2 August 2021

Macro Weekly

Week 31/2021

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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 3 weeks, and in UK and Netherlands, the no of cases has fallen sharply (by 40% in the UK)
- 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 substantial increase in new cases but still a very few are (yet) hospitalised (17 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, even the vaccinated may be contagious (which requires an even higher immunity rate to stop the virus)
  - » Countries/areas with low vaccination ratios are of course exposed to the Delta variant, like Japan and Australia – and much of Emerging Markets
- **Italy** has reintroduced some restrictions, others may follow – but we still think the economic impact will be limited
- **Mobility** has flattened/declined marginally last weeks. It may be due to the spread of the Delta variant

The economy, part I

- **July PMIs**
  - » The global PMI has peaked, so has very likely global growth – and global GDP growth probably slowed to a below trend pace in Q2 (mostly due an assumed slowdown in Emerging Markets). Global price pressures has probably peaked too.
  - » The Chinese PMIs fell just marginally in July but from a below average level in June. However, these indices signal higher growth than the actual 3.6% growth pace in H1. Mixed in the manufacturing sector in Asia, but more up than down even if India recovered sharply. We expect a 1.9 p decline in the global PMI, even if manufacturing was close to unch, as the services PMI probably fell sharply

Last week: The economy, part II

- **USA**
  - » **The FOMC** acknowledges that the economy is strengthening and even if the employment level is well below the pre-pandemic the committee will continue to assess progress in coming meeting – which signals the bank is preparing markets for a tapering message not before too long. Still, during last week (but not last Wednesday specifically) real interest rates are nosediving to record low levels (as in Europe) – while inflation expectations rose
  - » **GDP** rose 'just' 6.5% in Q2, expected up 8.5% but is even so above the Q4-19 level. Services grew fast but remains well below the pre-pandemic trend. Profits very likely rose sharply from Q1
  - » The **savings rate** has fallen to below 10% but is still 2% above the pre-pandemic level, and the accumulated excess savings through the pandemic equals more than 12% of disposable income. Total consumption has flattened recent month, goods down, services up
  - » The **Employment Cost Index** grew just 0.7% in Q2, 0.2 pp less than expected. The annual growth rate is 2.8%, and too low to support any inflation fears. However, other wage data may signal a higher rate of wage inflation
  - » **New home** sales are sagging, as prices are surging. Supply has been a challenge. The **Case/Shiller house price index** and other price indices are still reporting record high, or close to record high price inflation (but realtors have reported slower price increases m/m in May/June)
  - » States that have opted out of the **Federal extra unemployment benefit programs** may now be witnessing a decline in receivers even for ordinary state unemployment benefits, are workers finally 'forced' to return to the labour market?
- **EMU**
  - » **GDP** rose by 8.3% in Q2 (2.0% not annualised), well above expectations. Italy and Spain in the lead growth-wise, according to the preliminary data
  - » **Unemployment** fell sharply in June, and is just 0.3% above the pre-pandemic level. However, hours worked is probably still 5 – 6% below par
  - » **Core CPI** inflation fell to 0.7% in June, as expected. Total inflation rose to 2.2%, above expectations. Energy is the main (and almost only) culprit
- **Sweden**
  - » **GDP** rose 3.6% in Q2 (0.9% not annualised), better than expected as GDP rose sharply in June – to well above a pre-pandemic level
- **Norway**
  - » **NAV unemployment** flattened at 3.0 % in July, while we expected another decline. Still, we are confident the trend is down. The no. of vacancies rose further in July from a very high level in June, and the inflow of new jobless claims is very low
  - » **Retail sales** were close to unch in June, at a very high level. We expect a weaker sales the coming months as spending on services domestically and all sorts of spending abroad will pick up

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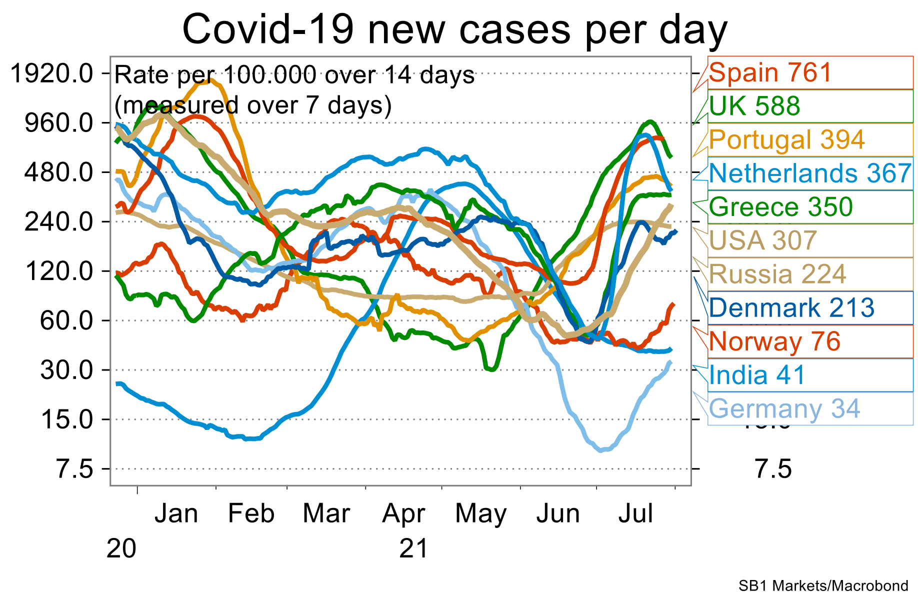
Some very positive news – the no of cases is falling, at least some places

Norway is reporting a steep increase in new cases, but 'nobody' is (yet) hospitalised



- 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 – and in some countries, notably UK and Netherland which were at the top of the list last week has reported a steep decline in new cases
- **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 (in Europe, US is not that convincing)
- 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, even in rich countries
- Norway is reporting a sharp increase in new cases but the level is still low and just 17 persons are hospitalised

Source: Financial Times, June 20

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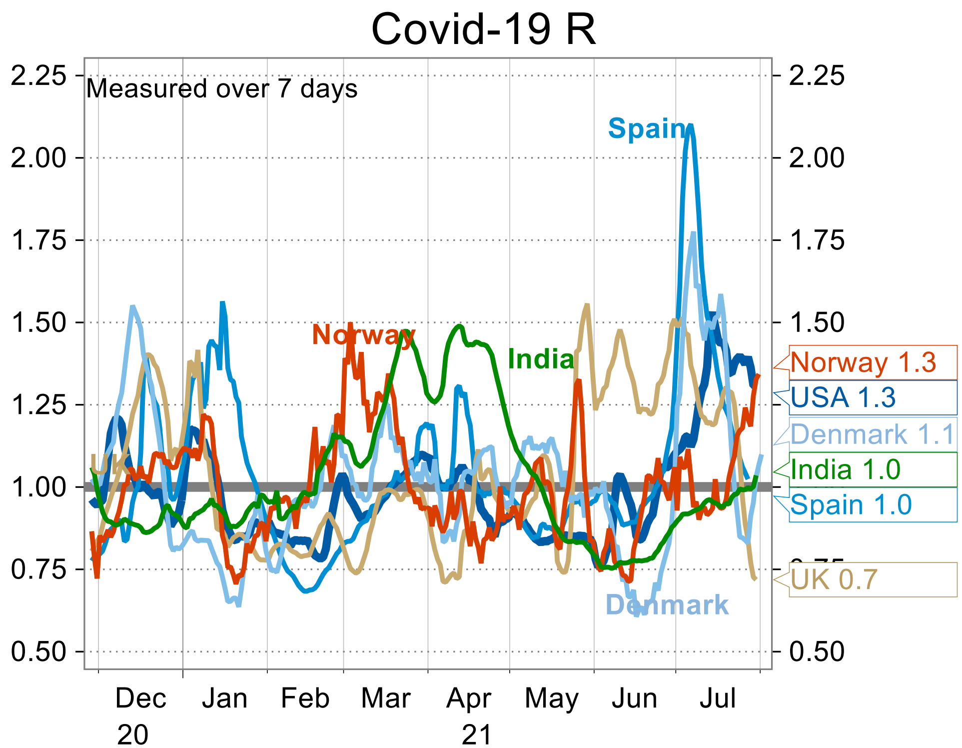
Some few countries have turned down, but most are still on the way up

UK, Netherland sharply down, but a majority of countries still on the way up. Spain now at the top of the list



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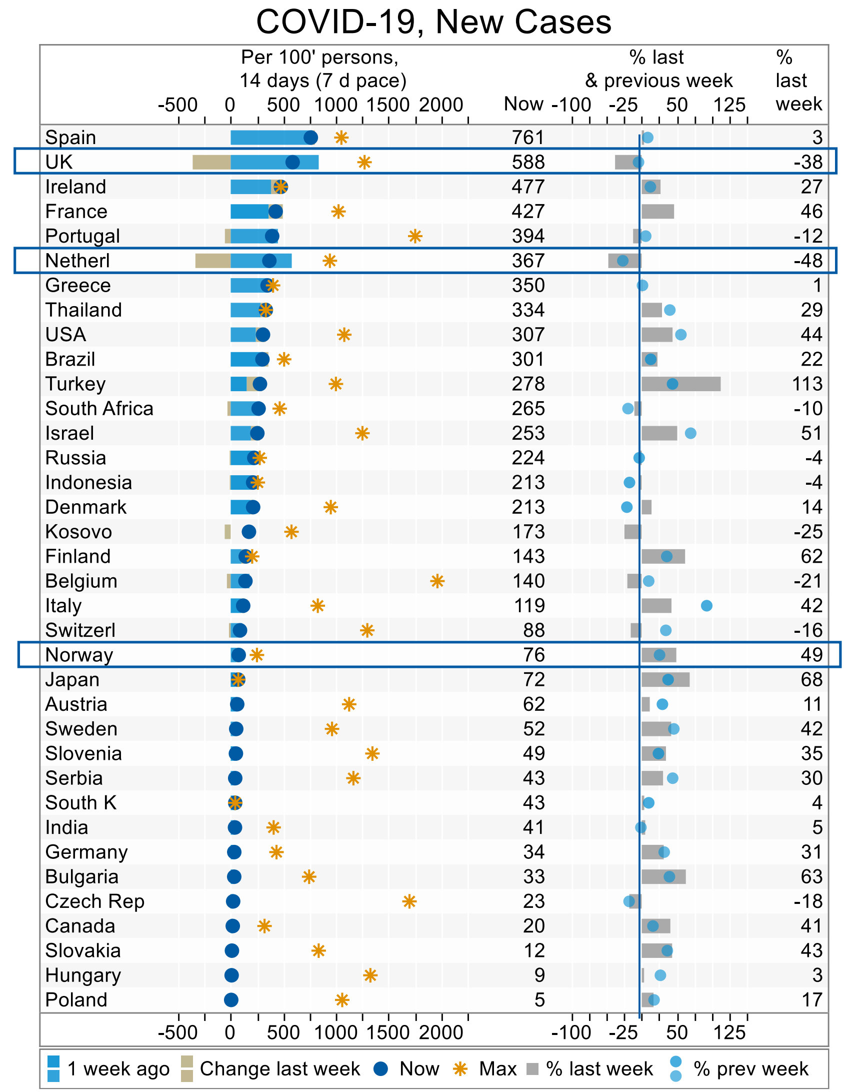

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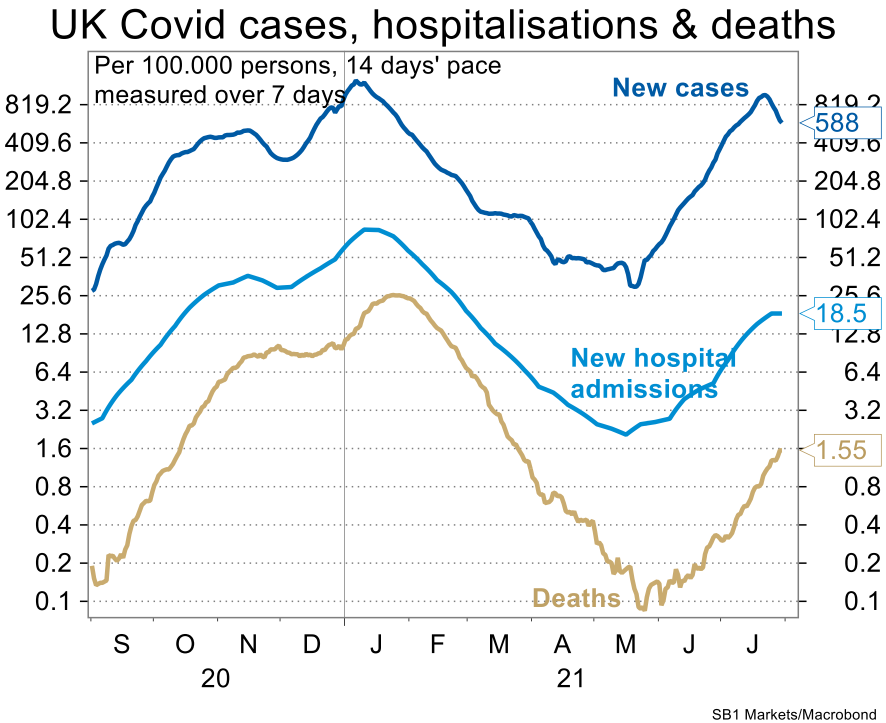
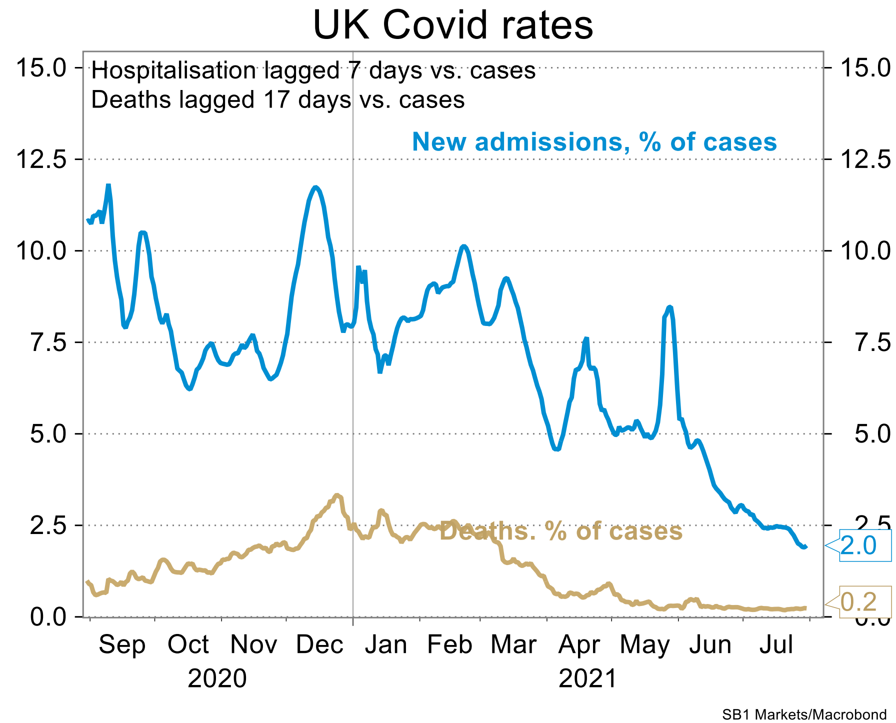
UK: Still a low level of hospital admissions, deaths but the direction is clearly up

The big news last week: The number of new cases has fallen 40%!





- The no. of **new cases per day** peaked before it reached the Jan peak – and it is now falling rapidly
- The no. of daily hospital admissions has increased 9 times from the bottom in May, but the still just above 1/5th of the level in January. The no of death is up more than 15 times, still at just 6% of the January level. Both will probably decline if the 40% decline in new cases is for real
- 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 the curve has turned down
- Other European countries are reporting low hospitalisation & deaths rate, while the US is not (probably because testing is far below European levels), check next page

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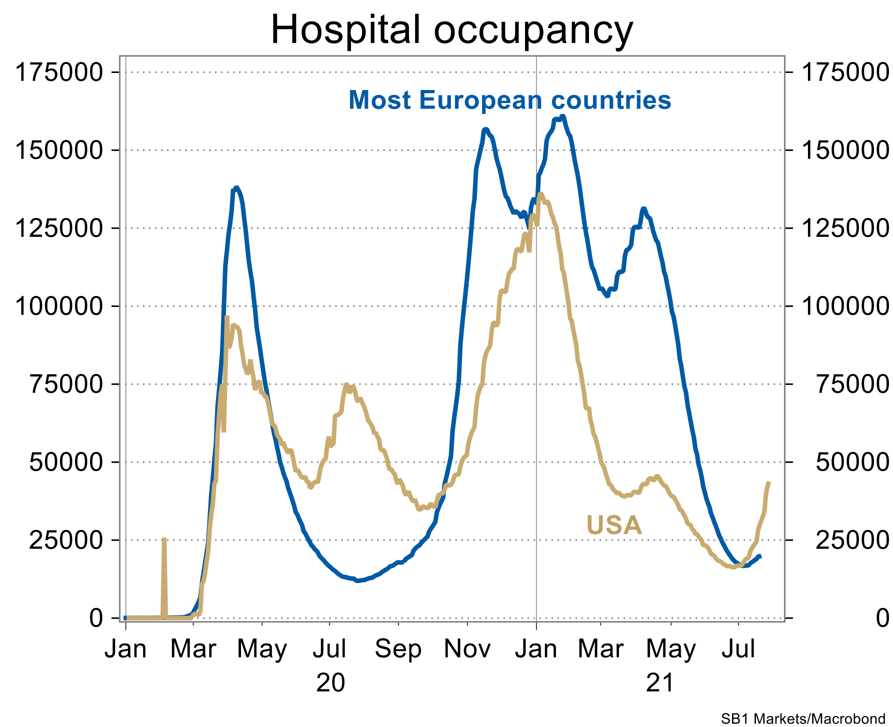
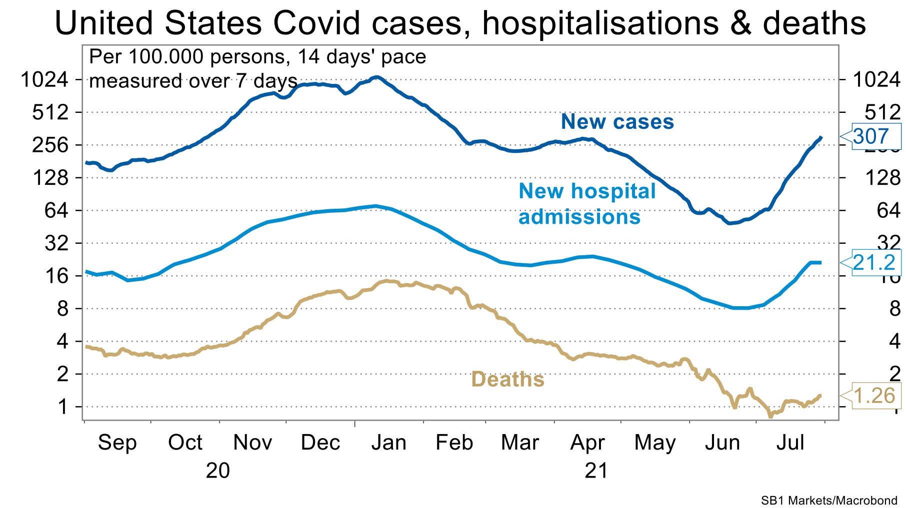
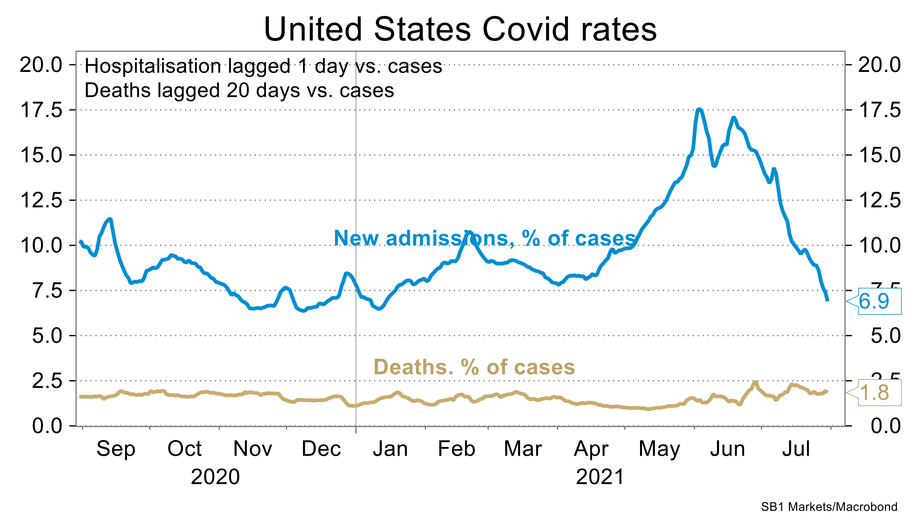
US may run into problems but stricter policies, more vaccinations will help?

Hospitalisation & death rates signal that the real number of new cases is relatively higher than in Eur.

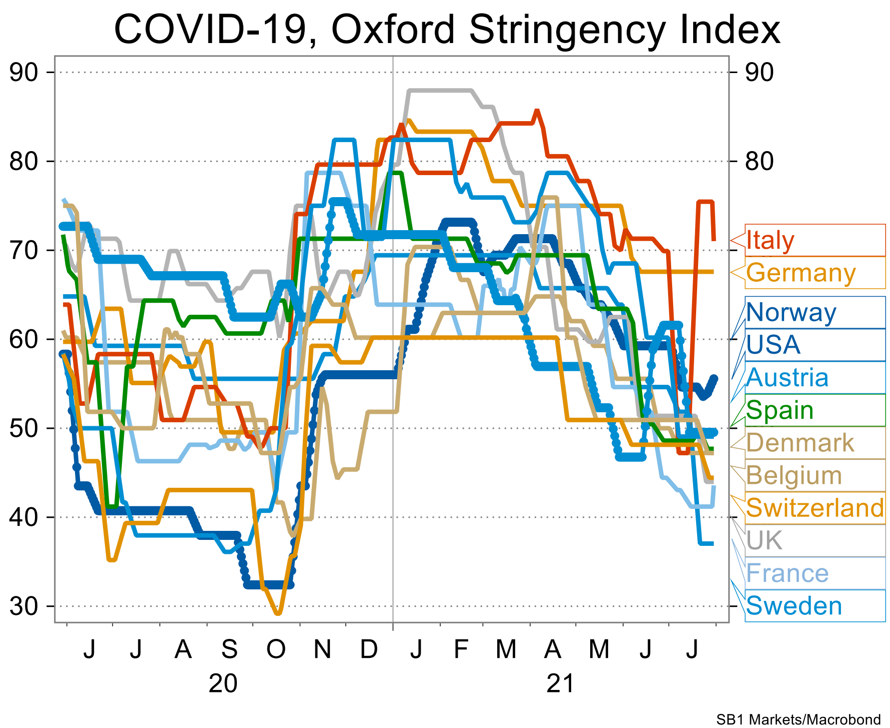


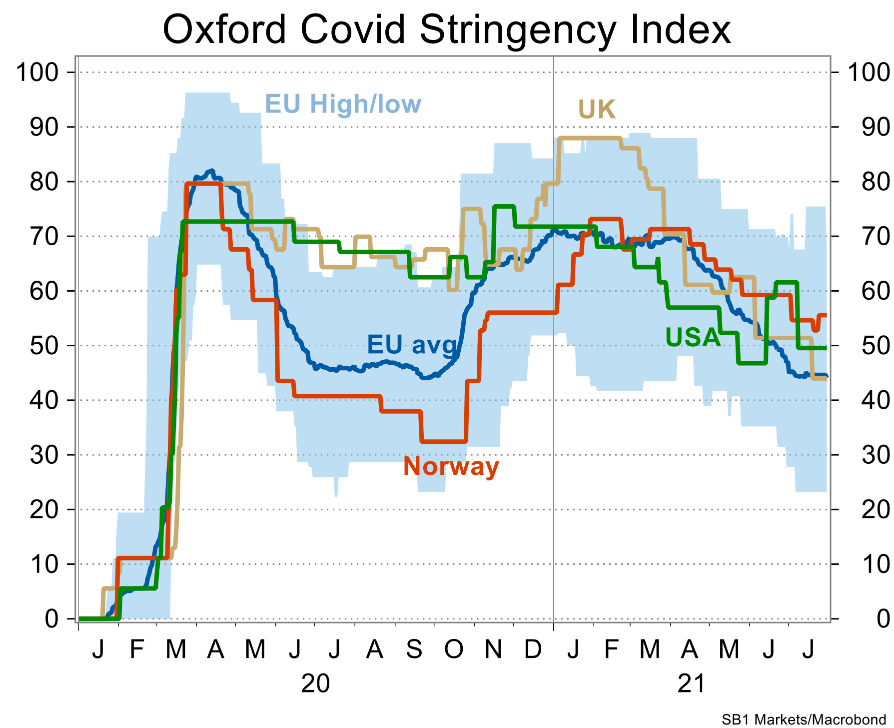
- The hospitalisation rate is far higher
- The death rate (Case Fatality Rate) is 2 – 8 times higher than in Europe
- Thus, the no. of cases is very likely underreported vs. Europe





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





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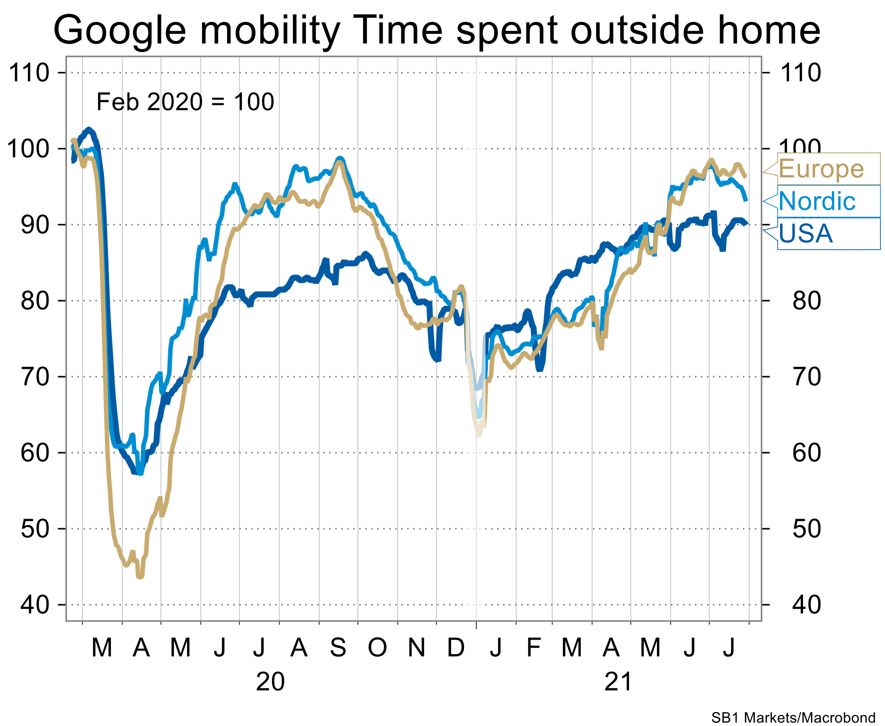
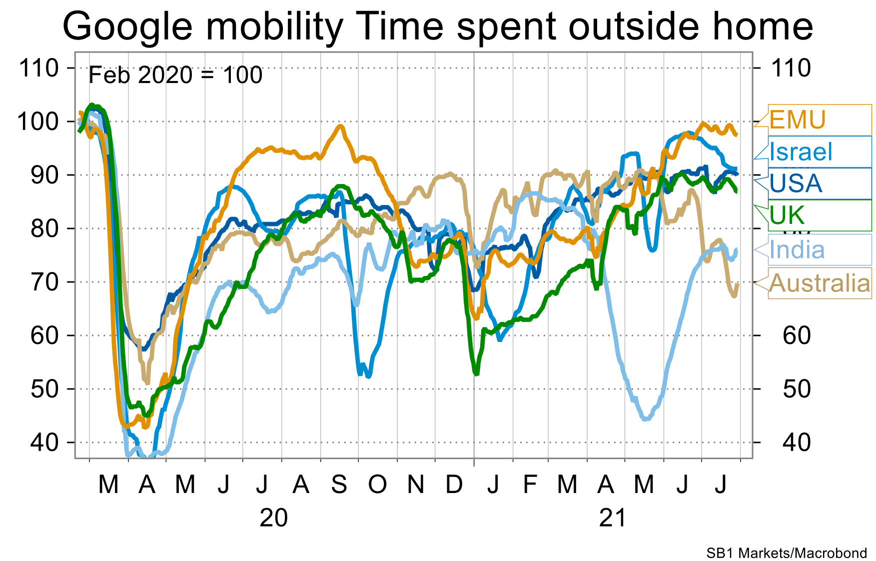
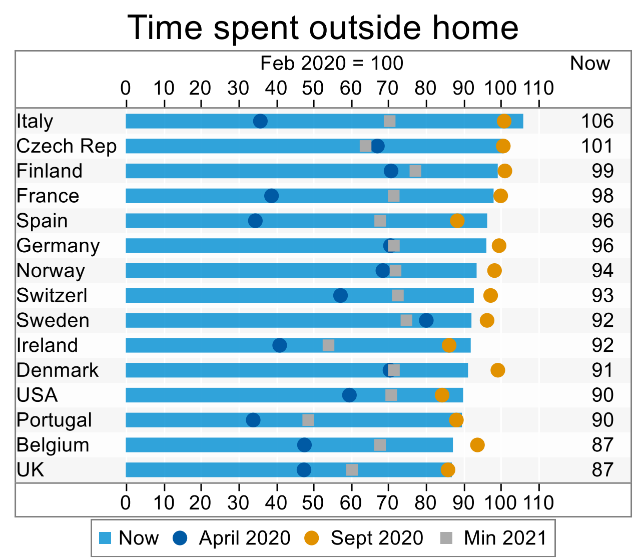
Are we seeing some impact of the Delta on mobility? Trends have flattened

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







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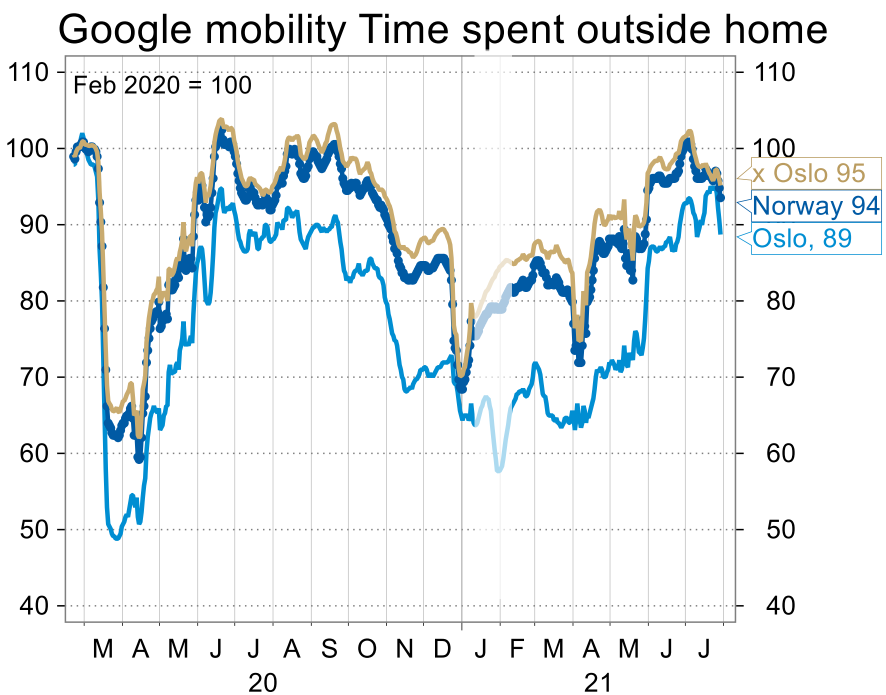
‘Some’ local cases – and sum cases sharply up last week

Mobility down last week, we doubt the Delta virus is to blame



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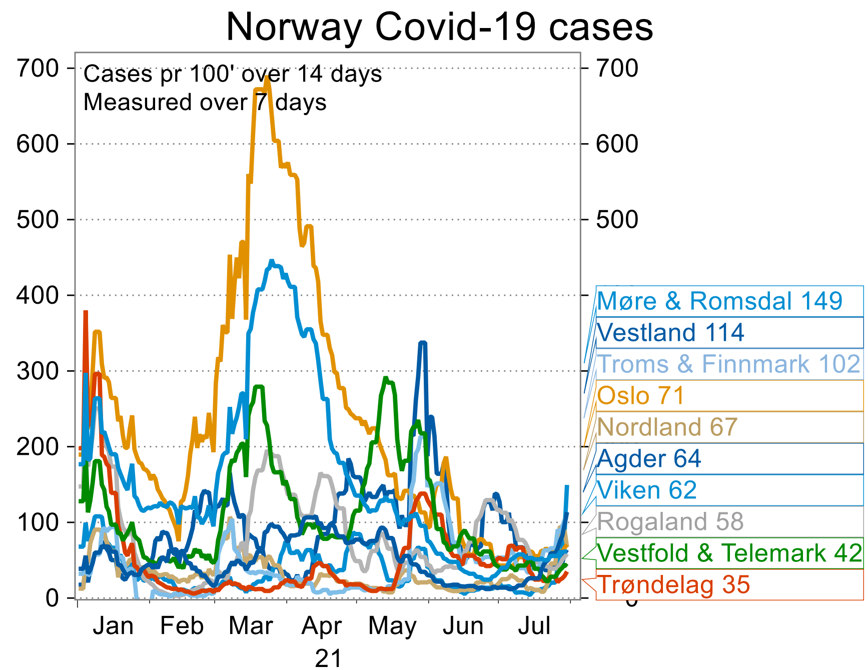

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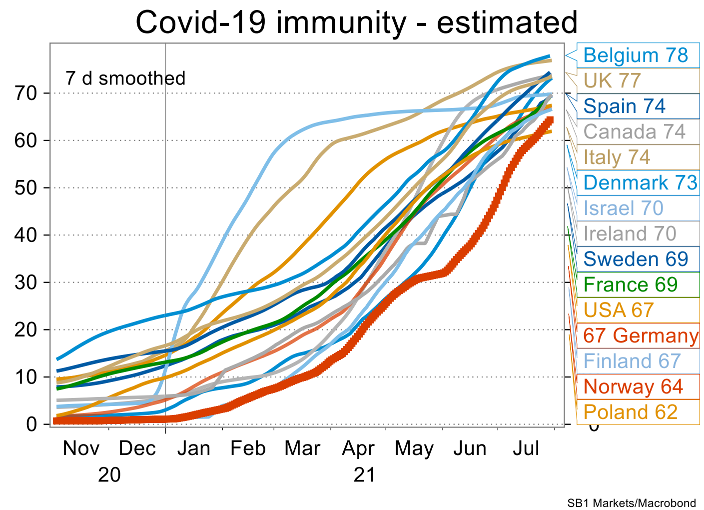
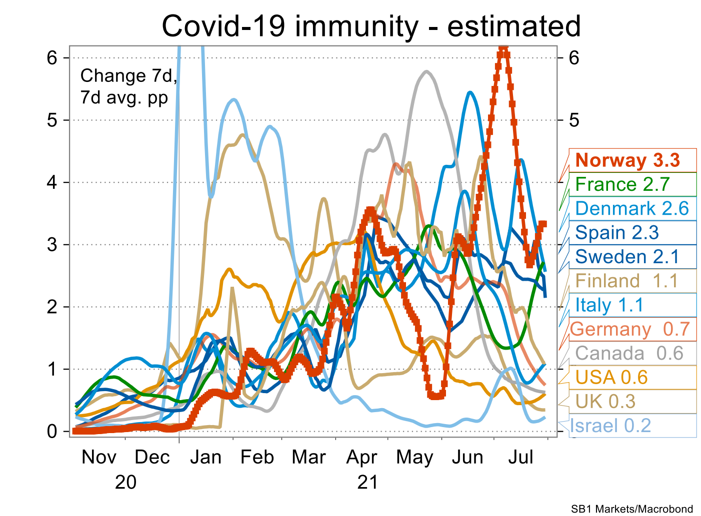
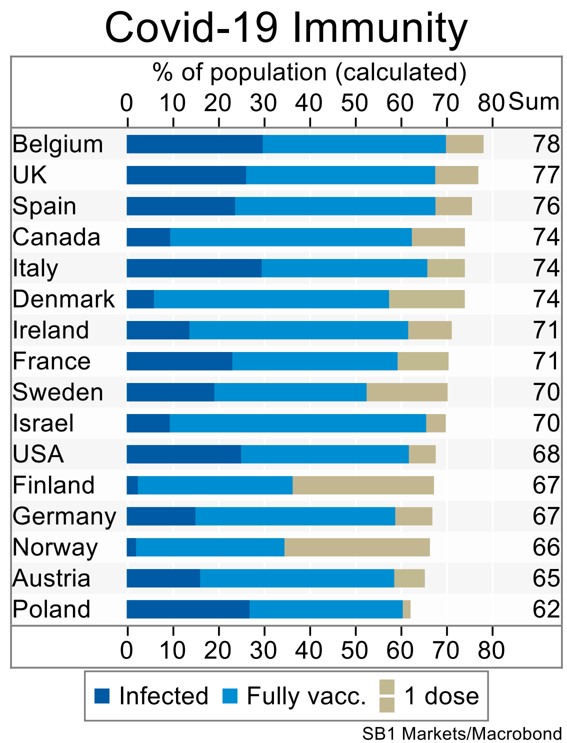
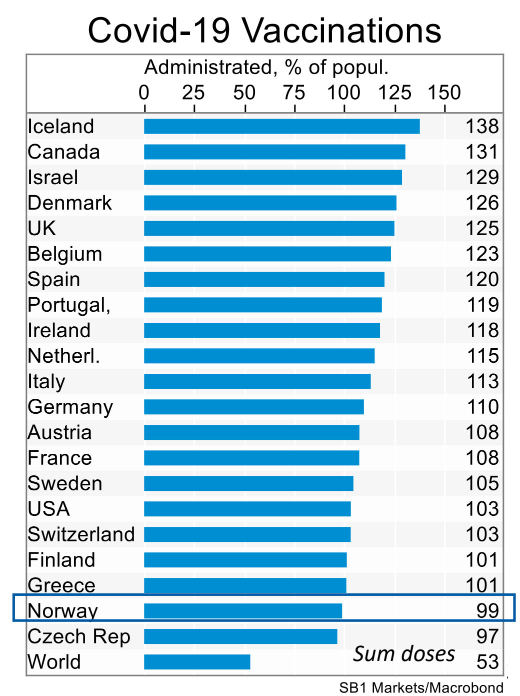
Vaccinations: EU/Norway are keeping the pace better up than US/UK

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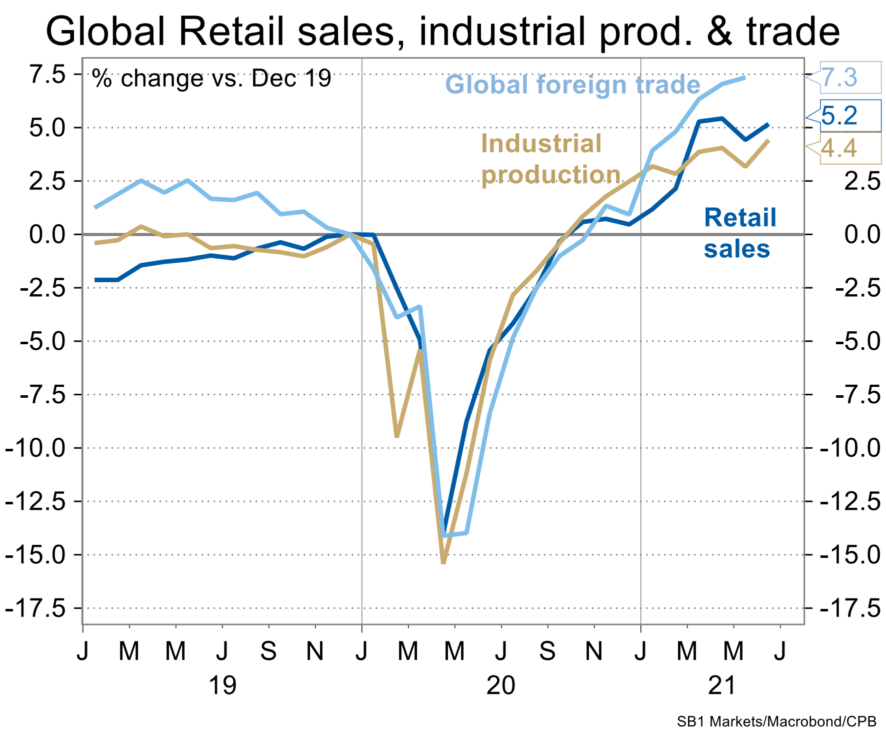
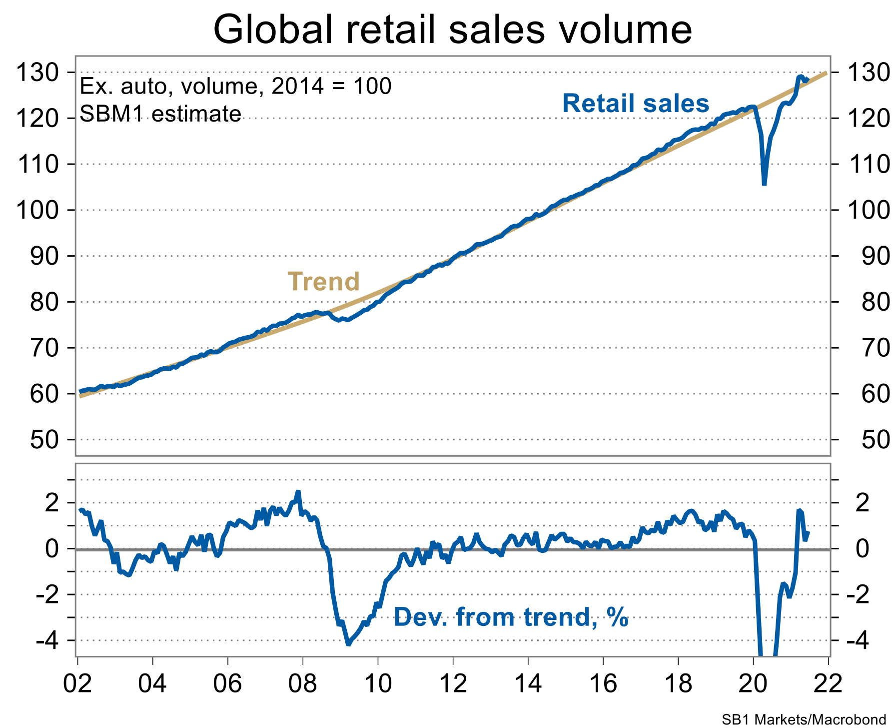
Global retail sales & manufacturing production up in June but has flattened?





- **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

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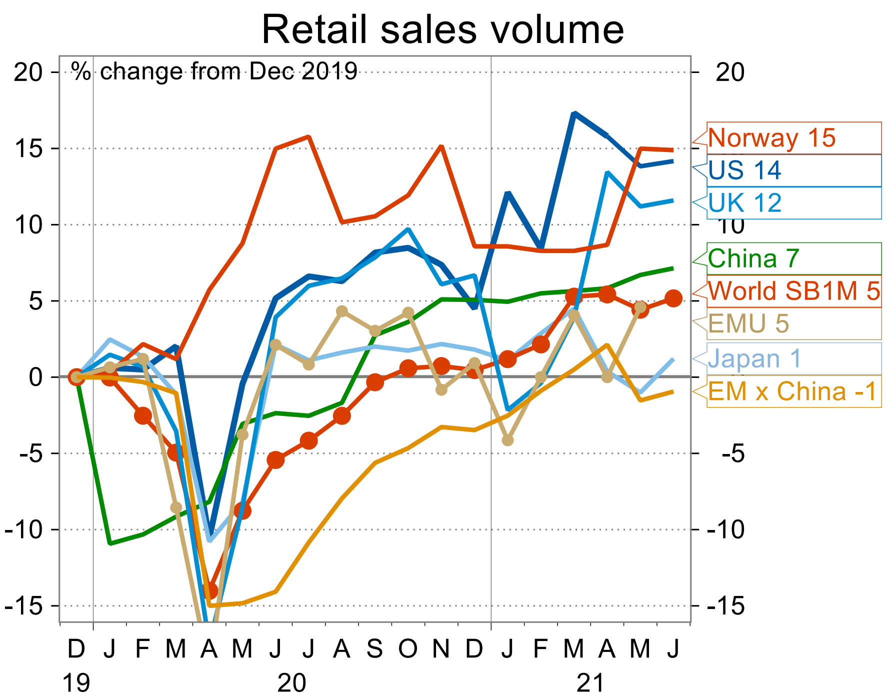
So far, mostly good news in June, both for retail sales & manufacturing prod.

However, growth has clearly slowed for both



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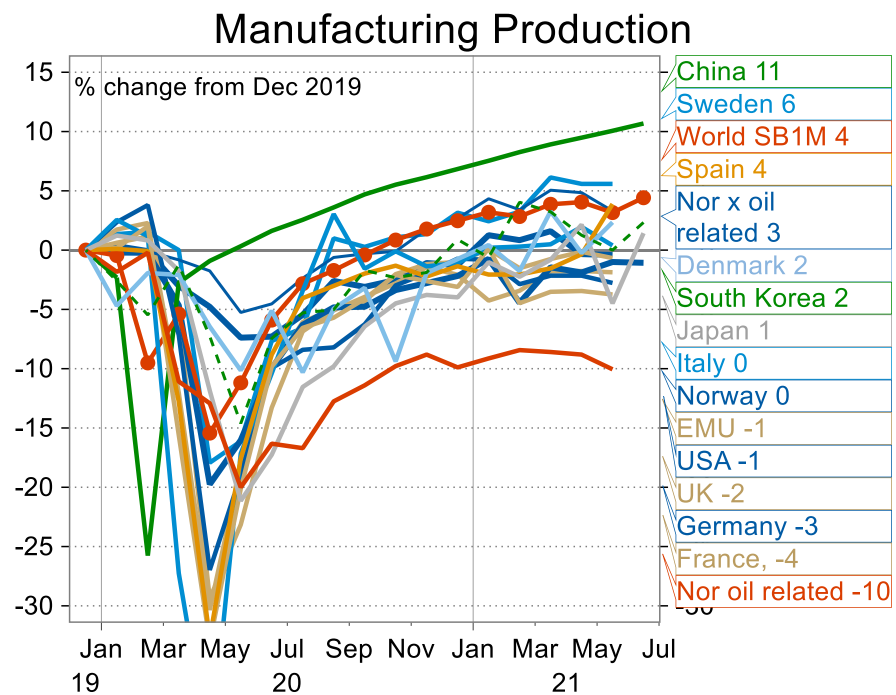

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- Retail sales in emerging markets x China is the laggard – and not just due to (an assumed) weakness in India recent months

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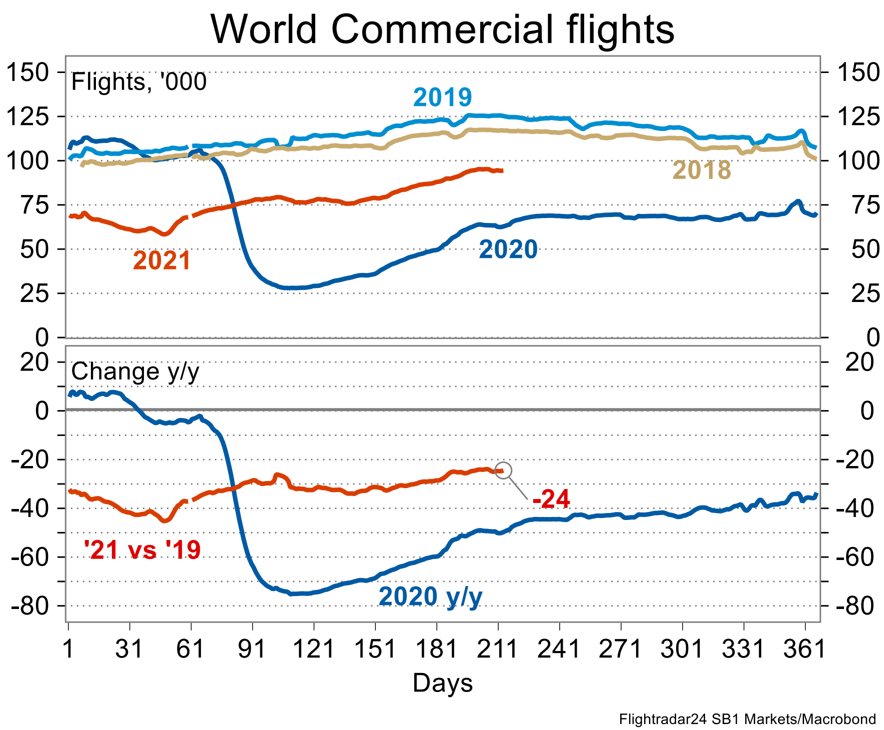
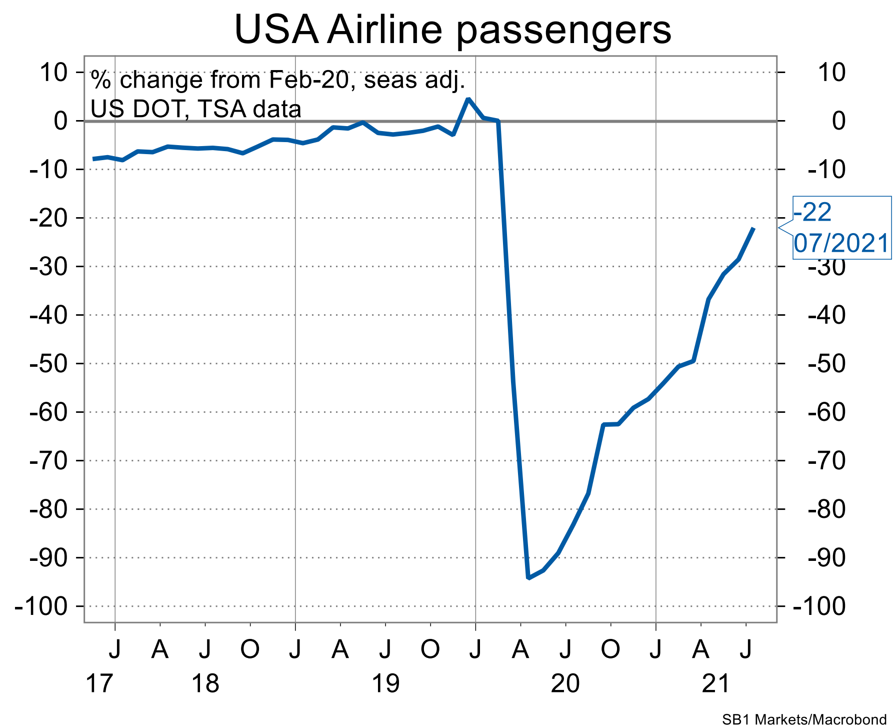
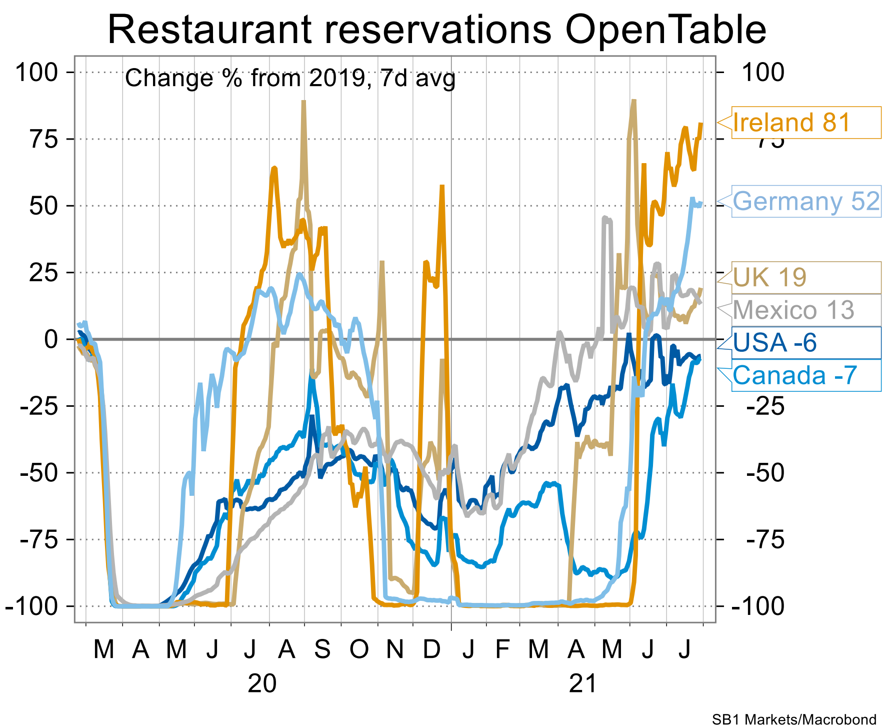
Global airline traffic on the way up again – still 24% below the 2019 level

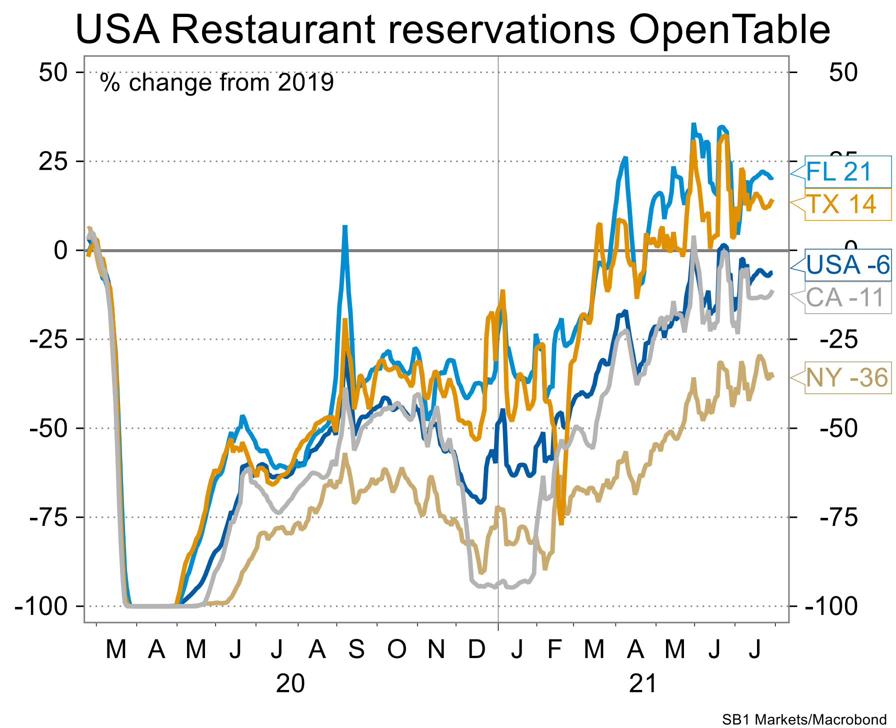
US airline traffic straight up, but still 22% below par due to still little travel abroad





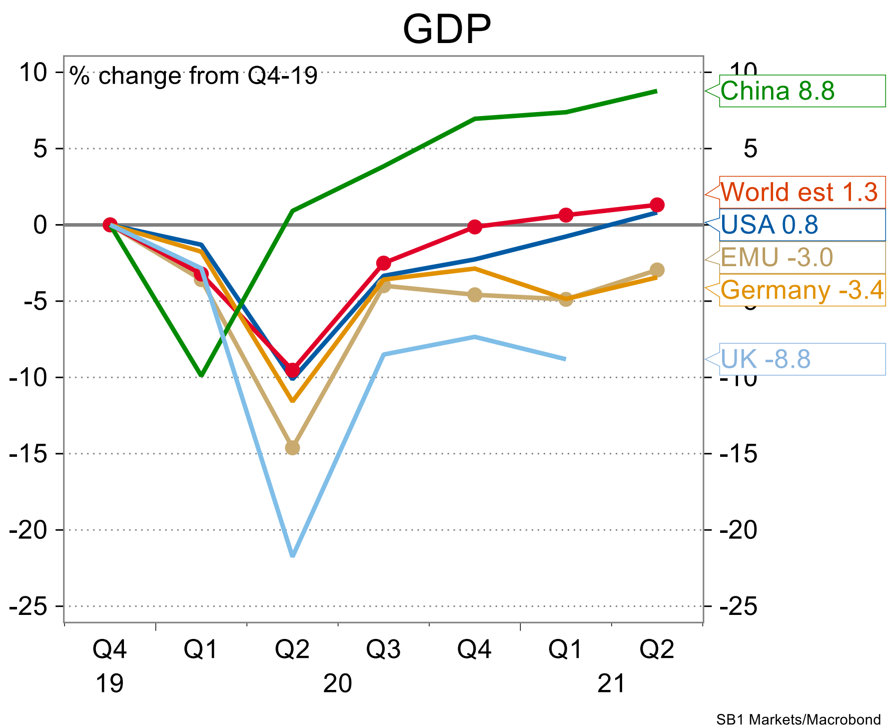
The Delta variant has not yet closed down the restaurants, and probably will not





Global GDP probably slowed in Q2

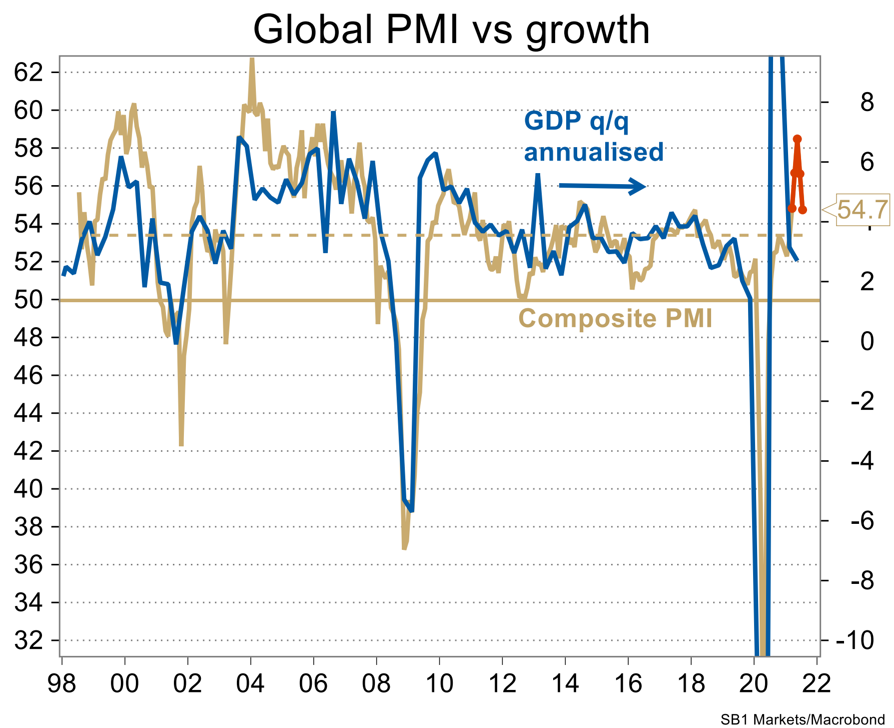
… as we assume slower growth in Emerging Markets (which have not yet reported)

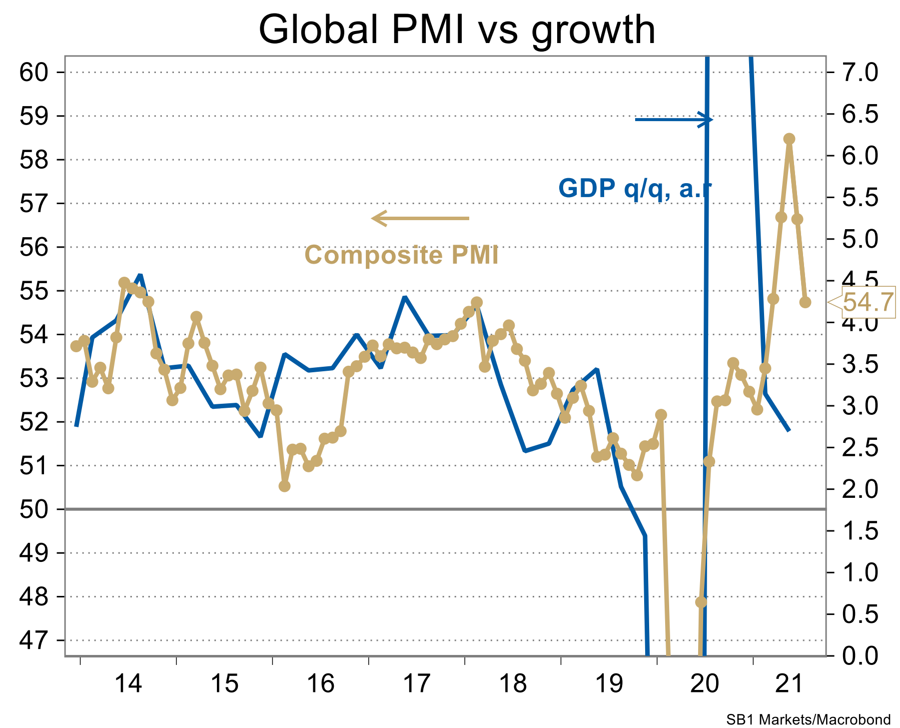


- Our very preliminary estimate is a 2.8% growth pace in Q2 (0.7%), down from 0.8% in Q1

PMI very likely down in July too, level still OK – signalling 4-5% GDP growth

We estimate 1.9 p decline in the comp. PMI to 57.7 dragged down by a 3.9 p drop in the US PMI



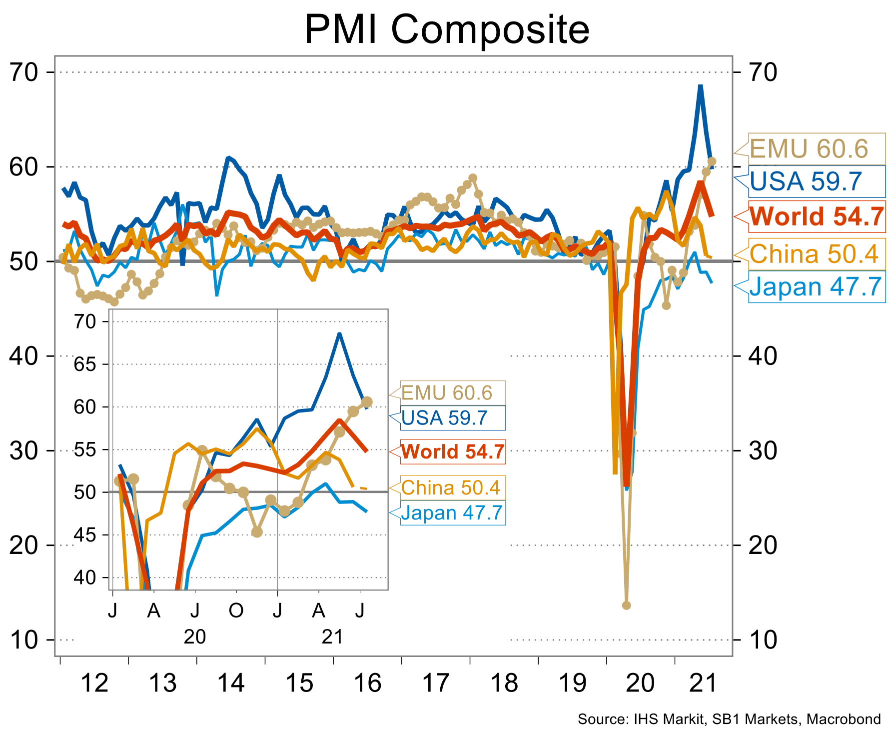


- **The global PMI** has peaked, so has very likely global growth – but it remains above an average level, and higher than the (likely) growth in Q2
- **The Chinese PMI** probably fell marginally, and is signalling growth marginally below trend
- **The US PMI** was weaker but still close to 60, signalling almost 5% GDP growth
- **The EMU PMI** rose more than expected, to above 60 (ATH), signalling 4% GDP growth
- Mixed in the manufacturing sector in **Asia x China**, but mostly down. However, the Indian manufacturing sector recovered sharply in July
- **Delivery times, input & output** prices are still increasing at a rapid pace but slower in July than in June

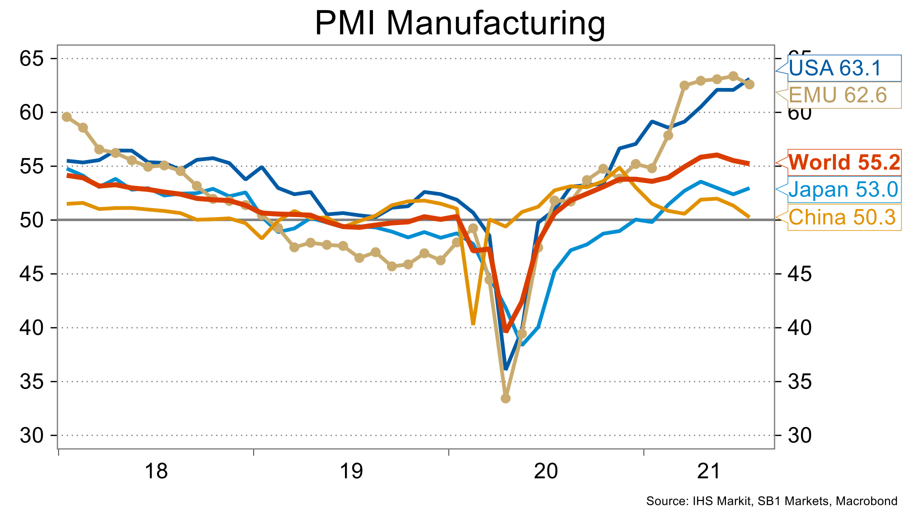
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

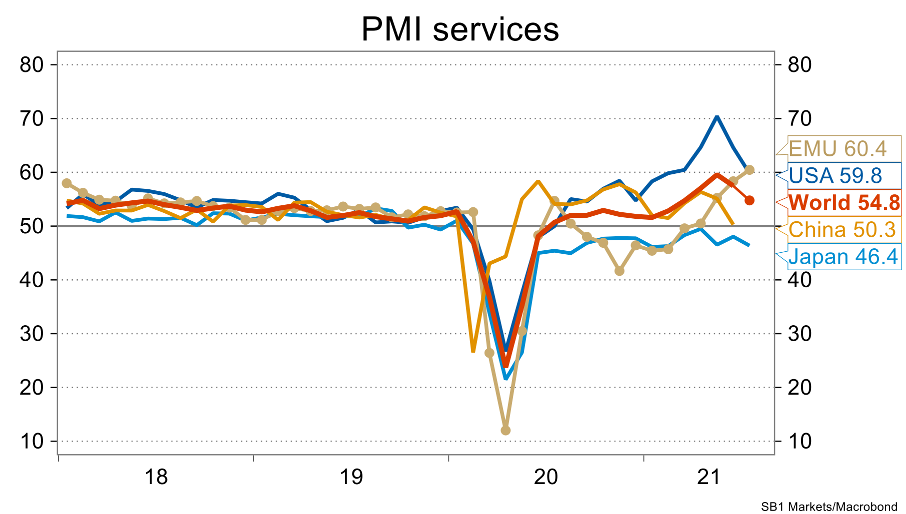
The EMU up in the lead, as services expands faster

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 3 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 4-5% growth
- The **EMU** PMIs rose to ATH, and signals a 5% GDP growth
- We assume the **Chinese** composite PMI fell by 0.2 p, signalling growth marginally below average





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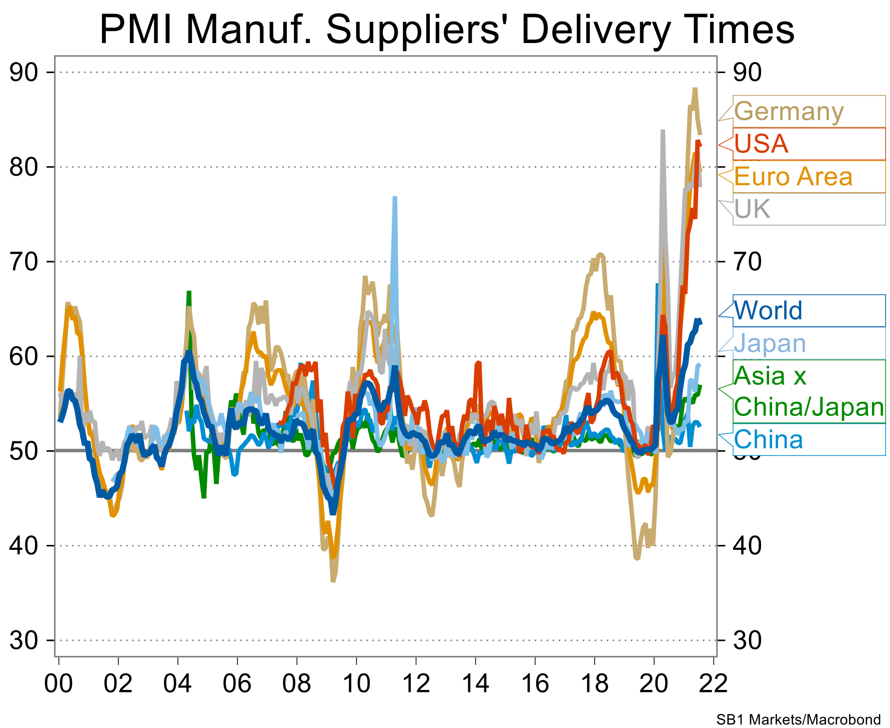
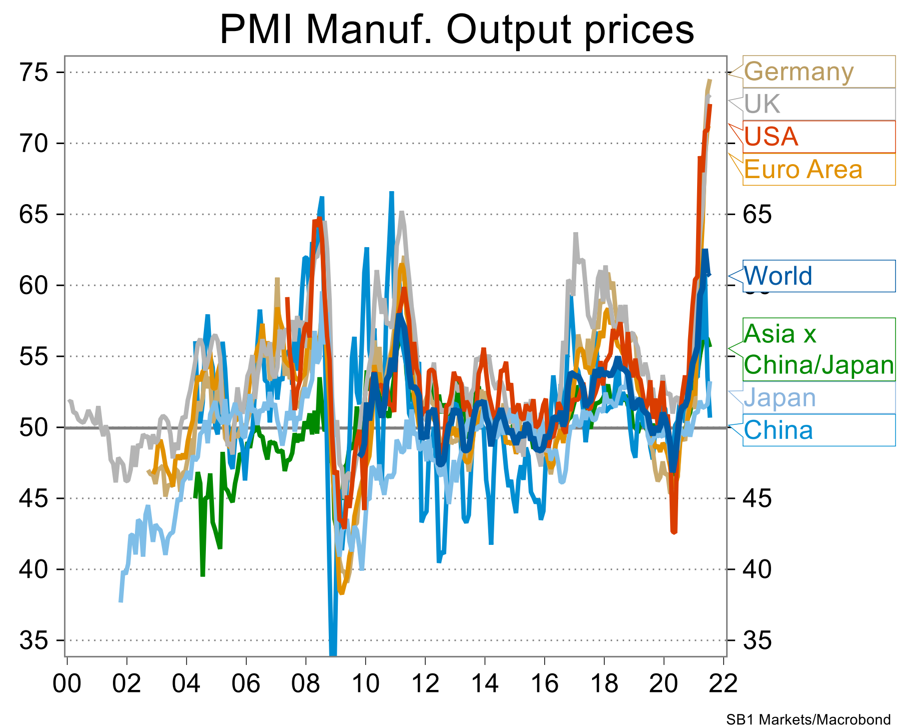
Delivery times are still rising but at a marginally slower pace

Prices are rising at a rapid pace but a tad slower in July (The price index fell sharply in China)



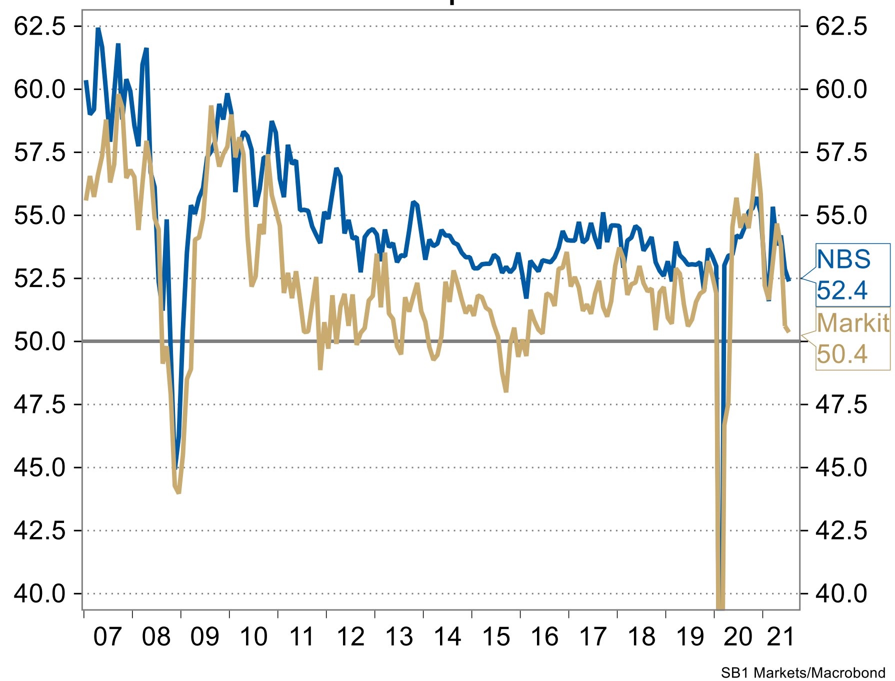


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) probably fell slightly in July, signalling that delivery times rose at a slower pace in July
- **The global manufacturing output price index** fell marginally in July, following a small decline in June

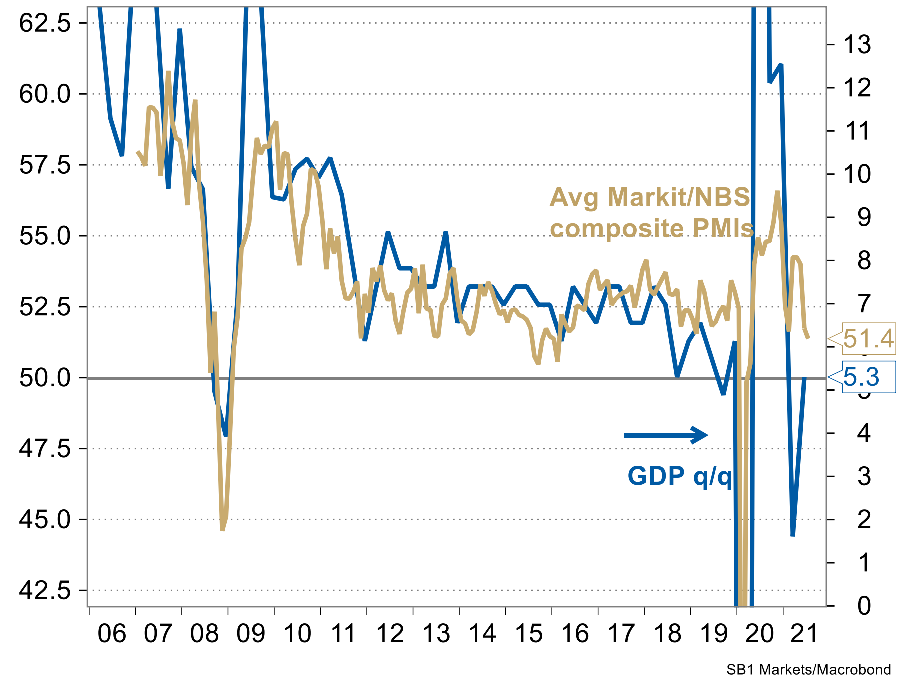
Weaker (but not that weak) July PMIs confirm a Chinese slowdown

Both NBS' & Markit's PMIs down, still signalling growth not far below trend, and better than in H1

China Composite PMIs



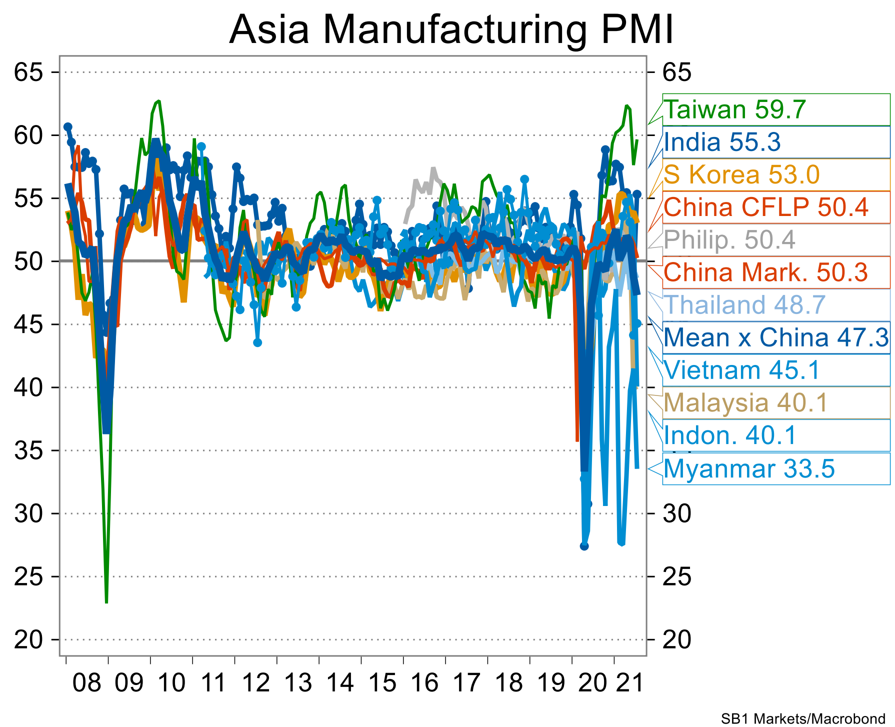
China PMI vs GDP

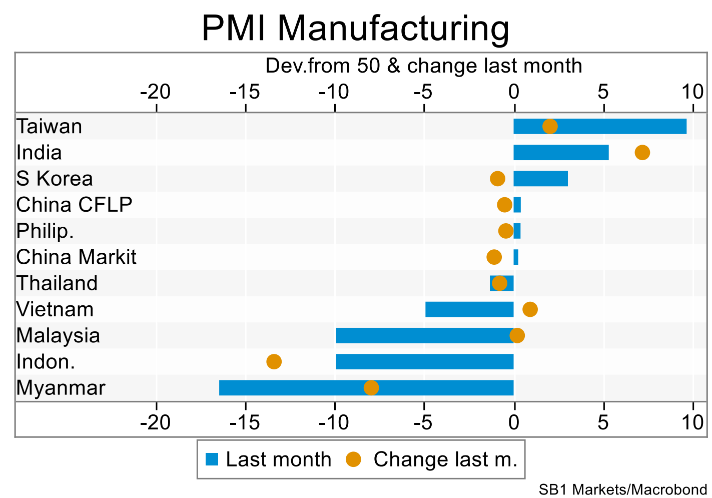


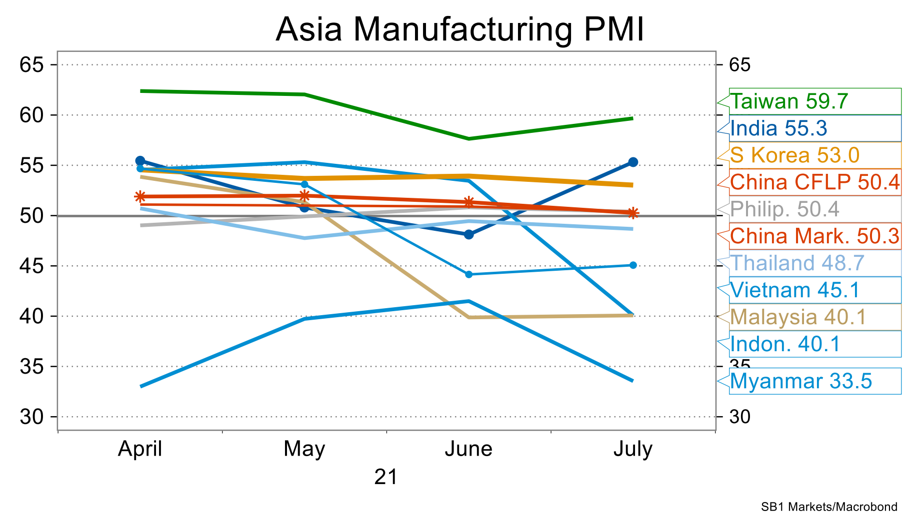
- The **NBS index** fell by 0.5 p to 52.4, below the average since 2012, expected down by 0.2 p
- We do not yet have the service sector PMI from Markit, but assuming the same (0.2 p) decline as in the NBS survey, **Markit's composite PMI** fell by 0.2 p to 50.6. The output component in the manufacturing survey fell just 0.2 p, less than total index (-1.1 p)
- Taken together, the two composite PMIs fell by 0.4 p to 51.4 which is 1.2 p below the average level since 2012, signalling growth somewhat below trend but far better than the H1 3.6% reported GDP growth pace

Rest of Asia: More down than up in July too but India recovered substantially

6 manufacturing PMIs are above the 50-line (unch), 5 are below (unch) – but just 3 up in July, 7 down



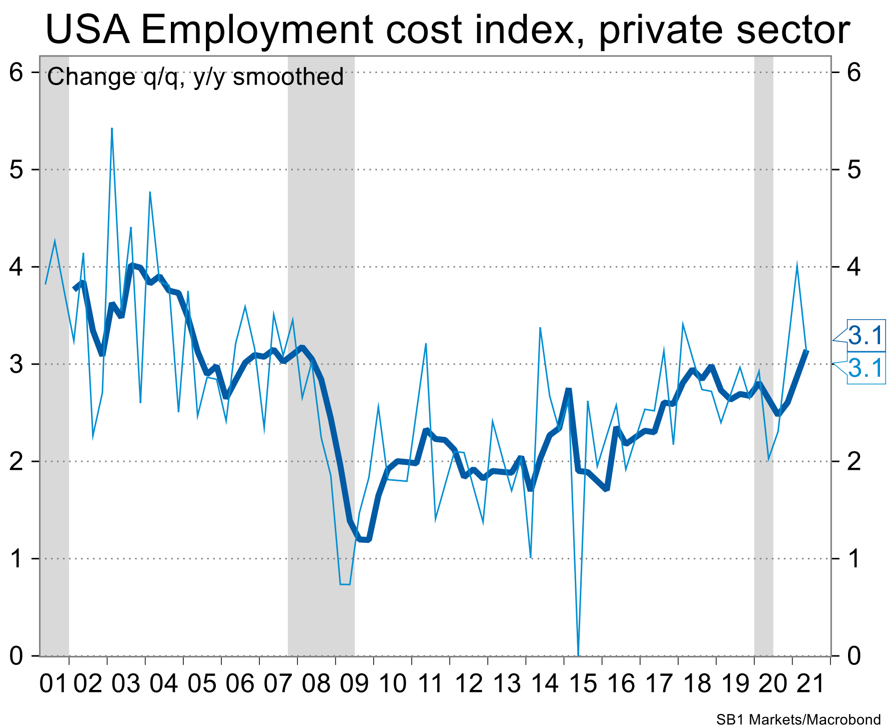


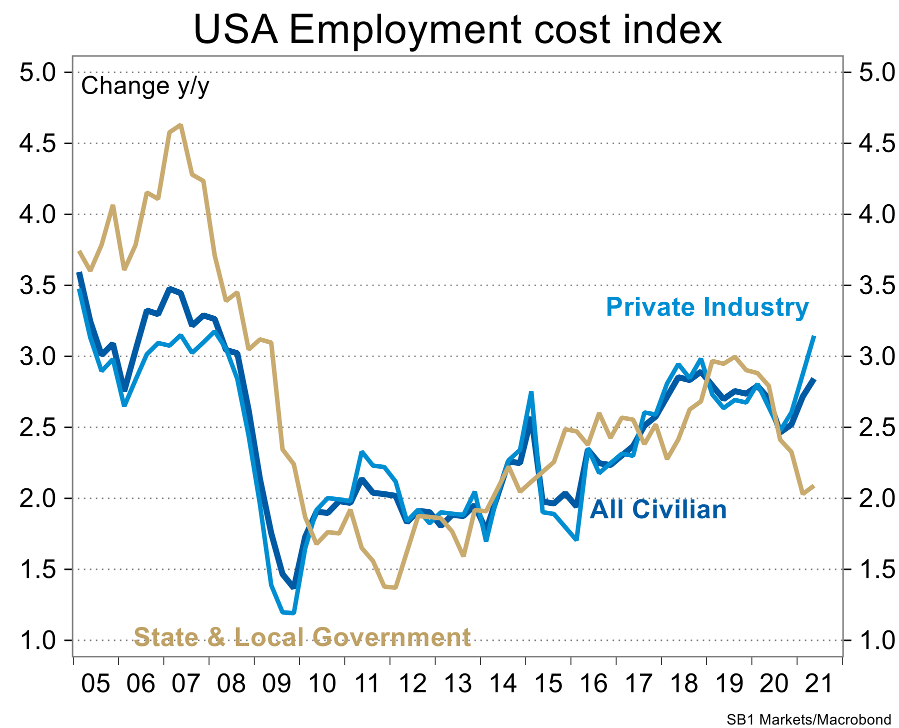


- Taiwan, India South Korea are still reporting decent growth – India from well below 50 in June
- Indonesia reported a huge decline in July as the Delta virus variant has hit the country hard

Employment costs calmed down in Q2, Fed still has its back free

Costs rose just 0.7% q/q (2.8% annualised), expected 0.9%, are up 2.8% y/y – 3.1% in the priv. sector

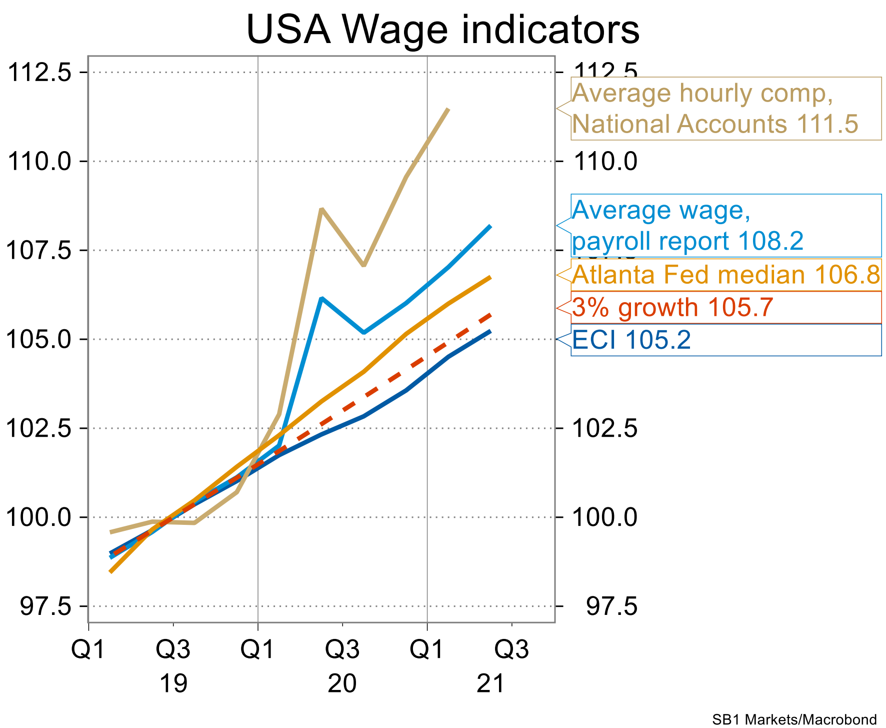


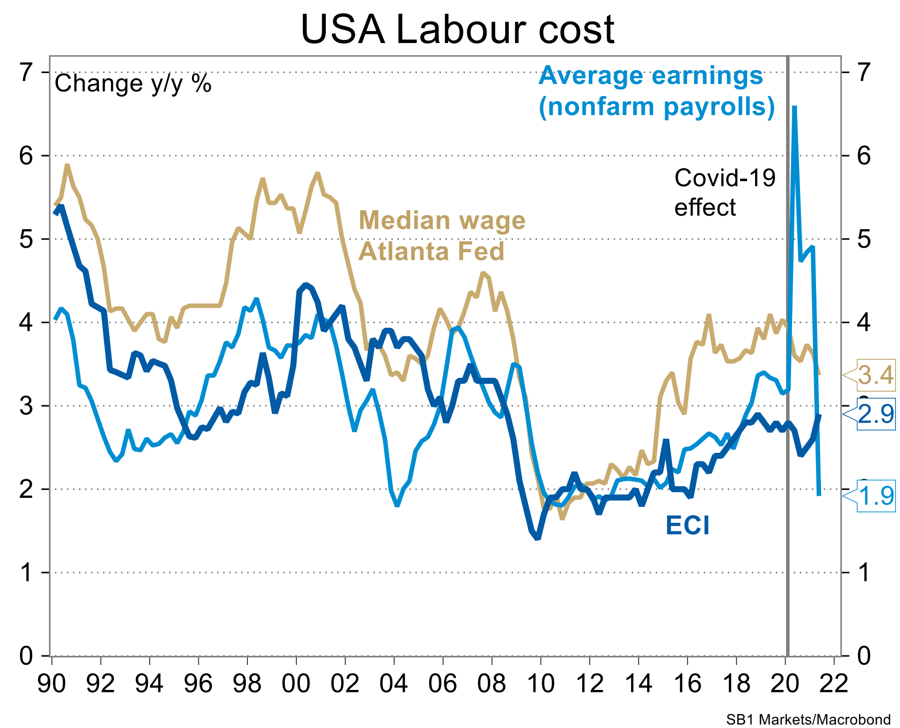


- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs, rose by 0.7% q/q in Q2, 0.2 pp less than expected. The annual rate still rose 0.1 pp to 2.8%. Low paid services reported high wage growth
  - In the private sector, the total wage rose by 0.8% q/q, and are up 3.1% y/y, the highest rate since 2008 – but still not a very rapid growth rate
  - Wages and salaries in the private sector are up 3.5% y/y, benefits by 2.1%. Since 2018 wages and salaries have been growing more rapidly than benefits
- A 3% employment cost growth is not problematic vs Fed's 2% inflation target, as it just requires a 1% growth in productivity in order to keep unit labour cost inflation at 2%
- **Other wage indicators** are mixed, check next page

Other indicators are reporting higher wage growth

… but the 'average wage indicators' are still probably influenced by changes in the employment mix

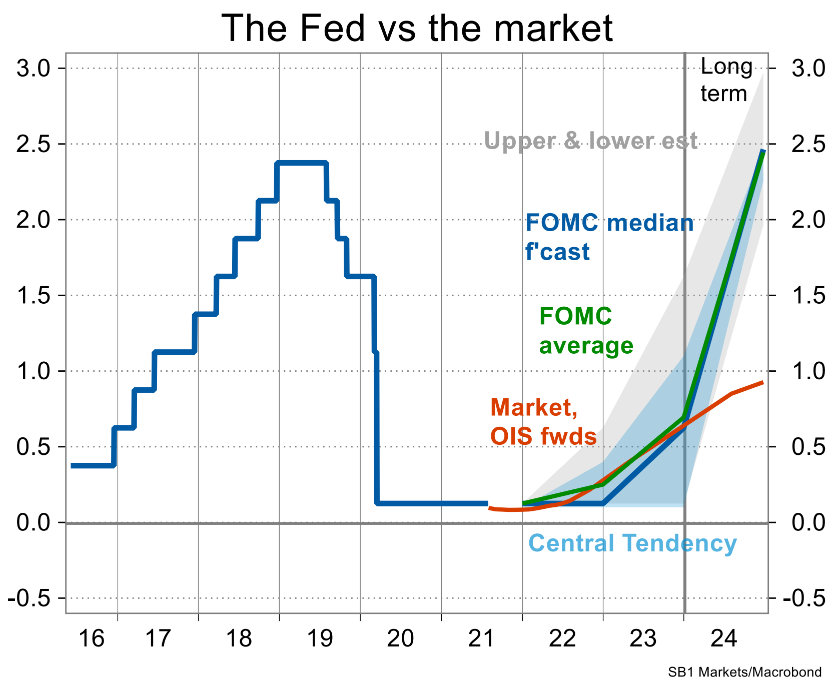




- **The Employment cost index** is up 5.2% vs. the 2019 average, implying an average increase by less than 3% p.a over the past two years
- Average earnings in the **monthly payrolls report** are up 8.2% vs. 2019, or approx. 4% p.a.
- Average total compensation as estimated by **National Accounts** are up 11.5% or by 6.6% p.a. This measure is the most volatile – but over time the 'correct' result
- **Atlanta Fed's** survey of median wages are up 6.8% or close to 3.5% in average – with no sign of acceleration
- We still put most emphasis on the ECI and the Atlanta Fed's median wage measure – but we cannot ignore the National Account data after some few quarters. Neither can the Federal Reserve. (And the surge in average compensation per hour has not been compensated by higher productivity, which it should have, if the low paid, low productive workers have not yet returned to the labour market

The FOMC is moving closer to tapering, *the economy has made progress*

... but targets are not yet met

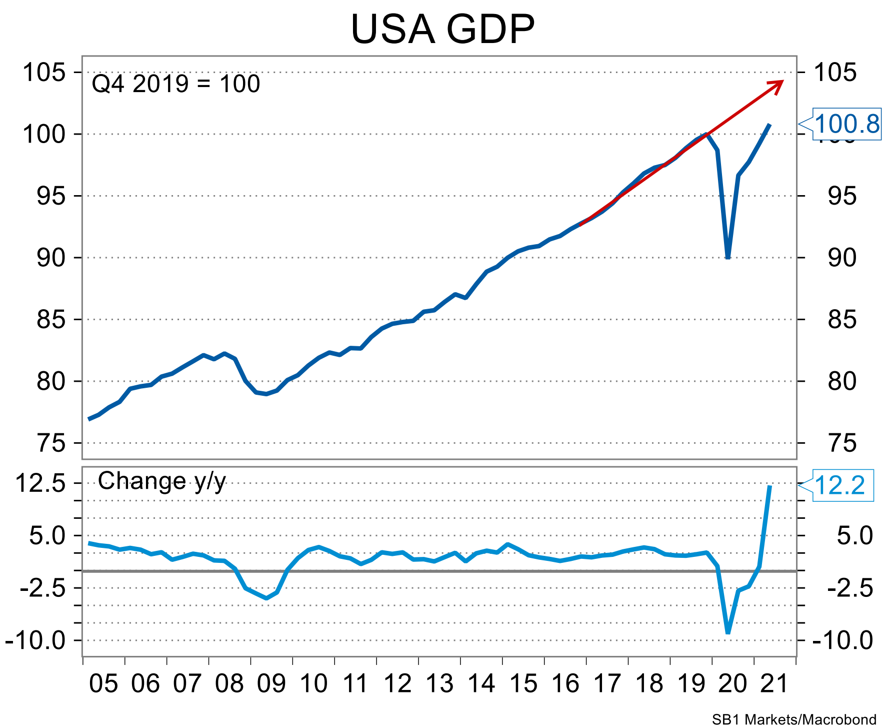


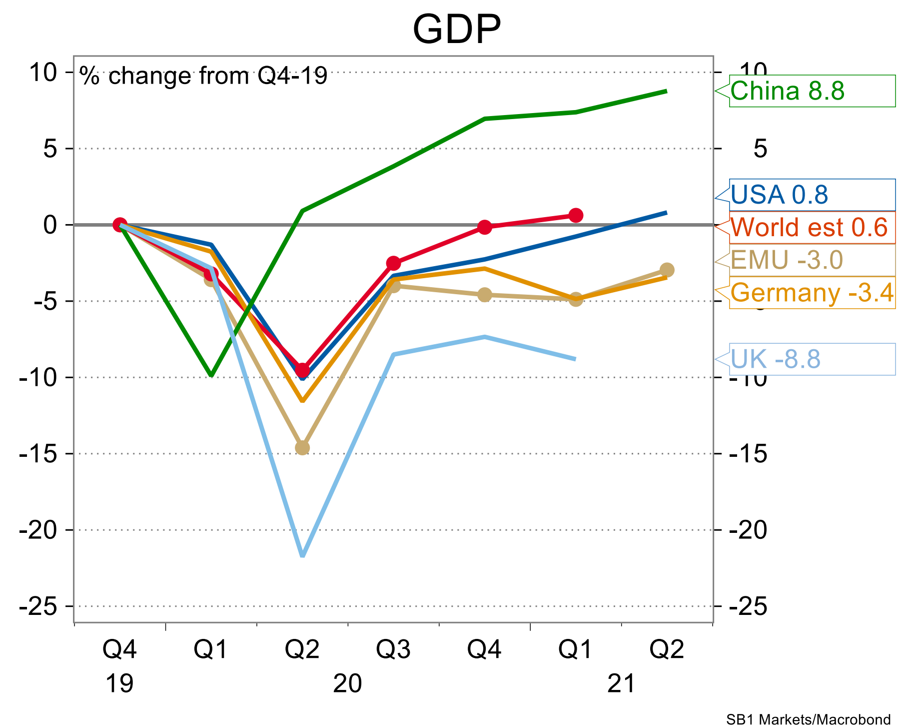
The market is pricing in the first Fed hike in Q4-22

- The FOMC left the **target rate** unchanged at 0-0.25%. No change on the **QE volume** either, USD 120 bn per month in Treasury bonds (80 bn) and mortgage bonds (40 bn) – everything as all expected
- The FOMC once more gradually changed its descriptions of the economy: *The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered,* is the current wording. Six weeks ago, the FOMC said these sectors *remain weak but have shown improvement'*.
- Even if the economy has not fully recovered – and the labour market is 'ways away' from Fed's preferred balance – the language vs timing of tapering was changed. *(...) the economy has made progress toward these goals (inflation, employment which justified the QE program), and the Committee will continue to assess progress in coming meetings*. Which implies that the QE programs will be discussed.
  - » Even if bank says it will 'continue to assess', 6 weeks ago the statement did not give any hint that the QE programs were on the table – even if the minutes from the meeting showed they were, at least for some participants
- We think it is quite likely that the FOMC will give the first formal tapering warnings at the September meeting (where economic forecasts and the dot-plot are published as well), and that the Fed can gradually reduce the QE volumes by the end of the year. The FOMC seems to be doing all it can to prevent another 'tantrum' by preparing the market long time on beforehand
- The FOMC decided to establish a **standing repo facility** for domestic depository institutions and another for foreign central banks/institutions which could act as liquidity backstop mechanism to stabilise money markets if liquidity dries up like it did in 2019 and during the first days of the corona crisis.
  - » Today, the problem in the market is the opposite, the Fed has to offer reversed repo agreements to prevent money market rates from falling too low as the money market is flooded with liquidity (perhaps because the Fed at the same time is running its aggressive QE program...)
- **Market reactions:** Muted, real interest rates fell further, while inflation expectations rose – like they did through last week, before and after the FOMC announcement. Real yields are record low, the 10 y at -1.16%!!

Q2 GDP up 6.5%, well below expectations (8.5%) – but 0.8% above the p-p level

Services are recovering but still well below par



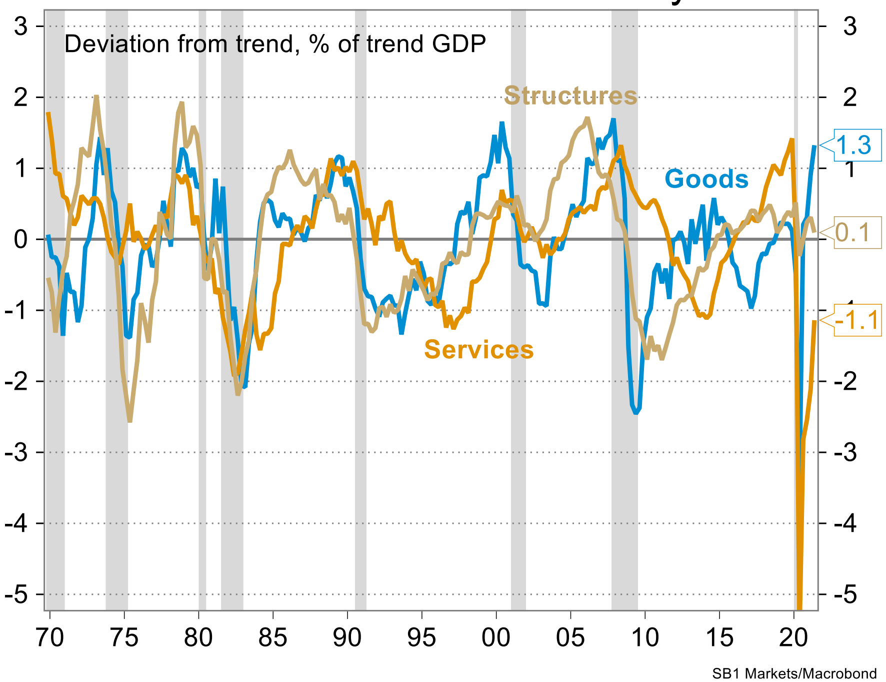


- **GDP** grew by 6.5% annualised in Q2 (1.6% not annualised), as in Q1 (6.4%) but well below expectations at 8.5% (2% not annualised). The GDP level is 0.8% above the Q4-19 level – but still some 2.7% below the pre-pandemic (2.4%) growth trend
  - » In order to reach FOMC's Q4 estimate, GDP must grow by a 7.2% pace in H2, which does not seem reasonable
- **US is now well ahead** of European countries. The extreme US fiscal policy measures taken in both 2020 and in Q1-21 explains most of the difference in performance vs the Euro zone

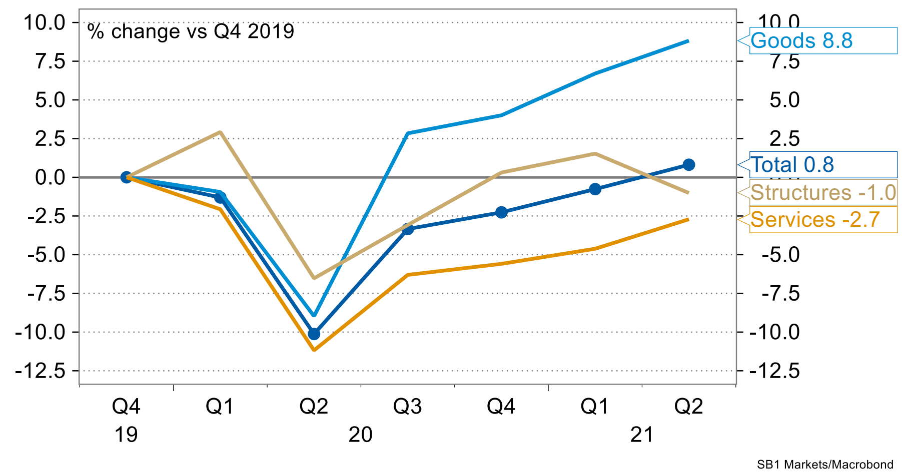
Services are recovering but are still a substantial drag on activity

A solid recovery in Q2, up 2% from Q1 – but goods are still going (extremely) strong

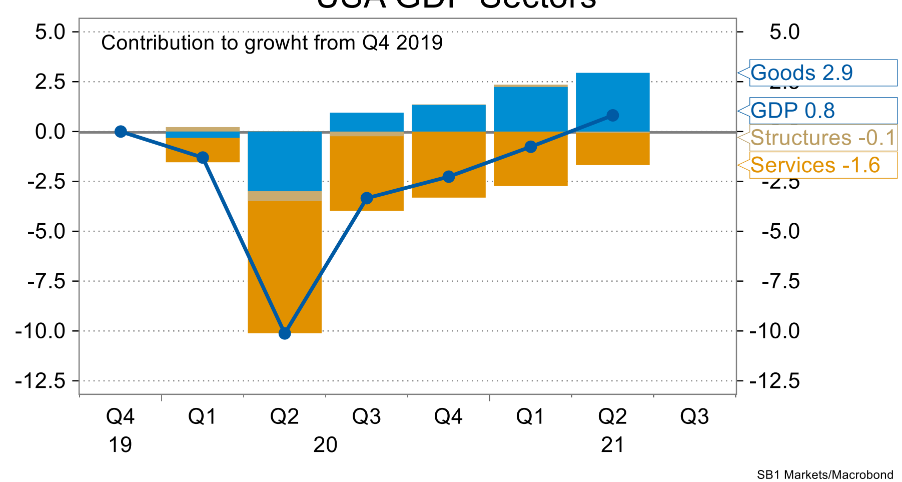
USA GDP Contribution the cycle



USA GDP - sectors



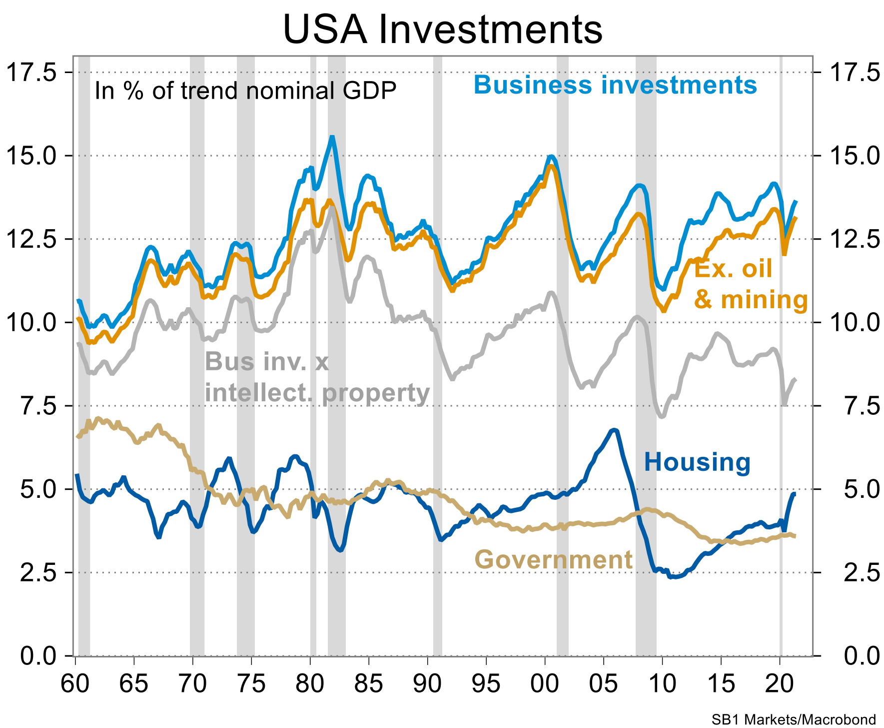
USA GDP Sectors

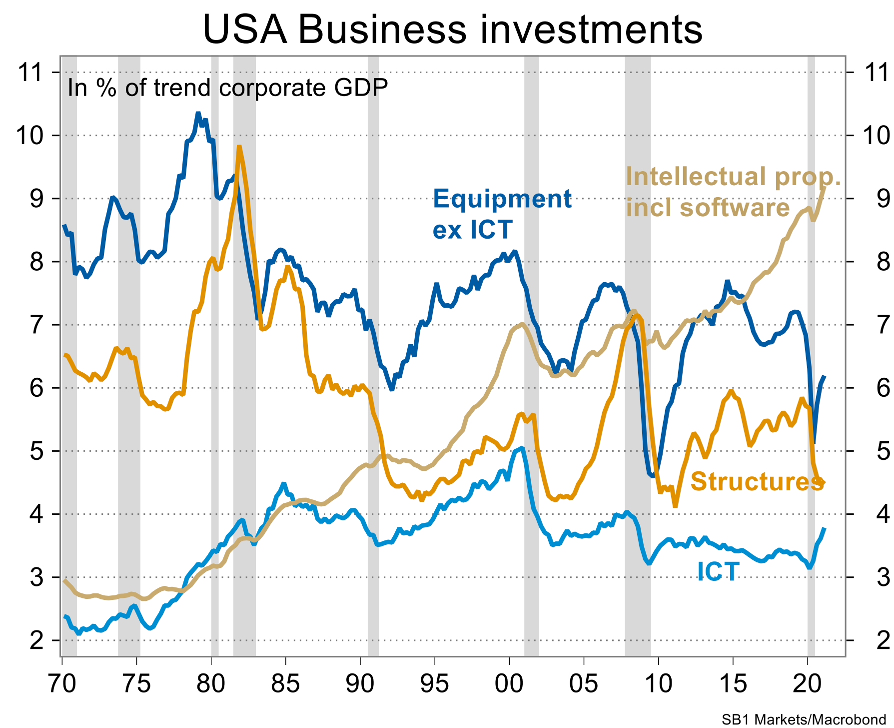


- Normally goods and structures are the main culprit during recessions, at these sectors are the most volatile elements in the economy. In addition, services are normally lagging. During the Covid-19 crisis, the service sector was the main swing factor – and it has far from recovered

Investments: In sum, already above trend – but still more to go?

Business investments above trend just due to IP & software, ICT. Other equipment, structures still weak

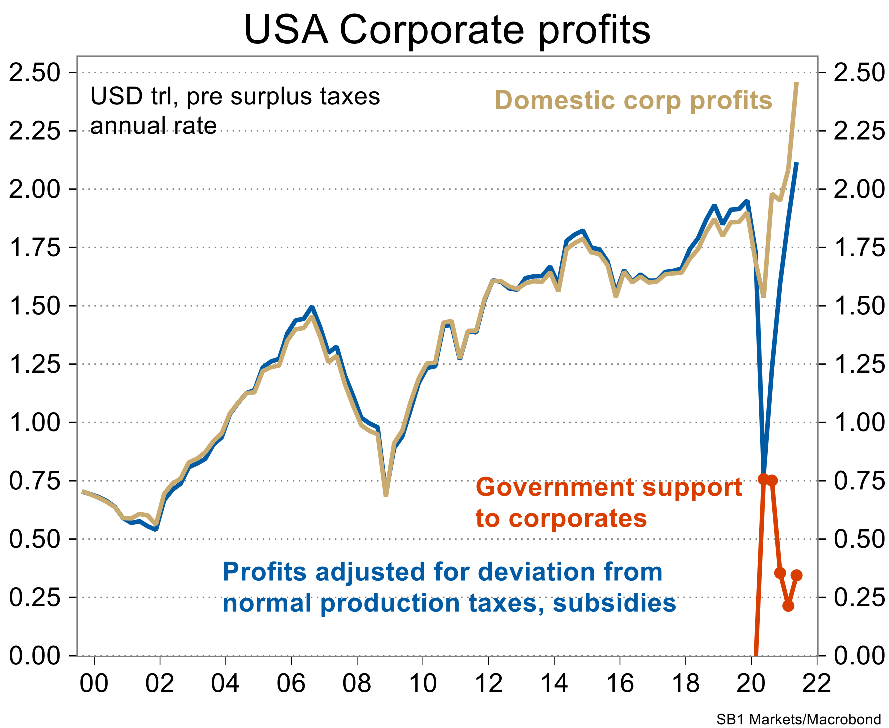


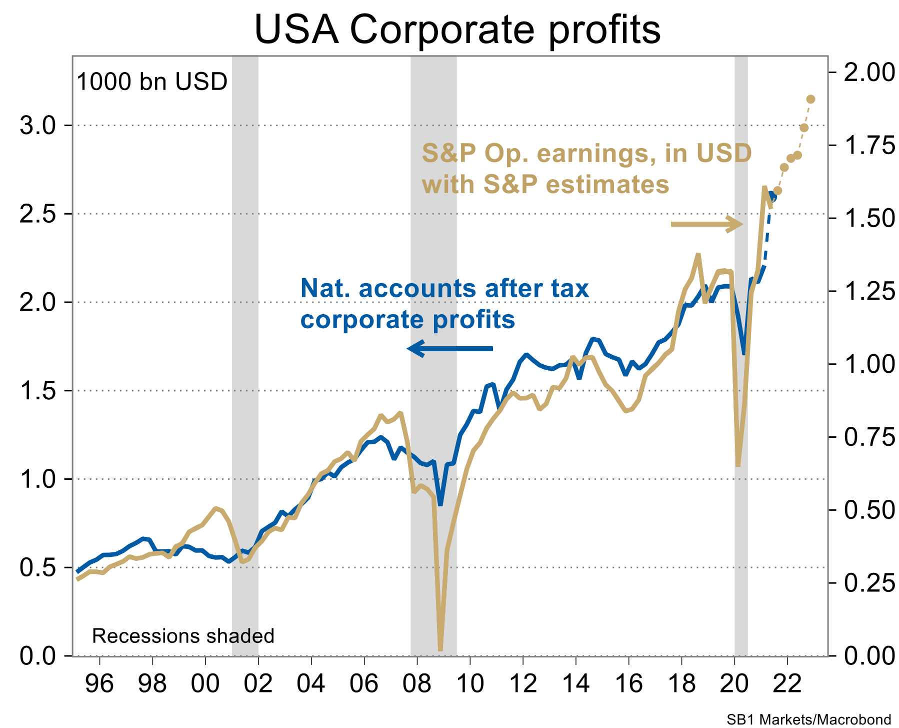


- **Business investments** are up 1.1% vs. the Q4-19 level, driven IP/software and ICT equipment. Investments in structures are still very low (and was revised down in the annual GDP revision). Investments in equipment x ITC is still at a low level
  - » Thus the outlook for business investments is not clear: The boom in IP/software/ICT may well continue, even if the levels are high. There is still upside for other equipment and structures, at least vs the normal cycles in these sectors
- **Housing investments** fell slightly in Q2, following the surge the previous quarters
- **Government investment** as share of GDP is on the way up – but probably still too low. The infrastructure package which is finally manoeuvred through Congress, could lift public investments somewhat the coming years but far less than ½% of GDP

Corporate profits surged in Q2, both for ‘real’ and due to more government subs.

All details not yet published but our calculus suggests a 18% lift q/q!

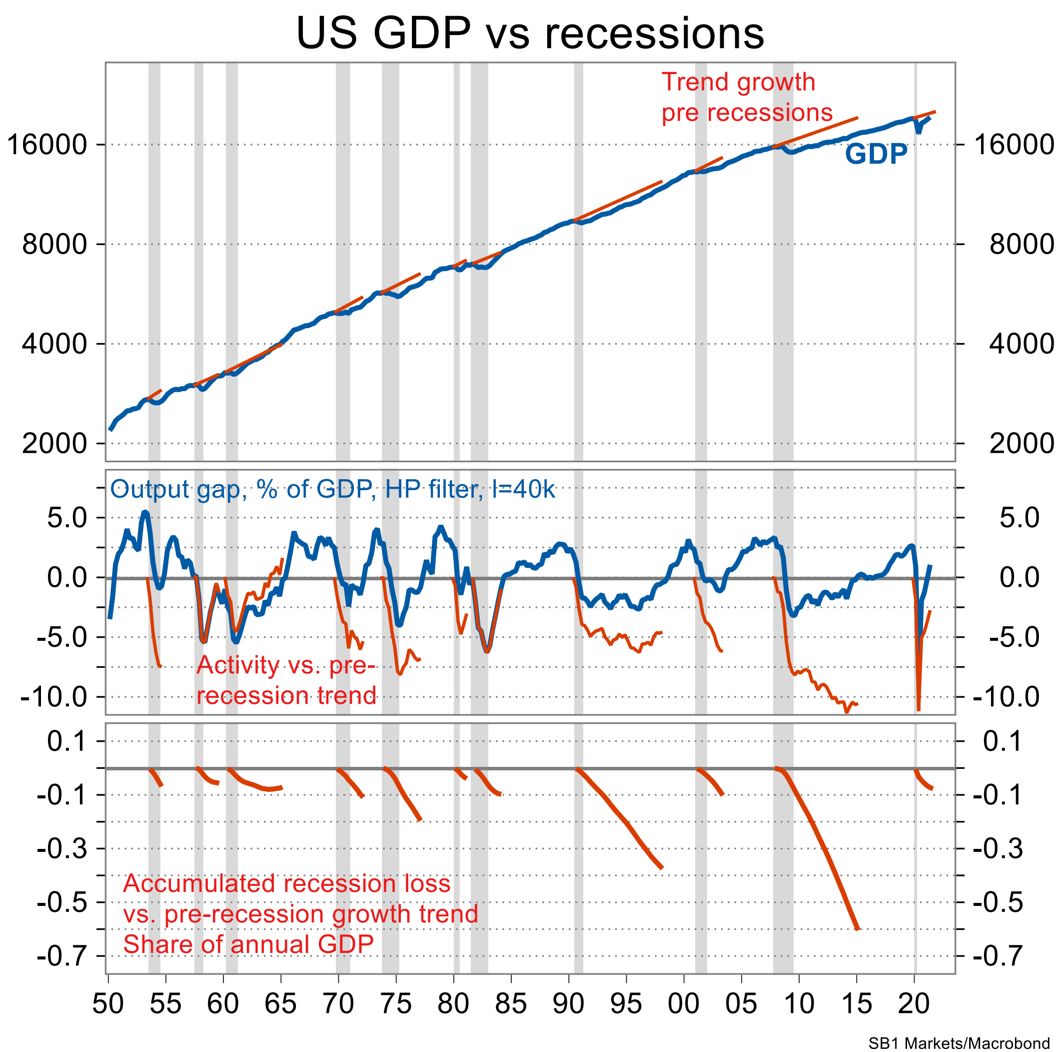


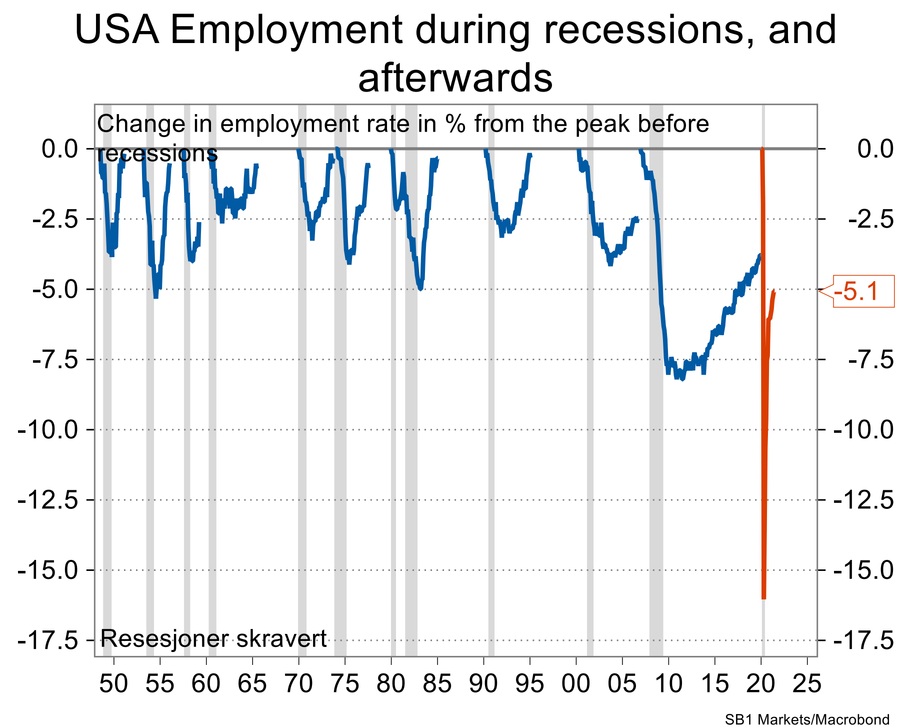


- **Government pandemic programs** have lifted **domestic corporate profits** at an unbelievable scale – and still support profits by 20% of normal profits. In Q2, the public support rose somewhat vs. the Q1 level, we expected a further reduction
  - » It is possible that some of the new programs that has been decided – and may be decided (the infrastructure program) have some elements of subsidies included
- We doubt profits will climb as fast at S&P’s forecast at the chart to the right, either growth slows or wage inflation will pick up. Wages rose less than value added in Q2 (1.8% vs. approx. 3.5%), and thus far less than profits (18%)

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

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

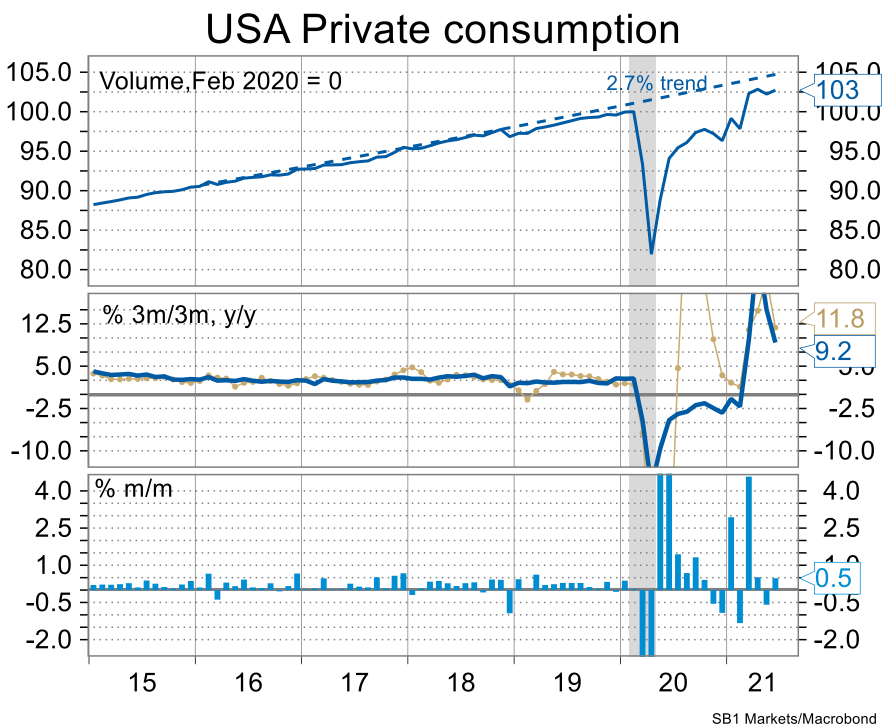


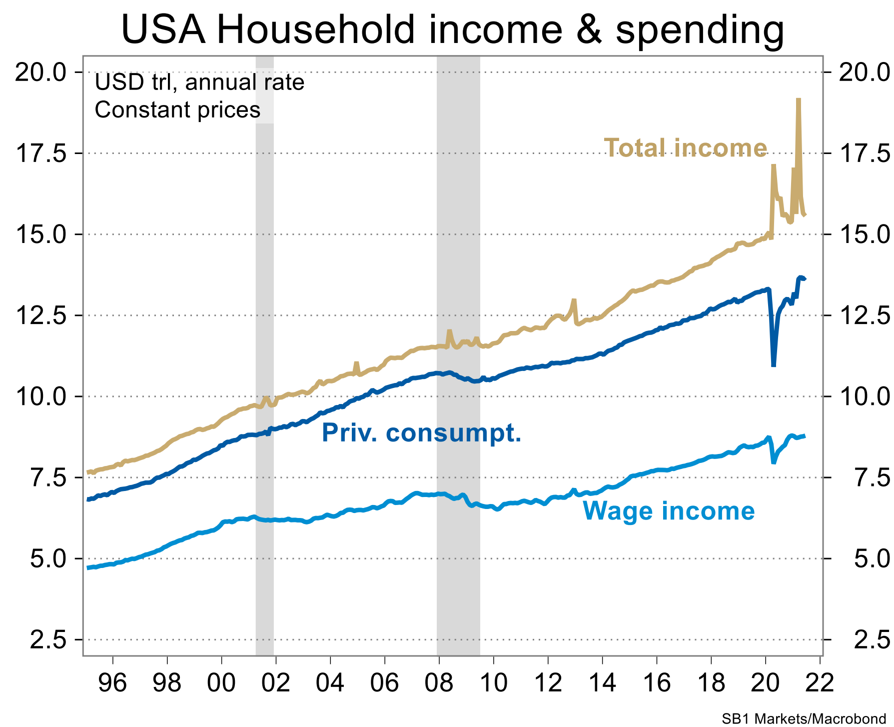


- **The accumulated GDP loss** at the bottom chart to the left is calculated by accumulating the gap to a reasonable growth forecasts ahead of the recession based on actual growth trends the 3 – 5 years before the downturn (adaptive expectations (red lines at the top panel to the left). These gaps are accumulated 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 (2008 – 09) created the hardest economic downturn since WWII, by far as growth the following years was far lower than most expected before the crisis
- The accumulated employment loss was large as well

Spending & income up in June, and income fell. Savings not that high anymore

Real spending up 0.5%, income fell 0.5%, no more stimulus cheques. The savings rate to below 10%



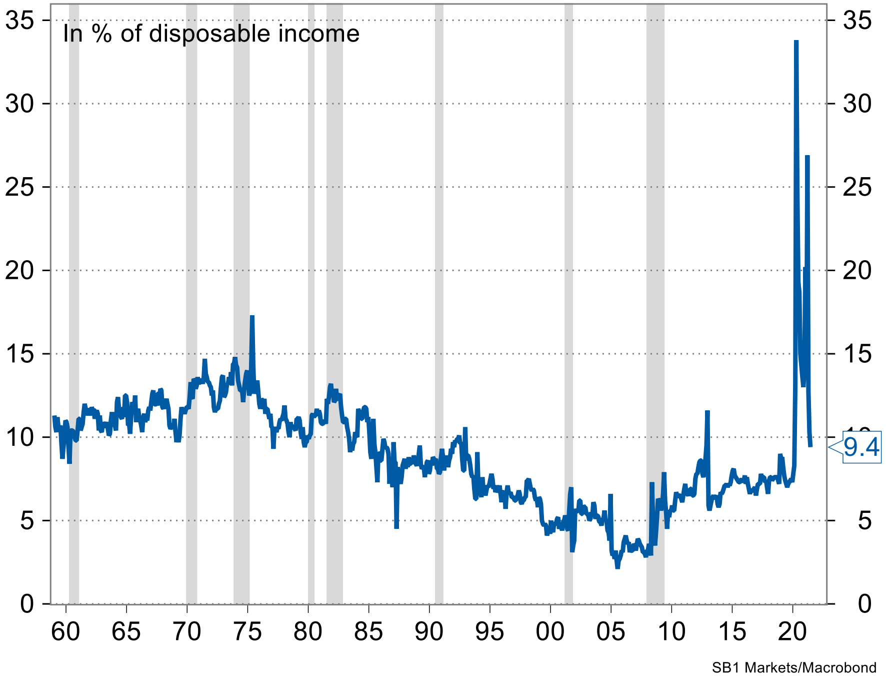


- **Private consumption** climbed 0.5% in real terms in June (spending rose 1% in nominal terms, expected +0.7%). Consumption in real terms have flattened since April, as goods have yielded while services are recovering
- **Personal disposable real income** fell by 0.5% in June (household income rose by +0.1% nominally, expected -0.2%). Government transfers fell further. Market based revenues rose
- **The savings rate** fell by 2.1 pp to 12.4% - which is still 5% above a 'normal' level. At the same time, net transfers-taxes are some 4% of disposable income too high – and a normalisation will have to take place of the coming quarters/years
  - » Over the first 5 months in 2021 nominal spending is up by some USD 300 bn more than implied by a 'normal' growth in spending. Income is up by an extra USD 900 bn. Thus, approx. some <u>40% of the 'stimulus cheques' have been spent</u>, while 60% have been saved for a rainier day – equalling 2.6% of <u>annual</u> income. In addition, the current savings rate is far above a normal level! <u>So spending capacity is not exhausted</u>

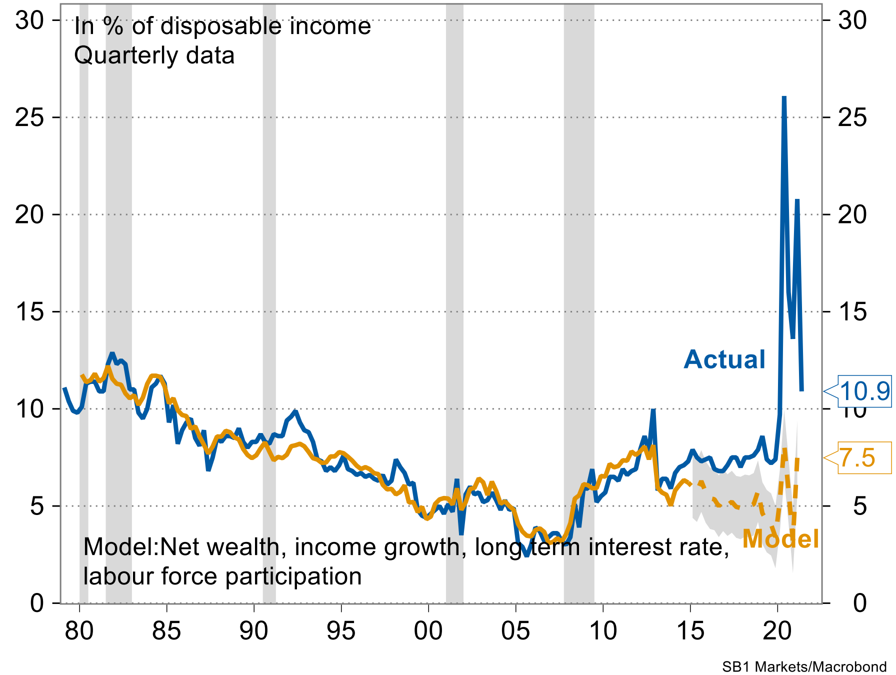
The savings rate revised down. Fell to below 10% in June, ‘just’ 2pp > ‘normal’

The Nat. account revision shaved 0.7 pp from the Q1 savings rate (and 2 pp from the May rate)

USA Housing savings rate



USA Households' savings

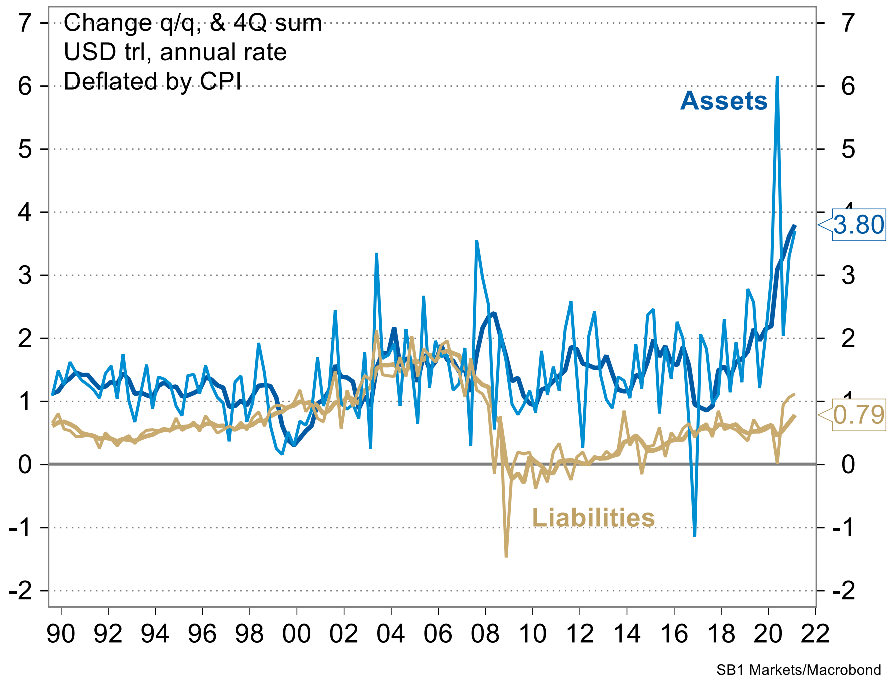


- The **National account revision** shaved 0.7 pp from the Q1 savings rate to 20.8% and by 2 pp to 10.3 in May
- In June, the savings rate fell by 0.9% to 9.4% - which is not that much higher than the pre-pandemic level at some 7 – 8%
  - » However, this extra savings can fund a 2 – 3 % lift in total consumption above income growth the coming months/quarters, which is sufficient to lift consumption to above the pre-corona growth path
- In addition, **accumulated households excess savings** during the covid crisis amount to some 12% of annual disposable income

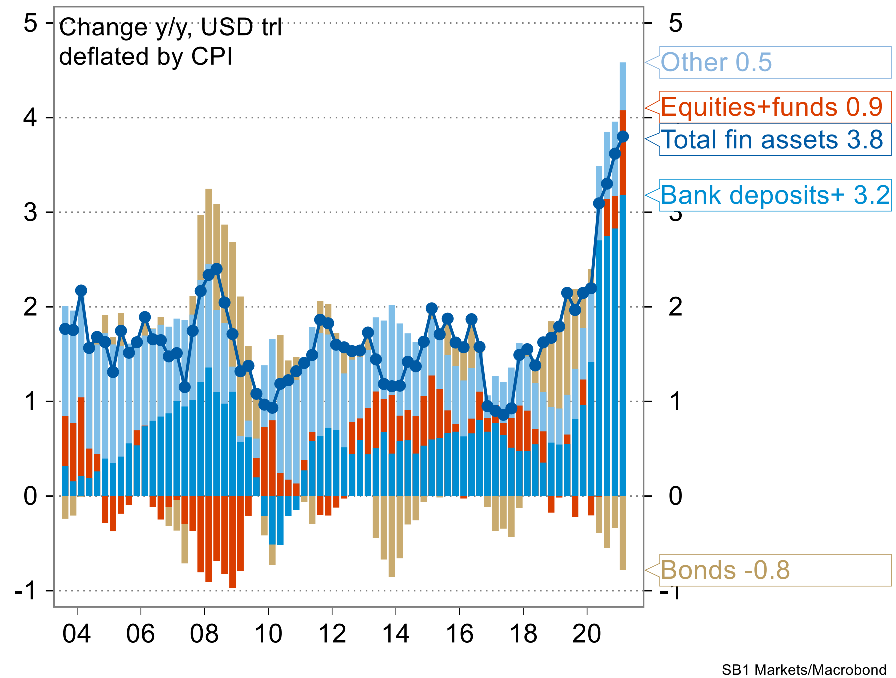
The savings glut has not been used to pay down debt or to buy equities

Household debt has increased faster than normal. 85% of the excess savings is placed in bank depos.

USA Households' assets & liabilites

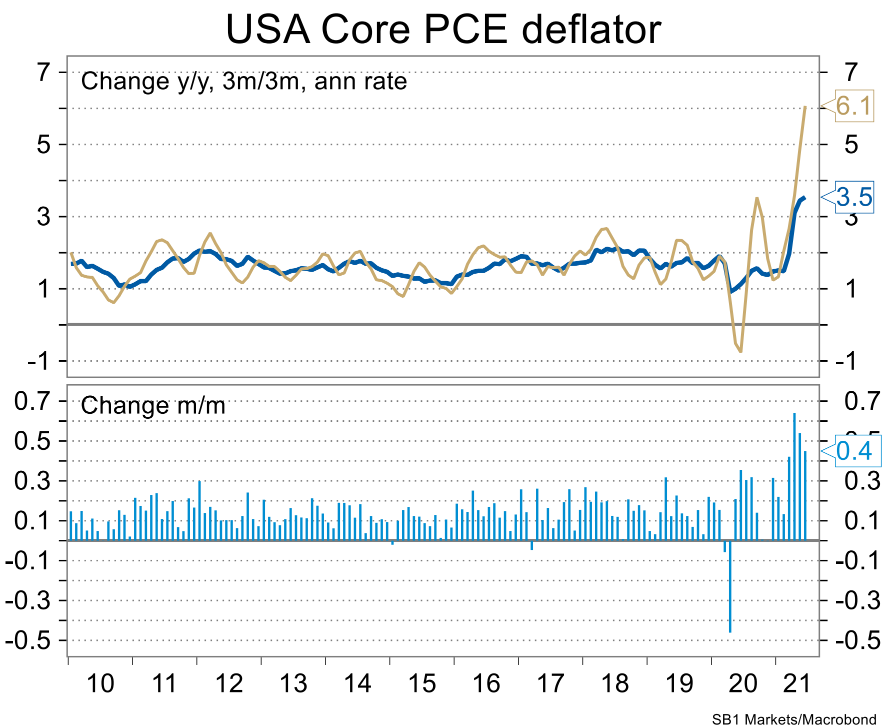


USA Households' assets

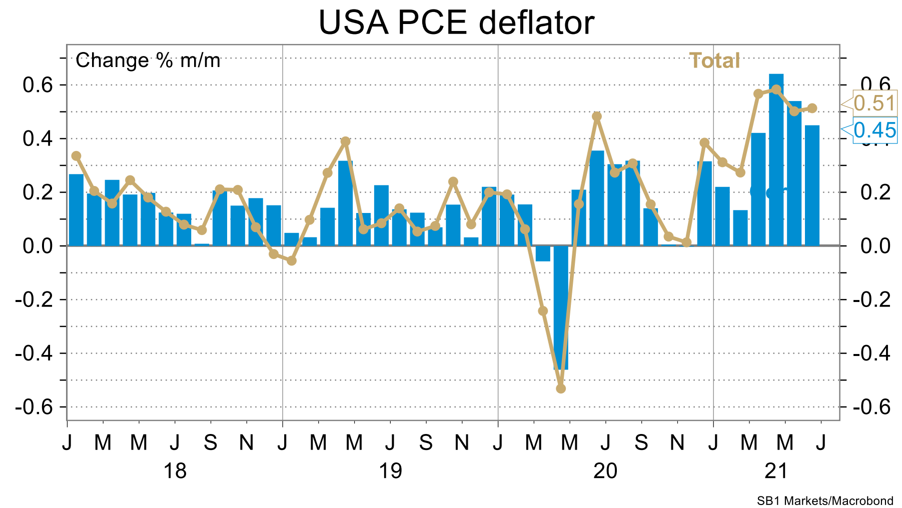


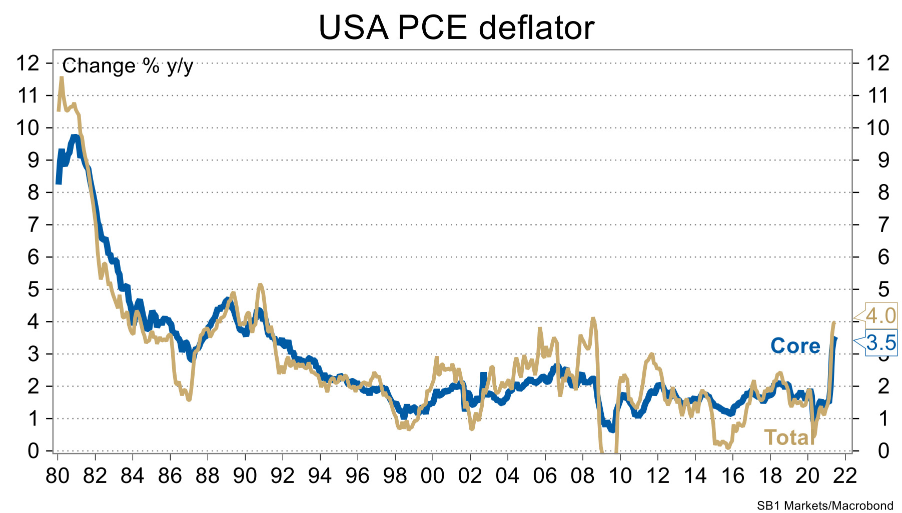
Core PCE up 0.4% in June, 3.5% y/y, well below expectations

Fed may still say the price shock is transitory



- **The core price deflator** finally surprised at the downside, and monthly increases has slowed from the peak in April. The 3m/3m rate is still climbing, now at 6%
  - » Since June 19, the average core inflation rate has been 2.3%. Inflation has been at or close to 2% over the past 3 & 5 years too. Fed's average inflation target is met (but Fed has not told us yet)
- **Total PCE deflator** rose by 0.5%, and the annual rate accelerated 0.1 pp to 4.9%

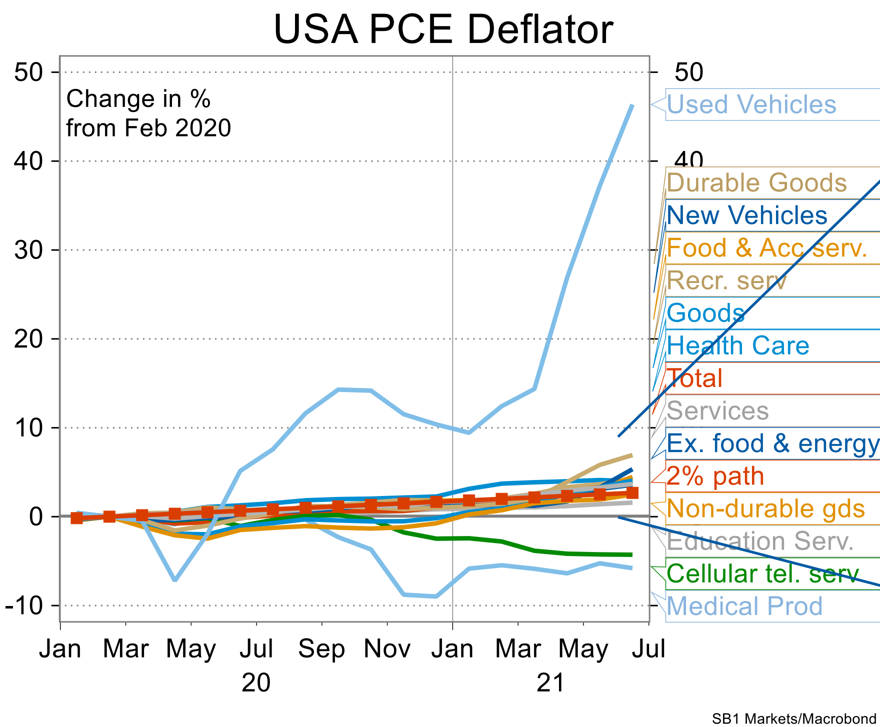


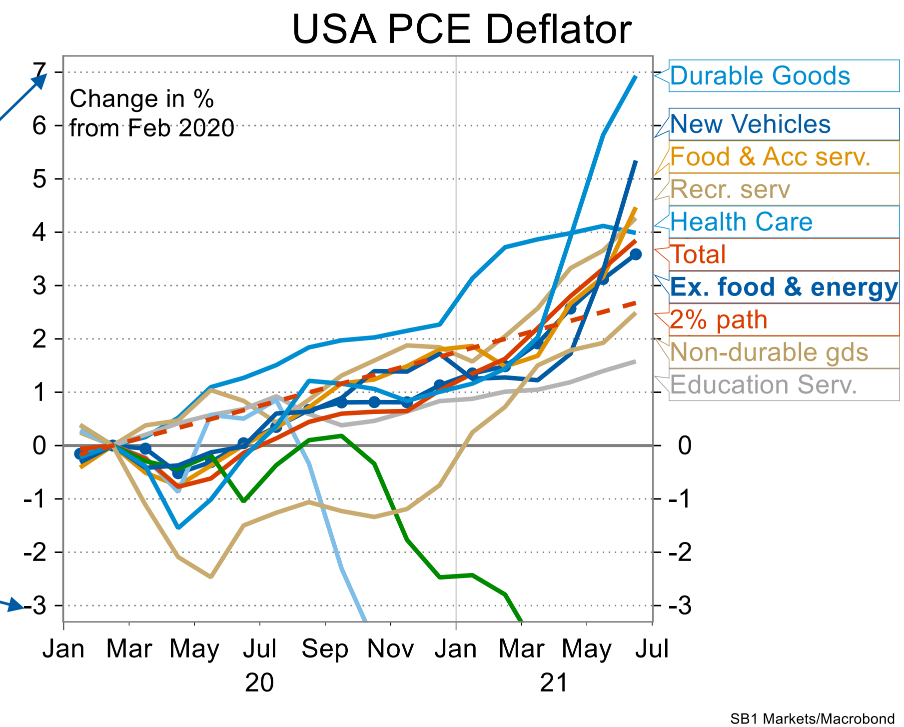


SpareBank 1 MARKETS

Most prices up in June too; New & used autos, restaur./recreational services

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

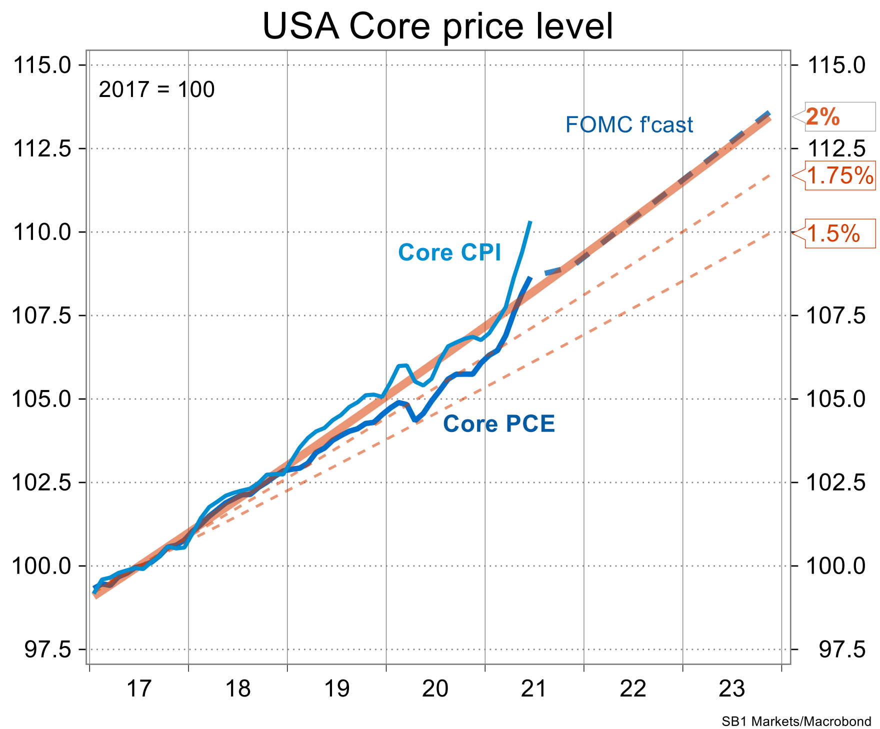


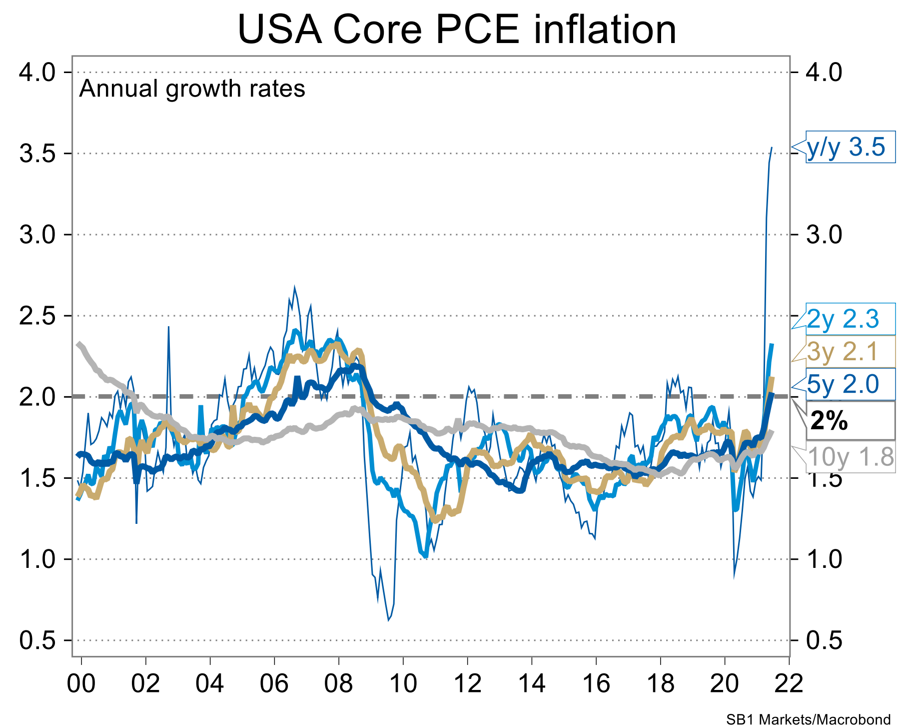


- **Used car prices** rose further in June, and are up by 45% vs. Feb-20 – no doubt above any reasonable long-term trend
- **Restaurants/hotels, recreational services** are lifting their prices sharply
- **Health care** costs have increased sharply since late last year but are now flattening

The price level is on the right track, right?

Seems so but the Fed has not told us so. However, the Bank's forecast is exactly on the 2% path





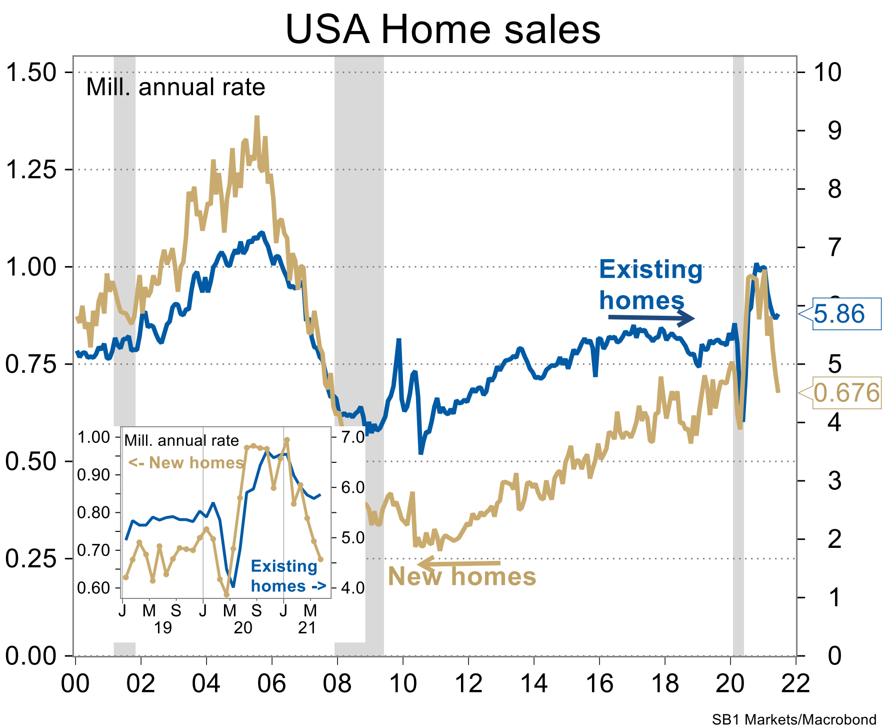
We stick to our main inflation analysis:

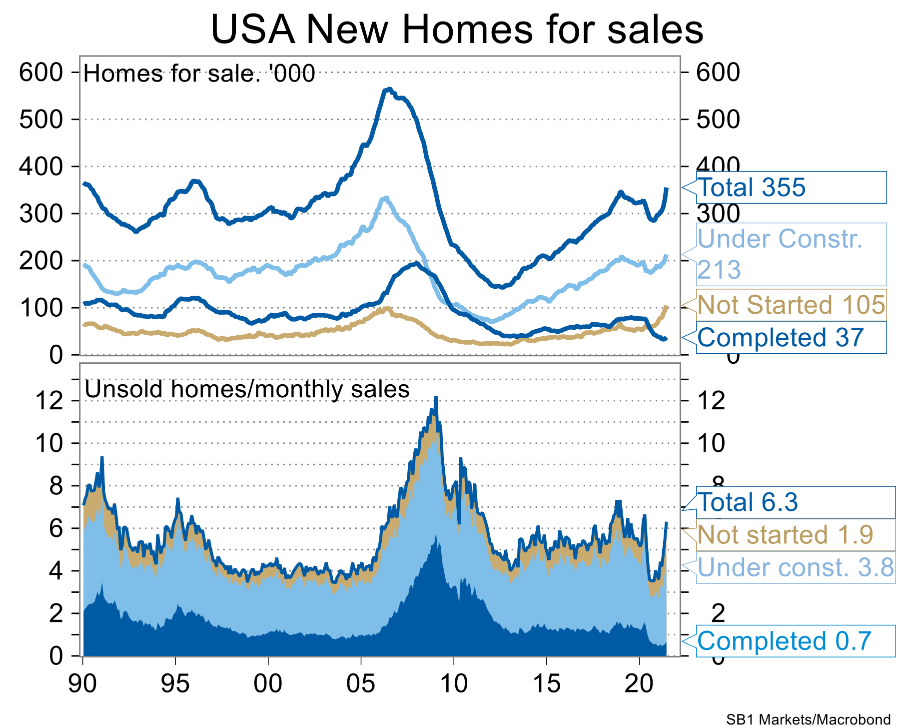
- **Raw material cycles** are not lasting that long and the impact on consumer prices are short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity
- **A tight labour market** normally implies higher wage inflation. So far the signals have been mixed, as the 'best' indicators of wage inflation when there are huge changes in the employment mix, have not reported higher wage growth. However, other measures report higher wage inflation, and unusually many companies are reporting wage increases

SpareBank 1 MARKETS

Another downward revision – and another decline in new home sales

Too few <u>completed</u> homes to chose between? However, <u>more projects are entering the market</u>

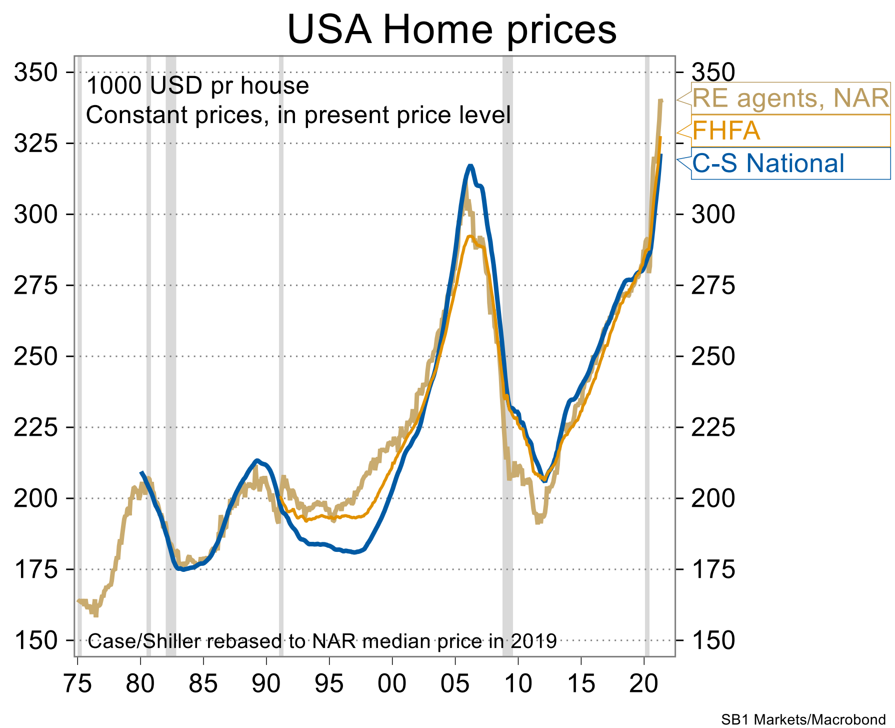


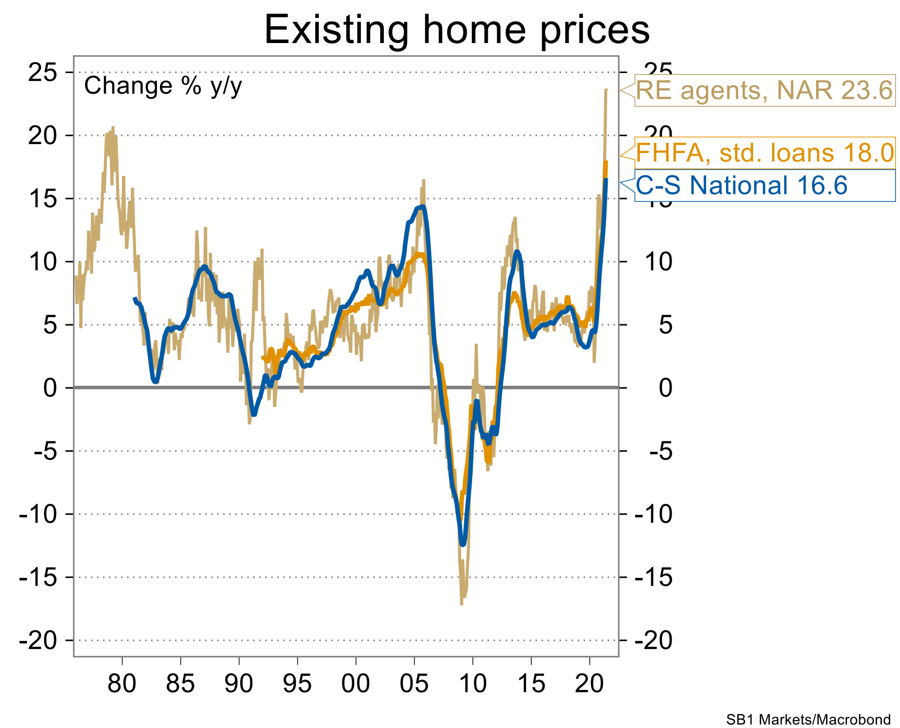


- **New home sales** fell to 676' (annualized rate) in June, down from 724' in May (revised down from 769', following several downward revisions recent months). Sales were expected at 800' in June. Sales are down more than 30% from January – <u>and below the pre-pandemic level</u>
  - » The inventory of unsold homes has somewhat the past 8 months primarily because many projects that haven't started yet have been added, in fact more new projects than ever! level ever, <u>a sign that the supply side is responding to the strong demand</u>. The no. of completed homes for sale is still declining, and the level is extremely low
- **Existing home sales** have also fallen recently. The inventory of homes for sale is record low, and prices are surging (see more next page)

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

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

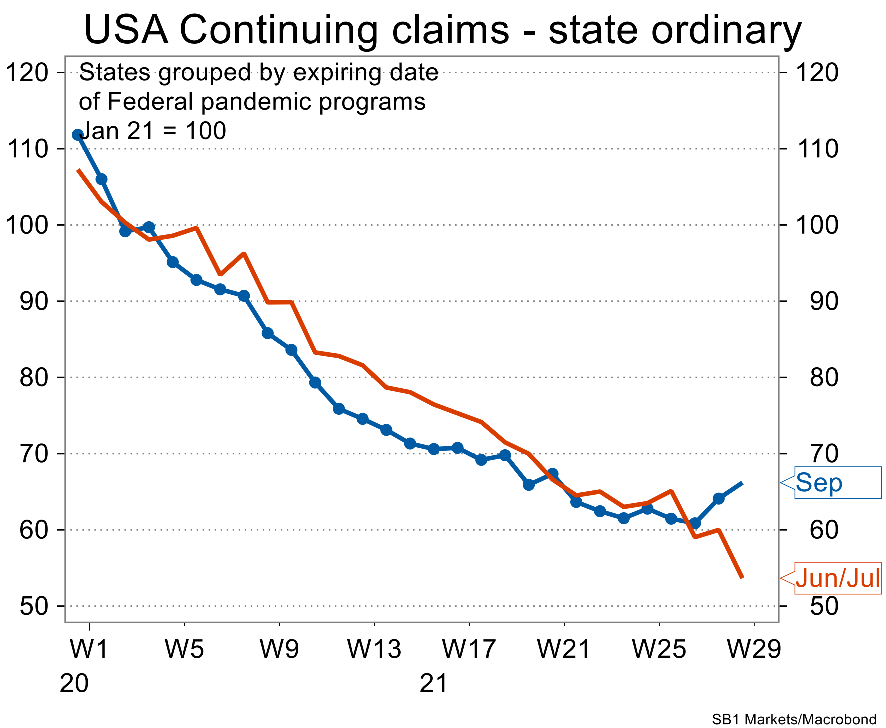


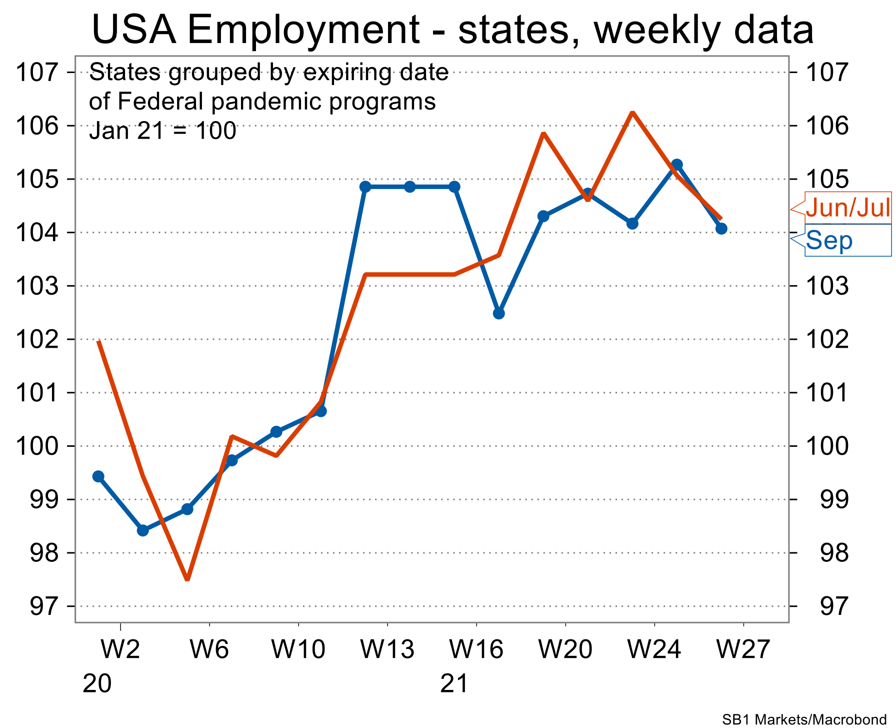


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever and record high real price levels, with data covering the past 30 – 45 years
- There are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

Will the cancelling of pandemic federal benefit programs lift employment?

State data may give <u>some hope</u>: The ‘early leavers’ report fewer continued claims



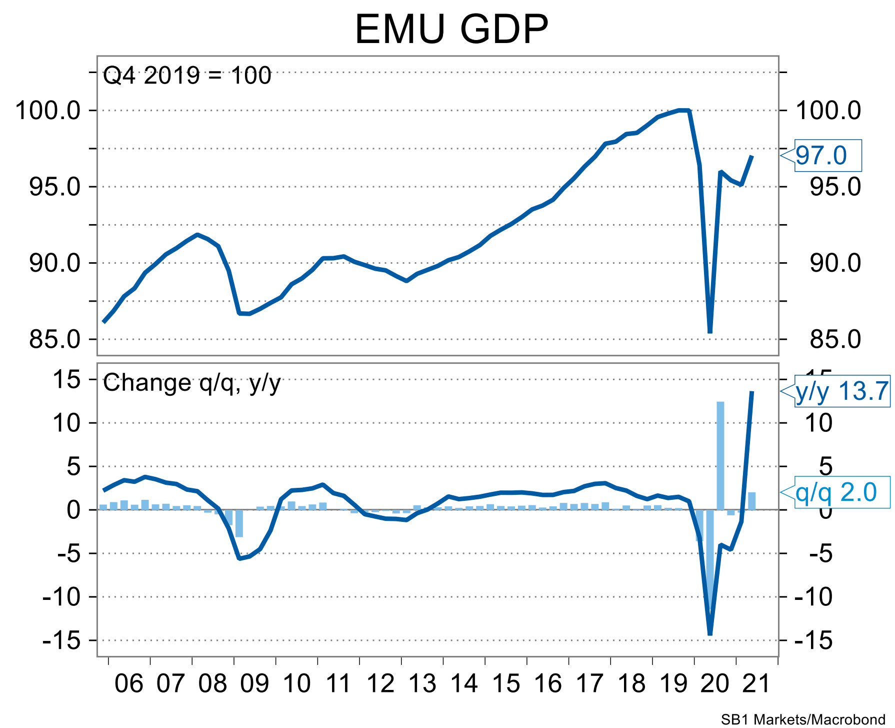


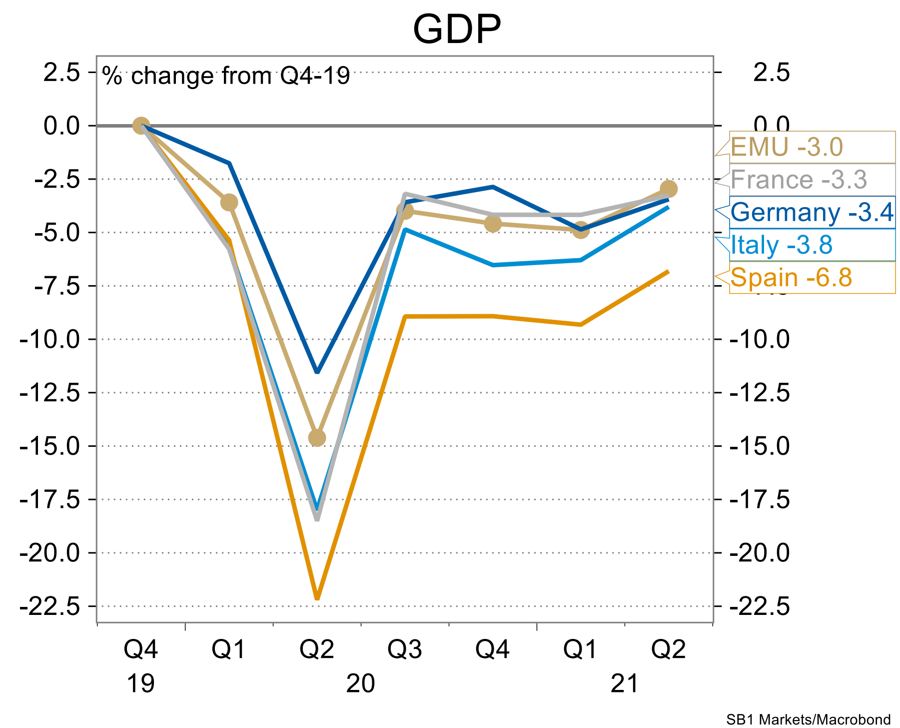
- 4 states dropped out of the federal unemployment benefit programs on June 12 (end of week 23), 8 states left June 19, and 10 states June 26, and 3 more states July 3 and 10
- We do not know what these former recipients do now – are they now trying to find a job?
- If we pool the ‘early leavers’ in one group, there has been a reduction in no of recipients of ordinary state benefits the past 3 weeks which may imply that those who lost their federal support also leave the dole
- Weekly employment data (available just through week 26) do not indicate lift in employment in the early leaver states

SpareBank 1 MARKETS

GDP up 8.3% (2.0% not annualised) in Q2, well above expectations at 6%

GDP is still 3% below the Q4-19 level. Spain & Italy grew by 11 – 12%

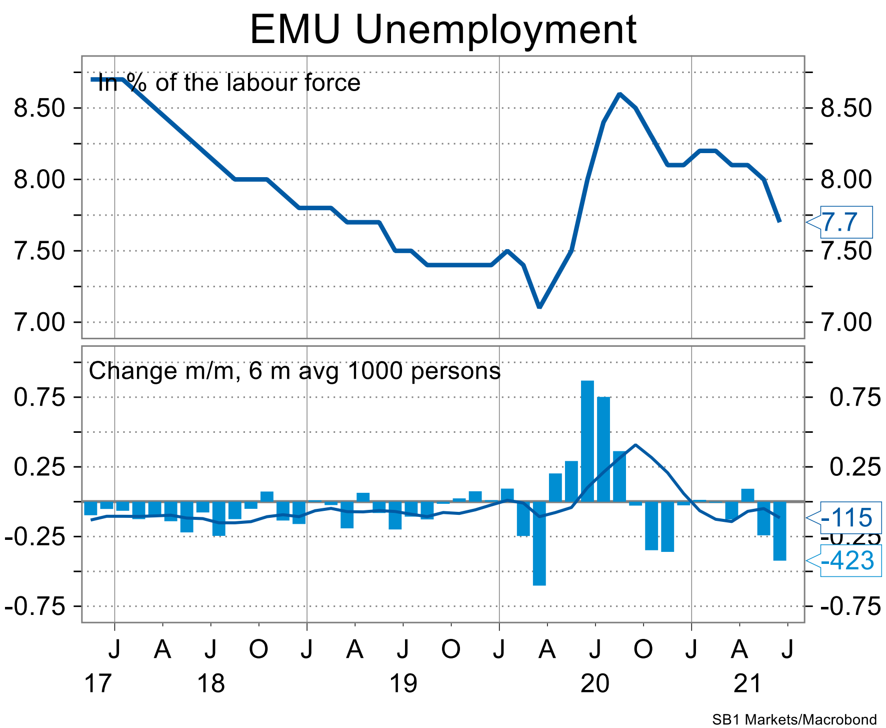


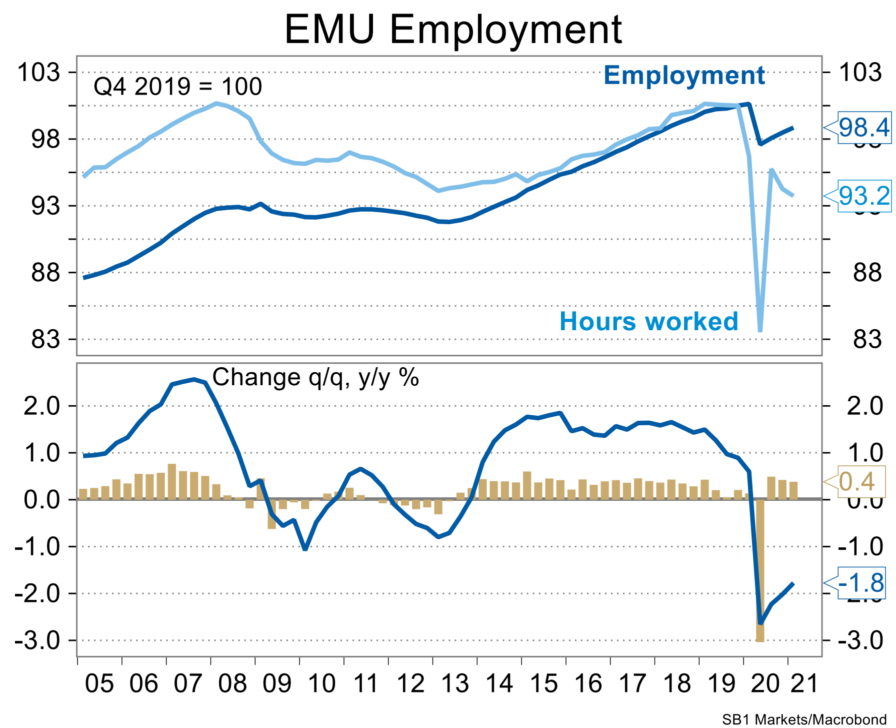


- Euro Area GDP fall by 0.9% in sum the previous two quarters, and the Q2 level is 1% above Q3 last year – and still 3% below the Q4-19 level
- GDP grew by 2.7 – 2.8% in Q2 (not annualised) in Spain and Italy – but GDP in Spain remains 6.8% below the pre-pandemic level as the tourist industry has far from recovered
- France and Germany expanded by 0.7% and 1.5% resp in Q2

Unemployment down to 7.7% in June, from 7.9%

Unemployment fell by 423' – and is trending down

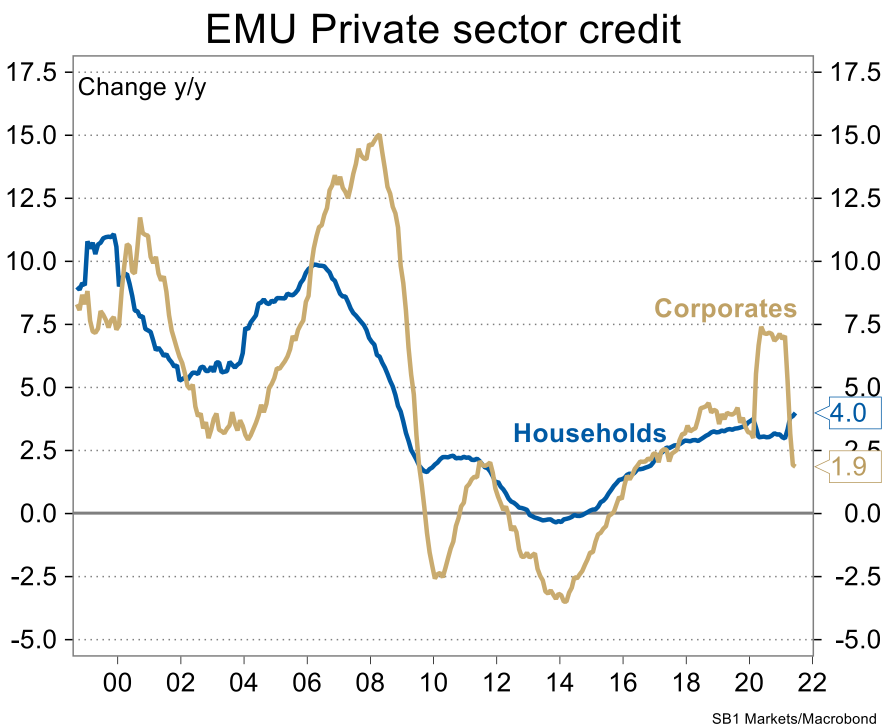


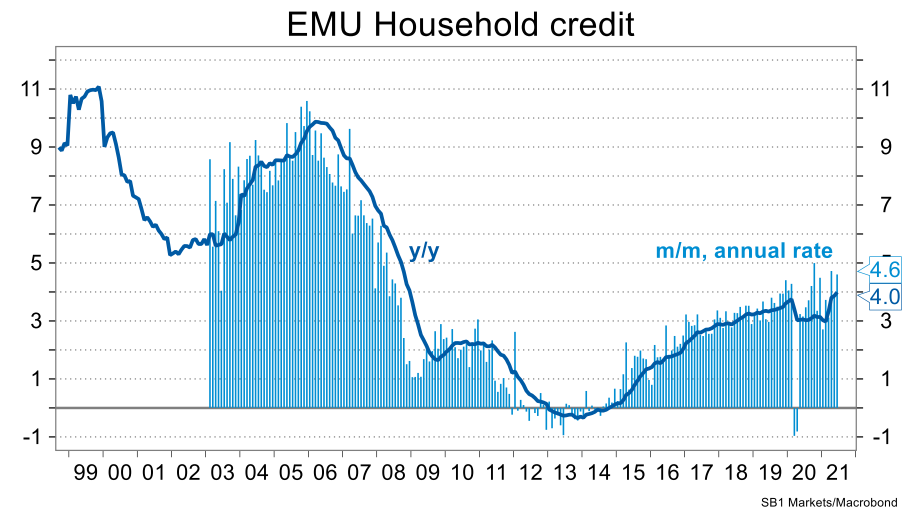


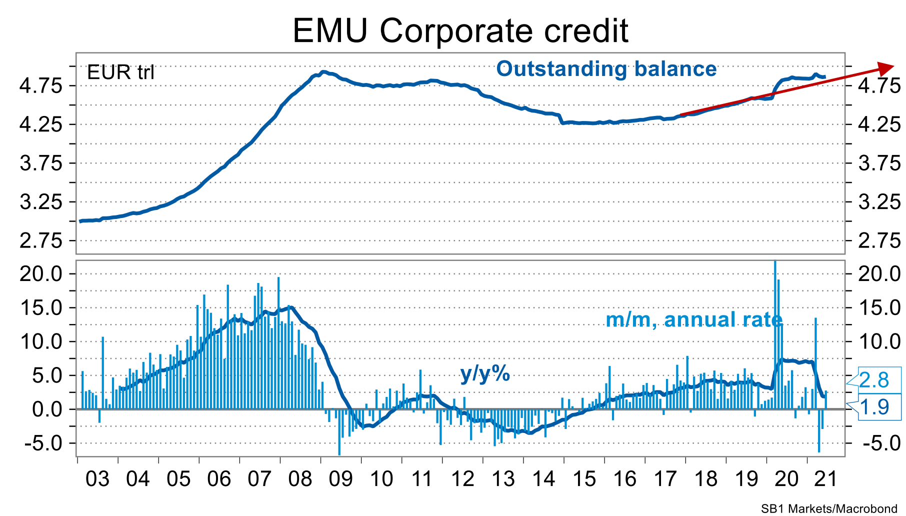
- **Unemployment** is falling rapidly as the economies are opening up – and the no of unemployed remains just some few tenths above the pre-pandemic level at 7.4 – 7.5%
- However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of hours worked. In Q1, hours worked were down 7% vs the pre-pandemic level, while the no. of employed was down just 1.7% - as average working hours were cut substantially. Given the 2% growth in GDP in Q2, the hours worked gap will very likely be reduced to 5 – 6% in Q2

Corporate credit is flattening, household debt growing faster than since 2008

No signs yet that the super expansionary monetary policy has created a credit bubble



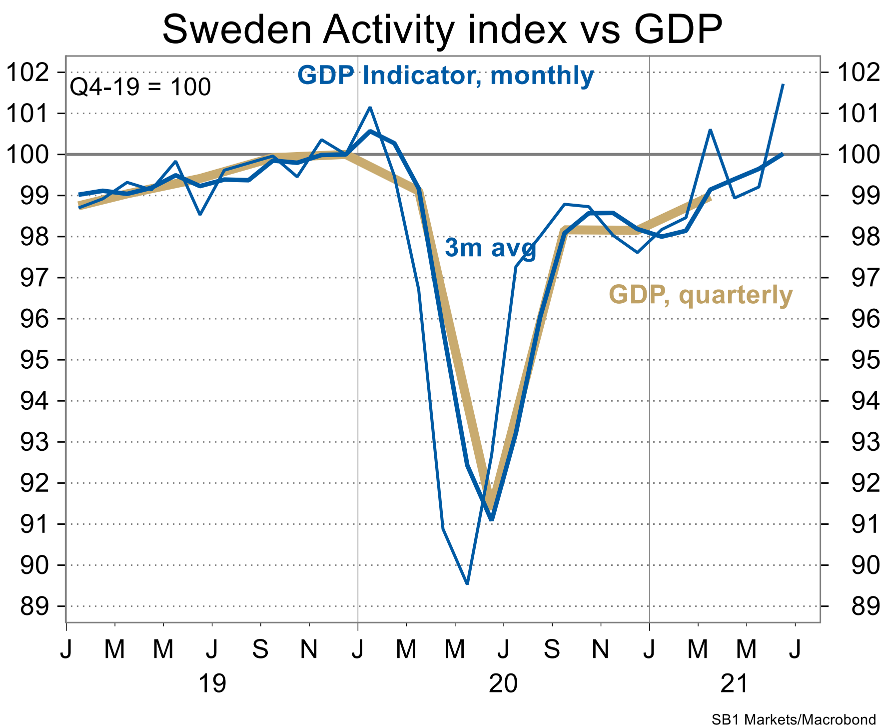


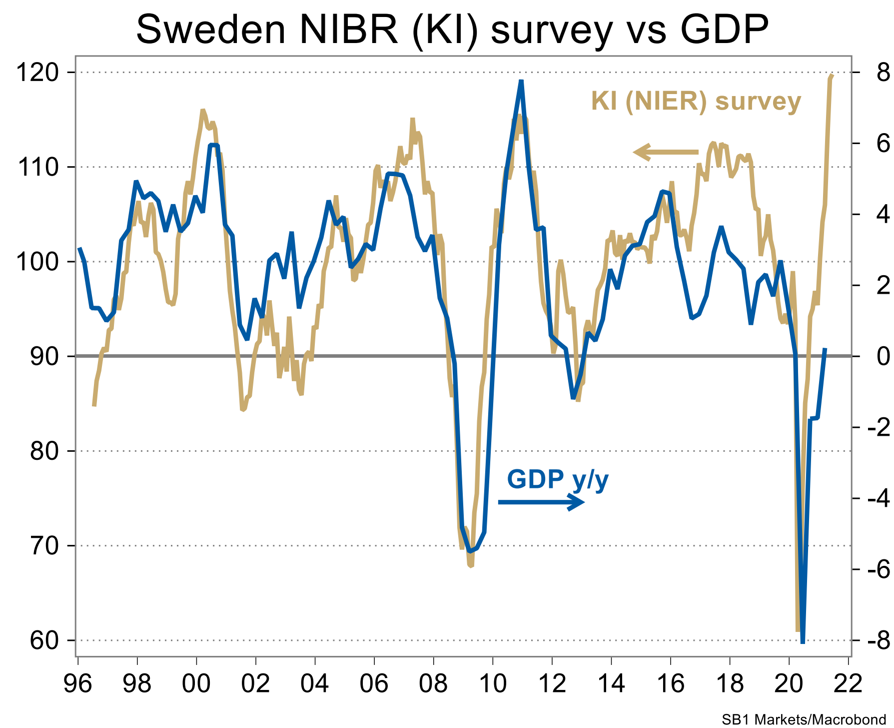


- The corporate debt level is still above the pre-pandemic trend growth path
  - » Corporate debt rose sharply last spring, when all credit gates were wide open – and the debt level is still not low vs. the pre-pandemic trend

GDP up 2.5% in June, and 3.6% (0.9% not annualised) in Q2, well above expect.

June is probably an outlier, but was 1.9% above the Q4-19 level. Q2 in average was on par!

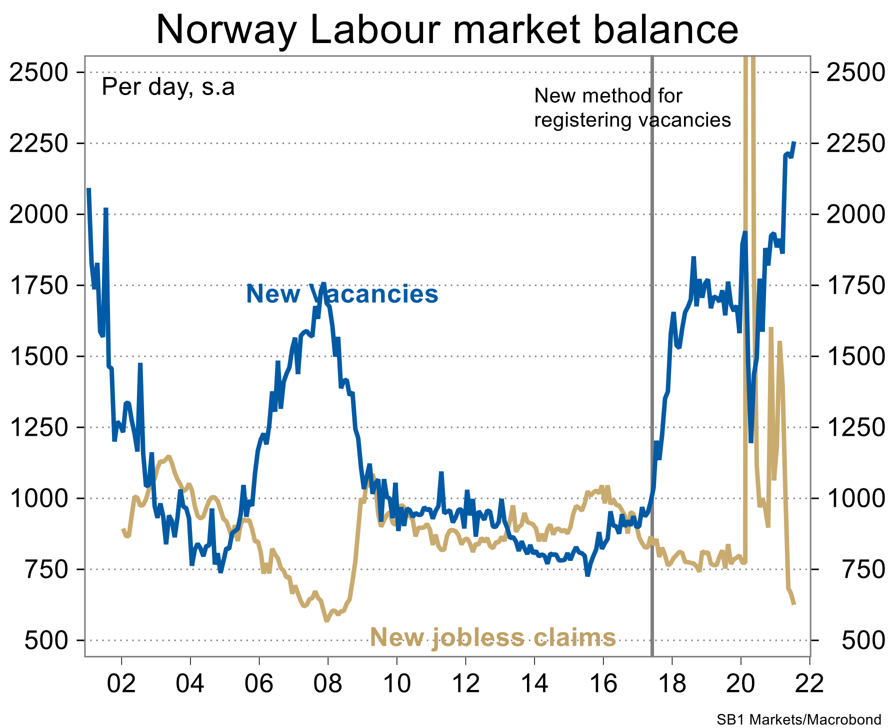


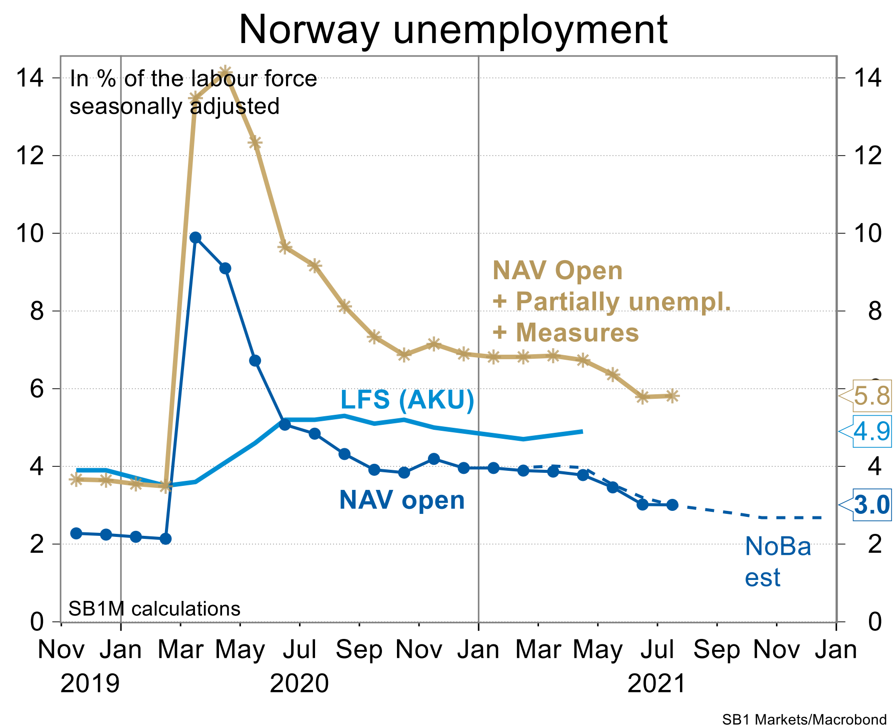


- **Q2 GDP** grew by 0.9% according to the first forecast, expected 0.7%. In addition, Q1 was revised up to 1.0% from 0.8%
- GDP is back to the Q4-19 level – but below the pre corona growth path
- **The outlook** for the coming months is very good, if we should believe the reports from the business sector, measured by KI (check the next pages) or the PMI

NAV unemployment more or less stable in July, and back to NoBa's path

We deem the trend to be still steeply downwards, even if unemployment flattened in July

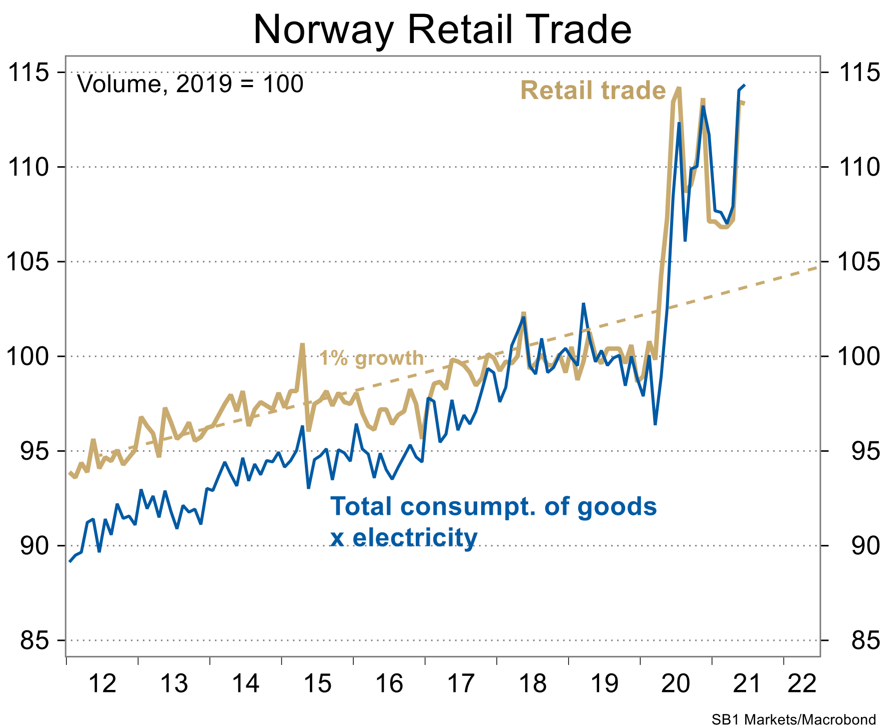


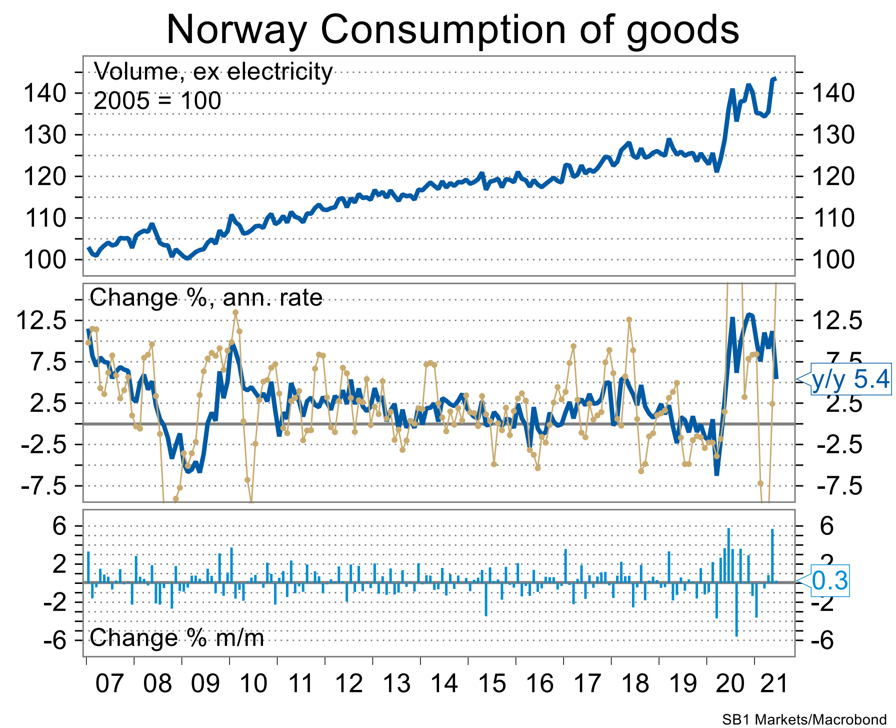


- **The 'full time' open NAV unemployment**, which includes furloughed workers was unch. at 86' in July (seas. adj), equalling 3% of the labour force, in line with NoBa's estimate in the June MPR. Unadjusted, the rate rose by 0.2 pp to 3.1%, we expected a decline to 2.8%. The deviation is partly due to seasonal adjustment challenges during the summer season. The no. engaged at labour market measures was stable at 0.6%
- The number of **partially unemployed** was flat, according to NAV's seasonal adjustment, and slightly up, according to our adjustment – at approx. The grand total was still reported down by 5' by NAV, our calculus yielded a small increase. Total unemployment is at 160', or 5.8%, still up 2 pp from before the corona crisis. The no. of furloughed workers fell sharply, implying an increase in 'ordinary' unemployment
- The inflow of **new job seekers** fell further in July, and the inflow of new vacancies rose further from a high level the previous 3 months
- **All in all:** Weaker than expected in July, but summer data are less certain, and the trend is sharply down.
  The risk: A substantial mis-match is building up, vacancies are increasing and there are wide spread reports on lack of labour

Retail sales flattened in June – and from here there is only one way to go?

Sales fell 0.1% (we expected flat). Sales are 13% above the pre-pandemic level



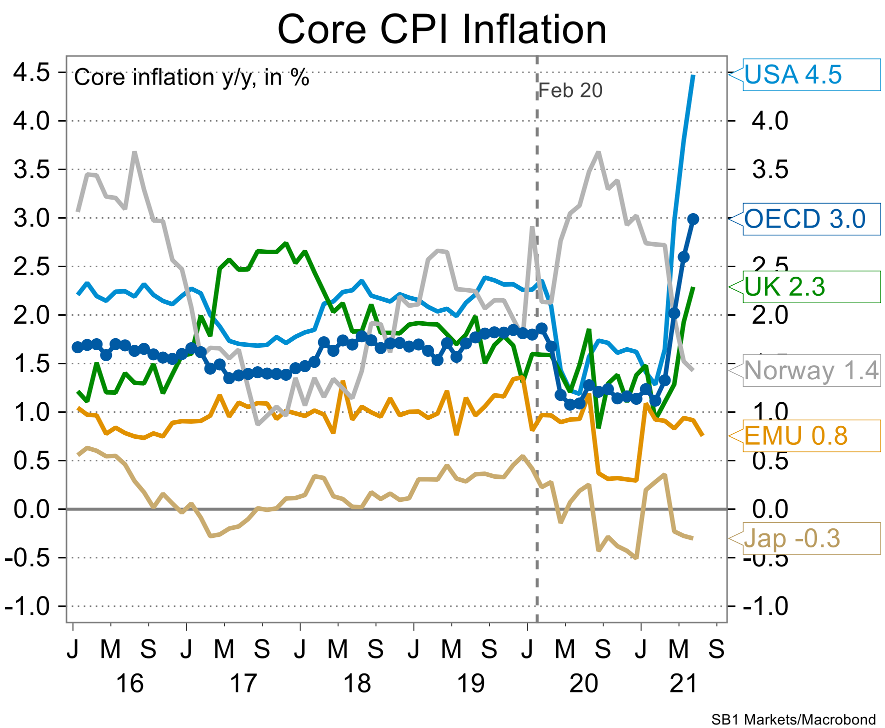


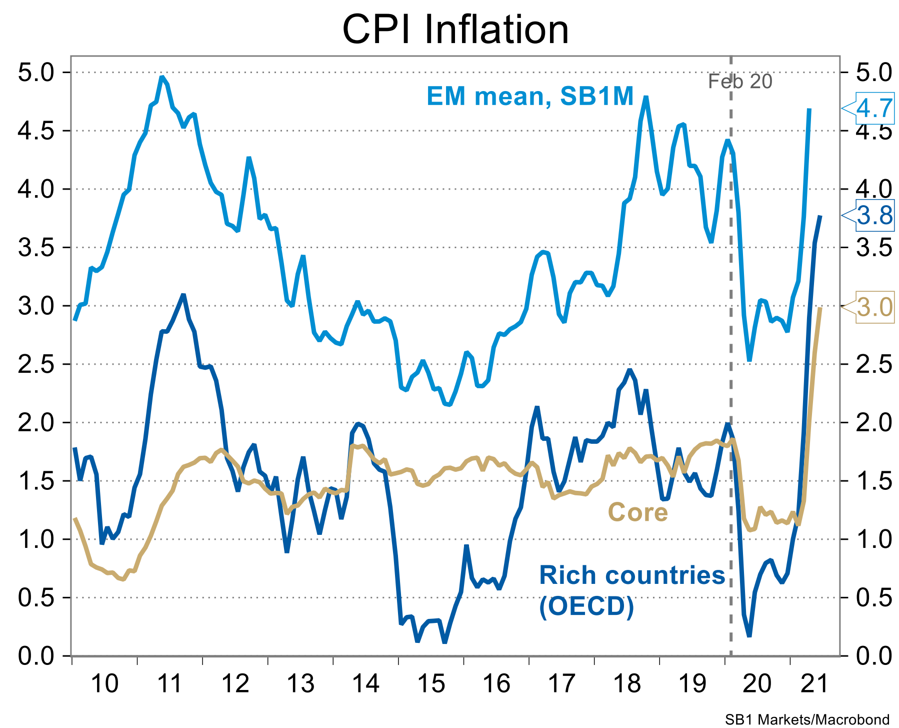
- **Retail sales** were up 5.8% m/m in May – far above our expectations – and the flattening in June is by itself no sign of weakness
  - » **More money will be spent on services, and more spending abroad (x-border, holiday travel, in sum 10% of total consumption)**
- **Total consumption of goods** (x electricity) rose by 0.3% in June, and May was revised up by 0.5% – and the level is 14% above the 2019 level. Consumption rose by 4.4% in Q2 (18.6% annualised)
- **We still expect sales/consumption of goods** to slow the coming quarters, back the pre-corona trend path – when it becomes possible to spend more on services and abroad, both x-border shopping in Sweden and holiday travel in general

SpareBank 1 MARKETS

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

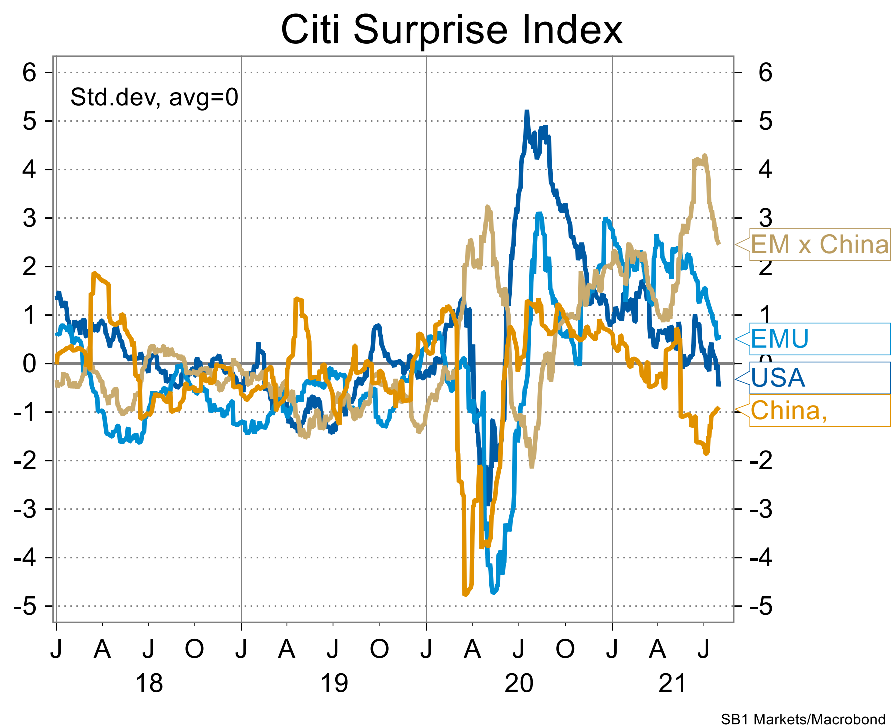
Energy prices the main culprit, core inflation not much up outside the US and UK (so far)

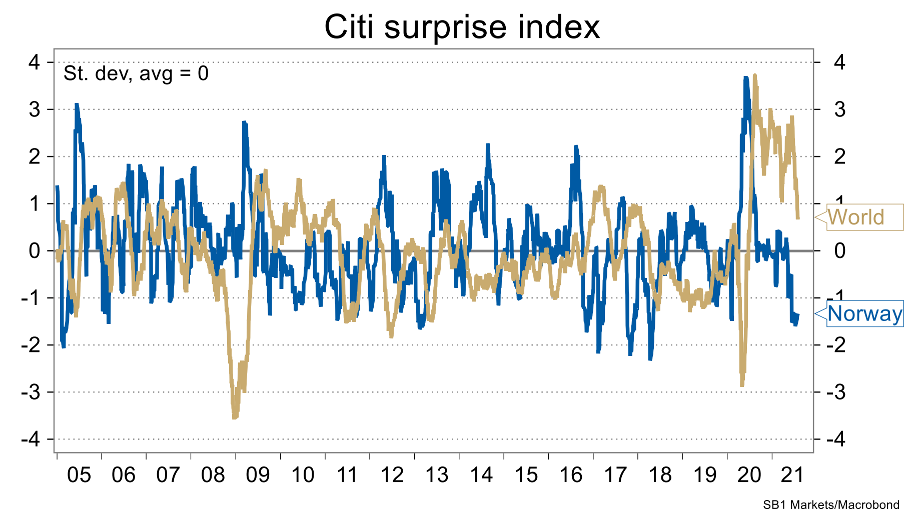


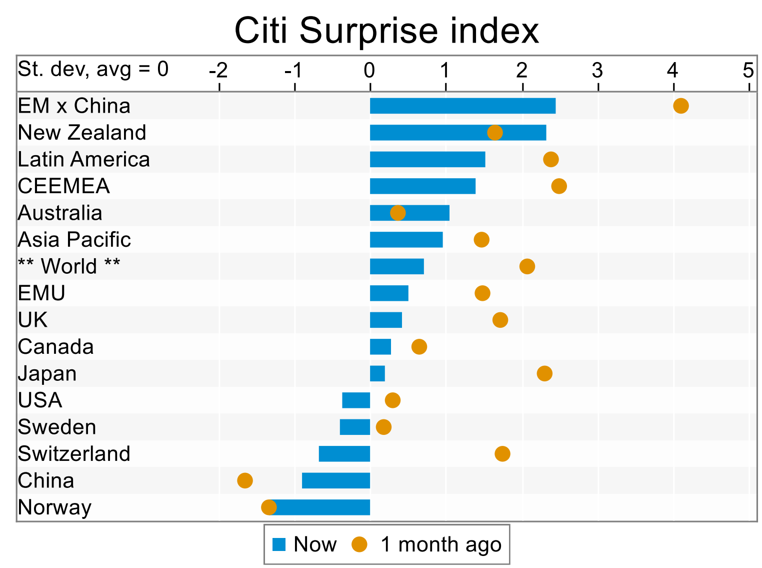


Growth surprises still on the upside but many countries are heading down

… according to Citi's surprise index. The US has fallen to below par, China (and Norway) is well below







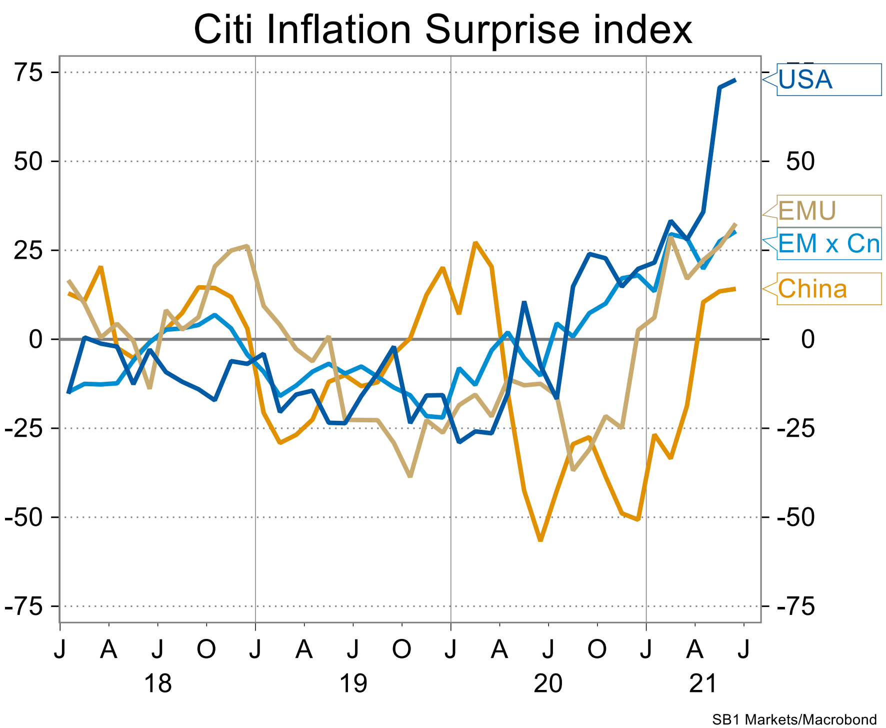
- **China** has recovered somewhat due to better than expected Q2/June data
- **Emerging Markets x China** are reporting <u>much better</u> data than expected, and it is still rather extreme (>2 st.dev above avg, down from 4)
- The **EMU** is still surprising on the upside, but steadily less so
- The **US** surprise has fallen to below average
- **Norway** has surprised sharply on the downside recent weeks

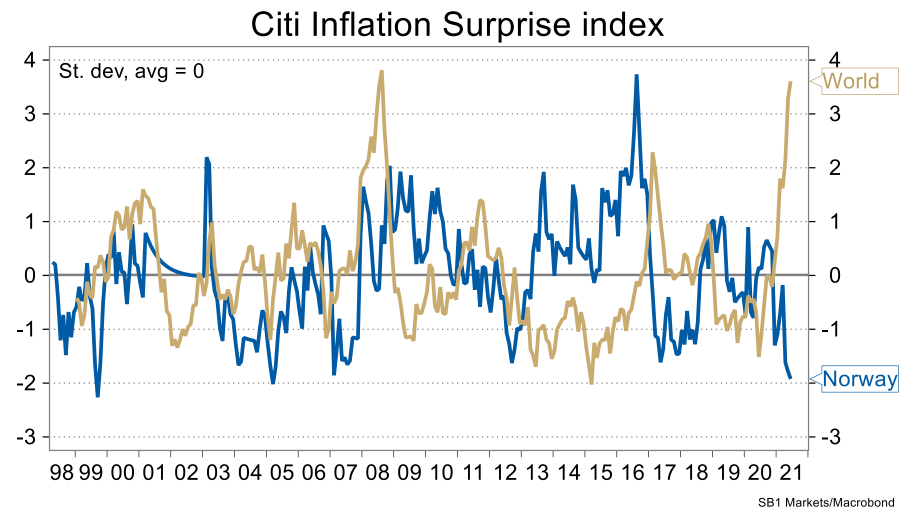
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

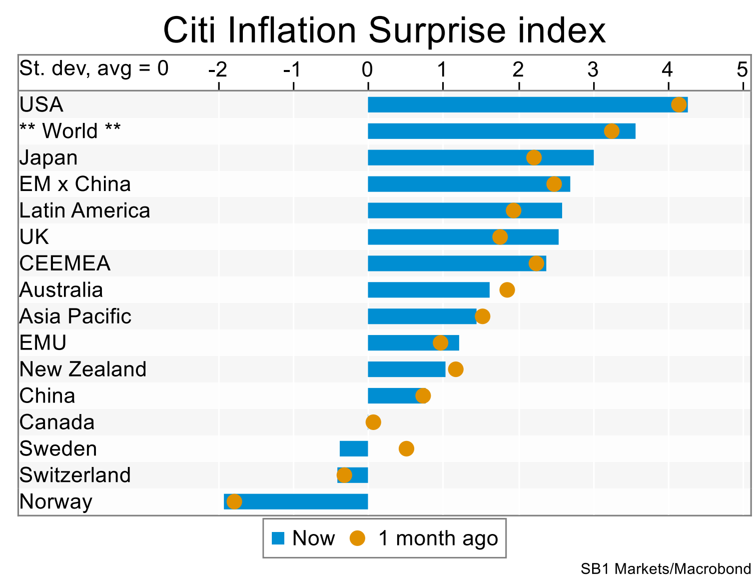
SB1 Markets/Macrobond

Inflation surprises have been on the upside lately, almost everywhere

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



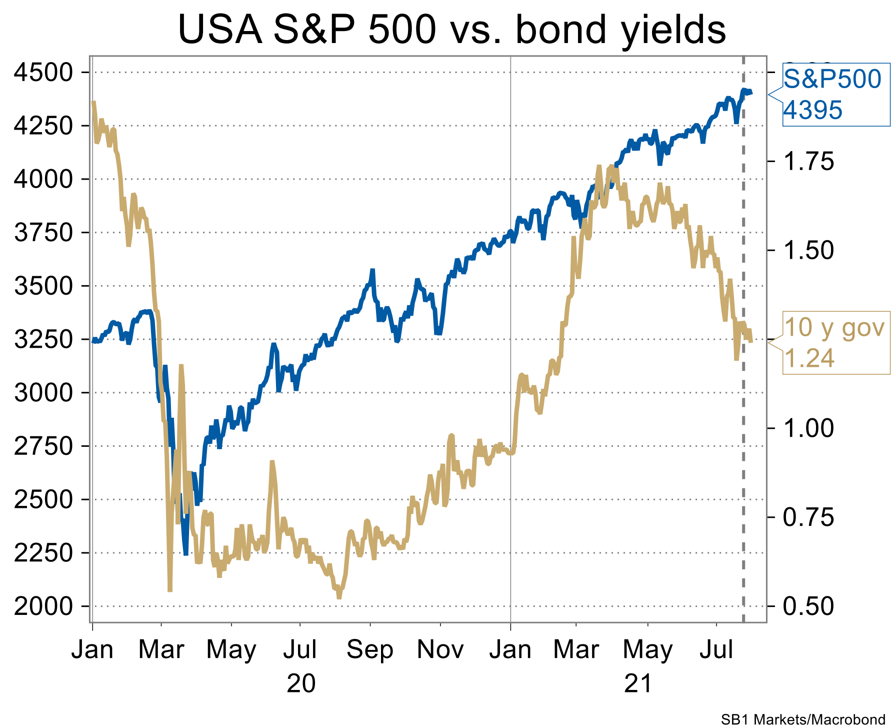


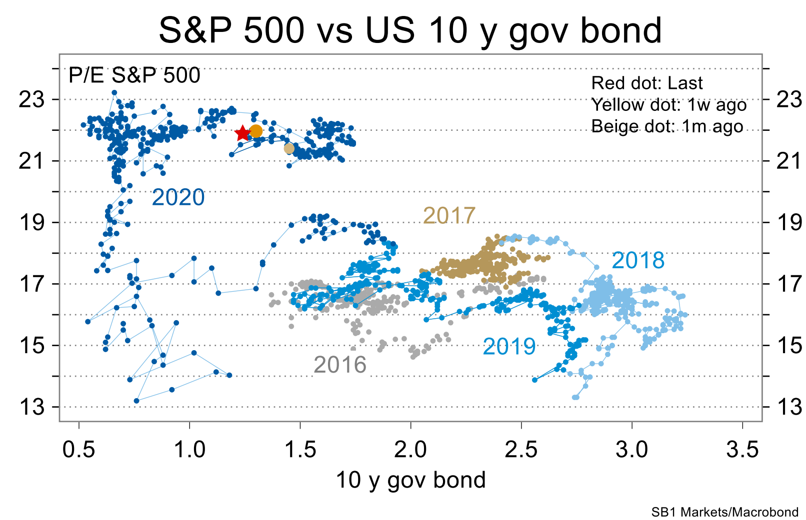


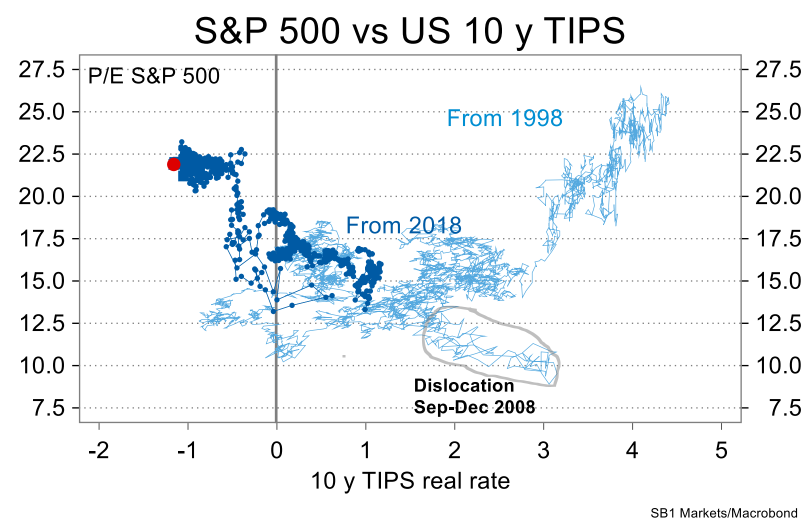
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

S&P 500 flattened at close to ATH (down 0.4% on the weak), 10y bonds -6 bps

.. To 1.24, the 2nd lowest close since February



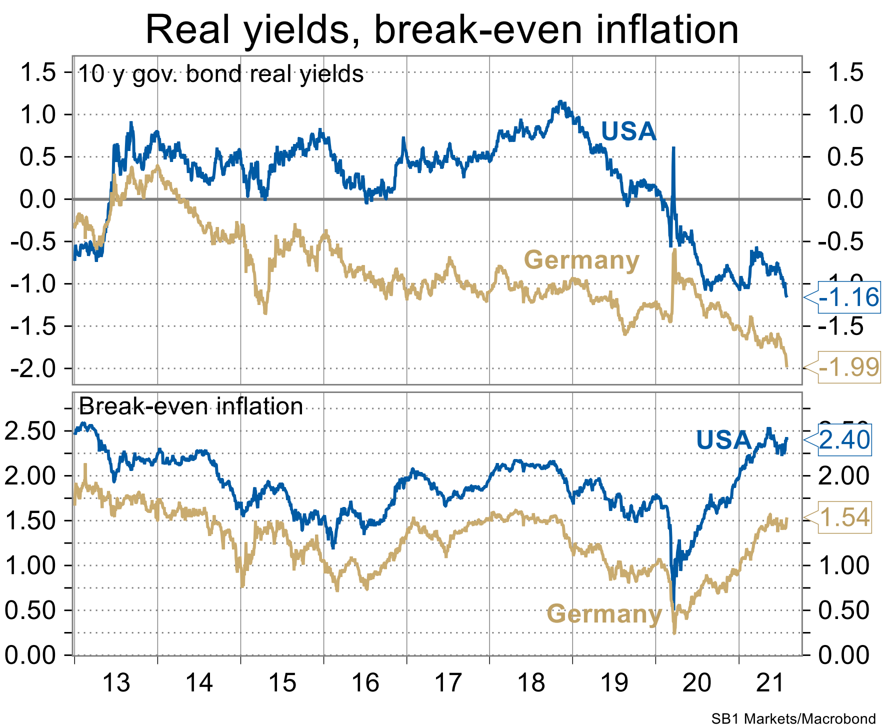


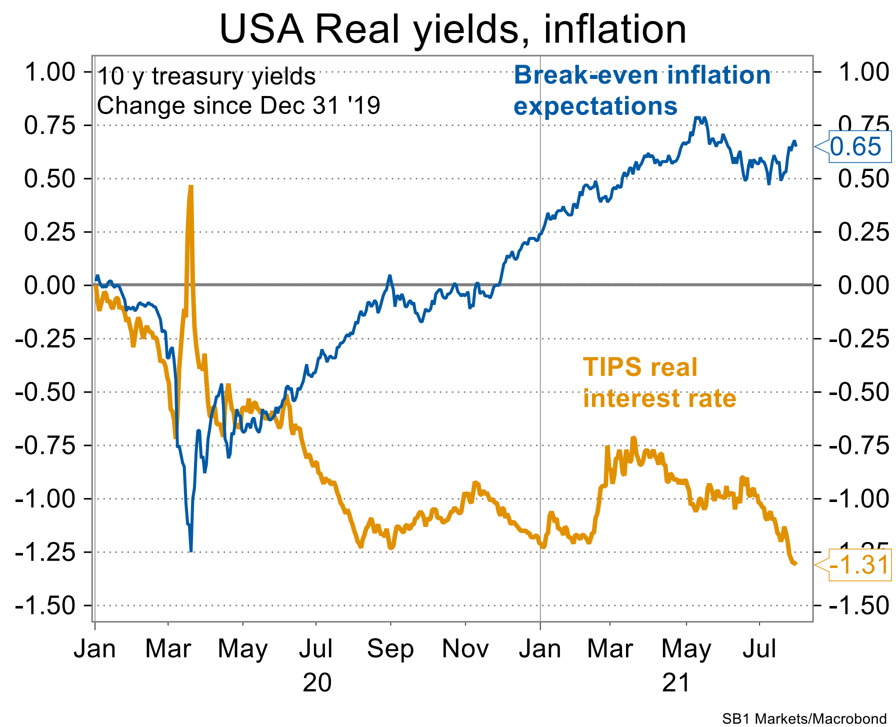


SpareBank 1 MARKETS

A collapse in real bond yields, both US, Germany down to ATL, with WIDE margins

Real bond yields down 11 – 16 bps, inflation expectations up 5 – 12 bps





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.24	-0.06	-0.21	0.52
.. break-even inflation	2.40	0.05	0.08	1.06
.. TIPS real rate	-1.16	-0.11	-0.29	-1.16
Germany nominal bund	-0.45	-0.04	-0.26	-0.65
.. break-even inflation	1.54	0.12	0.06	0.40
.. real rate	-1.99	-0.16	-0.32	-1.99

SB1 Markets/Macrobond

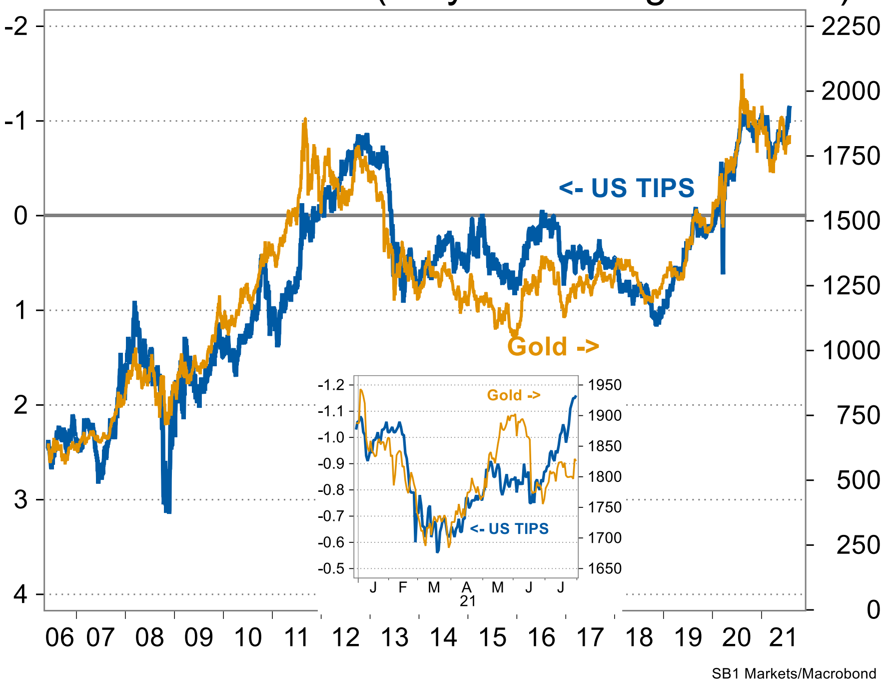
- What is going on?
  - » No major economic or central bank news
  - » No drama at the stock markets
  - » Commodity markets are stable/strong

SpareBank 1 MARKETS

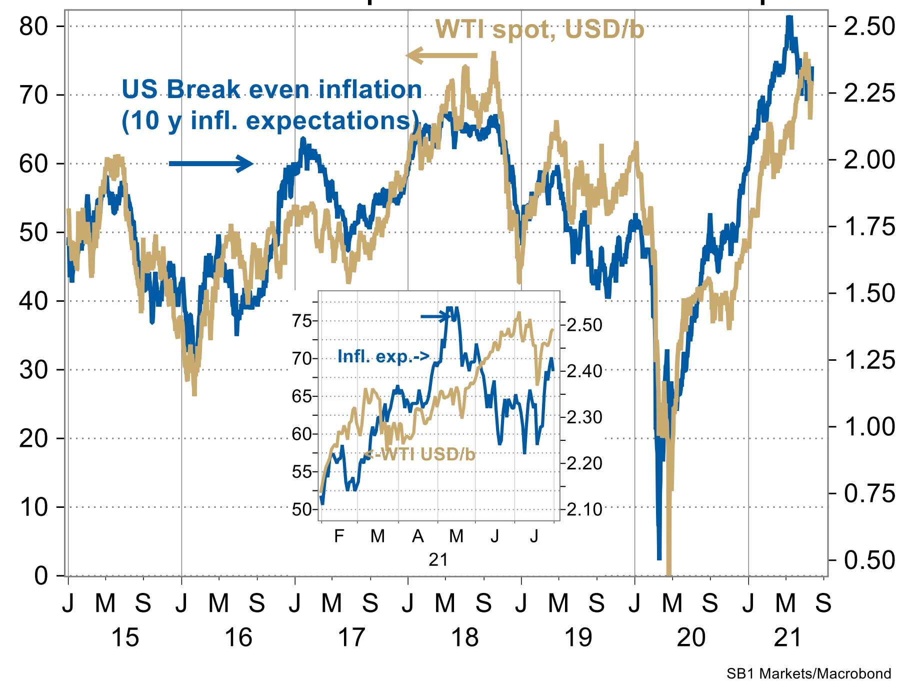
Gold ⇔ –TIPS real rates. Oil ⇔ Inflation expectations

However, the link between the two pairs have not been that close recent weeks!

Gold vs. US TIPS (10 y real rate gov bonds)



USA Inflation expectations vs. the oil price



- Inflation expectations have fallen, even if the oil price has climbed
- The gold price have not appreciated, even if real rates have collapsed
- *Are there some dislocations at the bond market??*

The Calendar: July PMIs/ISMs, US payrolls, Norwegian house prices

Time	Count.	Indicator	Period	Forecast	Prior
Monday Aug 2					
08:00	GE	Retail Sales MoM	Jun	2.0%	4.2%
08:30	SW	PMI Manufacturing	Jul		65.8
10:00	NO	PMI Manufacturing	Jul	(60)	60.8
10:00	EC	PMI Manufacturing	Jul F	62.6	62.6
10:30	UK	PMI Manufacturing	Jul F	60.4	60.4
15:45	US	PMI Manufacturing, Markit	Jul F	63.1	63.1
16:00	**US**	**ISM Manufacturing**	**Jul**	**60.7**	**60.6**
16:00	US	Construction Spending MoM	Jun	0.5%	-0.3%
17:00	WO	PMI Manufacturing	Jul	(55.2)	55.5
Tuesday Aug 3					
11:00	EC	PPI YoY	Jun	10.3%	9.6%
	US	Auto sales	Jul	15.60m	15.36m
Wednesday Aug 4					
03:45	CH	PMI Services, Caixin	Jul	50.5	50.3
08:30	SW	PMI Services	Jul		67.4
10:00	EC	PMI Services	Jul F	60.4	60.4
10:00	EC	PMI Composite	Jul F	60.6	60.6
10:30	UK	PMI Services	Jul F	57.8	57.8
11:00	**NO**	**House prices , MoM**	**Jul**	**(0.4%)**	**0.2%**
11:00	EC	Retail Sales MoM	Jun	1.6%	4.6%
14:15	US	ADP Employment Change	Jul	675k	692k
15:45	US	PMI Services, Markit	Jul F	59.8	59.8
16:00	**US**	**ISM Services**	**Jul**	**60.5**	**60.1**
16:00	**Wo**	**PMI Composite**	**Jul**	**(54.7)**	**56.6**
Thursday Aug 5					
08:00	GE	Factory Orders MoM	Jun	2.0%	-3.7%
08:45	FR	Manufacturing Production MoM	Jun	2.2%	-0.5%
13:00	**UK**	**Bank of England Bank Rate**		**0.1%**	**0.1%**
14:30	US	Trade Balance	Jun	-$73.0b	-$71.2b
14:30	US	Initial Jobless Claims	Jul-31	378k	400k
Friday Aug 6					
08:00	GE	Industrial Production SA MoM	Jun	**0.5%**	**-0.3%**
08:00	NO	Credit Indicator C2 YoY	Jun	**(5.2)**	**5.2%**
14:30	**US**	**Change in Nonfarm Payrolls**	**Jul**	**900k**	**850k**
14:30	**US**	**Unemployment Rate**	**Jul**	**5.7%**	**5.9%**
14:30	**US**	**Average Hourly Earnings MoM**	**Jul**	**0.3%**	**0.3%**
14:30	US	Labor Force Participation Rate	Jul		61.6%
Saturday Aug 7					
	CH	Trade Balance	Jul	$52.00b	$51.53b
	CH	**Exports YoY**	**Jul**	**19.1%**	**32.2%**
	CH	Imports YoY	Jul	35.4%	36.7%
Monday Aug 9					
03:30	CH	CPI YoY	Jul	0.8%	1.1%
03:30	CH	PPI YoY	Jul	8.6%	8.8%

- **PMI/ISM**
  - **The global PMI** probably fell close to 2 p to a still decent level at 54.7 in July, with negative contributions from US, China, Japan, Japan and from other parts of Asia (even if the Indian PMI recovered sharply). The service sector in the US reported slower (but not slow) GDP growth. The EMU composite PMI did not yield, and surprised at the upside, thanks to services. In the US, regional manufacturing surveys and Markit's PMI suggest at stronger manufacturing ISM in July – but likely a further decline in the service sector ISM. Peak growth is behind us and price pressures are probably peaking as well but surveys still signal growth above trend in the global economy
- **China**
  - Both **exports and imports** have been very strong, especially in volume terms and both have been far above pre-pandemic growth paths
- **USA**
  - **Nonfarm employment** is expected sharply up in July too, and even faster than in June – which is a reasonable estimate, at least from the demand side – companies are very eager to hire – and the employment level is still far below the pre-pandemic level. Unemployment is expected to reverse the hike in June
  - **Auto sales** are expected to remain low in July – due to lack of available cars
- **EMU**
  - **Retail sales** likely rose further in June, before the Delta virus (potentially) created some problems. Sales are clearly above a reasonable long term trend, as in many other rich countries/regions
- **Norway**
  - We expect **house prices** to appreciate further in July but at a measured pace. Price inflation has slowed recent months as the impact of last year's interest rate cut is fading, and the outlook for higher rates have strengthened. Still, the market balance suggest a quite fast price inflation

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

Highlights

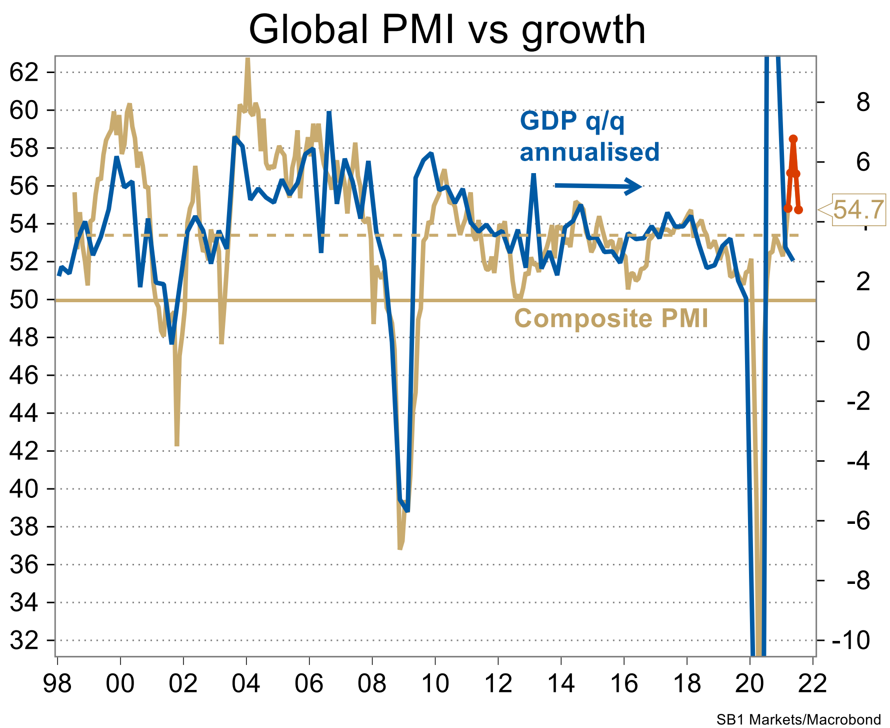
The world around us

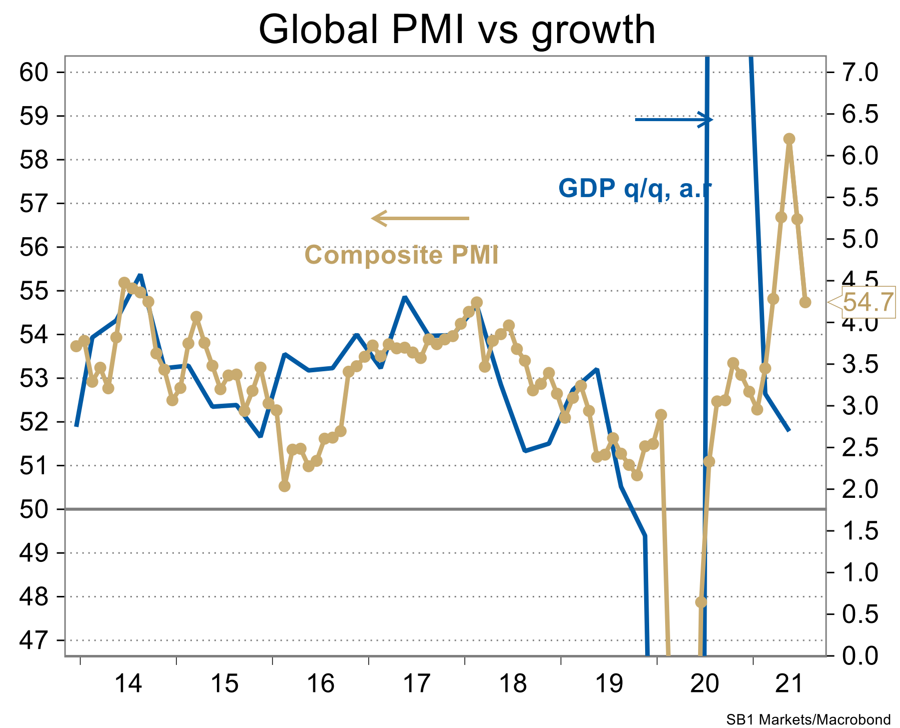
The Norwegian economy

Market charts & comments

PMI very likely down in July too, level still OK – signalling 4-5% GDP growth

We estimate 1.9 p decline in the comp. PMI to 57.7 dragged down by a 3.9 p drop in the US PMI



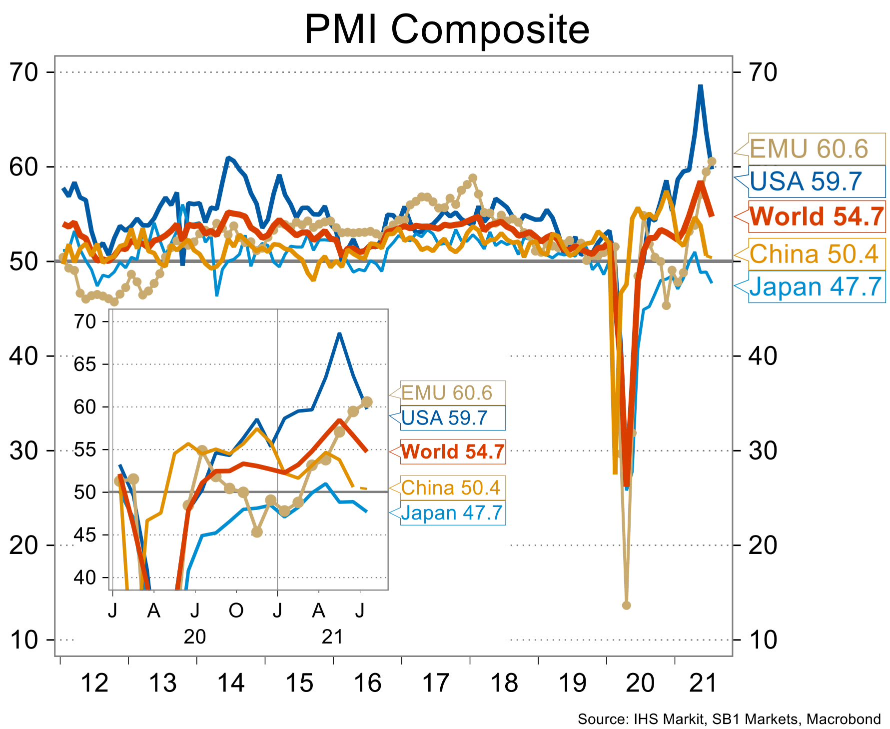


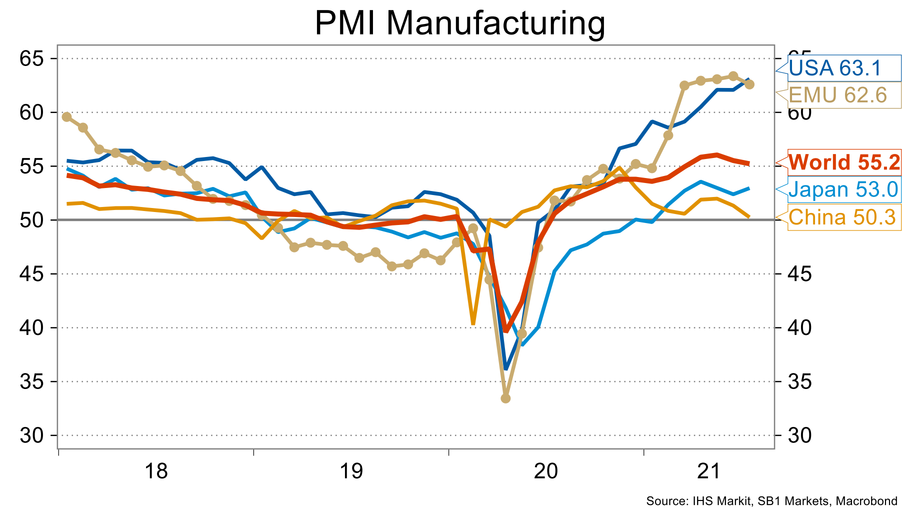
- **The global PMI** has peaked, so has very likely global growth – but it remains above an average level, and higher than the (likely) growth in Q2
- **The Chinese PMI** probably fell marginally, and is signalling growth marginally below trend
- **The US PMI** was weaker but still close to 60, signalling almost 5% GDP growth
- **The EMU PMI** rose more than expected, to above 60 (ATH), signalling 4% GDP growth
- Mixed in the manufacturing sector in **Asia x China**, but mostly down. However, the Indian manufacturing sector recovered sharply in July
- **Delivery times, input & output** prices are still increasing at a rapid pace but slower in July than in June

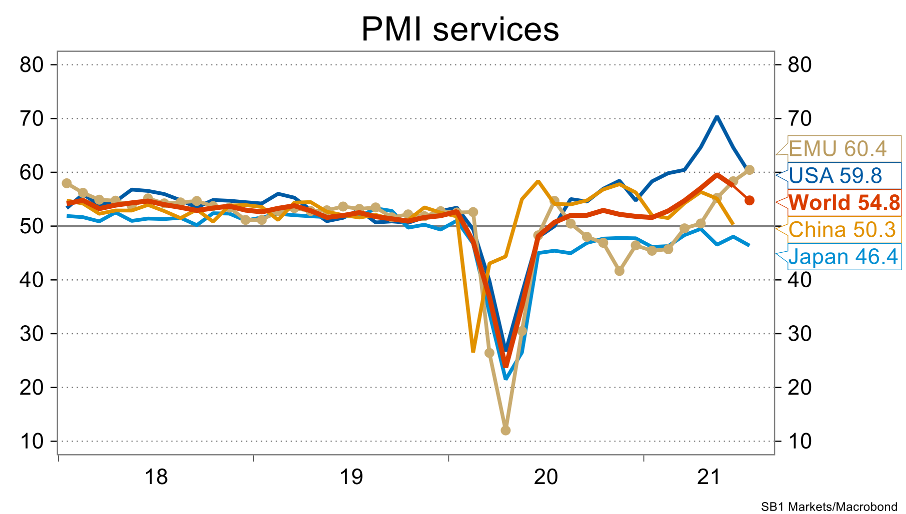
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

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



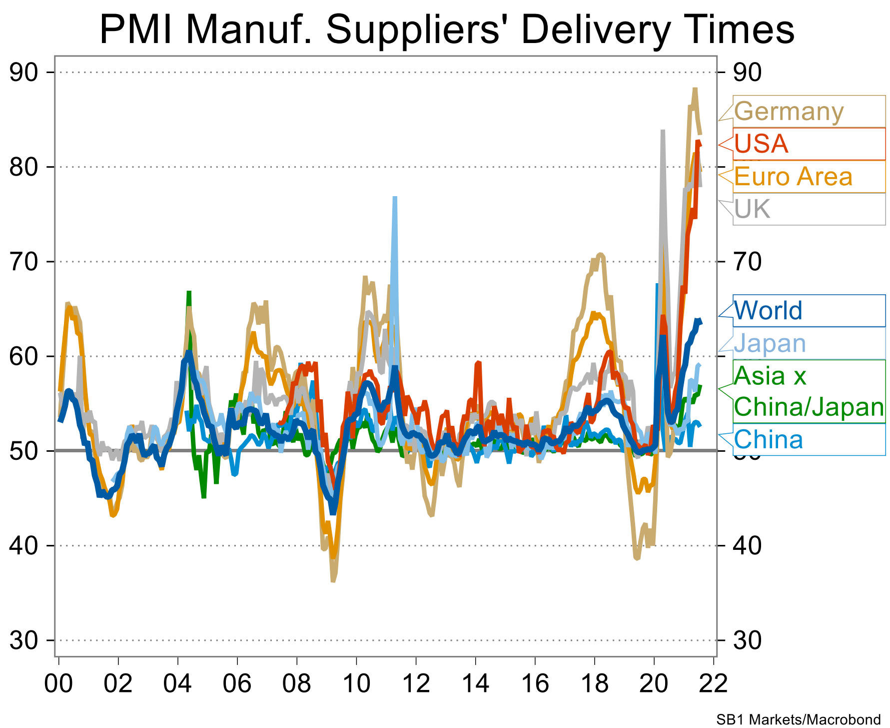


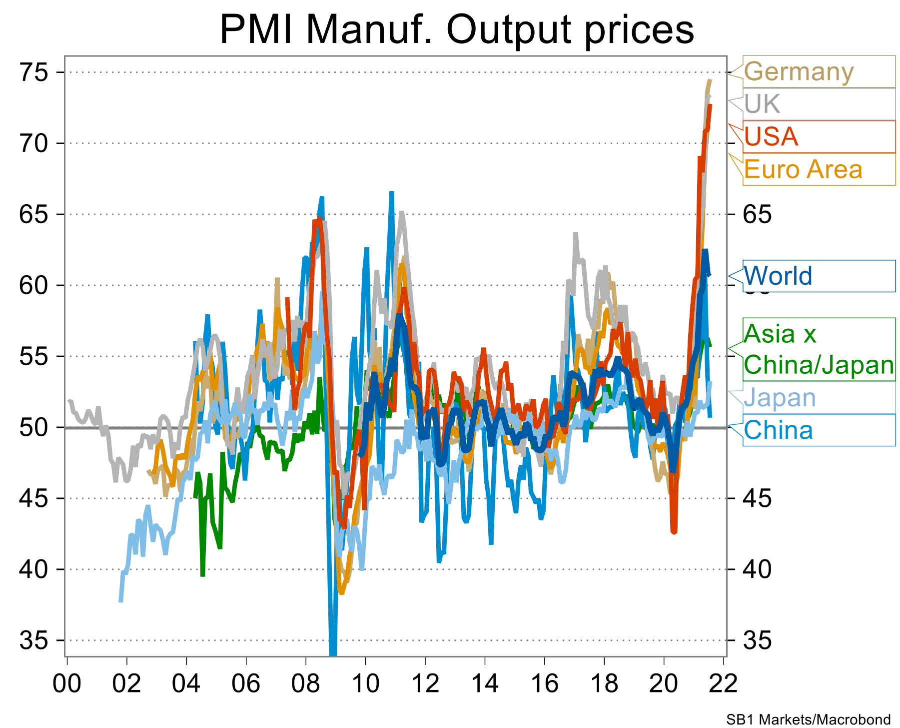


- The total **manufacturing PMI** was close to unch, while the **services PMI** fell almost 3 p
- Peak growth behind us in the **US** but as the GDP level has come close to the pre-pandemic trend, that's not a sign of weakness. And now crisis yet, PMI says 4-5% growth
- The **EMU** PMIs rose to ATH, and signals a 5% GDP growth
- We assume the **Chinese** composite PMI fell by 0.2 p, signalling growth marginally below average

Delivery times are still rising but at a marginally slower pace

Prices are rising at a rapid pace but a tad slower in July (The price index fell sharply in China)

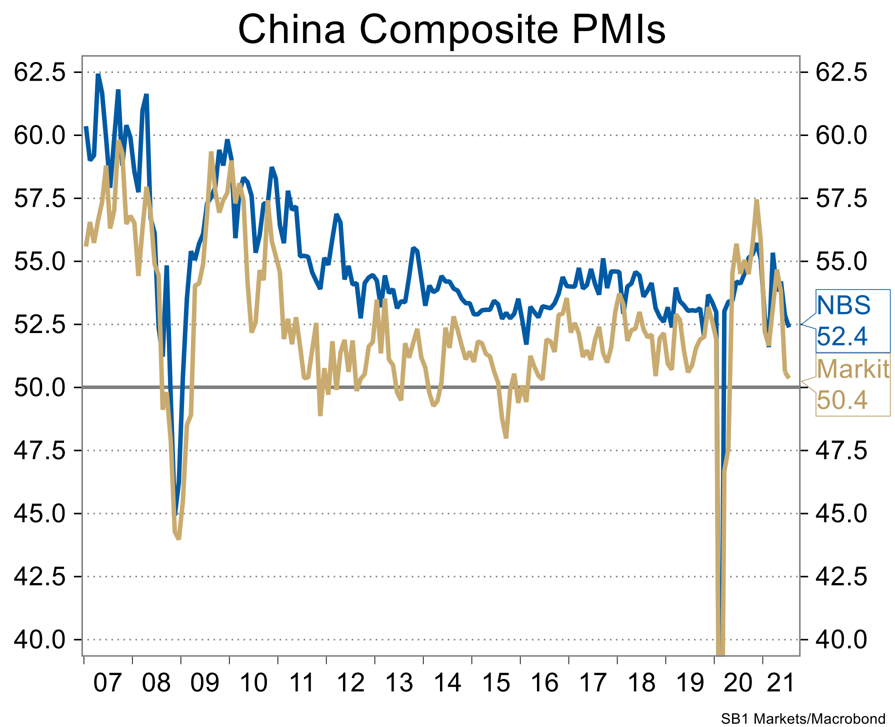


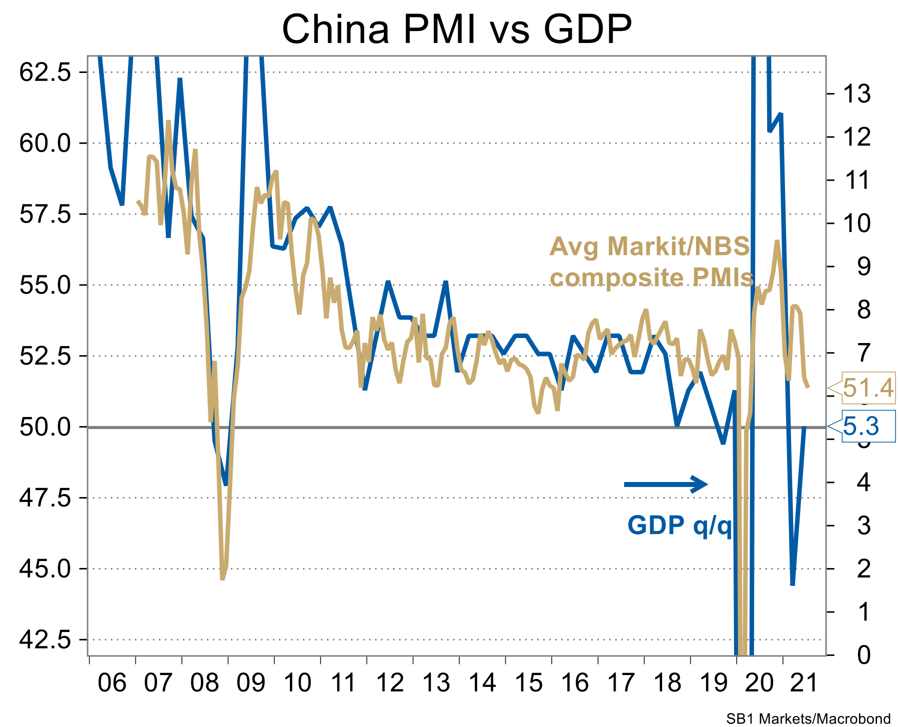


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) probably fell slightly in July, signalling that delivery times rose at a slower pace in July
- **The global manufacturing output price index** fell marginally in July, following a small decline in June

Weaker (but not that weak) July PMIs confirm a Chinese slowdown

Both NBS' & Markit's PMIs down, still signalling growth not far below trend, and better than in H1



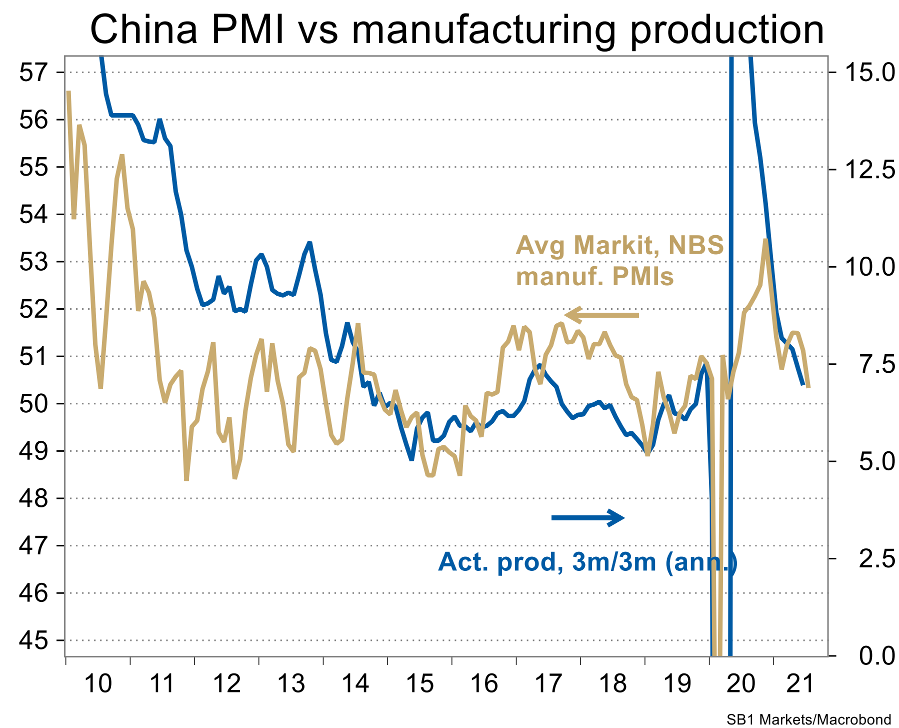


- The **NBS index** fell by 0.5 p to 52.4, below the average since 2012, expected down by 0.2 p
- We do not yet have the service sector PMI from Markit, but assuming the same (0.2 p) decline as in the NBS survey, **Markit's composite PMI** fell by 0.2 p to 50.6. The output component in the manufacturing survey fell just 0.2 p, less than total index (-1.1 p)
- Taken together, the two composite PMIs fell by 0.4 p to 51.4 which is 1.2 p below the average level since 2012, signalling growth somewhat below trend but far better than the H1 3.6% reported GDP growth pace

SpareBank 1 MARKETS

Both manufacturing PMIs sharply down – to just above 50

Still, both are close to the average level since 2012, and are signalling some 6% growth in production

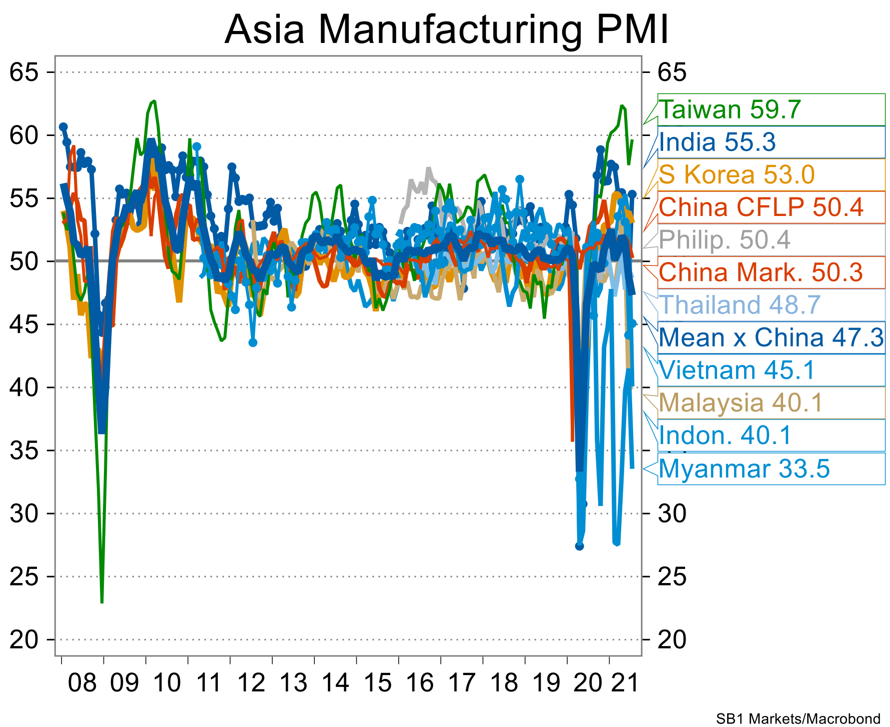


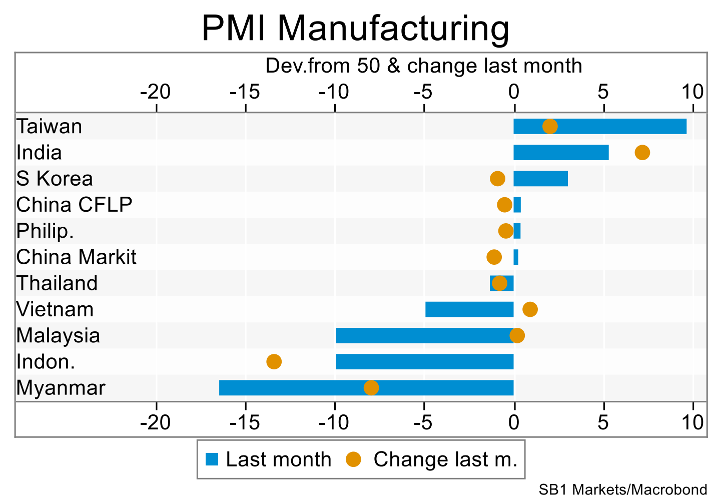
- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

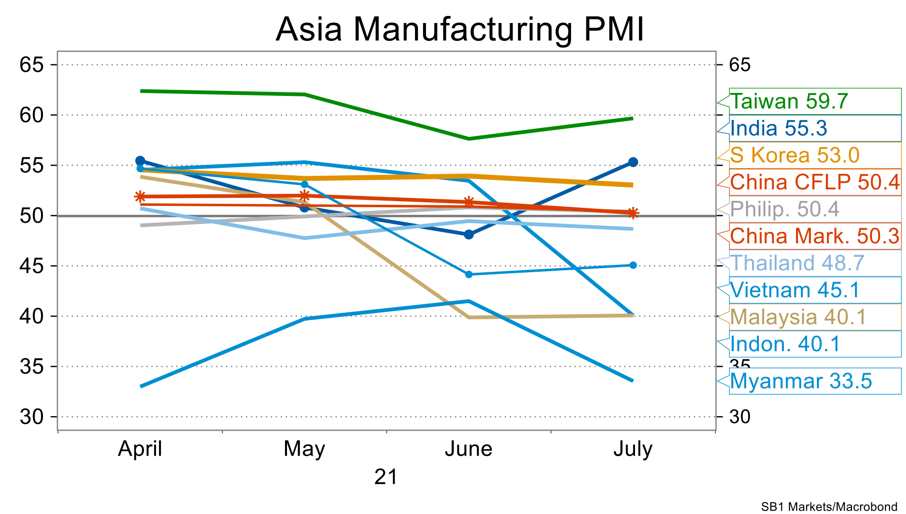
Order growth is slowing, both at home and from abroad

Rest of Asia: More down than up in July too but India recovered substantially

6 manufacturing PMIs are above the 50-line (unch), 5 are below (unch) – but just 3 up in July, 7 down



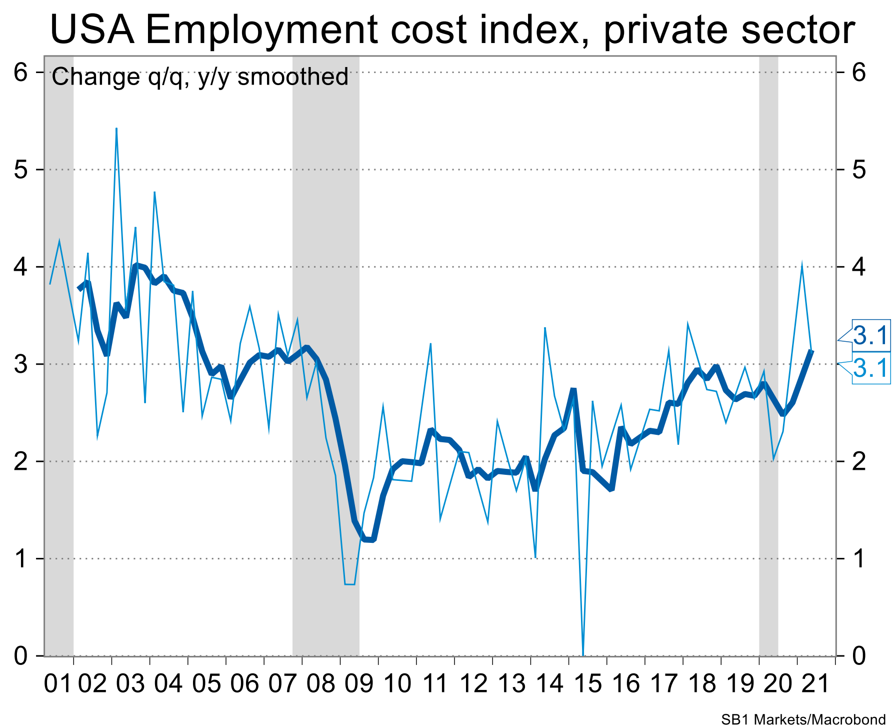


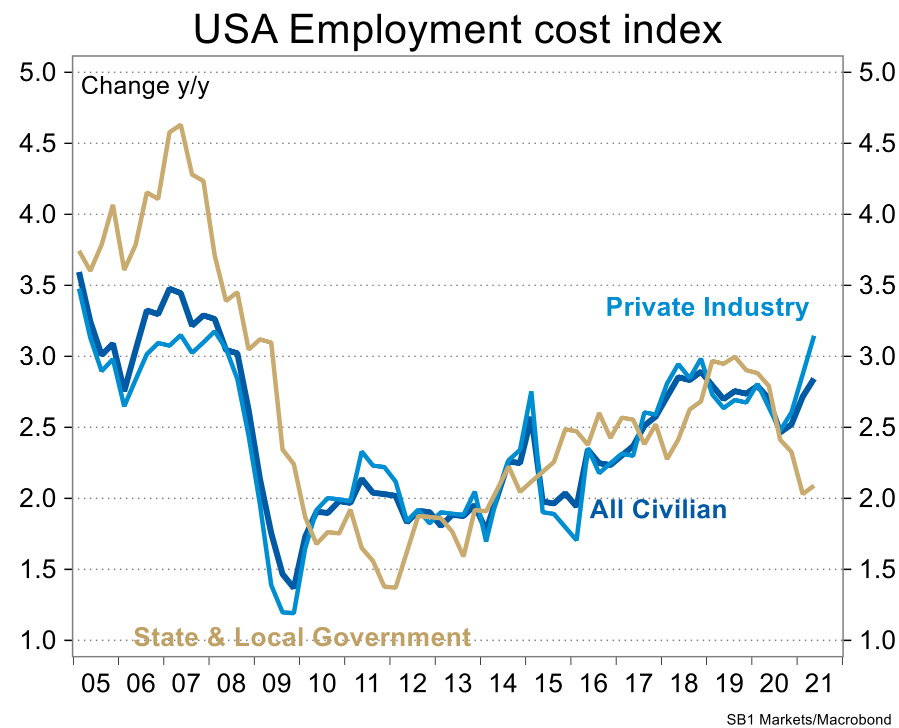


- Taiwan, India South Korea are still reporting decent growth – India from well below 50 in June
- Indonesia reported a huge decline in July as the Delta virus variant has hit the country hard

Employment costs calmed down in Q2, Fed still has its back free

Costs rose just 0.7% q/q (2.8% annualised), expected 0.9%, are up 2.8% y/y – 3.1% in the priv. sector

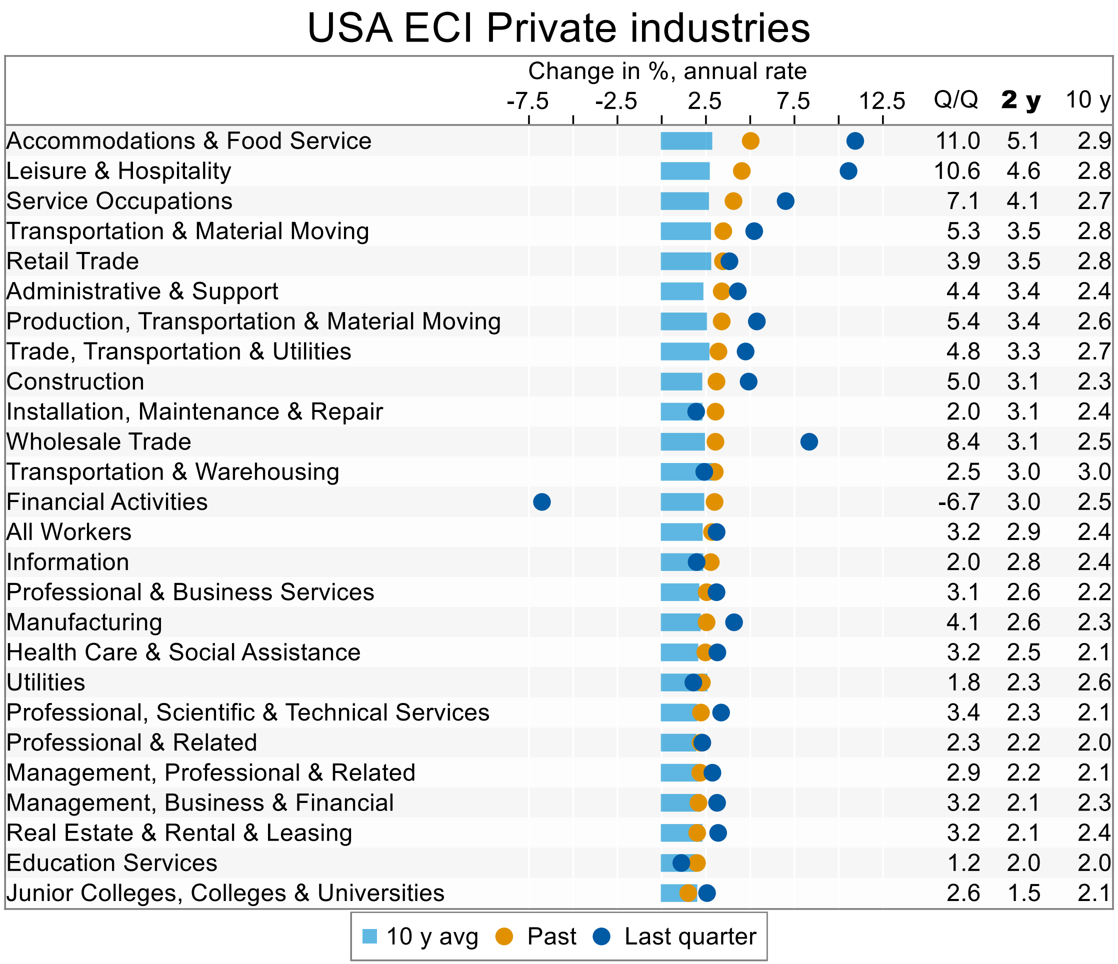




- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs, rose by 0.7% q/q in Q2, 0.2 pp less than expected. The annual rate still rose 0.1 pp to 2.8%. Low paid services reported high wage growth
  - In the private sector, the total wage rose by 0.8% q/q, and are up 3.1% y/y, the highest rate since 2008 – but still not a very rapid growth rate
  - Wages and salaries in the private sector are up 3.5% y/y, benefits by 2.1%. Since 2018 wages and salaries have been growing more rapidly than benefits
- A 3% employment cost growth is not problematic vs Fed's 2% inflation target, as it just requires a 1% growth in productivity in order to keep unit labour cost inflation at 2%
- **Other wage indicators** are mixed, check next page

Wages in hotels & restaurants sharply up in Q3 – and up 5 – 6% y/y

Wages are up 4 – 5% over the past 2 years in average



	Q/Q	**2 y**	10 y
Accommodations & Food Service	11.0	5.1	2.9
Leisure & Hospitality	10.6	4.6	2.8
Service Occupations	7.1	4.1	2.7
Transportation & Material Moving	5.3	3.5	2.8
Retail Trade	3.9	3.5	2.8
Administrative & Support	4.4	3.4	2.4
Production, Transportation & Material Moving	5.4	3.4	2.6
Trade, Transportation & Utilities	4.8	3.3	2.7
Construction	5.0	3.1	2.3
Installation, Maintenance & Repair	2.0	3.1	2.4
Wholesale Trade	8.4	3.1	2.5
Transportation & Warehousing	2.5	3.0	3.0
Financial Activities	-6.7	3.0	2.5
All Workers	3.2	2.9	2.4
Information	2.0	2.8	2.4
Professional & Business Services	3.1	2.6	2.2
Manufacturing	4.1	2.6	2.3
Health Care & Social Assistance	3.2	2.5	2.1
Utilities	1.8	2.3	2.6
Professional, Scientific & Technical Services	3.4	2.3	2.1
Professional & Related	2.3	2.2	2.0
Management, Professional & Related	2.9	2.2	2.1
Management, Business & Financial	3.2	2.1	2.3
Real Estate & Rental & Leasing	3.2	2.1	2.4
Education Services	1.2	2.0	2.0
Junior Colleges, Colleges & Universities	2.6	1.5	2.1

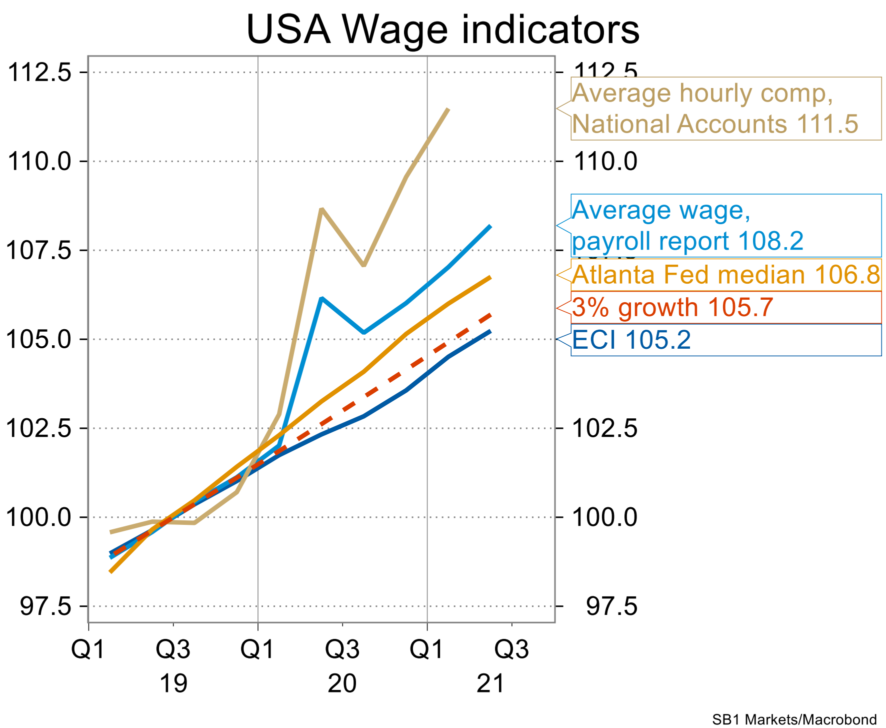
SB1 Markets/Macrobond

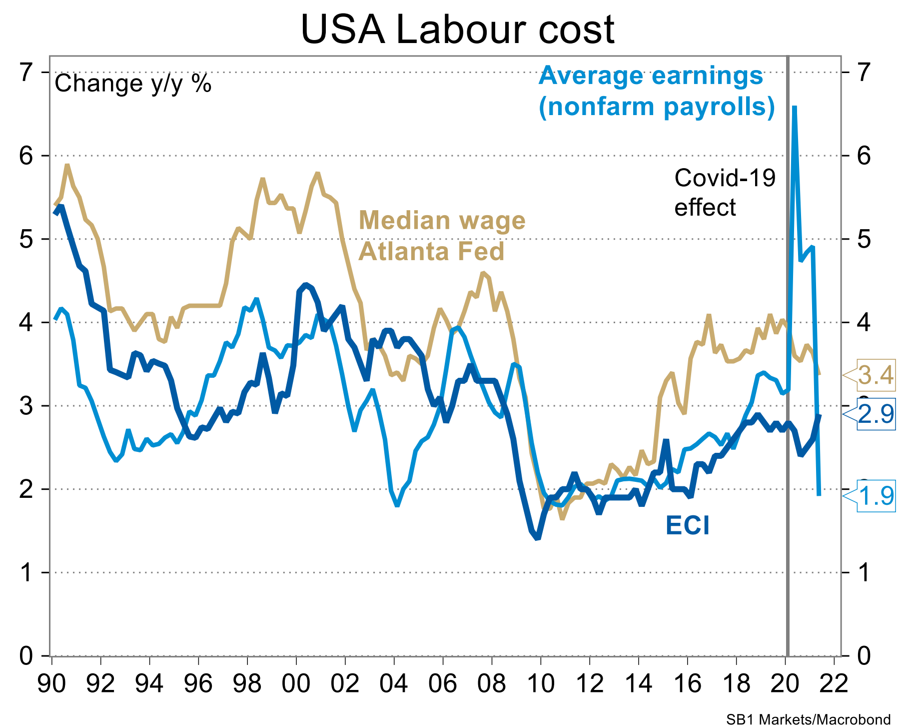
- The reopening of parts of the **service sector** has been accompanied by a significant lift in employment costs, some 2.5% q/q in Q2
- **The ECI in financial activities** fell in Q2, following the surge in Q1. Measured over the past 2 years, wages are up by 3% in average
  - » Thus, **ex finance**, the average lift in ECI in Q2 close to expectations (but the decline in finance could not have come as a surprise
- 19 sectors reported higher q/q employment cost inflation in Q2 than the average over the past 2 years, just 3 sector slower growth
- In addition, 21 sectors are reporting higher annual ECI growth than the average of the past 10 years, just 2 sectors are reporting lower than the 10 y average
- Over time, wages are rising at rather similar pace between sector, cfr the relative small differentials in the 10 y average growth in the ECI

SpareBank 1 MARKETS

Other indicators are reporting higher wage growth

… but the 'average wage indicators' are still probably influenced by changes in the employment mix

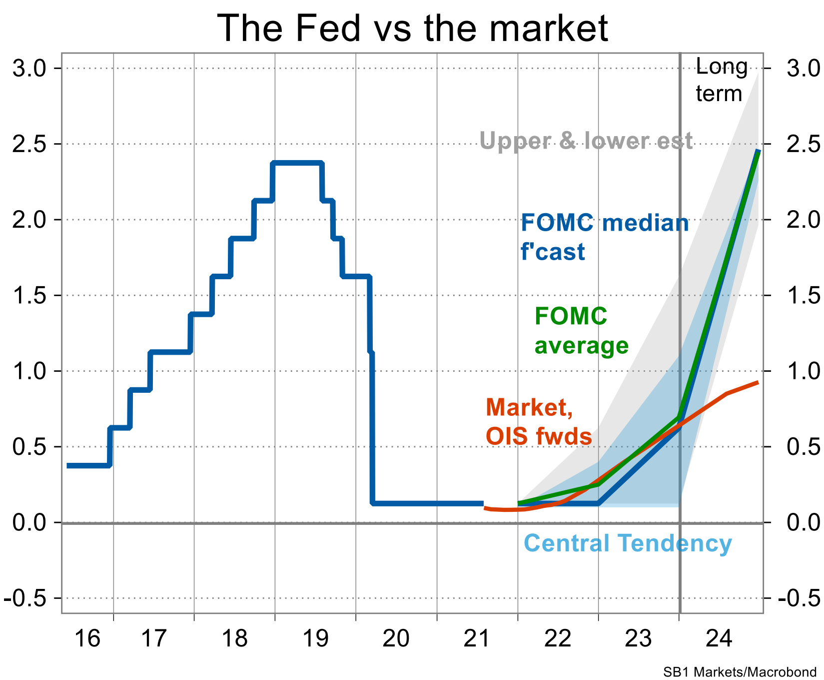




- **The Employment cost index** is up 5.2% vs. the 2019 average, implying an average increase by less than 3% p.a over the past two years
- Average earnings in the **monthly payrolls report** are up 8.2% vs. 2019, or approx. 4% p.a.
- Average total compensation as estimated by **National Accounts** are up 11.5% or by 6.6% p.a. This measure is the most volatile – but over time the 'correct' result
- **Atlanta Fed's** survey of median wages are up 6.8% or close to 3.5% in average – with no sign of acceleration
- We still put most emphasis on the ECI and the Atlanta Fed's median wage measure – but we cannot ignore the National Account data after some few quarters. Neither can the Federal Reserve. (And the surge in average compensation per hour has not been compensated by higher productivity, which it should have, if the low paid, low productive workers have not yet returned to the labour market

The FOMC is moving closer to tapering, *the economy has made progress*

… but targets are not yet met

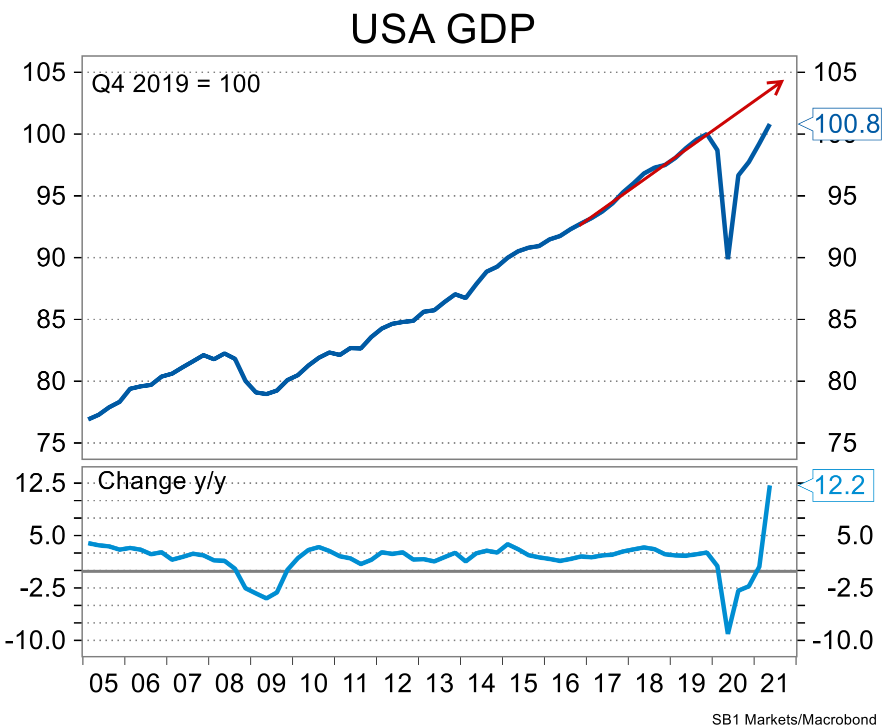


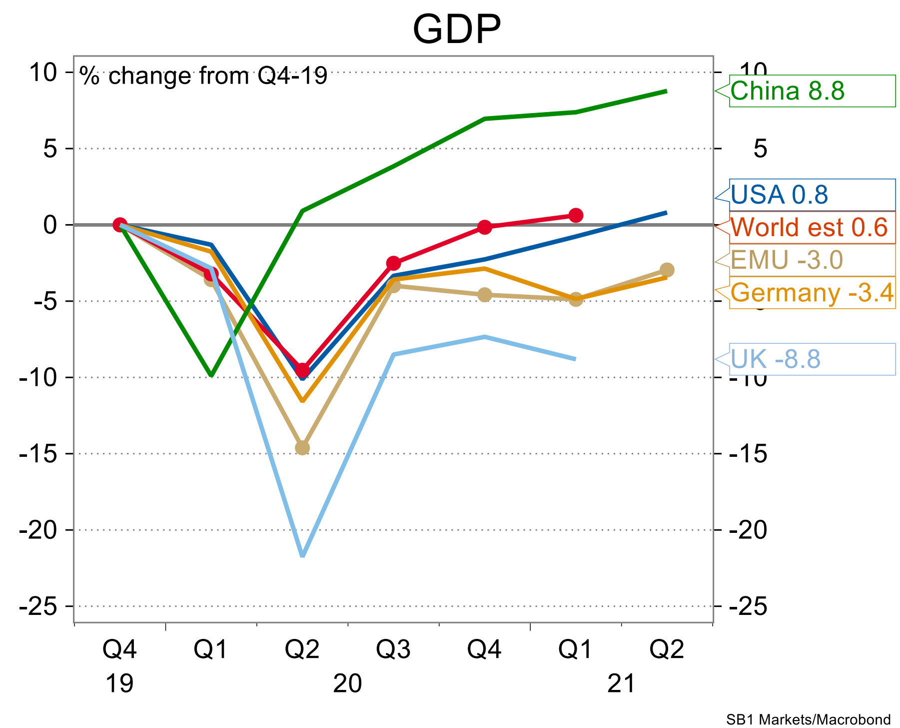
The market is pricing in the first Fed hike in Q4-22

- The FOMC left the **target rate** unchanged at 0-0.25%. No change on the **QE volume** either, USD 120 bn per month in Treasury bonds (80 bn) and mortgage bonds (40 bn) – everything as all expected
- The FOMC once more gradually changed its descriptions of the economy: *The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered,* is the current wording. Six weeks ago, the FOMC said these sectors *remain weak but have shown improvement'*.
- Even if the economy has not fully recovered – and the labour market is 'ways away' from Fed's preferred balance – the language vs timing of tapering was changed. *(...) the economy has made progress toward these goals (inflation, employment which justified the QE program), and the Committee will continue to assess progress in coming meetings*. Which implies that the QE programs will be discussed.
  - » Even if bank says it will 'continue to assess', 6 weeks ago the statement did not give any hint that the QE programs were on the table – even if the minutes from the meeting showed they were, at least for some participants
- We think it is quite likely that the FOMC will give the first formal tapering warnings at the September meeting (where economic forecasts and the dot-plot are published as well), and that the Fed can gradually reduce the QE volumes by the end of the year. The FOMC seems to be doing all it can to prevent another 'tantrum' by preparing the market long time on beforehand
- The FOMC decided to establish a **standing repo facility** for domestic depository institutions and another for foreign central banks/institutions which could act as liquidity backstop mechanism to stabilise money markets if liquidity dries up like it did in 2019 and during the first days of the corona crisis.
  - » Today, the problem in the market is the opposite, the Fed has to offer reversed repo agreements to prevent money market rates from falling too low as the money market is flooded with liquidity (perhaps because the Fed at the same time is running its aggressive QE program…)
- **Market reactions:** Muted, real interest rates fell further, while inflation expectations rose – like they did through last week, before and after the FOMC announcement. Real yields are record low, the 10 y at -1.16%!!

Q2 GDP up 6.5%, well below expectations (8.5%) – but 0.8% above the p-p level

Services are recovering but still well below par



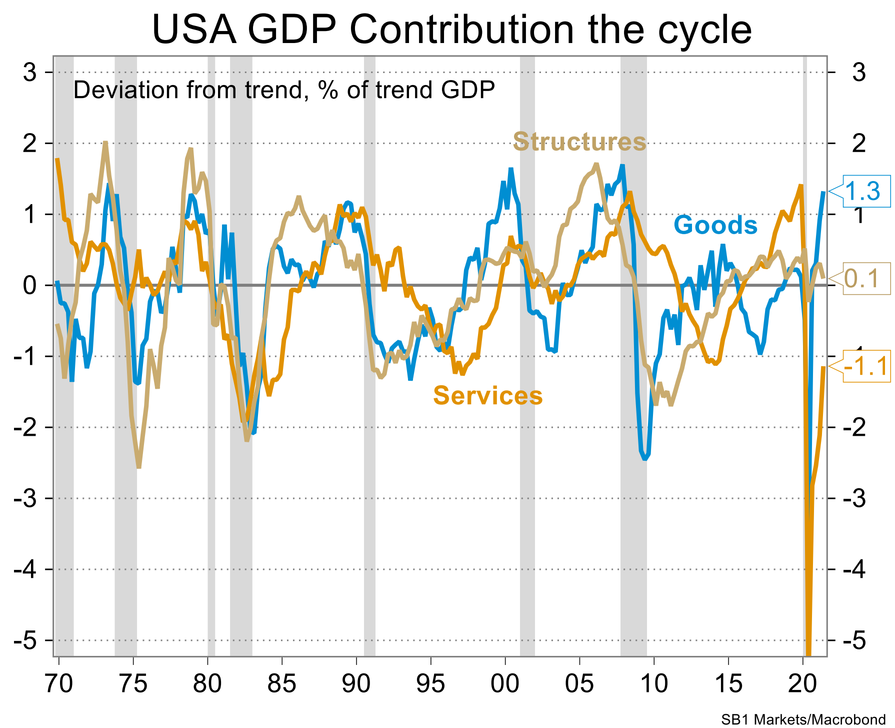


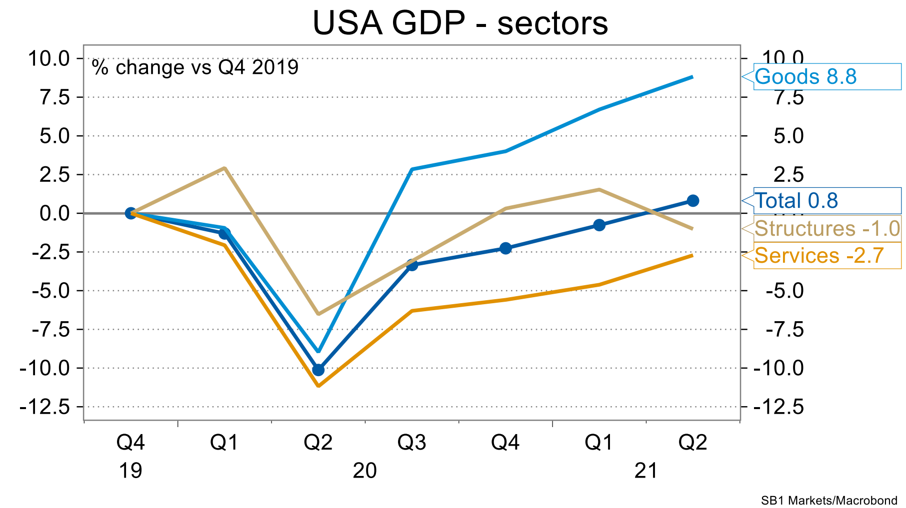
- **GDP** grew by 6.5% annualised in Q2 (1.6% not annualised), as in Q1 (6.4%) but well below expectations at 8.5% (2% not annualised). The GDP level is 0.8% above the Q4-19 level – but still some 2.7% below the pre-pandemic (2.4%) growth trend
  - In order to reach FOMC's Q4 estimate, GDP must grow by a 7.2% pace in H2, which does not seem reasonable
- **US is now well ahead** of European countries. The extreme US fiscal policy measures taken in both 2020 and in Q1-21 explains most of the difference in performance vs the Euro zone

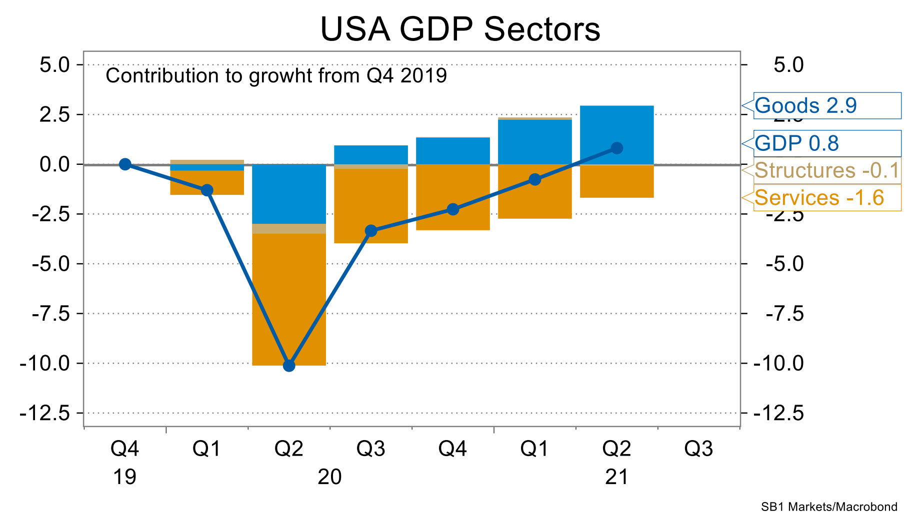
SpareBank 1 MARKETS

Services are recovering but are still a substantial drag on activity

A solid recovery in Q2, up 2% from Q1 – but goods are still going (extremely) strong



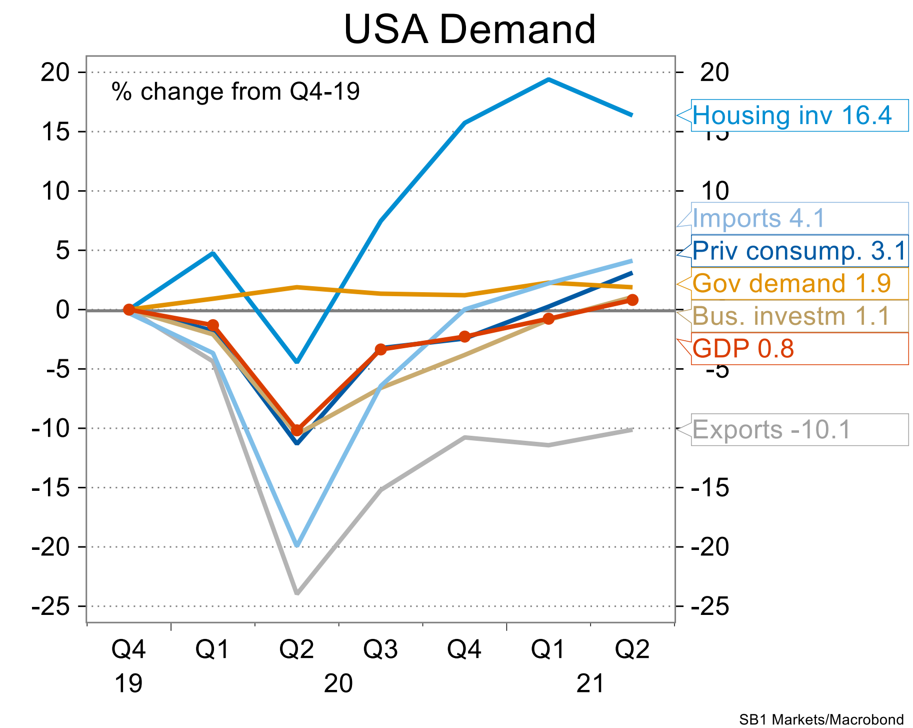


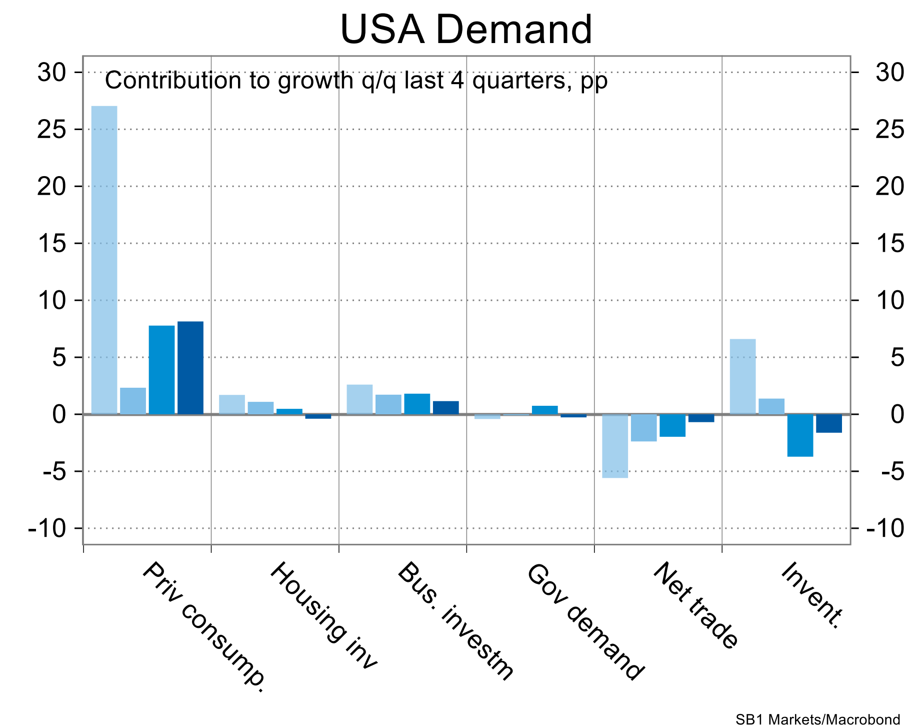


- Normally goods and structures are the main culprit during recessions, at these sectors are the most volatile elements in the economy. In addition, services are normally lagging. During the Covid-19 crisis, the service sector was the main swing factor – and it has far from recovered

Consumption has recovered, as have business investments. Housing at the top

… vs the pre-pandemic level, even if housing investments fell in Q2

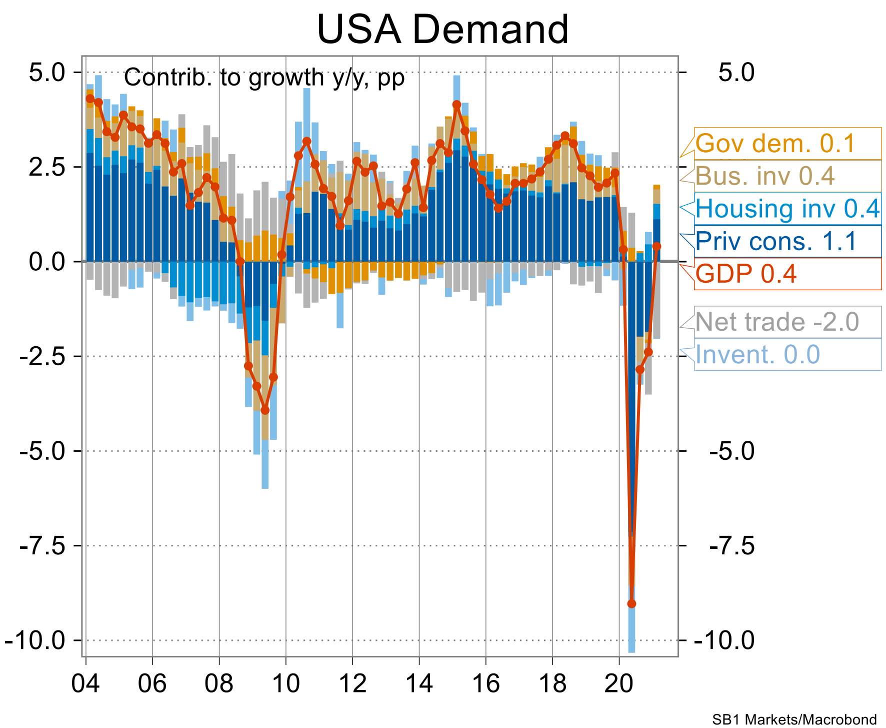


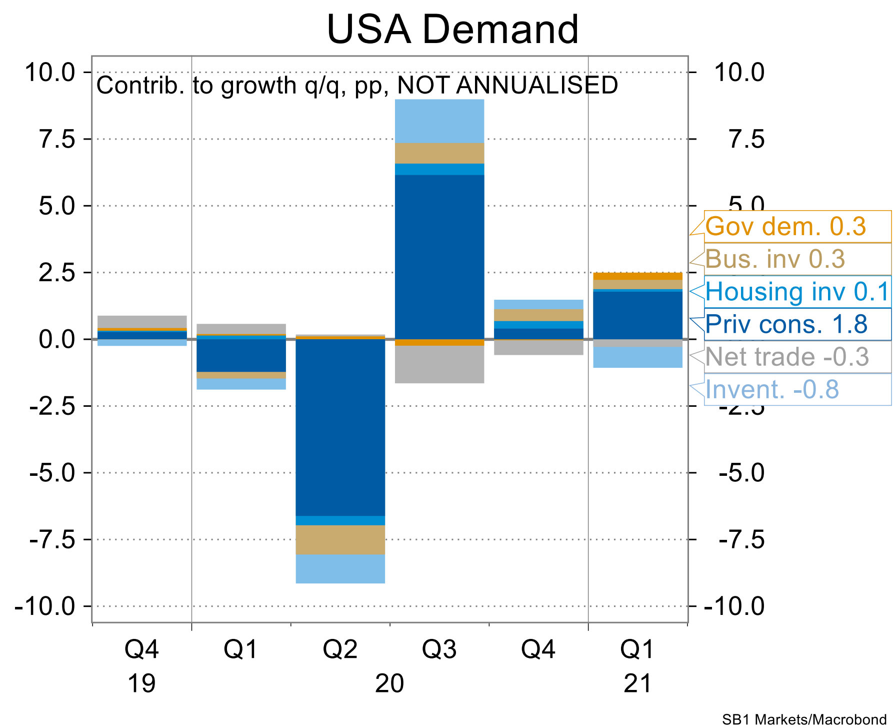


- **Private consumption** grew at a 11.8% pace in Q2, contributing 8.1 pp to GDP growth. Consumption is finally above the Q4-19 level – and the savings rate is still somewhat above a normal level (more on consumption, income & savings in June some pages forward)
- **Housing investments** fell in Q2, following a 20% surge from Q4-19 to Q1-21
- Business investment rose further in Q2, by 8% - lifting GDP by 1.2% - but growth is slowing (from a high level)
- **Government demand** fell slightly but is up from before the pandemic
- **Exports** rose by 6% in Q2, while **imports** grew 7.8% - and net trade deducted 0.7% pp from growth in GDP
- Drawdown of **inventories** deducted 1.6 pp from the GDP growth in Q2, following a -3.4% contribution in Q1. Inventories are probably now somewhat too low – and a build-up is likely the coming quarters

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

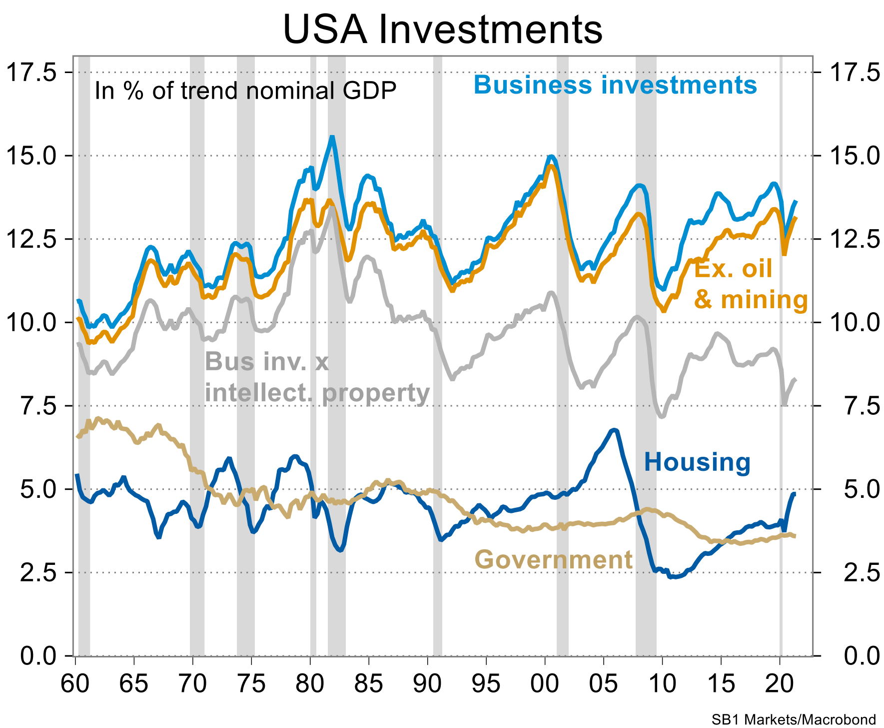
Just net trade and inventories contributed on the downside in Q2 (and net trade measured y/y)

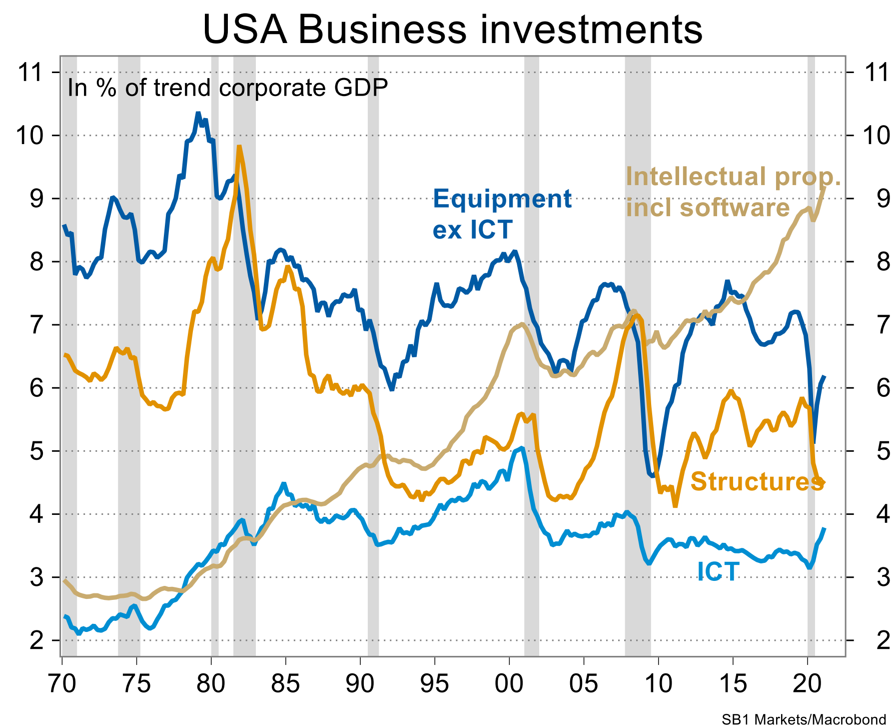




Investments: In sum, already above trend – but still more to go?

Business investments above trend just due to IP & software, ICT. Other equipment, structures still weak

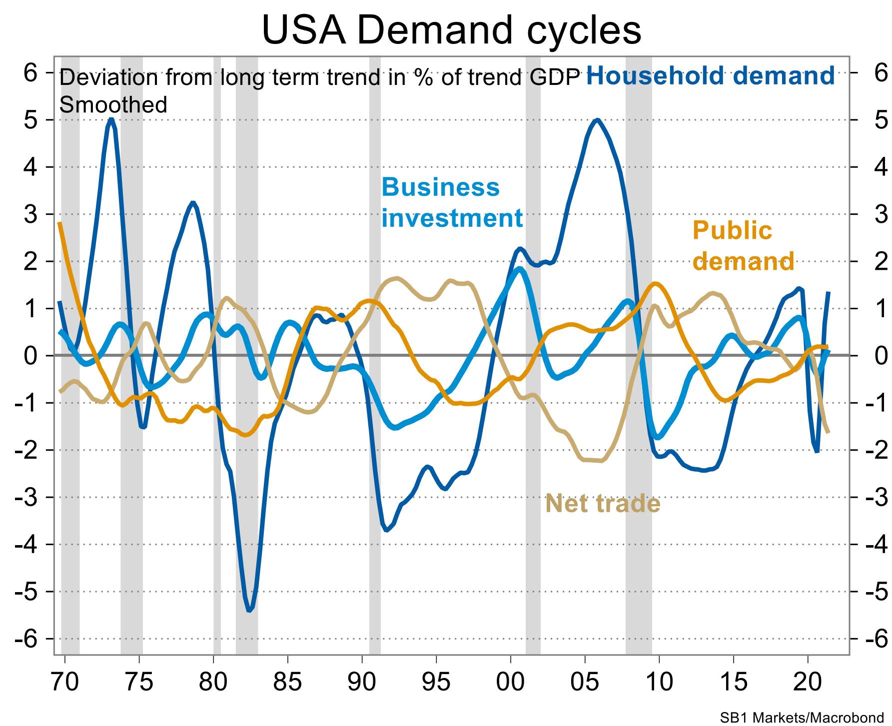


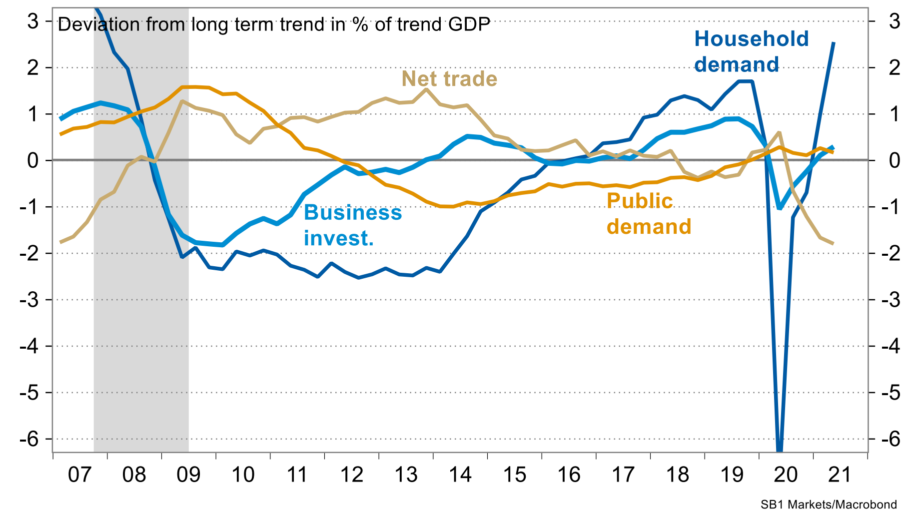


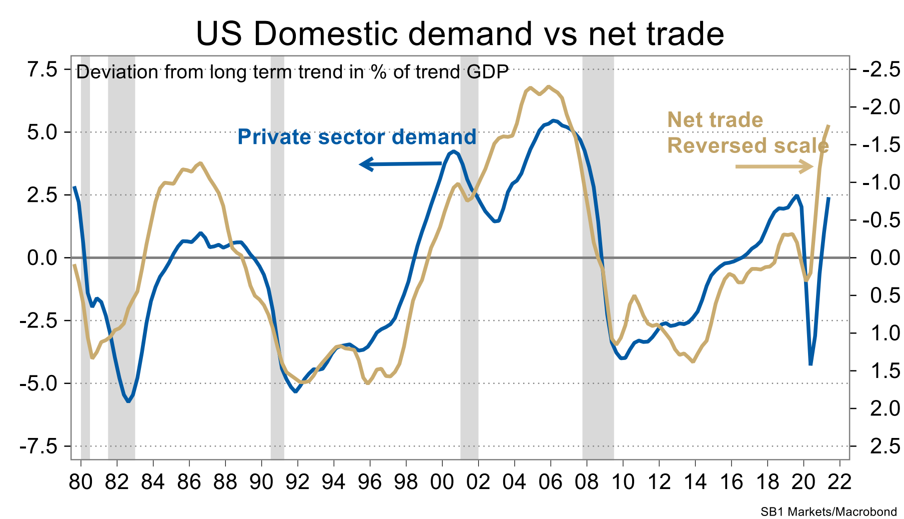
- **Business investments** are up 1.1% vs. the Q4-19 level, driven IP/software and ICT equipment. Investments in structures are still very low (and was revised down in the annual GDP revision). Investments in equipment x ITC is still at a low level
  - » Thus the outlook for business investments is not clear: The boom in IP/software/ICT may well continue, even if the levels are high. There is still upside for other equipment and structures, at least vs the normal cycles in these sectors
- **Housing investments** fell slightly in Q2, following the surge the previous quarters
- **Government investment** as share of GDP is on the way up – but probably still too low. The infrastructure package which is finally manoeuvred through Congress, could lift public investments somewhat the coming years but far less than ½% of GDP

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

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



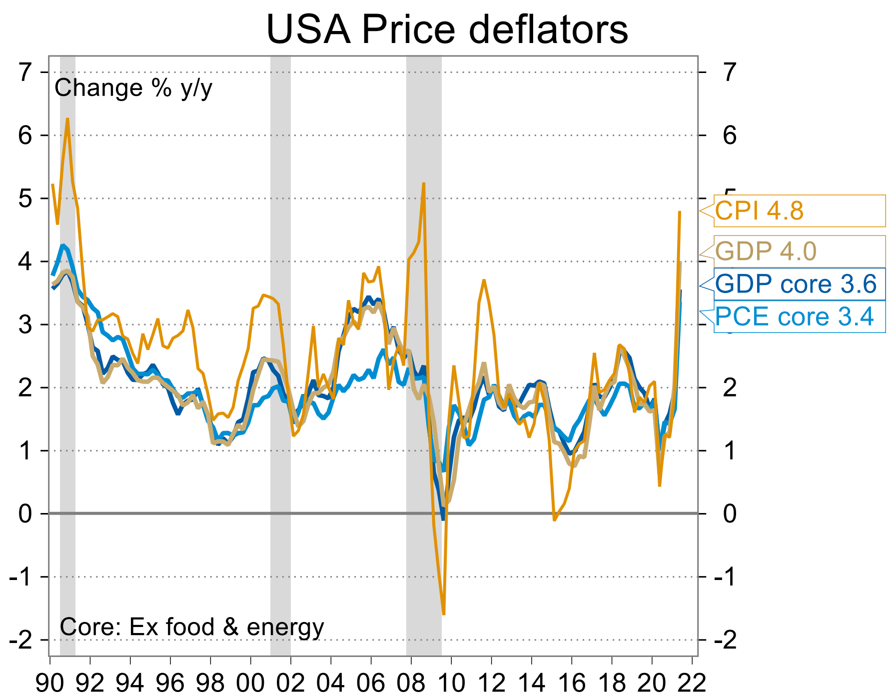




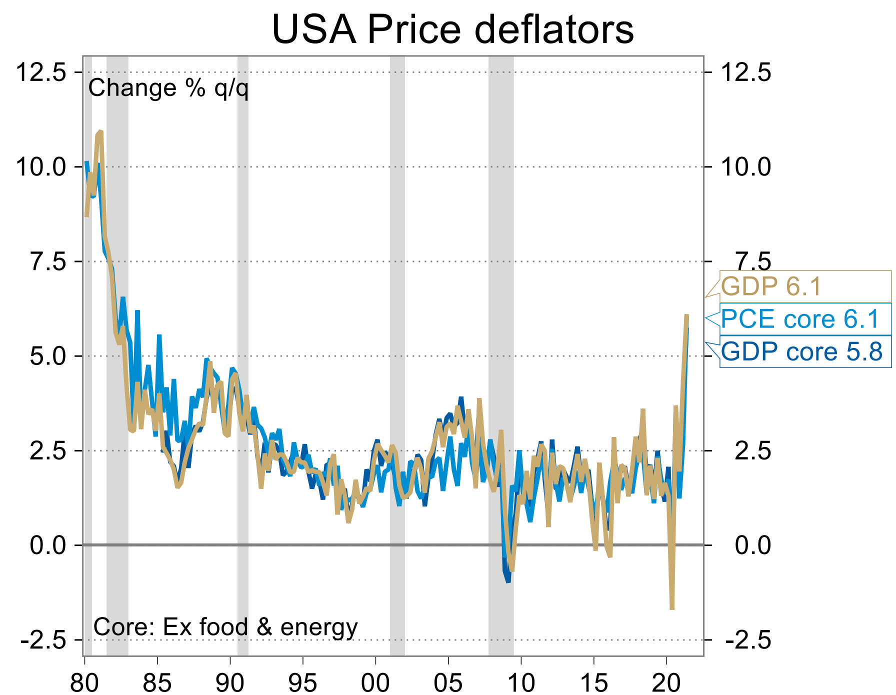
- *Check more on the household sector some few pages forward*

Higher inflation confirmed (which is no surprise)

All GDP/PCE deflators up 3.5 – 4% in Q2, at the fastest pace in some 40 years



SB1 Markets/Macrobond

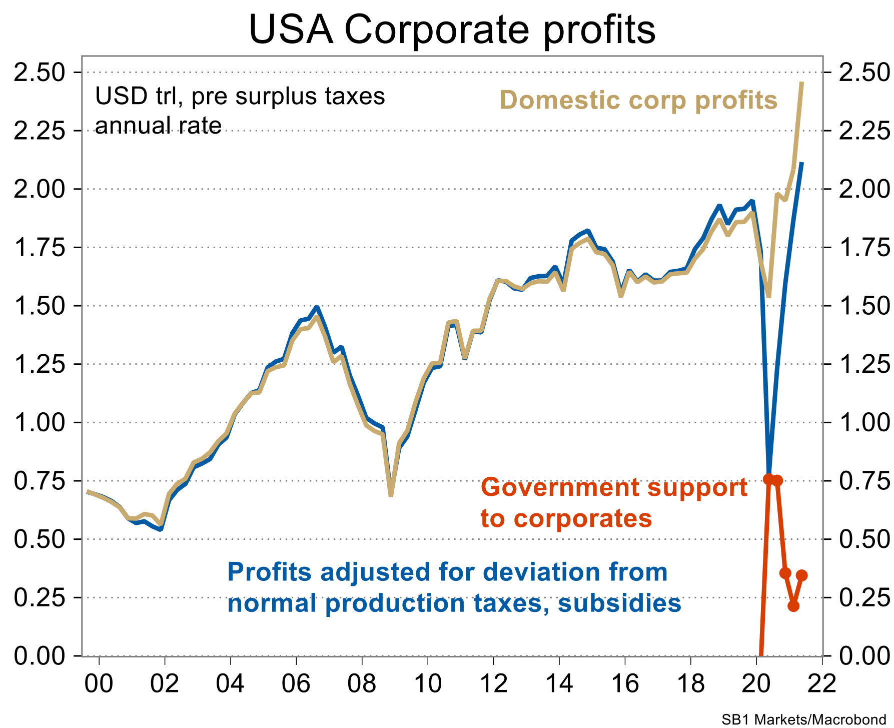


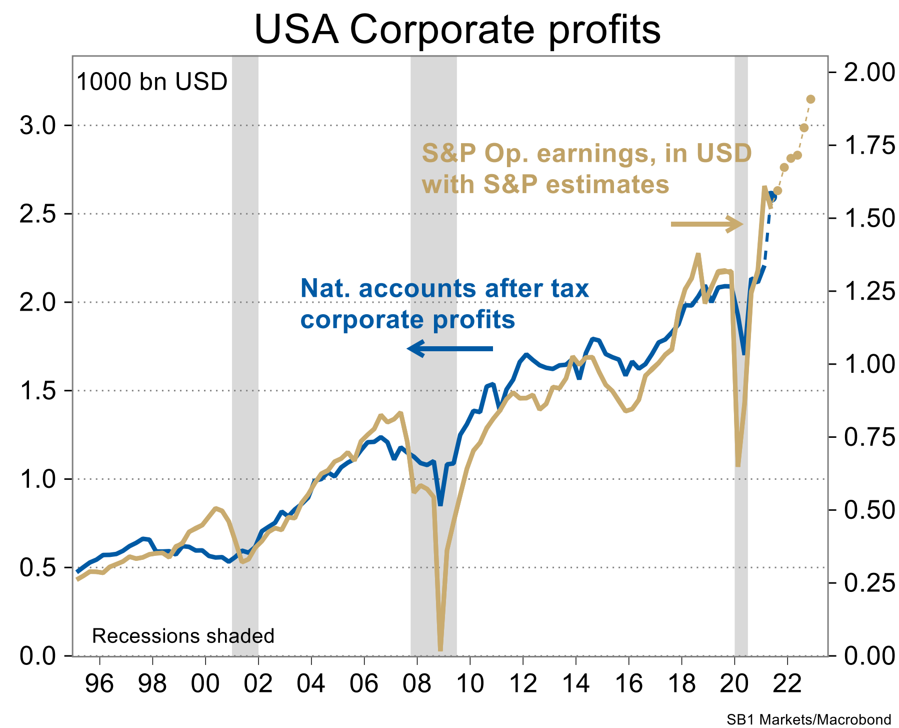
SB1 Markets/Macrobond

- Higher energy prices partly to blame but other prices have also contributed in H1
- The core PCE deflator (Fed's preferred measure) is up 3.4% y/y (and by 6.1% in Q2 vs Q1, expected 6.0%)
- Nominal GDP – grew at a 13% pace in Q2 – but is still up just up 3% per year over the past 2 years

Corporate profits surged in Q2, both for 'real' and due to more government subs.

All details not yet published but our calculus suggests a 18% lift q/q!

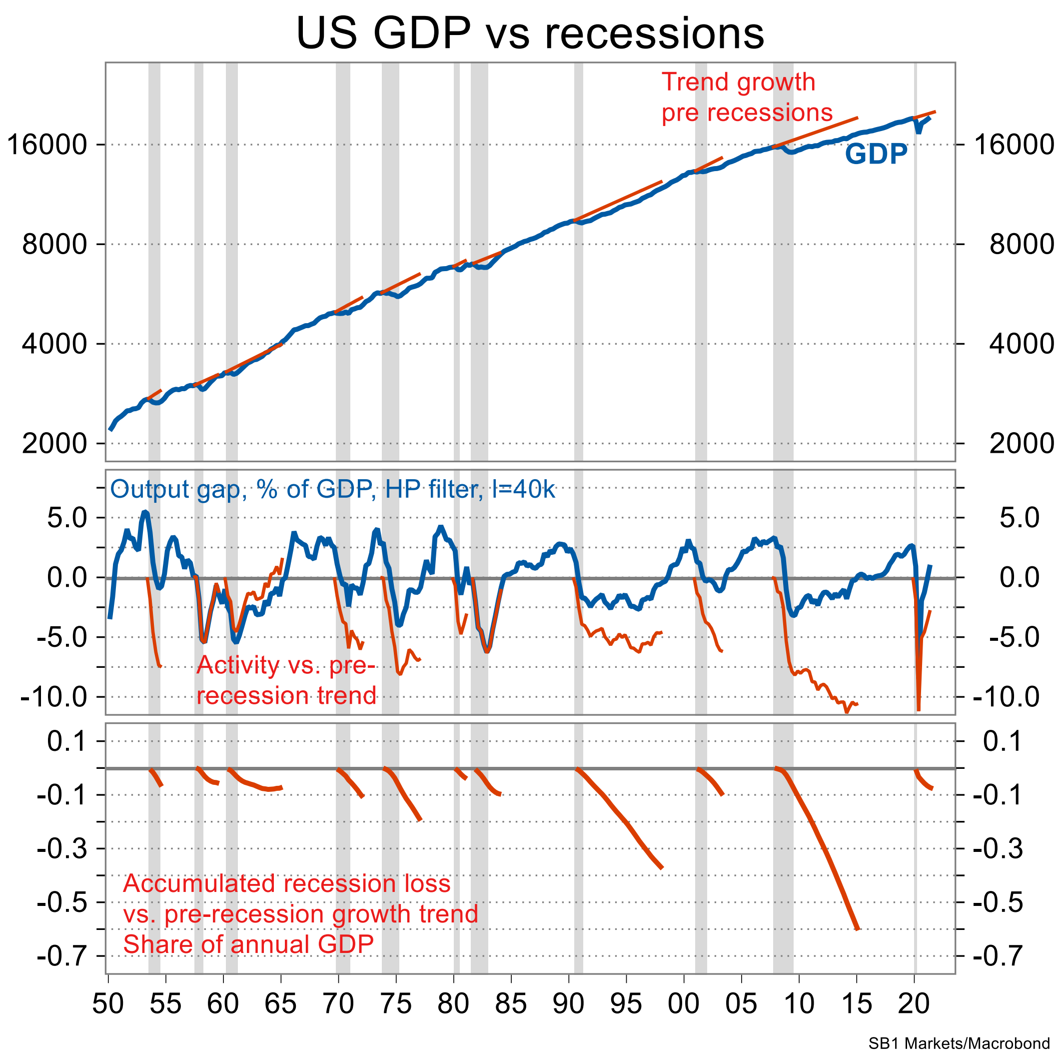


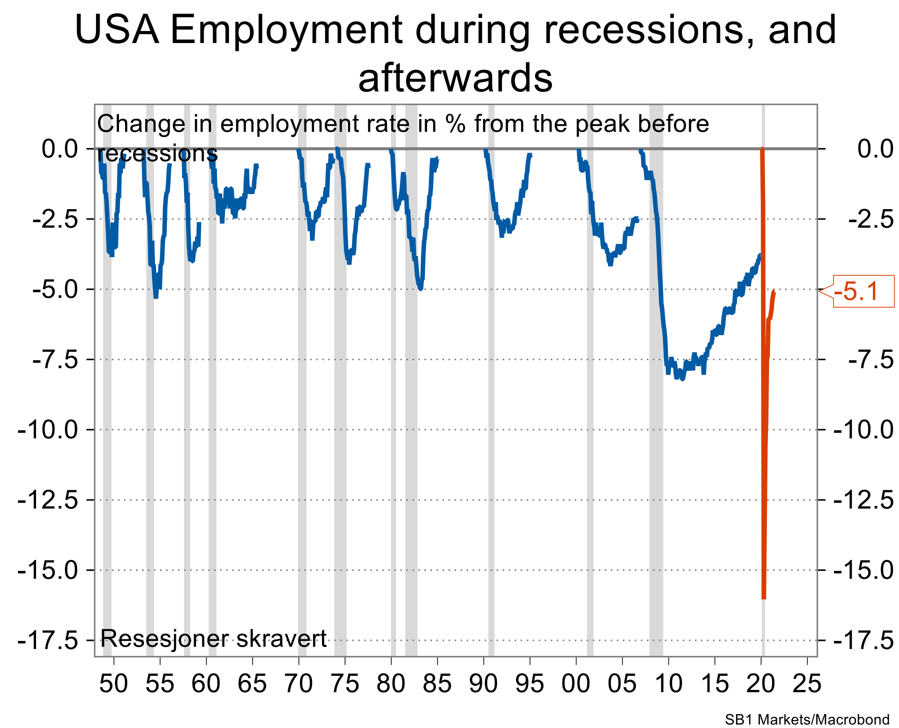


- **Government pandemic programs** have lifted **domestic corporate profits** at an unbelievable scale – and still support profits by 20% of normal profits. In Q2, the public support rose somewhat vs. the Q1 level, we expected a further reduction
  - » It is possible that some of the new programs that has been decided – and may be decided (the infrastructure program) have some elements of subsidies included
- We doubt profits will climb as fast at S&P's forecast at the chart to the right, either growth slows or wage inflation will pick up. Wages rose less than value added in Q2 (1.8% vs. approx. 3.5%), and thus far less than profits (18%)

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

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

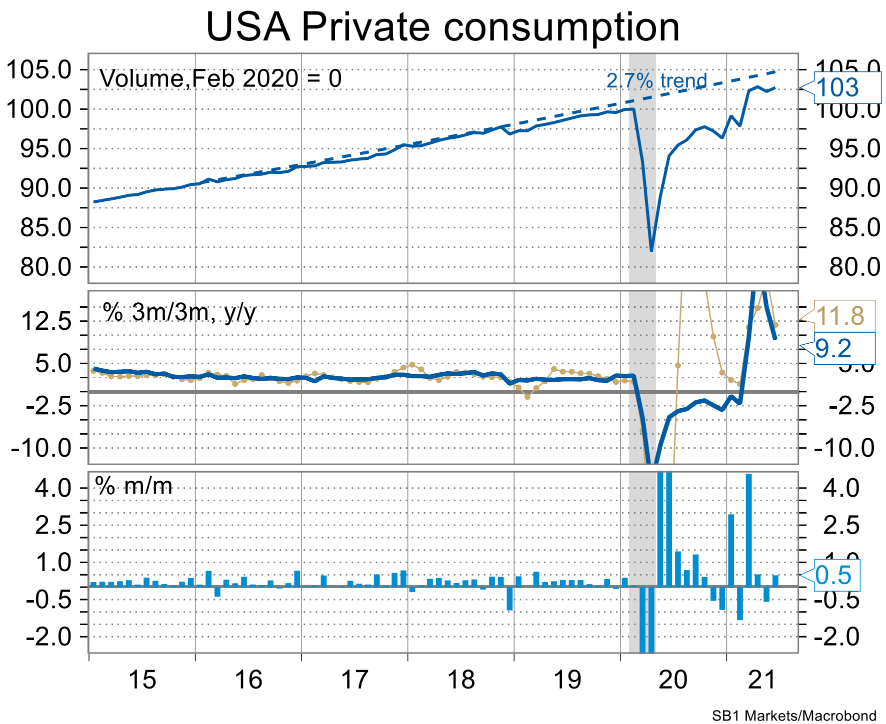


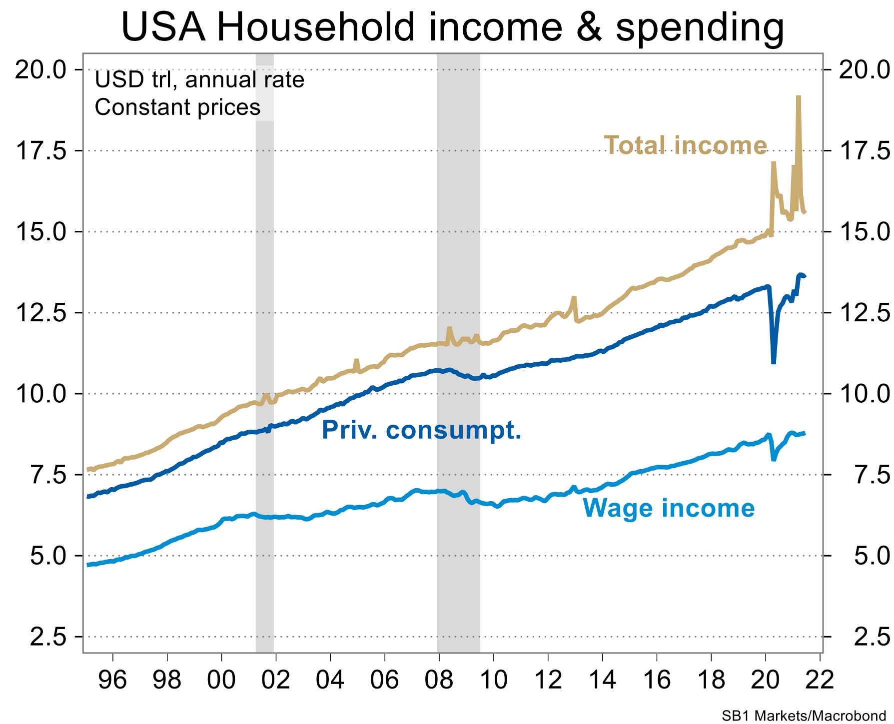


- **The accumulated GDP loss** at the bottom chart to the left is calculated by accumulating the gap to a reasonable growth forecasts ahead of the recession based on actual growth trends the 3 – 5 years before the downturn (adaptive expectations (red lines at the top panel to the left). These gaps are accumulated 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 (2008 – 09) created the hardest economic downturn since WWII, by far as growth the following years was far lower than most expected before the crisis
- The accumulated employment loss was large as well

Spending & income up in June, and income fell. Savings not that high anymore

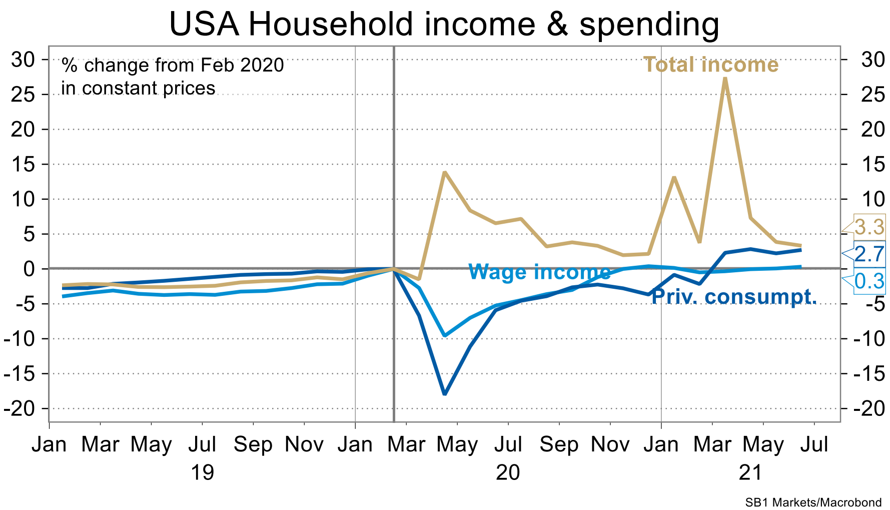
Real spending up 0.5%, income fell 0.5%, no more stimulus cheques. The savings rate to below 10%

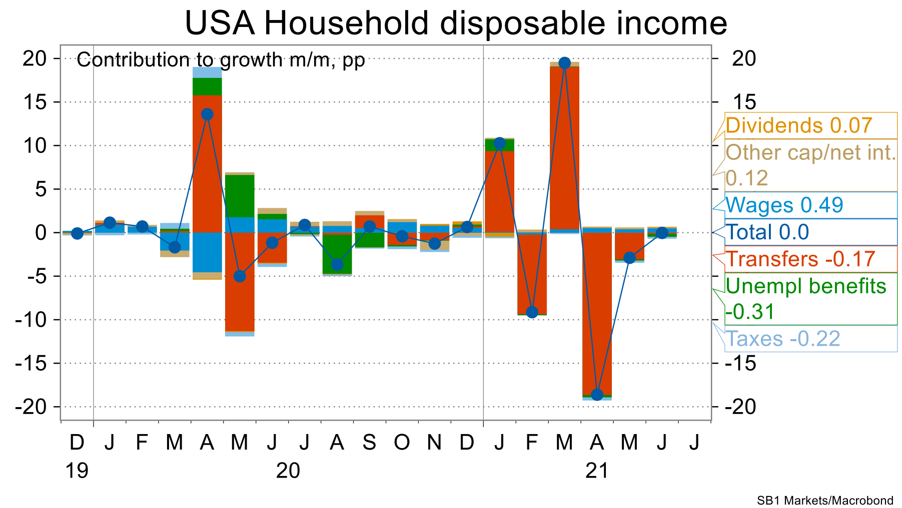




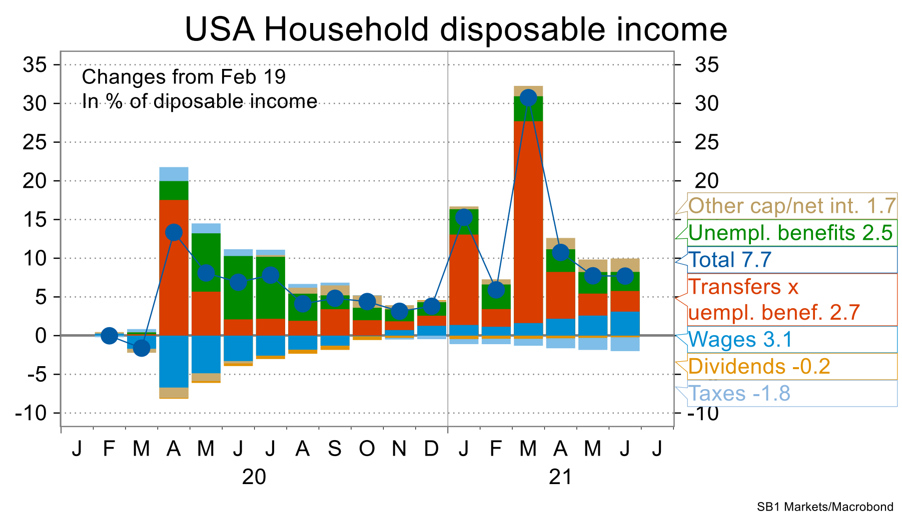
- **Private consumption** climbed 0.5% in real terms in June (spending rose 1% in nominal terms, expected +0.7%). Consumption in real terms have flattened since April, as goods have yielded while services are recovering
- **Personal disposable real income** fell by 0.5% in June (household income rose by +0.1% nominally, expected -0.2%). Government transfers fell further. Market based revenues rose
- **The savings rate** fell by 2.1 pp to 12.4% - which is still 5% above a 'normal' level. At the same time, net transfers-taxes are some 4% of disposable income too high – and a normalisation will have to take place of the coming quarters/years
  - » Over the first 5 months in 2021 nominal spending is up by some USD 300 bn more than implied by a 'normal' growth in spending. Income is up by an extra USD 900 bn. Thus, approx. some 40% of the 'stimulus cheques' have been spent, while 60% have been saved for a rainier day – equalling 2.6% of annual income. In addition, the current savings rate is far above a normal level! So spending capacity is not exhausted

Income growth is normalising – down in real terms in June



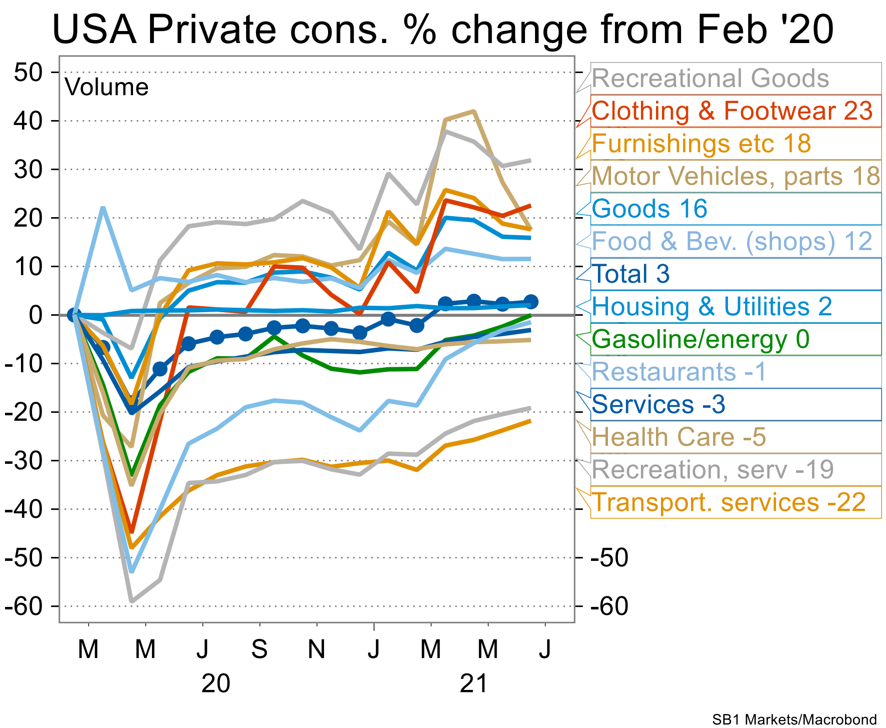


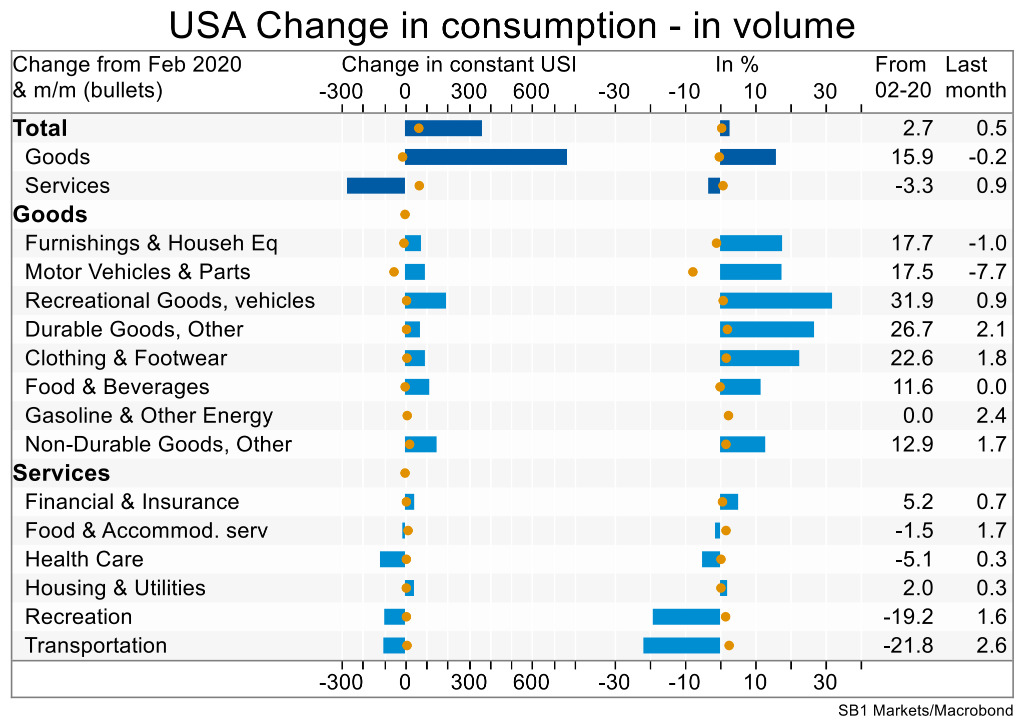
- **Last month:** Household disposable income was flat (nominally) in May
  - » Transfers from the government fell further, in total by 0.5% of disp income. Wage income rose by 0.5%
- **From Feb-20:** Disp. real income is up by 3.3%, following a downward revision. Nominally, income is up 7.7%
  - » Nominal wage income is 3.1% above the Feb-20 level, even if hours worked still is far below, as the average wage is sharply up
  - » Unemployment benefits are up equalling 2.5% of disp. income. Total 'labour' income is up 5.6%, a normal income growth
  - » In addition, other transfers are up eq. 2.7% of disp. income, far higher than a normal growth rate
  - » All these extra incomes (and more) have been saved, as it has not been possible to spend them where consumers wanted



Consumption of goods is slowing, services up – but just slowly

Consumption of goods down 0.2% in June, services up 0.9%. Goods +16% vs Feb-20, services still -3%

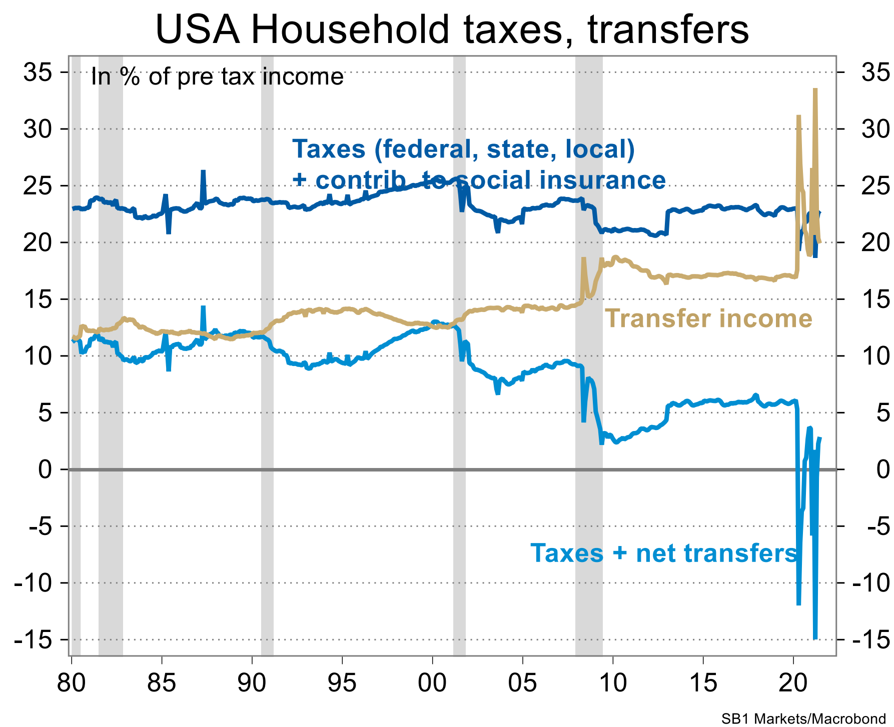


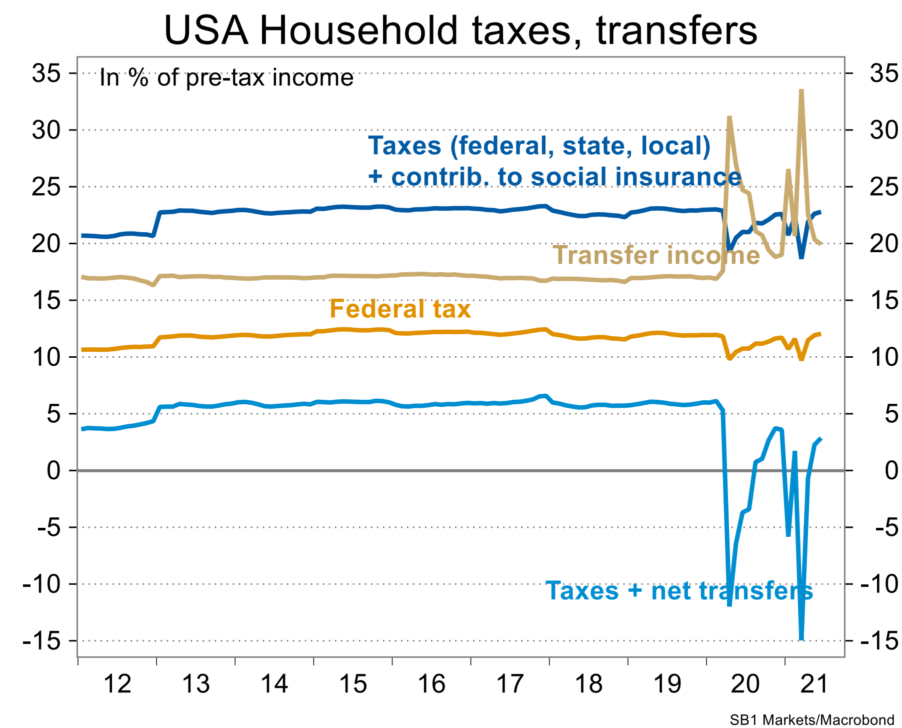


- The slowdown in **consumption of goods** is broad – and will very likely continue the coming months – as the level is way above any reasonable sustainable level – if spending on services should increase further
- **Consumption of services** rose 0.9% in June, all main sectors are up. Spending is now 3% below the Feb-20 level, in volume terms. Restaurants are down 1.5%, while transportation is still down -22%, recreation -19% (both revised down) - so there must be more to go as the covid situation allows
- Total consumption us up 2% vs. Feb-20, a below par growth rate over 16 months – <u>and total spending has flattened in real terms since April</u>

Towards more normal times – but transfers are still higher than normal

The net balance between the government (state, federal) and households is still unsustainable

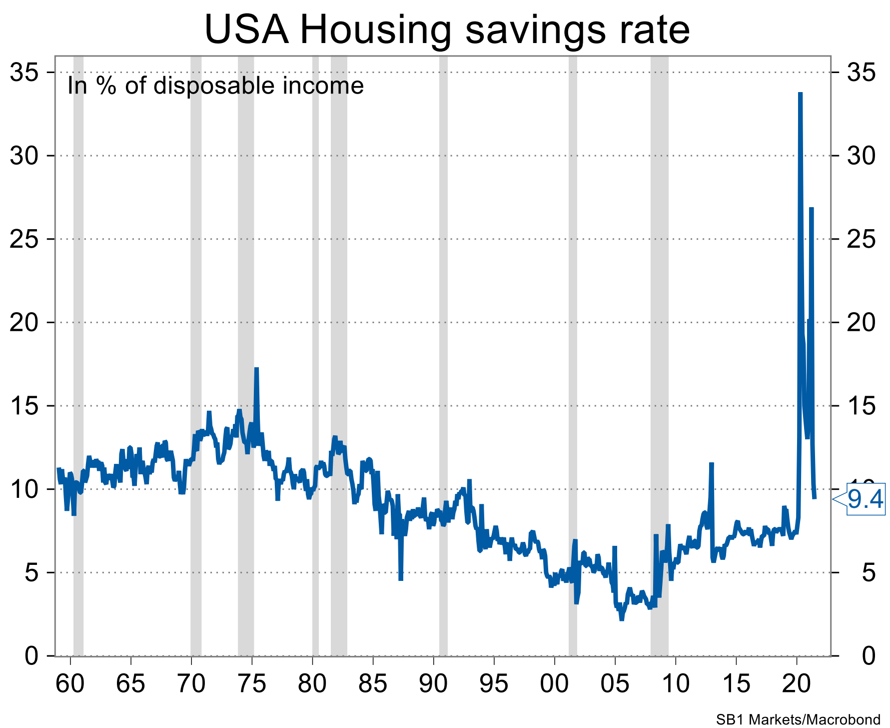


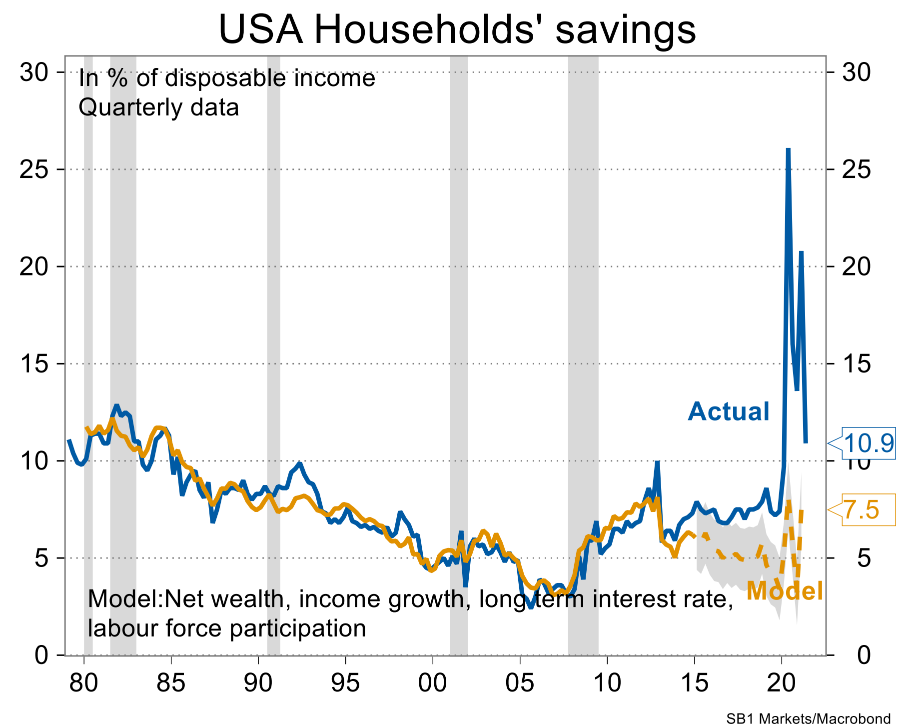


- The net balance is some 3% of disposable income below the pre-pandemic net transfer/tax rate
- In addition, the this 'normal' implied a substantial government deficit – which was not sustainable either

The savings rate revised down. Fell to below 10% in June, 'just' 2pp > 'normal'

The Nat. account revision shaved 0.7 pp from the Q1 savings rate (and 2 pp from the May rate)

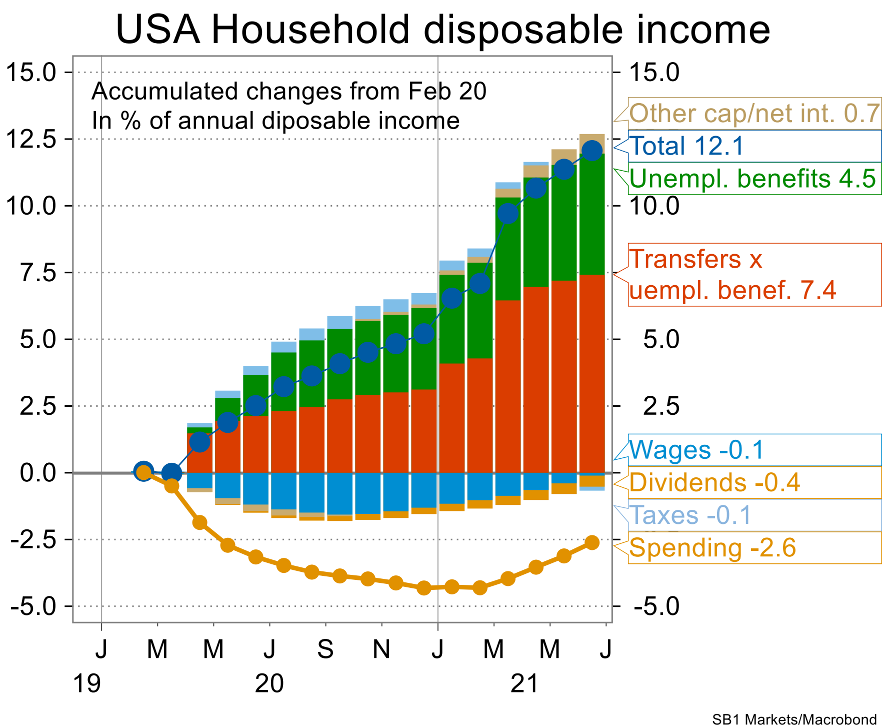


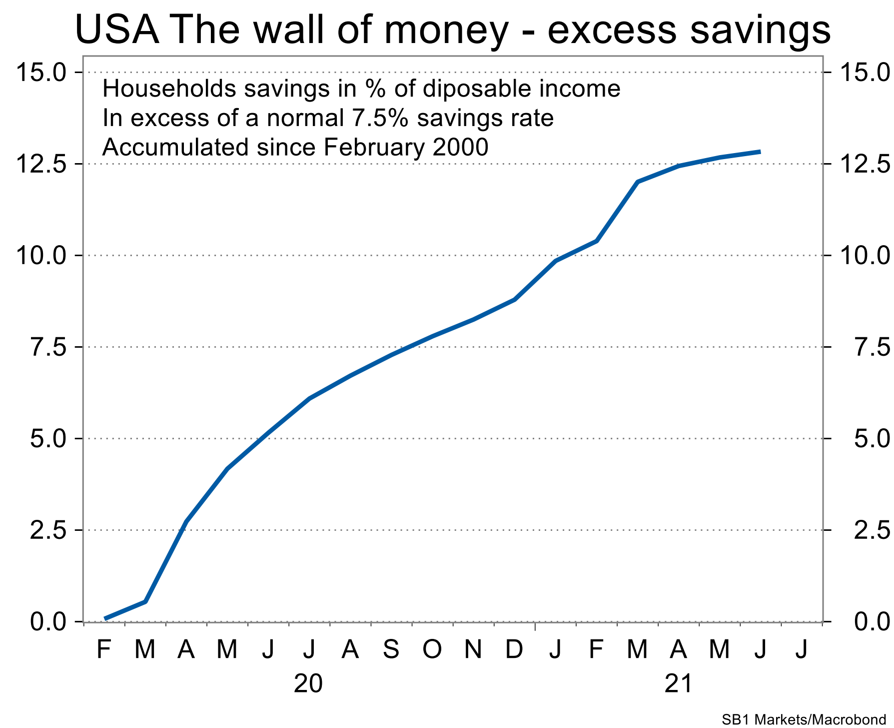


- The **National account revision** shaved 0.7 pp from the Q1 savings rate to 20.8% and by 2 pp to 10.3 in May
- In June, the savings rate fell by 0.9% to 9.4% - which is not that much higher than the pre-pandemic level at some 7 – 8%
  - » However, this extra savings can fund a 2 – 3 % lift in total consumption above income growth the coming months/quarters, which is sufficient to lift consumption to above the pre-corona growth path
- In addition, **accumulated households excess savings** during the covid crisis amount to some 12% of annual disposable income

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

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

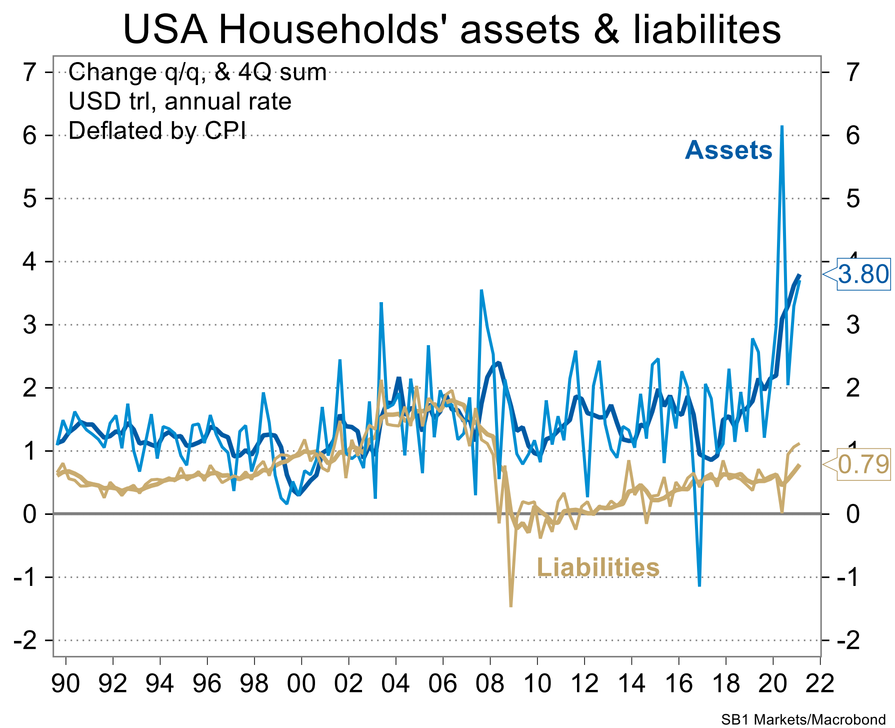


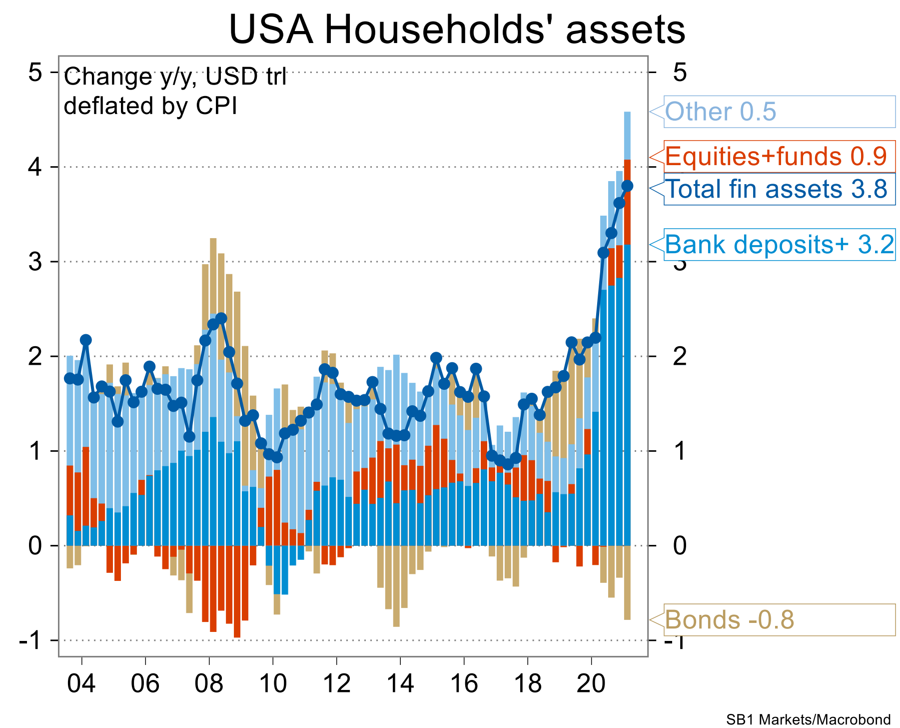


- … That is, income losses from 'the market', wages, dividends & other capital income. Income growth has been fabulous – and spending has been weak, on services & in total

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

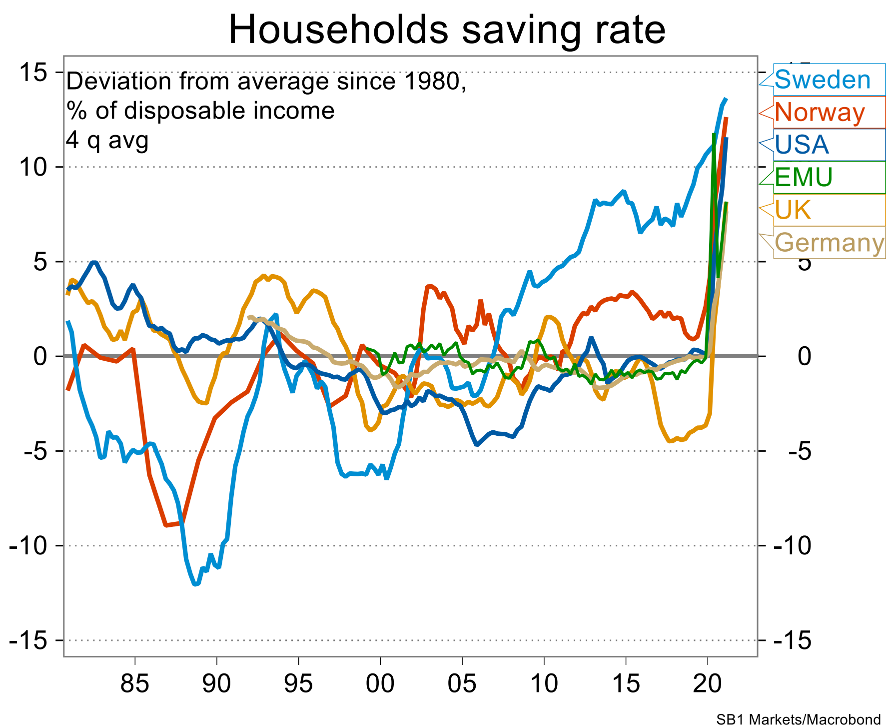
Household debt has increased faster than normal. 85% of the excess savings is placed in bank depos.

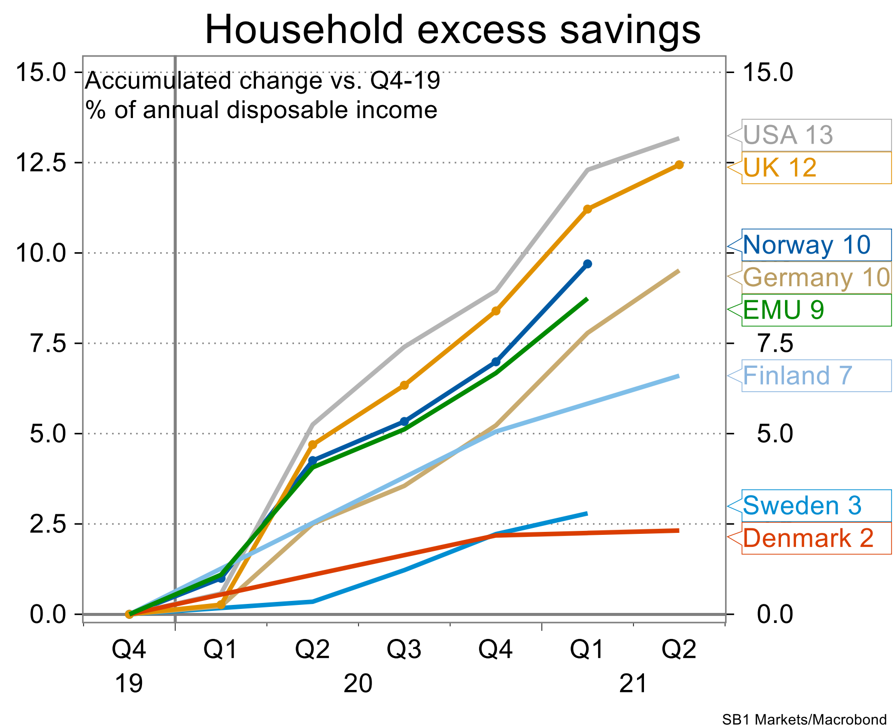




It is not just in America, of course

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

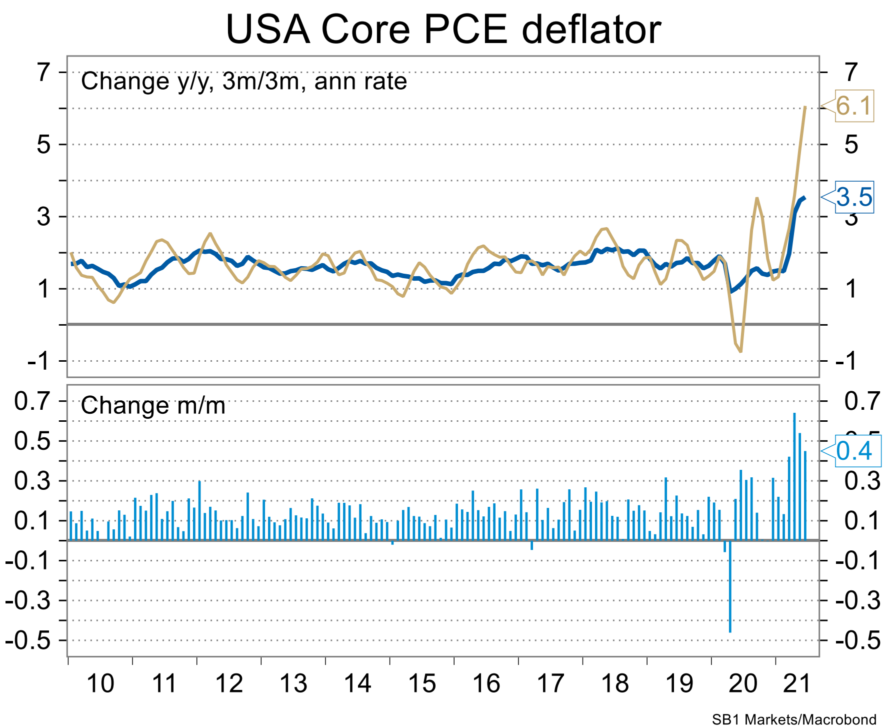




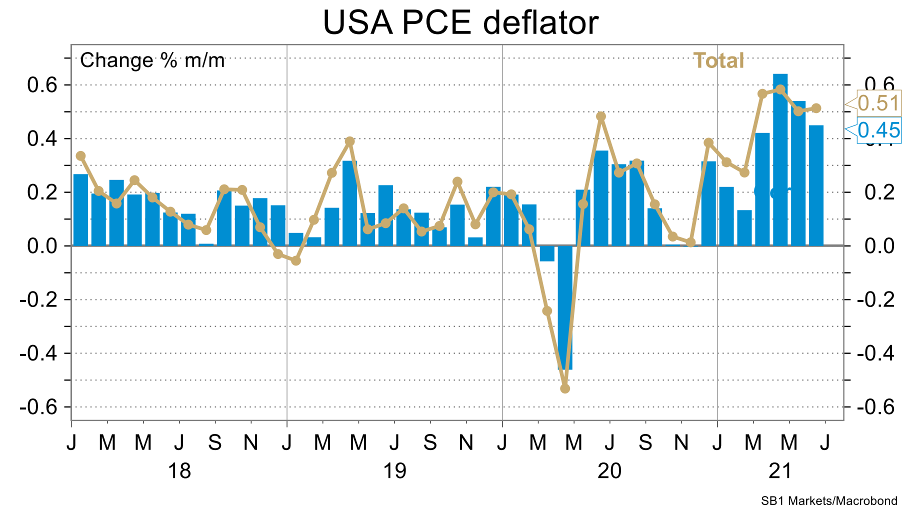
- We very much doubt these synchronised and unprecedented increases in savings are due to a monumental change in savings aspirations

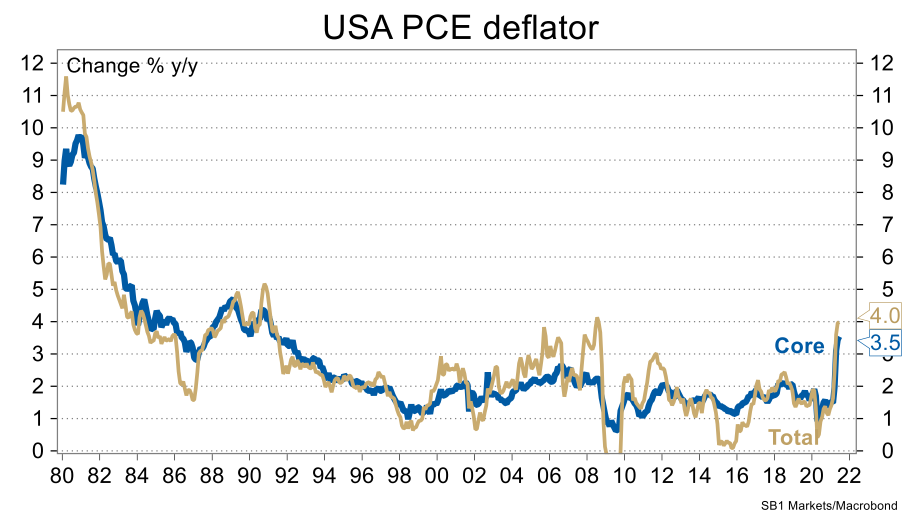
Core PCE up 0.4% in June, 3.5% y/y, well below expectations

Fed may still say the price shock is transitory



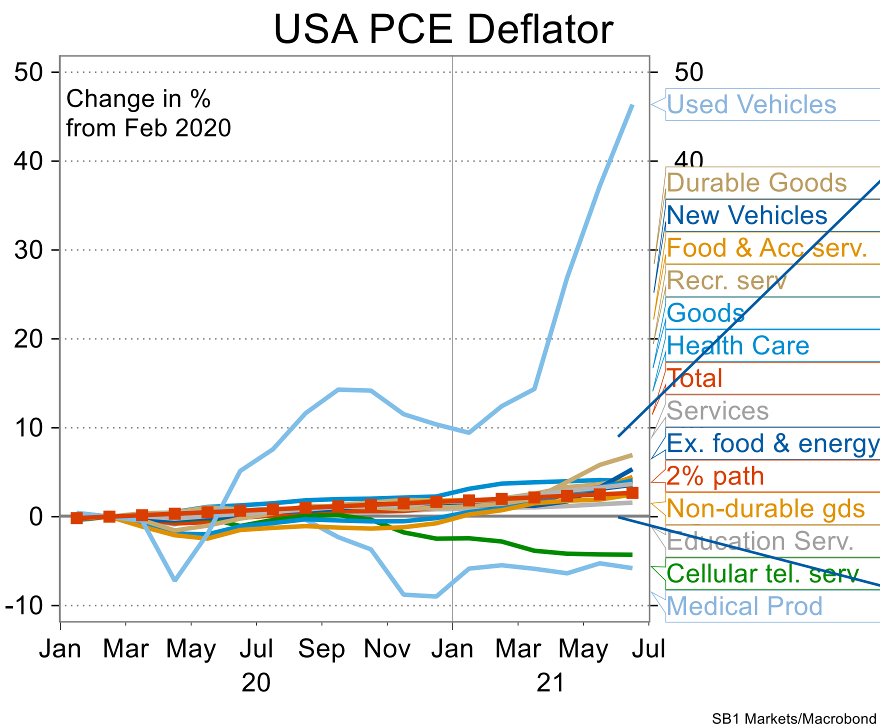
- **The core price deflator** finally surprised at the downside, and monthly increases has slowed from the peak in April. The 3m/3m rate is still climbing, now at 6%
  - » Since June 19, the average core inflation rate has been 2.3%. Inflation has been at or close to 2% over the past 3 & 5 years too. Fed's average inflation target is met (but Fed has not told us yet)
- **Total PCE deflator** rose by 0.5%, and the annual rate accelerated 0.1 pp to 4.9%

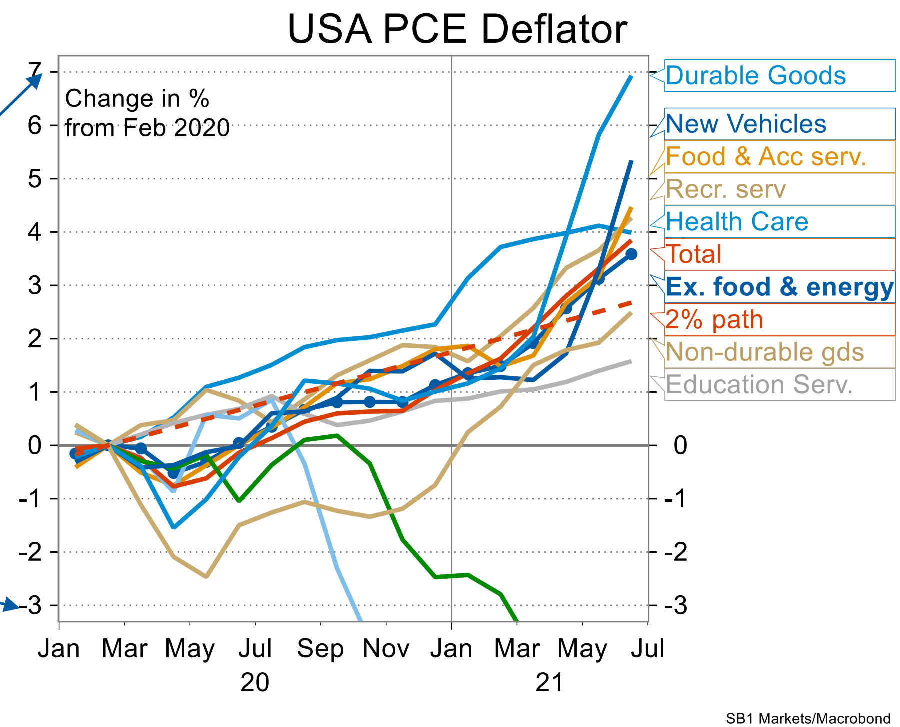




Most prices up in June too; New & used autos, restaur./recreational services

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

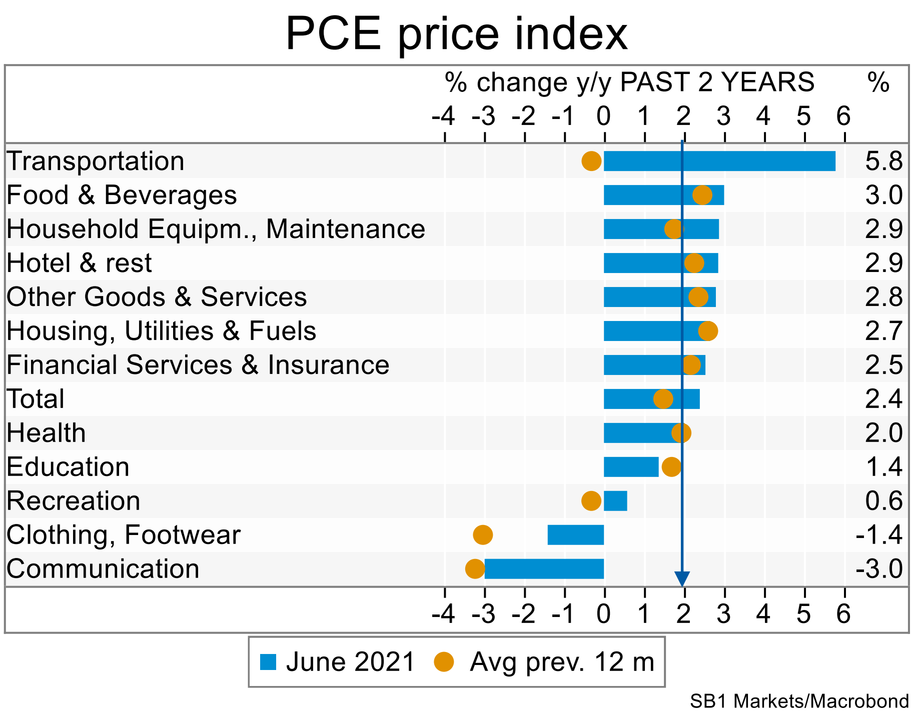


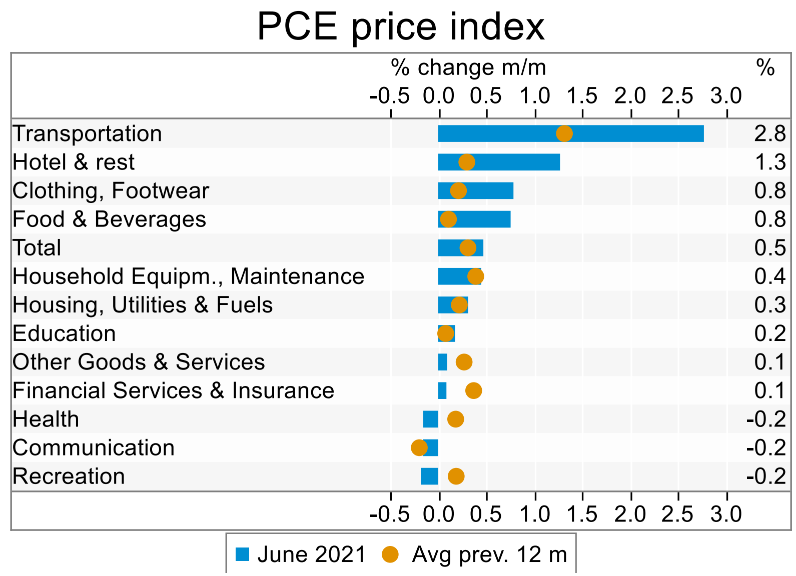


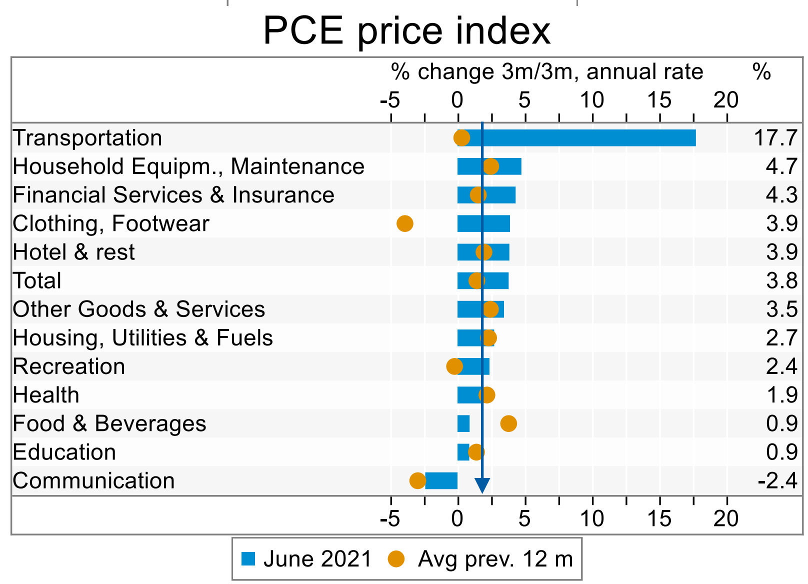
- **Used car prices** rose further in June, and are up by 45% vs. Feb-20 – no doubt above any reasonable long-term trend
- **Restaurants/hotels, recreational services** are lifting their prices sharply
- **Health care** costs have increased sharply since late last year but are now flattening

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

However, most sectors report >2% pace of price increase the past 3m/3m (and past 2 years)







- Measured over the past 2 years, PCE inflation has been 2.4% on average. 4 sectors are below 2%, 7 sectors are above 2%
- Just communication prices fell in June, and over the past year

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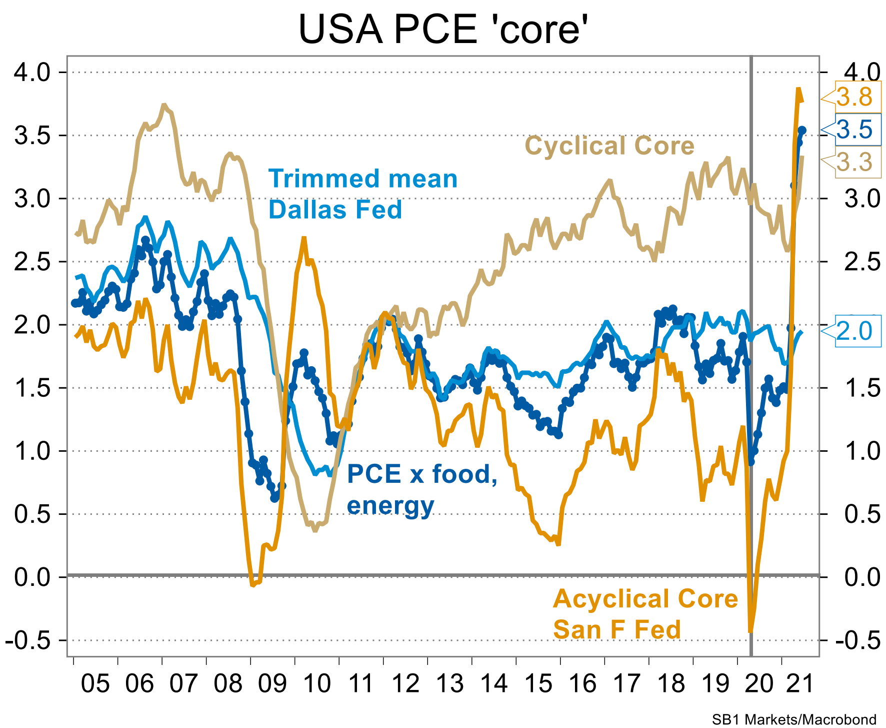
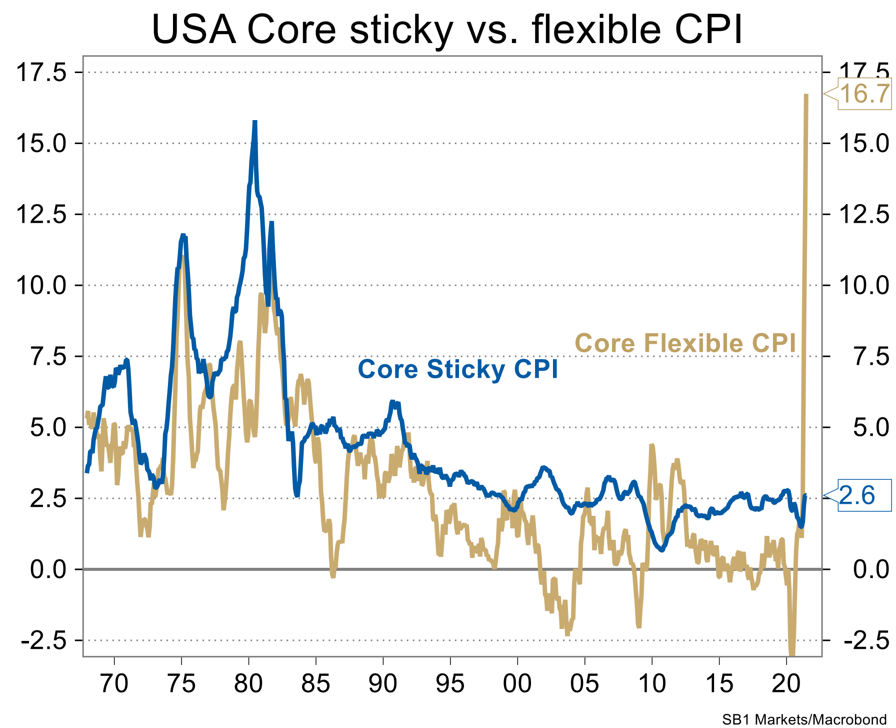
There are still some possible (and not unreasonable) excuses…

Inflation is broadening, but still just some few goods/services that have done the <u>heavy</u> lifting

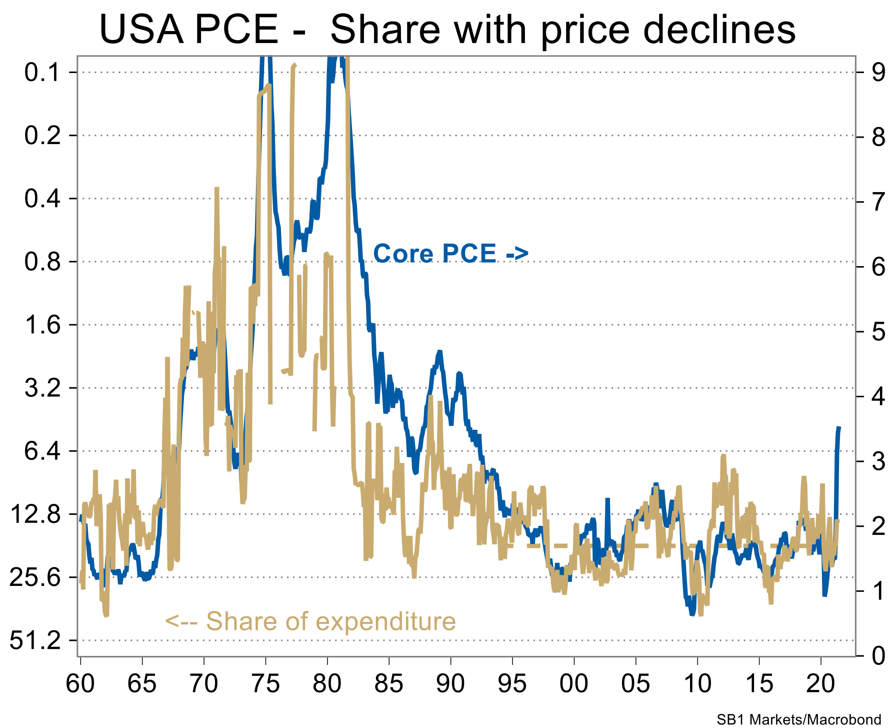


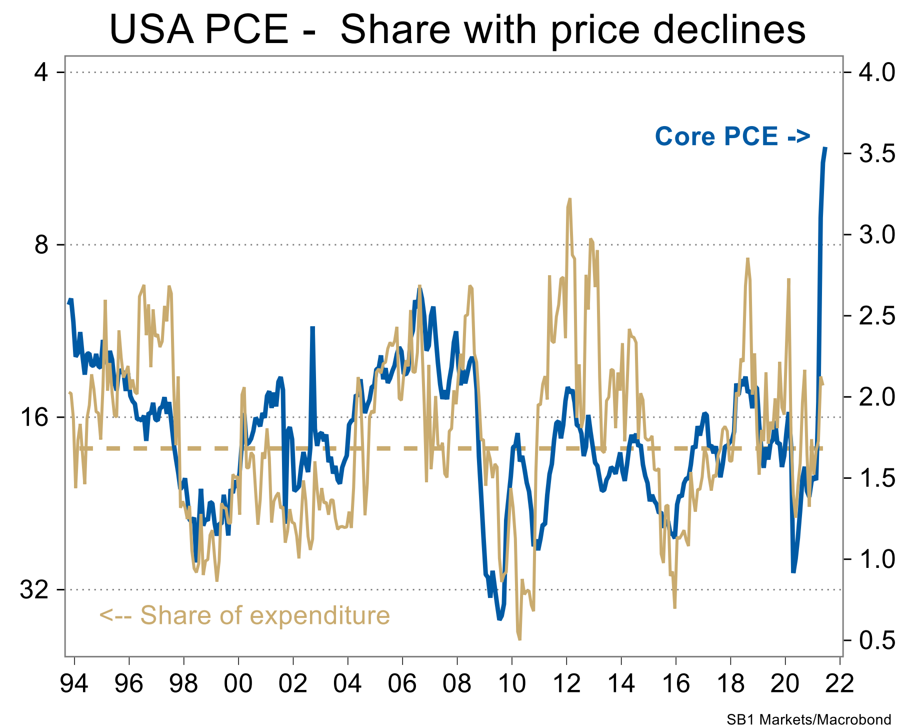


- The **trimmed PCE mean** is at 2.0%. <u>The trimmed mean is probably the best gauge of 'underlying" PCE</u>
- An index for typical **a-cyclical core PCE goods & services** are up 3.8%, up from -0.5% in April last year. <u>The 2 y avg is at 1.6%</u>
- The **cyclical core PCE** at 3.3% y/y is the highest since 2008 but not much higher than before the pandemic
- In the CPI, almost all of the lift in **core CPI** has been due to prices on good & services that normally are **flexible** – and they are more up than ever before. However, these prices are flexible both ways, and the cycles are normally short. The **sticky components** of the CPI is up 2.6%, marginally above the average recent years. For inflation really to take hold, these sticky prices have to accelerate (like they did from 1973). However, the flexible component has contributed substantially to keep inflation low the past 8 years

PCE: Fewer prices are falling but not few

… though not an early bird to watch





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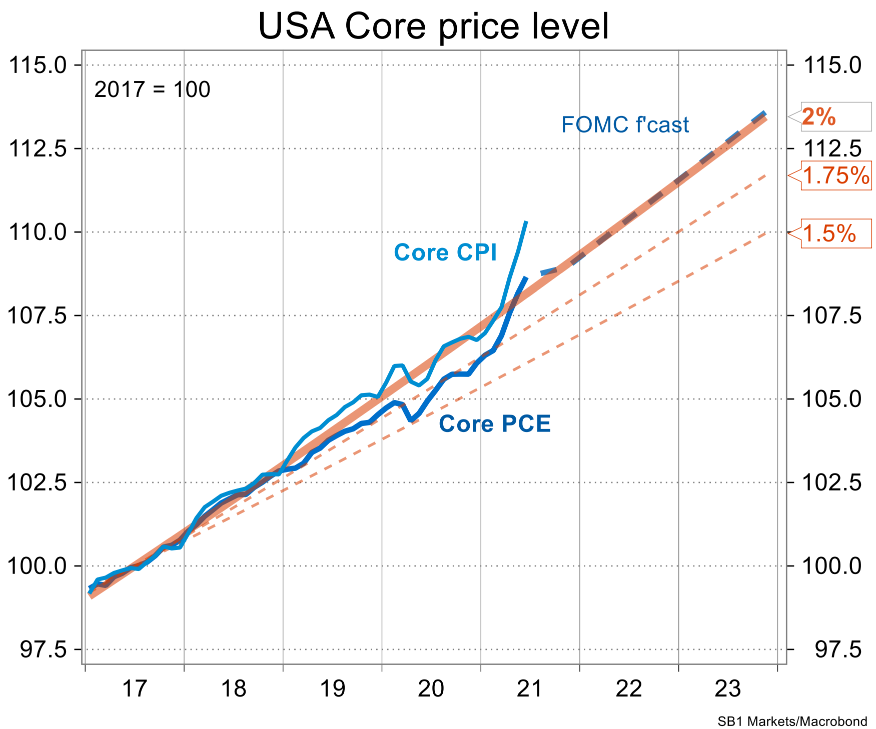
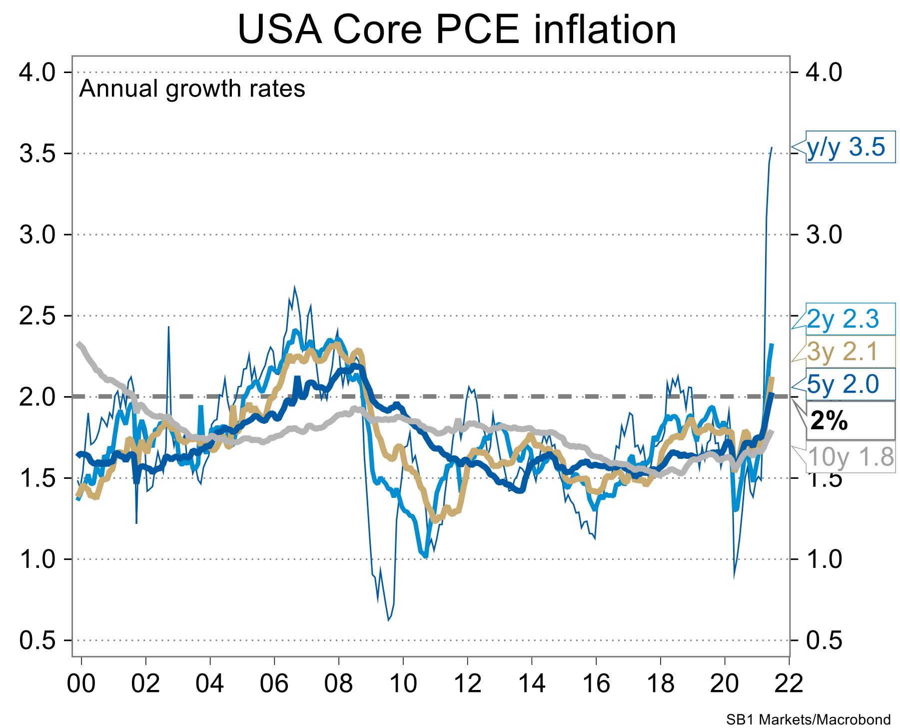
The price level is on the right track, right?

Seems so but the Fed has not told us so. However, the Bank's forecast is exactly on the 2% path



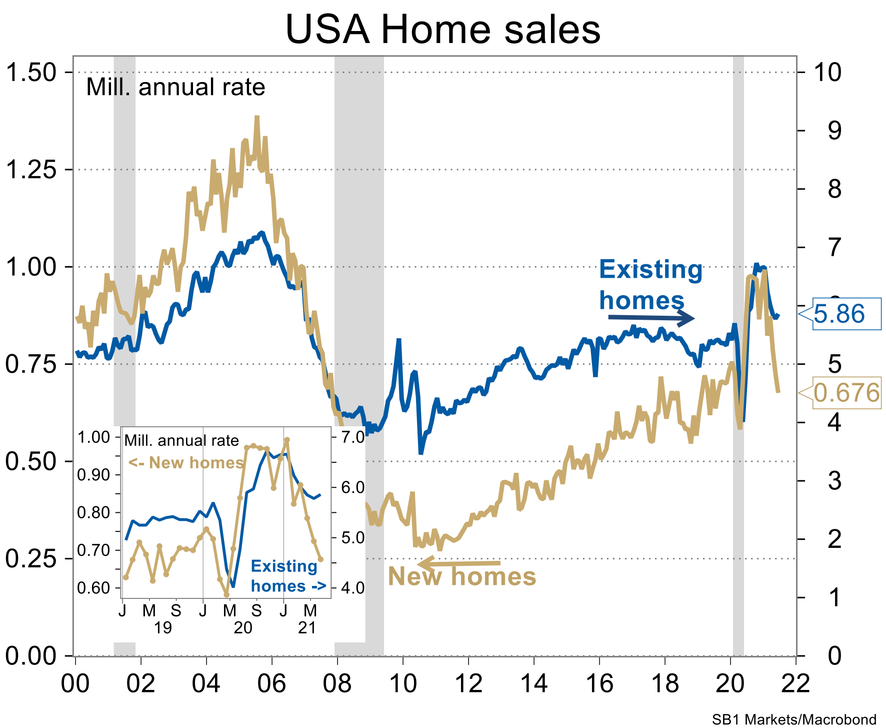


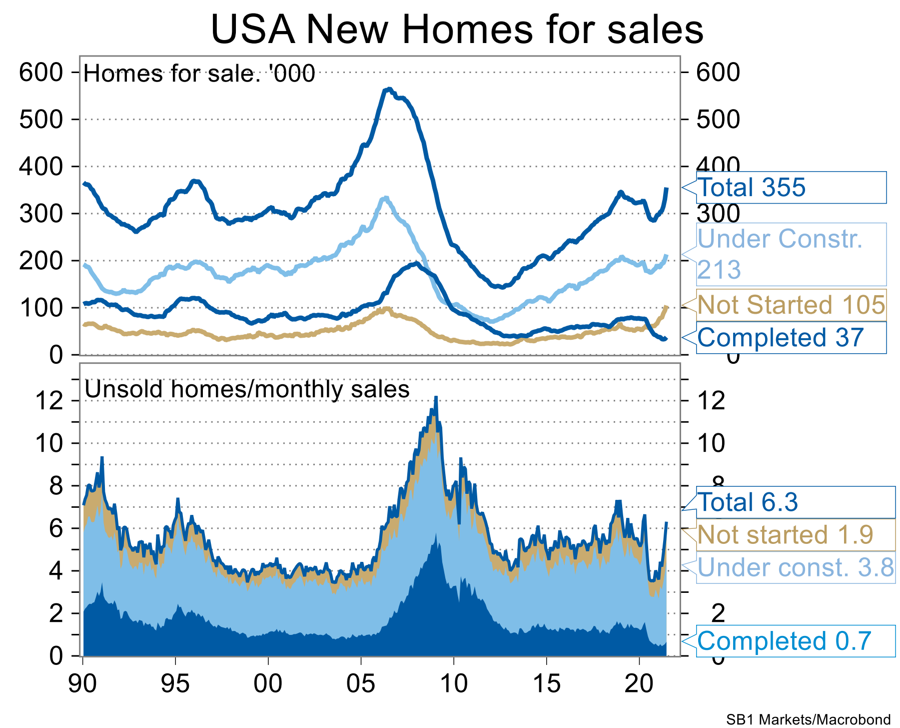
We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long and the impact on consumer prices are short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity
- **A tight labour market** normally implies higher wage inflation. So far the signals have been mixed, as the 'best' indicators of wage inflation when there are huge changes in the employment mix, have not reported higher wage growth. However, other measures report higher wage inflation, and unusually many companies are reporting wage increases

Another downward revision – and another decline in new home sales

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

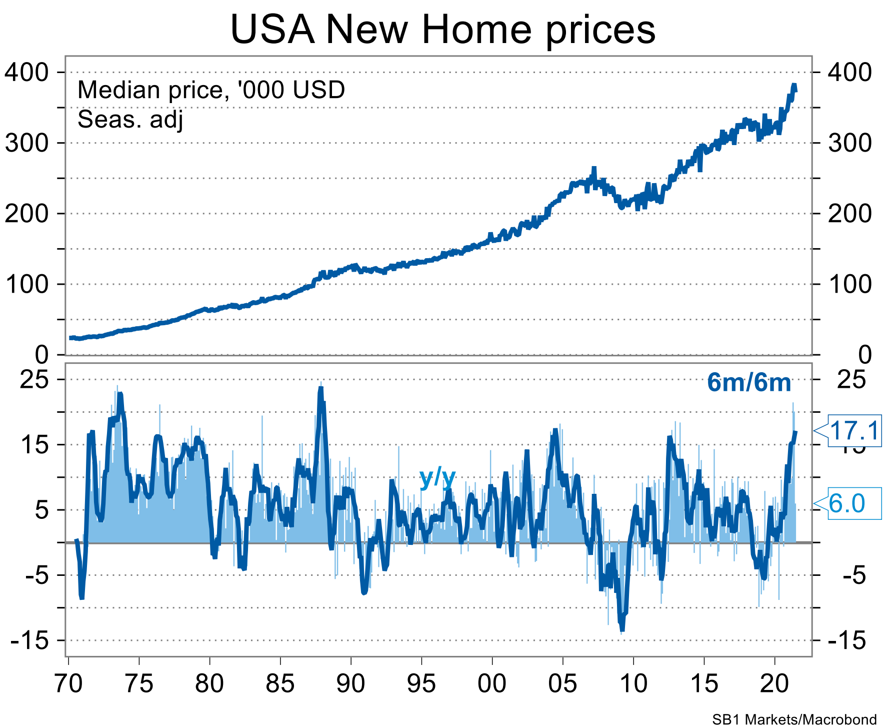


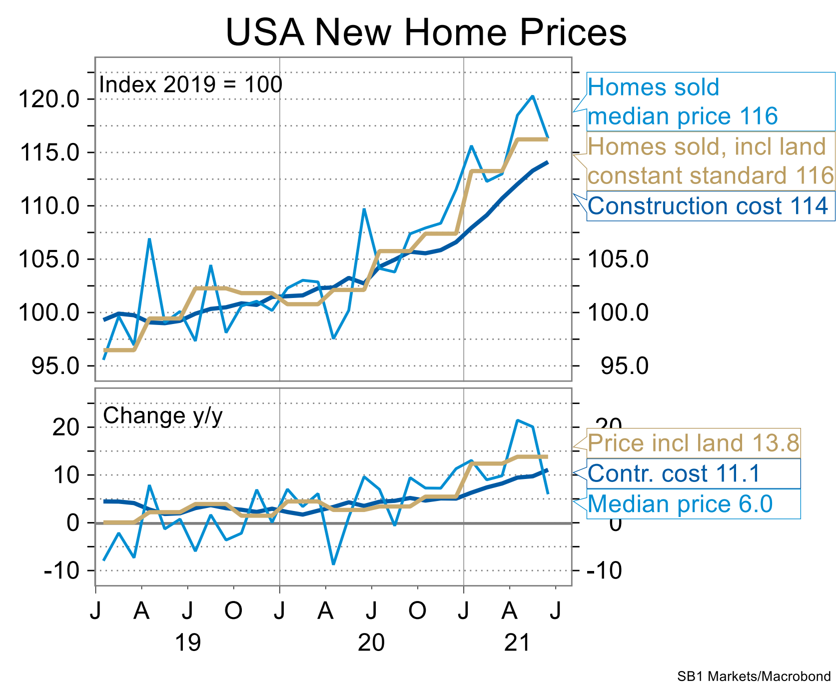


- **New home sales** fell to 676' (annualized rate) in June, down from 724' in May (revised down from 769', following several downward revisions recent months). Sales were expected at 800' in June. Sales are down more than 30% from January – and below the pre-pandemic level
  - » The inventory of unsold homes has somewhat the past 8 months primarily because many projects that haven't started yet have been added, in fact more new projects than ever! level ever, a sign that the supply side is responding to the strong demand. The no. of completed homes for sale is still declining, and the level is extremely low
- **Existing home sales** have also fallen recently. The inventory of homes for sale is record low, and prices are surging (see more next page)

Construction costs up, but new home prices even more

Construction costs are up 11% y/y, selling prices are up 14 – 16% (like existing home prices)





- Monthly **Median new home sales prices** are volatile, in June the annual rate was just 6%, down from 20% in May. The more relevant figure is the 6m/6m rate at 17%
  - This price index is influenced by changes in the mix of homes sold – and over time by changes in standards & size
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which includes cost of land, and they are up by 11 and 14% resp. y/y
- As prices are still up more including land than the construction cost index (which of course is influenced by higher material costs), demand must be the main driver for the hike in prices (if not, land prices would have declined)

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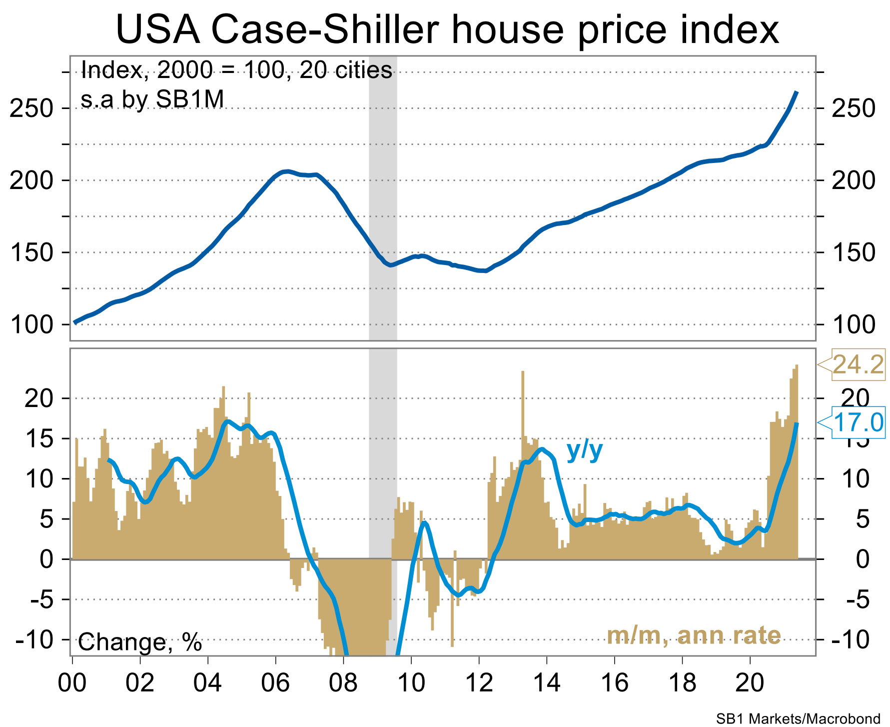
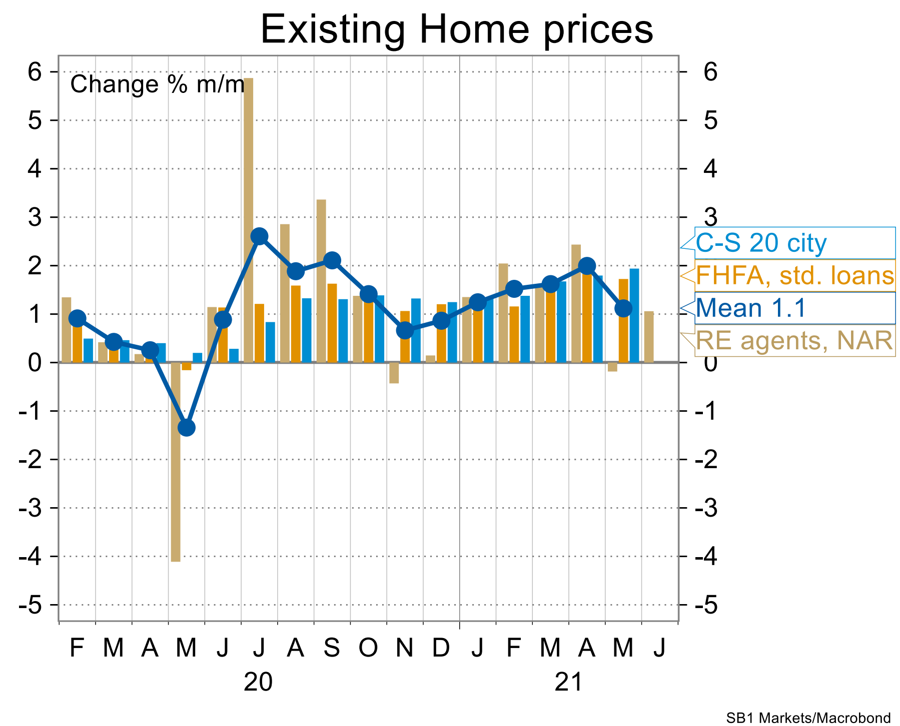
House prices climb even faster, Case-Shiller up 17% y/y, highest since 2005

Prices up 1.9% m/m (24% annualised), the highest on record, underlying pace 18% (ATH)

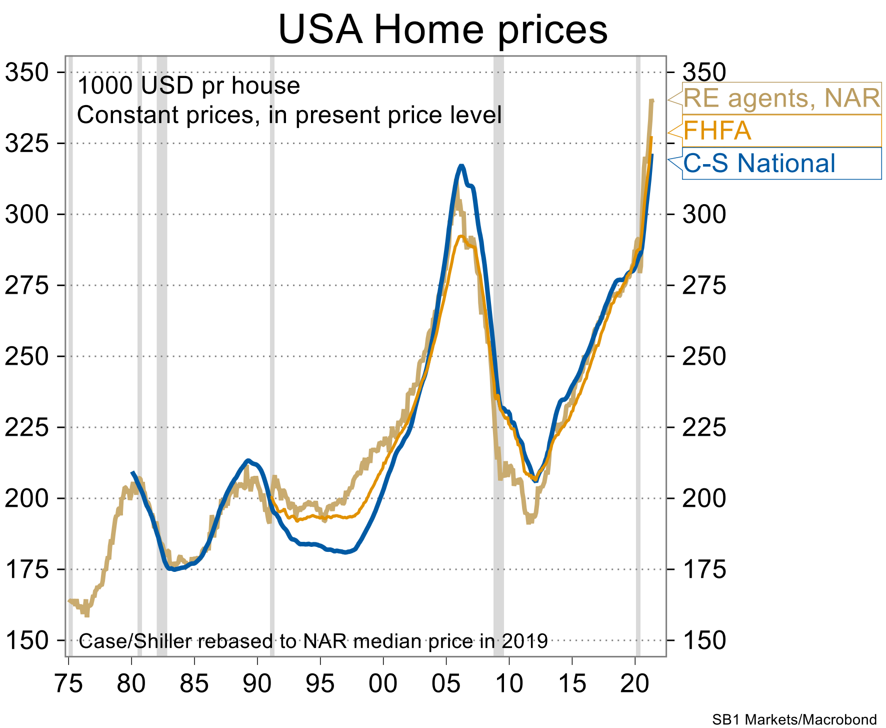


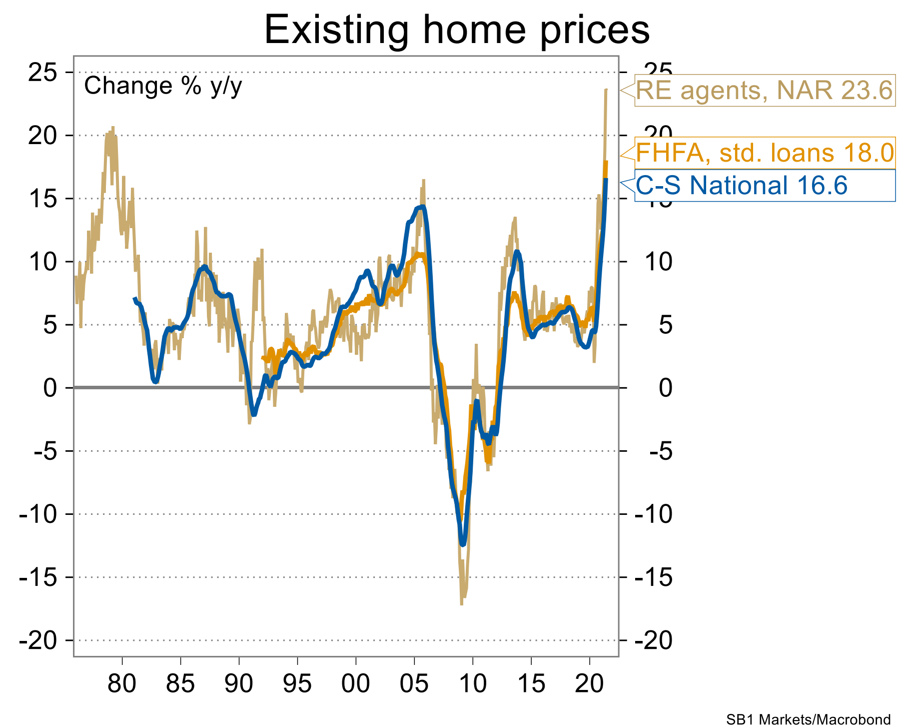


- **S&P's Case/Shiller's 20 cities** price index rose 1.9% m/m in May (April – June avg). The annual growth rate at 17.0 % is the highest since 2006. The **national C-S index** is up 16.6% y/y, the highest on record (data from 1980)
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene", has a countrywide coverage), has shot up too recent months too. The annual rate at 18% is far higher than the 11% peak rate before the housing crisis 15 years ago (chart next page)
- **Relators** reported a 1% price lift m/m June, up from -0.1% in May. The annual rate is (artificially high) at 23.6%

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

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

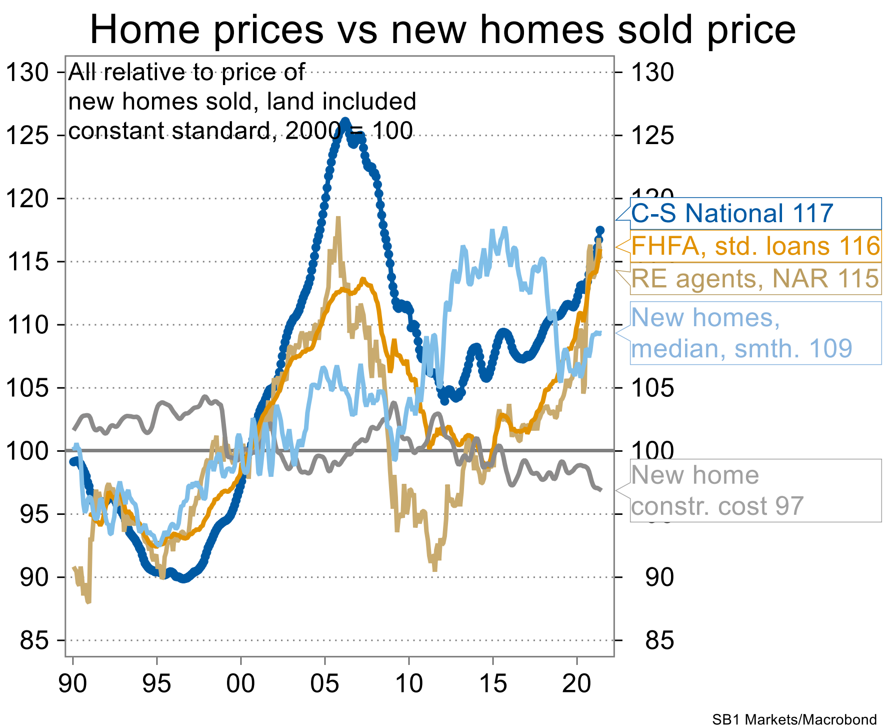


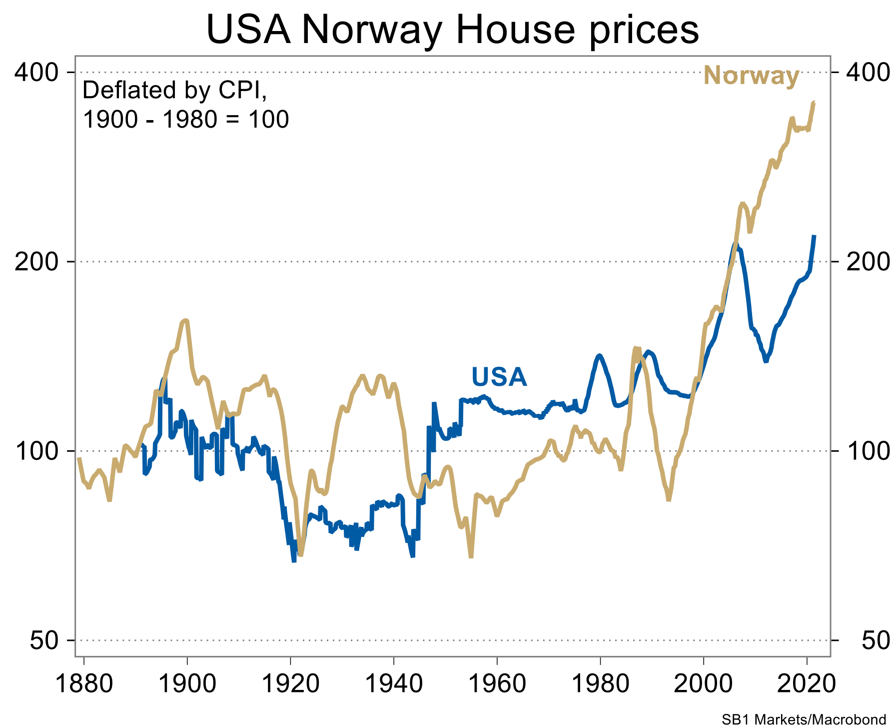


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever and record high real price levels, with data covering the past 30 – 45 years
- There are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

2nd hand prices are rising faster than new (constant standard) home prices

The median price for new homes is more up than the new homes sold price index

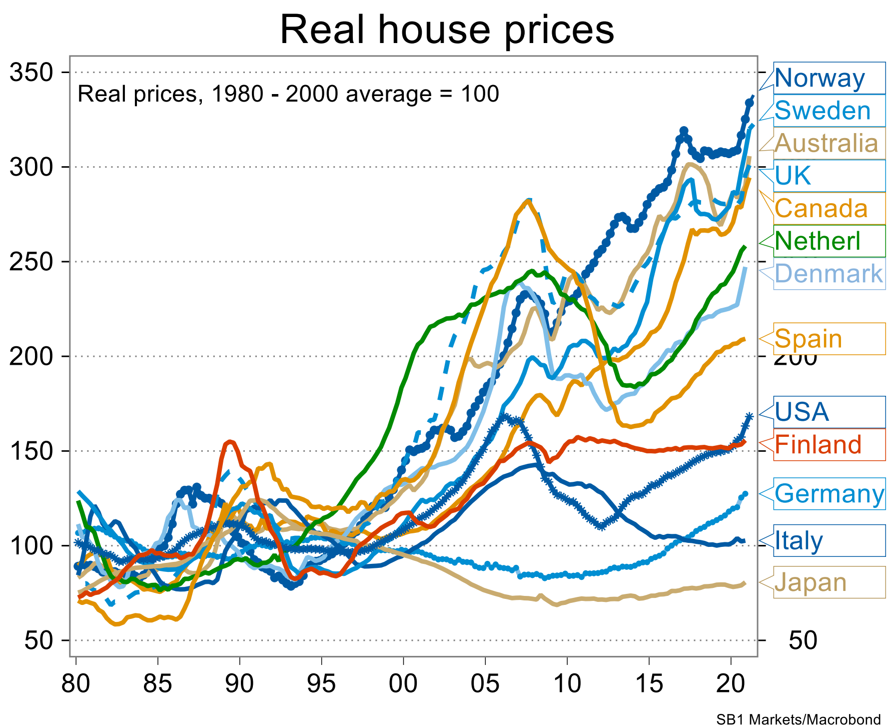


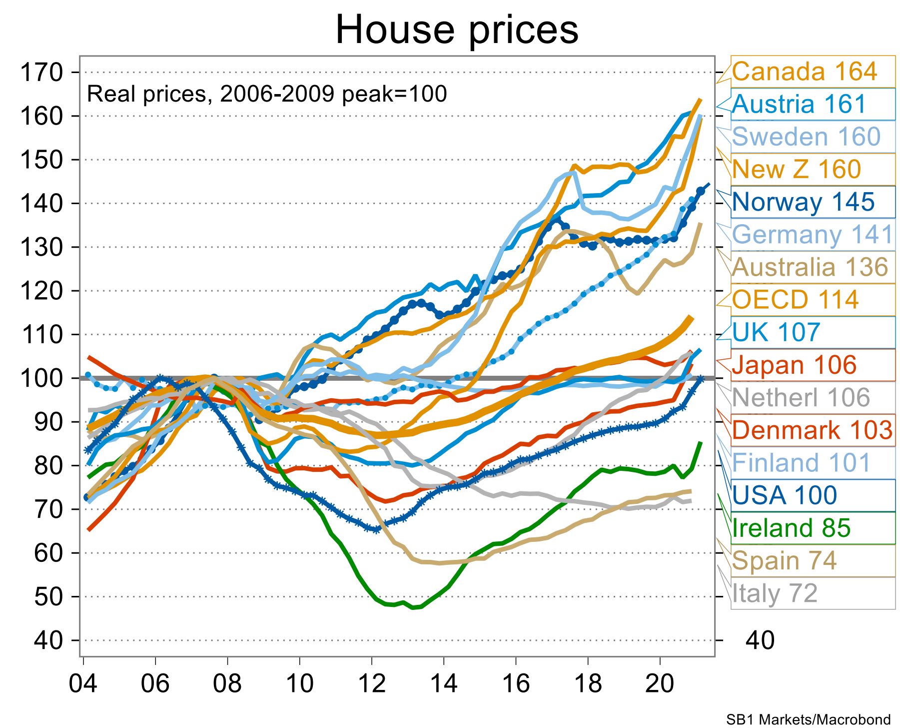


- The median price index for new homes does not adjust for changes in standard or market segment
- The new homes sold price index is adjusted for standard changes etc, and includes the cost of land
- The new home construction cost index covers the construction cost, adjusted for standard/size (but does not include the cost of land)

- The long-term US house price index is the Case-Shiller repeated sales index
- The Norwegian long-term price index is Norge Bank's repeated sales price index and Eiendom Norge's index for the recent years

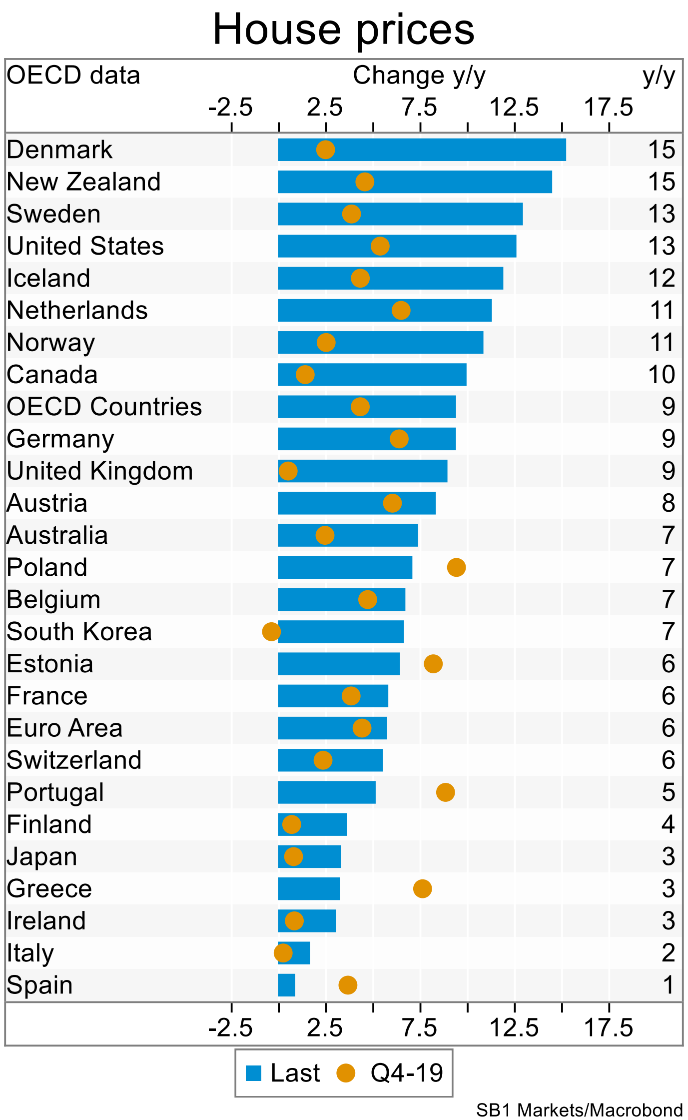
Some significant developments the past 20 years





Now, all house prices are on the way up

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

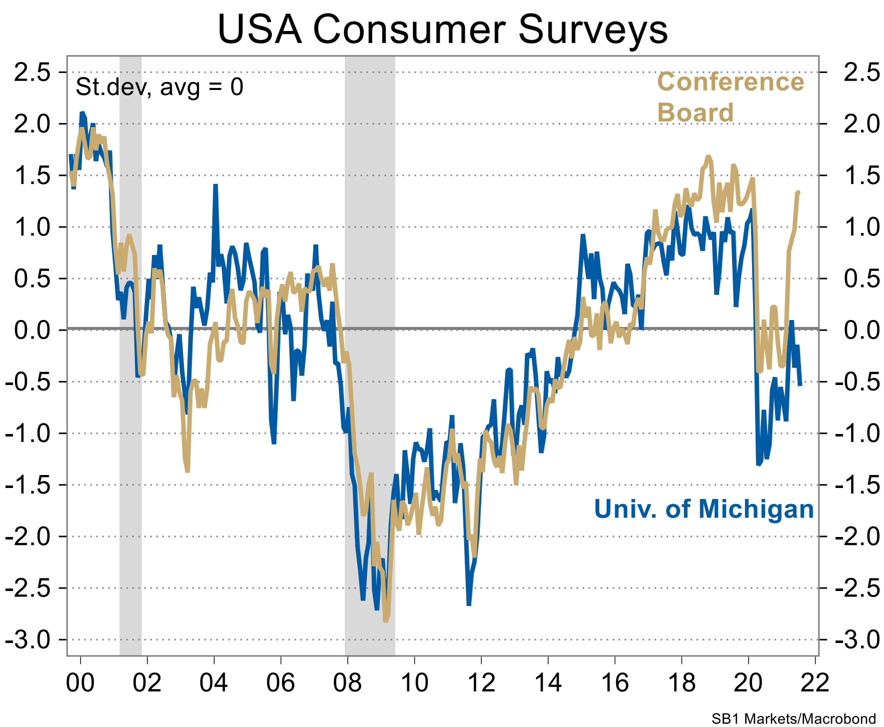


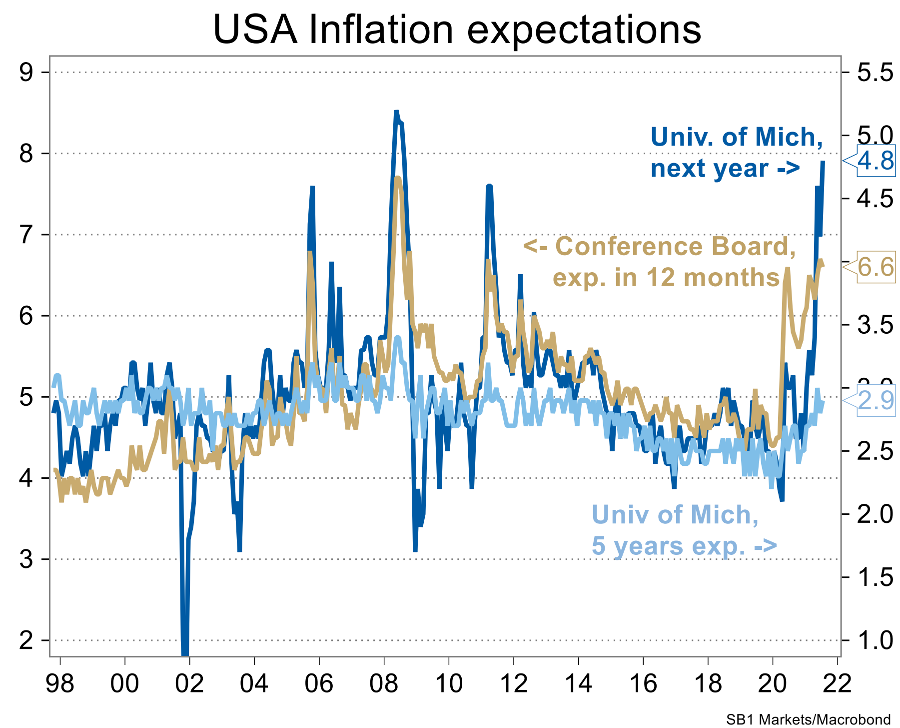
- No doubt, housing demand has strengthened through the pandemic, both due to low interest rates/easy access to credit and due to demand for more space
- Nominal income growth per capita (or household) is at some 1% – 3% in most countries

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

Consumer *confidence* remained strong in July. *Sentiment* is still weak…

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



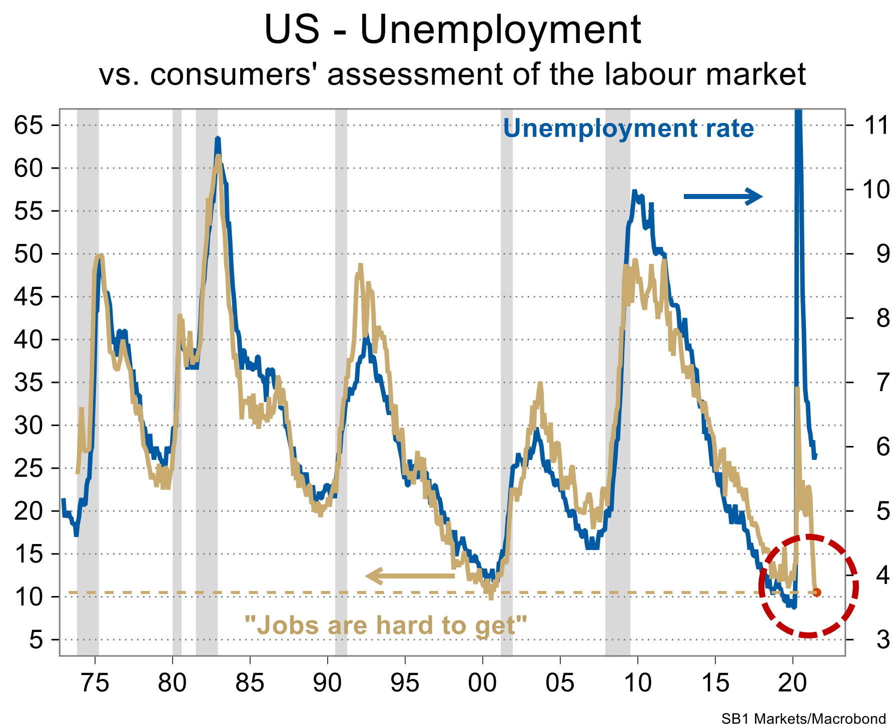


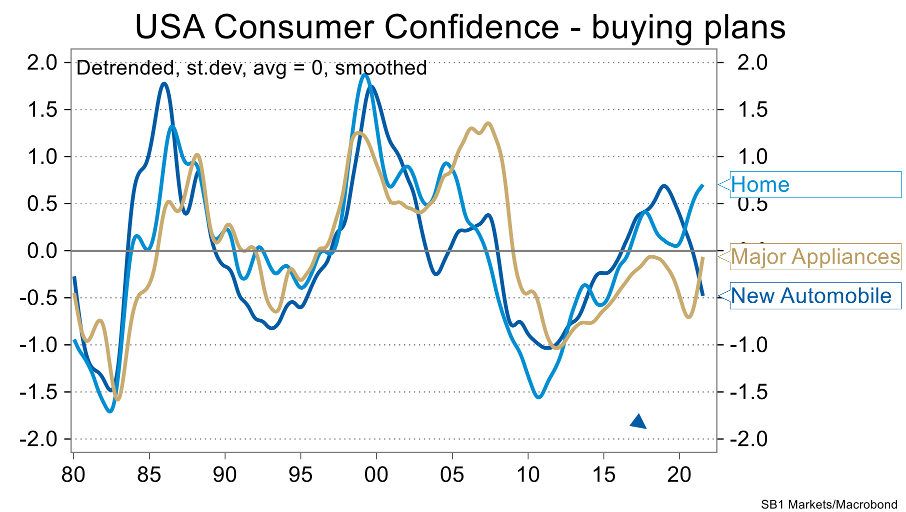
- **Conference Board's consumer confidence** index climbed to 129.1 in July from 128.9 in June, expected down to 124.1 vs previously reported 127.3. The past 6 months have seen the quickest recovery in confidence, by far. The level is 1.3 st.dev above average, as households judge the present situation to be good (and the future is OK too). Confidence is almost on par with the pre-pandemic level
- **The UM May sentiment index** fell sharply in July and just marginally less than initially reported. The level is below average, and far below pre-Covid levels. The gap between the 2 main household confidence surveys is more than strange
- **Inflation expectations** are still elevated, and have not turned down

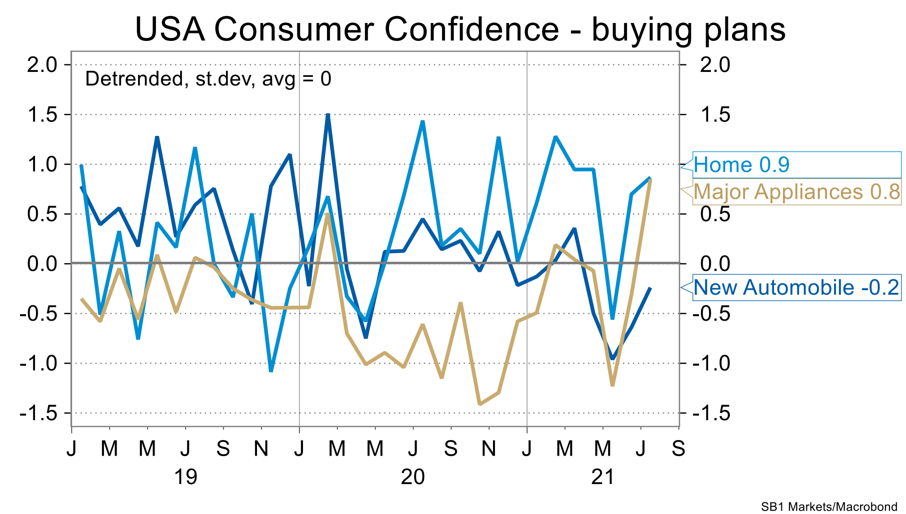
SpareBank 1 MARKETS

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

As though the unemployment rate were 3.5%, not 5.9%. Buying plans up, to above average

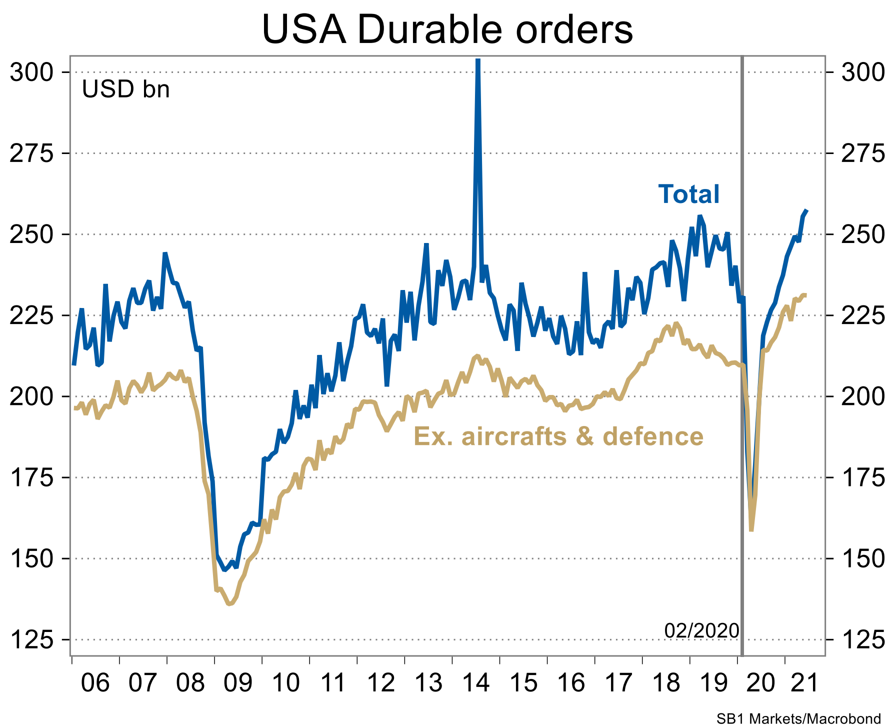


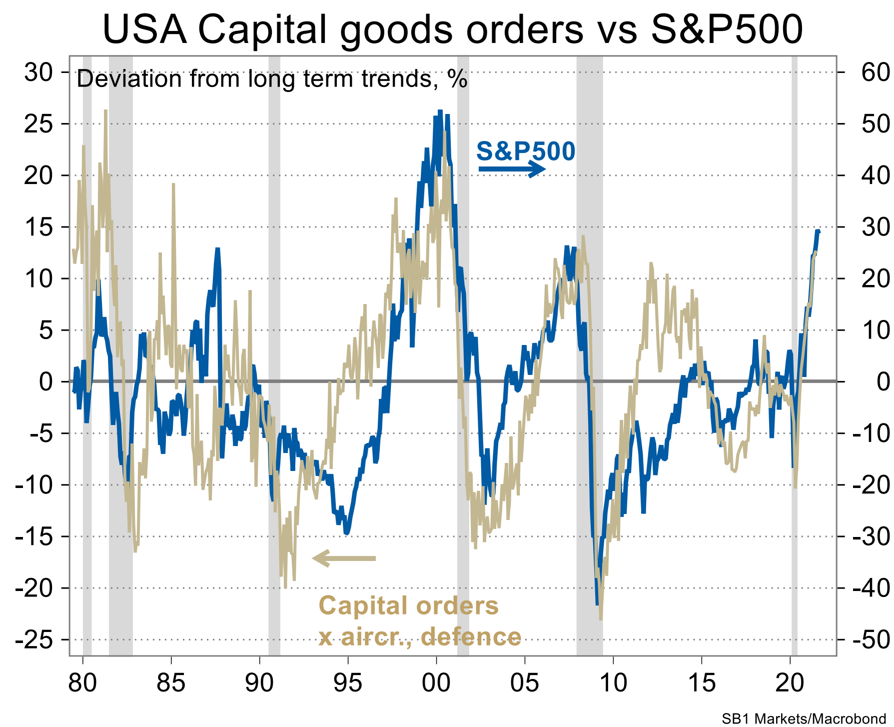




- Just one time back in history, in June 2001, households have been reporting that has been easier to find a job than in June 2021!
- **Plans for buying big ticket items** rose in both June and July. Plans for buying homes and major appliances are well above average. Fewer than normal are planning to buy a new car – which have become more expensive

Durable orders further up in June



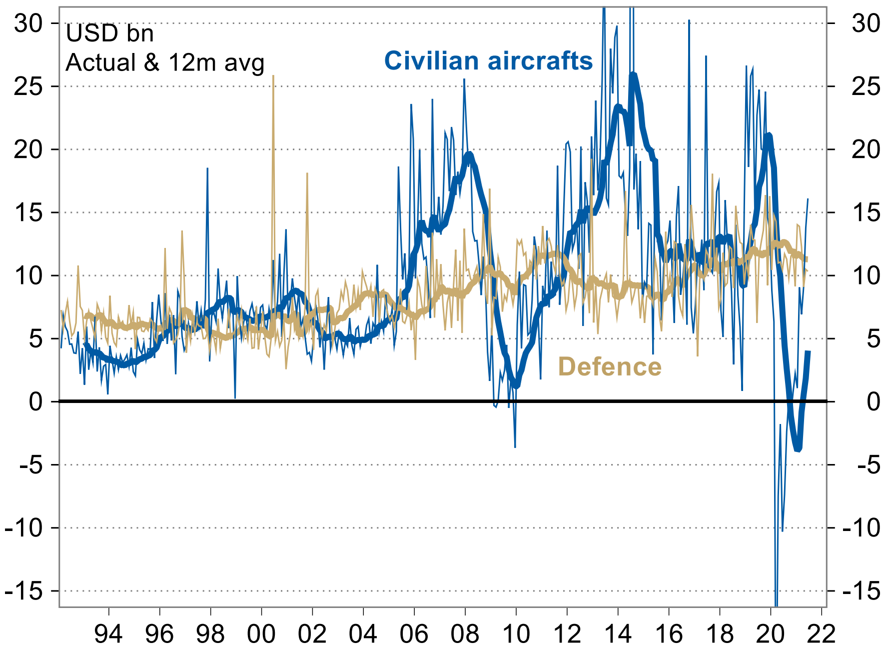


- **Total durable orders** up 0.8% in June, expected 2.0%. The trend is steeply up .
  - » Aircraft orders have recovered to a normal level
- **Core orders** (ex aircrafts & defence) were flat. Auto orders have fallen some 12% recent months, very likely due to lack of components, which has slowed core order inflow (by 2%)
- **Core investment goods orders** fell 0.1% but the trend is still straight up, and order inflow in Q2 will be well above the Q1 level
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

Aircraft orders are back at a normal level!

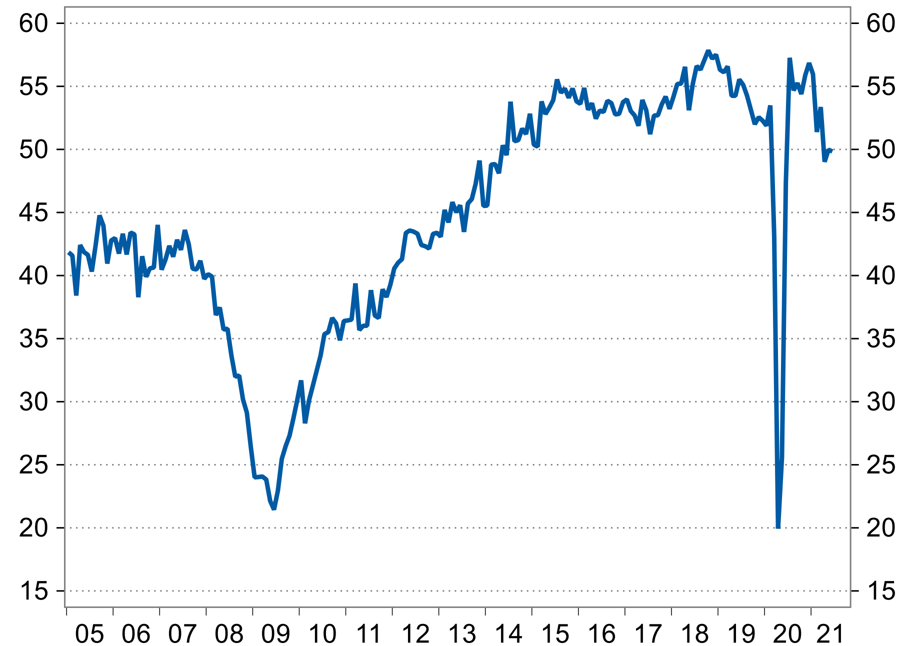
… while auto orders remains below par – and not because demand for cars has fallen

USA Civilian aircraft & defence orders



SB1 Markets/Macrobond

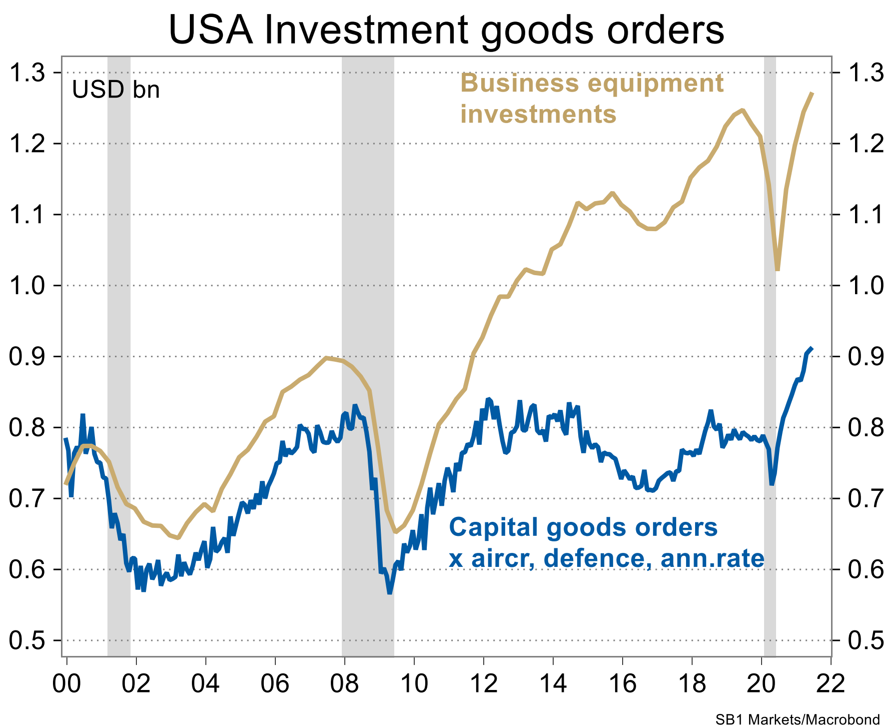
USA Durable ordres - autos

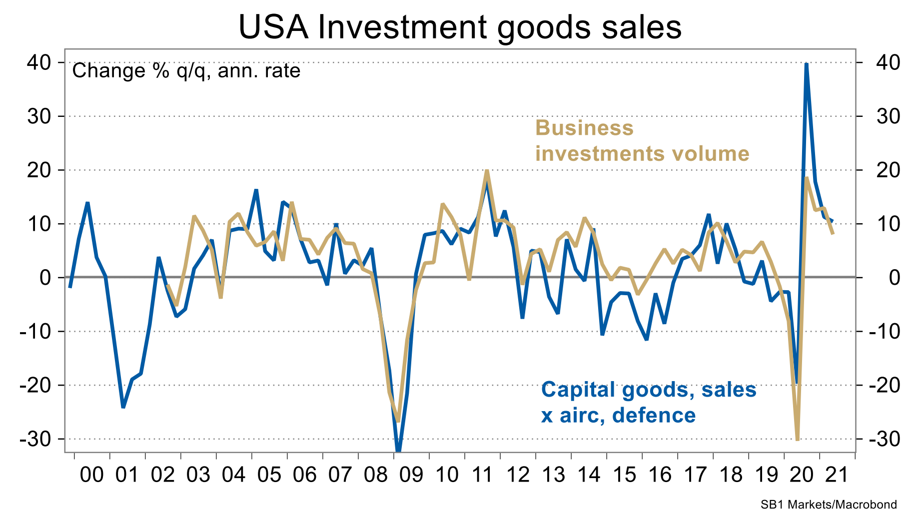


SB1 Markets/Macrobond

Core capital orders are still going strong

Signals decent growth in business investments into Q3





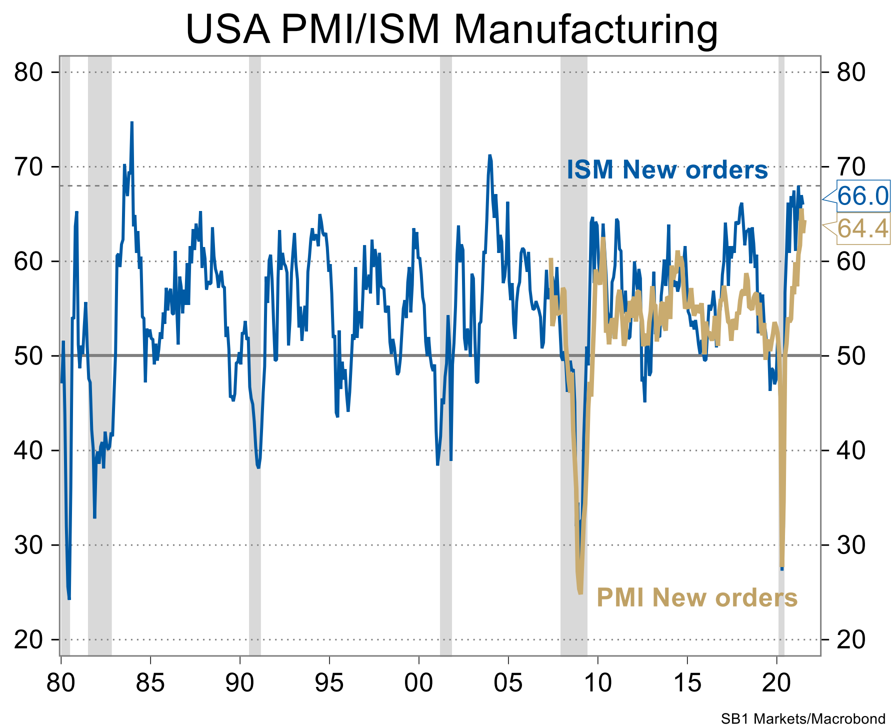
- **Capital goods orders** rose by 0.5% in June, as expected but May was revised up by 0.6 pp to +0.5%. Shipments rose 0.5% in July. Bot are growing at a brisk underlying pace

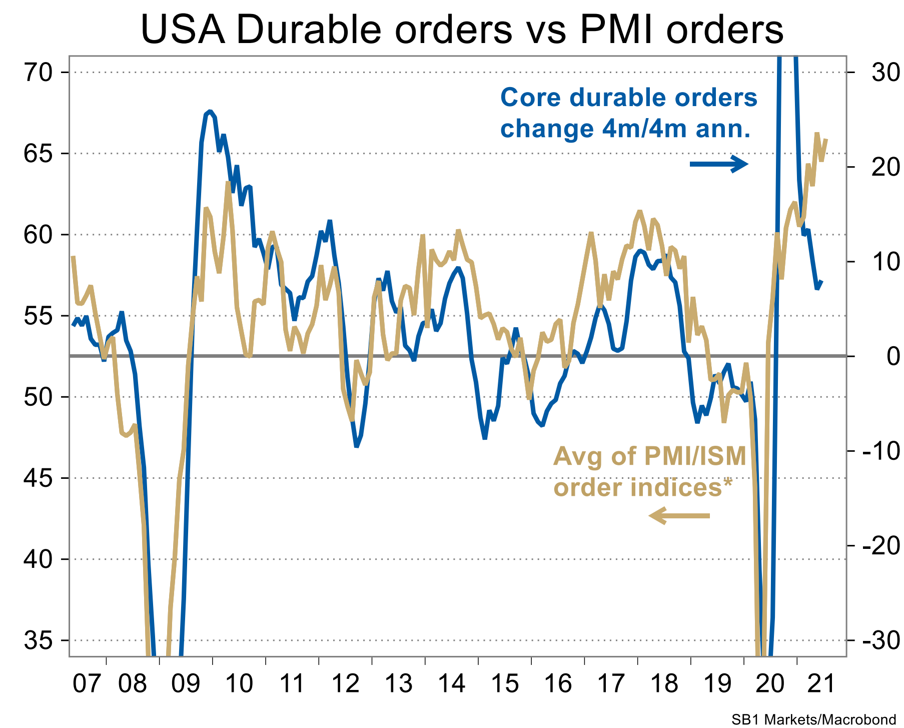
- **The business investment** level is well above the pre-pandemic level – and not low vs. a reasonable long term trend. Check more here

SpareBank 1 MARKETS

The ISM/PMIs are signalling a further and rapid growth in order inflow

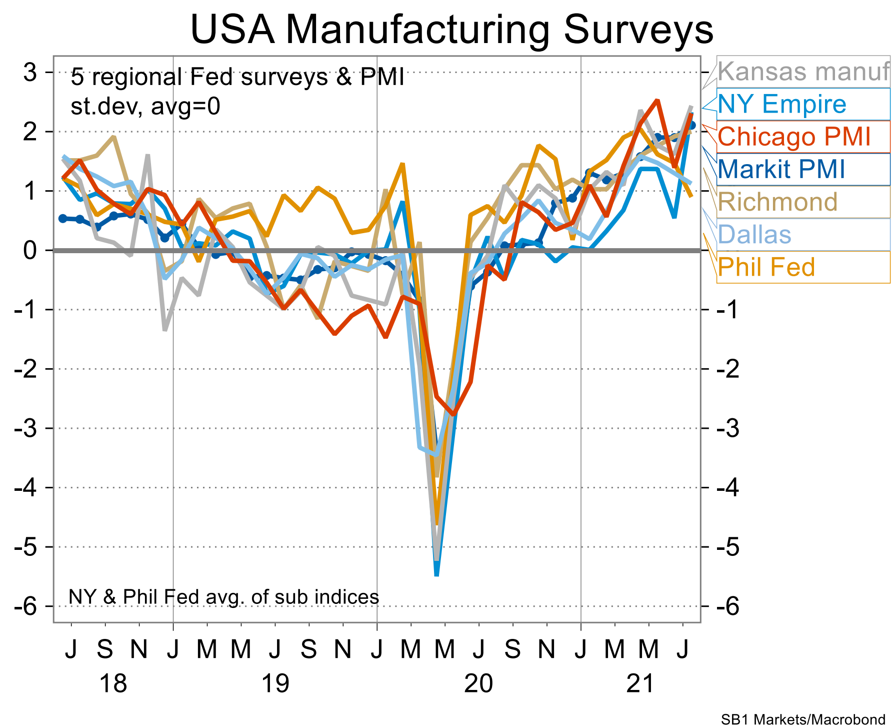
These surveys are reporting a unprecedented increase in order backlogs as well

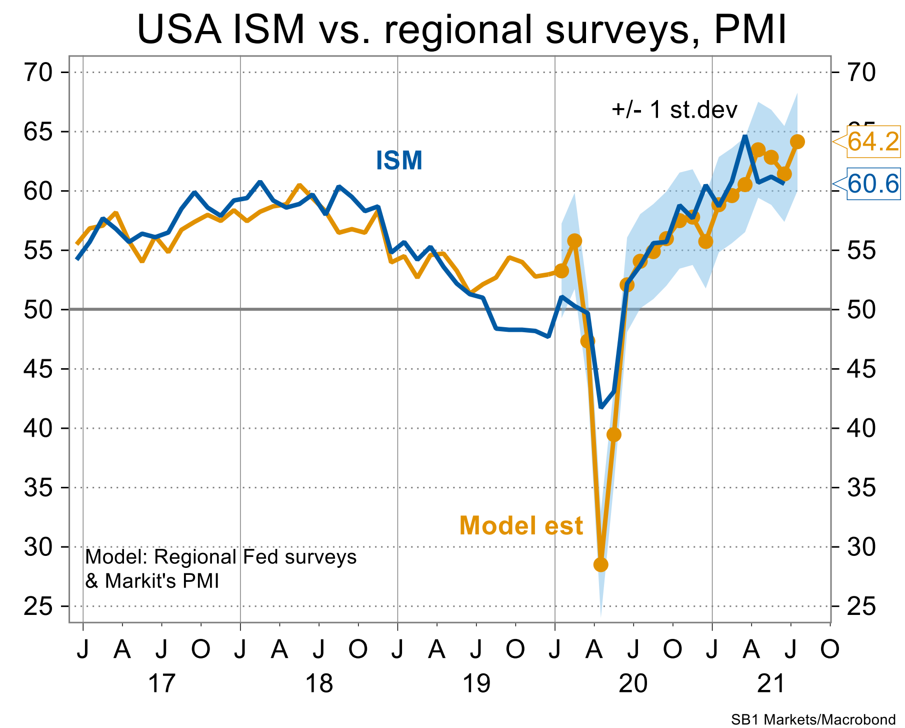




* The ISM order index is

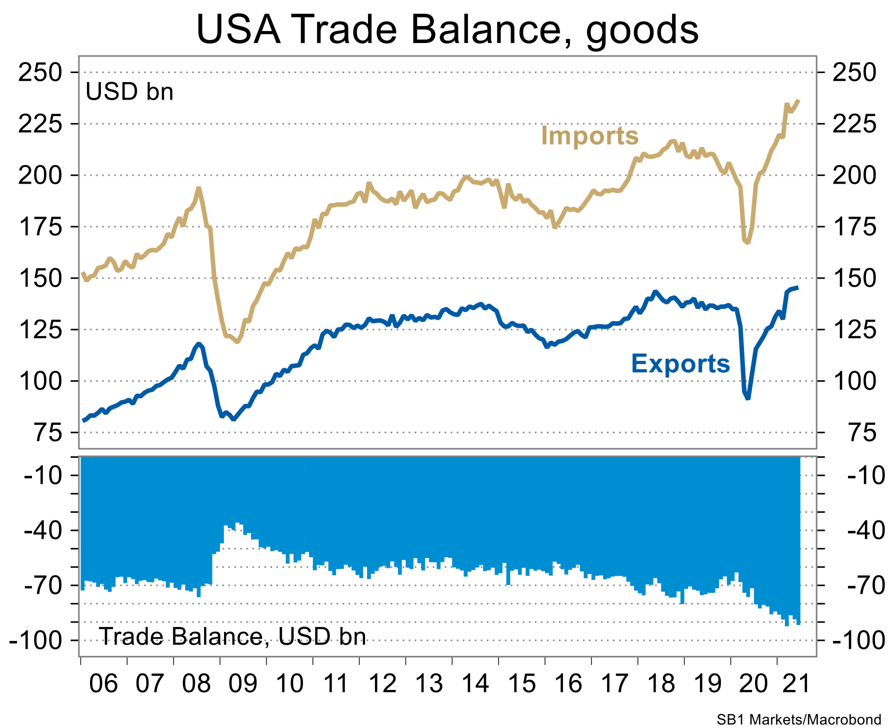
Regional manufacturing surveys + PMI signals a strong ISM in July

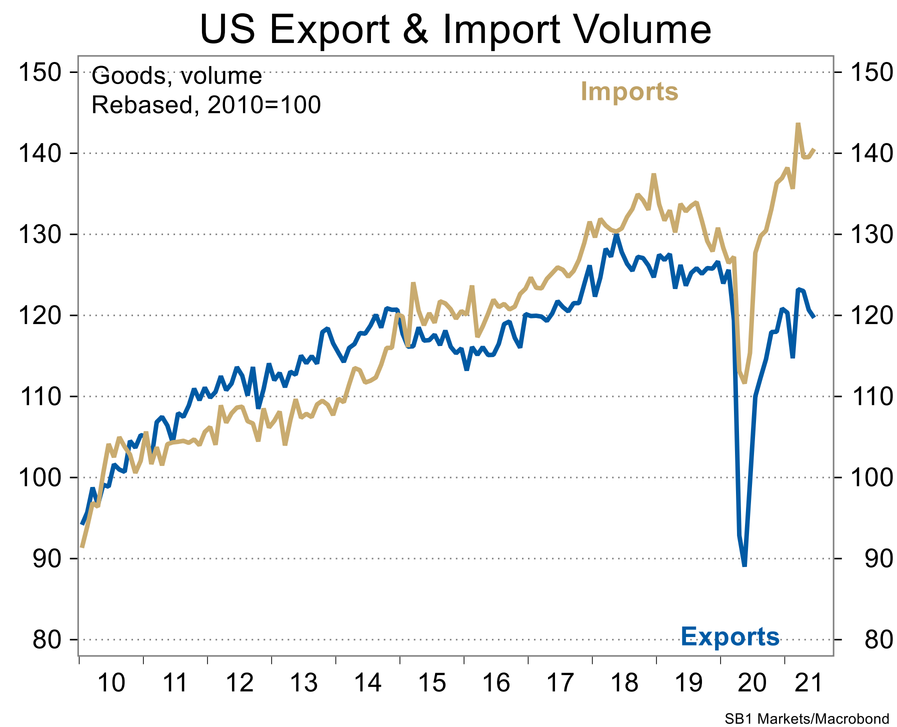




Trade deficit in goods further out due to higher imports

Goods trade deficit up to USD 91 billion in June, from 88 billion in May



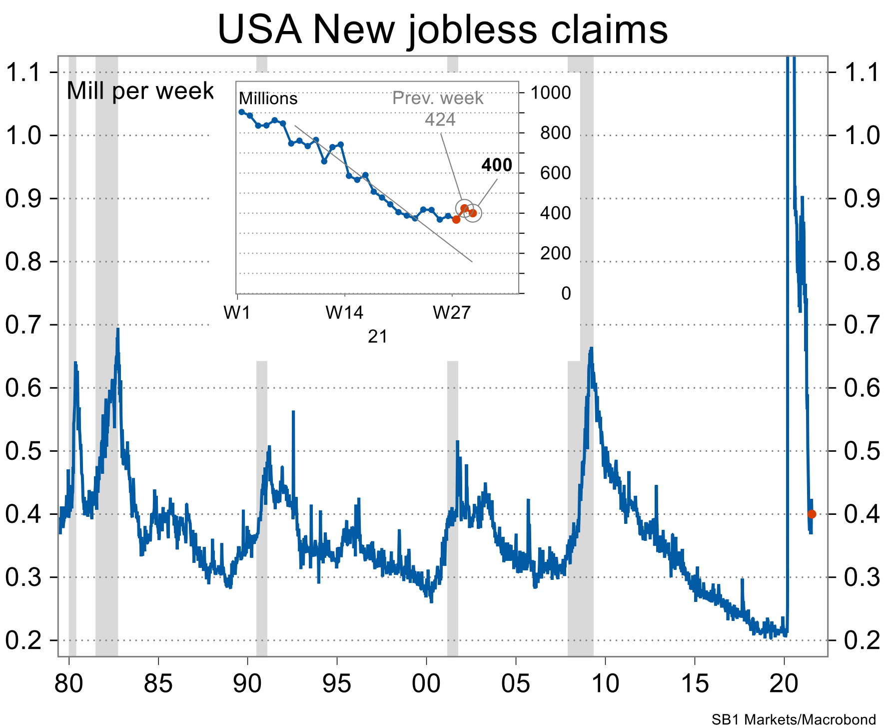


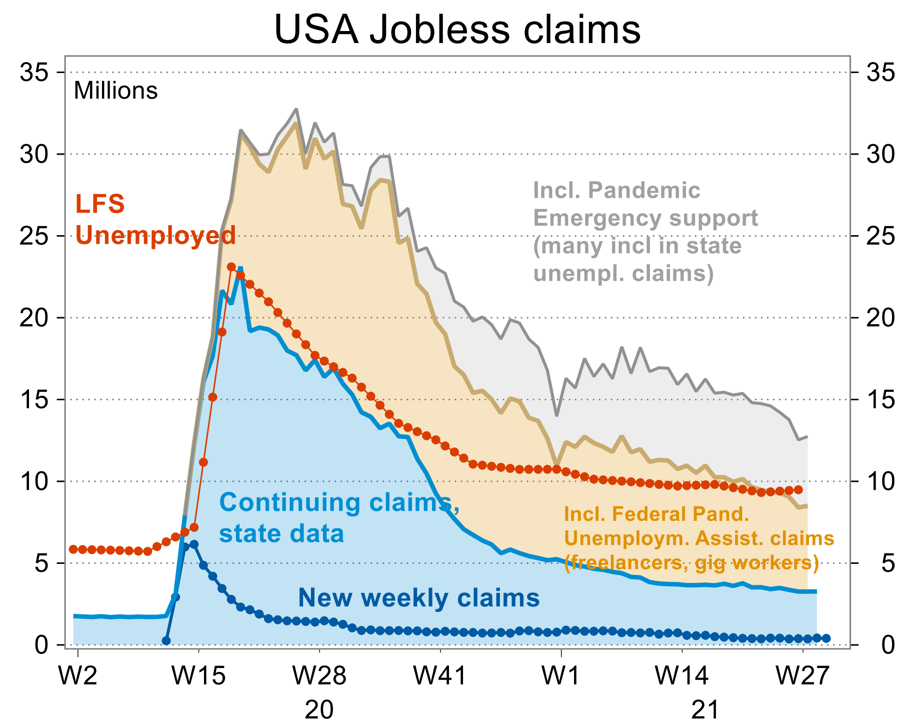
- **Exports** of goods rose by 0.3% m/m, and are well above the pre-pandemic level (in value terms). In volume terms, exports fell and are still bell below the early-20 level
- **Imports** of goods increased by 1.5% in June, and are some 18% above the early 2020 level. In volume terms, the **imports of goods** are 10% above the pre-Covid level. The reason is no doubt strong demand for goods in the U.S. We expect household demand for <u>goods</u> to slow in H2, from the present very high level – and imports should take a break too

SpareBank 1 MARKETS

New jobless remain at a high level, but ‘early leavers’ sees fewer cont. claims

New claims fell by 24’ to 400’, once more higher than expected (379’)

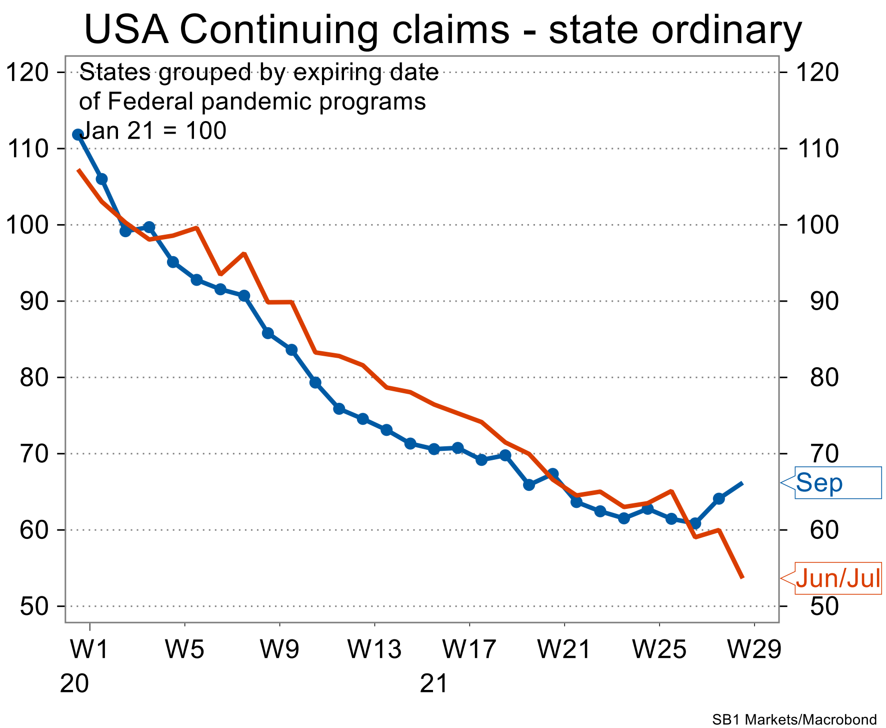


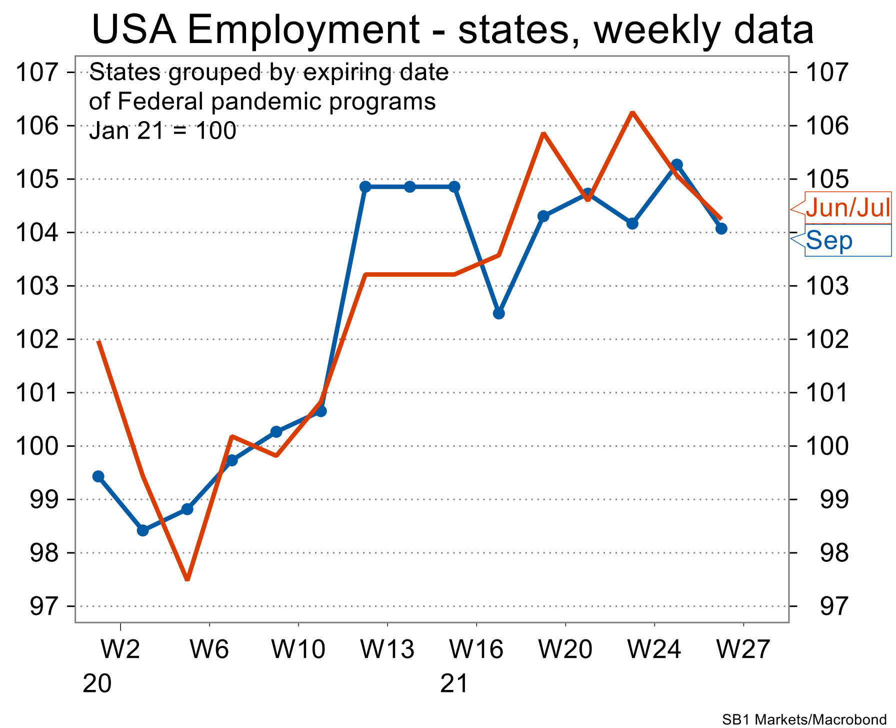


- **New jobless claims** have been heading upwards recent weeks, even if the no of unfilled vacancies are at the highest level ever. Problems in the auto industry may explain some of the trouble
- **Ordinary continuing claims** were close to unch at 3.27 mill, while the no. of receivers of the Pandemic Emergency Support Program (52 weeks instead of 26, and USD 300 extra/week) rose by 99’ to 4.23 mill, and the no. of receivers of the Pandemic Assistance Program (gig & freelancers) grew by 112’ to 5.25 mill even if more states 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?

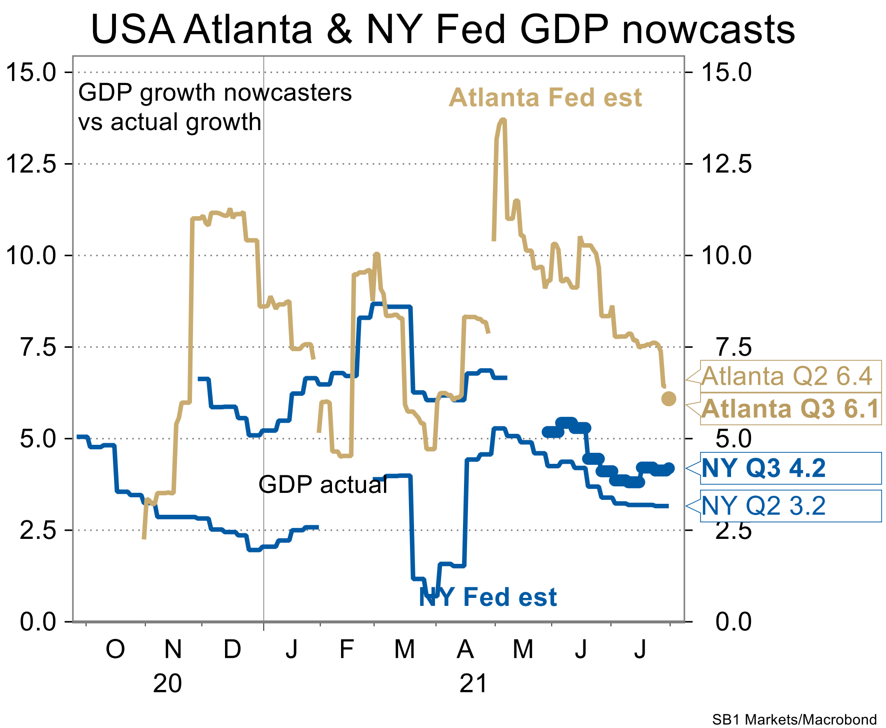
State data may give <u>some hope</u>: The ‘early leavers’ report fewer continued claims

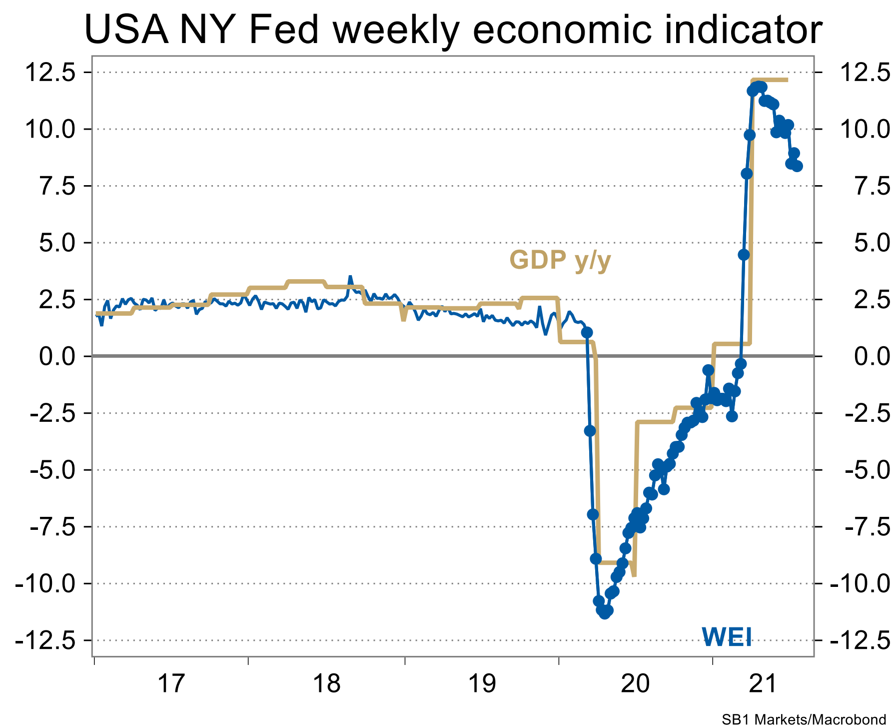




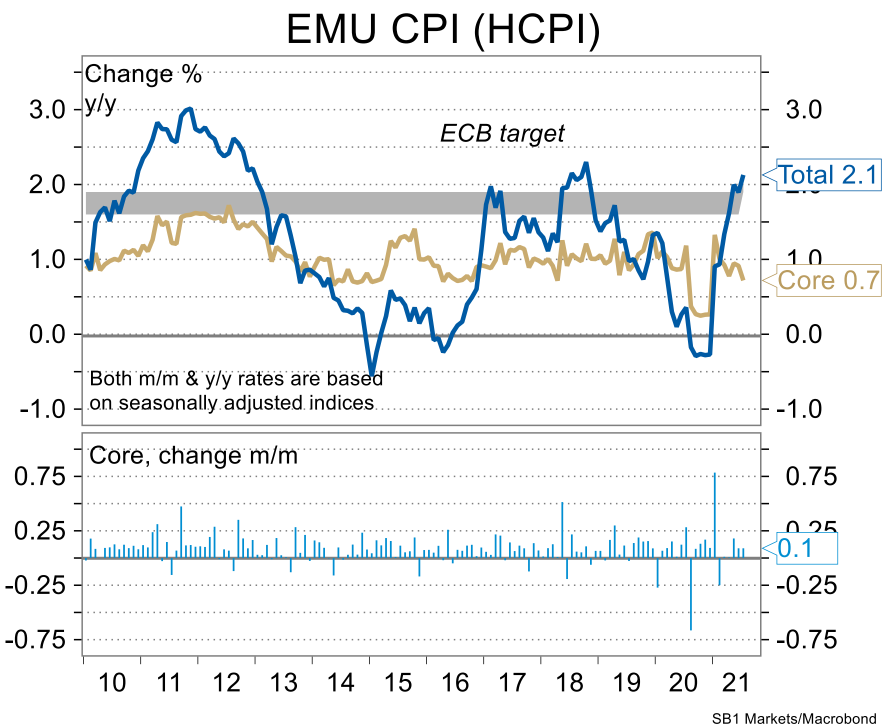
- 4 states dropped out of the federal unemployment benefit programs on June 12 (end of week 23), 8 states left June 19, and 10 states June 26, and 3 more states July 3 and 10
- We do not know what these former recipients do now – are they now trying to find a job?
- If we pool the ‘early leavers’ in one group, there has been a reduction in no of recipients of ordinary state benefits the past 3 weeks which may imply that those who lost their federal support also leave the dole
- Weekly employment data (available just through week 26) do not indicate lift in employment in the early leaver states

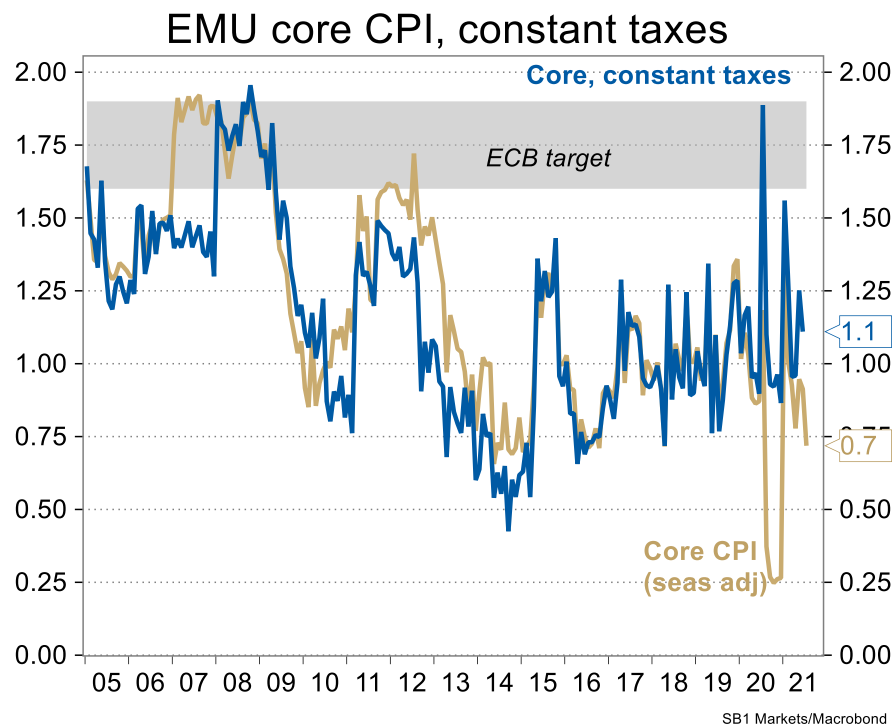
The nowcasters signal 4% to 6% GDP growth in Q3





Eurozone core inflation down to 0.7% in July, total up to 2.1%

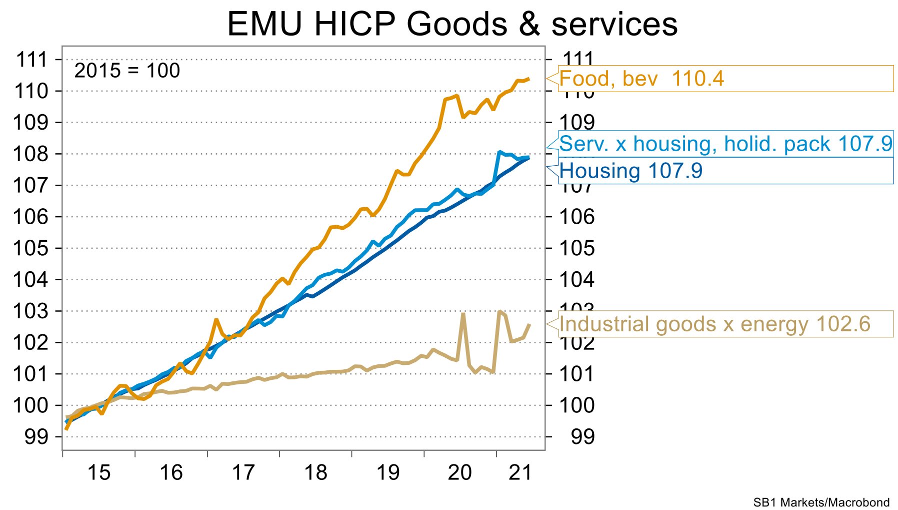


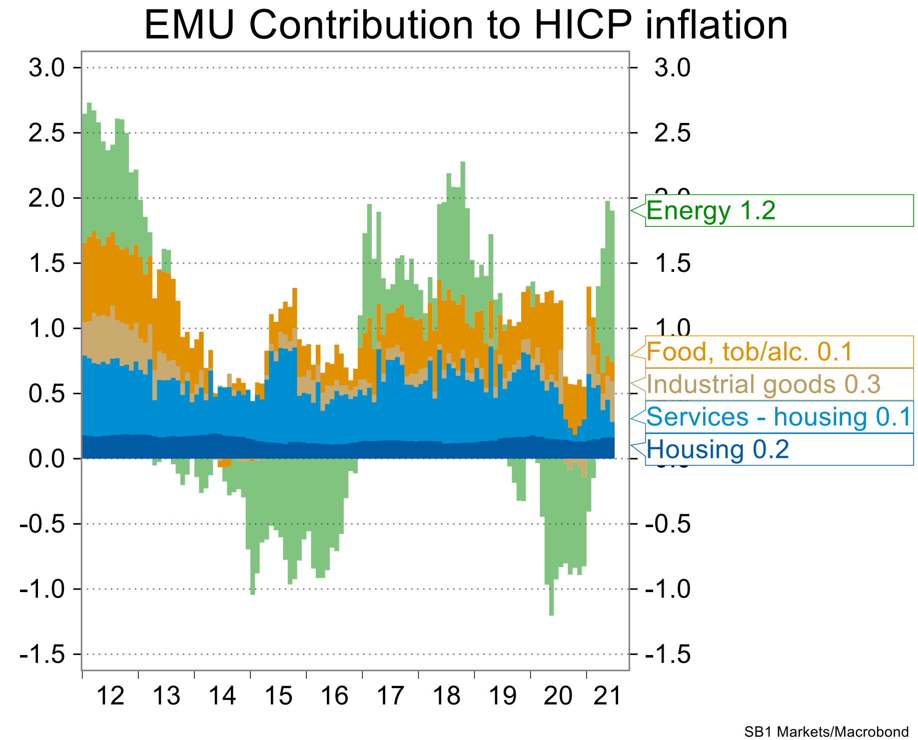


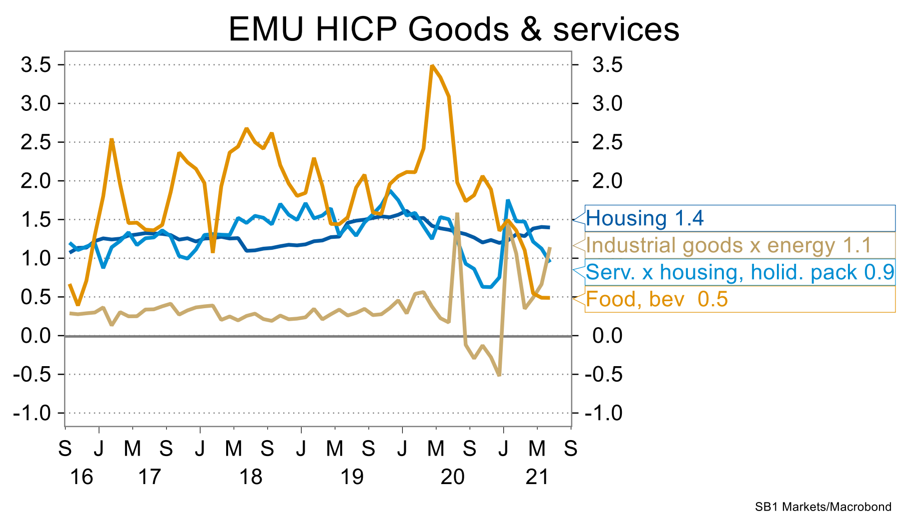
- **Core prices** were confirmed up 0.1% m/m and the annual rate fell 0.1 pp to 0.9%. Goods prices rose 0.4%, services were down 0.1%
- **Headline inflation** was down 0.1 pp to 1.9% in July
- **Adjusted for changes in taxes**, the core was at 1.1% y/y in June

No July details yet – but until June energy was the main (and only) culprit

… and the conclusion will be the same in July

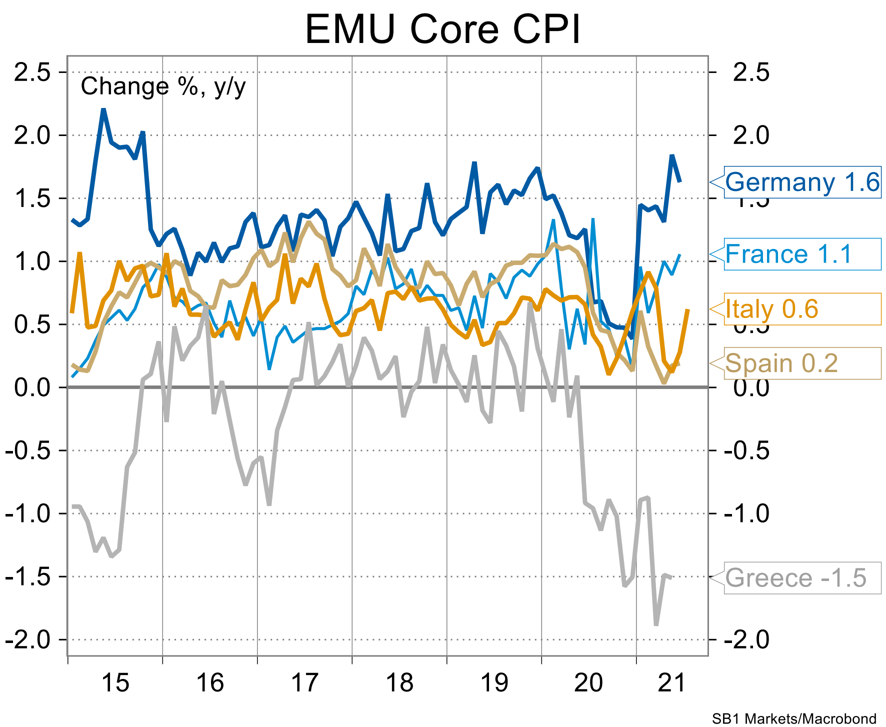


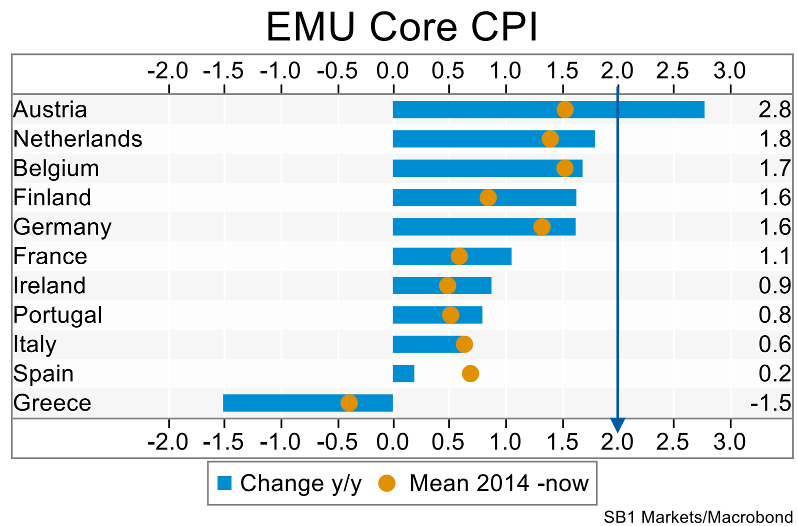


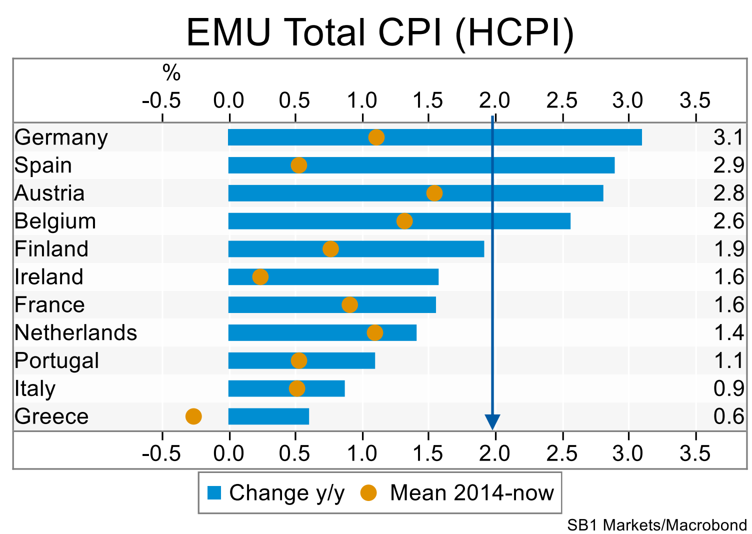


Core inflation below 2% almost everywhere – total inflation above some places

In Germany, headline inflation is at 3.1%, which is not that usual

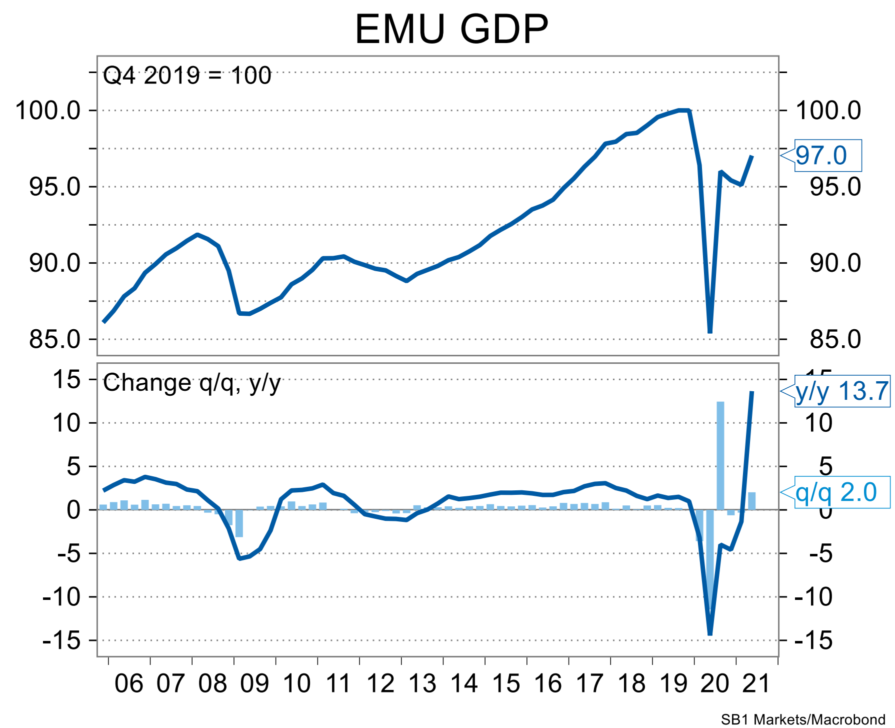


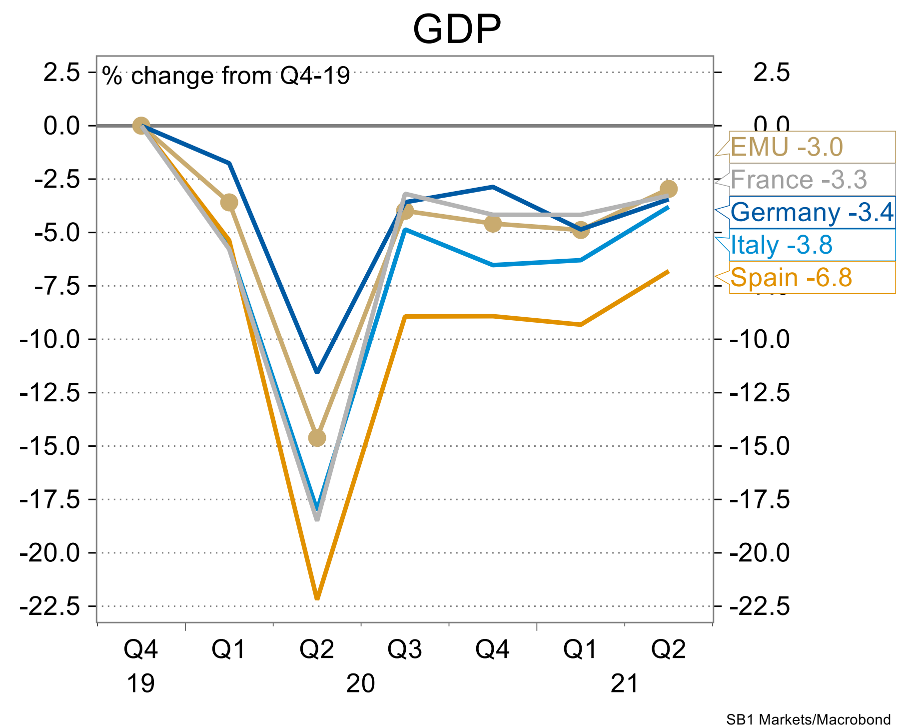




GDP up 8.3% (2.0% not annualised) in Q2, well above expectations at 6%

GDP is still 3% below the Q4-19 level. Spain & Italy grew by 11 – 12%

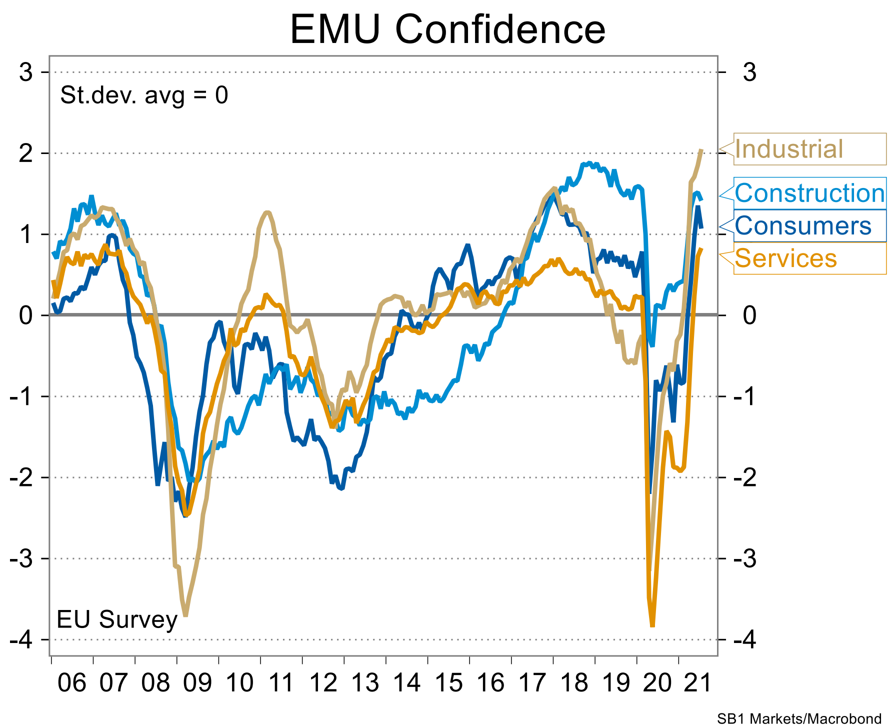




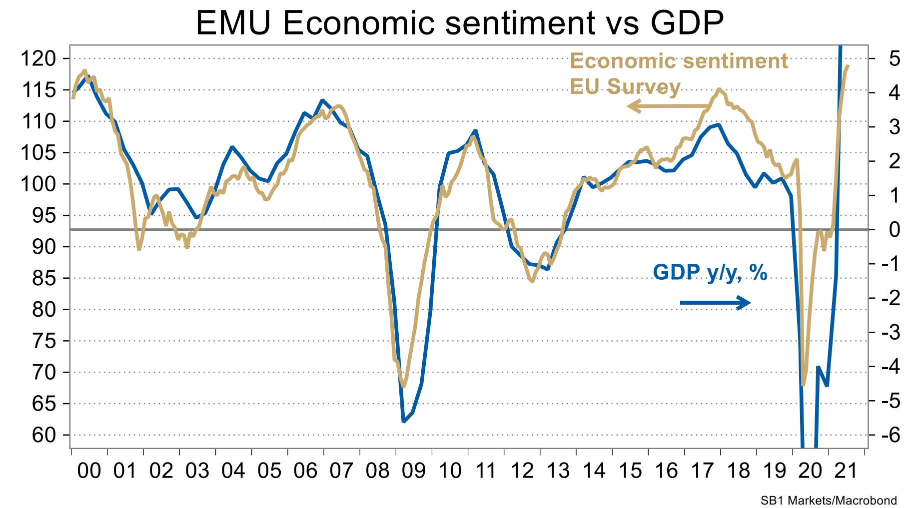
- Euro Area GDP fall by 0.9% in sum the previous two quarters, and the Q2 level is 1% above Q3 last year – and still 3% below the Q4-19 level
- GDP grew by 2.7 – 2.8% in Q2 (not annualised) in Spain and Italy – but GDP in Spain remains 6.8% below the pre-pandemic level as the tourist industry has far from recovered
- France and Germany expanded by 0.7% and 1.5% resp in Q2

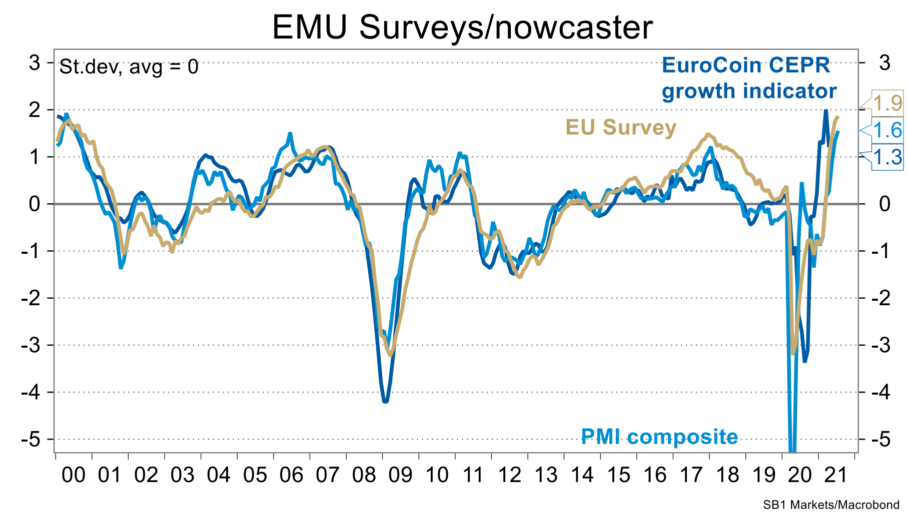
The best economic sentiment ever

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



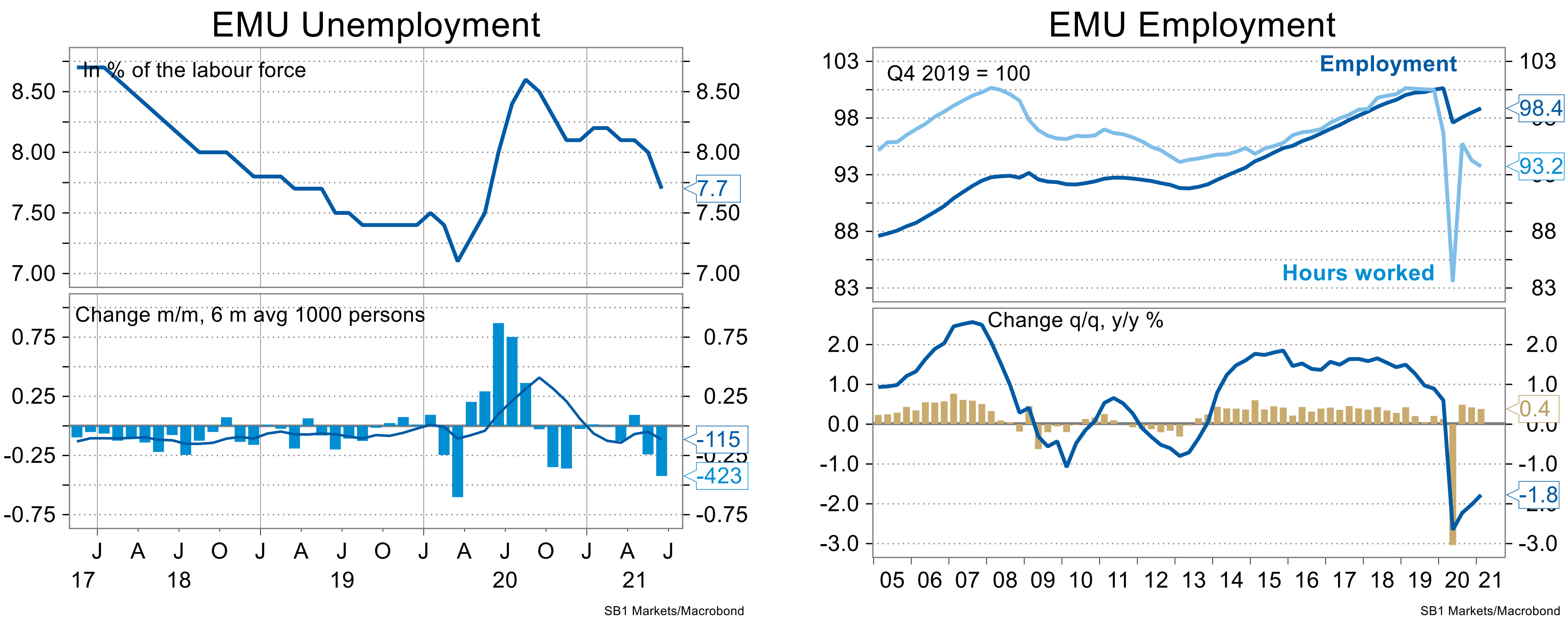
- EU's confidence survey for the Euro area rose to 119 in July, expected up to 118.5, to the best level (data from 1985)
  - » The **main index** is 1.9 st.dev above average, signalling roughly 5% GDP growth
  - » **All sectors** are now signalling above average growth. Services rose further, even if the virus situation deteriorated
  - » **Consumer confidence** fell in July, as the preliminary report indicated
- Other surveys and nowcasters confirm the strong growth momentum in the Eurozone economy





Unemployment down to 7.7% in June, from 7.9%

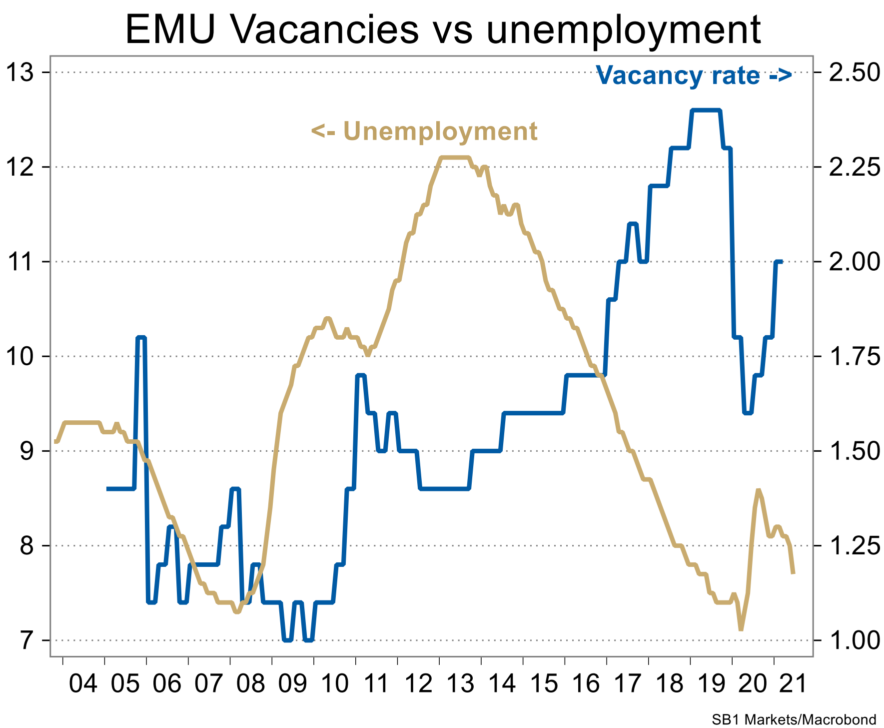
Unemployment fell by 423’ – and is trending down

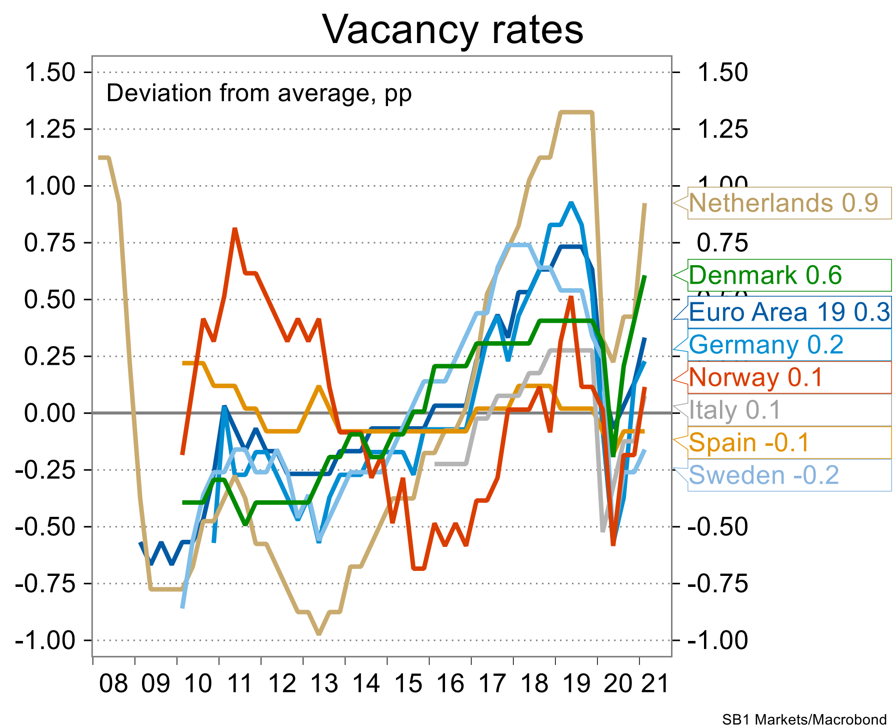


- **Unemployment** is falling rapidly as the economies are opening up – and the no of unemployed remains just some few tenths above the pre-pandemic level at 7.4 – 7.5%
- However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of hours worked. In Q1, hours worked were down 7% vs the pre-pandemic level, while the no. of employed was down just 1.7% - as average working hours were cut substantially. Given the 2% growth in GDP in Q2, the hours worked gap will very likely be reduced to 5 – 6% in Q2

Businesses are reporting more unfilled vacancies

… in tandem with the decline in the unemployment rate

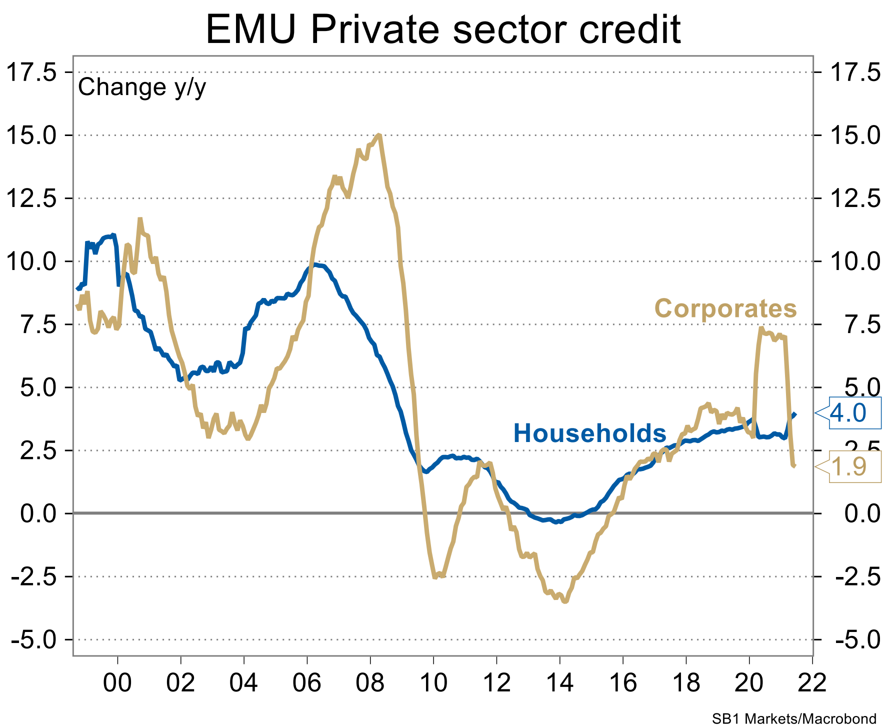


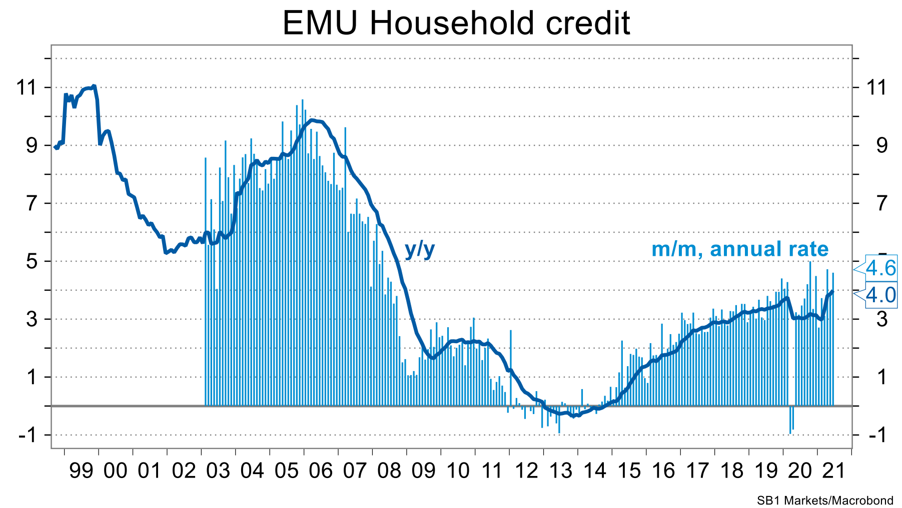


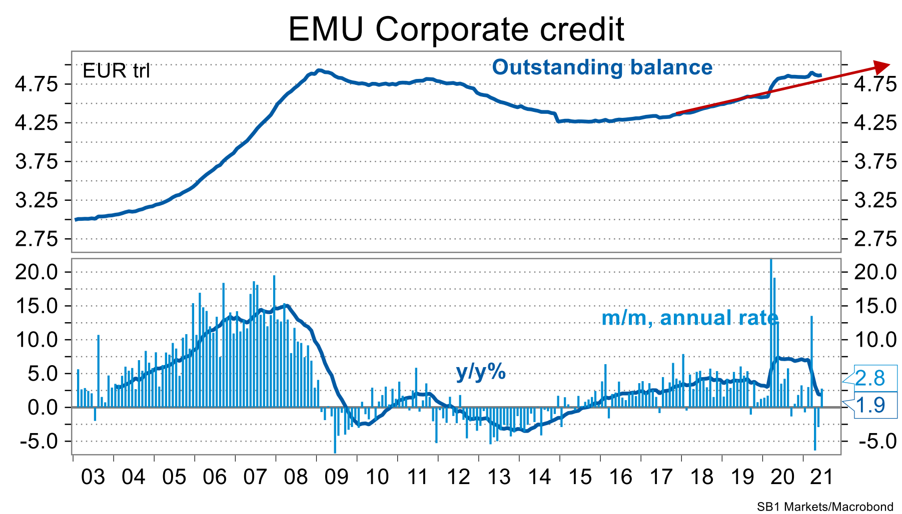
- Most European countries are reporting more vacancies than normal – but the trend is clearly upwards
- Denmark is reporting a record high vacancy rate

Corporate credit is flattening, household debt growing faster than since 2008

No signs yet that the super expansionary monetary policy has created a credit bubble



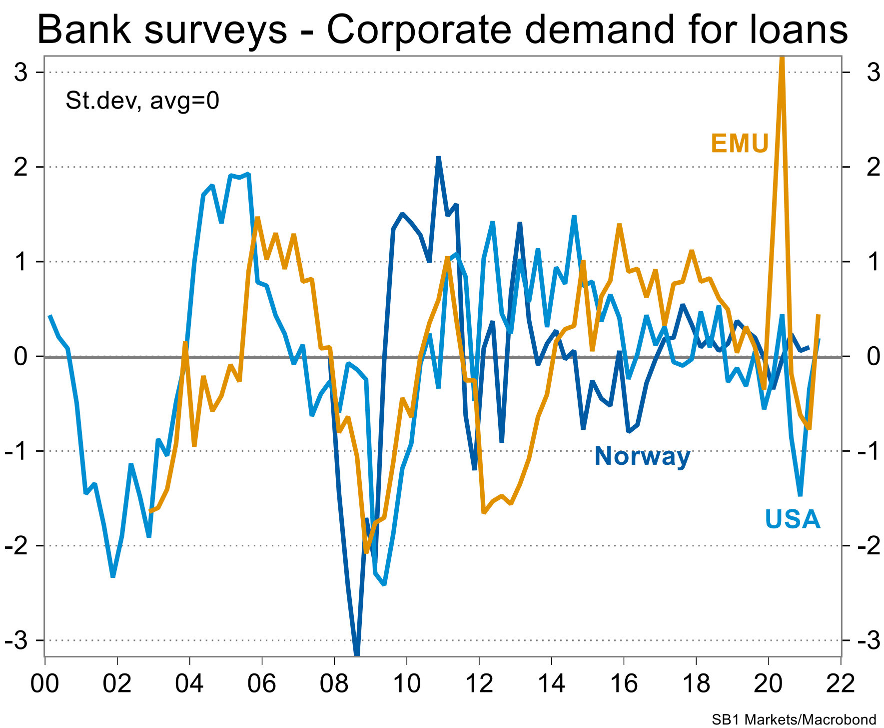


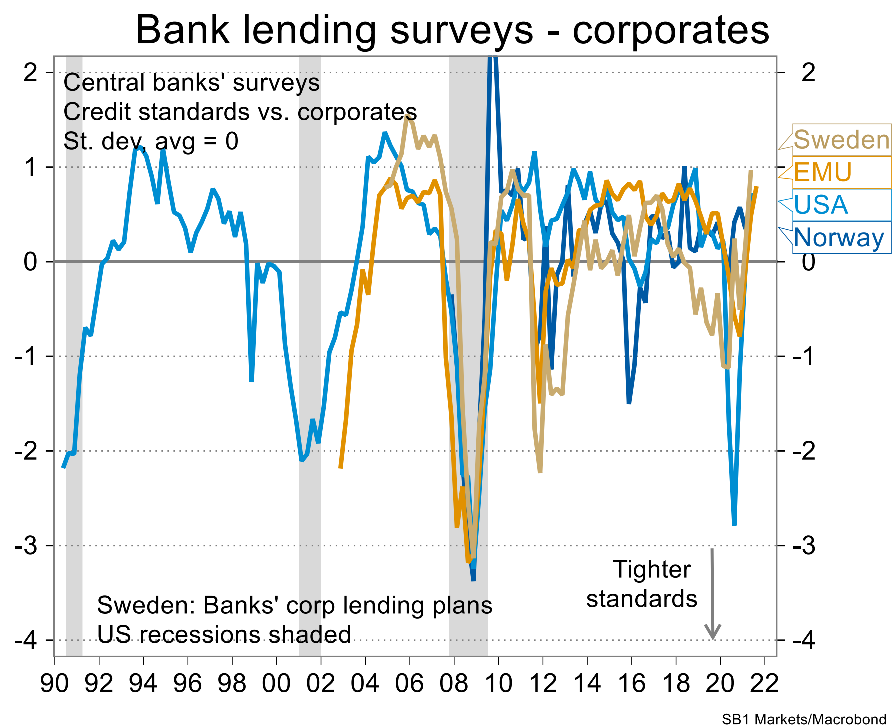


- The corporate debt level is still above the pre-pandemic trend growth path
  - » Corporate debt rose sharply last spring, when all credit gates were wide open – and the debt level is still not low vs. the pre-pandemic trend

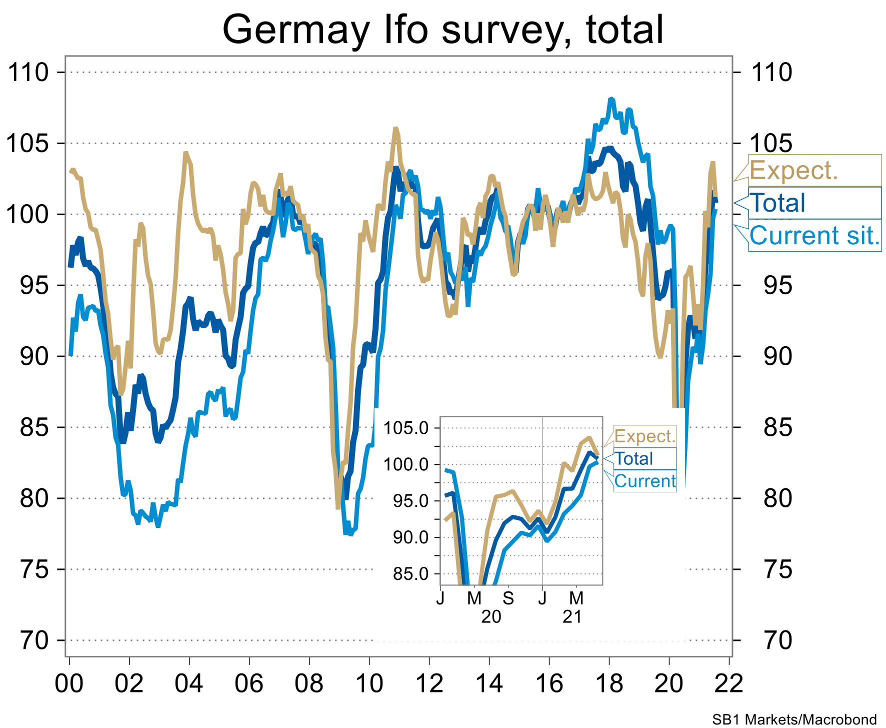
EMU banks are reporting higher demand for credit, and are easing standards

Banks in both US and Norway report the same





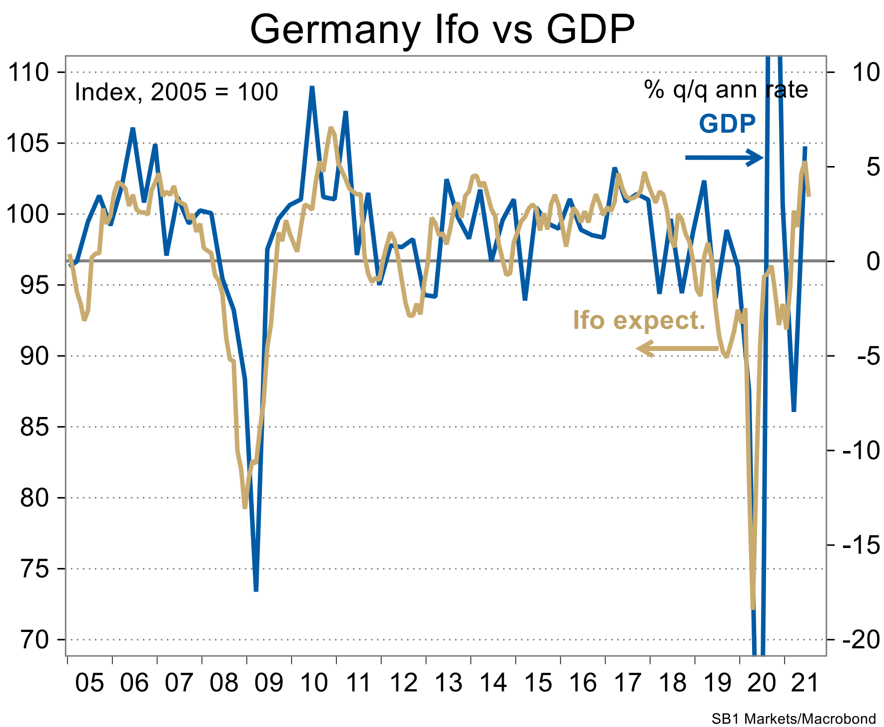
Ifo expectations down in July, level still high. The current situation further up

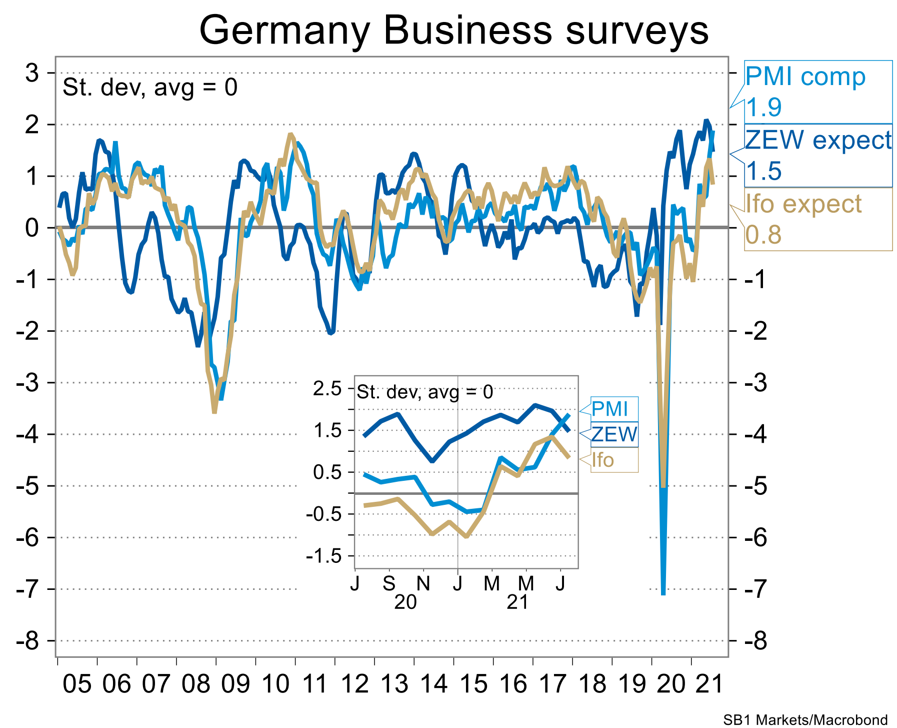


- In July, the **expectations index** fell by 2.5 p to 101.2, equalling -0.5 st.dev to 0.8 st.dev above average
- The assessment of the **current situation** rose to 100.4 , up from 99.8 in June – or to 0.8 st.dev above average
- **Manufacturing** business climate (average of current situation & expectation) is still close to the highest level since May ’18. All sectors are reporting activity well above average, signalling growth above average
- **All other German surveys** have climbed rapidly up recent months – and all are above average. They signal some 5% GDP growth rate

Surveys signals growth well above trend

Business climate (total index) for both manufacturing, retail & services slightly down





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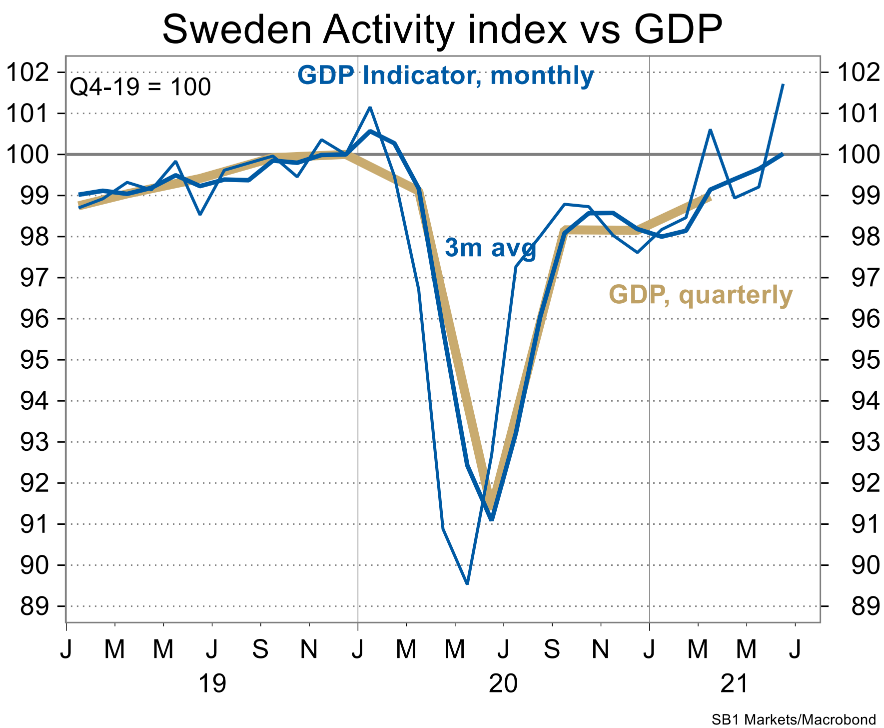
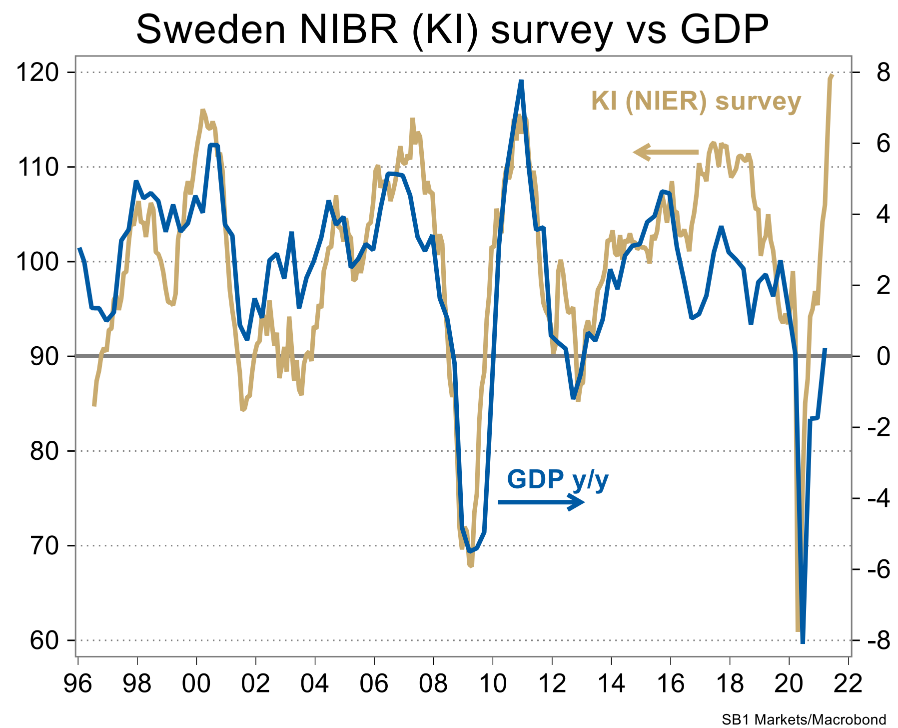
GDP up 2.5% in June, and 3.6% (0.9% not annualised) in Q2, well above expect.

June is probably an outlier, but was 1.9% above the Q4-19 level. Q2 in average was on par!

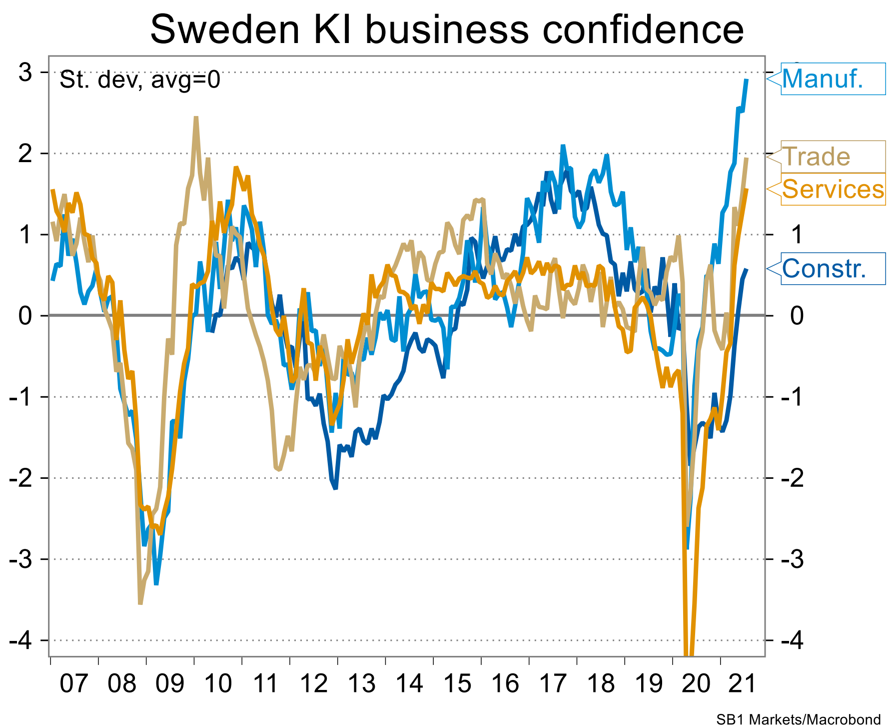


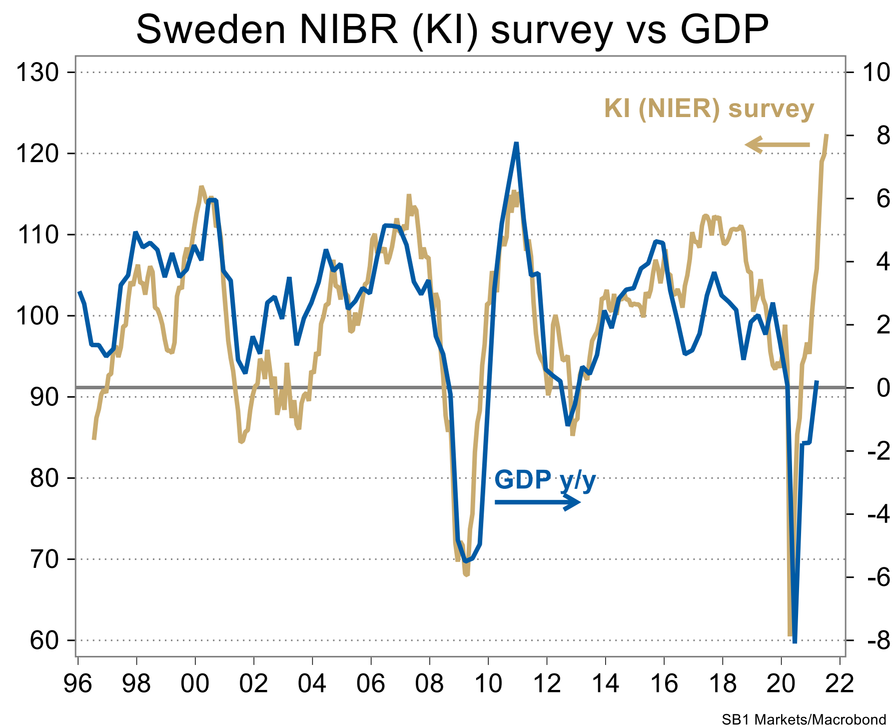


- **Q2 GDP** grew by 0.9% according to the first forecast, expected 0.7%. In addition, Q1 was revised up to 1.0% from 0.8%
- GDP is back to the Q4-19 level – but below the pre corona growth path
- **The outlook** for the coming months is very good, if we should believe the reports from the business sector, measured by KI (check the next pages) or the PMI

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

The ‘post’-pandemic recovery is broadening, all sectors reporting growth well above trend

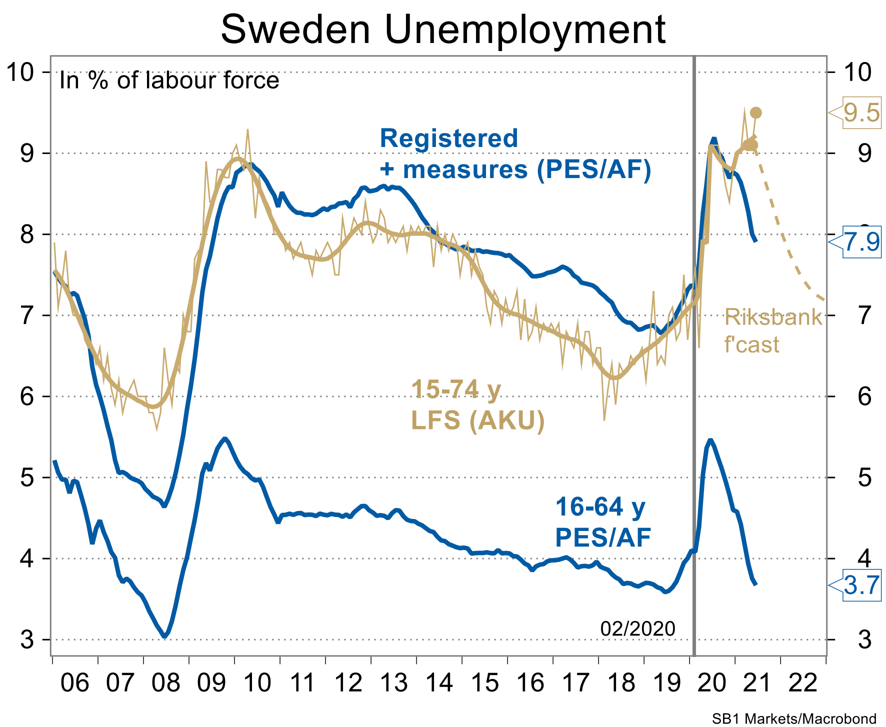


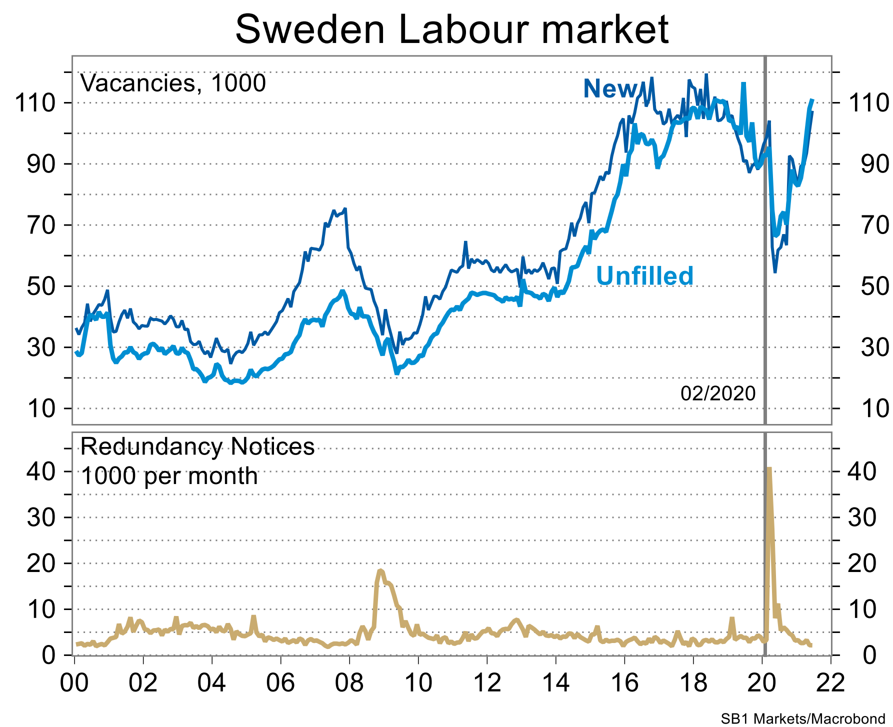


- **The composite index** rose to 122.5 in July from 119.8 in June, up to another ATH . The survey signals a very rapid growth in GDP
- **All 4 main sub-sectors** contributed to the lift, and all are reporting growth above average. Take-off among **manufacturers**, but both **retail trade** and **services** are reporting the fastest growth in a decade. **Construction** is also signalling growth above average
- Most likely, growth is now close to peaking as the gap to the pre-pandemic growth path most likely will be closed during H2
- Still the **Riksbank** is still concerned about the impact of the corona crisis, and buys large quantities of government bonds, and thinks it will keep the policy rate at zero forever. At least until well into 2024. If growth calms down rapidly, that may be OK. If not..

LFS unemployment up in June, according to the LFS. It's falling, says PES/AF

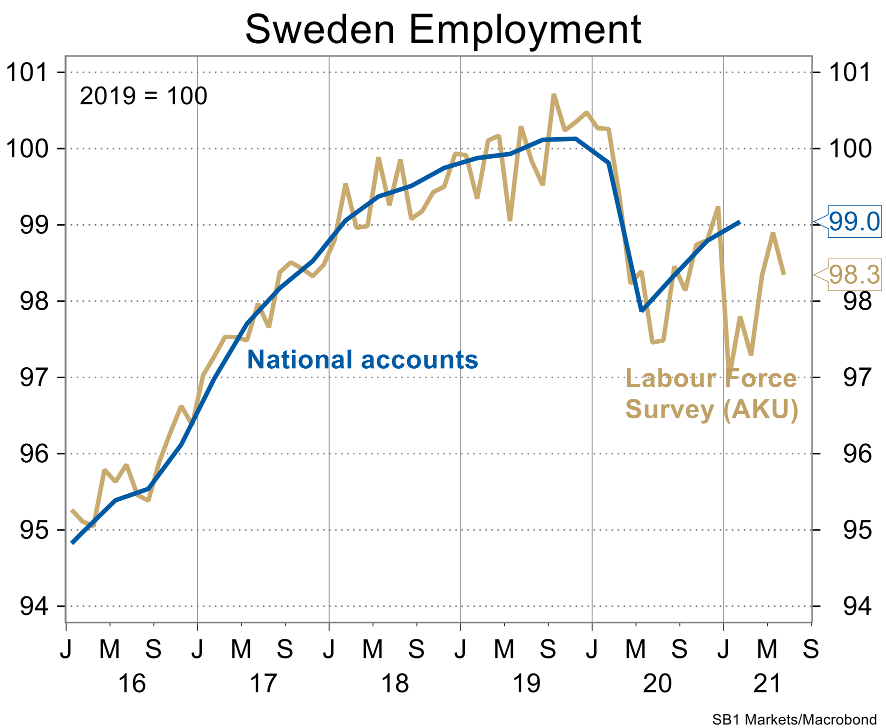
LFS (AKU) is more uncertain than usual during the summer, and even more as method is revised

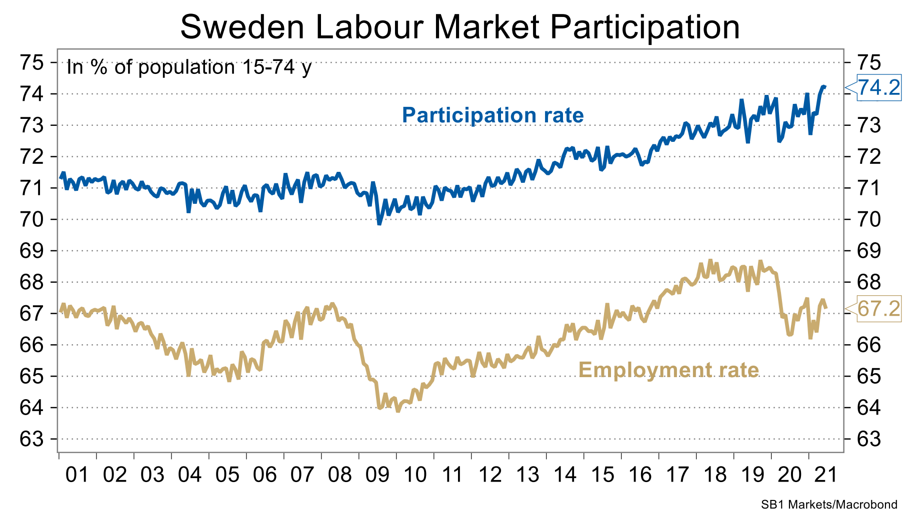


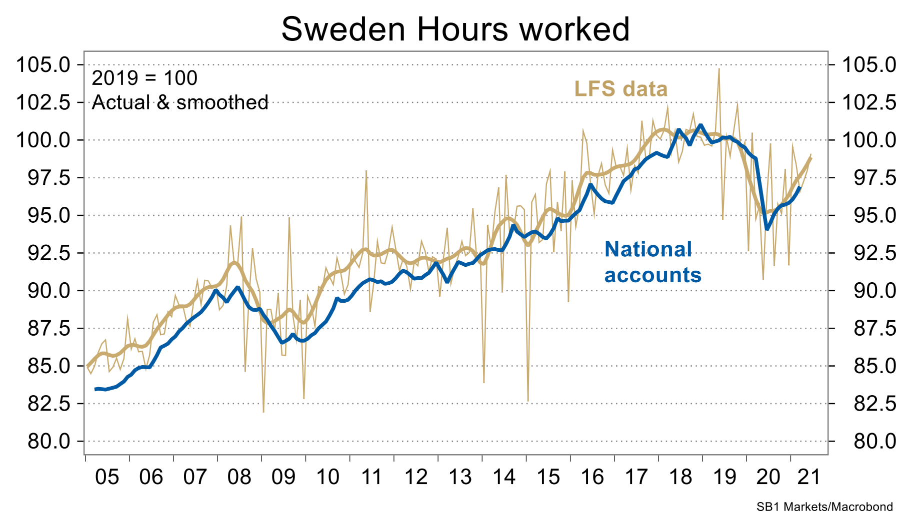


- The seasonally adjusted **LFS (AKU) unemployment rate** rose to 9.5% from 9.1% in June. The whole LFS apparatus is revised (EU standards) and the old and new method is not yet directly comparable in Sweden. Thus, the while the 9.5% unemployment rate is well above the 7.2% early 2020 level, we cannot tell for sure how much higher the 'real' unemployment rate is
- **Registered 'open' unemployment** (PES/AF) has fallen rapidly since last June, and currently stands at 3.7%, below the pre-pandemic level at 4.1%
- **Incl. labour market measures**, PES/AF unemployment is falling rapidly too - but less than open unemployment. At 7.9%, the total unemployment rate is 0.5 pp above the early 2020 level
- The number of **new and unfilled vacancies** rose further, and **layoffs** were down in June. The inflow of new vacancies are equal to the pre-pandemic level, while the no. if unfilled vacancies us higher!

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



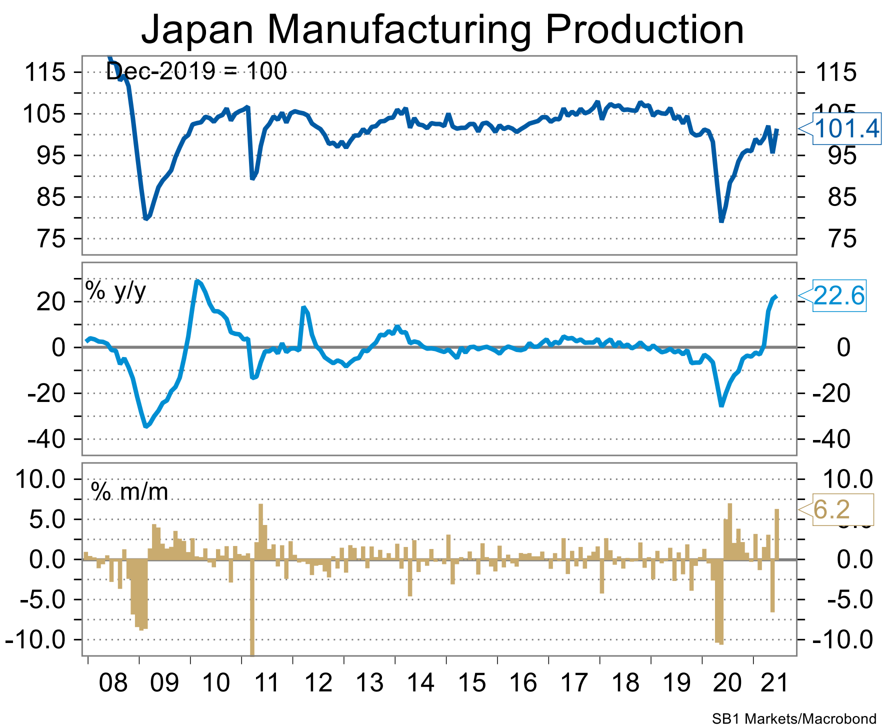


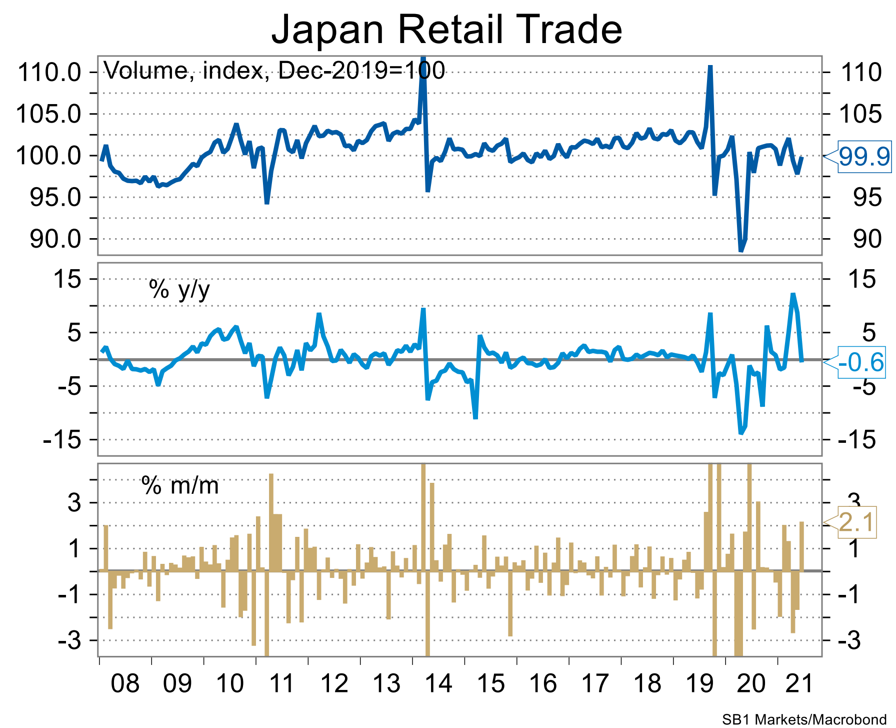


- Employment is very likely down less than 1% from before the pandemic Q2, vs the 1% shortfall reported by the national accounts in Q1
- Hours worked has recovered substantially vs last spring, and are still on the way up - and are now 1% below the pre-pandemic level (but further below the long term trend)

The manufacturing sector recovered most of the May loss in June, and is a pp-levl

June retail sales recovered some of the April/May losses but less than expected

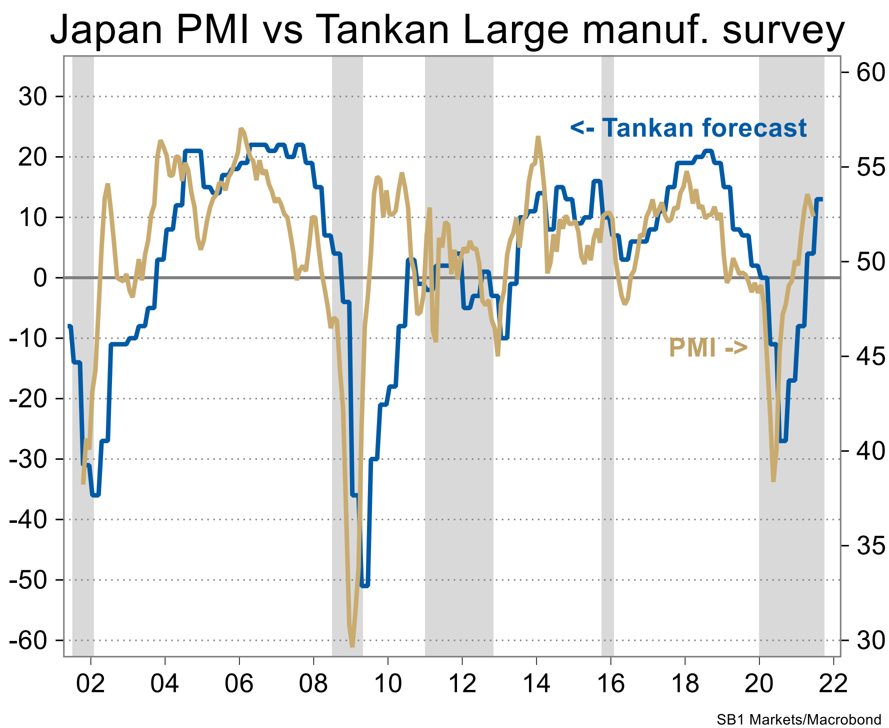


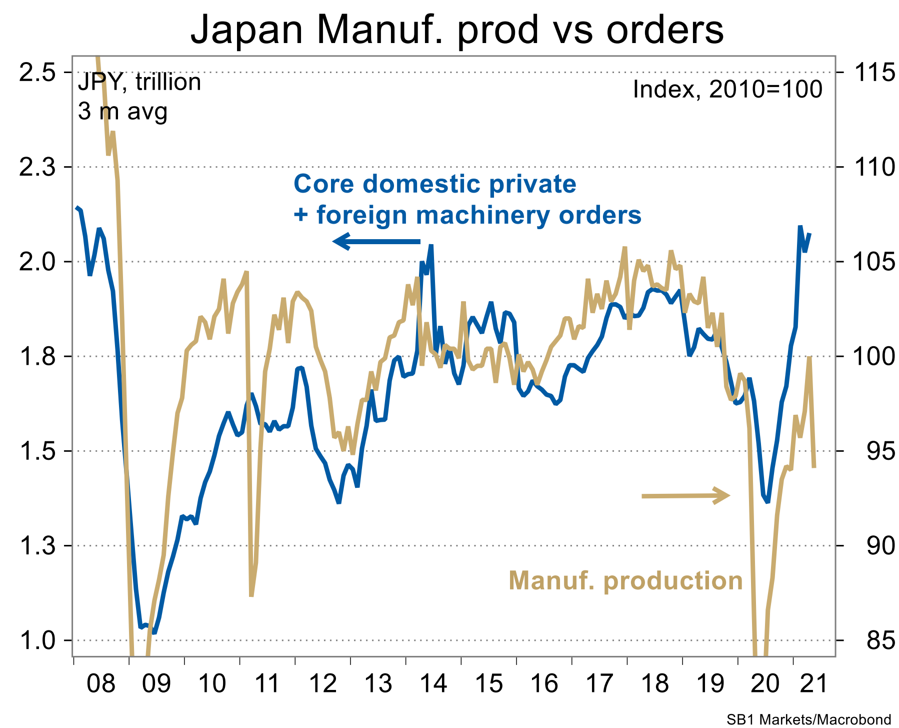


- In May, **total manufacturing production** fell by 6.5%. The 6.2% recovery in June was better than expected. Production is slightly above a weak pre-pandemic level
  - » In May **auto production** fell 20%, and in June it recovered by 23% - explaining most of the change in total production. In June, auto production was close to a normal level, at least equal to the pre-pandemic level
  - » **Manufacturing surveys** are mixed still strong – even if production is far from impressive
  - » **Order inflow** has strengthened substantially recent months, and signals a higher production level
- **Retail sales** rose by 2.1% in June, expected +2.9%, and the level is at the low pre-pandemic level

Both PMI & Tankan signal a decent recovery

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





Highlights

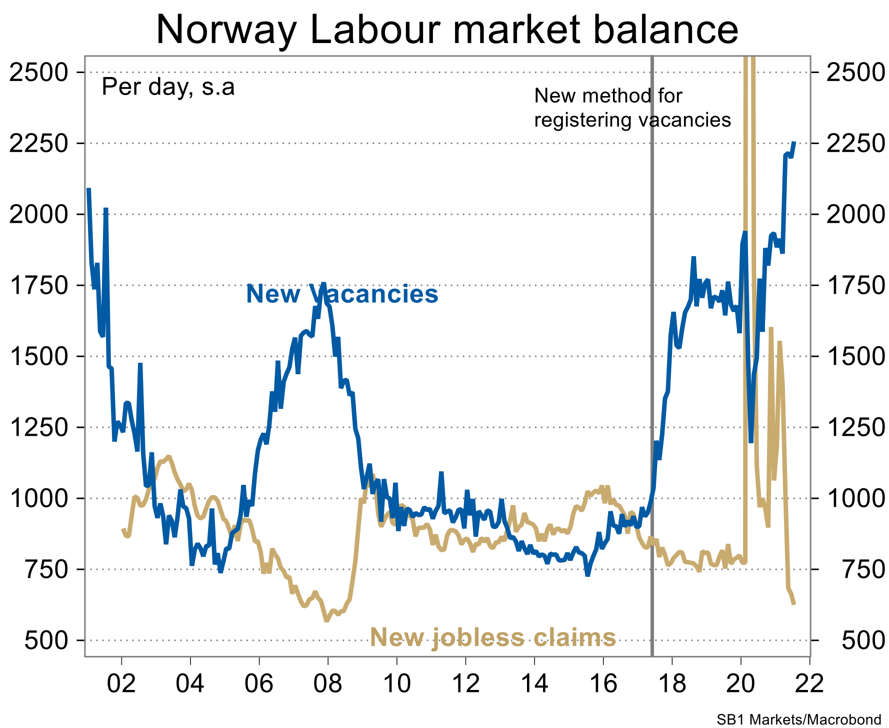
The world around us

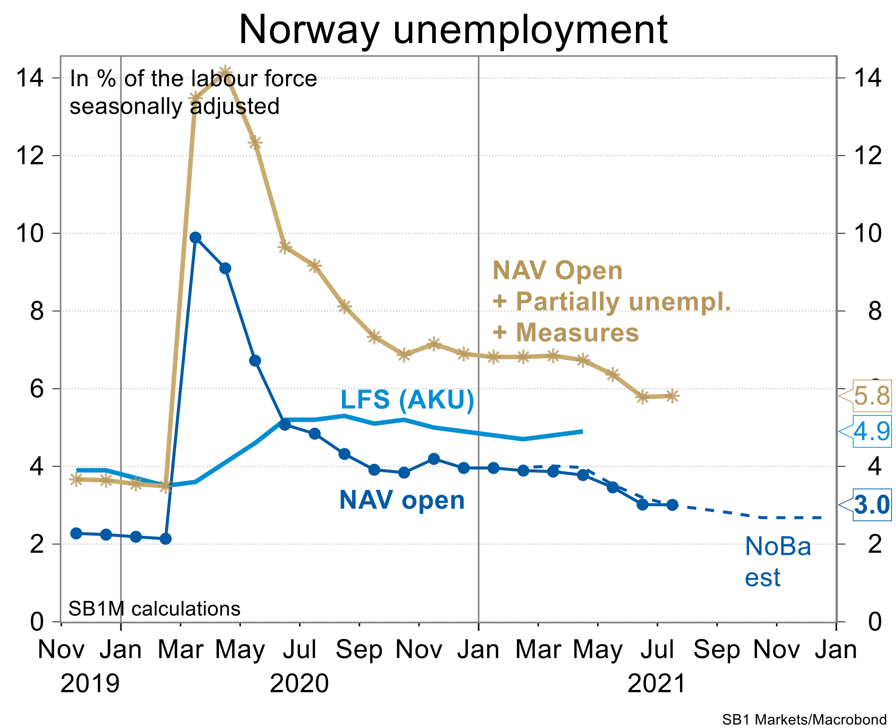
The Norwegian economy

Market charts & comments

NAV unemployment more or less stable in July, and back to NoBa's path

We deem the trend to be still steeply downwards, even if unemployment flattened in July

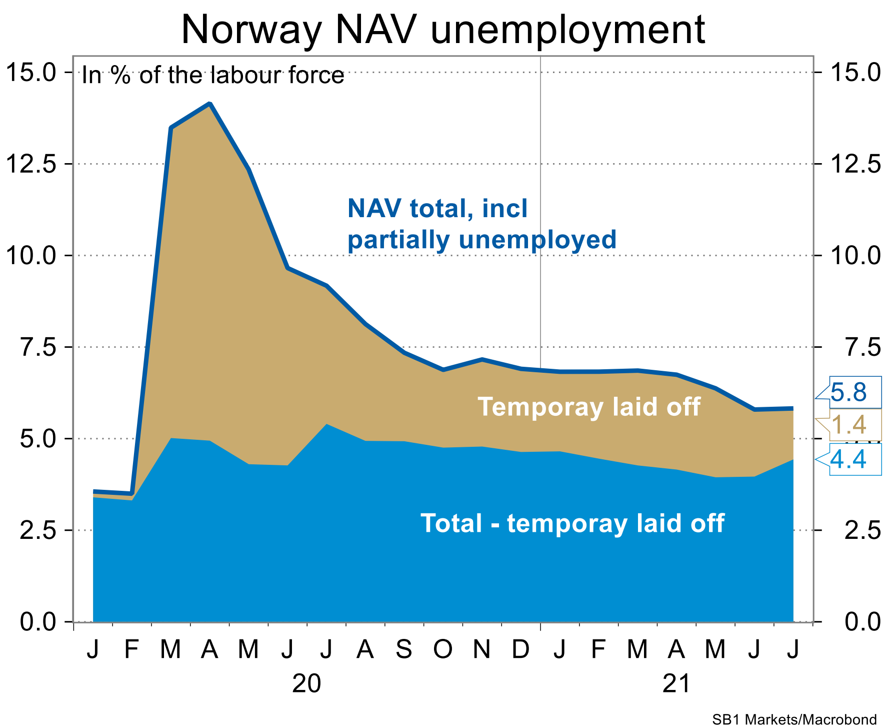


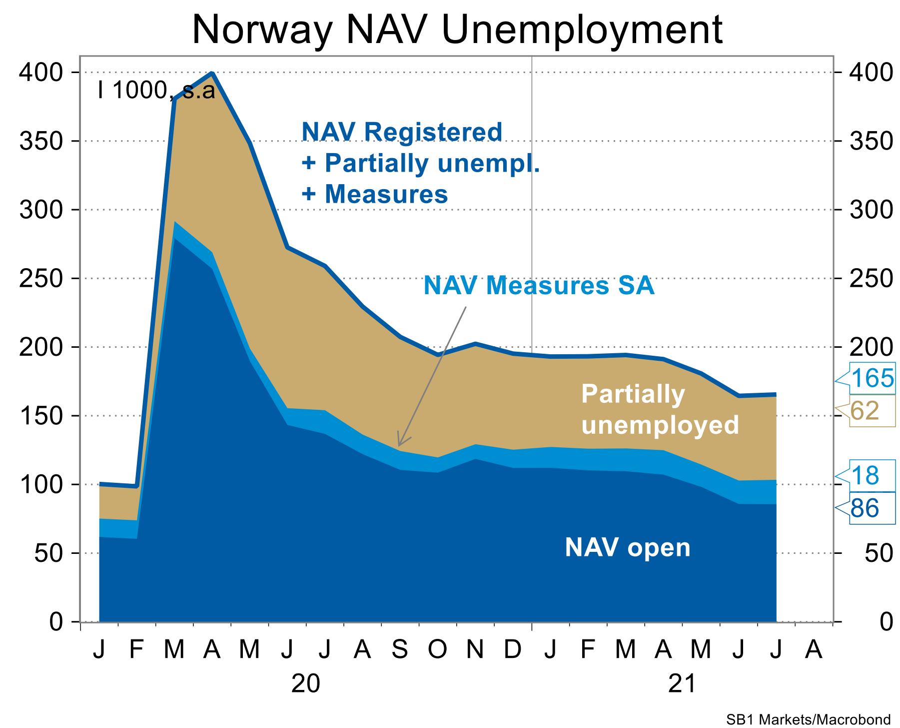


- **The 'full time' open NAV unemployment**, which includes furloughed workers was unch. at 86' in July (seas. adj), equalling 3% of the labour force, in line with NoBa's estimate in the June MPR. Unadjusted, the rate rose by 0.2 pp to 3.1%, we expected a decline to 2.8%. The deviation is partly due to seasonal adjustment challenges during the summer season. The no. engaged at labour market measures was stable at 0.6%
- The number of **partially unemployed** was flat, according to NAV's seasonal adjustment, and slightly up, according to our adjustment – at approx. The grand total was still reported down by 5' by NAV, our calculus yielded a small increase. Total unemployment is at 160', or 5.8%, still up 2 pp from before the corona crisis. The no. of furloughed workers fell sharply, implying an increase in 'ordinary' unemployment
- The inflow of **new job seekers** fell further in July, and the inflow of new vacancies rose further from a high level the previous 3 months
- **All in all:** Weaker than expected in July, but summer data are less certain, and the trend is sharply down.
  The risk: A substantial mis-match is building up, vacancies are increasing and there are wide spread reports on lack of labour

Fewer temporary laid up, more ‘ordinary’ unemployed

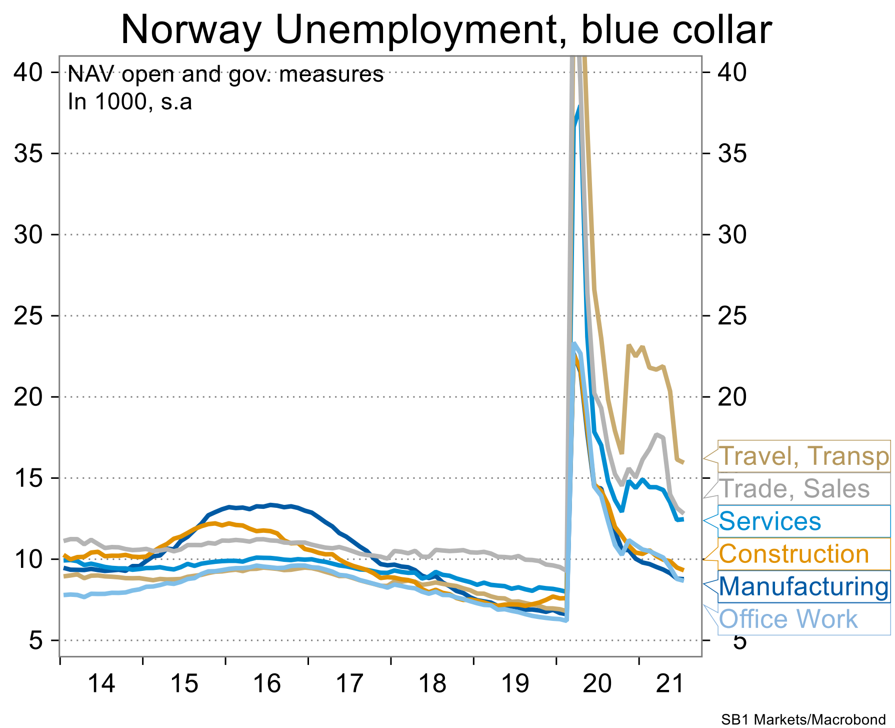
The number of furloughed workers fell sharply

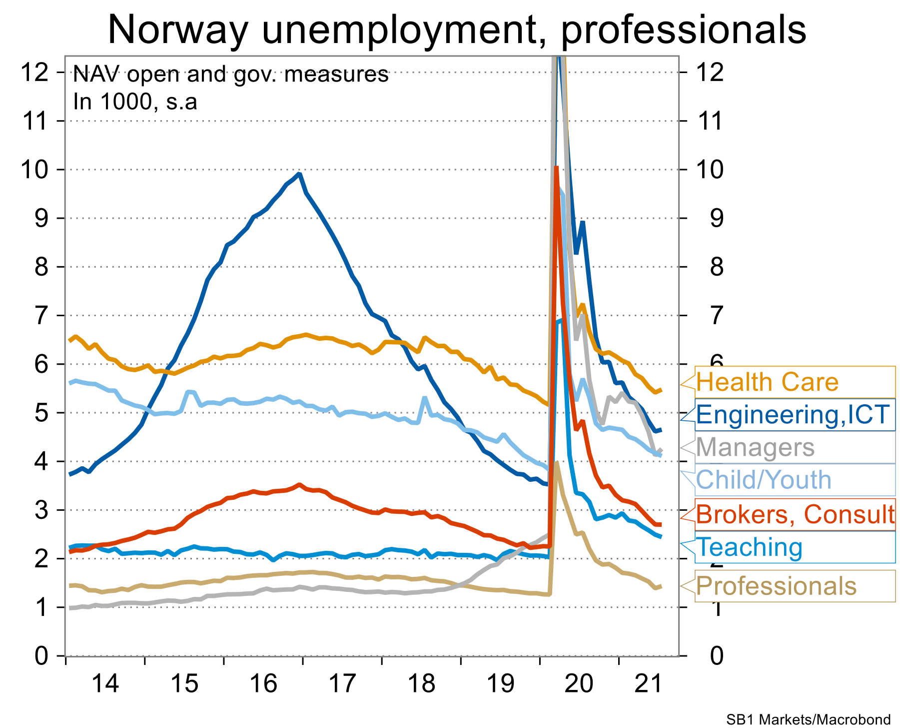




The decline in unemployment took a (summer) break in several sectors in July

All sectors are trending down, at the fastest pace in travel/transport & trade/sales

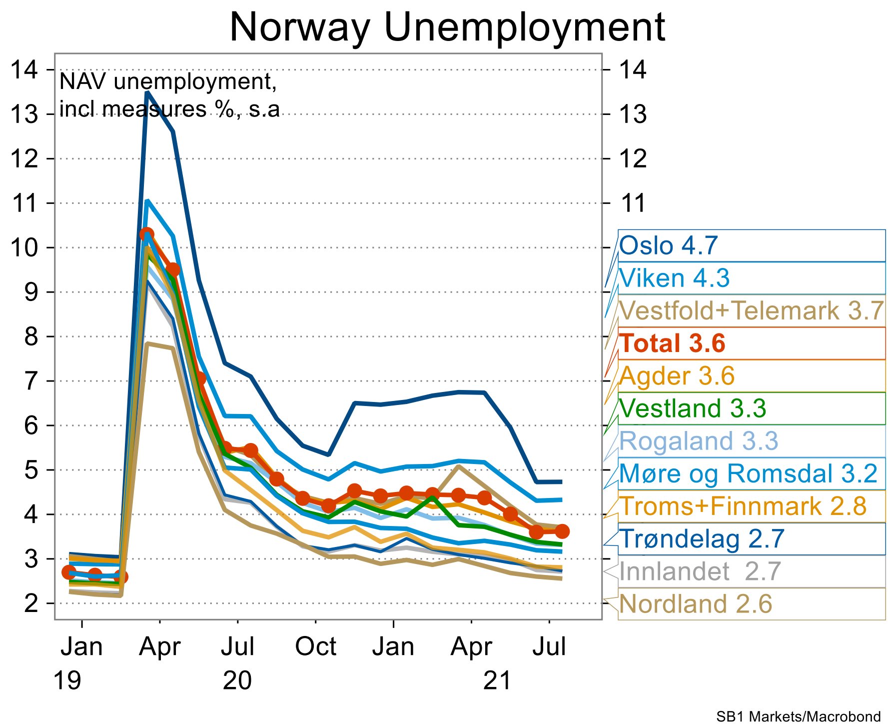


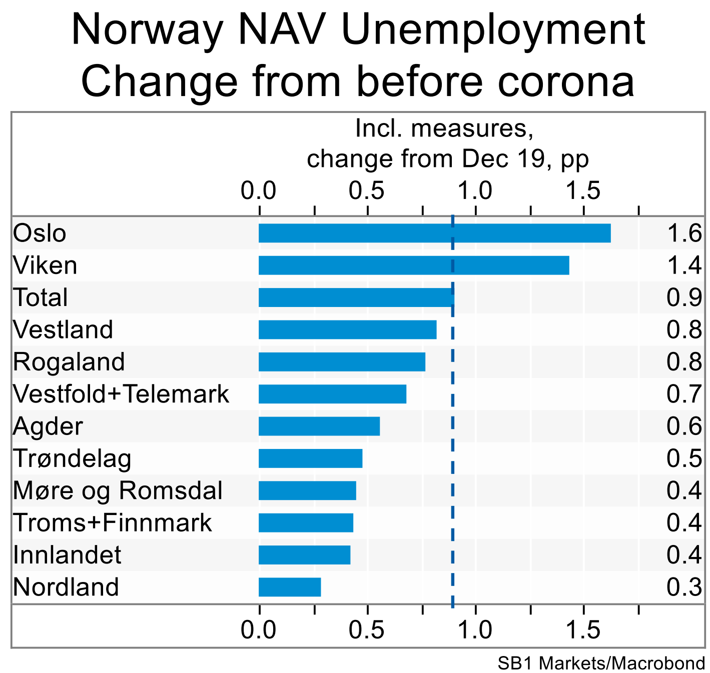


- Sure, unemployment is still higher than normal in the hospitality/travel industry – but the sector has turned the corner following the partial reopening past three months. More to come the next months

Unemployment flattened in most regions in July.

In large parts of the country, the unemployment rate is just marginally above the pre-pand. level

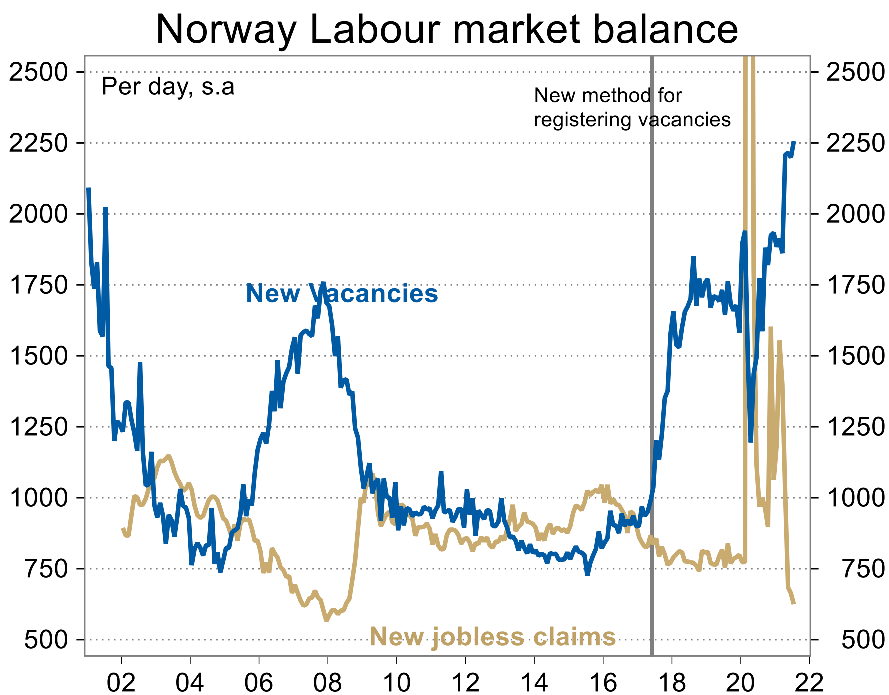




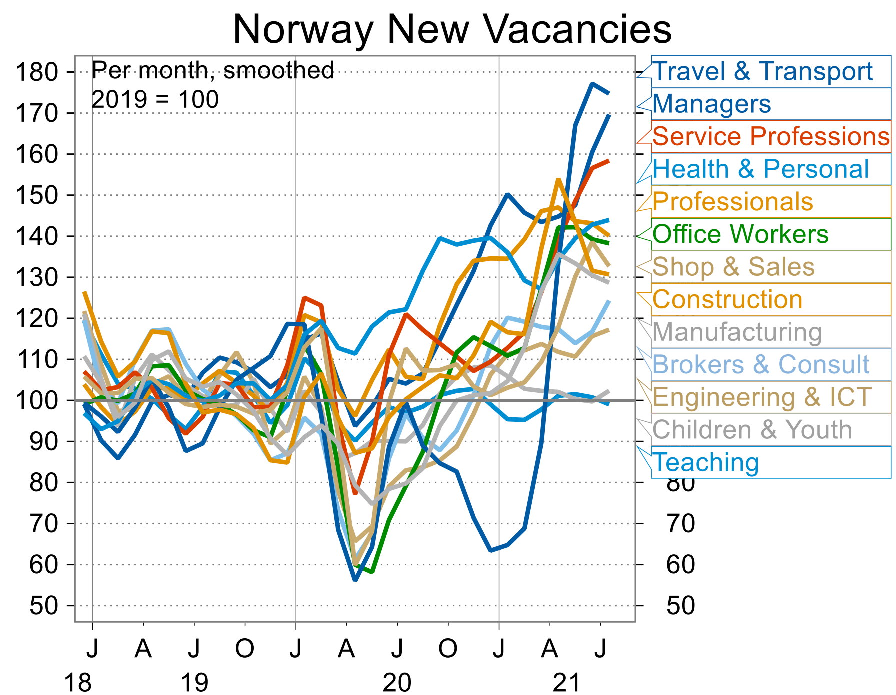
- **Oslo** has by far been the hardest hit county, both due to restrictions and a large service sector – followed by Viken
- Unemployment is trending down everywhere
  - » In 9 of 11 counties, the unemployment rate is up less than 1 pp since before corona.
  - » The national average is 3.6% ('full time' unemployed + measures), up 0.9% above the pre-pandemic level

A huge inflow of new vacancies for the 4th month in row

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



SB1 Markets/Macrobond



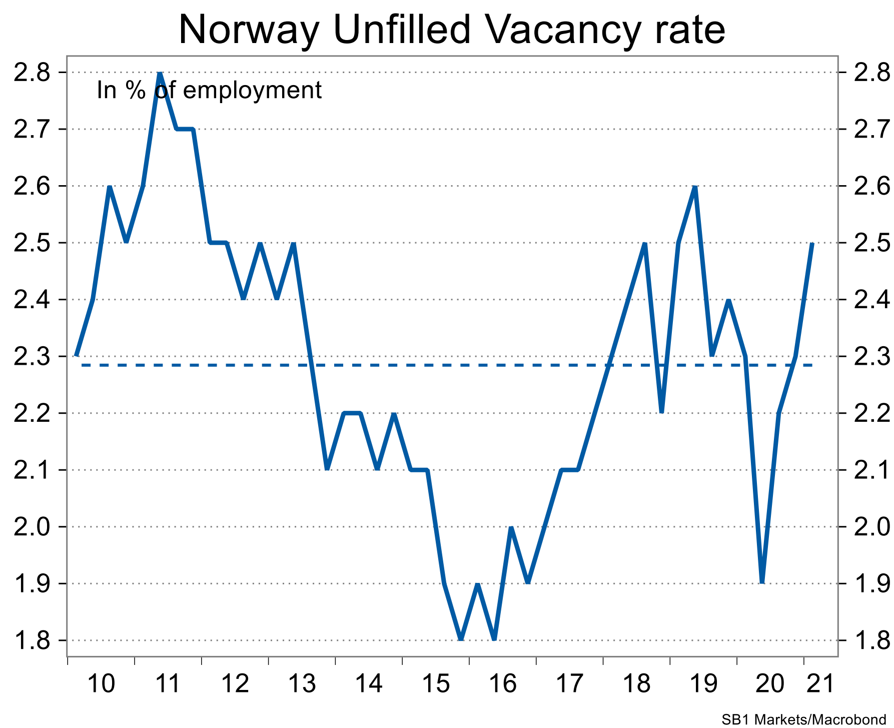
SB1 Markets/Macrobond

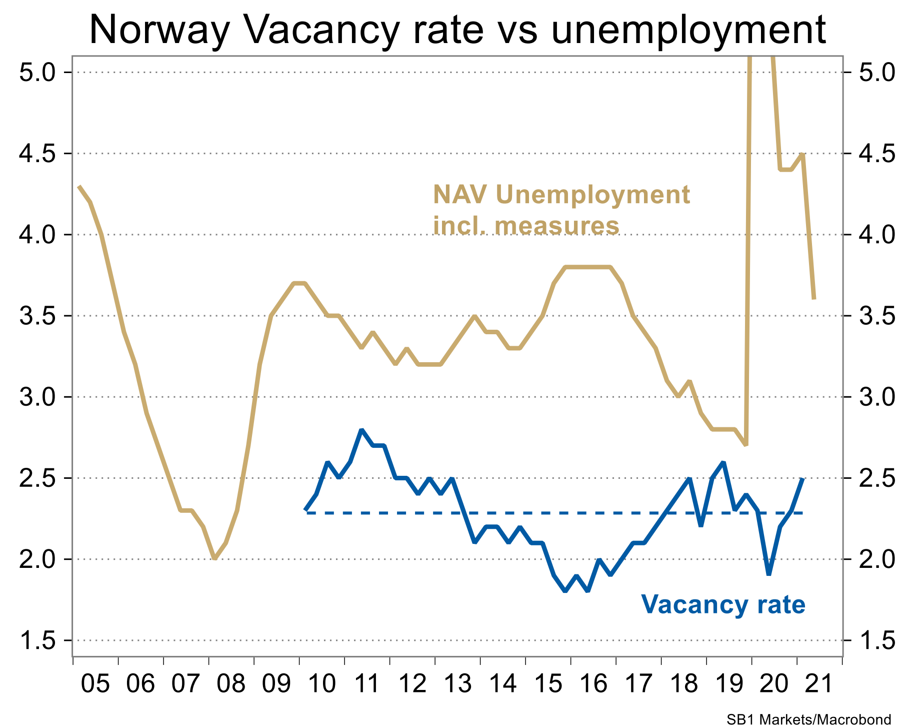
- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)

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

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

How many vacancies are unfilled now? We guess substantially more than 4 months ago





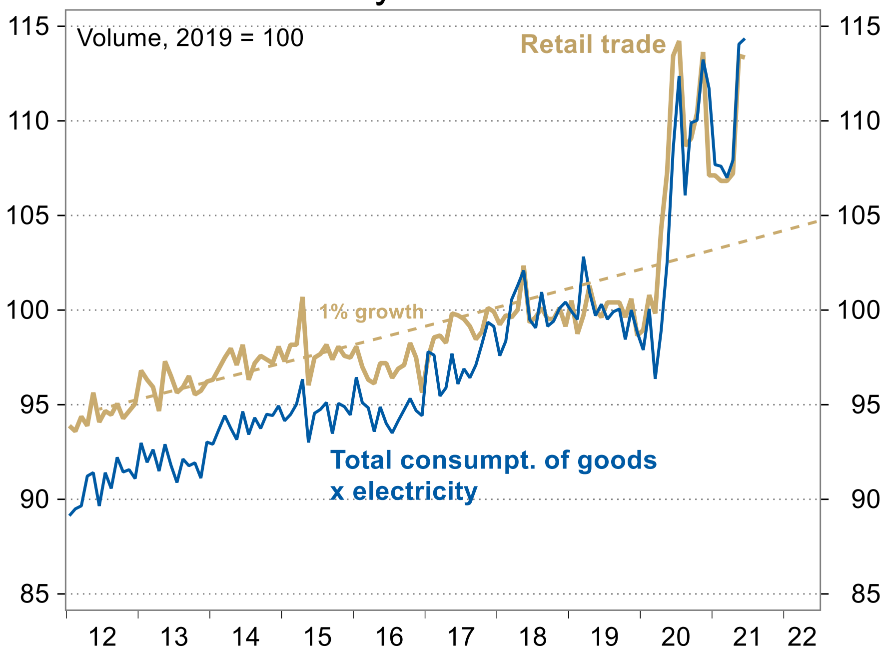
- Lack of access to foreign workers may explain a high number of unfilled vacancies – at the same time as the reported unemployment rate was rather high

SpareBank 1 MARKETS

Retail sales flattened in June – and from here there is only one way to go?

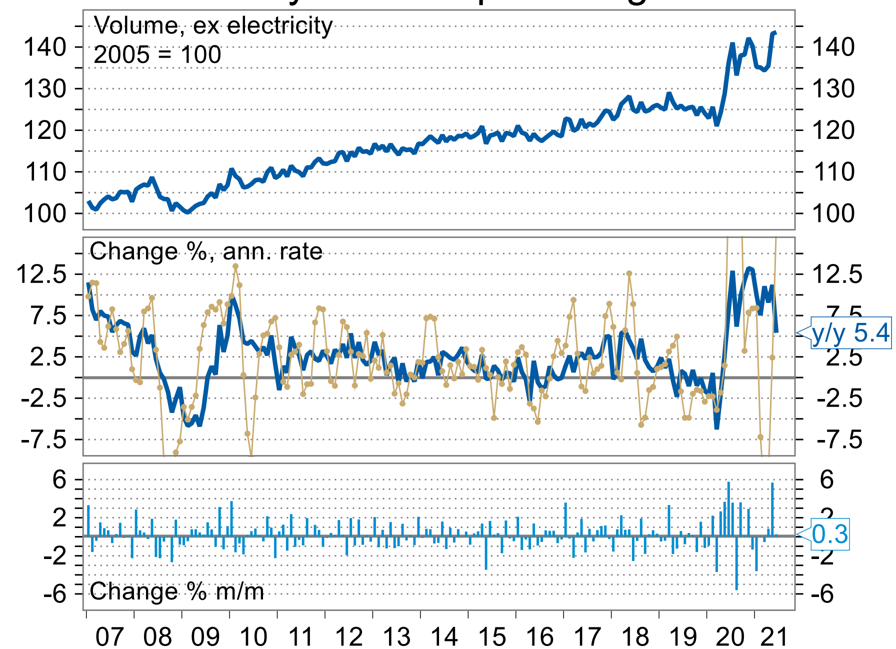
Sales fell 0.1% (we expected flat). Sales are 13% above the pre-pandemic level

Norway Retail Trade



SB1 Markets/Macrobond

Norway Consumption of goods

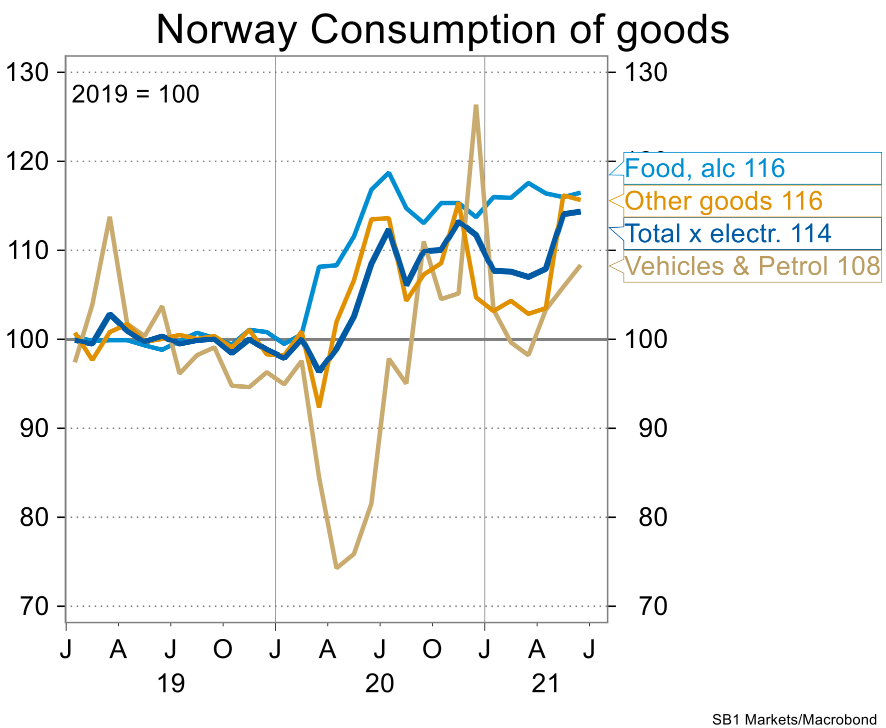


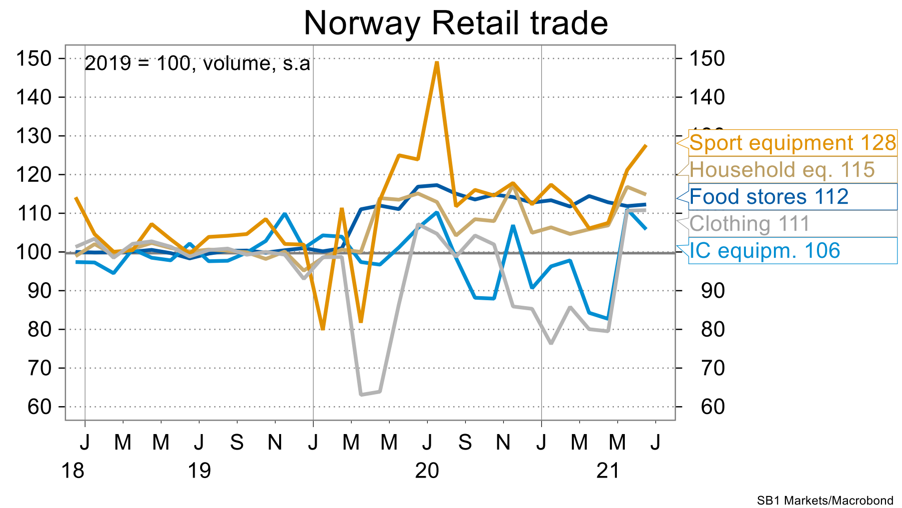
SB1 Markets/Macrobond

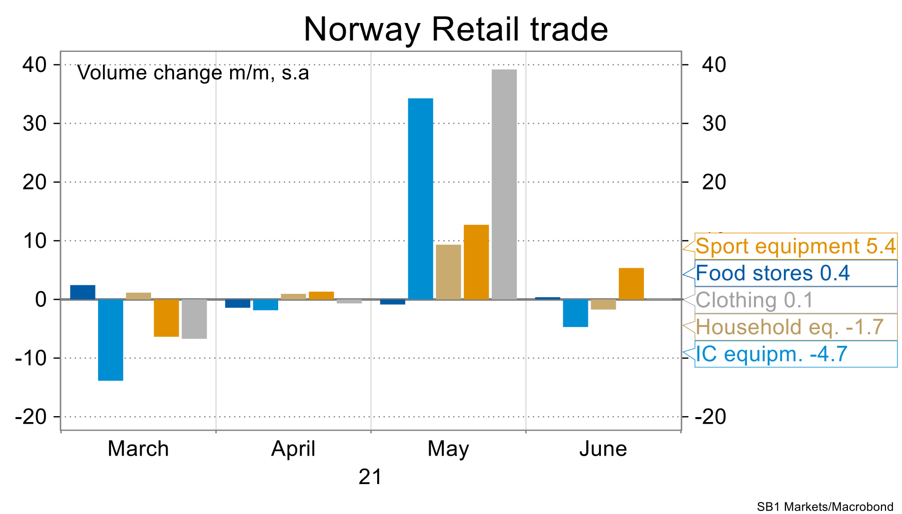
- **Retail sales** were up 5.8% m/m in May – far above our expectations – and the flattening in June is by itself no sign of weakness
  - » **More money will be spent on services, and more spending abroad (x-border, holiday travel, in sum 10% of total consumption)**
- **Total consumption of goods** (x electricity) rose by 0.3% in June, and May was revised up by 0.5% – and the level is 14% above the 2019 level. Consumption rose by 4.4% in Q2 (18.6% annualised)
- **We still expect sales/consumption of goods** to slow the coming quarters, back the pre-corona trend path – when it becomes possible to spend more on services and abroad, both x-border shopping in Sweden and holiday travel in general

Sport equipment at the retail top in June, +5% - and +28% vs. 2019 level

… which is far above a long term sustainable level. Food consumption up 12 vs. p-p, is trending down

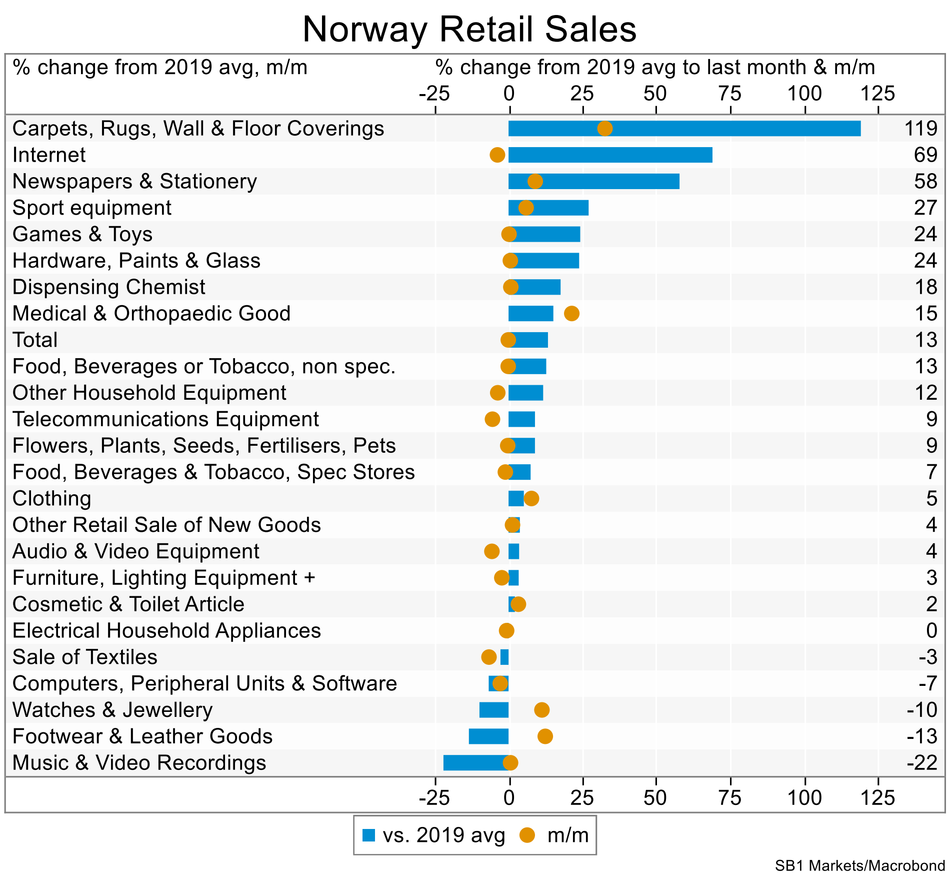


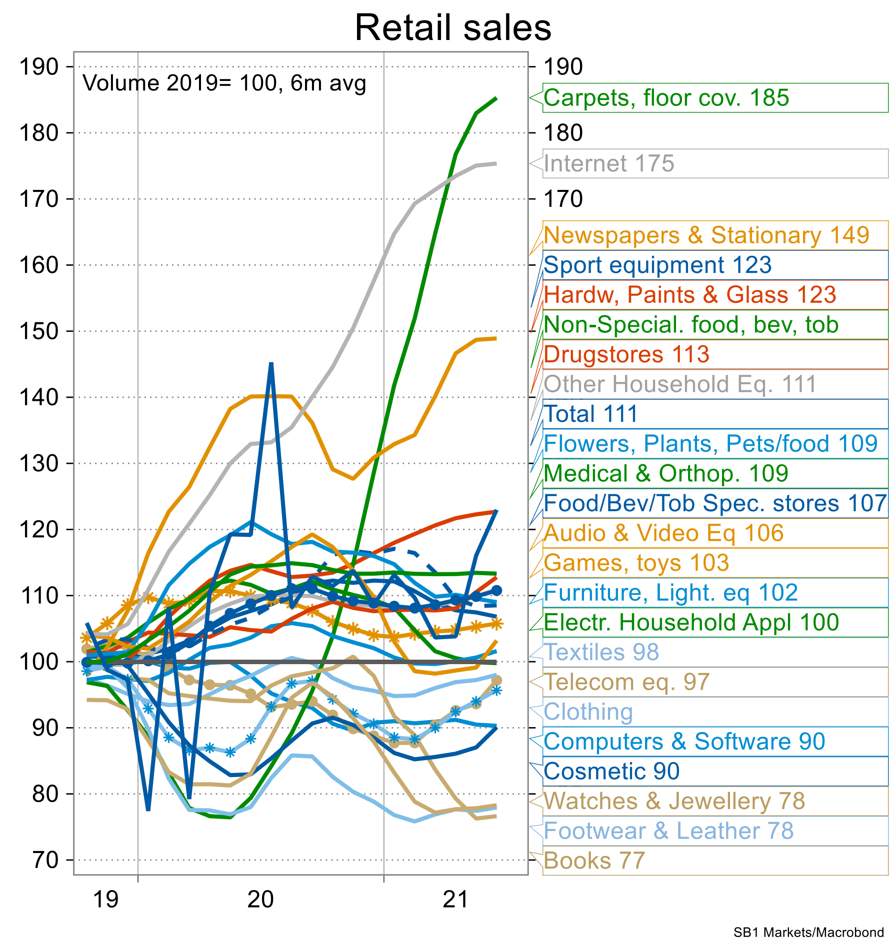




Huge sectoral differences – home refurnishing at the top

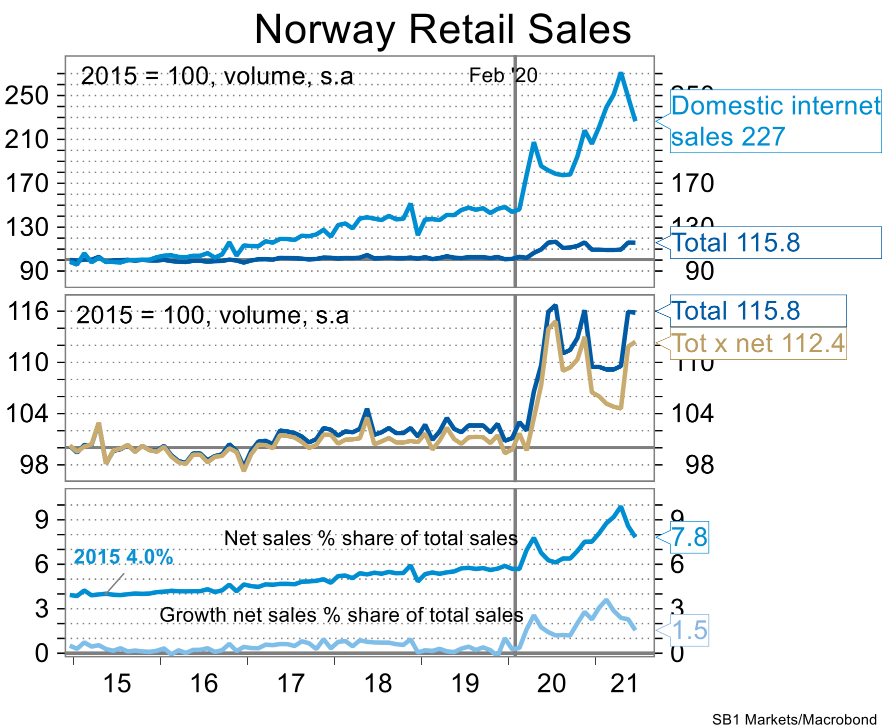
…and several sectors are trending down, mostly from 'too high' levels during the pandemic

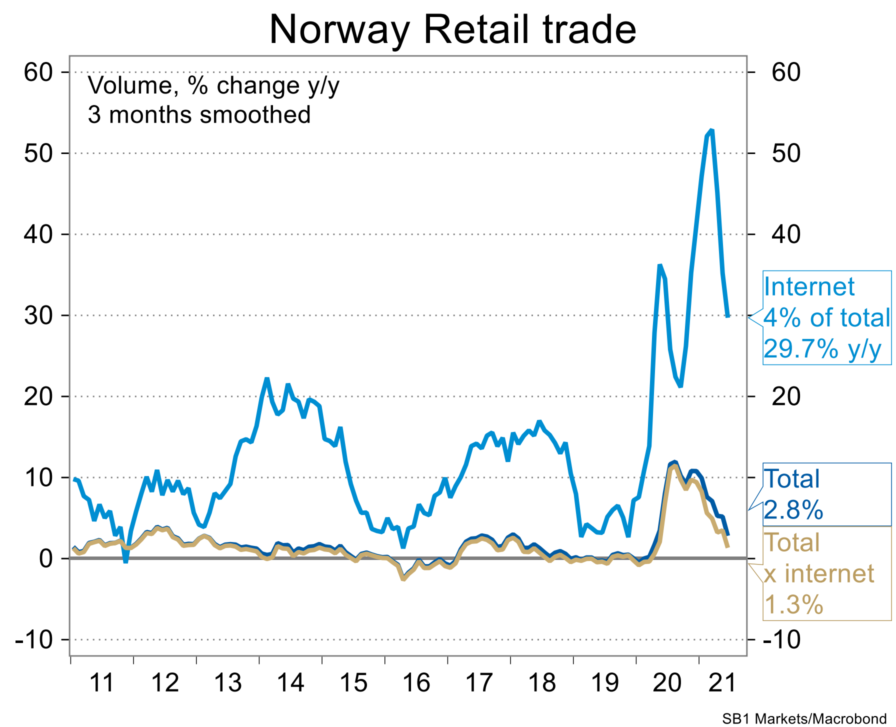




Internet sales (domestic) have fallen in May & June, as shops reopenend

The market share has fallen to 8% from 10% - still above the 6% pre-pandemic level





- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to 8% from 4%, via 10% at the top in April
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

Highlights

The world around us

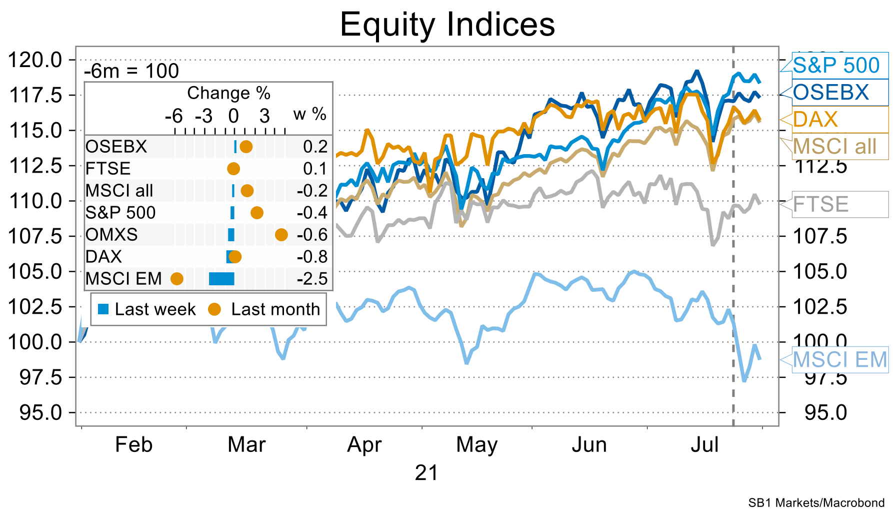
The Norwegian economy

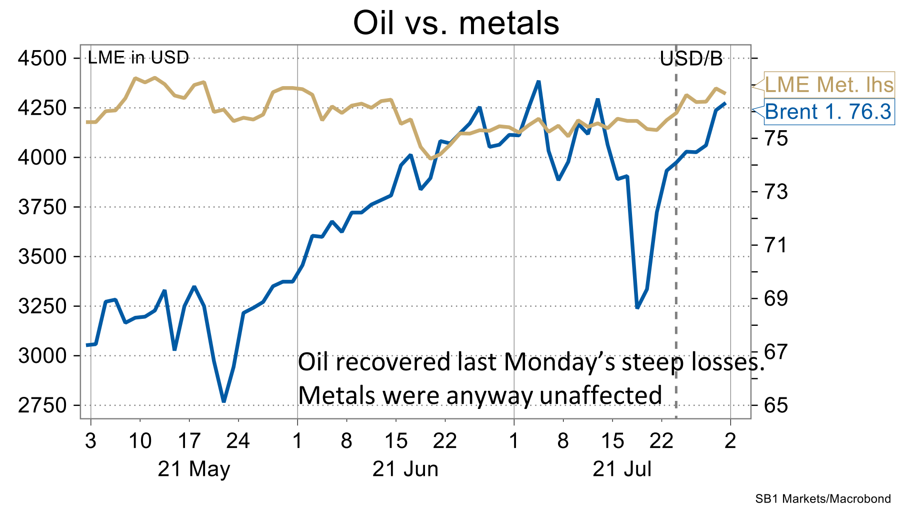
Market charts & comments

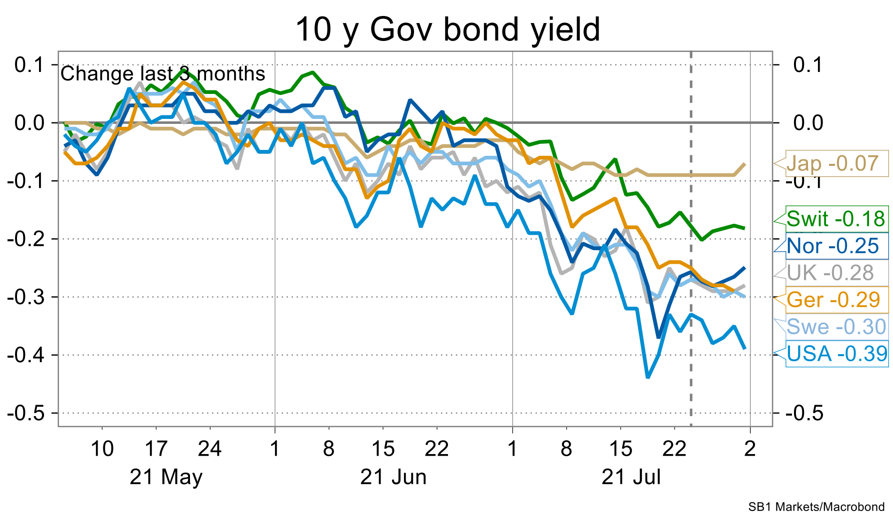
SpareBank 1 MARKETS

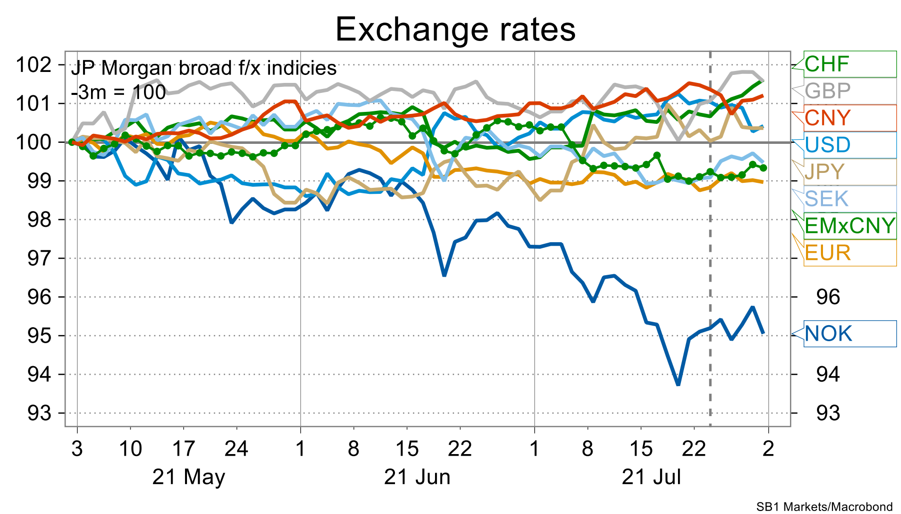
Most equity markets down last week, EM (China) the most

Oil has fully recovered from the 'Black Monday' loss 2 w ago. Metals are drifting up too. Bond yields down







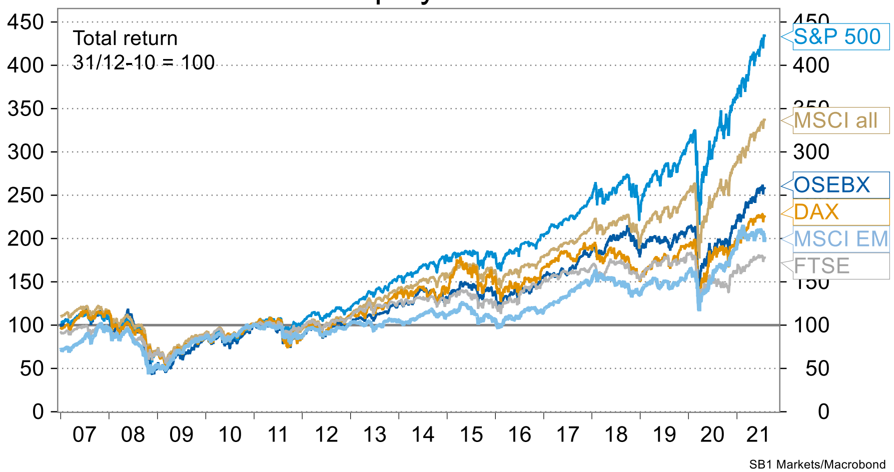


SpareBank 1 MARKETS

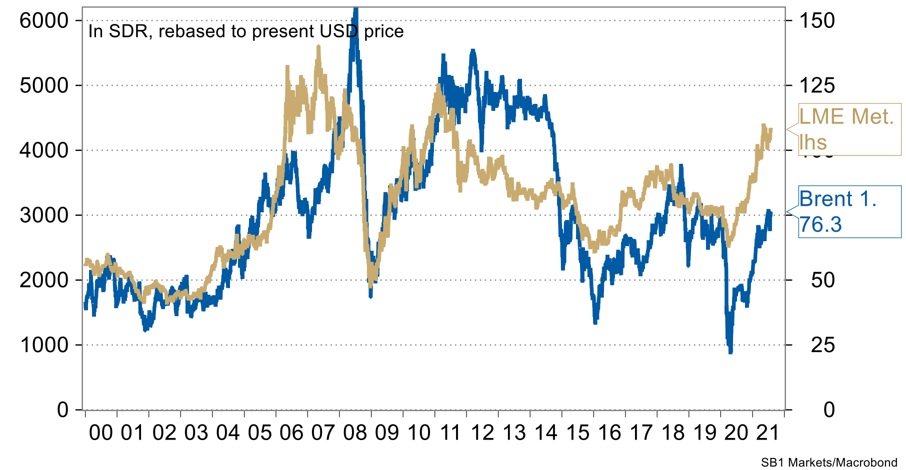
The big picture: Strong stock & commodity markets

Still, yields are heading down everywhere. The CNY is steady climbing (if not last week)

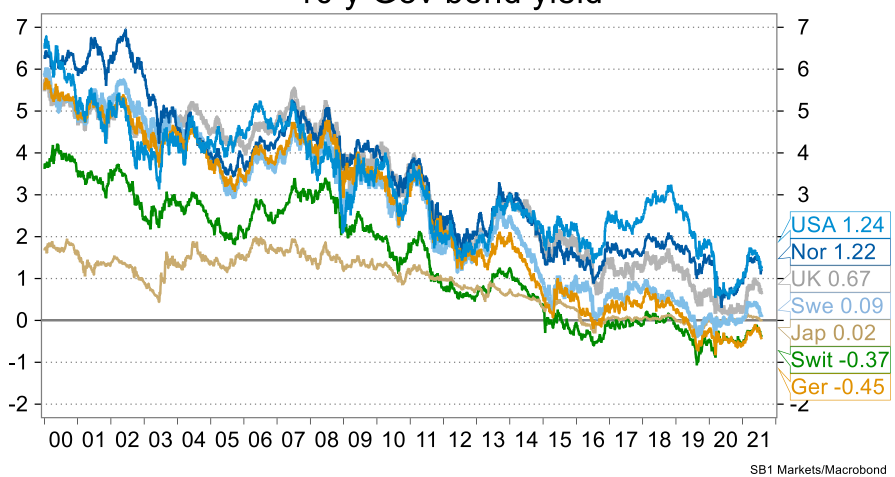
Equity Indices



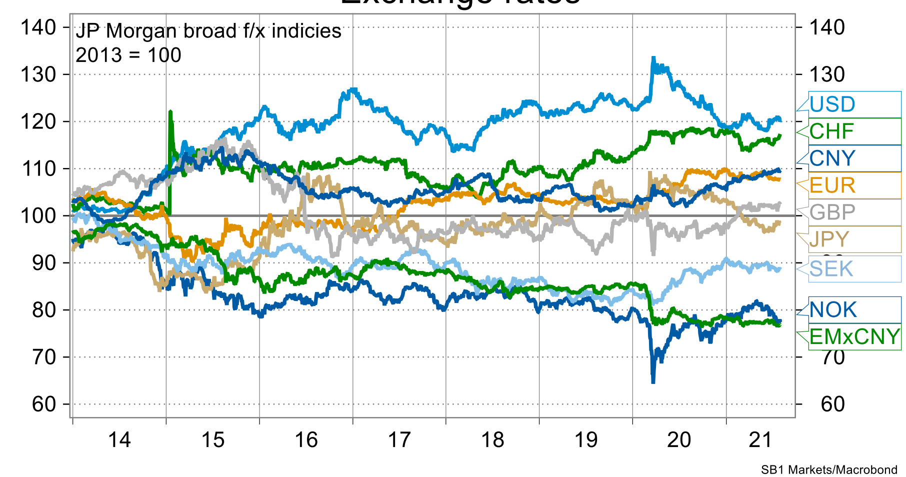
Oil vs. metals



10 y Gov bond yield

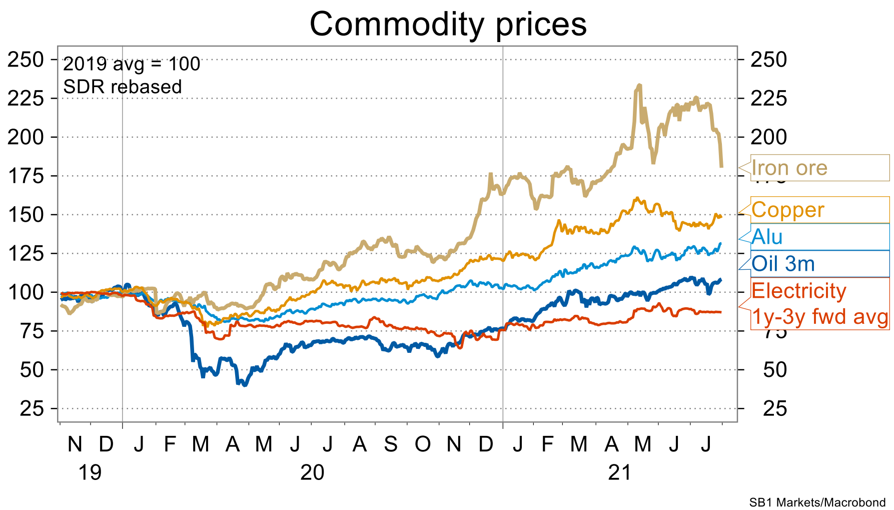


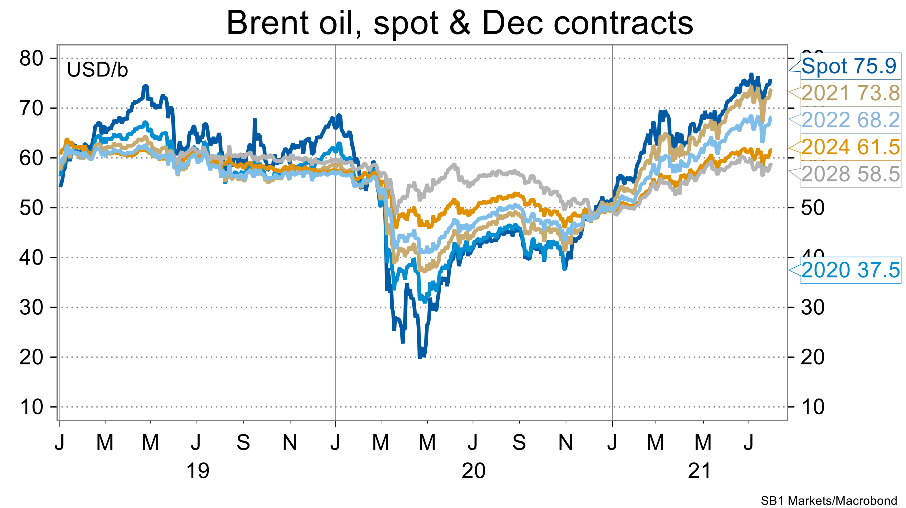
Exchange rates

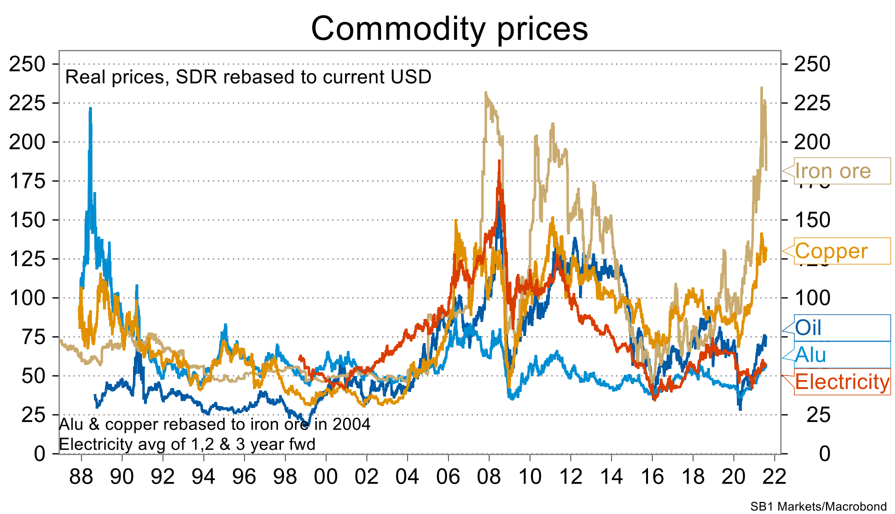


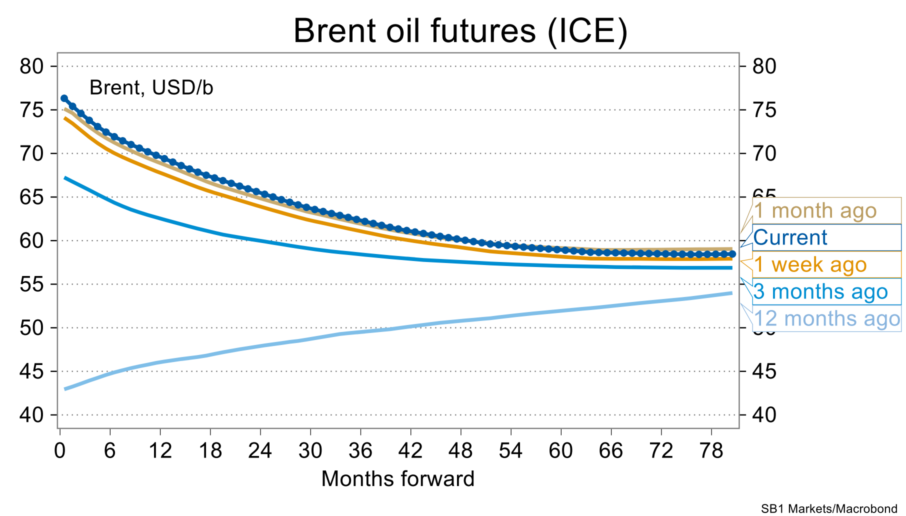
Iron ore sharply down as China puts new brakes on steel production

(among other things…) Other commodity up last week



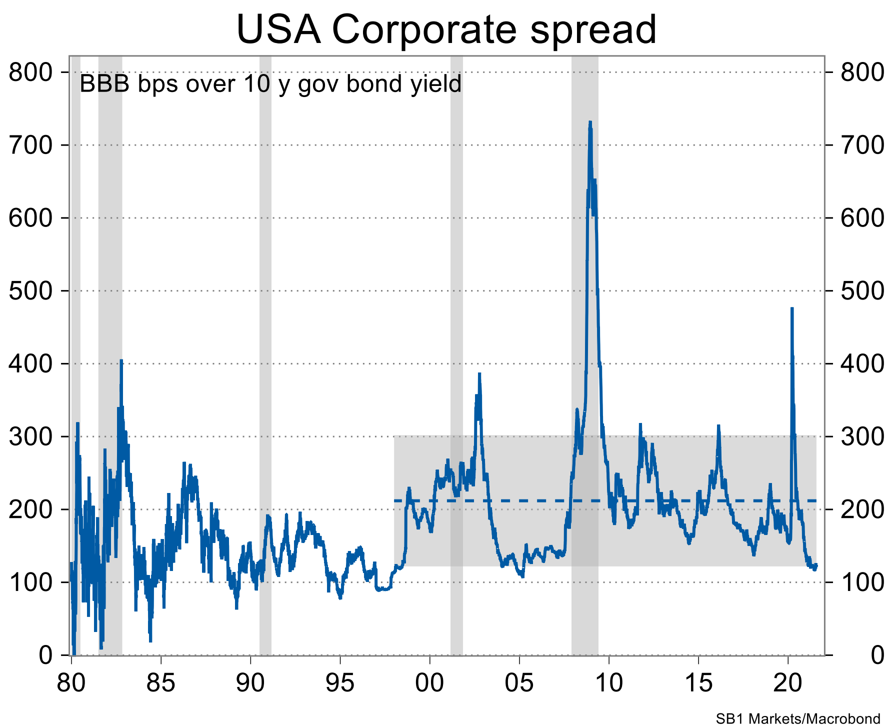


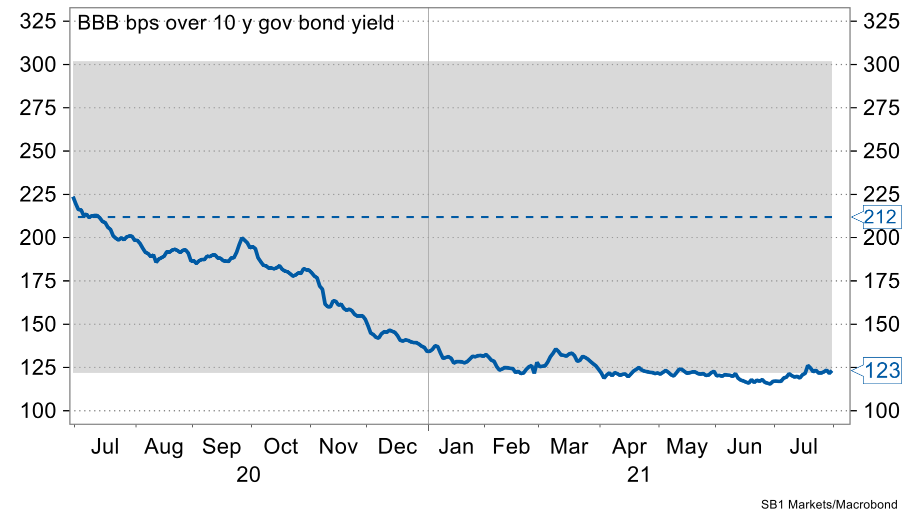


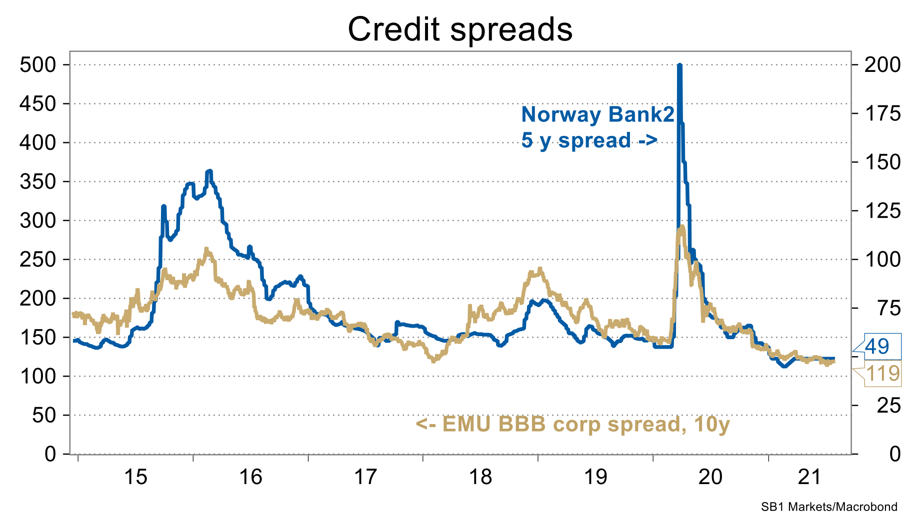


SpareBank 1 MARKETS

The US BBB credit spread are stable, and a low



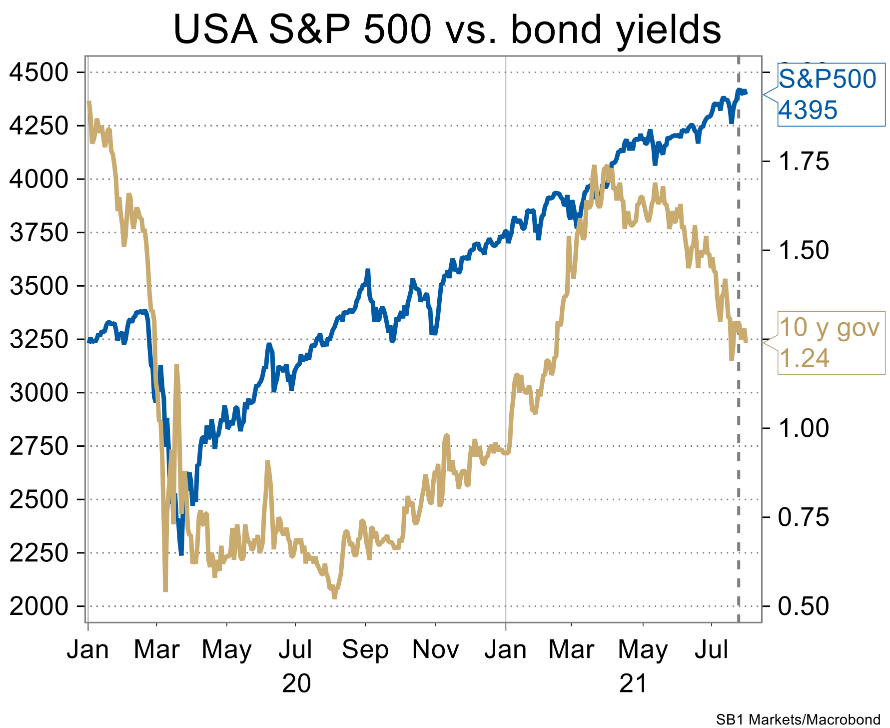


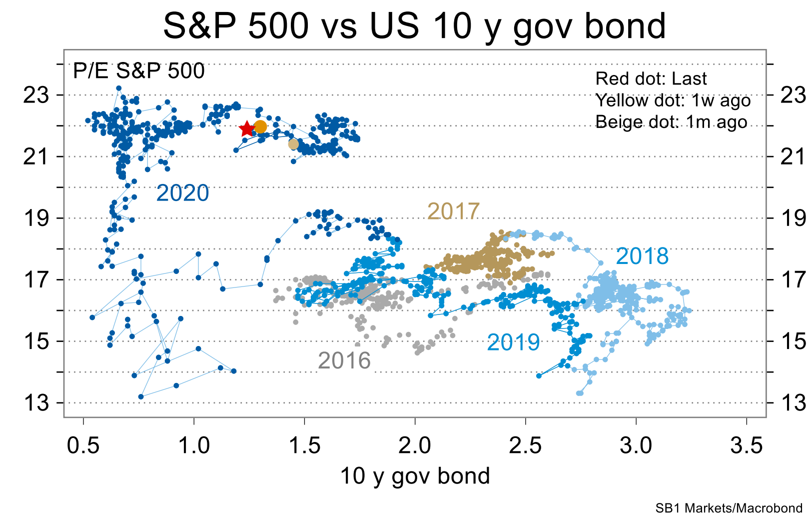


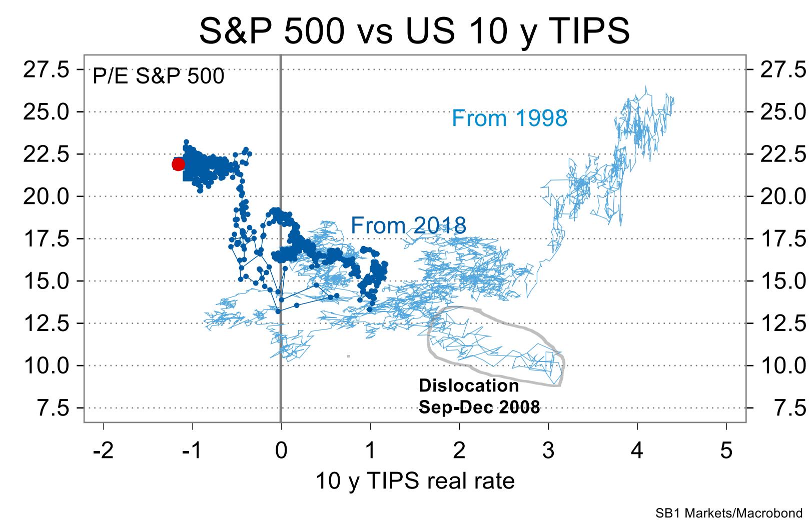
SpareBank 1 MARKETS

S&P 500 flattened at close to ATH (down 0.4% on the weak), 10y bonds -6 bps

.. To 1.24, the 2nd lowest close since February



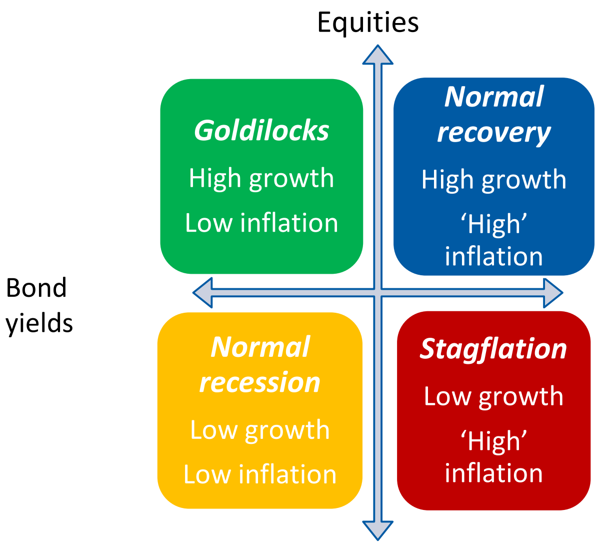


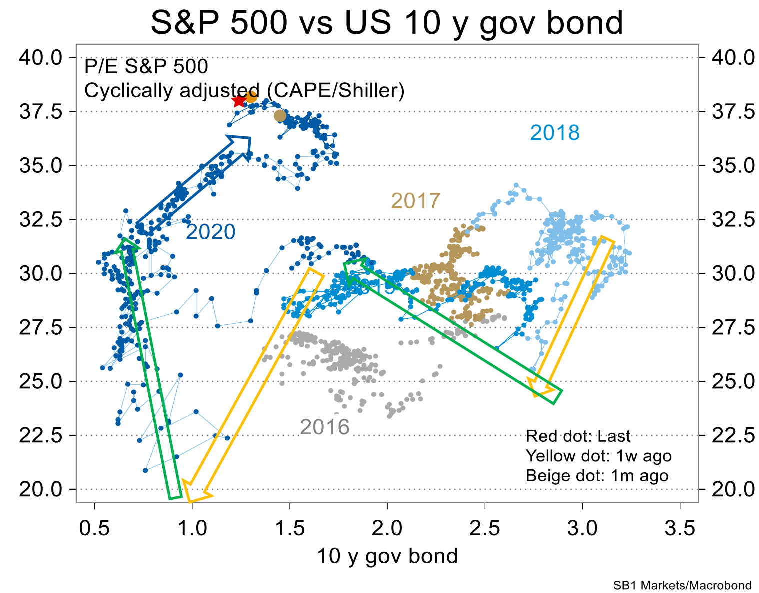


SpareBank 1 MARKETS

Still well into the 'Goldilocks corner'

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



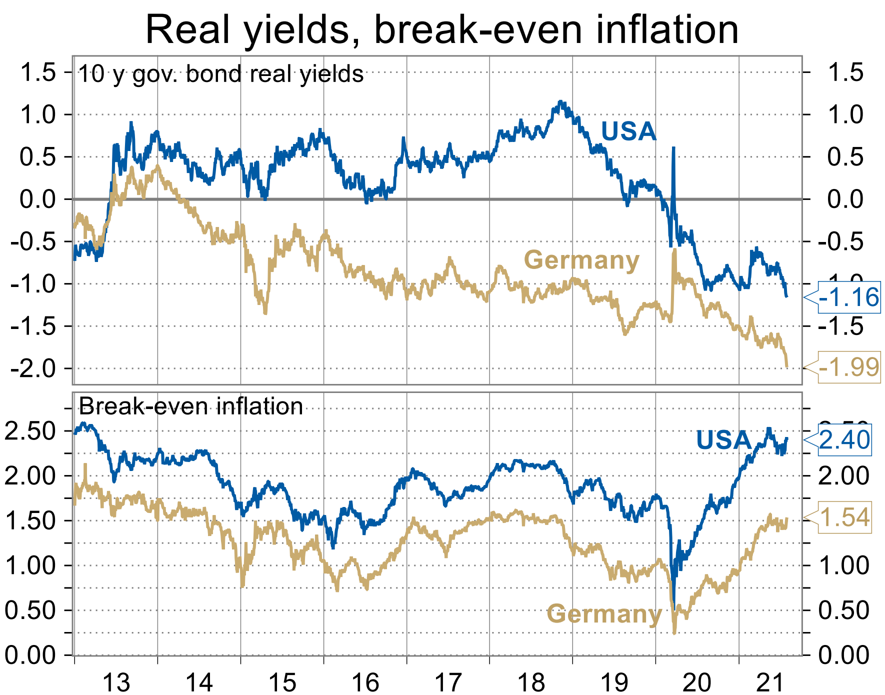


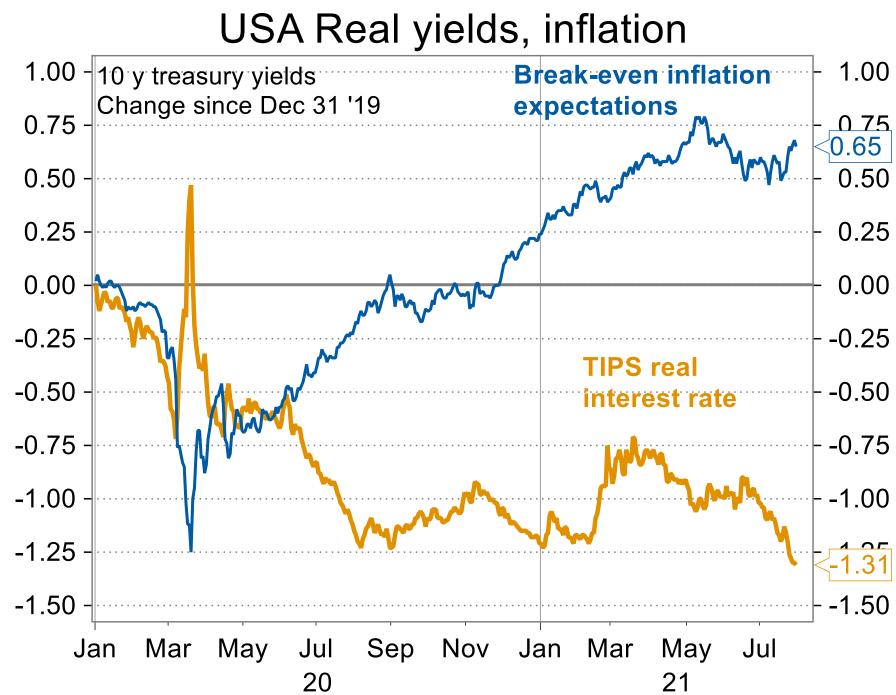
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
  - Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level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

SpareBank 1 MARKETS

A collapse in real bond yields, both US, Germany down to ATL, with WIDE margins

Real bond yields down 11 – 16 bps, inflation expectations up 5 – 12 bps





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.24	-0.06	-0.21	0.52
.. break-even inflation	2.40	0.05	0.08	1.06
.. TIPS real rate	-1.16	-0.11	-0.29	-1.16
Germany nominal bund	-0.45	-0.04	-0.26	-0.65
.. break-even inflation	1.54	0.12	0.06	0.40
.. real rate	-1.99	-0.16	-0.32	-1.99

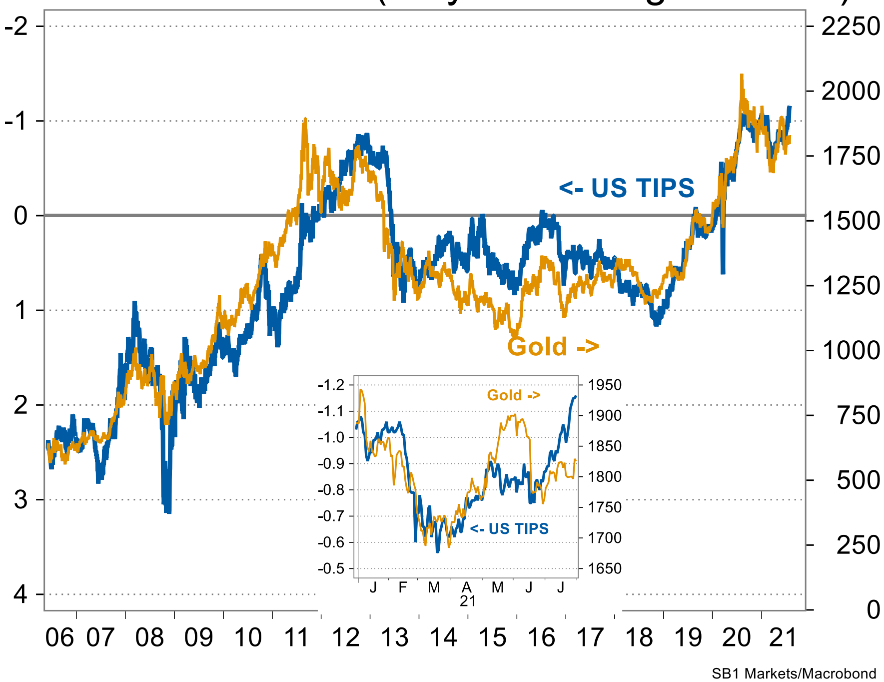
SB1 Markets/Macrobond

- What is going on?
  - » No major economic or central bank news
  - » No drama at the stock markets
  - » Commodity markets are stable/strong

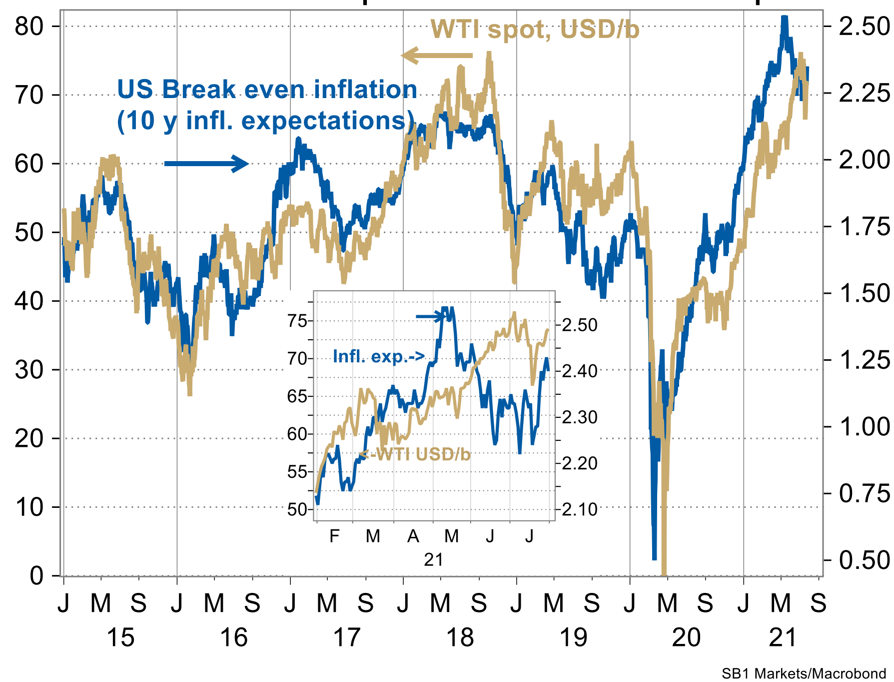
Gold ⇔ –TIPS real rates. Oil ⇔ Inflation expectations

However, the link between the two pairs have not been that close recent weeks!

Gold vs. US TIPS (10 y real rate gov bonds)



USA Inflation expectations vs. the oil price

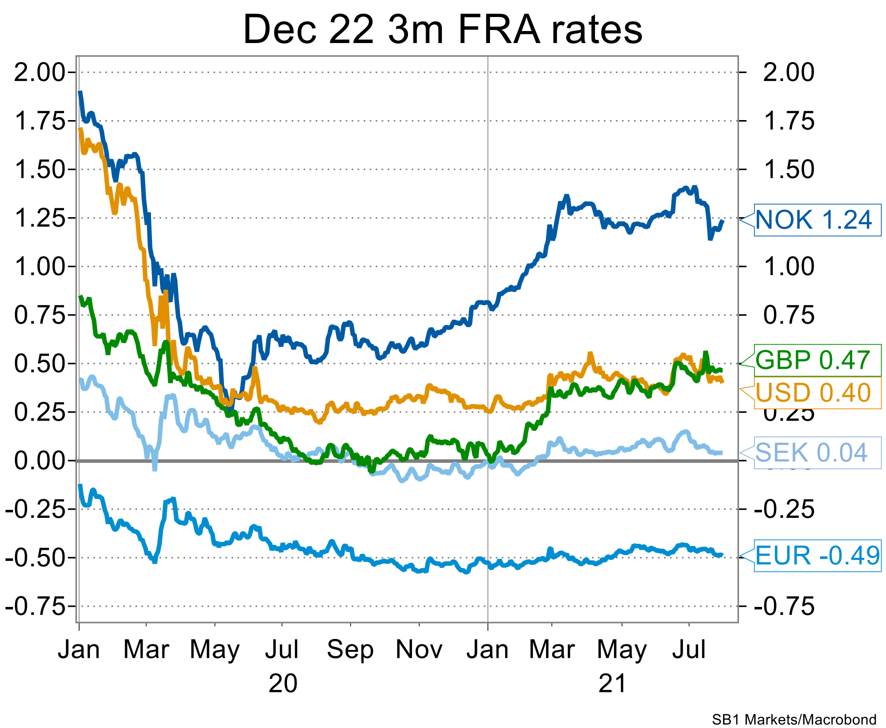


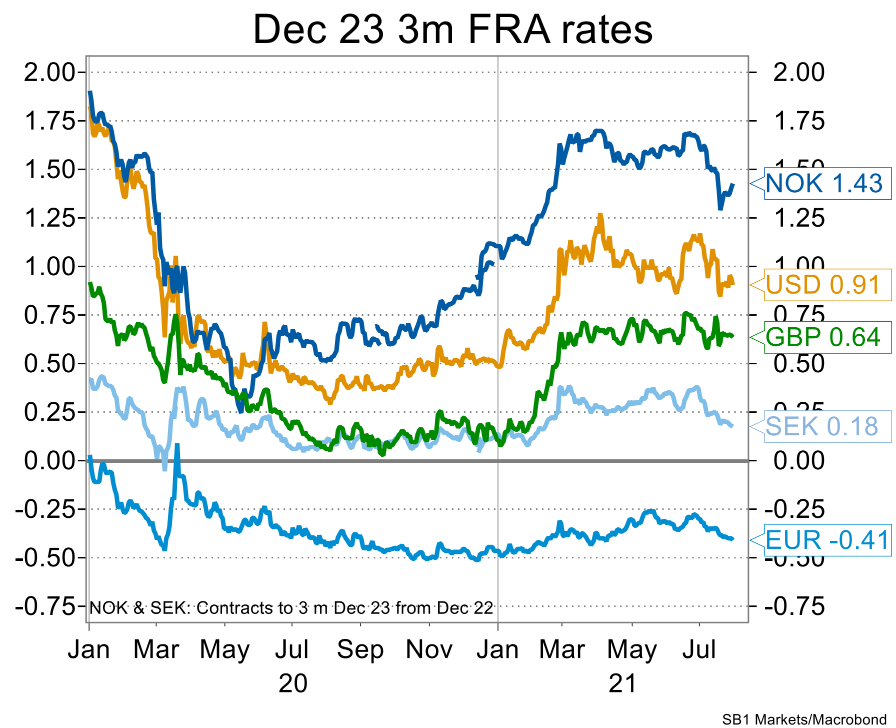
- Inflation expectations have fallen, even if the oil price has climbed
- The gold price have not appreciated, even if real rates have collapsed
- *Are there some dislocations at the bond market??*

SpareBank 1 MARKETS

FRAs: Mostly down abroad last week, slightly up in Norway

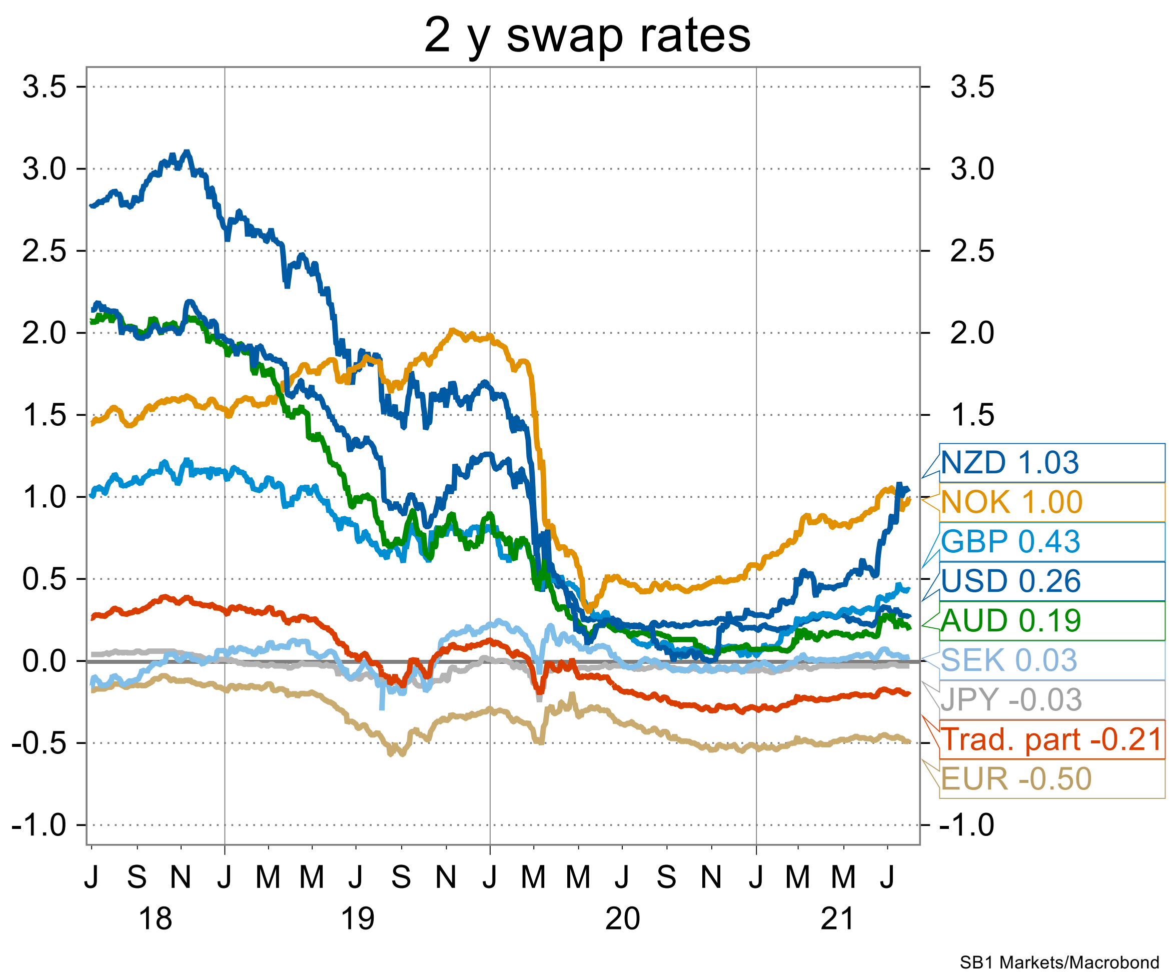
Still, the market discounts a first Fed hike in late 2022

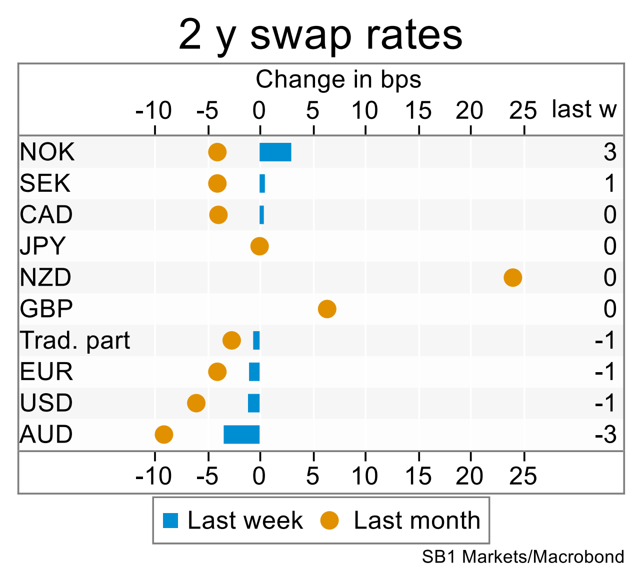




Short rates down everywhere last week & month (the latter barring in GBP, NZD)

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

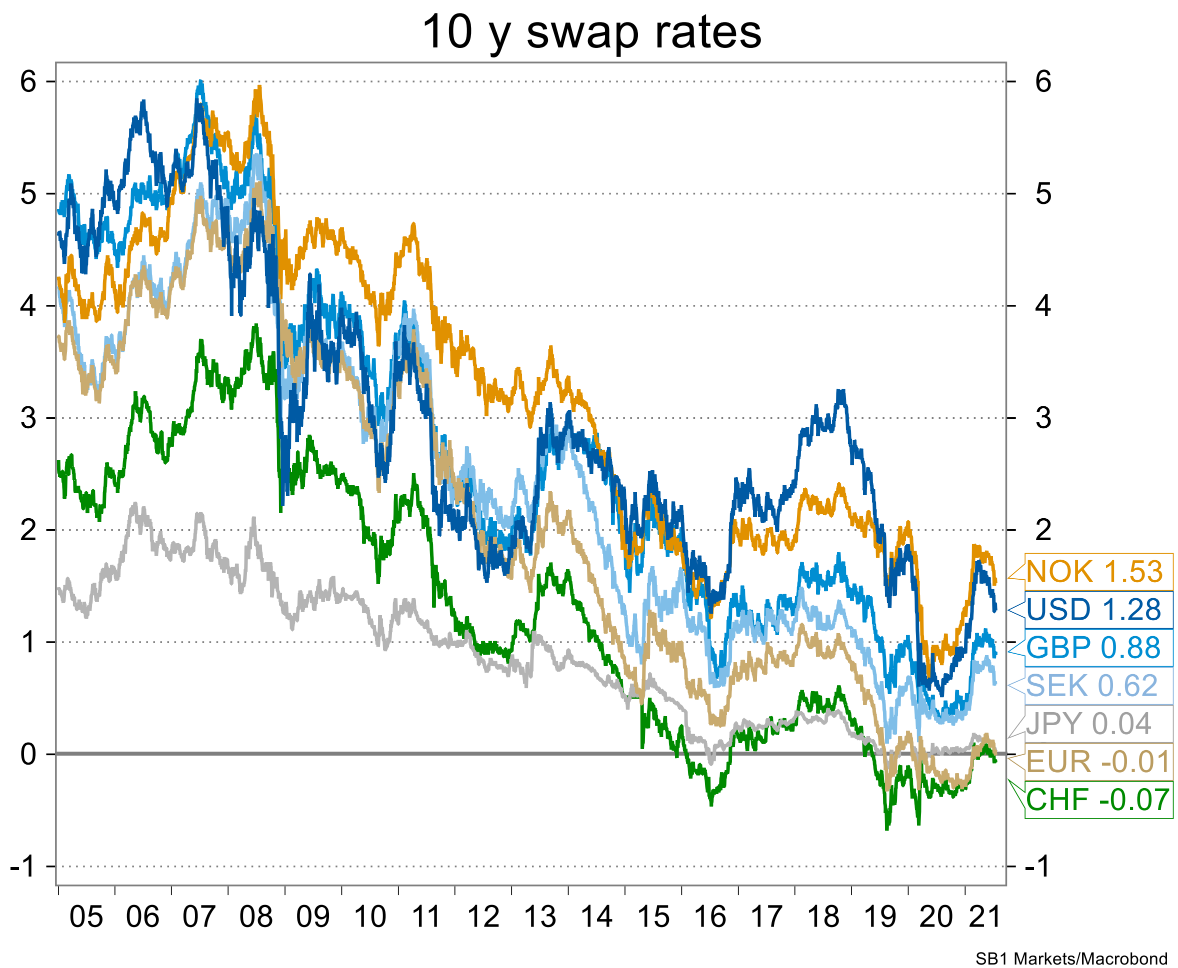


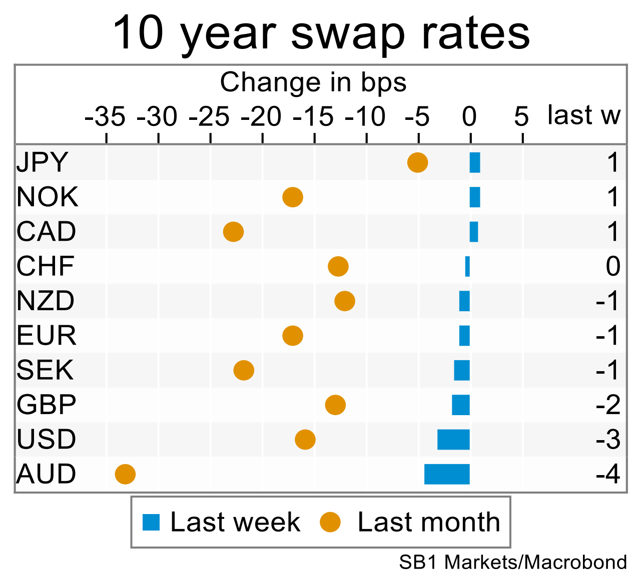


SpareBank 1 MARKETS

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

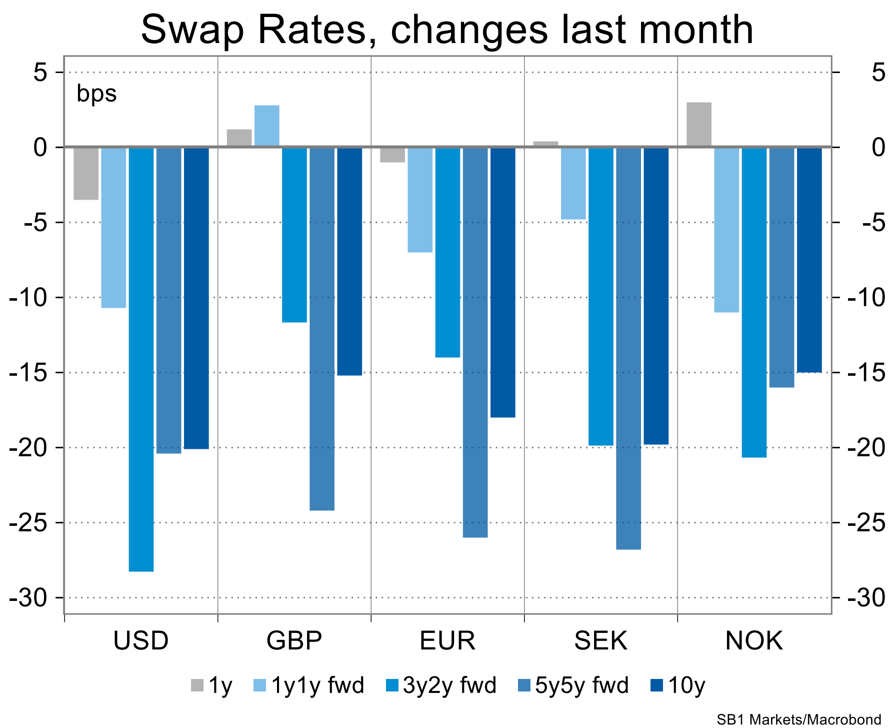
Small changes last week

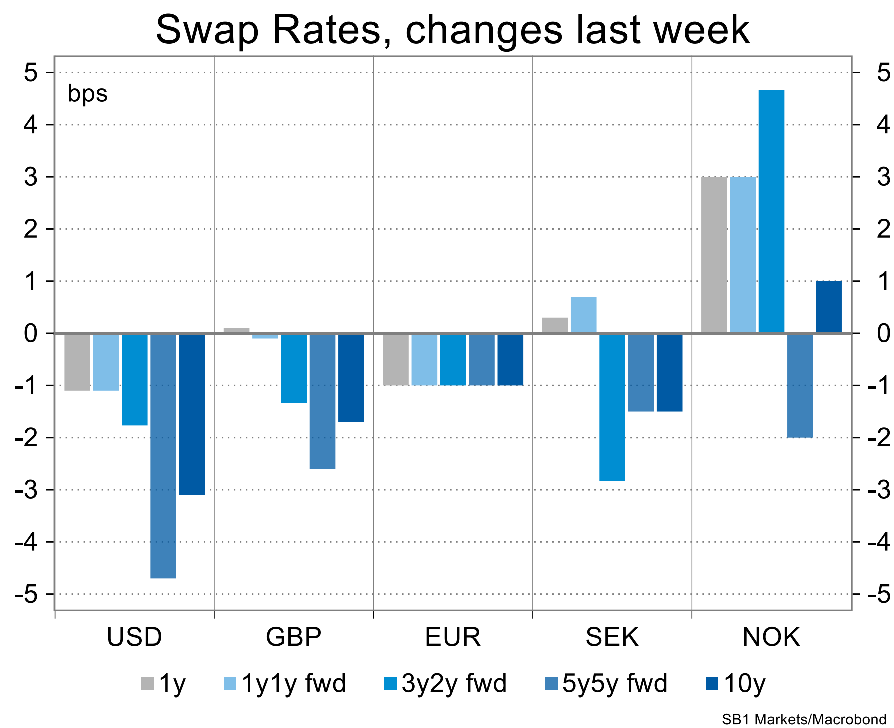




The NOK curve up, others mostly down last week

Just small changes everywhere

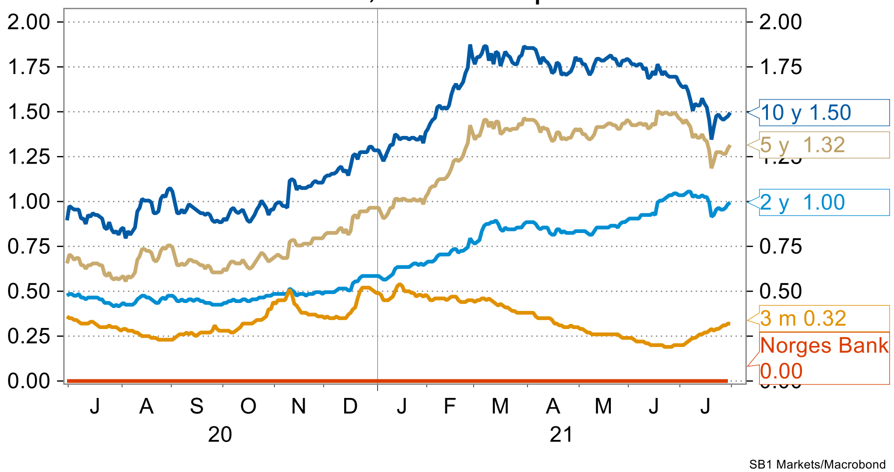




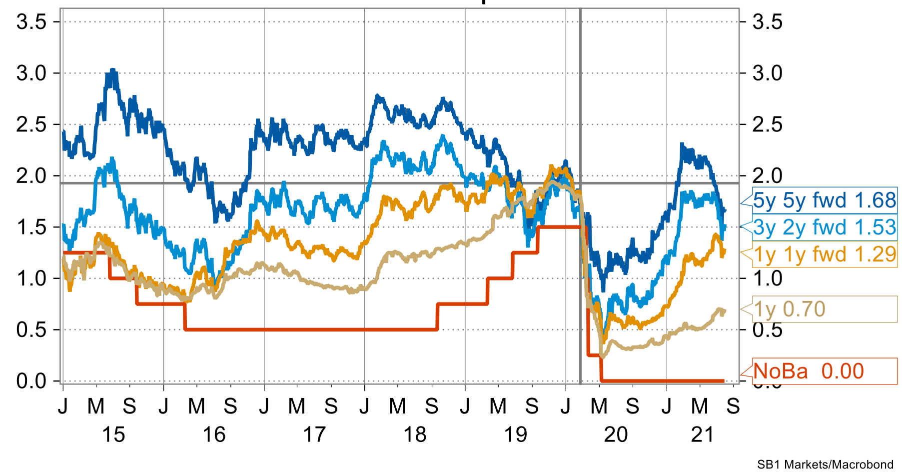
A small shift upwards all over the curve last week

However, from 5 y onwards, the trend has been sharply down recent weeks

NIBOR, NOK swap rates

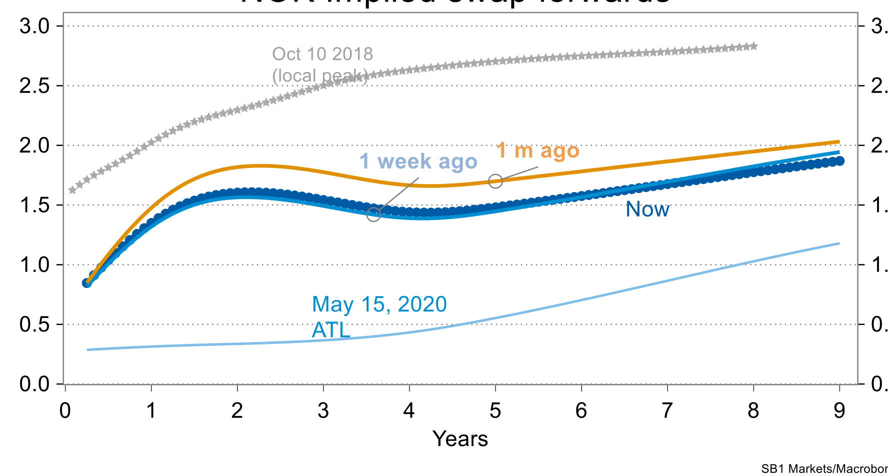


NOK Swap rates



Norway - yield spread, 10 y swap -3m NIBOR

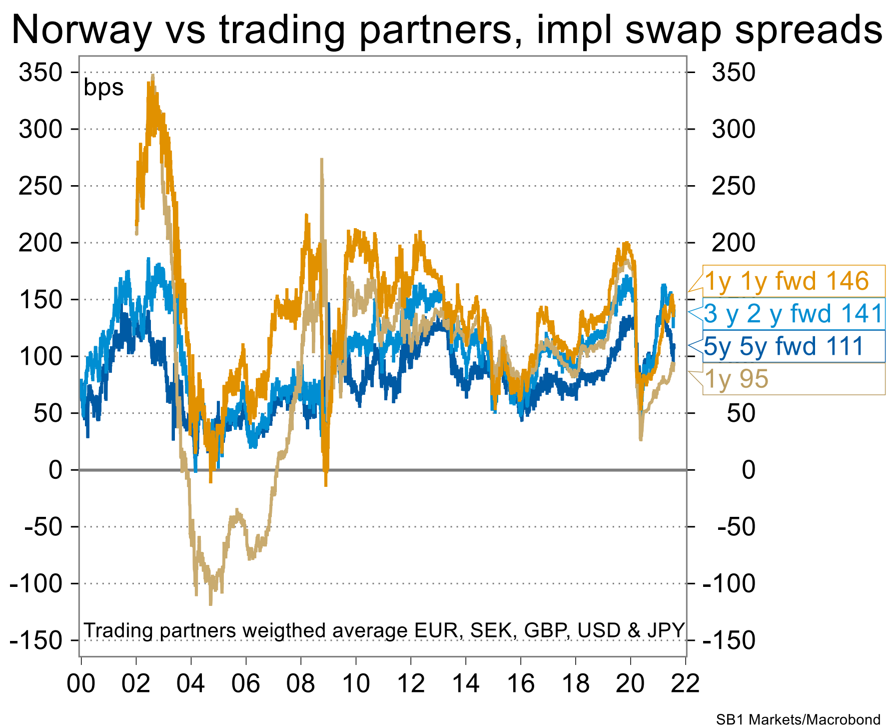
NOK Implied swap forwards

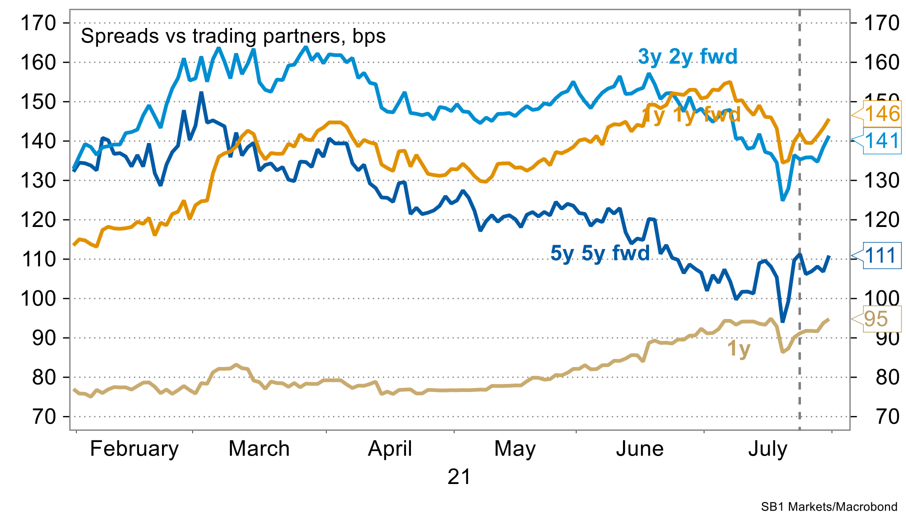


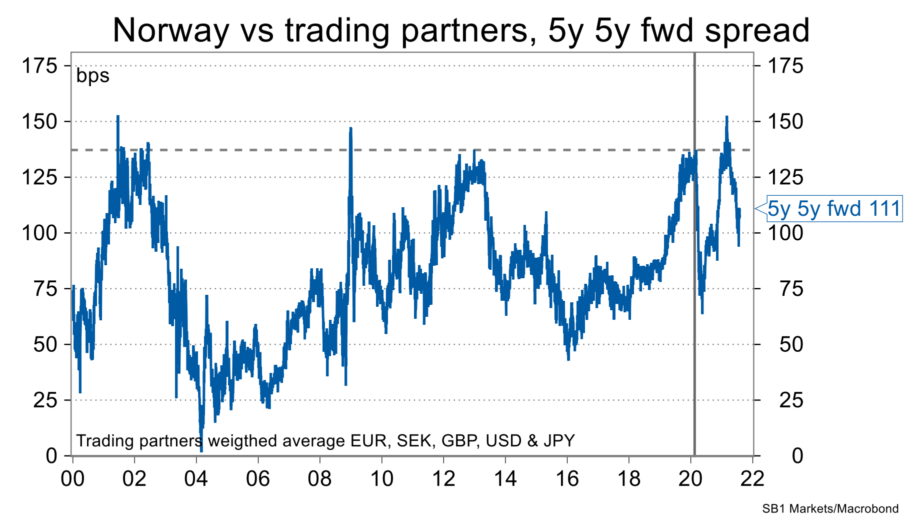
SpareBank 1 MARKETS

Forward spreads up last week, at least at the 1st half of the curve

Not any specific strong Norwegian news last week – and the NAV report was rather at the weak side

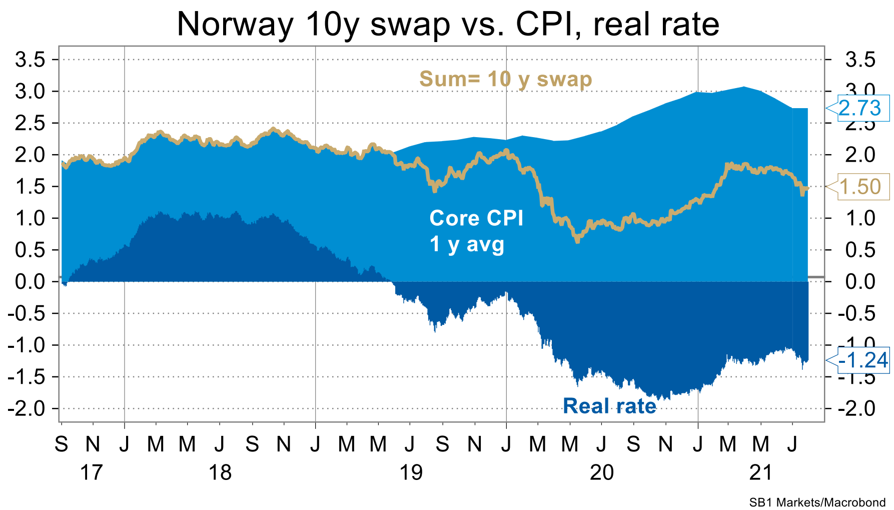






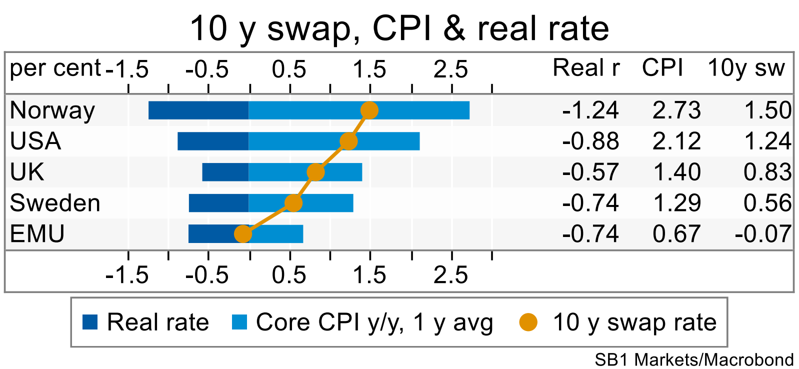
SpareBank 1 MARKETS

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



NOK 10 y swaps have flattened

- The **10y NOK swap** rate added 1 bp to 1.50% - but the trend has been down since March
- **The real rate**, after deducting a 2.7% average core CPI inflation over the 2 past years equals -1.2%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 2 y avg at 2.7%
  - » 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)
  - » 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



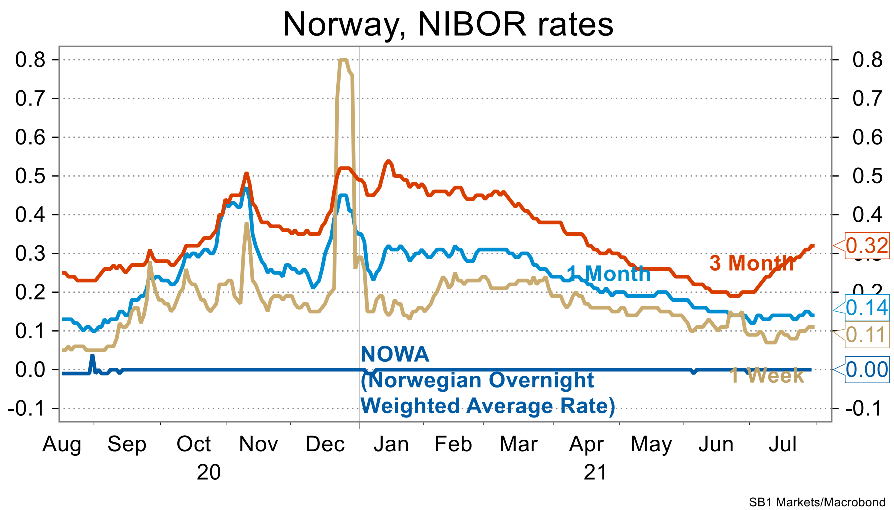
per cent	Real r	CPI	10y sw
Norway	-1.24	2.73	1.50
USA	-0.88	2.12	1.24
UK	-0.57	1.40	0.83
Sweden	-0.74	1.29	0.56
EMU	-0.74	0.67	-0.07

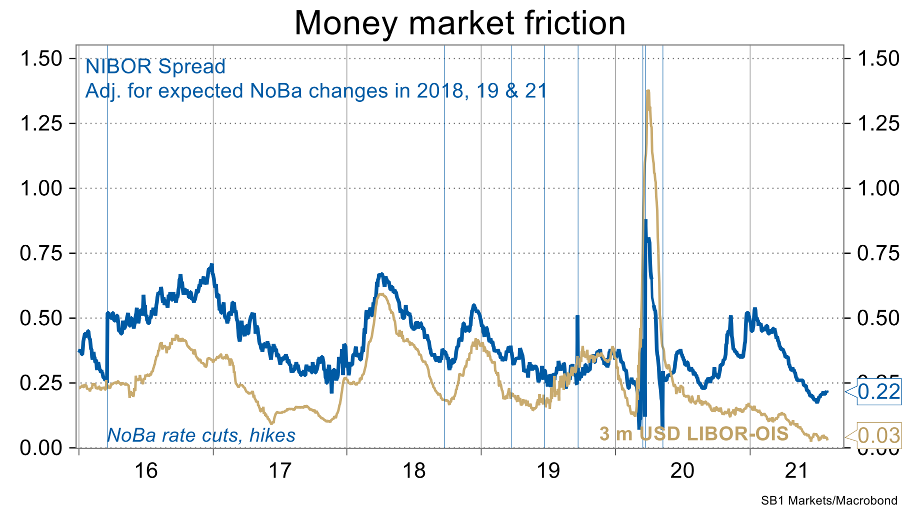
NOK real rates among the lowest, as inflation is at the top

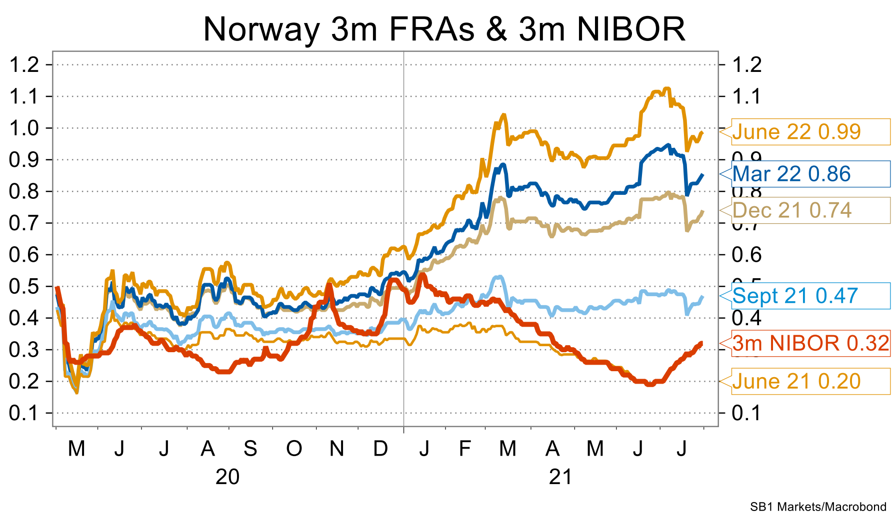
- **Inflation** among main trading partners varies between 0.7% to 2.1% (here again measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US at the top, the latter is now climbing rapidly)
  - » Other measures of inflation trends, looking backward or including forward 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 -1.2% is still an outlier on the downside, even if the nominal rate is the highest**

3 m NIBOR 3 bp up to 0.32%, 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



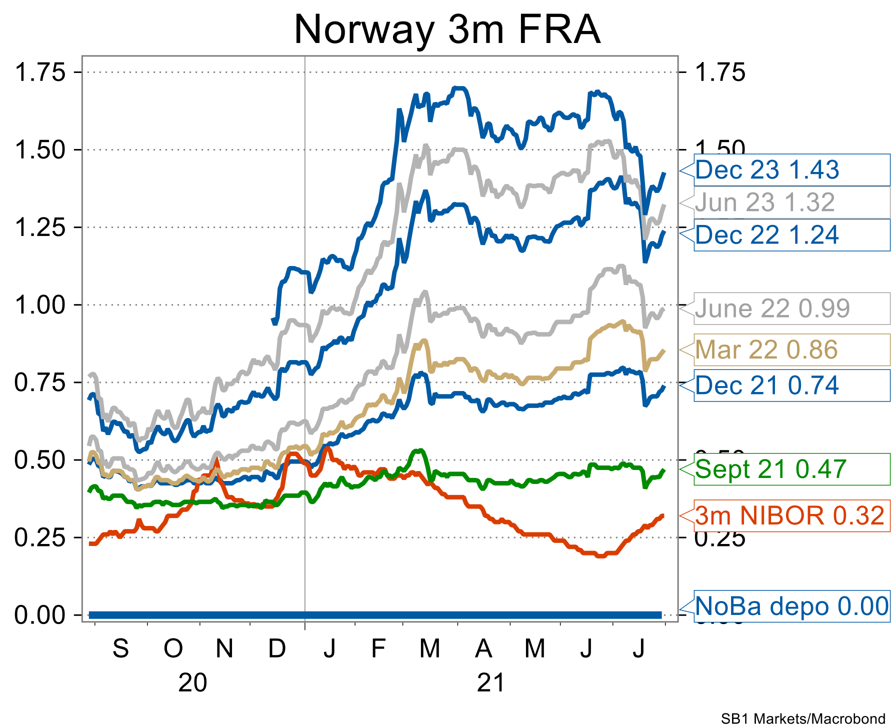


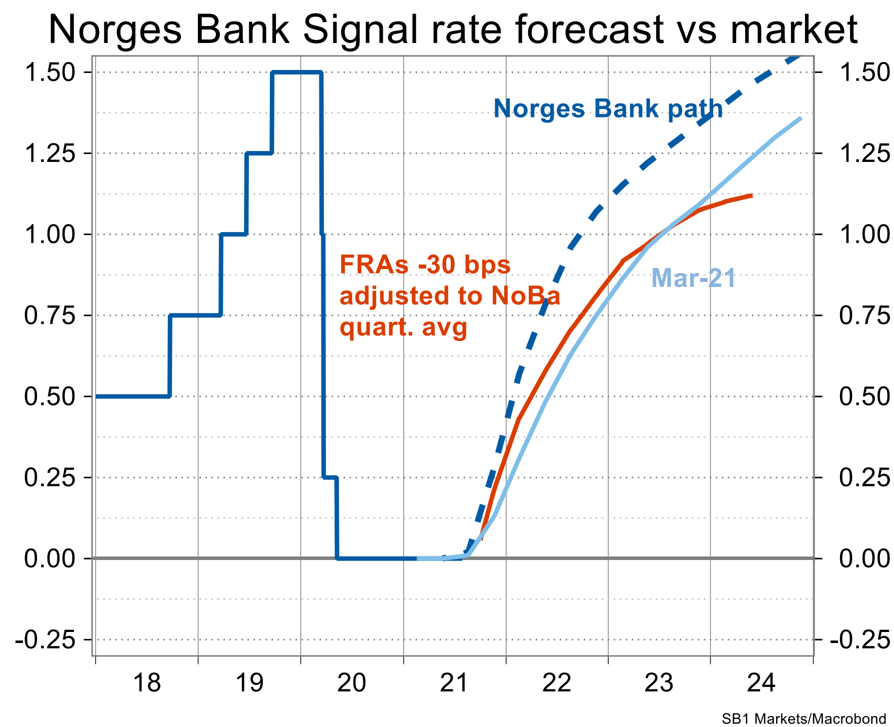


- The LIBOR OIS spread is still low, and it has fallen a couple of bps even if the Fed has tried to mop up excess liquidity in the money market by heavy use of reversed repos
- The Sept-21 3 m contract at 0.47% bps is 15 bps above the current 3 m NIBOR. Thereafter the 3 m NIBOR will climb by 2 bps per 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 22 bps, as we assume the market is fully discounting a NoBa hike in September. We expect the spread to drift upwards the coming months

3m FRA rates up 4bps (yes, all of them, except +3 bps for the Sept-21 contract)

.. FRAs from March 22 are still lower than before NoBa lifted its interest rate path in mid June!





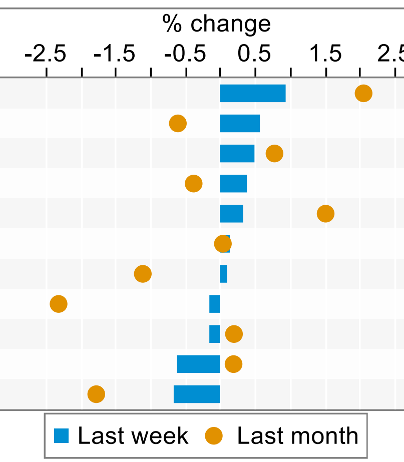
- The market is still betting on a NoBa hike in Sept – and more than fully if the NIBOR spread remains at 0.22 bps (check next page). A 30 bps spread is assumed, a the implied probability falls to 79%
- The Dec-21 FRA at 0.74%, after deducting a Q4 liquidity premium at 7 bp, implies an 80% probability for a 2nd hike in December if the spread remains at the current 22 bps. However, if the spread is assumed to be 30 bps, just a 50% probability is discounted (in June, NoBa assumed a 35 bps spread)

The USD lost some ground last week. CAD & SEK among the winners

NOK the big loser over the past 4 weeks, followed by AUD

- The CNY down but just marginally even if the stock market yielded due to more interventions from the authorities

F/x markets

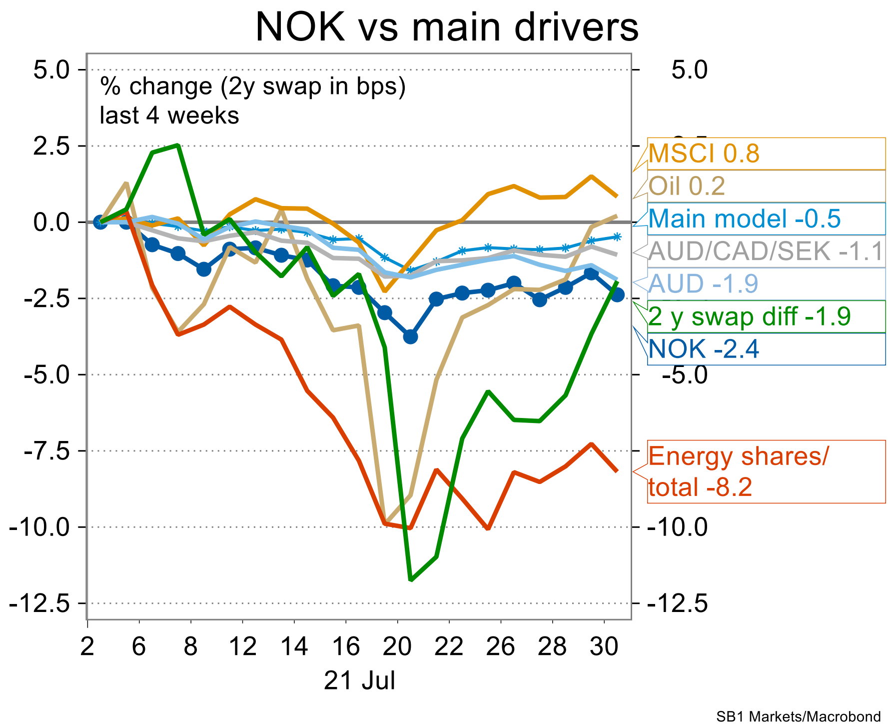


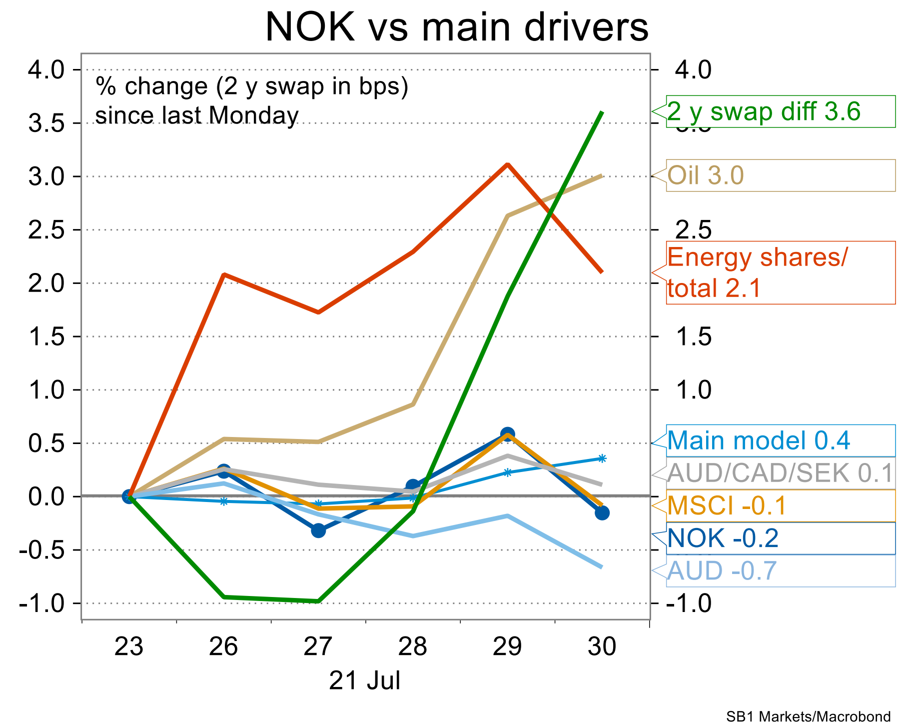
JP Morgan f/x broad indices	Last week	Last month
CHF	0.9	2.1
CAD	0.6	-0.6
GBP	0.5	0.8
SEK	0.4	-0.4
JPY	0.3	1.5
EUR	0.1	0.0
EM x CNY	0.1	-1.1
NOK	-0.2	-2.3
CNY	-0.2	0.2
USD	-0.6	0.2
AUD	-0.7	-1.8

SB1 Markets/Macrobond

The oil price & NOK short term rates up but the NOK down

Our model said +0.4%, while the NOK fell 0.2%. Stock markets and the AUD to blame?





The status vs. the normal drivers:

- ***The NOK is 8% weaker than suggested by our standard model (from -7%)***
- 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 (unch)
- NOK is far (9%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (from +10)

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

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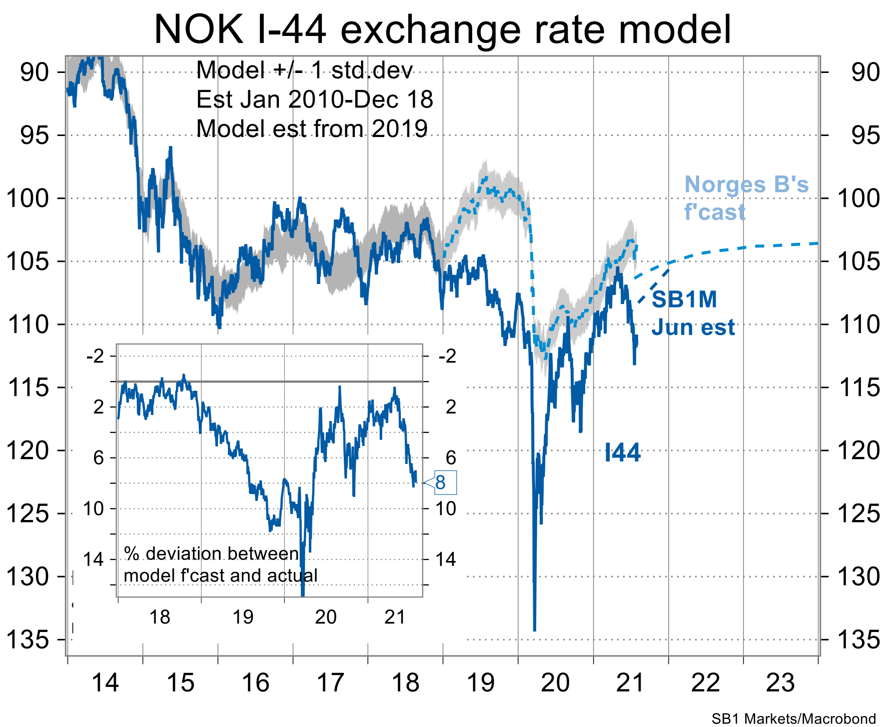
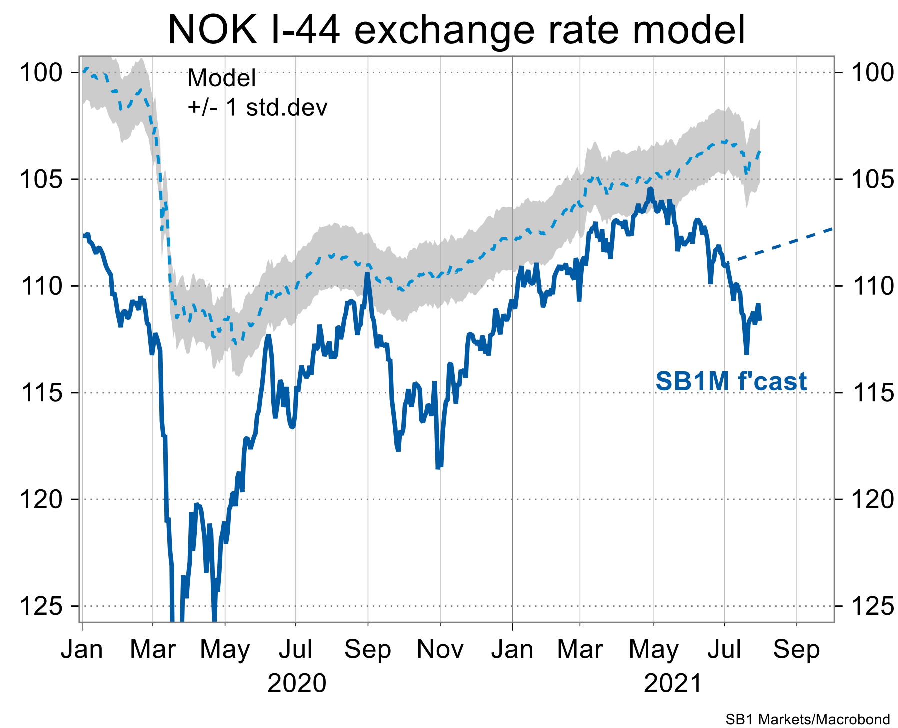
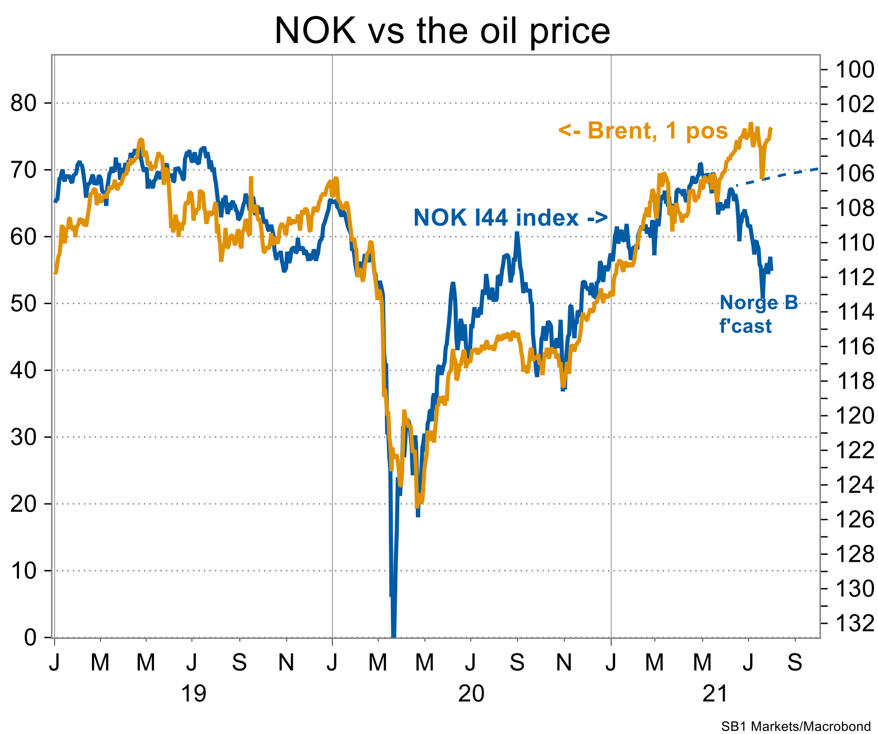
NOK 8% below our model estimate!

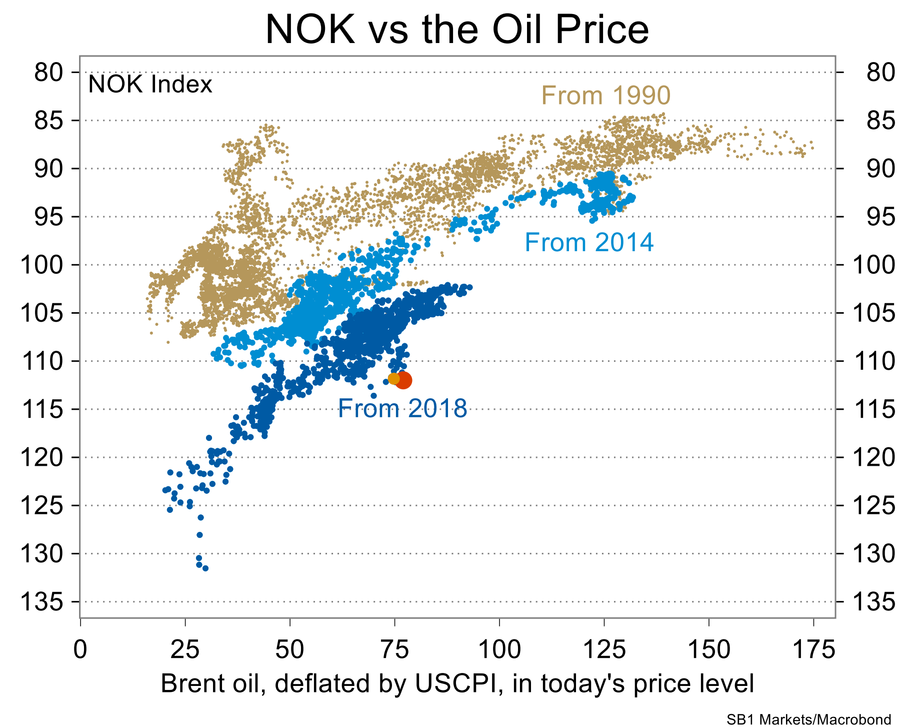




Oil up. NOK down

NOK has lost substantial ground vs. the oil price since May

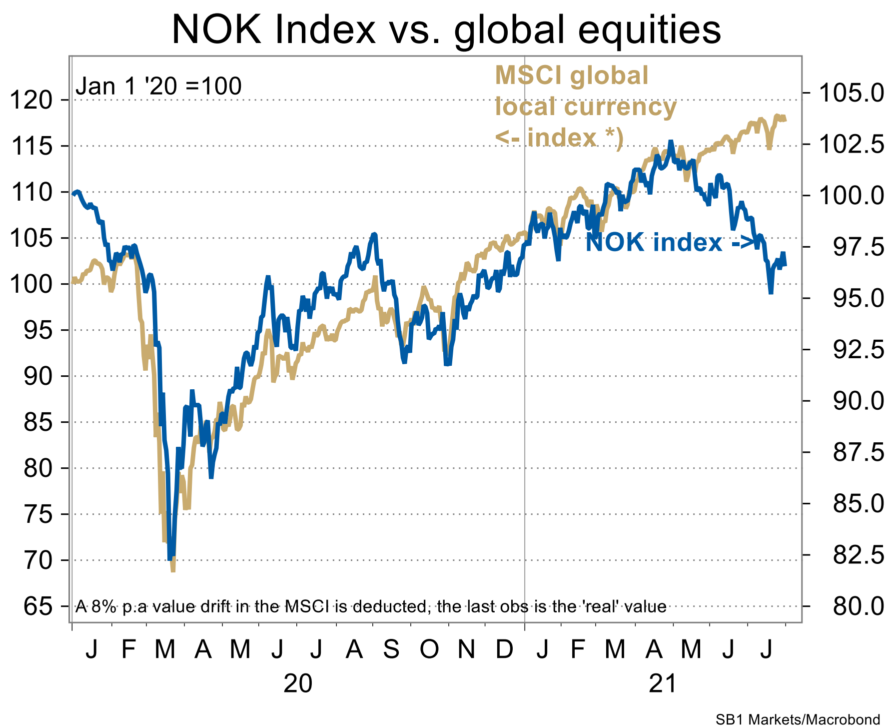


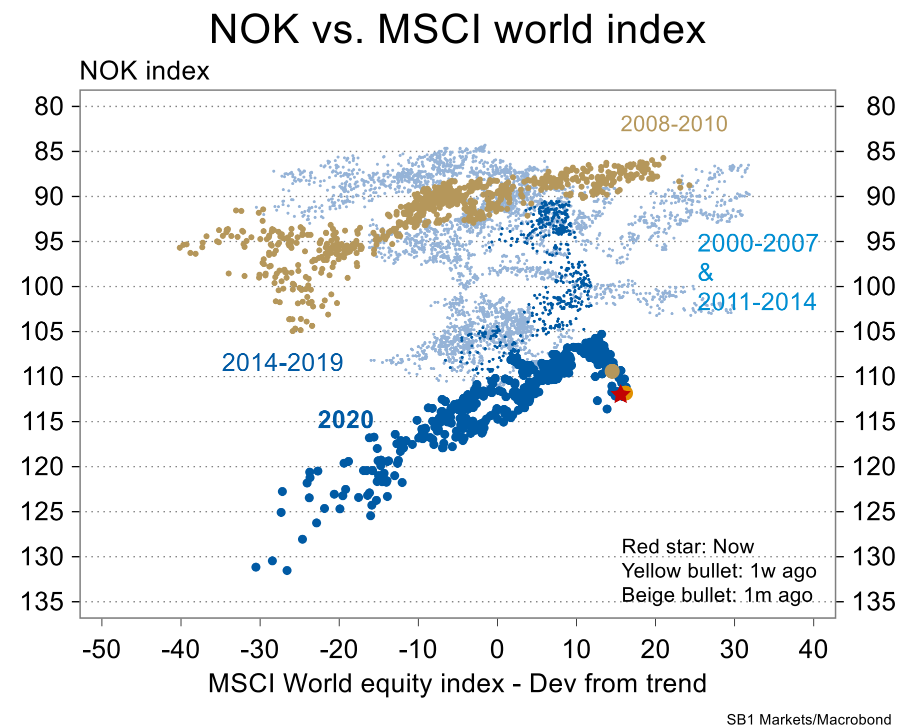


- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect.
  Within a broader model, the impact is somewhat smaller

Both stock markets & NOK close to unch. 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

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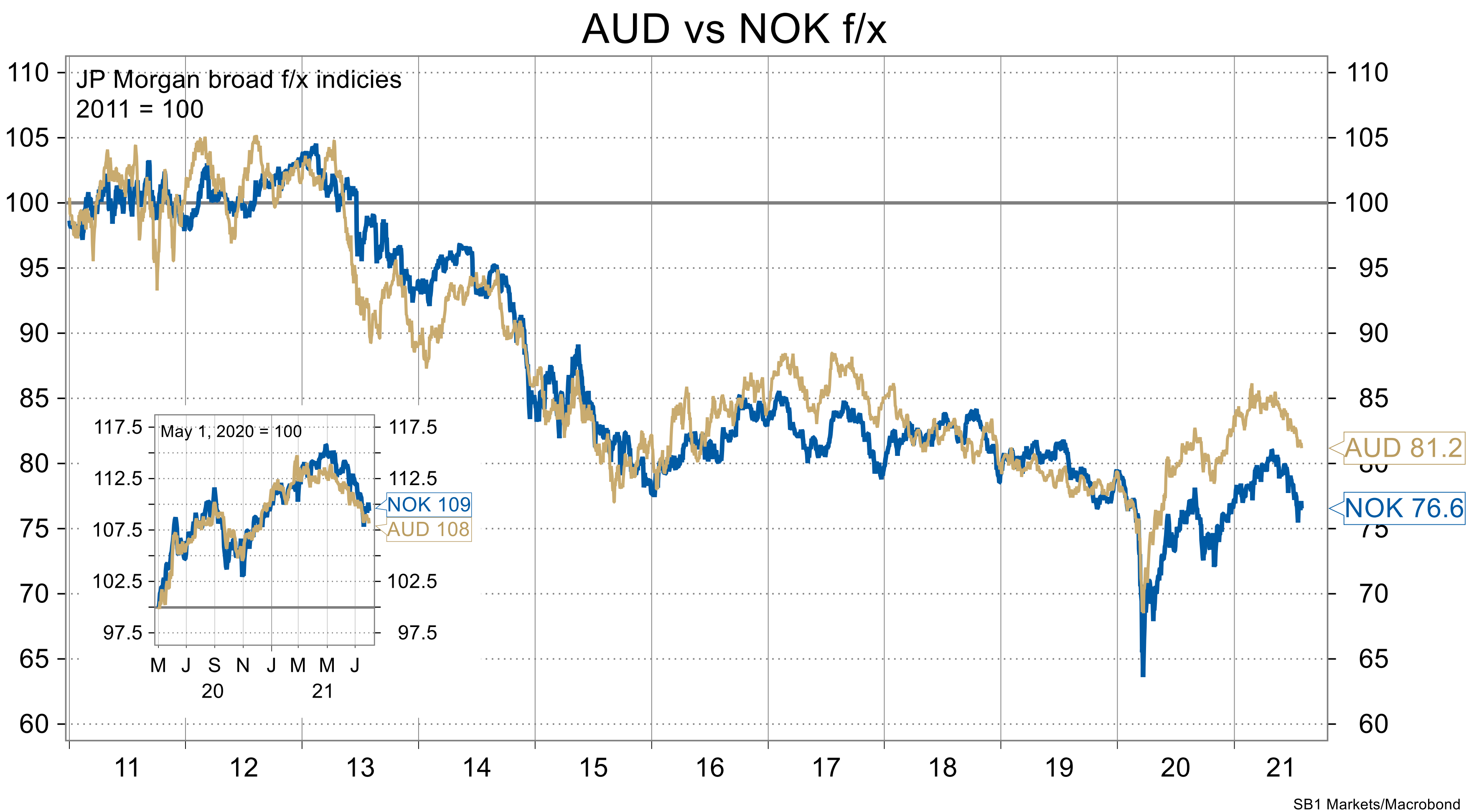
NOK & AUD still dancing extremely tight

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



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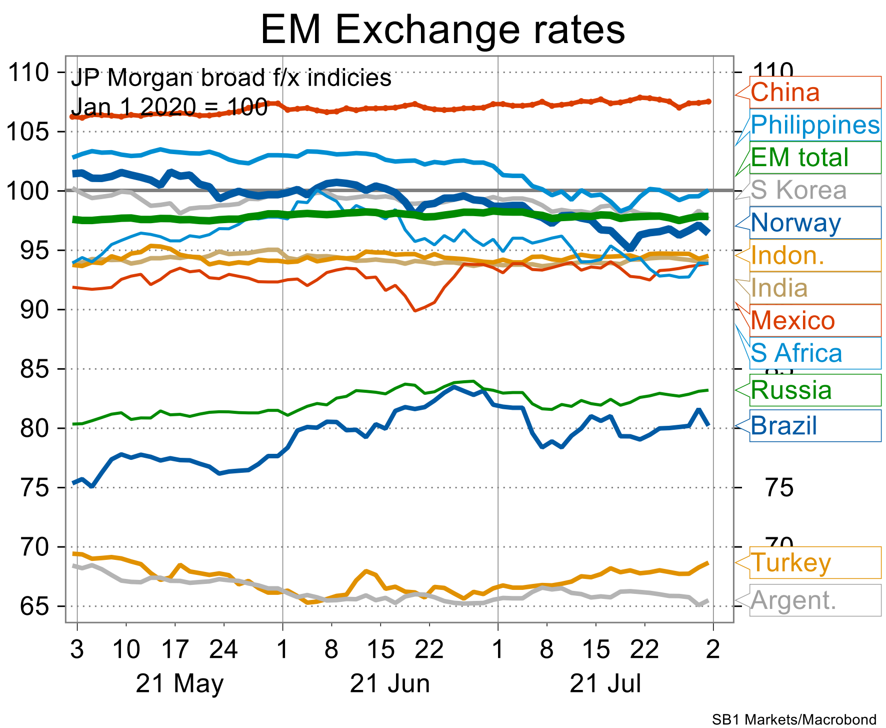
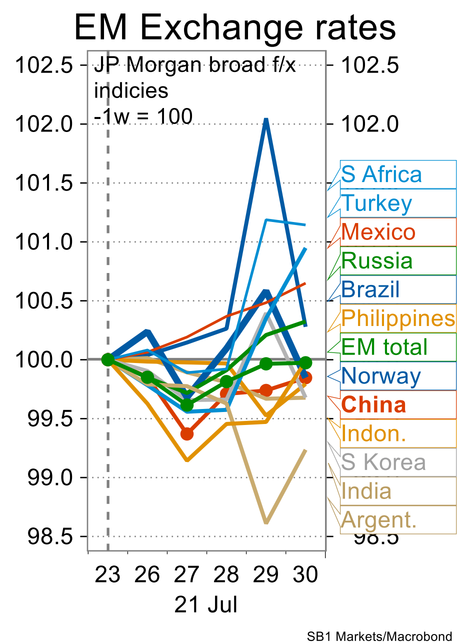
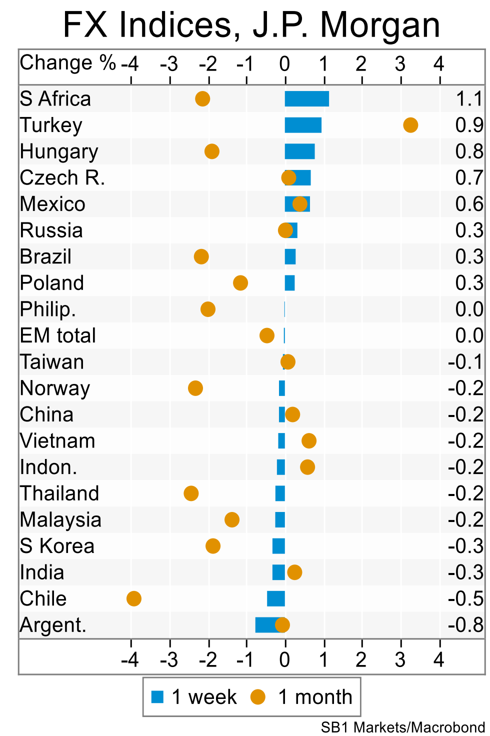
Mixed in the EM f/x universe last week – the majority is well down last week







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