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 almost all countries past 1 - 4 weeks, and in 12 of 38 countries we track the no. of new cases has fallen, and is some places sharply
- In Europe, **hospitalisation & death rates** (CFRs) have fallen sharply and are at low levels, there are no widespread capacity problems at hospitals
- That has not been the case in the **US**, suggesting diverging testing policies as the positivity rate has shot up, and the no. of hospitalisation & deaths have increased far more than in Europe. In the US, the no. of hospitalised patients is just 30% below the Jan peak, and several (low vaccination rate states) are reporting a record high no. of patients, an capacity constraints. The good news: growth in cases & hospitalisations is now actually slowing in the US as well
- **Norway** is reporting a gradual decline in the growth rate. Still there are very few hospitalised patients (37), and at the current pace of vaccination the Delta variant will very likely be defeated before hospitals are filled up
- **Mobility** has flattened/declined marginally last weeks. It may be due to the spread of the Delta variant

The economy, part I

- **USA**
  - » **The FOMC minutes** revealed what we have thought for some time: Most Fed members (voters & non-voters though) see it appropriate to start tapering at the end of the year. Members also believe that the timing and pace of the tapering of MBS' and Treasuries should coincide. We still believe in a September announcement and for tapering to start at year end. Powell will most likely not conclude at the central bankers' conference in Jackson Hole during the upcoming weekend. The Delta outbreak my change FOMC members mind (and one hawk has already turned dovish)
  - » States that have **opted out of the federal extra unemployment benefit programs** did not report higher employment growth in in July than the non-leavers. Still, quite many of the close to 9 mill recipients of these benefits who all will lose this support Sept 6 will have to return to the labour market?
  - » **Retail sales** declined 1.1% m/m in July, but the sales of goods are still 16% above the pre-pandemic level in volume terms – and well above a sustainable level as more spending is shifted back to services (but restaurant sales are already up 9%!)
  - » **Manufacturing production** rose more than expected in July and is finally above the pre-pandemic level

Last week: The economy, part II

- **UK**
  - » **Annual CPI inflation** fell more than expected in June, the core down to 1.8%. Ripping off 2nd hand auto prices, the real core is much lower. However, in August the impact of last year's corona measures will fall out of the annual growth rate. Prepare for somewhat other y/y growth rates. Unit labour costs are running a high level, posing a risk to the inflation outlook from cost side (which is the only important one, over time)
  - » **Retail sales** were weaker than expected, down 2,5% in June – and almost back to the pre-pandemic trend growth path. Delta partly to blame, but spending will eventually be shifted towards services again
- **Japan**
  - » **The service sector PMI** fell almost 4 p to 43.5 and the composite PMI signals a 3% GDP contraction amid the Covid-19 outbreak
- **Sweden**
  - » **Total unemployment** declined 0.1 pp to 7.8% in July, according to PES/AF, while the LFS (AKU) reported the June unemployment to have risen 0.4 pp to 9.5%. This latter measure is more uncertain than usual during the summer, and even more as method is revised. More importantly, vacancies are up and hours worked are rebounding – but are still below the pre-pandemic level
- **Norway**
  - » **Mainland GDP** rose 0.7% in June, less than consensus (1.3%) and we (1.5%) expected and Q2 growth was 1.4%, not 1.7%, as assumed. Still, in June the GDP level was back to the Feb-20 levels – and in July it will be above. GDP in June was 0.6% above NoBa's forecast. Services recovered, but some still has a long way to go. Hotels and restaurants were still down 30% in June (but July will be far better!). Norges Bank does not have to alter its assessments
  - » **Oil companies** still report weak investment plans for 2022 but not weaker than assumed by Norges Bank in June – and an approx. 5% decline is still likely. Investments in new fields will decline substantially and – more surprisingly – exploration plans were scaled back too.
  - » **Manufacturers** plan to lift investments next year, while a deep contraction in **power supply** investments are signalled by the companies in this sector
  - » **Norges Bank's monetary policy meeting** revealed nothing new – economic developments are largely in line with what the bank expected back in June. No changes to the policy, and a 0.25 bp rate hike in September is practically a given case if not something dramatic happens the next weeks. Like a stock market crash?
  - » **Finans Norge's consumer confidence** rose to an average level in Q3, from -0.7 st.dev below, as we forecasted. Household expect their personal economy to be weaker than normal the coming year, while the outlook for the overall economy is the best since 1996. House buying plans rose to ATH but households lifted their savings/down payment of mortgages ambitions too. Some regional differences: the North and East x Oslo/Akershus are far more pessimistic than Oslo and the South & Western regions.

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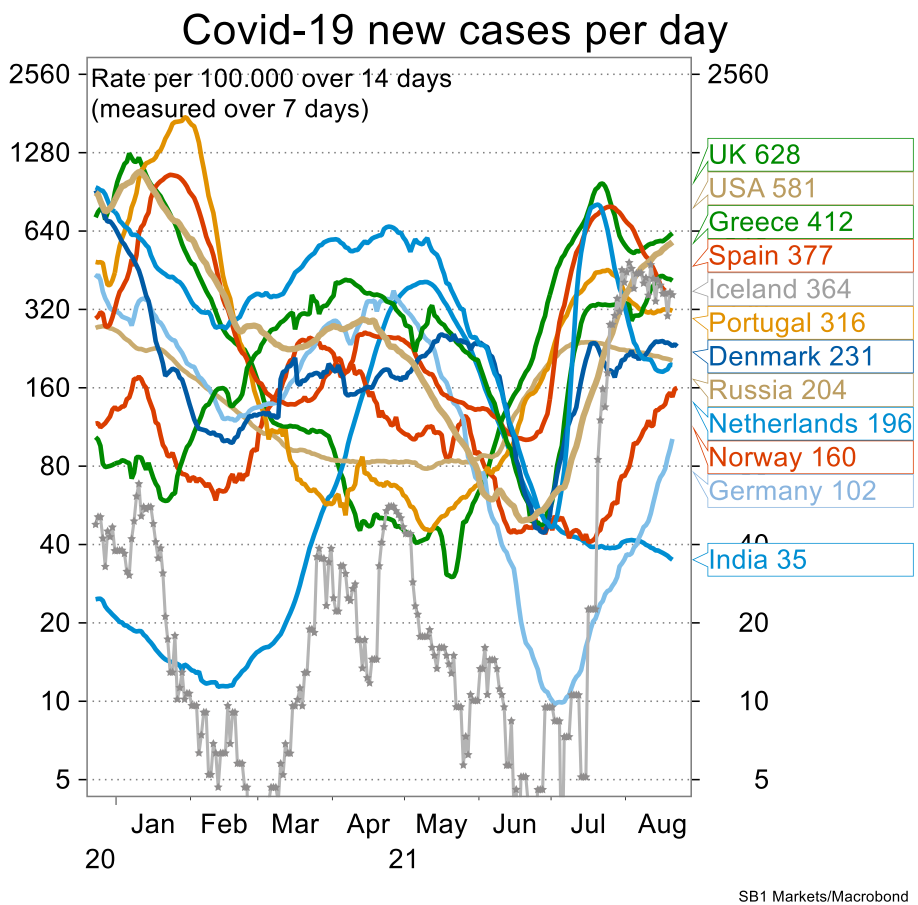
Growth in covid cases are slowing – and are down in 1/3rd of countries

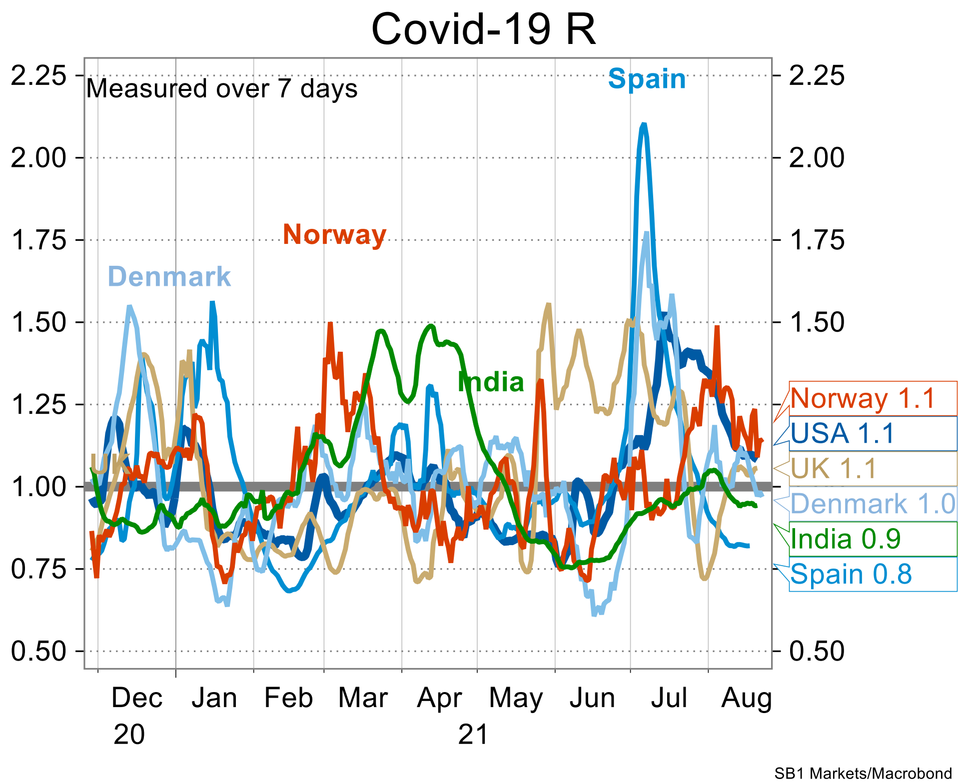
The main risk now: An even more contagious or vaccine resistant virus variant

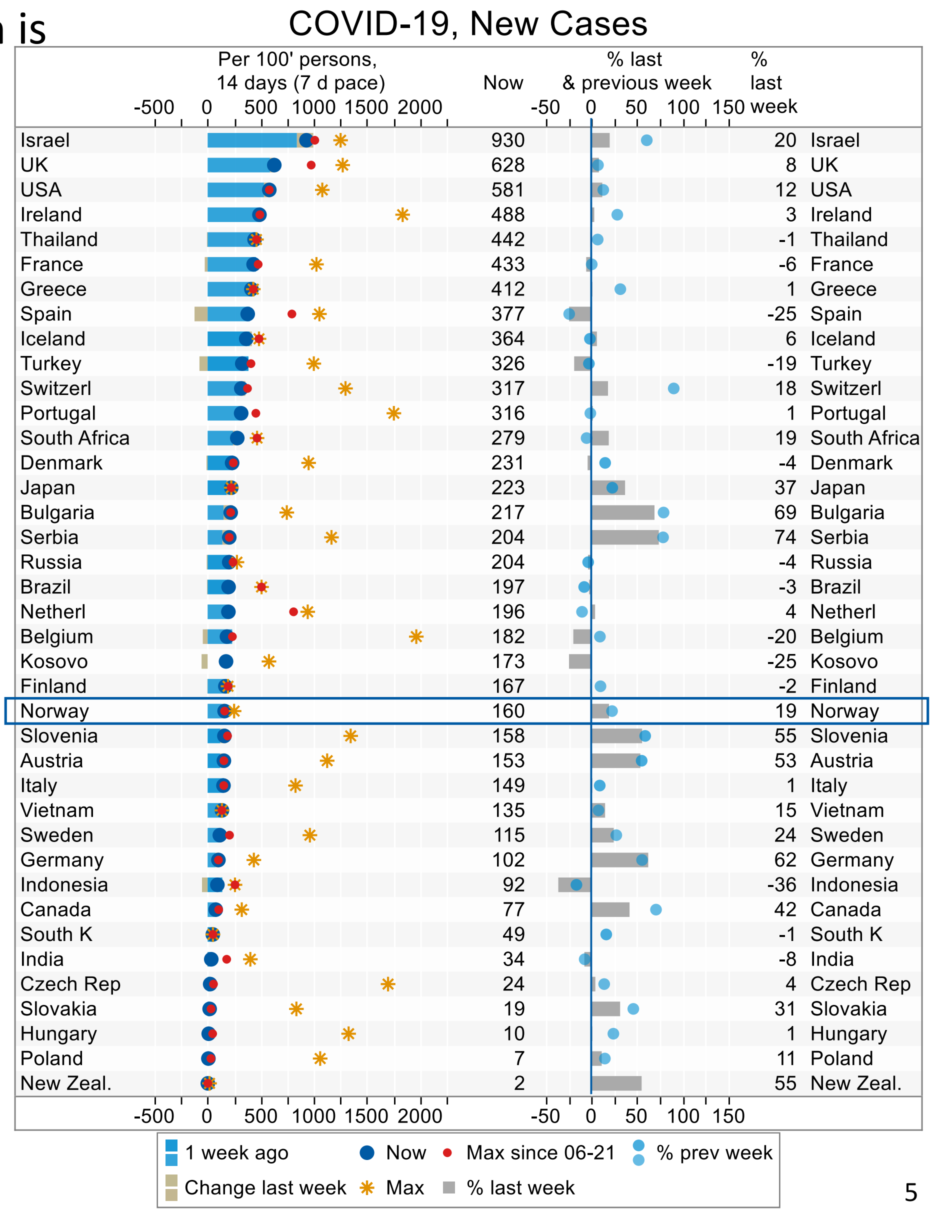


- In **Europe**, the Delta outbreak has led to more hospitalisations and deaths, but as hospitalisation/death rates have fallen sharply there is not any health crisis yet – and we doubt there will be
- The outlook is a bit more uncertain in the **US** where hospitalisation & death rates are much higher than in Europe (probably because the real no. of positive cases is underreported, the positivity rate has shot up too). The no of hospitalised is just 30% below the Jan peak, and is record high in several states. However, growth is slowing, also in hospitalisations
- The challenge is of course much larger in many **Emerging Markets** but even there the no. of new cases has peaked in some countries
- **Norway** is reporting amore cases but growth is slowing. The no. of hospitalised patients is doubled, but still very low (37 persons)
  - » It seems rather unlikely that hospitals will be overwhelmed before 'everybody' is vaccinated

New cases down from the recent (Delta) peak in 12 of 38 countries

A majority of countries still on the way up but growth is slowing almost everywhere. Israel is at the top

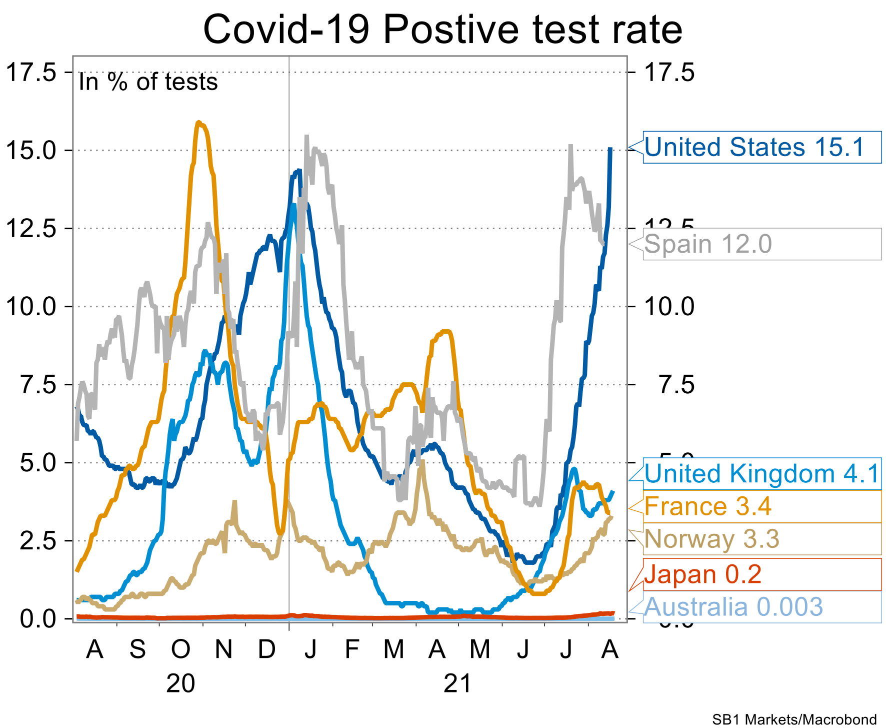




- The red dots on the chart to the right indicate the peak in new cases since June (India's peak was in May). When these dots are in 'free air', cases are down vs the recent peak - which is the case in 12 of 38 countries. However, last week the no. of new cases grew in 24 countries – so it ain't over yet
- *Disclaimer: Testing policies/capacities may have changed (and they differ vastly between countries)*

Large differences in positivity test rates: Reveals different test policies/capacities

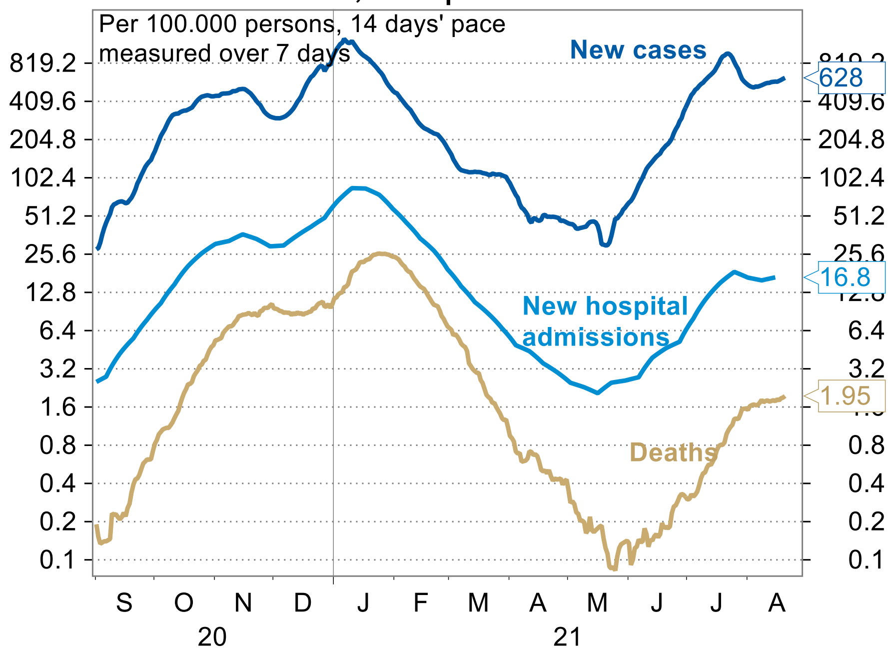
… and we should take case data with more than a grain of salt



UK: Still a low level of hospital admissions & deaths

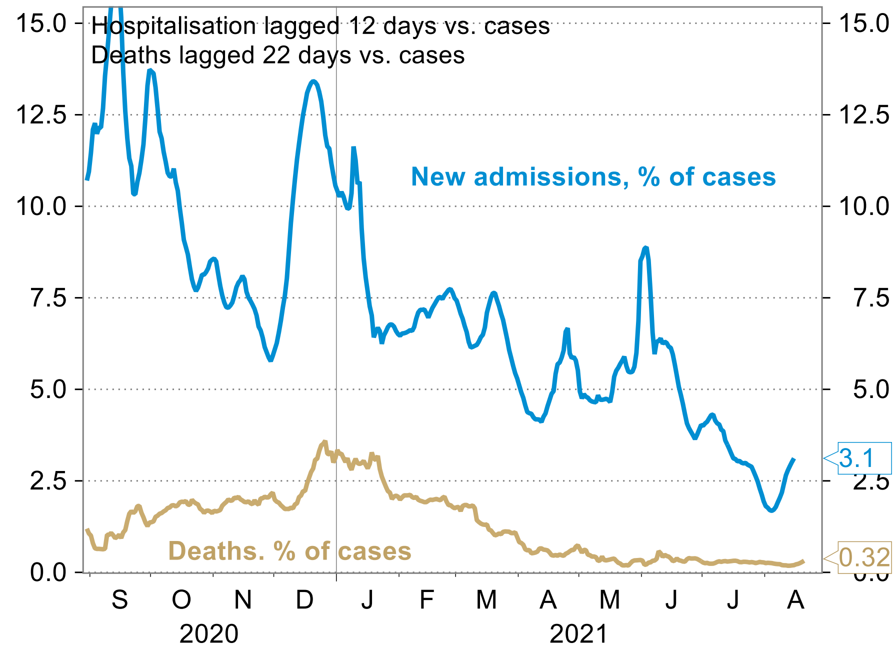
The no. of new cases is increasing again but slowly – and the level is well down from the peak

UK Covid cases, hospitalisations & deaths



SB1 Markets/Macrobond

UK Covid rates



SB1 Markets/Macrobond

- The no. of **new cases per day** peaked before it reached the Jan top, then fell 50% during less than couple of weeks. Now it is heading slowly up
- The no. of daily hospital admissions has increased 9 times from the bottom in May, but the level is just above 1/5th of the peak in Jan, and the no. admissions has flattened the past two weeks. The no. of deaths is up 20 times, still at just 8% of the Jan level
  - » The **hospitalization rate** has fallen sharply as both old persons and other risk groups are vaccinated, to 2% - 3% from 8%
  - » The **case fatality rate** (of those tested positive) has fallen even more, to 0.3% 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. Perhaps because more than 93% of the adult brits have antibodies
- Other European countries are reporting low hospitalisation & death rates, while the US is not (probably because testing is far below European levels), check next page

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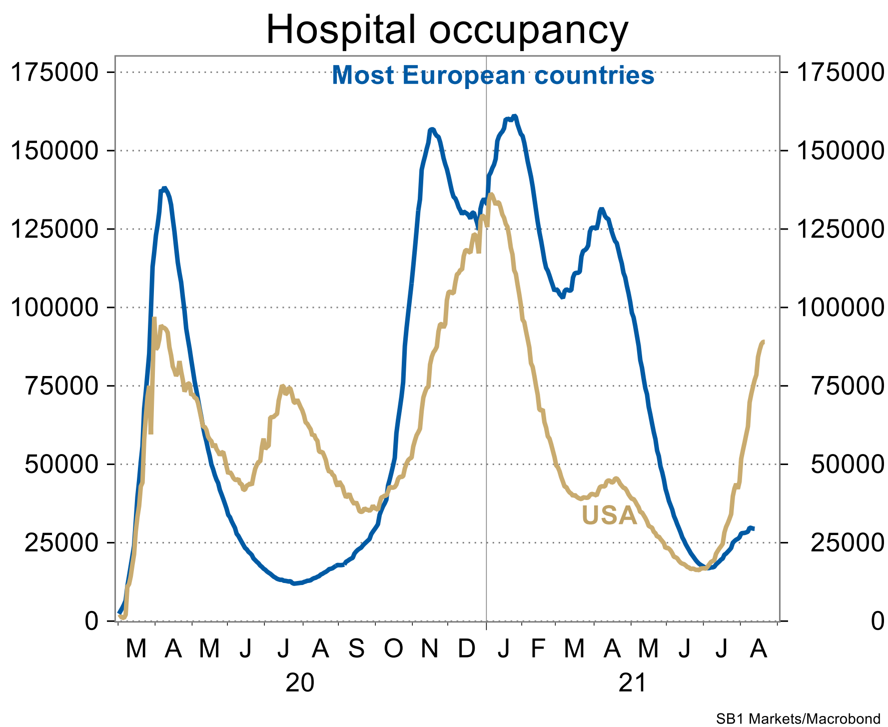
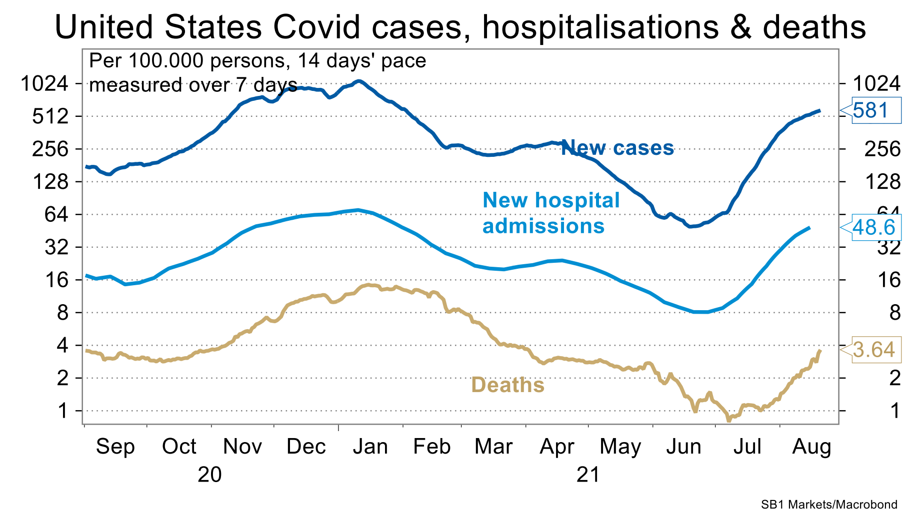
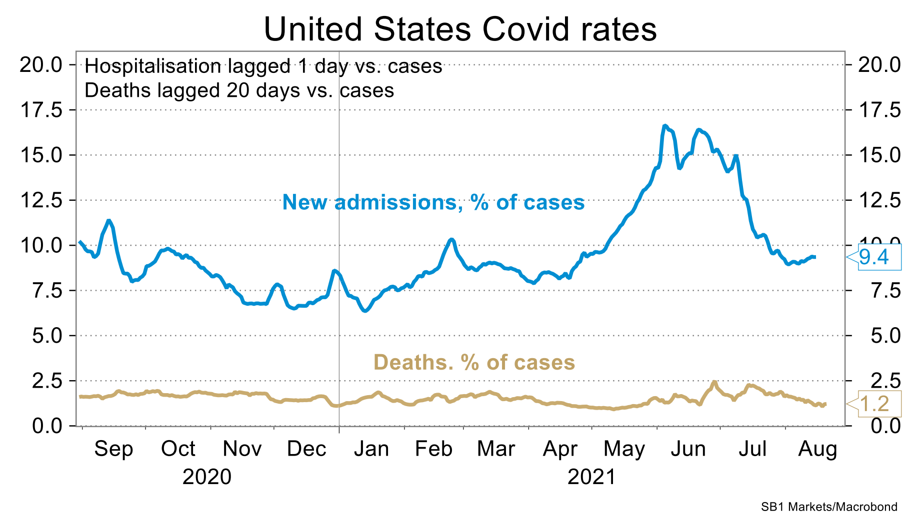
US is running into problems but stricter policies, more vaccinations will help?

Far more hospitalisations/deaths, but growth in cases, hospitalisations is now slowing



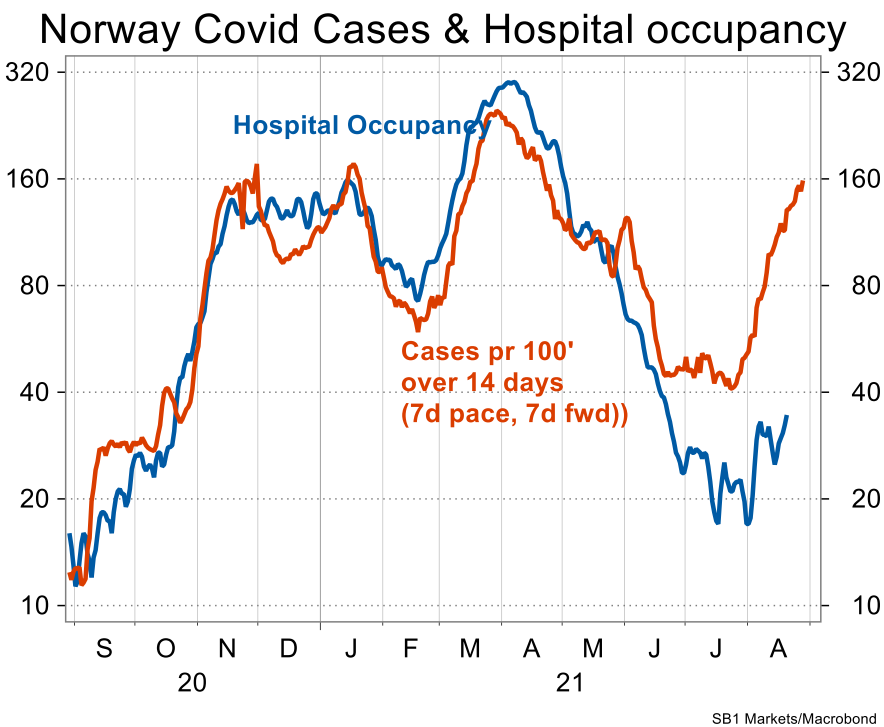


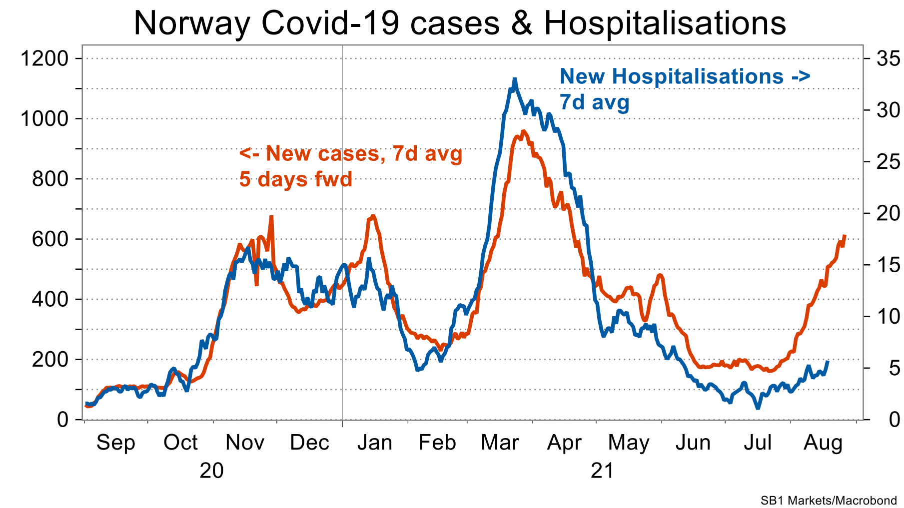


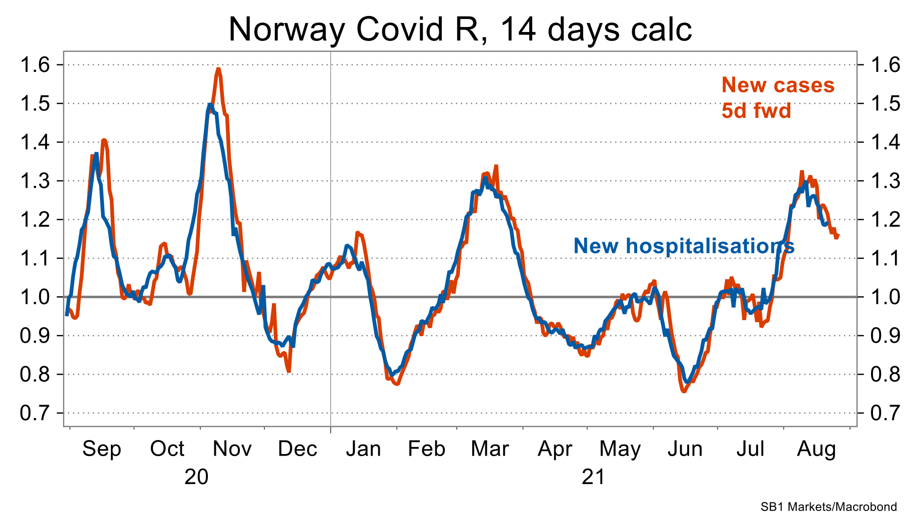
- The hospitalisation rate is 2 – 4 times higher than in Europe
- The death rate (Case Fatality Rate) is 2 – 8 times higher
  - » Thus, the no. of cases is very likely underreported vs. Europe
- However, growth in the (official, though) number of new cases has slowed substantially past 3 weeks – and growth in hospitalisations has slowed as well

Norway: More cases, more hospitalisations but the level is still very low

However, growth is slowing and Norway will very likely not run into hospital capacity trouble







- … also because the vaccination process still runs well
- No more than 37 patients are hospitalised (from 25 last week), even the peak level at 300 was very low compared to peaks in most other countries
  - » The number will very likely increase the coming days
- Growth in new cases has slowed, like in many other countries

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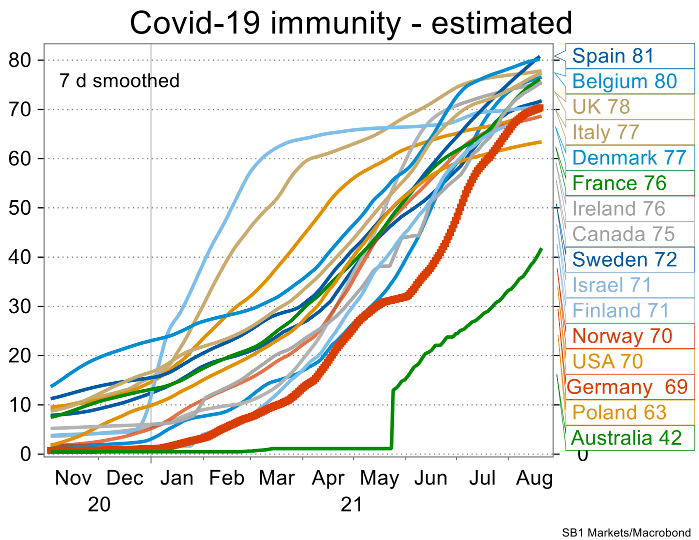
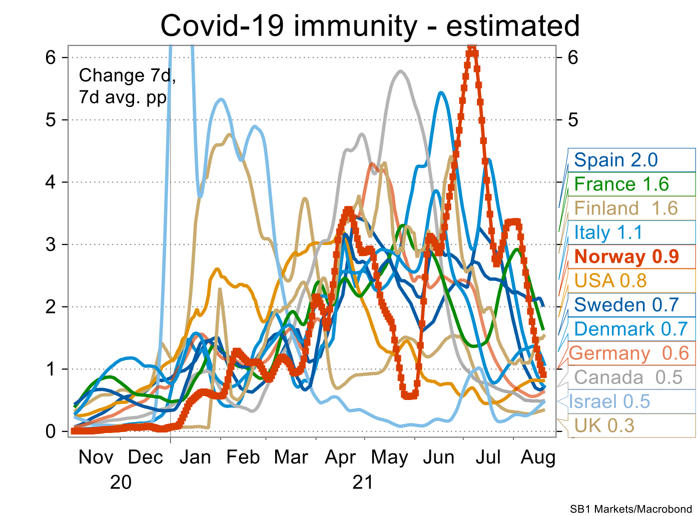
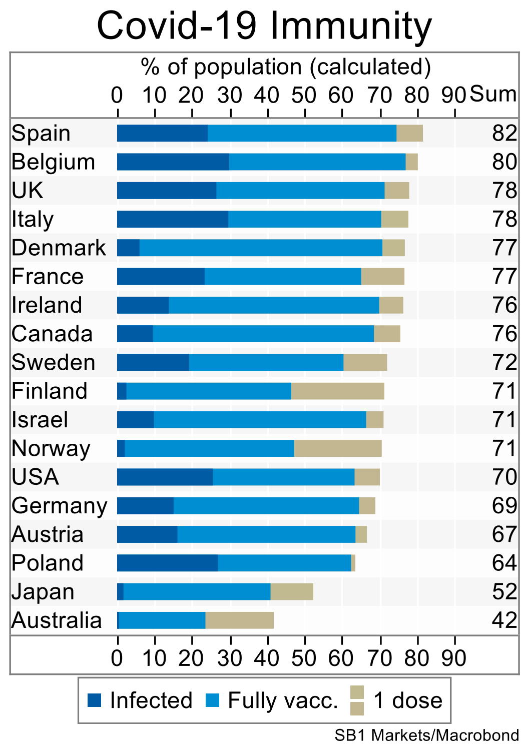
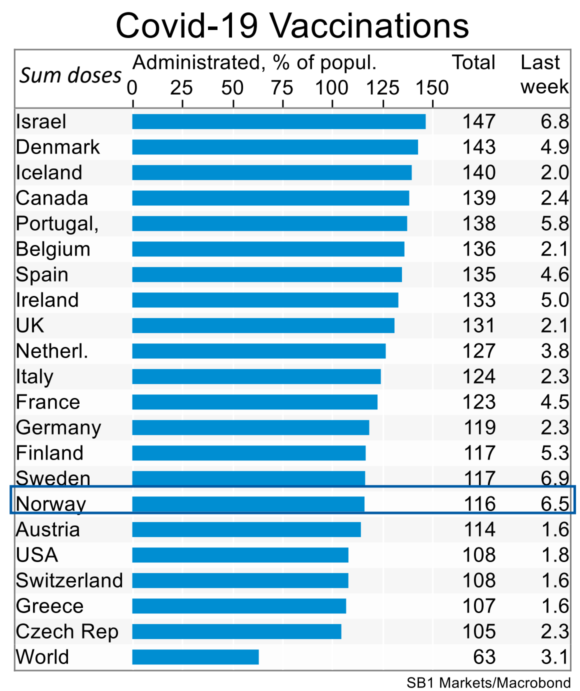
Vaccines: 1.6% – 7% of the population get a jab, per week

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





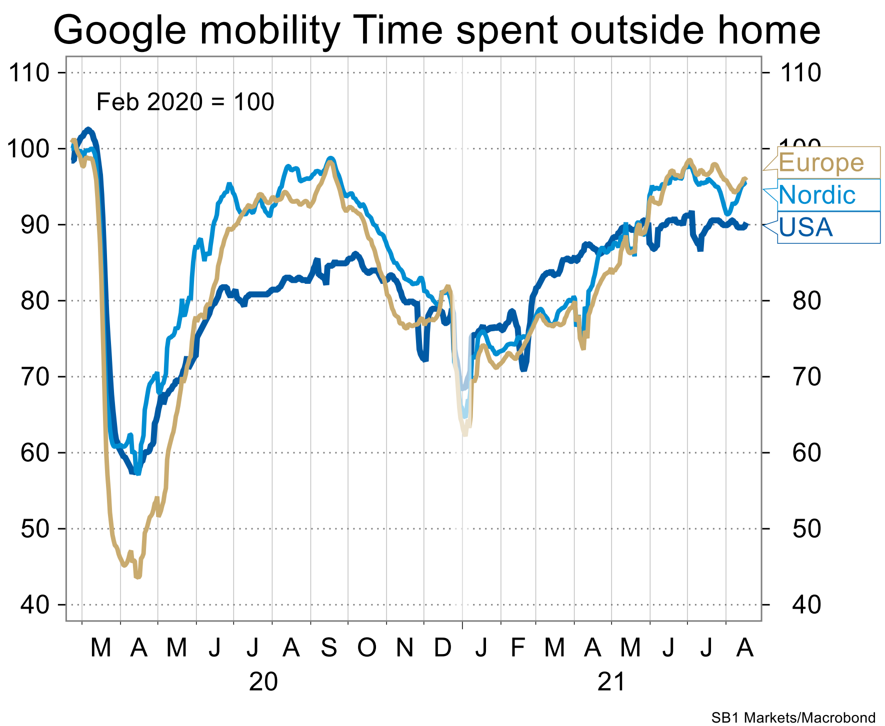


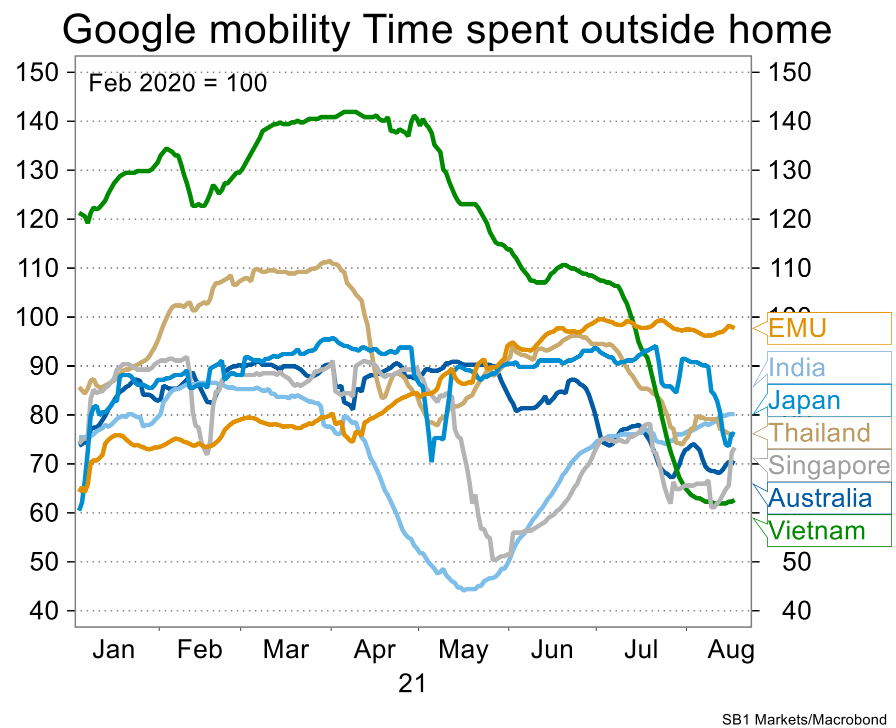


We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others (a conservative assumption)

In the West, no signs of reduced mobility during the Delta attack

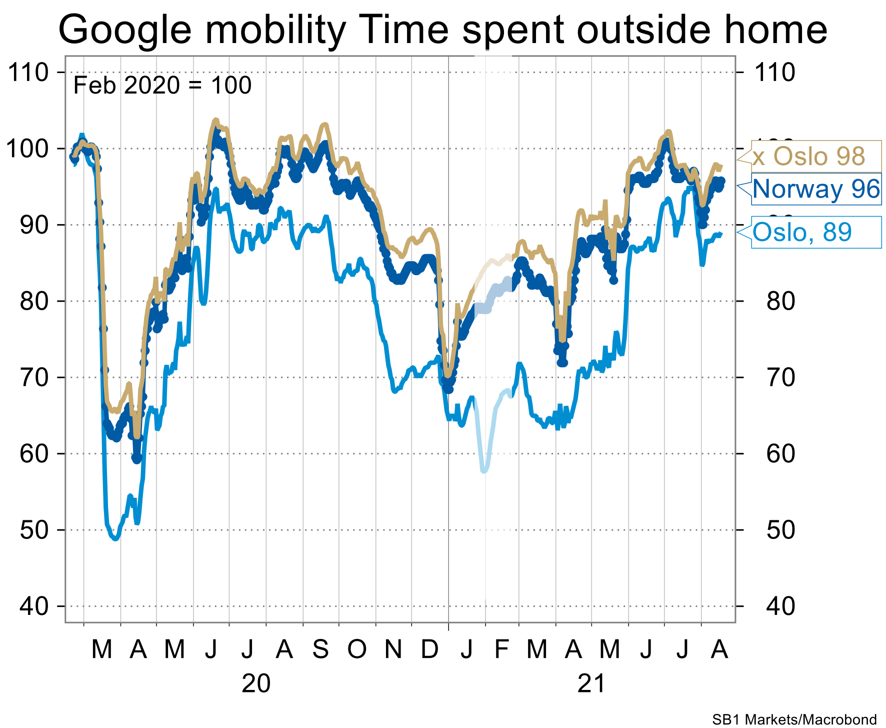
However, mobility sharply down in many Asian countries, and in Australia. India almost back to norm.

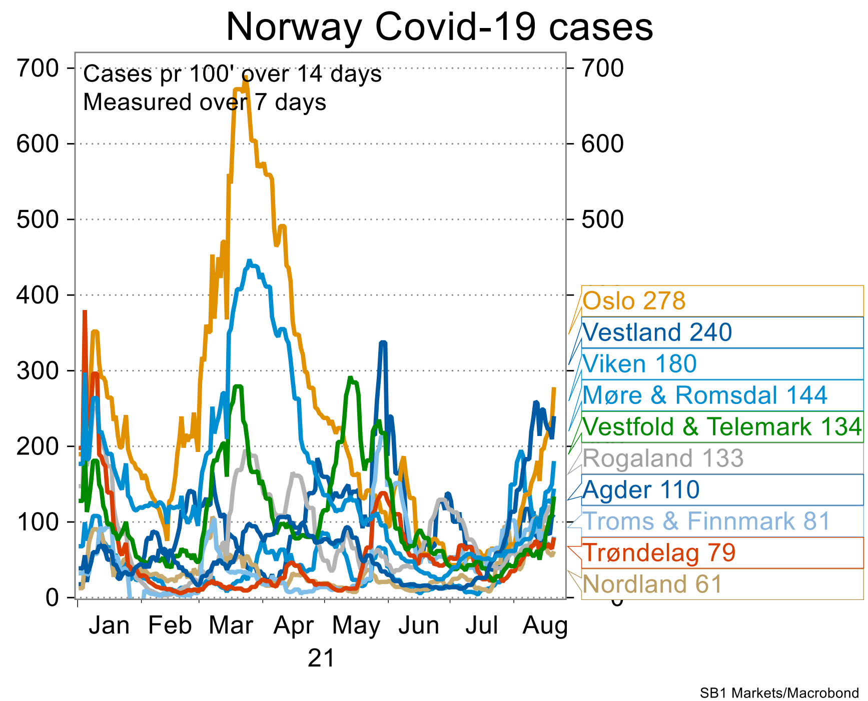




'Some' local cases, and the sum further up last week too. Oslo in the lead again

Mobility has stabilised





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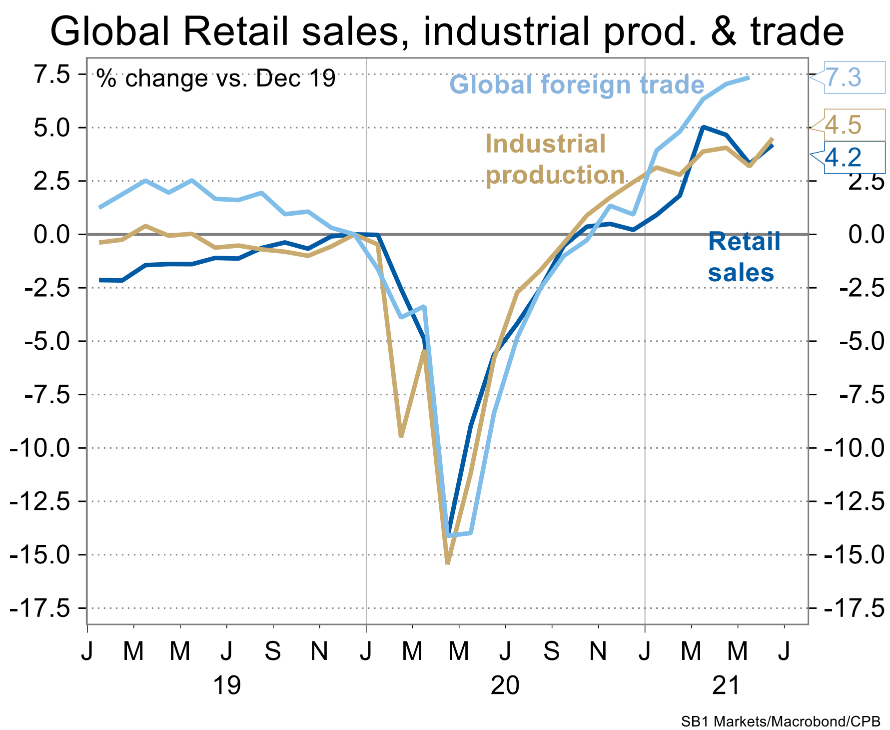
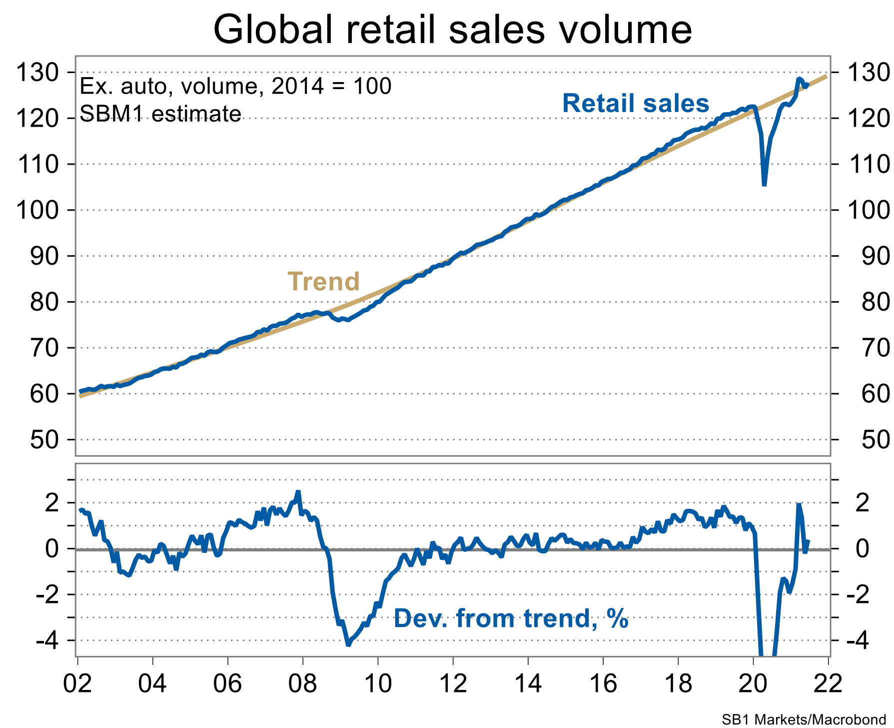
Global retail sales & manufacturing production up in June but has flattened

The setback in some Emerging Mkts due to Covid/Delta partially to blame. And DM demand peaks?

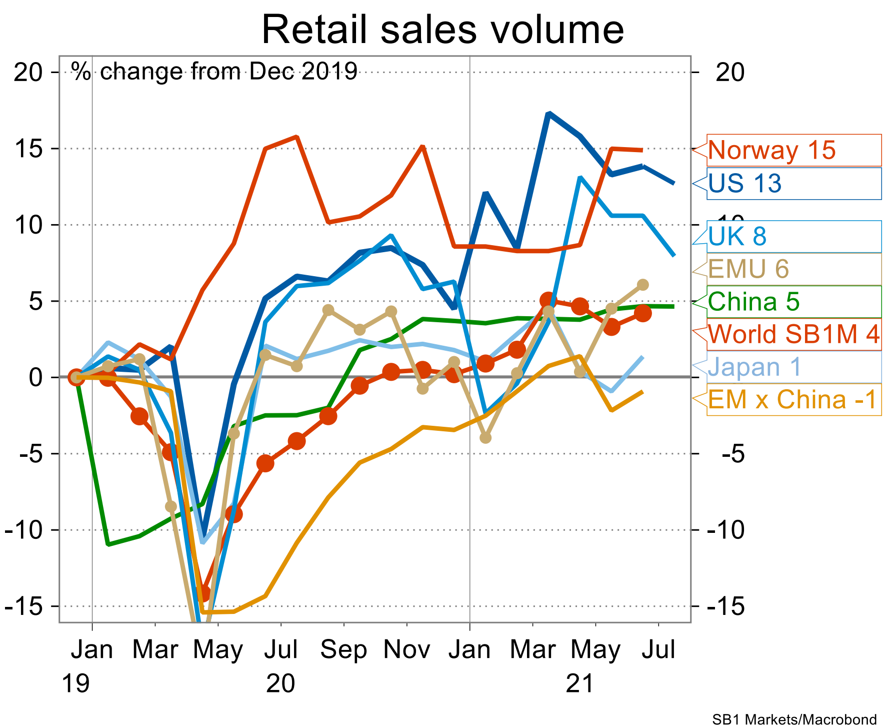


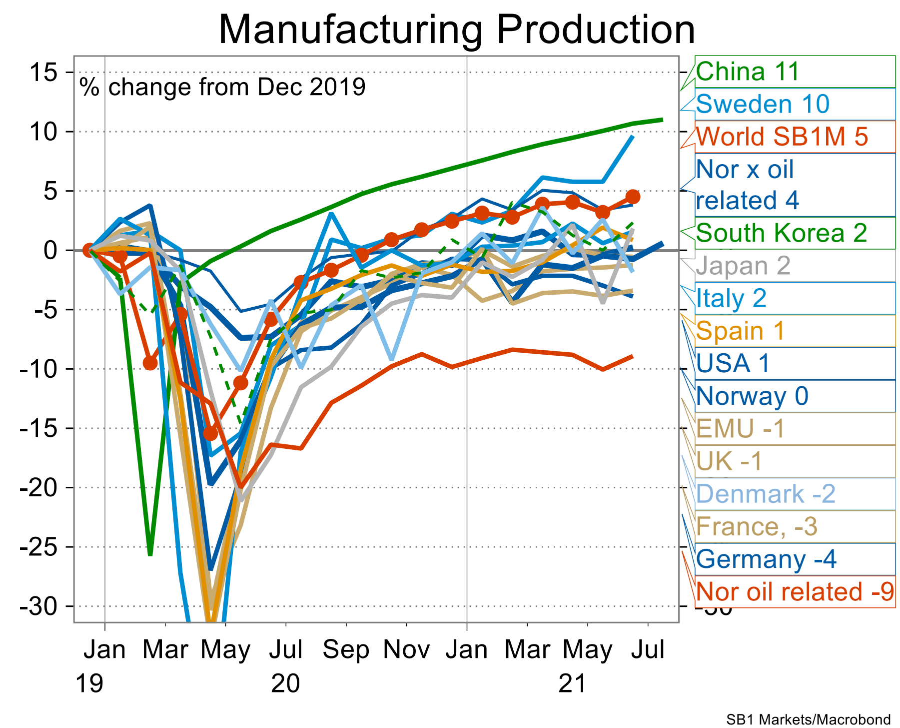


- **Retail sales** rose in June, according to our forecast – but sales have flattened recent months, partly due to an assumed setback in India. The level is approx. 4.5% up vs the pre-pandemic level
- **Manufacturing production** rose too – and may still be trending slowly upwards. The level is some 4% above the pre-pandemic level. Trouble in India and in the auto industry globally have contributed on 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

DM market demand for consumer goods have peaked

The upside potential is large for Emerging Markets but the Delta variant is hampering activity

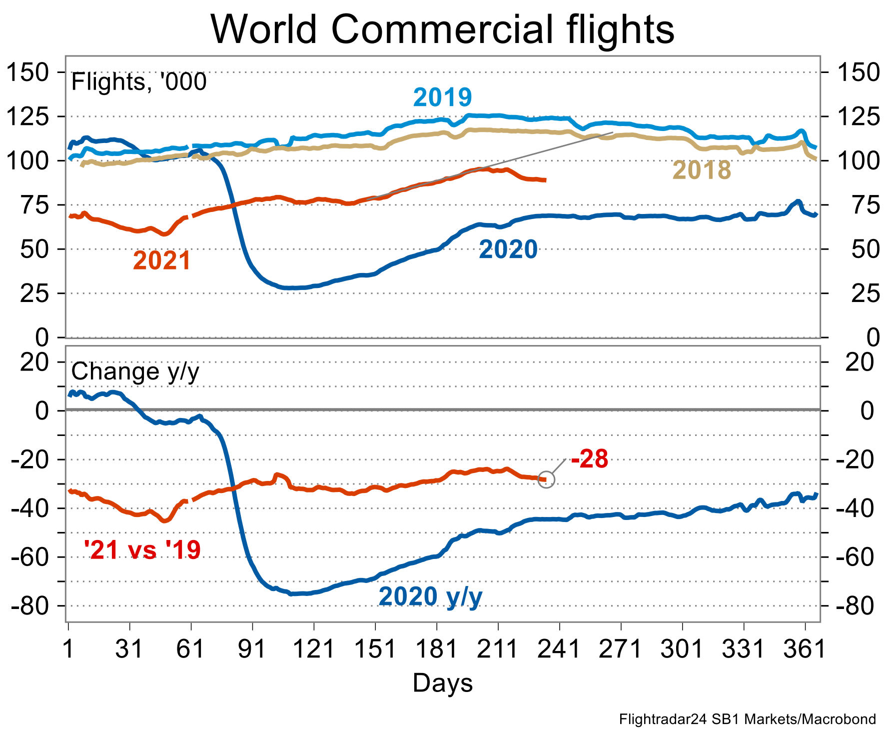


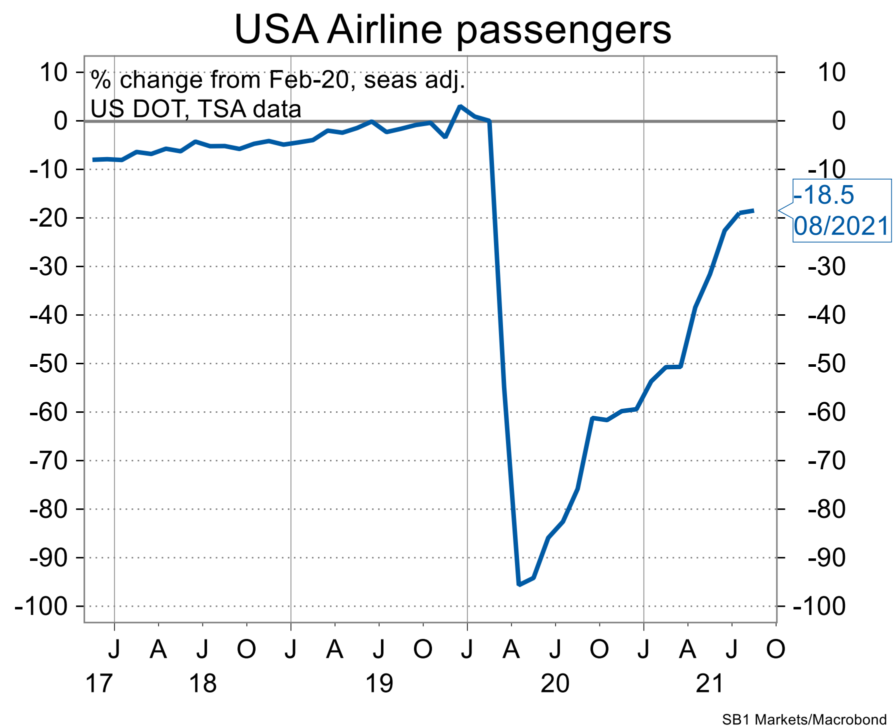


- Manufacturing production is still drifting upwards

Global airline traffic has fallen 4% past 4 weeks, the virus to blame, once again

Probably mostly in Emerging Markets. In the US, traffic is flattening, no doubt due to the virus

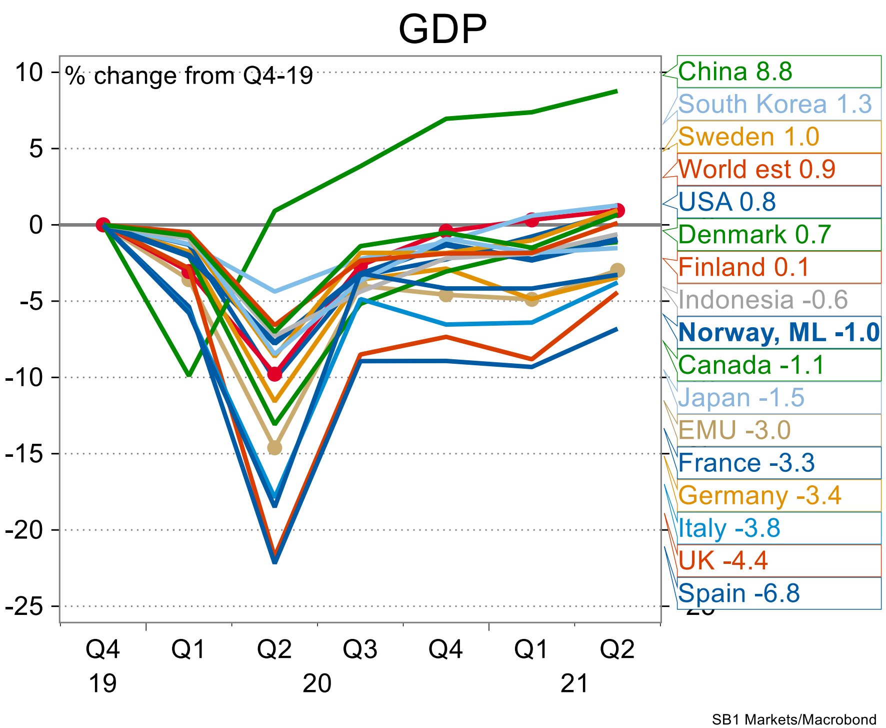


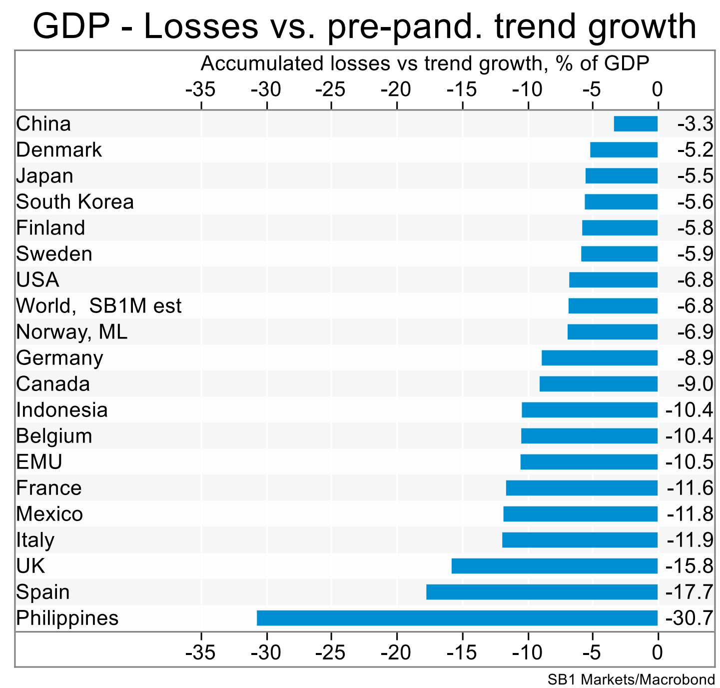


- Global traffic is up 30% from august 2020 – but still 28% below the 2019 level
  - If the upward trend until early July had continued, the gap would just have been reduced by half, to 14%

Global GDP slowed in Q2

… as we assume slower growth in Emerging Markets (where few so far have reported)



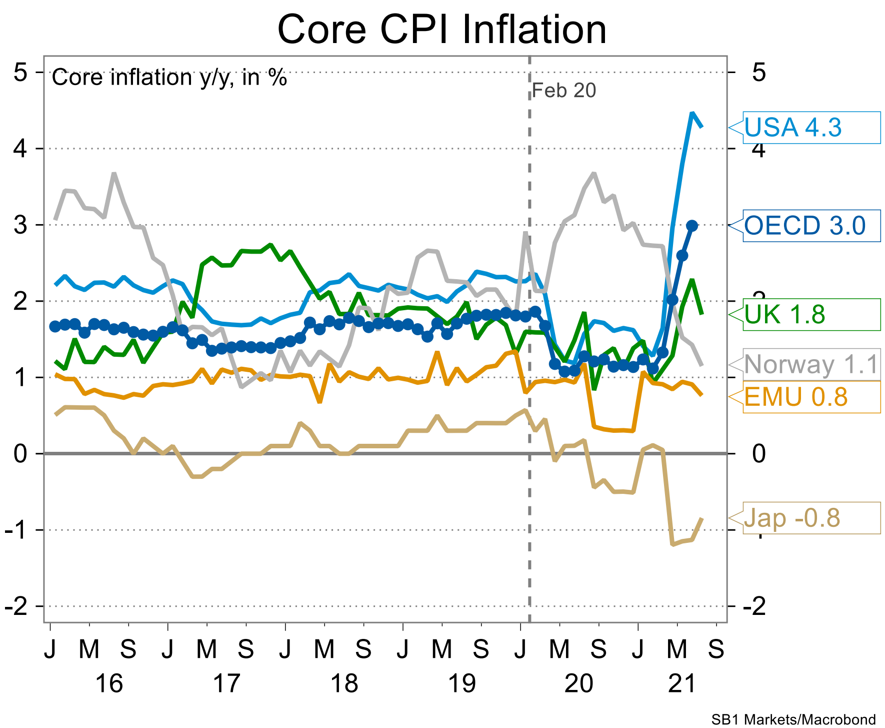


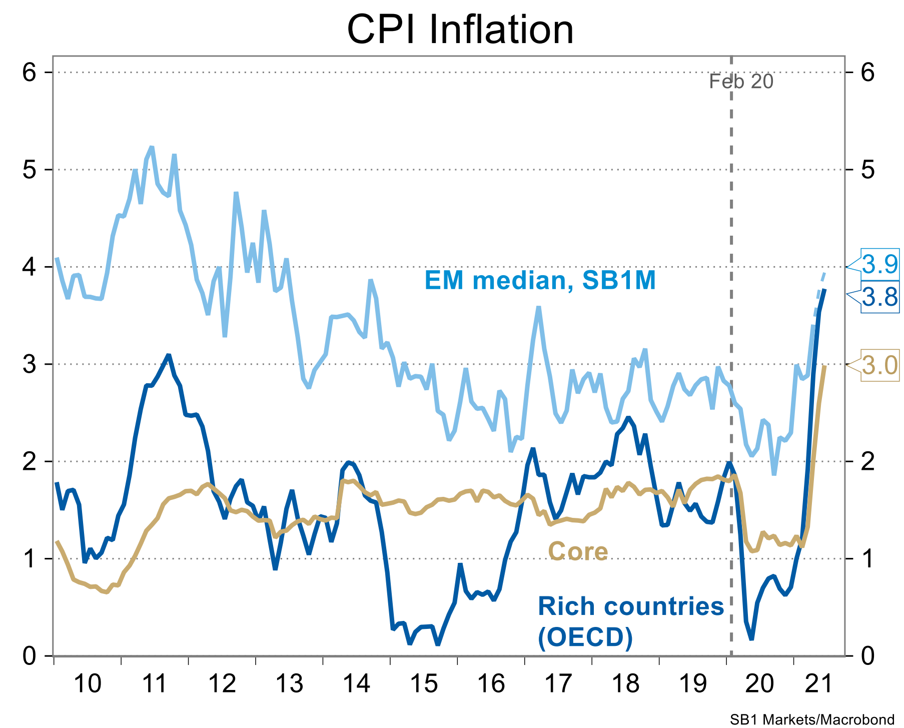
- We estimate a 2.4% **global growth pace in Q2** (0.6%), down from 0.8% in Q1
  - » The uncertainty is larger than normal due to the Covid outbreak in many Emerging Markets that so far has not reported (especially India)
- The global GDP is close to 1% above **the pre-pandemic level**, but still approx. 3% below the p-p trend growth path
- **Norway** is lagging our Nordic neighbours, both vs. the level in Q2, and accumulated losses during the pandemic (chart to the right)

- The **global accumulated loss vs the pre-pandemic growth trend** is some 7% of 1 year's GDP
  - » **China** is in the lead, with the smallest loss, 3.3%
  - » **US** is down 7% (which is among the smallest losses in a US recession since WWII)
  - » **EMU** is down 11%; Germany -9%, Spain -18%. UK is down 16%
  - » Danmark -5%, Sweden & Finland -6%, Norway -7%

Inflation is on the way up, at least on average

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

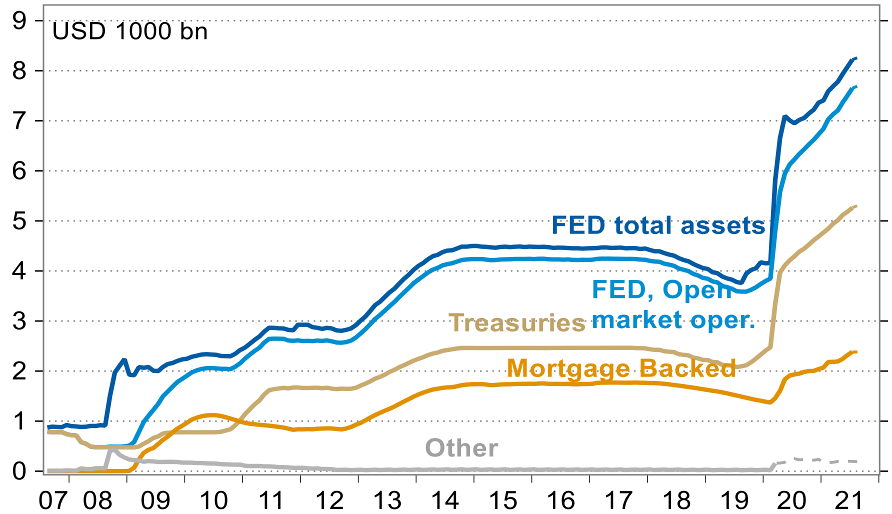




FOMC minutes: Tapering on the 2021 horizon

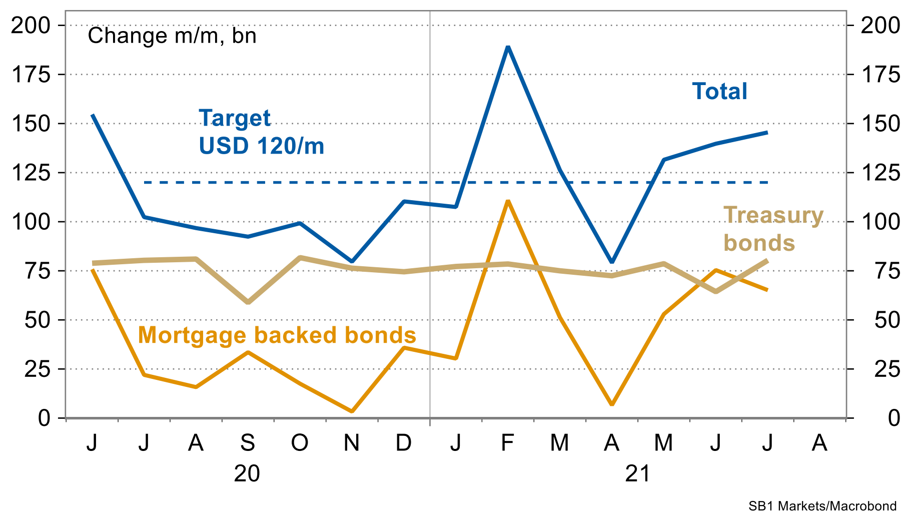
Most Fed members see it appropriate to start tapering at the end of the year

USA Federal Reserve balance

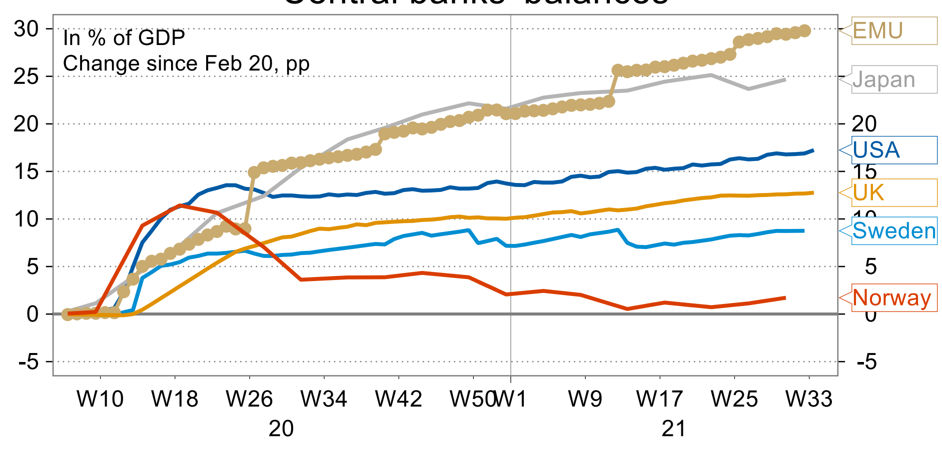


- Although, the signal from Powell's press conference was that the Fed's targets had not been met, the minutes reveal that the committee sees "substantial further progress" towards the inflation goal and that there has been progress towards the maximum-employment goal (though this goal has not yet been met)
- "…most participants noted that, provided that the economy were to evolve broadly as they anticipated, **they judged that it could be appropriate to start reducing the pace of asset purchases this year**…"
- According to the minutes, members believe that the timing and pace of the tapering of MBS' and Treasuries should coincide, and that the communication of tapering should stress that there is no "mechanical link" between tapering and rate hikes
- **Look out for a Sept tapering announcement**. We do not think Powell will change his dovish rhetoric by much at the central banker/academic conference in Jackson Hole this week. However, since the news is out via the minutes, he may confirm that a tapering decision is not far away. The formal decision should wait until the FOMC meeting

USA Fed Treasuries & MBS



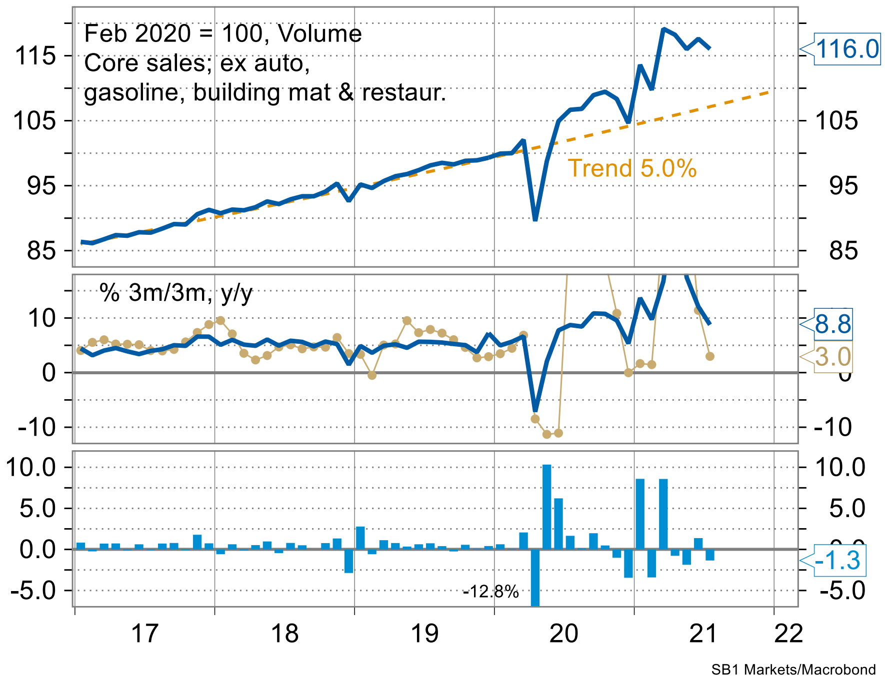
Central banks' balances



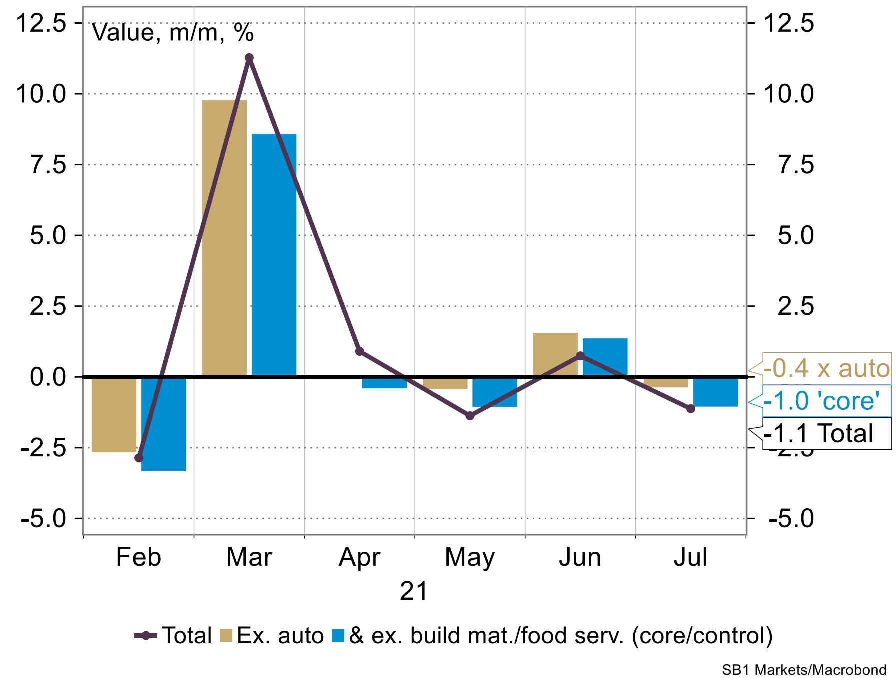
Retail sales down in July as more restrictions have been eased

Sales volumes still 16% above the Feb-20 level!

USA Core retail sales



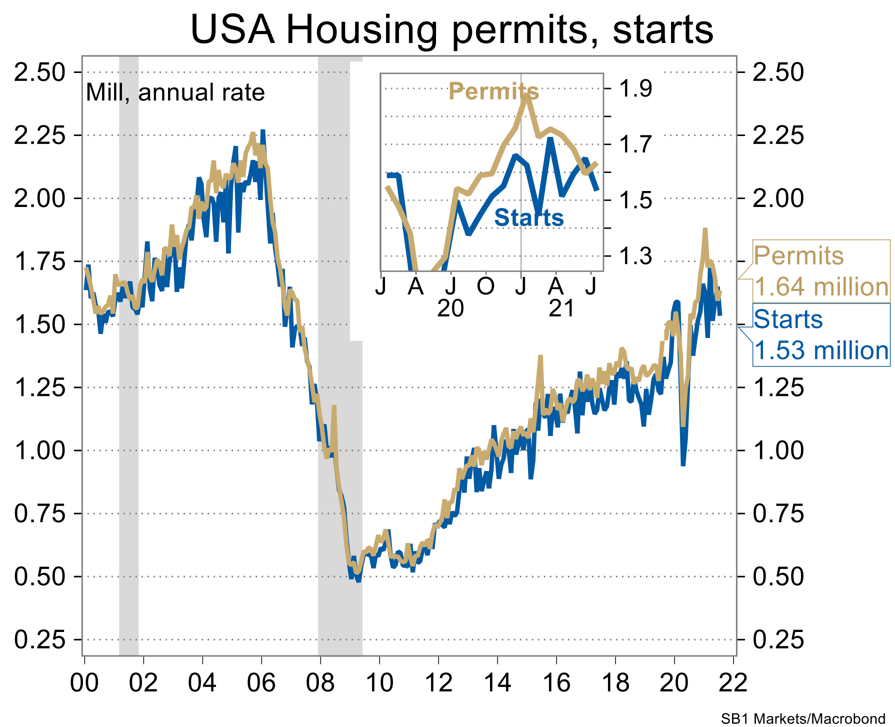
USA Retail sales

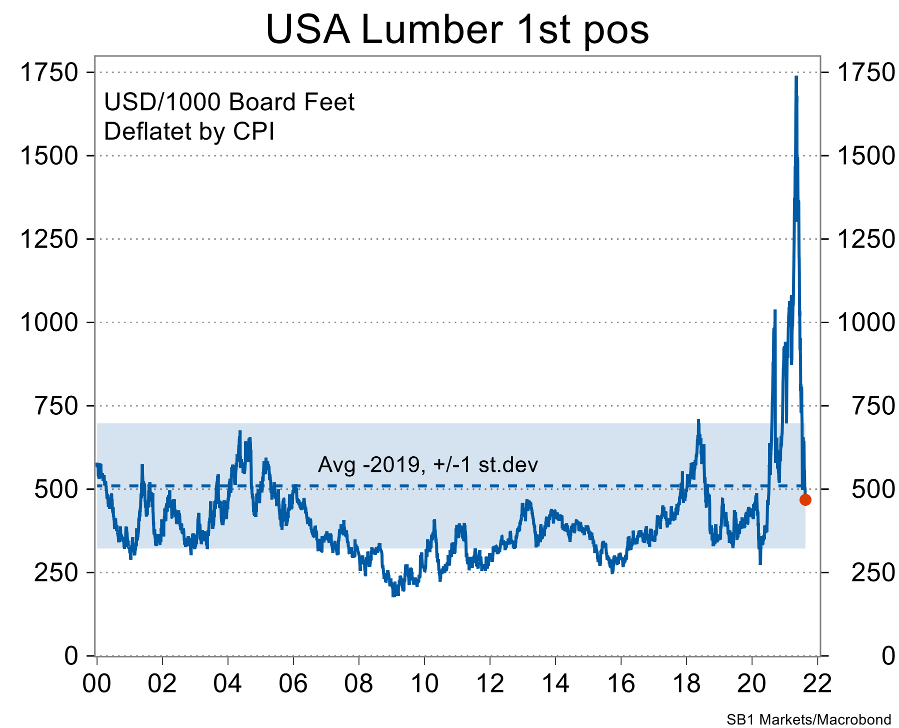


- **Total nominal sales** declined by 1.1% in July, expected down 0.3%. June sales were revised upward by 0.1 pp to 0.7%. Nominal sales are up 17% vs. the pre-pandemic level! More restrictions were eased and it is safe to assume that more spending has been shifted towards services
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) fell by 1% in July, expected down 0.1%, partially offset by a upward revision of June sales by 0.3 pp to +1.4%. We assume core sales fell by 1.3% in volume terms. <u>We believe there is still some downside in the coming quarters, barring a continued worsening of the Covid situation as core goods sale volumes are 16% above the pre pandemic level</u>
- Sales in restaurants & bars rose 1.7% m/m and is 9% <u>above</u> the Feb-20 level! Auto sales, internet sales and clothing sales contributed the most on the downside
- Retail sales – and other consumption – have received a real boost from the **two rounds of stimulus cheques**, the first distributed in January and the second in March and April. Just a fraction of the received amounts have so far been spent – and savings have increased substantially

Housing starts down, permits marginally up in July

Both starts and permits have flattened recently. Sales have also declined recently

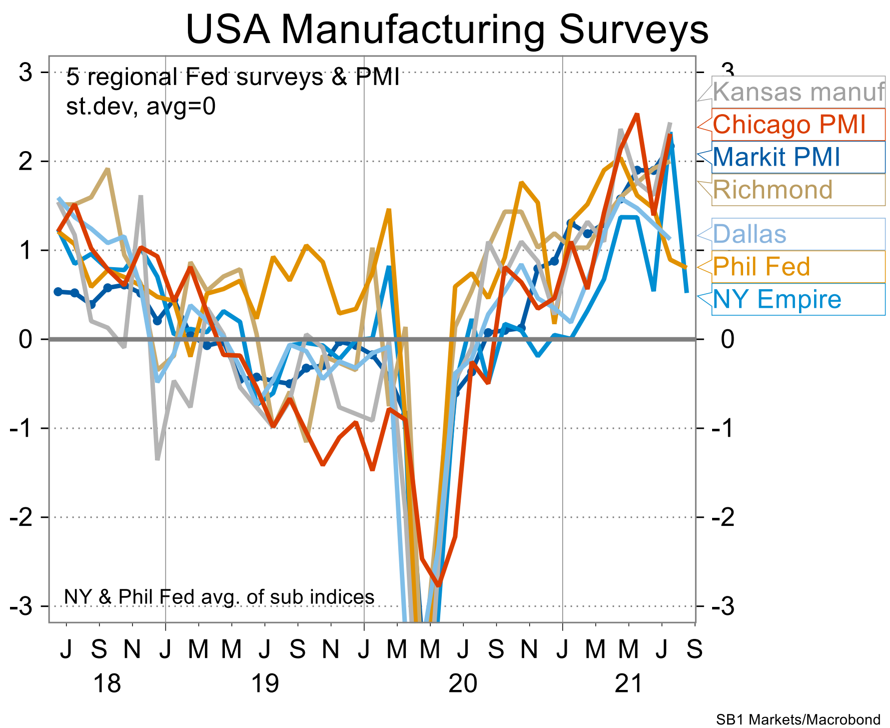


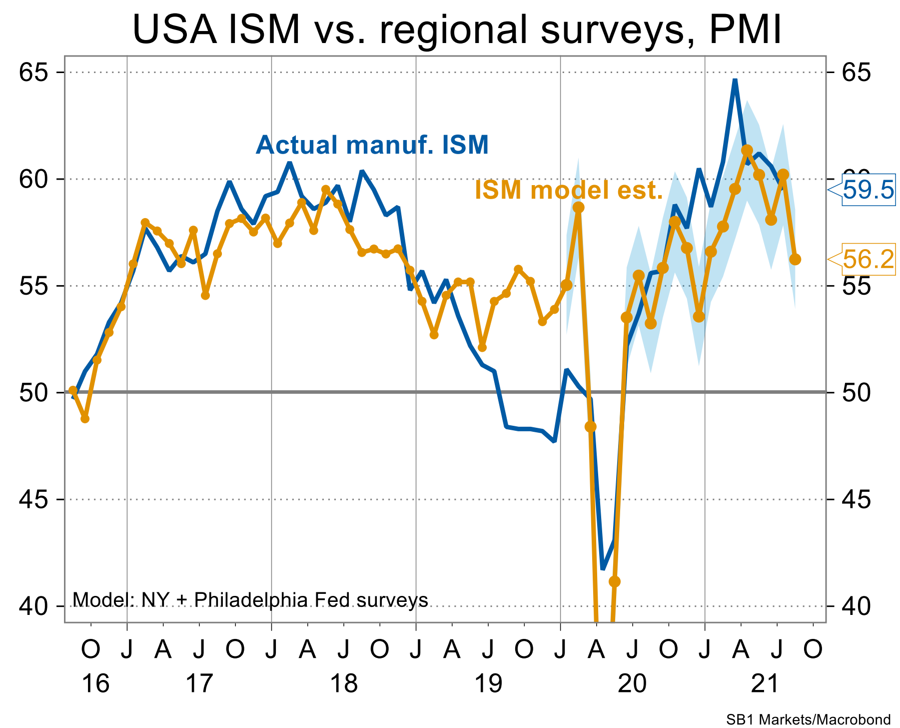


- **Housing starts** fell to 1.53 mill in July, down from 1.65 mill in June (revised up from 1.64 mill), expected down to 1.60 mill. The trend over the recent months is more or less flat
- **Building permits** rose to 1.64 mill, up from 1.60 in June. Permits have fallen 15% since January but the level is far from low, in fact close to the pre-pandemic trend upward path. We usually put most emphasis on permits since they are less volatile m/m and less influenced by weather etc.
- The incredible sharp **decline in lumber prices** (they are down to below an historical average!) signals that some of the supply problems are easing, which they usually do after (often a rather short) while

The NY Fed manuf. survey sharply down too – but also above average

The two regional surveys indicate a sharp decline in the national ISM index

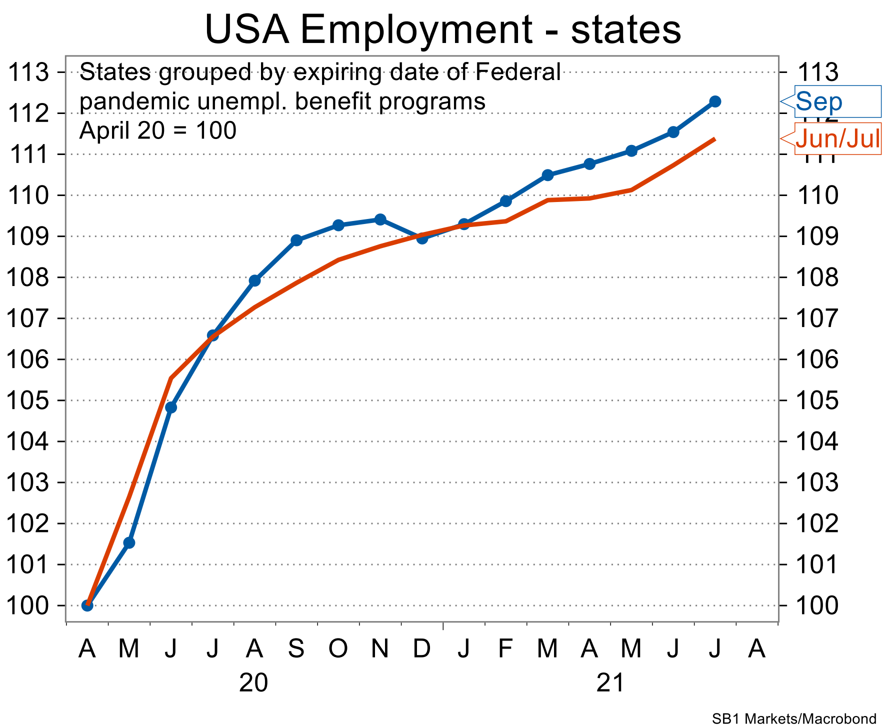


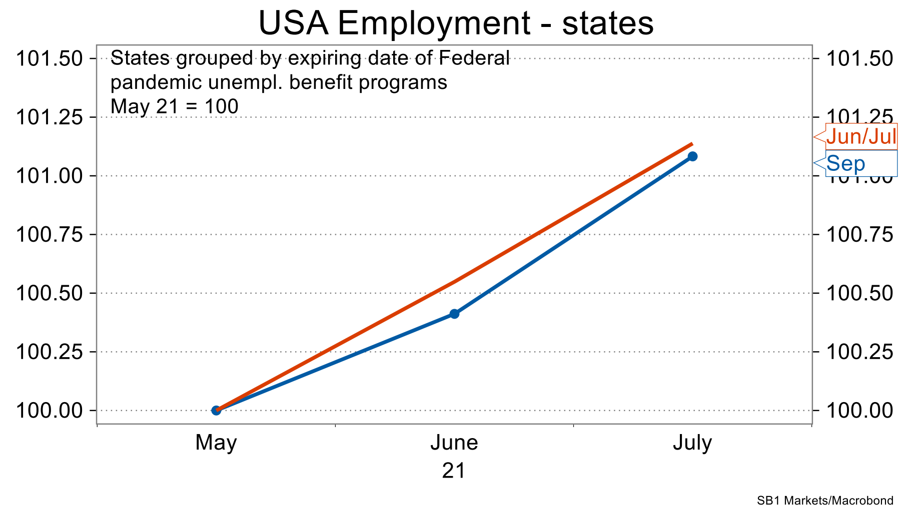


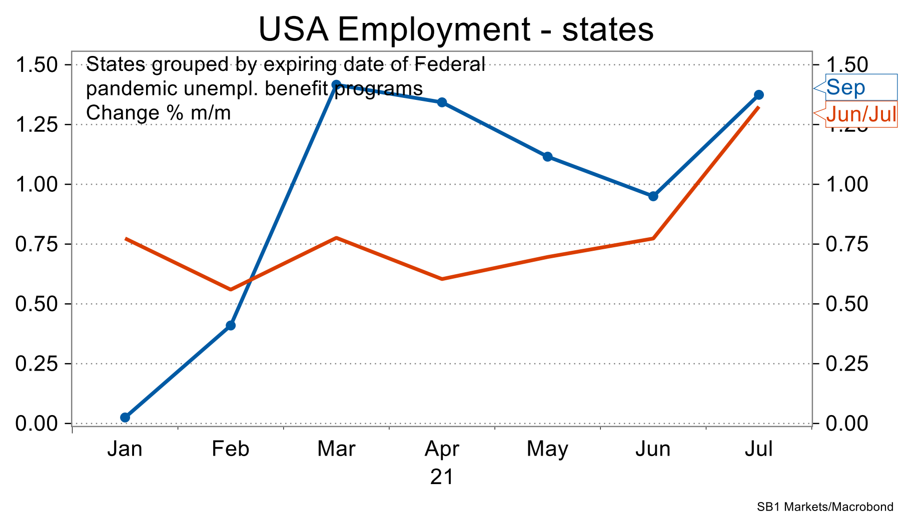
- NY Fed's manufacturing survey fell to 18.3 in Aug, from 43 expected 29. Philadelphia Fed's index fell just marginally, check the previous page
  - » The Phil Fed survey is 0.8 st.dev above avg, the NY Empire is up 0.5
- These – and all other – surveys, still signal growth well above trend in manufacturing production

Early leaver states did not report more employment growth than others in July

Growth accelerated somewhat, but so did employment in states that did not end federal programs

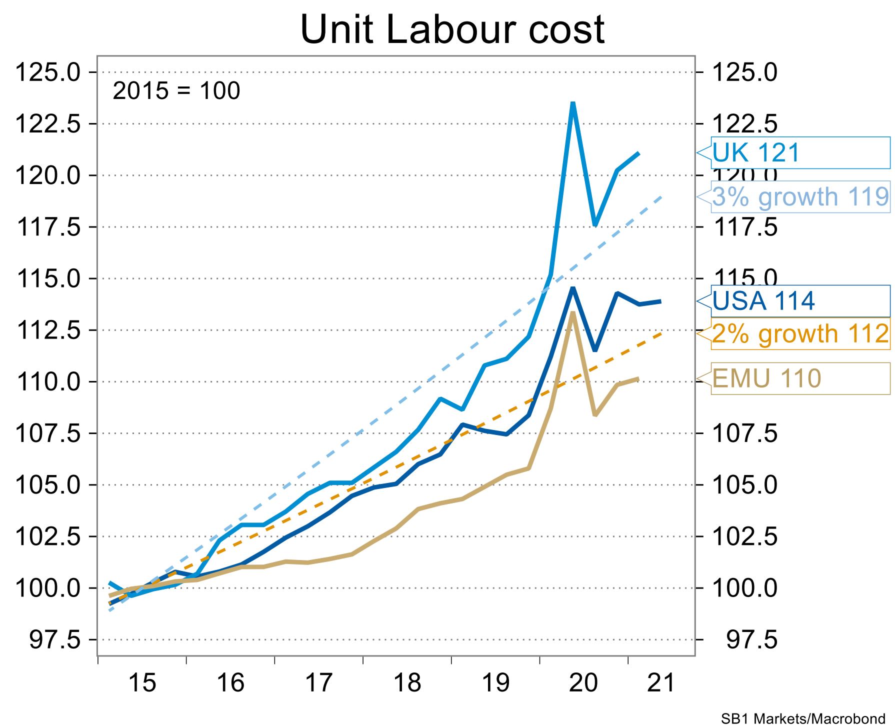


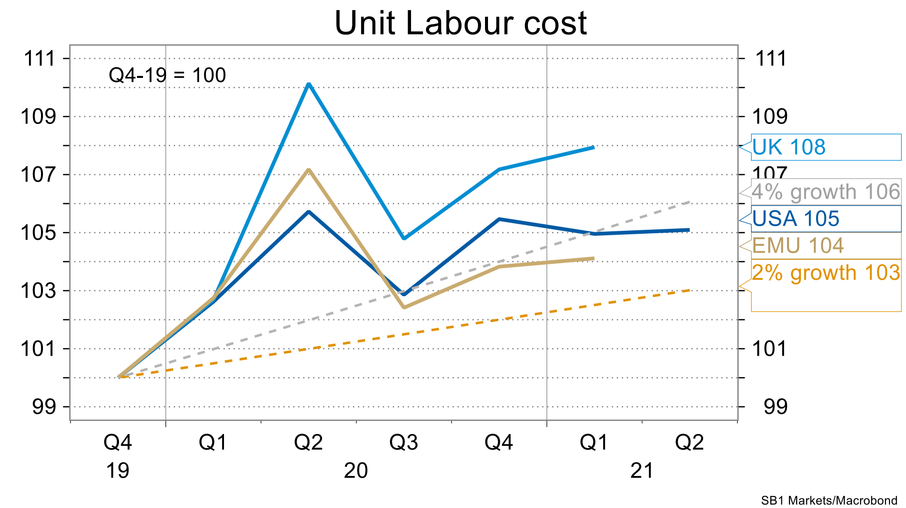


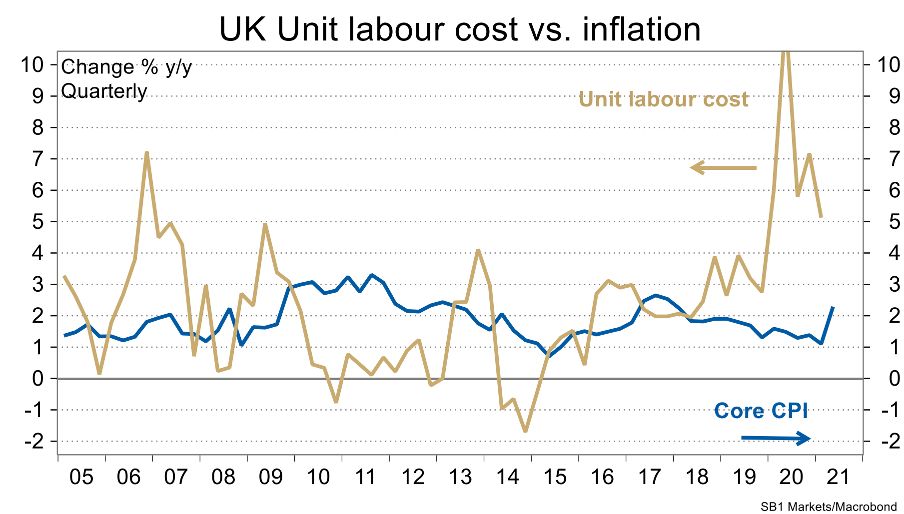


Somewhat high cost inflation in the UK? Unit labour costs up 3% – 4%

Which is not compatible with 2% inflation over time



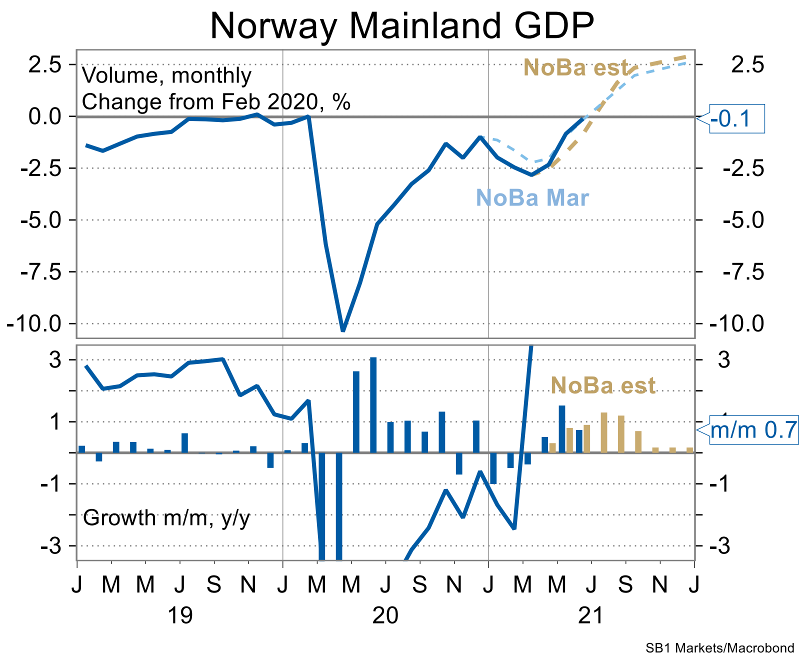




- However, the correlation between ULC & CPI is not that precise over just some few years

Mainland GDP up 0.7% in June – and is close to the same level as pre Covid

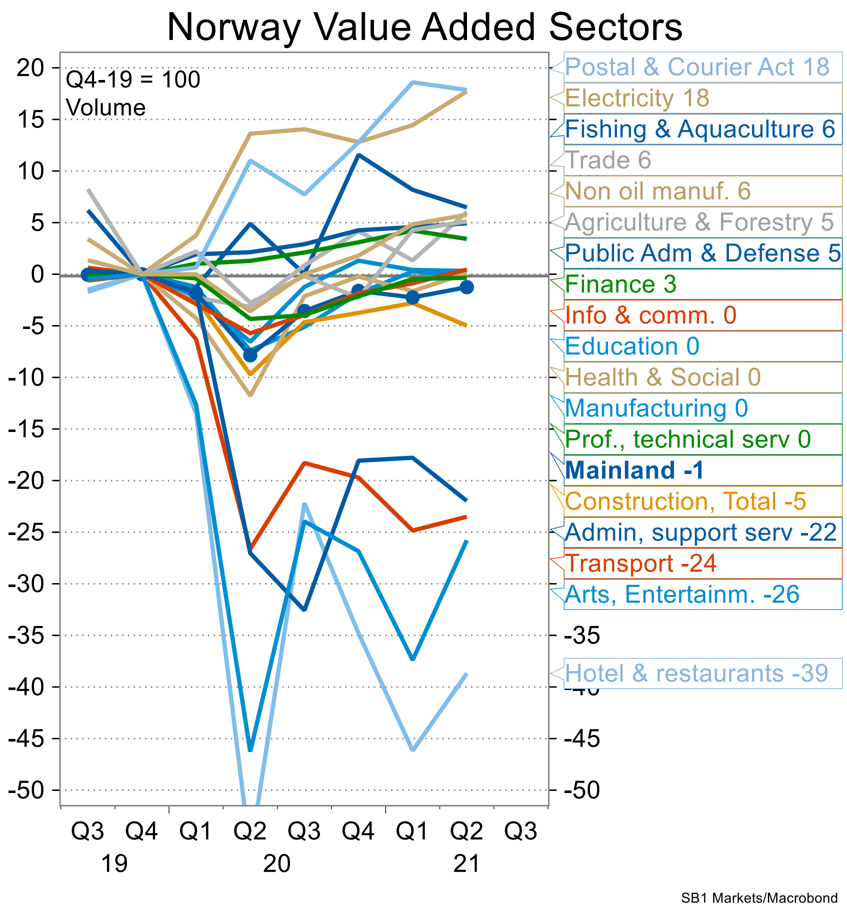
... and 0.5 pp ahead of NoBa's June forecast. Still much more to go in services

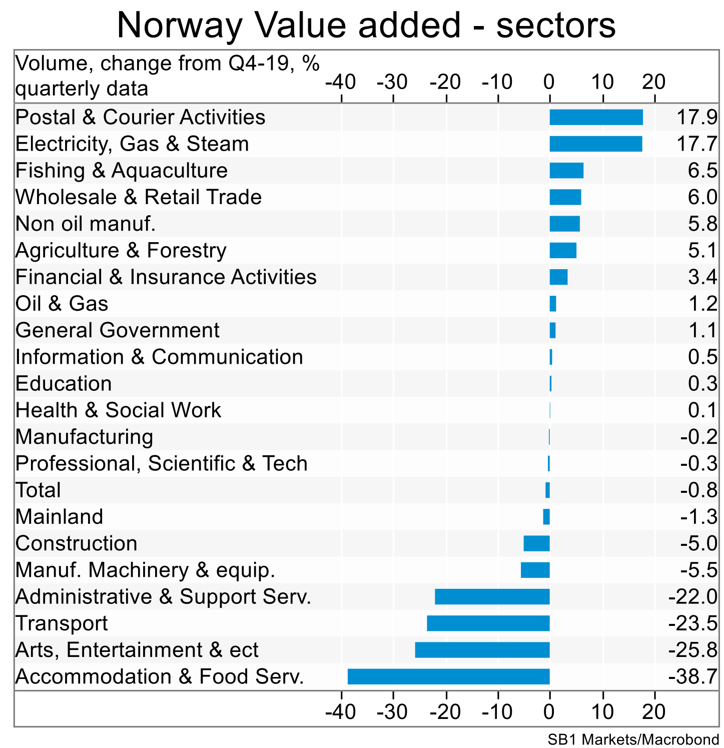


- **Mainland GDP grew by 0.7% m/m in June**, 0.6 pp below consensus, 0.8 pp below our f'cast, and 0.2 pp below NoBa's f'cast. The June level was 0.7% higher than NoBa expected
- **GDP grew 1.4% in Q2**, 0.3 pp less than expected consensus/SB1) but 0.6 pp faster than NoBa assumed in June
  - » **Production:** Private services were up by 1% in June, with substantial gains in hotels & restaurant, art/entertainment, transport. In Q2, services rose by 2%. Manufacturing production fell by 1.1%, close to flat in Q2
  - » **Demand:** Norwegians' spending at home was up 1.4% in June, goods consumption was flat from May but spending on services rose sharply. Investments in both housing, Mainland businesses, oil & in the public sector rose in Q2, and all but oil also in June alone
- **Mainland GDP is down 0.1% vs the Feb-20 level**
  - » **GDP** was 0.7% above NoBa's f'cast in June
  - » **Production:** The 4 hard hit services are still far down, 22% – 39% in Q2 (somewhat less in June). The total negative drag equals some 3% of Mainland GDP. Other sectors are up in sum, with trade, manufacturing & education in the lead. Construction is down 5%
  - » **Demand:** Norwegians' spending at home is up 4.5% from Feb-20, goods +17%, services down 7%. Spending abroad has fallen by 93%, and the money is saved. Housing investments are up. Mainland business investments have fallen by 3%, while oil investments are down 4%. Exports ex petroleum (and tourism) are 2% below the Feb-20 level. Foreigners are not spending anything in Norway, a cut equalling 1.5% of Mainland GDP

Production: Still a way to go for the hard hit service sectors

Transport, arts, entertainment, hotels & restaurants at the bottom – still down 22% – 39% vs. Q4-19



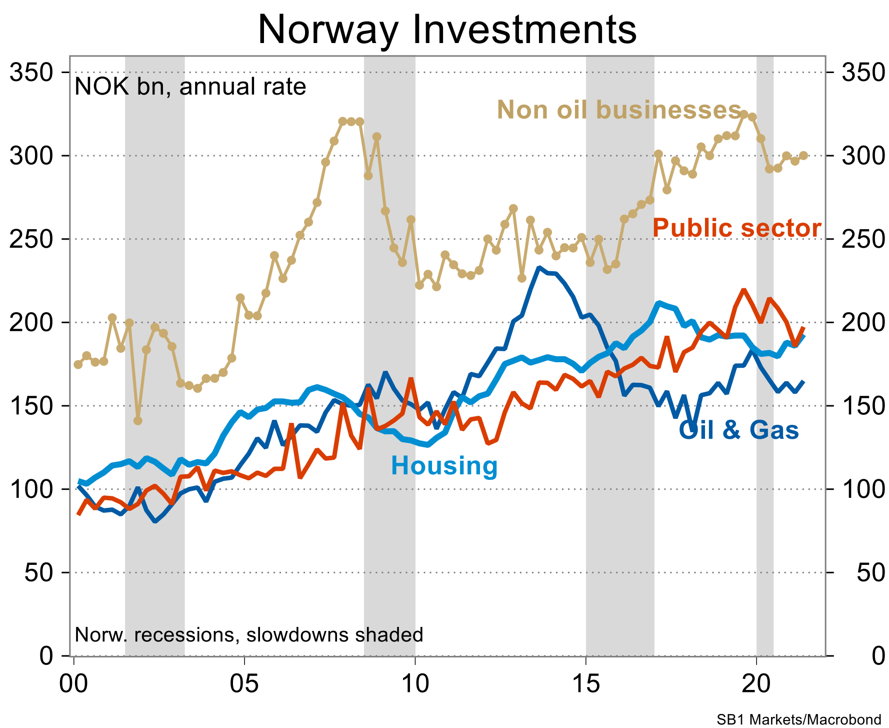


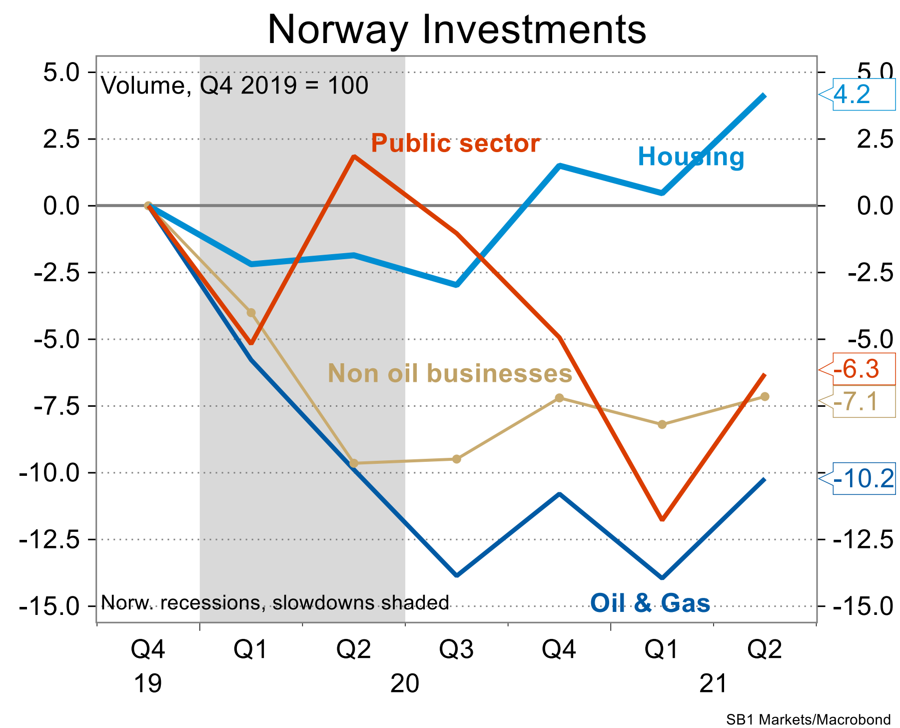
The Q2 data vs Q4-19 (some monthly aggregates at the previous page)

- **Hotels & restaurants** are down 39% vs Q4-19. Culture & Entertainment -26%
- **Administrative & support services** (like staffing & travel agencies, cleaning, canteens, leasing etc) are down 22% - and activity fell in Q2
- **Transport** -24%, both due to the steep decline in personal transport (airlines, train etc)
- **Construction** is far weaker than we have assumed, 5% down vs. Q4-19
- **Manufacturing** flat, due to the decline in production in oil related industries, others are up 6% vs Q4 19
- **Fisheries & Aquaculture** is close to the top of the list, as are electricity production
- And the winner is: **Postal & courier activities**, +18%. We have all seen them around

Investments recovered in Q2

Housing investments above the pre-pandemic level, other are still below

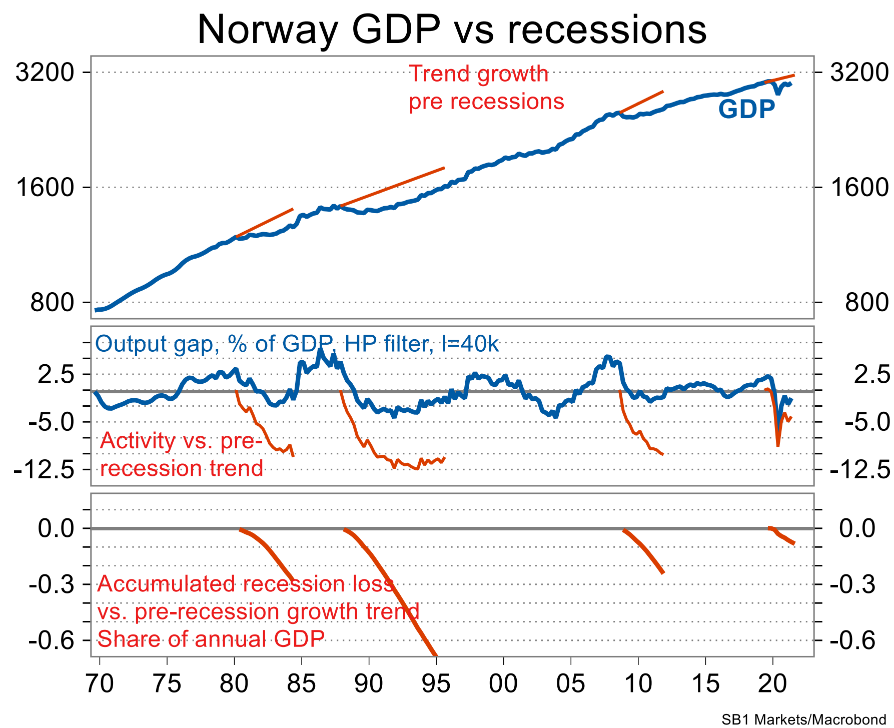


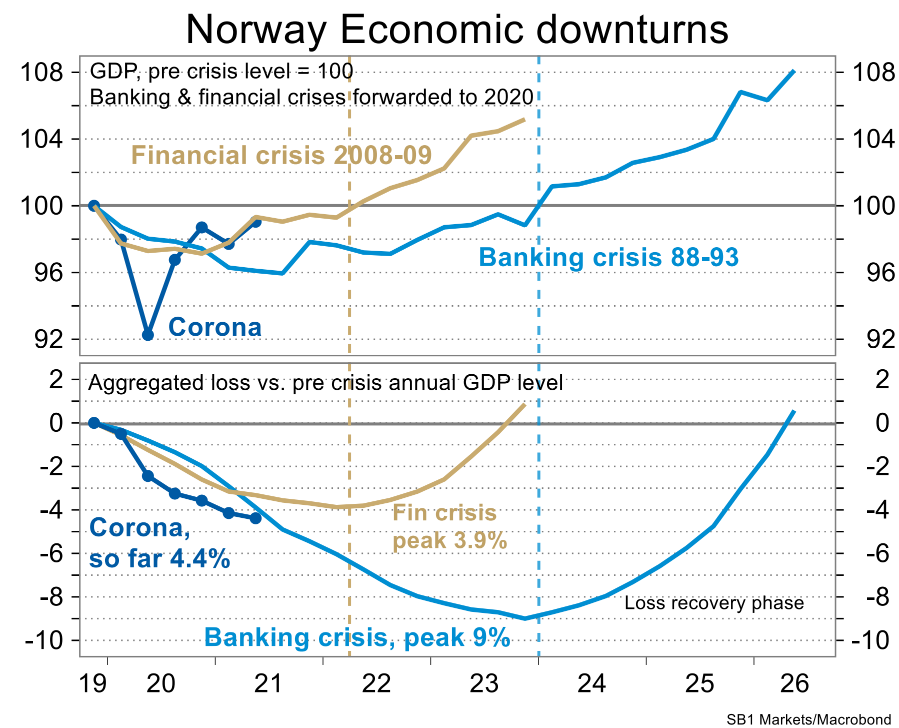


- Both **Mainland business, housing, and oil sector investments** were heading down before the corona virus hit, either measured by actual investments or vs. GDP, as signaled by investment plans/surveys (manufacturing & oil)
- Investments rose in Q2 for all the main sectors
- Oil investments are still down 10% vs Q4-19, Mainland businesses by 7% - while housing investments is up 4.2%!
- Public investments have fallen 6% (some fewer F-35 fighters?)

The Big Picture: Not a normal downturn, of course

The deepest and shortest downturn has not created large economic loses

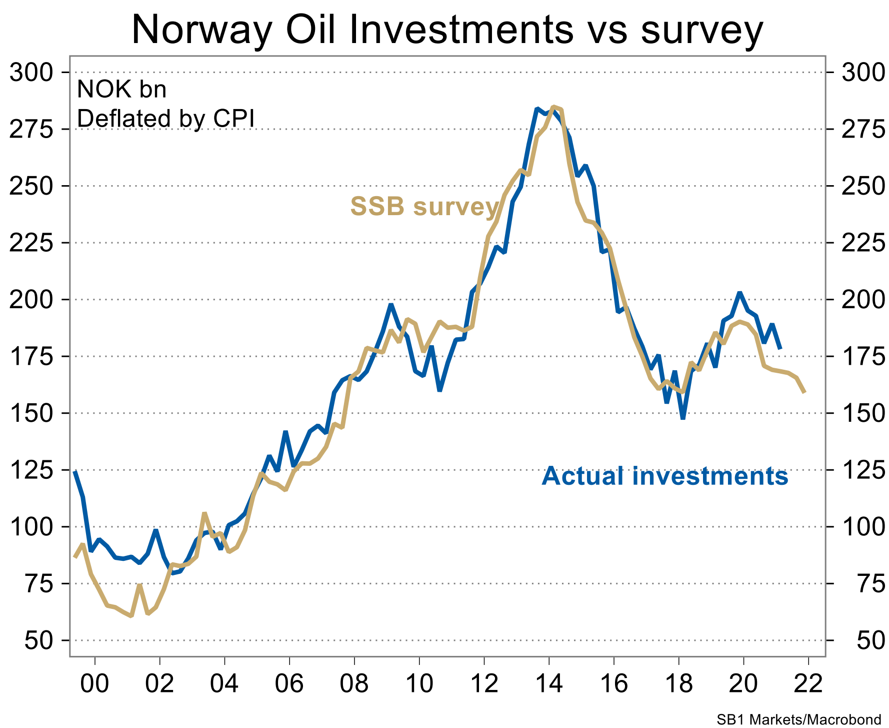


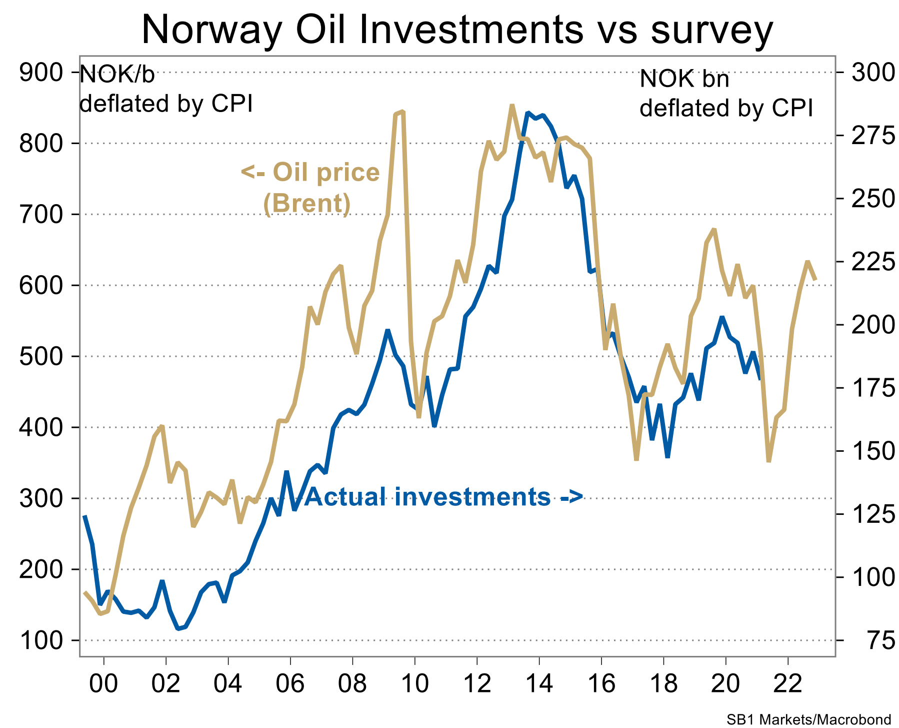


- A **pre-crisis growth trend** might be looked upon as a path that was expected among economic agents (household, companies, banks, market participants) before the crisis, based on their adaptive expectations. The loss vs this trend line is the economic/income loss vs. these expectations, a measure of the 'disappointment' (income, consumption, corporate earnings, etc)
- The accumulated loss vs the **pre-pandemic growth trend** is so far less than 10% of one year's GDP. The accumulated loss vs. the pre-pandemic GDP level is 4.4%
- **The Banking Crisis** (88-93) created far longer and in sum much larger losses, in sum more than 70% of GDP (depending on when you stop counting, we do it rather arbitrary when our post the fact output gap is closed, in 1995). The loss vs. the pre Banking Crisis GDP level peaked at 9%
- The losses during and after the **Financial Crisis** (2008-2010) were substantial vs. the pre-crisis trend growth path, accumulated up to 25% of GDP before the output gap was closed in late 2011. However, the accumulated loss vs the pre FC GDP level was just 3.9% - less then the current loss during the pandemic downturn. GDP is now exactly at the same level vs the starting point as after the FC (upper panel, chart to the right above)

’22 oil investments: Q3 survey weaker than expected but projects will be added

No new projects were added vs the Q2 survey

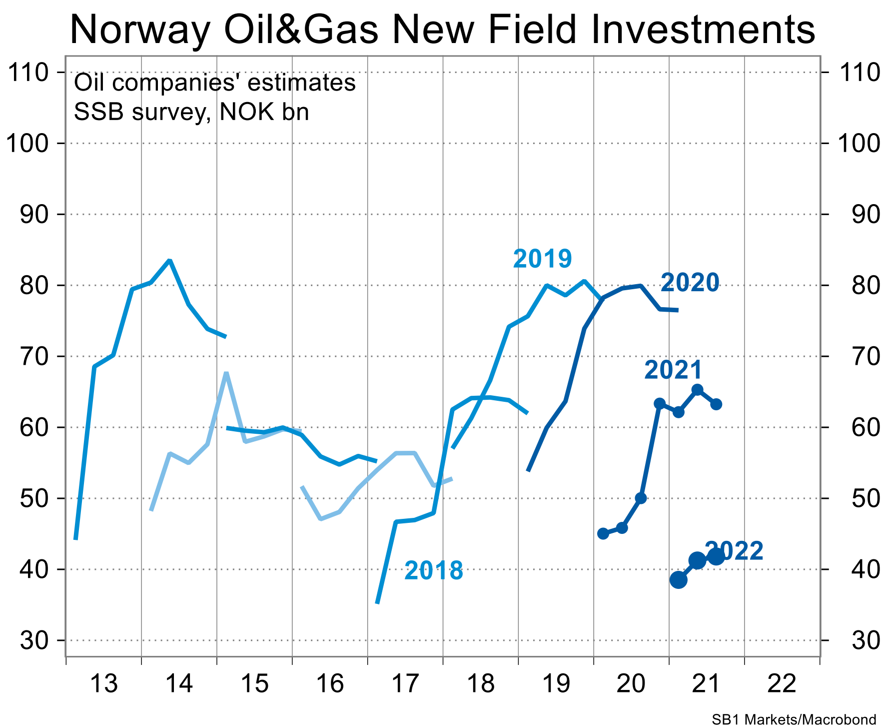


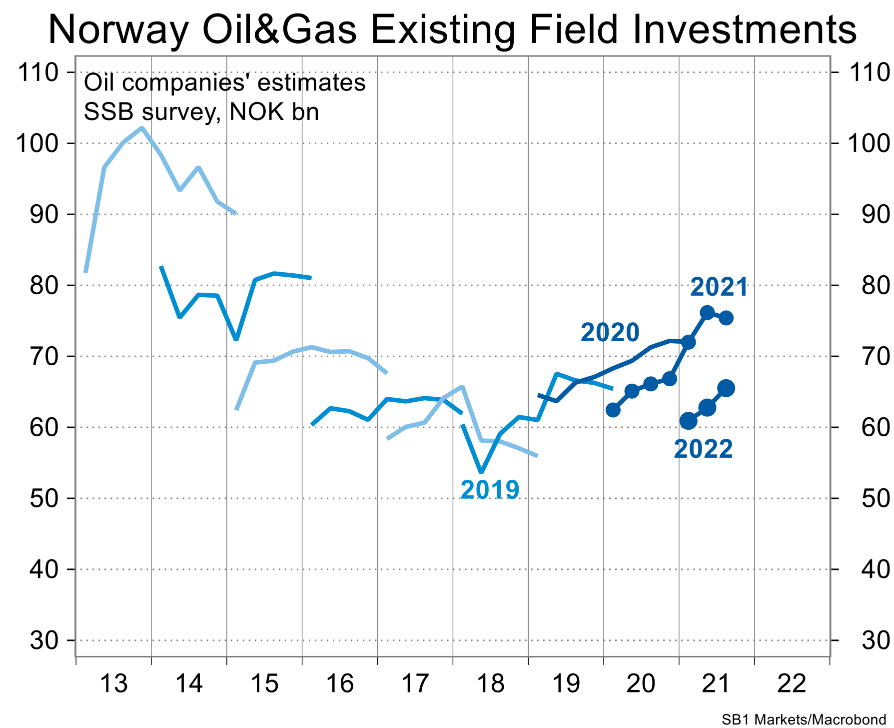


- Oil companies kept their **2021 investment forecast** unchanged at NOK 182 bn (as we expected), 2% below the equivalent 2020 estimate. <u>We expect a 4% decline, in volume terms</u>
- **The 2022 estimate** was revised down by 1% to 142 bn, well below our expectations (150 bn). The estimate is 4% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) during this and next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. <u>Still, we expect another 4% drop in investments next year. In June, Norges Bank assumed a 6% volume decline next year</u>

A 15-20% drop in new field investments in 2021, and by 30% more in 2022

Some projects will be added but not sufficient to prevent a substantial decline in 2022

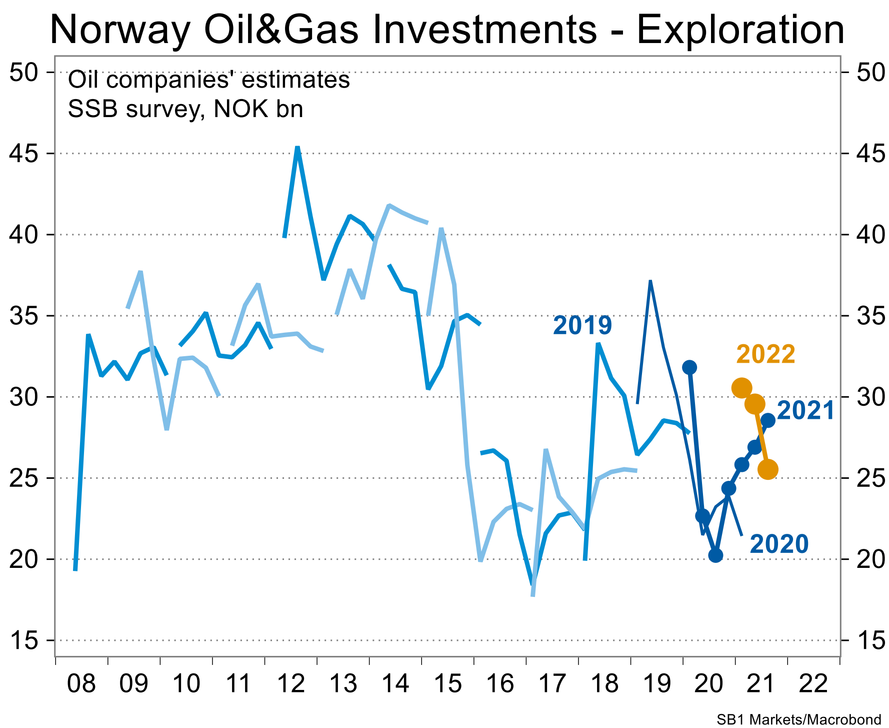


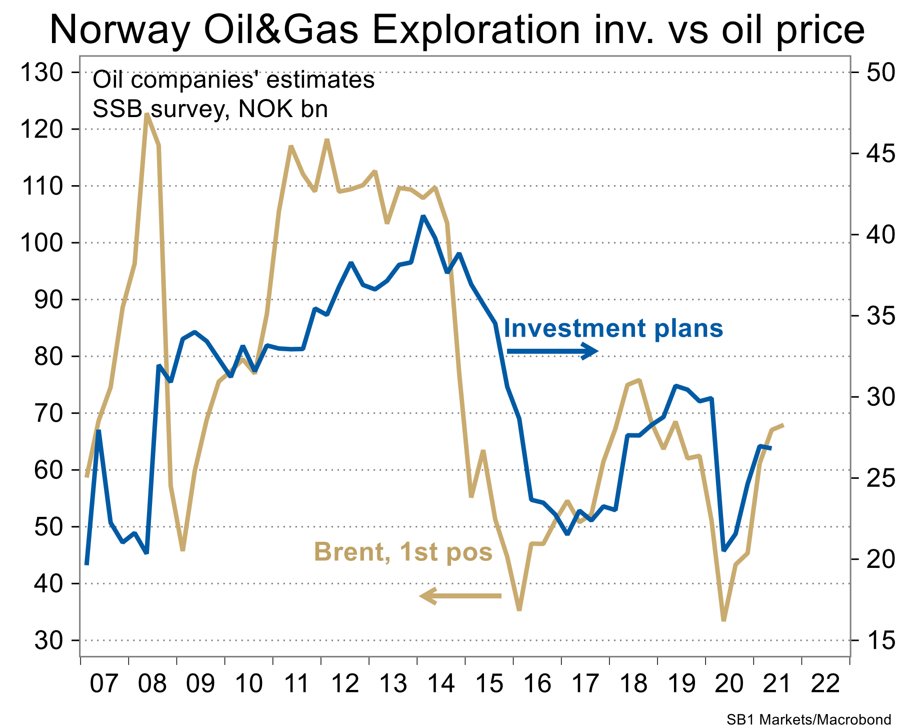


- **Investments in new fields:** The 2021 estimate was revised down by 3%%. Companies signal a 18% drop in 2021 vs 2020, as big projects were completed last year (like Johan Sverdrup)
- The initial 2022 forecast (from Q1-21) was one of the weakest on record, down 9% vs. the first (low) 2021 estimate (published one year earlier). The Q3 forecast is just marginally up as few new projects have been added. The coming quarters, a large number of projects will be added. In order to benefit from the temporary tax subsidies, companies will have to submit applications for new projects to the authorities 'PDOs' (PUD) before the end of 2022. Still, the 2022 outlook is not that favourable as spending on these new projects will be limited in the 'first' year - but more will follow the coming years
- **Investments in field on stream:** the 2021 forecast was revised down, and the 2022 was revised up, and companies signal close to an unchanged spending level in existing fields in 2022

Exploration & concept studies plans sharply down in 2022

2022 estimate revised down by 14% from last quarter – to below the 2021 spending plan

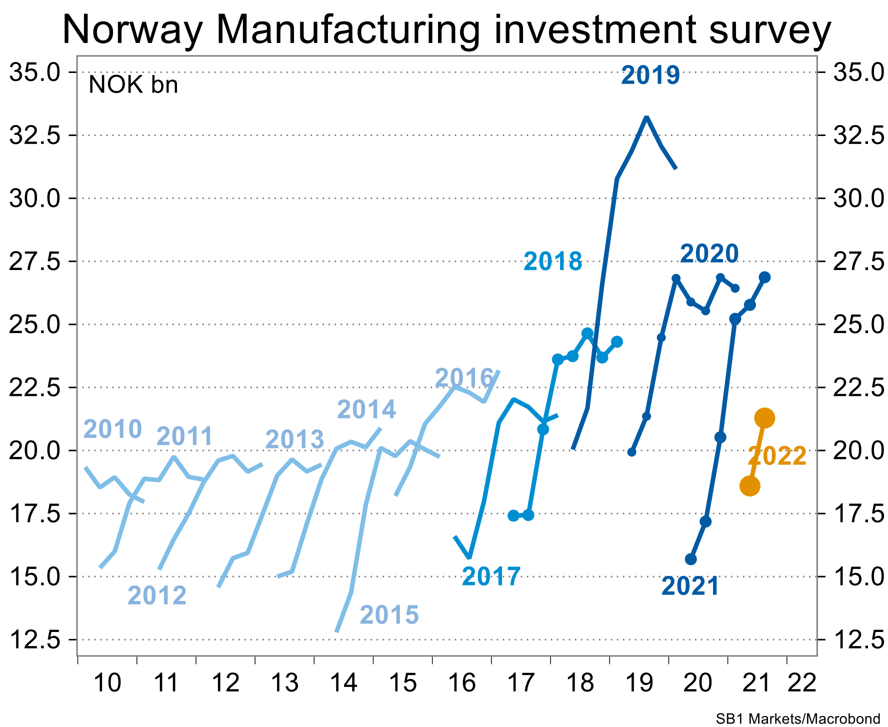


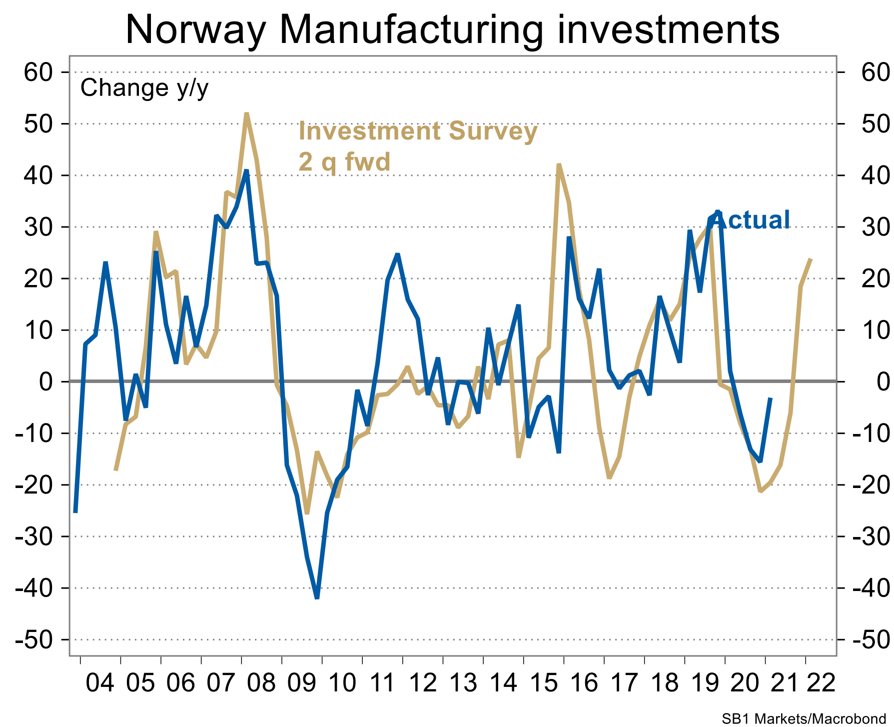


- Oil companies lifted their 2021 investment forecast further August, and the level is up almost 40% from the depressed level in 2020
- However, no further growth in signalled in 2022 – rather a minor decline

Manufacturing investments on the way up

5% growth in 2021, probably even more in 2022



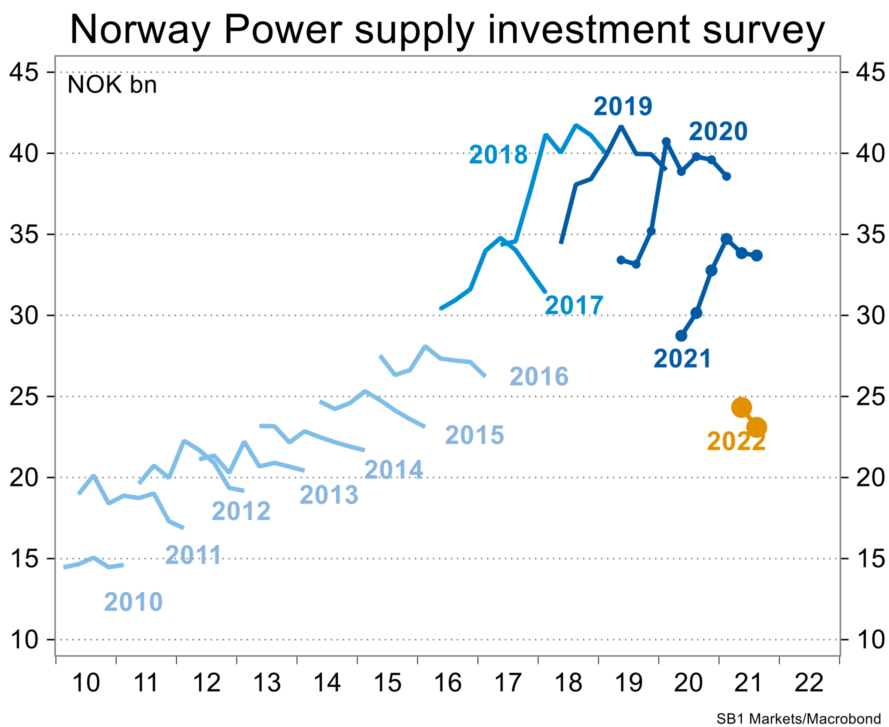


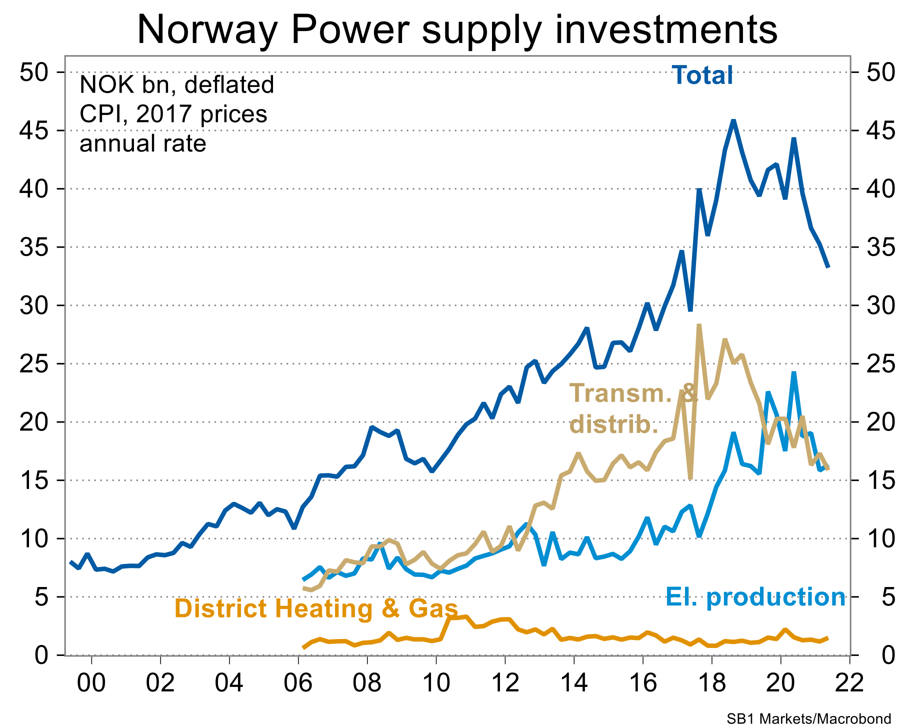
- **Manufacturing companies** adjusted their 2021 investments up by 4% in the Q3 survey, following a 2% revision in Q2 and an unprecedented 46% lift over the 2 previous quarters (in total). The Q3 estimate is 4% above the equivalent 2020 f'cast. We expect a small gain in volume terms in 2021
- **The 2nd 2022 estimate** is 24% above the first 2021 forecast, following a far higher than normal upward revision (14% vs average 5%). However, the upward revision of the 2021 estimate has been highly unusual, almost twice as much than normal (71% vs. 38%, the 2nd highest is up 66% past 10 years). We expect a more normal upward revision of the 2022 investment estimate, but still somewhat more than average as the business cycle is rather strong, and more projects will very likely be included. In sum, we deem the current estimate to signal a decent lift in manufacturing investments in 2022, at least 5% - and probably up 10%
- The metal industry contributed the most in 2021, while projects within the chemical industry take the lead in 2022

SpareBank 1 MARKETS

Power supply: Investments are heading rapidly down

The 2021 f'cast is 15% below the equivalent 2020 f'cast – and the 2022 f'cast further 23% down

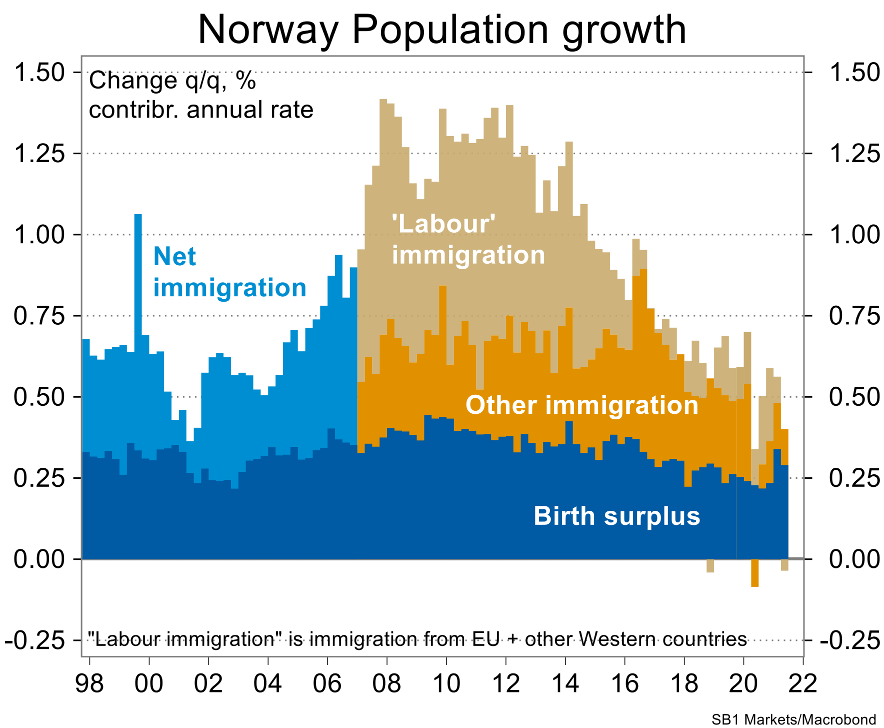


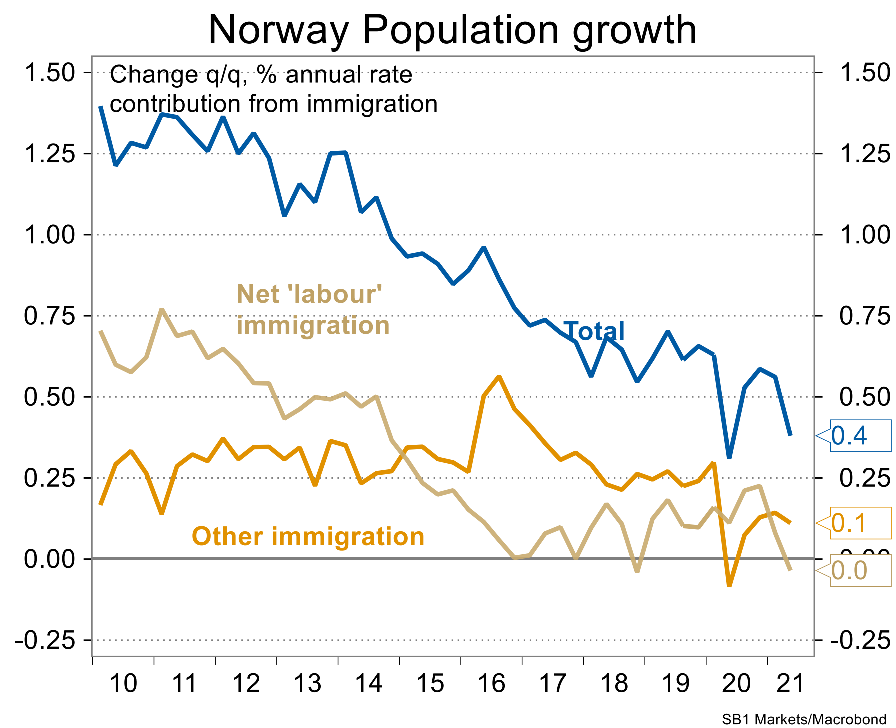


- Power supply (production & distribution) companies kept their Q2 (May) 2021 investment forecast unch. the forecast given in Q2. The estimate is down 15% vs the equivalent 2020 forecast (and outcome) – the 3rd annual decline in row
  - » Some big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- Companies cut their 2022 investment f'cast by 1 bn (5%) vs their Q2 prognosis. The gap vs. the 2021 f'cast given one year ago is 23%, the largest decline in 21 years. The final outcome in far from certain. Recent years, investment plans have been revised up far more than earlier as projects with shorter planning horizons than the large hydroelectric projects (like wind & transmission) have increased their share of total investments in the power supply sector. Still, it is reasonable to expect a substantial decline in investments in 2022, at least 15 – 20%
- Power supply investments have more than quadrupled in 25 years, by more than 10% p.a on average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades. Both production & transmission have contributed

Lower population growth in Q2 due to lower labour immigration

More births and far fewer deaths following the pandemic. Probably, it will not last

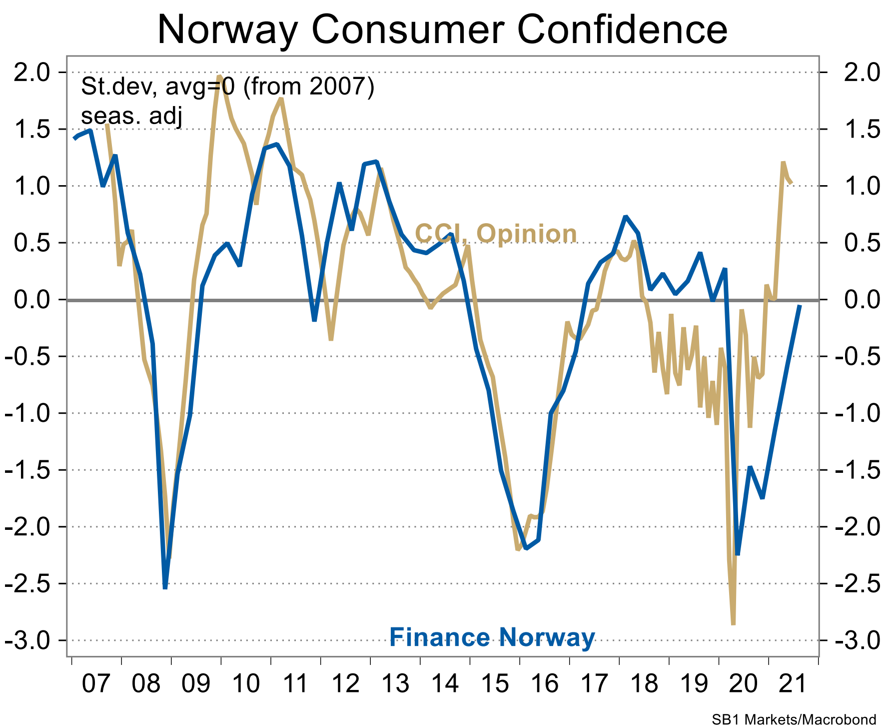


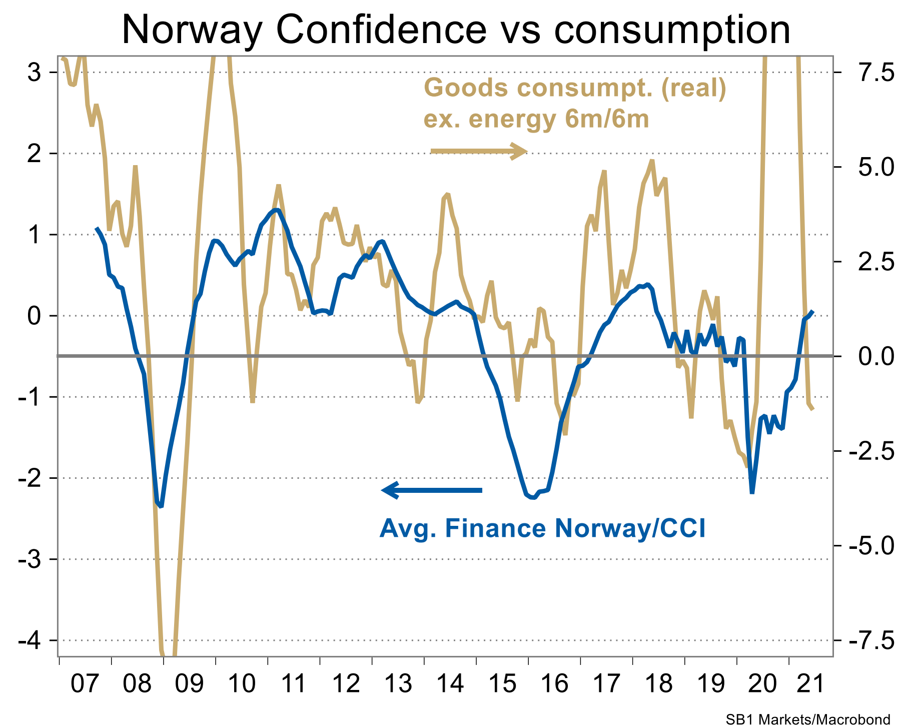


- Total population grew by 3,400 in Q2, equalling some 0.4% annual rate
  - » Labour immigration was negative in Q2
  - » Both labour immigration and other immigration have been low during the pandemic, and it is safe to assume that immigration outside of work purposes will increase ('normalise') as the virus recedes. Labour (EU/Western) immigration depends on demand for labour in Norway, and in the EU. Labour immigration has been running at low level since 2016

Finans Norges' Q3 consumer confidence up, in line with our expectations

The survey rose to an average, from from -0.7 st.dev below

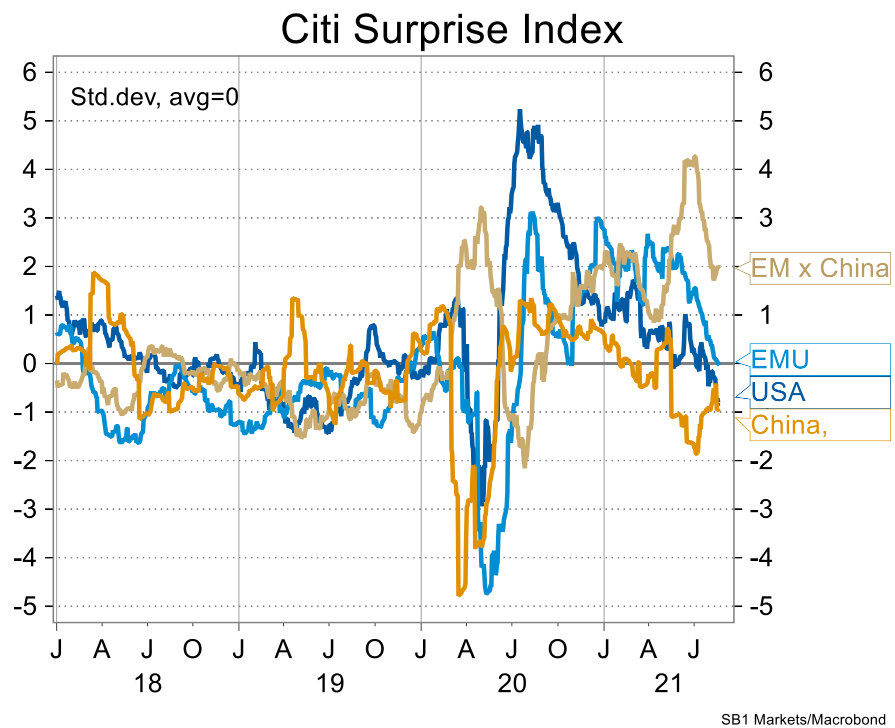


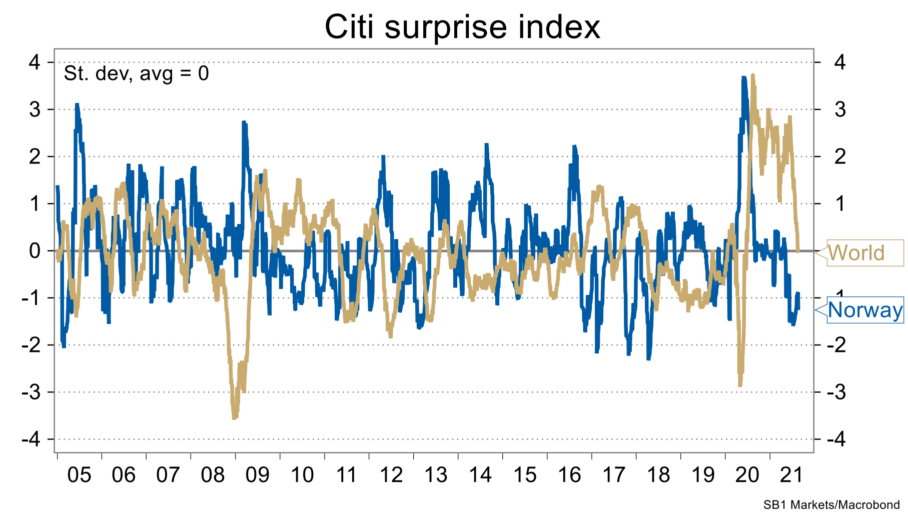


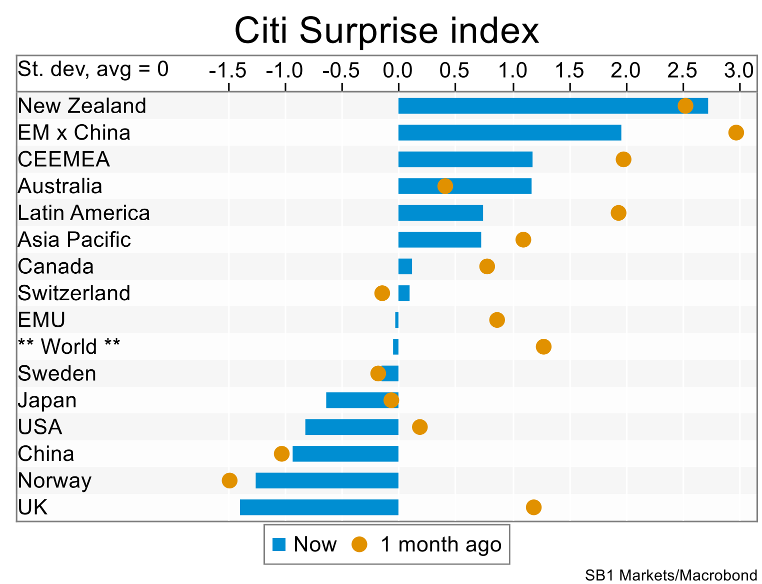
- Finance Norway's quarterly consumer confidence index climbed to 11.3 in Q3 from 4 in Q2 (we expected 12) close to the average index at 12 since 2007, from -0.6 st.dev in Q2
  - » In June, the monthly CCI from Opinion was 1.2 st.dev above average, and close to the best level since 2011, following a surge the recent months. The gap between the two surveys is still puzzling
- Big item purchases are still out of favour (barring buying a house, of course) but less so than last quarter, as is understandably travel. Saving plans are upbeat

No more surprises on the upside, on average

… according to Citi's surprise index. The US, China, UK, and Norway well below







- **China** July date were weaker than expected
- **Emerging Markets x China** are still reporting <u>better</u> data than expected, but less than some weeks ago
- The **EMU** has fallen to the neutral line
- The **US** surprise has fallen further below average, and fell further last week
- **Norway** has surprised sharply on the downside recent weeks, has have UK

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

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The Calendar: PMIs, US PCE, durable goods, home sales, Jackson H. NOR retail sales

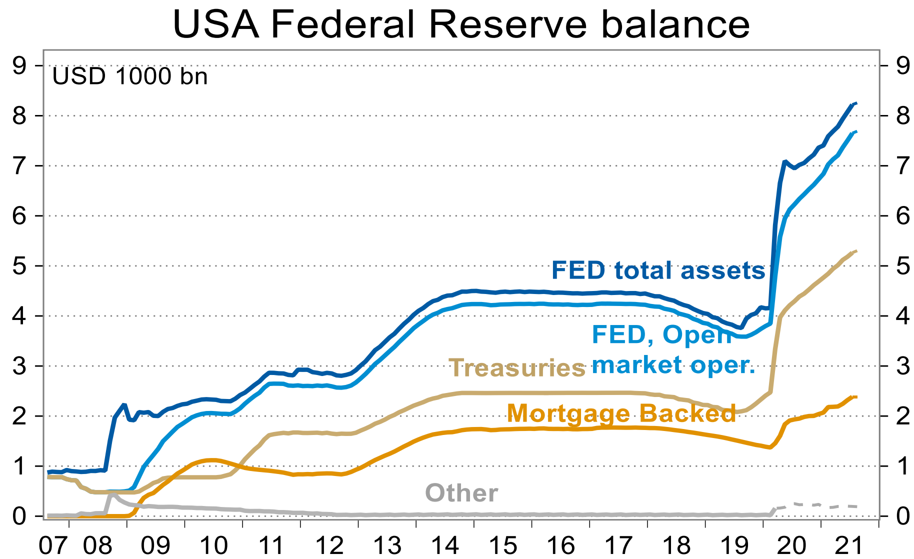
Time	Count.	Indicator	Period	Forecast	Prior
Monday Aug 23					
09:15	FR	Composite PMI	Aug P	56.1	56.6
09:30	GE	Composite PMI	Aug P	62	62.4
10:00	**EC**	**Manufacturing PMI**	**Aug P**	**62**	**62.8**
10:00	**EC**	**Services PMI**	**Aug P**	**59.5**	**59.8**
10:00	EC	Composite PMI	Aug P	59.6	60.2
10:30	UK	Composite PMI	Aug P	58.7	59.2
14:30	US	Chicago Fed Nat Activity Index	Jul		0.09
15:45	**US**	**Markit Manufacturing PMI**	**Aug P**	**62.5**	**63.4**
15:45	**US**	**Markit Services PMI**	**Aug P**	**59**	**59.9**
15:45	US	Markit Composite PMI	Aug P	--	59.9
16:00	US	Existing Home Sales	Jul	5.84m	5.86m
16:00	EC	Consumer Confidence	Aug A	-4.9	-4.4
Tuesday Aug 24					
06:00	SW	Home-Price Index	Jul		
16:00	US	New Home Sales	Jul	700k	676k
Wednesday Aug 25					
10:00	GE	IFO Expectations	Aug	100	101.2
14:30	US	Durable Goods Orders	Jul P	-0.2%	0.9%
14:30	US	Cap Goods Orders Nondef Ex Air	Jul P	0.5%	0.7%
Thursday Aug 26					
08:00	NO	Employment	Jul		0.6%
09:30	SW	PPI MoM	Jul		1.5%
09:30	SW	Unemployment, LFS	Jul	9.2%	9.5%
14:30	US	Initial Jobless Claims	Aug-21	350k	348k
14:30	US	GDP Annualized QoQ, 2nd rev	2Q S	6.7%	6.5%
Friday Aug 27					
08:00	**NO**	**Retail Sales**	**Jul**	**-0.4(-0.5)**	**-0.1%**
09:00	SW	Economic Tendency Survey	Aug		122.4
09:00	SW	Consumer Confidence	Aug		106.5
09:30	SW	GDP QoQ, rev.	2Q	0.9%	0.8%
09:30	SW	Retail Sales MoM	Jul	0.5%	-0.3%
14:30	US	Trade Balance	Jul	-$90.5b	-$91.2b
14:30	US	Personal Income	Jul	0.1%	0.1%
14:30	**US**	**Personal Spending**	**Jul**	**0.4%**	**1.0%**
14:30	**US**	**PCE Core Deflator MoM**	**Jul**	**0.3%**	**0.4%**
14:30	US	PCE Core Deflator YoY	Jul	3.6%	3.5%
16:00	US	U. of Mich. Sentiment	Aug F	71.0	70.2
Monday Aug 30					
01:50	JN	Retail Sales MoM	Jul		3.1%

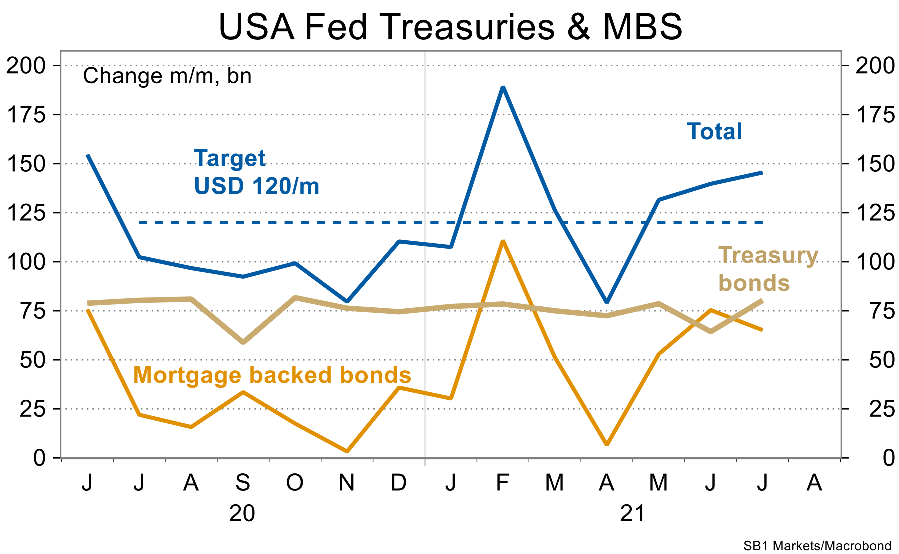
Sources: Bloomberg. SB1M est. in brackets. Key data points are highlighted, **the most important in bold**

- **Preliminary PMIs**
  - » The Eurozone PMI rose in July and remained at a very high level. The August print may be influenced by the 4th virus wave but probably not my much. We believe that the U.S. PMIs could be hit by the spread of the Delta variant to a larger degree than the EMU PMIs. Both the EMU and the US manufacturing PMIs could still be affected by supply chain issues, as well as price pressures
- **USA**
  - » **Central bankers**++ from all over the world will gather in **Jackson Hole** to discuss monetary policy. Gov Powell is scheduled to speak on Friday, and could send new signals on tapering – but we think he would rather wait until the Sep. FOMC meeting
  - » The Fed's inflation gauge, the **PCE**, is out on Thursday (Q2 revised) & Friday (July). The annual rate should stabilise even if prices are still rising faster than normal. July household & spending data will confirm a normalisation of income, spending & savings. Consumption of goods is declining, while services are on the way up
  - » **Existing and new home** sales have slowed, mostly due to supply constraints but homebuilders are reporting less traffic, perhaps due to the sharp lift in prices. The realtors will report a huge decline in the annual price appreciation (as prices rose 6% m/m last July)
  - » **Durable goods orders** were up 0.8% in June, but below expectations. New orders have been strong, as confirmed by the latest Philly Fed survey, but the level is elevated and supply issues could likely dampen the growth in orders
  - » **Jobless claims** have come down little by little, but are now below a long-term average. However, the end of the added benefits is near and the labour market seems extremely tight – we believe there is more to go
- **EMU**
  - » **Consumer confidence** was down in July – the first fall since Jan, and the Delta variant is likely the culprit. The further spread of the virus is likely to put a clamp on sentiment
- **Norway**
  - » **Retail sales** fell marginally in June, but levels are sky high. The economy has gradually reopened and people have been able to spend on services and some few are travelling abroad again. We, therefore, expect a further decline in retail sales

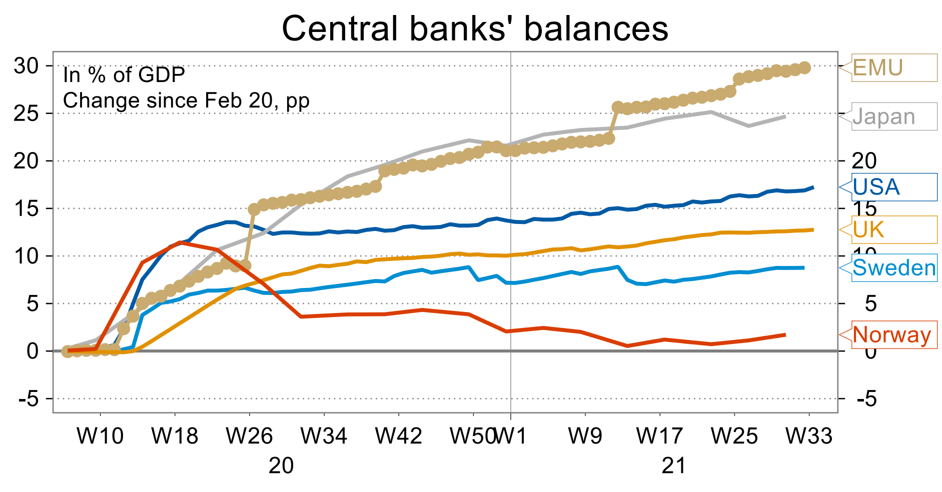
FOMC minutes: Tapering on the 2021 horizon

Most Fed members see it appropriate to start tapering at the end of the year



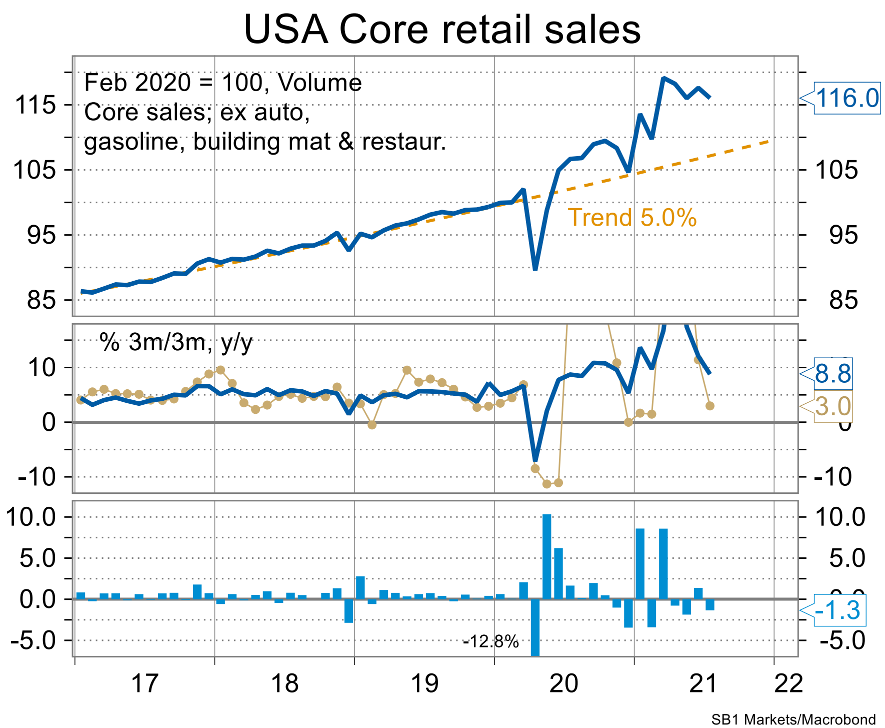


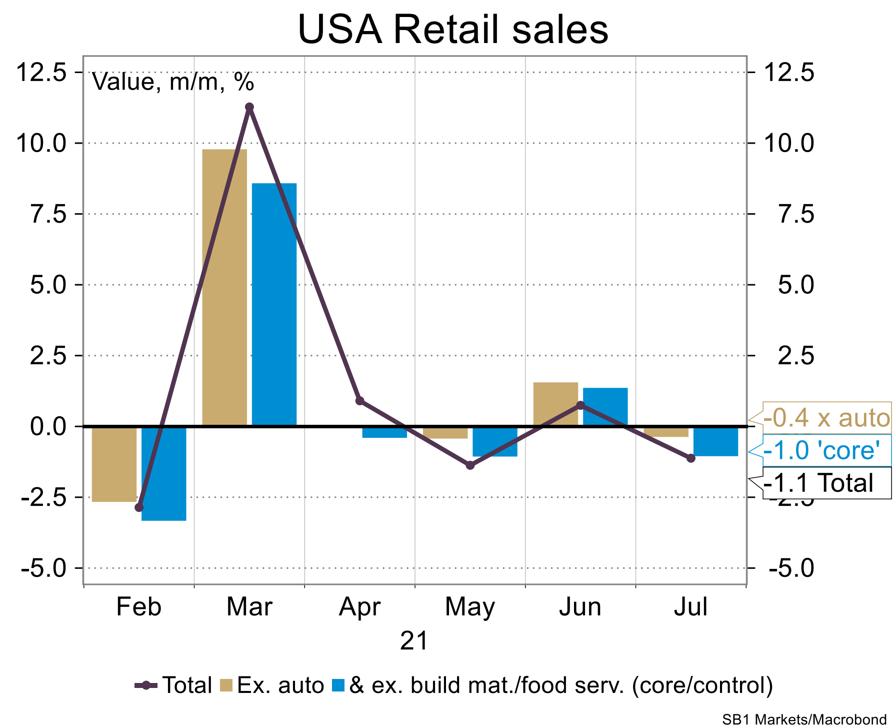
- Although, the signal from Powell's press conference was that the Fed's targets had not been met, the minutes reveal that the committee sees "substantial further progress" towards the inflation goal and that there has been progress towards the maximum-employment goal (though this goal has not yet been met)
- "…most participants noted that, provided that the economy were to evolve broadly as they anticipated, **they judged that it could be appropriate to start reducing the pace of asset purchases this year**…"
- According to the minutes, members believe that the timing and pace of the tapering of MBS' and Treasuries should coincide, and that the communication of tapering should stress that there is no "mechanical link" between tapering and rate hikes
- **Look out for a Sept tapering announcement**. We do not think Powell will change his dovish rhetoric by much at the central banker/academic conference in Jackson Hole this week. However, since the news is out via the minutes, he may confirm that a tapering decision is not far away. The formal decision should wait until the FOMC meeting



Retail sales down in July as more restrictions have been eased

Sales volumes still 16% above the Feb-20 level!

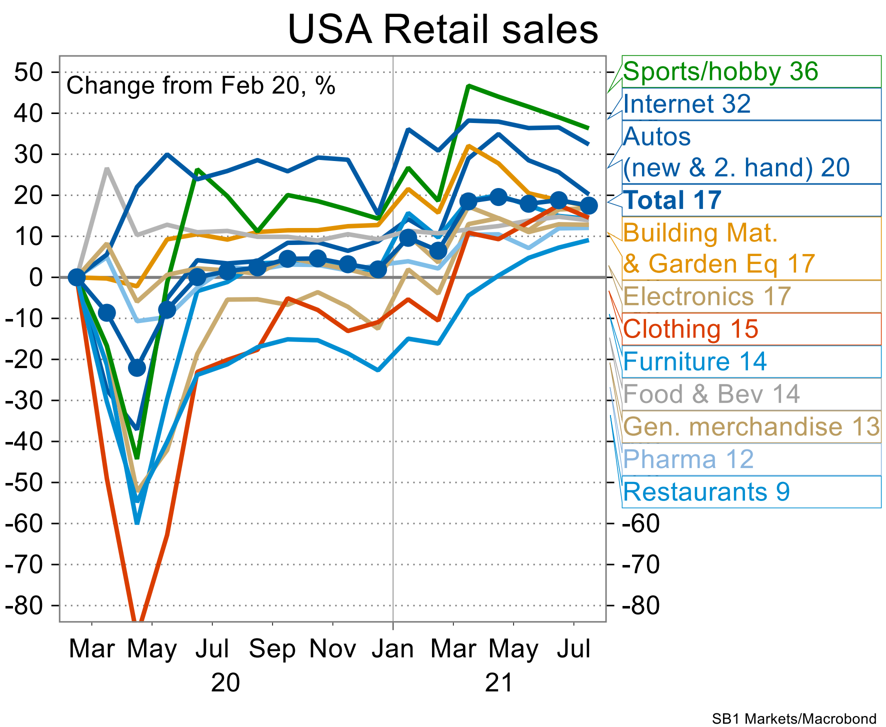


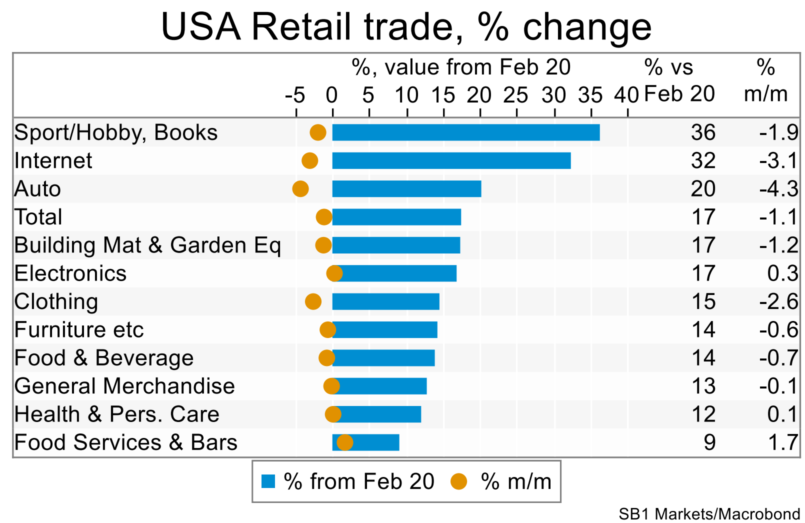


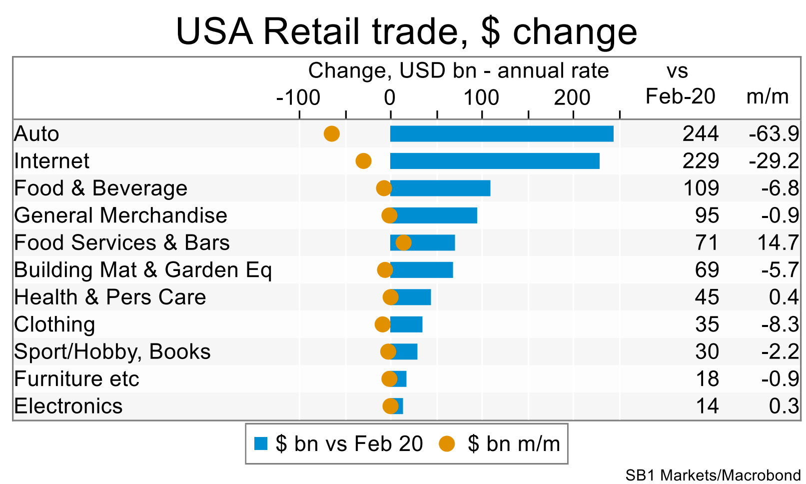
- **Total nominal sales** declined by 1.1% in July, expected down 0.3%. June sales were revised upward by 0.1 pp to 0.7%. Nominal sales are up 17% vs. the pre-pandemic level! More restrictions were eased and it is safe to assume that more spending has been shifted towards services
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) fell by 1% in July, expected down 0.1%, partially offset by a upward revision of June sales by 0.3 pp to +1.4%. We assume core sales fell by 1.3% in volume terms. <u>We believe there is still some downside in the coming quarters, barring a continued worsening of the Covid situation as core goods sale volumes are 16% above the pre pandemic level</u>
- Sales in restaurants & bars rose 1.7% m/m and is 9% <u>above</u> the Feb-20 level! Auto sales, internet sales and clothing sales contributed the most on the downside
- Retail sales – and other consumption – have received a real boost from the **two rounds of stimulus cheques**, the first distributed in January and the second in March and April. Just a fraction of the received amounts have so far been spent – and savings have increased substantially

Most sectors down in July, but restaurants up, and 9% above the Feb-20 level!

Auto sales and internet sales were down 4.3% and 3.1% respectively







Last month

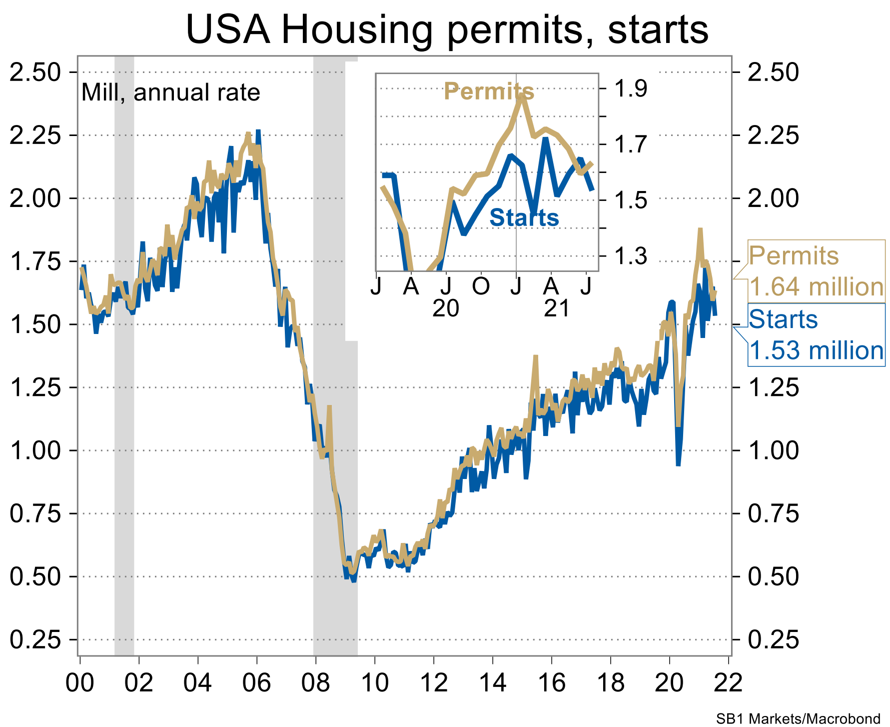
- 8 out of 11 main sectors reported a decrease in sales in July. The decline in auto sales is due to lack of supply, not weaker demand

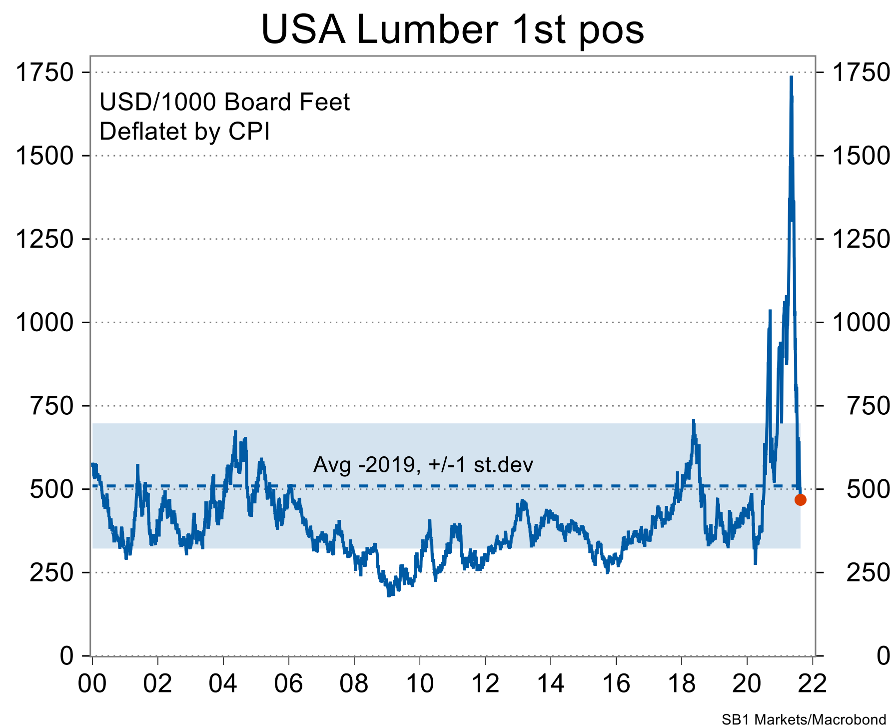
Since pre corona: All sectors up

- **Restaurants** are now 9% above the pre-Covid level
- **Clothing** are on the way up, are up 15% vs. Feb-20, was down until March!
- **Sports equipment** (+hobby/books) is up 36%, while auto sales are +26%

Housing starts down, permits marginally up in July

Both starts and permits have flattened recently. Sales have also declined recently

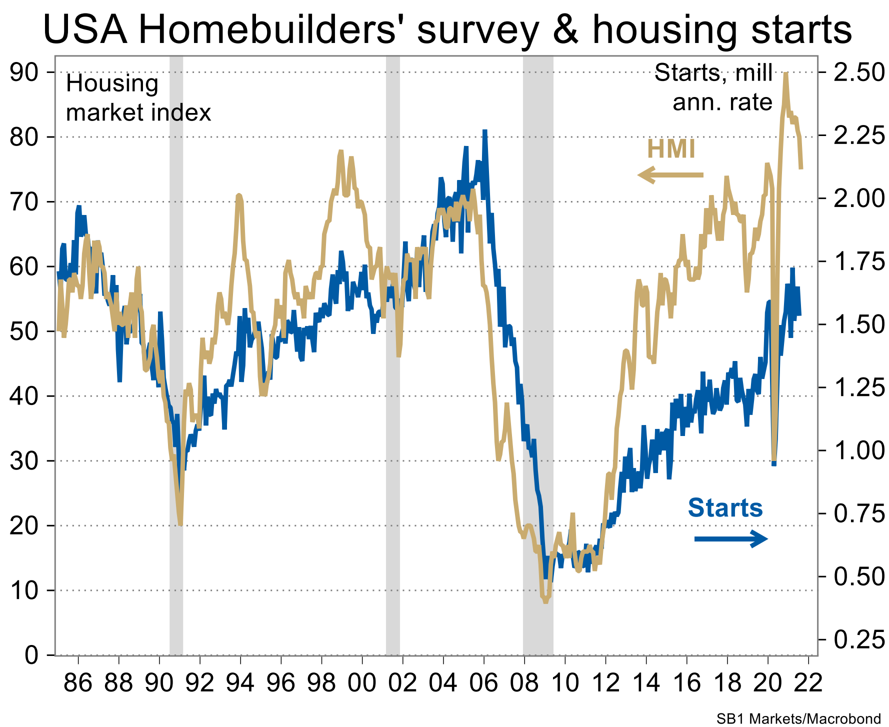


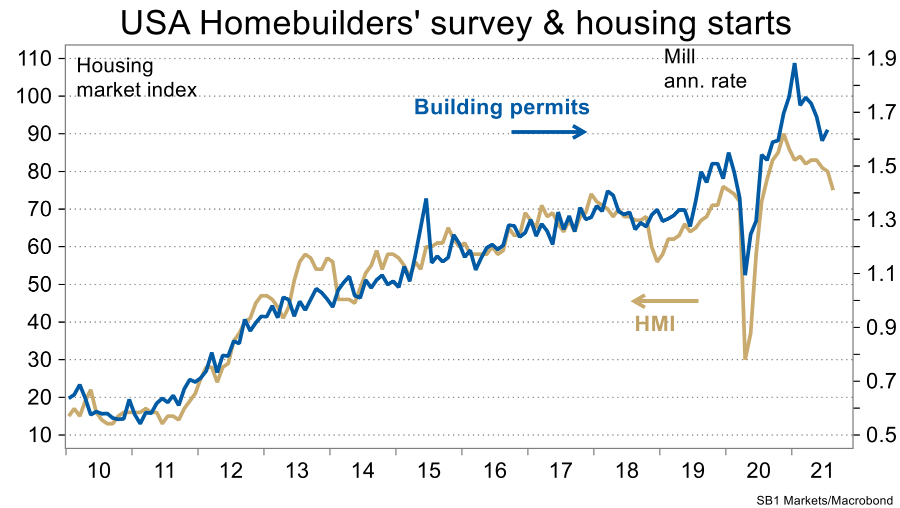


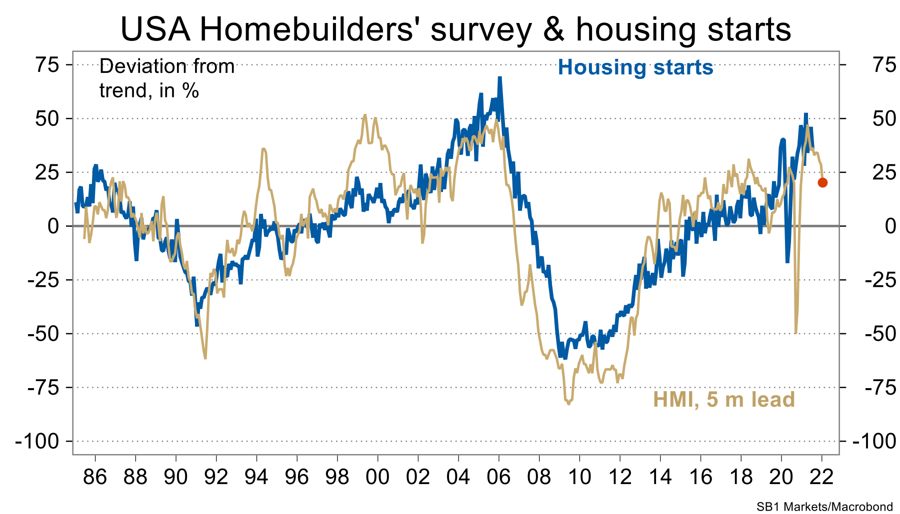
- **Housing starts** fell to 1.53 mill in July, down from 1.65 mill in June (revised up from 1.64 mill), expected down to 1.60 mill. The trend over the recent months is more or less flat
- **Building permits** rose to 1.64 mill, up from 1.60 in June. Permits have fallen 15% since January but the level is far from low, in fact close to the pre-pandemic trend upward path. We usually put most emphasis on permits since they are less volatile m/m and less influenced by weather etc.
- The incredible sharp **decline in lumber prices** (they are down to below an historical average!) signals that some of the supply problems are easing, which they usually do after (often a rather short) while

Home builders market index further down in August

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



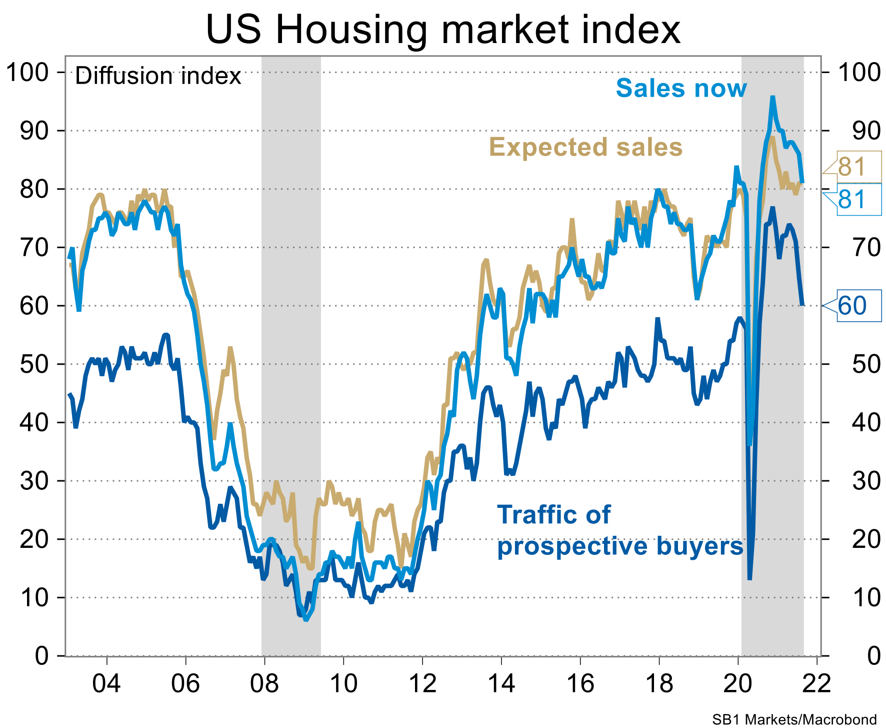


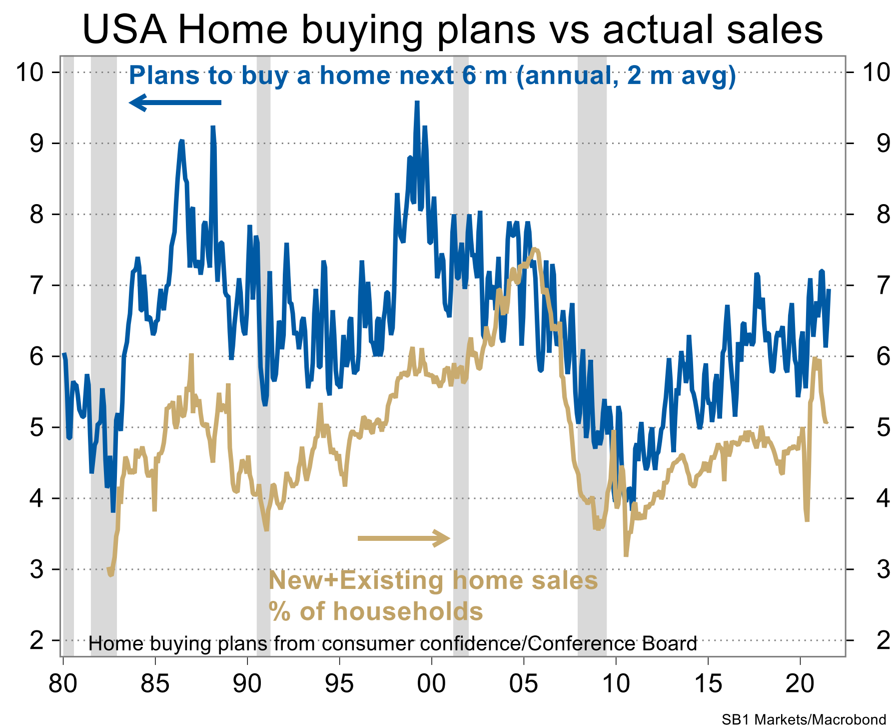


- **The Home Builders Housing Market Index** fell 5 p to 75 in August, expected flat at 80. The level is high but still down from 90 last Nov. Traffic from prospective buyers fell sharply, as did current sales
- **Rising material prices and supply chain shortages** are creating challenges for the home builders, according to the NAHB – but those shortages are probably close to peaking down
- Even if the level is very high, the HMI signals a moderate decline in housing starts, cfr the chart to the bottom right

Home builders report lower sales and far less interest from buyers in August

… while homebuying plans were up in July, according to the consumer confidence survey

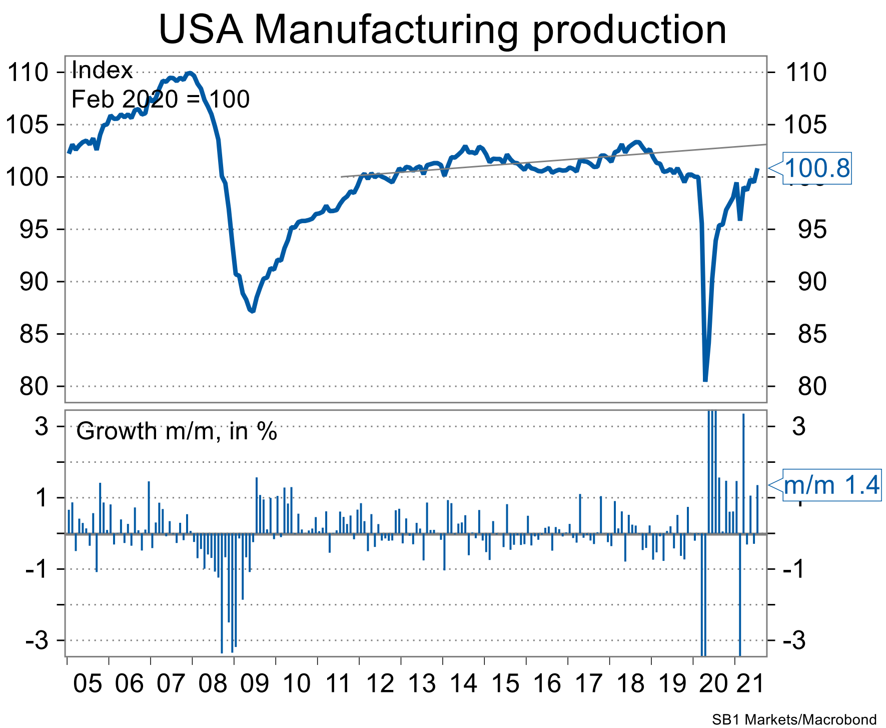


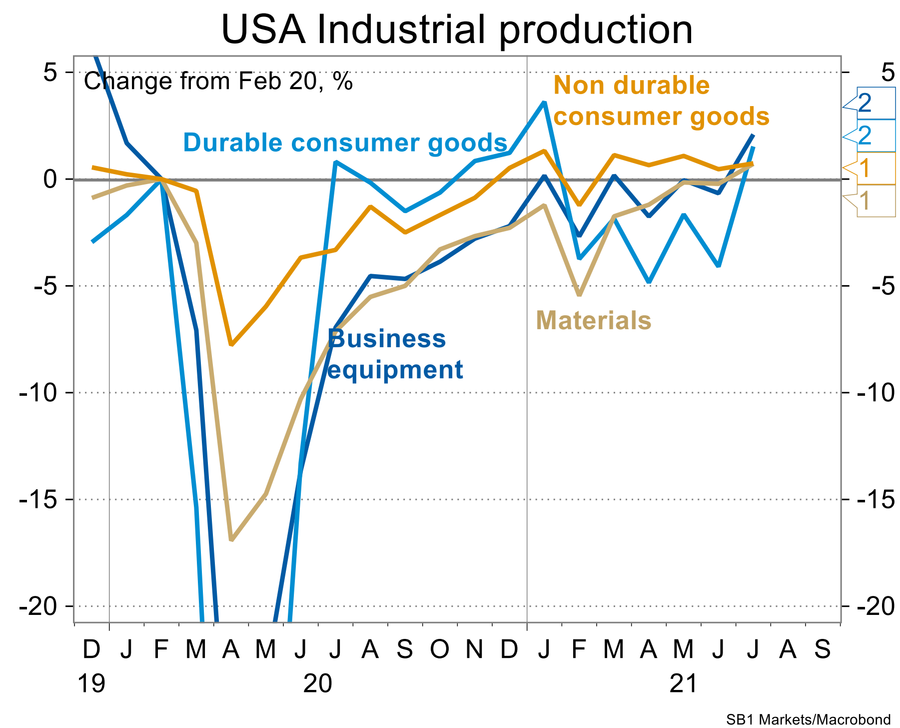


- Conference Board's survey reports that households deem buying conditions to have improved in June and July, and the level is close to the best since 2006

Manufacturing production up 1.4% in July – now finally above Feb 2020 level

Auto and auto parts production contributed 0.7 pp to the increase

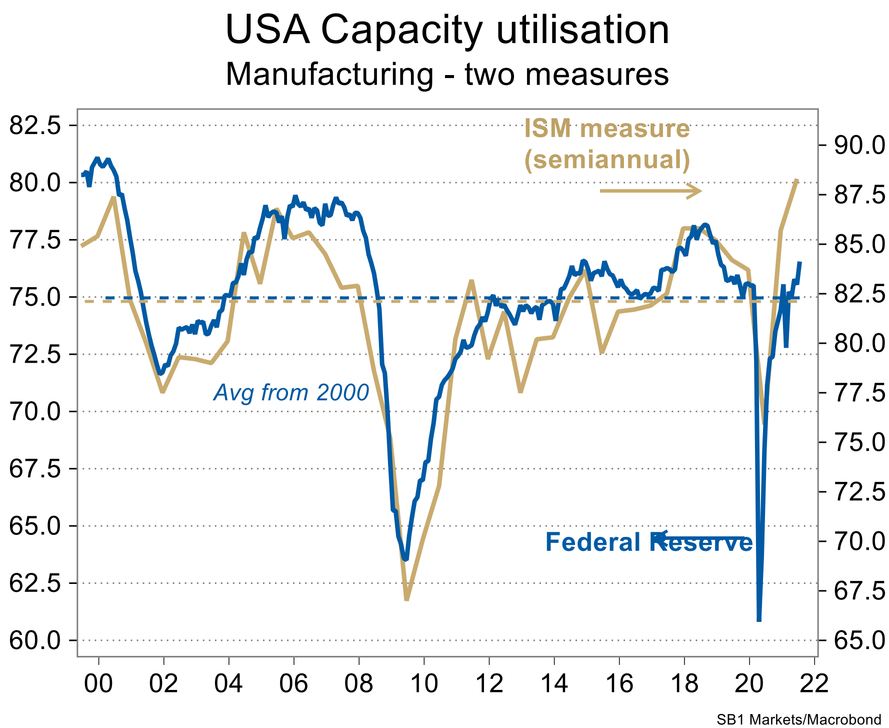




- **Manufacturing production** increased 1.4% in July, expected up 0.6% (June data was revised down by 0.2 pp to -0.3%)
  - » Auto production was up 11.2%, following a 5.9% drop in June. As a result, production of durable consumer goods increased by almost 3% in July
  - » Ex motor vehicles (and parts) manufacturing production rose by 0.7%
- Production of **non-durable consumer goods** rose marginally in July, as for production of **materials**
- **Total industrial production**, including utilities, mines/oil production rose by 0.9%, expected 0.5% (June print revised down 0.2 pp to 0.2%)
- **PMI/ISM and all other surveys** signal a continued strong recovery – above the current growth rates

Is capacity utilisation at average or at ATH?

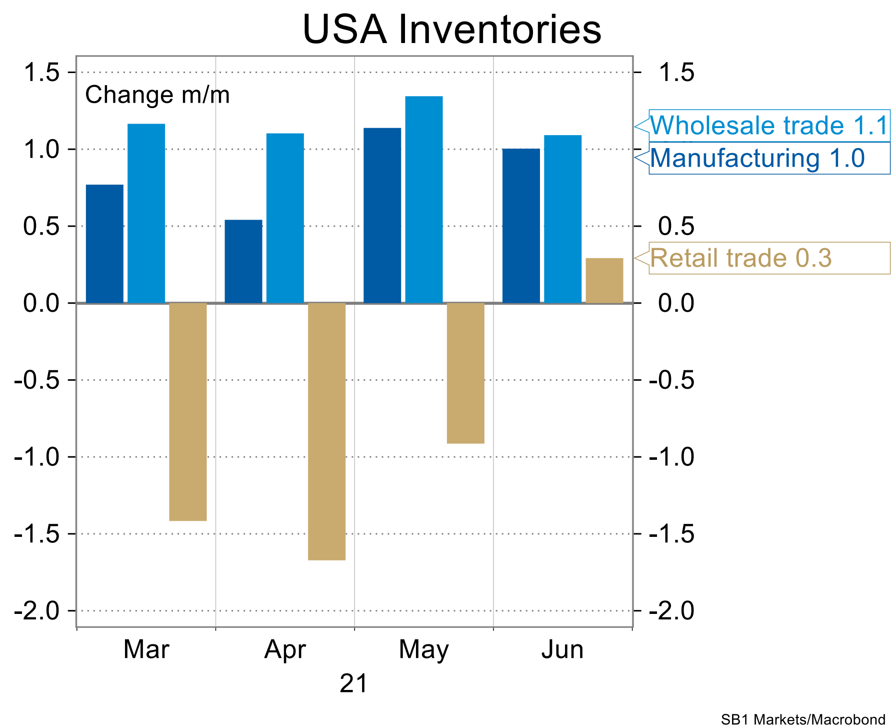
Not an irrelevant question

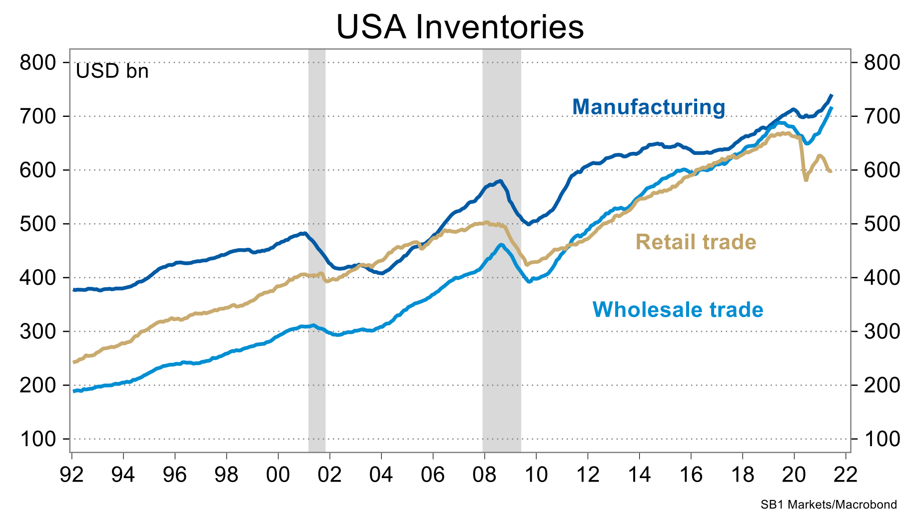


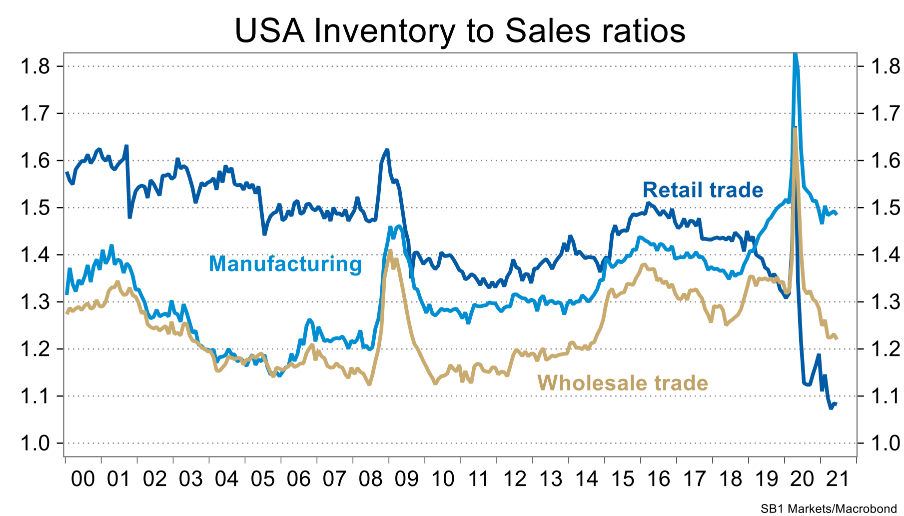
- **The Federal Reserve's** measure now yields a slightly above normal capacity utilisation rate, above the pre-pandemic level
- **ISM's semi-annual** survey reported a further sharp increase H1/May, the highest level ever – however with data just back to year 2000. These two measures have not been 100% correlated but the current discrepancy is very large – and quite important when assessing the growth outlook
- The Fed's estimate is model based, while the ISM survey is based on companies assessment of their own capacity
- Given reports on labour shortages, material shortages, prices, the ISM survey seems to give the most reasonable result

A further build-up in inventories – now also in retail

Retail inventories increased for the first time since Dec 2020







- **Retail trade** inventories are still record low vs. record high sales but they are low in value terms as well
  - » Auto inventories fell sharply once more, by 0.3%, in total by more than 1/3rd since last spring
  - » Retail inventories increase was driven by an increase in dept. stores' and building materials inventories
- Inventories were up in **wholesale trade** in June, but are probably too low as well
- A bit surprising, **manufacturing** inventories keep increasing – and they are not specifically low
- In sum, we assume inventories are at too low levels now

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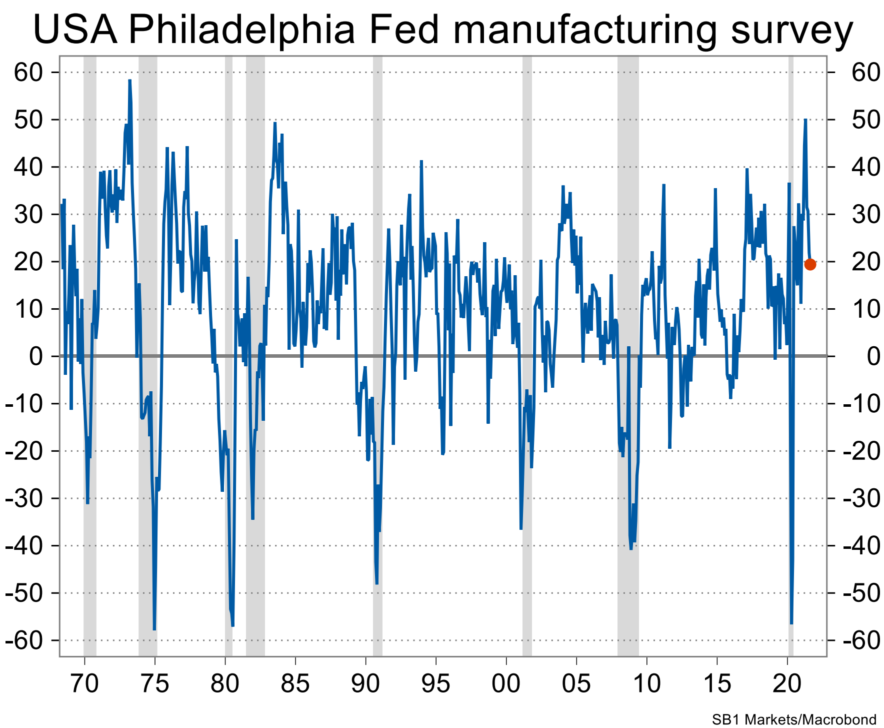
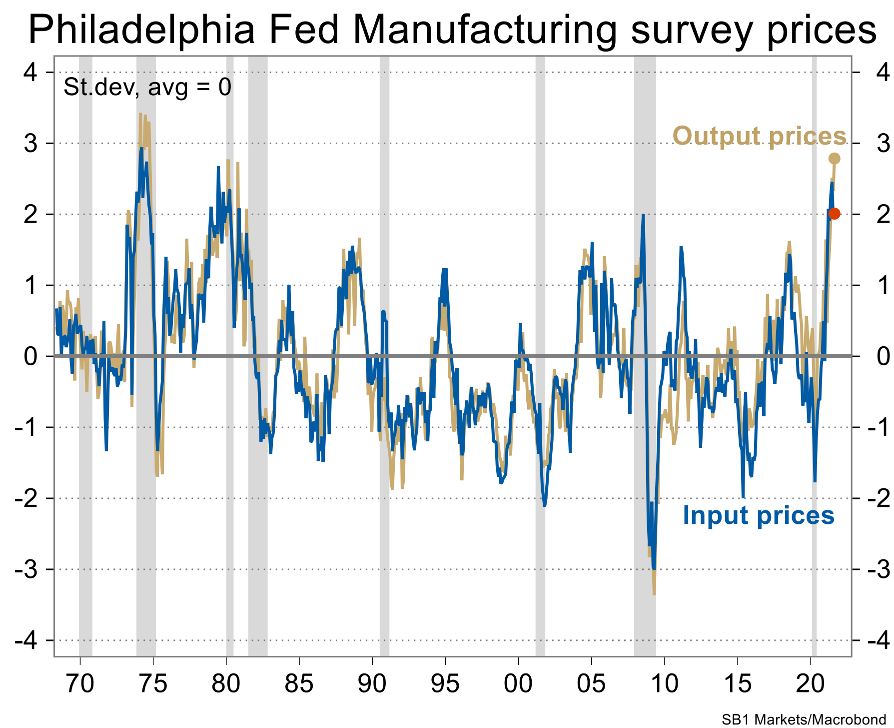
Philly Fed survey slightly down in August, and is well below the April peak

Still, the index is far above average – and prices are soaring, output prices the fastest since 1974!

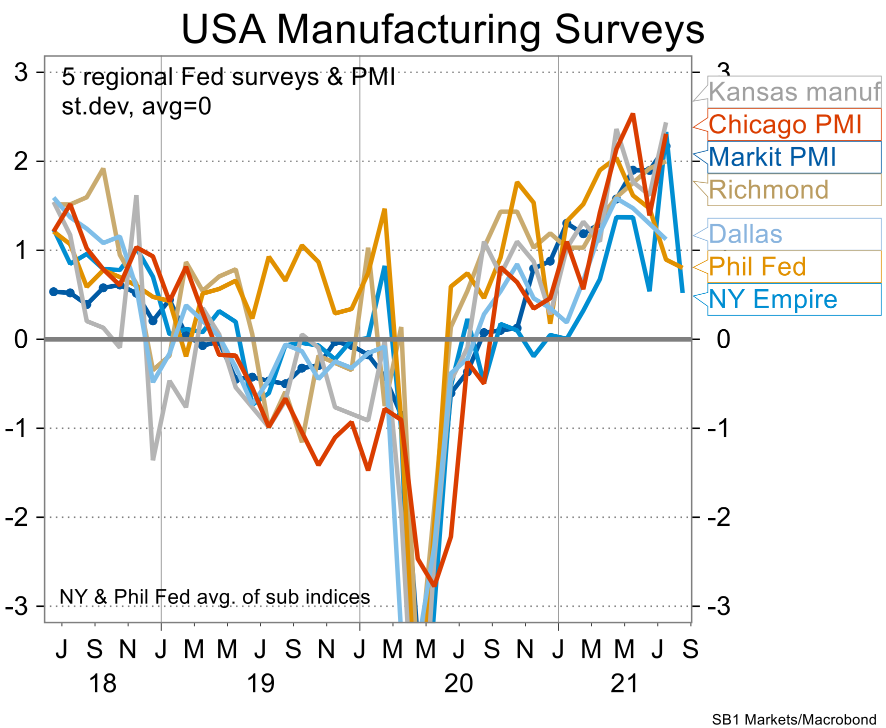


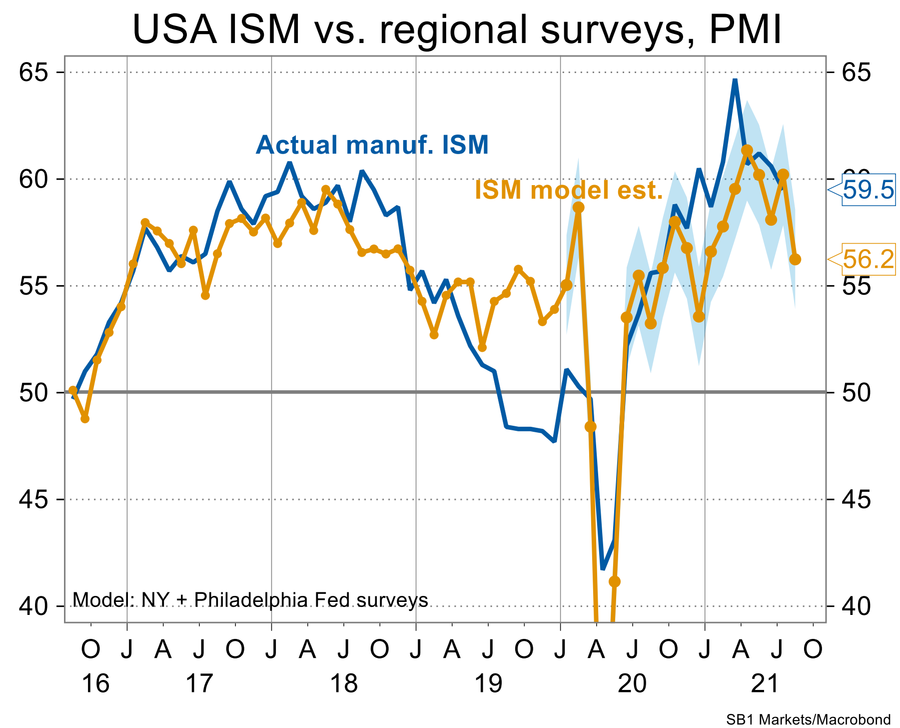


- Index down to 19.4 from 21.9, expected up to 23. In April, the index was at 60, the 2. highest level in the history (data back to 1968). An average of the most relevant sub-indices is at 0.8 st. dev above average – signaling growth above average
- **Input prices** are still rising fast, and so are **output prices**. In fact, output prices haven't been rising faster since 1974!
- New orders, prices paid and received, number of employees, and average workweek sub-indices all increased

The NY Fed manuf. survey sharply down too – but also above average

The two regional surveys indicate a sharp decline in the national ISM index

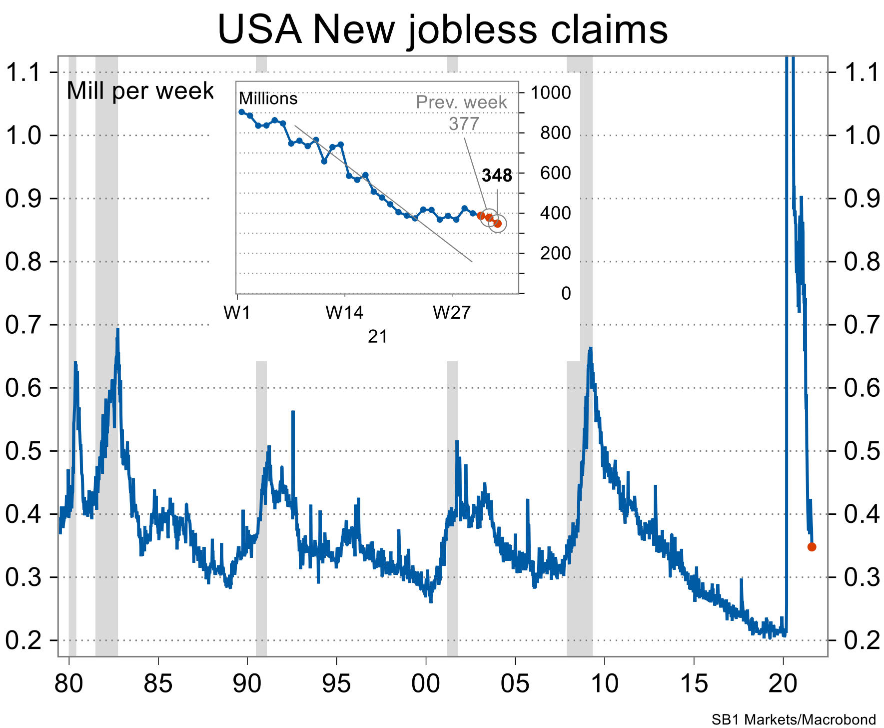


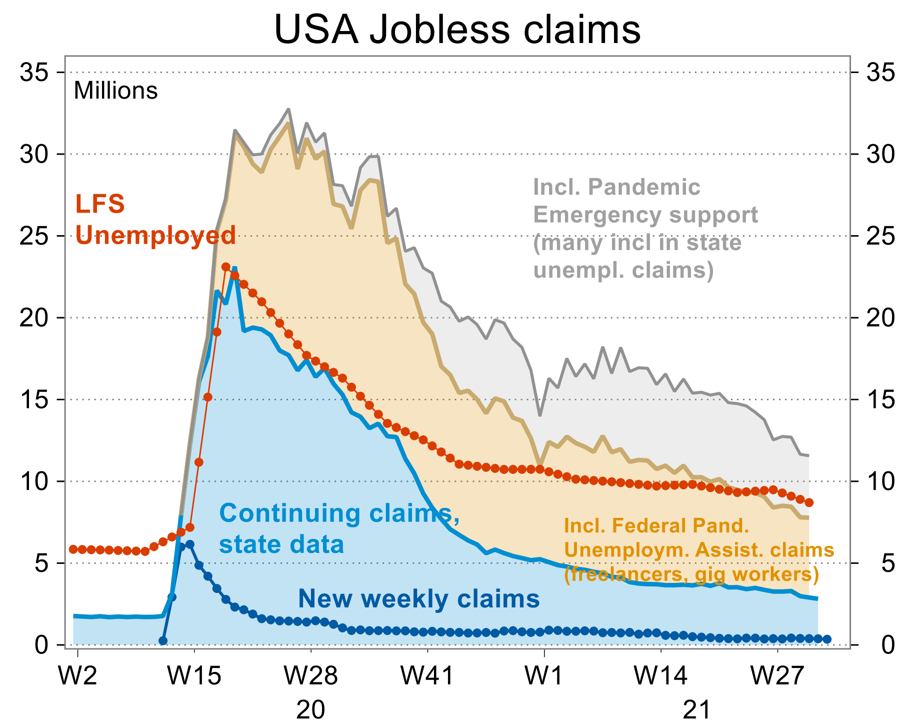


- NY Fed's manufacturing survey fell to 18.3 in Aug, from 43 expected 29. Philadelphia Fed's index fell just marginally, check the previous page
  - » The Phil Fed survey is 0.8 st.dev above avg, the NY Empire is up 0.5
- These – and all other – surveys, still signal growth well above trend in manufacturing production

New jobless claims inching slowly down – to below average, but still high…

… at least vs. the low no. of layoffs, and the rather low unemployment rate

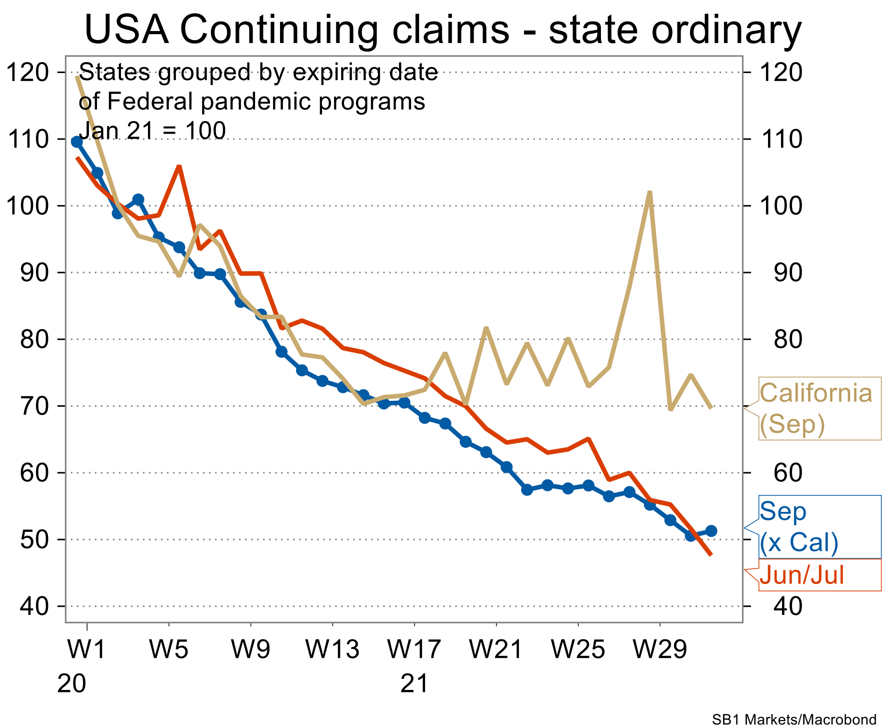




- **New jobless claims** fell by 29' to 348' in week 32 – below expectations at 363'. The inflow is still high given all other indicators of demand for labour – and far above the rapidly declining trend which ruled until 2 months ago
- **Ordinary continuing claims** fell the previous week (week 31), by 79' to 2.82 mill. Over the past 3 months, the no. of recipients have fallen by ¾ mill. Both the new and ordinary claims numbers for the previous weeks were revised up
- The number of recipients of benefits from the **two temporary federal pandemic programs** fell marginally in week 30, by 9' to mill to 8.66 mill. More than 3 mill of those recipients have left the past 3 months and all will lose their extra federal support by 6 September. What will they then do? Many have very likely already returned to work as employment is up by 2.5 mill the last 3 months but employment has so far not grown faster in the early leaver states than in the stayer states (*charts to pages fwd*)

Ordinary claims are falling everywhere, except for California

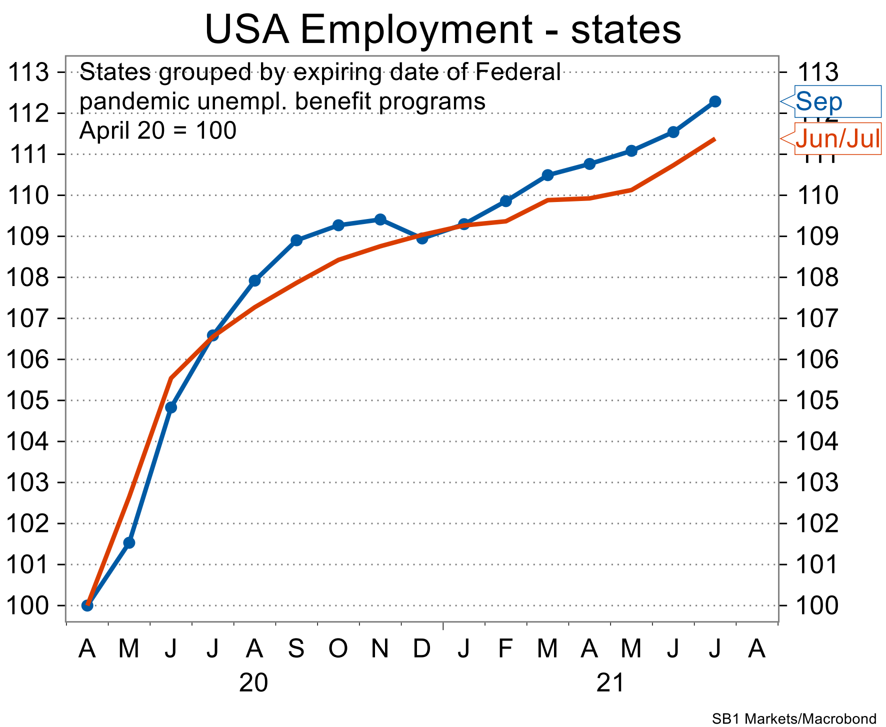
Still not big difference in no. of receivers of ordinary state unemployment benefits between states

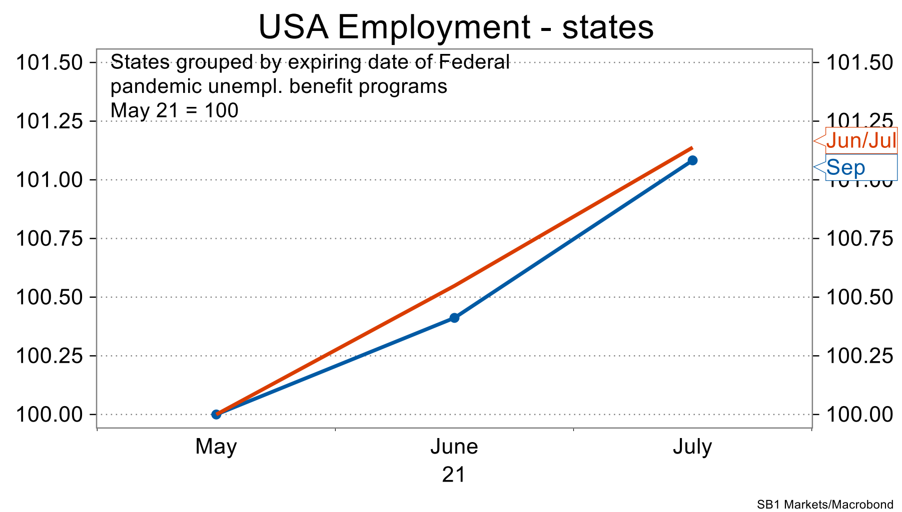


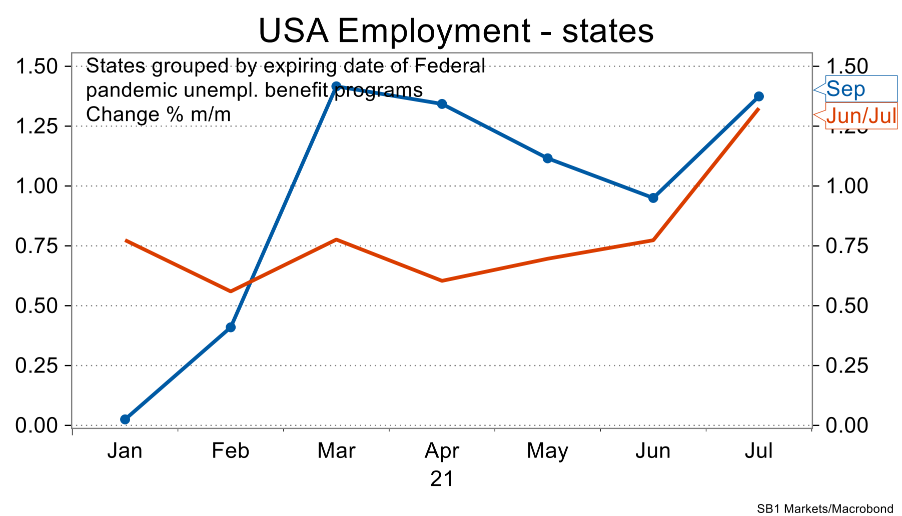
- 4 states dropped out of the federal unemployment benefit programs on June 12 (end of week 23), 8 states left June 19, and 10 states June 26, and 3 more states July 3 and 10 (week 27). The no. of recipients has fallen by 3 mill persons past 3 months
- If we pool the 'early leavers' states in one group, there has been a reduction in number of recipients of ordinary state benefits the past weeks which may imply that those who lost their federal support also leave the 'ordinary' dole. However, barring the volatile Californian data, the decline has been almost the same in states that have not opted to leave before the programs expires next month
- *For state unemployment data, check next page*

Early leaver states did not report more employment growth than others in July

Growth accelerated somewhat, but so did employment in states that did not end federal programs

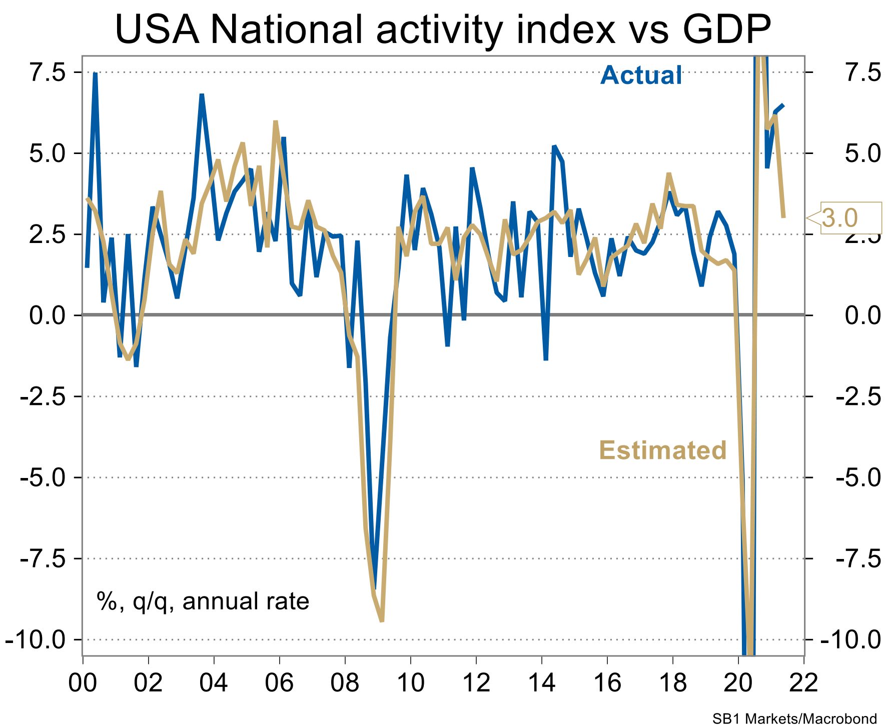


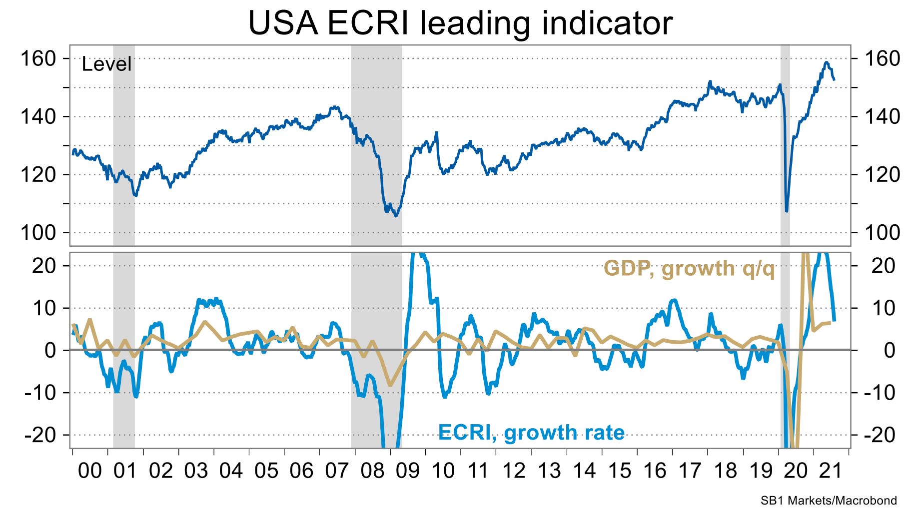


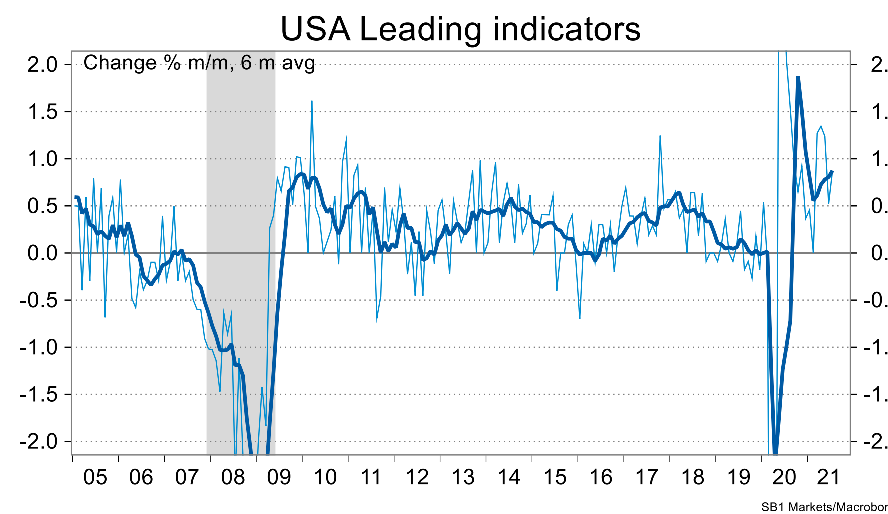


The nat. activity index, ECRI leading indicator and LEI all confirm slower growth

The decline is not sharp, and is natural as the activity level is coming closer to the pre-pandemic trend







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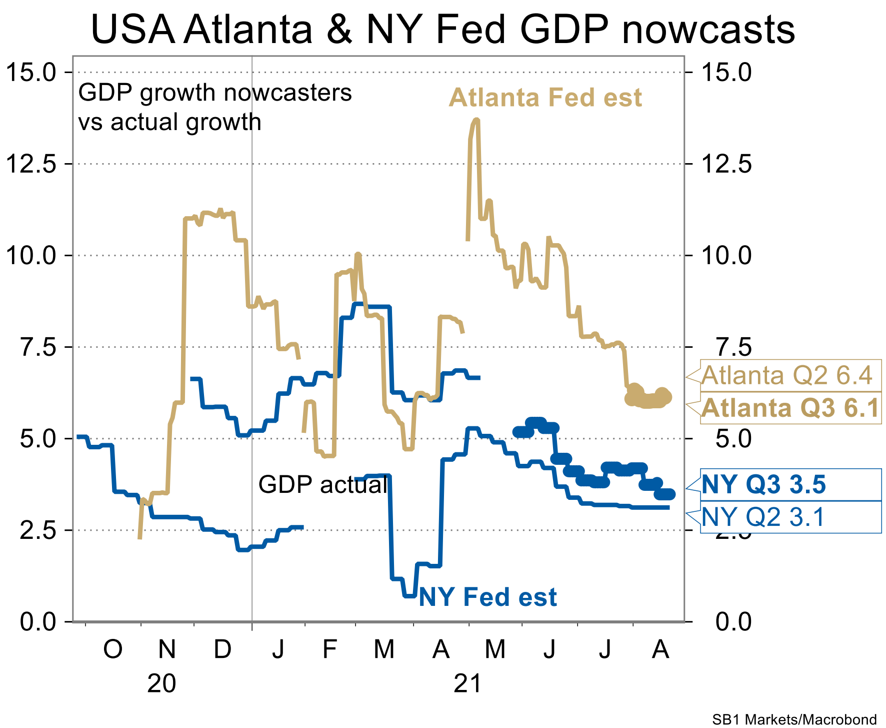
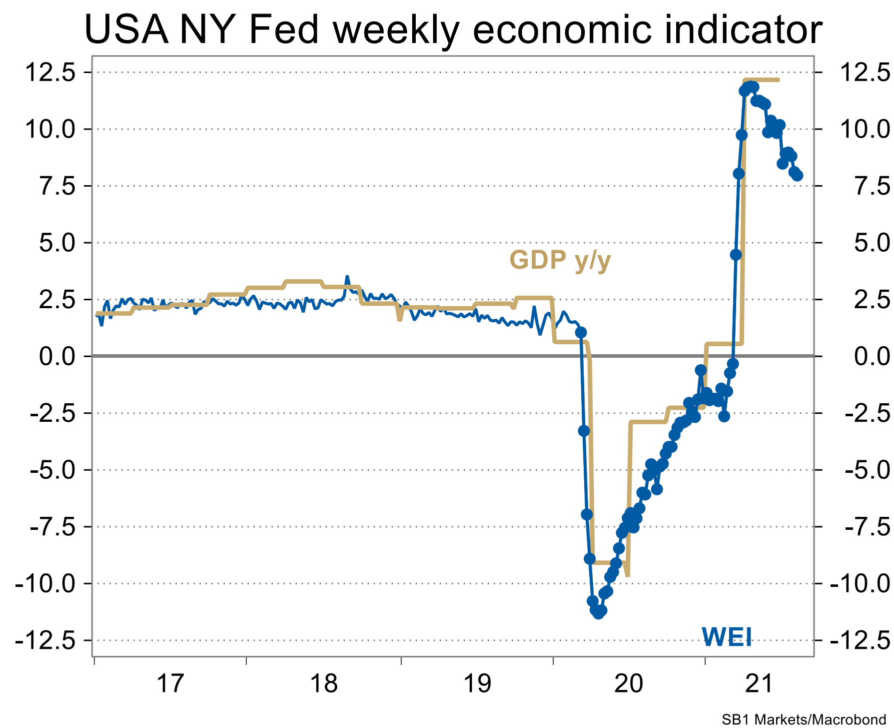
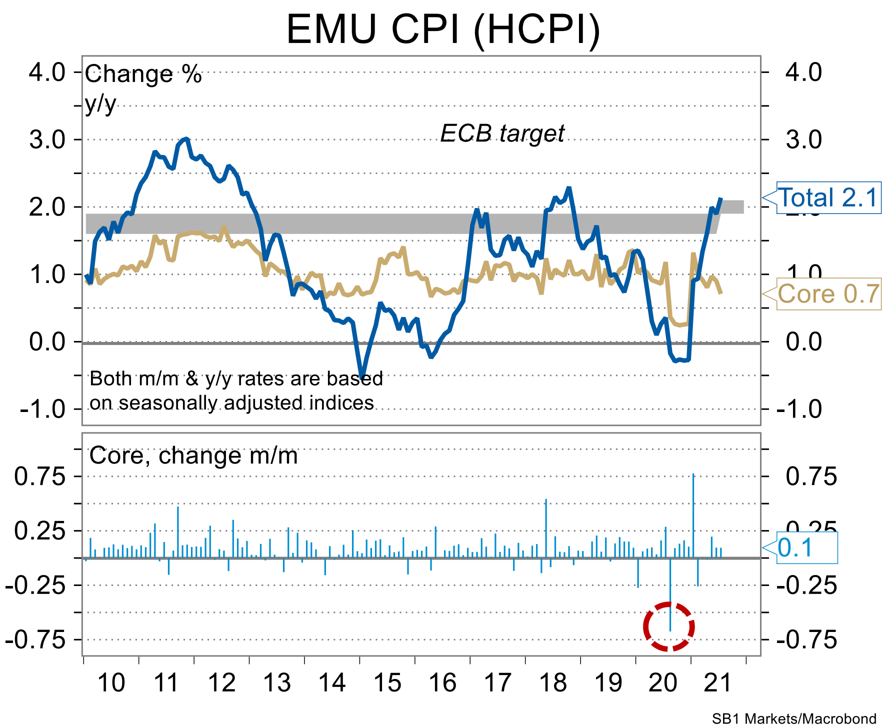
The nowcasters still signal 4% to 6% GDP growth in Q3

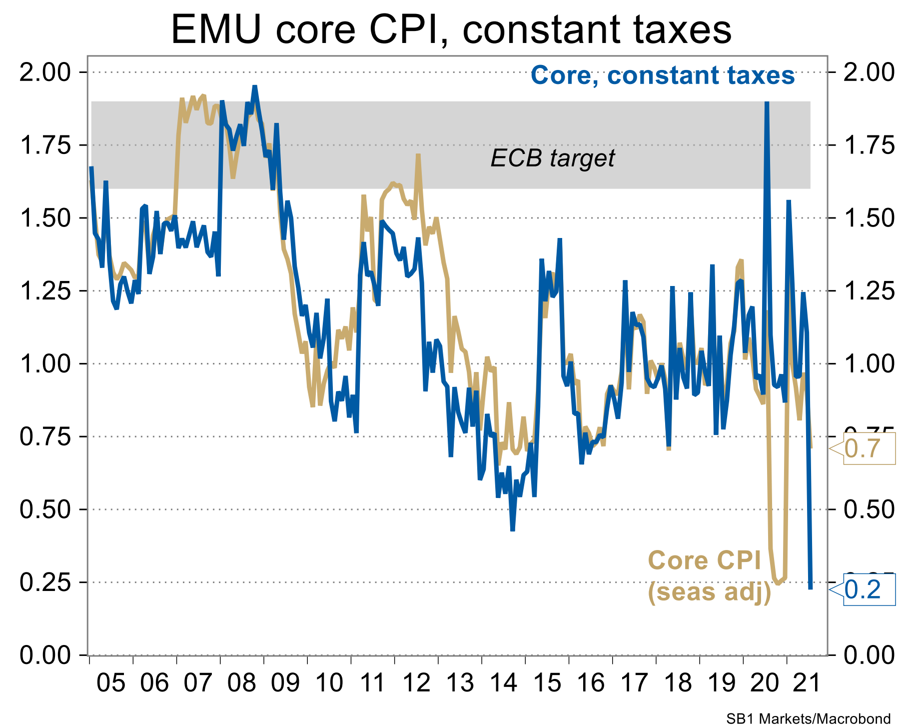




Eurozone core inflation confirmed down to 0.7% in July, total up to 2.1%

In August, look up for some other annual growth rates (hint: core prices fell 0.7% m/m Aug-20 ☺)

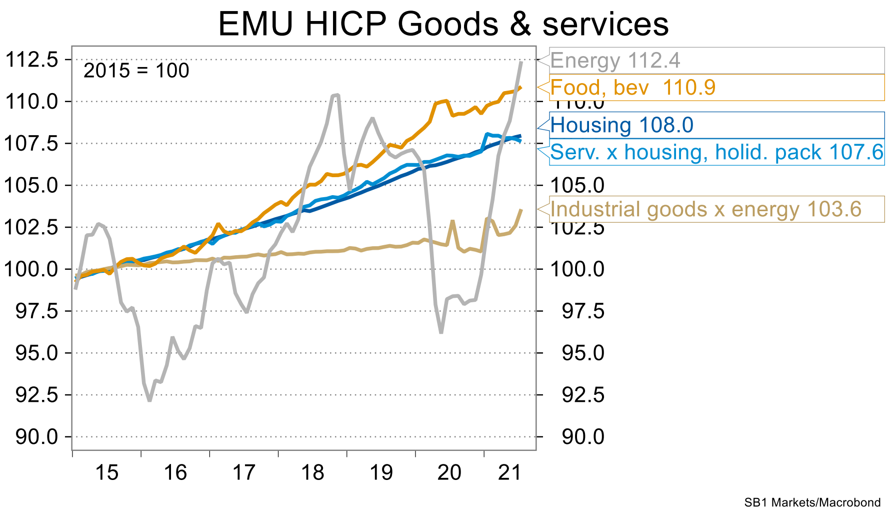


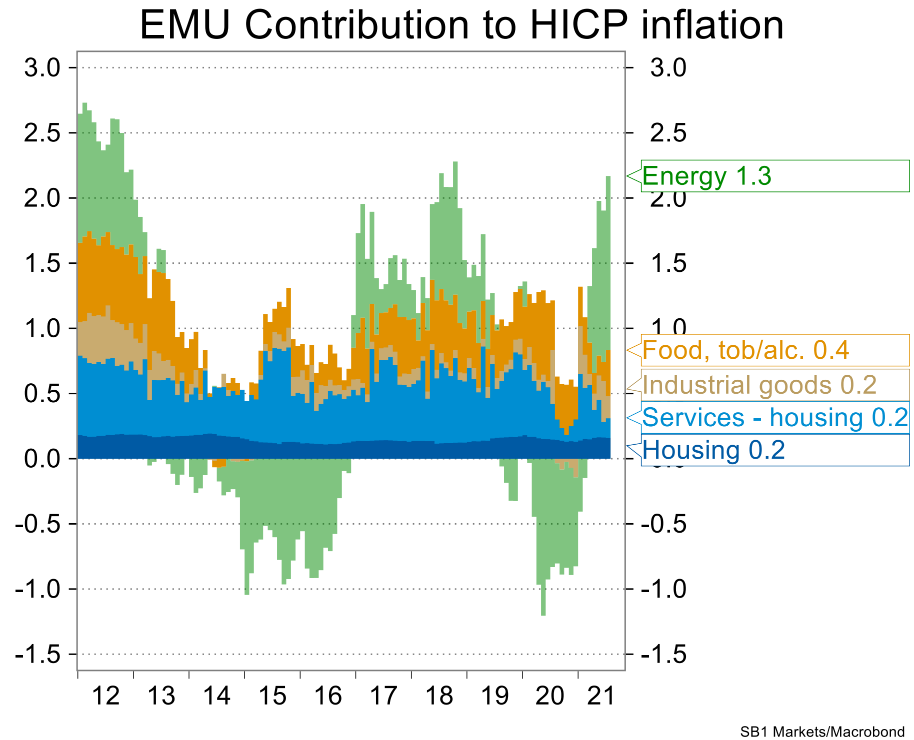


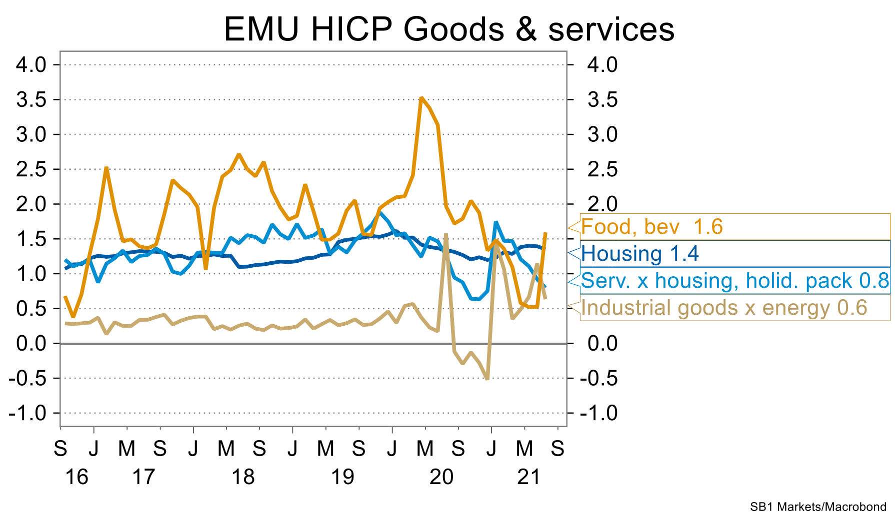
- **Core prices** were confirmed up 0.1% m/m and the annual rate down 0.2 pp to 0.7%. Industrial goods x energy rose 1% m/m, services were flat
- **Headline inflation** was up 0.2 pp to 2.1% in July, revised down from 2.2%
- **Adjusted for changes in taxes**, the core was at 0.2% y/y in July. We doubt this calculus is correct, and it mirrors the strange data point in July-20, then up 1.8% y/y, vs the 'normal' 1% y/y at that time
- **In August**, the annual rates will very likely rise sharply, as prices fell by 0.7% m/m in August last year, partly due to subsidies that were introduced. If prices climb by the 'normal' 0.1% next month, the annual rate will accelerate by 0.8 pp, yielding a core at 1.5% y/y. Still, that's well below ECB's newly redefined inflation target at 2%. The headline CPI will be far above the new target, though

Energy was the main culprit in July too, and services prices are declining

However, industrial goods price rose sharply in July too

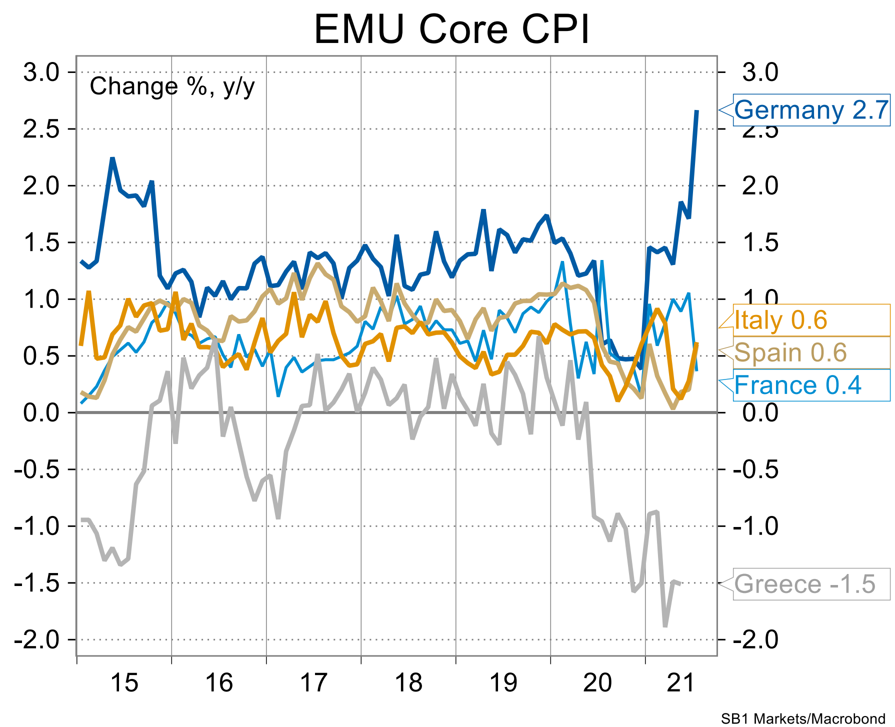


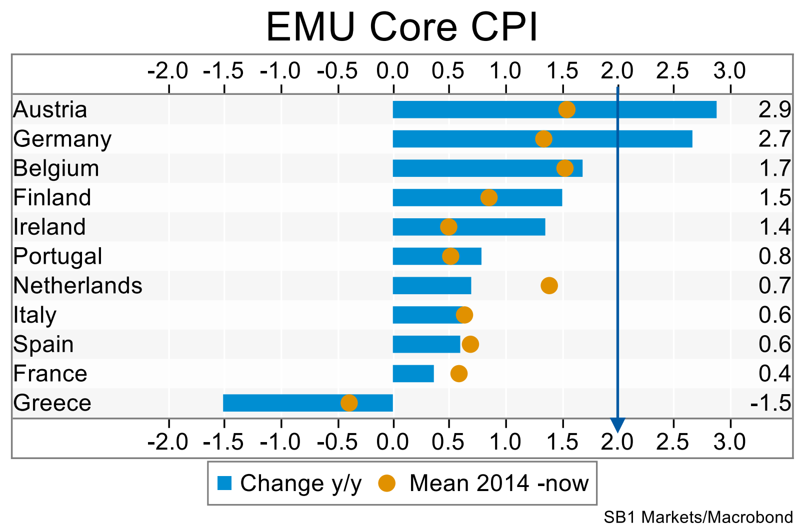


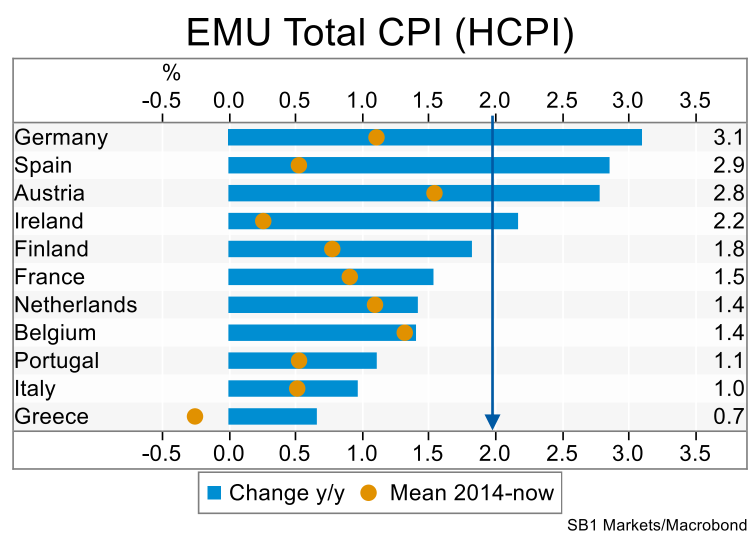


Core inflation below 2% almost everywhere – total inflation above some places

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

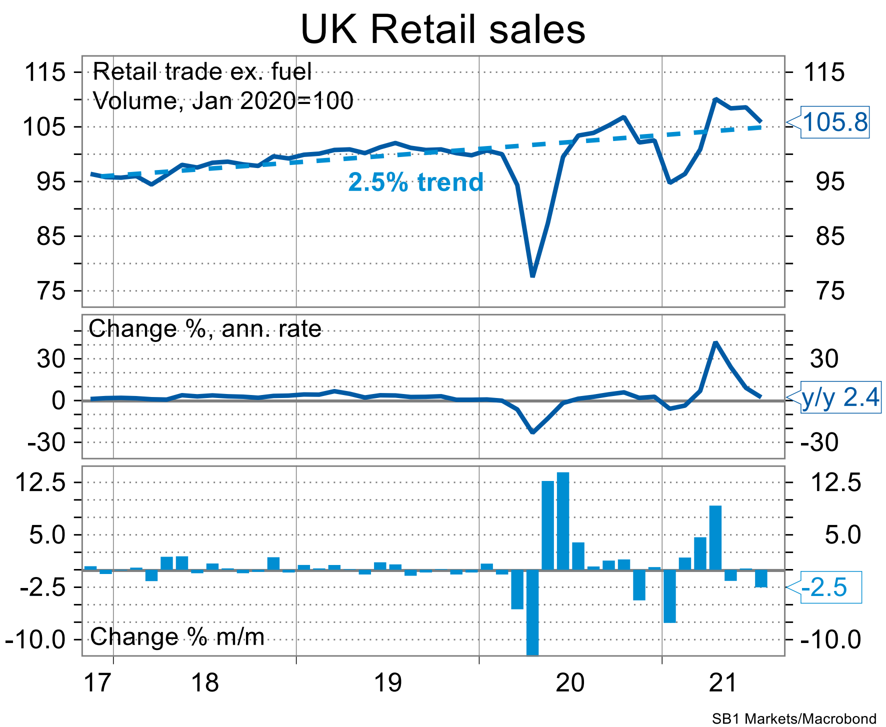


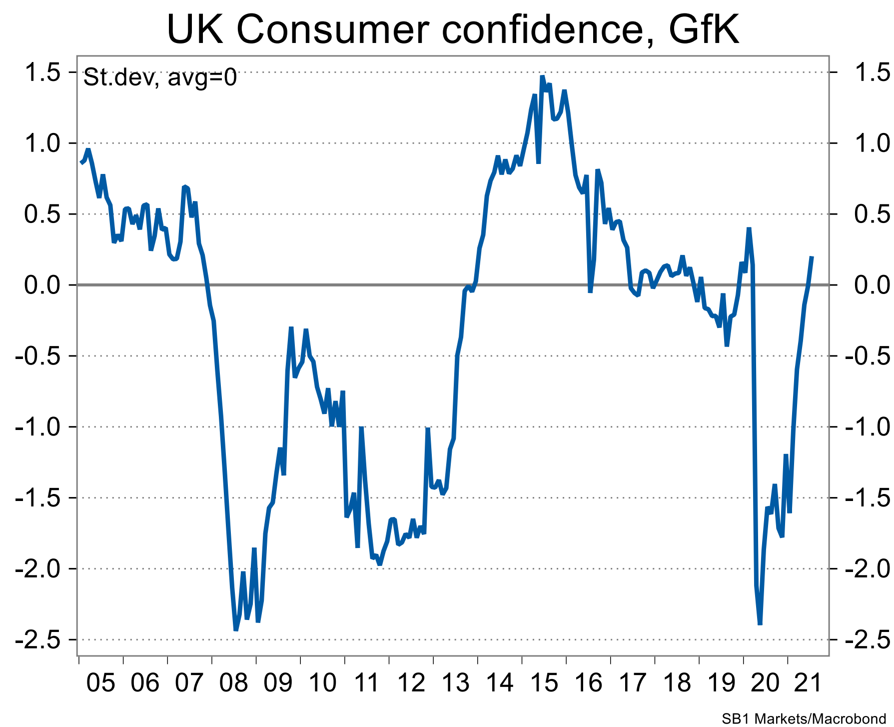




Retail sales down 2.5% in July – and are back at the pre-pandemic trend path

Sales were expected up 0.3%, and June revised down by 0.3 pp to 0.2%

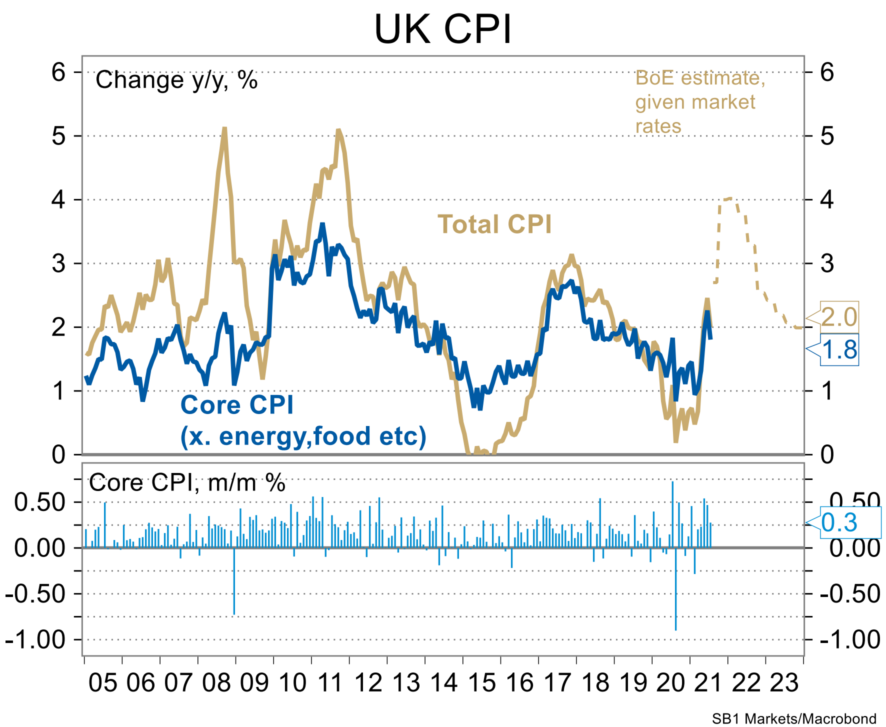




- **Retail sales** peaked in April, and the gradual decline has brought sales almost down to the pre-pandemic 2.5% growth path
  - » In July, the outbreak of the Delta virus may explain some of the weakness. However, a gradual normalisation of sales seems anyway was inevitable when spending on services could return towards a more normal level
- **Consumer confidence** continued up in June, according to the GfK survey. The level is finally above average but still below a local spike just before the pandemic

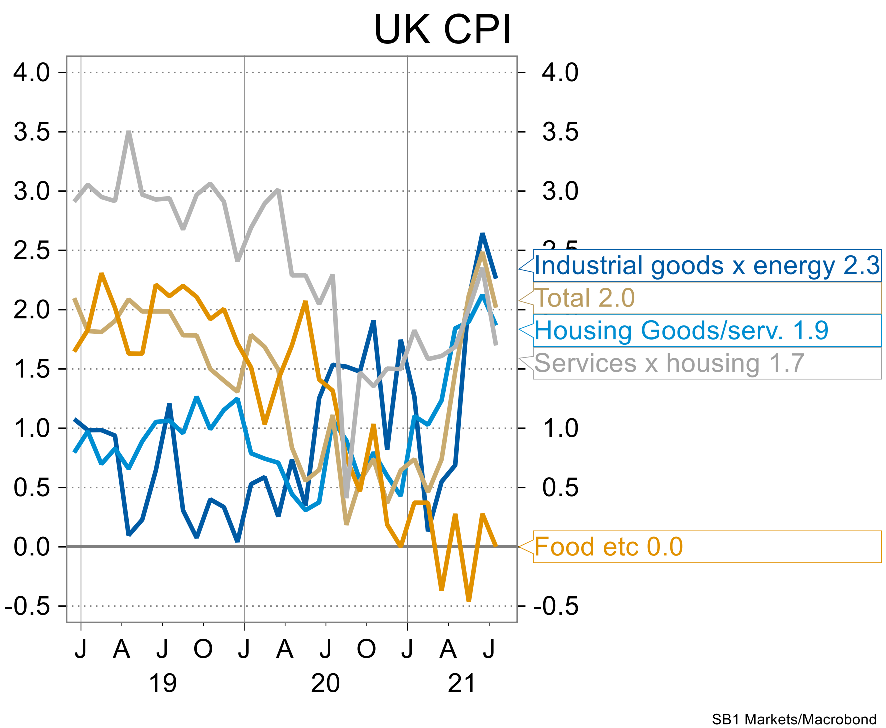
Inflation down in July (but just wait for August…)

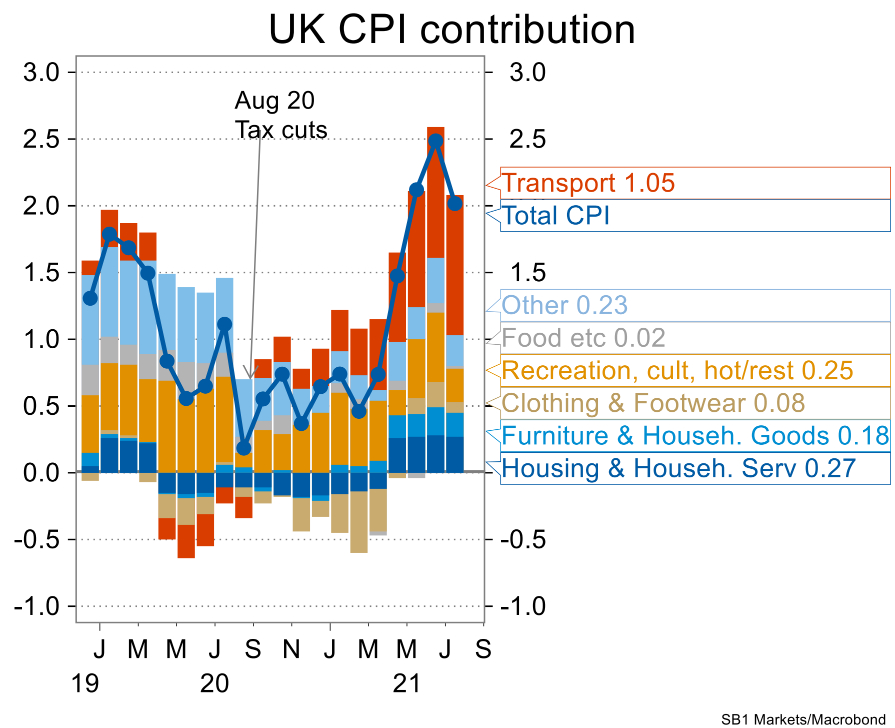
Total & core inflation down 0.5 pp to 2% and 1.8% resp, both 0.3 pp lower than expected



- Energy prices contributed at the upside m/m in July, while food prices fell
- Over the past few months, 2nd hand auto prices have climbed 13% - and they rose further in July
- Measured y/y transport (gasoline & auto prices) explains half of the 2% lift in the total price level
- Unit labour costs have soared during the pandemic, as most other places. We expect as substantial reversal the coming quarters (and we do not dear to show you the actual data, they do not look pretty…)

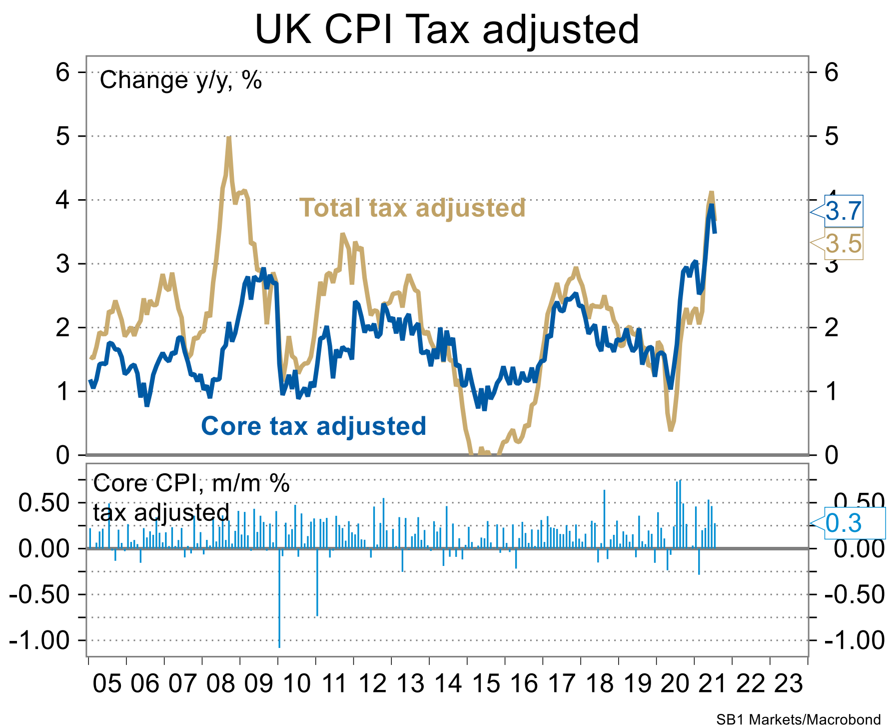
Transport, housing, recreation/hotels/restaurants the main contributors

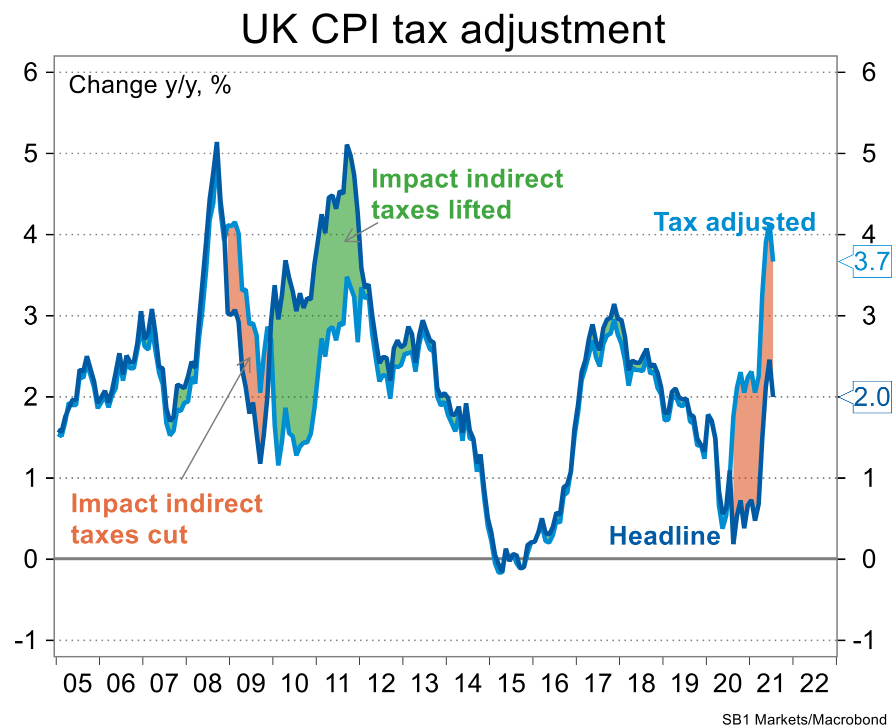




Tax adjusted inflation close to 4%, the ONS says

Corona measures cut prices sharply last August – and the 'bill' will become visible soon?

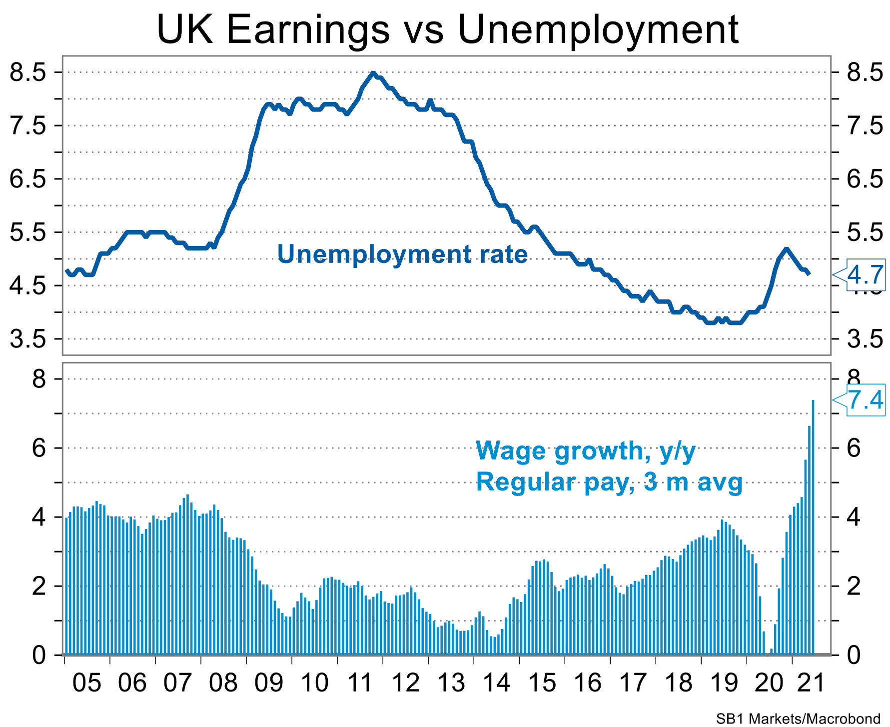


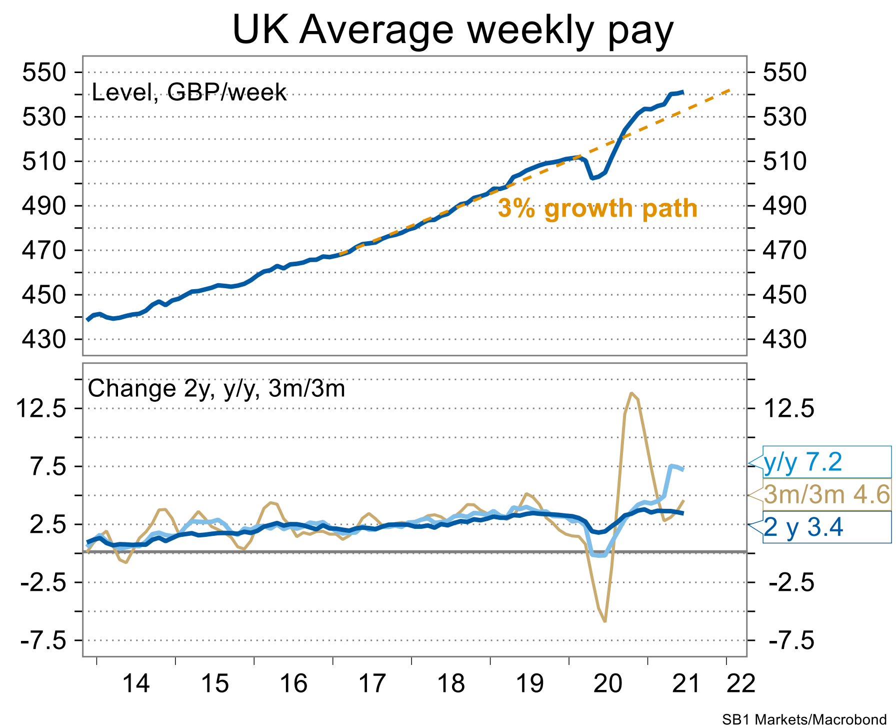


- The corona measures (Eat Out to Help Out Scheme and some other support programs implemented last August) equalled 1.6% of CPI. Prices fell less than that m/m (vs a normal price increases at that time, which though were very volatile m/m, most likely because restaurants etc. kept some of the subsidy themselves). Thus, the impact on the annual CPI may be somewhat smaller than 'technically' assumed
- If the technical assumption holds (and the published tax adjustment data are correct), the 'real', tax adjusted annual CPI inflation runs far above the published headline, at 3.7% vs. 2.0%. The discrepancy in the core CPI is marginally higher
- We assume the inflation rate will climb some 1 pp in August

Wage inflation the highest since 1979, vacancies record high, by far

... And unemployment is on the way down

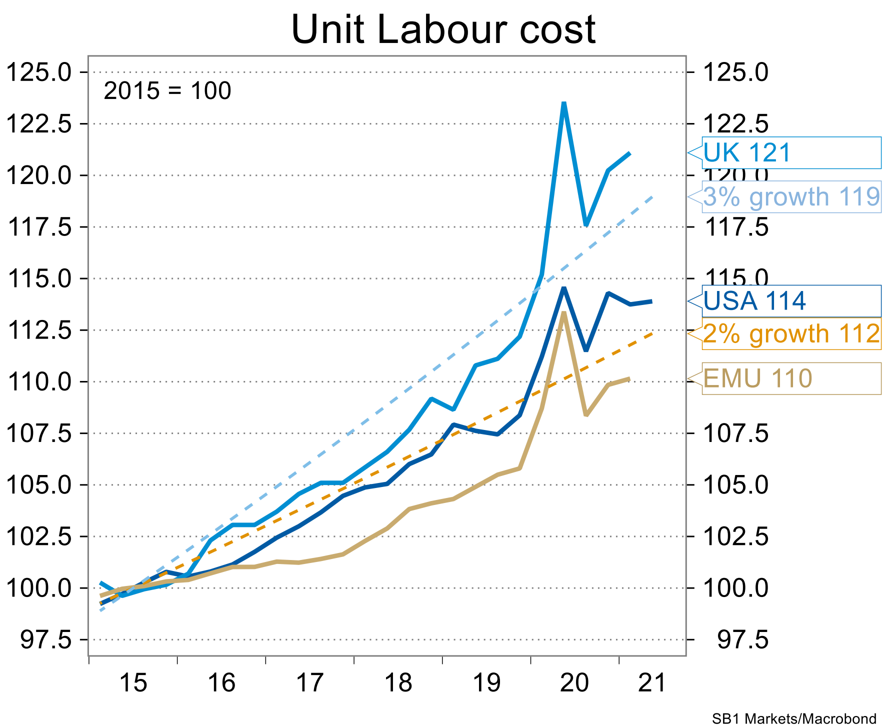


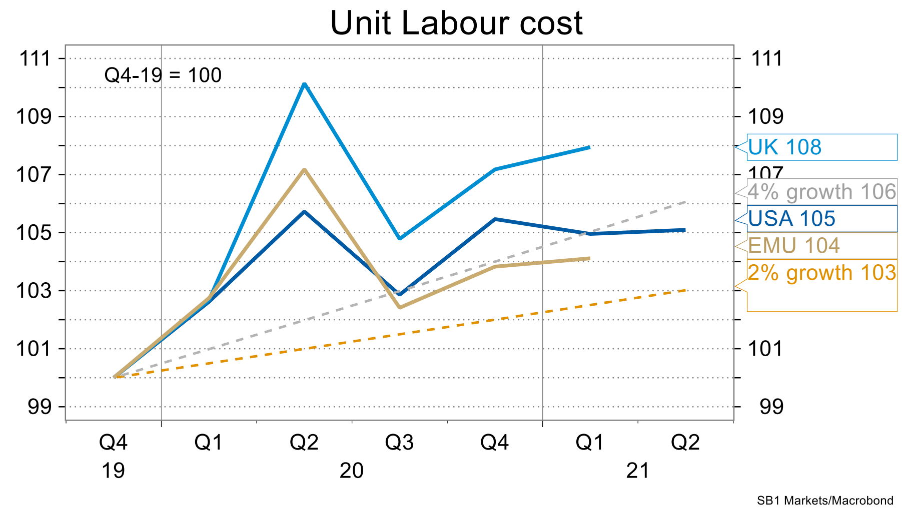


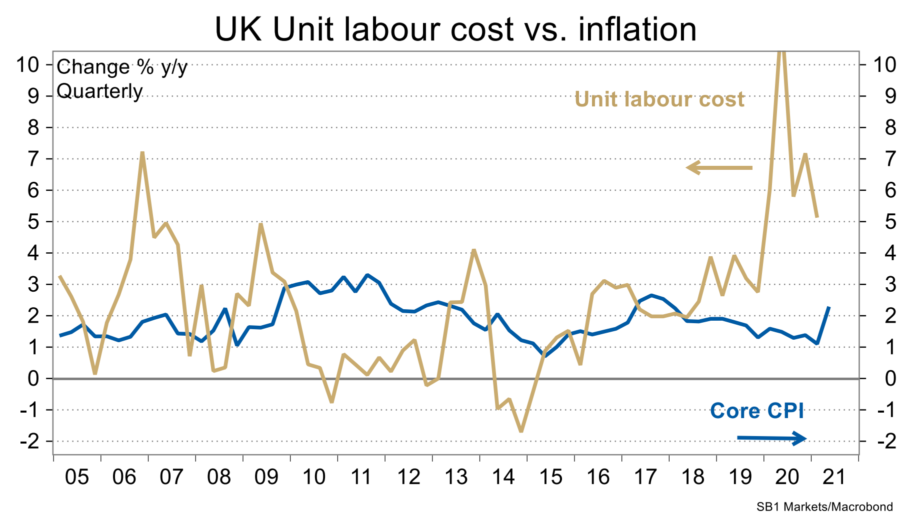
- Wage growth (regular pay) accelerated to 7.8% y/y in June, up from 6.6% in May. However, the annual rate is boosted by the sharp contraction in wages last spring
- The average wage inflation over the past 2 years is 3.4%, in line with the wage growth rates in 2019
- The underlying wage growth the recent months have slowed to some 4½ % (3m/3m), which still is well above normal levels

Somewhat high cost inflation in the UK? Unit labour costs up 3% – 4%

Which is not compatible with 2% inflation over time



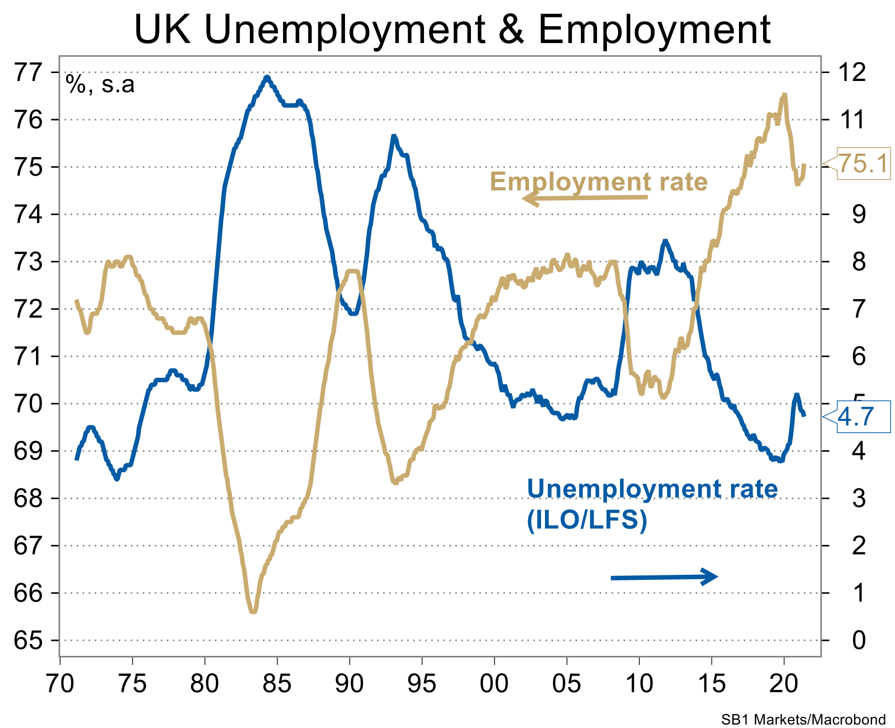


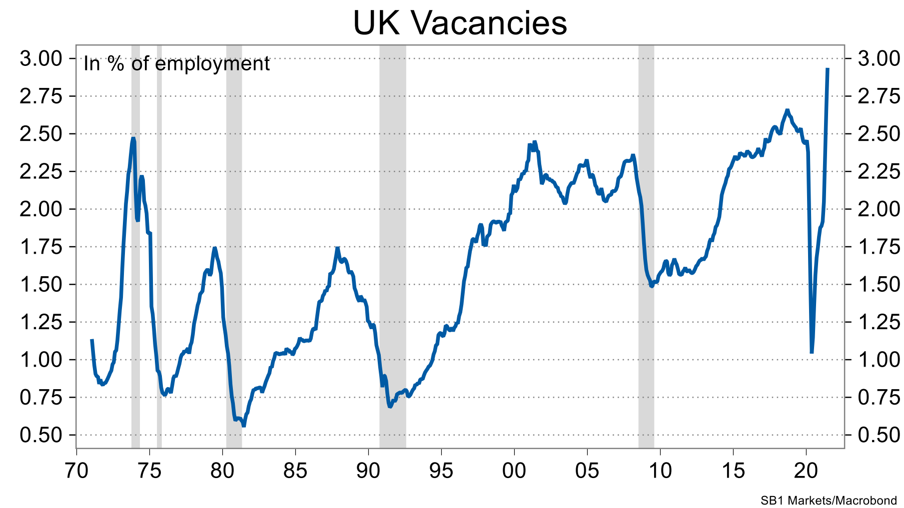


- However, the correlation between ULC & CPI is not that precise over just some few years

Vacancies at a record high level – even if the employment rate is still 'low'

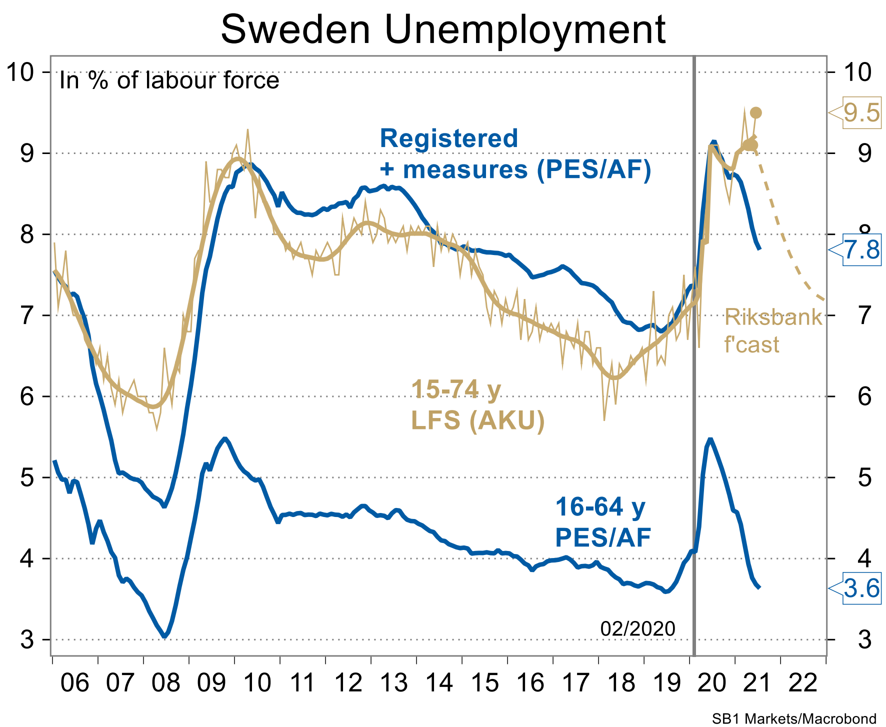
… And unemployment is on the way down

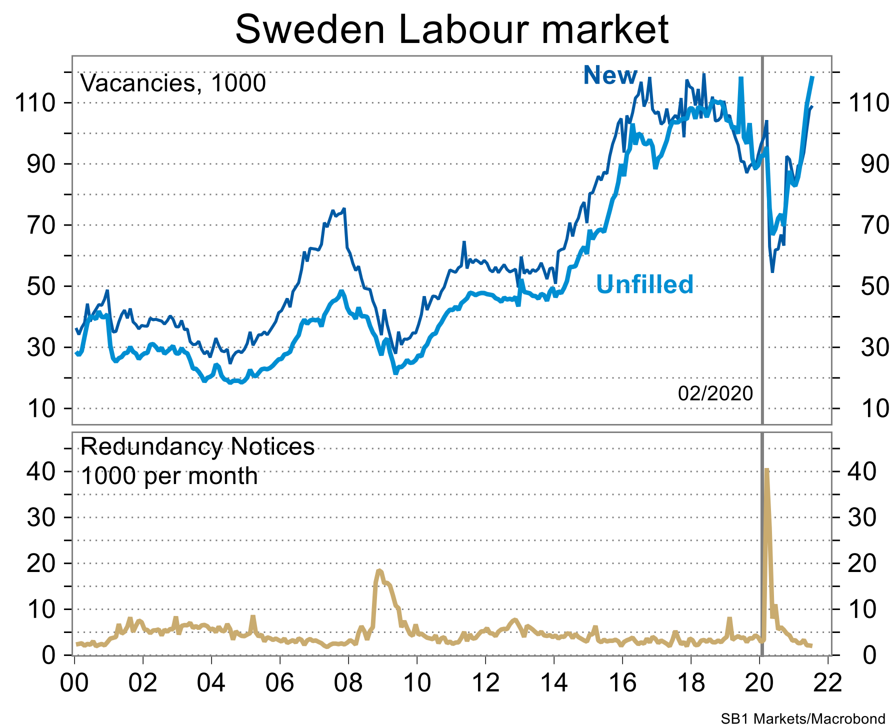




Total unemployment at 7.8% in July, according to PES/AF, open just at 3.6%

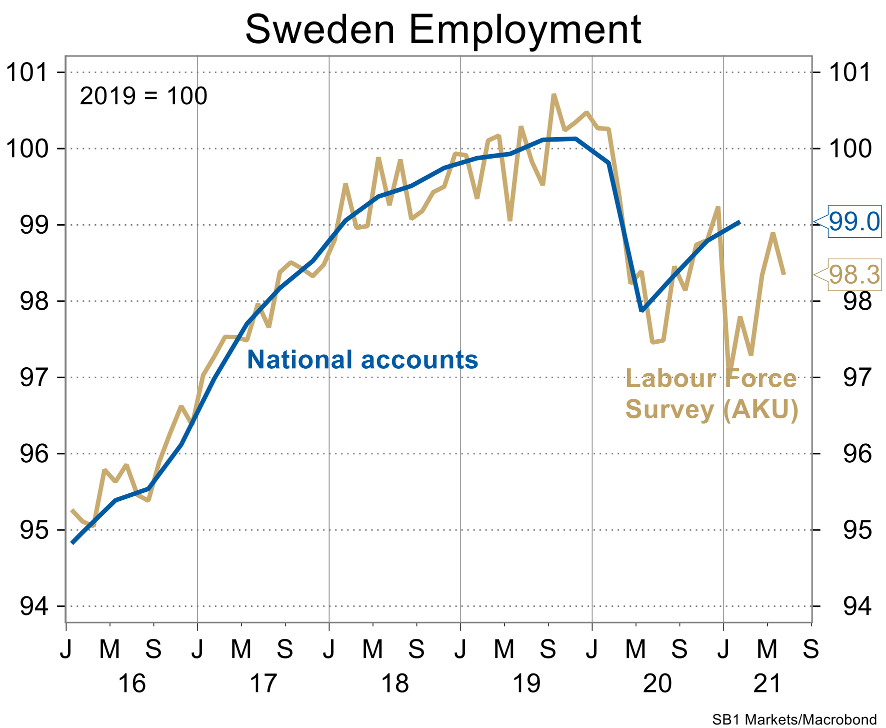
LFS (AKU) unemployment rate shot up 0.4 pp to 9.5%, does not seem reasonable

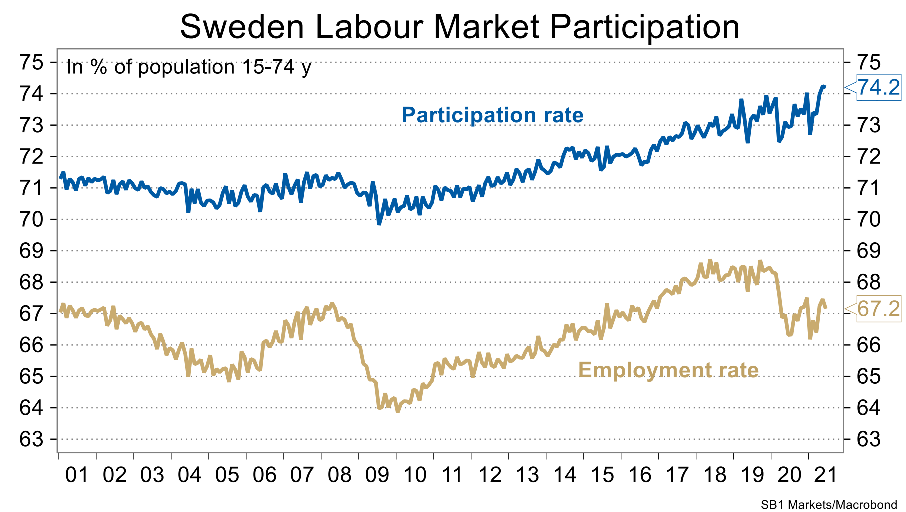


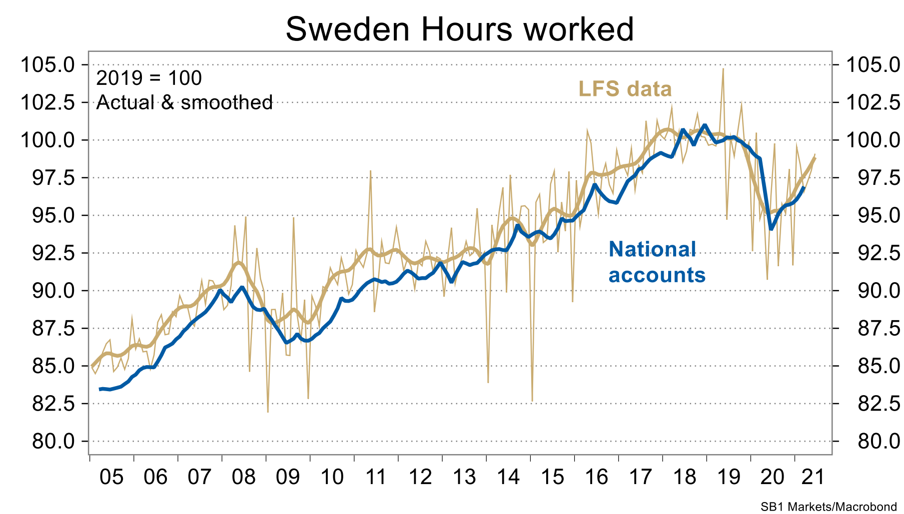


- **Registered 'open' unemployment** (PES/AF) has fallen rapidly since last June, and currently stands at 3.6%, 0.1 pp lower than in June and below the pre-pandemic level at 4.1%
- **Incl. labour market measures**, PES/AF unemployment is falling rapidly too - but less than open unemployment. The rate fell by 0.1 pp to 7.8%, but the level is still pp above the early 2020 level
- The **LFS (AKU) unemployment** was up by 0.4 pp to 9.5% in June
- The number of **new and unfilled vacancies** rose further, and **layoffs** were down in July. 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



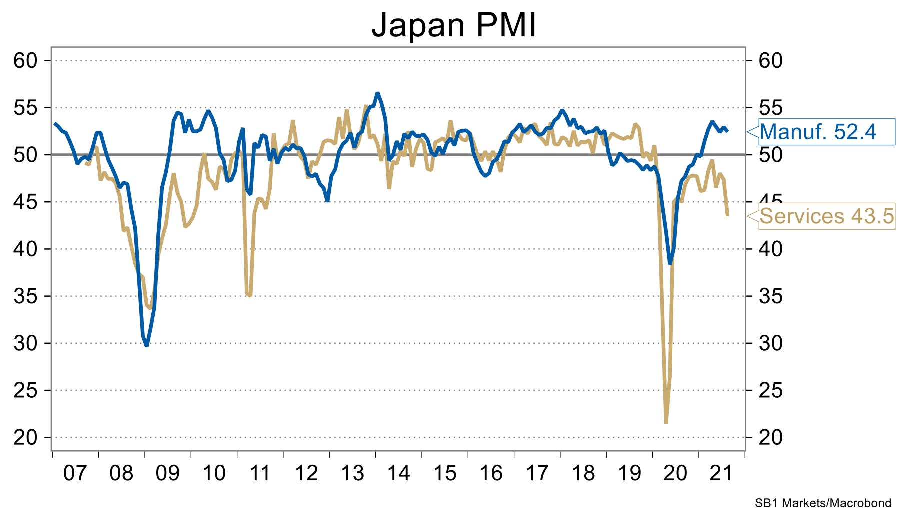


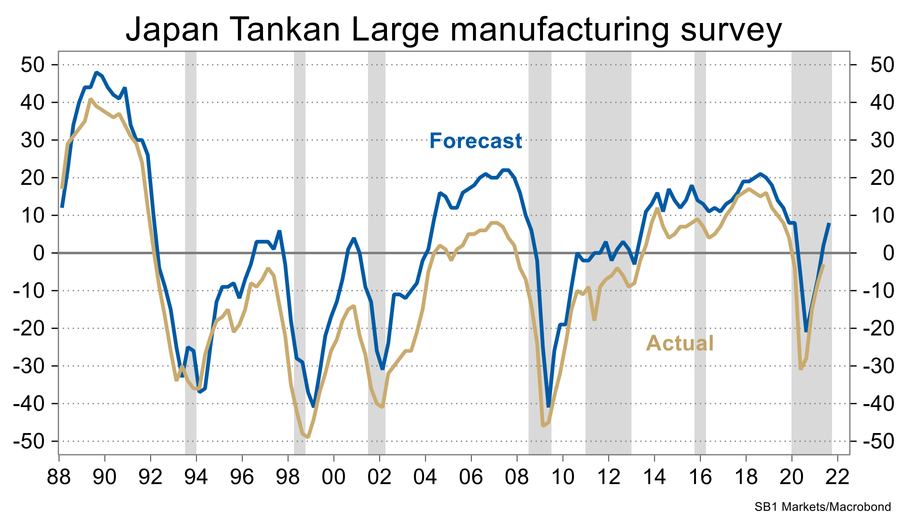


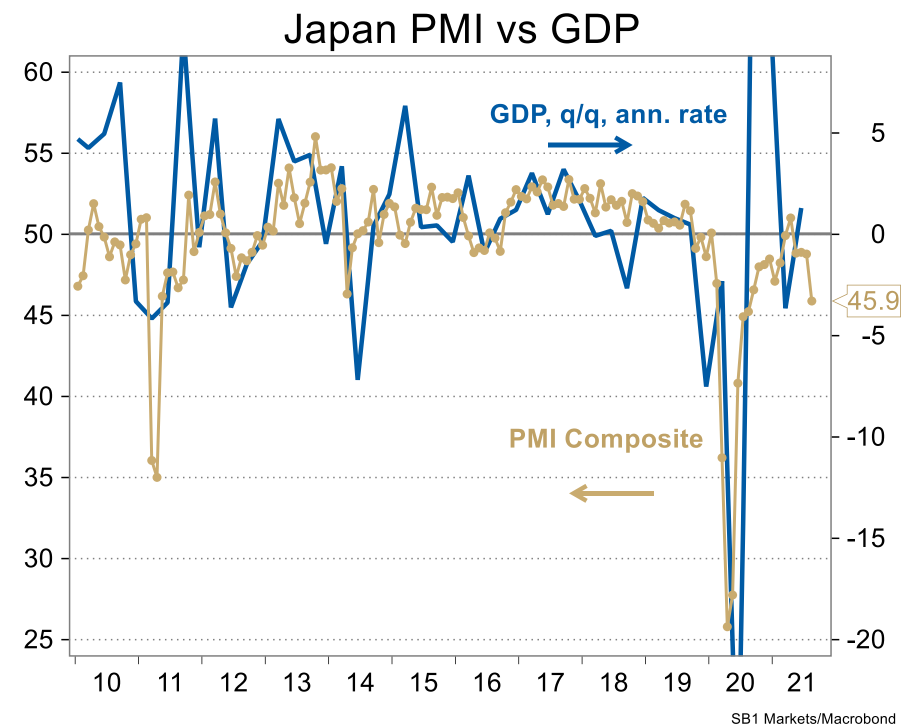
- Employment is very likely down less than 1% from before the pandemic in Q2, vs the 1% shortfall reported by the national accounts in Q1
- Hours worked has recovered substantially vs last spring, and are still on the way up - and are now 1% below the pre-pandemic level (but further below the long term trend)
- A rapid increase in the volatile participation rate explains most of the lift in the LFS unemployment rate recent months (if not in June)

Services PMI hit by the covid outbreak in August

Manuf. PMI down 0.5 p to 52.4, services -3.9 p to 43.5, and the composite at 45.9 signals -3% growth







- No consensus forecast was available but the decline in the services PMI was probably larger than most expected
- The correlation between PMI and GDP is not that impressive, but for what it worth: A 3%+ decline in GDP is signalled

Highlights

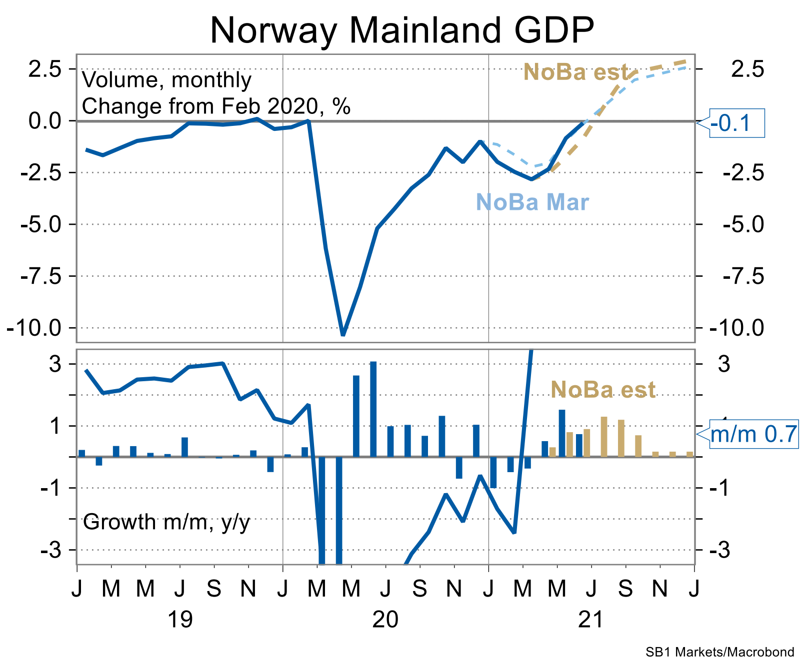
The world around us

The Norwegian economy

Market charts & comments

Mainland GDP up 0.7% in June – and is close to the same level as pre Covid

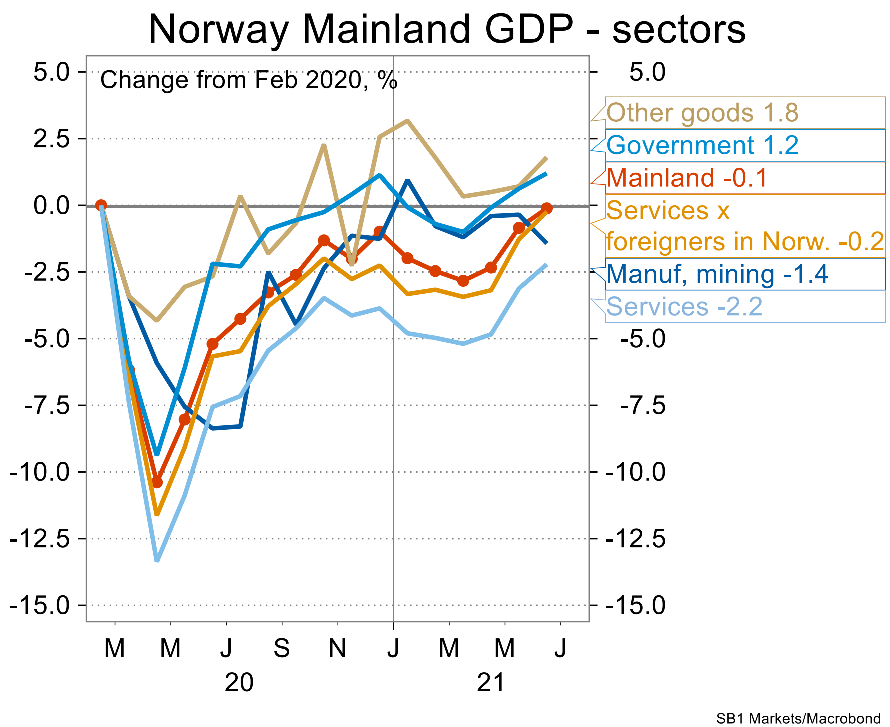
… and 0.5 pp ahead of NoBa's June forecast. Still much more to go in services

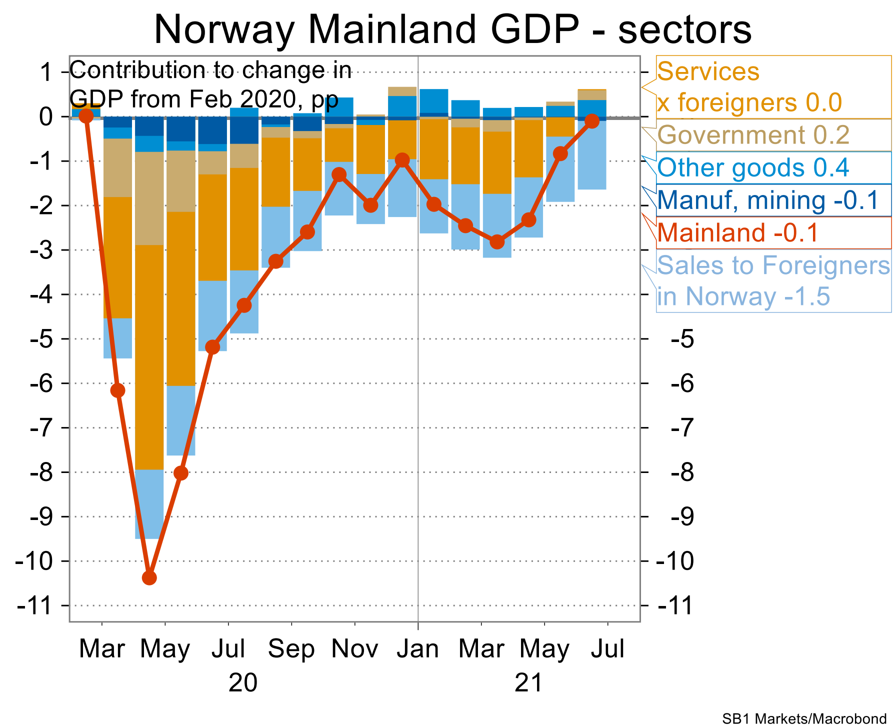


- **Mainland GDP grew by 0.7% m/m in June**, 0.6 pp below consensus, 0.8 pp below our f'cast, and 0.2 pp below NoBa's f'cast. The June level was 0.7% higher than NoBa expected
- **GDP grew 1.4% in Q2**, 0.3 pp less than expected consensus/SB1) but 0.6 pp faster than NoBa assumed in June
  - » **Production:** Private services were up by 1% in June, with substantial gains in hotels & restaurant, art/entertainment, transport. In Q2, services rose by 2%. Manufacturing production fell by 1.1%, close to flat in Q2
  - » **Demand:** Norwegians' spending at home was up 1.4% in June, goods consumption was flat from May but spending on services rose sharply. Investments in both housing, Mainland businesses, oil & in the public sector rose in Q2, and all but oil also in June alone
- **Mainland GDP is down 0.1% vs the Feb-20 level**
  - » **GDP** was 0.7% above NoBa's f'cast in June
  - » **Production:** The 4 hard hit services are still far down, 22% – 39% in Q2 (somewhat less in June). The total negative drag equals some 3% of Mainland GDP. Other sectors are up in sum, with trade, manufacturing & education in the lead. Construction is down 5%
  - » **Demand:** Norwegians' spending at home is up 4.5% from Feb-20, goods +17%, services down 7%. Spending abroad has fallen by 93%, and the money is saved. Housing investments are up. Mainland business investments have fallen by 3%, while oil investments are down 4%. Exports ex petroleum (and tourism) are 2% below the Feb-20 level. Foreigners are not spending anything in Norway, a cut equalling 1.5% of Mainland GDP

Production: Improvement in all main sectors in June, except for manufacturing

The recovery is well underway – but services have much more to go

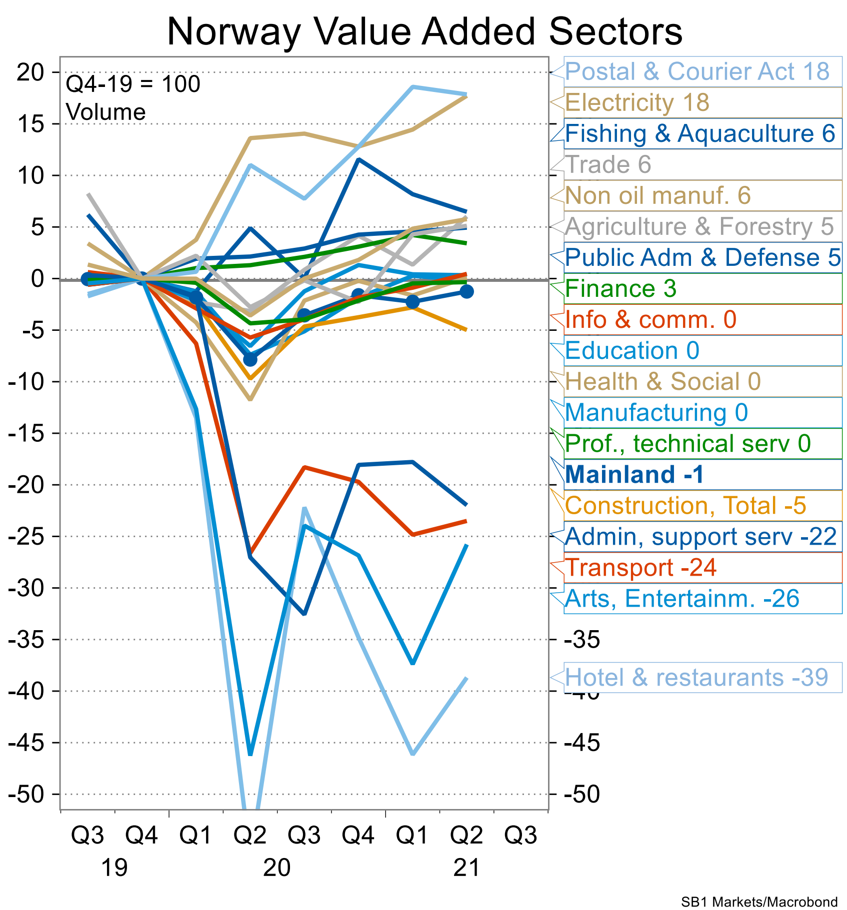


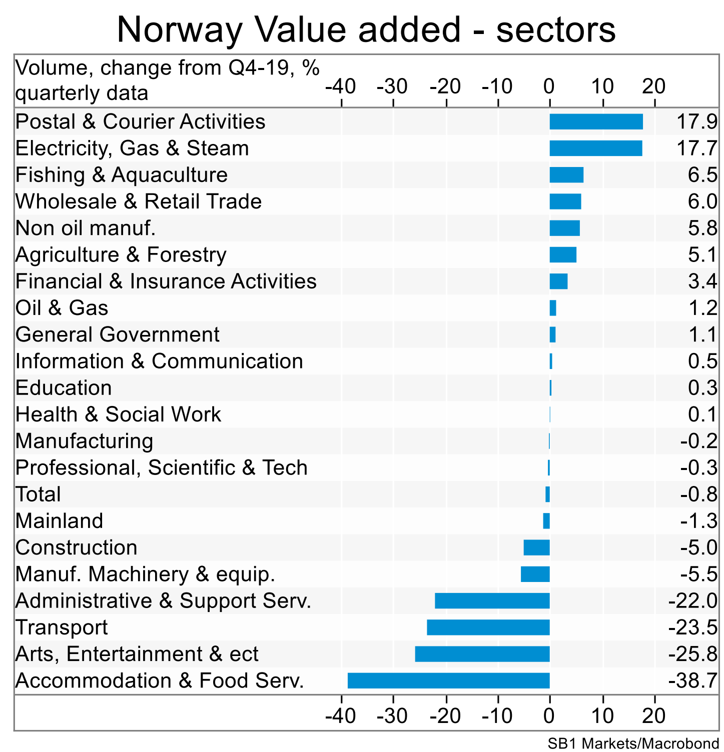


- **Service sector production was up 1%** in June, as corona restrictions were eased further – and the activity level is still 2.2% below the Feb-20 level, mostly due to lower sales to foreigners in Norway
- **Manufacturing production (incl. mining)** was the only sector that declined
- **Other goods production** is volatile mostly due to (ocean) **fisheries and electricity production.** Production rose in June and contributed the most on the upside

Production: Still a way to go for the hard hit service sectors

Transport, arts, entertainment, hotels & restaurants at the bottom – still down 22% – 39% vs. Q4-19



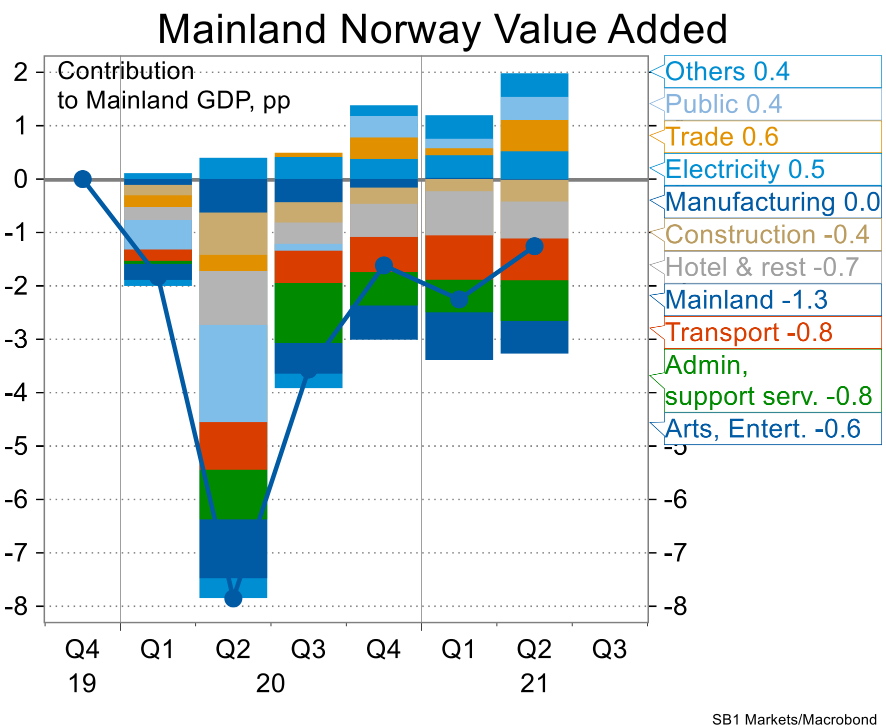


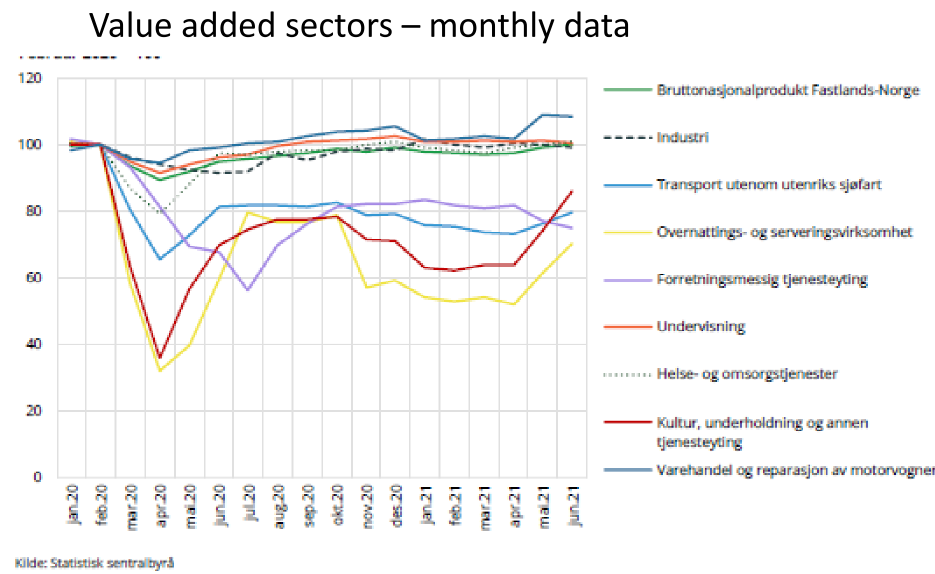
The Q2 data vs Q4-19 (some monthly aggregates at the previous page)

- **Hotels & restaurants** are down 39% vs Q4-19. Culture & Entertainment -26%
- **Administrative & support services** (like staffing & travel agencies, cleaning, canteens, leasing etc) are down 22% - and activity fell in Q2
- **Transport** -24%, both due to the steep decline in personal transport (airlines, train etc)
- **Construction** is far weaker than we have assumed, 5% down vs. Q4-19
- **Manufacturing** flat, due to the decline in production in oil related industries, others are up 6% vs Q4 19
- **Fisheries & Aquaculture** is close to the top of the list, as are electricity production
- And the winner is: **Postal & courier activities**, +18%. We have all seen them around

The hard hit service sectors still a 2.9% drag on Mainland GDP in Q2

In June losses were somewhat reduced - but activity remains far below normal levels (12-30%)

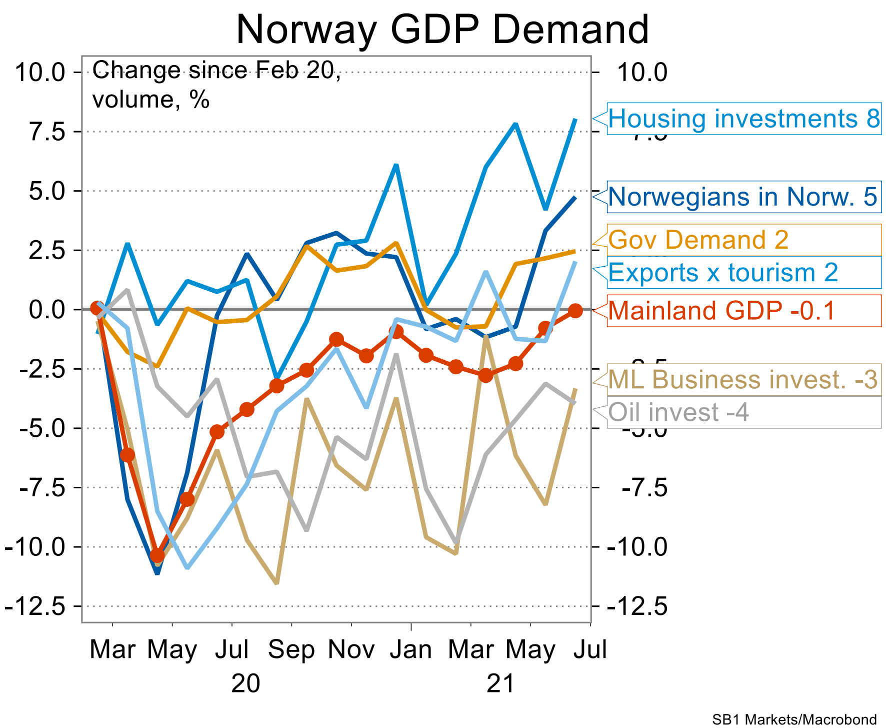


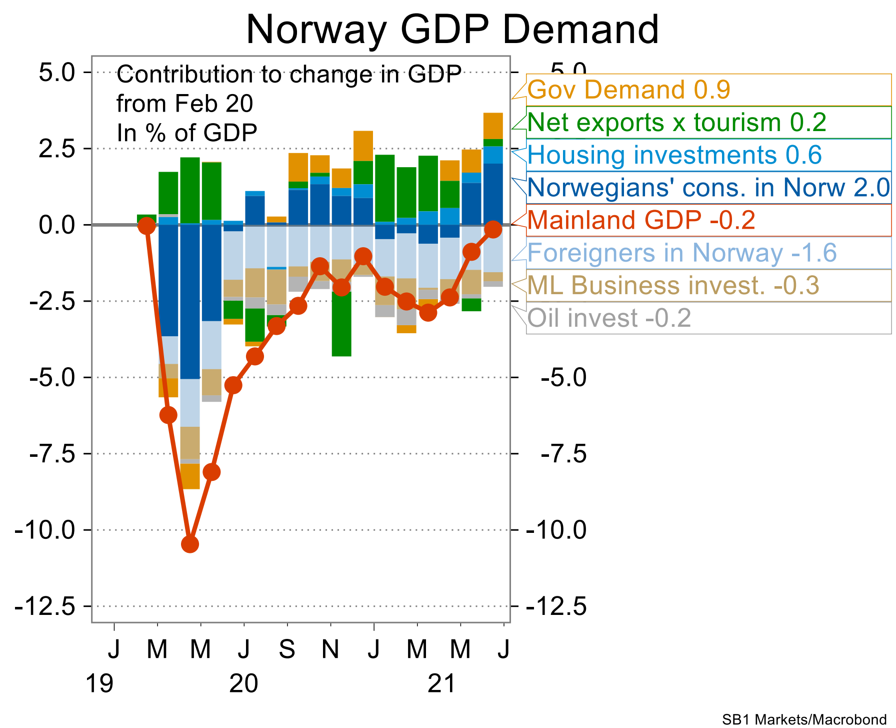


- SSB has not published monthly production data for June, just the chart to the right above (in Norwegian, sorry)

Demand: Households demand has recovered

Norwegians' consumption rose 1.4% in June, mostly due to an increase in consumption of services



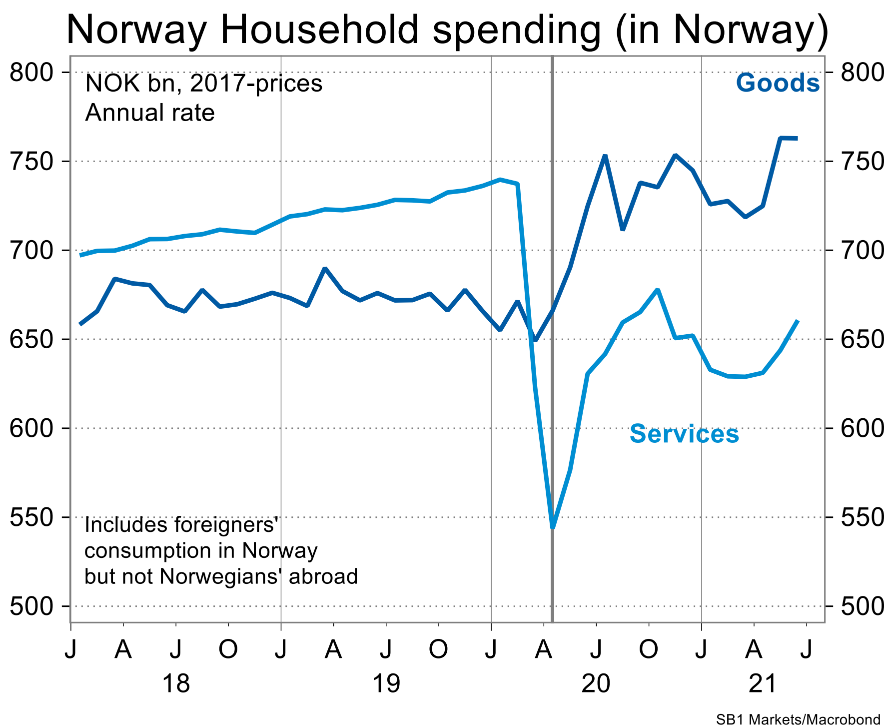


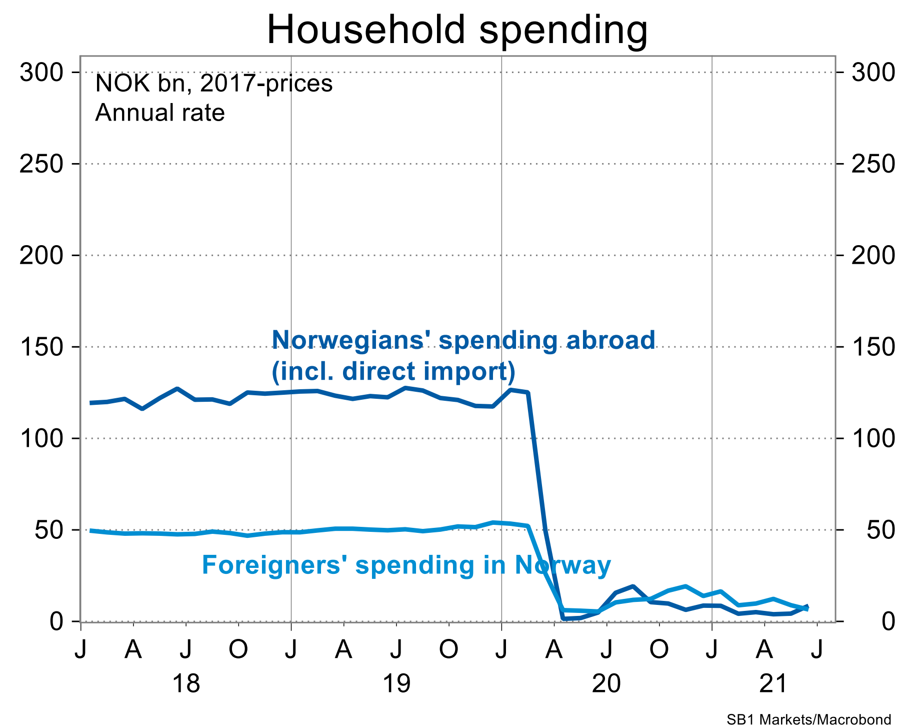
- **Norwegians' consumption in Norway** shot up by 1.4%, and the level is 5% above the Feb-20 level
  F**oreigners** are still not spending anything, and deducts 1.5% from GDP (not adjusted for import content of goods they (used to) buy here)
- **Mainland business** investments rose 4.6% in June, and are 3% down vs. Feb-20
- **Oil investments** decreased 0.9% in June, and are now down 4% since Feb-20, deducting 0.2% from GDP
- **Government demand** fell by 0.3% in June, up 2% vs. Feb-20
- **Domestic demand x inventories** rose by 1.8%. Inventories fell in June
- **Mainland exports** (x tourism) rose 3% in June, and are 2% above the **Feb-20 level.** Net exports x tourism are slightly above Feb last year

SpareBank 1 MARKETS

Consumption services up in June – goods flat

Huge upside for services as the economy opens up. And a substantial downside for goods…





- A miniscule lift in spending abroad in June, expect substantially more in July, and a gradually recovery the coming quarters

Norwegians are consuming like normal – in total – in Norway. Not abroad

Huge increases in spending on services in June. Foreigners not yet to be seen

Norway Consumption spending from Feb 20

Sales of consumer goods/ services & consumption	Change from Feb 20, NOK bn, annual rate, const. bn	% Change %
Sales in Norway	**15**	**1.0**
Goods	91	13.6
Services	-77	-10.4
Norwegians in Norway	**60**	**4.5**
Goods	110	16.9
Services	-49	-7.0
Foreigners in Norw.	**-46**	**-87.5**
Norwegians' consumption	**-56**	**-3.8**
In Norway	60	4.5
Abroad	-117	-93.2

SB1 Markets/Macrobond

Norway Consumption spending m/m

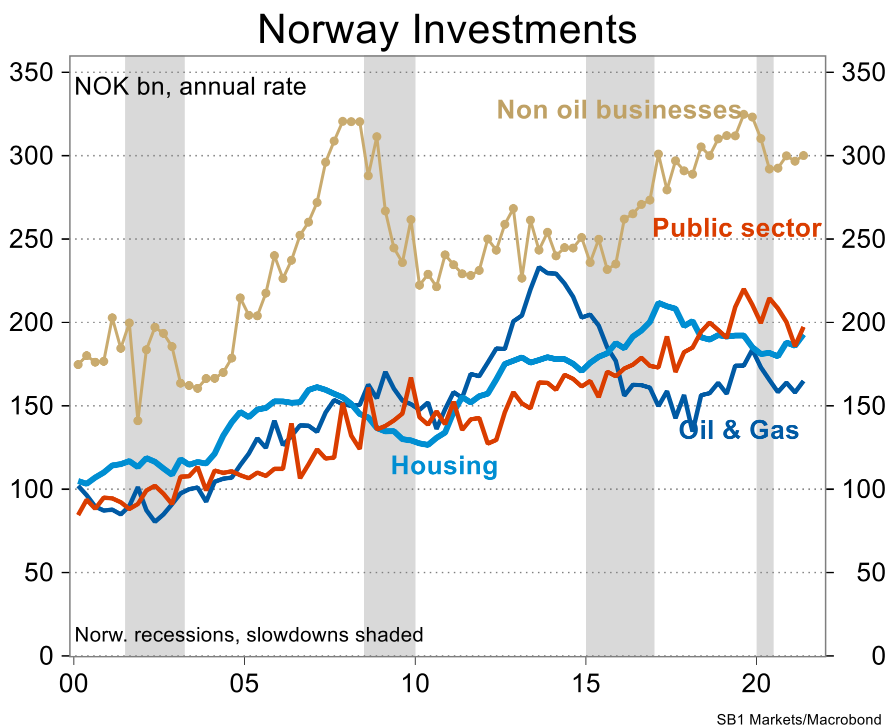
Sales of consumer goods/ services & consumption	Change m/m NOK bn, annual rate, const. p bn	% Change m/m %
Sales in Norway	**17**	**1.2**
Goods	0	0.0
Services	17	2.6
Norwegians in Norway	**19**	**1.4**
Goods	1	0.1
Services	18	2.9
Foreigners in Norw.	**-2**	**-26.6**
Norwegians' consumption	**23**	**1.7**
In Norway	19	1.4
Abroad	4	100.3

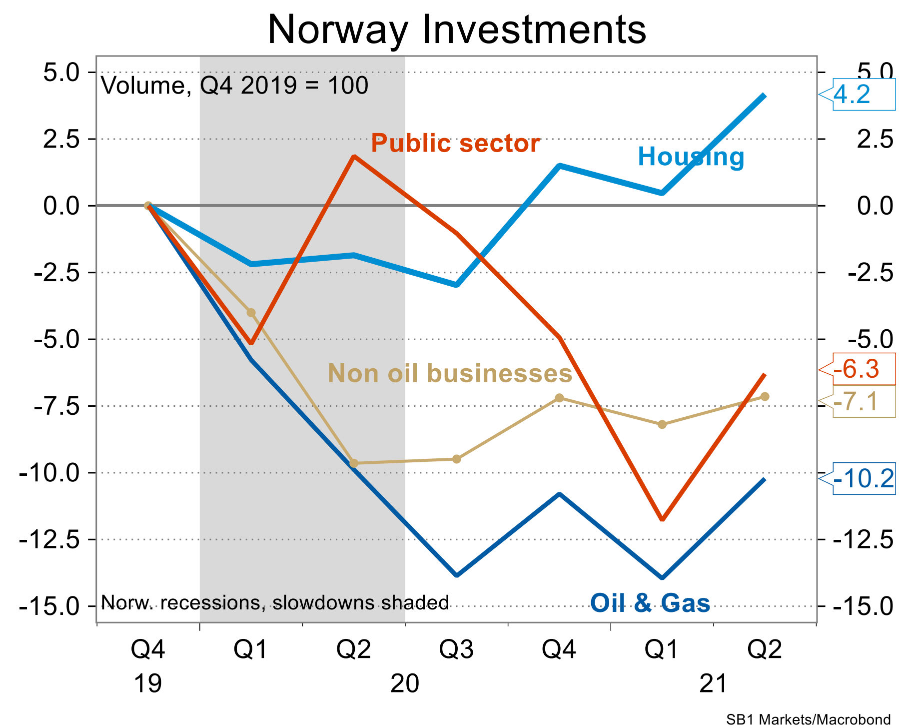
SB1 Markets/Macrobond

- **Sales of consumer goods** in Norway are up 14% vs. Feb-20, while services are down 10%, the sum up 1%
  - Lack of foreigners' demand in Norway – which has fallen by 88% - has deducted 3.3% from domestic spending
- **Norwegian households** have increased their consumption of goods in Norway by 17% but reduced consumption on services by 7% in sum a 5% lift in domestic spending
- **Total (Norwegian) household consumption** has fallen by 4% vs. Feb-20. Of this is 8 pp due to the 93% (!) decline in Norwegians' spending abroad
- **Foreigners** are not spending anything yet, at least not in June
- **We expect consumption to normalise** rapidly the coming quarters. Demand for goods is very likely above long term trend and will slow when spending on services picks up, and when we can start spending abroad again, with a substantial lift in Q3 but travel abroad will probably remain subdued for several quarters. We expect the savings rate to decline substantially

Investments recovered in Q2

Housing investments above the pre-pandemic level, other are still below

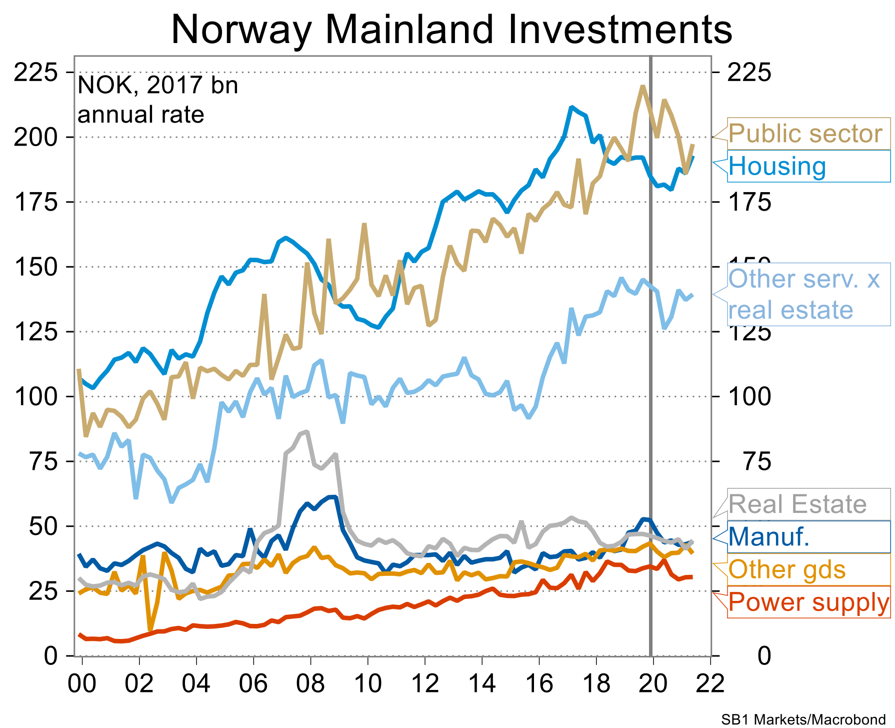


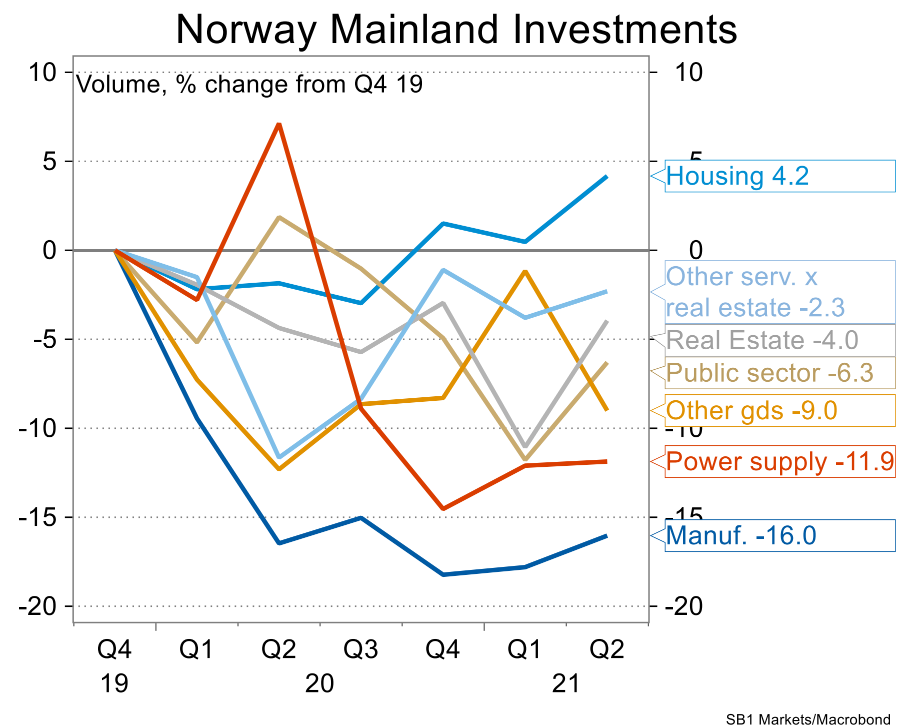


- Both **Mainland business, housing, and oil sector investments** were heading down before the corona virus hit, either measured by actual investments or vs. GDP, as signaled by investment plans/surveys (manufacturing & oil)
- Investments rose in Q2 for all the main sectors
- Oil investments are still down 10% vs Q4-19, Mainland businesses by 7% - while housing investments is up 4.2%!
- Public investments have fallen 6% (some fewer F-35 fighters?)

Mainland business investments up in Q2 but below Q4-19 level. Housing is above

Some activities may have been dampened due to corona restrictions, like lack for foreign labour

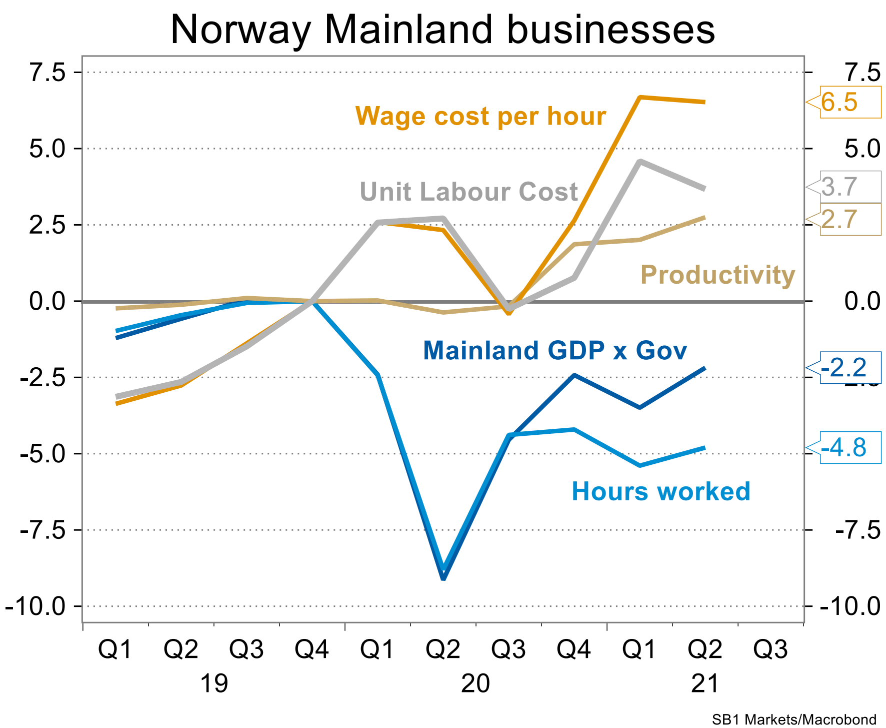


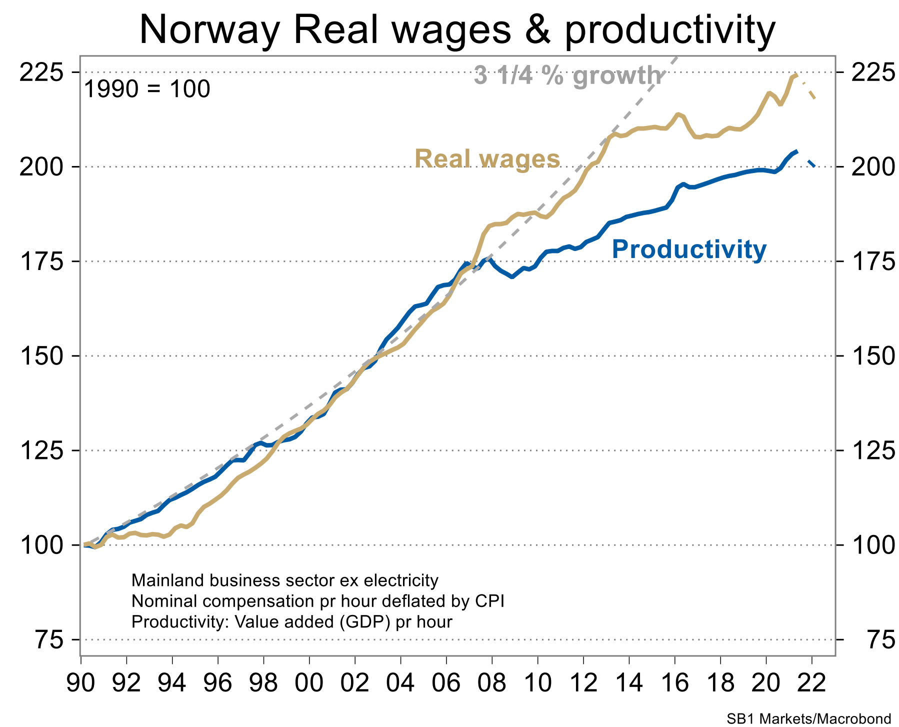


- **Public sector** investments are volatile but the underlying trend still downwards
- **Housing** investments fell to mid 2020 from 2017, but has since recovered. Currently up 4.2% vs. the Q4-19 level
- Investments in **private services** soared in 2016-2017, then flattened and fell sharply in H1 last year. Almost all of the corona setback was reversed in H2, before the level declined again in Q1. As of Q2, investments are 2% down from Q4 ‘19
- **Manufacturing** has flattened, following a 15% decline H1-20 as signalled by investment surveys before the pandemic. Surveys have now recovered, and investments increased in Q2
- **Real estate** investments were sharply up in Q2, but are still 4% down since before the pandemic
- **Power supply** investments fell last year – as signalled by SSB’s investment survey – and is signalled sharply down in 2022

Hours worked in the Mainland business sector still down almost 5%

Average wage cost has been growing at a 4%+ pace since Q4-19

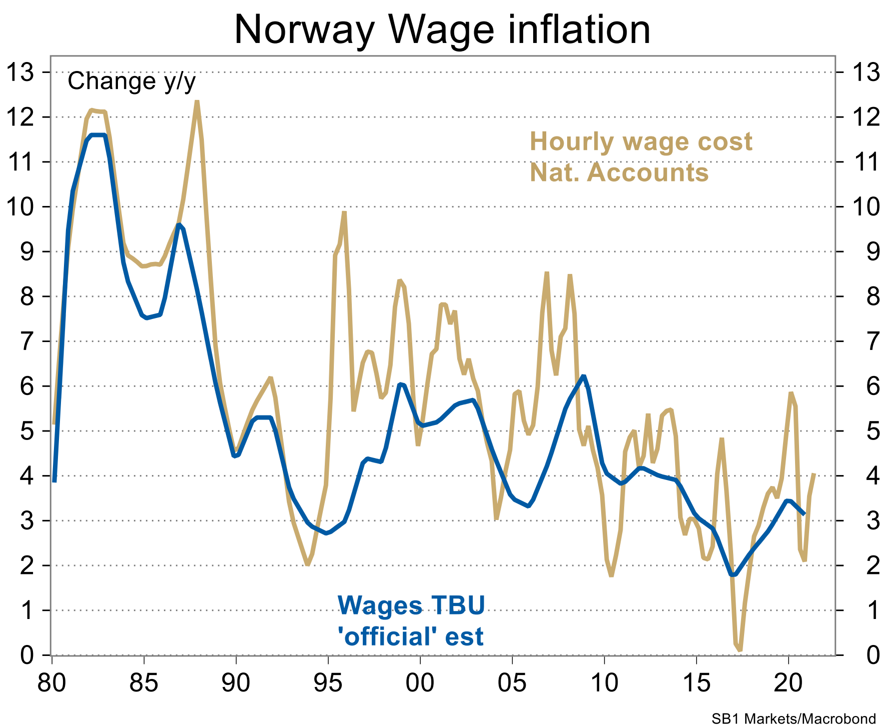


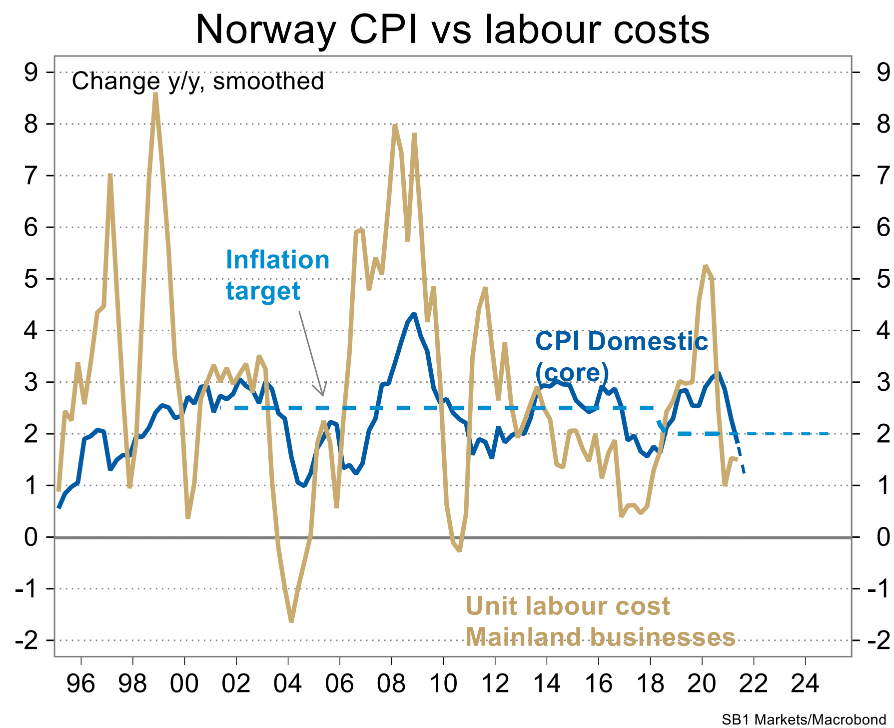


- Changes in **hours worked** in the private sector were equal to the change in GDP until Q3-20, and have been somewhat weaker since, as productivity has increased somewhat
- The **average hourly wage** has climbed sharply since Q4-19, at a 4% pace**.** These data are influenced by government measures, like how the furlough program is booked, and by the change in the employment mix. Lower paid service jobs are lost.
- **Productivity** has increased at a 1.8% pace since Q4-19, partly due to reduced employment in low value added sectors (hotels, restaurants, culture, business services)
- **Unit Labour Costs** have been increasing at a 2.5% pace (but is not much up y/y)

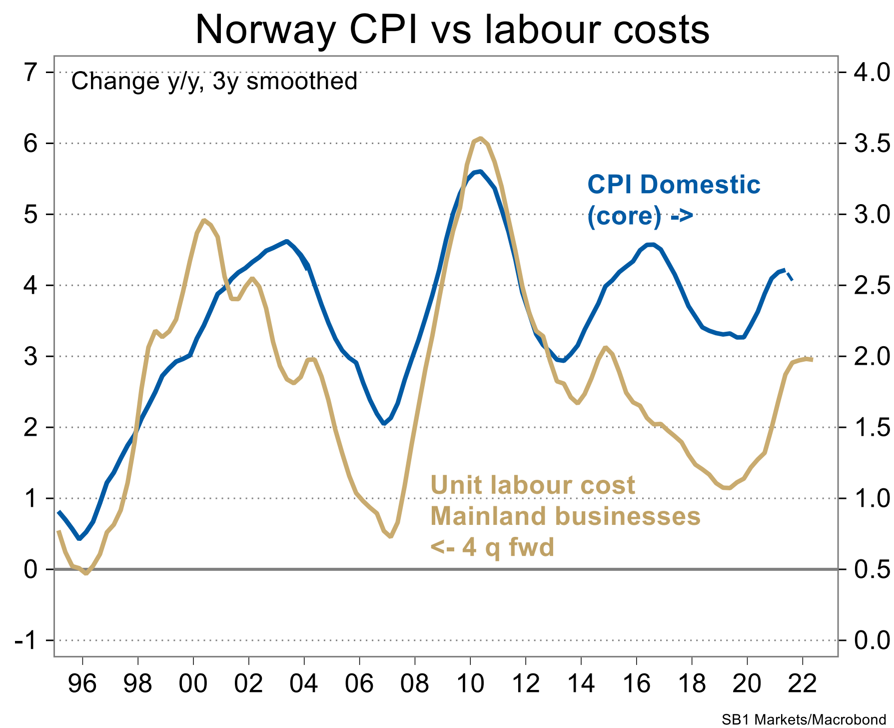
Annual Unit Labour Costs growth in Q2 masks the lift since before the pandemic

National wage inflation at some 4%, productivity growth at less than 2% - But no serious cost problem



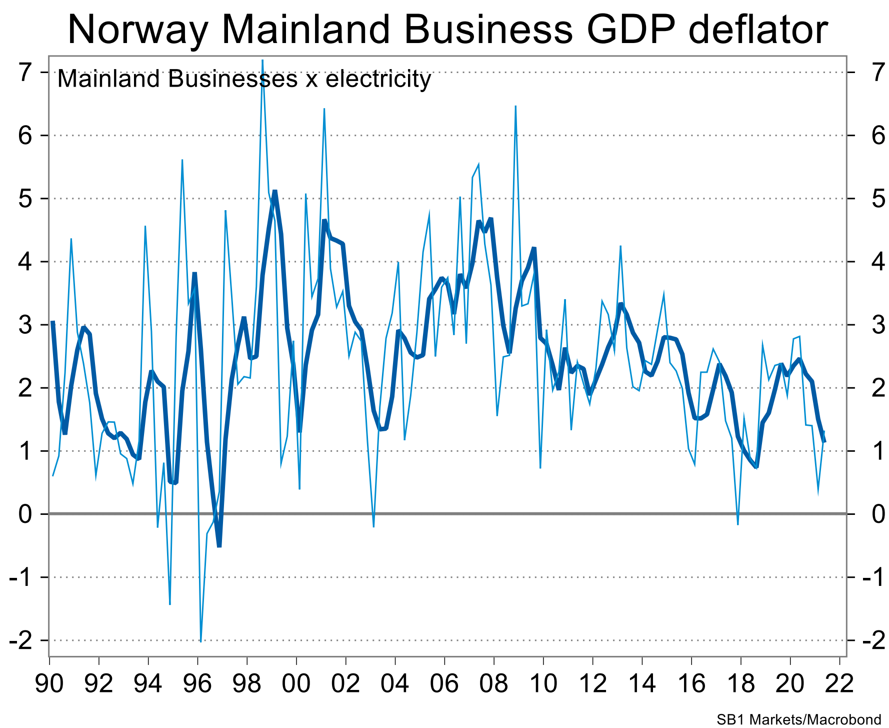


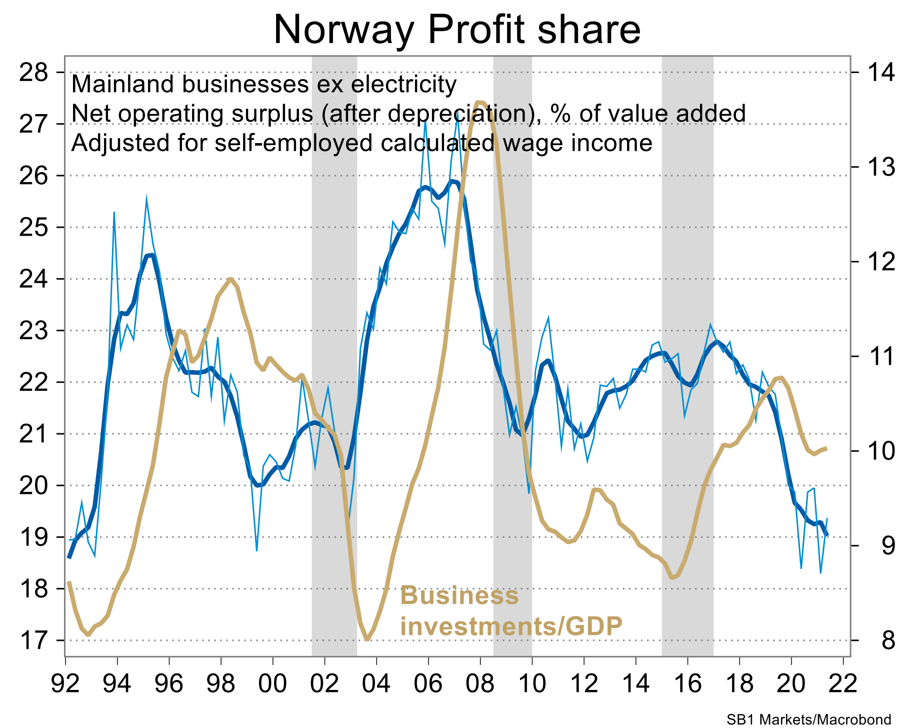
Over time, costs are important for inflation



The profit share was under pressure, before corona – and fell further

H1-21 data are extra uncertain – but prices are not rising fast, and wage inflation is not that low

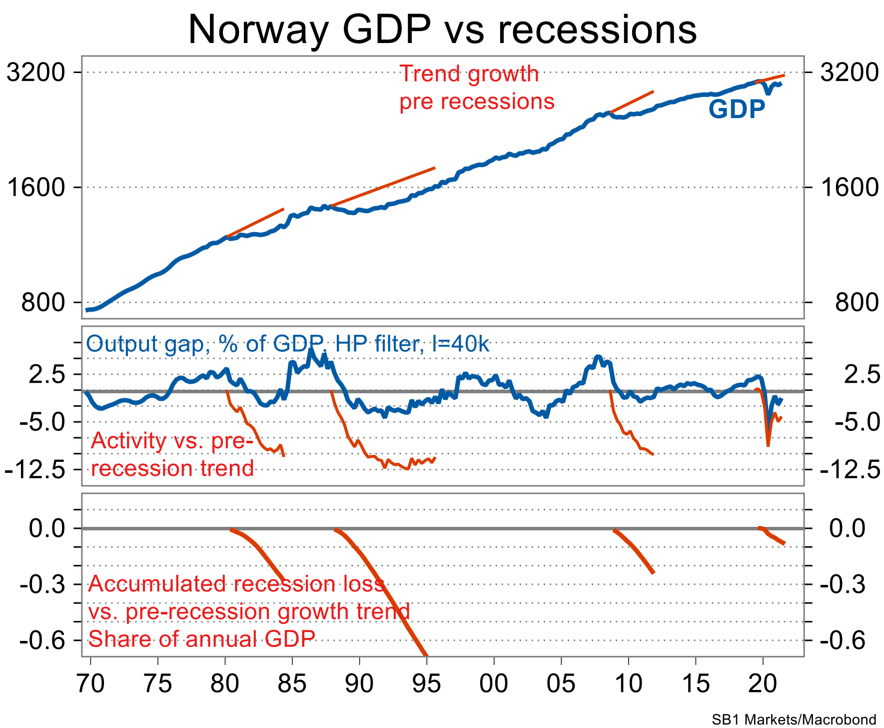


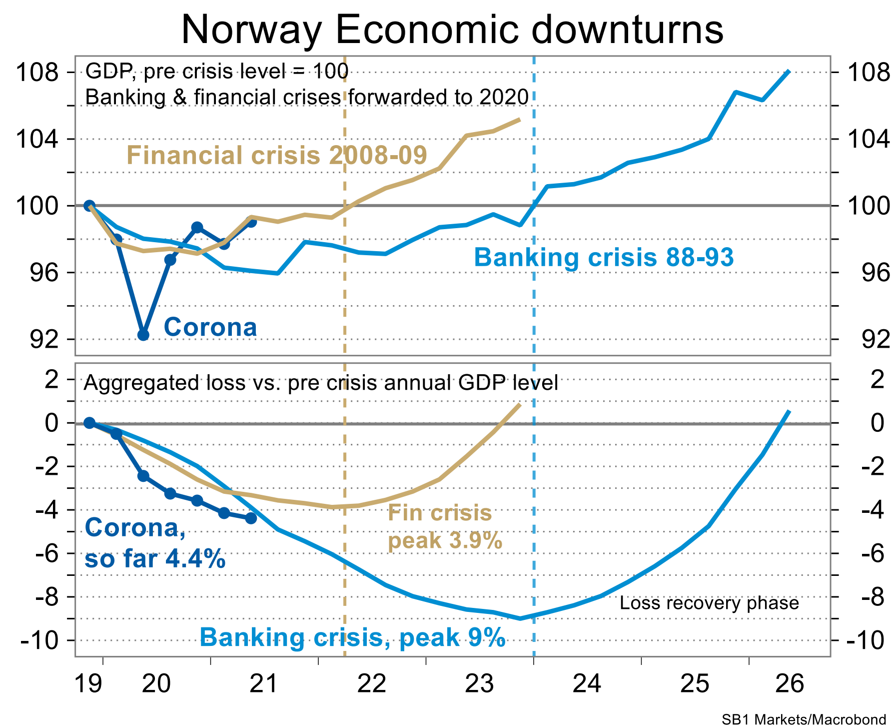


- The Mainland business GDP price deflator (ex the volatile electricity sector) slowed through last year and into 2021 – and is now up just 1% y/y
- Increased transfers to the business sector lifted gross operating profits by NOK 20 bn last year, equalling 5% of net operating surpluses or 1% of value added. (In the US, the comparable figures are at least five times larger). We assume a reduction in subsides in 2021 vs. the 2020 level

The Big Picture: Not a normal downturn, of course

The deepest and shortest downturn has not created large economic loses

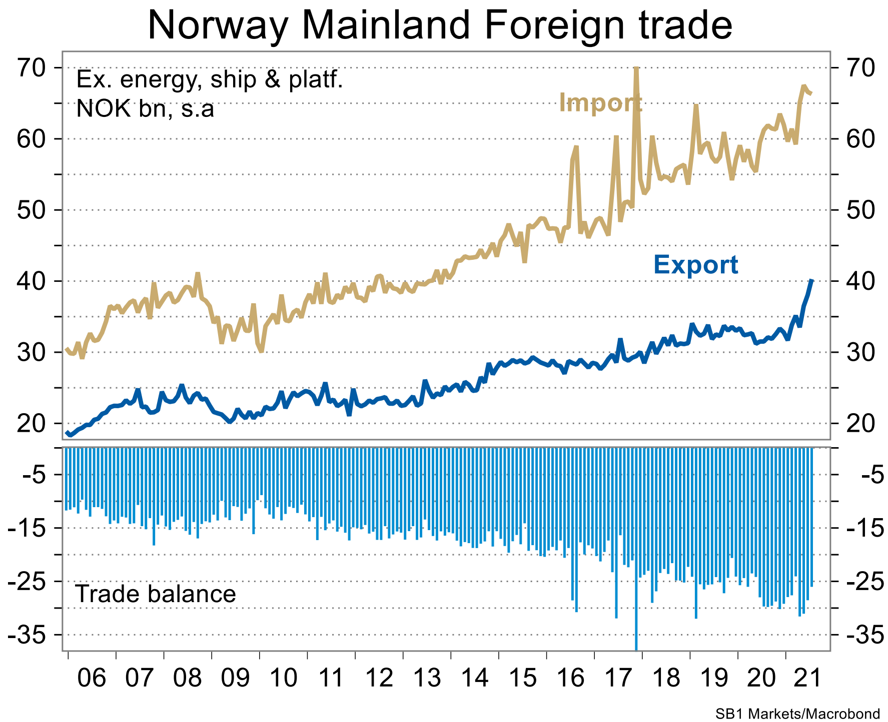


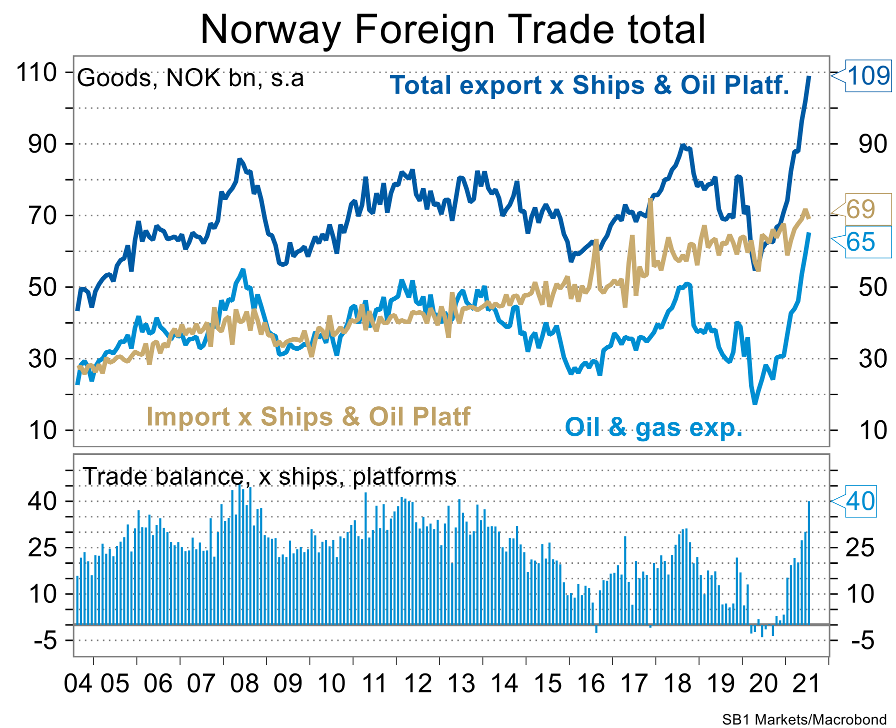


- A **pre-crisis growth trend** might be looked upon as a path that was expected among economic agents (household, companies, banks, market participants) before the crisis, based on their adaptive expectations. The loss vs this trend line is the economic/income loss vs. these expectations, a measure of the 'disappointment' (income, consumption, corporate earnings, etc)
- The accumulated loss vs the **pre-pandemic growth trend** is so far less than 10% of one year's GDP. The accumulated loss vs. the pre-pandemic GDP level is 4.4%
- **The Banking Crisis** (88-93) created far longer and in sum much larger losses, in sum more than 70% of GDP (depending on when you stop counting, we do it rather arbitrary when our post the fact output gap is closed, in 1995). The loss vs. the pre Banking Crisis GDP level peaked at 9%
- The losses during and after the **Financial Crisis** (2008-2010) were substantial vs. the pre-crisis trend growth path, accumulated up to 25% of GDP before the output gap was closed in late 2011. However, the accumulated loss vs the pre FC GDP level was just 3.9% - less then the current loss during the pandemic downturn. GDP is now exactly at the same level vs the starting point as after the FC (upper panel, chart to the right above)

Mainland trade deficit contracted for the 4th consec. month as exports surged

Total balance surplus up in July, equaling 18% of GDP

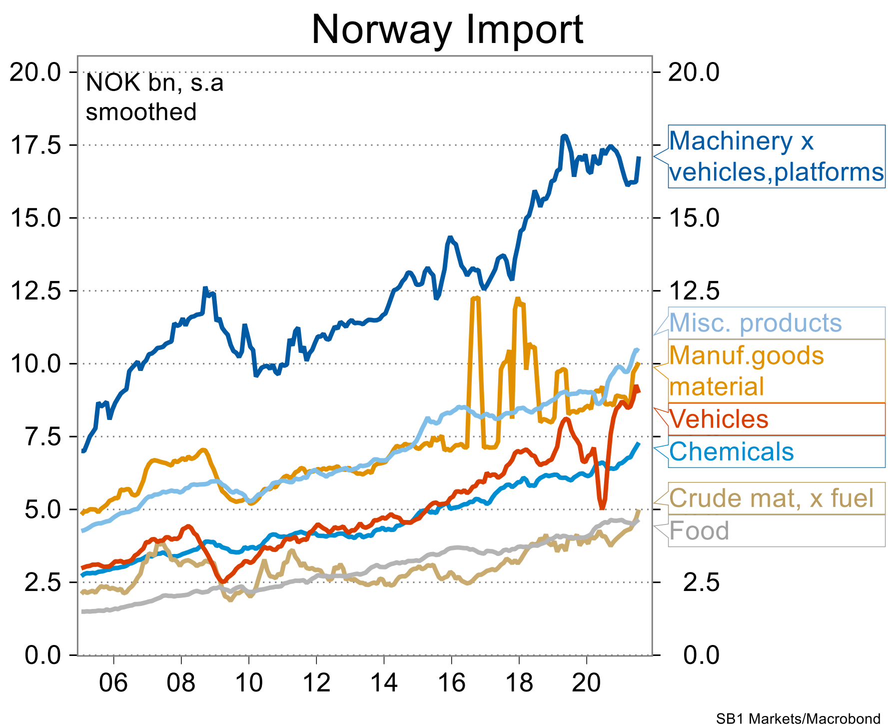


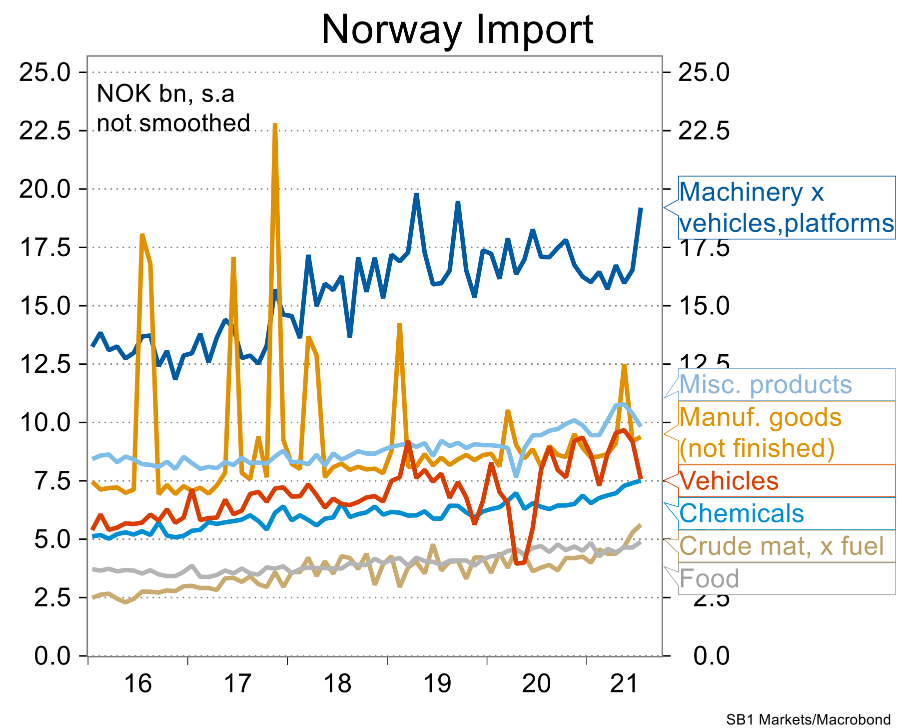


- **The Mainland (non energy) trade deficit** in goods fell for the 4th month and has contracted by 20% since April
- **Non-energy exports were** again at ATH in July. The main contributors on the upside for exports were machinery & transport equipm., fish, and crude materials
- **Imports** were marginally down in July, as a result of lower import of vehicles. The underlying trend for imports is still up
- **Export of oil and gas**, helped by higher prices, is well above pre corona levels, totalling 65 bn in July (+6 bn m/m), bringing the total trade surplus to 40 bn, or some 18% of GDP. We are not broke, yet (and the Norwegian trade surplus has not fallen by NOK 400 bn, as has become the popular phrase in the Norwegian election campaign –it is higher than it was 6 years ago)

Machinery imports sharply up in July, up 16% m/m

Vehicles and misc. products import lower





- Imports of everything but vehicles have increased since July last year
- Vehicle imports slowed rapidly in H2 2019 and early 2020, along with auto sales. In May, imports were at the highest level ever, but has since declined. The level is now below that of July '20, after falling almost 18% m/m

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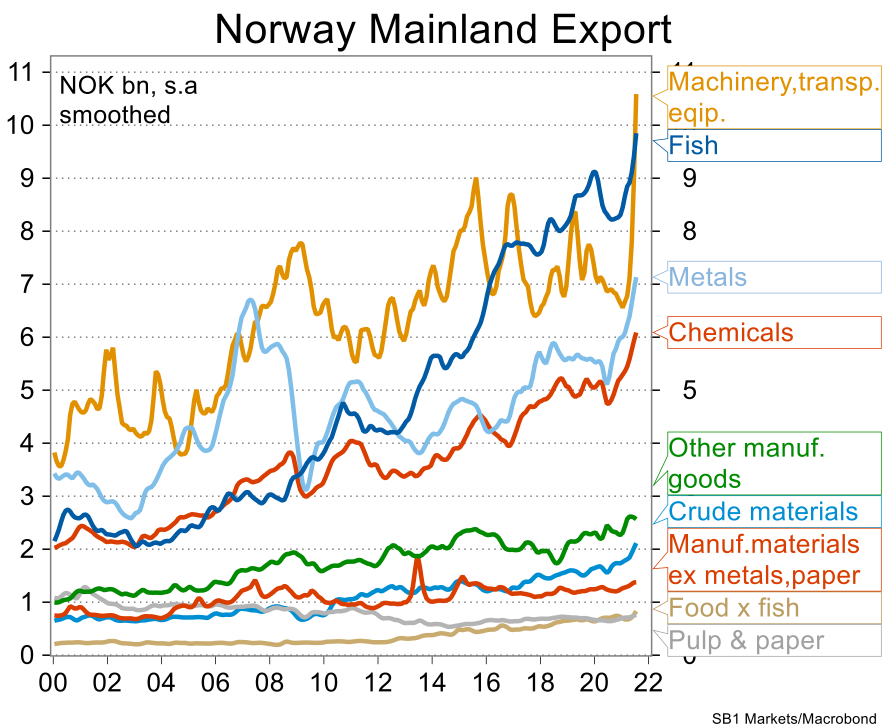
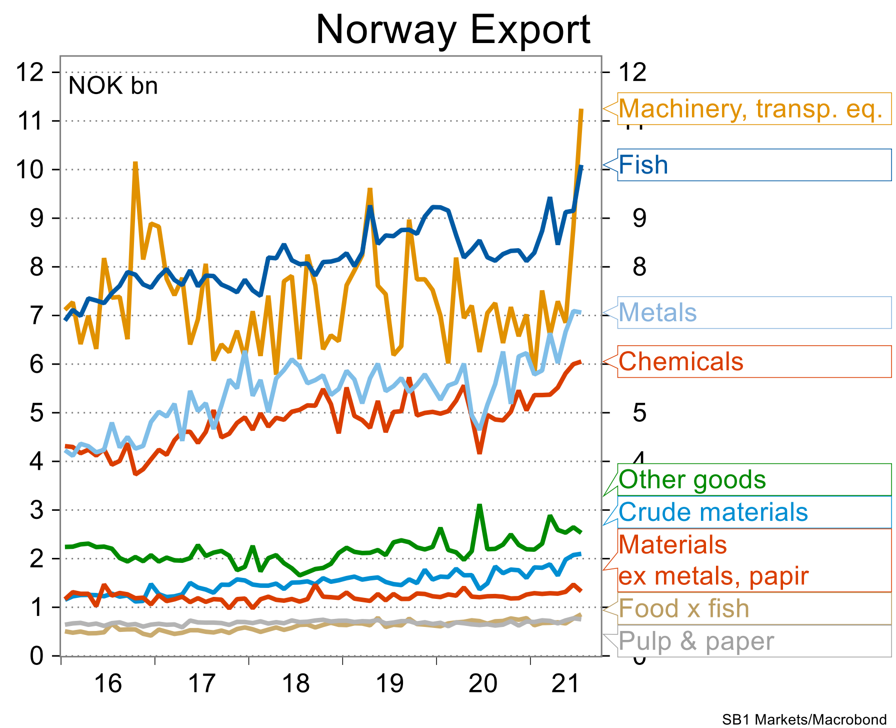
Steep increase in machinery & transport equipment and fish exports in July

All exports up y/y

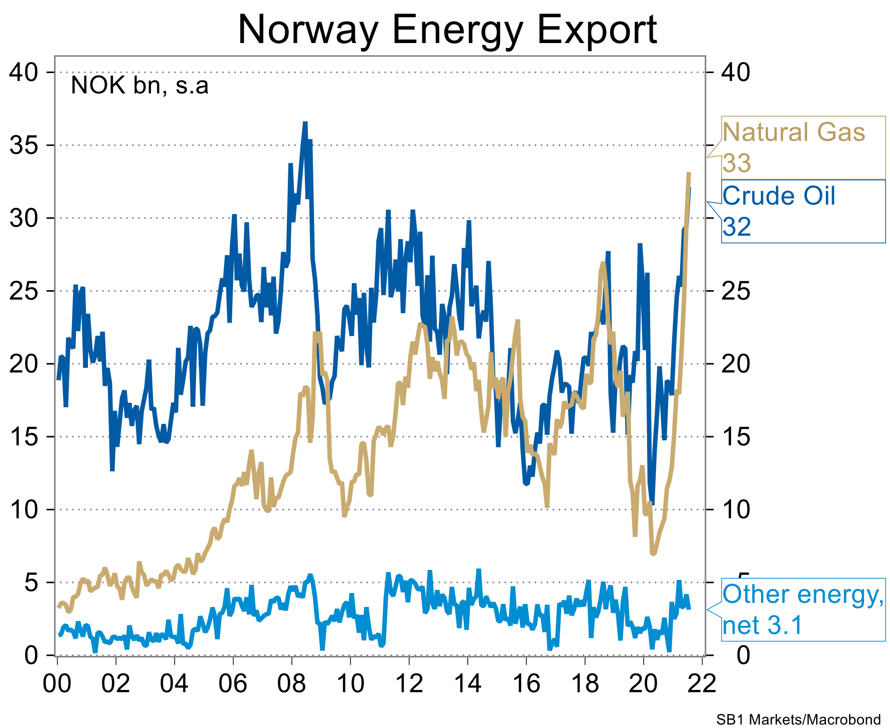


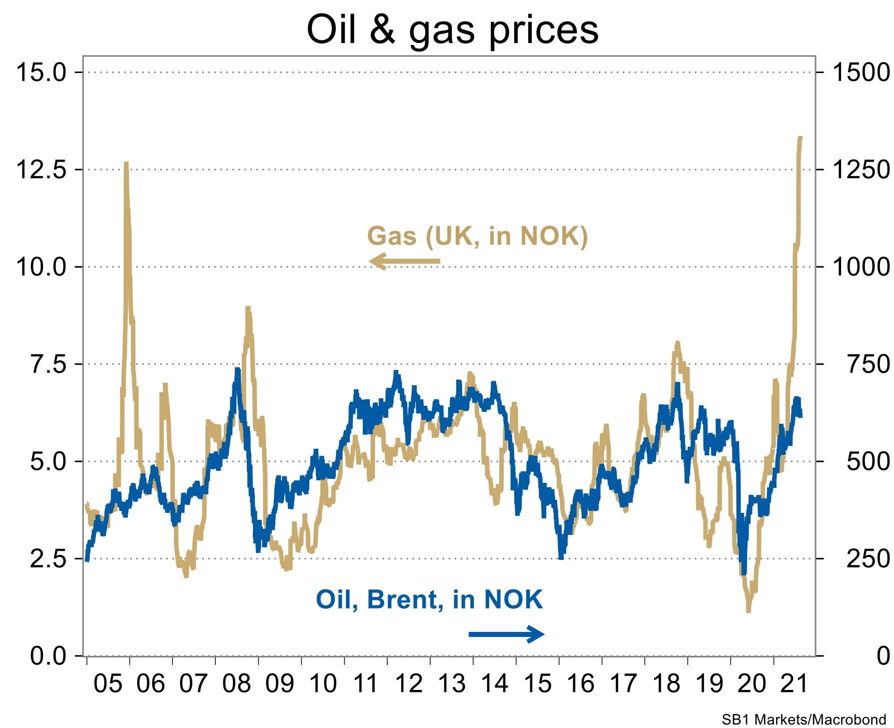


- Exports of machinery and transport equipment (of which much is related to oil activities abroad) has seen a massive increase in the past couple of months, and the 27% increase in July was mostly driven by a 139% m/m increase in the export of ships - of (one or more) ferries, and a special ships, both no doubt just one-offs
- The other main contributor to the m/m increase in mainland exports was fish. Fish exports are up 10% m/m and 23% since July last year, most of which can be attributed to increased prices and larger export volumes of salmon

It’s stating the obvious: Oil & gas exports increased as prices increased

Gas prices are soaring (Thank you, Putin). Oil prices are back to a rather high level too





- **Crude oil** exports (in NOK bn) fell rapidly in March and April 2020 as the oil price dropped and global demand subsided. Exports have turned up since then, with the oil price, and exports have recovered. In July ‘21, crude exports were the highest since Aug 2008!
- **Gas** export values fell sharply during H1-20 but has recovered to above pre-corona level as gas prices have surged to levels not seen since 2005. Export volumes are up 9% y/y, whereas the value of gas exports are up 4x due to an over 600% (in NOK) increase in prices since last July. Prices have since increased further due to tighter supply in Europe and increased demand in Asia

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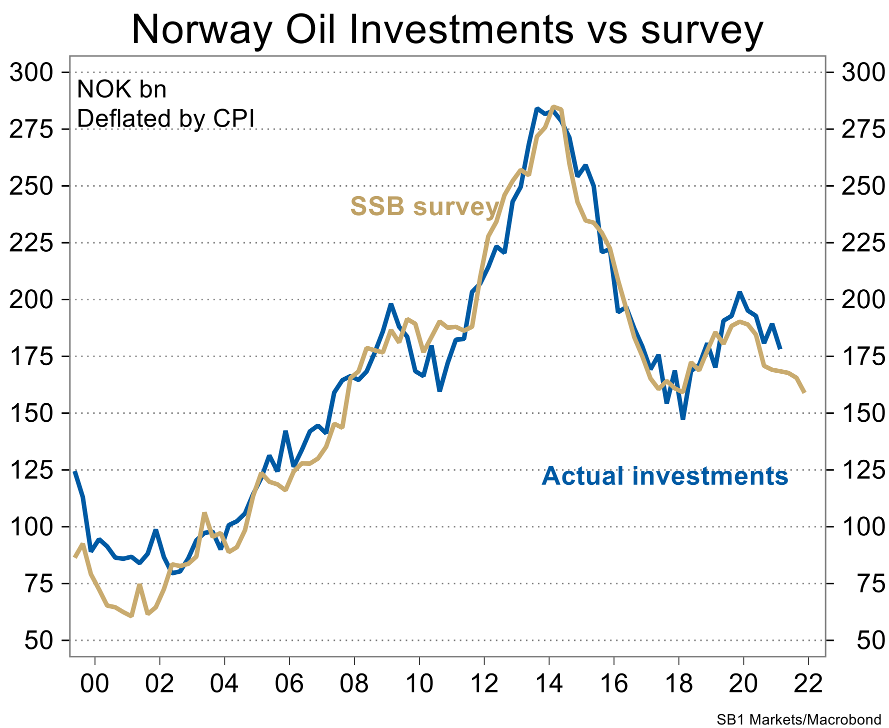
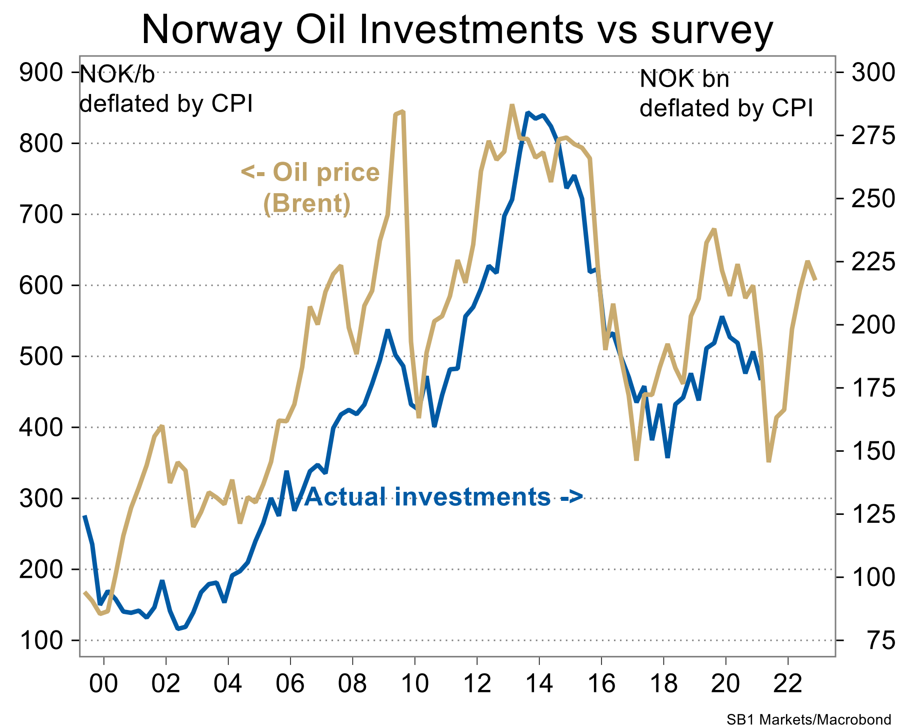
’22 oil investments: Q3 survey weaker than expected but projects will be added

No new projects were added vs the Q2 survey

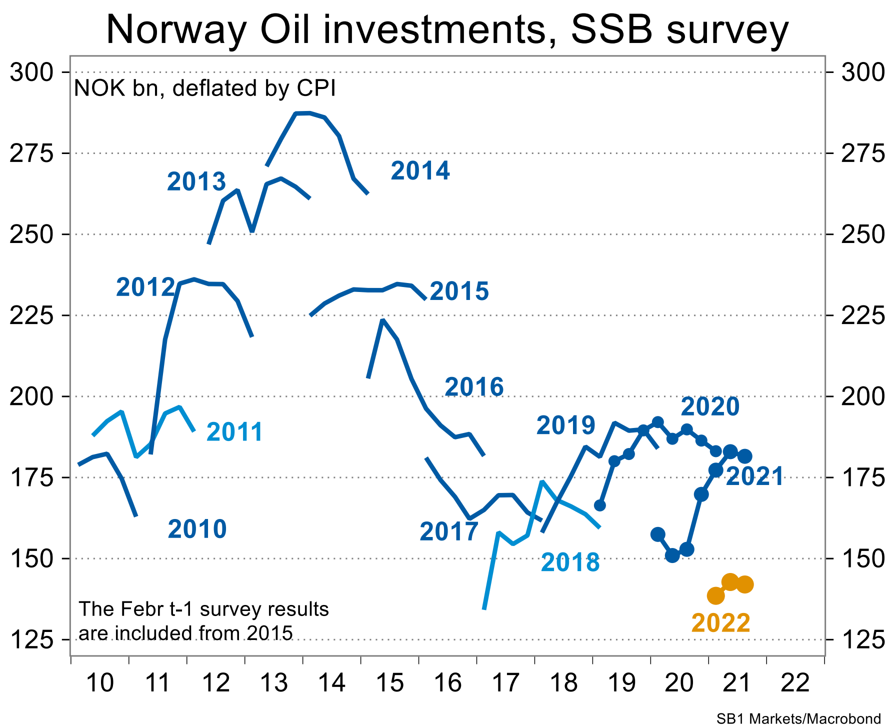




- Oil companies kept their **2021 investment forecast** unchanged at NOK 182 bn (as we expected), 2% below the equivalent 2020 estimate. <u>We expect a 4% decline, in volume terms</u>
- **The 2022 estimate** was revised down by 1% to 142 bn, well below our expectations (150 bn). The estimate is 4% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) during this and next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. <u>Still, we expect another 4% drop in investments next year. In June, Norges Bank assumed a 6% volume decline next year</u>

Still now lift in the 2022 investment forecast, and it is very low

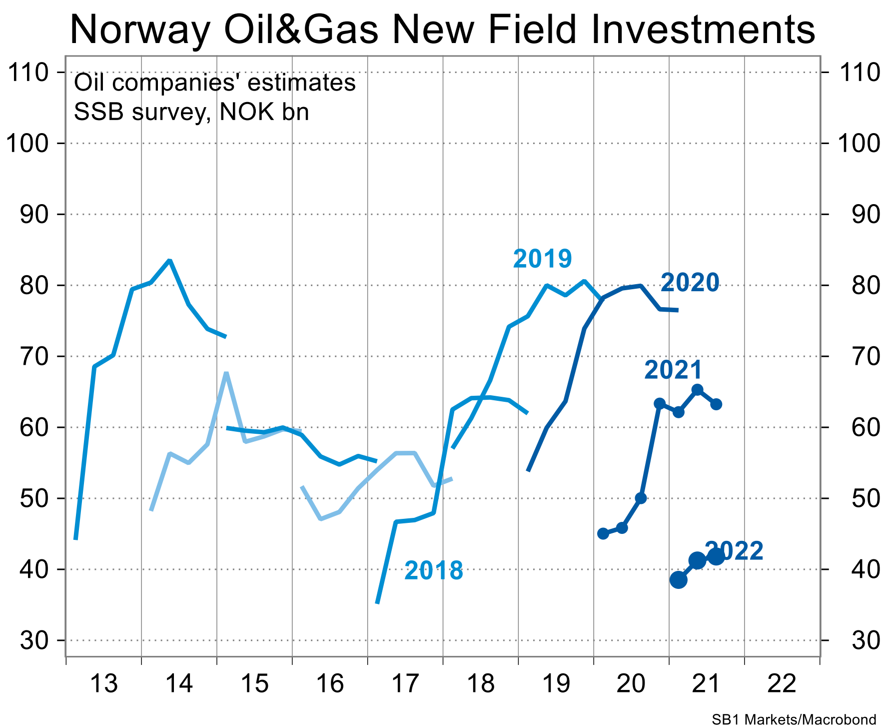
Some more projected will be added but the 'tax cut surge' will come in 2023 onwards

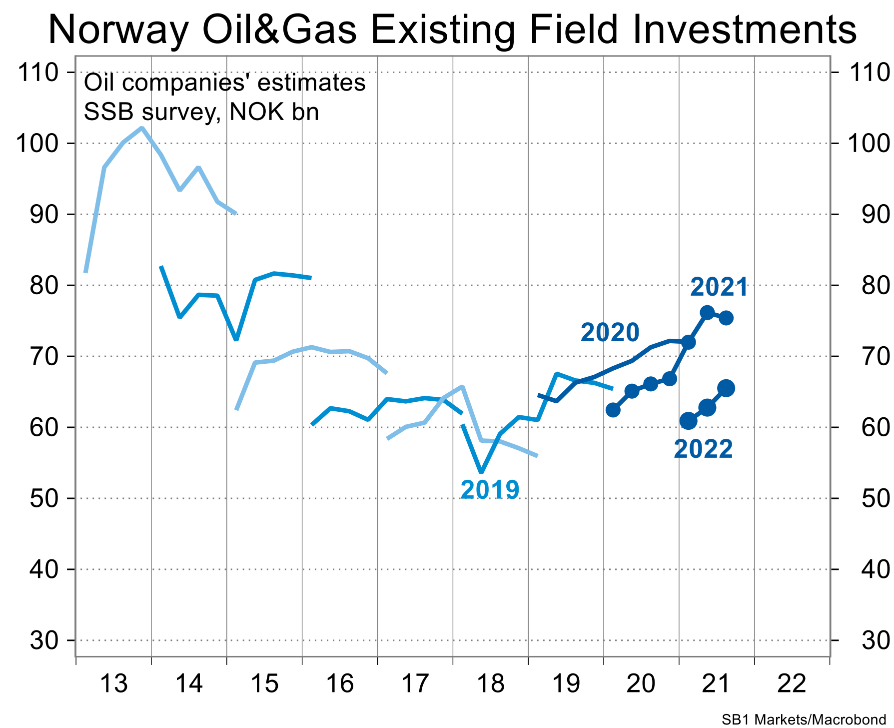


- In SSB's Q3 oil & gas investment survey, companies kept their **<u>2021</u> investment f'cast** unch. at NOK 182 bn (as we expected). The current estimate is 2% below the equivalent 2020 f'cast, which is a fair estimate for the final outcome as well. Last year prices rose sharply, partly due to the weak NOK, and this effect should be reversed in 2021. On the other hand, steel and other raw material prices have increased substantially. In sum, we expect a 3% decline in volume terms, close to NoBa's forecast (-2%)
  - » In 2021, exploration & investments in existing fields contributes at the upside, while investments in new fields are down some almost 20% as large projects (like Johan Sverdrup) were completed last year
- **The Q2 2022 investment estimate** was revised down by 1% to 142', we expected a revision up to 150'. The level is 4% below the equivalent 2021 estimate, and more project will be added the coming quarters. Still, given the sharp lift of 2021 forecast over the previous quarters, we have revised our 2022 growth forecast downwards. We expect a NOK 170 bn outcome, -3%% in value terms and 5% in volume terms, close to SSB & NoBa's estimates
  - » The decline largely driven by a 30% drop in investments in new fields. Exploration and concept studies were cut sharply too
  - » Still, companies are now planning to add a very large number of projects before the temporary tax subsidy expires by the end of 2022 – and investments will very likely increase again in 2023 and 2024.
- **We were disappointed - but Norges Bank was not**

A 15-20% drop in new field investments in 2021, and by 30% more in 2022

Some projects will be added but not sufficient to prevent a substantial decline in 2022





- **Investments in new fields:** The 2021 estimate was revised down by 3%%. Companies signal a 18% drop in 2021 vs 2020, as big projects were completed last year (like Johan Sverdrup)
- The initial 2022 forecast (from Q1-21) was one of the weakest on record, down 9% vs. the first (low) 2021 estimate (published one year earlier). The Q3 forecast is just marginally up as few new projects have been added. The coming quarters, a large number of projects will be added. In order to benefit from the temporary tax subsidies, companies will have to submit applications for new projects to the authorities 'PDOs' (PUD) before the end of 2022. Still, the 2022 outlook is not that favourable as spending on these new projects will be limited in the 'first' year - but more will follow the coming years
- **Investments in field on stream:** the 2021 forecast was revised down, and the 2022 was revised up, and companies signal close to an unchanged spending level in existing fields in 2022

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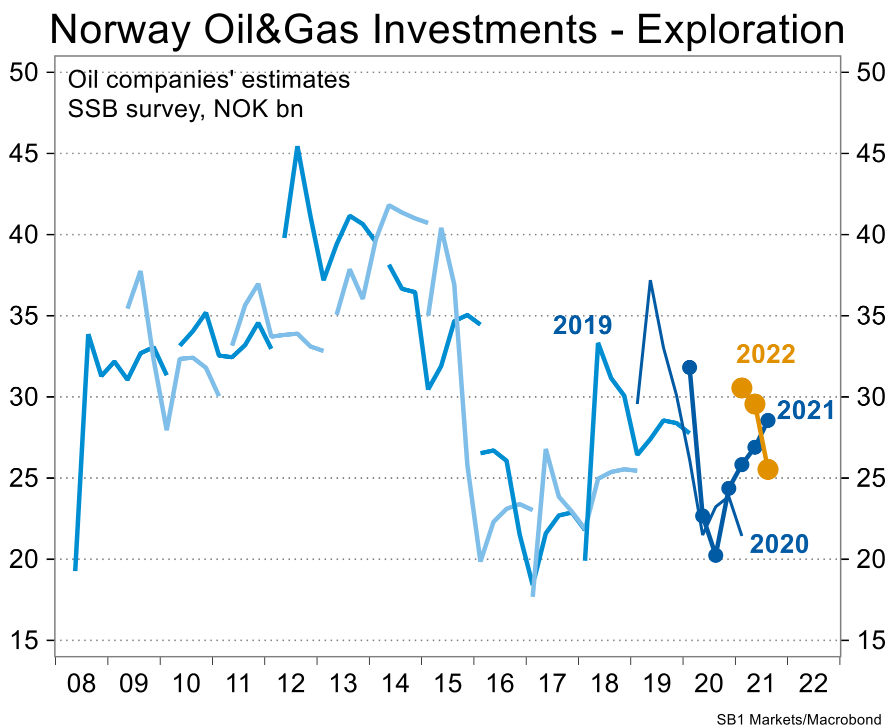
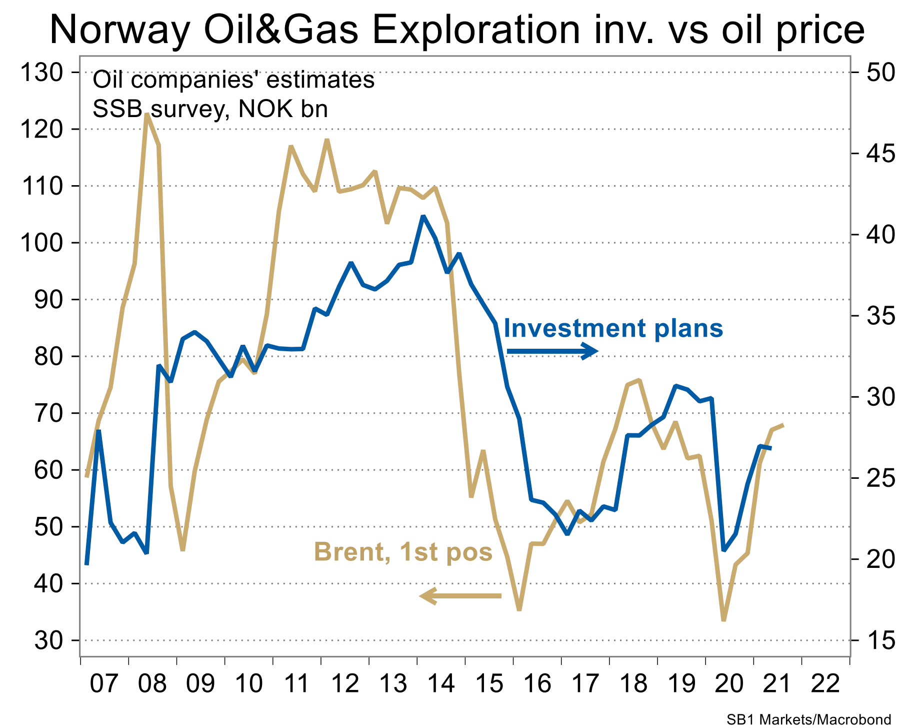
Exploration & concept studies plans sharply down in 2022

2022 estimate revised down by 14% from last quarter – to below the 2021 spending plan

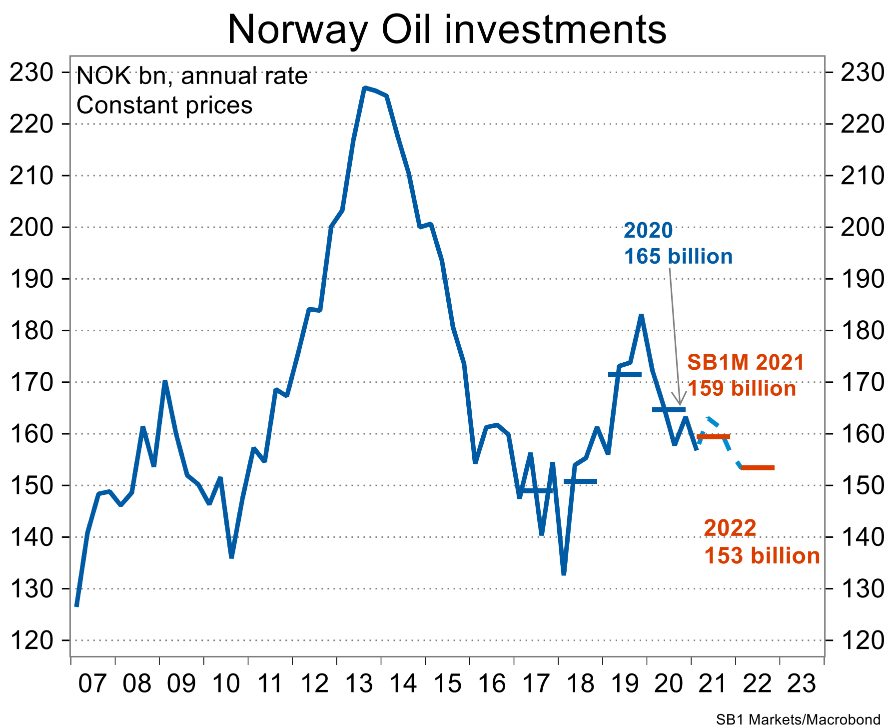


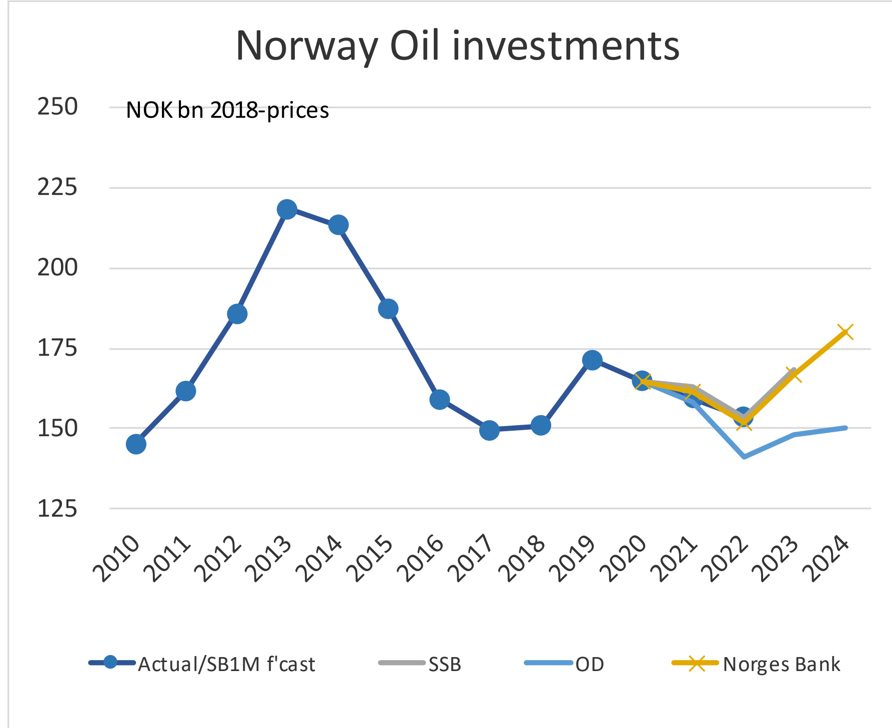


- Oil companies lifted their 2021 investment forecast further August, and the level is up almost 40% from the depressed level in 2020
- However, no further growth in signalled in 2022 – rather a minor decline

Oil investments probably down next year too

The surge will come later, from 2023





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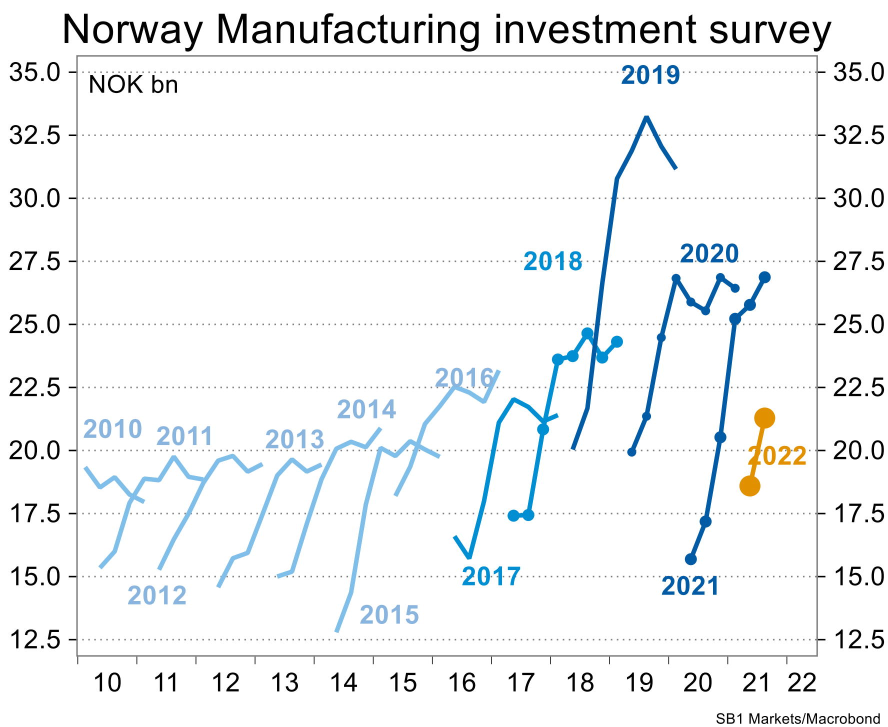
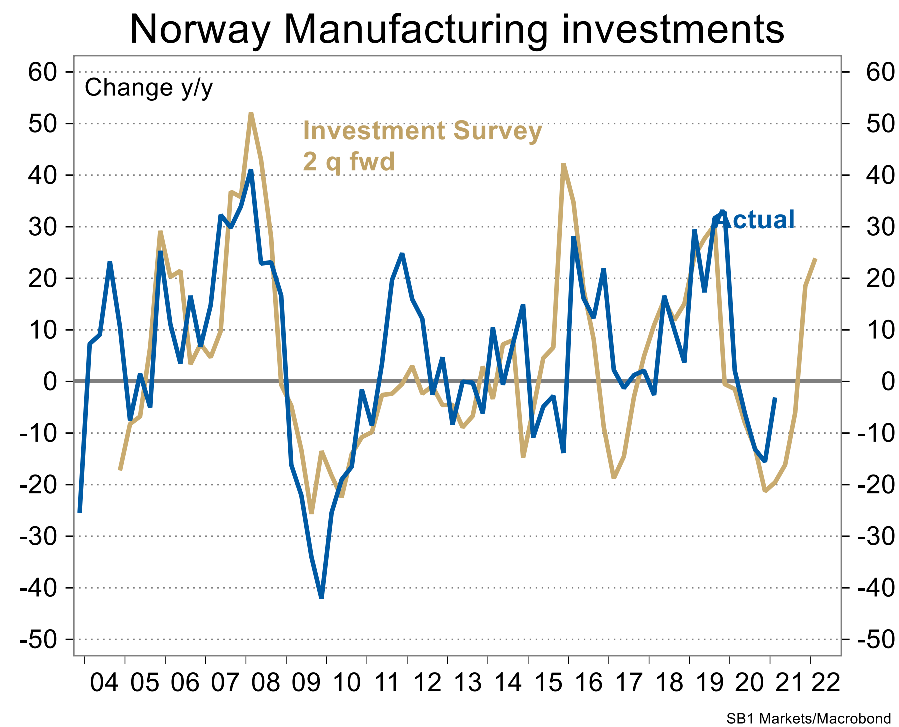
Manufacturing investments on the way up

5% growth in 2021, probably even more in 2022

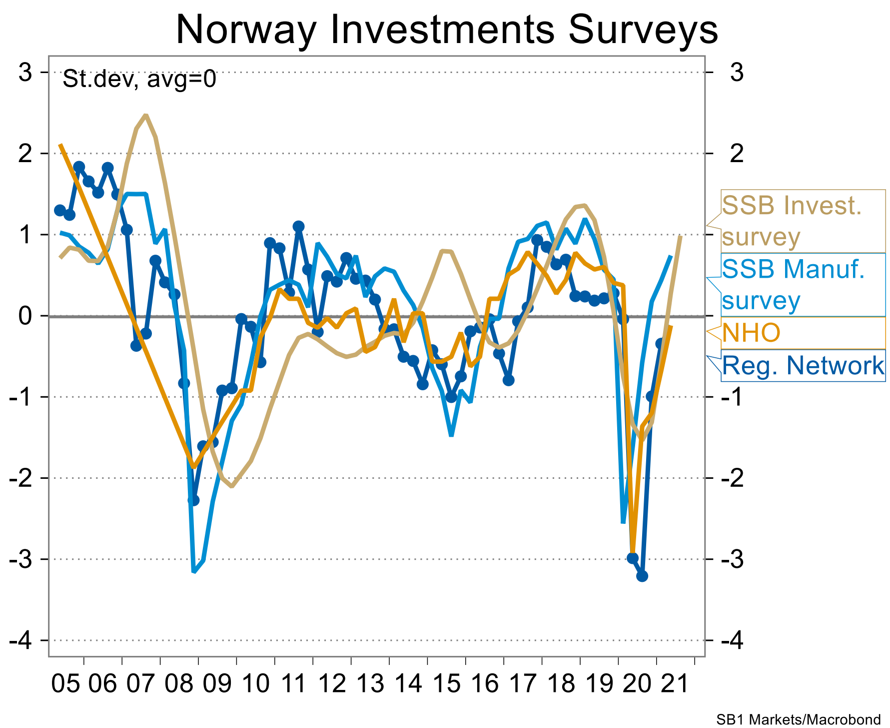




- **Manufacturing companies** adjusted their 2021 investments up by 4% in the Q3 survey, following a 2% revision in Q2 and an unprecedented 46% lift over the 2 previous quarters (in total). The Q3 estimate is 4% above the equivalent 2020 f'cast. We expect a small gain in volume terms in 2021
- **The 2nd 2022 estimate** is 24% above the first 2021 forecast, following a far higher than normal upward revision (14% vs average 5%). However, the upward revision of the 2021 estimate has been highly unusual, almost twice as much than normal (71% vs. 38%, the 2nd highest is up 66% past 10 years). We expect a more normal upward revision of the 2022 investment estimate, but still somewhat more than average as the business cycle is rather strong, and more projects will very likely be included. In sum, we deem the current estimate to signal a decent lift in manufacturing investments in 2022, at least 5% - and probably up 10%
- The metal industry contributed the most in 2021, while projects within the chemical industry take the lead in 2022

Other surveys are at least moving upwards

But 2 surveys still signal growth below par



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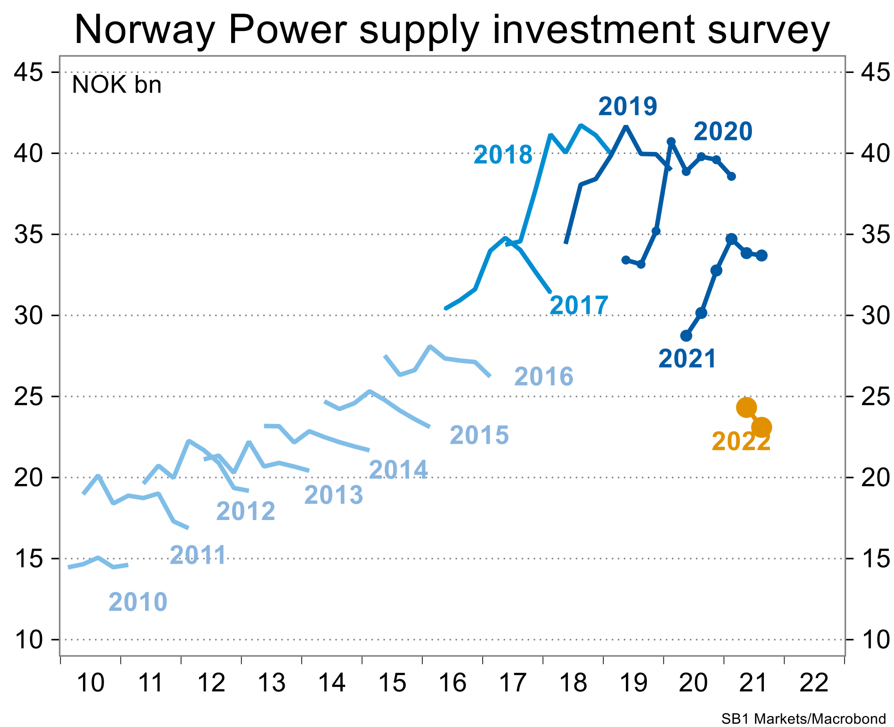
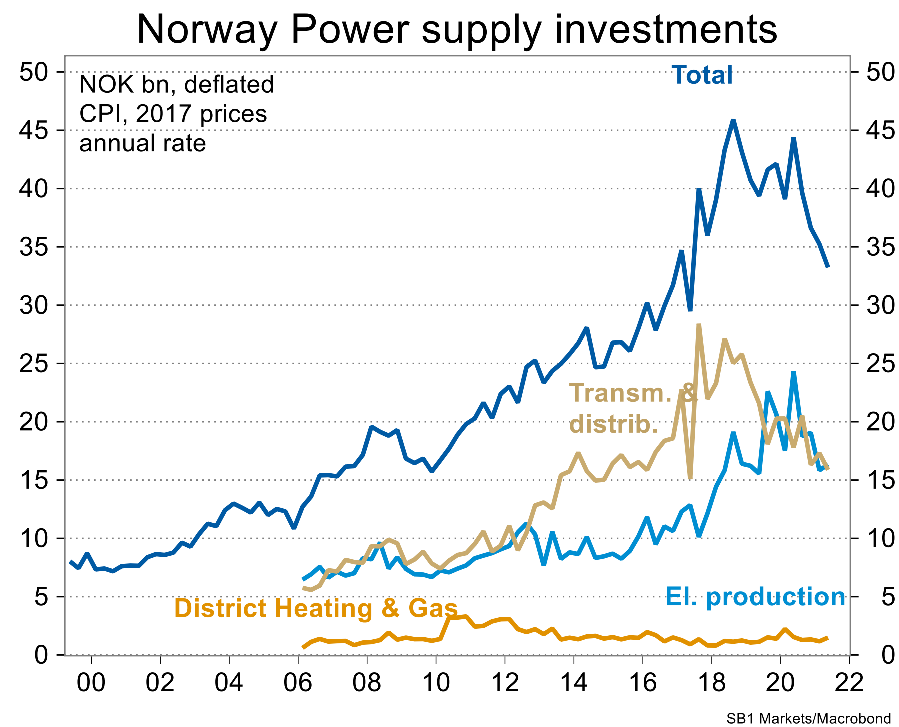
Power supply: Investments are heading rapidly down

The 2021 f'cast is 15% below the equivalent 2020 f'cast – and the 2022 f'cast further 23% down

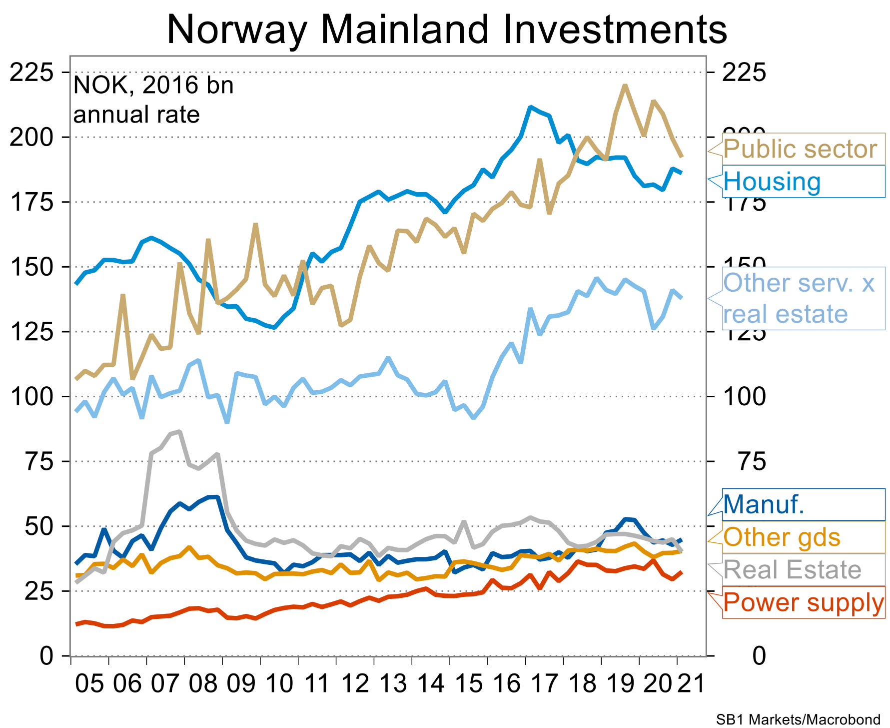


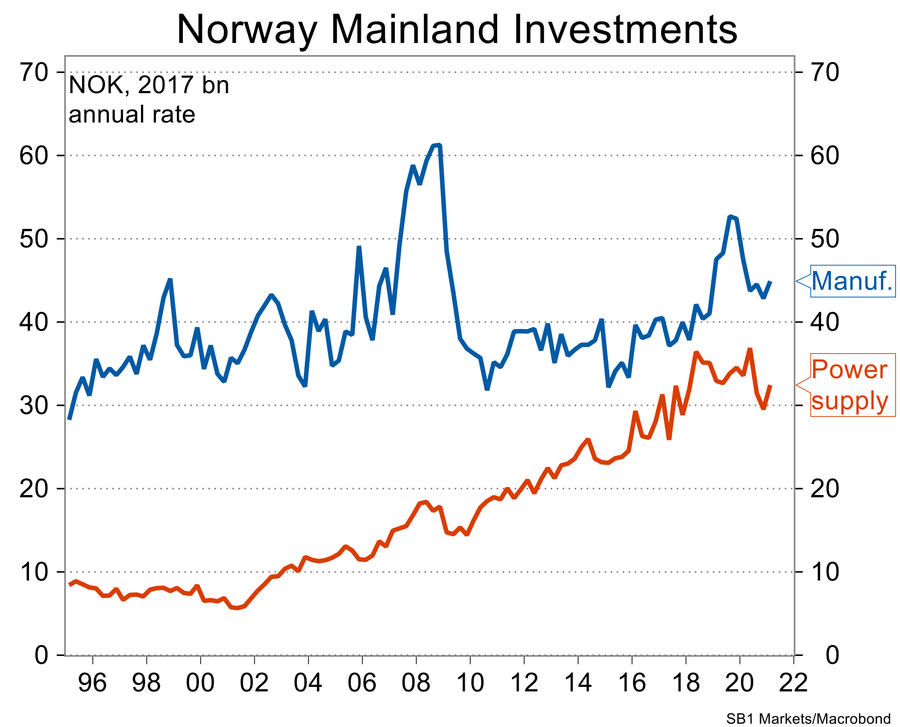


- Power supply (production & distribution) companies kept their Q2 (May) 2021 investment forecast unch. the forecast given in Q2. The estimate is down 15% vs the equivalent 2020 forecast (and outcome) – the 3rd annual decline in row
  - » Some big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- Companies cut their 2022 investment f'cast by 1 bn (5%) vs their Q2 prognosis. The gap vs. the 2021 f'cast given one year ago is 23%, the largest decline in 21 years. The final outcome in far from certain. Recent years, investment plans have been revised up far more than earlier as projects with shorter planning horizons than the large hydroelectric projects (like wind & transmission) have increased their share of total investments in the power supply sector. Still, it is reasonable to expect a substantial decline in investments in 2022, at least 15 – 20%
- Power supply investments have more than quadrupled in 25 years, by more than 10% p.a on average. The investment level as % of Mainland GDP has been running at or just above 1%, the highest in decades. Both production & transmission have contributed

Both manufacturing and power supply investments have peaked

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

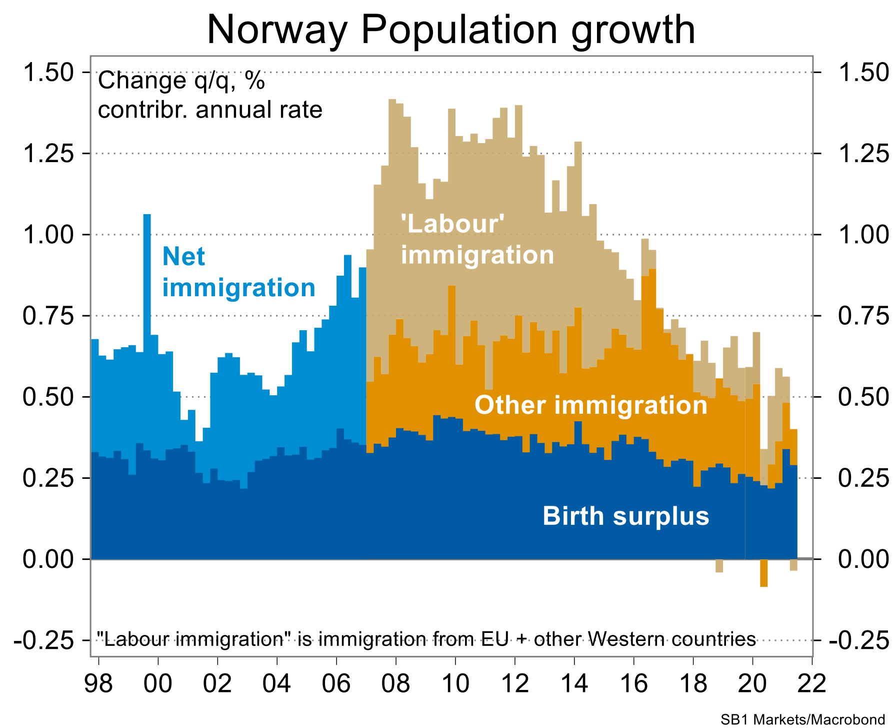


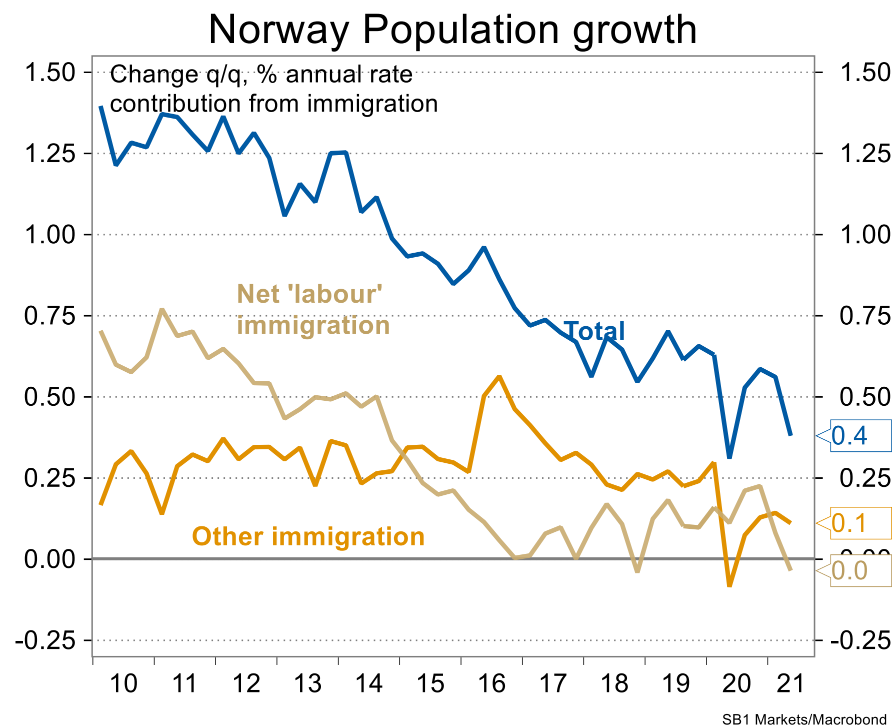


- In volume terms, investments in the manufacturing have accelerated sharply the past two years, but investments fell in 2020, and companies are only signalling a marginal increase in 2021
- The outlook for Mainland business investments has brightened recent months. Investment surveys have recovered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

Lower population growth in Q2 due to lower labour immigration

More births and far fewer deaths following the pandemic. Probably, it will not last





- Total population grew by 3,400 in Q2, equalling some 0.4% annual rate
  - Labour immigration was negative in Q2
  - Both labour immigration and other immigration have been low during the pandemic, and it is safe to assume that immigration outside of work purposes will increase ('normalise') as the virus recedes. Labour (EU/Western) immigration depends on demand for labour in Norway, and in the EU. Labour immigration has been running at low level since 2016

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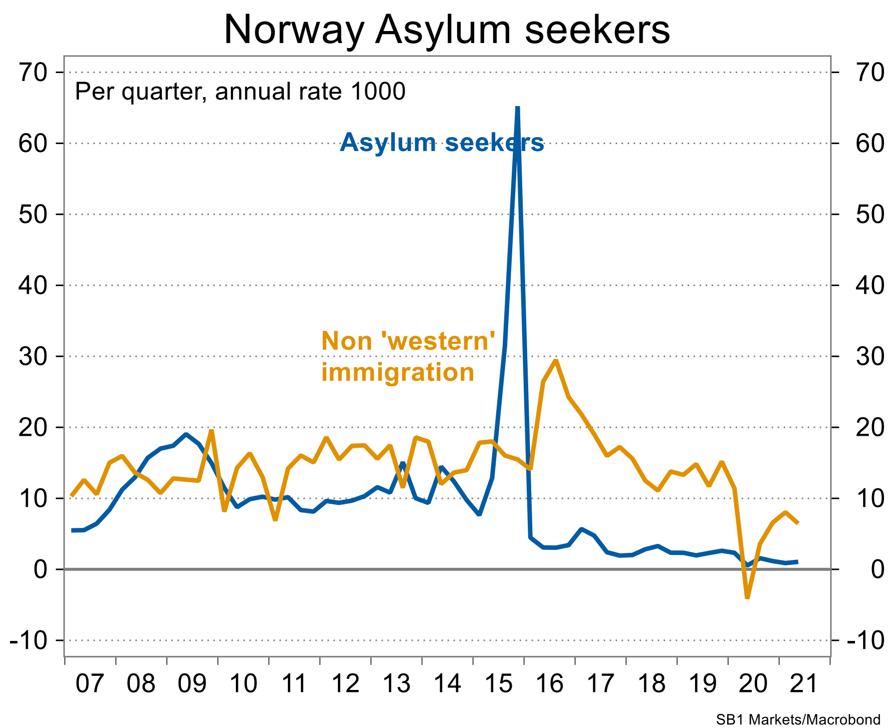
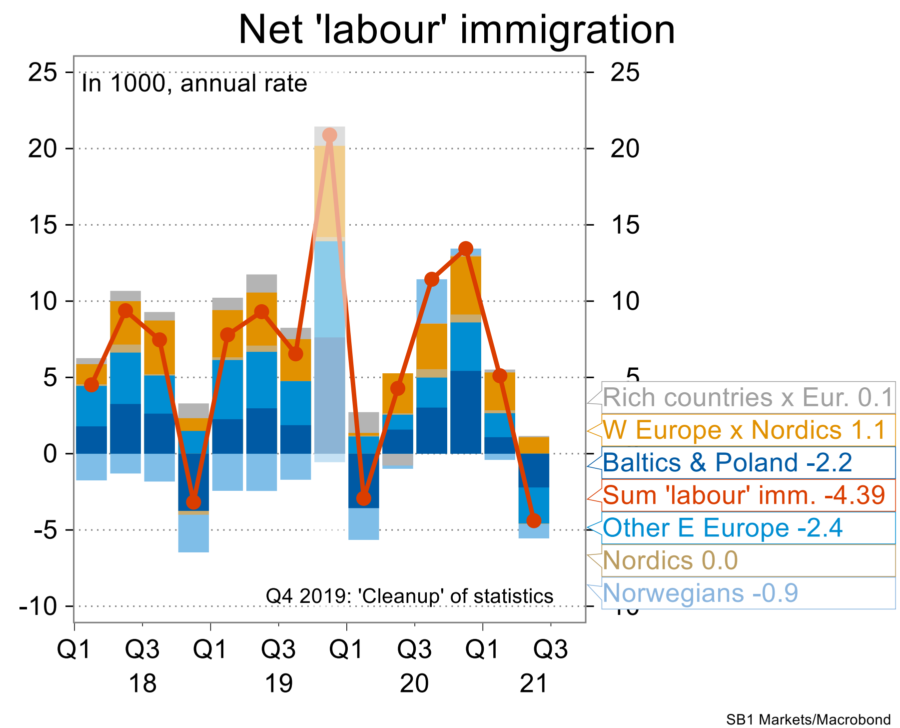
Non ‘western’ immigration, ‘labour’ immigration… all immigration lower in Q2





- Growth in non-western immigration fell back to ‘normal’ before corona, following the ‘Syrian’ surge in 2016. During the corona quarters, non-western immigration fell to the lowest level ‘ever’ in 2020. Growth has since picked up, but was down in Q2
- The inflow of asylum seekers was virtually flat, at a very low level – approx. 1000 in an annual rate
- Net immigration from European countries (which we label ‘labour immigration) was down in Q2. The only net increase was net immigration from Western European countries, though the level was far lower that before the pandemic

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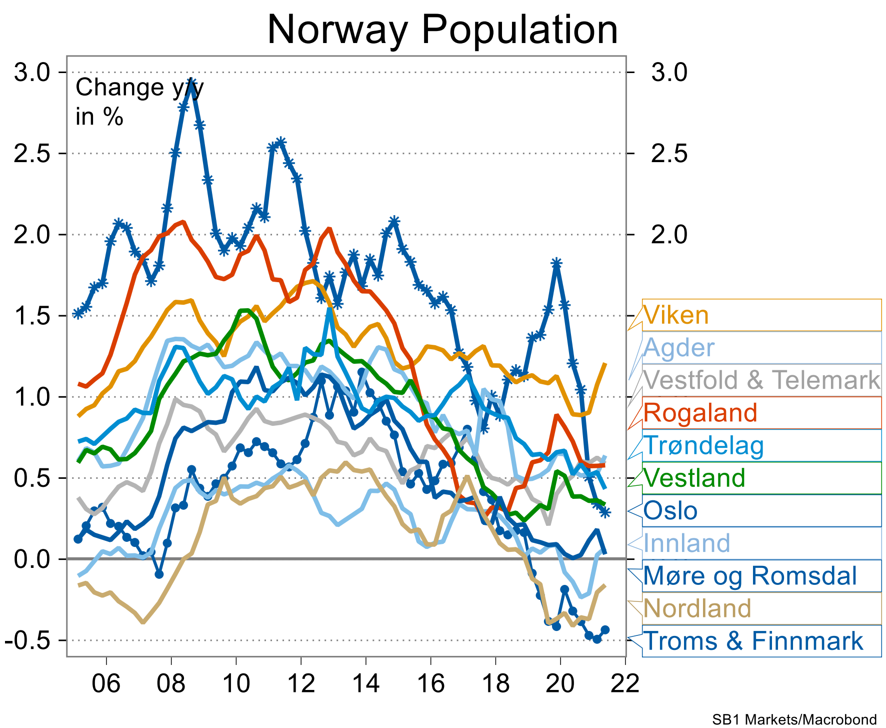
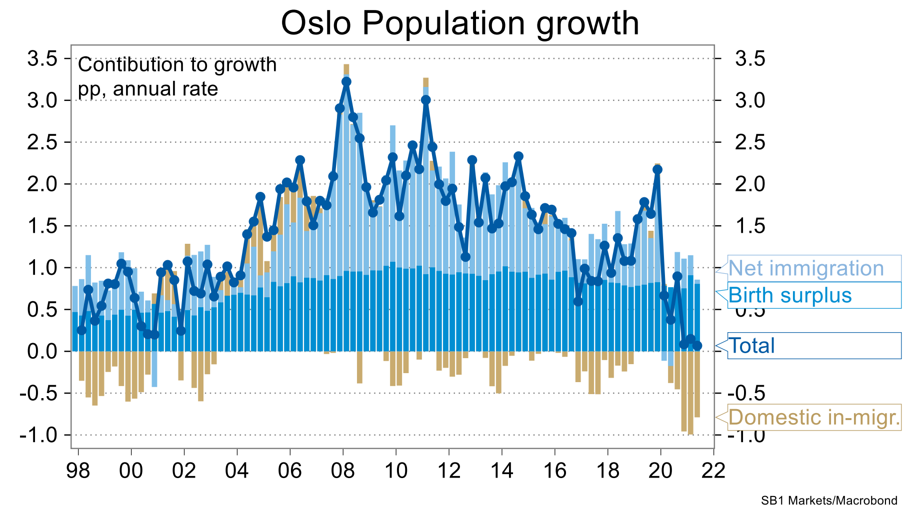
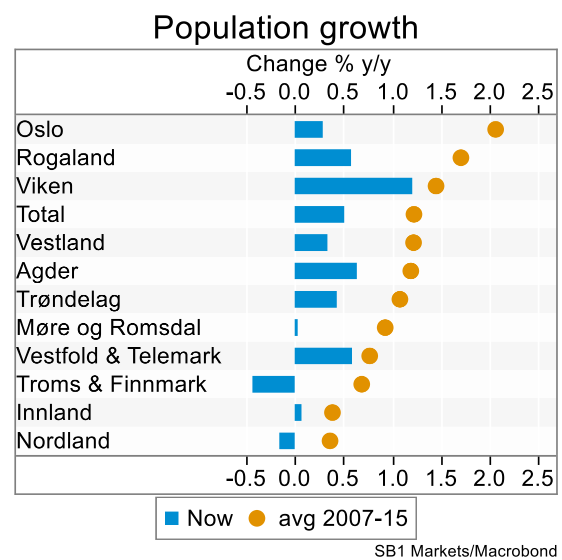
Record large domestic out migration from Oslo and larger cities

…and a continued decline in the North



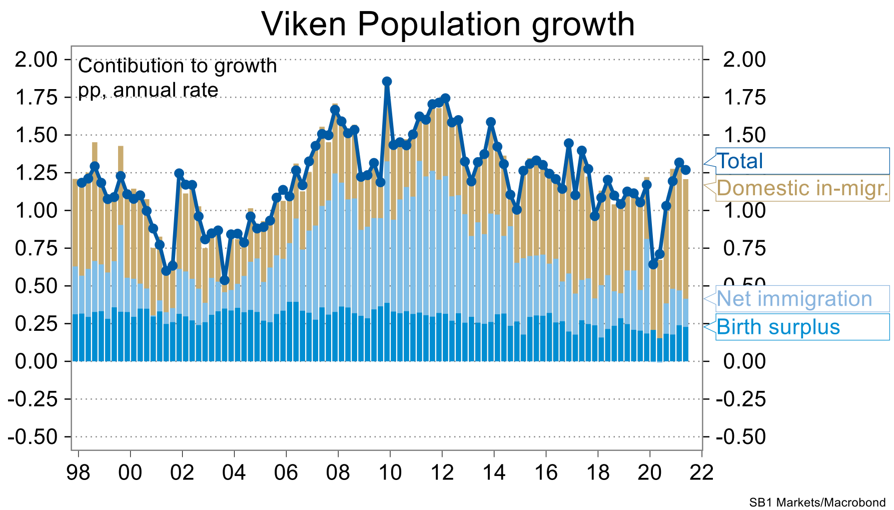


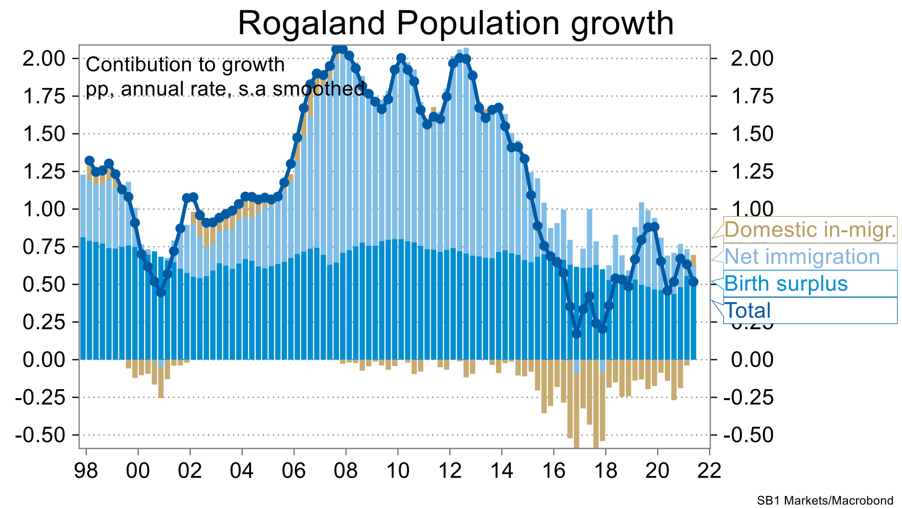


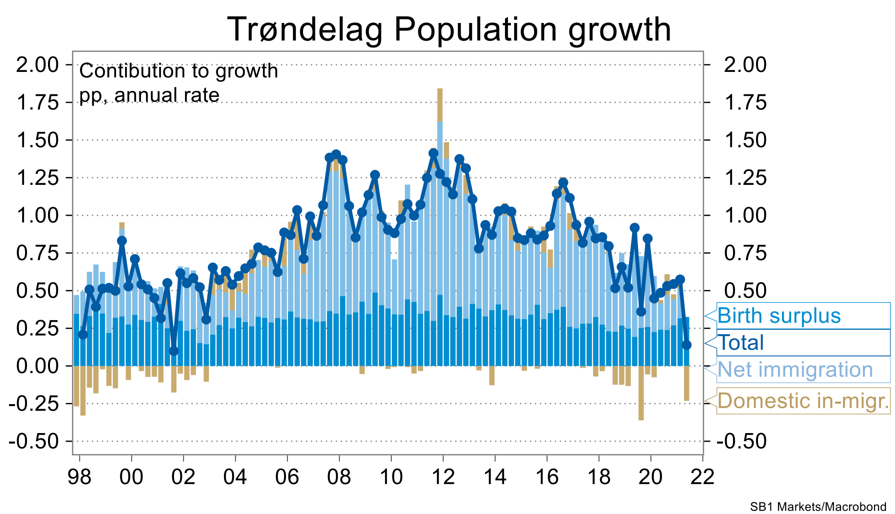
- From 2012/13 until 2018, population growth slowed in most regions – but the least in Viken (Akershus kept up best). Following a mini immigration wave in 2019, growth is slowing sharply in Oslo, and the population grew by a mere 0.06% in Q2 (seas. adj.), mainly due to a substantial net out migration to other parts of Norway (at a 0.7% pace). A corona adjustment?
- Population growth has cooled substantially in all other regions, to well below 2010-2015 levels most places. <u>Due to accelerated domestic out migration, population is rapidly in the 2 northern counties, and Innlandet & Møre & R is close to zero</u>

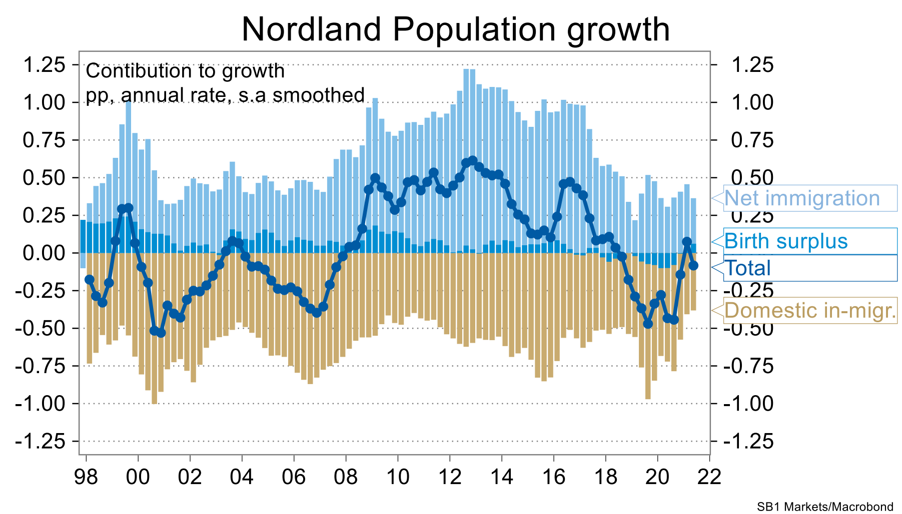
Some serious regional differences

(And sum Oslo+Viken records a net domestic in-migration)



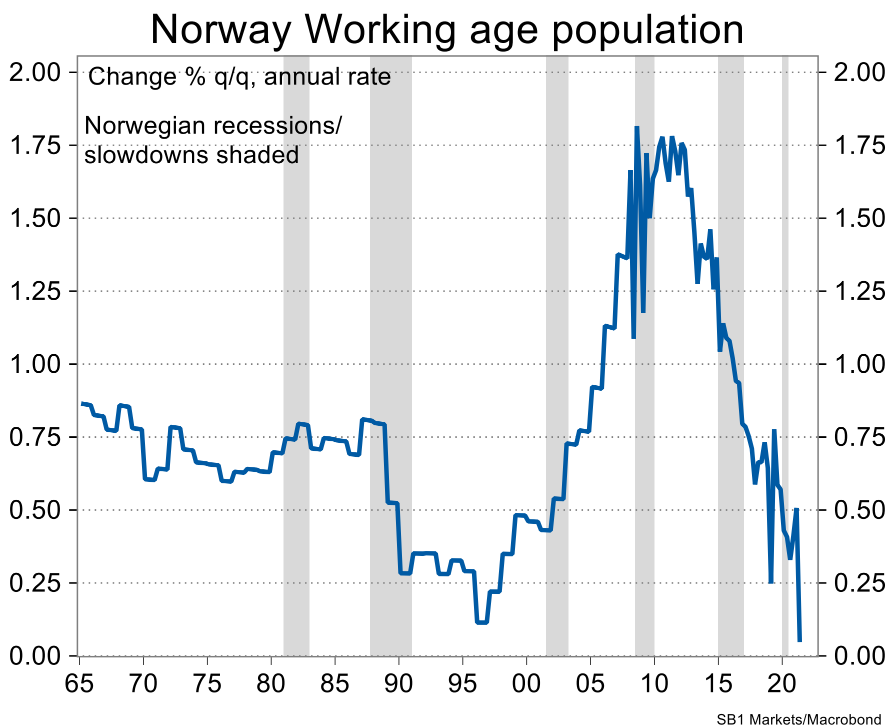


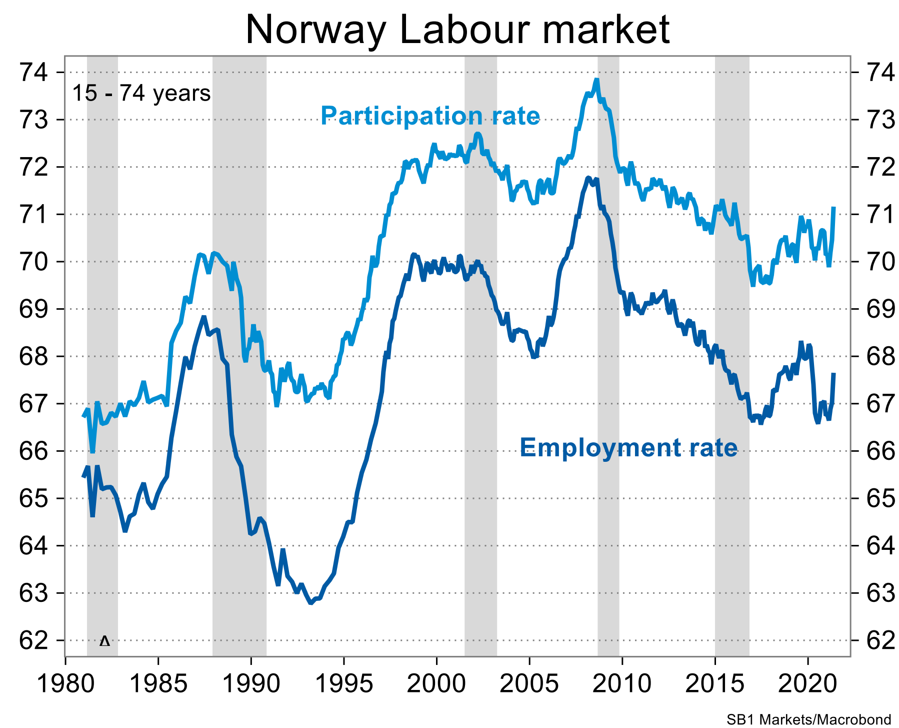




Working age population growth has fallen to the lowest level ever

Growth closed to zero in Q2 (our calculation). At the peak some few years ago: 1.7%

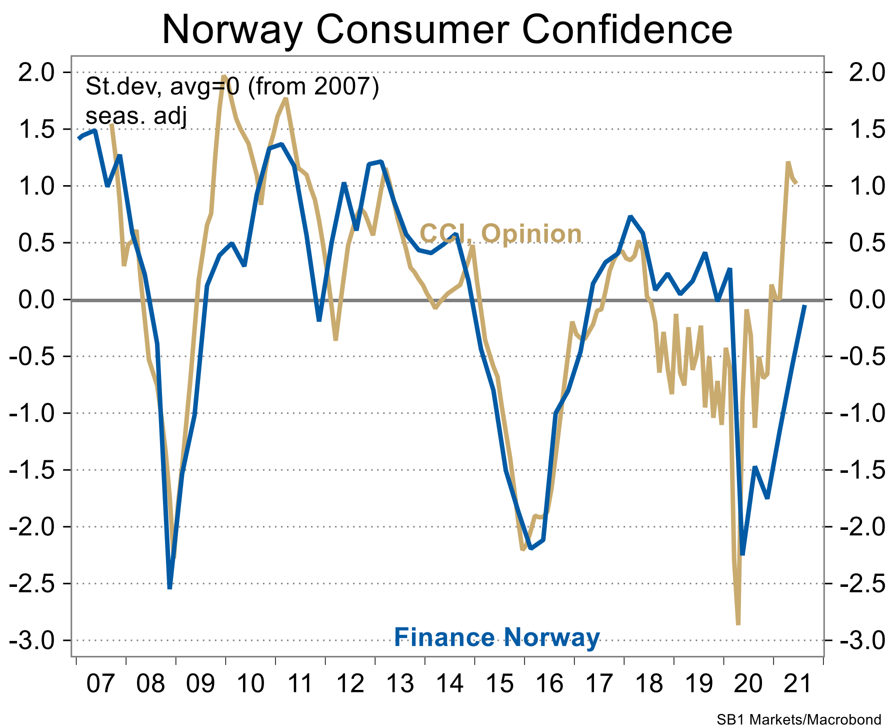


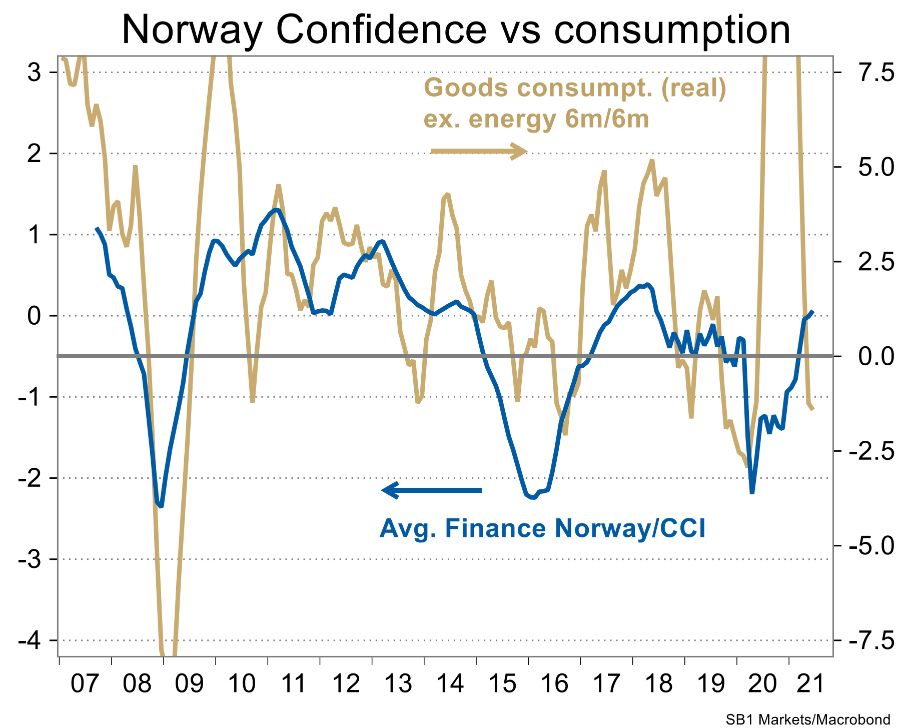


- The slow growth in working-age population is supporting participation & employment rates

Finans Norges' Q3 consumer confidence up, in line with our expectations

The survey rose to an average, from from -0.7 st.dev below





- Finance Norway's quarterly consumer confidence index climbed to 11.3 in Q3 from 4 in Q2 (we expected 12) close to the average index at 12 since 2007, from -0.6 st.dev in Q2
  - » In June, the monthly CCI from Opinion was 1.2 st.dev <u>above</u> average, and close to the best level since 2011, following a surge the recent months. The gap between the two surveys is still puzzling
- Big item purchases are still out of favour (barring buying a house, of course) but less so than last quarter, as is understandably travel. Saving plans are upbeat

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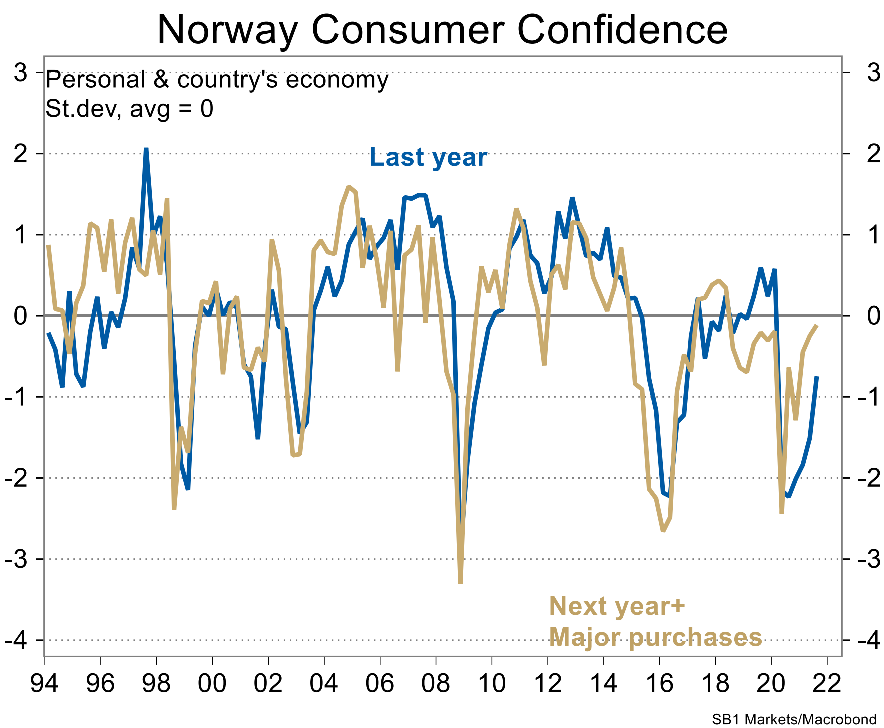
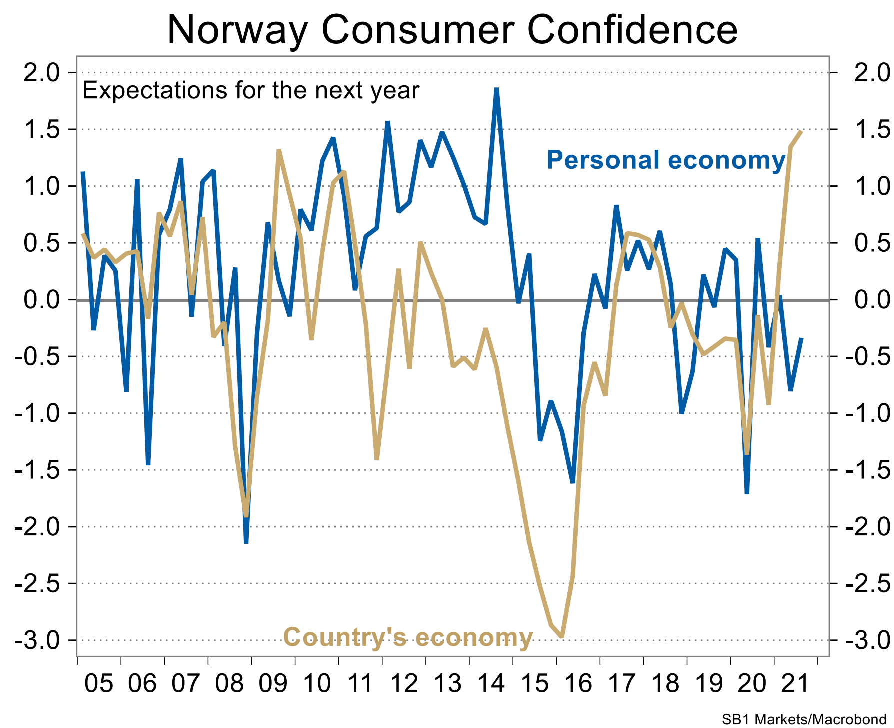
Households very optimistic on the behalf of the economy, less so with own econ.

The outlook for their own economy improved, but is still below average

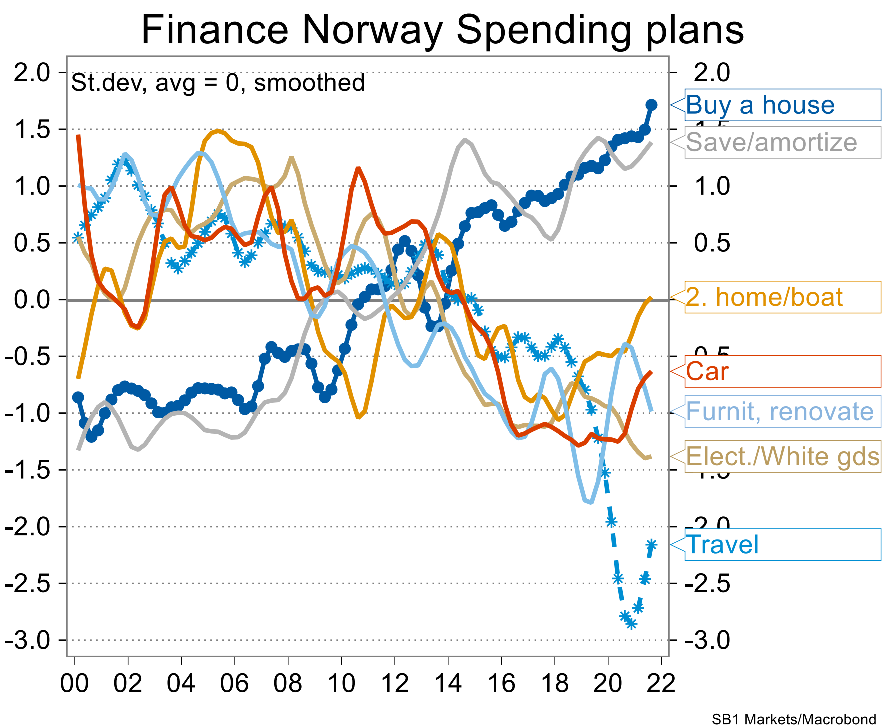


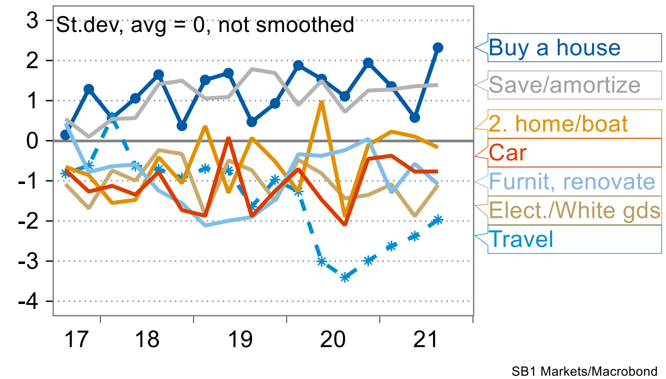


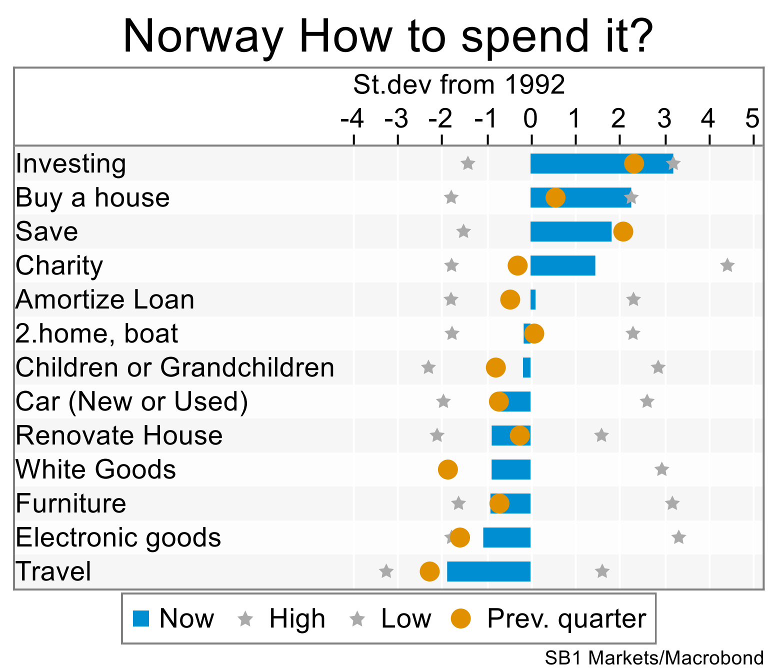
- The **forward looking components** in the index (equally weighted by us) rose in Q3, and is now only 0.1 st.dev below average
- Household expect their **personal economy** to be weaker than normal the coming year – in contrast with the outlook for the overall economy, the highest print since 1996! Households do <u>not</u> think the timing for buying big ticket items is favourable (the only reasonable explanation may be that they have bought all the big ticket items they need for a while?)
- There are small differences with regards to **age or income**, as usual. In anticipation of the upcoming election, social democrats are more optimistic than liberals/conservatives
- The **North** and **East** are far more pessimistic than **Oslo** and the **South & Western** regions

House buying plans up to ATH, no interest rate angst! Investing/saving in vogue

2nd homes/boats just at avg, cars below. Travel plans up but still far below par, for good reasons



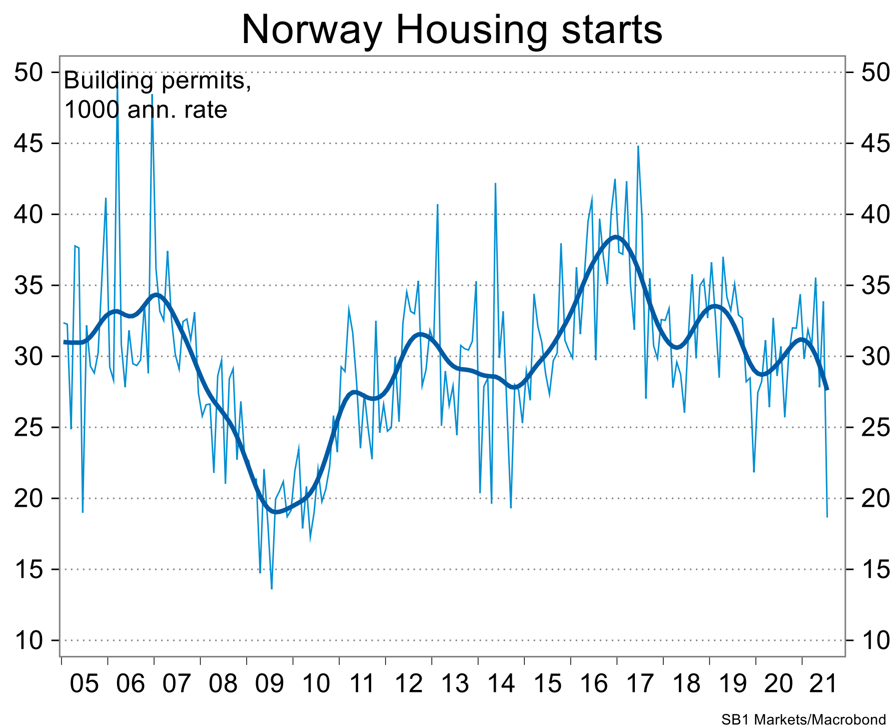


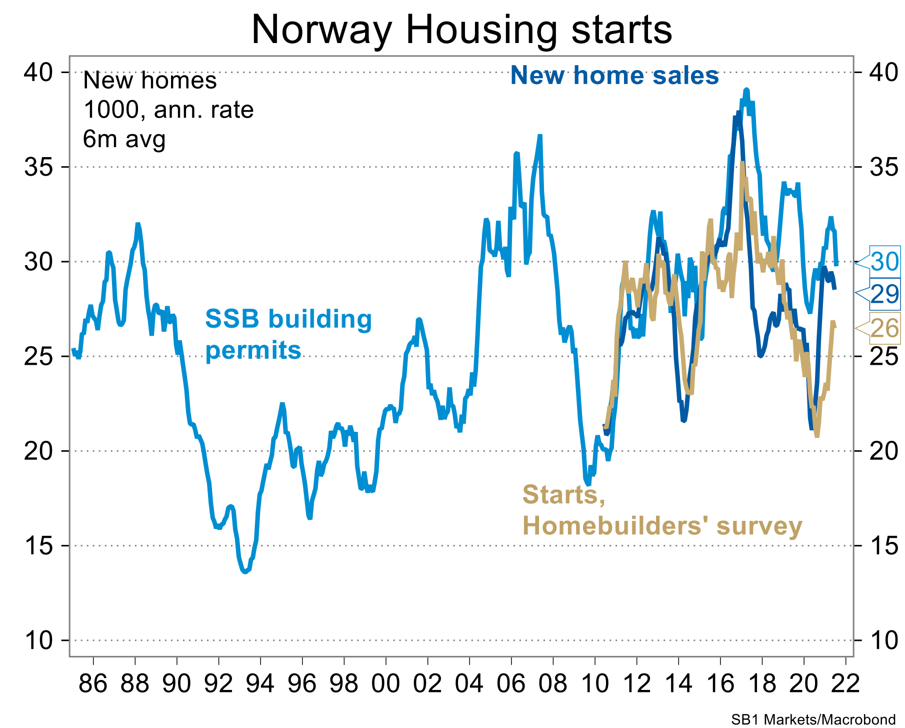


- **Home buying plans** were up the most – to he highest level ever. Norges Bank's interest rate signal has no scared home-buyers
- Demand for **2. homes and boats** has been reported very strong in media. In this survey, household report they do not plan to buy more of the stuff than they normally to. **Car** buying plans are modest too
- Plans to **invest/save and pay down mortgages** are all at very high levels. These plans were not much influenced by the interest rate cuts last year – but the outlook for higher rates may of course influence these attitudes now.

SSB: Building permits & starts sharply down in July (data trouble?)

Other construction starts up too, especially garages/2nd homes

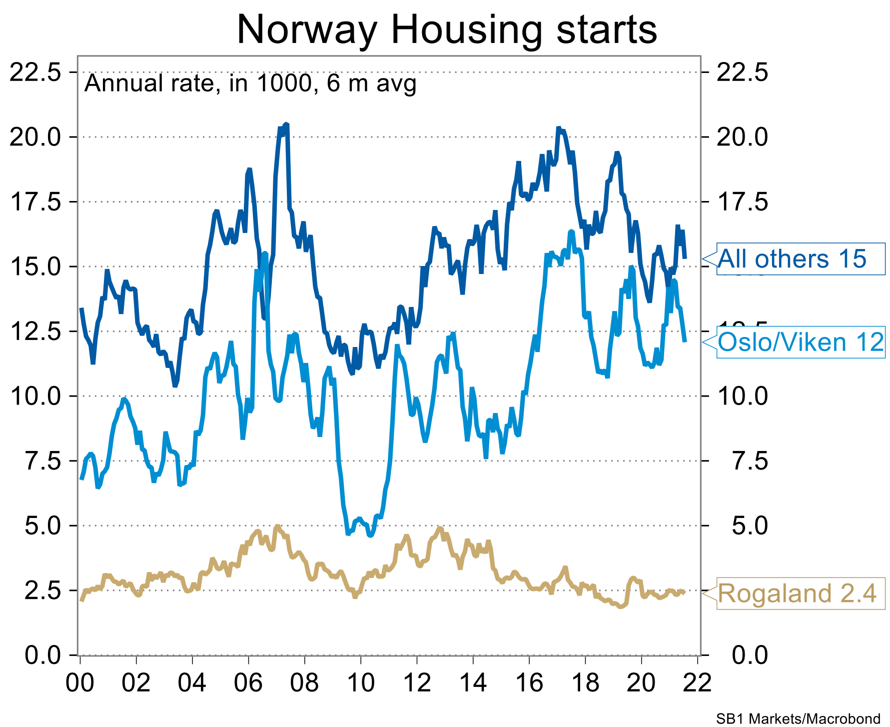


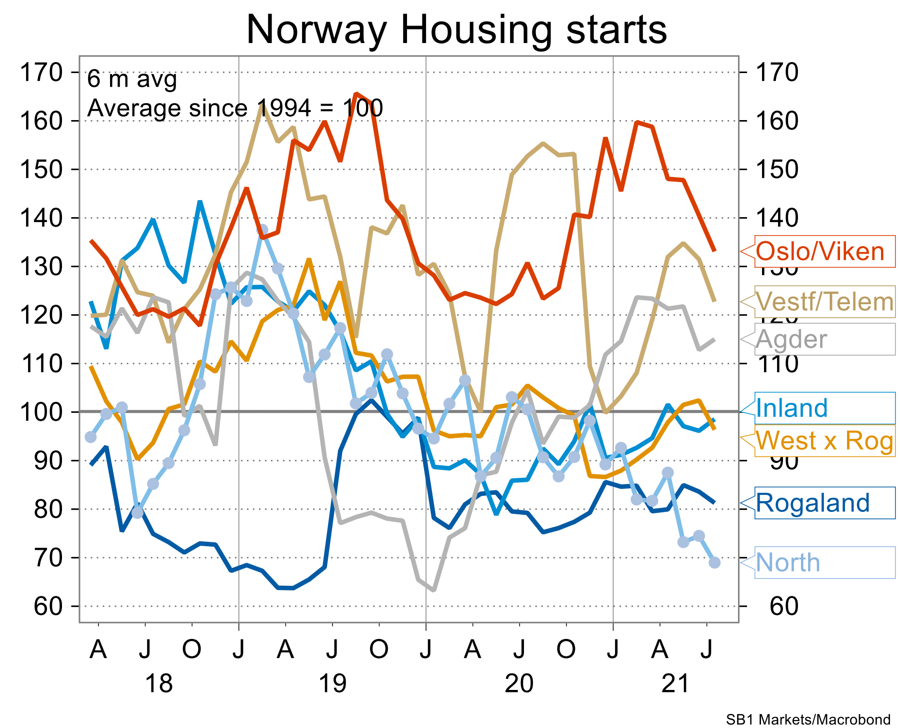


- According to **SSB**, **building permits** were cut in half in July, to 18’, from 34’. Most likely at least partly a technical reason. A sharp reduction in Viken and Oslo explained almost all of the decline
  - » The average level over the past 6 months is 30’
- **Homebuilders** reports a 26’ pace for new starts, and sales at 29’, following a rapid increase from last spring

Starts have been weaker everywhere recent months except Inland and the South

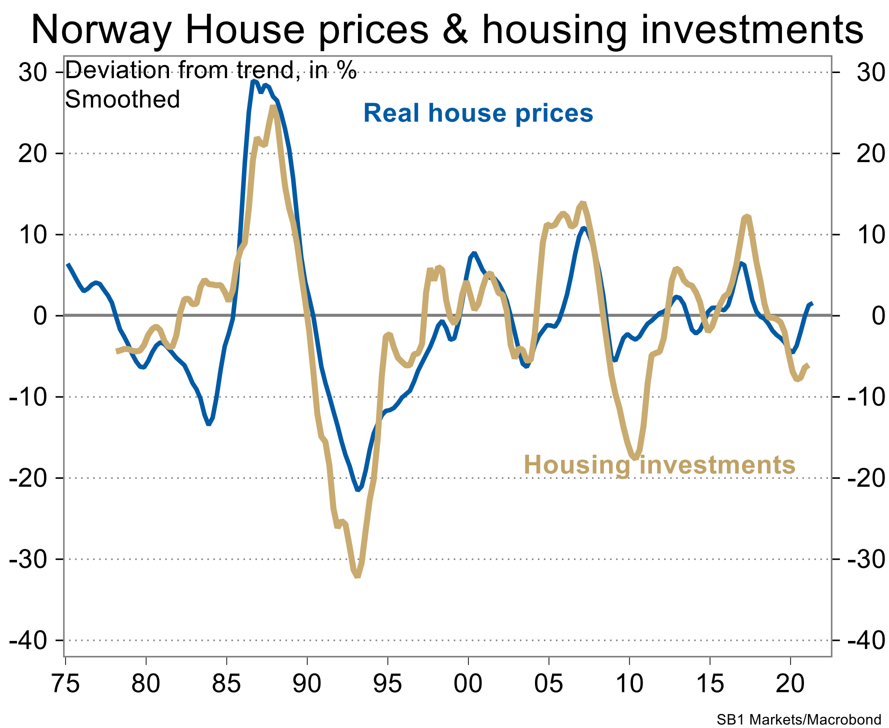
However, the steep drop in July was almost entirely due to Viken and Oslo (down 60-70% m/m)

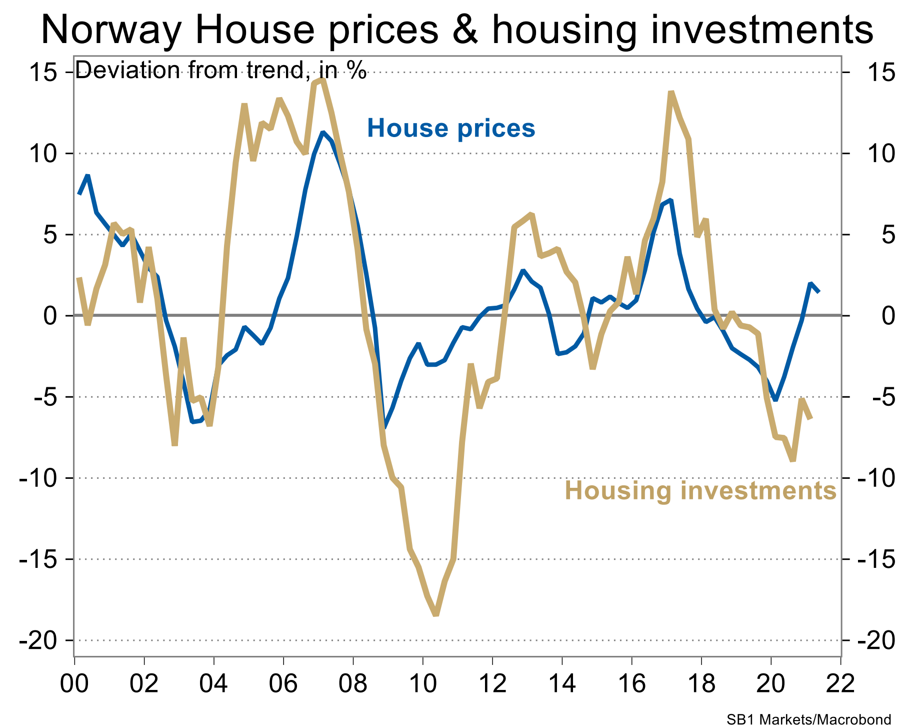




Housing starts/investments normally in tandem with house prices, no surprise

The rapid appreciation from last spring has contributed to an uptick in housing investments

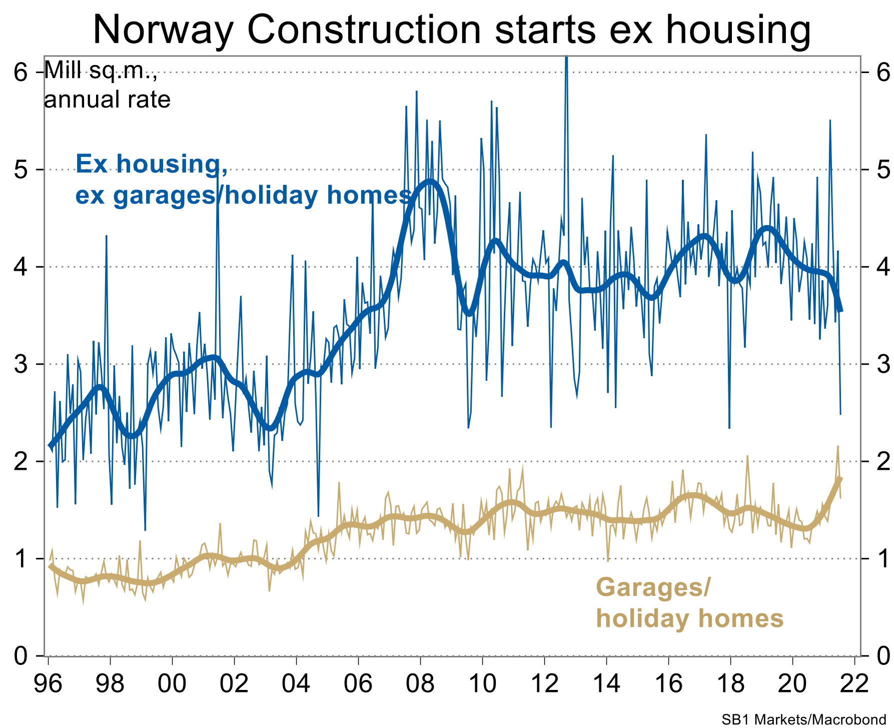


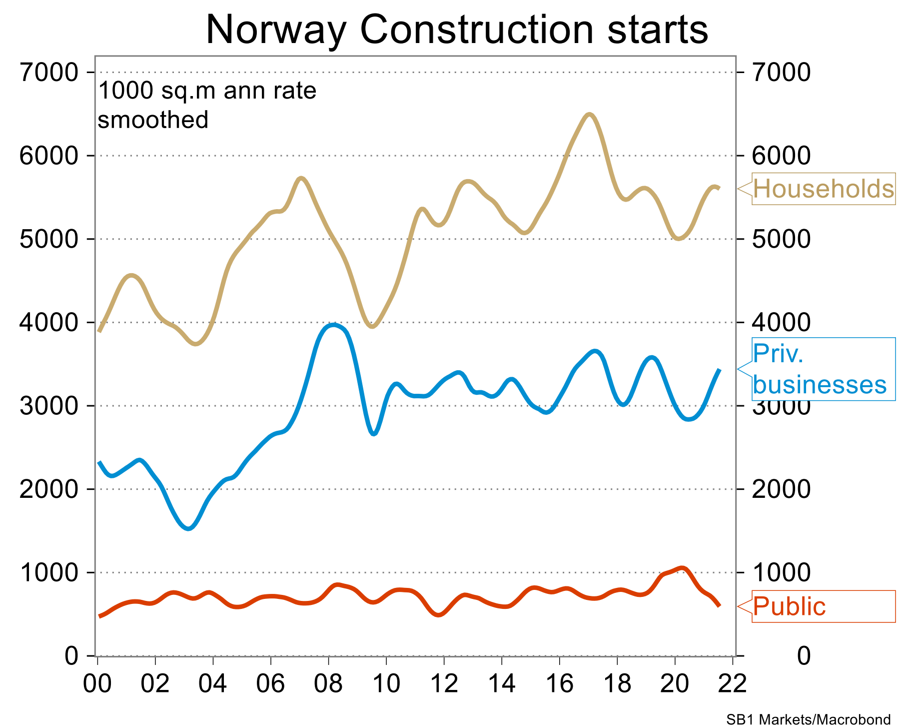


- However, prices are yielding somewhat – and housing starts will slow?

Non-residential construction town too, as were garages/cabins

We think it would be wise to wait for the August/September data…

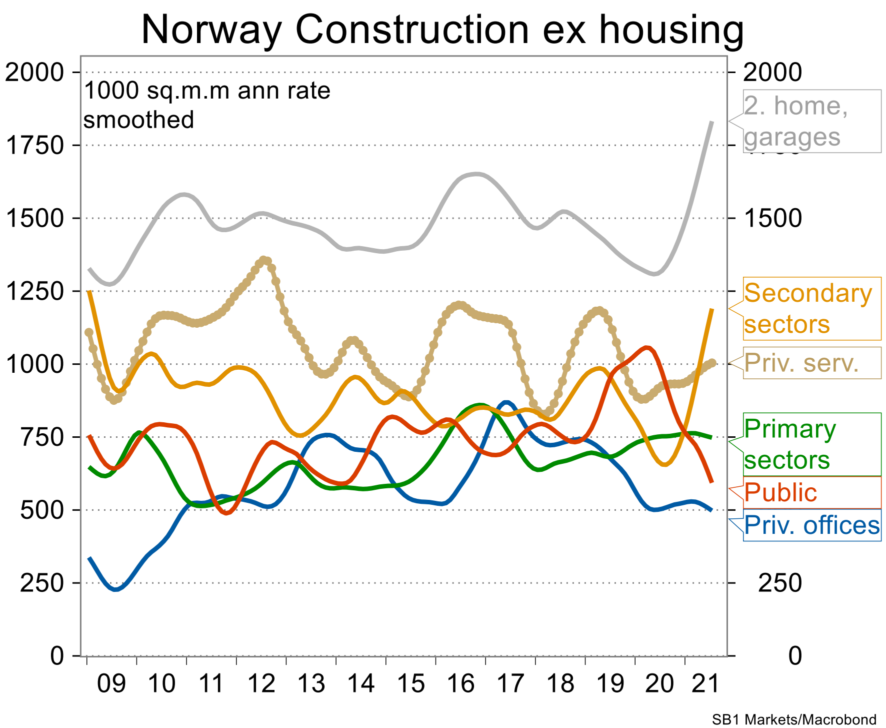


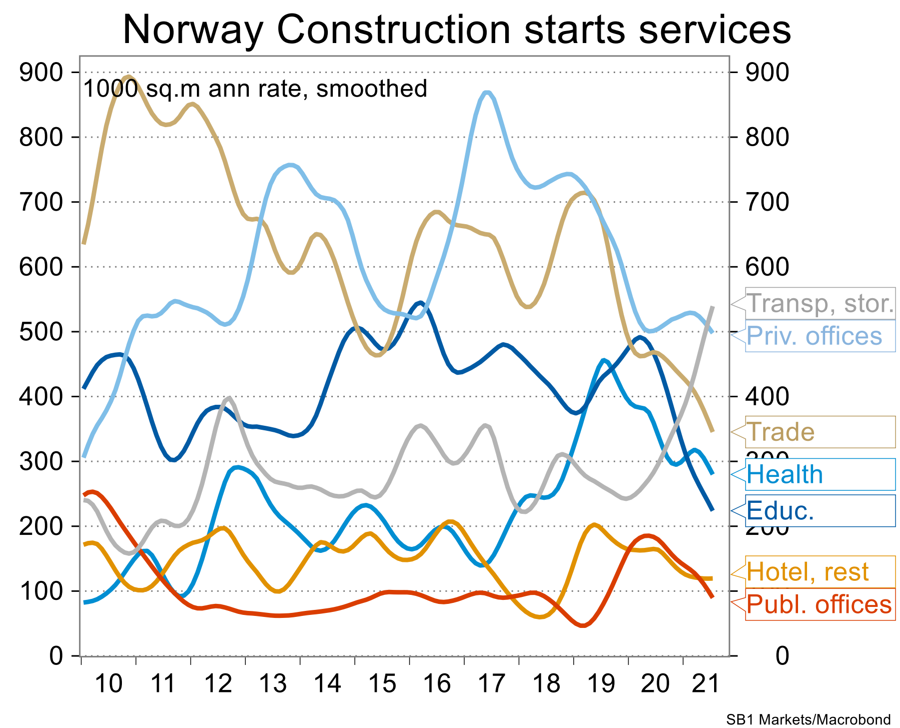


- **Construction starts ex housing & garages/cabins** were sharply down in July, but may be due to technical trouble, as we assume is the case for housing & garages/holiday homes
  - » **Private non-residential starts** fell in July but has recovered recent months
  - » **Public sector construction starts** were also down in July, and is trending down
- **Construction starts of cabins/garages** is heading sharply up, following a decline from the peak in 2016

Volatile details: Trade down, hotels weak (of course), transport/storage up

Education sharply down too



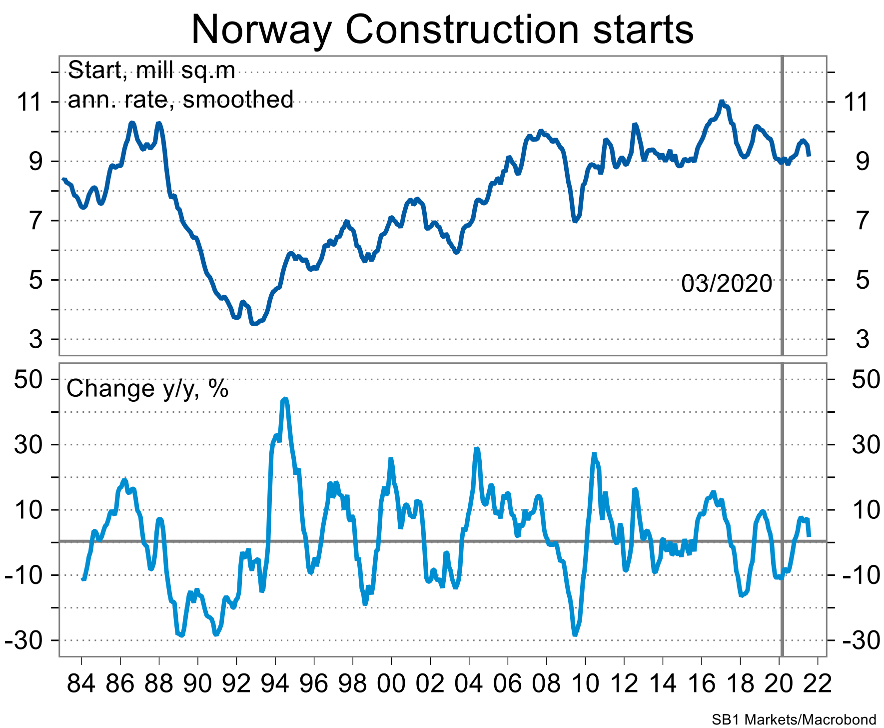


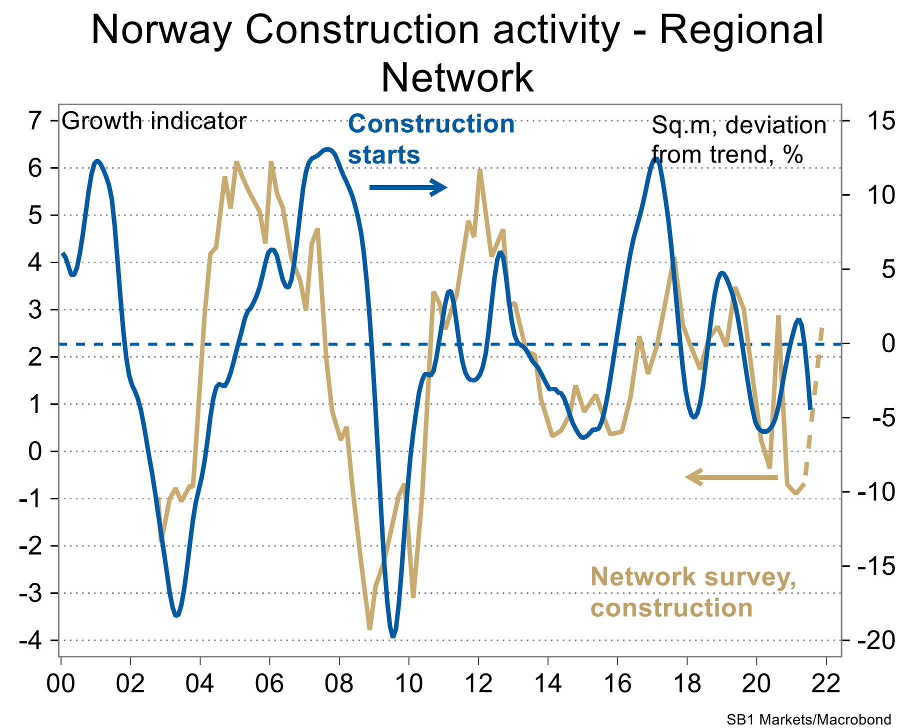
- Education has lost steam, no big projects started recently

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

The Q2 NoBa Regional Network signalled growth in construction activity

… and activity turned up before the Network turned optimistic

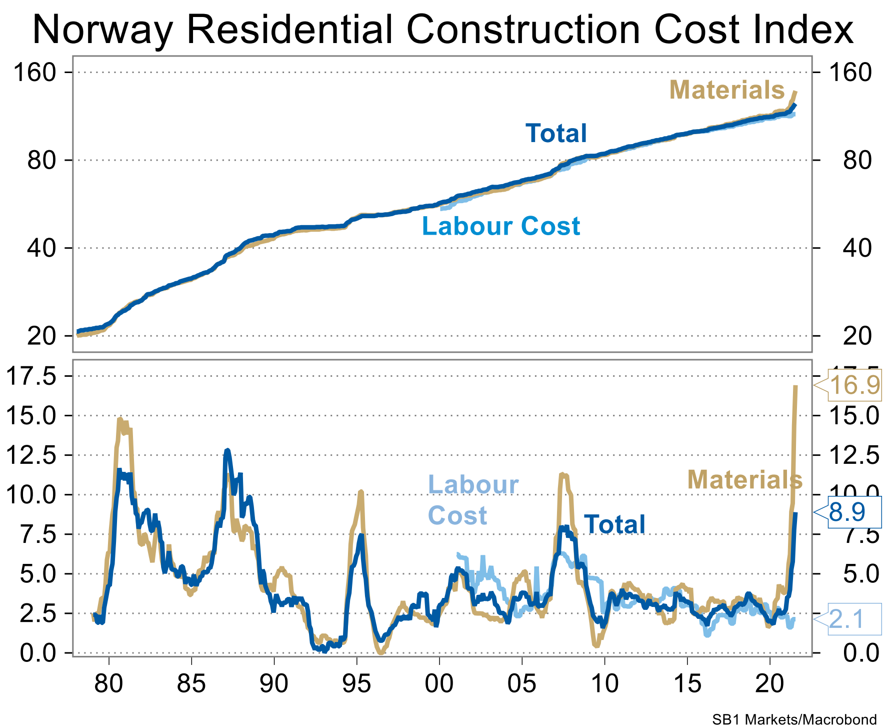


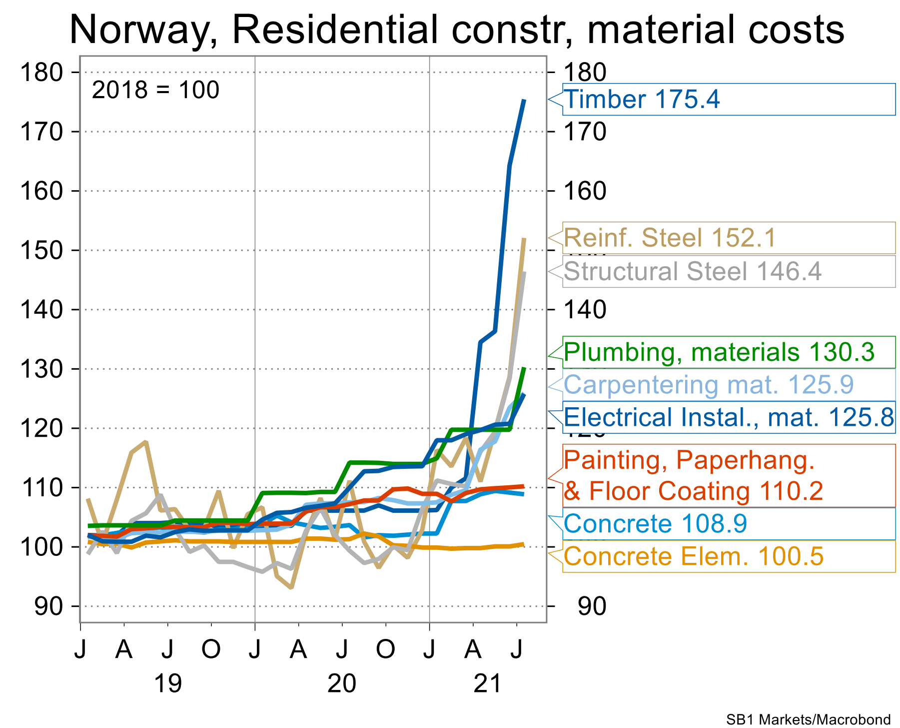


- Actual starts are up 15 y/y, due to higher private sector activity
- The activity is above the past 15 y average, and above our calculated trend

‘Some’ cost pressure in the Norwegian construction sector too

But ‘just’ from some materials; lumber & steel, plumbing & electrical materials. And it will not last

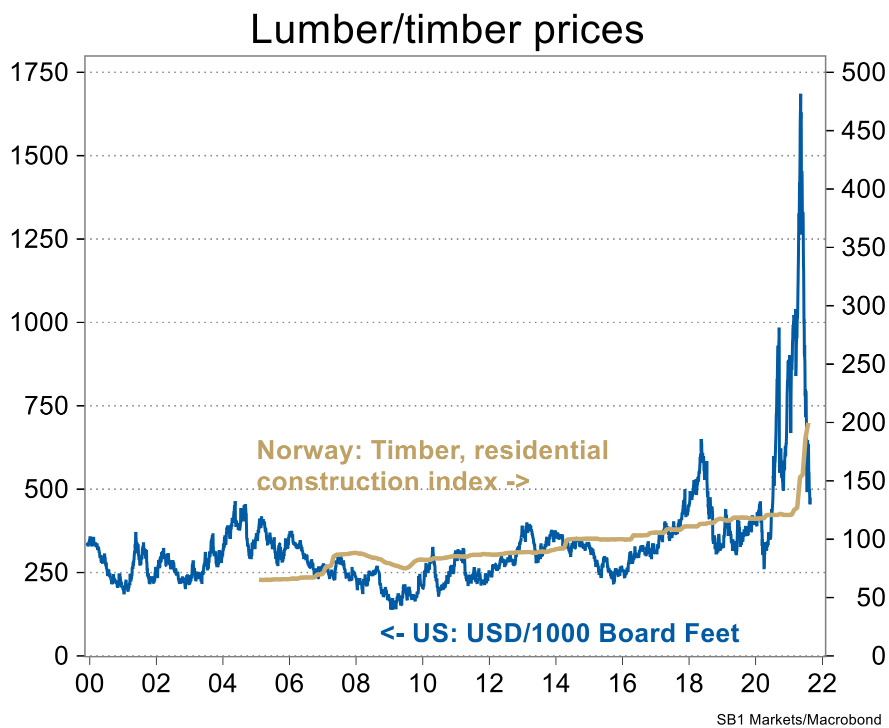


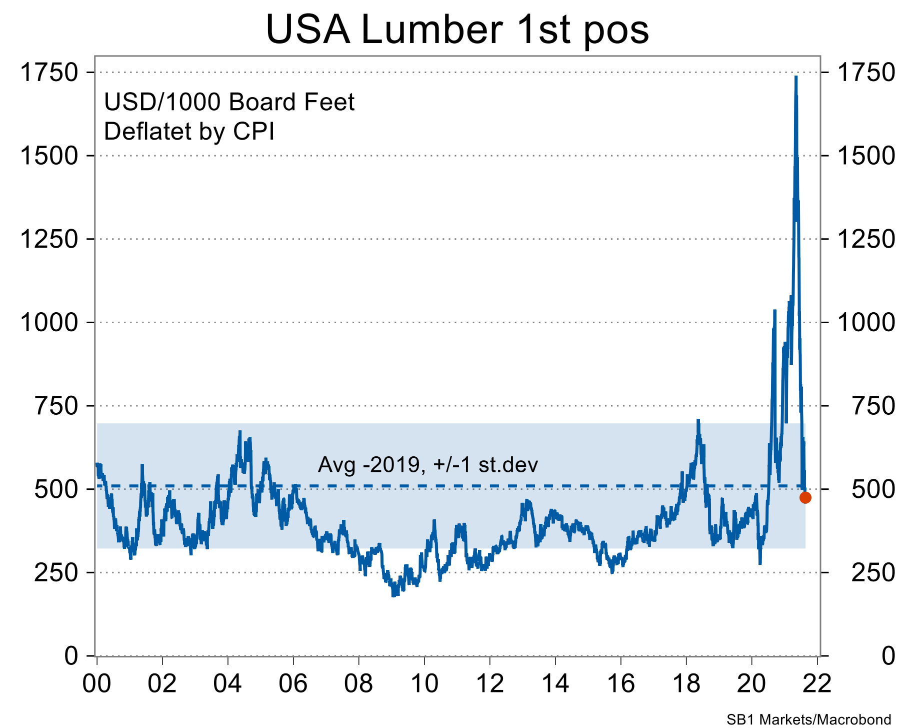


- Material prices are up ~~9.5~~ ~~14.4~~ 16.9% in ~~May~~ ~~June~~ July
  - » The 70%+ lift in lumber/timber prices over the past months is unprecedented – and probably not lasting, *check next page*
- Including labour costs, the total building cost index is up by 8.9%, the highest since 1988

In the US, the lumber bubble has burst, almost completely

Raw material price cycles are normally not that long lasting





- .. And they are not important for serious inflation cycles
- In real terms, the US lumber price is below the past 20 y average. Some few weeks ago, it was 3.5 times higher

Highlights

The world around us

The Norwegian economy

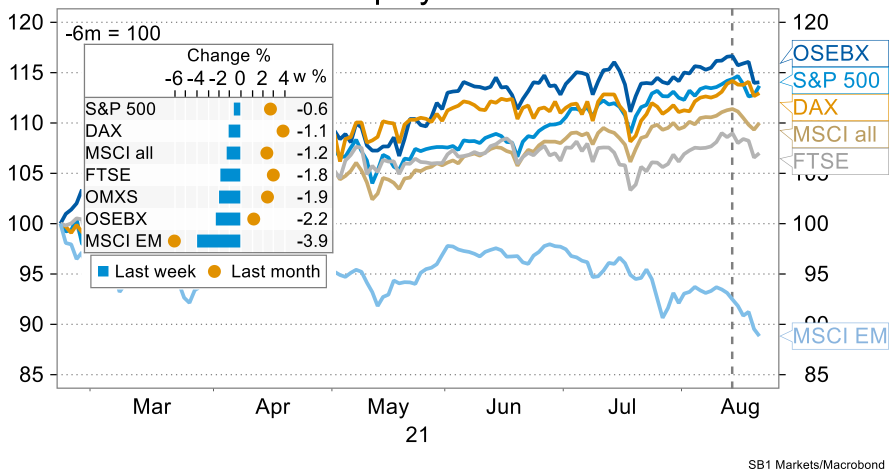
Market charts & comments

SpareBank 1 MARKETS

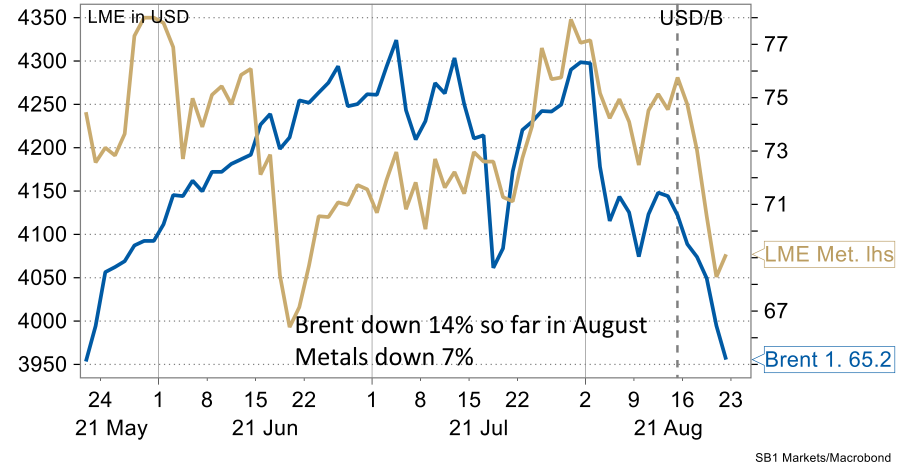
Equities, bond yields, commodities (and NOK) down – the USD sharply up

Tapering angst, Chinese regulations, perhaps the Afghanistan crisis, mixed data to blame?

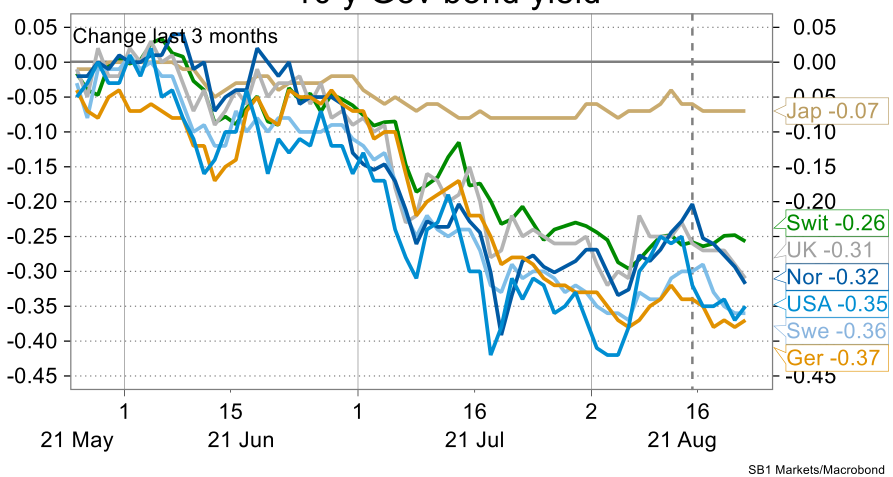
Equity Indices



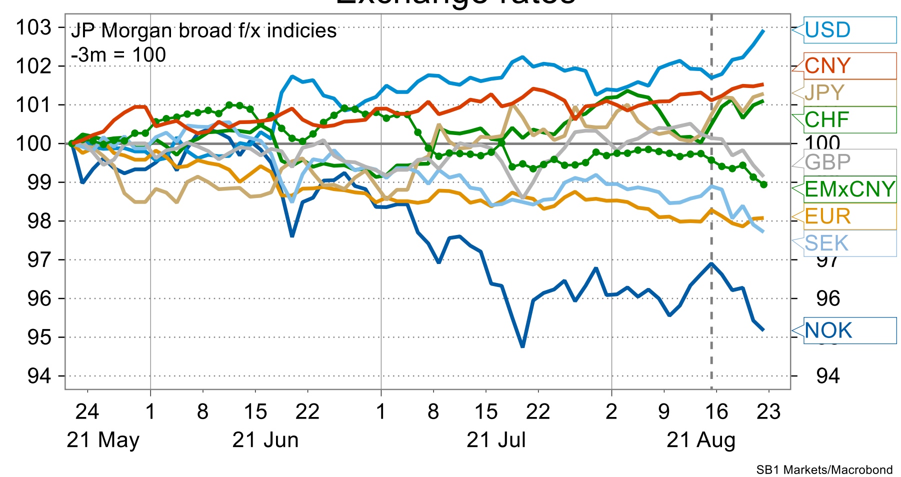
Oil vs. metals



10 y Gov bond yield

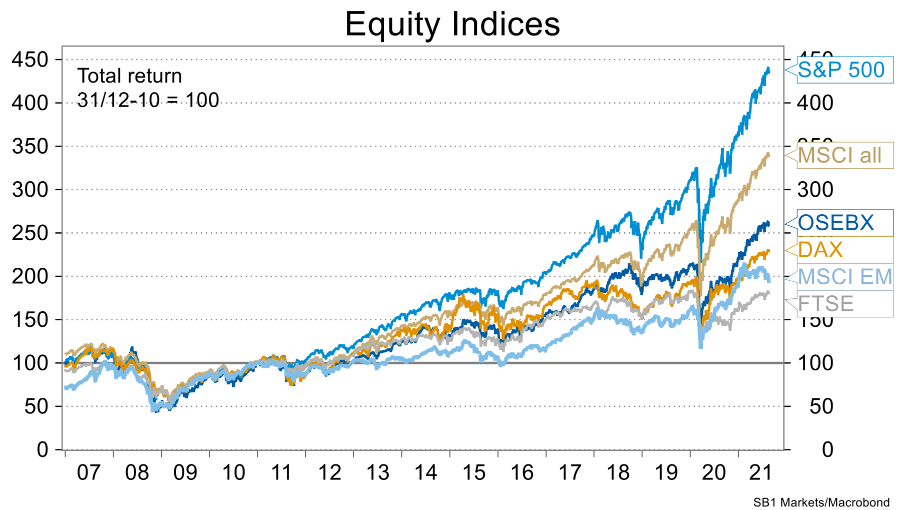


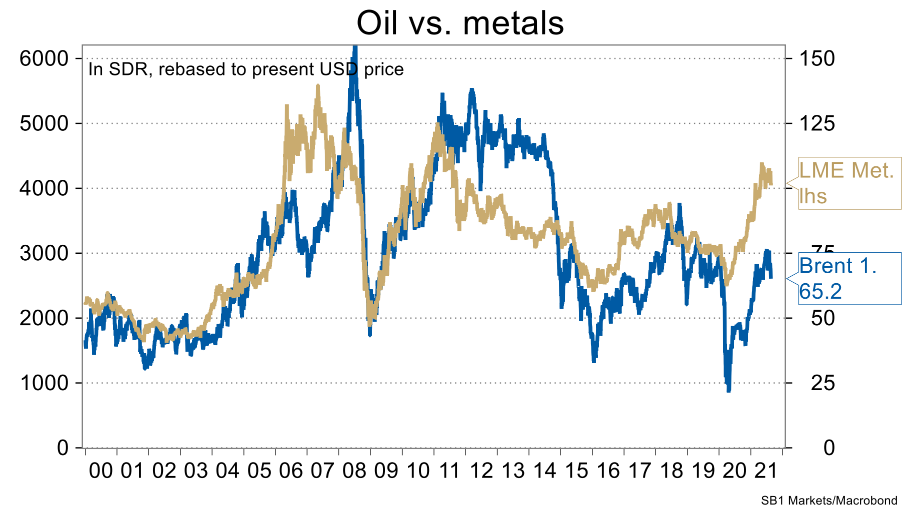
Exchange rates

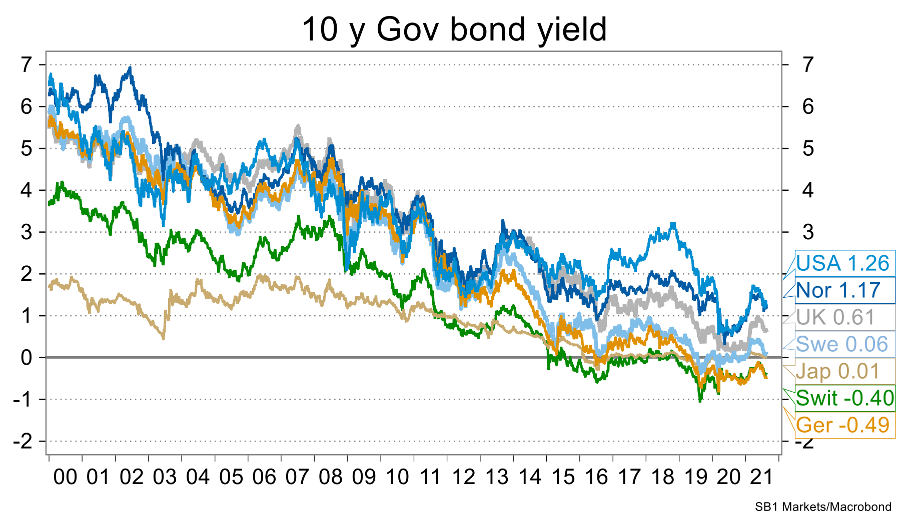


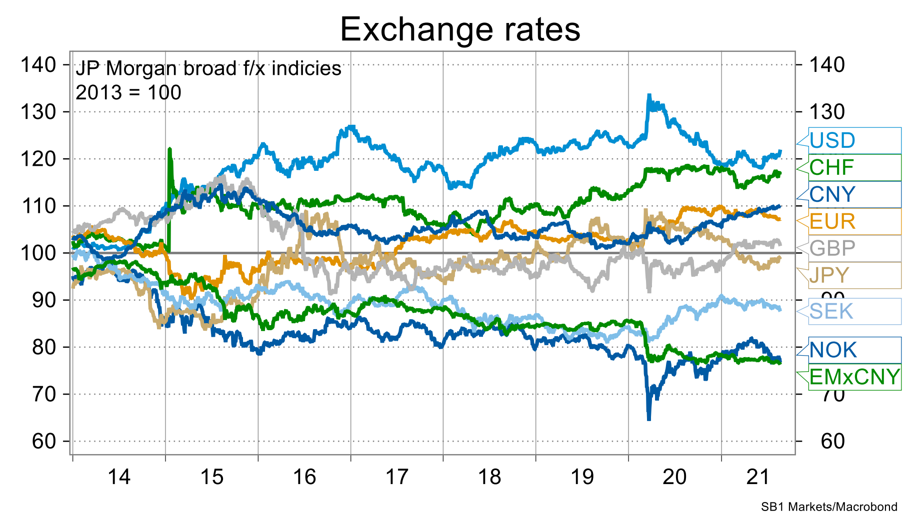
The big picture: Strong stock & commodity markets

Still, yields are heading down everywhere. The CNY is steady climbing, other EM f/x & NOK weak



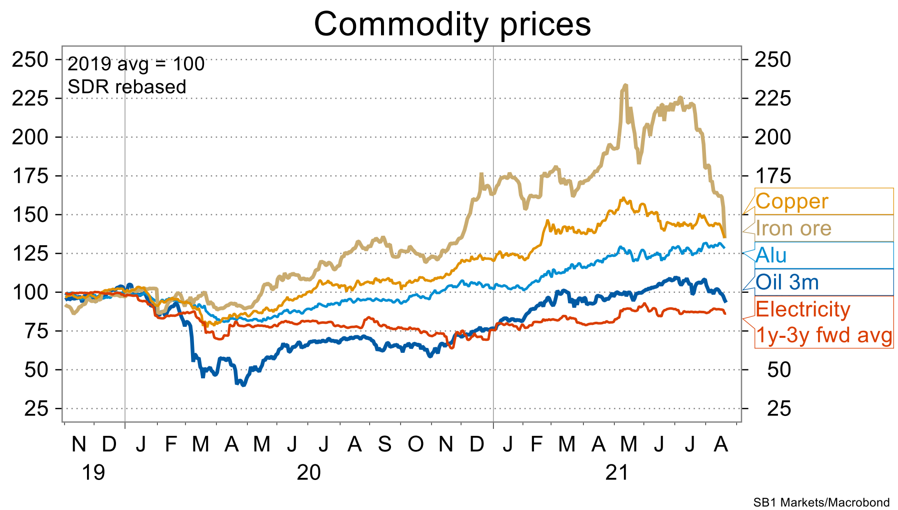


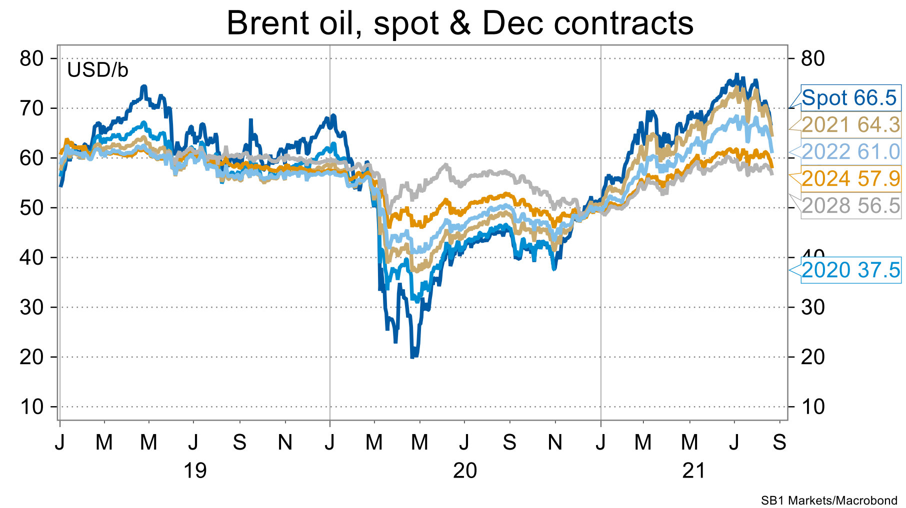


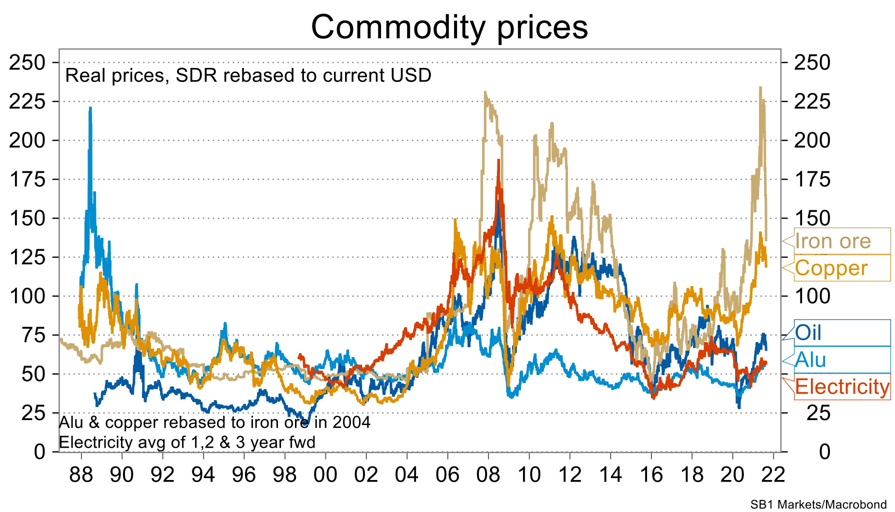


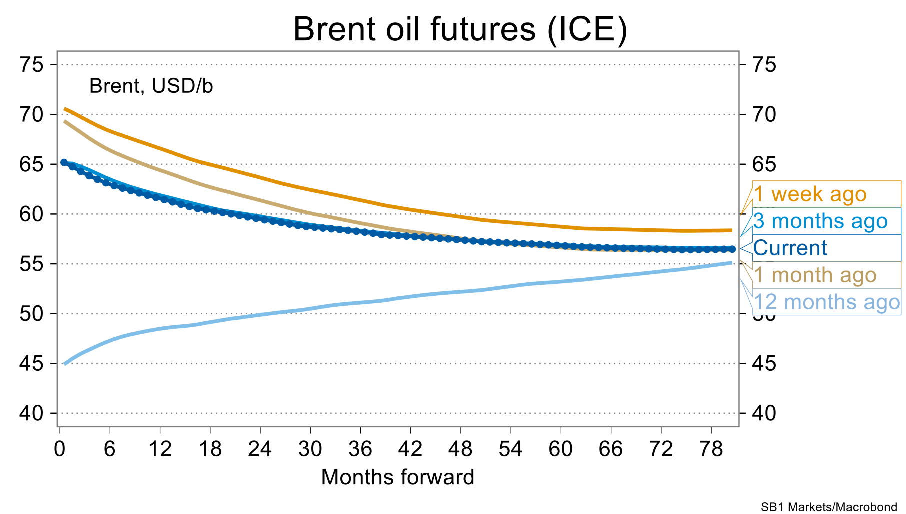
Commodity prices sharply down, iron ore the most as China curbs steel prod.

Iron ore down 40% past weeks. Copper is sliding. Oil prices sharply down too, fwd prices as well



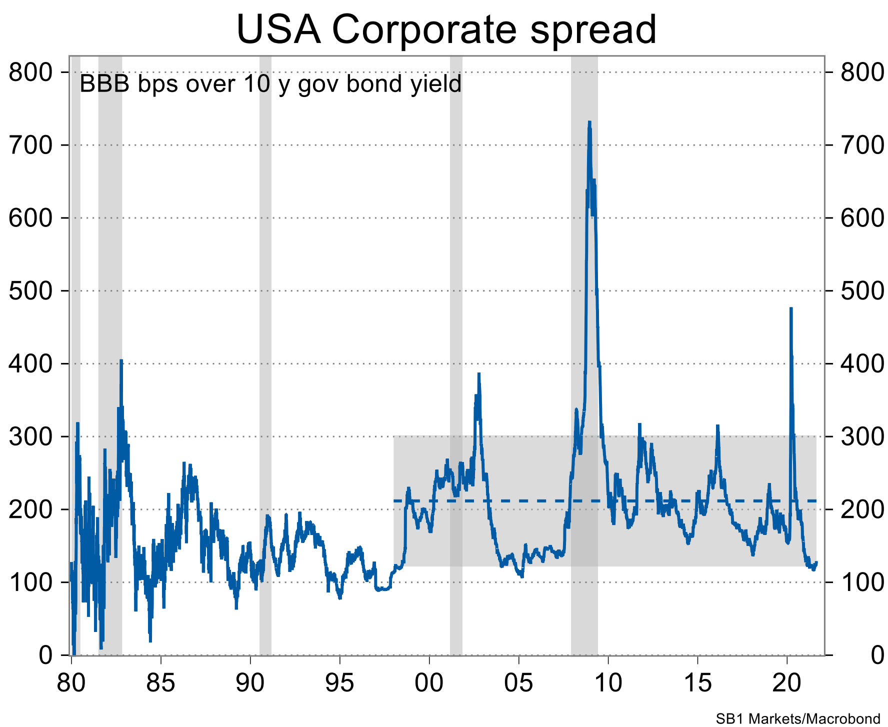


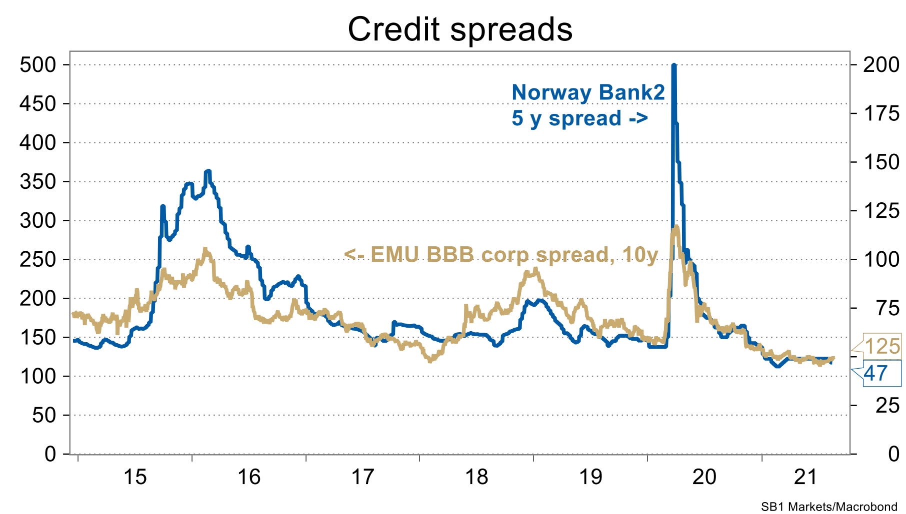




Now its (almost) visible: Credit spreads are marginally up!

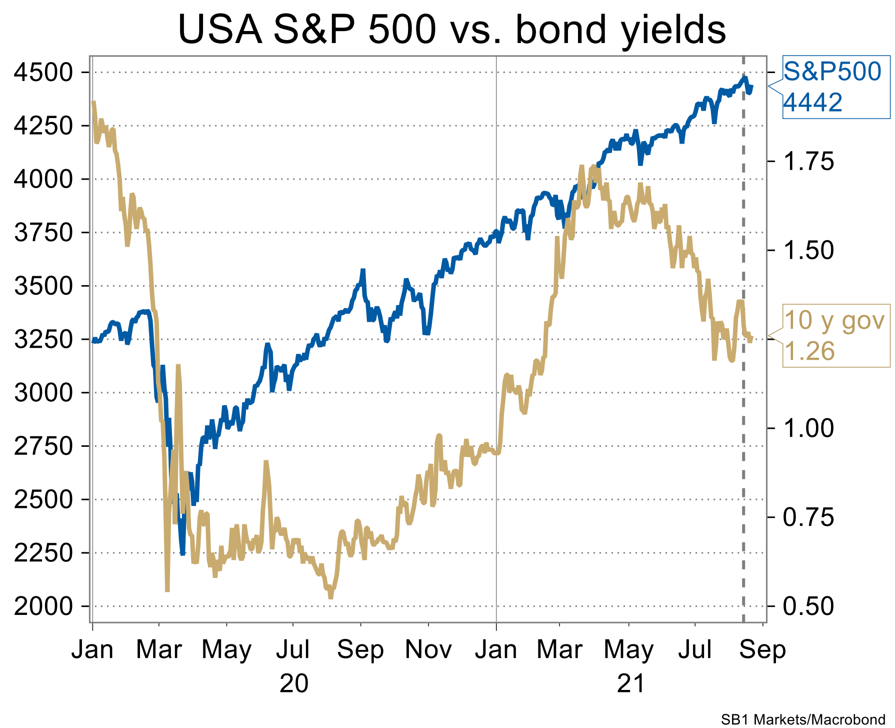
… but not (yet) for Norwegian bank bonds or covered bonds

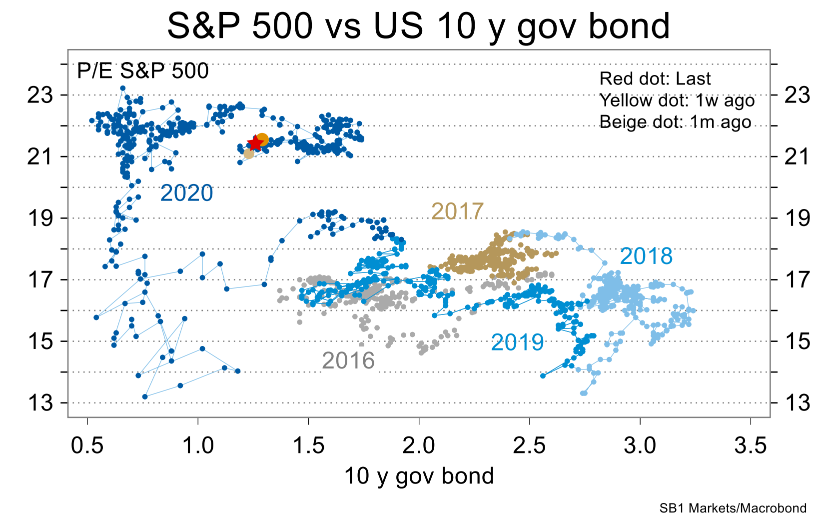


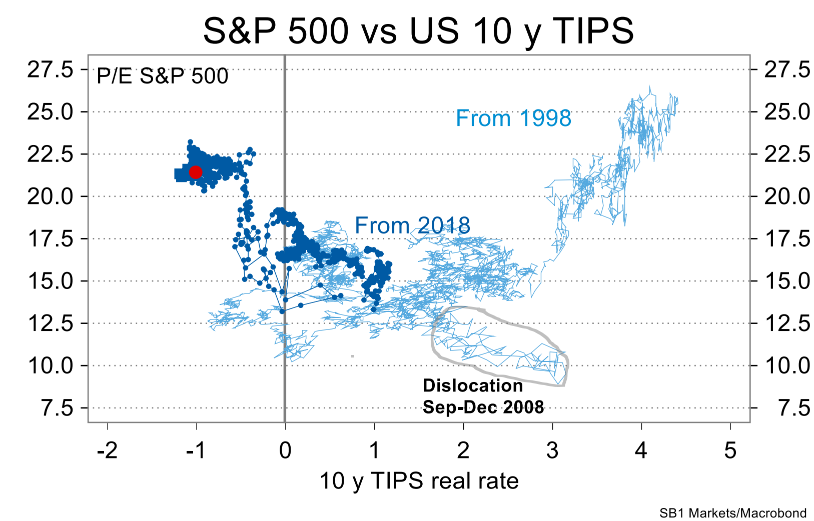


Another ATH on Monday, but then down – by 0.6% from last Friday

The 10 y bond yield subtracted 3 bps to 1.26%. The yield has been rather stable last 4 weeks

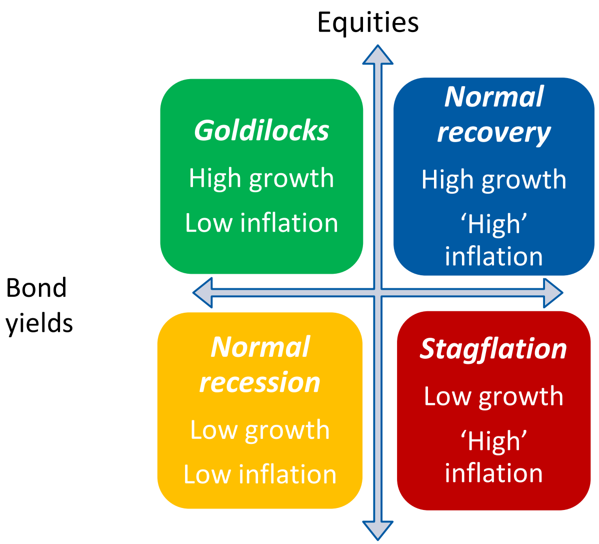


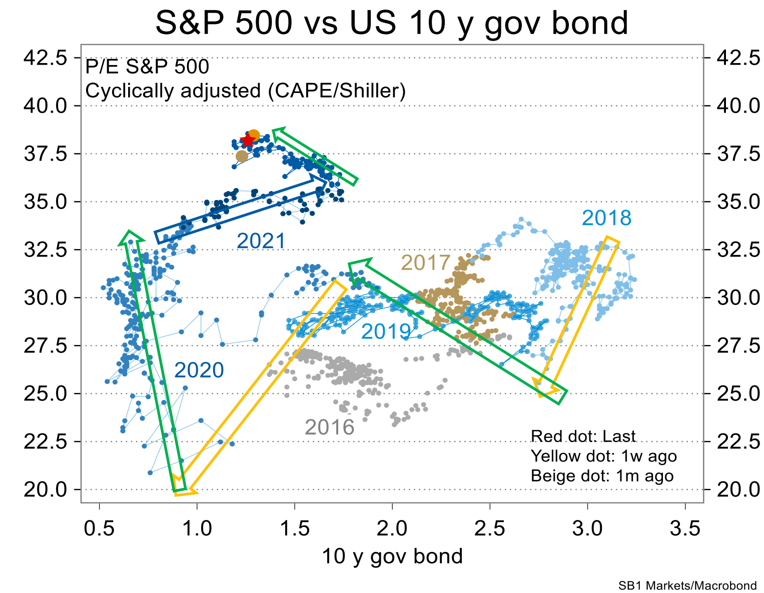




Still well into the ‘Goldilocks corner’

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

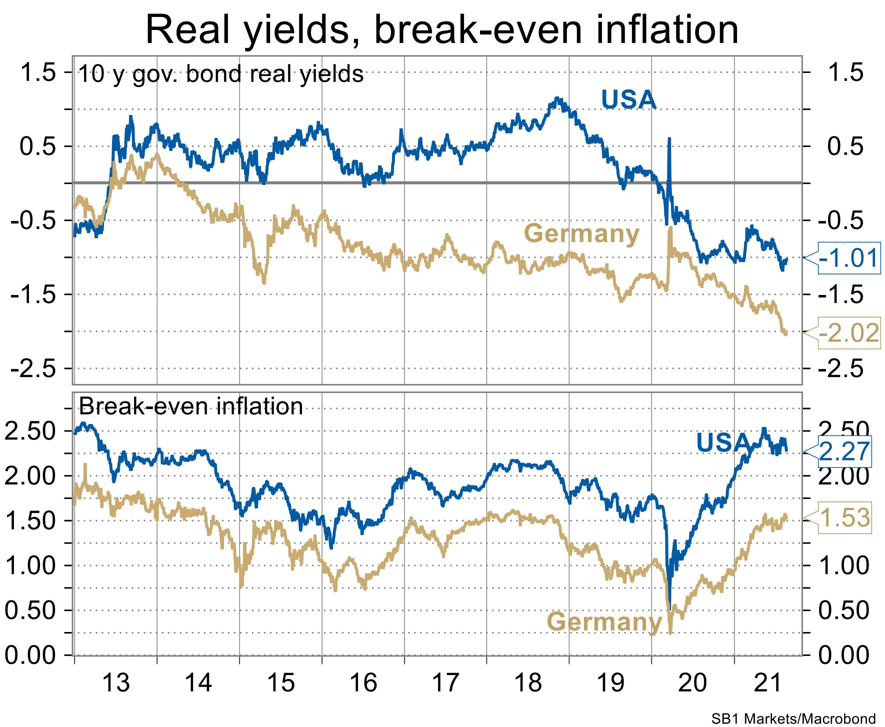


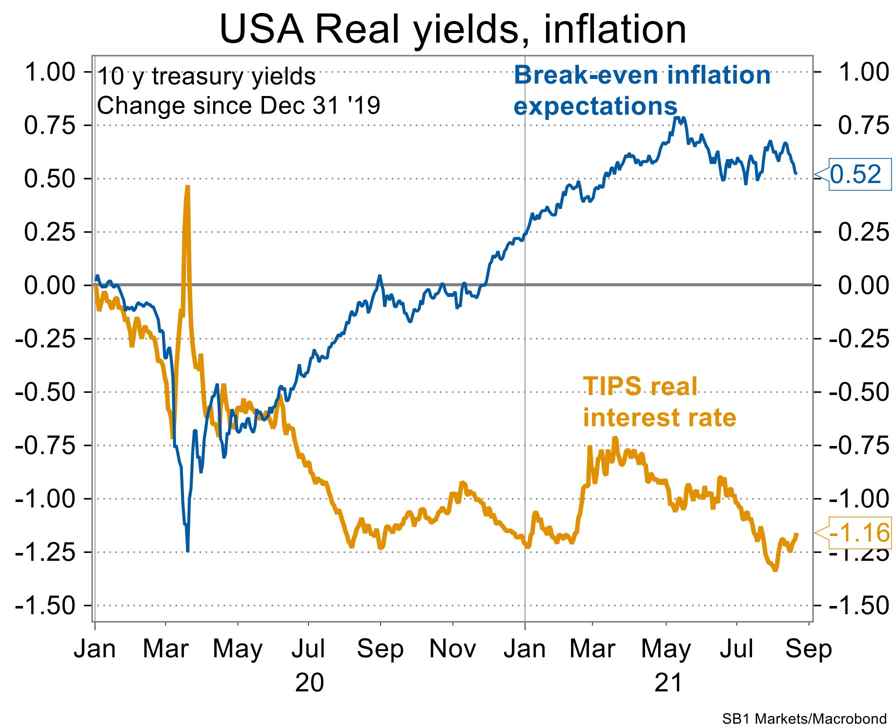


- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield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

Real rates slightly up but still close to record lows

Inflation expectations down 5 – 10 bps last week – and nominal yields down 3 bps in both US, Germany



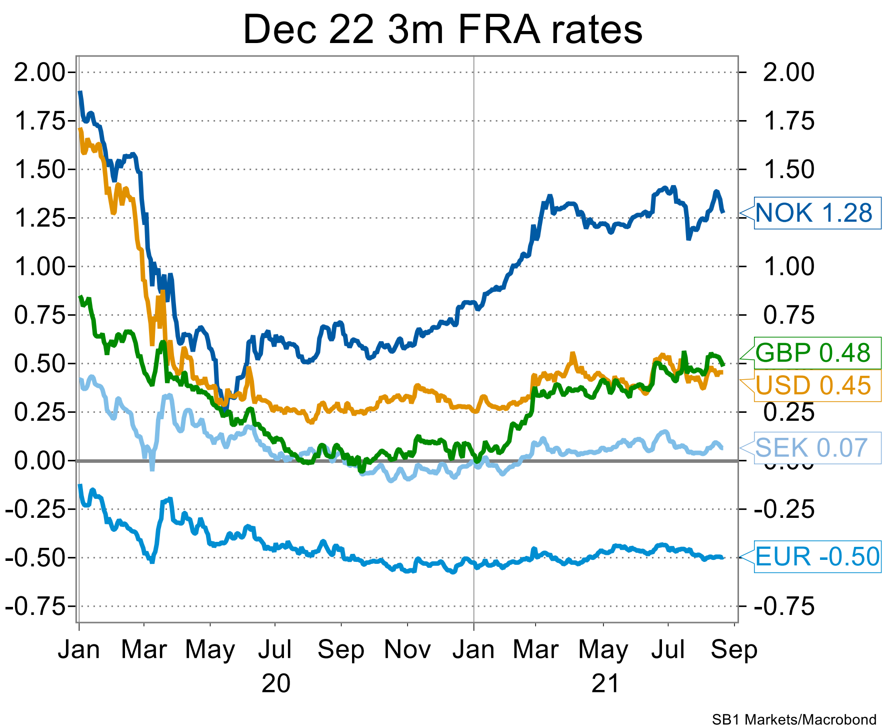


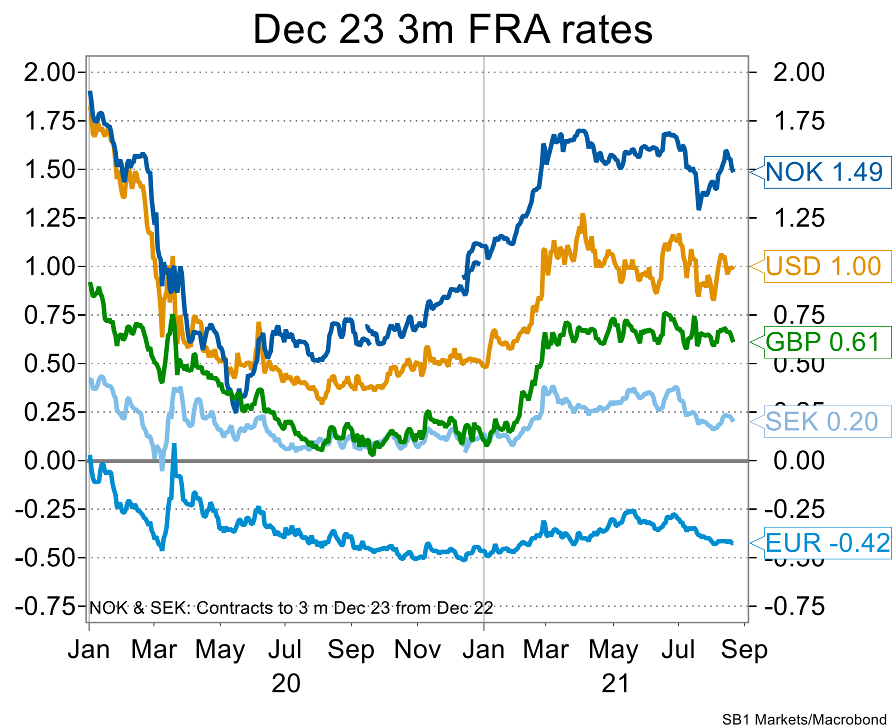
US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.26	-0.03	0.03	0.52
.. break-even inflation	2.27	-0.10	0.01	1.06
.. TIPS real rate	-1.01	0.07	0.02	-1.19
Germany nominal bund	-0.49	-0.03	-0.08	-0.65
.. break-even inflation	1.53	-0.05	0.13	0.40
.. real rate	-2.02	0.02	-0.21	-2.05

SB1 Markets/Macrobond

FRAs: Mostly down, and down the most in NOK

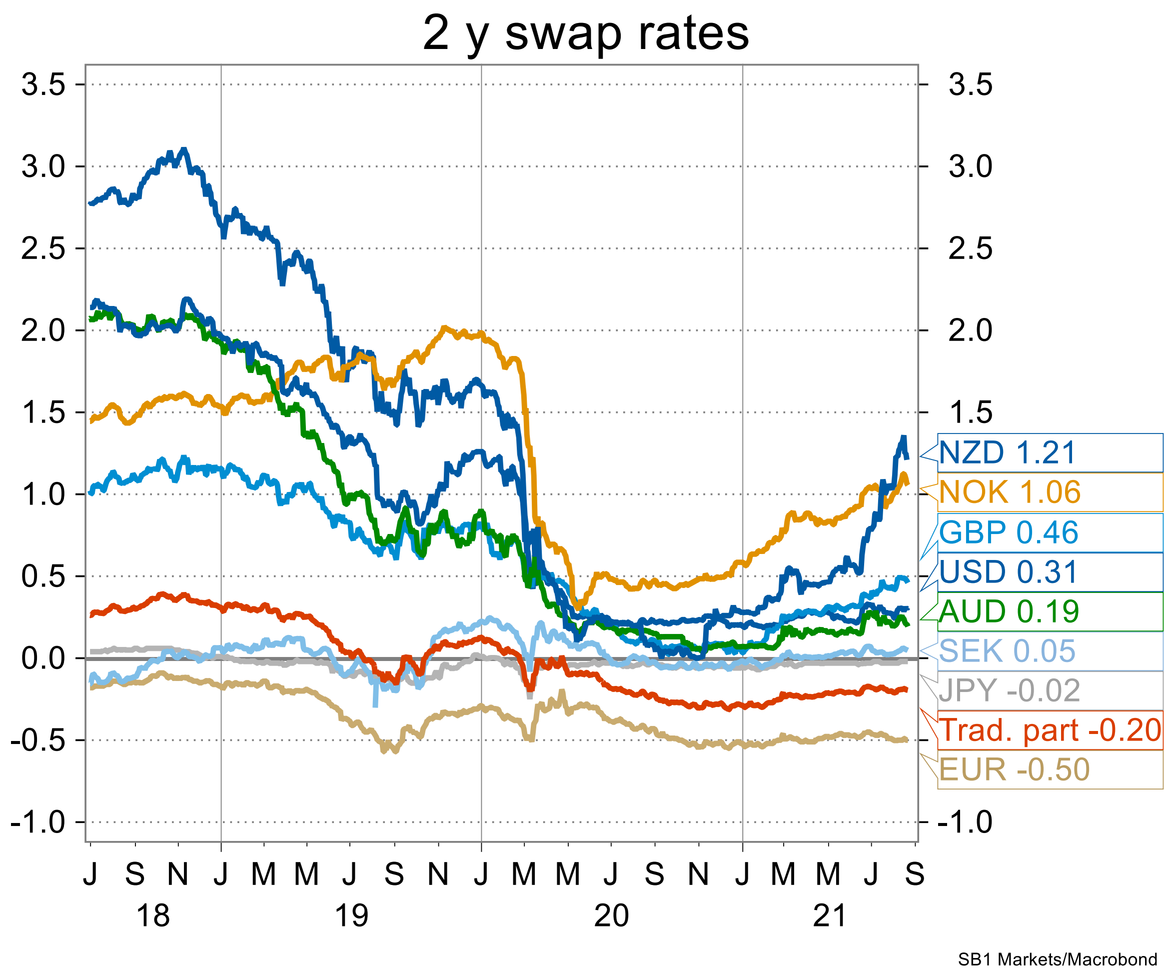


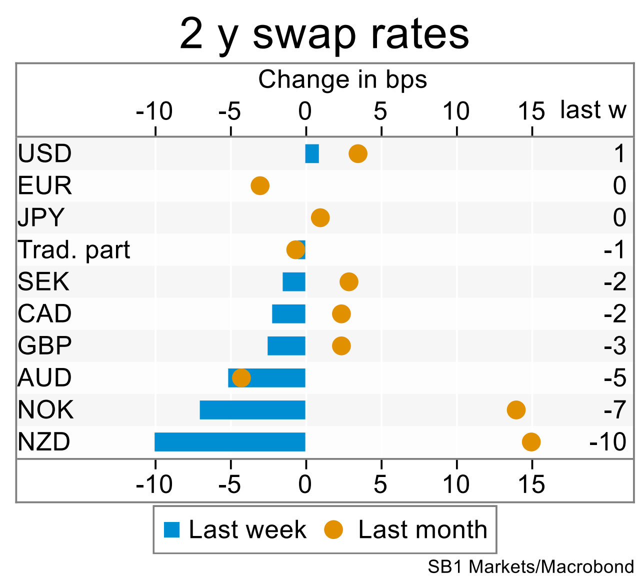


- The market expects both **BoE** and the **Federal Reserve** to hike next year
- Even if the Norwegian housing market has flattened, and economists are discussing whether **Norges Bank** will og should hike in September, the market is fully discounting the Bank to start hiking

Most short rates down (but not USD, EUR rates). NZD rates fell sharply

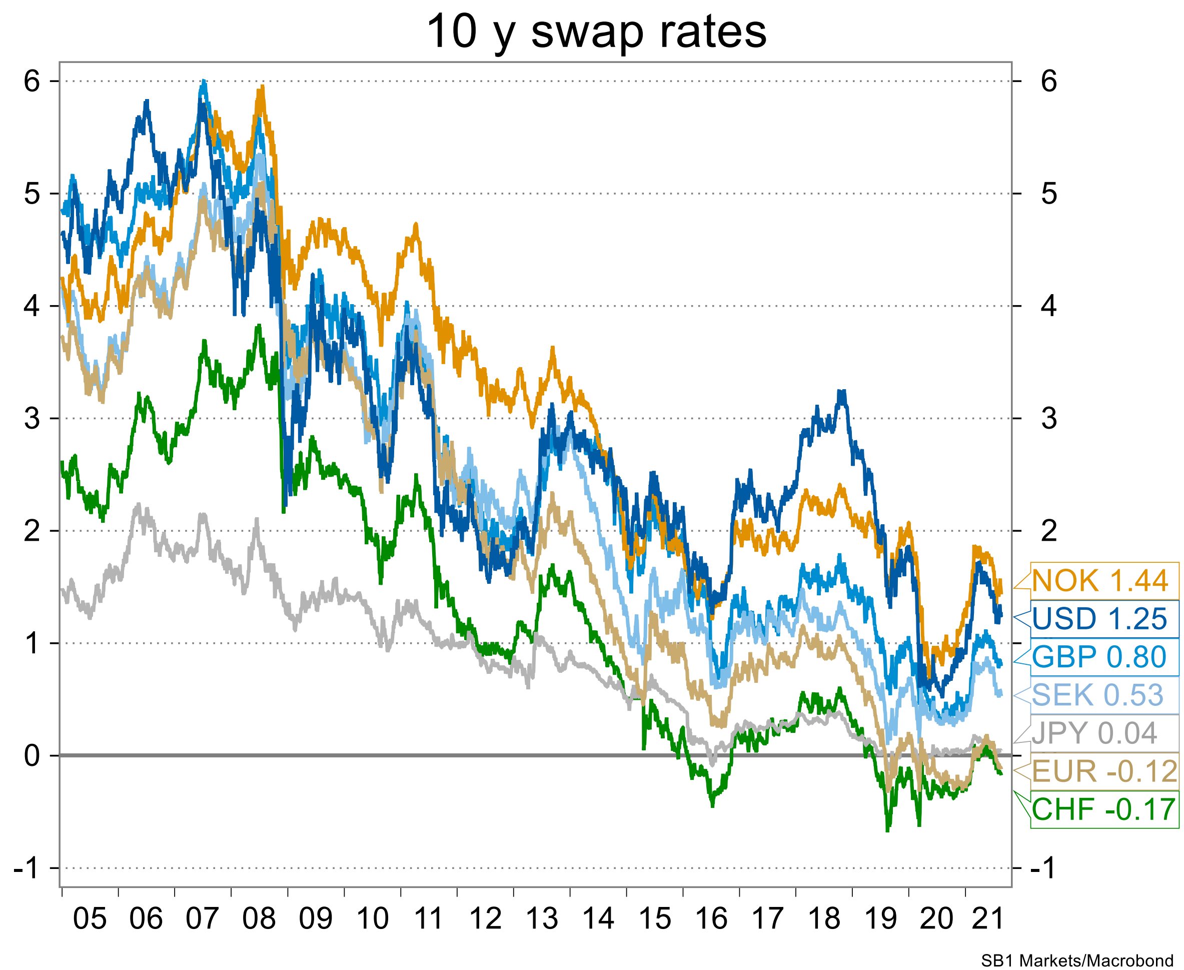
…as RBNZ did not hike its signal rate (due to 6 Delta cases per day, Norway has 100 times more ☺)

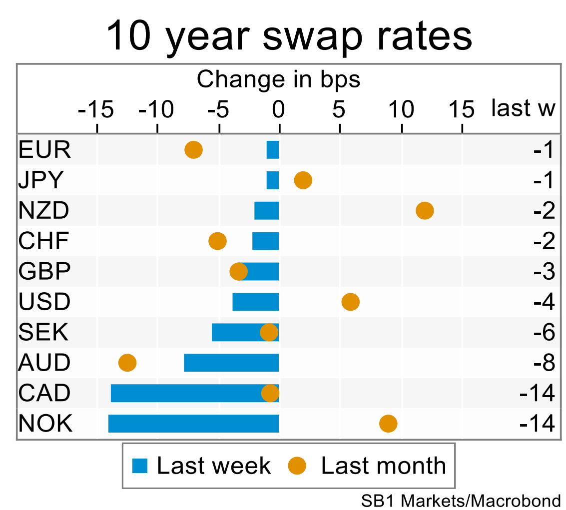




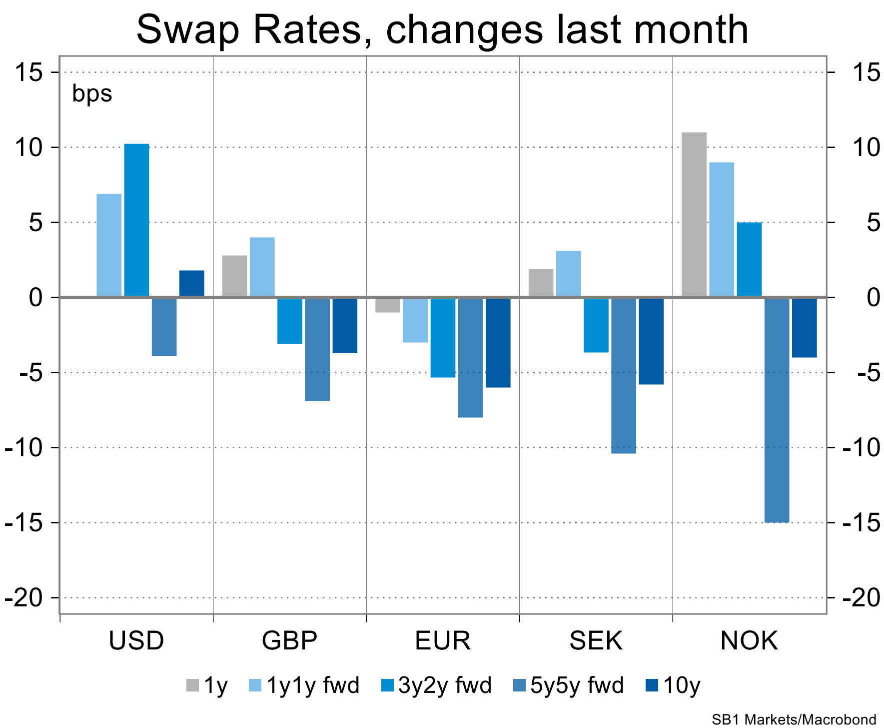
Down in the long end everywhere, most among the 'supercyclicals'

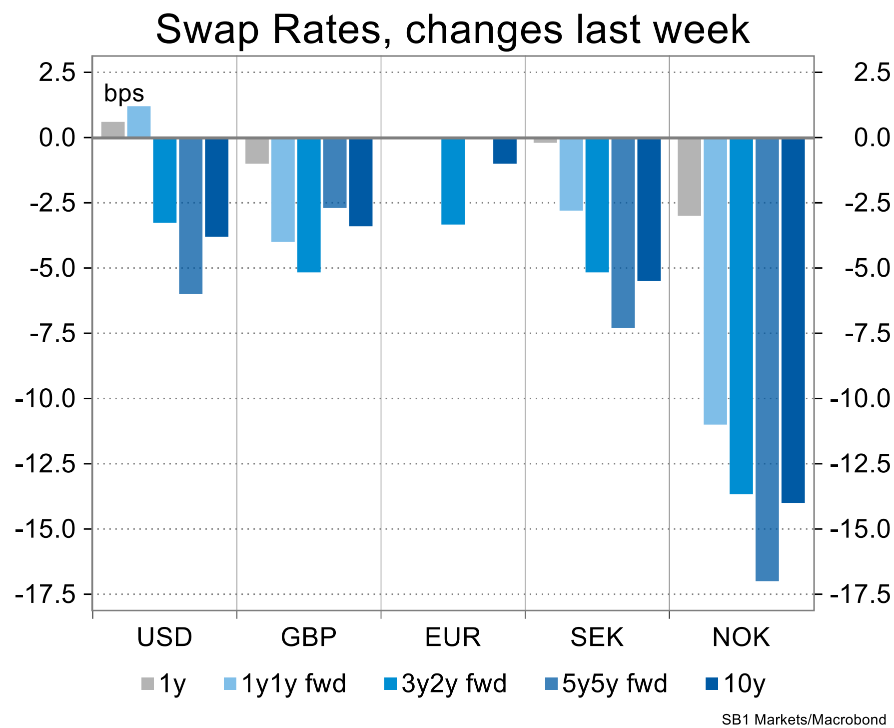
Both rates and f/x down in AUD, CAD, NOK and SEK





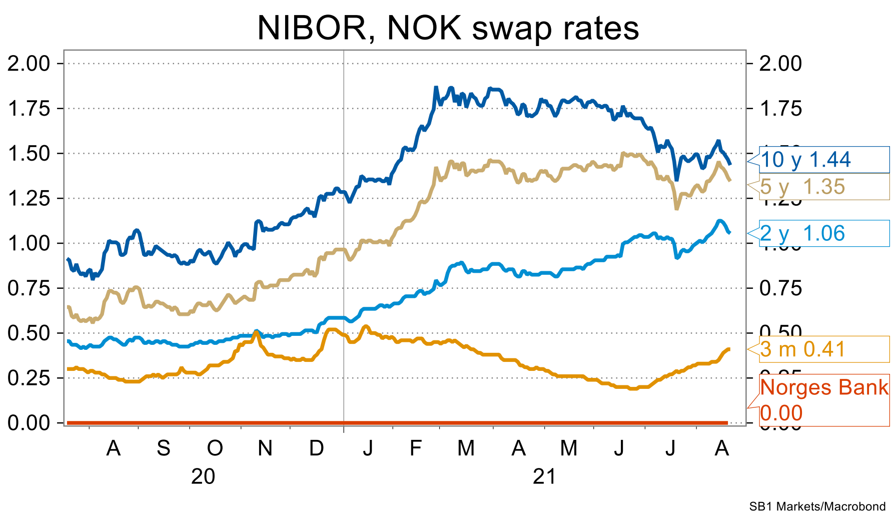
Most rates down last week. Norway an outlier on the downside

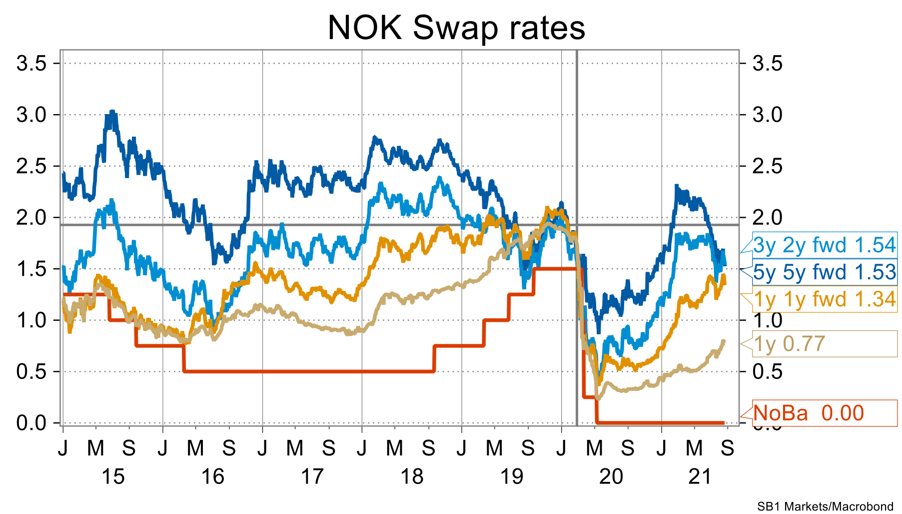


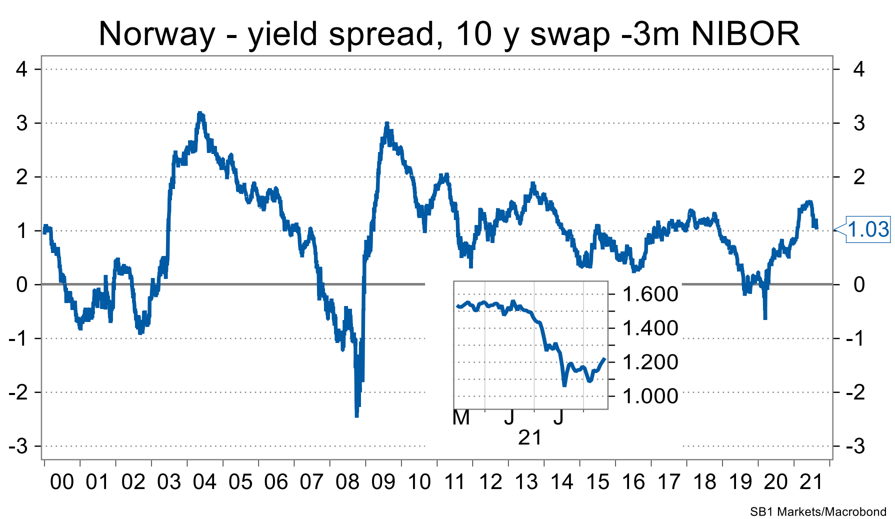


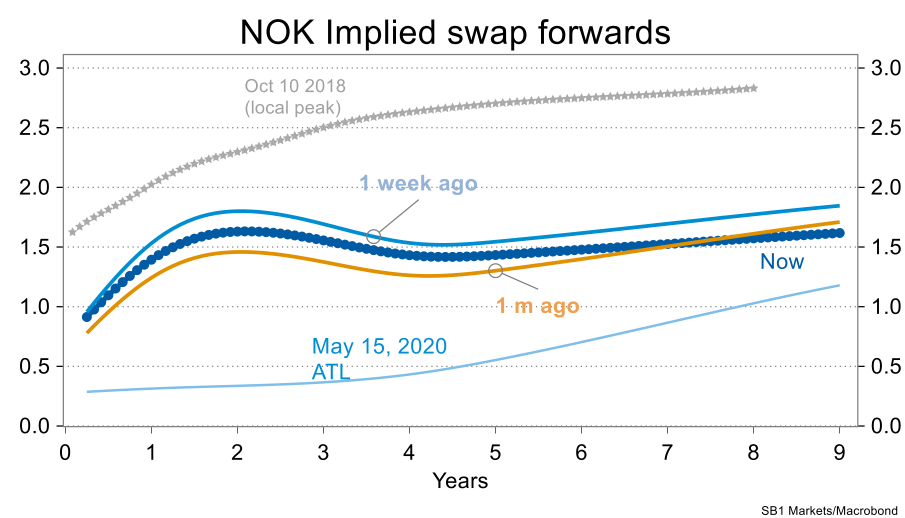
- Almost no net changes in the EUR swap curve last week (like the previous week)

Further up in the very short end, sharply down thereafter



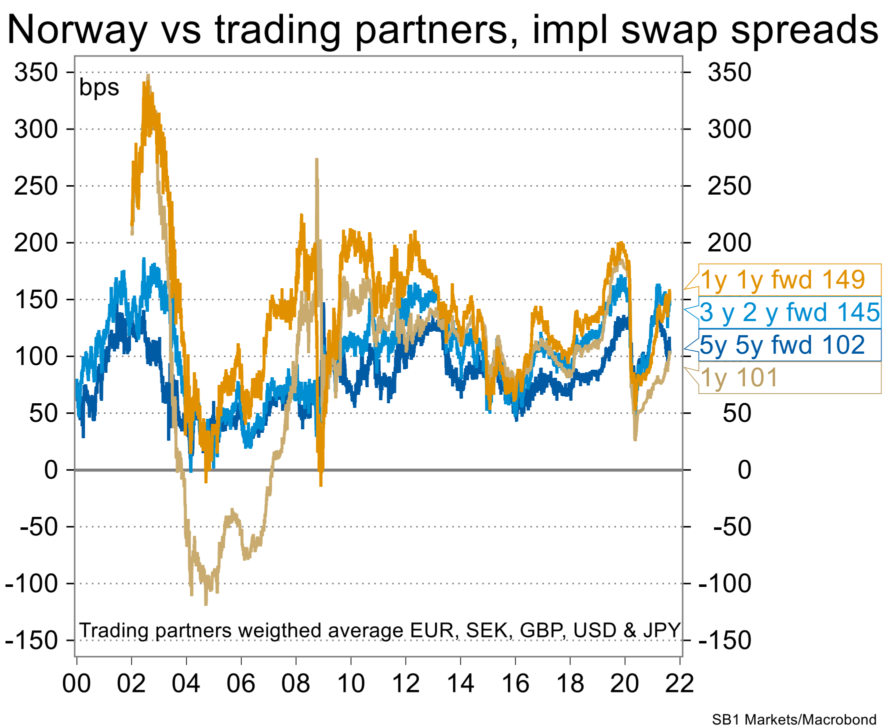


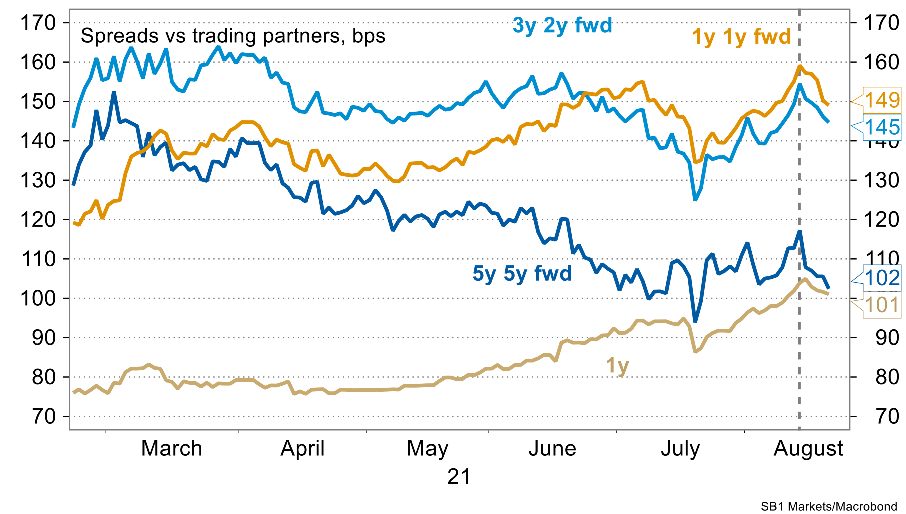


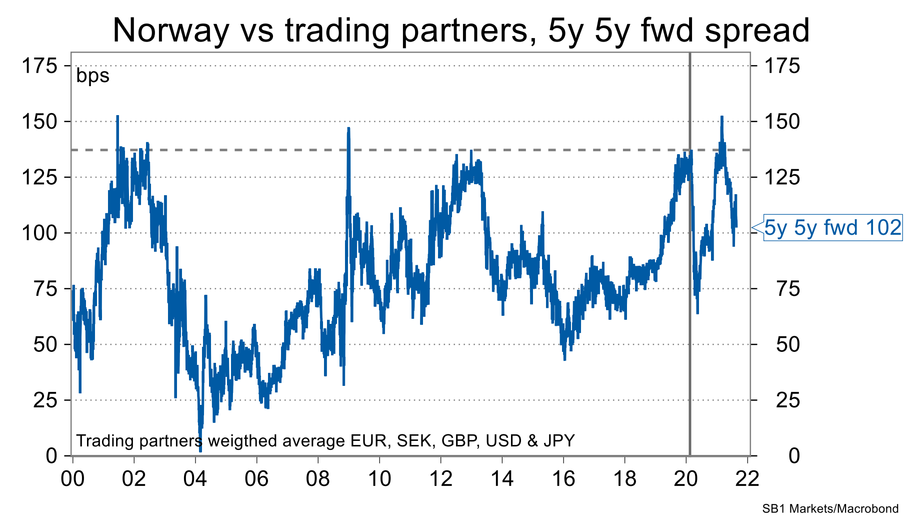


Forward spreads vs trading partners up 8 – 17 bps, most in the short end

Without any strong Norwegian macro data

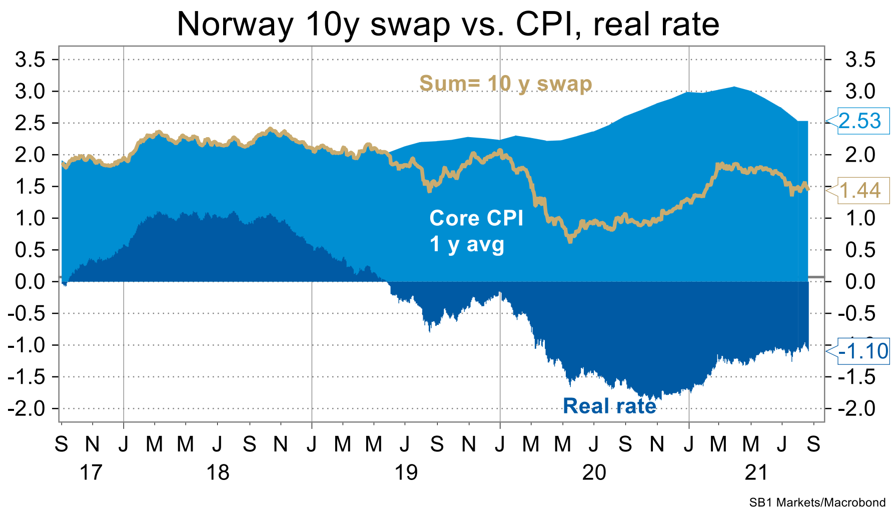






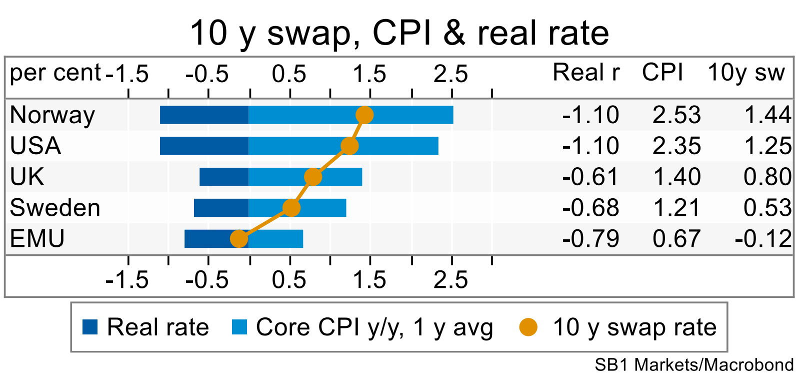
- The 5 y 5y fwd spread fell by 15 bps last week!

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



NOK 10 y swaps have flattened

- The **10y NOK swap** rate down 14 bp to 1.44%
- **The actual real rate**, after deducting a 2.5% average core CPI inflation over the 2 past years equals -1.1%
  - » 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 do 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

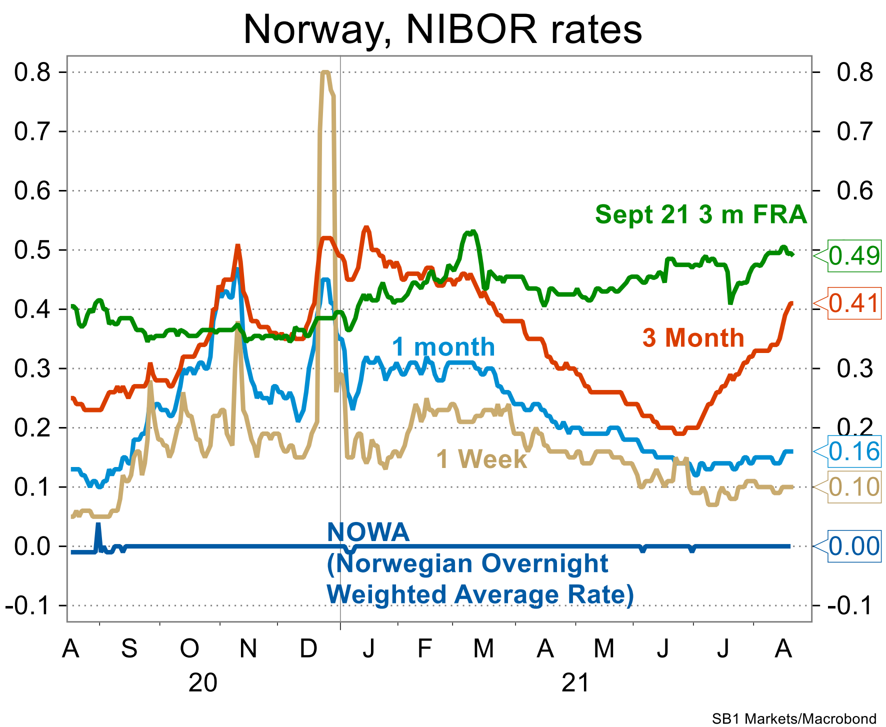


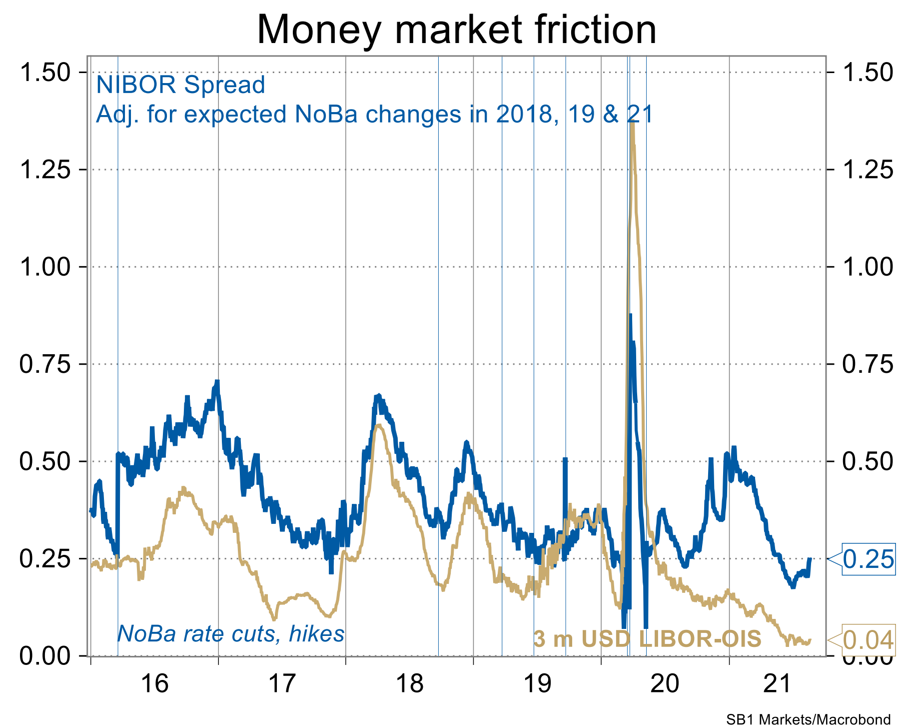
The NOK real rate not the lowest anymore

- **Inflation** among main trading partners varies between 0.7% to 2.4% (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 -1.1% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.1% is among the lowest**

3 m NIBOR 6 bp up to 0.41%, the 'real' NIBOR spread probably up to 25 bps

The market is fully discounting a NoBa hike in September

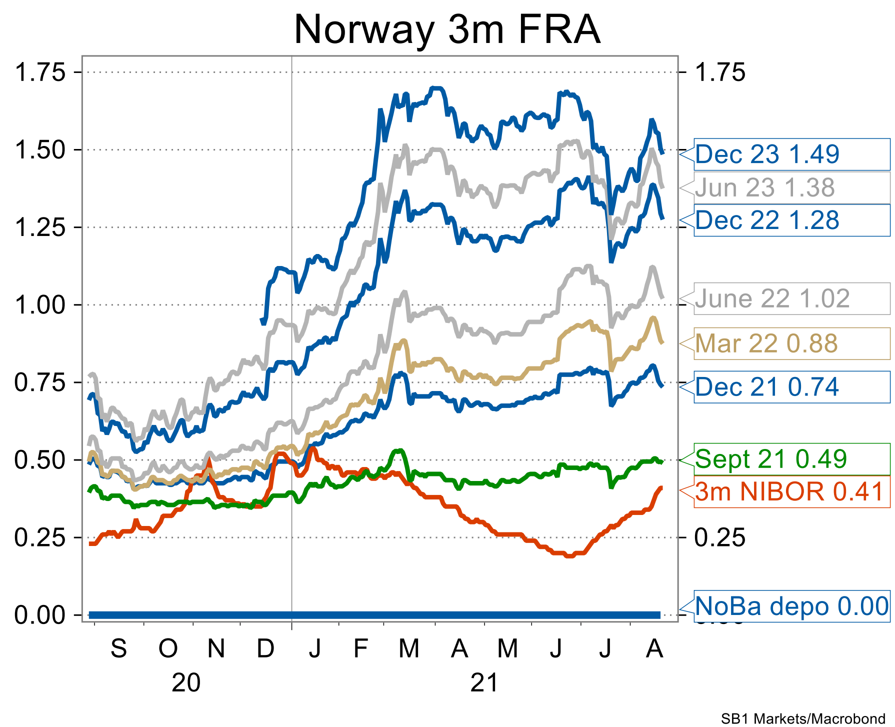


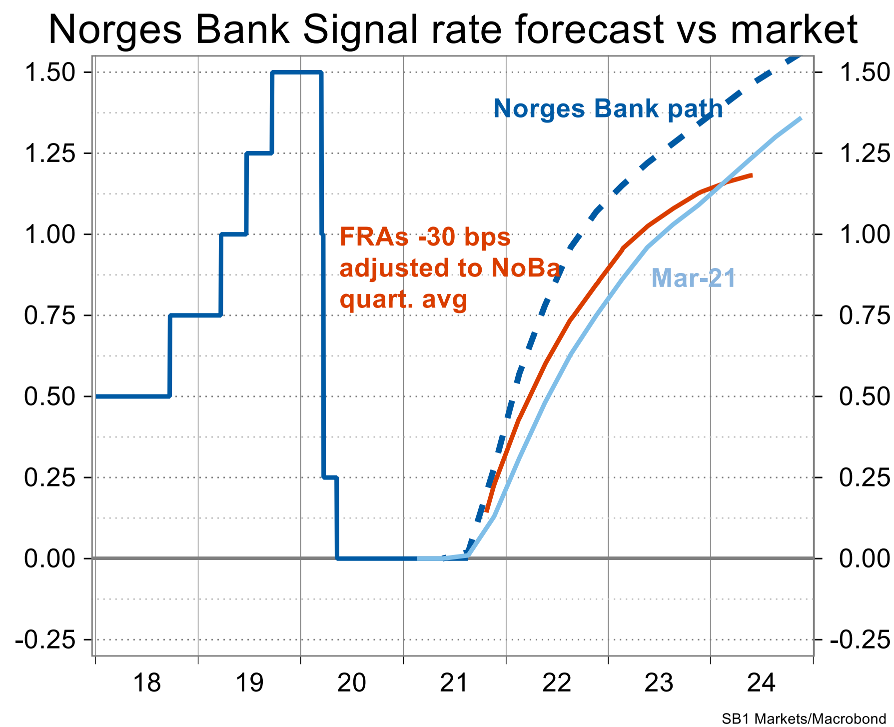


- The **USD LIBOR OIS spread** is still low, even if the Fed has tried to mop up excess liquidity in the money market by heavy use of reversed repos
- The **Sept-21 3 m FRA contract** at 0.59% bps (+1 bp last week) is just 8 bps above the current 3 m NIBOR, implying a modest (less than 3 bps/week) expected increase in the 3 m NIBOR the coming weeks. 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' NIBOR spread** probably rose to 25 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 down by up to 13 bps, once again well below NoBa's June path

Still, a 2nd hike in December is deemed quite likely





- The market is still betting on a **NoBa hike in September** – and more than fully if the NIBOR spread remains at 0.25 bps. If a 30 bps spread is assumed, the implied probability falls to 88%
- The Dec-21 FRA at 0.80%, after deducting a Q4 liquidity premium at 7 bp, implies a 66% probability for a **2nd hike in December** if the NIBOR spread stays at 25 bps. It the spread widens to 30 bps, the probably for a 2nd hike falls to 50%

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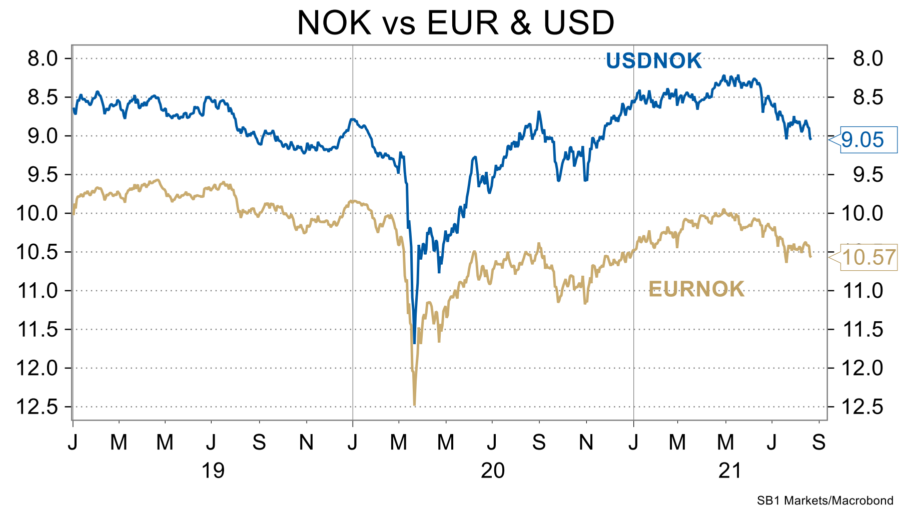
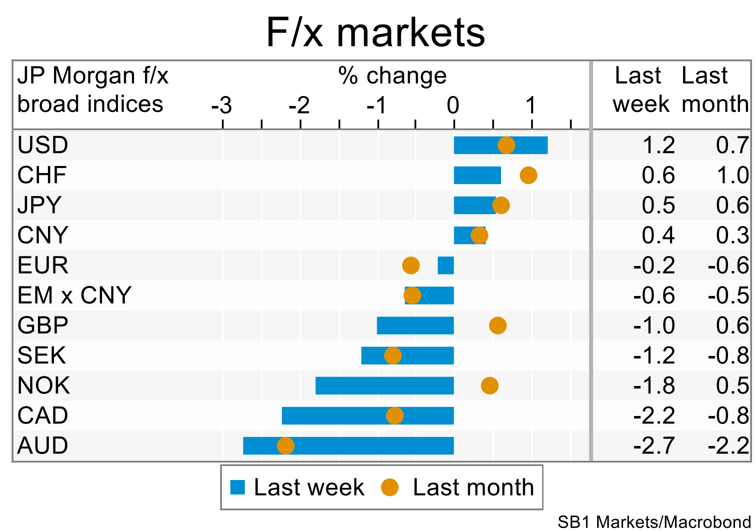
USD the winner last week the 4 'supercyclicals' at the bottom – 'risk off'





JP Morgan f/x broad indices	Last week	Last month
USD	1.2	0.7
CHF	0.6	1.0
JPY	0.5	0.6
CNY	0.4	0.3
EUR	-0.2	-0.6
EM x CNY	-0.6	-0.5
GBP	-1.0	0.6
SEK	-1.2	-0.8
NOK	-1.8	0.5
CAD	-2.2	-0.8
AUD	-2.7	-2.2

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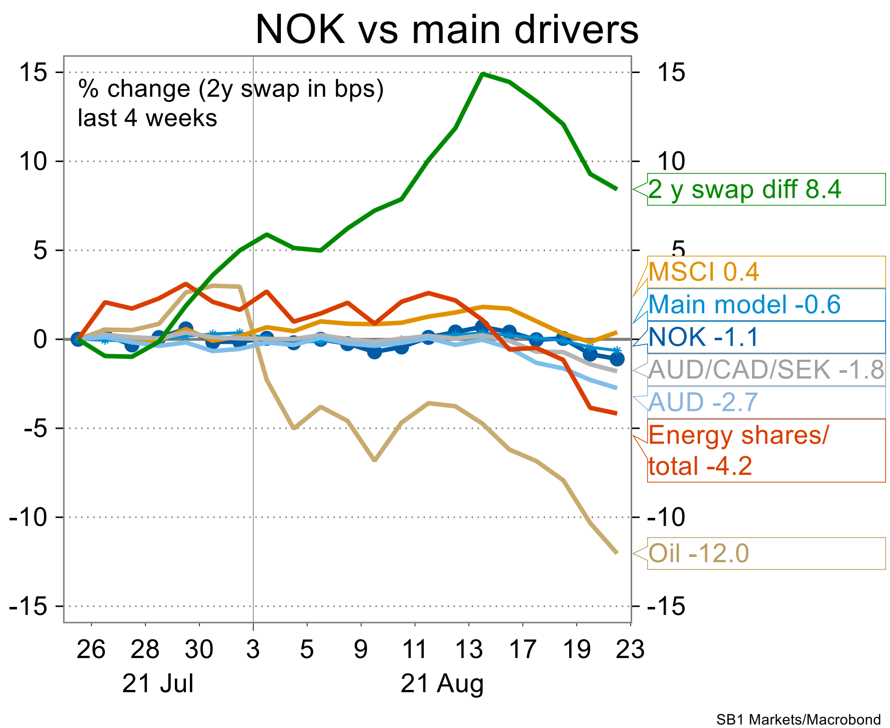
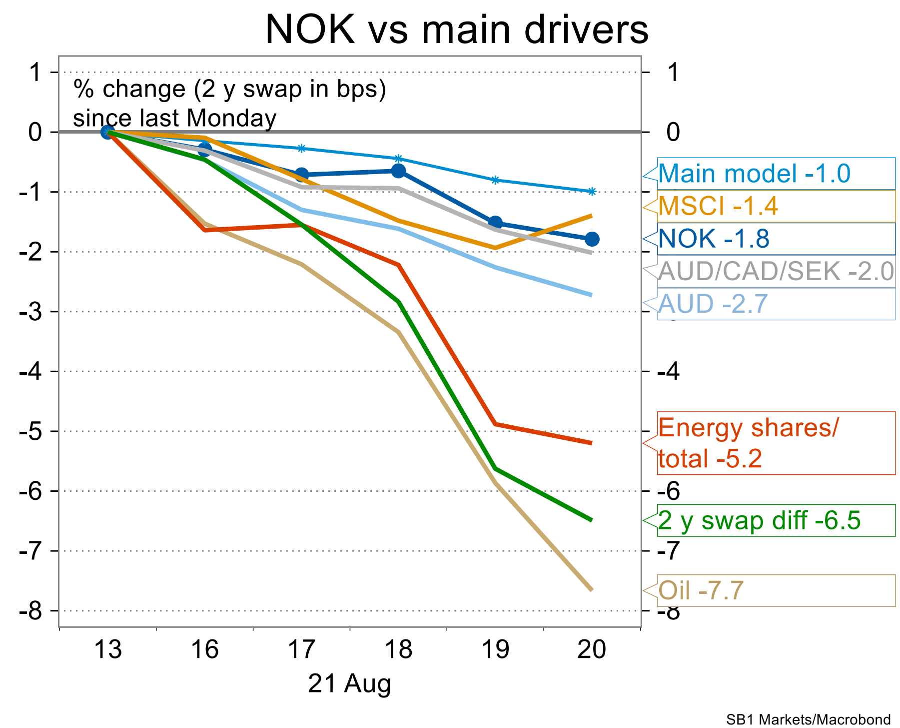
NOK down 1.8%, in tandem with oil, rates, fx peers, global stock markets…

Our traditional model suggested -1%





The status vs. the normal drivers:

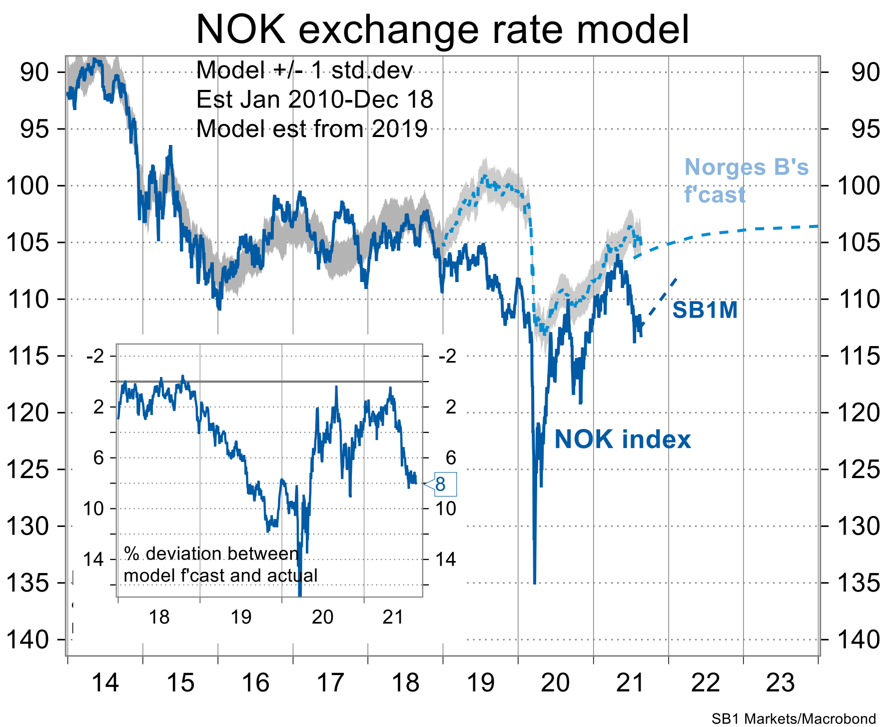
- ***The NOK is 8% <u>weaker</u> than suggested by our standard model (from - 7)***
- The NOK is 7% '<u>weaker</u>' than the global stock market vs the correlation between the two since beg. of 2020 (from 7)
- The NOK is 10% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts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

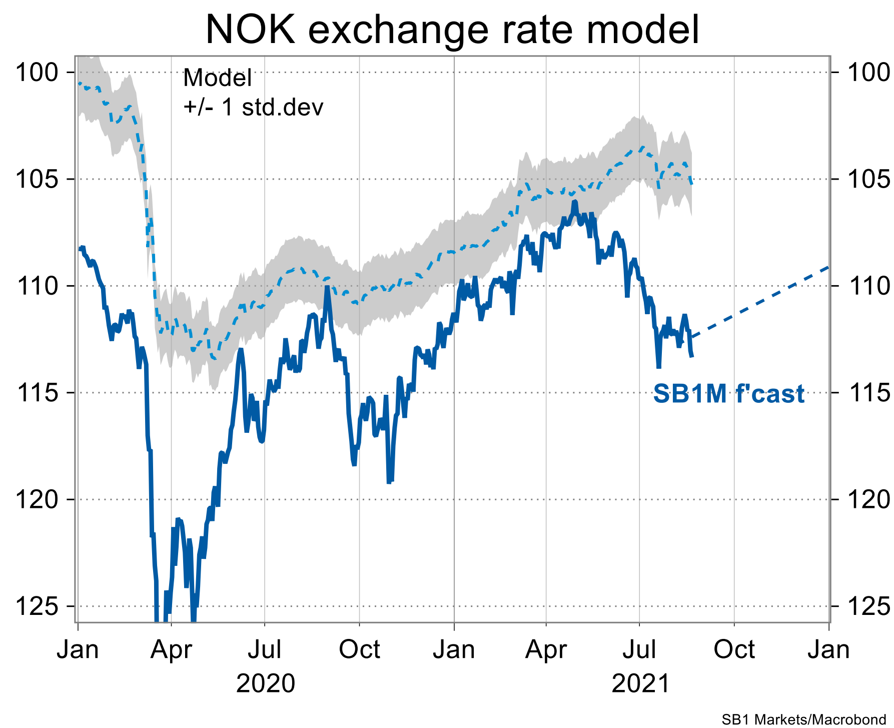
After been neutral vs NOK from May, we turned positive in early July, as the gap vs. our models had widened. *So far without any success*

At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for fx crosses. There are no substantial difference between these two indices over time

NOK 8% below our model estimate

But the gap narrowed last week





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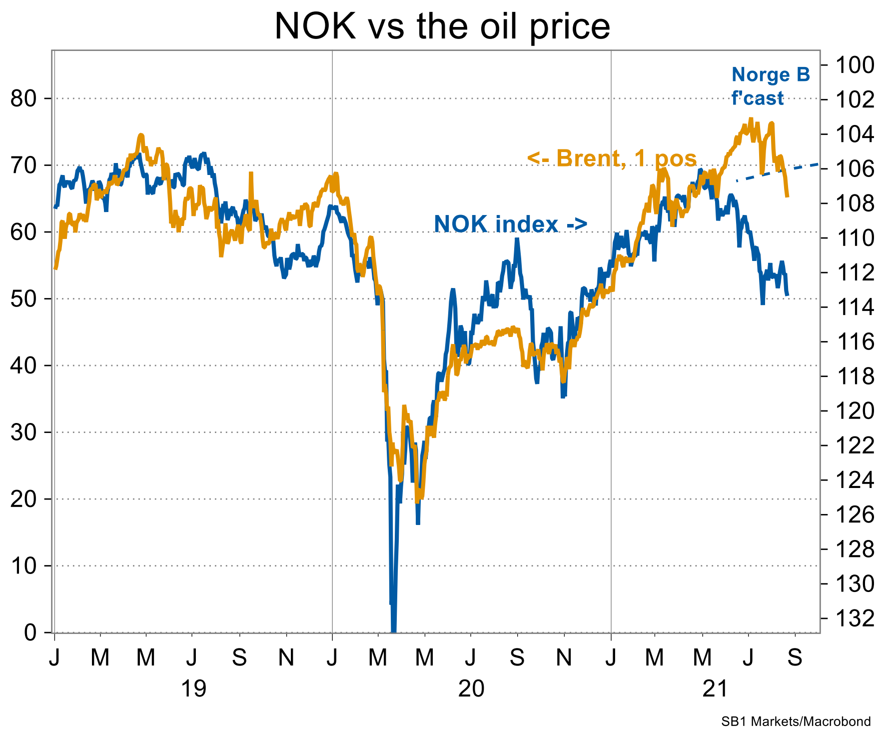
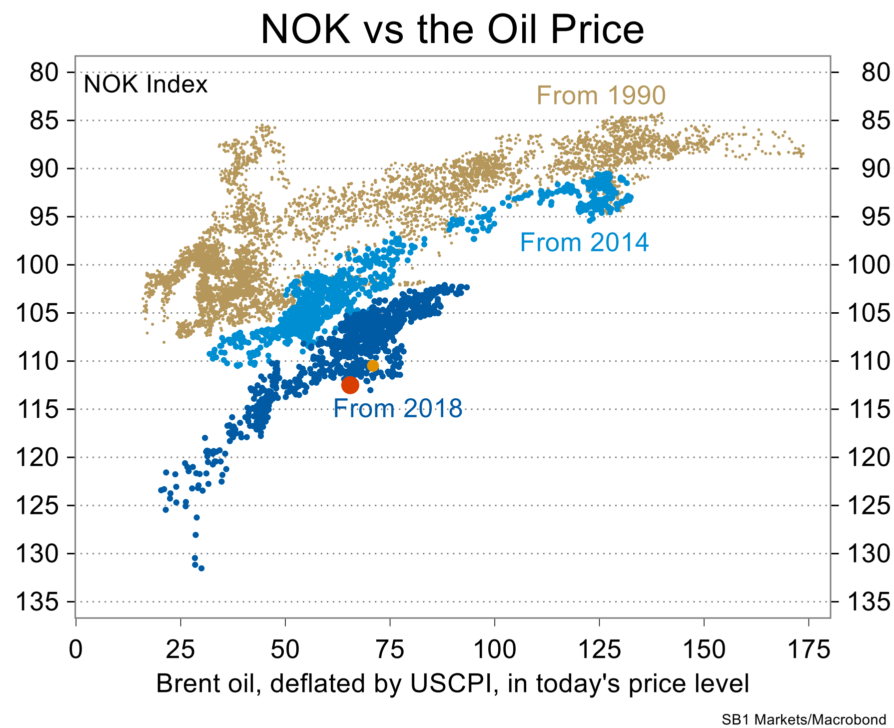
Oil & NOK sharply down

In addition, NOK still on the weak side vs the oil price

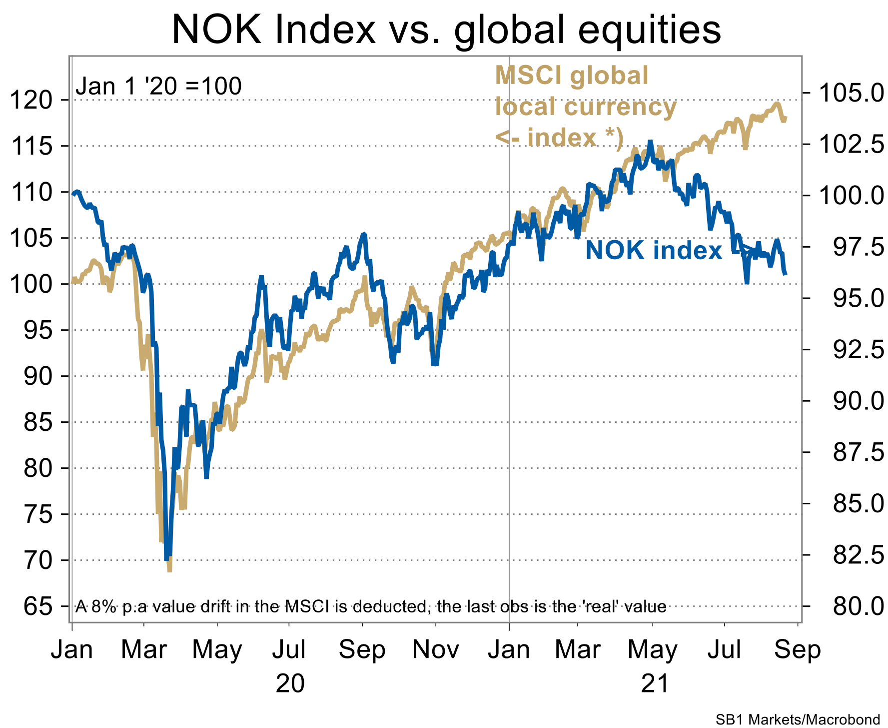


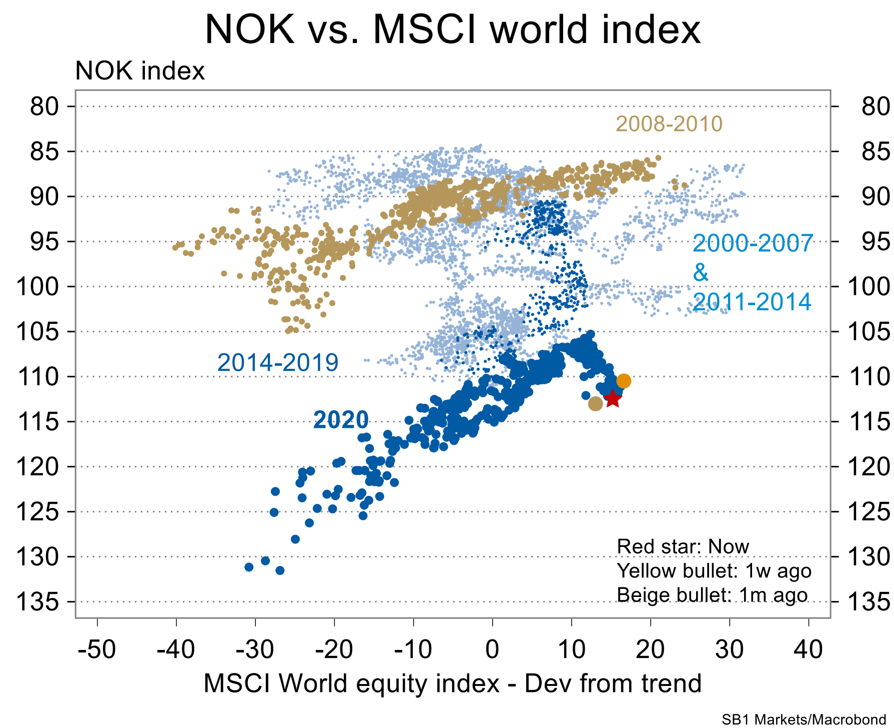


- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

The global stock market down, NOK down even more

NOK has lost some 7% vs. global stocks since May





- 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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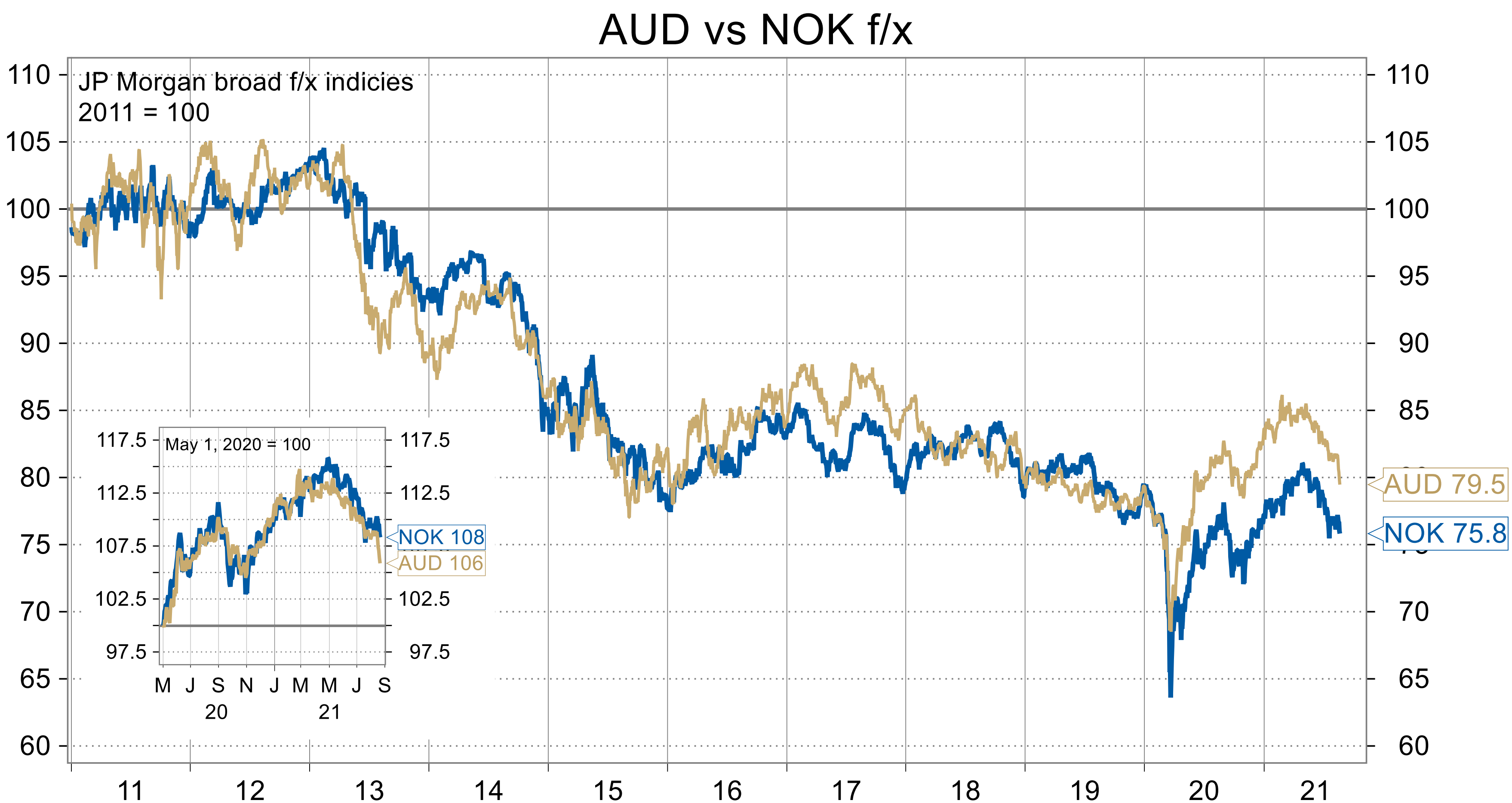
NOK & AUD still dancing extremely tight but last week the AUD fell more

China is closing down steel production, iron ore prices fell sharply – and the AUD suffered



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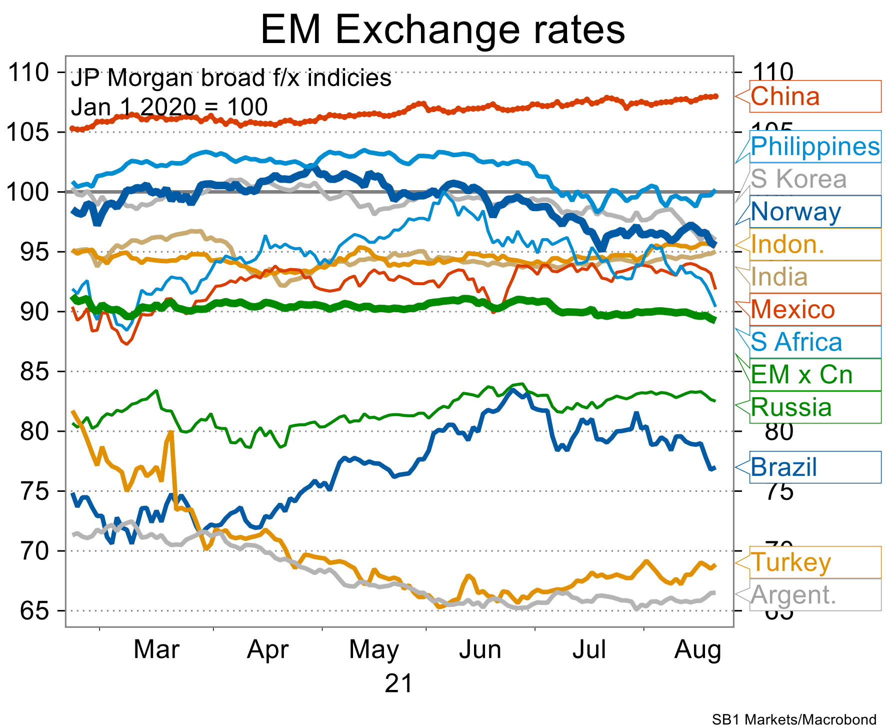
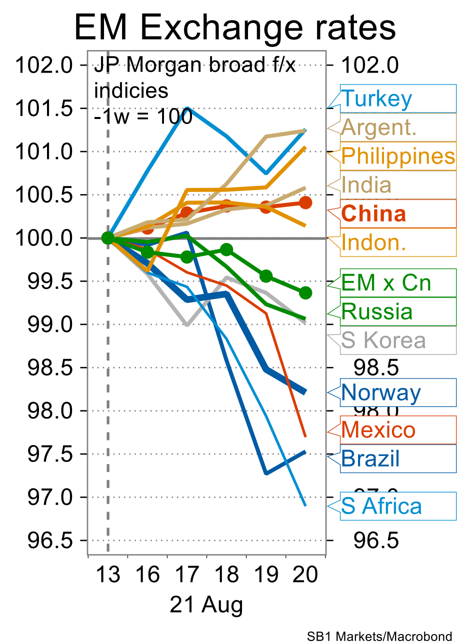
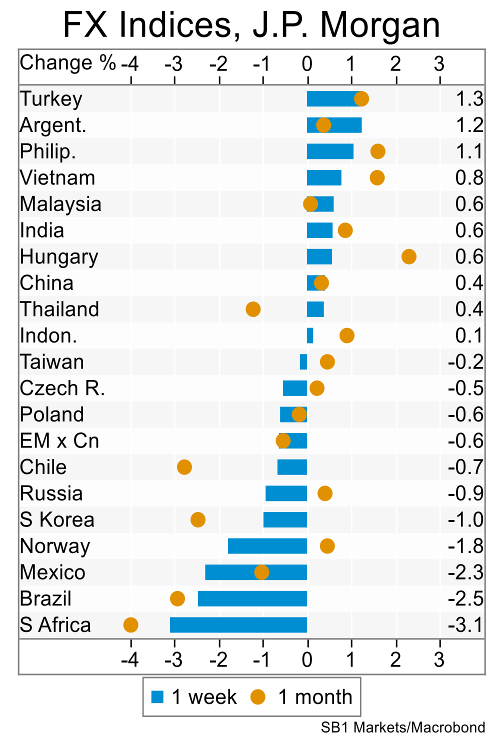
EM x China f/x are sliding slowly down







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