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Macro Weekly

Week 40/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week

The (short) virus story

- The virus is on the retreat almost everywhere. The number of hospitalised patients in the rich part of the world is falling rapidly
- In the West, mobility is back to normal (Europe) or on the way up (US), and it is recovering in Asia. Airline traffic is on the way up too

The economy, part I

- **Global manufacturing PMI**
  - **The survey** was much better than we assumed, and the global composite index (out this week) will very likely recover some of the August loss. Services in China reported normal growth again, and the **Chinese manufacturing PMIs** in sum rose marginally, and companies are reporting growth just marginally below trend. At 54.1, the **global manufacturing PMI** still signals growth above trend. Even so, growth has peaked and delivery times rose at a slower pace, as did prices
- **USA**
  - **Consumption prices** (the PCE deflator) rose faster than expected in August, and even the m/m core rose at a 4% annualised pace. Used auto prices are heading down but are still sky high. More prices are rising faster, and most measures of underlying inflation has gained some traction. The previous week, the FOMC members in reality said goodbye to the 2% over time inflation target, at least for the coming years, as priority was given to reach the maximum employment target, which by the majority is deemed too far from achieved
  - **Private consumption** grew 0.4% in August, as expected but has been trending flat since April. Goods consumption is heading down from a high level (9% above the pre-pandemic growth path). Services are on the way up, but are still 5% below the pre-pandemic growth path. **Household income** fell 0.2% in real terms, and the **savings rate** fell by 0.7 pp to 9.4% - still a couple of per cent above the pre-pandemic level
  - **House prices** rose further in July, according to Case-Shiller – and they are up 20% over the past 12 months, the second highest appreciation ever, just 1948 was stronger. The real price level is record high too, albeit not impressively compared to Norwegian prices, of course
  - **Auto sales** fell unexpectedly 7%, to 30% the 2019 level – just due to lack of supply
  - The Congress **avoided a shutdown** due to lack of a 2020 budget decision but did not agree upon lifting the **debt ceiling** (it will be done during the next two weeks)- Democrat themselves have postponed the decision on the 'traditional' **infrastructure package** as well as the much larger **'welfare' reform** – as they cannot agree

Last week: The economy, part II

- **EMU**
  - » **Unemployment** fell further in August, to the same level as before the pandemic. The number of unfilled vacancies was at a record high level in Q2
  - » **Credit growth** is still moderate in the corporate sector but is slowly accelerating in the household sector
- **Sweden**
  - » **Business sentiment** fell just marginally in September, and is still close to ATH, with manufacturing in the lead
  - » **Retail sales** rose a tad in August but is very likely on the way down – even if the level is 'just' 7% higher than in Feb-20
- **Norway**
  - » **NAV open unemployment** fell by 0.1 pp to 2.6% in September (s.a), in line with NoBa's f'cast, 0.5 pp above the Feb-20 level. Unadjusted the rate fell by 0.3 pp to 2.4%, expected 2.5%. Total unemployment (incl. measures & part time) fell by 11' to 139', still 46' above the pre-pandemic level. Unemployment is falling rapidly in all sectors and all over the country. The number of new vacancies rose further in Sept, and we assume the number of unfilled vacancies also rose – from a record high level. The labour market is no doubt tightening
  - » **Retail sales** fell 3.8% in August, far below expectations, following the 3.4% unexpected drop in July. Building materials explained the setback in July. The downturn was broader in August, as both electronics, sport equipment, and even food & beverages contributed, at least partly due to more shopping in Sweden. Still, household consumption of goods, which actually rose by 1% in July, fell by just 2.1% in August. The level is higher than the 2019 average, well above any reasonable trend. We expect a significant reversal the coming quarters
  - » **Domestic credit** growth (C2) was unch. at 5.3% in August, a tick higher than we assumed as the corporate sector borrowed far more than we expected. Household debt is up 5.2% y/y, no credit boom to be seen
  - » **Hotels** reported a decline in number of guest nights in August, down from close to normal level in July. Norwegian guest nights were still far above a normal level in August, while foreign guests (30% total) are still missing (down 74%). Room prices are sharply up, and total revenues were down just 15% vs a normal level in August. In July, total revenues were the best ever
  - » **Spot market electricity prices** fell further last week, even in UK gas prices continued upwards. Before that, Nordic future electricity prices were headed down sharply – and they have fallen further, back to a normal level. BTW, gasoline prices are just marginally above a 10 y average level – and interest rates are still pretty low. What a crisis

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The Calendar: Global PMIs, Chinese credit, US labour market. GDP & house prices here

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday Oct 5					
08:30	SW	Services PMI	Sep		64.7
08:45	FR	Industrial Production MoM	Aug	0.4%	0.3%
10:00	EC	Services PMI	Sep F	56.3	56.3
10:00	EC	Composite PMI	Sep F	56.1	56.1
10:30	UK	Services PMI	Sep F	54.6	54.6
11:00	**NO**	**House prices**	**Sep**	**(-0.2)**	**1.0%**
11:00	EC	PPI YoY	Aug	13.5%	12.1%
14:30	US	Trade Balance	Aug	-$70.5b	-$70.1b
15:45	US	Services PMI, Markit	Sep F	54.4	54.4
15:45	US	Composite PMI, Markit	Sep F		54.5
16:00	**US**	**ISM Services**	**Sep**	**59.9**	**61.7**
17:00	**WO**	**Services PMI**	**Sep**		
17:00	**WO**	**Composite PMI**	**Sep**		
Wednesday Oct 6					
08:00	GE	Factory Orders MoM	Aug	-1.9%	3.4%
09:30	SW	Industrial Orders MoM	Aug		-1.4%
09:30	SW	GDP Indicator SA MoM	Aug	-0.5%	0.5%
11:00	EC	Retail Sales MoM	Aug	1.0%	-2.3%
14:15	US	ADP Employment Change	Sep	430k	374k
Thursday Oct 7					
08:00	GE	Industrial Production SA MoM	Aug	-0.4%	1.0%
08:00	NO	Ind Prod Manufacturing MoM	Aug	(1.0%)	-0.6%
14:30	US	Initial Jobless Claims	Oct-02	345k	362k
Friday Oct 8					
03:45	CH	Services PMI, Markit	Sep	49.2	46.7
08:00	**NO**	**GDP Mainland MoM**	**Aug**	**0.9% (0.6)**	**0.4%**
14:30	**US**	**Change in Nonfarm Payrolls**	**Sep**	**500k**	**235k**
14:30	**US**	**Unemployment Rate**	**Sep**	**5.1%**	**5.2%**
14:30	**US**	**Average Hourly Earnings MoM**	**Sep**	**0.4%**	**0.6%**
14:30	US	Average Weekly Hours All	Sep	34.7	34.7
14:30	US	Labor Force Participation Rate	Sep		61.7%
During the week					
	CH	**Aggregate Financing CNY**	**Sep**		**2960.0b**
	CH	New Yuan Loans CNY	Sep		1220.0b

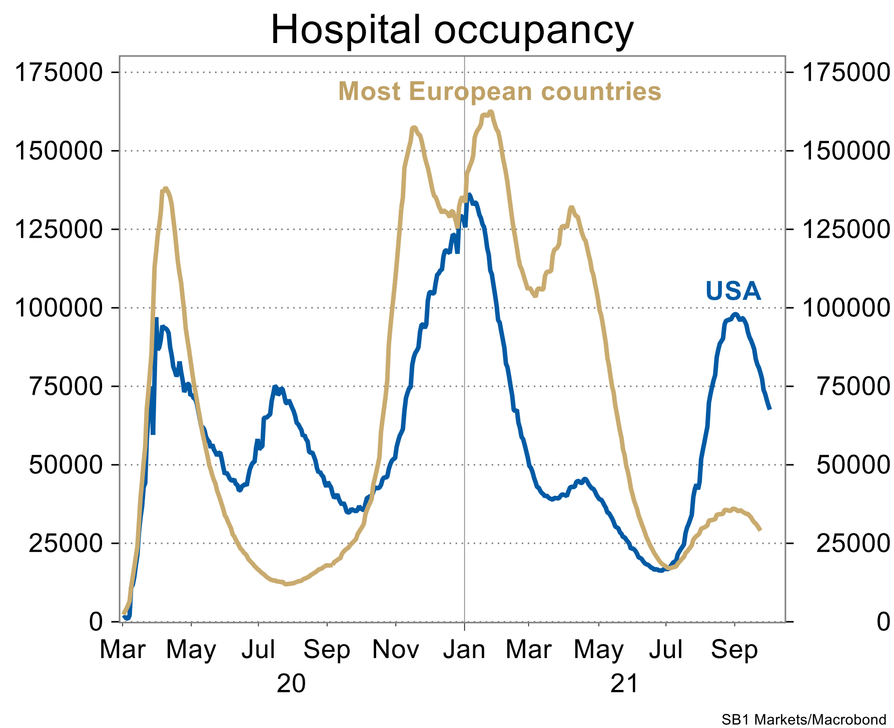
Sources: Bloomberg, SB1M est. in brackets. Key data are highlighted, **the most important in bold**

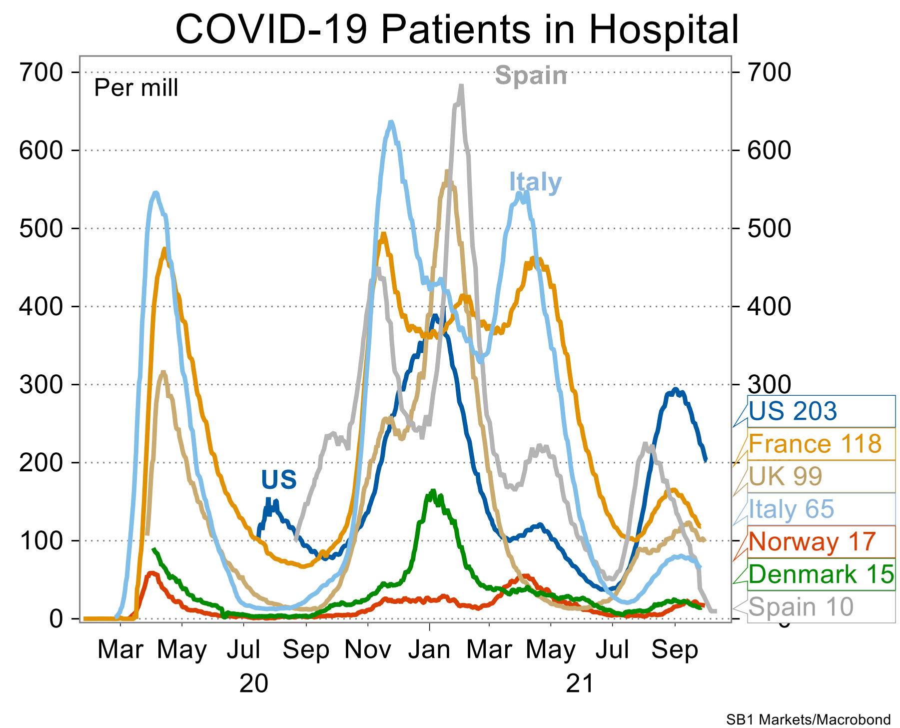
- **PMI/ISMs**
  - » **The global composite PMI** will very likely be much better than we first assumed. The manufacturing was far better, and services will probably rise as well, supported by stronger Asia data (at least from China). The level is still OK, signalling growth above trend, albeit lower than at the peak some few months ago – growth has peaked. The virus outbreak explains some of the weakness – and this drag is not subsiding, hopefully for the last time. Delivery times and prices are still increasing but at a slightly slower pace. EMs are closing on the gap vs. the rich part of the world – which is growing well above trend
- **China**
  - » All eyes on the Chinese **credit** (and construction) market. Credit growth has been slowing since last summer, at least partly by will and measures taken by the authorities, but growth still above trend growth in nominal income, and a high debt/income ratio is still climbing. It is probably too early to expect any specific impact form the Evergrande meltdown but credit supply to the real estate sector could be seriously hurt, even if authorities have ordered banks to fund property developers that may have fallen out of favour in other parts of the credit market
- **USA**
  - » Any signs of higher **labour market participation**, as the temporary Federal unemployment benefits programs terminated early in the month? The labour market desperately needs more supply. That's not doubt the most important figure, alongside **wage growth** – and the SMBs survey (NFIB) on **hiring plans** and the '**not able to fill** vacant positions' stats. Strong growth in **employment** is good news only if participation follows suit (and unemployment does not drops too much), and **wage growth** does not accelerate. (A payback from the slowdown in employment hotels/restaurants in virus infected August should anyway take place in Sept or Oct). Slow growth in employment is anyway bad news – as would a large drop in unemployment be (signalling less capacity for growth)
- **EMU**
  - » **Retail sales** for the region and **manufacturing production** from several countries for August will probably remain muted
- **Sweden**
  - » **GDP** has shot up recent months, and the Swedish economy has delivered the best recovery among rich countries (and is now well ahead of Norway). A small GDP contraction is expected in August
- **Norway**
  - » **Mainland GDP** probably grew in August, even if the hotel sector and airline traffic slipped. Restaurants and business services probably grew more. Payroll employment fell marginally but GDP growth the previous months have been 'too low' vs employment growth, and some payback is not unlikely in August. Still, the 0.9% consensus estimate seems a tad too optimistic. We expect **manufacturing production** to have recovered in August
  - » We expect flattish **home prices** in September, even if the market balances suggests decent price increases. Some more focus on the interest rate outlook could calm the market somewhat

Covid-19

New cases down almost everywhere, no. of hospitalisations is falling rapidly

The fight against the virus is won in the rich part of the world



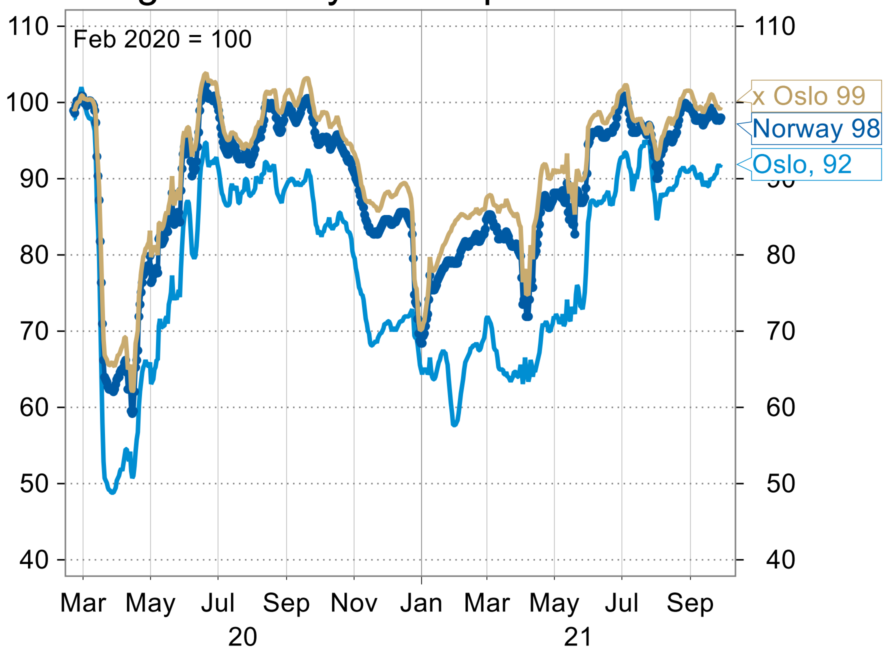


- The only risk now: A new vaccine resistant virus mutation

Norway: New cases on the way down everywhere

Mobility has slowed marginally so far in September but we doubt Delta is to blame

Google mobility Time spent outside home



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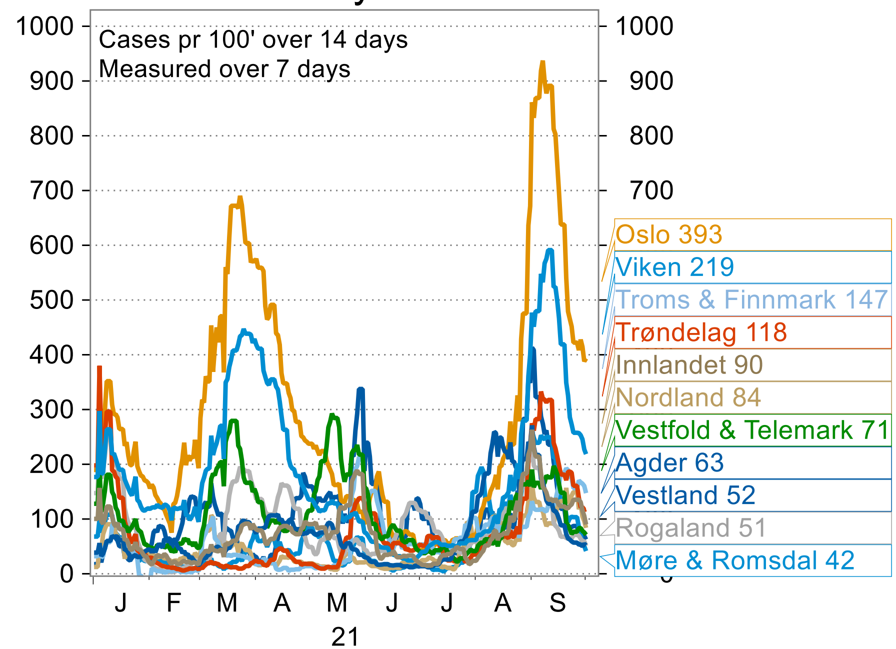
Norway Covid-19 cases



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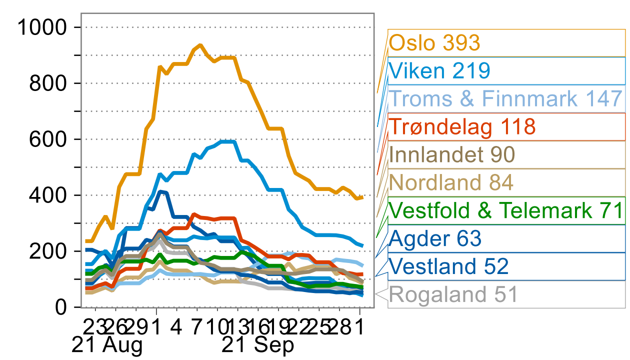
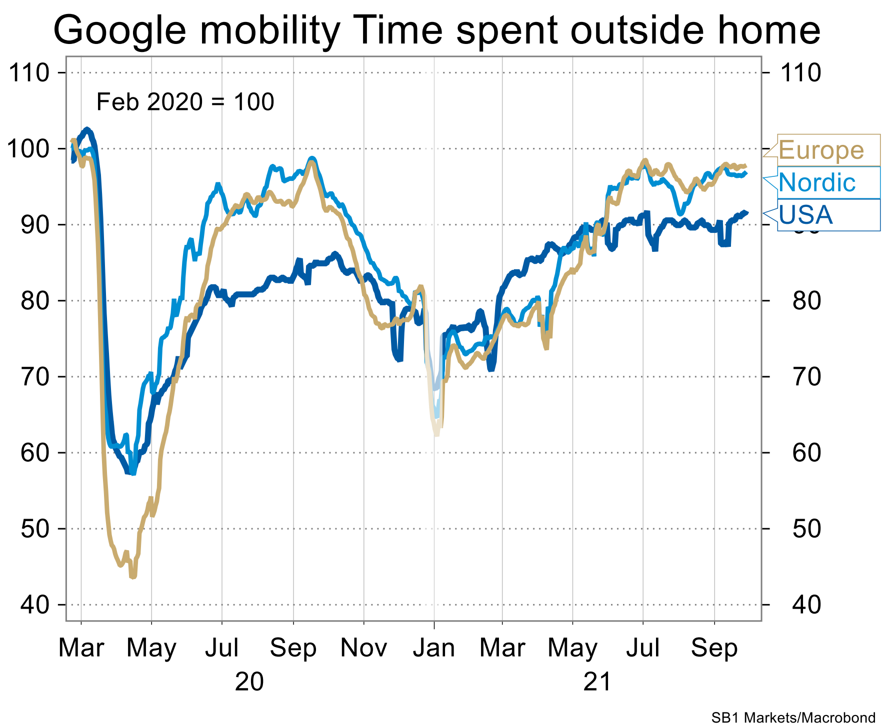
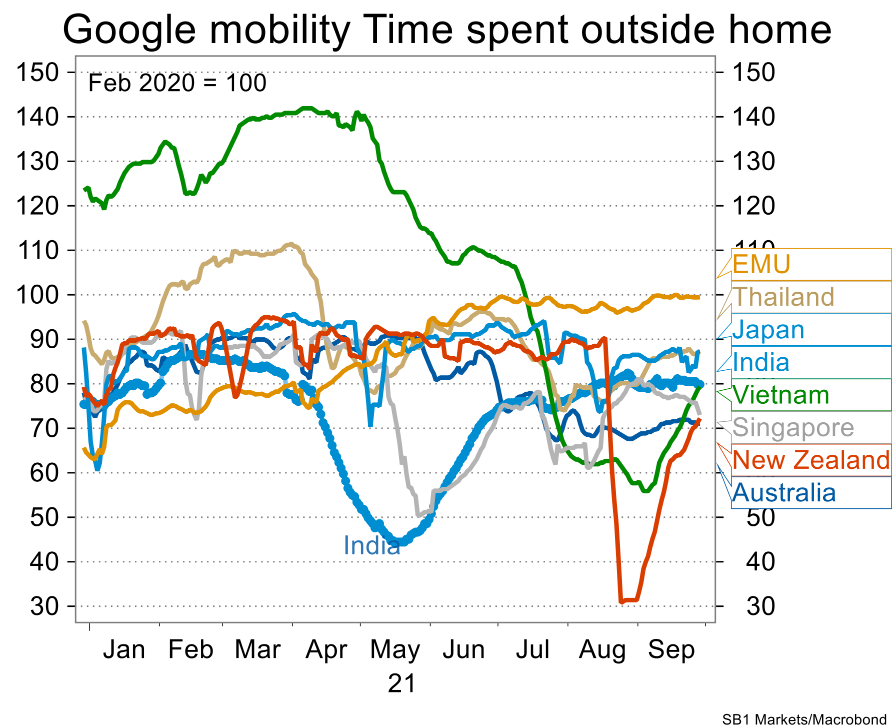


US mobility is recovering, Europe remains at a high level

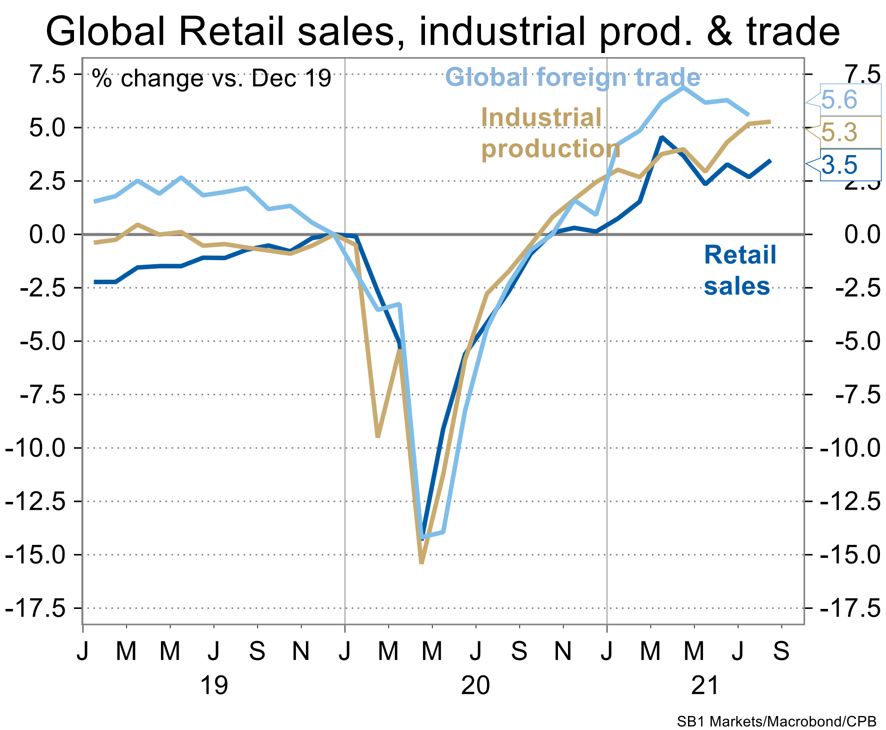
Asia on the way up too

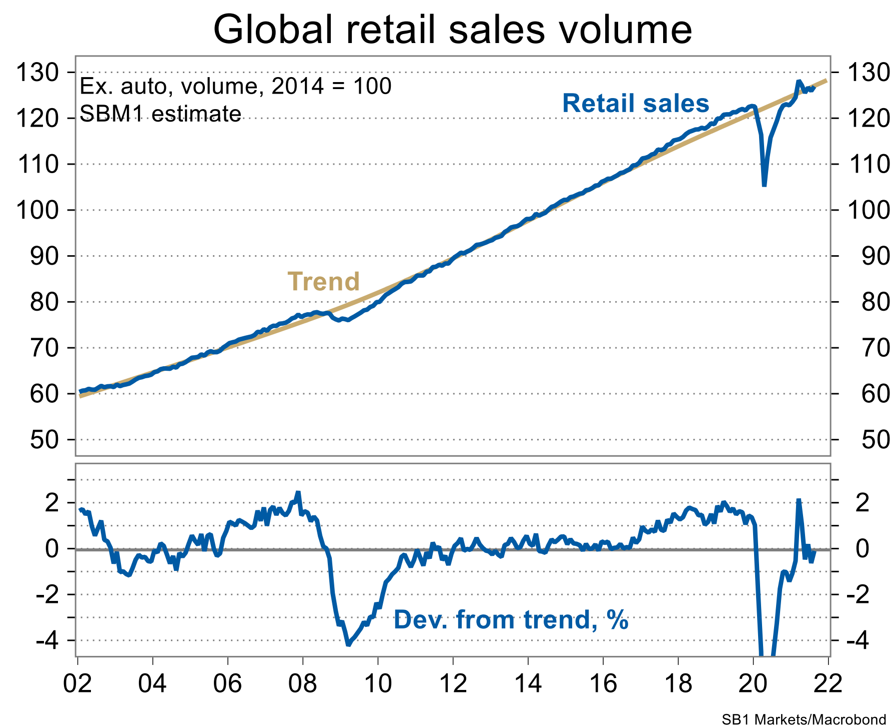




Global retail sales have flatted, global trade is declining

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

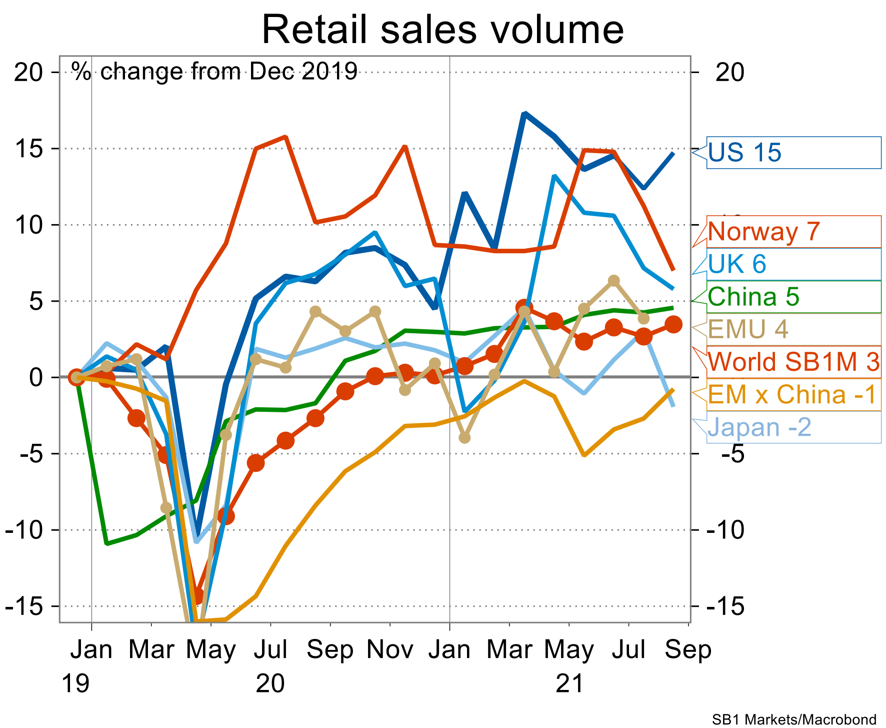


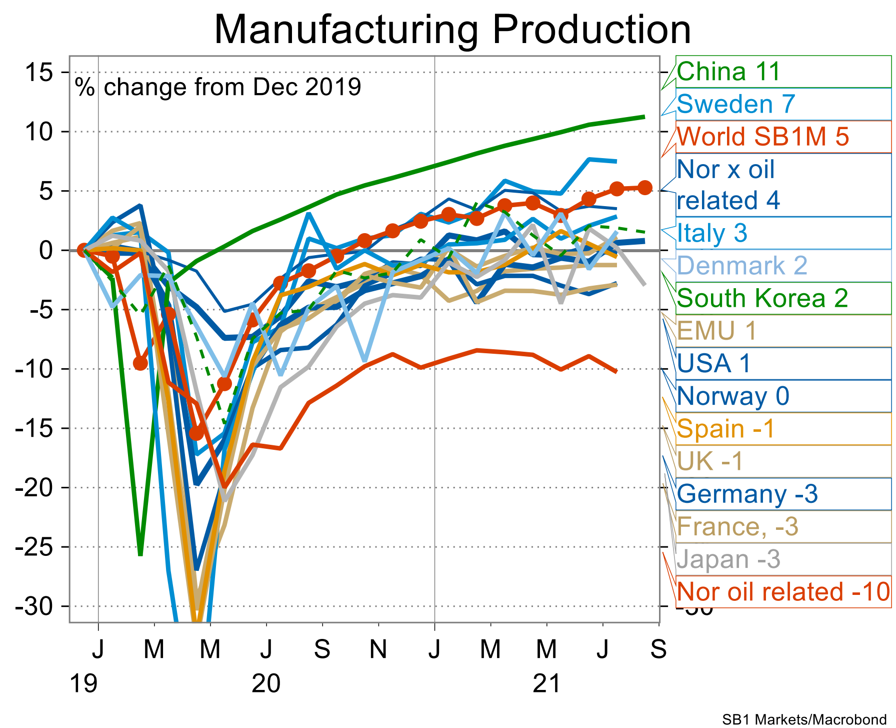


- **Retail sales** probably rose in August but has flattened since early spring as demand is on the way down in several DMs and EM is still fighting with the virus. The level is approx. 3½ % up vs the pre-pandemic level
- **Manufacturing production** may have stagnated in August. The level is some 5% above the pre-pandemic level. Trouble in India and in the auto industry globally have contributed on the downside recent months
- **Global foreign trade** peaked in May and has fallen slightly thereafter. The level is still well above the pre-pandemic level

DM demand for consumer goods have peaked, EMs are recovering from a low lev.

The upside potential is large for Emerging Markets

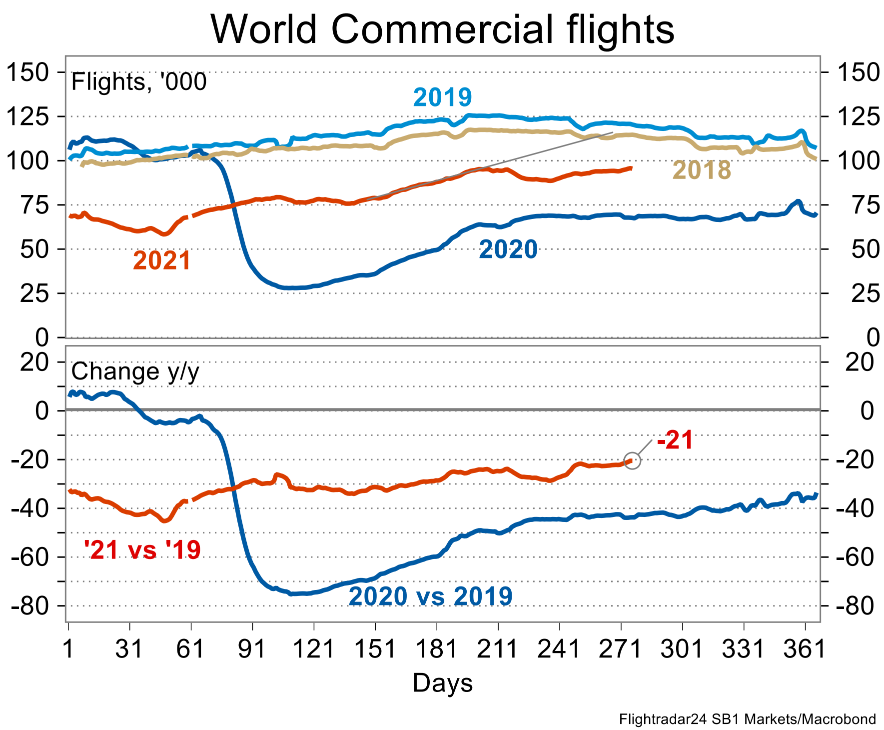


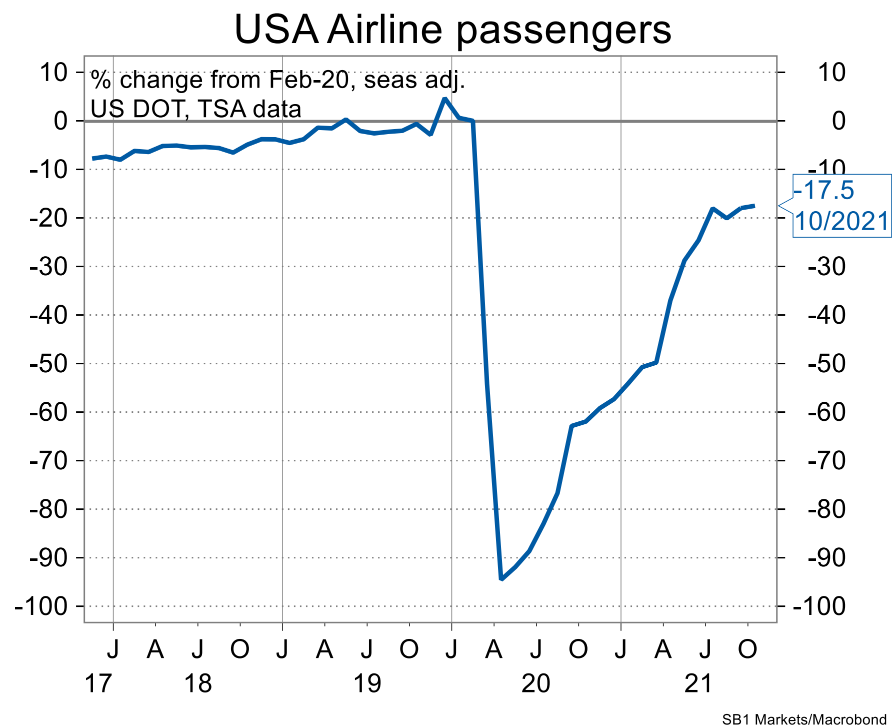


- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India. Now a substantial recovery is underway in India, but other Asian countries have run into problems
- **Manufacturing production** is still drifting upwards, everywhere. The manufacturing PMIs 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)

Global airline traffic further up last week, the gap to 2019 at 21%

In the US, traffic fell slightly in August but recovered marginally in September

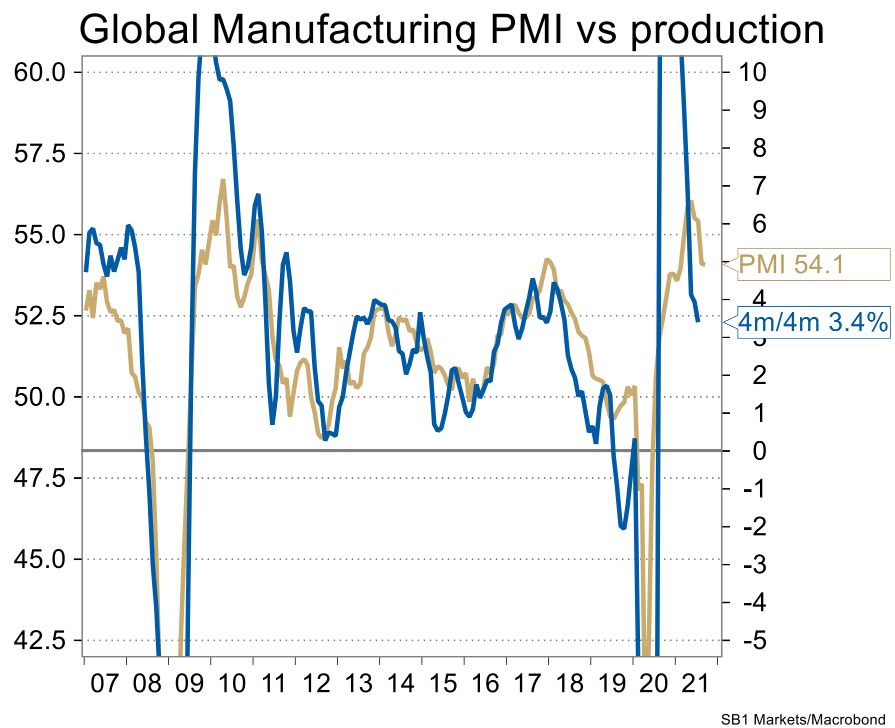


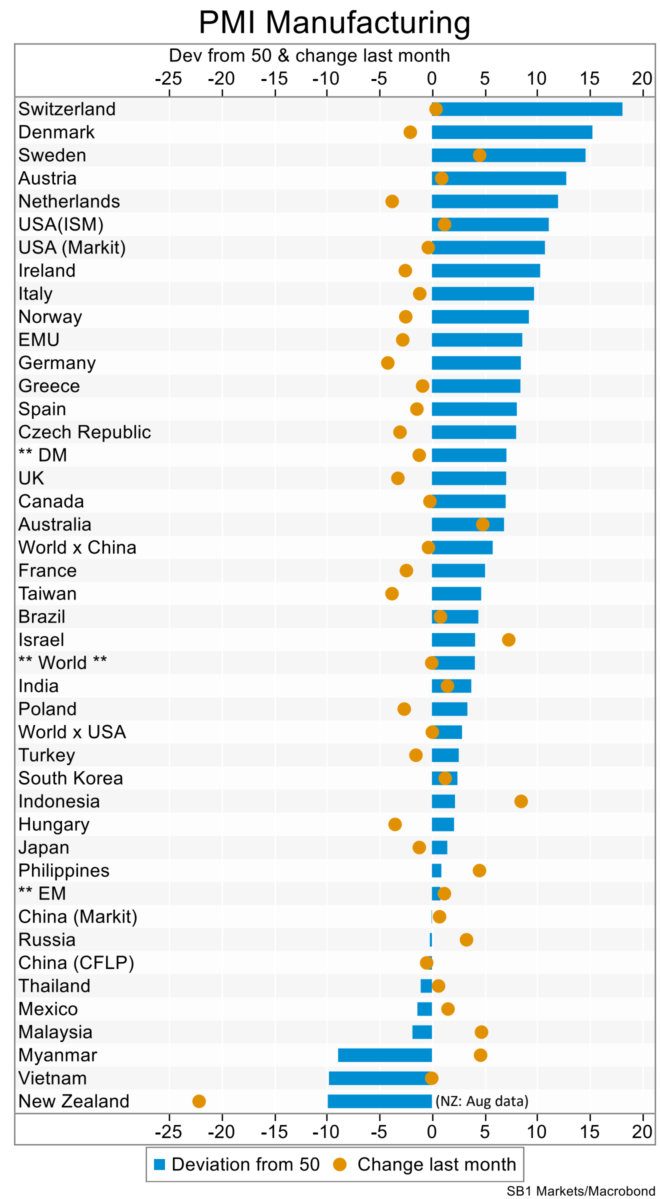


- Airline traffic normally drops some 10% from the peak summer season until the end of the year. Thus, a flattish development during this autumn implies a 1.7% ‘recovery’ per month – now the gap is declining by almost 1 pp per week

Manufacturing PMI unch. in Sept, 80% are still above 50. Europe/US in the lead

We expected a substantial decline! EM surprised on the upside

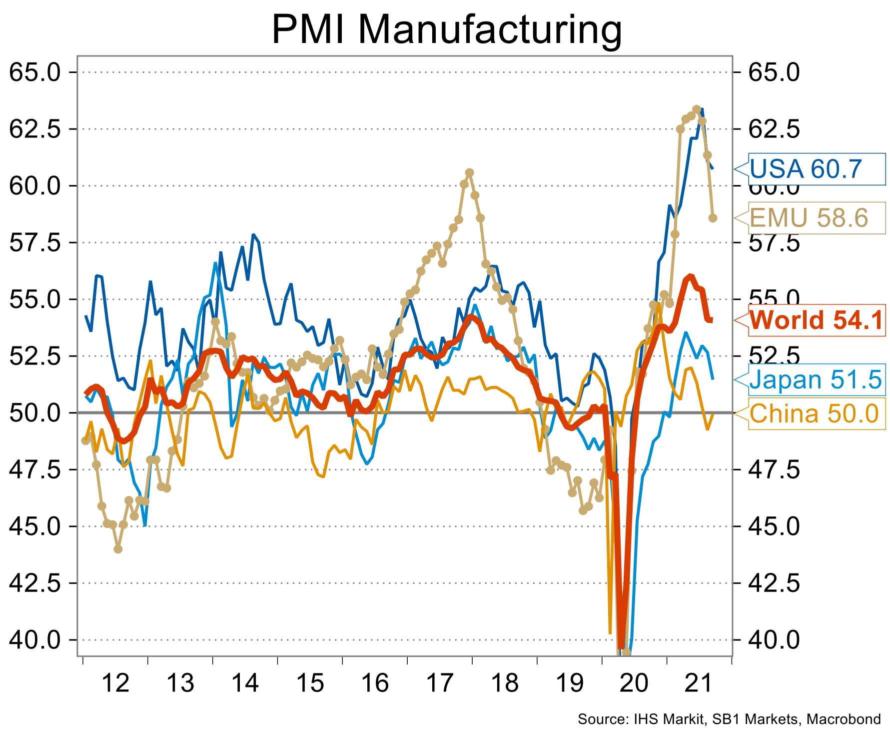


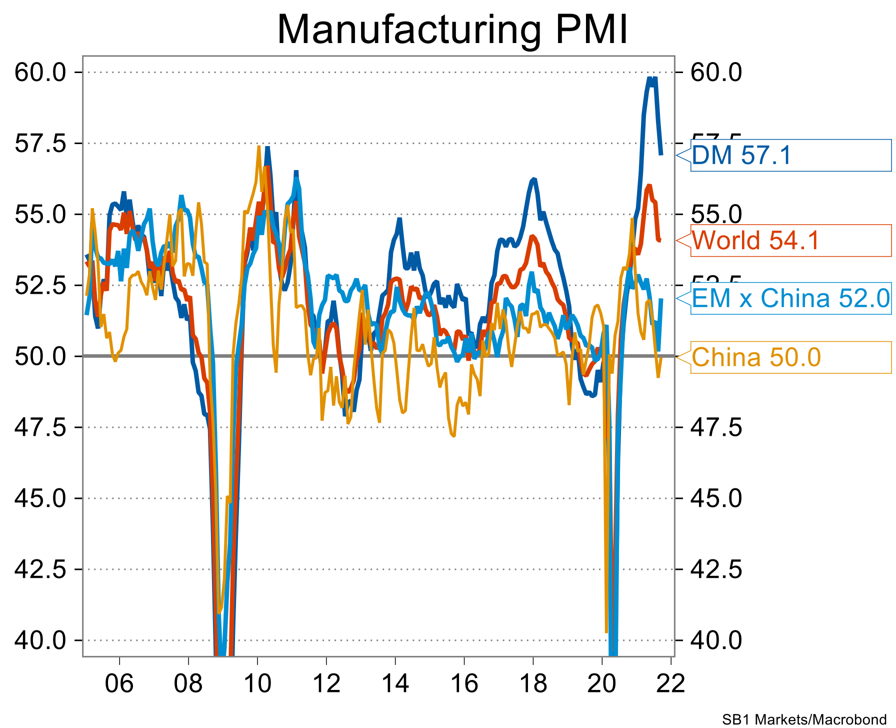


- The **global manufacturing PMI** flattened following a decline the prev. 3m
  - » 41% of the countries/regions reported higher PMIs in Sept vs. Aug
  - » Almost 80% of countries reported a PMI> 50
  - » European countries dominate the top of the list – but US PMI & ISM are up there too
  - » The **Chinese PMIs** were close unch., and both are close to 50
  - » **India** is climbing further
  - » **EMs** are still far weaker than DM but the gap narrowed in Sept

The boom in the manufacturing is broad, in rich countries

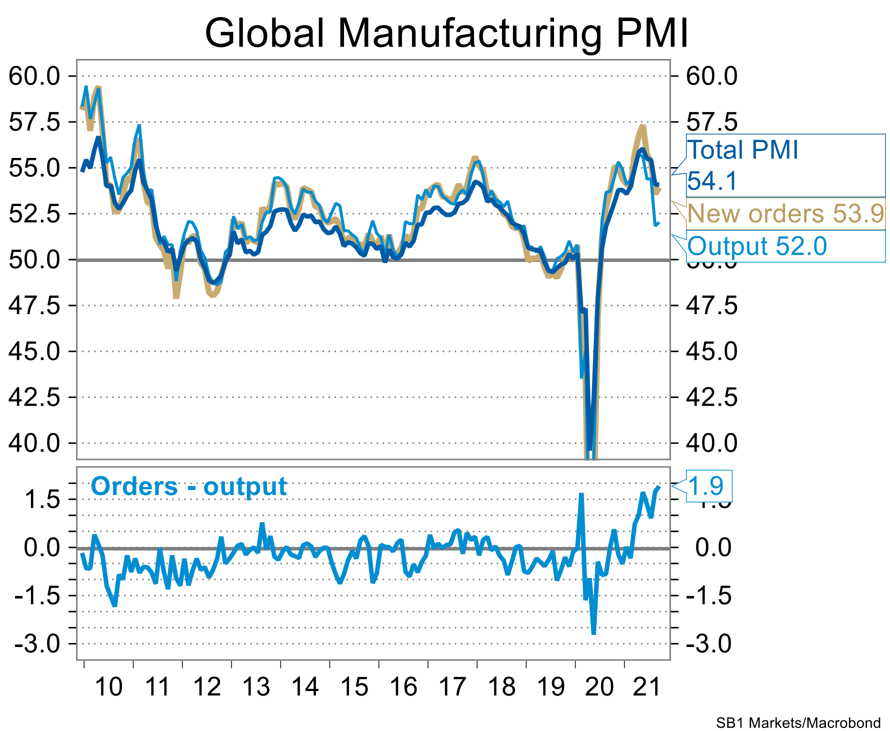
Emerging markets are lagging – the last corona wave is visible!

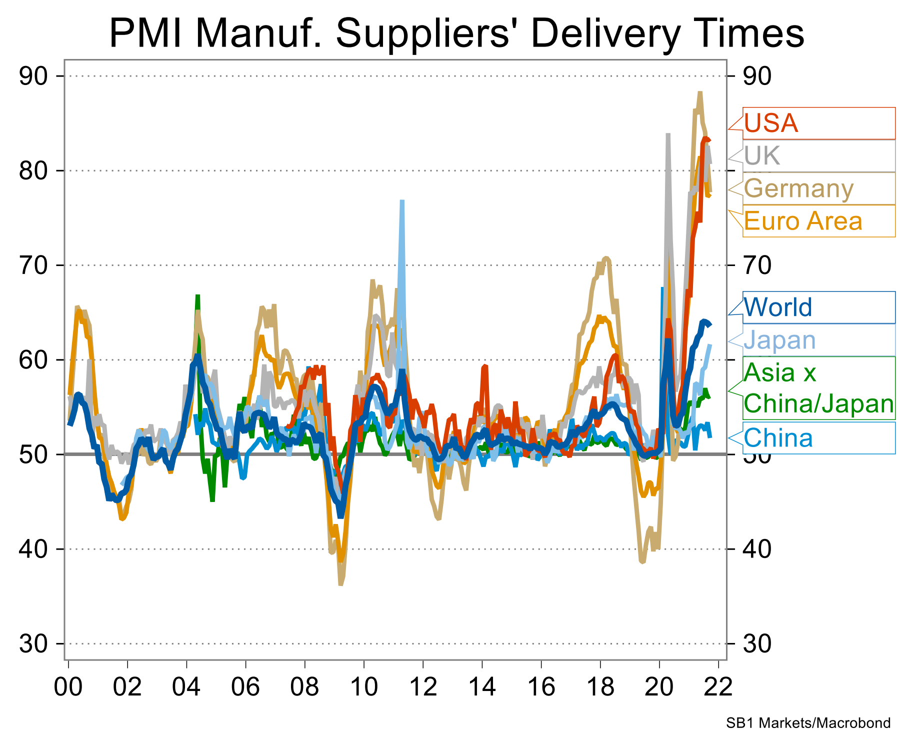




Orders are growing faster than output, confirms supply/capacity constraints

Growth has peaked but no sign of setback now – growth remains at or above trend

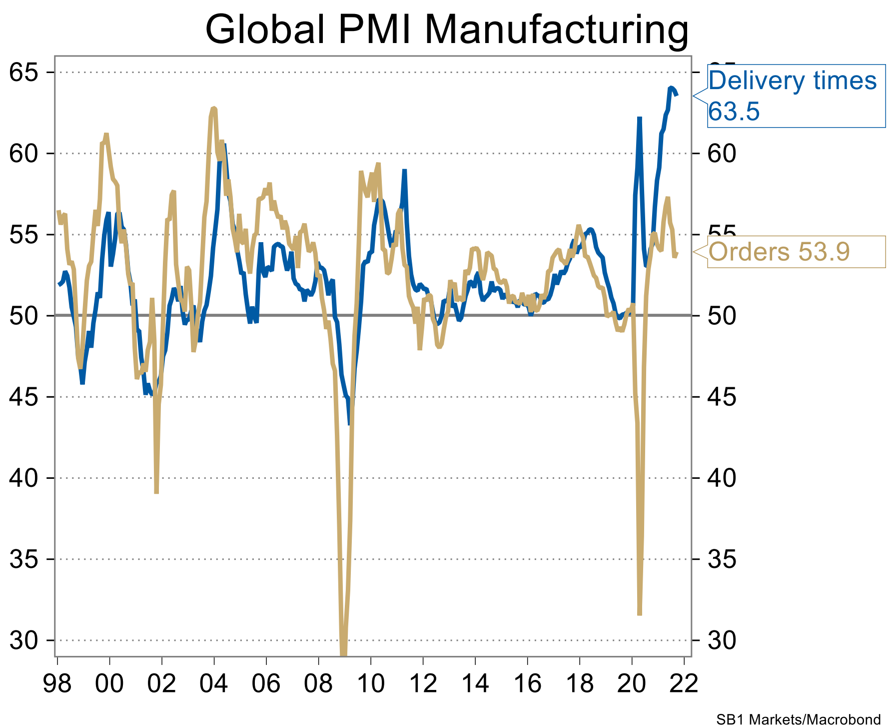


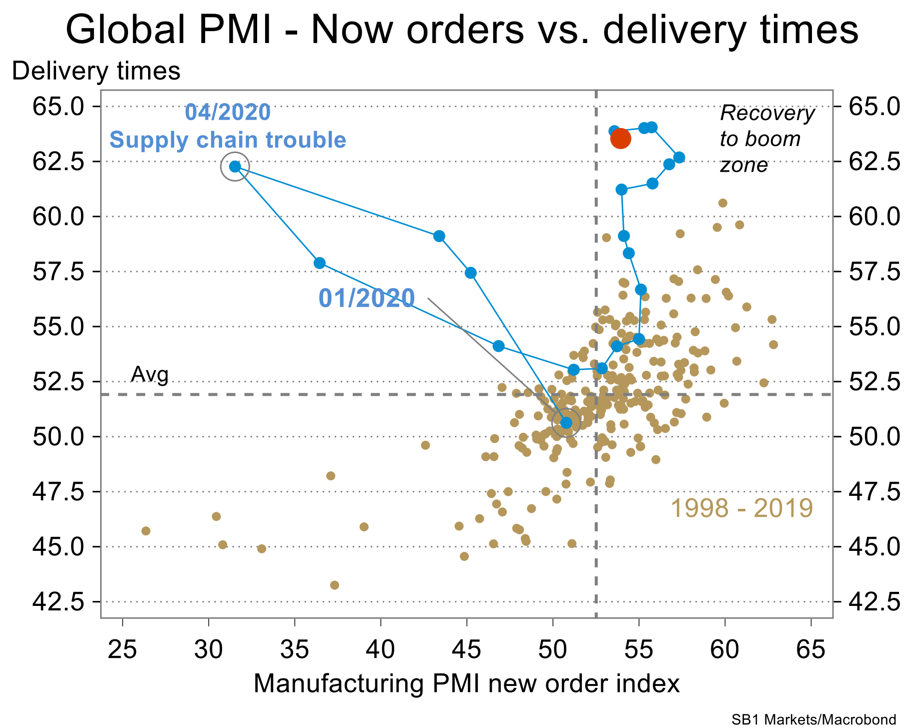


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has peaked but it remain extremely elevated. Supply chain issues are of course not solved

Delivery times are ‘too long’ vs growth in orders/production

Signals some unusual ‘supply chain challenges’, and not just the impact of a booming economy

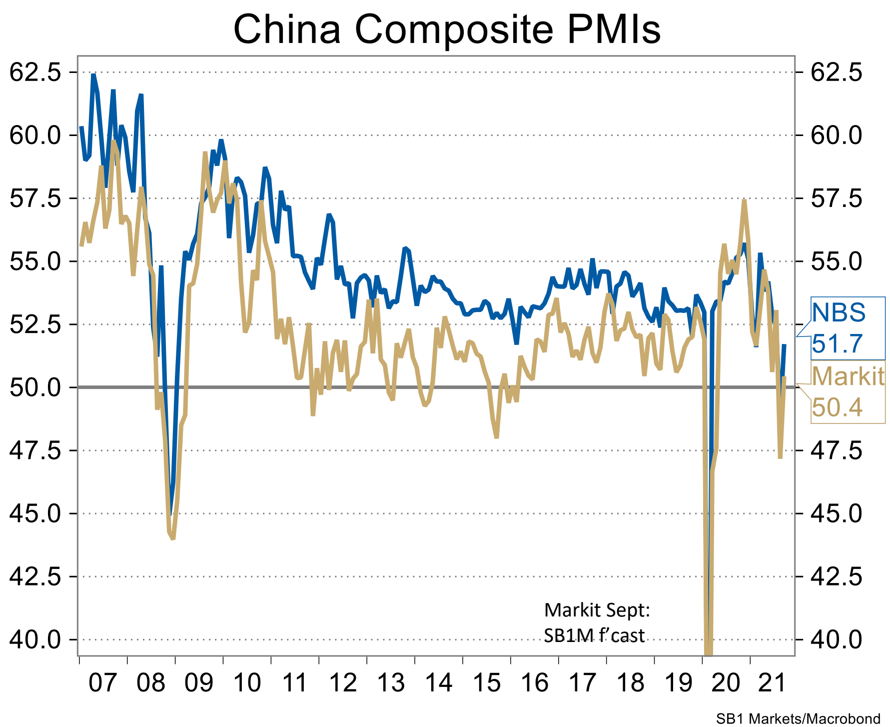


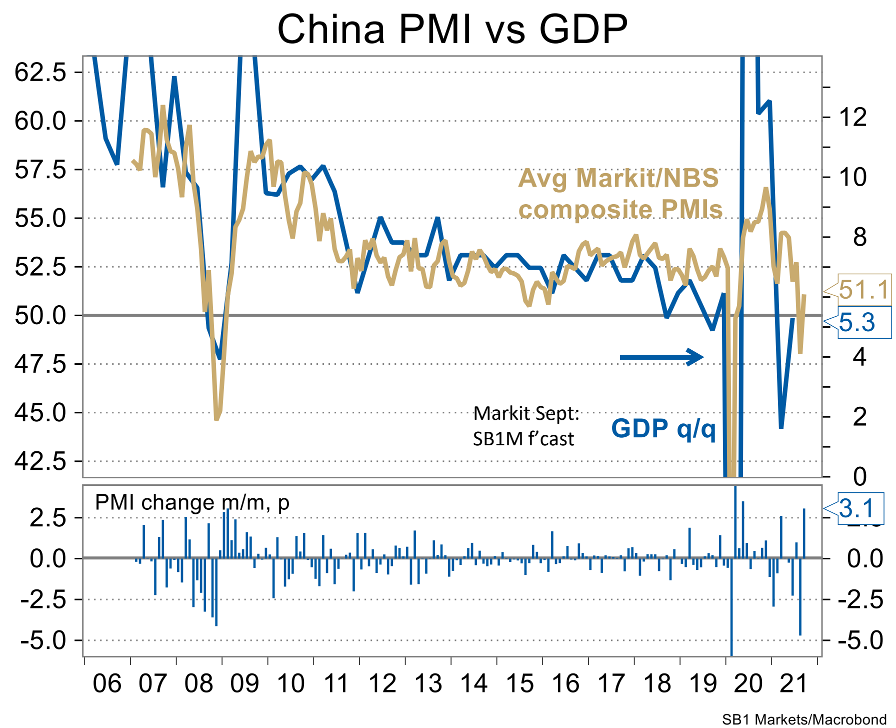


- Industrial activity is strong, and it is still growing above trend
- However, growth has not been so aggressive that capacity constraints shouldn’t have been met, broad based, and delivery times & price increases should not have skyrocketed the way they have
- If so, we can probably blame specific corona related problems for some of the troubles we have run into – it has at least not happened before

Services recovered in September, the composite PMIs (very likely) sharply up

Markit's services not reported yet but very likely followed the NBS survey up

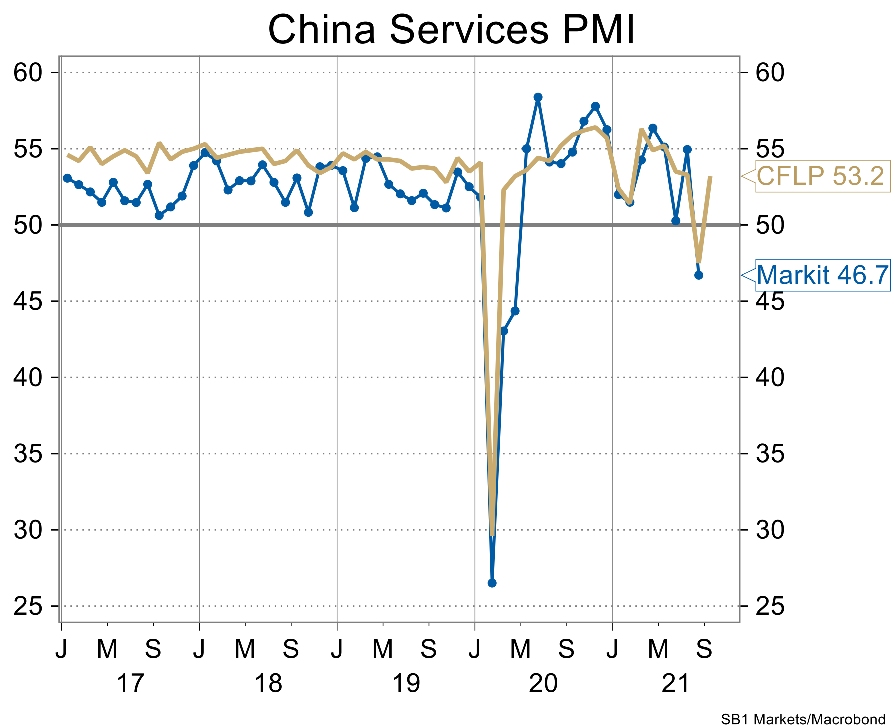


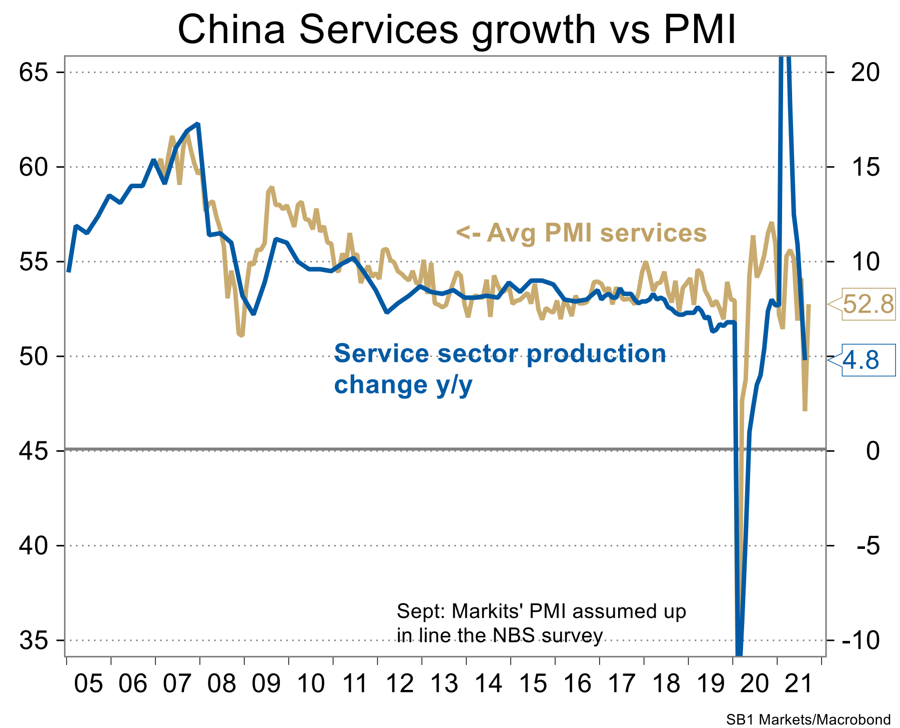


- The **NBS composite PMI** rose by 2.9 p to 51.7, expected up 1.2 p. Thus most of the August setback was reversed, due to a sharp lift in the service sector index, while the manufacturing index fell marginally
- **Markit** has not yet reported its services sector PMI but assuming a similar increase as in the NBS survey, Markit's composite PMI rose by 3.3 p to 50.5, as the manufacturing index climbed to 50 again
- The **recovery in services** (up almost 6 p, at least in the NBS survey) confirmed our hypothesis one month ago: The August setback was due to the fight against the virus, not due to an abrupt 'real' downturn in the economy
- In sum, the average of the two composite PMIs rose 3 p + to 51.1. This level signals a growth rate just slightly below trend

The service sector turned up in September, following the August downturn

The NBS survey reports growth again (Markit has not yet reported), as the virus is on the retreat

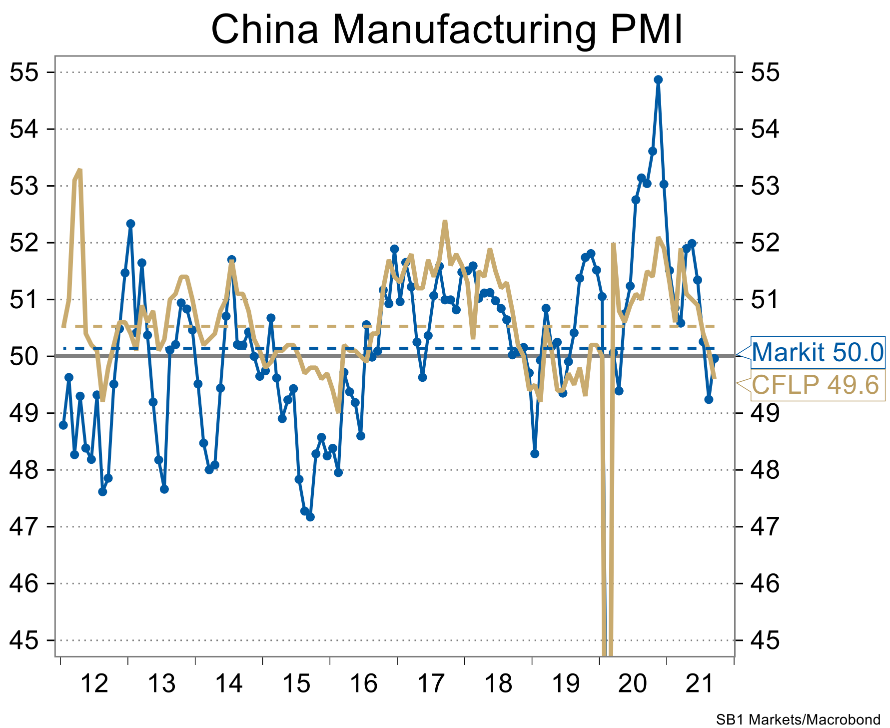


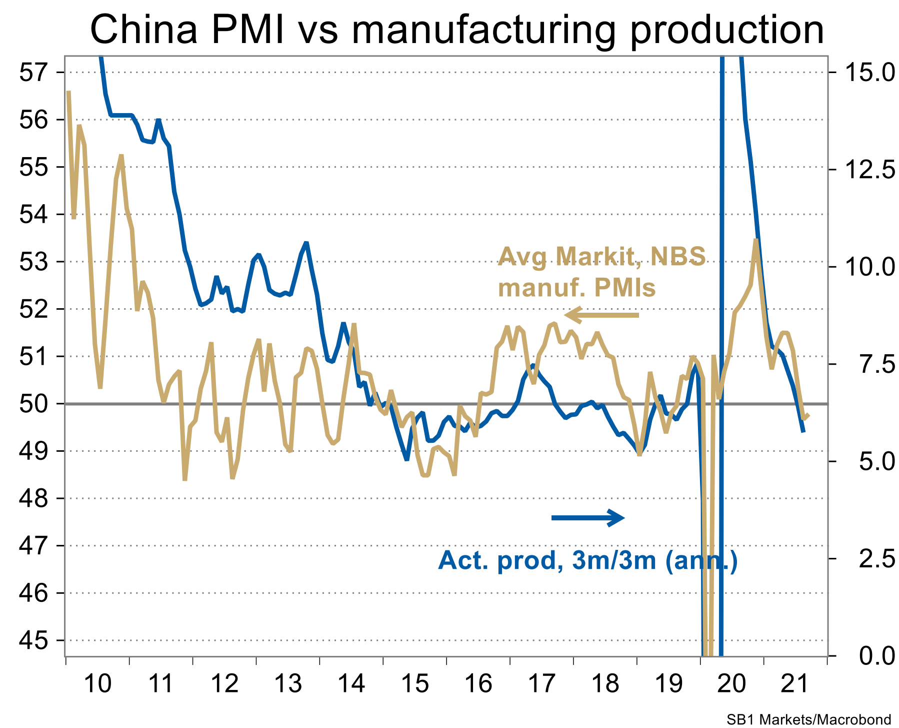


- In August **the service sector average PMI** fell 7 p to 47.1 in August, the 2nd largest decline, to a level not seen anytime before, except for Feb-20. In September, the NBS index rose by 5.7 p to 53.2, close to a normal level. Just a minor lift was expected, up to 49.8 (a strangely weak forecast)
- **Actual activity** in the service sector fell in both July and August. We expect a recovery in September
- No doubt, this mini-cycle in services is due to the fight against the virus – and not due to a general weakening of the Chinese economy

Mixed manufacturing PMIs in September, the average marginally up

… though still below 50. Even so, a decent 5% - 6% production growth message is sent

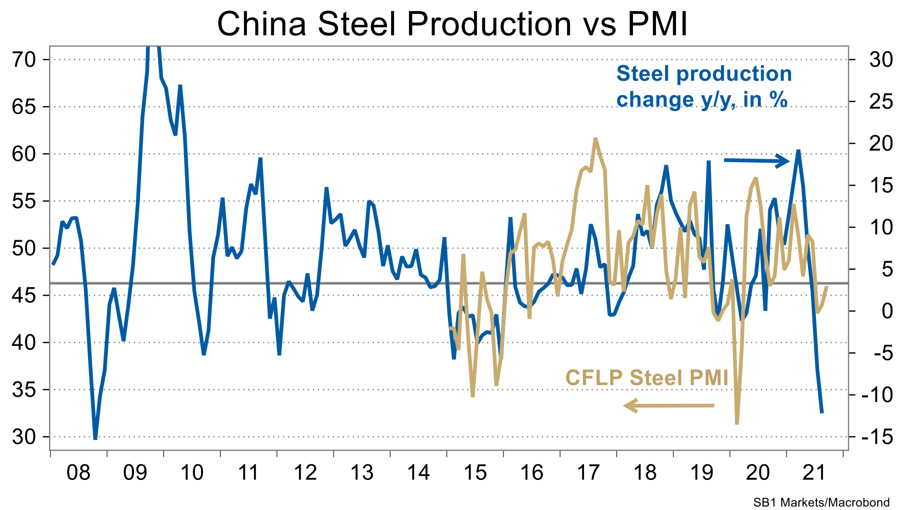


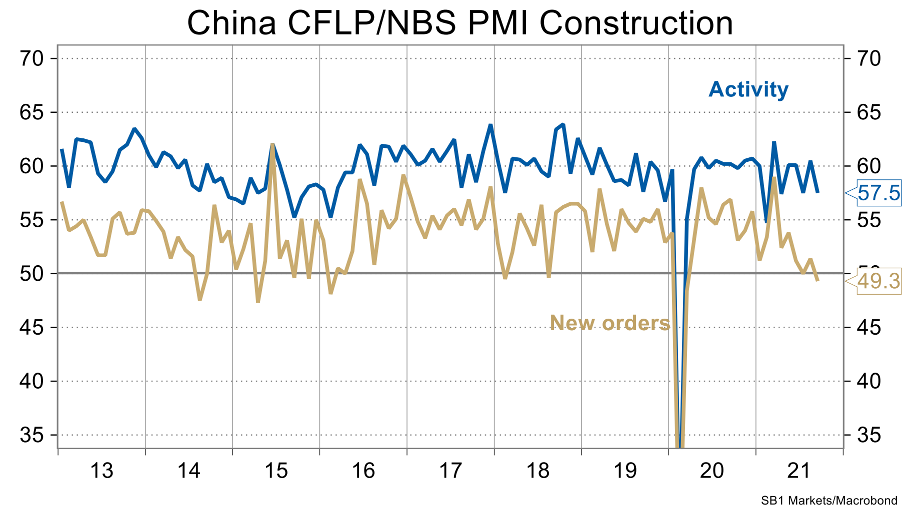


- The **NBS/CFLP PMI** declined 0.5 p to 49.6, while **Markit's PMI** recovered most of the Aug loss, up 0.7 p to 50.0. The NBS survey is almost 1 p below the avg. since 2012, while Markit's index is just marginally below
  - » In sum, the two indices were as expected, in average up 0.1 p
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The NBS survey below 50 received media comments like '*the first contraction in the Chinese manufacturing sector since….*' However, in China a PMI below 50 does not imply a contraction but rather growth just slightly below trend, at some 5% – 6%

No drama in the construction & steel PMIs, but both are below par

Construction orders are sagging, according to the PMI, but no crisis





- The **Evergrande** debacle has so far not led to a harsh setback in the Chinese construction industry, according to the Sept construction PMI. However, the new orders index has fallen since March, and it fell below the 50 line in Sept, among the weakest prints ever
  - » Regrettably, the correlation between PMI and actual construction starts are very weak
  - » Still, during the recent months, construction starts have fallen by 15% – 20%, though from a high level
  - » This decline in construction starts have not yet created any crisis in the overall Chinese economy – or elsewhere (even if some sectors are hurt)
- The authorities have introduced harsh measures to cut back **steel production** (CO2-cuts, lower demand from the construction sector). Production has fallen more than 10% vs. the early H1 level. <u>The steel sector PMI has fallen to below 50, but rose in both August and September, and does not signal a crash</u>

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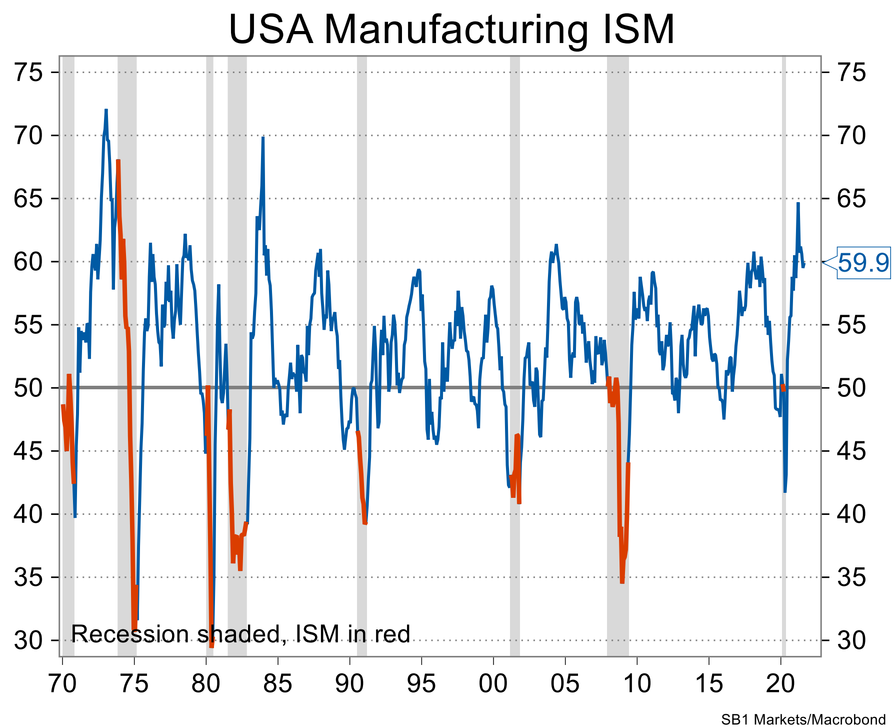
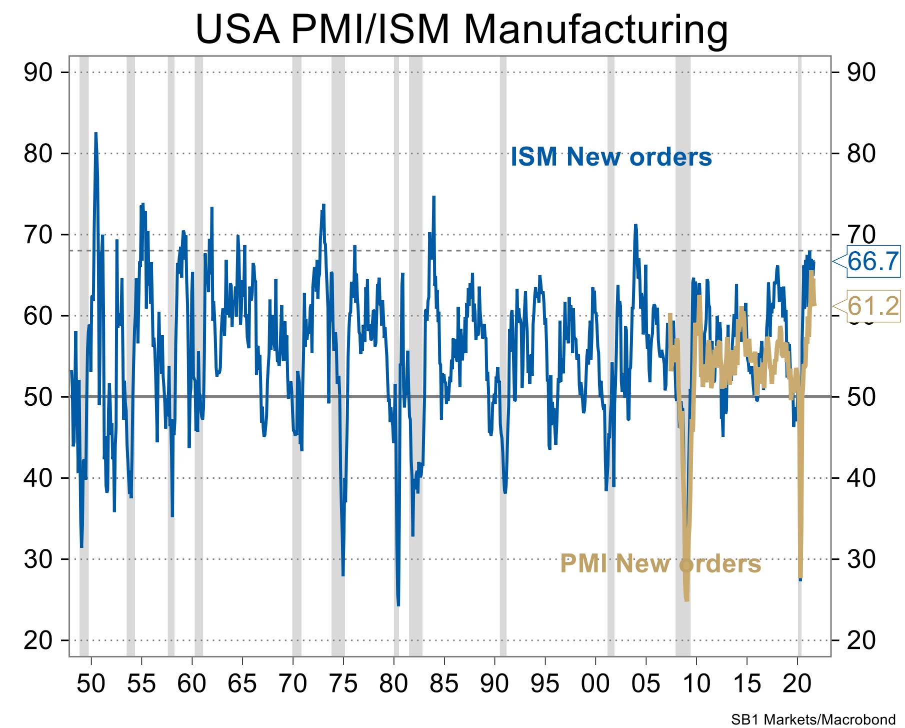
It ain't over yet: Manufacturing ISM further up in September

Up 1.2 p to 61.2, expected down to 59.5. Prices are still rising fast, but slower

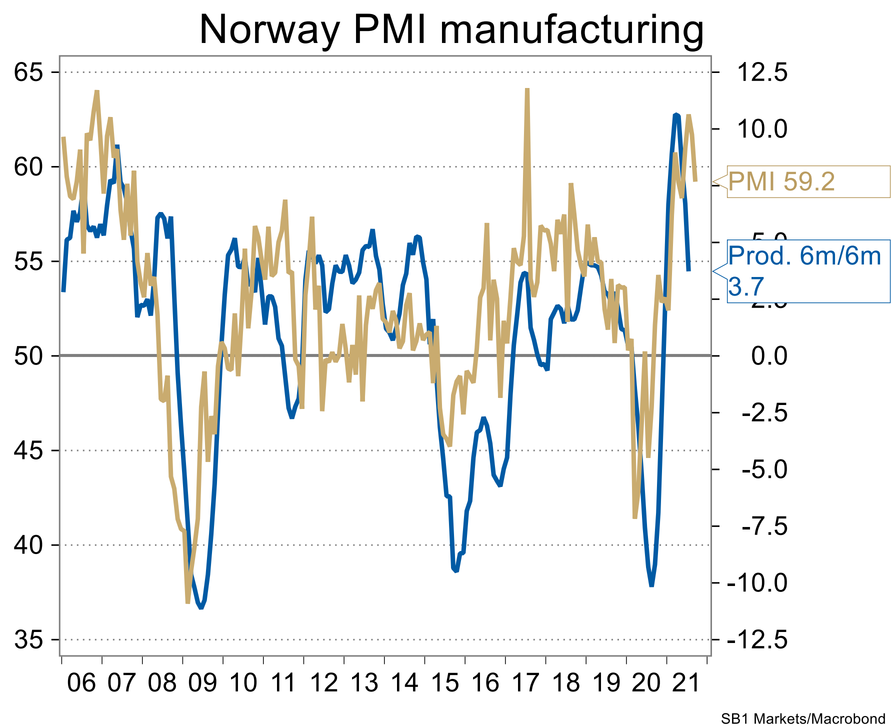


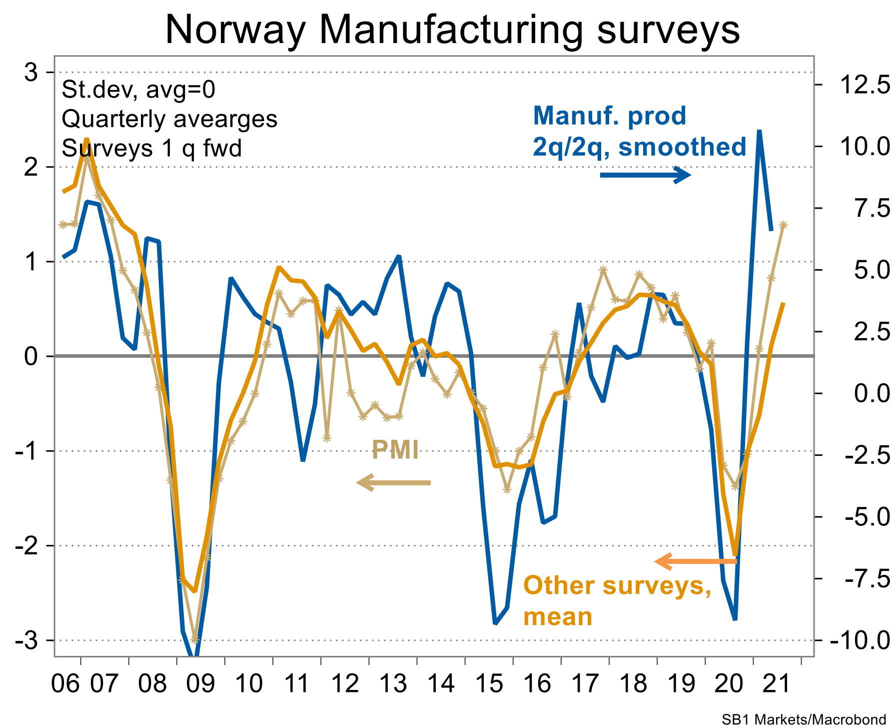


- The **ISM manufacturing** index surprised on the upside in September too. The ISM has for months indicated – and still does - an unusual rapid growth in manufacturing production, which so far has not been delivered
  - » In August, 17 of 18 manufacturing sectors reported growth, up from 15, 1 down (wood products, from 2)
- The **new orders** index rose to 66.7, one of the highest growth rates in decades
- 41 commodities (from 40) are up in **price**, just lumber and wood down
- Still, 'just' 24 commodities were reported in **short supply**, down from 27 in August, and 56 in July! The supplier deliveries index still rose in September, signalling higher delivery times
- **In their comments**, companies are complaining on all sorts of shortages, including extreme labour shortages. Demand is very strong

Norwegian manufacturing PMI lower in September, August revised down

The Norwegian PMI was down 2.5 p to 59.2, we expected 60. Aug PMI revised down 0.5 p to 61.7



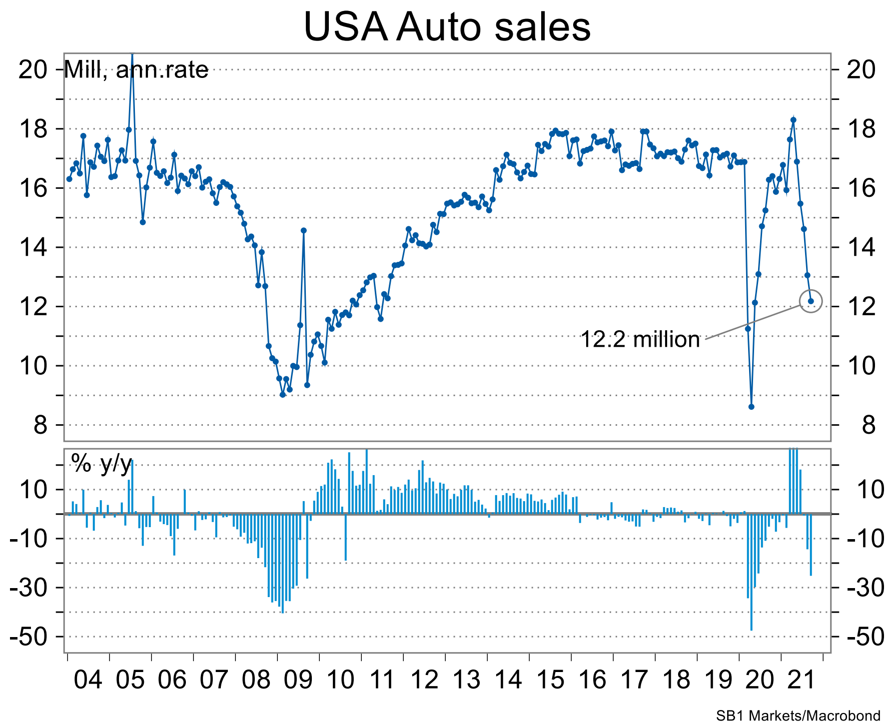


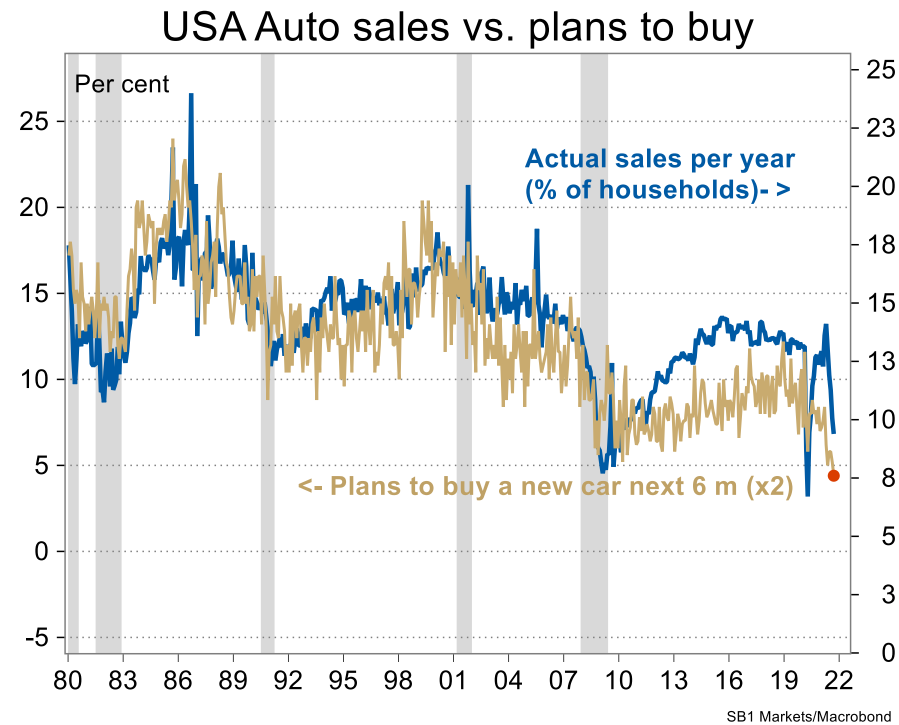
- The **inventories** and the **delivery time** sub-indices were the only indices that were up. **Orders**, **production**, and **employment** were all weaker
- Businesses here, as many other places, are reporting of bottlenecks and increased input prices (check next page)
- Other **surveys** have turned up lately to above-average levels
- Even if surveys have been reporting growth, **actual production** has fallen slightly since April

SpareBank 1 MARKETS

US auto sales further down in September, to 30% below the 2019 level!

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

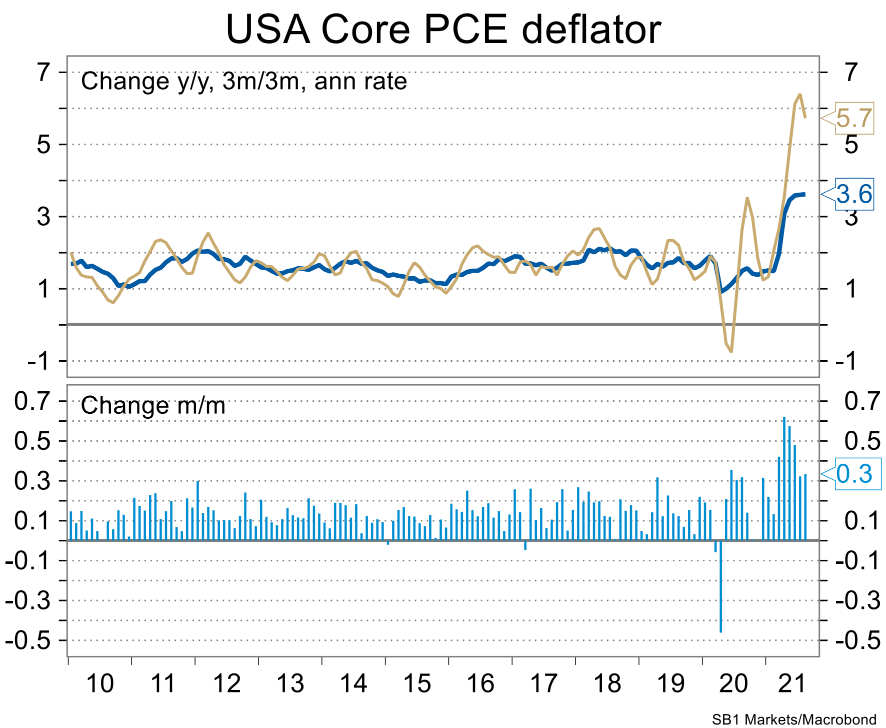




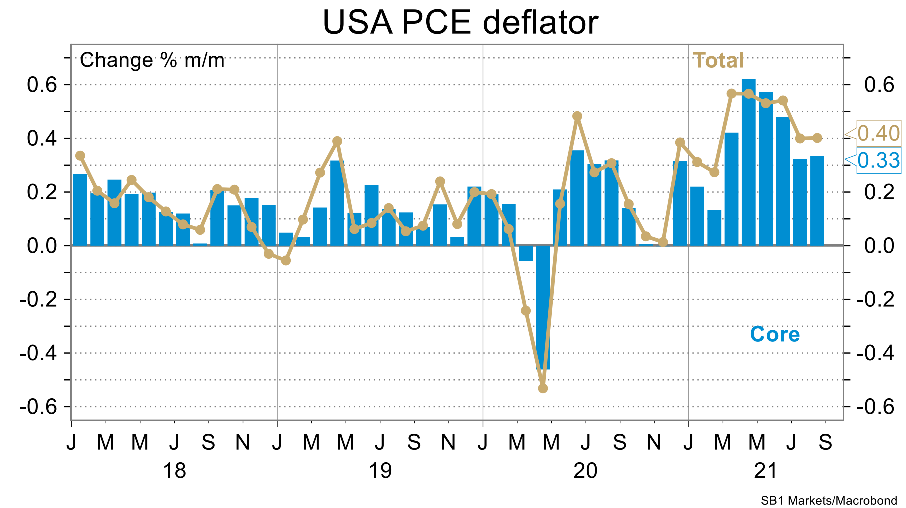
- **Sales** fell by 7% to 12.1 mill (annual rate) in September from 13.1 mill in August, expected close to unchanged. The level is far below normal, due to lack of data components
- Households have revised down their **plans for buying a new car** substantially recent months as they probably have observed that there are delivery ‘challenges’. In addition, prices are rising sharply (for identical cars), and more expensive models are prioritised by car producers (or rather cars with the highest margins)
- **Demand for cars** is still strong, as the 2nd hand market is ‘emptied’, and used car prices have soared 40% (albeit falling slightly over the summer)

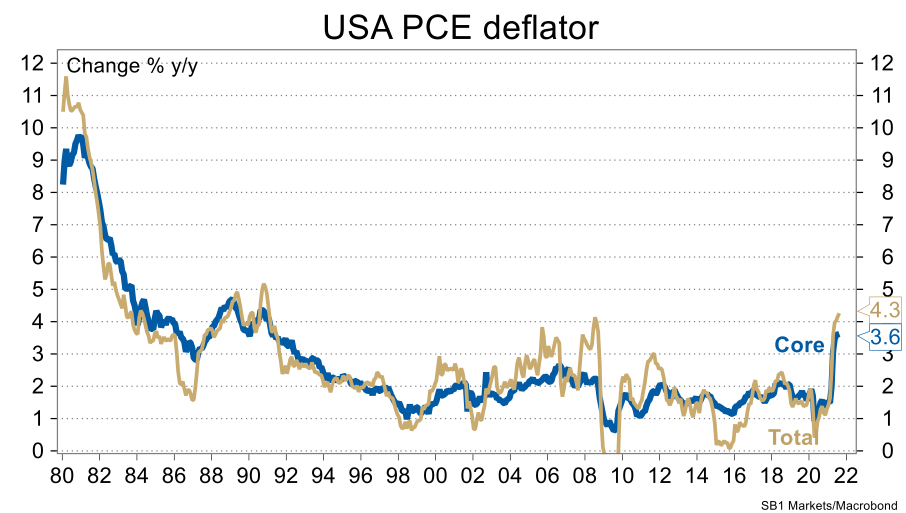
Core PCE up 0.3% in August too, flat at 3.6% y/y – 1/10th above consensus

Price inflation has slowed, but prices still rising at a 4% pace



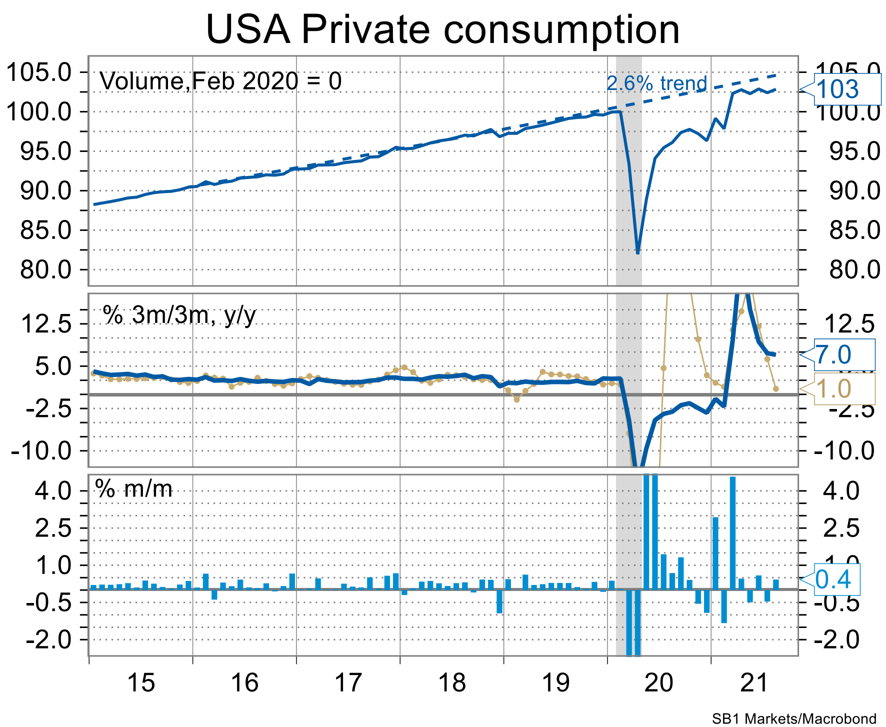
- **The core price consumption deflator** rose by 0.3% m/m in August, 0.1 pp faster than expected, unch. for July. The annual rate was unch. at 3.6%, expected down to 3.5% - and far above any inflation targets
  - » Since June '19, the average core inflation rate has been 2.7%. Inflation has been higher than 2% measured up to 12 years back in time. Actual core and total inflation has been higher than the 2% over time average inflation target, whatever horizon Fed would like to apply
- **The total PCE deflator** rose by 0.4%, as in July, and the annual rate accelerated by 0.1 pp to 4.3%, both 0.1 pp higher than expected
- Even so, the Fed can still claim a) that the recent lift in even core prices is transitory, which should not be bet with a tighter monetary policy, especially since b) employment is still far too low

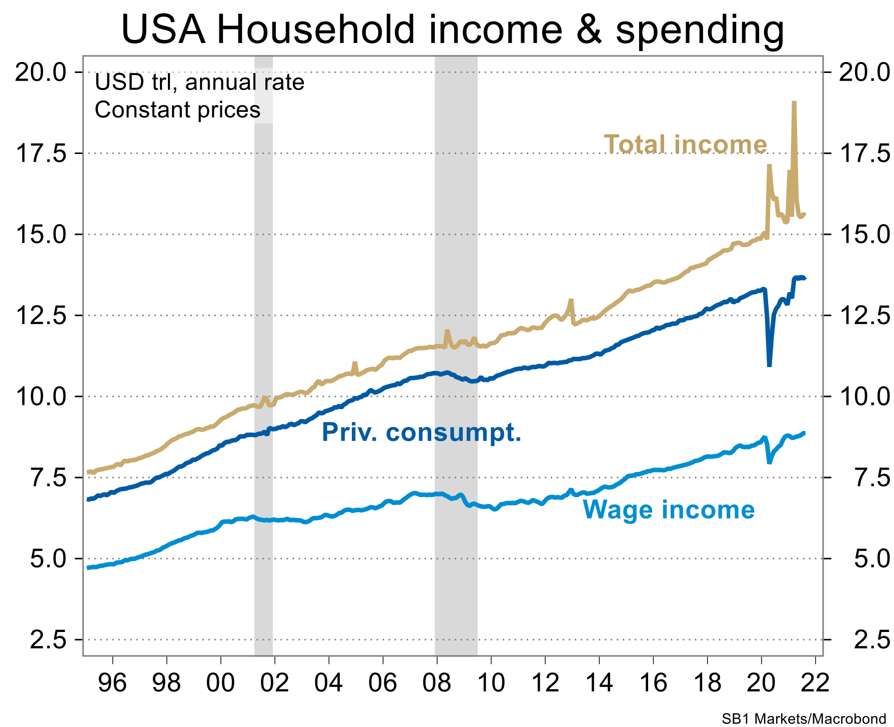




Household spending, income has flattened

Signals substantial slowdown in GDP growth. The savings rate just 2 pp above the pre-pandemic level

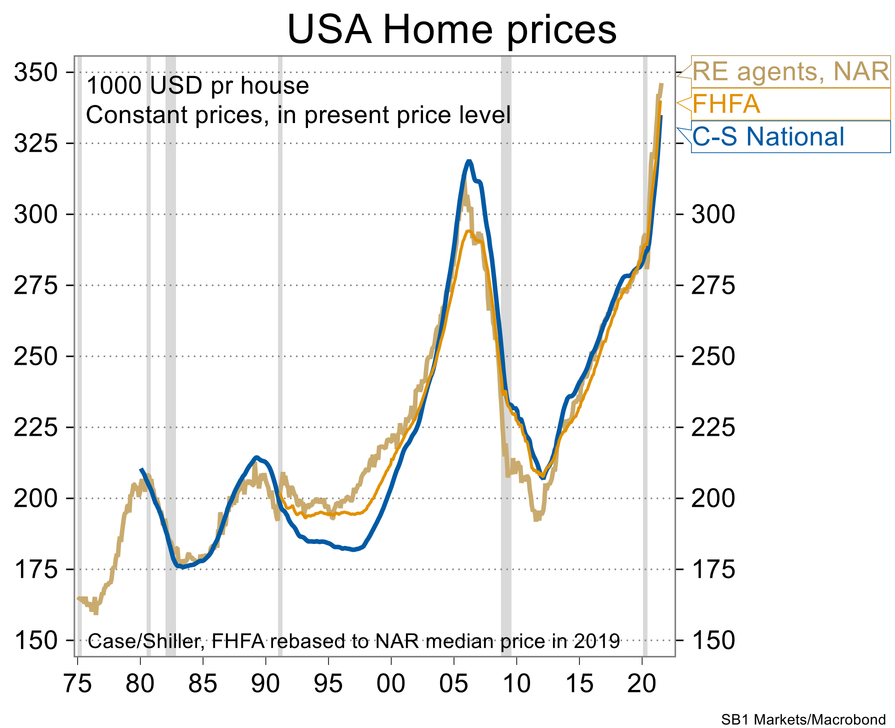


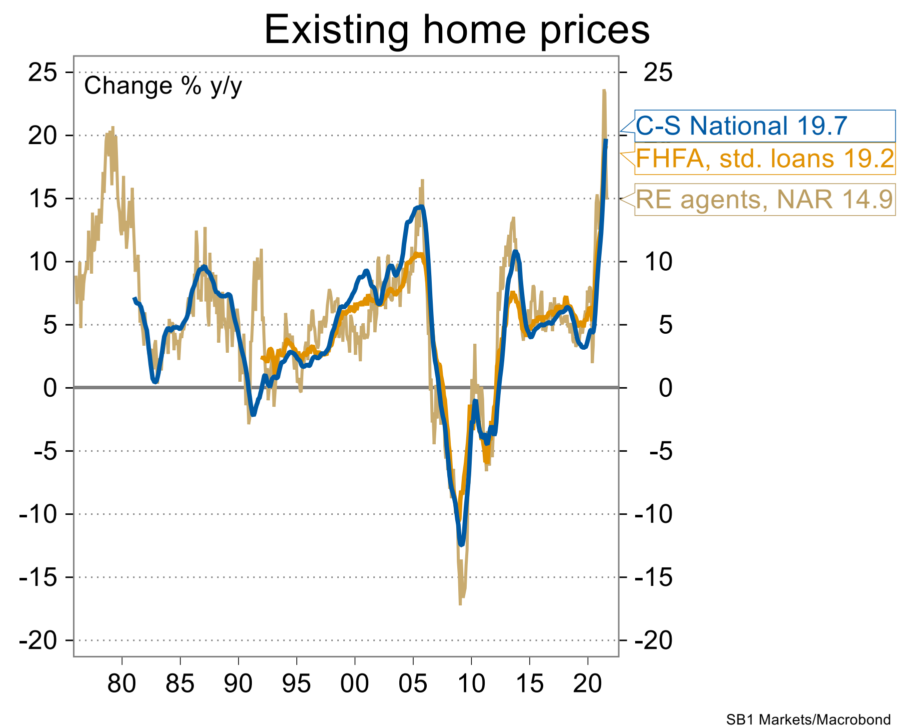


- **Private consumption** rose by 0.4% in real terms in August, as expected (spending rose 0.8% in nominal terms, expected +0.7% but prices rose 0.1 pp more than exp.). Consumption in real terms have flattened since March (3m/3m up 1% annualised), as consumption of goods has yielded (but are still up 15% vs. Feb-20) while services are recovering – but not that fast, and . In Aug, the Covid outbreak probably temporary dampened service consumption. Total consumption is up 3% vs. the Feb-20 level, and 2% below the pre-pandemic 2.6% growth path
- **Personal disposable real income** fell by 0.2% in August (household income rose by +0.2% nominally, as expected). Wage revenues contributed the most on the upside – and they are steadily on the way up
- **The savings rate fell** by 0.7 pp to 9.5%, from an 0.5 pp upward revised 10.1% August rate. The savings rate is some 2 pp above the pre-pandemic level. In addition, since the pandemic started, households have saved an extra amount equalling 13% of one year's GDP. There is still some money to be spent

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

Given such data, it does not seem reasonable the Fed buys all new mortgage backed bond (net)

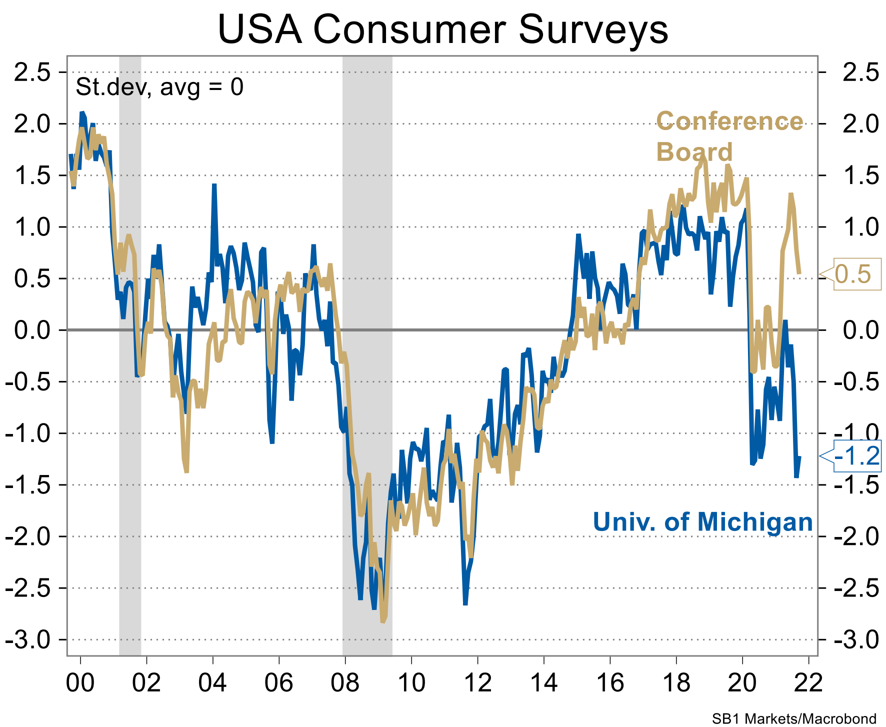




- Both the **Case-Shiller National index**, **FHFA's index** for homes with government sponsored mortgages (which includes most homes), and the **realtors' price index** have recently been/are reporting highest house price appreciation ever (or since 1948),
- **Real prices** are now well above the peak level in 2006
- There are still some important differences to 2005/6 price inflation & level peak
  - » Housing starts are at far lower level. The inventory of new & 2nd home for sale is record low (vs high 15 – 16 years ago)
  - » The debt/income ratio has fallen sharply since the peak before the financial crisis – but credit growth is now accelerating sharply again!

Conference Board's confidence down but still strong – far better than UM's surv.

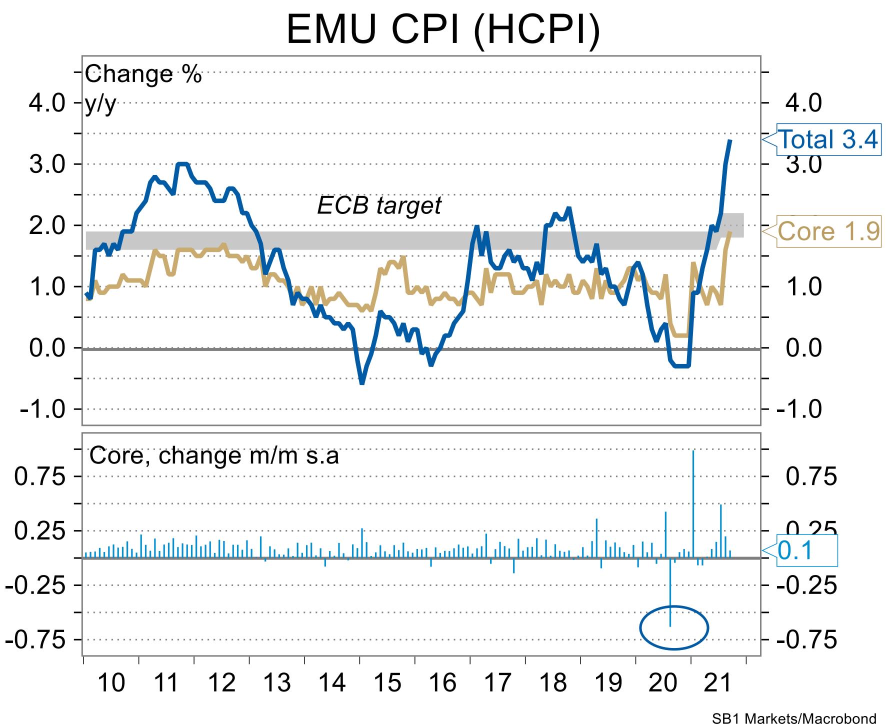
CB's index fell 0.3 st.dev to +0.5, exp slightly up. The UM survey revised up 0.2 st. still at -1.2

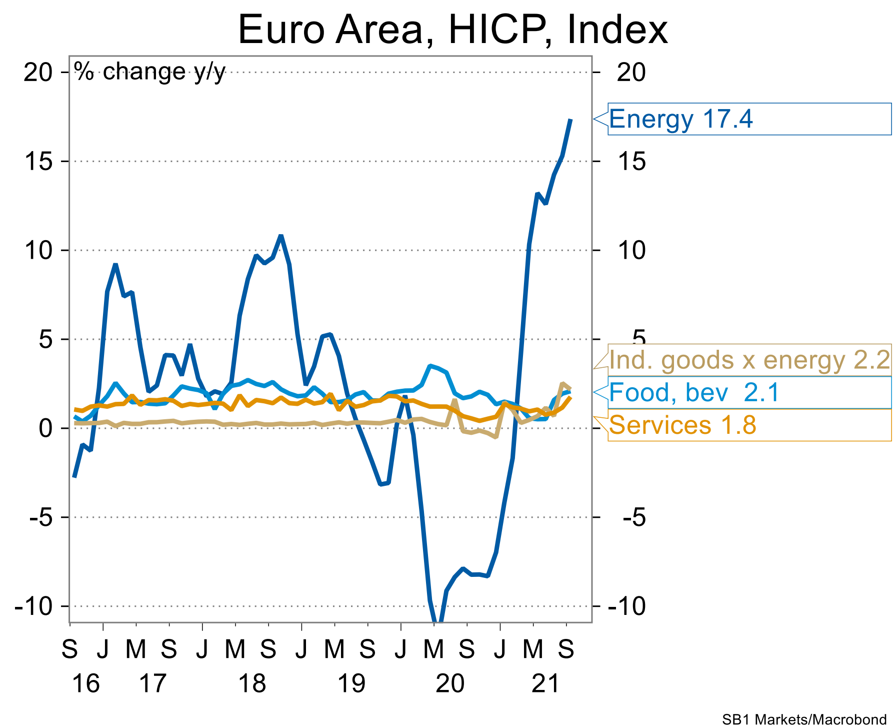


- The **Conference Board's consumer confidence** index fell to 109.3 in September, from 115.2 in August (revised up 1.6 p), expected up to 115. The index is 0.5 st.dev above average. Both the assessment of the current situation and expectations fell (almost in tandem)
  - » Households still report a tight labour market but have adjusted their spending plans downwards once more
- **University of Michigan's sentiment** survey was revised up by 1.8 p to 72.8, vs the preliminary index. Still, the level is 1.2 st.dev below average – on line with the lowest prints during the outbreak of the pandemic last spring!
  - » The discrepancy between the two surveys have never been larger than in August, and the gap is still very large in September
  - » If the UM survey is falling faster than CBs survey, often something unfortunate happens afterwards, check next page
- **Two other surveys** are heading down too, and both are below an average level. In sum, these surveys signal that 'something' is happening
  - » The **Delta virus** attack may explain the sudden decline in consumer confidence but hardly that sentiment fell to a level below April/May last year, and far below the level during the outbreaks in between, when the no. of hospitalised were higher than now
  - » The **stock market** fell in September, but the UM fell sharply in July & Aug
  - » The **labour market** is recovering rapidly, and jobs are extremely plentiful (also according to households themselves), and even if employment growth slowed in August, the labour market is still tight
  - » The **housing market** is still going strong, **mortgage rates** have fallen, and **credit** is available
  - » **Gasoline prices** are up but just marginally since April, and they are far from high in real terms
  - » **Inflation expectations** are well above a normal levels, but they did not (in sum) rise further in Aug/Sept, and cannot explain the sentiment shock
  - » **Politics**? The escape from **Kabul**?
- What to make out of it? To put it simple, <u>we are still not sure</u>

Eurozone core inflation up to 1.9% in September

Total inflation up to 3.4% as a result of lift in energy prices. Unions start talking of a compensation…

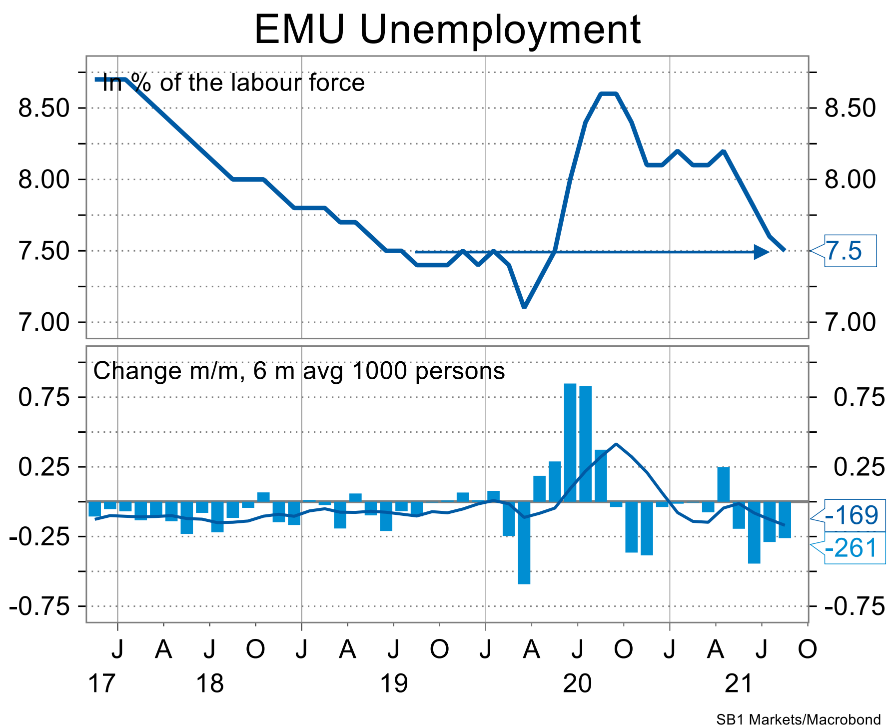


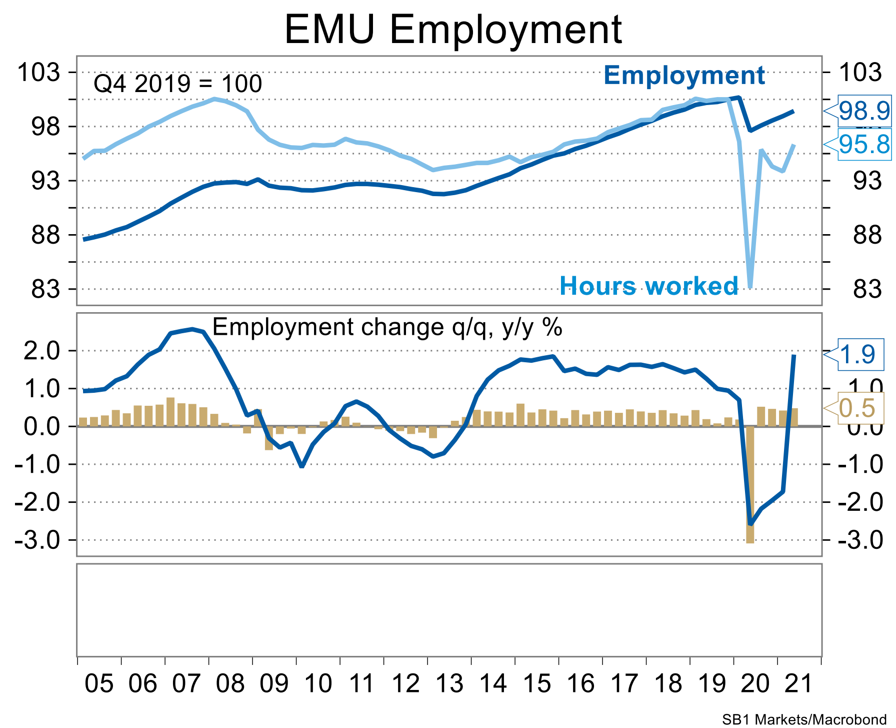


- **Core prices** were up 0.1% m/m. Still the annual rate shot up another 0.3 pp to 1.9% (as expected), but is still below ECB's new 2% inflation target
  - » Industrial goods x energy fell 0.4% m/m – but they are up 2.2% y/y
  - » Services were up 0.7% m/m, and prices are up 1.8% y/y
- **Headline inflation** was up 0.3 pp to 3.4% in September, expected at 3.3%. Energy is the biggest contributor, up 17% y/y (1.4 pp contribution), +1.1% m/m
  - » The annual rate will probably stay elevated the coming months, as the monthly increases were low/negative until Dec-20
- The **German IG Metal Union** last week demanded a 4.5% wage hike, and other trade unions are making calls for compensation for the lift in inflation. Wage inflation in Germany is now well below 2% - and it has been far to low for long to yield 2% inflation over time

Unemployment keeps inching down – at 7.5% in August, from 7.6% July

Unemployment fell by 261’, is trending down – and is now at the pre-Covid level!



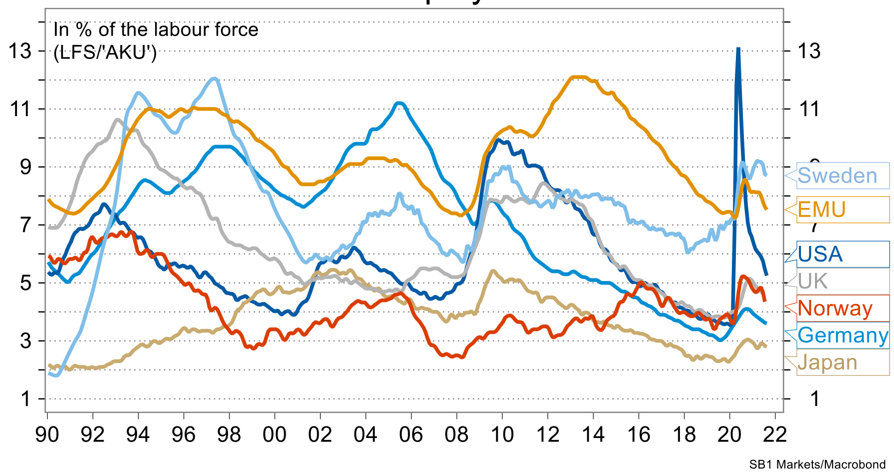


- **Unemployment** is falling rapidly as the economies are opening up – and the number of unemployed at the same level as in January 2020
- **Employment** rose by 0.5% in Q2, as over the previous 3 quarters, and it is 1.2% below the pre-pandemic level – and it is now steadily narrowing
- However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q2, hours worked were down 4.2% vs the pre-pandemic level, while the no. of employed was down just 1.1% - as average working hours were cut substantially

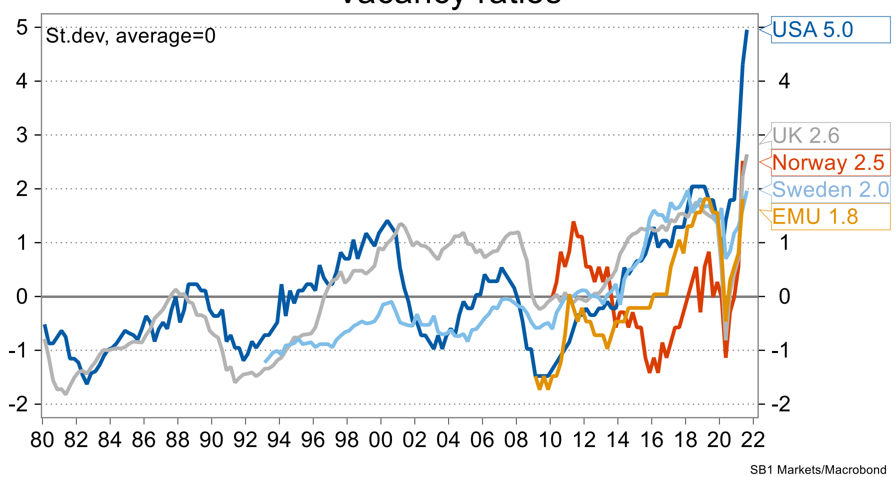
Unemployment on the way down everywhere

And unemployment is on par or lower than normal in 19 out of 23 countries

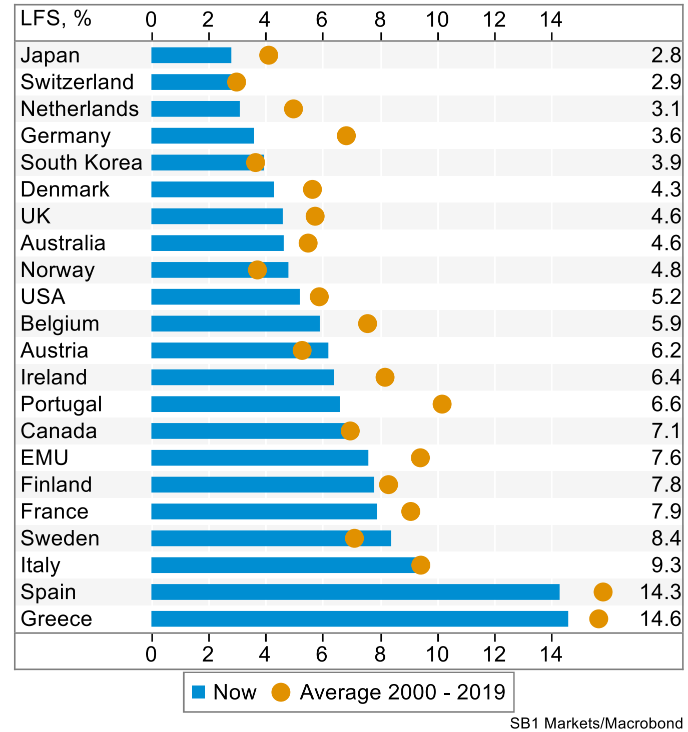
Unemployment



Vacancy ratios



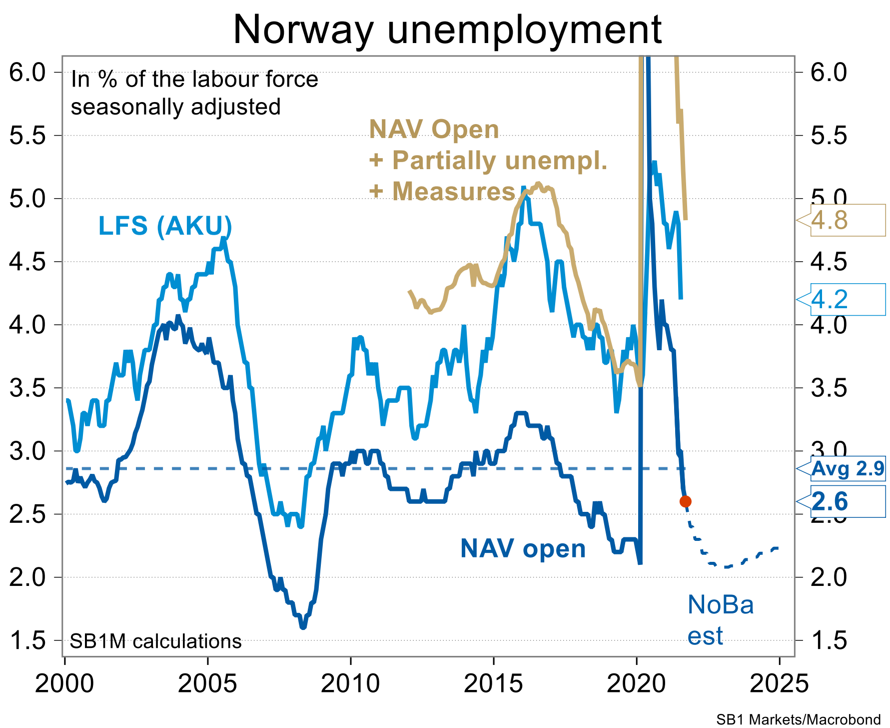
Unemployment

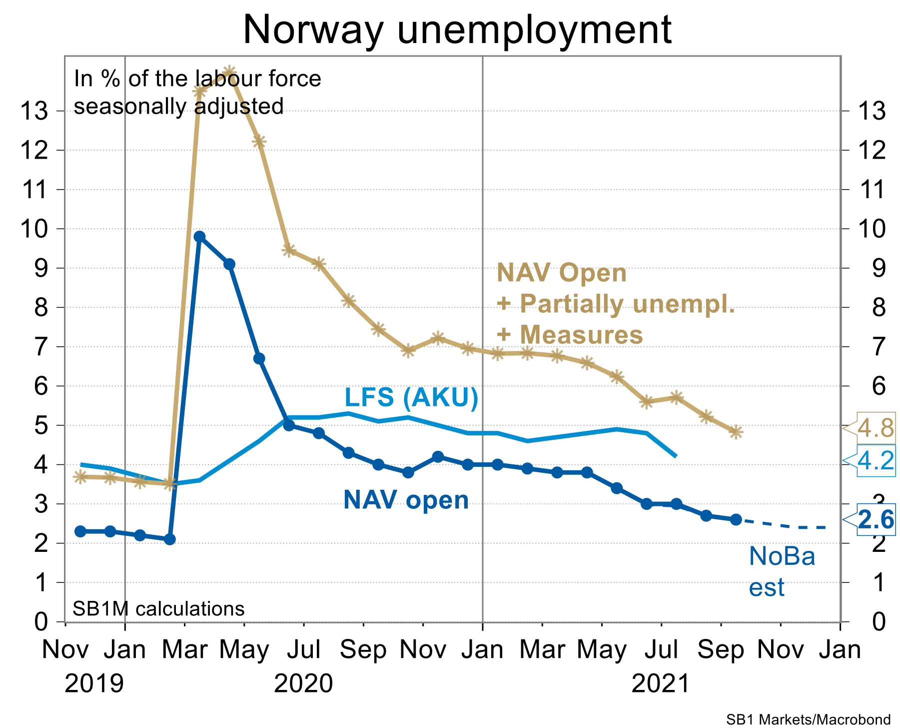


- A large majority of countries report lower unemployment than the 2000 – 2019 average
  - » In both Norway & Sweden, registered unemployment is falling rapidly and is below average levels – even if the LFS rate is higher
- May these low unemployment rate partly explain the high **vacancy rates** that are popping up everywhere?

NAV unemployment further down in Sept, 'no' new claims, vacancies further up

Open unemployment down 0.1 pp to 2.6%, in line with NoBa f'cast. Level just 0.5 pp below Feb-20

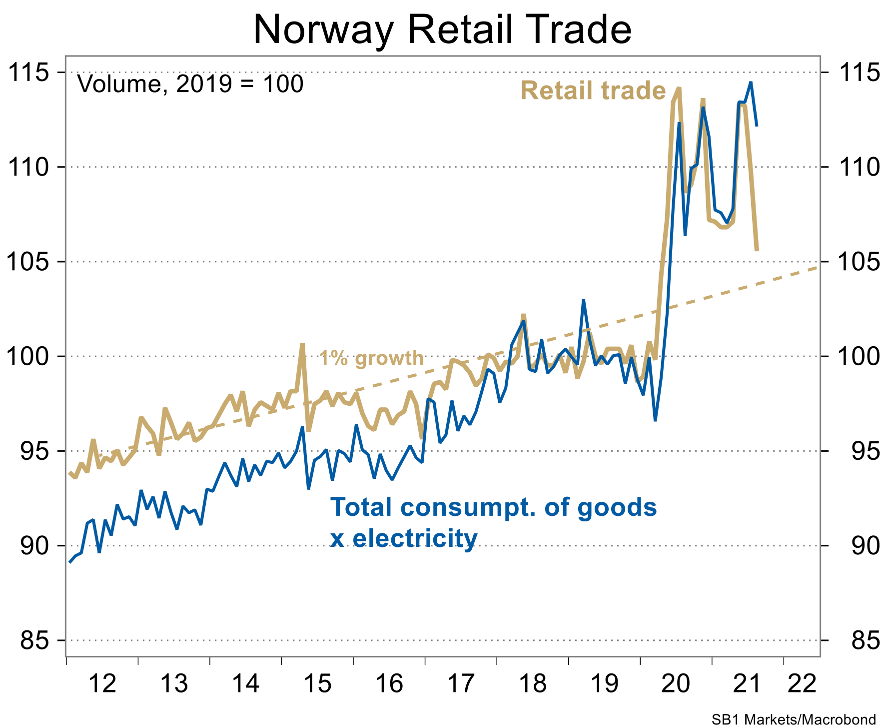


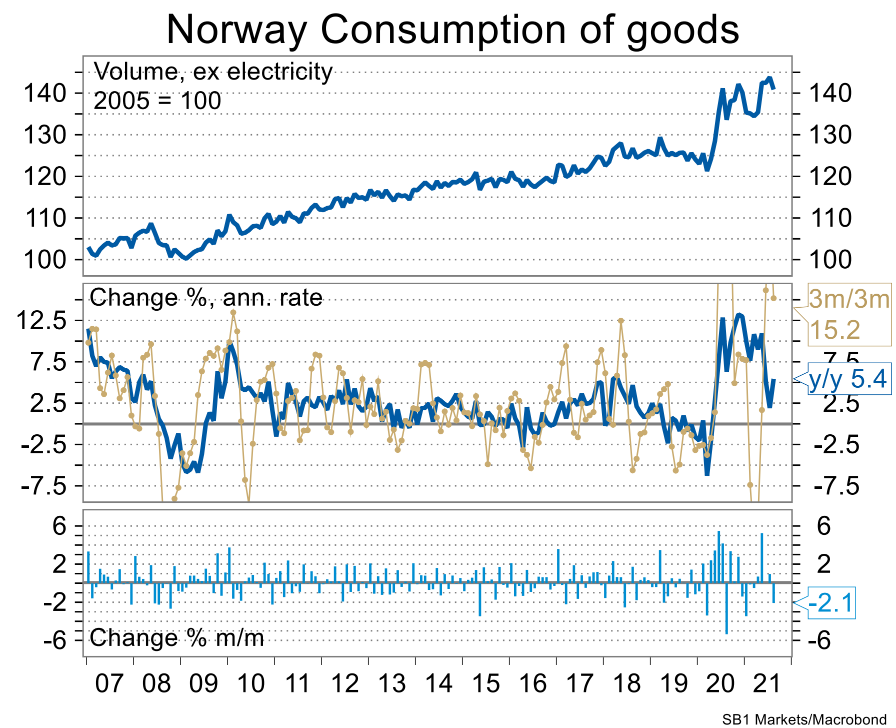


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 4' in September (seas. adj) to 73' as we expected. The rate fell by 0.1 pp to 2.6%, equal to NoBa forecast. Unadjusted, the rate fell by 0.3 pp to 2.4%, vs. 2.5% expected by consensus (and us). The 2.6% rate is below the 2000 – 2019 avg at 2.9%, still well above the 1.6% through in early 2009. Unemployment is falling rapidly everywhere and for all sorts of labour
- In addition, the number of **partially unemployed** (not counted in the ordinary unemployment number) fell even more, to by 6' to 50'. Including labour marked measures, the **total unemployment** fell by 11' to 139' – still 46' above the pre-pandemic level. The rate is 4.8% up from 3.5% in Feb-20
- The inflow of **new job seekers** fell further in July, and the inflow of new vacancies rose further from a high level the previous 5 months
- **The AKU unemployment rate** 'collapsed' in June, by 0.6 pp to 4.2%, as the **employment rate** rose further, to slightly above the pre-pandemic level**. The participation rate** has climbed even more, to the best level in 10 years). In addition, unfilled vacancies are record high. Less need for a close to record low interest rate?

Retail sales further down, now due to food & bev, ICT, sport eq, not building mat.

Sales fell 3.8%, we expected +1.5% following the 3.4% (building materials caused) July setback

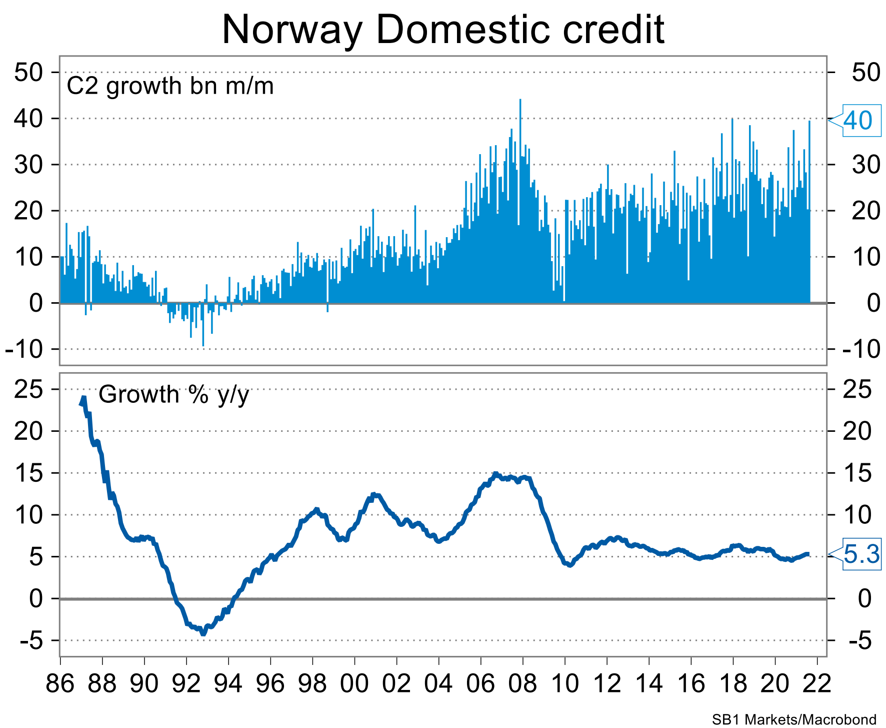


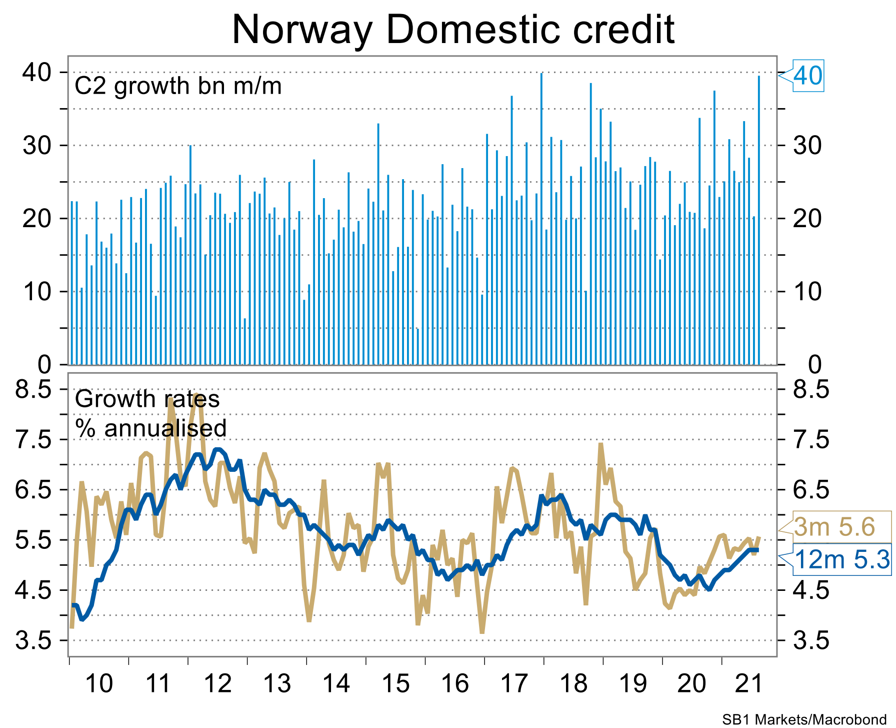


- **Even after these two tumultuous months, retail sales are still 5% above the pre-pandemic level**.
  - » ICT down 16% m/m in August, sport equipment -7%, grocery sales down 3% - as we went to restaurants and were shopping in Sweden again rather than spending time at home. However, we needed new clothes, sales up 2%. Building materials were close to unch., following the 29% drop in July (due to the price shock, lack of supply)
- **Total household consumption of goods** (x electricity) fell 2.3%, following the 1% lift in July
  - » Total food/beverage consumption (incl. Vinmonopolet) fell by 6%, after the 4% lift during the July staycation (at least staying in Norway)
- **We still expect consumption of goods** to normalise the coming quarters, back the pre-corona trend path, way below the current +12% above pre-corona level!

Unusual strong credit growth in August, due to businesses, households in check

Still, domestic credit growth (C2) remained unchanged y/y AT 5.3%, we expected a slight decrease to 5.2%



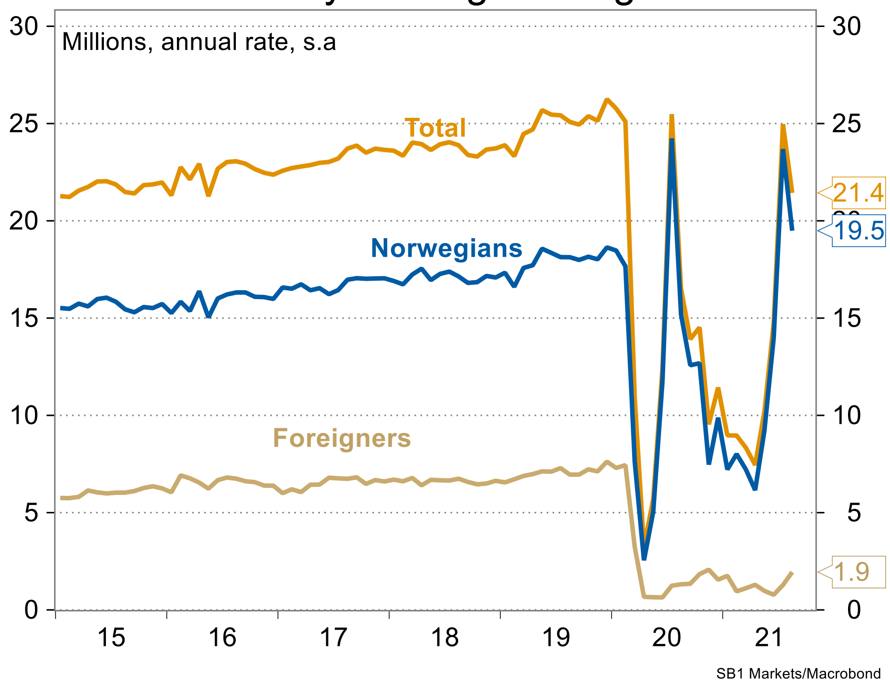


- **Total domestic debt** (C2) rose by NOK 40 bn in July, up from 20 bn in July, we expected NOK 30 bn. NOK 40 bn is among the highest monthly growth rates. The annual growth rate remained unchanged at 5.3%, we expected a slight decrease to 5.2%. We are not witnessing any credit boom. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 14 bn in August, down from 18 in July, we did not expected unch. The annual rate was unch. at 5.2%, and has remained at this level since June
- **Corporate C2 credit**, rose by NOK 21 bn (up from 53 mill), an unusual strong growth, we expected 8 bn. The annual growth rate rose to 4.7% from 4.6%, we expected a decline to 4.1%. **Mainland corporations** increased their debt by 5.4% y/y (+ 0.1 pp from July)
- **Local governments** also increased their borrowing in Aug, by NOK 4 bn, up from 2 bn in July, as we expected. The annual growth rate is at 8.1%, up from 7.5% - way above income growth

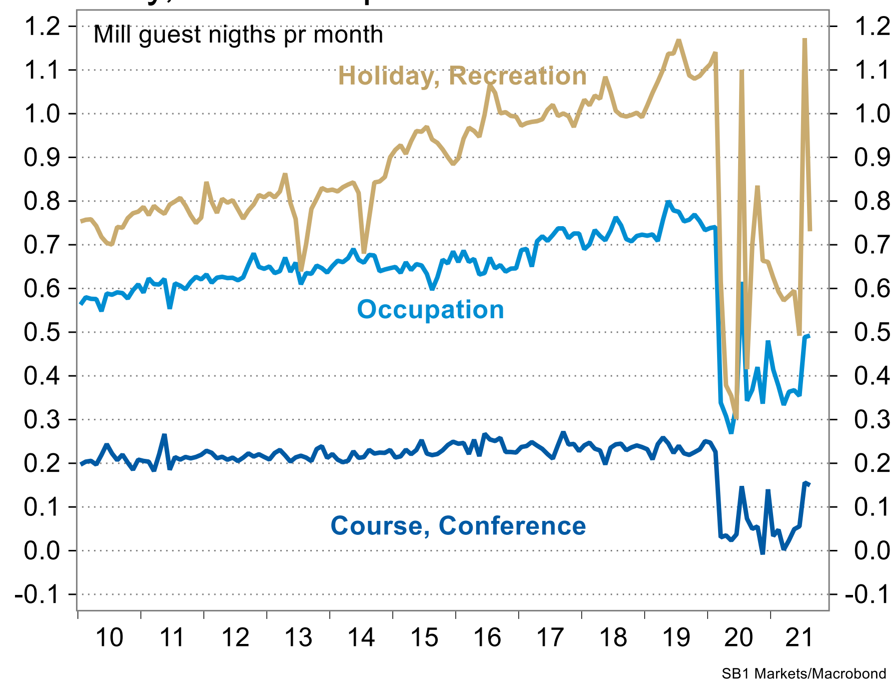
Fewer hotel guests, but they payed damned well, RevPAR almost record high!!

Total guest nights down is August, but less than we feared. Room prices surged

Norway Hotel guest nights



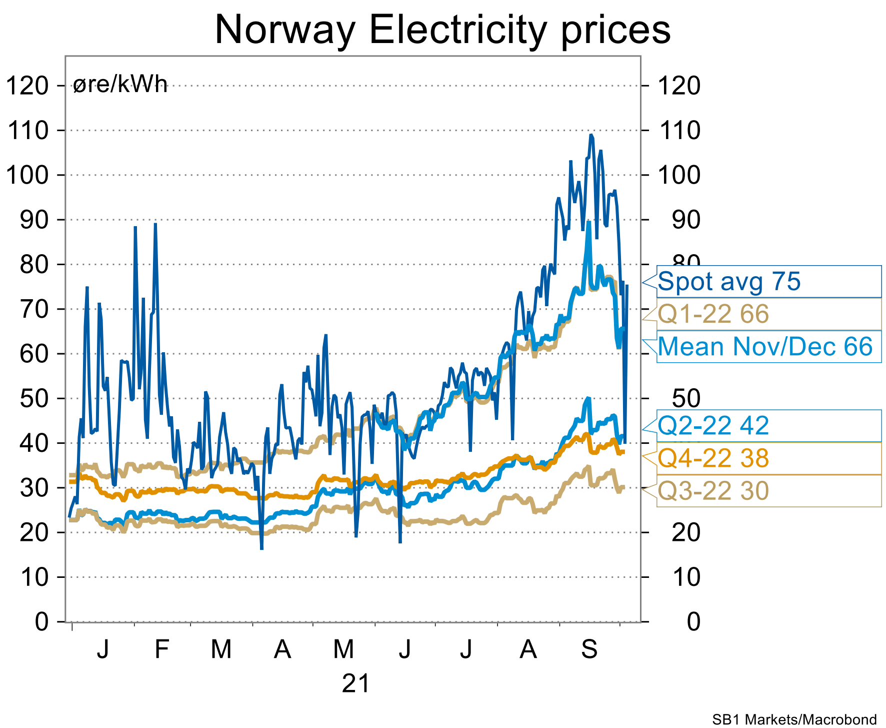
Norway, Hotel Purpose of the Accommodation

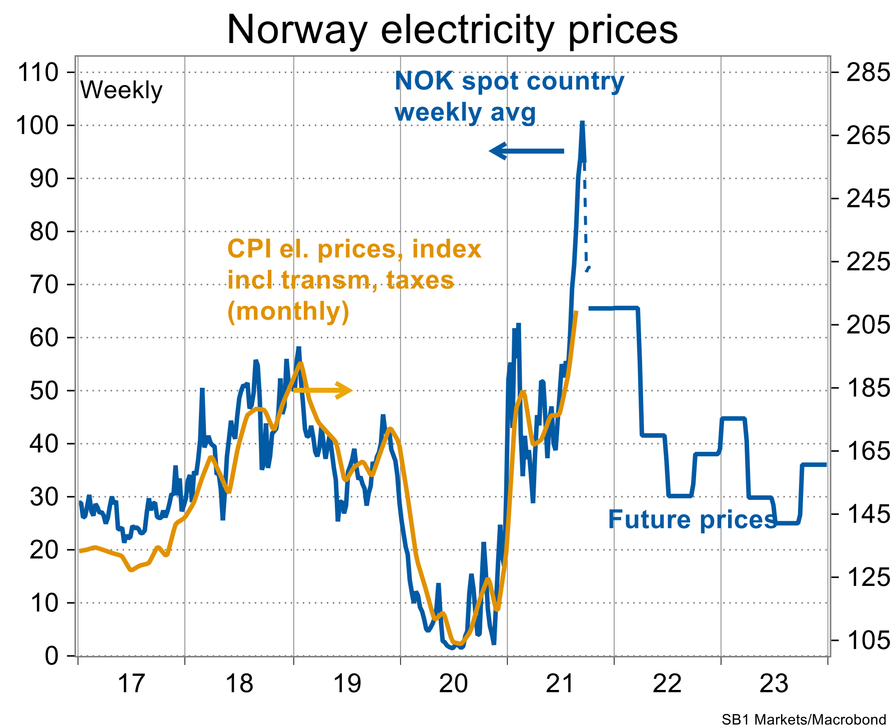


- **The no. of guest nights** was just 14% below the 2019 level (and 9% below the 2018 level) in August – solely due to the lack of foreigners. Norwegians guest nights are up 9% vs the 2019 average, from +32% in July. Foreigners' guest nights are still down 72% (from -82% in July)
- **Business travelling** (sum occupation & conferences) is still down almost 40%, both due to fewer Norwegian & foreign guests – but no split is available. The conference markets is down 'just' 30%.
- **Thus, Norwegian recreational traffic** saved the day in August too (no explicit data available, but given the low number of foreigners, the conclusion is given)
- **The outlook for the autumn is not that good:** Some more travel abroad for Norwegians, and probably just a smaller increase demand from foreigners could imply lower recreational demand. Although business demand has come up from the bottom it will probably not fully recover anytime soon – and possibly never (at least vs the old growth path). At least, many companies have announced substantial cuts in travelling activities & budgets.

Nordic electricity prices sharply down, future prices even lower

Markets are still volatile, depending on the weather, and over time European gas prices



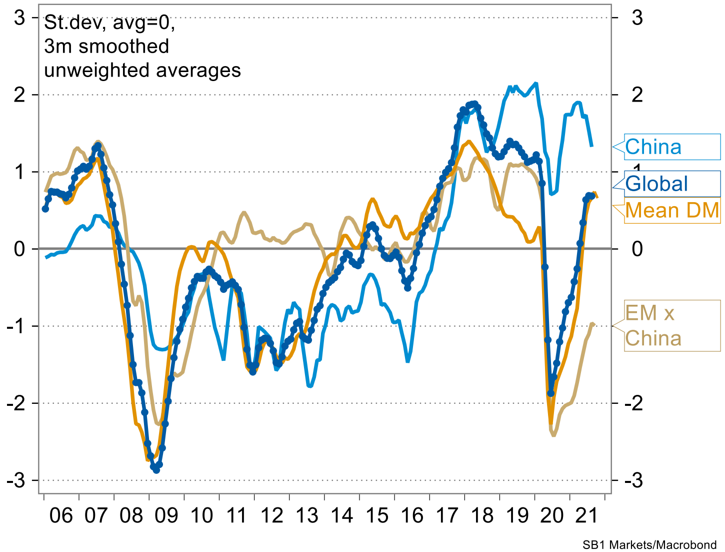


- Even when Norwegian electricity spot market prices soared in September, the future market was rather calm, at least from Q2 next year and onwards. Now, the market expect prices close to the 35 øre/KWh from the spring onwards, in line with the long term spot market average
- Even Nov/Dec prices are significantly down, and 'just' some 30 øre/kWh above the long term average

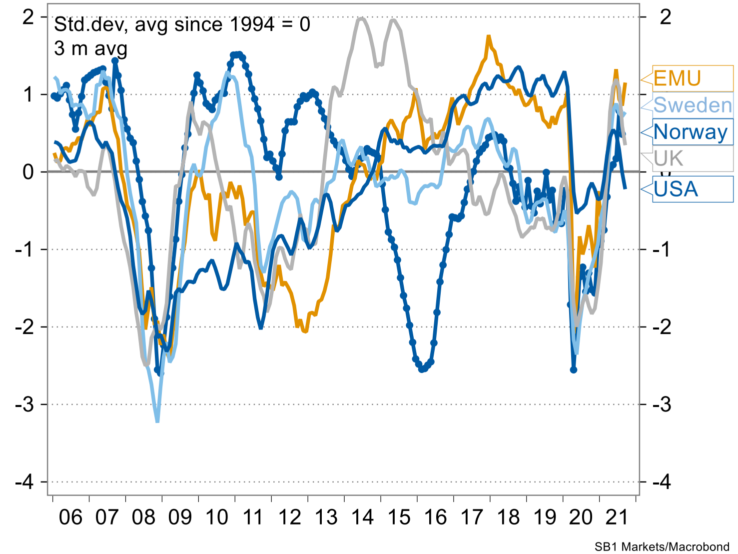
Consumer confidence is recovering – but remains below par in EM x Ch

EMU at the top among DM; US, Japan & New Z at the bottom

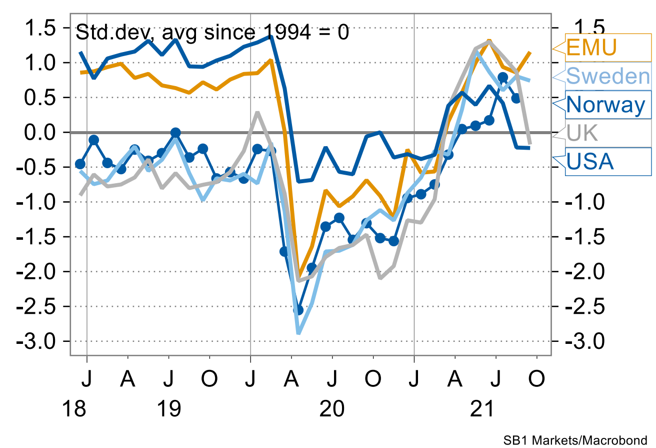
Global consumer confidence



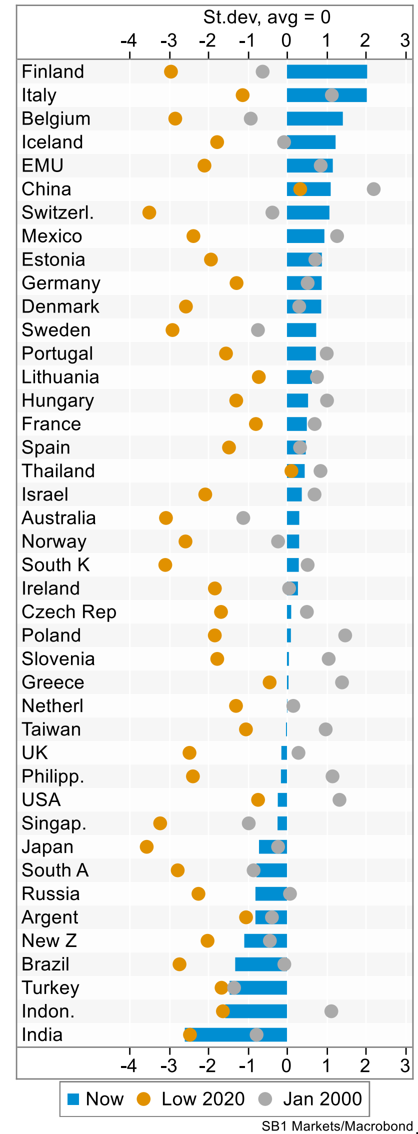
Consumer confidence



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



Consumer confidence



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

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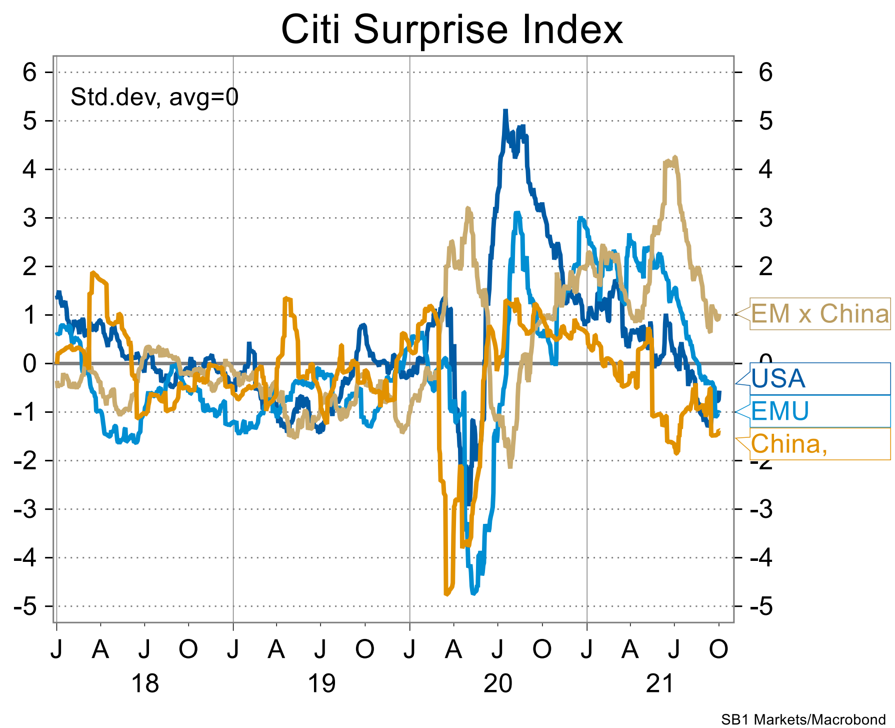
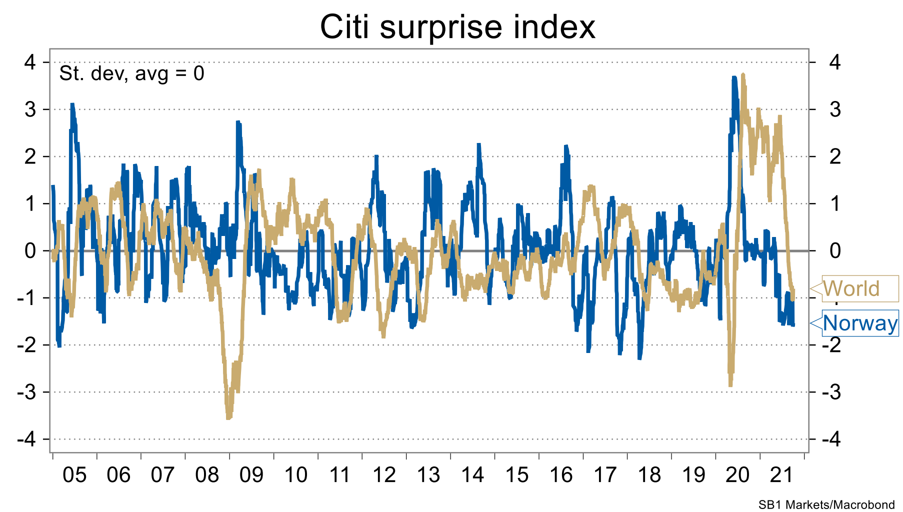
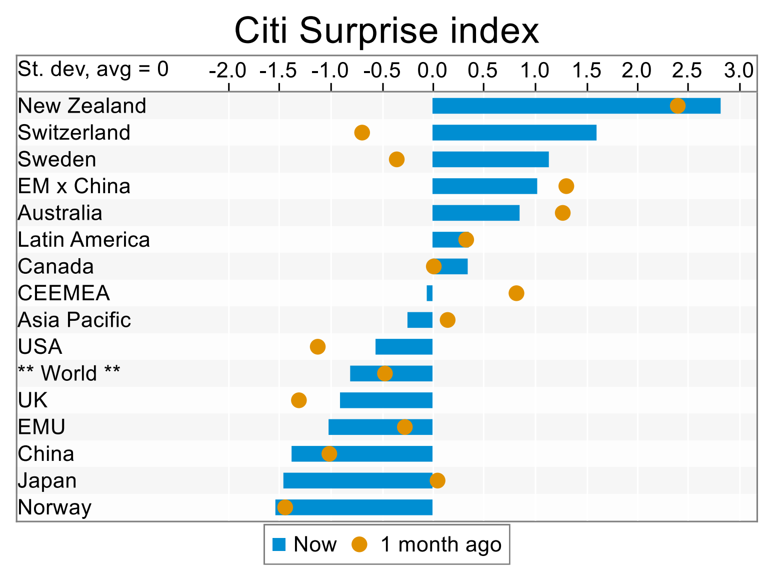
Still mostly negative surprises – but not more last week







- The **US** surprises have become slightly less negative
- The **EMU** is well below zero
- **China** has flattened
- **Emerging Markets x China** are still reporting <u>better</u> data than expected
- **Norway** has surprised sharply on the downside, according to Citi

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

Highlights

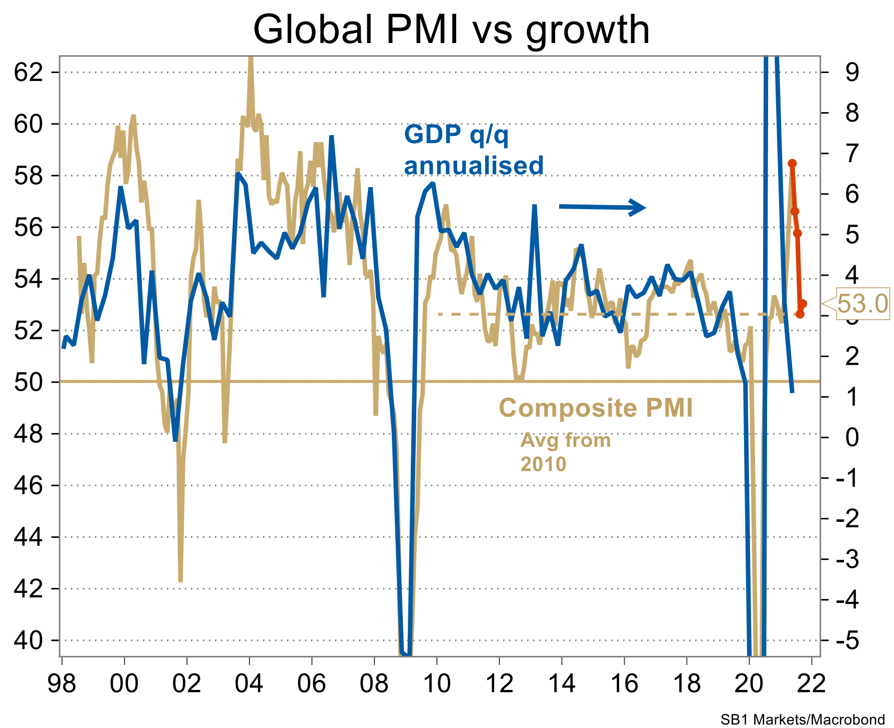
The world around us

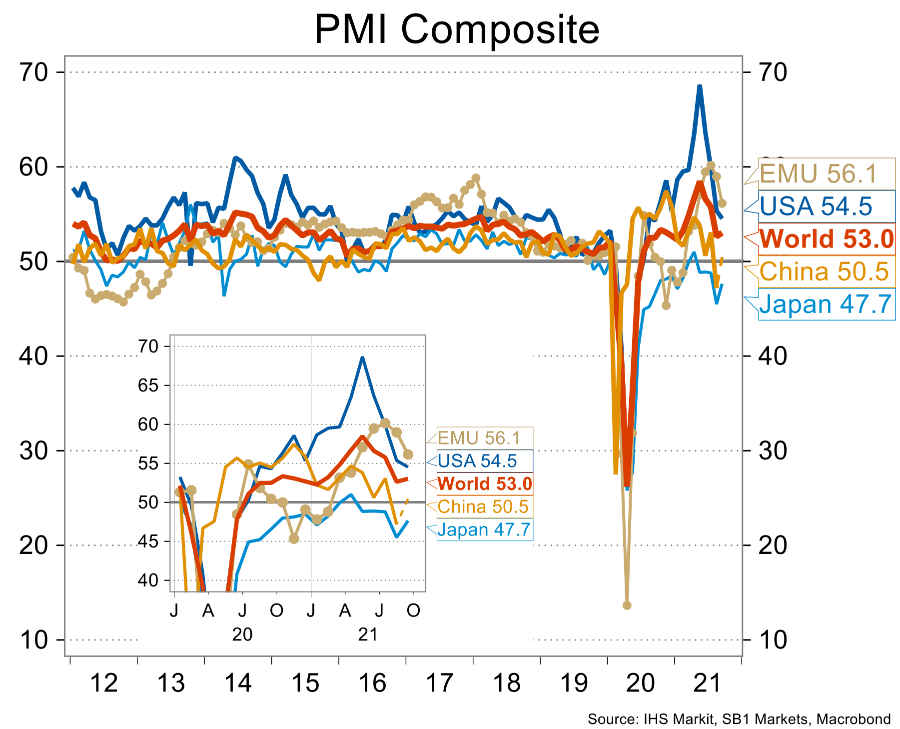
The Norwegian economy

Market charts & comments

PMI probably far better than we assumed, slightly stronger in September?

Based on preliminary surveys we expected a 0.5 – 1 p decline. Signals growth at 3+%





- **The global PMI** has peaked, so has very likely global growth. In September, the global composite index probably rose due to stronger manufacturing and services indices, mostly in DM. The Chinese service sector recovered
- Final data out this week

Our estimates are based on the on surveys published so far

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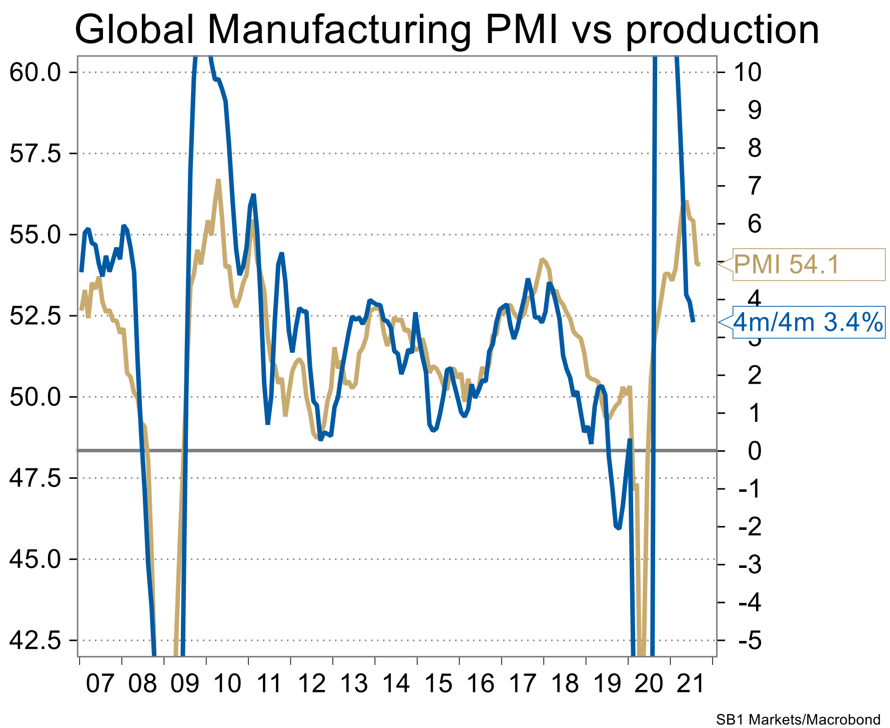
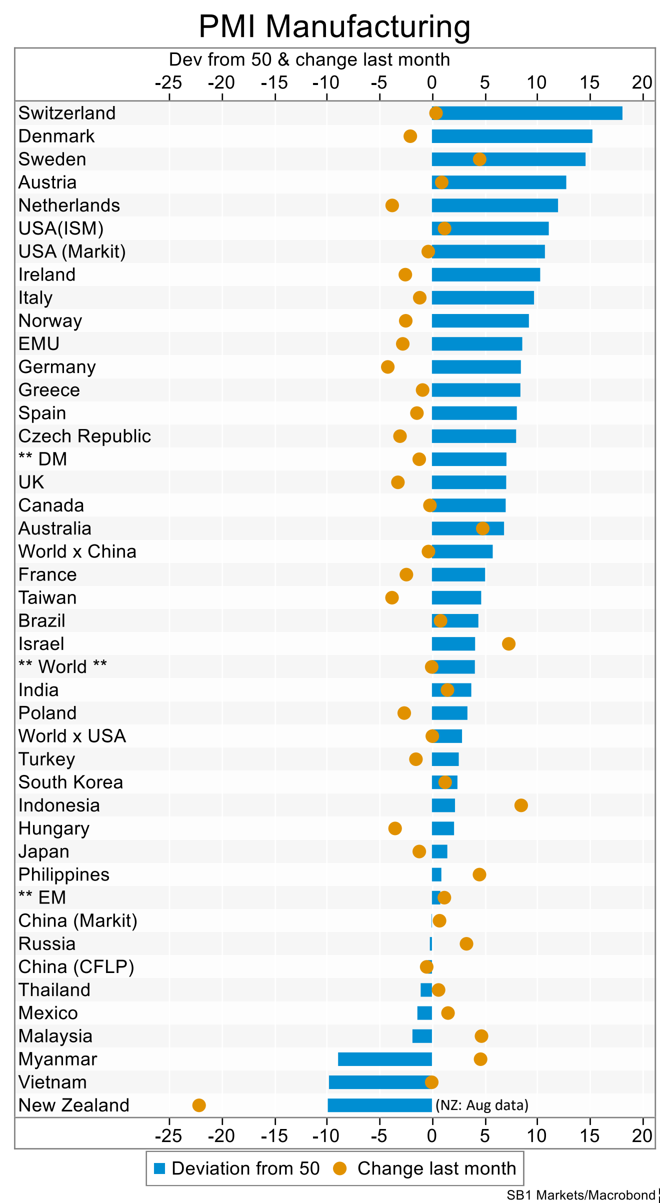
Manufacturing PMI unch. in Sept, 80% are still above 50. Europe/US in the lead

We expected a substantial decline! EM surprised on the upside

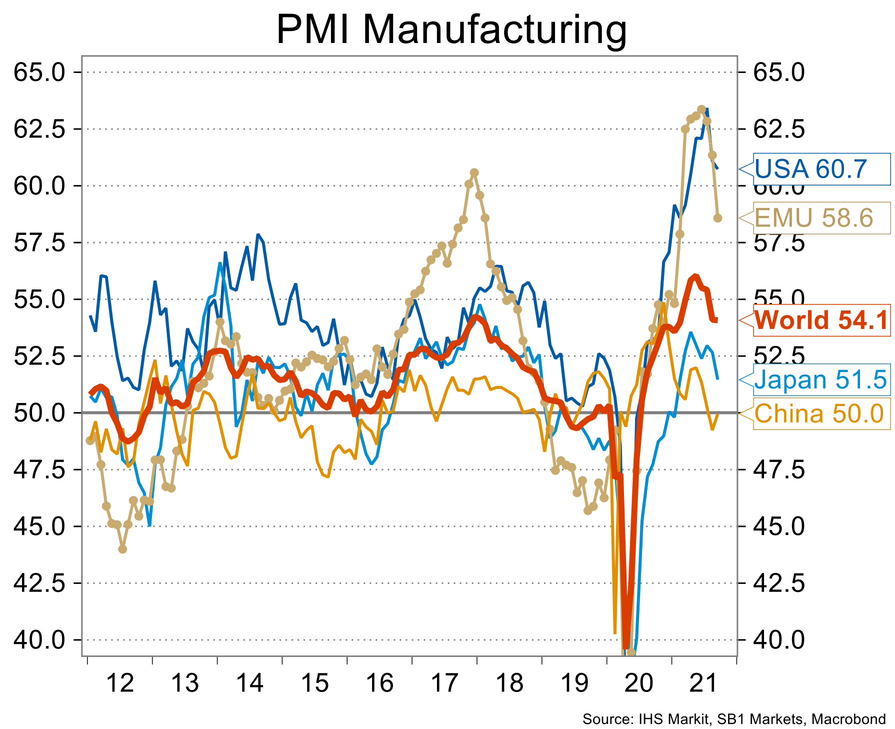


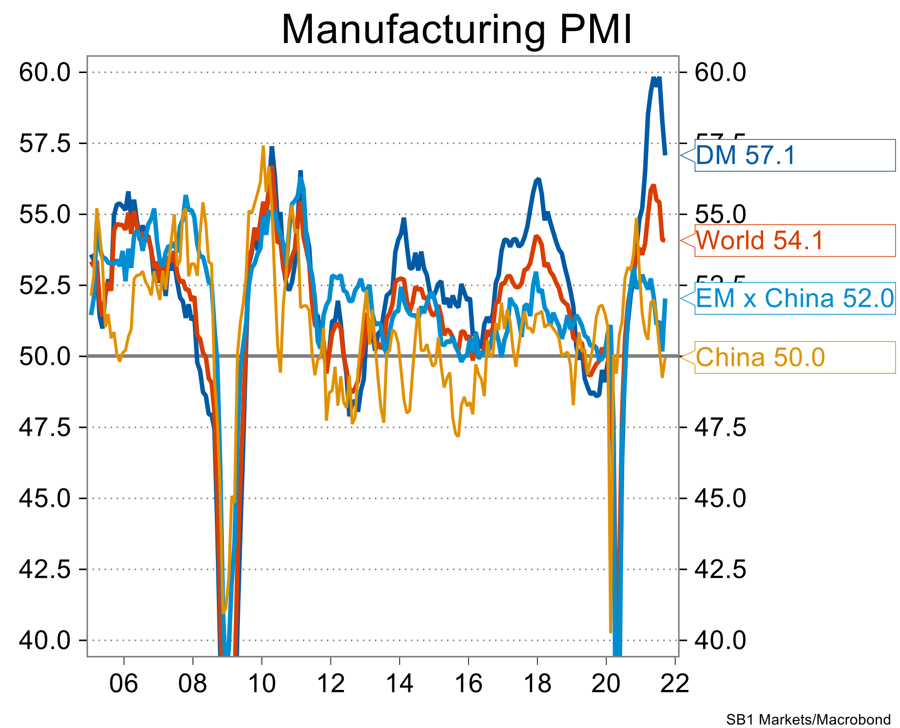


- The **global manufacturing PMI** flattened following a decline the prev. 3m
  - » 41% of the countries/regions reported higher PMIs in Sept vs. Aug
  - » Almost 80% of countries reported a PMI> 50
  - » European countries dominate the top of the list – but US PMI & ISM are up there too
  - » The **Chinese PMIs** were close unch., and both are close to 50
  - » **India** is climbing further
  - » **EMs** are still far weaker than DM but the gap narrowed in Sept

The boom in the manufacturing is broad, in rich countries

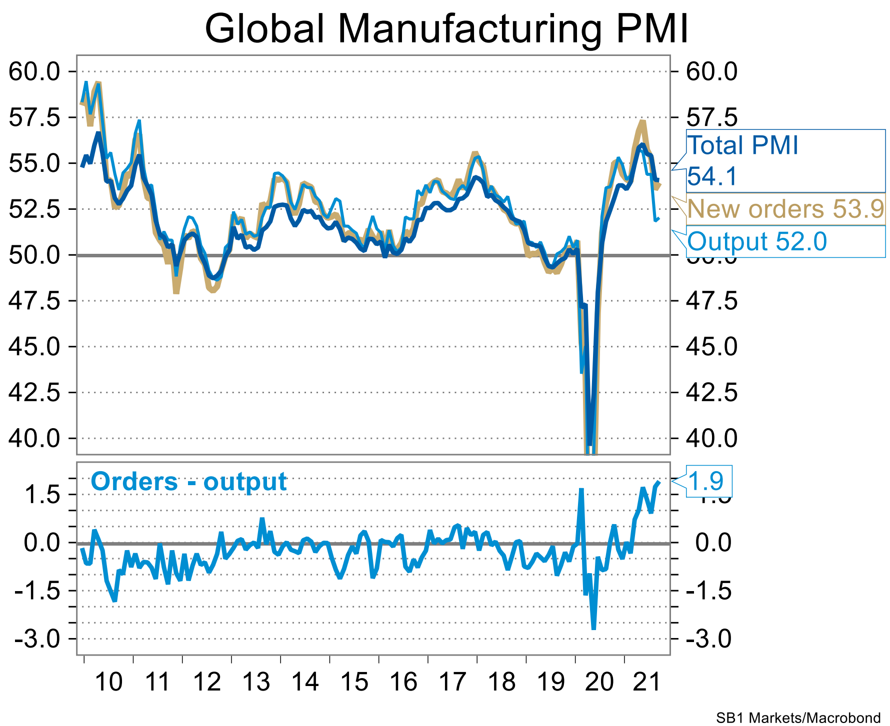
Emerging markets are lagging – the last corona wave is visible!

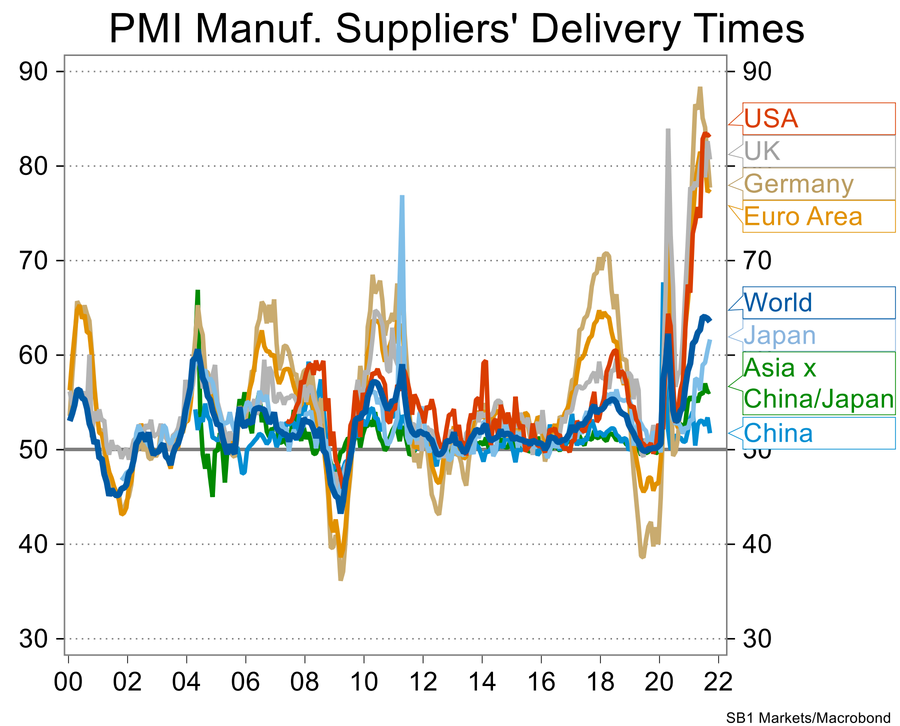




Orders are growing faster than output, confirms supply/capacity constraints

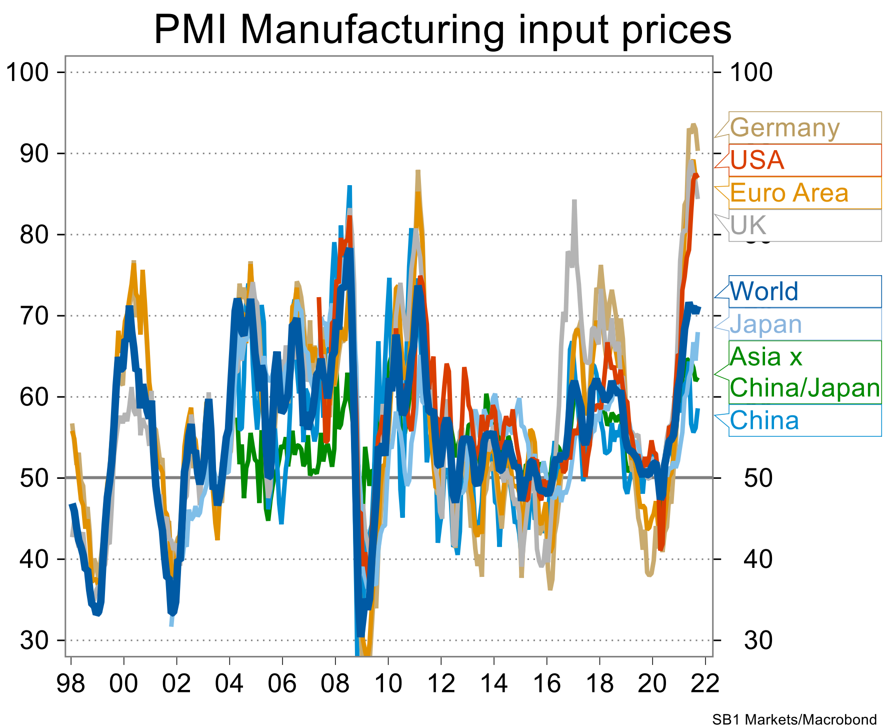
Growth has peaked but no sign of setback now – growth remains at or above trend

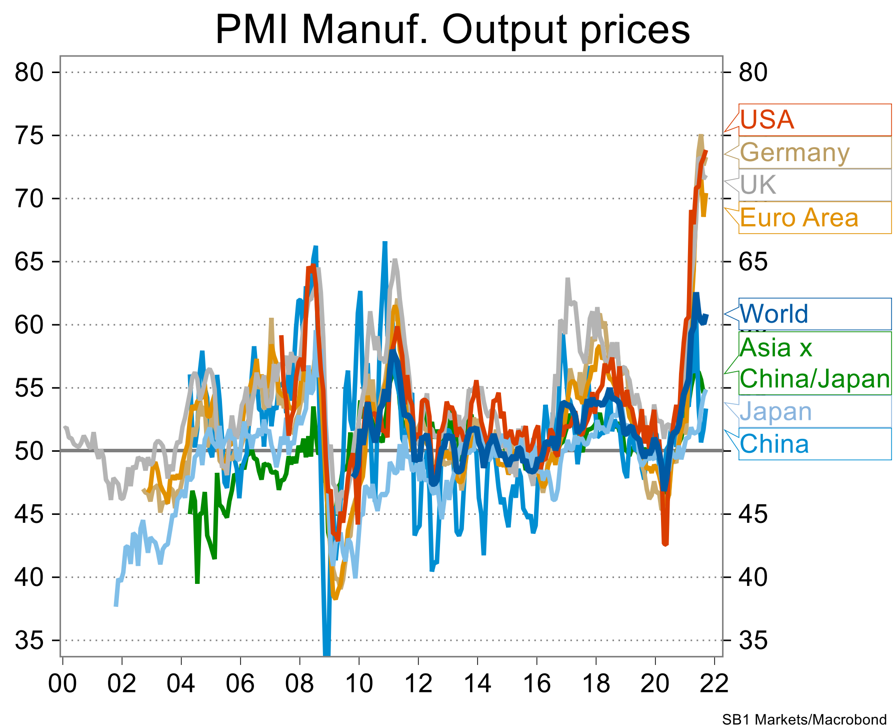




- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has peaked but it remain extremely elevated. Supply chain issues are of course not solved

Price increases are peaking

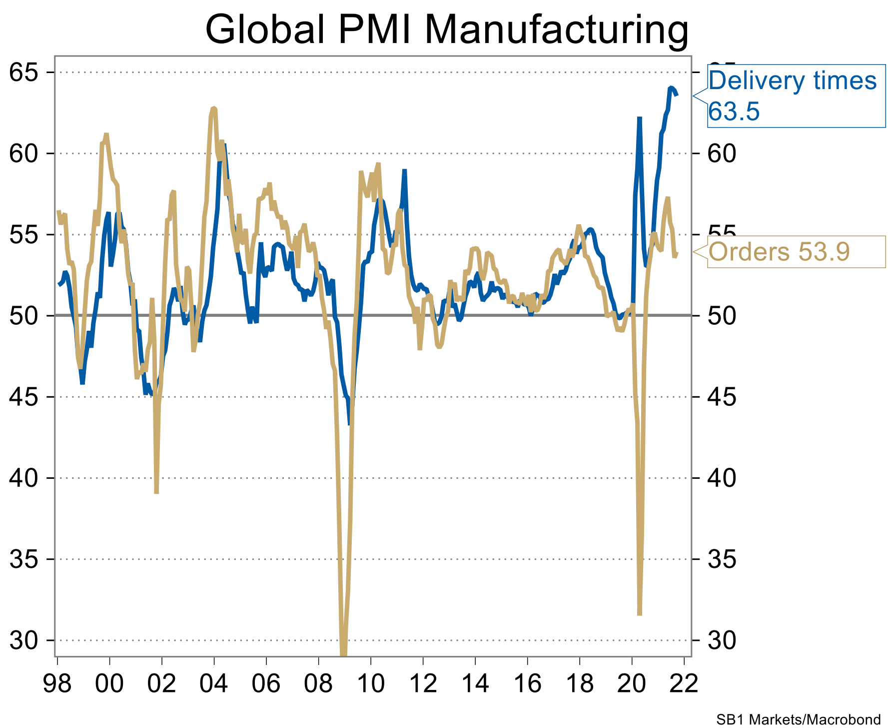


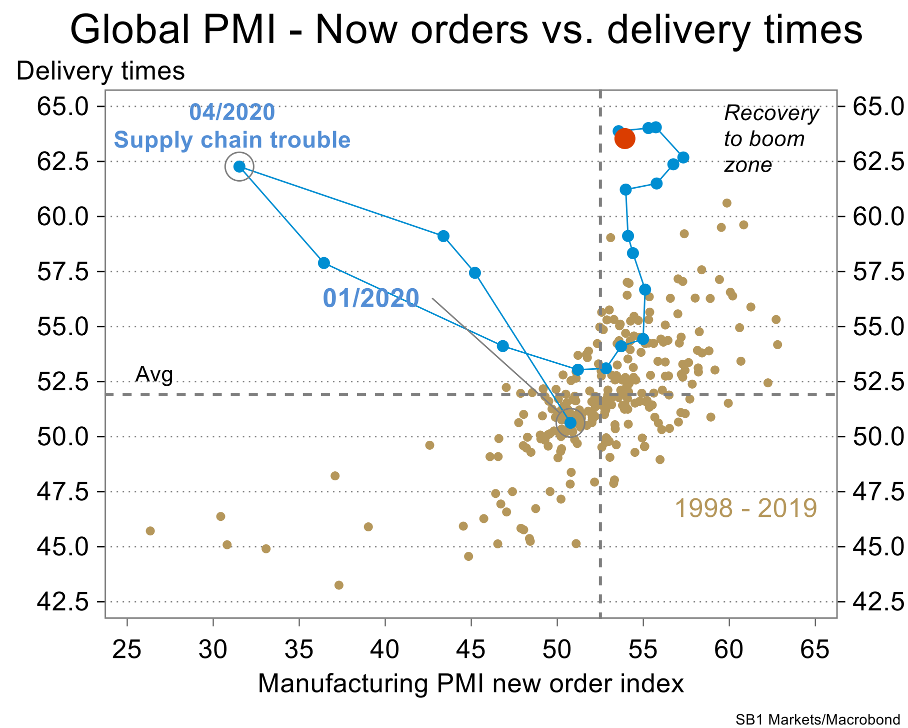


- **Both input and output prices** are still rising fast but not faster

Delivery times are 'too long' vs growth in orders/production

Signals some unusual 'supply chain challenges', and not just the impact of a booming economy





- Industrial activity is strong, and it is still growing above trend
- However, growth has not been so aggressive that capacity constraints shouldn't have been met, broad based, and delivery times & price increases should not have skyrocketed the way they have
- If so, we can probably blame specific corona related problems for some of the troubles we have run into – it has at least not happened before

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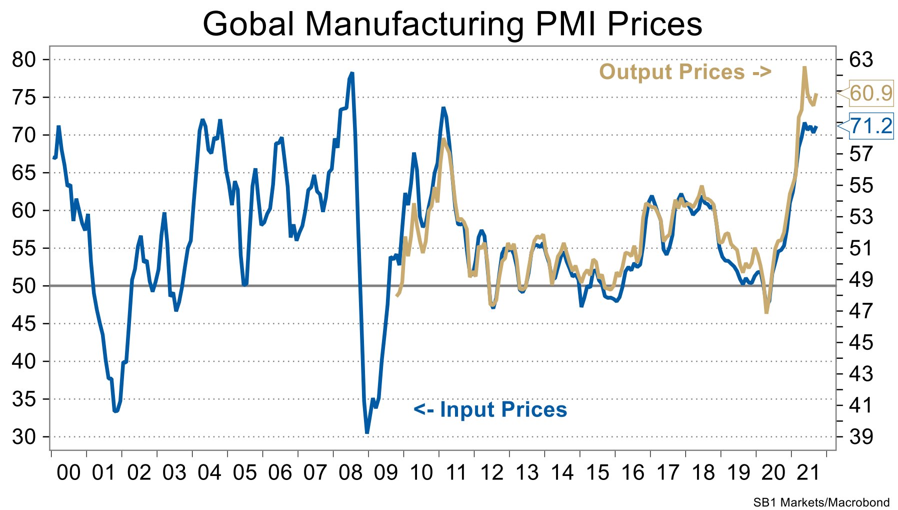
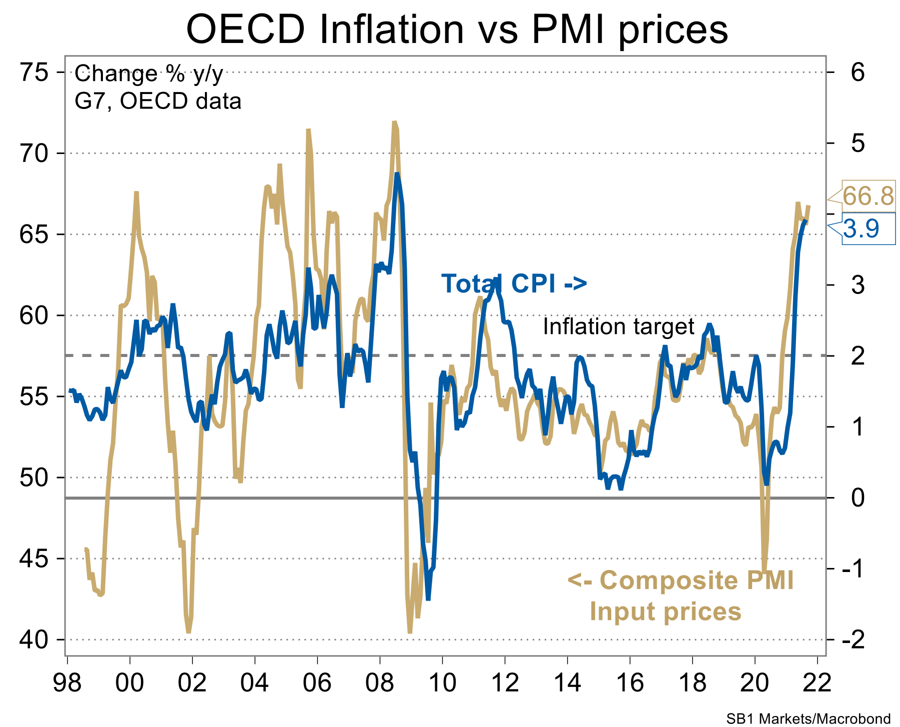
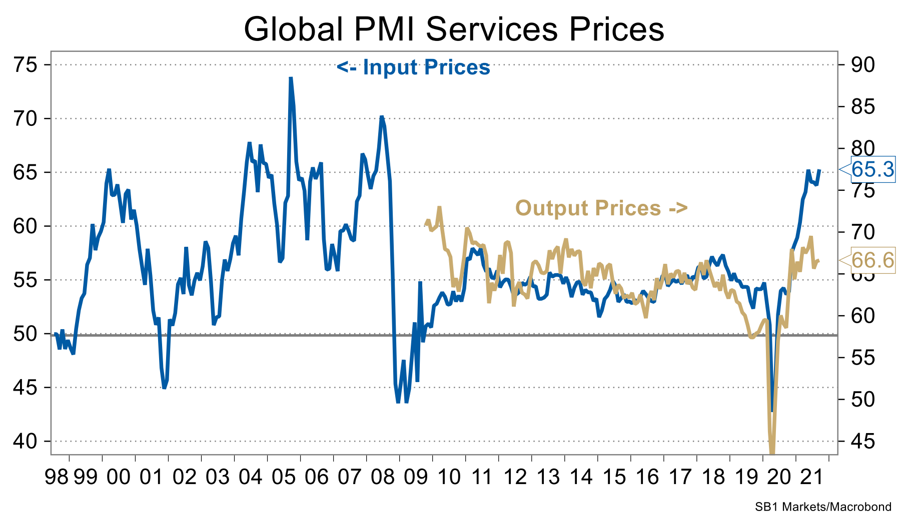
Businesses keep reporting a rapid growth in input/output prices but not faster

CPI inflation is probably not far away from the peak







- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices

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

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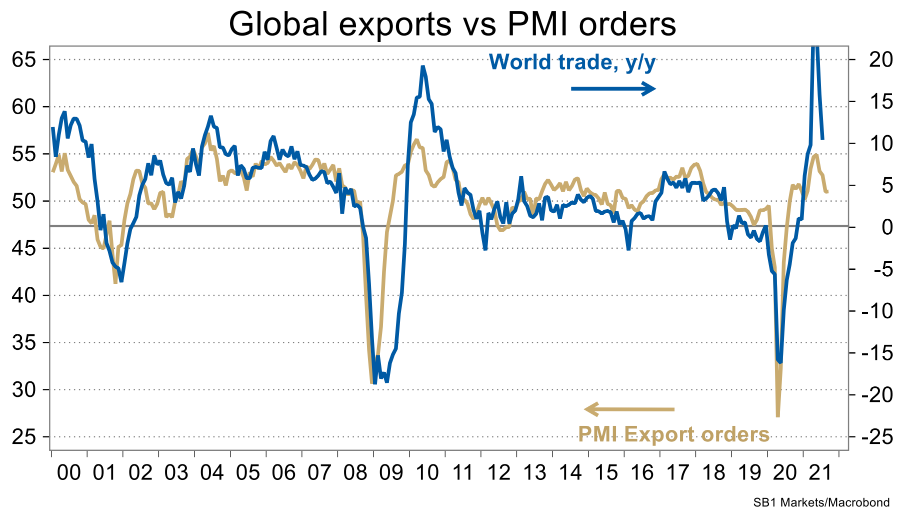
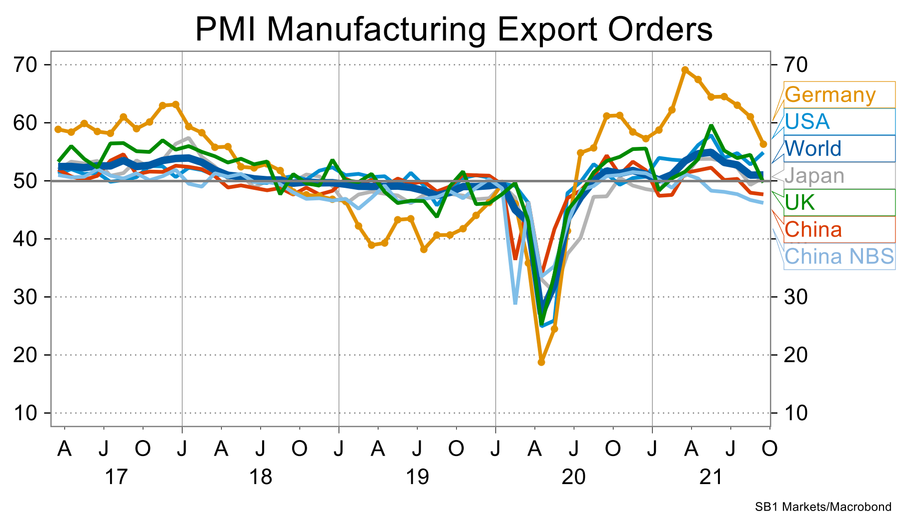
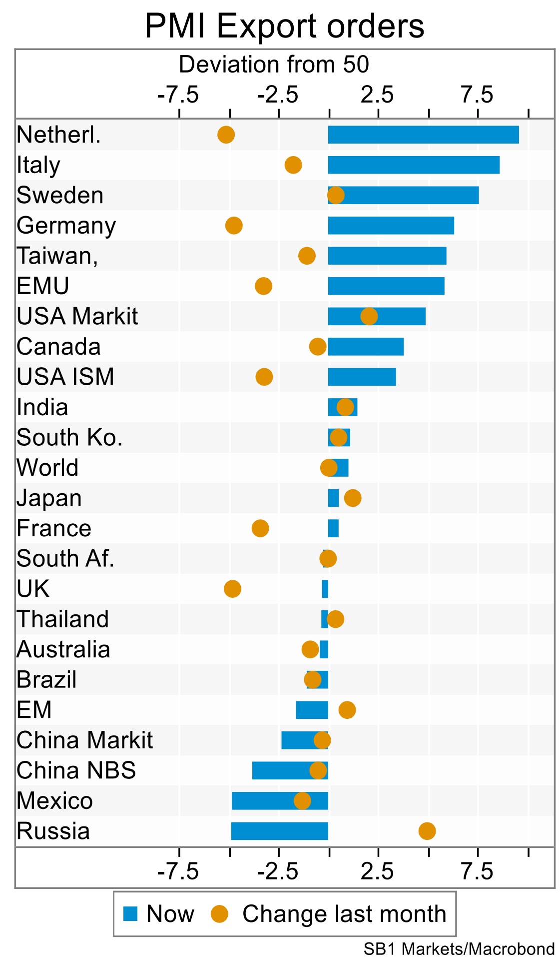
Most export order PMIs are heading down – and some are below the 50-line

China close to the bottom of the league, EMU countries, Taiwan at the top







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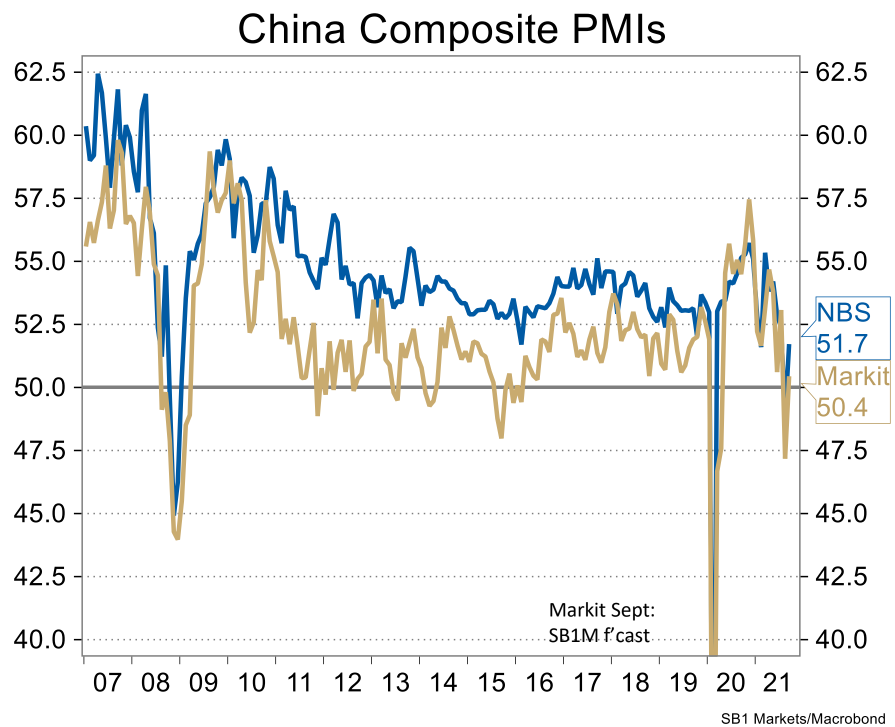
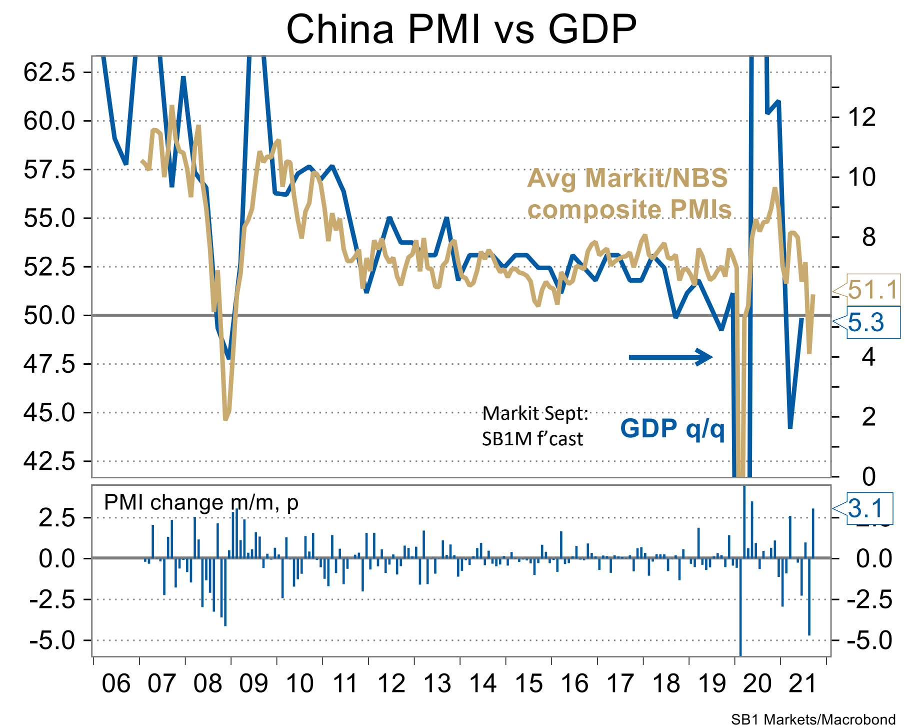
Services recovered in September, the composite PMIs (very likely) sharply up

Markit’s services not reported yet but very likely followed the NBS survey up

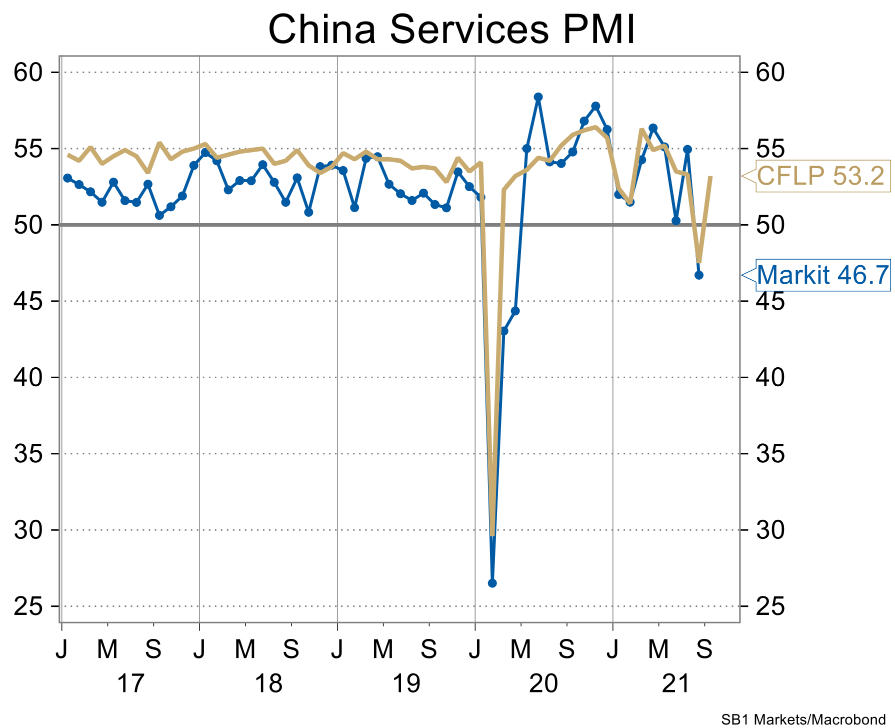


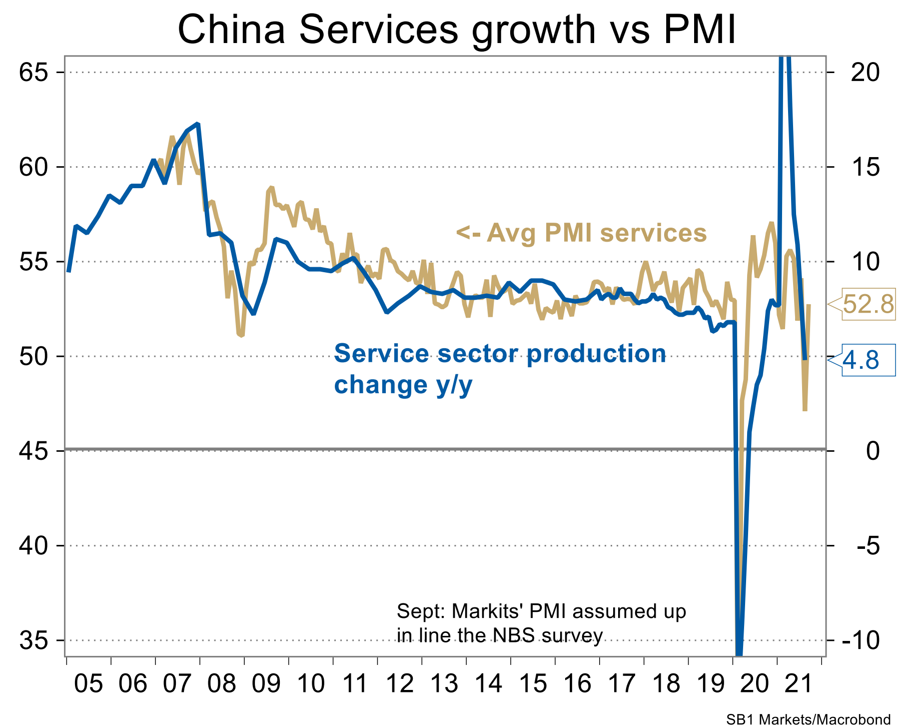


- The **NBS composite PMI** rose by 2.9 p to 51.7, expected up 1.2 p. Thus most of the August setback was reversed, due to a sharp lift in the service sector index, while the manufacturing index fell marginally
- **Markit** has not yet reported its services sector PMI but assuming a similar increase as in the NBS survey, Markit’s composite PMI rose by 3.3 p to 50.5, as the manufacturing index climbed to 50 again
- The **recovery in services** (up almost 6 p, at least in the NBS survey) confirmed our hypothesis one month ago: The August setback was due to the fight against the virus, not due to an abrupt ‘real’ downturn in the economy
- In sum, the average of the two composite PMIs rose 3 p + to 51.1. This level signals a growth rate just slightly below trend

The service sector turned up in September, following the August downturn

The NBS survey reports growth again (Markit has not yet reported), as the virus is on the retreat

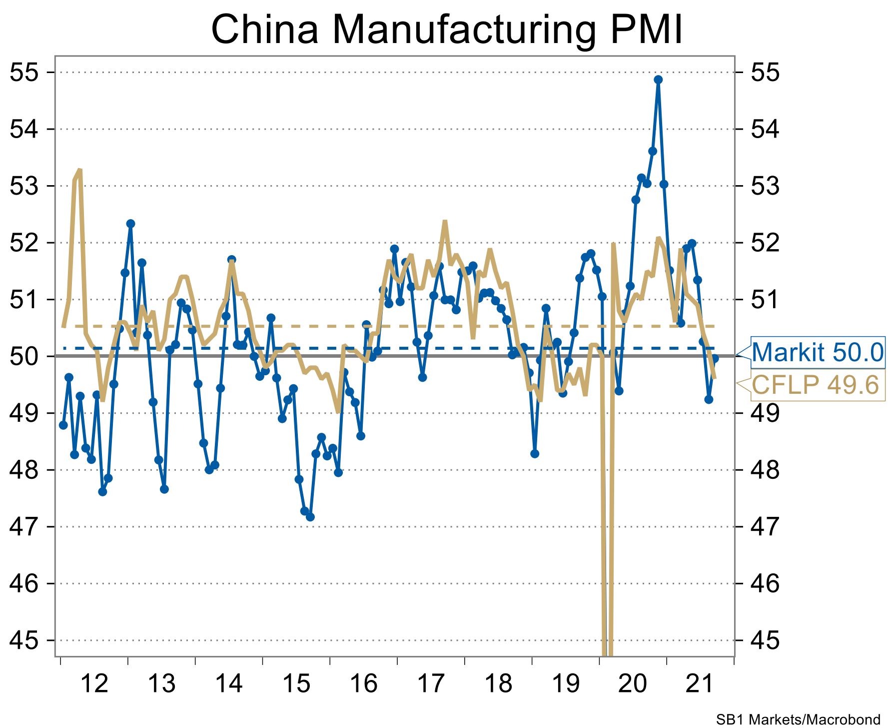


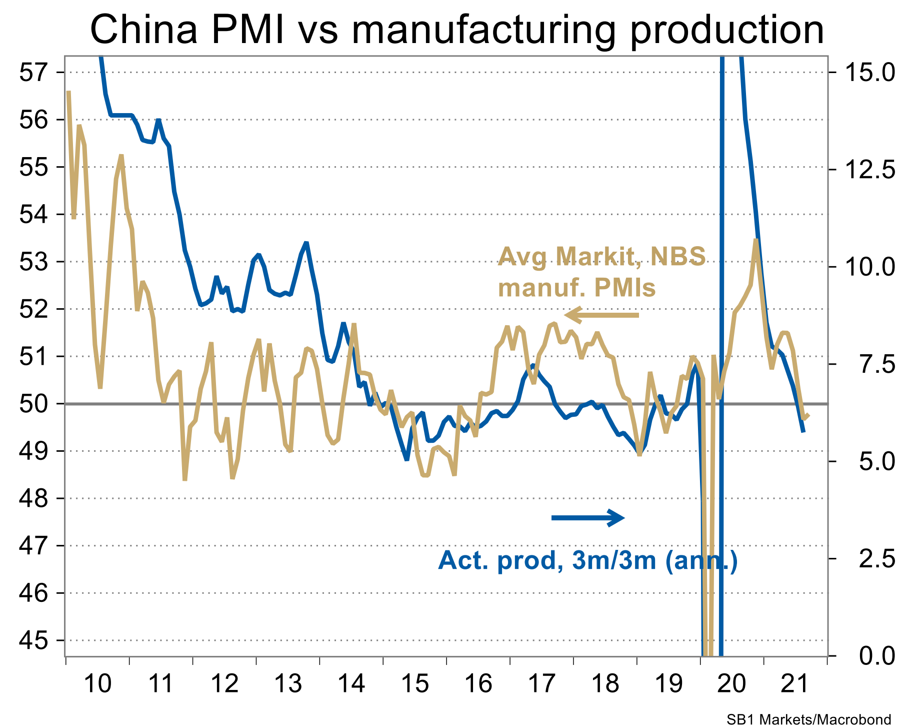


- <u>In August</u> **the service sector average PMI** fell 7 p to 47.1 in August, the 2nd largest decline, to a level not seen anytime before, except for Feb-20. In September, the NBS index rose by 5.7 p to 53.2, close to a normal level. Just a minor lift was expected, up to 49.8 (a strangely weak forecast)
- **Actual activity** in the service sector fell in both July and August. We expect a recovery in September
- No doubt, this mini-cycle in services is due to the <u>fight against the virus</u> – and not due to a general weakening of the Chinese economy

Mixed manufacturing PMIs in September, the average marginally up

… though still below 50. Even so, a decent 5% - 6% production growth message is sent

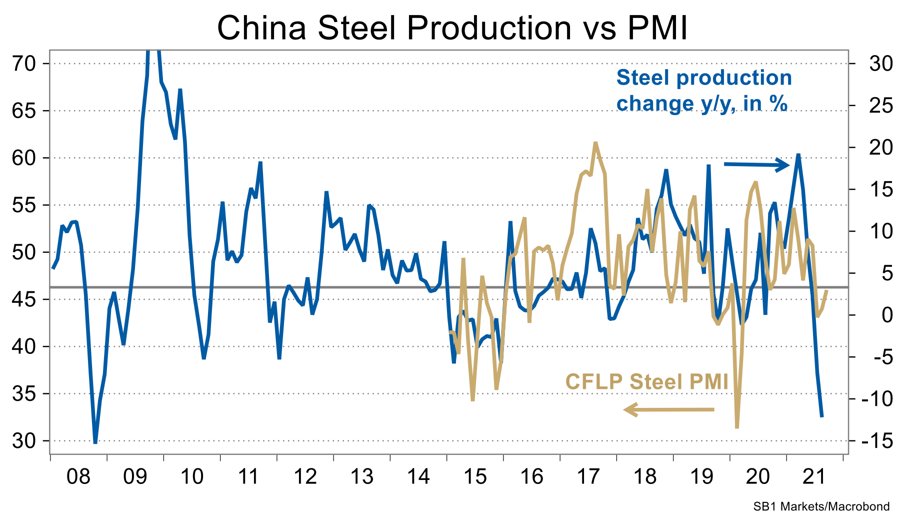


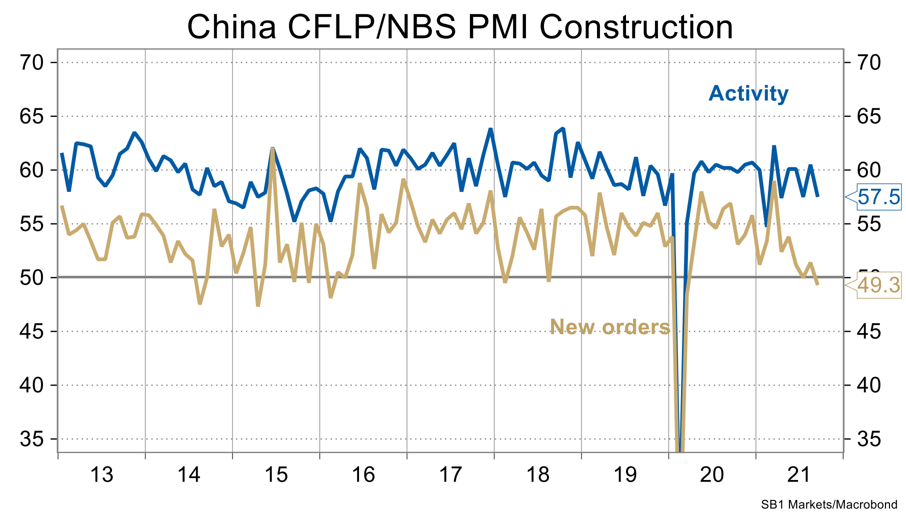


- The **NBS/CFLP PMI** declined 0.5 p to 49.6, while **Markit's PMI** recovered most of the Aug loss, up 0.7 p to 50.0. The NBS survey is almost 1 p below the avg. since 2012, while Markit's index is just marginally below
  - » In sum, the two indices were as expected, in average up 0.1 p
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The NBS survey below 50 received media comments like '*the first contraction in the Chinese manufacturing sector since….*' However, in China a PMI below 50 does not imply a contraction but rather growth just slightly below trend, at some 5% – 6%

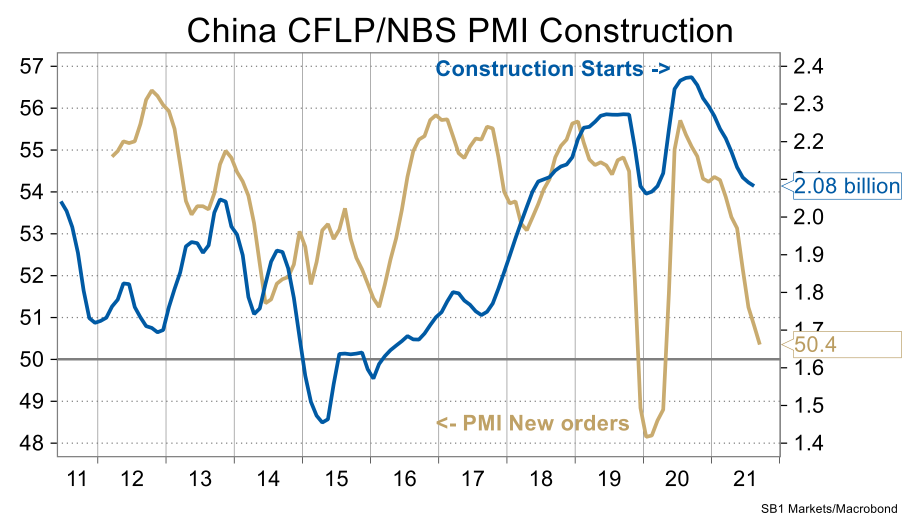
No drama in the construction & steel PMIs, but both are below par

Construction orders are sagging, according to the PMI, but no crisis



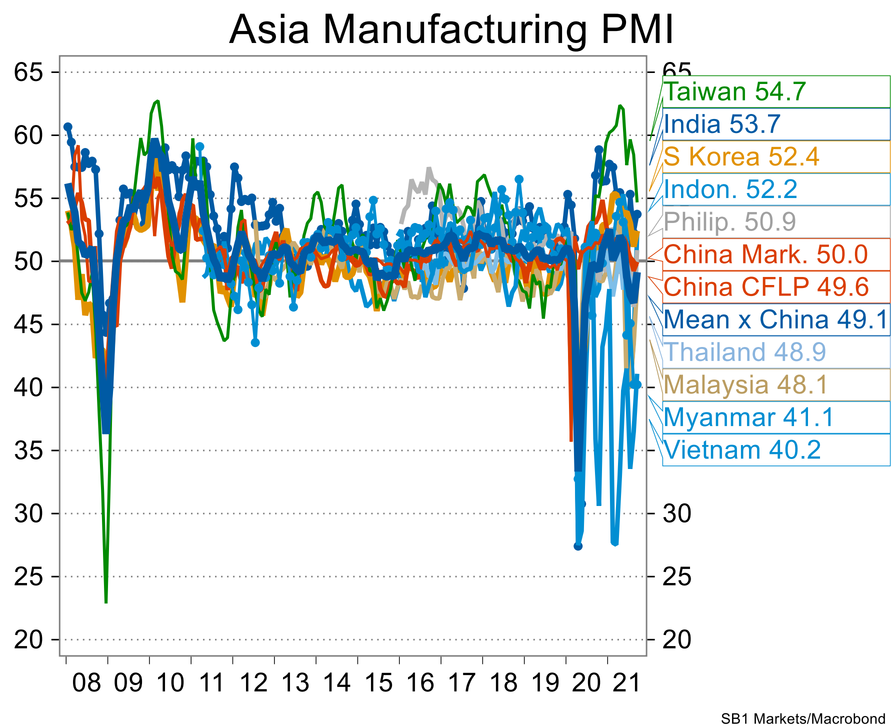


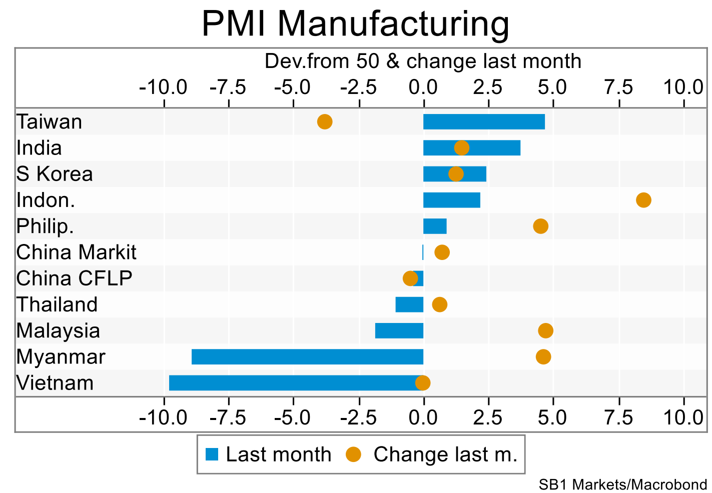
- The **Evergrande** debacle has so far not led to a harsh setback in the Chinese construction industry, according to the Sept construction PMI. However, the new orders index has fallen since March, and it fell below the 50 line in Sept, among the weakest prints ever
  - » Regrettably, the correlation between PMI and actual construction starts are very weak
  - » Still, during the recent months, construction starts have fallen by 15% – 20%, though from a high level
  - » This decline in construction starts have not yet created any crisis in the overall Chinese economy – or elsewhere (even if some sectors are hurt)
- The authorities have introduced harsh measures to cut back **steel production** (CO2-cuts, lower demand from the construction sector). Production has fallen more than 10% vs. the early H1 level. The steel sector PMI has fallen to below 50, but rose in both August and September, and does not signal a crash

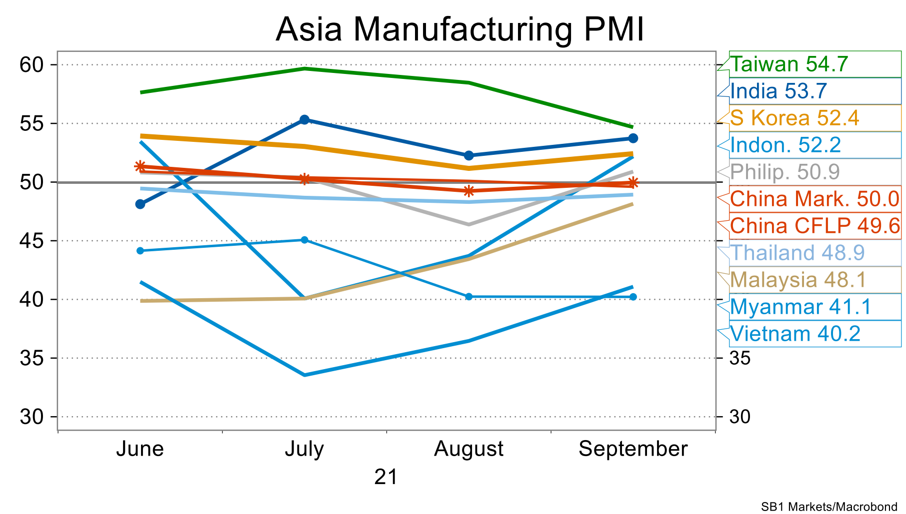


Rest of Asia: En large, manufacturing PMIs more positive in September

More manufacturing PMIs up than down – 8 up, 3 down (from 8)



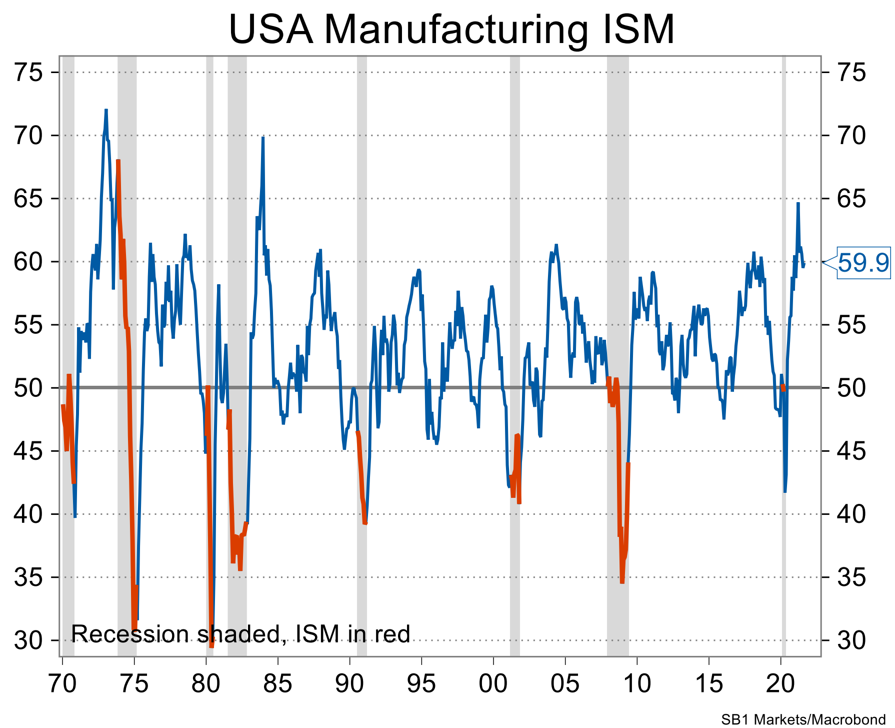


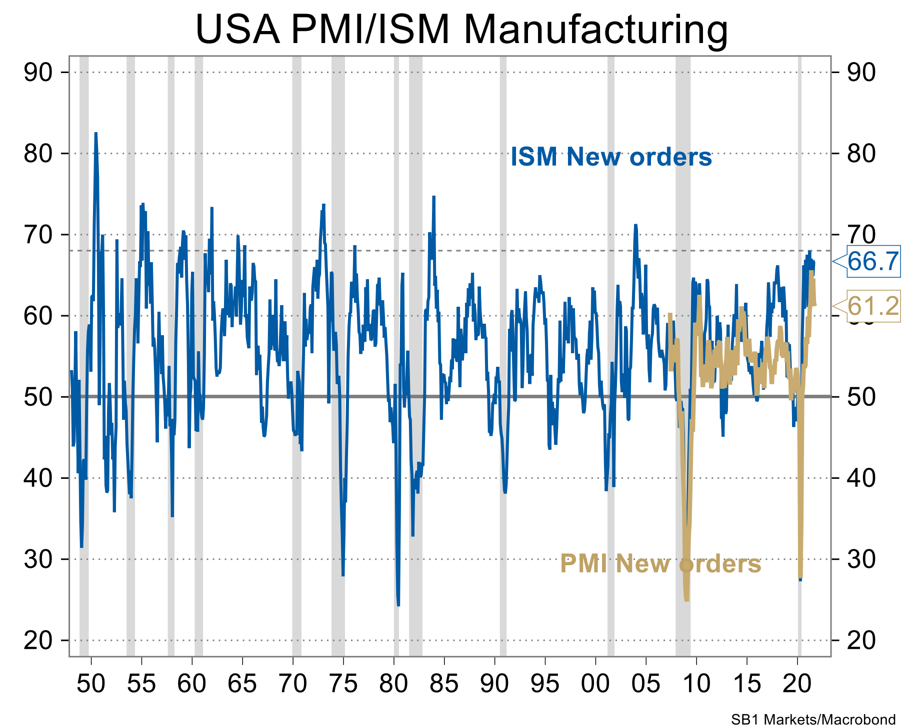


- 6 PMIs are at or above the 50-line (from 4), 5 are below (from 7)
- Taiwan, India, and South Korea are reporting decent growth
- Vietnam and Indonesia are slowing rapidly

It ain't over yet: Manufacturing ISM further up in September

Up 1.2 p to 61.2, expected down to 59.5. Prices are still rising fast, but slower





- The **ISM manufacturing** index surprised on the upside in September too. The ISM has for months indicated – and still does - an unusual rapid growth in manufacturing production, <u>which so far has not been delivered</u>
  - » In August, 17 of 18 manufacturing sectors reported growth, up from 15, 1 down (wood products, from 2)
- The **new orders** index rose to 66.7, one of the highest growth rates in decades
- 41 commodities (from 40) are up in **price**, just lumber and wood down
- Still, 'just' 24 commodities were reported in **short supply**, down from 27 in August, and 56 in July! The supplier deliveries index still rose in September, signalling higher delivery times
- **In their comments**, companies are complaining on <u>all sorts of shortages, including extreme labour shortages. Demand is very strong</u>

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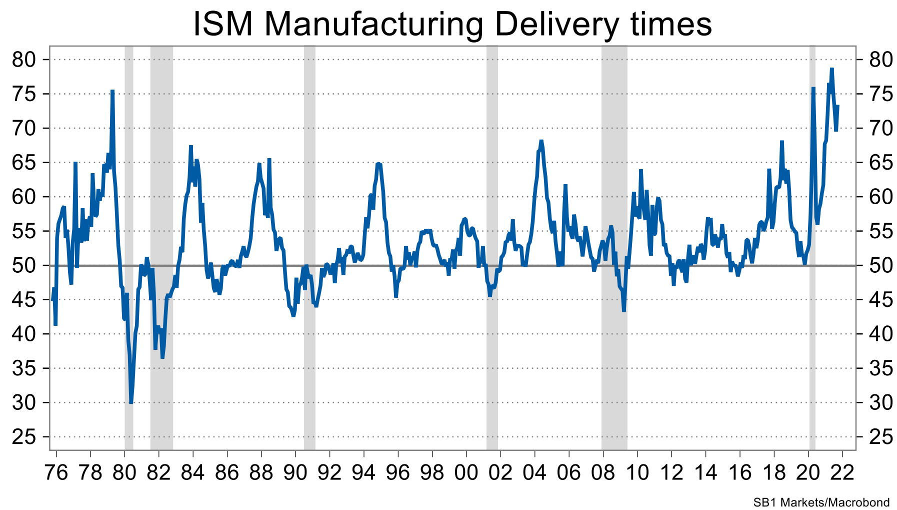
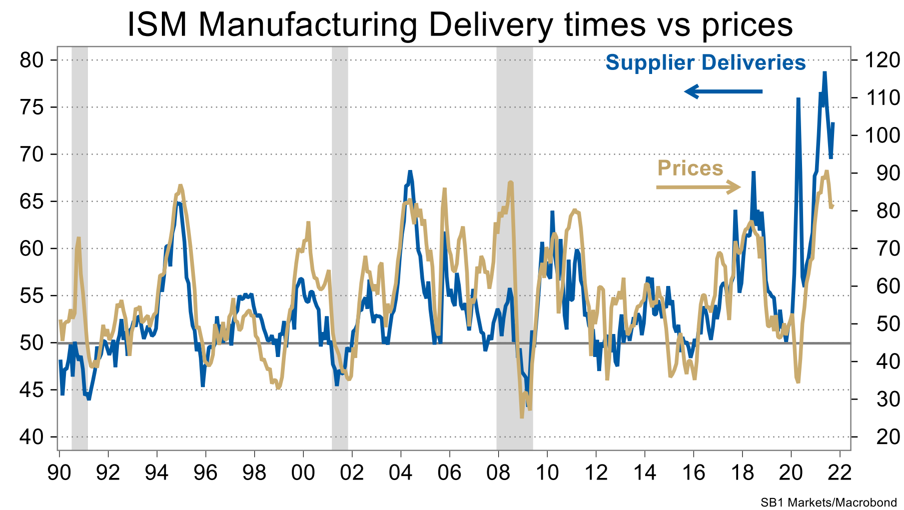
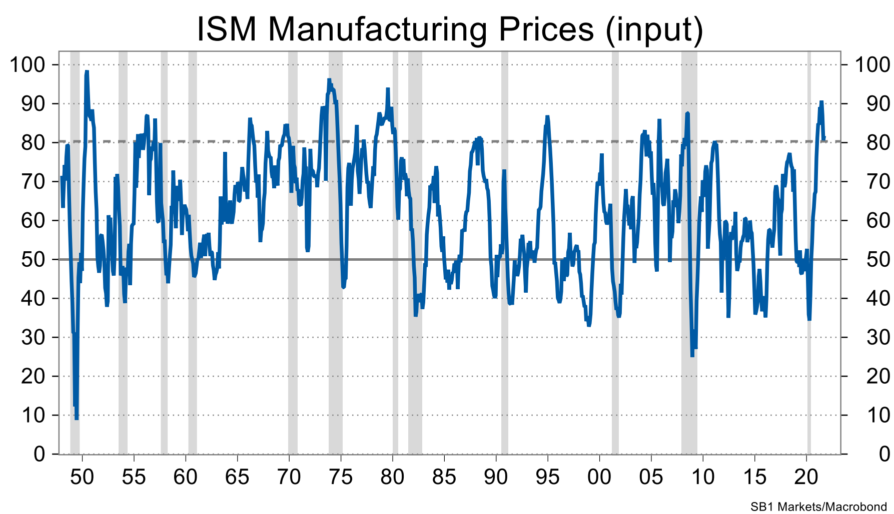
Delivery times are not slowing but input price inflation may have peaked







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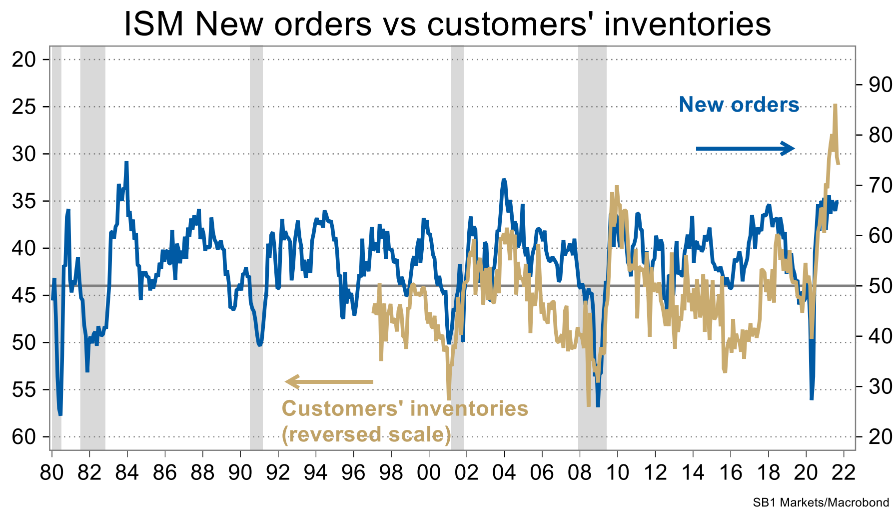
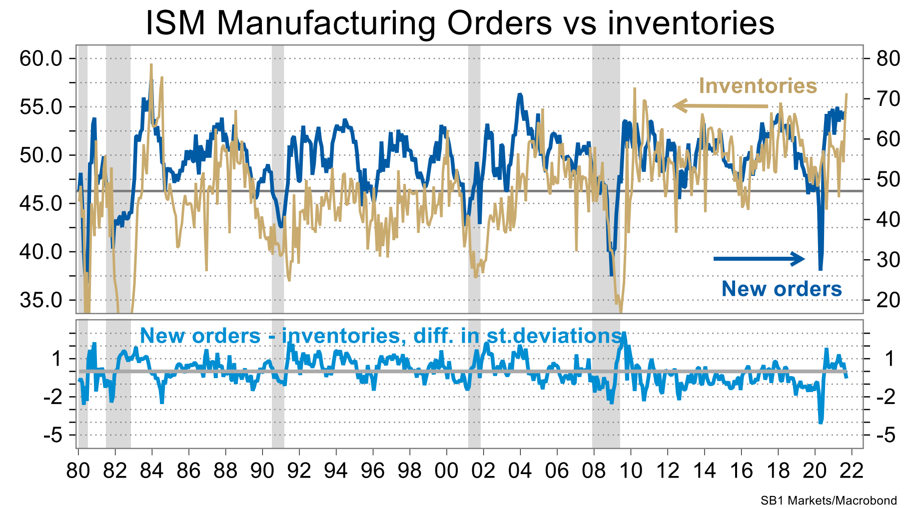
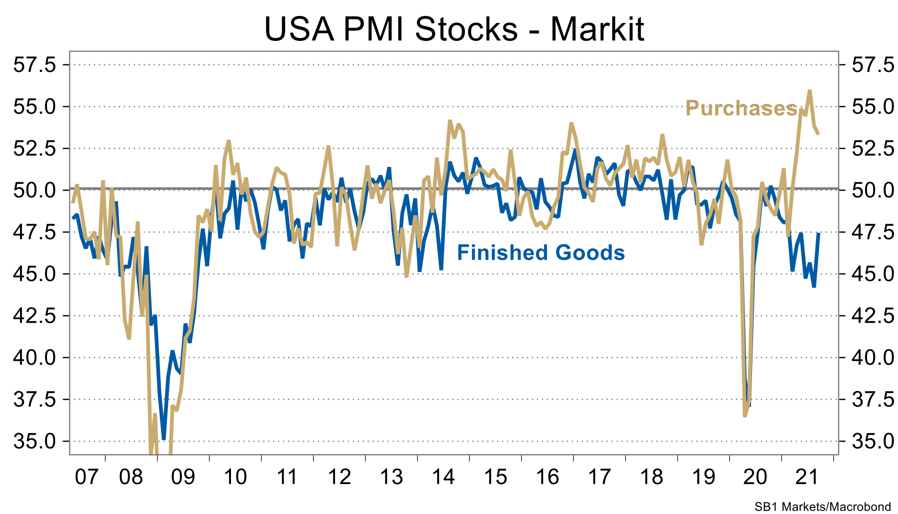
Customers inventories are ‘emptied’ – signals continued growth in orders

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

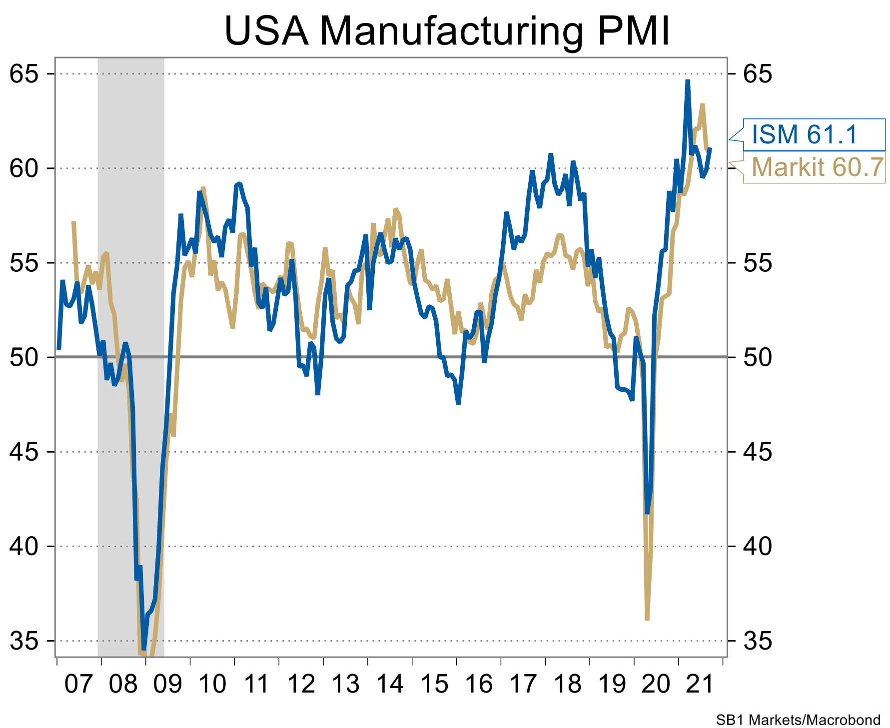


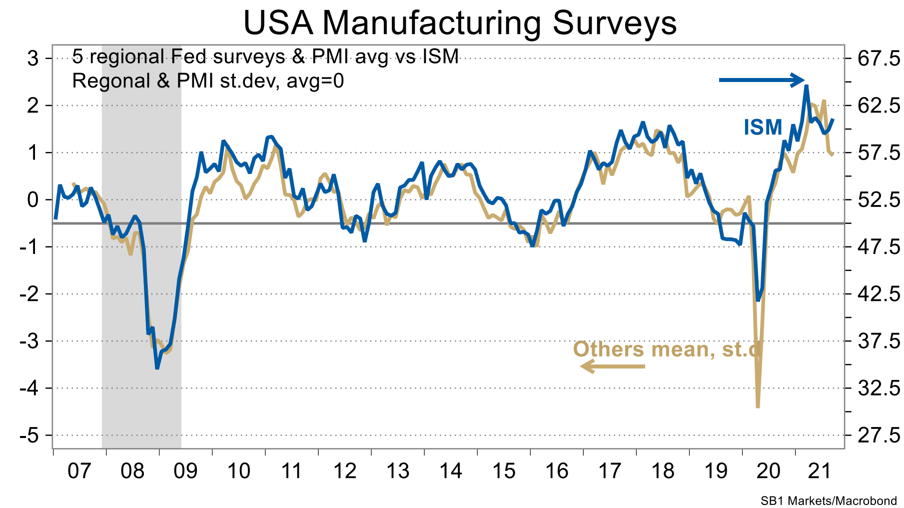


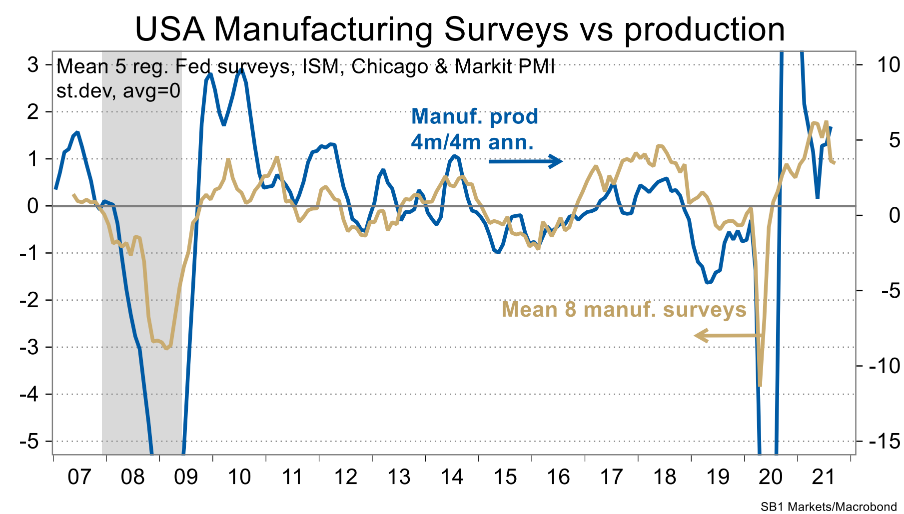


- **The only ISM real ‘soft’ spot**: Manufacturers’ own inventories (of purchases, not finished goods) are rising at a fast pace. Two explanations:
  1) Production is running slower than expected, due to weaker demand or due lack of come components, labour, transport services etc.
  2) Companies have been hoarding materials, just to be sure to have them at hand (and they will stop doing it soon)
  - » **Stock indices from Markit’s PMI** do not yield a clear answer, The steep rise in stocks of purchases signals that companies could dampen their purchase activities. However, if it was just hoarding, the inventory of finished goods would not have fallen as rapidly as now – companies are sold out

Sum of manufacturing surveys: A tad down in Sept but growth still above trend



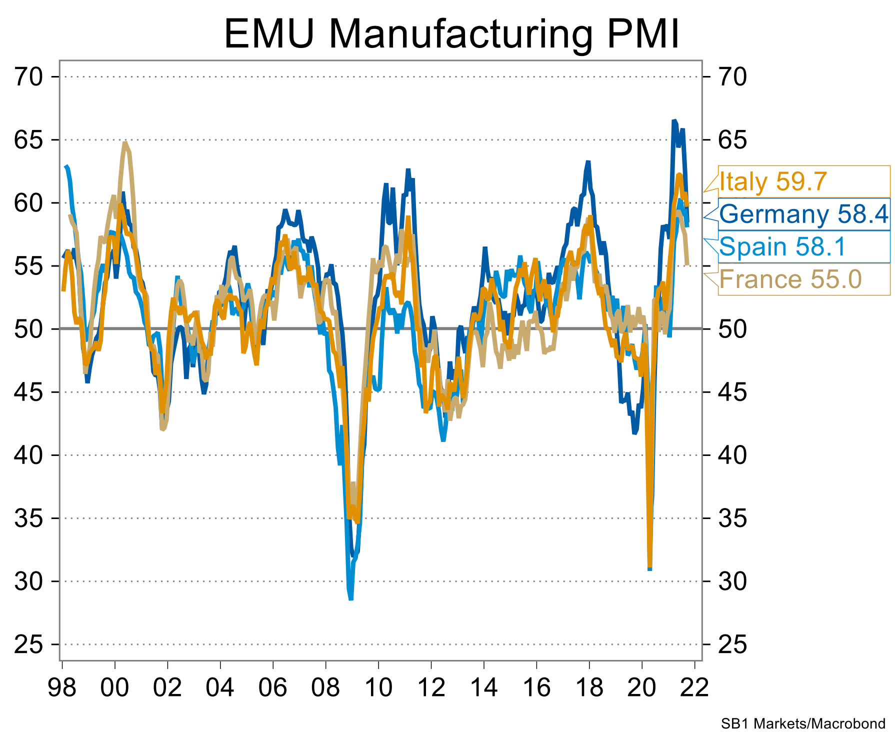


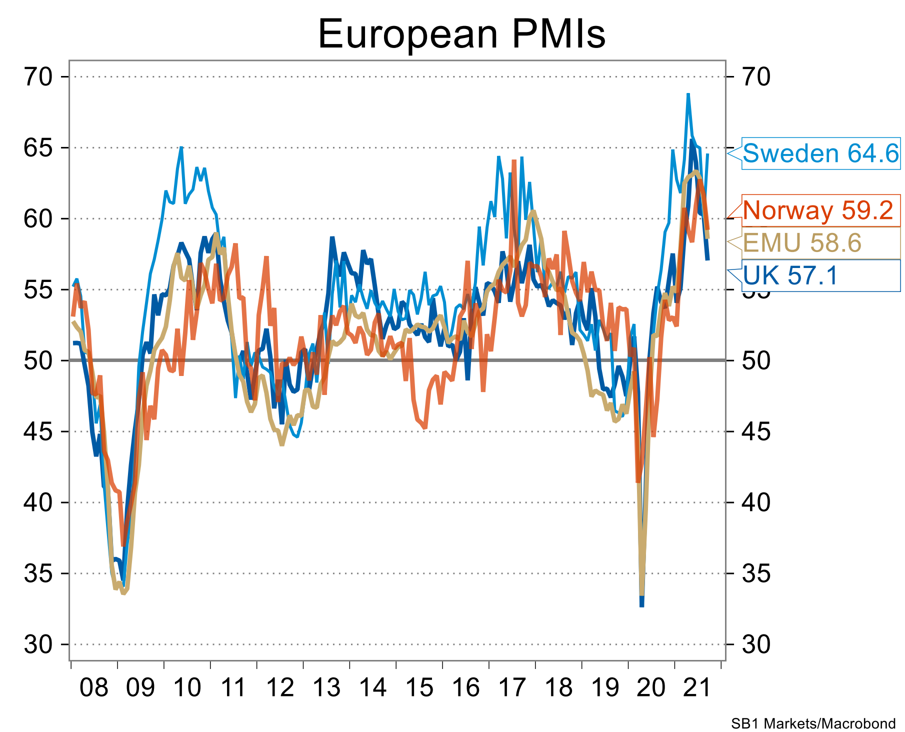


- Actual manufacturing production is on the recovery track but has not yet reached the pre-pandemic level
- We expect a continued growth the coming months. The inflow of core durable goods orders are above the pre-corona level
  - » Both exports and investments will probably climb further while goods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

Eurozone manufacturing PMIs down in all major countries. Sweden still strong!

The PMI was up 0.1 p to 58.6 in September. Level still confirms a solid recovery in the Eurozone

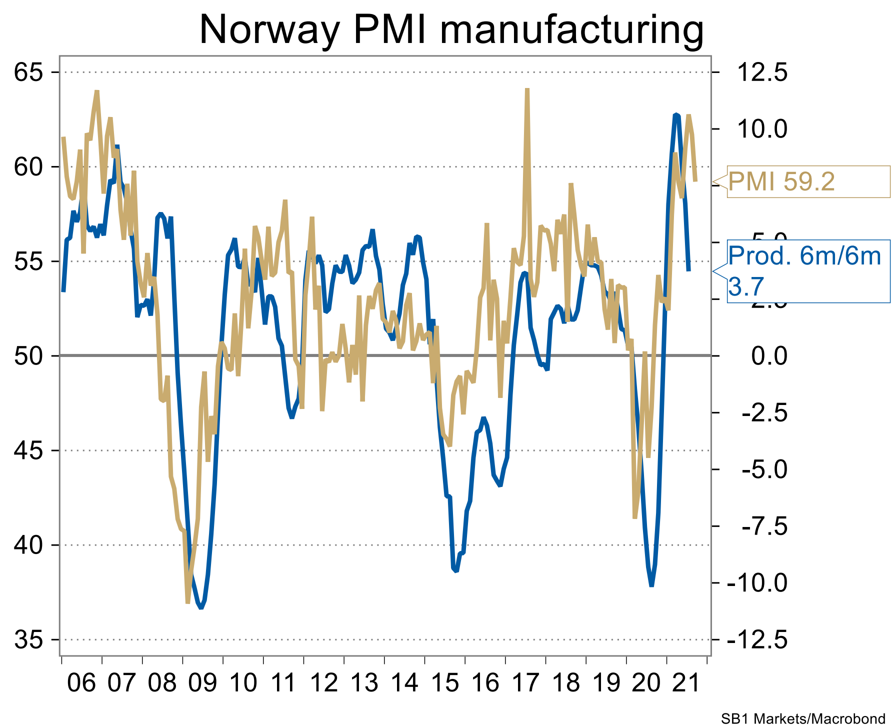


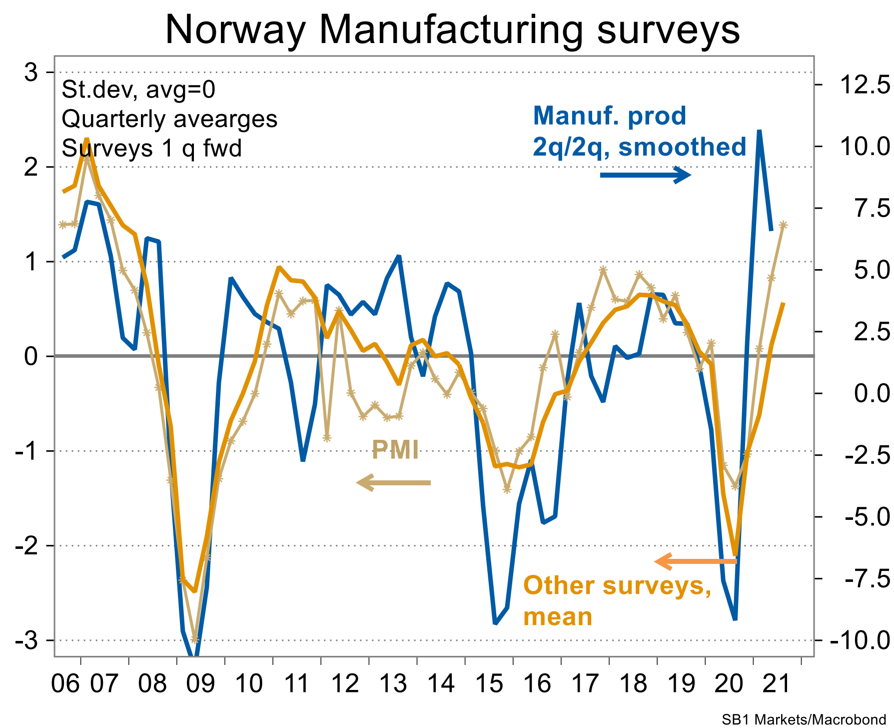


- **Swedish PMI up 4.5 p**, while the UK PMI was up 0.8 p. Norway down 2.5 p

Norwegian manufacturing PMI lower in September, August revised down

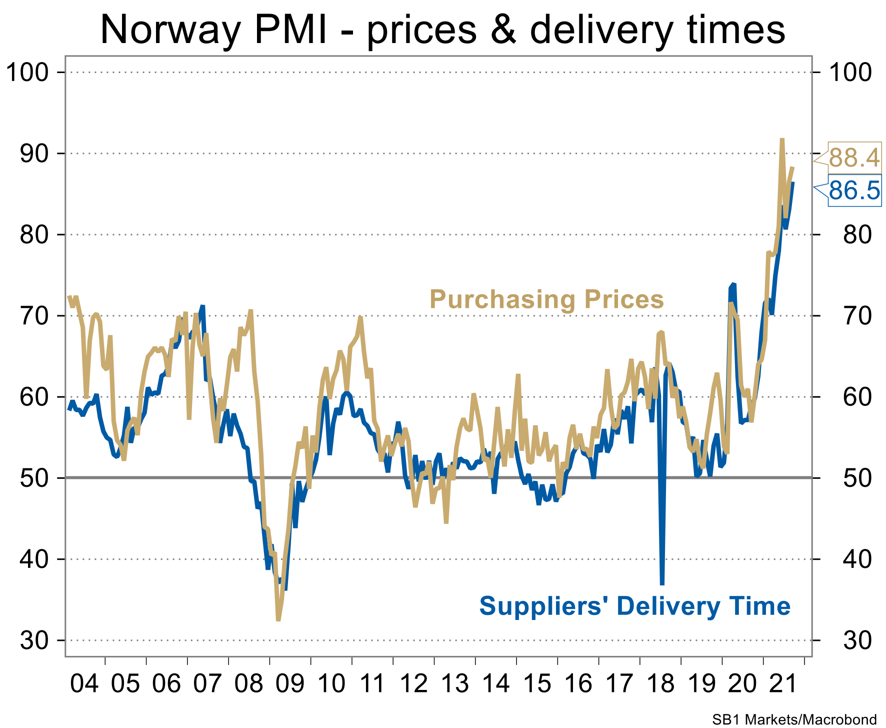
The Norwegian PMI was down 2.5 p to 59.2, we expected 60. Aug PMI revised down 0.5 p to 61.7





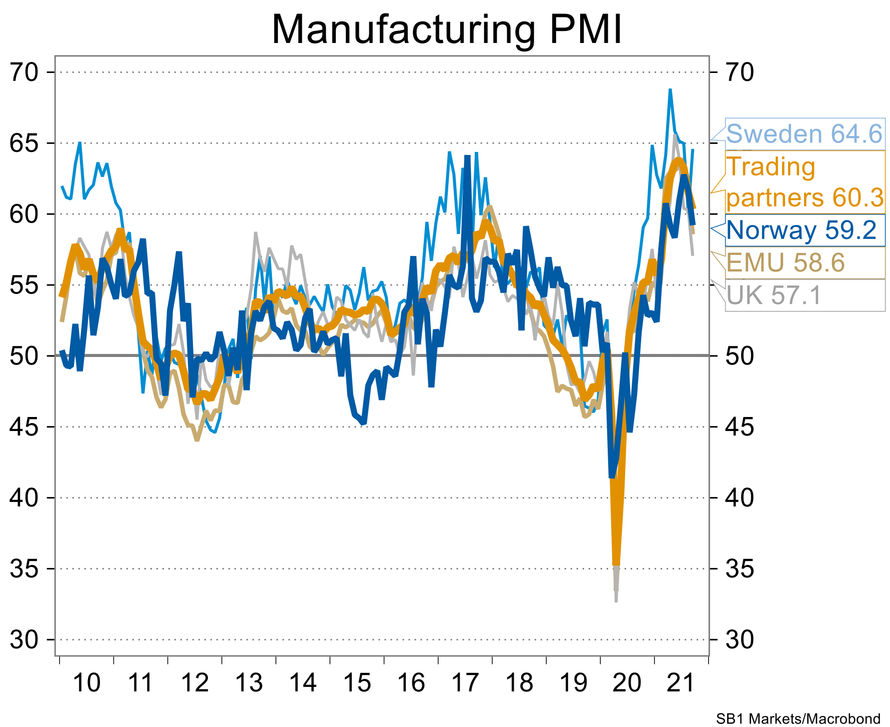
- The **inventories** and the **delivery time** sub-indices were the only indices that were up. **Orders**, **production**, and **employment** were all weaker
- Businesses here, as many other places, are reporting of bottlenecks and increased input prices (check next page)
- Other **surveys** have turned up lately to above-average levels
- Even if surveys have been reporting growth, **actual production** has fallen slightly since April

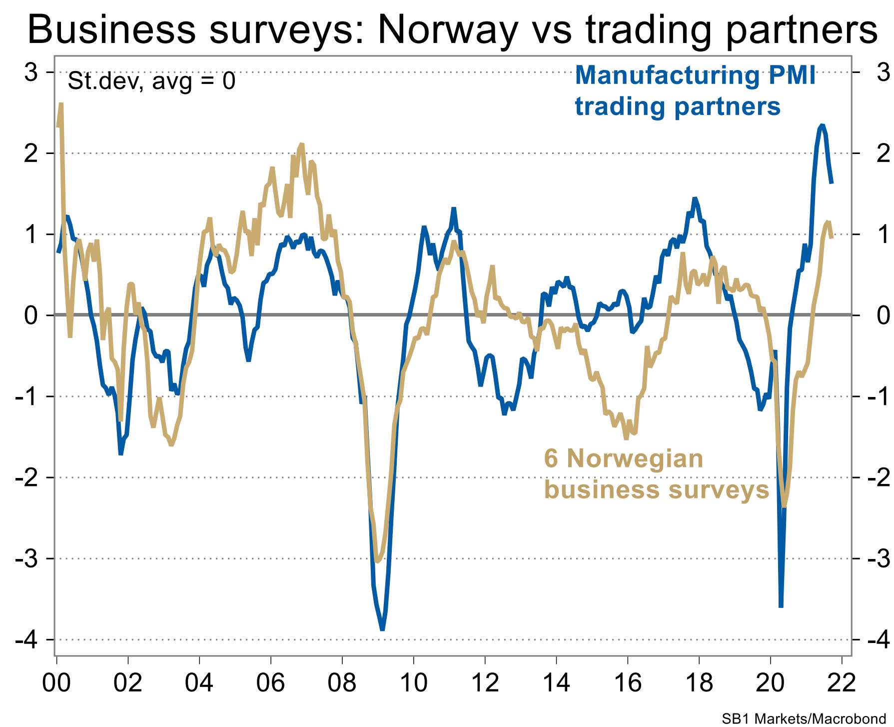
Norway is not immune – input prices and delivery times have shot up here too



Norwegian manufacturers lagged its peers on the way up

... but surveys are reporting decent growth

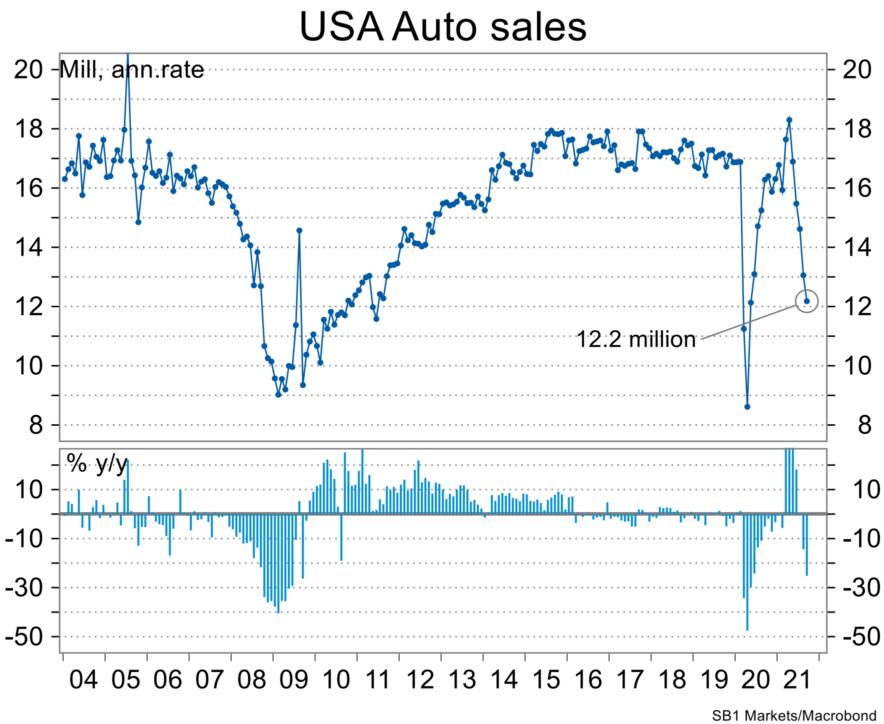


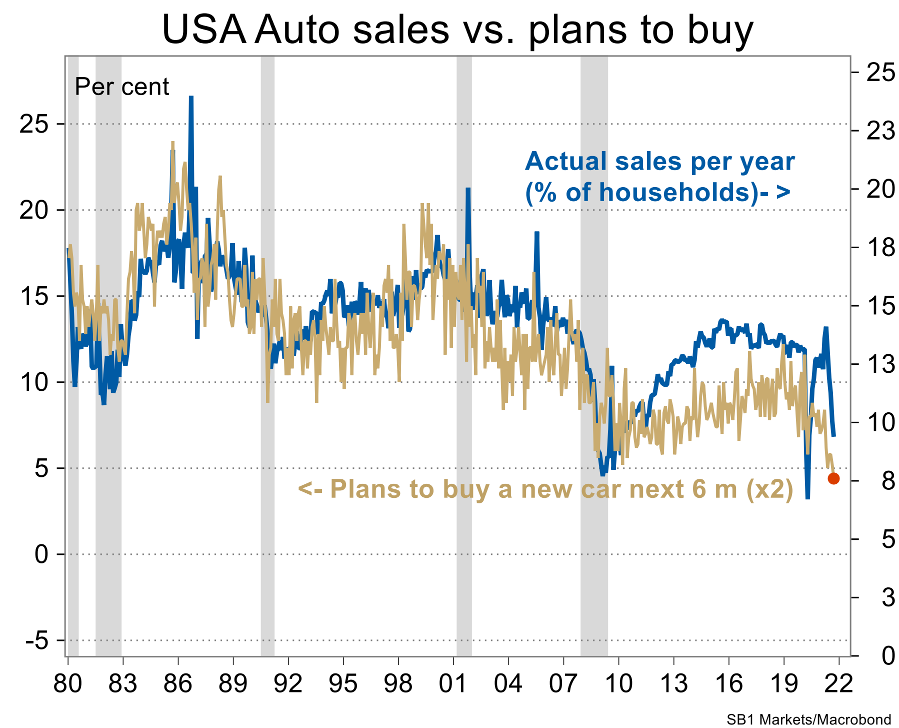


- The downturn in oil investments (until now) is very likely the explanation for Norway lagging our trading partners somewhat

US auto sales further down in September, to 30% below the 2019 level!

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

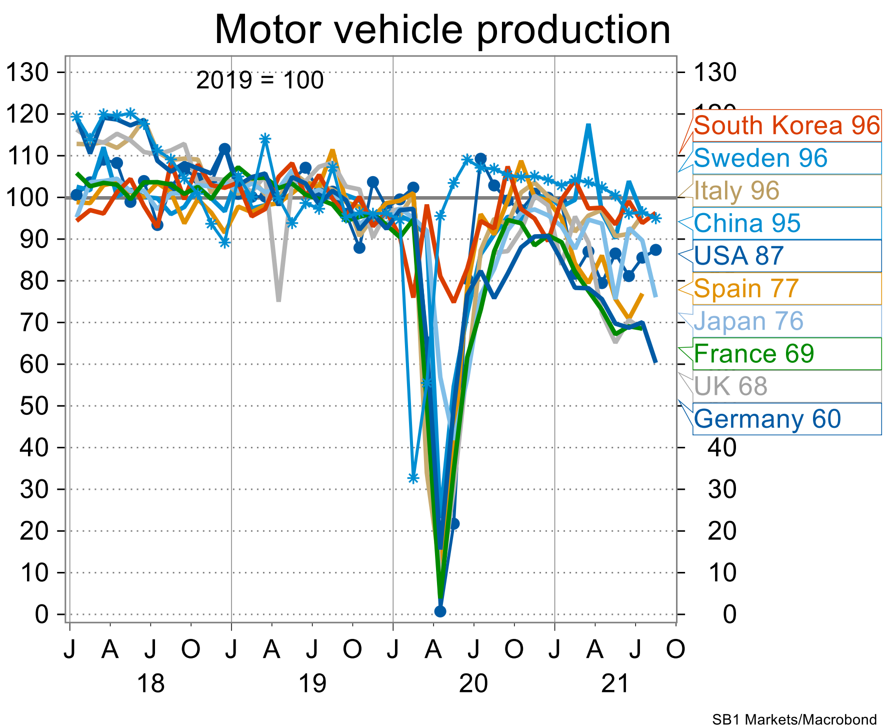




- **Sales** fell by 7% to 12.1 mill (annual rate) in September from 13.1 mill in August, expected close to unchanged. The level is far below normal, due to lack of data components
- Households have revised down their **plans for buying a new car** substantially recent months as they probably have observed that there are delivery 'challenges'. In addition, prices are rising sharply (for identical cars), and more expensive models are prioritised by car producers (or rather cars with the highest margins)
- **Demand for cars** is still strong, as the 2nd hand market is 'emptied', and used car prices have soared 40% (albeit falling slightly over the summer)

Auto production still heading down

The decline in US production is (strangely) moderate, just 13%

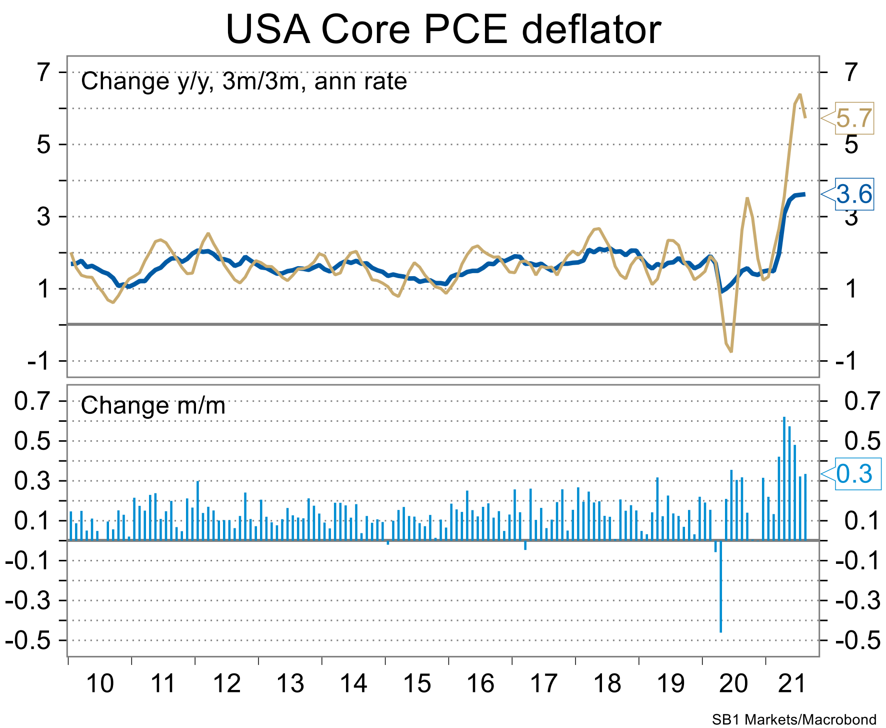


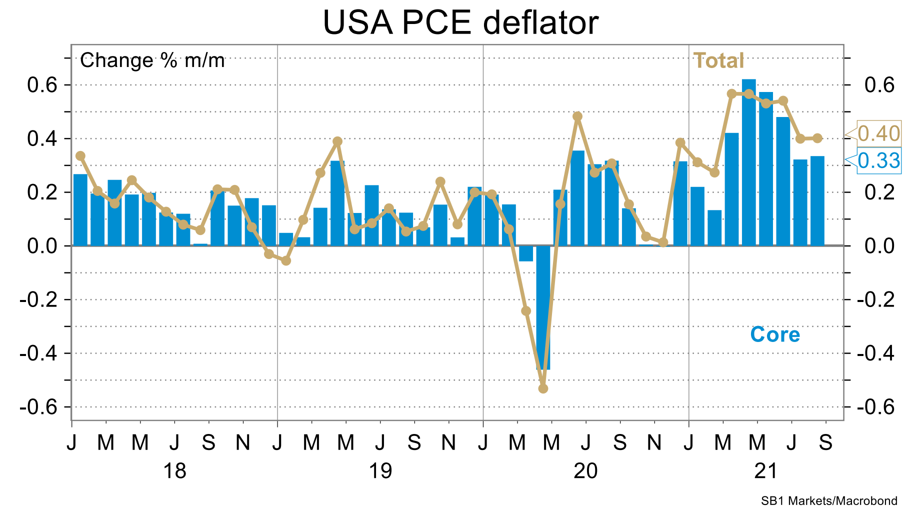
- At the same time, the imported share of US auto sales have increased recently – implying that US auto exports should have increased

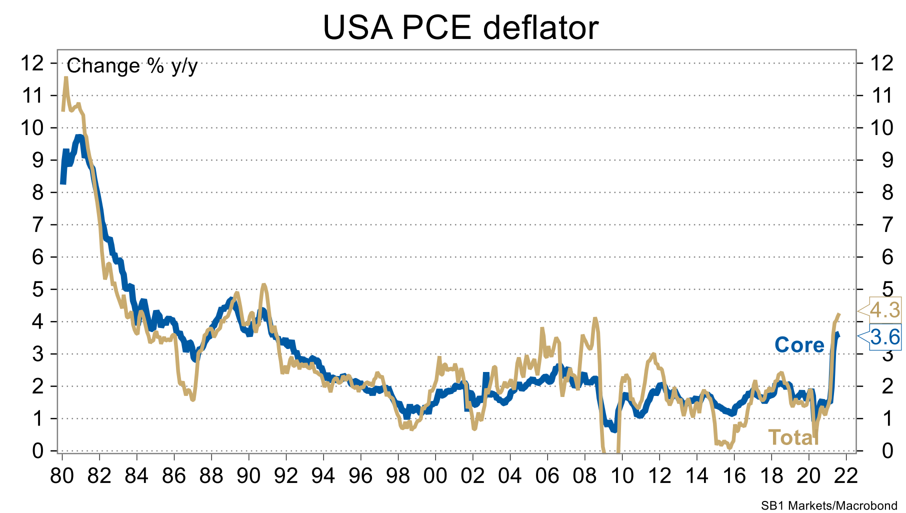
- There is huge upside in auto production the coming quarters as soon as data chips are produced in sufficient volumes

Core PCE up 0.3% in August too, flat at 3.6% y/y – 1/10th above consensus

Price inflation has slowed, but prices still rising at a 4% pace



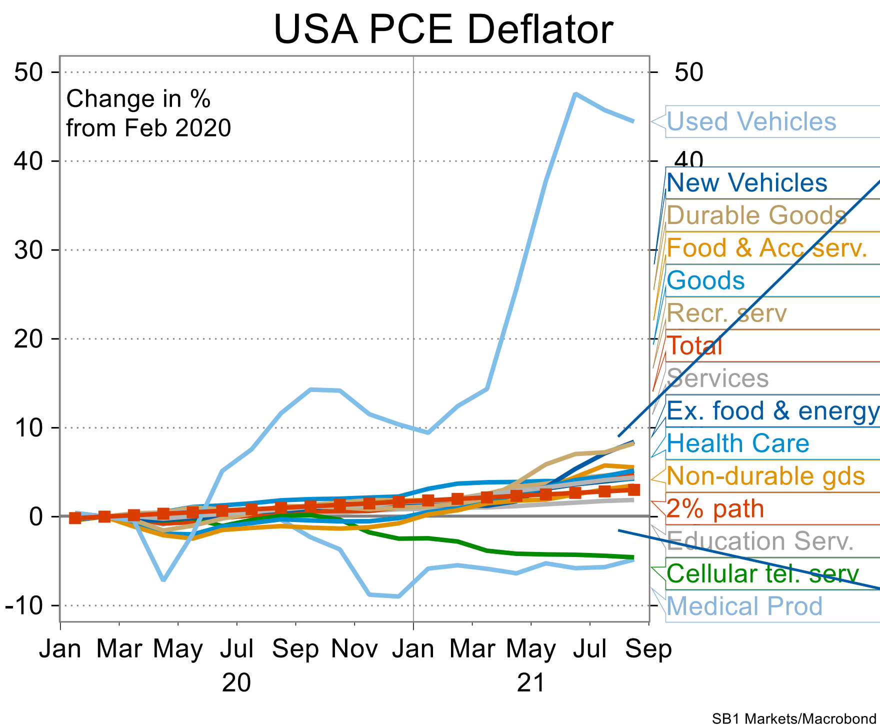


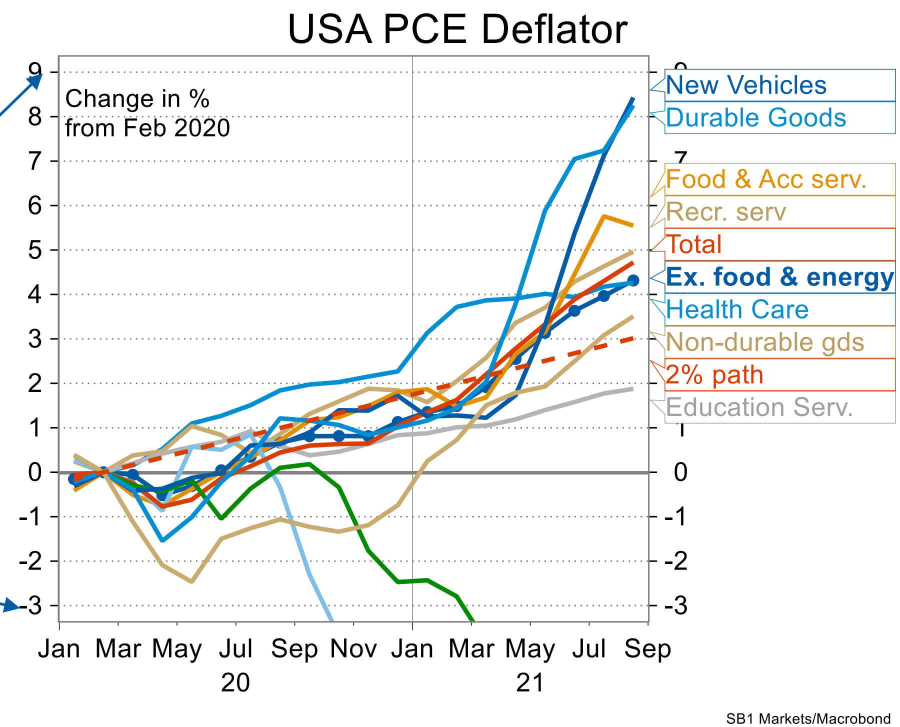


- **The core price consumption deflator** rose by 0.3% m/m in August, 0.1 pp faster than expected, unch. for July. The annual rate was unch. at 3.6%, expected down to 3.5% - and far above any inflation targets
  - » Since June '19, the average core inflation rate has been 2.7%. Inflation has been higher than 2% measured up to 12 years back in time. Actual core and total inflation has been higher than the 2% over time average inflation target, whatever horizon Fed would like to apply
- **The total PCE deflator** rose by 0.4%, as in July, and the annual rate accelerated by 0.1 pp to 4.3%, both 0.1 pp higher than expected
- Even so, the Fed can still claim a) that the recent lift in even core prices is transitory, which should not be bet with a tighter monetary policy, especially since b) employment is still far too low

Quite many prices have climbed at more than a 2% pace since before Covid

Some have probably peaked, like used vehicles (which are far too expensive)

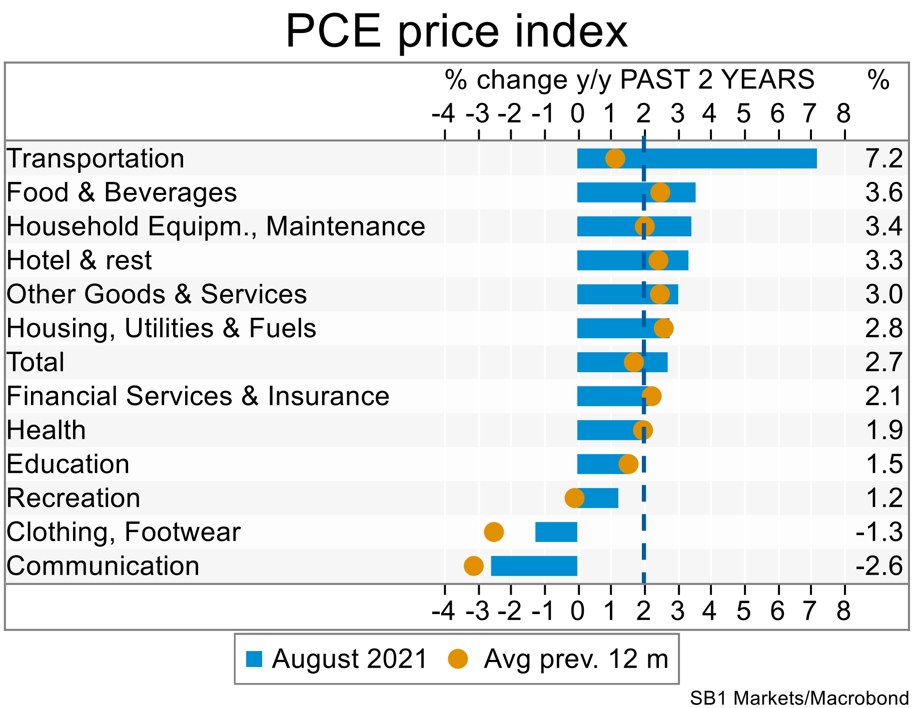


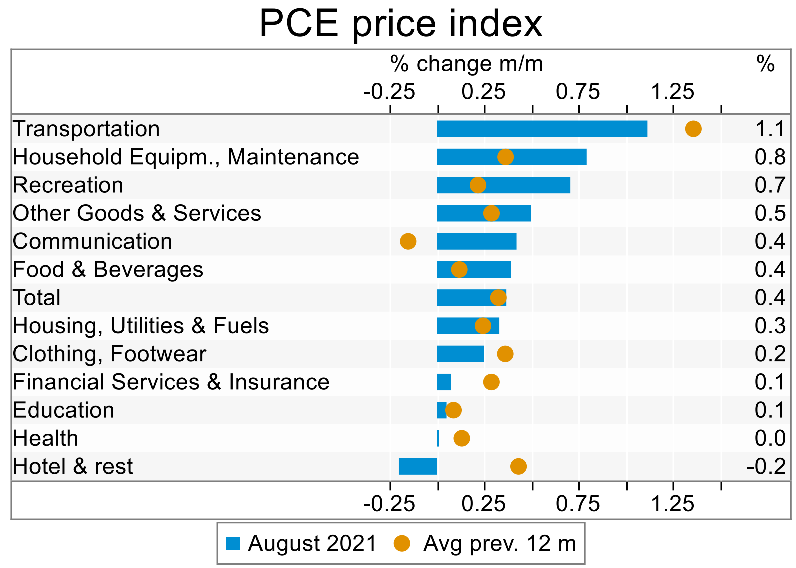


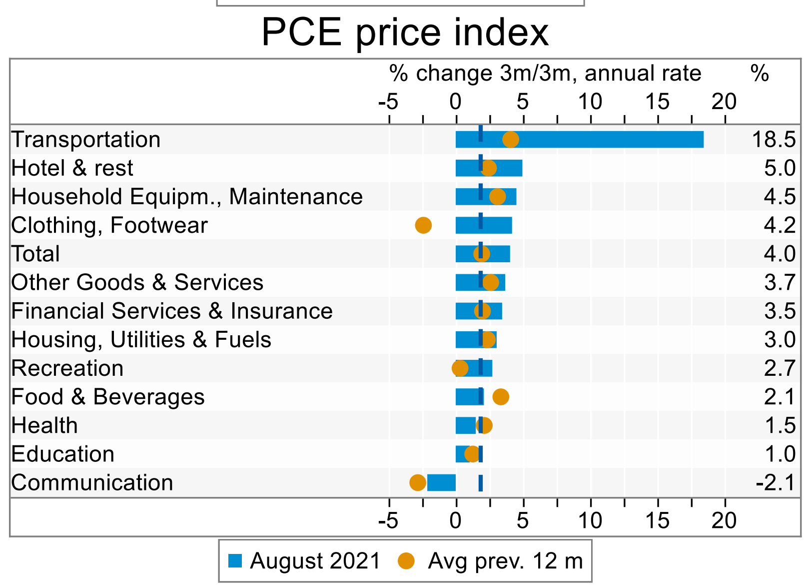
- **Used car** prices finally yielded, marginally. The downside is huge. Now, new car prices are increase sharply, not a surprise given strong demand and lack of supply
- **Restaurants/hotels** prices fell in August (like in the CPI) very likely temporary, due to the Delta outbreak. Both **hospitality & recreational services** have been lifting their prices sharply
- **Health care** costs have increased sharply since late last year but have flattened. Educational services prices are rising at a modest pace too

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

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



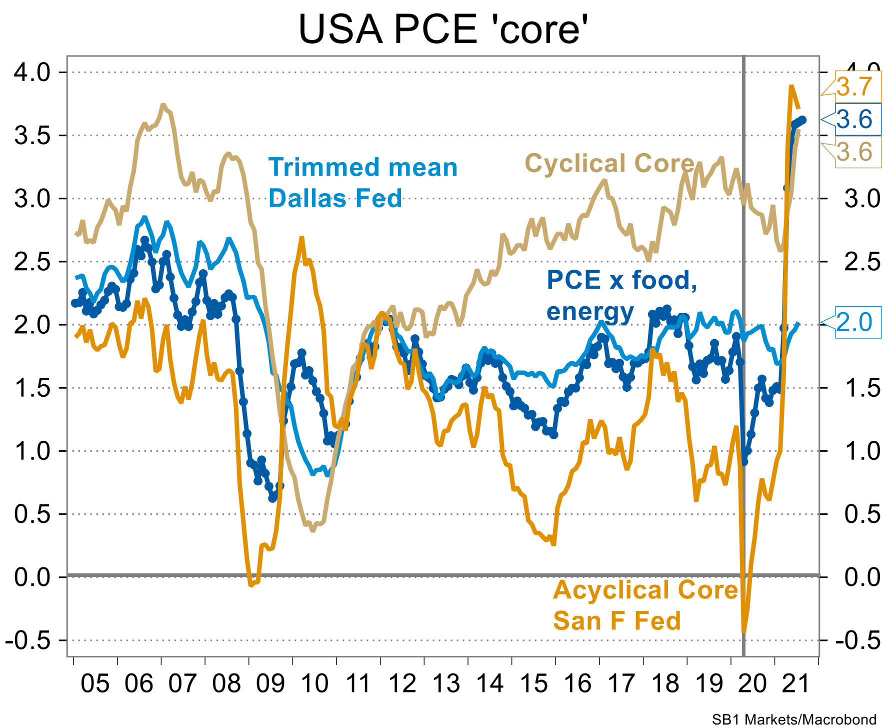


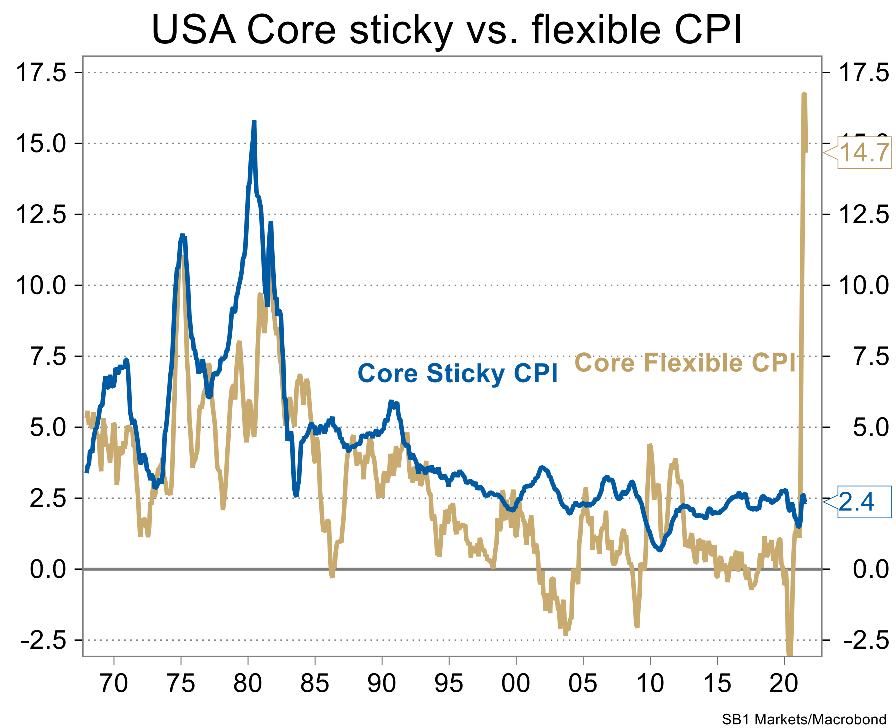


- In August, hotel & rest. prices fell, very likely due to the corona outbreak. Transportation (incl. gasoline) rose sharply.
- All but three sectors report prices changes measured 3m/3m above 2% - the momentum is "strong"
- Measured over the <u>past 2 years</u>, PCE inflation has been 2.7% on average. 5 sectors are below 2%, 7 sectors are above 2%

The trimmed means, core sticky prices are still OK. The other measures are not

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



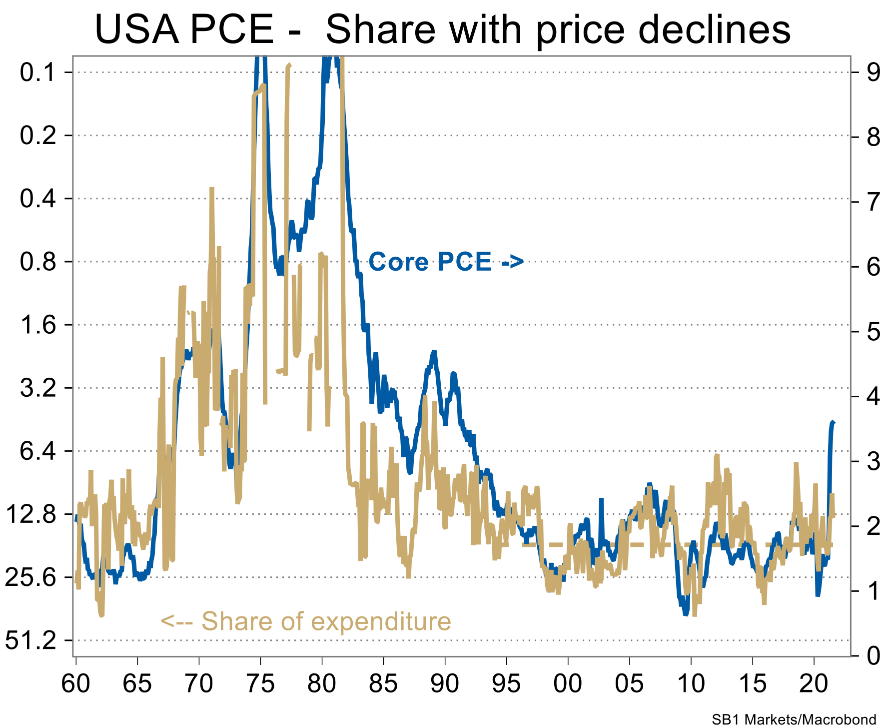


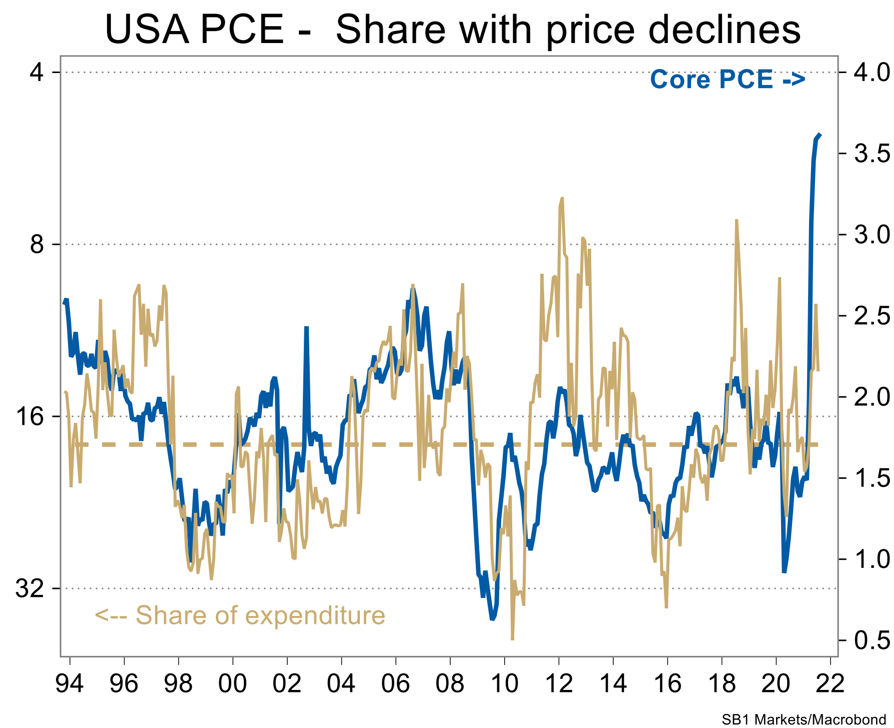
- The **trimmed PCE mean** (Dallas Fed) is still at 2.0% (July). <u>The trimmed mean is probably the best gauge of 'underlying" PCE</u>
- An index for typical **acyclical core PCE goods & services** are up 3.7%, up from -0.5% in April last year. <u>The 2 y avg. is at 1.6%</u>
- The **cyclical core PCE** at 3.6% y/y is the highest since 2008, a sign that the 'cycle' has driven prices up
- In the CPI, almost all of the lift in **core CPI** has been due to prices on good & services that normally are **flexible** – and they are more up than ever before. However, these prices are flexible both ways, and the cycles are normally rather short. The **sticky components** of the CPI is up 2.4%, just marginally above the average recent years, and below some local 'peaks' recent years. For inflation really to take hold, these sticky prices have to accelerate (like they did from 1973). However, the flexible component has contributed substantially to keep inflation low the past 8 years

SpareBank 1 MARKETS

PCE: Fewer prices are falling, but not that few

… though not an early bird to watch

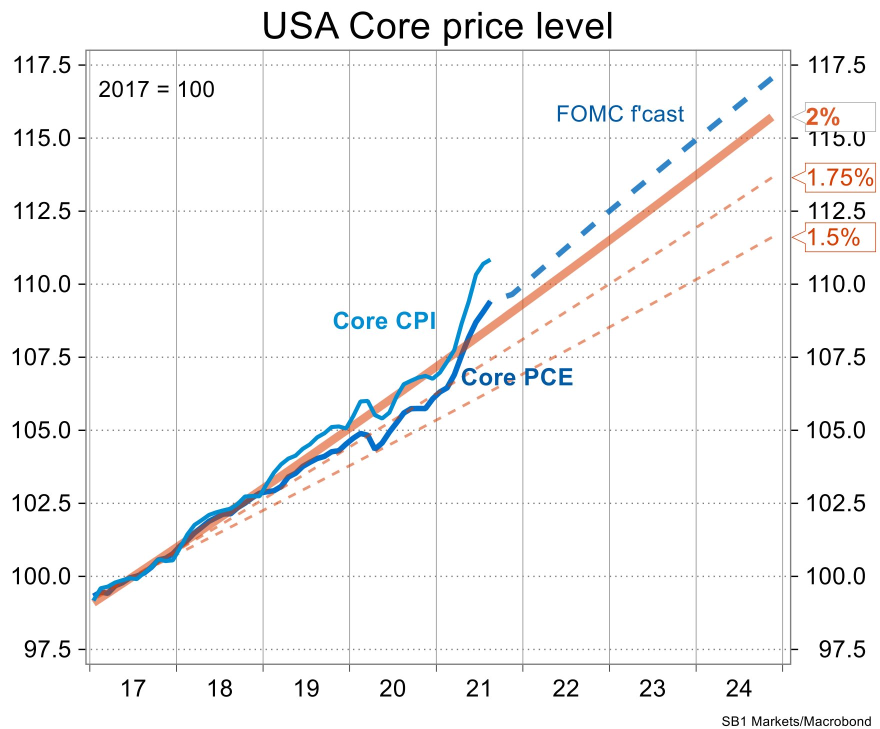


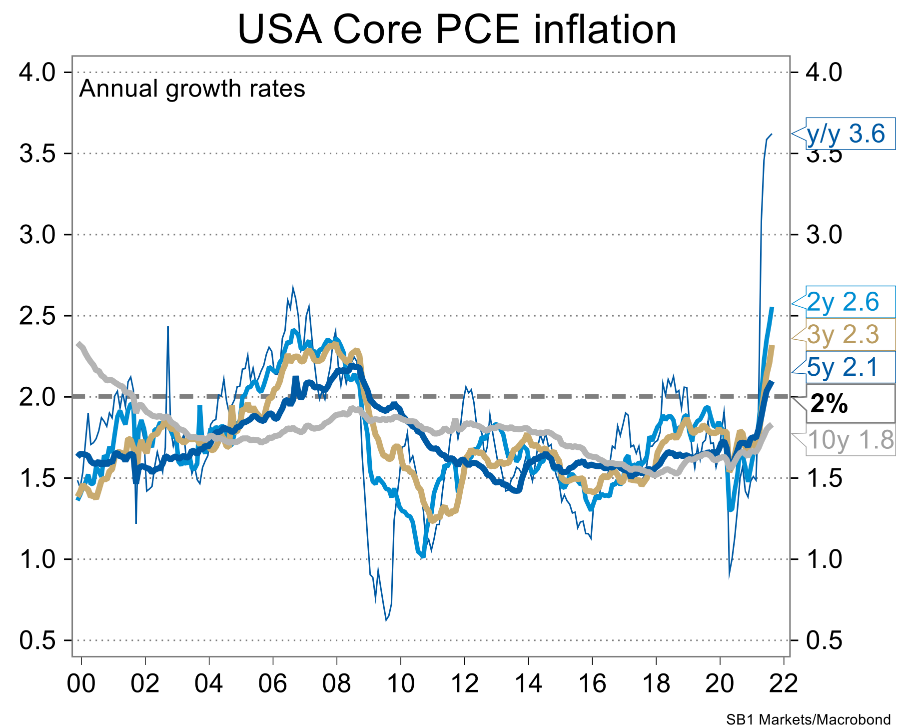


SpareBank 1 MARKETS

The Fed expects the 2% price target to continue to slip, will push employment up

Fed's decision: Accept a somewhat too high inflation to get the labour market back on track



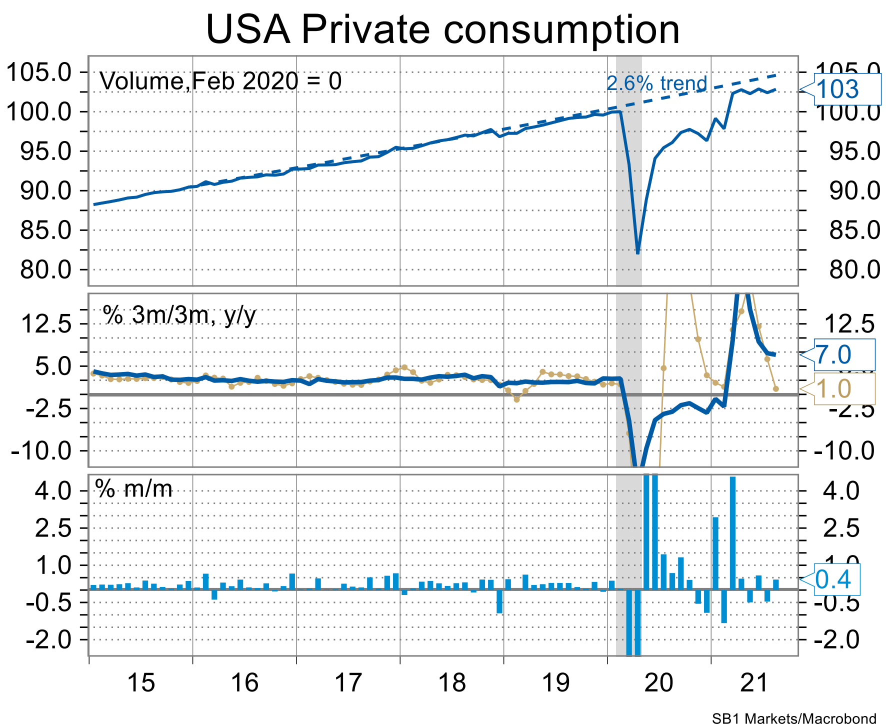


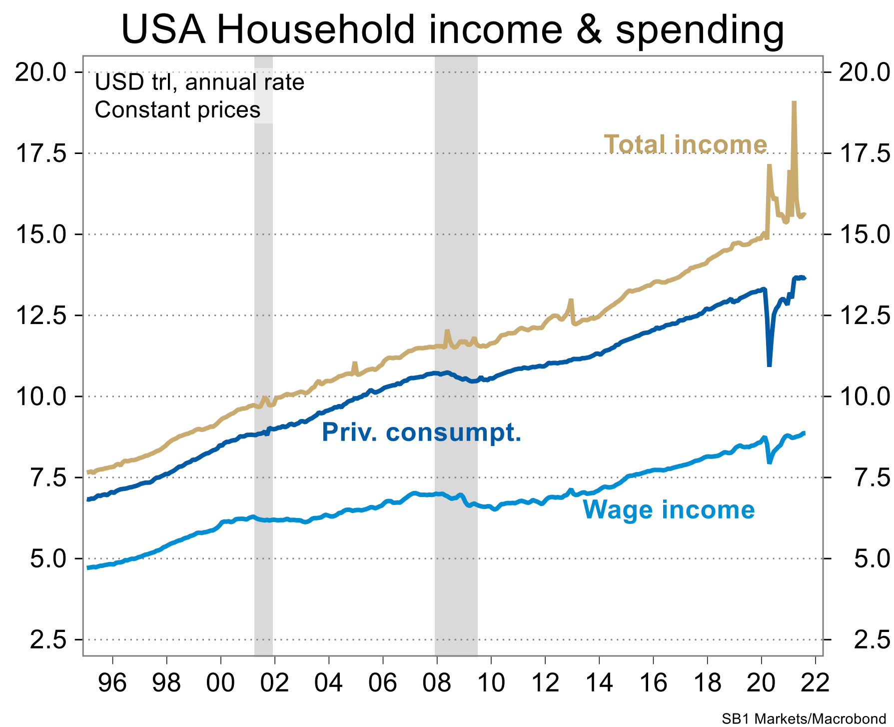
We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long, and the impact on consumer prices are normally short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity growth
- **A tight labour market** normally implies higher wage inflation. Now, the vacancy rate is the highest ever, and <u>almost all wage cost indicators signal higher wage growth</u>, <u>This is the real challenge for the Fed. It may be that maximum employment is that far away – and then both targets are met (and prices more than that!)</u>

Household spending, income has flattened

Signals substantial slowdown in GDP growth. The savings rate just 2 pp above the pre-pandemic level

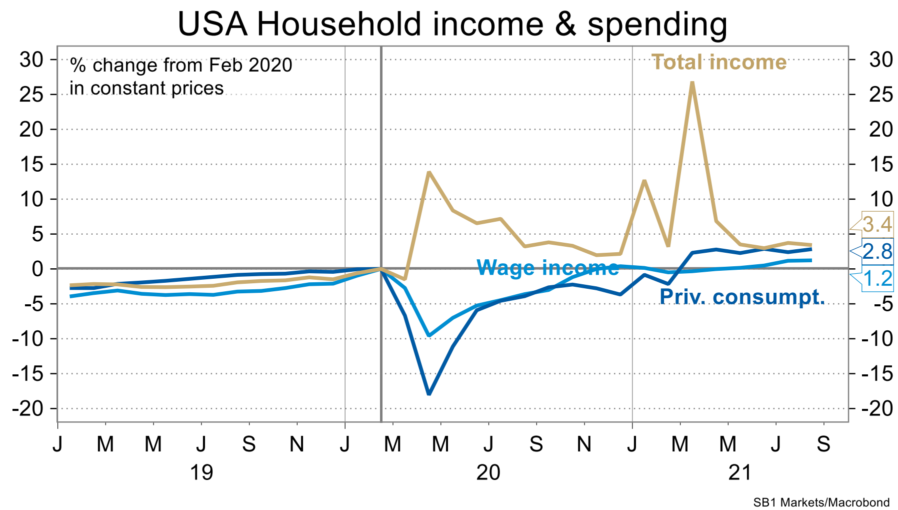


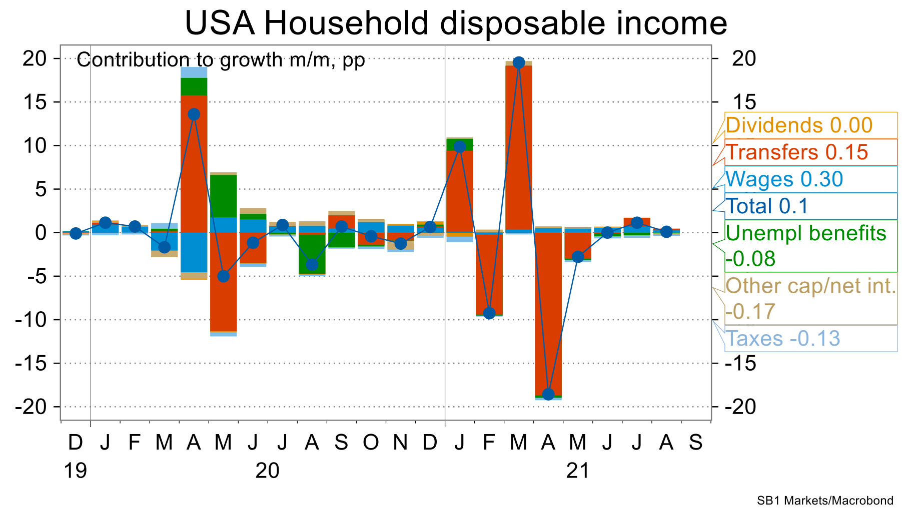


- **Private consumption** rose by 0.4% in real terms in August, as expected (spending rose 0.8% in nominal terms, expected +0.7% but prices rose 0.1 pp more than exp.). Consumption in real terms have flattened since March (3m/3m up 1% annualised), as consumption of goods has yielded (but are still up 15% vs. Feb-20) while services are recovering – but not that fast, and . In Aug, the Covid outbreak probably temporary dampened service consumption. Total consumption is up 3% vs. the Feb-20 level, and 2% below the pre-pandemic 2.6% growth path
- **Personal disposable real income** fell by 0.2% in August (household income rose by +0.2% nominally, as expected). Wage revenues contributed the most on the upside – and they are steadily on the way up
- **The savings rate fell** by 0.7 pp to 9.5%, from an 0.5 pp upward revised 10.1% August rate. The savings rate is some 2 pp above the pre-pandemic level. In addition, since the pandemic started, households have saved an extra amount equalling 13% of one year's GDP. There is still some money to be spent

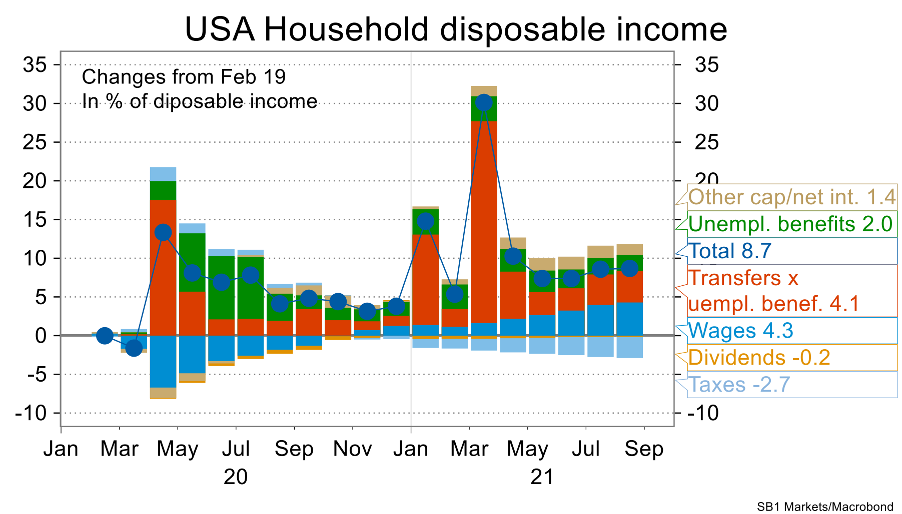
Income growth is normalising – up 0.2% in Sept but down 0.2% in real terms

Small changes in income components in Sept. Wages are trending up, transfers down, the sum flattish



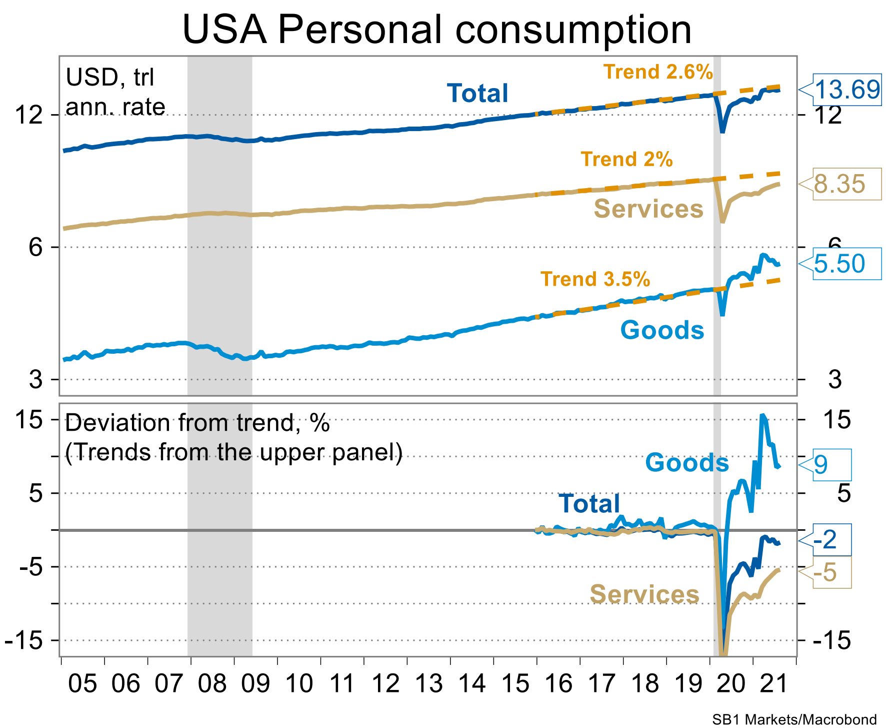


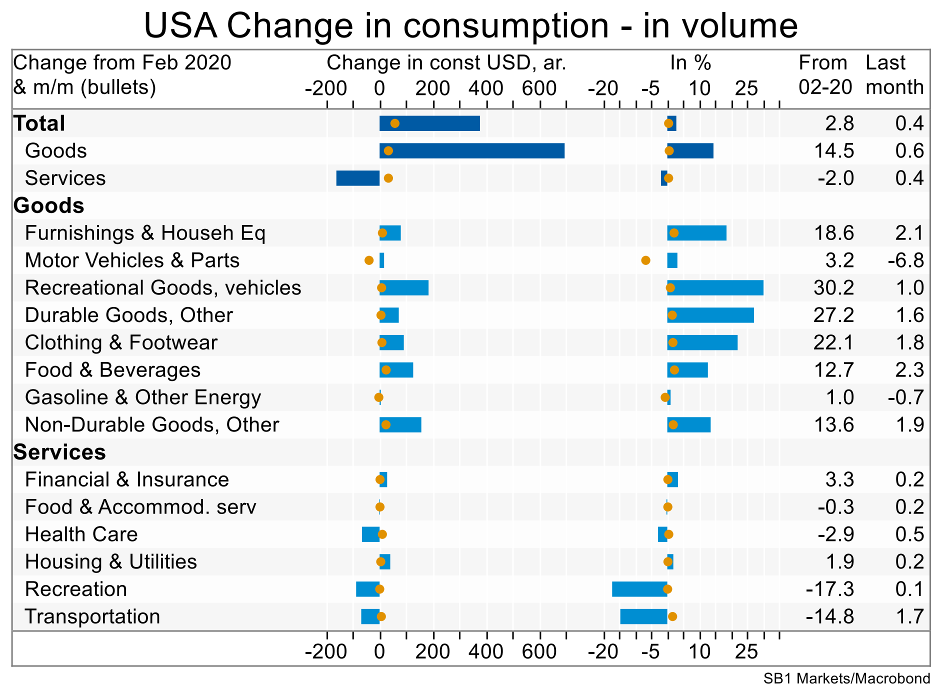
- **Last month:** Household disposable income rose by 0.1% in Aug, as expected (personal income, before tax)
  - » However, transfers from the government (ex. employment benefits) rose equalling 1% of income, 0.5% of disposable income. Wage income contributed by 0.6%
- **From Feb-20:** Disp. real income is up by 3.4%. Nominally, disp. income is up 8.7%
  - » Nominal wage income is 4.3% above the Feb-20 level, even if hours worked still are far below, as the average wage is sharply up
  - » Unemployment benefits are up equalling 2.0 of disp. income. This support will shrink substantially in September, as the Federal unemployment benefit programs expired
  - » In addition, other transfers are up eq. 4.1% of disp. income, far higher than a normal contribution
  - » Most of these extra incomes have been saved, as it has not been possible to spend them where consumers wanted



Service consuption 5% below the pre-pandemic trend, goods are 9% above!

Consumption of goods is on the way down but the level is still far above any reasonable trend

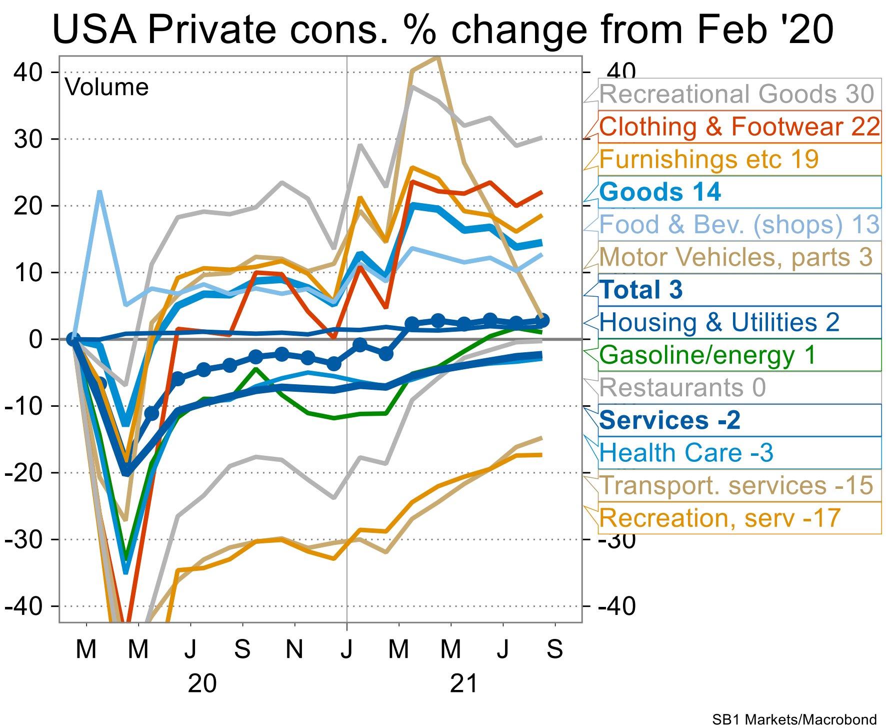




There are some larger aggregating differentials than usual in the PCE accounts, and the sums do not add up to the total

Consumption of goods trends down, services up but just slowly. Total flat since March

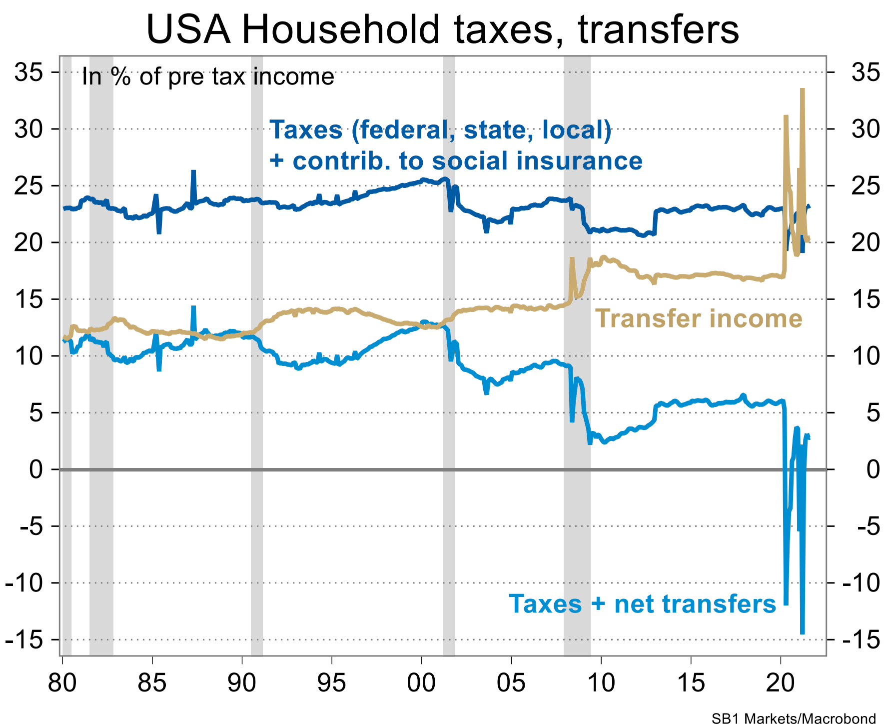
Growth in services slowed in August, probably Covid related – level still -2% vs p-p. Goods are up 15%

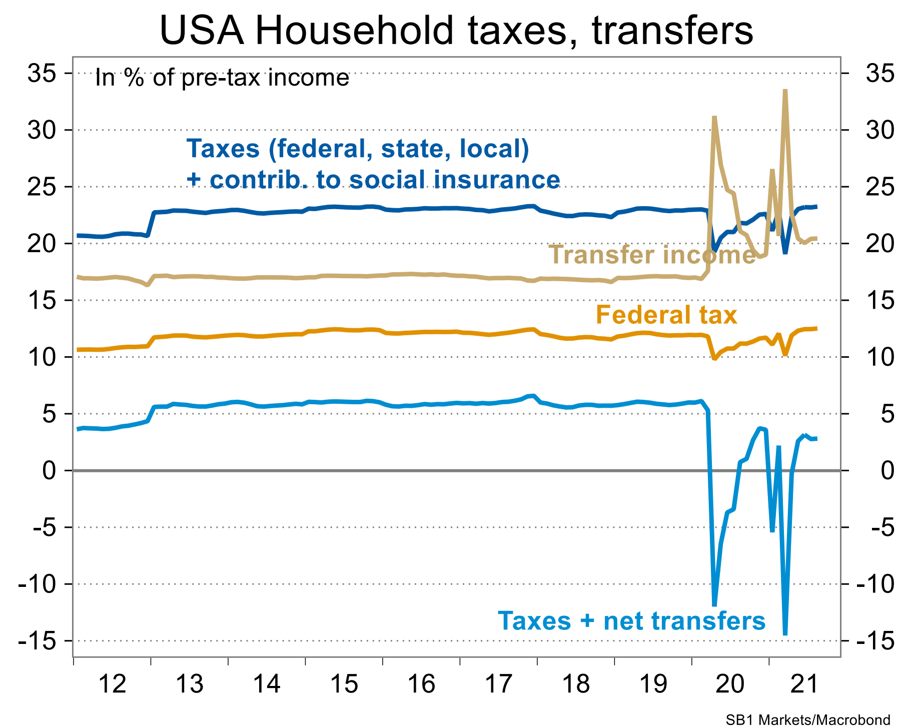


- Even if **consumption of goods** rose 0.6% in August, the trend is down from still a very high level. The downside is substantial
- **Consumption of services** rose just 0.4% in August, as all main services sectors slowed. Spending is now 2% below the Feb-20 level, in volume terms. Restaurants are back to the starting point, in volume terms ('meals served'), while transportation (-15%) and recreation (-17%) are far below – so there must be more to go the coming months/quarters
- Total consumption is up 2.8% vs. Feb-20, below a normal growth rate over 18 months – and total spending has more or less flattened in real terms since March (3m/3m is up at a 1% pace)

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

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

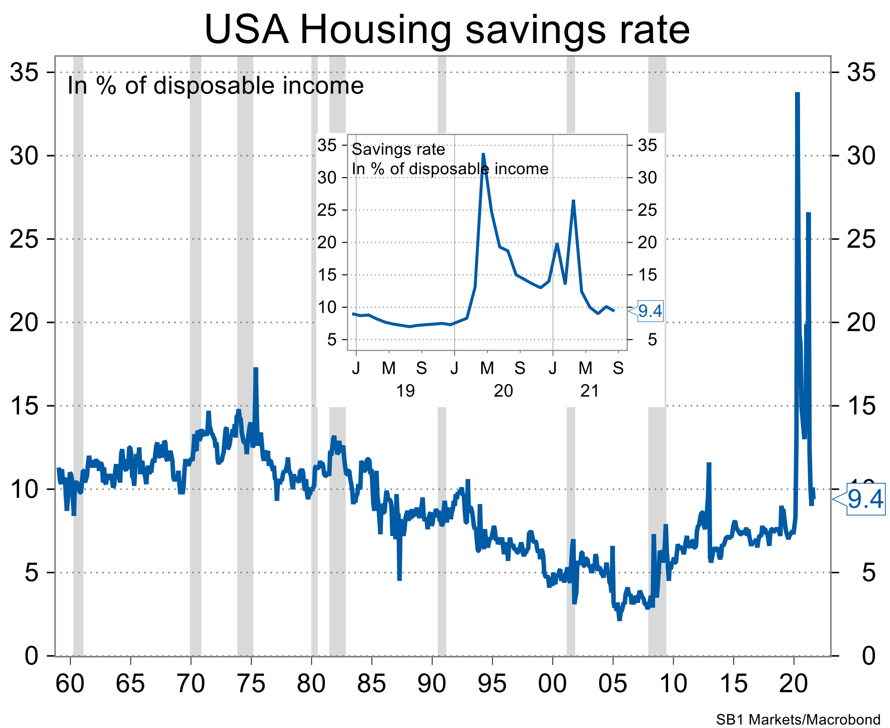


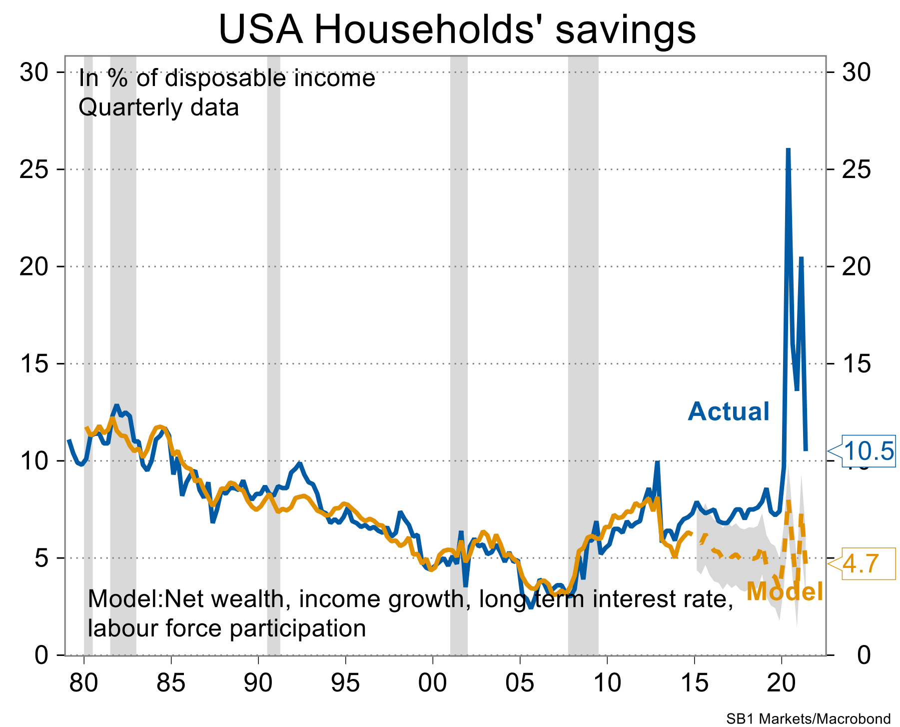


- The net balance is some 3% of disposable income below the pre-pandemic net transfer/tax rate
- In addition, the this 'normal' implied a substantial government deficit – <u>which was not sustainable either</u>
  - » Before year 2000, the net payment to the federal government equalled 10% - 12% of pre-tax income
    …. and somewhat below 10% until the Financial crisis. Since 2012, the net tax rate has been some 6% of GDP
  - » Now, the rate is at 3% of GDP – and the budget deficit is huge…

The savings rate below 10% - still above the pre-pandemic level

The rate fell by 0.7 p to 9.4% in August, from a slightly upward revised level in July

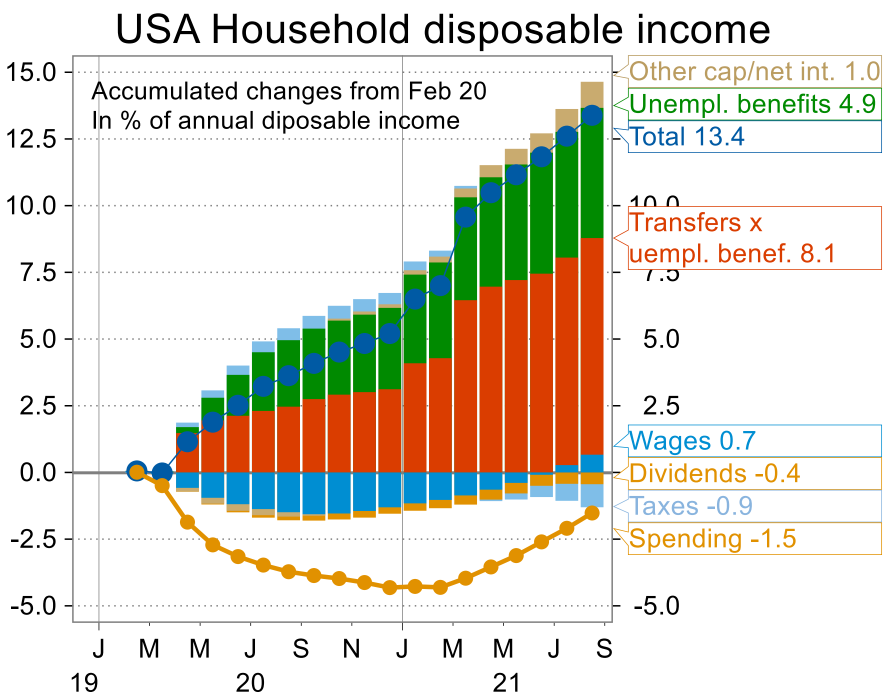


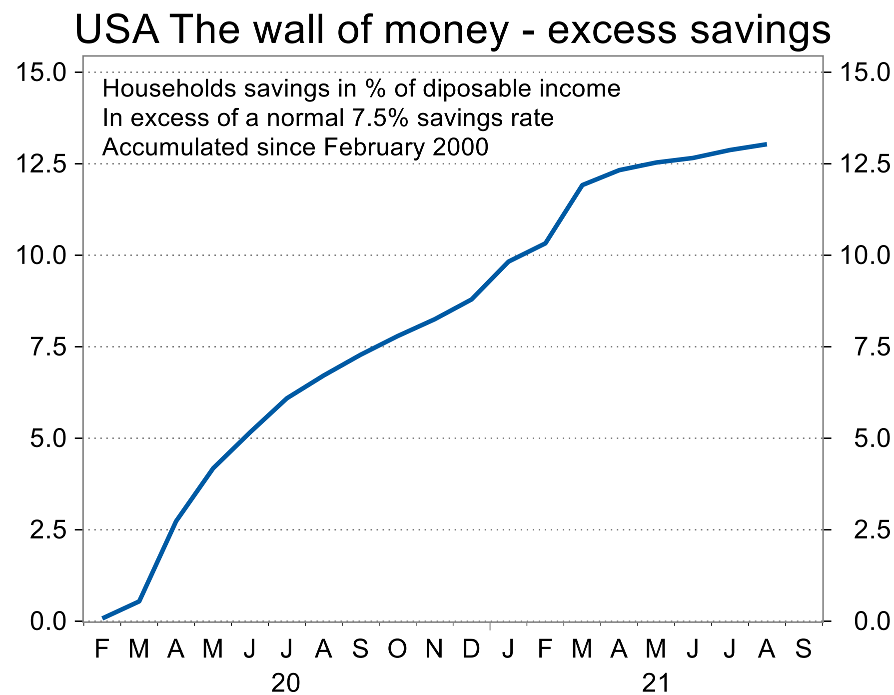


- The savings rate has approached pre-pandemic levels – but is still a couple of points above
- Our old savings model, yields a 4.7% savings rate in Q2. The model underestimated savings by some 2 pp in the years before the pandemic. Still we doubt the current savings level will be the 'new normal'
- In addition, **accumulated households excess savings** during the covid crisis amount to some 13% of annual disposable income – the 'Wall of Money', check next page

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

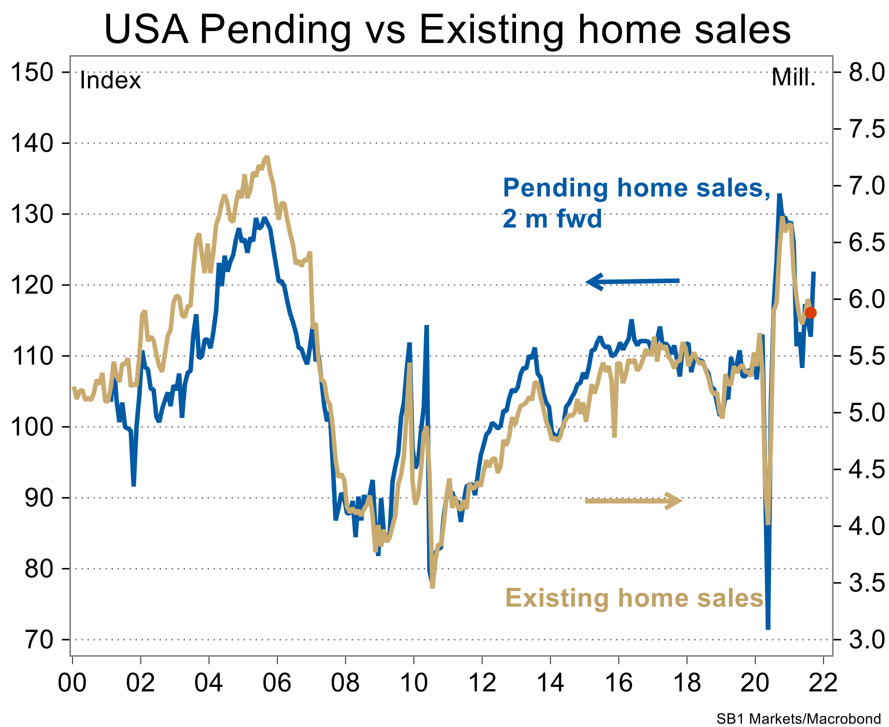
Transfers to households, both the cheques & the extra jobless benefits far larger than income losses

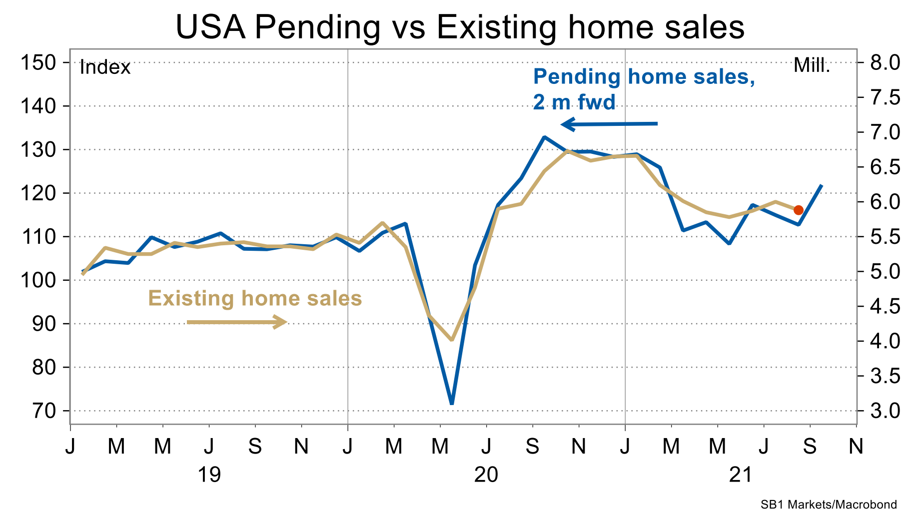


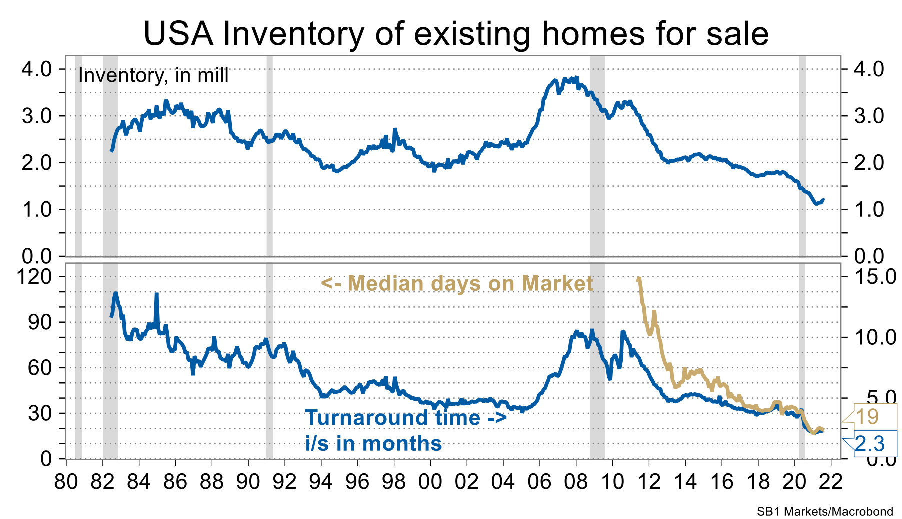


- … That is, income losses from 'the market', wages, dividends & other capital income. Income growth has been fabulous – and spending has been weak, on services and in total

Pending home sales sharply up in Sept, no reason to fret about a slowdown yet





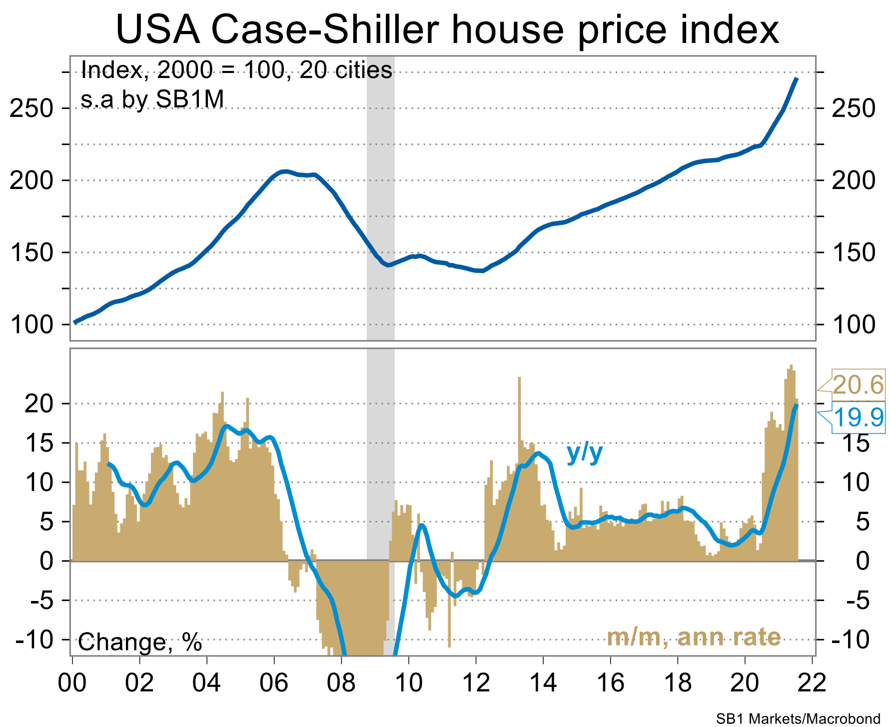


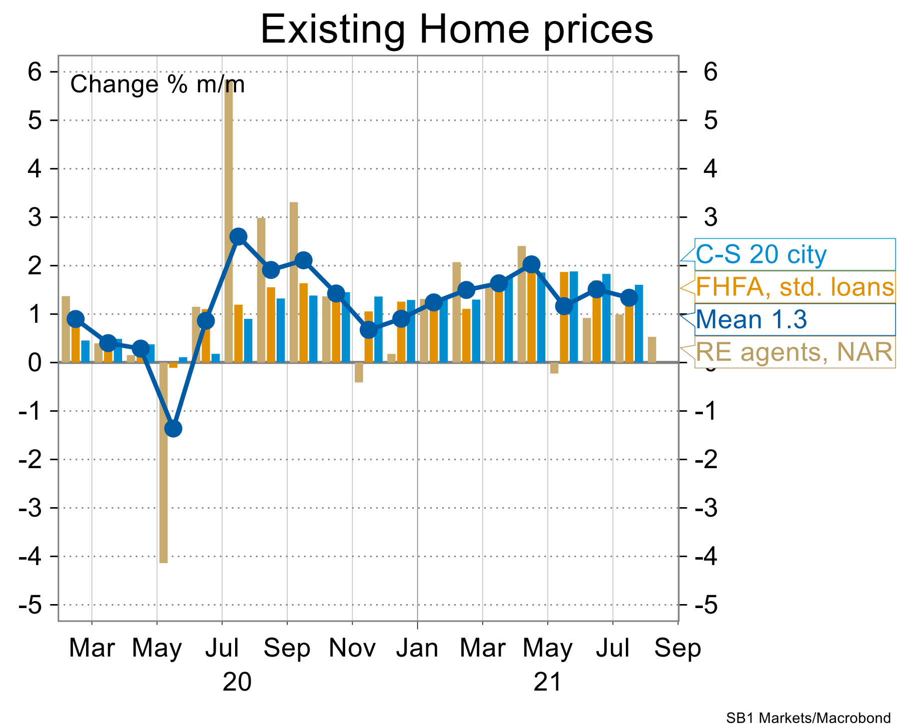
- Pending home sales rose by 8.1%, expected +1.4%
- Still both pending sales and existing home sales are down from the peak, and even though the inventory of homes for sale increased somewhat since the bottom in March, it is still at historically low levels. Also, some buyers have become sceptical to the price level – for understandable reasons, check the next pages

Pending home sales: Deals signed. Existing home sales: The actual transaction, typically 1 – 2 months after signing

House prices inflation slowed to 20.6% m/m in July, the y/y rate 0.5 pp to 19.9%

Prices rose at a 24 - 25% pace the 3 pervious months, according to Case/Shiller. But 20.6% is not low

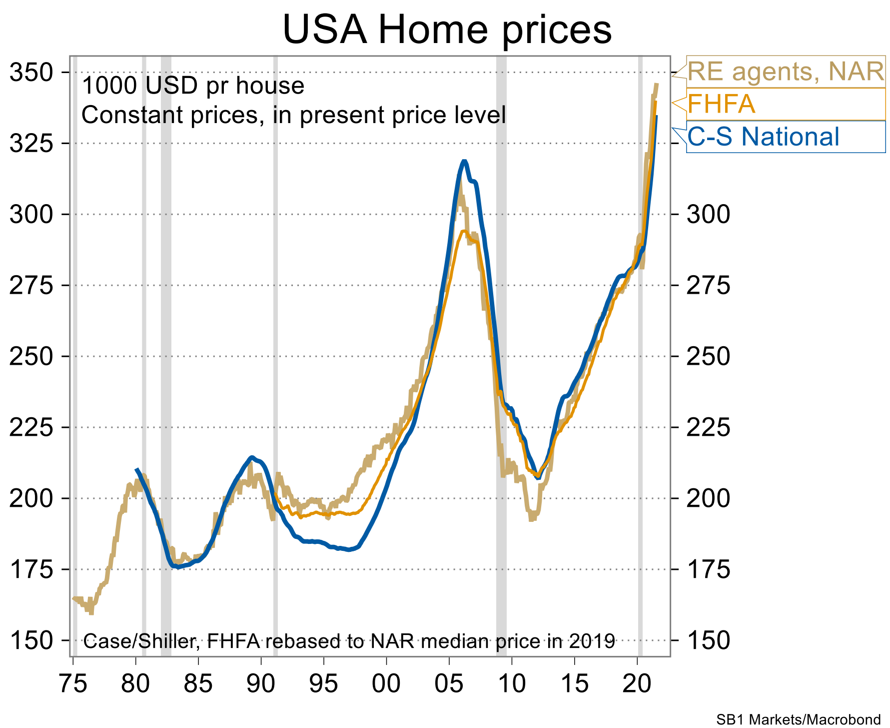


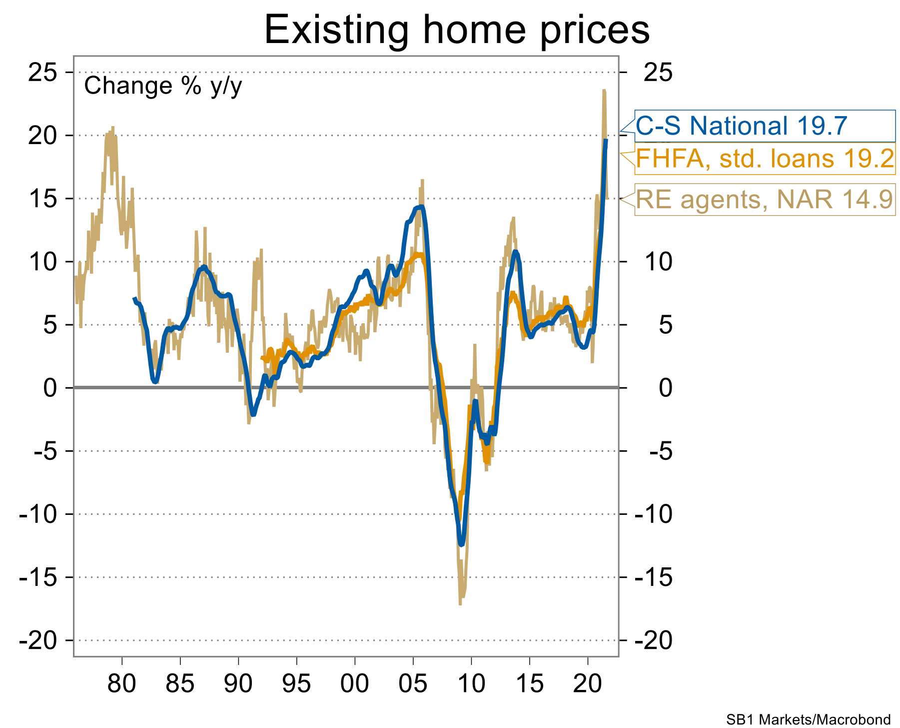


- **S&P's Case/Shiller's 20 cities** price index rose 1.6% m/m in July (June – Aug avg.), equalling a 20.6% annualised pace. The annual growth rate at 19.9 % is the highest since just after WWII, still 0.3 pp lower than expected. The **national C-S index** is up 19.7% y/y
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene", has a countrywide coverage), has shot up recent months too. The annual rate at 19.2% is far higher than the 11% peak rate before the housing bubble burst 15 years ago (chart next page)
- **Relators** reported a 0.5 % price lift m/m July (6% annualised), and the annual rate is 14.9%

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

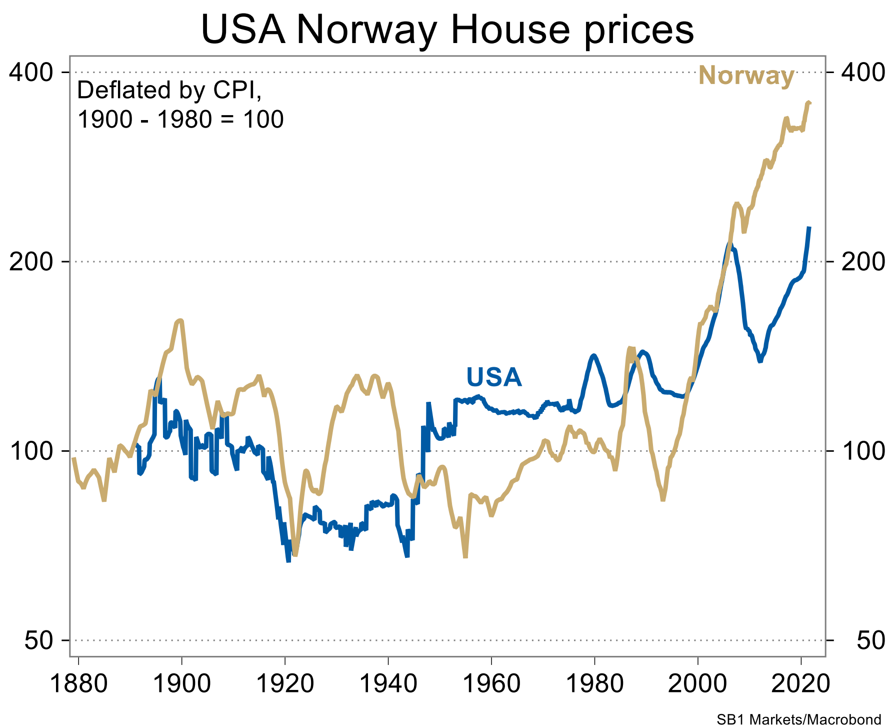
Given such data, it does not seem reasonable the Fed buys all new mortgage backed bond (net)

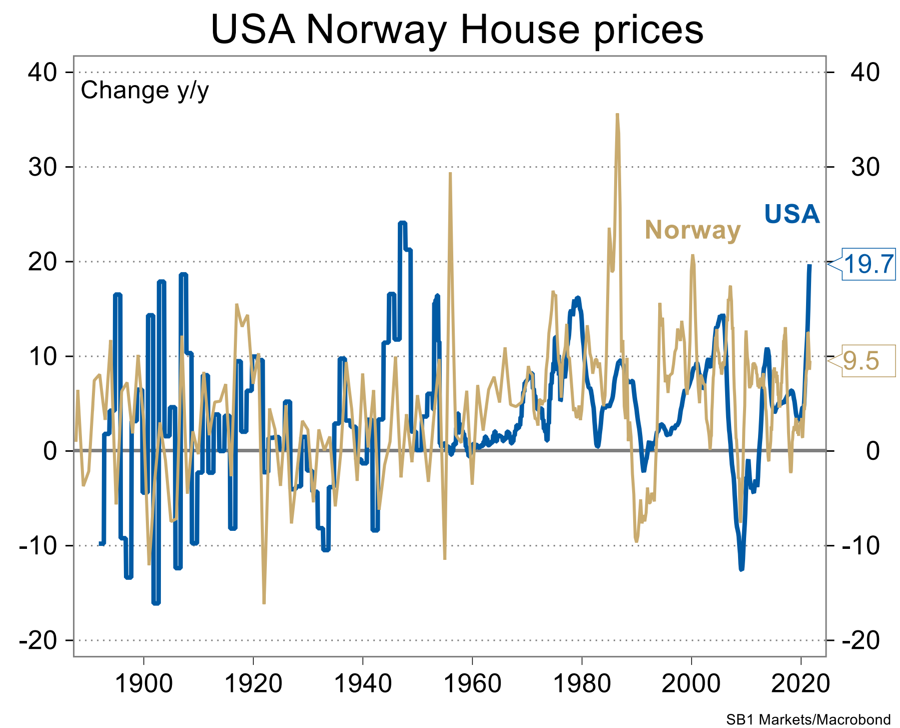




- Both the **Case-Shiller National index**, **FHFA's index** for homes with government sponsored mortgages (which includes most homes), and the **realtors' price index** have recently been/are reporting highest house price appreciation ever (or since 1948),
- **Real prices** are now well above the peak level in 2006
- There are still some important differences to 2005/6 price inflation & level peak
  - Housing starts are at far lower level. The inventory of new & 2nd home for sale is record low (vs high 15 – 16 years ago)
  - The debt/income ratio has fallen sharply since the peak before the financial crisis – but credit growth is now accelerating sharply again!

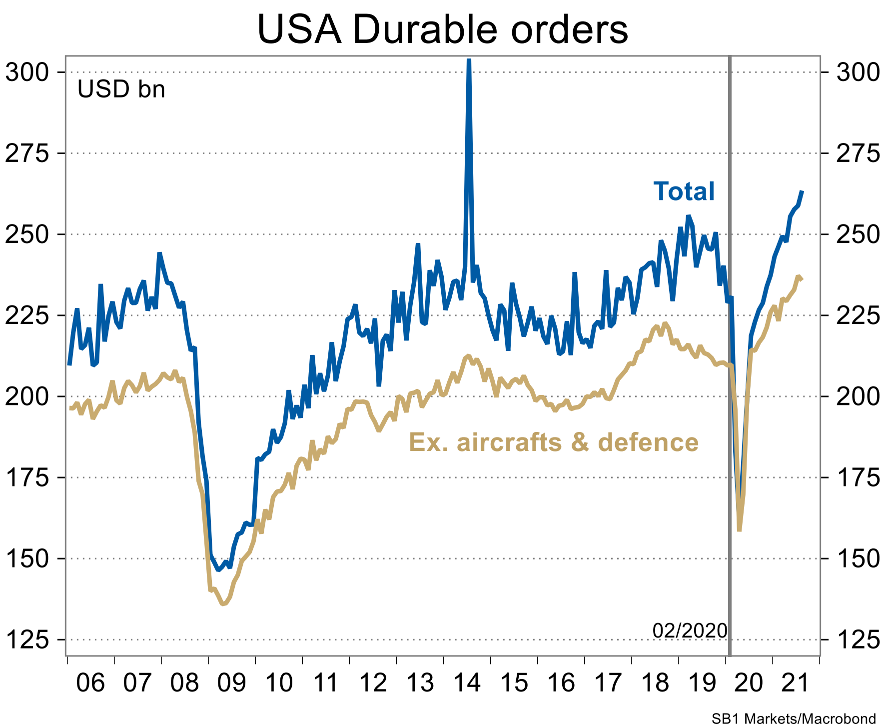
Some records, for the record

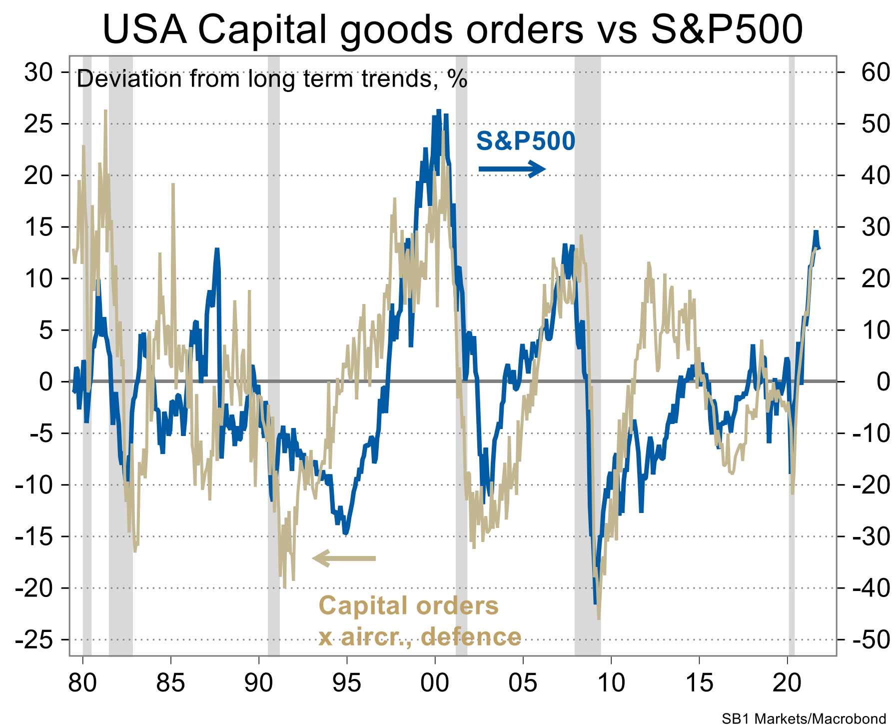




Durable goods orders surprised on the upside in August

Investment goods orders are trending up too, signalling further growth in business investments in Q4

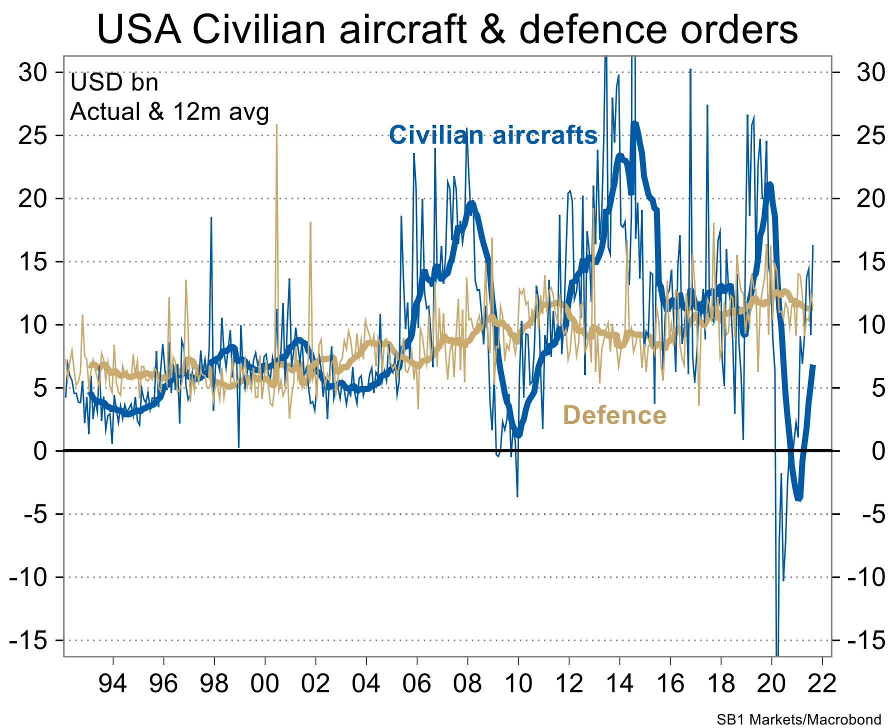


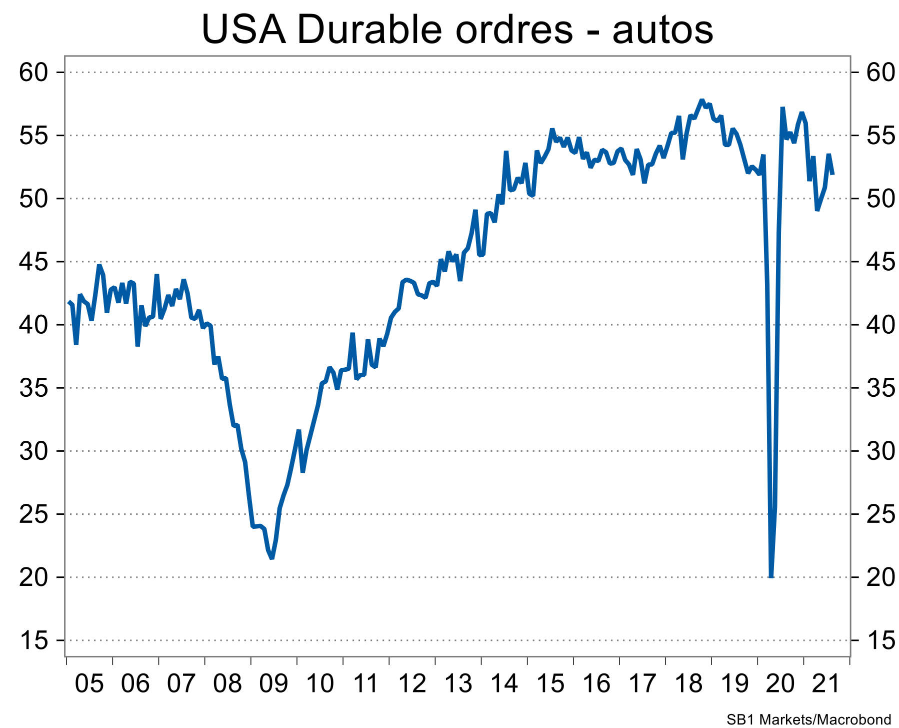


- **Total durable** orders rose by 1.8% in Aug, expected +0.7%. Aircraft orders rose, and have recovered from the downturn last year. The trend is sharply up
- **Core orders** (ex aircrafts & defence) were up 0.5%, expected 0.4%, and July data was revised up 0.2 pp to 0.3% The trend is strong. Auto orders fell 3% in August, after a sharp increase in July
- **Core <u>investment</u> goods orders** were up 0.5%, and the trend is still straight up
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

Aircraft orders up in August, and back to a normal level

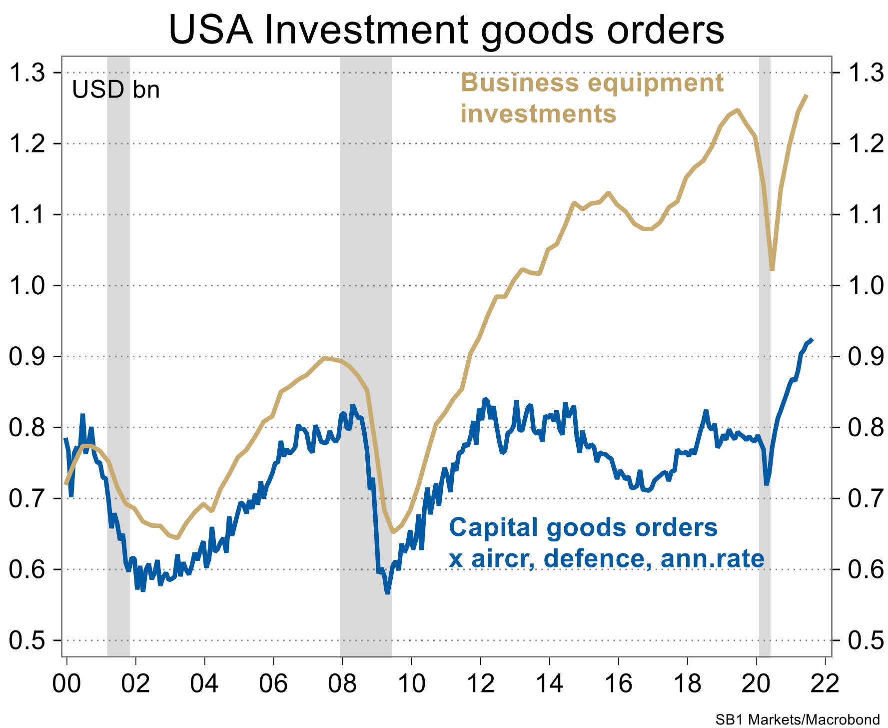
... while auto orders fell by 3% m/m

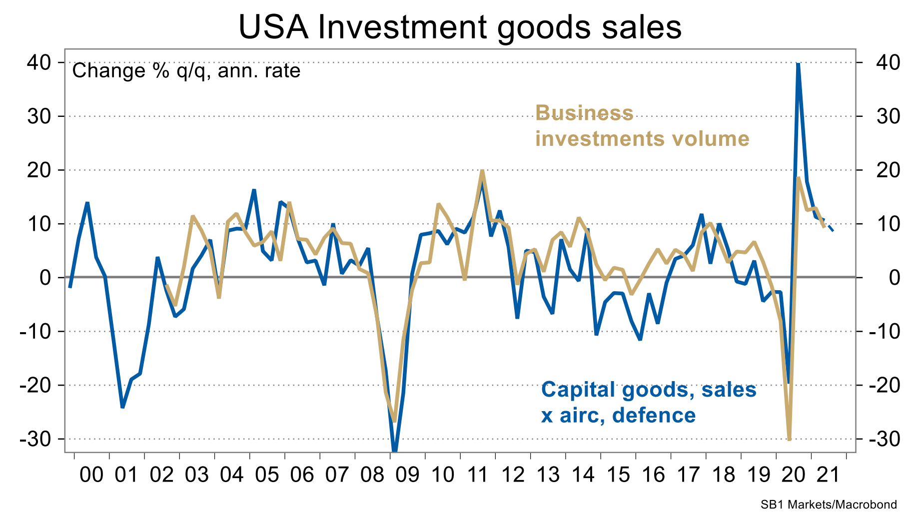




Core capital orders are still going strong

Signal decent growth in business investments into Q4

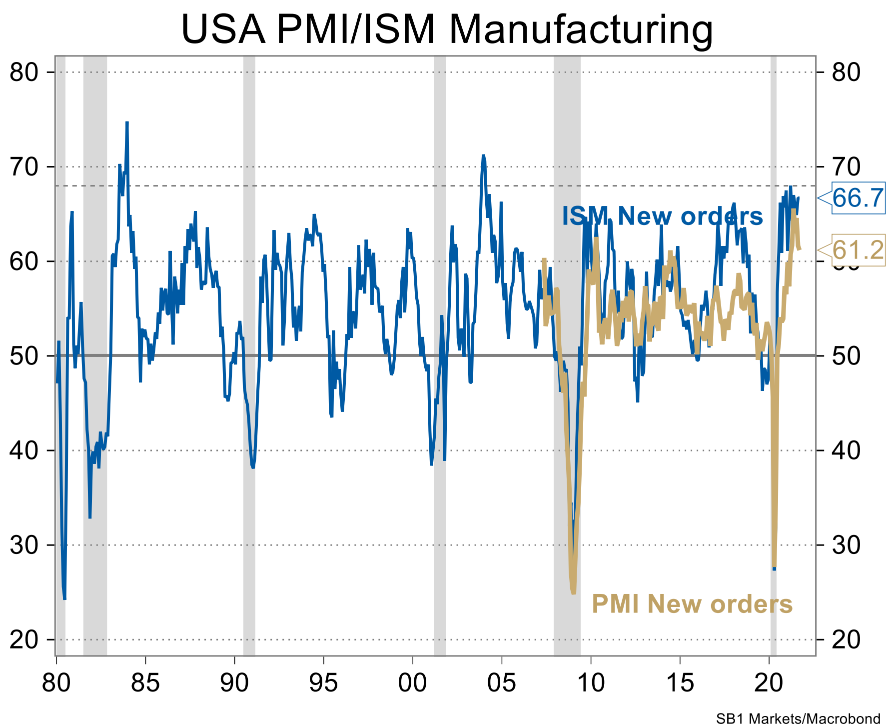


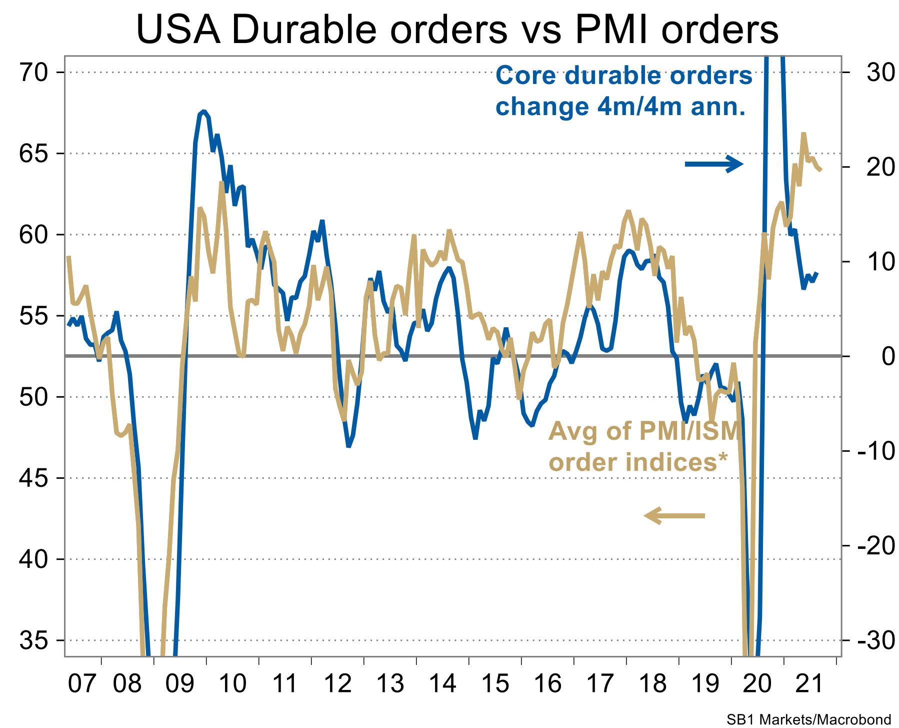


- **Core (x aircraft, defence) capital goods orders** were up 0.5% in August. Shipments were up 0.3%. Both are growing at a brisk underlying pace signalling growth in business investments into Q4
- **The business investment** level is well above the pre-pandemic level – and not low vs. a reasonable long term trend

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

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



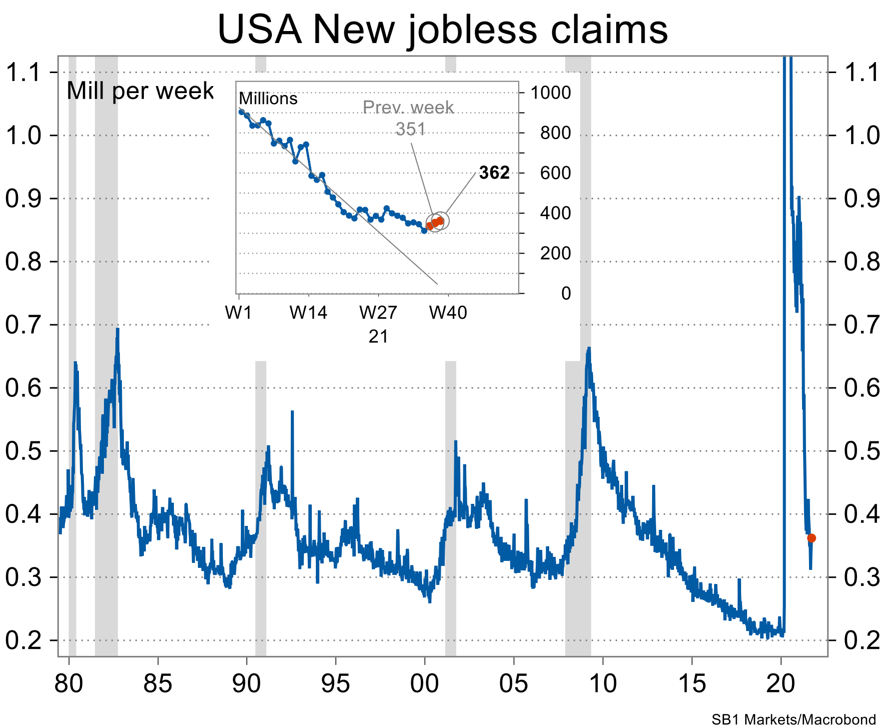


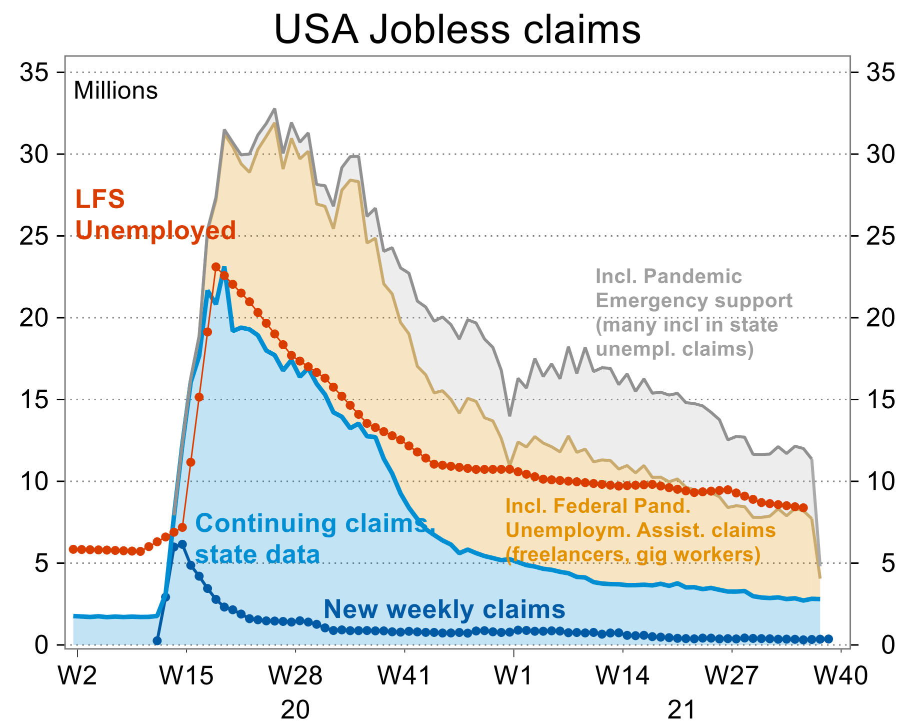
* The ISM order index is

SpareBank 1 MARKETS

New jobless claims slightly up for the 3rd week – and the level is not that low

Just 2 mill left on the special unemployment programs as 6.5 mill were kicked out of the dole



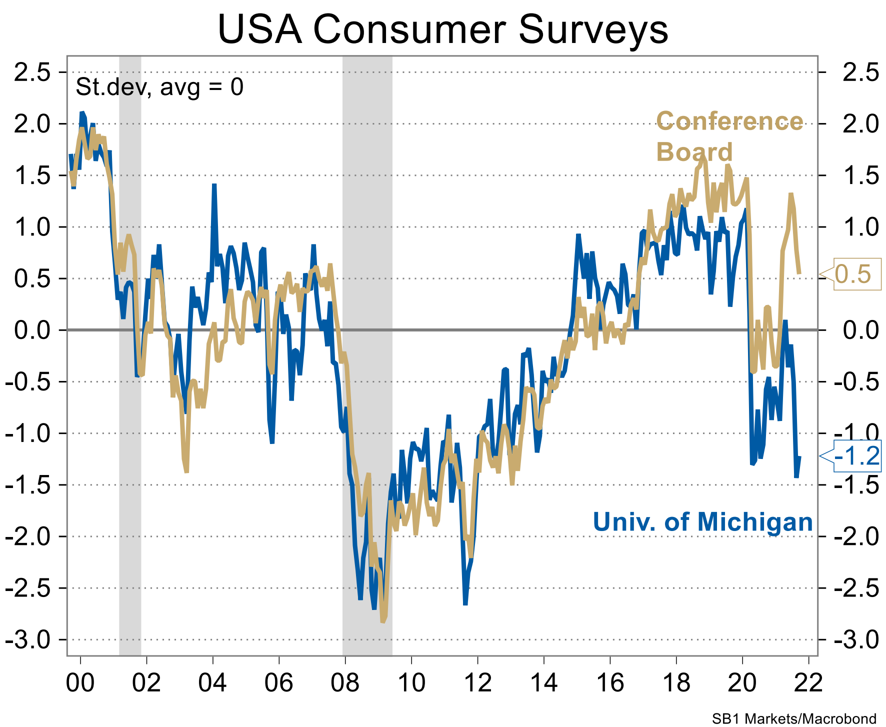


- **New jobless claims rose** by 11' to 362' in week 38 – expected down to 335'. The inflow is high given all other indicators of demand for labour – and far above the rapidly declining trend which ruled until the late spring. Some of those who now are applying for benefits may have been receiving federal support until now, which may explain the increase in new claims (or that the level is still high). Most likely, these claims will not be honoured. The continued decline in continuing claims support this hypothesis
- **Ordinary continuing claims** decreased by 18' to 2.80 mill in week 37 from 2.82 mill (revised down from 2.85 mill) the previous week. The trend is down
- The **two temporary federal pandemic programs** ended on September 6th, but states can still choose to offer this assistance through pandemic relief funds. Media report that 6.5 mill persons of the 8.5 mill left the dole that week, and that 2 mill remained (indicated at the chart above). What will these workers do now? The September job report may give some hints
- In the states that left these federal programs early, in mid June or early July, employment has not accelerated vs the stayer states

SpareBank 1 MARKETS

Conference Board's confidence down but still strong – far better than UM's surv.

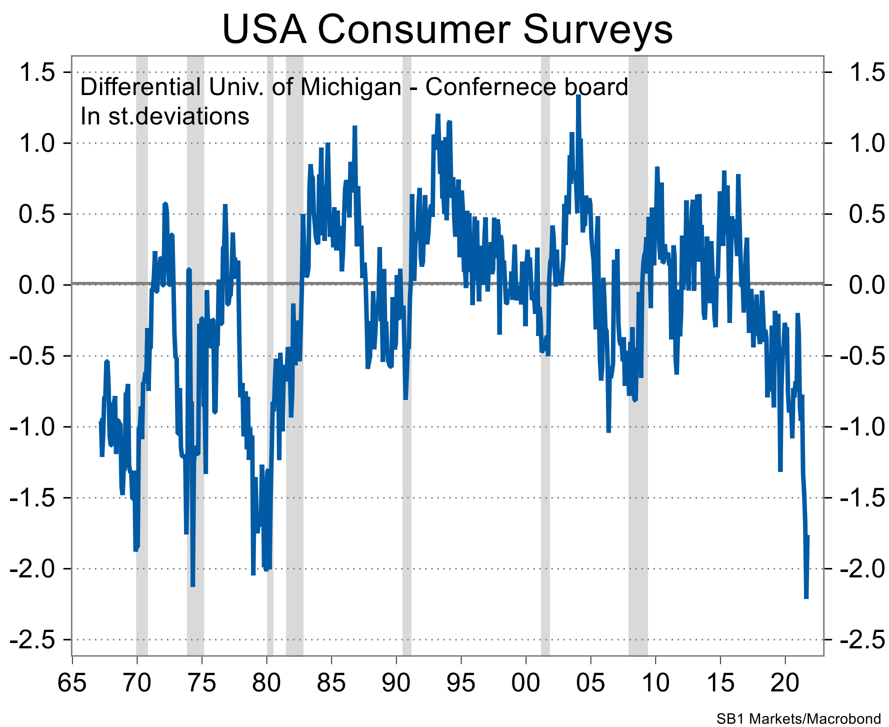
CB's index fell 0.3 st.dev to +0.5, exp slightly up. The UM survey revised up 0.2 st. still at -1.2

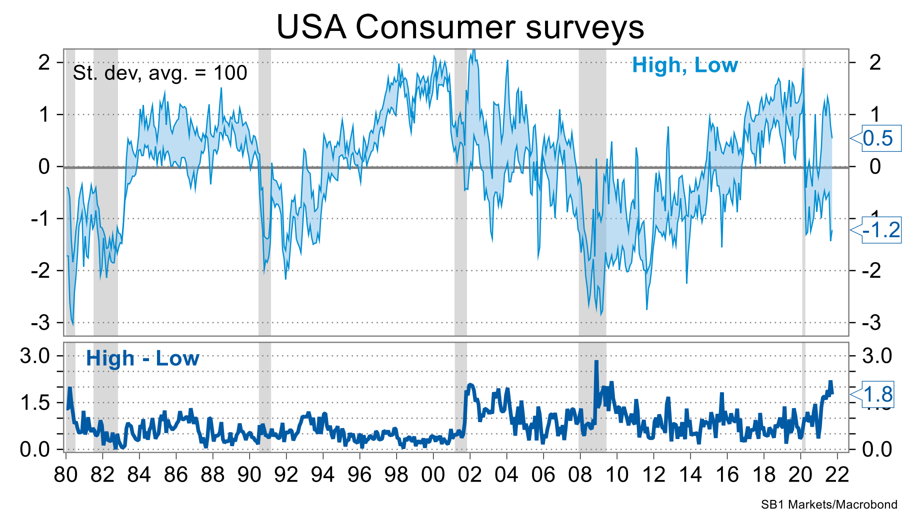


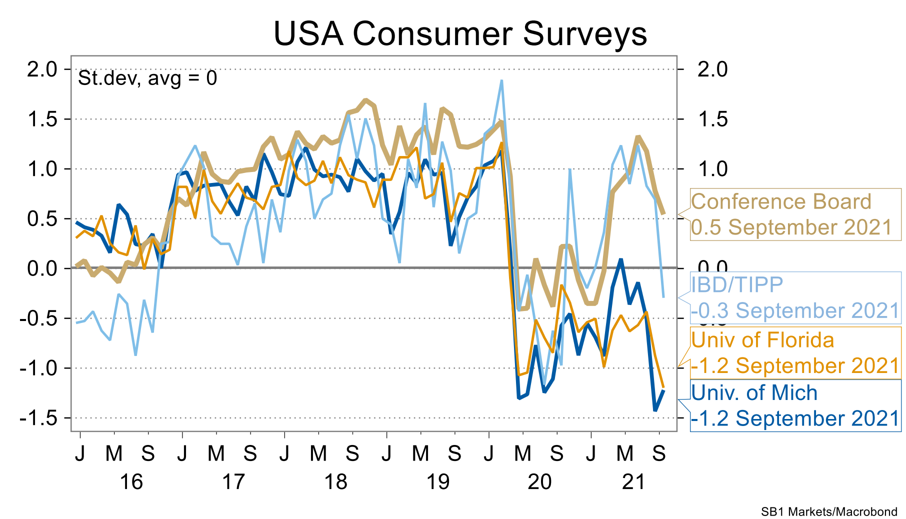
- The **Conference Board's consumer confidence** index fell to 109.3 in September, from 115.2 in August (revised up 1.6 p), expected up to 115. The index is 0.5 st.dev above average. Both the assessment of the current situation and expectations fell (almost in tandem)
  - » Households still report a tight labour market but have adjusted their spending plans downwards once more
- **University of Michigan's sentiment** survey was revised up by 1.8 p to 72.8, vs the preliminary index. Still, the level is 1.2 st.dev below average – on line with the lowest prints during the outbreak of the pandemic last spring!
  - » The discrepancy between the two surveys have never been larger than in August, and the gap is still very large in September
  - » If the UM survey is falling faster than CBs survey, often something unfortunate happens afterwards, check next page
- **Two other surveys** are heading down too, and both are below an average level. In sum, these surveys signal that 'something' is happening
  - » The **Delta virus** attack may explain the sudden decline in consumer confidence but hardly that sentiment fell to a level below April/May last year, and far below the level during the outbreaks in between, when the no. of hospitalised were higher than now
  - » The **stock market** fell in September, but the UM fell sharply in July & Aug
  - » The **labour market** is recovering rapidly, and jobs are extremely plentiful (also according to households themselves), and even if employment growth slowed in August, the labour market is still tight
  - » The **housing market** is still going strong, **mortgage rates** have fallen, and **credit** is available
  - » **Gasoline prices** are up but just marginally since April, and they are far from high in real terms
  - » **Inflation expectations** are well above a normal levels, but they did not (in sum) rise further in Aug/Sept, and cannot explain the sentiment shock
  - » **Politics**? The escape from **Kabul**?
- What to make out of it? To put it simply, <u>we are still not sure</u>

The gap between consumer surveys has never been larger

Almost always, when UM grounded before CB yielded, UM was right. And the recession started



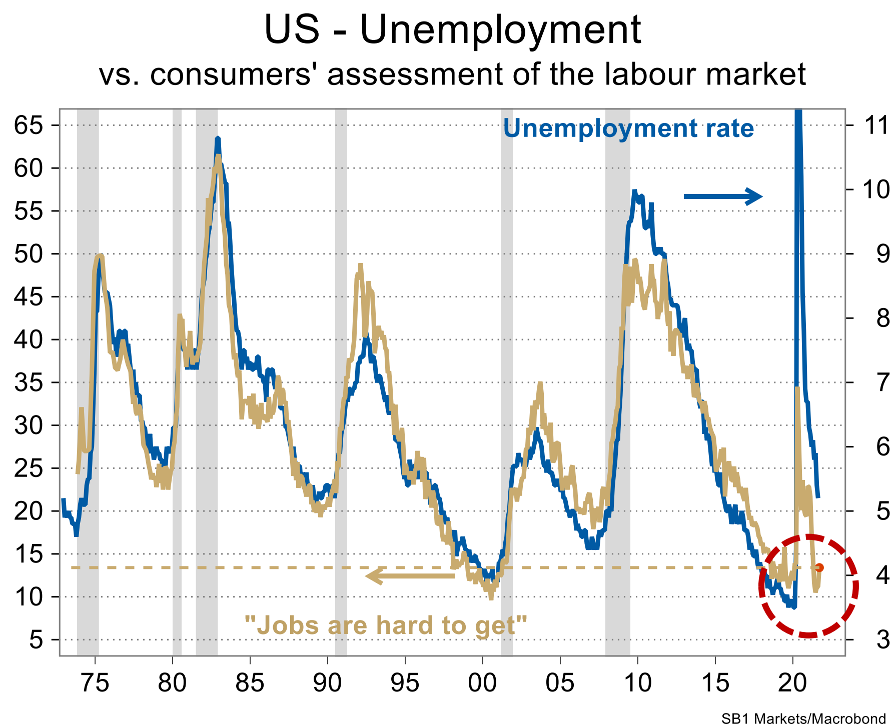


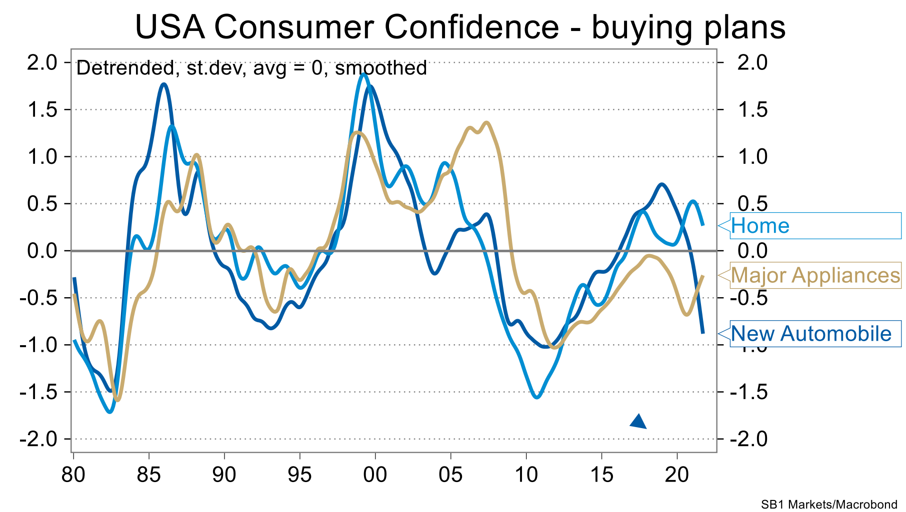


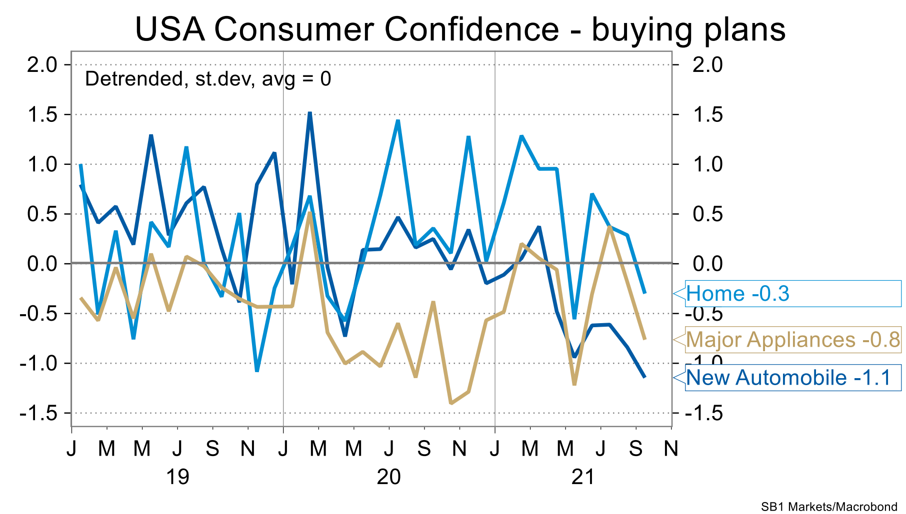
- All other surveys are down, and all but CB's survey have fallen to below average

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

Households judge the labour market to be far tighter than indicated by the 5.2% unemployment rate



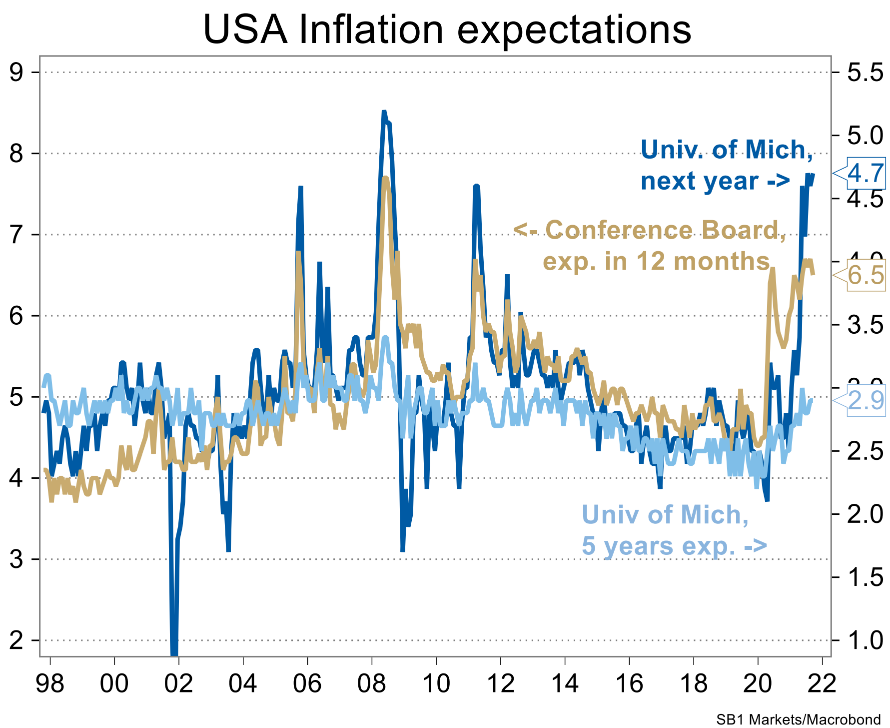




- Households are not eager to spend, at least not on new autos (which are not available us usual), new homes (which have become 15% – 20% more expensive over the past year) or major appliances
  - » Households are also turning demand back to services, which inevitably will reduce demand for goods – which still is some 9% above the pre-pandemic level

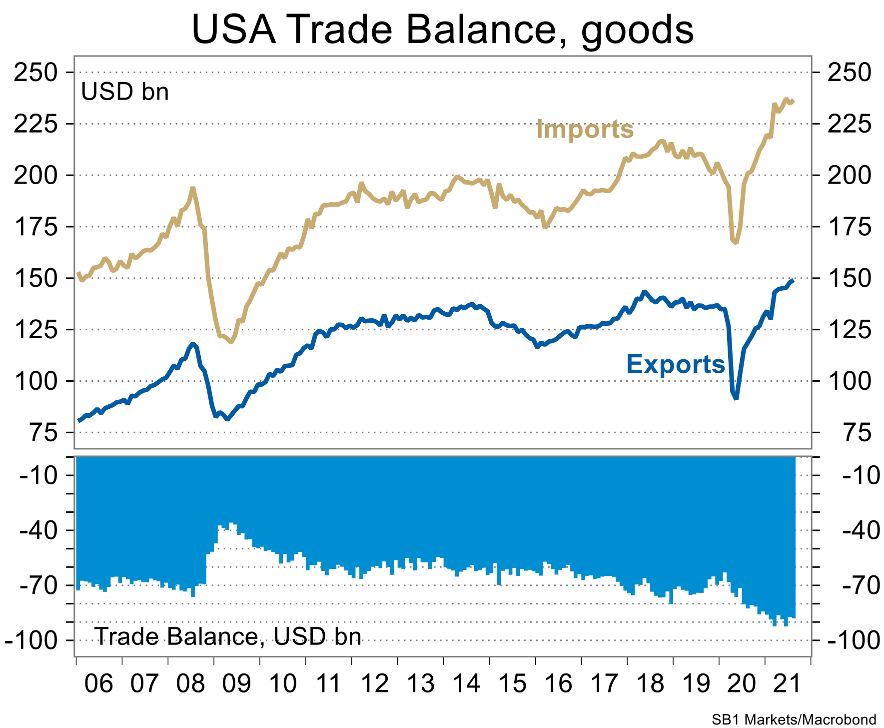
Inflation expectations remain elevated

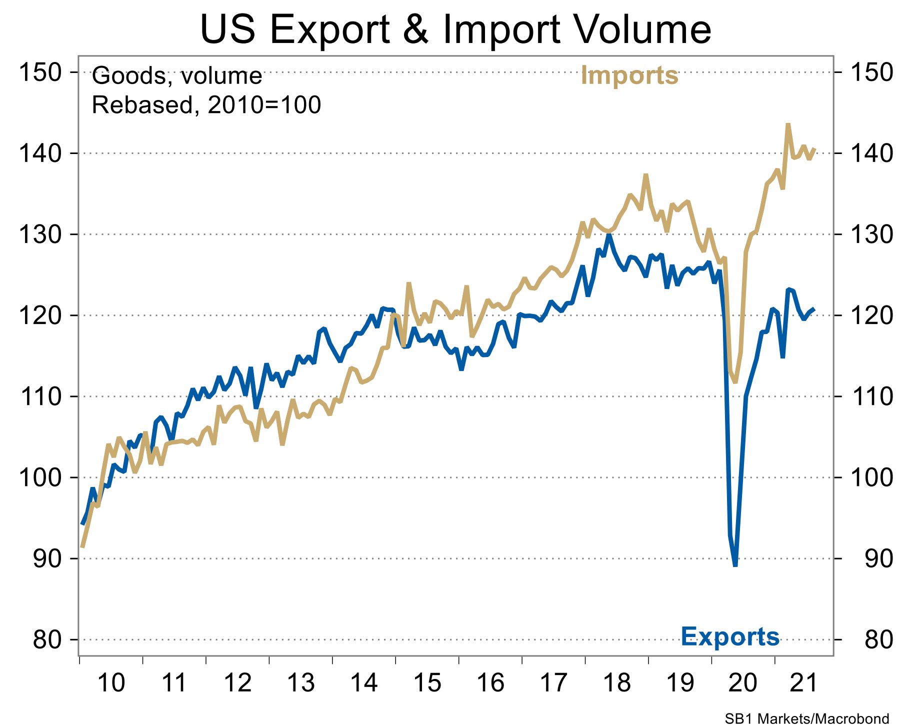
Inflation expectations are elevated but did not (in sum) worsen in August/Sept



Both exports, imports up in August, the trade deficit is flattening

Import volumes have flattened, probably both due to weaker demand and supply shortages



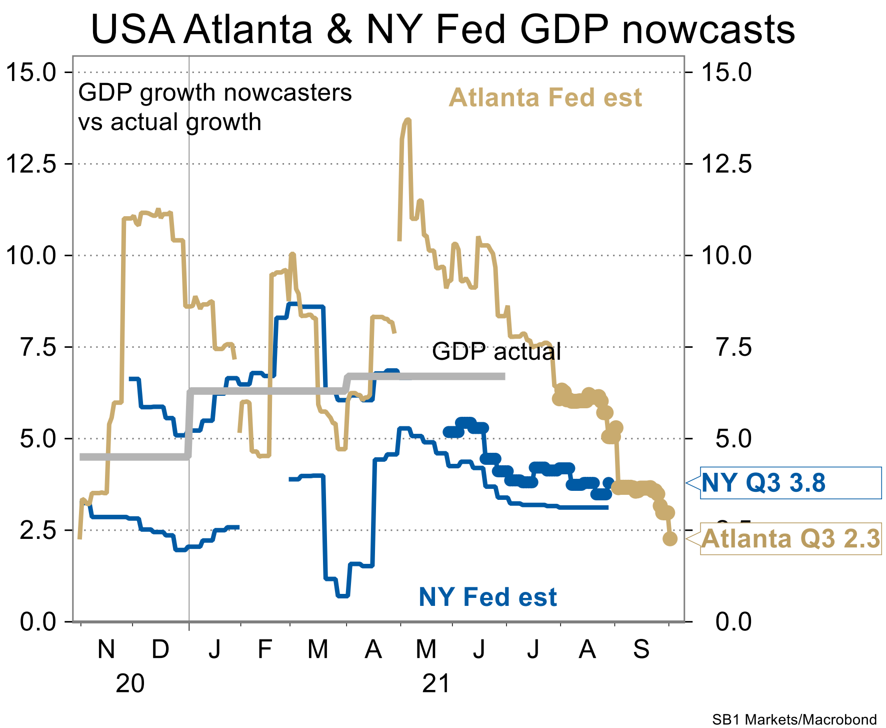


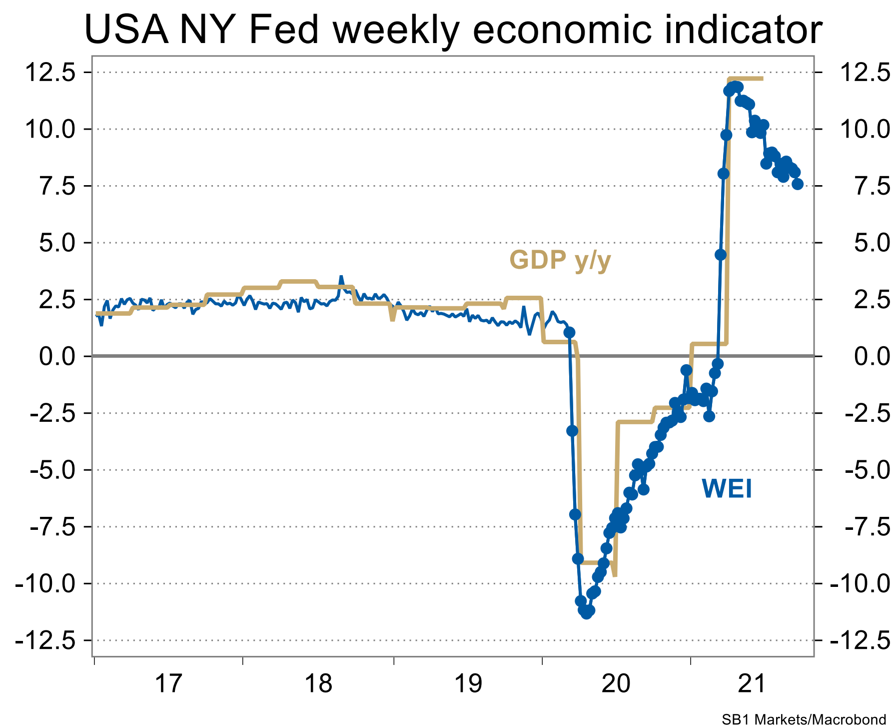
- The monthly changes in **August** were small, both exports and imports of goods rose by 0.8%
- **Imports** of goods are far above the pre-pandemic level, both in value (17%) and volume terms (8%)
  - » Imports have surged due to the rapid rise in demand for goods in the USA, both consumption & investments but growth is now clearly slowing – and volumes have flattened
- **Exports** are up in value terms (+10%), but still down in volume terms (-4%)
- **Global trade** volumes are some 7% higher than early 2020 – but have fallen slightly the past 3 months

SpareBank 1 MARKETS

Q3 growth slowed sharply, says Atlanta Fed's nowcaster

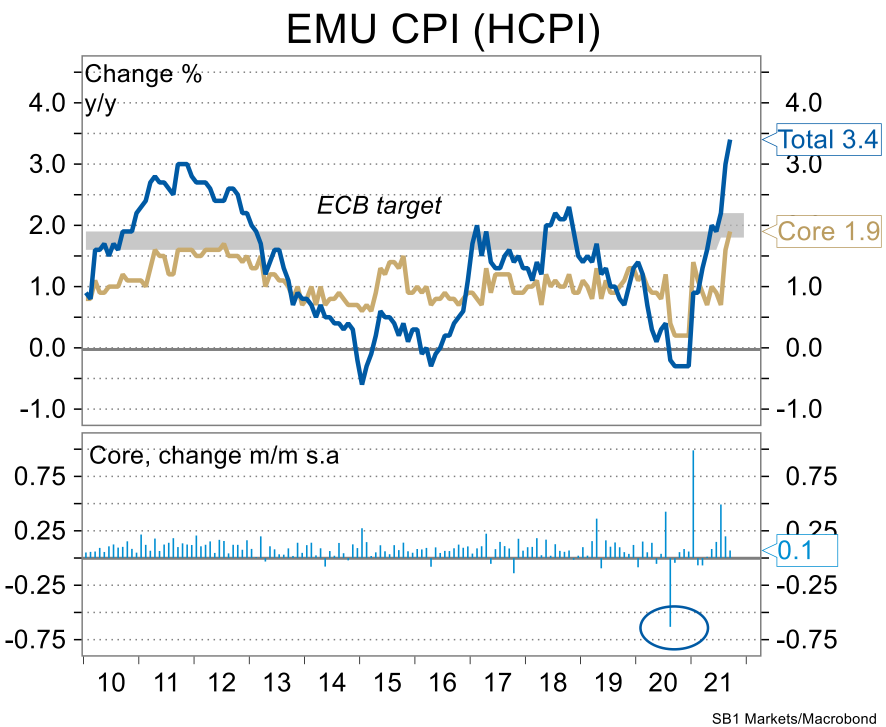
Recent data implies a 2.3% growth rate in Q3. The forecast started at 6%, in early August

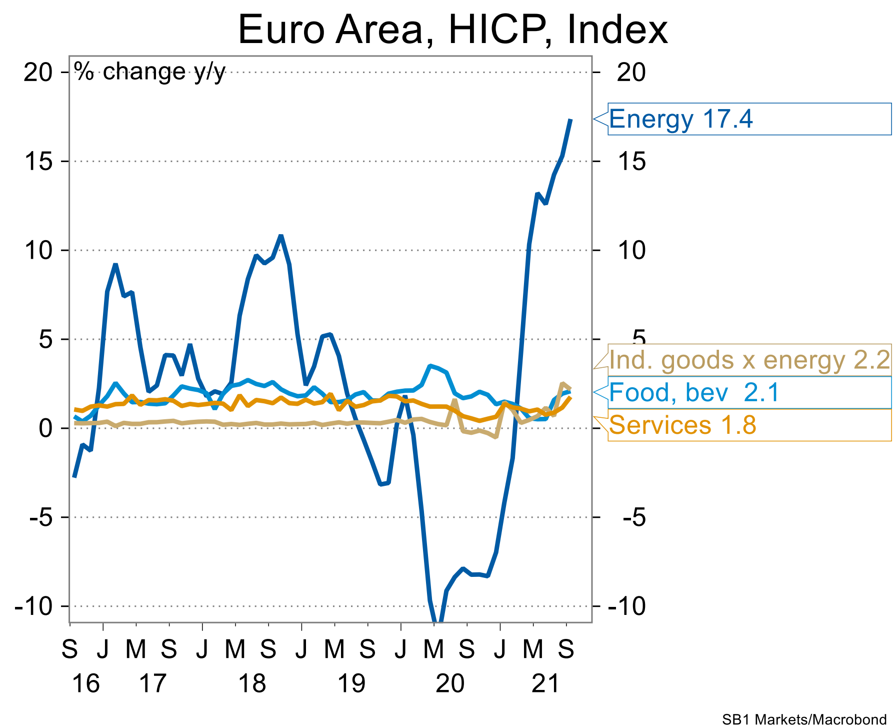




Eurozone core inflation up to 1.9% in September

Total inflation up to 3.4% as a result of lift in energy prices. Unions start talking of a compensation…





- **Core prices** were up 0.1% m/m. Still the annual rate shot up another 0.3 pp to 1.9% (as expected), but is still below ECB's new 2% inflation target
  - » Industrial goods x energy fell 0.4% m/m – but they are up 2.2% y/y
  - » Services were up 0.7% m/m, and prices are up 1.8% y/y
- **Headline inflation** was up 0.3 pp to 3.4% in September, expected at 3.3%. Energy is the biggest contributor, up 17% y/y (1.4 pp contribution), +1.1% m/m
  - » The annual rate will probably stay elevated the coming months, as the monthly increases were low/negative until Dec-20
- The **German IG Metal Union** last week demanded a 4.5% wage hike, and other trade unions are making calls for compensation for the lift in inflation. Wage inflation in Germany is now well below 2% - and it has been far to low for long to yield 2% inflation over time

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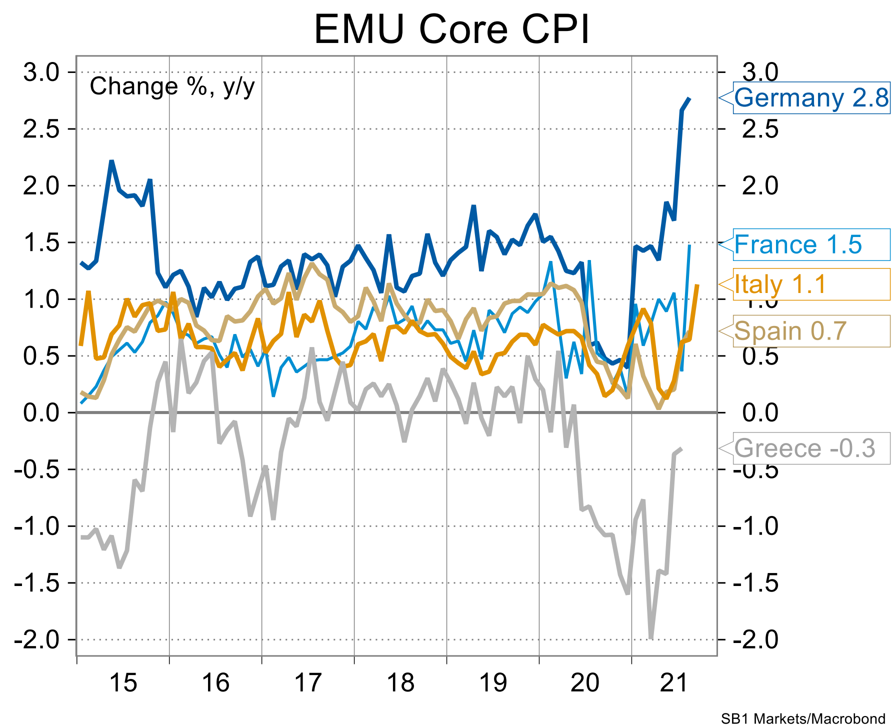
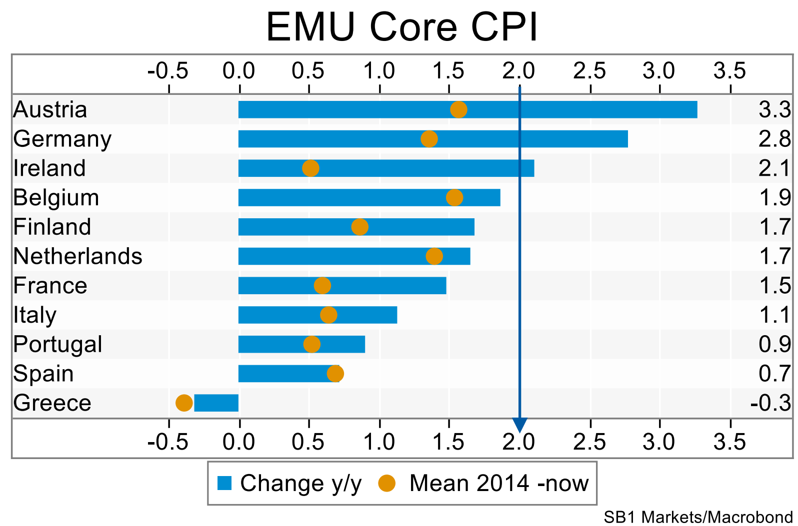
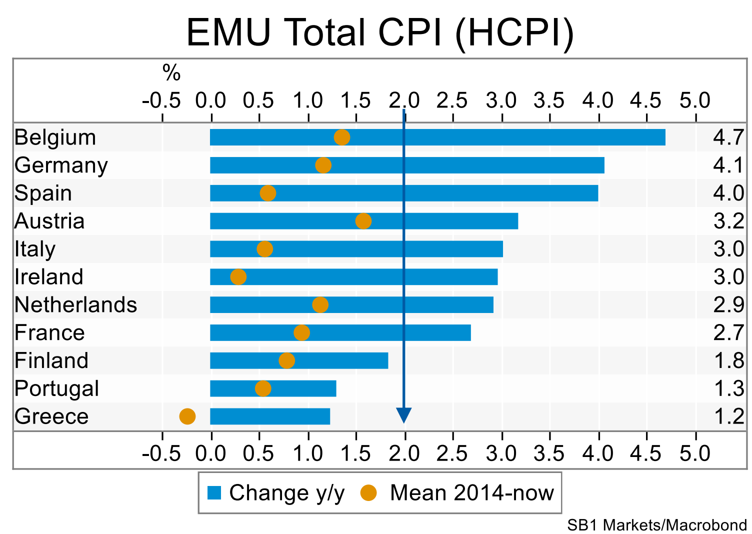
Core inflation still below 2% most places (Aug data)

Headline inflation is above 2% almost everywhere – and Germany is at 4.1%



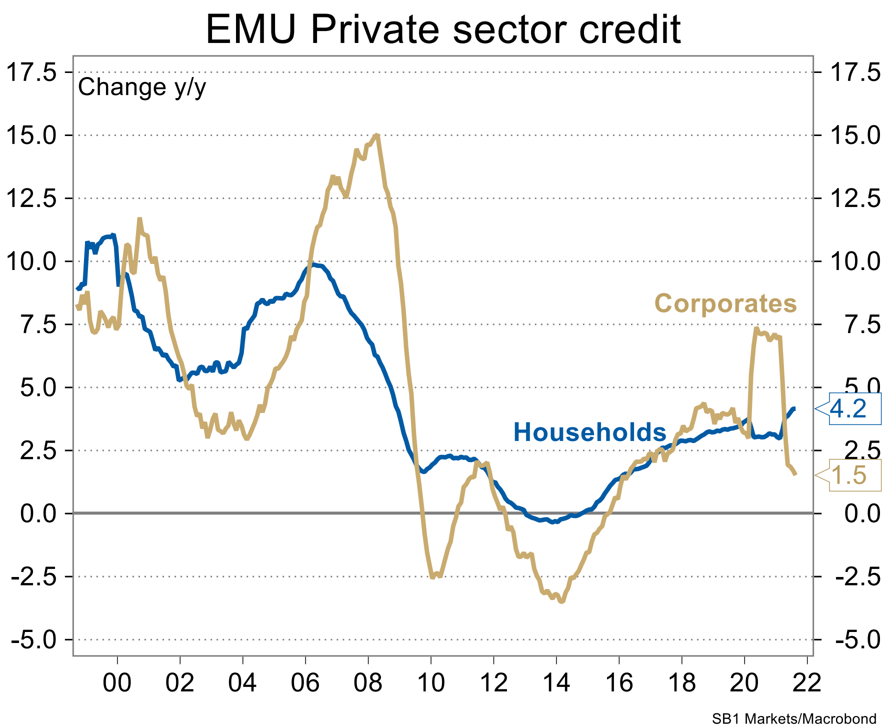


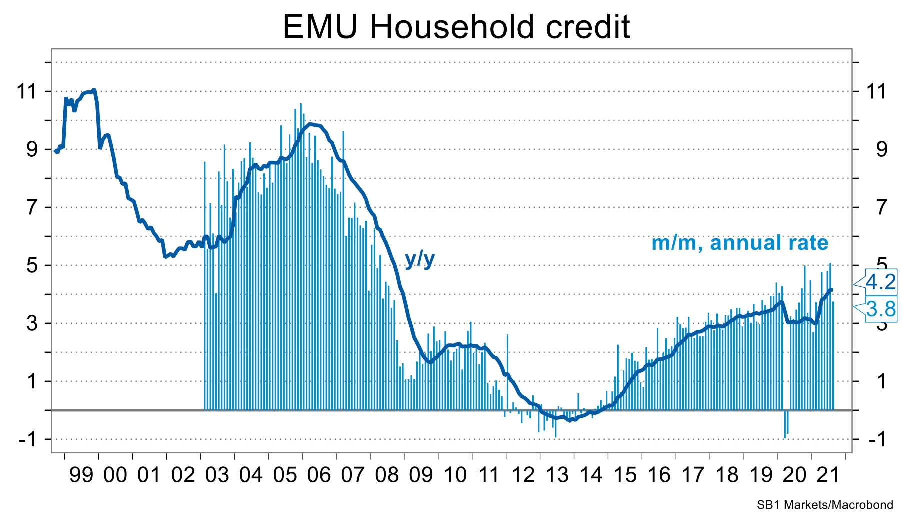


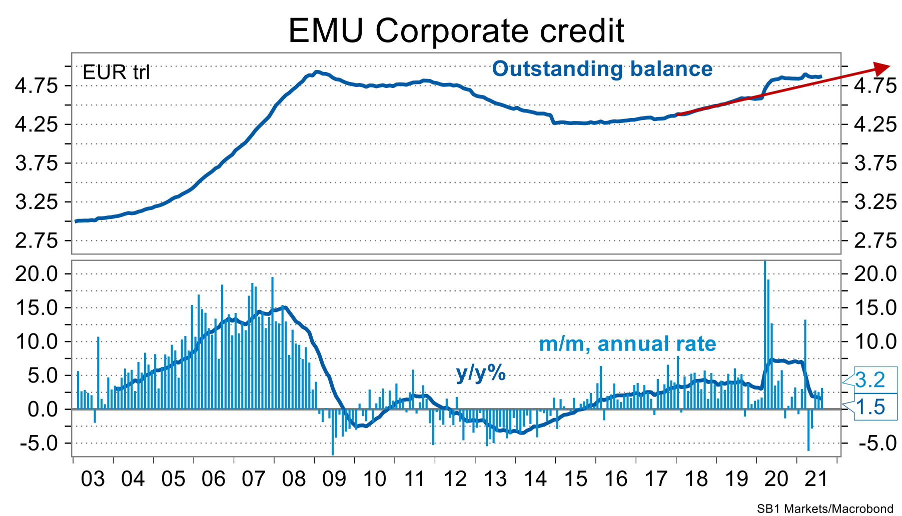
- Headline HCPI data are mostly from September

Corporate credit is flattening, household debt growing at fastest pace since 2008

… but just by 4.2% y/y, and growth slowed m/m in Aug. No dangerous credit boom to be seen







- The corporate debt level is still above the pre-pandemic trend growth path but not by much
  - Corporate debt rose sharply last spring, when all credit gates were wide open – but growth m/m has slowed to a trickle, close to zero
  - The average growth over the past 2 years is 4.3%

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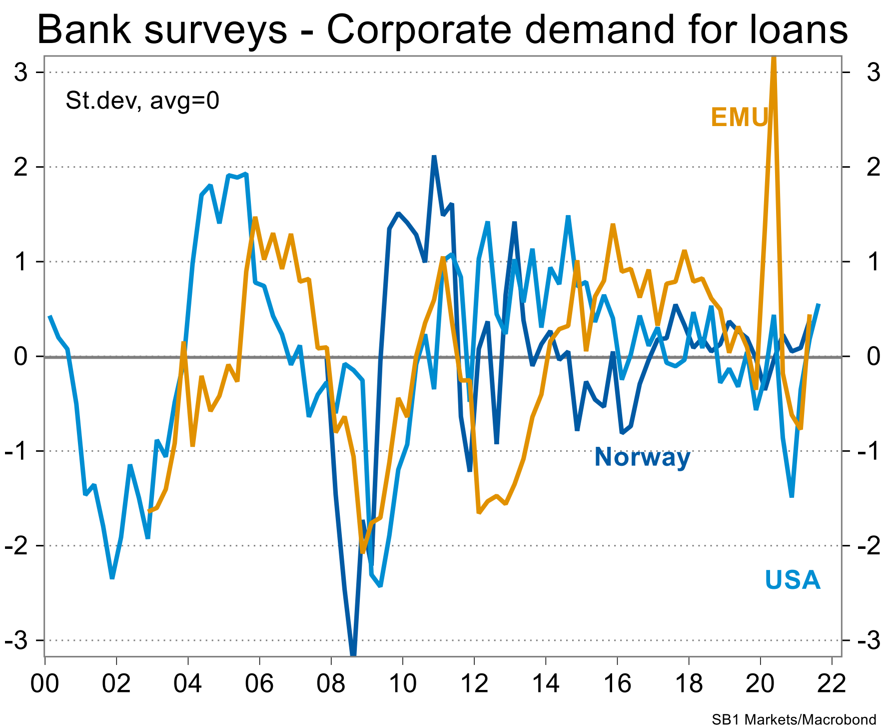
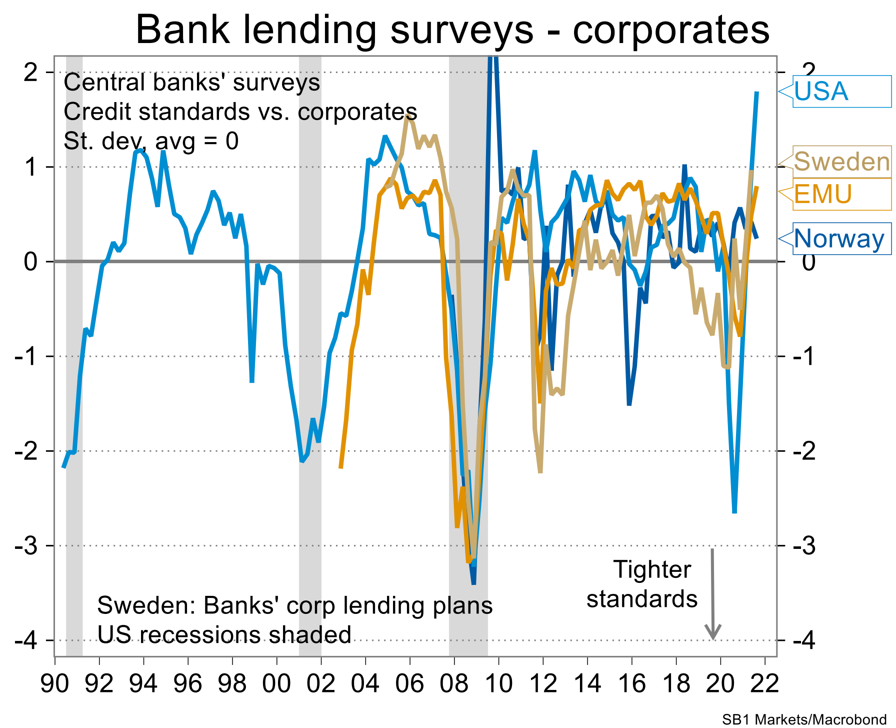
EMU banks are reporting higher demand for credit, and are easing standards

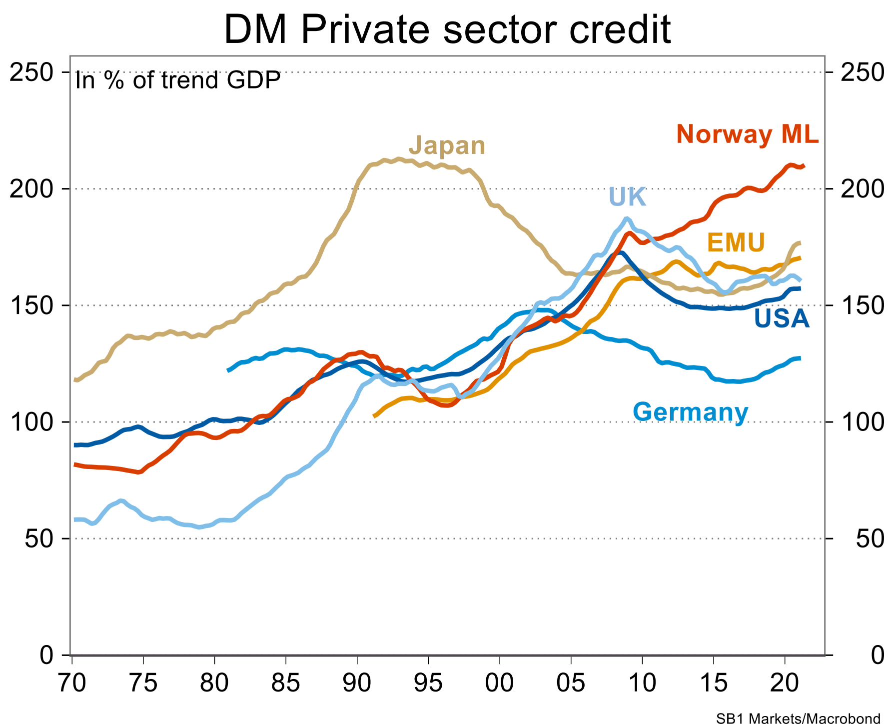
Banks in both US and Norway report the same

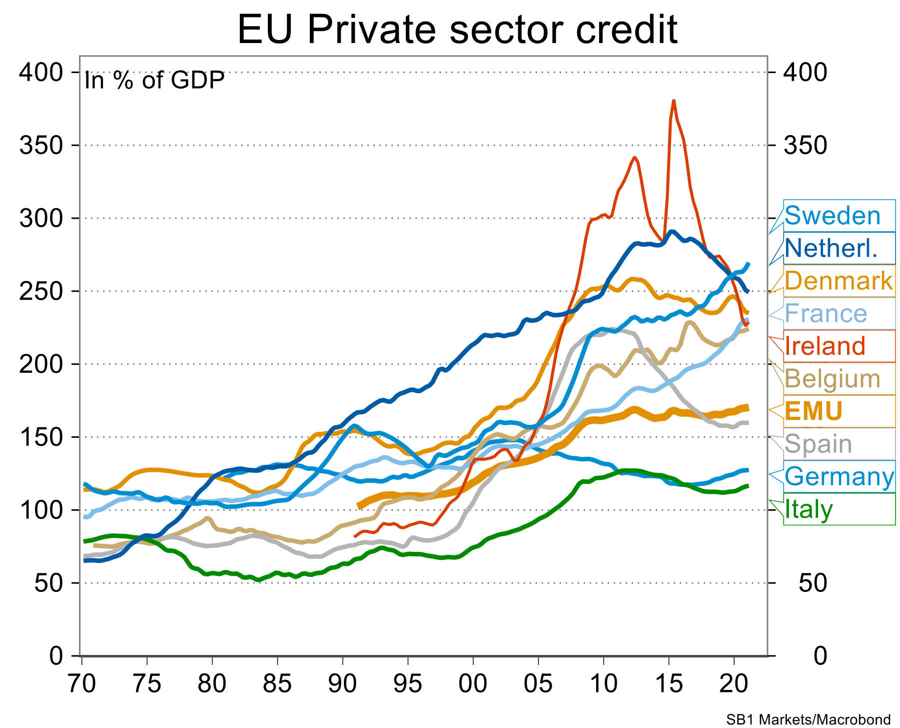




The private sector (businesses + househ.) in most countries reduced their debts

… after the financial crisis. Now most are on the way up again





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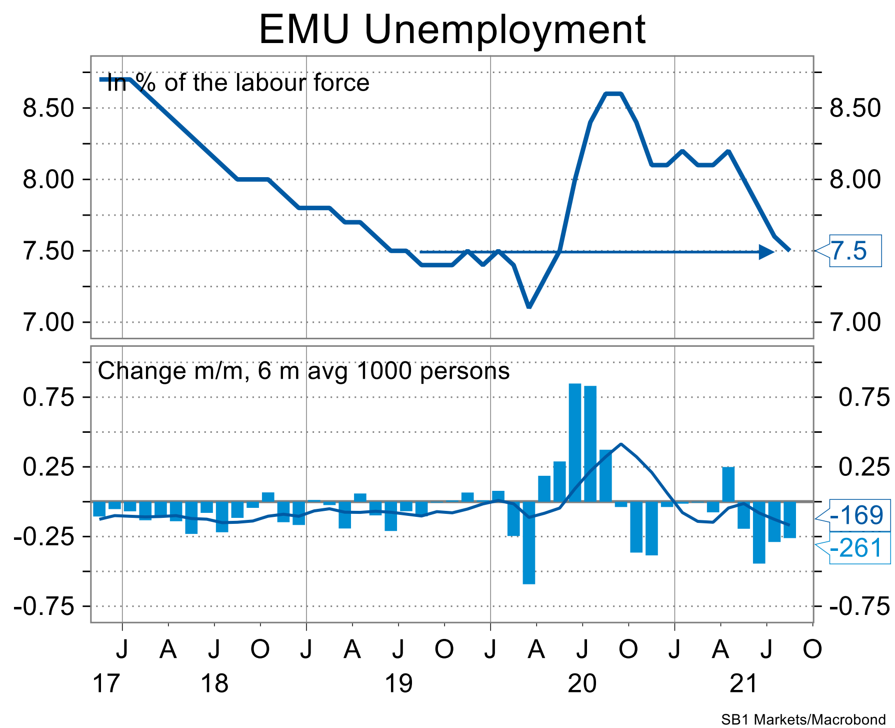
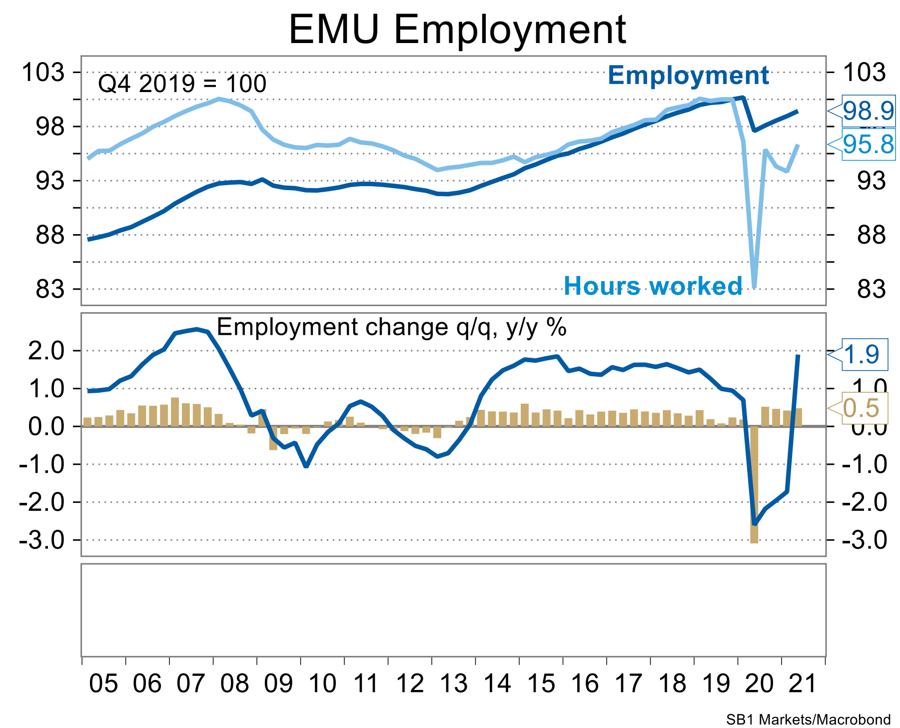
Unemployment keeps inching down – at 7.5% in August, from 7.6% July

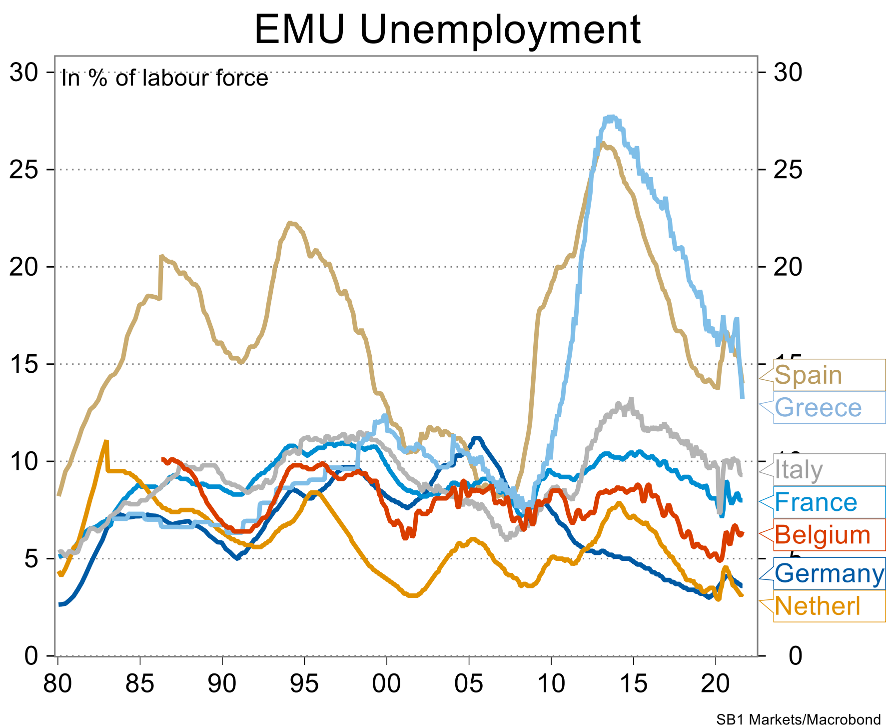
Unemployment fell by 261', is trending down – <u>and is now at the pre-Covid level</u>!

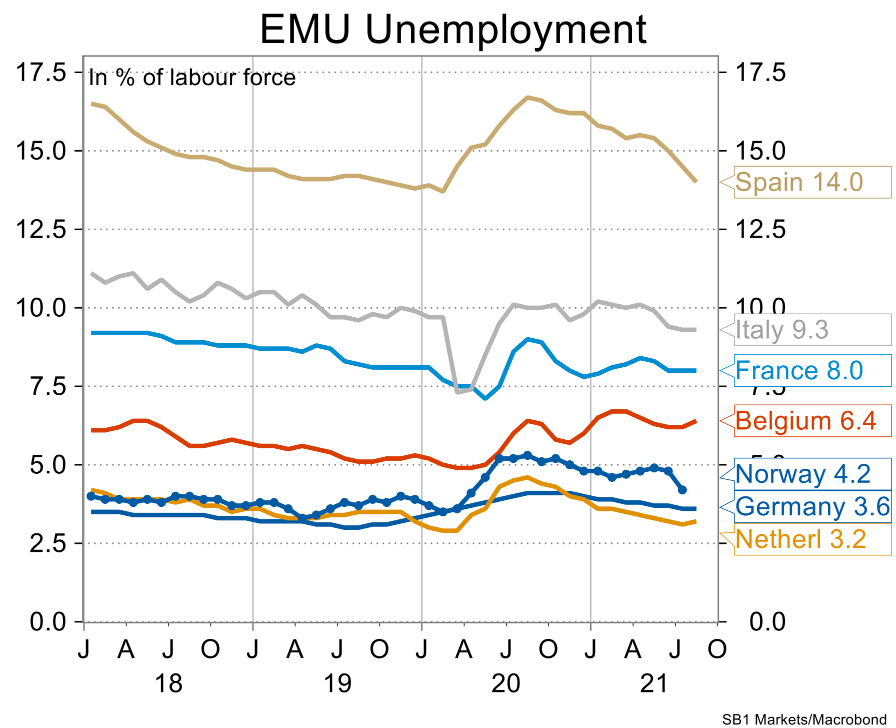




- **Unemployment** is falling rapidly as the economies are opening up – and the number of unemployed at the same level as in January 2020
- **Employment** rose by 0.5% in Q2, as over the previous 3 quarters, and it is 1.2% below the pre-pandemic level – and it is now steadily narrowing
- However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q2, hours worked were down 4.2% vs the pre-pandemic level, while the no. of employed was down just 1.1% - as average working hours were cut substantially

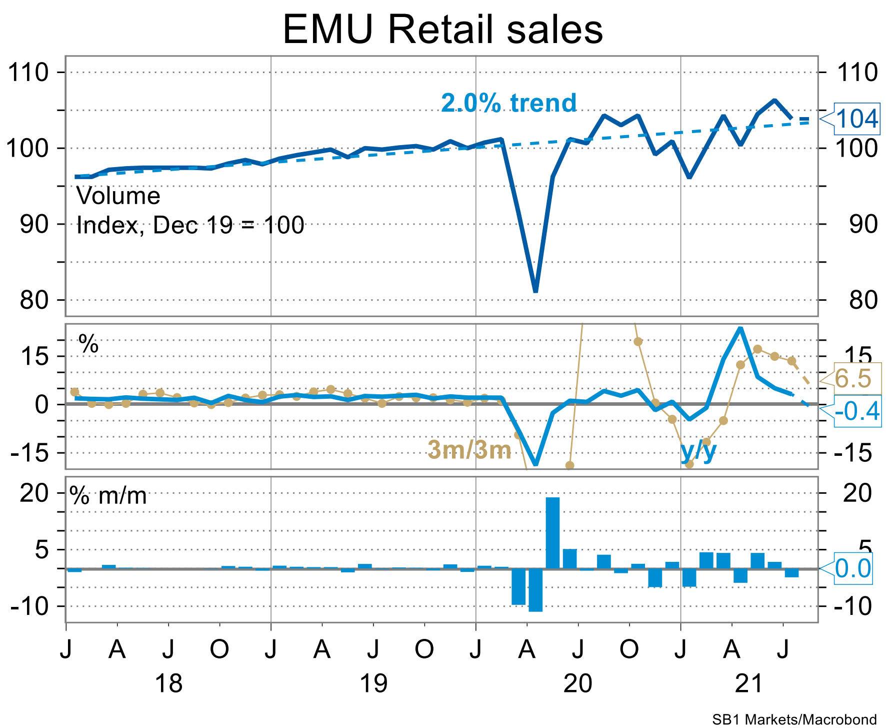
Unemployment is falling all over the region

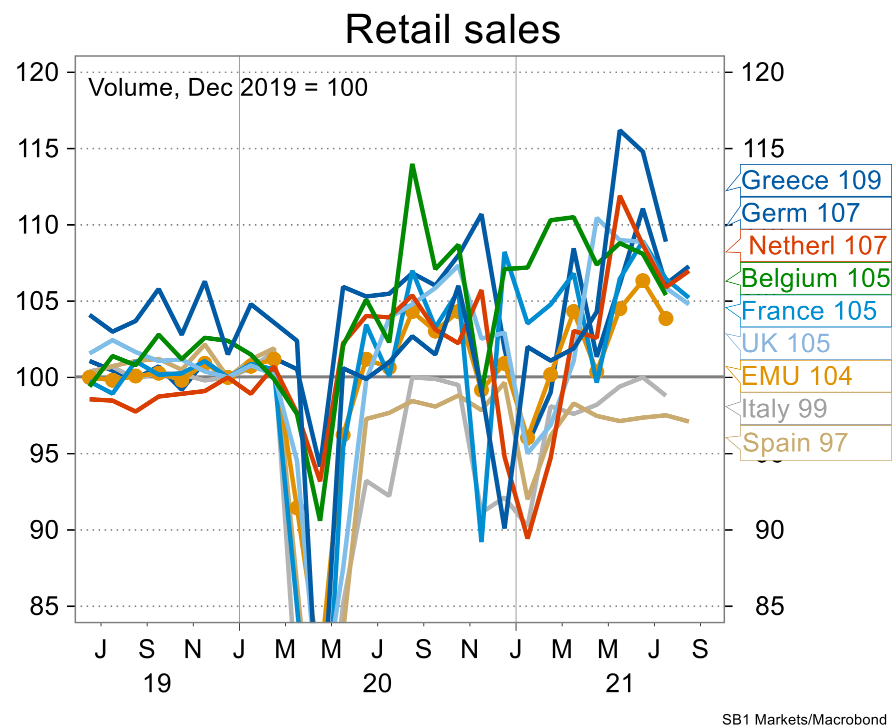




Retail sales probably close to flat in August

Sales rose in Germany and Netherlands but fell in France and Spain. In sum: Flat for EMU total?

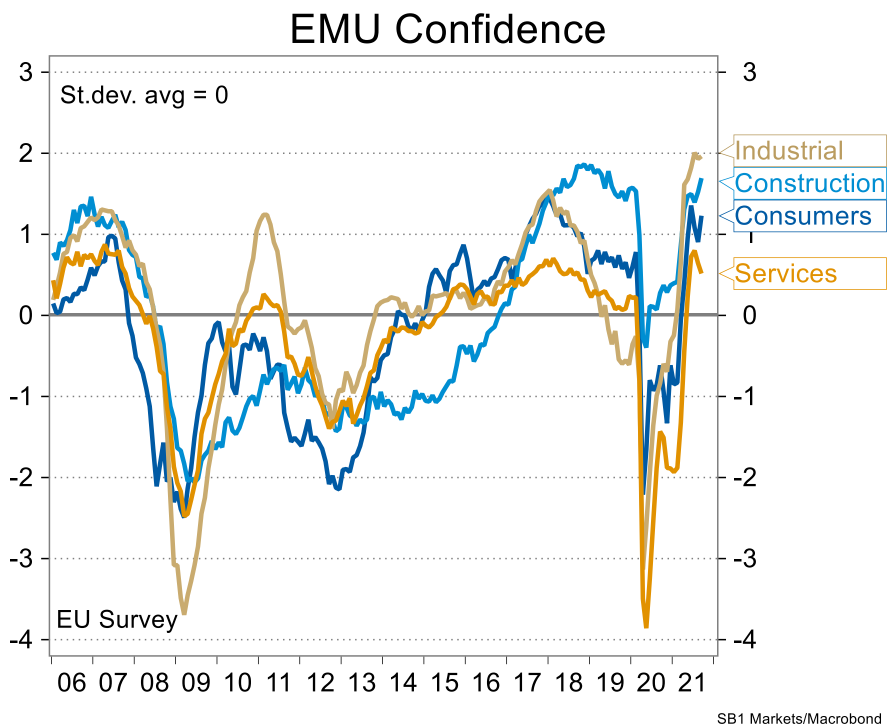


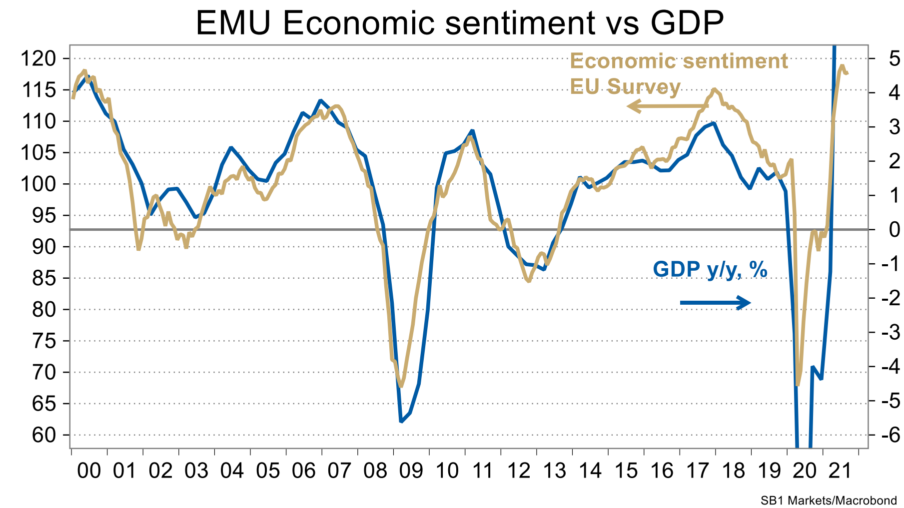


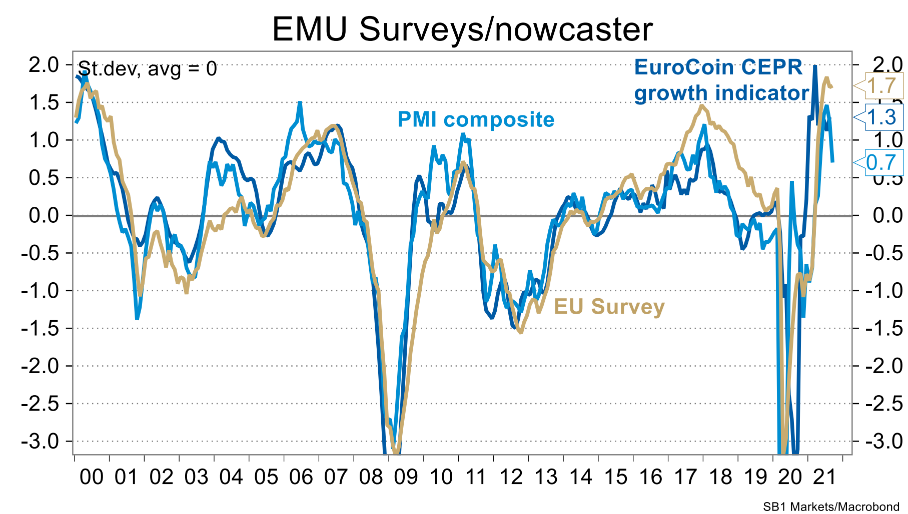
- Retail sales are 4% above the pre-pandemic level but not close to the pre-pandemic trend path

Economic sentiment marginally up in Sept. Level close to ATH

Service sector confidence index fell on current business situation – expectations are up



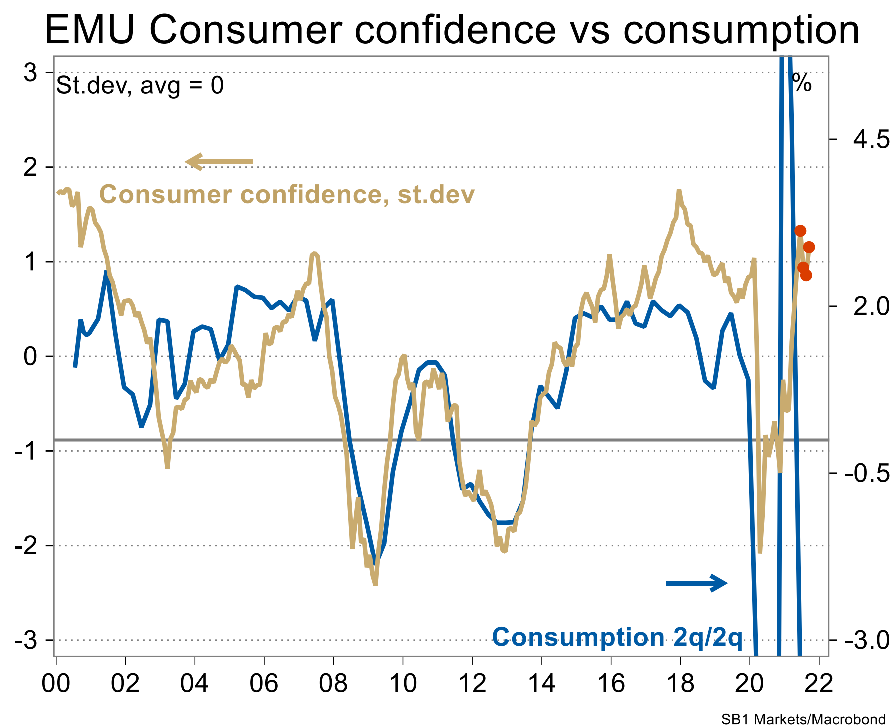


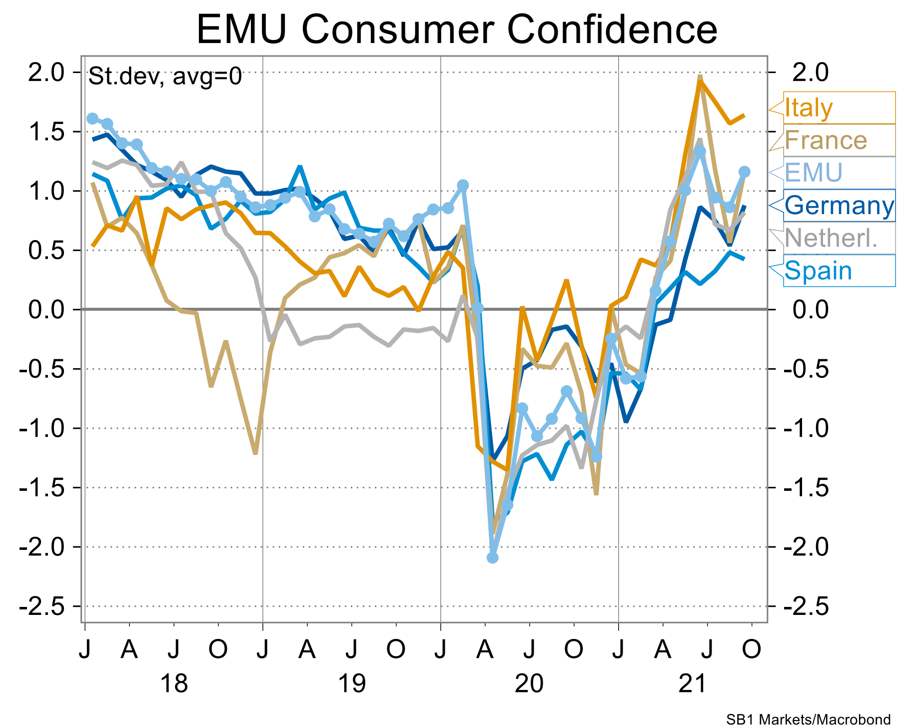


- EU's confidence survey for the Euro area rose 0.2 p to 117.8 in September, expected down to 116.9
- The **main index** is still 1.7 st.dev above average, signalling roughly 4.5% GDP growth
  - » **All sectors** are signalling above average growth. Construction and consumer confidence increased in September
  - » **Industry confidence** was unch. at the 2nd highest level in history
  - » The EuroCOIN nowcaster confirm the strong growth momentum in the Eurozone economy, while the Sept PMI fell (but remains at a high level)

The Delta variant has not killed consumer confidence, level still on par with pre-p

Consumer confidence rose by 0.3 st.dev in September, and the level now 1.2 st.dev above average

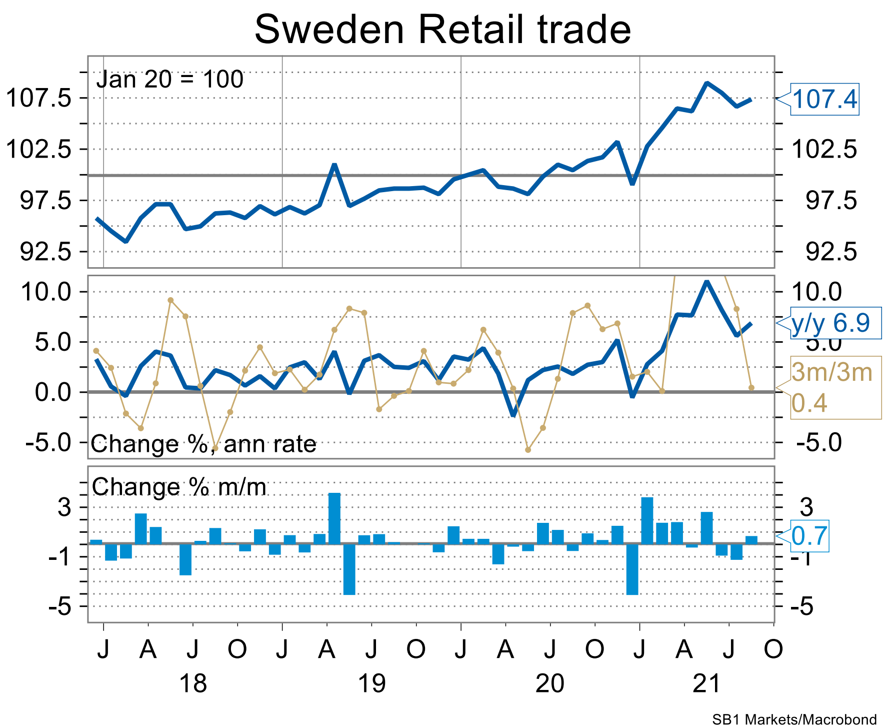


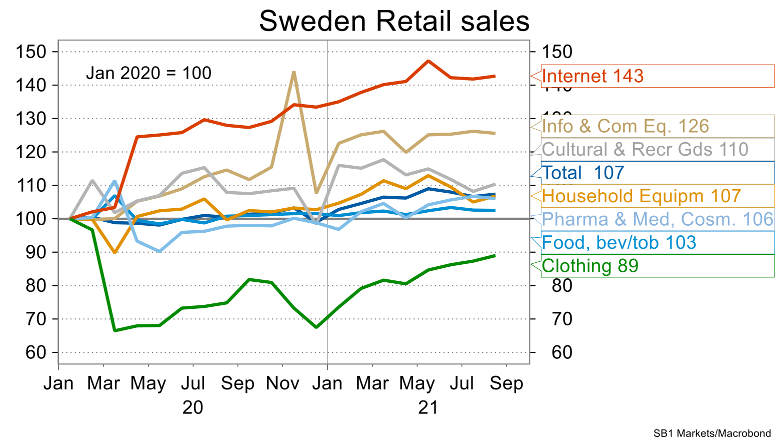


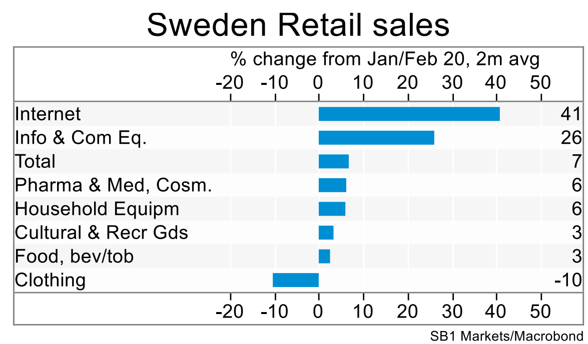
- **The consumer confidence index** increased to -4.0 in September from -5.3 in August (revised down from -4), in line with expectations
- The level is high and signals strong household demand. Consumers are especially in favour of making major purchases, according to the European commission
- All of the large EMU economies reported confidence above par in August, and all but Spain saw an increase in confidence in September

Retail sales up by 0.7% in Aug, still most likely on the way down, from a high level

Level 7% higher than before the pandemic. Clothing still the only sector below



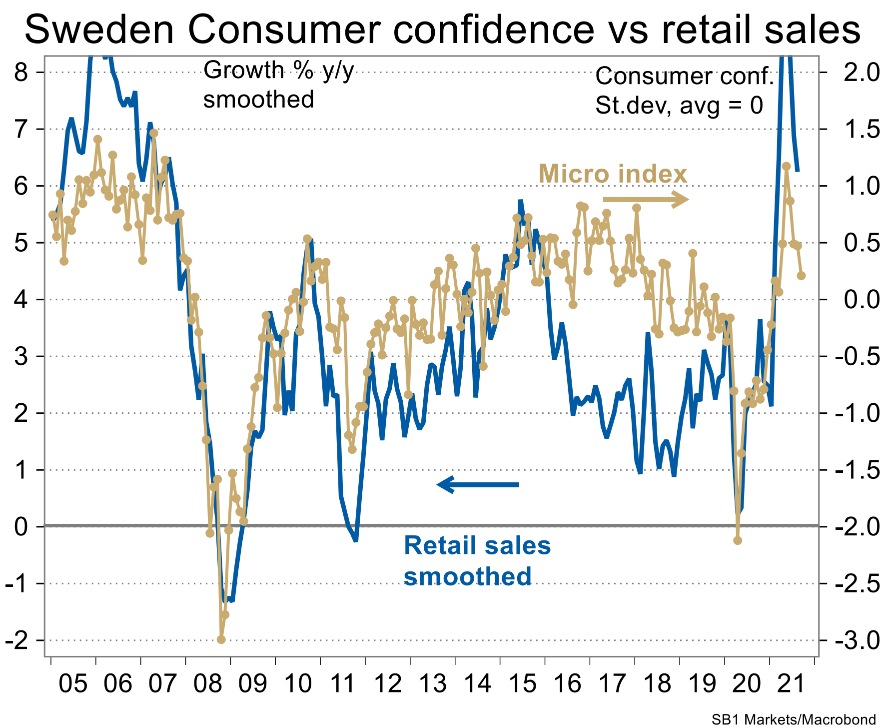


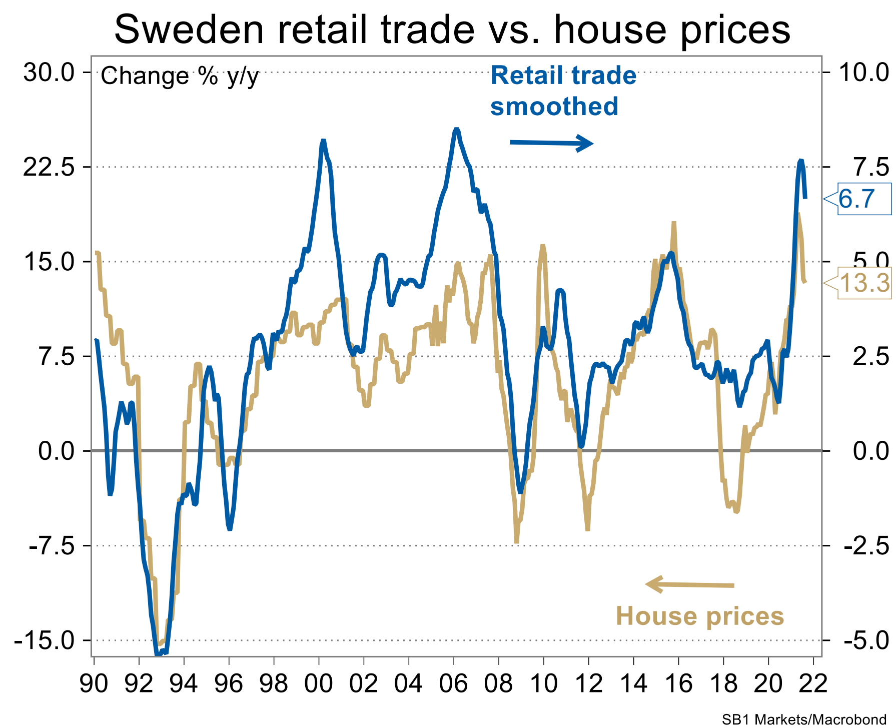


- Sales were expected down, following the 1.0% drop in June, and 1.2% in July
  - » Huge sectoral differences. Internet sales up 40% (here like in many other countries), info/communication +26%. Food sales are close to flat, which is strange, given far less activity at restaurants (and Norwegians do not normally buy that much in Sweden, do we??). Also, clothing sales are still down 10% vs Jan-20
- As for Norway and several other countries: Retail sales are very likely above a the long term trend – and will decline as spending on services (and abroad) normalises

Consumer confidence lower in September – and below expectations

…while growth in both retail sales and house prices probably have peaked

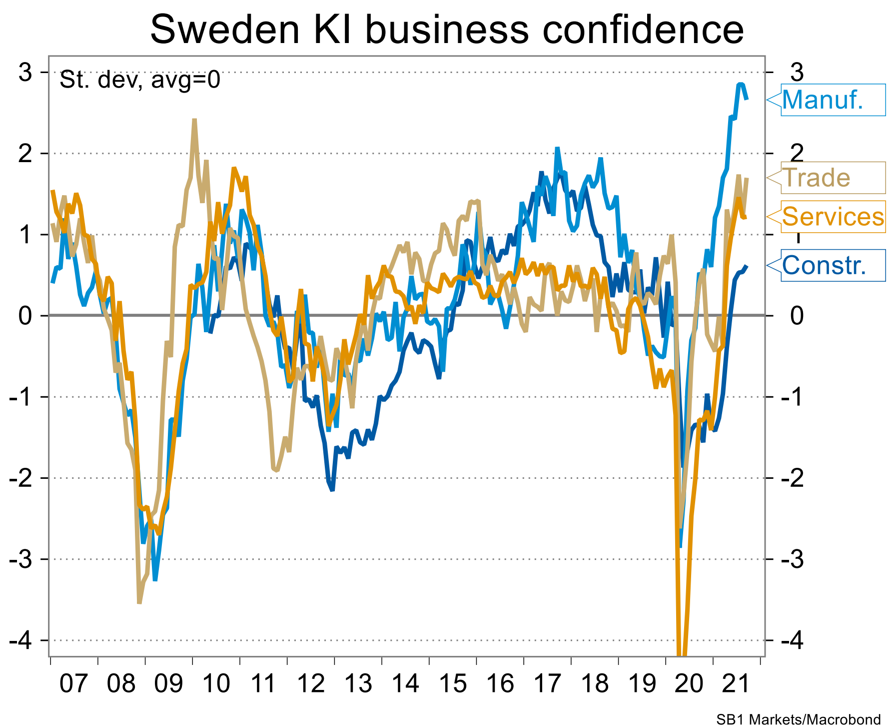


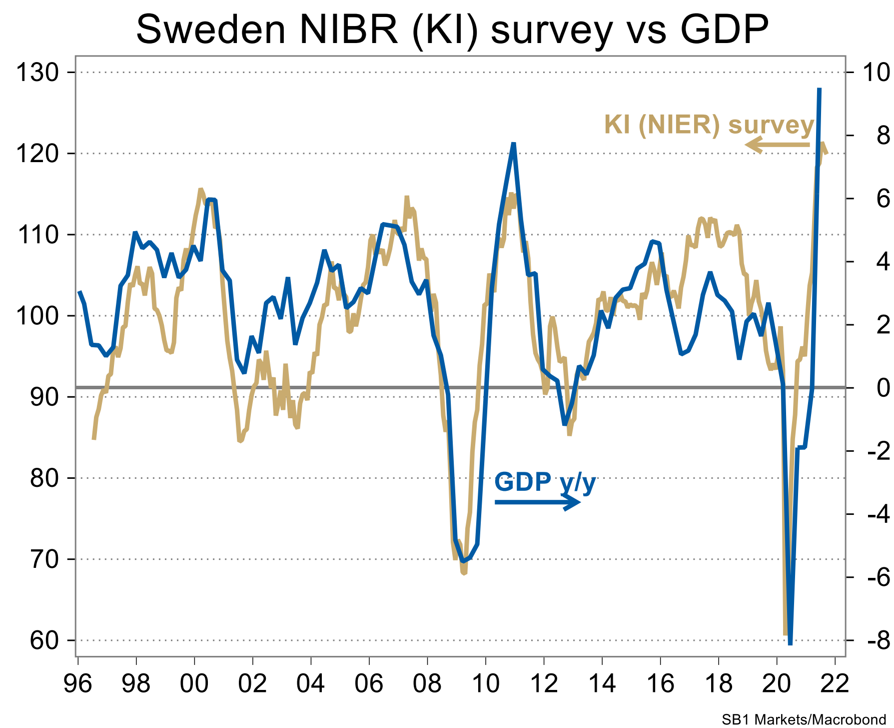


- The **total consumer confidence** index fell to 107.3 in September from 107.9 in August (revised down from 108.6, while the market expected 108. The 'macro' was slightly up, while the 'micro' index rose fell 0.3 st.dev, to +0.2 above avg.
- **Confidence** is well above the pre-pandemic level, alongside retail sales - and a booming housing market (house prices up more than in over 30 years), conversely house prices were slightly up in August, while retail sales were up 0.7%
- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened. <u>So no reason the expect Swedes to stop spending now</u>

KI business survey fell marginally in Sept too; The level is still extremely high

… and all sectors reporting growth well above trend. Manufacturers in the lead

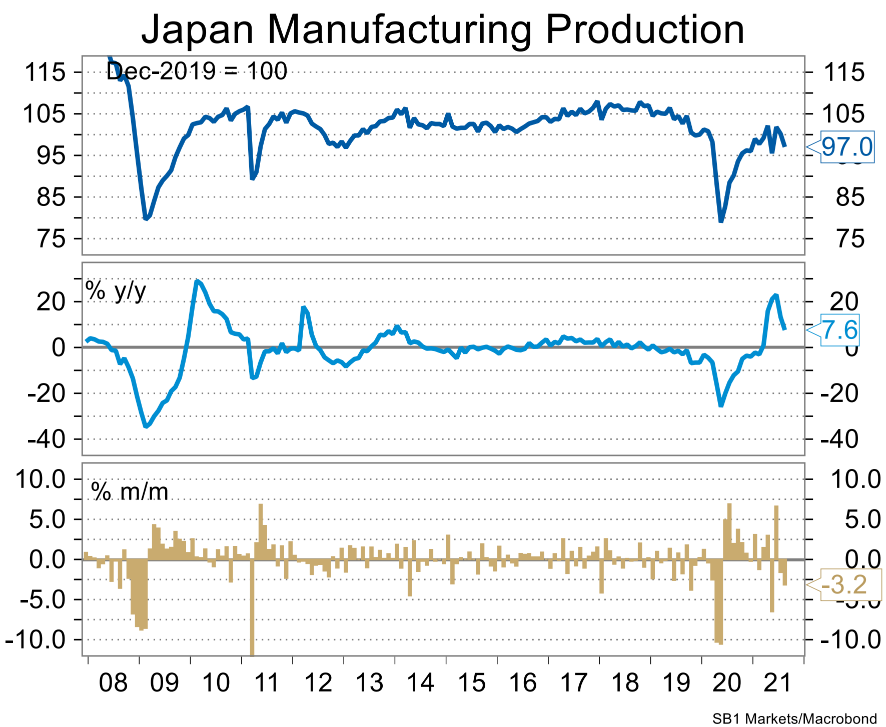


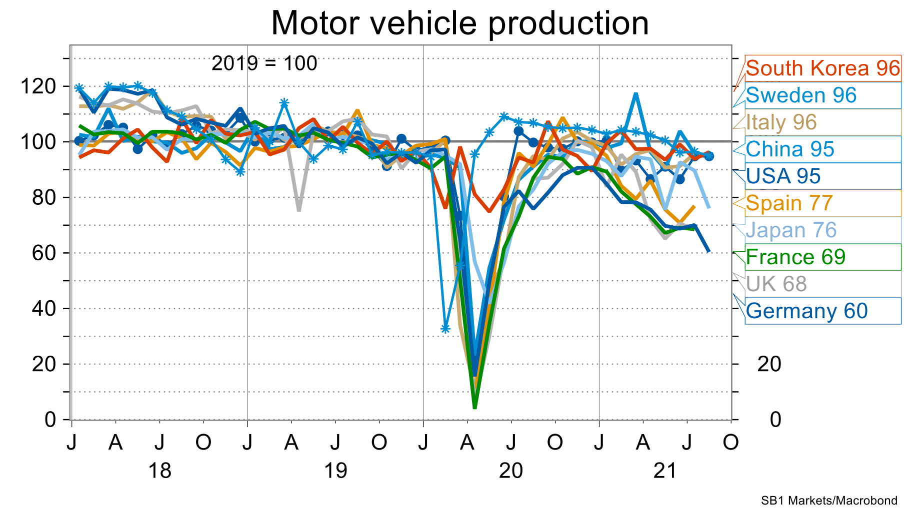


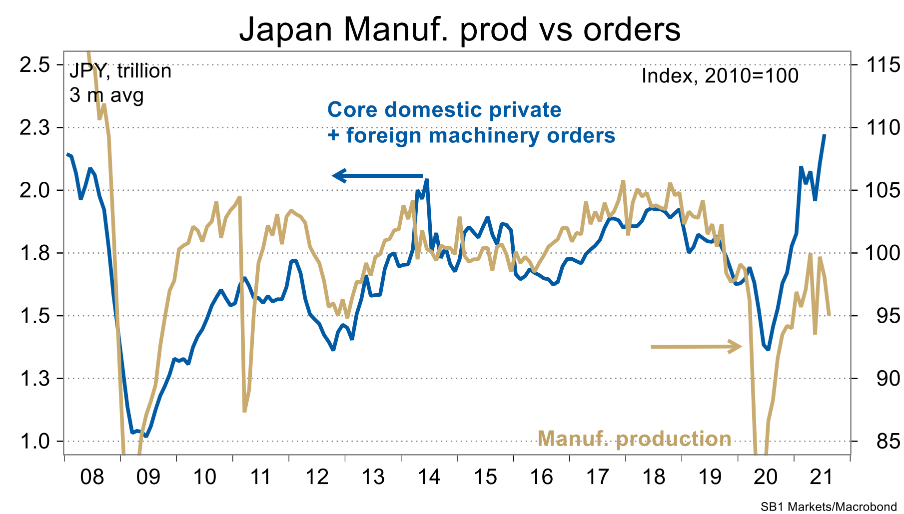
- **The composite index** fell to in 119.9 in September from 121.1 in August. The survey still signals an 7.5% GDP growth rate
- **2 out 4 main sub-sectors** contributed to the fall: While confidence among **manufacturers** decreased, the construction, trade, and service (marginally) sectors grew more confident
- Most likely, growth is now close to peaking as the gap to the pre-pandemic growth path was closed already in July (the first DM to do that?)
- The **Riksbank** is still concerned about the impact of the corona crisis, and buys large quantities of government bonds, and thinks it will keep the policy rate at zero forever. At least until into 2025. If growth calms down rapidly, that may be OK. If not..

Manufacturing production down 3.2% in August

Weaker than expected. The auto industry mainly to blame (chip shortages)



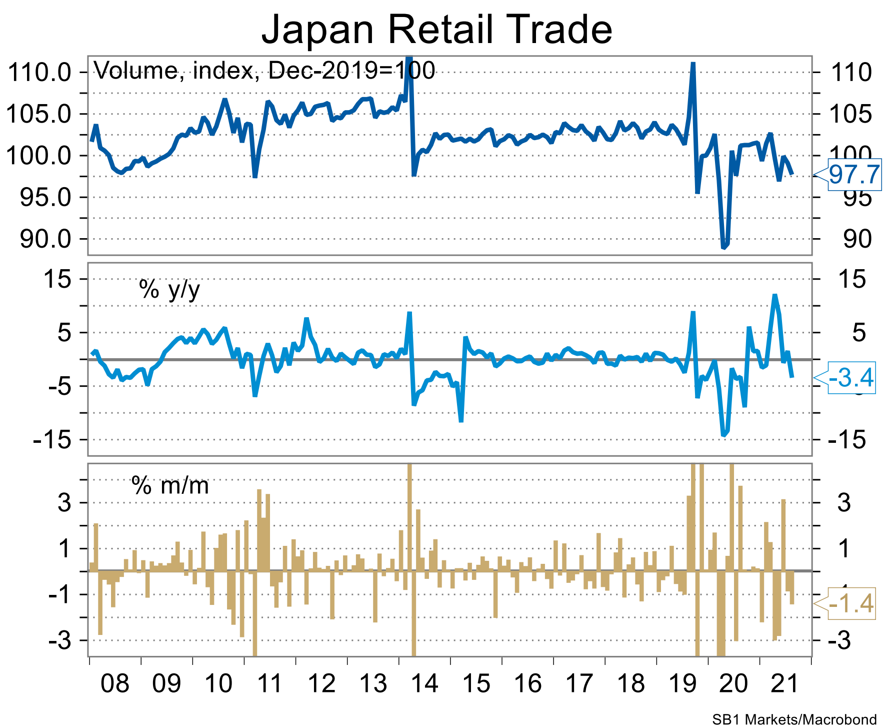


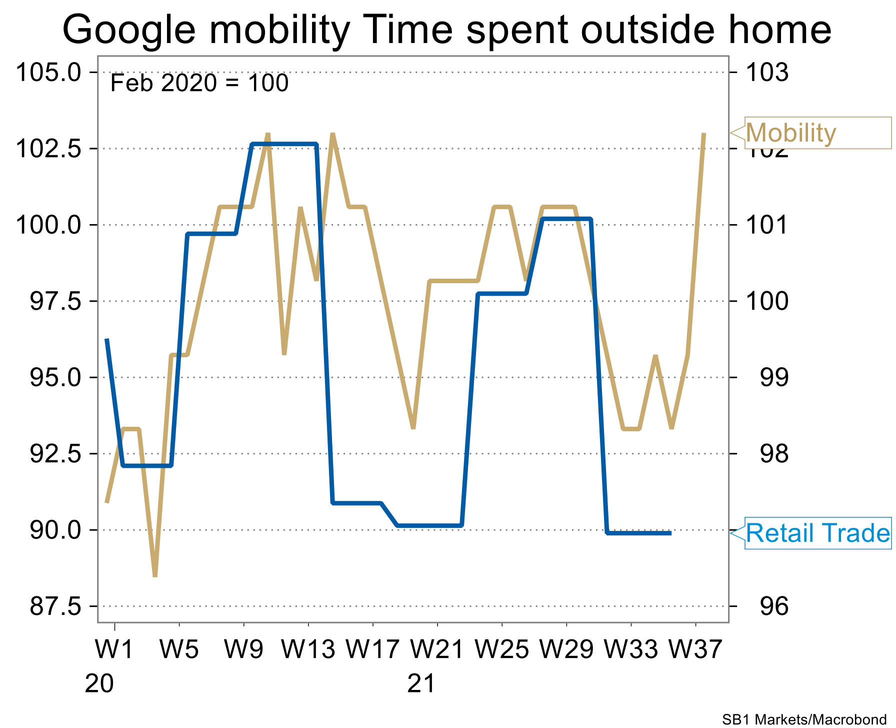


- **Manufacturing production** fell by 3.2% on August, following the 1.5% drop in July, expected down just 0.5%. The trend the past few months is still flat, and the level is just slightly below (a weak) pre-pandemic level
  - Auto production is wobbling up and down – but more down than up. Production fell 15% in August, and it is down 24% vs the 2019 avg. level! Japanese automakers have announced deep production cuts in H2 (both in Japan and abroad)
  - **Overall order inflow** has strengthened substantially through 2021, and signals a higher manufacturing production level (chart next page)

Retail sales also down 3.2% in August. The virus very likely to blame

Far less than expected – and the levels are not impressive



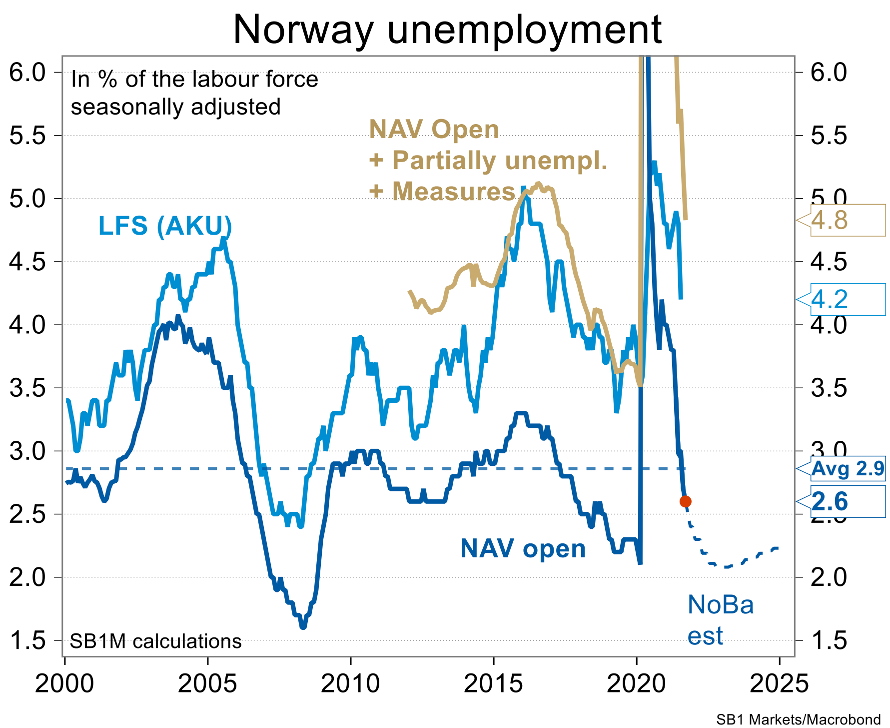


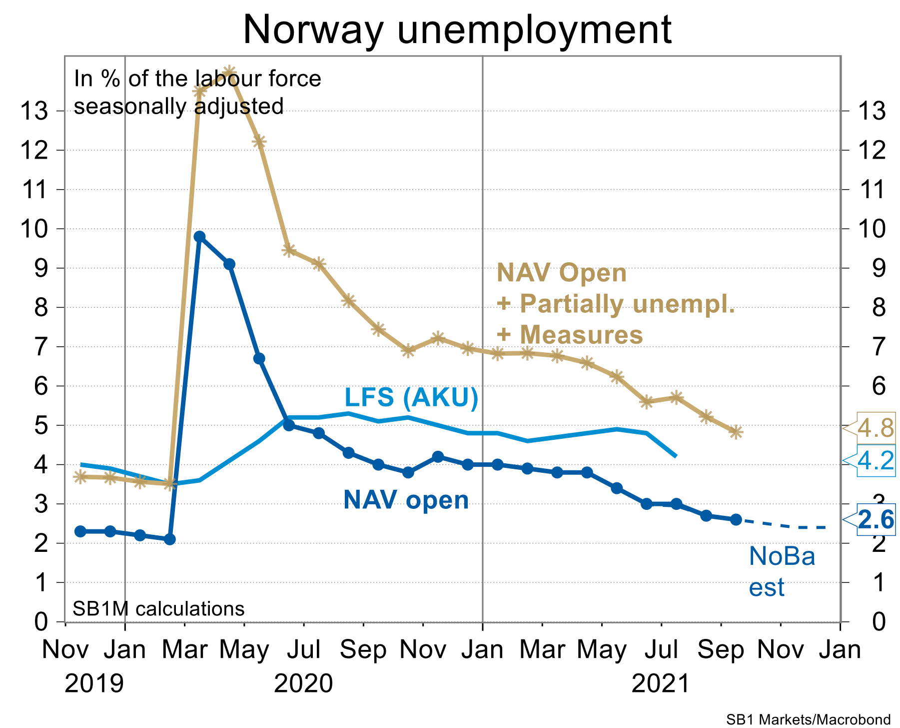
- **Retail sales** fell by 3.2% in August, expected down 1%. The level is now well below the pre-pandemic level. No doubt, the virus must be at least partly to blame. Mobility fell sharply in August, but has since recovered

SpareBank 1 MARKETS

NAV unemployment further down in Sept, ‘no’ new claims, vacancies further up

Open unemployment down 0.1 pp to 2.6%, in line with NoBa f’cast. Level just 0.5 pp below Feb-20

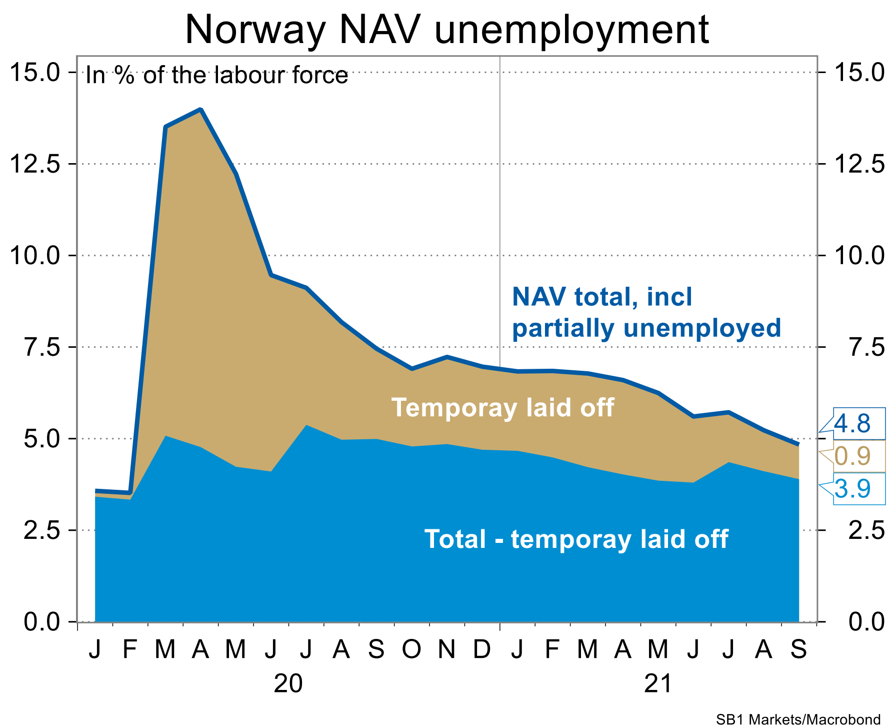


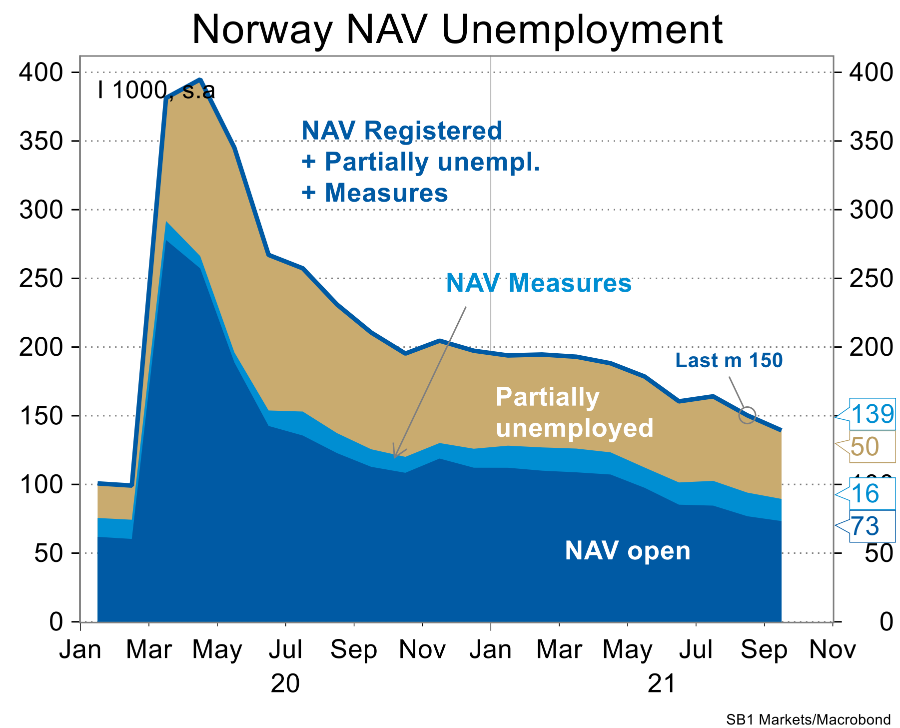


- **The ‘full time’ open NAV unemployment**, which includes furloughed workers, fell by 4’ in September (seas. adj) to 73’ as we expected. The rate fell by 0.1 pp to 2.6%, equal to NoBa forecast. Unadjusted, the rate fell by 0.3 pp to 2.4%, vs. 2.5% expected by consensus (and us). The 2.6% rate is below the 2000 – 2019 avg at 2.9%, still well above the 1.6% through in early 2009. Unemployment is falling rapidly everywhere and for all sorts of labour
- In addition, the number of **partially unemployed** (not counted in the ordinary unemployment number) fell even more, to by 6’ to 50’. Including labour marked measures, the **total unemployment** fell by 11’ to 139’ – still 46’ above the pre-pandemic level. The rate is 4.8% up from 3.5% in Feb-20
- The inflow of **new job seekers** fell further in July, and the inflow of new vacancies rose further from a high level the previous 5 months
- **The AKU unemployment rate** ‘collapsed’ in June, by 0.6 pp to 4.2%, as the **employment rate** rose further, to slightly above the pre-pandemic level**. The participation rate** has climbed even more, to the best level in 10 years). In addition, unfilled vacancies are record high. Less need for a close to record low interest rate?

Fewer temporarily laid off, 'ordinary' unemployed down too

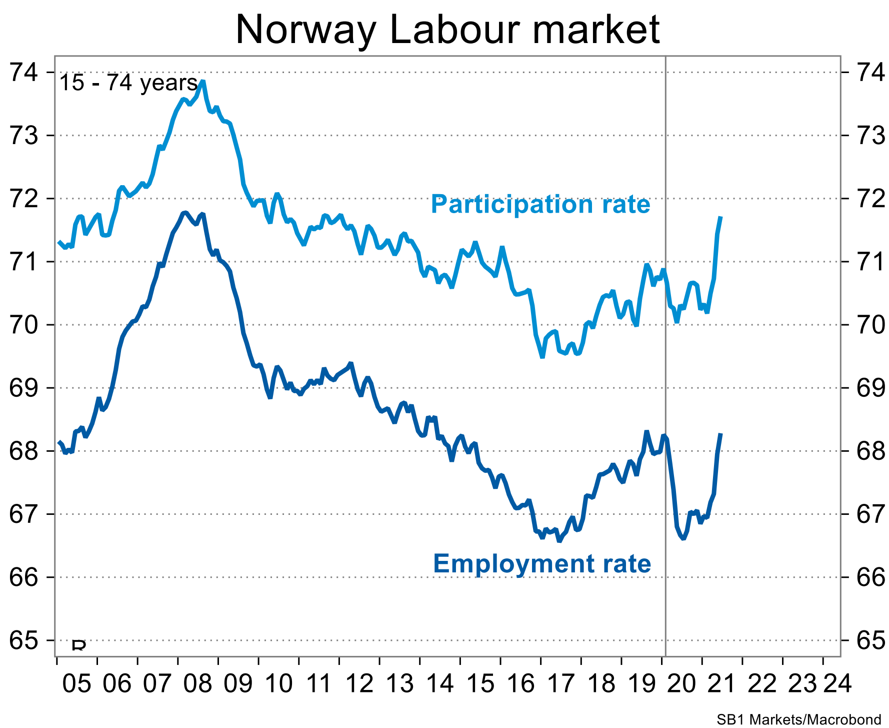
The number of furloughed workers is declining rapidly – but still many partially unemployed

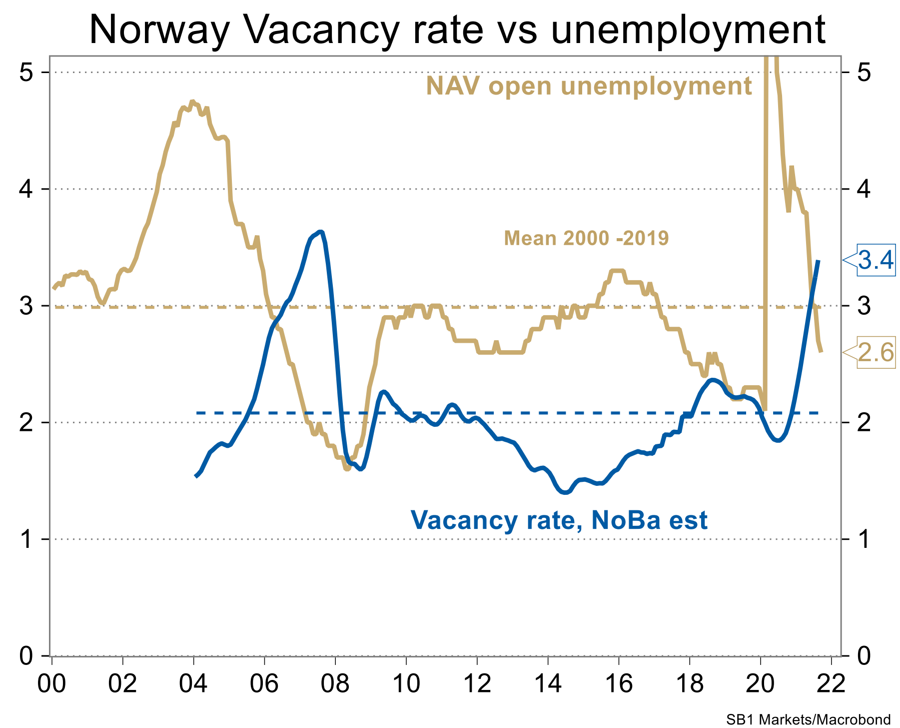




Strong labour market data, even the participation rate is surging!

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

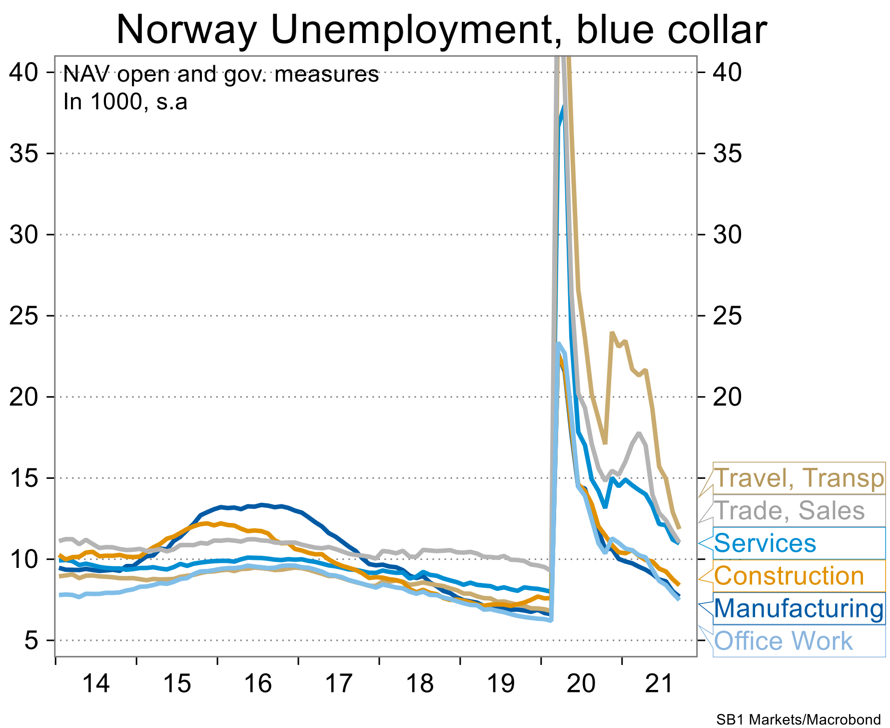


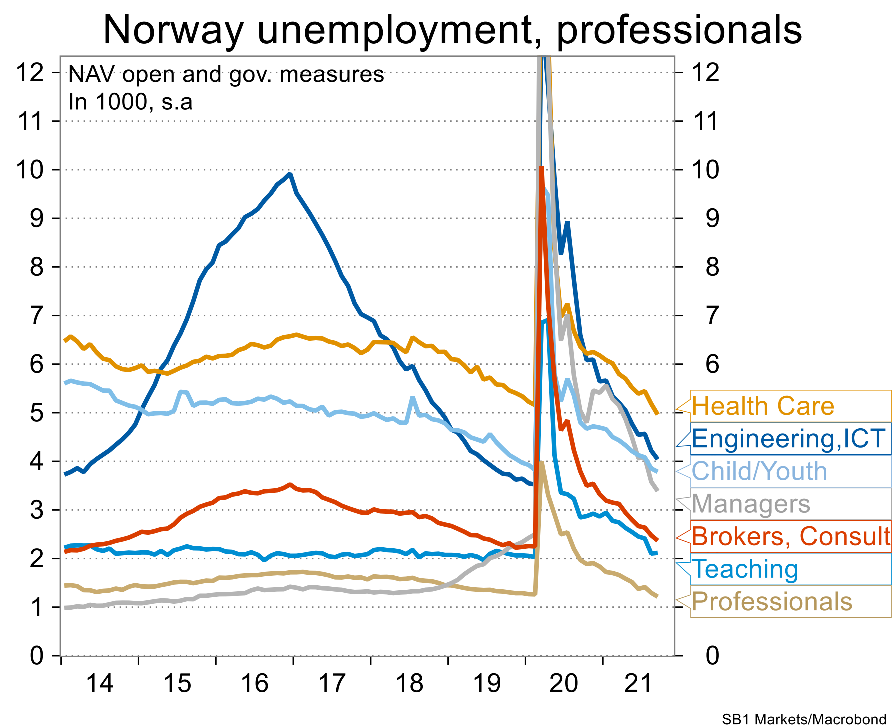


- **Employment** ex. foreigners on short term stay is approx. 0.8% above the early 2020 level, following the recent 1 – 2% surge. Incl. foreigners, 0.3% below early 2020 level. **The employment rate** is back to the pre-pandemic level (or even slightly above)
- **The participation rate** is <u>well above</u> the pre-pandemic level following the surge recent months – in fact the highest in 10 years – and explains why the LFS unemployment rate has not fallen back to the pre-pandemic level –but it fell by 0.6 pp to 4.2% in July, a highly unusual decline
- **NAV registered unemployment** is fell 0.3 pp to 2.7% in August, to 0.2 pp below NoBa's June forecast. The level is 0.5 pp above the pre-Covid level
- **The inflow of <u>new</u> vacancies** have been running at a very high level – at approx. 50' per month – since early spring
- **The unfilled vacancy rate** rose to 3.2% in Q2 (and above open unempl.), from 2.5% in Q1. The previous ATH was 2.8% (in 2011, data from 2010). NoBa estimated at 3.4% rate in August (in % of employment)
- <u>**Supply rather that demand for labour** seem to be the limiting factor at the labour market</u>

The decline in unemployment sharply down across all sectors

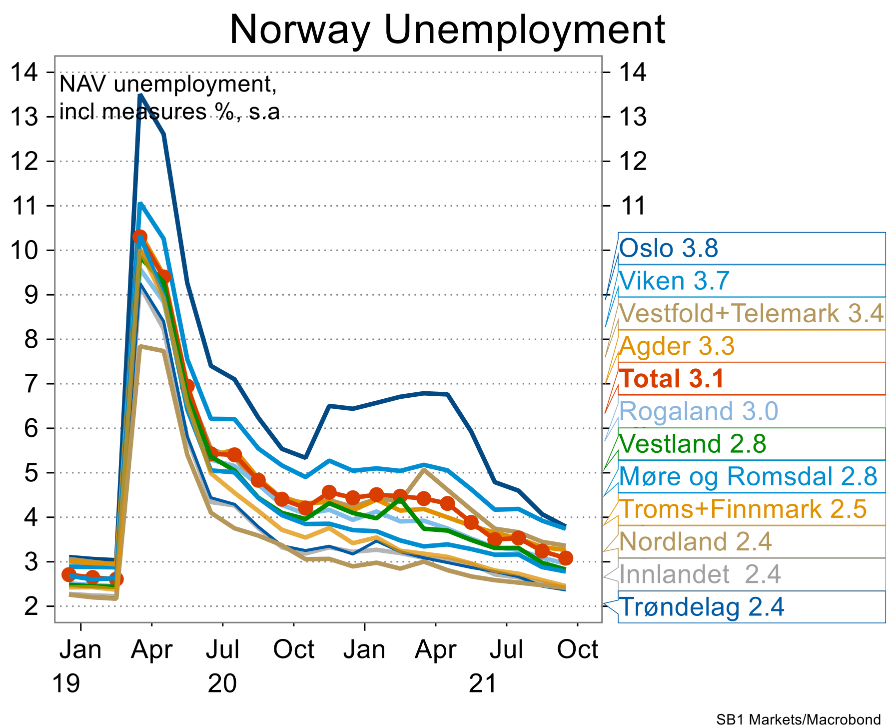
All sectors are trending rapidly down, at the fastest pace in travel/transport & trade/sales

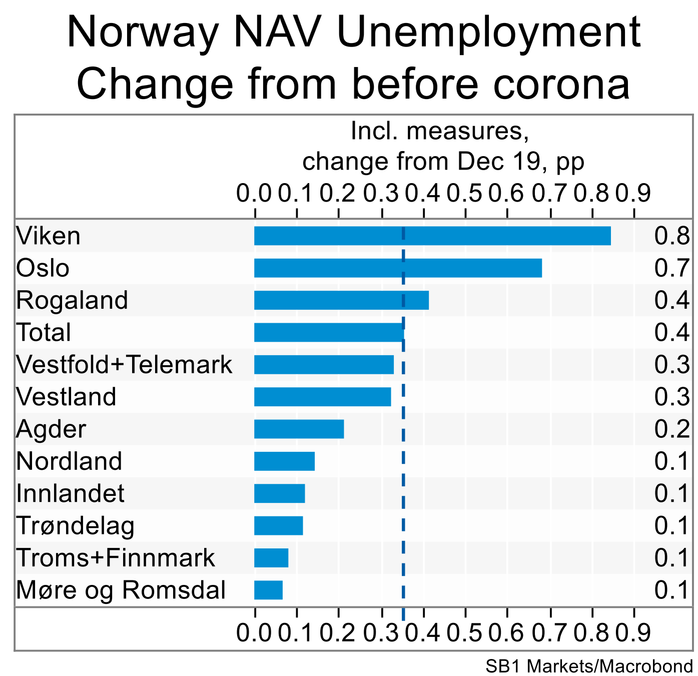




Unemployment down everywhere in September too. Oslo/Viken

… where it is the highest





- **Oslo** has by far been the hardest hit county, both due to restrictions and a large service sector – followed by Viken
- Ordinary unemployment (full time, temporary laid offs and measures included) falling everywhere – and it is approaching the pre-pandemic levels in most counties. Just Rogaland, Oslo & Viken are more than 0.4 pp up vs. Feb-20
  - » The national average is 3.0%, up 0.4% above the pre-pandemic level

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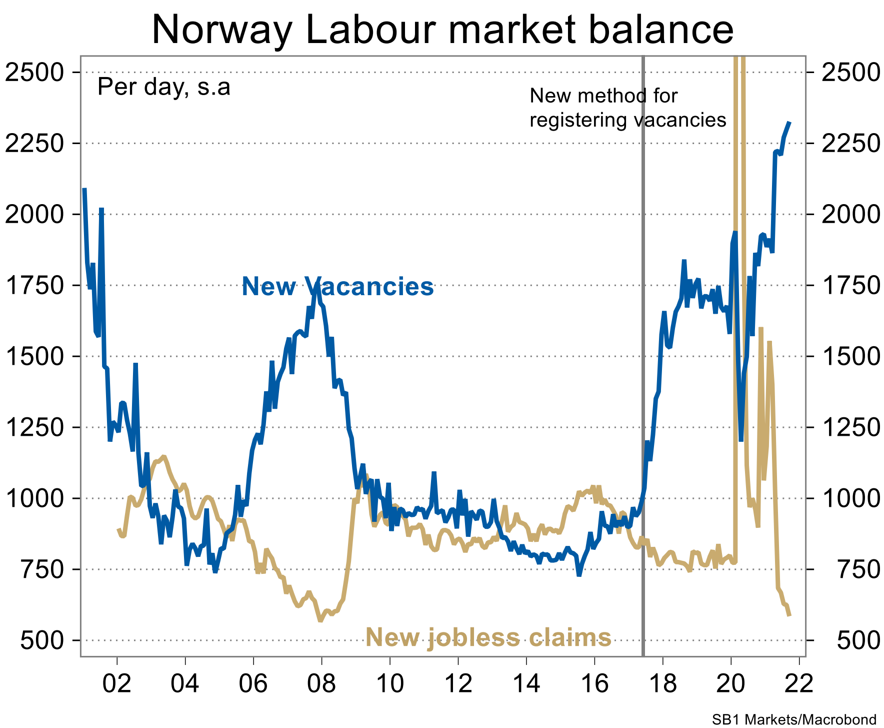
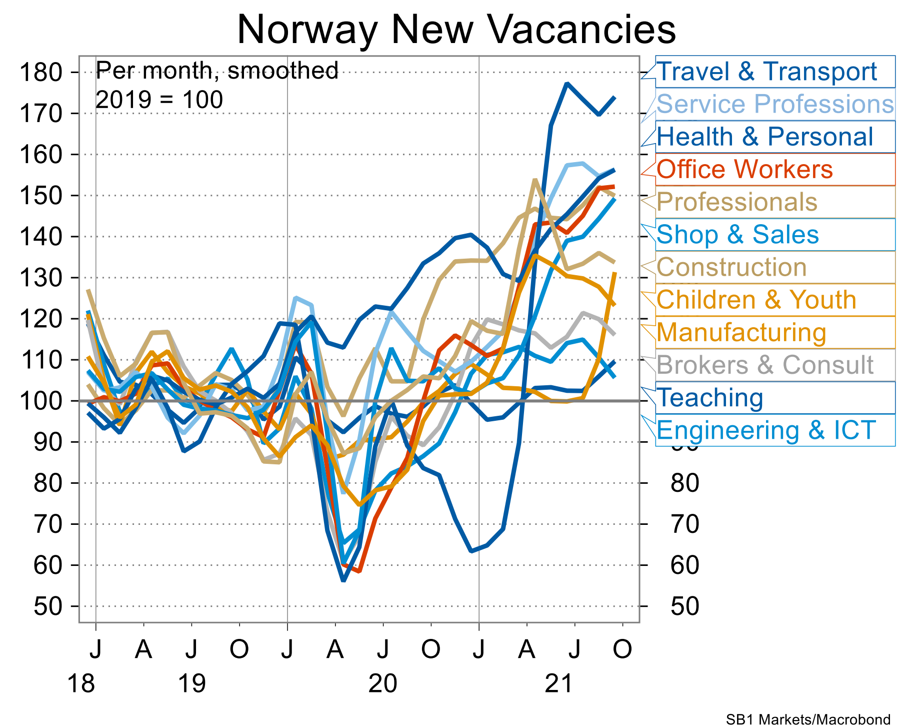
A huge inflow of new vacancies for the 6th month in a row!

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





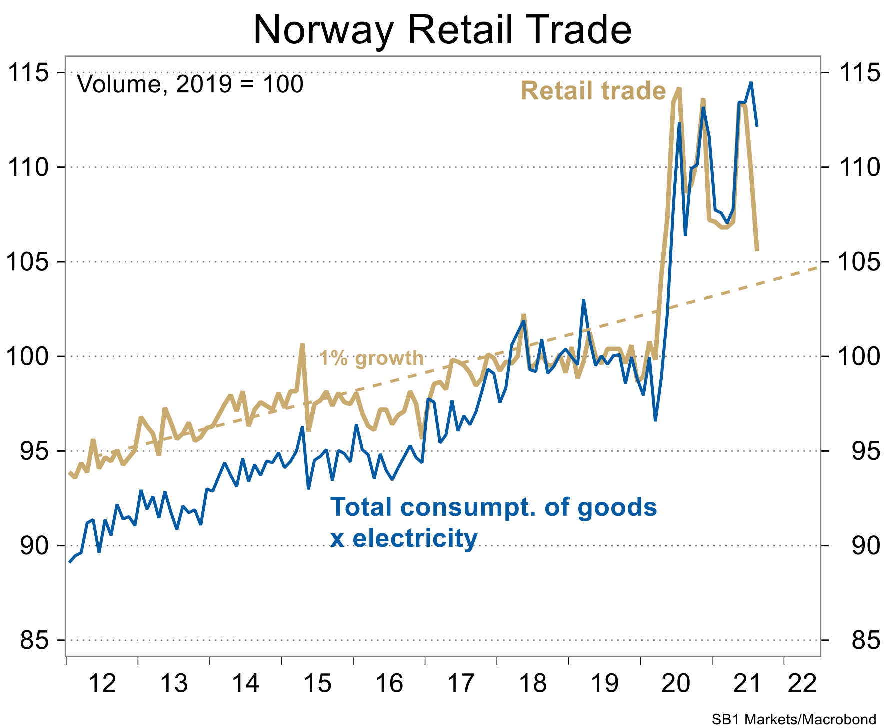
- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)
- The no. of new jobless claims is falling, and it is approaching the record low level in 2008
- Confirms that the labour market is tightening

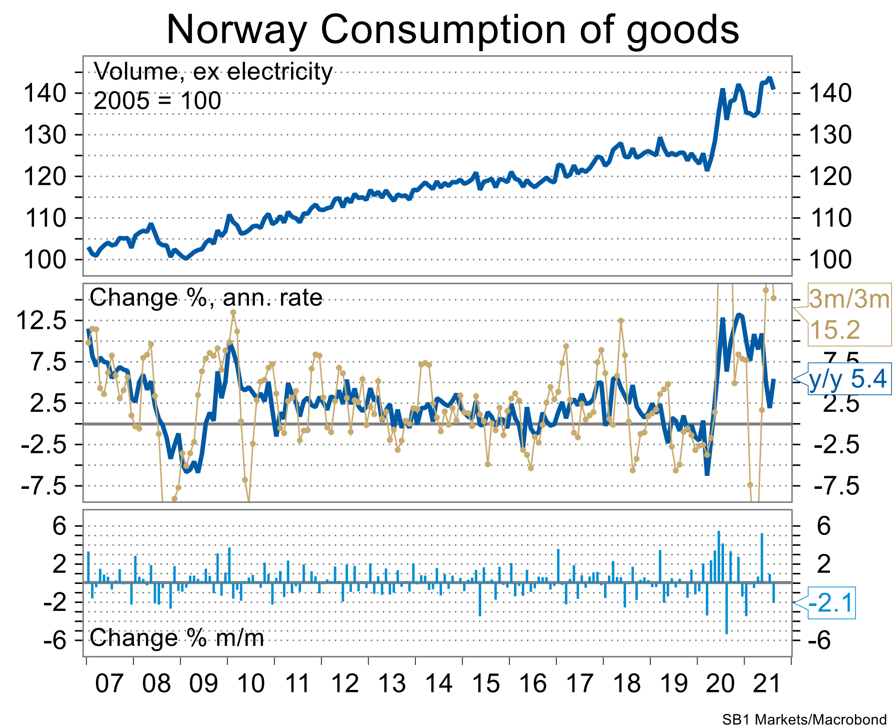
We have made a preliminary adjustment of the 2020 vacancy data due to a NAV reporting error which have led to under reporting of new positions through the year. NAV reports that the no. of new vacancies is at the same level in January 2021 as one year ago

SpareBank 1 MARKETS

Retail sales further down, now due to food & bev, ICT, sport eq, not building mat.

Sales fell 3.8%, we expected +1.5% following the 3.4% (building materials caused) July setback

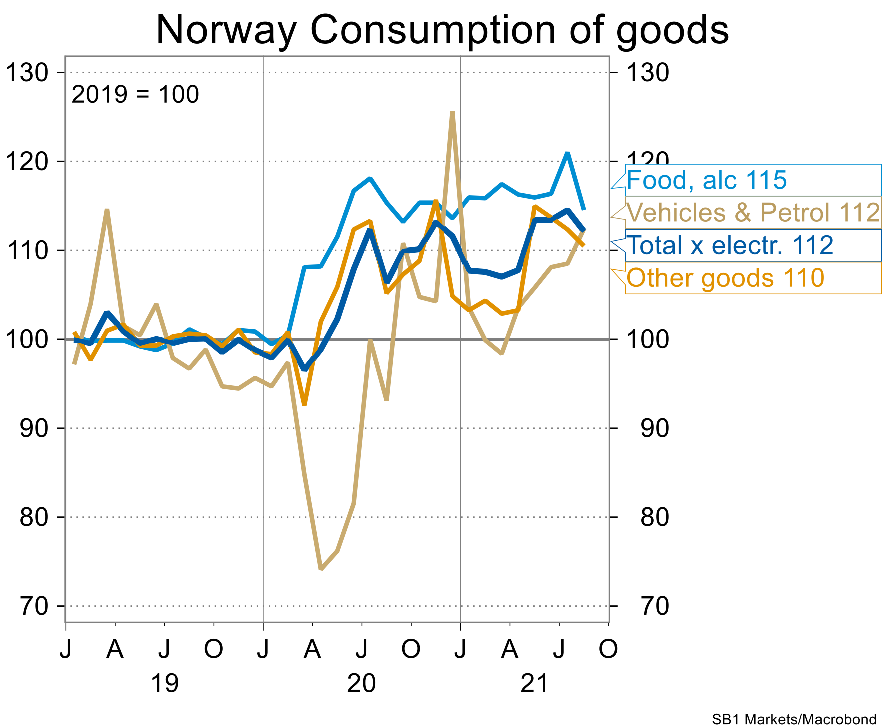




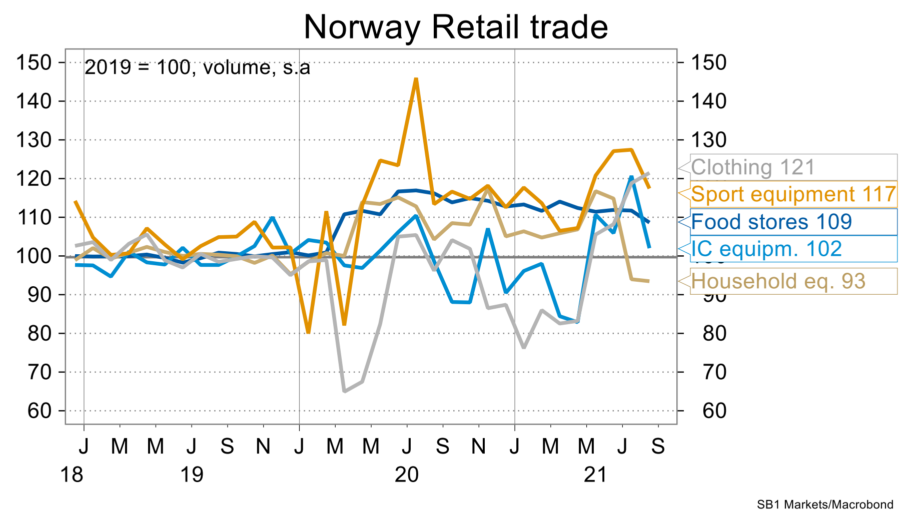
- **Even after these two tumultuous months, retail sales are still 5% above the pre-pandemic level**.
  - » ICT down 16% m/m in August, sport equipment -7%, grocery sales down 3% - as we went to restaurants and were shopping in Sweden again rather than spending time at home. However, we needed new clothes, sales up 2%. Building materials were close to unch., following the 29% drop in July (due to the price shock, lack of supply)
- **Total household consumption of goods** (x electricity) fell 2.3%, following the 1% lift in July
  - » Total food/beverage consumption (incl. Vinmonopolet) fell by 6%, after the 4% lift during the July staycation (at least staying in Norway)
- **We still expect consumption of goods** to normalise the coming quarters, back the pre-corona trend path, way below the current +12% above pre-corona level!

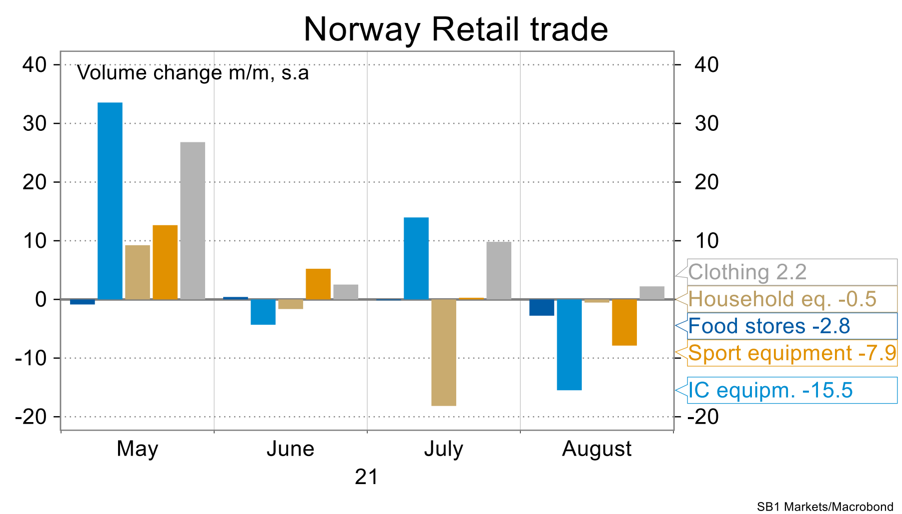
Huge sectoral changes: ICT down 16%, sport -8%, clothing up 2.2% in August

Some supply problems in ICT & sport? Probably + a too high level vs. normal sales. Food sales down



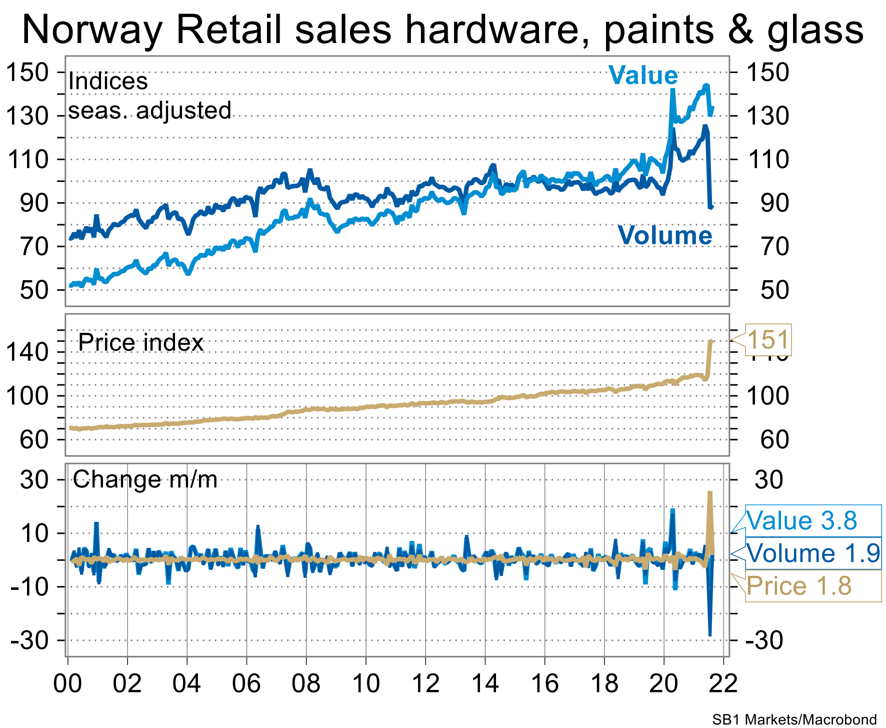
- Food store/grocery store sales were down 2.8%, as more people are eating out and in canteens at work. Including specialised food & beverage stores (and some more), total consumption of food & alcohol fell by 6%, following the July lift





Sales of building materials remained low in Aug, following the 29% July drop

However, the volume was too high before that, and the upside is probably not that large



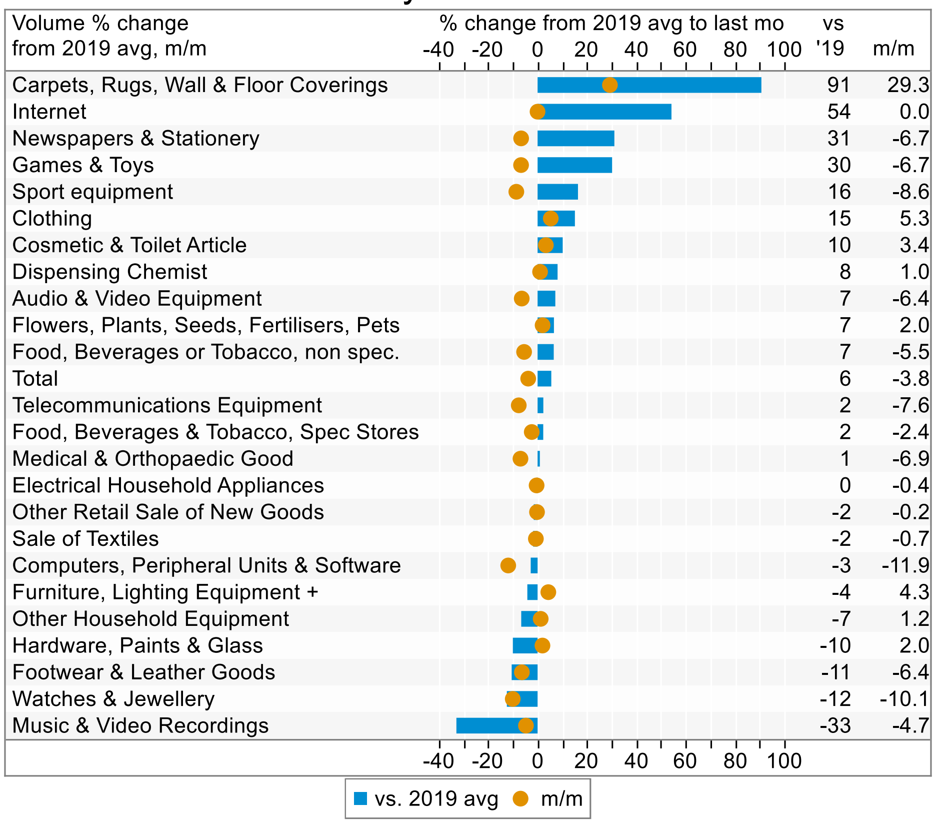
- A decline in new home sales and construction starts – may explains some of the decline
- The level has anyway been far above a normal level since the start of the pandemic, almost 20% above the pre-pandemic sale volumes!

- Building material costs soared 26% m/m in July – and sales volumes collapsed, from a rather high level. Construction timber (lumber) was mostly to blame
- US timber prices have collapsed, almost back to an average level – which should contribute to a normalisation of timber prices in Europe/Scandinavia too. Other material prices are up, but not as dramatically as timber prices
- Households buy just of small fraction of total retail sales of building materials, homebuilders and professionals are the main clients. Thus, even if retail sales collapsed in July, household consumption of goods rose by 1%

Since before the pandemic: Still huge sectoral differences

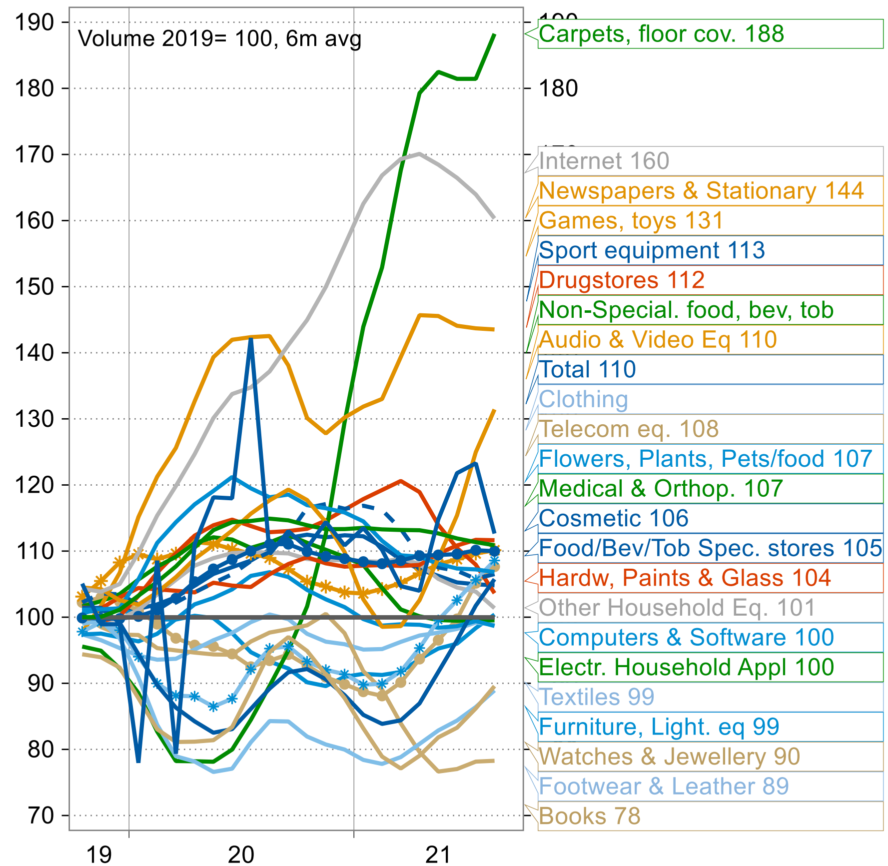
– home refurnishing at the top. The losers were mainly losers before the pandemic too

Norway Retail Sales



SB1 Markets/Macrobond

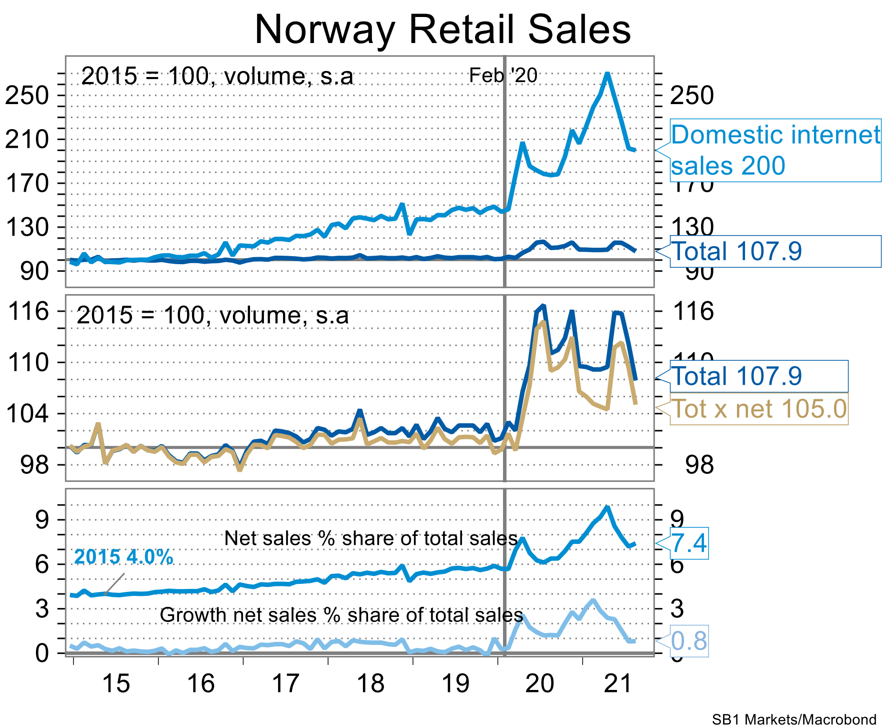
Retail sales

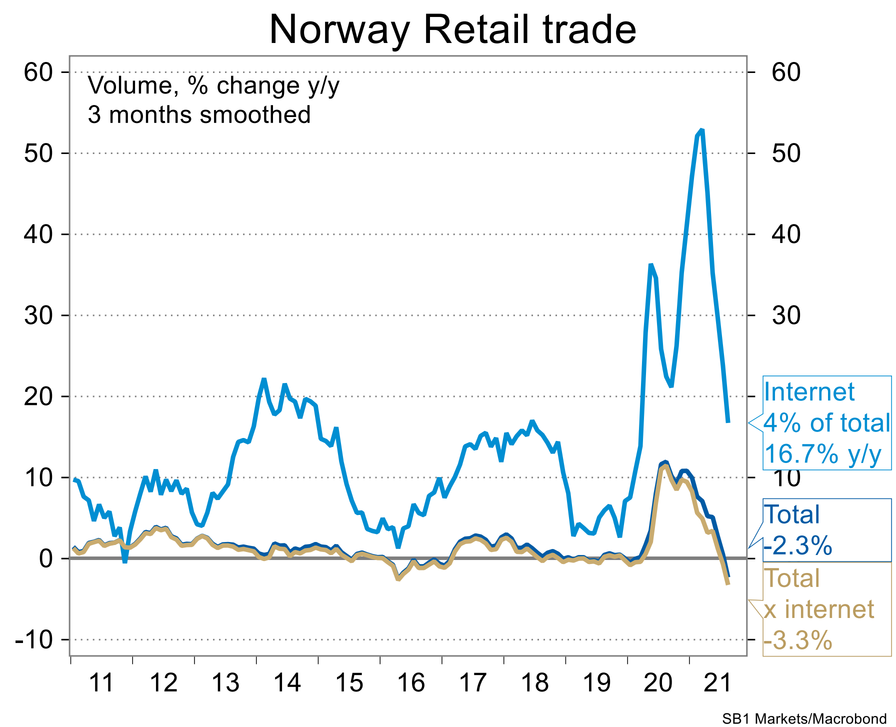


SB1 Markets/Macrobond

Internet sales (domestic) have dropped sharply, as shops reopened

The market share has fallen to 7% from 10% - and not much above the 6% pre-pandemic level!



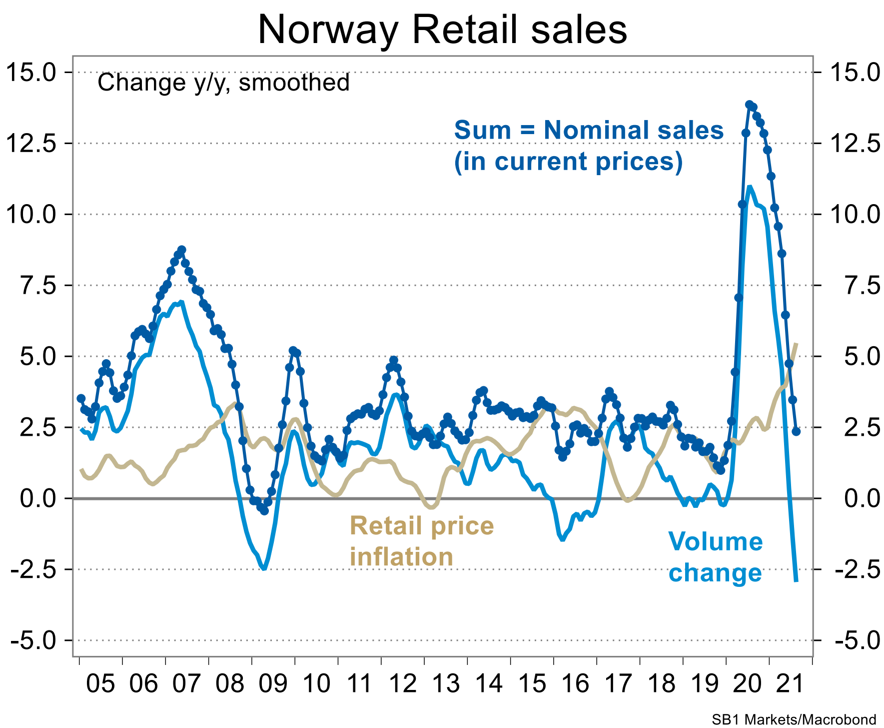


- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to 7% from 4%, via 6% just before the pandemic, to 10% at the top in April. The 1 pp gain from before the pandemic is not that impressive
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

SpareBank 1 MARKETS

Retail sales are down 2.9% y/y in volume terms. But prices are up 6%!!

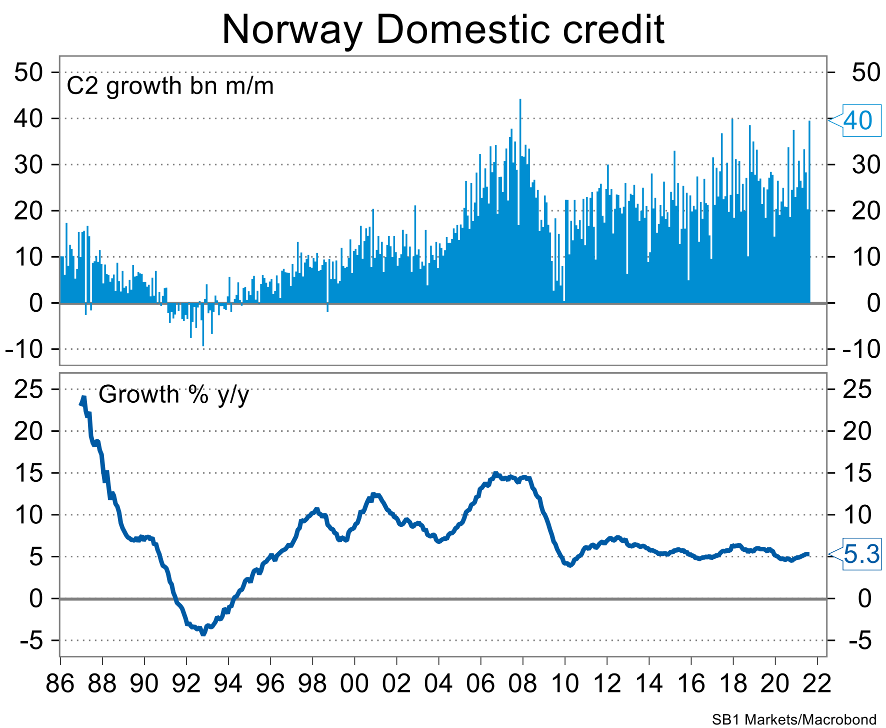
Thus, in value terms, sales are up 2.4% y/y, mostly due to price increases in building materials, fuel

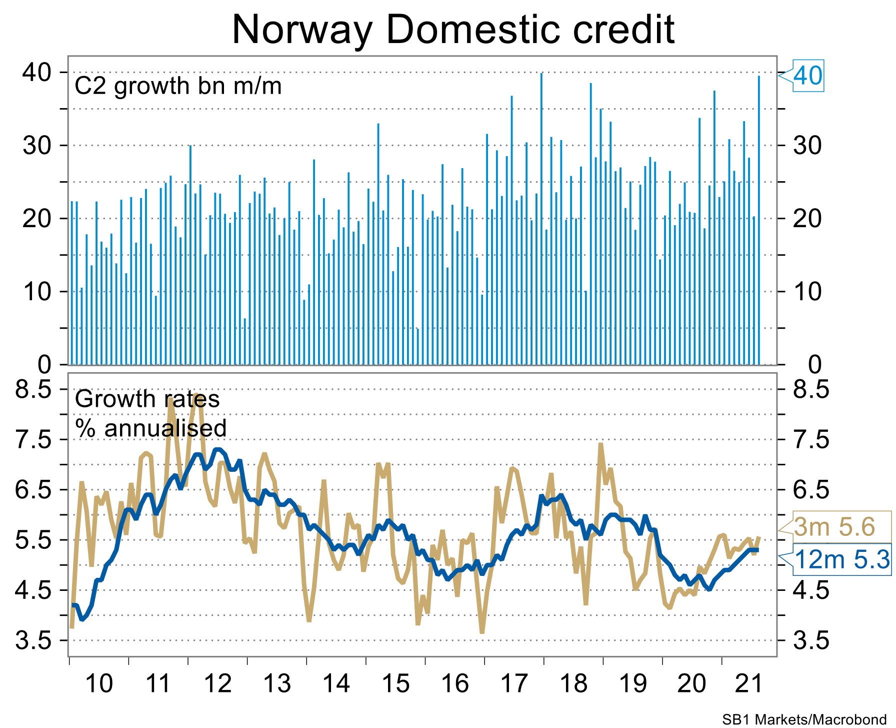


SpareBank 1 MARKETS

Unusual strong credit growth in August, due to businesses, households in check

Still, domestic credit growth (C2) remained unchanged y/y AT 5.3%, we expected a slight decrease to 5.2%

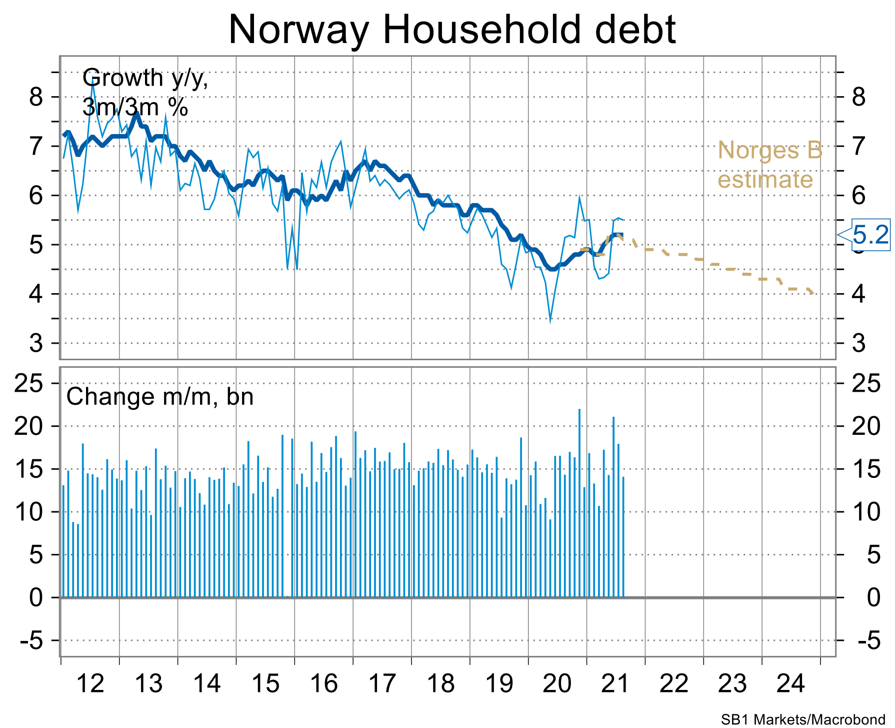


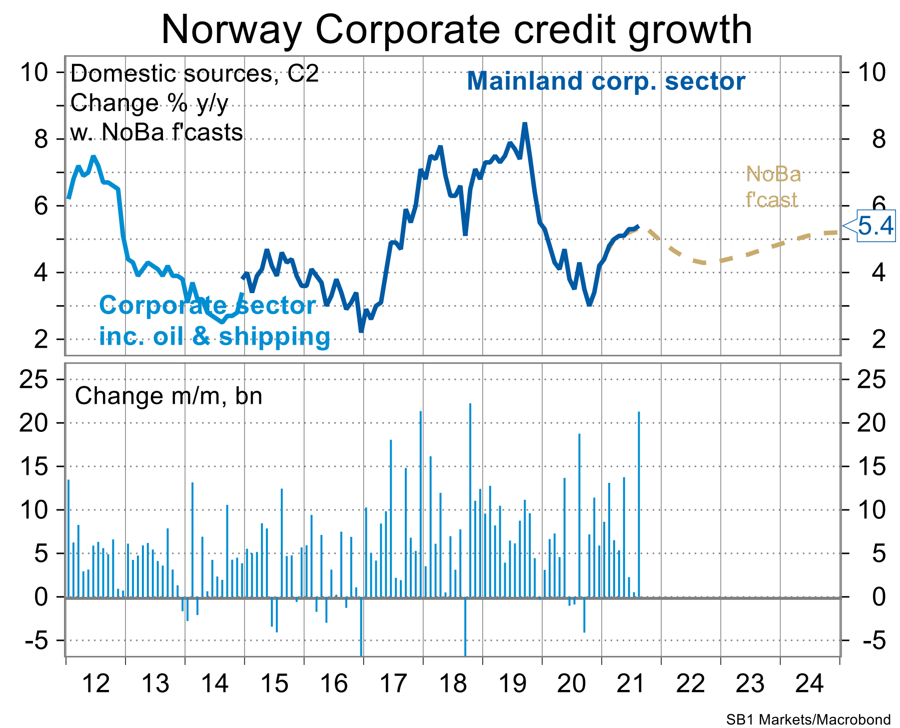


- **Total domestic debt** (C2) rose by NOK 40 bn in July, up from 20 bn in July, we expected NOK 30 bn. NOK 40 bn is among the highest monthly growth rates. The annual growth rate remained unchanged at 5.3%, we expected a slight decrease to 5.2%. <u>We are not witnessing any credit boom. However, debt levels are high, especially for the household sector</u>
- **Household credit** <u>rose by NOK 14 bn</u> in August, down from 18 in July, we did not expected unch. The annual rate was unch. at 5.2%, and has remained at this level since June
- **Corporate C2 credit**, <u>rose by NOK 21 bn</u> (up from 53 <u>mill</u>), an unusual strong growth, <u>we expected 8 bn.</u> The annual growth rate rose to 4.7% from 4.6%, we expected a decline to 4.1%. **Mainland corporations** increased their debt by 5.4% y/y (+ 0.1 pp from July)
- **Local governments** also increased their borrowing in Aug, by NOK 4 bn, up from 2 bn in July, as we expected. The annual growth rate is at 8.1%, up from 7.5% - way above income growth

Strong growth in corporate credit in August

Household debt stable at 5.2%. Have households started accounting for the coming rate hikes?

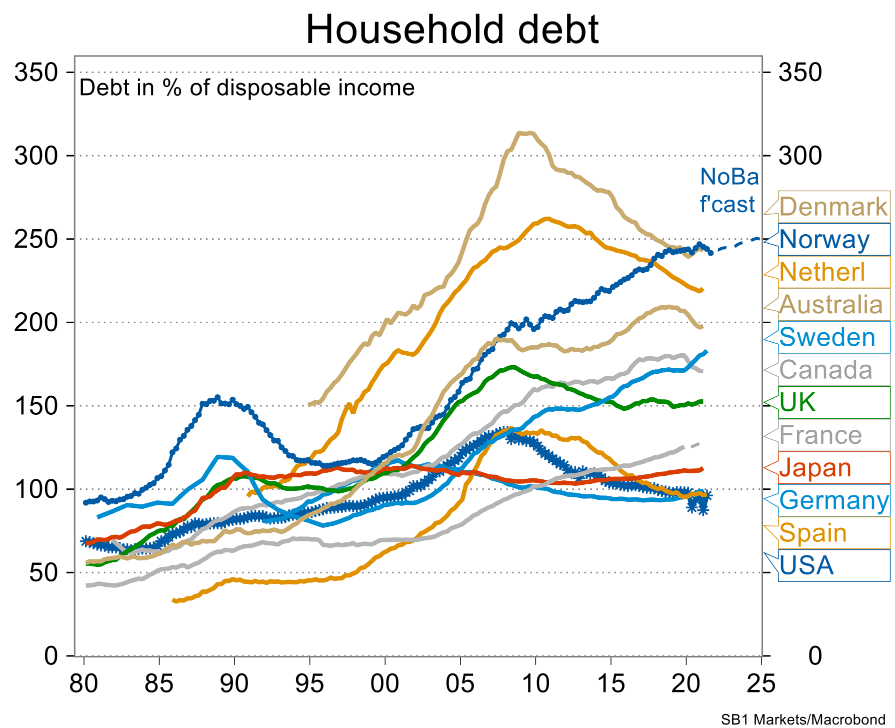


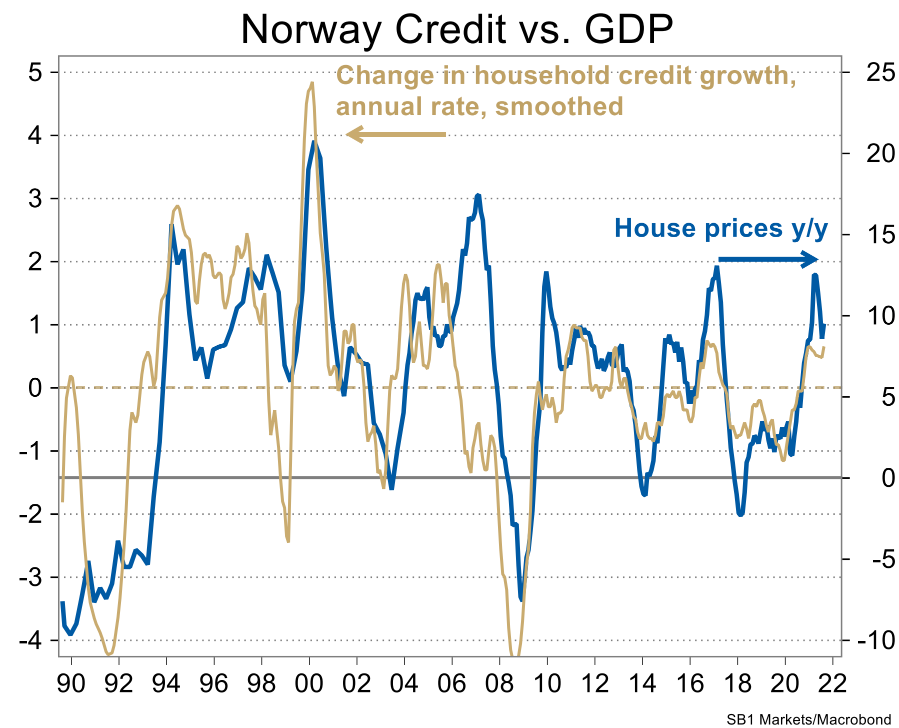


- Following a mild slowdown during the corona spring, **household credit** growth has now recovered, but has not accelerated that much. The annual rate was 5.2% in August, unchanged from the past couple of months, and up from 4.5% last summer, the 3m/3m rate is +5.5%. In August, household debt rose by NOK 14 bn, below our expectations at 18 bn. Norges Bank expect growth to slow to just above 4% in Q4 next year, but gain speed from late 2020 again
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year and the first half of ’21. Growth was slow in June and July, but in August Mainland companies increased their borrowing by NOK 21 bn, one of the highest prints ever – and up from NOK 0.5 bn in July. The y/y rate accelerated to 5.4% from 5.3%. Norges Bank expect growth turn down over the next years

The household debt/income at ATH. We are no. 1 (or tied with Denmark?)

What if the housing market slows?

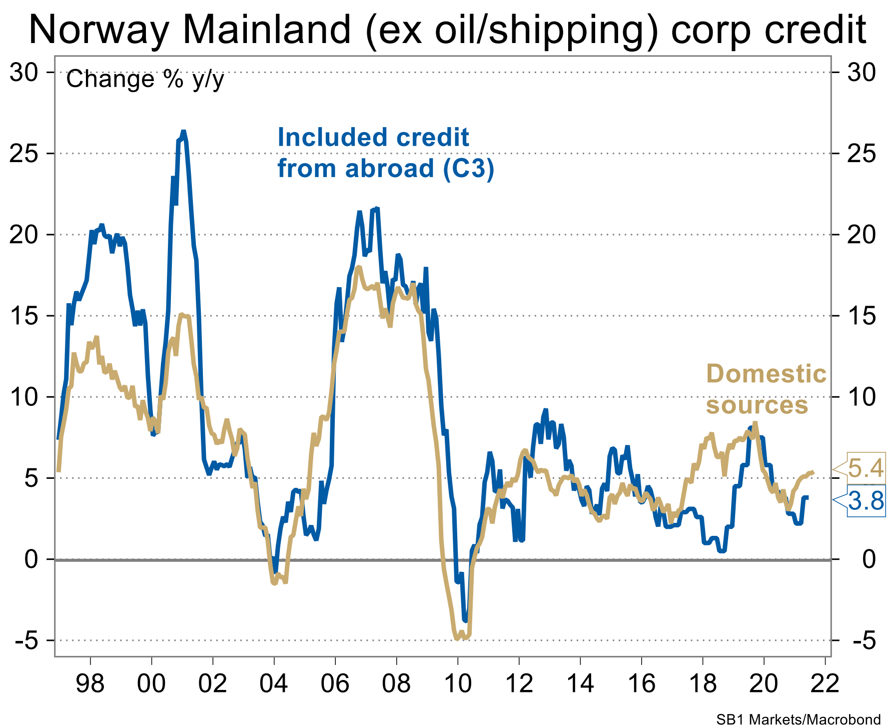


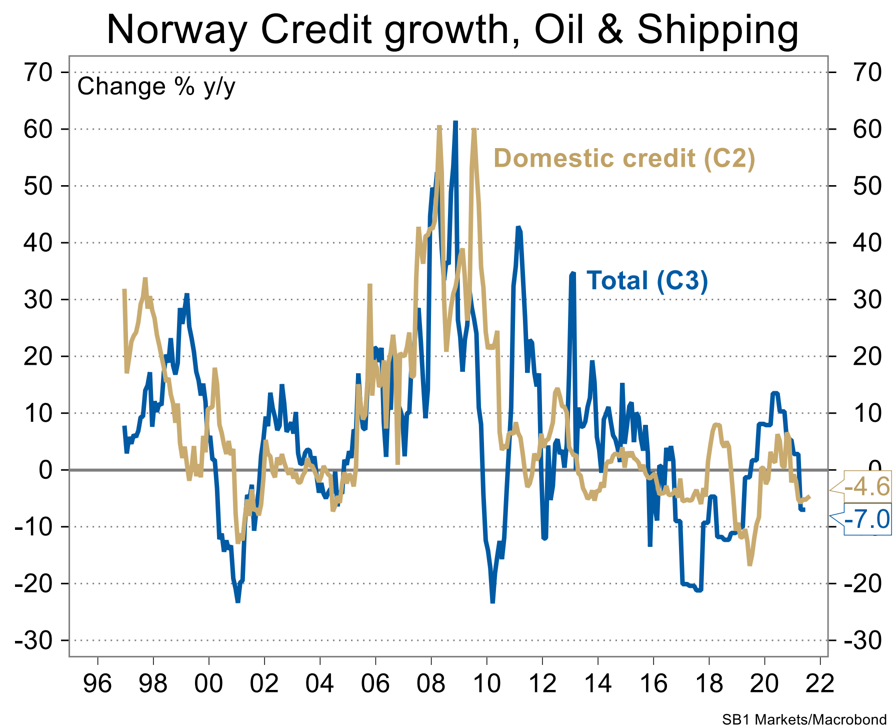


- Norwegians households' debt steady been growing faster than income but just marginally since early 2018
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic (like the decline in the debt/income ratio in the US due to the temporary surge in household income
- *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market
  - » A slow retreat in the debt ratio will probably be healthy in the long run, and if it is gradual, it will not be too painful - even not for the housing market
  - » If credit growth slows less than 1 pp per year, that is – say from a 5% growth rate to 4% next year, and then down to 3% etc.
- <u>*If house price inflation slows to below 5% – and very likely it will – credit growth should slow from the present 5% pace*</u>

SpareBank 1 MARKETS

Mainland corporates are increasing total debt less than 4%, vs domestic +5.4%

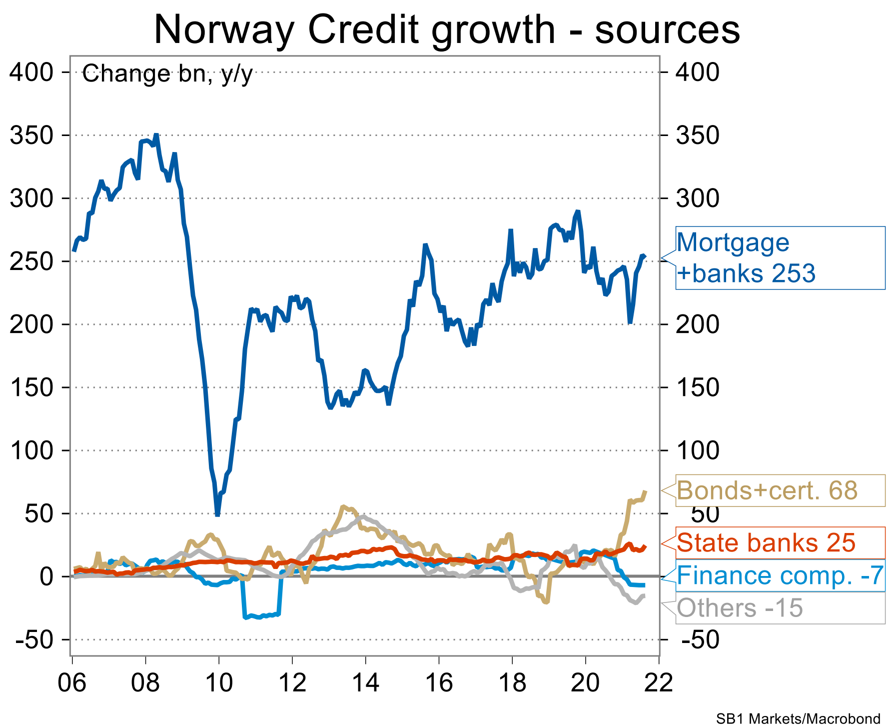


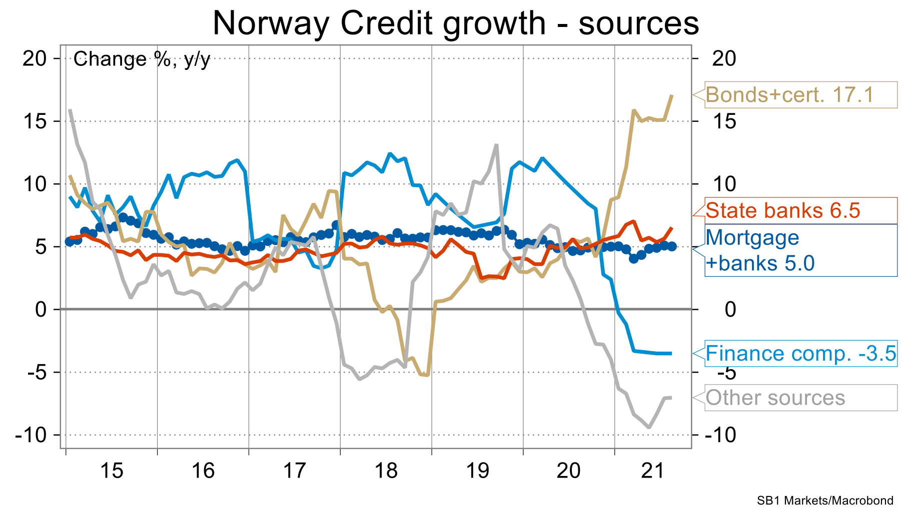


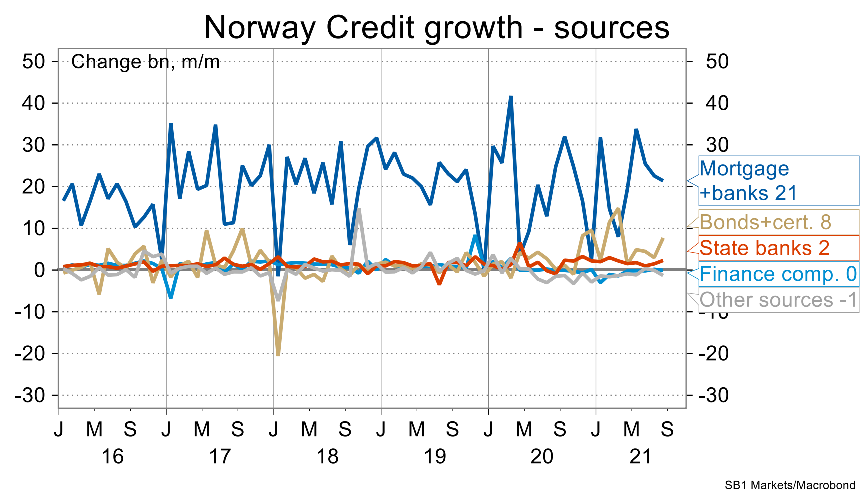
- While domestic credit supply to **Mainland businesses** have accelerated, their total debt, including credit from foreign has been rising at a slower speed, at least until Q3
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. Now they are paying down both at home and abroad, the sum down 7%

Bond borrowing bounced back in August, up NOK 68 bn y/y (17%)

Still, banks and their mortgage institutions are totally dominating the domestic credit market





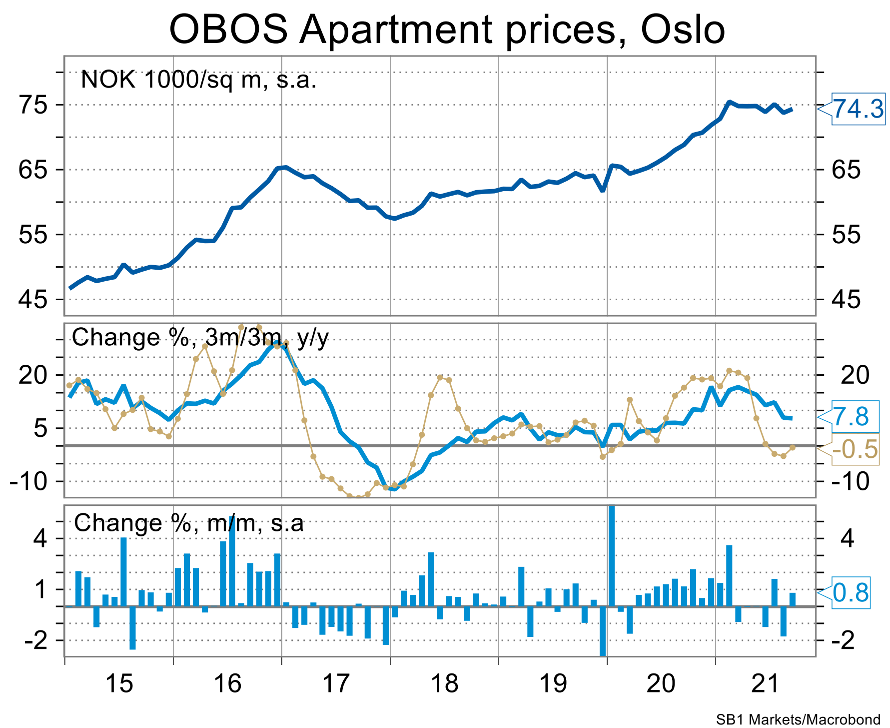


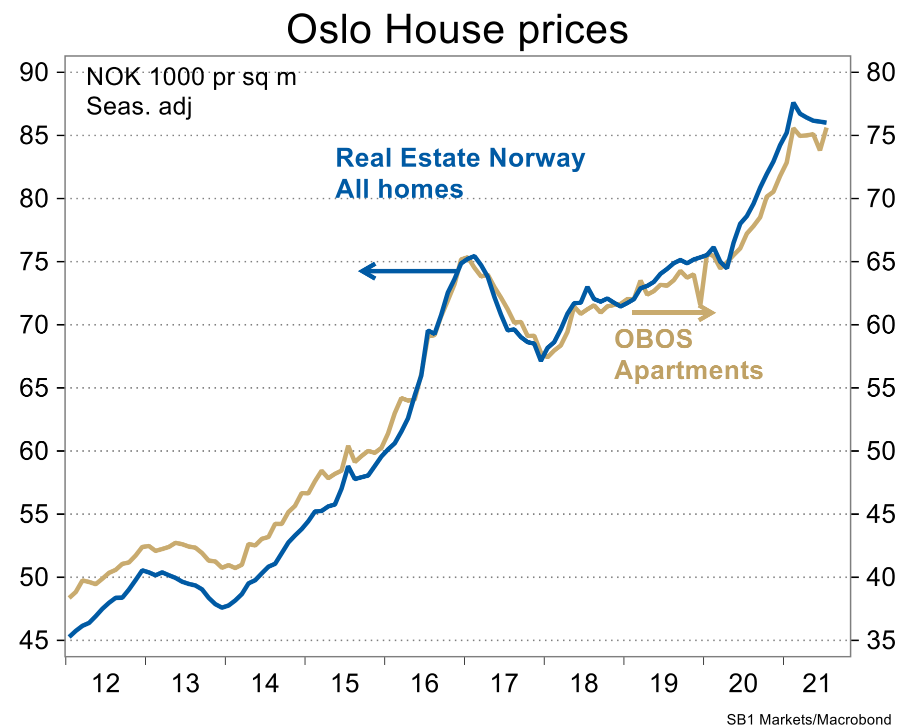
- Net issuance of bonds (to non-financial sector) is up NOK 68 bn (17%) y/y, highly unusual – the growth in August alone was NOK 8 bn
- Banks/mortgage companies are up NOK 253 bn (5%) y/y
- Finance companies and 'others' have reduced their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt is included in our residual 'others', but just the sum of SL & Eksportkreditt is down

The seasonally adjusted 'sum of the parts' credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

OBOS apartment prices up 0.8% in September, still trending down since February

… at a very slow pace. The 3m/3m rate at -0.5%. Prices are up 7.8% y/y (down from 17% y/y in March)



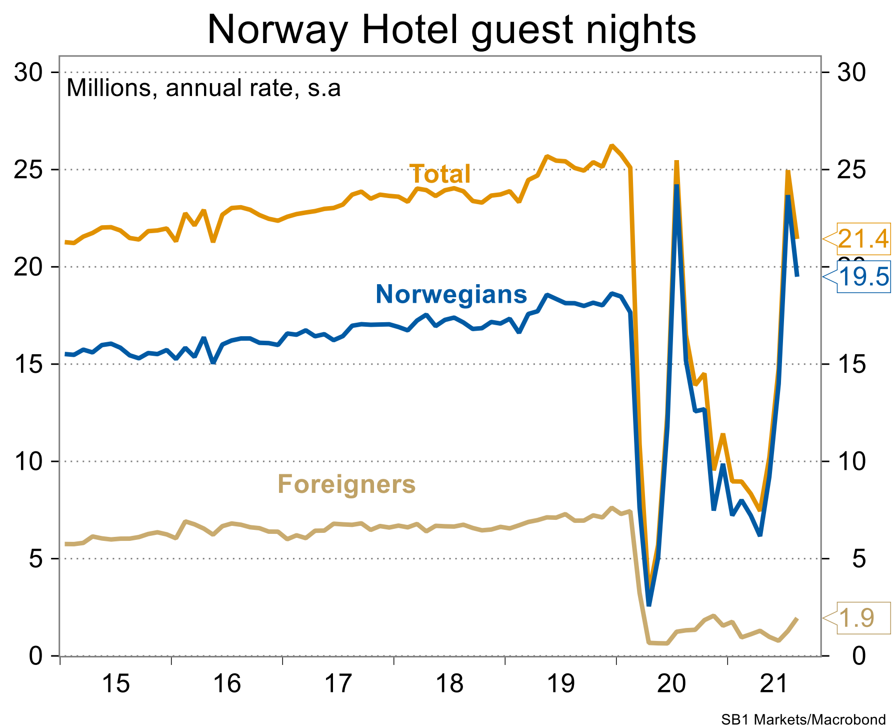


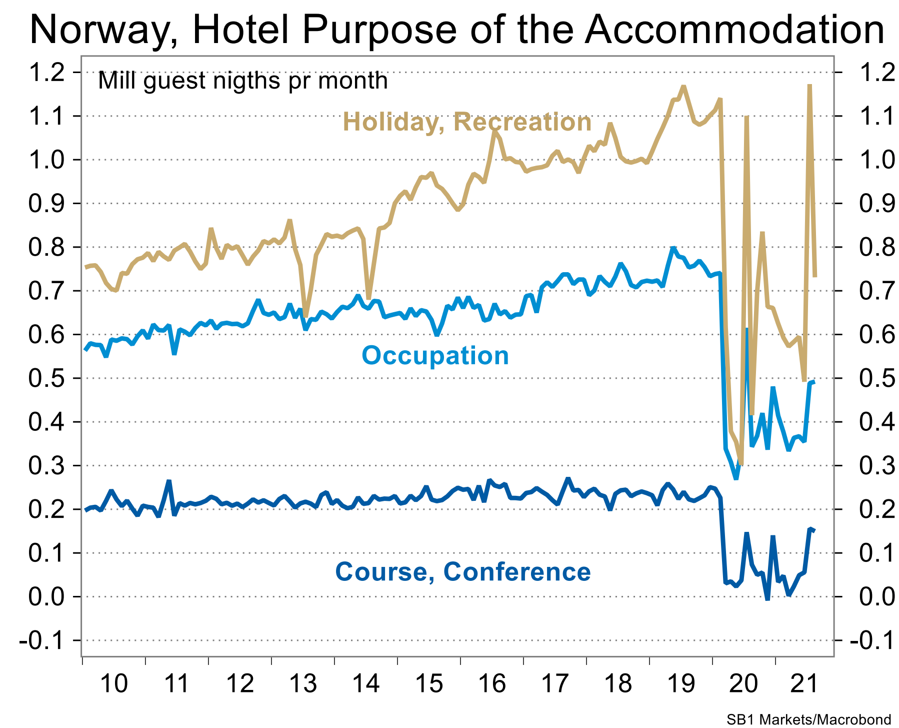
- The parallel change in both co-op & total house prices in Oslo signal a real turning point in the market

Co-op apartment prices follow the overall Oslo market quite closely, the average price level is somewhat lower than total Oslo market

Fewer hotel guests, but they payed damned well, RevPAR almost record high!!

Total guest nights down is August, but less than we feared. Room prices surged

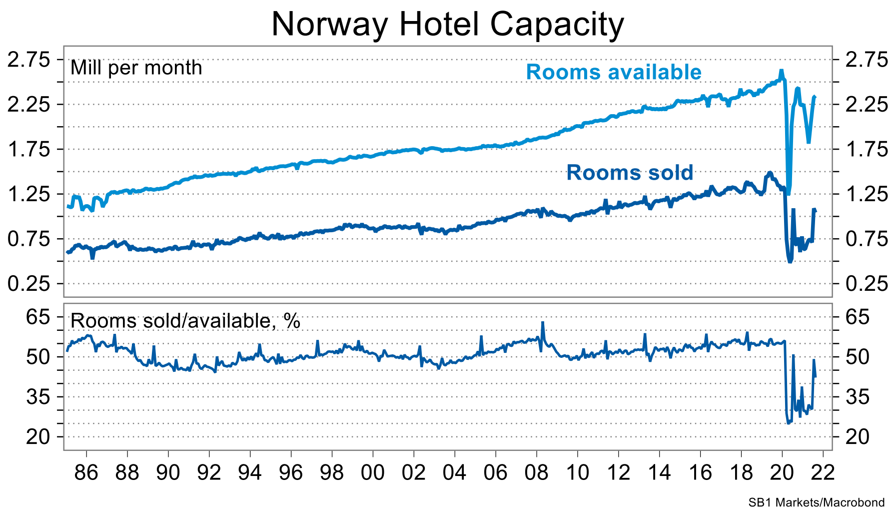


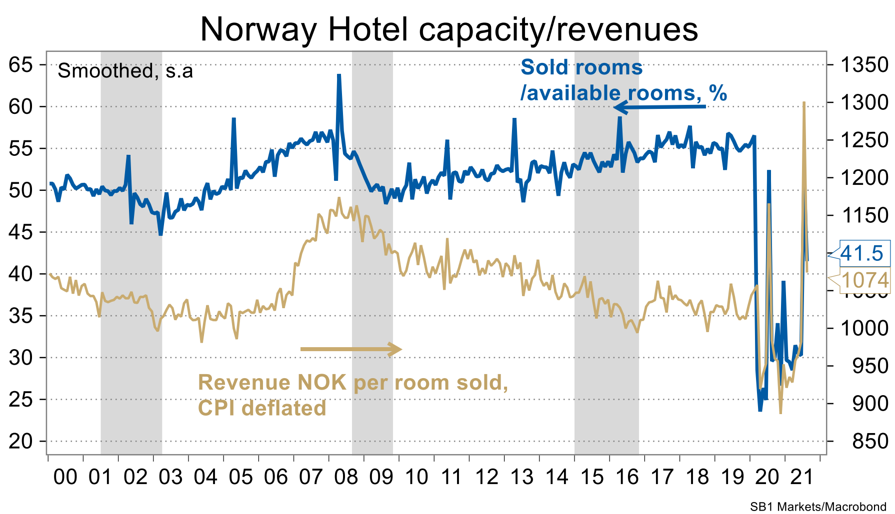


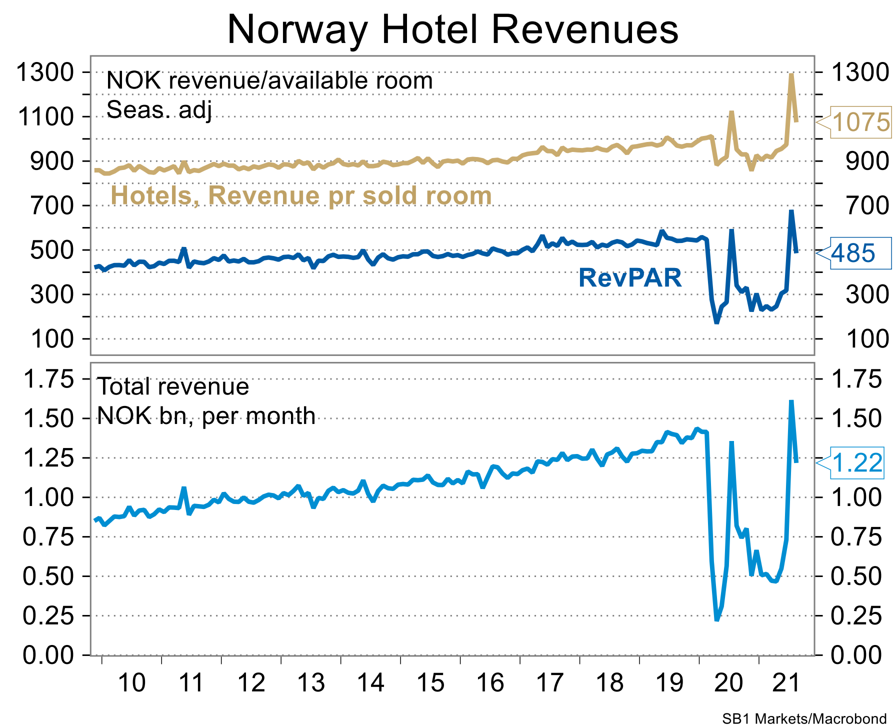
- **The no. of guest nights** was just 14% below the 2019 level (and 9% below the 2018 level) in August – solely due to the lack of foreigners. Norwegians guest nights are up 9% vs the 2019 average, from +32% in July. Foreigners' guest nights are still down 72% (from -82% in July)
- **Business travelling** (sum occupation & conferences) is still down almost 40%, both due to fewer Norwegian & foreign guests – but no split is available. The conference markets is down 'just' 30%.
- **Thus, Norwegian recreational traffic** saved the day in August too (no explicit data available, but given the low number of foreigners, the conclusion is given)
- **The outlook for the autumn is not that good:** Some more travel abroad for Norwegians, and probably just a smaller increase demand from foreigners could imply lower recreational demand. Although business demand has come up from the bottom it will probably not fully recover anytime soon – and possibly never (at least vs the old growth path). At least, many companies have announced substantial cuts in travelling activities & budgets.

Strong pricing power: Prices straight up (even if down in Aug), tot rev. still down

Room prices up 8% vs. pre-pandemic level - RevPAR down 10%, total revenue down 15%





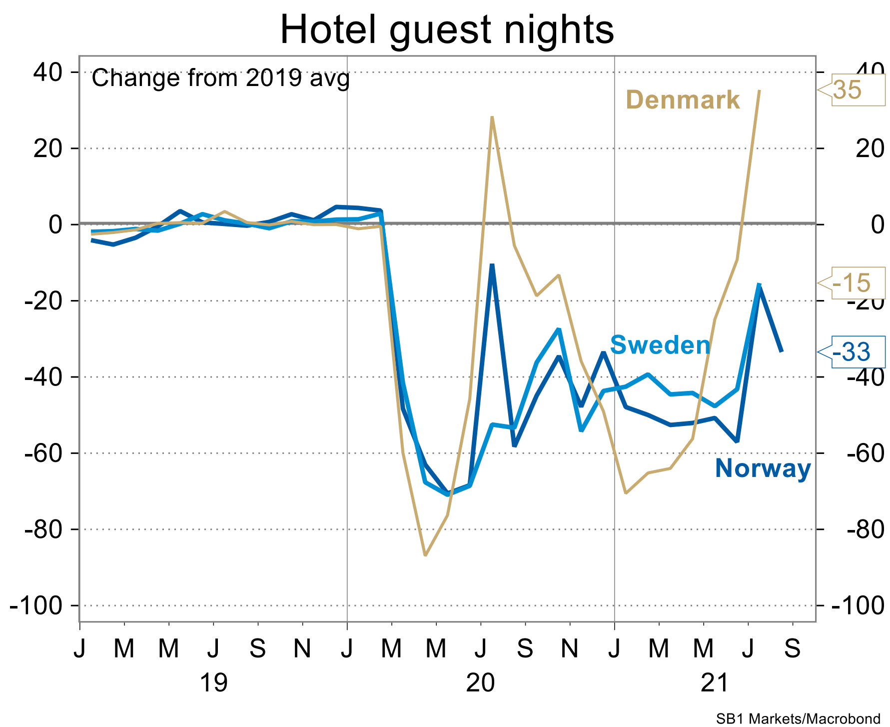


- **Capacity utilisation** (room sold vs. rooms available) was 41% in August, 36% below the average 55% level
- **Revenue per sold room** was extremely high in July, 30% higher than normal. Prices fell in August, but are still up almost 8% vs. the 2019 level
- **RevPAR** (revenue pre available room) are down 10% vs the 2019 level, as capacity utilisation was well below a normal level
- **Total revenues** was record high in July but fell below a normal level in August, but not by that much, down 15%

SpareBank 1 MARKETS

The same story in Sweden – Denmark far ahead (at least in July)

Hotel nights in Norway and Sweden have been very closely correlated during the pandemic



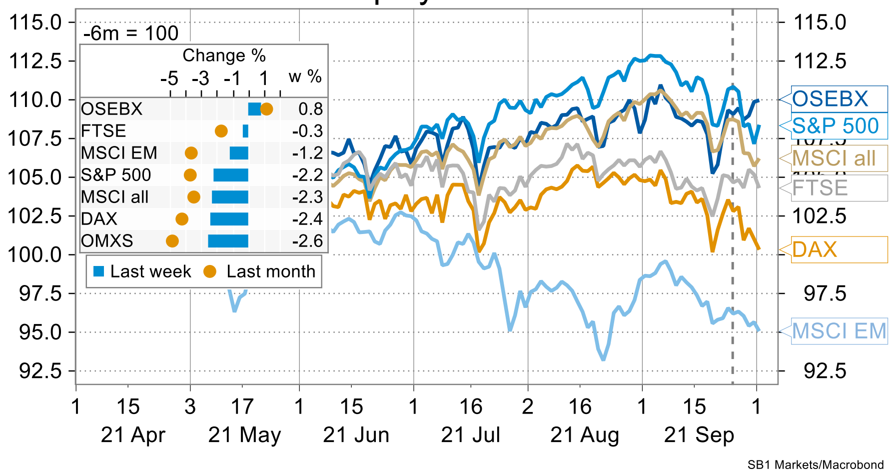
- Denmark has been far more volatile – and was up in the sky in July, as the Danes had no choice but to stay at home

SpareBank 1 MARKETS

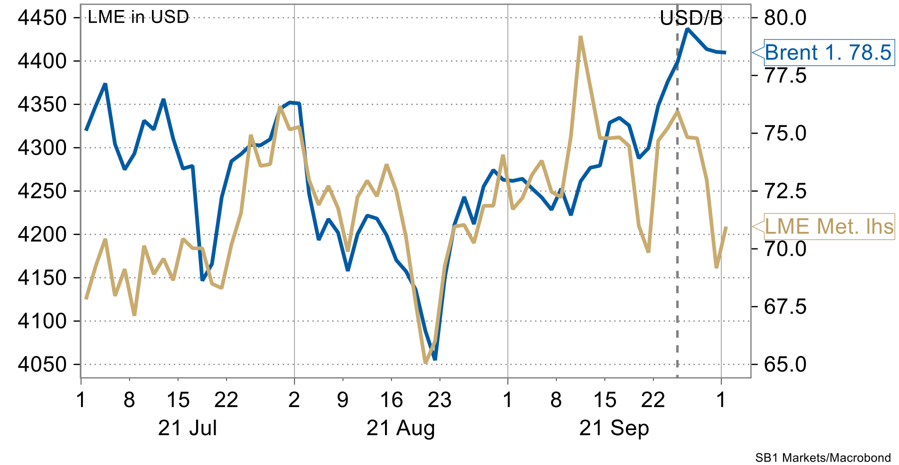
Equities down everywhere, except OSE (oil, gas), bond yields further up

Metal prices down, while oil (spot) was above 80. European gas prices are soaring, lifting the NOK

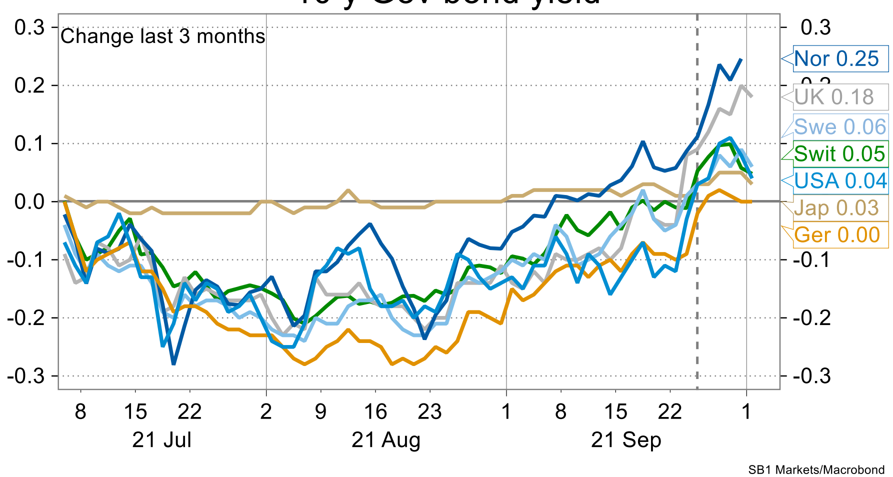
Equity Indices



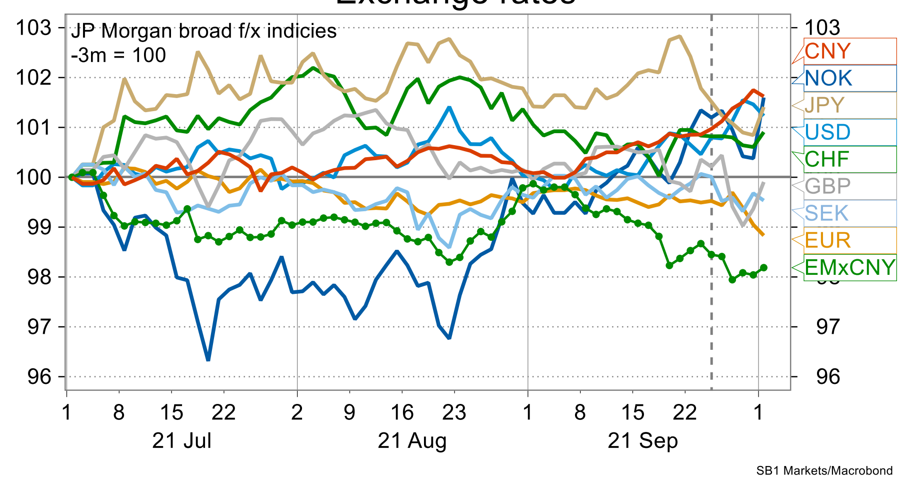
Oil vs. metals



10 y Gov bond yield



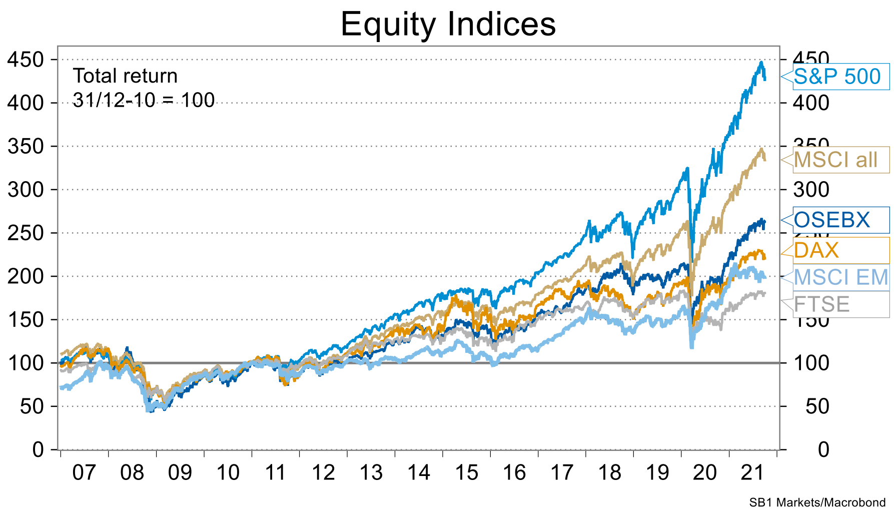
Exchange rates

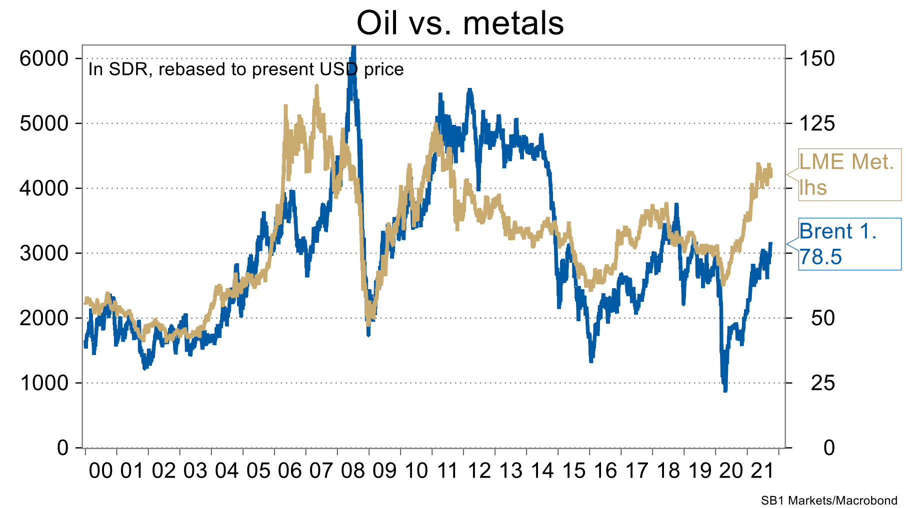


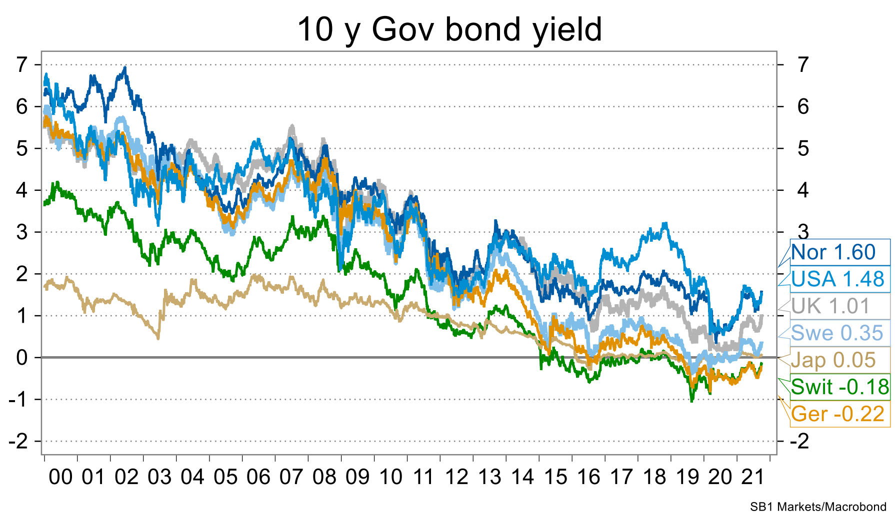
SpareBank 1 MARKETS

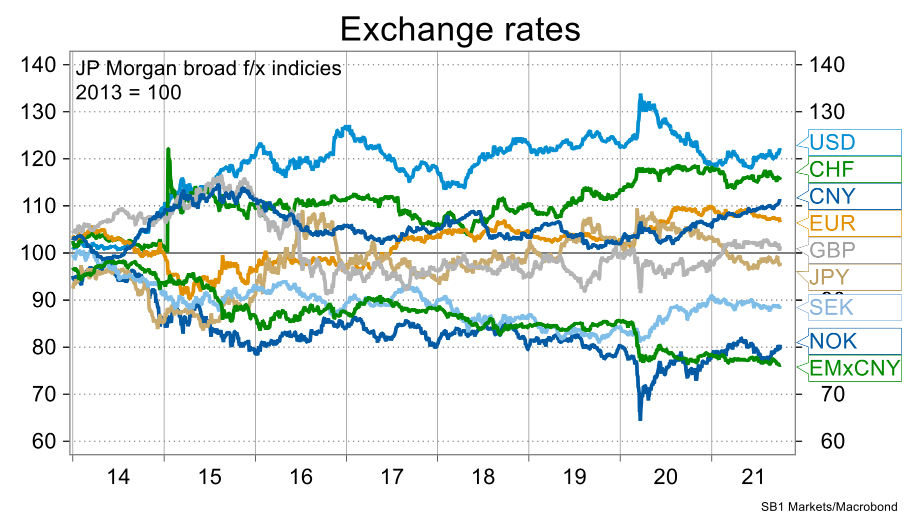
The big picture: It may have been the stock market peak

… but yields are not that high. The USD is drifting upwards, the EUR & GBP down





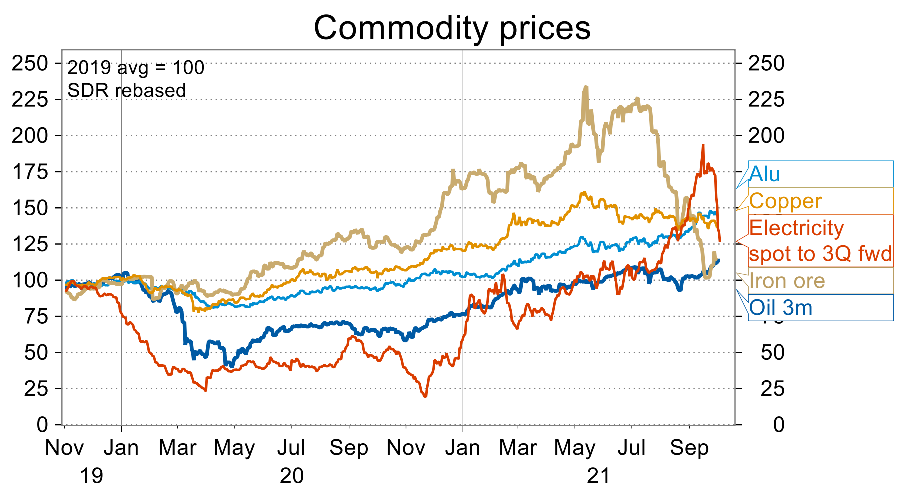


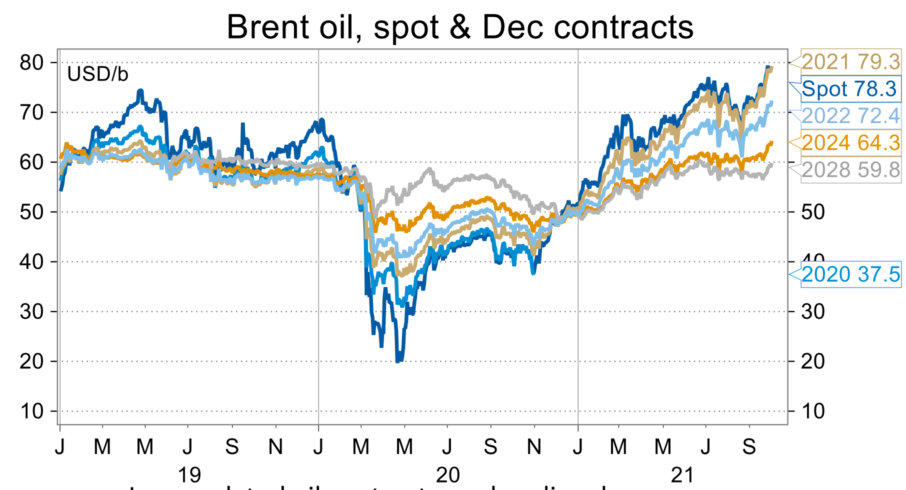


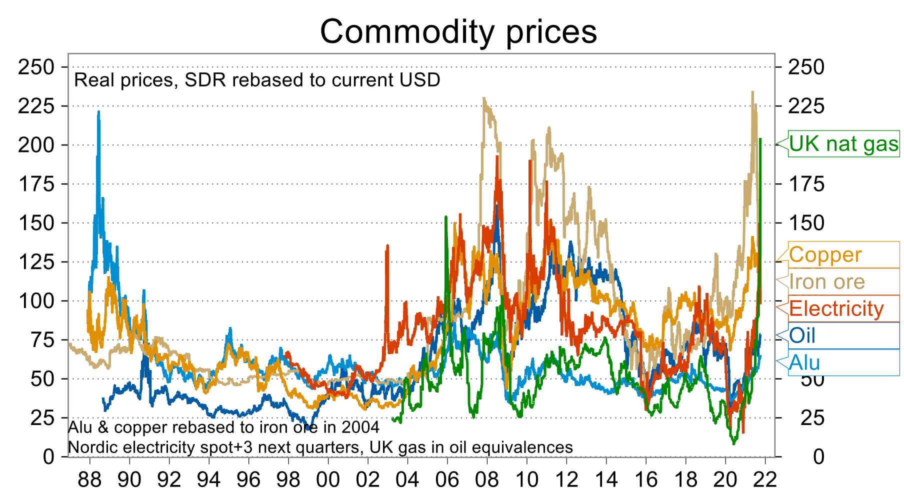
EM x China f/x are drifting down too

Mixed commodity prices, iron ore have recovered in spite of Evergreen fears

The oil curve up, now the long end too. Nordic electricity prices are nosediving. UK gas prices not

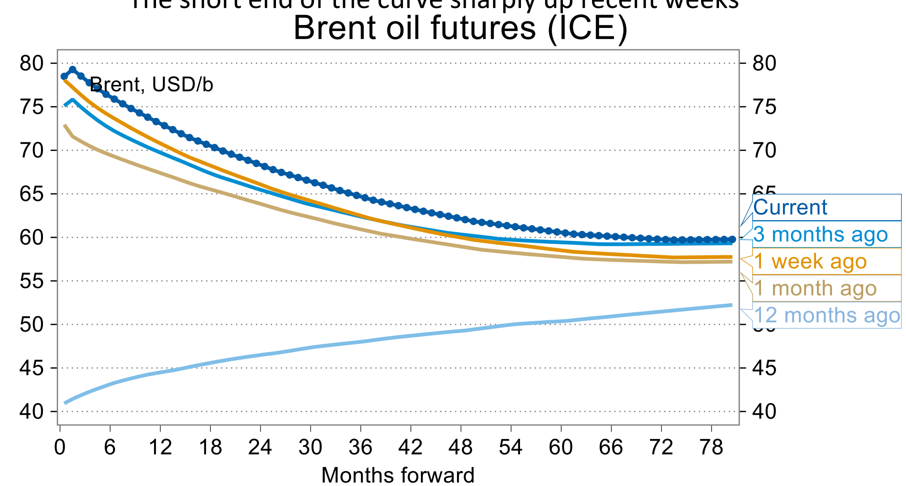






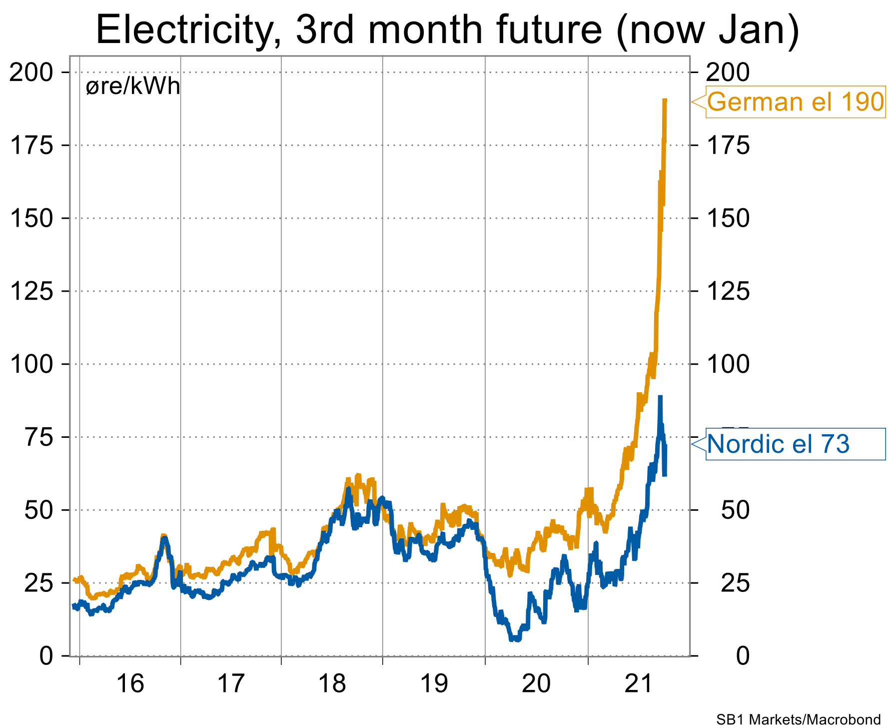
Longer dated oil contracts are heading down

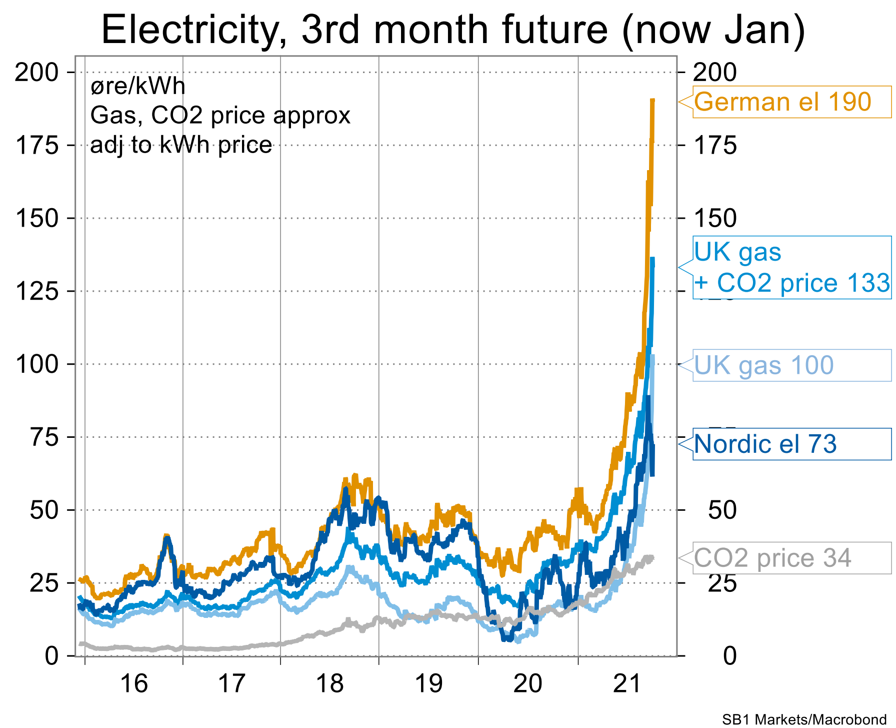
The short end of the curve sharply up recent weeks



European electricity, gas prices furhter up recent days

The gap between the Nordic & German price this winter is expected to be substantial

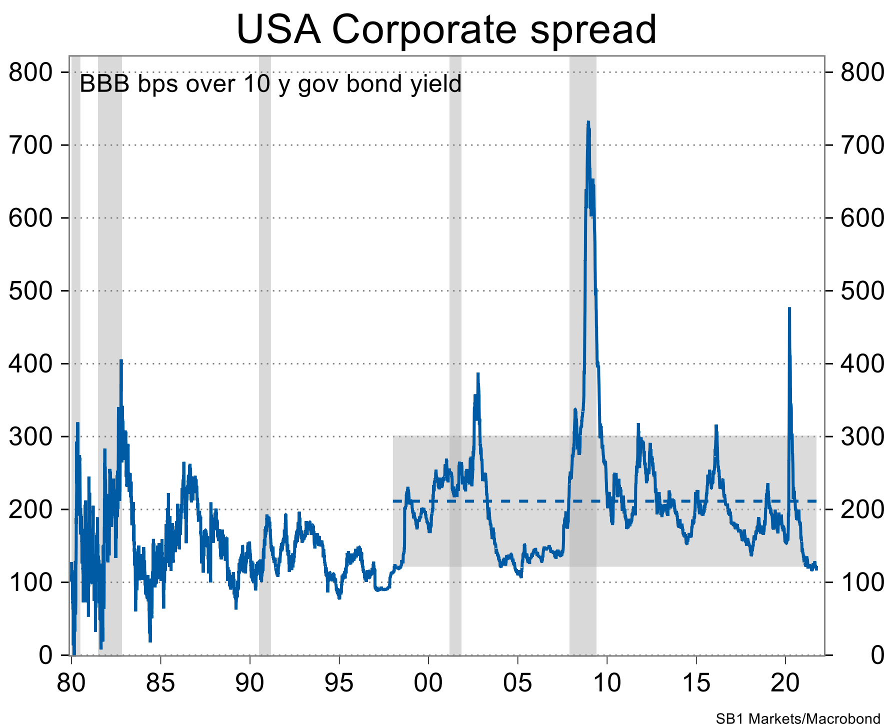


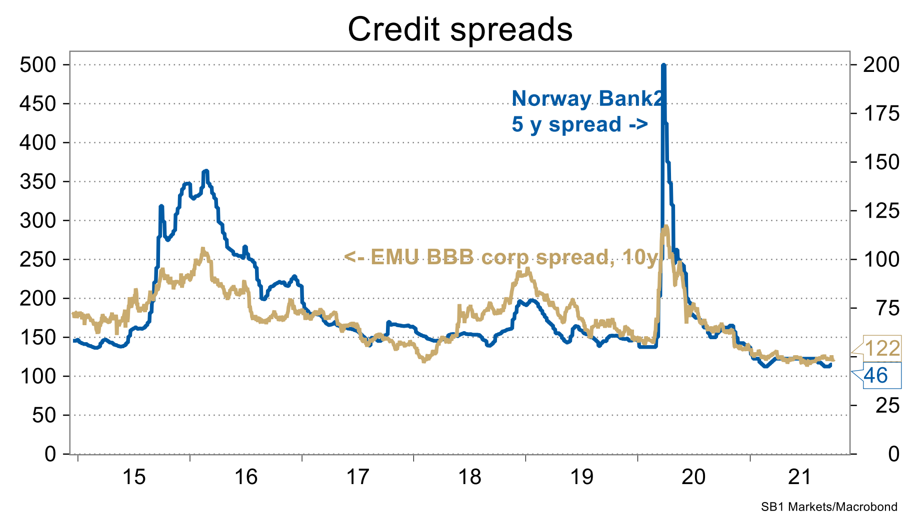


SpareBank 1 MARKETS

The US industrial BBB spread still very low

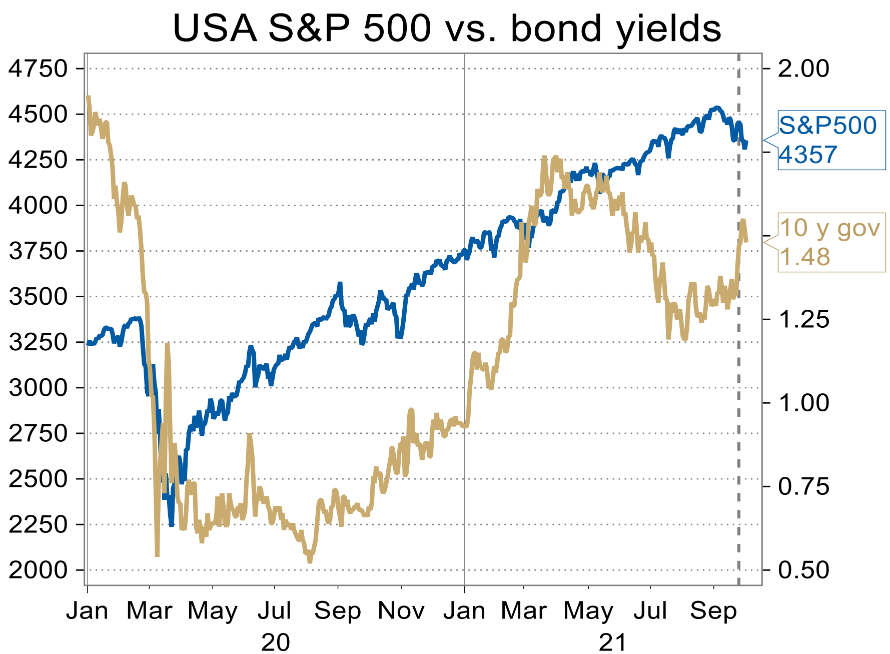
Some special bond market gyrations the previous week, the recent prints seems more reasonable

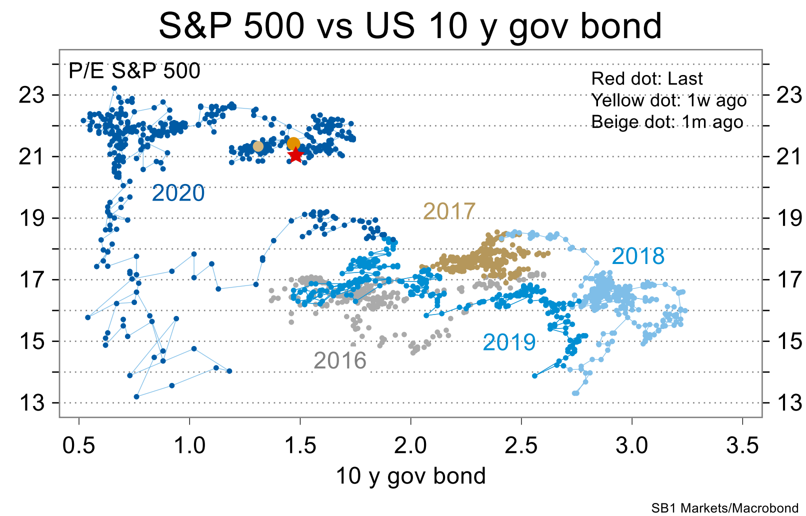


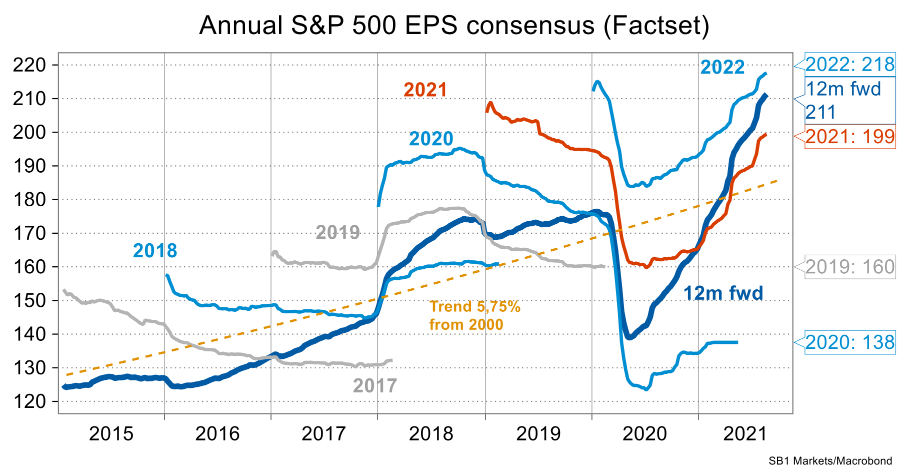


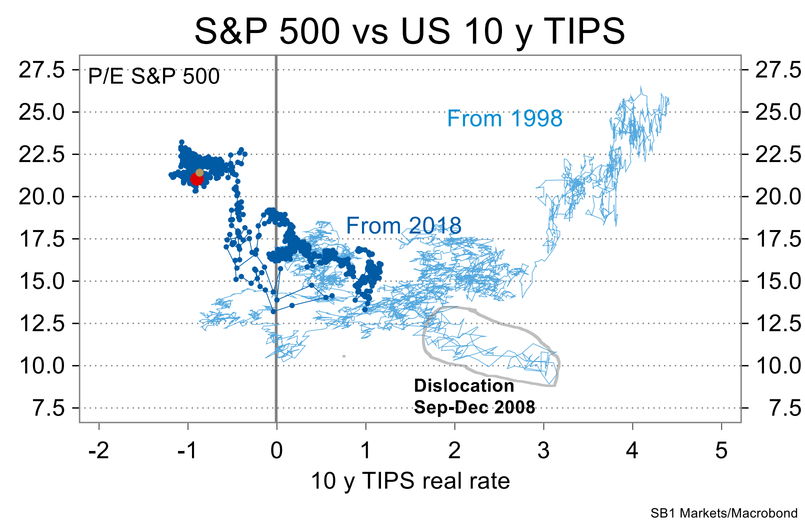
S&P 500 down 2.2%. The 10 y bond yield up 1 bp – the drift is clearly upwards

Friday was a better day: S&P up 1.1%, the bond yield down 4 bps



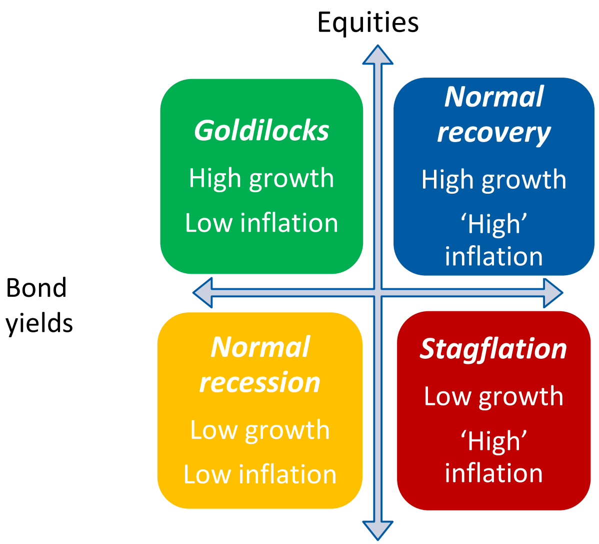


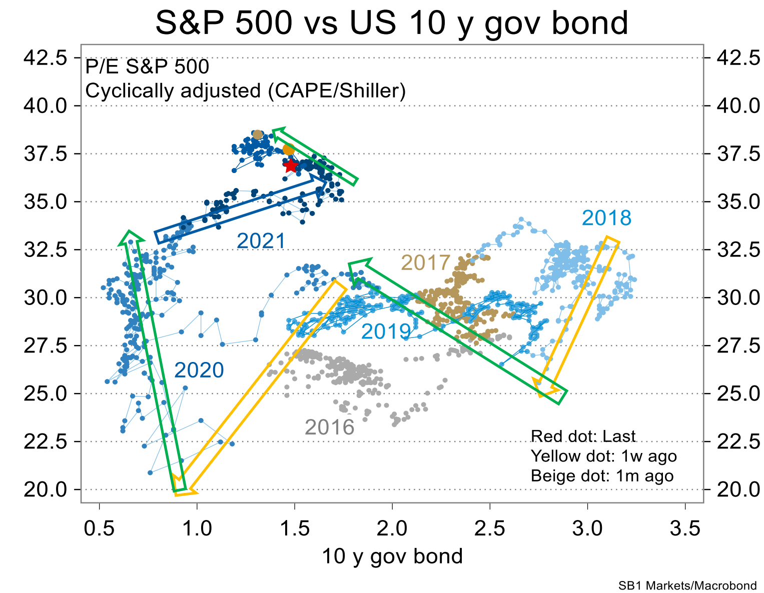




Still well into the 'Goldilocks corner' (but on the move??)

Wage/price inflation dynamics will in the end decide. And not the Fed…



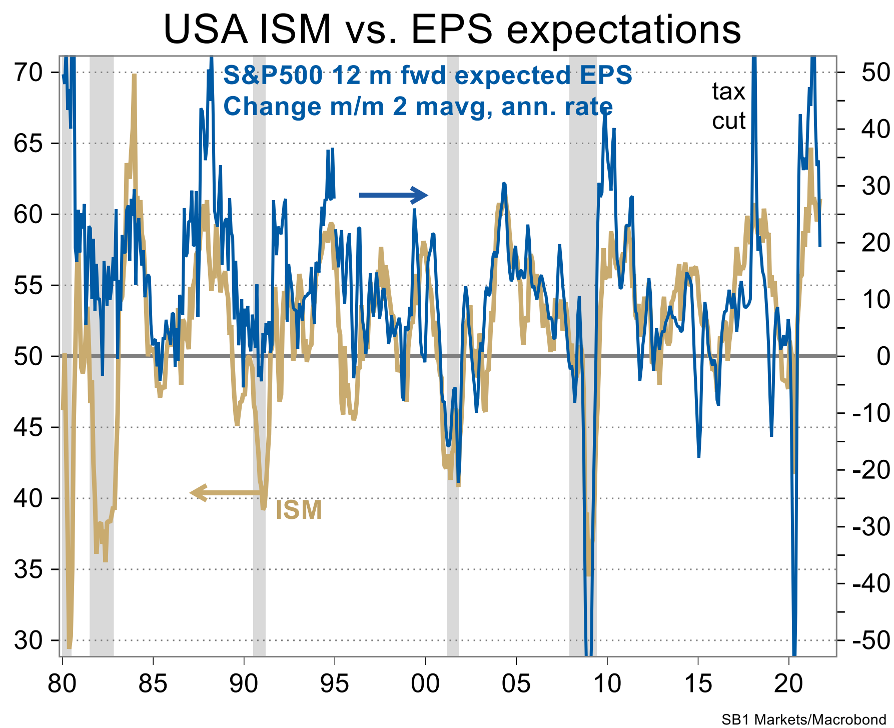


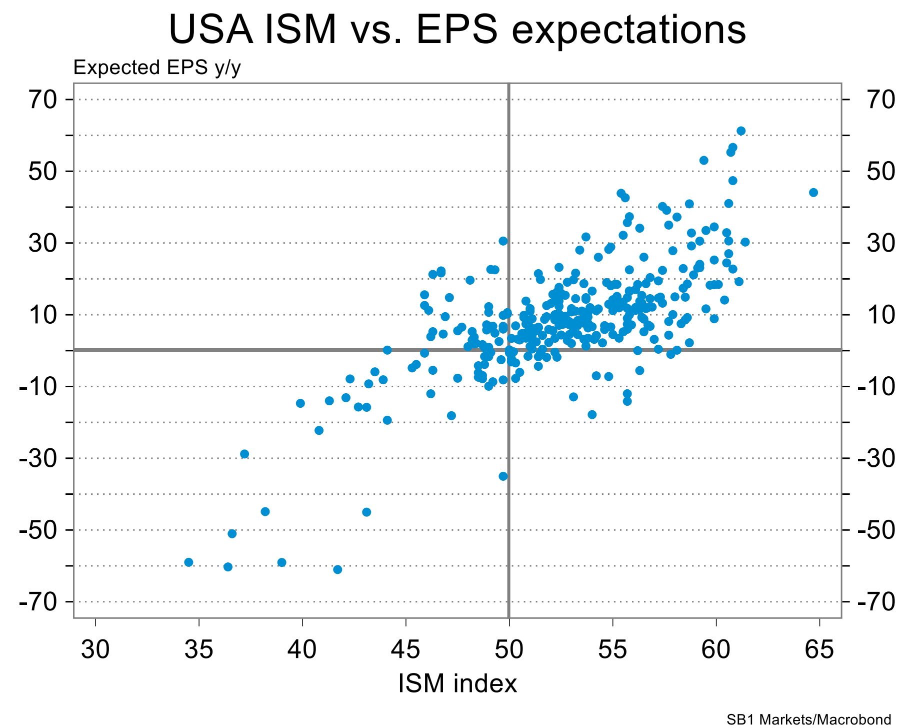
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
  - Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level to qualify for the "Goldilocks" corner (especially the real bond yield, check the chart on the previous page). Where to go from here?
- The inflation/growth mix will decide:
  - If 'nothing' happens, we can stay in this Green quadrant. Raw material prices normalise, wage inflation is kept in check because the US labour supply finally returns to normal. Inflation turned out to be transitory, profits are OK, yields remain low. No construction crisis in China
  - If the labour supply in the US does not yield, wage inflation will very likely accelerate
    - If companies are able to increase their selling prices, profits will be kept up, but higher inflation well very likely push the Fed to tighten monetary policy, which is challenging for high multiples. Move to the blue quadrant. However, after a while profits will anyway come under pressure. The stock market will be rewarded with lower profits & lower multiples (it will resemble the Red corner, before moving to the Yellow)
    - If companies are not able to increase their selling prices, inflation will be kept in check but profits will decline rapidly. A 2% lift in wages, cuts profits by well above 10%. That's the Yellow corner

SpareBank 1 MARKETS

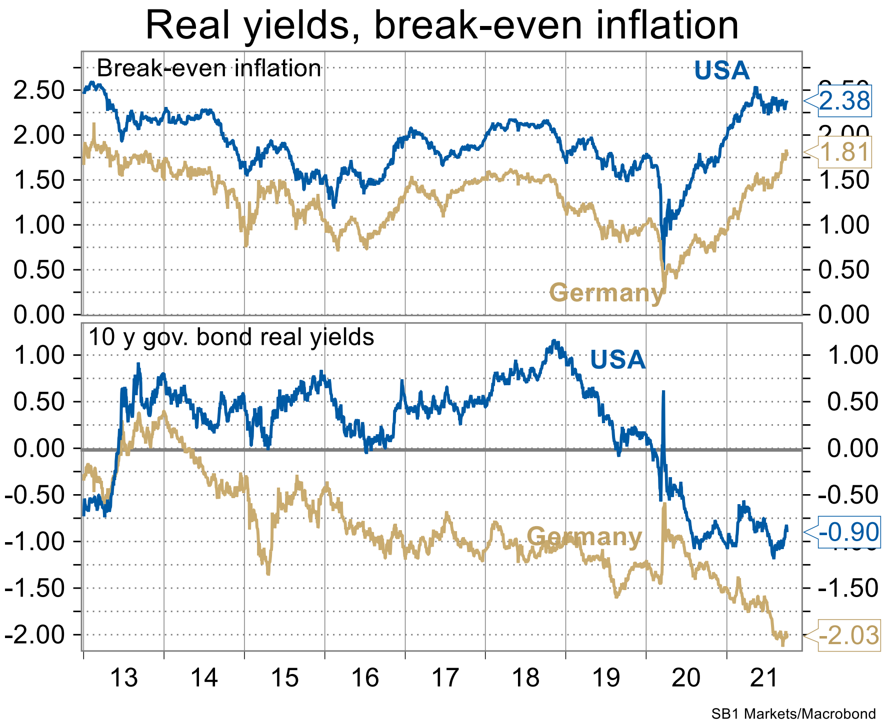
Do not forget what drives the momentum in expected earnings

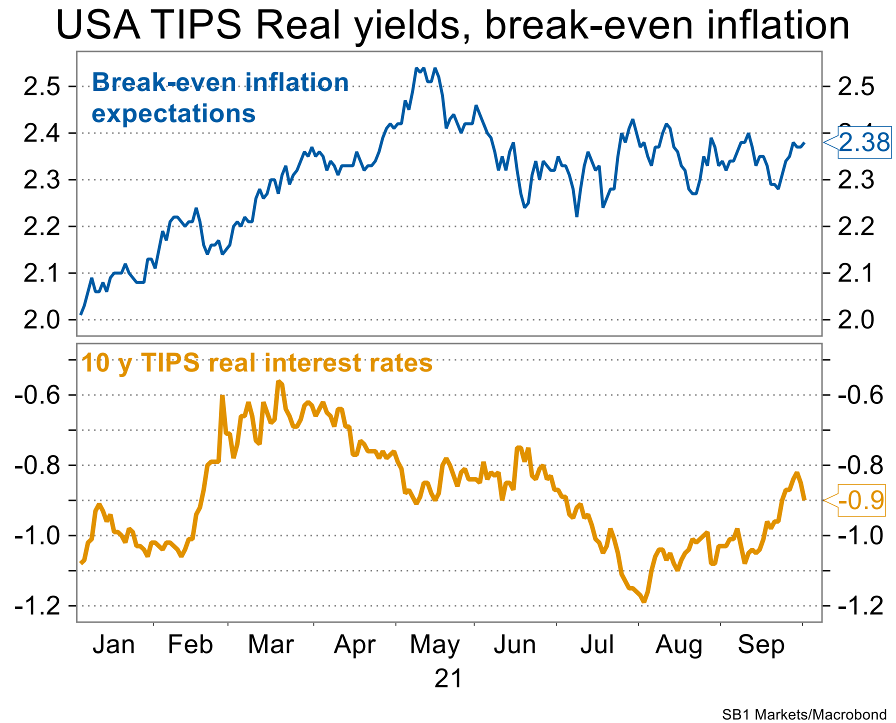
It's the momentum in the economy today! It is still going very strong





Real yields took a break last week – down 3 bps





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.48	0.01	0.17	0.52
.. break-even inflation	2.38	0.04	0.04	1.06
.. TIPS real rate	-0.90	-0.03	0.13	-1.19
Germany nominal bund	-0.22	0.02	0.15	-0.65
.. break-even inflation	1.81	0.06	0.21	0.40
.. real rate	-2.03	-0.04	-0.06	-2.13

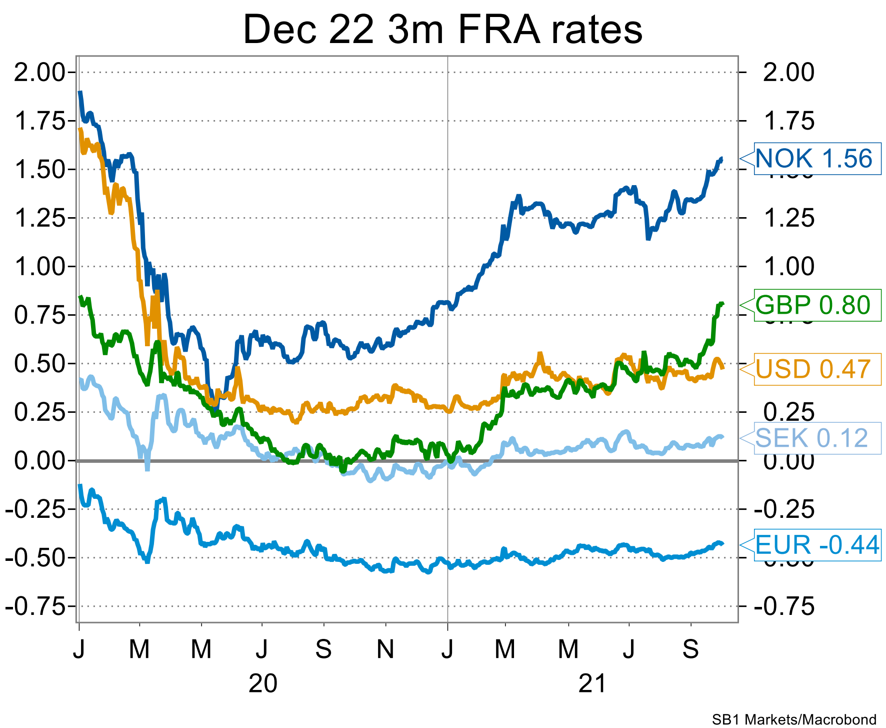
SB1 Markets/Macrobond

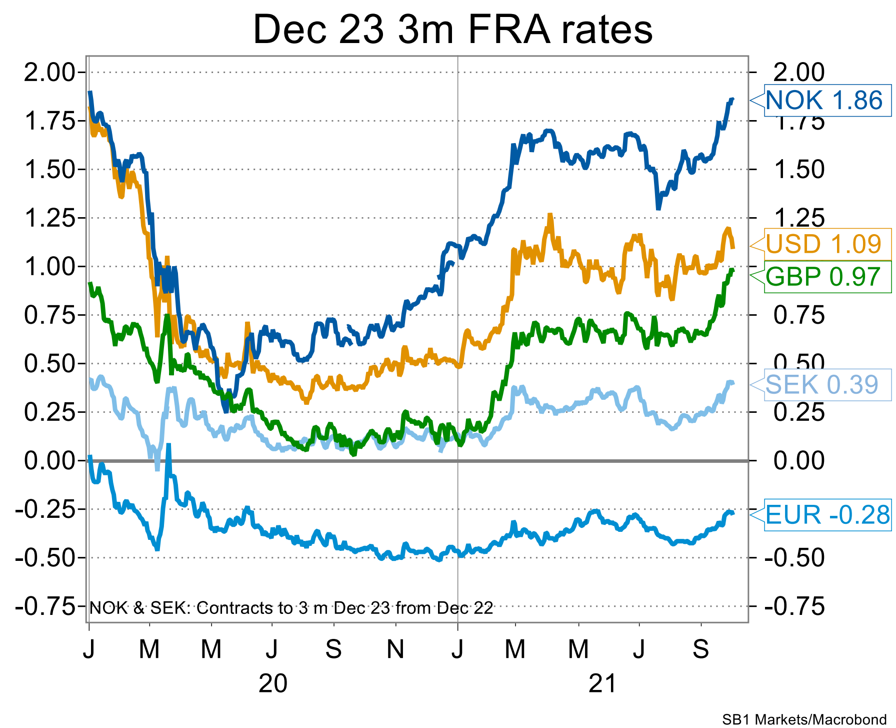
- German real yields are close to record low, the 10 y at -2.03%
- German inflation expectations have climbed to 1.81%, still below ECB's new 2% target – but among the highest prints the past decade. Is ECB finally gaining some traction in its fight to get inflation up?

SpareBank 1 MARKETS

FRAs: Up most places, now the most in the UK and in Norway. The US curve down

The GBP Dec-22 3 m FRA up 6 p, but the USD Dec-22 FRA down 5 p & Dec-23 FRA down 8 p

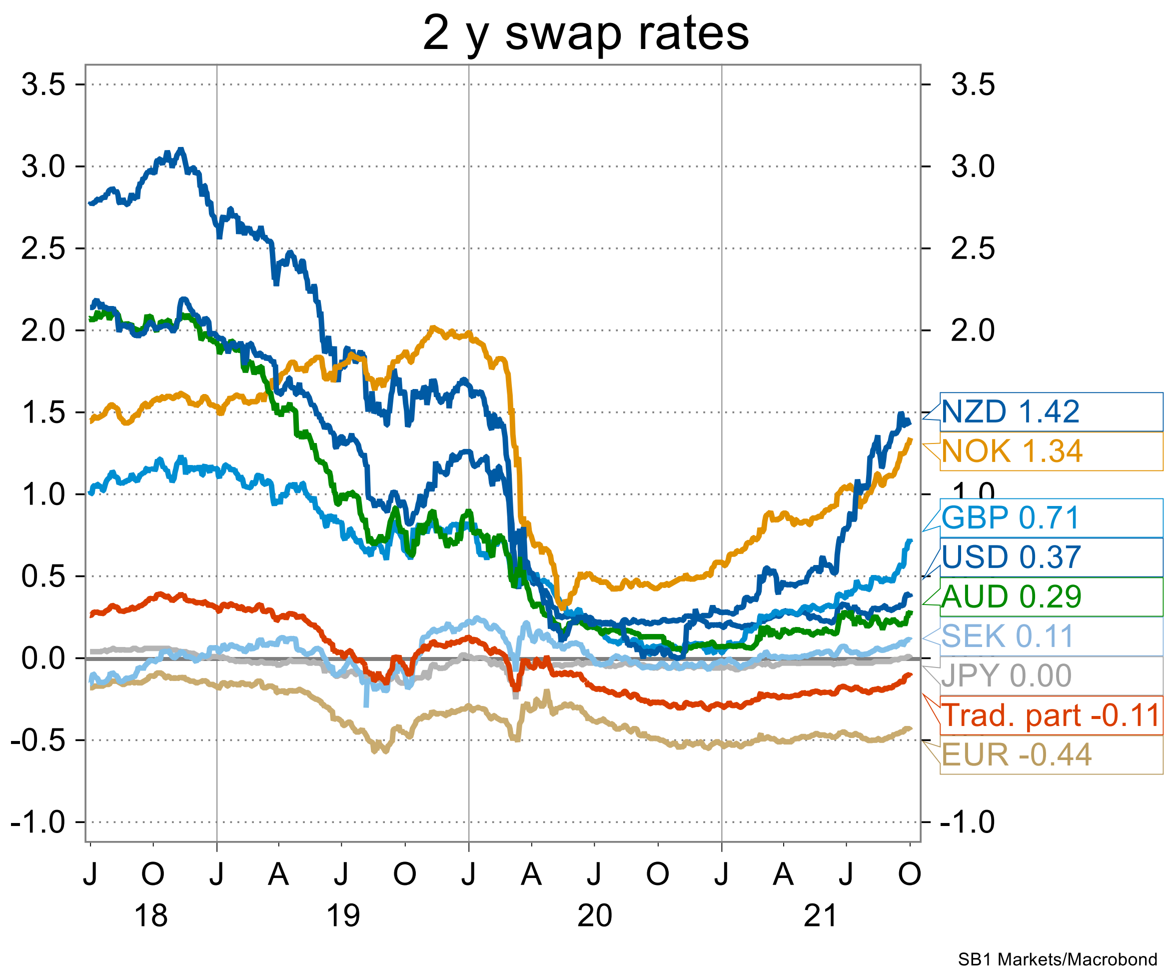


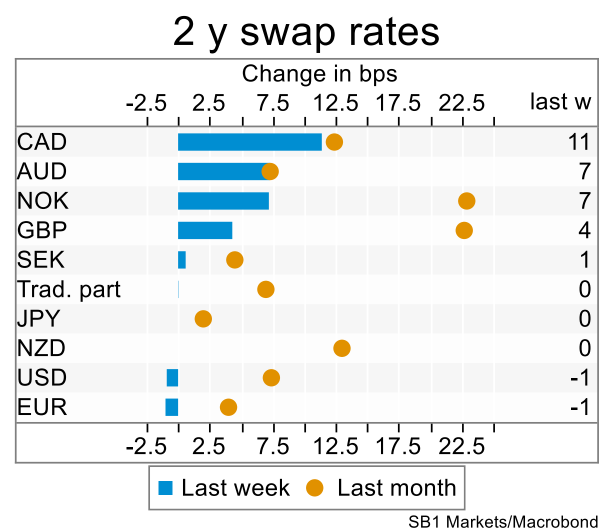


- The market expects the **Federal Reserve** to start hiking next year
- The Bank of England may start even late 2021, which the BoE governor remained us about last Monday – and the market is almost. 50/50 for a Dec hike

It's coming closer, and faster than the calendar decays

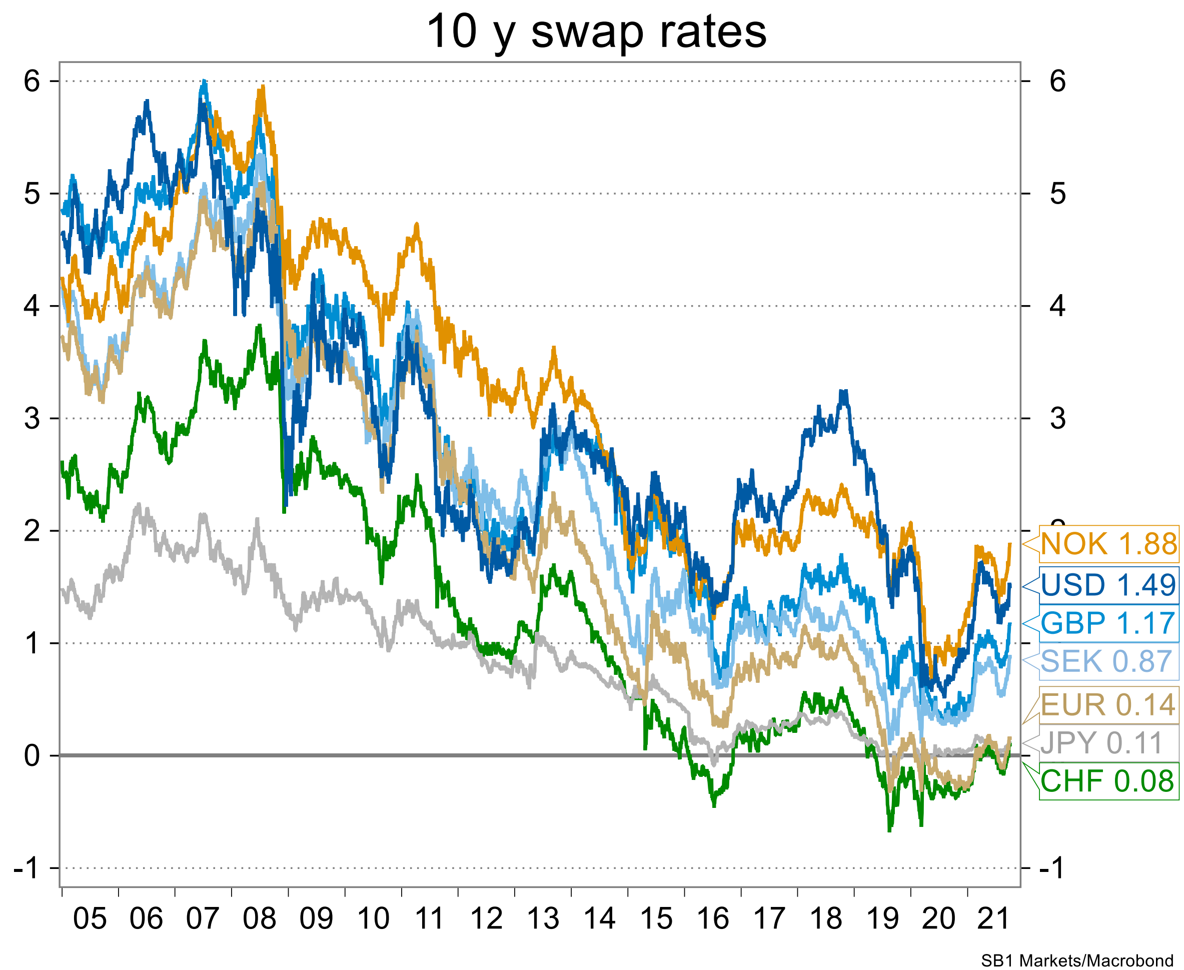
Central banks are on the move

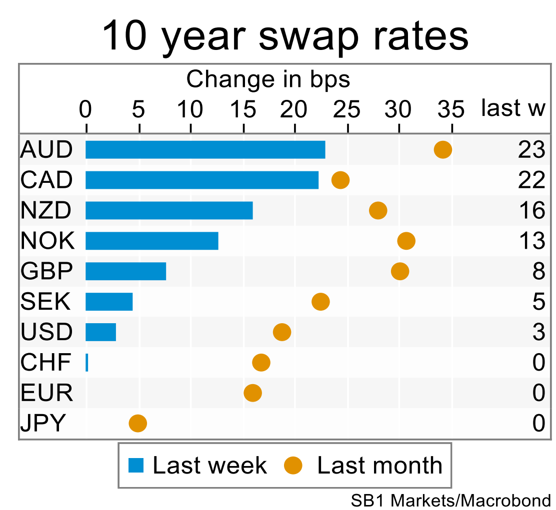




A further lift in rates, for the 6th week in a row

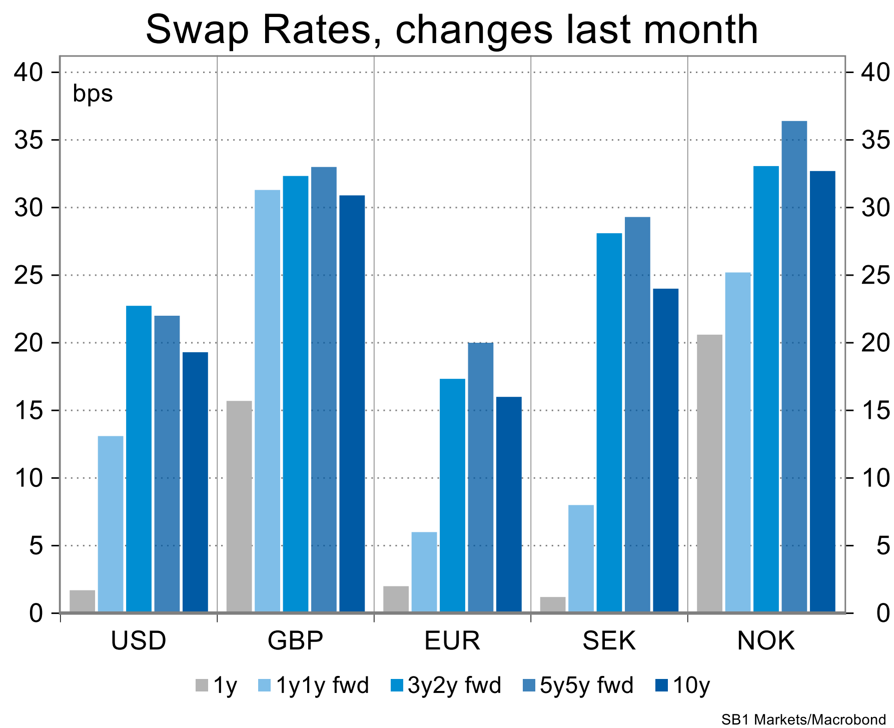
Yields in most countries have recouped the March to July loss, are on par or above the March level

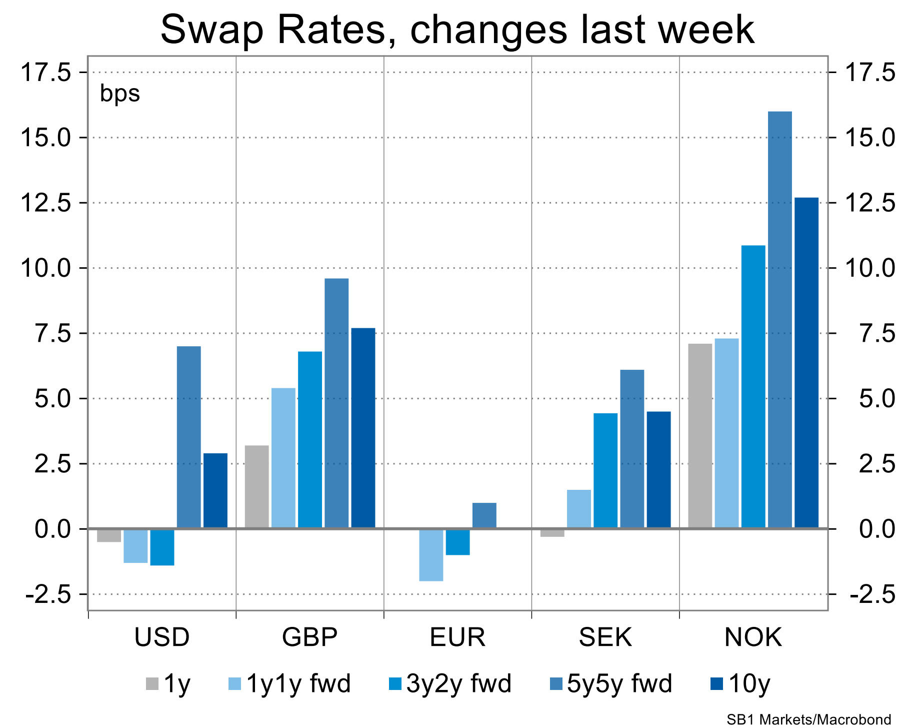




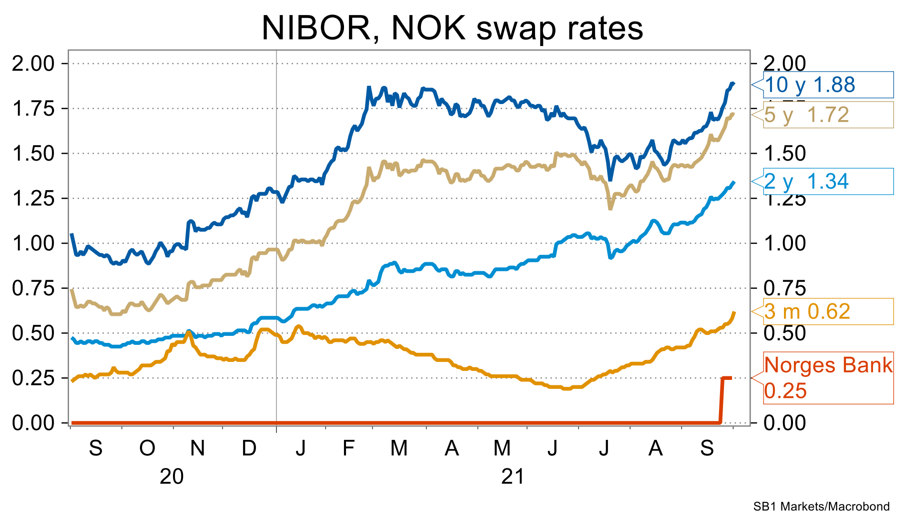
Most rates up last week too – and most in Norway

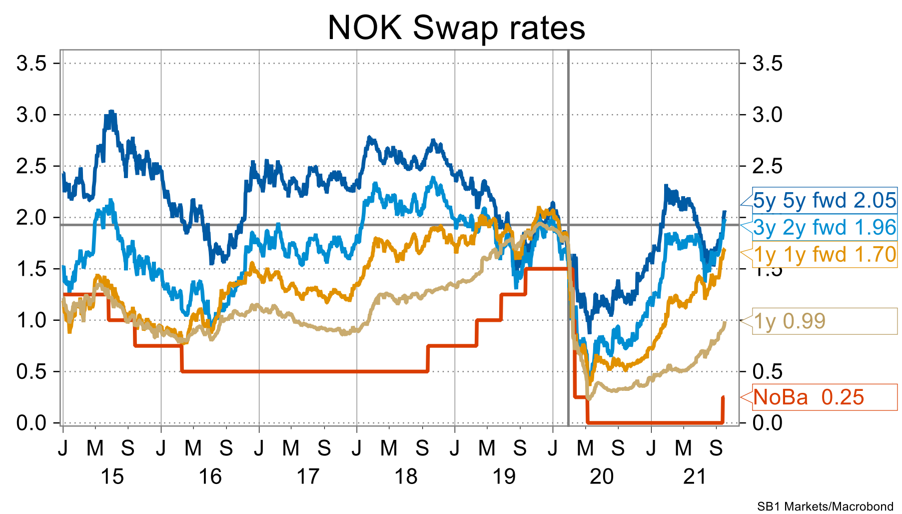
GBP rates up due to hawkish signals from the Bank of England governor

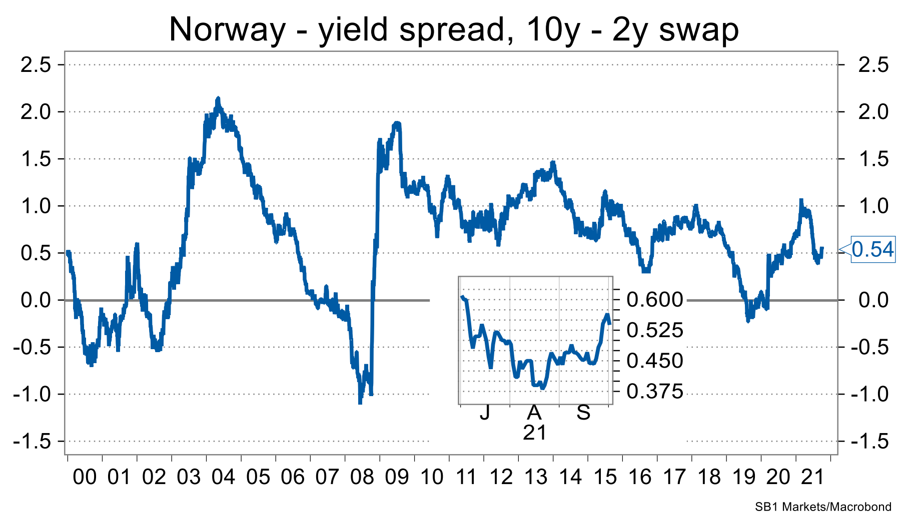


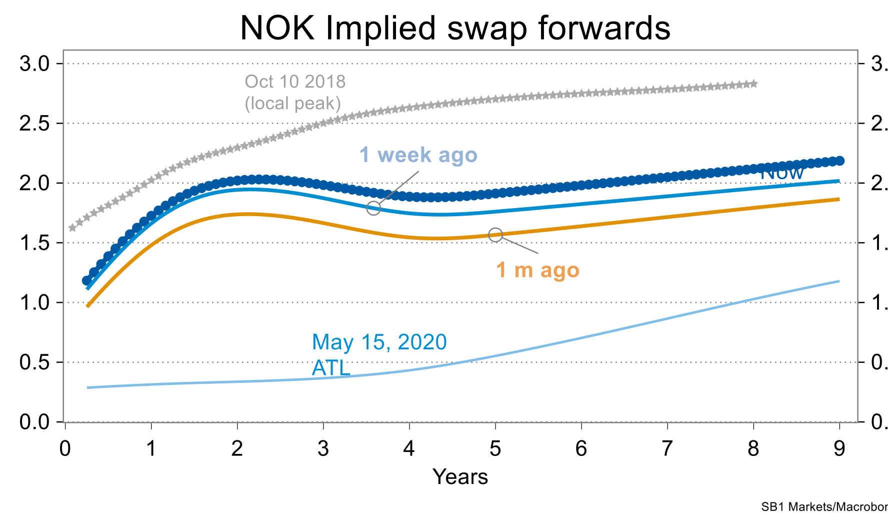


Another leap upwards, all over the curve





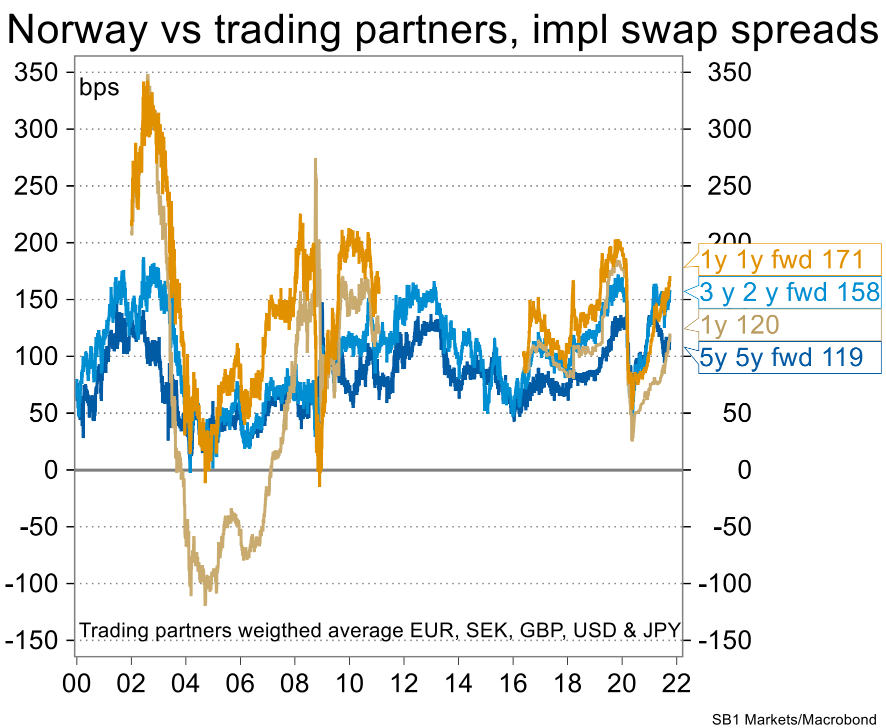


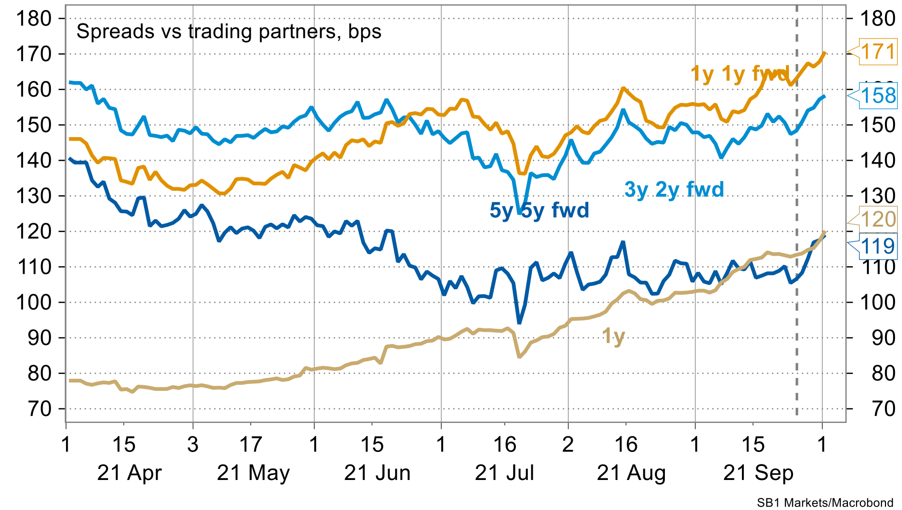


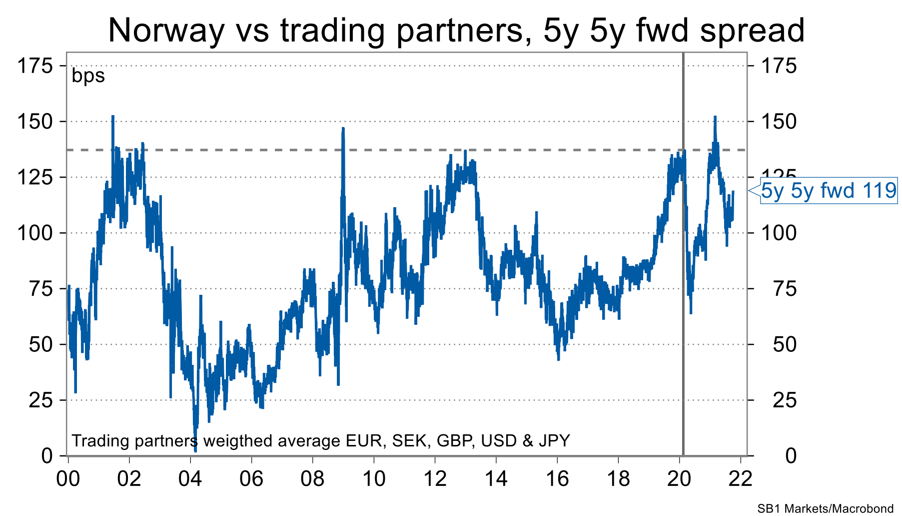
SpareBank 1 MARKETS

Forward spreads vs trading partners are drifting upwards again, all over the curve

Probably too early to make the call, but the upside potential for these spreads are not that large

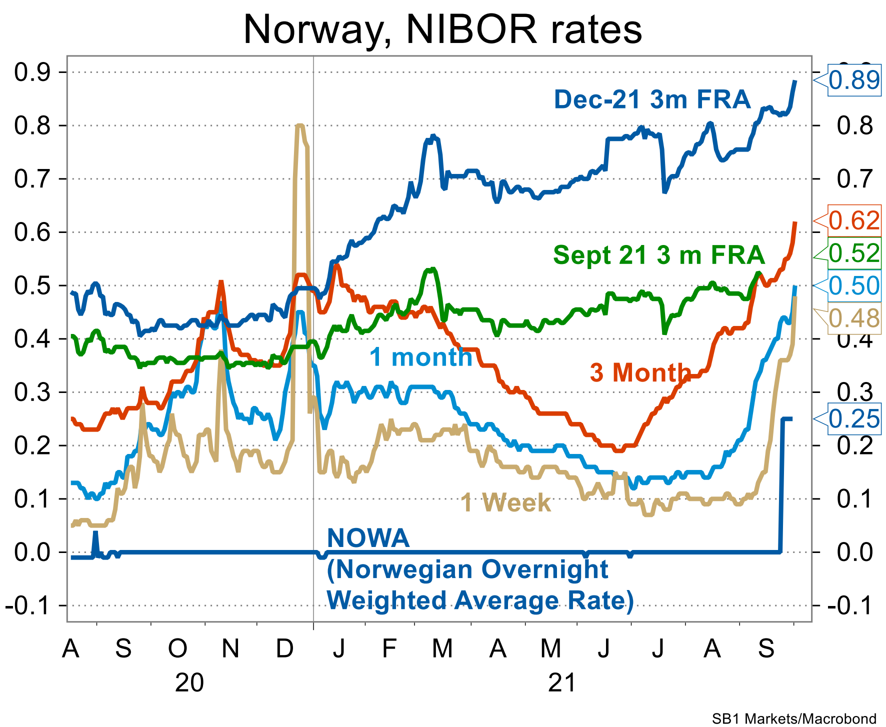


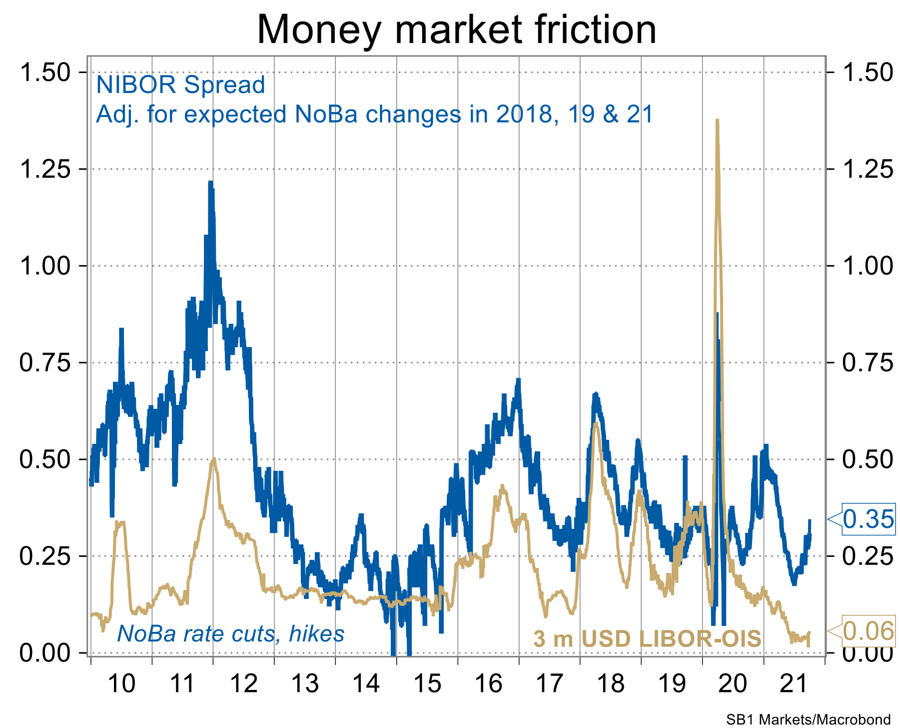




3 m NIBOR up 9 p 0.62 – as we move into the troublesome Q4

Technically, assuming a hike in December, the NIBOR spread widened 7 bps to 35 bps

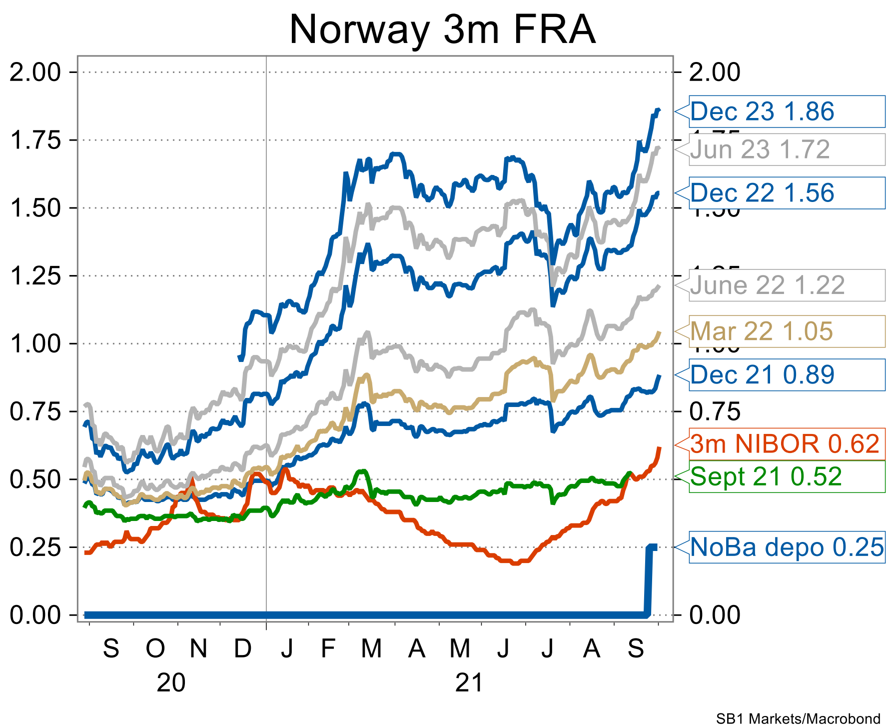


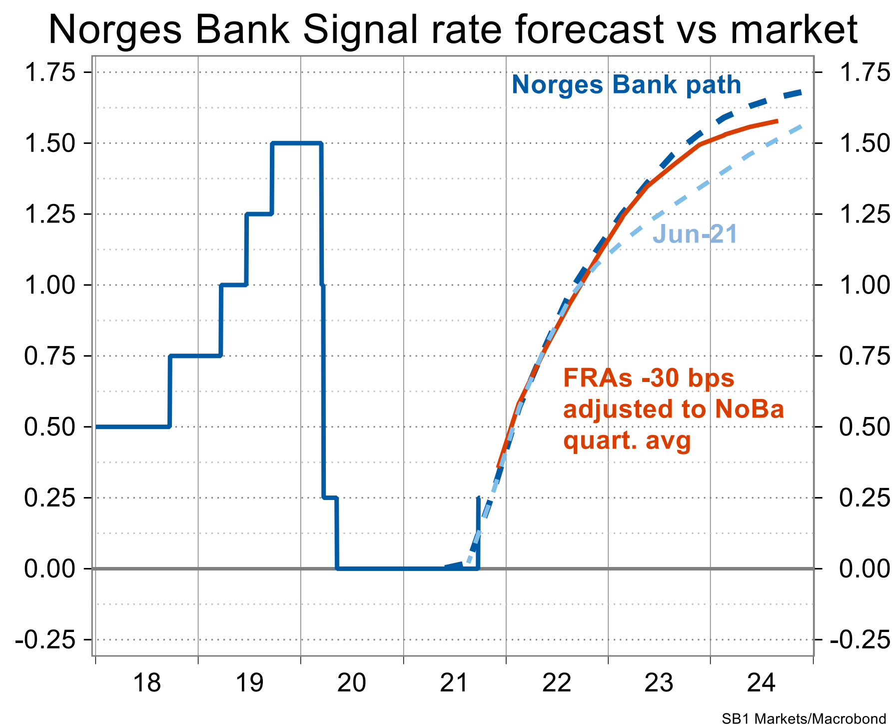


- The Dec-21 3 m FRA gained 6 bps – and even if we take for granted another NoBa hike in December, the spread has widened to 32 bps
  - » Norges Bank assumed a 35 bps spread in the Sept MPR (as in the June report)

The FRA curve sharply up last week (too)

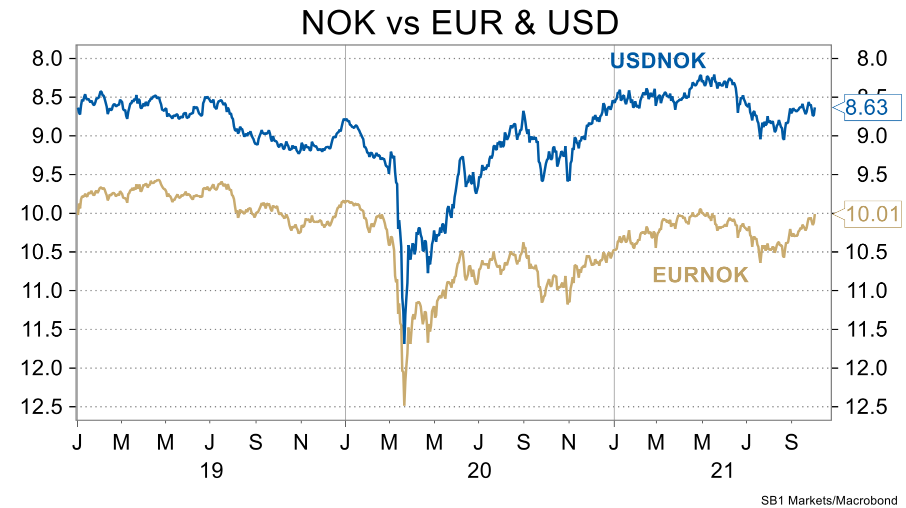
Over the previous weeks, a substantial lift in the FRA curve. Some NIBOR spread to blame

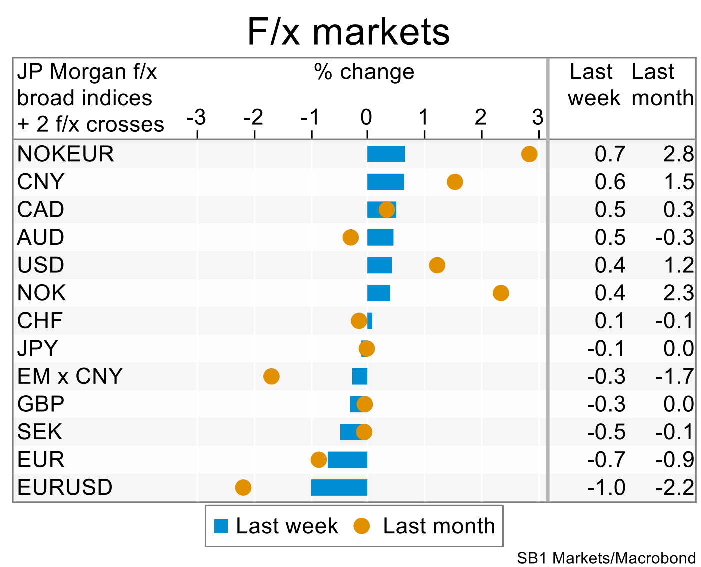




- Even if we had revised our NIBOR spread estimate at the chart to the right to 35 bsp from 30, the FRA-curve would have been closer to the NoBa path than ever before in this cycle
- We assume the market is now fully discounting a hike in December, and very likely hikes in March and June too
- The market is discounting a new NoBa hike to 0.5% in Dec by a 86% probability (the Dec-21 2 m FRA unch. at 0.83%)
- The Mar-22 FRA at 1.00% implies 80% probability for a 3rd NoBa hike in March, given a 2nd hike in December (like one week act)
- In 2023, the FRA-path is marginally below the new Norges Bank path

NOK at the top this week too. EUR at the bottom – and EURNOK to 10!



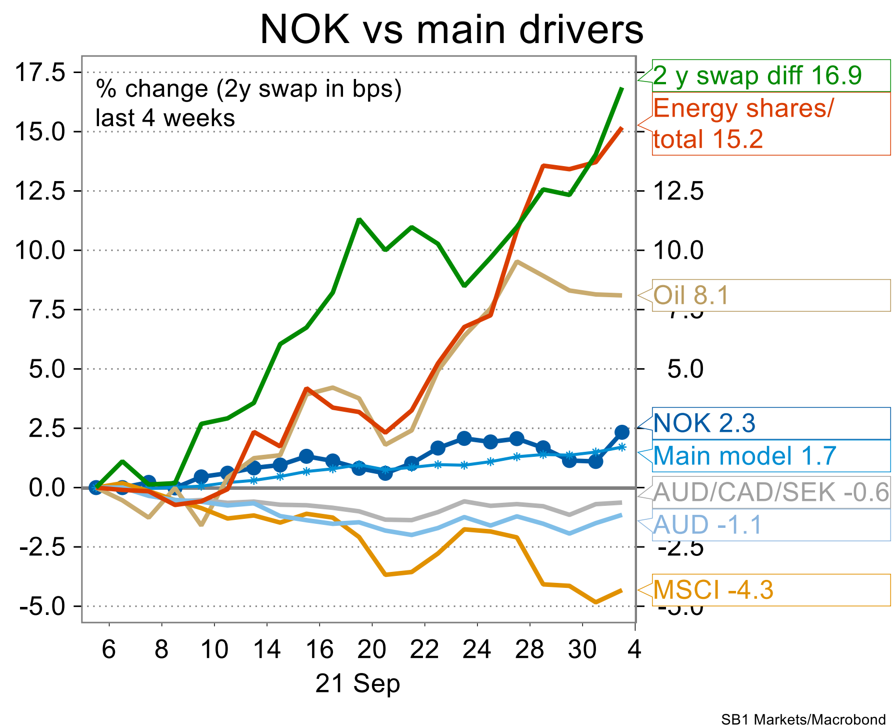


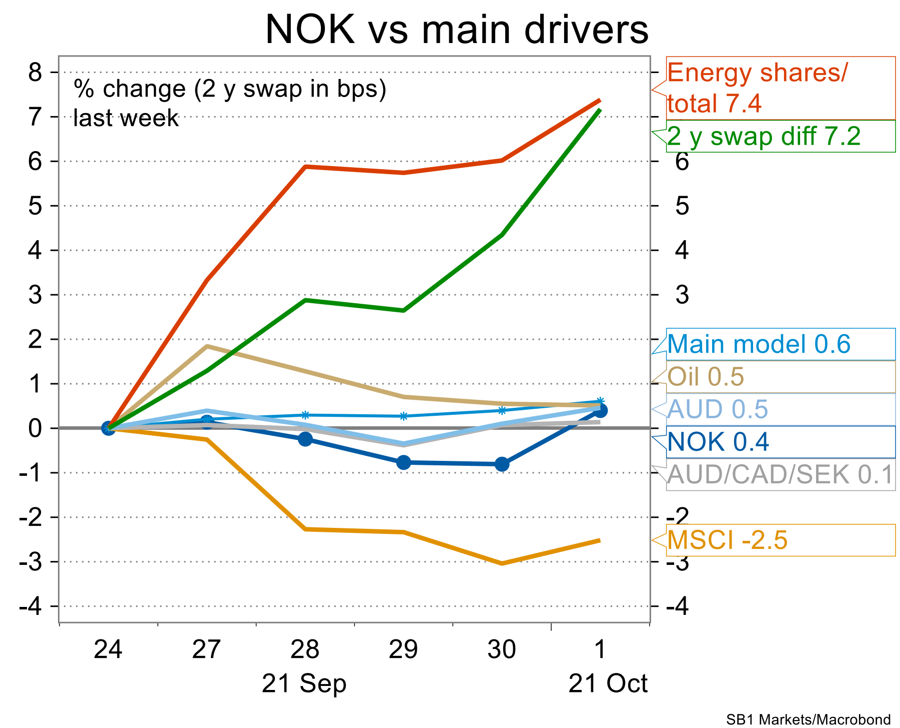
JP Morgan f/x broad indices + 2 f/x crosses	Last week	Last month
NOKEUR	0.7	2.8
CNY	0.6	1.5
CAD	0.5	0.3
AUD	0.5	-0.3
USD	0.4	1.2
NOK	0.4	2.3
CHF	0.1	-0.1
JPY	-0.1	0.0
EM x CNY	-0.3	-1.7
GBP	-0.3	0.0
SEK	-0.5	-0.1
EUR	-0.7	-0.9
EURUSD	-1.0	-2.2

SpareBank 1 MARKETS

NOK up 0.4%, our model said +0.6%

Our super-cyclical peers slightly up too – but global equities fell 2.5%





The status vs. the normal drivers:

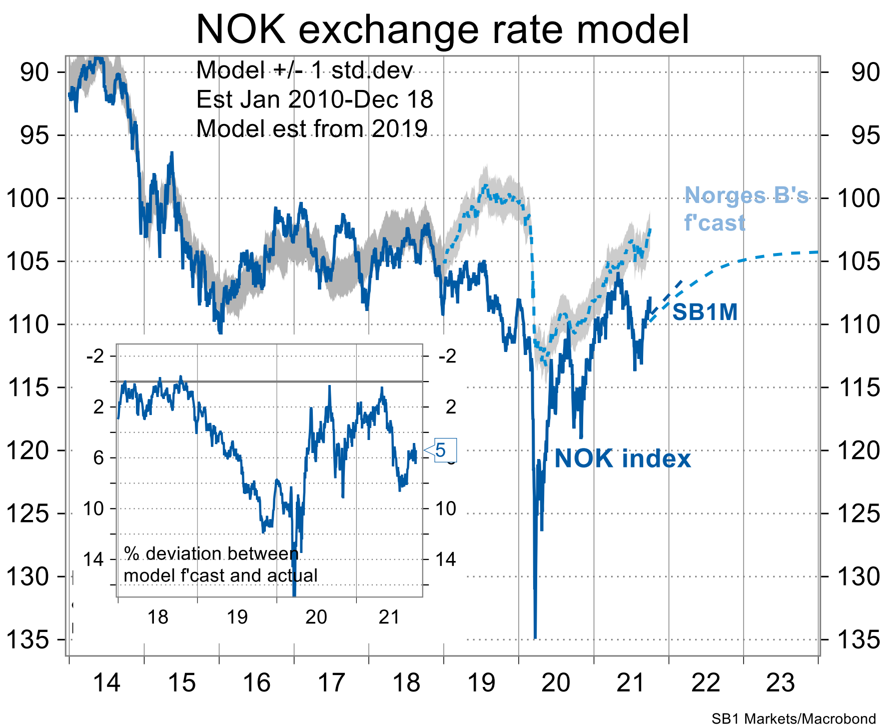
- ***The NOK is 5% weaker than suggested by our standard model (unch)***
- The NOK is 2.4% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from -4%)
- The NOK is 4% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -5)
- NOK is far (8%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (from +10%)

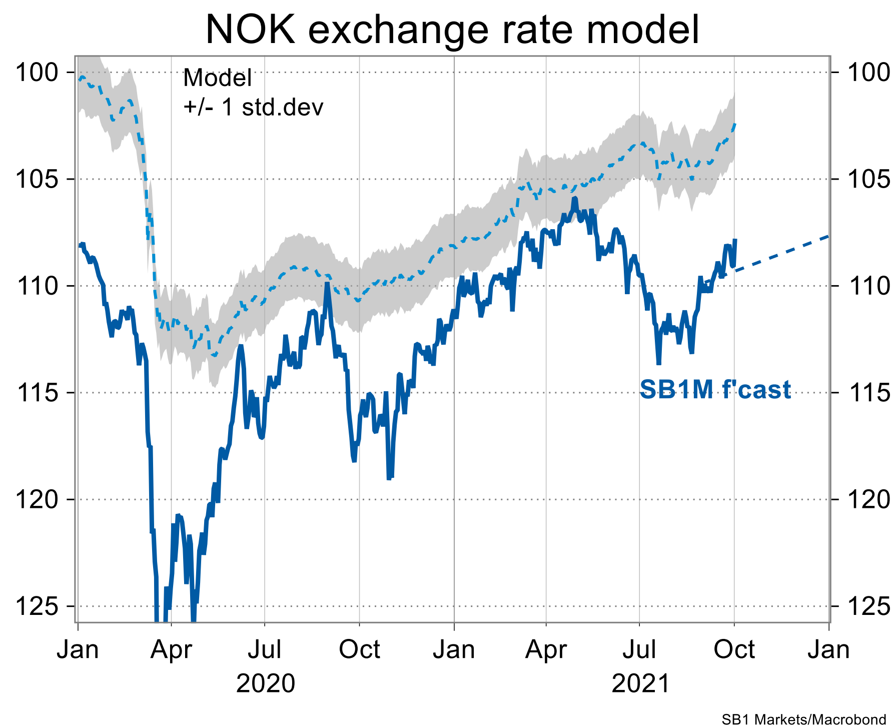
For September, we repeated our NOK buy recommendation. An October report interest rate & f/x report out this week

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 5% below our workhorse model

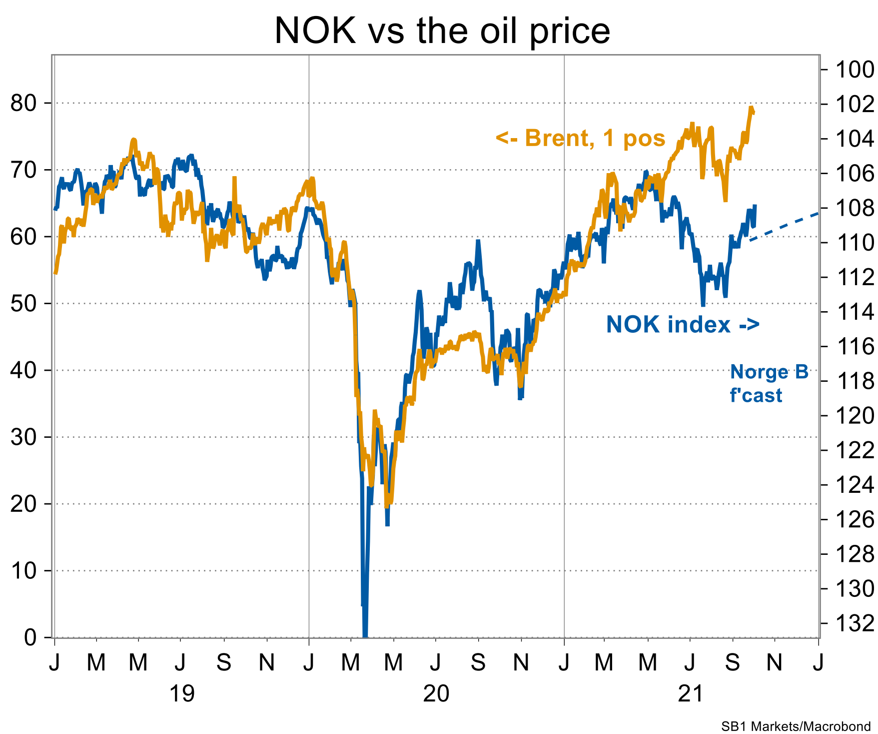
Even if the gas price is not included in our model

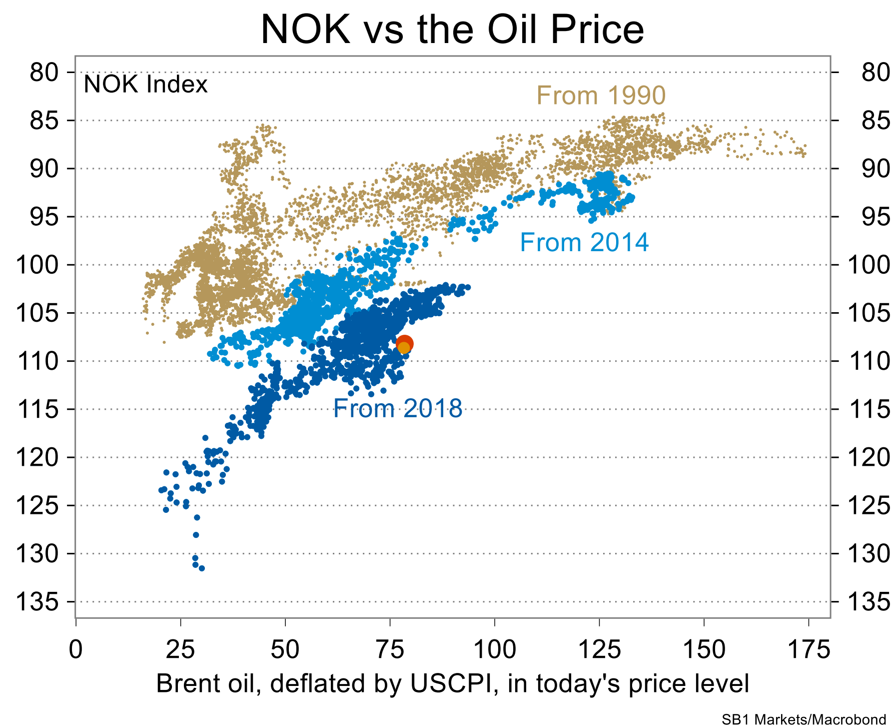




Oil marginally up, NOK marginally up – and not hurt by global risk aversion

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



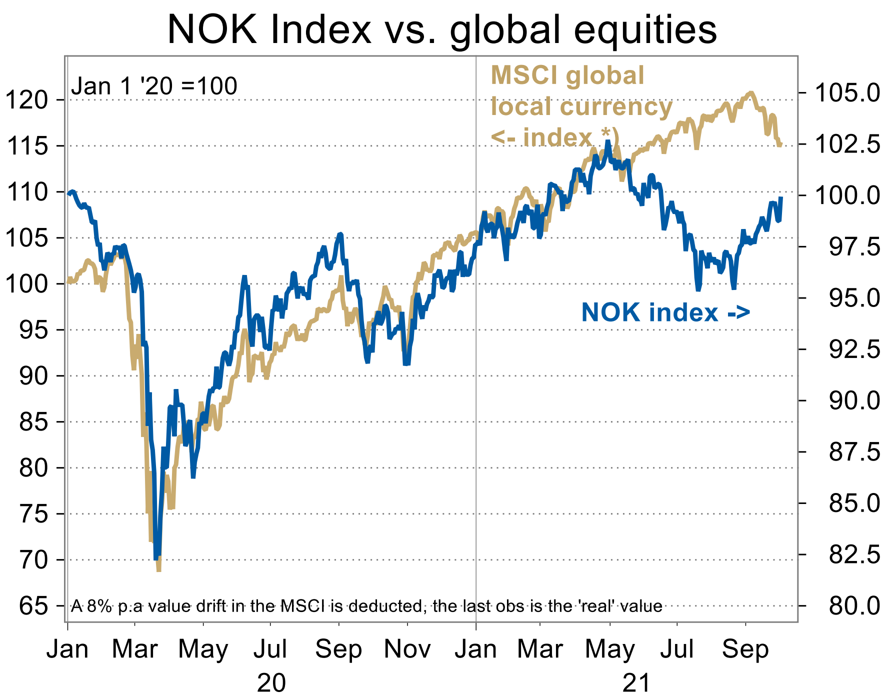


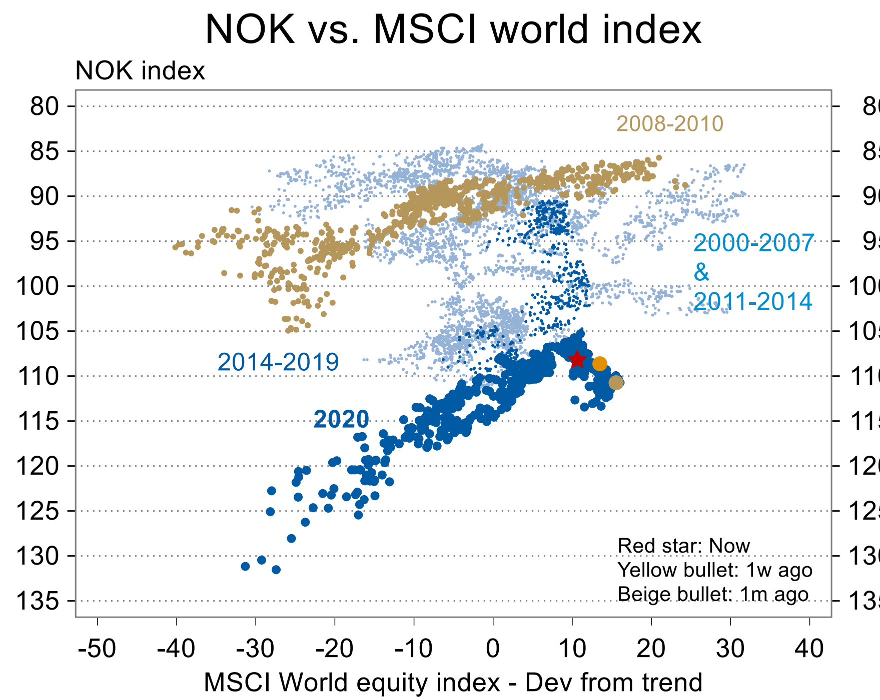
- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect.
  Within a broader model, the impact is somewhat smaller

SpareBank 1 MARKETS

The global stock market down, the NOK still up

However, the NOK has ‘lost’ 2.5% vs. global stocks since May (the gap was 9% at the peak in August)





- 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. (On 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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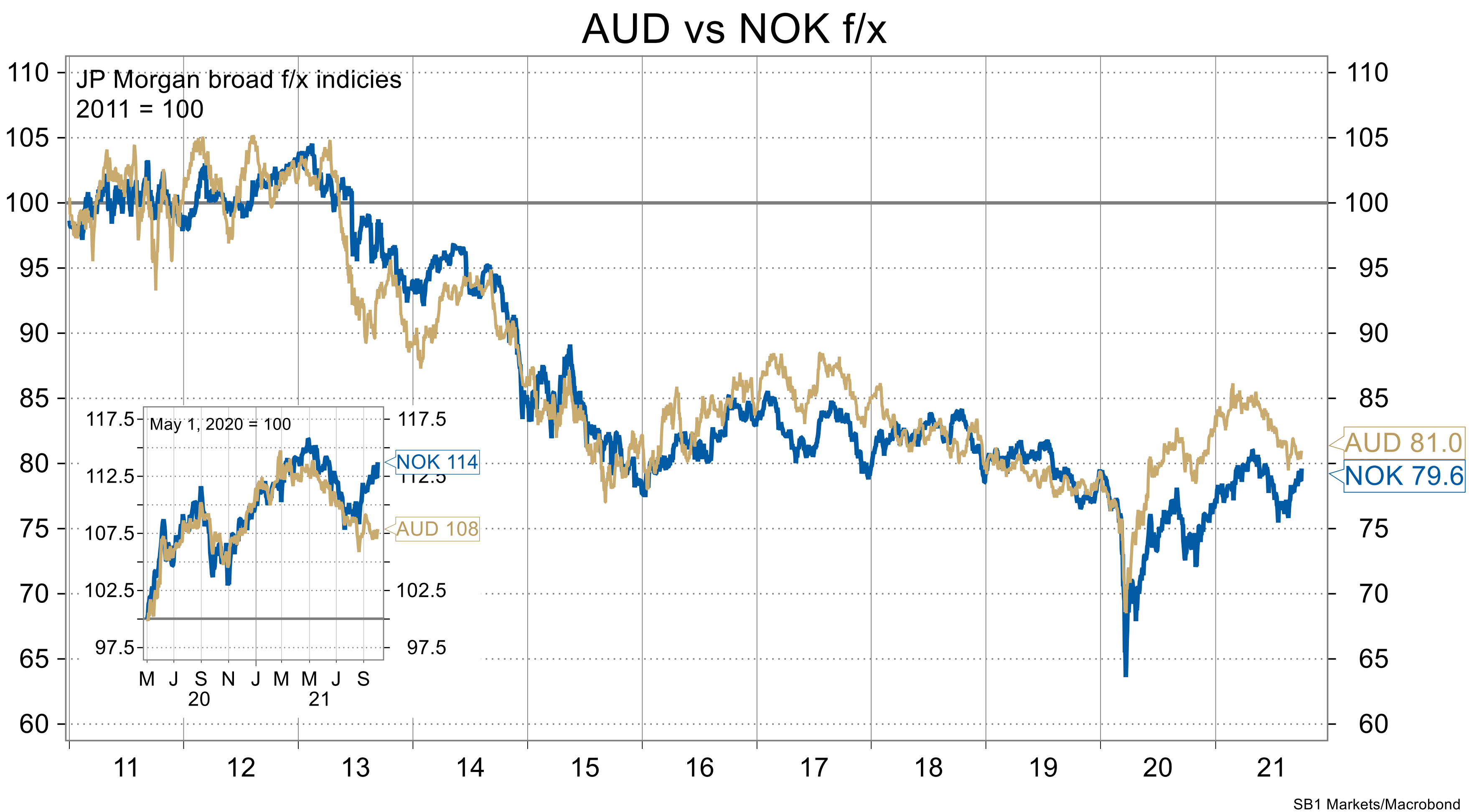
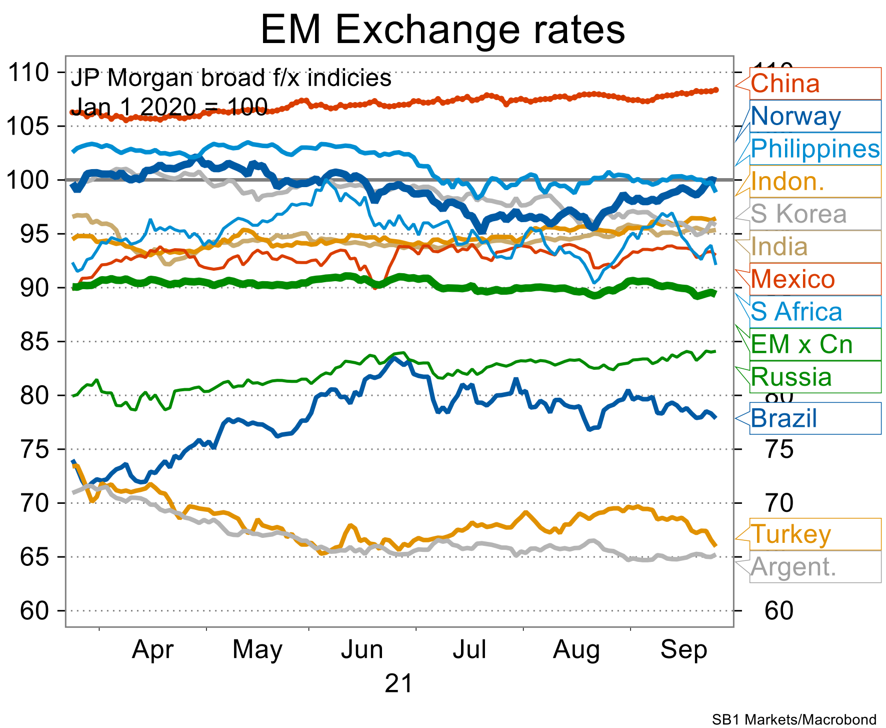
NOK and AUD up last week

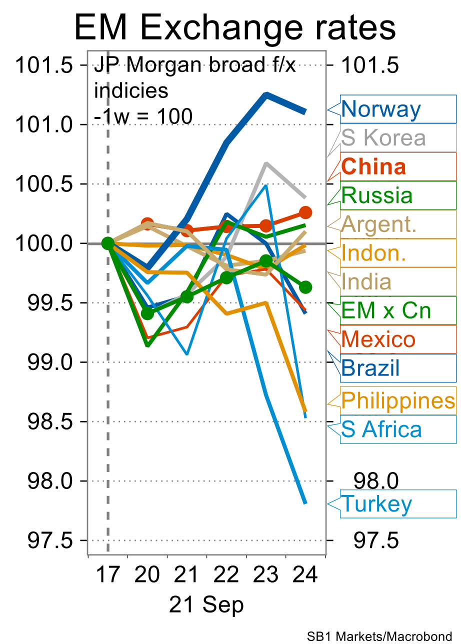
The two are almost back to the 2011 parity ☺ (from which they never since have deviated much)

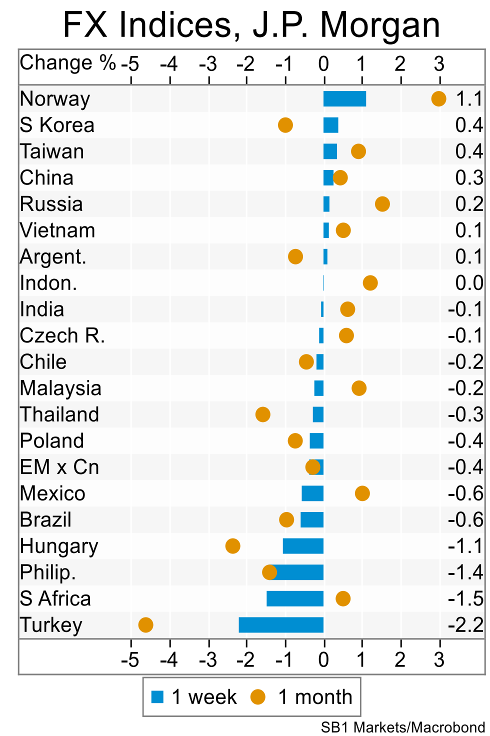


EM x China further down, the CNY still on the way up

The Turkish lira on the way down again, the central bank has lost confidence







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