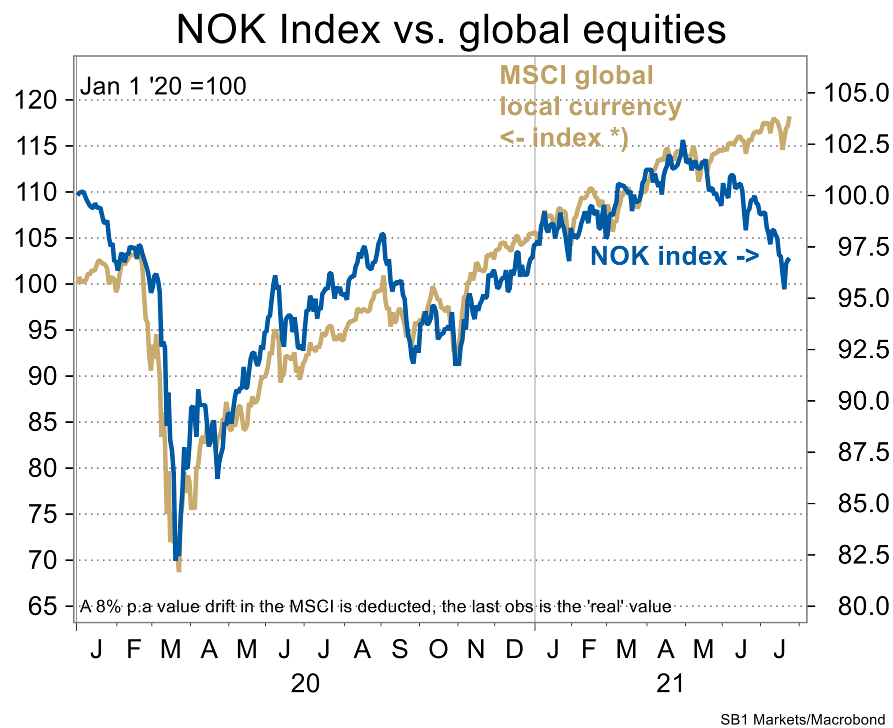


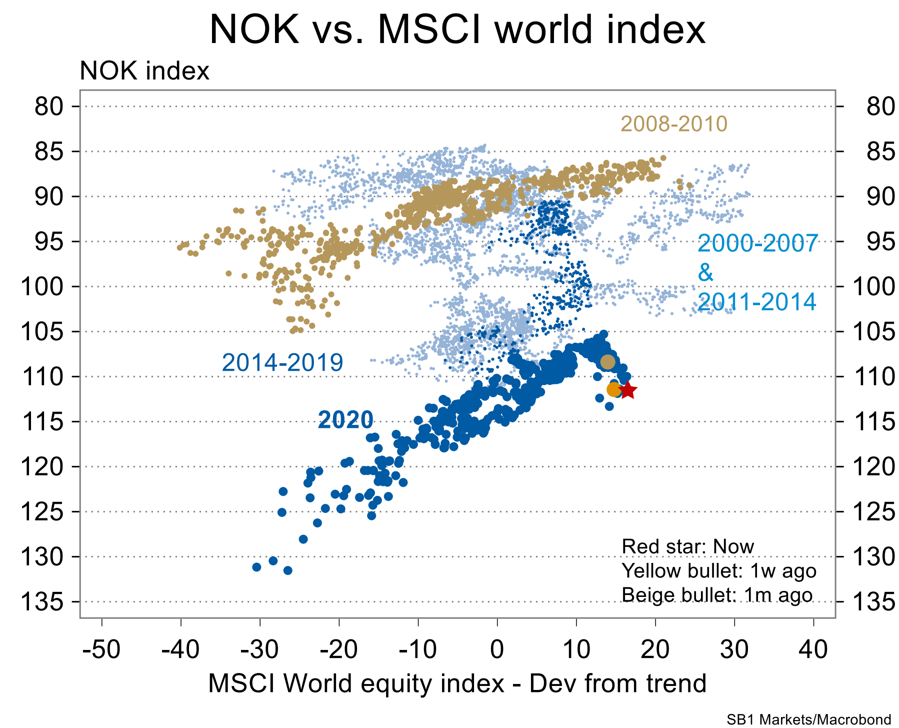


- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

Both stock markets & NOK down last week

NOK has lost some 6.5% vs. global stocks over the past months/weeks

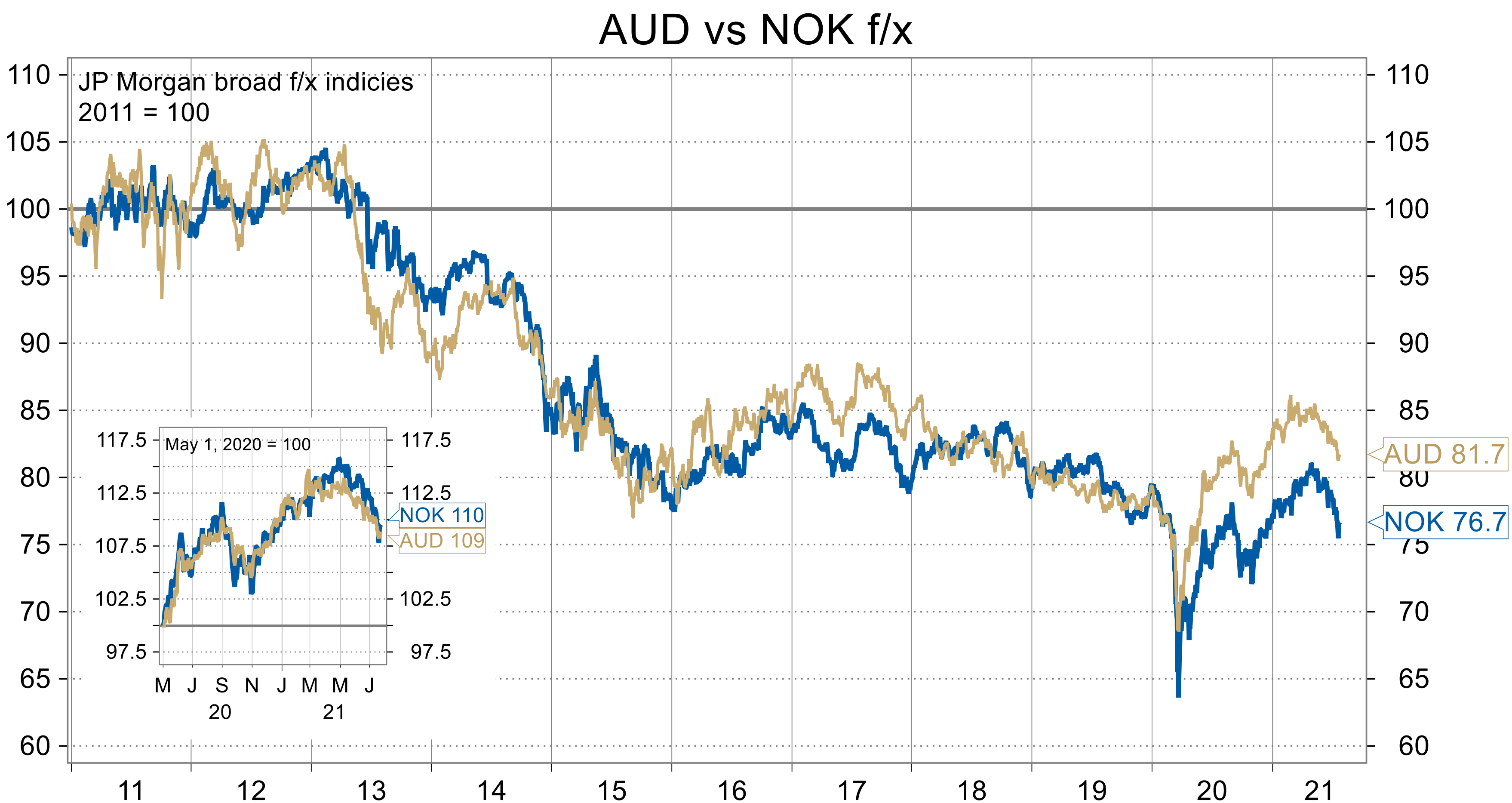




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the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

…but the NOK is still 6% weaker than AUD since last spring



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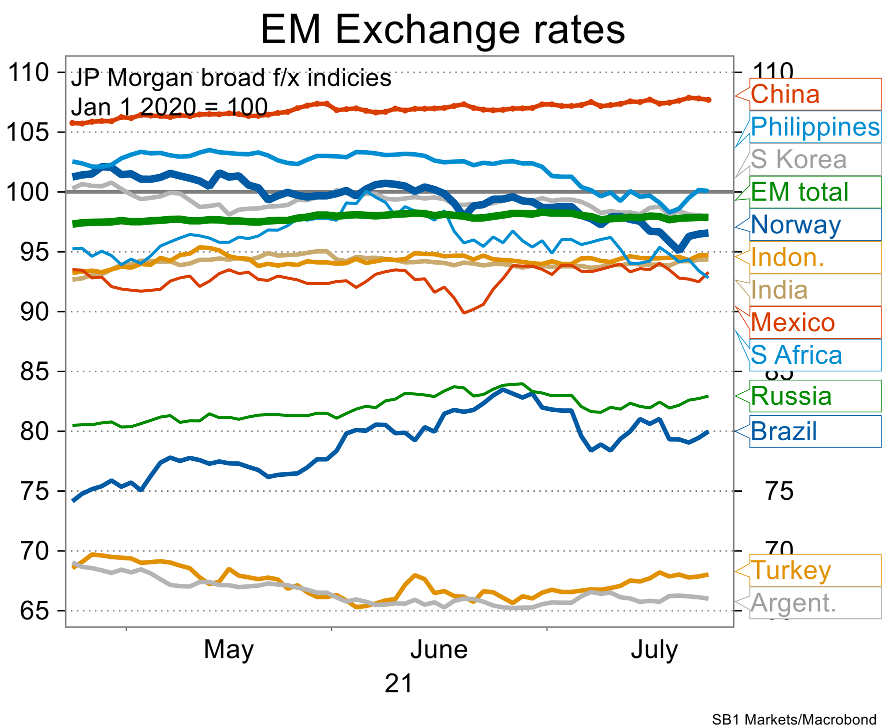
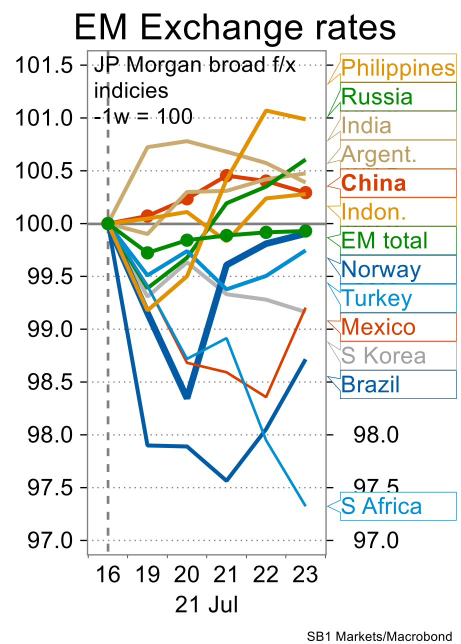
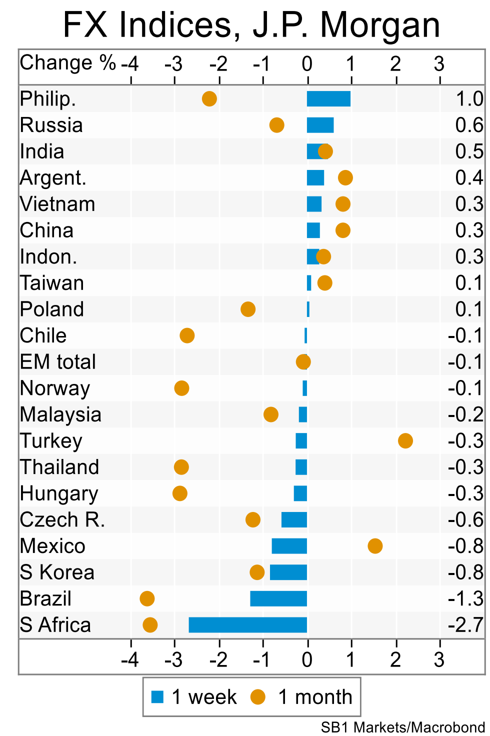
Most EM f/x rates down in a volatile week

Last year's losers are stabilising: Turkey, Argentina, Brazil, Russia. Now South Africa is sliding down







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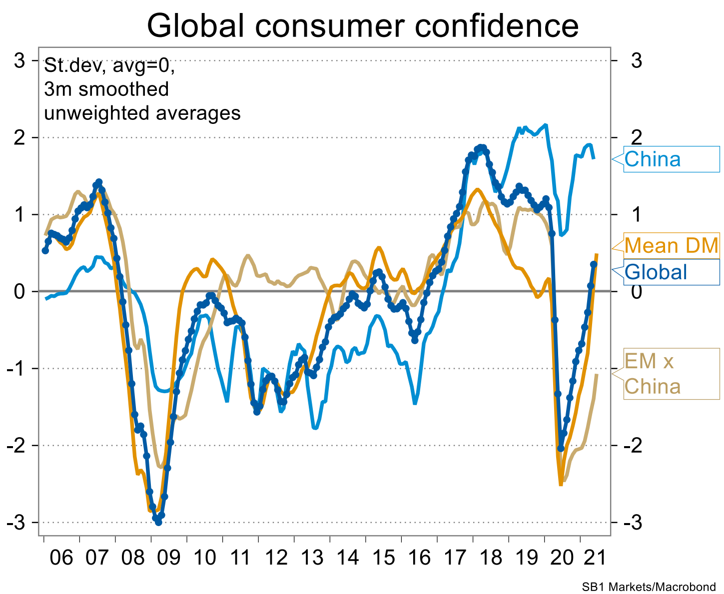
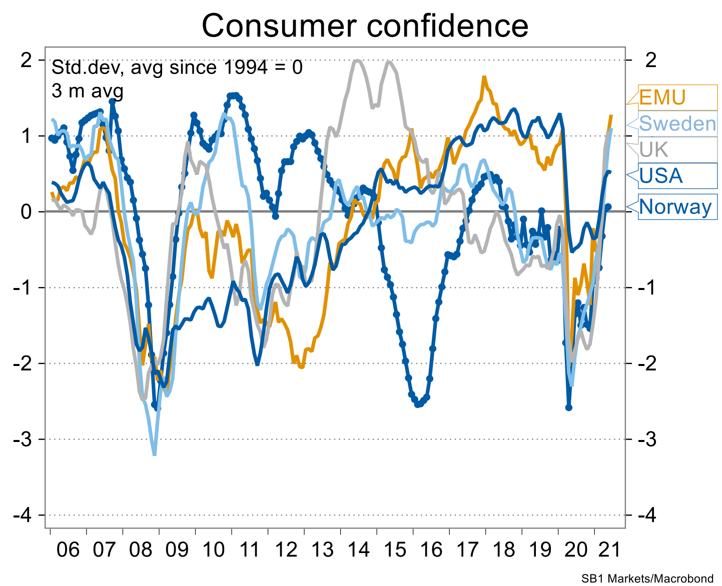
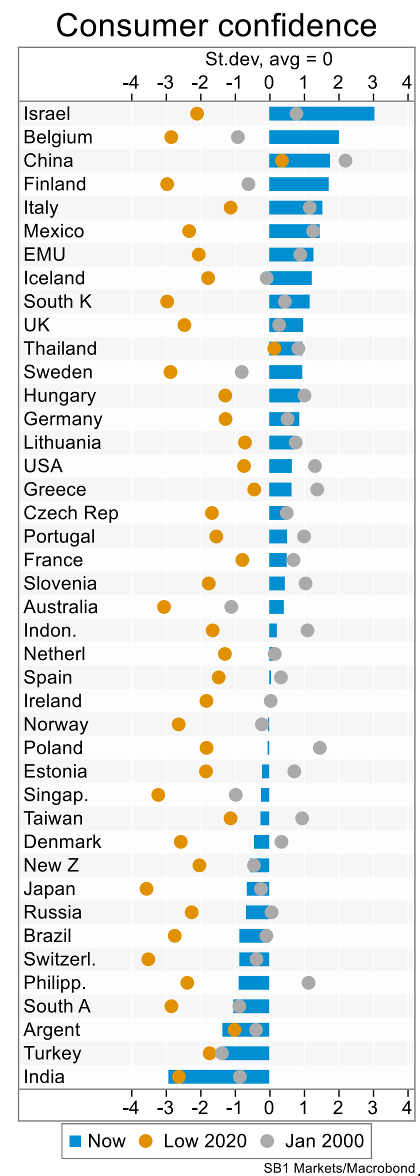
Consumer confidence is still recovering – remains below par in most EMs x Ch

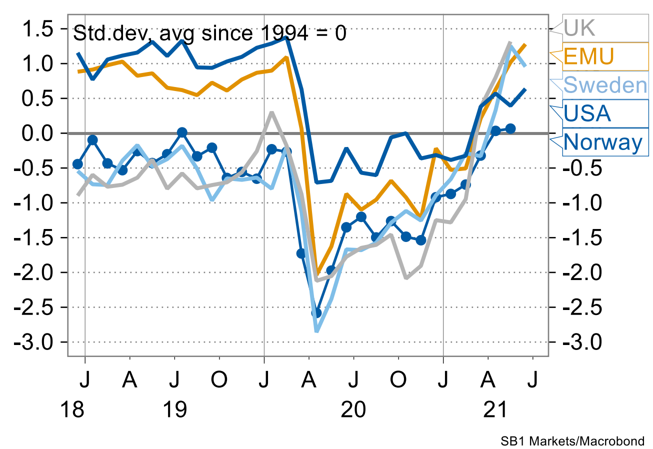
In Europe confidence is well above avg., and above the pre-pandemic level







- US is reporting confidence above an average level, but (on average for the 2 main surveys) still below early '20 level
- In most EM x China, sentiment is below par
- India is at the bottom, for good reasons
- Israel is at the top, for goods reasons too (at least until June)
- **In sum: Households are ready to spend**



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