Macro Weekly

13 September 2021

Week 37/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week

The virus

- 80% of countries are reporting fewer **new cases**, **US, EMU and Norway,** as well as and most **Lat-Am**, and **Asian** countries included
- The no. of **hospitalisations** has flattened or are falling most places – now in the US, from a very high level. Elsewhere in the rich part of the world, the pressure on the health system has been modest. In Norway just 21/mill are hospitalised (though still increasing), vs 100+ in the UK, and almost 300/mill in the US
- In the West, **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. Some sectors have still reported a slowdown, like restaurants and travel
- In the East, the lockdowns will probably not last for too long and mobility is on the way up most places. **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 (but with record high exports, by far!)

The economy, part I

- **Auto sales**
  - **Global auto sales** fell by approx. 3% in Aug following a setback the past 3 months - due to sharp cut in production as data chips are still in short supply. Global sales are down 15% vs the 2019 level. In August, sales fell the most in the US, modestly in China, and sales in the EMU rose marginally, UK sales more, and Norwegian even more. Still, EMU is down 25% vs. the 2019 avg., US is down 23%, Emerging Markets x China 16%, but Chinese sales are down just 4%. UK is down 3%, and Norway is up 31%!
- **China**
  - **Exports** were significantly higher than expected in August, to another ATH by far, up 6% m/m, 25% y/y – even during the worst 'Delta' month. In volume terms, exports are 15% above the pre-pandemic growth path! **Imports** rose 2%, and were slightly higher than expected, up 29% y/y. Higher import (commodity) prices explain most of the lift, but in volume terms imports are still some per cent above the pre-pandemic growth path, signalling no breakdown in domestic demand.
  - **Credit growth** is still slowing and the credit indicator (acceleration) fell further into red. Bank credit is slowing, and credit supply outside banks has slowed to a trickle (except for local government bonds). Credit growth is still above underlying income (nominal GDP) growth. We doubt authorities want to boost overall credit expansion, but rather channel credit to prioritised sectors, curbing credit to other, like real estate & property developers
  - **CPI inflation** is just 0.8% due to the partial normalisation of pork prices, supporting household demand (which has been slow). Producer price inflation is still accelerating, prices are up 9.5% y/y

Last week: The economy, part II

- **USA**
  - The no. of **vacancies** rose further in July, to almost 11 mill, or 7% of no. of employed, expected close to unch. at 10 mill. The level is far above the pre-pandemic ATH at 4.8%. There are more than 1 vacant position per unemployed. In addition, 2.7% of the employed quit their job voluntarily, close to ATH (from April), and close to a record low no. of employees were laid off. Based on these data, the labour market has never been tighter (20 y history) – which is confirmed by business surveys
  - **Atlanta Fed' median wage** tracker reported 3.9% growth in August, up from 3.7%, and 3% some months ago
  - **Fed's Beige book** (regional network) reported slightly lower growth than 6 weeks ago, due to the Delta outbreak. Leisure/hospitality took most of the beating. Supply side concerns remain, both shortages of materials/components and lack of labour. Comments on the persistence of strong inflation/cost pressures can not be reassuring reading for the Federal Reserve, as they confirm other surveys stating unprecedented plans for hiking selling prices
  - **Producer prices** are climbing further, and more than expected. The headline PPI signals an annual CPI inflation at close to 7% (from 5.3% now)! If that figure turns up, it better be rather transitory. If not… (The good news: core crude goods prices have peaked, if not yet intermediate prices)
  - Based on all these news, 10 y bond yields rose 2 bps – as another decline in TIPS real rate, to -1.05%, counterweighted the impact of higher inflation exp.
- **EMU**
  - **The ECB is not tapering,** it is insisting, just reducing the pace of bond buying somewhat in Q4 (which we thought was the meaning of tapering). However, President Lagarde stressed that the bank would continue QE as long as needed in order to get inflation to 2% - and the bank still forecast inflation to remain well below 2% from 2023 onwards, and the ECB still has a lot to do. The bank was deemed to be less hawkish than expected, real rates fell to another ATL (10 y real bund -2.06%!), inflation expectations rose – and they are not that low anymore
- **UK**
  - **GDP** grew less than expected in July, by just 0.1%, and remains 2.2% below the Feb-20 level. Delta very likely to blame, even culture/entertainment blossomed in July (during the football championship) – but the hospitality, transport sectors flattened
- **Sweden**
  - **GDP** was almost 1% higher than expected in July, and 2.9% above the pre-pandemic level – and thus above the pre-pandemic growth path. Sweden has probably delivered the best 'post'-pandemic comeback so far! (And is well ahead of Norway, check the next point)
- **Norway**
  - **Mainland GDP** grew 0.4% in July, and less than expected (0.6% – 1%) but June was revised up and the level is 0.5% above the pre-pandemic level. Activity rose double digits in hospitality/transport/culture & entertainment but value added in business services (travel agencies, cleaners etc) surprisingly fell sharply – and the latter is still down 35% vs Feb-20, vs.- 5% to -17% in the former activities. Services consumption rose 2.4%, but Norwegian spending on goods rose 1.2% too. Oil investments rose sharply (probably a one-off), while business and housing investments fell
  - **Core CPI inflation** fell 0.1 pp to 1.0% in August, in line with consensus (but we expected unch.) Clothing and furniture surprised us on the downside. We think CPI inflation is close to bottom in this cycle, as neither imported goods prices, or domestic costs will slow further. That's Norges Bank's forecast as well. **Total CPI** shot up 0.4 pp to 3.4% as electricity prices are up almost 100% y/y, lifting the total CPI sharply. Still, whatever you read in MSM, prices are no more than some 40% above a normal level (5 y avg, or any reasonable trendline), and the future market expect spot electricity prices to decline substantially the coming quarters! We think Norges Bank is not too worried by neither the low core CPI, or the current high headline print!

The Calendar: CN/US/EMU Industrial prod., Retail sales, US/EMU CPI, NoBa network

Time	Count.	Indicator	Period	Forecast	Prior
Monday Sept 13					
	NO	**General election**		Left/green	Cent/right
20:00	US	Monthly Budget Statement	Aug	-$225.0b	-$200.0b
Tuesday Sept 14					
06:00	SW	PES Unemployment Rate	Aug		3.9%
08:00	UK	Weekly Earnings ex Bonus	Jul	6.8%	7.4%
09:30	SW	CPI YoY	Aug	1.6%	1.4%
09:30	SW	CPIF Excl. Energy YoY	Aug	1.1%	0.5%
10:00	**NO**	**Norges Bank Reg Surv. Next 6M**	**Aug**	**1.8**	**1.88**
10:00	NO	Housebilders' survey, starts	Aug		
12:00	US	NFIB Small Business Optimism	Aug	99	99.7
14:30	**US**	**CPI YoY**	**Aug**	**5.3%**	**5.4%**
14:30	**US**	**CPI Ex Food and Energy YoY**	**Aug**	**4.2%**	**4.3%**
Wednesday Sept 15					
03:30	CH	New Home Prices MoM	Aug		0.30%
04:00	CH	Retail Sales YoY	Aug	7.0%	8.5%
04:00	**CH**	**Industrial Production YoY**	**Aug**	**5.8%**	**6.4%**
04:00	CH	Fixed urban investments	Aug	9.1%	10.3%
08:00	UK	CPI core YoY	Aug	2.90%	1.80%
08:00	NO	Trade Balance	Aug		42.2b
11:00	EC	Industrial Production SA MoM	Jul	0.6%	-0.3%
11:00	EC	Labour Costs YoY	2Q		1.5%
14:30	US	Empire Manufacturing	Sep	17.0	18.3
15:15	US	Capacity Utilization	Aug	76.3%	76.1%
15:15	**US**	**Manufacturing Production**	**Aug**	**0.4%**	**1.4%**
Thursday Sept 16					
11:00	EC	Trade Balance SA	Jul	14.9b	12.4b
14:30	US	Initial Jobless Claims	Sep-11	320k	310k
14:30	**US**	**Retail Sales Ex Auto MoM**	**Aug**	**-0.2%**	**-0.4%**
14:30	US	Philadelphia Fed Business	Sep	20.0	19.4
16:00	US	Business Inventories	Jul	0.5%	0.8%
Friday Sept 17					
08:00	UK	Retail Sales Ex Auto Fuel MoM	Aug	0.8%	-2.4%
11:00	EC	CPI YoY	Aug F	3.0%	2.20%
11:00	EC	CPI Core YoY	Aug F	1.6%	0.9%

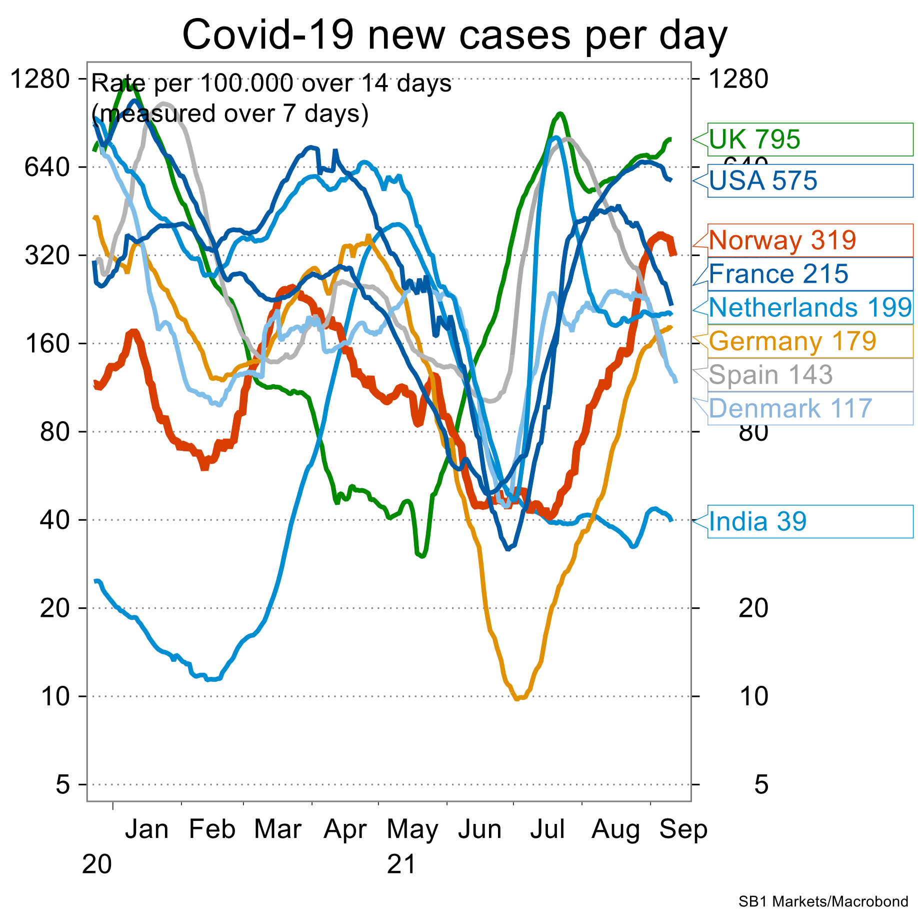
Sources: Bloomberg. SB1M est. in brackets. Key data are highlighted, **the most important in bold**

- **China**
  - **Industrial production** came in at 6.4% y/y in July, below expectations. The government is curbing steel production, and the August PMIs were slightly lower, but on the other hand exports are still strong. Monthly growth was probably moderate in August. **Retail sales** were weak in July and fell 0.1% m/m – some of it likely due to corona virus restrictions - but sales have growth a slow pace since last Nov. Growth in **investments** are slowing too, before the pre-pandemic trend was reached
- **USA**
  - **The US Inflation** may be peaking (even if the PPI sent a warning sign at Friday), and 'moderate' m/m growth (total 0.4, core 0.3%), and a small decline in the annual growth rate is expected in Aug. Energy and used car prices are at least flattening now, as are other commodity prices. However, the labour market is tightening, wage inflation is accelerating and countless surveys are suggesting that inflation pressures are exceptionally – and a 0.3% core growth pace equals a 3.7% annual pave. The Fed will be watching, but for the moment, the jobs data weighs heavier on the decision on whether to taper or not (and should be as the long term 2% average inflation target is met)
  - **The small business optimism index** was down in July on labour shortages and rising costs – which rose further in August (already published). In July, the gap between supply and demand side concerns was the largest ever, as if the economy was booming. We doubt adding the spread of the Delta variant to the mix will increase optimism but that's not the most relevant element in the report
  - **Retail sales** were sharply down in July, but the level is still 16% above pre Covid. We believe there is still some downside – and sales are expected down, even in nominal terms. **Manufacturing production** is still at a recovery path, as confirmed by all business surveys
- **EMU**
  - **Industrial production** surprised on the downside in June, and we assume it rose less than the expected 0.6% in July (0.3%, given reports from the big 4). Problems in the auto industry explain most of the weakness in aggregate production. However surveys are strong and orders are booming
- **UK**
  - **Retail sales** have declined over the past three months as the economy opened up, and sales are now on the pre-pandemic growth path – as spending on services have surged
  - **Wage growth** is very high, and probably more than shot term pandemic effects can explain. Brexit may be more to blame, and Brexit will remain ☺
- **Norway**
  - **Norges Bank's regional network Q2 survey** (covering Feb-Apr) was upbeat, but far below our and NoBa's expectations, as the network expected a 3.8% growth pace the next months. So far, growth in May-July has been running at a 12% pace. Thus, the Network is still very likely unable to calibrate the growth pace. As the first phase of the reopening is done, growth will slow from here – and we guess the Network will report a slightly lower growth rate, 3.6%, implying a 1.8 growth index
  - Most likely the incumbent centre/conservative government will lose **today's election** to the left/green coalition dominated by the Labour party – however with an uncertain parliamentary support. During the past decades, the colour of the government has been totally irrelevant for growth, unemployment, inflation, interest rates, the exchange rate, the housing market or the stock market. One day that may of course change, but we doubt that will happen following this election

SpareBank 1 MARKETS

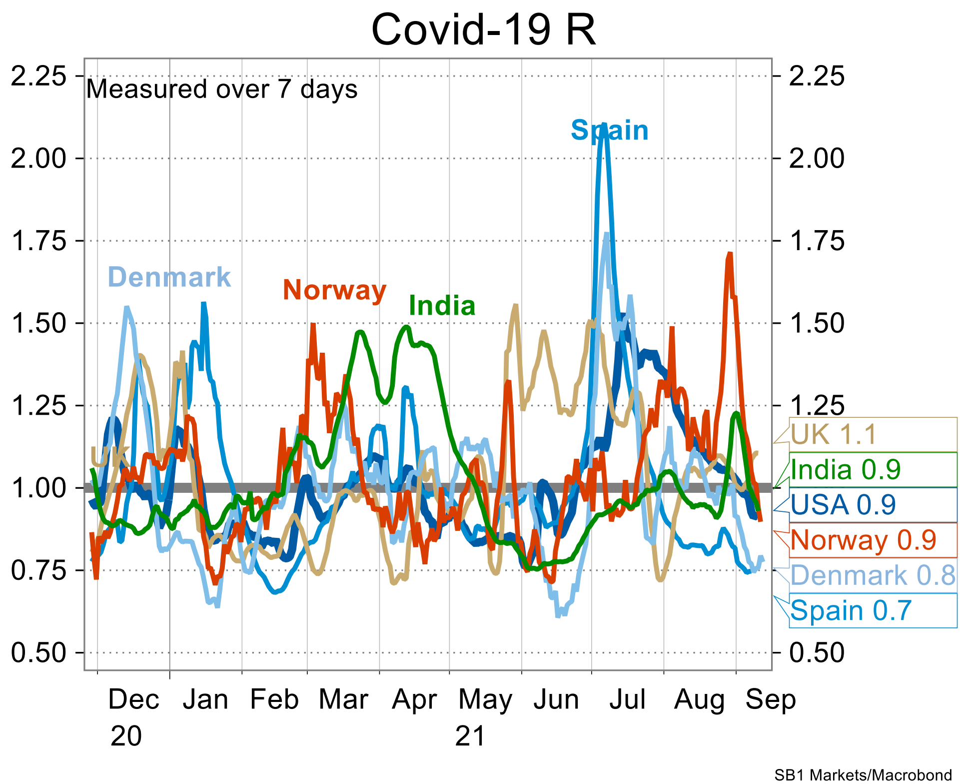
Growth in Covid cases are slowing – and are down in ~~almost 1/2~~ 80% of countries

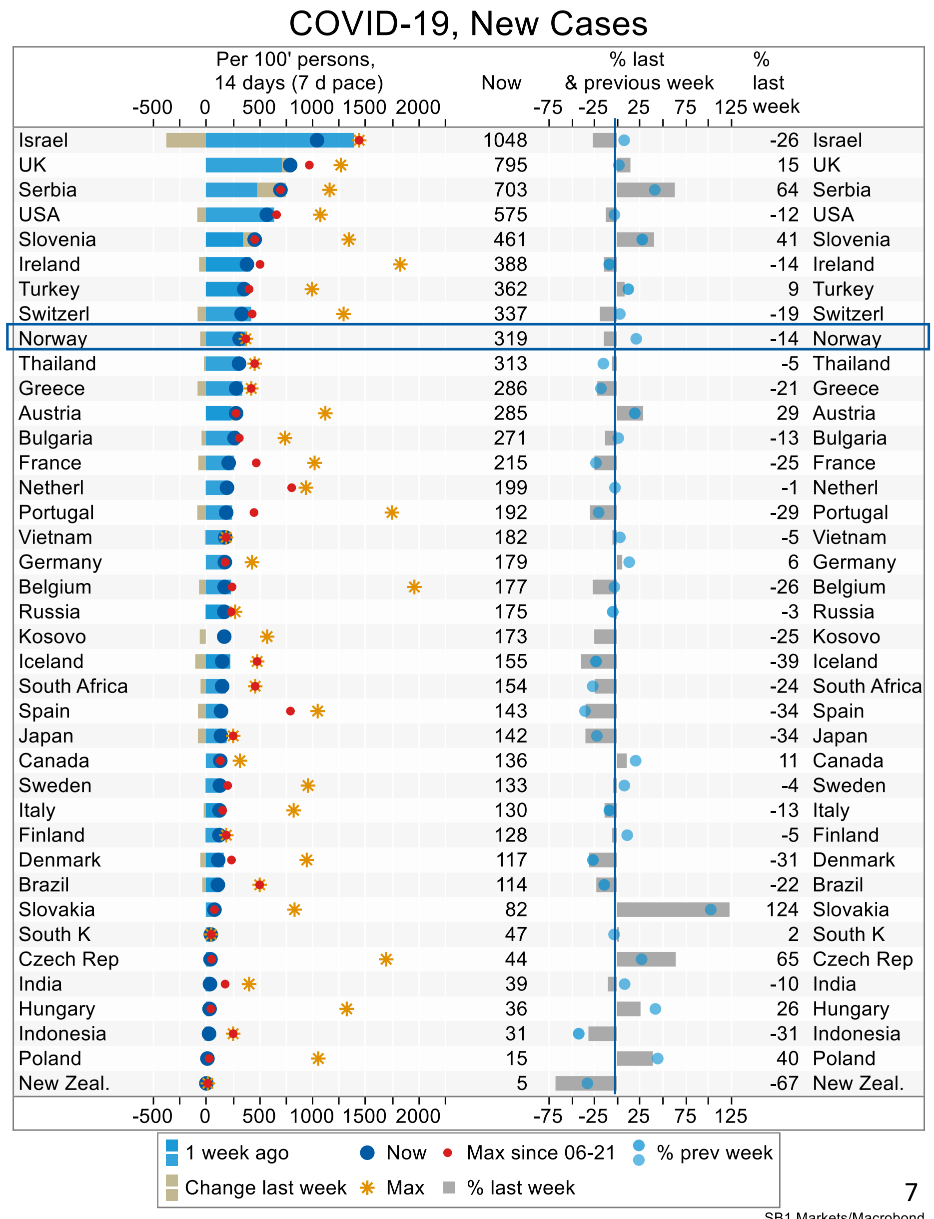
The ~~main~~ only risk now: A~~n even more contagious or~~ vaccine resistant virus variant



- 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 very much doubt there will be. The no. of cases is falling in most countries</u>
- Growth in new cases, hospitalisations & deaths have peaked in the **US** – in due time as the serious illness/death rate have been far higher than in Europe. The number of hospitalised patients is just 30% below the January peak, and several regions have reached capacity limits again
- The situation has been even more challenging in many **Emerging Markets** but even there the no. of new cases has peaked in most countries, and growth has slowed in others. Few new cases are reported in **India** – and in **China** close to none
- **In Norway,** the no. of new cases is very likely on the way down. The no. of hospitalised patients is up 7x from the bottom but the level is still low at 116 persons (from 88 last week), equalling 21 per mill, vs 100+ in the UK, and almost 300 in the US). Just 0.6% of those who have tested positive are hospitalised, vs 8% in the US!
  - » Norway has finally started vaccinating children between the ages of 12-15
  - » It seems very unlikely that the Norwegian health system will run into any sort of capacity problems

The no. of new cases falling in most countries, still just 8 of 38 on the way up

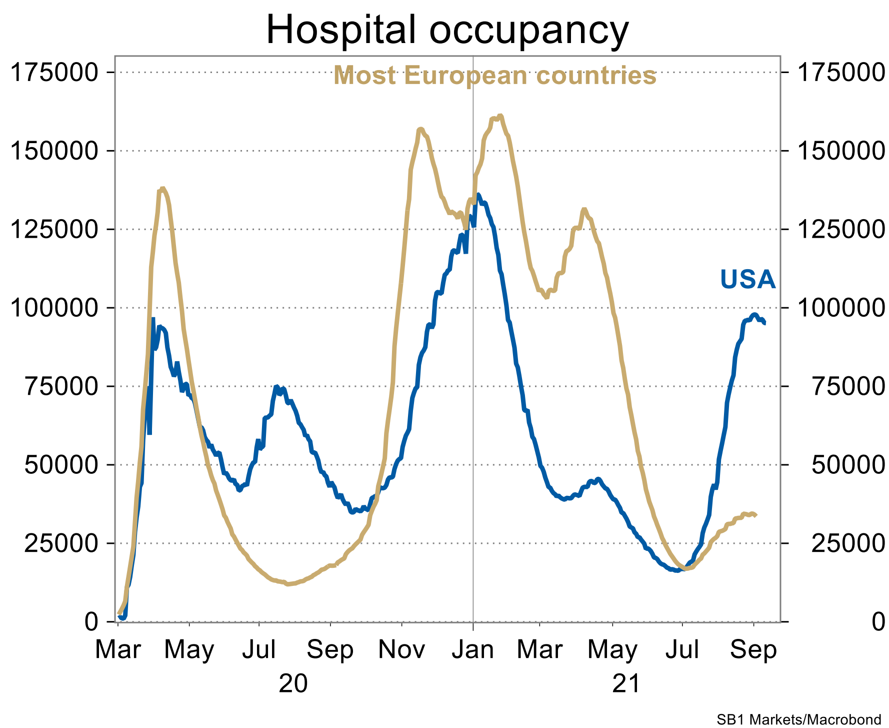


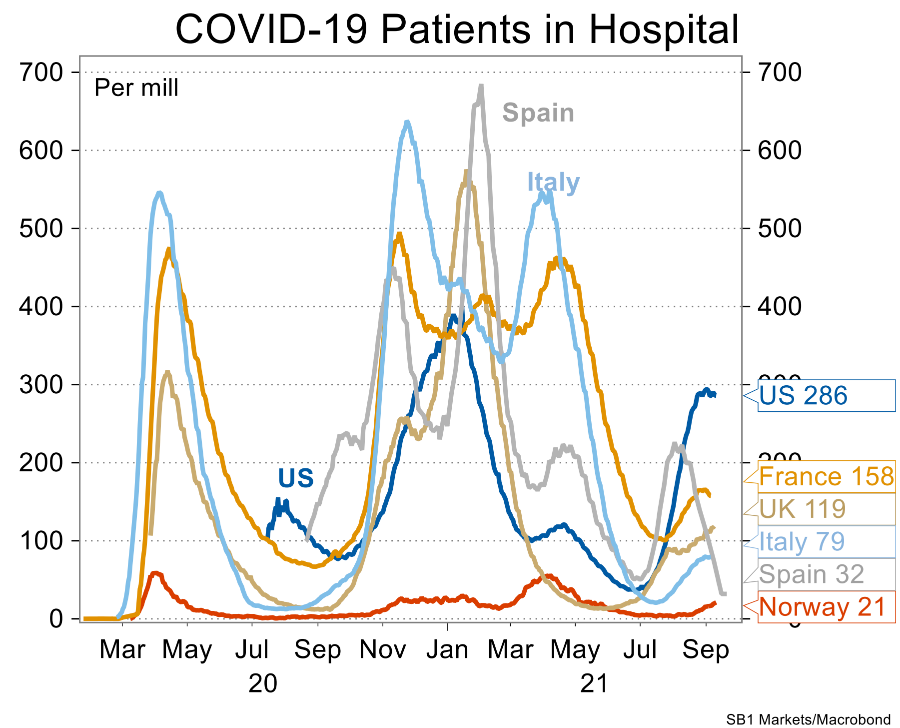


- The red dots on the chart to the right indicate the peak in new cases since June (India's peak was in May). When these dots are in 'free air', cases are down vs the recent peak - which is the case in 31 of 38 countries (from 18 last week)
- Last week the no. of new cases grew in just 8 countries (from 15)
- *Disclaimer: Testing policies/capacities may have changed (and they differ vastly between countries)*

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

UK is still on the way up. Just the US has reached troublesome levels but has peaked

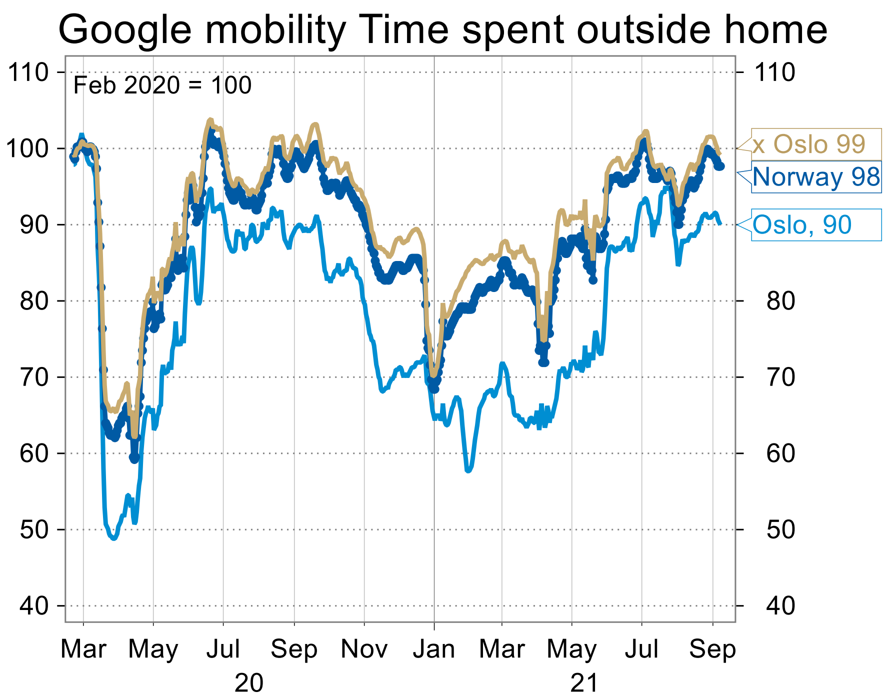




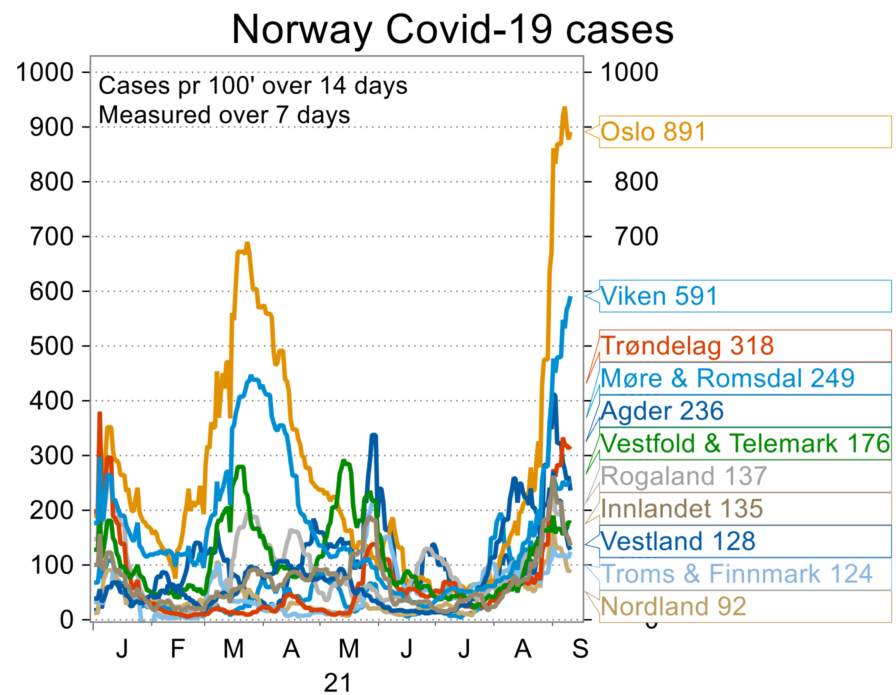
- The number of hospitalised persons in Norway has increased substantially but remains at a very low level

Norway: Some 'local' outbreaks

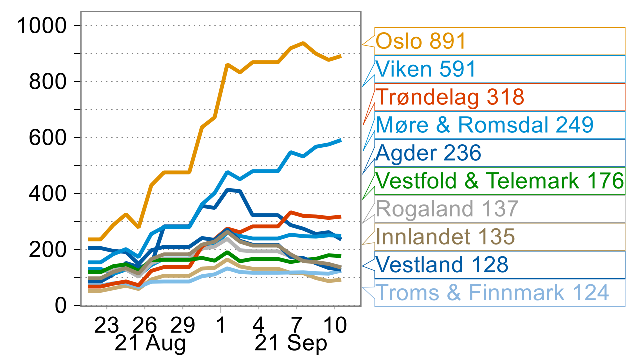
Mobility is on the way up again. Until further notice…



SB1 Markets/Macrobond

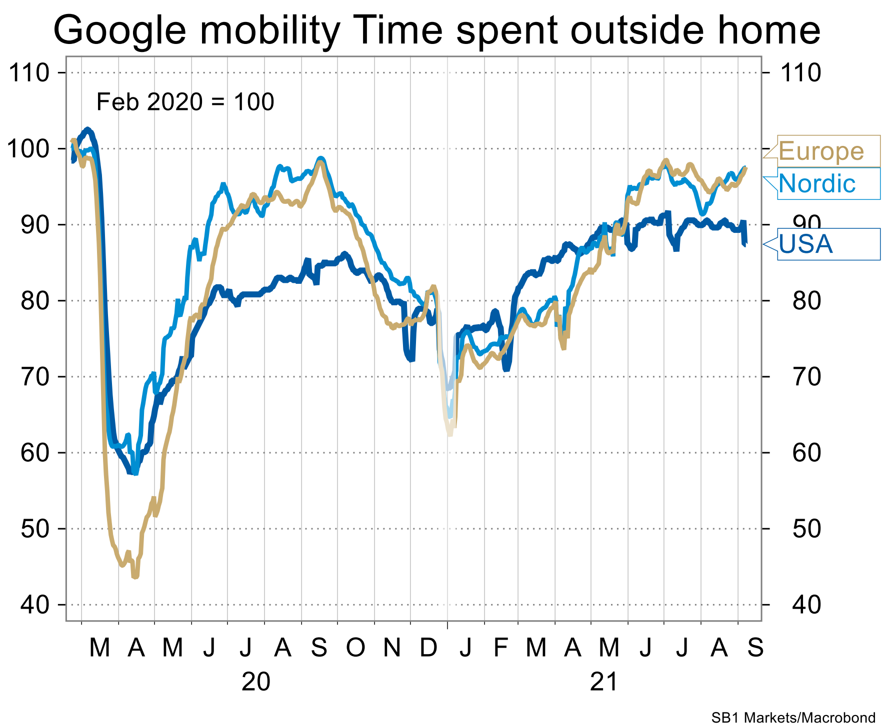


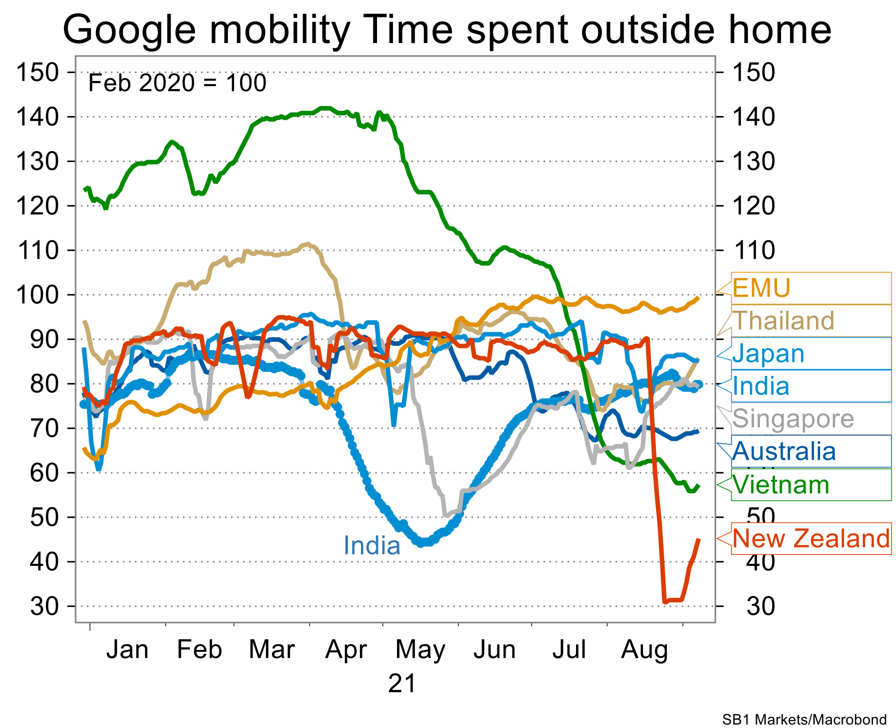
SB1 Markets/Macrobond



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

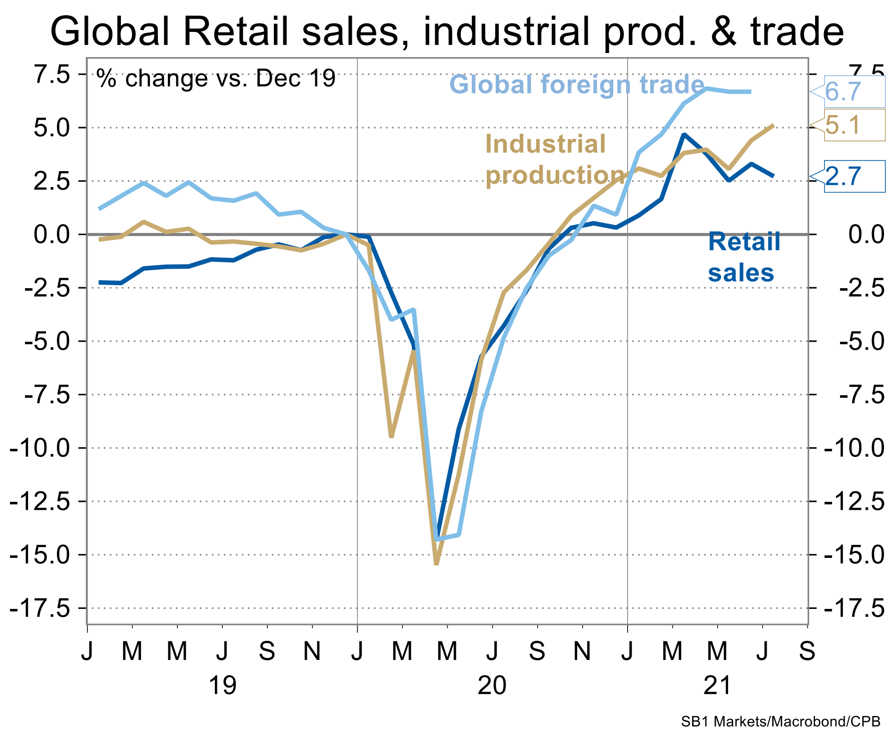
Still challenges in the East but mobility has bottomed everywhere (barring Vietnam, which has flatt.)

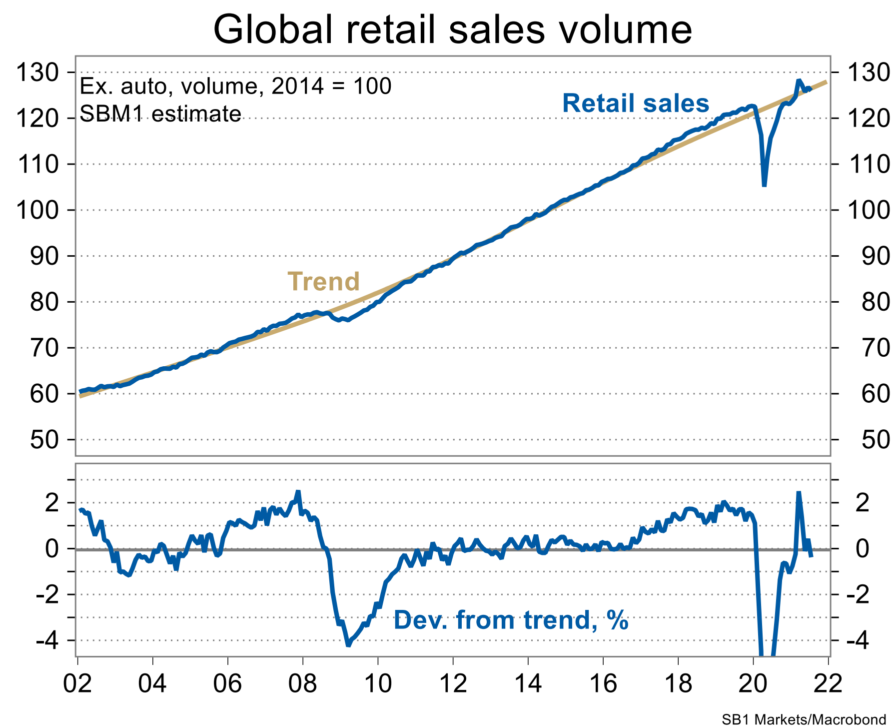




Activity in the goods sector is flattening

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

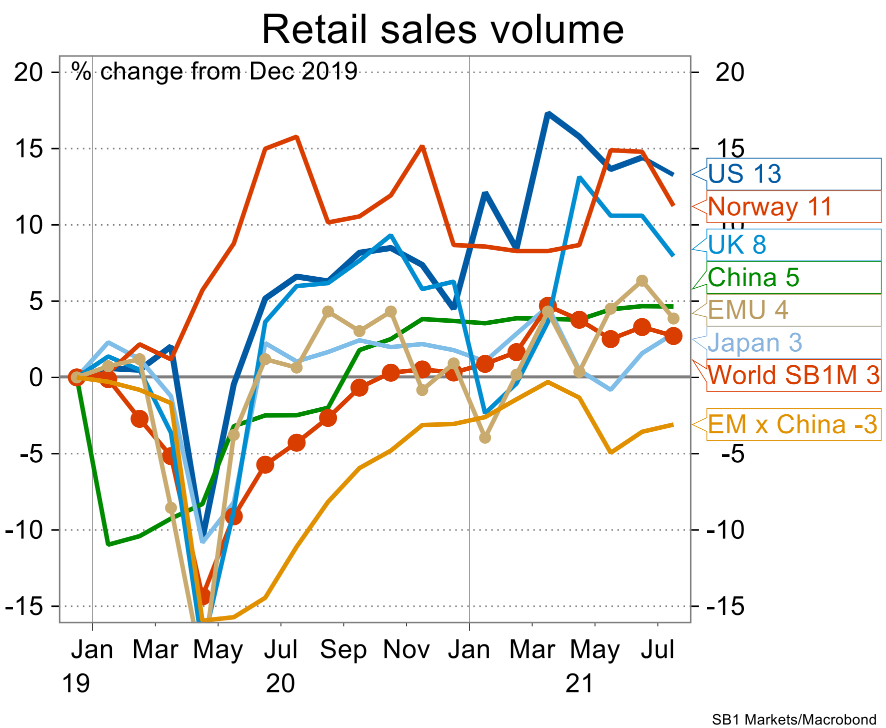


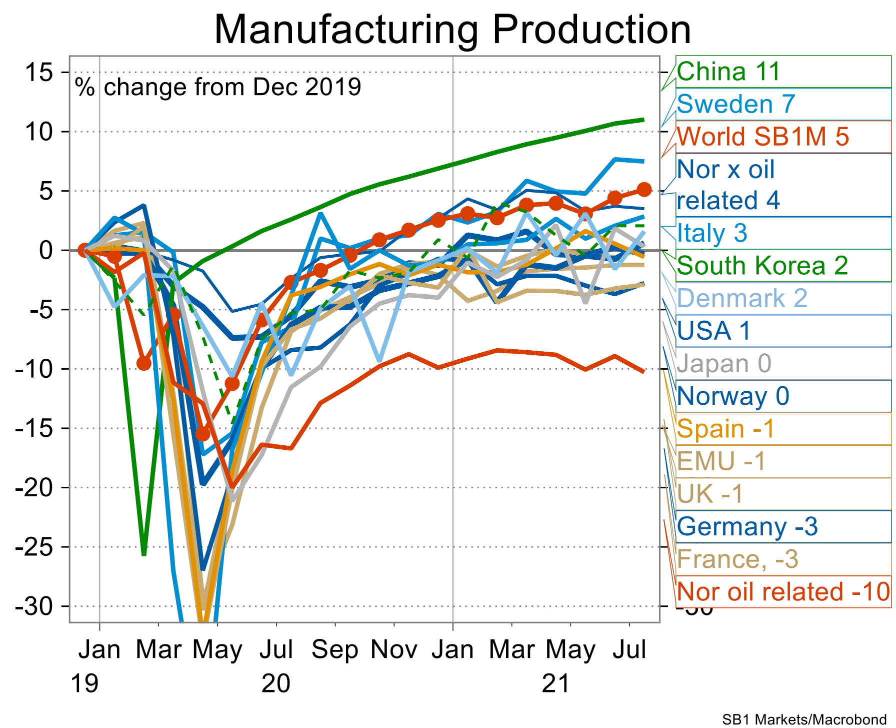


- **Retail sales** rose in June but fell in July, and sales have flattened recent months, partly due to an assumed setback in India (data a lagging) but also a downward trend in rich part of the world. The level is approx. 3% up vs the pre-pandemic level (revised down 1 pp due to weaker Indian Q2 data)
- **Manufacturing production** rose in June, and continued upwards in July. 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

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



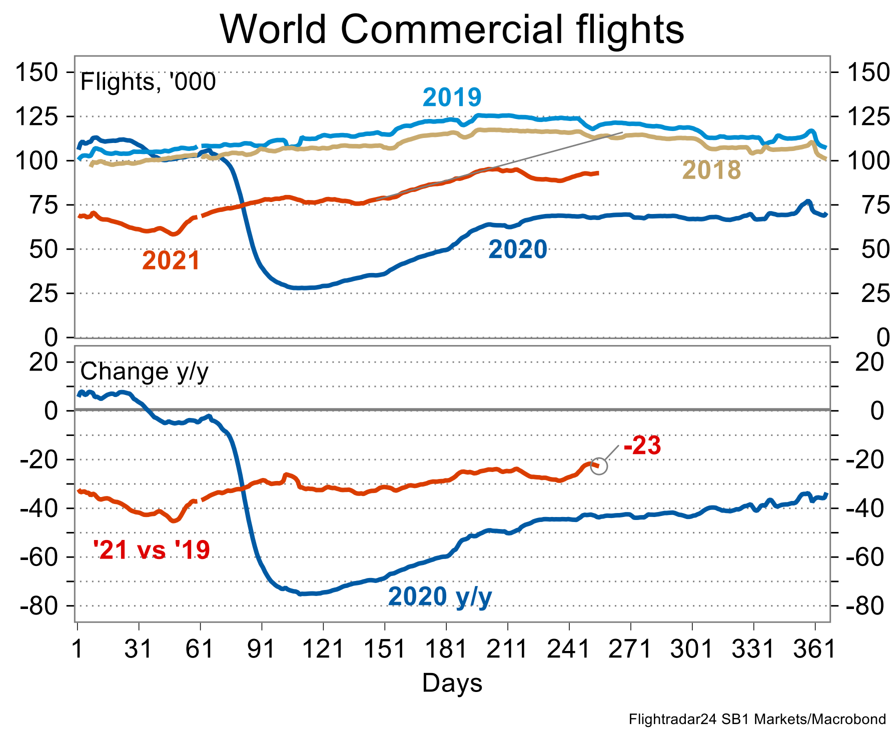


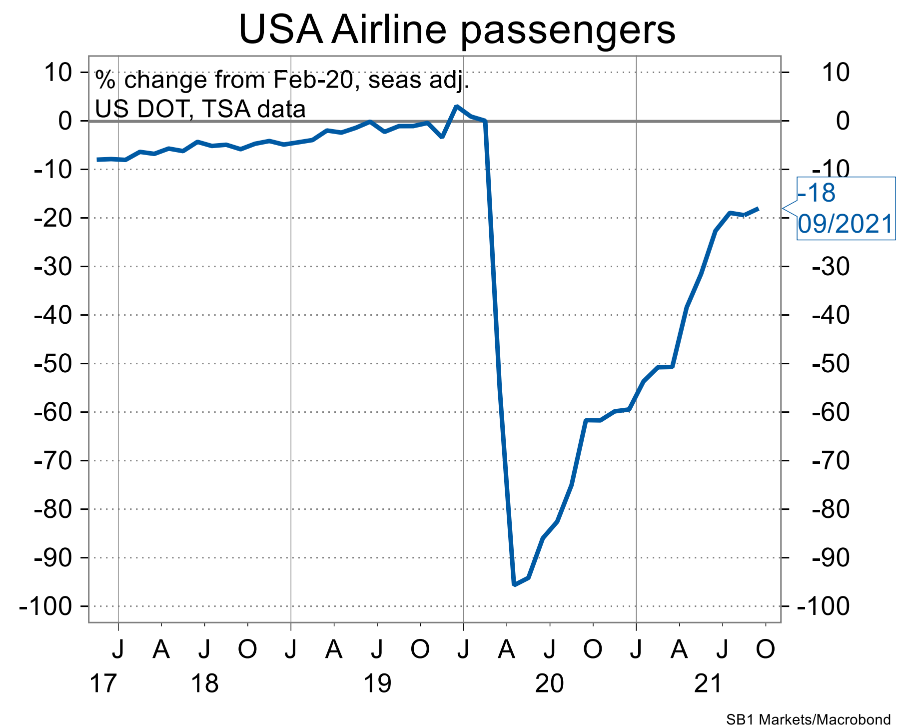
- Retail sales in Emerging Markets x China were even weaker than we assumed due to the setback in demand in India in Q2. A substantial recovery is underway here, but now other Asian countries have run into problems
- Manufacturing production is still drifting upwards, everywhere. The manufacturing PMIs are still strong
- Norwegian oil-related manufacturing production is down 10% 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, +7%). The Norwegian PMI and other surveys are signalling very strong growth (among the best in the world)

SpareBank 1 MARKETS

Global airline traffic further up last week, the gap to 2019 at 23%

In the US, traffic flattened in August, but the first days of September are a tad better

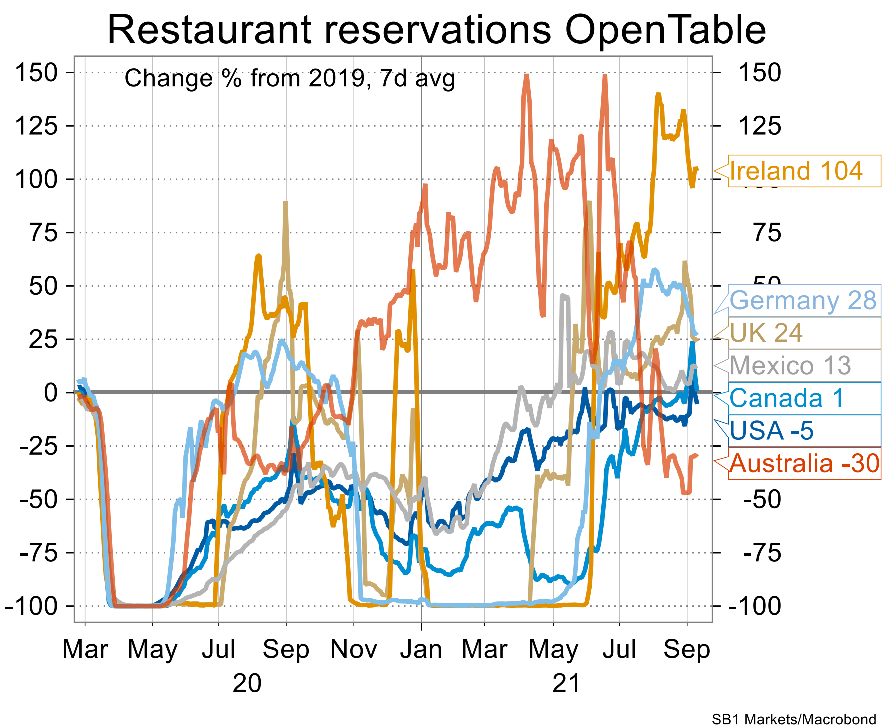


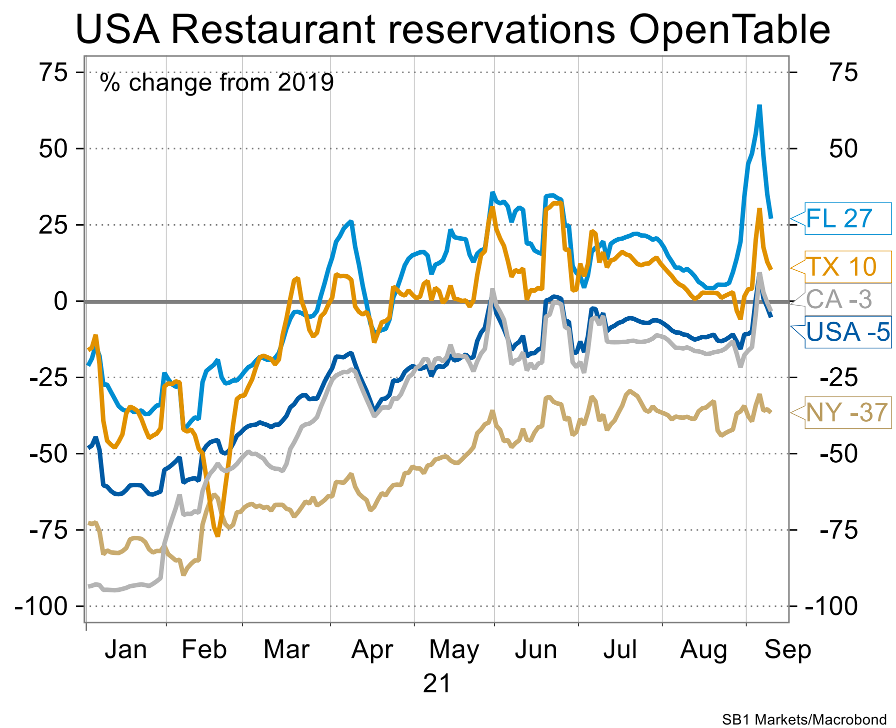


SpareBank 1 MARKETS

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

Australia has gone to a partial lockdown

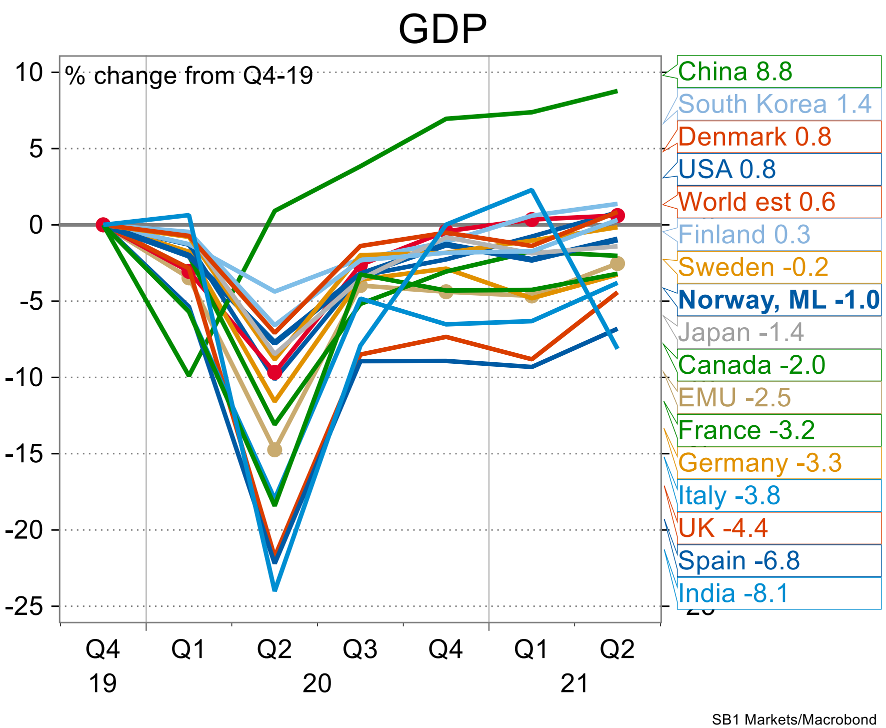


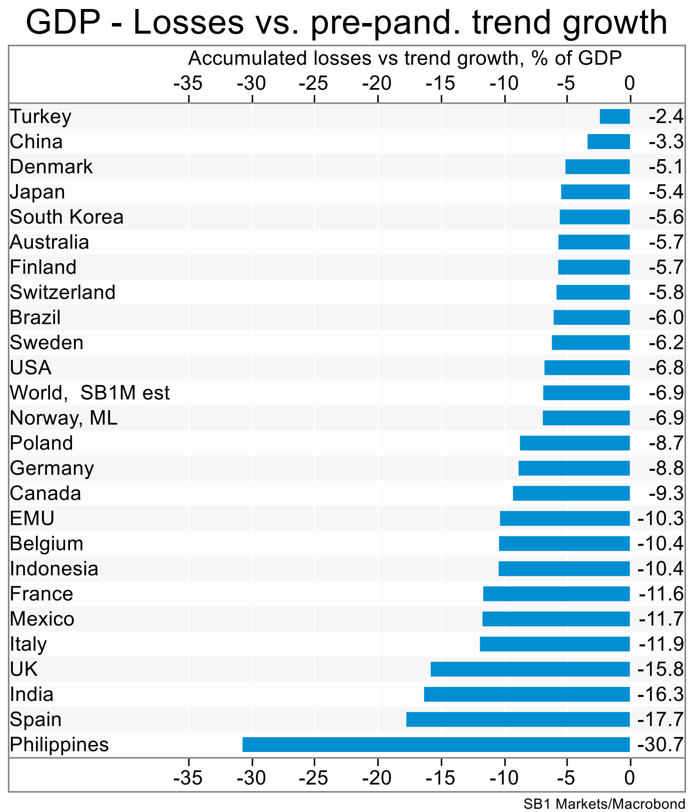


- Restaurant bookings in the US fell 4% in August from July – and may explain the 0.4% decline in employment in restaurants last month. During the first days of September, the traffic is higher than in July
  - » At the same time, US restaurants are reporting an extreme lack of labour. On balance, we think the supply argument is best – but the large change in employment growth in 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 and UK too, at least into September
- Disclaimer: These data are volatile and do not cover the whole restaurant industry (and the coverage will change over time)

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%!





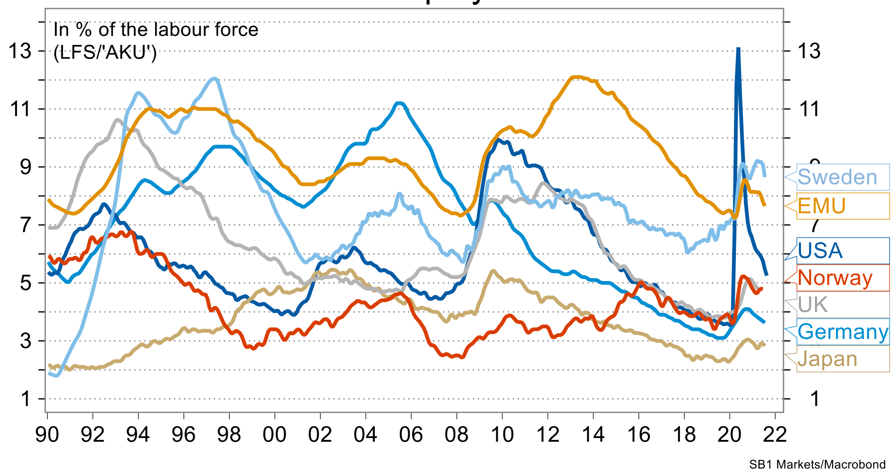
- We estimate just a marginal increase in global GDP in **Q2 (0.3%, 1.0% annualised)**, a slight upward revision from last week's est. due to a surprisingly strong growth rate in Russia
- The global GDP is **now 0.6% above the pre-pandemic level**, but still 4%+ below the pre-pandemic trend growth path
- **Norway** is lagging our Nordic neighbours, both vs. the level in Q2, and accumulated losses during the pandemic (chart to the right). Swedish GDP was very strong in July, up 2.9% vs. p-p, check here!

- 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)

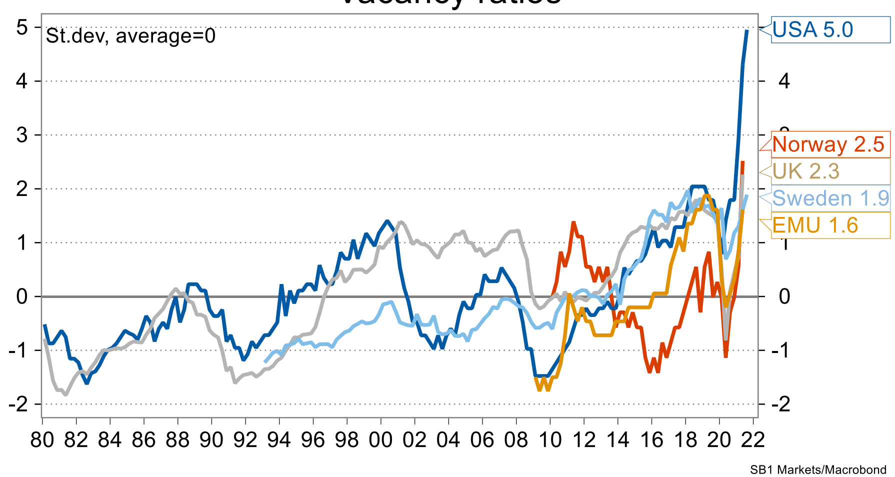
Unemployment on the way down everywhere

And unemployment is <u>LOWER than normal</u> in 17 out of 23 countries? (*Nor & Swe 2 of the 5 outliers*)

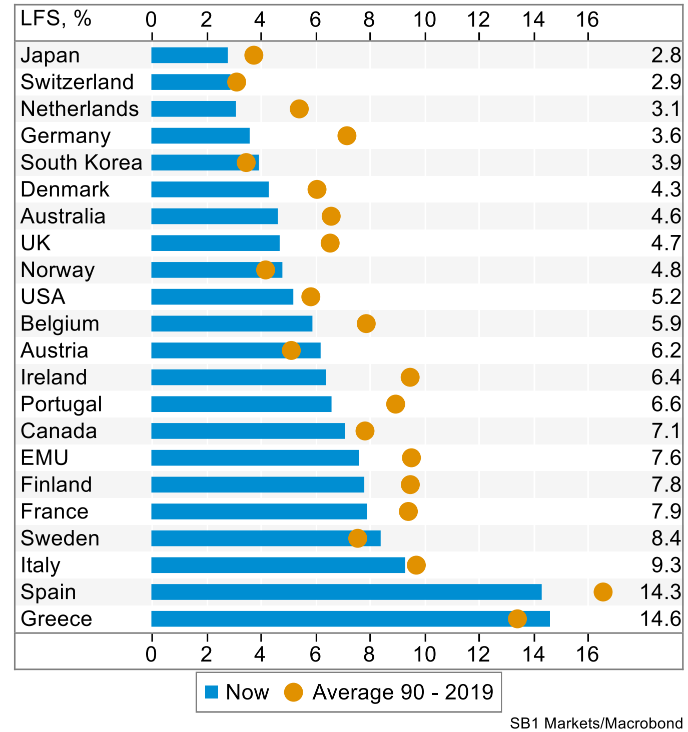
Unemployment



Vacancy ratios



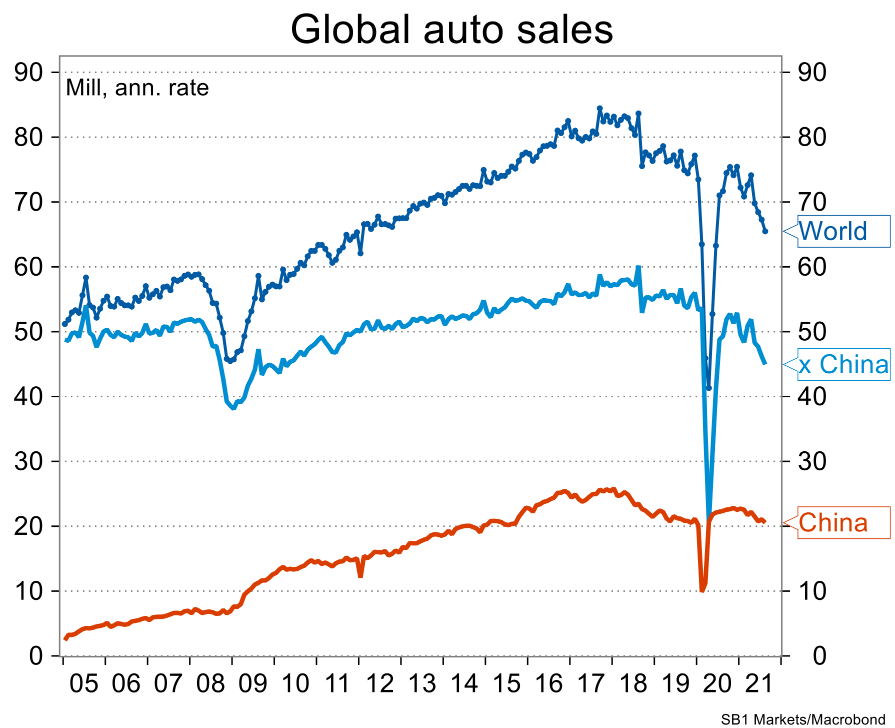
Unemployment

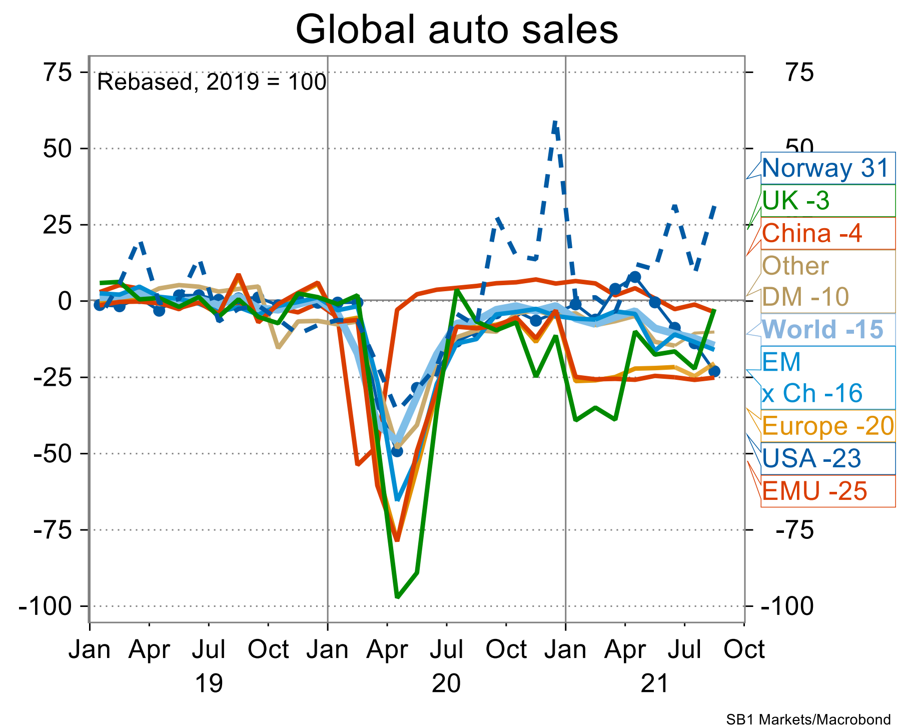


- A large majority of countries report lower unemployment than the 1990 – 2019 average
  - » In 15 of the 23 countries, unemployment is below the <u>1990 – 2007</u> average too
  - » In both Norway & Sweden, registered unemployment is falling rapidly and is below average levels – even if the LFS rate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

Auto sales further down in August, as production is cut due to lack of data chips

Sales fell 3%, and are down 13%– 15% from the (low) pre-pandemic and Q4-20 level

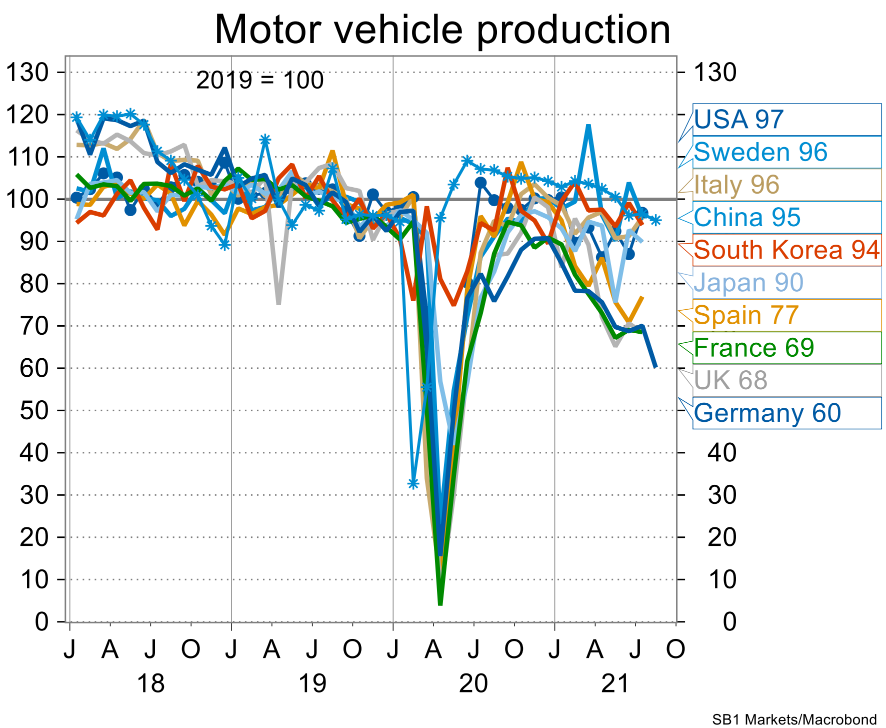




- **Global auto** have fallen the past 4 months. Sales are down 15% vs. the 2019 level – and more than 20% below the late 2017/early 2018 level as sales slowed through 2018, both in China (almost 1/3 of total sales), and in the rest of the world. No doubt, the main reason for the recent setback is lack of supply due to the serious data component shortages. In some countries, demand has been cut back due the last corona outbreak
- **US** auto sales fell sharply, and are 23% below the 2019 avg. level. Sales in the **EMU** did not recover, and remains 25% below. **UK** sales rose in August, and are down just 4%. **Norway** is the only DM country reporting higher sales, + 31 vs the '19 level!
- Sales in **China** fell 2.5% m/m and sales are 'just' 4% below the 2019 level – but the trend is down
- Sales in **India** probably fell somewhat, from the highest level in years (and close to ATH, in July). No Delta problems here anymore. Our **EM x China** aggregate fell further, and the level is down 16% from 2015

Auto production down most places – and most in Europe (x Sweden)

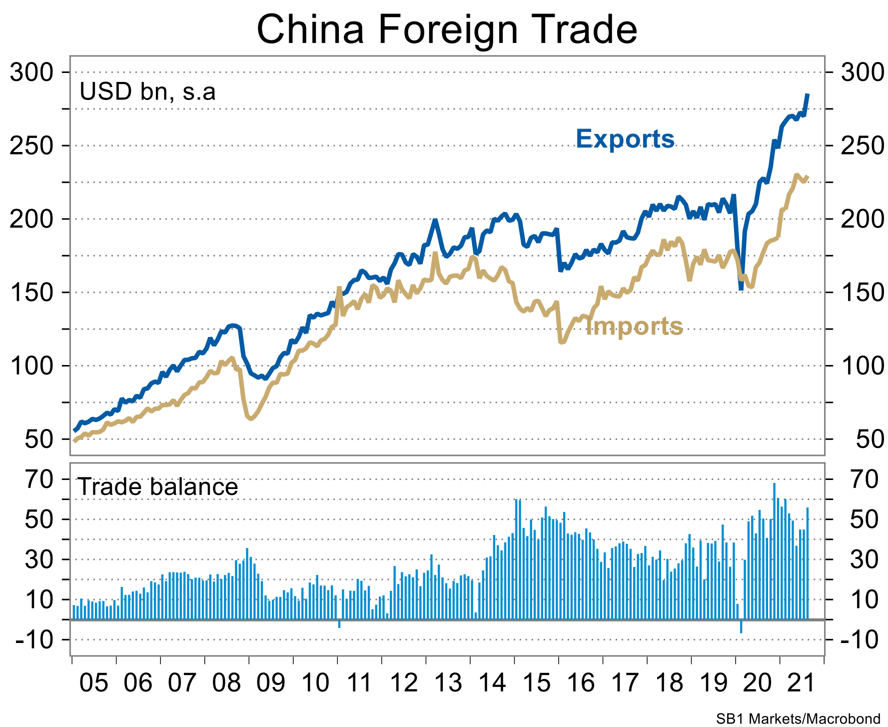
US production is remarkably strong, just down 3% vs 2019 level



- In Germany, production is down 40%
- There is no doubt a substantial upside in auto production the coming quarters – at one stage the data chip shortages will be sorted out

Exports surged in August

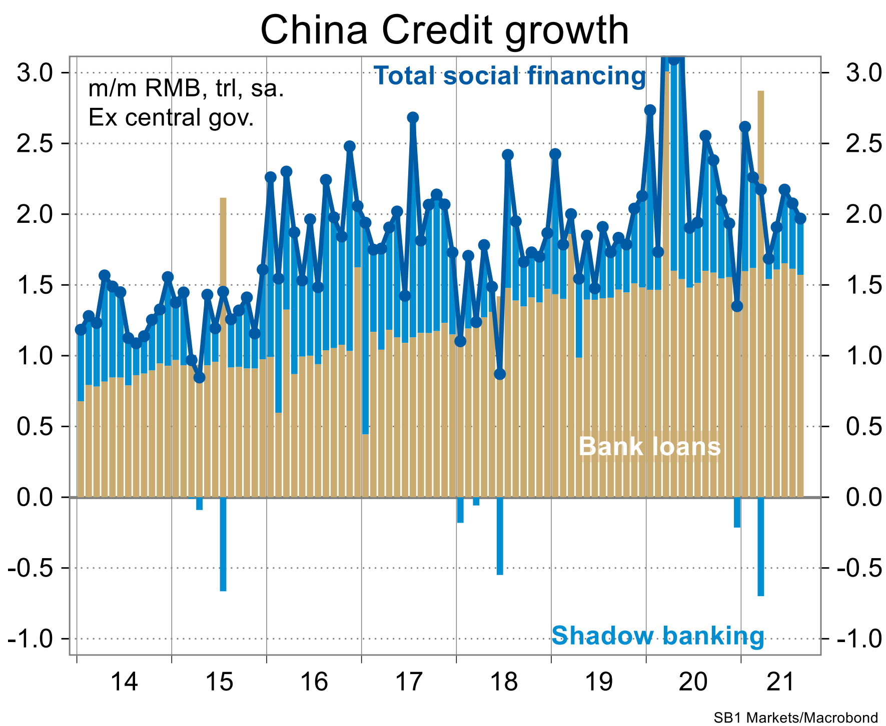
Signals an increase in global demand for goods

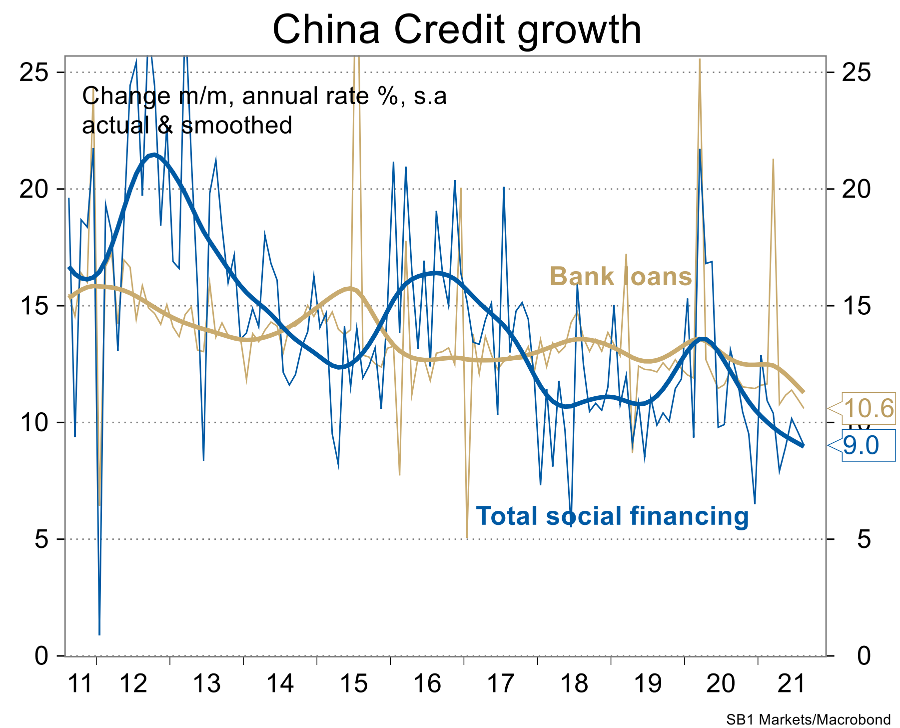


- **Exports** increased by 5.7% in USD terms in Aug and 25% y/y, up from 19% in July, expected at 17%. Exports very likely rose sharply in **volume terms** too – and are now back above the March peak, signalling an increased global demand for goods in the autumn before the holiday season. The level is high, at some 15% above the pre-pandemic trend growth path. Prices are up 8% y/y (our est.)
- **Imports** rose too, by 2% m/m, and 29% y/y, up from 28% in July, expected at 27%. In volume term imports rose more has import prices must have fallen, due to the decline in oil, metals, and iron ore in August. However, import prices are still up some 20% y/y - explaining most of the growth in import values
- The **trade surplus** was sharply up in August, at USD 56 bn (seas adj.), which is well above the pre-pandemic level, but down from above USD 60 bn at the peak
- We stick to our analysis from the past few months, growth in foreign trade volumes to slow substantially through rest of the year. Demand for goods in the rich part of the world will slow down when spending in services picks up, shortages of raw materials/intermediates will dampen production. Even if credit policy now may be turning expansionary, the lagged impact on the previous tightening may be felt in domestic demand

Credit growth is slowing further – but are not that low

Authorities seem to choose a mixed approach: Keep credit up in some sectors, slow others

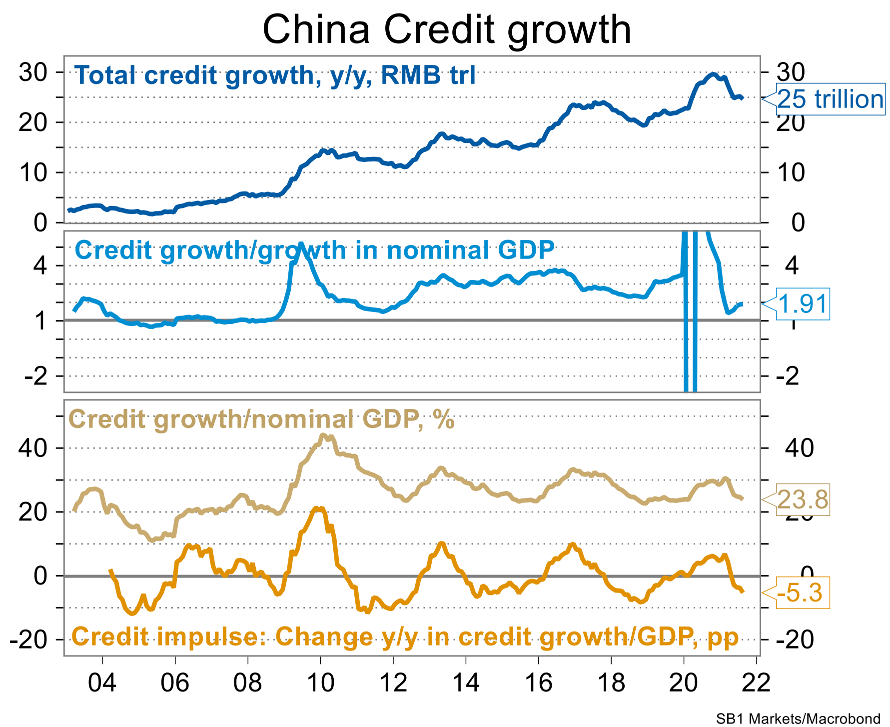


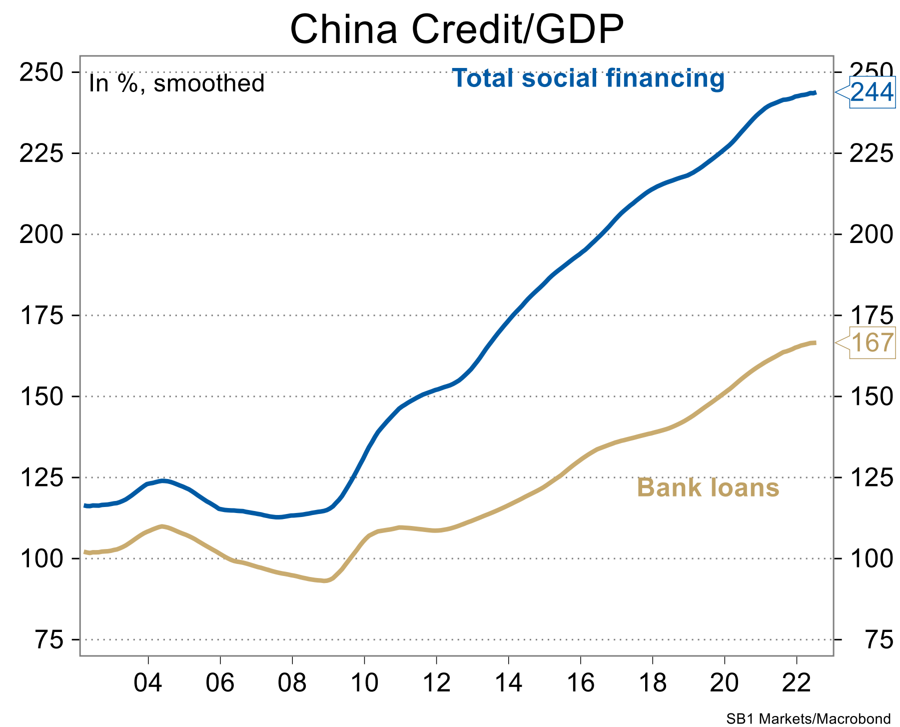


- **Total credit** grew at a 9.0% rate in August (m/m, seas. adj. annualised), down from 9.6% in July. Smoothed, the underlying rate may be at the same level, down from 13% during last spring (and >15% during some months). The underlying growth rate is still marginally above the trend growth in nominal GDP (say 5.5% real growth, 2% price inflation)
  - **Total credit** rose by RMB 2.8 trl, as expected (not seas. adj., total social financing, including central & local government bond, and corporate equities). Seas. adj. the core total social credit (total ex central gov bonds & corporate equites) grew by 1.91 trl, down from almost 2.1 trl in July
  - **Bank loans** rose by RMB 1.6 trl, seas adjusted, or at a 10.6% annualised pace - and less than expected. Growth is gradually slowing, from a 13% rate last spring. Loans are up 12.3% y/y
  - **Shadow banking credit** rose by RMB 0.4 trl in Aug, as in July (s.a). Growth has slowed sharply, underlying to 5%, from 13% last summer – the lowest growth rate on record. Excluding local government bonds, 'private' shadow credit is close to flat!
- **The credit impulse has turned negative**, like it usually does every 4th year or so. The ramification may be felt in many markets
- **The slowdown has been by purpose**, as authorities have tightened, especially vs. credit supply outside banks, especially vs. the construction sector. However, the authorities have shifted the foot to the accelerator again – as they always have done after tightening too hard. In July, PBoC cut banks' reserve requirements

The credit impulse is falling deeper into negative territory, still not record low

The slowdown in credit supply is substantial and well felt in parts of the Chinese economy



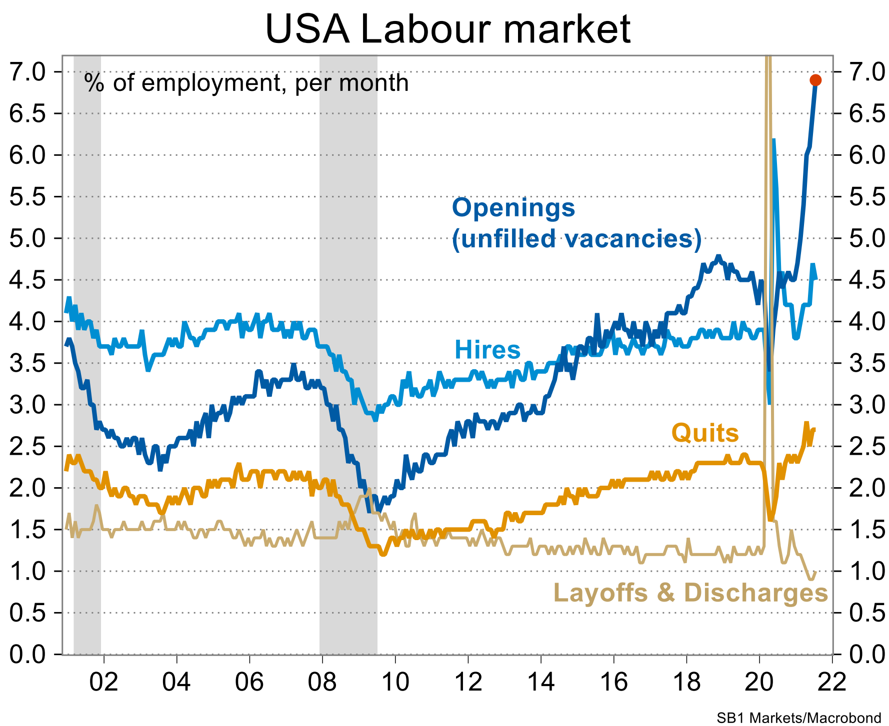


- A positive **credit impulse** implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy, which have had impacts at other markets
- The **credit impulse** (here measured as the 12 m change in the 12 m credit growth/GDP ratio) bottomed in late 2018, turned positive one year later, peaked last autumn, fell into negative territory in May, and is now at -5.3%
- Are authorities worried that they have tightened too much? Probably not too much, yet. Reserve requirements for banks are cut, but not any policy rate.

GDP is smoothed in the calculations in the charts above

The vacancy rate hits another record in July – the jobs are there

The vacancy rate rose to 6.9%, but even if businesses are hiring at a fast pace - workers are quitting

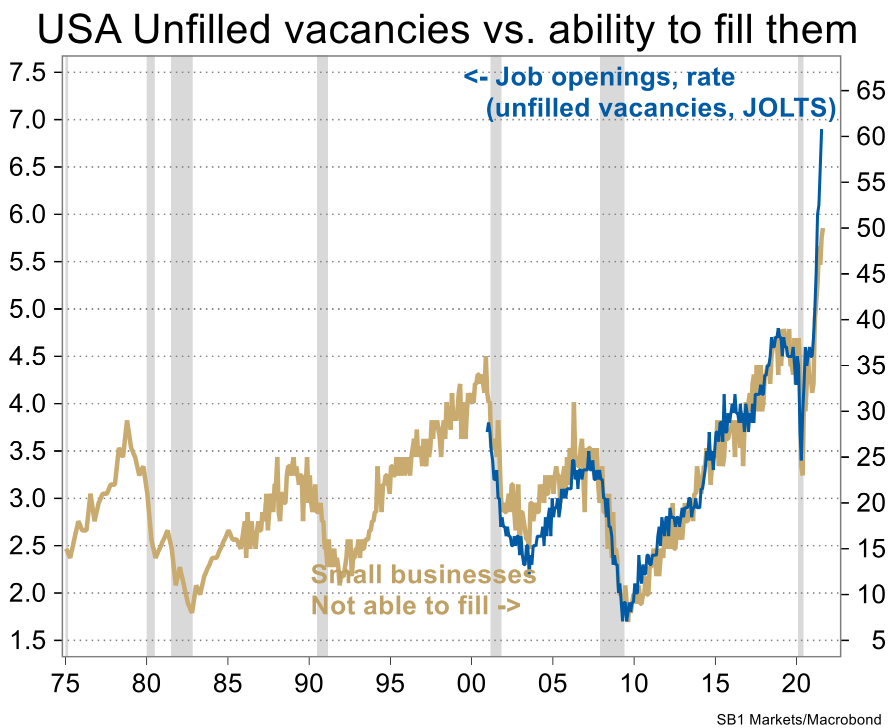


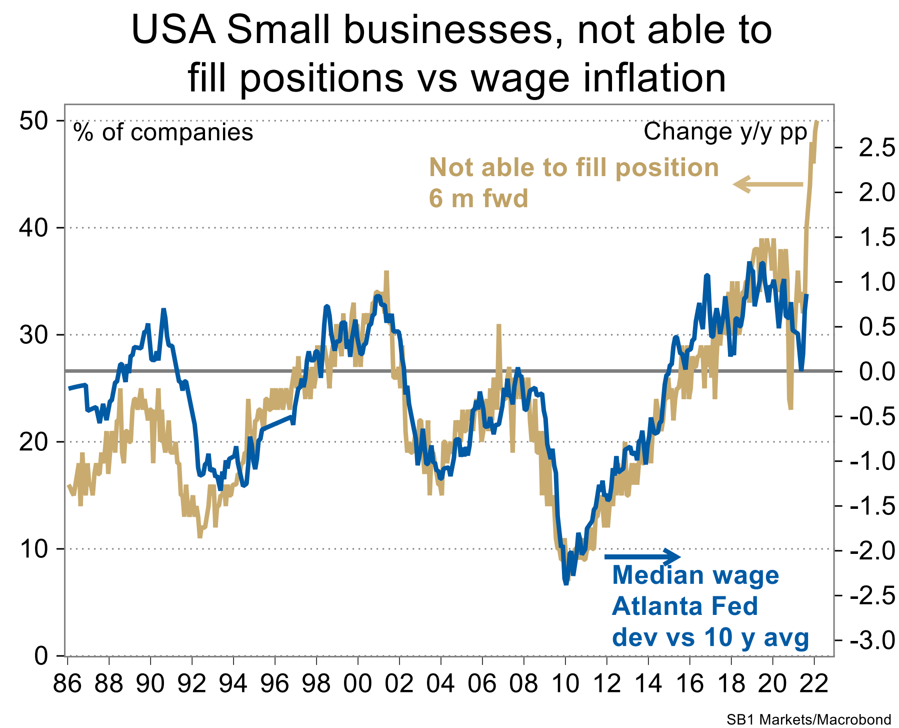
- The no. of **unfilled vacancies** increased by 749' from June and is at record high, both in the actual number (10.9 mill) and in % of employment (6.9%, from 6.5% in June), expected marginally down! The highest rate before corona was 4.8%, in 2018 (and 3.5% before the financial crisis). The vacancy rate is much higher than the unemployment rate, and far higher than normal vs the 5.4% unemployment rate (in July, in % of the labour force)
- **Hiring decreased** by 160' to 6.7 mill in July, to 4.5%, down from 4.6% in June still the 2nd highest level ever barring last months and May/June last year, when the first corona wave retreated
  - » Most of the decline in hiring was in the Midwest, which is also the region with the fewest vacancies (though the rate is still high)
- The rate of **voluntary quits** was unchanged at 2.7% in July. The level is the 2nd highest ever, and a sign of a tight labour market as workers are leaving their jobs voluntarily to get at better job, which is harder in bad times. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** fell to the lowest level ever in June and rose just marginally in July, signalling limited problems in US companies. Thus, it is strange that the inflow of (weekly) new jobless claims remain above normal levels
- **In sum:** As last month, the report confirms an extremely tight labour market
  - » However, this was in July, before the federal support programs ended last week. On the other hand, half of the states left these programs in June/early July – but vacancies still shot up – and hires did not increase. In August, US SMBs reported a further increase in the share of companies that were not able to fill their vacancies

SpareBank 1 MARKETS

When there are many unfilled vacancies, wages tend to rise faster

Atlanta Fed's median wage tracker accelerated further in August

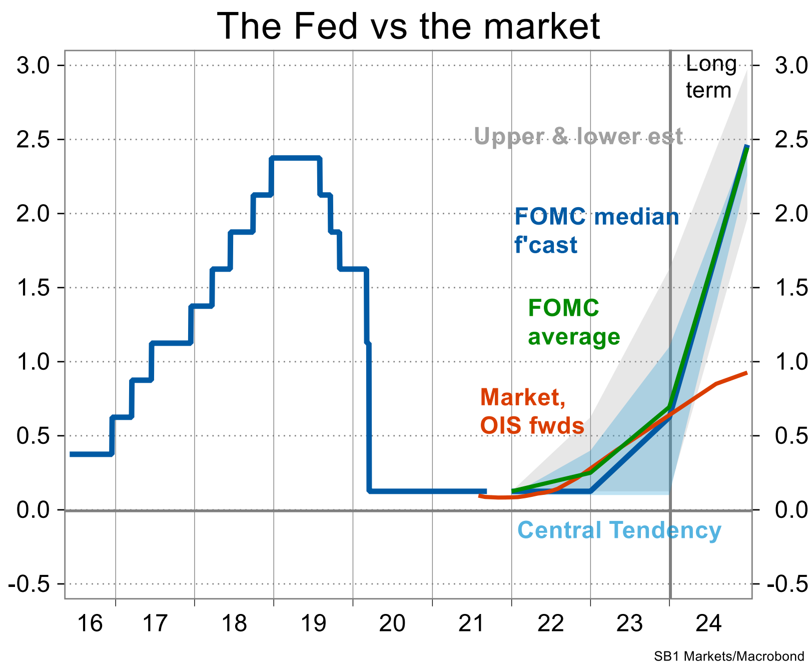




- On the chart to the right, Atlanta Fed's median wage tracker is measured as the actual growth minus the 10 y average, a measure of deviation from trend
- Not that surprising perhaps – but the Phillips curve vs. wage is far from dead, it seems like

Beige book: Growth slowed slightly to a moderate pace but capacity util. high

The Delta variant has slowed growth but resource/labour shortages, price pressure dominates

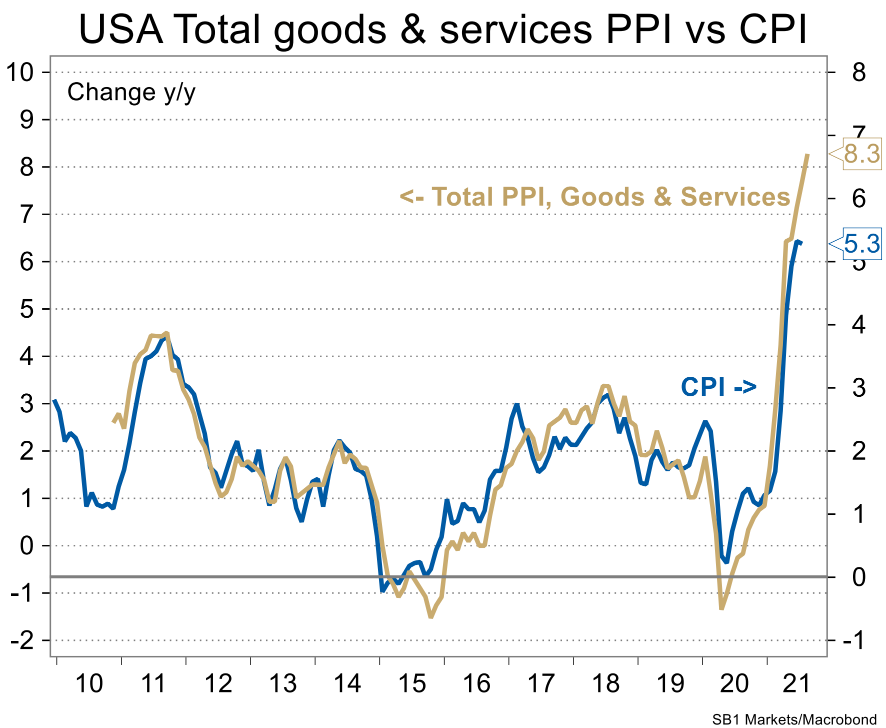


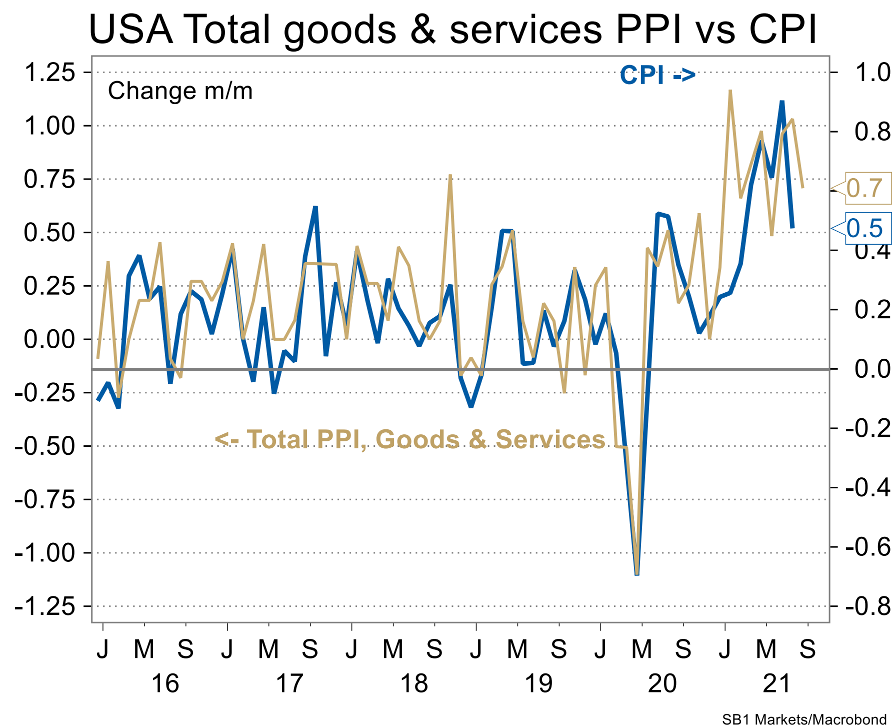
- Does the Beige book warrant a tapering message in September – or should it be postponed?
  - » It should still be an open question. Delta problems are probably now subsiding, and growth in US is low limited from the supply side, not the demand side.
  - » Still, given the dovishness among many FOMC members – especially among the voting members – the bank may wait to signal that tapering will take place in late Q4 or early Q1 next year

- Growth decelerated slightly to a **moderate pace** (from moderate to robust pace in the last report) in most districts past six weeks, according to the Fed's 12 district banks. Increased concerns due to the Delta variant, supply problems, and labour shortages were mentioned as reasons for decline in activity
  - » 3 districts reported strong growth (down from 6 districts 6 weeks ago)
  - » 9 districts reported moderate growth
- **Demand for leisure/hospitality services** have slowed as the Delta variant cases increased. **Retail sales** grew at a modest pace, while auto sales were weaker due to supply-side issues
- **Manufacturing** reported above-average growth, despite supply chain challenges. Construction activity rose somewhat, both residential and non-residential
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages, especially for lower-wage workers. A growing number of firms offered signing bonuses and increased wages
- **Inflation** was steady at an elevated level. With pervasive resource shortages, input prices pressures continued to be widespread. Several districts reported that businesses anticipated significant hikes in their own prices in the months ahead
- **In sum:** The reports out of the 12 districts are slightly more subdued than the previous reports, but growth is still robust. The fact that the problems are largely supply-driven – and still escalating – should give the tapering hawks some fuel to their fire

Bottom line: Total PPI (services included) is signaling almost 7% CPI growth

The ‘new’ total PPI rose 0.7% m/m in Aug (expected 0.6%), and is up 8.3% y/y

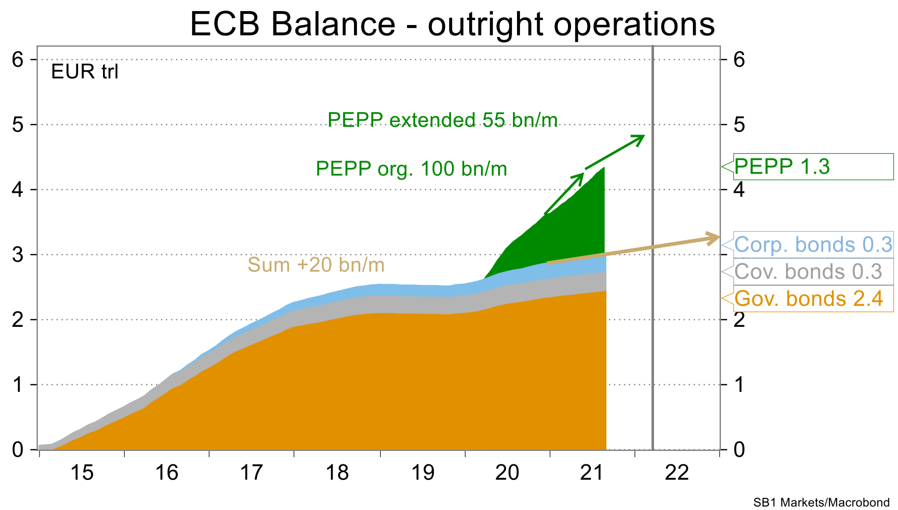


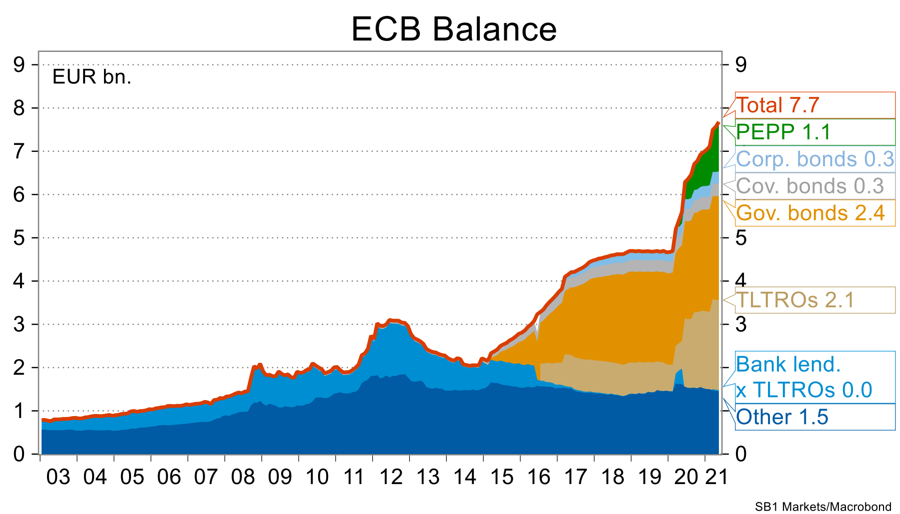


- The correlation between the ‘new’ total PPI, which includes all sort of services in addition to goods is pretty close. The current 8%+ annual growth rate in the PPI signals almost a 7% y/y growth rate in the CPI index, up from 5.3%
- If 6-figure is seen the coming months, it better be VERY transitory. If not…

ECB: We will reduce bond buying but since we will continue buying, no tapering!

Markets were relieved that the ECB was not more aggressive but German bond yields still rose





- **President Lagarde** insisted 'The Lady Isn't Tapering' but the board decided to moderately lower the pace of bond buying (QE) in Q4, without quantifying how much - probably a compromise between doves and (the minority) group of hawks at the ECB board
  - » The present program: Approx. EUR 85 bn/m (sum pandemic emergency gov. bond buying program (PEPP) EUR 70 bn plus the ordinary program, government bonds 10 bn, corporate bonds 4 bn/m)
  - » Now, the bank will cut somewhat back at the Pandemic PEPP program
  - » The next and possibly 'big decision' is probably scheduled for December, as the PEPP program anyway is scheduled to end in March
- The ECB revised both **GDP and inflation 2021 forecasts** up but the bank expect inflation to slow to 2.2% next year and remain well below 2% the following years
- This outlook justifies a continued campaign to push wage and price inflation up, and <u>Lagarde did not leave any doubt about her position was</u>. Others at the board are not that sure
- <u>The ECB was less hawkish than feared</u>, and German bond yields fell some 3 bps at Thursday - but rose by the same amount at Friday. However, intra-EMU spreads fell and did not reverse the gains the next day (see next page)

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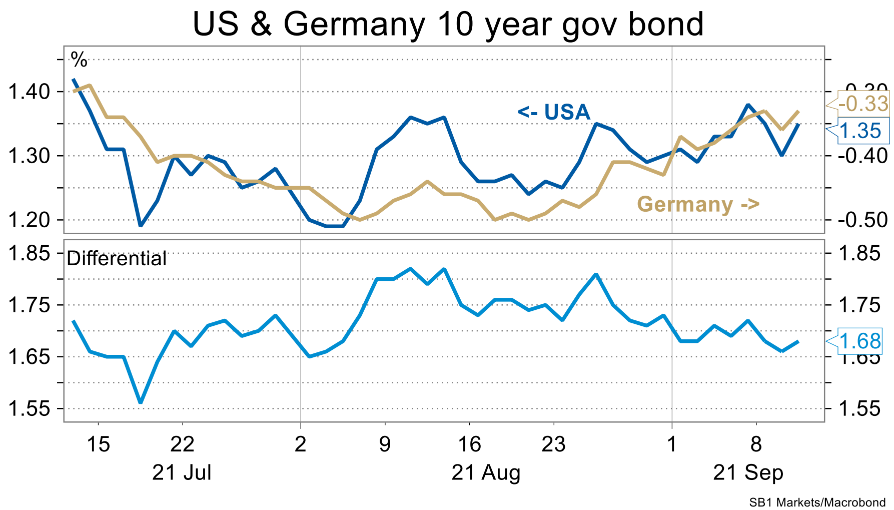
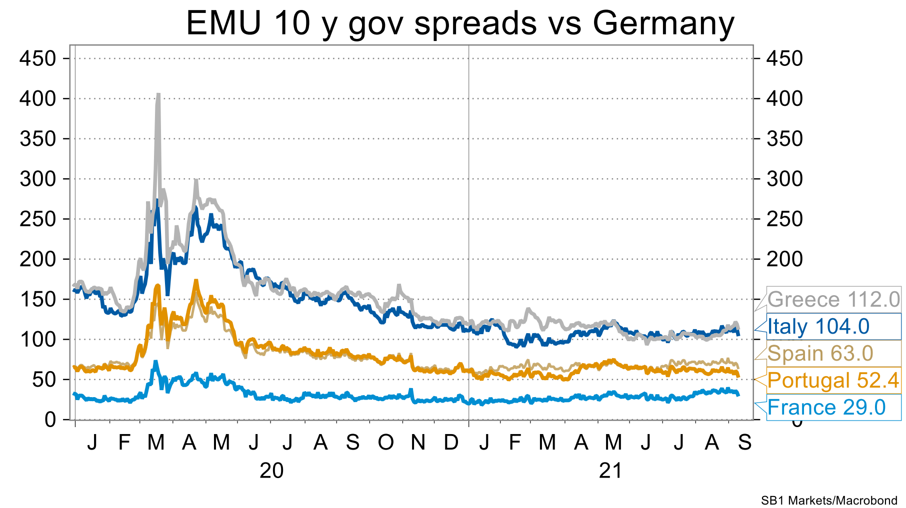
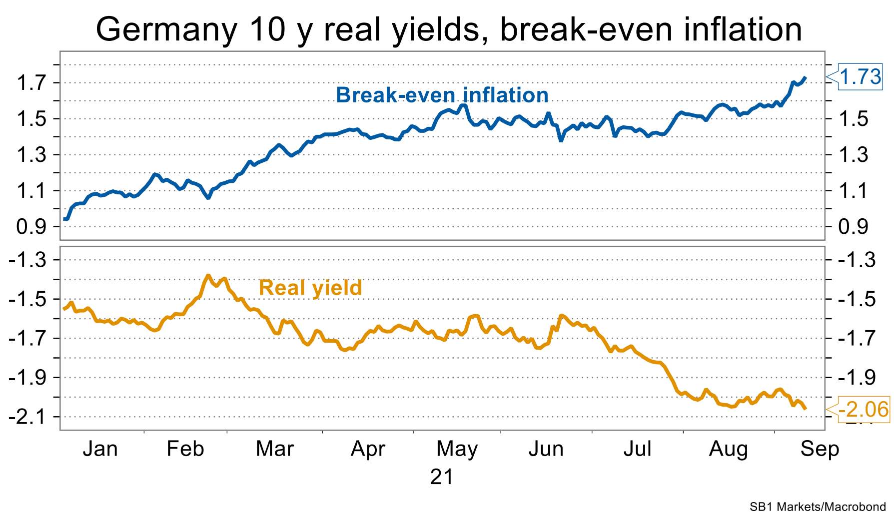
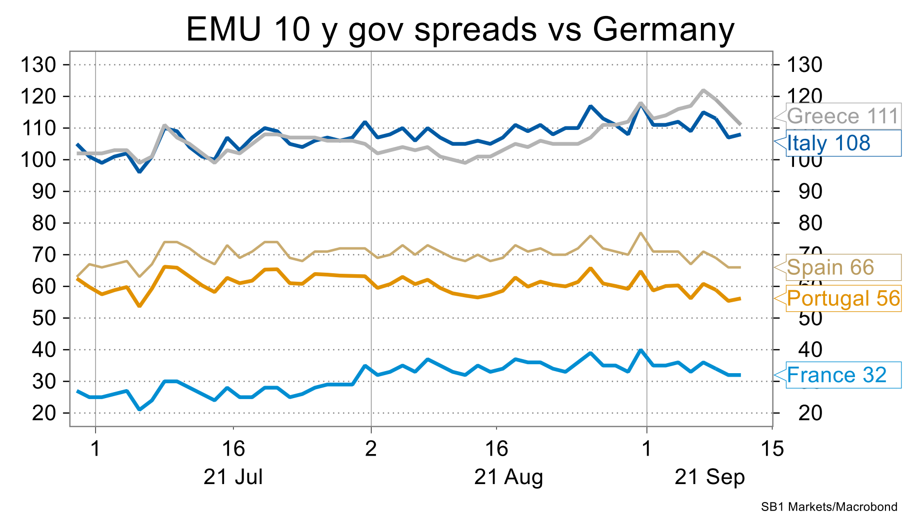
German bond yields down, then up. Intra-EMU spreads fell somewhat

Real rates are falling on a dovish ECB, inflation expectations are on the way up (more here)



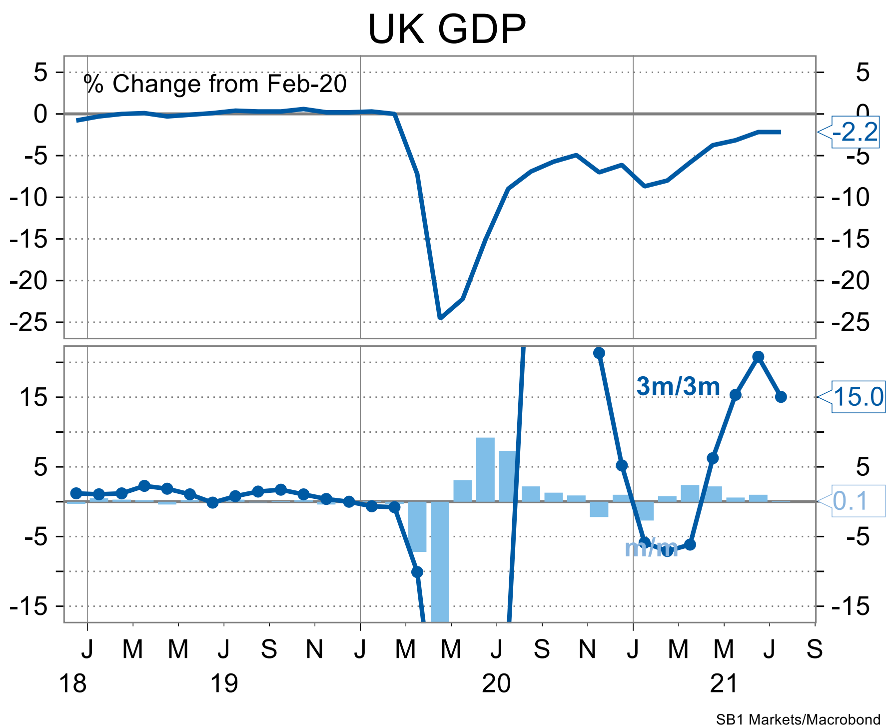


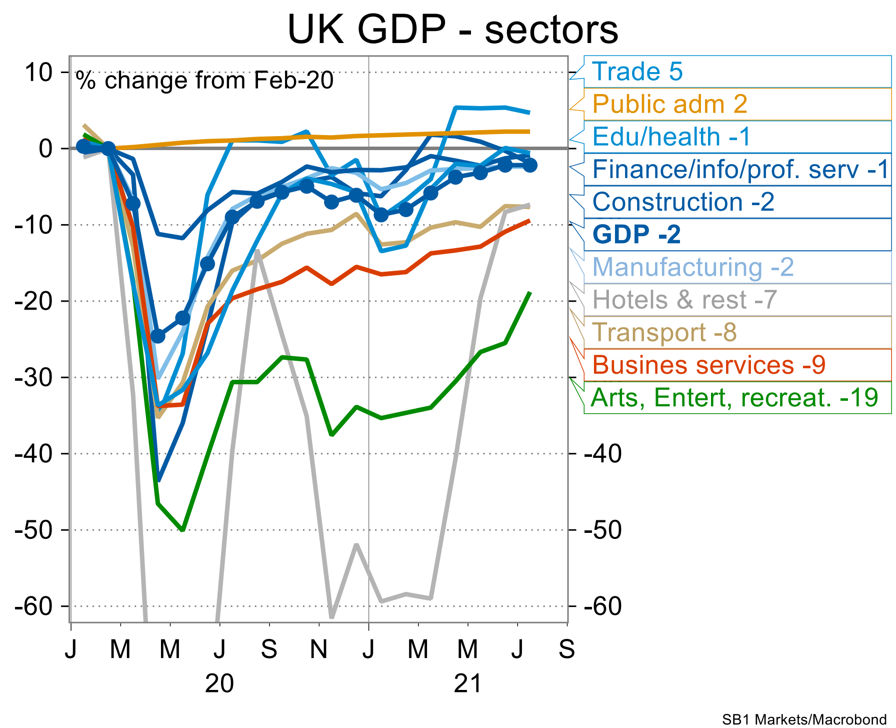




A Delta break, here too – GDP just up 0.1% in July, 2.2% down vs. Feb-20

No further growth in hotels and restaurants or transport in July

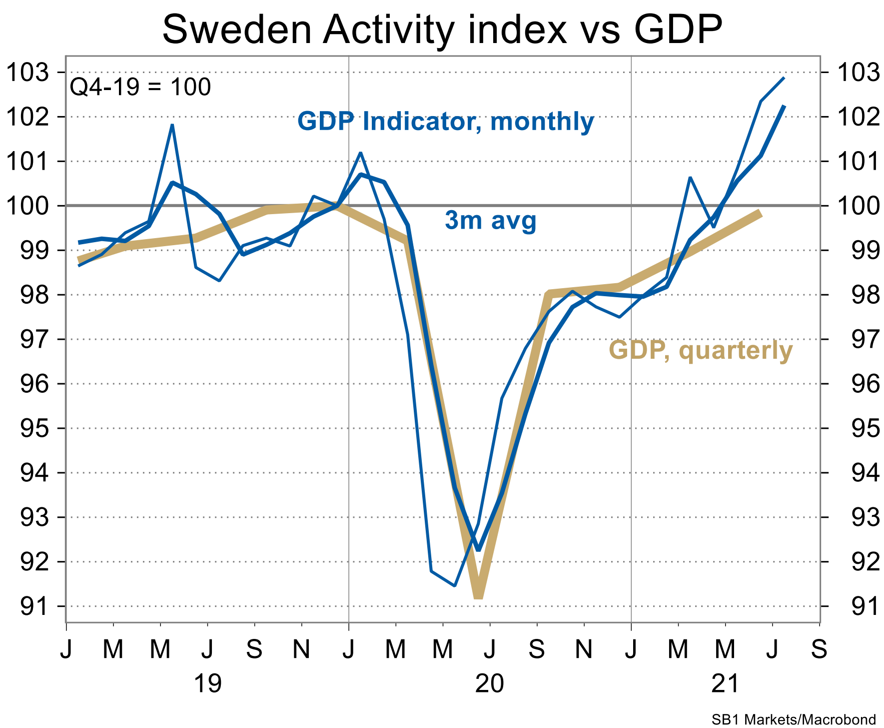


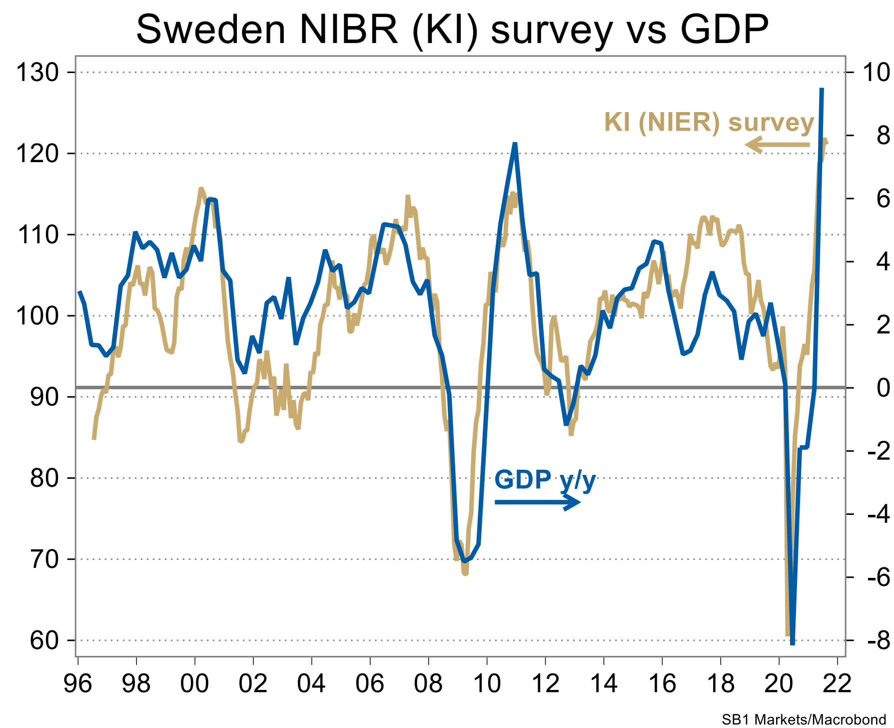


- **The recovery in GDP** is still on track, even if growth in July was well below consensus (-0.5%)
- **Mixed in services in July**, activity in arts/entertainment (European Championship) rose but hotels & restaurants flattened while education & professional services and trade reported lower activity. Hotels are still down 7%, transport 8%, business services 9%, while arts/entertainment is down 19%
- **Manufacturing, see next page**

GDP up 0.5% m/m in July, exp. down. History revised up. Level now +2.9% vs p-p!

Sweden is booming, to above pre-pandemic growth path! While the Riksbank pushes the accelerator

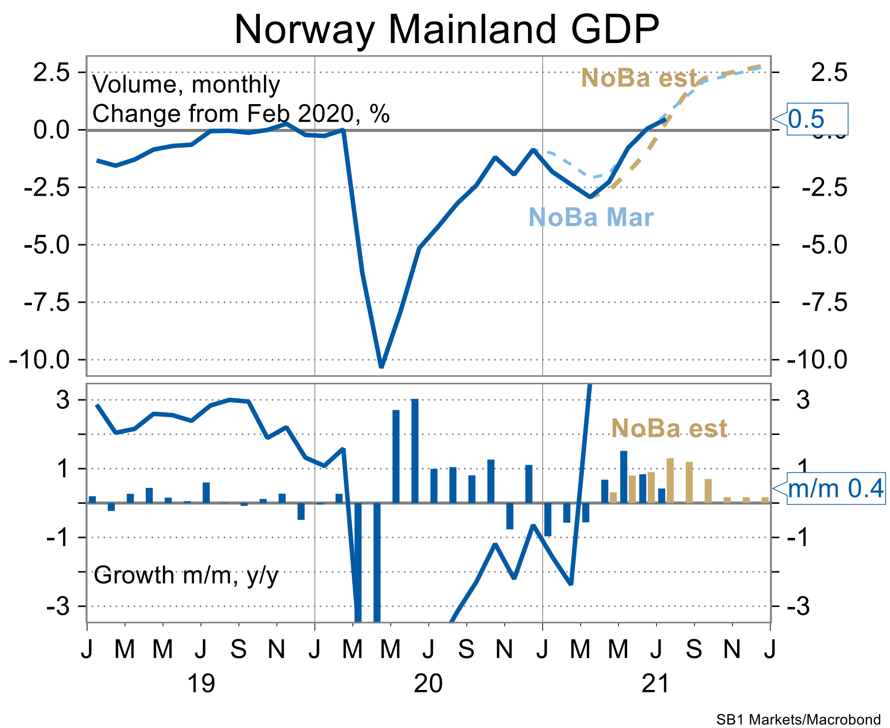


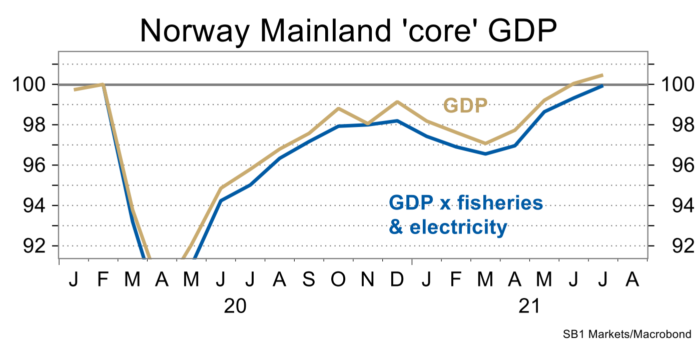


- **GDP** grew by 0.5% in July according to the first forecast, and the history was revised significantly up, the June level by 0.4%, even if growth in June was revised down by 1 pp to 1.4%
- GDP is now 2.9% above the Feb-20 level, implying a 2.2% growth annualised pace, above the pre-pandemic growth pace (through 2019), and higher than we deem the Swedish potential growth rate to be. Sweden is now far ahead of Norway, check next page
- **The outlook** remains excellent, according to Swedish companies. THE KI (NIER) survey is at ATH, and the PMI is the best in the world
- No doubt, this economy is firing on all cylinders and thus need all the support possible from the Riksbank! Well, at least it is getting it

Mainland GDP up 0.7% in July – and 0.5 pp above the Feb-20 level

... and 0.5 pp ahead of NoBa's June forecast. Still much more to go in services. The first hike will come

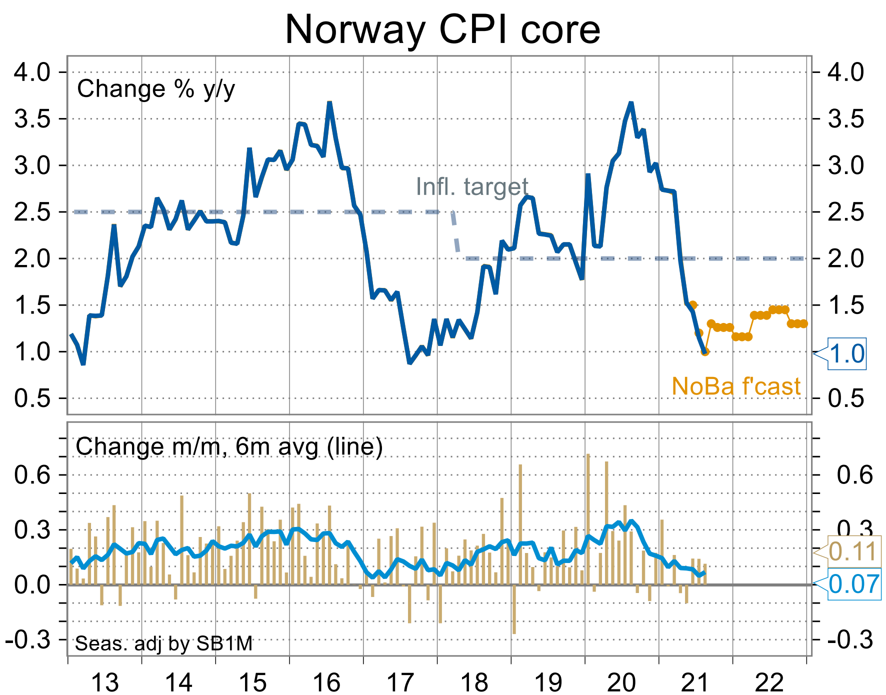


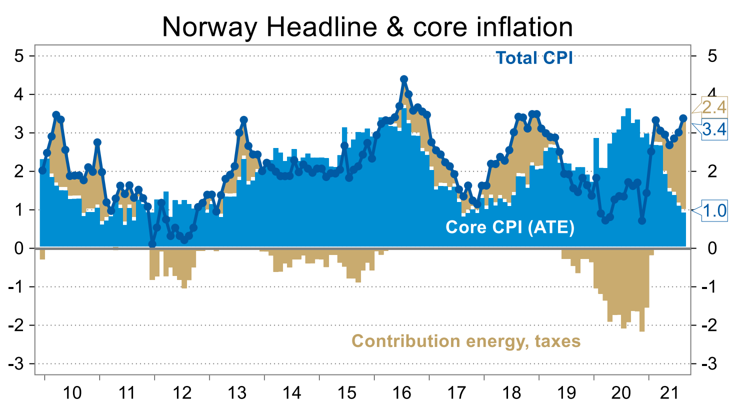


- **Mainland GDP grew by 0.4% m/m in July** from an upward revised 0.8% in June, 0.2 pp below consensus, 0.6 pp below our f'cast, and 0.9 pp below NoBa's f'cast.
  - **Production:** Private services were up by just 0.6% in July, we expected far more. An impressive recovery in hotels, restaurant, transport art/entertainment was counterweighted by steep decline in business services. Manufacturing production rose by 0.3%
  - **Demand:** Norwegians' spending at home was up 1.5%, almost the same pace as in June. Services rose the most, 2.4% goods were up 0.9%. Oil investments rose by 10%, partly counterweighted by a inventory drawdown. Both housing and Mainland bus. Investments fell. Exports too
- **Mainland GDP is up 0.5% vs the Feb-20 level**
  - The July level is almost 0.2% higher than NoBa assumed in June
  - **Production:** Hotels & restaurant, culture/entertainment recovered further – and sharply in July (+22%, 10%, resp.). H&R is still down 14% vs. Feb-20, cult/entert. just 5% (really??). Transport rose as well, but is still down 17%. Business services surprised badly at the downside (and contributed by 0.5 pp of our 0.6 pp miss at Mainland GDP). Trade down too, but most other sectors up in Feb
  - **Demand:** Norwegians' spending at home is up 5.6% from Feb-20, goods +17%, services down 5%. Spending abroad is still down 83%. Housing investments are up. Mainland business investments have fallen by 7%, while oil investments are up 6%, following the steep rise in July. Exports ex petroleum (and tourism) are 4% below the Feb-20 level. Foreigners are spending next to nothing in Norway, a cut equalling 1.5% of Mainland GDP
- **The economy has recovered sufficiently for Norges Bank to start normalising rates**

Core inflation down to 1.0%, headline up to 3.4% - due to the electricity shock

Inflation is far below target but Norges Bank has not been an inflation nutter past 10 years

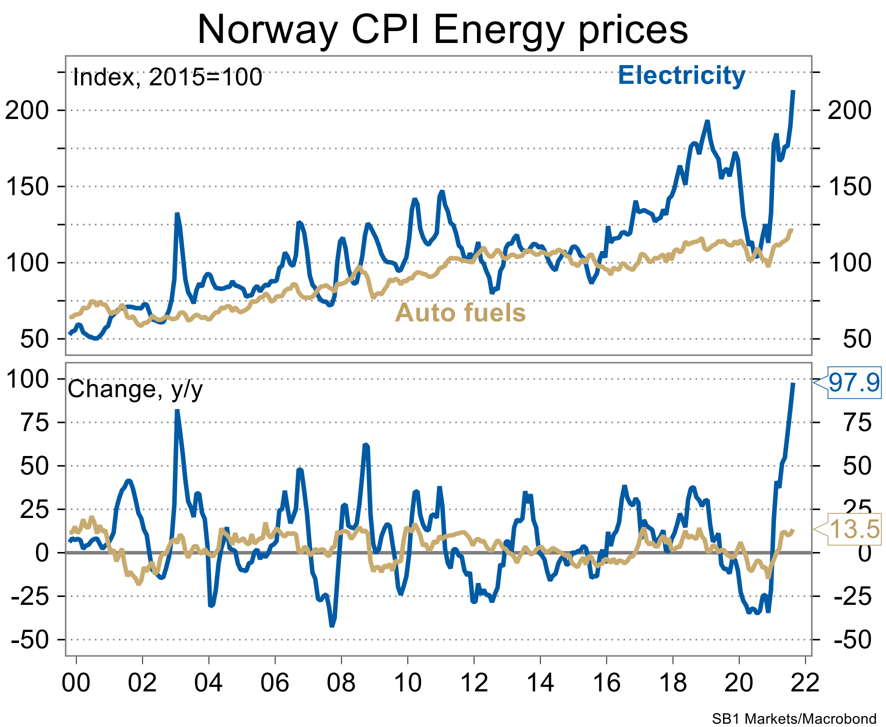


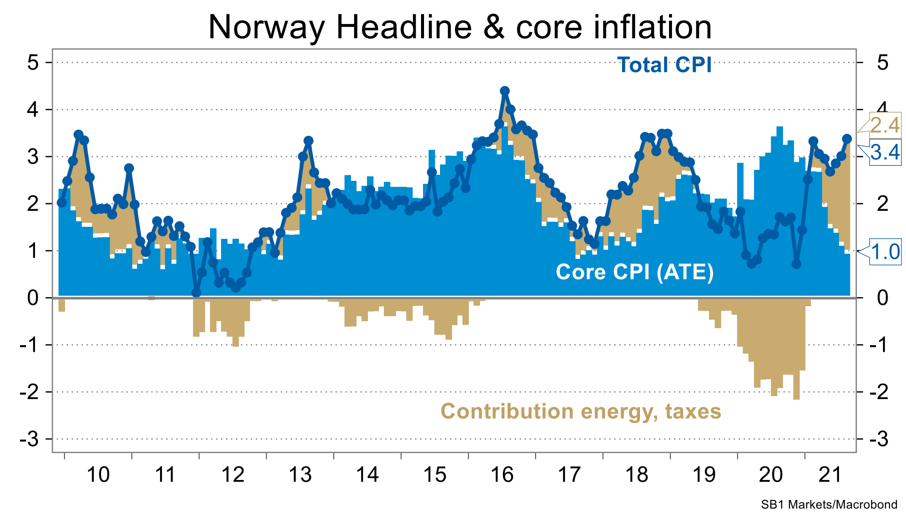


- **CPI-ATE** (ex. energy and taxes) inflation was down 0.1 pp to 1.0% in August; in line with consensus & Norges Bank's f'cast, and 0.1 below our estimate
  - » Prices were up 0.1% m/m (seas adj), equal to the June & July prints, 0.1 below our f'cast
  - » The main misses (vs our f'cast) on the downside were clothing & furniture
  - » Inflation is above 2% for recreation, hotels (partly & health)– the majority is below the 2% inflation target
  - » Prices on imported goods rose in August, but annual inflation is approaching zero
  - » In addition, domestic inflation has slowed substantially, to 1.1%
- **Total inflation** rose 0.4 pp to 3.4%, 0.3 pp above our f'cast, as electricity prices rose further (up 98% y/y!) – lowering house household real disposable income substantially
- **The outlook**
  - » **Core inflation is probably close to the through**. Imported goods prices are exposed to higher goods prices abroad, higher freight rates etc. Wage inflation will probably accelerate somewhat. On the other hand, demand for goods will probably slow, as spending is moved abroad
  - » Anyway, core CPI inflation will not have any material impact on Norges Bank's monetary policy the coming months. It's all about the post Covid-19 recovery – and the housing market
  - » The steep rise in electricity prices reduced households' real disposable income but given the still rich aggregate savings rate, consumption is probably not that exposed. However, if anything, an argument for not tightening monetary policy

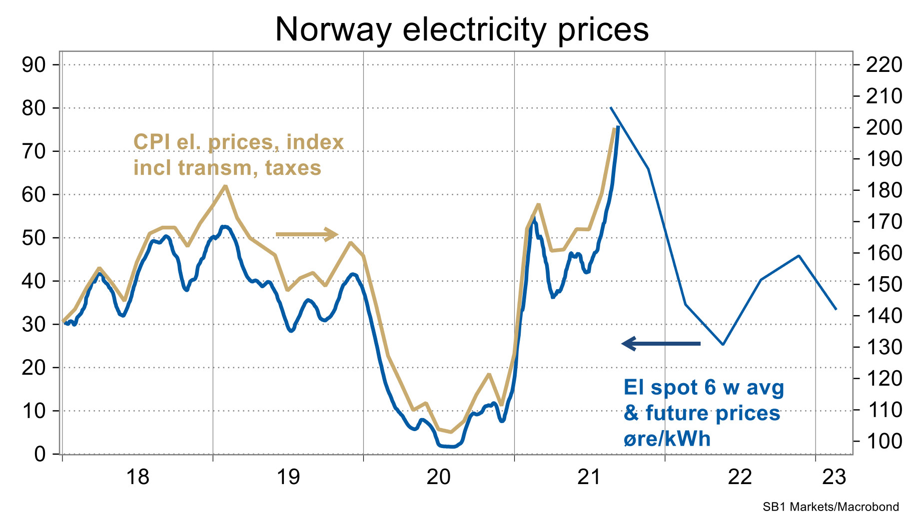
Electricity prices through the roof – but the limit is far below the sky ☺

Prices are 'just' 50% above a normal level, and markets are not discounting further increases



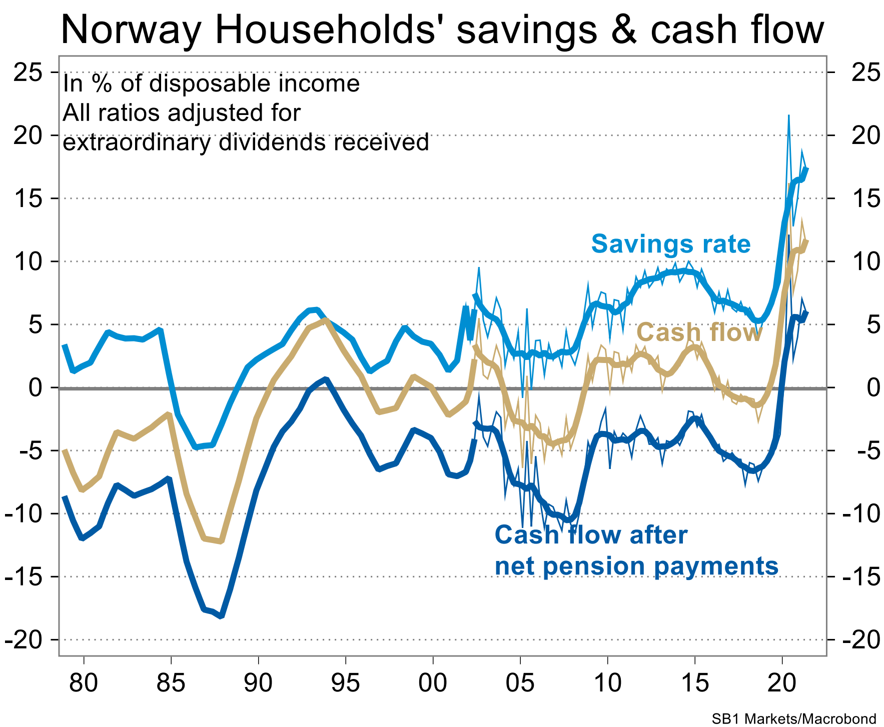


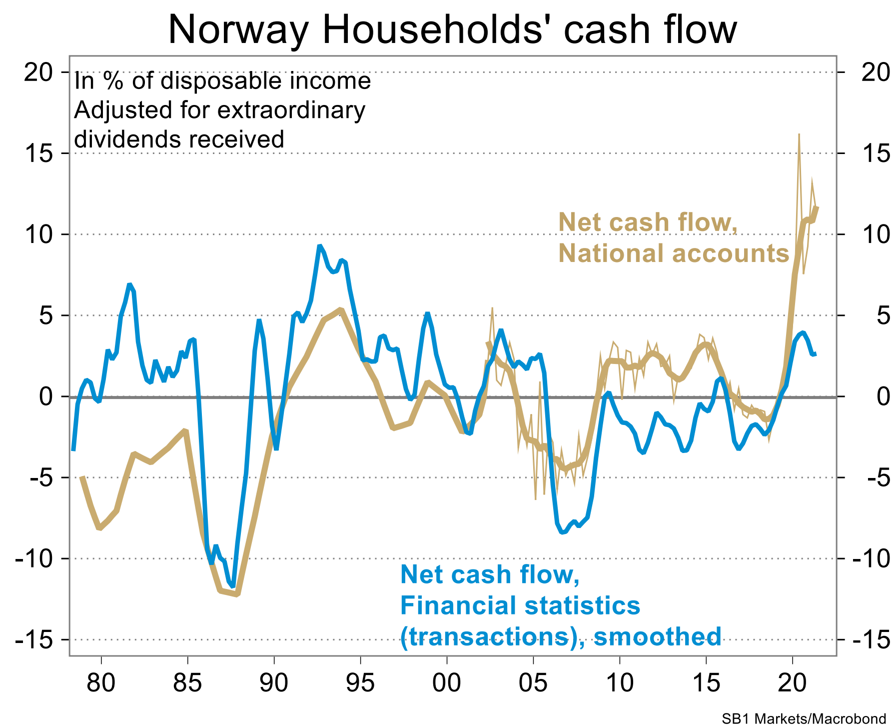
- **Electricity prices have almost doubled y/y**, explains the lion's share of the lift in total CPI. The discrepancy between the headline CPI and the core index (CPI-ATE and the core without just electricity prices, CPI-AEL) is 2.4 pp
- Electricity prices are volatile, and explain much of the volatility in headline Norwegian CPI, normally correlated with European electricity gas and coal prices (and influence by hydro reservoir filling rates)
- Media reports on a <u>5 times increase in the electricity bill</u> is nonsense (even from a low level last summer, check the chart above). At least, nobody in the market believe in them. Electricity futures signal substantial decline next year. <u>So far, the consumer bill is 'just' some 1.4 times (40%) above a normal level (an index at appox 150 at the chart above vs actual 210), and not 5 x higher!</u>



Show me the money: High Nat. Accounts savings not found in financial statistics

Households' net financial investment (cash surplus) at 12% of disp. income. Or just 3%?

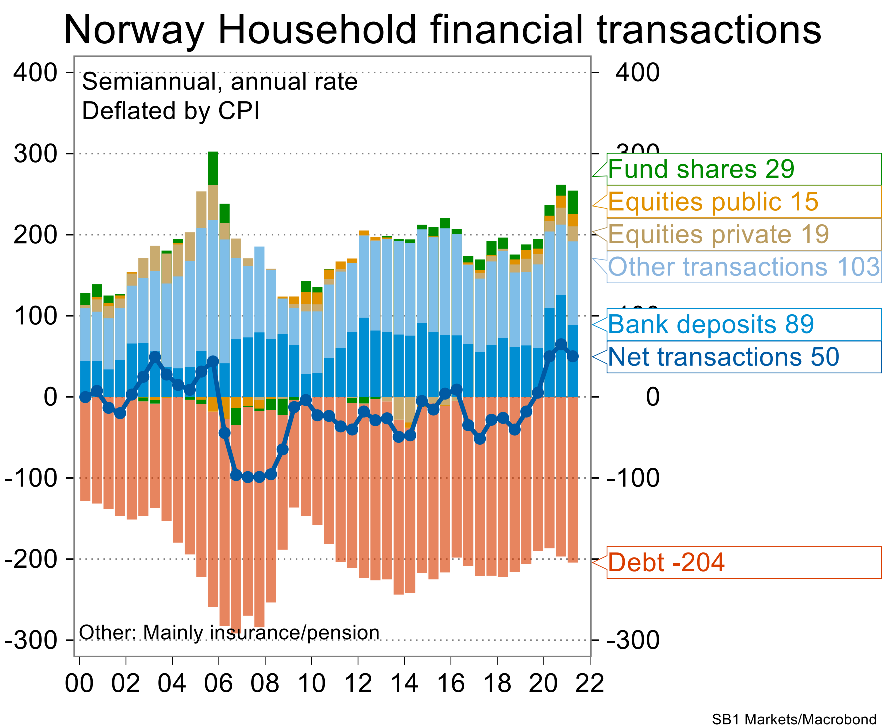


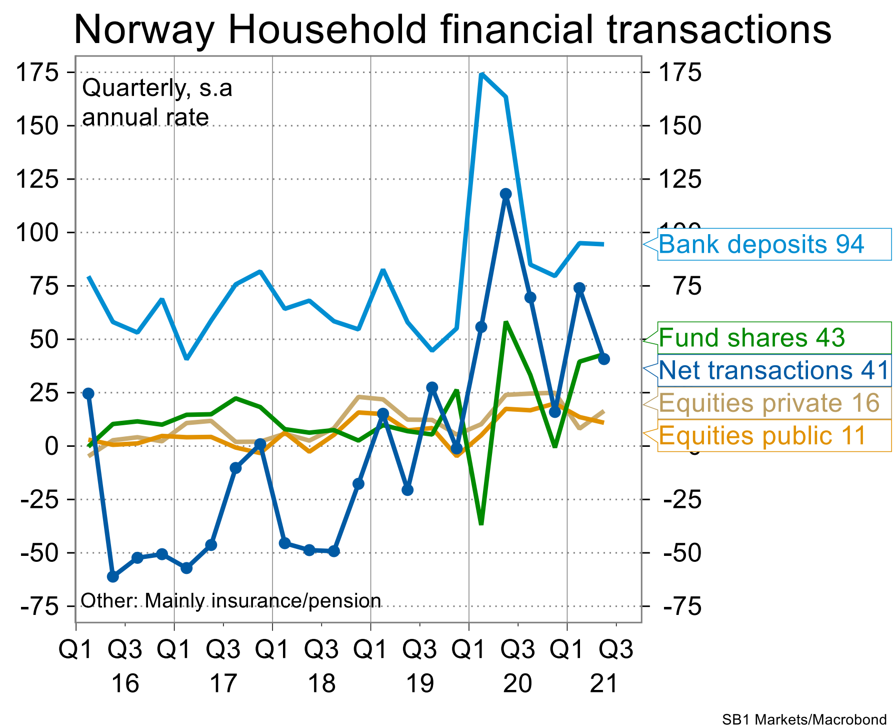


- Households' net financial investments can be calculated as a residual in the National accounts, or by aggregating all known financial transactions. Over time these to estimates are not that far apart. During the pandemic, the discrepancy has been larger than normal
  - » **Nat accounts** yields a cash surplus equalling 12% of disposable income
  - » **Financial statistics** report net financial transactions equalling just 3% of their income
  - » SSB reports that there are larger uncertainty than usual related to pension reserves in the financial accounts

Bank accounts are still growing faster than nomal

… and more are invested in equity/funds as well but still rather small amounts

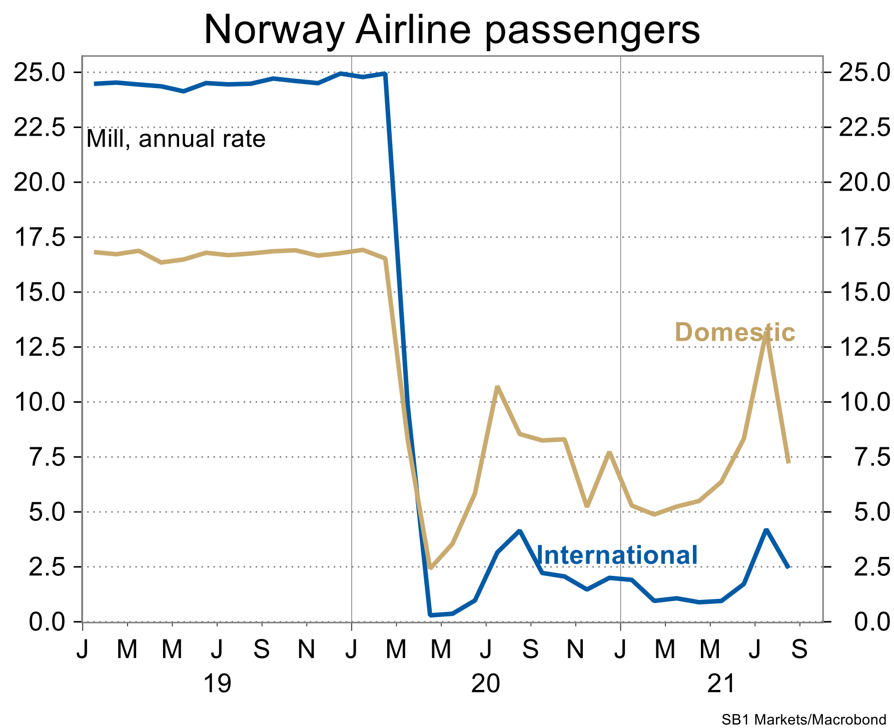




- Net transaction has equaled NOK 50 bn over the past year
- Assets is growing by some NOK 250 bn due to transactions, more than the increase in debt at 200 bn
- Bank deposits are up 90 bn, while 11 bn is invested in public equities, and households have bought funds share equaling 30 bn over the past year

Airline traffic down again in August, as tourists returned to work…

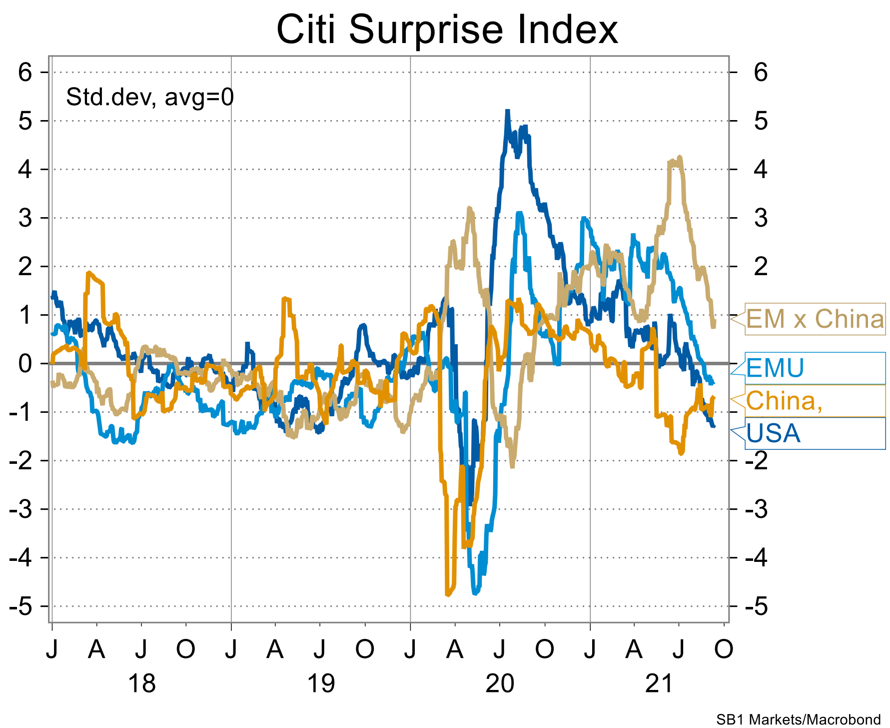
And ‘workers’ did not return to the airlines

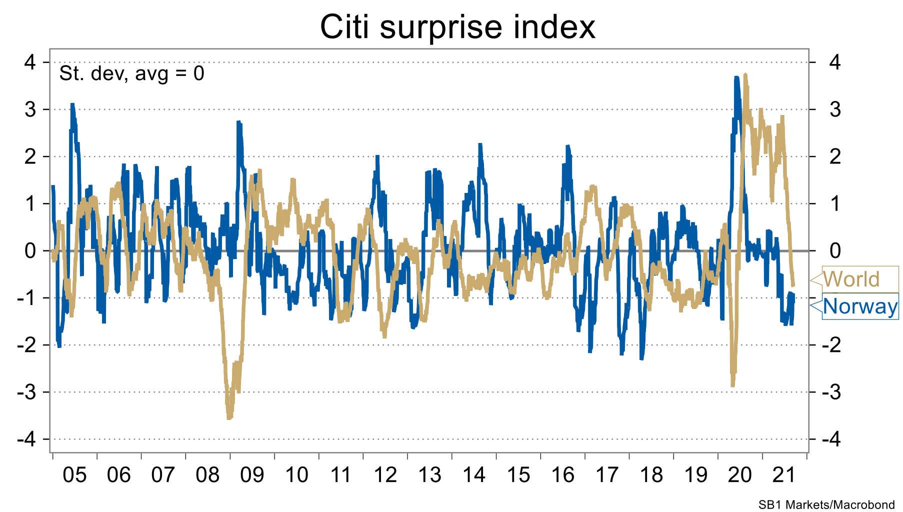


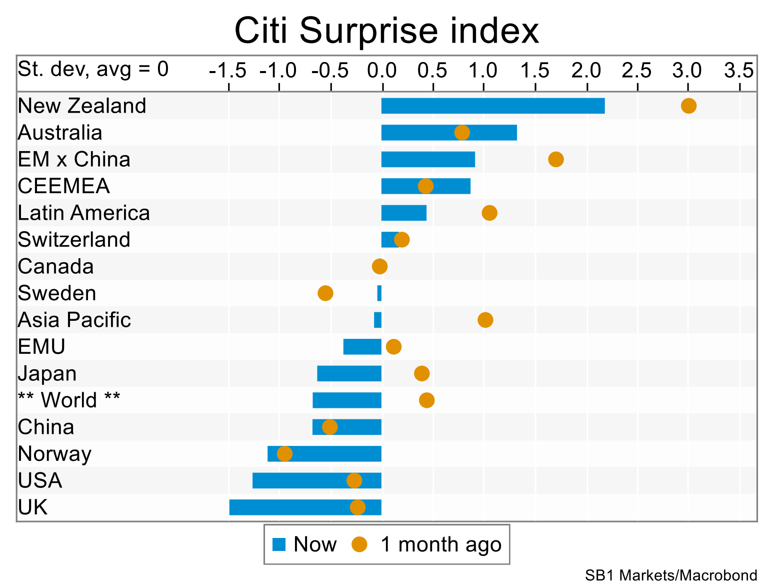
- The no. of passengers at **domestic routs** was down almost 60% vs. the 2019 level, following a 40% drop from July – which was just 20% below a normal level – very likely as business travel did not return
- **International travel** by air is still down 90% as x-border travel was (and still is) risky vs. restrictions/quarantines

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

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







- 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** gained some ground last week on trade data but remains below par
- **Emerging Markets x China** are still reporting better data than expected, but the surprise index is gradually coming down
- **Norway** has surprised sharply on the downside recent weeks, so has the UK

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

Highlights

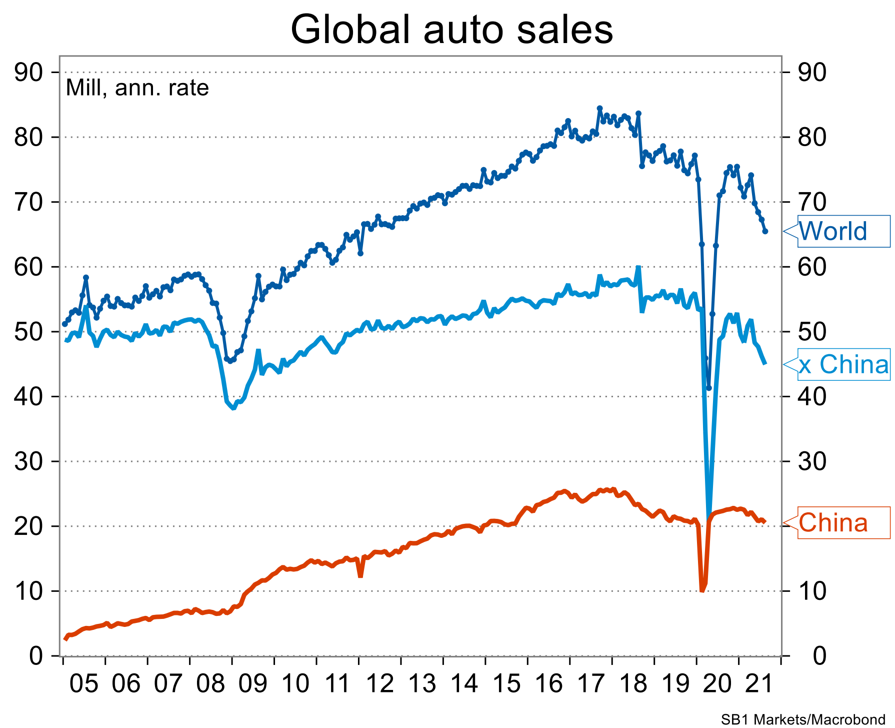
The world around us

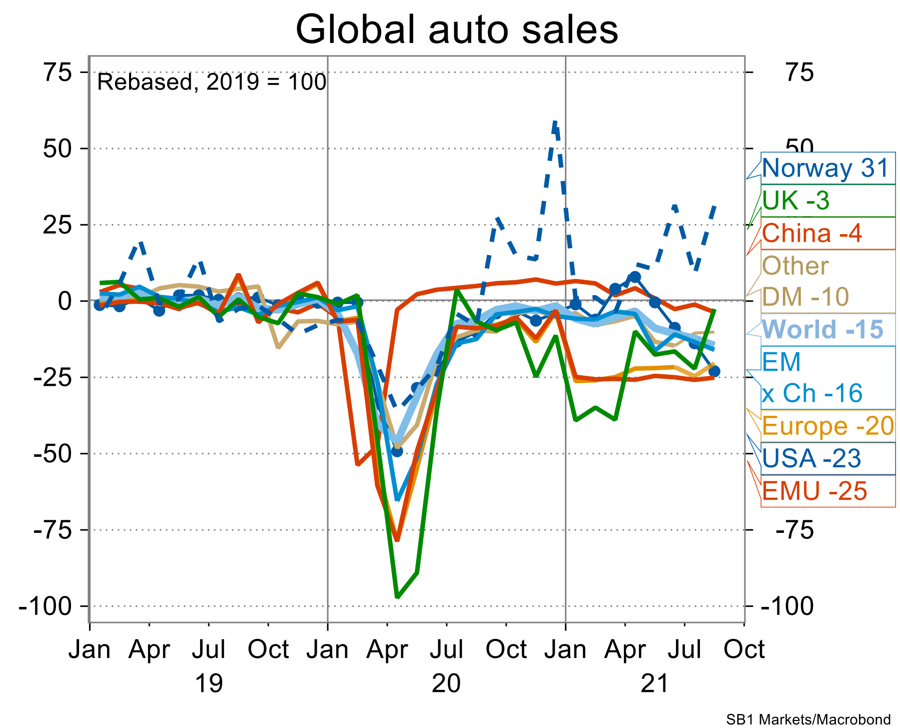
The Norwegian economy

Market charts & comments

Auto sales further down in August, as production is cut due to lack of data chips

Sales fell 3%, and are down 13%– 15% from the (low) pre-pandemic and Q4-20 level

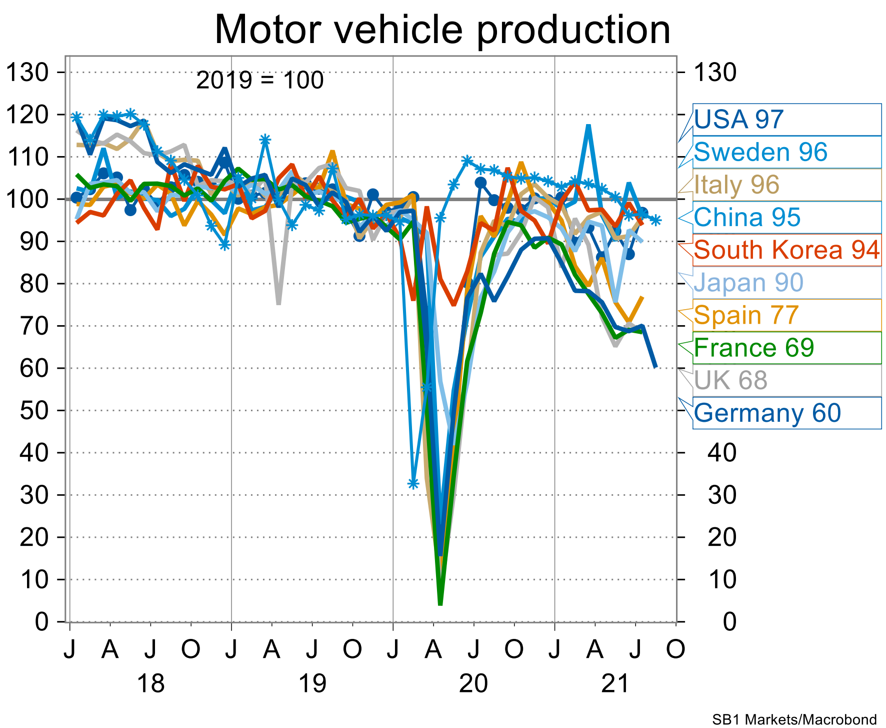




- **Global auto** have fallen the past 4 months. Sales are down 15% vs. the 2019 level – and more than 20% below the late 2017/early 2018 level as sales slowed through 2018, both in China (almost 1/3 of total sales), and in the rest of the world. No doubt, the main reason for the recent setback is lack of supply due to the serious data component shortages. In some countries, demand has been cut back due the last corona outbreak
- **US** auto sales fell sharply, and are 23% below the 2019 avg. level. Sales in the **EMU** did not recover, and remains 25% below. **UK** sales rose in August, and are down just 4%. **Norway** is the only DM country reporting higher sales, + 31 vs the '19 level!
- Sales in **China** fell 2.5% m/m and sales are 'just' 4% below the 2019 level – but the trend is down
- Sales in **India** probably fell somewhat, from the highest level in years (and close to ATH, in July). No Delta problems here anymore. Our **EM x China** aggregate fell further, and the level is down 16% from 2015

Auto production down most places – and most in Europe (x Sweden)

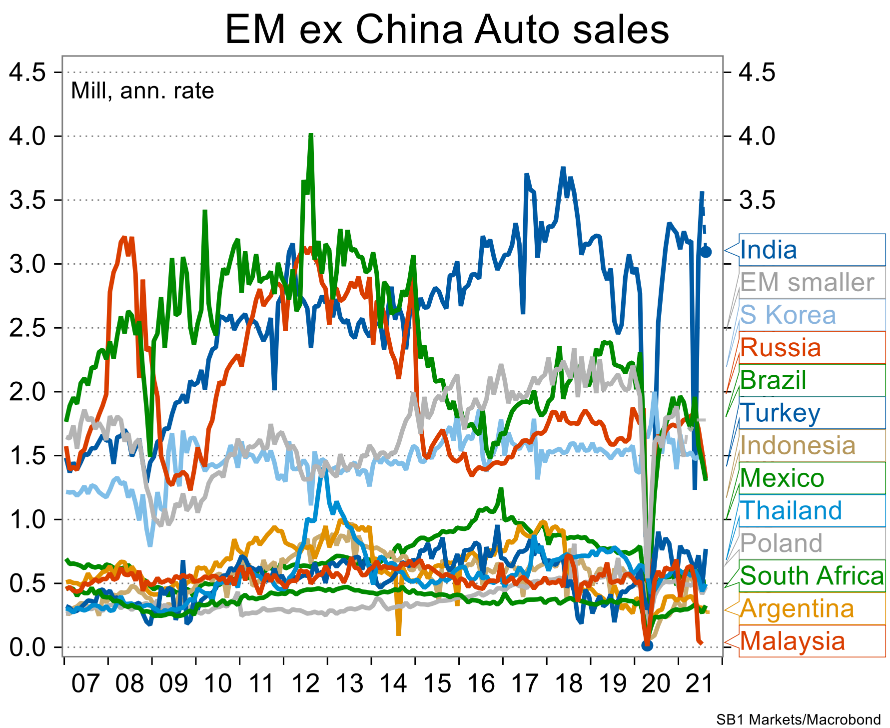
US production is remarkably strong, just down 3% vs 2019 level

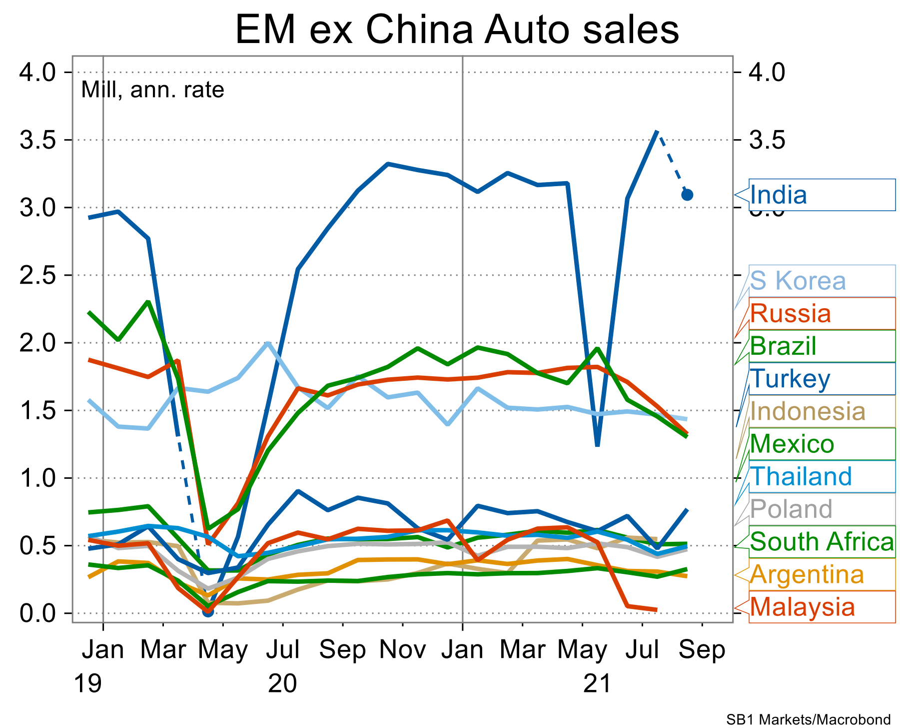


- In Germany, production is down 40%
- There is no doubt a substantial upside in auto production the coming quarters – at one stage the data chip shortages will be sorted out

EM: Indian sales down but remain very strong, following the May dip

Sales down in Brazil and Russia. Mixed elsewhere, partly due to lockdowns (like in Malaysia, to July)



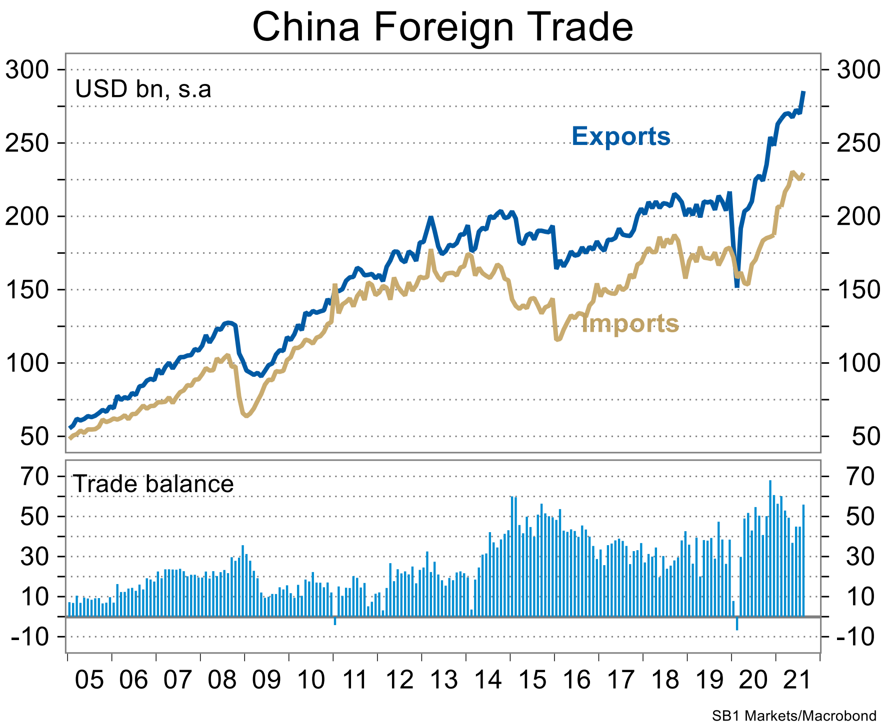


- Re Indian sales data: These are reported domestic sales from factories. Domestic retail sales was probably much higher

Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

Exports surged in August

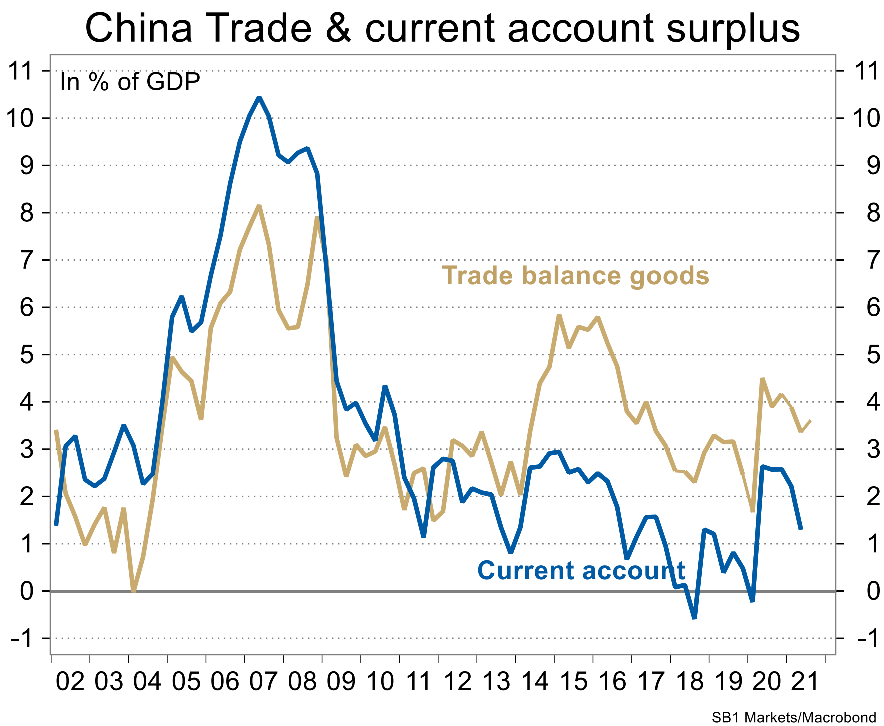
Signals an increase in global demand for goods

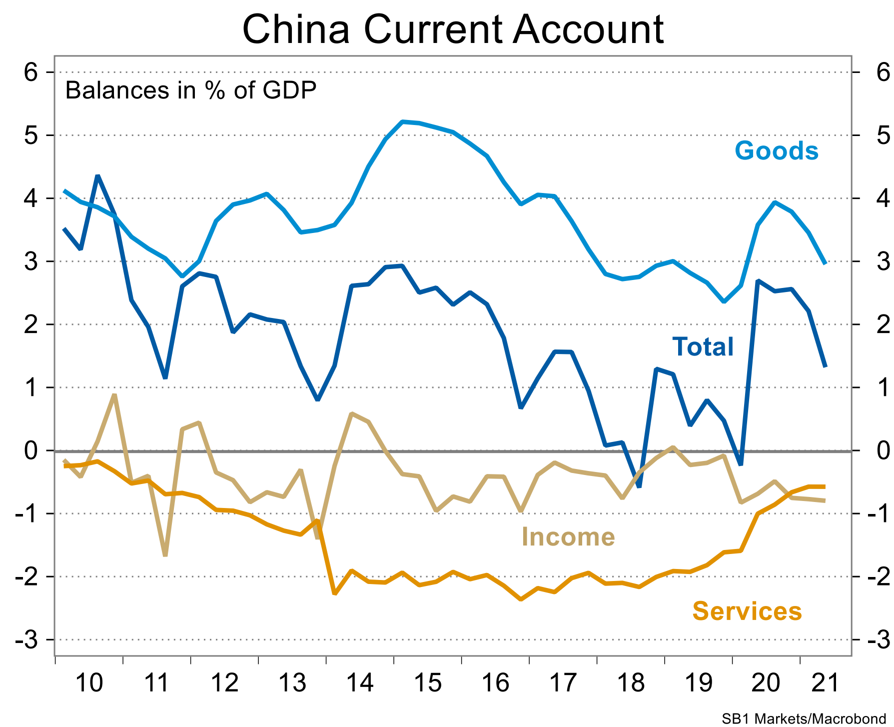


- **Exports** increased by 5.7% in USD terms in Aug and 25% y/y, up from 19% in July, expected at 17%. Exports very likely rose sharply in **volume terms** too – and are now back above the March peak, signalling an increased global demand for goods in the autumn before the holiday season. The level is high, at some 15% above the pre-pandemic trend growth path. Prices are up 8% y/y (our est.)
- **Imports** rose too, by 2% m/m, and 29% y/y, up from 28% in July, expected at 27%. In volume term imports rose more has import prices must have fallen, due to the decline in oil, metals, and iron ore in August. However, import prices are still up some 20% y/y - explaining most of the growth in import values
- The **trade surplus** was sharply up in August, at USD 56 bn (seas adj.), which is well above the pre-pandemic level, but down from above USD 60 bn at the peak
- We stick to our analysis from the past few months, growth in foreign trade volumes to slow substantially through rest of the year. Demand for goods in the rich part of the world will slow down when spending in services picks up, shortages of raw materials/intermediates will dampen production. Even if credit policy now may be turning expansionary, the lagged impact on the previous tightening may be felt in domestic demand

China runs a ‘modest’ surplus at the current account – at 1% - 2% of GDP

The C/A surplus was above 10% of GDP in 2007 – but close to zero before the pandemic

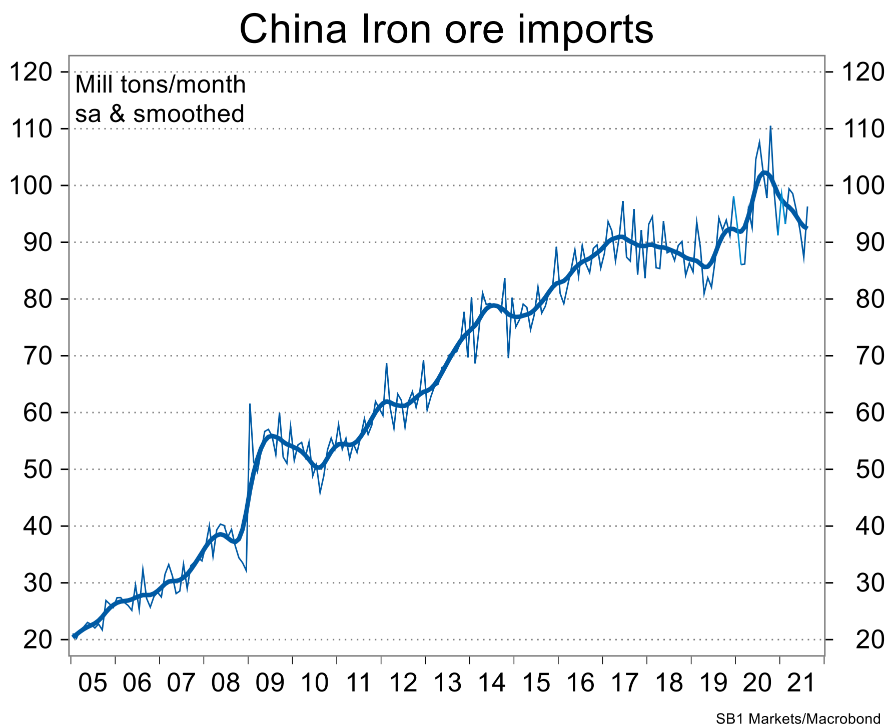




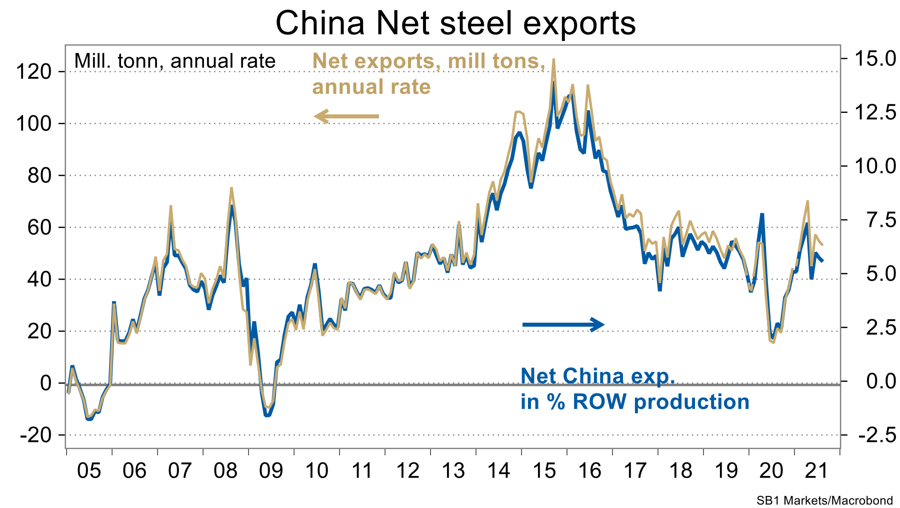
- The trade surplus in goods is 3.6% of GDP
- In services, China runs a 0.6% deficit, down from -2% in 2015 – 2019 (but from zero 10 years ago). For the time being, the Chinese do not travel abroad (and we do not visit them either)
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

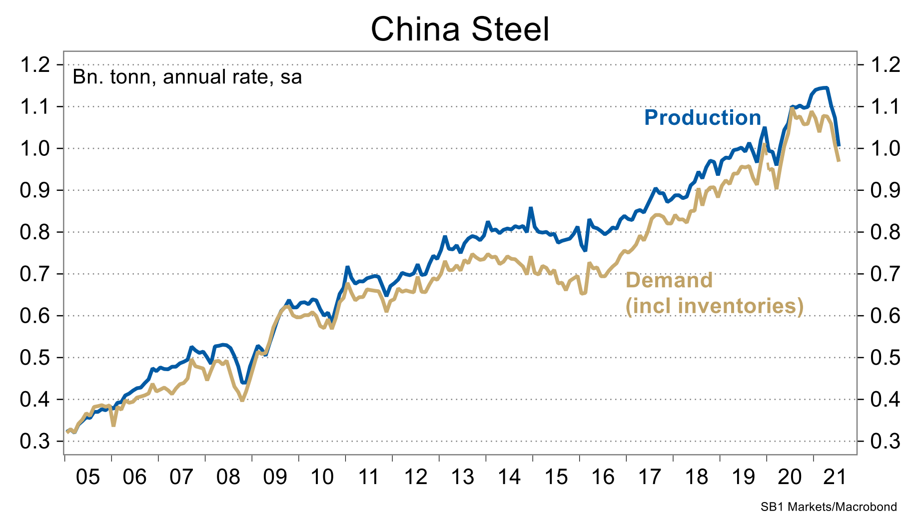
Iron ore imports up in August, but the trend is down

Authorities have curbed steel production in order to bring CO_2 emissions down (in 2030…)



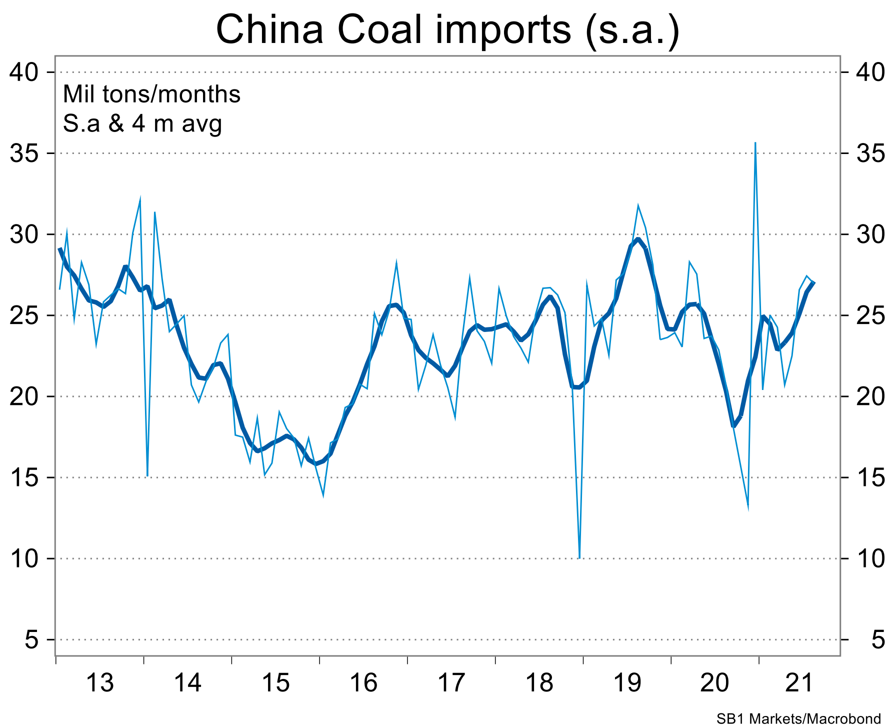
- Iron ore import have fallen 10% since late last summer
- Steel production has fallen sharply recent months, by more than 10%. Domestic demand is down, most likely due the decline in construction activity

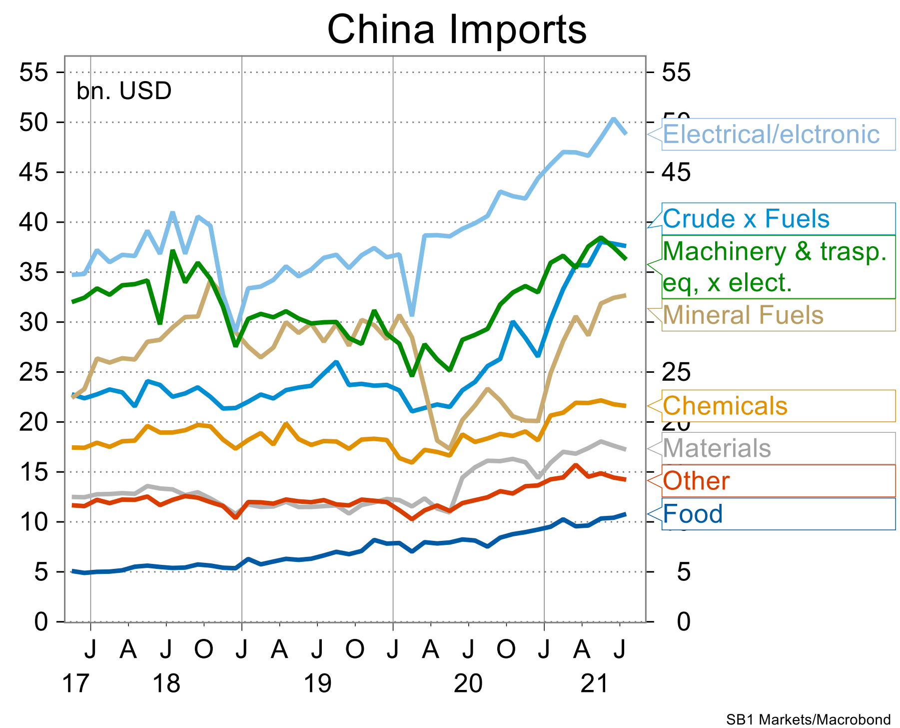




Coal imports have been trending flat since 2016

…and imports were marginally down in August, after having increased over the past 3 months

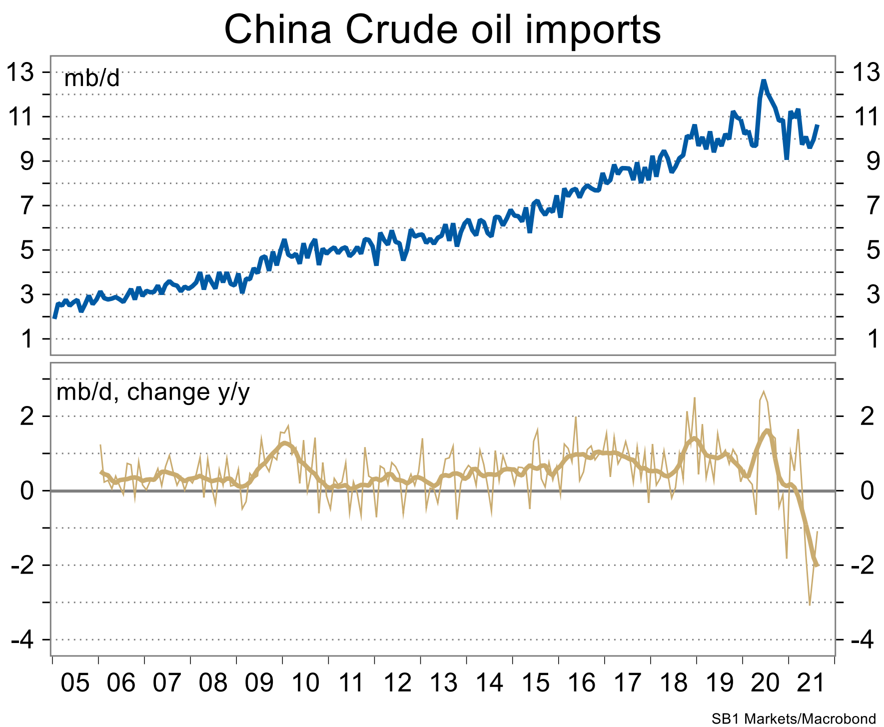


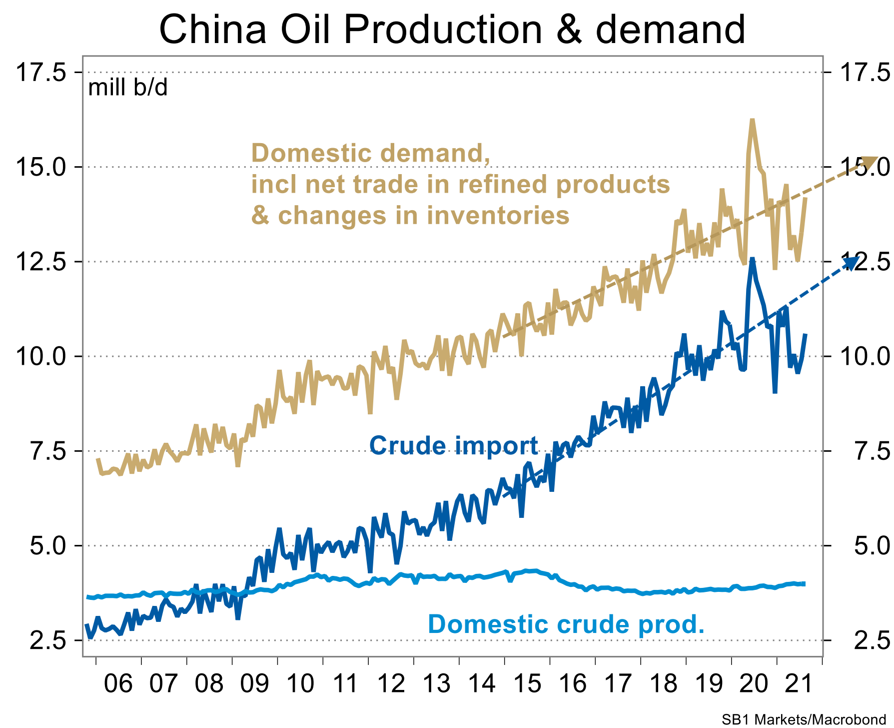


SpareBank 1 MARKETS

Oil imports up but still far below pre-pandemic trend

Imports were low between May- July, but increased somewhat in Aug, according to Chinese data

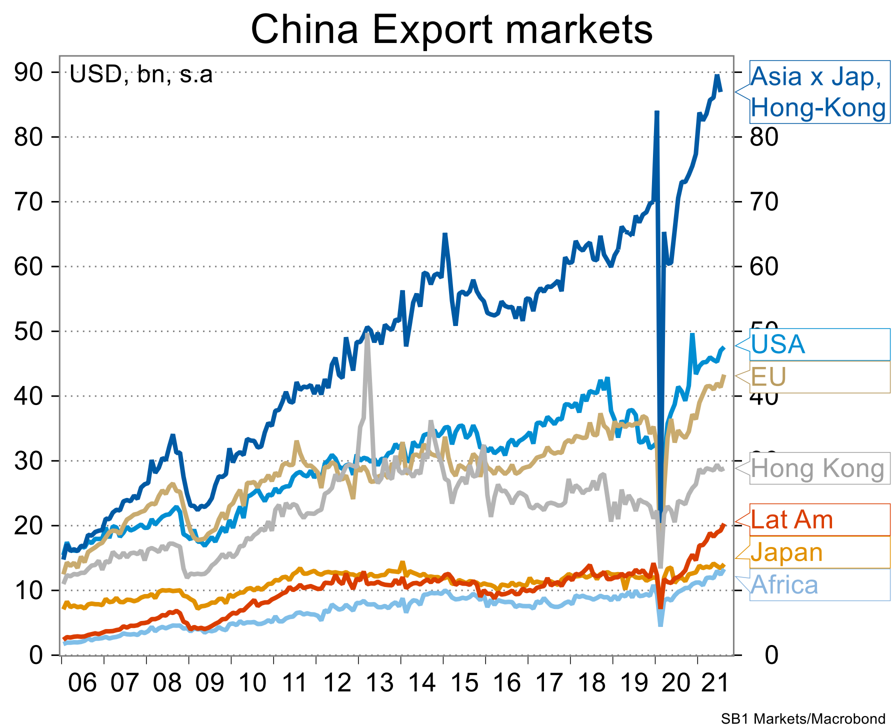




- Oil imports some 1.1 mill b/d below the pre-pandemic trend growth path

Chinese exports to all corners of the world sharply up

The recovery in exports through the pandemic has so far been impressive

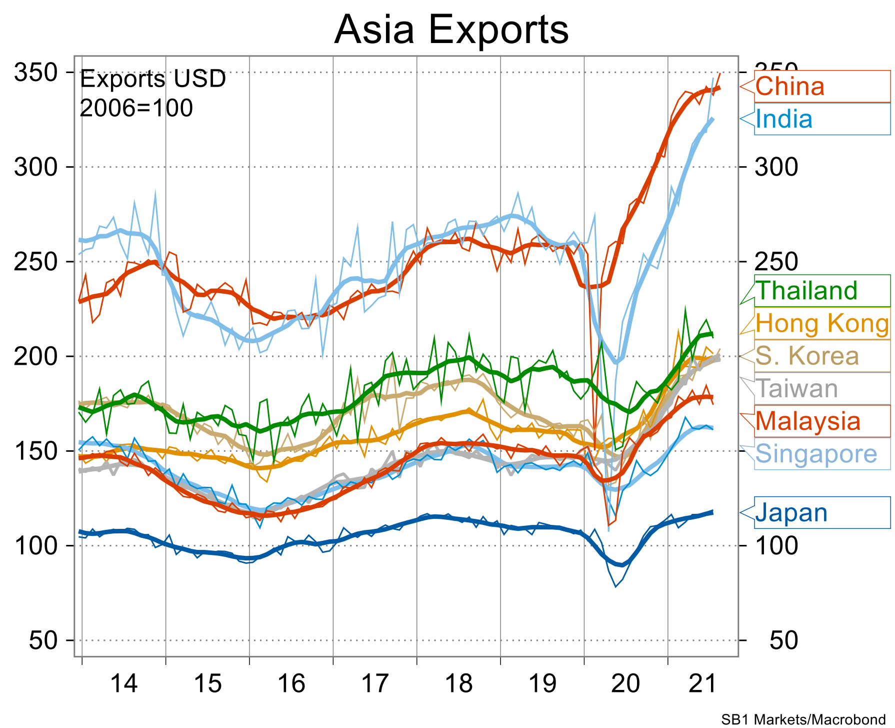


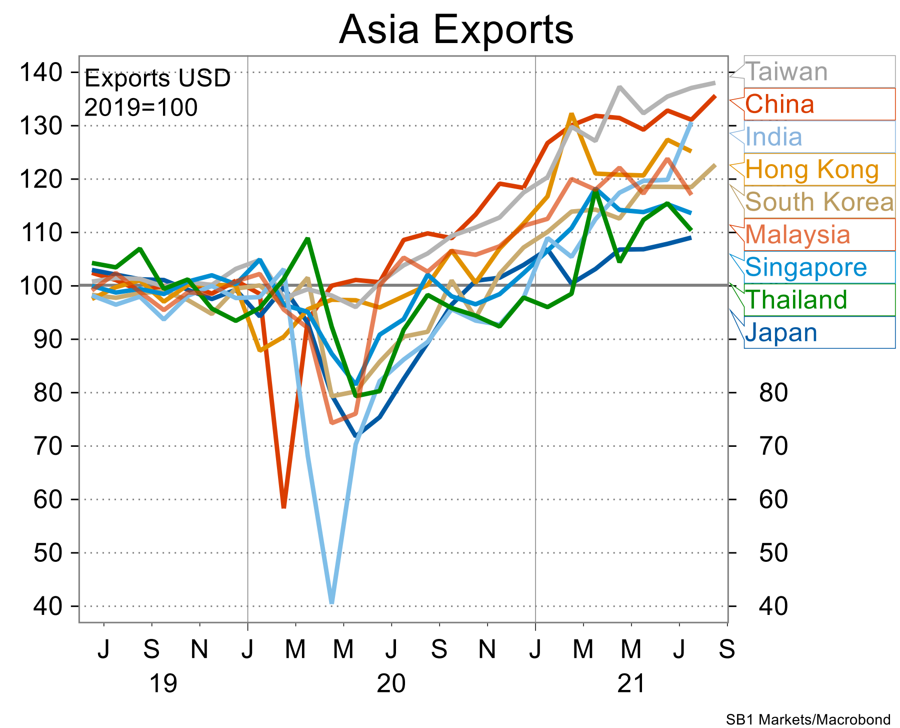
- Some slowing in exports to Hong Kong, Japan – but not to rest of Asia or Africa

SpareBank 1 MARKETS

Exports from other Asian counties also on the way up. No Delta impact anywhere

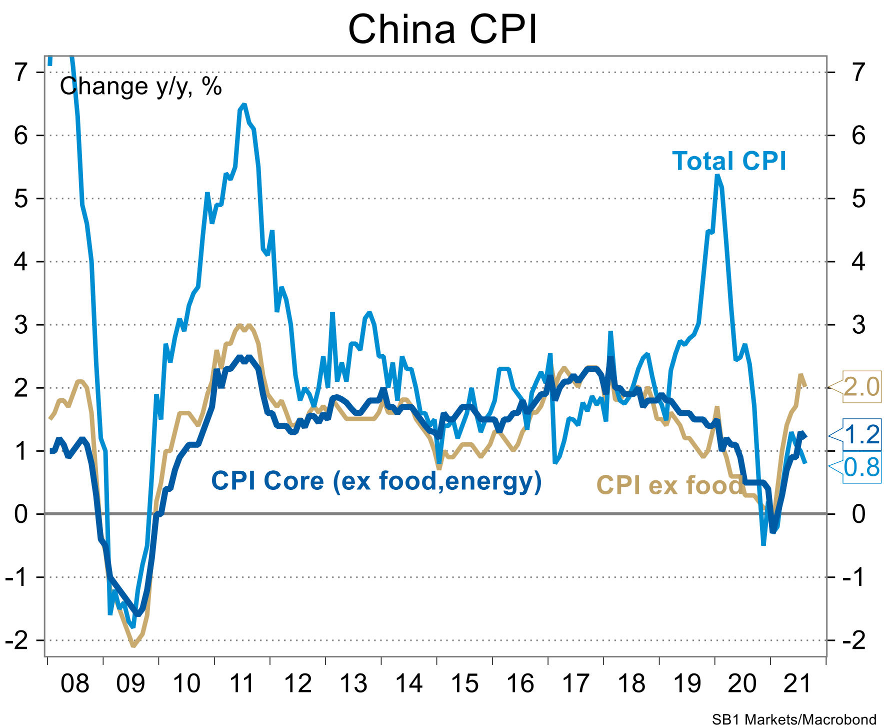
… but the trend is showing that exports might be slowing somewhat

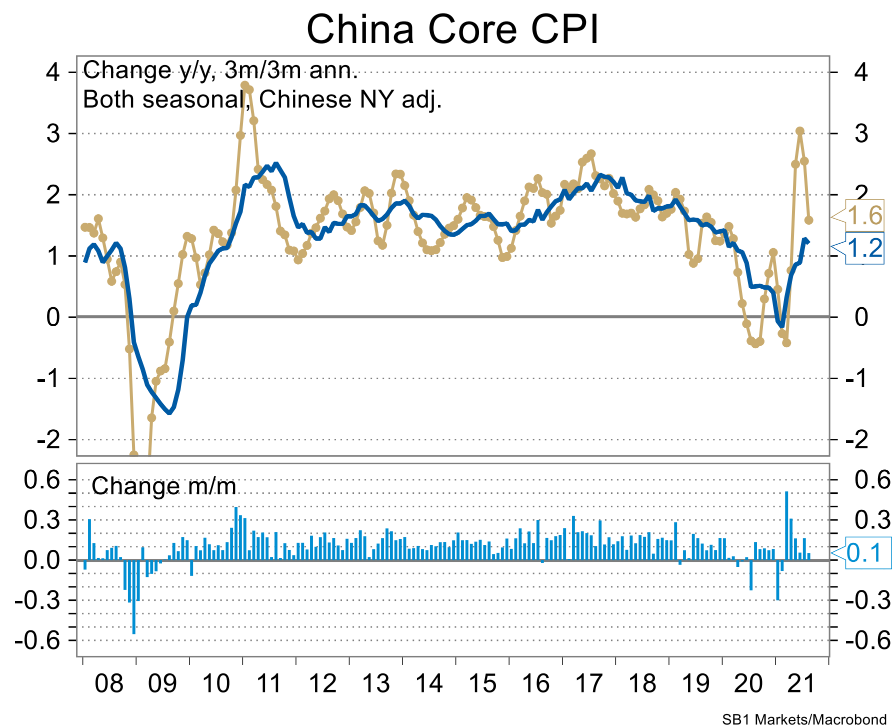




Chinese inflation below consensus, as food prices fell. Core at 1.2% y/y

The pork industry is recovering – and pork prices are normalising. Headline inflation at 0.8%



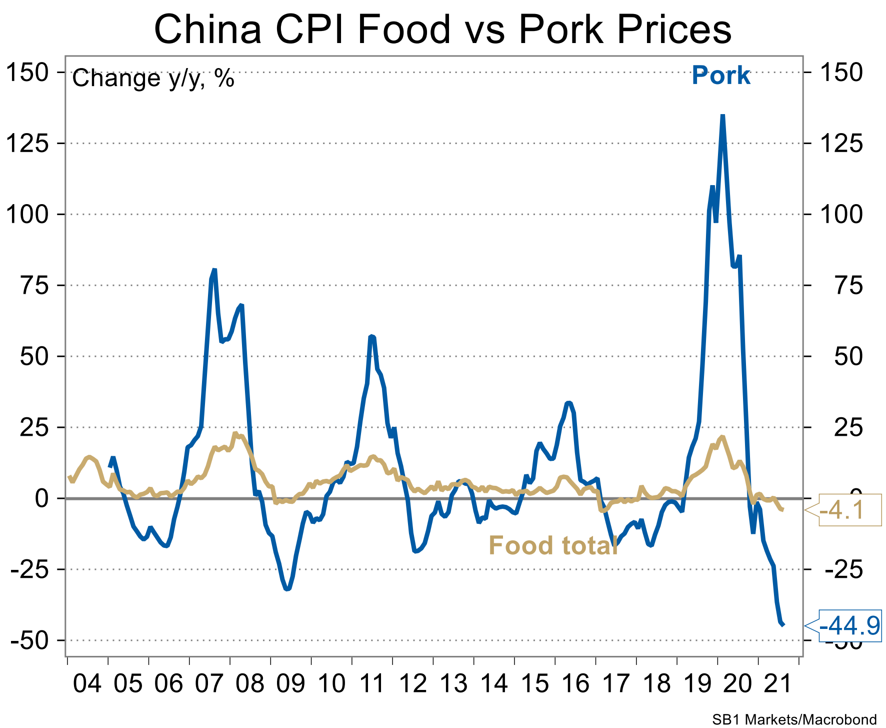


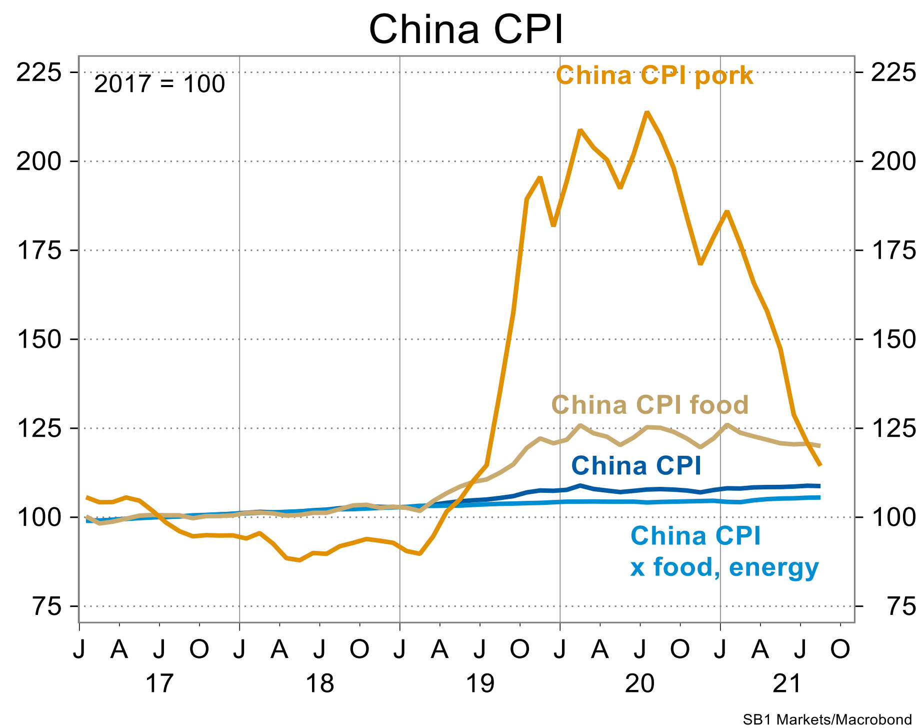
- **Total annual CPI** growth fell from above 5% in early 2020 to -0.2% in Feb. In August, CPI was up 0.8% y/y, down 0.2 pp from July, expected at 1.0%
- **Food prices** fell by 0.1% m/m, even if pork prices fell further by 5%. Food prices are down 4.1% y/y. Pork prices have fallen sharply following the doubling of prices due to the 'pig massacre' (swine flu) last year but prices are still up 14% vs. the level before the flu. Prices are still above a normal level
- Energy prices are sharply up y/y, lifting the CPU by 0.8 pp
- **The core, ex food & energy price index rose 0.1** m/m, and is up 1.2% y/y, down from 1.3% in July. Prices up 1.6% measured 3m/3m
- Inflation is low. **Monetary policy** will not respond to actual inflation data if inflation is not really high or low, the real economy and the credit market is more important

SpareBank 1 MARKETS

Pork prices down 5% m/m in August, keeping food inflation in check

Pork prices are down 47%, from July '20. They are still 14% higher than before the swine flu

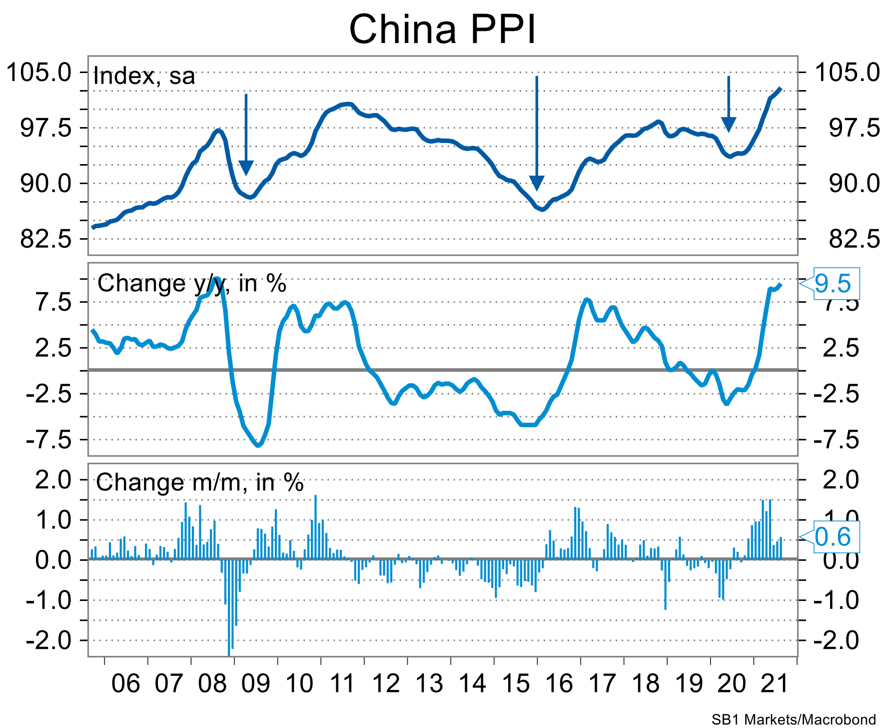


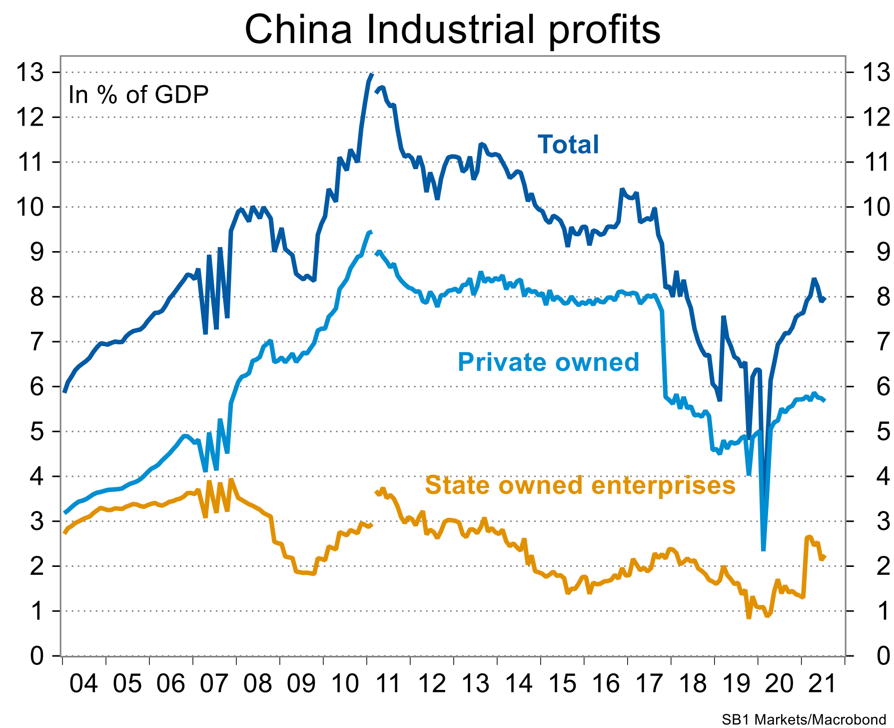


- Food prices fell by 0.1% m/m in August but are down 4.1% y/y – due to a 45% y/y decline in pork prices

Factory gate prices keep rising

PPI up 0.6% m/m in August – and 9.5 % y/y, 0.5 pp above expectations

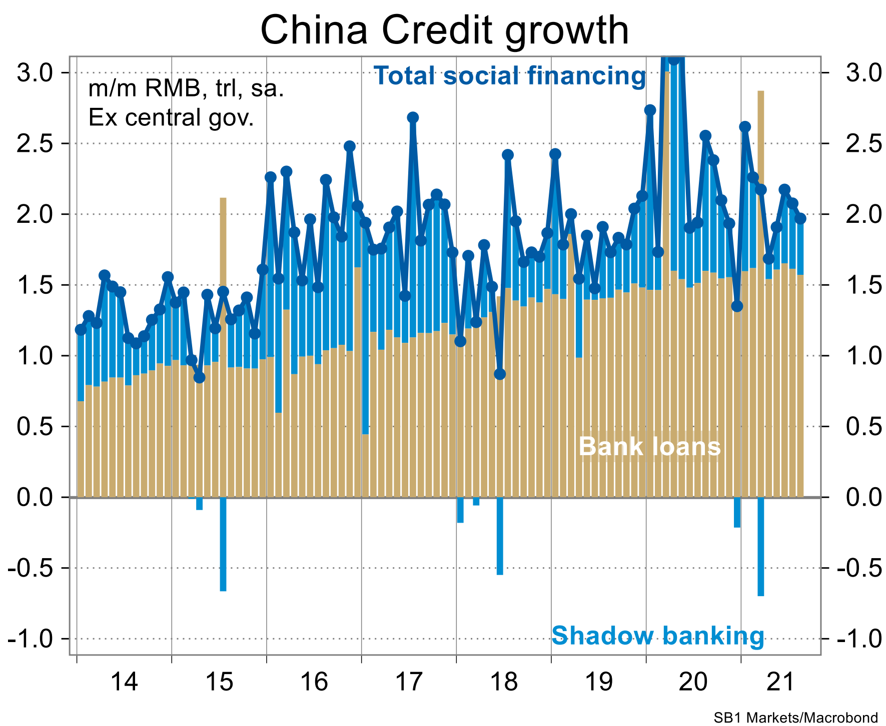


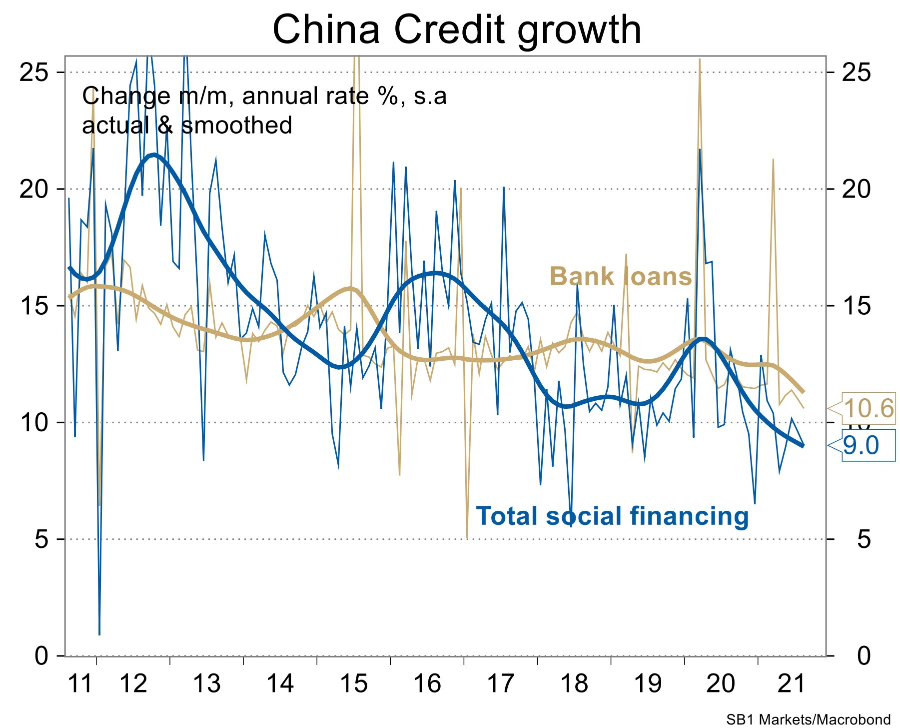


- **The rise in PPI** in the last few months can largely be contributed to an increase in commodities prices, and in August it was especially coal, steel and chemical prices driving the inflation.
  - » The correlation to Chinese CPI is not that strong. It is more important for other countries, like the US CPI
- **Profits in privately owned industrial enterprises** fell by 50% in February ‘20. Profits rose to a normal level in April/May ‘20 – if we label the profit level in 2019 and early 2020 as normal – at 5% of GDP – and now it has climbed to 5.7%
- **Profits in state owned enterprises profits** are now around 2% of GDP

Credit growth is slowing further – but are not that low

Authorities seem to choose a mixed approach: Keep credit up in some sectors, slow others

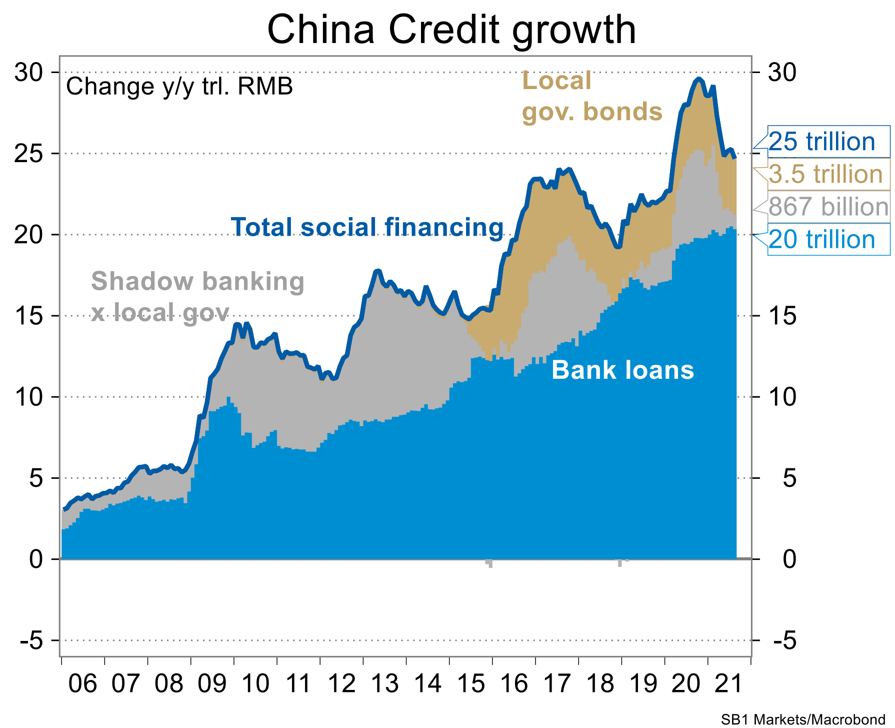


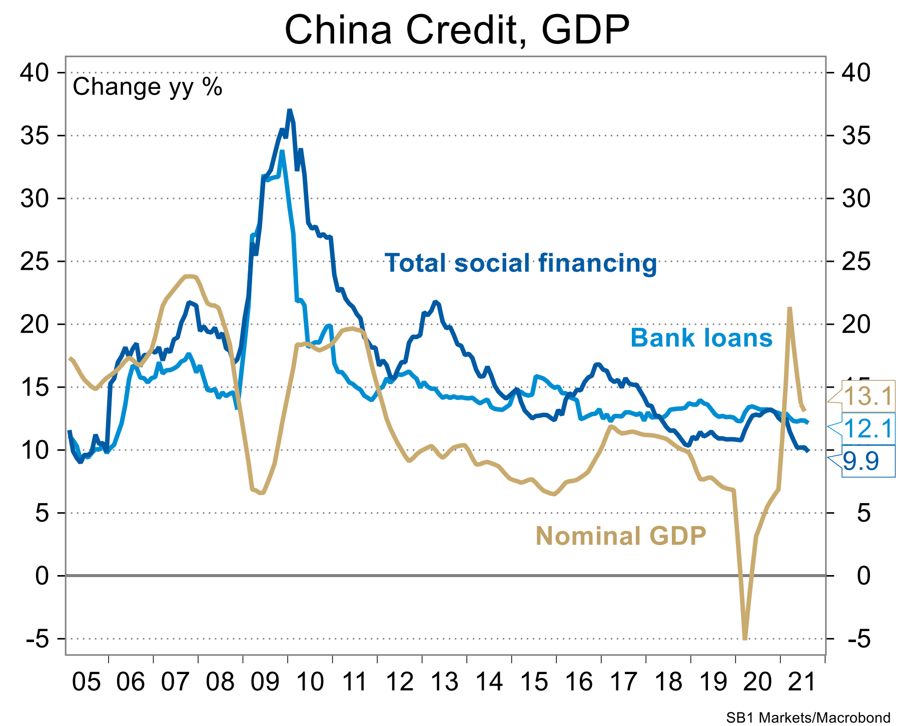


- **Total credit** grew at a 9.0% rate in August (m/m, seas. adj. annualised), down from 9.6% in July. Smoothed, the underlying rate may be at the same level, down from 13% during last spring (and >15% during some months). The underlying growth rate is still marginally above the trend growth in nominal GDP (say 5.5% real growth, 2% price inflation)
  - » **Total credit** rose by RMB 2.8 trl, as expected (not seas. adj., total social financing, including central & local government bond, and corporate equities). Seas. adj. the core total social credit (total ex central gov bonds & corporate equites) grew by 1.91 trl, down from almost 2.1 trl in July
  - » **Bank loans** rose by RMB 1.6 trl, seas adjusted, or at a 10.6% annualised pace - and less than expected. Growth is gradually slowing, from a 13% rate last spring. Loans are up 12.3% y/y
  - » **Shadow banking credit** rose by RMB 0.4 trl in Aug, as in July (s.a). Growth has slowed sharply, underlying to 5%, from 13% last summer – the lowest growth rate on record. Excluding local government bonds, 'private' shadow credit is close to flat!
- **The credit impulse has turned negative**, like it usually does every 4th year or so. The ramification may be felt in many markets
- **The slowdown has been by purpose**, as authorities have tightened, especially vs. credit supply outside banks, especially vs. the construction sector. However, the authorities have shifted the foot to the accelerator again – as they always have done after tightening too hard. In July, PBoC cut banks' reserve requirements

Credit growth turned south, just as asked for by the authorities

As they usually do, every 4th year or so. Until the growth is curbed too much. Like now??

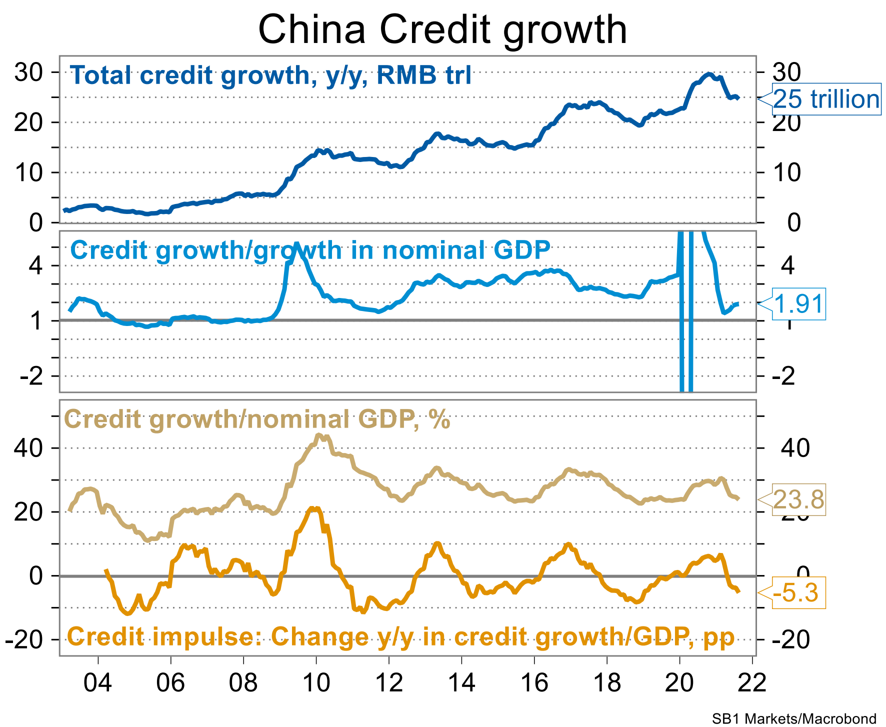


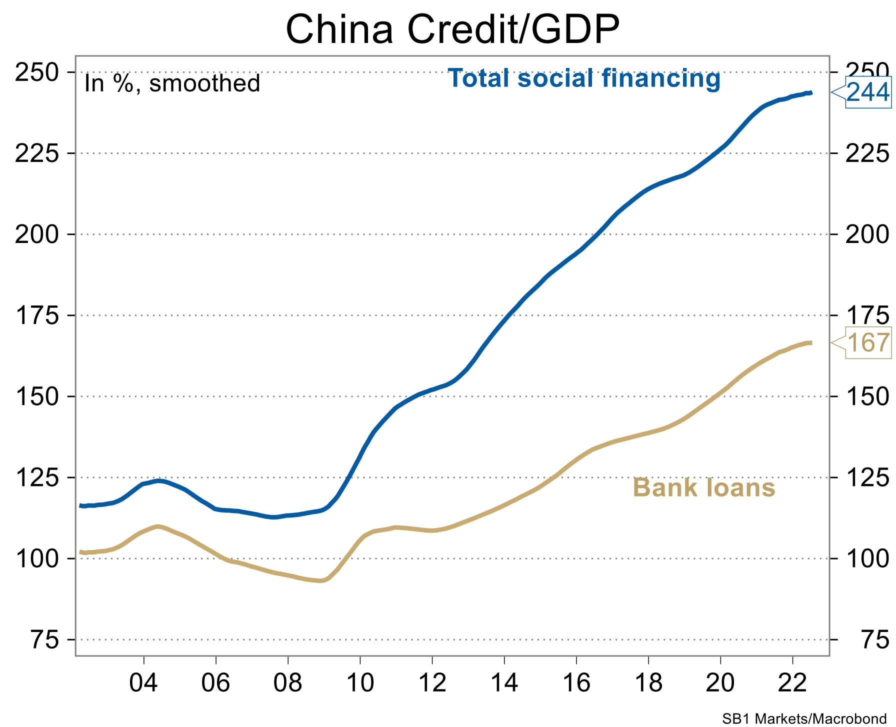


- Over the past year, **total credit** has expanded by RMB 25 trl, equalling almost 25% of annual RMB, down from RMB 30 trl at the peak
- **Banks** supplied RMB 20 trl of the y/y increase
- **Local governments** have not yet accelerated their borrowing by much, at least not in the bond market, still up 3.5 bn y/y
- Growth in other credit – via the **shadow credit market x local gov bonds** – has slowed to less than RMB 1 trl from 5, a dramatic slowdown (like many times before)
- **Total credit** growth fell 0.3 pp to 9.9% y/y, the slowest pace since 2005, but still above nominal GDP growth before the pandemic, and above our estimate of 5.5% potential GDP growth + a 2% rate of inflation. Underlying growth in credit recent months is even lower, down to 9%

The credit impulse is falling deeper into negative territory, still not record low

The slowdown in credit supply is substantial and well felt in parts of the Chinese economy



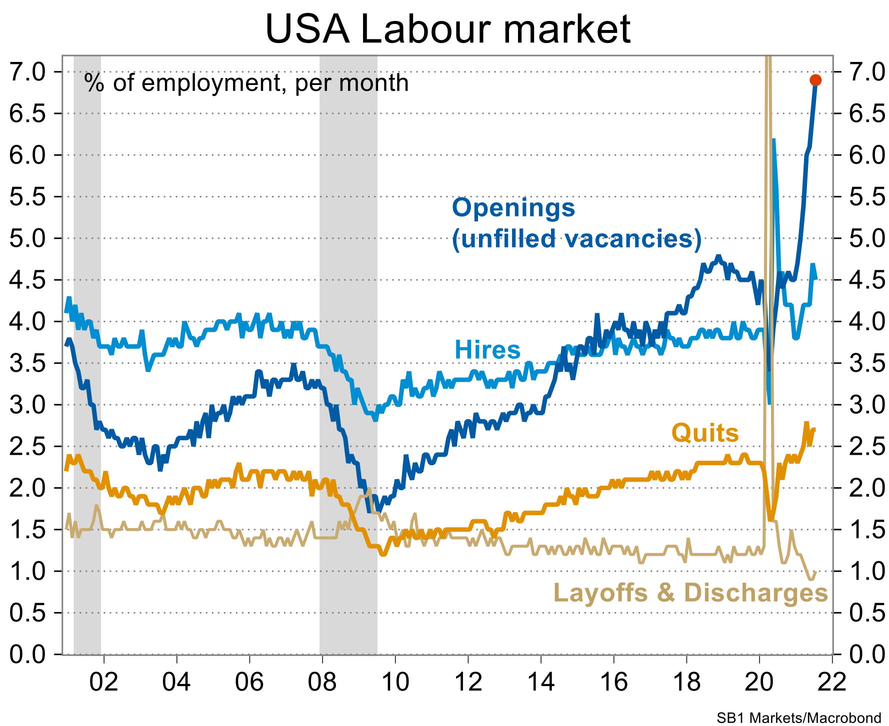


- A positive **credit impulse** implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy, which have had impacts at other markets
- The **credit impulse** (here measured as the 12 m change in the 12 m credit growth/GDP ratio) bottomed in late 2018, turned positive one year later, peaked last autumn, fell into negative territory in May, and is now at -5.3%
- Are authorities worried that they have tightened too much? Probably not too much, yet. Reserve requirements for banks are cut, but not any policy rate.

GDP is smoothed in the calculations in the charts above

The vacancy rate hits another record in July – the jobs are there

The vacancy rate rose to 6.9%, but even if businesses are hiring at a fast pace - workers are quitting

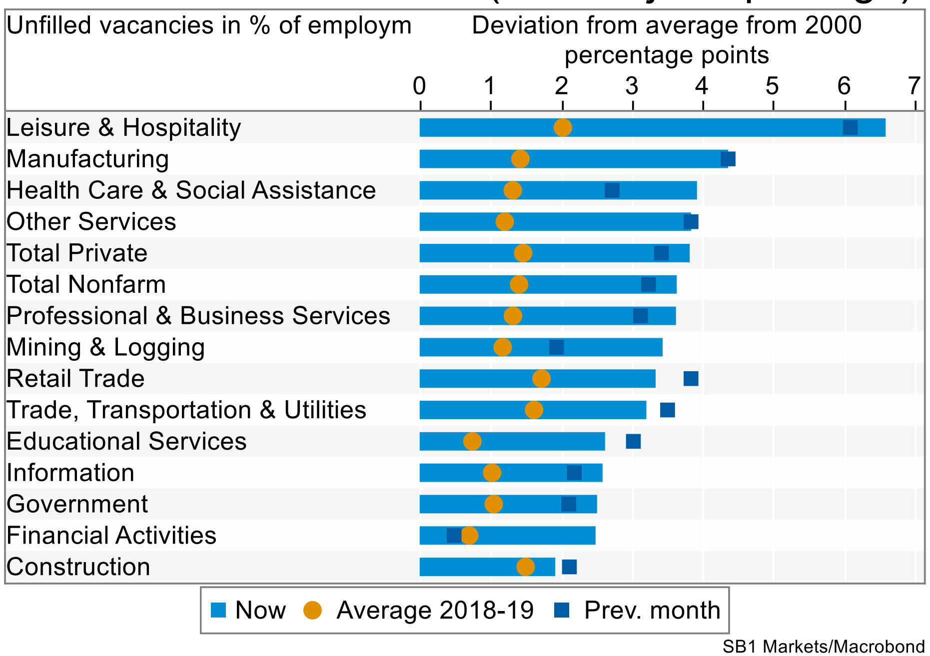


- The no. of **unfilled vacancies** increased by 749' from June and is at record high, both in the actual number (10.9 mill) and in % of employment (6.9%, from 6.5% in June), expected marginally down! The highest rate before corona was 4.8%, in 2018 (and 3.5% before the financial crisis). The vacancy rate is much higher than the unemployment rate, and far higher than normal vs the 5.4% unemployment rate (in July, in % of the labour force)
- **Hiring decreased** by 160' to 6.7 mill in July, to 4.5%, down from 4.6% in June still the 2nd highest level ever barring last months and May/June last year, when the first corona wave retreated
  - » Most of the decline in hiring was in the Midwest, which is also the region with the fewest vacancies (though the rate is still high)
- The rate of **voluntary quits** was unchanged at 2.7% in July. The level is the 2nd highest ever, and a sign of a tight labour market as workers are leaving their jobs voluntarily to get at better job, which is harder in bad times. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** fell to the lowest level ever in June and rose just marginally in July, signalling limited problems in US companies. Thus, it is strange that the inflow of (weekly) new jobless claims remain above normal levels
- **In sum:** As last month, the report confirms an extremely tight labour market
  - » However, this was in July, before the federal support programs ended last week. On the other hand, half of the states left these programs in June/early July – but vacancies still shot up – and hires did not increase. In August, US SMBs reported a further increase in the share of companies that were not able to fill their vacancies

All sectors are reporting more vacancies than before the pandemic

The problem is largest in sectors that have been closed down, in leisure & hospitality

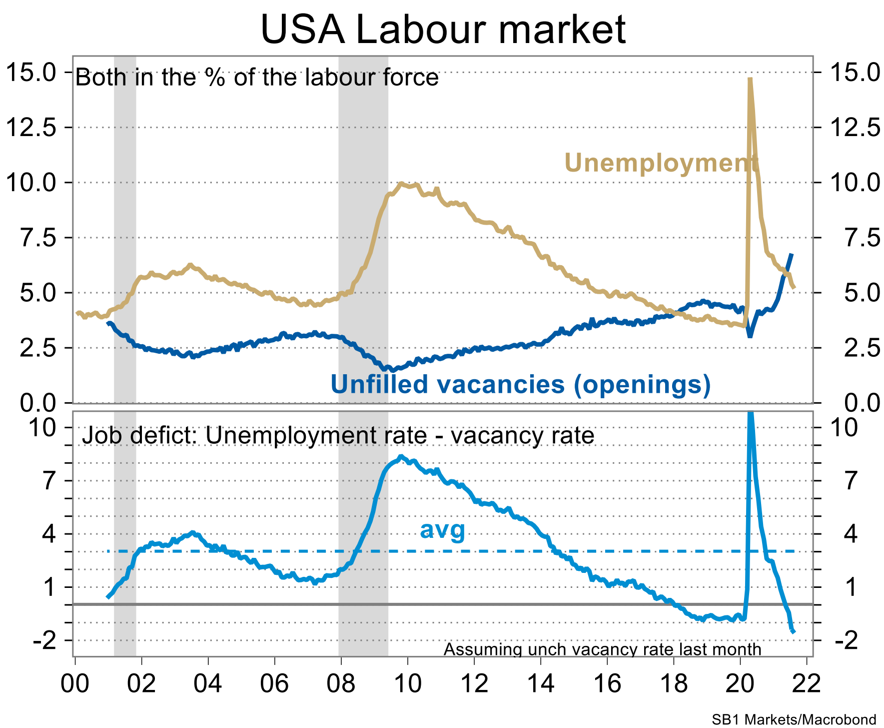
USA Unfilled vacancies (JOLTS job openings)

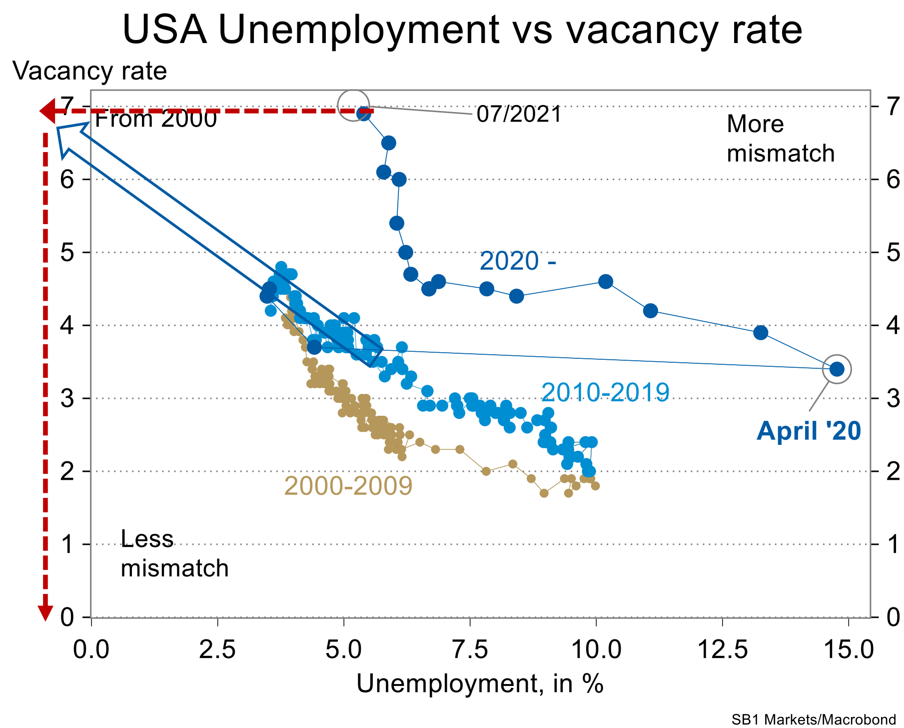


- ... but also in manufacturing and retail trade
  - » The financial sector has more unfilled vacancies than normal, but not by much
- Have previous active workers
  - » Left the labour market temporary, due to corona?
  - » Left these low paid sectors for better jobs elsewhere?
  - » Or did they stay outside the labour market because unemployment benefits are too generous due to the temporary USD 300/week extra federal support?
  - » .. Or have too many just left the labour market? More workers than normal has retired during the pandemic
- Surveys indicate that a large proportion of workers that have been laid off are not planning to return, at least not to the same sector. Will they be absorbed in other parts of the economy?
- In addition, many workers state whey want teleworking permanently
- Both locally and regionally the pandemic may have created new mismatches in the labour market

More unfilled vacancies than unemployed workers, even if unemploym. is 'high'

A 6.9% vacancy rate would normally 'generate' a … less than zero? unemploym. rate. It is still at 5.4%



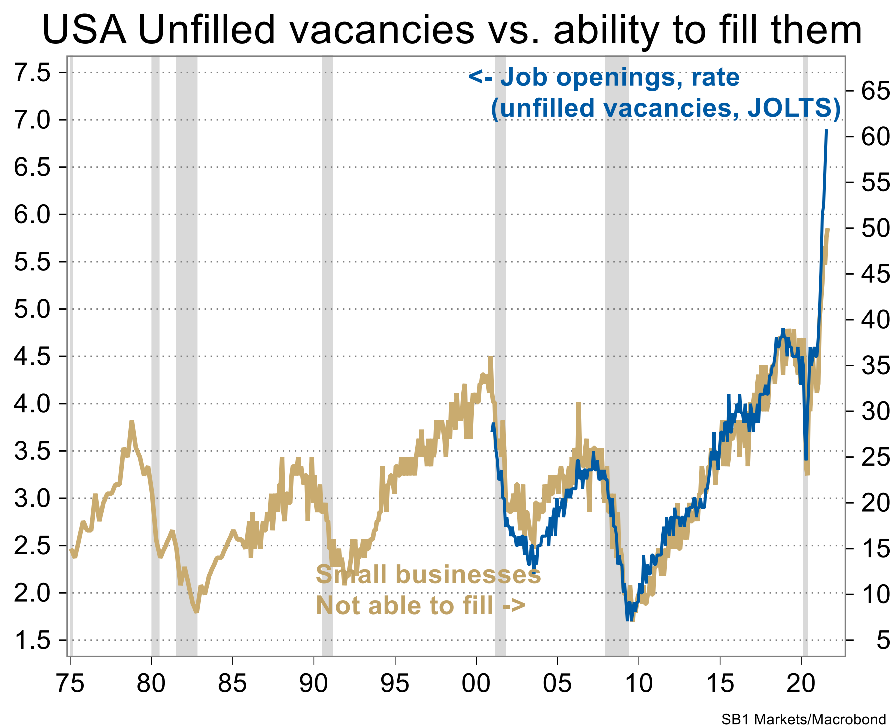


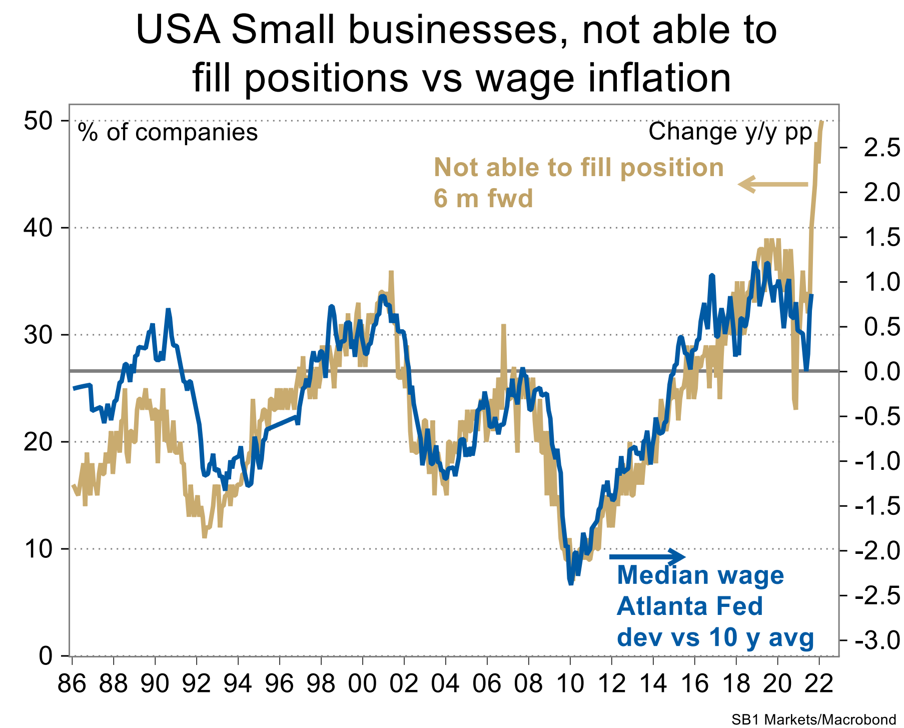
The 'Beveridge' curve has shifted sharply up/to the right – signalling more mismatch at the labour market

- **It is a permanent shift in the Beveridge curve** – a huge increase in mismatch in the labour market or that many workers now prefer to stay outside the labour market? If so, a 'disaster' – wage growth will accelerate sharply, inflation will be more than transitory & the Fed will have to respond. If the Fed does not respond, another disaster in the waiting, and a more abrupt and dramatic shift in policy will be needed at a later stage
- **Or it just at temporary sweet/sour spot:** 1.2% of the working age population can not work due to Covid-10 (school children, own health etc, they say), and federal unemployment benefit programs may have kept many more (5%+) out of the labour market. The next few weeks and months will be really exciting!

When there are many unfilled vacancies, wages tend to rise faster

Atlanta Fed's median wage tracker accelerated further in August

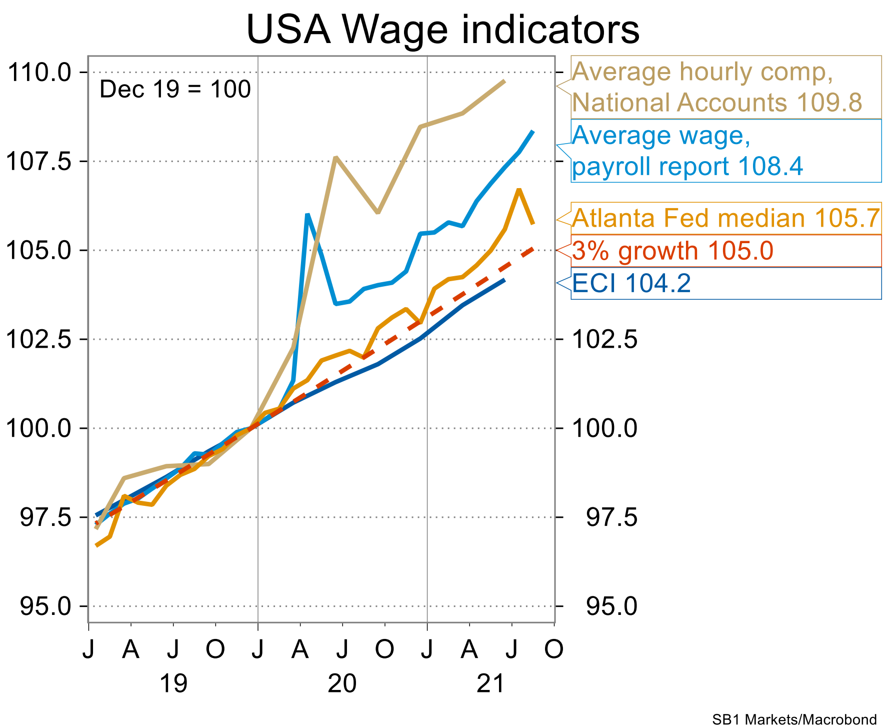


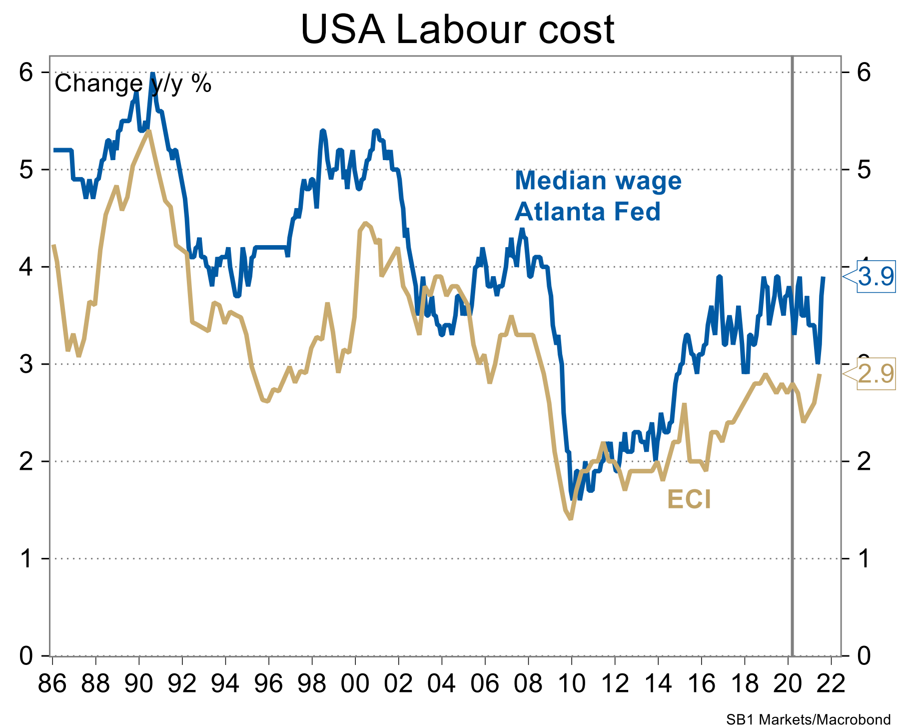


- On the chart to the right, Atlanta Fed's median wage tracker is measured as the actual growth minus the 10 y average, a measure of deviation from trend
- Not that surprising perhaps – but the Phillips curve vs. wage is far from dead, it seems like

Atlanta Fed median wage growth accelerated further in August

The median wage growth rate has accelerated to 3.9% from a dip down to 3.0% in May

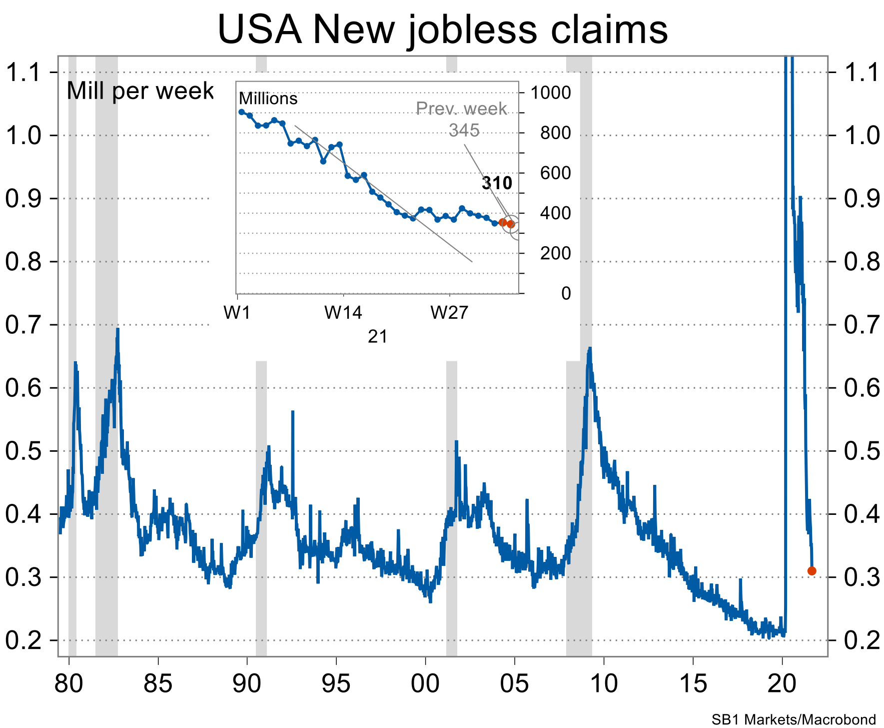


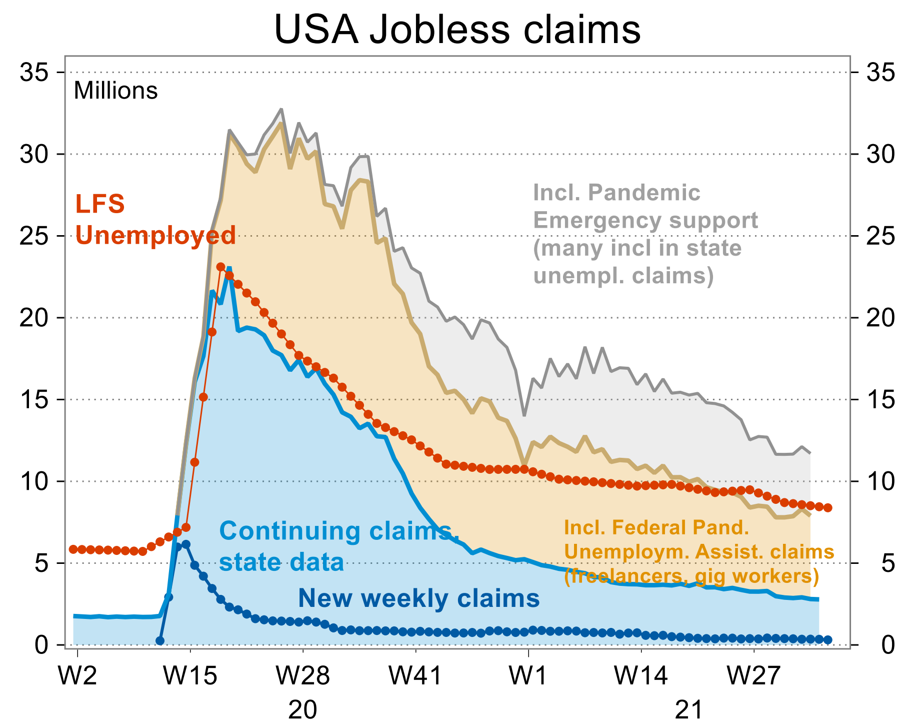


- The 3.9% rate is equal to the highest rate since 2009 – but not yet troublesome vs Fed's 2% (over time) inflation target
- However, if wage inflation accelerates further, and just by a fraction of what is implied by the current labour shortages (flip back to the previous page, where the wage growth rate is measured as average vs. past 10 y average), inflation will very likely stay above 2% over time
- Other wage measures confirm accelerating wage growth, barring the Employment Cost Index

Jobless claims further down, ahead of the termination of federal benefits

Last week more than 7 mill. workes (5% – 6 % of current employment) will lose their benefits

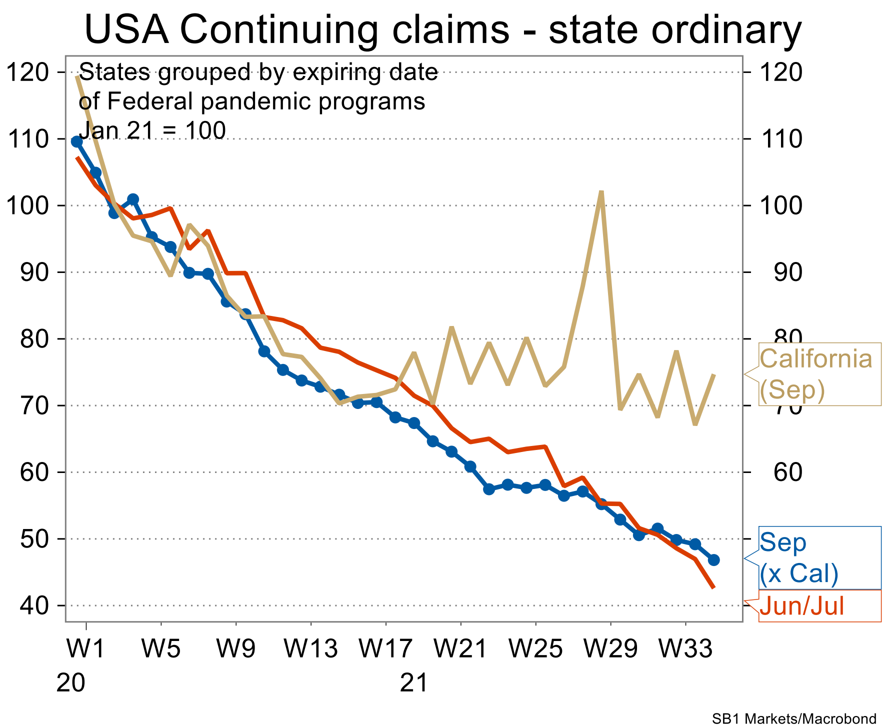


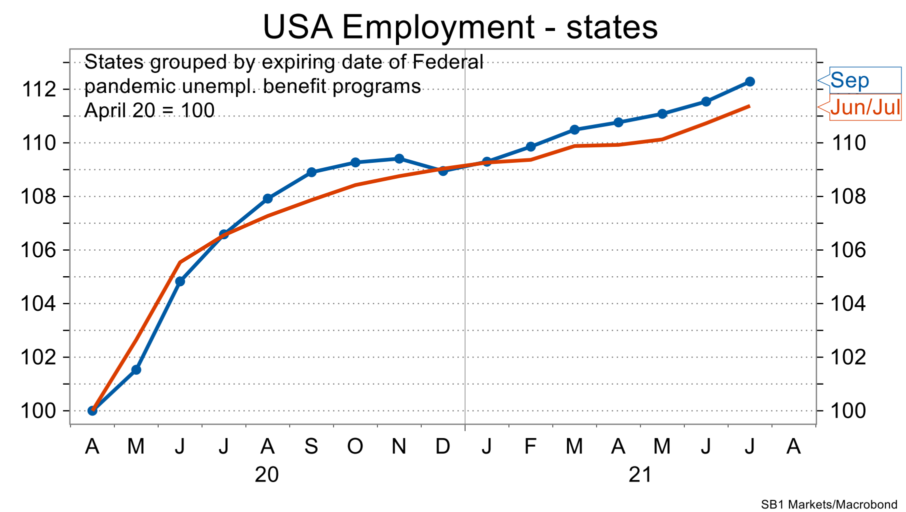


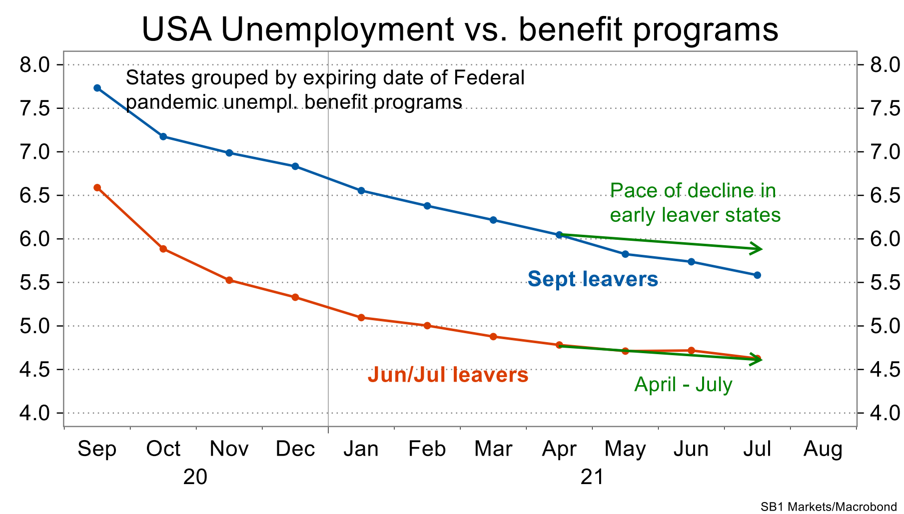
- **New jobless claims fell** by 35’ to 310’ in week 35 – below expectations at 335’. The inflow is still high given all other indicators of demand for labour – and far above the rapidly declining trend which ruled until 3 months ago
- **Ordinary continuing claims** fell the previous week (week 34), by 22’ to 2.78 mill. (the previous week’s no. was revised up by 57’) 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** decreased in week 33, by 315’ to mill to 8.9 mill. Last week, most of these workers lost their federal support (some sources say 7.5 mill, equalling 5.2% of US employment). What will they do now? 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*)

Unemployment has fallen at a slower pace in the early leaver states

Have workers who lost the USD 300/week unemployment benefits started to search for work?







- Half of the states left the federal programs in June and early July, so far without any significant changes in claims or employment. However, the unemployment has fallen has fallen at a slower pace in the leaver states than in the other states since April. This may indicate that more workers have started to search for work when they lost the USD 300/week in federal unemployment benefit

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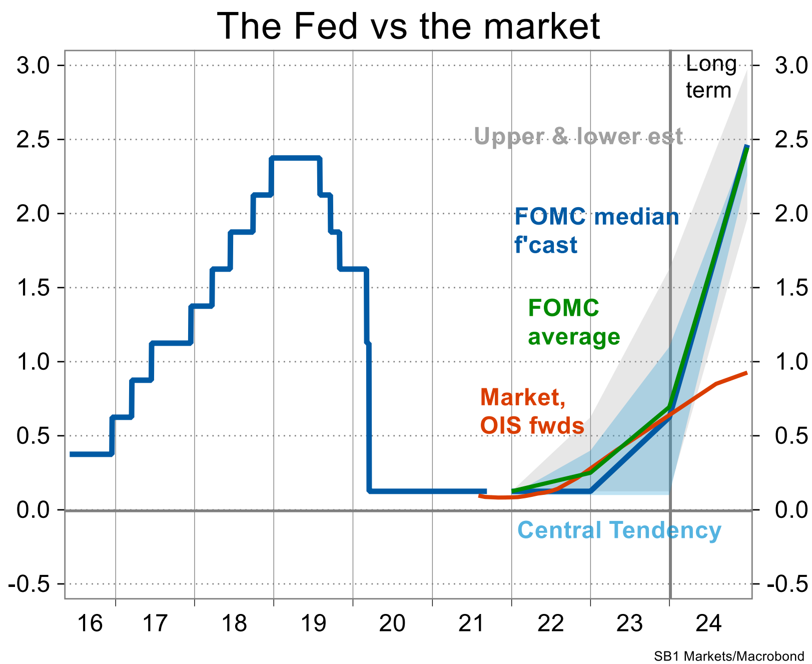
Beige book: Growth slowed slightly to a moderate pace but capacity util. high

The Delta variant has slowed growth but resource/labour shortages, price pressure dominates

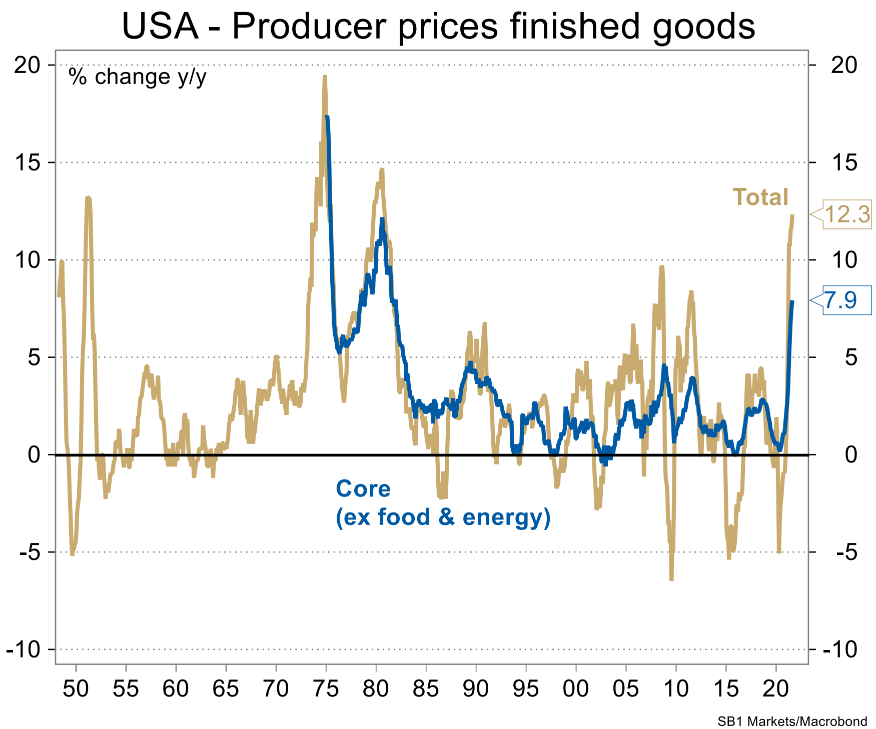


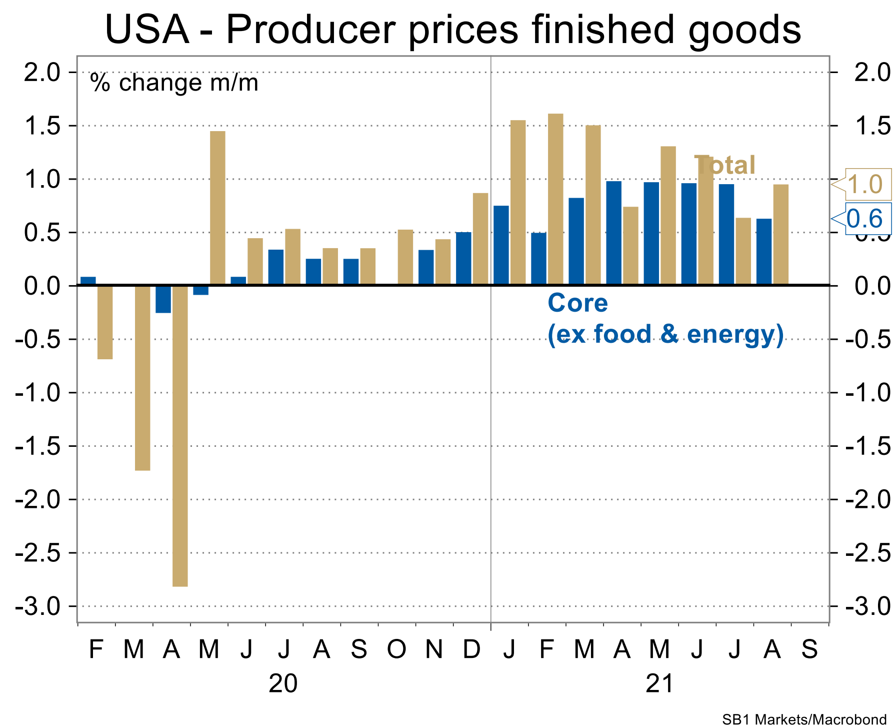
- Does the Beige book warrant a tapering message in September – or should it be postponed?
  - » It should still be an open question. Delta problems are probably now subsiding, and growth in US is low limited from the supply side, not the demand side.
  - » Still, given the dovishness among many FOMC members – especially among the voting members – the bank may wait to signal that tapering will take place in late Q4 or early Q1 next year

- Growth decelerated slightly to a **moderate pace** (from moderate to robust pace in the last report) in most districts past six weeks, according to the Fed's 12 district banks. Increased concerns due to the Delta variant, supply problems, and labour shortages were mentioned as reasons for decline in activity
  - » 3 districts reported strong growth (down from 6 districts 6 weeks ago)
  - » 9 districts reported moderate growth
- **Demand for leisure/hospitality services** have slowed as the Delta variant cases increased. **Retail sales** grew at a modest pace, while auto sales were weaker due to supply-side issues
- **Manufacturing** reported above-average growth, despite supply chain challenges. Construction activity rose somewhat, both residential and non-residential
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages, especially for lower-wage workers. A growing number of firms offered signing bonuses and increased wages
- **Inflation** was steady at an elevated level. With pervasive resource shortages, input prices pressures continued to be widespread. Several districts reported that businesses anticipated significant hikes in their own prices in the months ahead
- **In sum:** The reports out of the 12 districts are slightly more subdued than the previous reports, but growth is still robust. The fact that the problems are largely supply-driven – and still escalating – should give the tapering hawks some fuel to their fire

PPI inflation still way above any level compatible with 2% CPI growth

Total goods PPI accelerated to 1.0% m/m, the core slowed 0.4 pp to 0.6%. Up 12.2 and 7.9 reps.

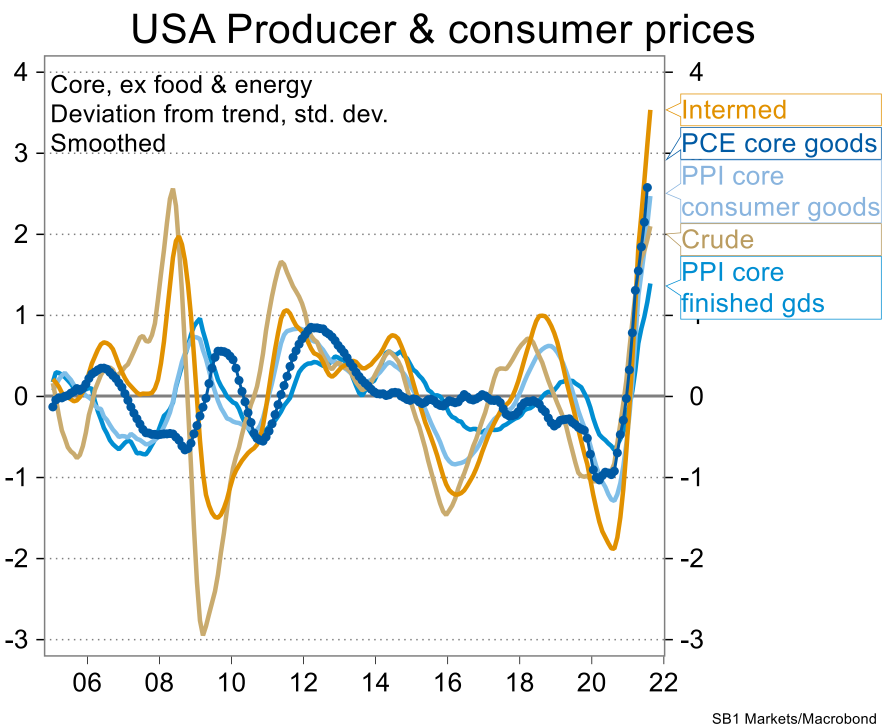


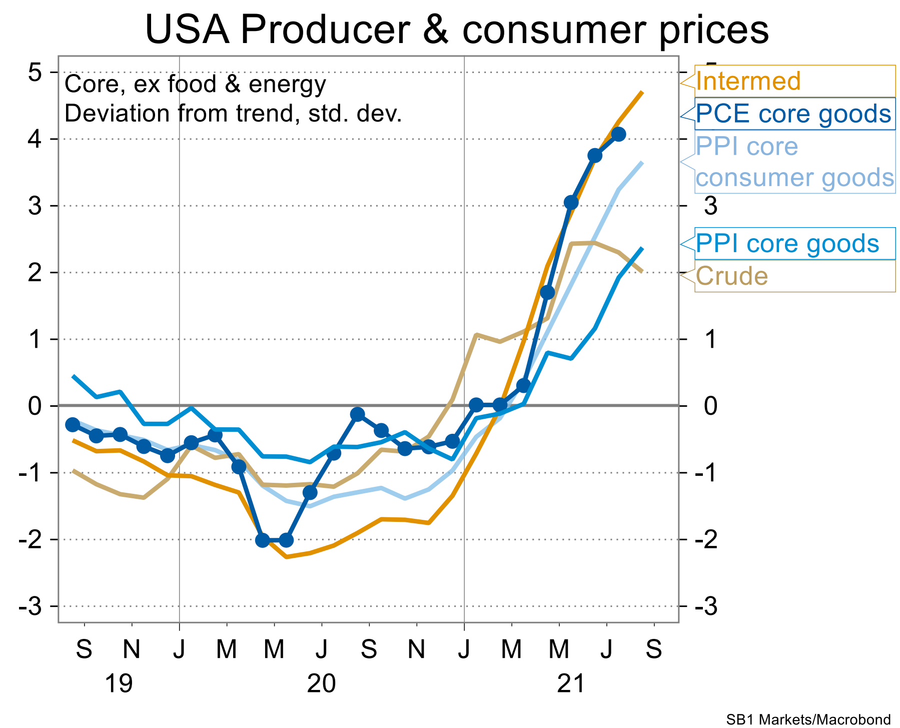


- **Core finished goods x food & energy** PPI rose 0.6% in August. The annual growth rate accelerated 0.4 pp to 7.9%, the highest level since 1982
- **Headline finished goods PPI** rose 1.0% m/m, as energy prices contributed on upside again. The annual rate was up 0.6 pp to 12.3% - also the highest since 1982
- **Crude material prices** may have peaked, a first positive sign. In addition, core CPI goods prices have already climbed more than usual vs. PPI prices (due to 2nd hand auto prices), limiting the upside risk
- **The 'official' total final demand PPI**, including **services**, rose by 1%, expected 'just' 0.6%. The index is up 7.7% y/y, signalling a CPI growth above 6%

Crude materials have peaked. But pressure from supply chains is still strong

… However, core consumer prices have been rising earlier and more than normal vs. PPI prices





- Crude goods prices are leading intermediate goods by 4 months, and consumer prices by 12 months – and crude prices may now have peaked (see chart to the right) .However, intermediate prices have not yet yielded – and they will push finished goods prices up the coming months
- Some comfort: Prices at the consumer level have responded to earlier and more than normally vs the PPI core consumer goods index. That is very likely due to the unprecedented (and very likely not permanent) hike in 2nd hand cars which are not a part of the PPI index. Thus the upside risk for the core goods component of the PCE may be limited the coming months

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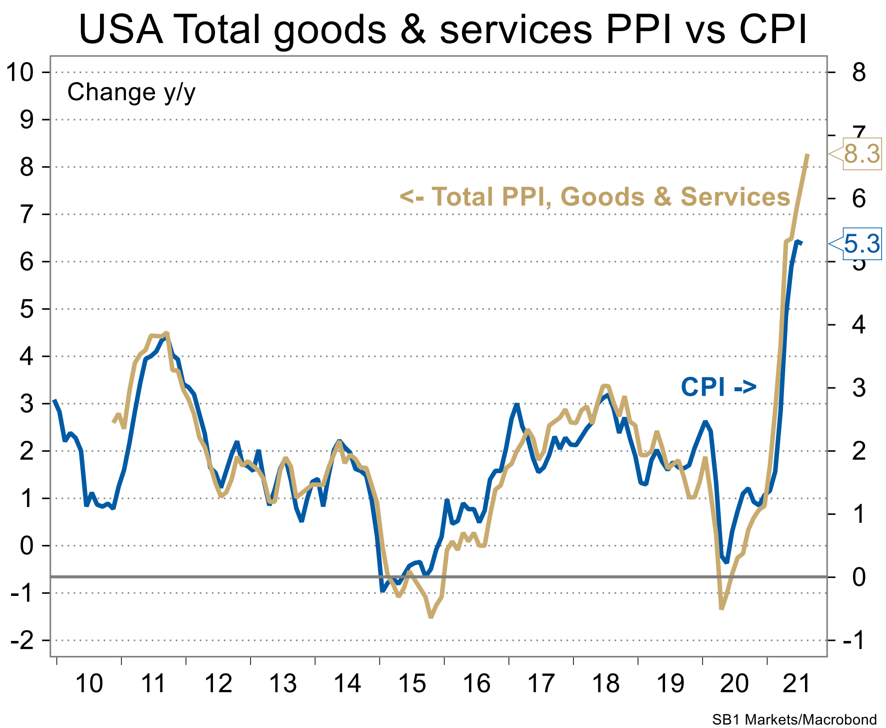
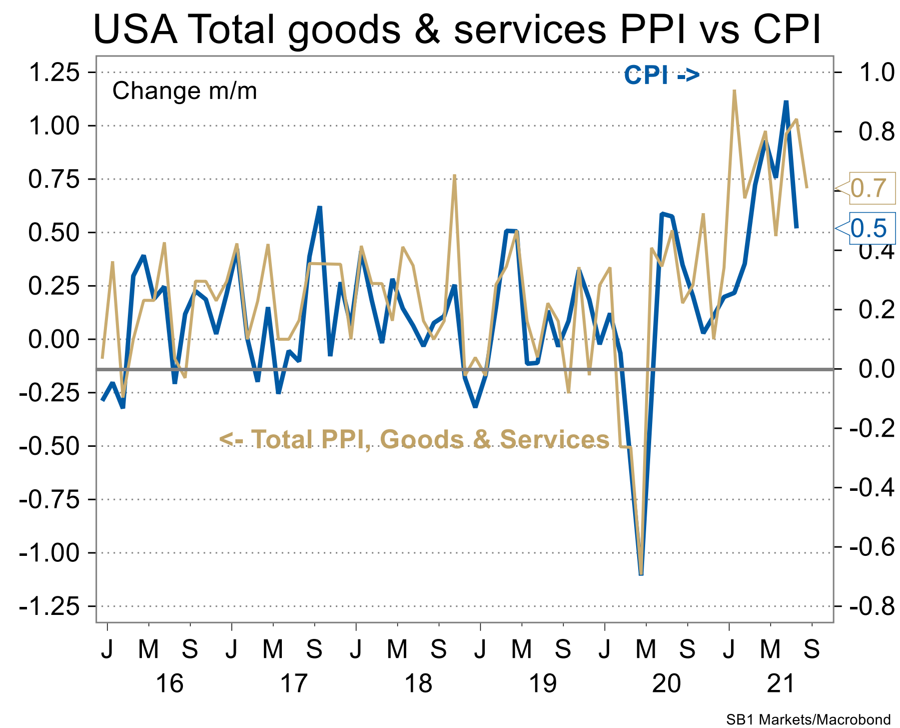
Bottom line: Total PPI (services included) is signaling almost 7% CPI growth

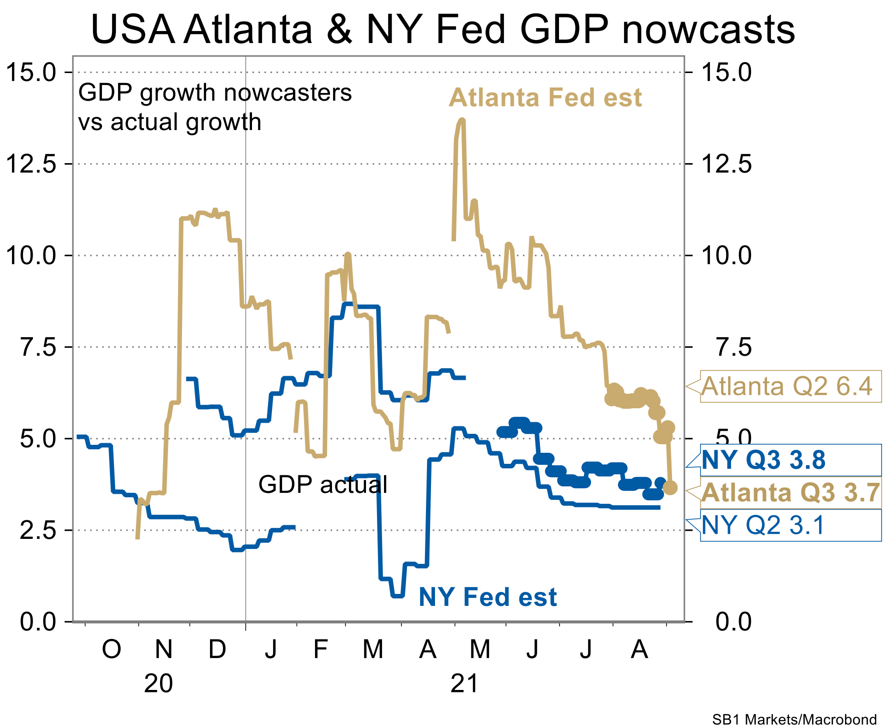
The ‘new’ total PPI rose 0.7% m/m in Aug (expected 0.6%), and is up 8.3% y/y

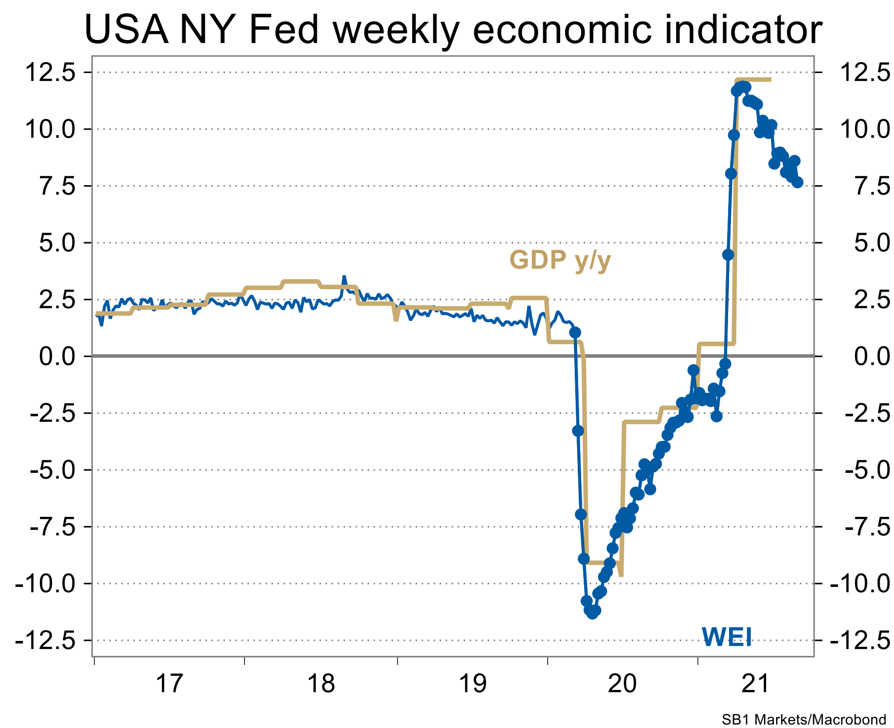




- The correlation between the ‘new’ total PPI, which includes all sort of services in addition to goods is pretty close. The current 8%+ annual growth rate in the PPI signals almost a 7% y/y growth rate in the CPI index, up from 5.3%
- If 6-figure is seen the coming months, it better be VERY transitory. If not…

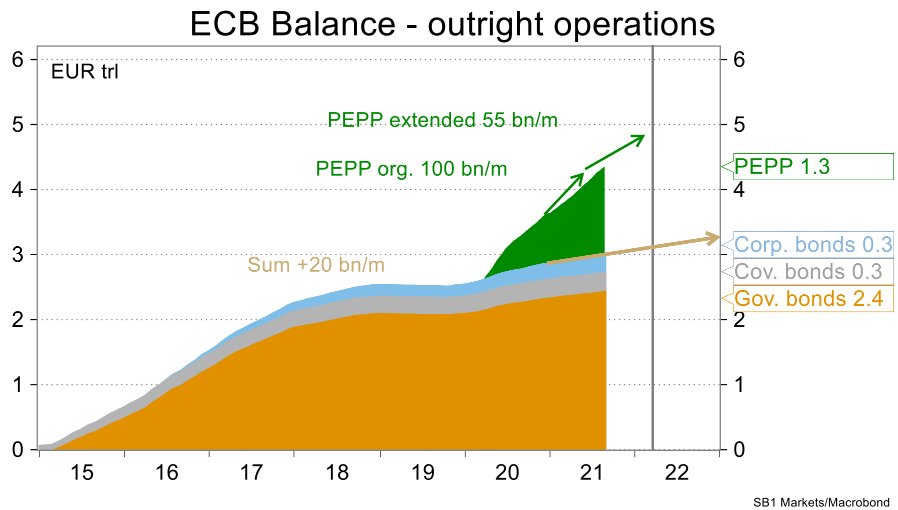
The nowcasters still signal 3 to 4% GDP growth in Q3 as estimates slows

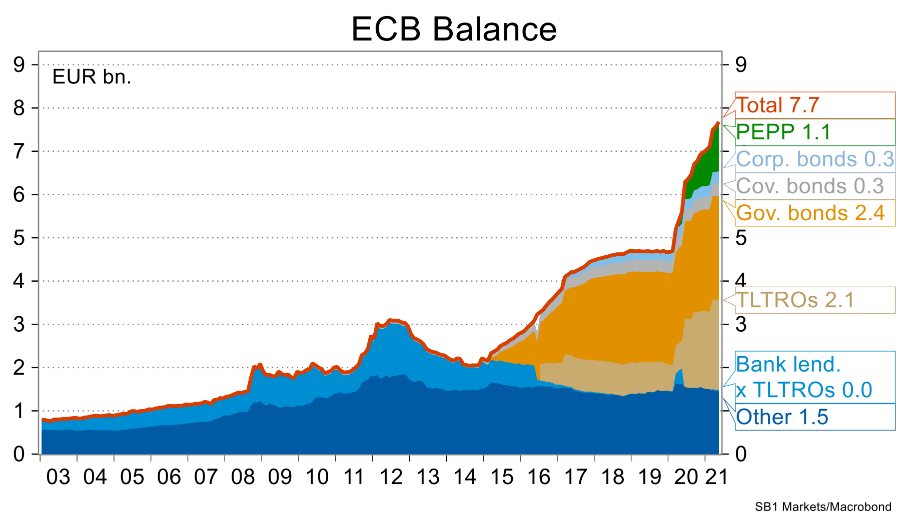




ECB: We will reduce bond buying but since we will continue buying, no tapering!

Markets were relieved that the ECB was not more aggressive but German bond yields still rose





- **President Lagarde** insisted 'The Lady Isn't Tapering' but the board decided to moderately lower the pace of bond buying (QE) in Q4, without quantifying how much - probably a compromise between doves and (the minority) group of hawks at the ECB board
  - » The present program: Approx. EUR 85 bn/m (sum pandemic emergency gov. bond buying program (PEPP) EUR 70 bn plus the ordinary program, government bonds 10 bn, corporate bonds 4 bn/m)
  - » Now, the bank will cut somewhat back at the Pandemic PEPP program
  - » The next and possibly 'big decision' is probably scheduled for December, as the PEPP program anyway is scheduled to end in March
- The ECB revised both **GDP and inflation 2021 forecasts** up but the bank expect inflation to slow to 2.2% next year and remain well below 2% the following years
- This outlook justifies a continued campaign to push wage and price inflation up, and Lagarde did not leave any doubt about her position was. Others at the board are not that sure
- The ECB was less hawkish than feared, and German bond yields fell some 3 bps at Thursday - but rose by the same amount at Friday. However, intra-EMU spreads fell and did not reverse the gains the next day (see next page)

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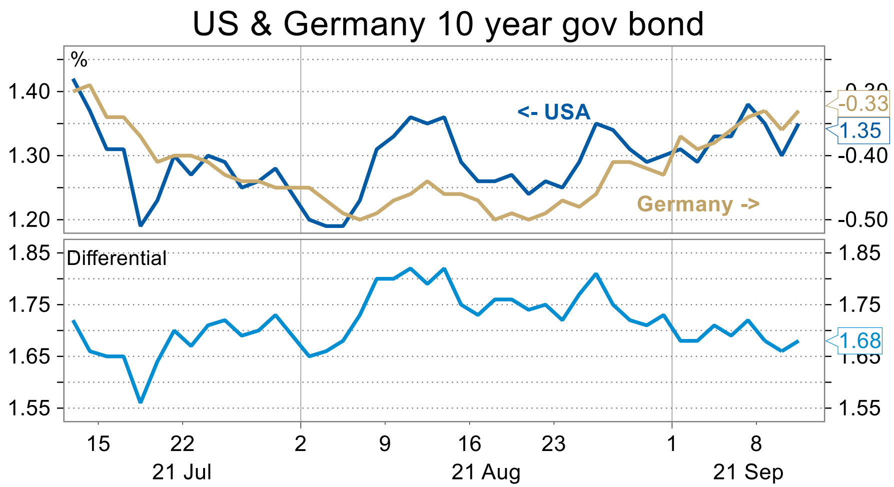
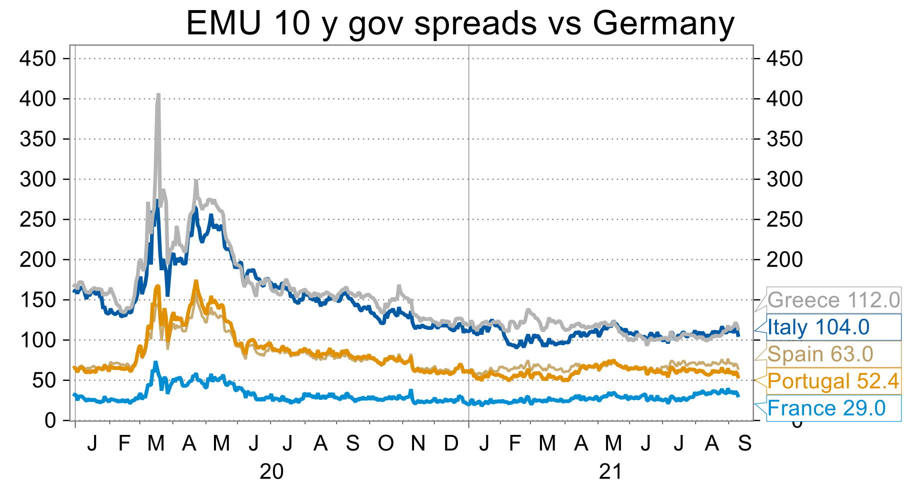
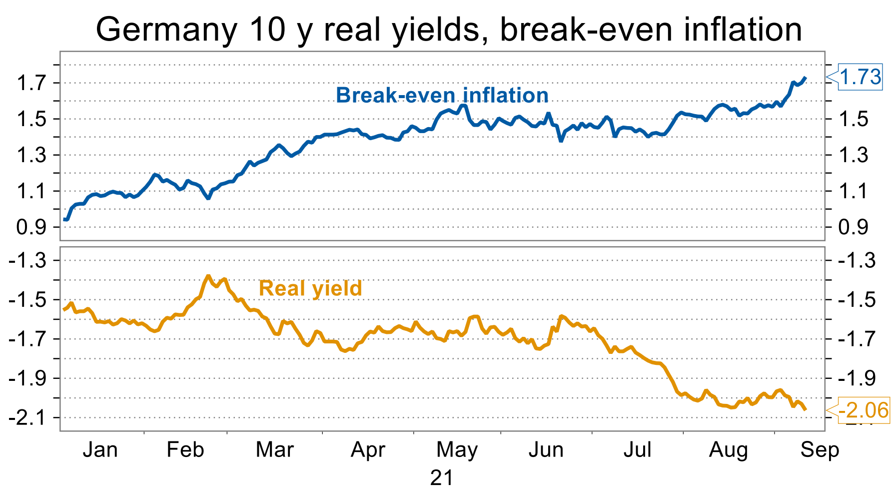
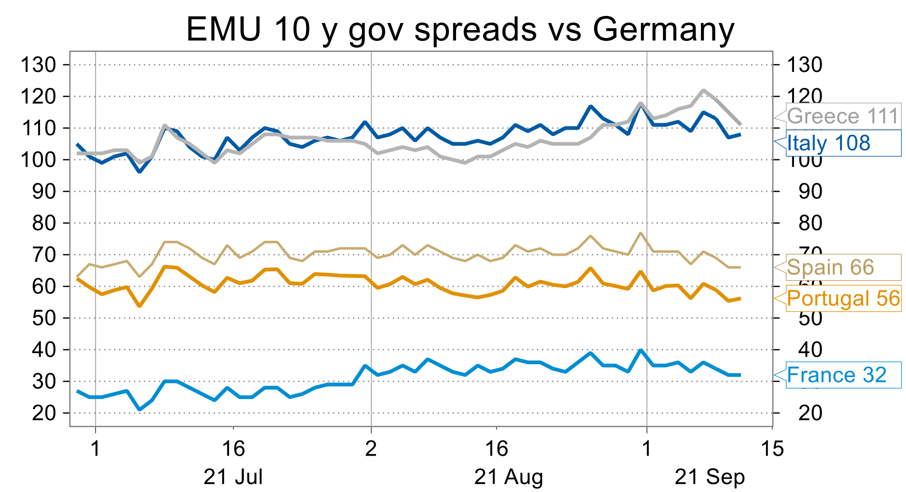
German bond yields down, then up. Intra-EMU spreads fell somewhat

Real rates are falling on a dovish ECB, inflation expectations are on the way up (more here)









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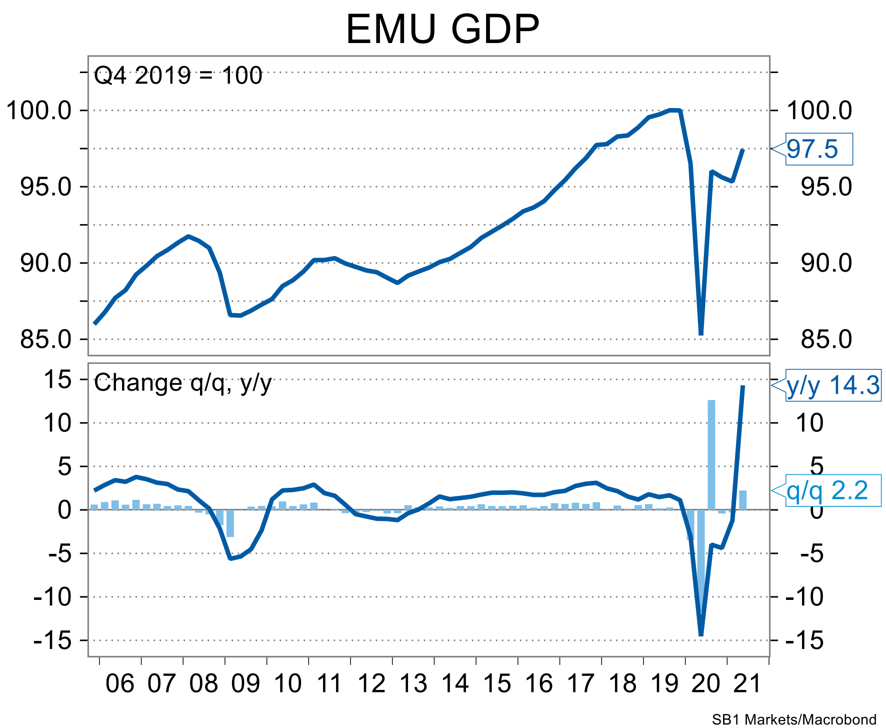
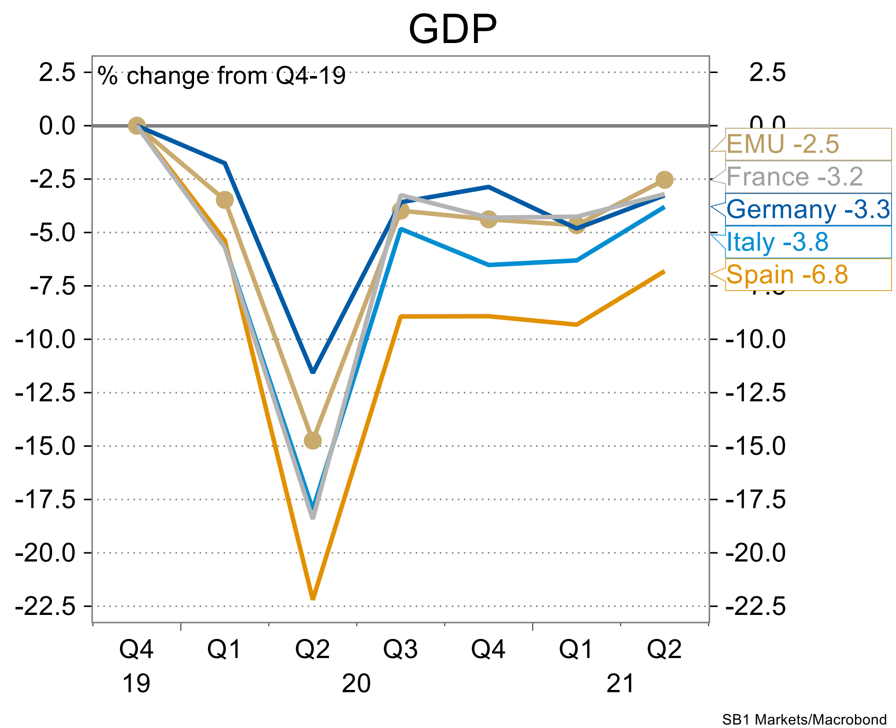
GDP up 9.1% (2.2% not annualised) in Q2, revised from 8.3%

GDP is still 2.5% below the Q4-19 level





- Euro Area GDP fell by 0.9% in sum the previous two quarters, and the Q2 level is just 1.6% above Q3 last year – and still 2.5% below the Q4-19 level
- GDP grew by 2.7 – 2.8% in Q2 (not annualised) in Spain and Italy – but GDP in Spain remains 6.8% below the pre-pandemic level as the tourist industry has far from recovered
- France and Germany expanded by 1.1% and 1.6% respectively in Q2 but down 3.2 and 3.3% resp. below the Q4-19 level
- Other, smaller EMU countries have fared better than the Big 4 through the pandemic (the average is at -2.5%)

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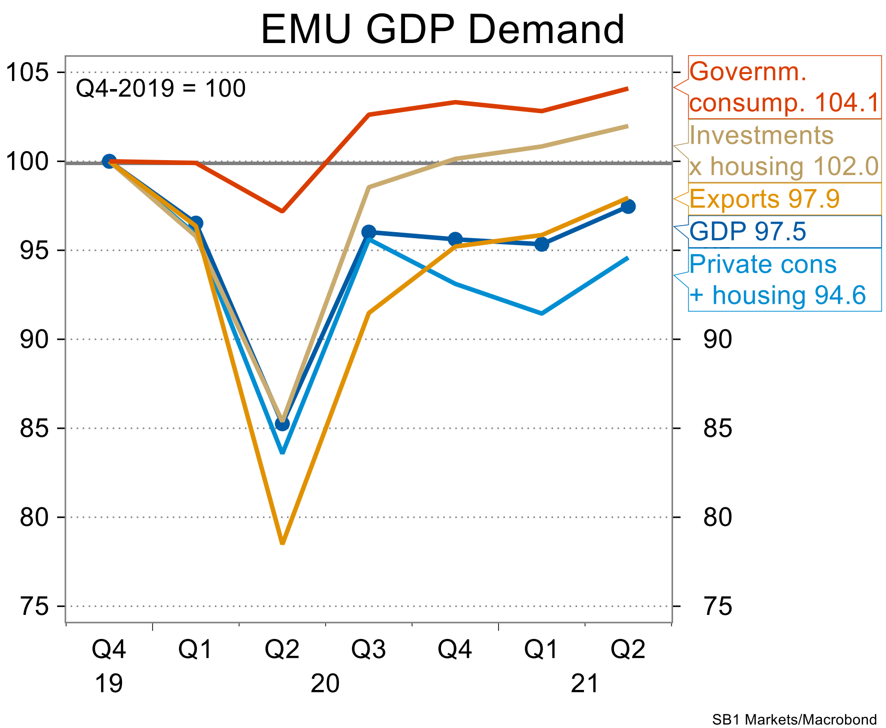
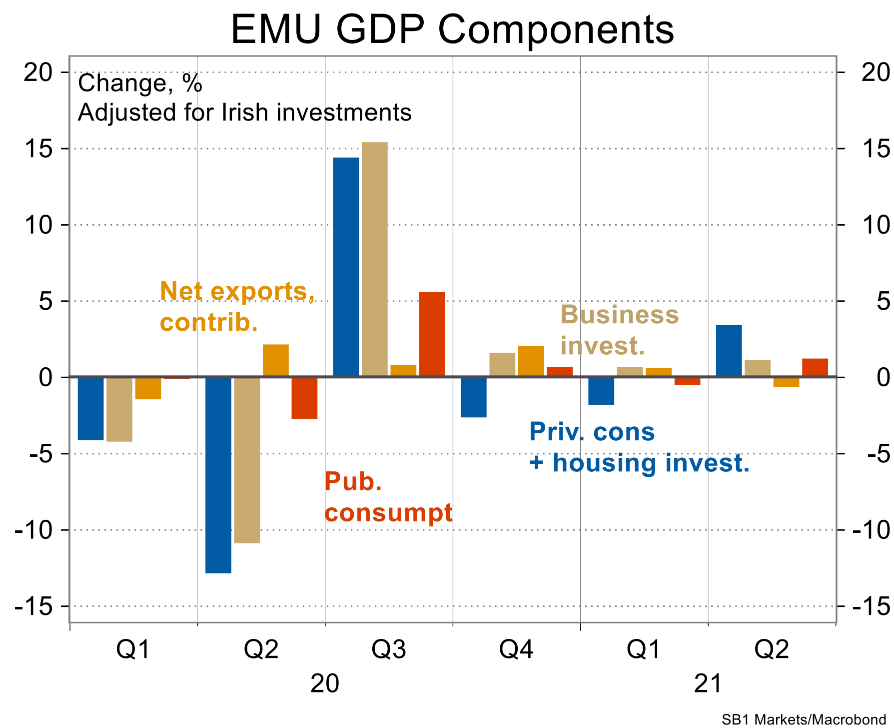
Household demand still weak – business investments are back

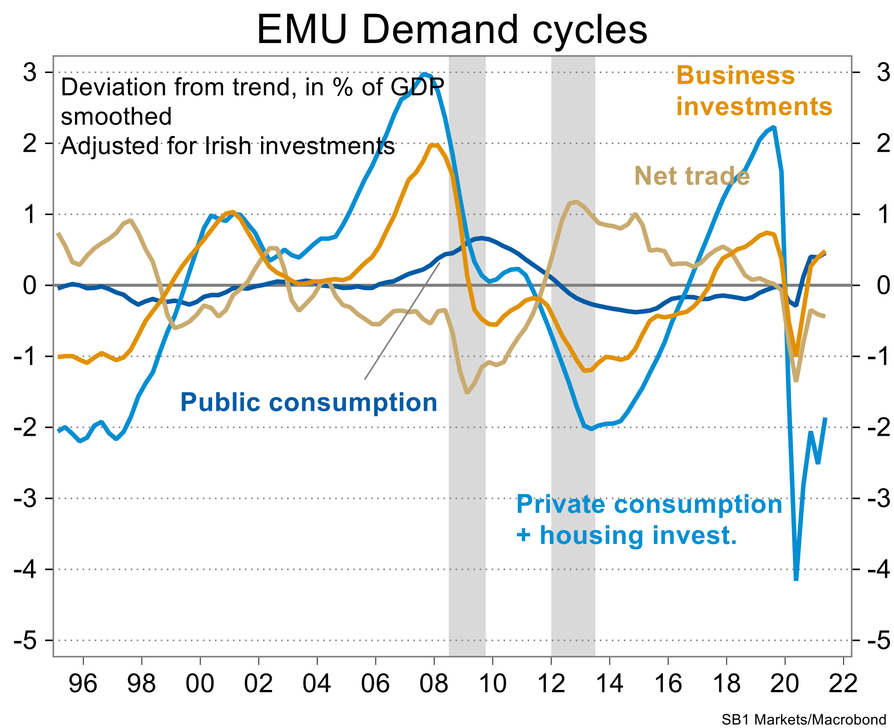
… And exports are recovering

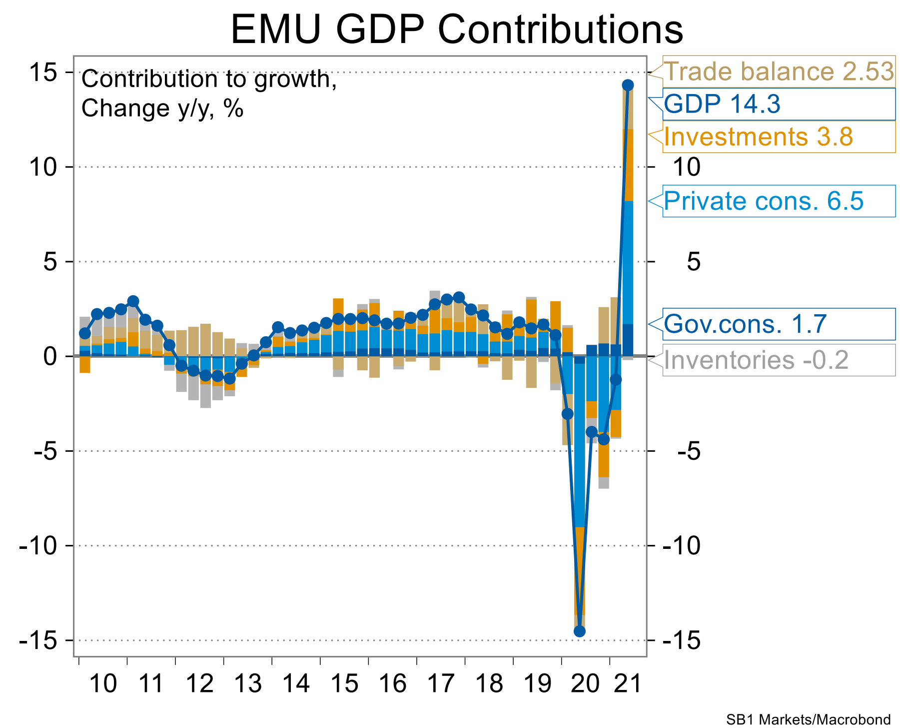




The next leg: Households start spending on services again

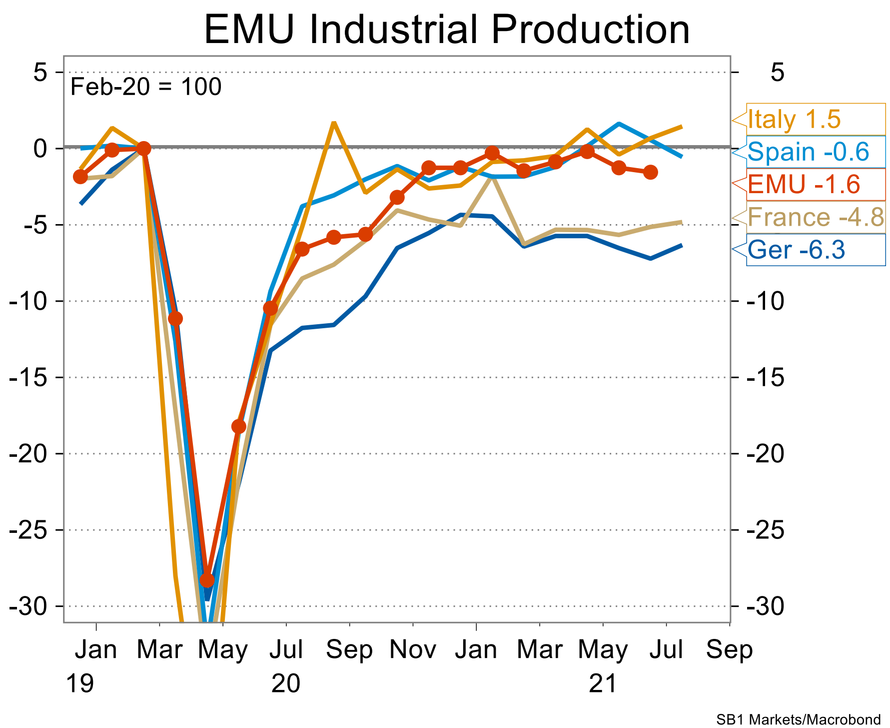
... private consumption was strong in Q2, +3.7% q/q

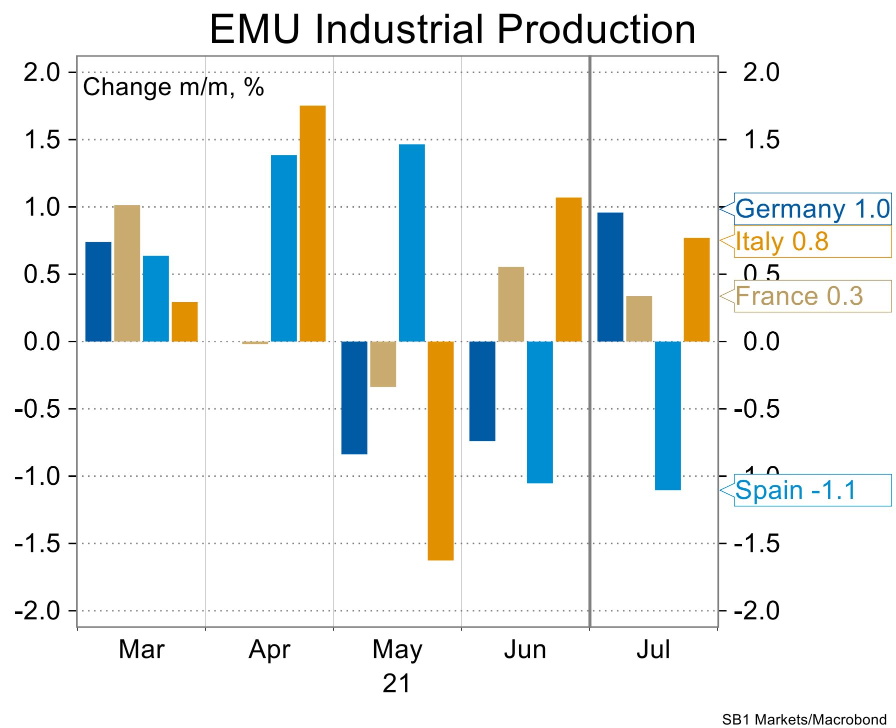




Mixed in the manufacturing sector in July, the sum very likely slightly up

Production rose in Germany (1%), Italy (0.8%), and France (0.3%). Spain lost 1.1%. EMU total +0.4%?

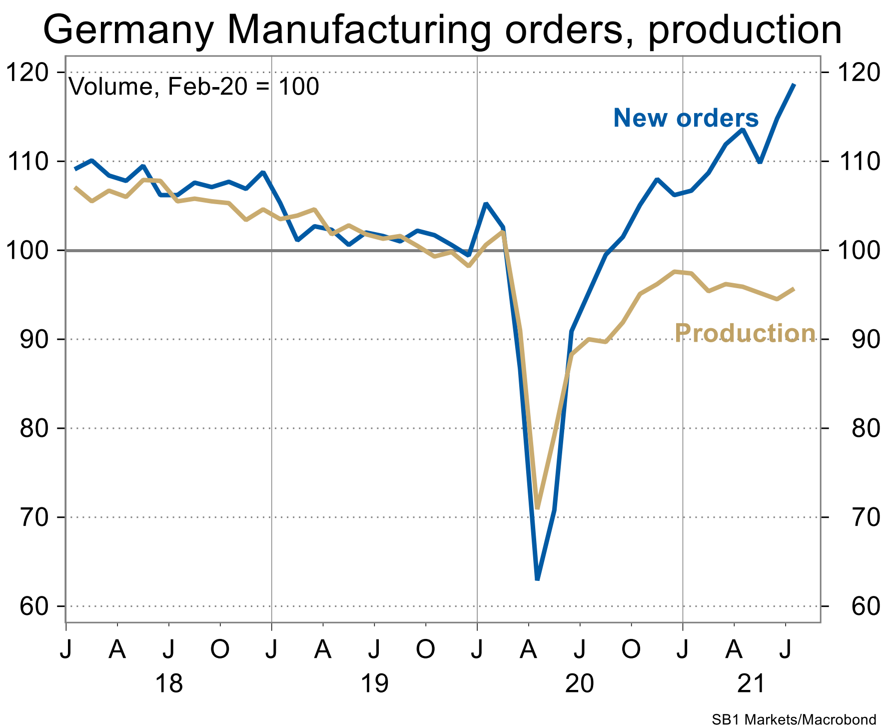


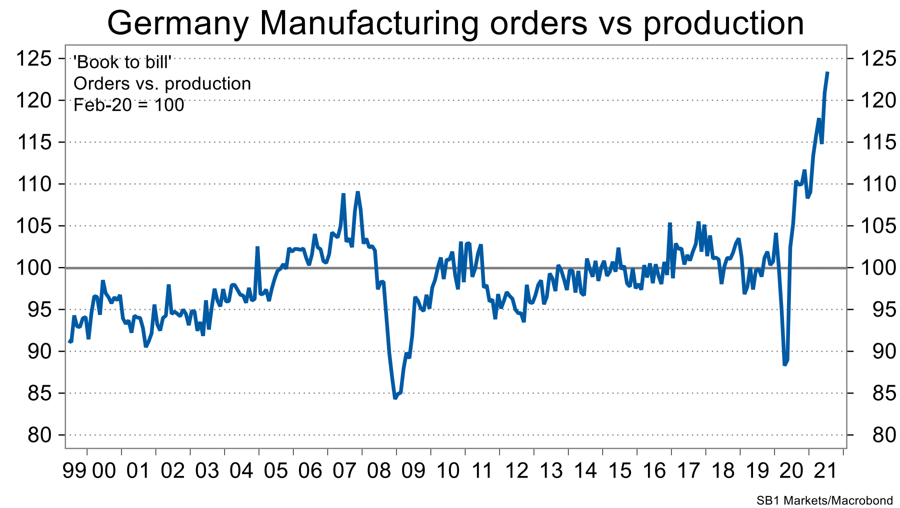


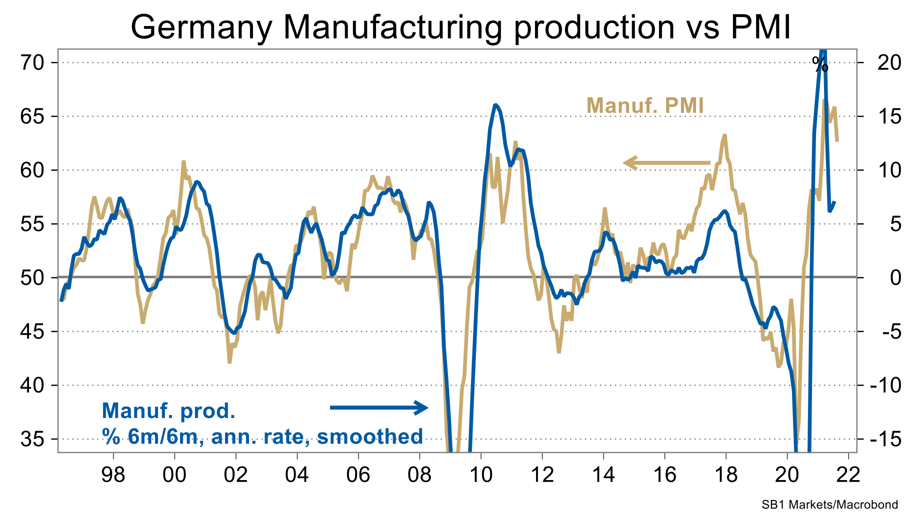
- Production in Italy is higher than in Feb-20, in the other big 3 are down
- Germany is the laggard, down 6.3%. From time to time, auto production is not what you wish you had…

German factory orders up 3.4% in July

... and naturally German production increased, but are still lagging orders. Supply-chain troubles?



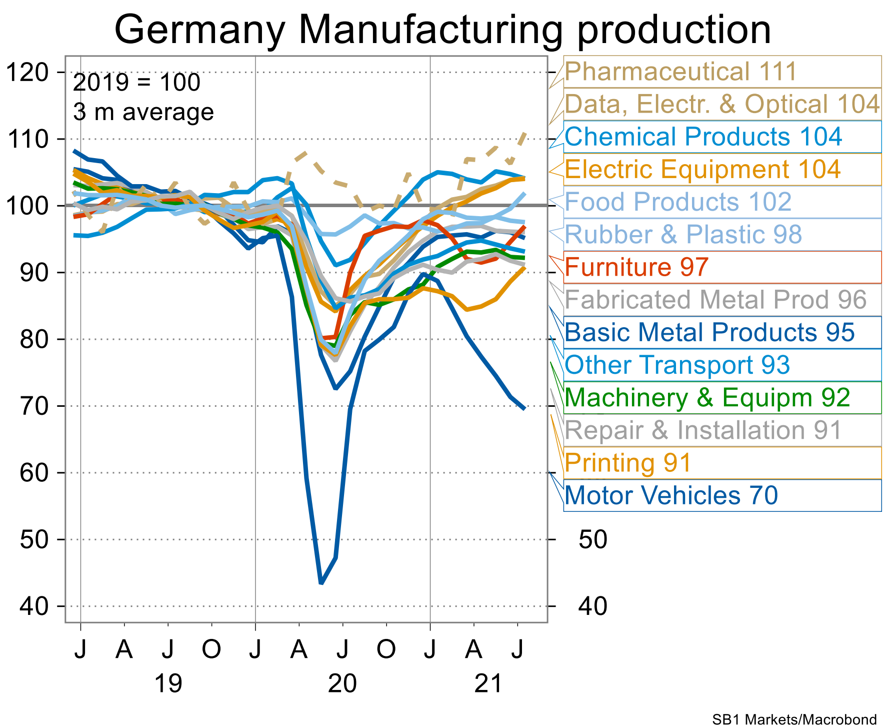




- **German manufacturing orders** increased by 3.4% in July, expected down 1.0%, and June was revised up 0.5 pp to 4.6%. The level is now 19% above the pre-pandemic level!
- **German manufacturing production** increased by 1% in July, expected up 0.9% (and June was revised up by 0.3 pp to -1%). The level is still 4% below the Feb-20 level
  - » This discrepancy is unusual, to put it mildly
  - » Surveys confirm strong growth in order inflow – and hopefully in activity (even in longer delivery times are a major challenge, here too)

Mixed among manufacturers but most are below the pre-pandemic line

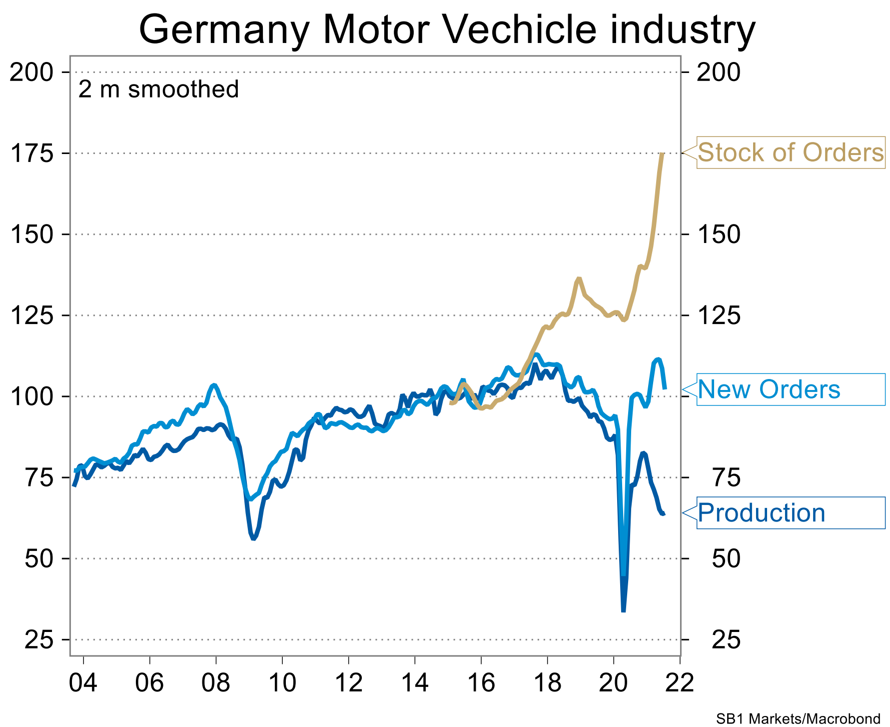
Vehicle production is struggling but not due to lack of demand

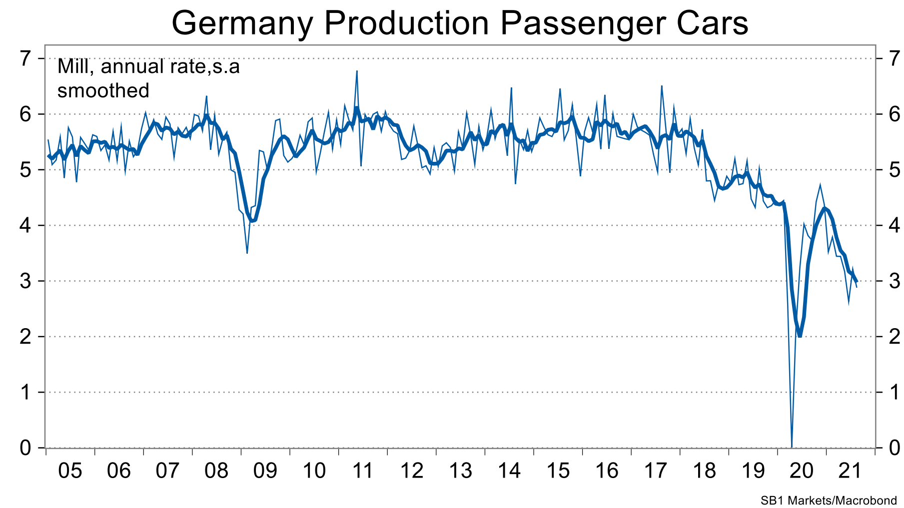


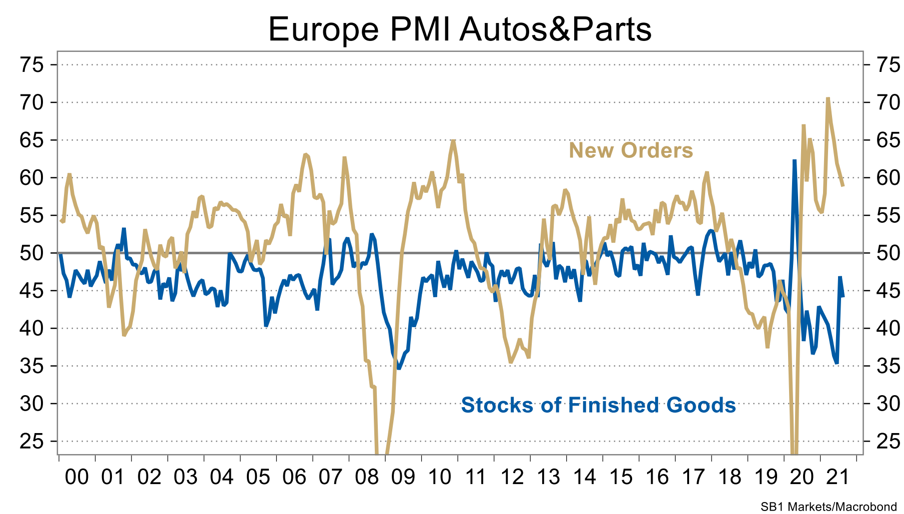
- However, several other sectors are still operating at rather low levels, and just some few are back at reasonable normal levels

What's the problem? Seemingly, not demand…

Stock of orders are skyrocketing, production is nosediving. Seems to be a serious supply problem



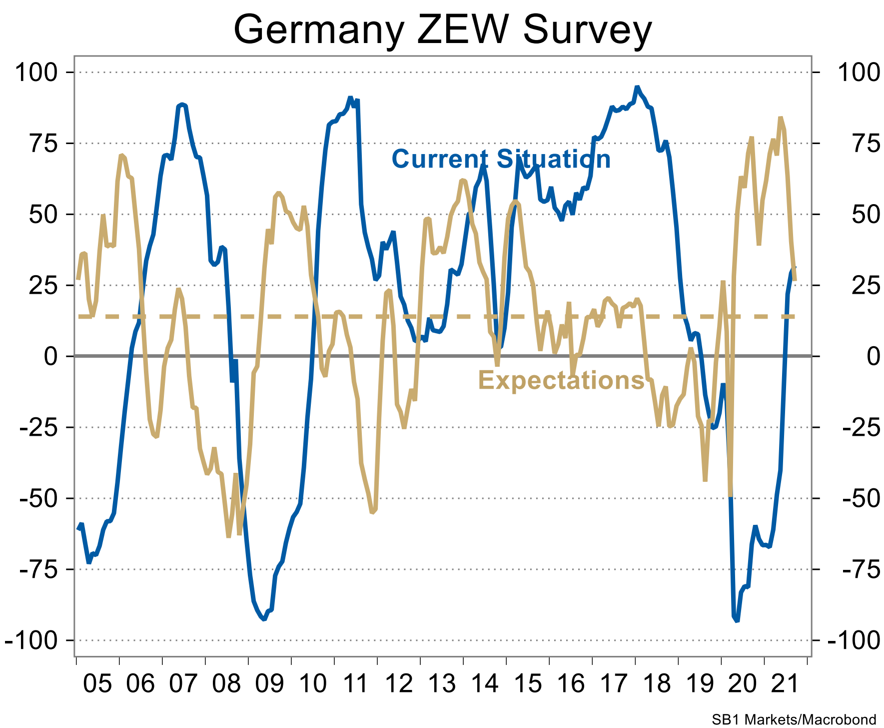


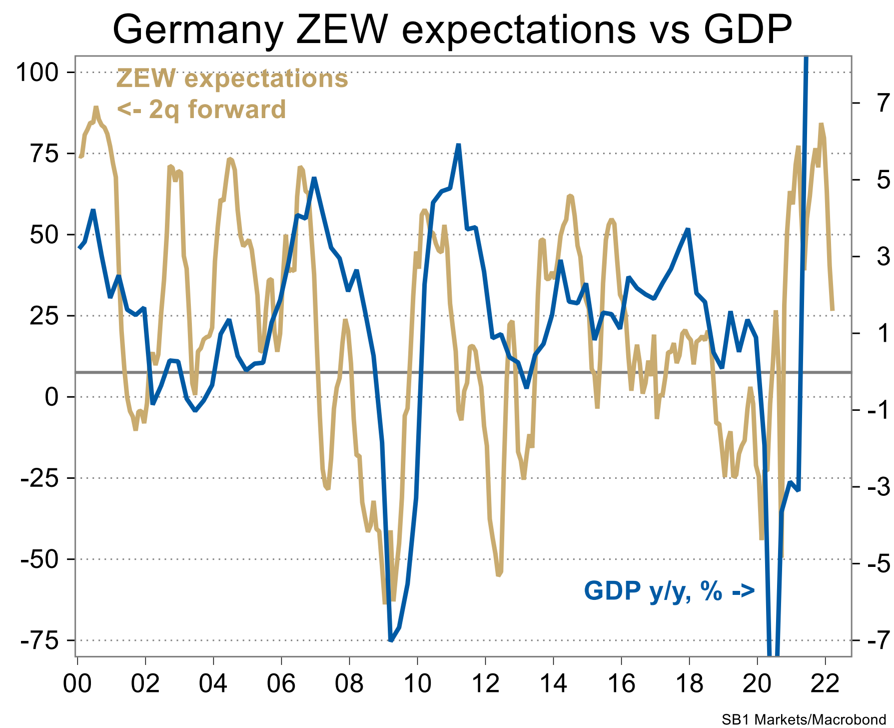


- The lockdown related 20% decline in auto sales in Europe the last months have not made a dent in orders or the order backlog, rather remarkable (both according to actual order data, and the European Auto PMI)
- Production of cars in July was down 23% from last November. The latter part of the decline in production is very likely due to lack of components, especially semiconductors

ZEW expectations keeps sliding, still above an average level. Current sit. better

– signals slower growth, but at or above trend





- The ZEW expectation index fell another 13.9 p to 26.5 in September, far below expectations at 30. The index is now just 0.1 st.dev above average (down from 1.7 st.dev above average at the top in May)
  - » Investors and analysts are just pretty sure that the economy recover the coming months, just less sure following the surge of the Delta variant and continued supply shortages… Which is reasonable
- Assessment of current situation improved in September (up 2.6 p), as more restrictions have been lifted and vaccinations are increasing. The level is 0.6 st.dev above average

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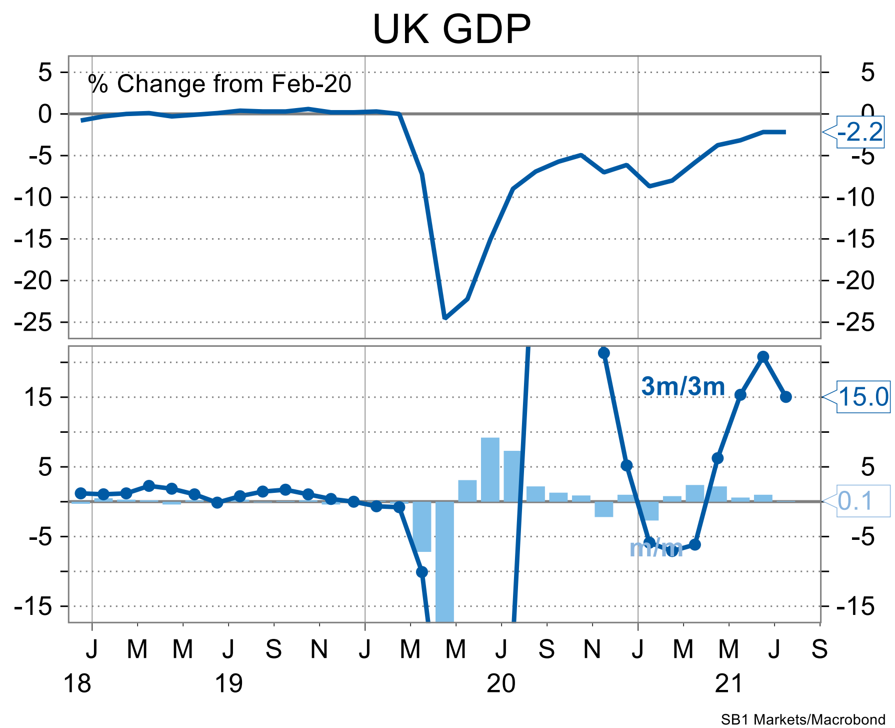
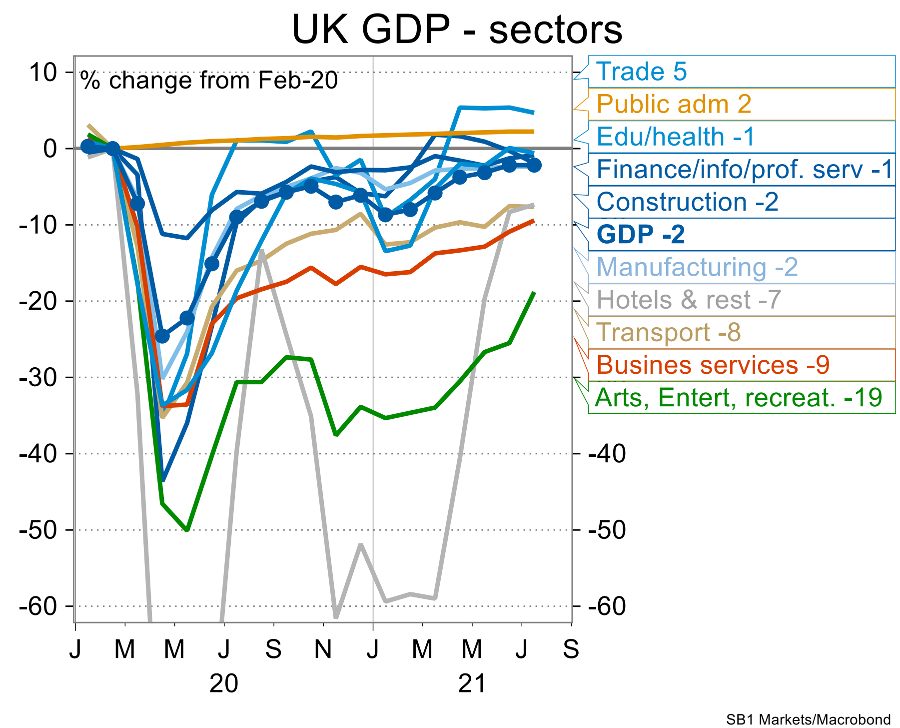
A Delta break, here too – GDP just up 0.1% in July, 2.2% down vs. Feb-20

No further growth in hotels and restaurants or transport in July

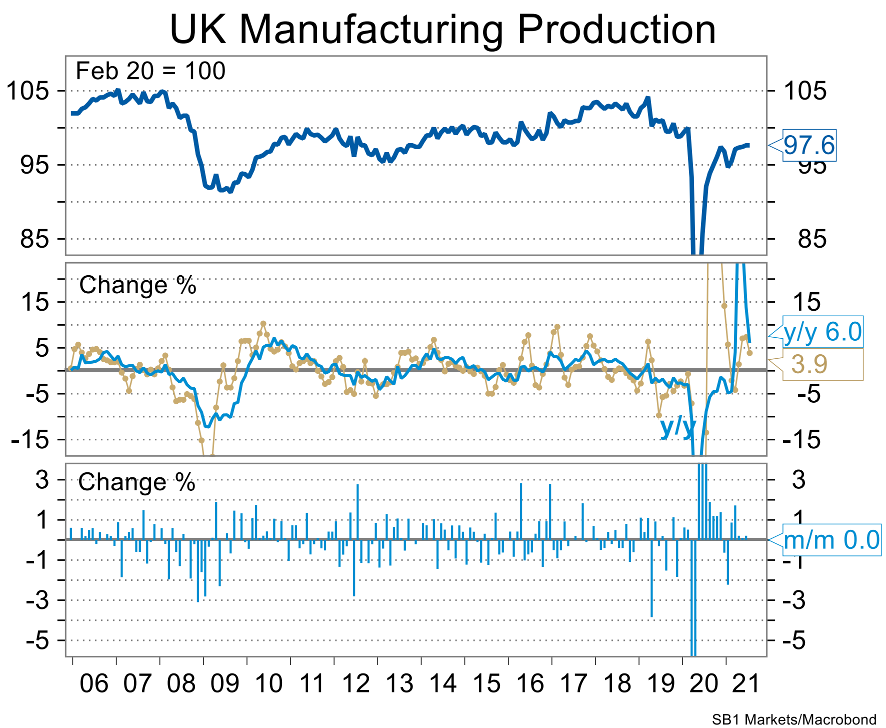


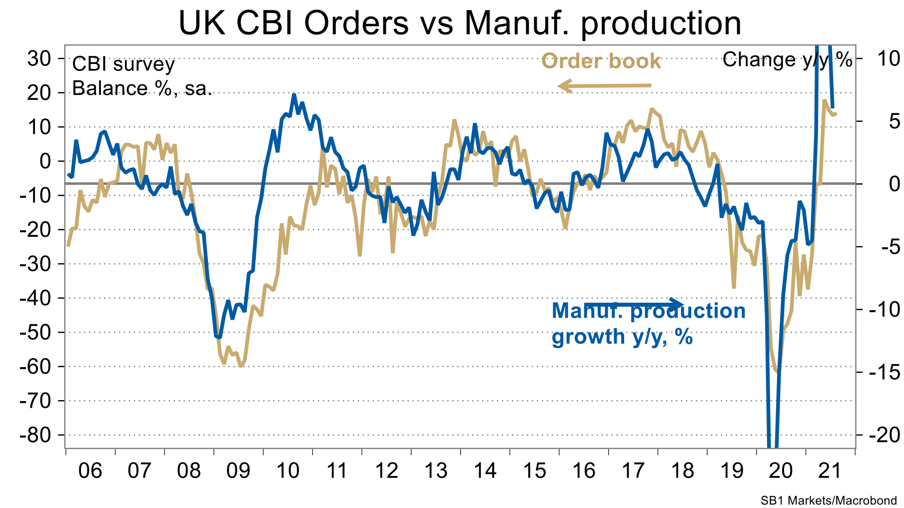


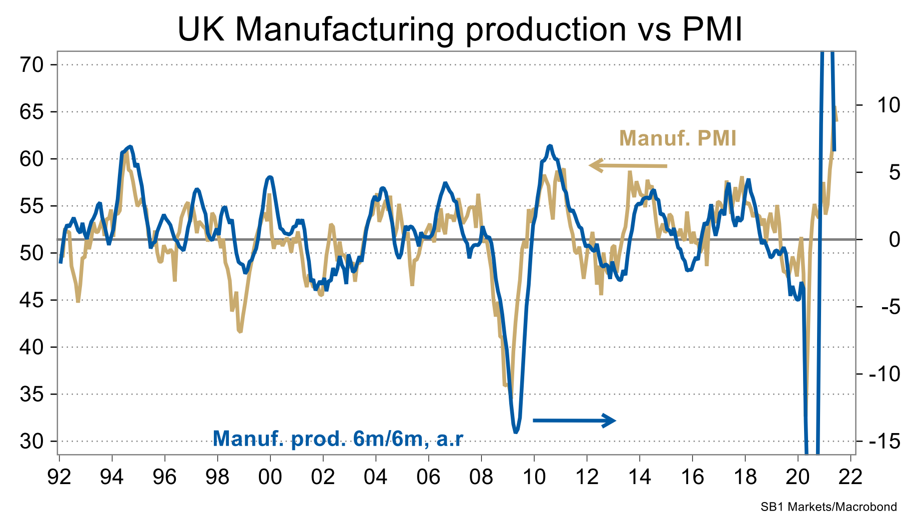
- **The recovery in GDP** is still on track, even if growth in July was well below consensus (-0.5%)
- **Mixed in services in July**, activity in arts/entertainment (European Championship) rose but hotels & restaurants flattened while education & professional services and trade reported lower activity. Hotels are still down 7%, transport 8%, business services 9%, while arts/entertainment is down 19%
- **Manufacturing, see next page**

Manufacturing production flat in July, level still down 2.4% vs. Feb-20

Surveys signal growth the coming months - and production is trending upwards



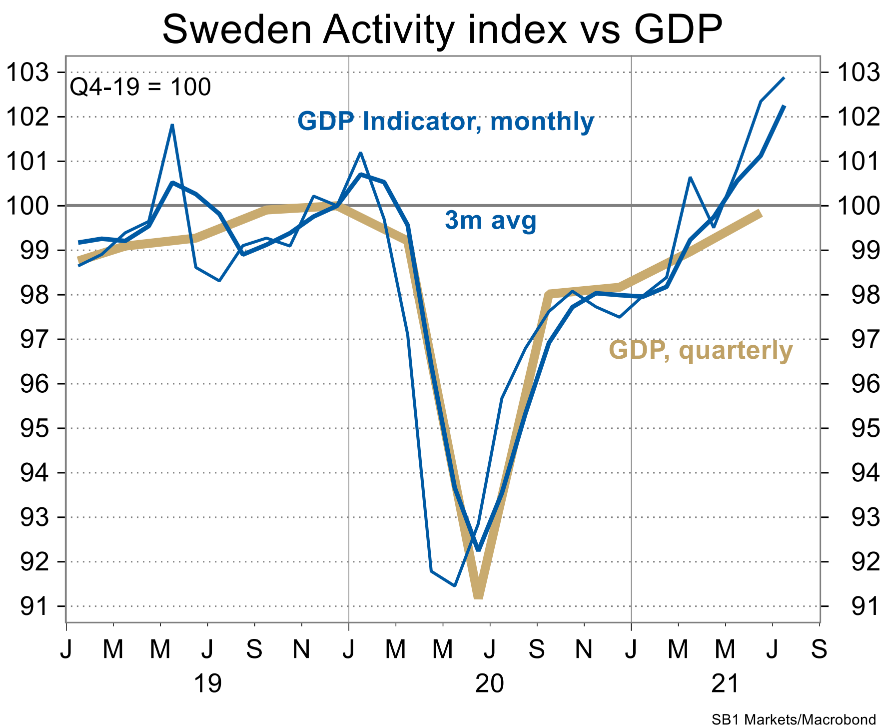


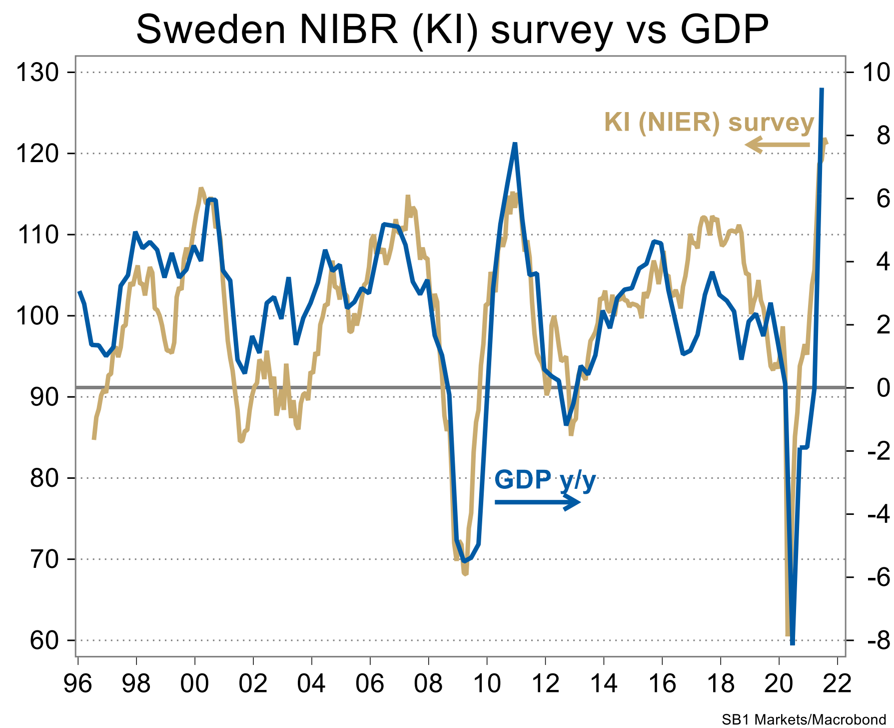


- Production of transport equipment (autos included) rose further in July but the level is still down 23% vs. Feb-20. <u>Other sectors are is sum well above</u>

GDP up 0.5% m/m in July, exp. down. History revised up. Level now +2.9% vs p-p!

Sweden is booming, to above pre-pandemic growth path! While the Riksbank pushes the accelerator

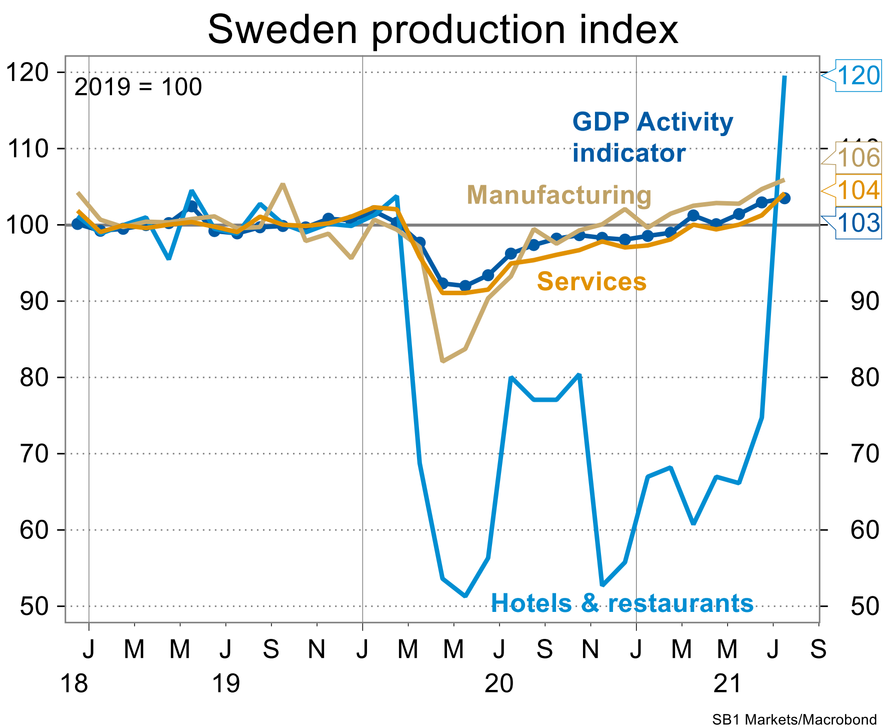


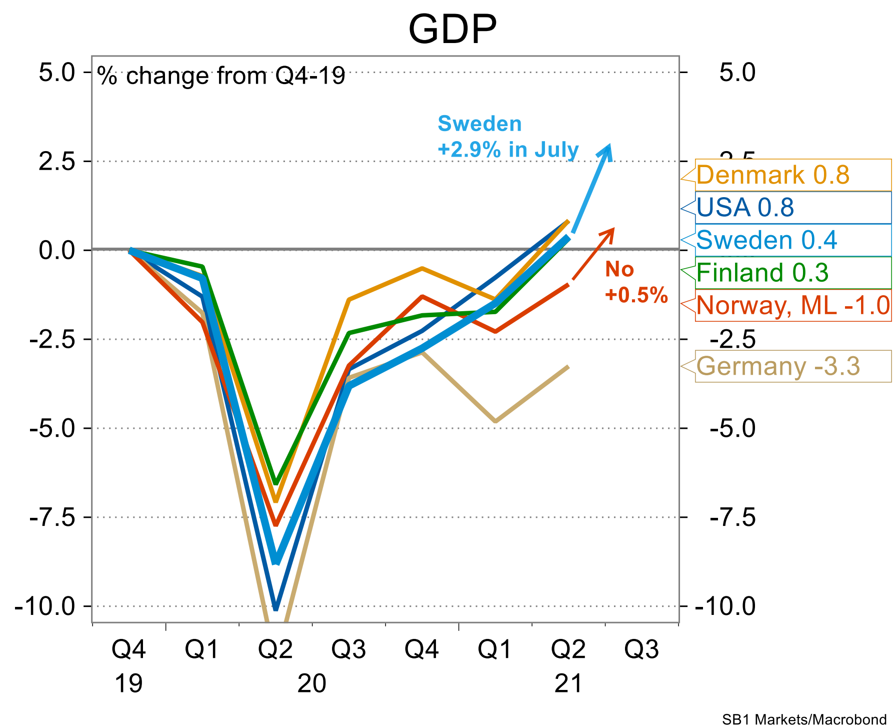


- **GDP** grew by 0.5% in July according to the first forecast, and the history was revised significantly up, the June level by 0.4%, even if growth in June was revised down by 1 pp to 1.4%
- GDP is now 2.9% above the Feb-20 level, implying a 2.2% growth annualised pace, above the pre-pandemic growth pace (through 2019), and higher than we deem the Swedish potential growth rate to be. Sweden is now far ahead of Norway, check next page
- **The outlook** remains excellent, according to Swedish companies. THE KI (NIER) survey is at ATH, and the PMI is the best in the world
- No doubt, this economy is firing on all cylinders and thus need all the support possible from the Riksbank! Well, at least it is getting it

The service sector in the lead – overall activity up 4% vs 2019

Hotels are up 20%, in July. The autumn will not be that easy





Highlights

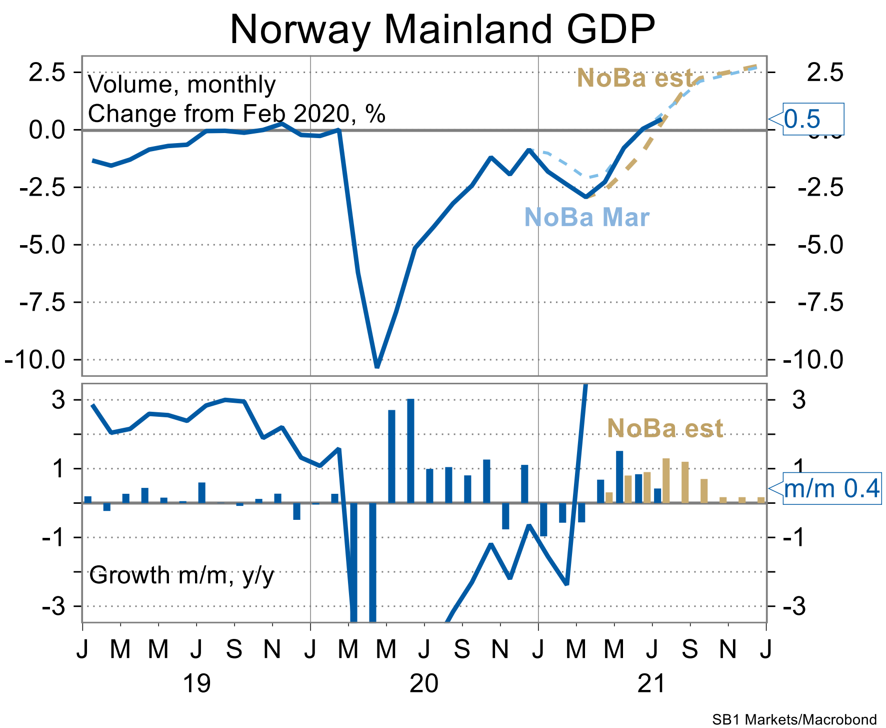
The world around us

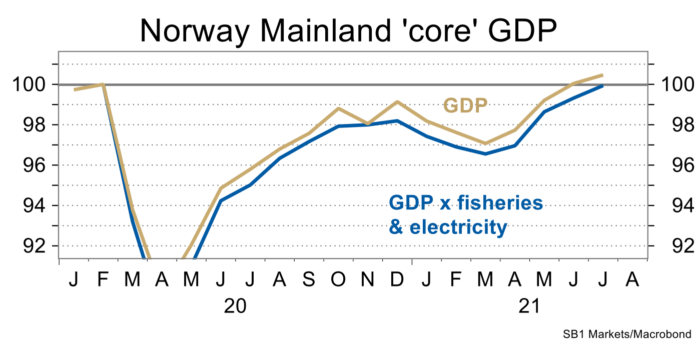
The Norwegian economy

Market charts & comments

Mainland GDP up 0.7% in July – and 0.5 pp above the Feb-20 level

… and 0.5 pp ahead of NoBa's June forecast. Still much more to go in services. The first hike will come

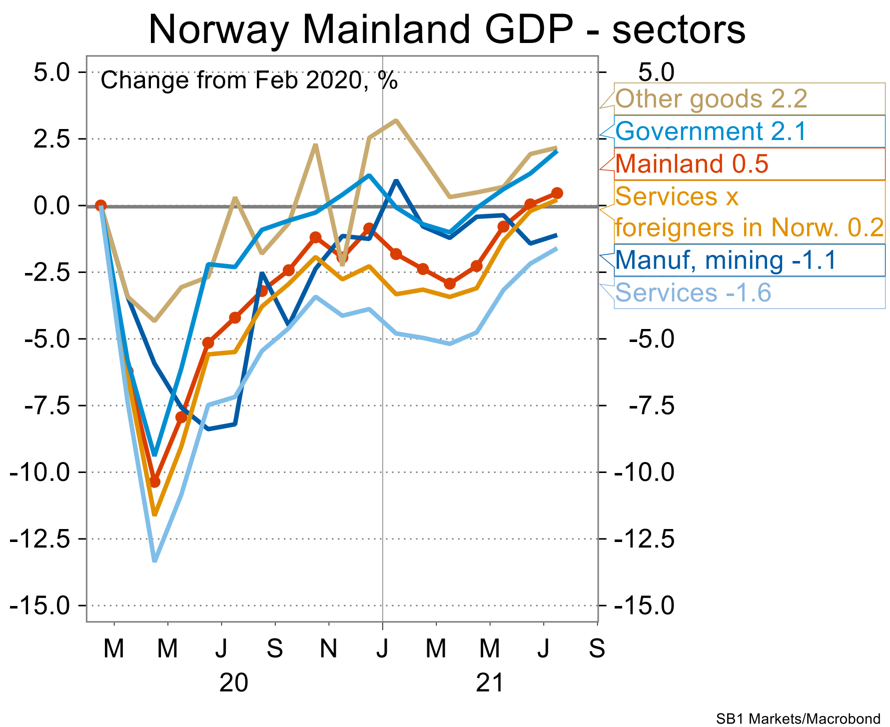


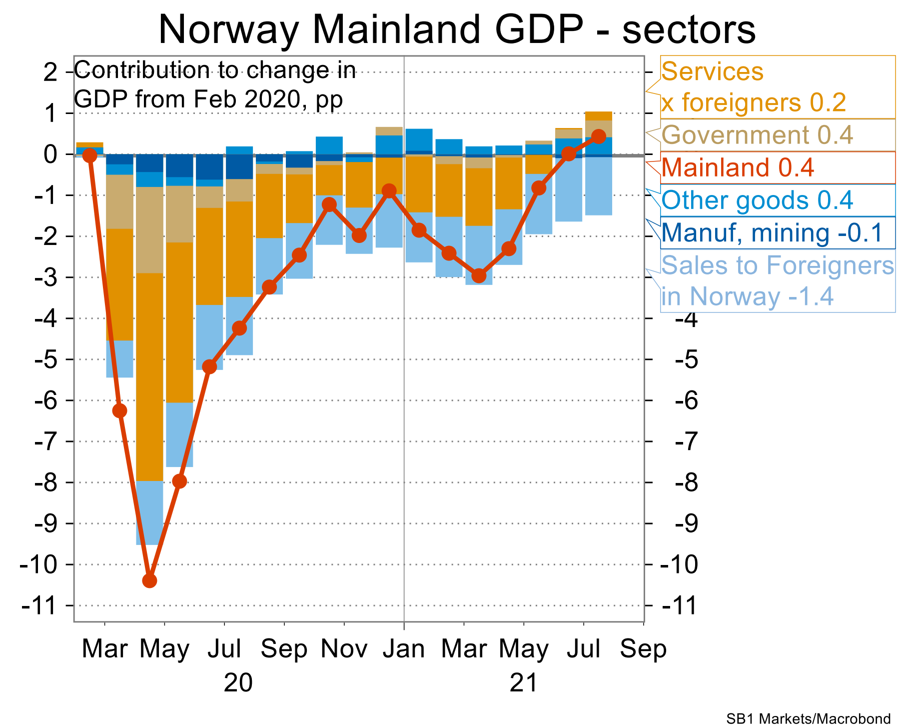


- **Mainland GDP grew by 0.4% m/m in July** from an upward revised 0.8% in June, 0.2 pp below consensus, 0.6 pp below our f'cast, and 0.9 pp below NoBa's f'cast.
  - » **Production:** Private services were up by just 0.6% in July, we expected far more. An impressive recovery in hotels, restaurant, transport art/entertainment was counterweighted by steep decline in business services. Manufacturing production rose by 0.3%
  - » **Demand:** Norwegians' spending at home was up 1.5%, almost the same pace as in June. Services rose the most, 2.4% goods were up 0.9%. Oil investments rose by 10%, partly counterweighted by a inventory drawdown. Both housing and Mainland bus. Investments fell. Exports too
- **Mainland GDP is up 0.5% vs the Feb-20 level**
  - » The July level is almost 0.2% higher than NoBa assumed in June
  - » **Production:** Hotels & restaurant, culture/entertainment recovered further – and sharply in July (+22%, 10%, resp.). H&R is still down 14% vs. Feb-20, cult/entert. just 5% (really??). Transport rose as well, but is still down 17%. Business services surprised badly at the downside (and contributed by 0.5 pp of our 0.6 pp miss at Mainland GDP). Trade down too, but most other sectors up in Feb
  - » **Demand:** Norwegians' spending at home is up 5.6% from Feb-20, goods +17%, services down 5%. Spending abroad is still down 83%. Housing investments are up. Mainland business investments have fallen by 7%, while oil investments are up 6%, following the steep rise in July. Exports ex petroleum (and tourism) are 4% below the Feb-20 level. Foreigners are spending next to nothing in Norway, a cut equalling 1.5% of Mainland GDP
- **The economy has recovered sufficiently for Norges Bank to start normalising rates**

Production: Improvement in all main sectors in July

The recovery is well underway – but services still a way to go (partly due to lack of foreign tourists)

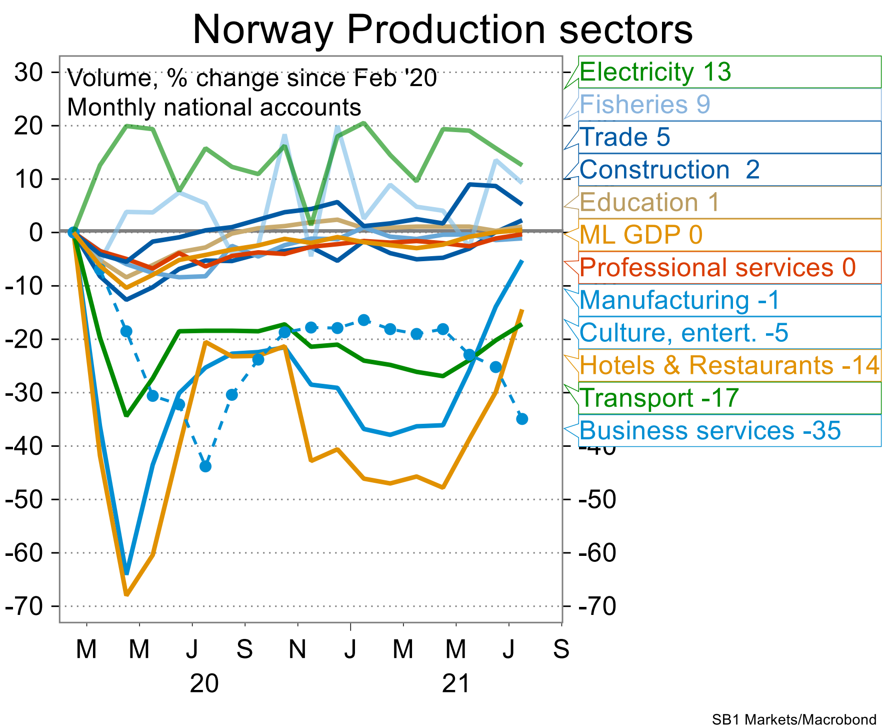


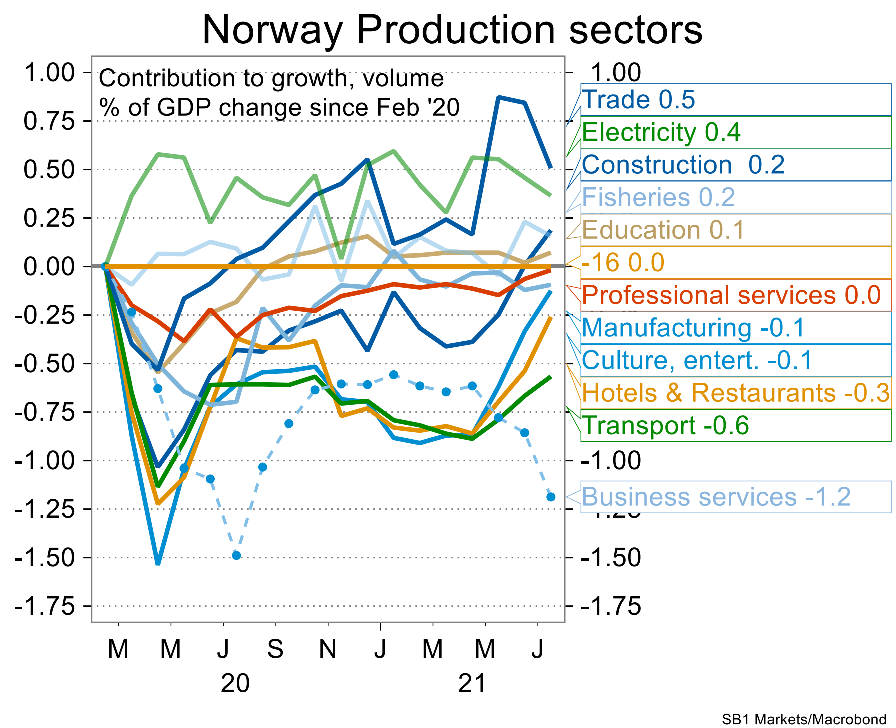


- **Private service sector production was up 0.6%** in July, as corona restrictions were eased further – and the activity level is 1.6% below the Feb-20 level, due to lower sales to foreigners in Norway (the residual is up 0.2%)
- **Manufacturing production (incl. mining)** rose but the level is still low – mostly due to the decline in oil-related industries
- **Government** production/activities rose by 0.8% in July – and they are up 2.1% vs. Feb-20

Prod. details: A huge lift in hotels & rest., culture; business services further down

Business services down 13% in July, deducted 0.35% from GDP, we exp.+0.2 pp!



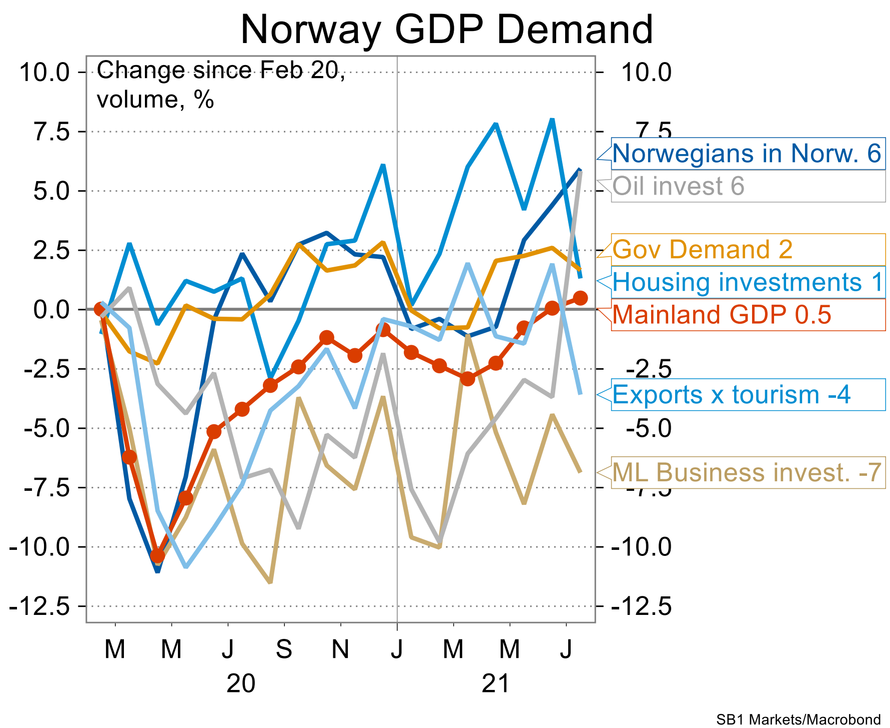


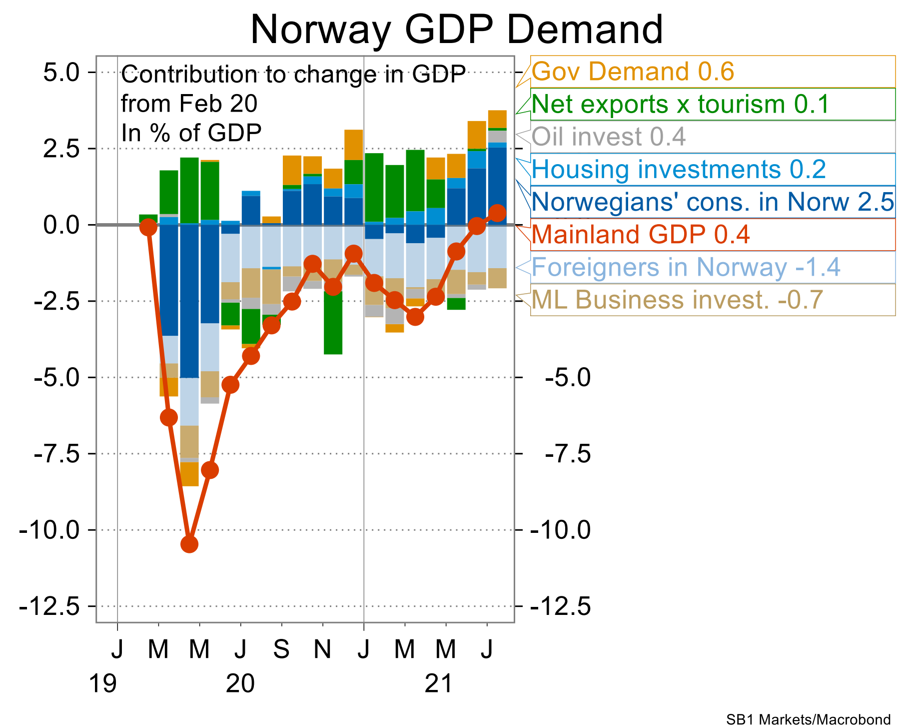
- Hotel & restaurants are down 14% vs. Feb-12, culture/entertainment just 5% (seems to be too good to be true). Business services are down 35%!
- Value added in trade due to the decline in retail sales (building materials down 29%)

Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing

Demand: Norwegians’ demand up, oil investments up, exports down

Norwegians’ consumption rose 1.5% in July, mostly due to an increase in consumption of services

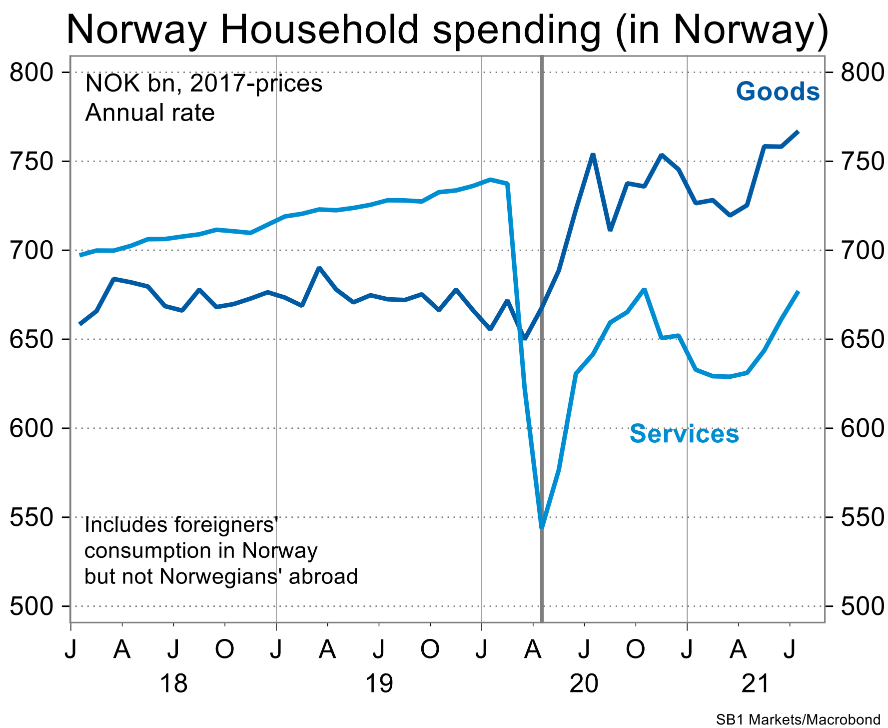


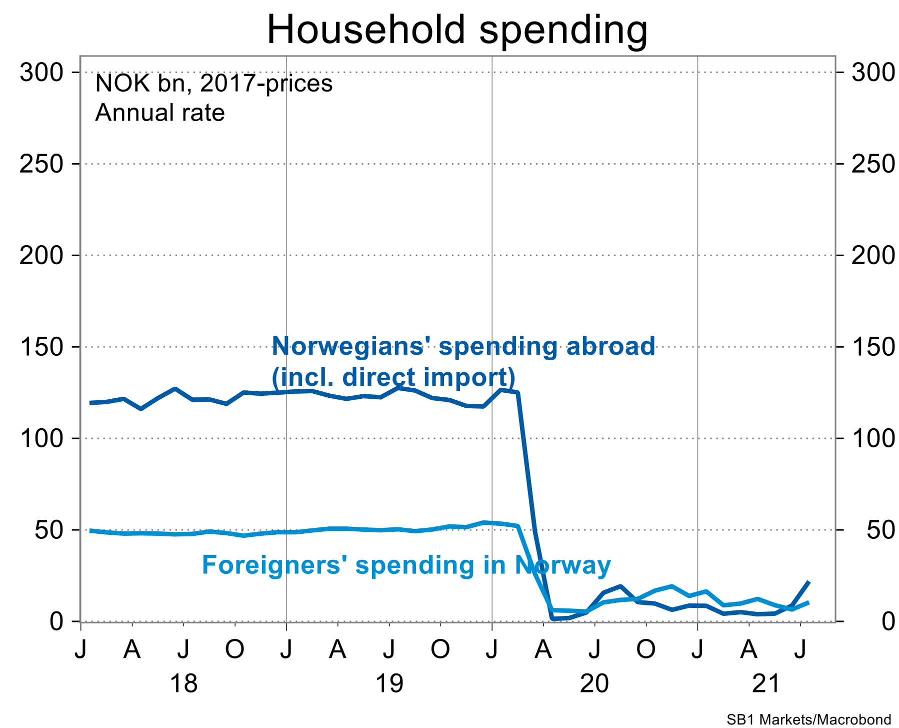


- **Norwegians’ consumption in Norway** shot up by 1.5%, and the level is 6% above the Feb-20 level
  F**oreigners** are still not spending anything, and deducts 1.5% from GDP (not adjusted for import content of goods they (used to) buy here)
- The main drag is still lack if demand from foreigners, equalling 1.4% of GDP
- **Mainland business** investments fell almost 5% in July, and are down 7% vs. Feb-20. The trend is still probably upwards
- **Oil investments** suddenly gained 10% m/m, which no doubt will be partly reversed in August
- **Government demand** fell 1% (investments fell 5%), up 2% vs Feb-20
- **Mainland domestic demand x inventories fell by 5% in July**. Inventories also fell sharply in July, equalling 2.2% of GDP – we assume due to the surge in oil investments
- **Mainland exports** (x tourism) fell 5% in July, and are 4% below the Feb-20 level. We expect a recovery in August

The recovery in services well underway but still more to come

And a substantial downside for goods, especially when the borders open up





- A miniscule lift in spending abroad in July, measured in NOK

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

A continued increases in spending on services in July. Foreigners not yet to be seen

Norway Consumption spending from Feb 20

Sales of consumer goods/ services & consumption	Change from Feb 20, NOK bn, annual rate, const. bn	% Change %
Sales in Norway	**35**	**2.5**
Goods	95	14.1
Services	-60	-8.2
Norwegians in Norway	**76**	**5.6**
Goods	112	17.2
Services	-35	-5.0
Foreigners in Norw.	**-42**	**-80.0**
Norwegians' consumption	**-27**	**-1.8**
In Norway	76	5.6
Abroad	-103	-82.5

SB1 Markets/Macrobond

Norway Consumption spending m/m

Sales of consumer goods/ services & consumption	Change m/m NOK bn, annual rate, const. pı bn	% Change m/m %
Sales in Norway	**25**	**1.7**
Goods	9	1.2
Services	16	2.4
Norwegians in Norway	**21**	**1.5**
Goods	7	0.9
Services	13	2.0
Foreigners in Norw.	**4**	**60.5**
Norwegians' consumption	**34**	**2.4**
In Norway	21	1.5
Abroad	13	152.8

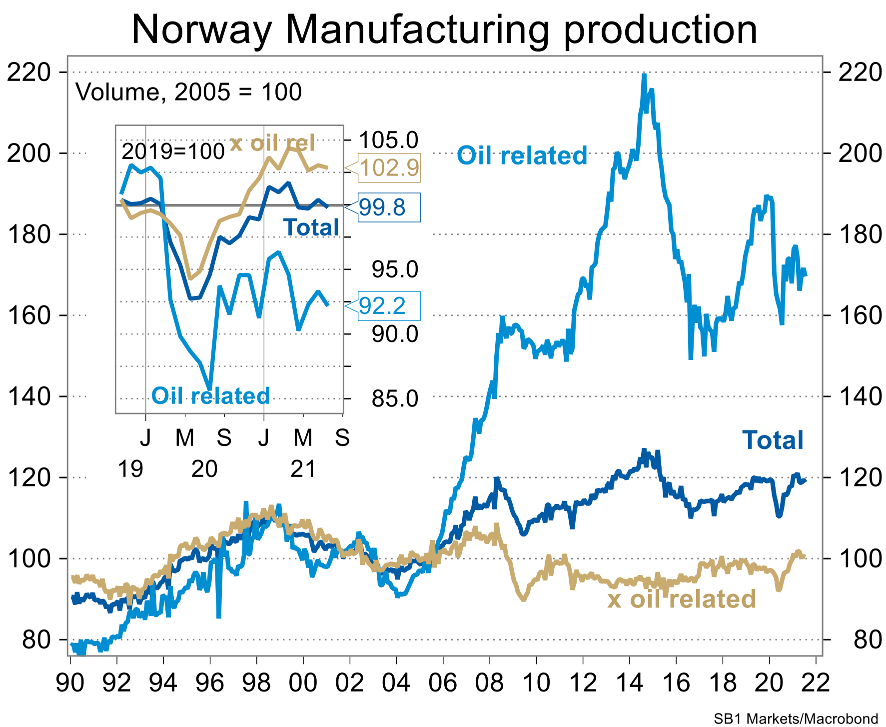
SB1 Markets/Macrobond

- **Sales of consumer goods** in Norway are up 14% vs. Feb-20, while services are down 8%, the sum up 2.5%
- **Norwegian households** have increased their consumption of goods in Norway by 17% but services still down 5%. The total up 5.6%
- **Foreigners demand in Norway** is still close to zero
- **Total (Norwegian) household consumption** has fallen by 1.8% vs. Feb-20 – due to the decline in spending abroad.
- **Foreigners** are not spending much yet, at least not in July (both Norwegians and foreigners have cut the foreign demand by 80 – 83%)

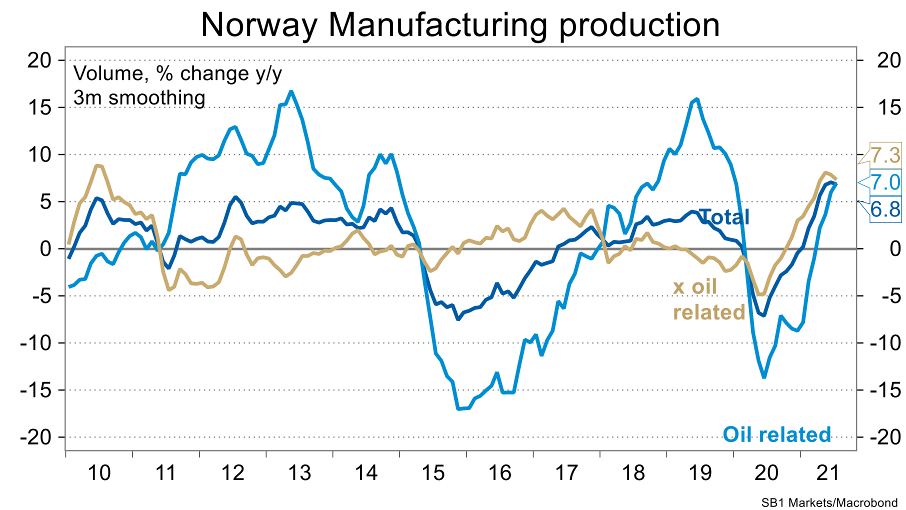
- **We expect consumption to normalise** further the coming quarters. Demand for goods is very likely above long term trend and will slow when spending on services picks further up, and even more when we can start spending abroad again. Still, as foreign travel (at least excl. x-border trading in Sweden, will probably remain subdued for several quarters. We expect the savings rate to decline substantially, from still a high level in Q2

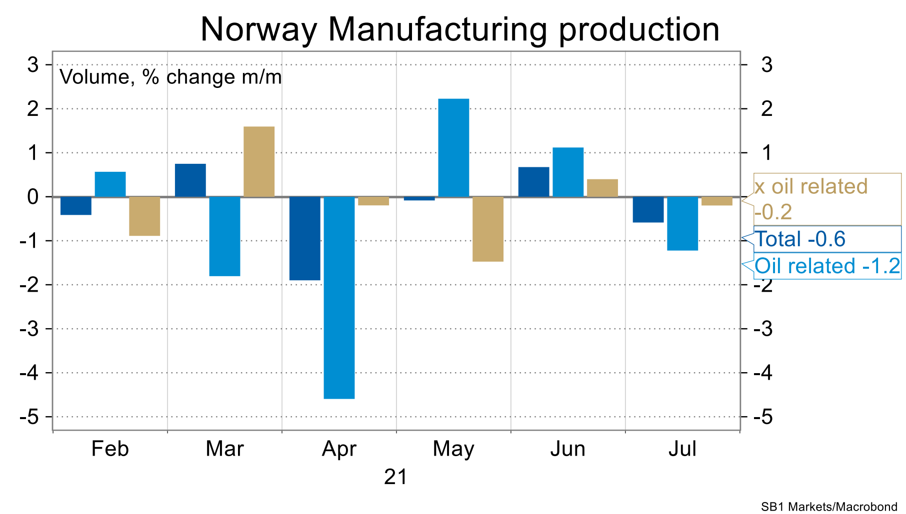
Manufacturing production marginally down in July

Total production down 0.6% m/m in volume terms (we expected +0.4%), oil related down 1.2%



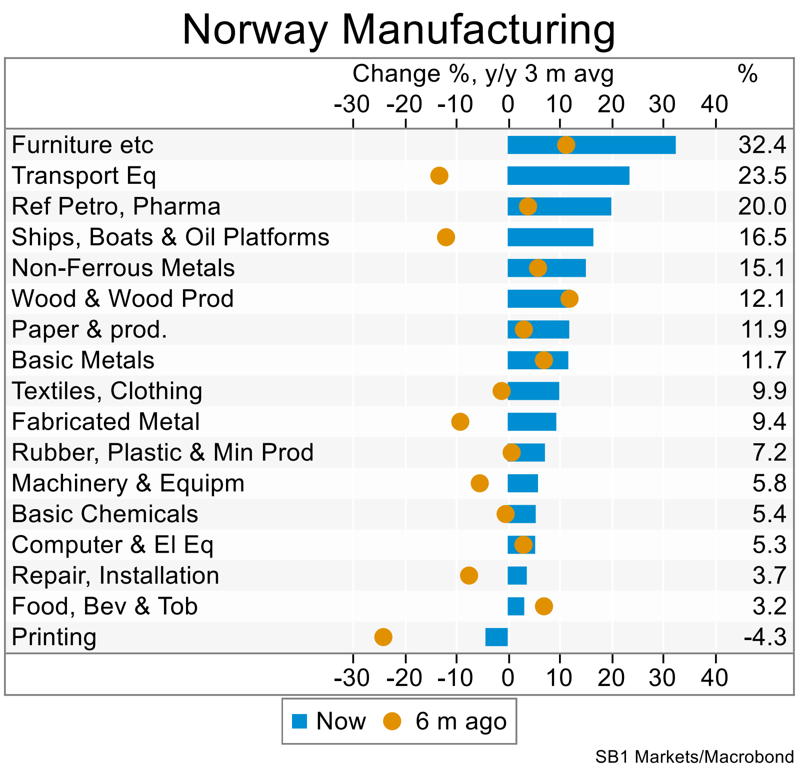
- Production fell by 0.6% in July, after increasing by 0.7% in June
  - » Oil related manufacturing production declined by 1.2%, other sectors were down 0.2%, mostly due to machinery, non-ferrous metals and food production
- As manufacturing surveys are signalling strong growth in activity, we expect decent production numbers the coming months – if manufacturers are not hit by serious shortages
- Production x oil related sectors is still above the pre-pandemic level, and marginally below the peak level the past 12 years

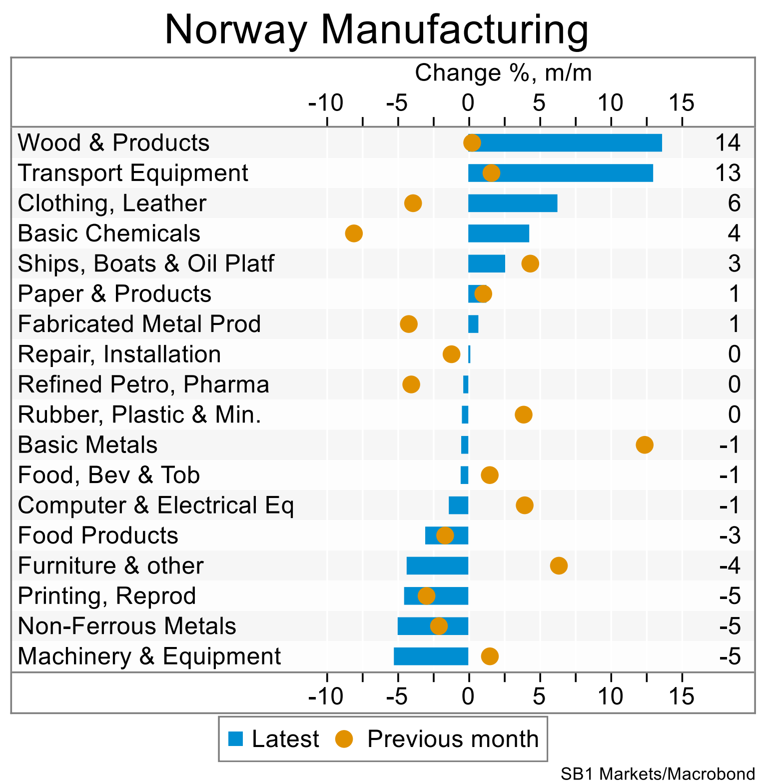




Mixed between sectors m/m, and now 16 of 17 are up y/y (from a low level last spring)

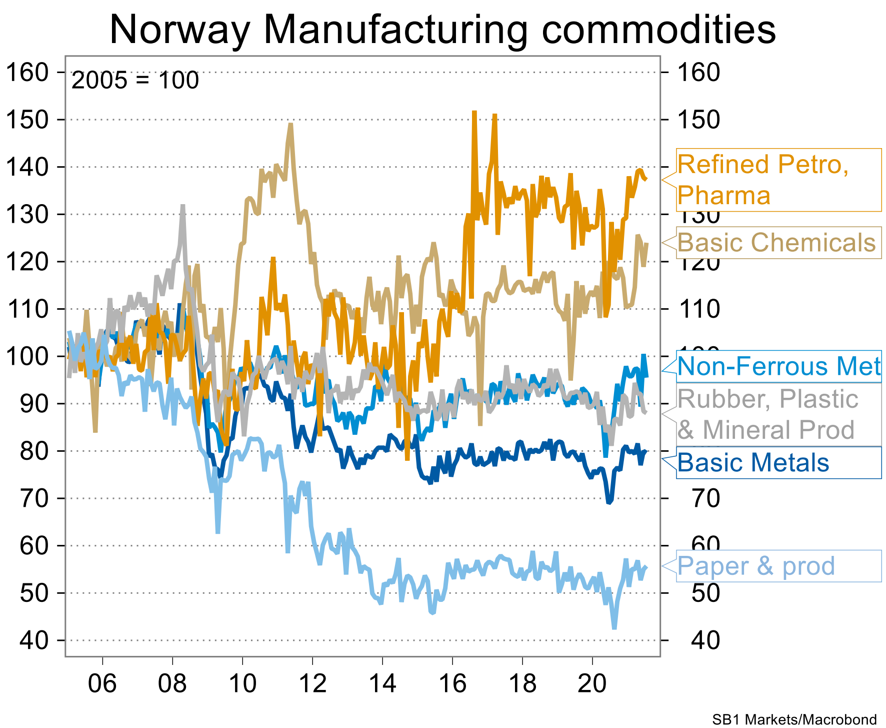
50% of the sectors are up m/m

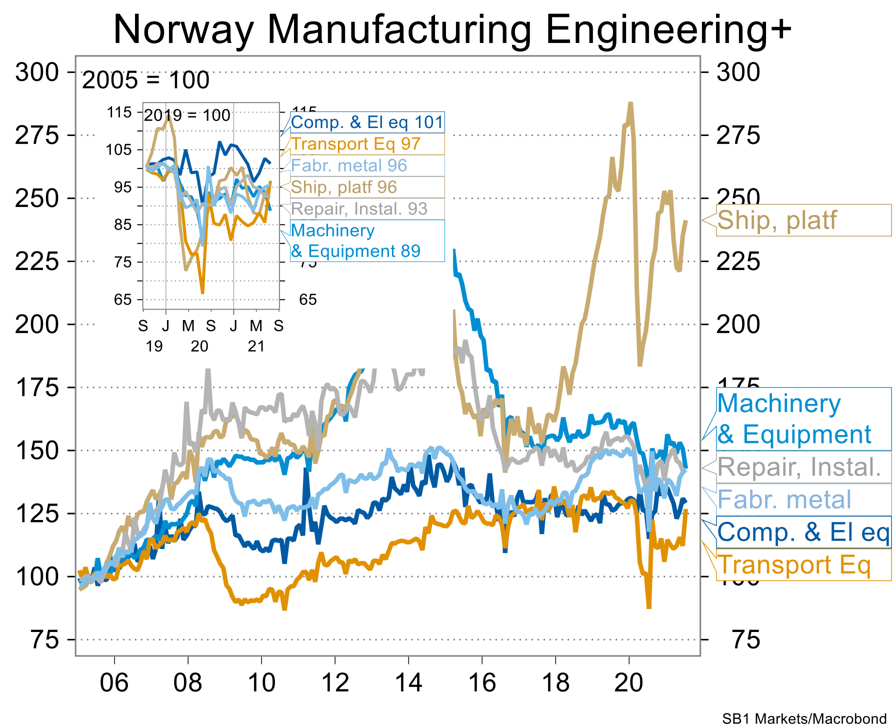




Metals weaker in July, chemicals stronger

Transport equipment sharply up, while the production of machinery was sharply down

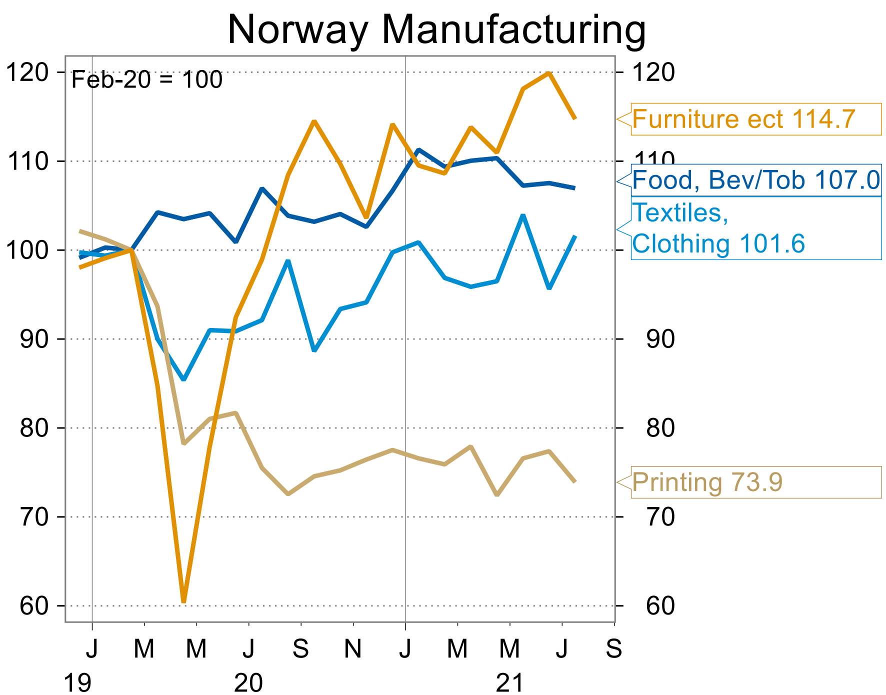




- **Production of ships & platforms** was incredibly strong in 2018/19, then fell 30% in H1 last year but has now recovered sharply since last summer
  - » Corona measures (lack of foreign labor, contacts with foreign vendors/customers), supply chain challenges probably explained parts of the recent drop
- **Commodities** are on the way up, but were mixed in July

Textile & clothing production now above the pre-Covid level

Food production was weaker, but is supported by closed borders, + 7% vs. pre-Covid level

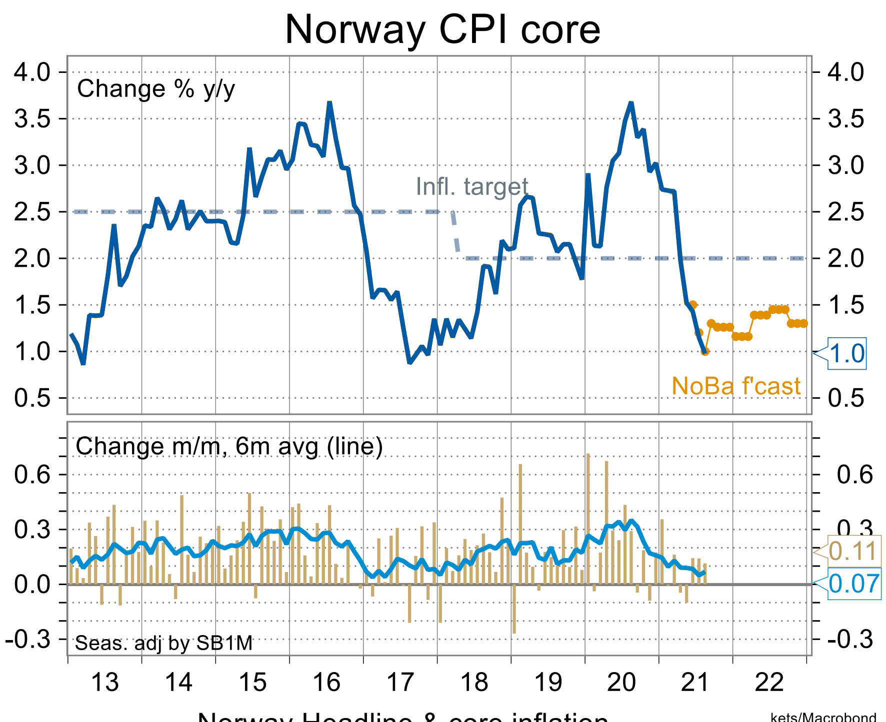


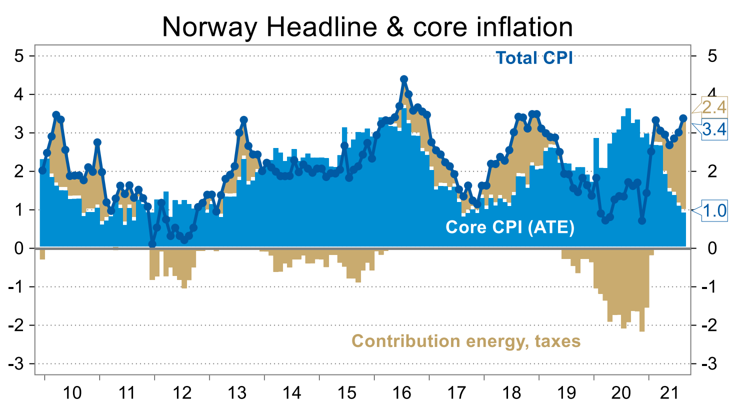
SB1 Markets/Macrobond

Norway

Core inflation down to 1.0%, headline up to 3.4% - due to the electricity shock

Inflation is far below target but Norges Bank has not been an inflation nutter past 10 years





- **CPI-ATE** (ex. energy and taxes) inflation was down 0.1 pp to 1.0% in August; in line with consensus & Norges Bank's f'cast, and 0.1 below our estimate
  - » Prices were up 0.1% m/m (seas adj), equal to the June & July prints, 0.1 below our f'cast
  - » The main misses (vs our f'cast) on the downside were clothing & furniture
  - » Inflation is above 2% for recreation, hotels (partly & health)– the majority is below the 2% inflation target
  - » Prices on imported goods rose in August, but annual inflation is approaching zero
  - » In addition, domestic inflation has slowed substantially, to 1.1%
- **Total inflation** rose 0.4 pp to 3.4%, 0.3 pp above our f'cast, as electricity prices rose further (up 98% y/y!) – lowering house household real disposable income substantially
- **The outlook**
  - » **Core inflation is probably close to the through**. Imported goods prices are exposed to higher goods prices abroad, higher freight rates etc. Wage inflation will probably accelerate somewhat. On the other hand, demand for goods will probably slow, as spending is moved abroad
  - » <u>Anyway, core CPI inflation will not have any material impact on Norges Bank's monetary policy</u> the coming months. It's all about the post Covid-19 recovery – and the housing market
  - » The steep rise in electricity prices reduced households' real disposable income but given the still rich aggregate savings rate, consumption is probably not that exposed. However, if anything, an argument for not tightening monetary policy

Clothing and furnishing inflation down

While food prices rose – but are still trending down. Electricity prices doubled y/y

		Change m/m, seas. adj			Change y/y			Contribution, pp		
Aug-21	Weight	Out-	SB1M	Dev.	Prev.	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	13.0	0.4	0.2	0.2	-0.8	-0.8	-1.3	0.05	-0.10	0.02
Alcohol, tobacco	4.3	0.3	0.1	0.2	0.6	0.9	0.5	0.01	0.04	0.01
Clothing, footwear	4.9	-1.7	0.0	-1.7	-1.2	-1.4	-0.9	-0.09	-0.07	-0.09
Housing x. energy	20.5	0.1	0.2	-0.1	1.6	1.3	1.4	0.02	0.26	-0.02
Furnishing	6.8	-1.3	0.3	-1.5	3.3	0.3	2.8	-0.09	0.02	-0.10
Health	3.2	-0.1	0.3	-0.3	3.2	2.5	3.0	-0.00	0.08	-0.01
Transp. ex. gas, airl. tick	12.0	0.6	0.3	0.3	0.0	0.3	0.5	0.07	0.03	0.04
Airline tickets	1.0	3.5	2.0	1.5	-15.8	-10.6	-14.3	0.04	-0.11	0.01
Communication	2.5	-0.3	0.2	-0.5	1.9	0.9	1.6	-0.01	0.02	-0.01
Recreation, culture	11.2	0.2	0.3	-0.1	3.2	3.0	3.0	0.02	0.33	-0.01
Education	0.5	-	-	-	2.1	2.1	5.2		0.01	-0.01
Restaurants, hotels	5.9	0.1	0.5	-0.4	4.0	3.7	4.2	0.00	0.22	-0.03
Other	8.7	0.1	0.2	-0.1	2.2	2.2	2.4	0.00	0.19	-0.01
CPI-ATE	94	**0.1**	**0.3**	-0.15	**1.1**	**1.0**	**1.1**			-0.14
Norges Bank est.			**0.1**		**1.2**		***1.0***			
Imported	34	-0.2	0.1	-0.3	0.9	0.1	0.4	-0.06	0.05	-0.11
Domestic	60	0.3	0.3	-0.1	1.2	1.0	1.1	0.17	0.59	-0.03
Energy, housing	4	7.0	3.0	4.0	83.6	98.4	87.6	0.25	3.52	0.14
Energy, transport	2	0.0	1.0	-1.0	10.9	13.4	14.3	0.00	0.27	-0.02
CPI Total	100	**0.6**	**0.4**	0.2	**3.0**	**3.4**	**3.1**	0.60	3.38	0.23

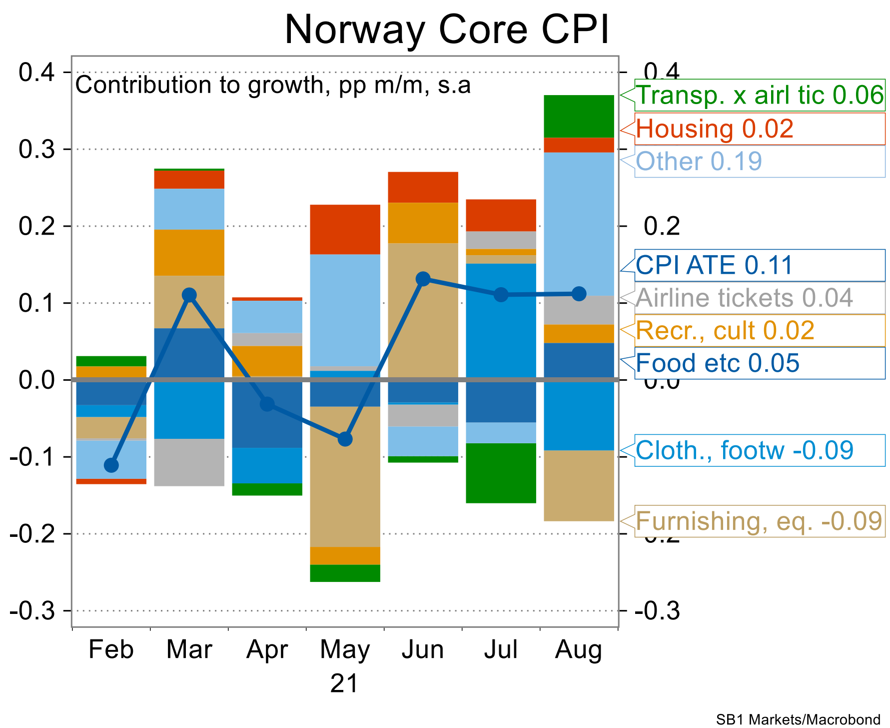
Change m/m based on seasonally adjusted data (calc by SB1M)
Sum of parts does not necessarily add up to totals
Norges Bank m/m s.a. estimate is implied, calc by SB1M

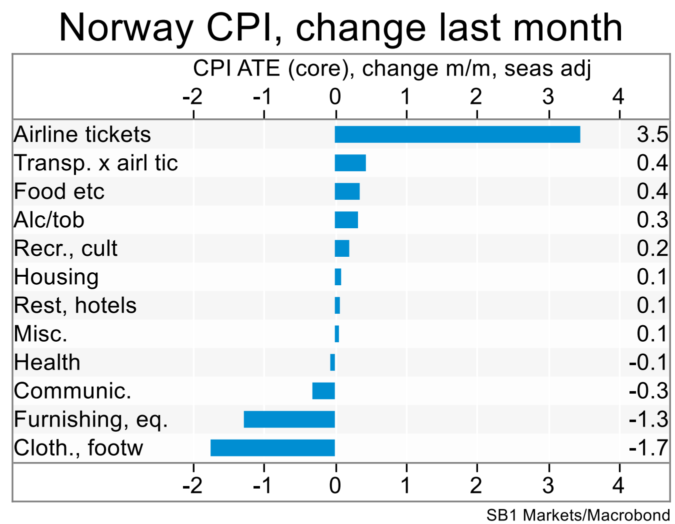
- **Food** prices up by 0.4%, and above our forecast. <u>Prices are down 0.8% y/y!</u>
- **Clothing** prices fell sharply, following two months down, down by 1.4% y/y
- **Furniture/hardware/equipm** prices fell sharply too, and up just 0.3% y/y, from 10% last year!
- **Transport ex. gas/airline** – up 0,6%, up just 0.3% y/y
- **Airline ticket** prices rose by 3.5% m/m, more than we expected. Still down 10.6% y/y
- **Recreation** was up 0.1% m/m, less than we assumed – but up 3.0% y/y – partly due to price cuts last year
- **Restaurant/hotel** prices are now up 3.7% y/y
- **CPI-ATE up 1.0% y/y, 0.1 pp below our expectations, but in line with consensus/NoBa**
- Prices on **imported goods** was up by 0.1% m/m
- Prices on **domestically produced** goods & services were up 0.3%. The annual rate at 1.0% is very low, according to Norwegian standards
- **Electricity** prices rose more than we assumed and is up 98 y/y
- **… and the headline inflation came in at 3.4%, up from 3% in July**

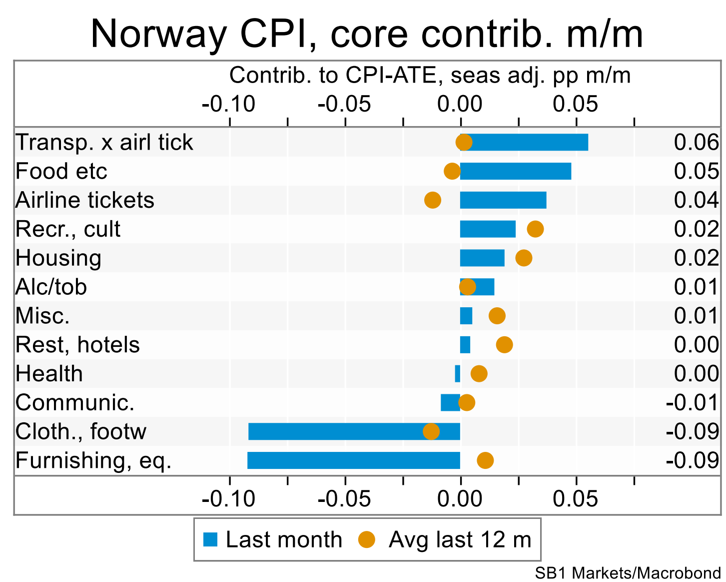
Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total, and deviations m/m and y/y do not necessarily add up. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

Clothing, furnishing contributed on the downside in August

Food, airline tickets at the upside

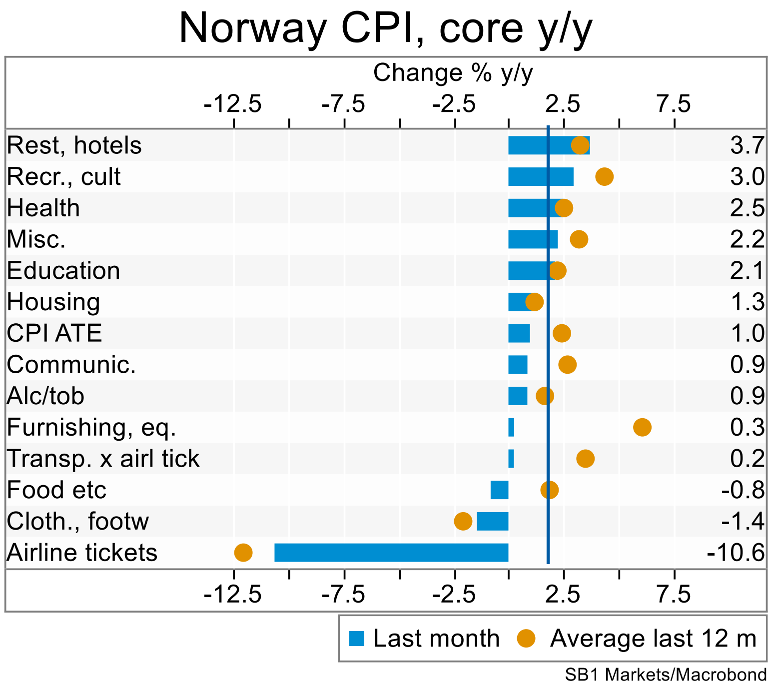


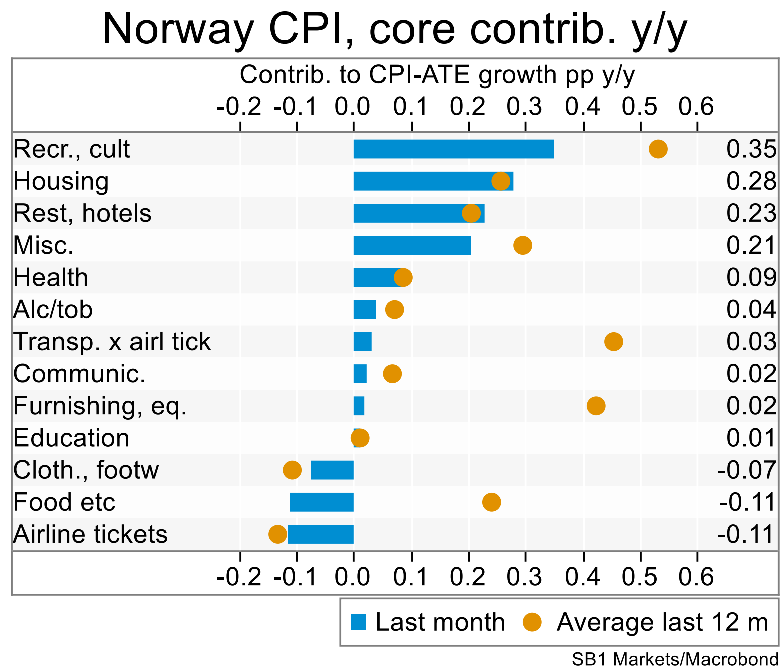




5 sectors report inflation above 2%, 1 is close to 2%, 8 clearly below

Over the past year, recreation/culture has contrib. most to the hike in CPI. Food, airline tickets down



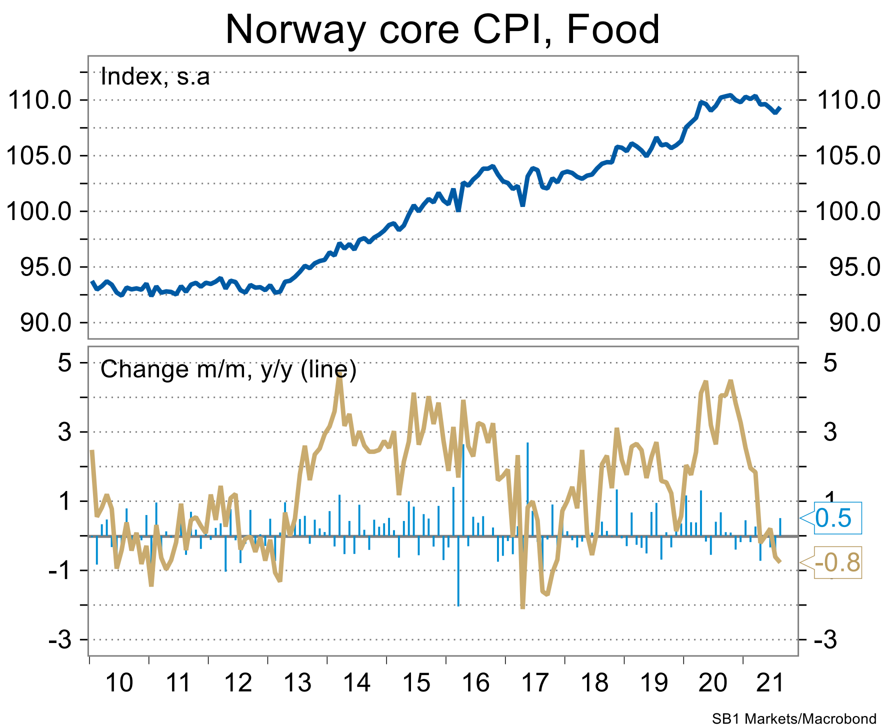


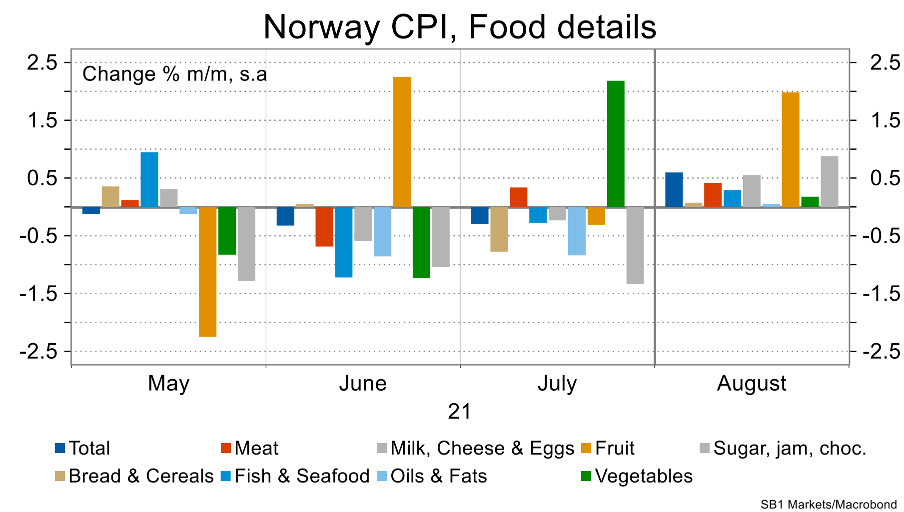
- Within recreation, books, garden equipment, hotels and restaurants contributed the most, partly due to price cuts last year

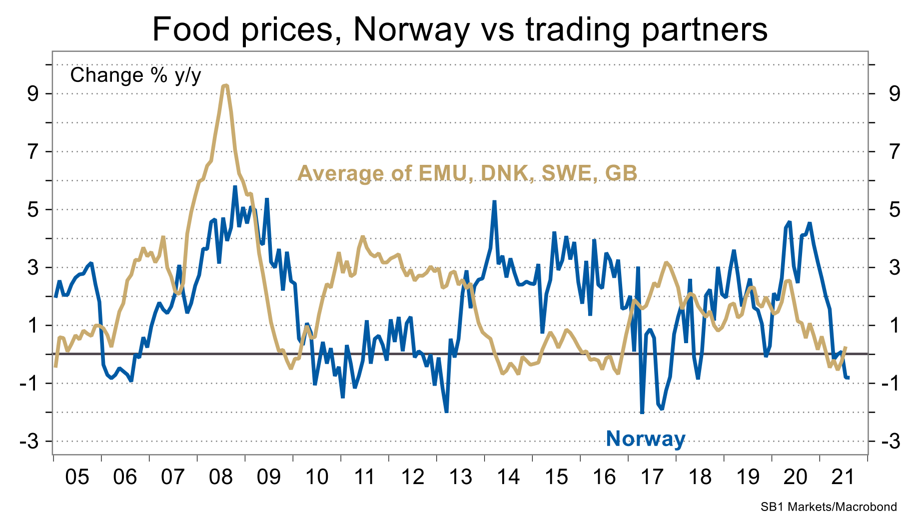
SpareBank 1 MARKETS

Food prices up in August, but are still down 0.8% y/y

Prices rose 0.4% m/m but the y/y rate fell further. Food inflation is low among our neighbours as well



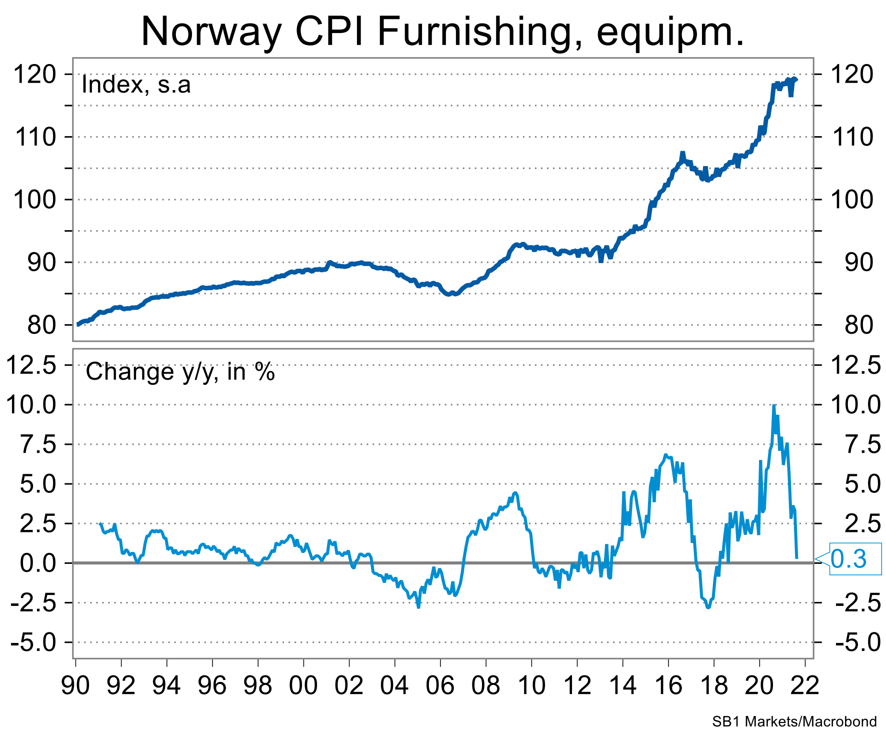


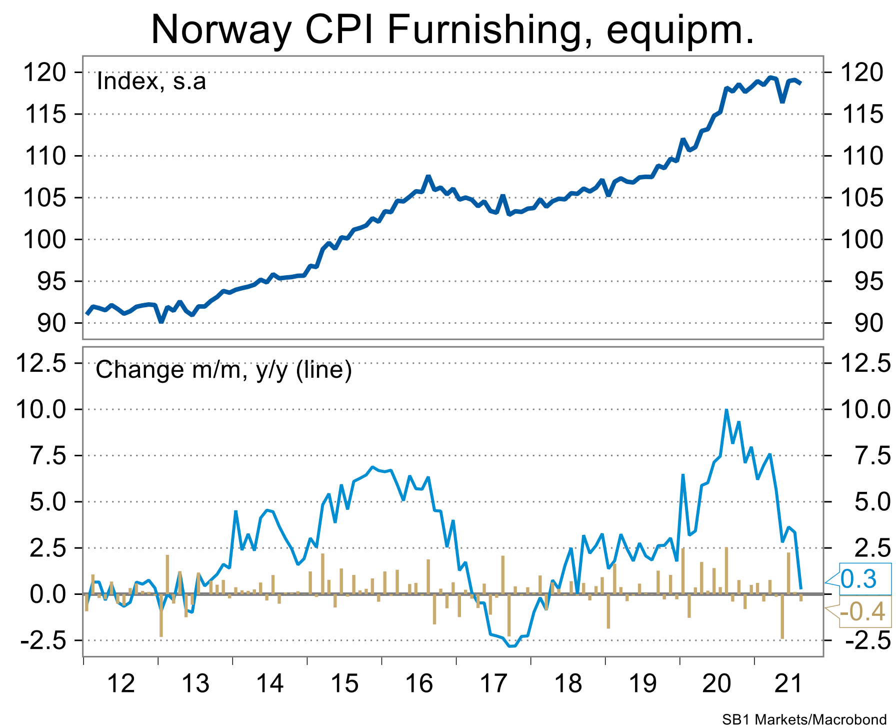


- Food prices have fallen since March
- Food prices are now slowing at the same pace as in our neighbouring countries, despite lifts in some agricultural commodities

Furnishing prices down by 0.2% in Aug, the y/y rate has fallen to 0.3% from 10%!

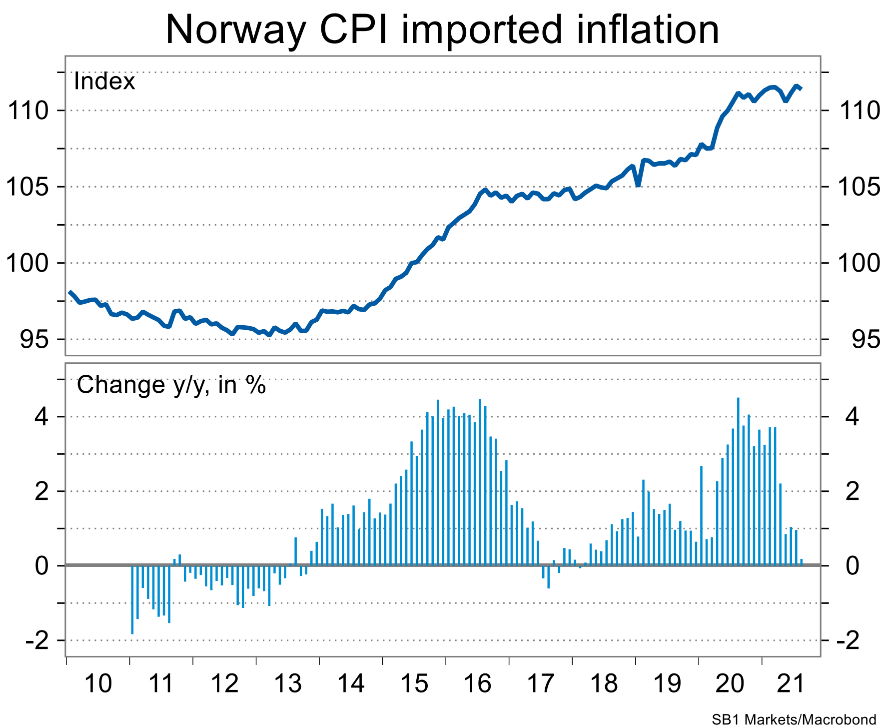
Following an unprecedented price surge April-August last year, prices have flattened

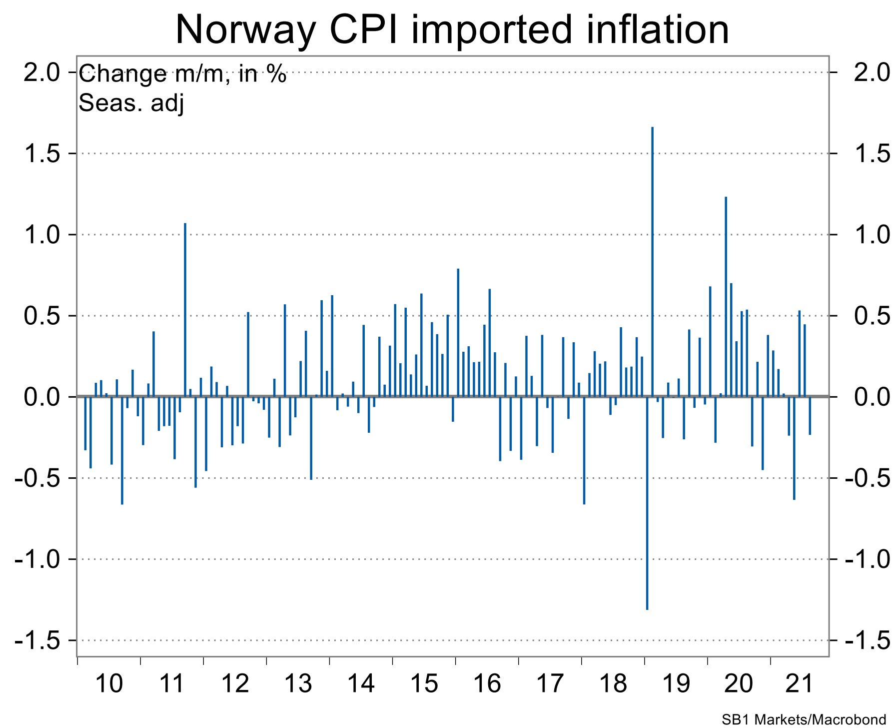




Imported goods prices have seen a small uptick the past couple of months

Annual imported inflation was 1% y/y in July – and will remain low



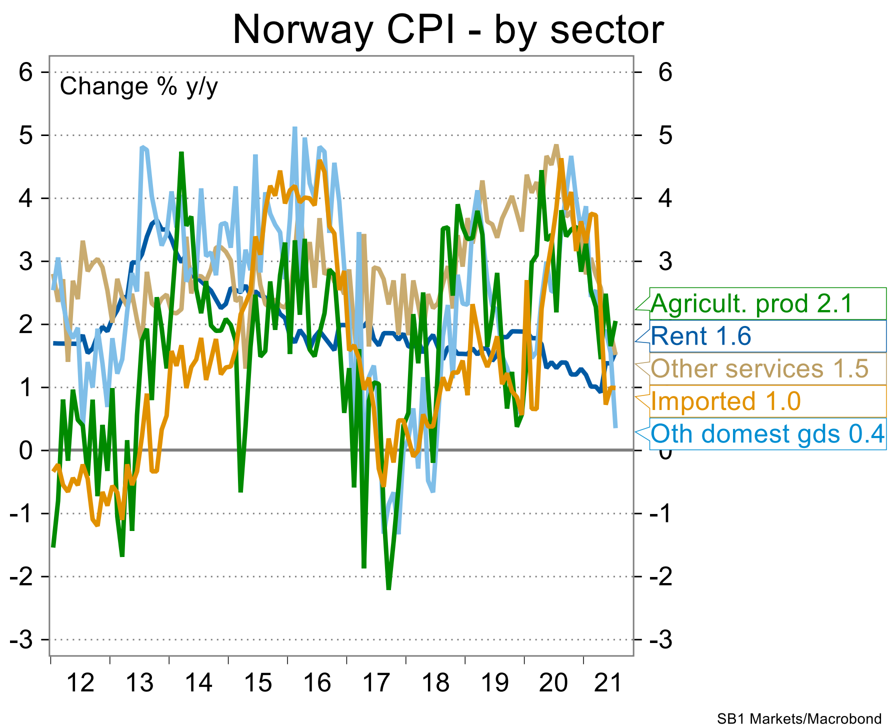


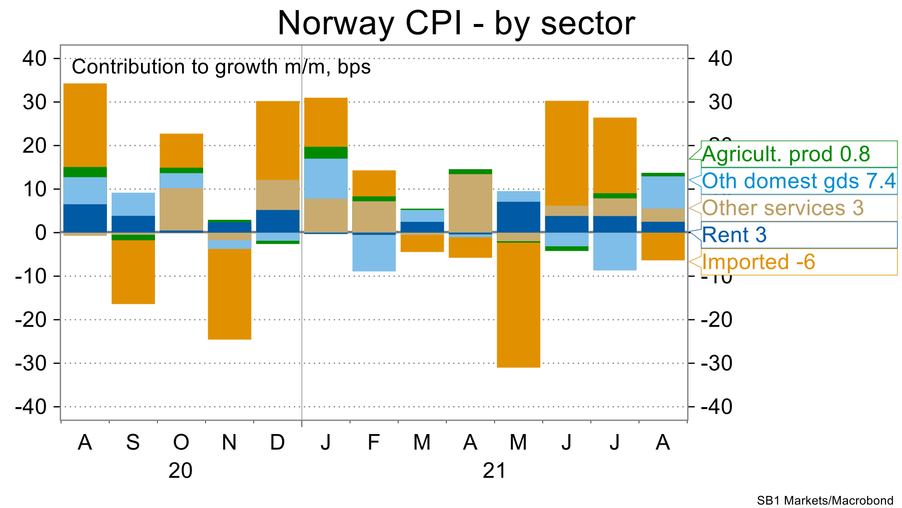
- The contribution to overall inflation in July was 0.14 pp

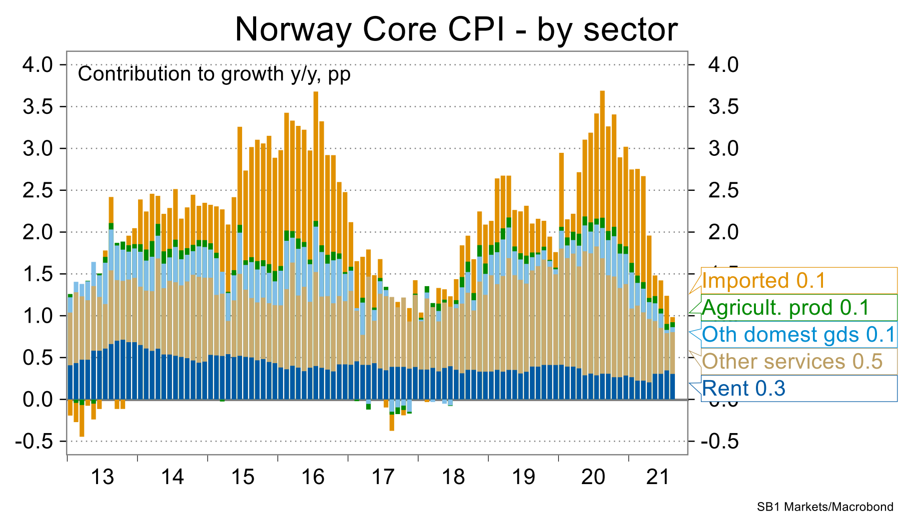
SpareBank 1 MARKETS

A broad decline in inflation – it is not just imported goods

Service inflation has slowed substantially, to 1.5% from close to 5%



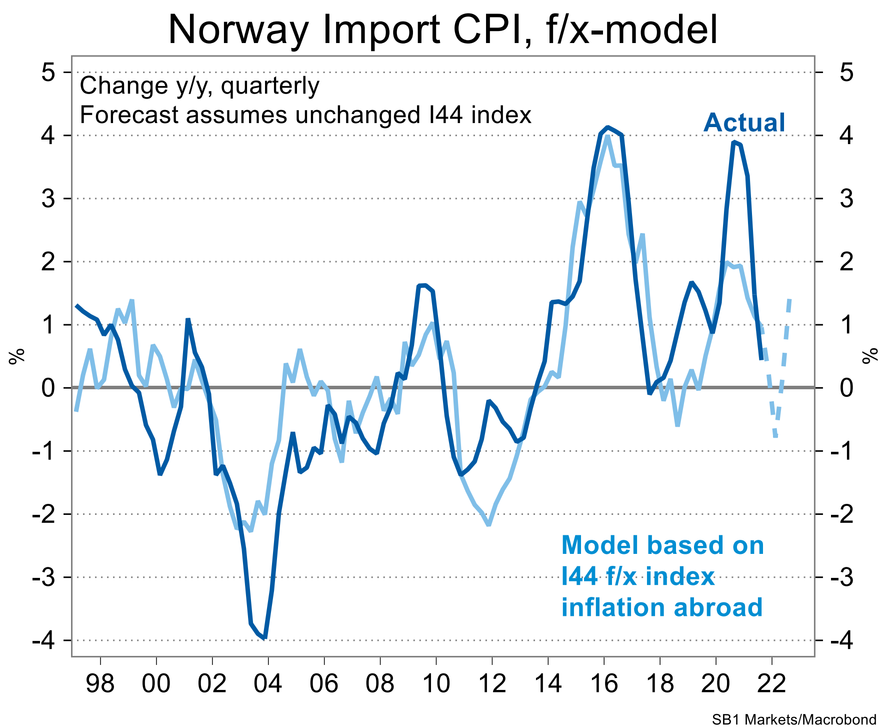


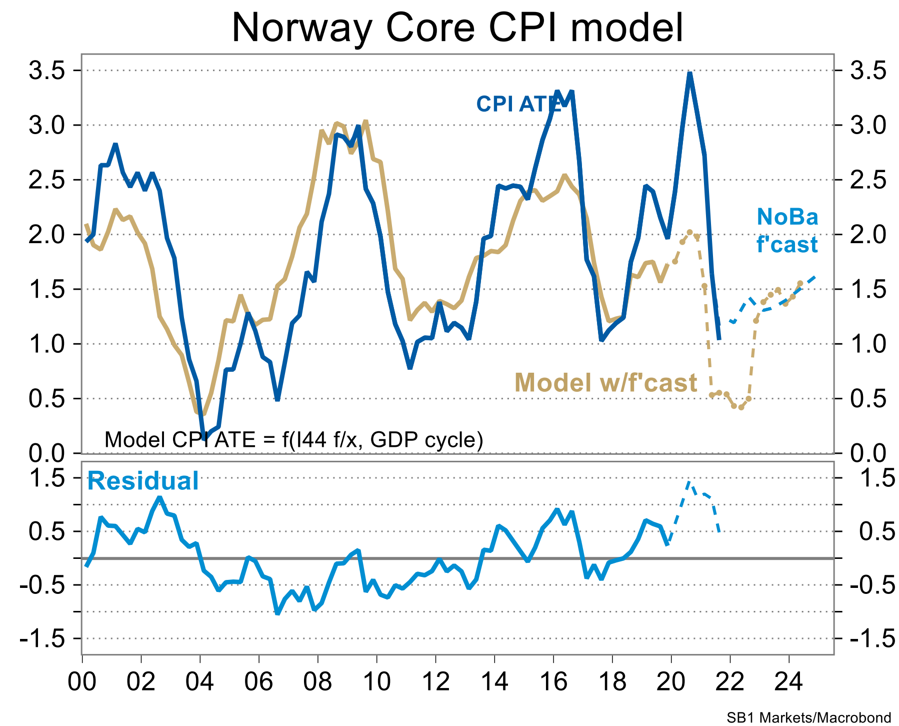


- **Domestic services inflation ex rents** has slowed sharply during the corona crisis, and not just only due to cheaper airline tickets, other non labour intensive services have contributed as well
  - » We expect some reversal the coming months
- **Rent inflation** has accelerated to 1.6% from 1% recent months, but is still lower the 1.7% – 2% rate before corona

Imported goods prices: Finally on the way down

Our total core CPI model is not calibrated for a huge decline in GDP, but the sign is probably correct



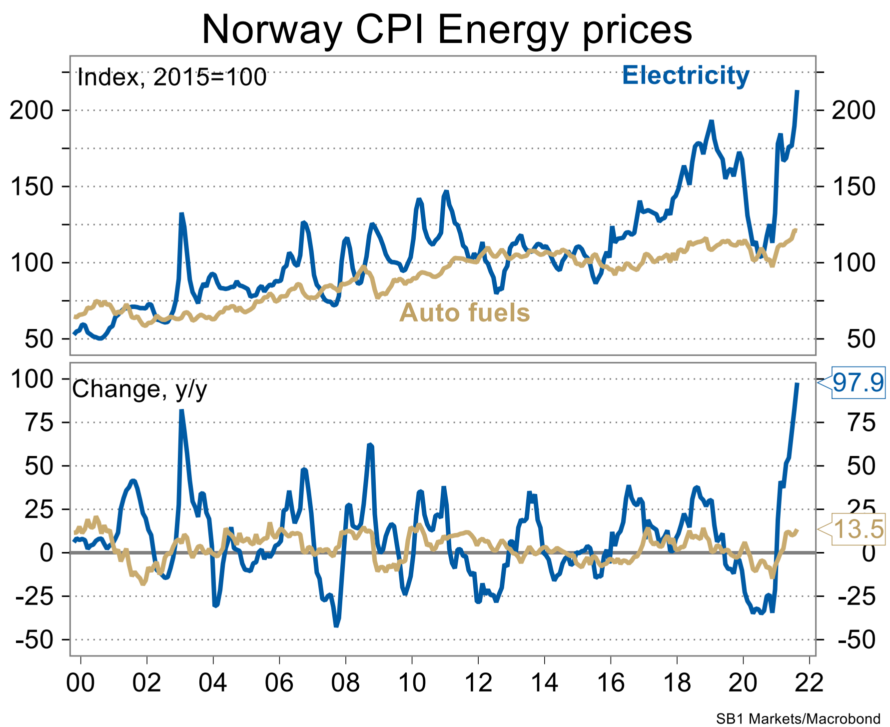


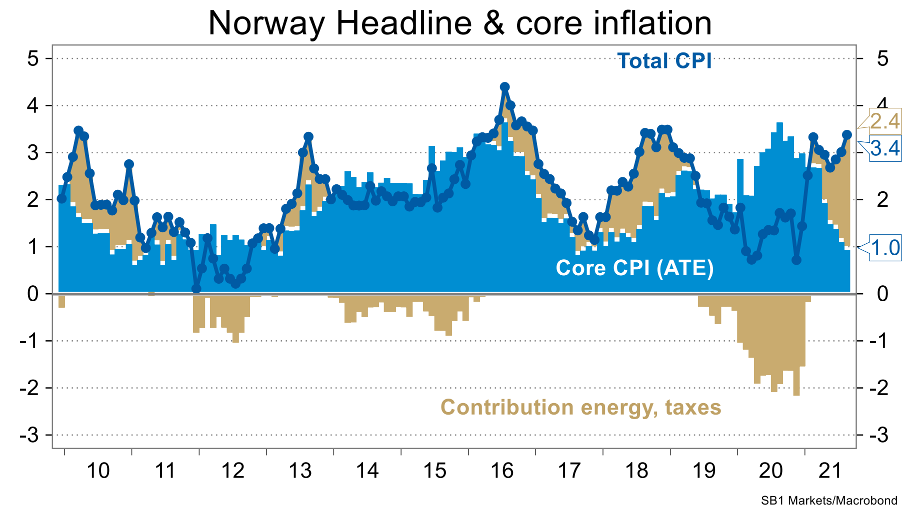
- **The NOK steep depreciation** in early 2020 no doubt drove **imported inflation** up last year. Closed borders/supply chain challenges due to Covid-19 may have contributed to the lift in import prices too, and more importantly: the strong growth in demand for some goods (like sport equipment/furniture) made it possible to increase prices. Now the NOK has recovered, and import price inflation is falling sharply - even if some price inflation abroad has accelerated (core goods prices included)
- **Domestic inflation** will be kept in check due to moderate wage inflation – and overall core inflation will be low the coming months

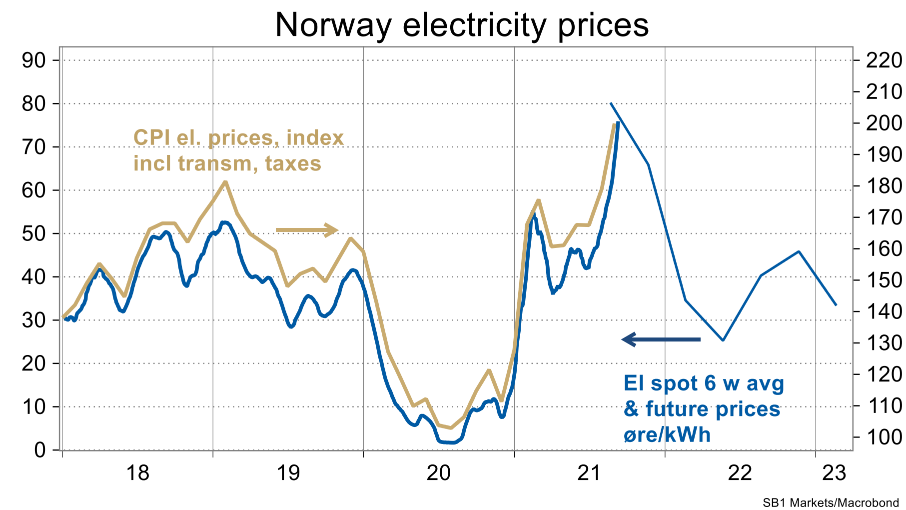
SpareBank 1 MARKETS

Electricity prices through the roof – but the limit is far below the sky ☺

Prices are 'just' 50% above a normal level, and markets are not discounting further increases



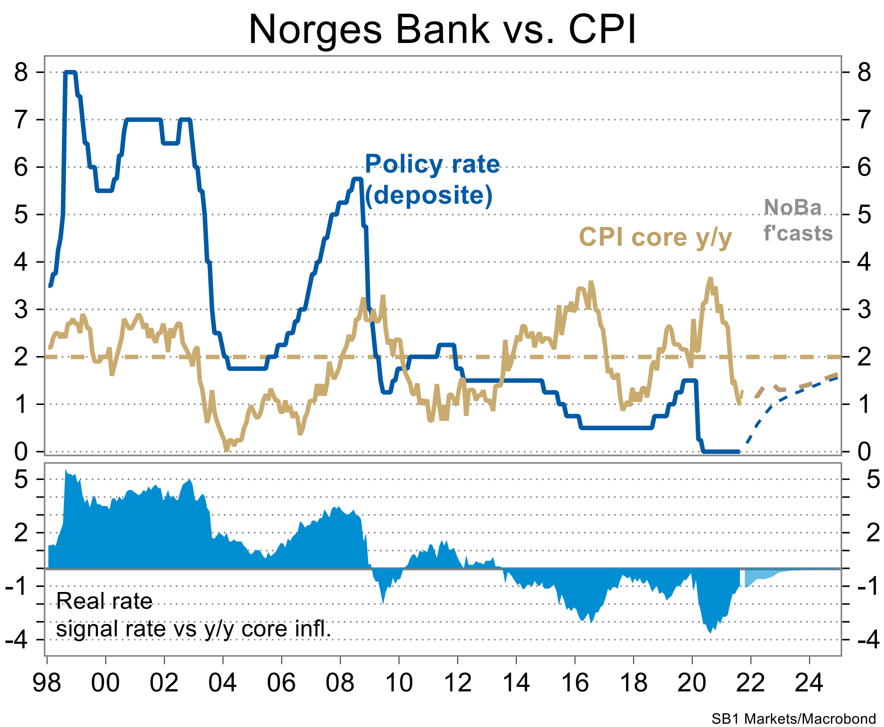


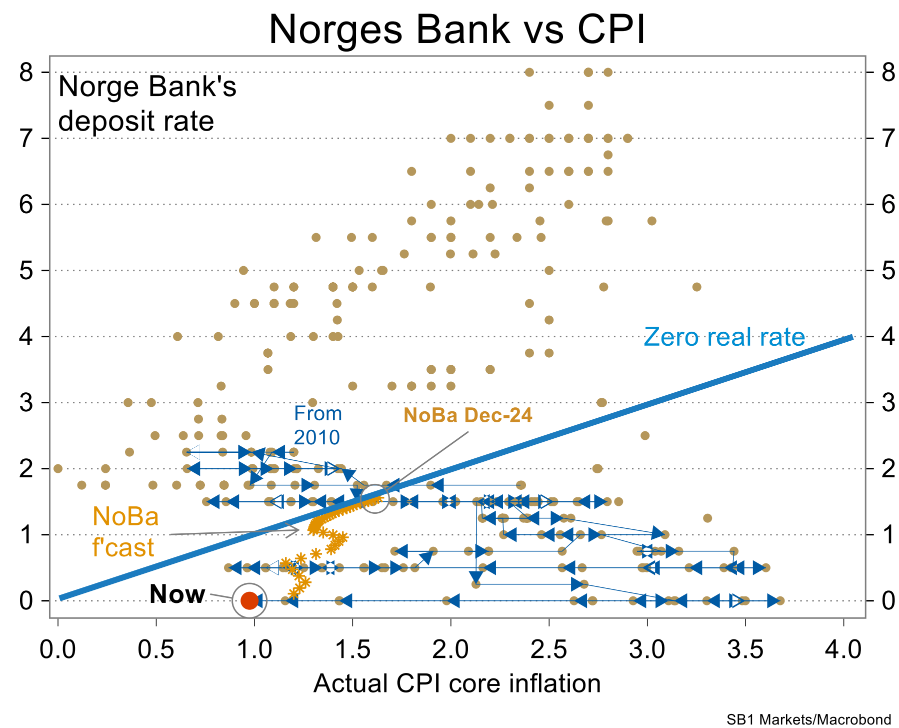


- **Electricity prices have almost doubled y/y**, explains the lion's share of the lift in total CPI. The discrepancy between the headline CPI and the core index (CPI-ATE and the core without just electricity prices, CPI-AEL) is 2.4 pp
- Electricity prices are volatile, and explain much of the volatility in headline Norwegian CPI, normally correlated with European electricity gas and coal prices (and influence by hydro reservoir filling rates)
- Media reports on a <u>5 times increase in the electricity bill</u> is nonsense (even from a low level last summer, check the chart above). At least, nobody in the market believe in them. Electricity futures signal substantial decline next year. <u>So far, the consumer bill is 'just' some 1.4 times (40%) above a normal level (an index at appox 150 at the chart above vs actual 210), and not 5 x higher!</u>

Norges Bank has not been an inflation nutter (since 2010, at least)

Actual inflation has not been correlated to interest rates

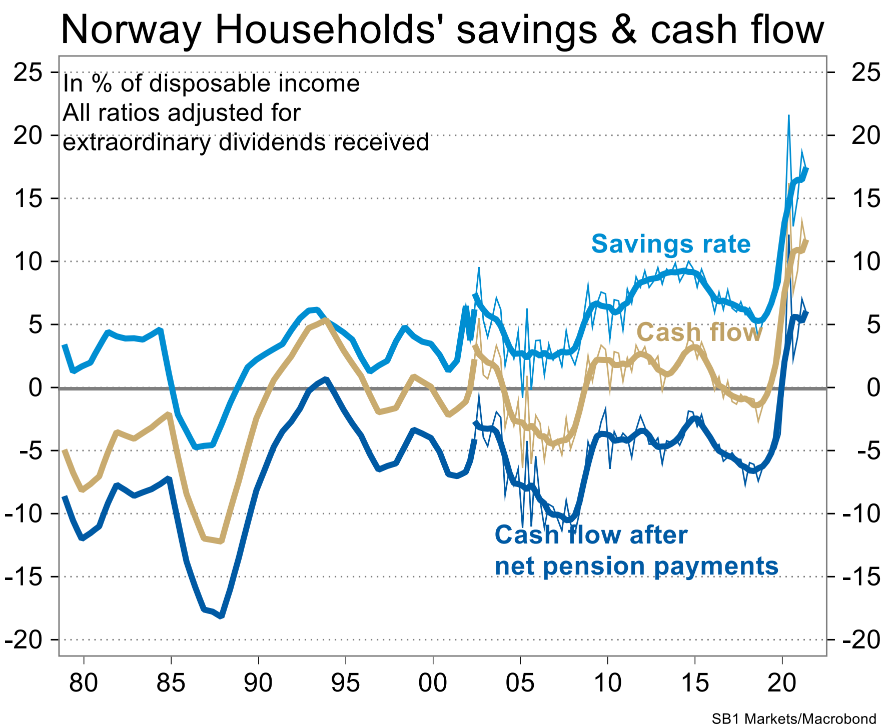


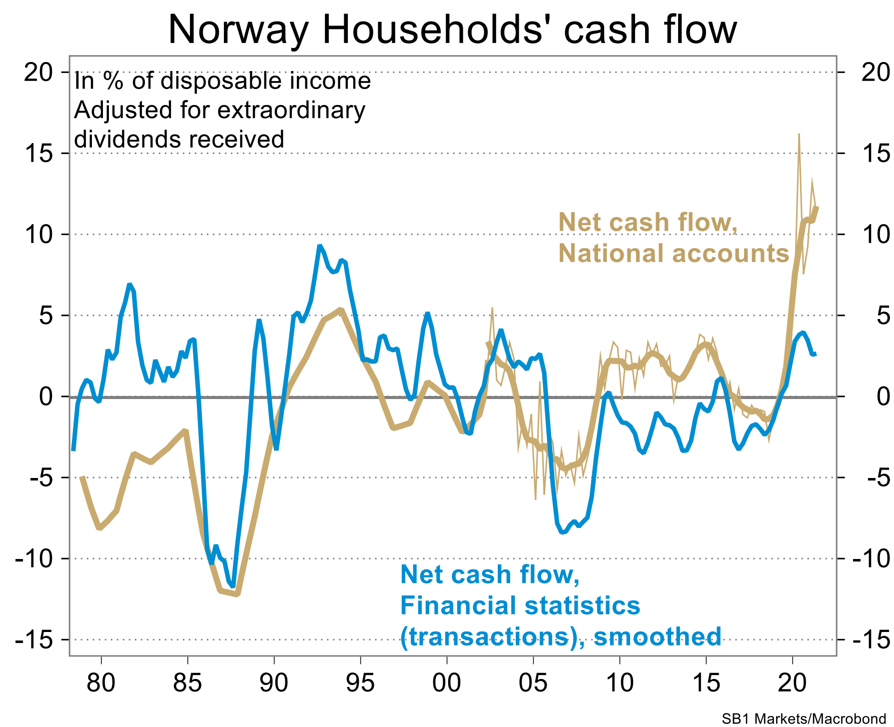


SpareBank 1 MARKETS

Show me the money: High Nat. Accounts savings not found in financial statistics

Households' net financial investment (cash surplus) at 12% of disp. income. Or just 3%?



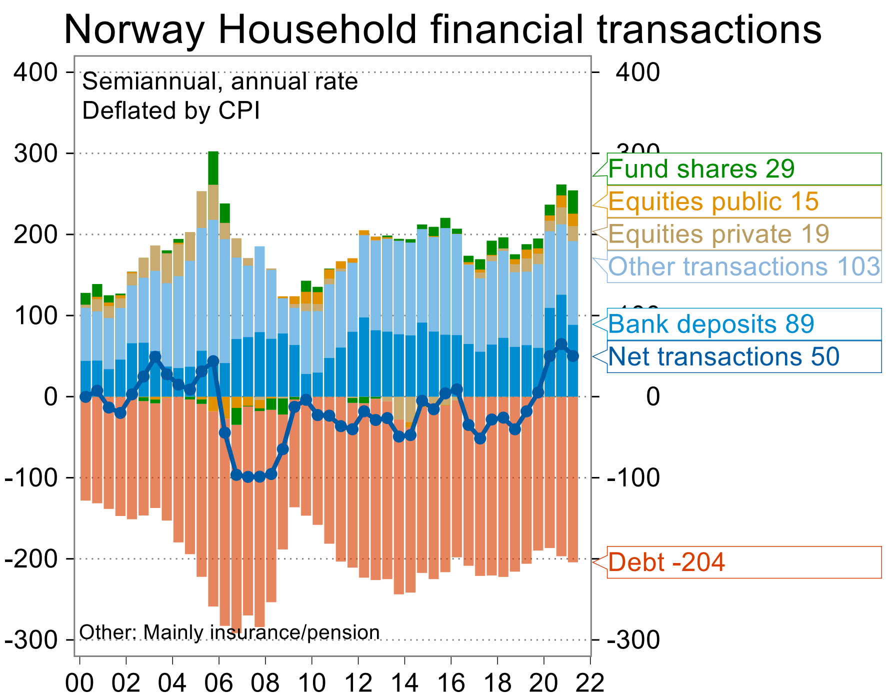


- Households' net financial investments can be calculated as a residual in the National accounts, or by aggregating all known financial transactions. Over time these to estimates are not that far apart. During the pandemic, the discrepancy has been larger than normal
  - » **Nat accounts** yields a cash surplus equalling 12% of disposable income
  - » **Financial statistics** report net financial transactions equalling just 3% of their income
  - » SSB reports that there are larger uncertainty than usual related to pension reserves in the financial accounts

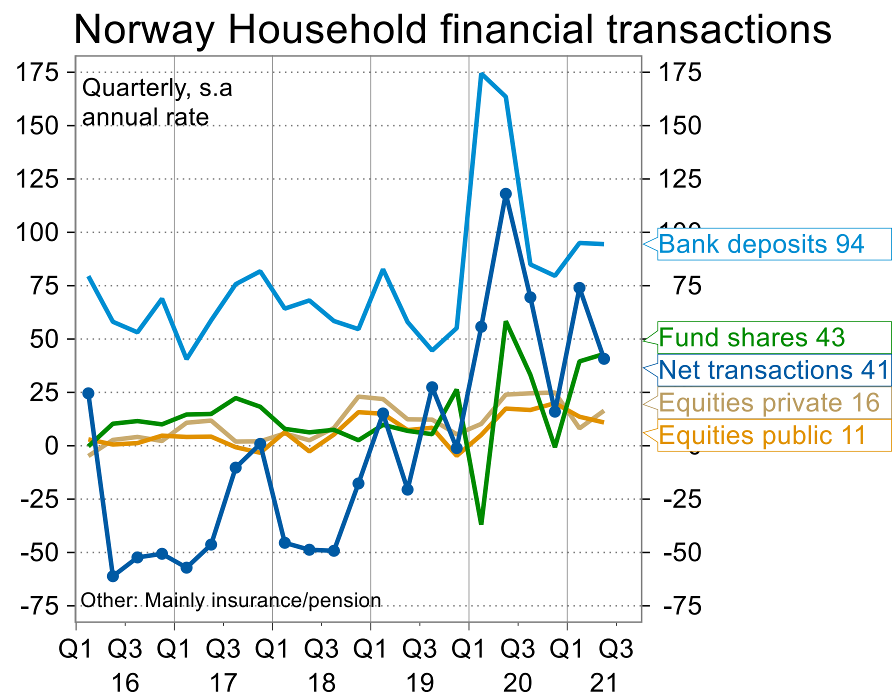
SpareBank 1 MARKETS

Bank accounts are still growing faster than nomal

... and more are invested in equity/funds as well but still rather small amounts



SB1 Markets/Macrobond

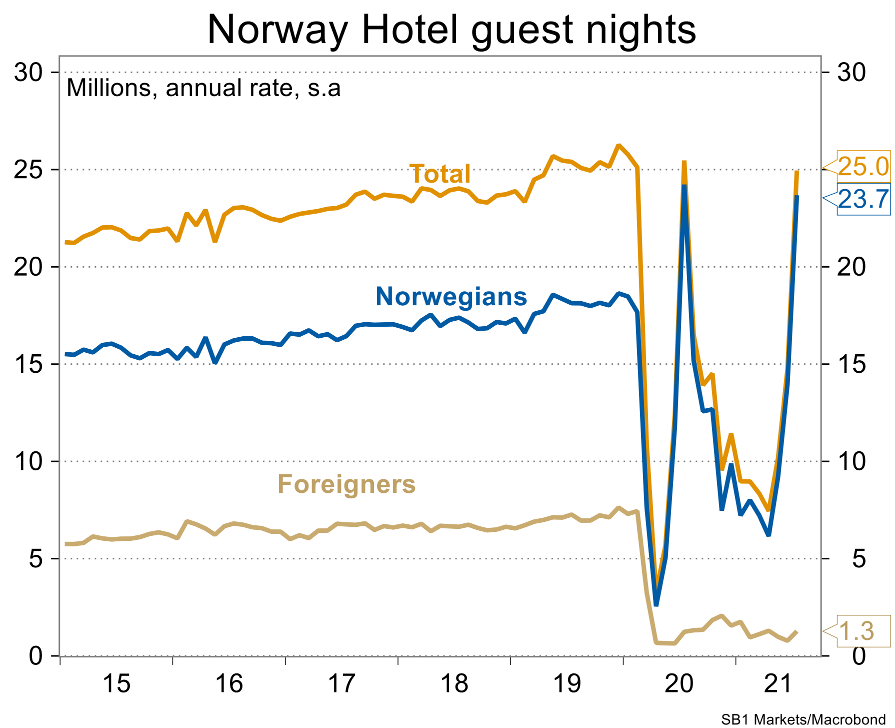


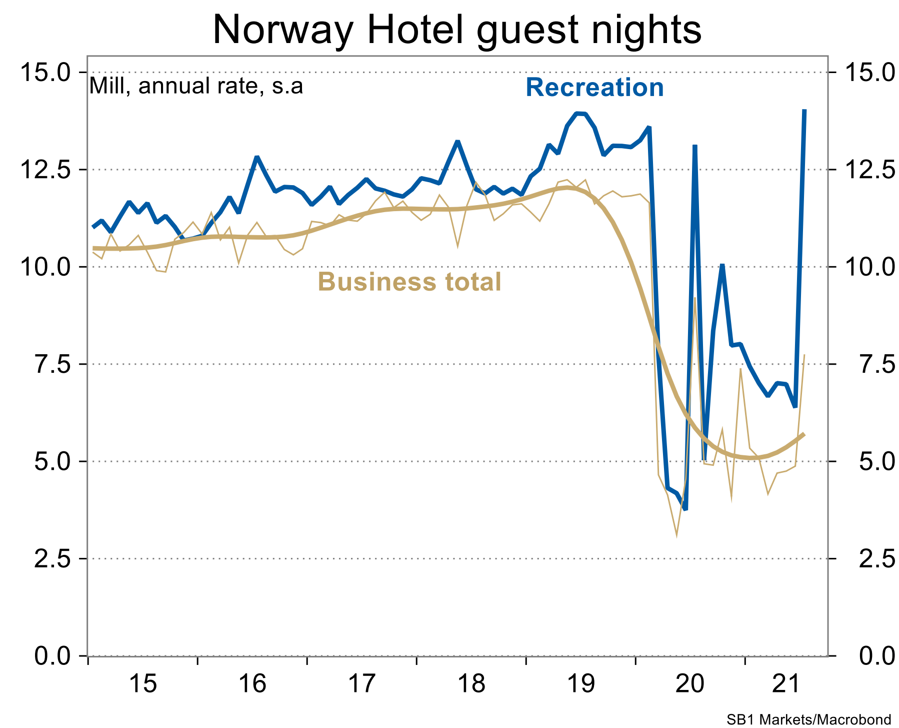
SB1 Markets/Macrobond

- Net transaction has equaled NOK 50 bn over the past year
- Assets is growing by some NOK 250 bn due to transactions, more than the increase in debt at 200 bn
- Bank deposits are up 90 bn, while 11 bn is invested in public equities, and households have bought funds share equaling 30 bn over the past year

Hotels guest nights doubled in July (m/m), down 1% y/y – as 'we' stayed in Norw.

The challenge: What about the autumn? Recreation could remain >normal level, but business guests?

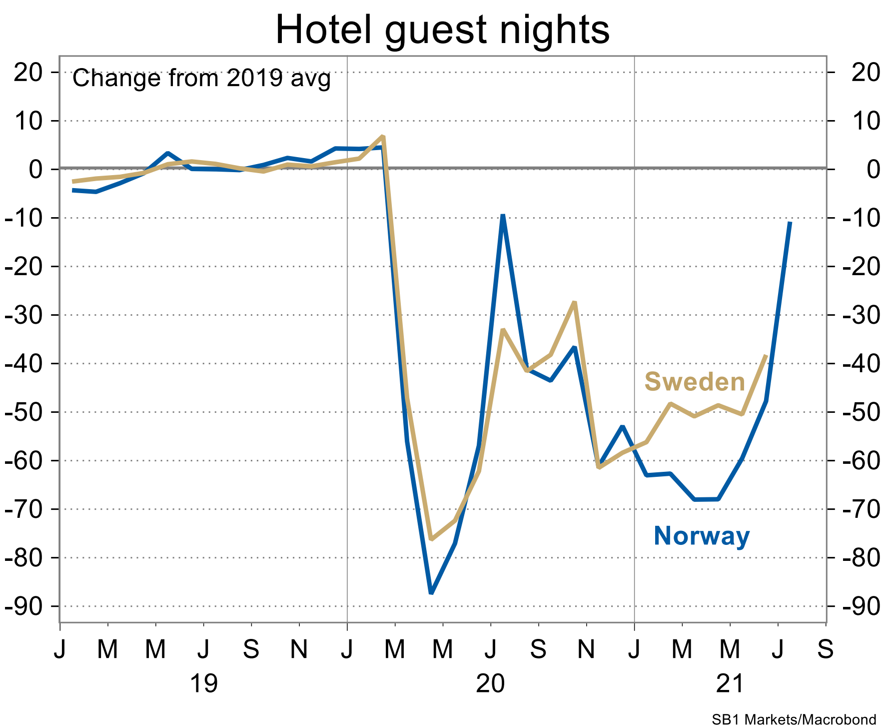


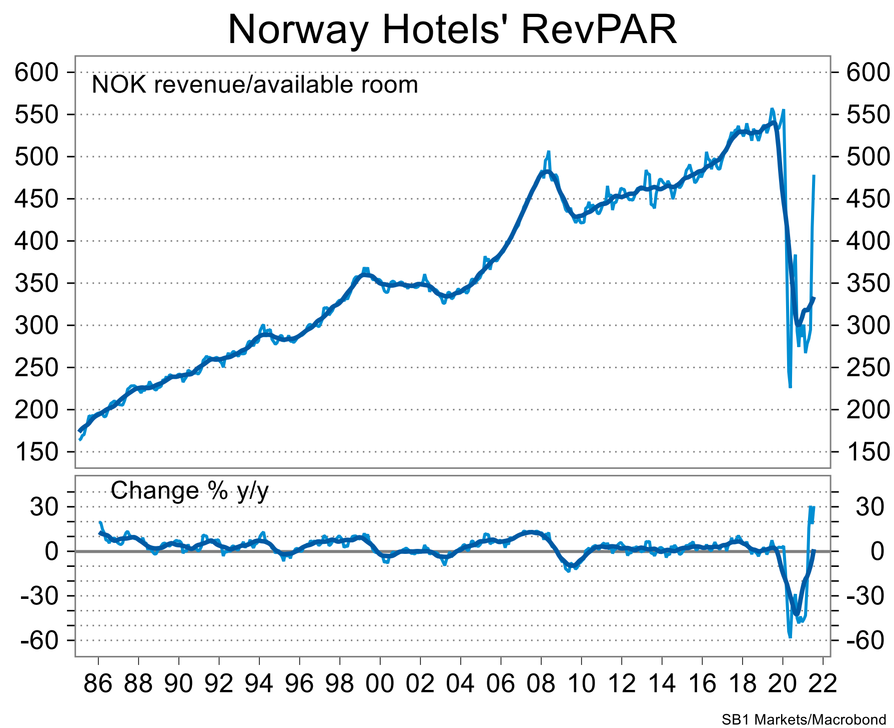


- The no. of guest nights was close to normal in July – as Norwegians filled up the rooms normally sold to foreigners
- Business travelling is still far below par, and will probably not fully recover anytime soon – and some of them will never return
  - » The seasonal adjustment is more challenging than normal, and the July number even more so for business travellers. Last year, the no. of business guest were 'too high', and that may turn out to be the case this July as well

Don't blame the 'lockdowns', rather the virus

Spot the difference between Norway & Sweden (and we could've added other European countries)

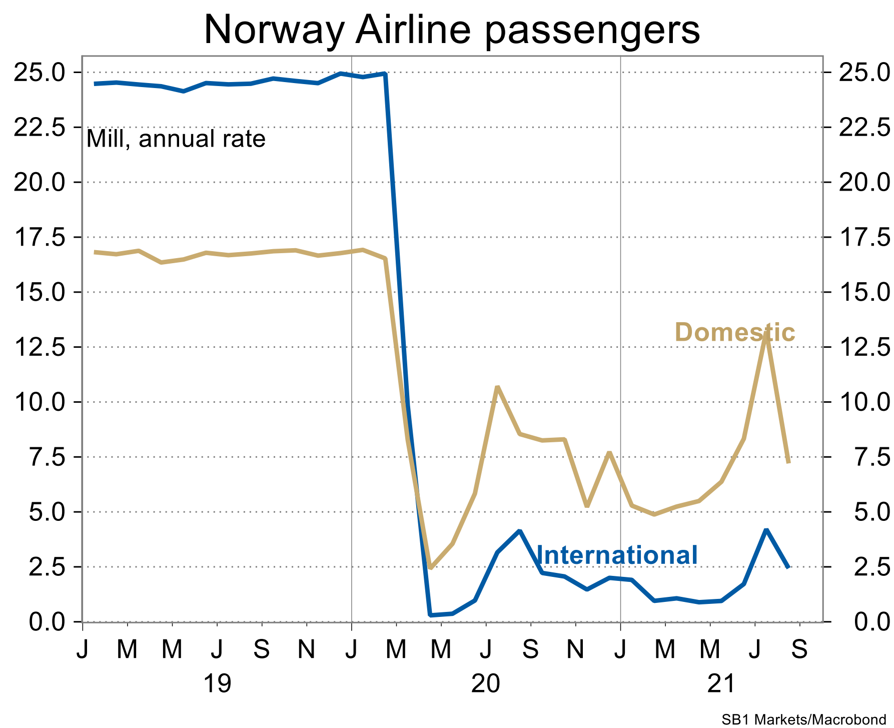




- Of course, both Sweden and Norway are approx. equally hit by loss of foreign guests but domestic traffic is equally down both places as well, even if the official Covid-19 policy response has diverged sharply
- On the income side: Hotel prices were sharply up in July (15%), and capacity utilisation was almost as last year (62% vs 63% in 2020). Thus, Revenue Per Available Room rose sharply, if not back to a normal level

Airline traffic down again in August, as tourists returned to work…

And 'workers' did not return to the airlines



- The no. of passengers at **domestic routs** was down almost 60% vs. the 2019 level, following a 40% drop from July – which was just 20% below a normal level – very likely as business travel did not return
- **International travel** by air is still down 90% as x-border travel was (and still is) risky vs. restrictions/quarantines

Highlights

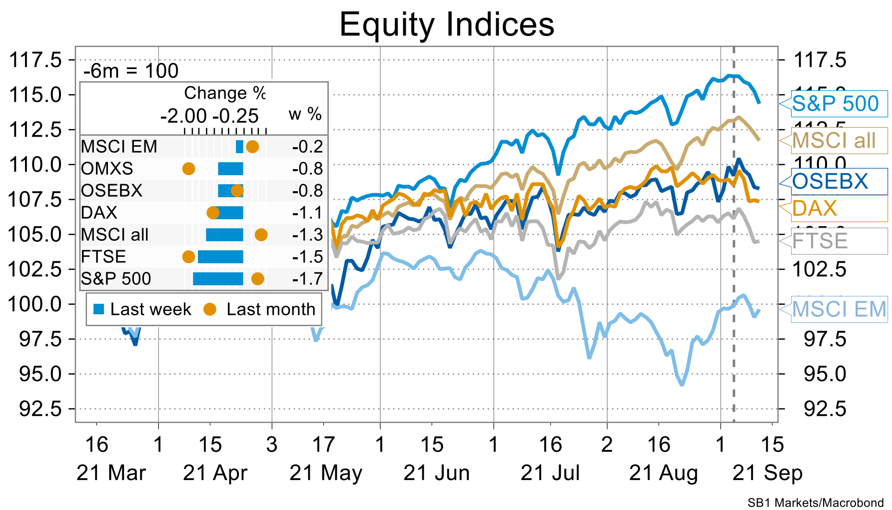
The world around us

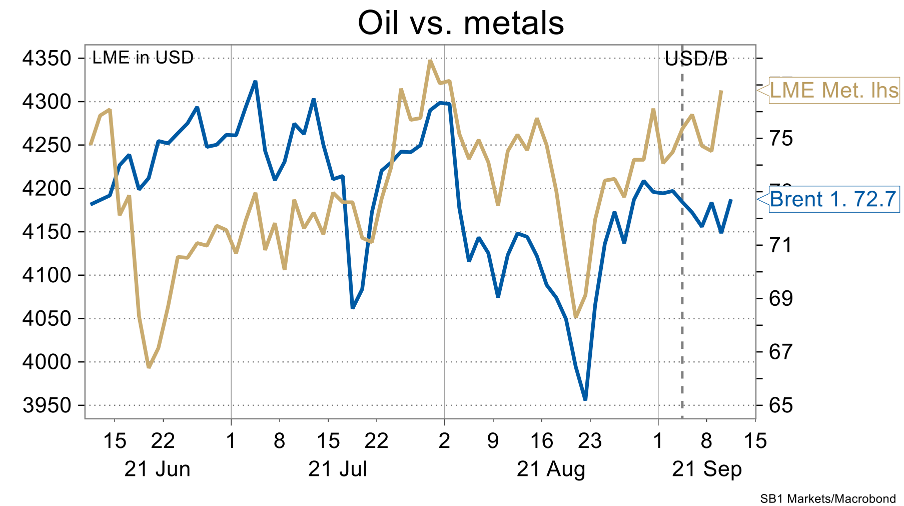
The Norwegian economy

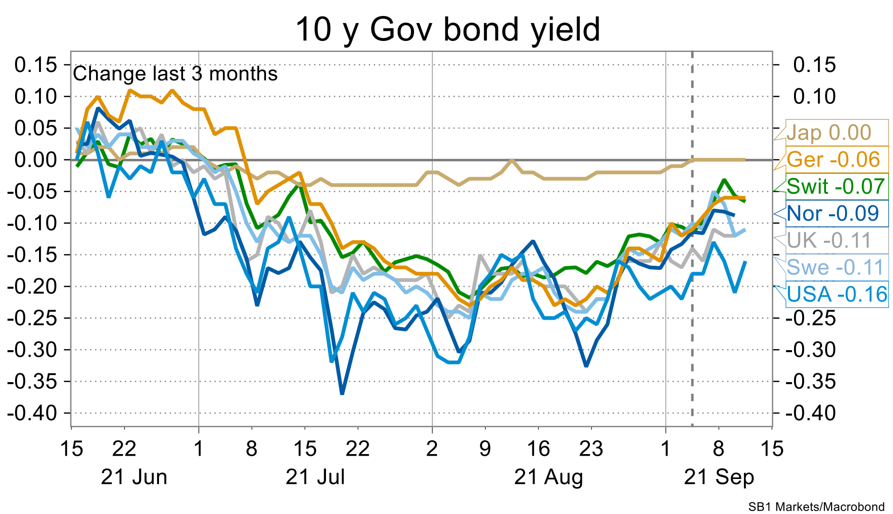
Market charts & comments

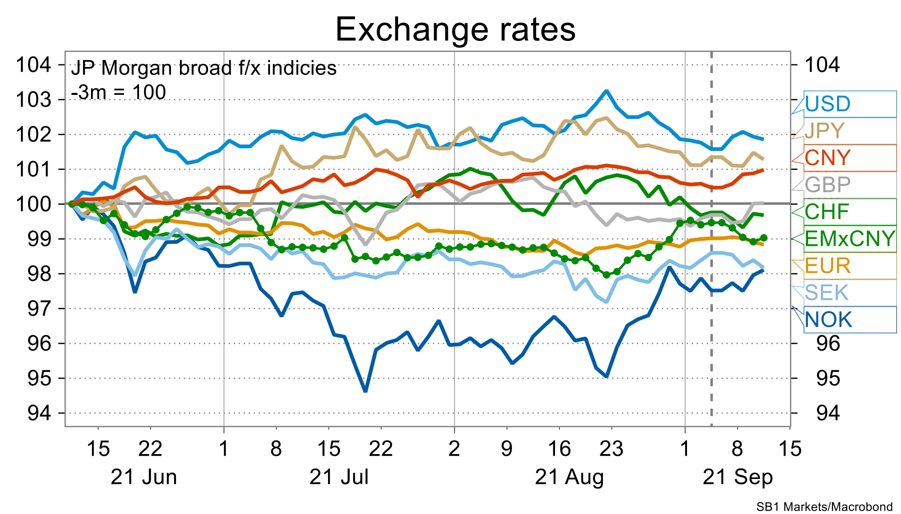
Equites down, bond yields up, commodities mixed – and NOK up

Germany yields up even if ECB promises just a limited 'tapering' – but inflation expectations up





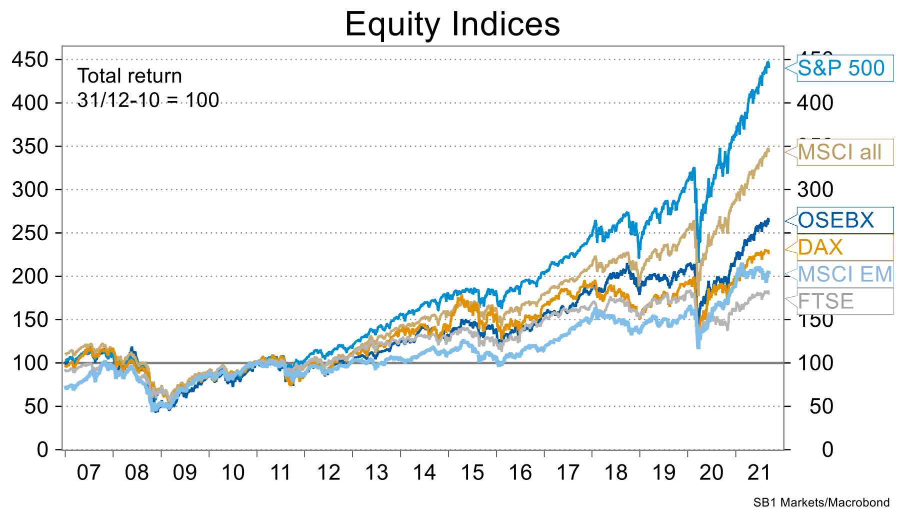


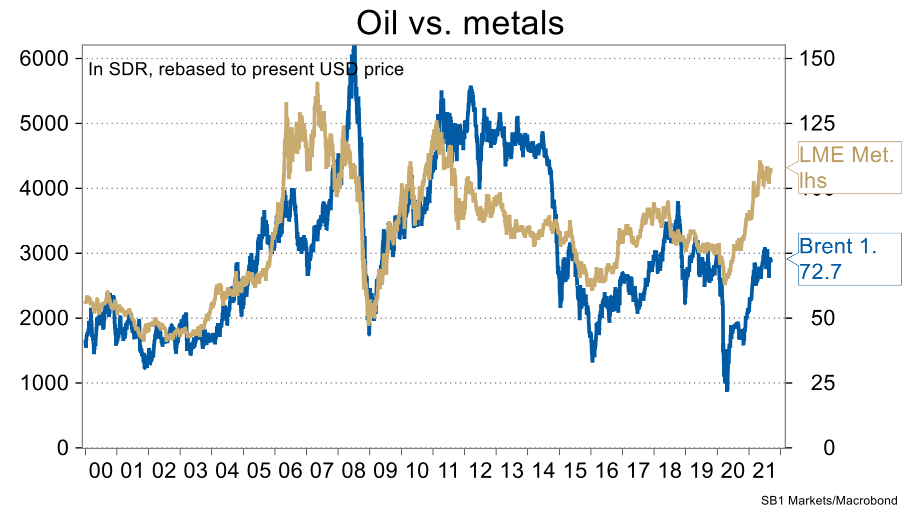


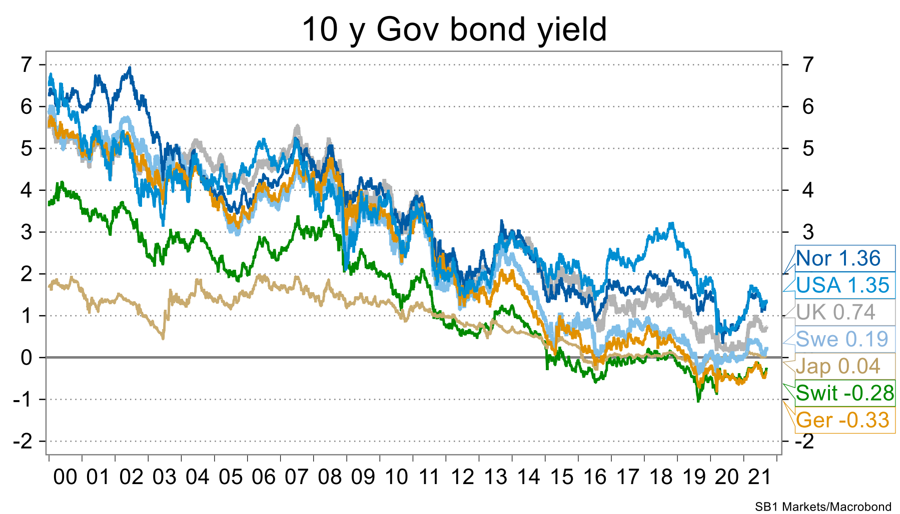
SpareBank 1 MARKETS

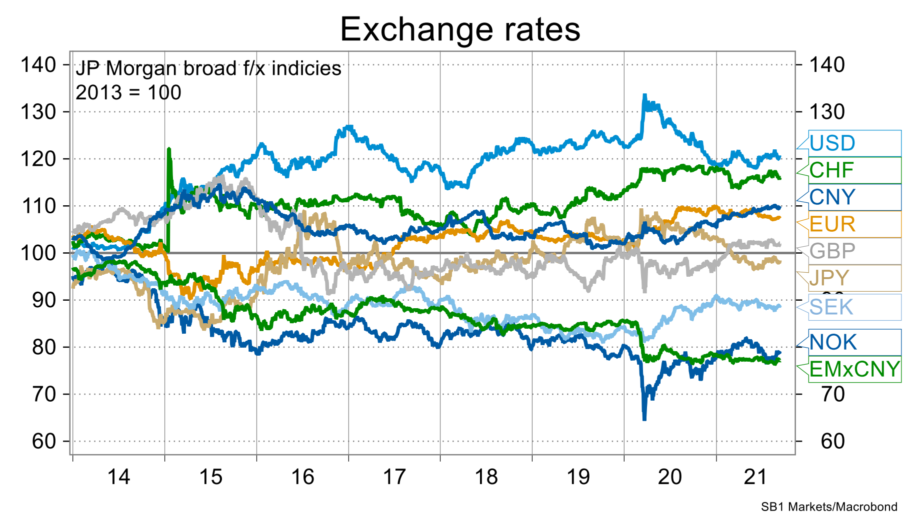
The big picture: Strong stock markets, commodities have taken a breather

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





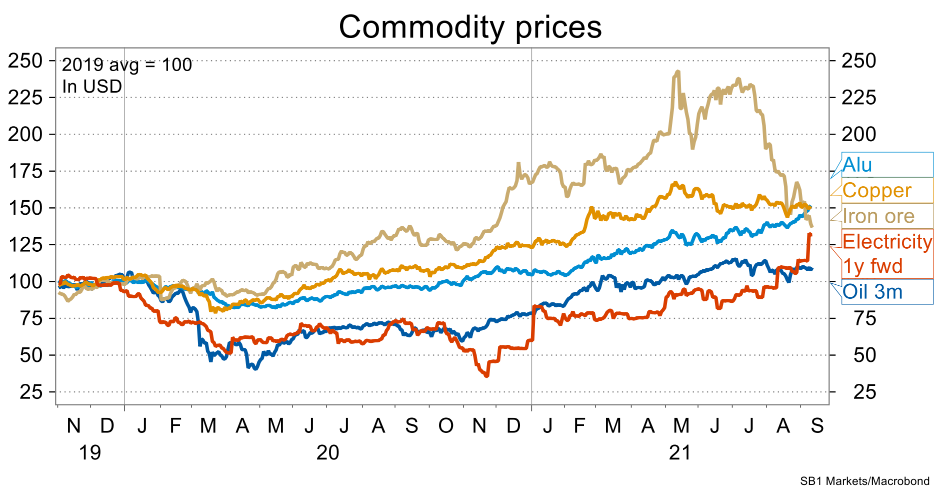


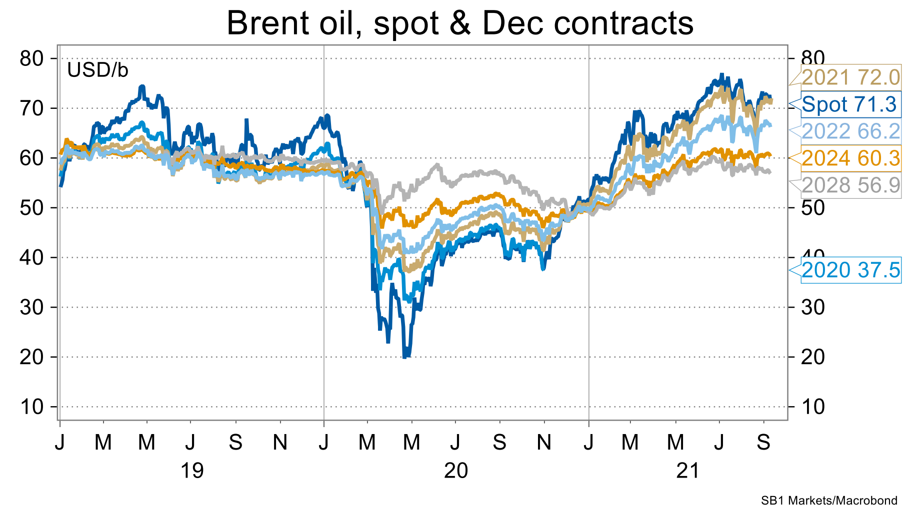


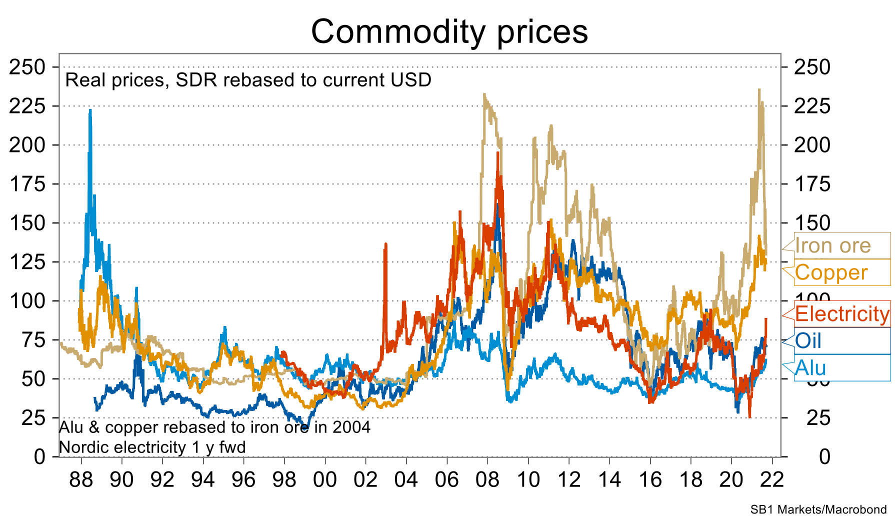
SpareBank 1 MARKETS

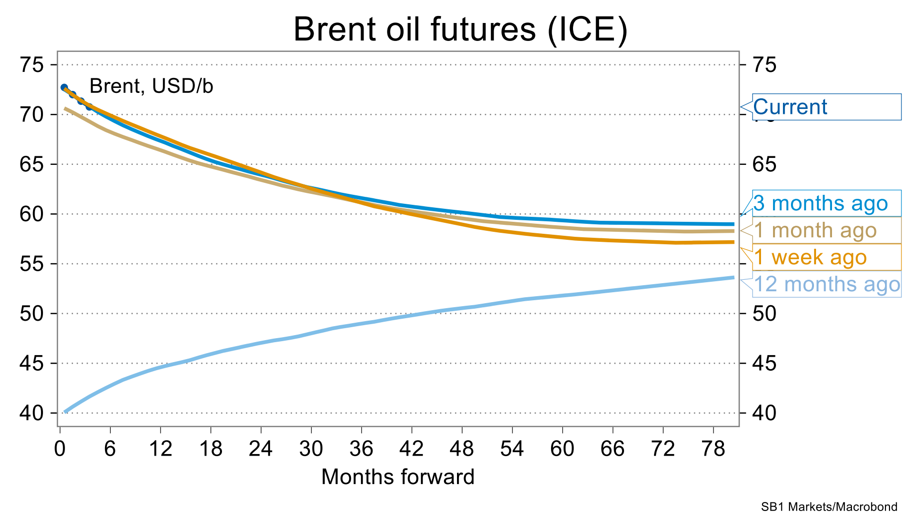
Commodity markets mixed, iron ore further down, aluminium up

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





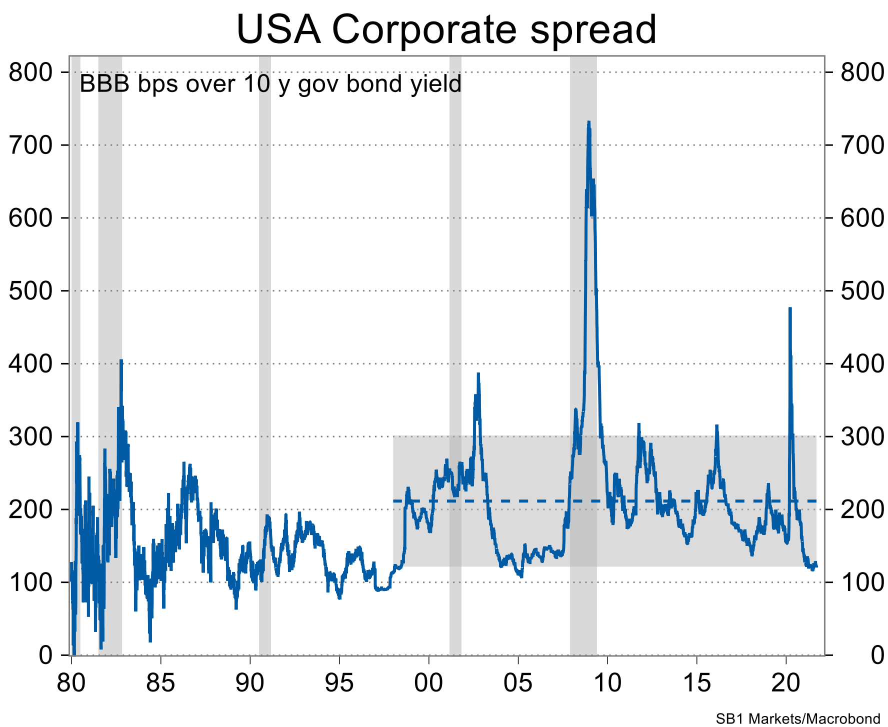


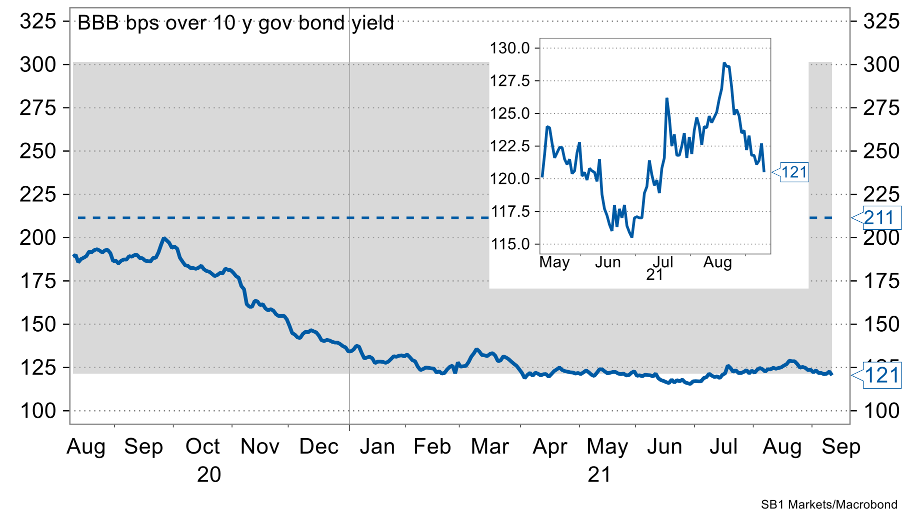


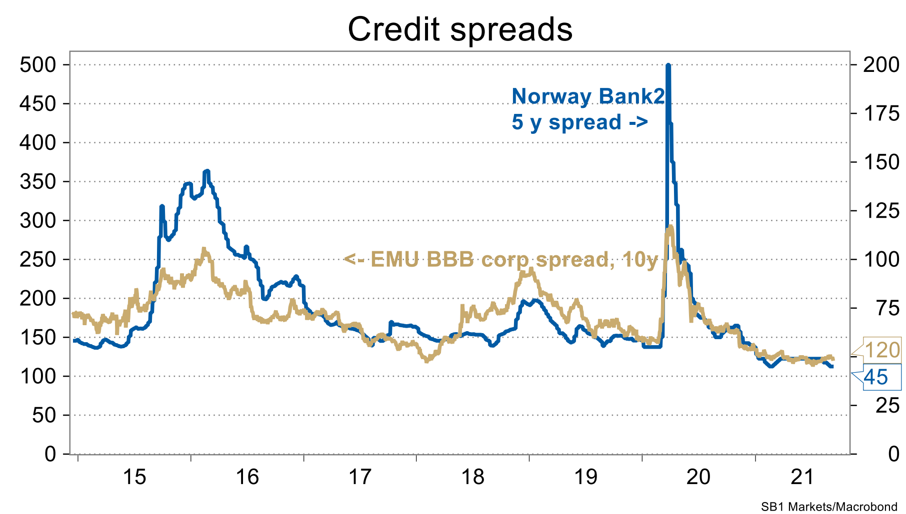
SpareBank 1 MARKETS

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

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

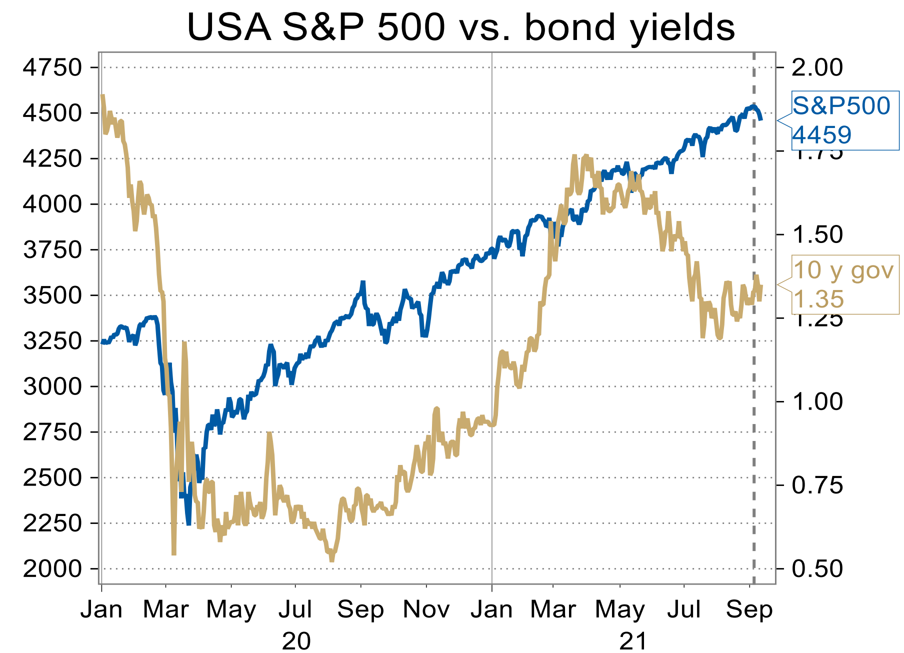


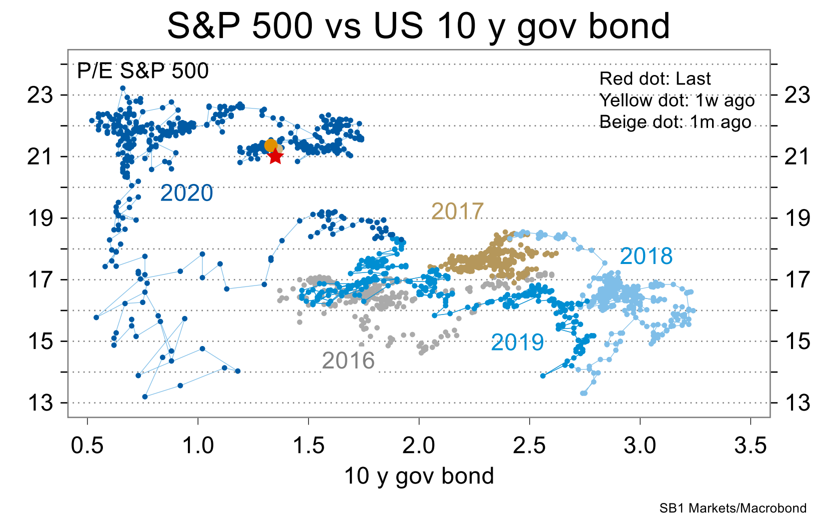


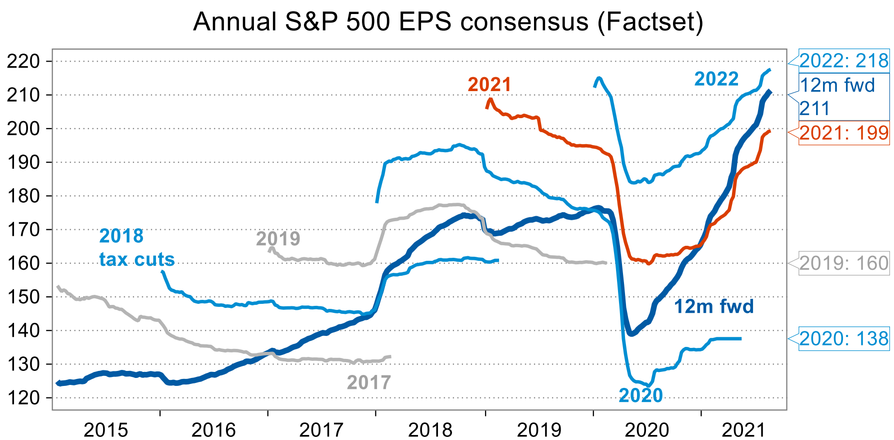


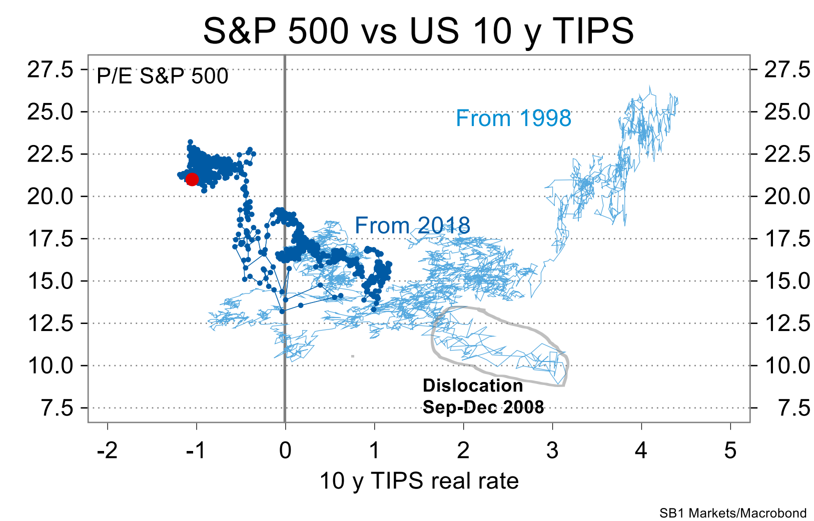
S&P 500 down 1.7% (still the worst week since June). Bond yields up 2 bps

A modest setback in a market with 'zero' volatility. Bond yields are drifting slowly upwards



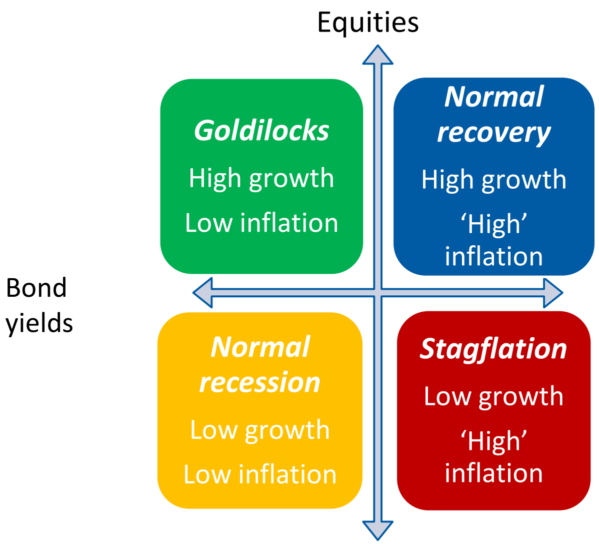


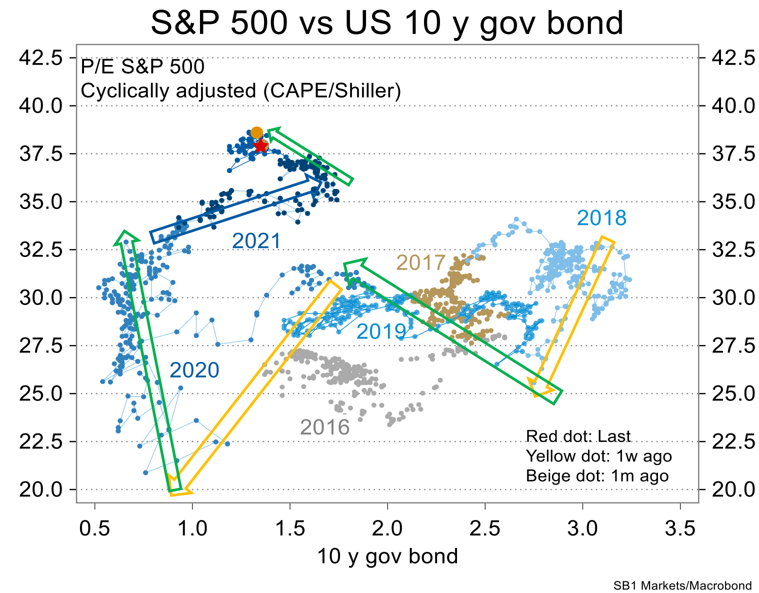




Still well into the 'Goldilocks corner'

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

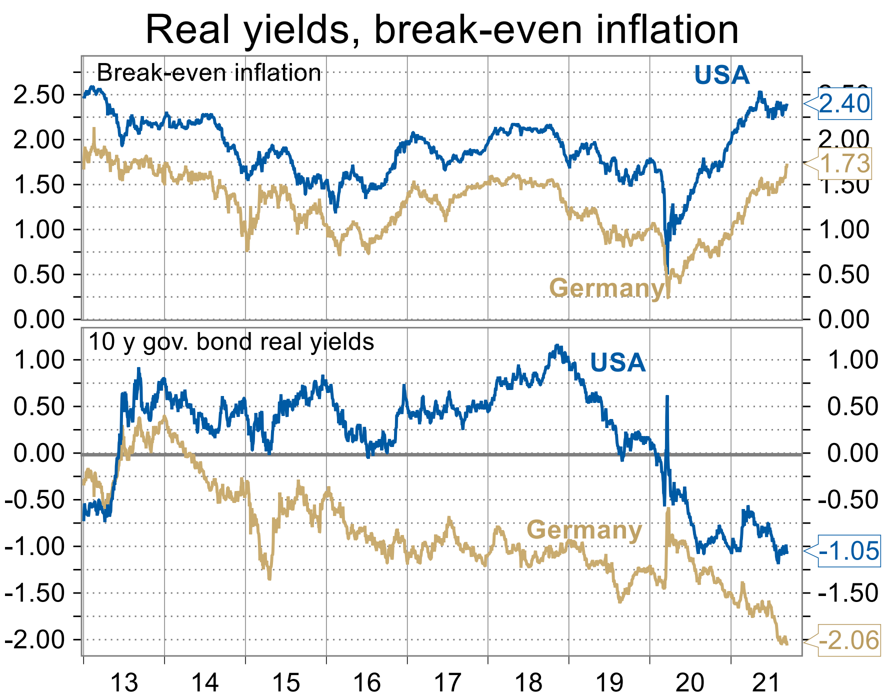




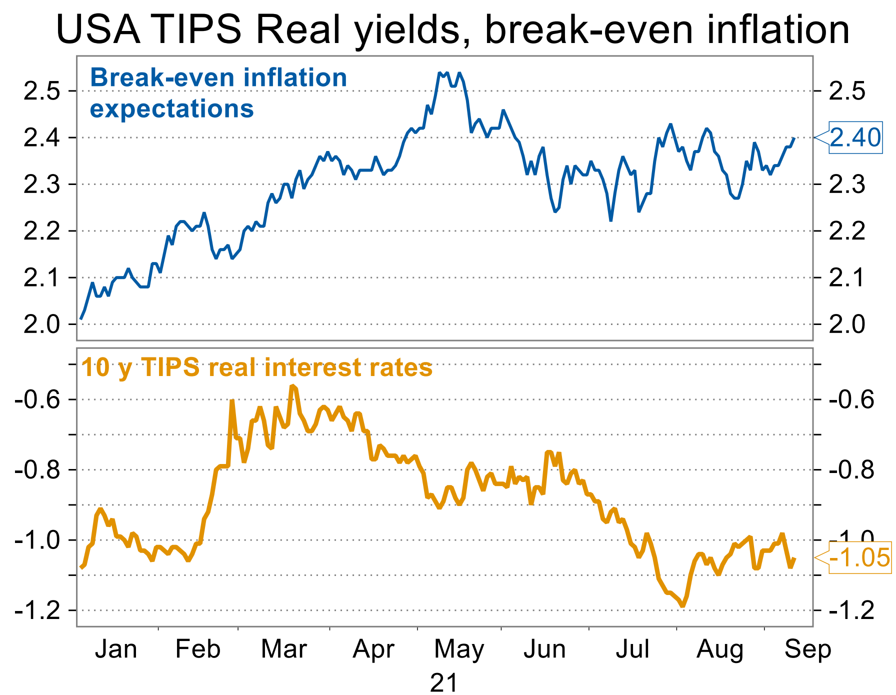
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield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

German inflation expect. sharply up on a 'dovish' ECB, real rates down to ATL!

Nominal yields rose another 5 bps. Real rates fell in the US too, and inflation expectations rose further



SB1 Markets/Macrobond



SB1 Markets/Macrobond

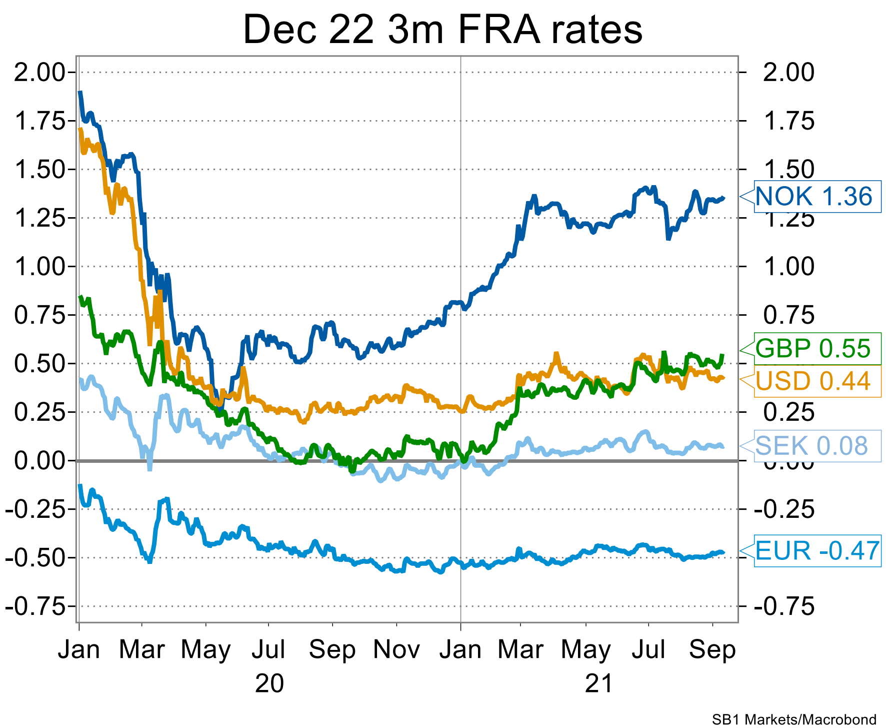
US & Germany 10 y Gov bond yield

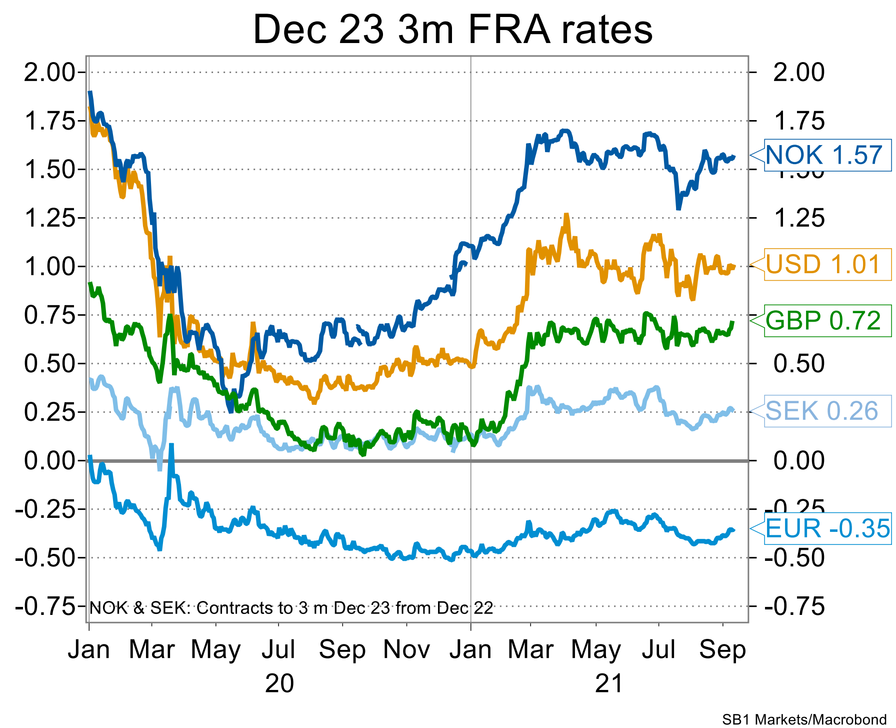
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.35	0.02	-0.01	0.52
.. break-even inflation	2.40	0.06	0.00	1.06
.. TIPS real rate	-1.05	-0.04	-0.01	-1.19
Germany nominal bund	-0.33	0.05	0.13	-0.65
.. break-even inflation	1.73	0.13	0.21	0.40
.. real rate	-2.06	-0.08	-0.08	-2.06

SB1 Markets/Macrobond

- The 10 y German real rate at -2.06% is the lowest on record, the ECB is assumed to be very aggressive in order to push inflation up – and the bank will be succeed!
- The 10 y expected rate of inflation at 1.73% is the highest since 2013

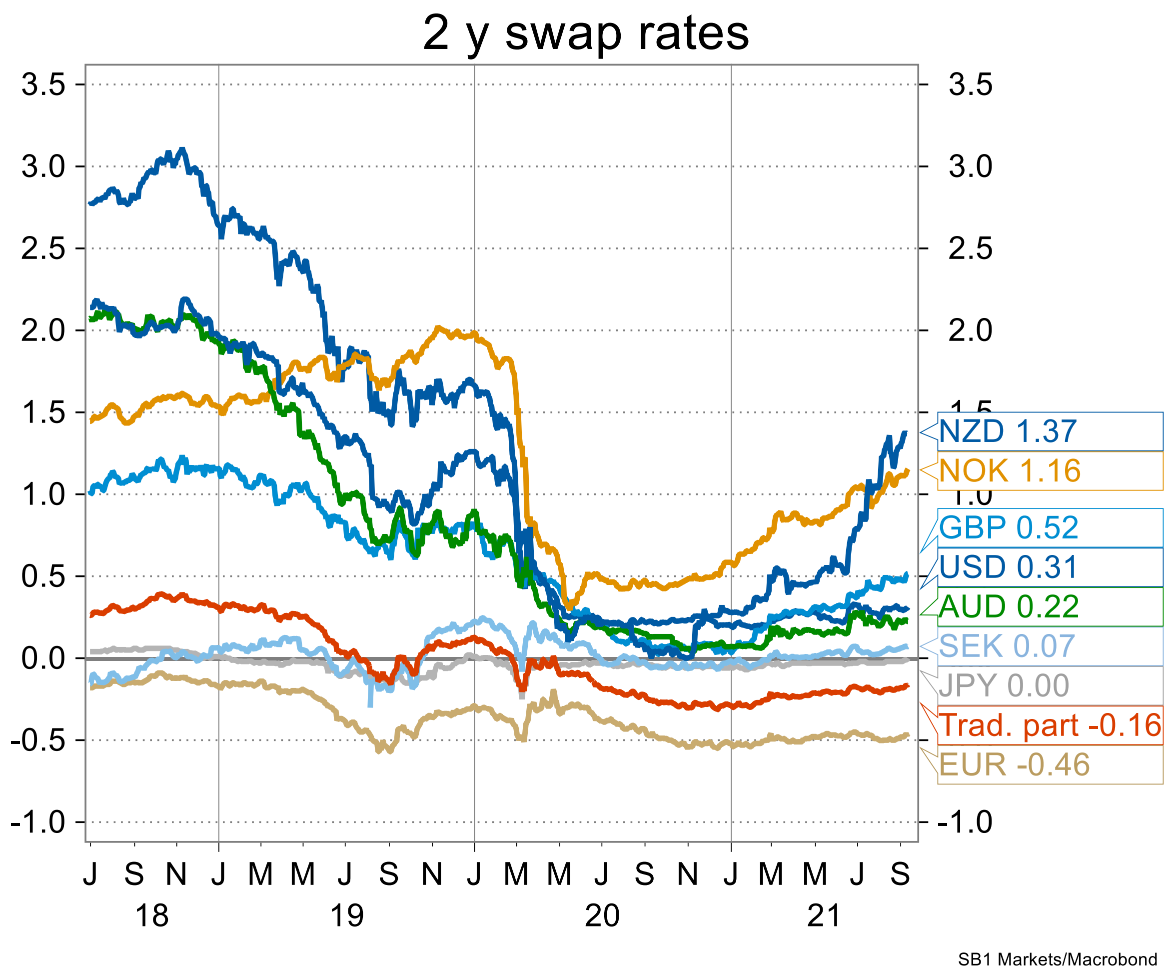
FRAs: Mostly up last week, trends are flat

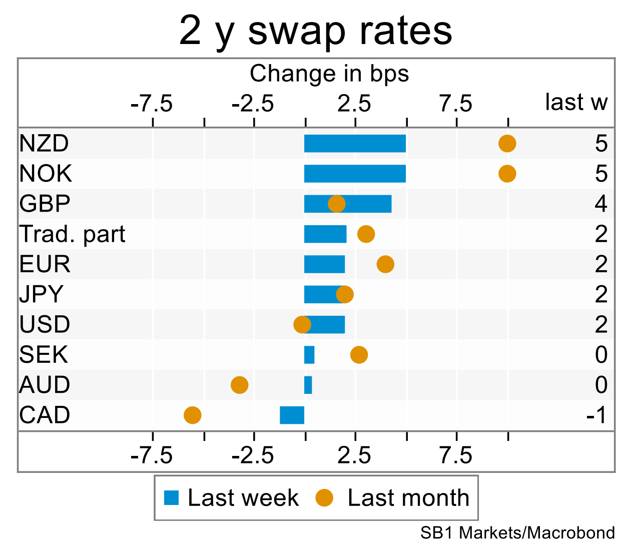




- The market expects both **BoE** and the **Federal Reserve** to hike next year

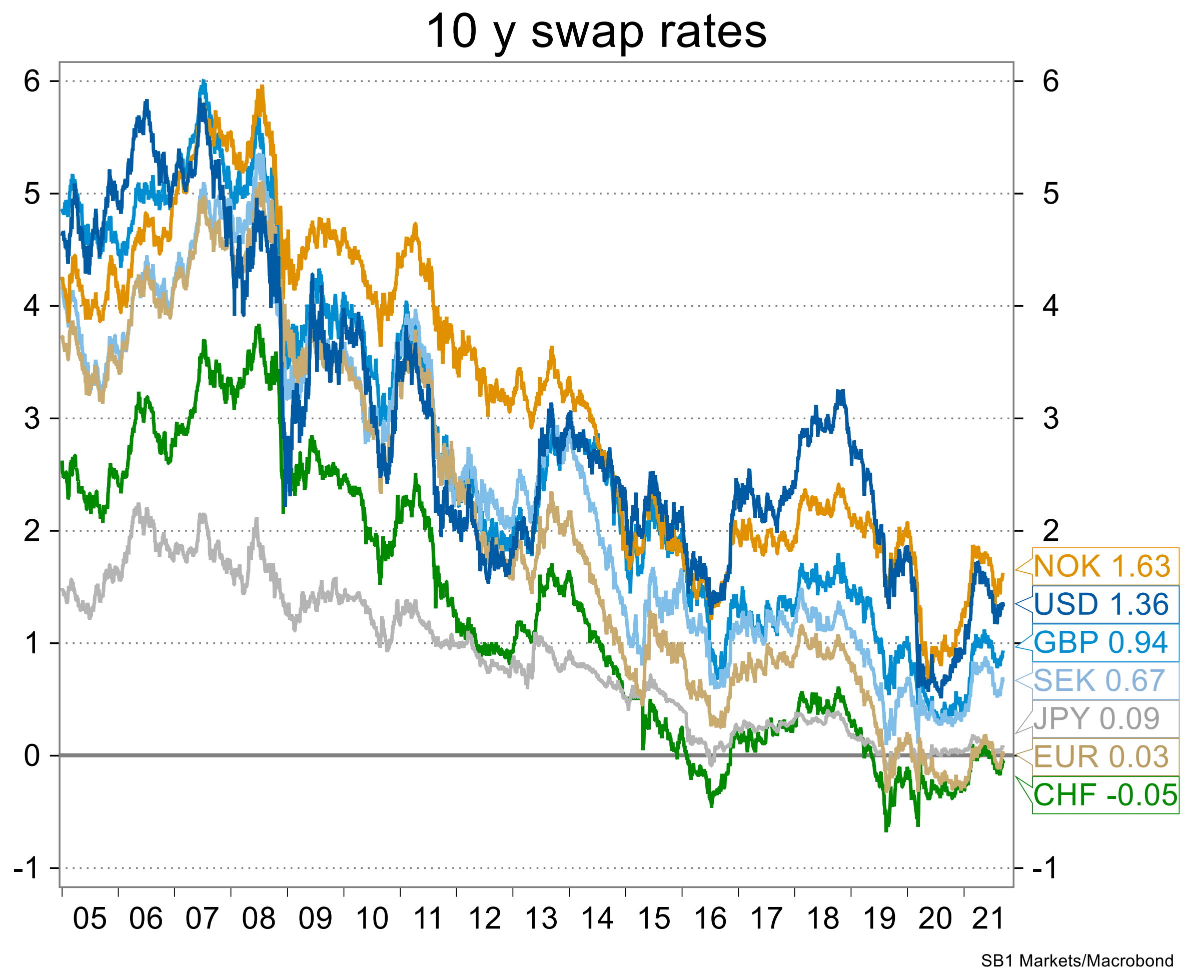
The super-cyclicals x NOK down, NOK and others up

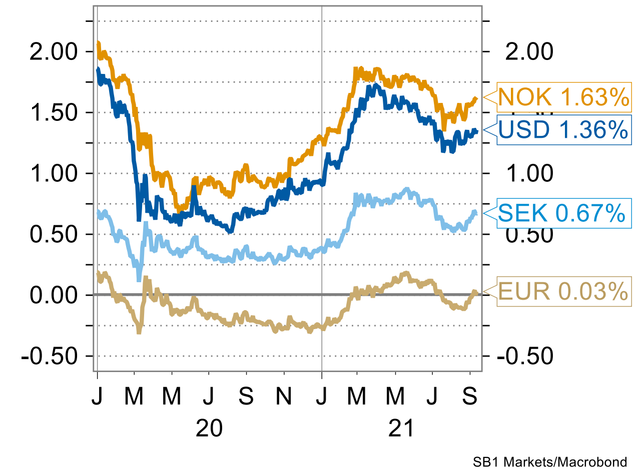


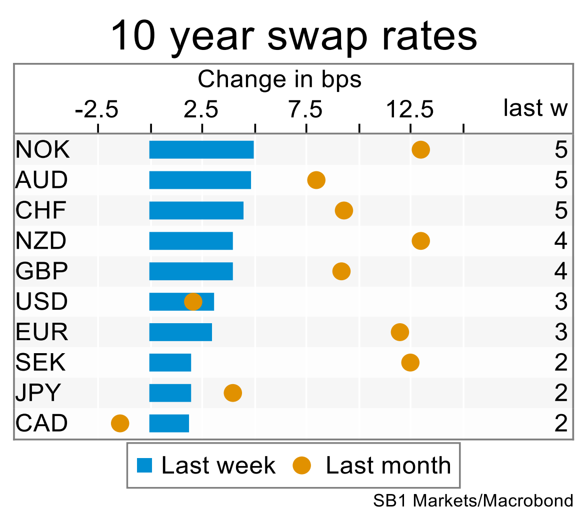


A small uptick, for the 3rd month in a row – still a 'long' way up to the March level

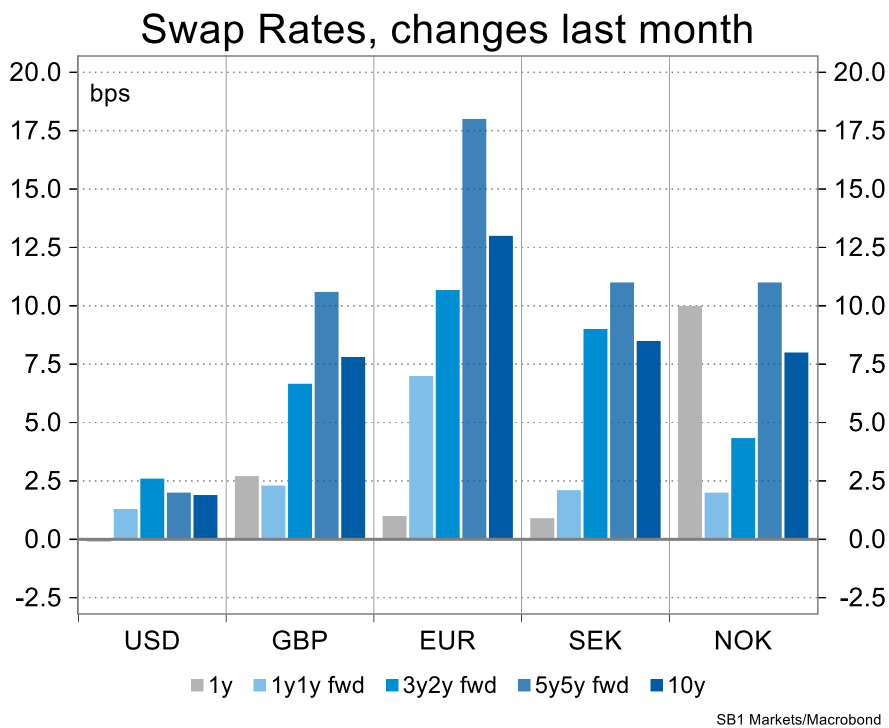
EUR rates are up 10 bps past 4 weeks as ECB board members have started to talk about 'tapering'

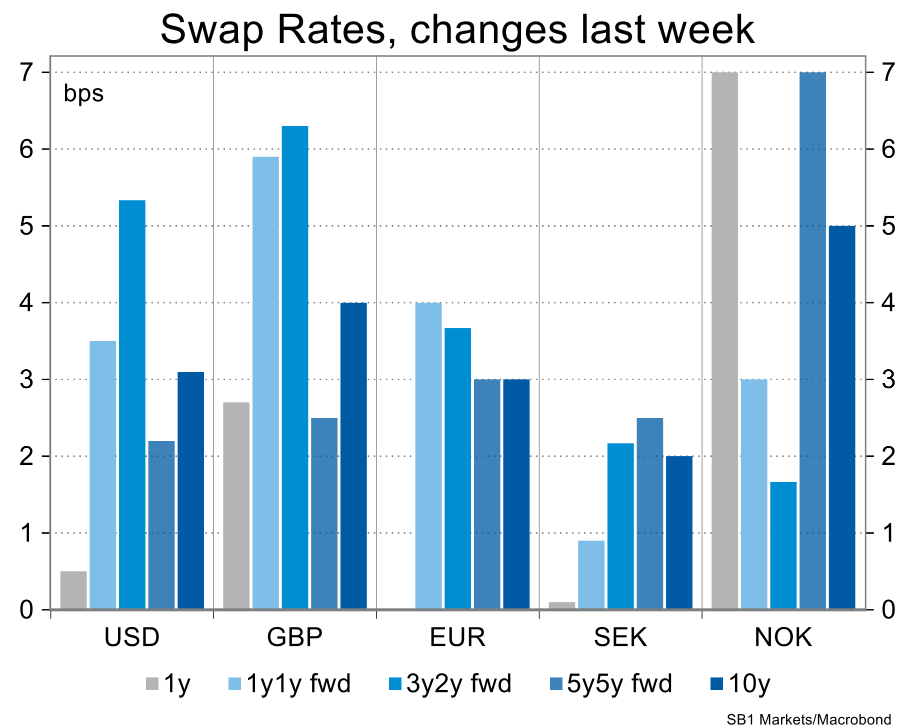






EUR rates are on the way up, also last week. NOK rates up in the short & long end





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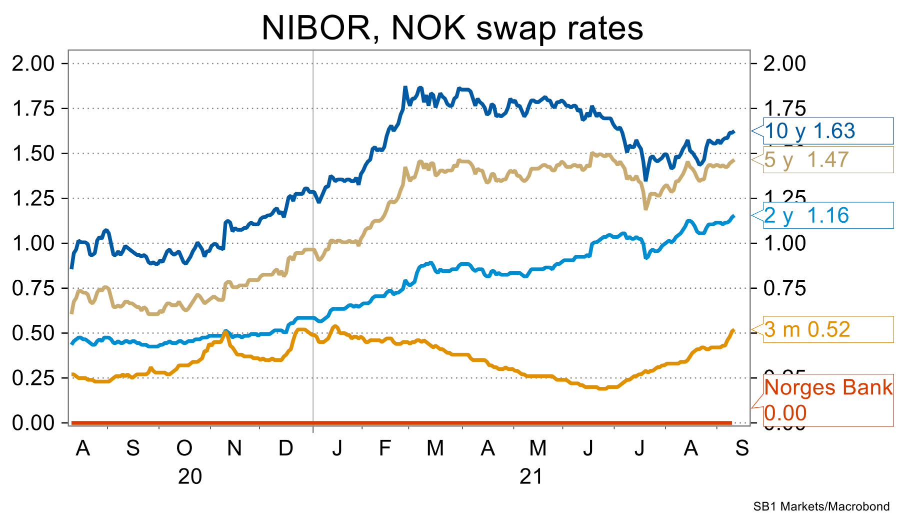
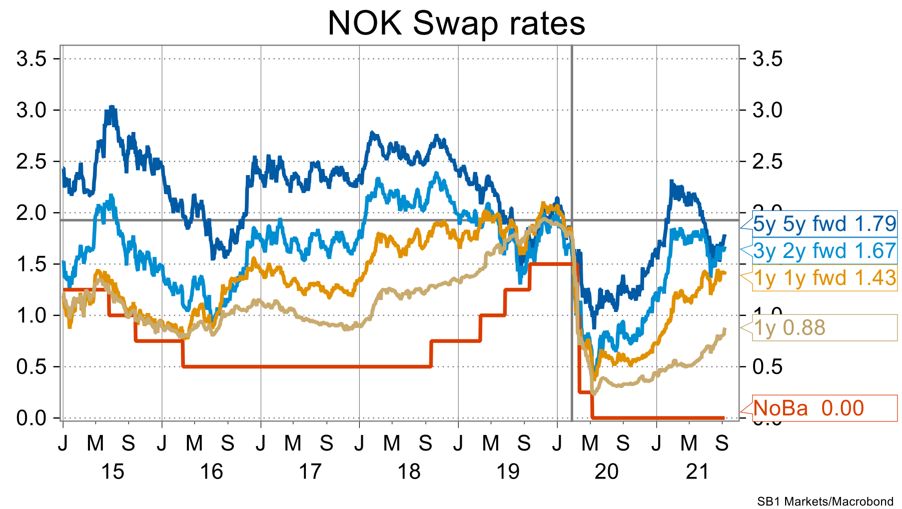
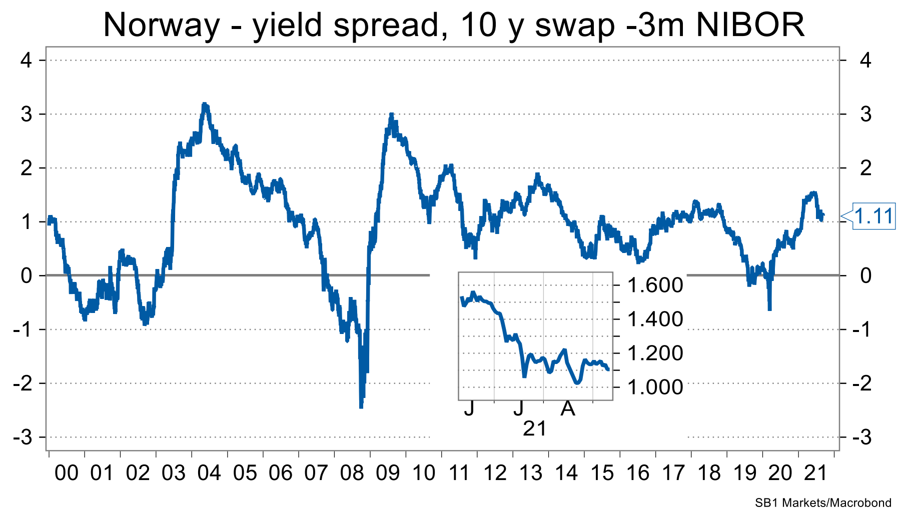
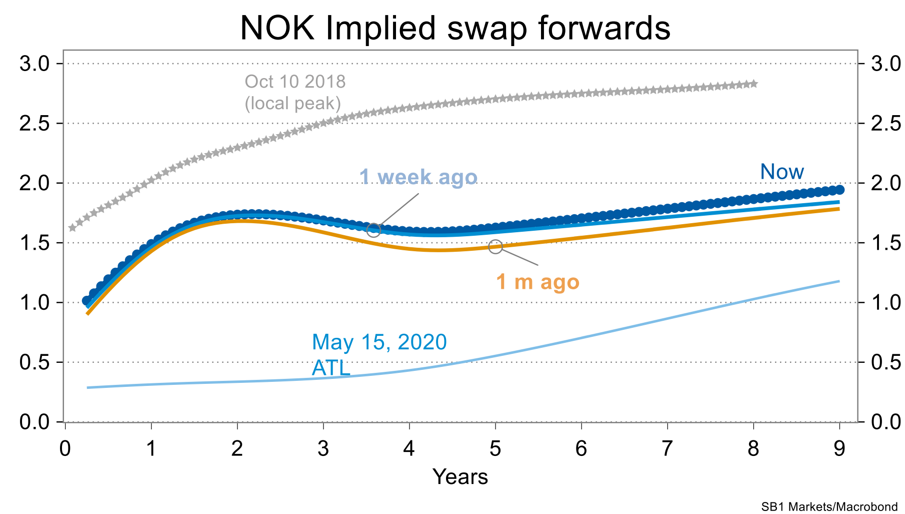
Rates up all over the curve

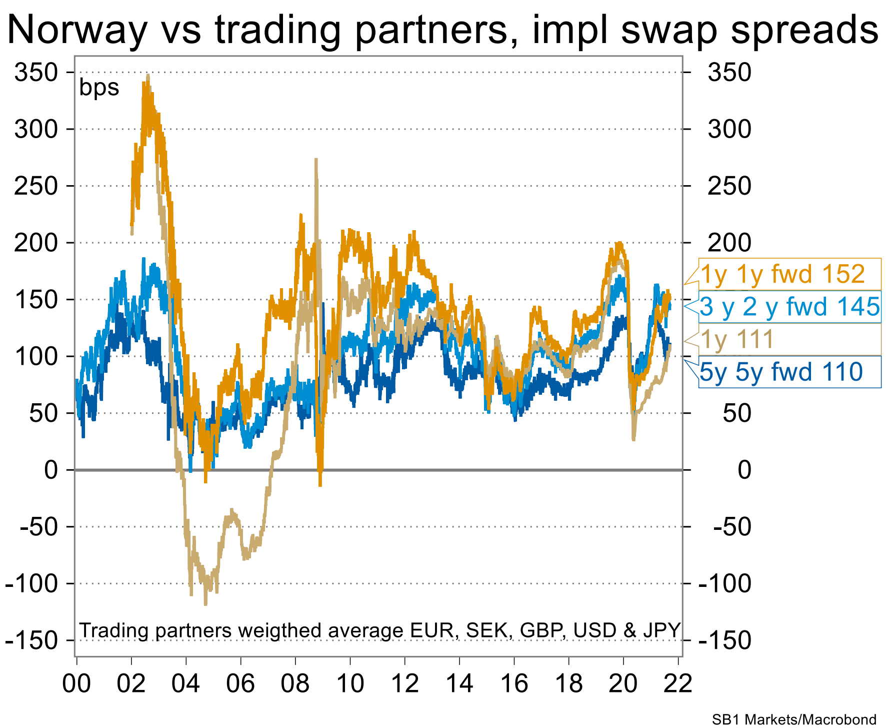


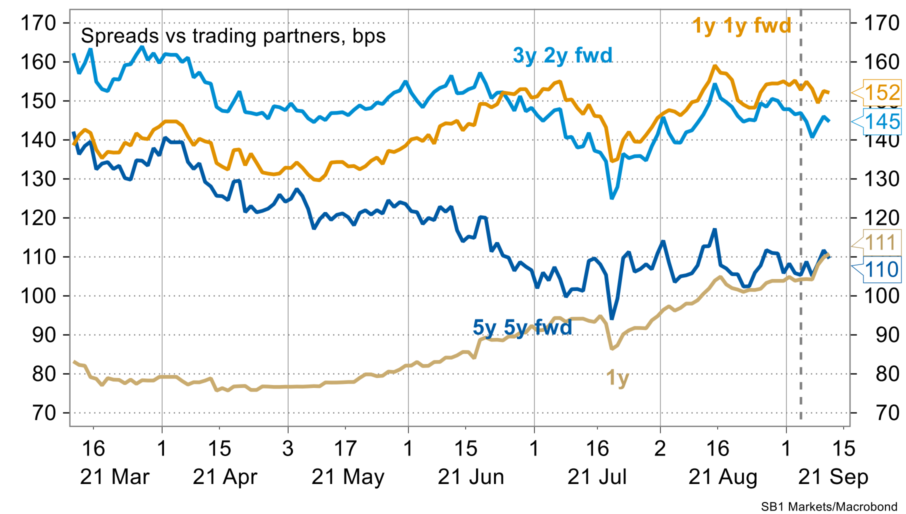


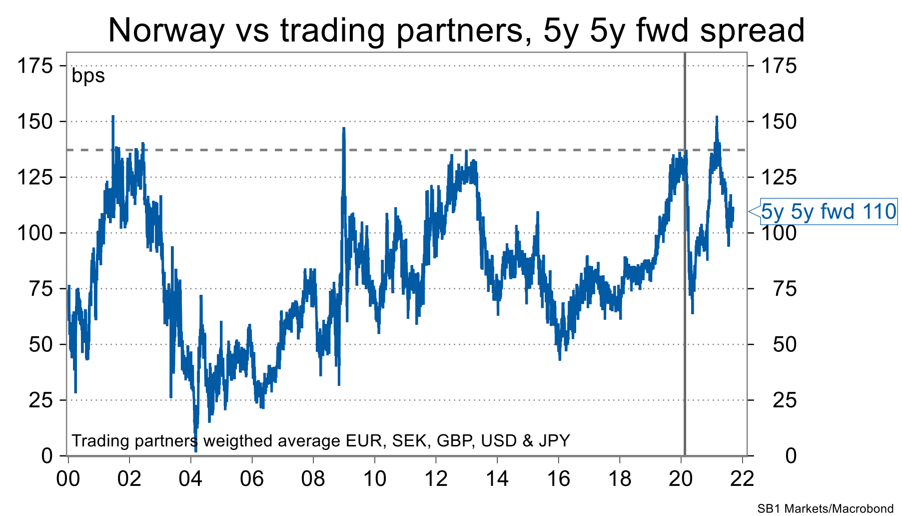




Forward spreads vs trading partners down on the mid curve, up in both ends







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

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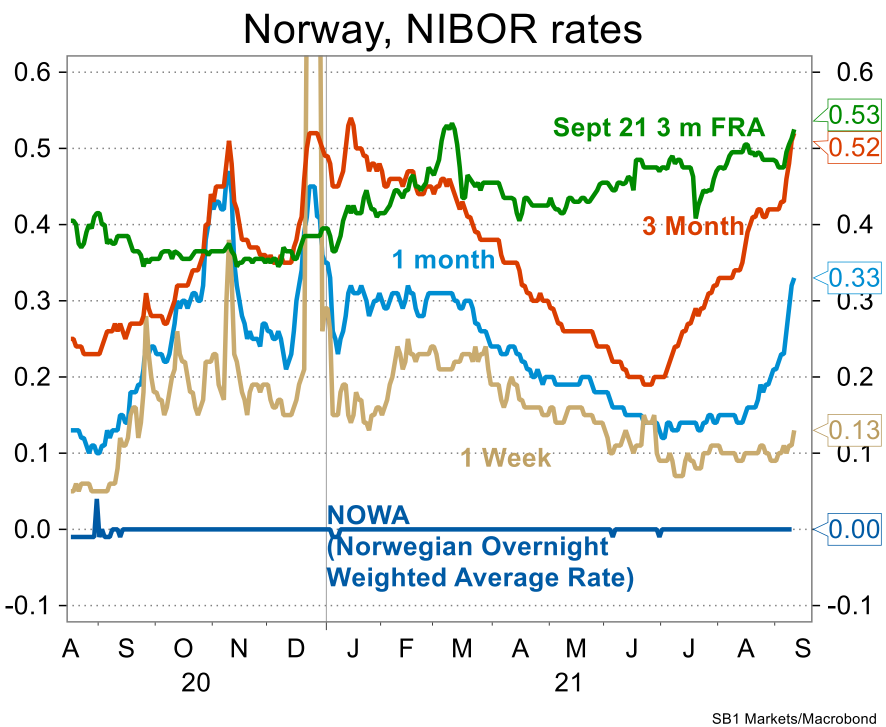
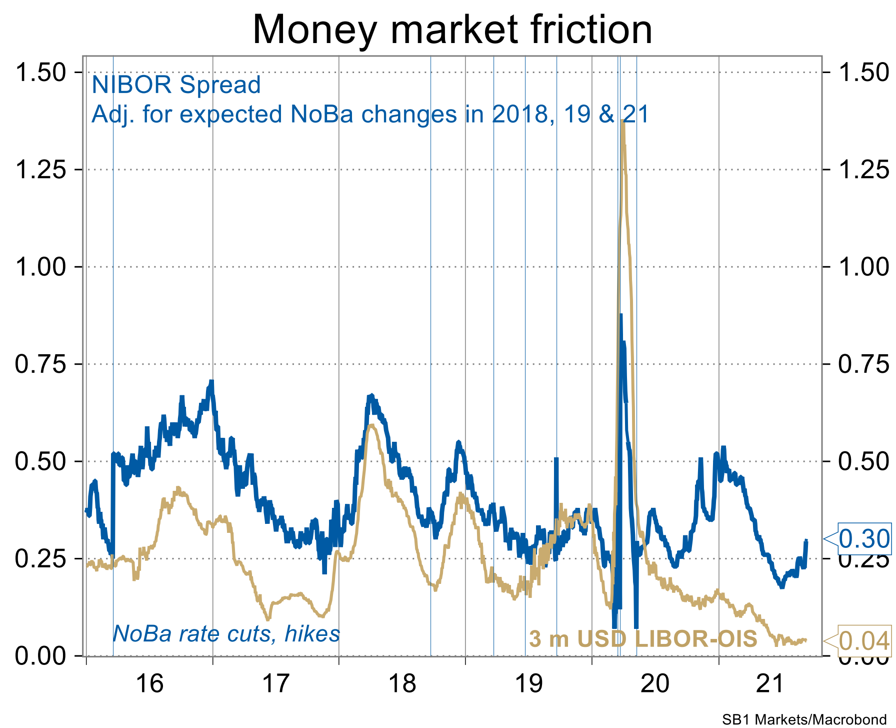
3 m NIBOR 9 bp up to 0.52%, the NIBOR spread up to a more 'normal' 30 bps





- 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 steep rise in the NIBOR – and in the Sep 3m FRA last week implies a lift in the NIBOR spread to 30 bps from 23 bps one week ago
- The 1 month NIBOR has climbed to 33 bps from 15 in min August. Liquidity in the money market is clearly tightening

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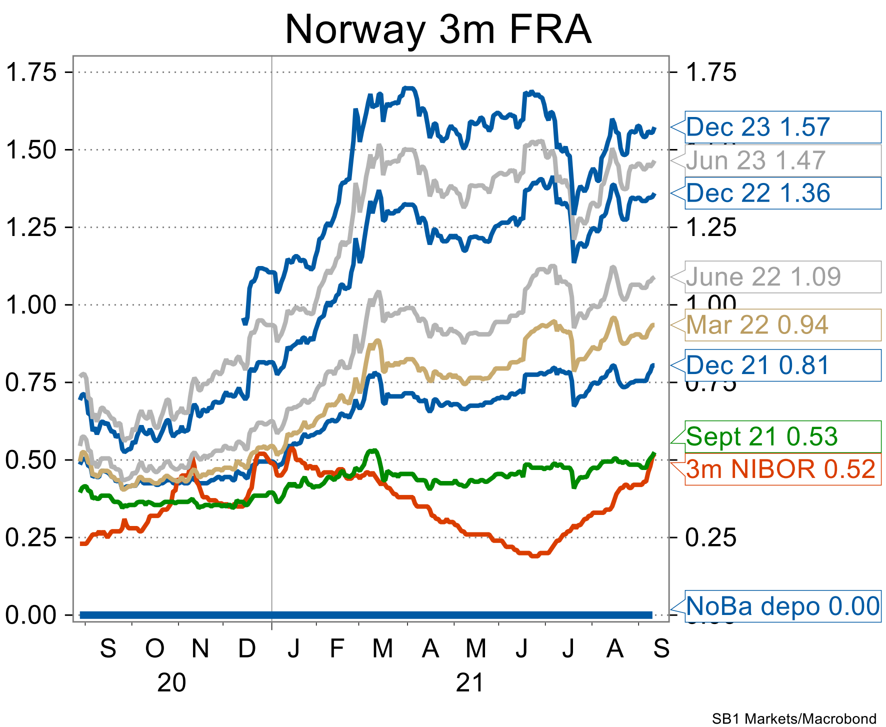
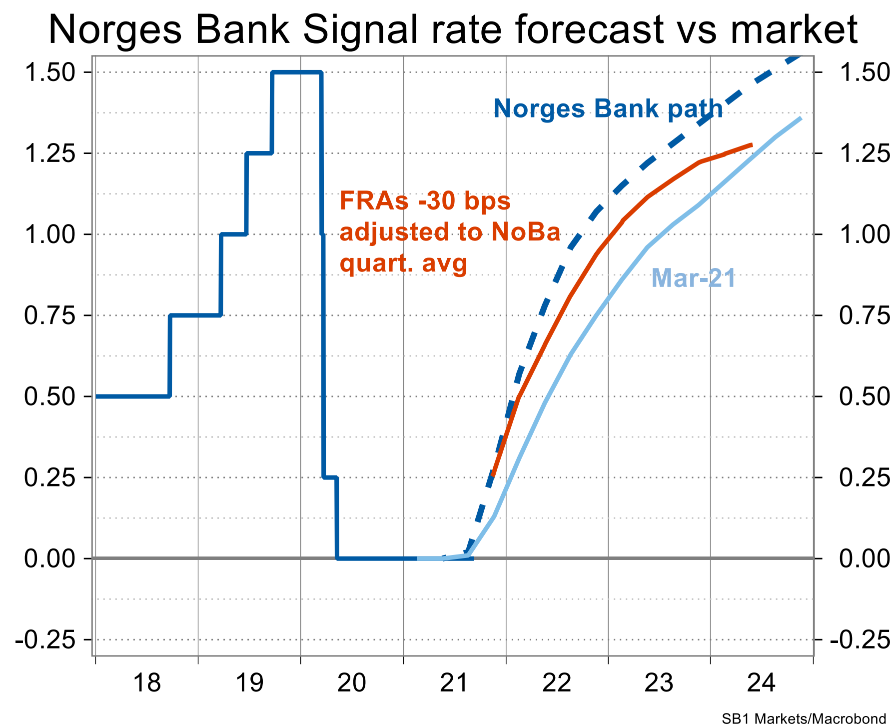
The FRA curve up 3 – 5 bps, a Sept hike is given, 76% probability for a Dec hike

… and 56% for a 3rd hike in March (if the signal rate is hiked in Dec too)

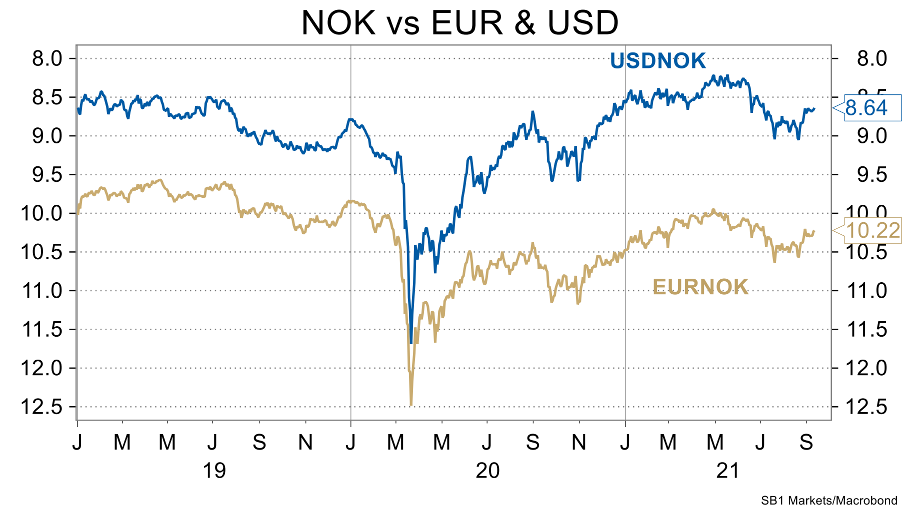


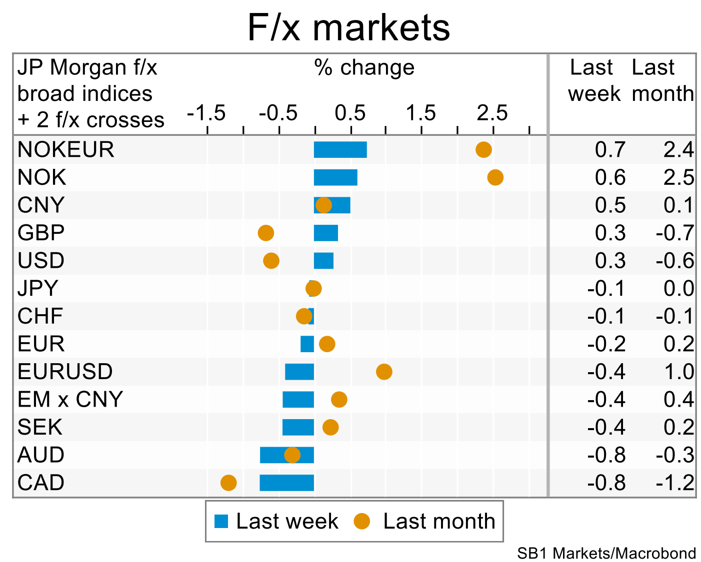


- A **NoBa hike next week** is fully discounted, even if the NIBOR spread is clearly widening as well
- The Dec-21 FRA at 0.81%, after deducting a Q4 liquidity premium at 7 bp, and assuming a 30 bps NIBOR spread, implies a 76% probability for a **2nd hike in December**
- The Mar-22 FRA at 0.94% implies 56% probability for a 3rd NoBa hike in March, given a 2nd hike in December (given a 30 bps spread)

NOK in the lead last week & last month – from low levels

USD slightly up, EUR down last week

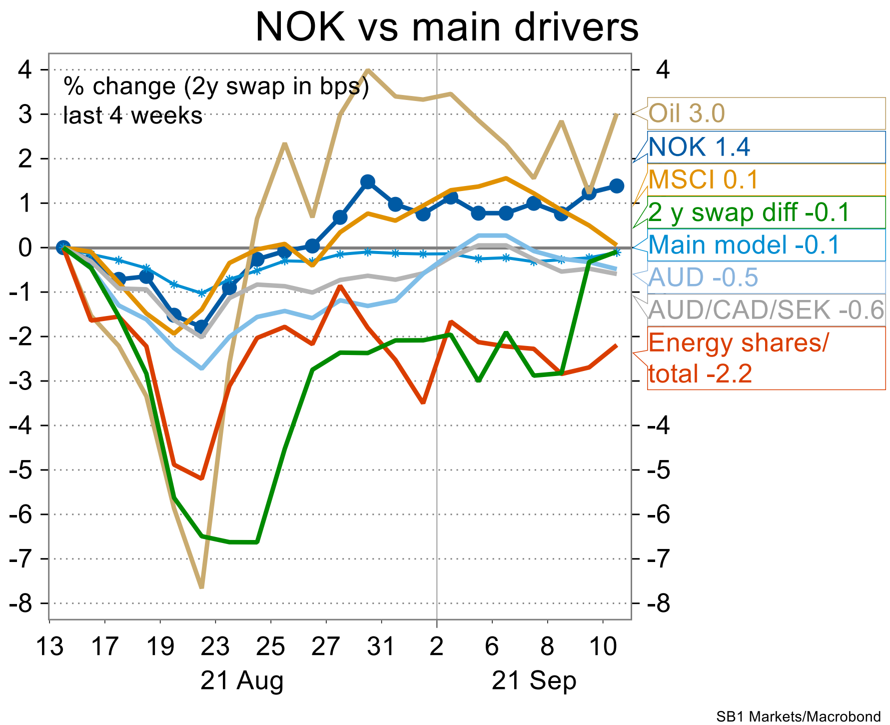


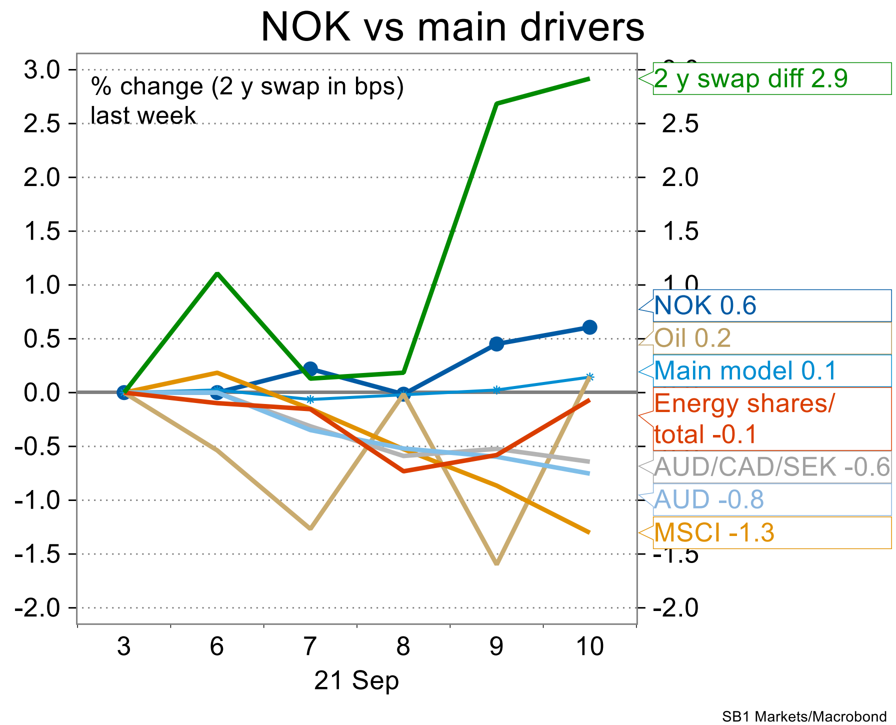


JP Morgan f/x broad indices + 2 f/x crosses	Last week	Last month
NOKEUR	0.7	2.4
NOK	0.6	2.5
CNY	0.5	0.1
GBP	0.3	-0.7
USD	0.3	-0.6
JPY	-0.1	0.0
CHF	-0.1	-0.1
EUR	-0.2	0.2
EURUSD	-0.4	1.0
EM x CNY	-0.4	0.4
SEK	-0.4	0.2
AUD	-0.8	-0.3
CAD	-0.8	-1.2

NOK up 0.6%, our model said +0.1%, just an increased int. rate diff on the upside

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





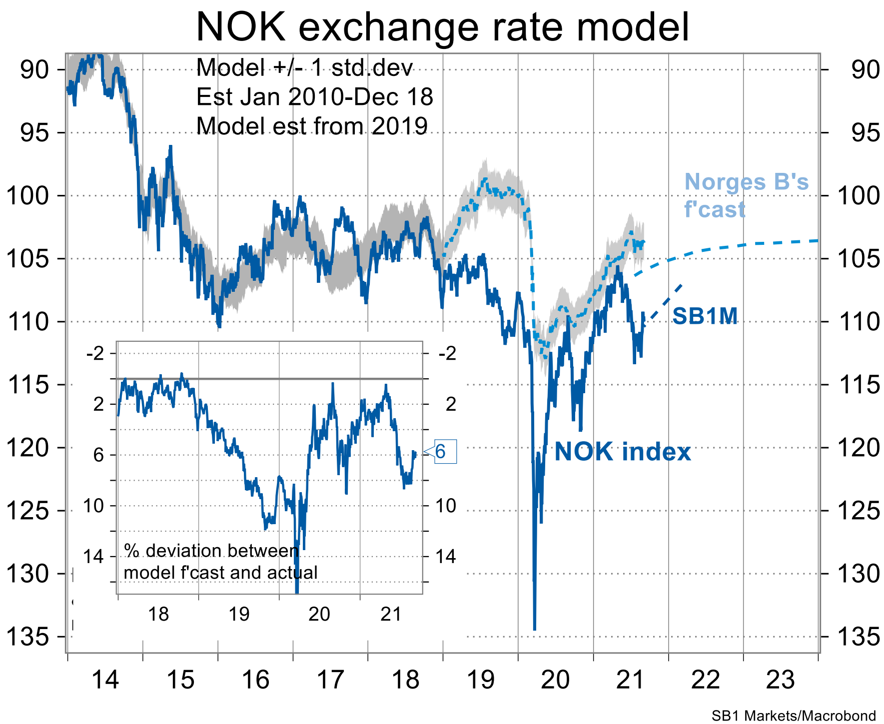
The status vs. the normal drivers:

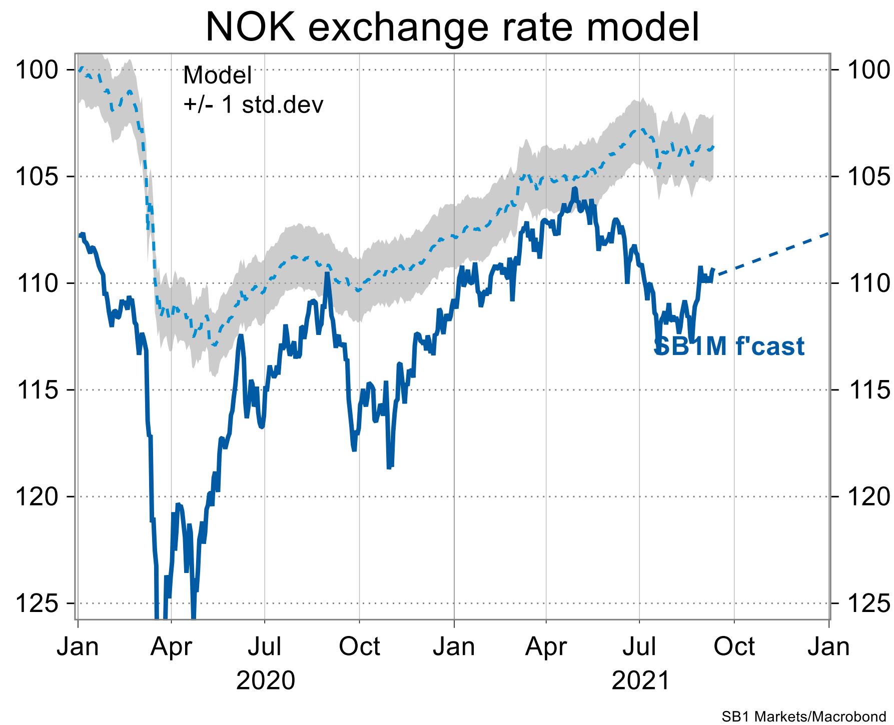
- ***The NOK is 6% weaker than suggested by our standard model (unch)***
- The NOK is 5% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from -6%)
- The NOK is 7% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -8%)
- NOK is far (11%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (unch)

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

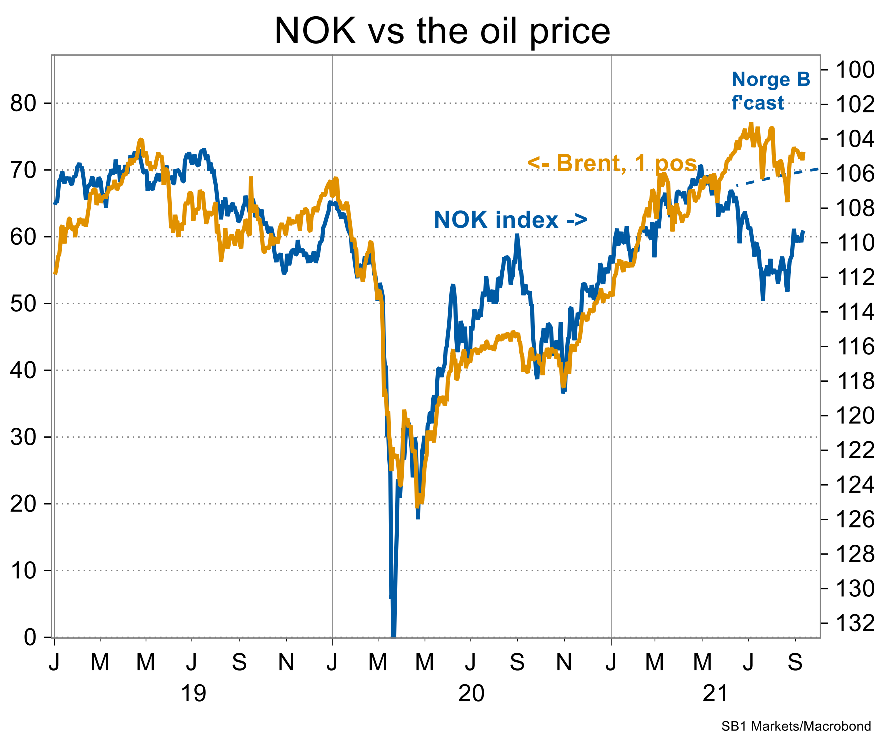
NOK still 6% below our workhorse model

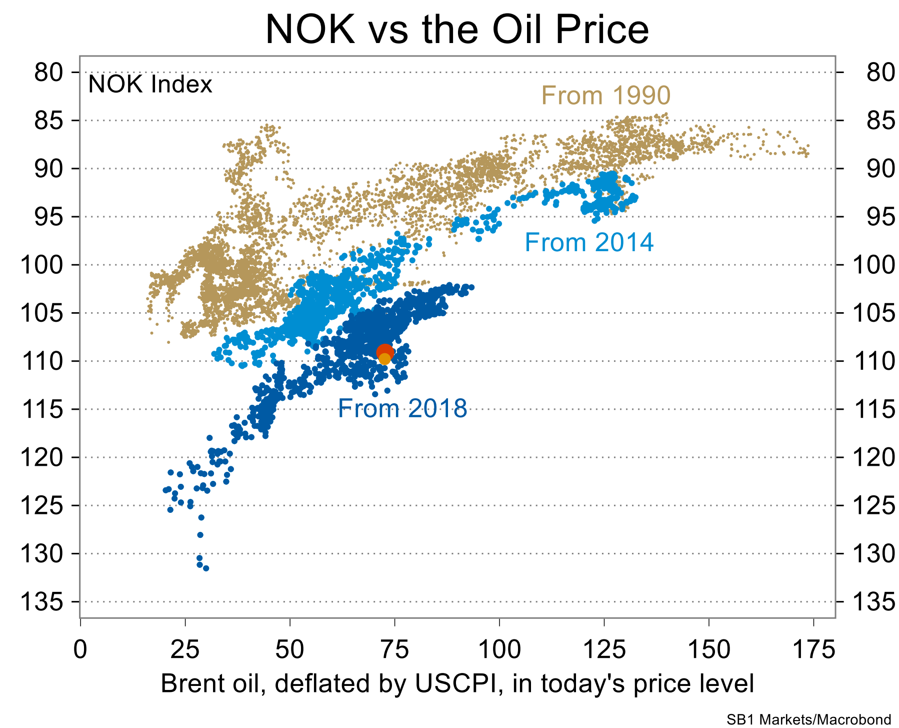




Oil flat, NOK marginally up

The NOK is still on the weak side vs the oil price

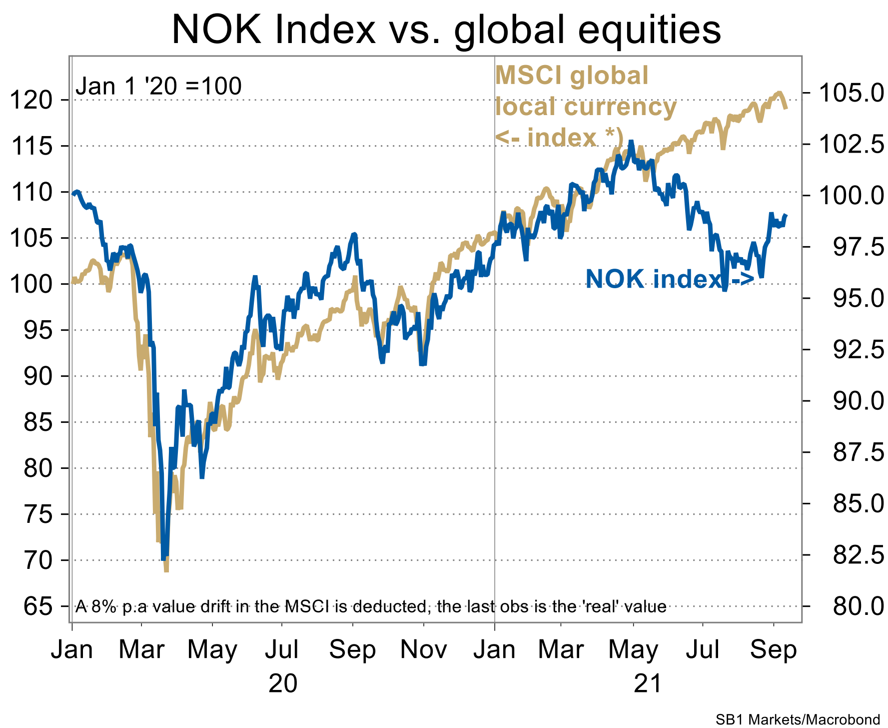


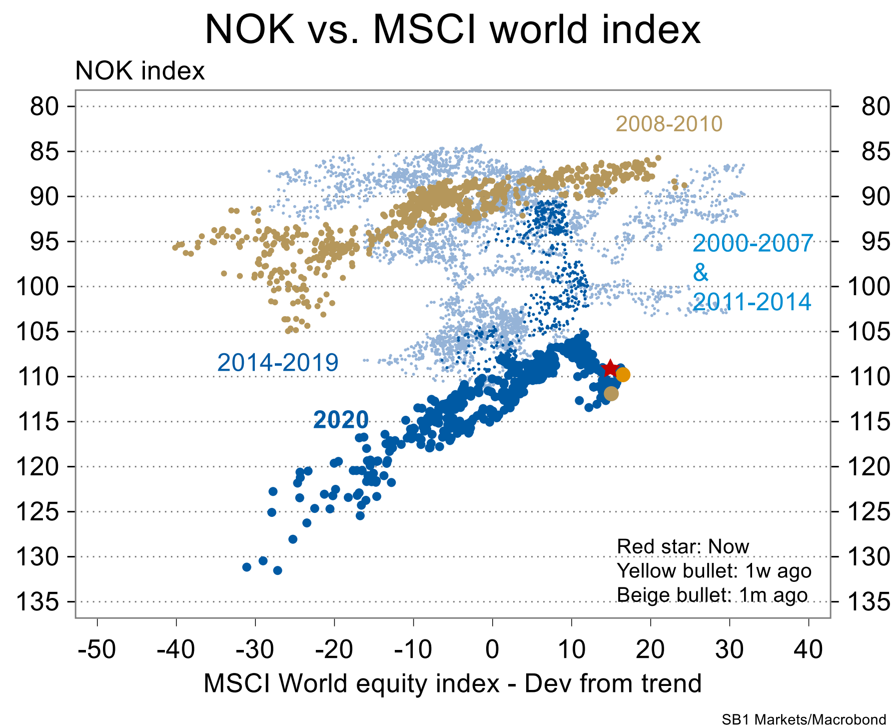


- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

The global stock market down, NOK still up last week!

However, the NOK has lost more than 5% vs. global stocks since May





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

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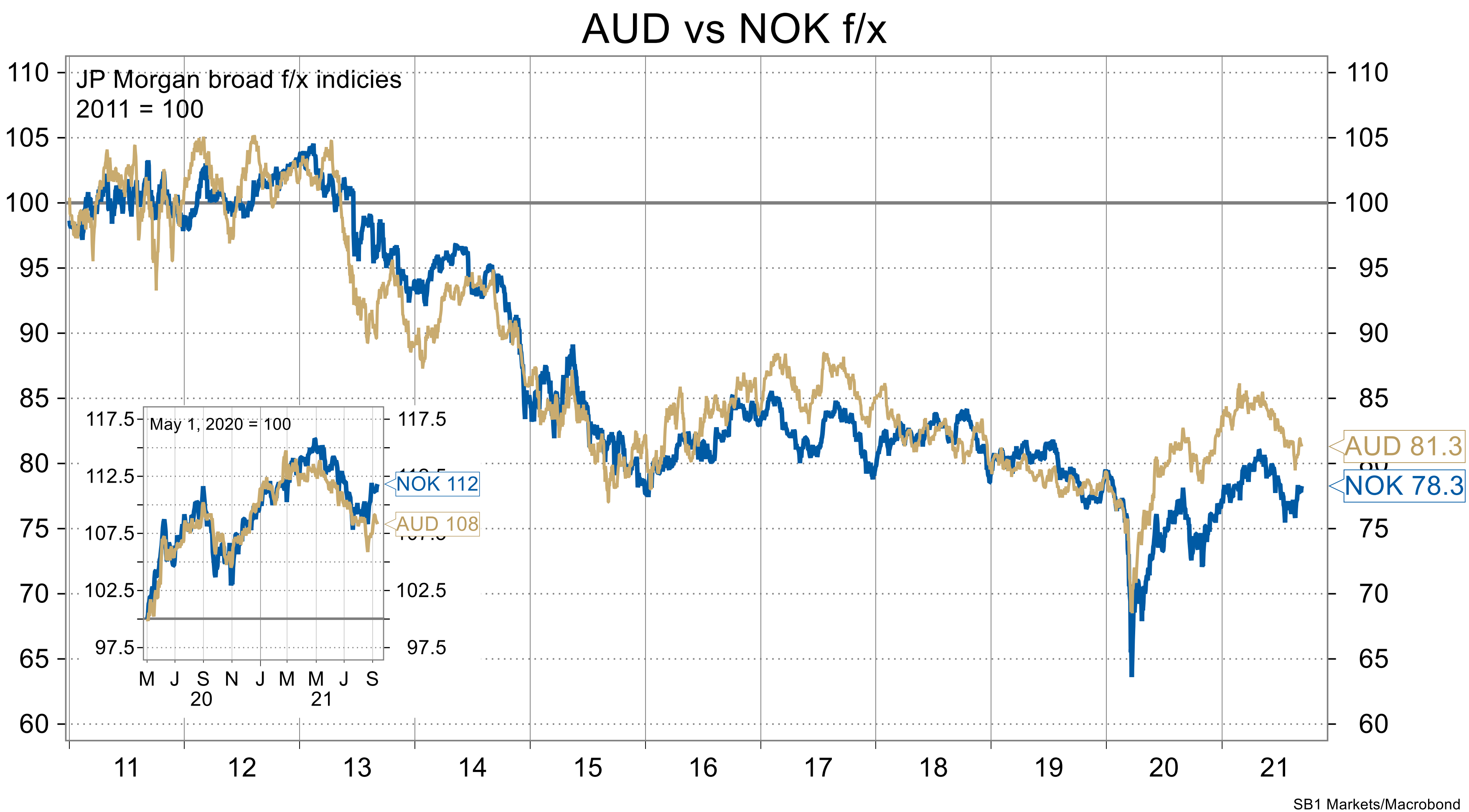
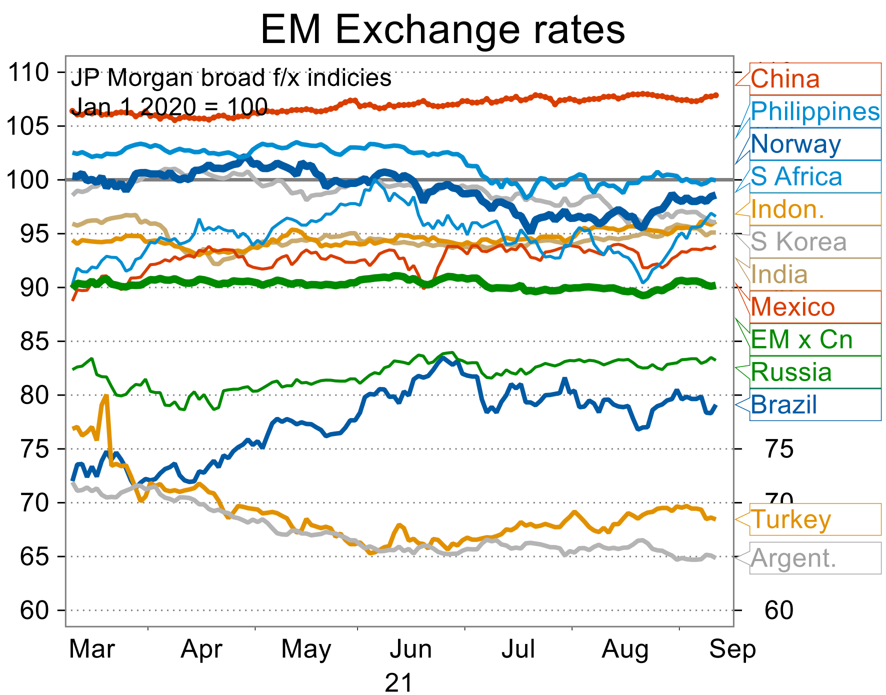
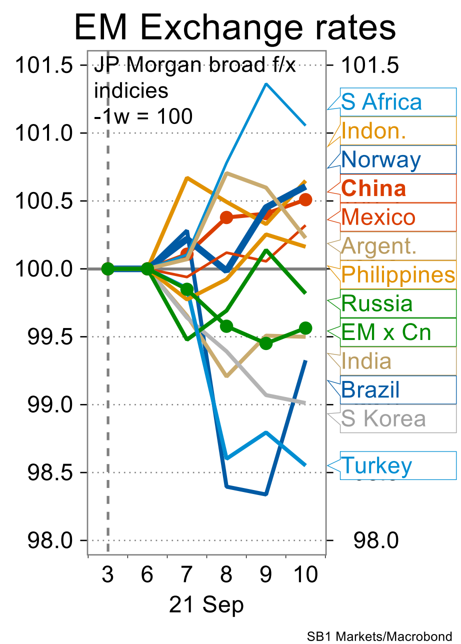
NOK & AUD still dancing extremely tight

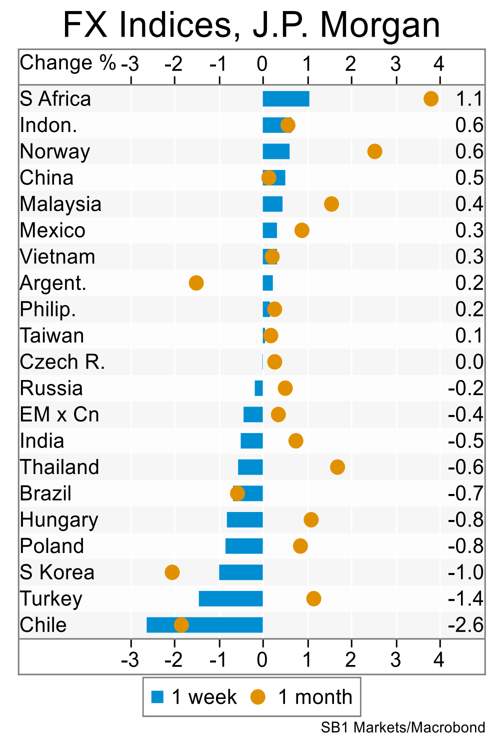
NOK still a tad weaker vs the pre-pandemic relation but the gap is reduced by 4% recent weeks!



EM x China a tad down, the CNY recovered (and before the Biden/Xi call)







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