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Macro Weekly

Week 36/2021

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Last week

The virus

- More countries are reporting fewer cases than more cases, and growth is slowing almost everywhere, even in Norway
- Growth in hospitalisations has slowed too, and the number of patients are falling in several countries
- **Norway** has seen a surge in new cases, and in hospitalisations. Now growth is clearly slowing. Since just 1% of positive cases are hospitalised, there are no more than 16/mill in hospitals (vs. 100+ in the UK, and almost 300 in the US). The risk for running into a health crisis is close to zero in Norway (and we think in rest of Europe) – given the present mutations and vaccines that work quite well. The US has some challenges in the hospital system, and in August hotels/restaurants stagnated (at least employment wise)
- <u>In the West</u>, **mobility** has not come down during the Delta outbreak, signalling that economic consequences are mild. The only remaining Covid-19 risk is another mutation that are resistant vs. vaccines
- <u>In the East</u>, the lockdowns will probably not last for too long, and **India** is back at full speed, following the May disaster. **China** have probably already beaten down the last (very limited) outbreak – though at substantial cost for services in August, according to the PMIs

The economy, part I

- **August PMIs**
  - » The global composite PMI fell even more than we assumed – by 3.1 p to 52.6, signalling global growth below trend. Still, the index signals far better growth than the close to zero outcome in Q2 (thanks to a 10% not annualised drop in India). **Services in US, UK, China, Japan** and some other Asian countries were to blame, very likely due to the Delta outbreak and restrictions, and not the first month of a deep, lasting downturn. (Parts of Asia was OK, and in India the services & the composite PMI shot up to a high level!). <u>The Chinese numbers were 'disastrous', but here, as globally, the services future activity index remained at a very high level</u>. The **manufacturing PMI** fell too but less, and like for services Delta restrictions and related supply chain problems were at least partly responsible. <u>Demand is not collapsing</u>. Delivery times are still increasing but a marginally slower pace, and price pressures came slightly down but remain elevated. **Sweden** is at the top of the Composite PMI ranking, **Norwegian** manufacturers are reporting strong growth too
- **Auto sales**
  - » **US** reported an 11% decline in sales in August, expected unchanged, and at 13 mill, sales are 25% below a normal level, as are sales in the **EMU**, where sales may be reported marginally up in August. Sales in **Norway** were among the very best on record. In the next week's report we will present the global numbers – but they will not be upbeat. Not due to weak demand but due to lack of component, mostly data chips

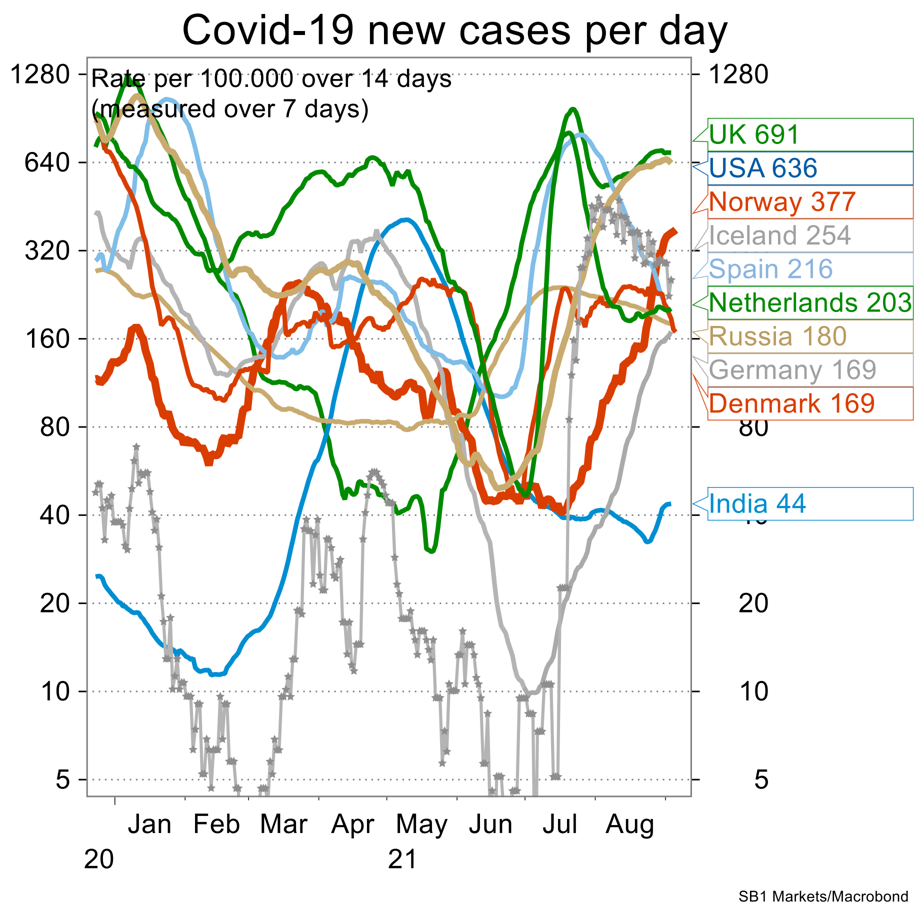
Last week: The economy, part II

- **USA**
  - » **Nonfarm employment** rose by just 235’, far below the expected 720’, down from 1,053’ in July. Employment in **hotels & restaurants** and **education** flattened, after delivering 700’ jobs the previous months. Sure, the no. of unfilled vacancies is record high but the abrupt shift to August from July must primarily be due to Delta virus problems, not lack of labour. Restaurants reported marginally lower bookings in August. In other sectors employment grew more or less at a normal pace. **Unemployment** fell by 0.2 p to 5.2%, as expected – and the **participation rate** remained flat at 61.7%, well below the pre-pandemic level. **Wages** grew 0.6%, much faster than expected and highly unusual, and all sectors report a wage level far above the pre-pandemic trend
  - » **The SMB survey** reported unprecedented hiring plans and record high problems filling vacant positions, and the highest proportion of companies reporting higher wages. All other wage indicators (barring the Employment cost index) report higher wage inflation. Will **Fed’s FOMC** postpone the tapering decision to a later meeting this autumn, and not make the decision now in September? We are not sure but many members will still stress that demand is not the problem in the US economy, it is lack of labour supply, which monetary policy cannot fix. This week the **Federal unemployment benefit programs** will be terminated and most of the 9 mill recipients will lose their USD 300/week support. Will they now return to the labour market, and the FOMC can afford to wait and see 6 more weeks?
  - » Conference Board reported a decline in **consumer confidence** in August but the index is far better than the very weak Univ. of Michigan index
- **EMU**
  - » Annual **HICP (CPI) inflation** surged August, as expected – due to VAT cuts and other corona measures implemented in August <u>last</u> year. Still, the present 1.6% core and 3% total inflation reflects the ‘real’ inflation now, not the much lower July figures. Energy is the main culprit behind the high headline growth rate, and the core is well below ECB’s new symmetric and flexible 2% target. Inflation is still too low. On the other hand, **producer prices** are still surging and signal further increases in HICP, as do the PMIs
- **Norway**
  - » **The labour market has turned on a dime: NAV unemployment** fell more than even we expected in August, to 2.7% (0.2 pp below NoBa’s f’cast from June), up just 0.5 pp vs the pre-pandemic level. Including part time unemployed, and labour market measures, grand total unemployment fell 0.5 pp to 5.2%, still up 1.7 pp vs Feb-20. **LFS/AKU unemployment** was flat at 4.8%, even if employment has climbed sharply recent months, confirming the strong payrolls data. Both are ¾ % above the pre-pandemic level, and the employment rate is on par! LFS unemployment is flat because the **labour force participation rate** <u>has soared to the best level in 10 years</u>. **New vacancies rose further from a high level in July**, and the (unfilled) <u>vacancy rate shot up to the highest level ever in Q2</u> (like in most other countries). <u>The challenge now is supply of labour, not demand</u>
  - » **House prices** rose 1.0% in August, well above expectations at 0 – 0.4% (our est.), but still less than our short term models indicate (as the inventory of unsold homes is so low). Prices rose everywhere (just flat in Follo), in the month before Norges Bank starts its hiking campaign
  - » **Household savings** fell in Q2 but remained high. **Domestic credit growth** was unch y/y in July, and lower than we expected, due to a pause in corporate borrowing. Anyway, there is no credit bubble to be seen
  - » Norway is running a 12% of GDP **current account** surplus. **Norway ex oil** is marginally in plus, if we book the oil sectors op.ex & cap.ex and financial costs where they below, in the oil sector. Sure, capital income from the Oil fund greases the Mainland wheels (but these revenues are not dependent on <u>future</u> oil revenues)

SpareBank 1 MARKETS

Growth in Covid cases are slowing – and are down in almost 1/2 of countries

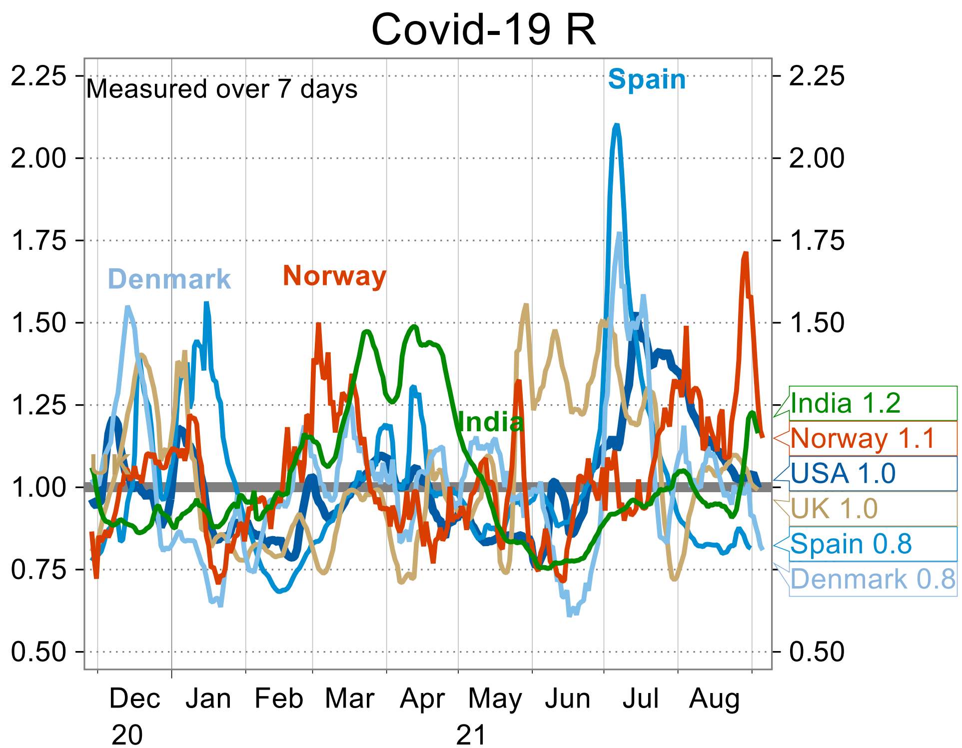
The main risk now: An even more contagious or vaccine resistant virus variant

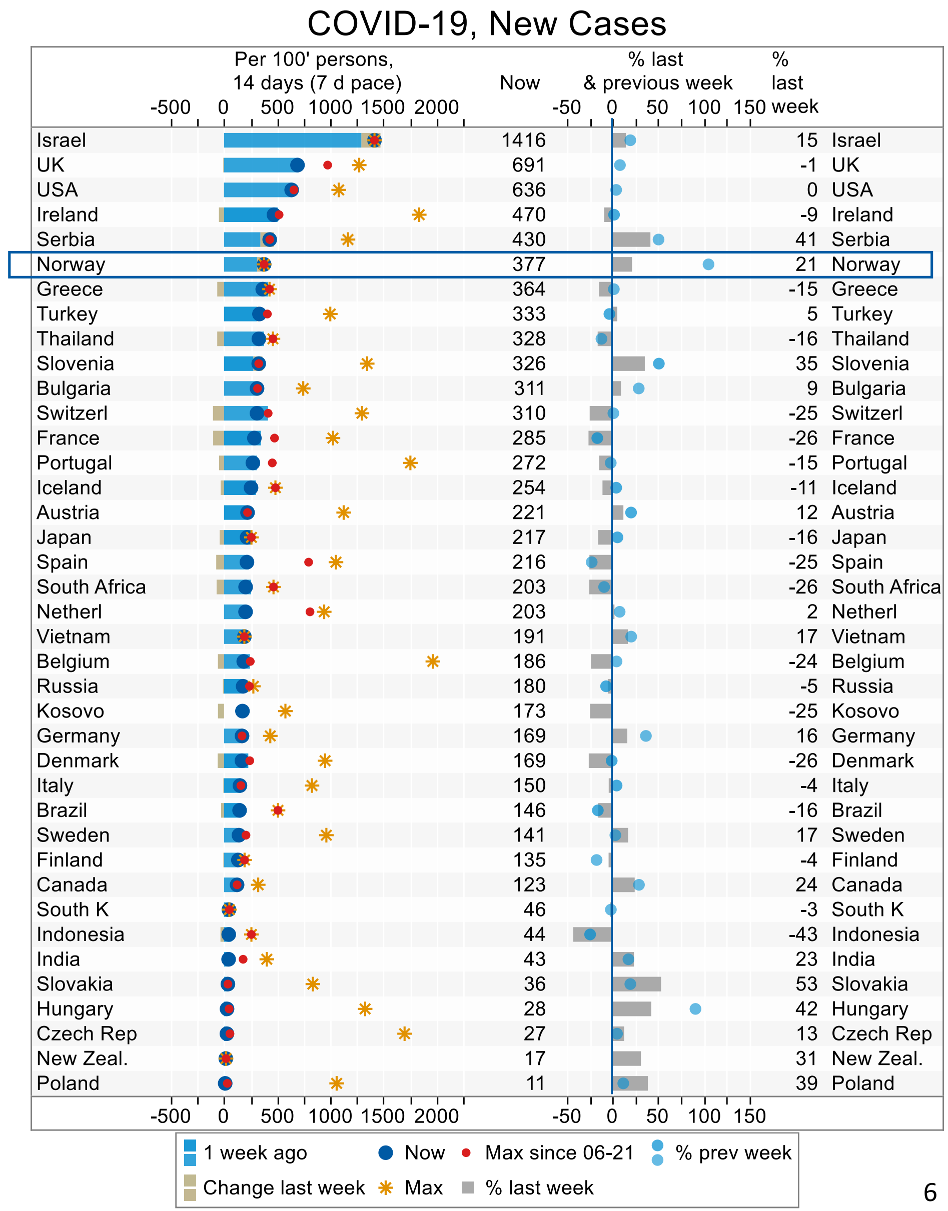


- In **Europe**, the Delta outbreak has led to more hospitalisations and deaths, but as hospitalisation/death rates have fallen sharply there is not any health crisis yet – and <u>we doubt there will be</u>
- Growth in new cases, hospitalisations & deaths have clearly slowed in the **US** – in due time as serious illness/death rate have been far higher than in Europe. The number of hospitalised patients was just 30% below the January peak, and several regions have reached capacity limits again
- The situation is more challenging in many **Emerging Markets** but even there the no. of new cases has peaked in some countries, and growth has slowed in others. Few new cases are reported in **India** – and **China** close to none
- **In Norway,** the no. of new cases has climbed rapidly recent weeks but growth is now slowing down. The no. of hospitalised patients quadrupled – from a very low level – but has flattened out at just 88 persons (16 per mill, vs 100+ in the UK, and almost 300 in the US). Some 1% of those who have tested positive are hospitalised, vs 8% in the US!
  - » Norway will now finally start vaccinating children between the ages of 12-15
  - » Some local measures, like mass testing quarantines from schools will now probably dampen the spread of the virus
  - » It seems unlikely that even much higher case numbers will create serious health problems

Norway is approaching the top of the list (but just in no. of cases)

… And growth is rapidly slowing, like most places



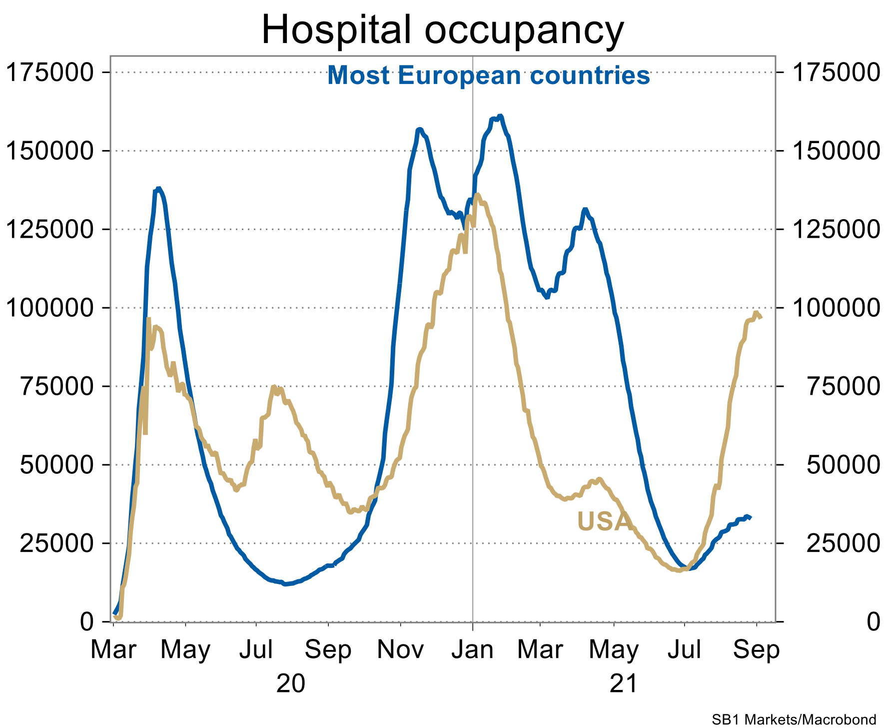


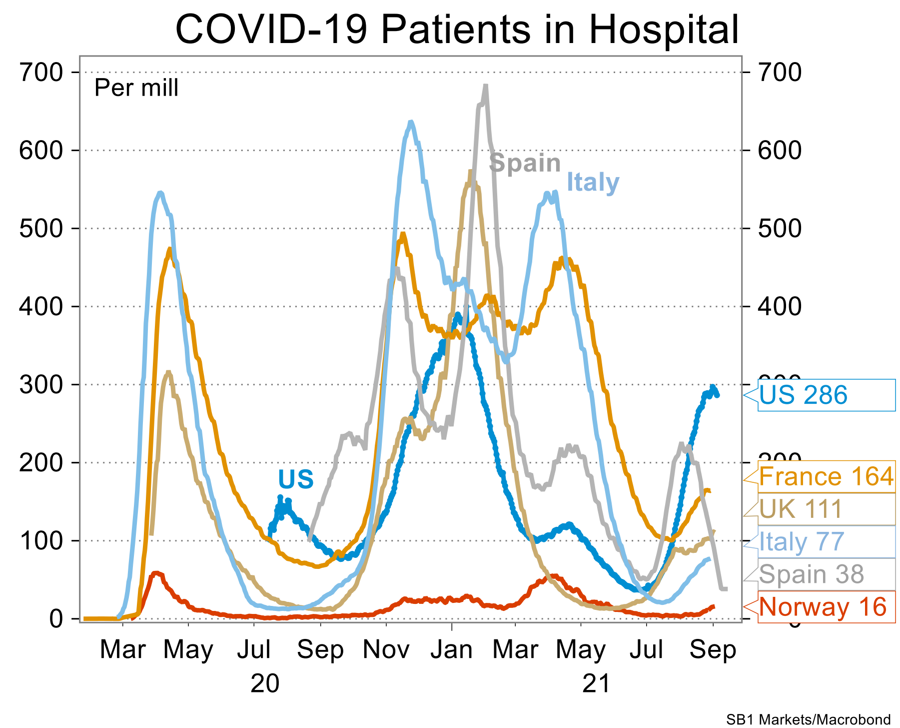
- The red dots on the chart to the right indicate the peak in new cases since June (India's peak was in May). When these dots are in 'free air', cases are down vs the recent peak - which is the case in 18 of 38 countries (from 13 last week)
- Last week the no. of new cases grew in just 15 countries (from 23). Growth slowed, changed to negative or fell faster in 20 countries, and just 6 accelerated
- *Disclaimer: Testing policies/capacities may have changed (and they differ vastly between countries)*

SpareBank 1 MARKETS

The no. of patients admitted to hospitals due to Covid is flattening/falling

Just the US has reached troublesome levels (+ a high no. of deaths)





- Th number of hospitalised persons in Norway has increased substantially but remains at a very low level

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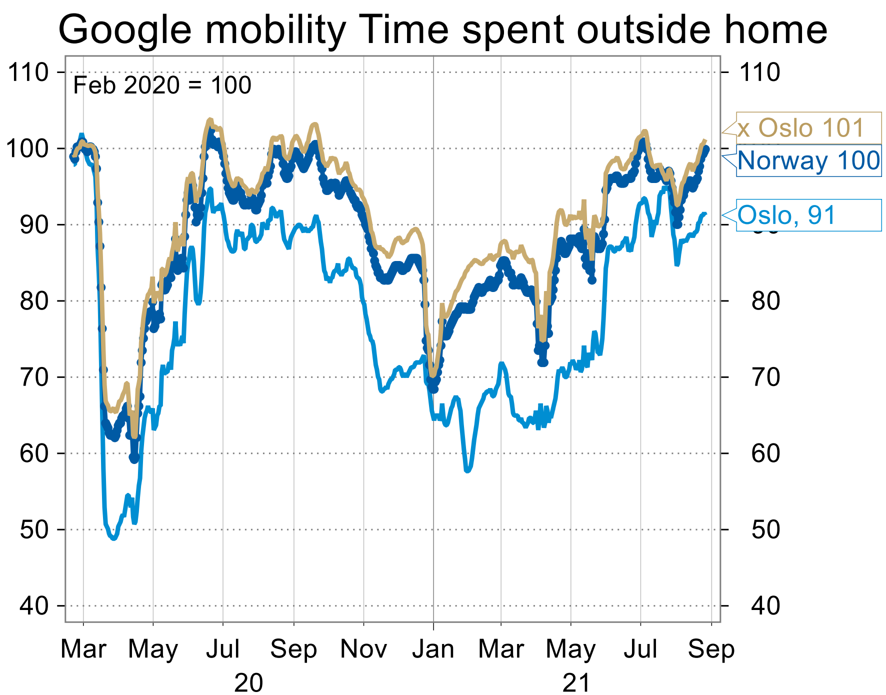
Norway: Some 'local' outbreaks

Mobility is on the way up again. Until further notice…



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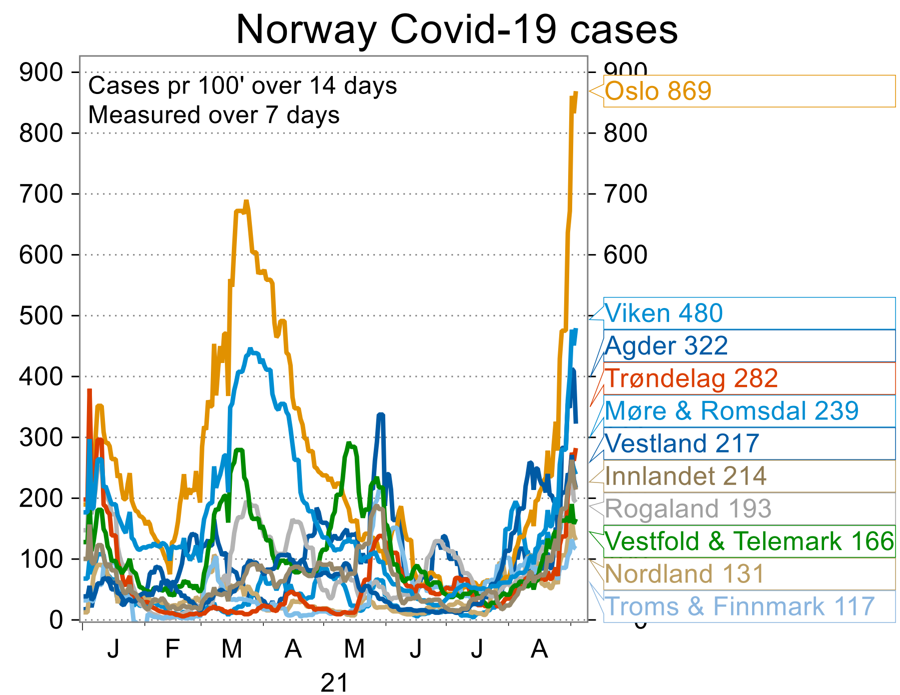

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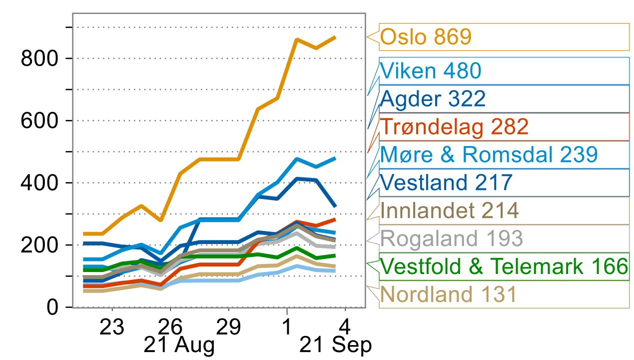
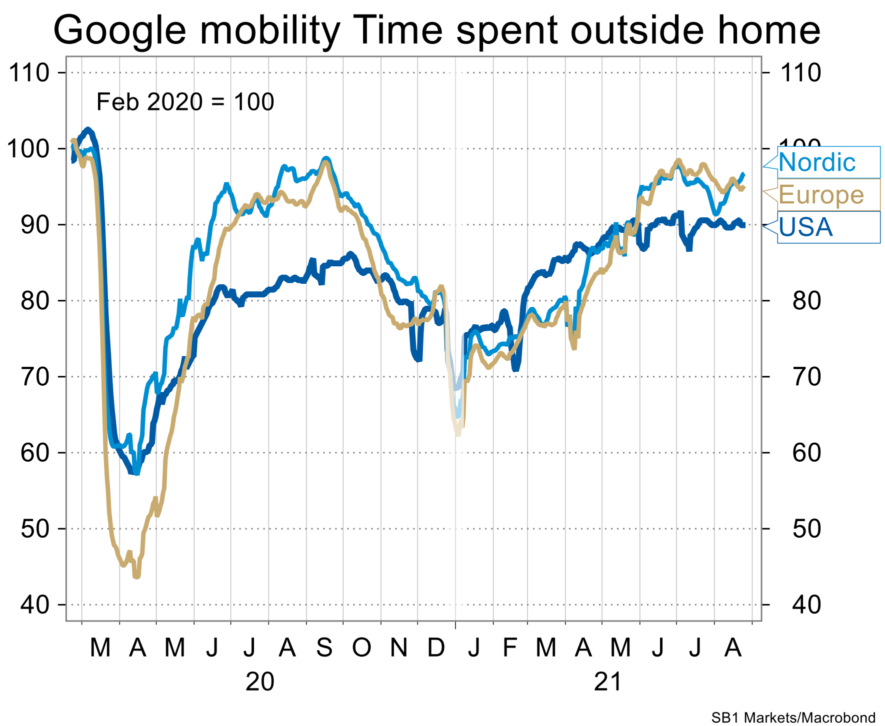
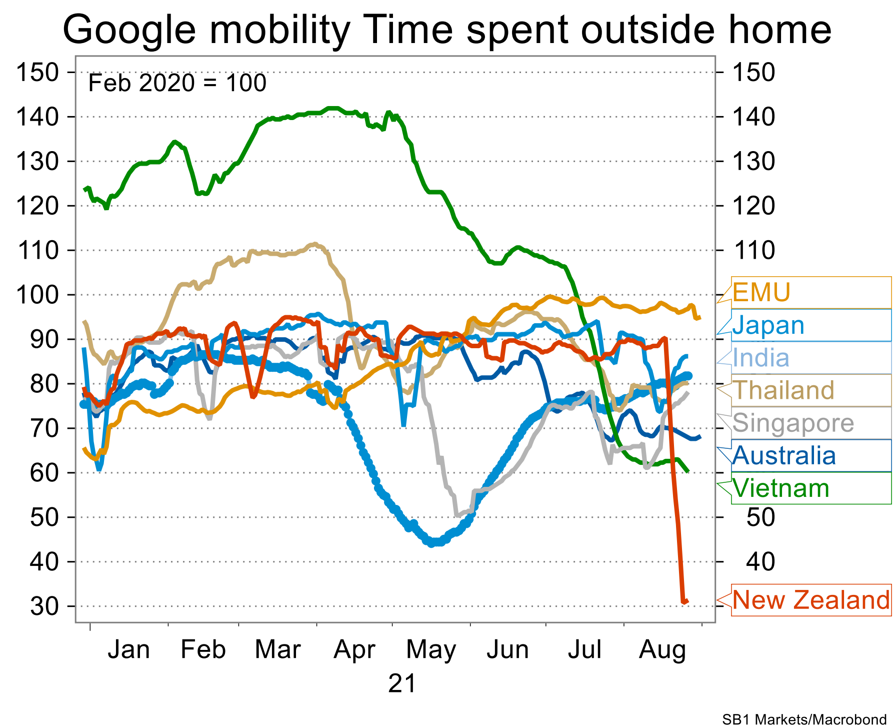


In the West, no signs of reduced mobility during the Delta attack

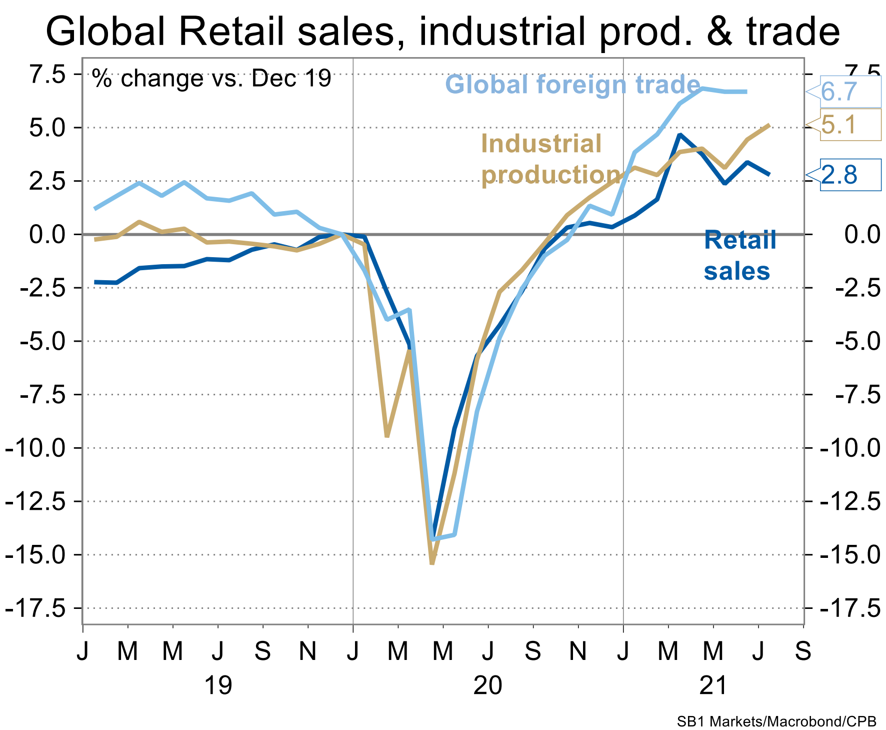
However, mobility sharply down in some Asian countries, and in Aus/NZ! India almost back to normal

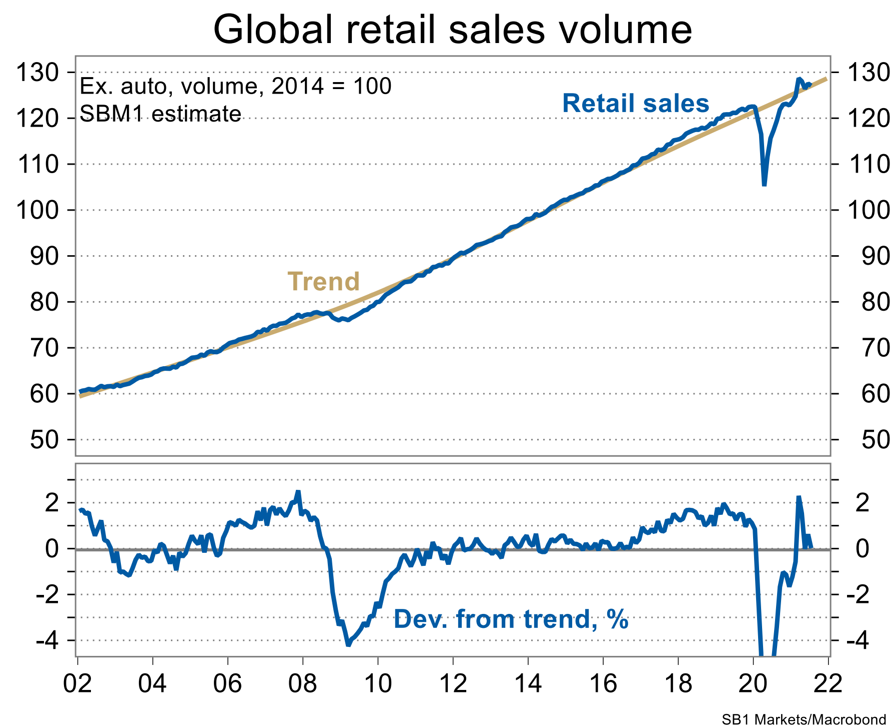




Activity in the goods sector is flattening

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



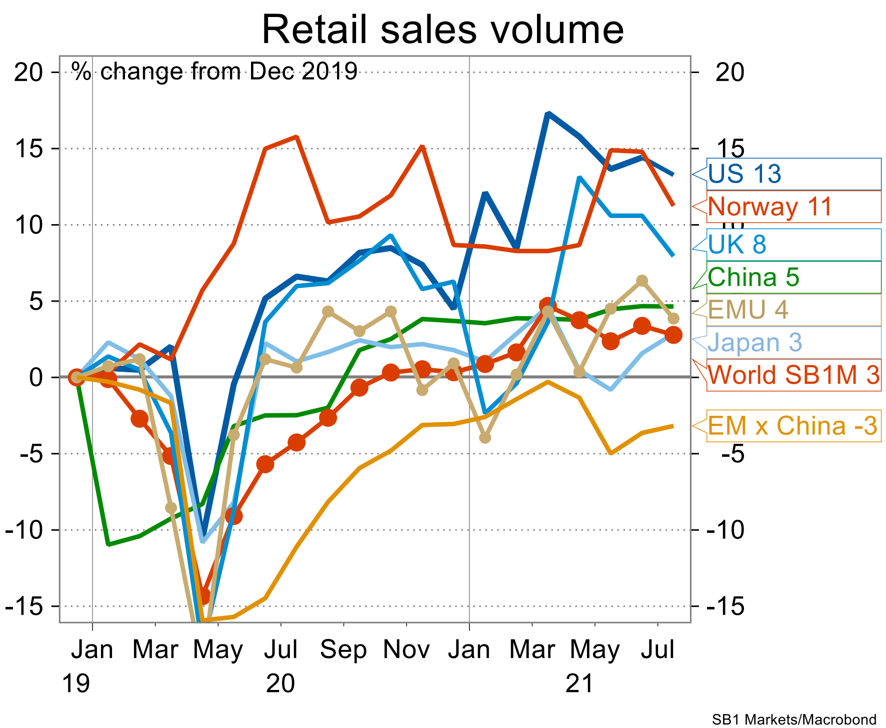


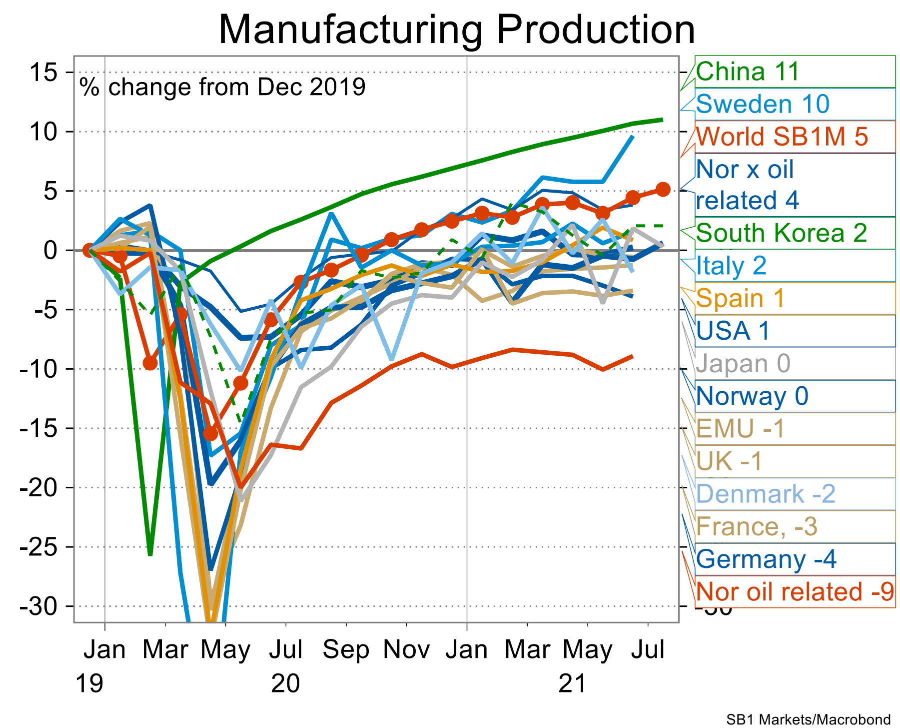
- **Retail sales** rose in June but probably fell in July, according to our forecast – and sales have flattened recent months, partly due to an <u>assumed</u> setback in India (data a lagging) but also a downward trend in rich part of the world. The level is approx. 3% up vs the pre-pandemic level (revised down 1 pp due to weaker Indian Q2 data)
- **Manufacturing production** rose in June, and probably in July too. The level is some 5% above the pre-pandemic level. Trouble in India and in the auto industry globally have contributed on the downside recent months
- **Global foreign trade** flattened in May (was originally reported up), and was stable in June as well. The level is close to 7% above the pre-Covid level, according to CBP in Netherlands

SpareBank 1 MARKETS

DM demand for consumer goods have peaked, and EM has been weak lately

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

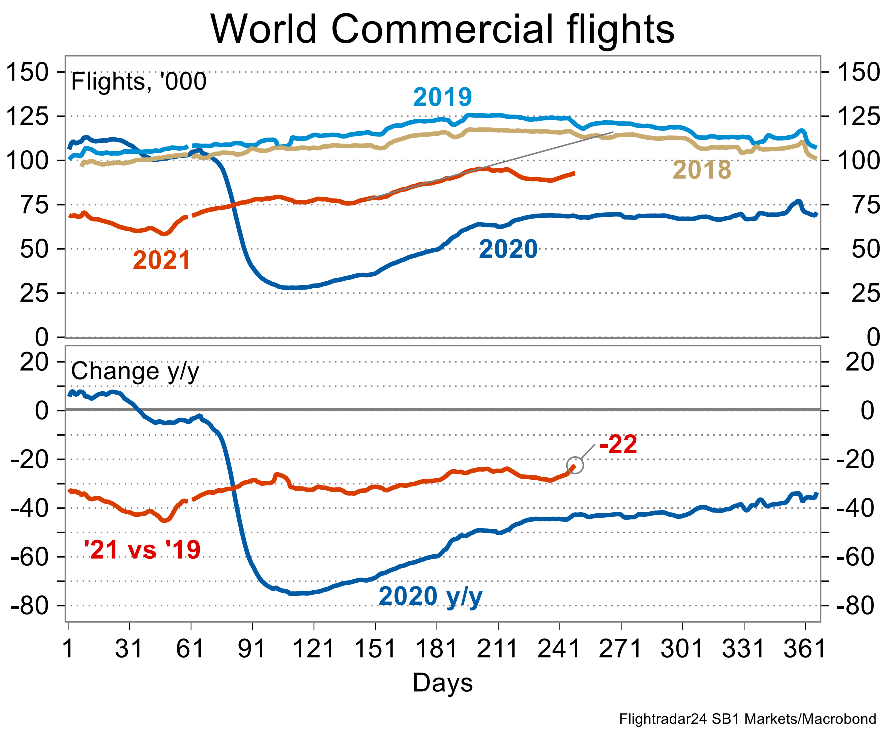


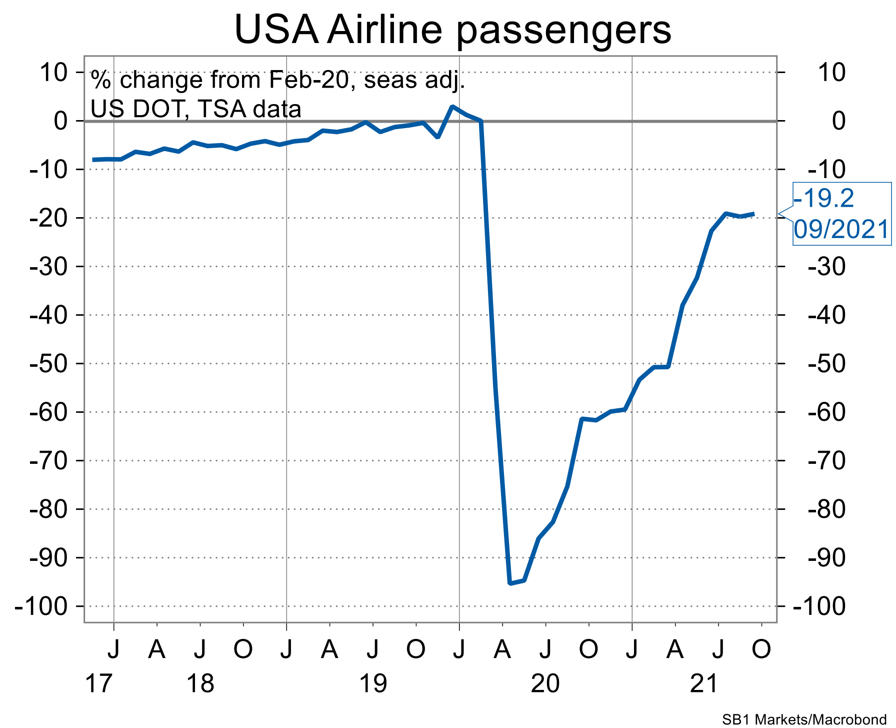


- Retail sales in Emerging Markets x China were even weaker than we assumed due to the setback in demand in India in Q2. A substantial recovery is underway here, but now other Asian countries have run into problems
- Manufacturing production is still drifting upwards, everywhere. The manufacturing PMIs are still strong
- Norwegian oil-related manufacturing production is down 9% vs the pre-pandemic level – non-oil sectors are up 4%, one of the better results in the rich part of the world (but behind Sweden, + 10%). July data out this week. The PMI is very strong

Global airline traffic further up last week, the gap to 2019 narrowed to 22% (27)

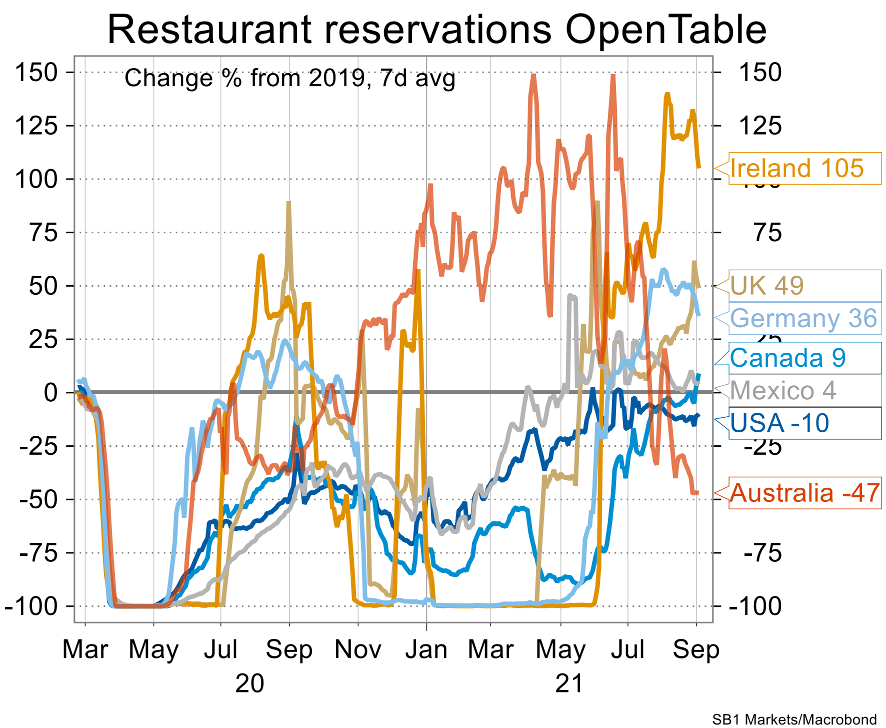
In the US, traffic flatted in August, but the first day of September may be tad better

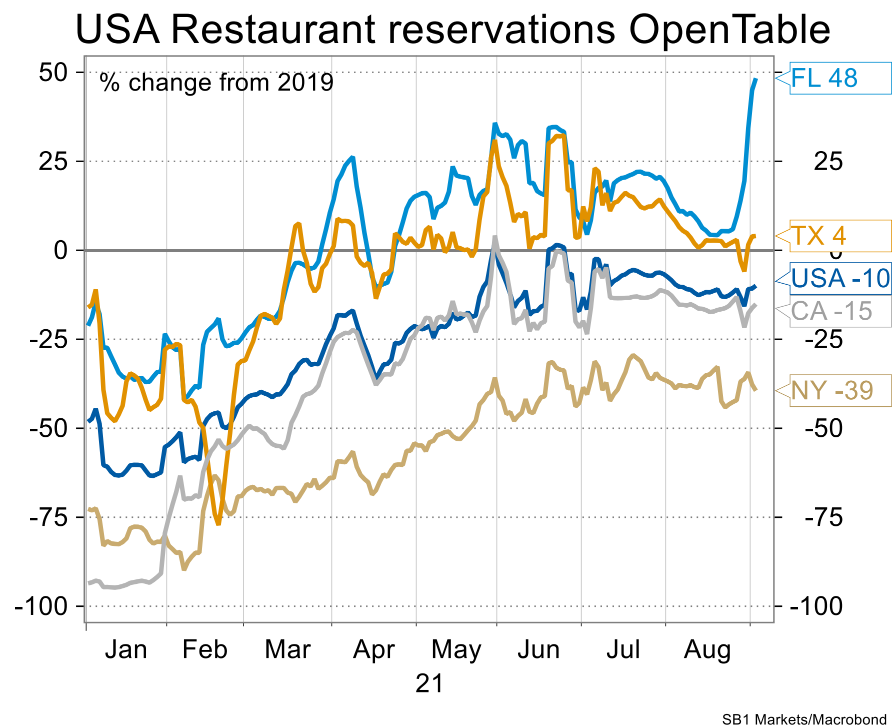




No serious Delta impacts on restaurants in Europe/US (but some?)

Australia has gone to a partial lockdown

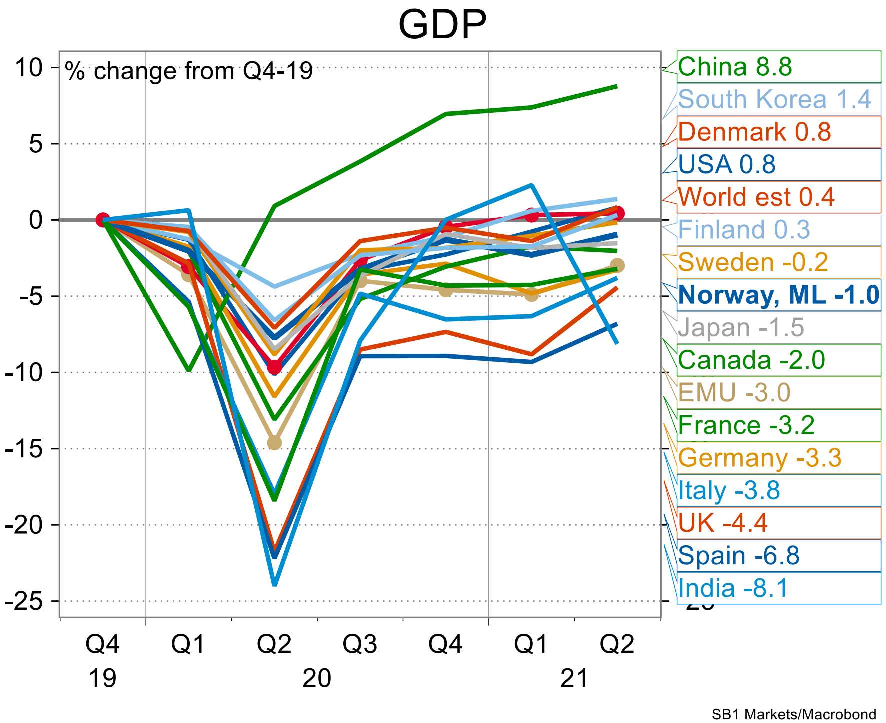


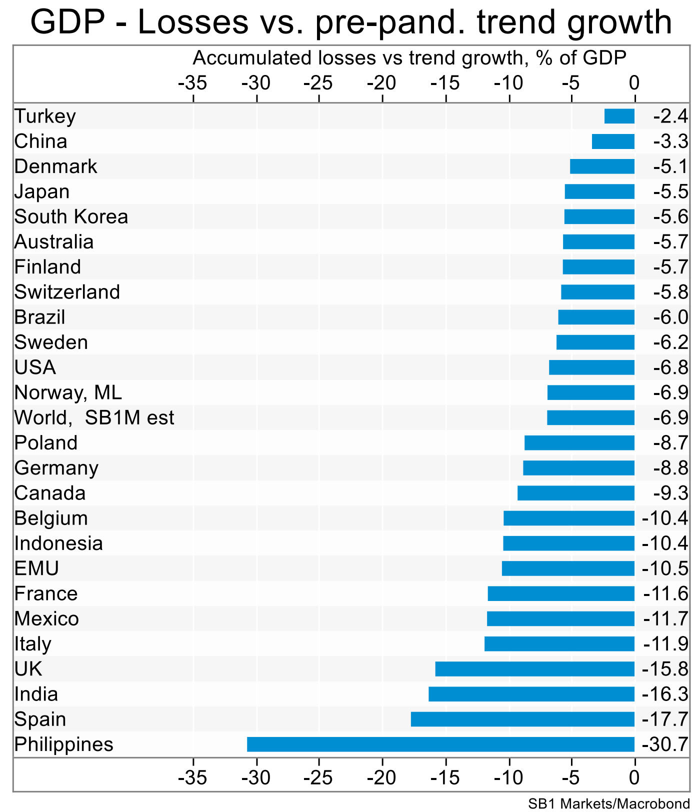


- Restaurant bookings in the US fell 4% in August from July – and may explain the 0.4% decline in employment in restaurants last month
  - » At the same time, US restaurants are reporting an extreme lack of labour. On balance, we think the supply argument is best – but the large change in employment growth i August may signal a demand shortfall due to the Delta outbreak
  - » Anyway, more restaurant bookings in US the past few days
- Some weakness in Germany too, at least into September

Global Q2 GDP far weaker than we assumed, India down 10%!

… which lowered global GDP growth by 0.4 pp!! Our new number: 0.1%, from +0.6%!





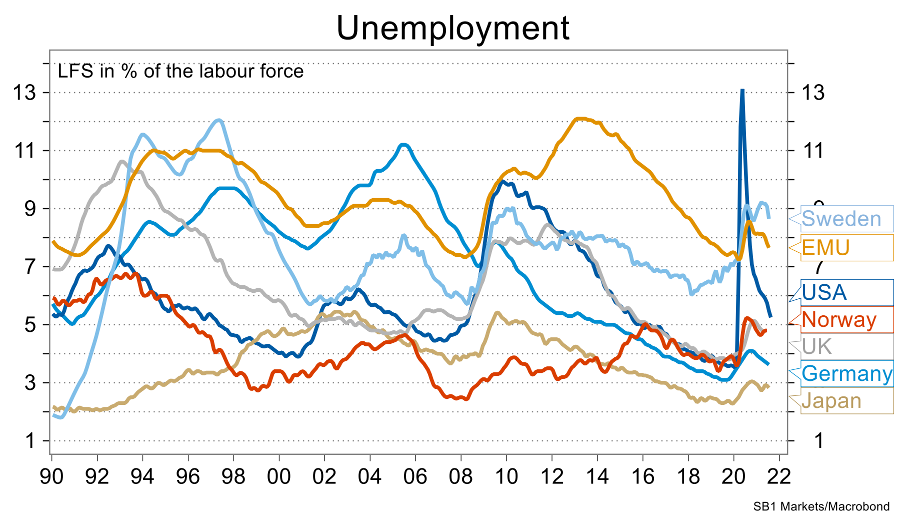
- We estimate just a marginal increase in global GDP in **Q2 (0.1%, 0.4% annualised)**, down from 0.8% (3.2% annualised) in Q1
  - The contraction in GDP in India was far larger than we assumed (-10% q/q vs -5%)
- The global GDP is **now marginally above the pre-pandemic level**, but still 4%+ below the pre-pandemic 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)

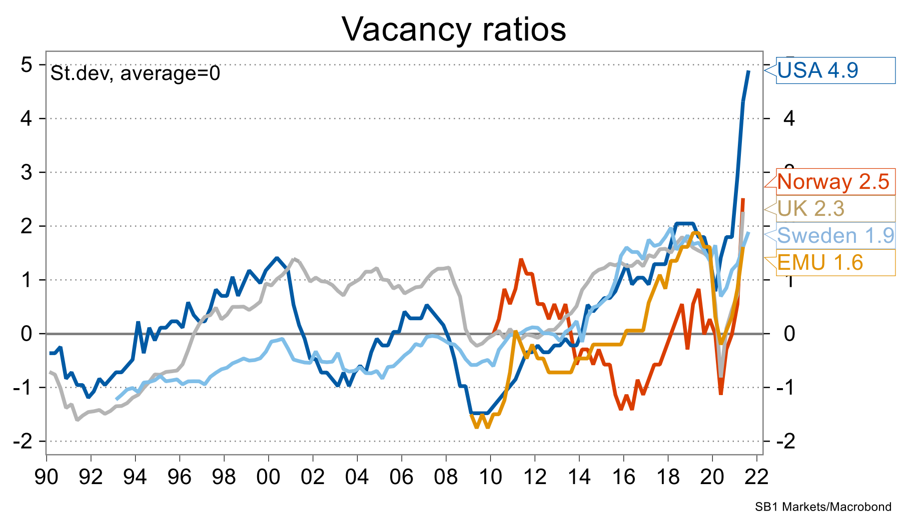
- The **global accumulated loss vs the pre-pandemic growth trend** is some 7% of 1 year's GDP
  - **China** is in the lead, with the smallest loss, 3% (well, just behind **Turkey**, with a growth trend just marginally weaker than China's!)
  - **India** is close to the bottom, a 16% loss! The **Philippines** are down 31%
  - **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%
  - **Denmark** -5%, **Sweden & Finland** -6%, **Norway** -7% (as we where hit by the downturn in oil investments, check the chart 3 pages back)

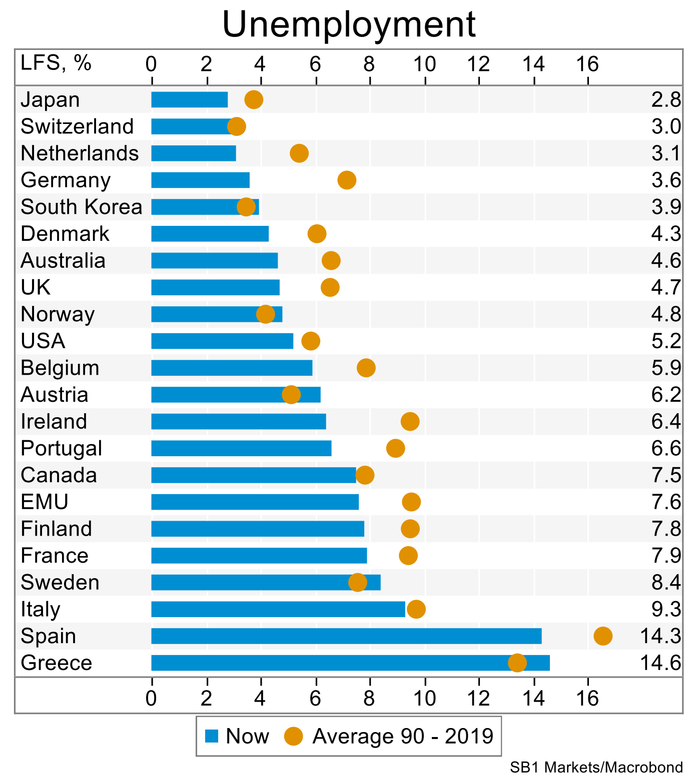
SpareBank 1 MARKETS

Unemployment on the way down almost everywhere

And did you know that it is <u>LOWER than normal</u> in 17 out of 23 countries? (*Nor & Sw 2 of the outliers*)





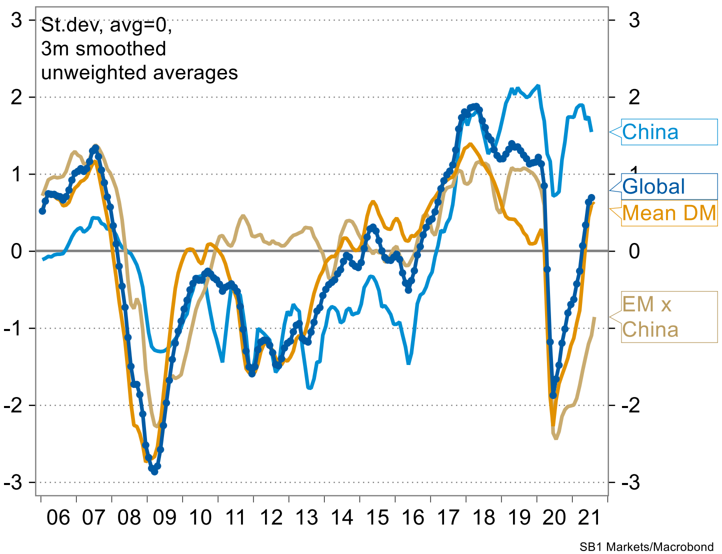


- A large majority of countries report lower unemployment than the 1990 – 2019 average
  - » In 15 of the 23 countries, unemployment is below the <u>1990 – 2007</u> average too
  - » In both Norway & Sweden, registered unemployment is falling rapidly and is below average levels – even if the LFS rate is higher
- May these low unemployment rate partly explain the high **vacancy rates** that are popping up everywhere?

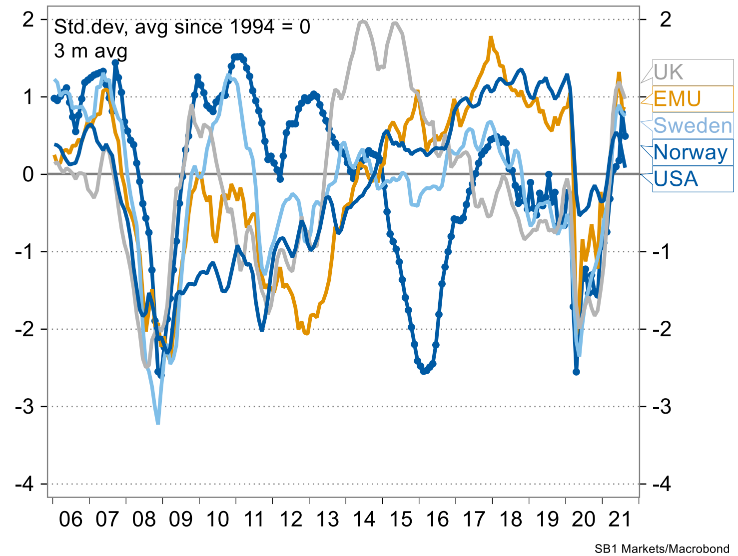
Consumer confidence is recovering – but remains below par in EM x Ch

In both Europe & the US, confidence is > avg., not far below pre-Covid level

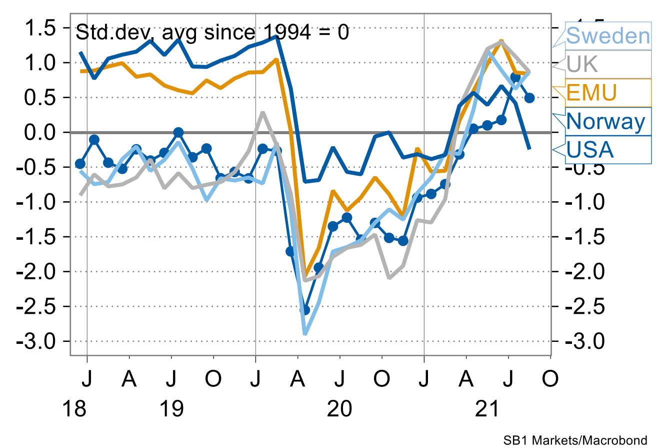
Global consumer confidence



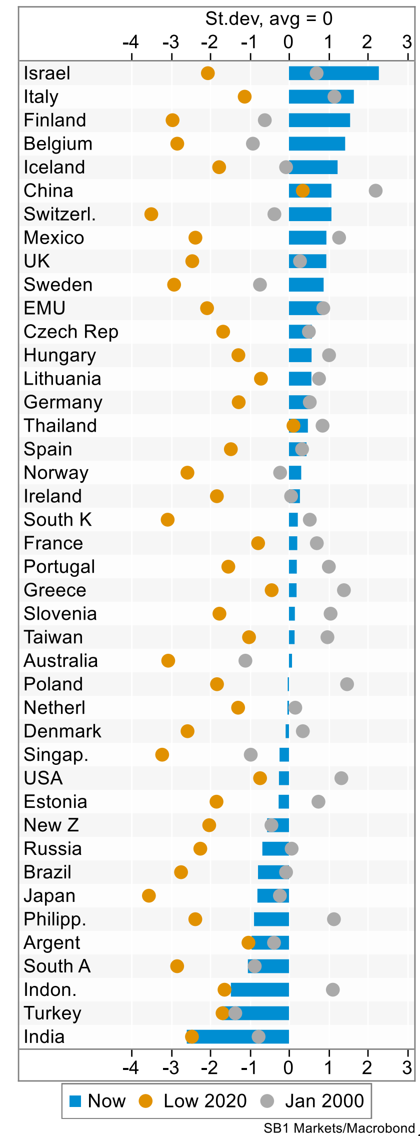
Consumer confidence



- In most EM x China, sentiment is below par
- India is at the bottom even in July, well into the recovery following the Delta hit in Q2
- **In sum: Households are most likely ready to spend**



Consumer confidence

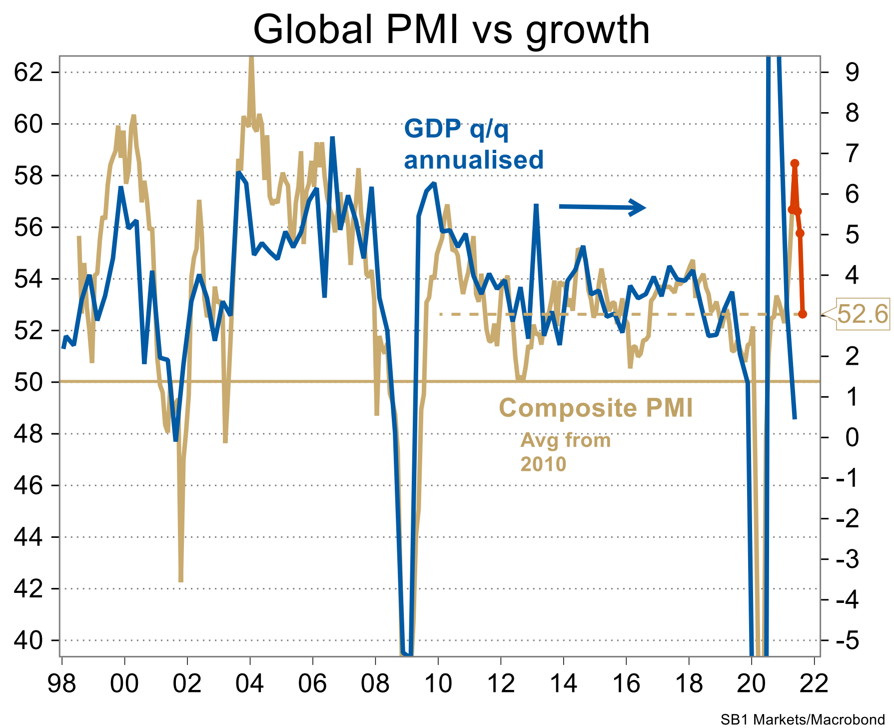


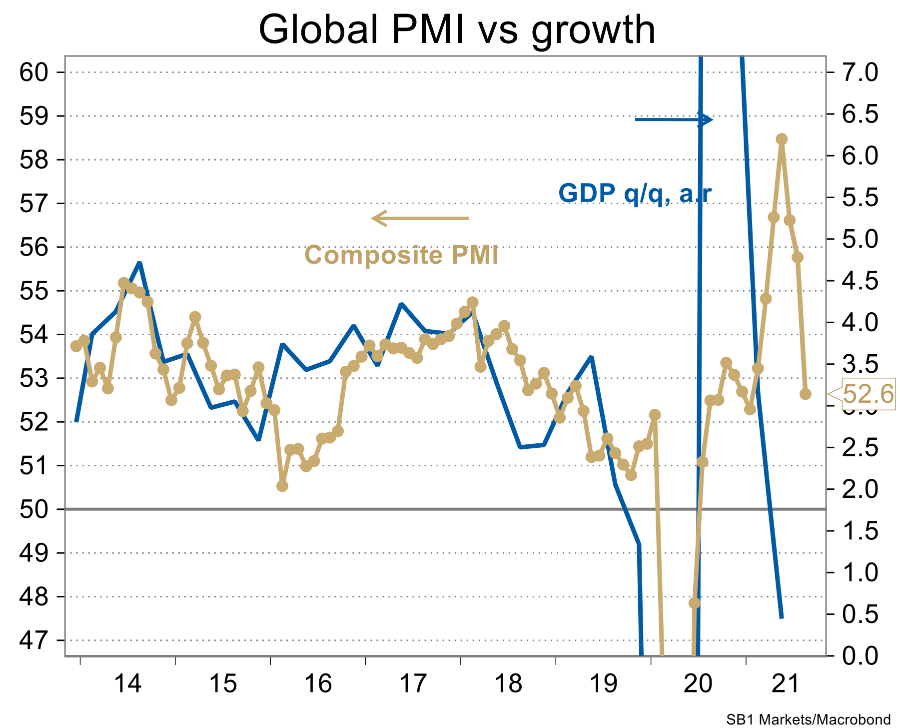
USA is the average of Conference Board & Univ. of Michigan
Norway is the average of Finans Norge & Opinion

SpareBank 1 MARKETS

The global PMI fell 3.1 p to 52.6, down to past 10 y avg, well below our forecast

In the end a weak Chinese service sector tanked the global index, but US services sharply down too

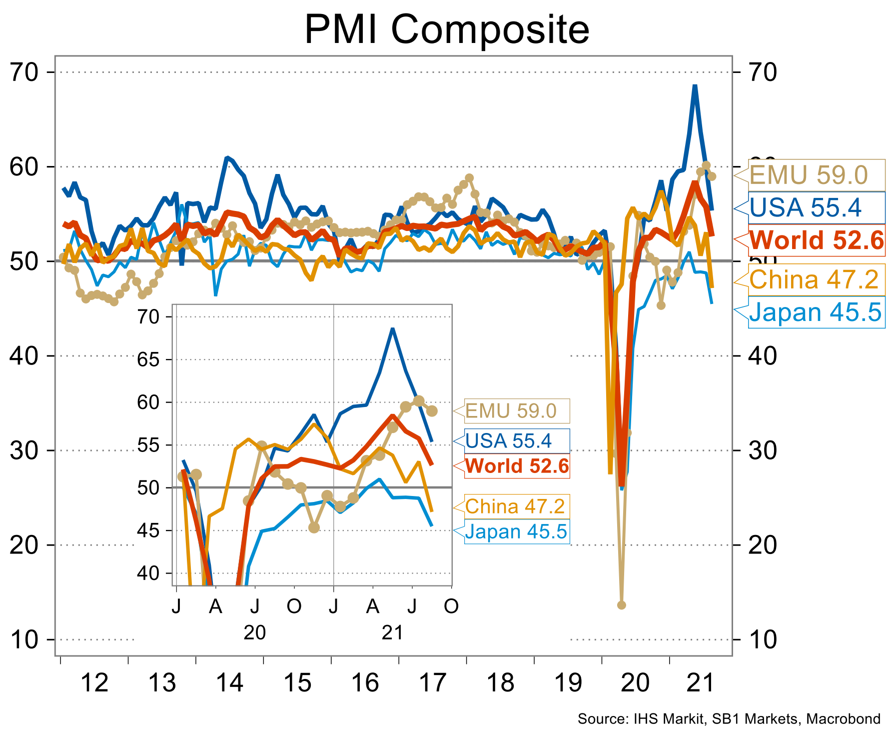


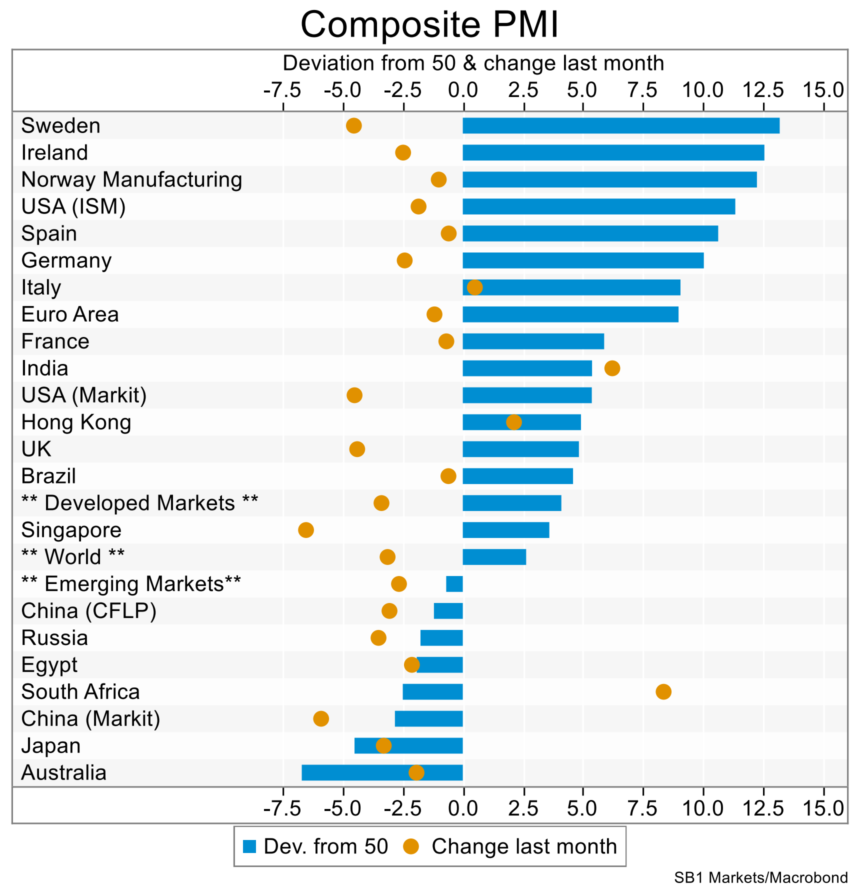


- **The global PMI signals growth at trend, at a 3% pace**
  - » **The global PMI** has fallen sharply past 3 months, and the 3+ p decline in August was 0.7 pp larger than our estimate based on the preliminary PMIs. The Delta virus is probably mostly to blame, both vs services in China, and possibly the US, and due to lockdowns hurting the manufacturing sector in other parts of Asia too
  - » Both manufacturing and services contributed, services the most
- The composite PMI fell in a large majority of countries, just 4 of 21 countries/regions/aggregates up. 8 are below the 50 line

Rich countries more down than EM, still reporting higher growth. Sweden at the top

But China (Markit's PMI) and Singapore reported the largest decline

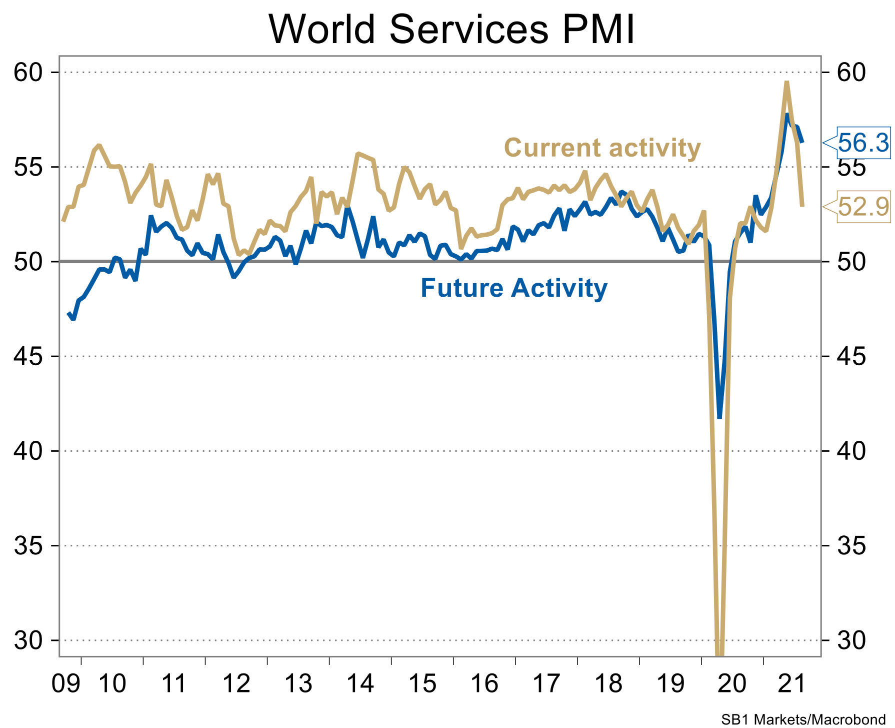


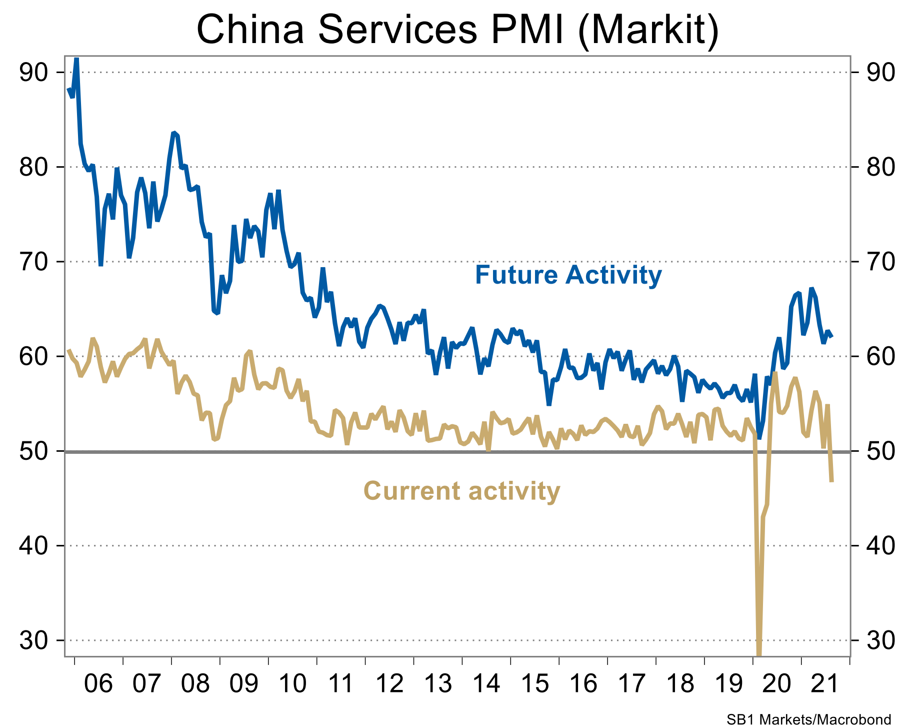


- 4 countries/regions up (from 11 in June), 21 down in August (from 11). 8 below the 50-line (from 5, and 3 two months ago)
- Sweden, Ireland, US ISM and Germany at the top (+Norwegian manufacturing)
- The Chinese PMI fell sharply, mostly due to the service sector
- In India, the PMI fell just marginally, and the level signal brisk growth following the 10% drop in GDP in Q2
- Japan and Australia are both reporting an accelerating decline in activity

The service sector has not lost its confidence in the future, not even in China!

The 2. largest decline in the service sector PMI in China is ‘just’ very likely due to Covid-19 restrictions

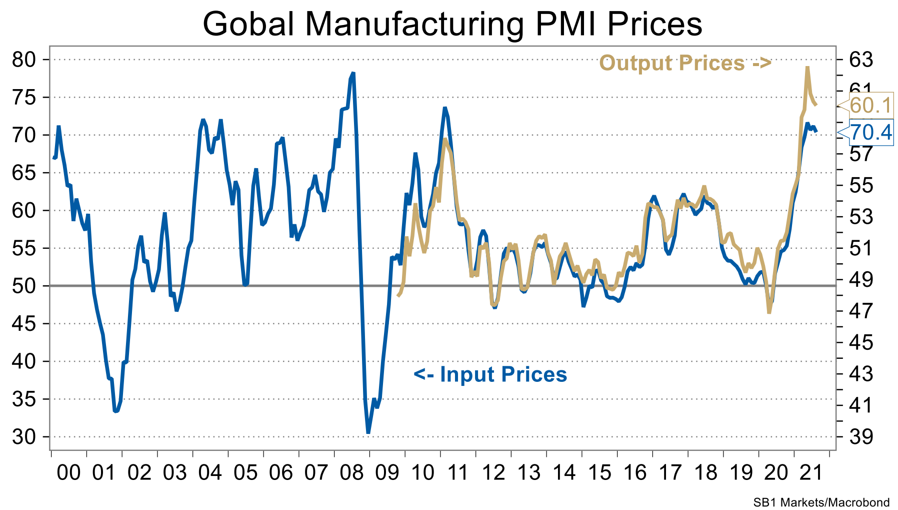


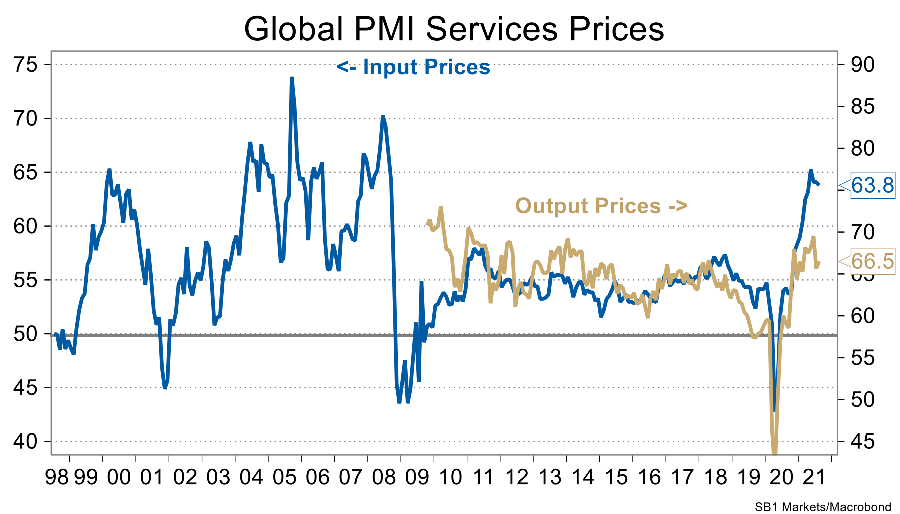


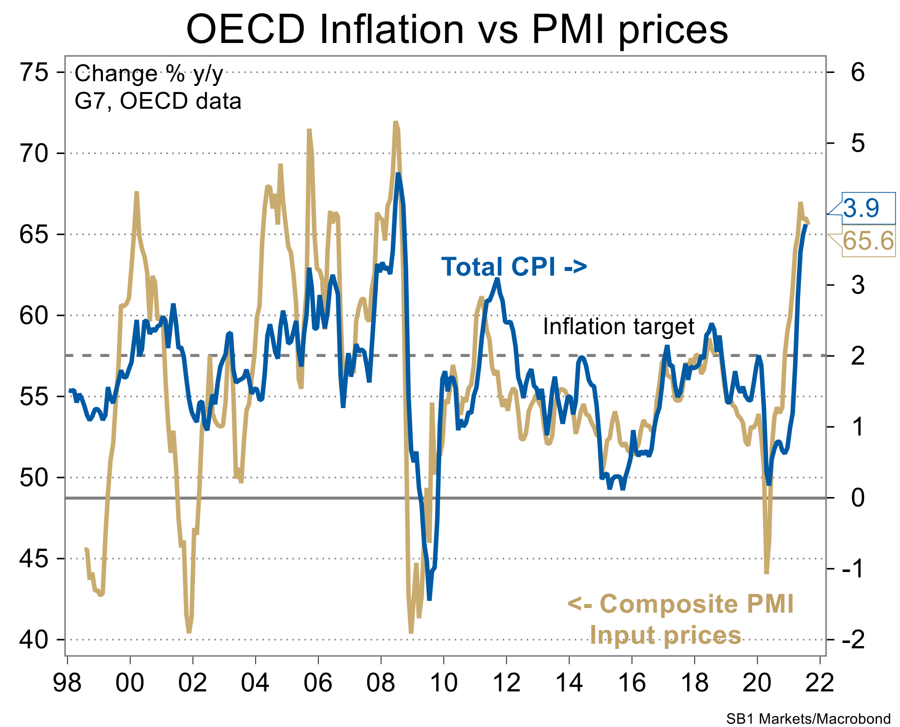
- At least, businesses remained very optimistic about the outlook the coming months. More on the very special Chinese data here

Businesses keep reporting rapid growth in input/output prices but <u>a tad slower</u>

Given the surge in CPIs, limited upside risk from here?



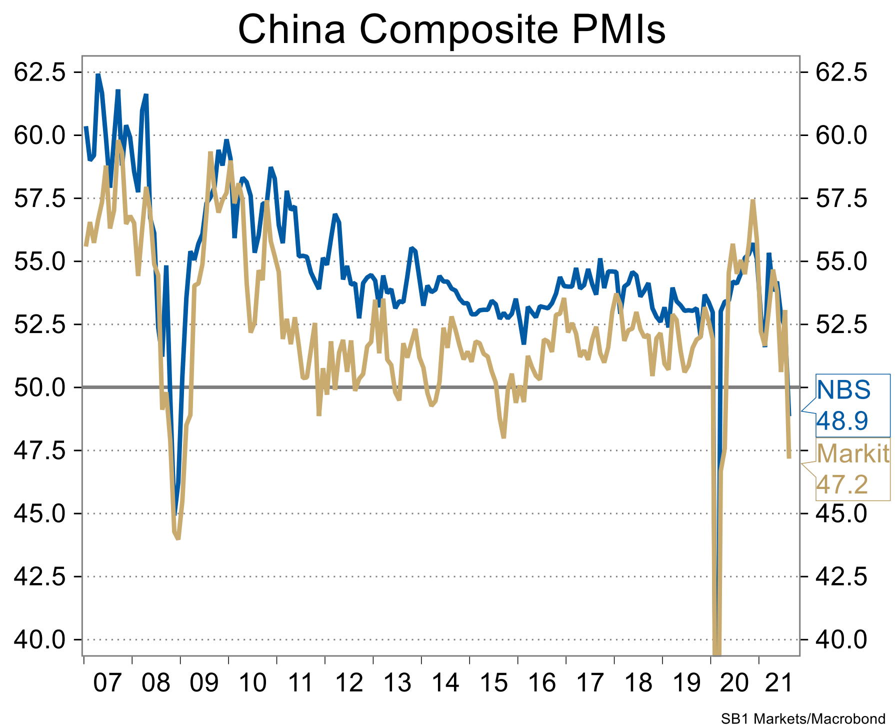


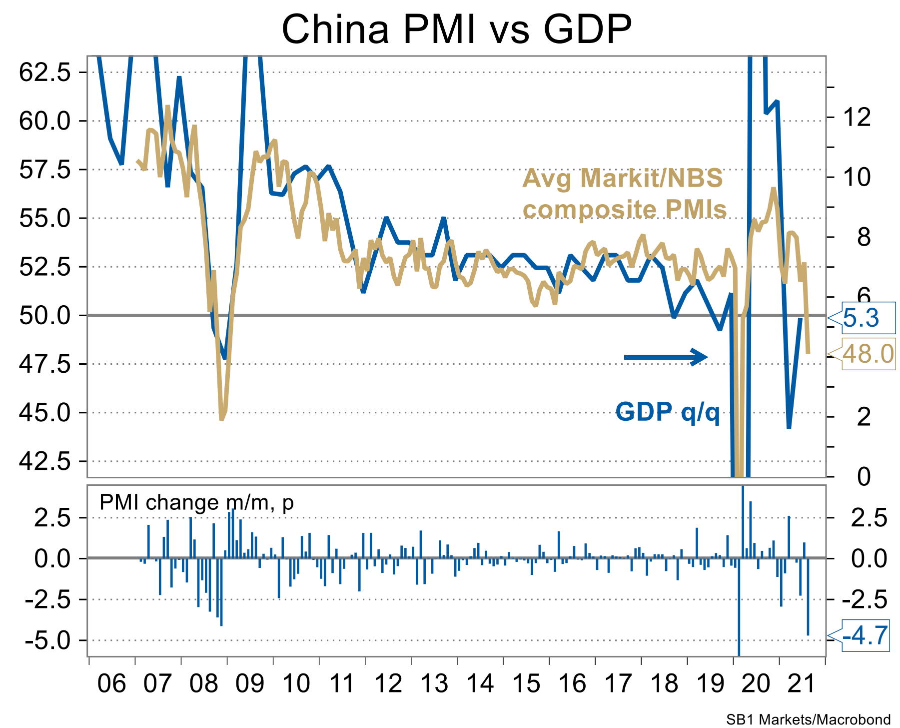


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but the peak in price increases is now behind us
- The correlation to **actual CPI inflation** is not prefect but the PMIs do not signal limited upside risk to annual inflation rate

The 2nd largest m/m decline ever, to levels just seen in crisis times

Does it signal a lasting and hard economic setback or 'just' a short Delta break? Most likely the latter

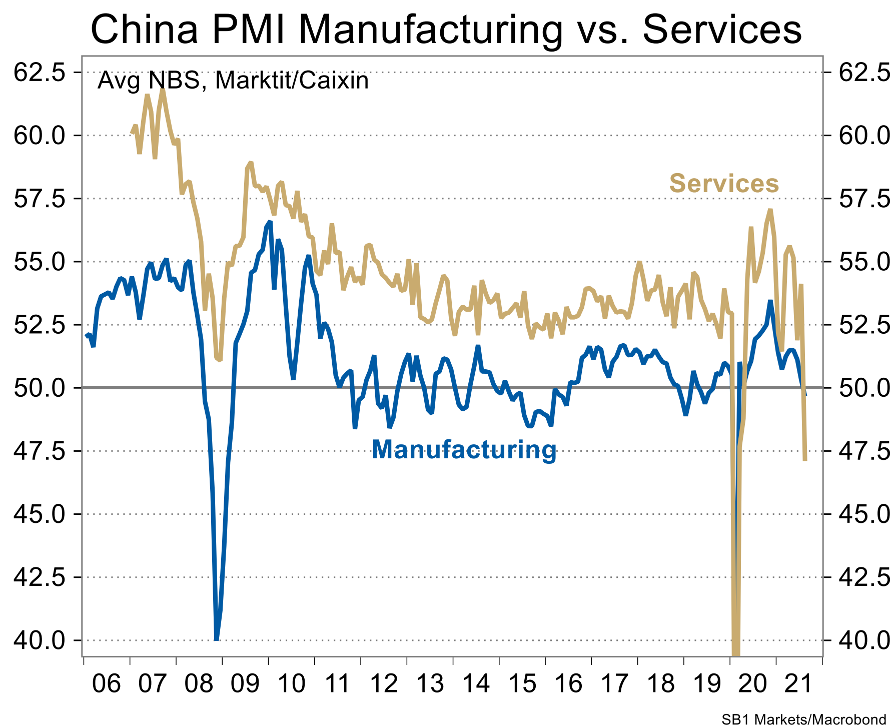


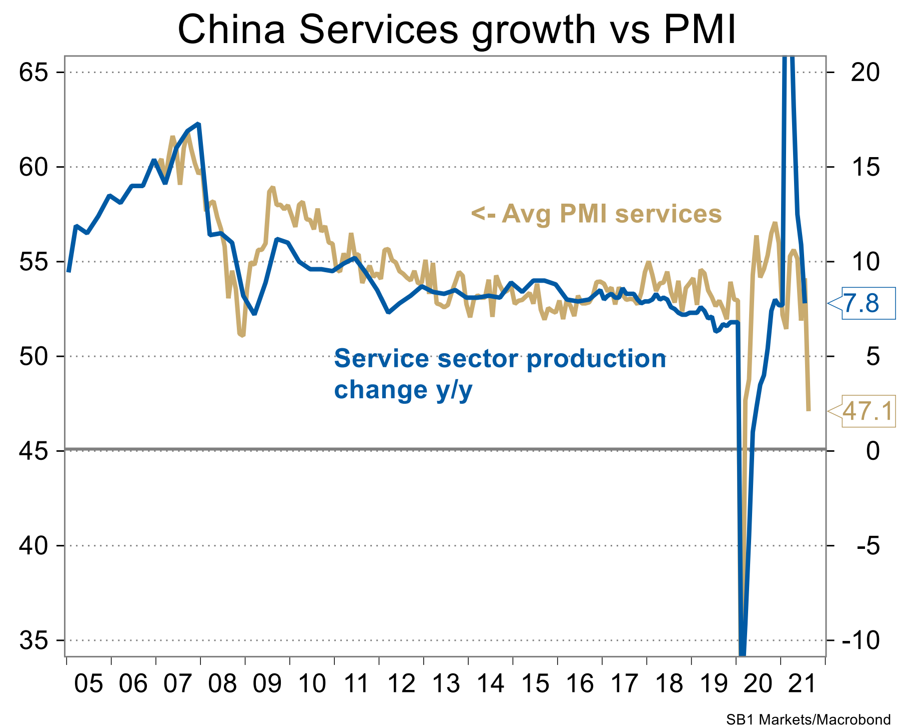


- The **NBS index** fell by 3.5 p to 48.9, below the average since 2012, expected down 0.8 p. **Markit's composite PMI** was down 5.2 p to 47.2, expected 1.8 p – as services 'collapsed'
- The avg. by 4.7 p to 48, the 2. largest setback ever, just Feb-20 was worse (-24 p) – to a level just seen during the financial crisis and the corona crisis, **signalling growth far below trend**
- What's going on? The PMI has been sliding for months, the peak was in Nov-20, and growth is no doubt slowing. However, the decline in August was 'extreme', and is very likely mostly directly corona related, like local lockdowns, travel restrictions etc, explaining the very weak service sector PMI, while manufacturing PMI was not that weak. If so, September should be far better, as restrictions are now being eased

Service sector PMIs turned south in August, down 6 - 8 p, just Feb-20 worse!!!

Decline is no doubt caused by Covid-19 measures, and if so, it will not last for long



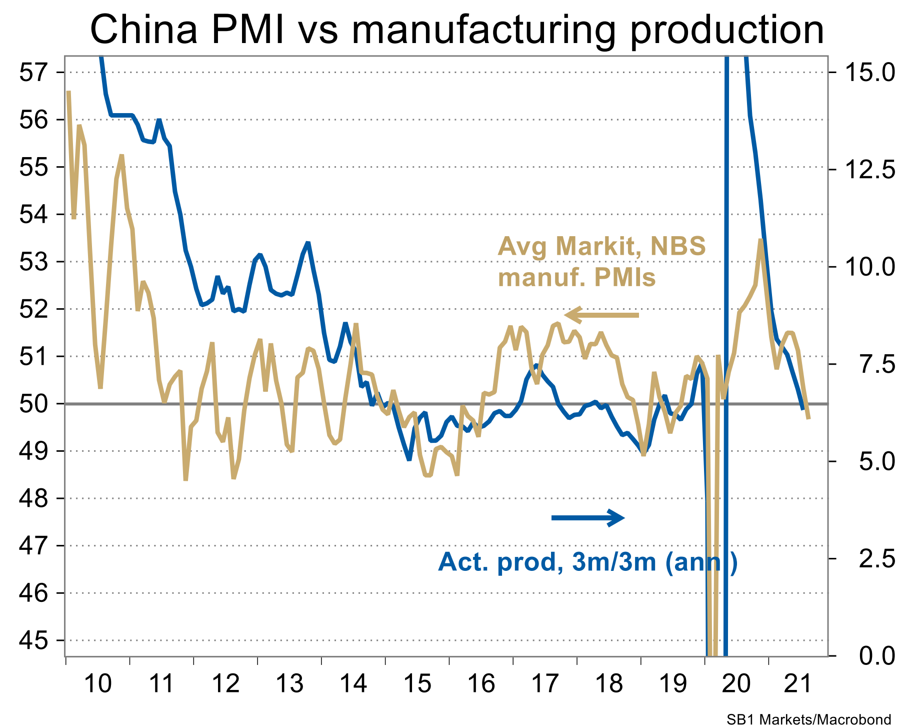


- **The service sector average PMI** fell 7 p to 47.1, the 2nd largest decline to a level not seen anytime before, except for Feb-20 (and March/April was below 50 too, and Feb-April-20 are only observations below 50, before Aug-21). Only a 2 p drop was expected
  - These PMIs signal just a modest growth pace – far down from the current 8%
- The almost unprecedented decline in August is very likely due to the Delta outbreak, as national/local measures have reduced mobility and economic activity. It seem very unlikely that something else just out of a sudden has 'killed' demand and supply of services. In addition, companies have not lowered their expectations on future activity by much, and the index is at a high level

SpareBank 1 MARKETS

Both manufacturing PMIs weaker in August, but they still signal decent growth

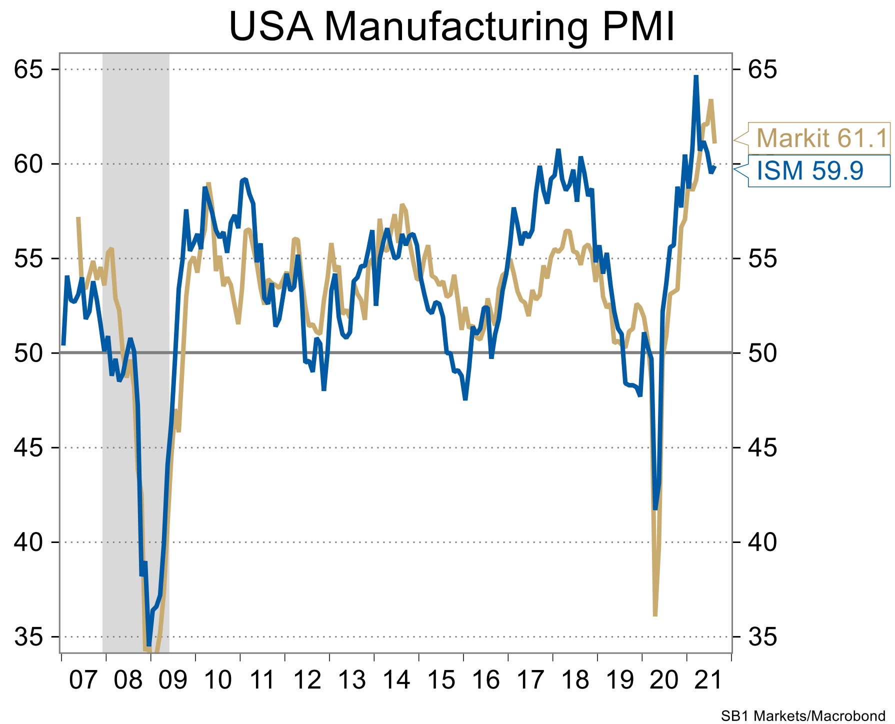
Markit's PMI fell to below 50, the NBS' index close too. Both are below their resp. avg since '12

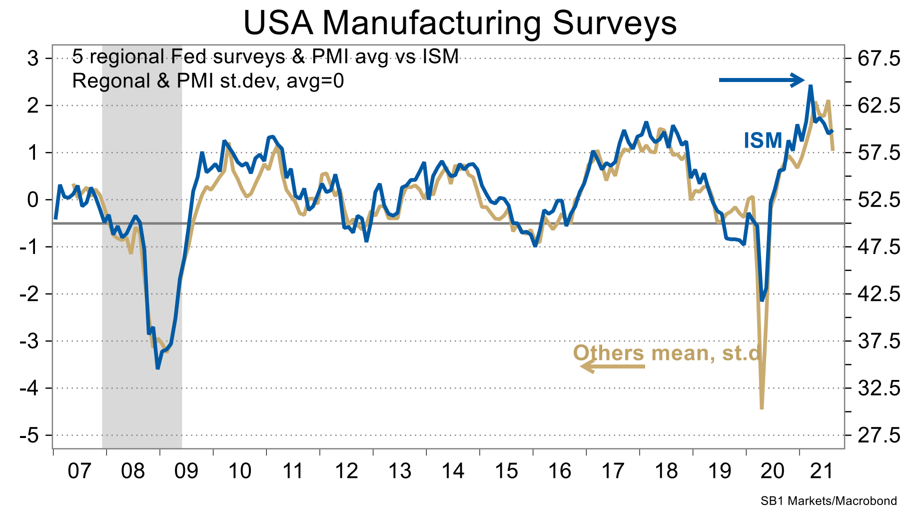


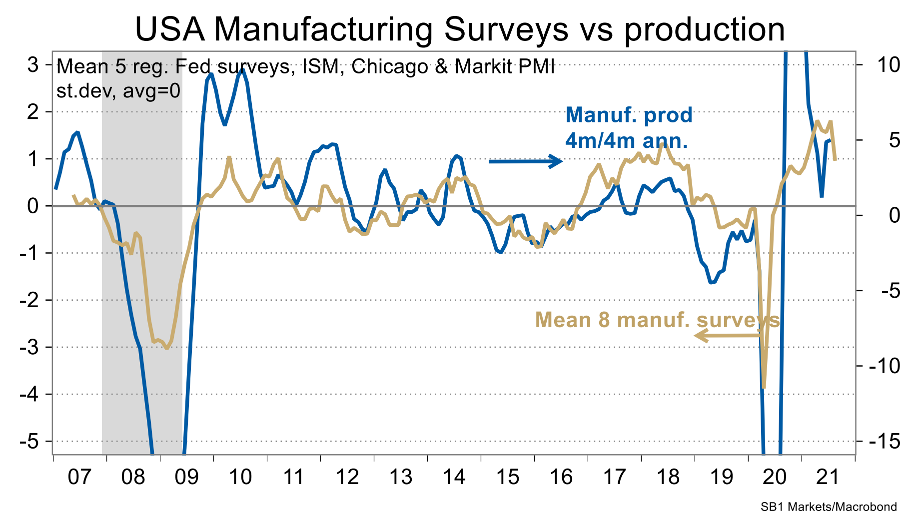
- The NBS PMI declined 0.8 p to 50.1, while Markit's PMI fell 1.9 p to 49.2. They are 0.5 – 1 p below their averages since 2012
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- These surveys signal growth somewhat below trend and any harsh downturn
  - » Remember: In China, as in many other Emerging Economies with a high underlying growth rate, a PMI below 50 does not imply a contraction in economic activity (even if many sources report so). We try to calibrate all our PMI charts to reflect the real relationship to real variables

Other manuf. surveys down in August – but most are still at high levels

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



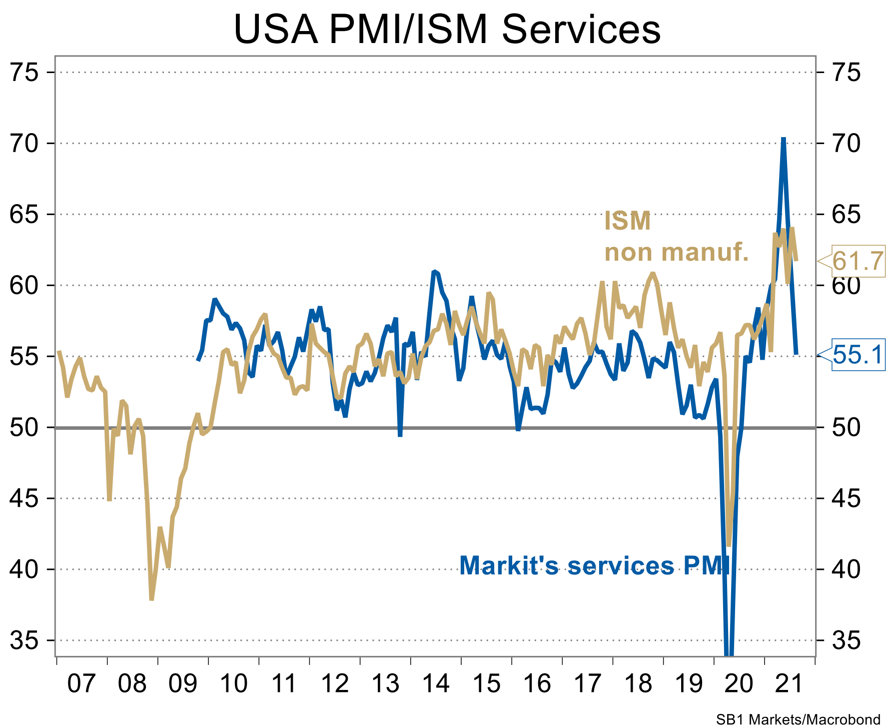


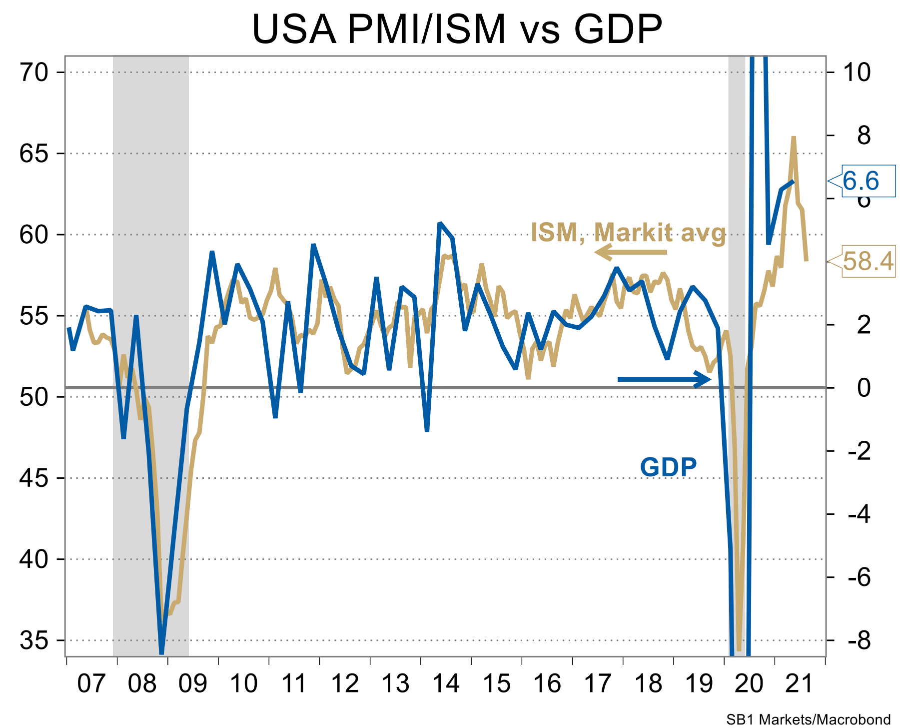


- Actual manufacturing production is on the recovery track but has not yet reached the pre-pandemic level
- We expect a continued growth the coming months. The inflow of core durable goods orders are above the pre-corona level
  - » Both exports and investments will probably climb further while goods consumption in the US probably has peaked, at a high level

Services ISM down but far less than Markit's index, and the 61.7 level is very high

In sum, the ISM/PMIs signal a 4% growth pace, still well above trend growth

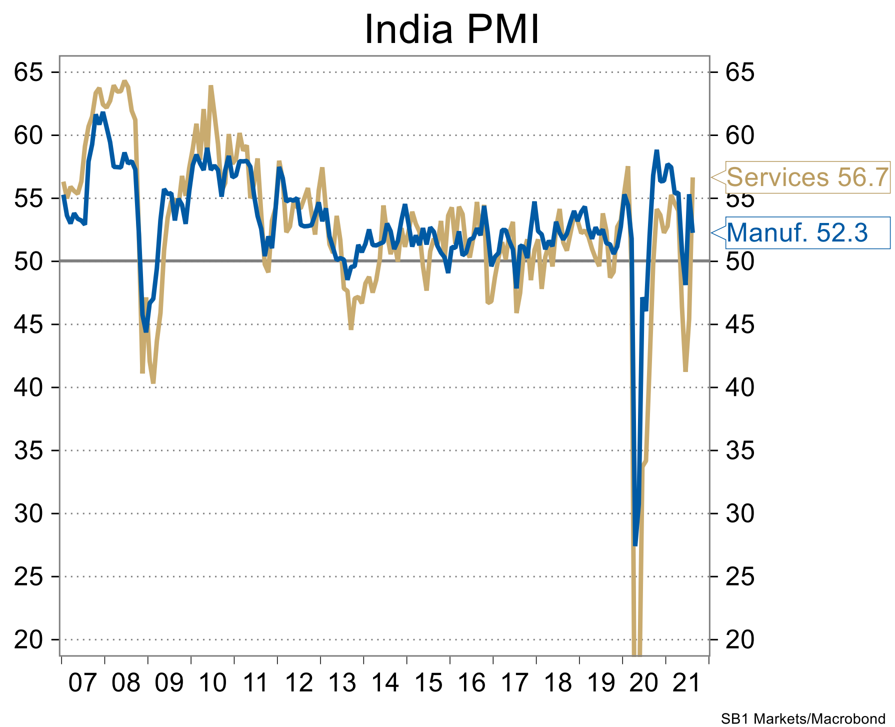


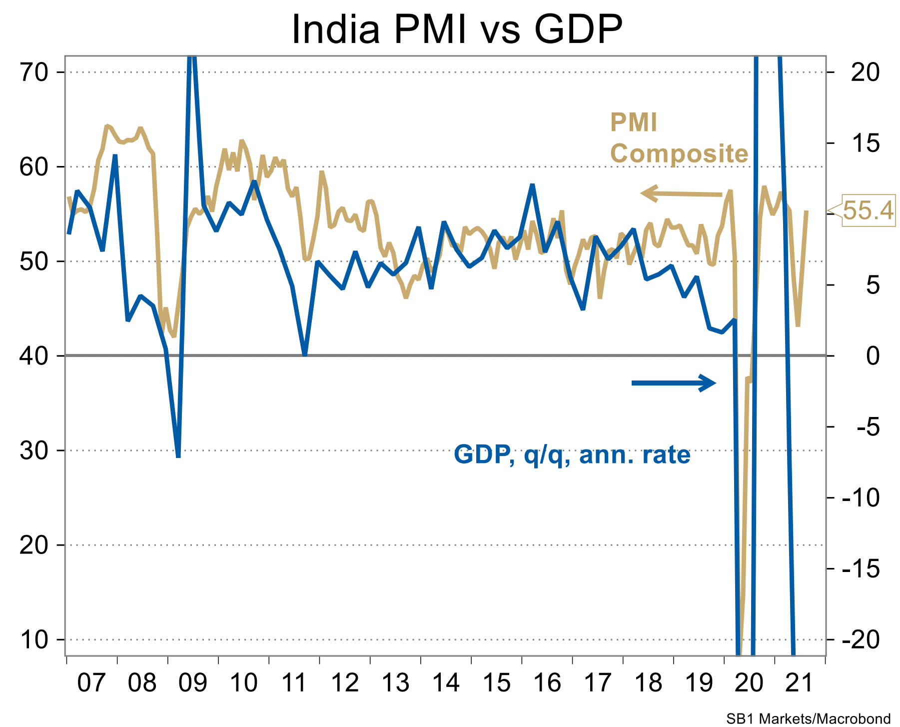


- **Services ISM** rose sharply to an all time high in July, and fell less in August to 61.7, from 64.1 17 of 18 sectors reported growth, like in July, and just one a decline (from zero in July). Hotels and restaurants still reported growth (but no actual employment growth, according to the nonfarm payrolls report. Arts and recreations reported a decline, possibly Delta virus related
- **Markit's service sector** was confirmed further down, to 55.1 from 59.9 in July, well down form extreme 70.4 peak in May. Businesses report slower growth in new orders but the order backlog still rose at the fastest pace ever and more companies report capacity constrains and shortages of input. Job growth was the slowest for 14 months due to lack of labour. The outlook is still bright, the future index rose!
- Together with their manufacturing indices, the **PMI/ISMs** signal some 4% GDP growth in Q3, well below the actual growth in Q2 (6.5%)
- **Prices indices** are soaring, for input prices as well as output prices (in Markit's PMI)

No more Delta trouble: Services rebounded sharply in Aug, manuf. down but OK

The comp. PMI up 6.2 p in August. At 55.4, a 10% GDP-growth is signalled. It will be FAR MORE ☺

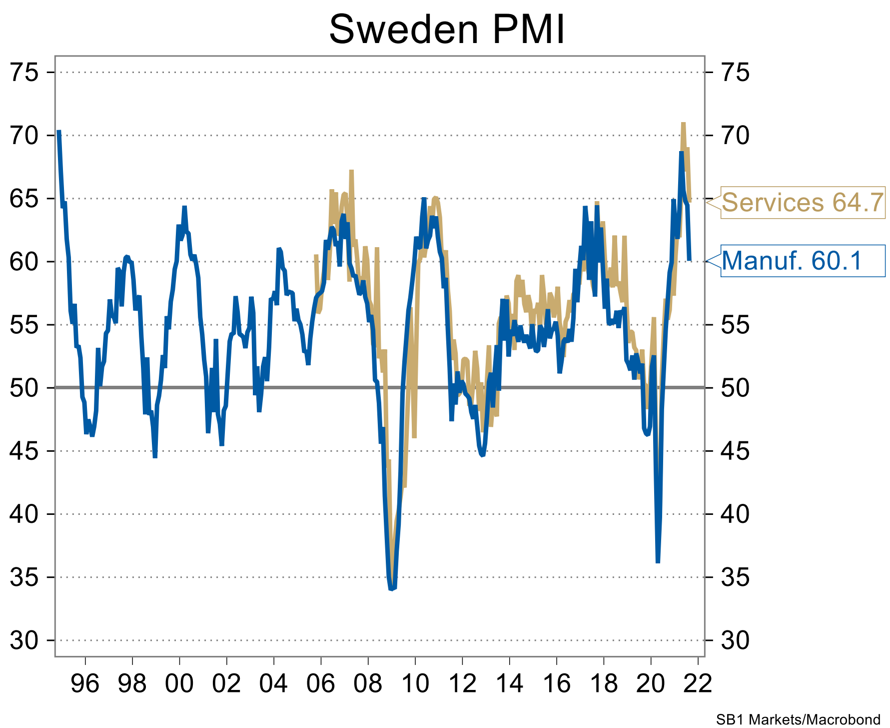


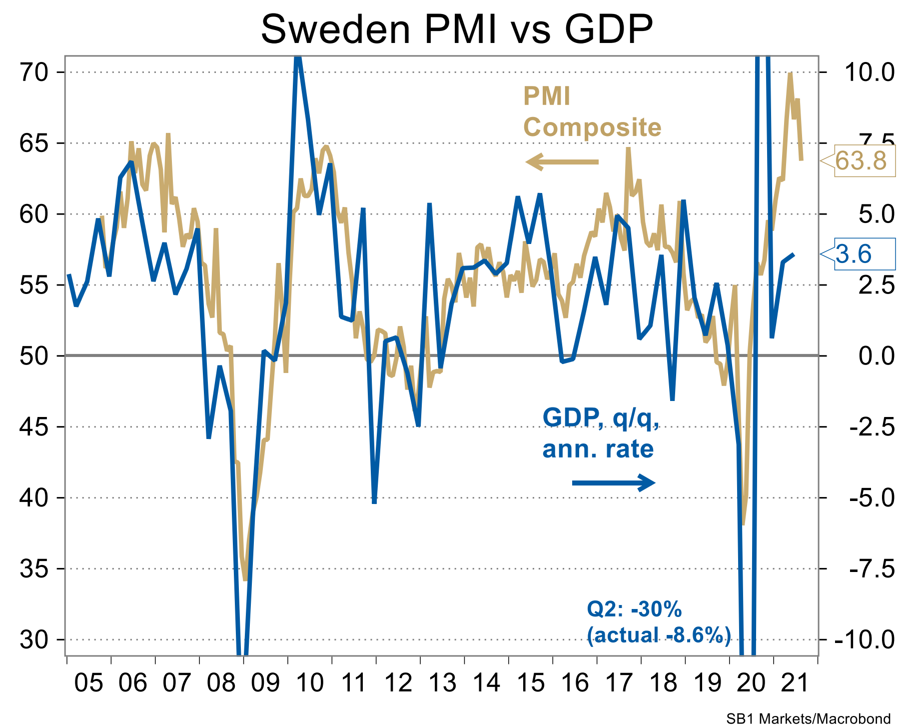


- **The manufacturing PMI** fell 3 p to 52.3, slightly above the 2012 – 2019 level. Companies are probably not harmed by domestic Covid-19 challenges (services are not at all) but trouble in other Asian countries may create problems in India as well
- **The services PMI,** on the other hand, surged 11.2 p to 56.7, the 2nd highest print since 2013 – and far above the pre-pandemic level, signalling that the Delta virus' grip on the Indian domestic economy is gone.
- The correlation between **PMI and GDP** is not that impressive but the 55.4 composite PMI signals strong growth in GDP. That's needed, following the 10% (35% annualised) decline in Q2 GDP. We expect the Q2 decline to be reversed in Q3, possibly into Q4, implying far higher growth rates than implied by the PMI, just as last autumn, following the first virus attack

The composite PMI down in Aug, but still the best in the world, 7% growth sign.!

Both sub-indices fell

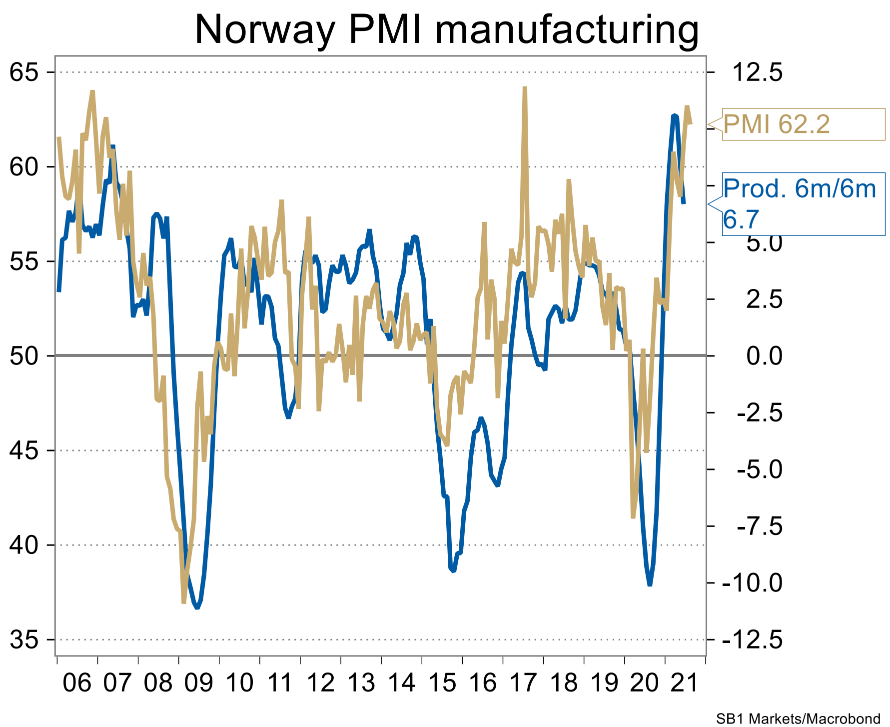


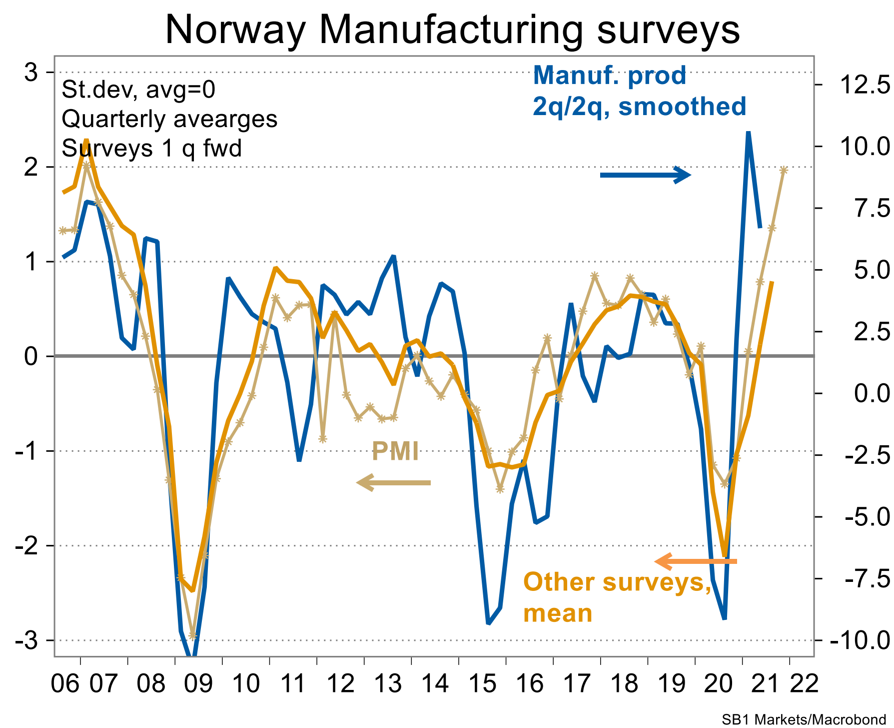


- The composite **PMI** has been record strong and one of the strongest in the world over some time – and at the top again in August, even if the index was down 4.5 p to 63.8. The correlation to growth has been limited through the pandemic, but face value, a 7% growth paces is indicated
- **GDP** grew at a 3.6% pace in Q2 (0.9% not annualised)
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until 2024. We are not so sure…

Norwegian manufacturing PMI marginally down in Aug, still extremely strong

The Norwegian PMI down 1 p in August, to 62.2 – still among the best prints ever

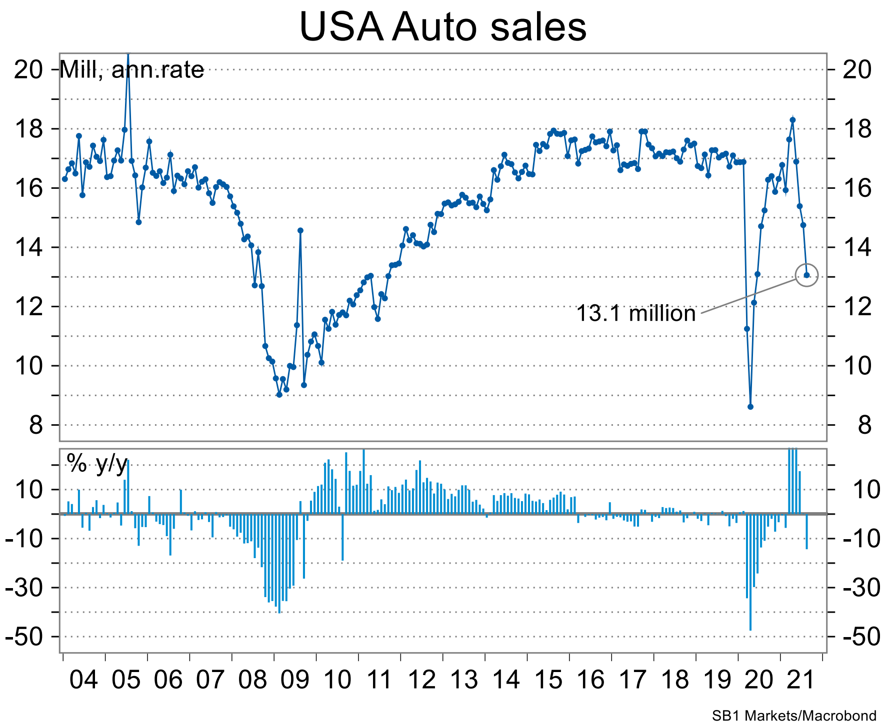


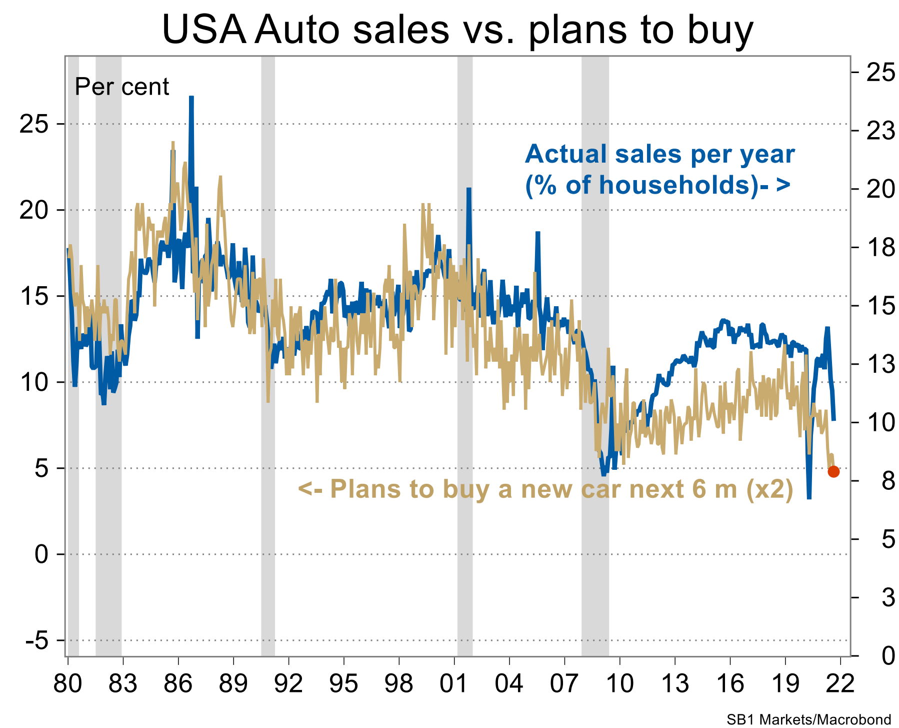


- Summer PMIs may be volatile but the average of the recent months leaves no doubt: companies are reporting a unusual rapid growth in activity; <u>The 3-month average has never been better</u>
- Other **surveys** have turned up lately to above-average levels
- **Actual production** has recovered well – and underlying growth is still strong

US auto sales sharply down in August too – 25% down vs a normal level

The decline is no doubt due to production cuts in the auto industry – not lack of demand

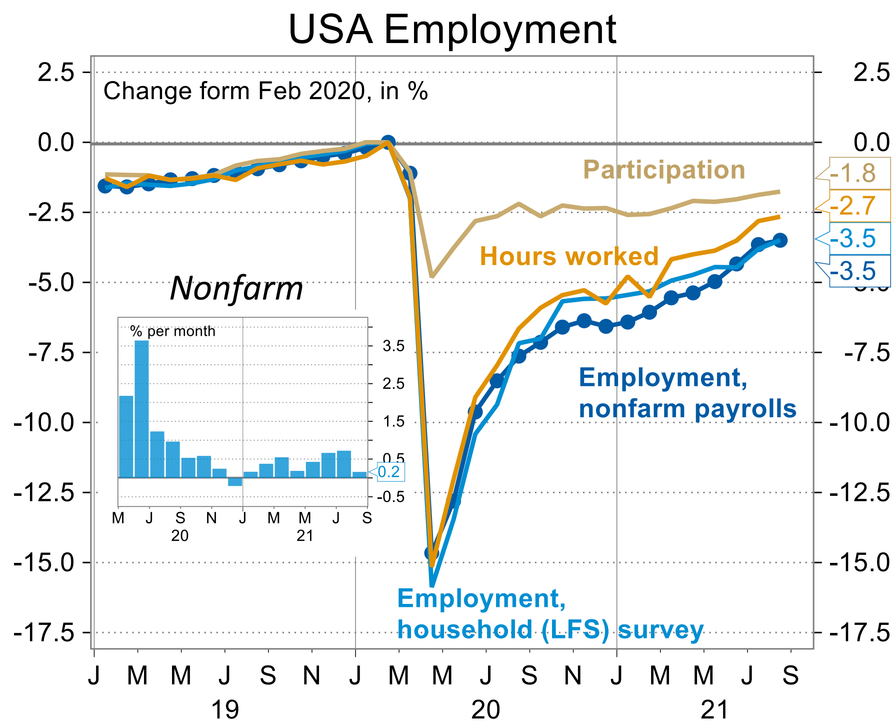


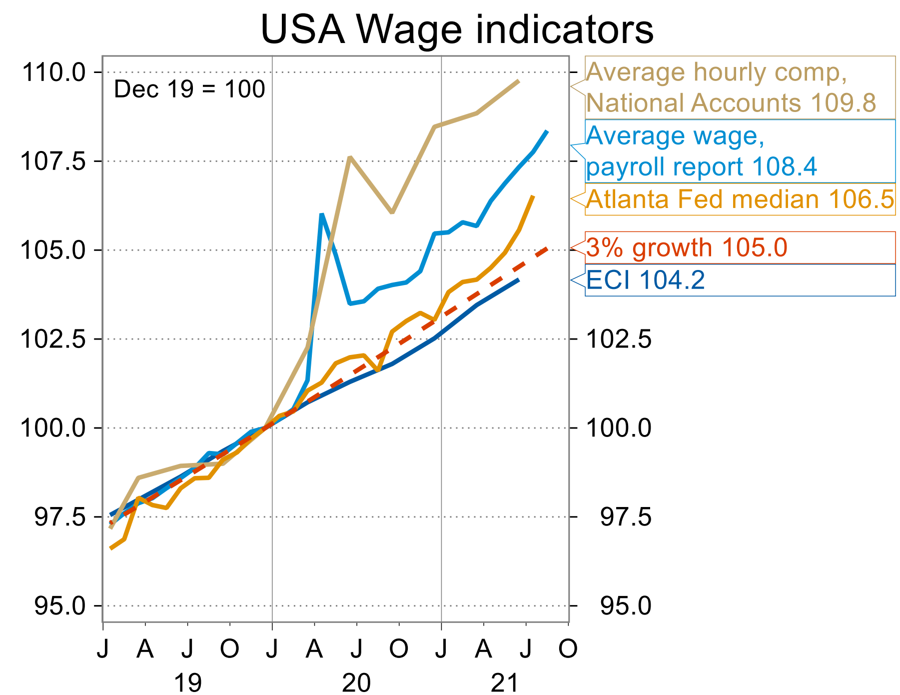


- Sales fell by 11% to 13.1 mill (annual rate) in August from 14.7 mill in July, expected unchanged – one of the larges monthly declines came as a total surprise. Strange
- Households have revised down their plans for buying a new car substantially recent months as they have probably observed that there are delivery challenges
- Demand for cars is still strong, as the 2nd hand market is emptied and used car prices have soared more than 40%
  - » New car prices are up too, and probably not just due to higher material costs – sellers have some pricing power too

Employment hit a Delta hump August but supply is the real challenge

A 700’ slowdown in hospitality & education cut employment growth down to 235’, expected up 730’

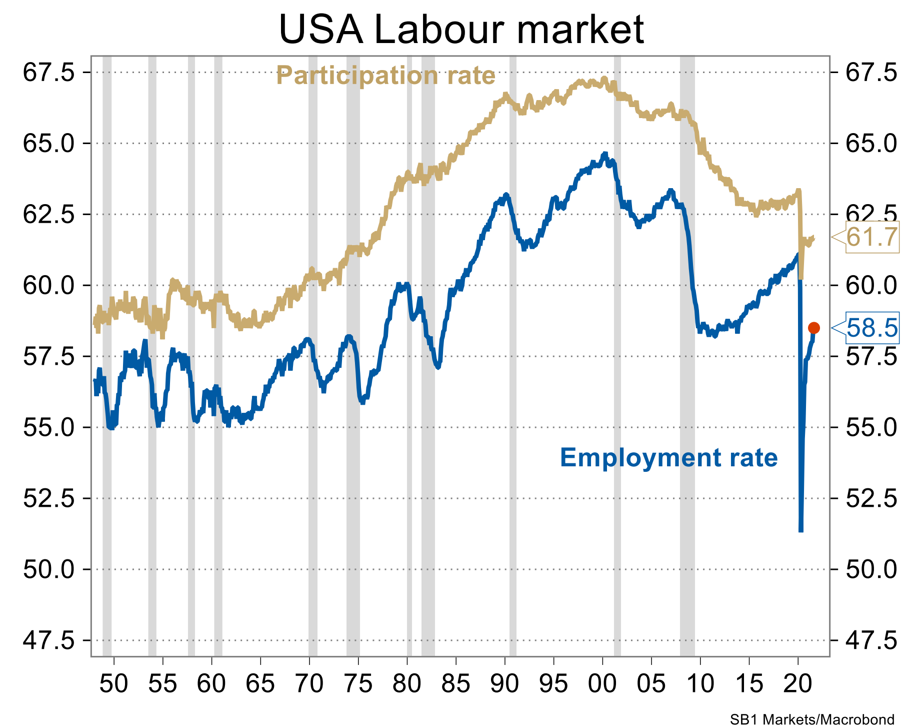


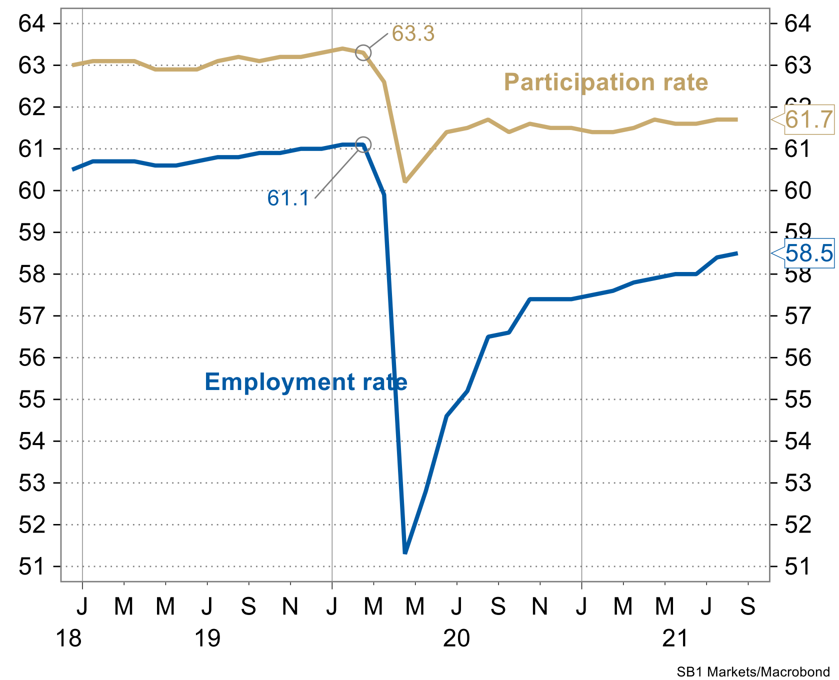


- **Employment** rose by 235’ in August, down from 1,053’ in July (rev from 943’), far below expectations Empl. is 5 mill or 3.5% below the pre-pandemic level
  - » A flattening of **employment in hotels, restaurants and schools**, down from +700’ in July was very likely due to the Delta outbreak – and thus not lasting
- **The participation rate** was unch at 61.7%, well below the Feb-20 level, as the supply side has not responded as usual to increased demand for labour
- **Unemployment** fell by 0.2 pp to 5.2%, as expected and in line with Fed’s (implied) f’cast (from June). Unemployment is just 1.7 pp higher than before the pandemic
- **Average wages** rose by 0.6%, twice the expected 0.3%, and the wage level is well above the pre pandemic trend in all sectors. Other wage indicators agree
- **In August, small businesses** reported record high hiring plans, unprecedented trouble filling vacant positions, and record high compensation increases
- **The big worry is still the supply side: Why are not workers returning to work?** This week, almost 9 mill workers will lose their USD 300/week temporary federal unemployment benefit. Will they now seek work?

The participation rate still flat, at a low level

A limited response to the lift in the employ. rate since last summer, and a record high vacancy rate

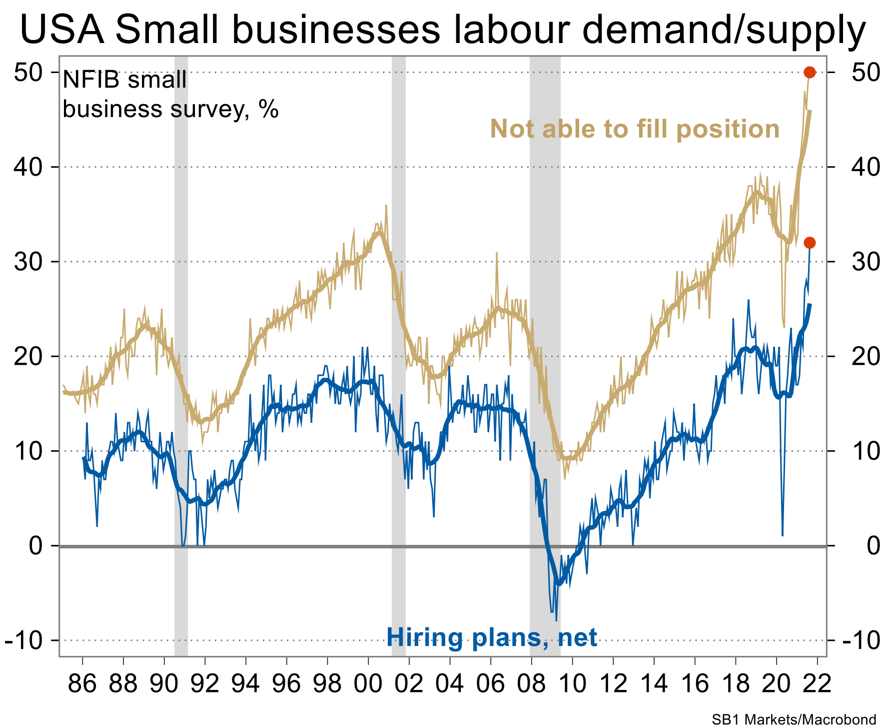


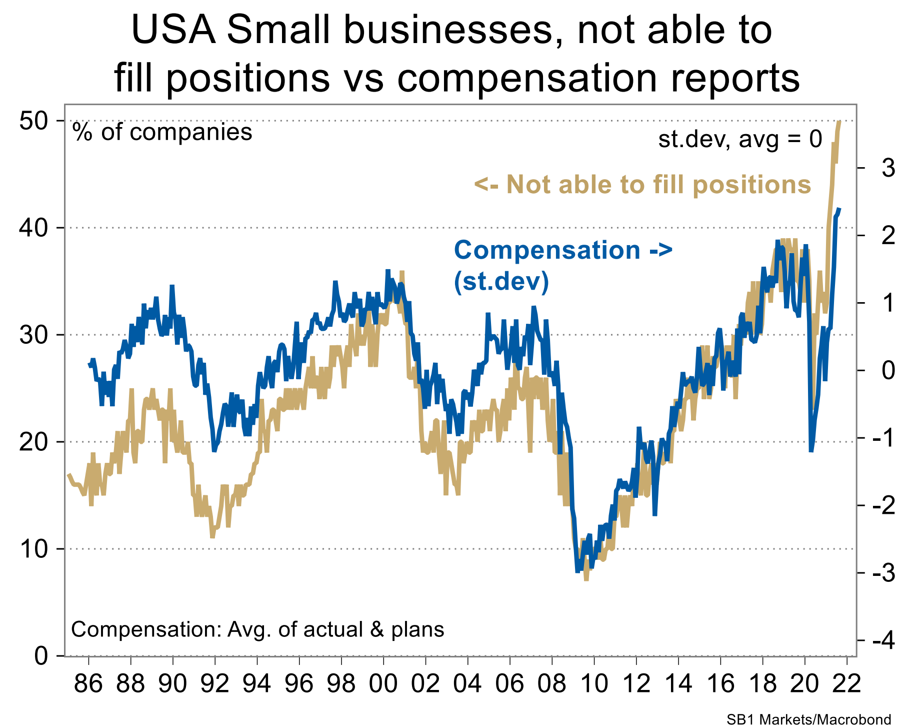


- The initial decline in the participation rate was Covid-19 related, and it may still be. In August 2.0 mill. persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down, up from 1.6 mill the two previous months. <u>These 2 mill persons equal 1.2% of the labour force, and represents a labour market reserve</u>
- **So, the conundrum remains:** <u>Have most of those 'temporary covid leavers' permanently left the labour market – or has others left the market at the same pace as the 'temp leavers' have returned – and if so temporarly, or permanently. And even just as important: Why have those who report they are searching for a job (and being counted as unemployed), not been able/willing to fill more of the 10+ mill vacant positions</u>?

Another ATH in difficulty filling positions in Aug, according to small businesses

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



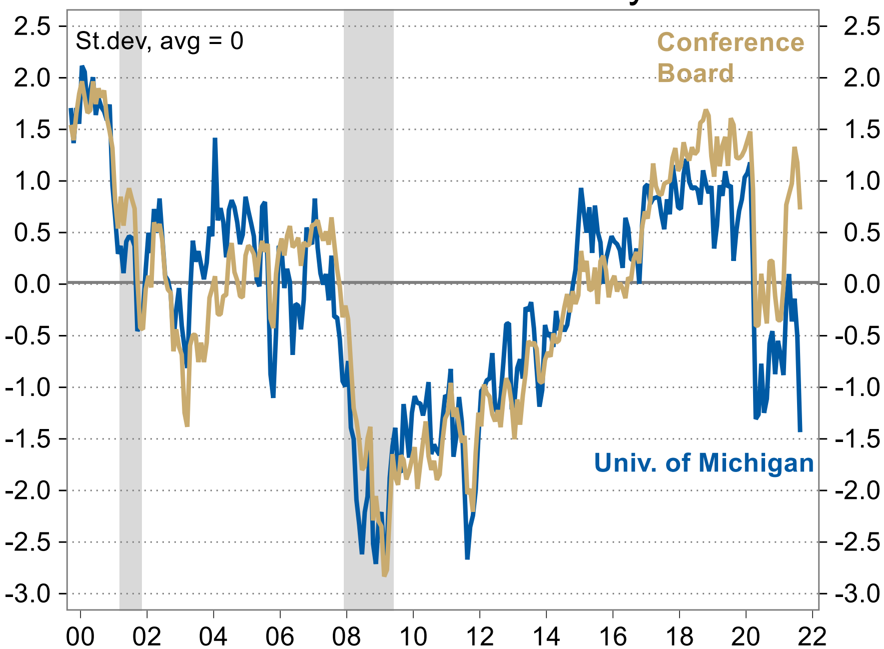


- Half of all US SMB companies are not able to fill their vacant positions, way above anything seen before
- **Hiring plans** are just a extreme – a significant further step up in August
- And guess what – companies are reporting the most aggressive **wage increase plans** ever (data from 1986). The correlation to actual wage growth is pretty close, check the next page

Consumer *confidence* also down in August – but level far above *sentiment*

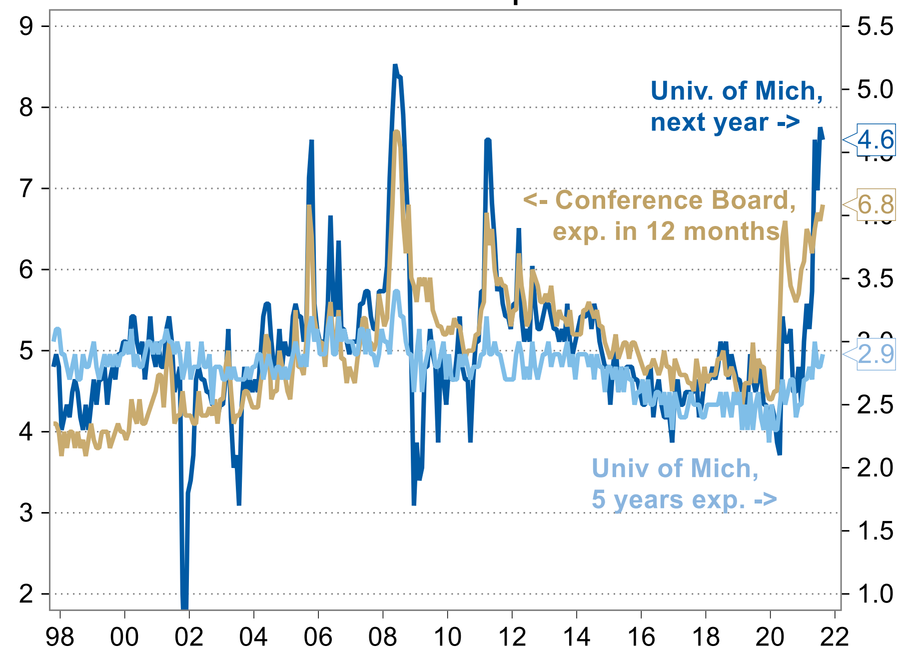
Conference Board's survey (unexpectedly) fell sharply but is still far better than Univ. of Mich's

USA Consumer Surveys



SB1 Markets/Macrobond

USA Inflation expectations

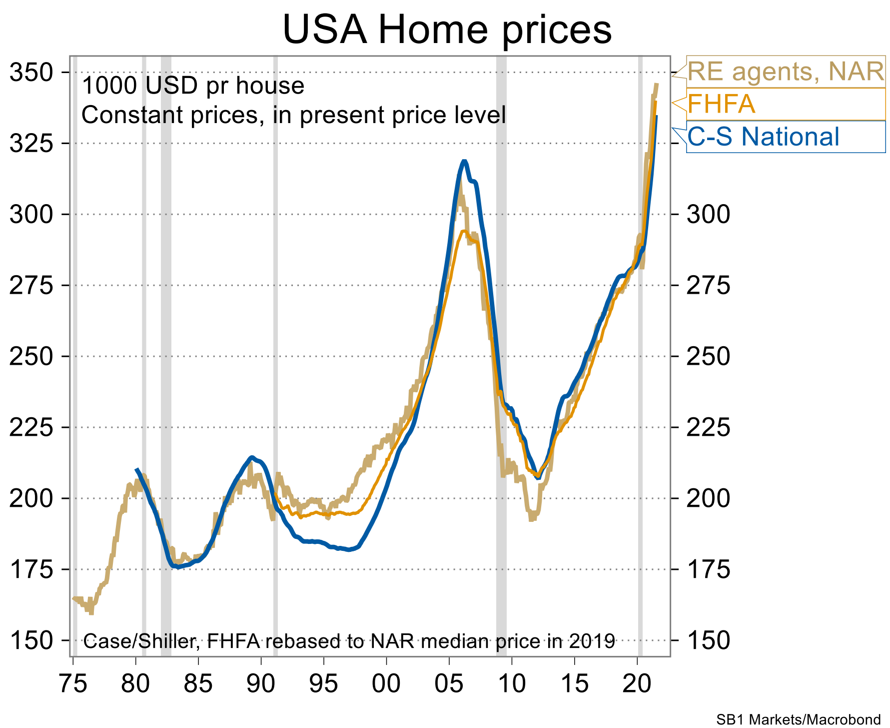


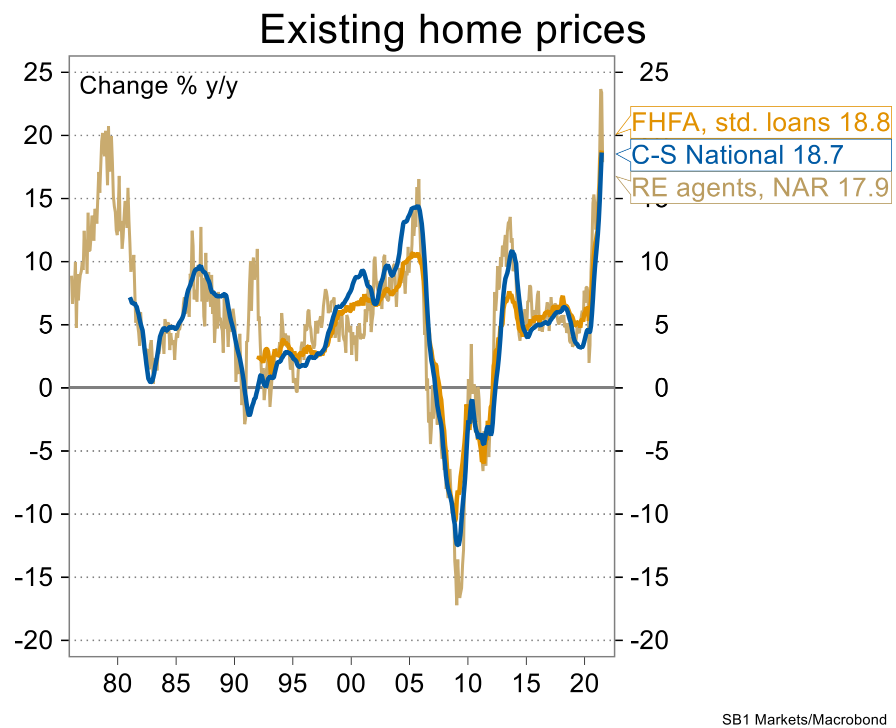
SB1 Markets/Macrobond

- **Conference Board's consumer confidence** fell to 113.8 in August from 125.1 (rev from 129.1), expected down to 123.4. The decline equalled 0.5 st.dev, but the level is still 0.7 st.dev above avg
  - » Both expectations and the assessment of the present situation fell – the latter is far above average, the former at an average level. Households' expectations fell mostly due to a downgrade of the outlook for businesses
- **University of Michigan's consumer sentiment** index was earlier reported down by 0.9 st.dev to -1.4 st.dev below par!
  - » The discrepancy between the two surveys is the largest ever – and we do not have any good explanation for it
- **Inflation expectations** are still elevated, and have not turned down

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

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





- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever (or since 1948), and record high real price levels, with data covering the past 30 – 45 years
- There are some big differences to 2005/6 price inflation & level peak
  - » Housing starts are at far lower level. The inventory of new & 2nd home for sale is record low (vs high 15 – 16 years ago)
  - » The debt/income ratio has fallen sharply since the peak before the financial crisis – and it is now just slowly increasing
  - » The running savings rate/net financial investment rate is high – vs far too low 15 years ago

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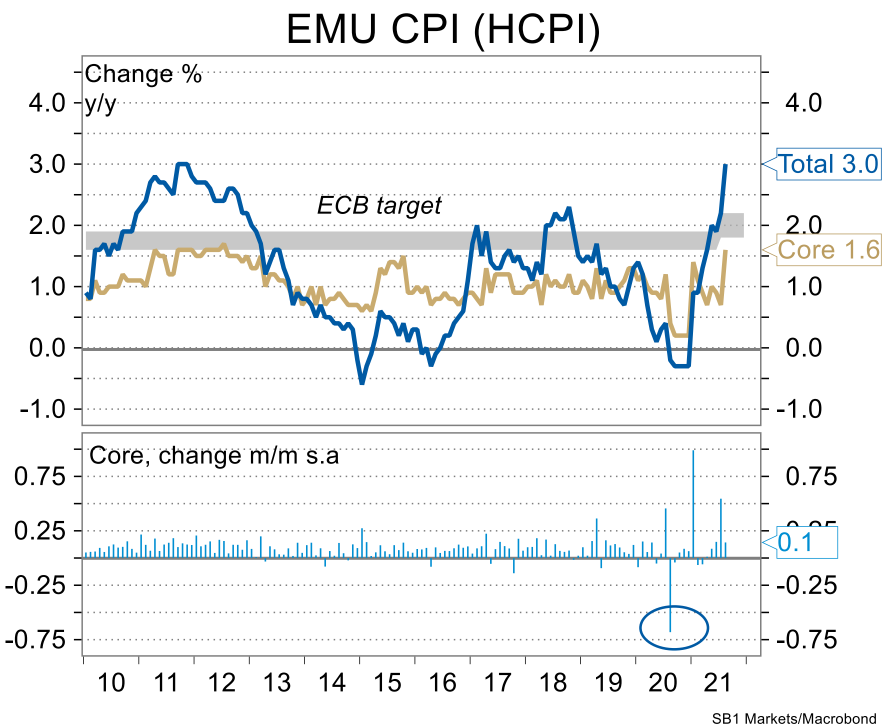
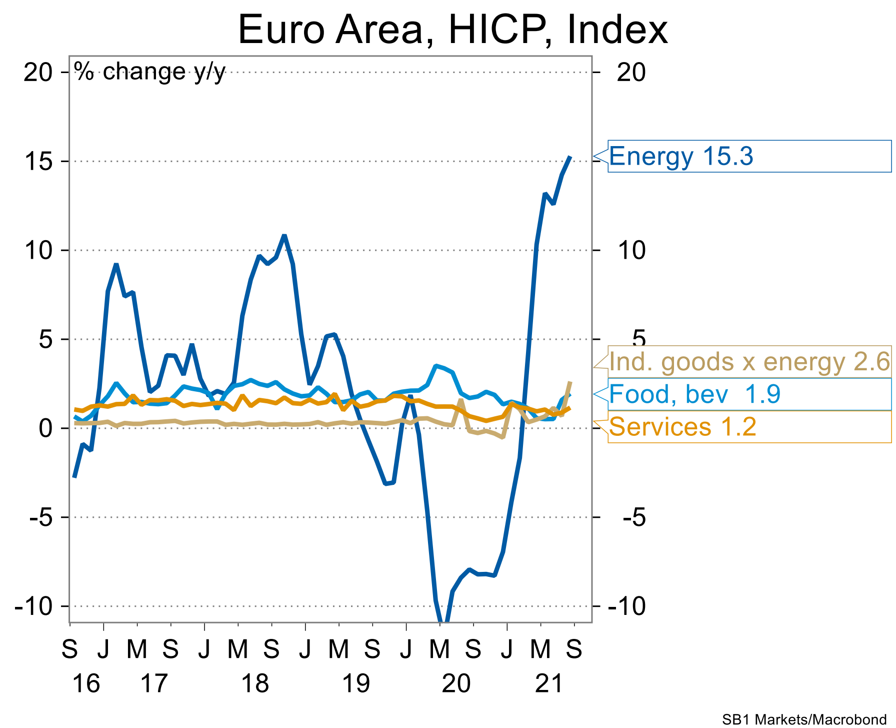
Eurozone core inflation up 0.9 pp to 1.6% in August, total up to 3.0%, 12 y high

The hike in the annual rate due to corona measures that cut prices in August last year





- **Core prices** were up 0.1% m/m and still the annual rate surged 0.9 pp to 1.6% - as prices fell by 0.7 pp last year, due to VAT cuts and other corona measures. This 'real' core inflation is still below ECB's new 2% inflation target
  - » Industrial goods x energy rose 0.1% m/m – but they are up 2.6% y/y. We do not have August details yet
  - » Services were flat m/m, and prices are just up 1.2% y/y
- **Headline inflation** was up 0.8 pp to 3.0% in August, the highest rate since 2008
  - » Energy is the big sinner – up 15.3%, contributing by 1.4 pp to the headline growth
- The annual rate will probably stay elevated the coming months, as the monthly increases were low/negative until Dec-20

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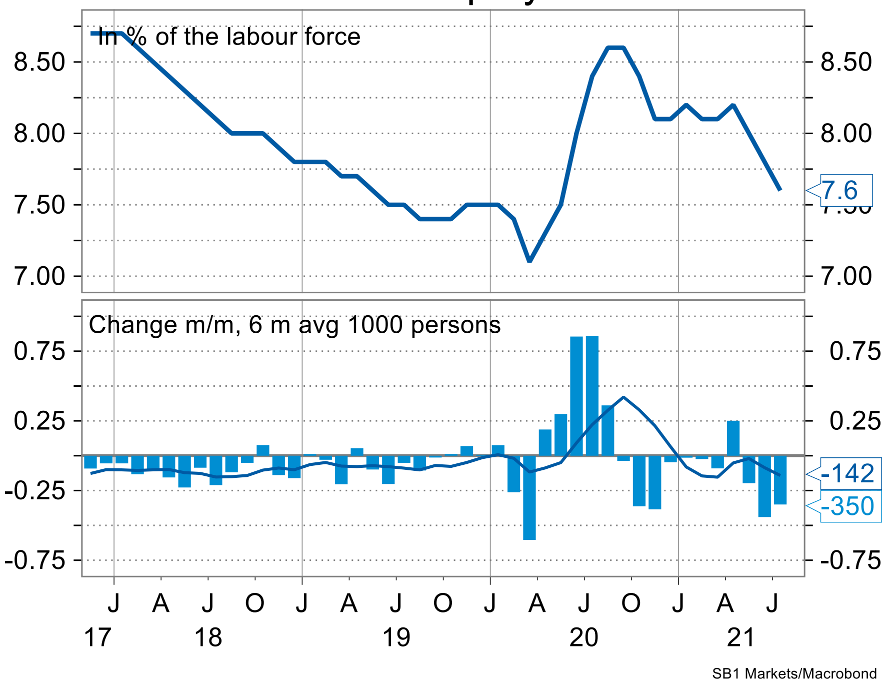
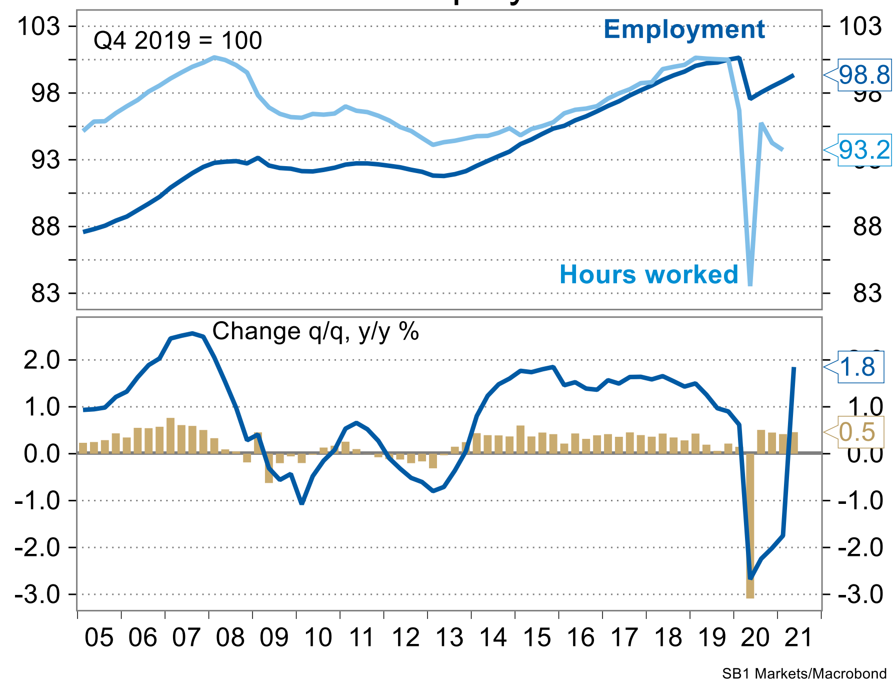
Unemployment down to 7.6% in July, from 7.8% (revised up from 7.7%)

Unemployment fell by 350’ – and is trending down – and is just 0.1-0.2 pp above the pre-Covid level!

EMU Unemployment



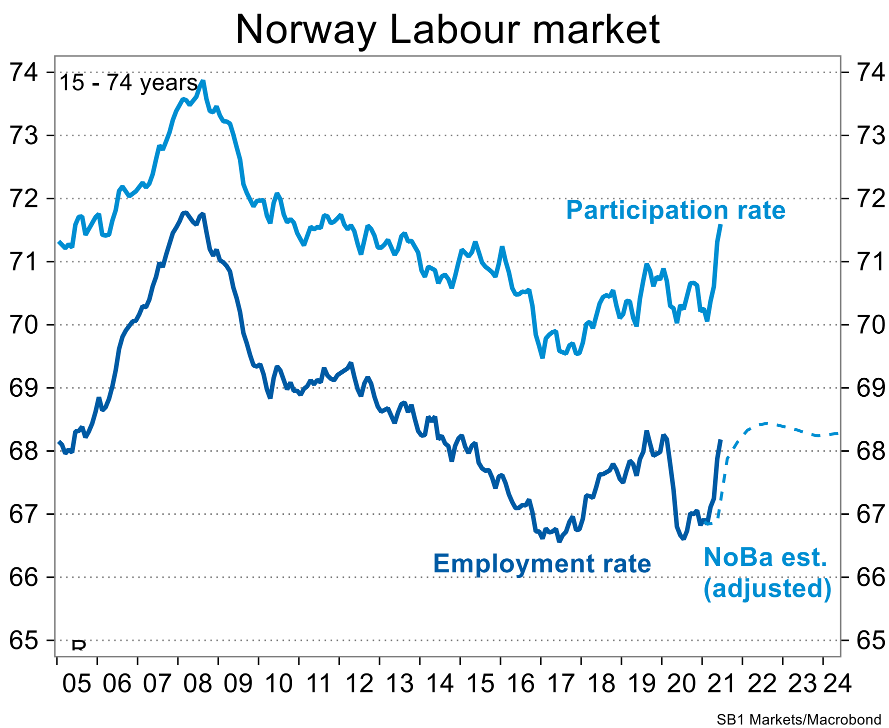
EMU Employment

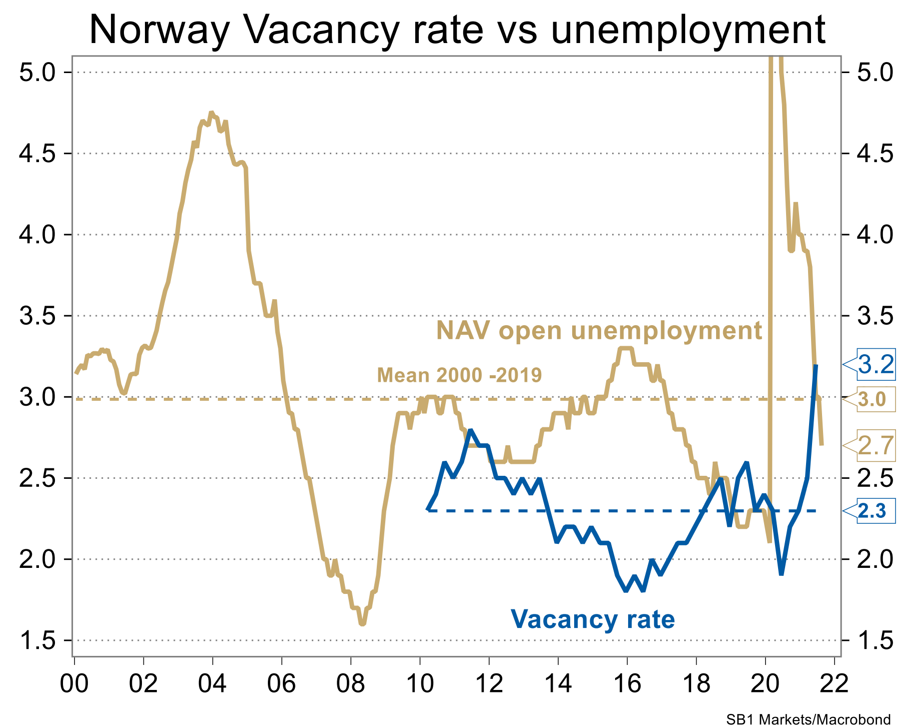


- **Unemployment** is falling rapidly as the economies are opening up – and the number of unemployed remains just some few tenths above the pre-pandemic level at 7.4% – 7.5%
- **Employment** rose by 0.5% in Q2, as over the previous 3 quarters, and it is 1.2% below the pre-pandemic level – and it is now steadily narrowing
- However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q1, hours worked were down 7% vs the pre-pandemic level, while the no. of employed was down just 1.7% - as average working hours were cut substantially. Given the 2% growth in GDP in Q2, the hours worked gap will very likely be reduced to 5% – 6% in Q2 - still a low level though

Strong labour market data, even the particiaption rate is surging!

The employment rate is back to the pre-pandemic level, NAV unempl. falling, vacancies are surging

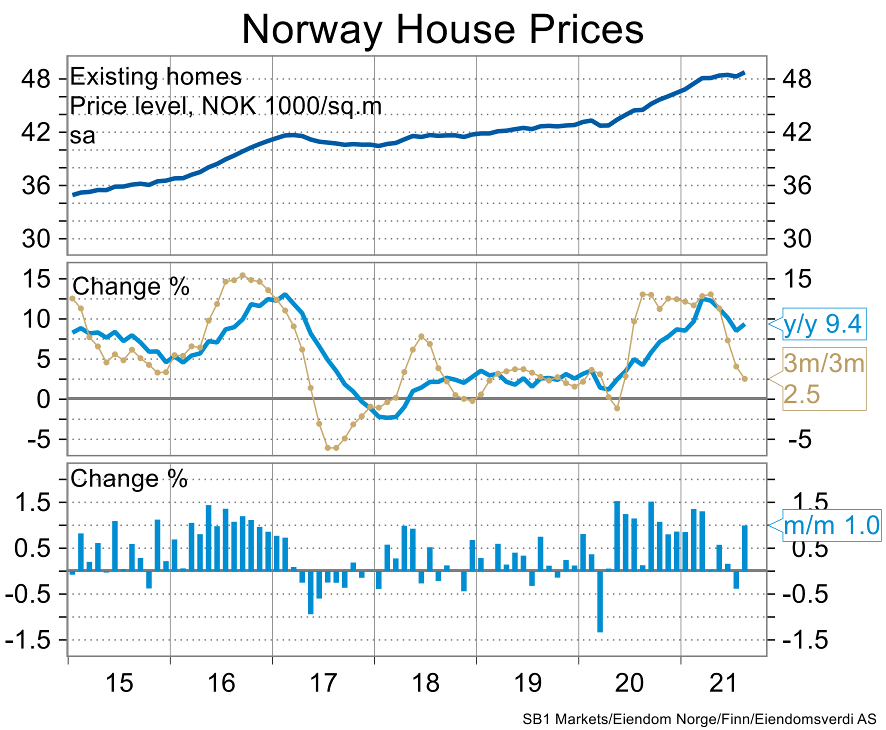


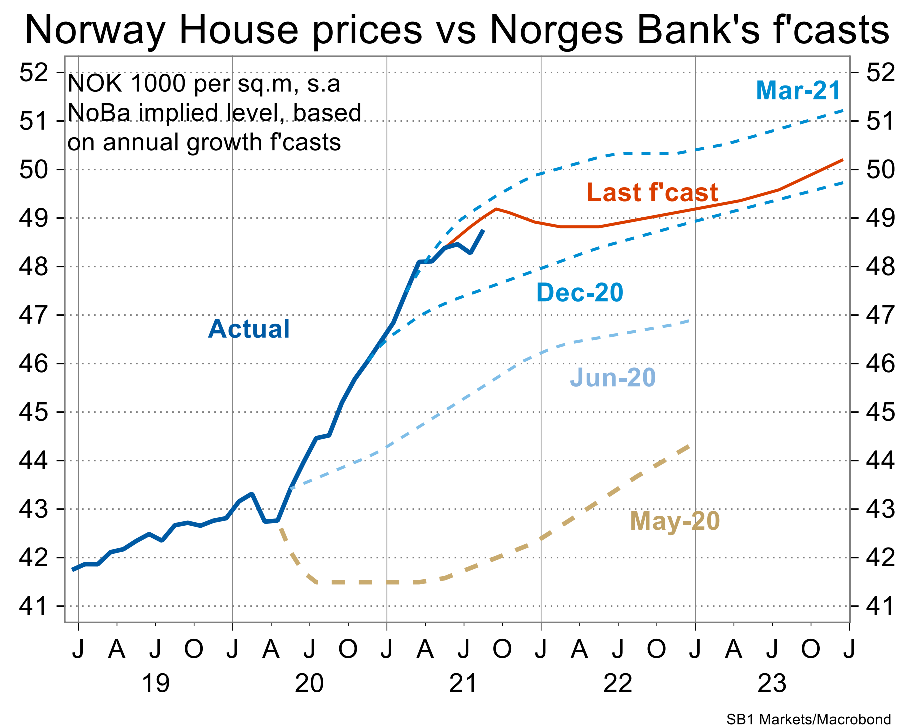


- **Employment** ex. foreigners on short term stay is approx. ¾ % above the early 2020 level, following the recent 1 – 2% surge. Incl. foreigners, 0.3% below early 2020 level. **The employment rate** is back to the pre-pandemic level, earlier than Norges Bank's June f'cast implied
- **The participation rate** is well above the pre-pandemic level following the surge recent months – in fact the highest in 10 years – and explains why the LFS unemployment rate has not fallen back to the pre-pandemic level, at it remained at 4.8% in June
- **NAV registered unemployment** is fell 0.3 pp to 2.7% in August, to 0.2 pp below NoBa's June forecast. The level is 0.5 pp above the pre-Covid level
- **The inflow of new vacancies** have been running at a very high level – at approx. 50' per month – since early spring
- **The unfilled vacancy rate** rose to 3.2% in Q2 (and above open unempl.), from 2.5% in Q1. The previous ATH was 2.8% (in 2011, data from 2010)
- **Supply rather that demand for labour** seem to be the limiting factor at the labour market

House prices up 1.0% in August, better than expected, following the summer lull

Our models signal a faster price increases than seen recently. Is the expected rate hike to blame?





- **House prices** rose by 1% in August, expected 0.3% – 0.4%, up from -0.4% in July (revised from -0.2%). Prices are up by 2.5% 3m/3m (annualised), down from above 12% in March. Prices are up 9.4% y/y
- **No city** reported lower prices in August, down from 11 on the negative side in July. Prices rose by 0.3% in Oslo, following 5 small drops. Costal cities from Kristiansand to Tromsø (ex Bodø) are on the weak side, the towns around Oslo on the strong side
- The **number of transactions** fell 10% but is still well above the pre-Covid level. The **inventory of unsold homes** flattened at a record low level
- Our Norway x Oslo **flow based price model** signals a .75% m/m price growth, our Oslo model +1%, from zero 4 months ago.
- House prices are almost back at NoBa's f'cast. If nothing dramatic happens, Norges Bank will hike the signal rate Sept 23 – and banks will very likely lift their mortgage rates. In June, NoBa expected house prices to shrink marginally through Q4. That may still be a proper forecast

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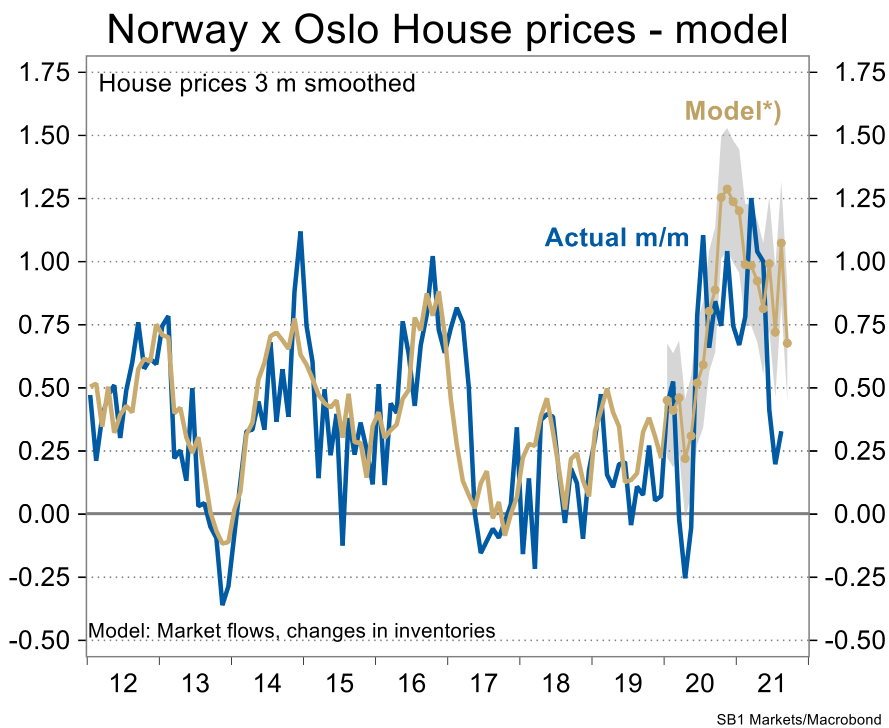
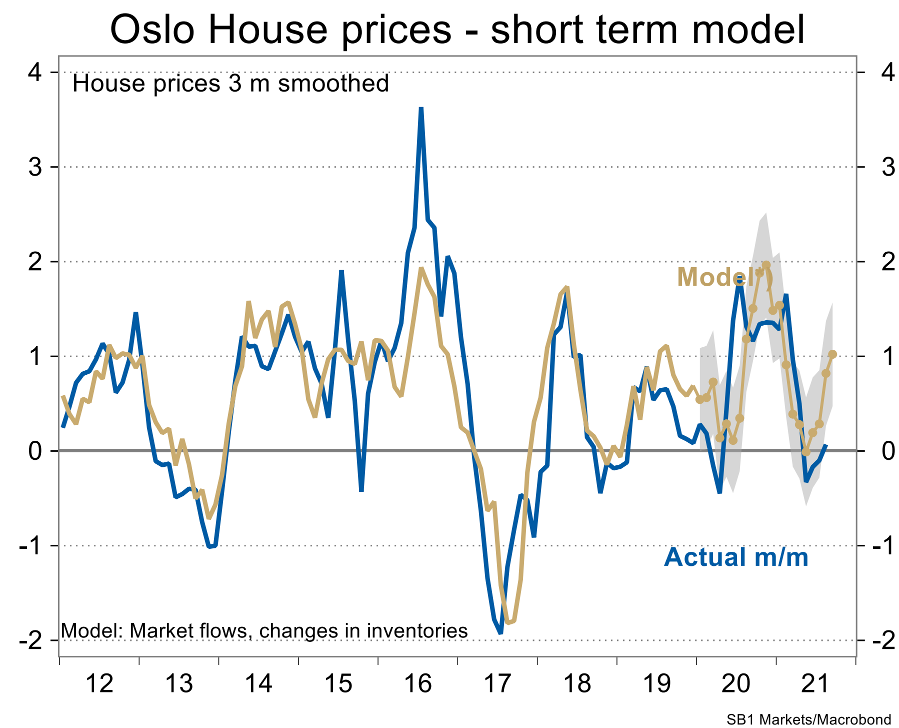
Short term market flows suggest higher prices, also in Oslo!

Our models suggest decent price growth. Are we witnessing a rate expectation impact?

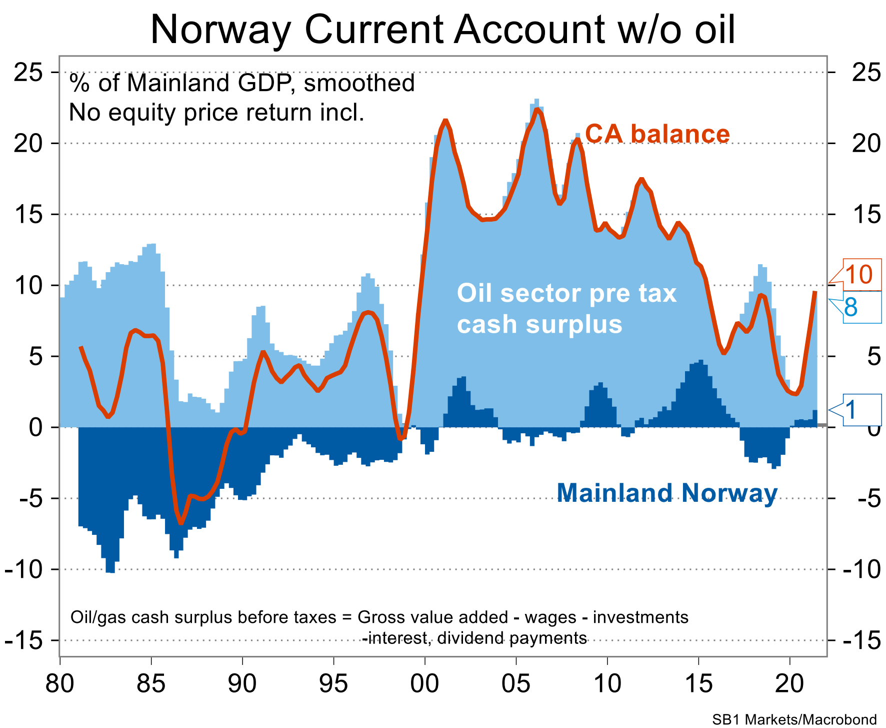


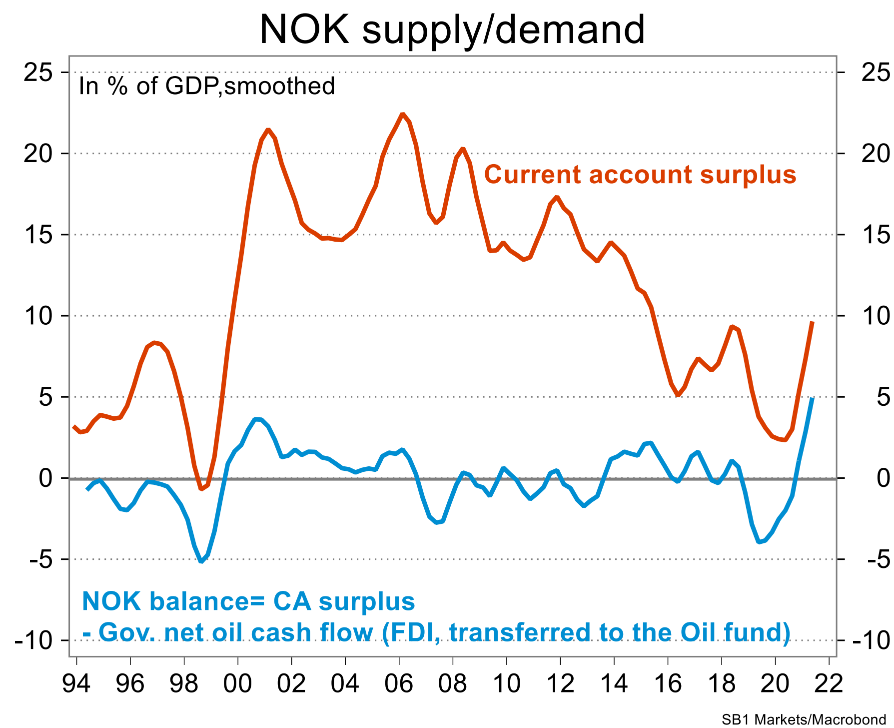


- Our **national x Oslo model** based on flows and the inventory signals a 0.75% growth in house prices per month
- Our **Oslo model** signals a 1% growth (up from zero 3 months ago)
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

Norway is in plus, even the oil and gas sector. How come??

All imports to the oil sector is booked on the Mainland, no deliveries to oil booked as exports

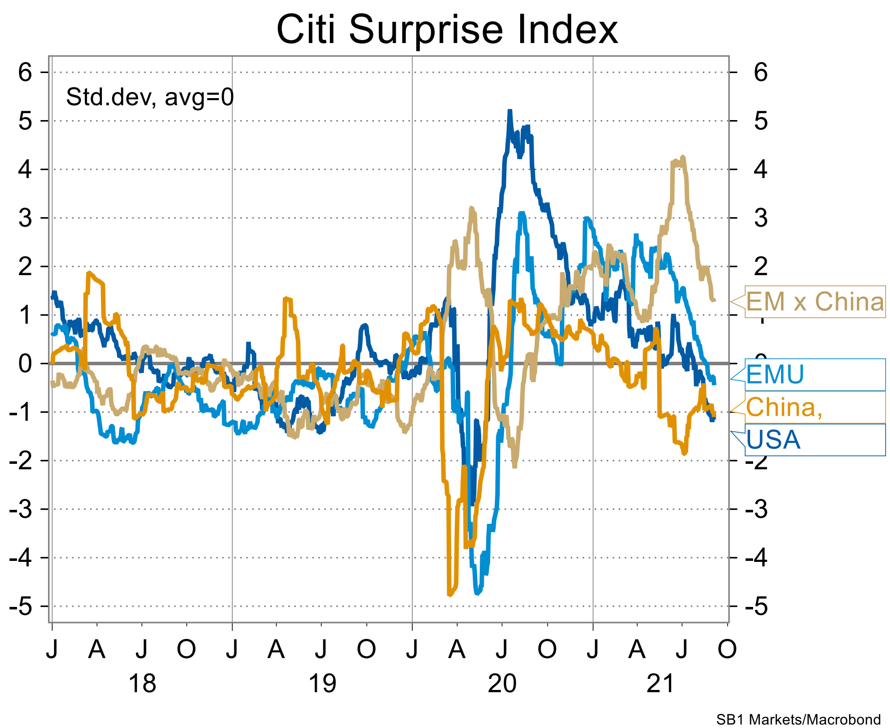


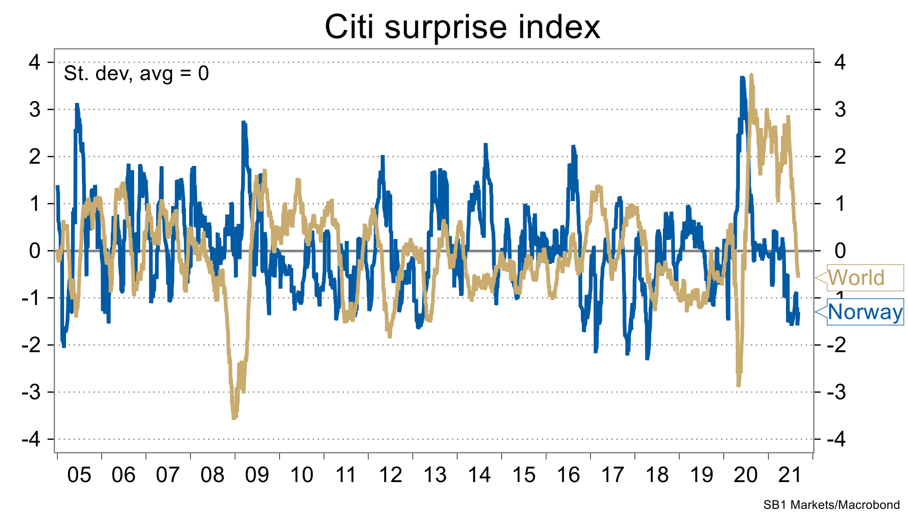


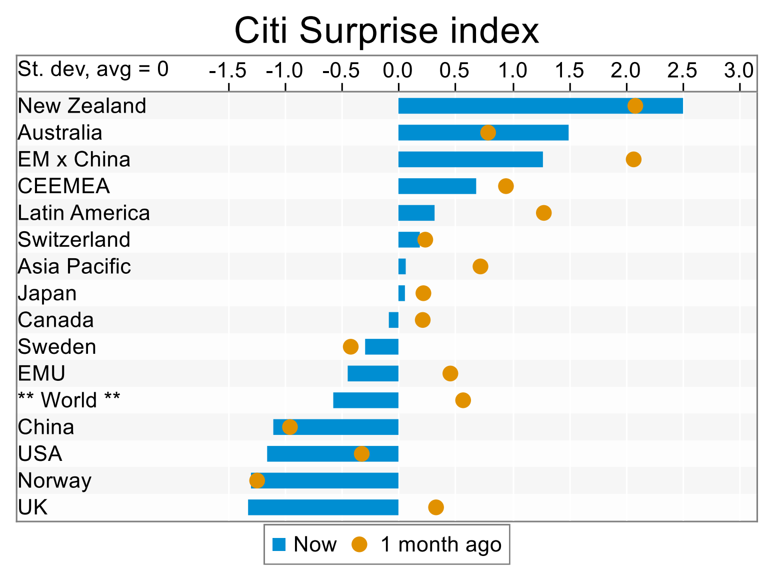
- The pre-tax cash surplus in the oil sector is far smaller than the value of oil and gas exports
  - » The sector has to pay op.ex (including wages), finance its cap.ex (investments) and pay interest rates and pay dividends, to Norway and abroad, in sum almost 10% of Mainland GDP. Investments alone equals some 5% of Mainland GDP
  - » From the other side of the equation: The Mainland trade balance 'charged' for most of the imported goods for use in the oil sector (and all oil related imports if the Mainland balance is defined as total balance – oil and gas exports, like on the previous page). In addition, sales (or 'exports') from Mainland businesses are not credited the Mainland!
- On the chart to the left above, the 'real' ex. oil balance is calculated – and is not that bad
  - » A MAIN CAVIAT: WE ASSUME THAT 'EXPORTS' TO THE OIL SECTOR CAN BE REPLACED 1:1 BY OTHER EXPORTS OR REDUCED IMPORT, if demand from the oil sector is cut down. That is very likely <u>not</u> the case, as companies will not have the same advantage when competing at other markets. In addition, we have not adjusted for reduced exports of oil related equipment to other countries, the rest of the world also decides to 'go green'. Still, this calculus explains the 'real' ex oil balance

Data surprises more on the downside, the world aggregate well below average

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







- The **US** surprise has fallen further below average, and fell further last week
- The **EMU** has been below the zero line the two past weeks
- **China** July date were weaker than expected
- **Emerging Markets x China** are still reporting <u>better</u> data than expected, but is gradually coming down
- **Norway** has surprised sharply on the downside recent weeks, so has have UK

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

The Calendar: China trade & credit, US vacancies, ECB meeting, Norwegian GDP & CPI

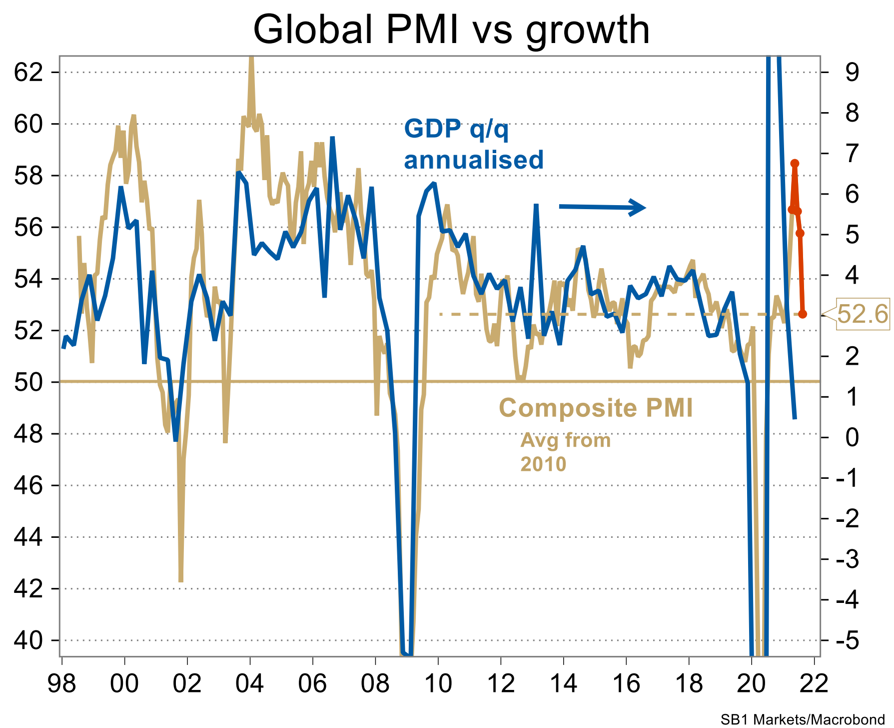
Time	Count.	Indicator	Period	Forecast	Prior
Monday Sept 6					
08:00	NO	Financial Sector Accounts	Q2		
08:00	GE	Factory Orders MoM	Jul	-0.7%	4.1%
Tuesday Sept 7					
	CH	Trade Balance	Aug	\$51.0b	\$56.8b
	CH	**Exports YoY**	**Aug**	**17.4%**	**19.3%**
	CH	**Imports YoY**	**Aug**	**27.0%**	**28.1%**
08:00	GE	Industrial Production SA MoM	Jul	0.9%	-1.3%
08:00	NO	Ind Prod Manufacturing MoM	Jul	(0.4%)	0.7%
11:00	EC	GDP SA QoQ	2Q F	2.0%	2.0%
11:00	GE	ZEW Survey Expectations	Sep	34	40.4
Wednesday Sept 8					
09:30	SW	GDP Indicator SA MoM	Jul	0.4%	2.5%
16:00	**US**	**JOLTS Job Openings**	**Jul**	**10000k**	**10073k**
20:00	**US**	**Fed's Beige Book**			
Thursday Sept 9					
03:30	CH	CPI YoY	Aug	1.0%	1.0%
03:30	CH	PPI YoY	Aug	9.0%	9.0%
08:00	**NO**	**GDP Mainland MoM**	**Jul**	**0.6%(1)**	**0.7%**
13:45	**EC**	**ECB Deposit Facility Rate**	**Sep-09**	**-0.5%**	**-0.5%**
14:30	US	Initial Jobless Claims	Sep-04	343k	340k
Friday Sept 10					
08:00	NO	CPI YoY	Aug	3.2%(3.1)	3.0%
08:00	**NO**	**CPI Underlying YoY**	**Aug**	**1.1%(1.1)**	**1.1%**
08:00	UK	Monthly GDP (MoM)	Jul	0.5%	1.0%
08:00	UK	Manufacturing Production MoM	Jul	0.1%	0.2%
08:45	FR	Manufacturing Production MoM	Jul	0.4%	0.9%
14:30	US	PPI Ex Food, Energy, Trade MoM	Aug	0.6%	0.9%
During the week					
	CH	**Aggregate Financing CNY**	**Aug**	**2750b**	**1060b**
	CH	New Yuan Loans CNY	Aug	1350b	1080b

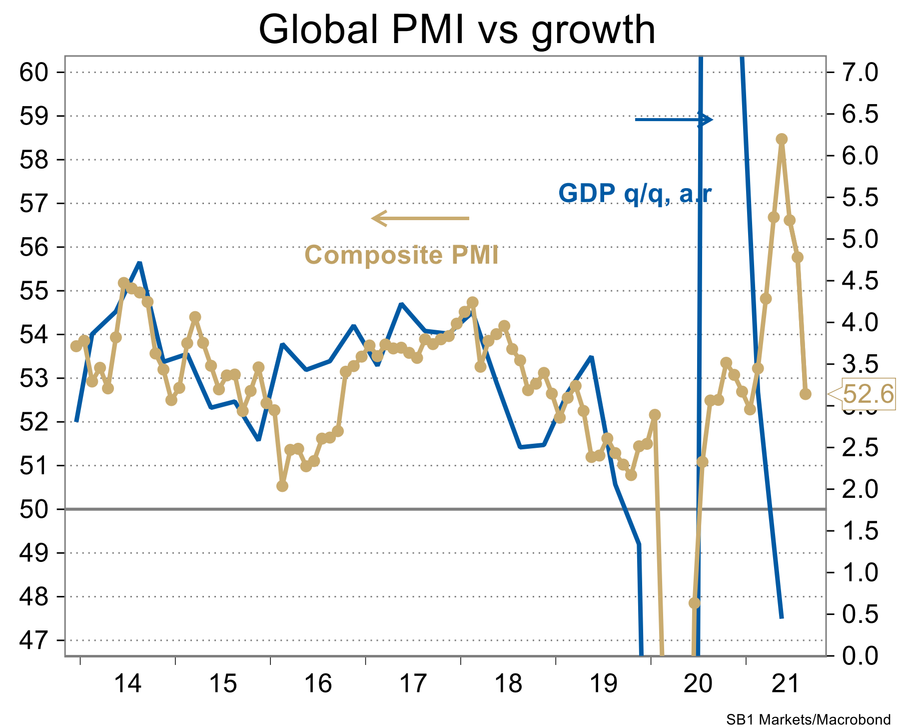
- ## Auto sales
  - **Global auto sales very likely fell further in August,** due to supply constraints. US has reported a steep decline, while sales in the EMU rose just marginally (from a very low level). Norwegian sales among the best on record, of course. More reports this week
- ## China
  - **Both exports and imports** have slowed – at very high levels, still signalling slower growth in global demand for goods, muted demand in China – and some corona related problems. For parts of August, a small part of the 2nd biggest harbour was closed, we doubt that impact is visible, but other production/transport activities may have been hurt by local corona measures
  - **Credit growth** has slowed, albeit not much further recently. Authorities are both trying to curb credit to overexposed real estate activities (but not too much), and stimulate credit to other parts of the economy as growth has slowed somewhat. Banks' reserve requirements are cut, but not policy rates
- ## USA
  - Finally, a slim US calendar. We have highlighted just the **JOLTS report**, on the flows/balances labour market and **Fed's Beige book**. Unfilled vacancies have soared to a record high level, and we doubt these problems eased in July. Fed's 'regional survey' will probably confirm decent growth but highlight labour shortages/wage increases. The jury is still out whether the FOMC will send the formal 'tapering' signal at the Sept meeting, as employment growth unexpectedly fell in August
- ## EMU
  - **Taper discussion?** Even members of the 'dovish majority ' faction in the **ECB** have started talking about a (future) tapering as the economy recovers. We doubt any precise signal will come out this week but the topic will be debated. Long bond yields have already taken a minor beating ex ante. We expect positive revisions of growth forecasts and higher inflation forecasts
- ## Norway
  - **Mainland GDP** very likely rose sharply in July as employment rose 1.1%, and we expect production growth at the same level. We assume continued strong growth in the corona hit (and now recovering) service sectors – and no slowdown elsewhere, except for retail trade where the lack of building materials slowed activity
  - We expect a further increase in **manufacturing production**. Surveys are still very strong
  - **Core CPI** inflation has surprised on the downside recent months – and was up just 1.1% y/y in July. The headline index is up 3.0%, due to the surge in electricity prices. We expect an unchanged core CPI at 1.1% y/y, and a 3.1% headline rate – close to consensus but above NoBa's f'cast

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

The global PMI fell 3.1 p to 52.6, down to past 10 y avg, well below our forecast

In the end a weak Chinese service sector tanked the global index, but US services sharply down too

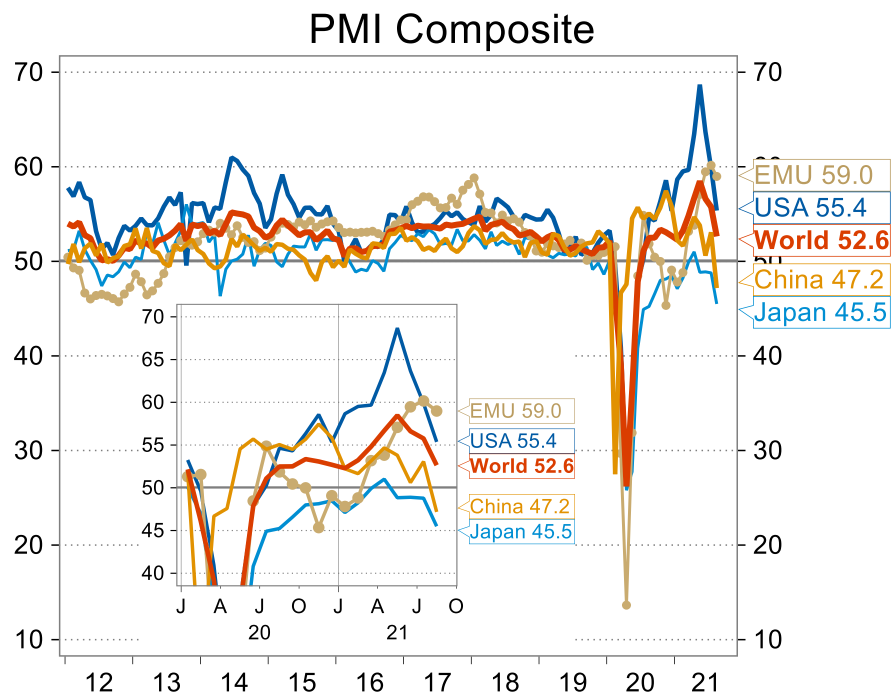




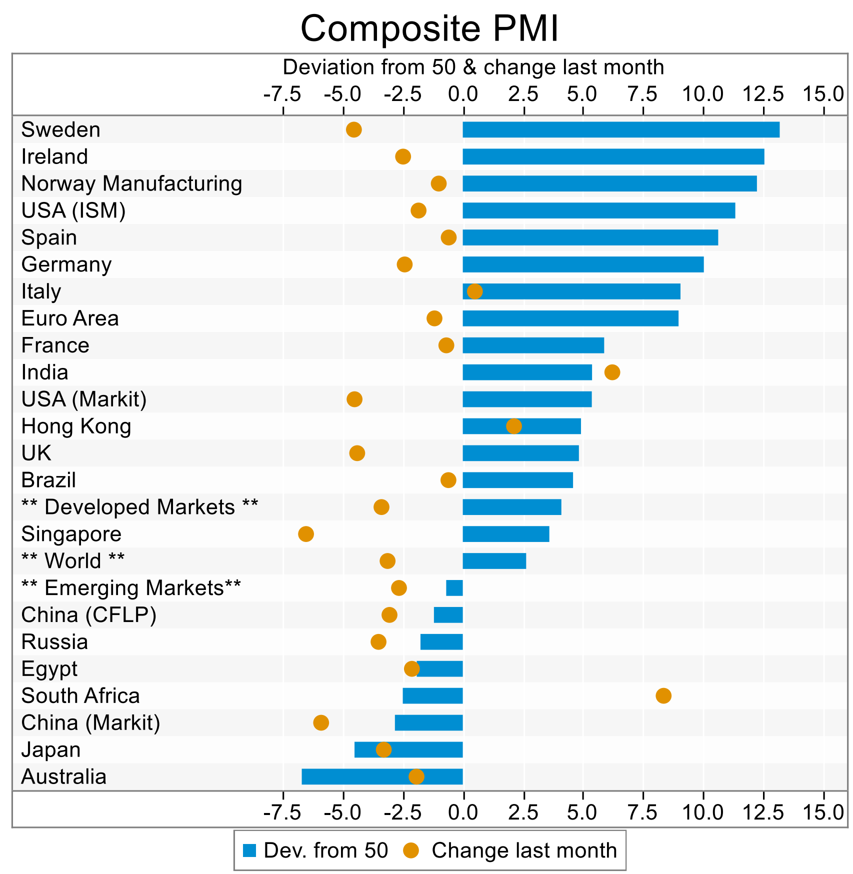
- **The global PMI signals growth at trend, at a 3% pace**
  - » **The global PMI** has fallen sharply past 3 months, and the 3+ p decline in August was 0.7 pp larger than our estimate based on the preliminary PMIs. The Delta virus is probably mostly to blame, both vs services in China, and possibly the US, and due to lockdowns hurting the manufacturing sector in other parts of Asia too
  - » Both manufacturing and services contributed, services the most
- The composite PMI fell in a large majority of countries, just 4 of 21 countries/regions/aggregates up. 8 are below the 50 line

Rich countries more down than EM, still reporting higher growth. Sweden at the top

But China (Markit's PMI) and Singapore reported the largest decline



Source: IHS Markit, SB1 Markets, Macrobond



SB1 Markets/Macrobond

- 4 countries/regions up (from 11 in June), 21 down in August (from 11). 8 below the 50-line (from 5, and 3 two months ago)
- Sweden, Ireland, US ISM and Germany at the top (+Norwegian manufacturing)
- The Chinese PMI fell sharply, mostly due to the service sector
- In India, the PMI fell just marginally, and the level signal brisk growth following the 10% drop in GDP in Q2
- Japan and Australia are both reporting an accelerating decline in activity

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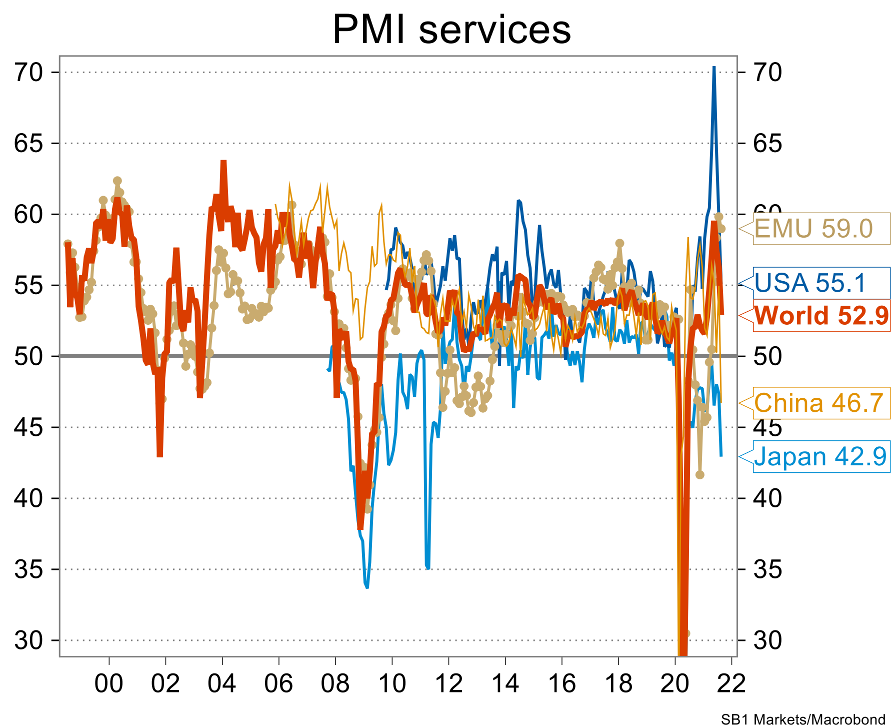
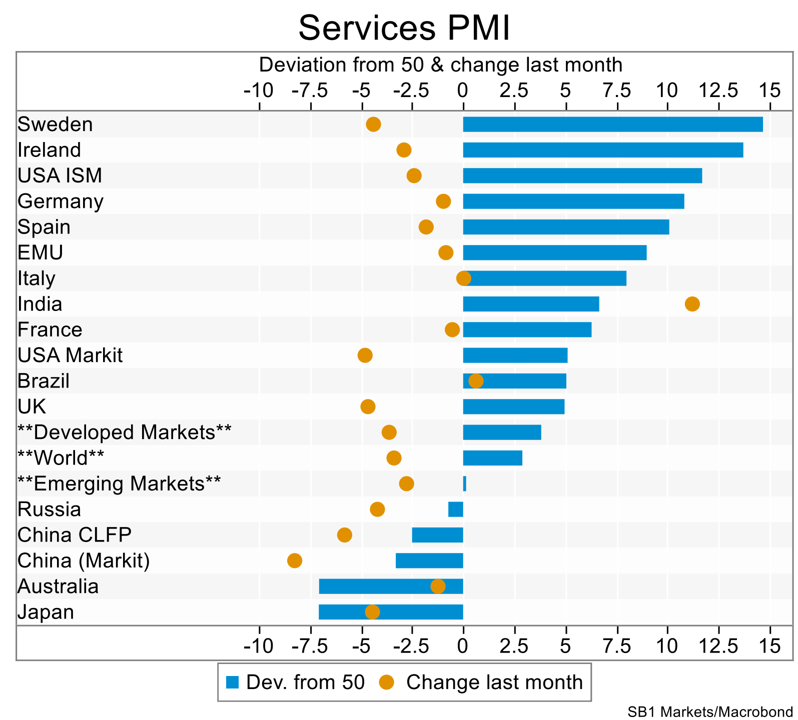
The service sector PMI -3.4 p to 52.9 in August, an unusual broad setback

China, US and UK reported the steepest declines, China very likely due to the temp. corona measures

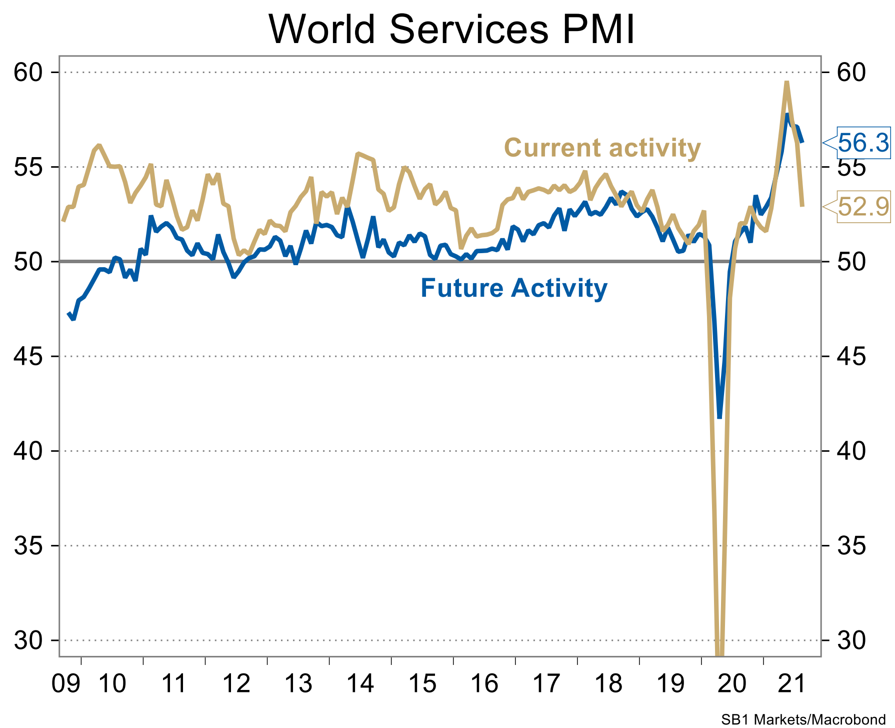


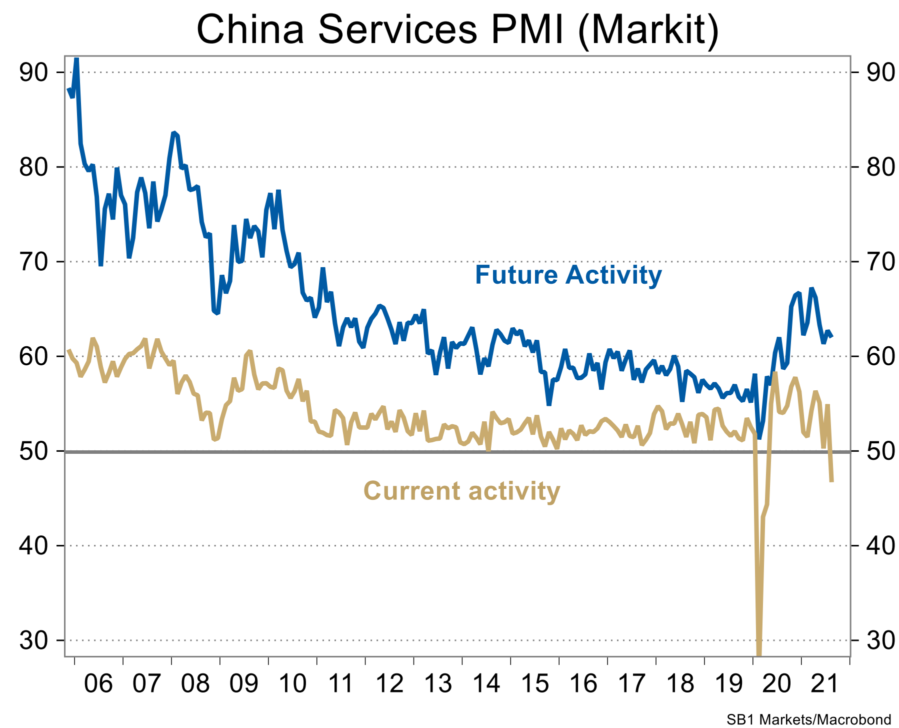


- **The global service sector PMI** fell more than we predicted – and signals growth below trend
- Just 2 countries/regions up (10 in July), 17 down (10); 5 below the 50-line (3), 15 above
- The **US ISM** services index fell, but less than expected, and the level is still very high, well above Markit's index
- The **EMU** level is very strong, far above Markit's services PMI
- The **Indian** service sector PMI rose 11 p to 56 – signalling that the Delta crisis is history
- BTW, **Sweden** is a the top, with Ireland and US ISM services

The service sector has not lost its confidence in the future, not even in China!

The 2. largest decline in the service sector PMI in China is 'just' very likely due to Covid-19 restrictions

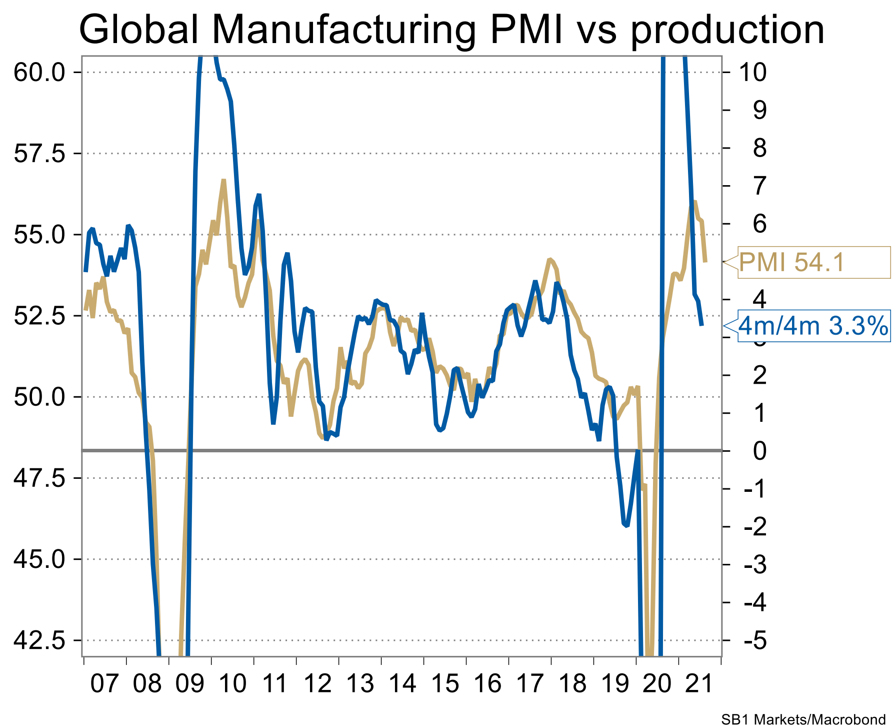


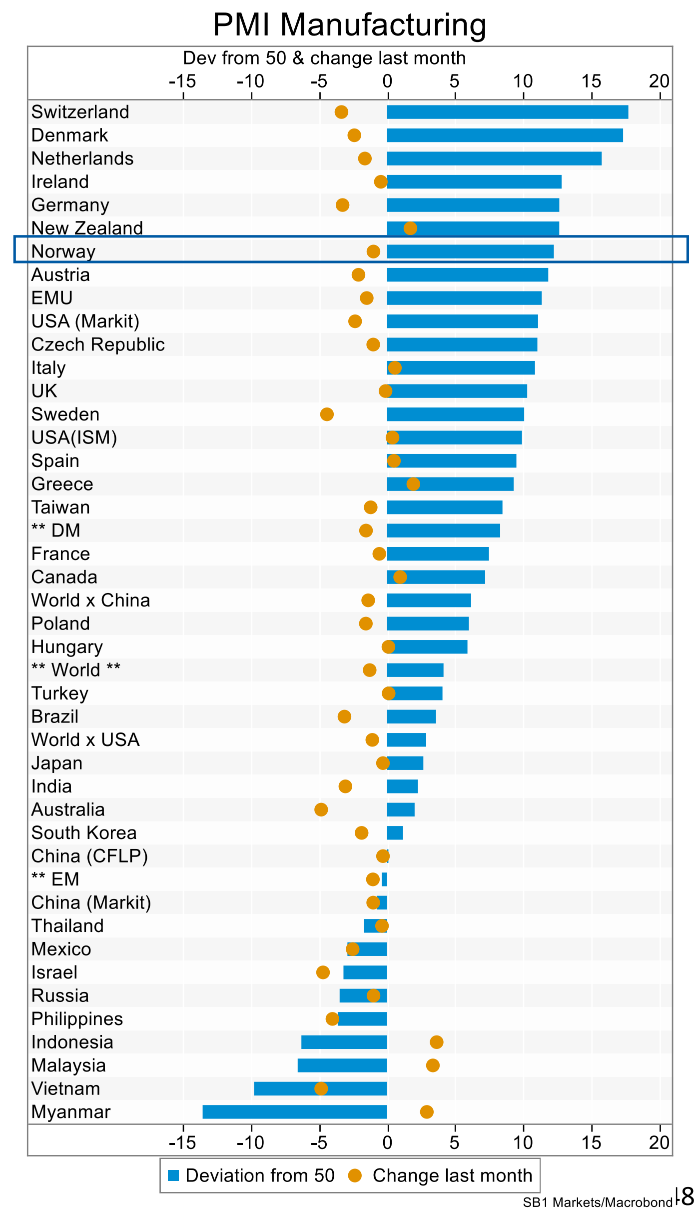


- At least, businesses remained very optimistic about the outlook the coming months. More on the very special Chinese data here

Manufacturing PMI down August, still signalling decent growth

The index down 1.3 p to 54.1, a tad weaker than we forecasted



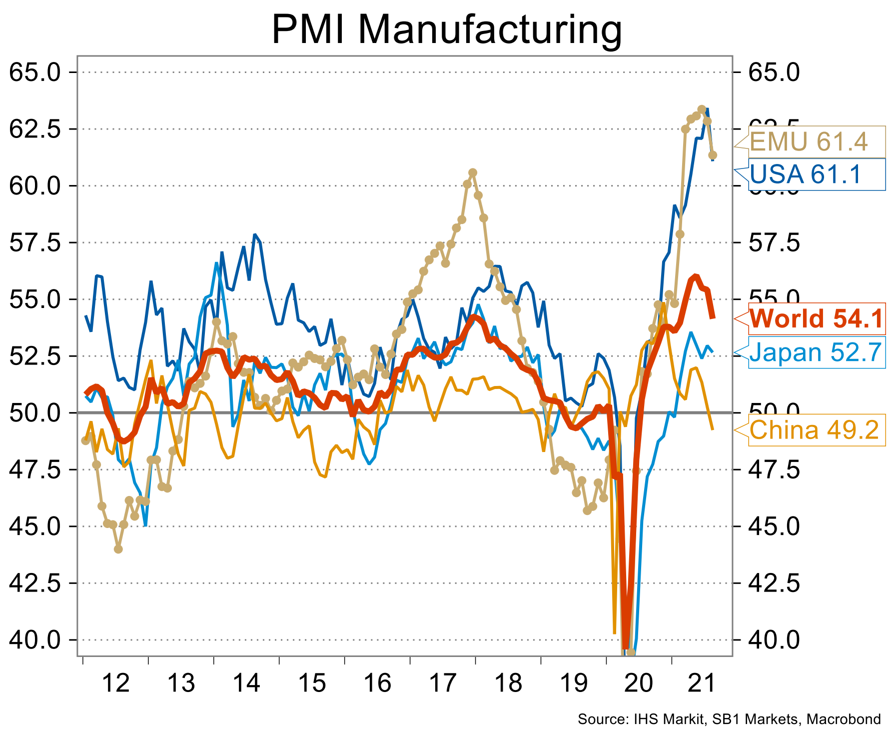


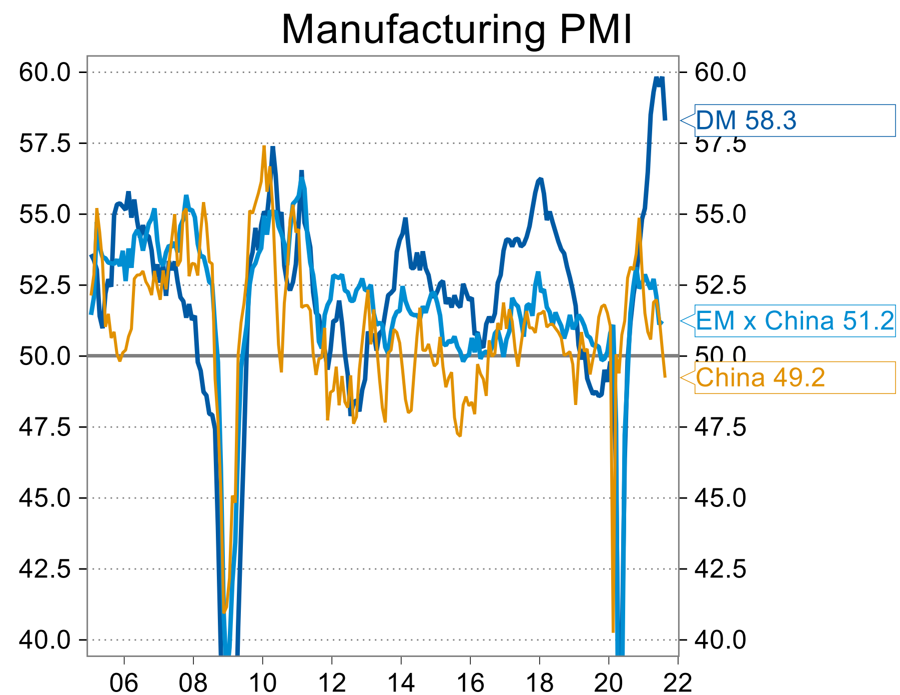
The **global manufacturing PMI** was below our f'cast

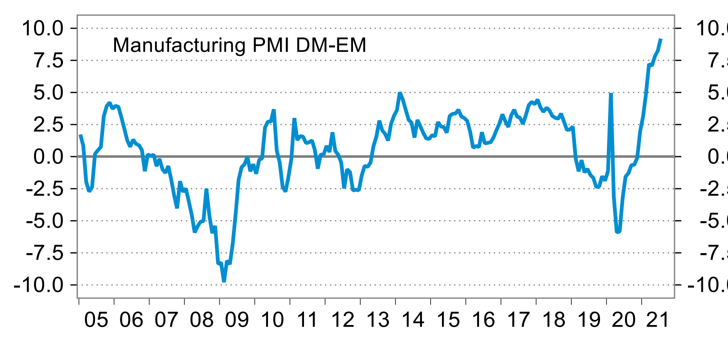
- 28% of the countries/regions reported higher PMIs in Aug than in July (from 35)
- Almost 72% of countries reported a PMI> 50, down from 80 in July
- The DM (rich countries) PMI fell by 1.5 p to 58.3 – close to the pre-summer ATH
  - » European countries still dominate the upper part of the list
- The EM PMI fell by 1 p to 49.6 which is signalling growth below trend. The main reason is obvious: Virus problems in several countries

The boom in the manufacturing is broad, in rich countries. EM still below par

Emerging markets are lagging like never before – no doubt due to lack of access to vaccinations



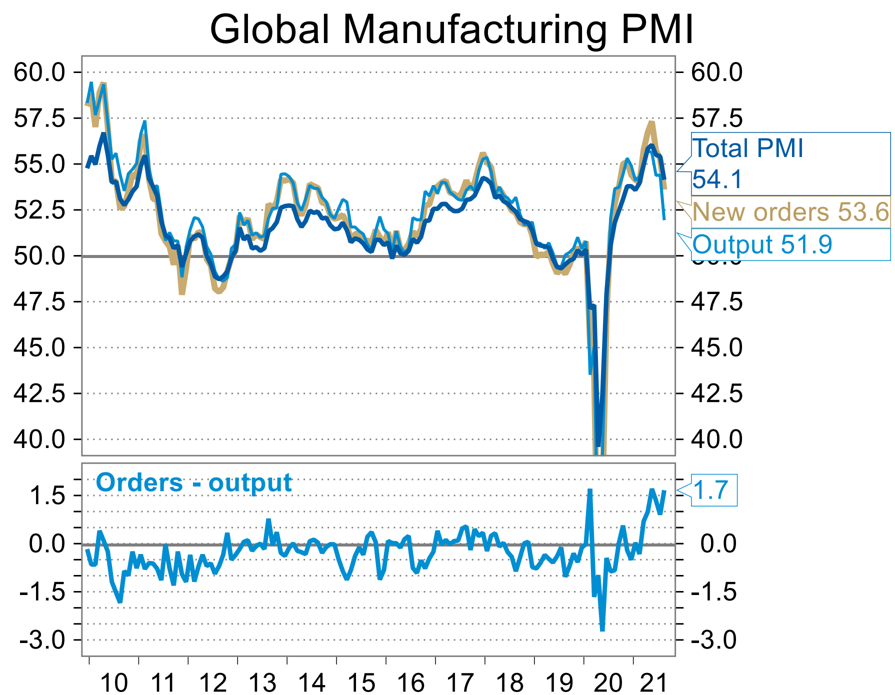




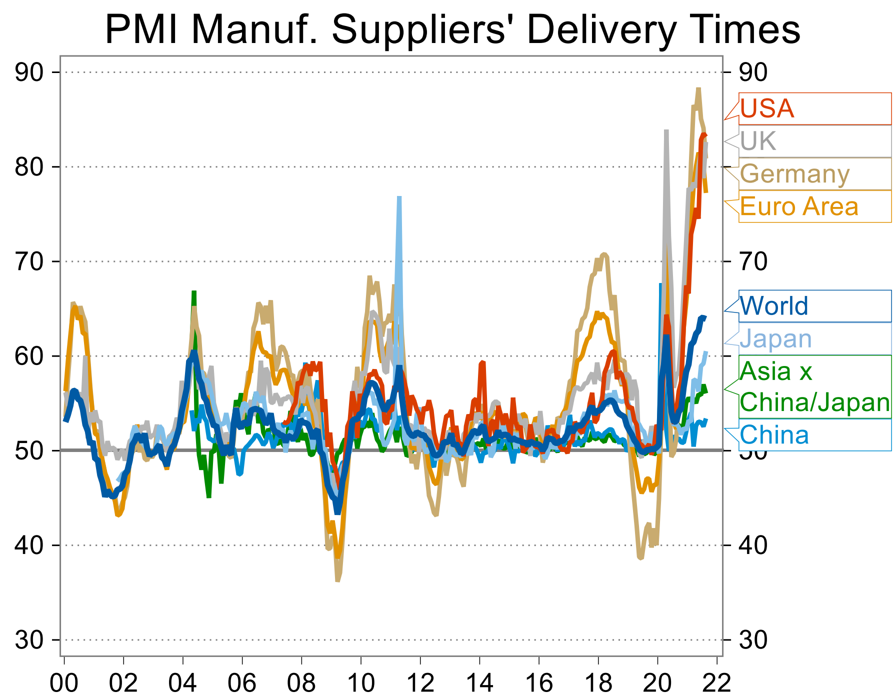
- The good news: This will not last forever, one day the population in poor countries will be vaccinated too – or will become immune after having contracted the virus
- The bad news: It will probably take several quarters for many EM to get a high immunity rate, at least through vaccinations

Orders, output grew at a significant slower pace in August (too)

Global delivery is still increasing faster than ever – but some countries are calming down, somewhat



SB1 Markets/Macrobond

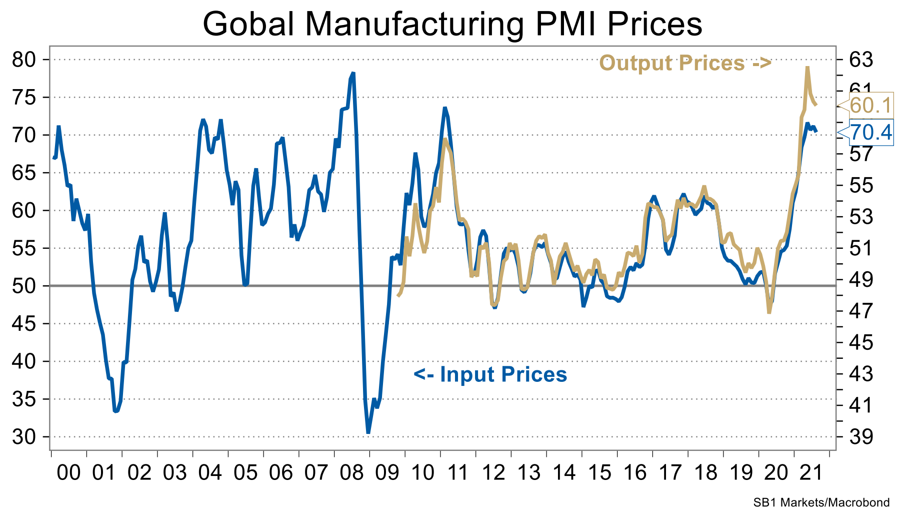


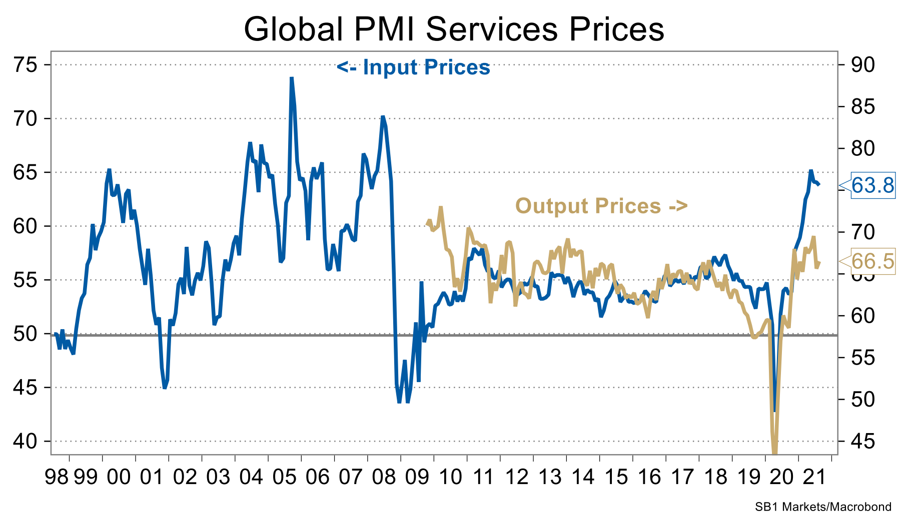
SB1 Markets/Macrobond

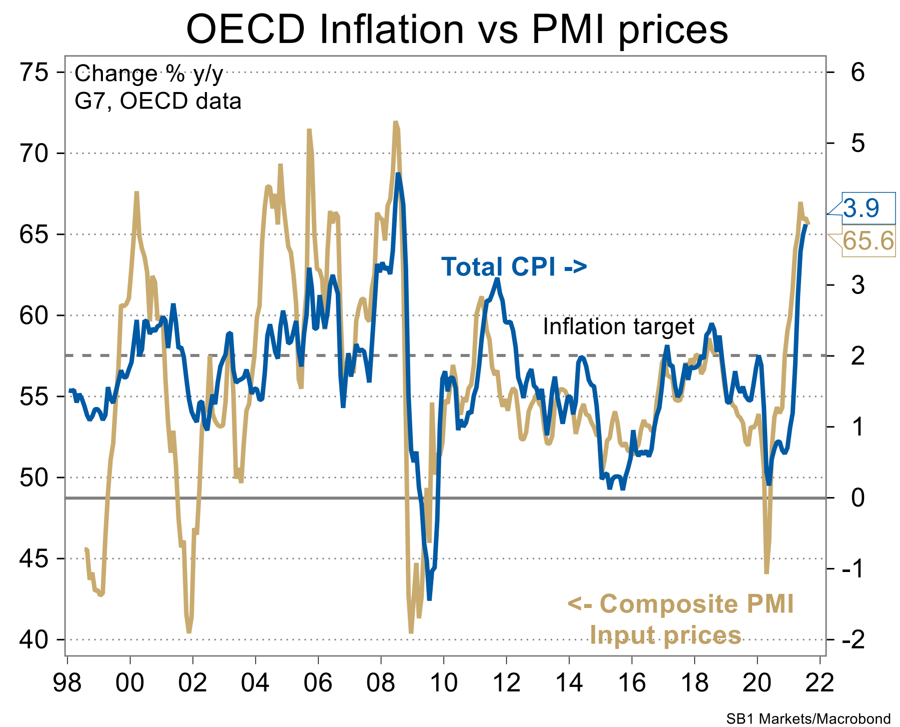
- **Output (-2.5 p) and orders** (-1.7 p) slowed more than the **total index** (-1.3) but these sub indices do not lead significantly on the total index. The drop in the output index vs. orders signals production challenges, very likely due to Covid related lockdowns or the brisk demand for goods the recent quarters
- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) fell just marginally in August but from the highest level ever in July (-0.1 p to 63.9)
  - » However, delivery times rose at a slower pace (but still very fast!) in Europe in July (as in June) – the first sign of some easing of supply chain problems??

Businesses keep reporting rapid growth in input/output prices but <u>a tad slower</u>

Given the surge in CPIs, limited upside risk from here?



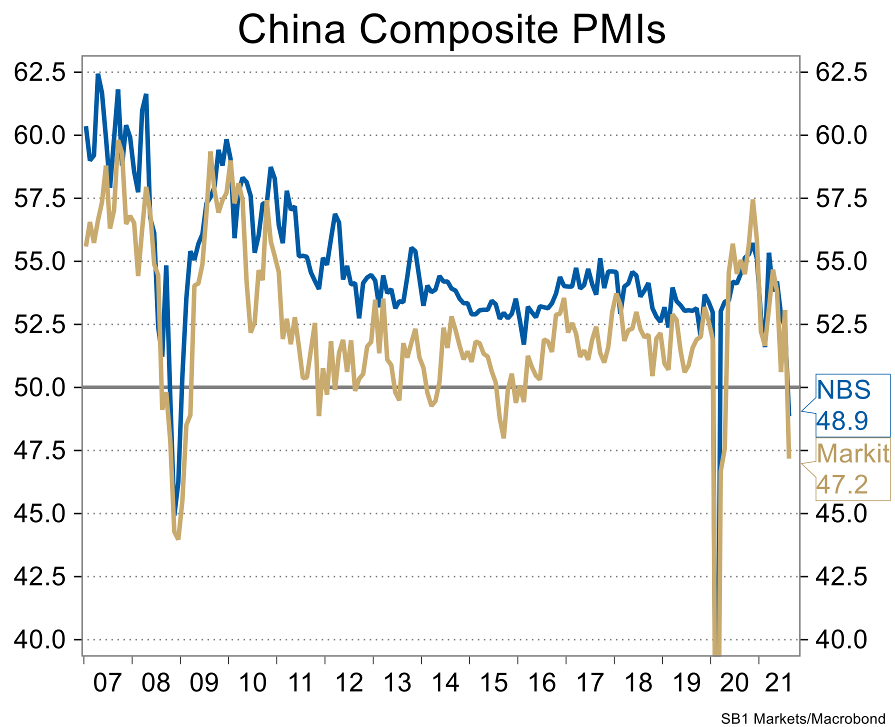


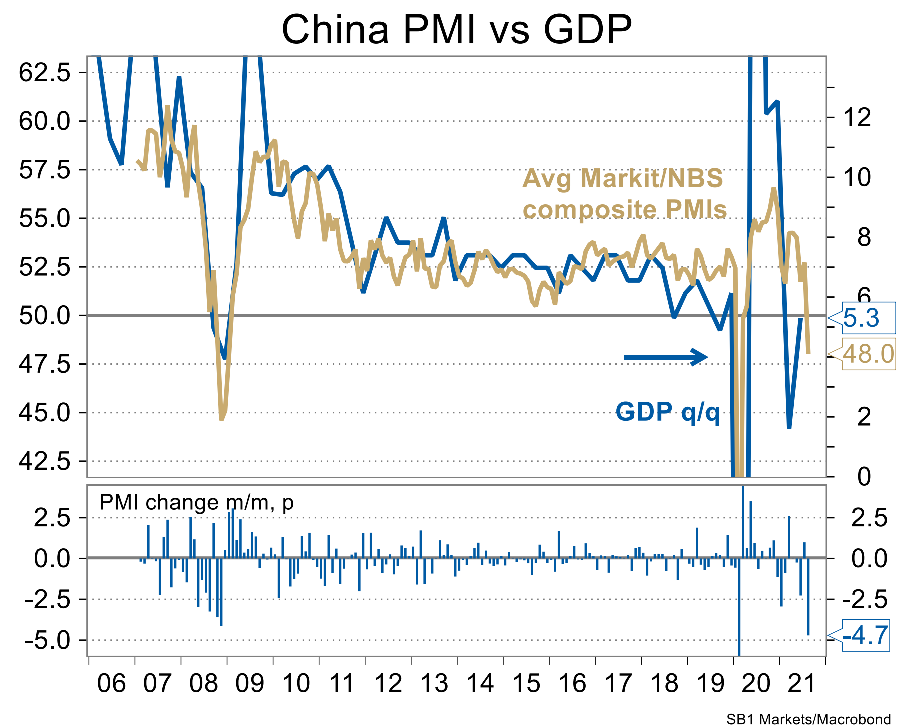


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but the peak in price increases is now behind us
- The correlation to **actual CPI inflation** is not prefect but the PMIs do not signal limited upside risk to annual inflation rate

The 2nd largest m/m decline ever, to levels just seen in crisis times

Does it signal a lasting and hard economic setback or 'just' a short Delta break? Most likely the latter





- The **NBS index** fell by 3.5 p to 48.9, below the average since 2012, expected down 0.8 p. **Markit's composite PMI** was down 5.2 p to 47.2, expected 1.8 p – as services 'collapsed'
- The avg. by 4.7 p to 48, <u>the 2. largest setback ever</u>, just Feb-20 was worse (-24 p) – to <u>a level just seen during the financial crisis and the corona crisis,</u> **<u>signalling growth far below trend</u>**
- <u>What's going on</u>? The PMI has been sliding for months, the peak was in Nov-20, and growth is no doubt slowing. However, the decline in August was 'extreme', and is <u>very likely mostly directly corona related, like local lockdowns, travel restrictions etc, explaining the very weak service sector PMI, while manufacturing PMI was not that weak. If so, September should be far better, as restrictions are now being eased</u>

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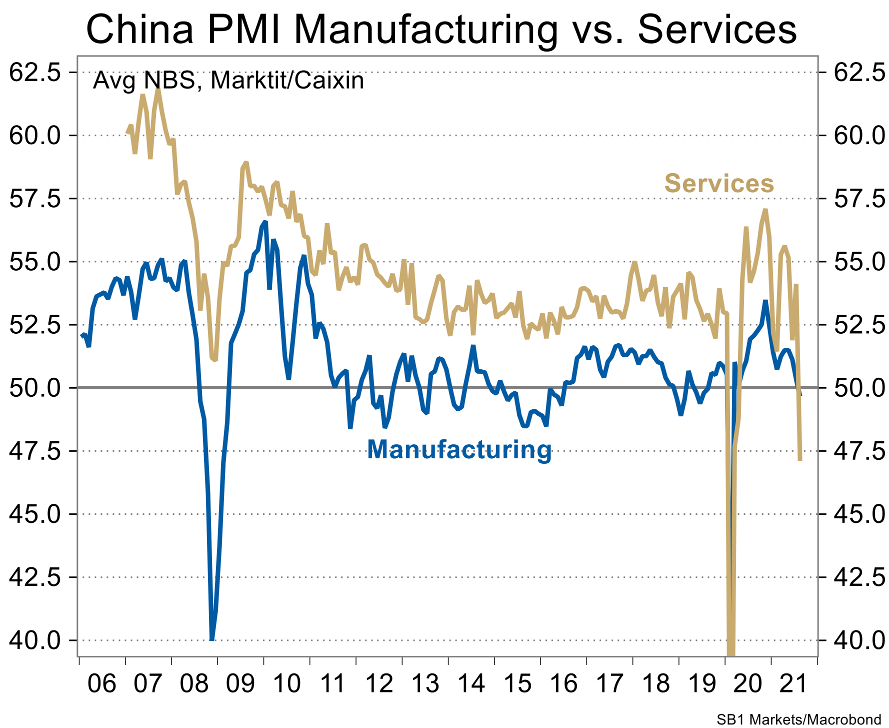
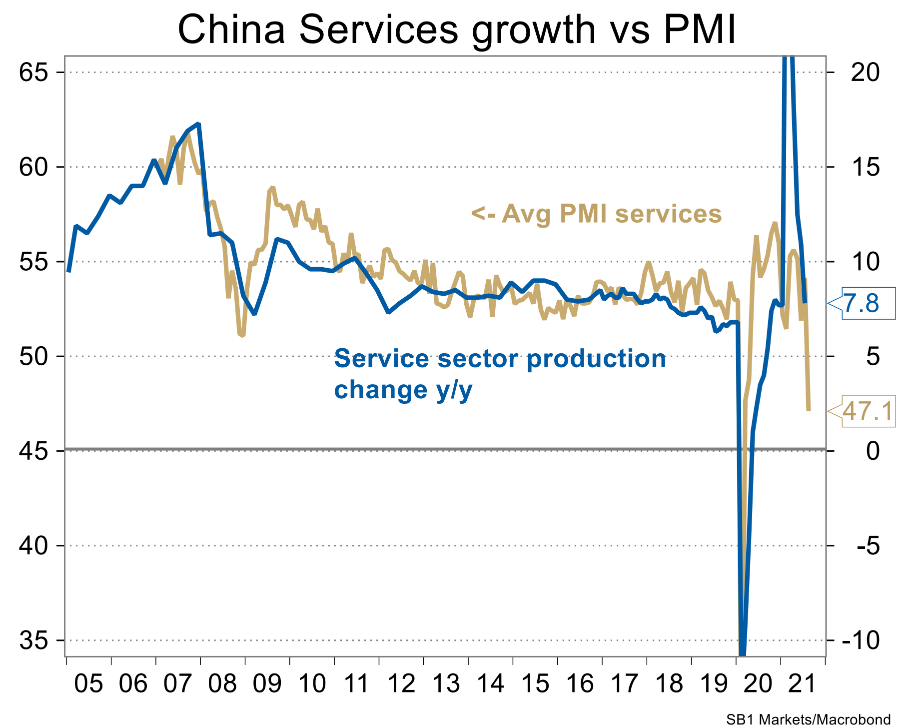
Service sector PMIs turned south in August, down 6 - 8 p, just Feb-20 worse!!!

Decline is no doubt caused by Covid-19 measures, and if so, it will not last for long

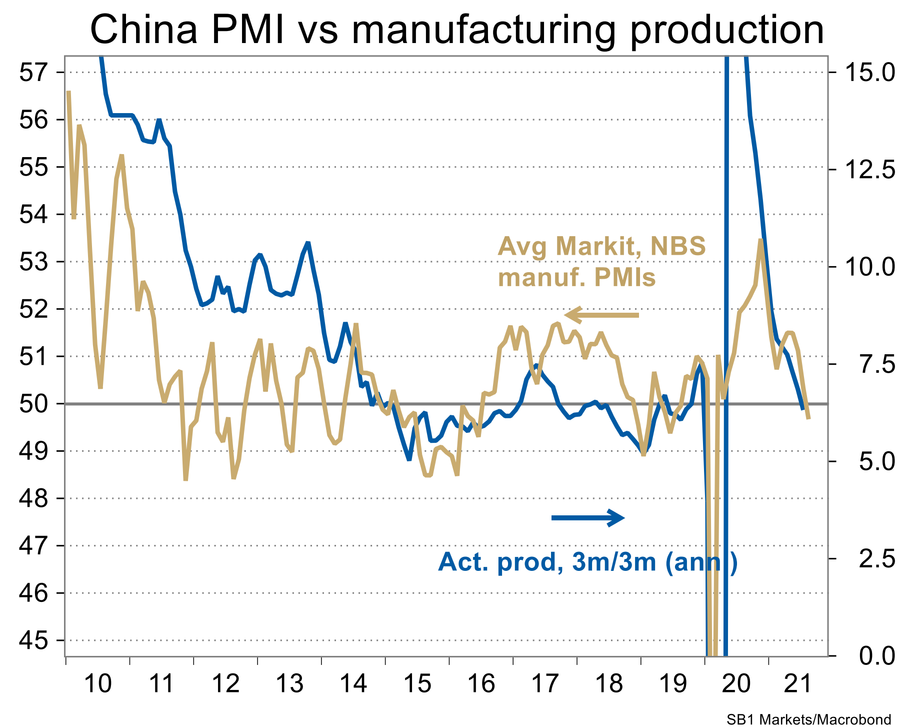




- **The service sector average PMI** fell 7 p to 47.1, the 2nd largest decline to a level not seen anytime before, except for Feb-20 (and March/April was below 50 too, and Feb-April-20 are only observations below 50, before Aug-21). Only a 2 p drop was expected
  - » These PMIs signal just a modest growth pace – far down from the current 8%
- The almost unprecedented decline in August is very likely due to the Delta outbreak, as national/local measures have reduced mobility and economic activity. It seem very unlikely that something else just out of a sudden has 'killed' demand and supply of services. In addition, companies have not lowered their expectations on future activity by much, and the index is at a high level

Both manufacturing PMIs weaker in August, but they still signal decent growth

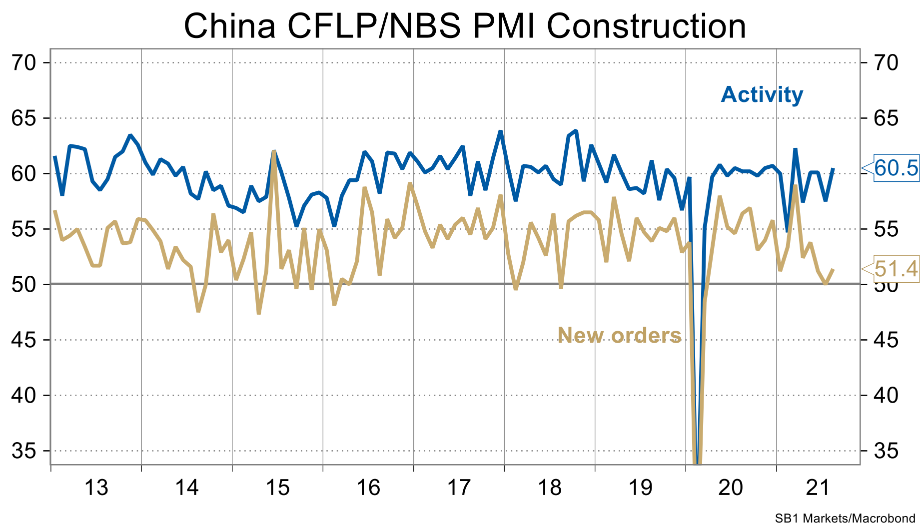
Markit's PMI fell to below 50, the NBS' index close too. Both are below their resp. avg since '12

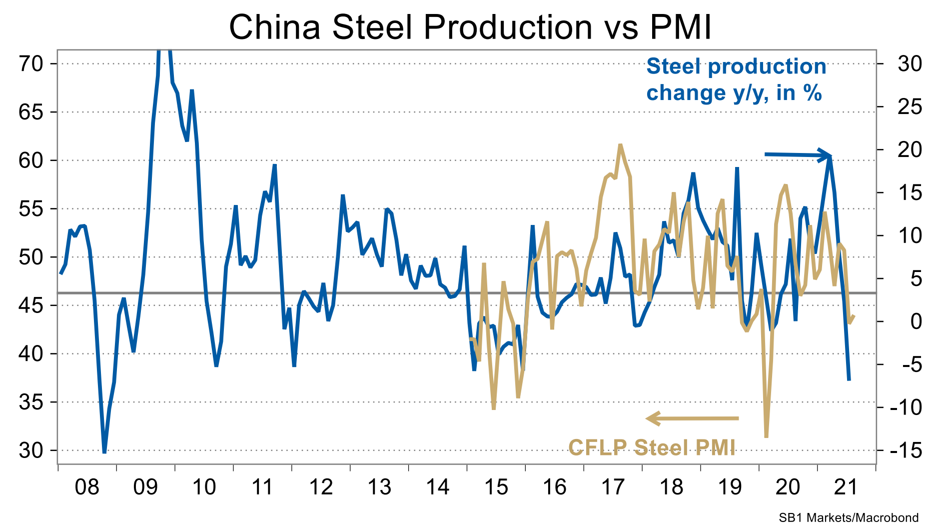


- The NBS PMI declined 0.8 p to 50.1, while Markit's PMI fell 1.9 p to 49.2. They are 0.5 – 1 p below their averages since 2012
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- These surveys signal growth somewhat below trend and any harsh downturn
  - » Remember: In China, as in many other Emerging Economies with a high underlying growth rate, <u>a PMI below 50 does not imply a contraction</u> in economic activity (even if many sources report so). We try to calibrate all our PMI charts to reflect the real relationship to real variables

The construction & steel PMIs rose, but steel is still well below average

Construction activity has kept up well, according to the PMI (but actual activity has fallen)

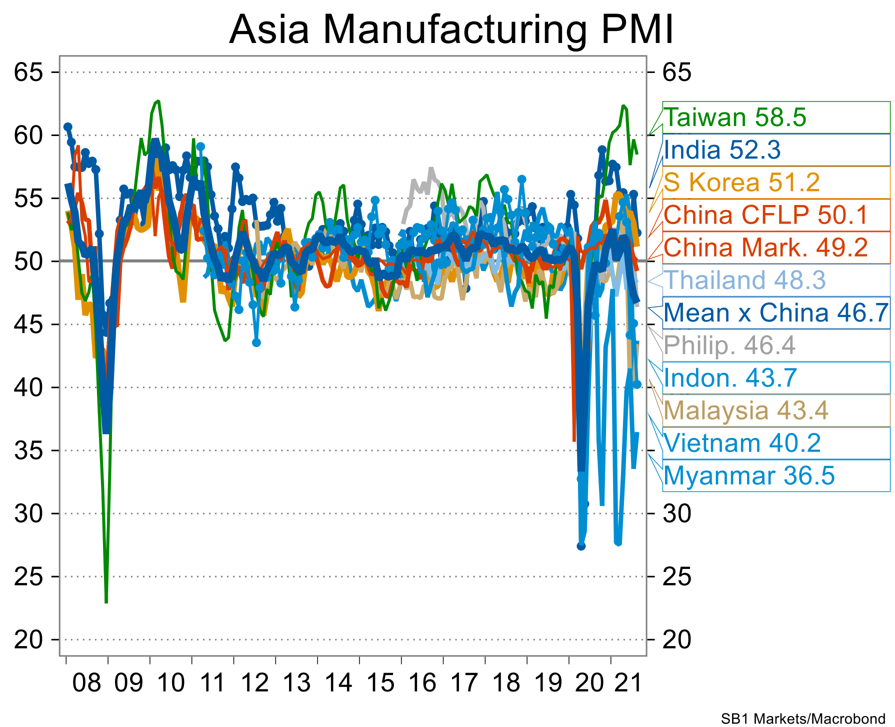


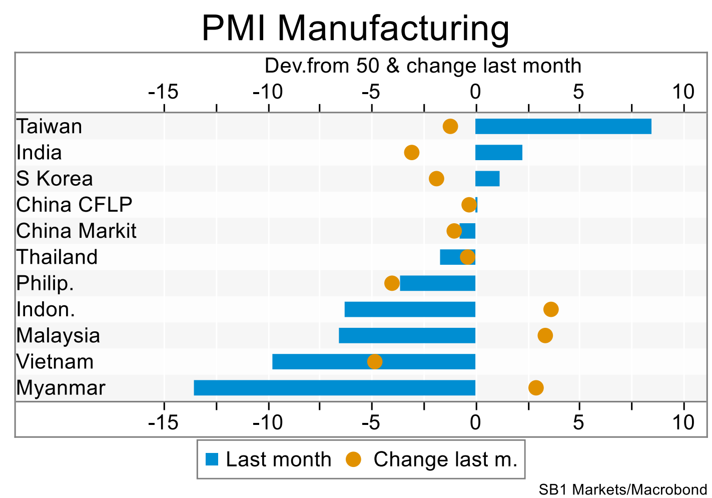


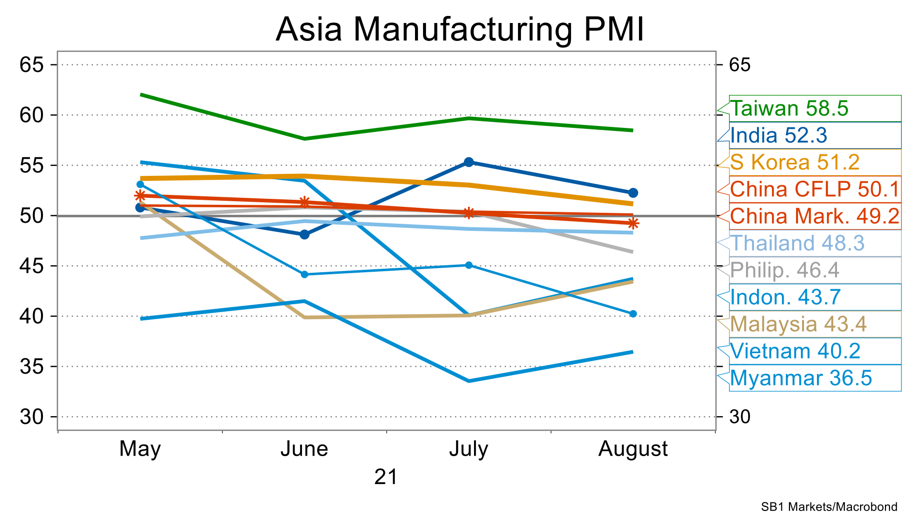
- The authorities have introduced harsh measures to cut back steel production, which have fallen some 10% vs. the early H1 level. The PMI is clearly below par but well above crises levels

Rest of Asia: More manufacturing PMIs down than up in Aug too – 8 down (from 7), 3 up

The Delta attack comes with a price: 4 PMIs are above the 50-line (from 6), 7 are below (from 5)







- Taiwan and India is reporting decent growth
- Vietnam, Malaysia and Indonesia is slowing rapidly

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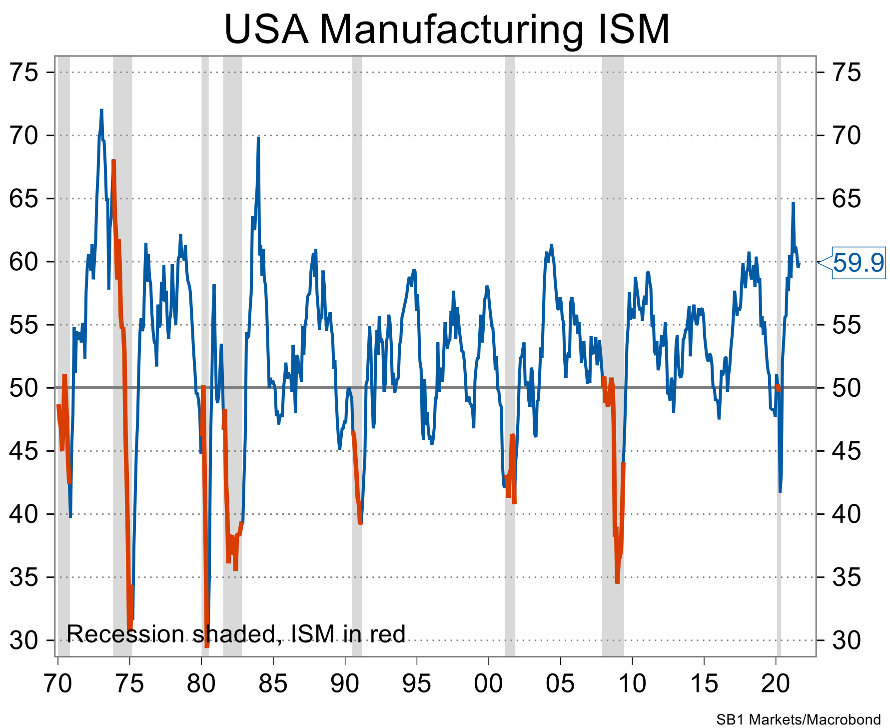
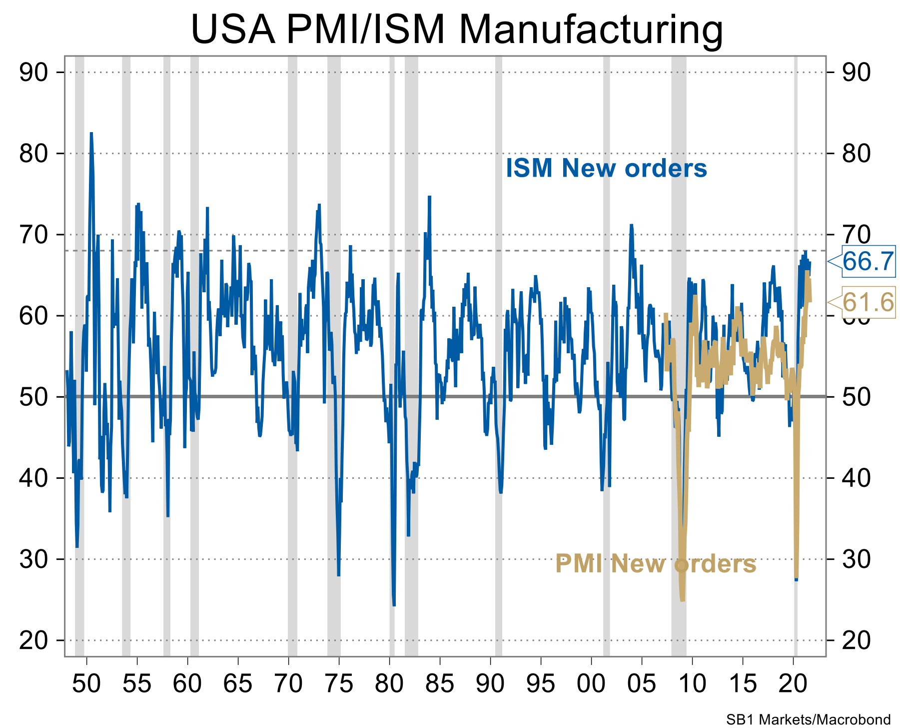
Manufacturing ISM remained at a high level in August

4 tenths up to 59.9, expected visibly down. Prices are still rising fast but slower



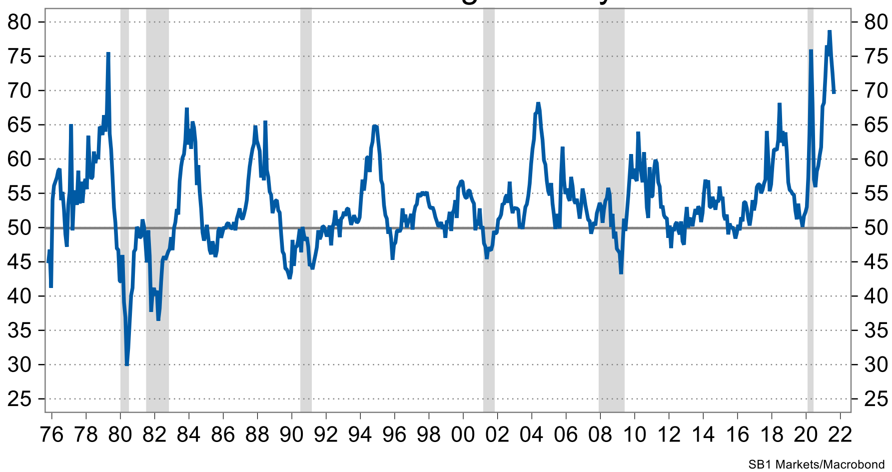


- The ISM manufacturing index surprised on the upside in August, as the index rose by 0.4 p to 59.9, expected down to 58.5 – and regional surveys and Markit's PMI signalled a deeper decline. The ISM is indicating an unusual rapid growth in manufacturing production (which so far has not been delivered)
  - » In August, 15 of 18 manufacturing sectors reported growth, down from 17, 2 down (from 1)
- The new orders index remained very strong (while Markit's PMI order index fell 3 p)
- 40 commodities (from 36) are up in price, just lumber and wood down
- Still, 'just' 27 commodities were reported in short supply, down from 56 in July! Delivery times grew a slower pace in August too. Still, companies are complaining on all sorts of shortages, including labour

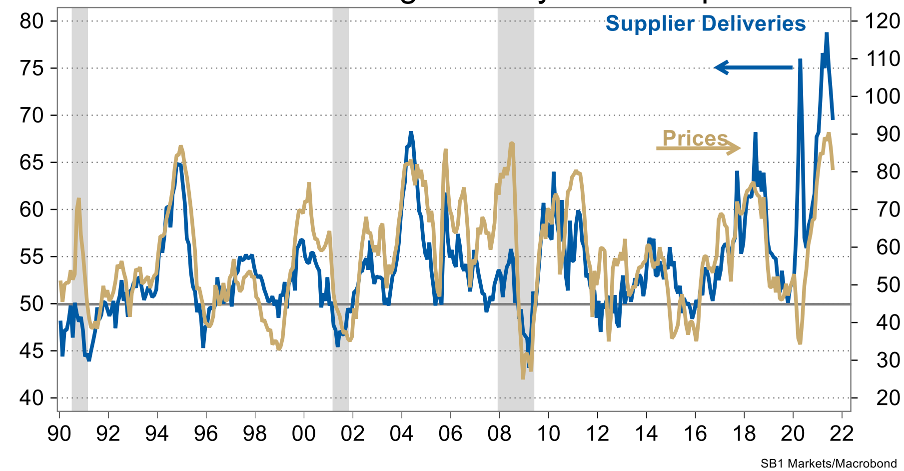
Delivery times are not slowing – they are just growing slower (formally, at least)

Price are rising very rapid too but a tad slower too

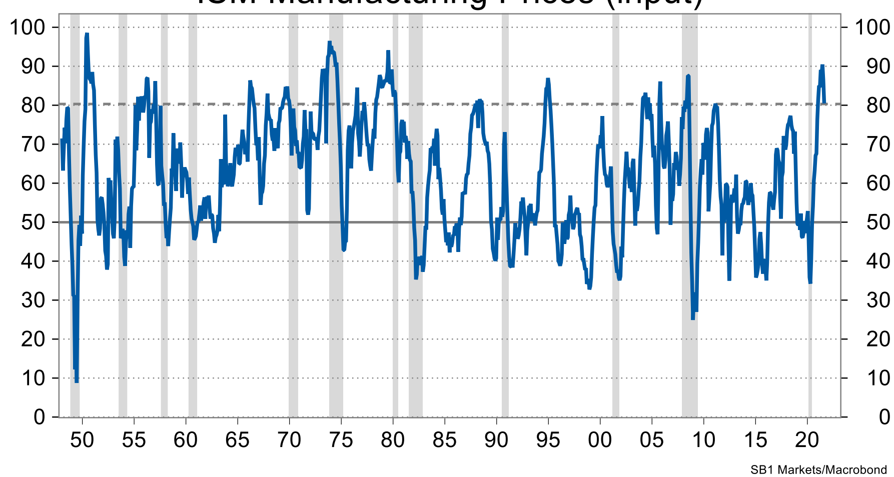
ISM Manufacturing Delivery times



ISM Manufacturing Delivery times vs prices



ISM Manufacturing Prices (input)



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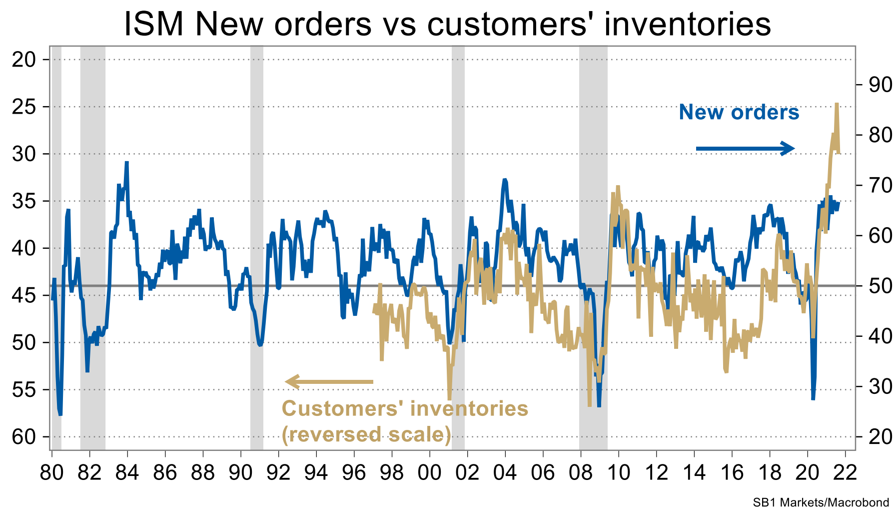
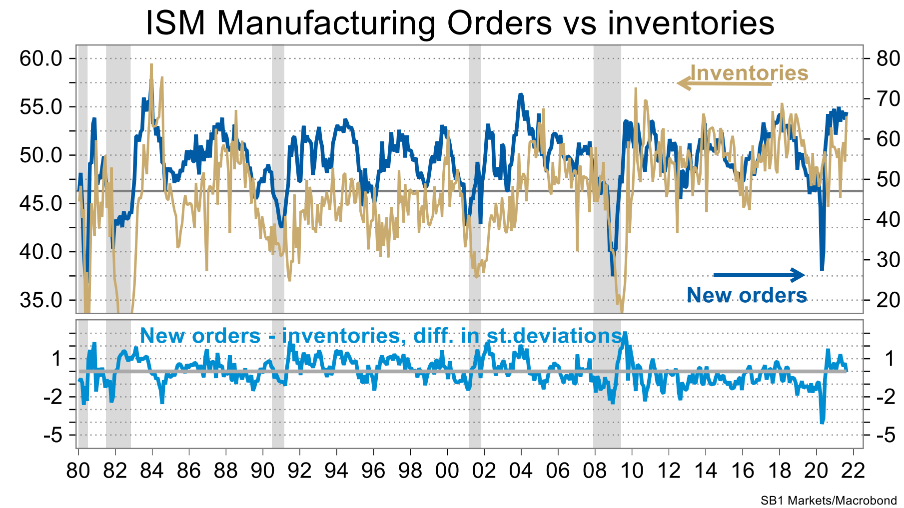
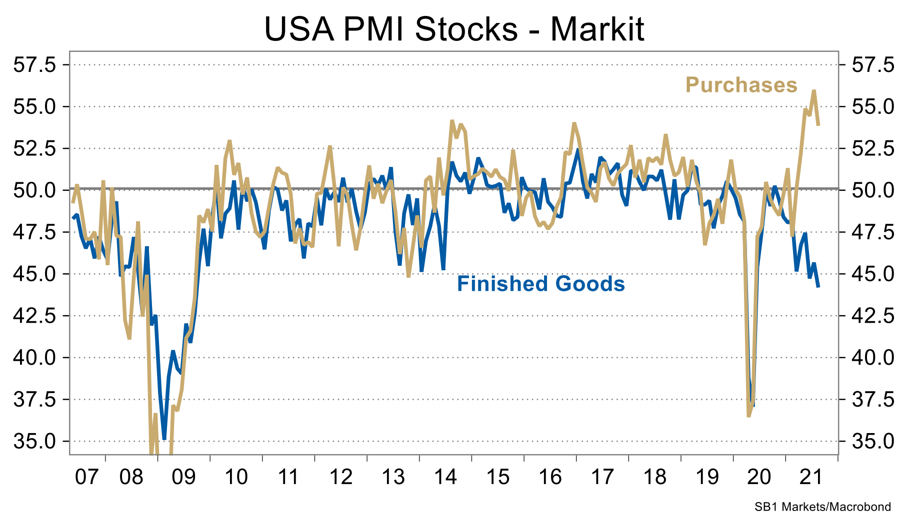
Customers inventories are 'emptied' – signals continued growth in orders

Manufacturers are reporting that their customers' inventories are still declining rapidly





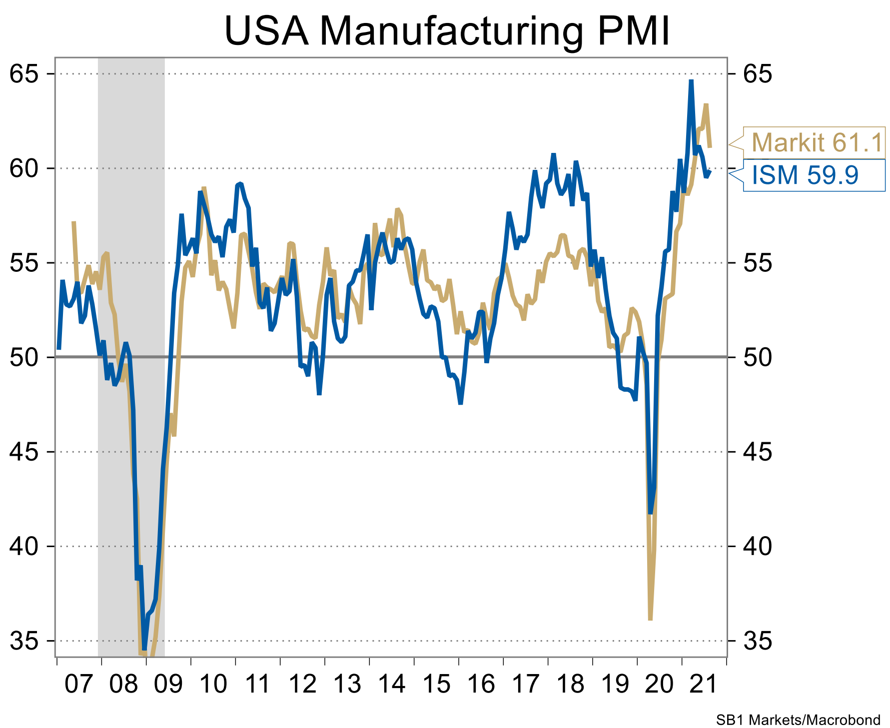


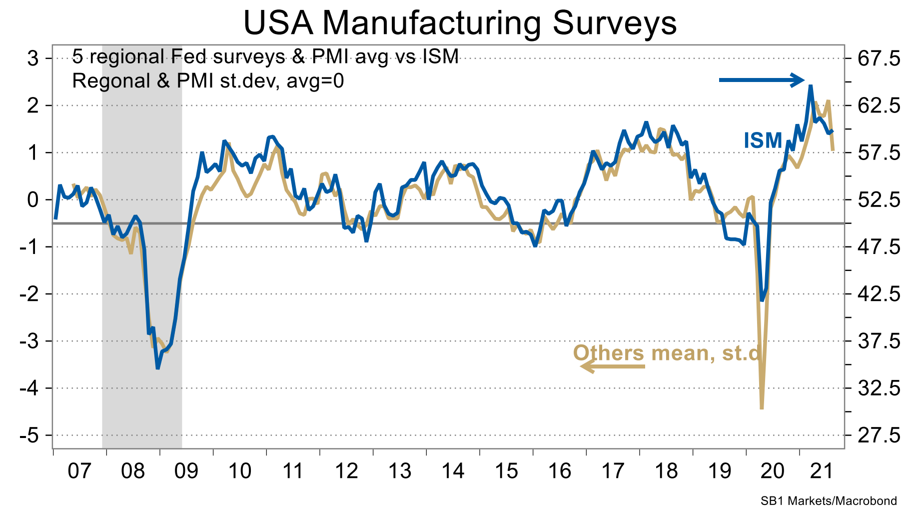
- **The only ISM real 'soft' spot**: Manufacturers' own inventories (of purchases, not finished goods) were rising at a fast pace. Two explanations:
  1) Production is running slower than expected, due to weaker demand or due lack of come components, labour, transport services etc
  2) <u>Companies have been hoarding materials</u>, just to be sure to have them at hand (and they will stop doing it soon)

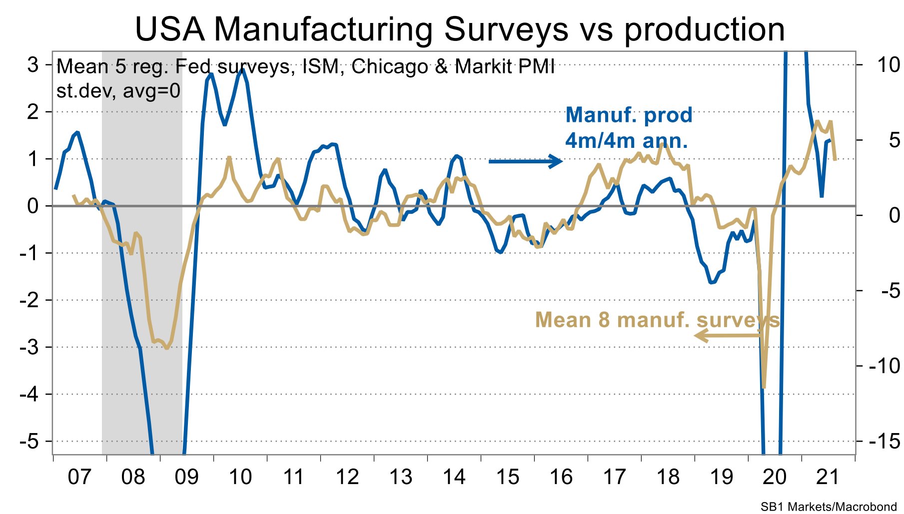
  » **Stock indices from Markit's PMI** does not yield a clear answer, The steep rise in stocks of purchases signals that companies could dampen their purchase activities. However, if it was just hoarding, the inventory of finished goods would not have fallen as rapidly as now – companies are sold out

Other manuf. surveys down in August – but most are still at high levels

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







- Actual manufacturing production is on the recovery track but has not yet reached the pre-pandemic level
- We expect a continued growth the coming months. The inflow of core durable goods orders are above the pre-corona level
  - » Both exports and investments will probably climb further while goods consumption in the US probably has peaked, at a high level

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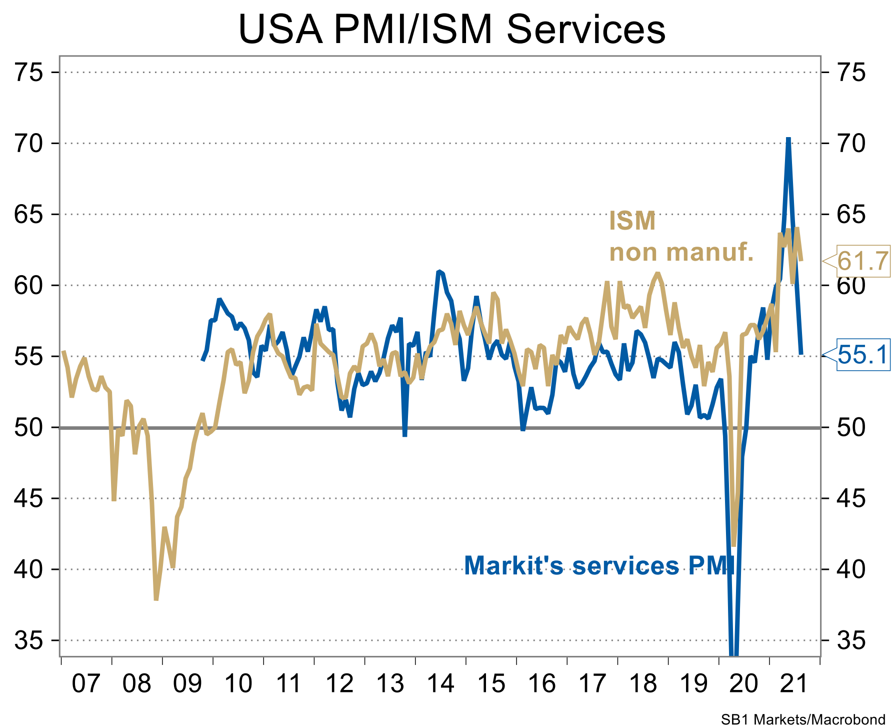
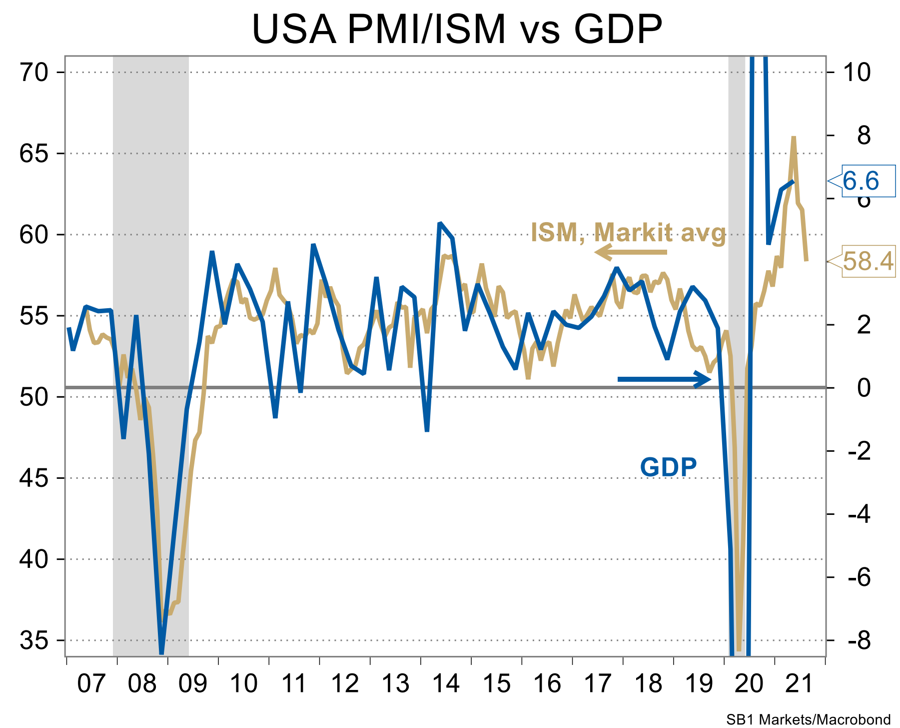
Services ISM down but far less than Markit's index, and the 61.7 level is <u>very</u> high

In sum, the ISM/PMIs signal a 4% growth pace, still well above trend growth

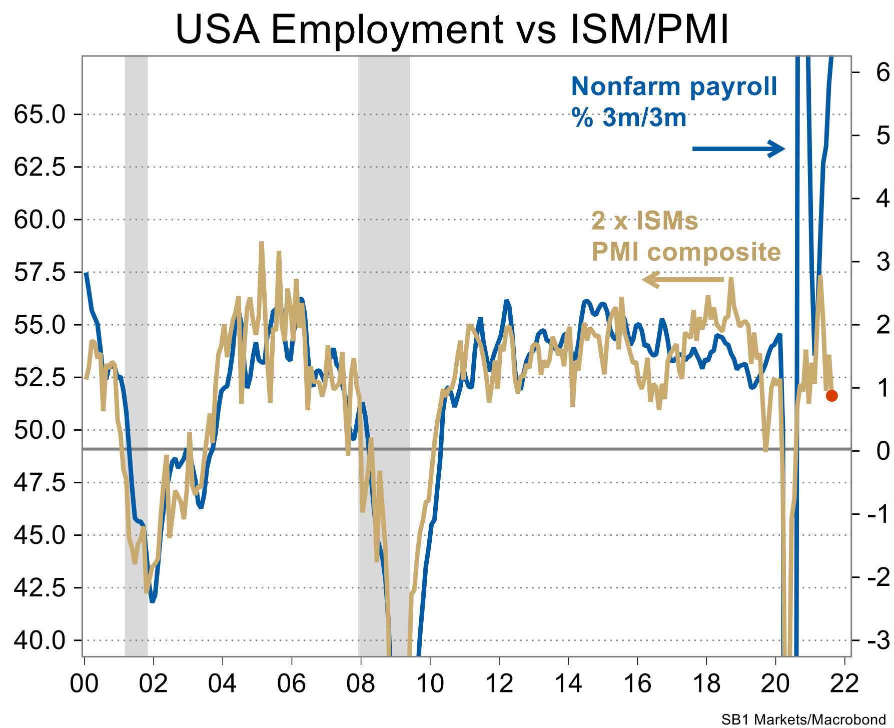




- **Services ISM** rose sharply to an all time high in July, and fell less in August to 61.7, from 64.1 17 of 18 sectors reported growth, like in July, and just one a decline (from zero in July). Hotels and restaurants still reported growth (but no actual employment growth, according to the nonfarm payrolls report. Arts and recreations reported a decline, possibly Delta virus related
- **Markit's service sector** was confirmed further down, to 55.1 from 59.9 in July, well down form extreme 70.4 peak in May. Businesses report slower growth in new orders but the order backlog still rose at the fastest pace ever and more companies report capacity constrains and shortages of input. Job growth was the slowest for 14 months due to lack of labour. <u>The outlook is still bright, the future index rose!</u>
- Together with their manufacturing indices, the **PMI/ISMs** signal some 4% GDP growth in Q3, well below the actual growth in Q2 (6.5%)
- **Prices indices** are soaring, for input prices as well as output prices (in Markit's PMI)

PMI/ISM: The employment indices down, signals a 1% growth pace

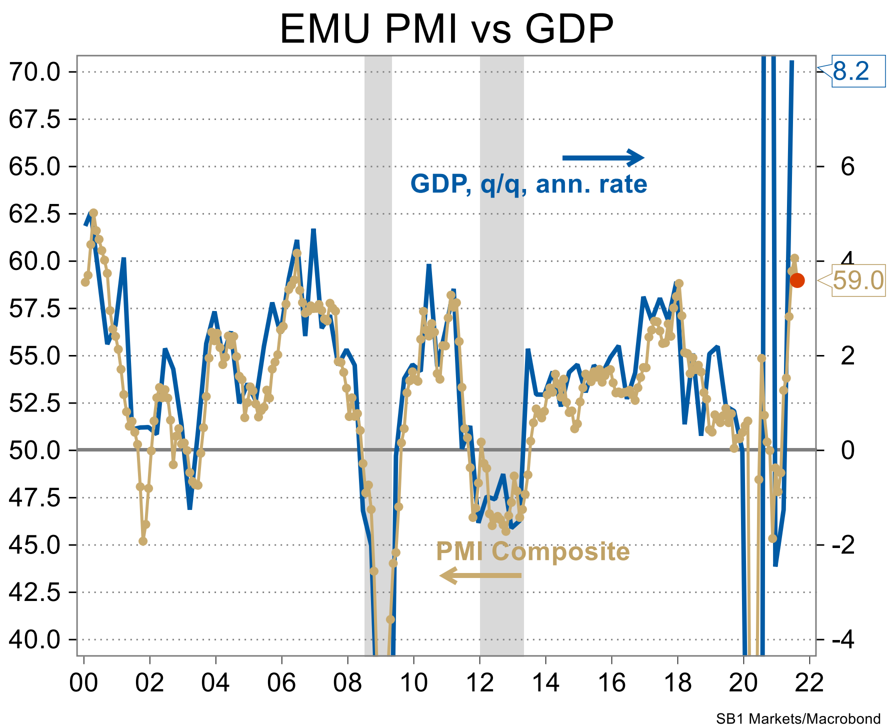
Both the ISMs and PMIs report weaker employment growth

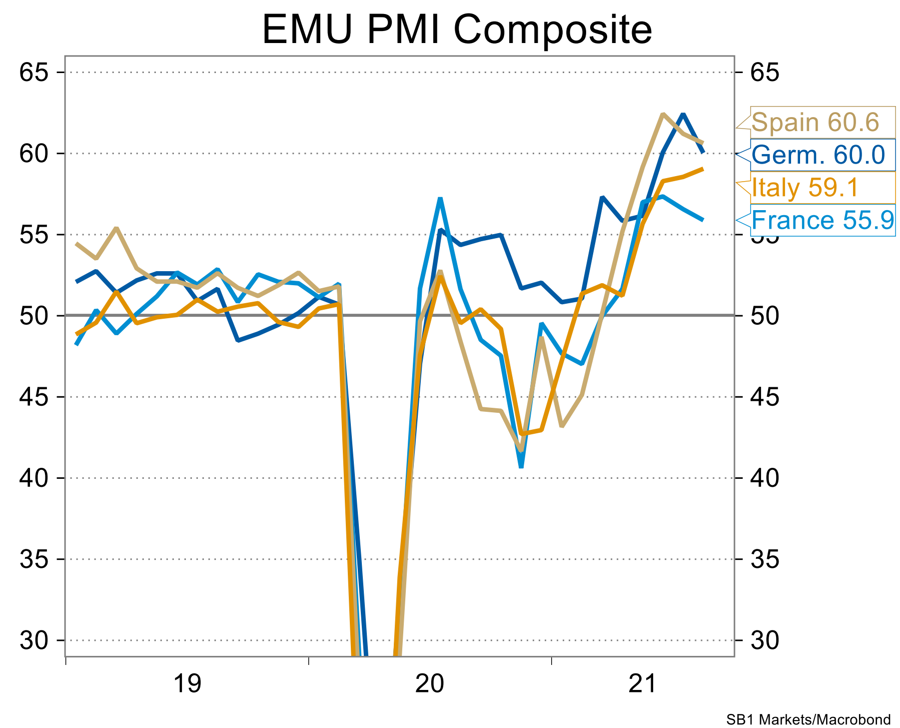


- **Actual employment** growth was far weaker than expected in August but the 3m/3m expansion still equalled a 6.3% pace
- The average of PMI & ISM employment indices fell and signals less than a 1% growth pace – below what's needed to keep the employment rate stable

The August PMI 0.5 p lower than first reported, but at 59 we're still not worried

Both the services and the manufacturing indices were lower than the previous month and flash est.

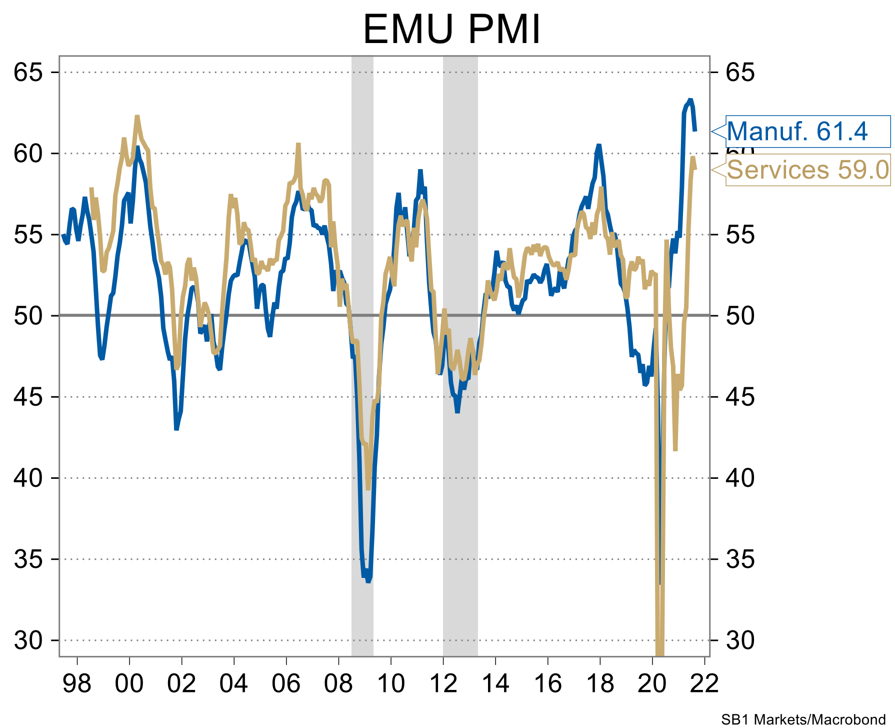


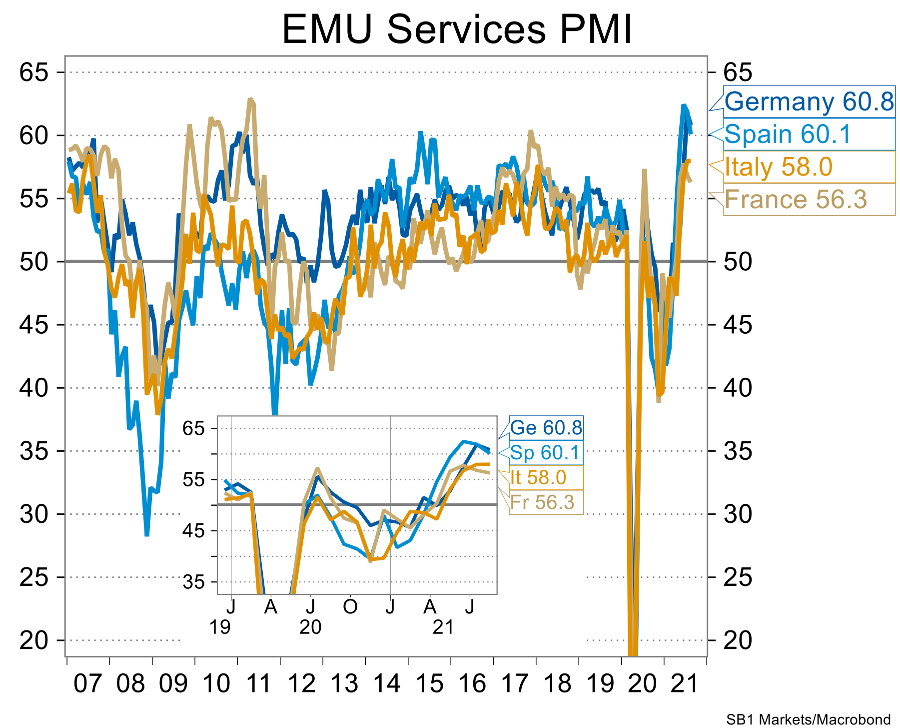


- **Germany, Spain** and **France** reported declines in their composite PMIs, **Italy** a decent increase
- The final **composite PMI** fell to 59 from 60.2 (0.5 p below the flash estimate), and signals a 3.5% GDP growth pace
- GDP rose by 8.2% in Q2 (2% not annualised) more than signalled by the PMIs

Services PMI slightly weaker in August, and lower than flash estimate

Manufacturing sector still rock solid – but growth may have peaked





- The **services PMIs** came in at 59 <u>below</u> the preliminary estimate/expectations at 59.7, and down from 60.2 in July. The increased spread of the Delta variant may have had some impact – but the decline was far smaller than in US, UK and China
- **The Eurozone manufacturing PMI** was down 1.4 p to 61.4 , 0.1 lower than the first estimate
- The levels are still extremely high, signalling growth well above trend

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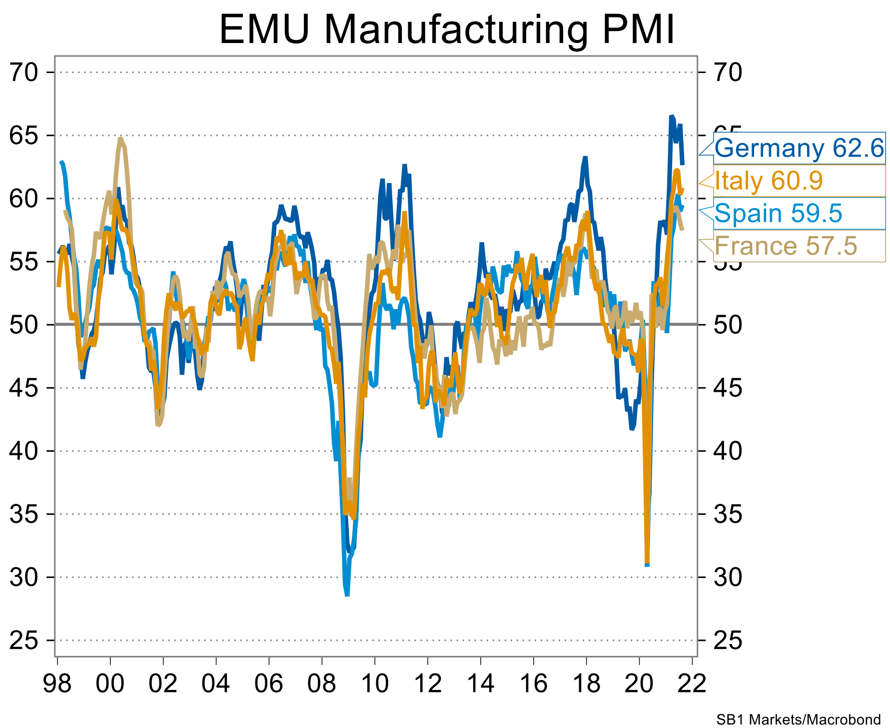
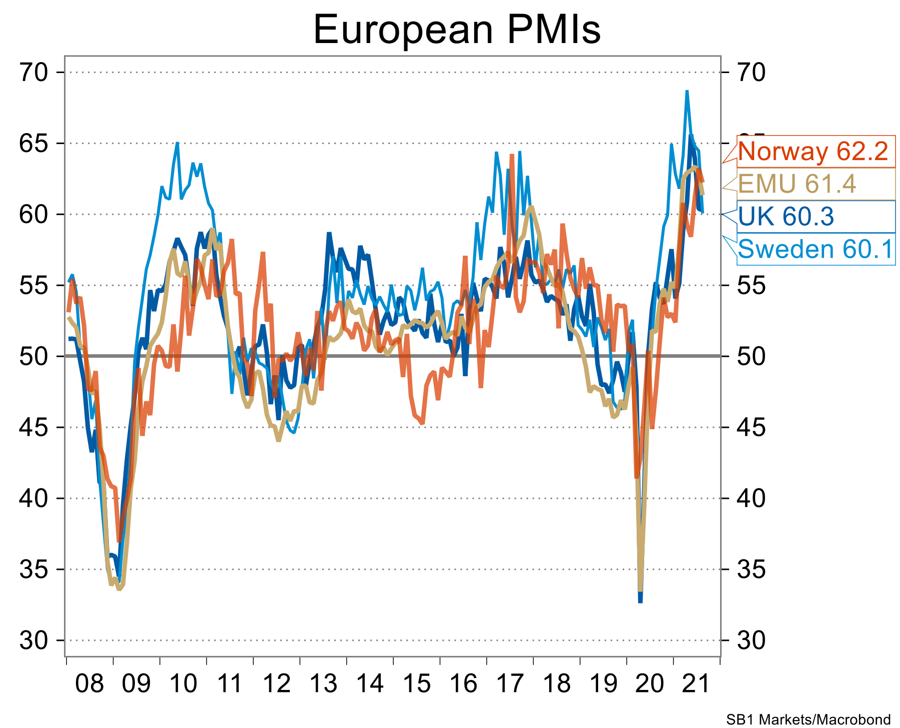
Eurozone manufacturing PMI down in August, but recovery is still solid

The EMU PMI was down 1.4 p to 61.4 in August, and below the flash estimate & expectations

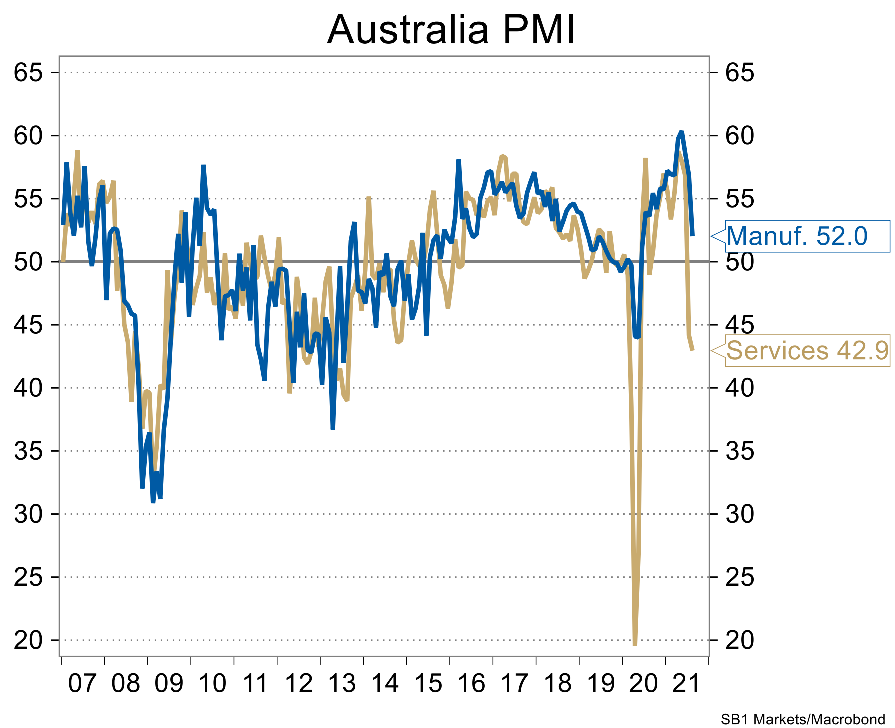


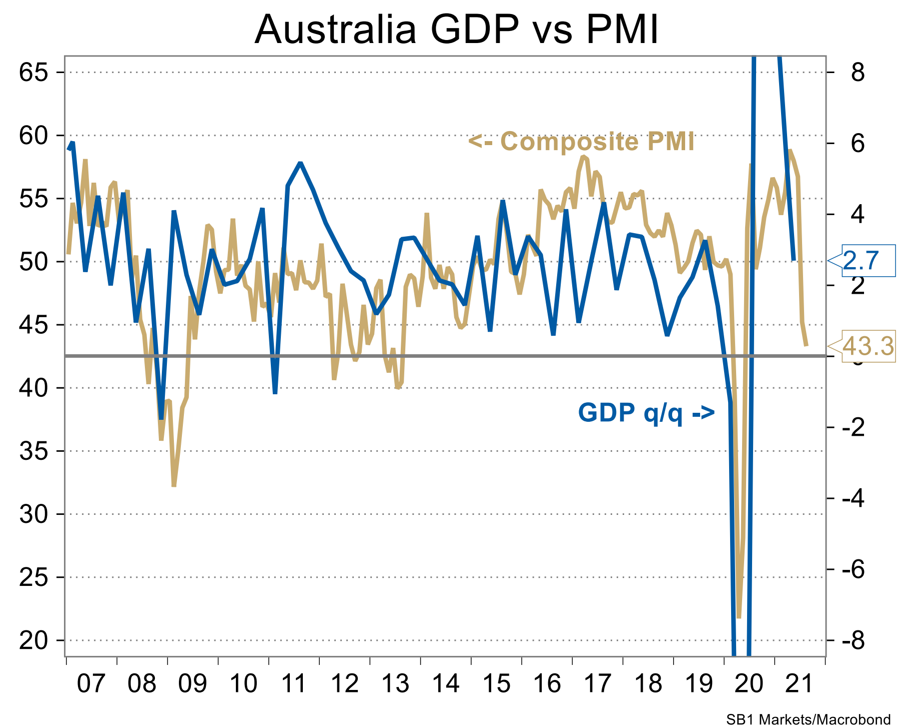


- Swedish PMI down 4.4 p, while the UK PMI was down 0.1 p. Both still very strong
- And the Norwegian PMI is ruling at the top

Australian services hit by a Delta attack. However, no deep crisis yet

A decline in GDP cannot be ruled out but the PMIs do not yet necessarily signal a contraction

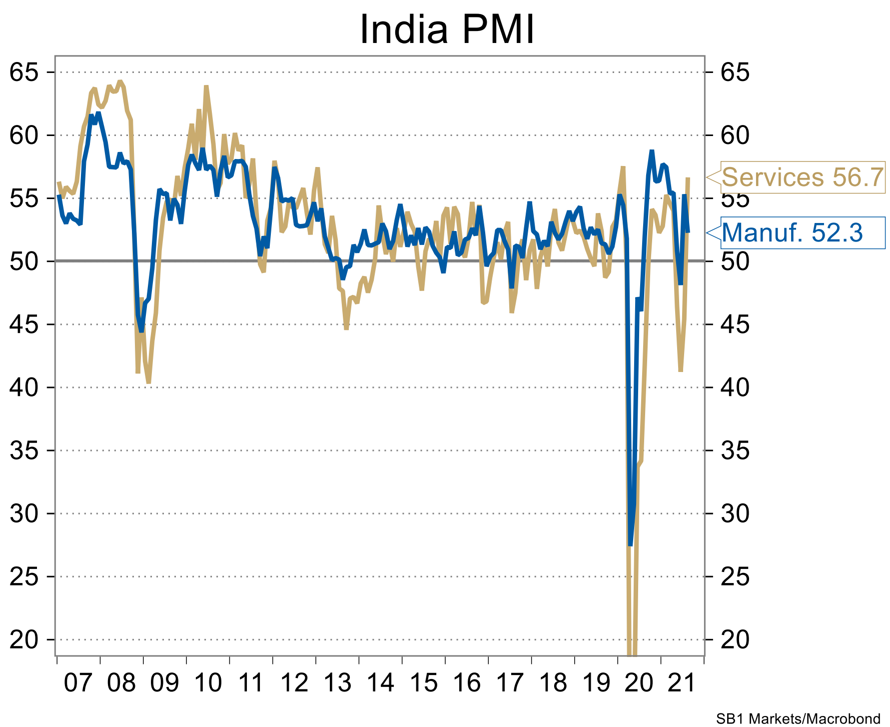


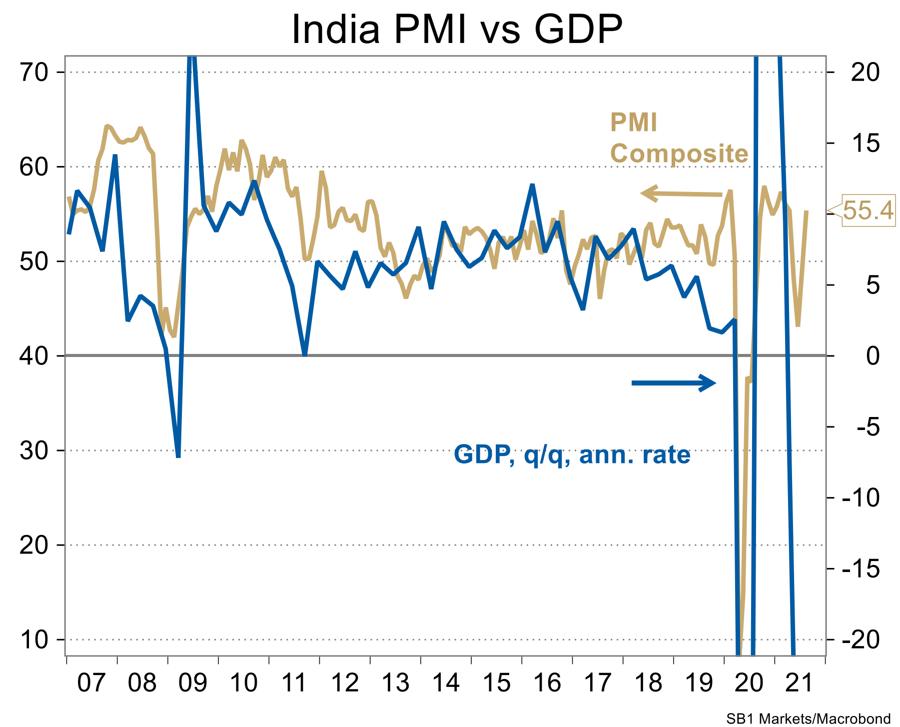


- The service sector PMI fell by 1.2 p to 42.9 , which is nothing compared to the 12.6 p fall in July. The PMI level is still far above the bottom last spring, at below 20
- The manufacturing sector PMI was down 4.8 p to 52 – the sector is still expanding
- The composite PMI at 43.3 signal low growth, but not necessarily a decline in GDP
  - » Disclaimer: The correlation between PMI and GDP is not that impressive

No more Delta trouble: Services rebounded sharply in Aug, manuf. down but OK

The comp. PMI up 6.2 p in August. At 55.4, a 10% GDP-growth is signalled. <u>It will be FAR MORE ☺</u>

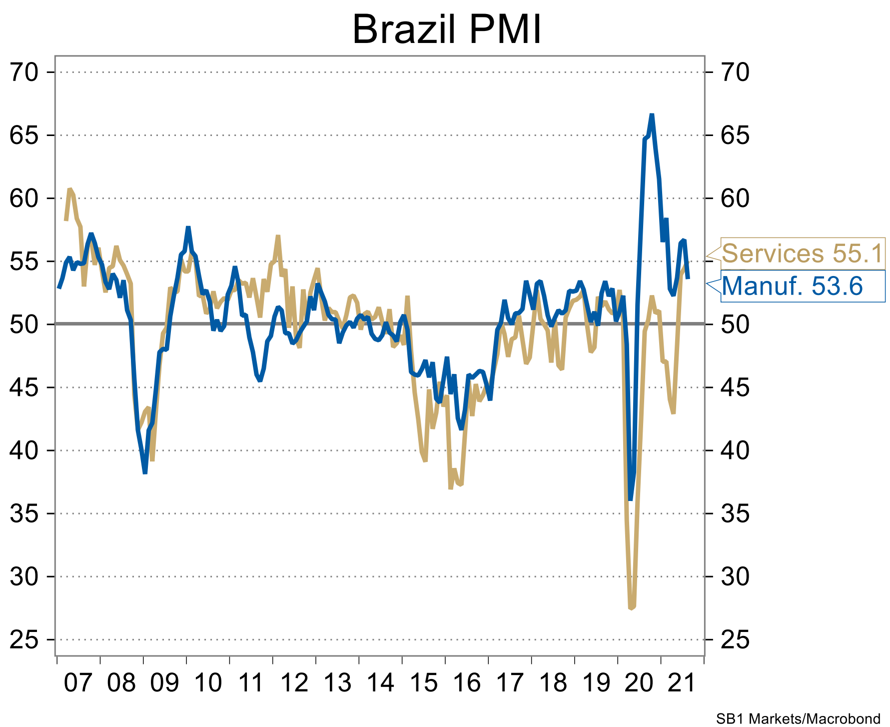


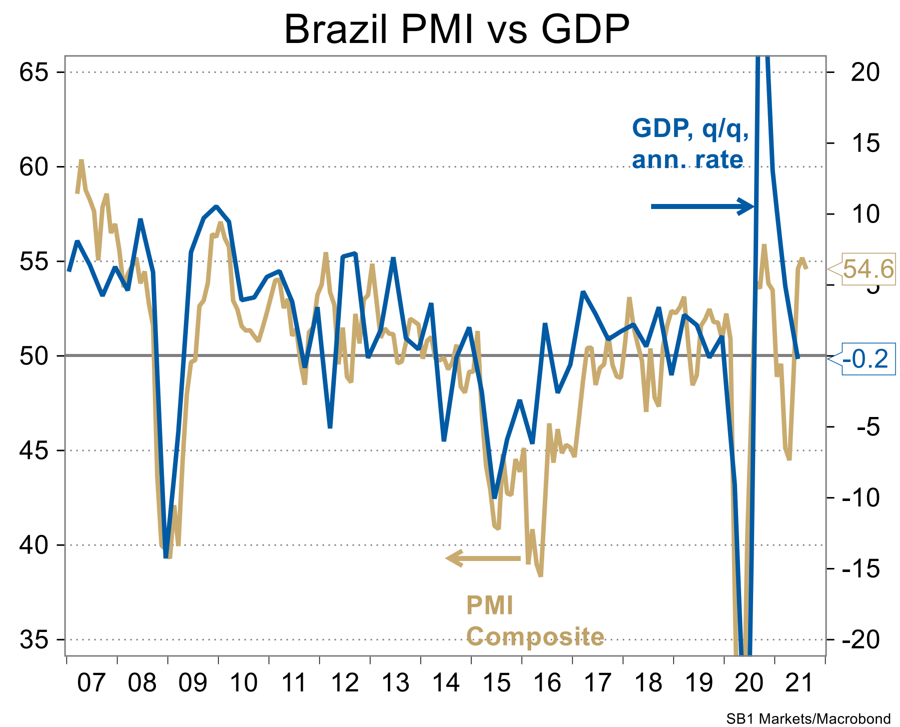


- **The manufacturing PMI** fell 3 p to 52.3, slightly above the 2012 – 2019 level. Companies are probably not harmed by domestic Covid-19 challenges (services are not at all) but <u>trouble in other Asian countries may create problems in India as well</u>
- **The services PMI,** on the other hand, surged 11.2 p to 56.7, the 2nd highest print since 2013 – and far above the pre-pandemic level, signalling that the Delta virus' grip on the Indian domestic economy is gone.
- The correlation between **PMI and GDP** is not that impressive but the 55.4 composite PMI signals strong growth in GDP. That's needed, following the 10% (35% annualised) decline in Q2 GDP. <u>We expect the Q2 decline to be reversed in Q3, possibly into Q4, implying far higher growth rates than implied by the PMI, just as last autumn, following the first virus attack</u>

The composite marginally down in August, signals >5% Brazilian GDP growth!

Services report higher growth, manufacturing a tad slower – both are far above average levels

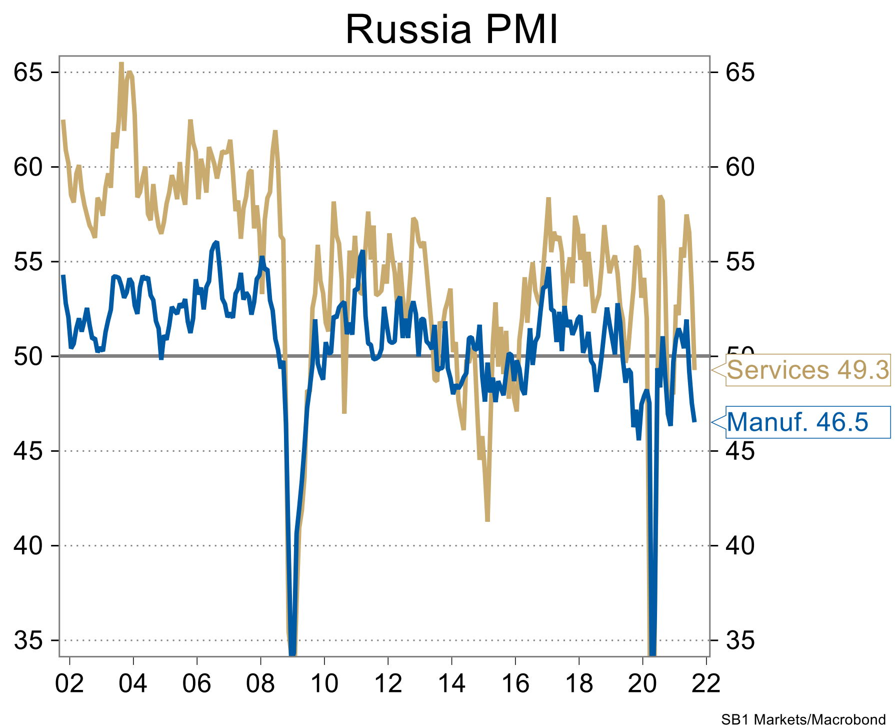


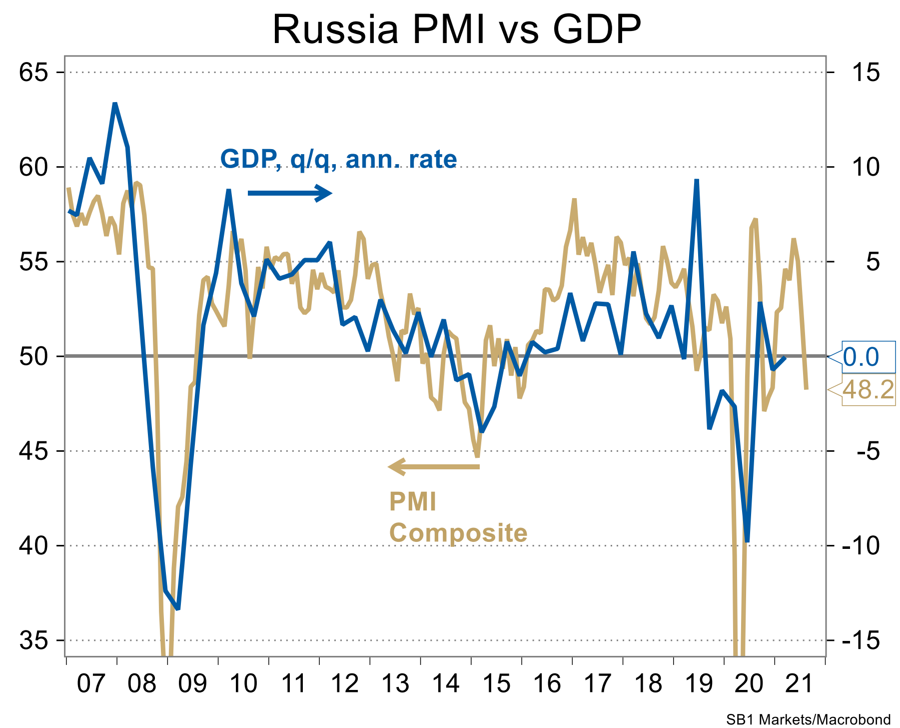


- **Manufacturing PMI** fell by 3.1 p to 53.6
- **The service sector PMI** was up 0.7 p to 55.1- the highest level since 2011! Corona restrictions are eased
- **The Composite PMIs** fell marginally - signals some 6% growth pace in GDP into Q3 (while the PMI signalled zero growth in Q2)
- **GDP** grew more than expected in Q1, by 4.9% (the PMI signalled zero!) and the GDP level is back to the Q4-2019 level, among the best on our list (just China, India, South Korea are above). GDP is just 1.3% below the very weak pre-pandemic growth path

Russian economy in contraction mode, under the weight of Covid trouble

Both services and manufacturing PMIs weaker in August. The composite PMI signals 2% contraction

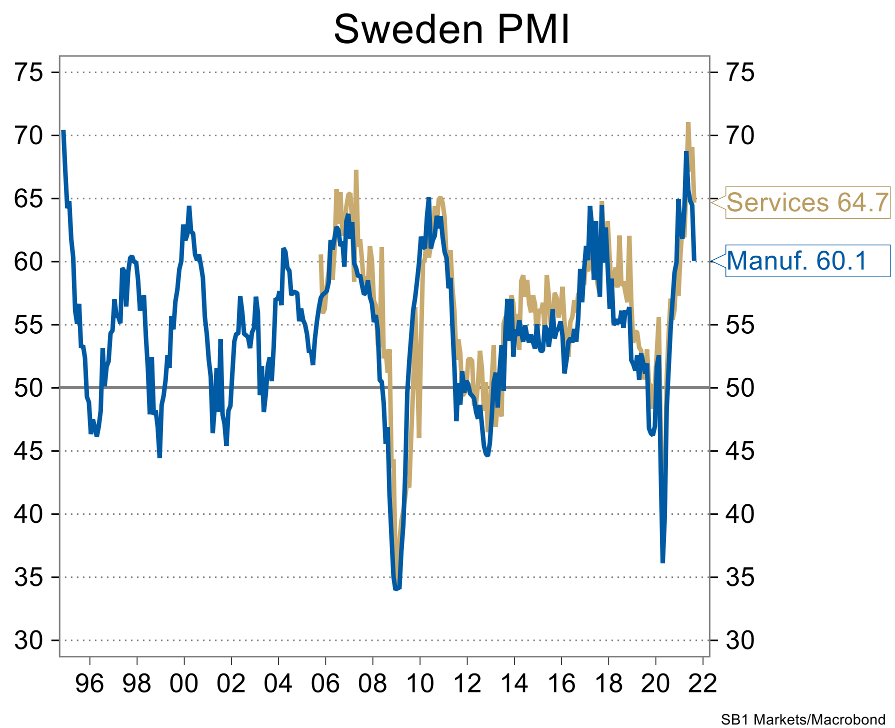


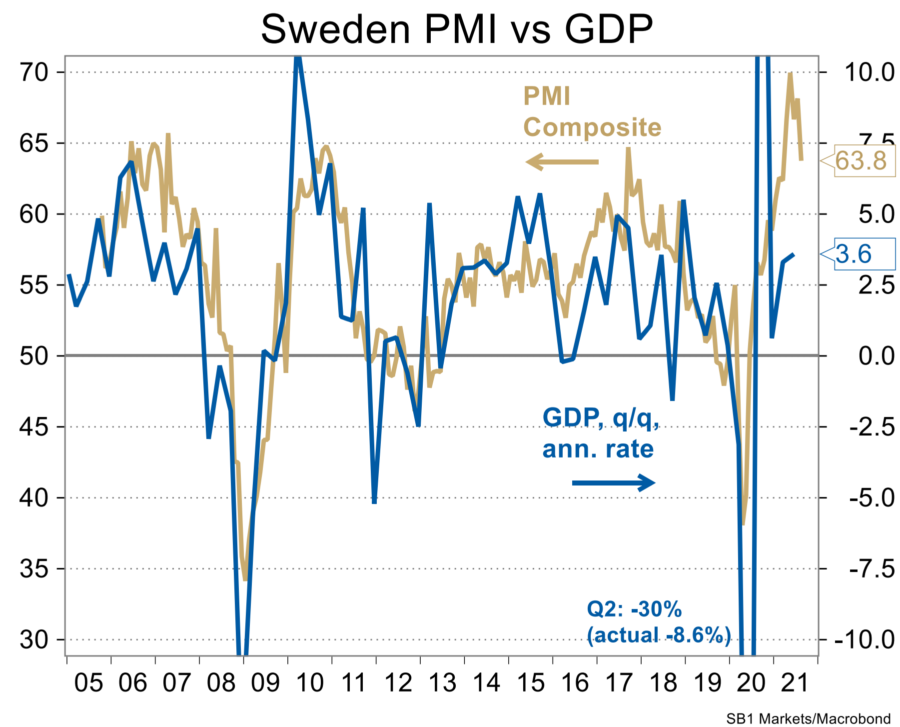


- **Manufacturing PMI** fell 1 p to 46.5 in August
- **The service sector PMI** declined 4.2 p to 49.3
- **The composite PMI at** 58.2 signals a 2% contraction in GDP vs the 2% growth signal in July
- **GDP** was close to flat in both Q4 and Q1 – and it is still 1.6% below the pre-Covid level

The composite PMI down in Aug, but still the best in the world, 7% growth sign.!

Both sub-indices fell

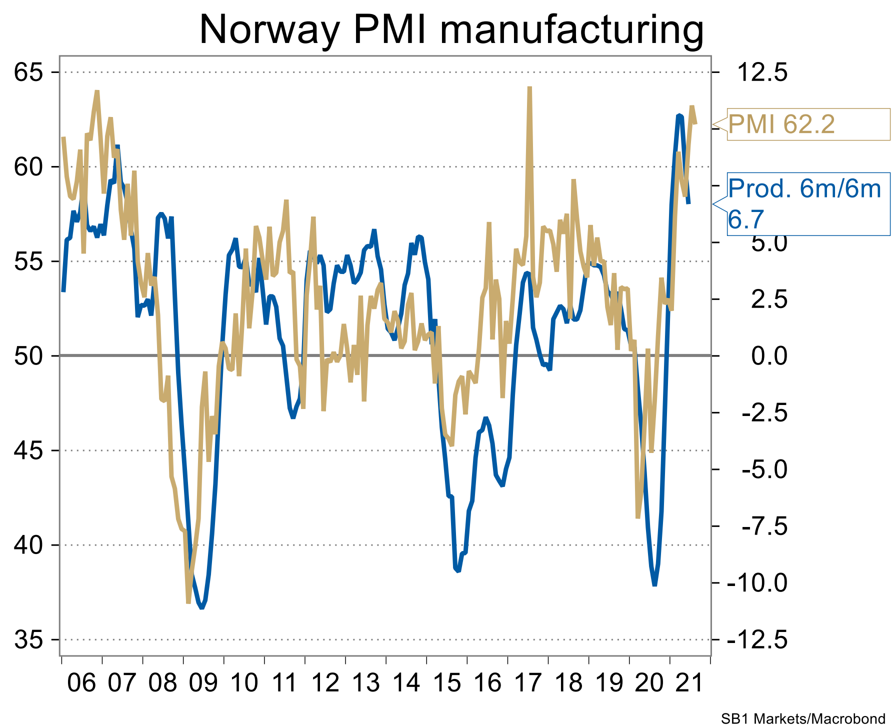


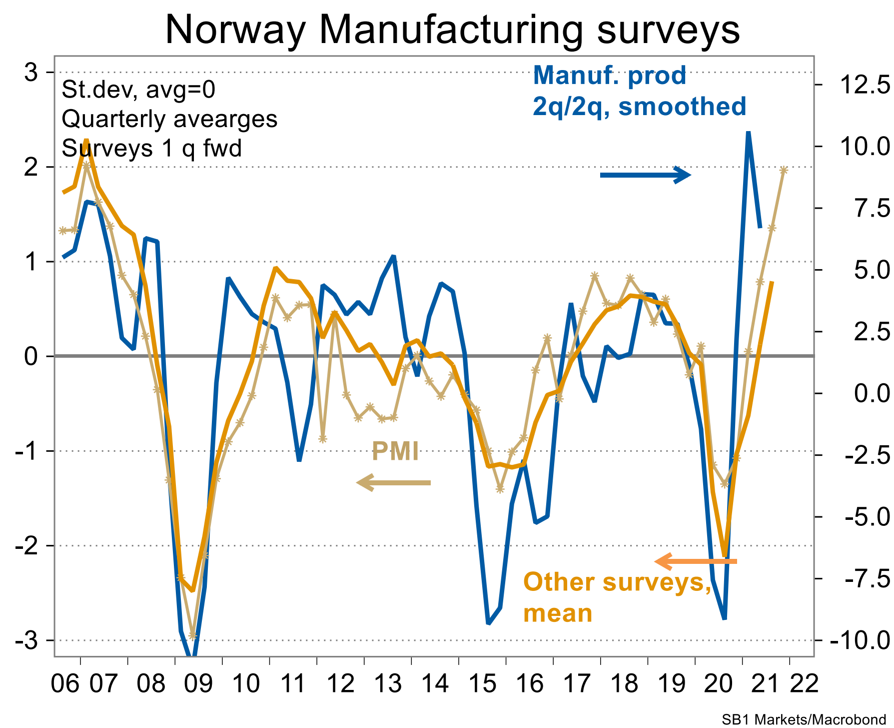


- The composite **PMI** has been record strong and one of the strongest in the world over some time – and at the top again in August, even if the index was down 4.5 p to 63.8. The correlation to growth has been limited through the pandemic, but face value, a 7% growth paces is indicated
- **GDP** grew at a 3.6% pace in Q2 (0.9% not annualised)
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until 2024. We are not so sure…

Norwegian manufacturing PMI marginally down in Aug, still extremely strong

The Norwegian PMI down 1 p in August, to 62.2 – still among the best prints ever





- Summer PMIs may be volatile but the average of the recent months leaves no doubt: companies are reporting a unusual rapid growth in activity; <u>The 3-month average has never been better</u>
- Other **surveys** have turned up lately to above-average levels
- **Actual production** has recovered well – and underlying growth is still strong

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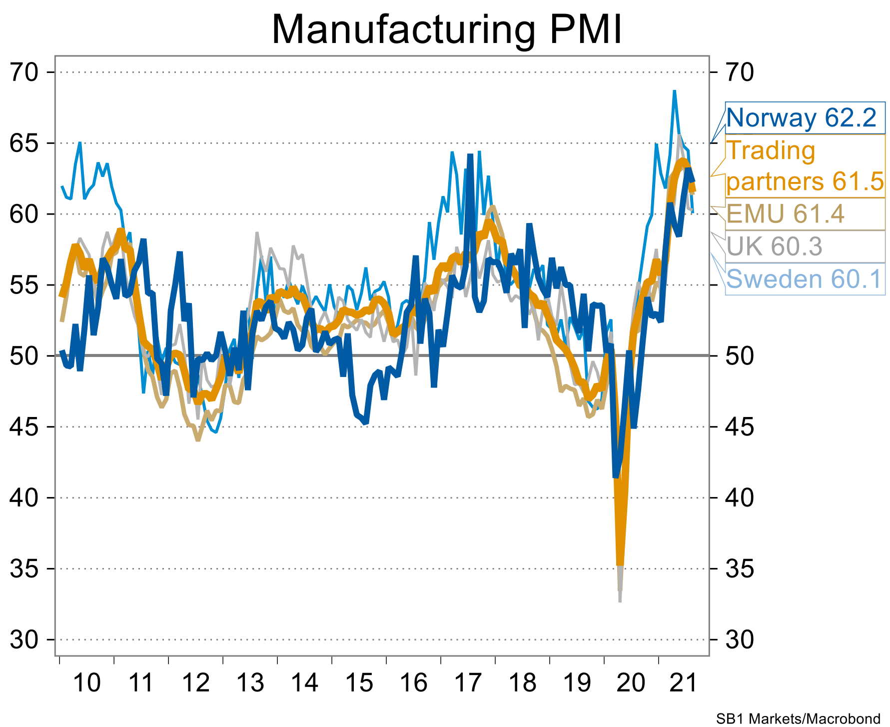
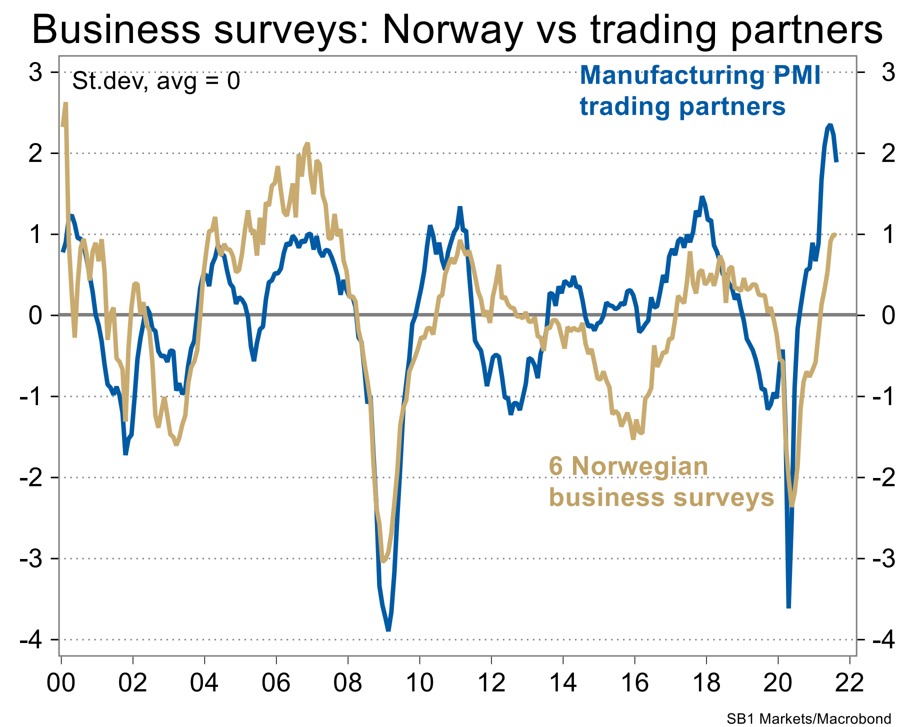
Norwegian manufacturers lagged their peers on the way up

… but now they have surpassed the trading partners

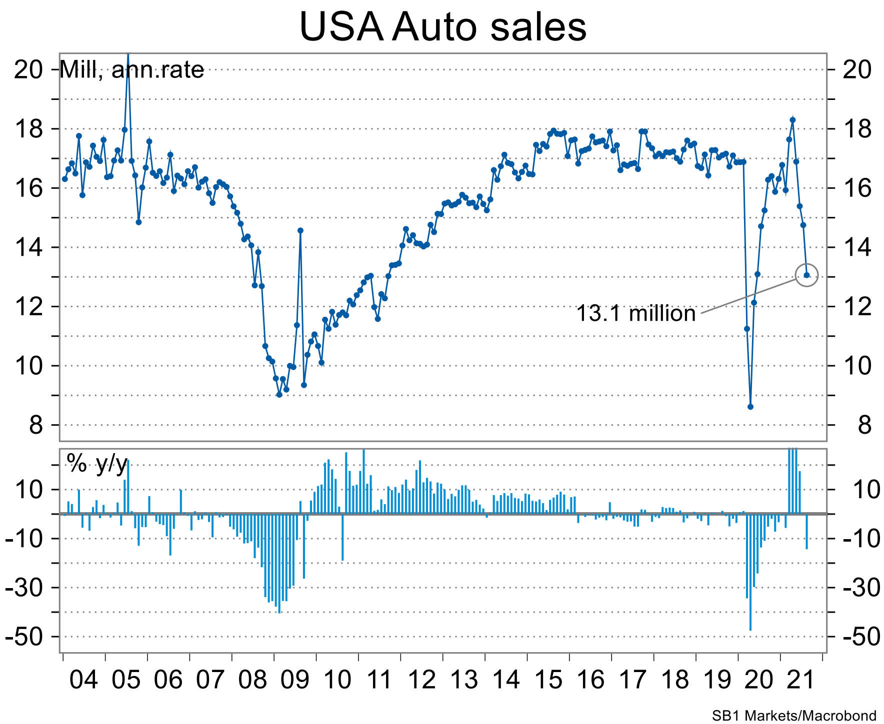


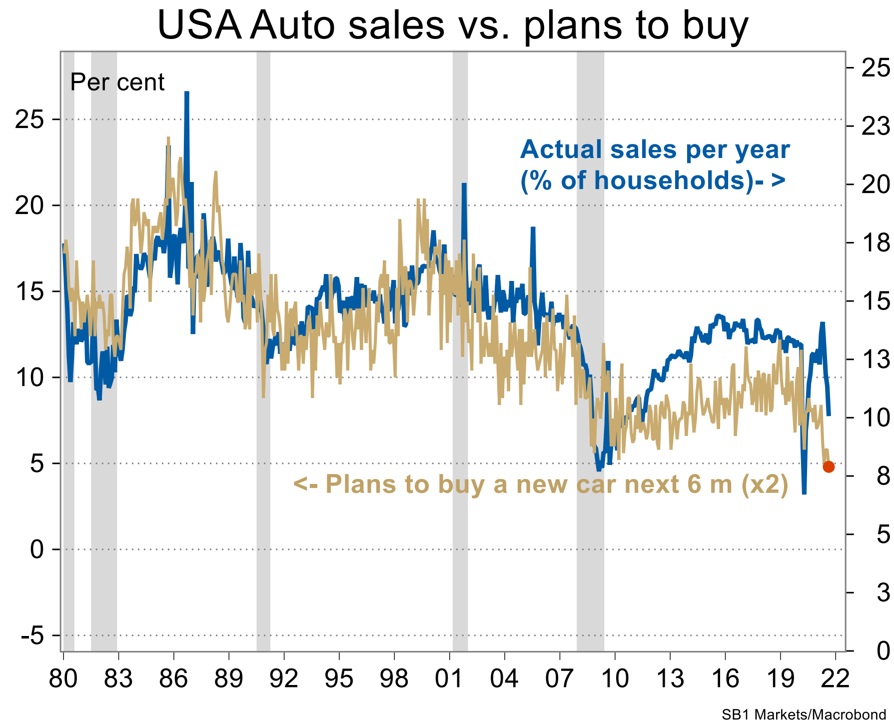


- The downturn in oil investments (until now) is very likely the explanation why Norway lagged somewhat
- Other Norwegian surveys confirm the strong PMI

US auto sales sharply down in August too – 25% down vs a normal level

The decline is no doubt due to production cuts in the auto industry – not lack of demand

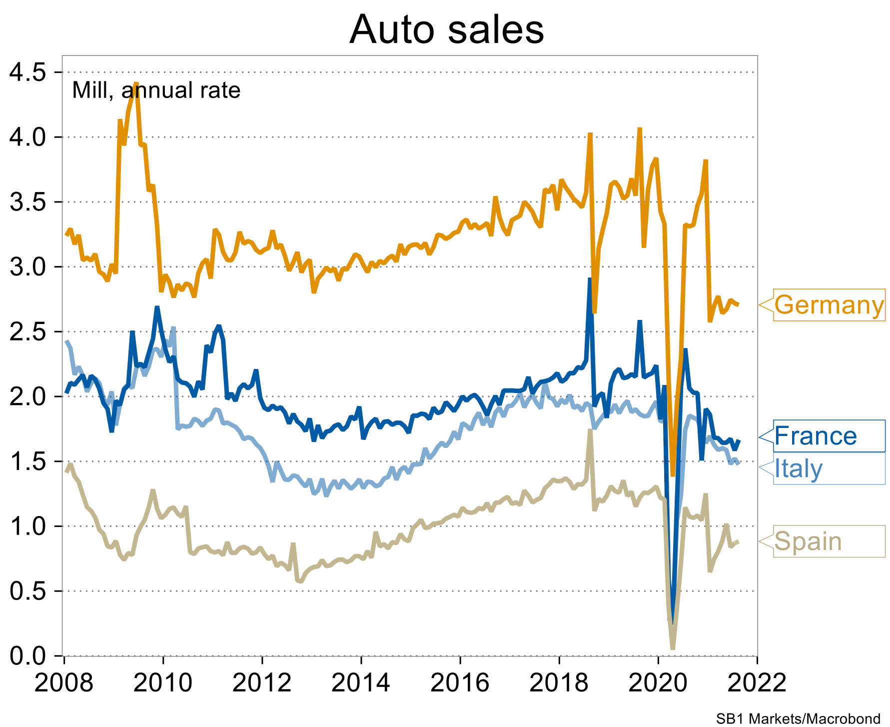


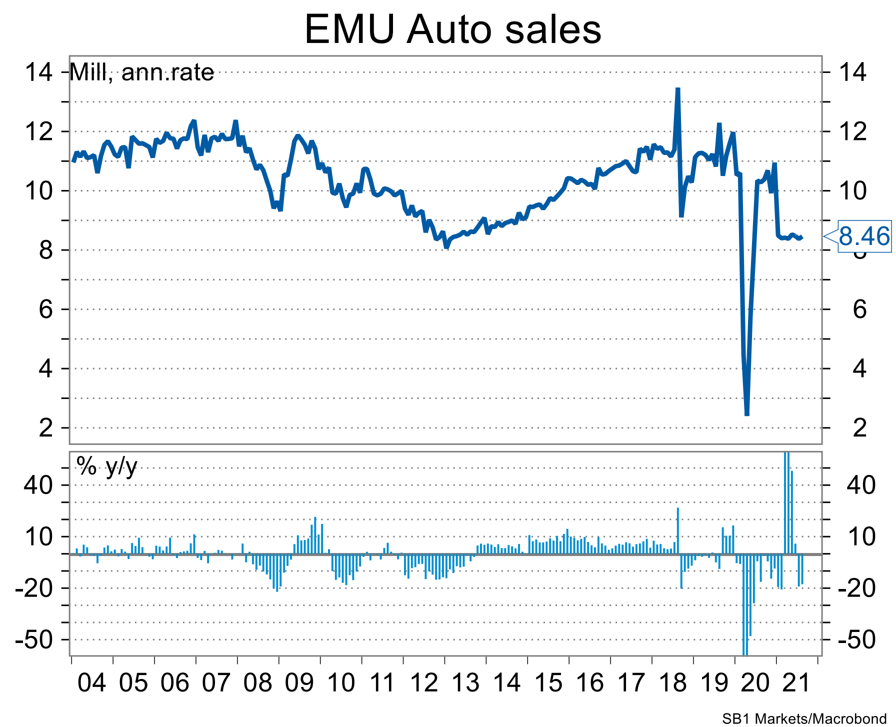


- Sales fell by 11% to 13.1 mill (annual rate) in August from 14.7 mill in July, expected unchanged – one of the larges monthly declines came as a total surprise. Strange
- Households have revised down their plans for buying a new car substantially recent months as they have probably observed that there are delivery challenges
- Demand for cars is still strong, as the 2nd hand market is emptied and used car prices have soared more than 40%
  - » New car prices are up too, and probably not just due to higher material costs – sellers have some pricing power too

EMU: Auto sales still in the doldrums, just a small increase (likely) in August

Sales marginally up in France and Spain, down in Germany and Italy. Level down 20% vs H2-20





- Sales are still down almost 20% vs. the level in H2 last year – and 25% vs. the 2019 level!
- As elsewhere, there are serious production challenges in the European auto industry due to lack of data chips
- However demand has also been an important reason for decline in sales in H1 – as lockdowns have made it challenging to buy cars as well (but that argument is not relevant for the past few months). We expected sales to rise when restrictions were eased – but so far that has not been the case, and lack of supply may be a more important explanation

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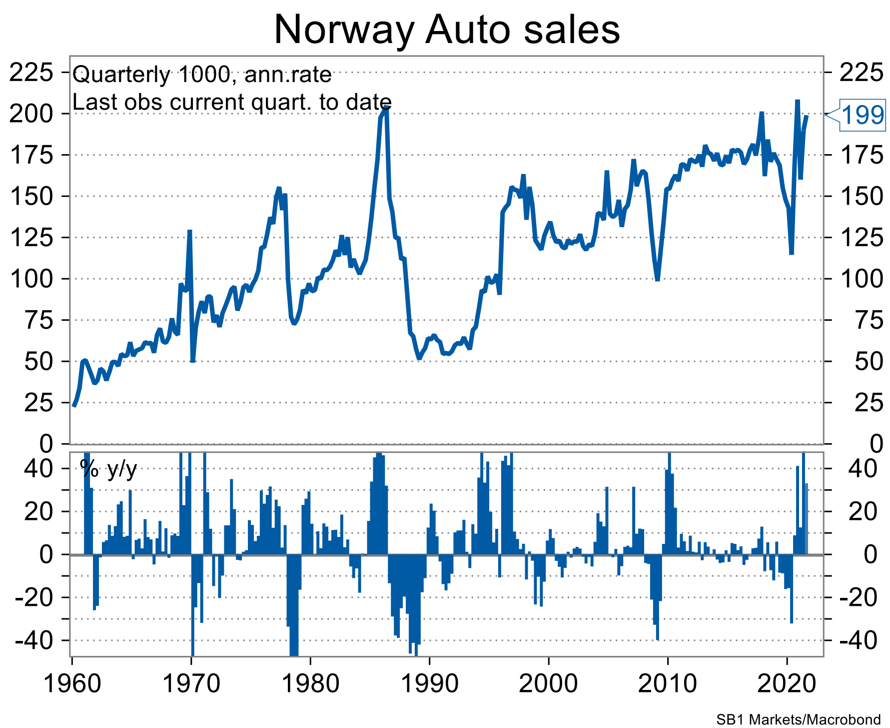
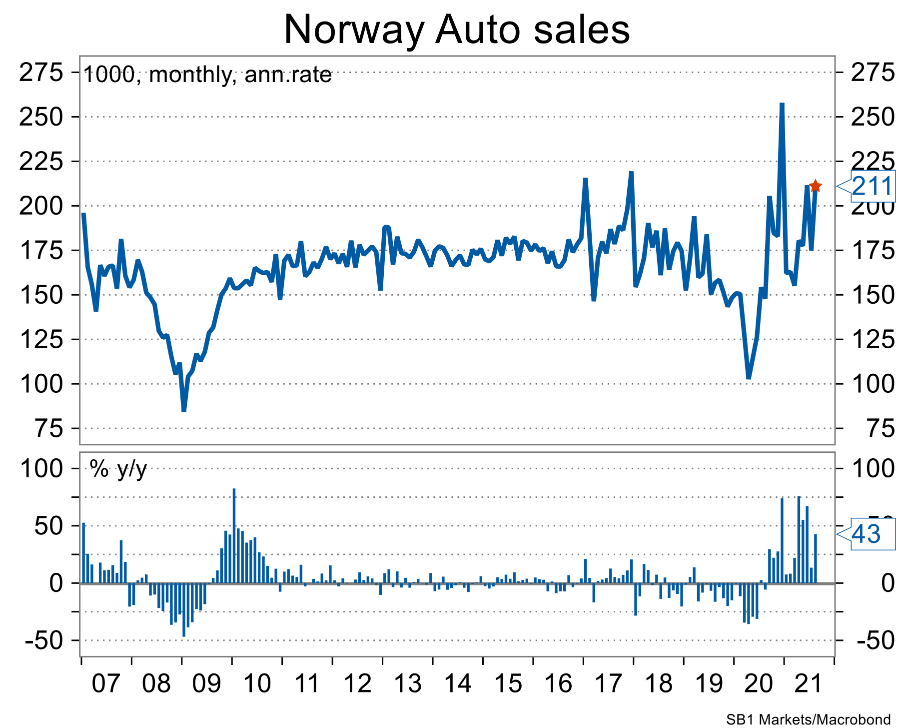
Norway: Auto sales up to high level in August, among the best months ever

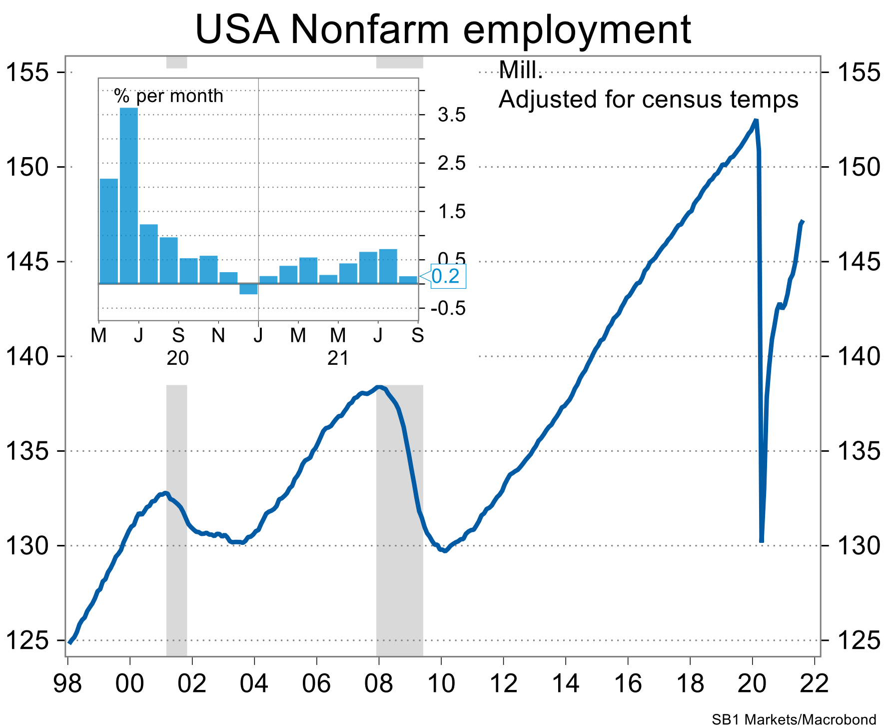
Sales up to 211' (annual rate), from 175' in July, far above a normal level

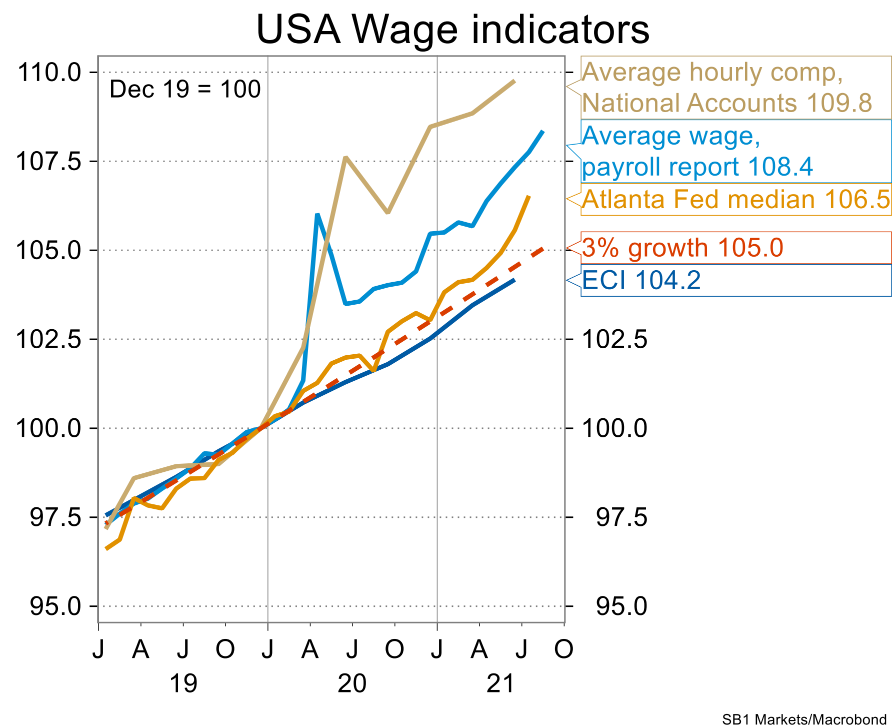




Employment hit a Delta hump August but supply is the real challenge

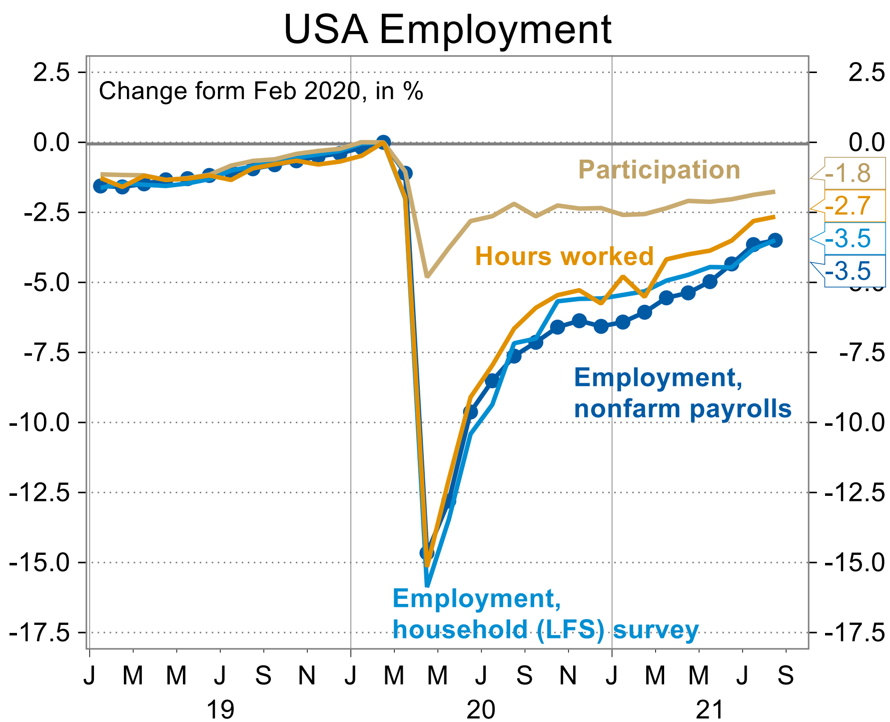
A 700’ slowdown in hospitality & education cut employment growth down to 235’, expected up 730’



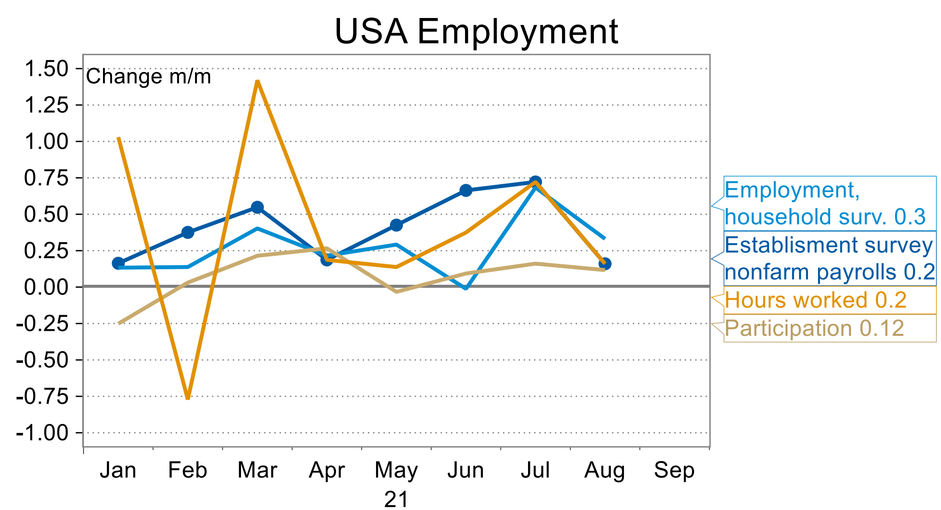


- **Employment** rose by 235’ in August, down from 1,053’ in July (rev from 943’), far below expectations Empl. is 5 mill or 3.5% below the pre-pandemic level
  - » A flattening of **employment in hotels, restaurants and schools**, down from +700’ in July was very likely due to the Delta outbreak – and thus not lasting
- **The participation rate** was unch at 61.7%, well below the Feb-20 level, as the supply side has not responded as usual to increased demand for labour
- **Unemployment** fell by 0.2 pp to 5.2%, as expected and in line with Fed’s (implied) f’cast (from June). Unemployment is just 1.7 pp higher than before the pandemic
- **Average wages** rose by 0.6%, twice the expected 0.3%, and the wage level is well above the pre pandemic trend in all sectors. Other wage indicators agree
- **In August, small businesses** reported record high hiring plans, unprecedented trouble filling vacant positions, and record high compensation increases
- **The big worry is still the supply side: Why are not workers returning to work?** This week, almost 9 mill workers will lose their USD 300/week temporary federal unemployment benefit. Will they now seek work?

Labour market is recovering rapidly (if not in Aug). Except for the supply of labour



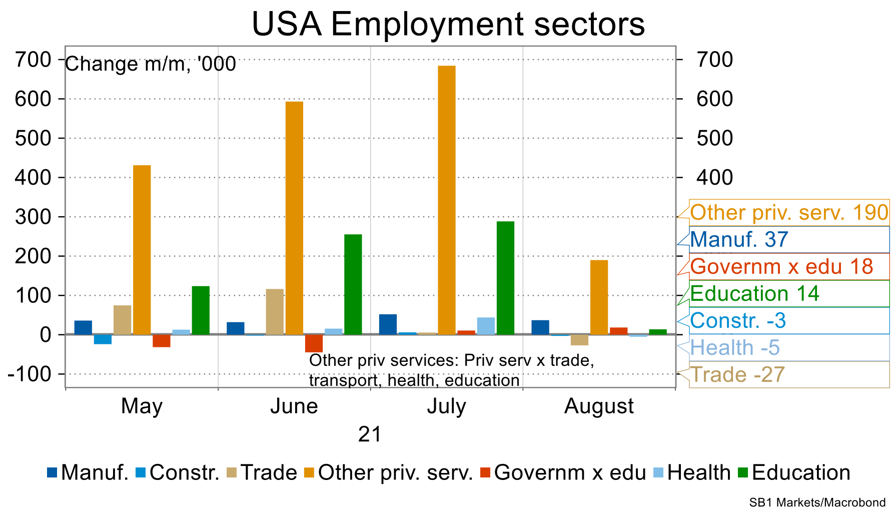
- **Labour market participation** rose marginally in August (in numbers, the rate was flat). The **participation rate** is down 2.6% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 3.5% vs Feb '20, as is **employment** measured by the **household survey** (LFS/'AKU'). The **employment rate** is 4.3% below par
- **Sum hours worked** rose 0.2% in August (and July was revised up). The level is down 2.7% vs. Feb-20

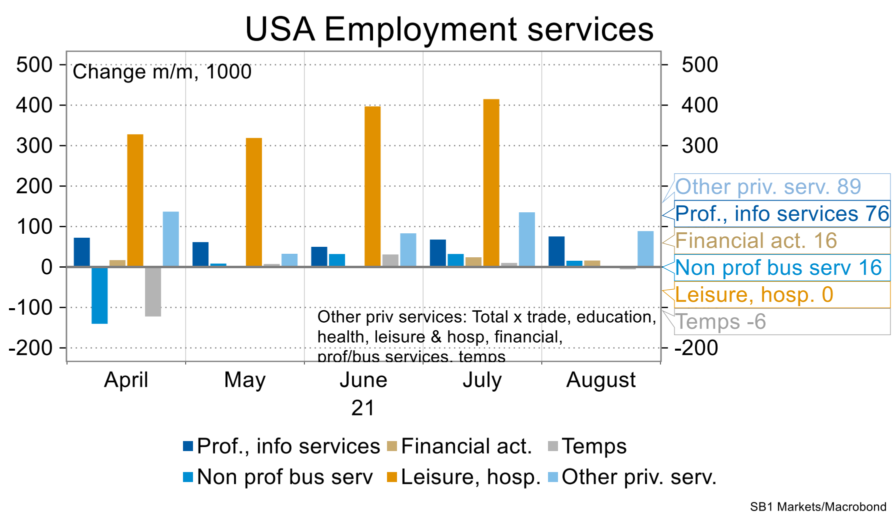


SB1 Markets/Macrobond

In Aug: No growth in hotels & restaurants, education! The virus must be to blame

These two sectors 'explained' a 700' decline in growth m/m. Better times ahead?





- **Last month**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) did not add any new jobs, down from 400' in June and July (and +300' in April and May). The sudden stop cannot just be explained by lack of workers (the problem was there in July too) – but restaurant activity probably slowed in parts of August, due to the Delta outbreak
  - » **Education** (private & public) added just 14' jobs, down from almost 300' in July – also very likely due to the spread of the virus in several states
  - » These two sectors will very likely continue recovering the coming months, as soon as the Delta variant is brought under better control – which may already be taking place
  - » **Other private services** more or less the same number of jobs as in July
  - » **Trade** cut 27' jobs – as retail sales are slowing, from a very high level
  - » **Manufacturing** added a 'normal' no of jobs, 34'
  - » **Construction** sector employment is growing slowly – and fell slightly in August
  - » Employment in **Government** (ex education) rose by 18', better than normal

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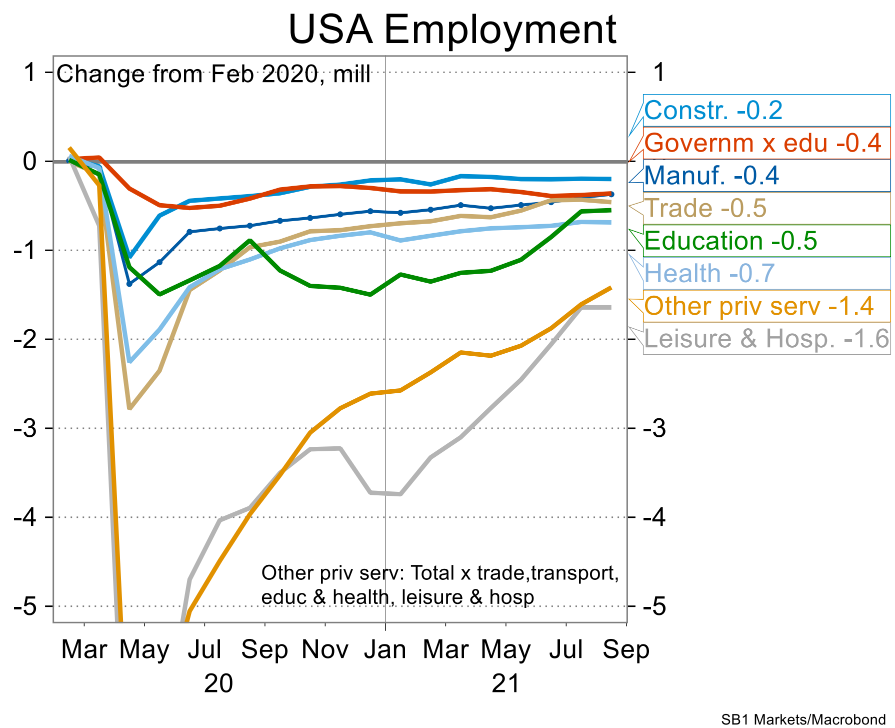
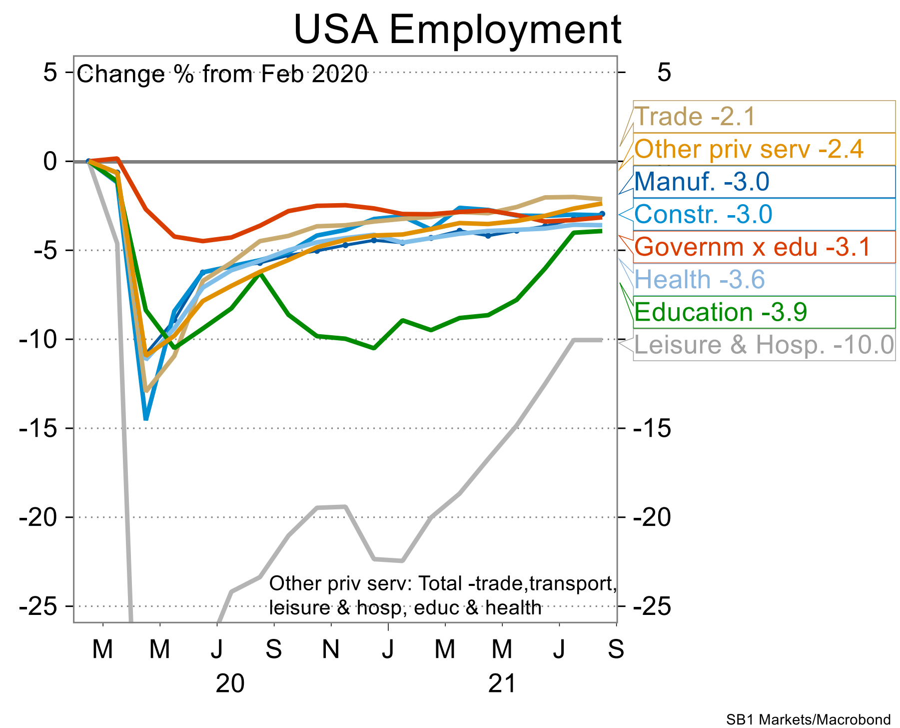
From Feb-20: No sector is back yet, not even trade

Some 4 mill jobs in leisure/hospitality, education & other services are still 'missing'

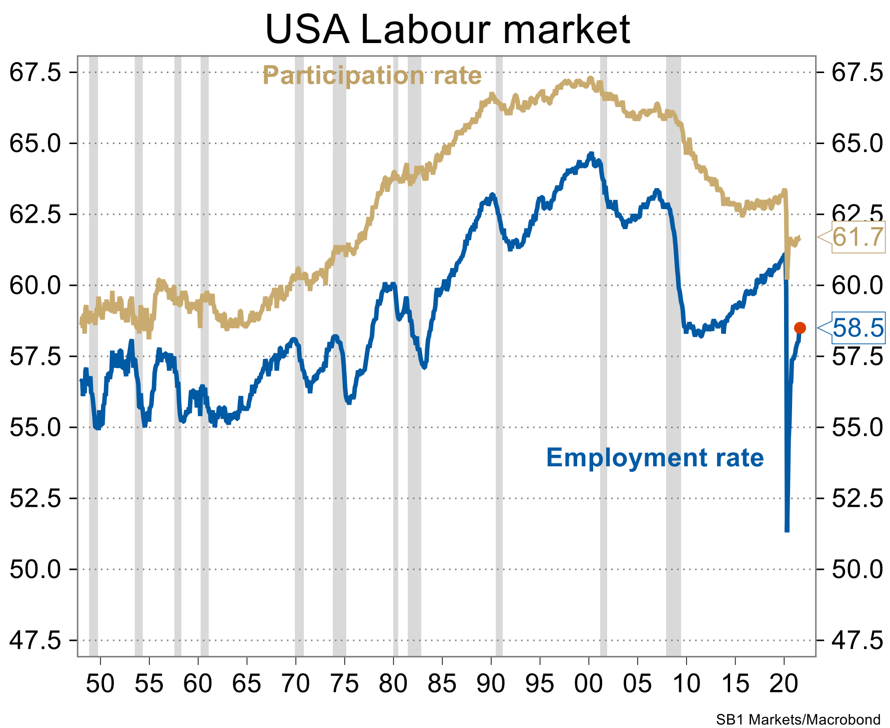


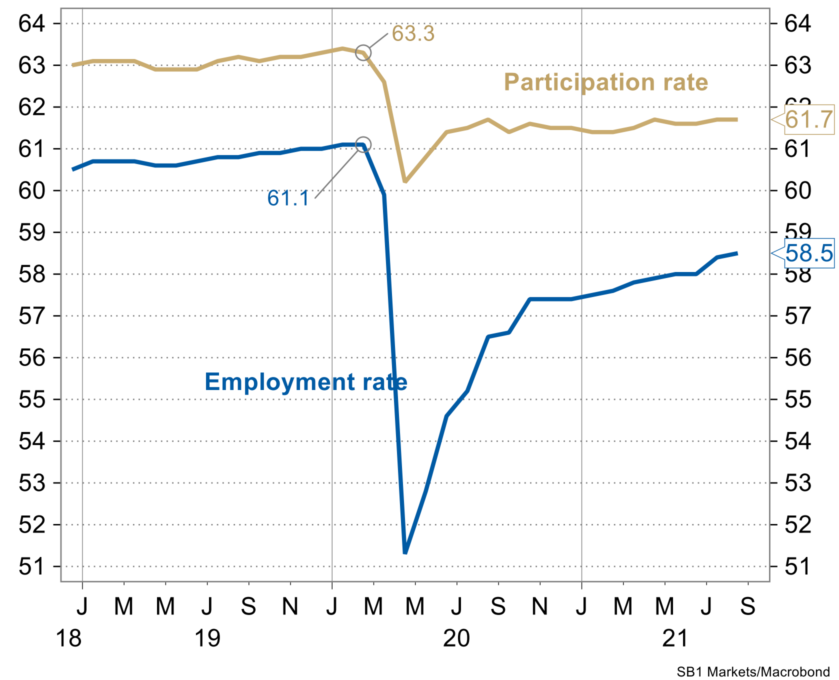


- **From February last year**
  - No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits, in volume terms
  - **Manufacturing** is down 3.0% (0.4 mill), **trade & transport** -2.1% (0.5 mill), **construction** -3.0% (0.2 mill)
  - **Education** is down 3.9% (0.6 mil), many schools are still closed – and they did probably not open in July (and the seasonal adjustment is tricky)
  - **Leisure & hospitality** is down 10% (1.6 mill) – and flattened in August
  - Even **government employment** x education is down 3.1% (0.4 mill), which is rather remarkable

The participation rate still flat, at a low level

A limited response to the lift in the employ. rate since last summer, and a record high vacancy rate

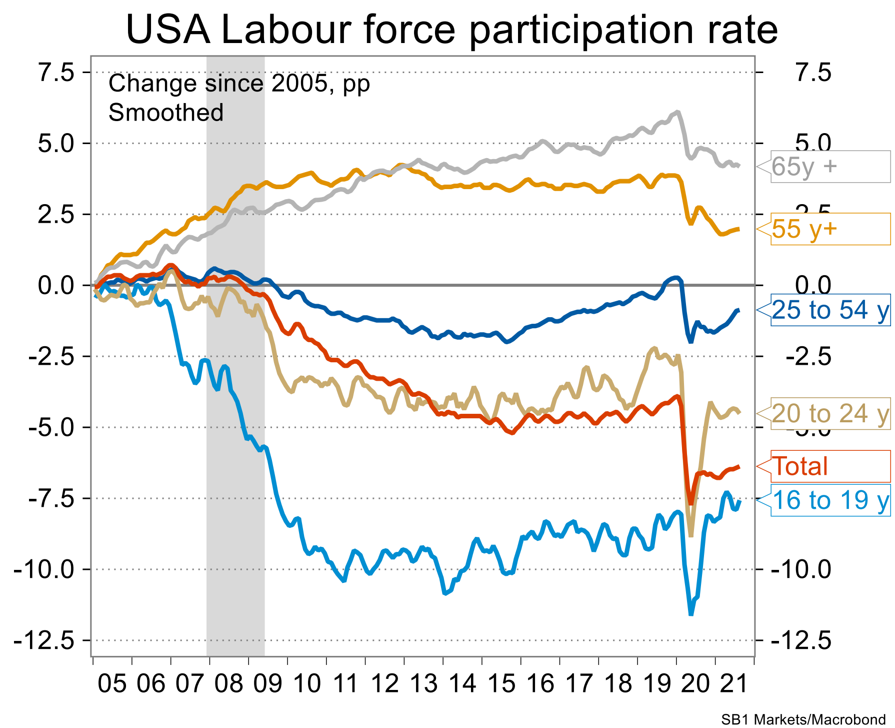


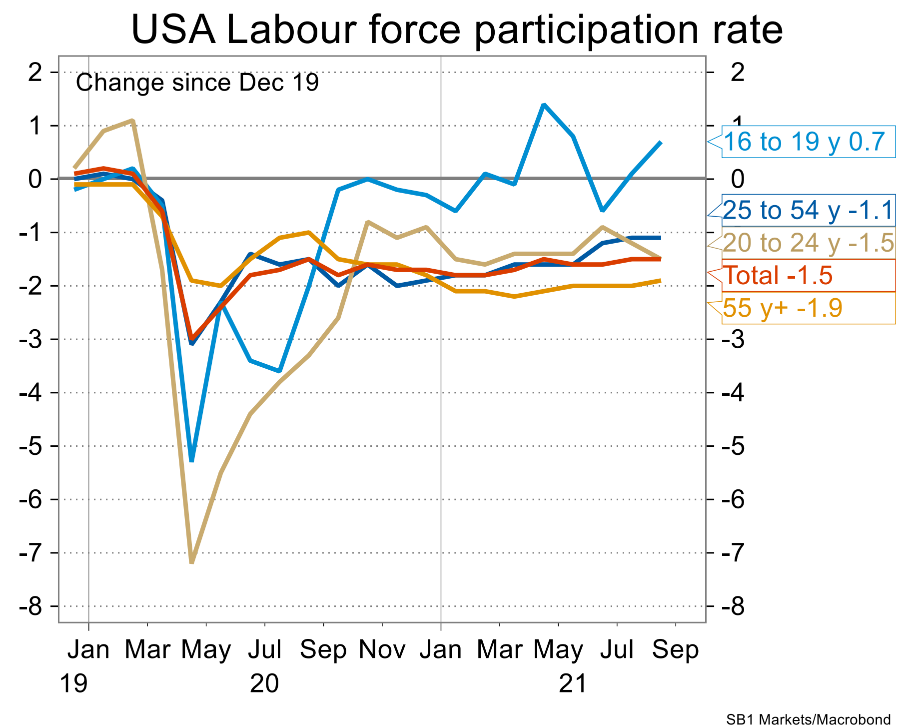


- The initial decline in the participation rate was Covid-19 related, and it may still be. In August 2.0 mill. persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down, up from 1.6 mill the two previous months. These 2 mill persons equal 1.2% of the labour force, and represents a labour market reserve
- **So, the conundrum remains:** Have most of those 'temporary covid leavers' permanently left the labour market – or has others left the market at the same pace as the 'temp leavers' have returned – and if so temporarly, or permanently. And even just as important: Why have those who report they are searching for a job (and being counted as unemployed), not been able/willing to fill more of the 10+ mill vacant positions?

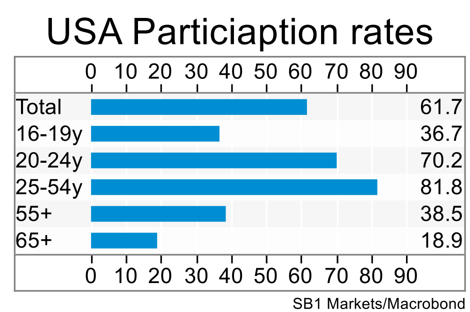
The potential: Participation among the core 25 -54y group is still trending upw.

The oldies (55+, especially 65+) are probably lost



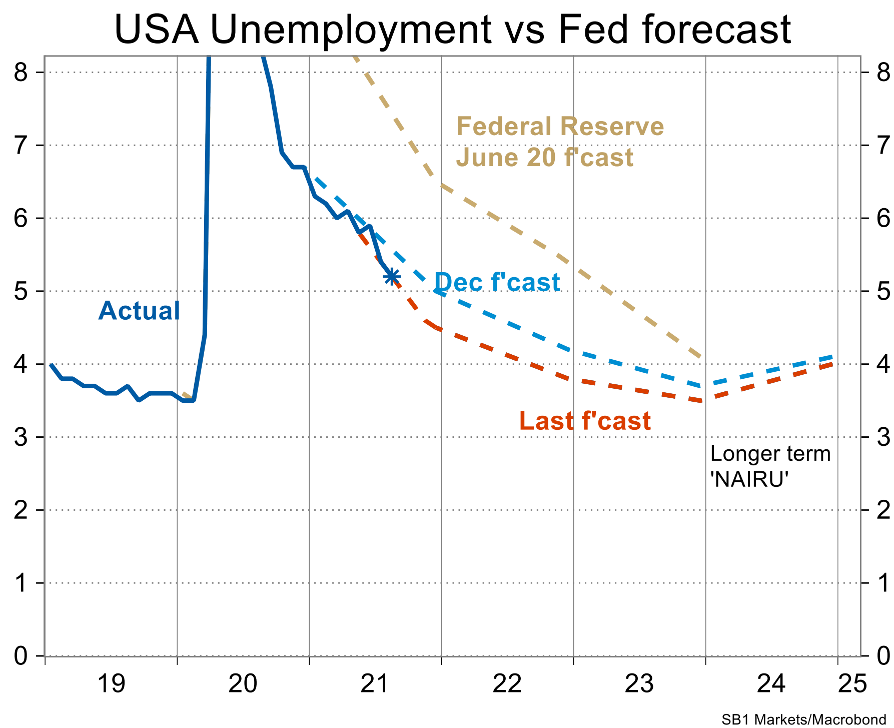


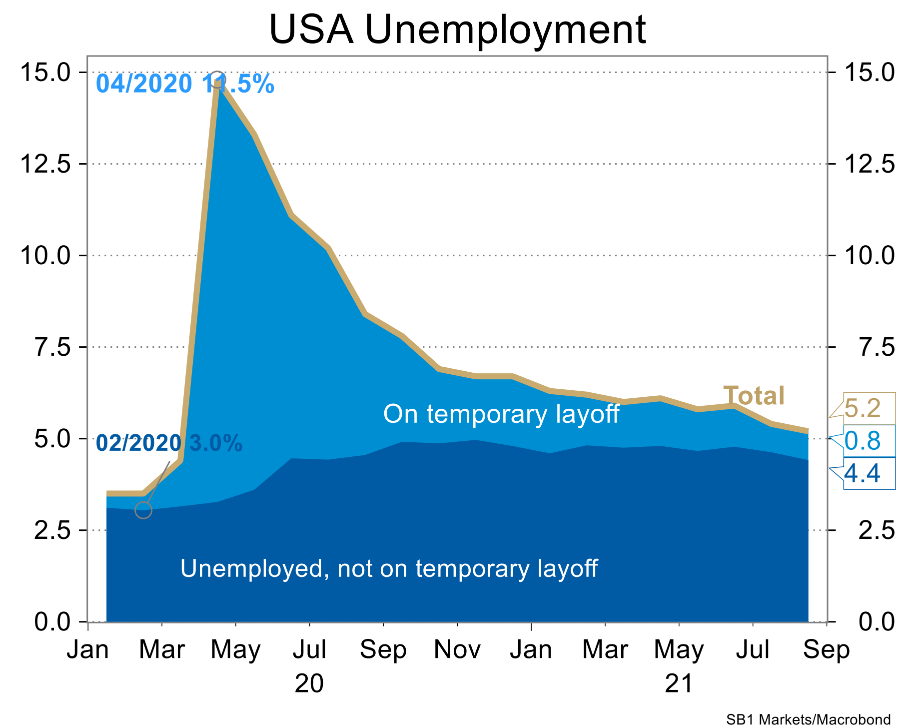
- Possibly some potential among the 16-19 & 20-54 years groups too



Unemployment is falling rapidly but not faster than the Fed expected

The unemployment rate 0.2 pp down to 5.2%, as expected

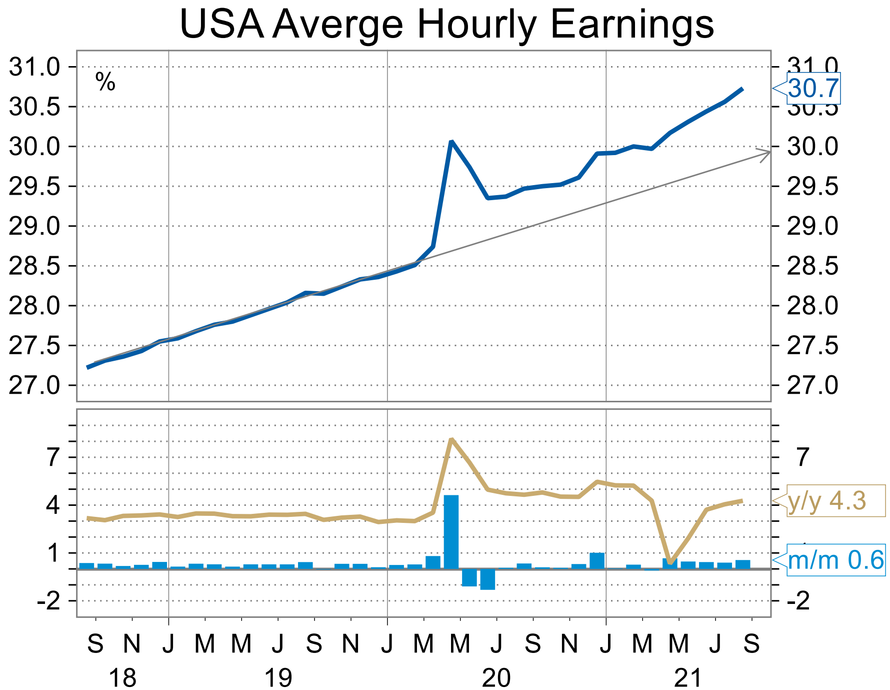




- In June, the ordinary **unemployment rate** fell by 0.2 pp to 5.2%, as expected
- The no of workers on **temporary layoff** is falling sharply, and is now at just 0.8%
- **The 'total' unemployment rate fell 0.4 pp to 8.8%.** This rate includes workers in unwanted part time positions or those who do not search for work because no work is available anyway, even if they want a job. (We assume the 2.0 mill workers that are not searching for work due to Covid are included in these figures, even if there are some differences in definitions)

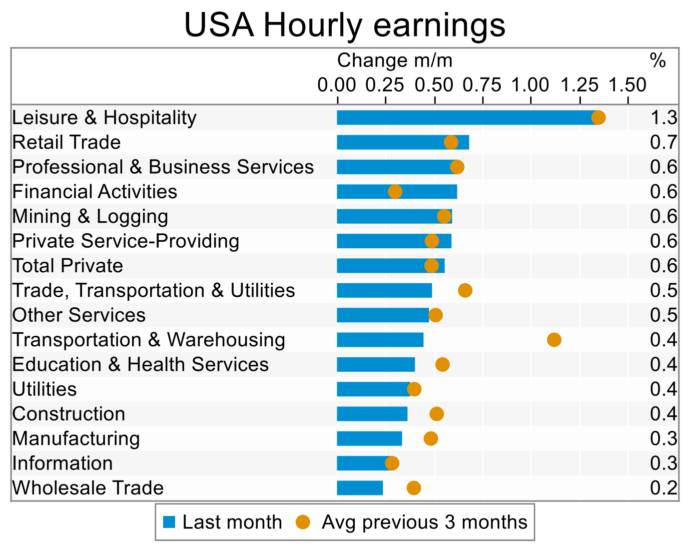
The average wage up 0.6% in Aug, which never happened before the pandemic

The Aug wage level is 3% above the pre-pandemic trend path

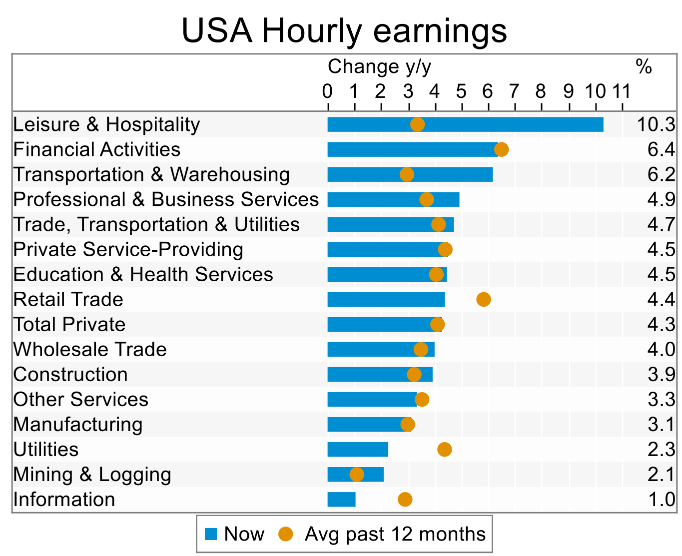


SB1 Markets/Macrobond

- We are still sceptical to over-interpret average wage data, also at the sectoral level, as the employment mix has changed sharply between sectors and probably within sectors
- However, since April wage increases have been strong, even if most of the increase in employment has been in the low paid sectors – which should have taken the average level down (reversing the lift last spring, when low-paid workers lost their jobs)
- Wages in leisure, hotels & restaurants rose by 1.3%, like the average over the past 3 months, and wages are up 10% y/y. However wage growth has slowed in 7 of 15 sectors (Aug vs prev. 3 m)



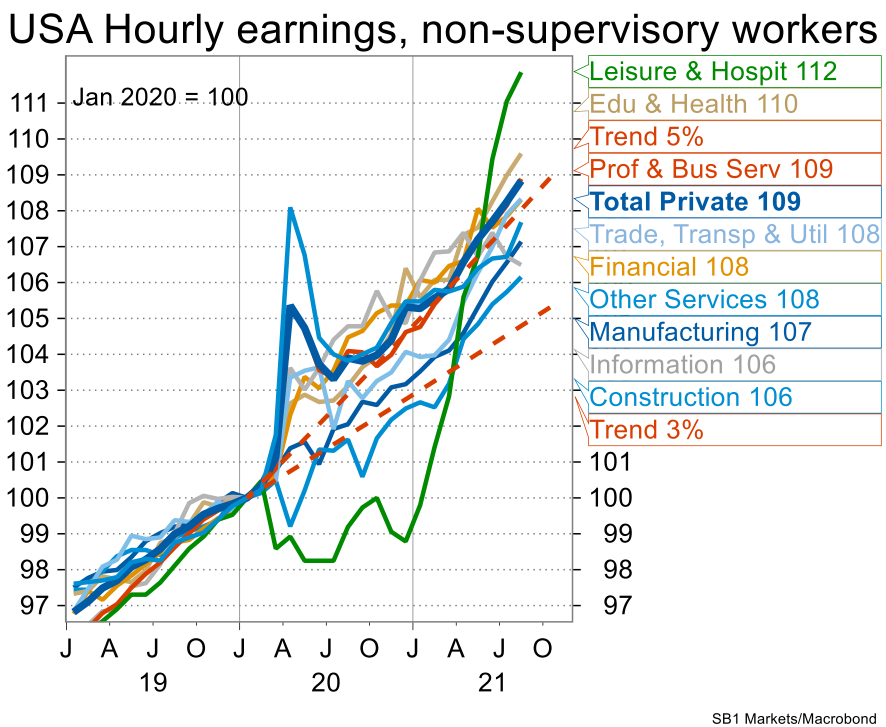
SB1 Markets/Macrobond

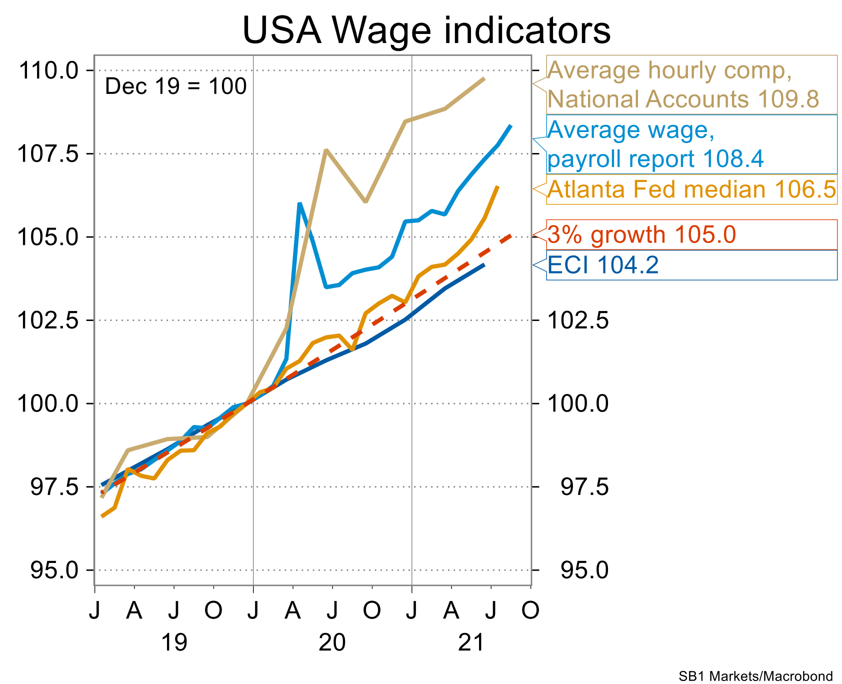


SB1 Markets/Macrobond

Wages are up 6% – 12% vs the pre-pandemic level

… And well above the pre-pandemic growth path in all sectors. Almost all wage indicators agree

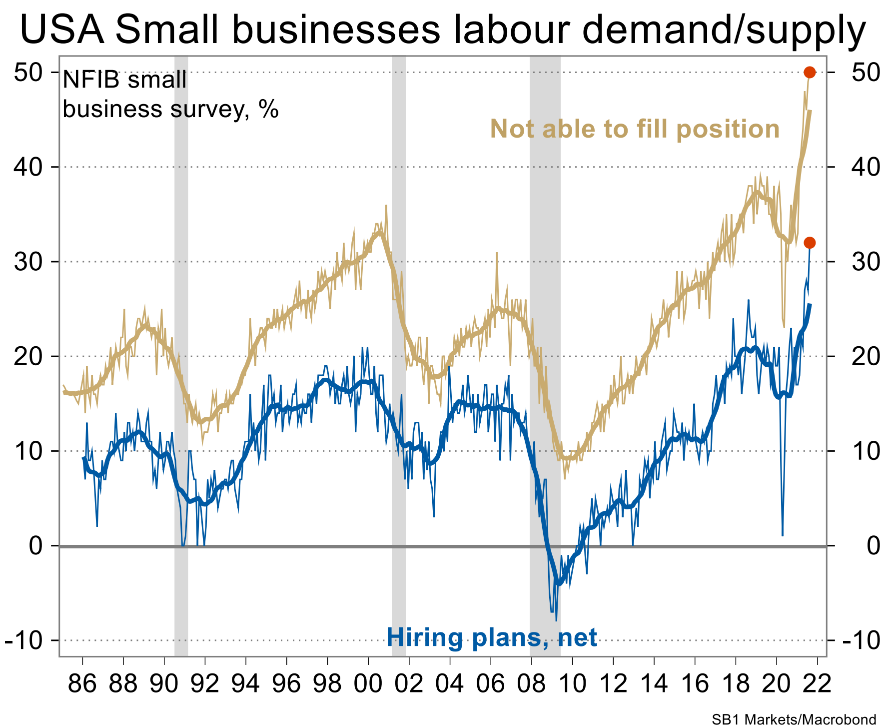


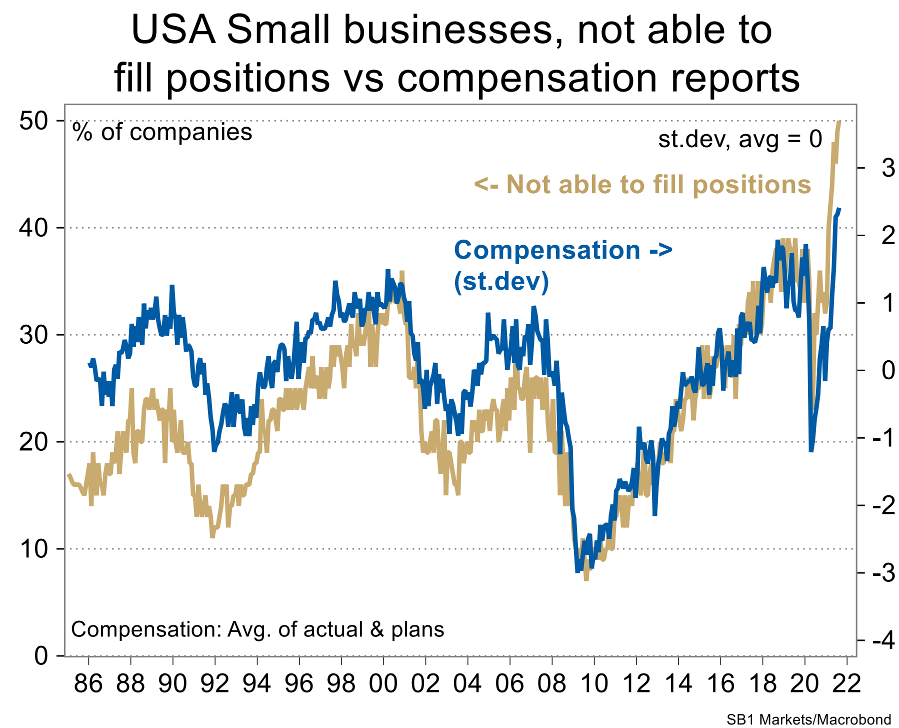


- Changes in the employment mix, even within sectors, still make these sectoral data uncertain but now even Atlanta Fed's median wage indicator has shot up. And it is now overwhelmingly likely that wage inflation is accelerating – and companies are still extremely eager to hire – and are more unable to do so than ever before – and they plan to lift wages in a way we never before have seen – check the two next pages
- Memo: On the chart to the left above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

Another ATH in difficulty filling positions in Aug, according to small businesses

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



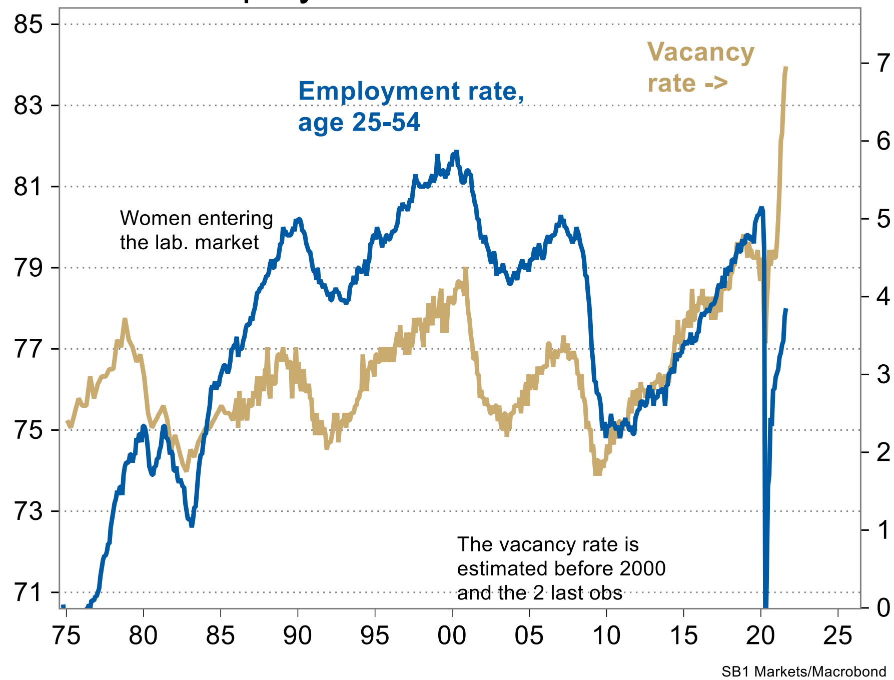


- Half of all US SMB companies are not able to fill their vacant positions, way above anything seen before
- **Hiring plans** are just a extreme – a significant further step up in August
- And guess what – companies are reporting the most aggressive **wage increase plans** ever (data from 1986). The correlation to actual wage growth is pretty close, check the next page

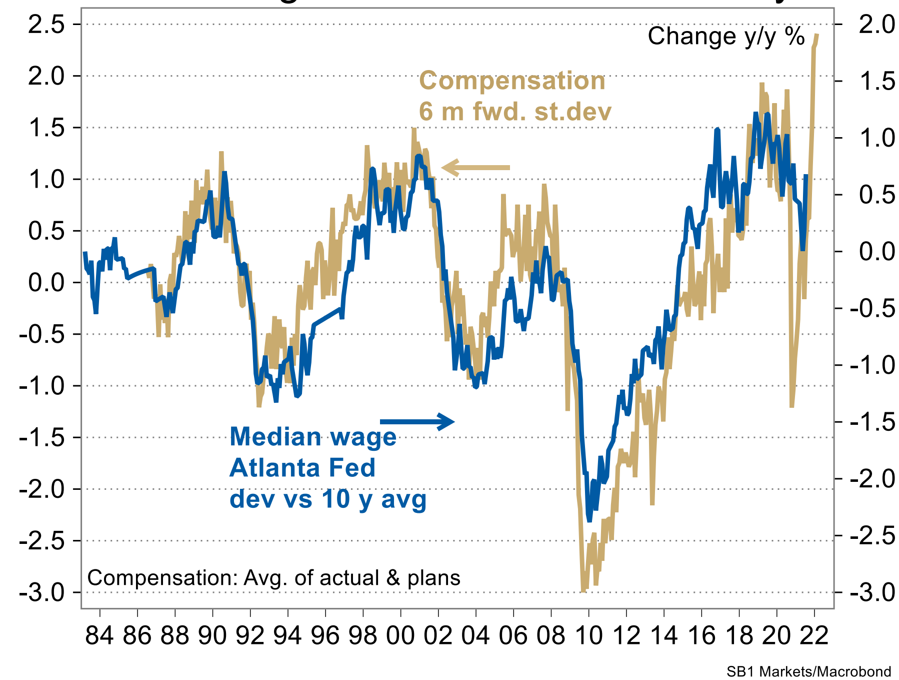
Wage inflation the obvious risk vs. inflation, growth, corporate earnings, short & long term interest rates, stock market multiples, credit spreads, real estate…

The next few weeks and months will really exciting!

USA Employment vs. unfilled vacancies



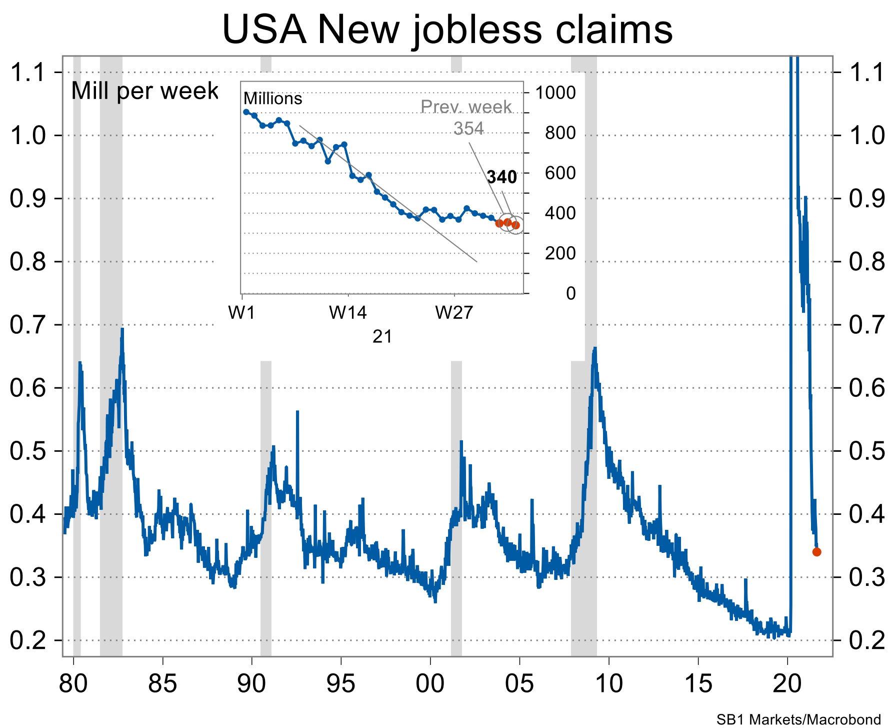
USA Wages - Actual vs NFIB survey

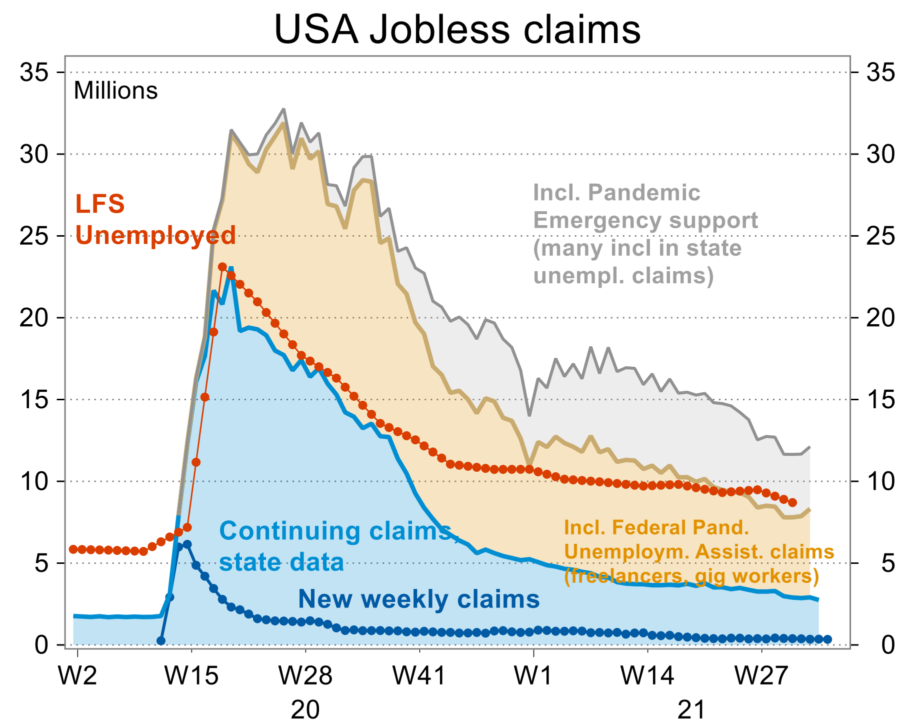


- Should wage inflation accelerate by 1 – 1.5 pp, inflation will be hard to bring back to 2% again
- The vacancy rate is the highest ever – and the 'gap' to the employment rate (or the gap to the unemployment rate) is remarkable. Why are workers not returning to the labour market?
  - » Workers have been paid to well for not working, until this week
  - » Workers do not want to return to their previous low paid jobs (but do they have any choice?)
  - » Employers are not able to sort through applications (unreasonable expectations, bad algorithms), no willingness to train workers
  - » Real, permanent mismatch (qualifications, geography)

The fall in jobless claims has no doubt flattened – new claims marginally down

This week 7 – 9 mill workers will lose their federal extra benefit. What will they do??

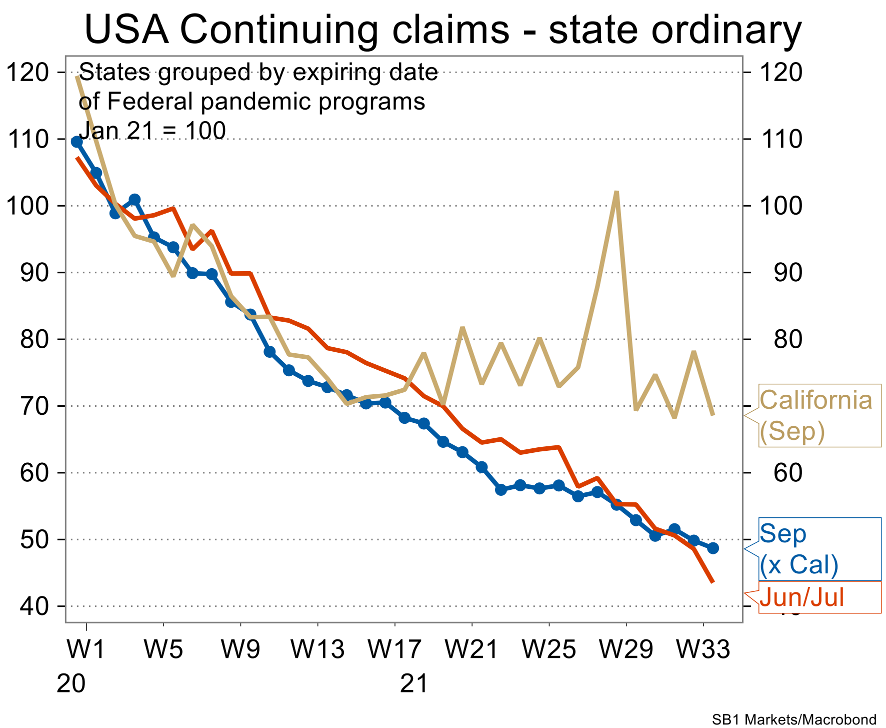


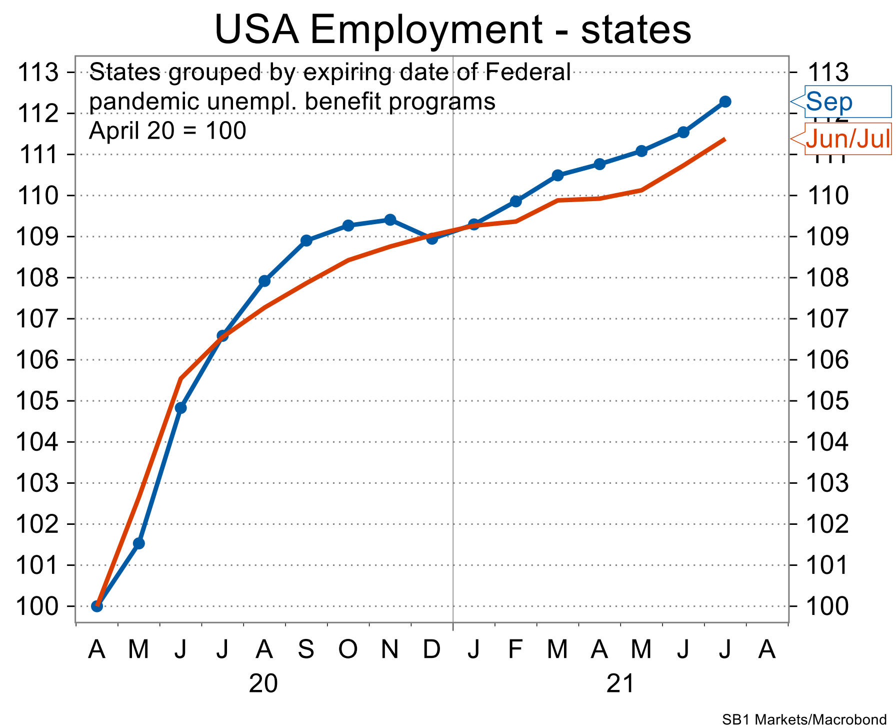


- **New jobless claims fell** by 14' to 340' in week 34 – below expectations at 345'. The inflow is still high given all other indicators of demand for labour – and far above the rapidly declining trend which ruled until 2 months ago
- **Ordinary continuing claims** fell the previous week (week 33), by 160' to 2.75 mill. Over the past 3 months, the no. of recipients have fallen by ¾ mill.
- The number of recipients of benefits from the **two temporary federal pandemic programs** increased in week 32, by 415' to mill to 9.2 mill. This week, on September 6th, most of these 9 mill workers will lose their federal support. What will they then do? More than 3 mill recipients have left these programs the the past 3 months. Many of these workers have probably returned to work as employment is up by 2.5 mill the past 3 months. However, employment has so far not grown faster in the early leaver states than in the stayer states (*check next page*)

Ordinary claims are falling everywhere…

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

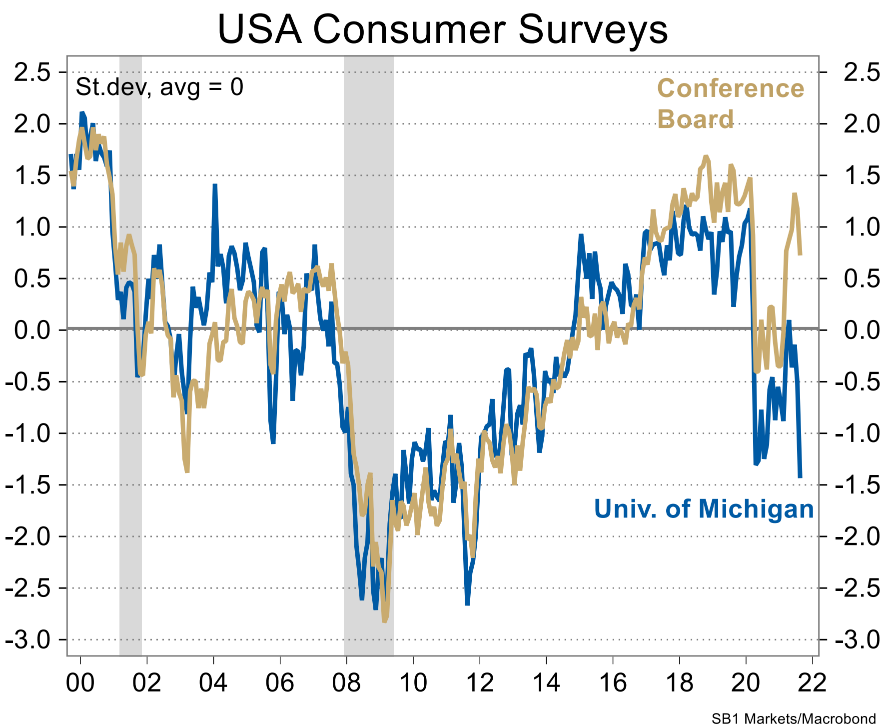


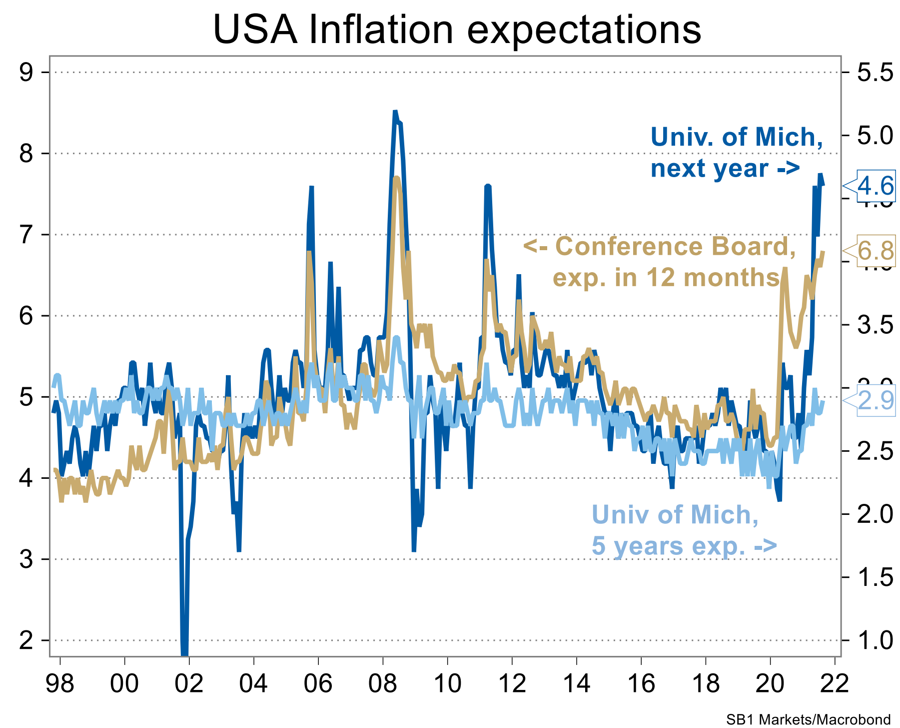


- 4 states dropped out of the federal unemployment benefit programs on June 12 (end of week 23), 8 states left June 19, and 10 states June 26, and 3 more states July 3 and 10 (week 27). The no. of recipients has fallen by 3 mill persons past 3 months
- If we pool the 'early leavers' states in one group, 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 expire next month
- In July, there were no difference in **employment** between early leaver states, and the others
- So the jury is still out: How many of the 9.2 millions on federal support will find a job when these benefits expires Sept 6th

Consumer *confidence* also down in August – but level far above *sentiment*

Conference Board's survey (unexpectedly) fell sharply but is still far better than Univ. of Mich's

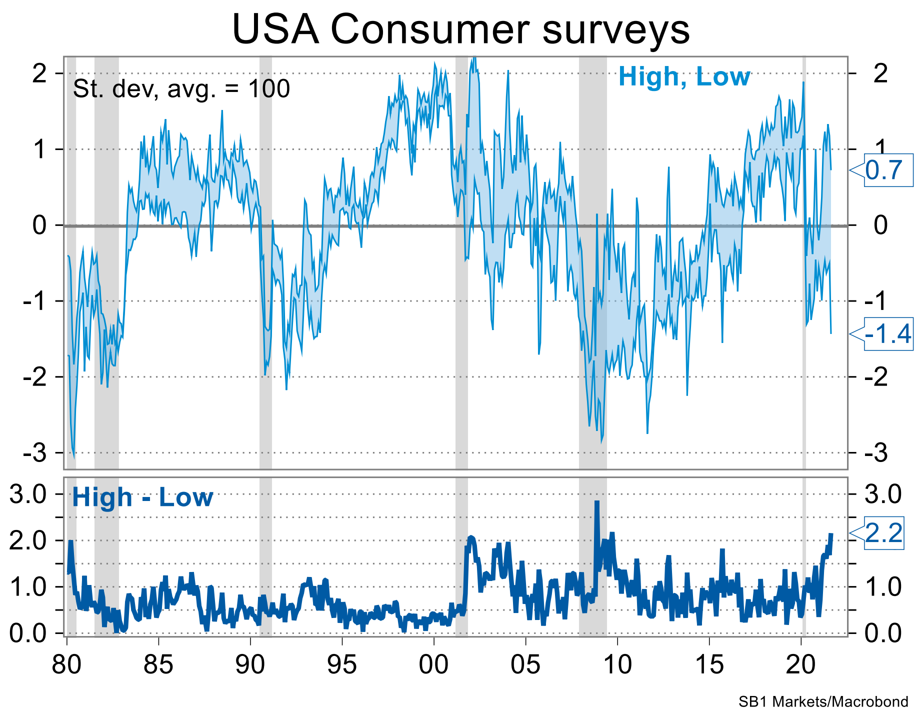


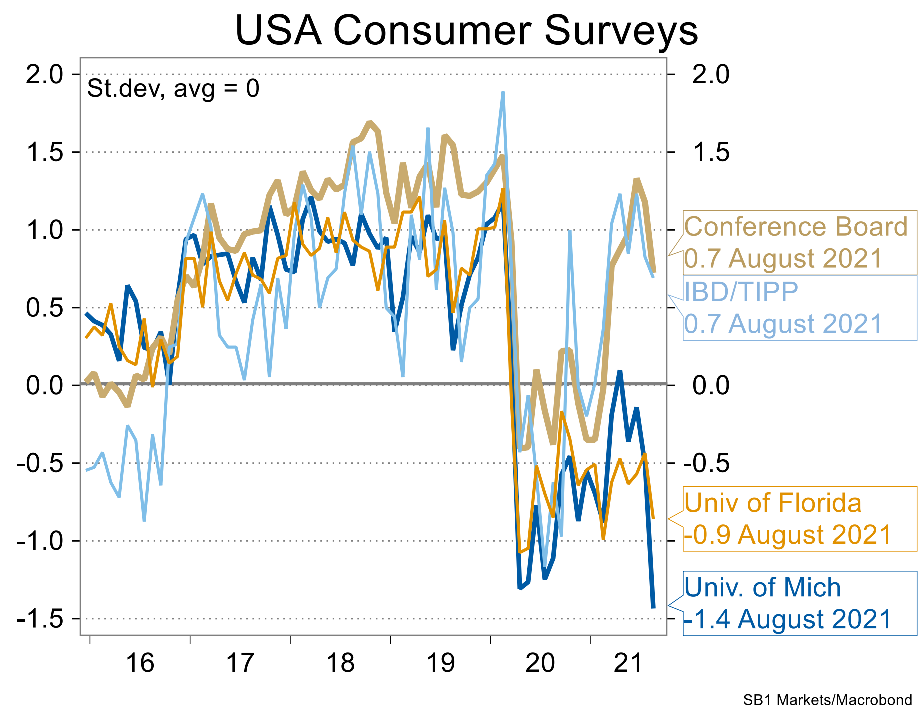


- **Conference Board's consumer confidence** fell to 113.8 in August from 125.1 (rev from 129.1), expected down to 123.4. The decline equalled 0.5 st.dev, but the level is still 0.7 st.dev above avg
  - » Both expectations and the assessment of the present situation fell – the latter is far above average, the former at an average level. Households' expectations fell mostly due to a downgrade of the outlook for businesses
- **University of Michigan's consumer sentiment** index was earlier reported down by 0.9 st.dev to -1.4 st.dev below par!
  - » The discrepancy between the two surveys is the largest ever – and we do not have any good explanation for it
- **Inflation expectations** are still elevated, and have not turned down

All confidence surveys down – and two are on the weak side

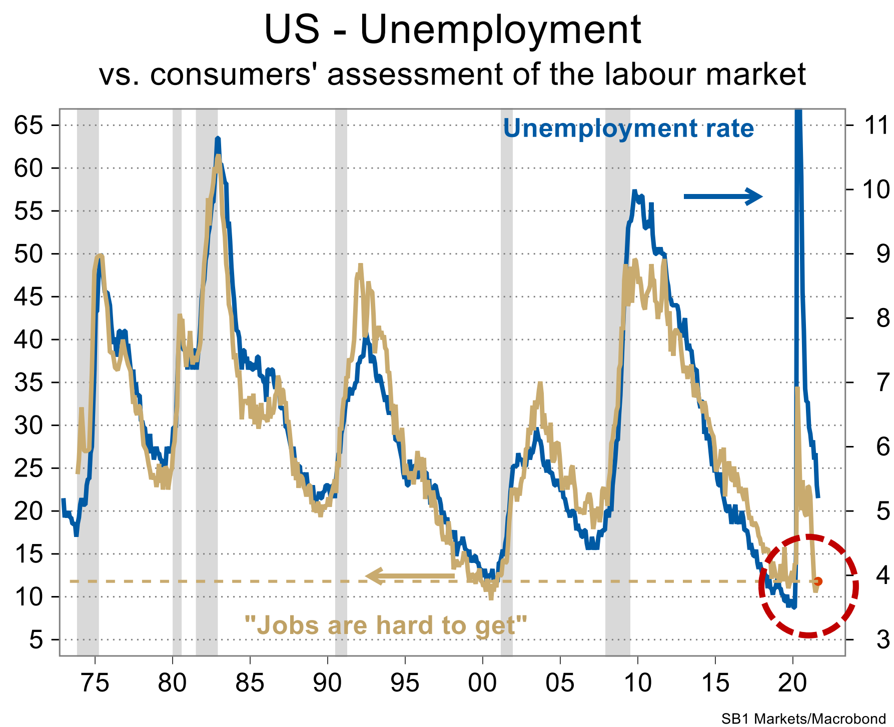
The discrepancy between these surveys is larger than ever

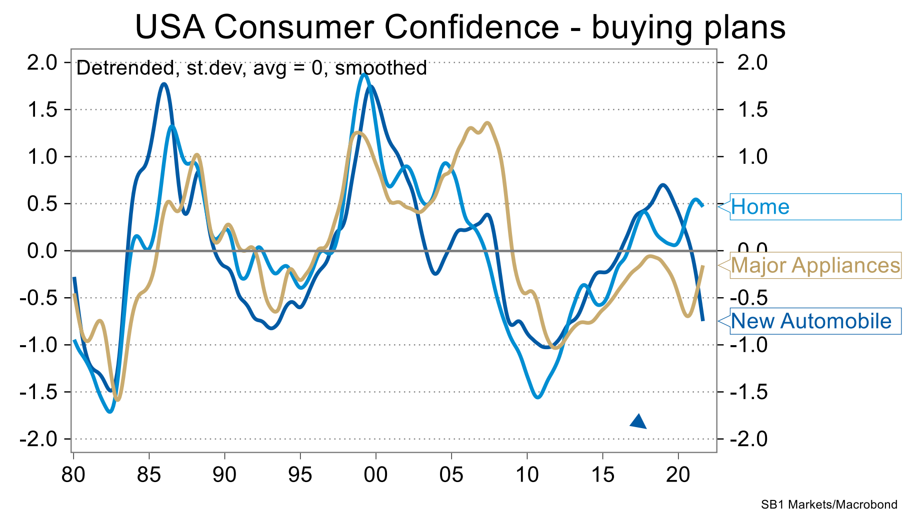


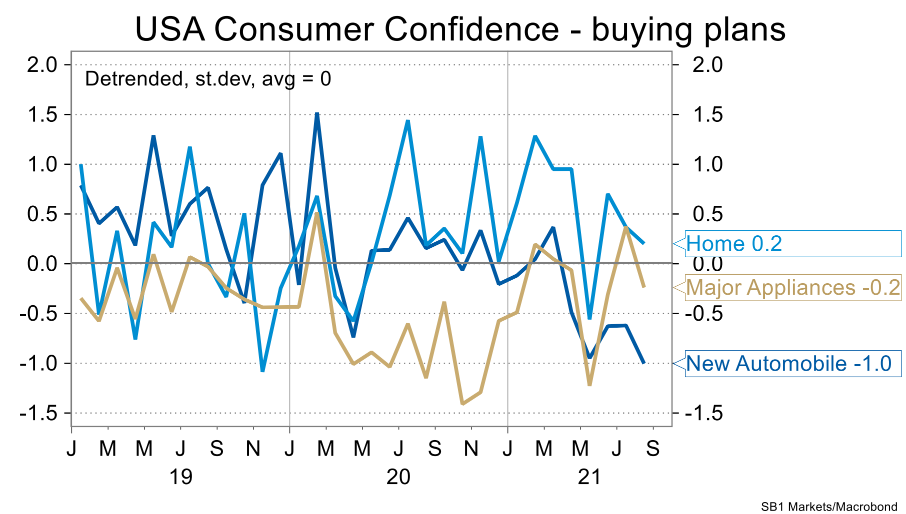


A tad harder to get a job, but still extremely easy. Buying plans slide

July buying plans were revised down, and August ambitions fell further – to below average



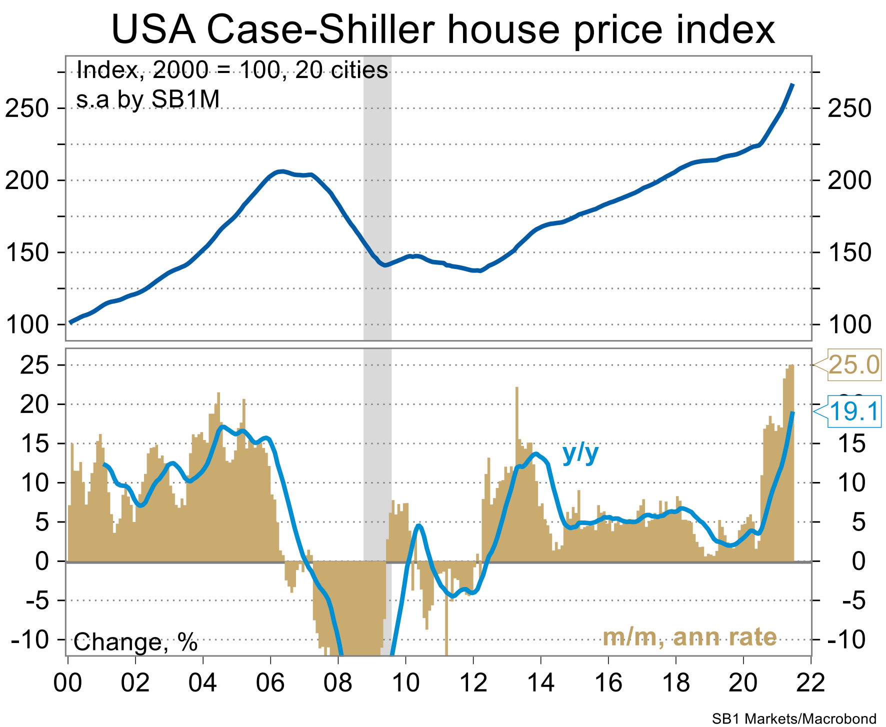


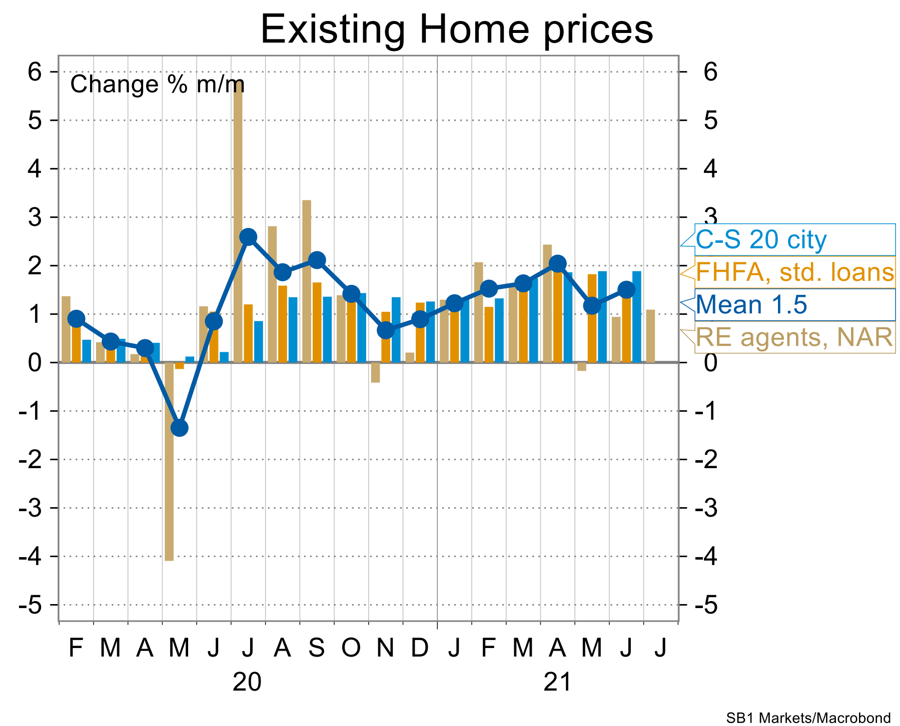


- New autos are not popular – but that is probably mostly due to lack of available care, and not lack of 'real' demand
- XX

House prices climb even faster, Case-Shiller up 19% y/y. Best since 1948

Prices up 1.9% m/m (25% annualised), also not seen for a while

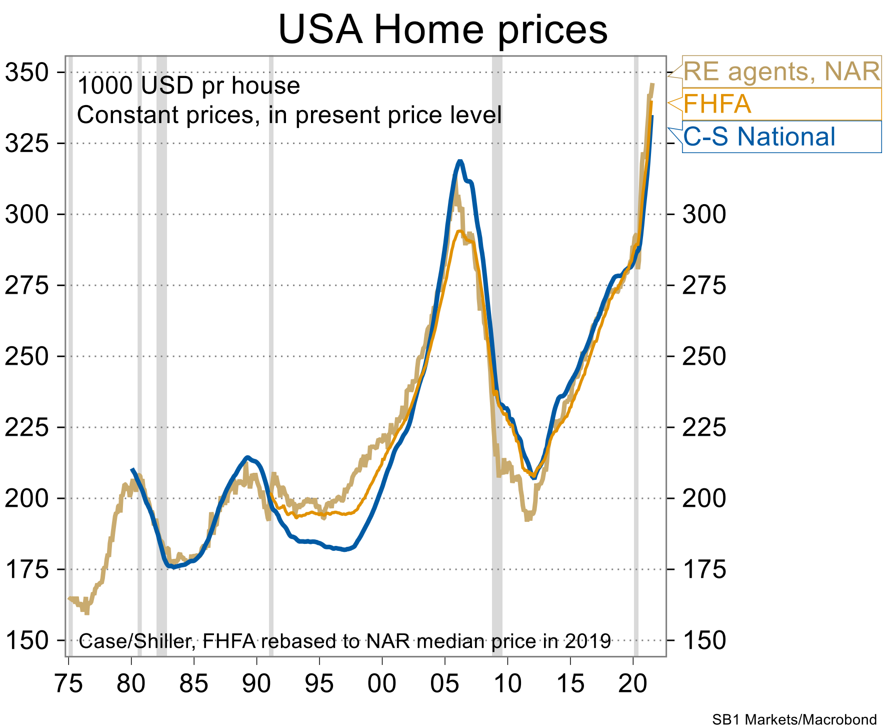


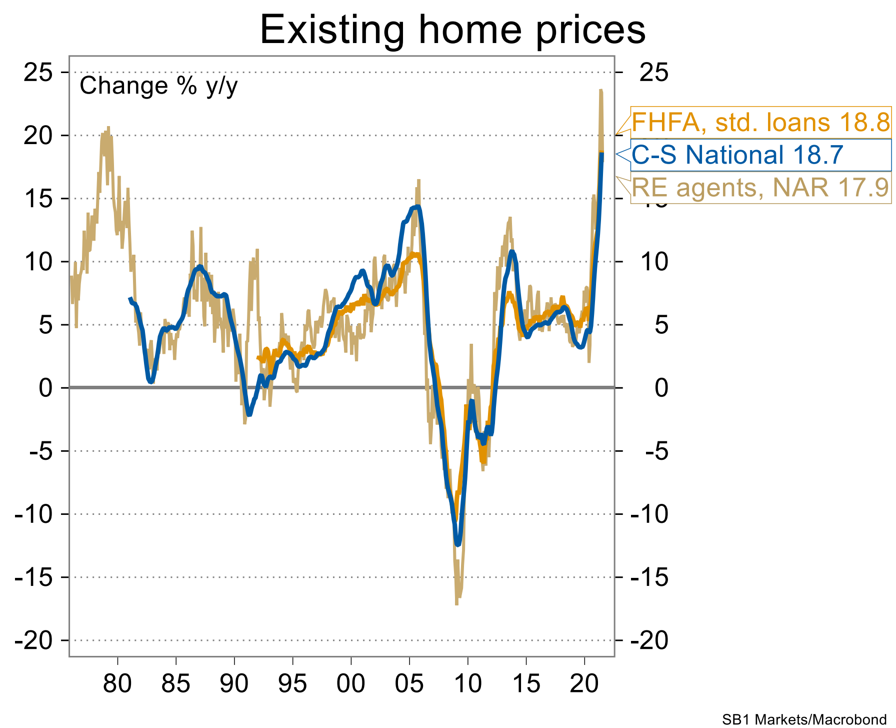


- **S&P's Case/Shiller's 20 cities** price index rose 1.9% m/m in June (May – July avg), equalling a 25% annualised pace. The annual growth rate at 19.1 % is the since just after WWII, and 0.4 pp higher than expected. The **national C-S index** is up 18.7% y/y
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene", has a countrywide coverage), has shot up recent months too. The annual rate at 18.8% is far higher than the 11% peak rate before the housing crisis 15 years ago (chart next page)
- **Relators** reported a 1% price lift m/m July, and the annual rate is 17.9%

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

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

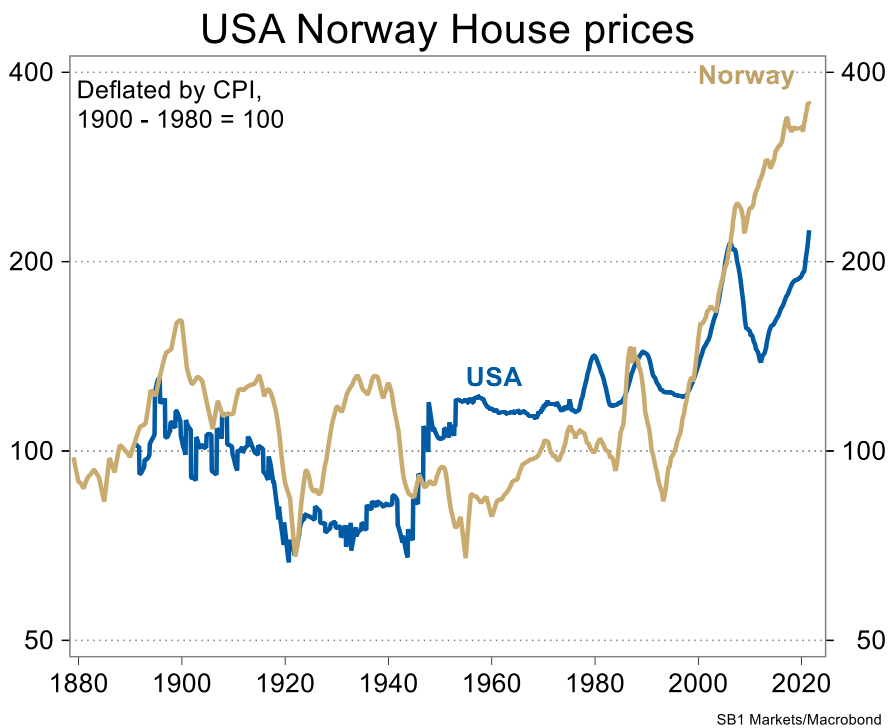


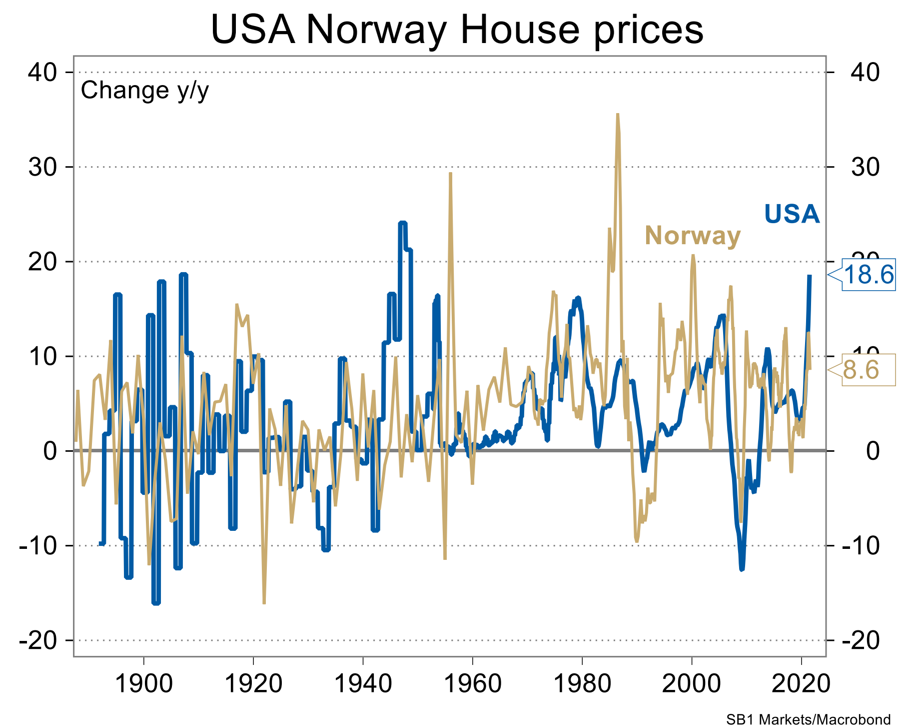


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever (or since 1948), and record high real price levels, with data covering the past 30 – 45 years
- There are some big differences to 2005/6 price inflation & level peak
  - » Housing starts are at far lower level. The inventory of new & 2nd home for sale is record low (vs high 15 – 16 years ago)
  - » The debt/income ratio has fallen sharply since the peak before the financial crisis – and it is now just slowly increasing
  - » The running savings rate/net financial investment rate is high – vs far too low 15 years ago

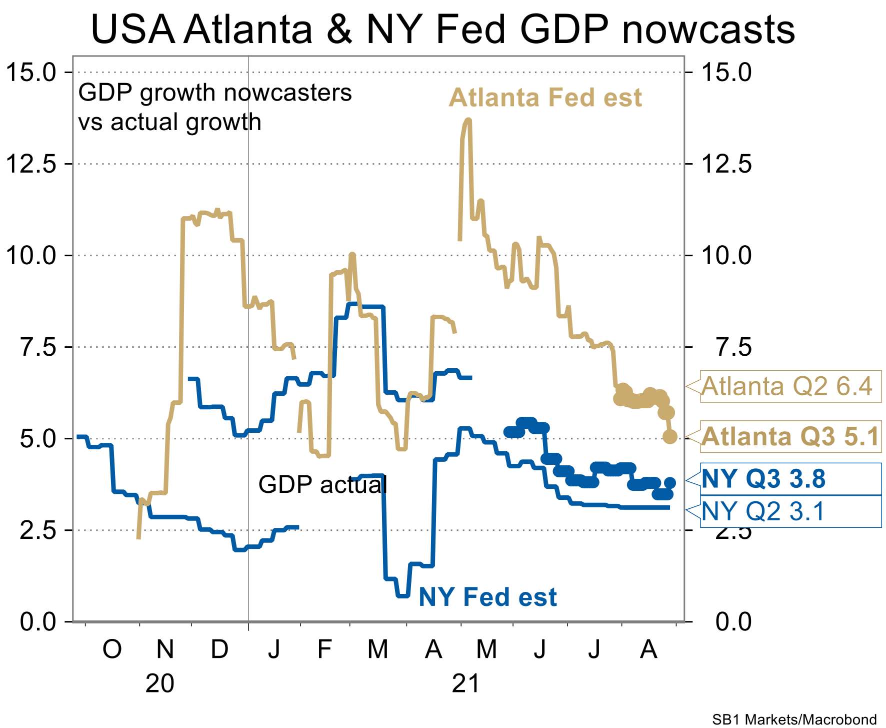
For the record

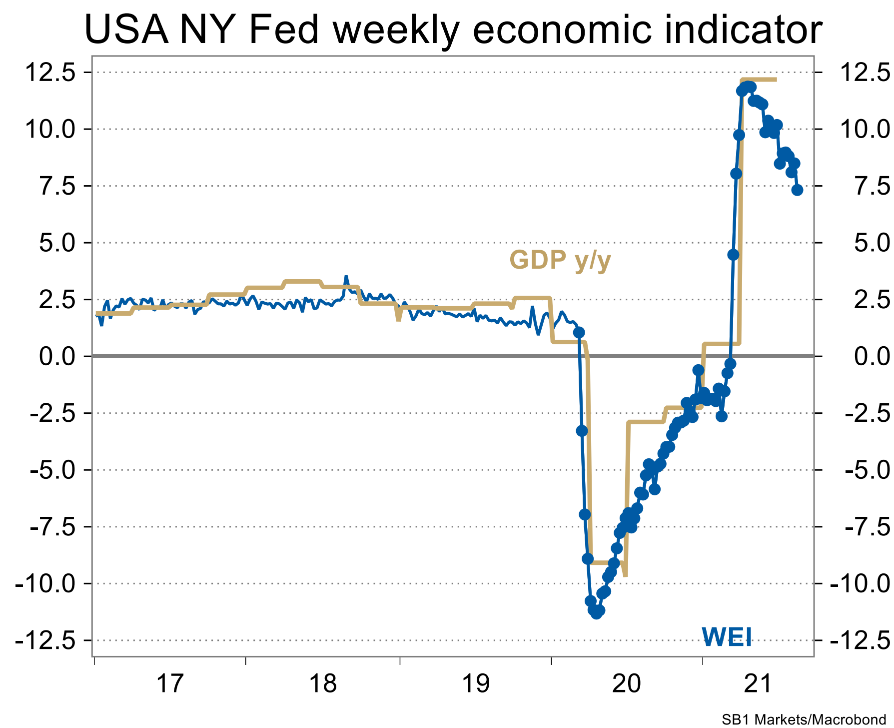
Some entertaining house price charts





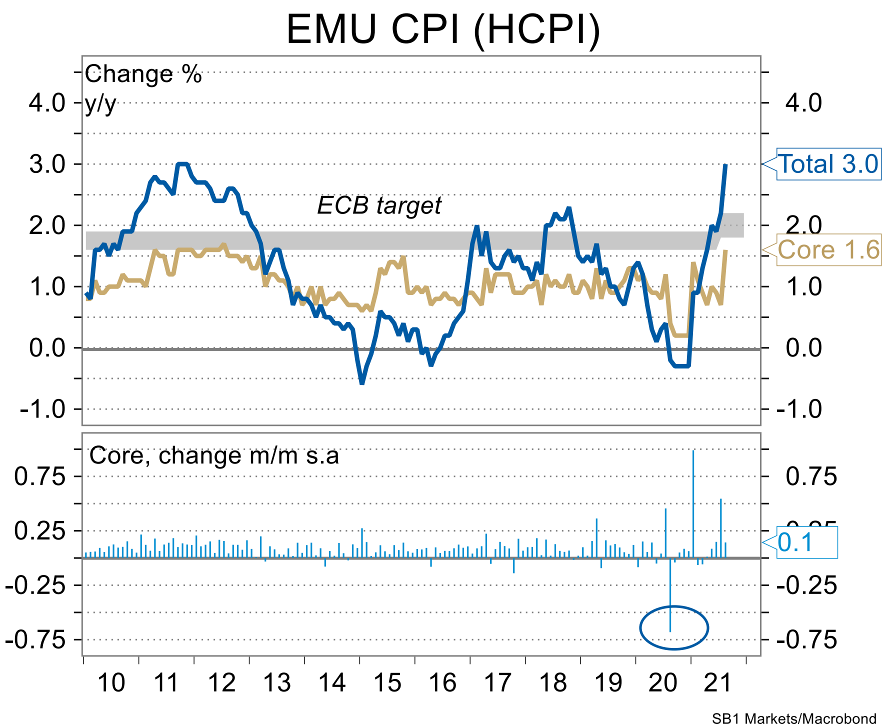
The nowcasters still signal 4% to 5% GDP growth in Q3

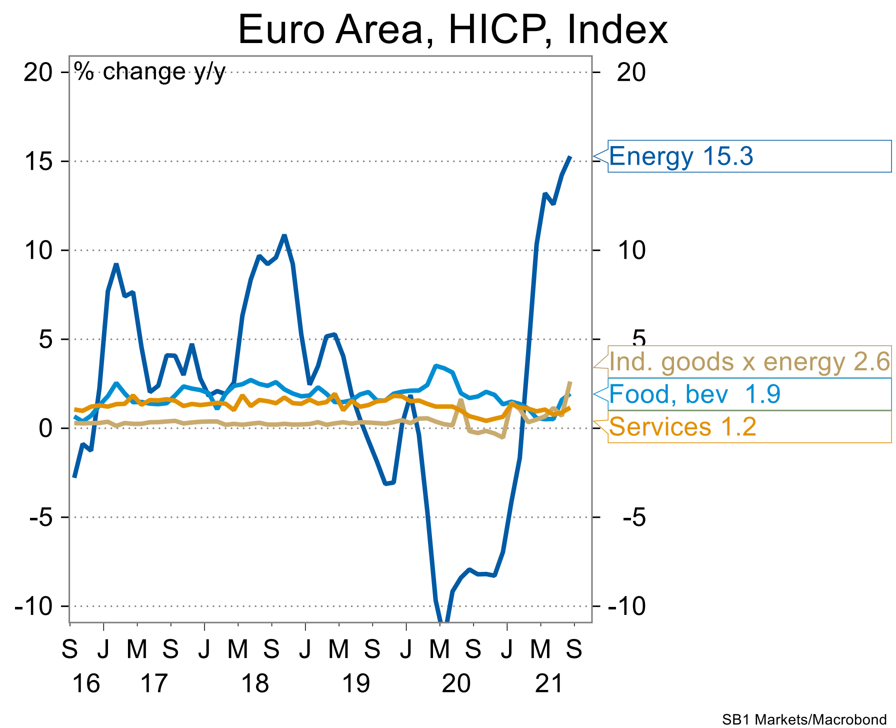




Eurozone core inflation up 0.9 pp to 1.6% in August, total up to 3.0%, 12 y high

The hike in the annual rate due to corona measures that cut prices in August last year



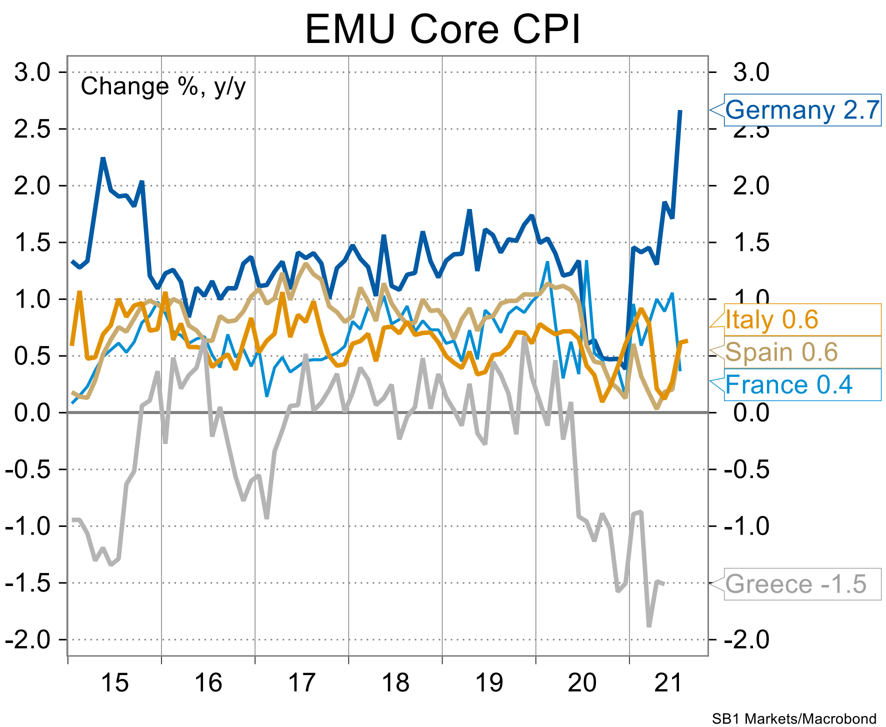


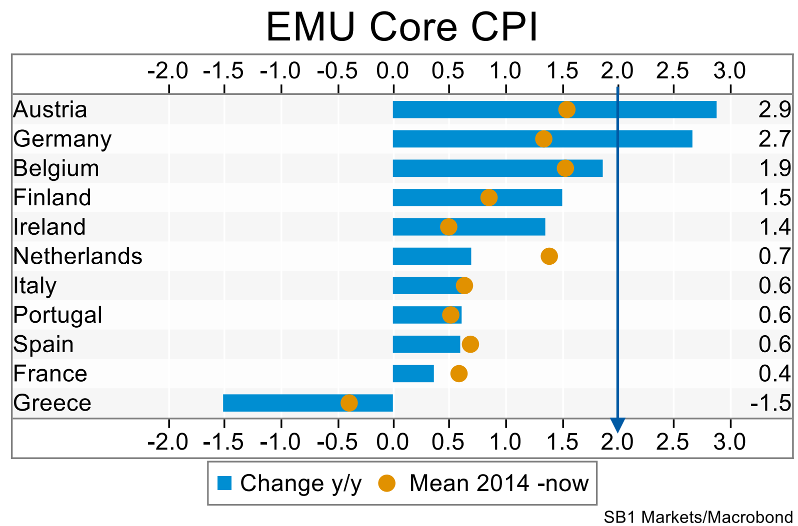
- **Core prices** were up 0.1% m/m and still the annual rate surged 0.9 pp to 1.6% - as prices fell by 0.7 pp last year, due to VAT cuts and other corona measures. This 'real' core inflation is still below ECB's new 2% inflation target
  - » Industrial goods x energy rose 0.1% m/m – but they are up 2.6% y/y. We do not have August details yet
  - » Services were flat m/m, and prices are just up 1.2% y/y
- **Headline inflation** was up 0.8 pp to 3.0% in August, the highest rate since 2008
  - » <u>Energy is the big sinner</u> – up 15.3%, contributing by 1.4 pp to the headline growth
- The annual rate will probably stay elevated the coming months, as the monthly increases were low/negative until Dec-20

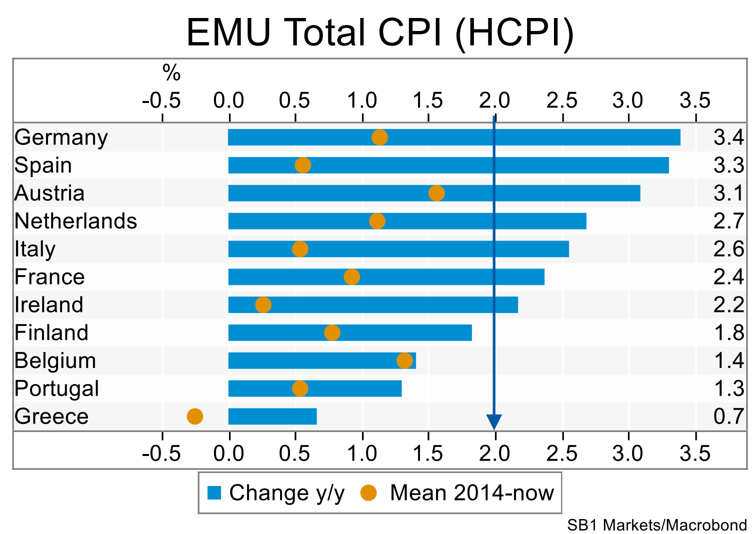
SpareBank 1 MARKETS

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

In Germany, inflation sharply up to 3.4% (total) 2.9% (core) – as the VAT cut impact fell out







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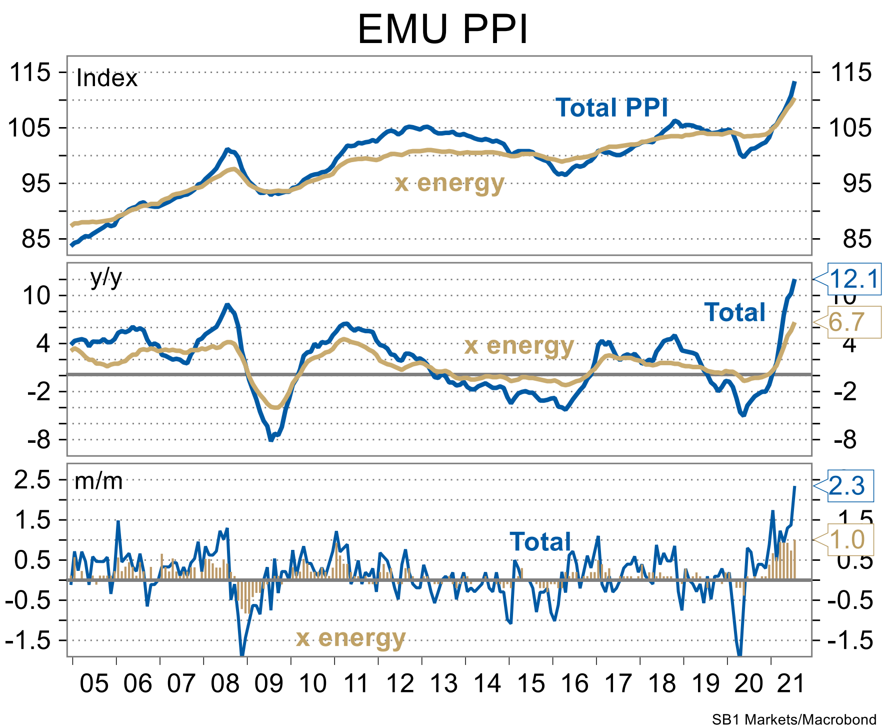
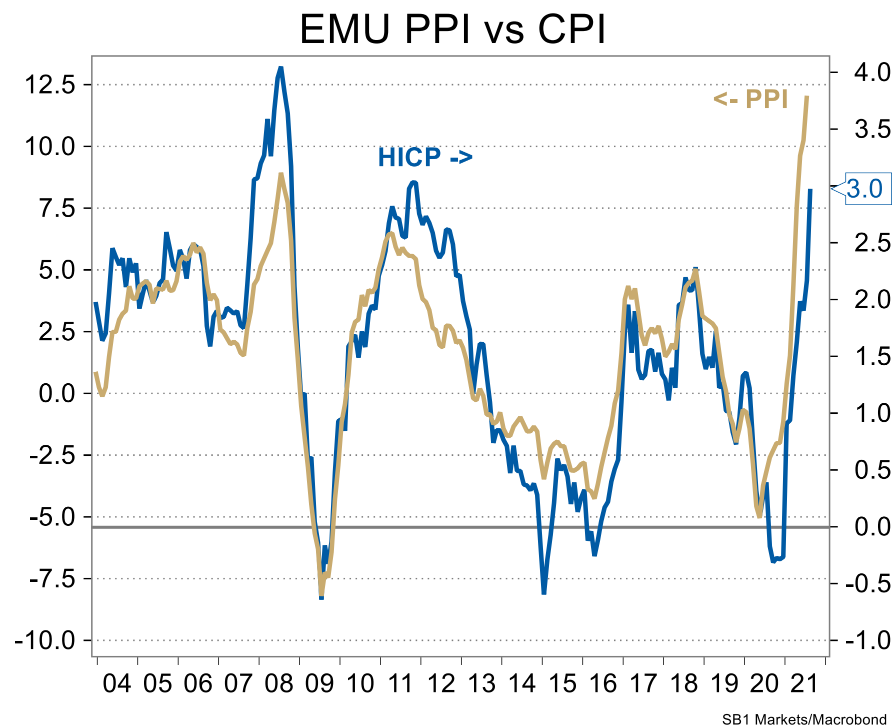
Producer prices soared in July – signals a further increase in headline inflation

PPI up to 2.3% m/m in July, up 12.1% y/y – 1.1 pp higher than expected. CPI on the way up to 4%??



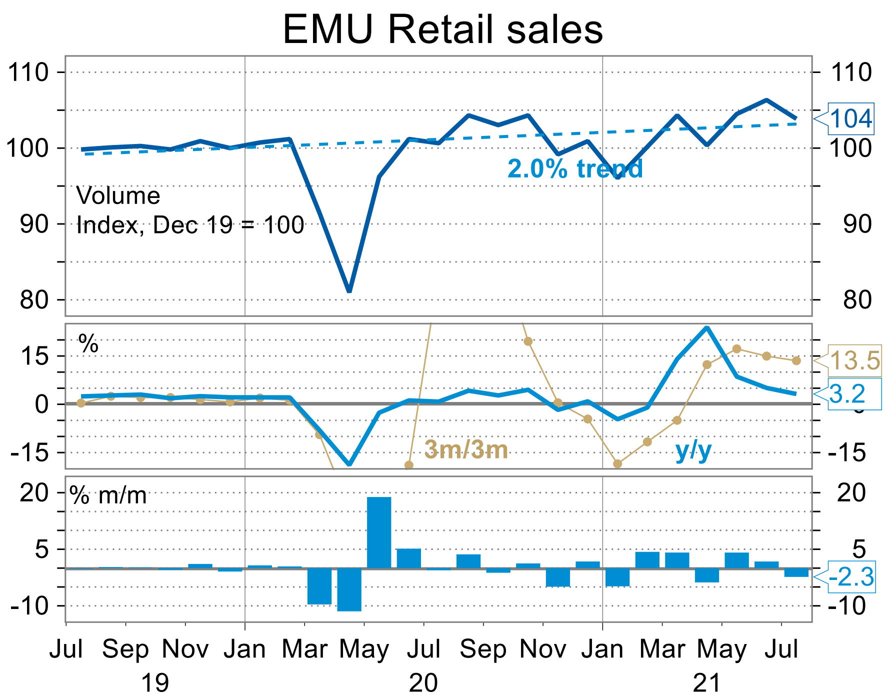


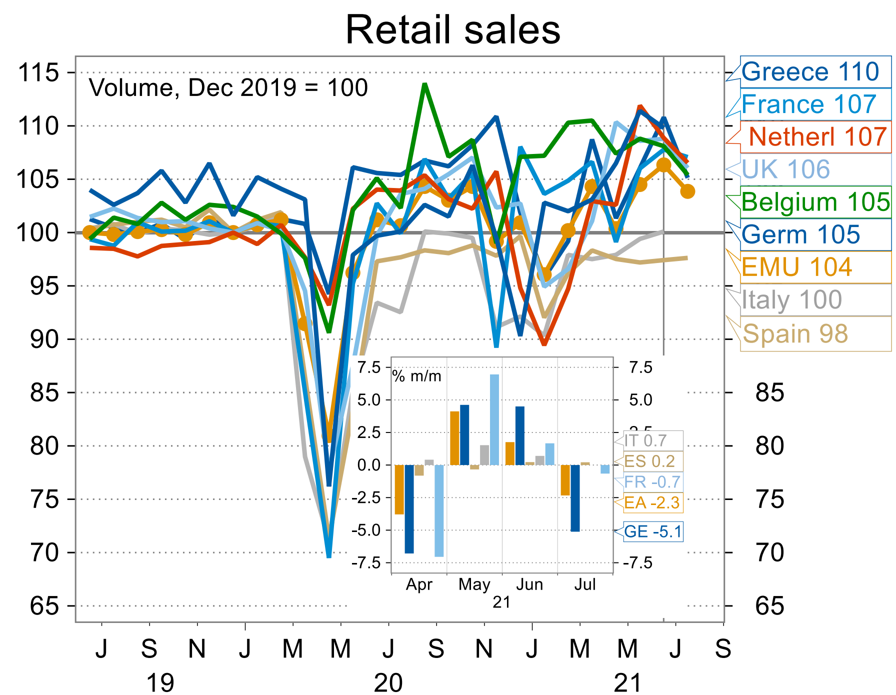
- The PPI ex energy added 1% in July, and is up 6.7% y/y, the **highest level on record** – data from 2000
- But of course, this is all transitory… ☺

SpareBank 1 MARKETS

Eurozone retail sales down 2.3% in July – to 4% above the pre-pandemic level

Sales were expected up 0.1% – but a unexpected 5% (!) decline in Germany brought the total down

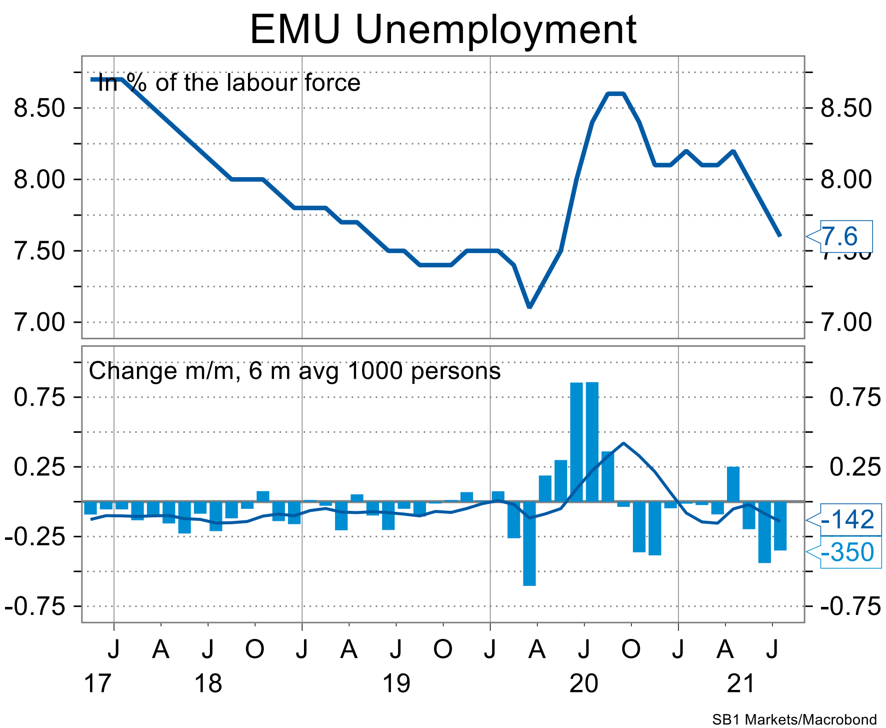


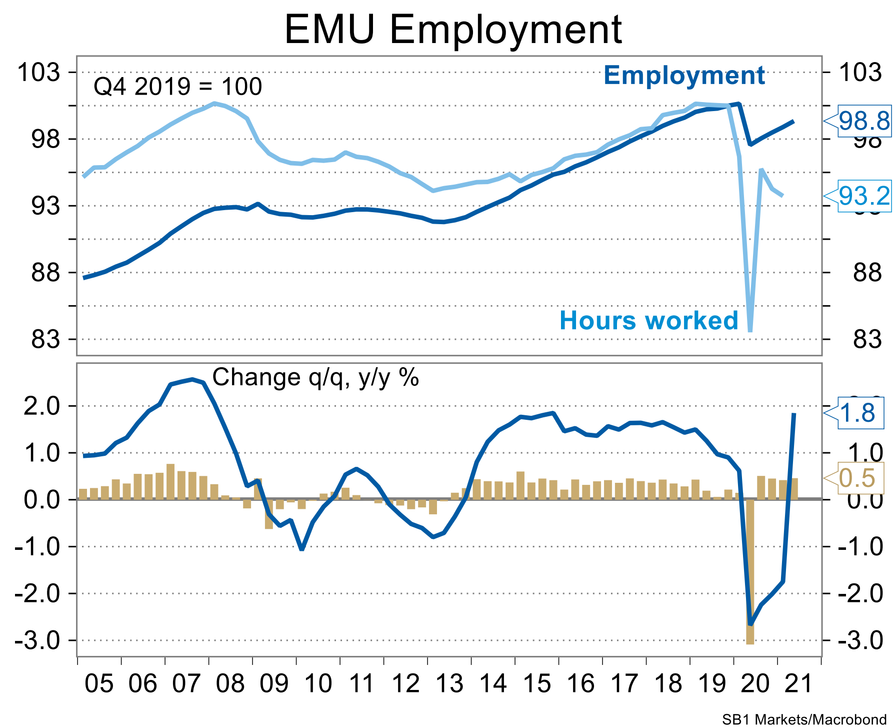


- Retail sales fell 2.3% m/m in July, while the June sales growth was revised up 0.3 pp to +1.8%. All retail branches were down, and internet sales were down the most, by 7.3%. Sales are close to the pre-pandemic approx. 2% growth path
  - » German sales fell sharply in July, by 5%, far more than expected (-0.9%). The level is still 5% above the Dec-19 level, above the pre-pandemic German trend path
  - » French sales fell by 0.7% but are still strong, +7% vs. Dec-19
  - » Sales in Spain rose by 0.2% but are 2% down from before the pandemic, blame the tourists (but how come Greek sales are 10% up??)

Unemployment down to 7.6% in July, from 7.8% (revised up from 7.7%)

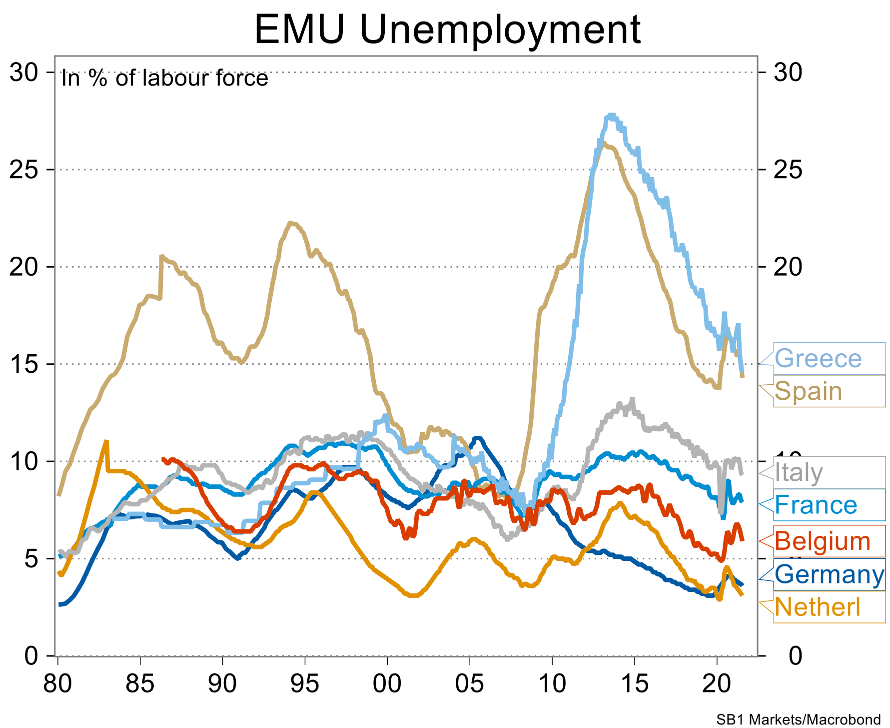
Unemployment fell by 350' – and is trending down – and is just 0.1-0.2 pp above the pre-Covid level!

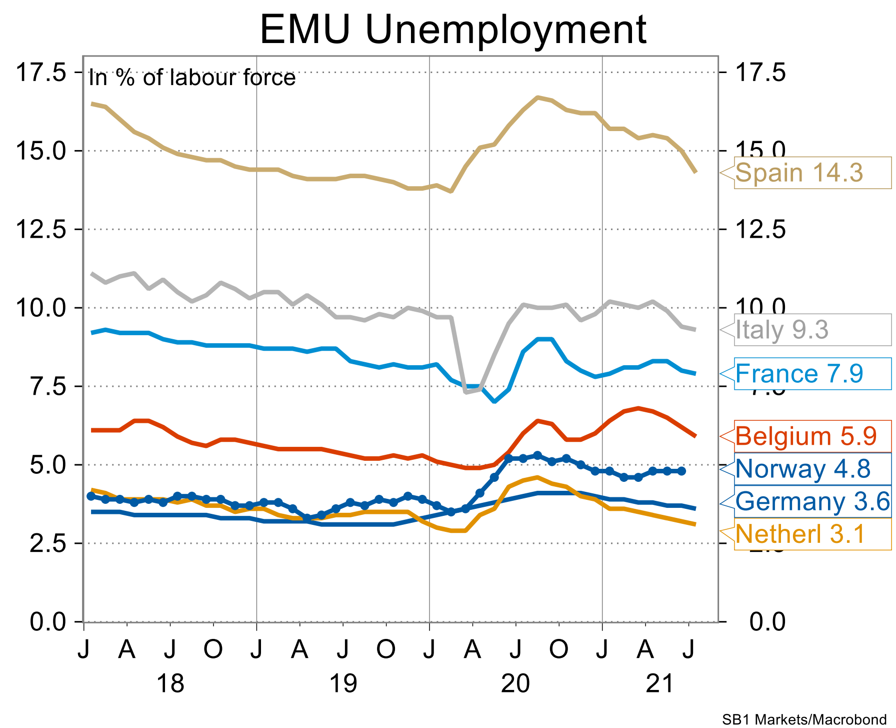




- **Unemployment** is falling rapidly as the economies are opening up – and the number of unemployed remains just some few tenths above the pre-pandemic level at 7.4% – 7.5%
- **Employment** rose by 0.5% in Q2, as over the previous 3 quarters, and it is 1.2% below the pre-pandemic level – and it is now steadily narrowing
- However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q1, hours worked were down 7% vs the pre-pandemic level, while the no. of employed was down just 1.7% - as average working hours were cut substantially. Given the 2% growth in GDP in Q2, the hours worked gap will very likely be reduced to 5% – 6% in Q2 - still a low level though

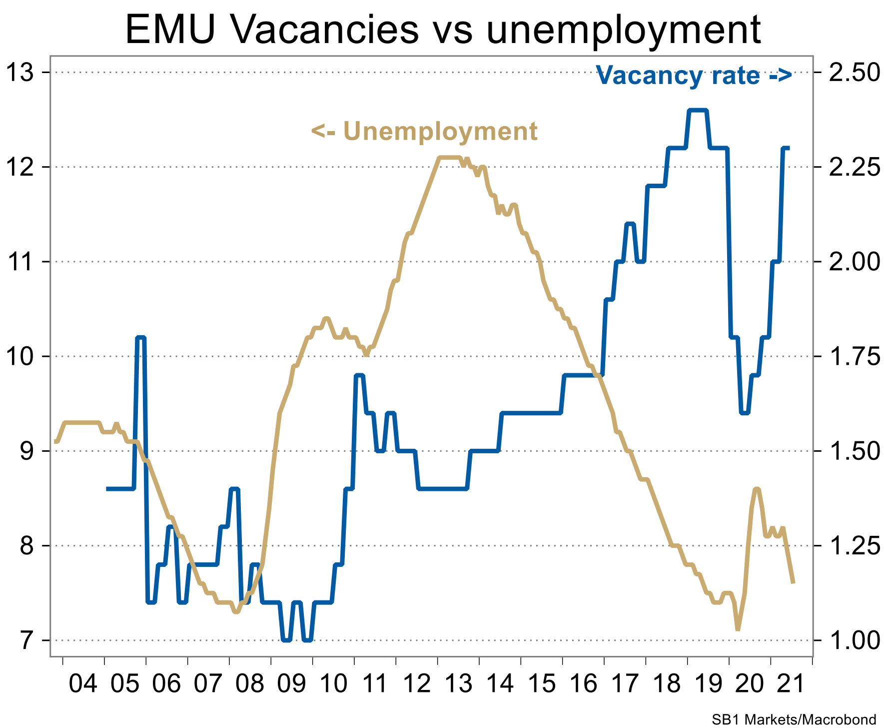
Unemployment is falling all over the region

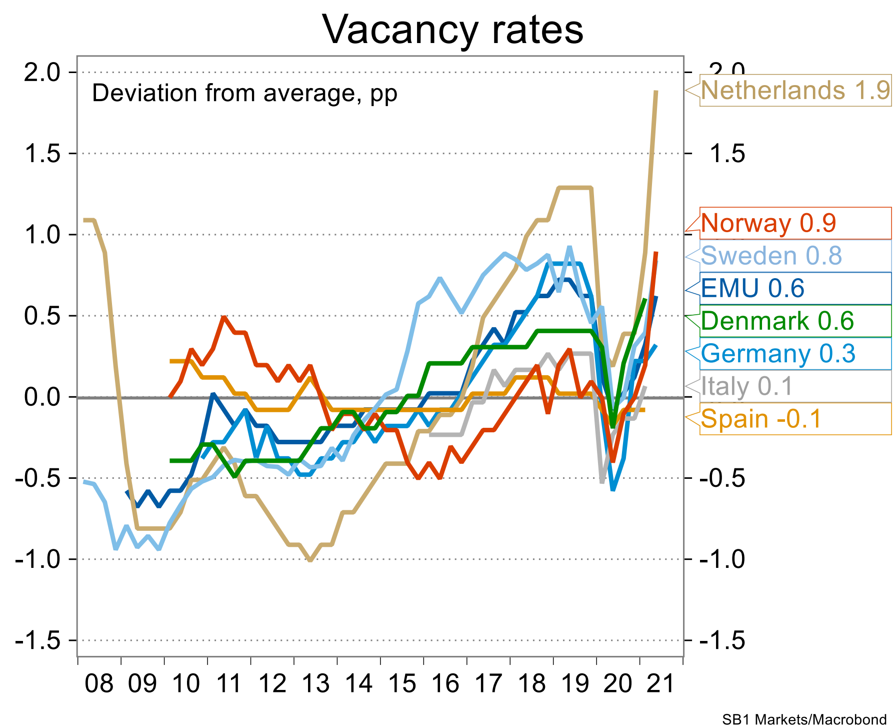




Businesses are reporting even more unfilled vacancies

… in tandem with the decline in the unemployment rate

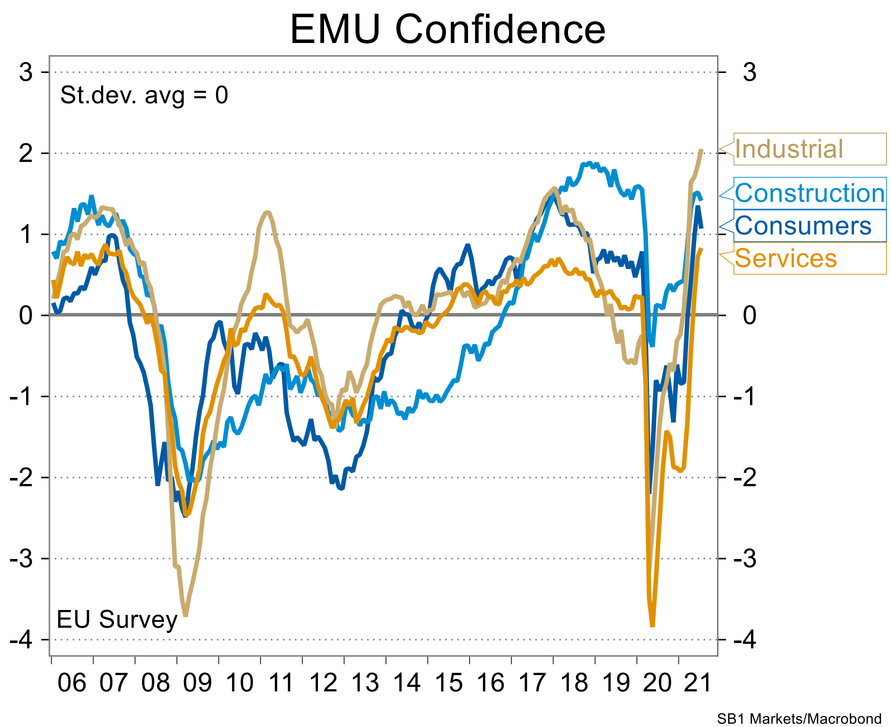


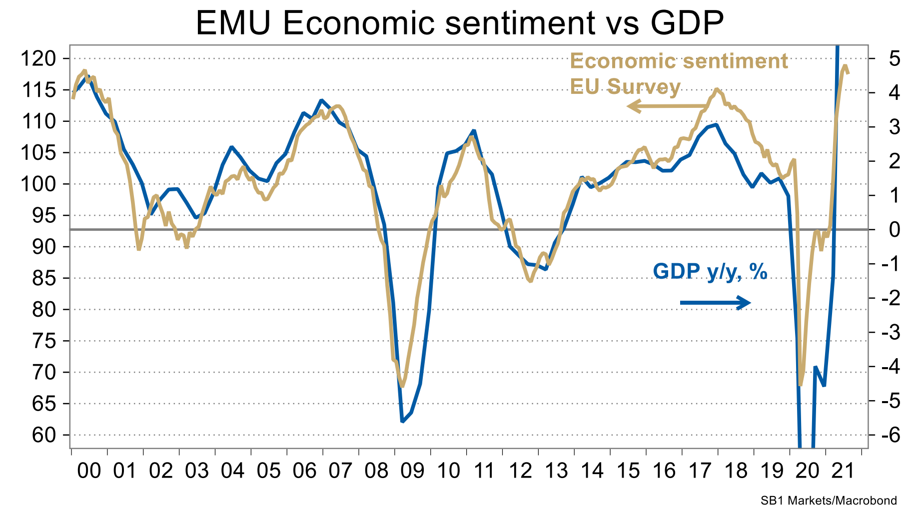


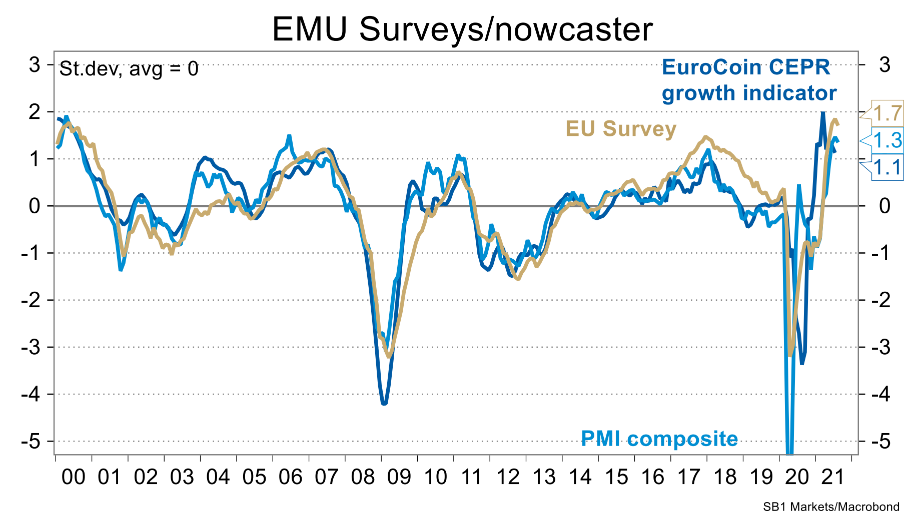
- Almost all European countries are reporting a steep increase in vacancies, and all but Spain to a higher level than the average past 10 years (which these stats cover). Several countries are reporting record high vacancy rates

Economic sentiment just marginally down in August, from ATH in July

Services and industrial sectors improved further despite Delta concerns



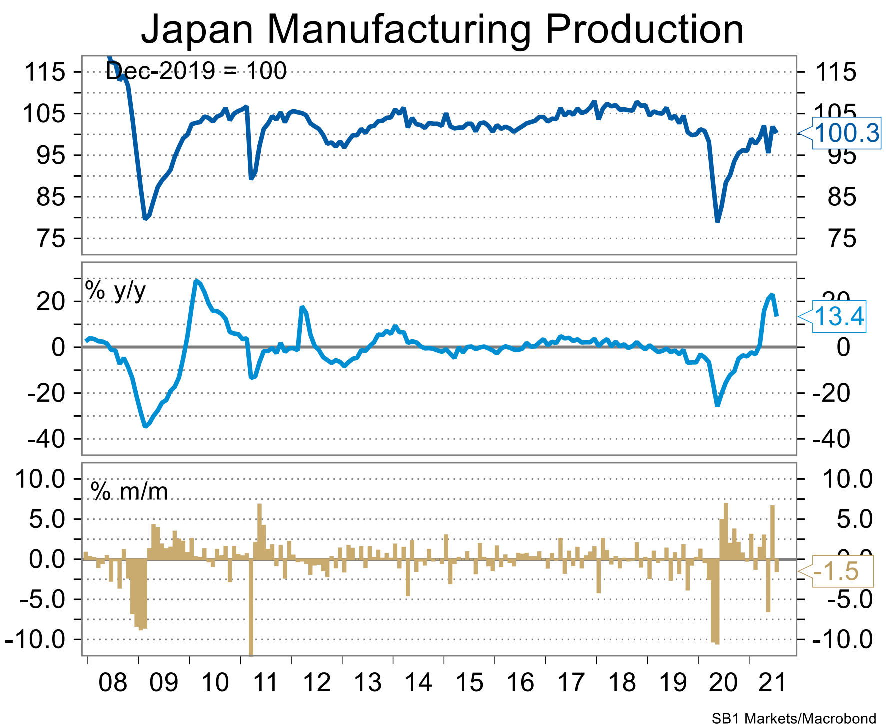


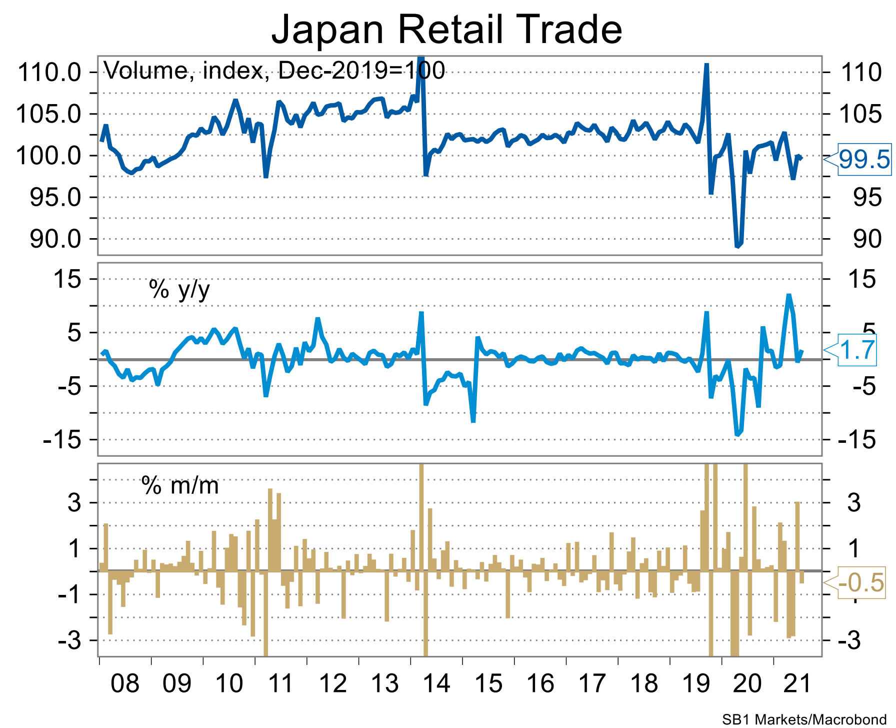


- EU's confidence survey for the Euro area fell 1.5 p to 117.5 in August, expected down to 117.9 – thus just marginally down the ATH in July
- The **main index** is still 1.7 st.dev above average, signalling roughly 4.5% GDP growth
  - » **All sectors** are signalling above average growth. Services rose further, even if the virus situation deteriorated
  - » **Consumer confidence** fell in August, as the preliminary report indicated
- Other surveys and nowcasters confirm the strong growth momentum in the Eurozone economy

Manufacturing production declined 1.5% in July – retail sales down 0.5%

Both less than expected – but the levels are not impressive

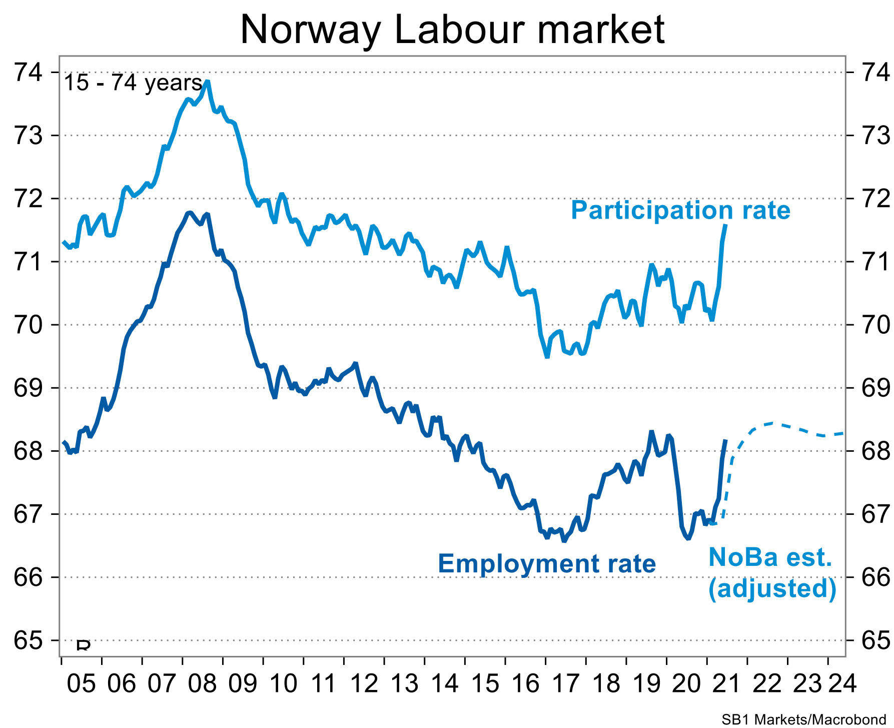


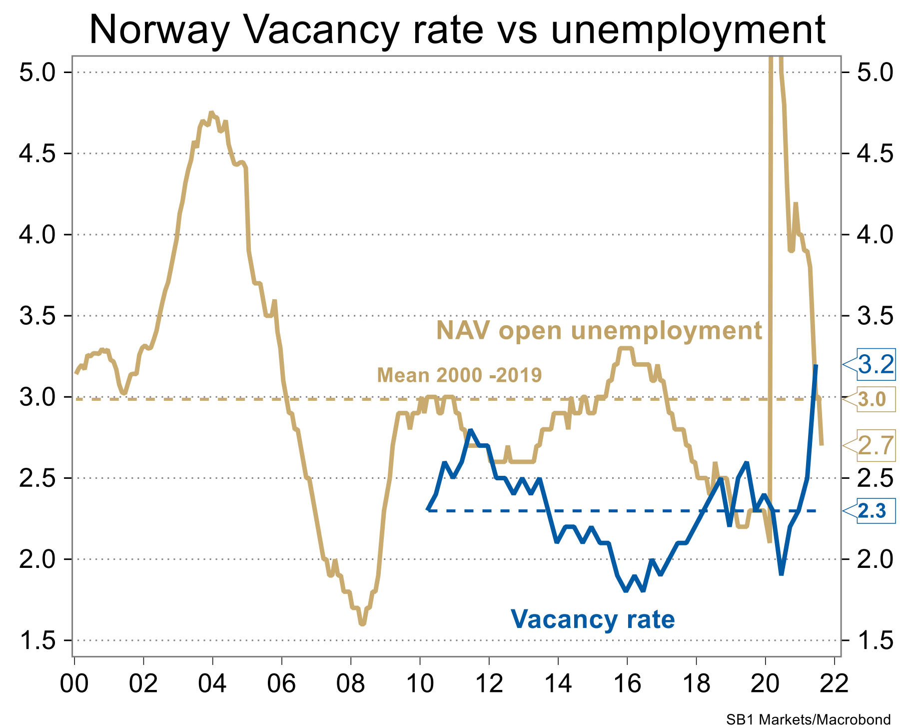


- In June, **total manufacturing production** rose by 6.6%. The 1.5% decline in July was better than expectation at -2.5%. Production is slightly above (a weak) pre-pandemic level
  - » In May **auto production** fell 20%, and in June it recovered by 23% - explaining most of the large change in total production. In July, auto production fell by 'just' 3% - and it is down 10% vs the 2019 level. Japanese automakers have announced deep production cuts in H2 (both in Japan and abroad)
  - » **Manufacturing surveys** are still strong XX – even if production is far from impressive
  - » **Order inflow** has strengthened substantially recent months, and signals a higher production level
- **Retail sales** fell by 0.5% in July is below the pre-pandemic level

Strong labour market data, even the particiaption rate is surging!

The employment rate is back to the pre-pandemic level, NAV unempl. falling, vacancies are surging

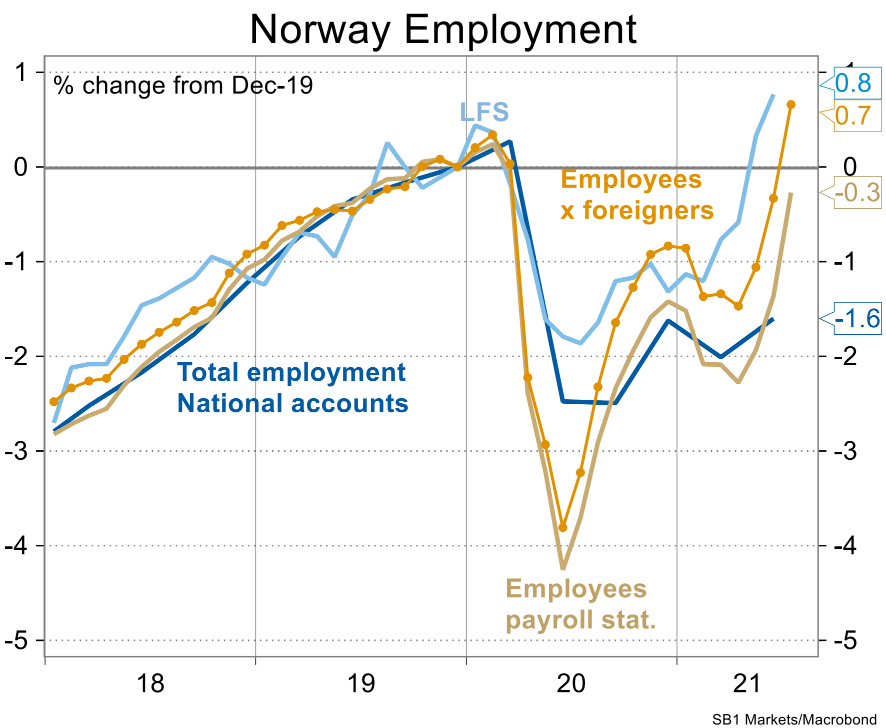


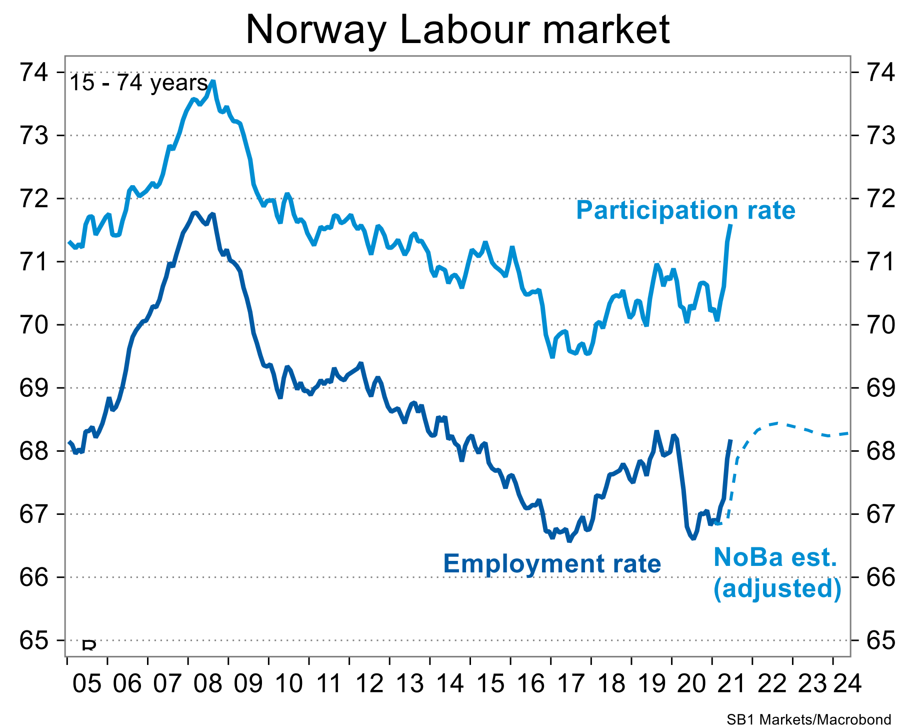


- **Employment** ex. foreigners on short term stay is approx. ¾ % above the early 2020 level, following the recent 1 – 2% surge. Incl. foreigners, 0.3% below early 2020 level. **The employment rate** is back to the pre-pandemic level, earlier than Norges Bank's June f'cast implied
- **The participation rate** is well above the pre-pandemic level following the surge recent months – in fact the highest in 10 years – and explains why the LFS unemployment rate has not fallen back to the pre-pandemic level, at it remained at 4.8% in June
- **NAV registered unemployment** is fell 0.3 pp to 2.7% in August, to 0.2 pp below NoBa's June forecast. The level is 0.5 pp above the pre-Covid level
- **The inflow of new vacancies** have been running at a very high level – at approx. 50' per month – since early spring
- **The unfilled vacancy rate** rose to 3.2% in Q2 (and above open unempl.), from 2.5% in Q1. The previous ATH was 2.8% (in 2011, data from 2010)
- **Supply rather that demand for labour** seem to be the limiting factor at the labour market

Wow, the participation the highest in 10 years, up 1.5 pp recent months

The employment rate rose sharply as well, and ahead of NoBa's June f'cast

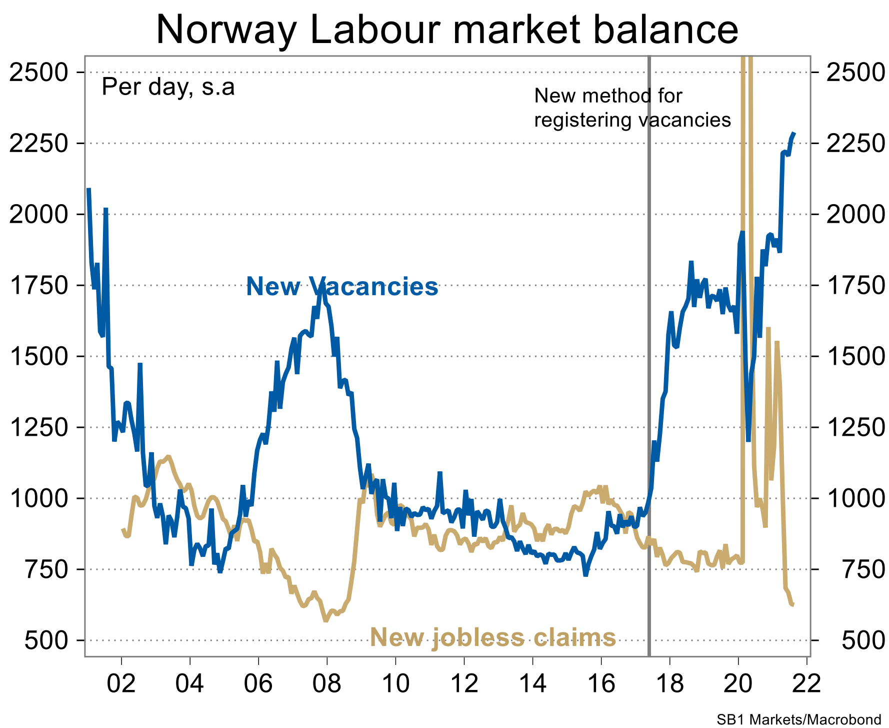


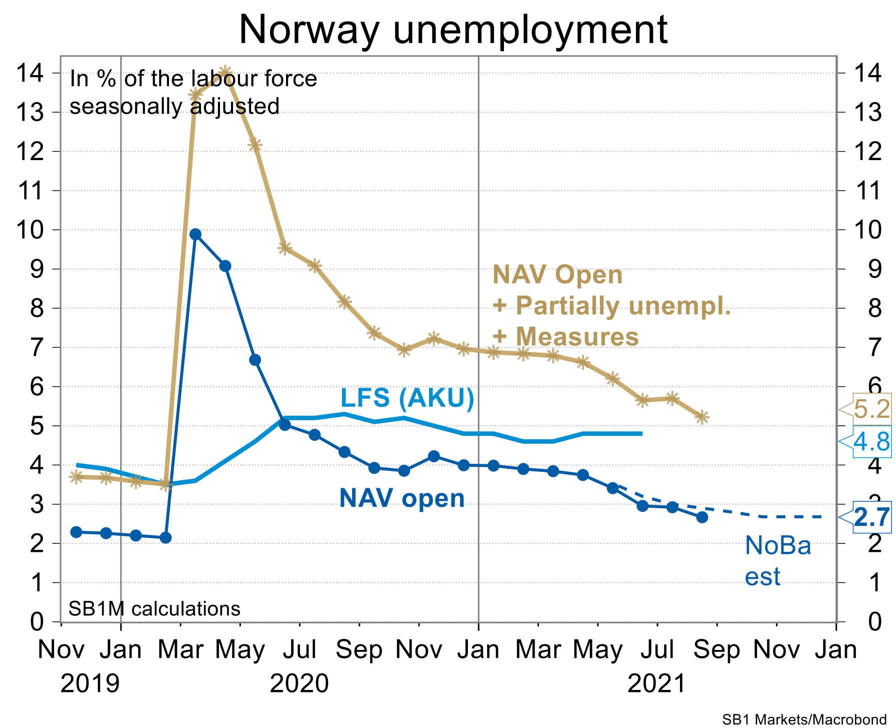


- **According the LFS, employment rose by** 12' persons m/m in June (May-July avg), or by 0.4% following the 0.9% lift the previous month! Since the start of the year, employment is up by 2%. <u>The employment level in June is 0.8% above the pre-pandemic level.</u> The surge in the no. of employees is confirmed
- The actual growth in the employment is at least as rapid as Norges Bank assumed in June

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

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

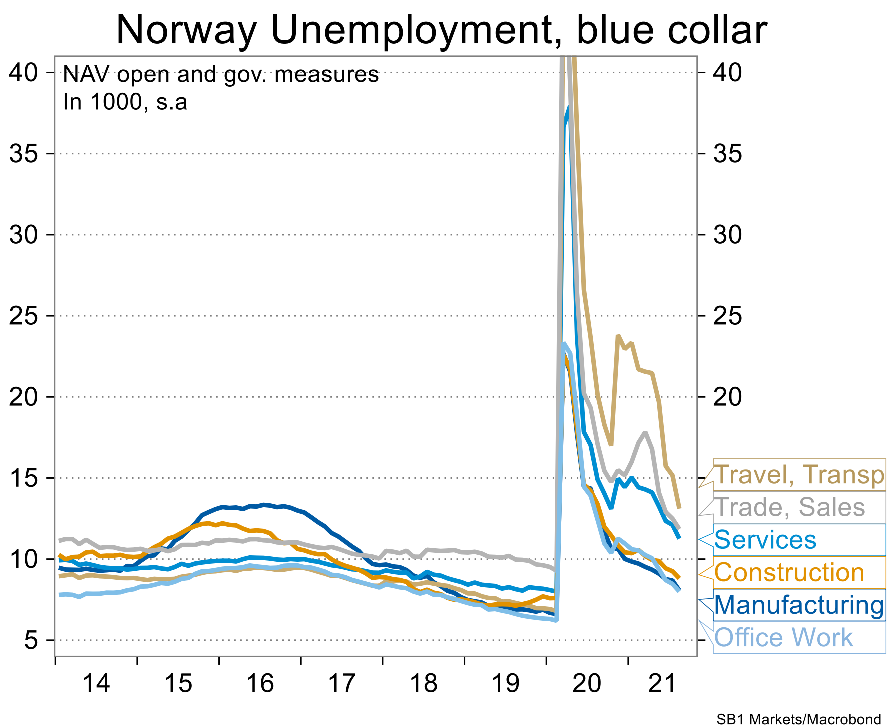


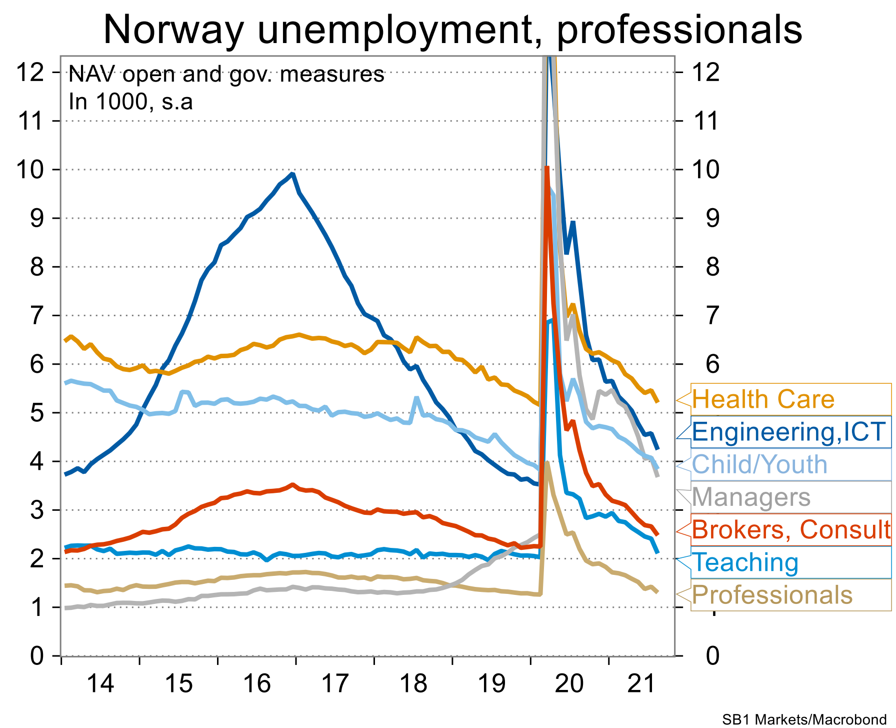


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 7' in August (seas. adj) to 77' we expected 78'. The rate fell by 0.3 pp to 2.7%, and is 0.2 pp below NoBa's path (from June). Unemployment is falling everywhere and for all sorts of labour
- The number of **partially unemployed** (not counted in the ordinary unemployment number) fell sharply too, by 7' to 56'. Including labour marked measures, the **total unemployment** fell by 14' to 150' – still 57' above the pre-pandemic level. The rate is 5.2%
- The inflow of **new job seekers** fell further in July, and the inflow of new vacancies rose further from a high level the previous 3 months
- **The AKU unemployment rate** was flat at 4.8% in June, but **employment is surging** (and the participation rate too)

The decline in unemployment sharply down across all sectors

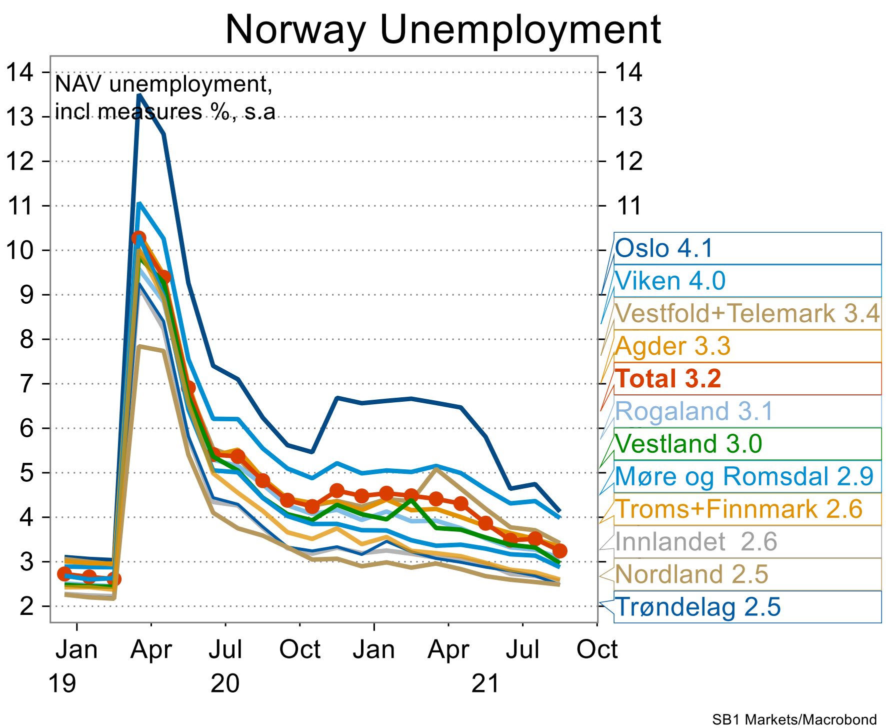
All sectors are trending rapidly down, at the fastest pace in travel/transport & trade/sales

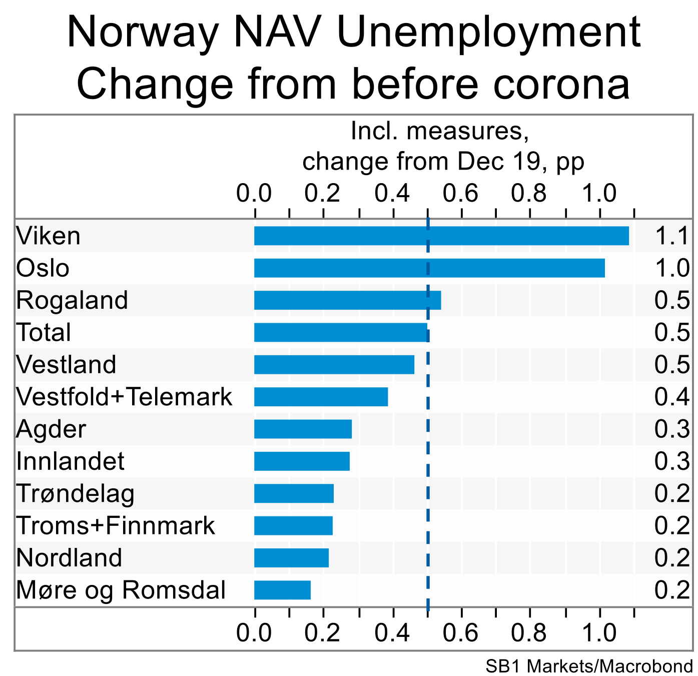




Unemployment down everywhere in August, the most in Oslo

… where it is the highest

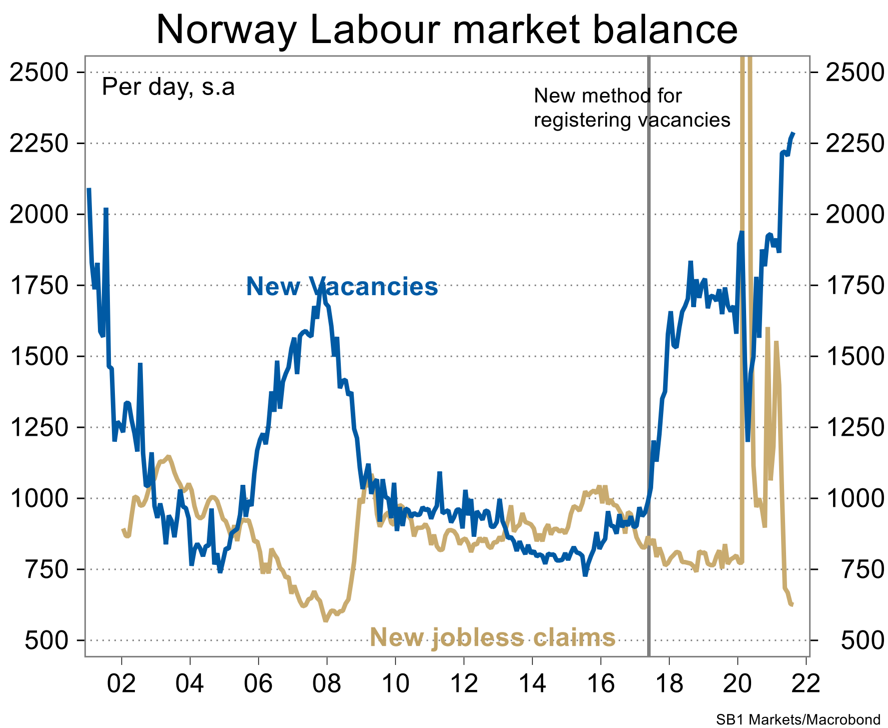


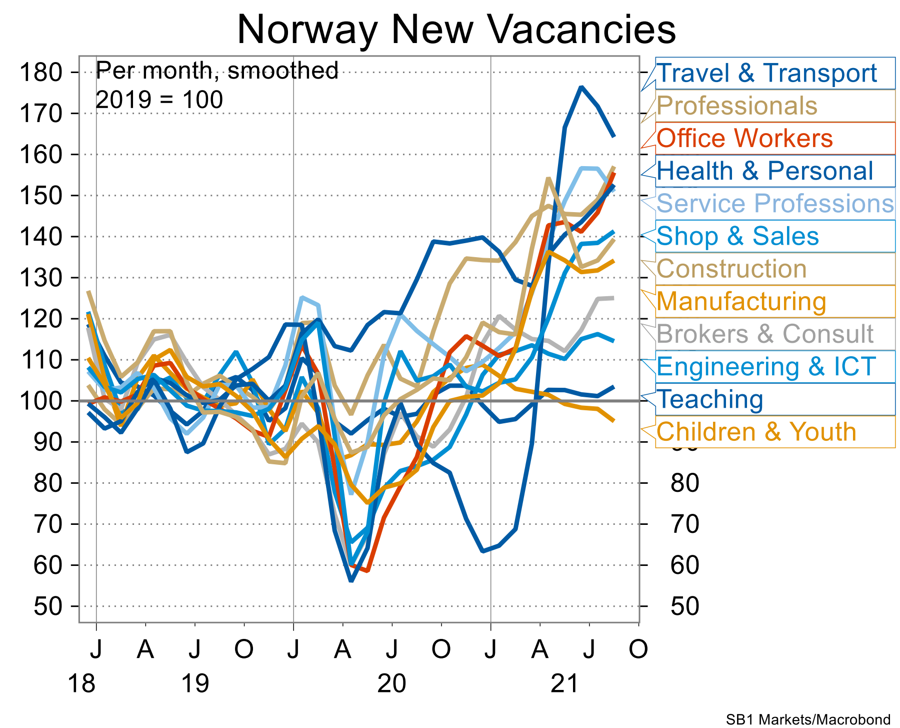


- **Oslo** has by far been the hardest hit county, both due to restrictions and a large service sector – followed by Viken
- Unemployment falling everywhere
  - » In 8 of 11 counties, the unemployment rate ('full time' + measures) is up less than 0.5 pp since before corona.
  - » Viken and Oslo is still up 1.0 – 1.1 pp, and unemployment is still above 4%
  - » The national average is 3.2% ('full time' unemployed + measures), up 0.6% above the pre-pandemic level

A huge inflow of new vacancies for the 5th month in a row!

Travel/transport (restaurants incl.) at the top – but the inflow has peaked



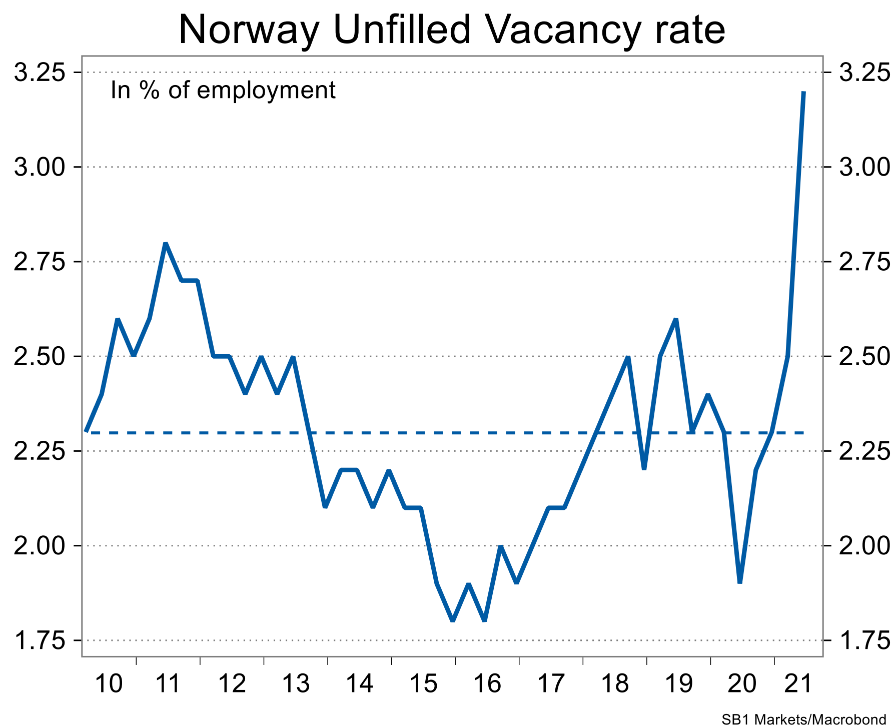


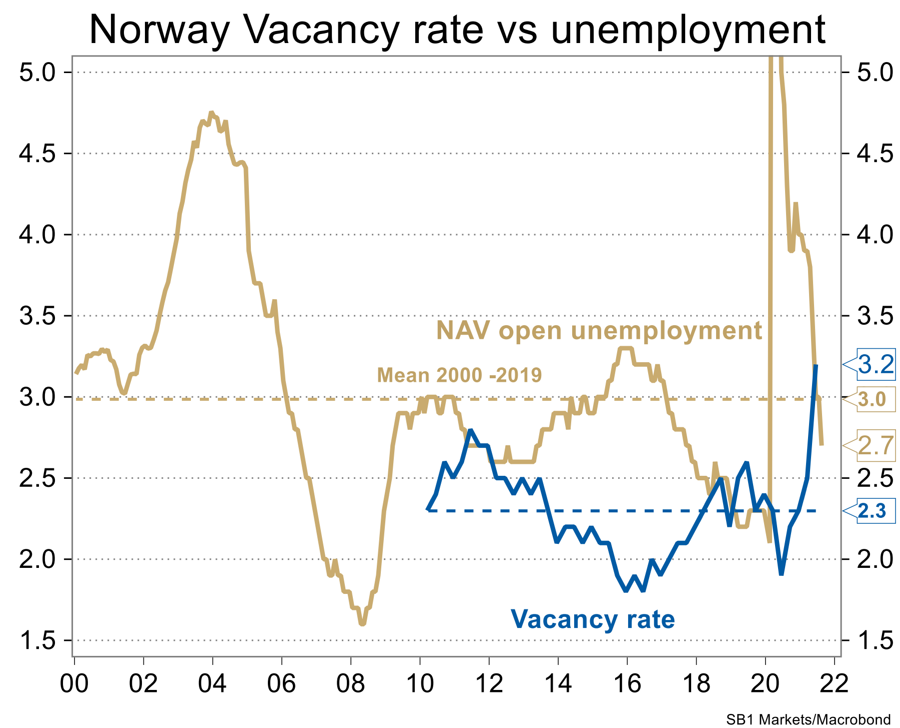
- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)
- The no. of new jobless claims is running at a very low level

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

Unfilled vacancies surged – the labour market is tight, at least without foreigners

Vacancies +30% q/q – putting the vacancy rate at 3.2%, far higher than anytime before

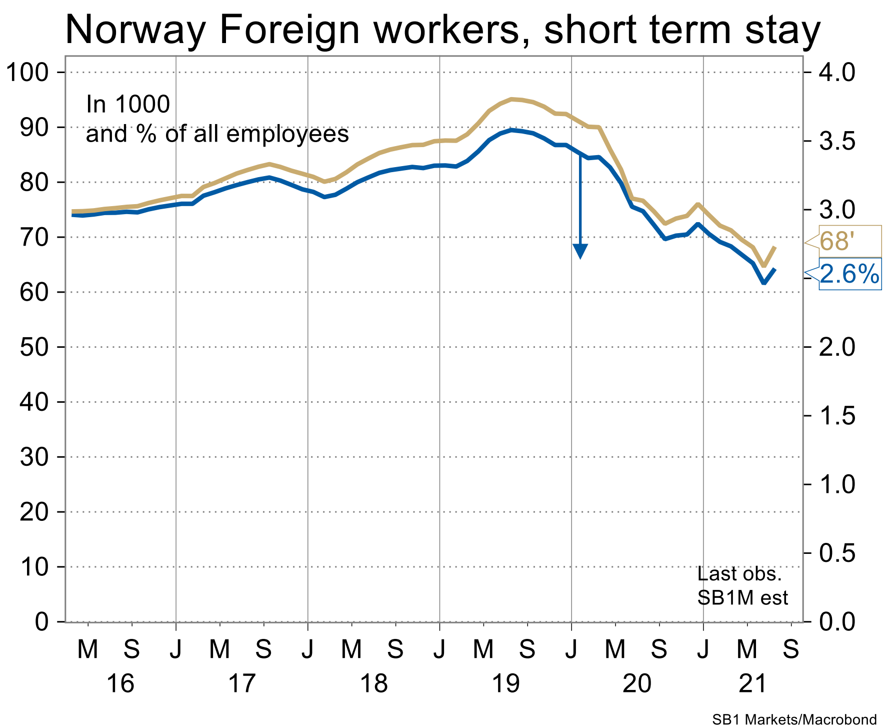


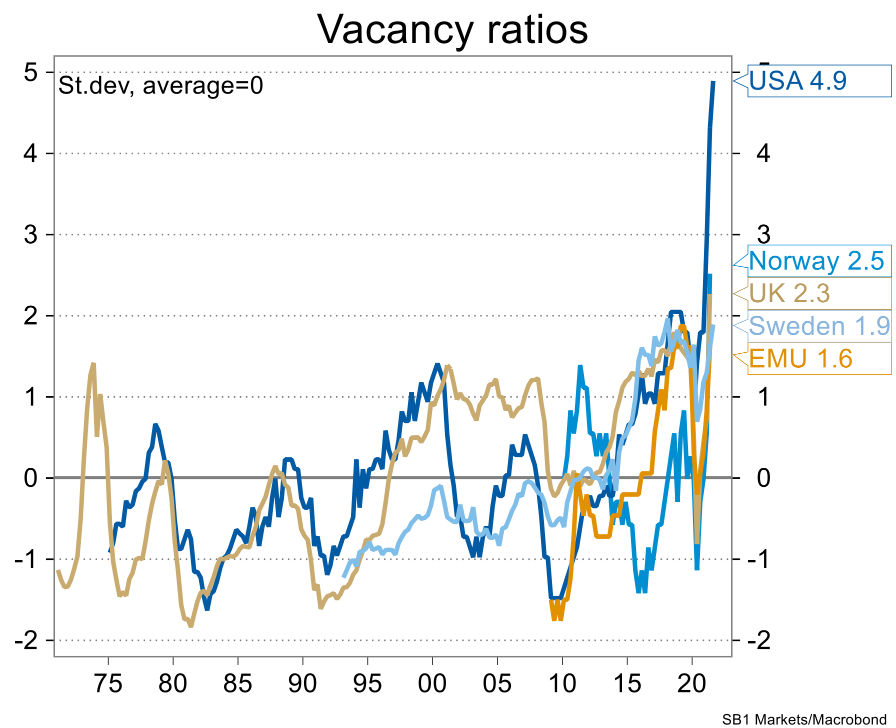


- Lack of access to foreign workers may partly explain a high number of unfilled vacancies. The no. foreign workers on short-term stay is down approx. 20’, equalling 0.8 pp of the no. of employees. If all came back, and found a job, the vacancy rate would have been 2.4% - still slightly above average

Lack of foreign workers explain some of the shortages in Norway

However, labour shortages are rather wide spread these days. The highest everywhere, in fact

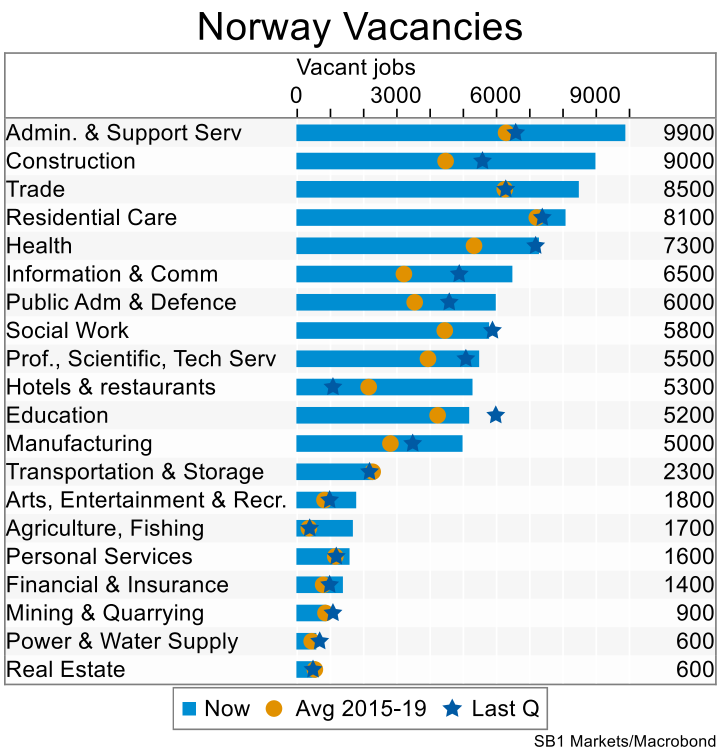


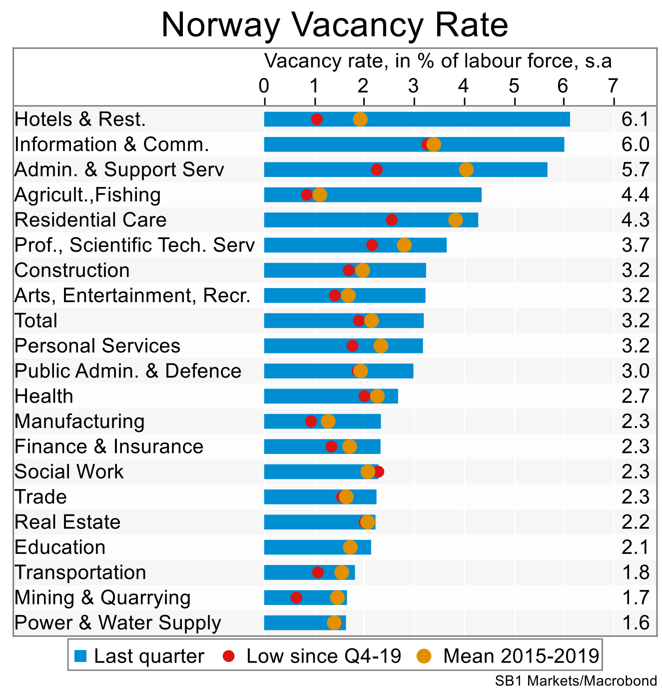


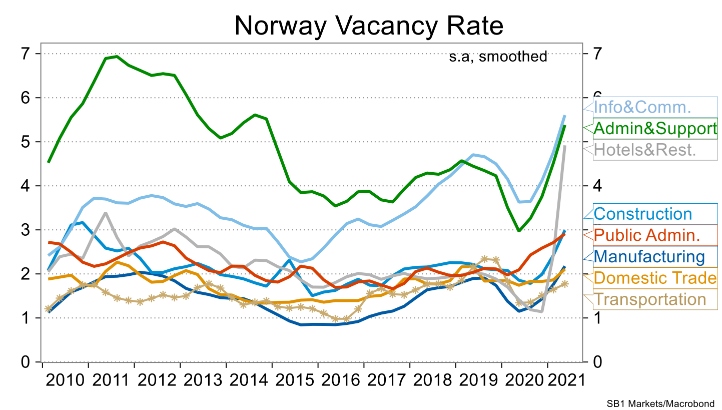
- … except for the EMU, where the vacancy rate is marginally below the early 2019 peak

More vacancies almost everywhere, and far more than normal

All sectors are reporting a higher vacancy rate than the 2015-19 average, 13 up from Q1



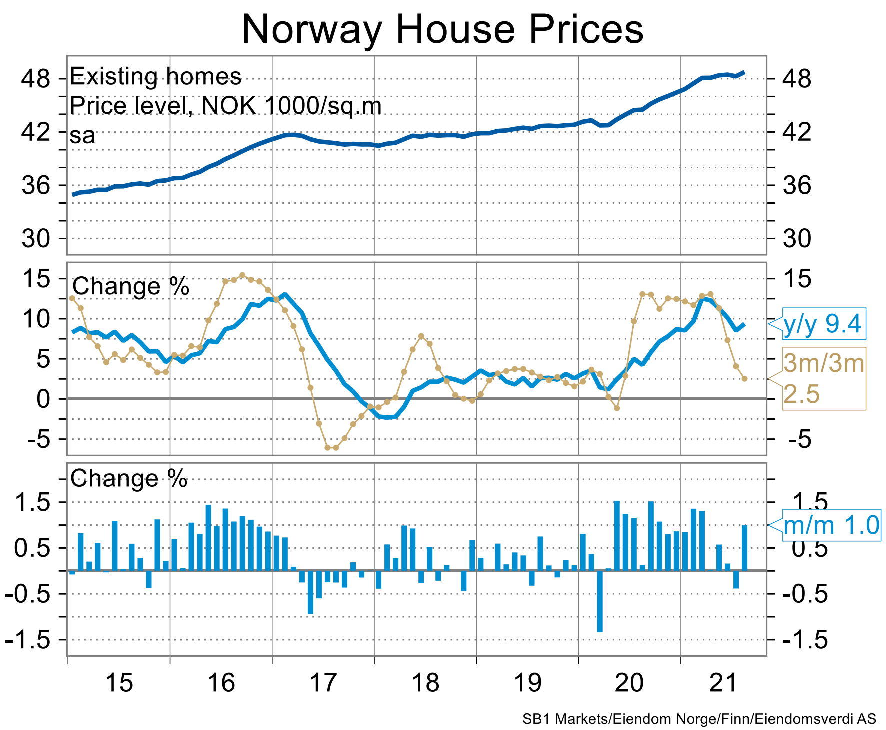


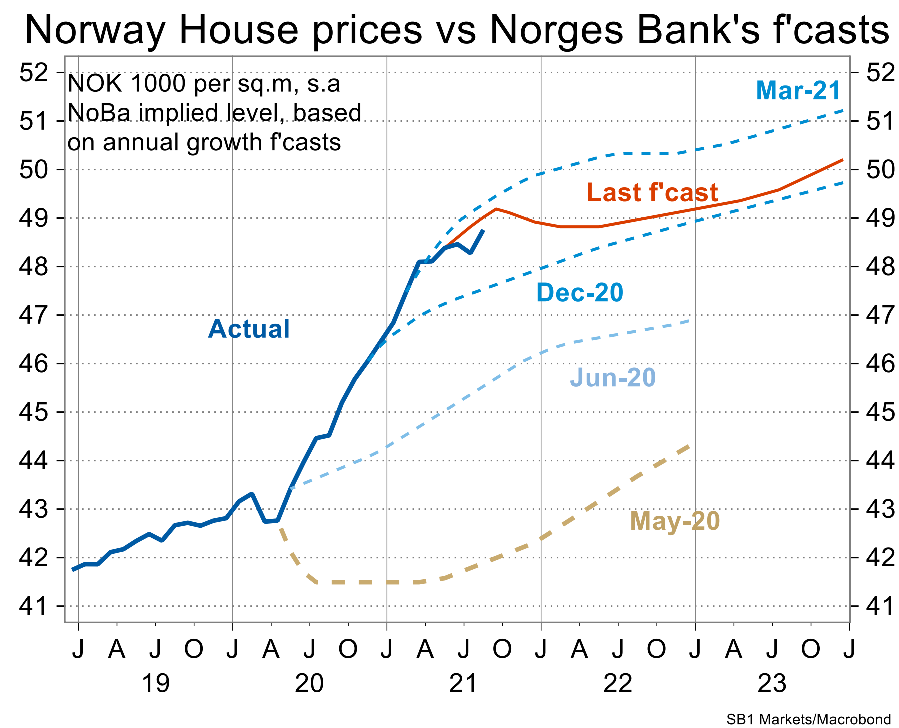


- The highest **no. of vacancies** are found in administrative & support services, construction, and trade. Hotels and restaurants are not far up on the ranking
- The **vacancy rate** is the highest in **hotels & restaurants**, **information/ communication and in administrative services**. The former and the latter at least partly due to lack of foreign workers
  - » Vacancy rates edged up from 2016 in **all sectors**, but fell in Q2 last year – and have shot up the last year. No sector is reporting a lower vacancy rate than the 2015 – 2019 average

House prices up 1.0% in August, better than expected, following the summer lull

Our models signal a faster price increases than seen recently. Is the expected rate hike to blame?

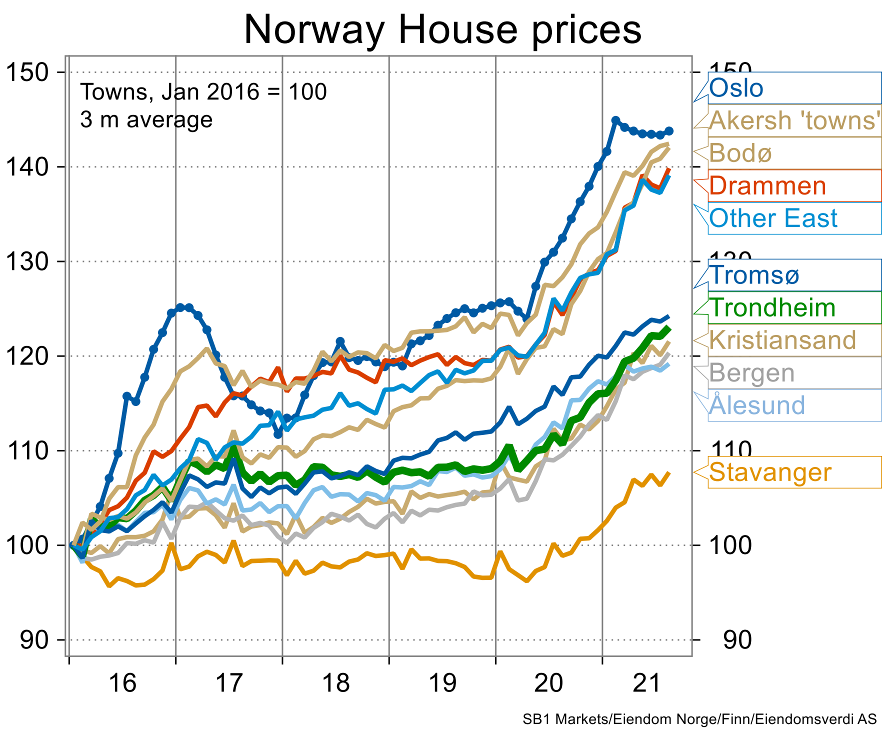


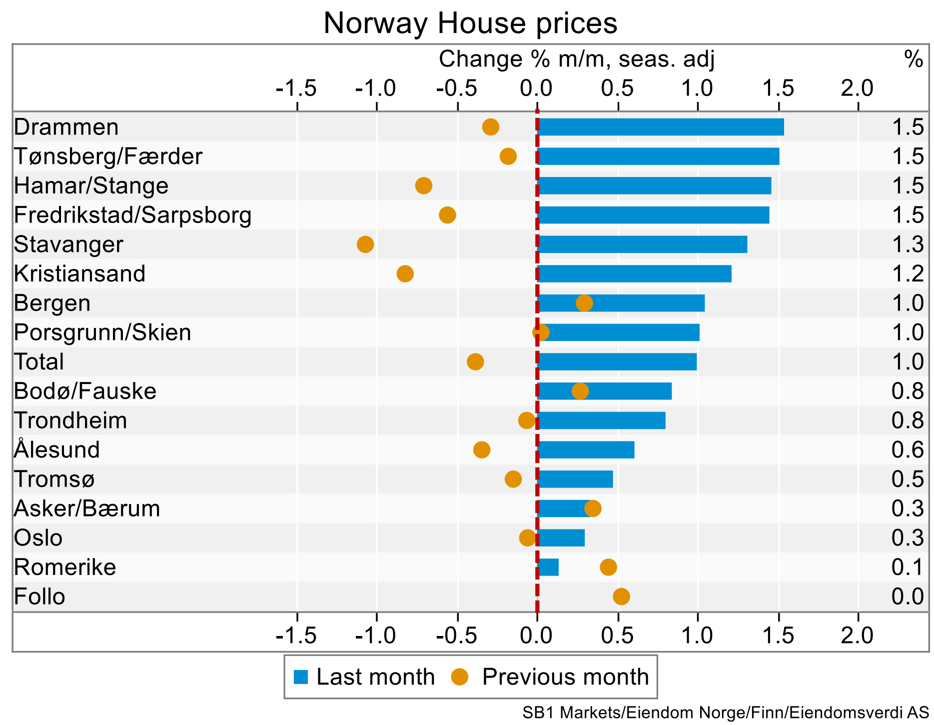


- **House prices** rose by 1% in August, expected 0.3% – 0.4%, up from -0.4% in July (revised from -0.2%). Prices are up by 2.5% 3m/3m (annualised), down from above 12% in March. Prices are up 9.4% y/y
- **No city** reported lower prices in August, down from 11 on the negative side in July. Prices rose by 0.3% in Oslo, following 5 small drops. Costal cities from Kristiansand to Tromsø (ex Bodø) are on the weak side, the towns around Oslo on the strong side
- The **number of transactions** fell 10% but is still well above the pre-Covid level. The **inventory of unsold homes** flattened at a record low level
- Our Norway x Oslo **flow based price model** signals a .75% m/m price growth, our Oslo model +1%, from zero 4 months ago.
- House prices are almost back at NoBa's f'cast. If nothing dramatic happens, Norges Bank will hike the signal rate Sept 23 – and banks will very likely lift their mortgage rates. In June, NoBa expected house prices to shrink marginally through Q4. That may still be a proper forecast

No city reported lower prices in August, following a rather broad decline in July

Price rose even in Oslo following a 5m setback – but up just 0.3%. Drammen/Tønsb./Hamar +1.5%

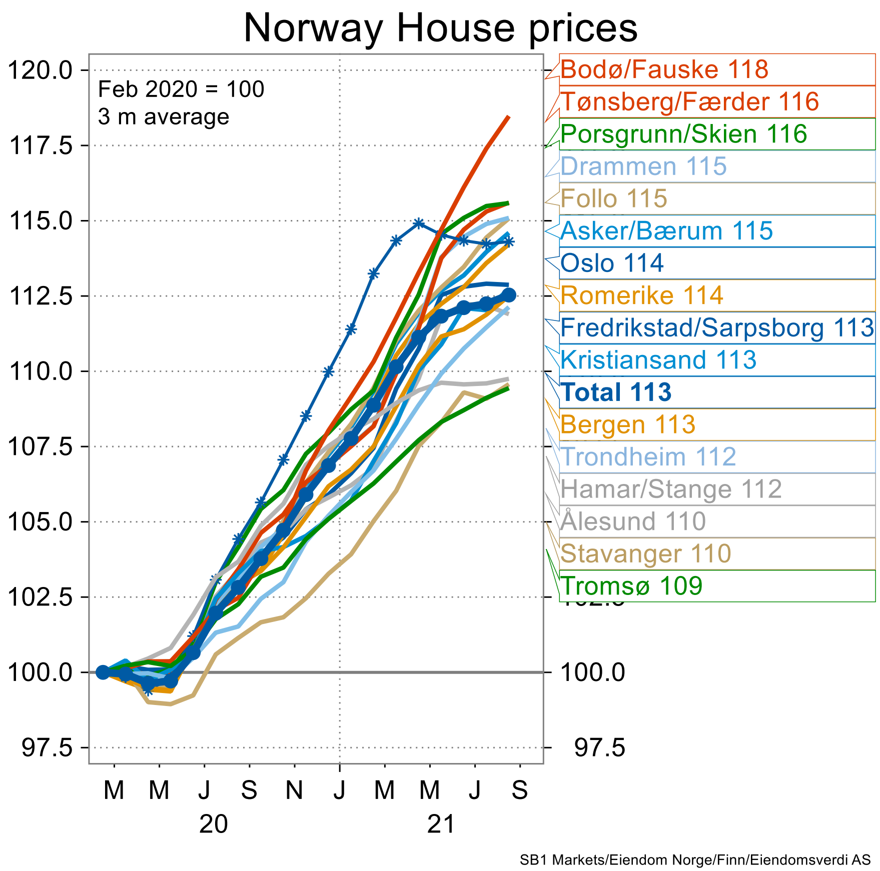


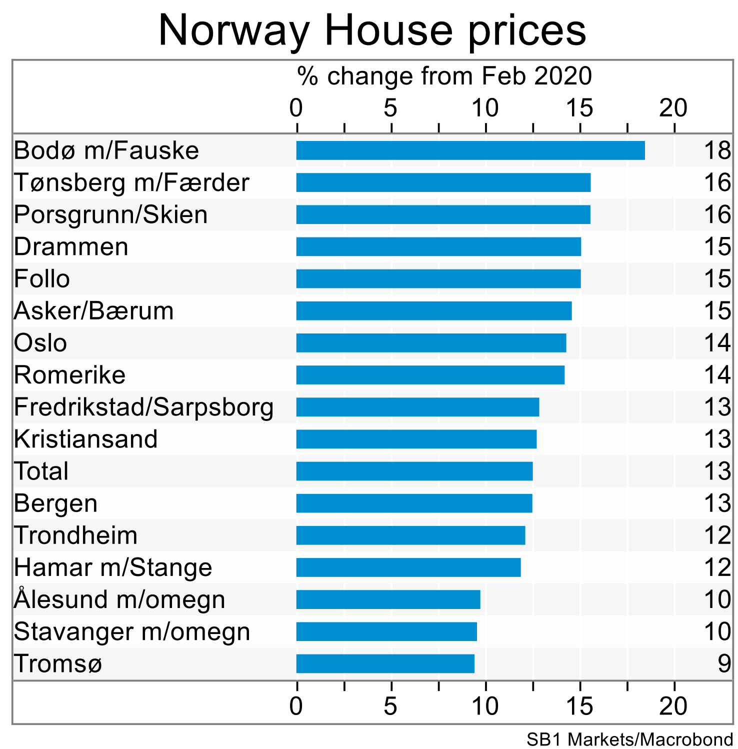


- In August: 15 cities up (from 5 in July); 0 down (from 11)

Through the pandemic: Bodø, Tønsberg, Porsgrunn/Skien in the lead

Drammen, Follo, Asker/Bærum also ahead of Oslo – which still is on par with the average

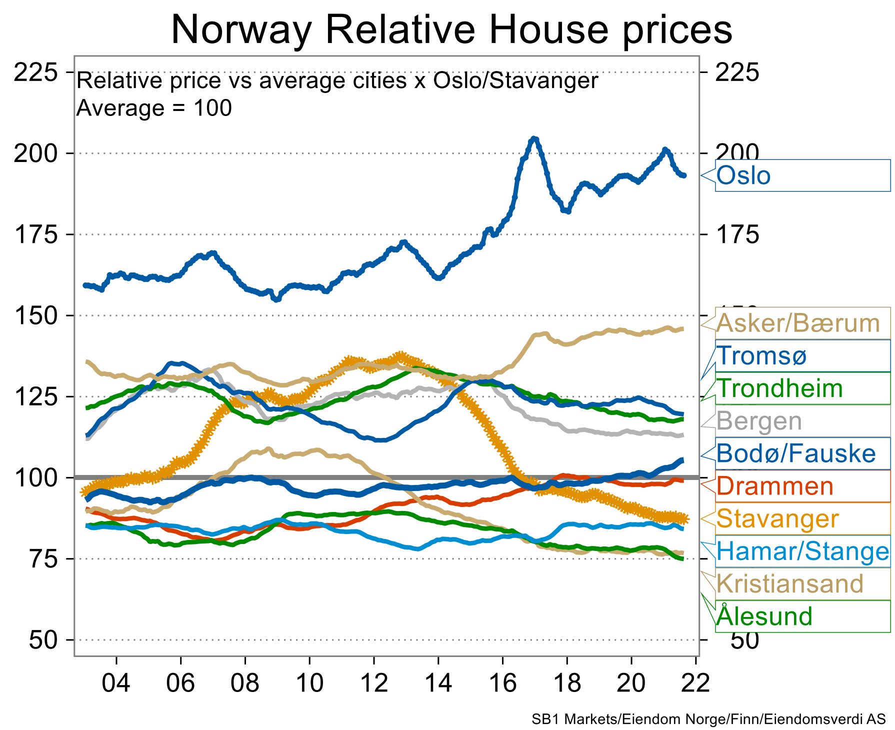


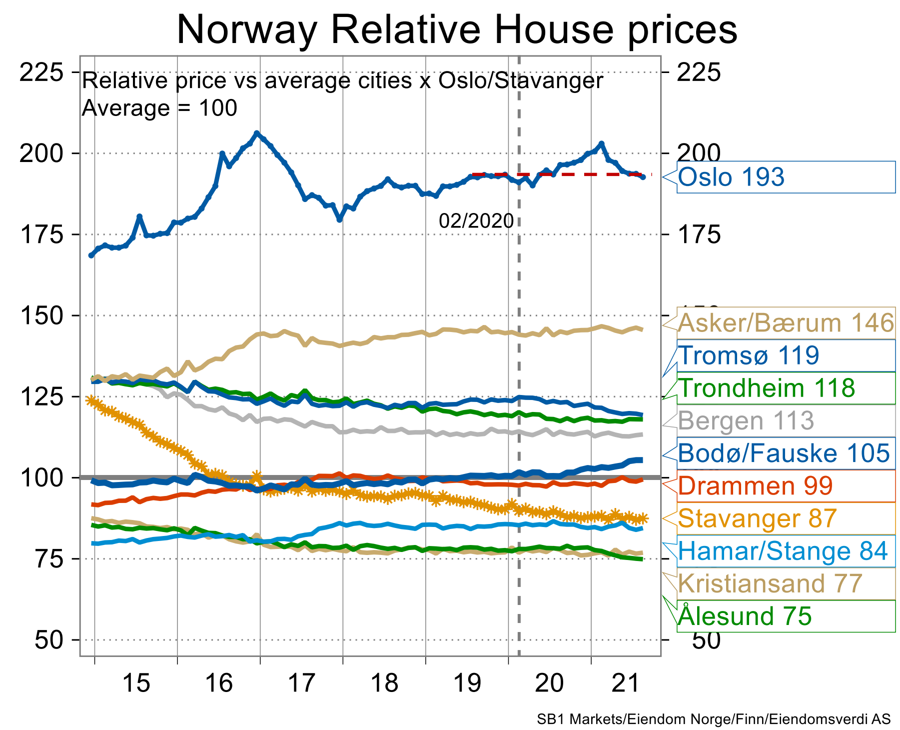


- Costal cities from Kristiansand to Tromsø (ex Bodø) at the bottom of the list
  - Hamar is at the lower part too, due to Mjøsa??
  - Tromsø and Stavanger at the bottom

Oslo relative prices back to the pre-pandemic level

The costal cities Stavanger – Tromsø (x Bodø) are trending down

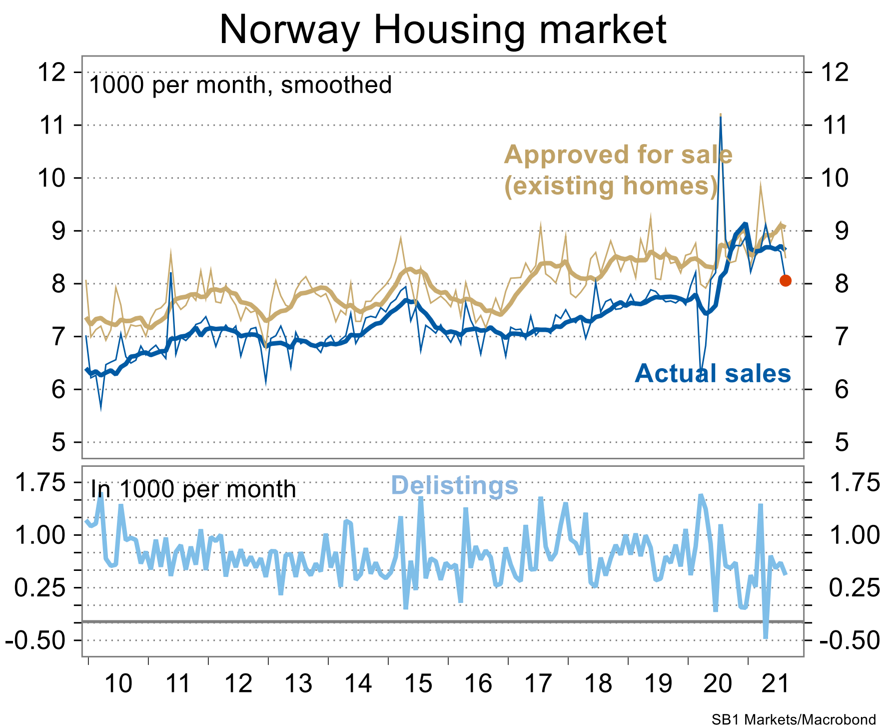


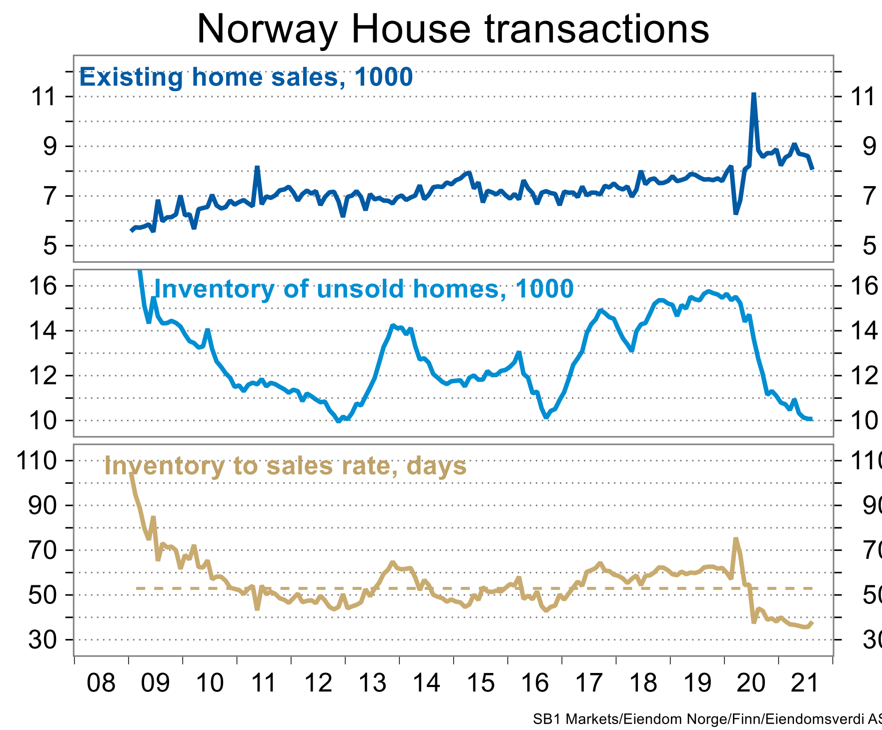


- Housing starts in Stavanger are still not lower than normal. It is still profitable to build, even at ‘Hamar/Stange’ prices!

The no. of transactions down in August, still far above the pre-pandemic level

The inventory flattened, at a very low level



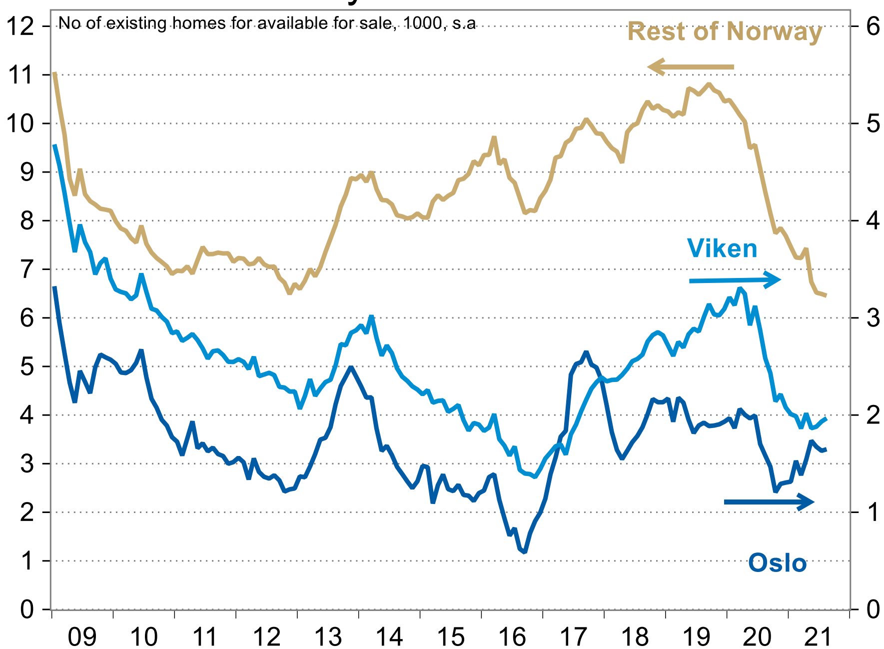


- **The number of transactions** fell almost 10% – but the level is still
- The **supply of new existing homes for sale (approvals)** fell but less than sales. The level is high
- **The number of delistings** was at normal level
- The **inventory of unsold homes** fell flattened, and is almost 40% down vs. the pre-pandemic level, and at the lowest level on record
- The **inventory/sales ratio** has rose marginally, from a ATL. The **turnover time** rose 2 days to 38 days vs an avg. of 53 days
- The **actual time on market** for those homes sold was declined 1 day to 37 days, well down from more than 60 days last spring (the avg. is at 43 days)

The inventory in Oslo isn't increasing anymore, it's flat in Viken, down elsewhere

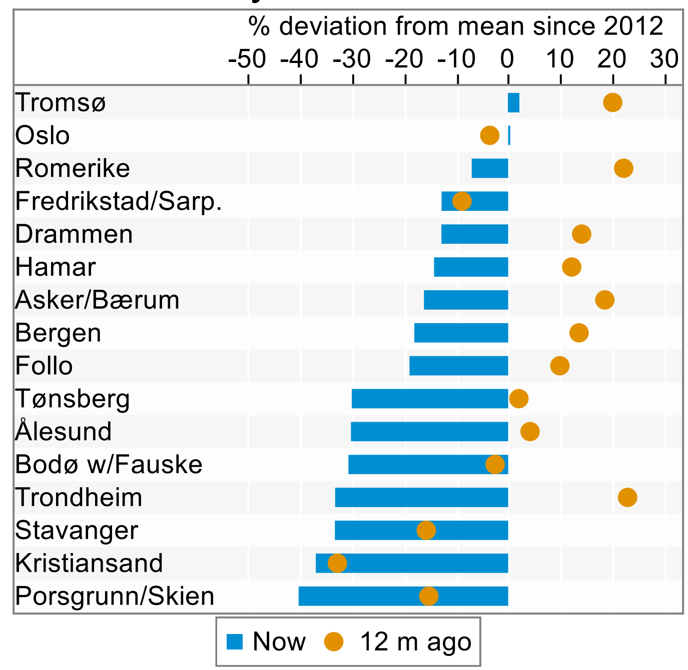
In addition, the inventory is lower than normal everywhere – except in Oslo & Tromsø

Norway Homes for sale



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

Norway Homes for sale

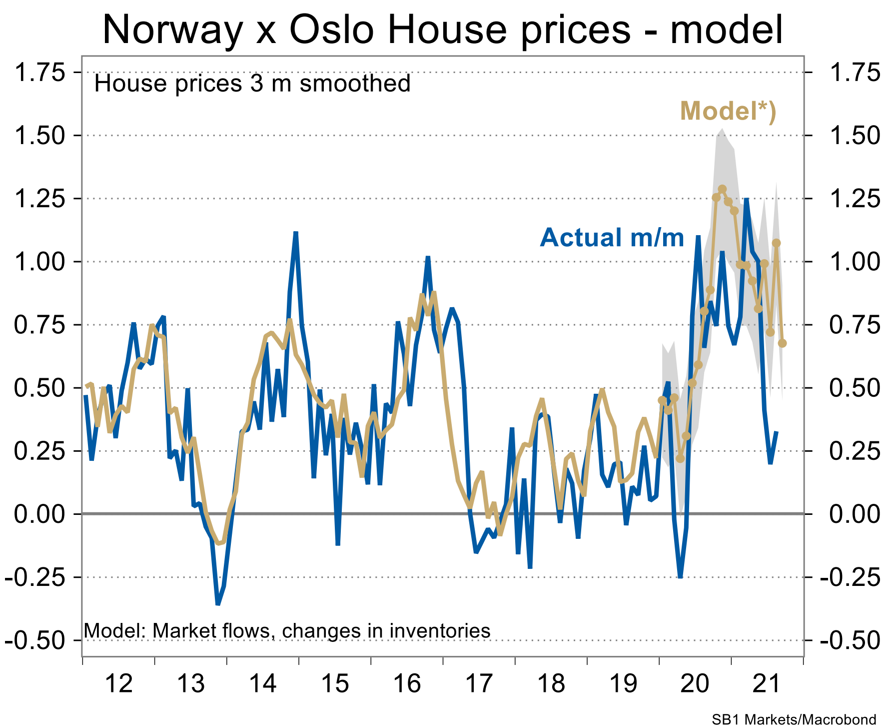


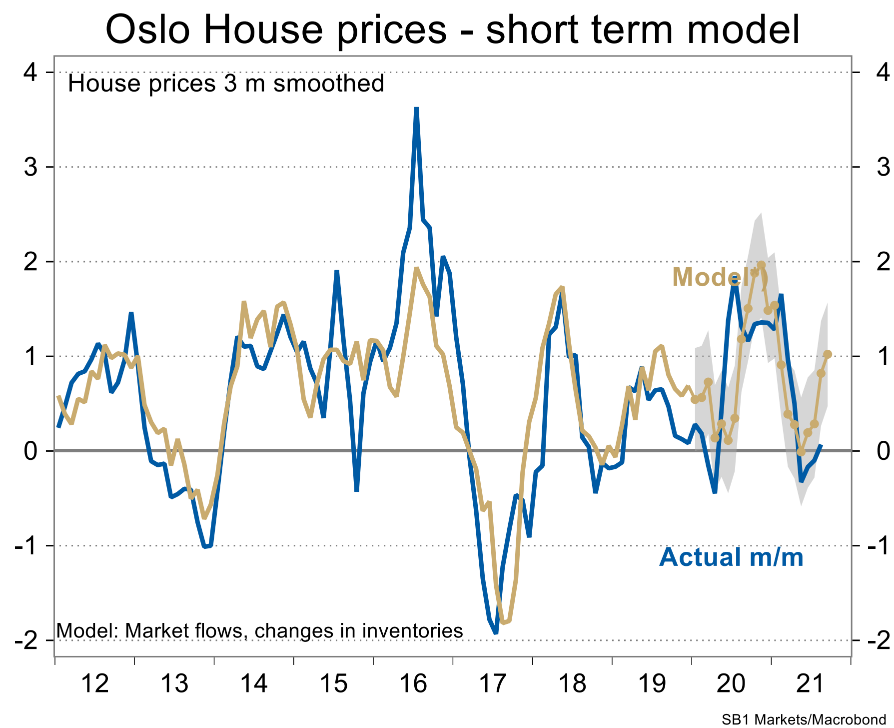
SB1 Markets/Macrobond

- The inventory is lower than the average since 2012 everywhere, except Tromsø and Oslo, and it is smaller than one year ago everywhere – except for Oslo, where the inventory has increased since last autumn. Recent months, the inventory has flattened, though

Short term market flows suggest higher prices, also in Oslo!

Our models suggest decent price growth. Are we witnessing a rate expectation impact?

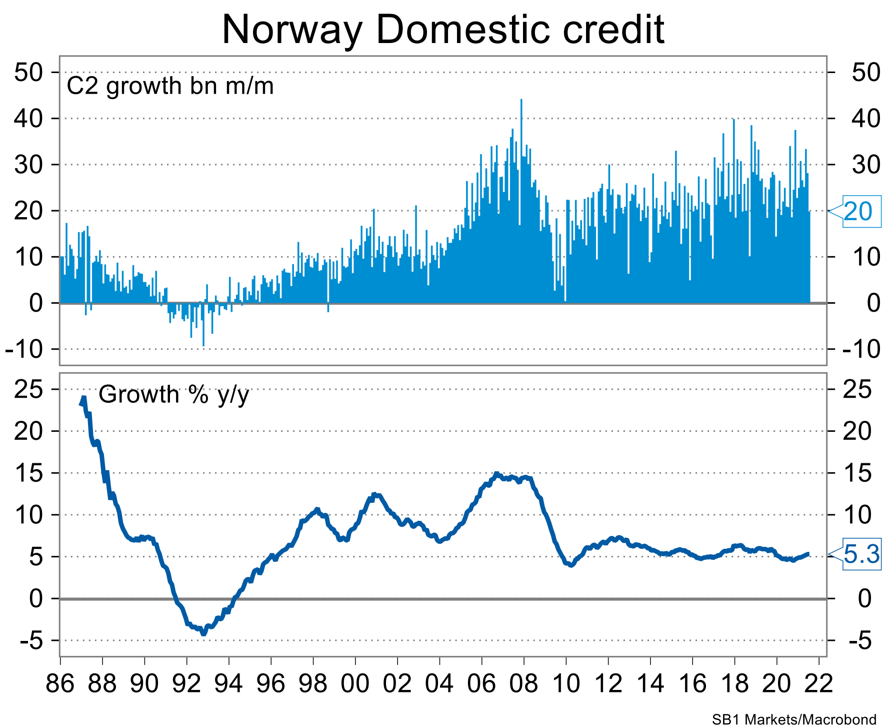


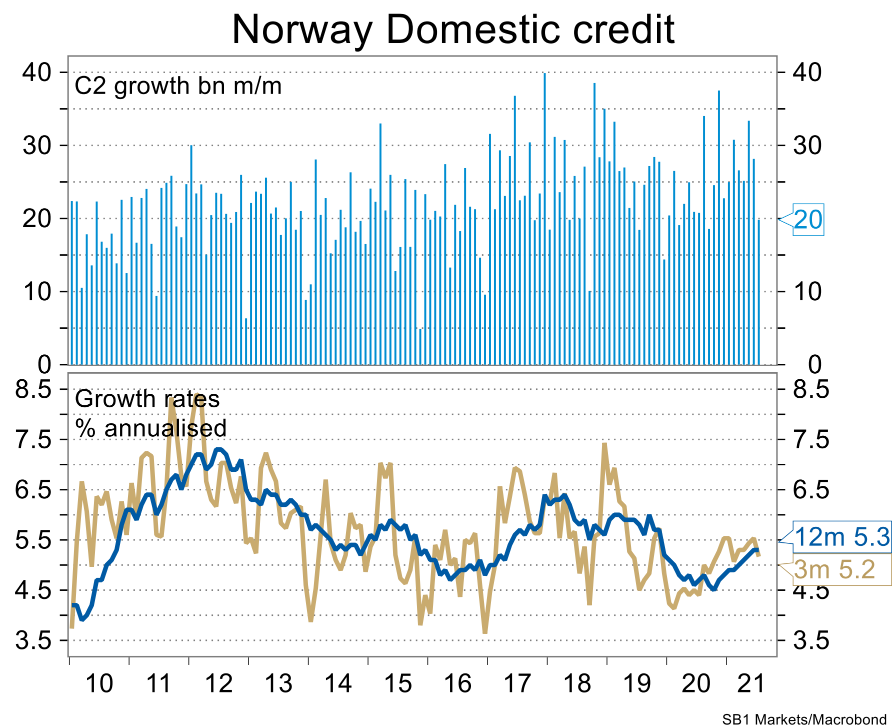


- Our **national x Oslo model** based on flows and the inventory signals a 0.75% <u>growth in house prices per month</u>
- Our **Oslo model** signals a 1% growth (up from zero 3 months ago)
- *These models are <u>not</u> long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

Credit growth unchanged at 5.3%, still no credit boom to been seen

Total domestic credit growth (C2) remained unchanged in July, we expected an uptick to 5.4%

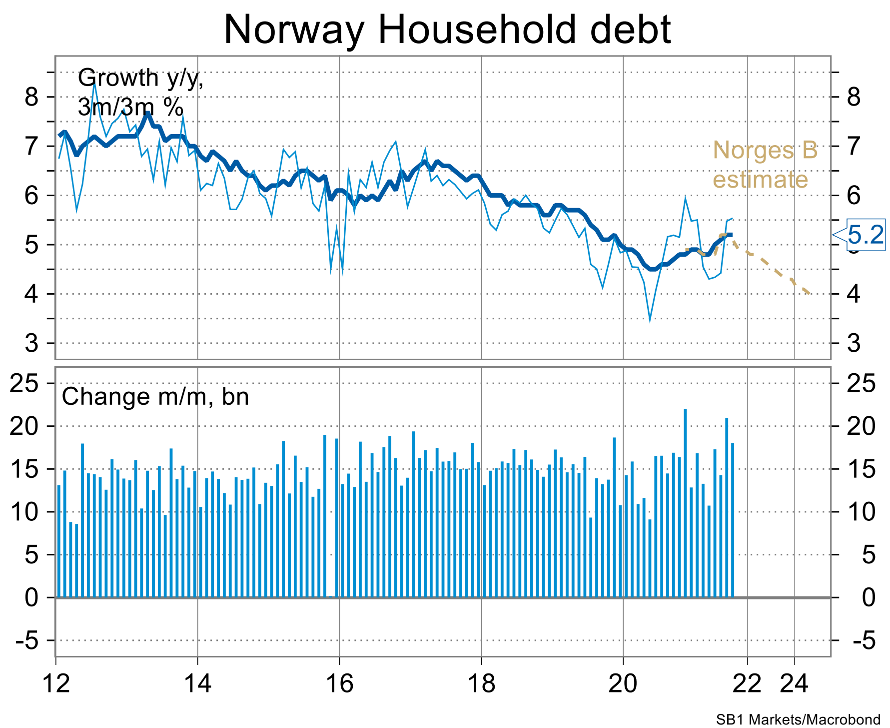


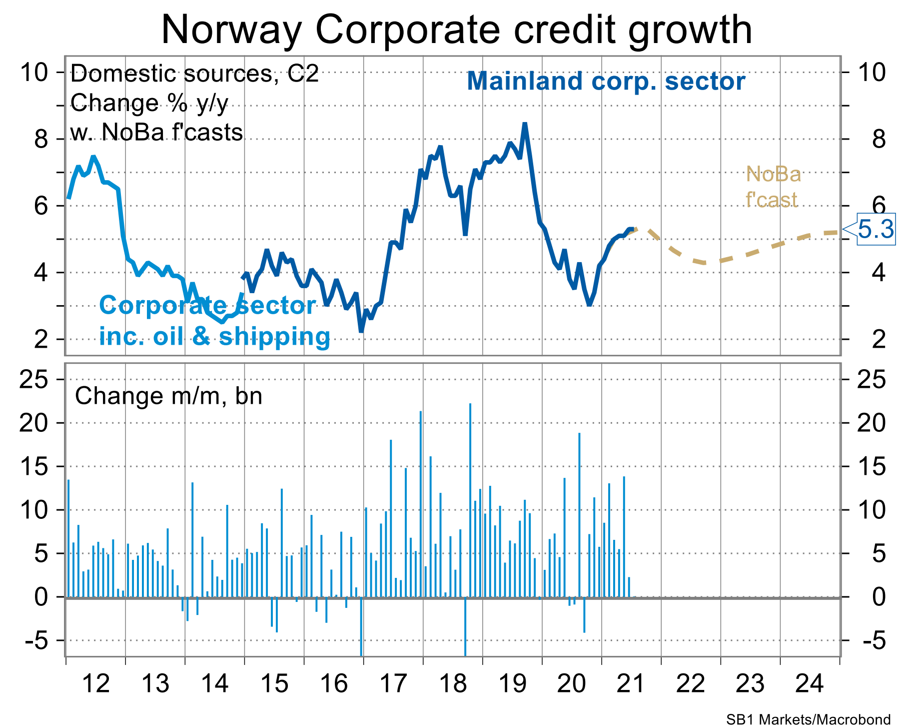


- **Total domestic debt** (C2) rose by NOK 20 bn in July, down from 28 bn in June, we expected NOK 28 bn. The annual growth rate remained unchanged at 5.3%, we expected an increase to 5.4%. We are not witnessing any credit boom, even if growth is slowly accelerating. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 18 bn in July, down from 21 in June, we expected 16 bn. The annual rate was unch. at 5.2%. The past couple of months may have been outliers, as the housing market is now slowing XX
- **Corporate C2 credit**, rose by just NOK 53 mill (down from 2 bn), we expected 8 bn. The annual growth rate was rose to 4.7% from 4.6%, we expected 5.1%. **Mainland corporations** increased their debt by 5.3% y/y (unch. from June) as the decline was due to shipping and oil
- **Local governments** borrowed less in June – NOK 2 bn, down from 5 bn in June. The annual growth rate is at 7.5%, down from 8.3% - way above income growth

Strong growth in household credit over the past couple of months

Corporate credit growth seems to have flattened

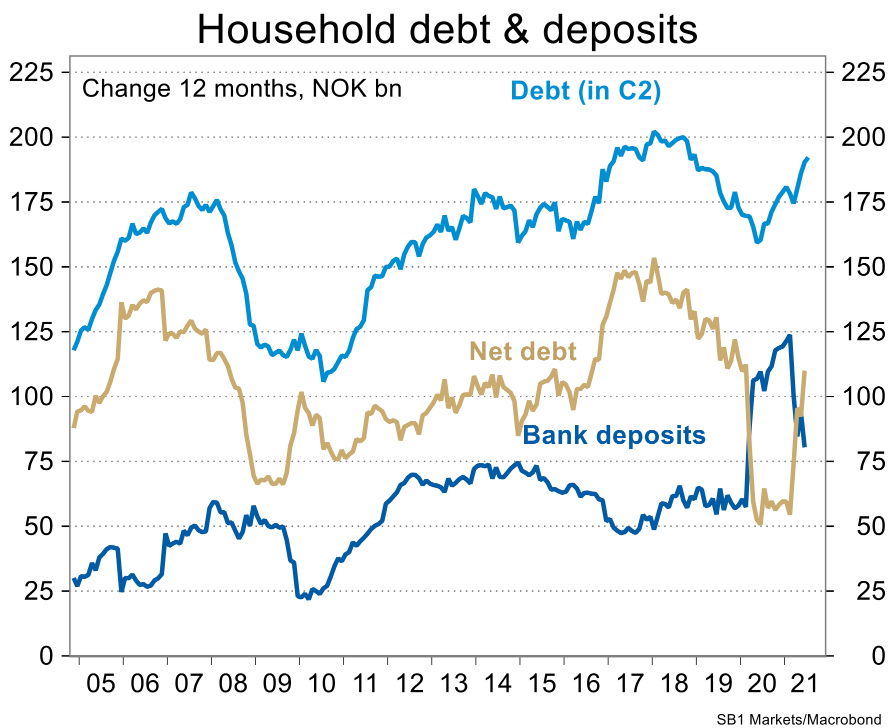


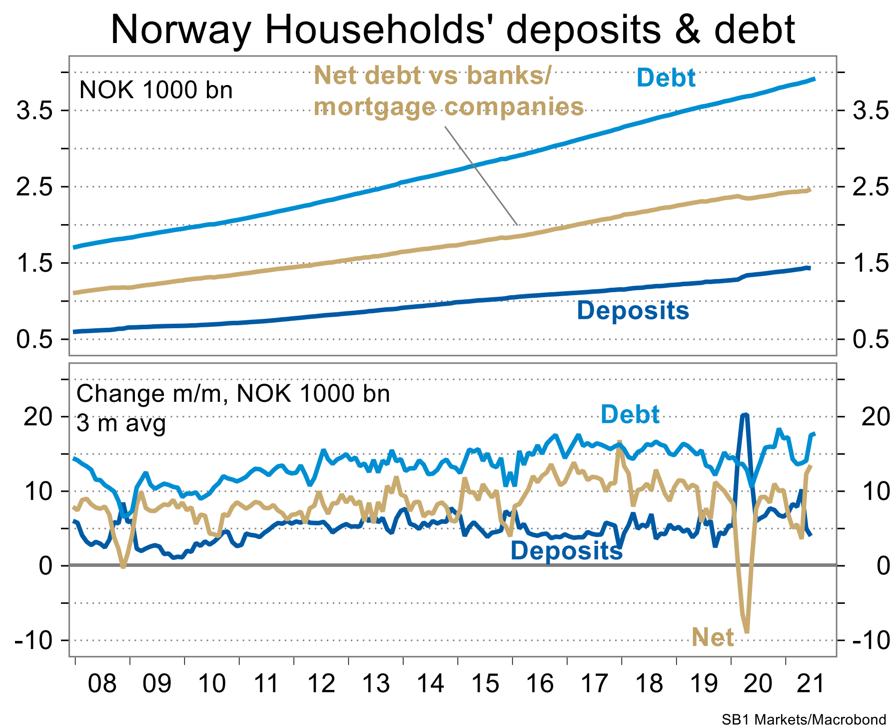


- Following a mild slowdown during the corona spring, **household credit** growth has now recovered. The annual rate was 5.2% in July, unchanged from June, and up from 4.5% last summer. In July, household debt rose by NOK 18 bn, above our expectations at 16 bn, and the 3m/3m rate is at 5.5%. Norges Bank expect growth to slow from here
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year, and further until June but at NOK 2 bn for Mainland companies, the m/m growth was much lower than we expected in July. The y/y rate still remained unchanged at 5.3%. Norges Bank expect growth turn down in some few months

Households' bank deposits are still growing faster than normal but not by much

Deposits are growing at a 6% speed, higher than the pre-pandemic 5% pace – following the lift in '20

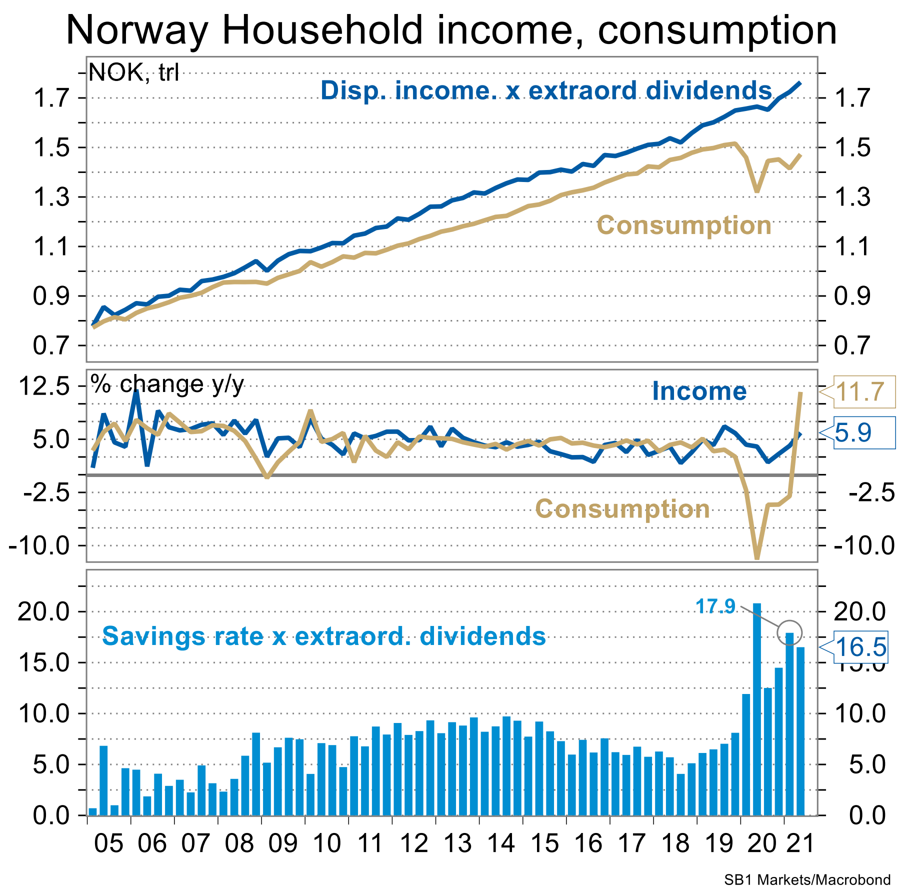




- Households' deposits are now growing by some 6%, 2 pp more than in the years before the pandemic
- Households' debts are growing at some 5% but since debt is far larger than deposits, measured in NOK, household debt is growing much faster than their deposits - and the gap is widening again

Consumption up 4% in Q2, income up 2.3%, savings rate down to still high 16.5%

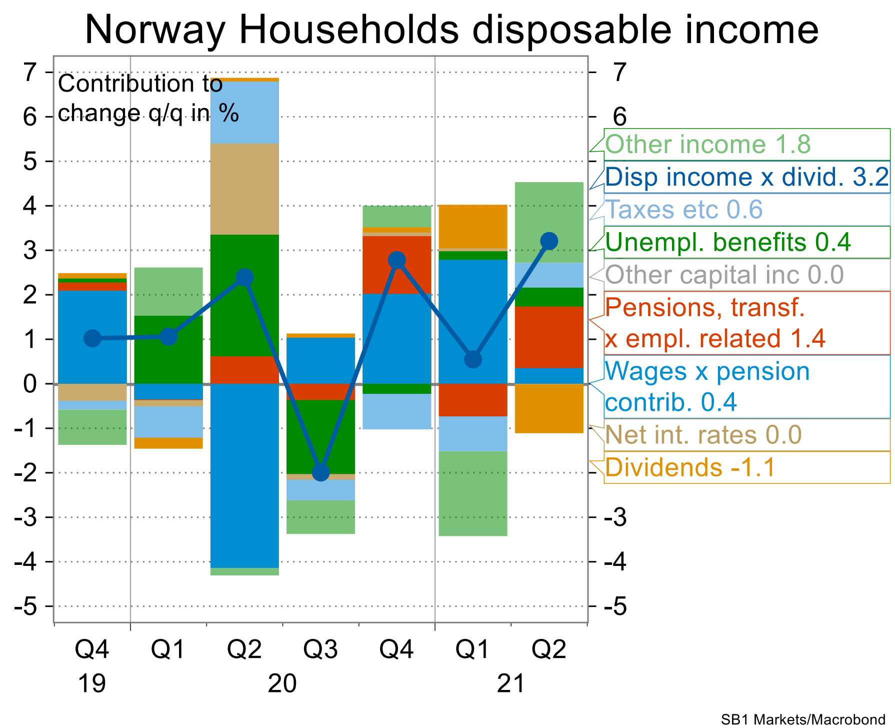
Households spend a lot on goods, but domestic service consump. was still weak, no spending abroad

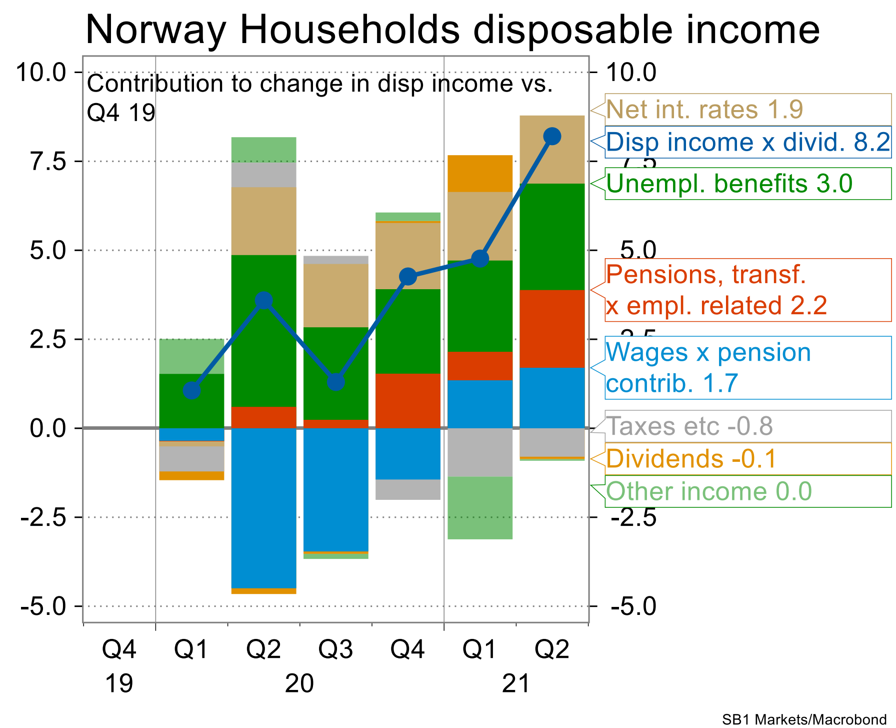


- **Household disposable** income rose by 2.3% q/q in Q2 (nominally, adjusted for extraordinary dividends & pension rights, 2.1% not adj) – and the level is up 5.9% y/y (4.4% not adj). Spending rose more, by 4% q/q, and 11.7% y/y
- The adjusted savings rate fell 2.4 p to 16.5%, well above the pre-pandemic level at approx. 8% (but rising)
- **In July**, we expect the savings rate to have fallen by some 3 pp vs. the Q2 average, down to 13.5% - still well above the p-p level
- The savings rate has been far higher than normal during the pandemic, in average by some 8.5 pp, accumulated more than NOK 200 bn, or 13% of annual disposable income. A decent 'Wall of Money'.
- In aggregate, households have not reduced their debts since before the pandemic, and just a minor part has covered higher residential investments, so their financial assets have increased substantially, like bank deposits
  - » By end of Q2, bank deposits were some NOK 70 bn higher than implied by the pre-covid trend

Wage revenues have finally turned the tide

Households are also compensated by higher unemployment benefits, but no 'stimulus checks'

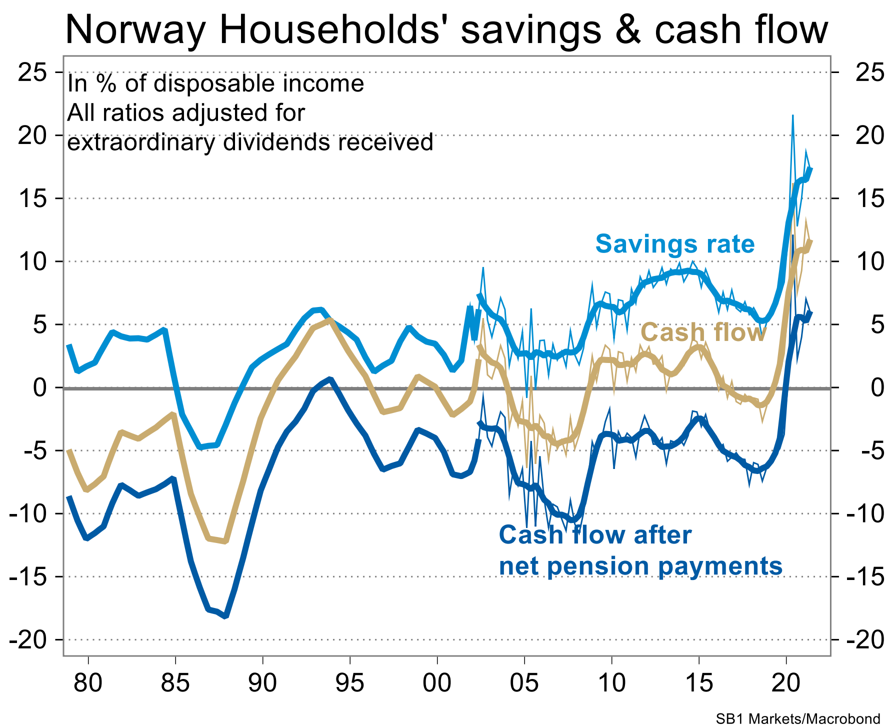


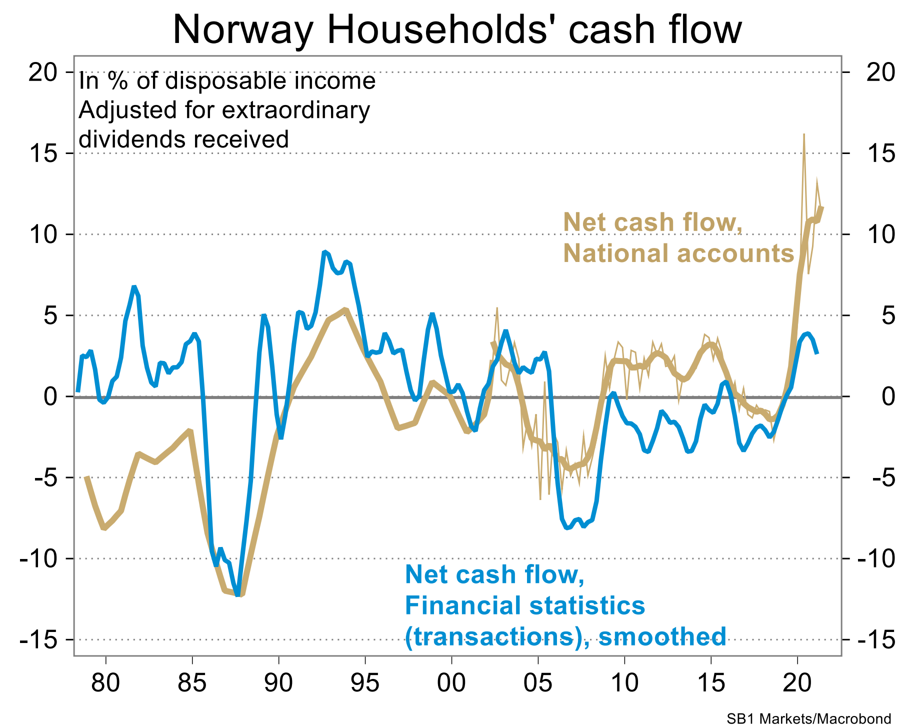


- Household net disposable income (before adjustments of pension rights), adjusted for short term volatility in dividends, rose by 4.5 y/y in Q2, a decent growth. Dividends were up by 1% y/y
- In Norway, government transfers to households have been rather limited. Unemployment benefits are up but no 'cheques for free' have been distributed. Wage revenues are up 7% y/y – but still just up 2.8% from before the pandemic

Huge cash surpluses in the household sector, even after pension payments

... but the savings fell to 17.3% in Q2 from 18.6% in Q1

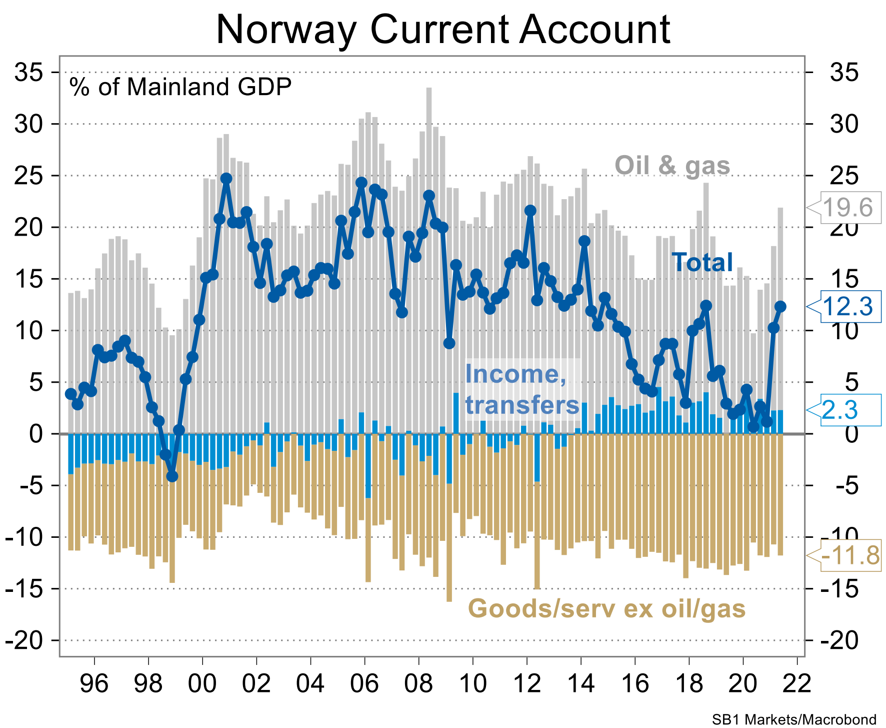




- As households normally invest more in new homes than depreciation on their old ones (which is included in total consumption), the cash flow is lower than their savings (savings = income – consumption).
- In addition, households have to fill up their pension contracts, and the 'free' cashflow is even lower. <u>However, this free cash flow has been in positive territory since Q1 2020</u>
- Total Financial Accounts are not yet published for Q2 (out this morning) but large parts of the extra savings during the pandemic (calculated in the National accounts) have not yet been recognised in the Financial Accounts

The current account surplus sharply up – to 12% of GDP

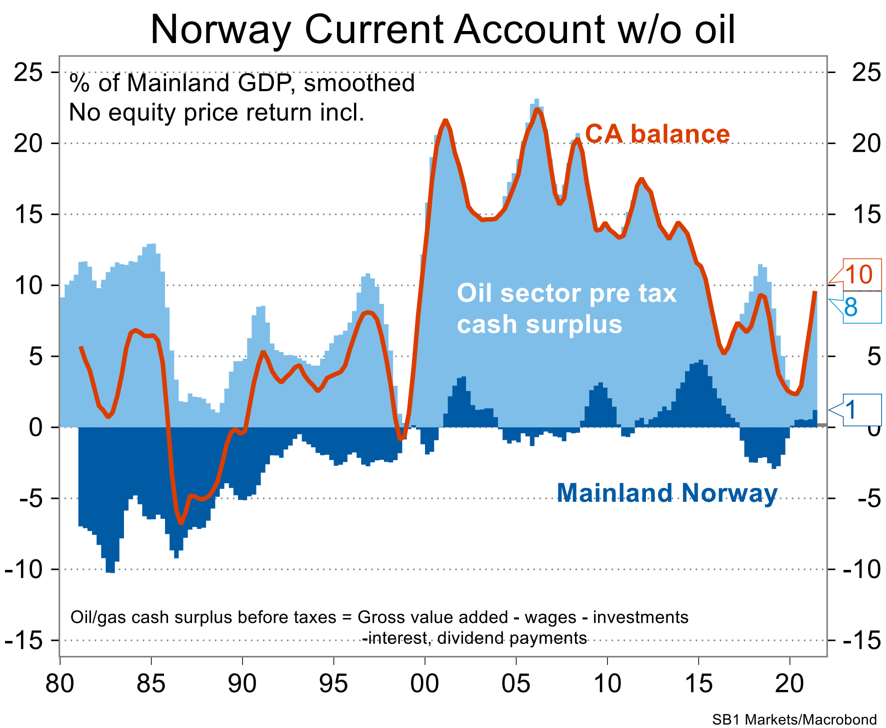
… from close to zero last year, when the oil price collapsed

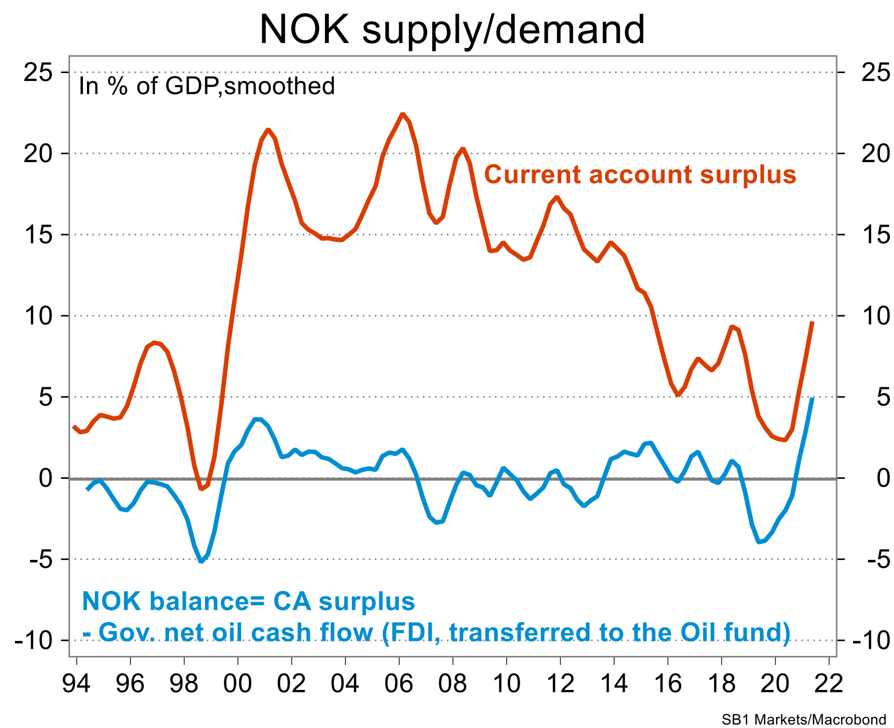


- The overall **current account surplus** has climbed from close zero last year to 12% of Mainland GDP (GDP ex oil, gas, shipping) in Q2, the 2nd best level since before the oil crisis 2015 - 2017
- **Exports of oil and gas** have more than doubled, to 22% from 10% of Mainland GDP at the bottom last year
- The deficit of **goods and services ex. oil and gas** exports has fallen to approx. 11% from 13% of Mainland GDP before the pandemic. The main reason is that Norwegians have not been able to travel abroad – and we are spending much more abroad than foreigners spend here. The discrepancy equals almost 2.5% of Mainland GDP
  - » However, the 12% 'Mainland trade deficit' is not a complete picture of the balance ex oil, check next page!
- Norway is running at 2% surplus on the **income balance**, due to capital income in the Oil fund

Norway is in plus, even the oil and gas sector. How come??

All imports to the oil sector is booked on the Mainland, no deliveries to oil booked as exports





- The pre-tax cash surplus in the oil sector is far smaller than the value of oil and gas exports
  - » The sector has to pay op.ex (including wages), finance its cap.ex (investments) and pay interest rates and pay dividends, to Norway and abroad, in sum almost 10% of Mainland GDP. Investments alone equals some 5% of Mainland GDP
  - » From the other side of the equation: The Mainland trade balance 'charged' for most of the imported goods for use in the oil sector (and all oil related imports if the Mainland balance is defined as total balance – oil and gas exports, like on the previous page). In addition, sales (or 'exports') from Mainland businesses are not credited the Mainland!
- On the chart to the left above, the 'real' ex. oil balance is calculated – and is not that bad
  - » A MAIN CAVIAT: WE ASSUME THAT 'EXPORTS' TO THE OIL SECTOR CAN BE REPLACED 1:1 BY OTHER EXPORTS OR REDUCED IMPORT, if demand from the oil sector is cut down. That is very likely <u>not</u> the case, as companies will not have the same advantage when competing at other markets. In addition, we have not adjusted for reduced exports of oil related equipment to other countries, the rest of the world also decides to 'go green'. Still, this calculus explains the 'real' ex oil balance

Highlights

The world around us

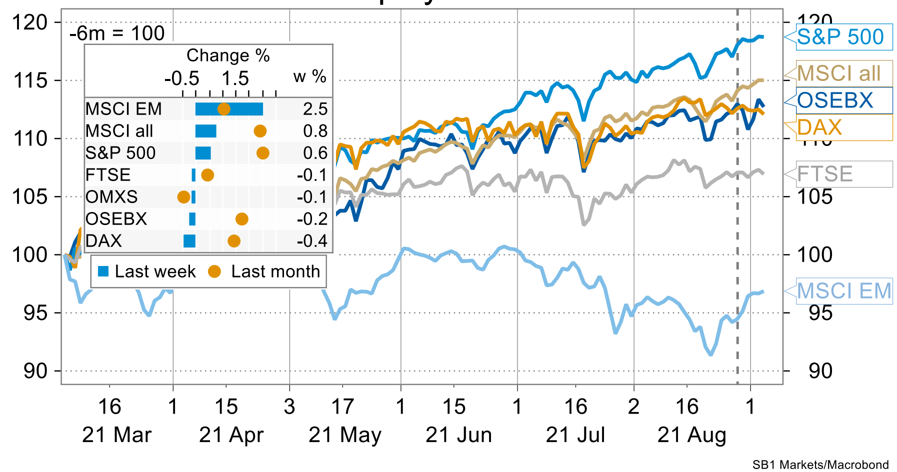
The Norwegian economy

Market charts & comments

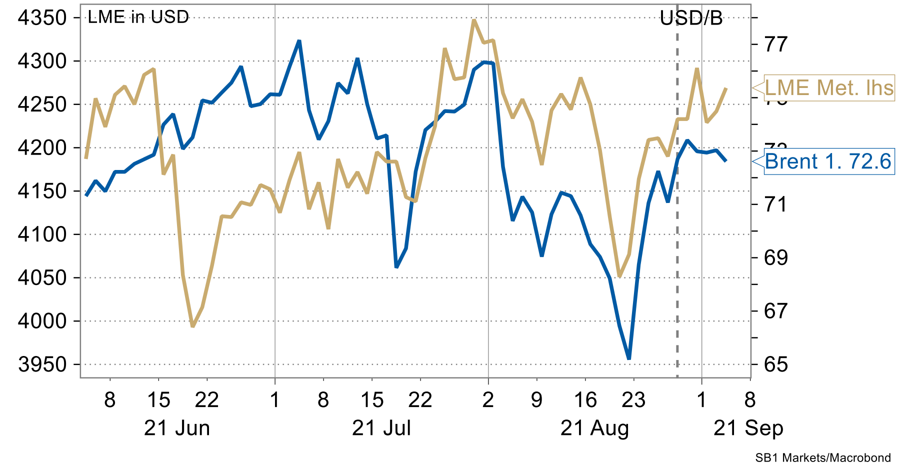
Flattish stock markets (but EM sharply up, from a ‘low’level’), bond yields up

German yields further up on tapering talk, here too. Commodities slightly up

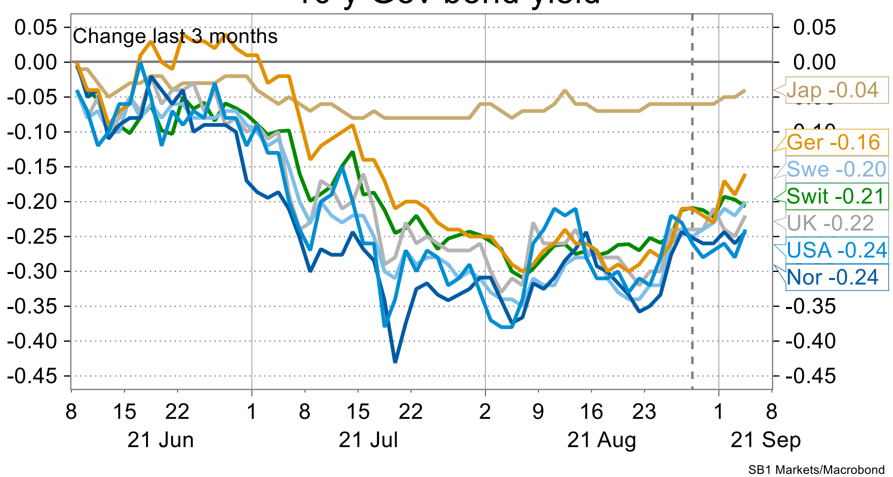
Equity Indices



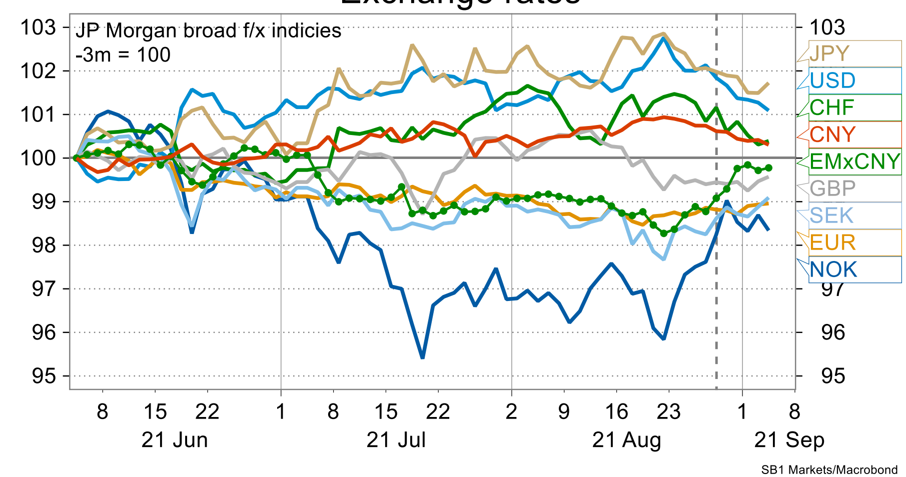
Oil vs. metals



10 y Gov bond yield

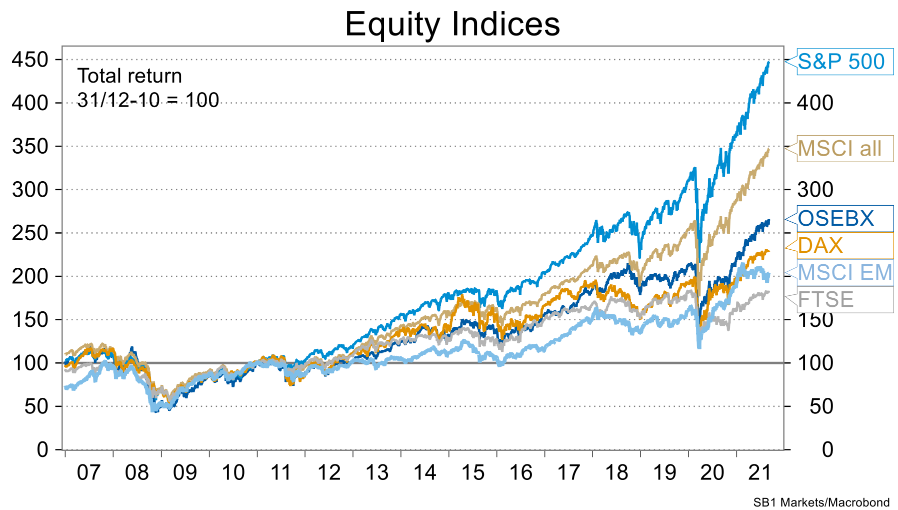


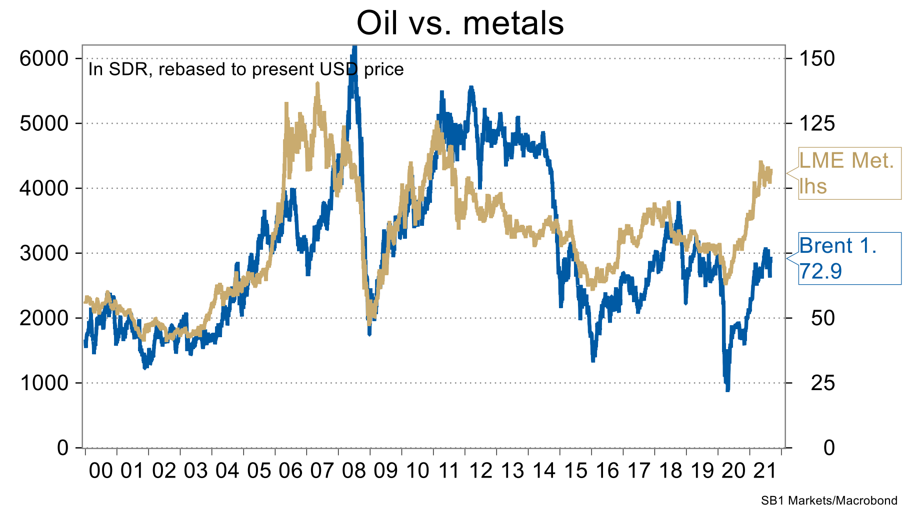
Exchange rates

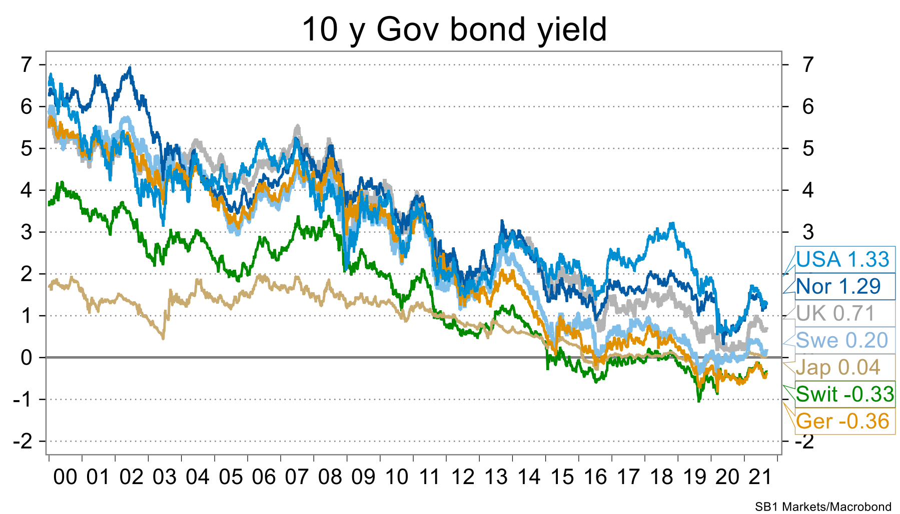


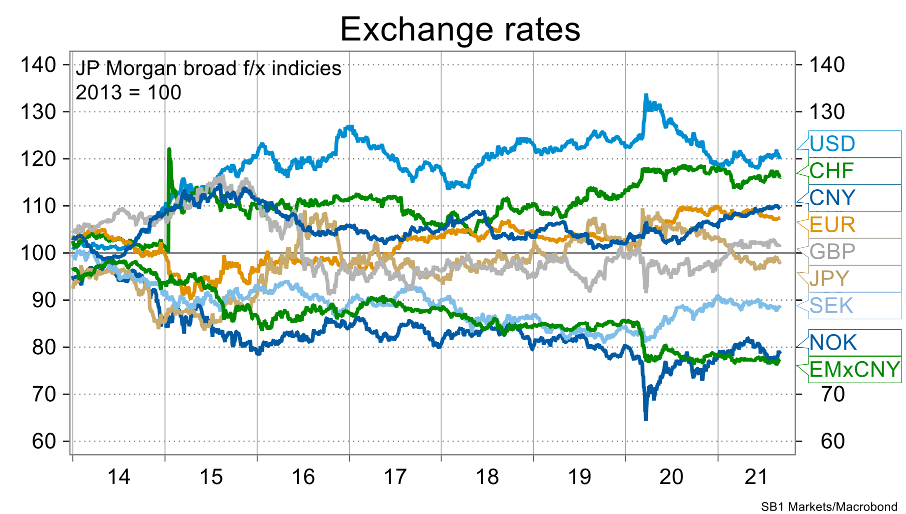
The big picture: Strong stock markets, commodities have taken a breather

Yields have been heading down recent months. The USD slowly up, EUR down, as is the NOK



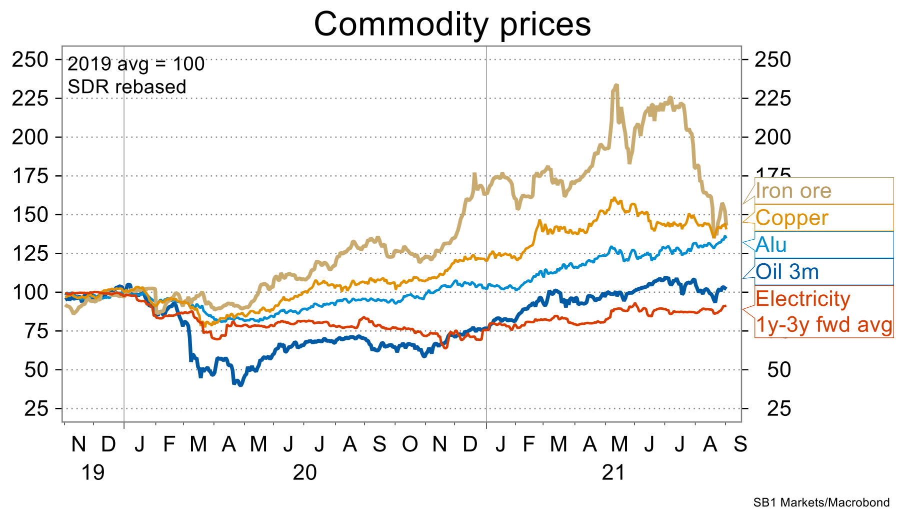


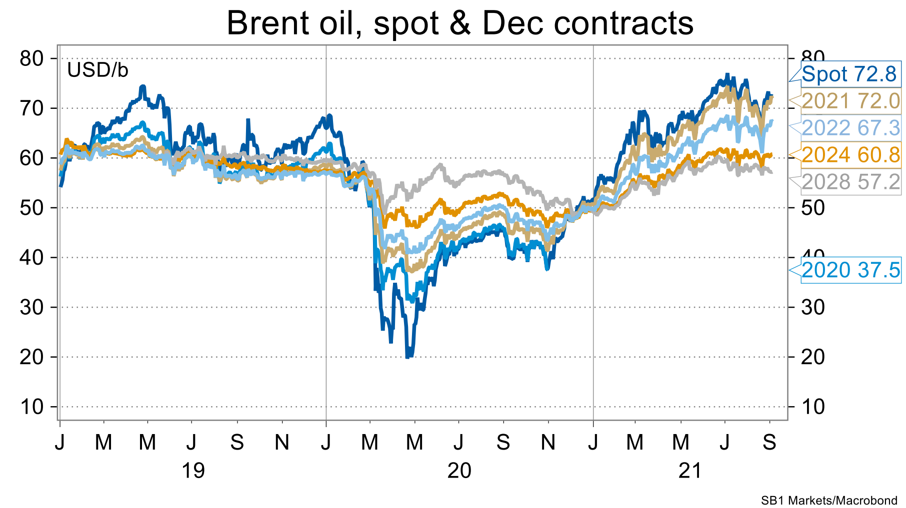


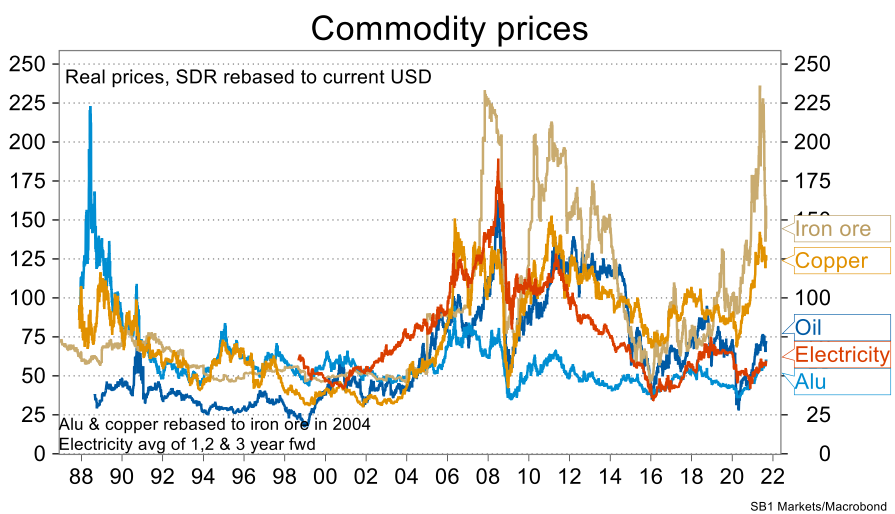


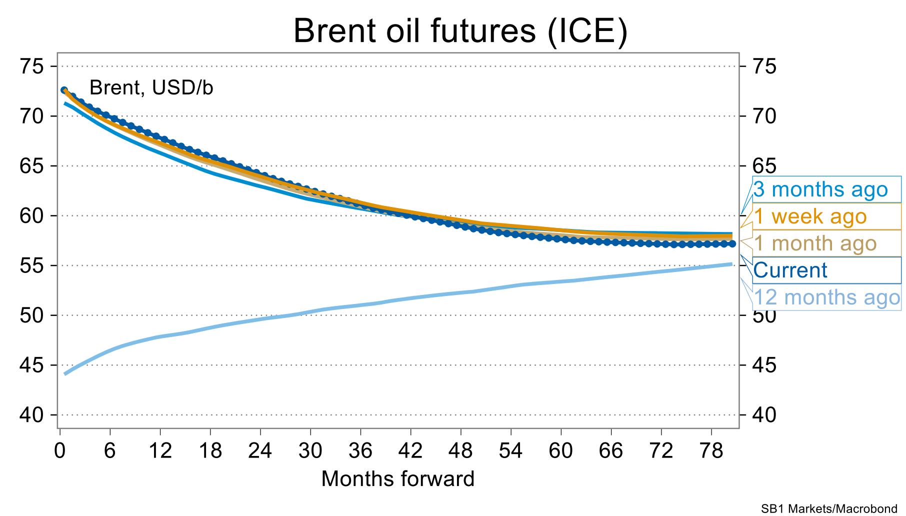
Commodity markets mixed, but mostly up

… however, the long end of the oil curve is sliding slowly down





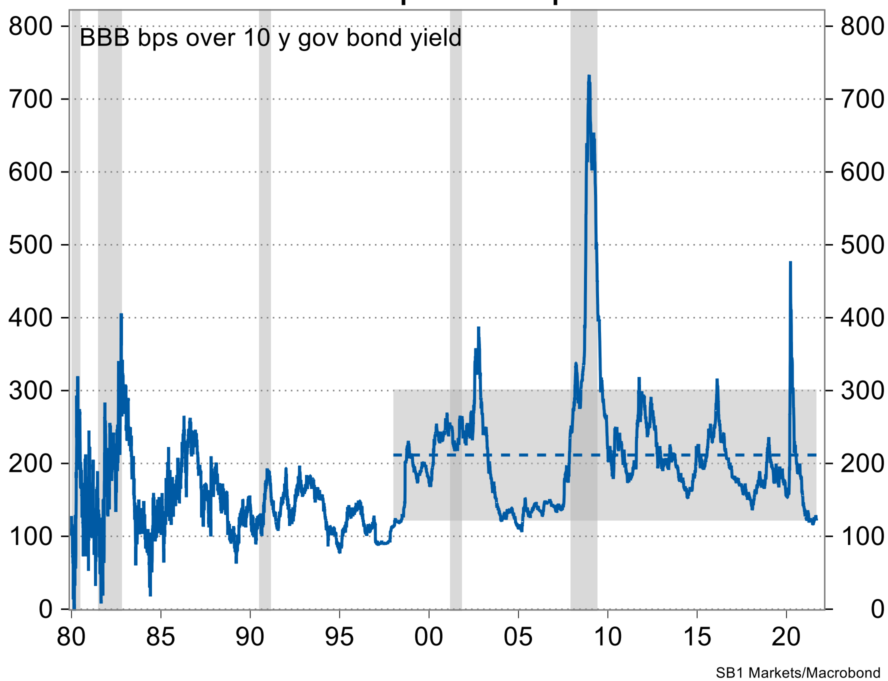




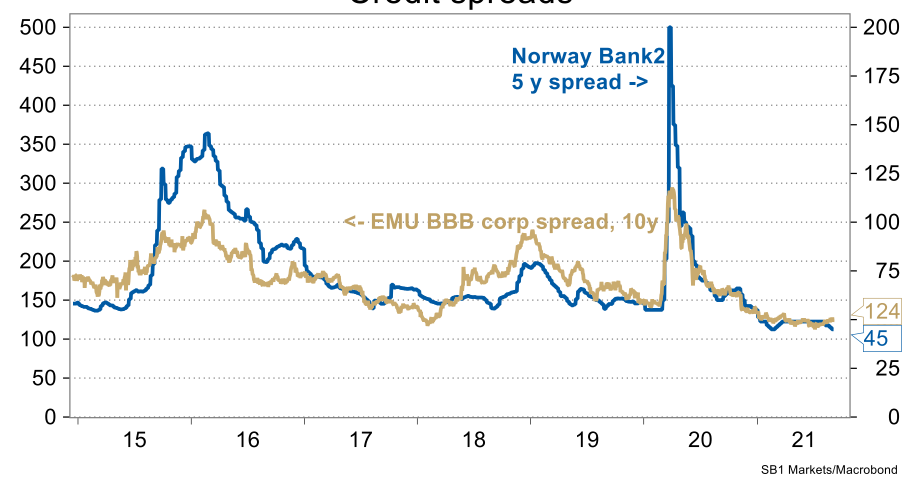
Credit markets are calming down again, half of a marginal spread rise is reversed

… in Norway, bank spreads are heading down, -4 bps the previous three weeks (Bank 2, 5y)

USA Corporate spread



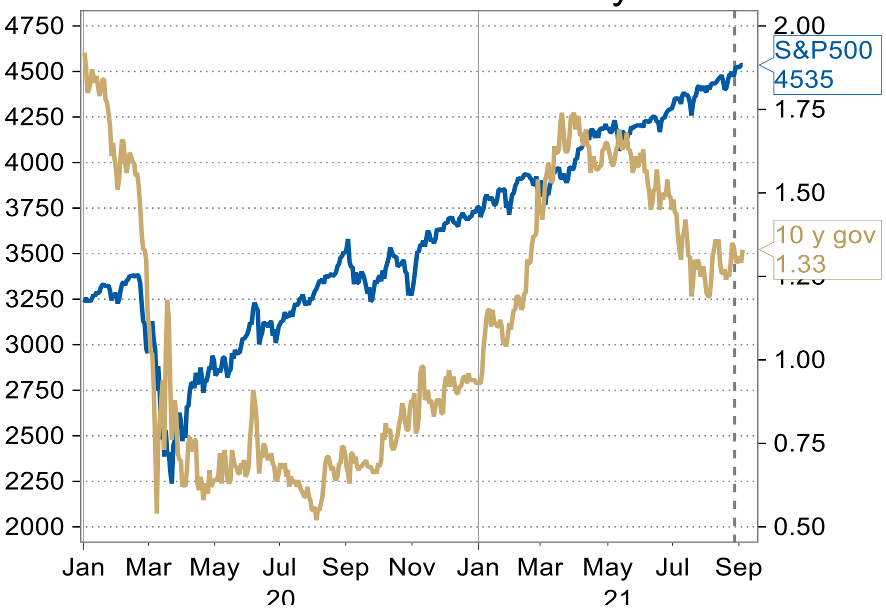
Credit spreads



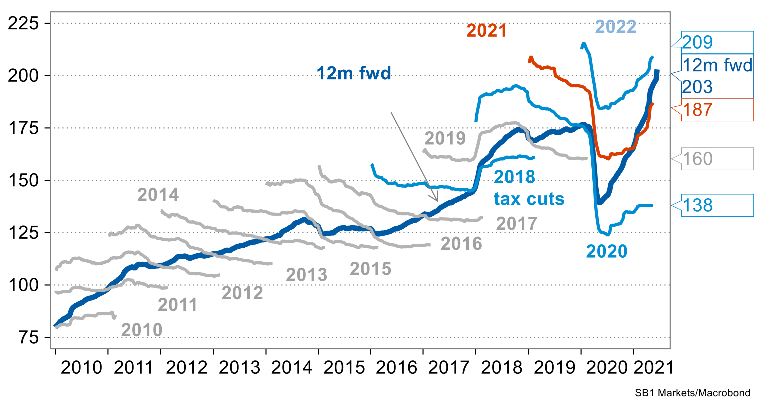
S&P 500 +0.2%, and a new ATH. Bond yields up 2 bps

Earnings expectations are drifting rapidly upwards, keeping the P/E ratio stable

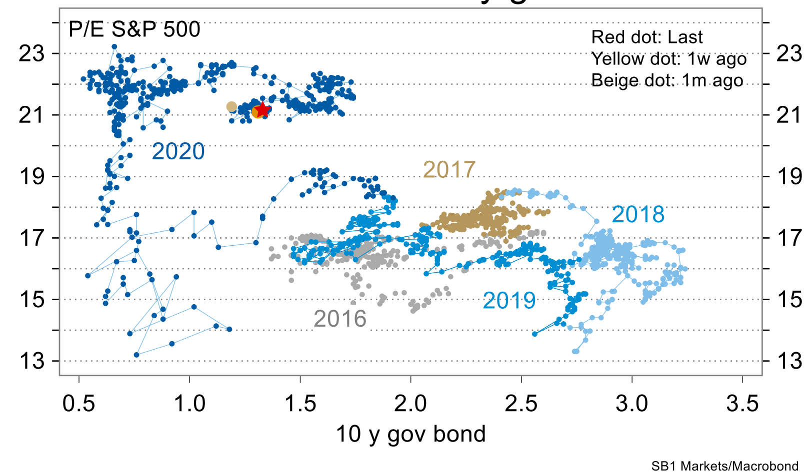
USA S&P 500 vs. bond yields



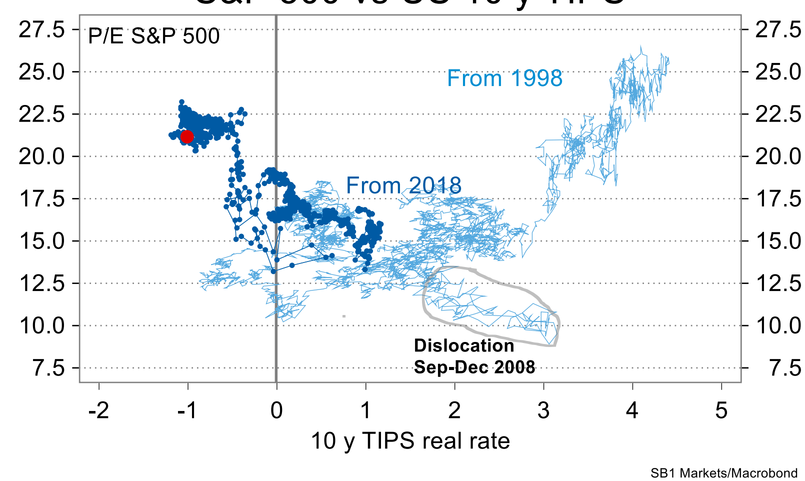
Annual S&P 500 EPS consensus (Factset)



S&P 500 vs US 10 y gov bond



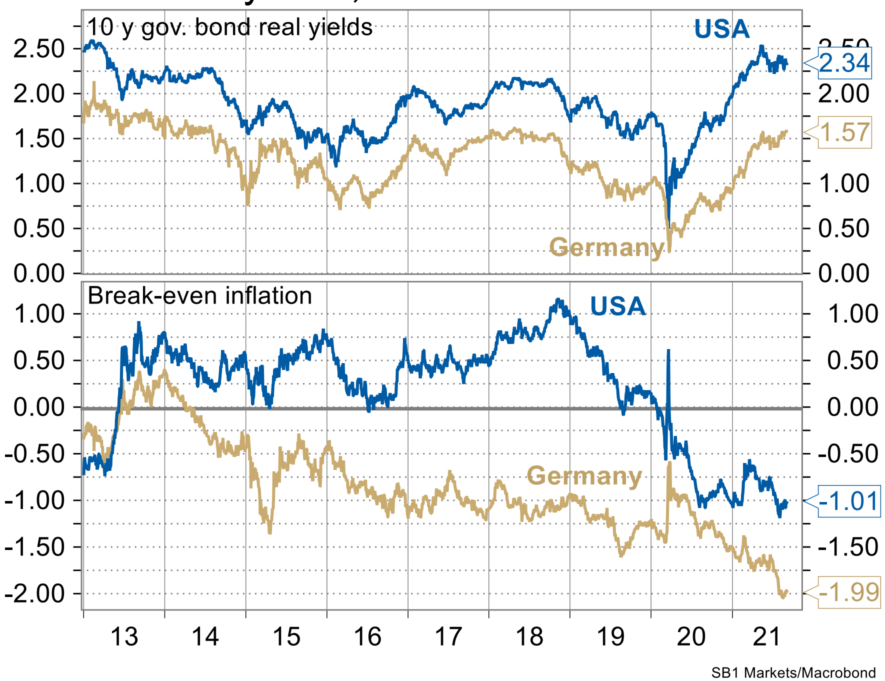
S&P 500 vs US 10 y TIPS



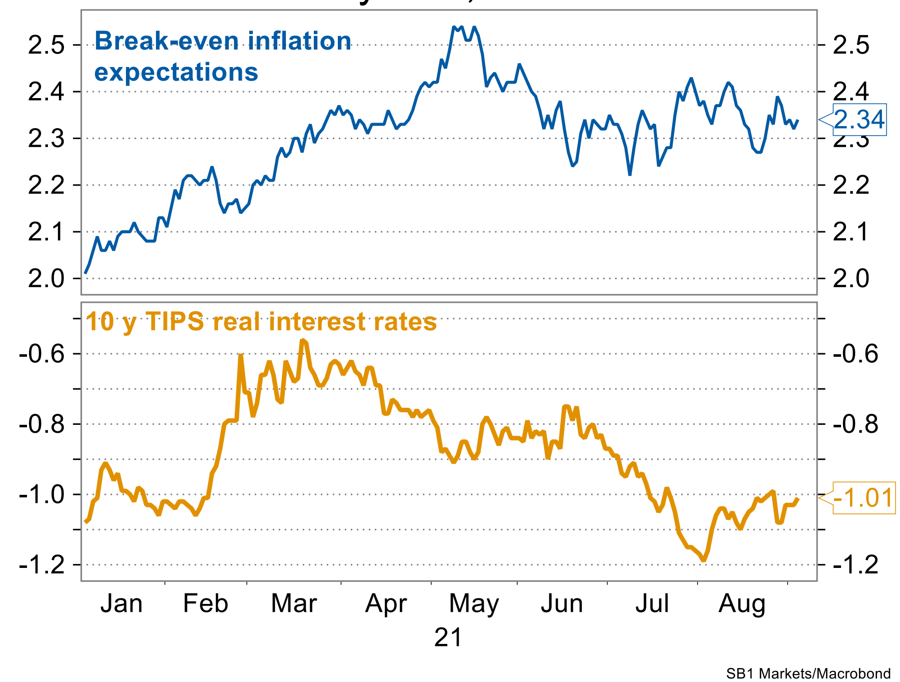
US real yields recovered the ‘Powell’ loss, up 7 bps last week (10 y TIPS)

Nominal yields close to unchanged (and no setback on the low payrolls number)

Real yields, break-even inflation



USA TIPS Real yields, break-even inflation



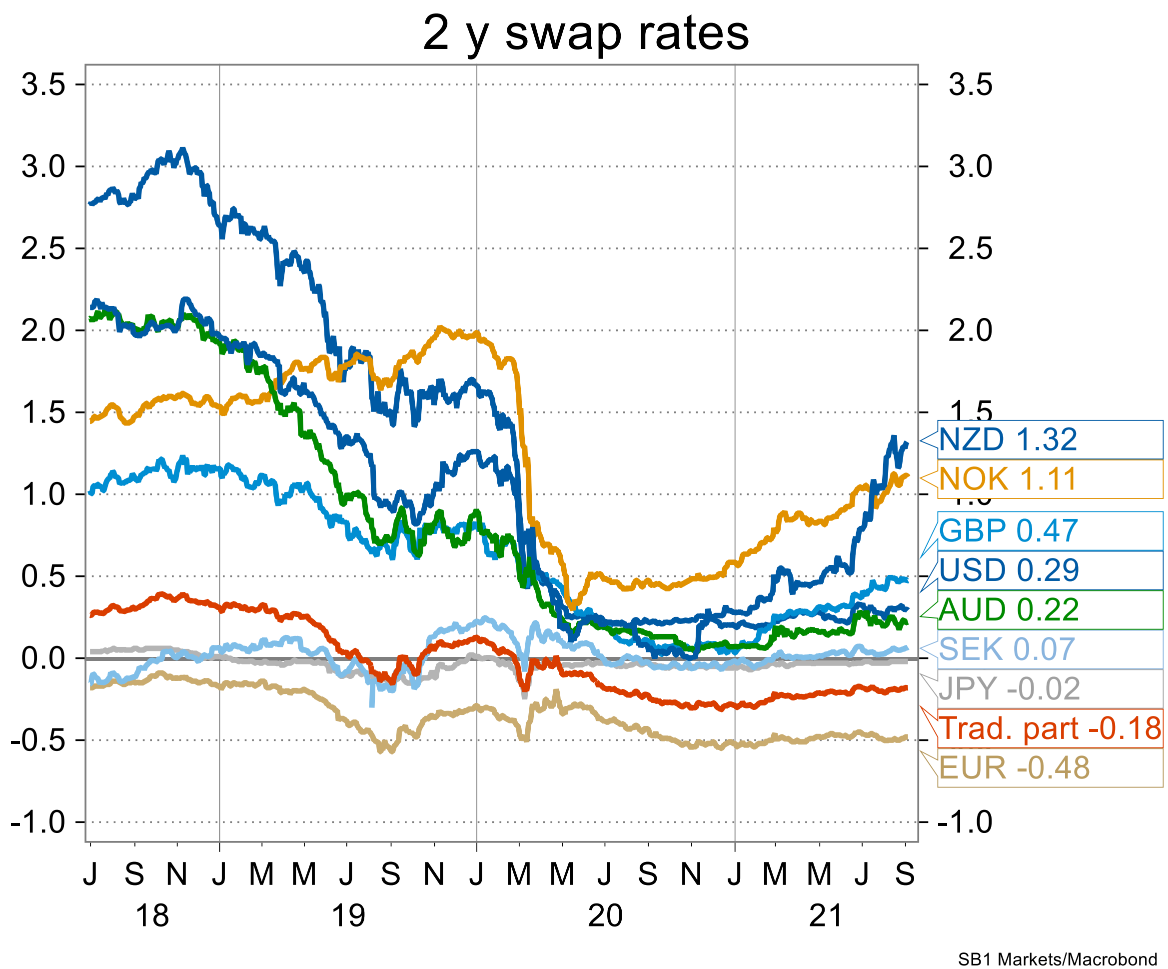
US & Germany 10 y Gov bond yield

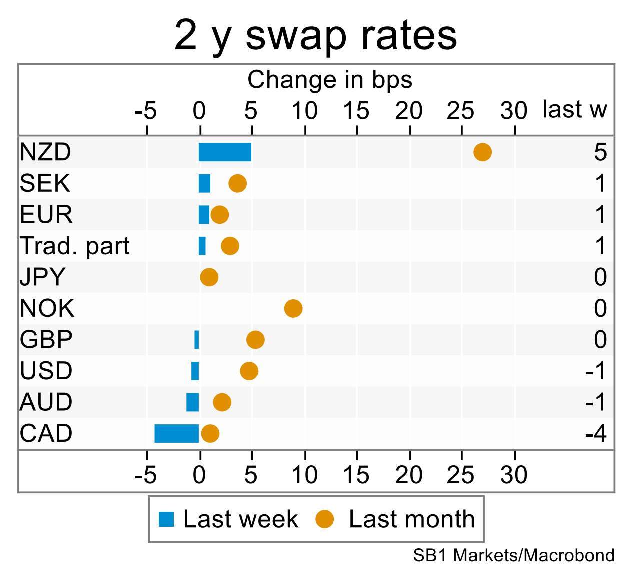
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.33	0.02	0.14	0.52
.. break-even inflation	2.34	-0.05	-0.04	1.06
.. TIPS real rate	-1.01	0.07	0.18	-1.19
Germany nominal bund	-0.36	0.05	0.11	-0.65
.. break-even inflation	1.63	0.06	0.10	0.40
.. real rate	-1.99	-0.01	0.01	-2.05

SB1 Markets/Macrobond

- Small changes in the German curve – and the real rate remains close to -2%. Per year, the next 10 years!

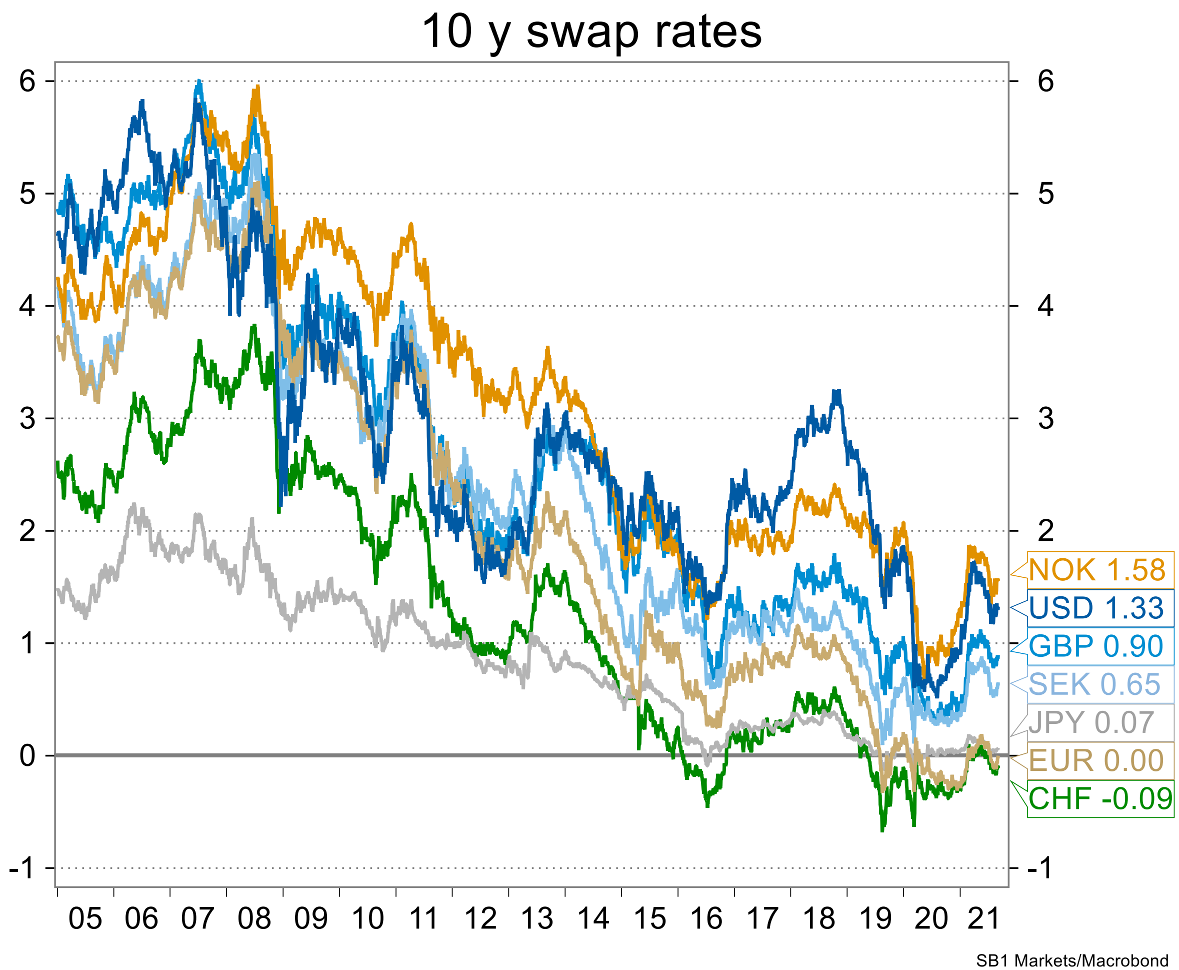
Rather stable in the short end of the curve

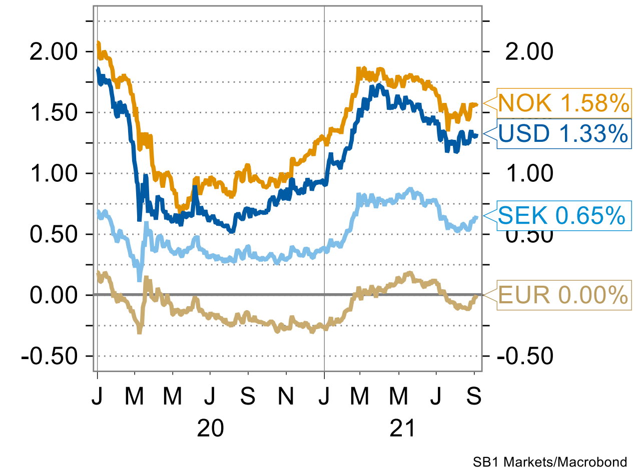


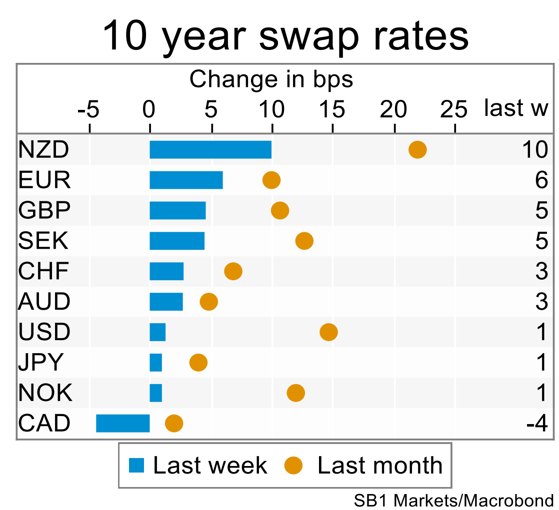


Up almost everywhere last week too

EUR rates are up 10 bps past 4 weeks as ECB board members have started to talk about ‘tapering’

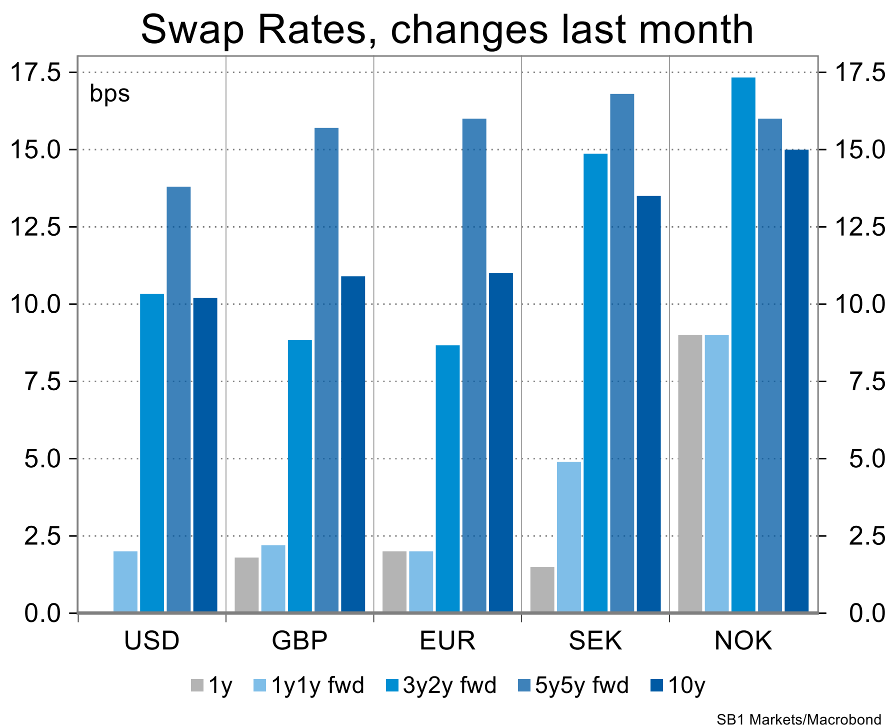


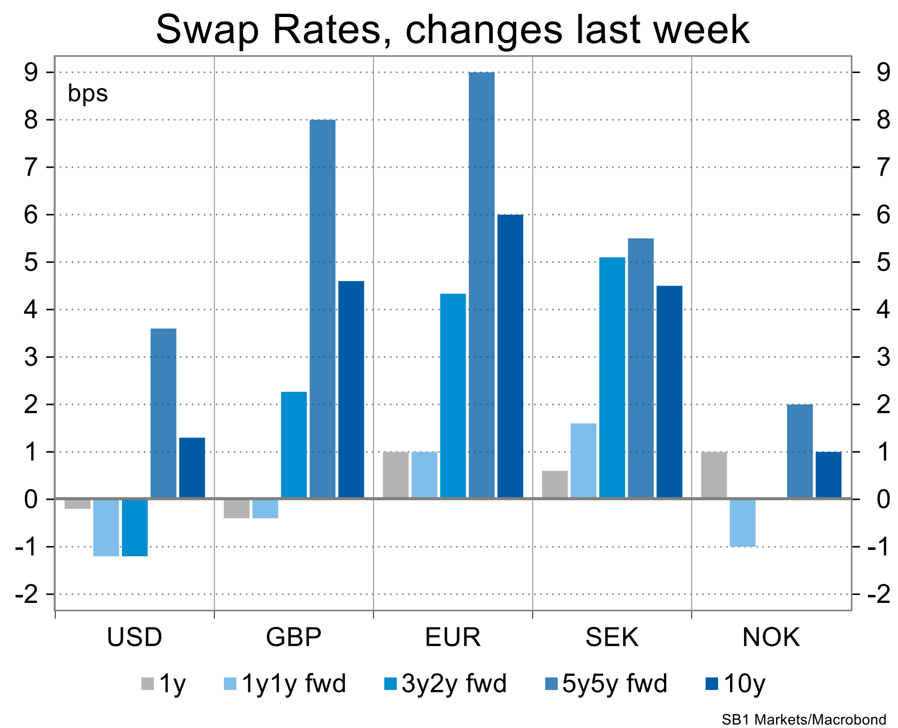




Rates up in rest of Europe, but not in Norway

… and a substantial lift everywhere over the past 4 weeks – and the most in Norway

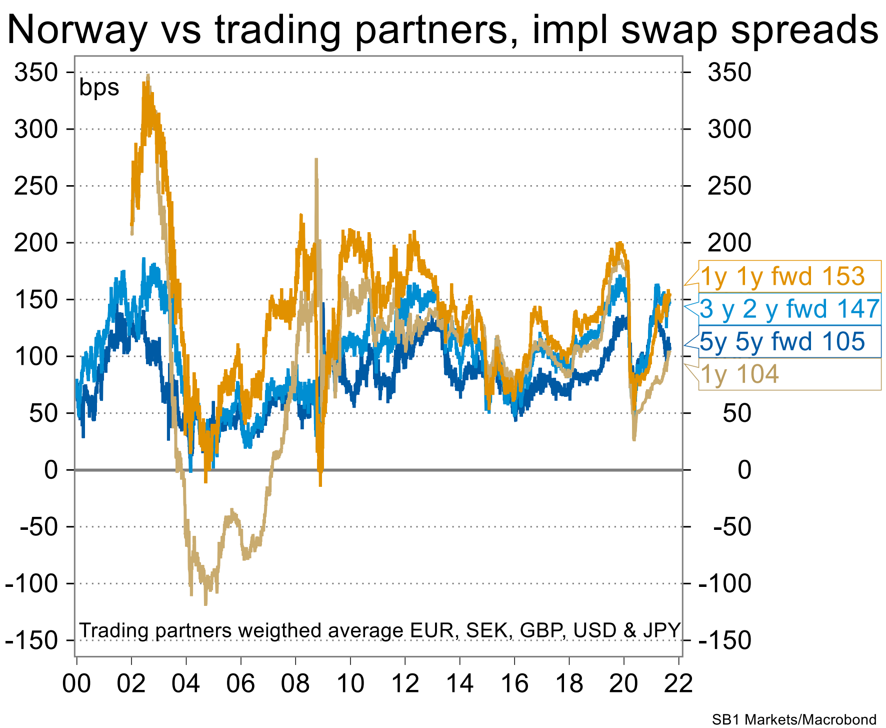


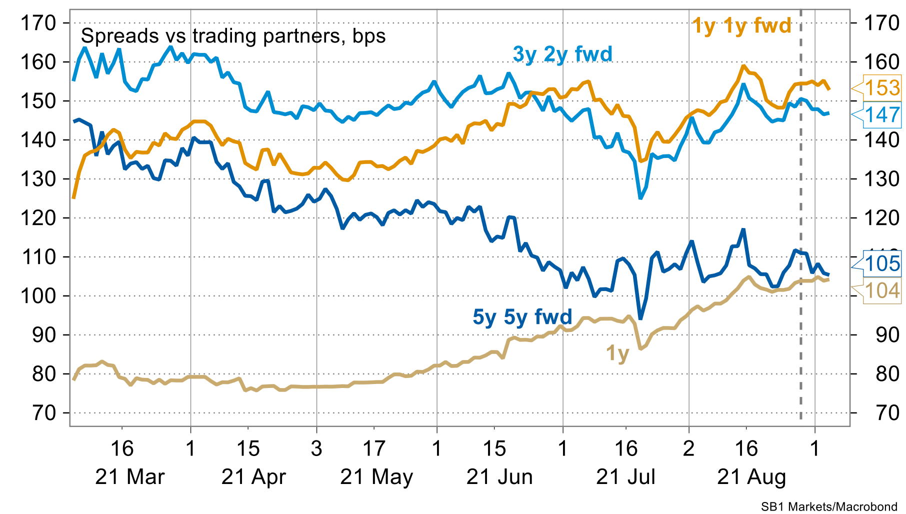


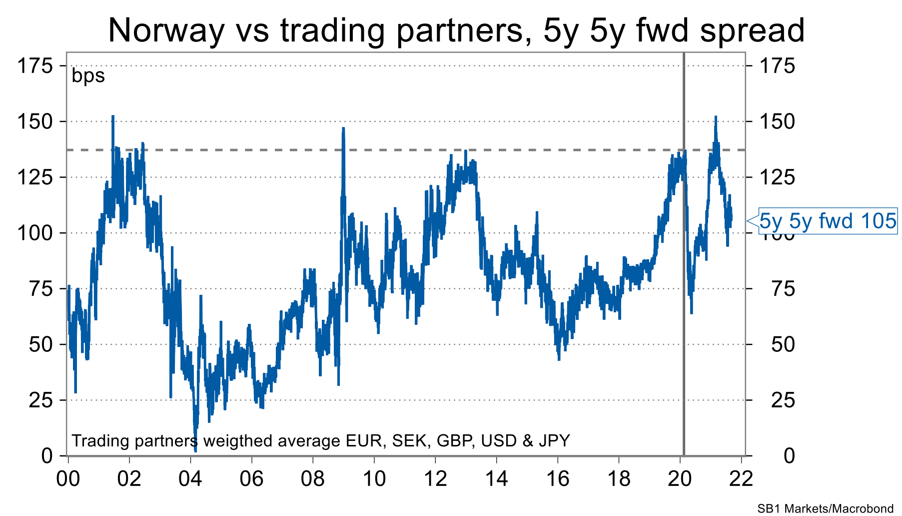
SpareBank 1 MARKETS

Forward spreads vs trading partners up flat in the short end, down thereafter

NOK data on the strong side last week – no impact on interest rate differentials

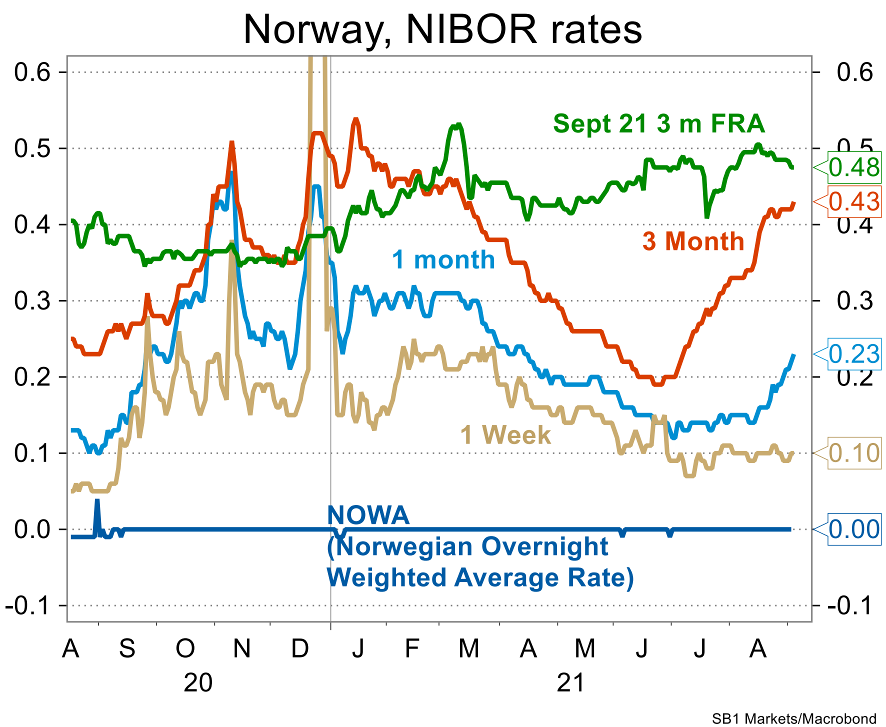


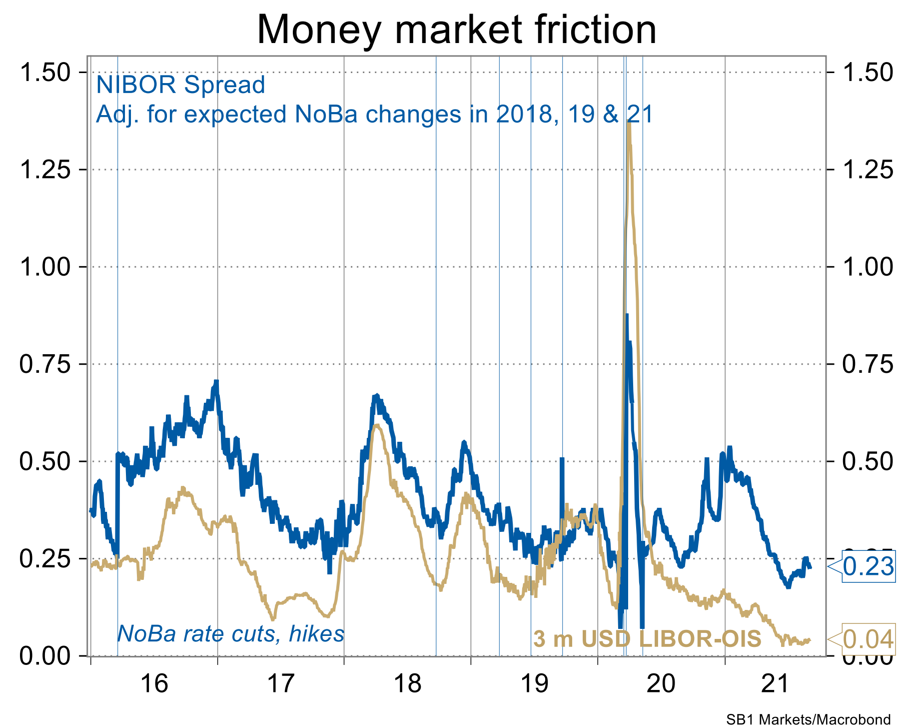




- The 5 y 5y fwd spread is still among in the upper part of the historical range

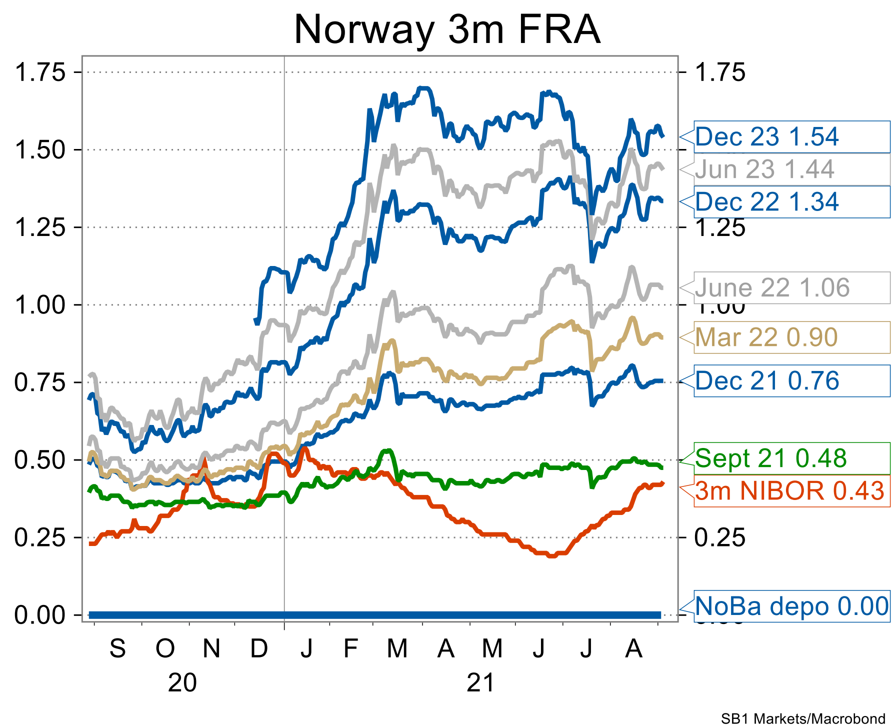
3 m NIBOR 1 bp up to 0.43%, the 'real' NIBOR spread probably down to 23 bps

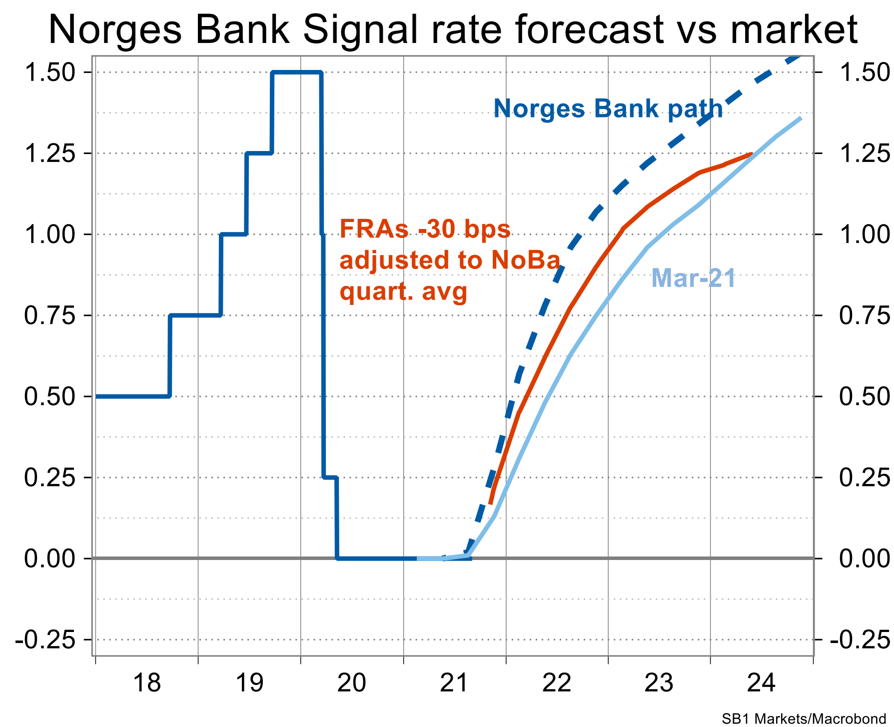




- The **USD LIBOR OIS spread** is still low, even if the Fed has tried to mop up excess liquidity in the money market by heavy use of reversed repos
- The **Sept-21 3 m FRA contract** at 0.48% bps (-1 bps last week) is 5 bps above the current 3 m NIBOR, implying further lift the coming weeks. Thereafter 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 fell 1 bp to 23 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 close to unchanged last week

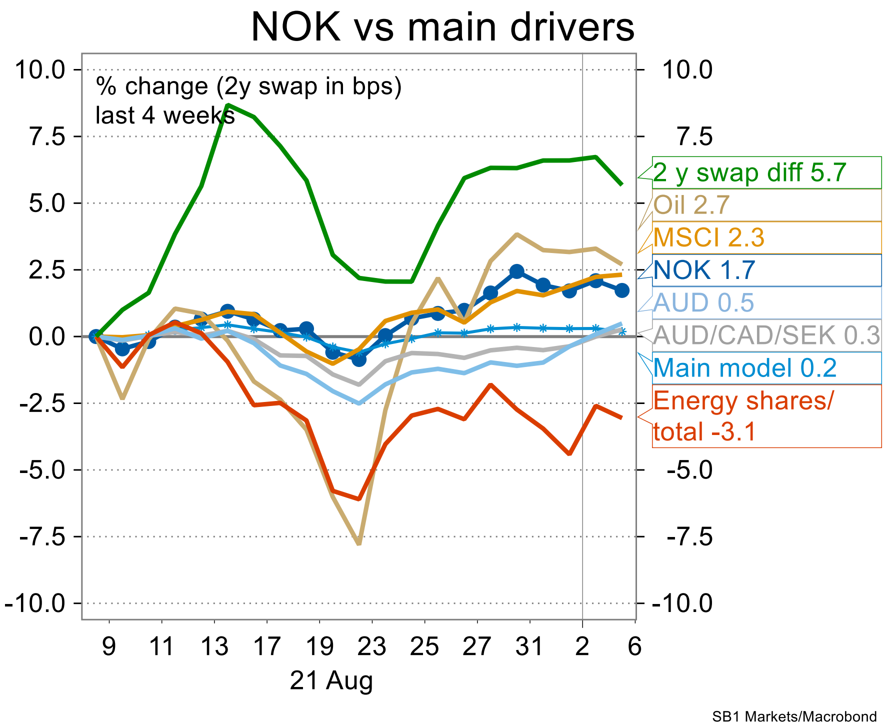


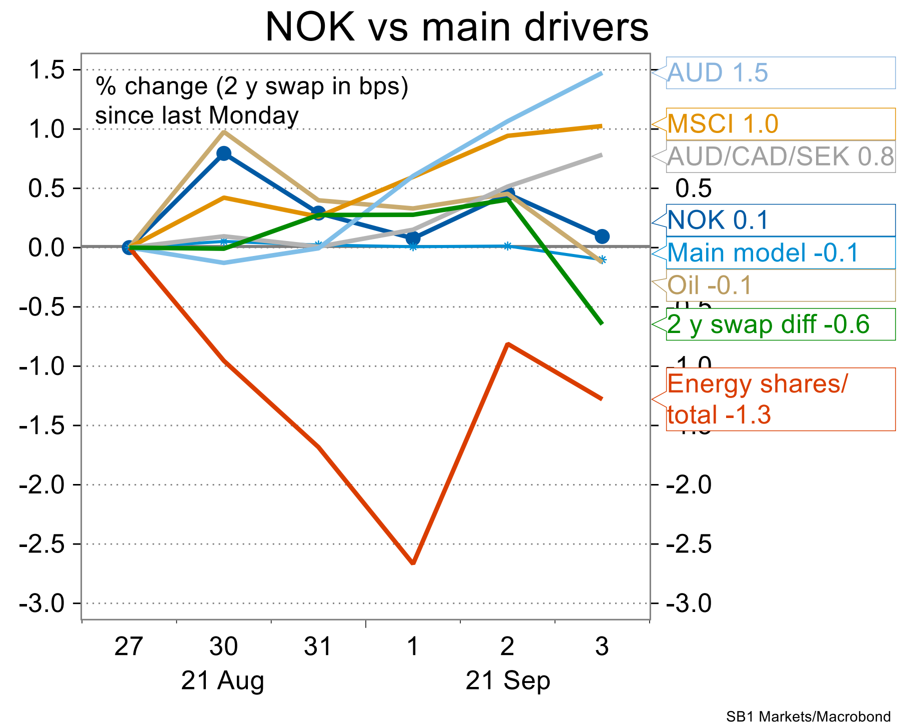


- The market is still betting on a **NoBa hike in September** – and more than fully if the NIBOR spread remains at 0.23 bps. If a 30 bps spread is assumed, the implied probability falls to 80%
- The Dec-21 FRA at 0.76%, after deducting a Q4 liquidity premium at 7 bp, implies a 84% probability for a **2nd hike in December** if the NIBOR spread stays at 23 bps. It the spread widens to 30 bps, the probably for a 2nd hike falls to 56%
- The Mar-22 FRA at 0.90% implies a more than 50% for a 3rd NoBa hike in March, given a 2nd hike in December, if the spread remains at 23 bps

NOK up 0.1%, our model said -0.1% as the oil price fell marginally

Our super-cyclical peers, and global equities appreciated last week





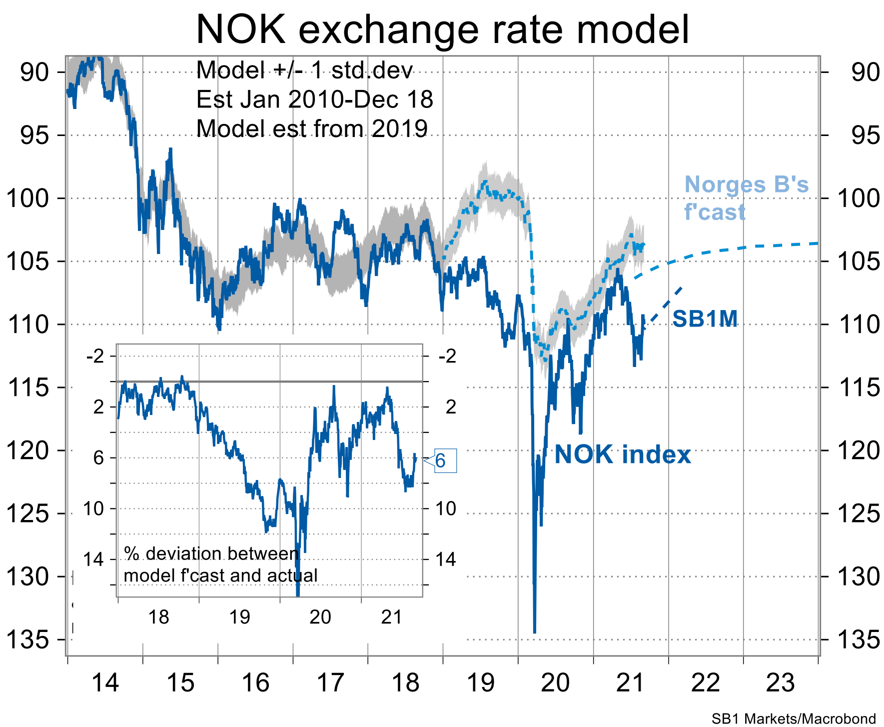
The status vs. the normal drivers:

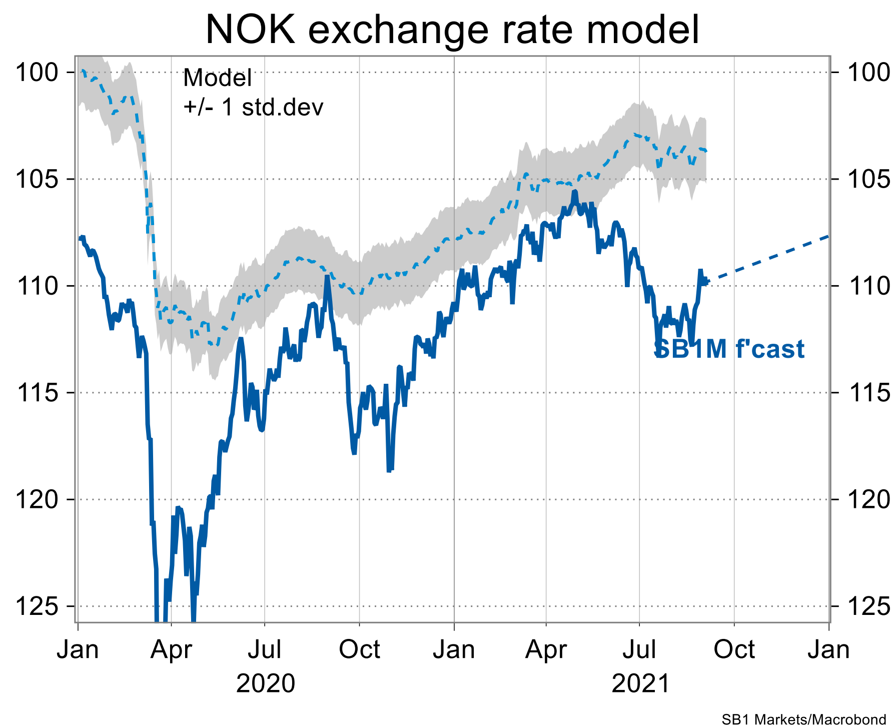
- ***The NOK is 6% weaker than suggested by our standard model (unch)***
- The NOK is 6% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from -7%)
- The NOK is 8% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -9%)
- NOK is far (11%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (from 10%)

For September, we repeated our NOK buy recommendation

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 still 6% below our workhorse model





EM x China f/x further up, 'risk on'

The CNY has lost some height past 2 weeks