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Macro Weekly

Week 41/2021

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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 most places but more countries reported an increase last week. The number of hospitalised patients in the rich part of the world is falling rapidly, and the level is low (except some few pockets)
- In the West, mobility is back to normal (Europe) or on the way up (US), and it has recovered in most of Asia. Airline traffic did not rise further last week, but it gradually narrowing the gap to the pre-pandemic level

The economy, part I

- **Global PMI/ISM**
  - » **The global composite PMI** recovered 0.6 p of the 6 p loss the previous months, and at 53.0 in September the index signals growth slightly above trend. The outcome was far better than preliminary data from rich countries indicated. Emerging Market PMIs rose significantly, and not just due to the lift in the Chinese PMIs. Here, the service sector reported normal growth again, following the setback in August, when the fight against the virus slowed the economy substantially. Just some very few countries reported a contraction in Sept. **Delivery times** are still high but are not rising faster. The same goes for **input/output prices**, and peak inflation may be near, albeit at a very high level in many countries. In the **US**, **the services ISM survey** kept up at 60+ level, better than expected. **Sweden** is even better, at the top of the PMI league.
- **USA**
  - » The real story from the labour market report was not the below consensus growth in non-farm payrolls (194’ vs. 500’, mostly due to slow school starts, covid-19 related – and the household survey reported decent 500’ growth in employment) but
    - the decline in the already low **participation rate** (expected up)
    - the 0.4 pp decline in the **unemployment rate** to 4.8% (expected down to 5.1% - and the Fed 3 weeks ago expected the 4.8% level to be reached in Dec
    - the 0.6% gain in **wages** vs. expected 0.4%
    - the small business survey reporting another ATH in the share of companies **not being able to fill their vacancies**, their **hiring plans** are very ambitious, and the share of companies that **have hiked or plan to hike wages** surged to another ATH and thus there are
    - NO traces of the almost 8 mill workers that lost their **temporary extra unemployment benefits** in early Sept
  - » So what will the Fed say? A formal tapering decision before Christmas seems to be a done deal. It just requires that the employment is sufficiently on the way towards max employment. The inflation target more than met already. In order to start hiking rates, the Fed must conclude the maximum employment target is met. The Bank can still tread the water, blame the virus, and say that employment is still too low, which no doubt is correct. The virus may of course be the main reason for the still low employment & participation rates. However, for each month without any signs of higher participation/less mismatch it is becoming more likely that we have a supply side problem, not a demand shortfall. The Fed can’t do much to fix the former, and at one stage, the Bank may have to acknowledge this. Bond yields rose further at Friday, and the stock market fell, at least after market participants had reflected over this labour market report

Last week: The economy, part II

- **Global auto sales**
  - » Sales very likely fell sharply in September too, and no doubt due to lack of components, and not because final demand is weak. China has not reported final data but US, EMU, UK, Japan and several Emerging Market countries reported decline in sales/registrations. Sales are down 25% vs the 2019 level! China (probably) the least, Europe the most, 30 – 40% down. Just one country is reporting top notch sales, Norway. We do really not understand how it is possible. The only explanation is that factories earn higher margins here than anywhere else?
  - » **The global auto industry** report the weakest PMI among all industries, and the **German auto industry** has cut production by almost 60%
- **EMU**
  - » **Retail sales** rose 0.3% in August, expected flat, and the level is close to the pre-pandemic trend. Not that impressive, given that services are still well below
  - » **Manufacturing production** probably fell more than 1.5% in August, as Germany surprised sharply by a close to 5% m/m decline! The auto industry is mostly to blame but other industries are now feeling the impact of the 60% decline in production
- **Sweden**
  - » **GDP** fell 3.8% in August, following the incredible strong prints in June and even more in July – but the level was still 1.6% down vs Q4-19. The decline was broad, the most in hotels and restaurants (which still are up 8% vs. Q4-19!), and construction (down 8%). We expect Q3 GDP to climb almost at the same pace as in Q2, 3.6%
- **Norway**
  - » **'Mainland' GDP** rose 1.1% in August (NoBa expected 1.0%, consensus 0.9%, we 0.6%), but 0.8 pp was due to a 46% surge in fisheries as the mackerel catch was much larger than usual in August. Services grew further, now especially in business services (contributing 0.4 pp). Constructing activity fell due to a decline in housing investments. However both Mainland business and oil companies increased their investments. Consumption of goods fell but consumption of services rose more. In sum, a weaker report than expected
  - » **Manufacturing production** was unchanged in August but has been trending down since the spring, with oil related industries on the downside
  - » **House prices** rose by 0.2% in September, we expected flat. Prices in Oslo continued upwards but prices fell in the close surroundings. The inventory of unsold homes fell sharply to the lowest level ever, and the market balance signals a 0.75 – 1% monthly growth rate. However, rates are on the way up, which probably keeps the prices in check
  - » **The NHO Q3** survey reports the highest growth and the best outlook in a decade. Employment plans are far better than anytime before

The Calendar: A full China check; US labour market, retail sales; Norwegian CPI & budget

Time	Count.	Indicator	Period	Forecast	Prior
Monday Oct 11					
08:00	NO	CPI YoY	Sep	3.9% (4.4)	3.4%
08:00	**NO**	**CPI Underlying YoY**	**Sep**	**1.3%(1.2)**	**1.0%**
Tuesday Oct 12					
08:00	UK	Average Weekly Earnings	Aug	6.9%	8.3%
08:00	UK	Unemployment LFS/ILO	Aug	4.5%	4.6%
08:00	**NO**	**National budget, main estimates**	**2022**		
11:00	GE	ZEW Survey Expectations	Oct	24	26.5
12:00	US	NFIB Small Business Optimism	Sep	99.5	100.1
16:00	US	JOLTS Job Openings	Aug	10925k	10934k
Wednesday Oct 13					
	CH	Trade Balance	Sep	$47.22b	$58.34b
	CH	**Exports YoY**	**Sep**	**22.0%**	**25.6%**
	CH	**Imports YoY**	**Sep**	**22.1%**	**33.1%**
08:00	UK	Monthly GDP (MoM)	Aug	0.5%	0.1%
08:00	UK	Manufacturing Production MoM	Aug	0.0%	0.0%
11:00	EC	Industrial Production SA MoM	Aug	-1.6%	1.5%
Thursday Oct 14					
03:30	CH	CPI YoY	Sep	0.9%	0.8%
03:30	CH	PPI YoY	Sep	10.6%	9.5%
09:30	SW	CPI YoY	Sep	2.7%	2.1%
09:30	**SW**	**CPIF Excl. Energy YoY**	**Sep**	**1.7%**	**1.4%**
10:00	NO	New home sales, stars	Sep		
14:30	US	Initial Jobless Claims	Oct-09	328k	326k
14:30	US	PPI Final Demand YoY	Sep	8.8%	8.3%
Friday Oct 15					
08:00	NO	Trade Balance	Sep		42.6b
11:00	EC	Trade Balance SA	Aug		13.4b
14:30	US	Empire Manufacturing	Oct	25	34.3
14:30	**US**	**Retail Sales Advance MoM**	**Sep**	**-0.3%**	**0.7%**
14:30	US	Retail Sales Control Group	Sep	0.4%	2.5%
16:00	US	Business Inventories	Aug	0.7%	0.5%
16:00	US	U. of Mich. Sentiment	Oct P	73.5	72.8
During the week					
	US	**Atlanta Fed, median wage, YoY**	**Sep**		**3.9%**
	CH	**Aggregate Financing CNY**	**Sep**	**3110b**	**2960b**
	CH	New Yuan Loans CNY	Sep	1810b	1220b
Monday					
04:00	**CH**	**GDP SA QoQ**	**3Q**	**0.4%**	**1.3%**
04:00	CH	GDP YoY	3Q	5.0%	7.9%
04:00	**CH**	**Retail Sales YoY**	**Sep**	**3.5%**	**2.5%**
04:00	**CH**	**Industrial Production YoY**	**Sep**	**3.9%**	**5.3%**
04:00	**CH**	**Fixed Asset Investment YTD YoY**	**Sep**	**9.0%**	**8.9%**

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

- **China**
  - » **Credit, inflation & foreign trade** data during this week & and the full **Sept/Q3 real economy** package early Monday morning. Growth has been slowing but Sept data could bring some relief, as the virus retreated. Services were reporting normal growth again, and the manuf. PMIs stabilised. Focus would still be at **credit and housing data**, which may have deteriorated further. Q3 **GDP** growth is expected just at 0.4% q/q, a 1.6% annualised pace
- **USA**
  - » The **Jolts (job openings, vacancies)** report is the most exiting together with Atlanta Fed's **median wage** growth data. Vacancies are expected unch in August, at a record high level
  - » **Retail sales** will decline due to the sharp reduction in auto sales but the 'core' is expected further up, though mostly due to higher prices, we assume
- **EMU**
  - » **Industrial production** probably fell more than 1.5% in August, even if orders & surveys are strong. Blame the lack of supplies which is creating problems also outside the auto sector
- **UK**
  - » **Wage inflation** is high y/y but monthly increases have slowed. Still numerous reports signal serious labour shortages, and rapid wage growth in many sectors. The official vacancy rate is record high, by far. **Unemployment** is heading down
- **Sweden**
  - » **Inflation** is expected to turn rapidly north in September but the core rates is assumed to stay well below the 2% target
- **Norway**
  - » **The outgoing government** publishes its last budget Tuesday morning. We expect the non oil structural deficit to decline from the 12.0% of Mainland GDP level in 2021 (vs. 12.4% in the May Revised 2021 budget) to 10.2 % of GDP in 2022, equalling 3% of the estimated value of the Oil Fund by end of 2021. If so, the budget is formally back on track but given lofty global asset valuations, the transfer from the Fund should have been well below as the economy recovers to above a normal activity level in 2022. As a x-check, the non-oil structural deficit was NOK 244 bn (7.6 of GDP in the 2020 budget, before the virus hit. Now it may be close to NOK 350 bn, and the underlying budget stance has been weakened through the pandemic. We hope we are dead wrong ☺ Anyway, the overall central gov. budget will be in plus, as oil and gas revenues will be more than decent
  - » **The new 'red/green' government**, which will take seat at Friday, will after some weeks present its changes to the Parliament
  - » In the **CPI report** this morning, the headline rate will shoot up due to the large increase in energy prices, we expect to above 4% in Sept. The core was at 1.0% in Aug. We expect 1.2% now

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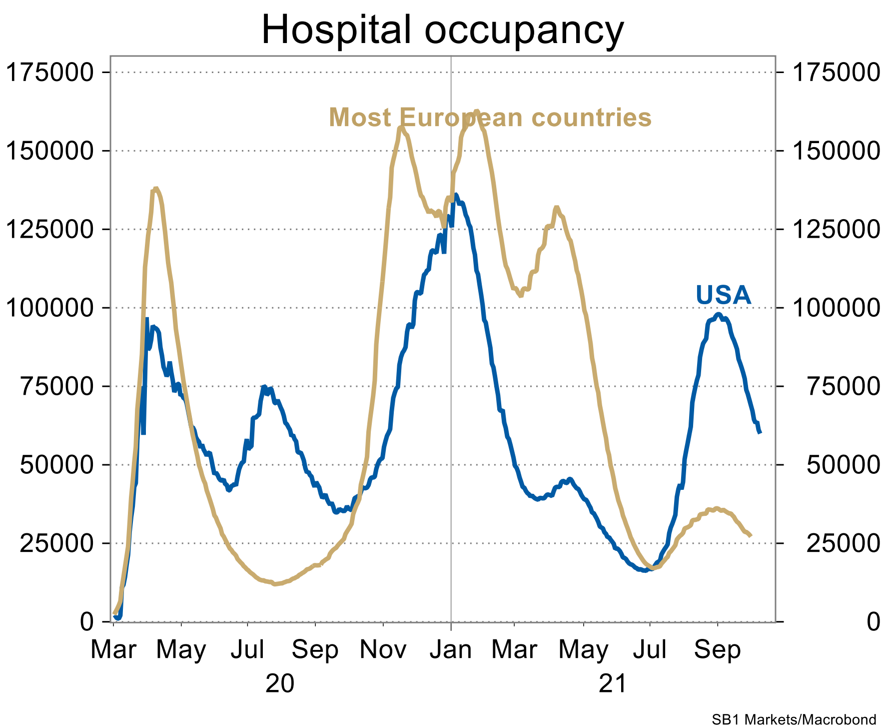
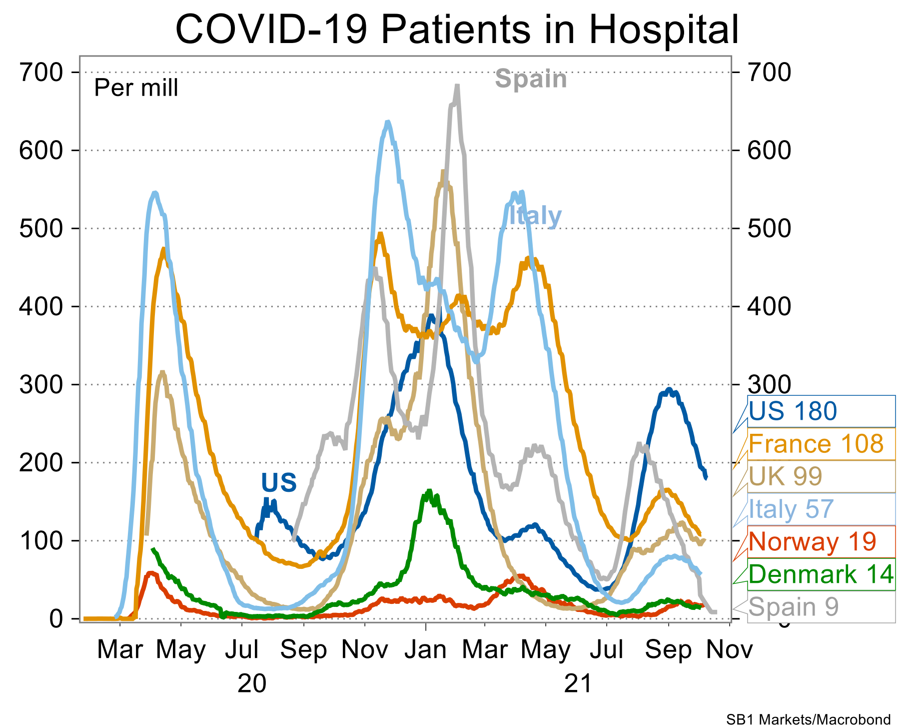
New cases down almost most places, no. of hospitalisations is falling rapidly

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

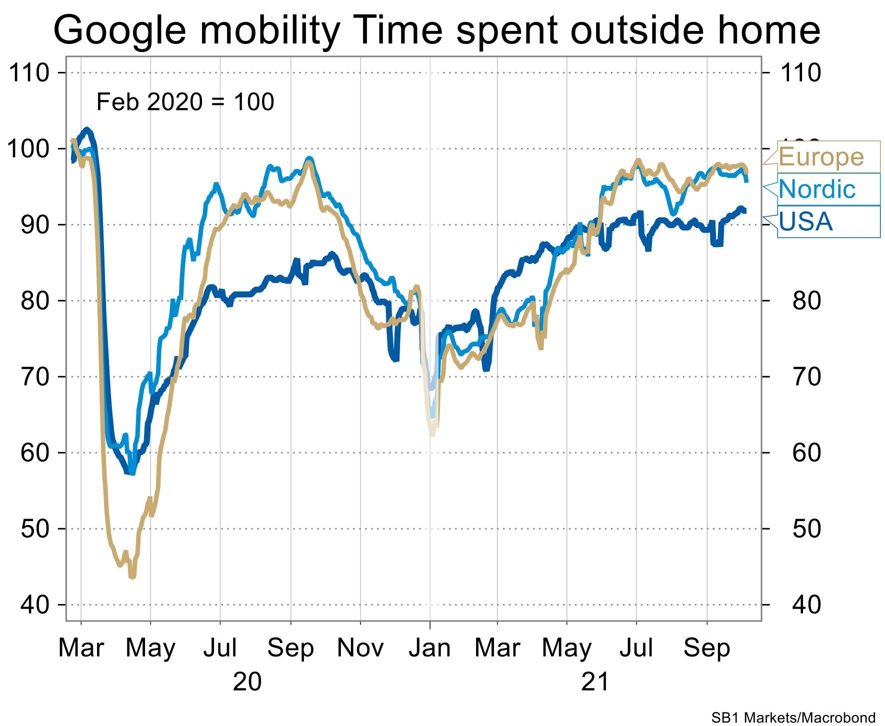


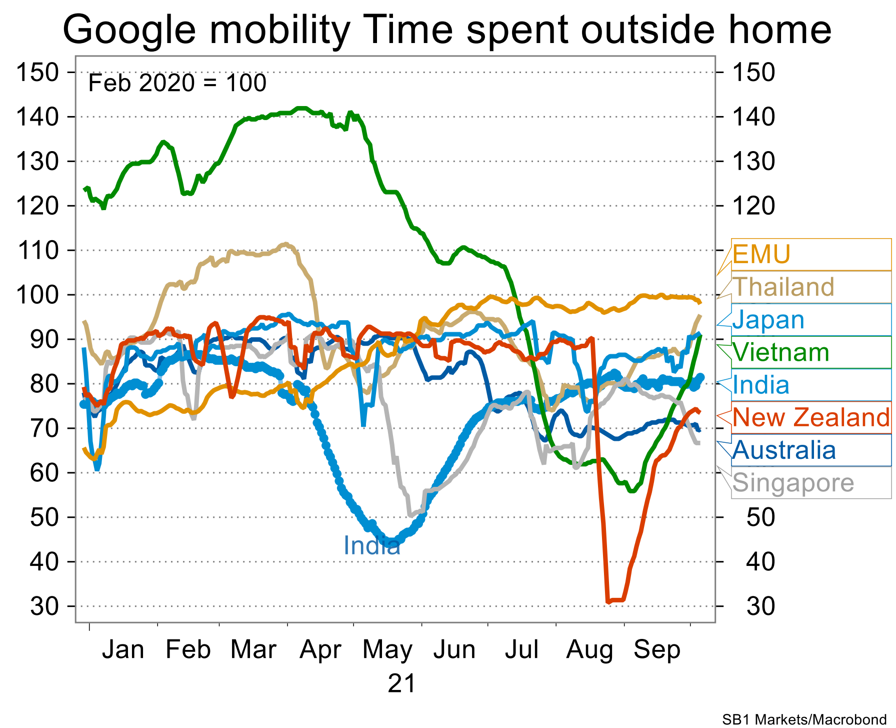


- The only risk now: A new vaccine resistant virus mutation

US mobility is recovering, Europe remains at a high level

Asia on the way up too, and some countries are back at pre-Delta levels





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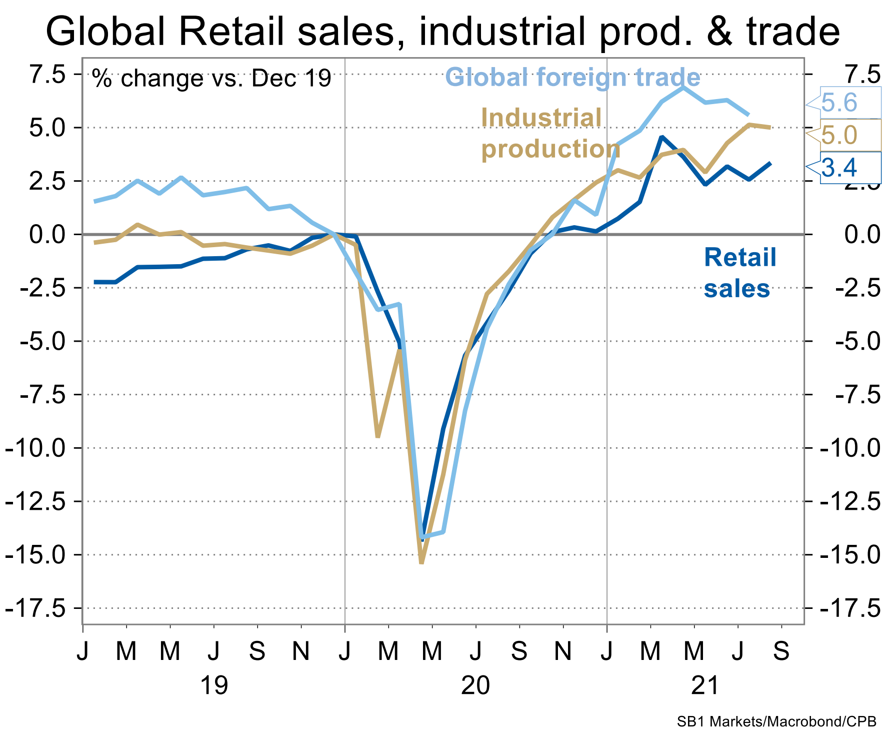
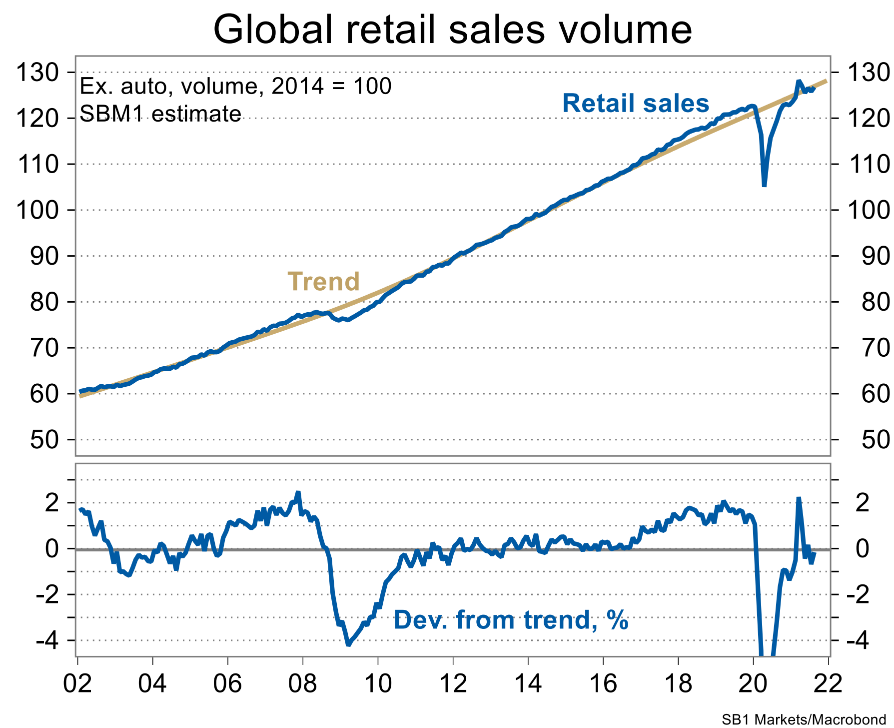
Global retail sales have flatted, global trade is declining

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
- **Global foreign trade** peaked in May and has fallen slightly thereafter. The level is still well above the pre-pandemic level

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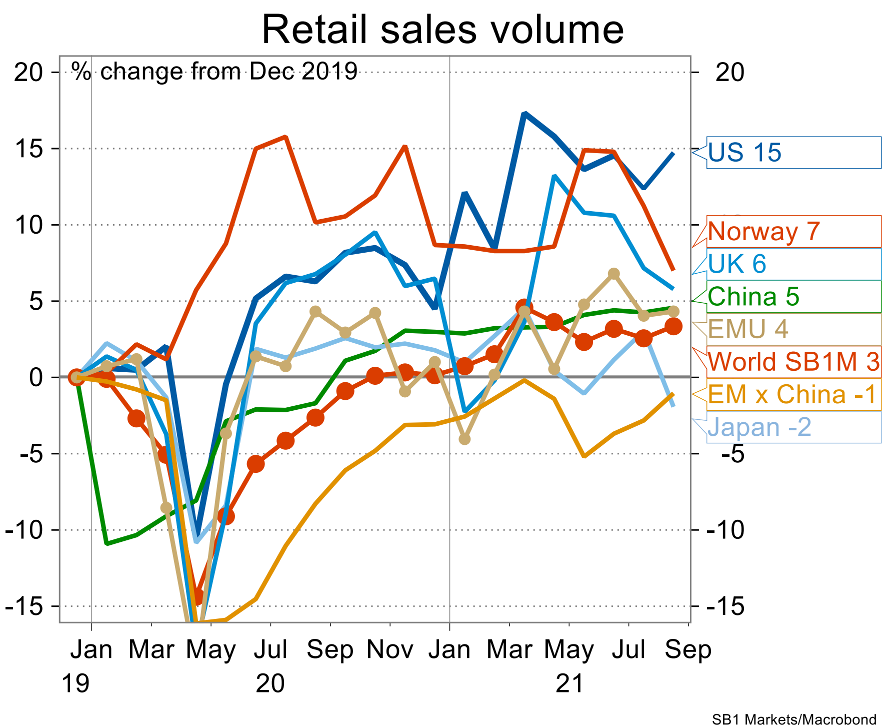
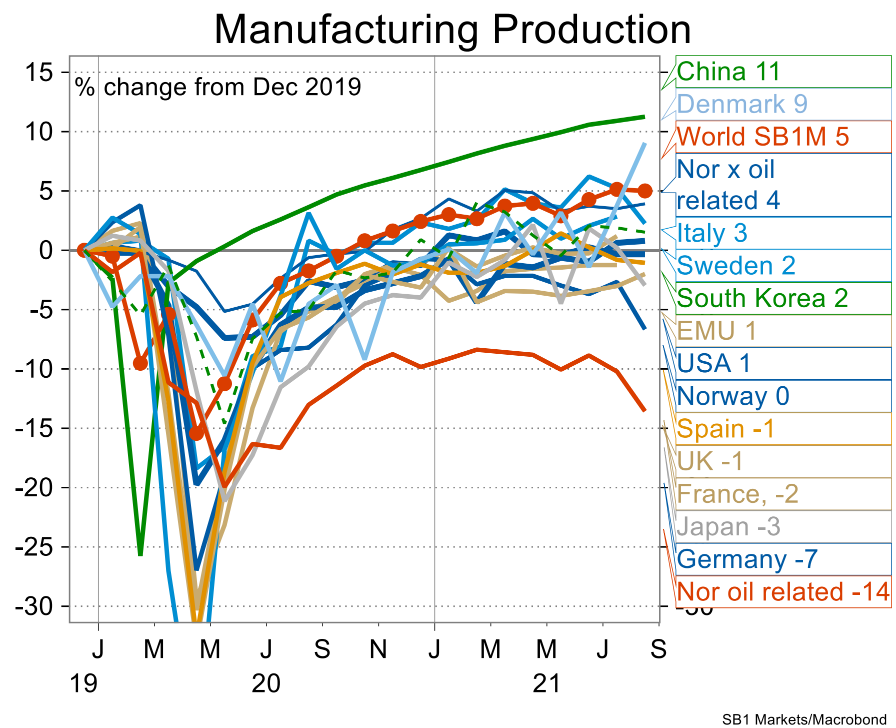
DM demand for consumer goods have peaked, EMs are recovering from a low lev.

The upside potential is large for Emerging Markets

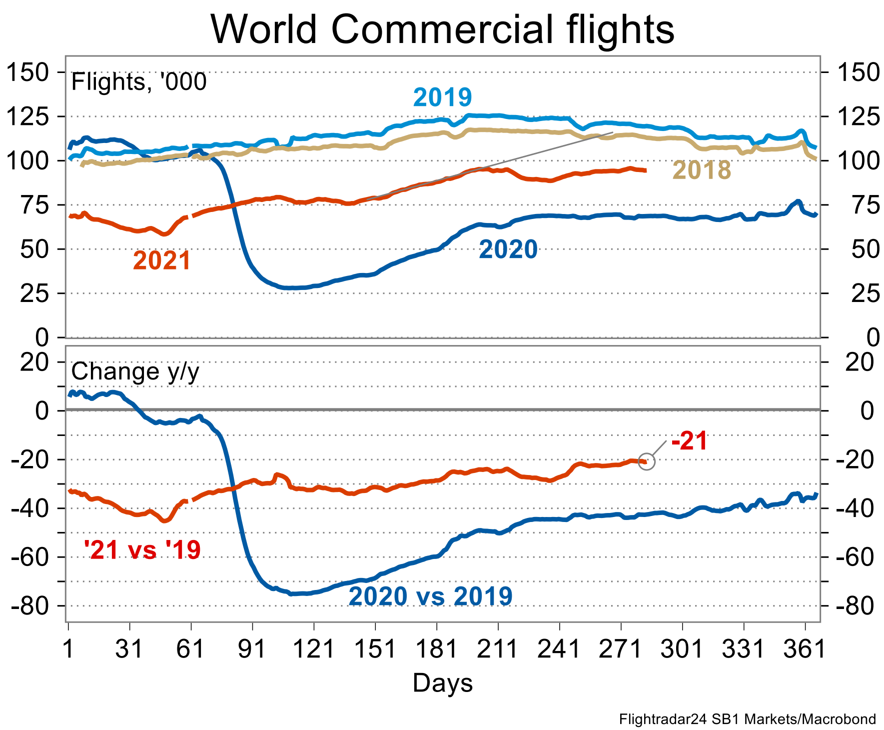


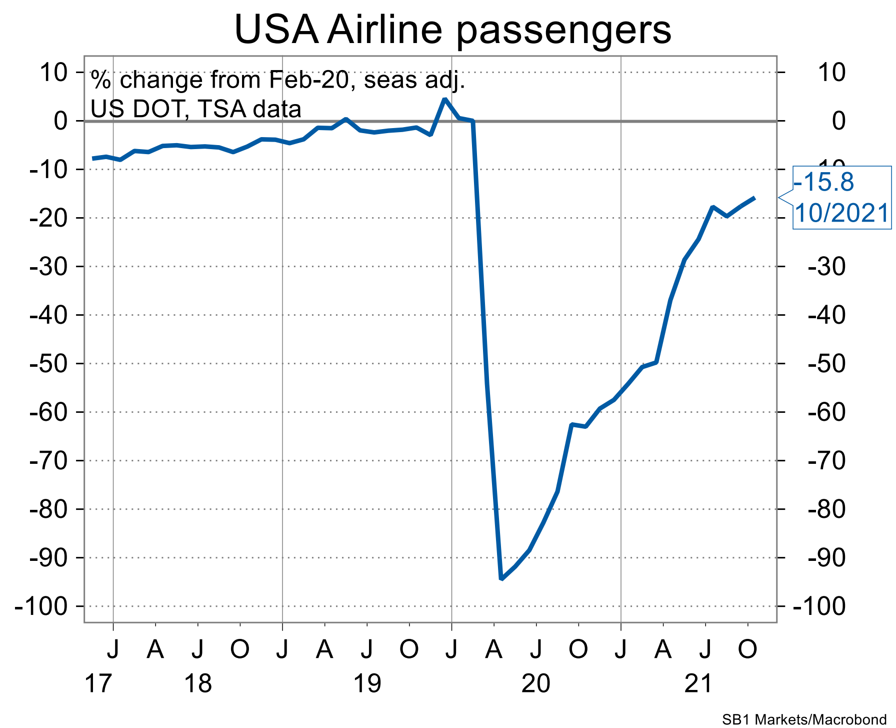


- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India, and thereafter in other parts of Asia. Now a substantial recovery is underway in India, and other Asian countries will follow suit
- **Manufacturing production** is still drifting upwards, most places. The manufacturing PMIs are still strong
- Norwegian oil-related manufacturing production is down 14% vs the pre-pandemic level – non-oil sectors are up 4%, one of the better results in the rich part of the world. The Norwegian PMI and other surveys are signalling strong growth (among the best in the world)

Global airline traffic stagnated last week, the gap to 2019 unch at 21%

In the US, traffic fell slightly in August but is now slowly recovering into October

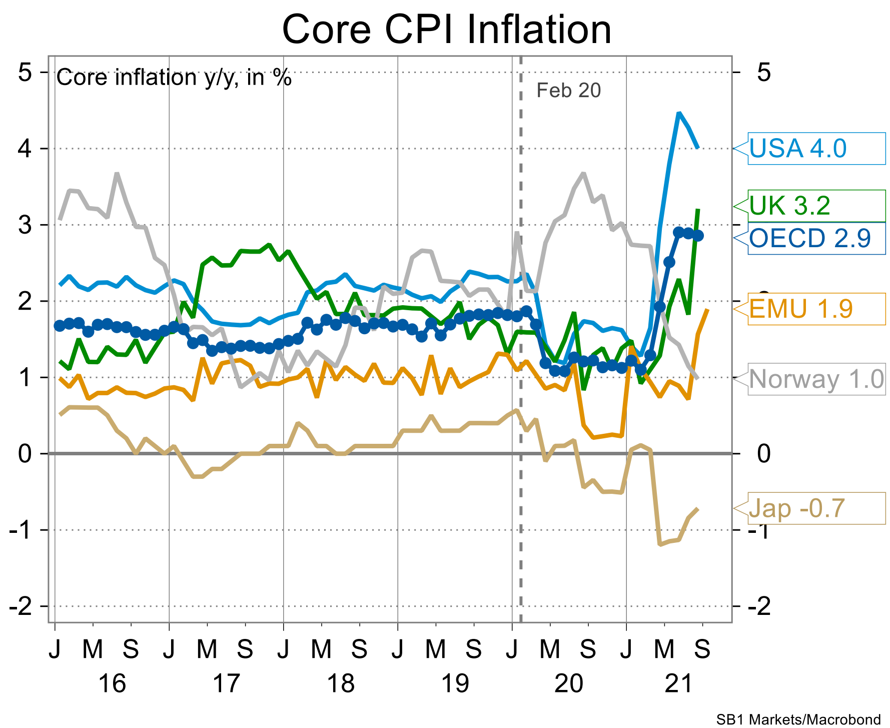


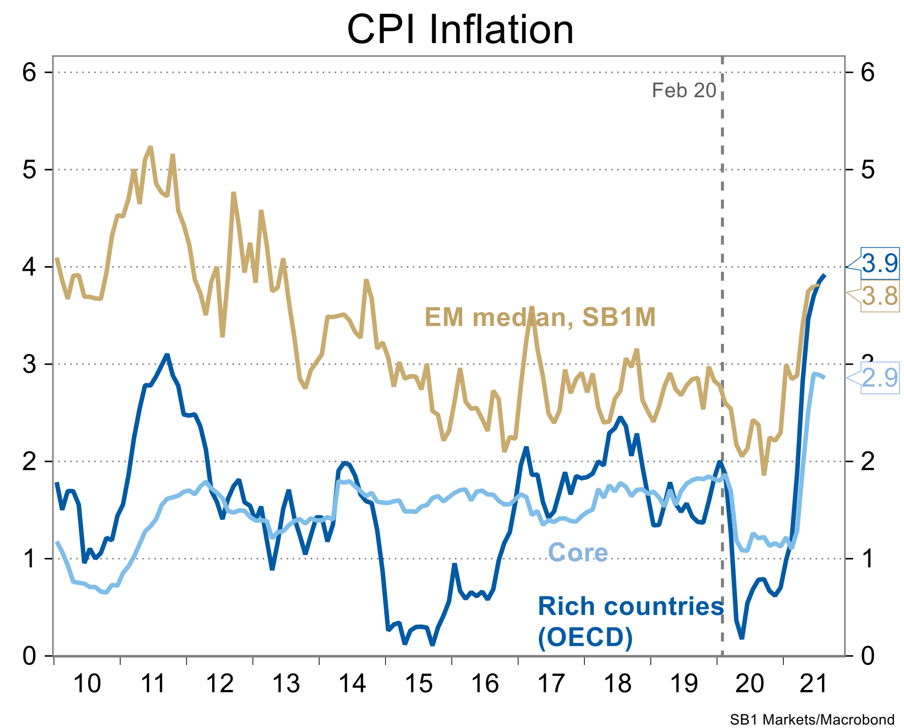


- Airline traffic normally drops some 10% from the peak summer season until the end of the year. Thus, a flattish development during this autumn implies a 1.7% ‘recovery’ per month – now the gap is declining by almost 1 pp per week

Inflation may be peaking now – at a high level

Energy prices the main culprit, but core inflation has turned up more places

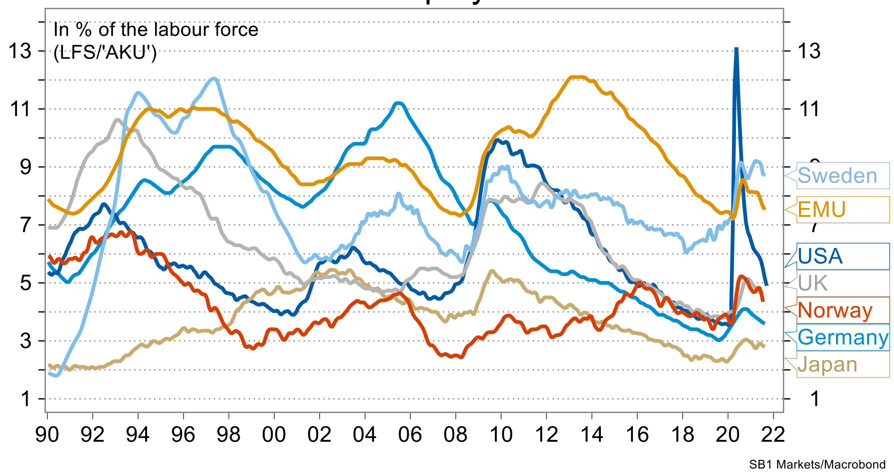




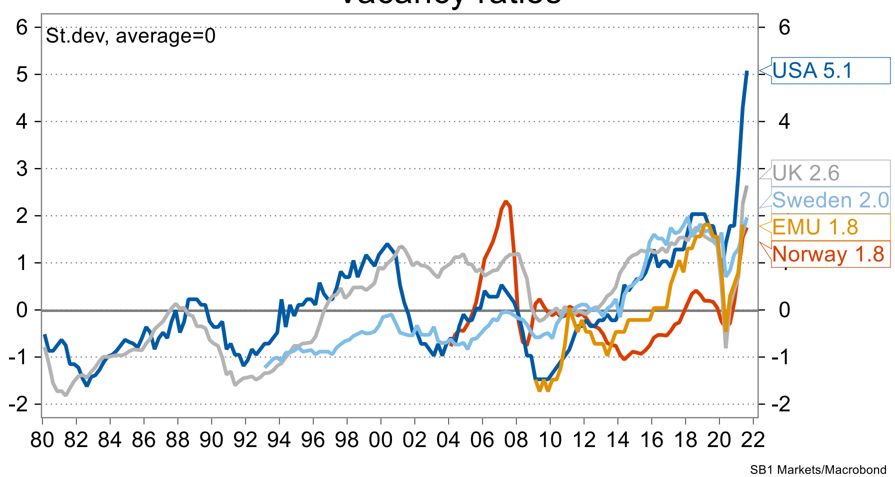
Unemployment on the way down everywhere

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

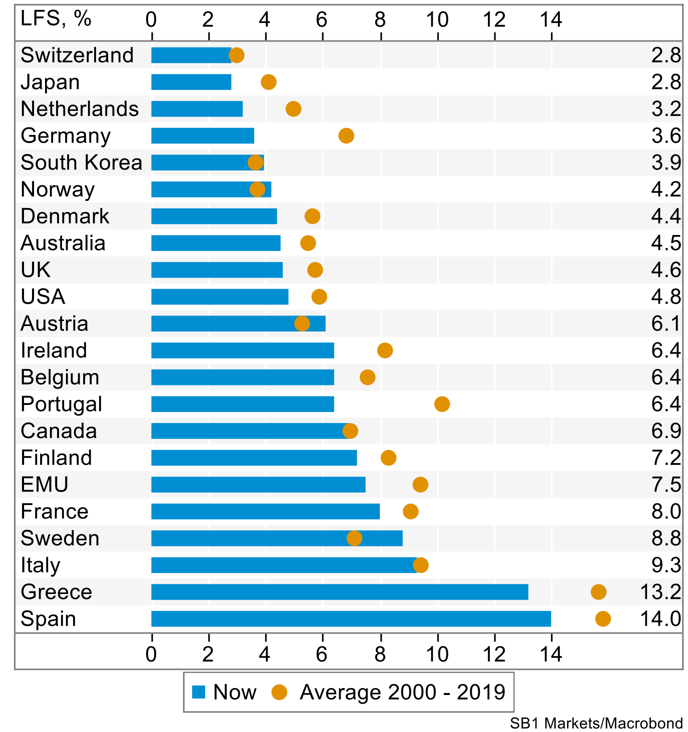
Unemployment



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?

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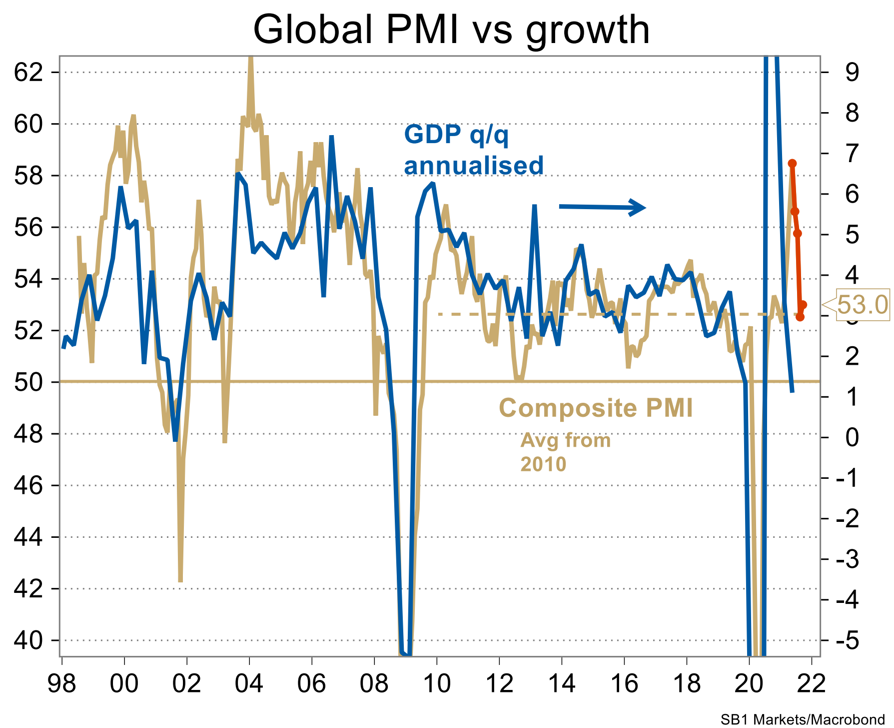
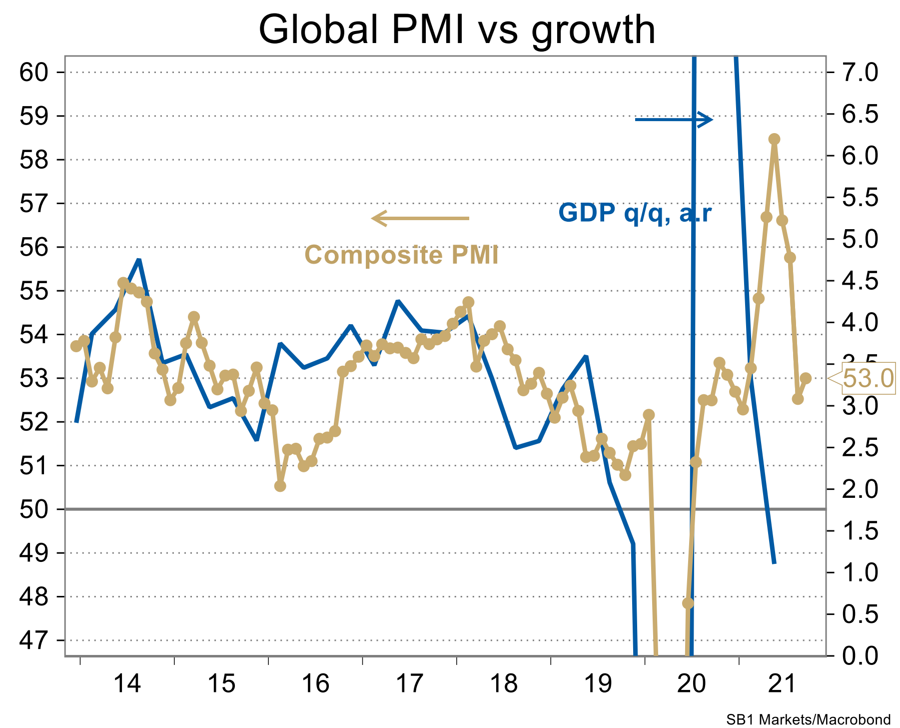
The global PMI slightly up in September, due to China + rest of Asia, and Russia

The composite PMI rose by 0.5 p to 53.0, signalling growth slightly above trend

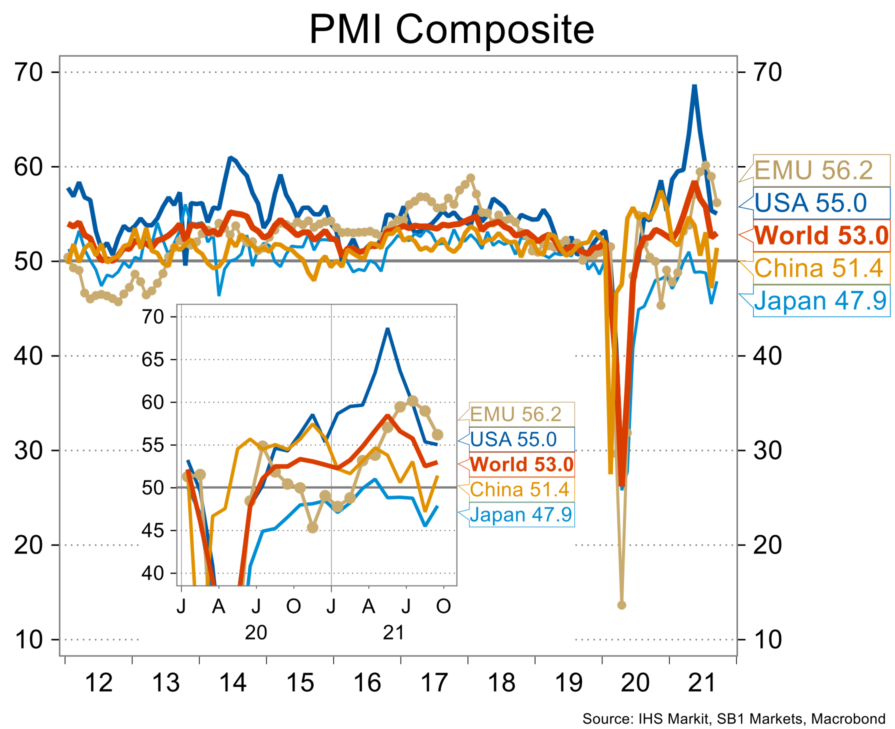


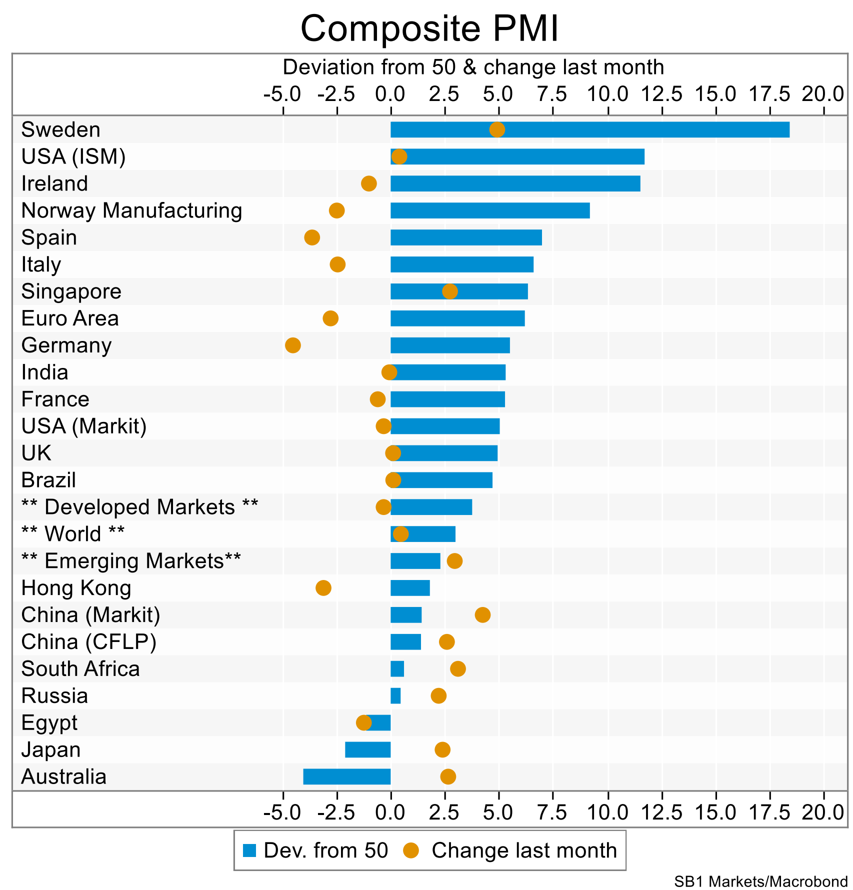


- The global PMIs were far better than the preliminary PMIs signalled (but in line with our forecast last week, when some more data became available)
- The global PMI signals growth marginally above trend, at a 3+% pace – far below the reported growth rates until August
  - » Both manufacturing and services contributed to the lift, services the most

Rich countries marginally down, EM up, China the most. Sweden still at the top

Emerging Markets (EM) is recovering, and EM x China PMI is at the best level since early 2018!

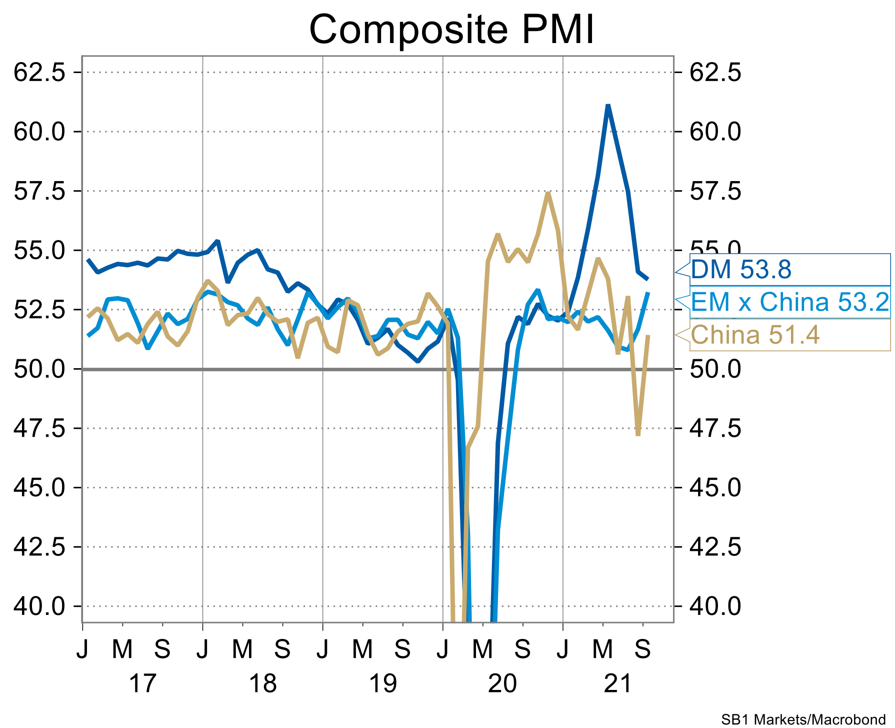


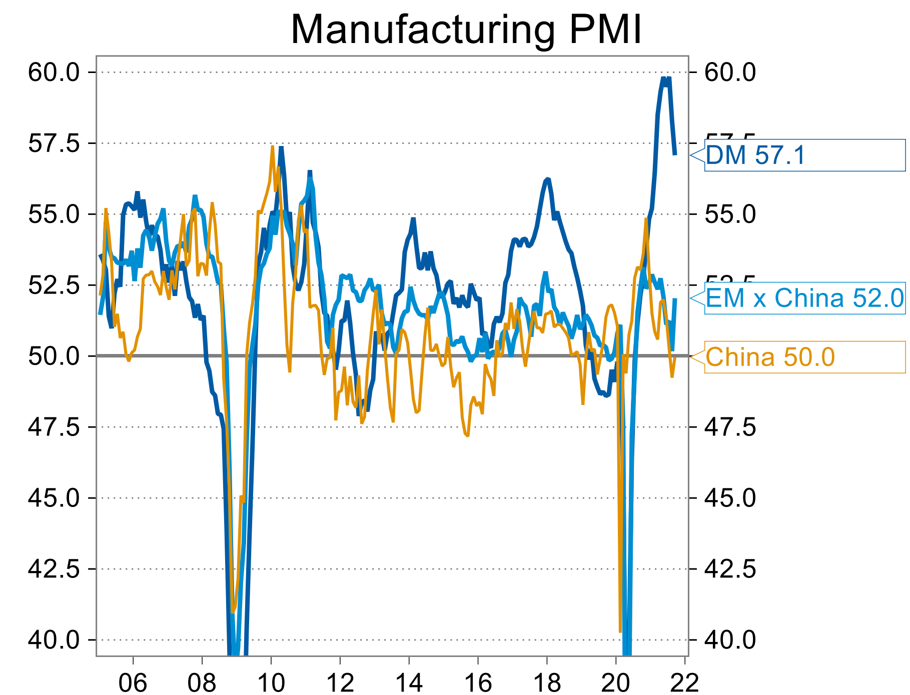


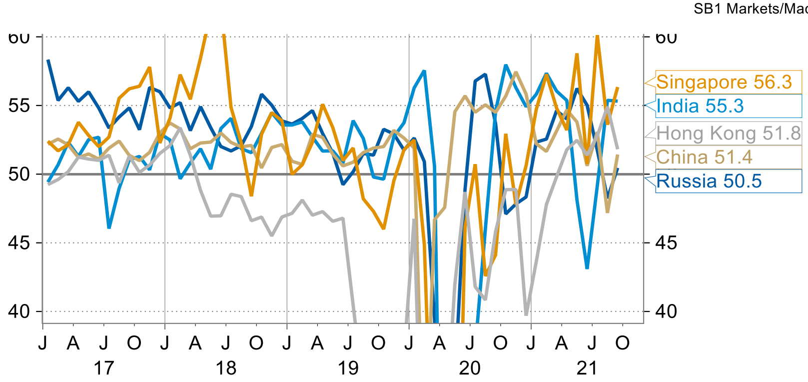
- 11 countries/regions up in September (from 4 in August, 11 down, from 21). Just 3 below the 50-line (from 8)
- Sweden, US ISM and Ireland at the top (+Norwegian manufacturing)
- The Chinese PMIs recovered sharply, especially Markit's (which is a part of Markit's global PMI)
- Other EMs rose too – in fact to the best level in almost 4 years
- Both Japan and Australia are both reporting a continued decline in activity but less so in Sept vs. Aug

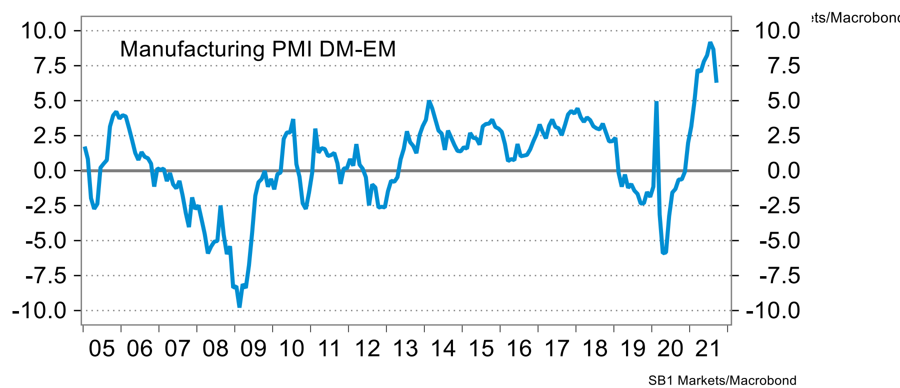
EM x China at the best level since early 2018

These countries have been struggling with the virus far more than DM, due to lack of vaccines



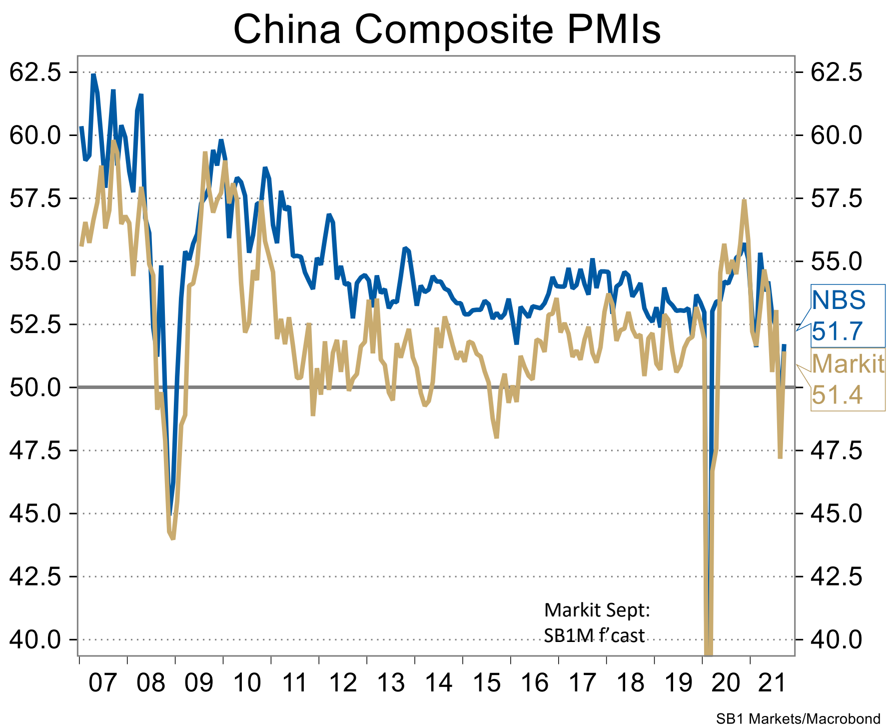


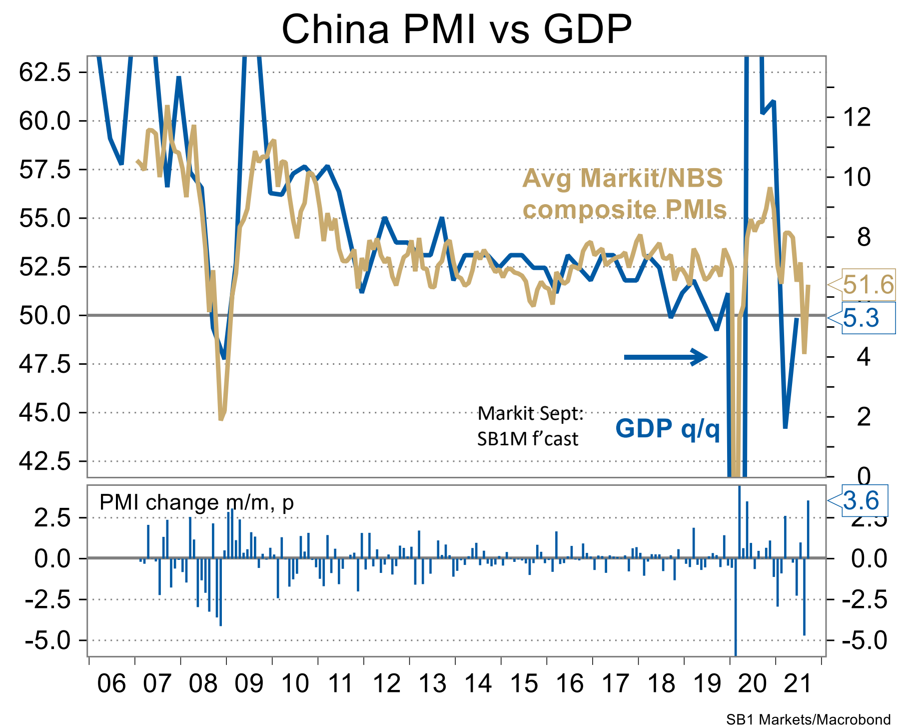




Services recovered in September, the composite PMIs sharply up

The manufacturing PMIs also rose marginally, on average





- 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's composite PMI** rose by 4.3 p to 51.4 and recovered most of the August loss – with services in the lead but even the manufacturing PMI recovered – no signs of any construction crisis (not in the construction PMI either)
- **In sum**, the average of the two composite PMIs rose 3.5 p + to 51.6, still below the August level. <u>The PMI data set signals growth marginally below trend.</u>

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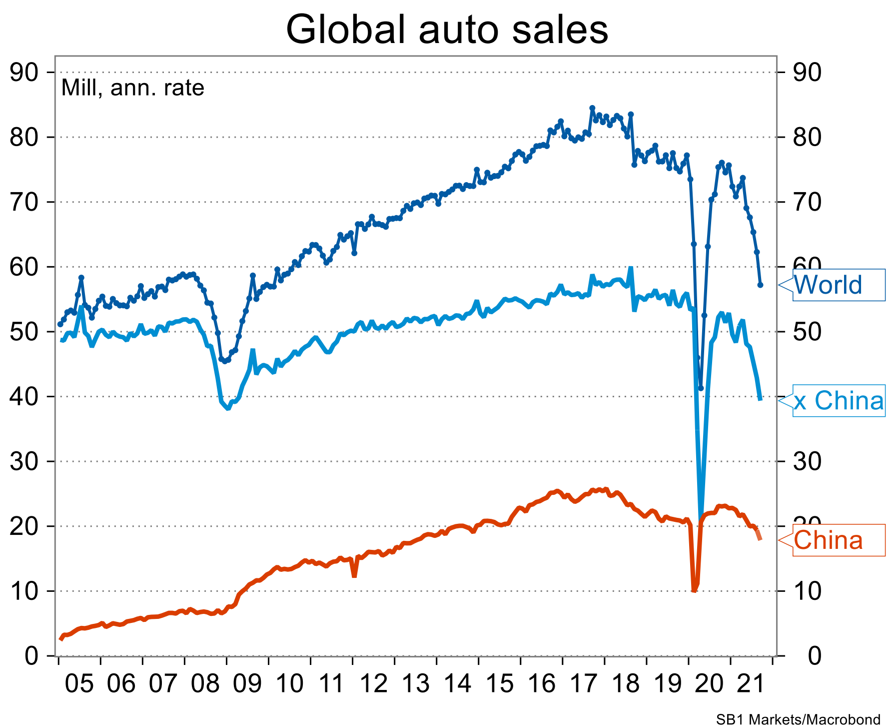
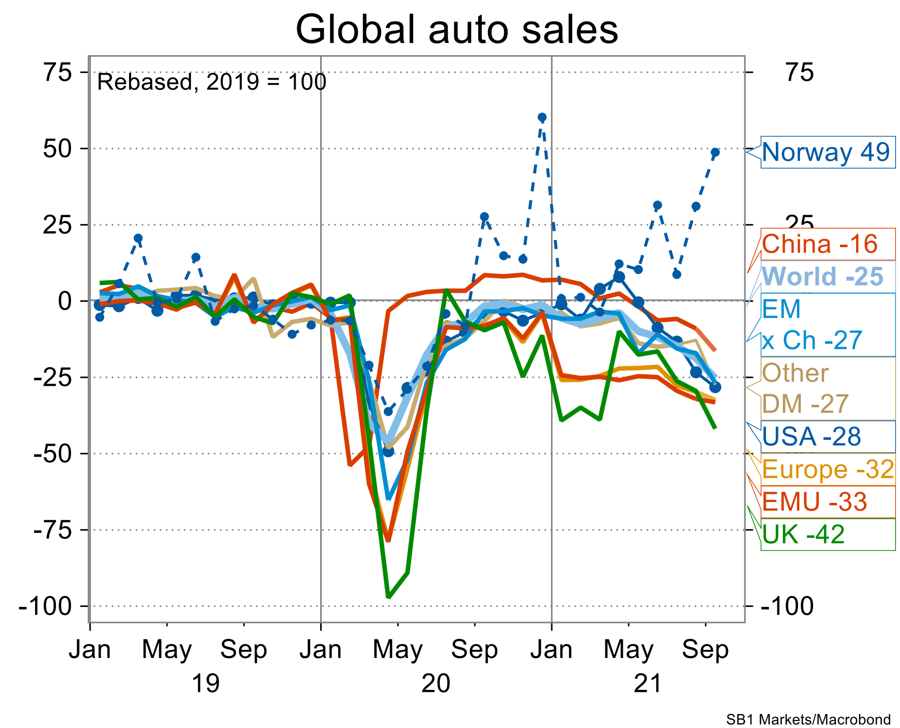
Auto sales further down in Sept, as production is cut due to lack of data chips

Sales could have fallen by 8%, and are down some 25% from the 2019 level





- We still not have reliable data from **China** (the autumn holiday). Based in very preliminary data, that are really uncertain, we assume a further decline in sales in Sept here, and thus even our global estimate is more uncertain than normal (some other countries have not 'officially' reported either, we are using media reports)
- Sales fell sharply in **US** and in **Europe**, both EMU & UK. UK sales are down 42%, EMU -33%, US -28% - all vs 2019. Japanese sales fell sharply in Sept
- **Norwegian** sales are soaring. The only explanations are that auto makers have the highest margins here, or that their autos with the highest margins are sold here
- Sales in EM x China very likely fell further too – around 27% vs. 2019

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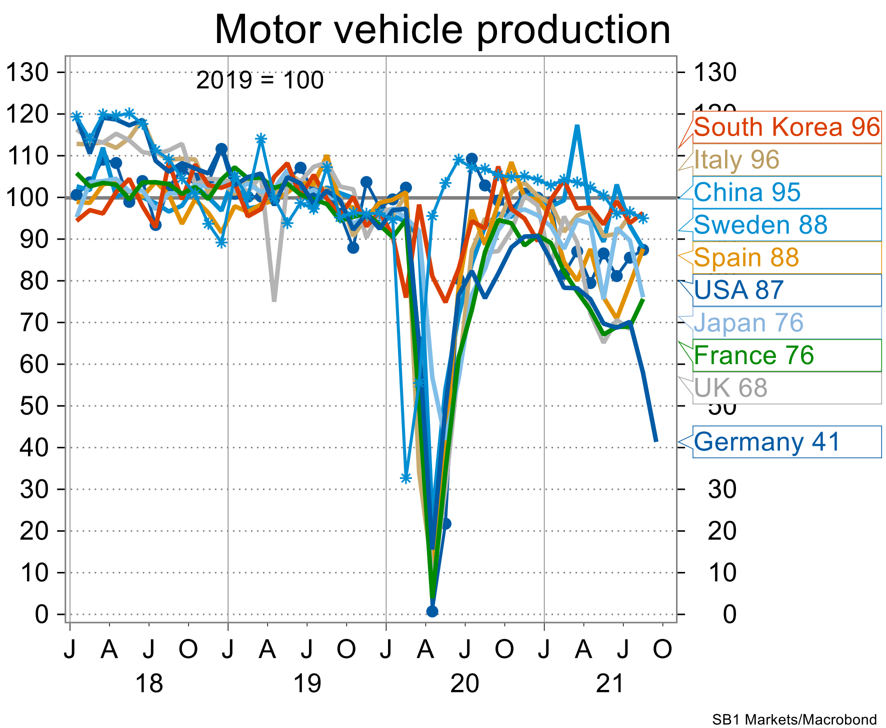
Auto production still heading down, Germany is badly hurt, down 59% in Sept

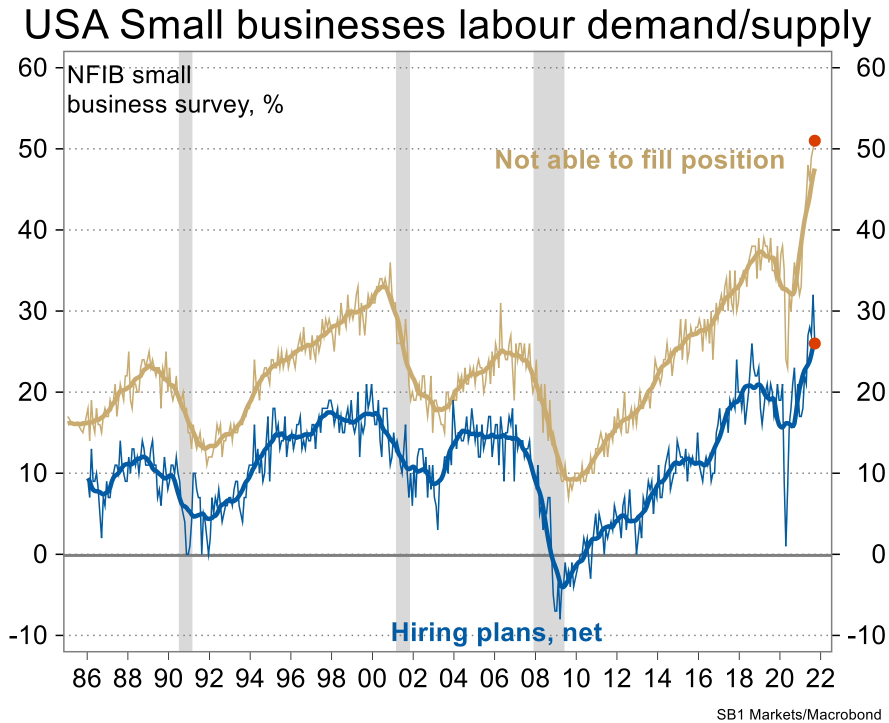
The decline in US production is (strangely) moderate, just 13% (in August), both vs. the 2019 avg

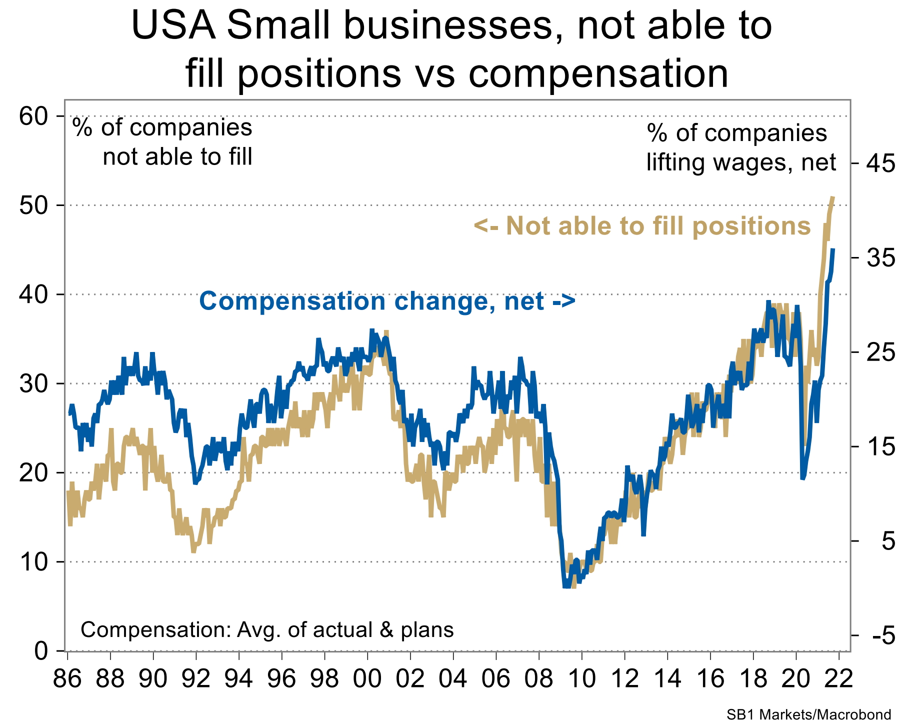


- There is huge upside in auto production the coming quarters as soon as data chips are produced in sufficient volumes. The only question is when…

The real labour market report I: It's the supply side, stupid

Half of US SMB companies are not able to fill their vacant positions in September, another ATH



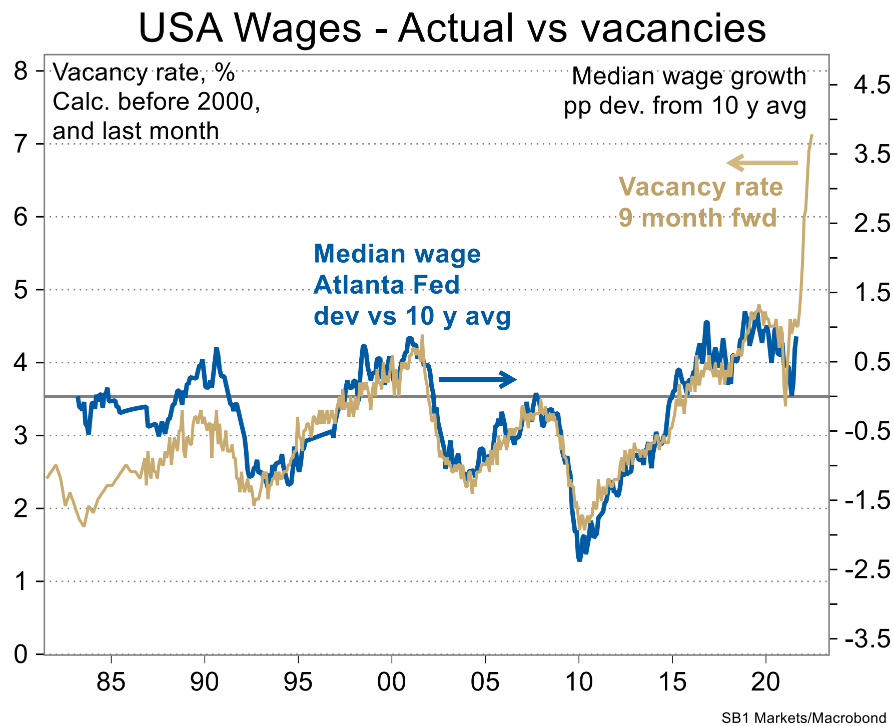


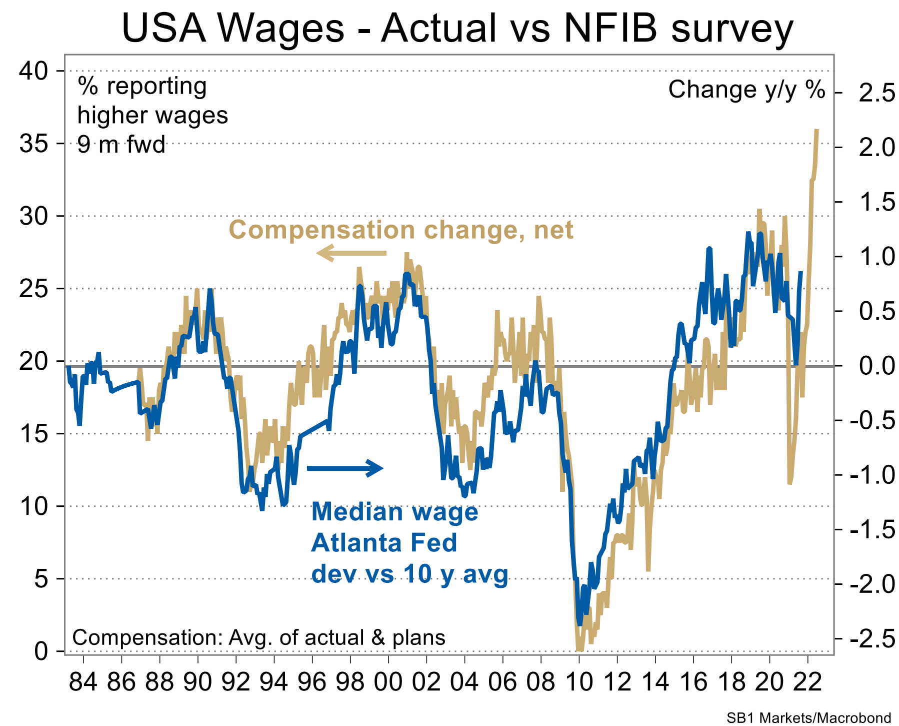
- No a sign that many of the almost 8 mill workers who lost their temporary federal unemployment benefits in early Sept, have found a job
- **Hiring plans** were at ATH in August – and even it the share of companies that planed to higher fell in Sept, it is still very high
- As a consequence, more companies than ever before reported that they plan to increase **compensation**
- The correlation to actual wage growth is pretty close, check the next page

SpareBank 1 MARKETS

The real labour market report II: It's the supply side, stupid

In July, the official vacancy rate was record high. In Sept, companies reported another unprecedented lack of labour, and a record high share of them plan to lift wages. And guess what has happened before, with a 2 – 3 quarters lag? Well, something that kills Fed doves and bond bulls. And now very likely the corporate bottom line & the stock market too

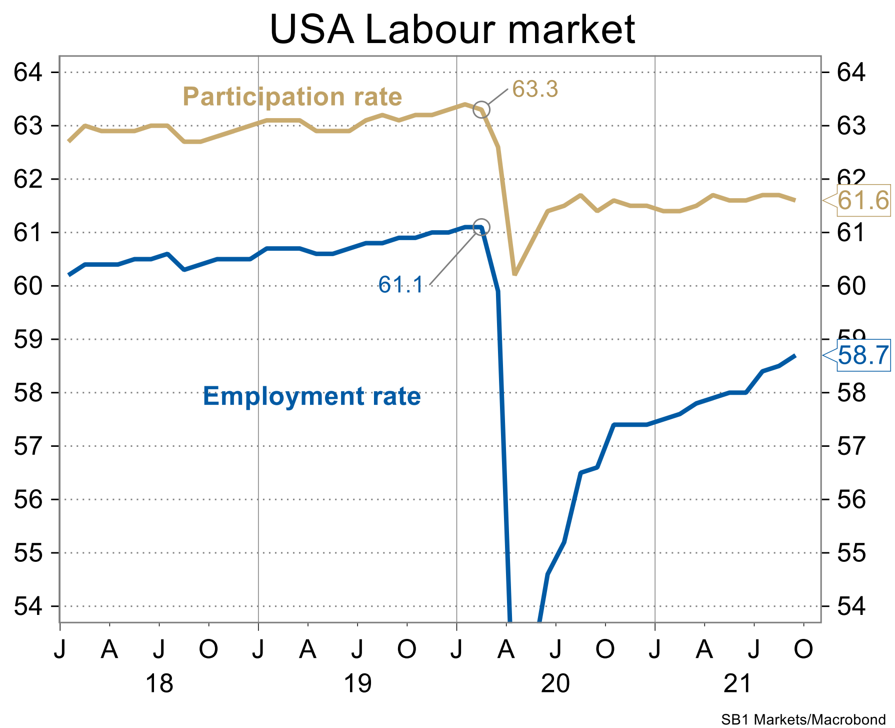


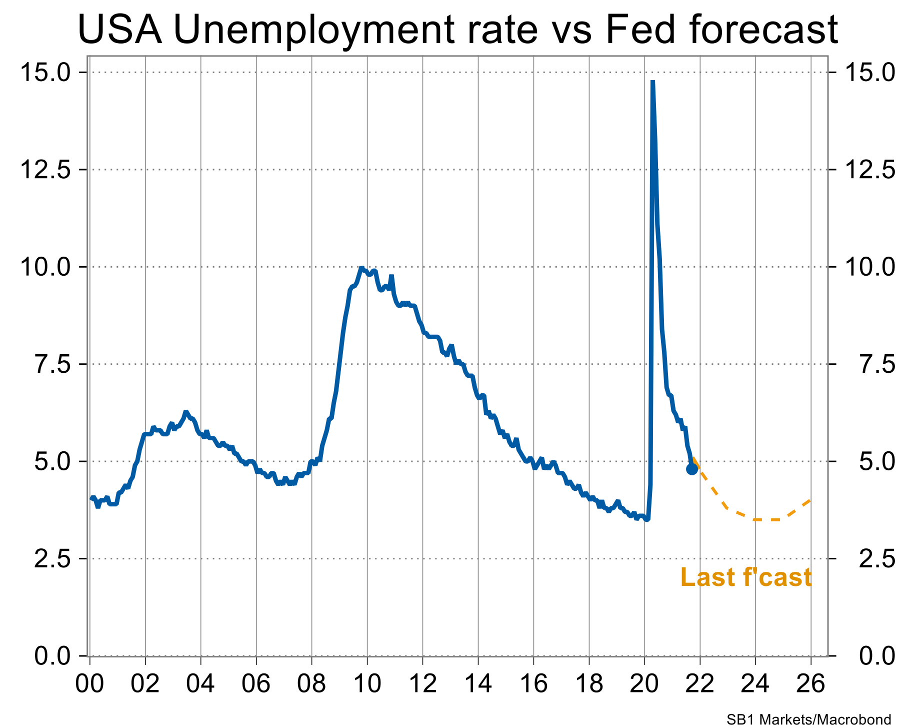


- More companies than ever before (data from 1986 though) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation between the share of companies that report they plan to increase compensation and changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled vacancies and actual wage growth is just as tight, with the same lag
- We do not know FOMC's wages forecasts but we assume they are rather upbeat, as the bank expect inflation to remain above target the coming 3 years (and the price level to be deviate even more from a long term 2% path). However, the Bank could impossibly have factored in a wage growth anything close to what companies now tell or even less what the current tightness of the labour market signals

The real labour market report III: It's the supply side, stupid

When will maximum employment be reached (that is, when will the Fed have to start hiking rates?)

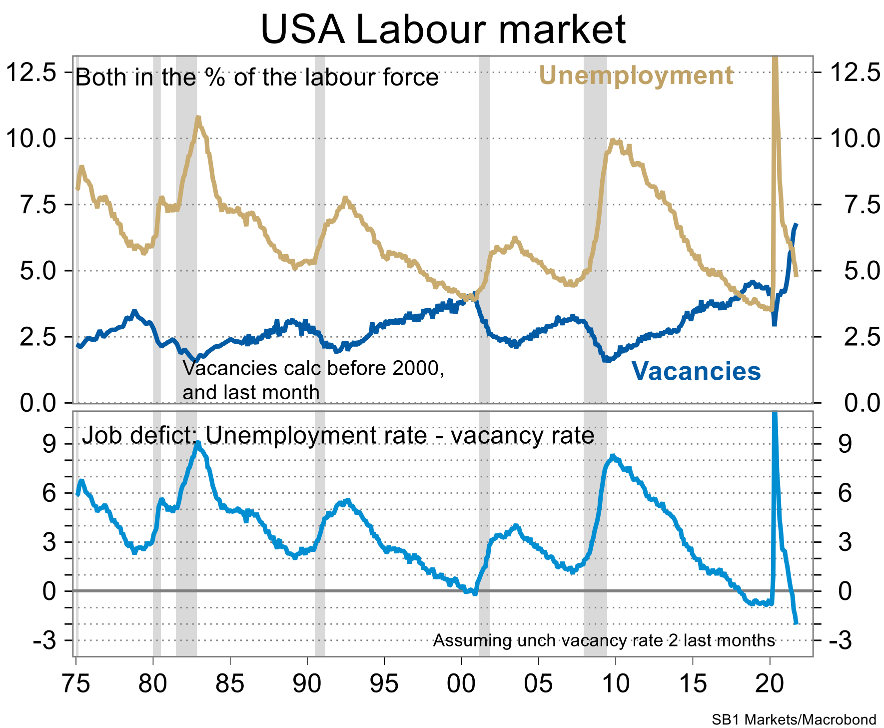


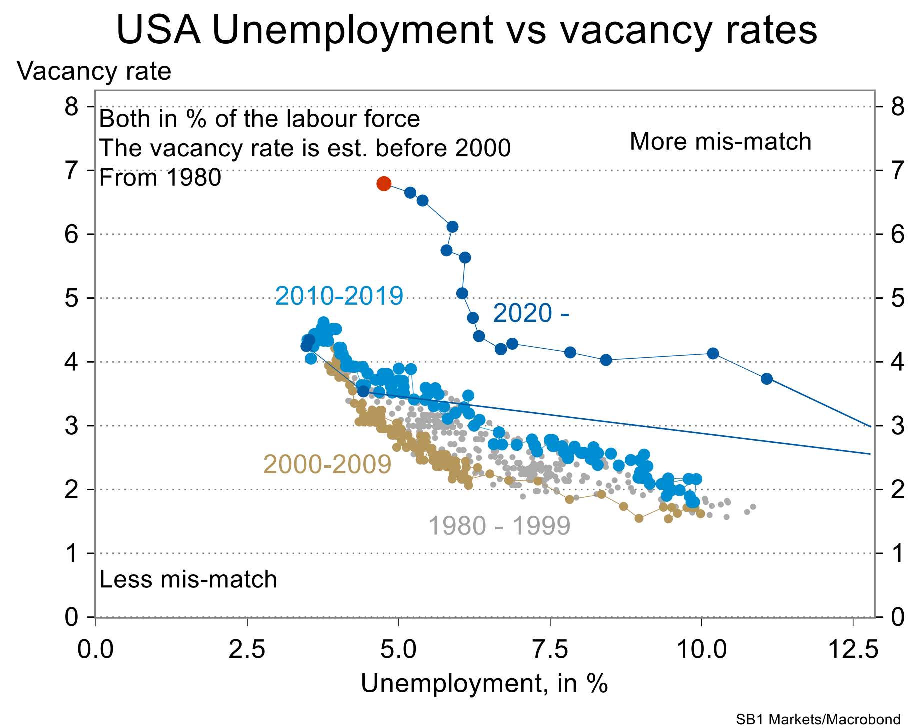


- The **employment** rose further (in the household survey) by 526' or 0.3%, and the employment rate rose 0.2 pp to 58.7.
- Still, the **labour force** fell by 0.1% and the **participation rate** fell by 0.1 pp to 61.6, expected up to 61.8. The current rate is 1.7 pp below the pre-pandemic level - and the trend is completely flat
  - » Not many of the almost 8 mill workers who lost their **extra federal benefits** in early Sept have found a job, and they do not seem to actively search for work either! What the h... are they doing for a living now??
- The **unemployment rate** fell 0.4 pp to 4.8% in Sept (expected 5.1%). Unempl. has fallen by 1.1 p the past 3 months, the fastest 3 m decline ever (barring the rapid decent last summer, following the first virus wave). 3 weeks ago, the Fed expected the 4.8% to be reached in Dec
- Fed has strongly signalled that the funds rate will not be hiked before maximum employment target is met. The only question now is: How much spare capacity is left at the labour market?? No doubt some, but possibly not that much, witnessing also the wage inflation acceleration

The real labour market report IV: It's the supply side, stupid

If we just forget the participation rate conundrum: Why so many unemployed and vacant positions?

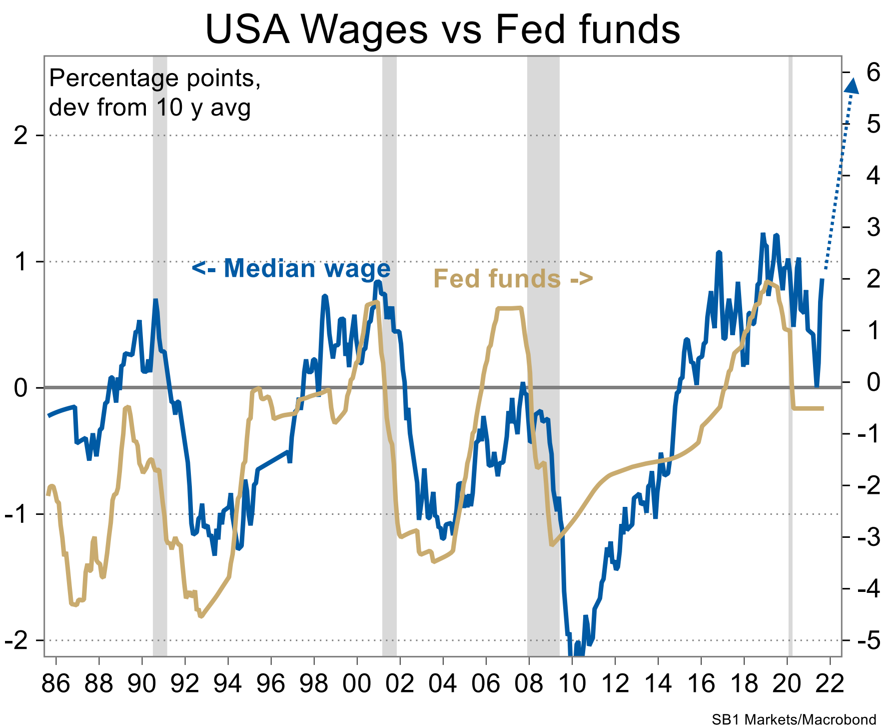


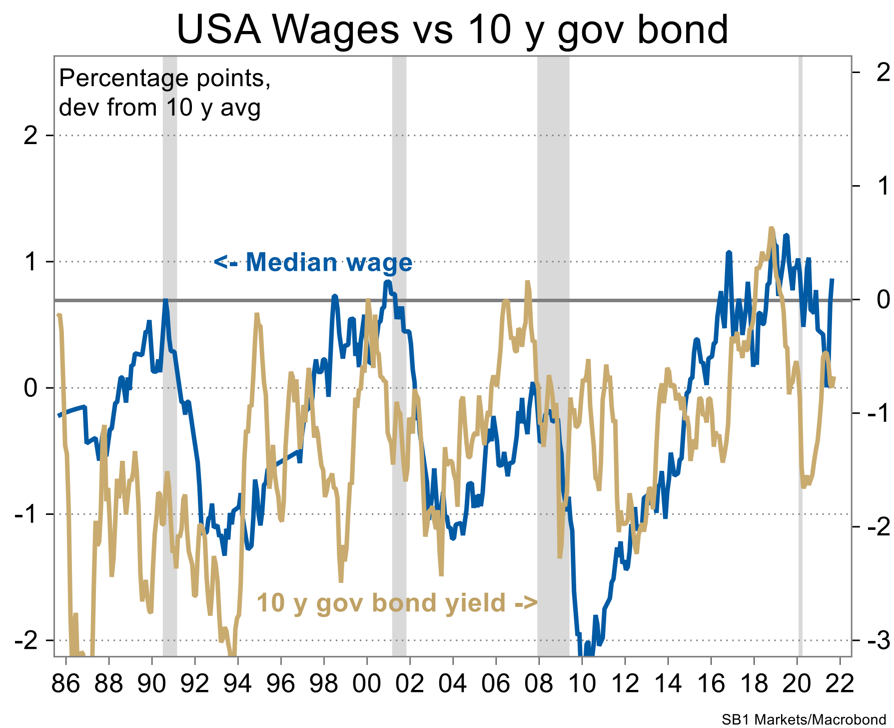


- 7.7 mill persons are unemployed - that is, they say they want a job and is actively search for a job but have not got a job
- At the same time, there are 10.9 mill unfilled, vacant positions
  - » During the 2010 – 2019 period, Unemployment/Vacancy curve (UV/Beveridge) had moved somewhat outwards, but curve was not far above the pre 2010-curve
- The unprecedented mismatch now may of course be mostly due to temporary (transitory?) impacts of the pandemic; different sectors have reopened at a different pace, perhaps even geographically, and it will take time to match the job seekers and the vacant jobs etc. However, there is a risk that some of the mismatch will turn out to be permanent, due to changes in qualification requirements, work preferences etc.

What will the Fed say?

If wage inflation accelerates, say half as much as the 'vacancy model' signals? (to the top of the scale)

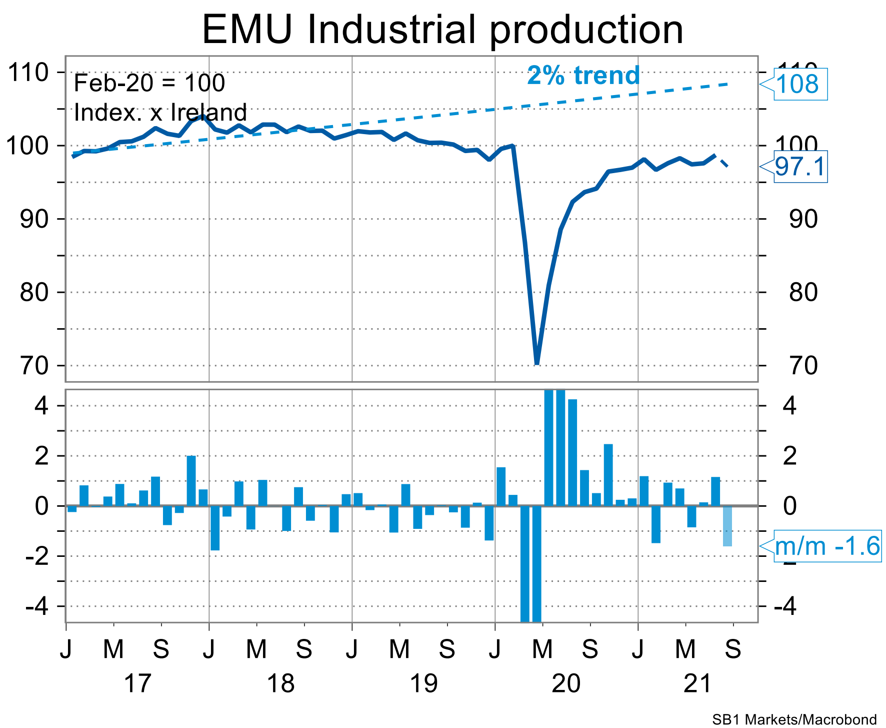


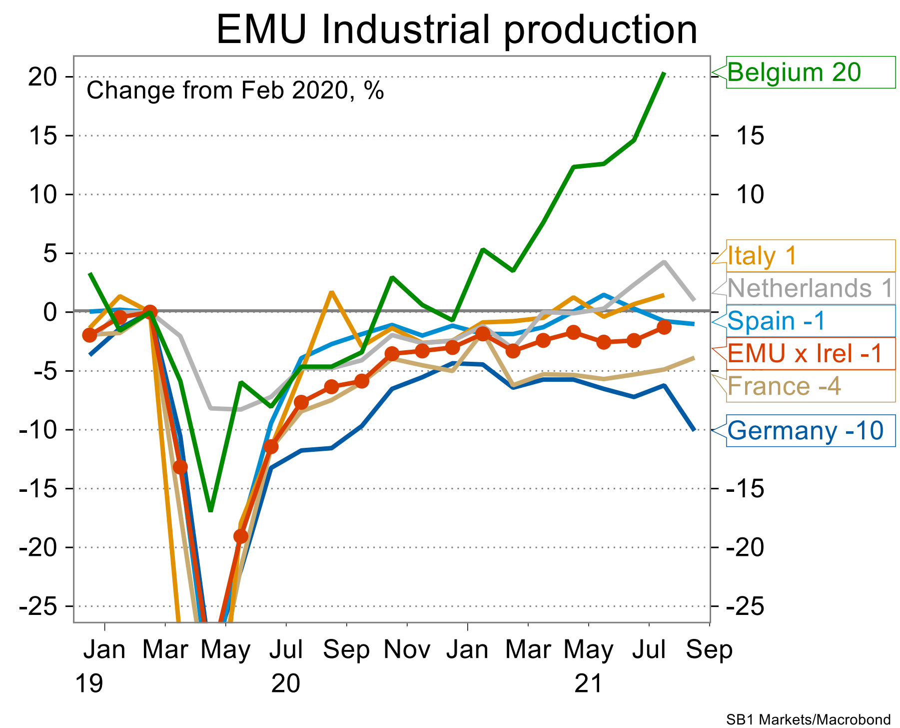


- The correlation to the 10 y bond rate is not that close but the risk is very likely at the upside

Manufacturing production probably down 1.5 – 2% in Sept (data out this week)

German production fell by 4.7%, but France, Spain & Belgium up

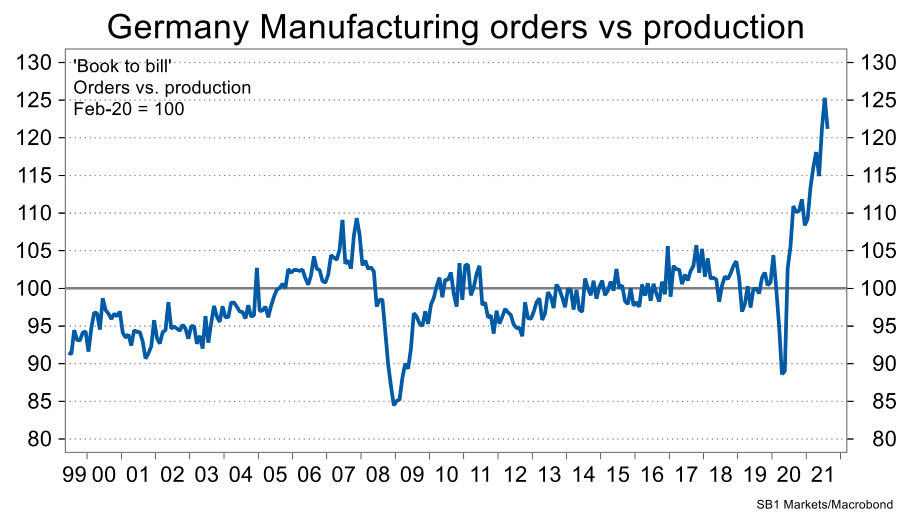


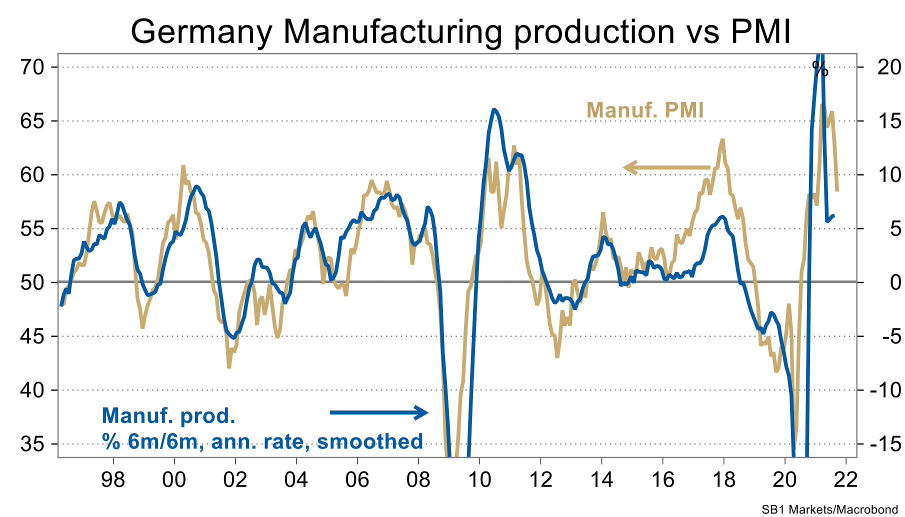


- Production is just very slowly moving upwards even if orders are surging, and surveys are close to record high levels
- Production in Italy is higher than in Feb-20, in the other big 3 are down
  - » Germany is the laggard, down 10%. From time to time, auto production is not what you wish you had…
  - » Belgium is up 20, the Netherlands 1%

German factory orders plummeted 7.7% in August, production down 4.7%

… as supply bottlenecks tighten. Vehicle production down 17.5% m/m (and further down in Sept)

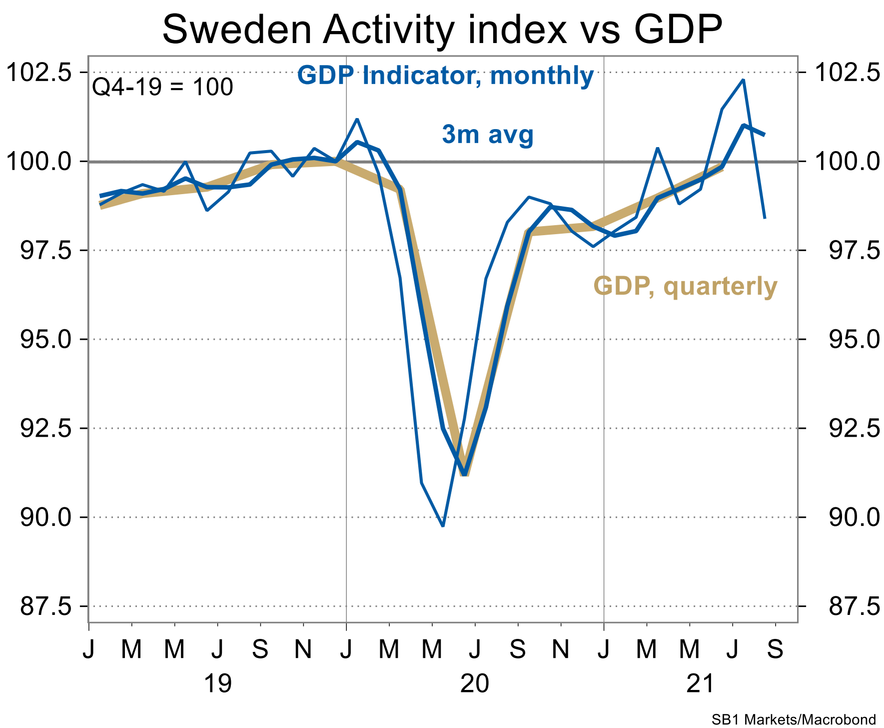


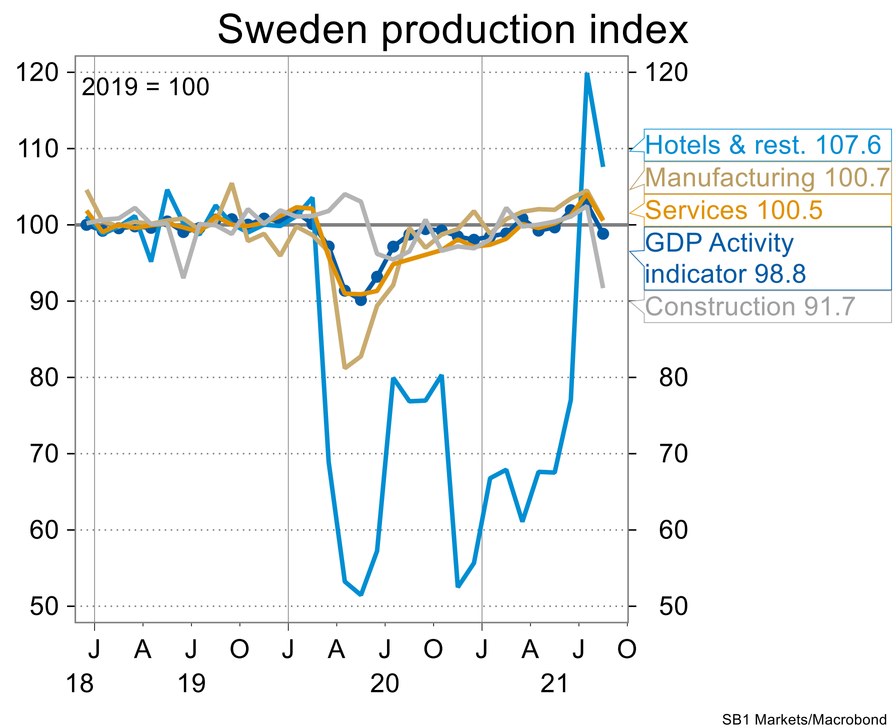


- **Manufacturing orders** decreased by 7.7% in August, expected down 2.1%, and it does not help that much that July was revised up 1.5 pp to 4.9%. The level is still 11% above the pre-pandemic level – and we can still draw a strong trend line!
- **Manufacturing production** was down 4.6% in August (total industrial production down 4%, expected -0.4%). The level is now 9% below the Feb-20 level. See more details next page
  - » Surveys confirm softer growth in production & orders, as the industrial sector is hit by both supply bottlenecks, capacity constraints and higher energy prices

GDP down almost 4% in August, trend very likely still OK

The July +2.9% vs. Q4-19 was too good to be true, GDP down 3.8 % m/m in August, -1.6% vs. Q4-19

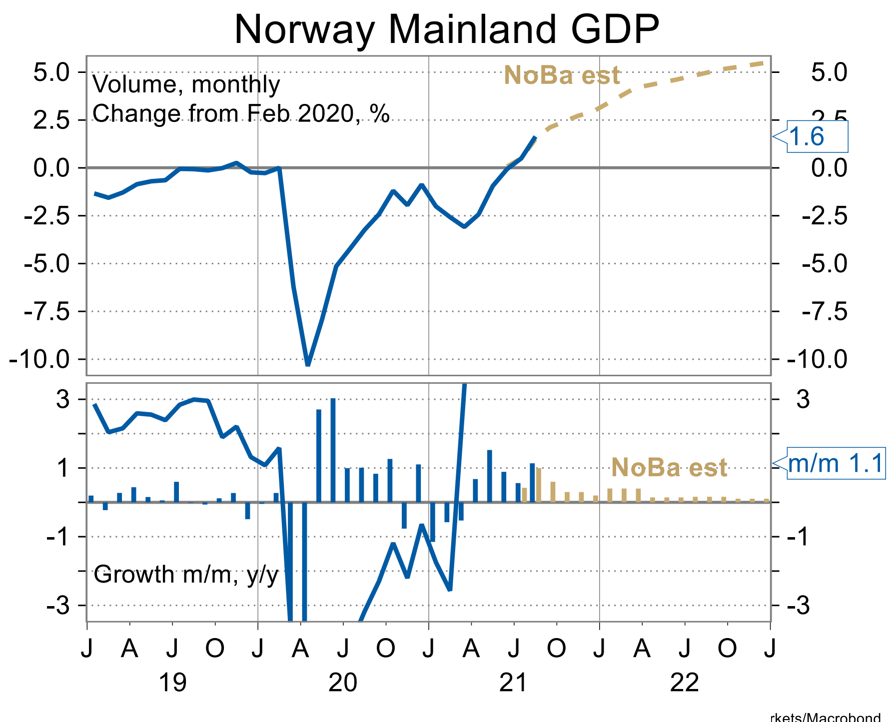


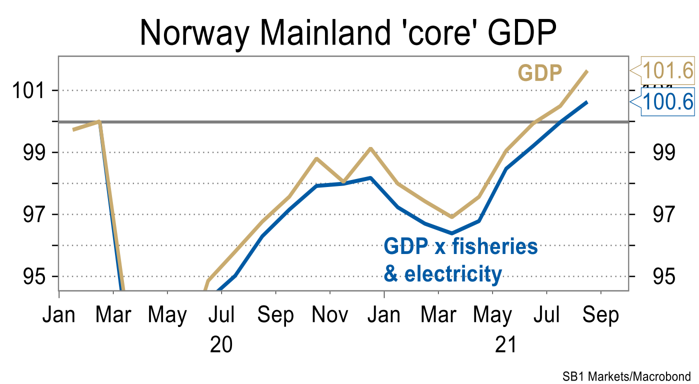


- **GDP** fell by 3.8% m/m in August, expected down 0.5%. In addition, July was revised down by 0.6%
  - » GDP is now 1.6% below the Q4-19 level. One month ago it was reported up by 2.9%! We assume production will recover in Sept, and that GDP will grow at approx. the same pace as in Q3 (3.6%, q/q annualised)
  - » Manufacturing prod fell by 3.7%, very likely due to lack of supply, not lack of final demand. Activity in the construction sector fell sharply as well (-11%)
  - » In services activity fell by 3.4% because the summer Swedish staycation ended, and the superficial strong July demand waned. Hotels & restaurants down 10%, but activity is still 8% above the pre-pandemic level!
- **The outlook** remains excellent, according to Swedish companies. THE KI (NIER) survey is at close to ATH, and the PMI is the best in the world. We still question if the Riksbank's extremely expansionary stance is appropriate

Mainland GDP up 1.1% in August, 0.8 pp due to Brexit and a large mackerel catch!

Business services recovered form a low level, contributing by 0.4pp%. The rest marginally down

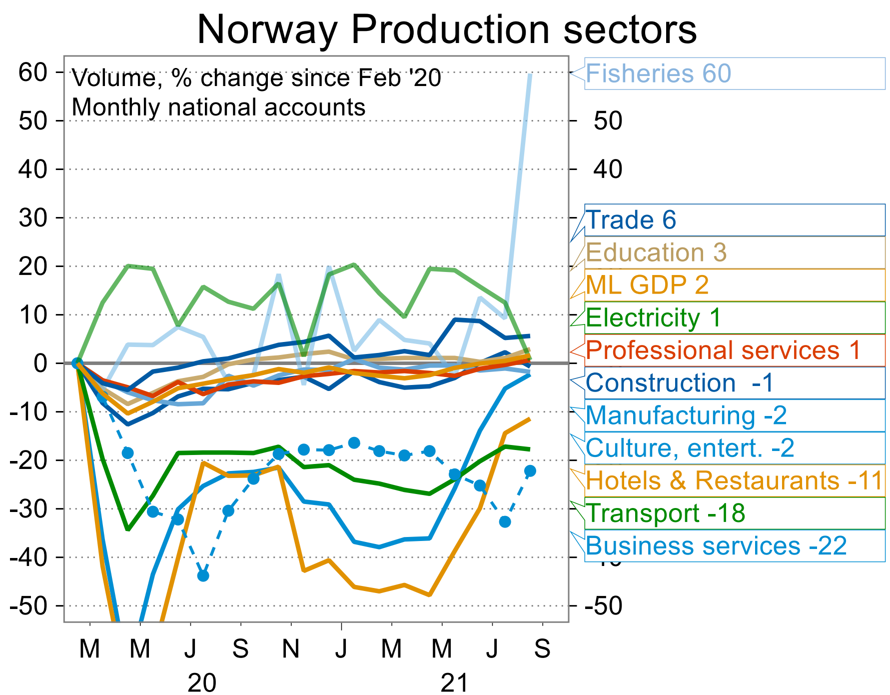




- **'Mainland' (including open water fisheries though) GDP** grew by 1.1 m/m in August, above consensus (0.9%) and Norges Banks estimate (1.0%). We expected 0.6%. GDP is now 1.6% above the pre-pandemic level
  - However, a 46% lift in production in fisheries (and aquaculture). This incredible surge is due to very high mackerel catching volumes. Norway decided to harvest the whole quota in one go when we did not have to share a common quota with UK after Brexit. Strange data but this unusual timing of the mackerel catch anyway lifted 'Mainland' GDP by 0.8 pp! The Sept GDP will probably be somewhat fishy too, however with the opposite sign…
  - **Production in other sectors:** Private services were 1.4% in m/m with a substantial contib. from business surveys, +16%. Culture, hotels & restaurants up 3% -4%. Construction fell 3% (housing investments down), manuf. & mining -1%
  - **Demand:** Norwegians' spending at home was up 0.7%, goods down, services up. Mainland investments rose sharply, and oil investments remained at a high level. Housing investments fell sharply, exports slightly
- **Mainland GDP is up 1.6% vs the Feb-20 level (or rather 0.6%)**
  - **Adjusted** for the surge in fisheries, Mainland GDP is up 0.6% vs. Feb-20
  - **Production:** Hotels & restaurants, transport and business services are still down 11% – 22%, in sum a 1.6% drag on GDP. Manufacturing and construction are down 1% – 2%. Trade is up 6%
  - **Demand:** Norwegians' spending at home is up 6% from Feb-20, goods +16% (and is now heading down), services down 2% - but rapidly on the way up. Spending abroad is still down 78%, and total household spending is down 1%. Both Mainland business and oil investments are up. Exports are still down
- **The mackerel catch is not a good argument for hiking rates further but the underlying strengthening of the Mainland economy is**

Prod. details: It was just mackerel (and business services)

A 46% lift in fisheries lifted ‘Mainland’ GDP by 0.8 pp – out of the 1.1% headline figure!



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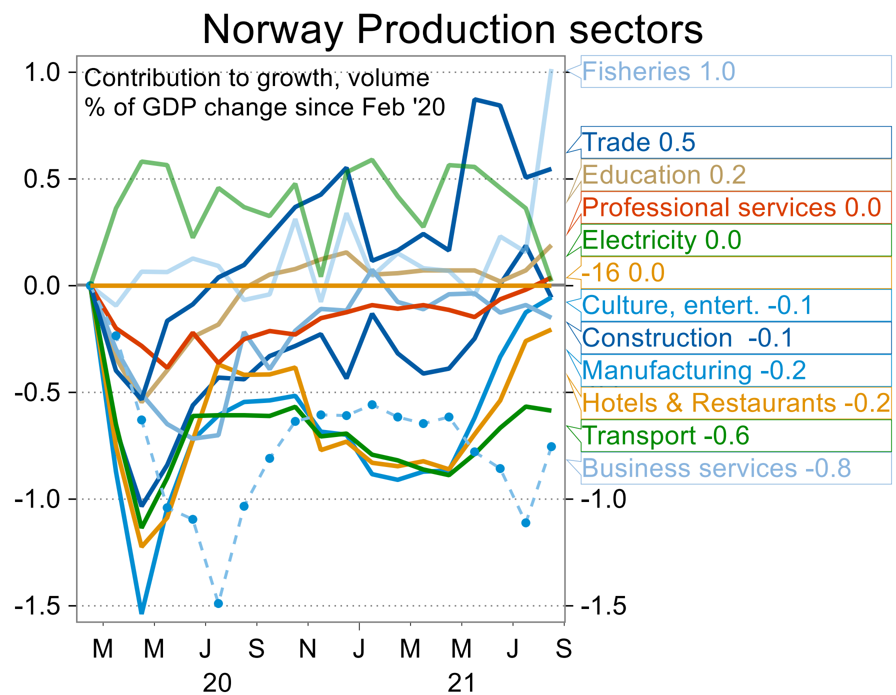

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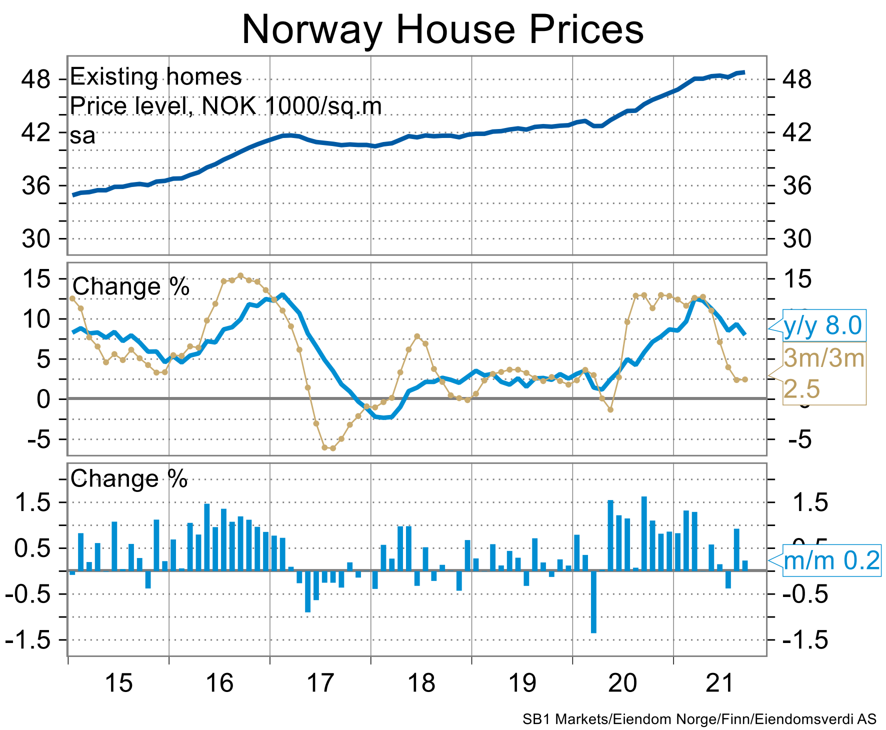
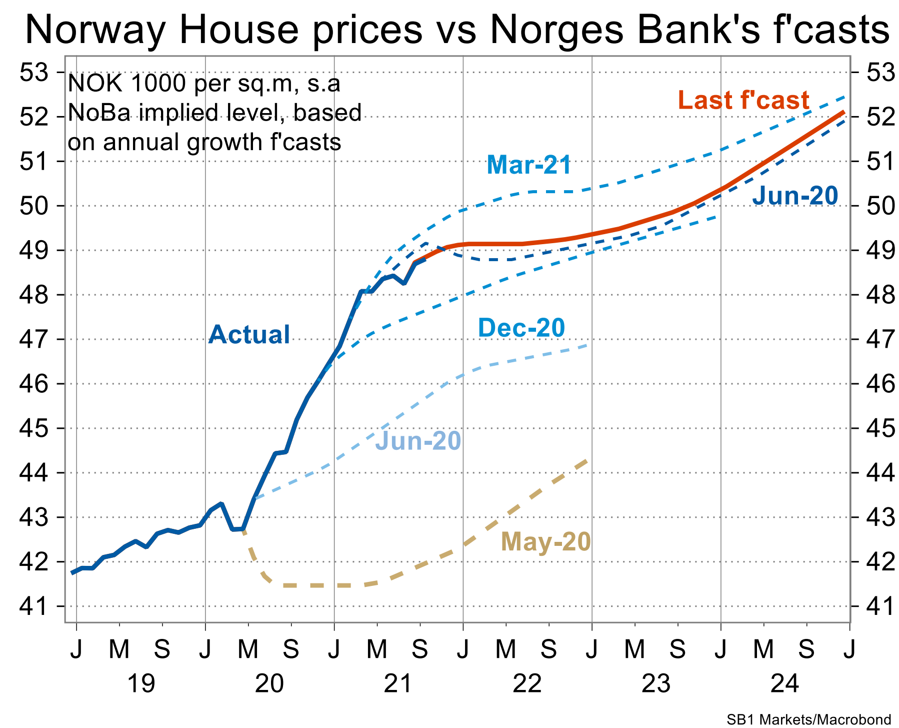
- Production in hotels & restaurants reported a further uptick but not by much, as hotel guest nights fell. Level still down 11% vs Feb-20
- Culture entertainment almost back, just 2% below the pre-p level. Almost too good to be true?
- Business services recovered, as we expected, up 15% (0.4 pp contribution), still down 22%. The upside is still HUGE
- Construction on the weak side

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

House prices up 0.2% in Sept, prices are now increasing at a 2.5% pace

Our models signal a faster price increases than seen recently. The expected rate hikes to blame

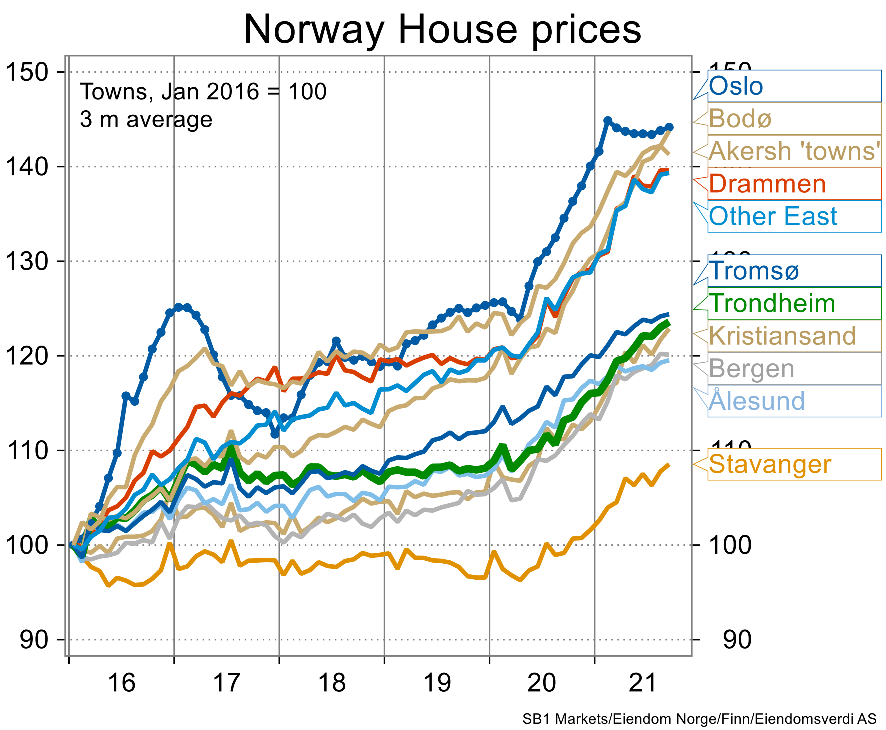


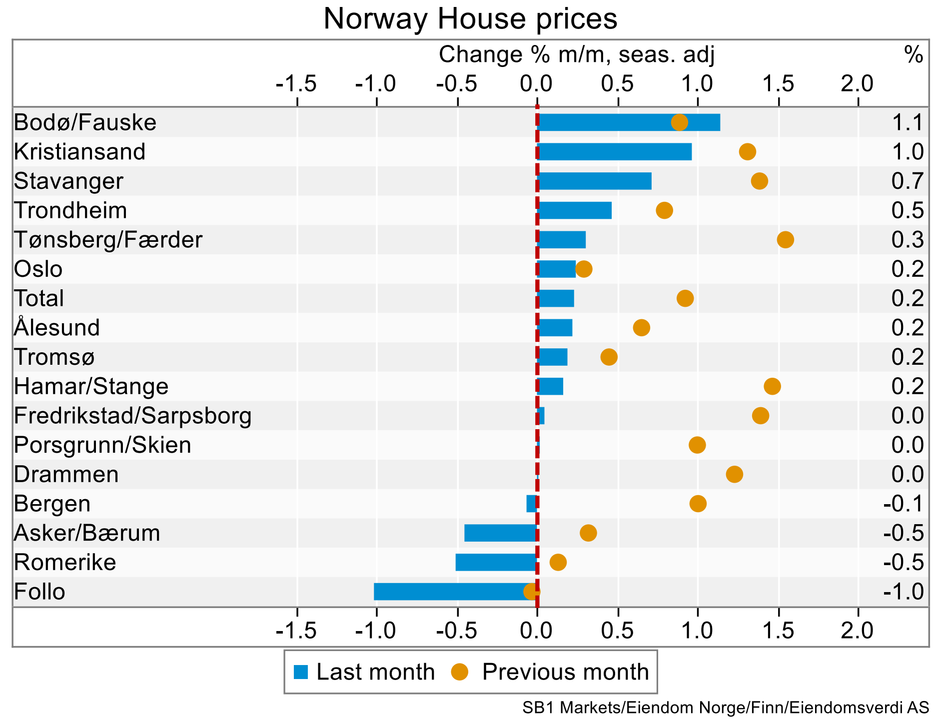


- **House prices** rose by 0.2% in Sept, we expected unch., down from +0.9% in Aug (revised from 1.0%. Prices are up by 2.5% 3m/3m (annualised), down from above 12% in March. Prices are up 8% y/y
- Prices fell in a close circle around Oslo but rose further in Oslo as in most other towns. Bodø/Fauske (as usual) in the top, followed by Stavanger and Kristiansand
- The **number of transactions** was stable following the 10% decline in Aug, level still above the pre-Covid level. The **inventory of unsold homes** fell sharply to the lowest level ever
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model +1%, from zero 5 months ago. Very likely, the outlook for higher rates is dampening willingness to pay
- **Norges Bank** expect house prices to appreciate a moderate pace the coming months, and flatten during 2022

Oslo prices on the way up again, some weakness around Oslo in September

Bodø/Fauske prices are still going strong. Kristiansand/Stavanger at the top too, better oil news?

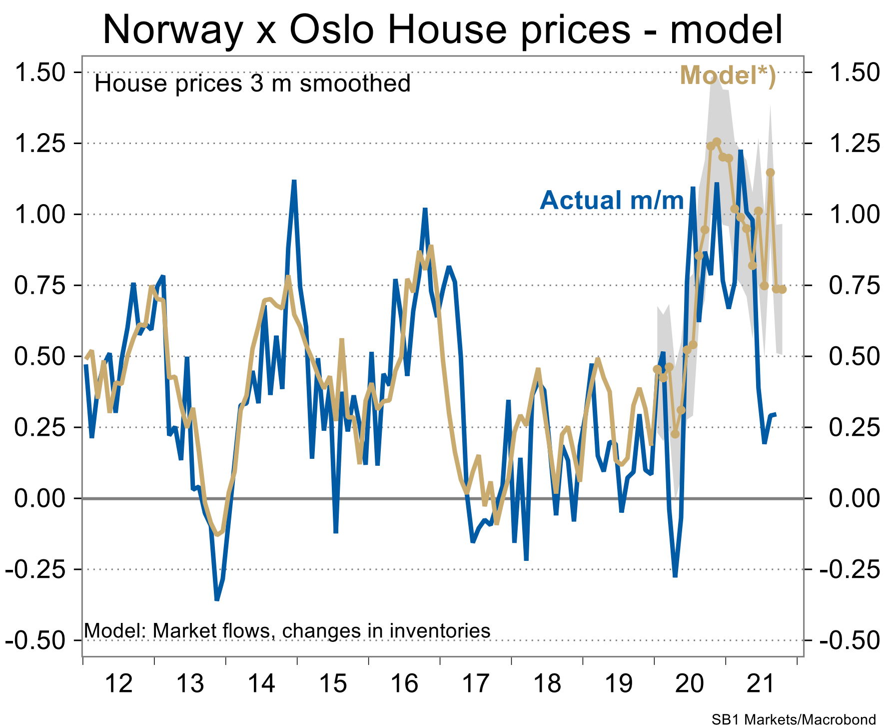


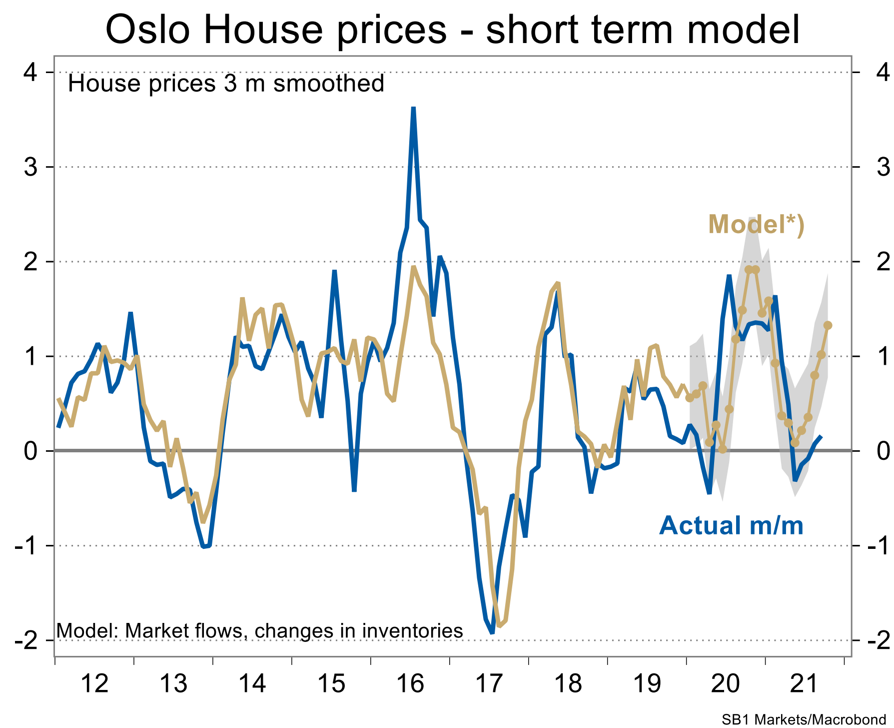


- In September: 9 cities up (from 15 in August); 4 down (from 1)

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

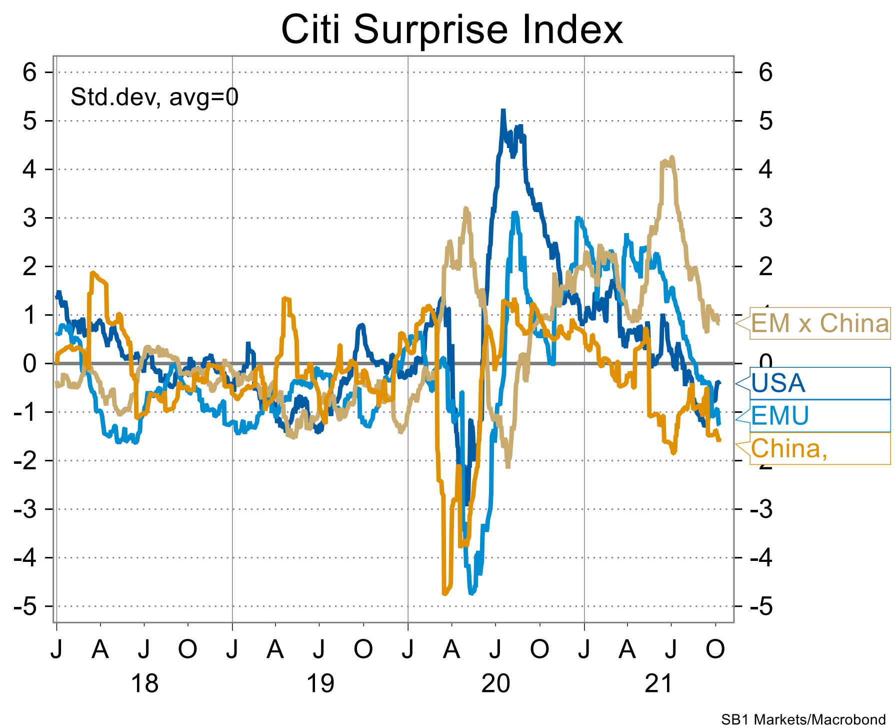
Our models suggest decent price growth. Are we witnessing a rate expectation impact?

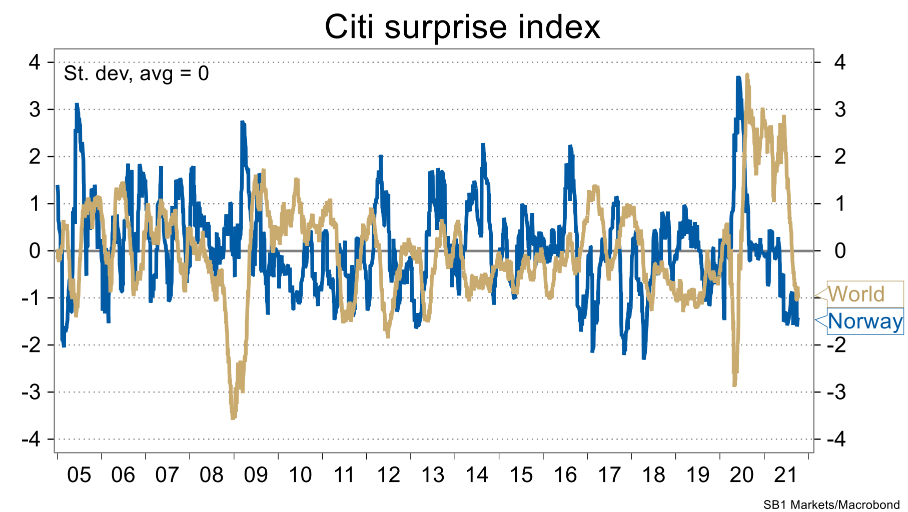


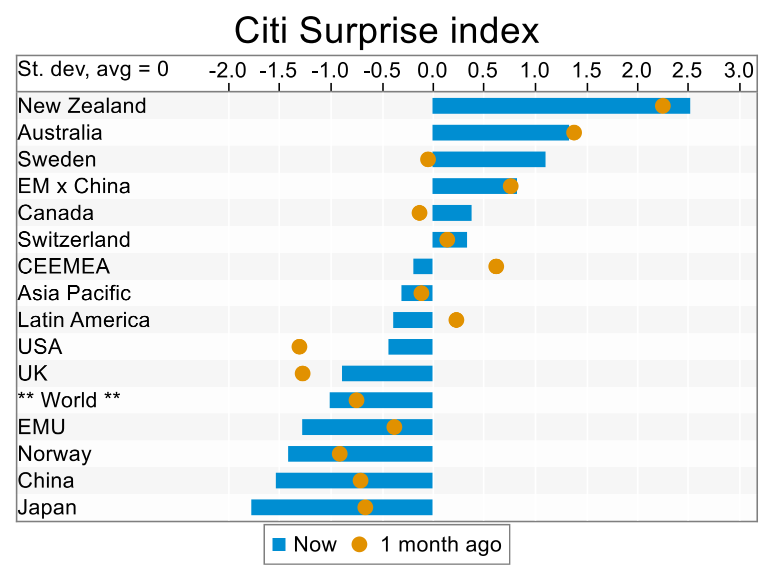


- Our **national x Oslo model** based on flows and the inventory signals a 0.75% growth in house prices per month
- Our **Oslo model** signals a 1%+ growth (up from zero 3 months ago)
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved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

Still mostly negative surprises – but not more last week either







- The **US** surprises have become slightly less negative
- The **EMU** is well below zero, and at tad down last week on weak manuf. data
- **China** is well below normal – and further down last week
- **Emerging Markets x China** are still reporting better 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

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Highlights

The world around us

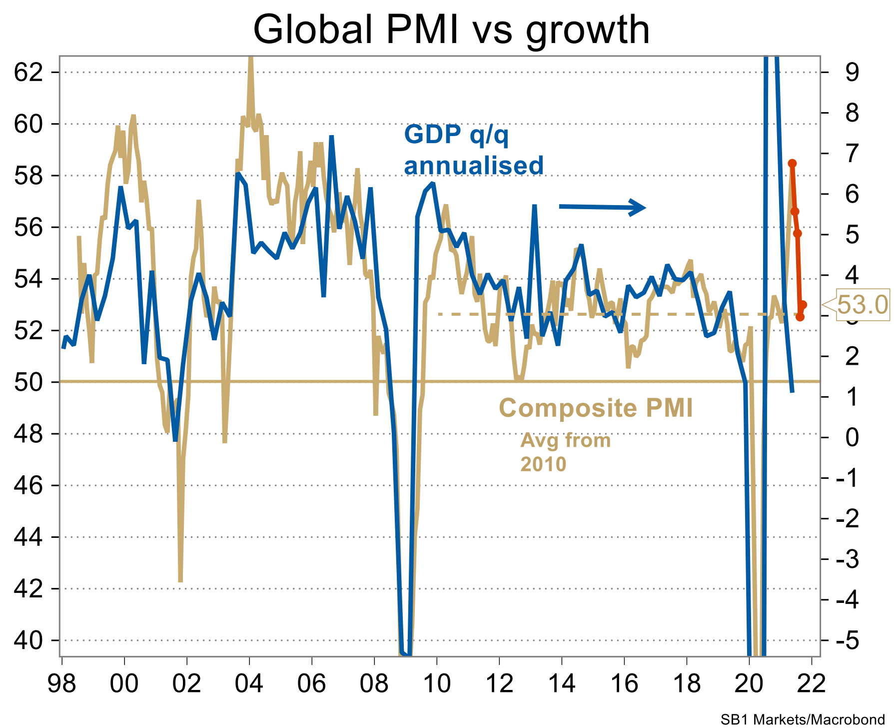
The Norwegian economy

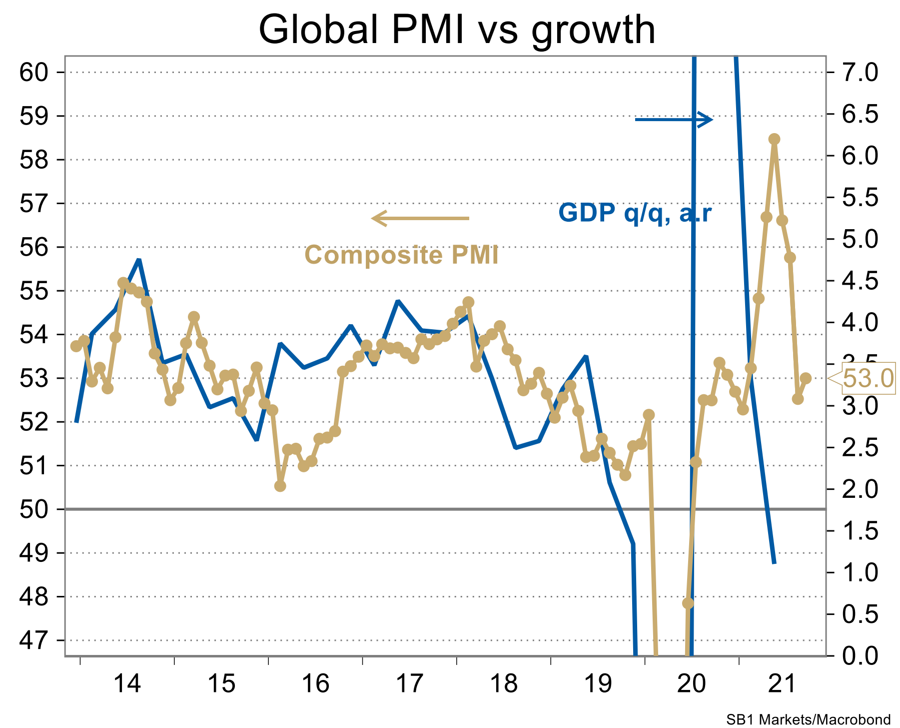
Market charts & comments

SpareBank 1 MARKETS

The global PMI slightly up in September, due to China + rest of Asia, and Russia

The composite PMI rose by 0.5 p to 53.0, signalling growth slightly above trend

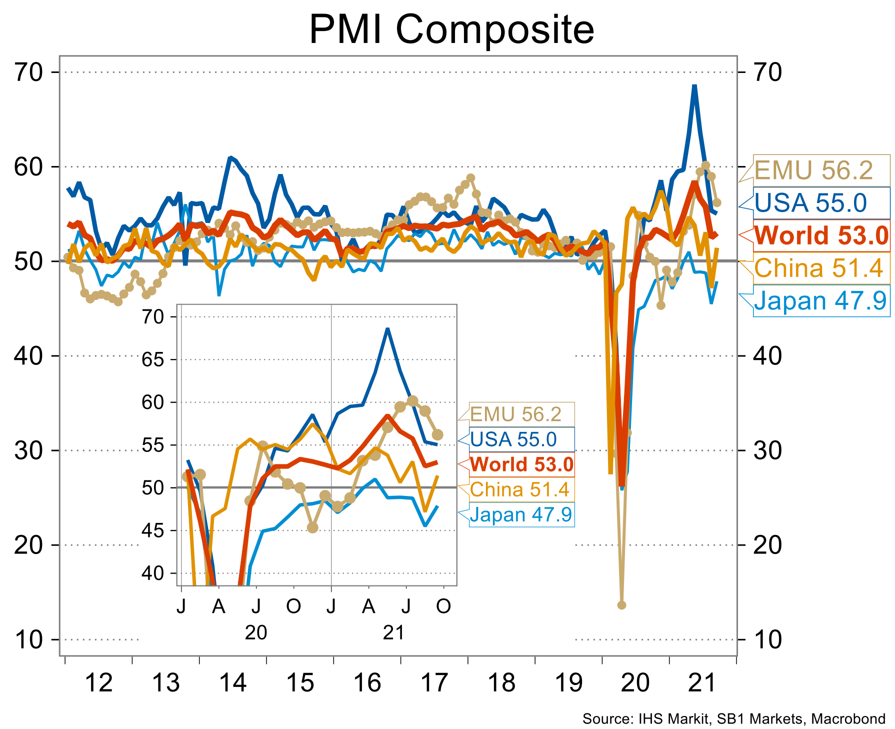


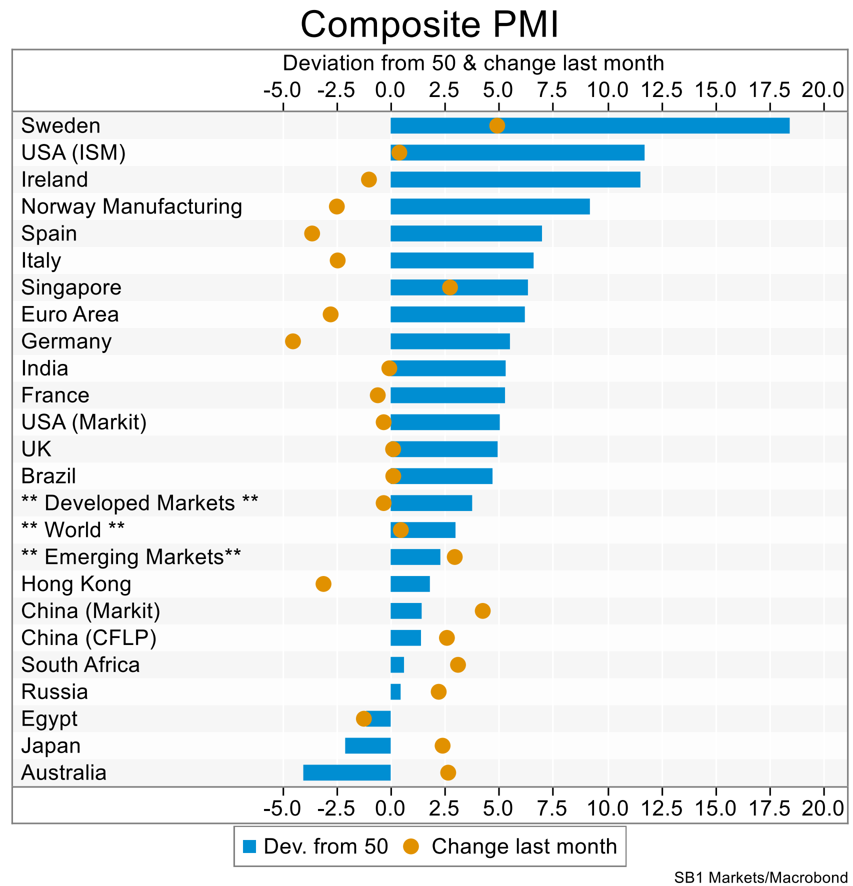


- The global PMIs were far better than the preliminary PMIs signalled (but in line with our forecast last week, when some more data became available)
- The global PMI signals growth marginally above trend, at a 3+% pace – far below the reported growth rates until August
  - » Both manufacturing and services contributed to the lift, services the most

Rich countries marginally down, EM up, China the most. Sweden still at the top

Emerging Markets (EM) is recovering, and EM x China PMI is at the best level since early 2018!

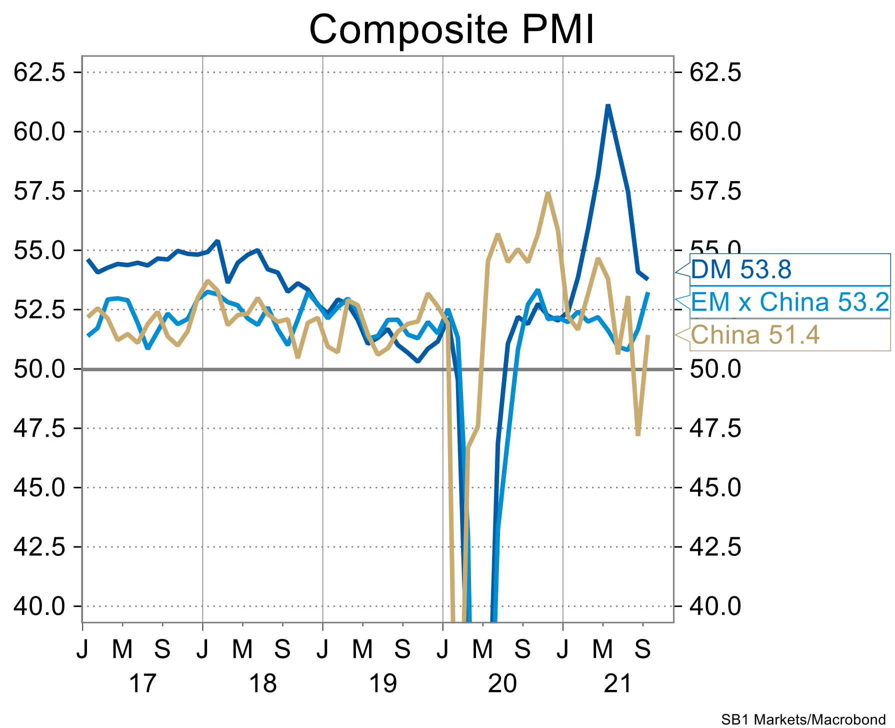


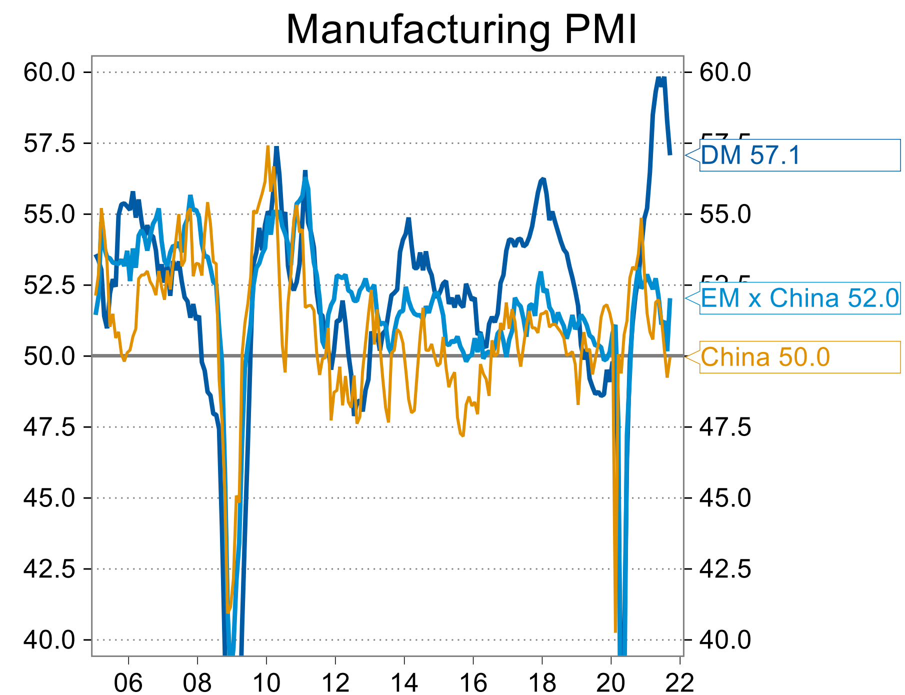


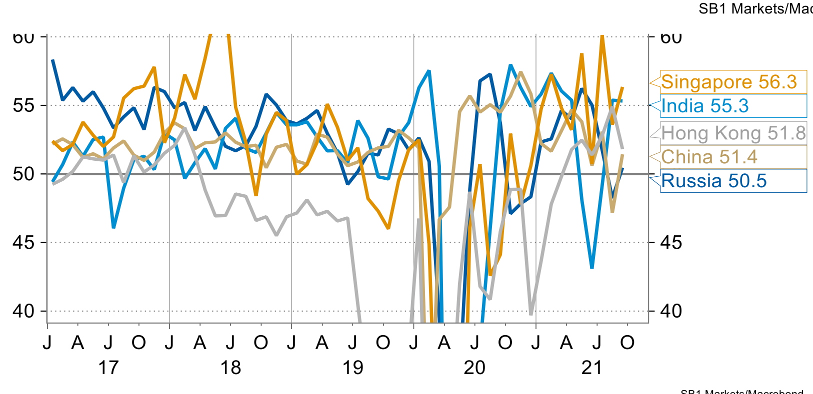
- 11 countries/regions up in September (from 4 in August, 11 down, from 21). Just 3 below the 50-line (from 8)
- Sweden, US ISM and Ireland at the top (+Norwegian manufacturing)
- The Chinese PMIs recovered sharply, especially Markit's (which is a part of Markit's global PMI)
- Other EMs rose too – in fact to the best level in almost 4 years
- Both Japan and Australia are both reporting a continued decline in activity but less so in Sept vs. Aug

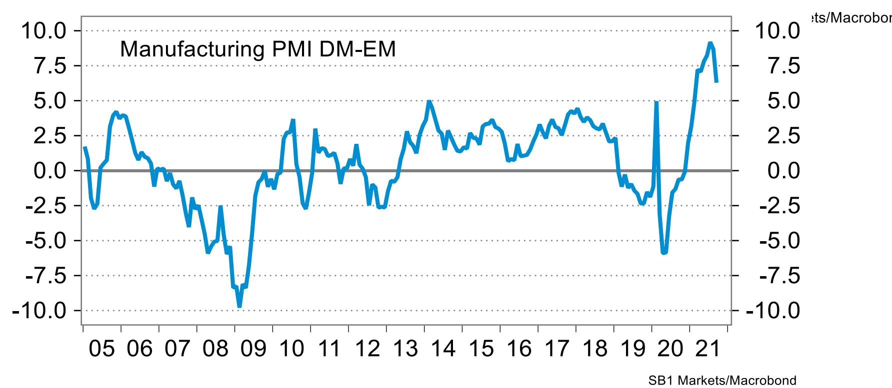
EM x China at the best level since early 2018

These countries have been struggling with the virus far more than DM, due to lack of vaccines



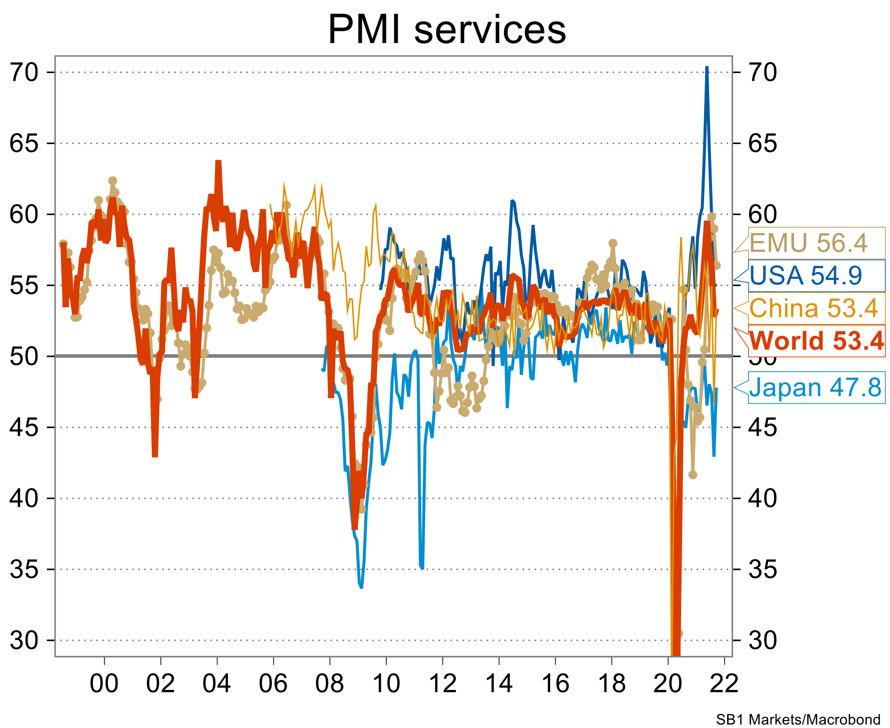


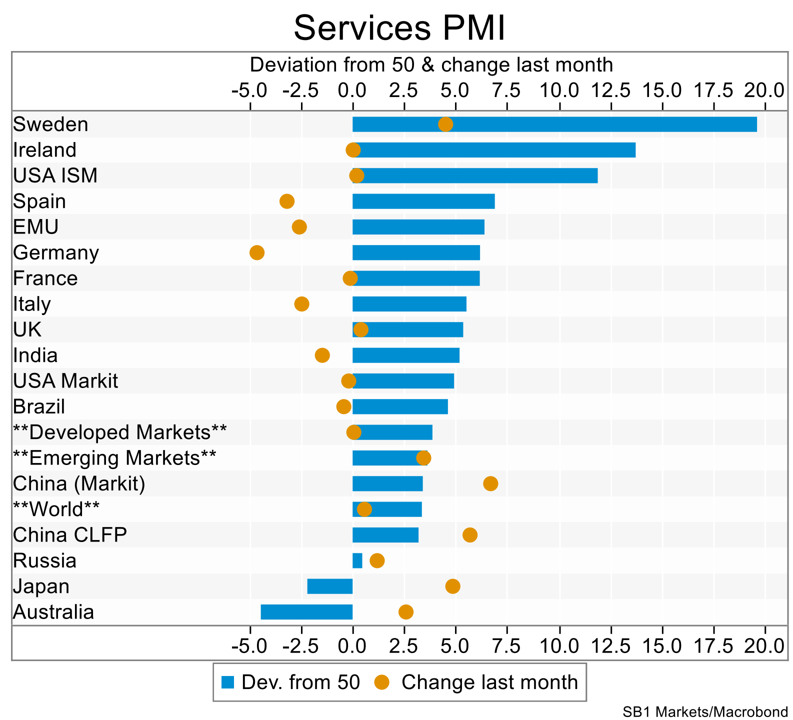




The service sector PMI slightly up in September, few are reporting a contraction

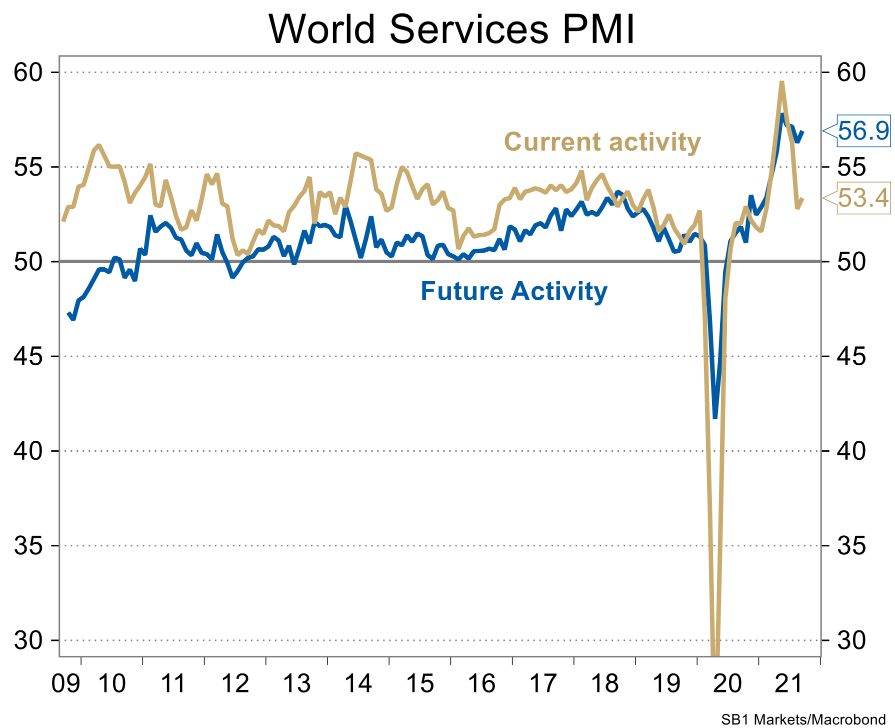
China recovered forcefully from the August setback – the virus is responsible for both moves

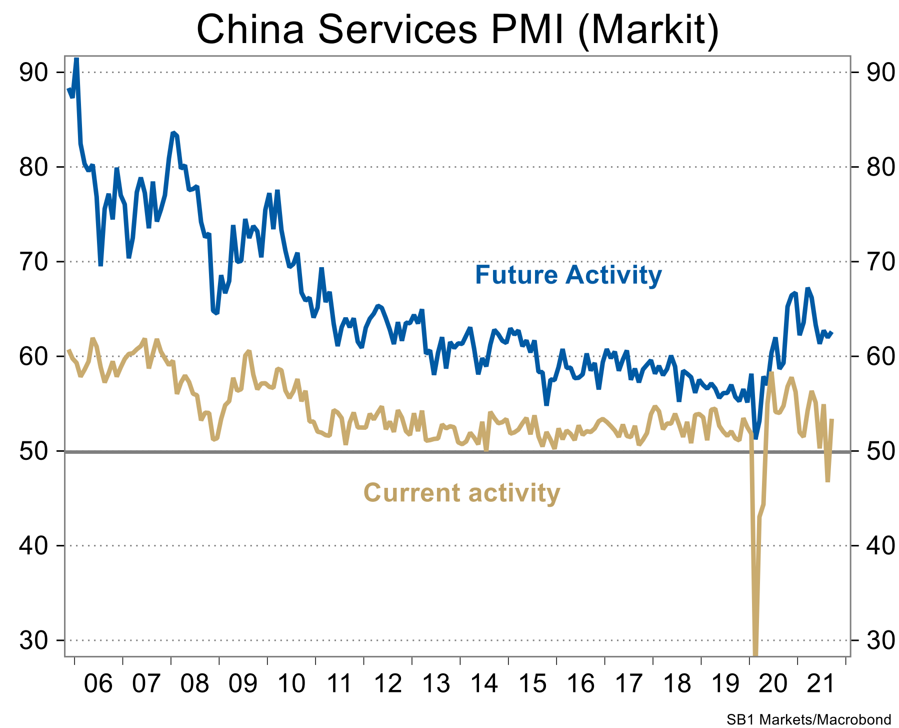




- **The global service sector PMI** rose by 0.6 p to 53.4 – close to an average level
  - » 10 countries/regions up (from 2 in Aug), 17 down (10); Just 3 below the 50-line (5), 17 above
- **Rich countries** are still in the lead, but now just marginally as **China** reported a brisk recovery in the service sector, very likely due to a better Covid-19 situation
- Both Markit's and ISMs services PMIs were unch., with the ISM still well above 60!
- In the **EMU,** the services PMI fell but the level is still high, at 56.4
- The **Indian** service sector PMI fell slightly following the August surge but the level is still OK
- BTW, **Sweden** is still at the top, by far. Ireland and US ISM services follow at the next positions

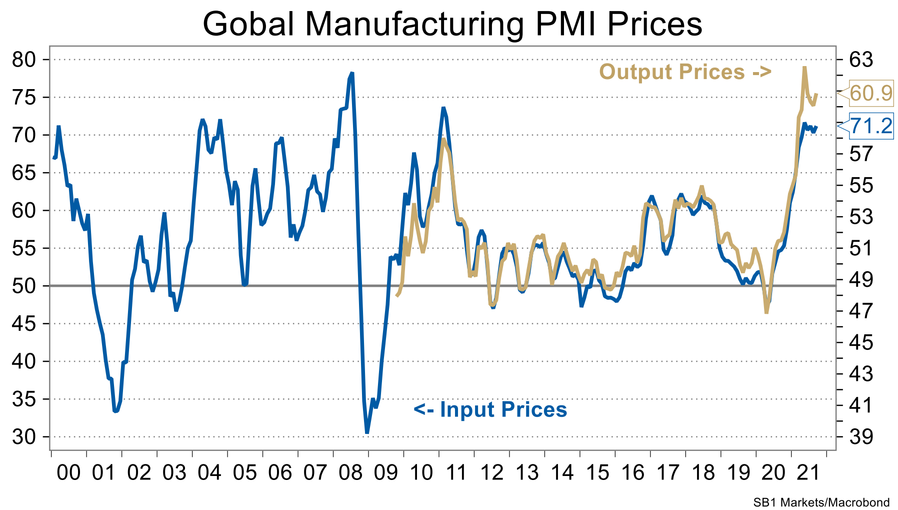
The service sector has not lost its confidence in the future

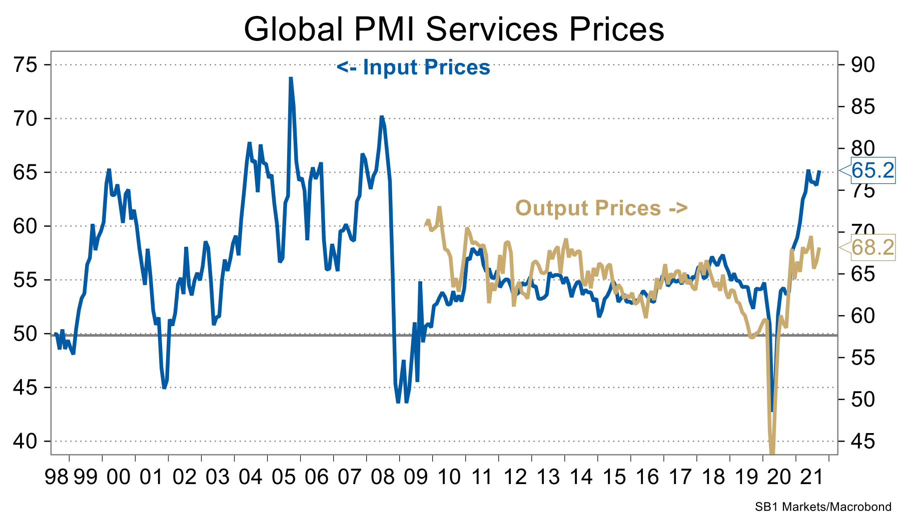


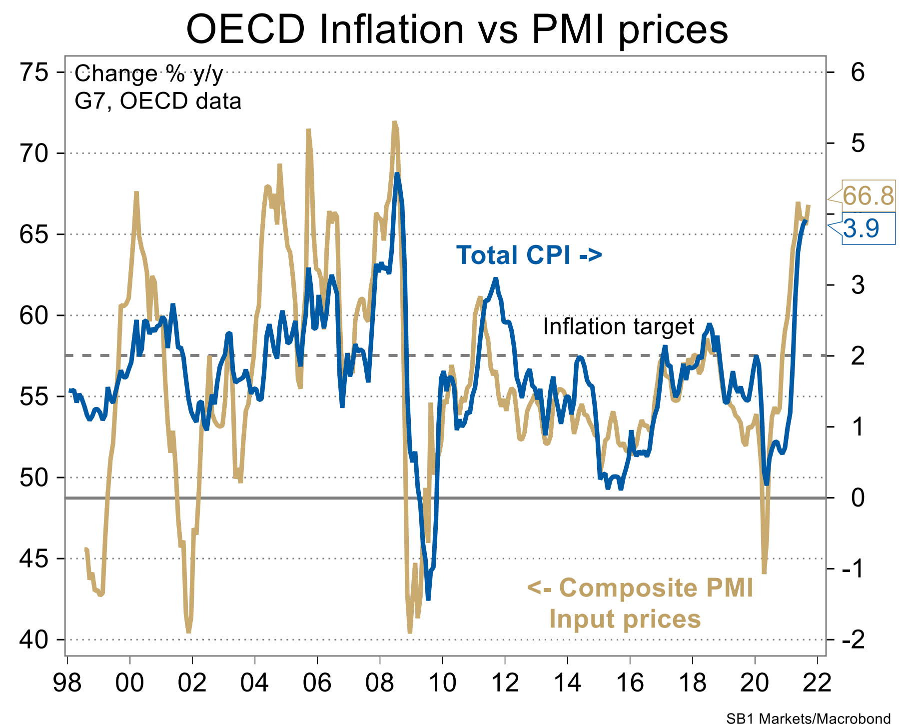


Businesses keep reporting rapid growth in input/output prices

But it has not become worse past few moths

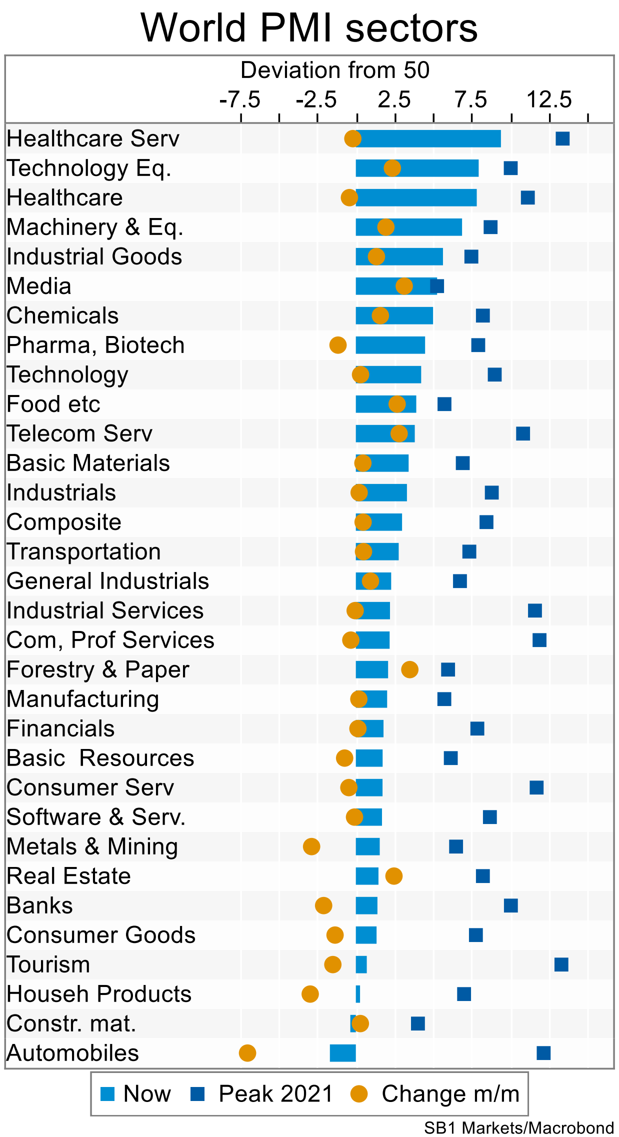


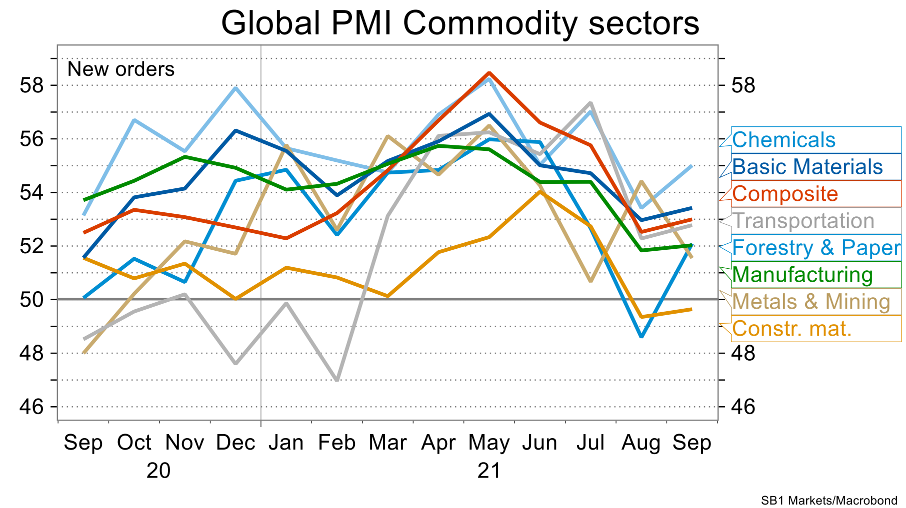


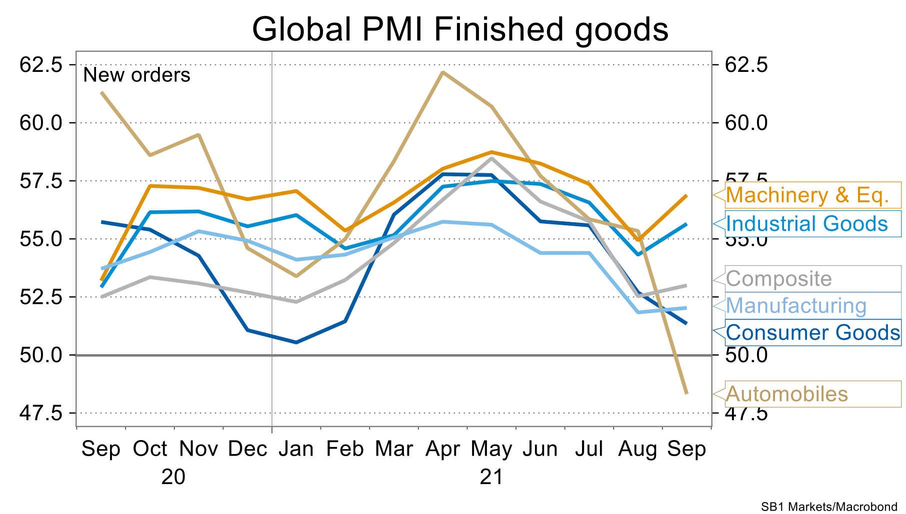


Most sectors are reporting slower growth, but just autos and construction <50

… and a majority of sectors reported somewhat stronger growth in September



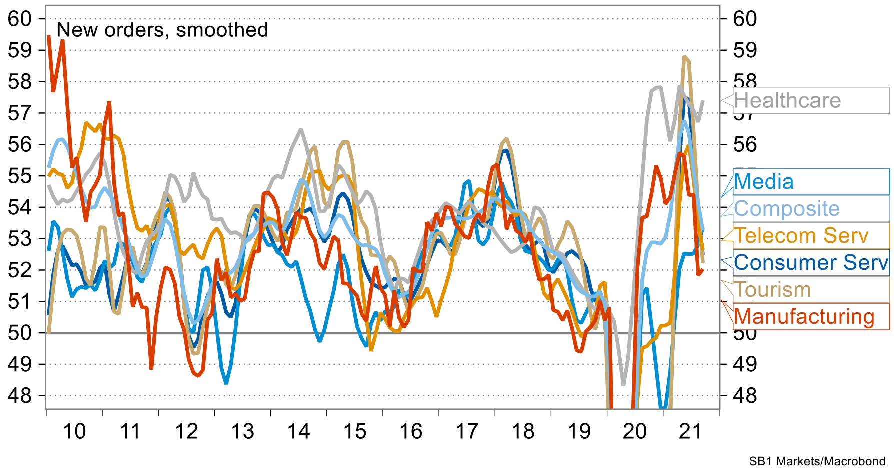




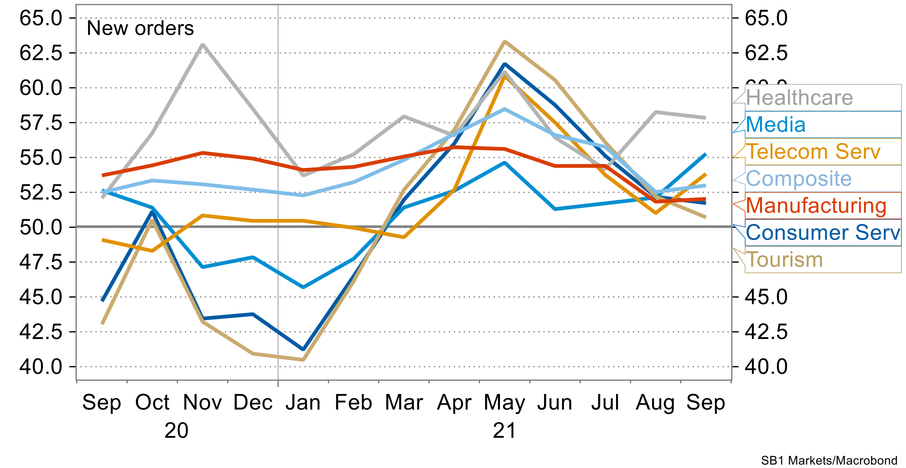
Services are reporting slower growth but far from slow

And the uptick in September was broad

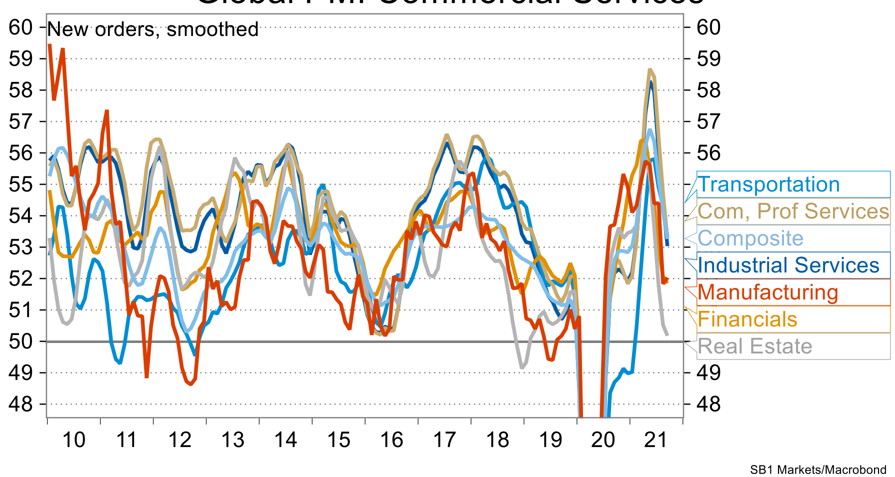
Global PMI Consumer services



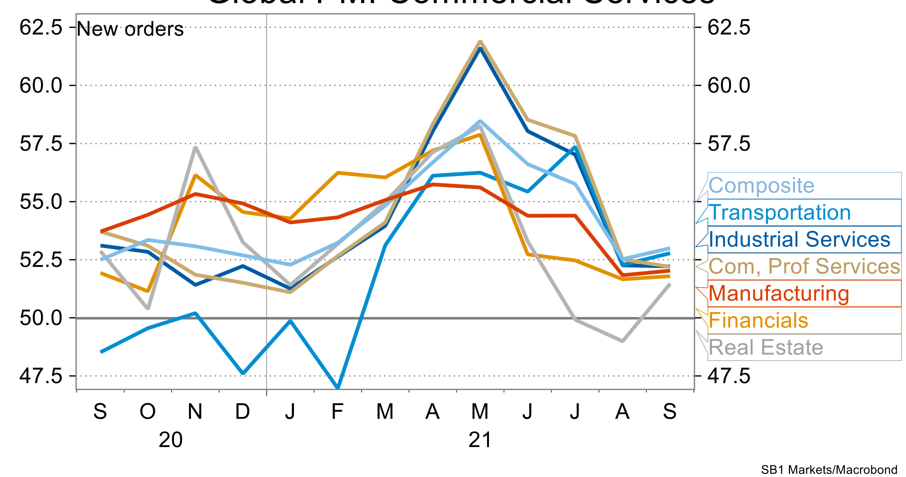
Global PMI Consumer services



Global PMI Commercial Services

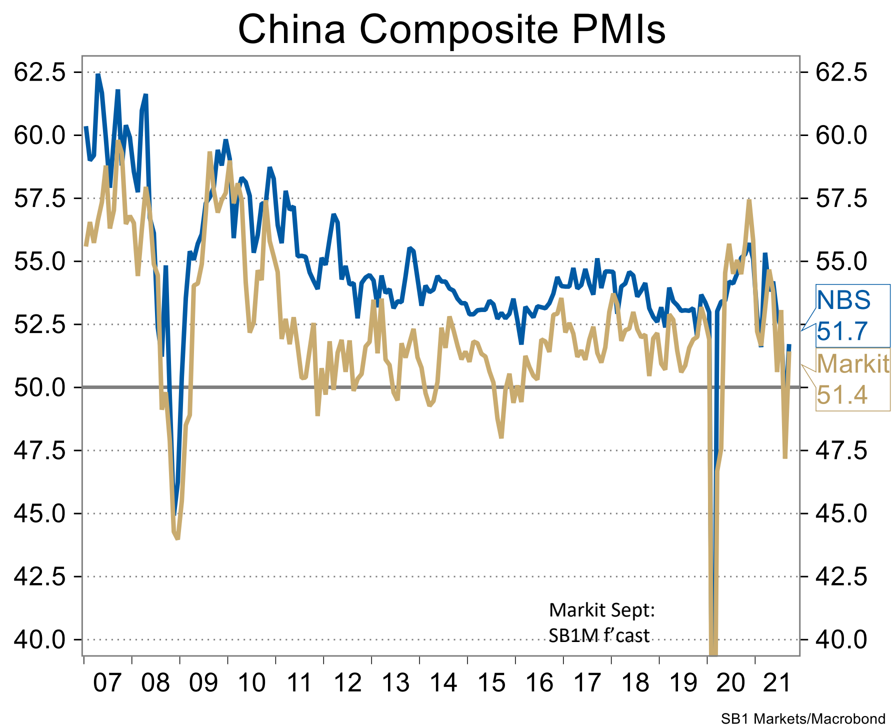


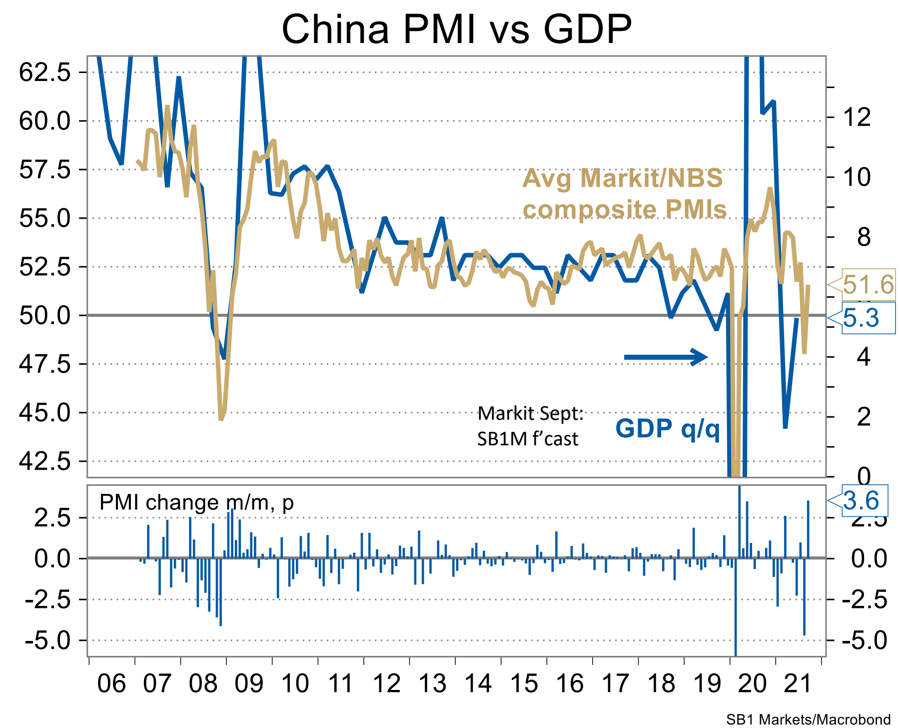
Global PMI Commercial Services



Services recovered in September, the composite PMIs sharply up

The manufacturing PMIs also rose marginally, on average





- 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's composite PMI** rose by 4.3 p to 51.4 and recovered most of the August loss – with services in the lead but even the manufacturing PMI recovered – no signs of any construction crisis (not in the construction PMI either)
- **In sum**, the average of the two composite PMIs rose 3.5 p + to 51.6, still below the August level. The PMI data set signals growth marginally below trend.

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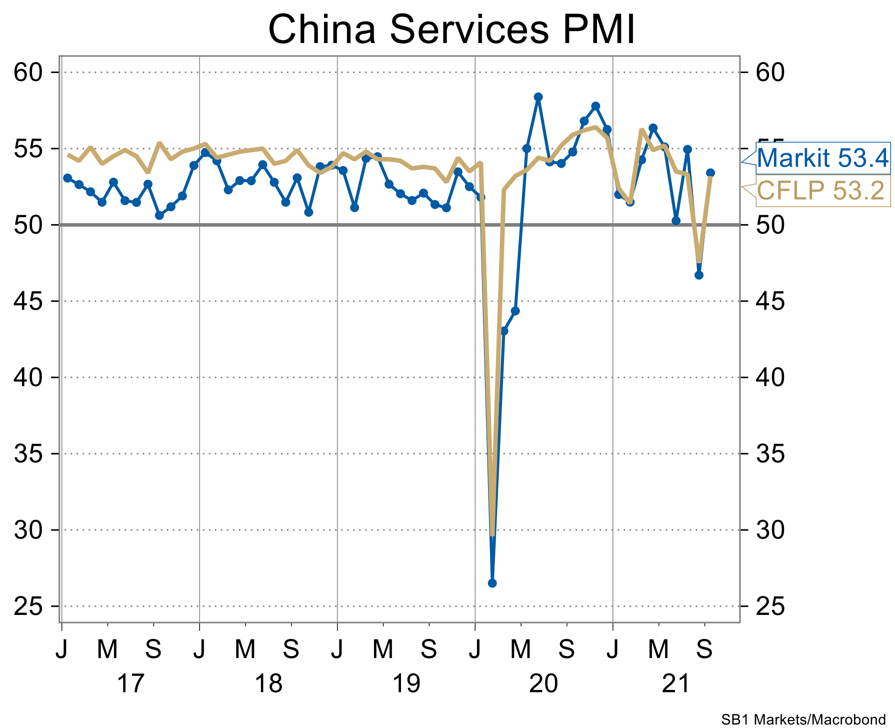
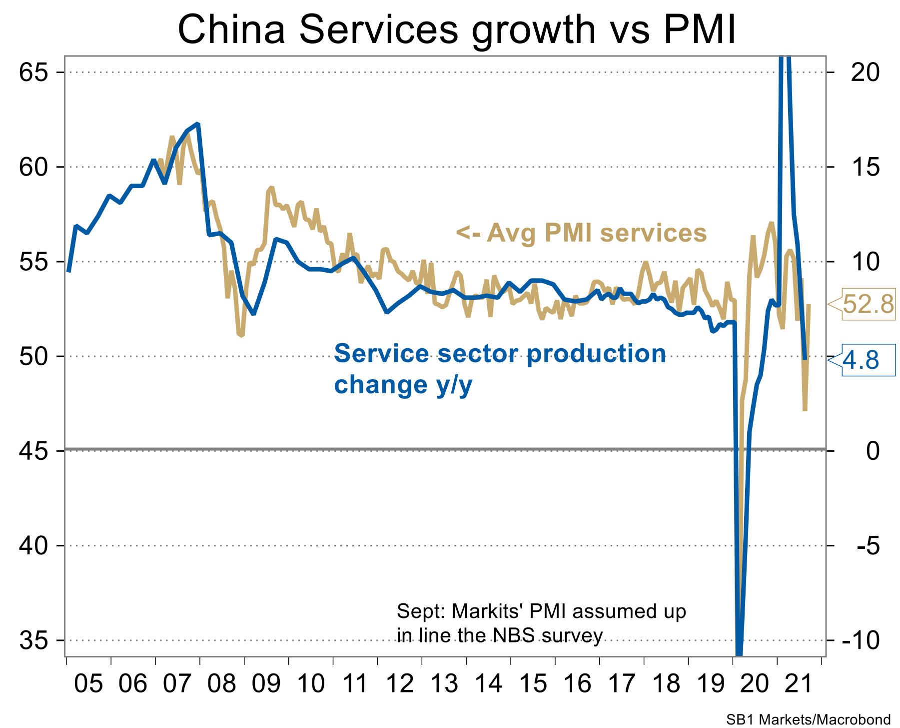
The service sector turned up in September, following the August downturn

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, the 2nd largest decline ever, to a level not seen anytime before, except for Feb-20. In September, both PMIs recovered sharply, almost back to the August average
- **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

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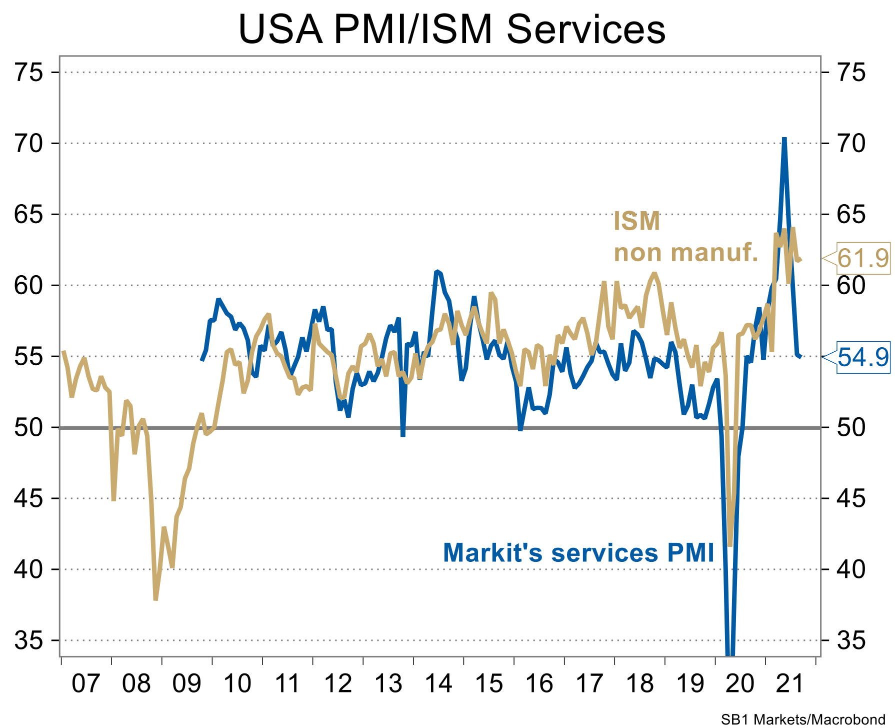
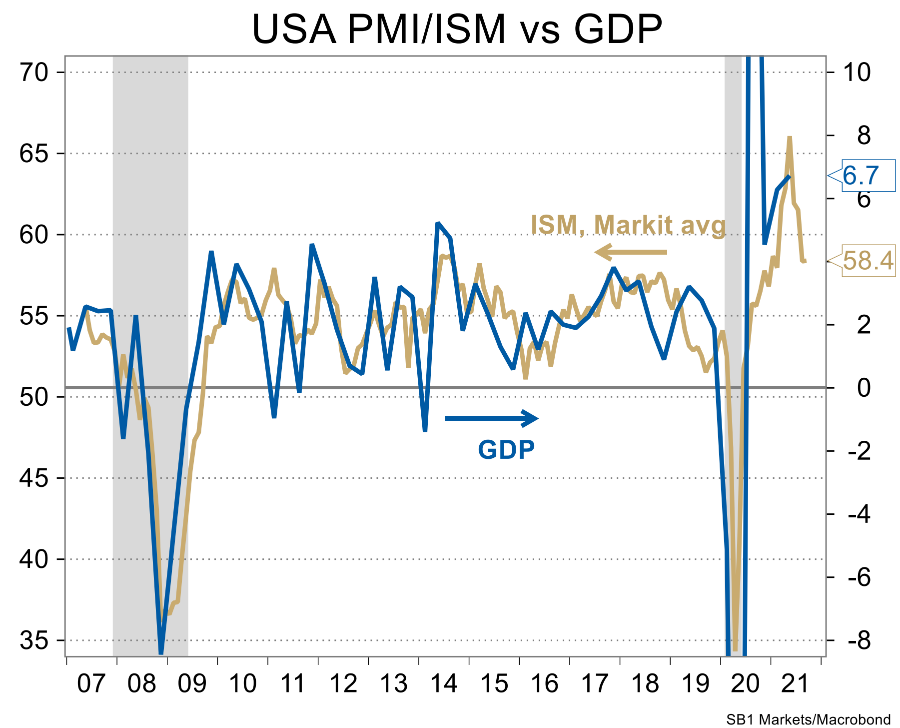
Services ISM surprised on the upside, from a high level – no Covid panic

Markit's services PMI for September marginally higher than flash est., but down from August

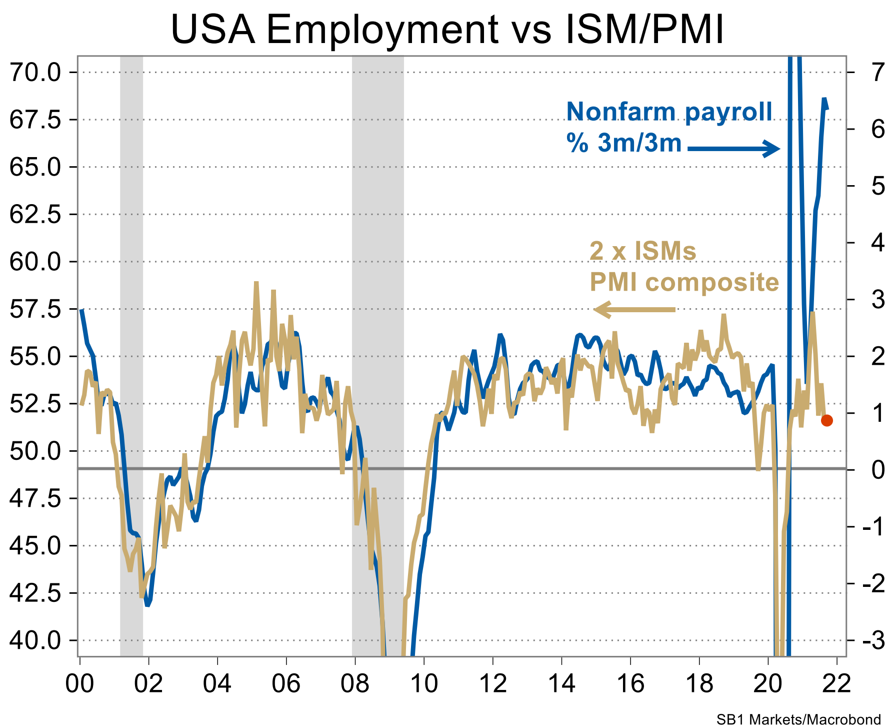




- **Services ISM** rose 0.2 p to 61.9 in September from 61.7 in August. The level is of course rock solid and bears no witness of Covid panic in the service sector. 17 of 18 sectors reported growth in September, like in the past two months (unch. from August). Agriculture was the only sector reporting a decline in activity
- **Markit's service PMI** was confirmed down, but less than reported in the flash estimate. The index fell to 54.9 from 55.4 in August, but 0.4 p above the Sept flash est. Businesses report slower growth in new orders but the order backlog still rose at the fastest pace ever (yet again!) and more companies report capacity constrains and shortages of input. Job growth was the 2nd slowest in 15 months due to lack of labour. The outlook is still bright, the future index rose!
- Together with their manufacturing indices, the **PMI/ISMs** signal some 4.5% – 5% Q3 GDP growth, well below the actual growth in Q2 (6.5%)
- **Prices indices** are soaring, for input prices as well as output prices (in Markit's PMI)

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

Both the ISMs and PMIs report weaker employment growth



- **Actual employment** growth was far weaker than expected in August but the 3m/3m expansion still equalled a 6.3% pace
- The average of PMI & ISM employment indices fell and signals less than a 1% growth pace

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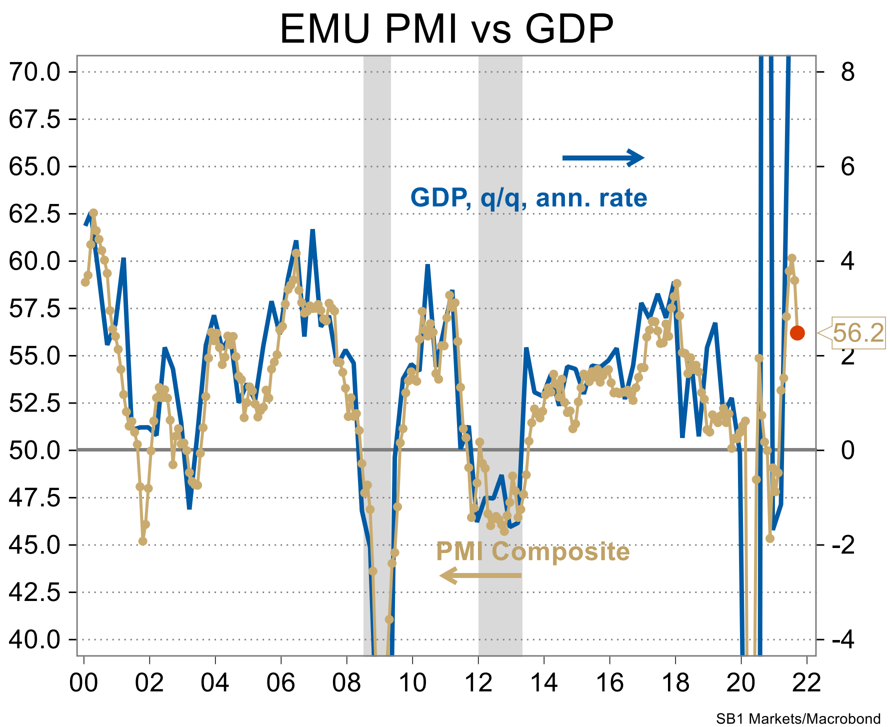
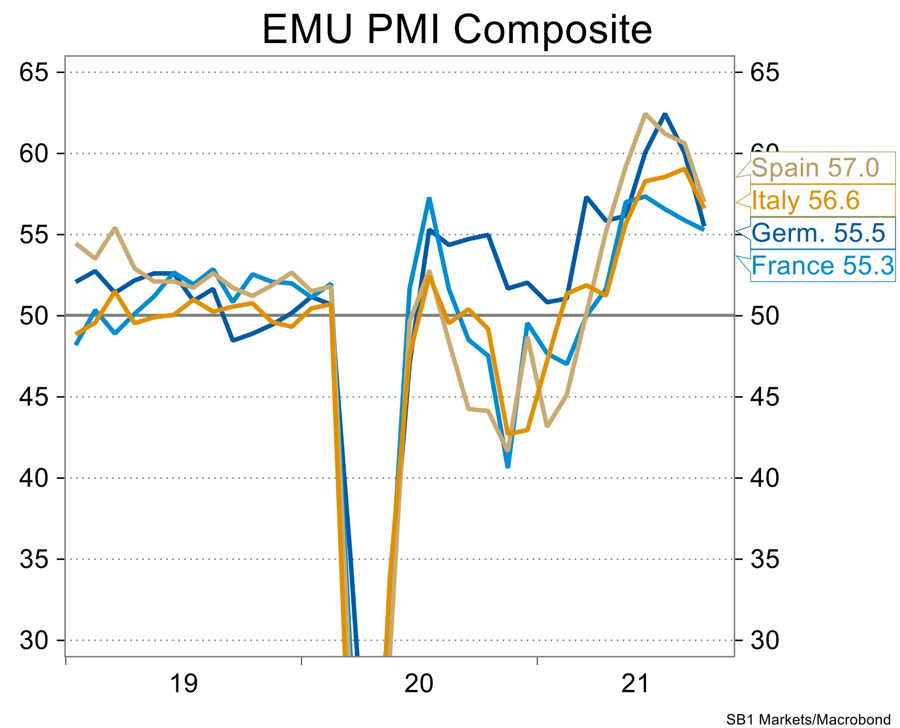
The September PMI confirmed sharply down

PMI weaker on supply issues, *weaker demand* & virus concerns – but we're still not that concerned

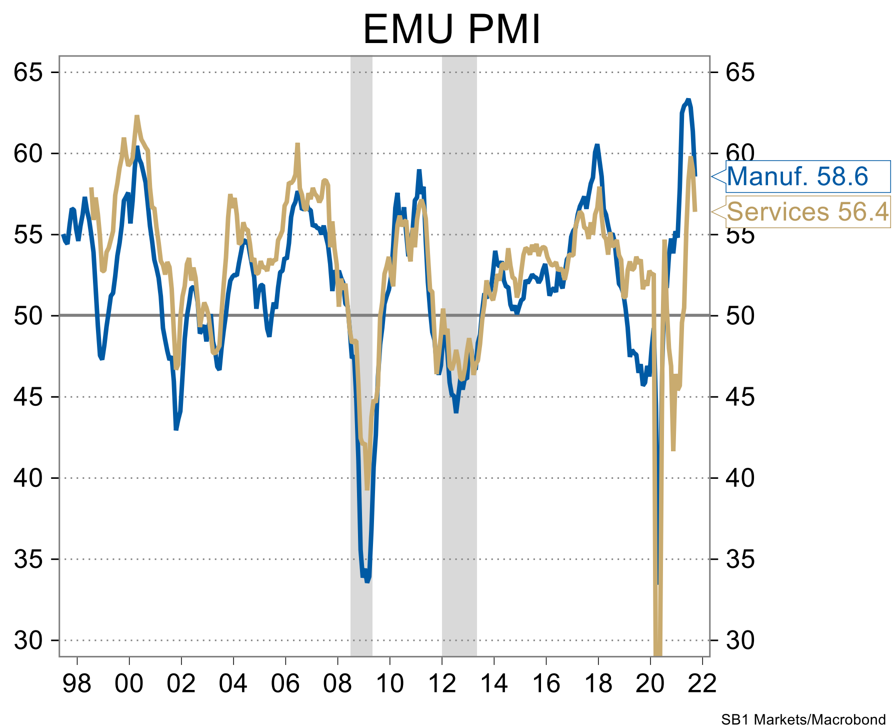


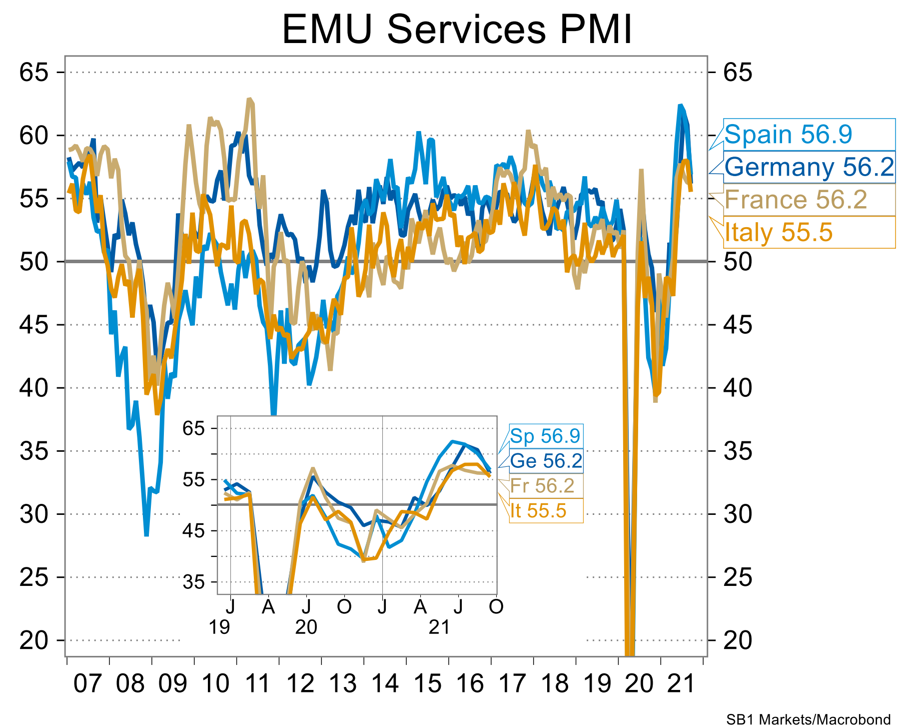


- The final **composite PMI** fell to 56.2 from 59 (0.1 p above the flash estimate), and signals growth well above trend, at a 2.5% GDP growth pace
  - » GDP rose by 8.2% in Q2 (2% not annualised), more than signalled by the PMIs
- **All of the 4 main economies** reported declines in their composite PMIs, but the levels are still very high
- We assume that reported **demand weakening** is not due to a slowdown in final demand but rather due to production cuts in some sectors due to lack of critical input that leads to weaker demand for intermediates from other sectors

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

Manufacturing sector still rock solid – but growth may have peaked

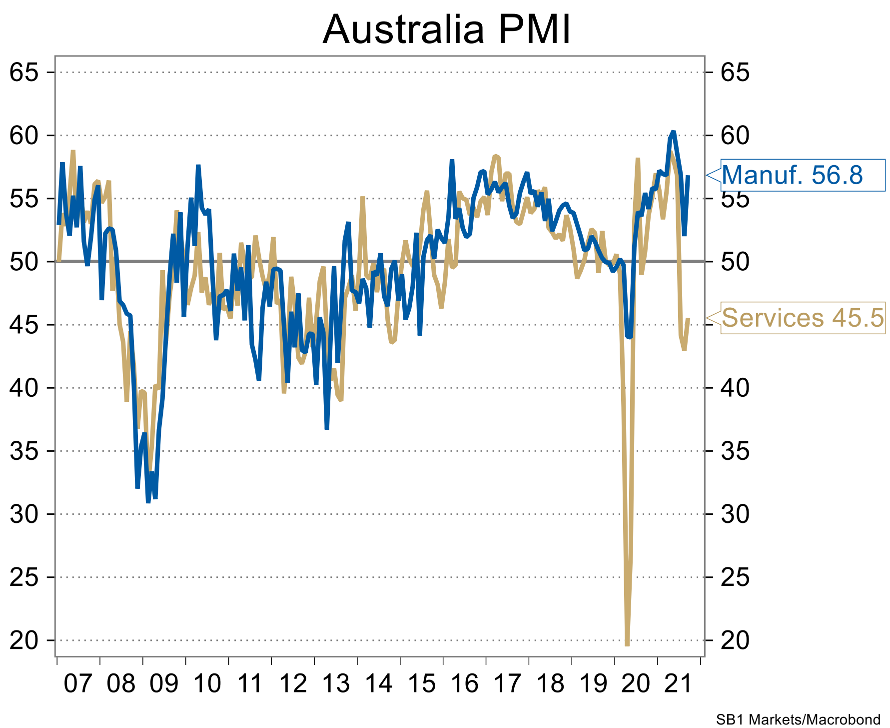


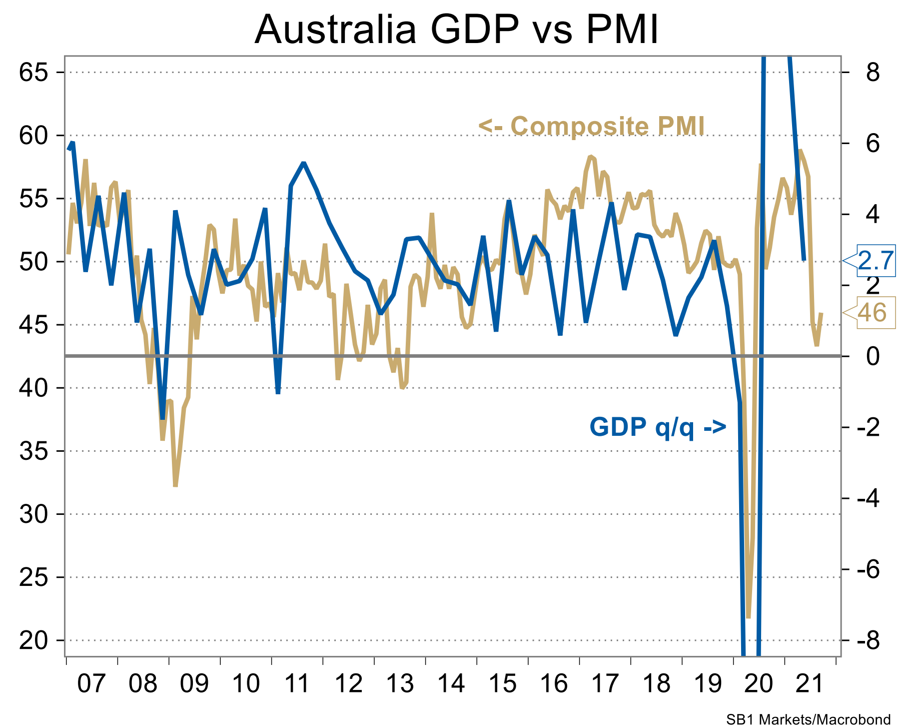


- The **services PMIs** came in at 56.4, <u>above</u> the preliminary estimate/expectations at 56.3, and down from 59 in August. The continued spread of the Delta variant is likely partly to blame, and businesses are also reporting of growing input and output prices
- **The Eurozone manufacturing PMI** was down 2.8 p to 58.6 , 0.1 lower than the first estimate
- Both sectors are reporting growth well above trend, the manufacturing sector the most

Australian PMI stronger in Sept, but services are still hit by the Delta attack

A decline in GDP cannot be ruled out, but the PMIs do not signal that it is a done deal





- **The service sector PMI** rose 2.6 p to 45.5, but the service sector is clearly still struggling from the spread of the Delta variant. However, the PMI level is still far above the bottom last spring, at below 20
- **The manufacturing sector PMI** was up 4.8 p to 56.8, reversing the fall in August. The composite PMI at 46 signal a GDP growth pace a little over 1%
  - » Disclaimer: The correlation between PMI and GDP is not that impressive

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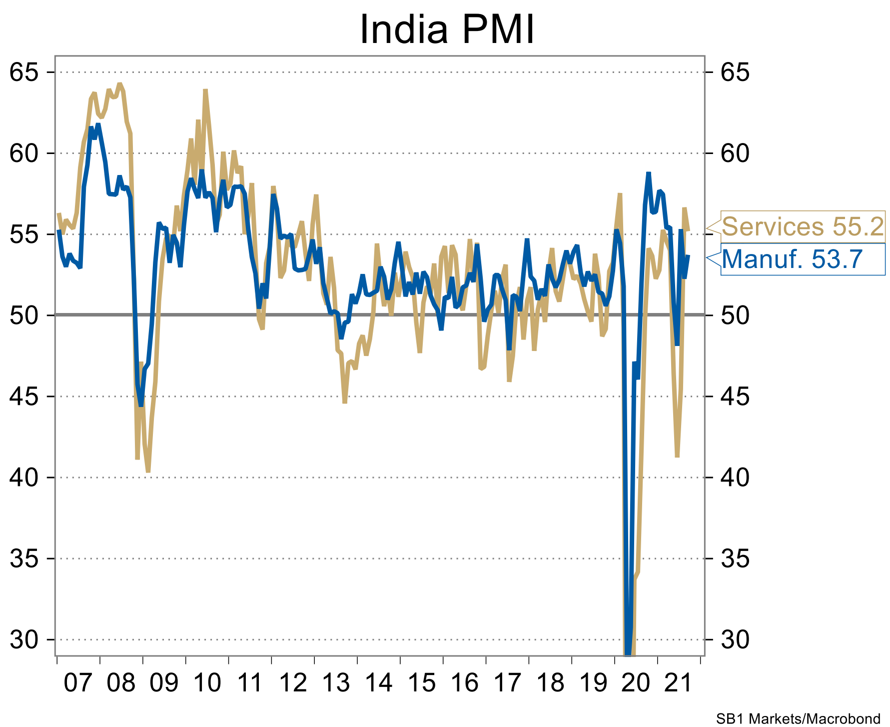
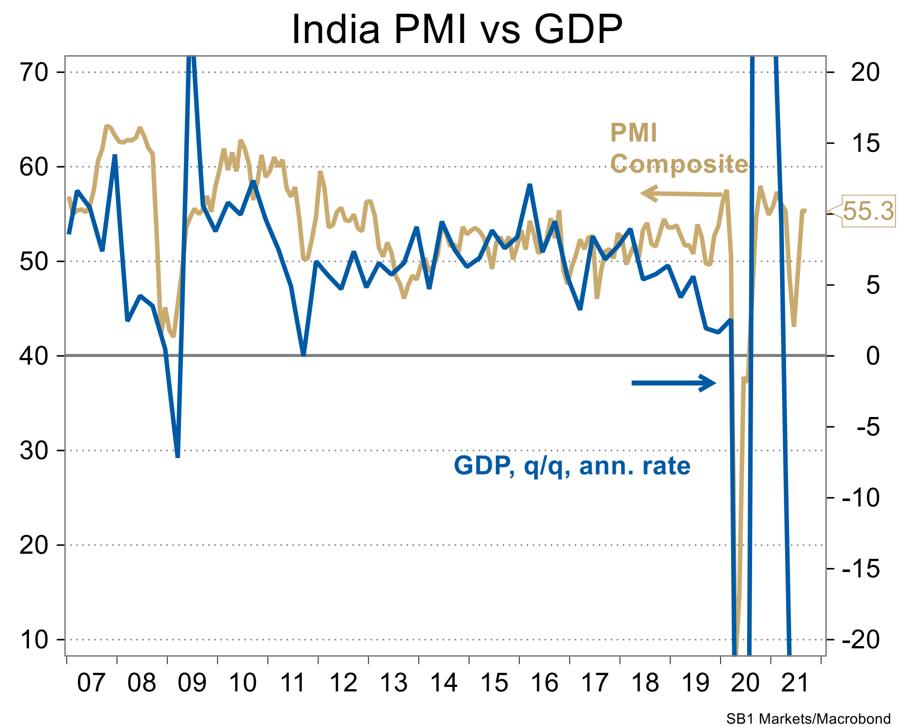
Indian composite PMI marginally down in Sept – still signals a 10% GDP growth

Covid troubles are in the past, and although the services PMI was weaker, it is still a strong print

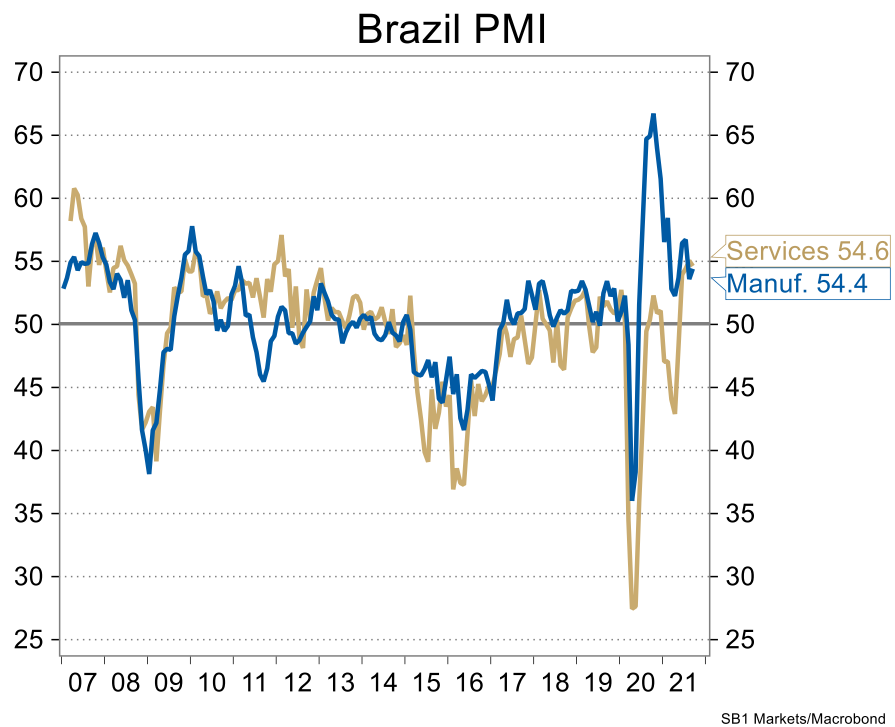


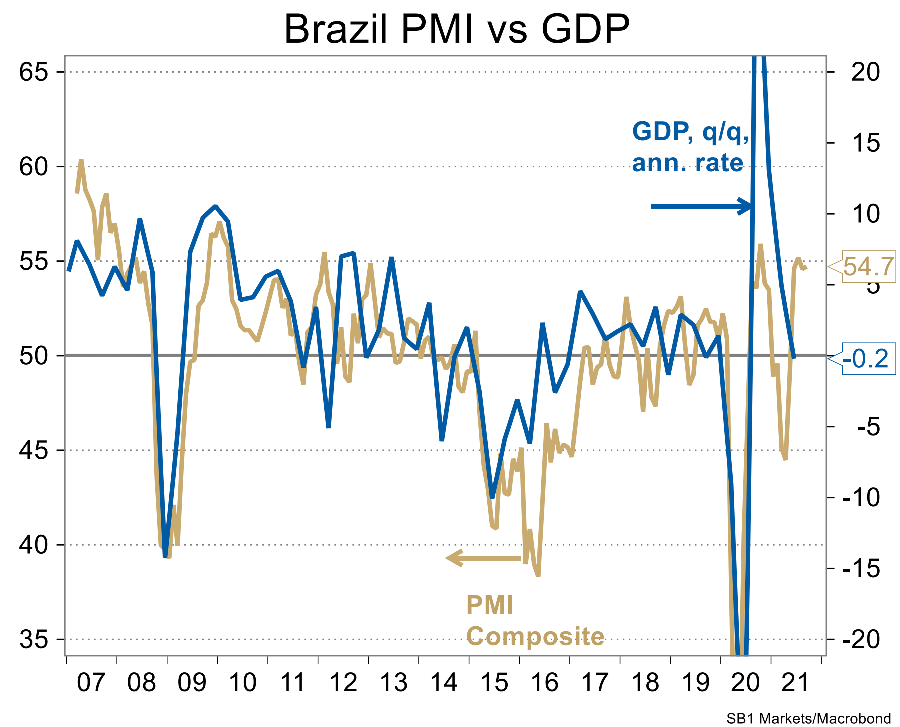


- **The manufacturing PMI** rose 1.4 p to 53.7, slightly above the 2012 – 2019 level. The expansion continues as demand, especially international demand, remains strong, and Covid restrictions have eased. However, Indian manufacturers are also prone to the commodity squeeze as well as rising energy and transportation costs
- **The services PMI,** on the other hand, was down 1.5 p to 55.2, but is still far above the pre-pandemic level, signalling that the Delta virus' (direct) grip on the Indian domestic economy is gone
- The correlation between **PMI and GDP** is not that impressive but the 55.3 composite PMI signals strong growth in GDP. That's needed, following the 10% (35% annualised) decline in Q2 GDP. <u>We expect the Q2 decline to be reversed in Q3, possibly into Q4, implying far higher growth rates than implied by the PMI, just as last autumn, following the first virus attack</u>

The PMIs among the best in more than a decade, 5%+ growth signalled

The services PMI fell slightly in Sept but remains strong, and the manuf. PMI is at a high level too

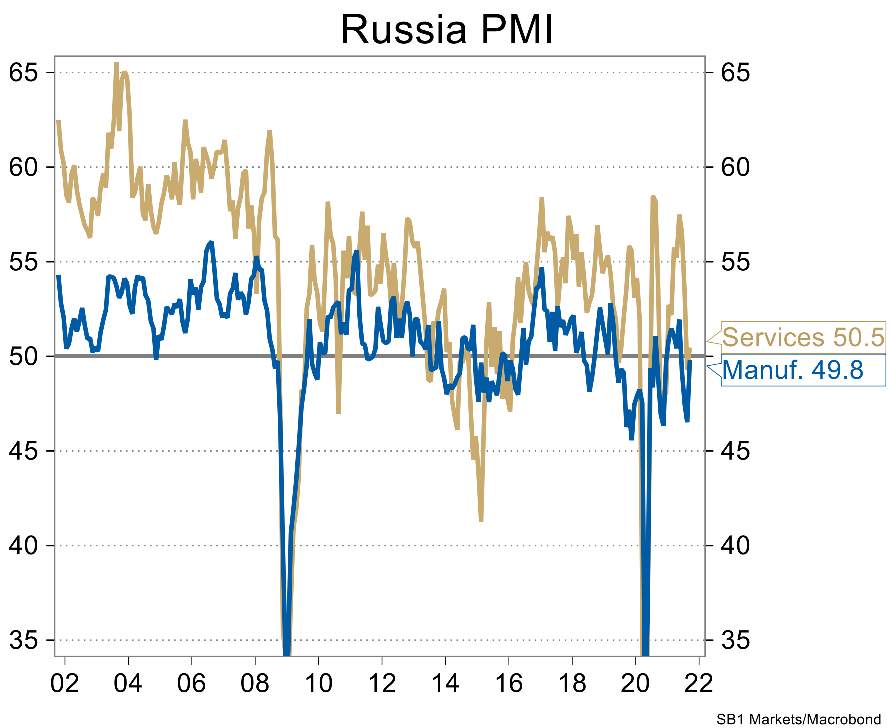


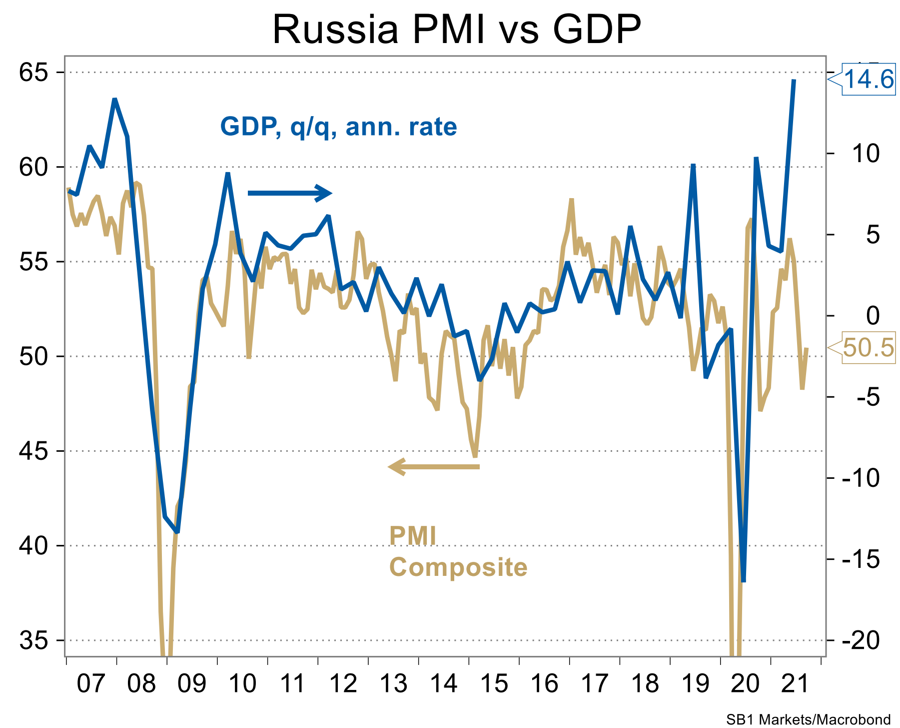


- **Manufacturing PMI** added 0.8 p to 54.4
- **The service sector PMI** fell 0.4 p to 56.1- and is at 2nd highest level since 2011!
- **The Composite PMIs rose just** marginally - signals some 6% growth pace in GDP in Q3, while the PMI signalled zero growth in Q2 – and the PMI was correct, GDP was close to unch. (-0.2% annualised)

Russian economy seems to be recovering as well

Both services and manufacturing PMIs stronger in September. GDP up 14.6% (ann. rate) in Q2

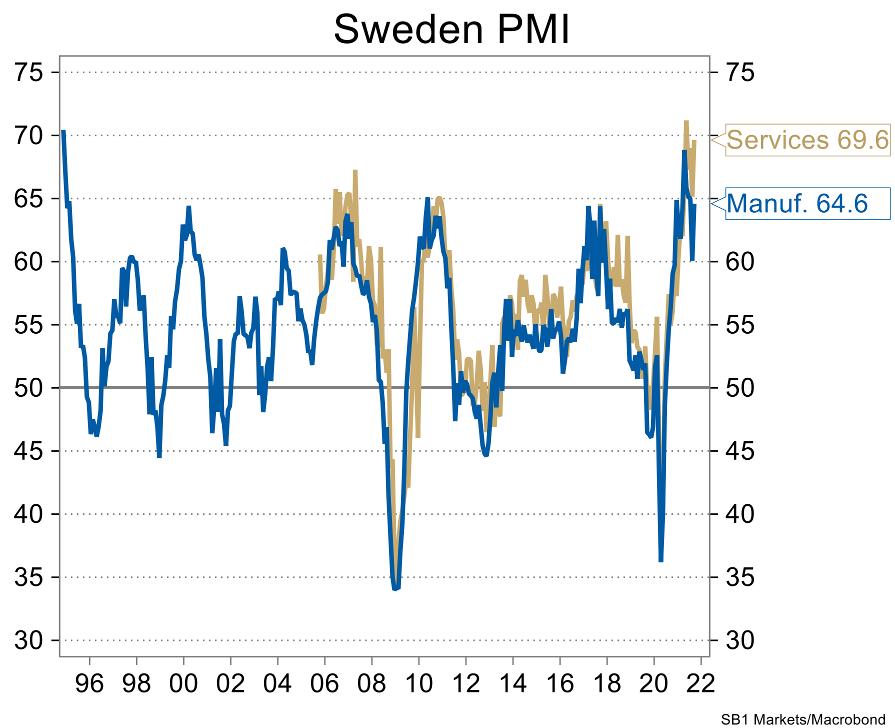


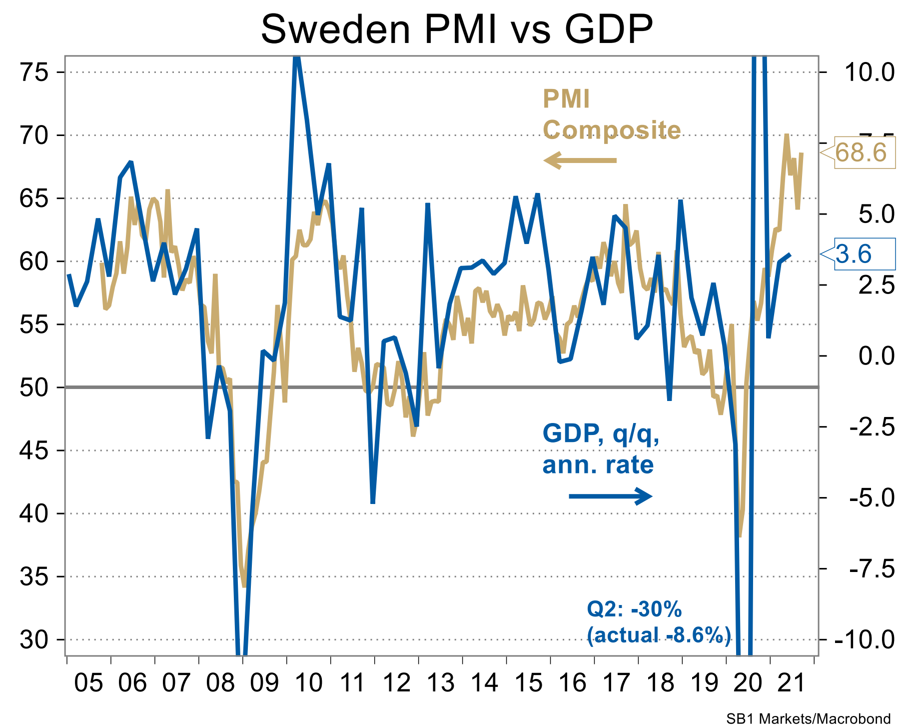


- **Manufacturing PMI** rose 3.3 p to 49.8 in September
- **The service sector PMI** was up 1.2 p to 50.5
- **The composite PMI at** 50.5 signals a 2% contraction in GDP
- **GDP** rebounded sharply in Q2, and much more than the PMIs reported, but a low vaccination rate and high inflation of course pose some risks

Swedish composite PMI with a impressive rebound in September

Both sub-indices were up by 4.5 p – and the composite PMI rose to 68.6!!





- The composite **PMI** has been record strong, and one of the strongest in the world over some time – and at the top again in Sept, as the services PMI rose 4.5 p to 69.6, from a 0.4 p upward revised August print. The manufacturing PMI also gained 4.5 p to 64.6. A 7+% growth pace is indicated
- **Actual GDP** fell 3.8% in August, however from a high level in July. Most likely, Sweden will report Q3 growth, perhaps close to the 3.6% pace in Q2
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until 2025. We are not so sure…

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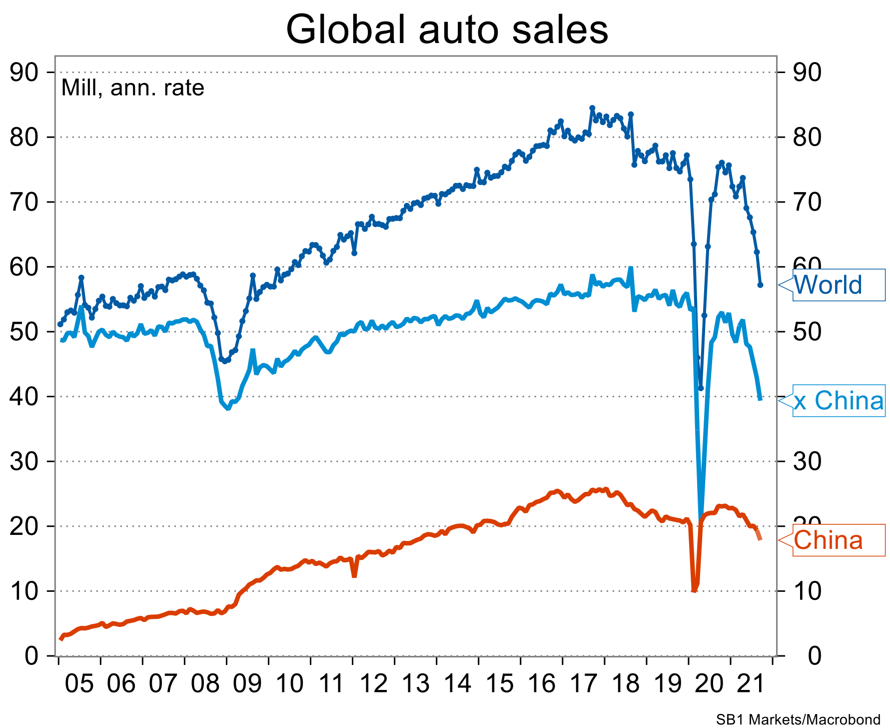
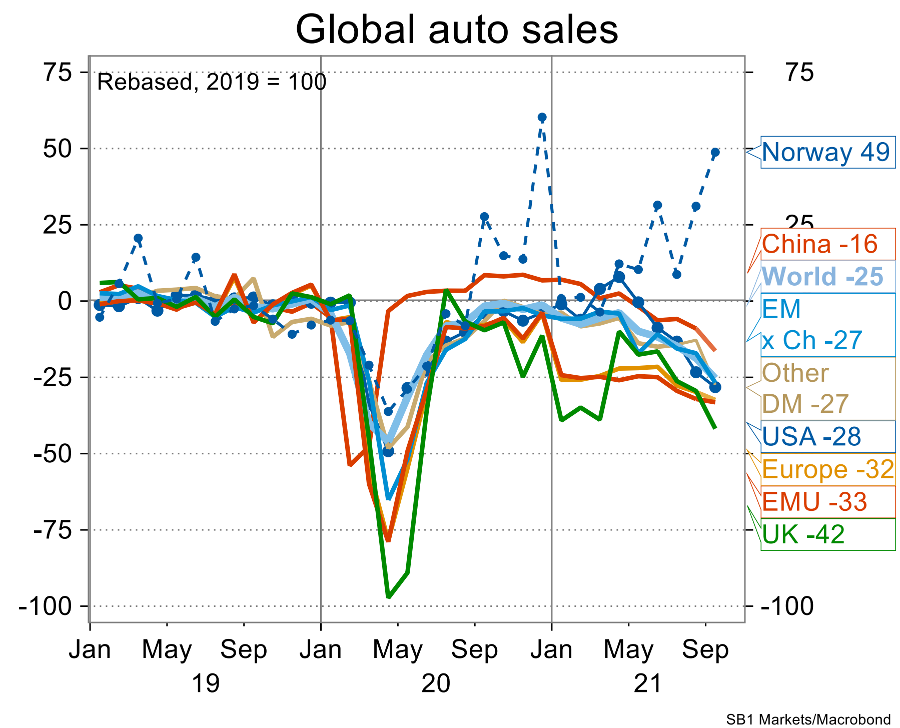
Auto sales further down in Sept, as production is cut due to lack of data chips

Sales could have fallen by 8%, and are down some 25% from the 2019 level

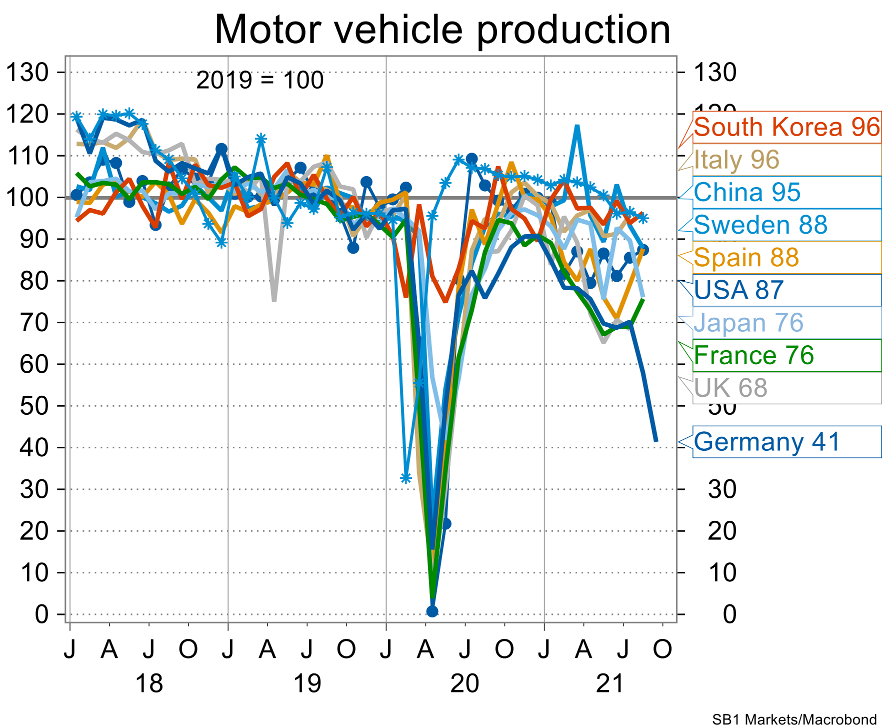




- We still not have reliable data from **China** (the autumn holiday). Based in very preliminary data, that are really uncertain, we assume a further decline in sales in Sept here, and thus even our global estimate is more uncertain than normal (some other countries have not 'officially' reported either, we are using media reports)
- Sales fell sharply in **US** and in **Europe**, both EMU & UK. UK sales are down 42%, EMU -33%, US -28% - all vs 2019. Japanese sales fell sharply in Sept
- **Norwegian** sales are soaring. The only explanations are that auto makers have the highest margins here, or that their autos with the highest margins are sold here
- Sales in EM x China very likely fell further too – around 27% vs. 2019

Auto production still heading down, Germany is badly hurt, down 59% in Sept

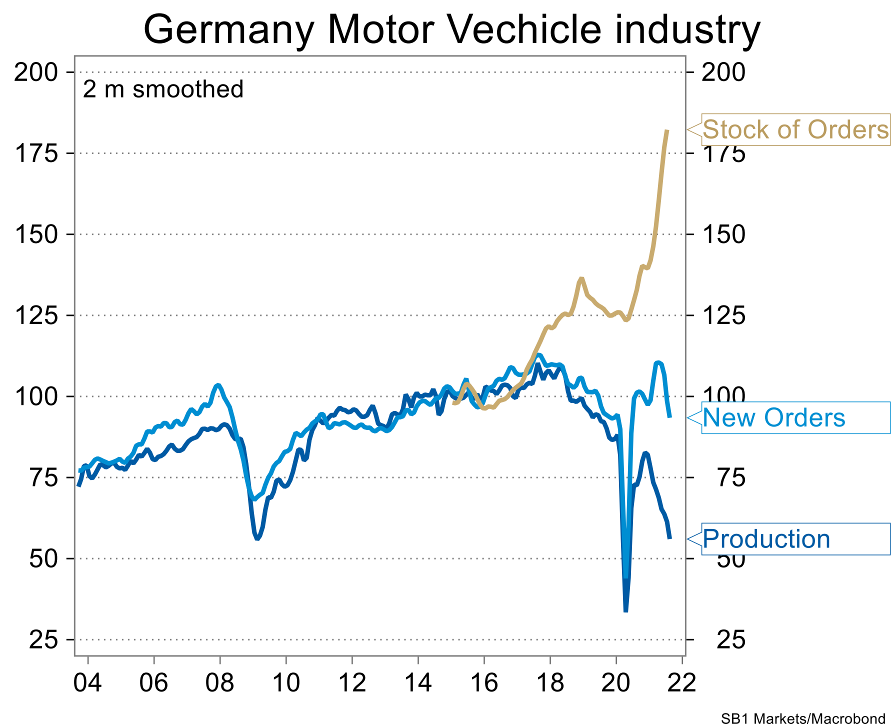
The decline in US production is (strangely) moderate, just 13% (in August), both vs. the 2019 avg

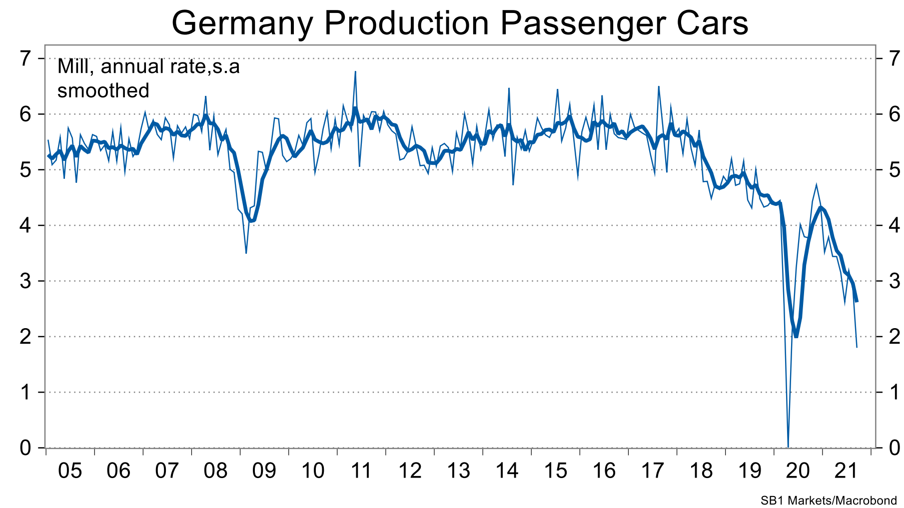


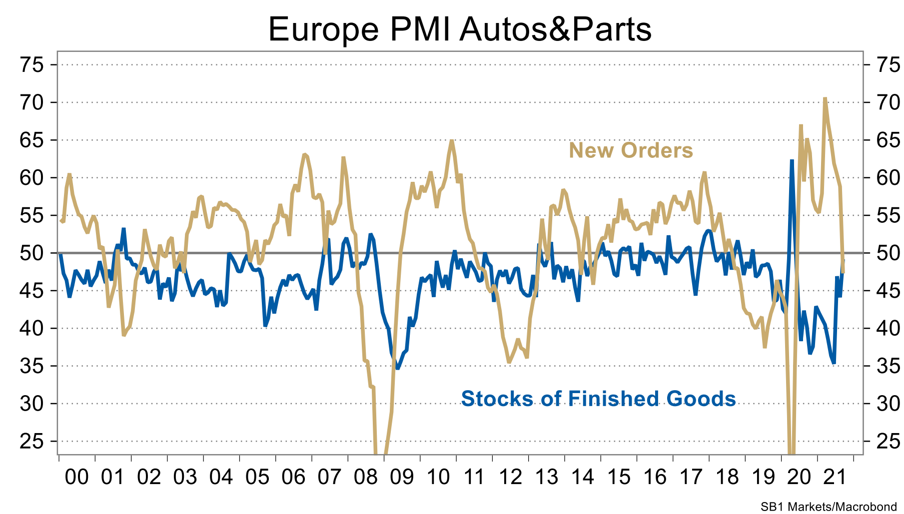
- There is huge upside in auto production the coming quarters as soon as data chips are produced in sufficient volumes. The only question is when…

What's the problem? Supply, not demand! Production is down almost 60%

At the same time, the order backlog is surging. Where have all the data chips gone??

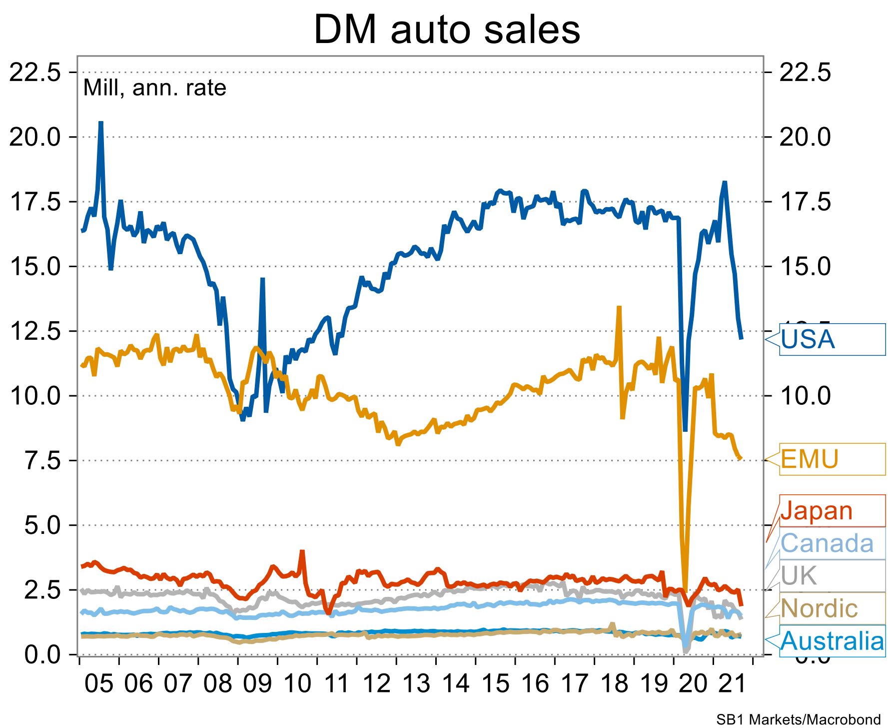


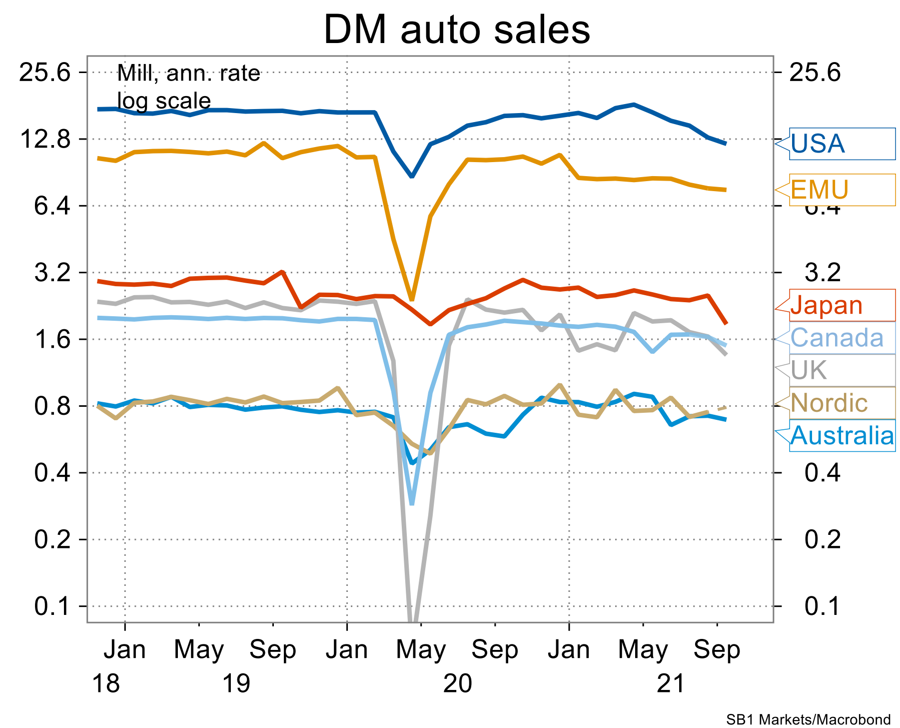




- These German September production data are dramatic, production fell by almost 1/3 and the production level is down 59% vs. the 2019 (weak) average!!
- The September PMI did not yield any hopes, now even orders are declining – but that probably does not mean anything, given the backlog. Buyers may chose not place new orders when delivery times are so uncertain, they will just wait and see

DM sales: Sharp cuts in sales almost everywhere





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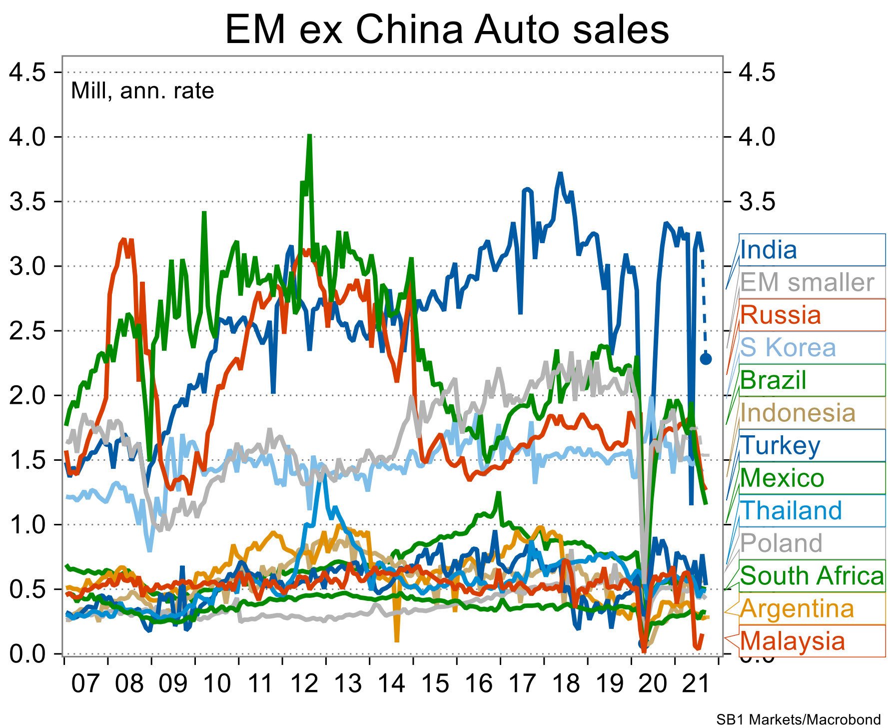
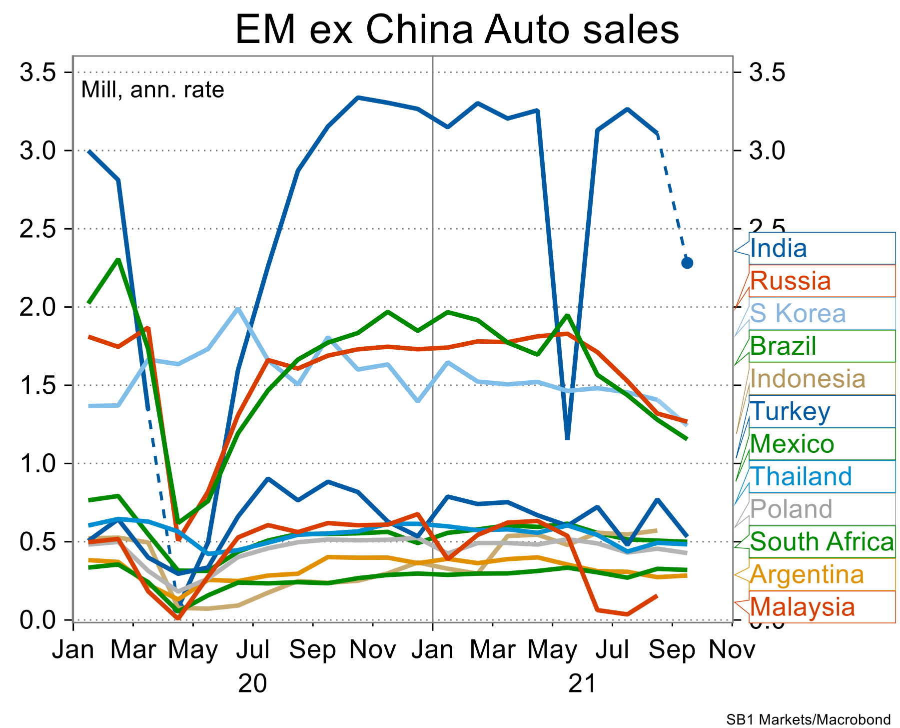
EM: Indian sales down in September but have been strong since the May dip

Sales down in Brazil, Russia & South Korea too. Mixed elsewhere, partly due to lockdowns

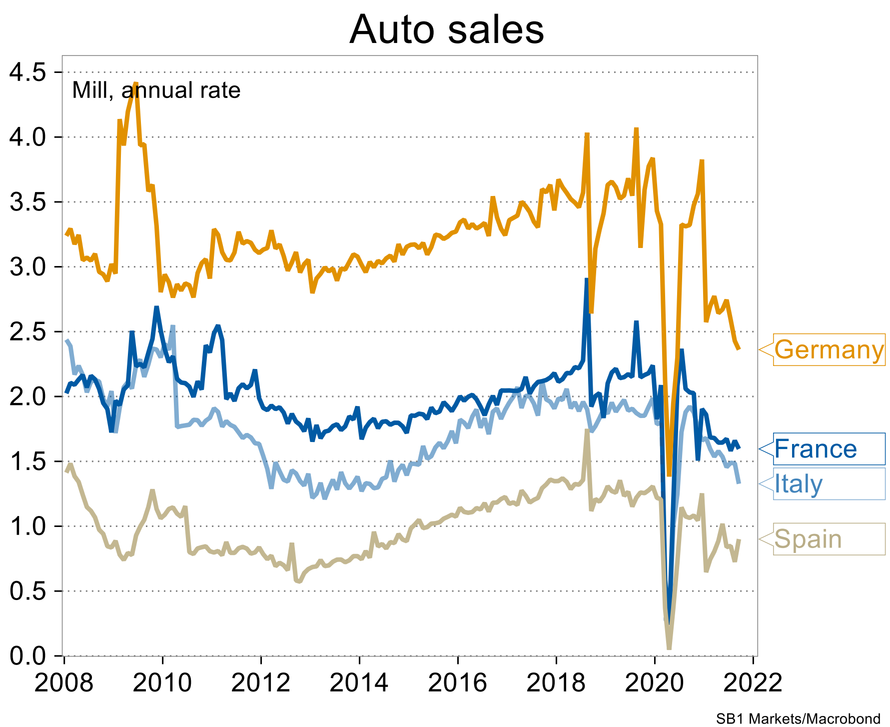


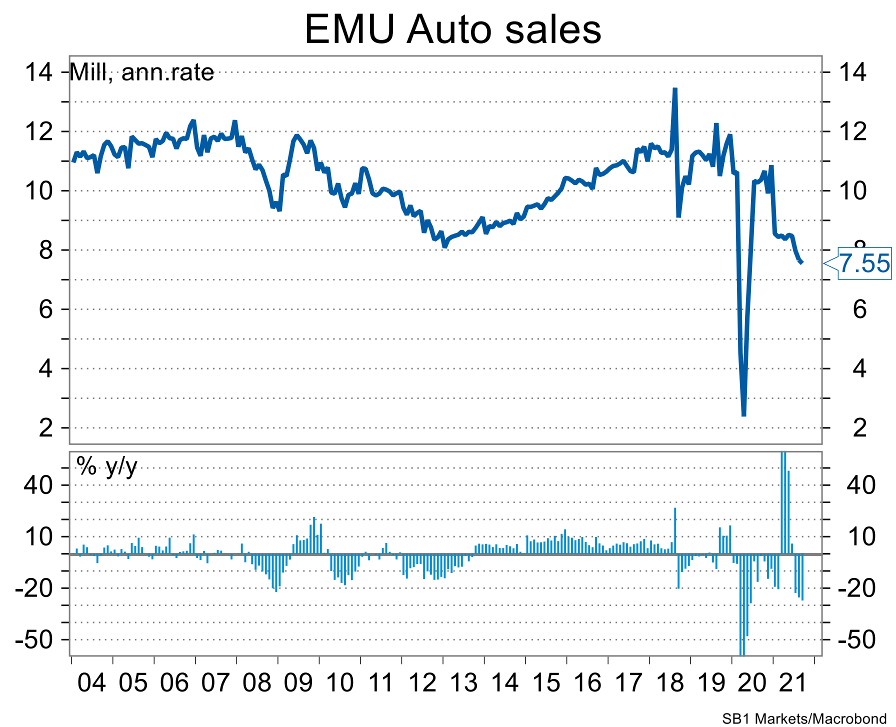


Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

EMU: Auto sales further down in September

Sales rose in Spain but the other big 3 have reported weaker sales, again. Especially Germany & Italy

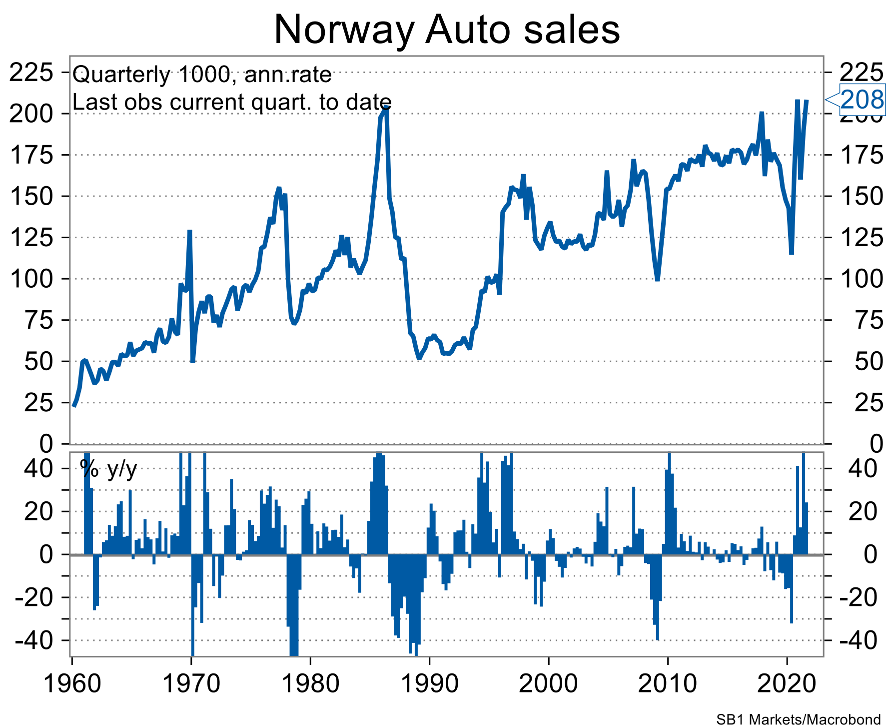


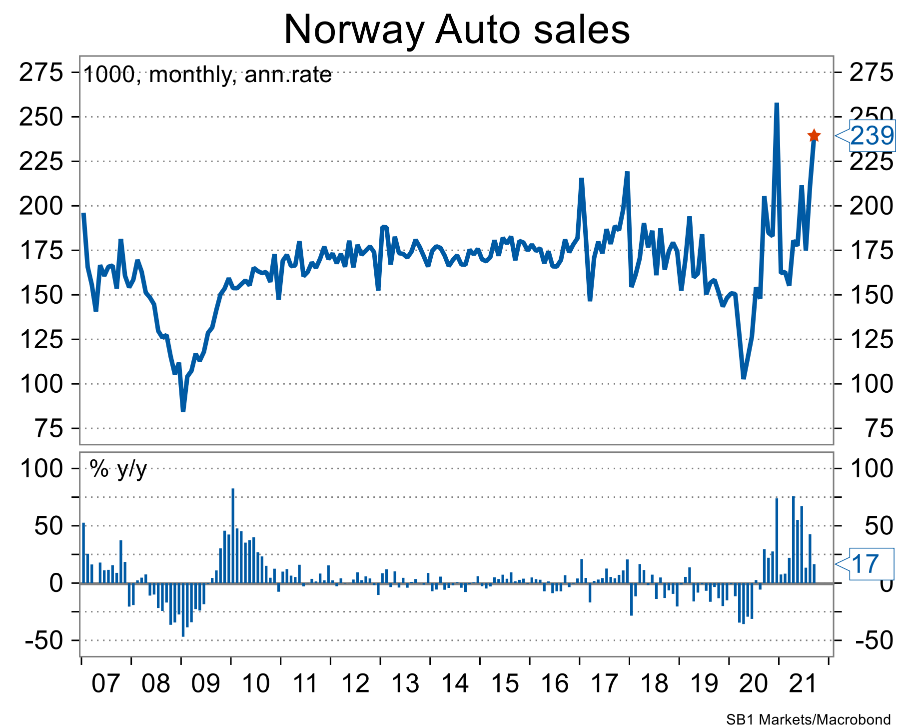


- Sales are down 28% vs. the level in H2 last year – and 1/3rd vs. the 2019 level!

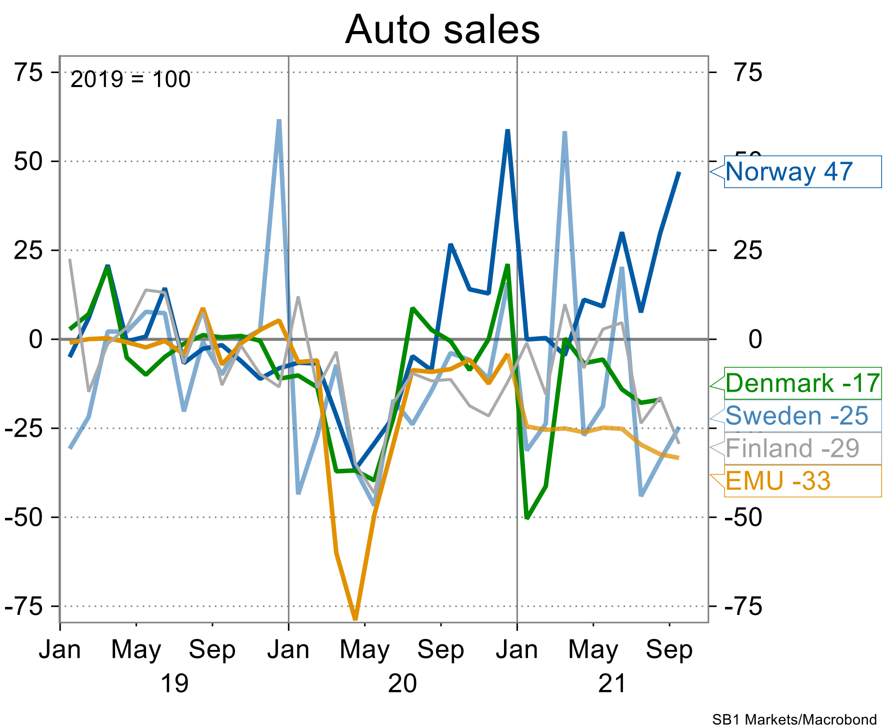
Norway: How is it possible? New registrations are record high!!

Sales (first time registrations) up to 239’ (annual rate), the 2nd highest ever!



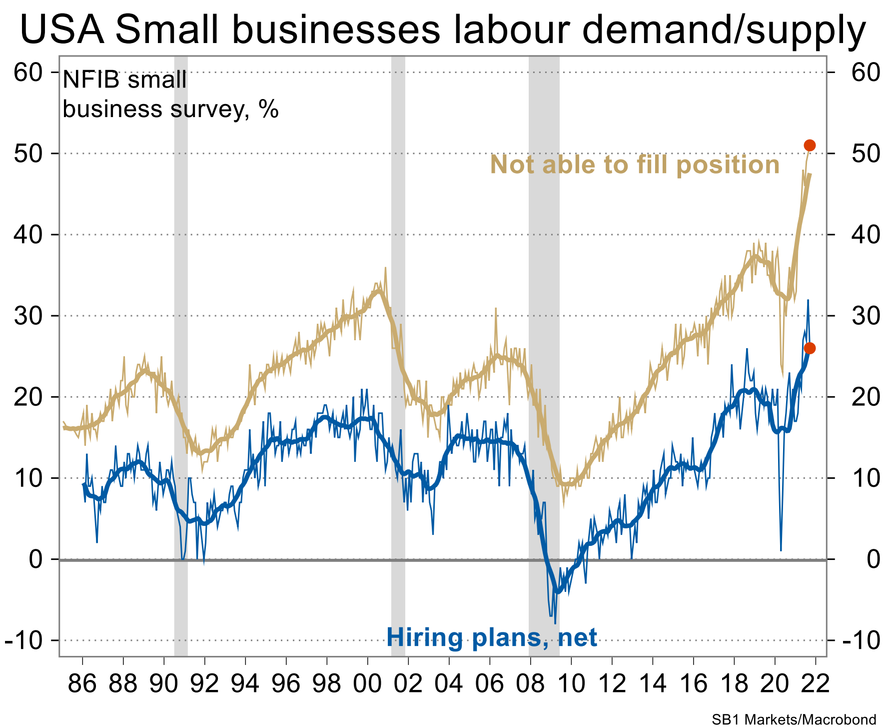


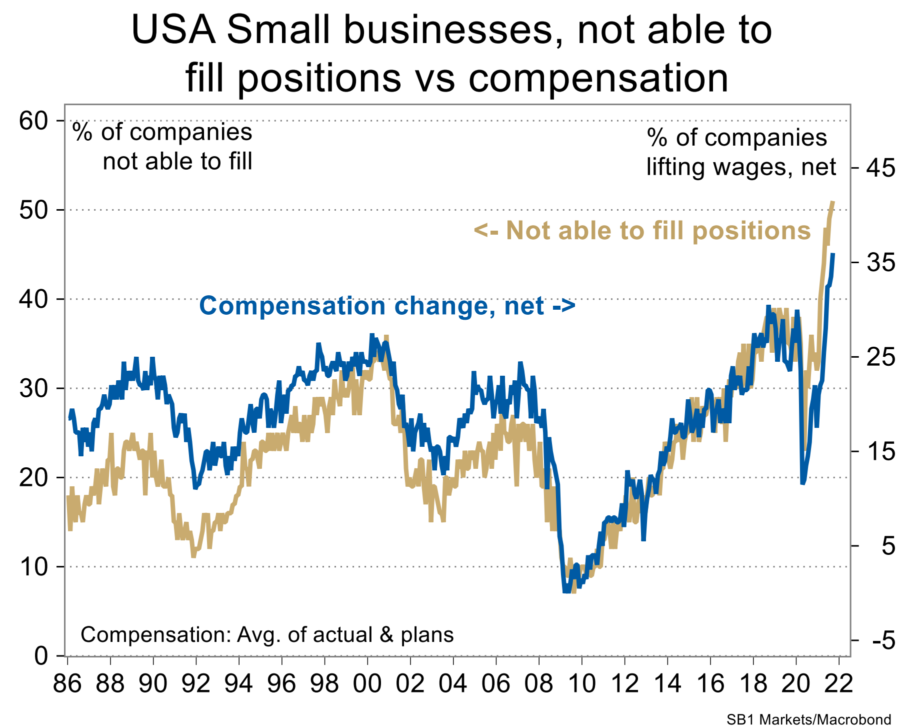
The Nordics: Strong sales just in Norway (+47% vs. 2019), the others are down



The real labour market report I: It's the supply side, stupid

Half of US SMB companies are not able to fill their vacant positions in September, another ATH

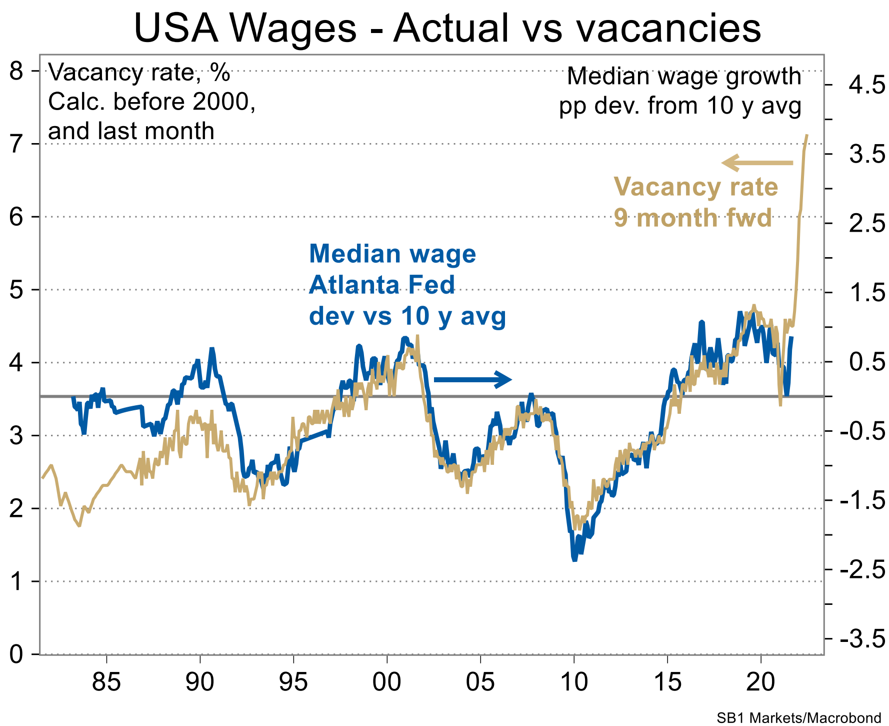


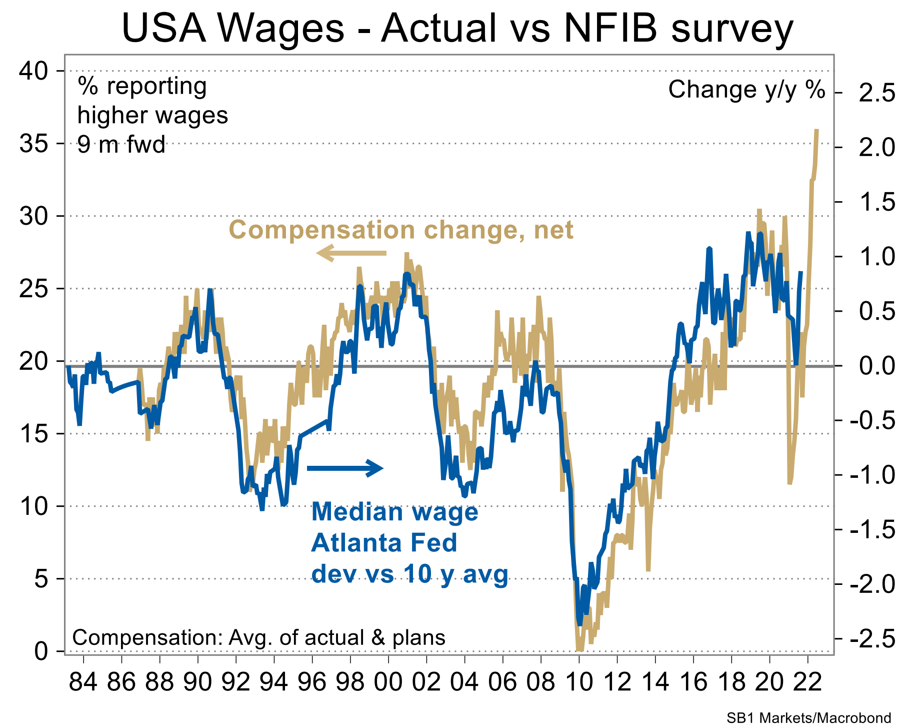


- No a sign that many of the almost 8 mill workers who lost their temporary federal unemployment benefits in early Sept, have found a job
- **Hiring plans** were at ATH in August – and even it the share of companies that planed to higher fell in Sept, it is still very high
- As a consequence, more companies than ever before reported that they plan to increase **compensation**
- The correlation to actual wage growth is pretty close, check the next page

The real labour market report II: It's the supply side, stupid

In July, the official vacancy rate was record high. In Sept, companies reported another unprecedented lack of labour, and a record high share of them plan to lift wages. And guess what has happened before, with a 2 – 3 quarters lag? Well, something that kills Fed doves and bond bulls. And now very likely the corporate bottom line & the stock market too

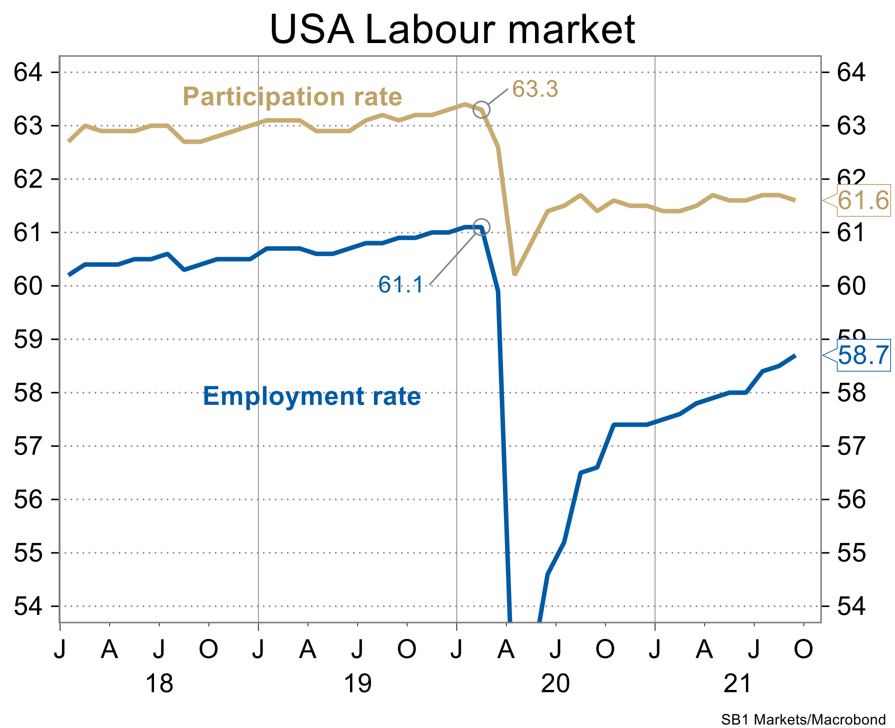


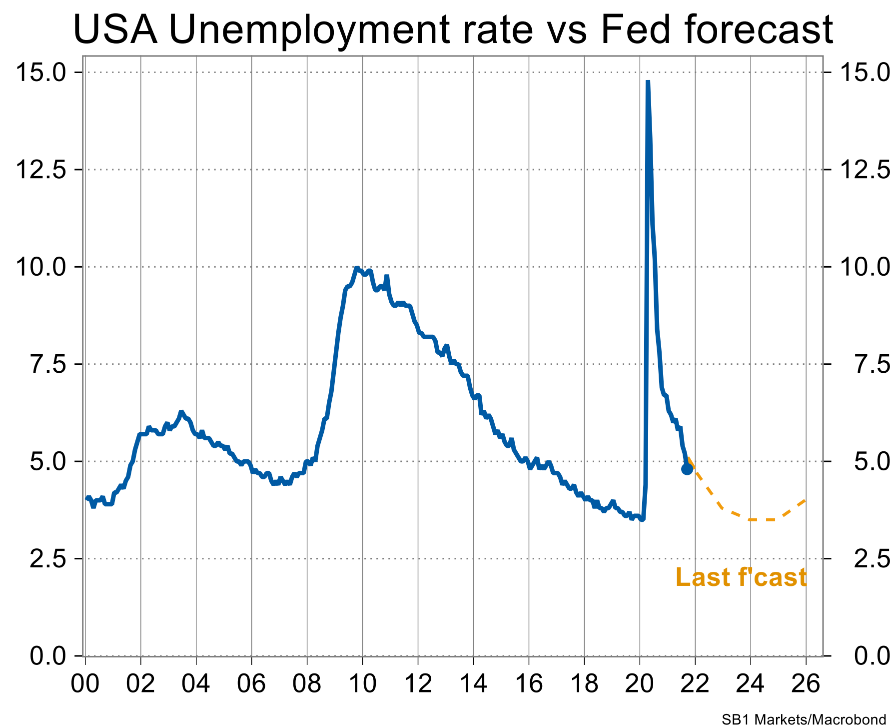


- More companies than ever before (data from 1986 though) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation between the share of companies that report they plan to increase compensation and changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled vacancies and actual wage growth is just as tight, with the same lag
- We do not know FOMC's wages forecasts but we assume they are rather upbeat, as the bank expect inflation to remain above target the coming 3 years (and the price level to be deviate even more from a long term 2% path). However, the Bank could impossibly have factored in a wage growth anything close to what companies now tell or even less what the current tightness of the labour market signals

The real labour market report III: It's the supply side, stupid

When will maximum employment be reached (that is, when will the Fed have to start hiking rates?)

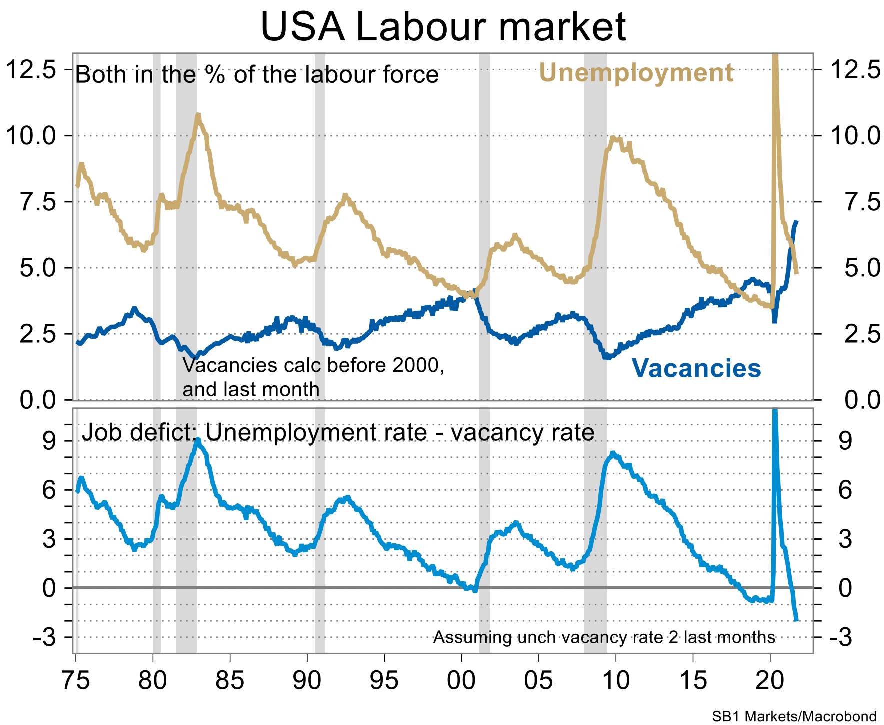


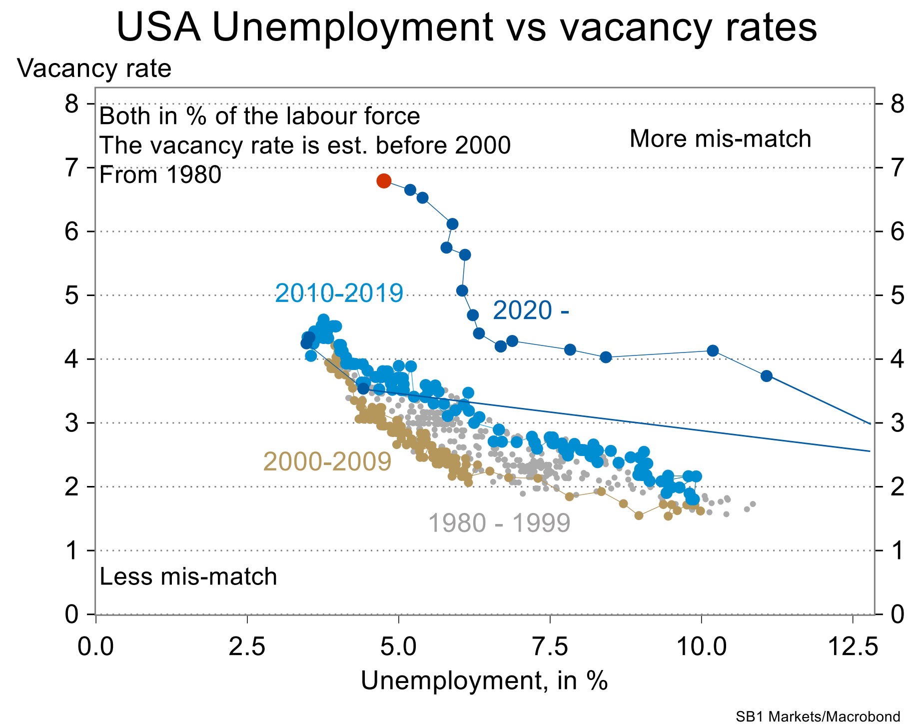


- The **employment** rose further (in the household survey) by 526' or 0.3%, and the employment rate rose 0.2 pp to 58.7.
- Still, the **labour force** fell by 0.1% and the **participation rate** fell by 0.1 pp to 61.6, expected up to 61.8. The current rate is 1.7 pp below the pre-pandemic level - and the trend is completely flat
  - » Not many of the almost 8 mill workers who lost their **extra federal benefits** in early Sept have found a job, and they do not seem to actively search for work either! What the h… are they doing for a living now??
- The **unemployment rate** fell 0.4 pp to 4.8% in Sept (expected 5.1%). Unempl. has fallen by 1.1 p the past 3 months, the fastest 3 m decline ever (barring the rapid decent last summer, following the first virus wave). 3 weeks ago, the Fed expected the 4.8% to be reached in Dec
- Fed has strongly signalled that the funds rate will not be hiked before maximum employment target is met. The only question now is: How much spare capacity is left at the labour market?? No doubt some, but possibly not that much, witnessing also the wage inflation acceleration

The real labour market report IV: It's the supply side, stupid

If we just forget the participation rate conundrum: Why so many unemployed <u>and</u> vacant positions?

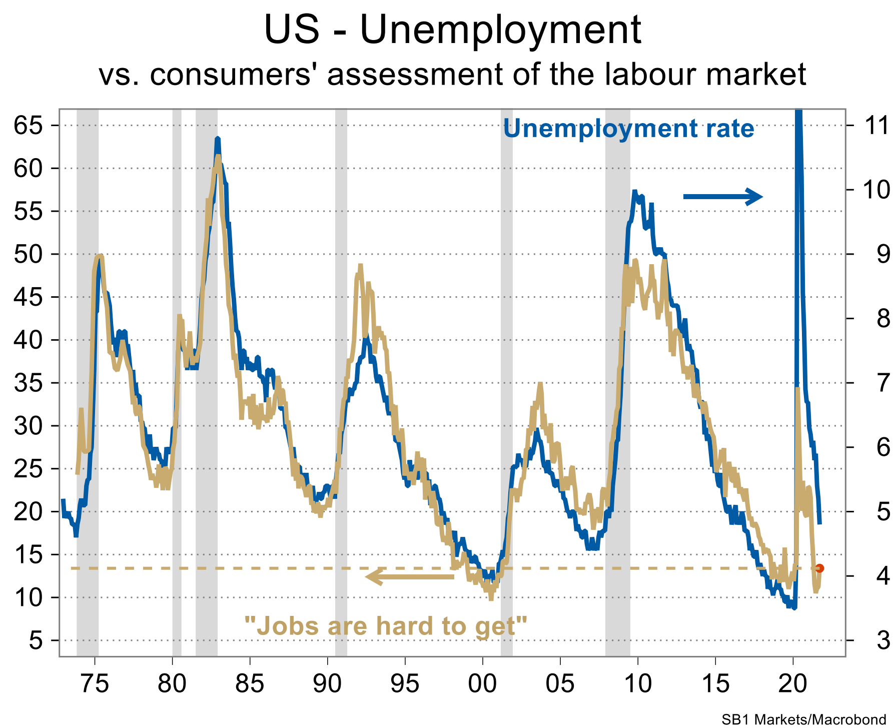




- 7.7 mill persons are unemployed - that is, they say they want a job and is actively search for a job but have not got a job
- At the same time, there are 10.9 mill unfilled, vacant positions
  - » During the 2010 – 2019 period, Unemployment/Vacancy curve (UV/Beveridge) had moved somewhat outwards, but curve was not far above the pre 2010-curve
- The unprecedented mismatch now may of course be mostly due to temporary (transitory?) impacts of the pandemic; different sectors have reopened at a different pace, perhaps even geographically, and it will take time to match the job seekers and the vacant jobs etc. However, there is a risk that some of the mismatch will turn out to be permanent, due to changes in qualification requirements, work preferences etc.

The real labour market report V: It’s the supply side, stupid

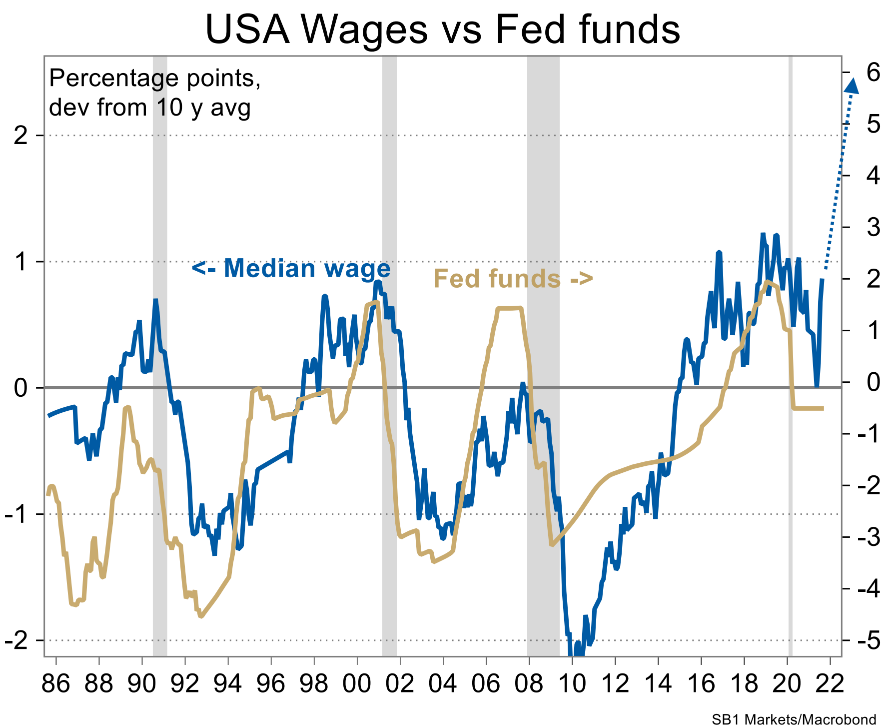
Households fully recognise that there are pleny of jobs available

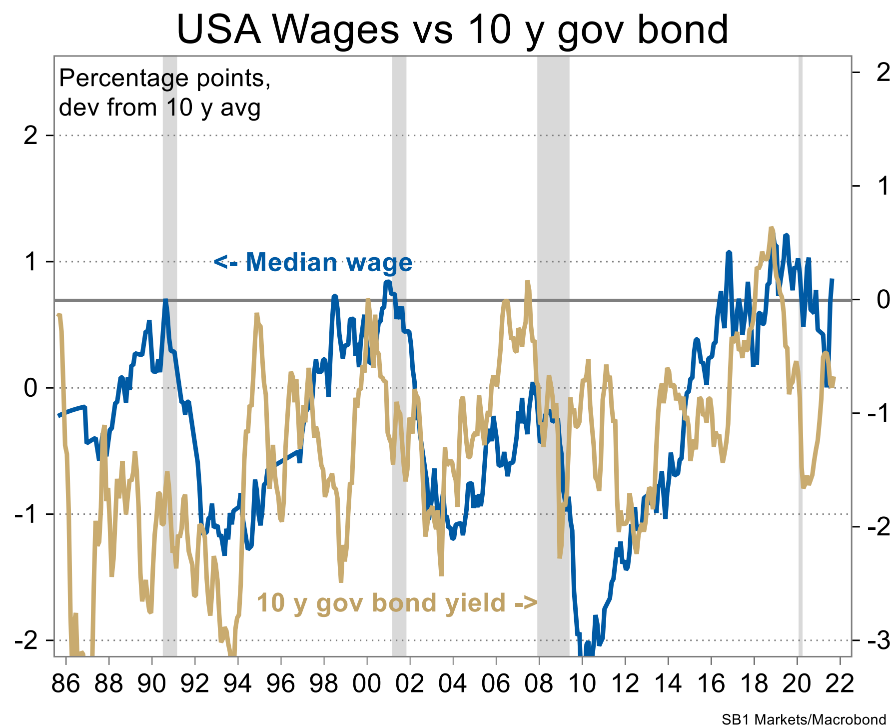


- .. As if the unemployment was even lower than it actually is (which is understandable, given the vacancy rate)

What will the Fed say?

If wage inflation accelerates, say half as much as the ‘vacancy model’ signals? (to the top of the scale)

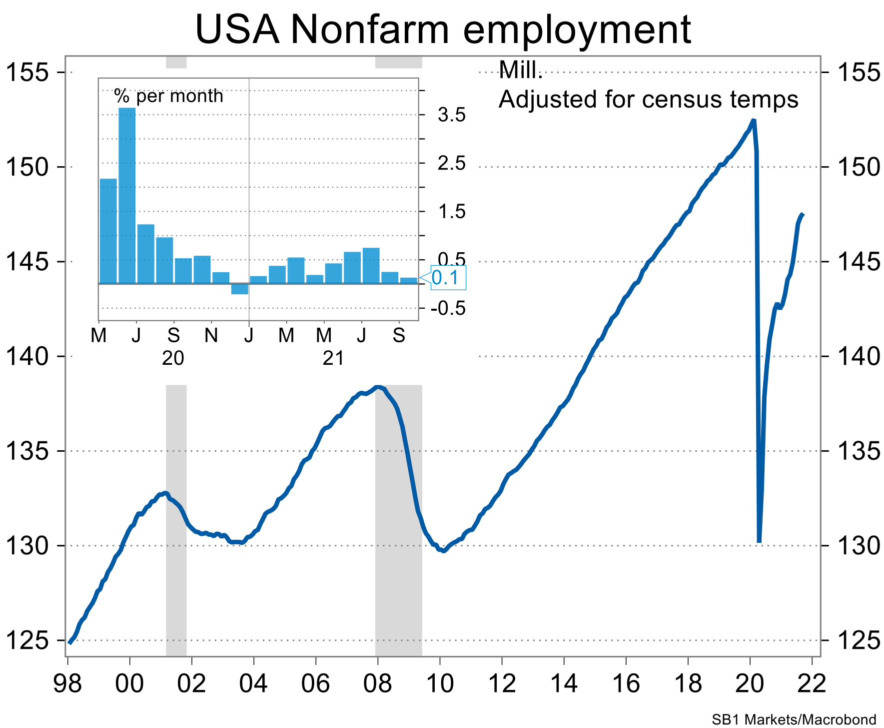


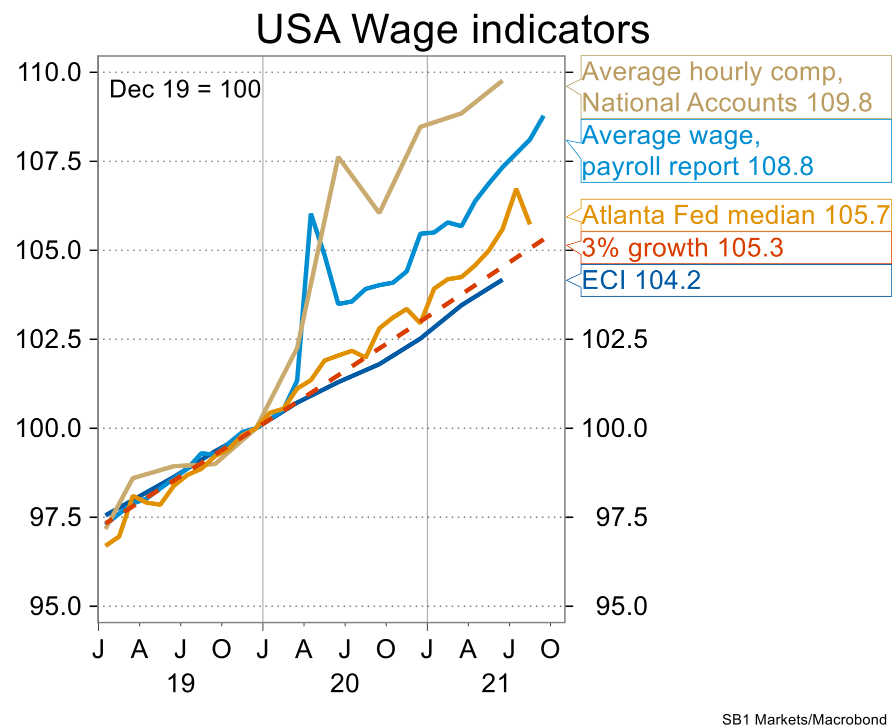


- The correlation to the 10 y bond rate is not that close but the risk is very likely at the upside

More details on the labour market: The virus outbreak dampened employment

The virus probably explains deep cuts in education, slow growth in leisure/restaurants in September

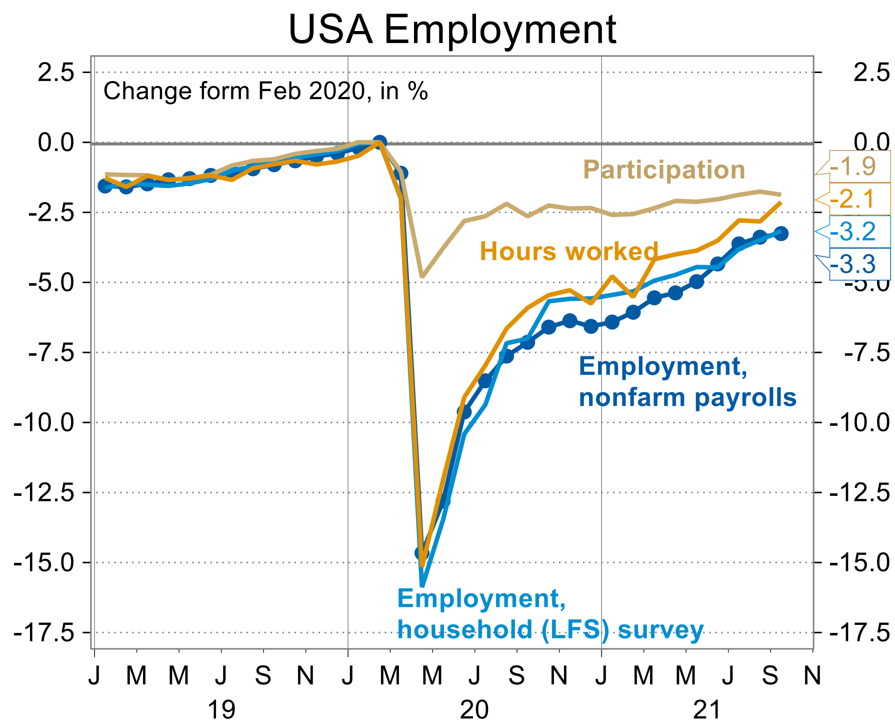




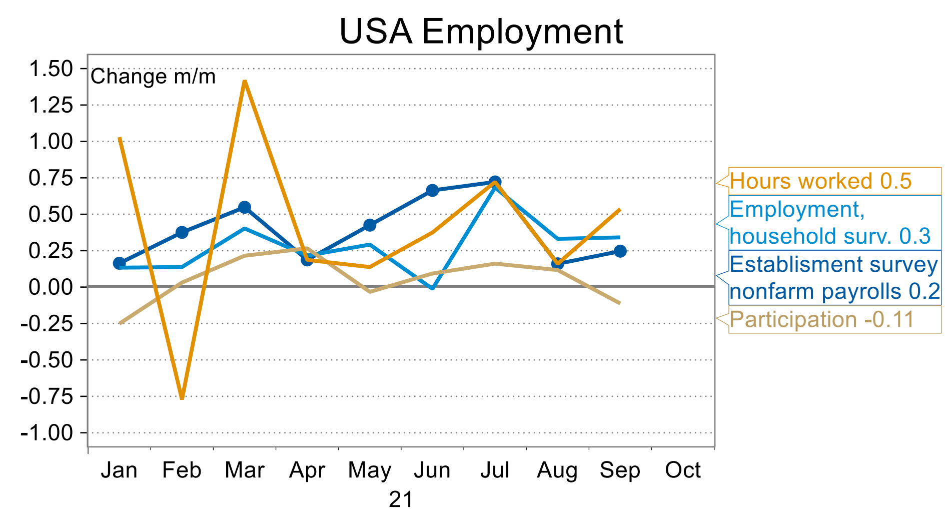
- **Employment** rose by just 194' in Sept, down from 355' in Aug (rev from 235'), far below expectations at 500'. Employment is 5 mill (3.3%) below the pre-p level
  - » Employment in education fell (seas. adj) by 180'm, and the leisure/hospitality sector added just 78'. Trade, manufacturing, construction added a normal no. of jobs
- **The participation rate surprisingly fel**l, and the unemployment rate 'collapsed' by 0.4 pp to 4.8%, expected down to 5.1%
- **Average wages** rose by 0.6%, above the expected 0.4% (but Aug was revised down to 0.4% from 0.6%). Annual wage inflation rose to 4.6% from 4%, and the wage level is well above the pre-pandemic trends in all sectors
- The thought the first market response, when bond yields fell as a weak employment growth figure would delay monetary policy tightening, and the equity market strengthened to represent a misunderstanding of the 'real' news in the report: A decline in the participation rate, a deep decline in the unemployment rate and higher wage inflation, all signalling that the growth potential was more limited than expected, and that 'maximum employment' had come substantially closer. At the end of the day, markets came to the same conclusion

Labour market is recovering rapidly. *Except for the supply of labour*

Employment grew 0.2% – 0.3% in September, hours worked by 0.5%. Labour supply fell by 0.1%



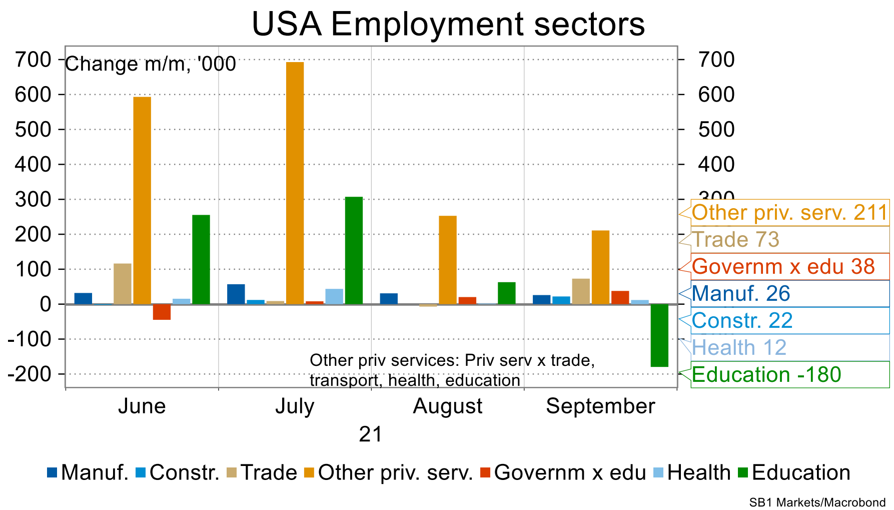
- **Nonfarm payrolls** are down 3.3% vs Feb '20, close to **employment** measured by the **household survey** (LFS/'AKU'), -3.3%. The **employment rate** is 4.3% below par
- **Labour market participation** fell in no. as well as in per cent in Sept. The **participation rate** is 2.7% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Aggregate hours worked in private sector** rose by 0.5% in Sept, and by 3.9% in Q3 (which may indicate slow growth in productivity, given current Q3 GDP estimates. The level is down 2.1% vs. Feb-20

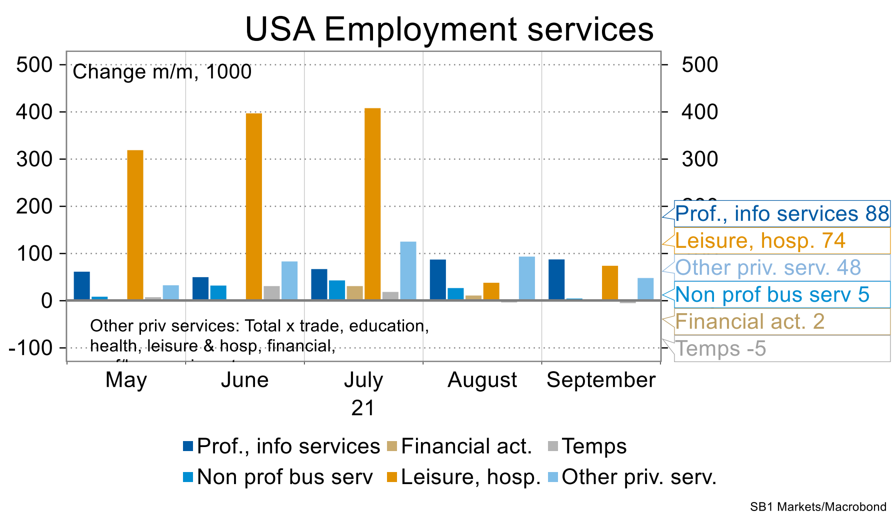


SB1 Markets/Macrobond

In Sept: Fewer schools than normal opened, seas. adj. employment fell sharply

The virus probably to blame, as for the still slow growth in leisure & hospitality

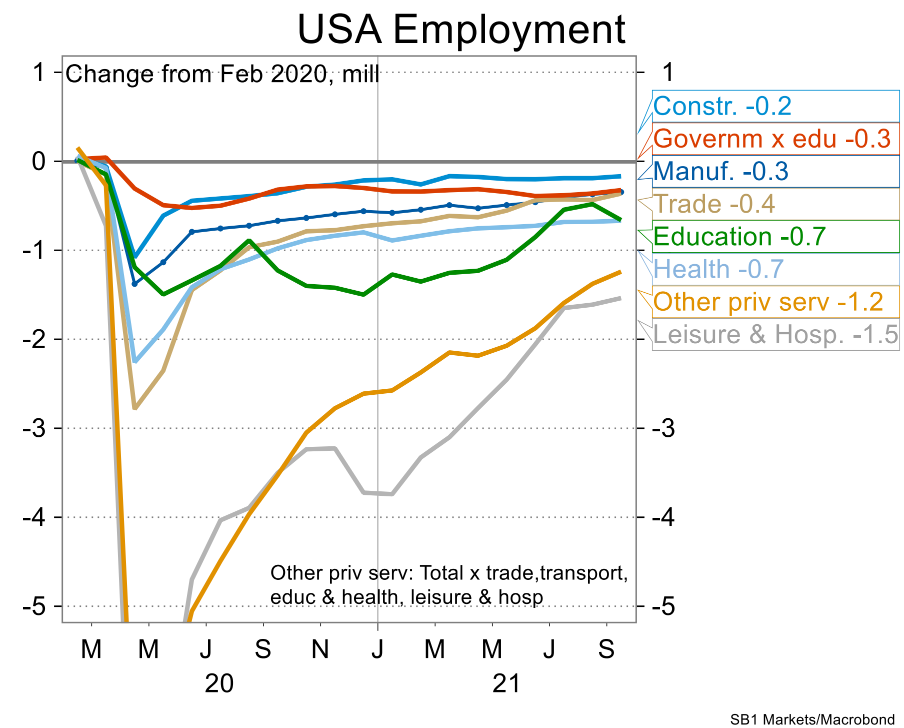


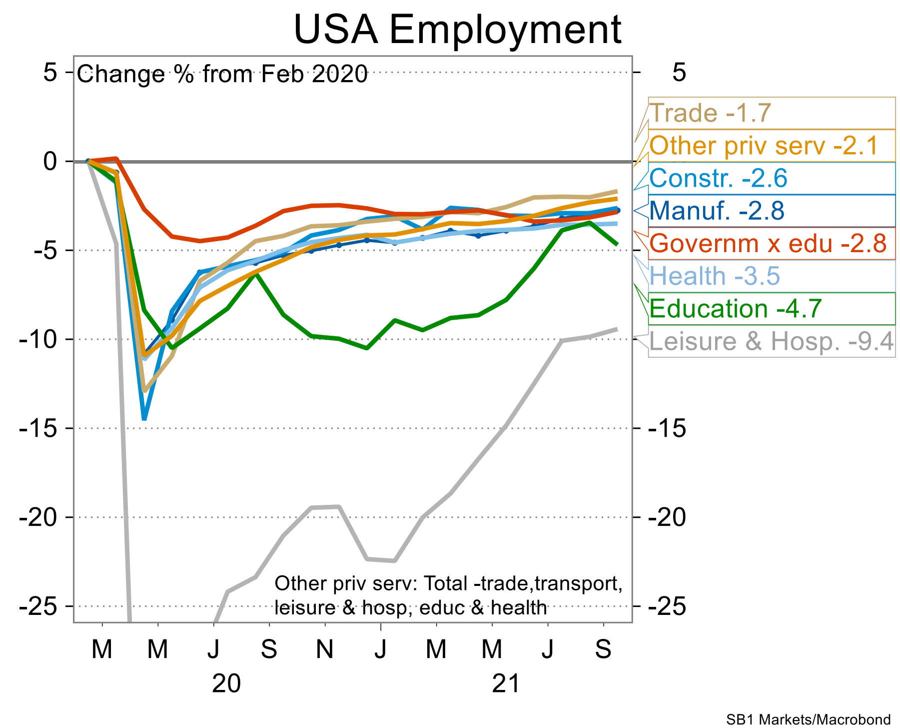


- **Last month: Some specific weakness, the rest OK**
  - **Education** (private & public) cut 180' jobs (seas. adj.), as some schools did not open as normal, very likely due to the virus outbreak (actual employment grew rapidly, as always when schools starts up in Sept but that is irrelevant)
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added just 74' jobs, up from 38' in Aug but far down from the 300' – 400' pace in May - July. The sudden stop cannot just be explained by lack of workers (the problem was there in July too) – but restaurant activity probably slowed due to the Delta outbreak
  - These two sectors will very likely continue recovering the coming months, as the virus is now on retreat
  - **Trade** added 73' jobs more than normal
  - **Other private services** added a normal no. of new jobs
  - **Manufacturing** added a 'normal' no of jobs, 26'
  - **Construction** sector employment is growing slowly
  - Employment in **Government** (ex education) rose by 38', better than normal

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

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

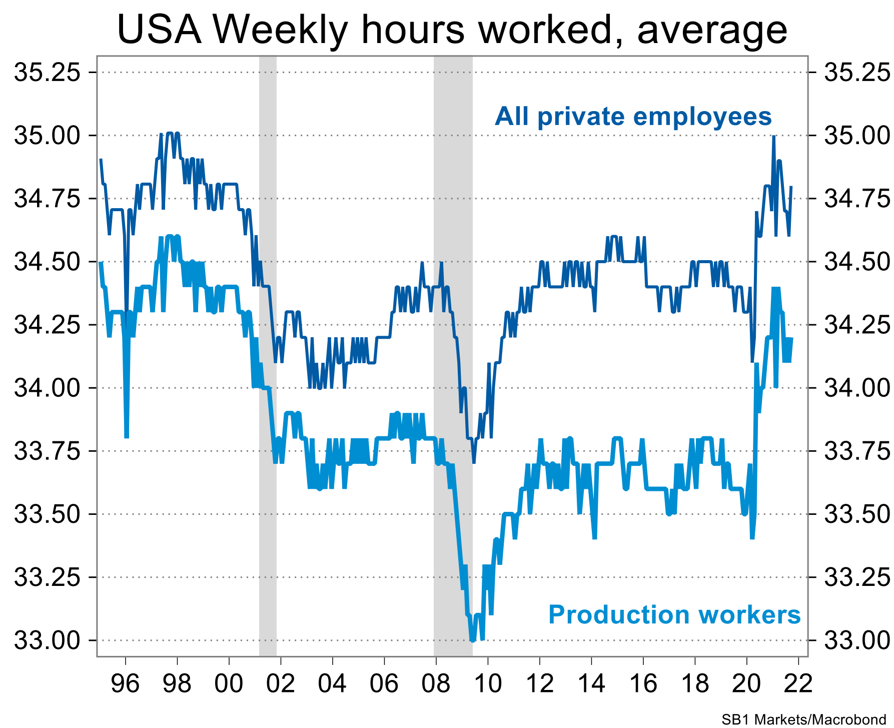


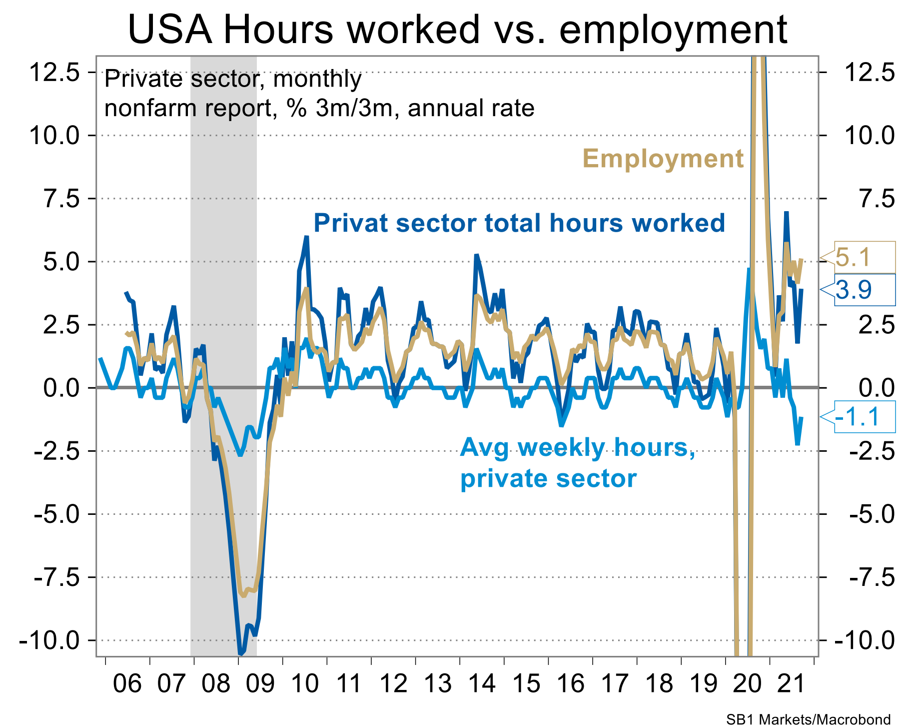


- **From February last year**
  - » No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits, in volume terms
  - » **Manufacturing** is down 2.8% (0.3 mill), **trade & transport** -1.7% (0.4 mill), **construction** -2.6% (0.2 mill)
  - » **Education** is down 4.7% (0.7 mil), as many schools are still closed or running at low capacity
  - » **Leisure & hospitality** is down 9.6 (1.5 mill) – and growth slowed substantially in Aug/Sept
  - » Even **government employment** x education is down 2.8% (0.3 mill), which is rather remarkable
- At the same time, 7% (11 mill) jobs are **vacant**, and employers complain like never before than they are **not able to fill positions**

Average weekly hours up in Sept, and at rather high level

Still, avg. hours down in Q3. But since employment grew 5.1%, hours worked added 3.9%

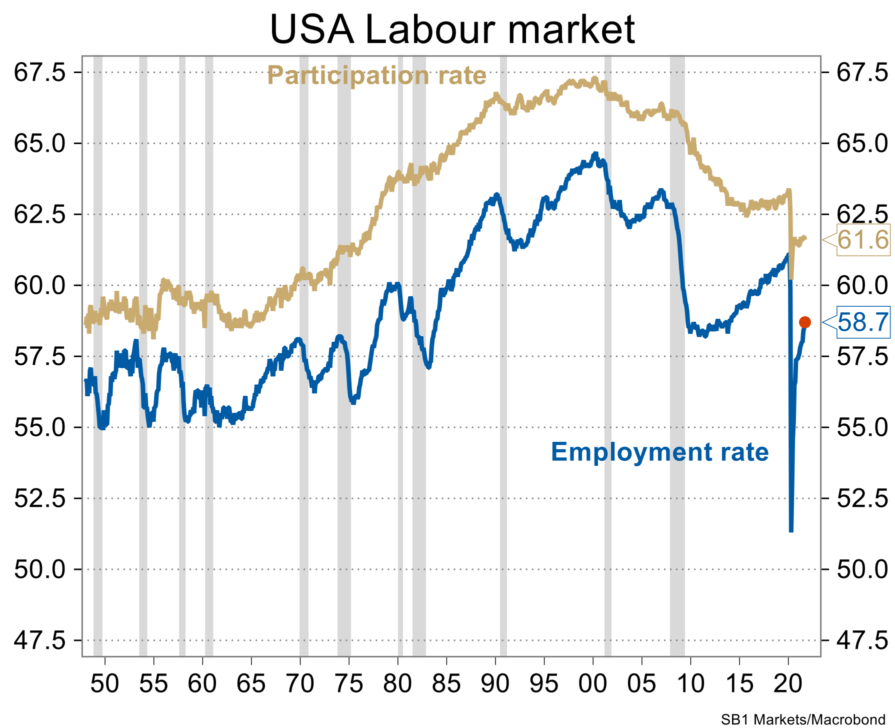


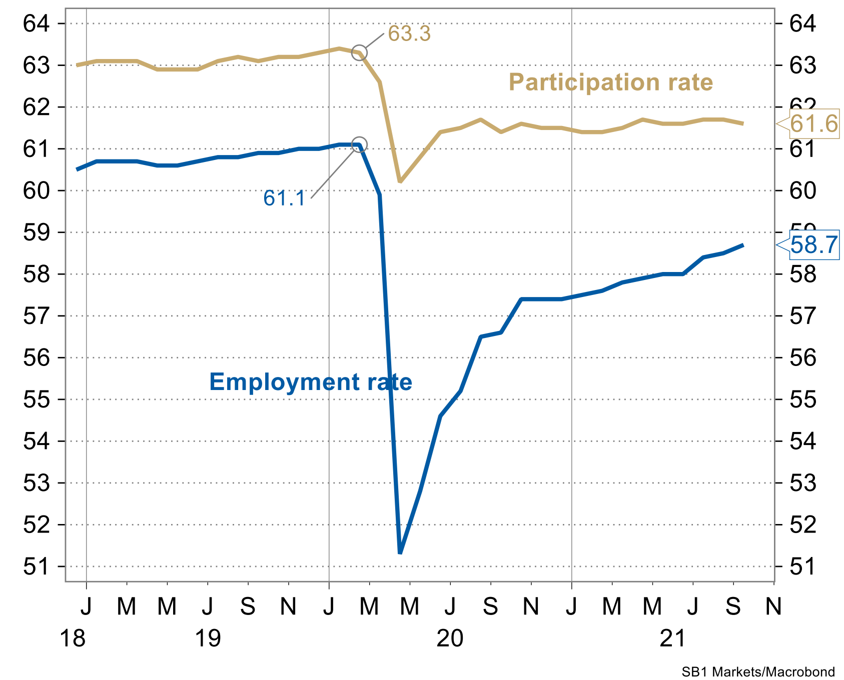


- Growth in hours worked is rather high vs. estimates of GDP growth in Q3, signalling a meagre productivity growth

SpareBank 1 MARKETS

The participation rate down in September, and it remains at a low level

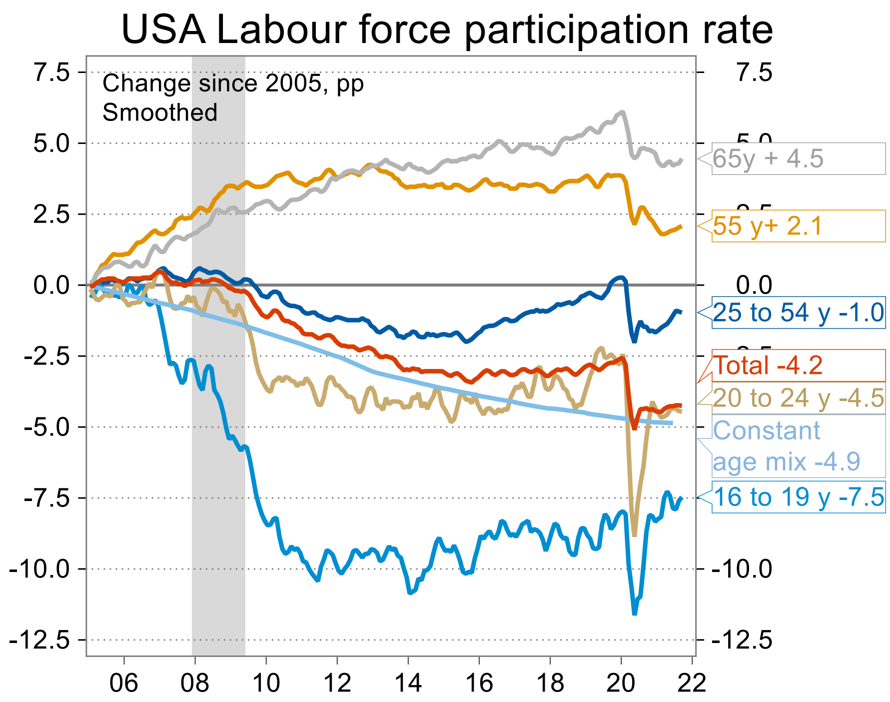


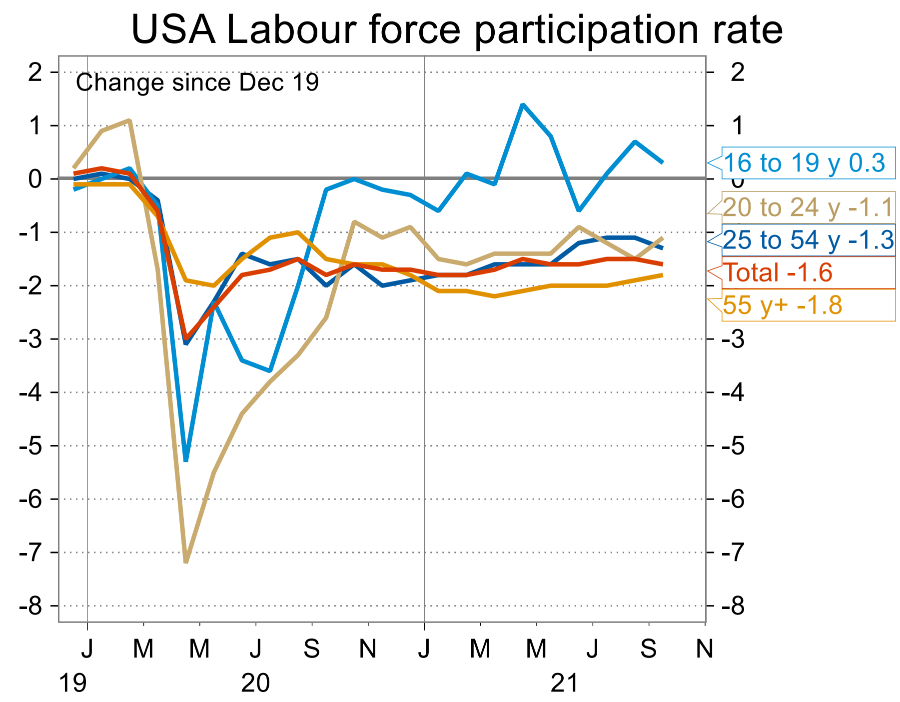


- The labour force participation rate is down 1.7 pp (vs the working age population) equalling 2.7 mill persons
  - » **In** August 1.6 mill. persons (down from 2 mill in August) responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, and <u>not</u> because their job was closed down. <u>These 1.6 mill persons equal 1% of the labour force, and represents a labour market reserve</u>
- However, it is still unclear if all these workers will enter the labour force when the corona explanation is not relevant anymore. The no. of ‘hidden’ unemployment for other reasons is not higher than normal either

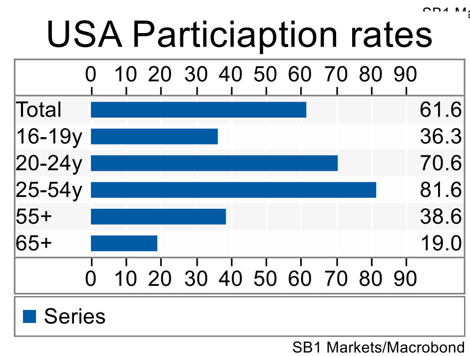
The potential: Participation among the core 25y -54y group is still trending upw.

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



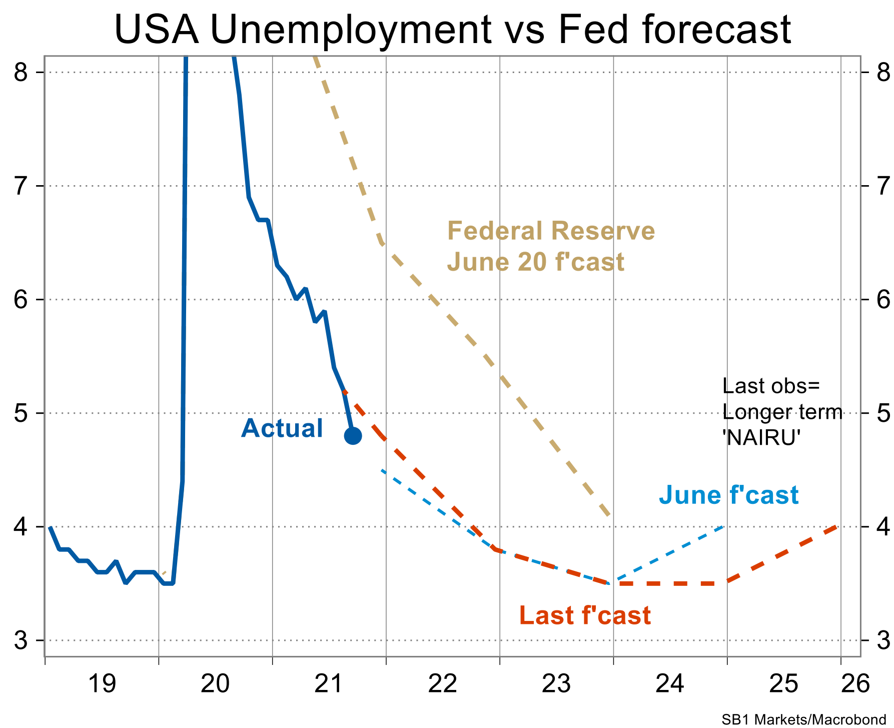


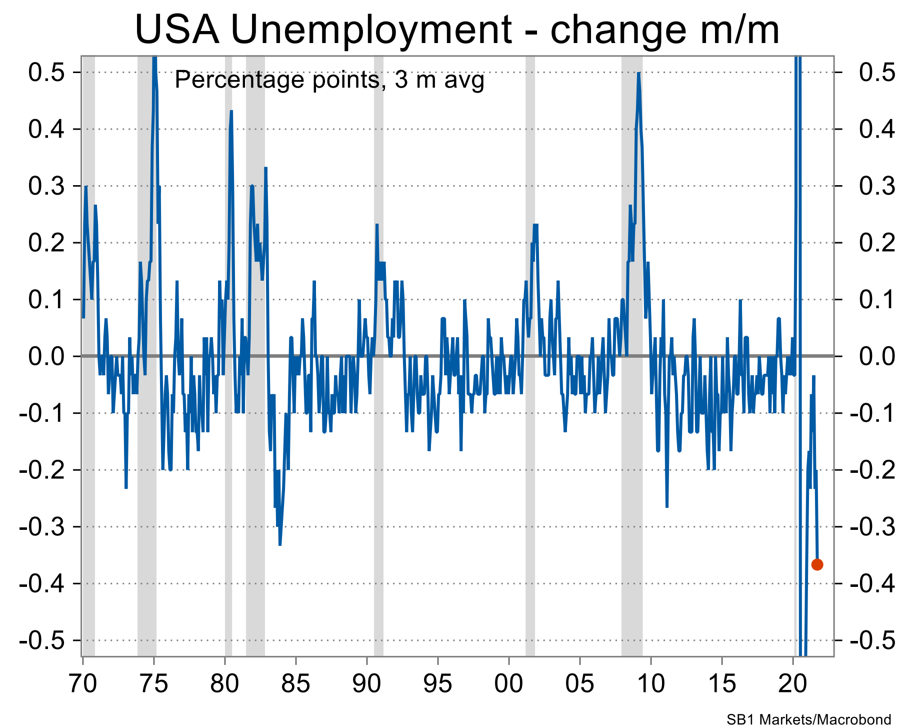
- Possibly some potential among the 16-19 & 20-44 years groups too, at least vs. the pre financial crisis level
- The chart above illustrates the impact of a higher share of older people in the work force: The average participation rate is down 4.5 pp since 2005, more than most sub-groups. The reason is simple, the older part of the labour force (55+) has increased its share of the total labour force substantially. As their participation rate is far lower than for those below 55 y, the avg participation rate will decline. This impact equals almost 5 pp since 2005, and more than the actual rate fell – which could signal less upside from here, even if the participation rate is lower than before



Unemployment is falling rapidly; reached Fed's Dec target after two weeks

The unemployment rate nosedived 0.4 pp 4.8% in September, expected down to 5.1%

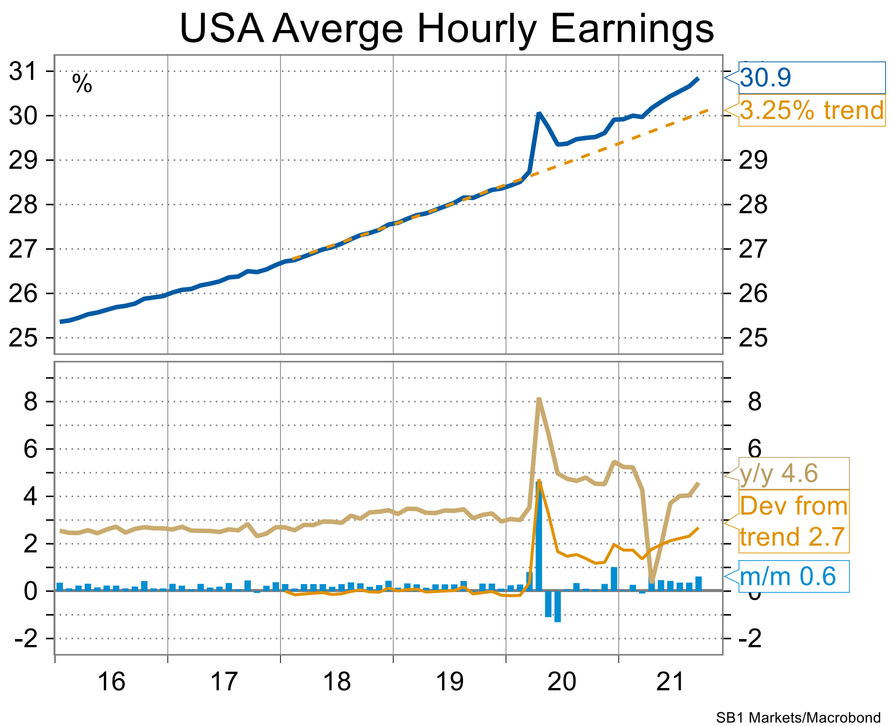




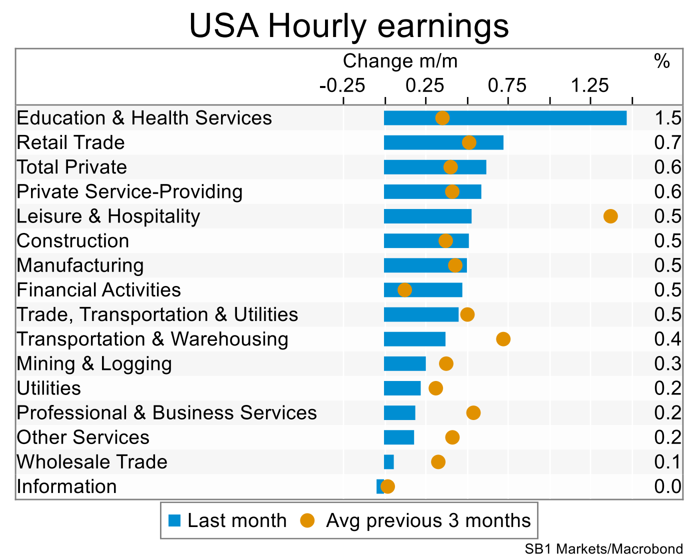
- The recent three months, the unemployment has fallen at a rapid pace, much faster than in normal economic recoveries (just the initial decline in the unemployment rate after the first shock last spring/summer has been even steeper)
- Two weeks ago, the FOMC members expected that the unemployment rate would decline to 4.8% in December
- Households report that jobs are very easy to get

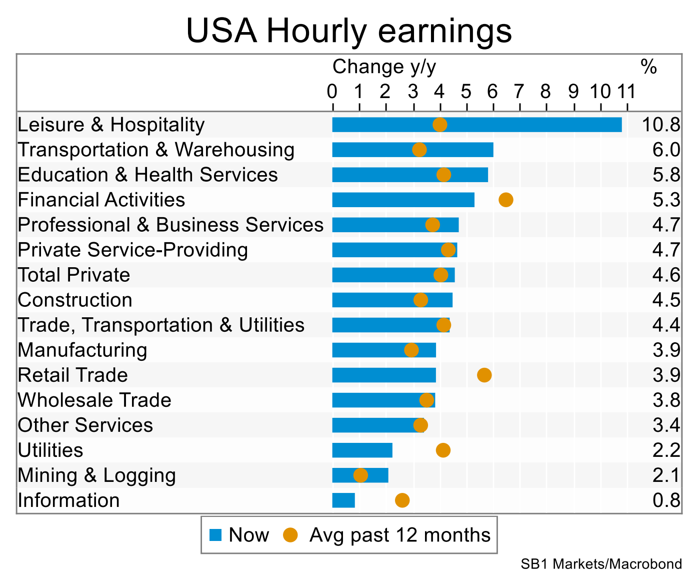
The average wage up 0.6% in Sept, or at a 7.5% annualised pace

The Sept wage level is 2.7% above the pre-Covid trend path



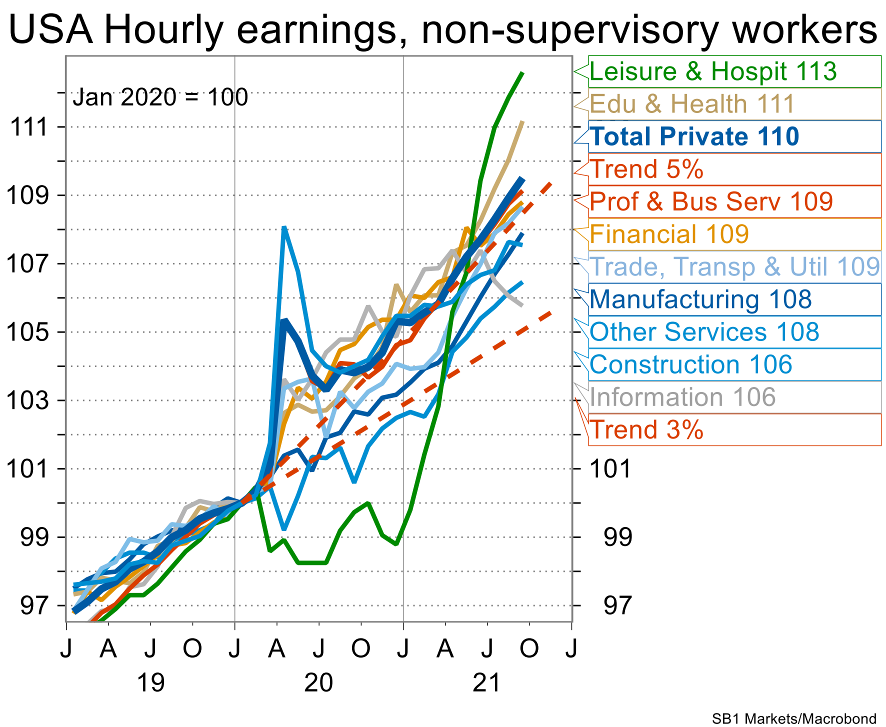
- The average wage rose 0.6%, 0.2 pp more than expected. However, growth in August was revised down to 0.4% from 0.6%, and in sum the two months were as assumed. The annual rate rose to the expected 4.6% though from a 0.3 pp downward 4.0% rate in August
- Since April, the underlying wage growth has accelerated, and it does not seem reasonable the blame the employment mix (employment growth is moderate, and most is taking place in low paid sectors, which should dampen the avg. wage)
- Wages in leisure, hotels & restaurants rose by 0.5% and they are up 11% y/y. However wage growth has slowed in 7 of 15 sectors (Sept m/m vs avg. the prev 3 m)

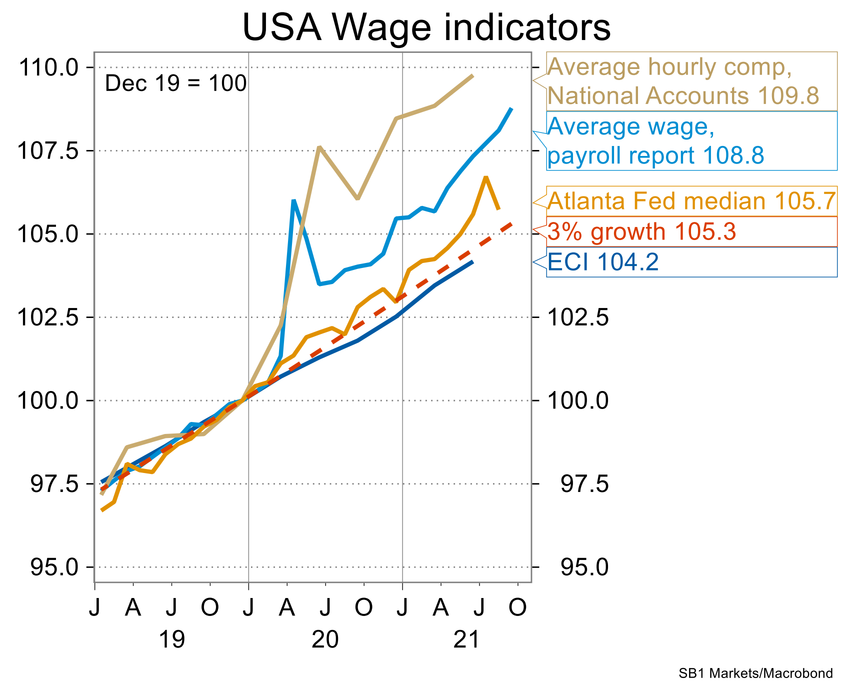




Wages are up 6% – 13% vs the pre-pandemic level

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



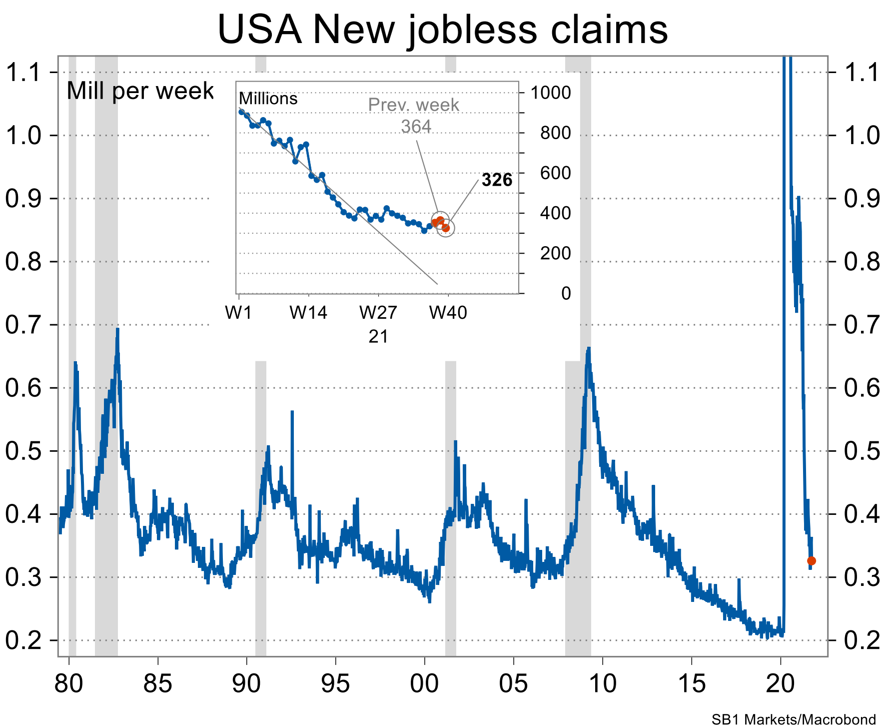


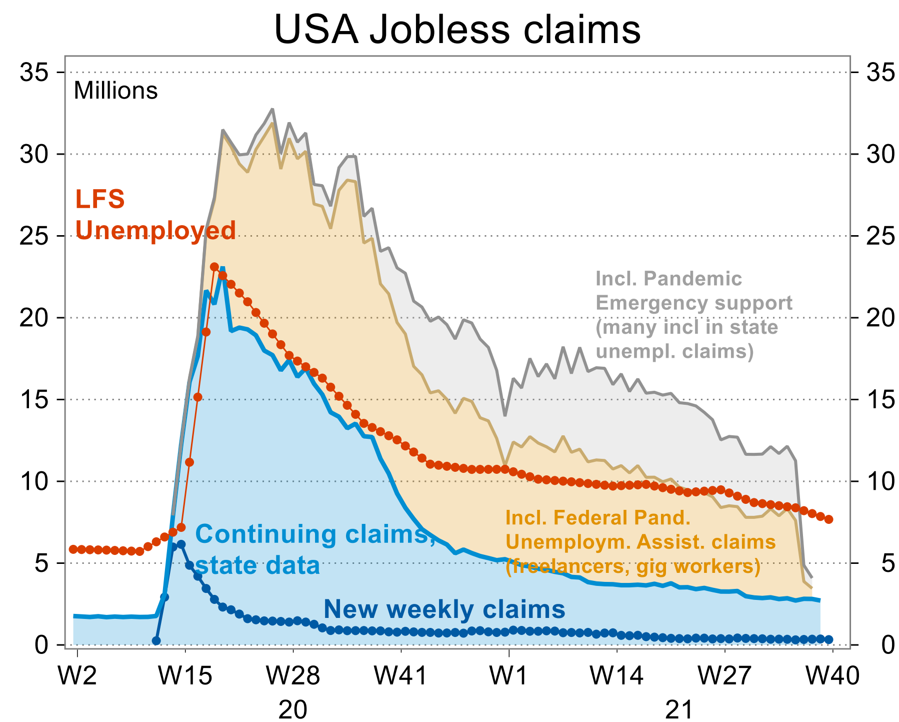
- Changes in the employment mix, even within sectors, may still make these sectoral data uncertain, but even the Atlanta Fed's median wage indicator has accelerated (even if it slowed in August, Sept data out by the end of this week). Companies are still extremely eager to hire – and are more unable to do so than ever before – and they plan to lift wages in a way we never have seen before

Memo: On the chart to the left above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

New jobless claims down but still not low. Just 1.3 mill left on extra UI programs

Almost 8 mill persons left the dole in early September (but they have not yet been employed)

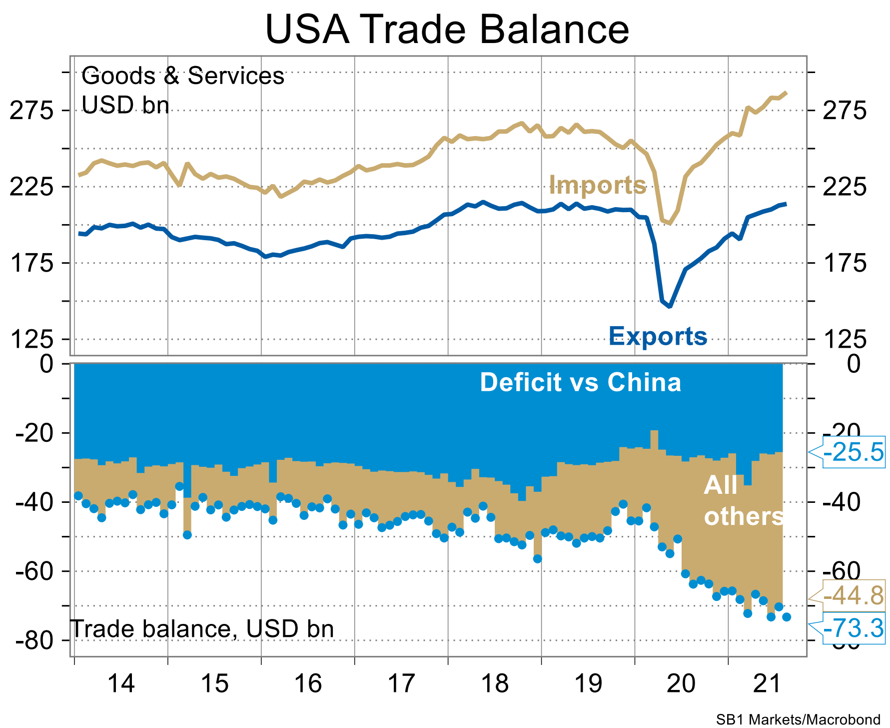


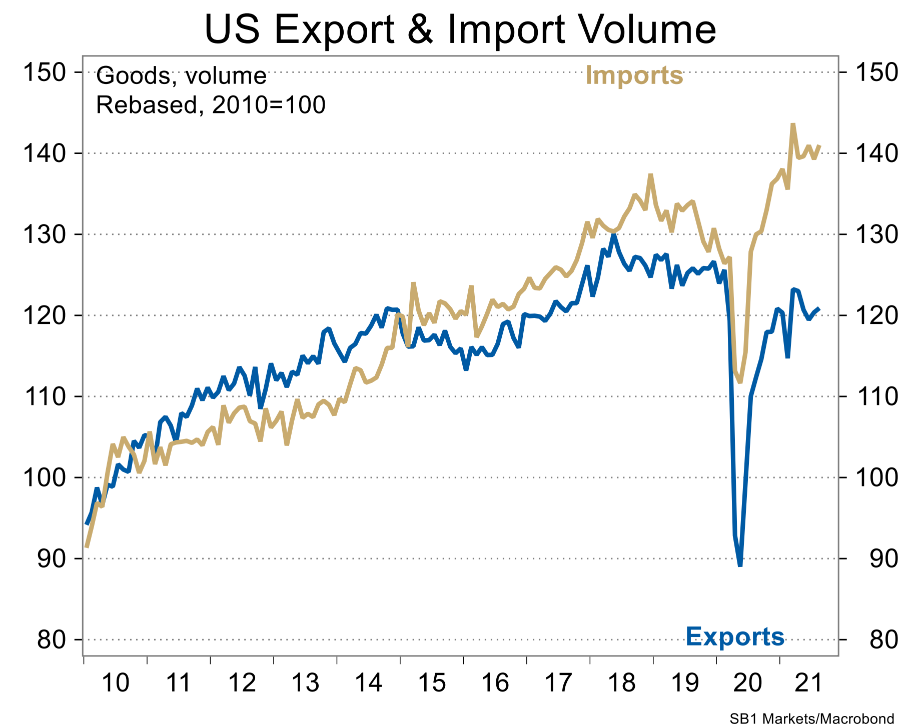


- **New jobless claims fell** by 38' to 326' in week 39 – expected down to 348'. The short term trend is close to flat. The inflow is high given all other indicators of demand for labour – and far above the rapidly declining trend which ruled until late spring
- **Ordinary continuing claims** decreased by 97' to 2.71 mill in week 38. The trend is steadily downwards but still 1 mill above the pre-pandemic level
- The **two temporary federal pandemic programs** ended on September 6th, but states can still choose to offer this assistance through pandemic relief funds. The no. of recipients has fallen to 1.3 mill in week 37 from 9 mill (and 12 mill in the spring).
- What are those close to 8 mill workers doing now? Not many of them have found a job (cfr the employment report, and small businesses report that filling vacancies became even more difficult in Sept). If these 8 mill had not been searching for a job before the tap was turned, they have not initiated a search in Sept. Are they available for the labour market? Or have they been working unregistered all the way, or have the system been faked by completely false recipients in other ways? Anyway, those 8 mill. did not make a difference at the labour market in September. We have to hope for something better in October. If not…

The trade deficit to yet another ATH in August

Trade deficit up to USD 73 bn, from 70 bn in July

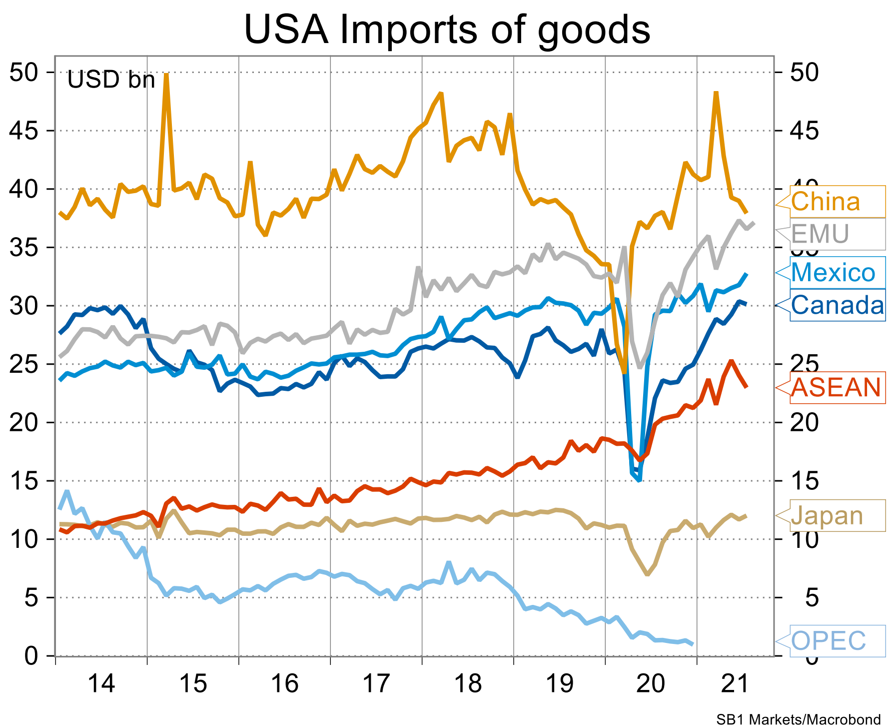


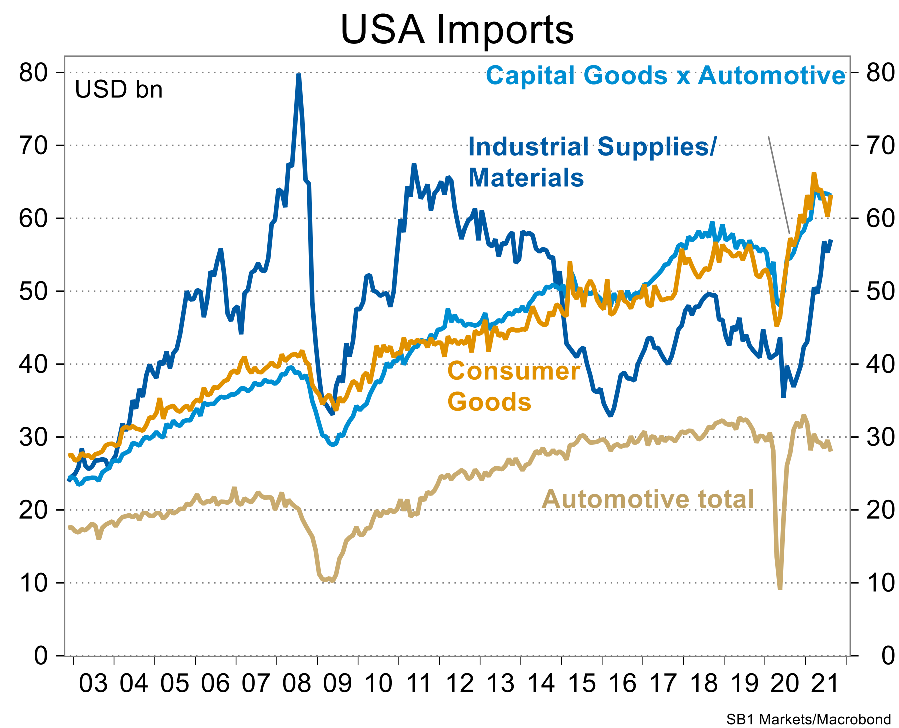


- **Exports** rose by 0.5% m/m, and are slightly above the pre-pandemic level (in value terms). In volume terms, exports of goods was up by 0.4% in August, and are down 5% from Feb 2020. We expect many of US' trading partners to increase their demand for US goods, and one day even for services (like travelling into US)
- **Imports** rose by 1.3% m/m, and is 16% above the Feb 2020 level. In volume terms, the imports of goods are 12% above! Demand for goods has been strong during the pandemic, driving imports, and the increase in Aug was also due an increase in consumer goods imports. We expect US households' demand for goods to slow the coming quarters, from the present very high level
- **The trade deficit** is trending upwards, also measured in per cent of GDP, now at 3.9%, up from less than 3% before corona
  - » **The deficit vs China** is almost at the same level as when Trump became president in 2016. However, the total deficit vs. other countries has increased, also before corona

Higher imports in August driven by consumer goods and industrial materials

Imports from China/ASEAN sharply down m/m in June & July – no August data as of yet

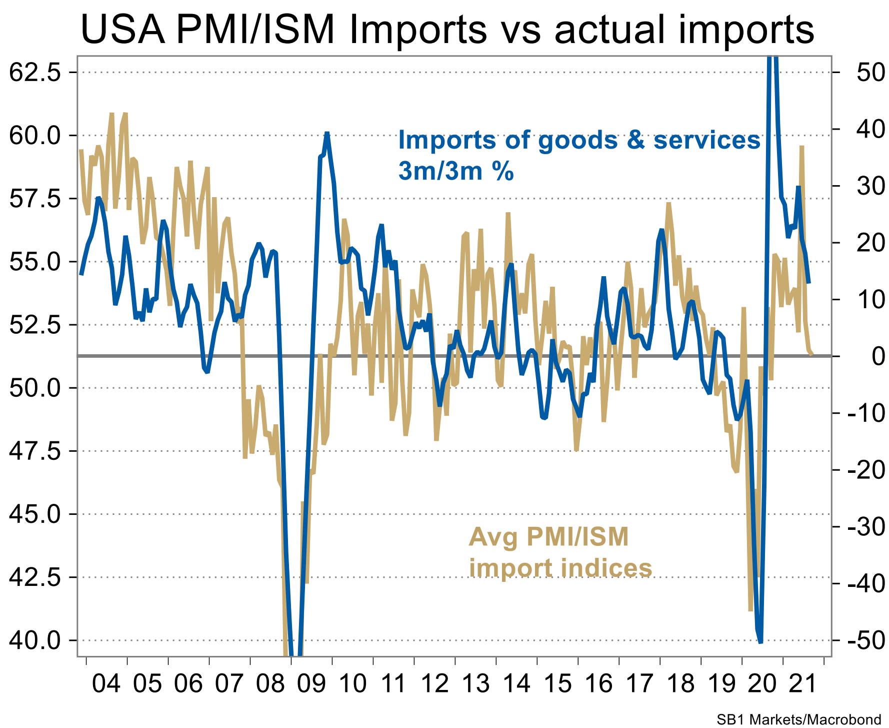




- **Imports from regions:**
  - » Imports from China are back at 2019-levels
  - » Export from ASEAN (the minor Asians) are very strong too, but has declined over the past couple of months
  - » Exports to US from EMU were down in August, but higher than before the pandemic
- **Imports by type of goods:**
  - » Auto imports were down in August, and are still low, very likely due to production problems abroad due to lack of semiconductors
  - » Consumer goods imports increased sharply, after falling in the 4 months prior

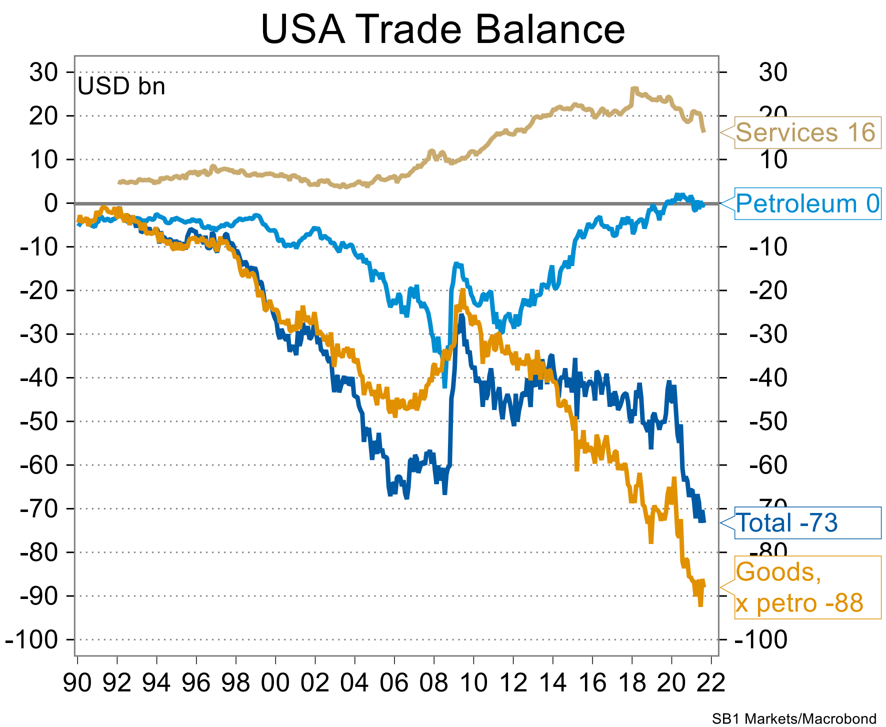
PMI/ISM signal a slowdown in imports

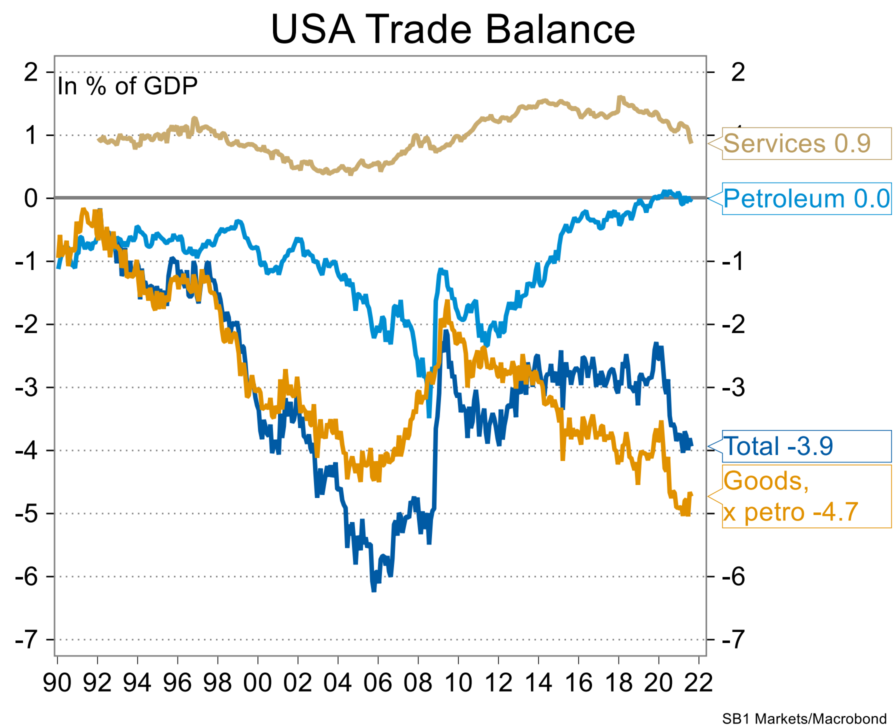
… following the surge. Consumption of goods will have to slow – taking imports down somewhat



Goods deficit very high, even in % of GDP

Surplus in services keeps narrowing

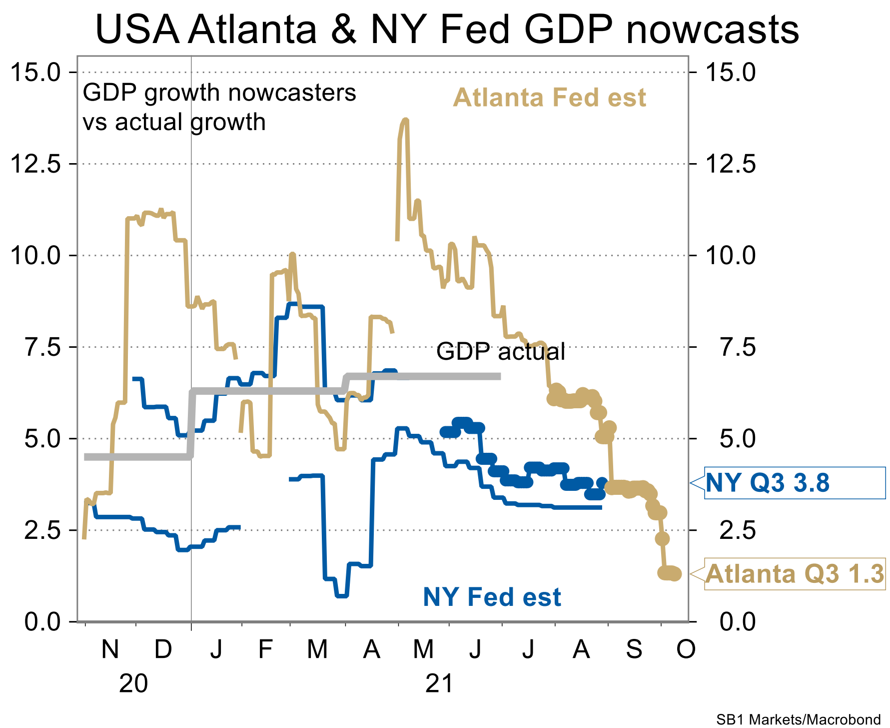


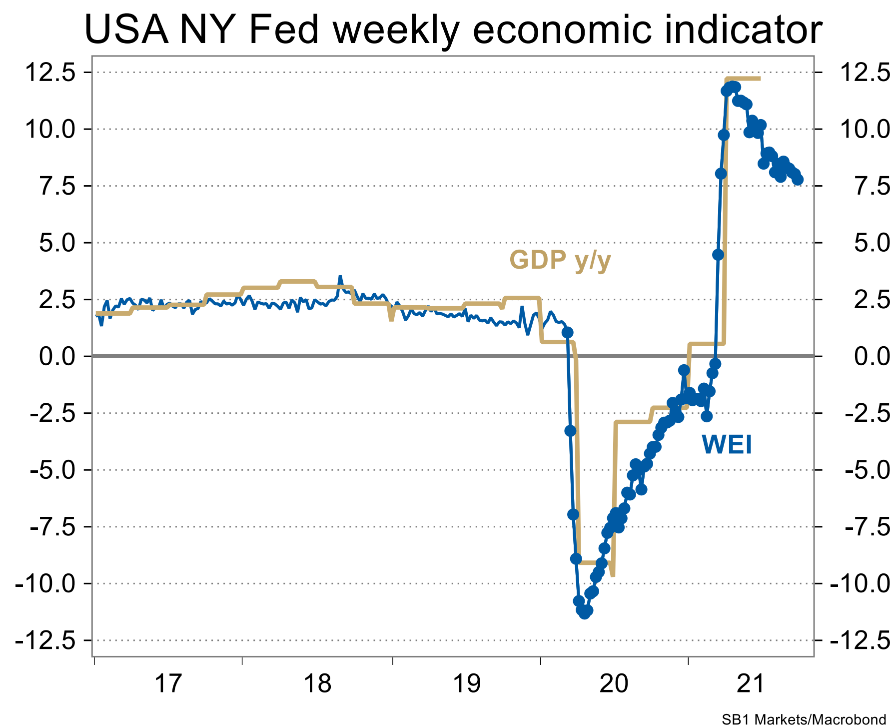


- **The goods x petro products** deficit was at USD -88 bn in August. The deficit equals 4.7% of GDP
  - » Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
  - » The petroleum trade deficit is gone, from -30 bn/m in 2012!
- **The US runs a surplus in services** at USD 16 bn, equalling 0.9% of GDP, but it is trending down (and the downturn started well before corona)
- The total trade deficit equals 3.9% of GDP, well below the record at 6.2% in late 2005, thanks to the shale oil revolution. The deficit has widened from 2.5% in early 2020 – as domestic demand has been stronger in the US than abroad

Q3 growth slowed sharply, says Atlanta Fed's nowcaster

Recent data implies a 1.3% GDP growth in Q3. The forecast started at 6%, in early August

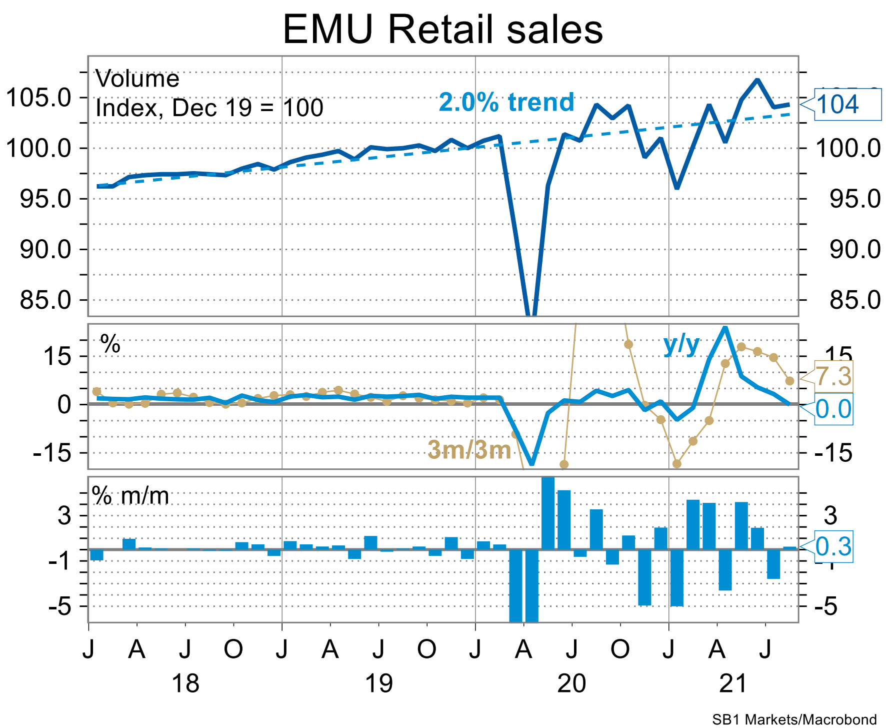


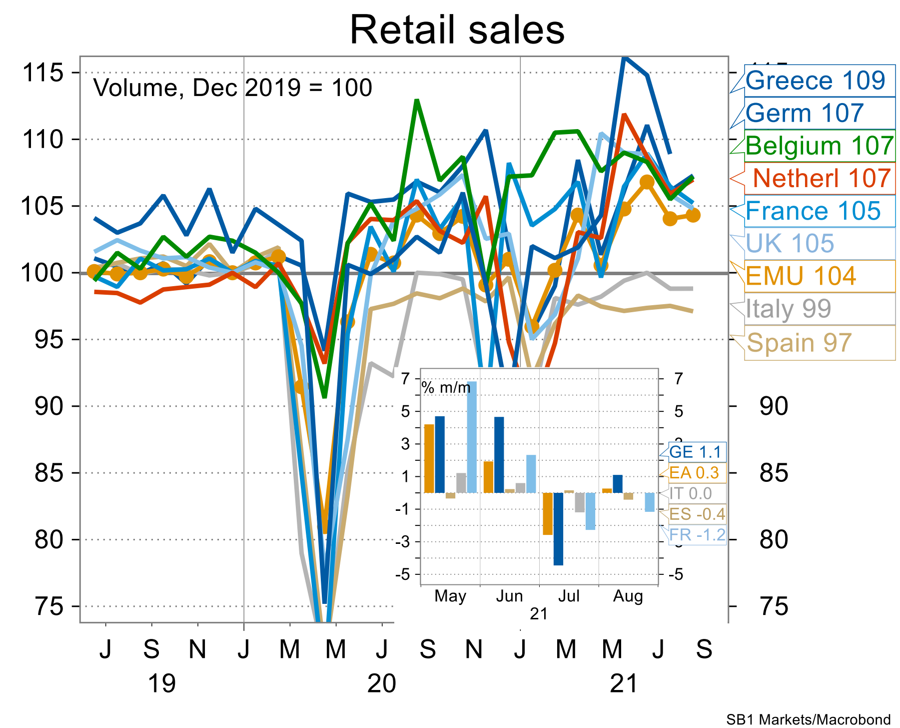


- NY Fed seems to given up projecting the quarterly GDP growth rate. They had not been that successful…

Eurozone retail sales up 0.3% in August – 4% above the pre-pandemic level

Sales were expected up 0.8%





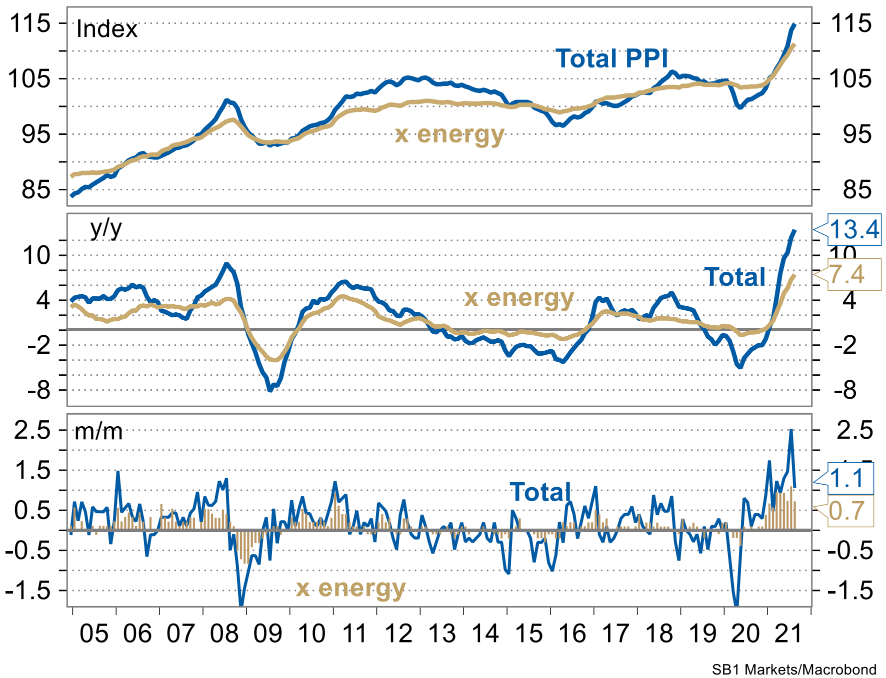
- Retail sales volumes increased by 0.3% m/m in August, while the July decline was revised to -2.6% from -2.3. Sales are close to the pre-pandemic approx. 2% growth path
  - German sales were up by 1.1%, still below expectations (+1.5%). The level is 7% above the Dec-19 level, and well above the pre-pandemic German trend path
  - French sales fell by 1.2% but are still OK, +5% vs. the Dec-19 level
  - Sales in Spain fell by 0.4% and are 3% down from before the pandemic, blame the tourists (but how come Greek sales are 9% up??)
  - Food & beverage sales were down 1.7% m/m, while internet sales rose by 9%

SpareBank 1 MARKETS

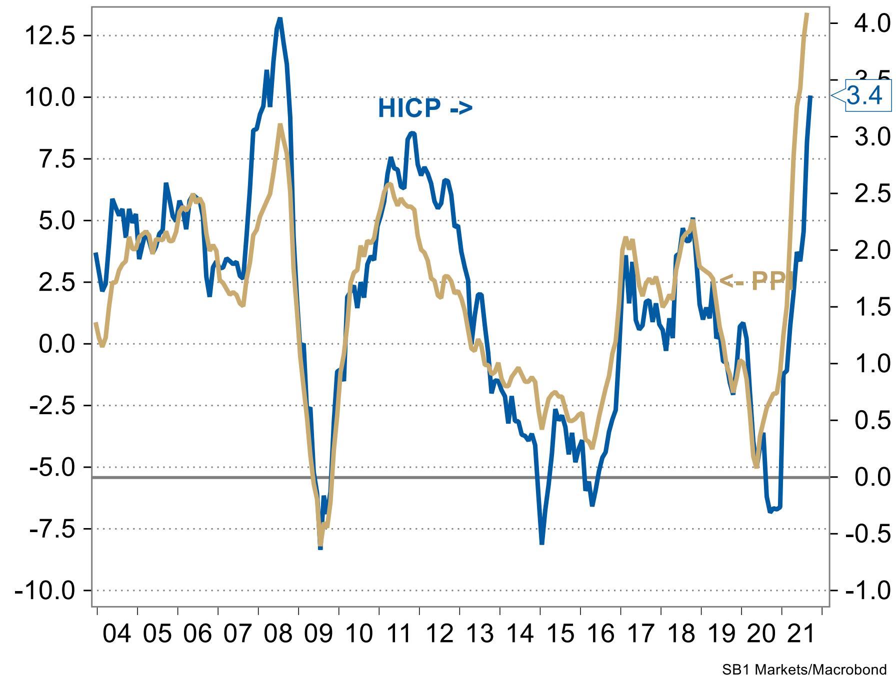
Producer prices continued up in Aug– signals a further increase in CPI inflation

PPI up to 1.1% m/m in Aug, up 13.4% y/y – 0.1 pp lower than expected. CPI on the way up to 4%??

EMU PPI



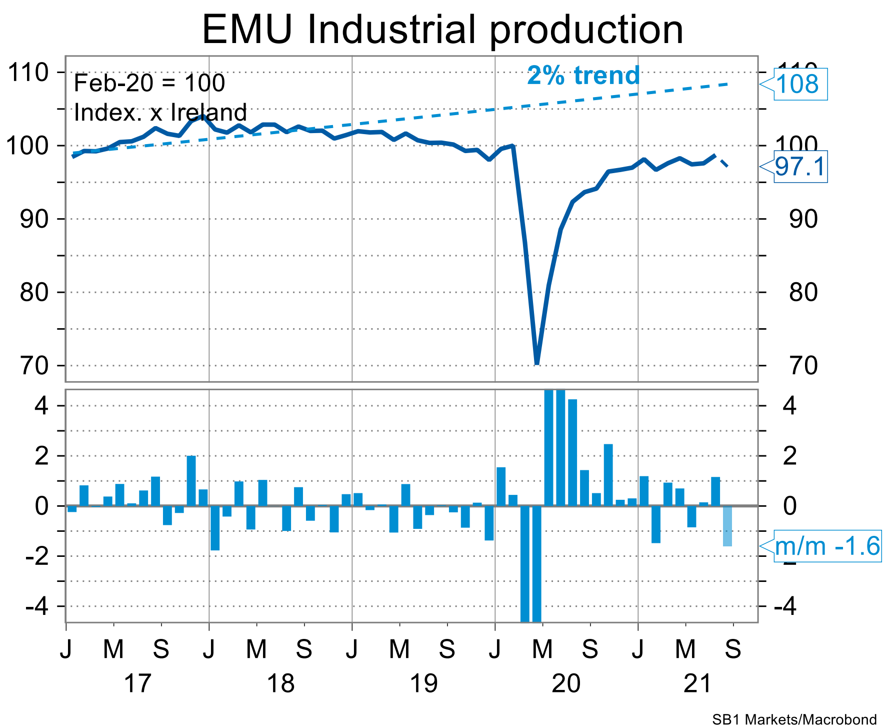
EMU PPI vs CPI

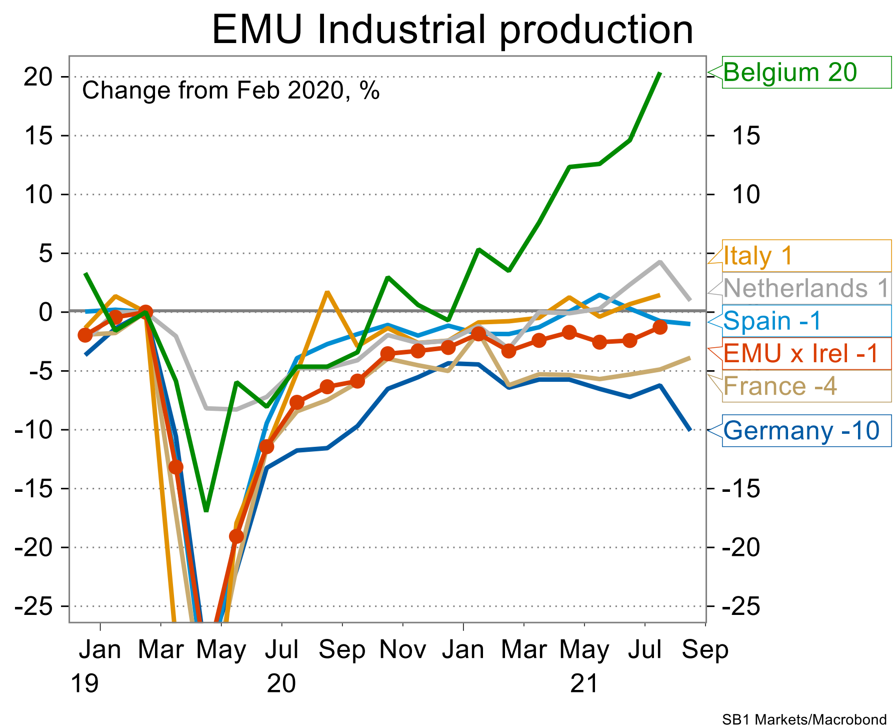


- The PPI ex energy added 0.7% in August, and is up 7.4% y/y, the **highest level on record** – data from 2000
- But of course, this is all transitory… ☺

Manufacturing production probably down 1.5 – 2% in Sept (data out this week)

German production fell by 4.7%, but France, Spain & Belgium up

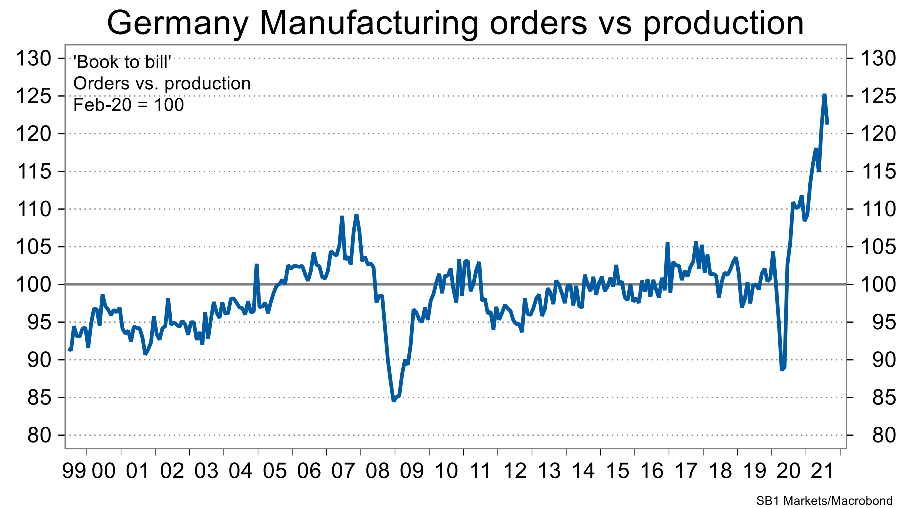


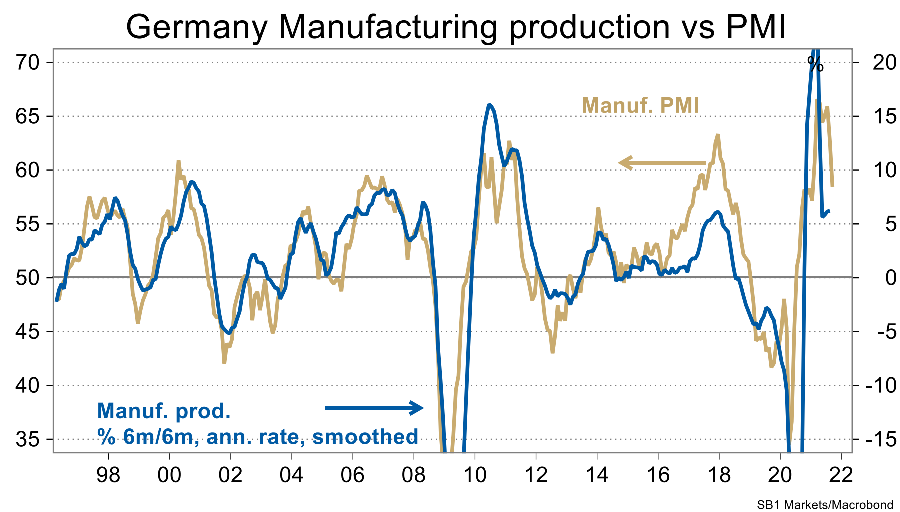


- Production is just very slowly moving upwards even if orders are surging, and surveys are close to record high levels
- Production in Italy is higher than in Feb-20, in the other big 3 are down
  - » Germany is the laggard, down 10%. From time to time, auto production is not what you wish you had…
  - » Belgium is up 20, the Netherlands 1%

German factory orders plummeted 7.7% in August, production down 4.7%

… as supply bottlenecks tighten. Vehicle production down 17.5% m/m (and further down in Sept)

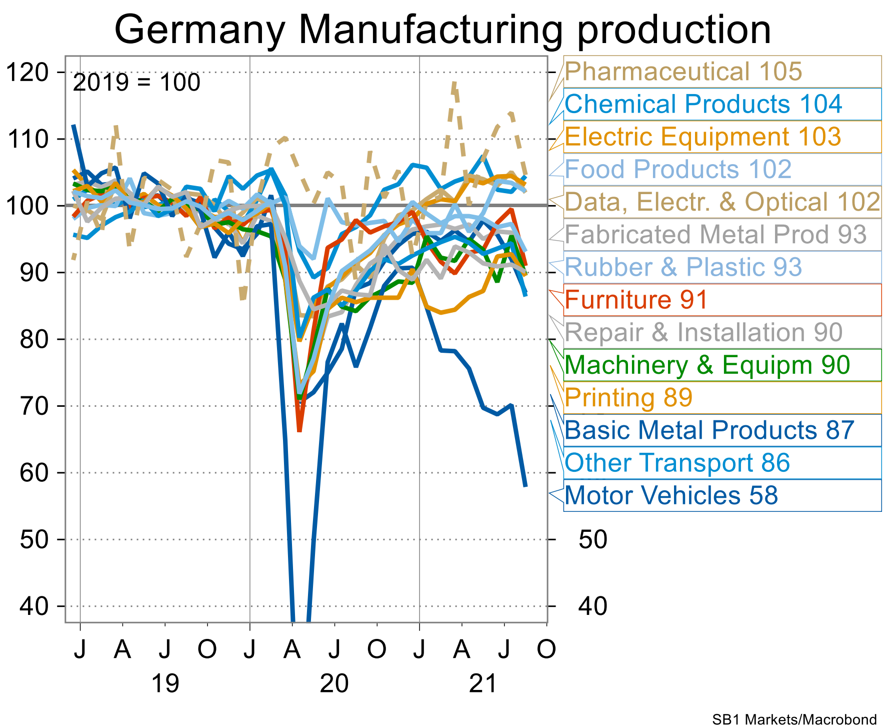


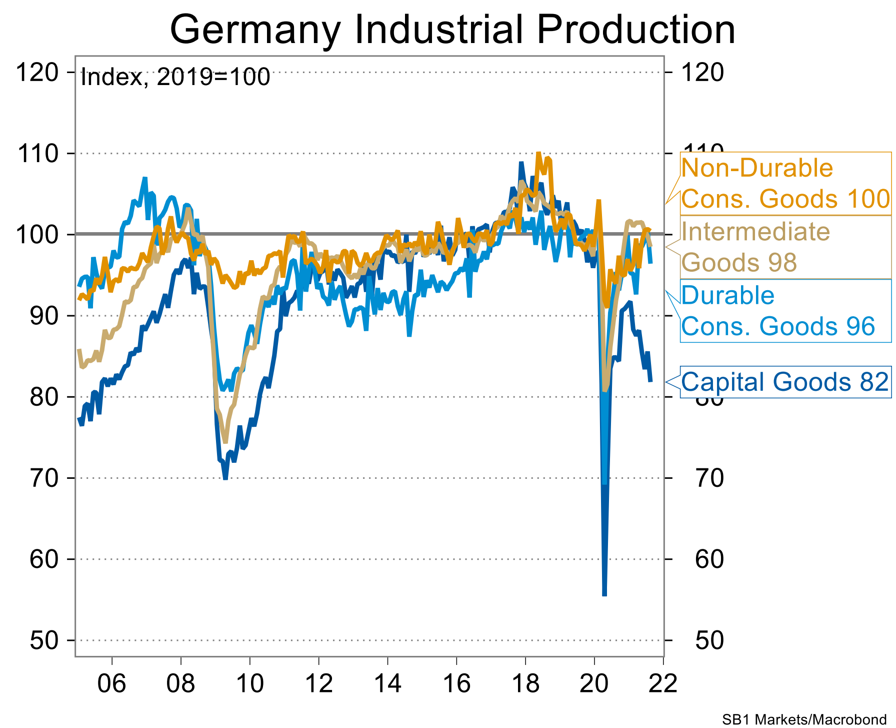


- **Manufacturing orders** decreased by 7.7% in August, expected down 2.1%, and it does not help that much that July was revised up 1.5 pp to 4.9%. The level is still 11% above the pre-pandemic level – and we can still draw a strong trend line!
- **Manufacturing production** was down 4.6% in August (total industrial production down 4%, expected -0.4%). The level is now 9% below the Feb-20 level. See more details next page
  - » Surveys confirm softer growth in production & orders, as the industrial sector is hit by both supply bottlenecks, capacity constraints and higher energy prices

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

Vehicle production is struggling but not due to lack of demand

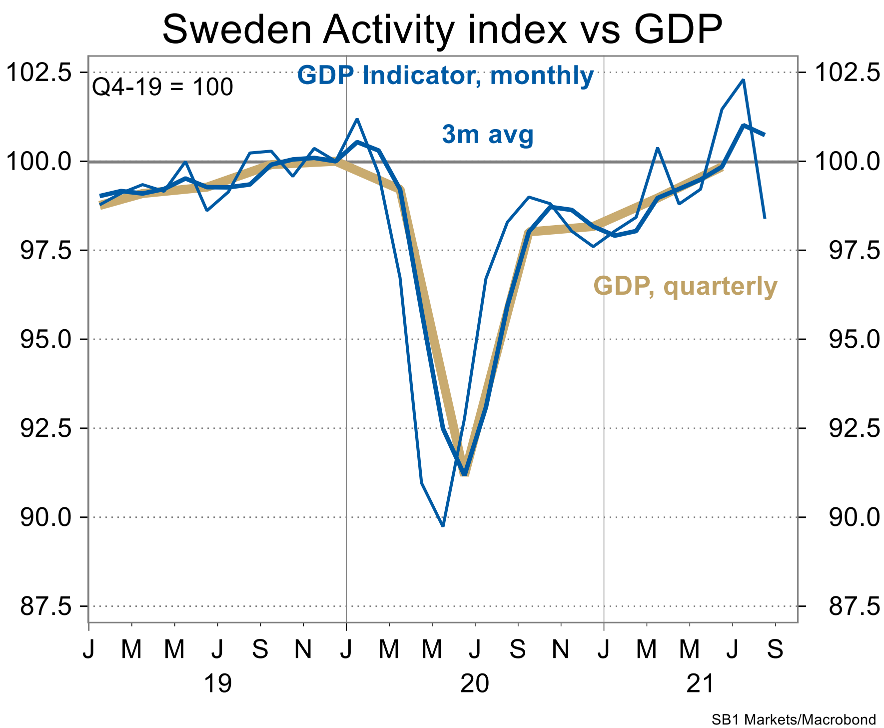


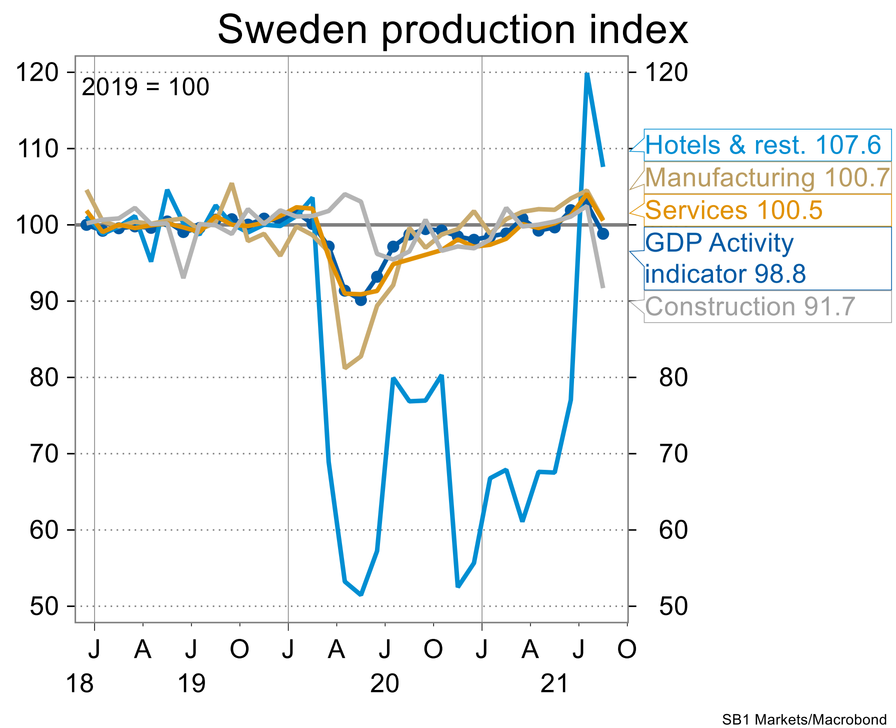


- Check more on the German auto industry here
- However, several other sectors are still operating at rather low levels, and just some few are back at reasonable normal levels. Some sectors outside the auto industry are now feeling the impact of the deep cuts in auto production (almost 60% in Sept, not on the chart above). Even if these sectors now report weaker demand, it is not due to lower final demand, just intermediary demand (or at least not due to lower 'real' final demand, say that nobody wants to buy German cars anymore, they can just not get them, now)

GDP down almost 4% in August, trend very likely still OK

The July +2.9% vs. Q4-19 was too good to be true, GDP down 3.8 % m/m in August, -1.6% vs. Q4-19

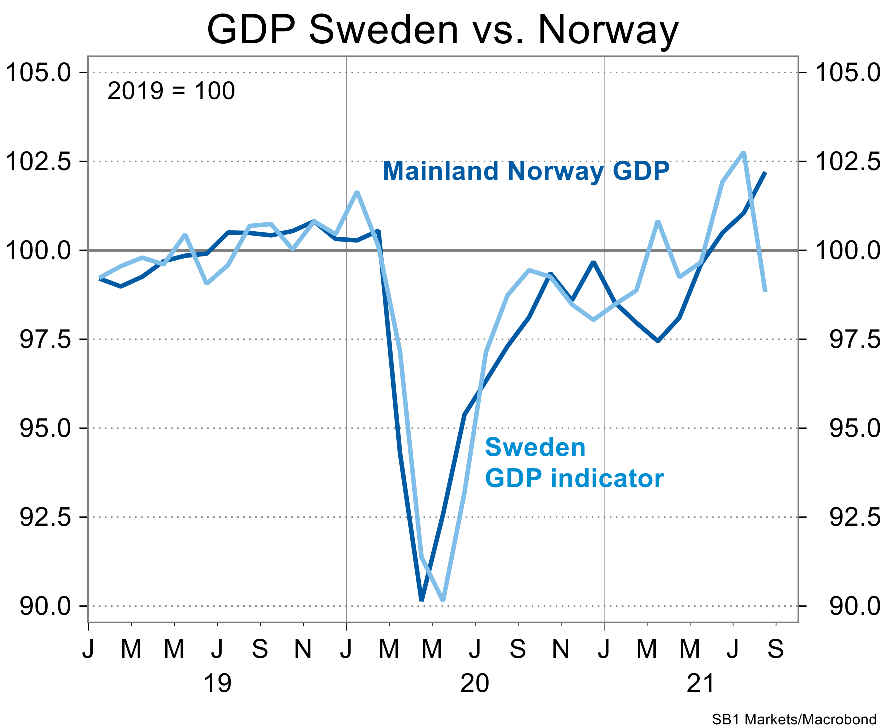


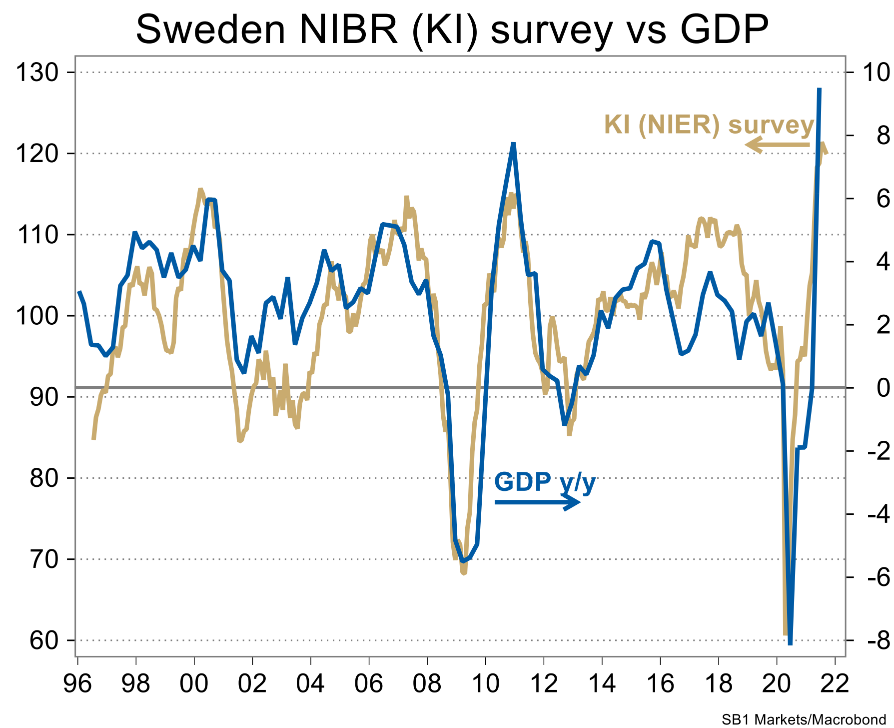


- **GDP** fell by 3.8% m/m in August, expected down 0.5%. In addition, July was revised down by 0.6%
  - » GDP is now 1.6% below the Q4-19 level. One month ago it was reported up by 2.9%! We assume production will recover in Sept, and that GDP will grow at approx. the same pace as in Q3 (3.6%, q/q annualised)
  - » Manufacturing prod fell by 3.7%, very likely due to lack of supply, not lack of final demand. Activity in the construction sector fell sharply as well (-11%)
  - » In services activity fell by 3.4% because the summer Swedish staycation ended, and the superficial strong July demand waned. Hotels & restaurants down 10%, but activity is still 8% above the pre-pandemic level!
- **The outlook** remains excellent, according to Swedish companies. THE KI (NIER) survey is at close to ATH, and the PMI is the best in the world. We still question if the Riksbank's extremely expansionary stance is appropriate

Suddenly, Norway was ahead of Sweden again

But we are not worried that the Swedish recovery has stalled permanently

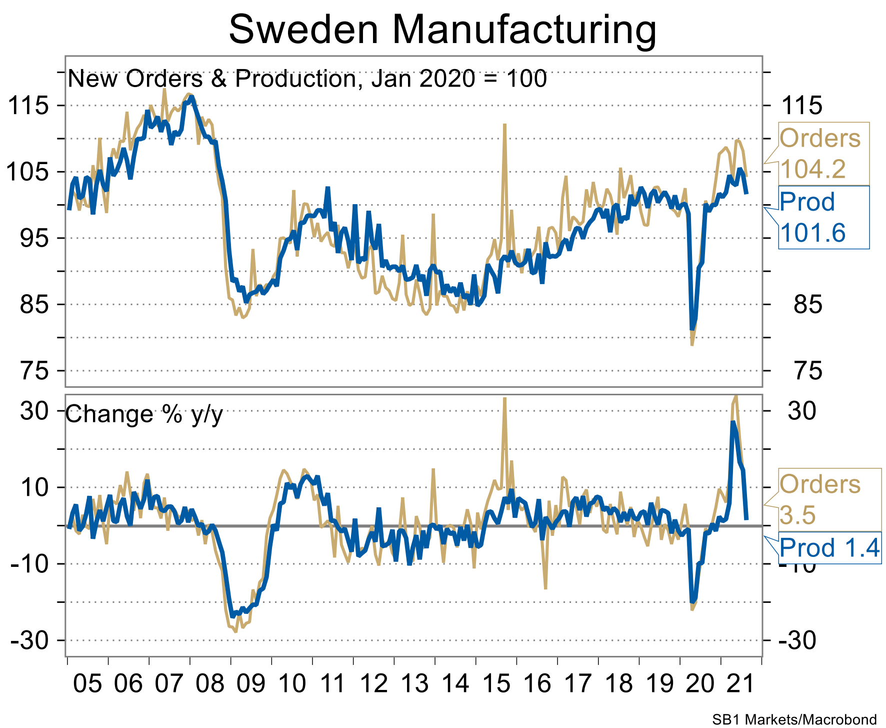


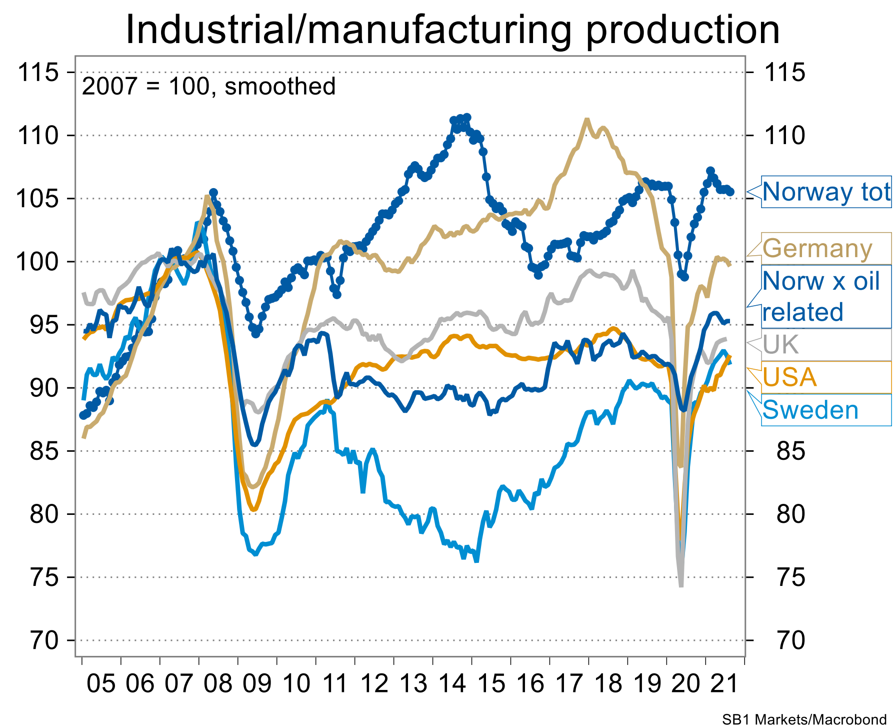


- The Norwegian GDP numbers are somewhat fishy, see 3 pages fwd

Industrial production sharply down in August

New orders fell too. No doubt due to direct/indirect impact of supply shortages





- Production of machinery & equipment fell by almost 20% m/m, partly due to a decline in production of vehicles
- Long term, manufacturing production in Sweden has not been that impressive, let's say compared to Norway (even without oil related production) or Germany

Highlights

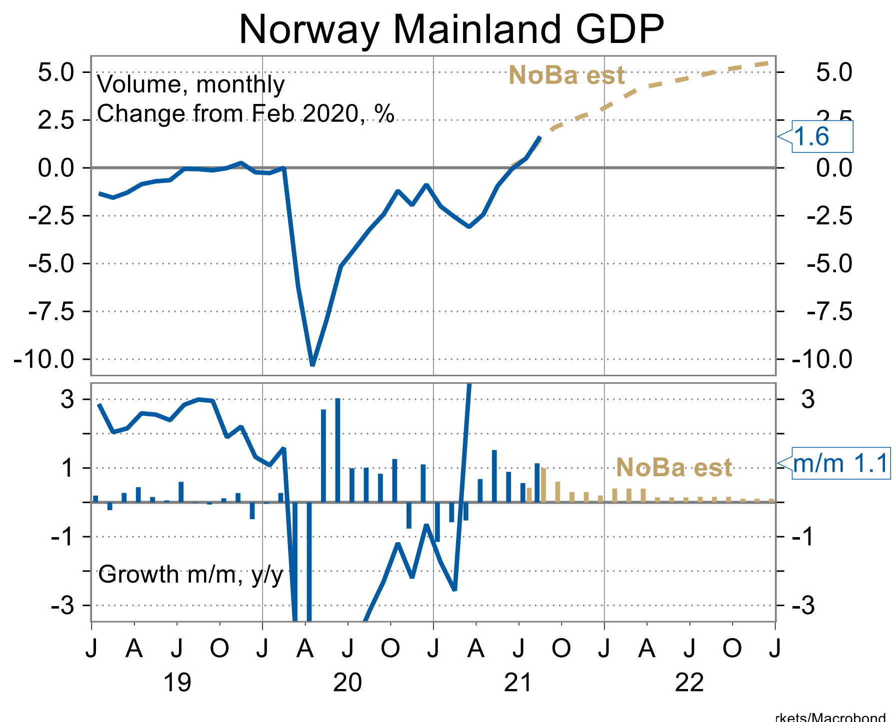
The world around us

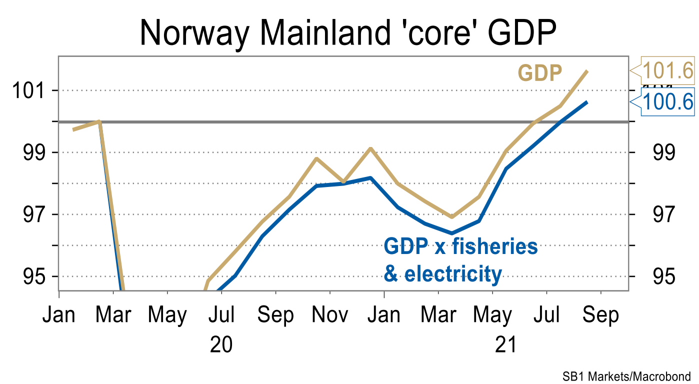
The Norwegian economy

Market charts & comments

Mainland GDP up 1.1% in August, 0.8 pp due to Brexit and a large mackerel catch!

Business services recovered form a low level, contributing by 0.4pp%. The rest marginally <u>down</u>

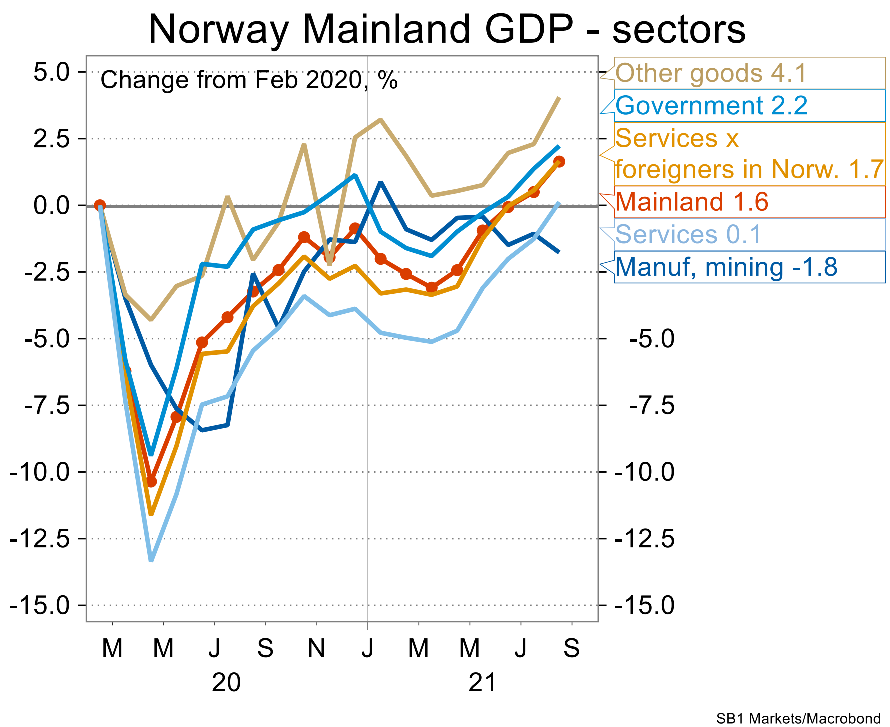


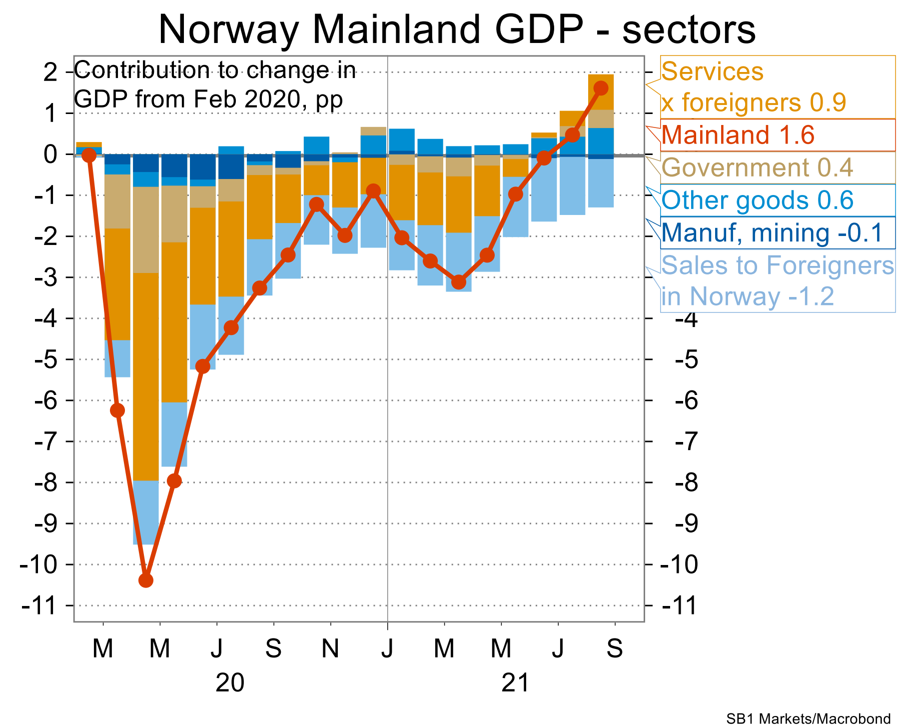


- **'Mainland' (including open water fisheries though) GDP** grew by 1.1 m/m in August, above consensus (0.9%) and Norges Banks estimate (1.0%). We expected 0.6%. GDP is now 1.6% above the pre-pandemic level
  - » However, a 46% lift in production in fisheries (and aquaculture). This incredible surge is due to very high mackerel catching volumes. Norway decided to harvest the whole quota in one go when we did not have to share a common quota with UK after Brexit. Strange data but this unusual timing of the mackerel catch anyway lifted 'Mainland' GDP by 0.8 pp! The Sept GDP will probably be somewhat fishy too, however with the opposite sign…
  - » **Production in other sectors:** <u>Private services</u> were 1.4% in m/m with a substantial contib. from business surveys, +16%. Culture, hotels & restaurants up 3% -4%. Construction fell 3% (housing investments down), manuf. & mining -1%
  - » **Demand:** <u>Norwegians' spending</u> at home was up 0.7%, goods down, services up. Mainland investments rose sharply, and oil investments remained at a high level. Housing investments fell sharply, exports slightly
- **Mainland GDP is up 1.6% vs the Feb-20 level (or rather 0.6%)**
  - » **Adjusted** for the surge in fisheries, Mainland GDP is up 0.6% vs. Feb-20
  - » **Production:** Hotels & restaurants, transport and business services are still down 11% – 22%, in sum a 1.6% drag on GDP. Manufacturing and construction are down 1% – 2%. Trade is up 6%
  - » **Demand:** <u>Norwegians' spending</u> at home is up 6% from Feb-20, goods +16% (and is now heading down), services down 2% - but rapidly on the way up. Spending abroad is still down 78%, and total household spending is down 1%. Both Mainland business and oil investments are up. Exports are still down
- **The mackerel catch is not a good argument for hiking rates further but the underlying strengthening of the Mainland economy is**

Production: Manufacuring/mining down in August, the other main sectors up

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

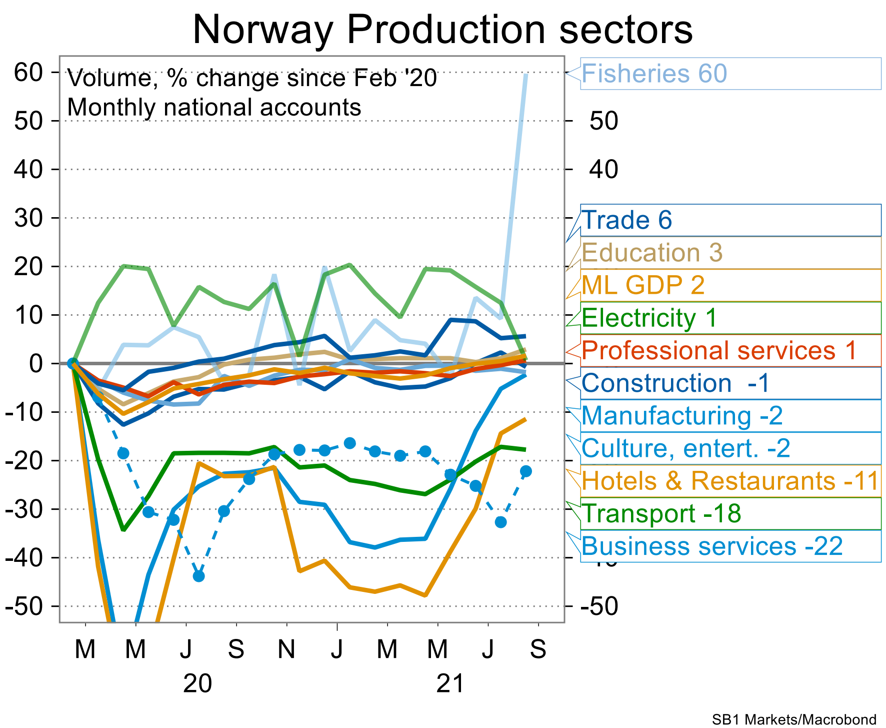


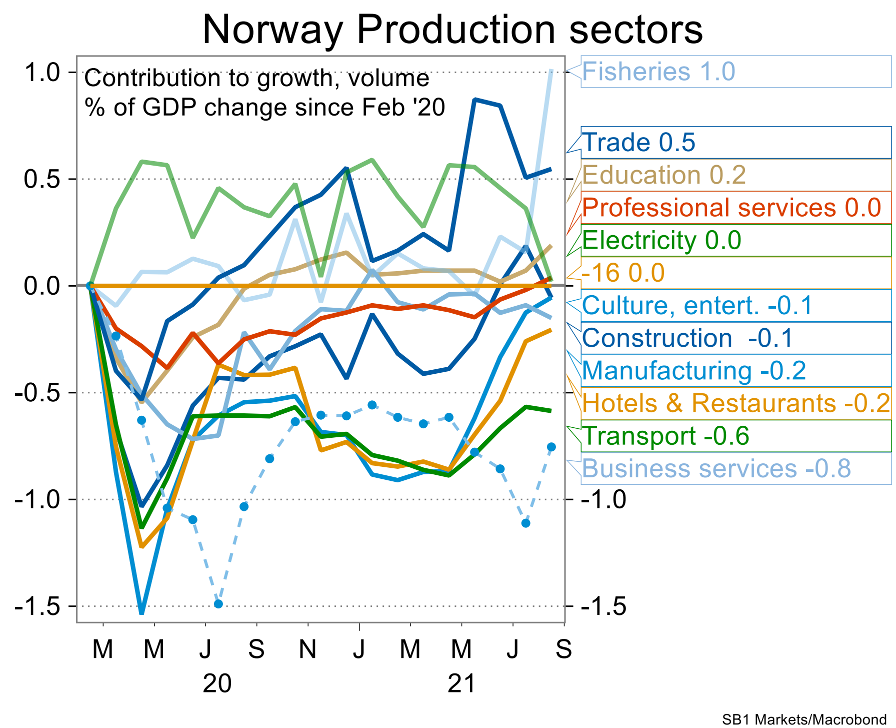


- **Private service sector production was up 1.1%** in August, but the level is still just 0.1% above the Feb-20 level. Excl. foreigners spending, demand for services are up 1.7%
- **Manufacturing production (incl. mining)** has been sliding down – and is down 1.8% vs. Feb-20
- **Other goods** is still going strong, up 1.7 % in Aug, up 4.1 vs the pre-pandemic level. And it is just due to fisheries!
- **Government** production/activities rose by 0.8% in August – and they are up 2.2% vs. Feb-20 – a moderate growth rate

Prod. details: It was just mackerel (and business services)

A 46% lift in fisheries lifted 'Mainland' GDP by 0.8 pp – out of the 1.1% headline figure!



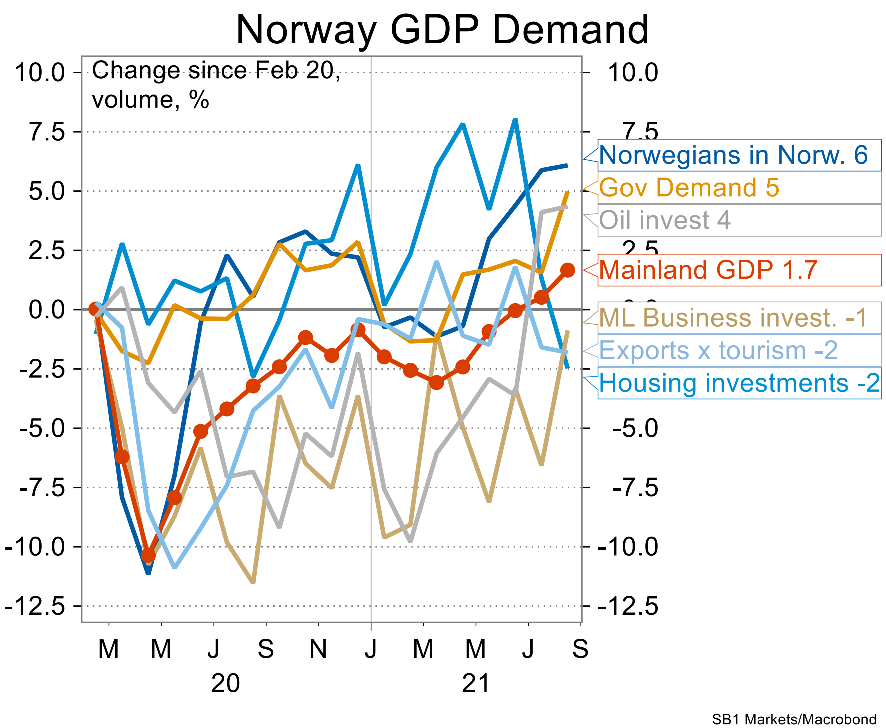


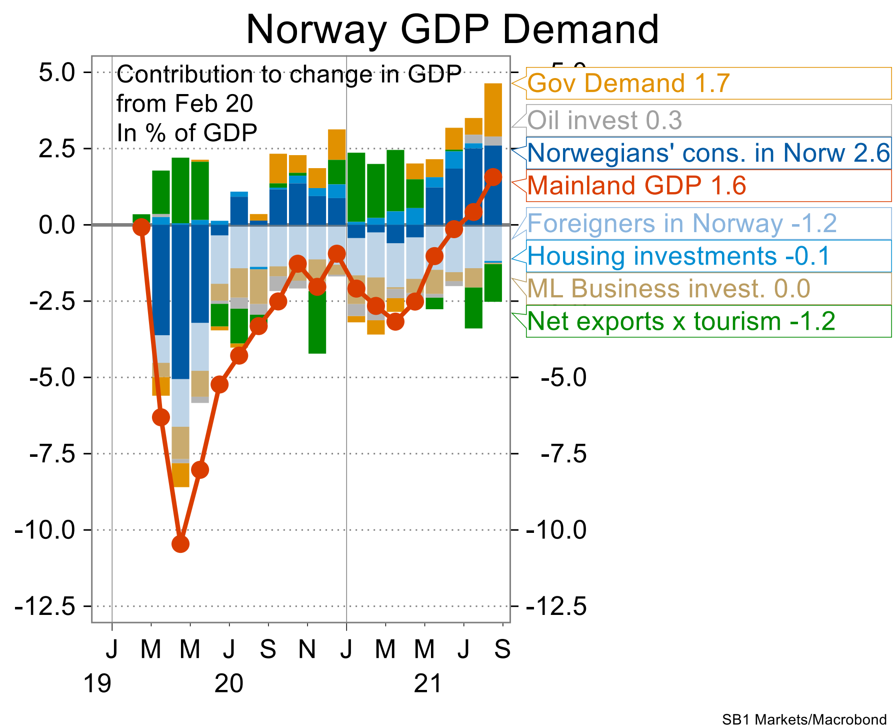
- Production in hotels & restaurants reported a further uptick but not by much, as hotel guest nights fell. Level still down 11% vs Feb-20
- Culture entertainment almost back, just 2% below the pre-p level. Almost too good to be true?
- Business services recovered, as we expected, up 15% (0.4 pp contribution), still down 22%. The upside is still HUGE
- Construction on the weak side

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

Demand: Housing investments down, Mainland exports flat – the rest up

Mainland business investments, oil investments, public demand – and consumption all trend up

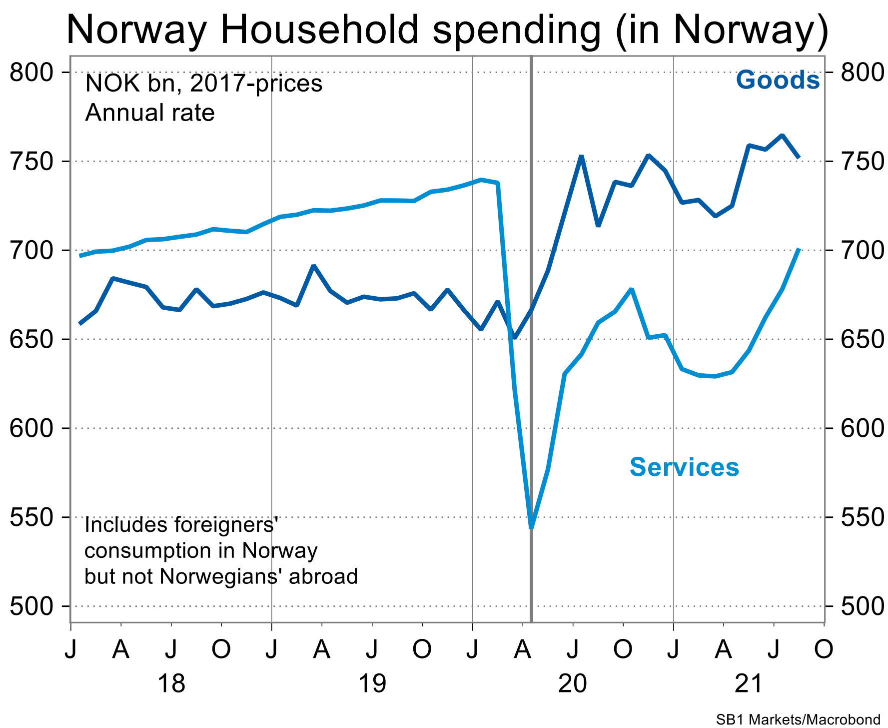


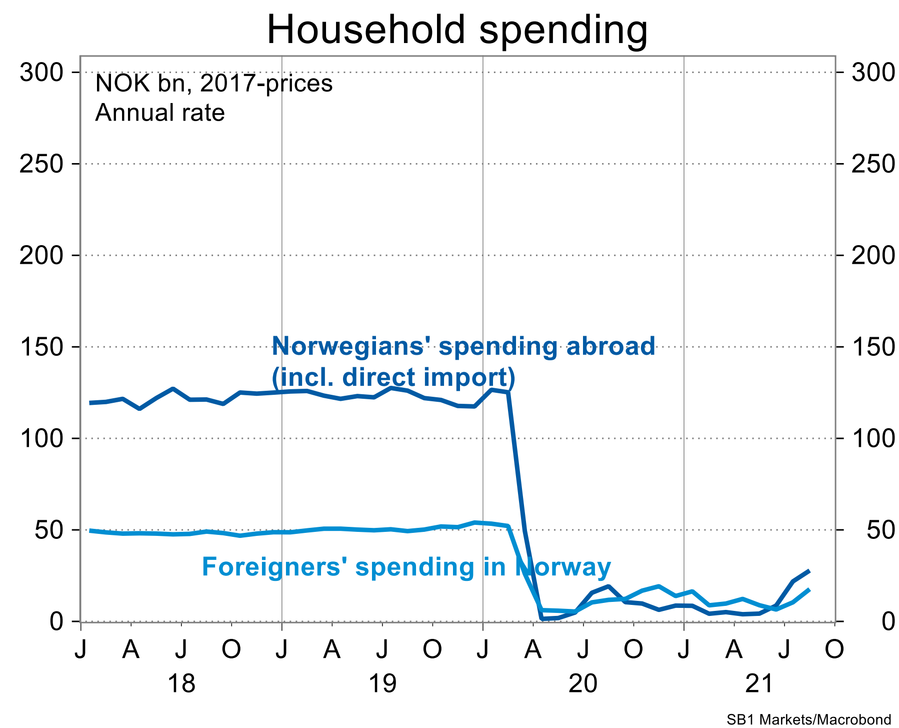


- **Norwegians' consumption in Norway** rose further by 0.7%, and the level is 6% above the Feb-20 level
- **Foreigners consumption rose many pre cent m/m, but the level is still very low, deducting** 1.2% from GDP (not adjusted for import content of goods they (used to) buy here)
- **Housing investments** fell further by 4%, following a 6% decline in July – and suddenly the level is 2% below Feb-20
- **Mainland business** investments rose 6%, and is trending upwards, still down 1% vs. the Feb-20 level
- **Oil investments** suddenly gained 8% m/m in July and the volume was kept up in August – and the level is 4% above Feb-20!
- **Government demand** rose 4%. Level +5% vs Feb-20
- **Mainland domestic demand x inventories rose 1.9%, following the 0.4% decline in July**. Inventories also contributed on the upside
- **Mainland exports** (x tourism) fell 0.2% following the 3.3% drop in July, we expect a plus. Imports fell too

The recovery in services well underway but still much more to come

And a substantial downside for goods, especially now as travel is possible again





- X-border spending is still very low, both inward and outward

SpareBank 1 MARKETS

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

A continued increases in spending on services in August, goods fell. Travel has turned up, still low

Norway Consumption spending from Feb 20

Sales of consumer goods/ services & consumption	Change from Feb 20, NOK bn, annual rate, const. bn	% Change %
Sales in Norway	**44**	**3.1**
Goods	80	12.0
Services	-37	-5.0
Norwegians in Norway	**78**	**5.8**
Goods	94	14.5
Services	-16	-2.3
Foreigners in Norw.	**-35**	**-66.2**
Norwegians' consumption	**-19**	**-1.3**
In Norway	78	5.8
Abroad	-97	-77.8

SB1 Markets/Macrobond

Norway Consumption spending m/m

Sales of consumer goods/ services & consumption	Change m/m NOK bn, annual rate, const. bn	% Change m/m %
Sales in Norway	**10**	**0.7**
Goods	-13	-1.7
Services	23	3.4
Norwegians in Norway	**3**	**0.2**
Goods	-16	-2.1
Services	19	2.8
Foreigners in Norw.	**7**	**68.9**
Norwegians' consumption	**9**	**0.6**
In Norway	3	0.2
Abroad	6	27.3

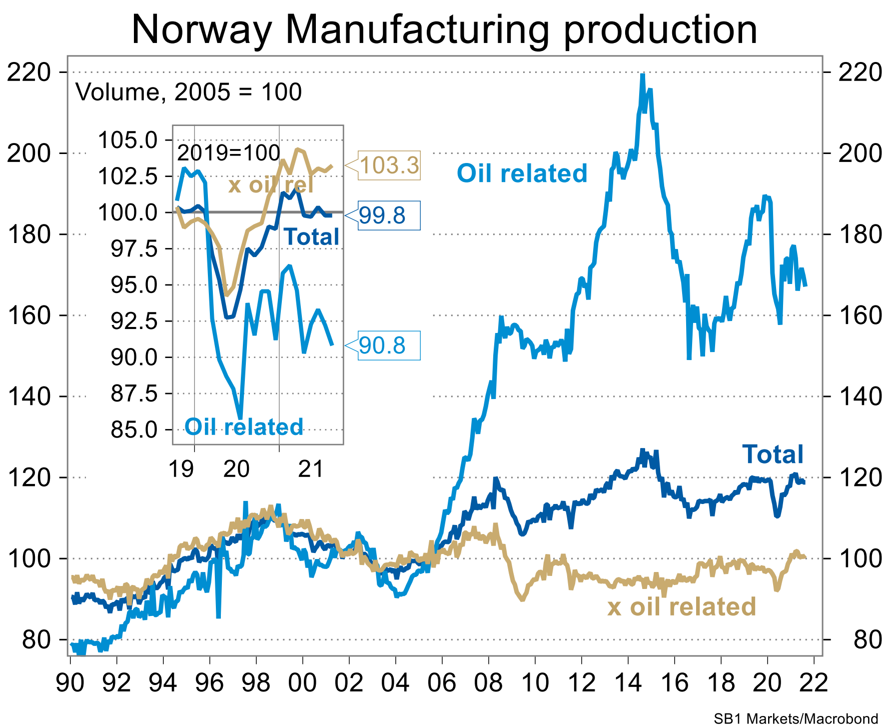
SB1 Markets/Macrobond

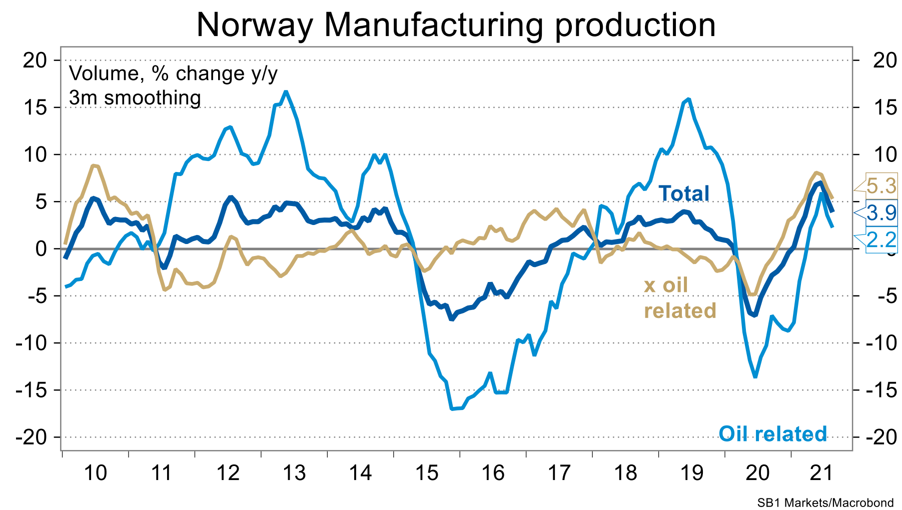
- **Sales of consumer goods** in Norway are up 12% vs. Feb-20, while services are down 5%, the sum up 3.1%
  - » **Norwegian households** have increased their consumption of goods in Norway by 15% but services still down 5%. The total up 6%
  - » **Foreigners demand in Norway** rose 68% m/m (from a low level…), an their spending in Norway is still down 66%
- **Total (Norwegian) household consumption** is down by 1.3% vs. Feb-20 – due to the 78% decline in spending abroad.
- **We expect consumption to normalise** further the coming quarters. Demand for goods is very likely above long term trend and will slow when spending on services picks further up, and even more when we can start spending abroad again. Still, as foreign travel (at least excl. x-border trading in Sweden, will probably remain subdued for several quarters. We expect the savings rate to decline substantially, from still a high level in Q2

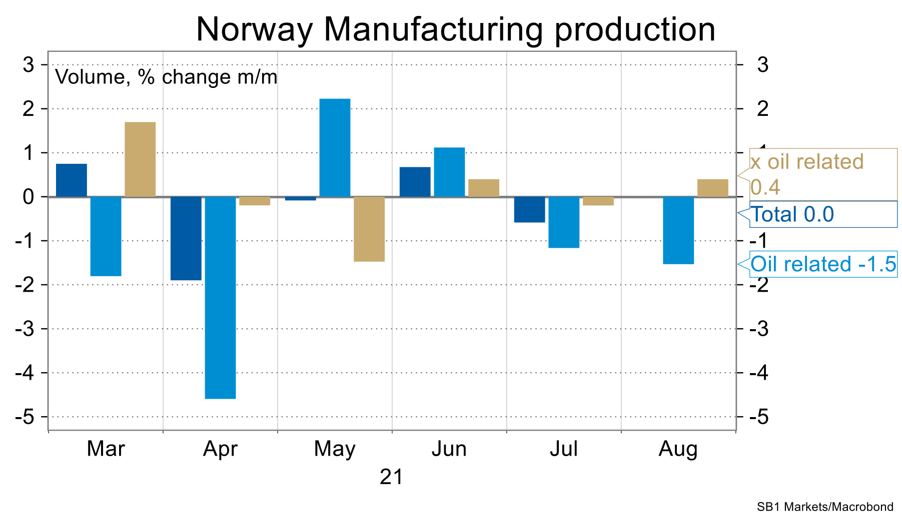
SpareBank 1 MARKETS

Manufacturing production flat in August, far weaker than surveys indicate

Production has been flat since April, both in oil related & others. The trend still weak in oil related



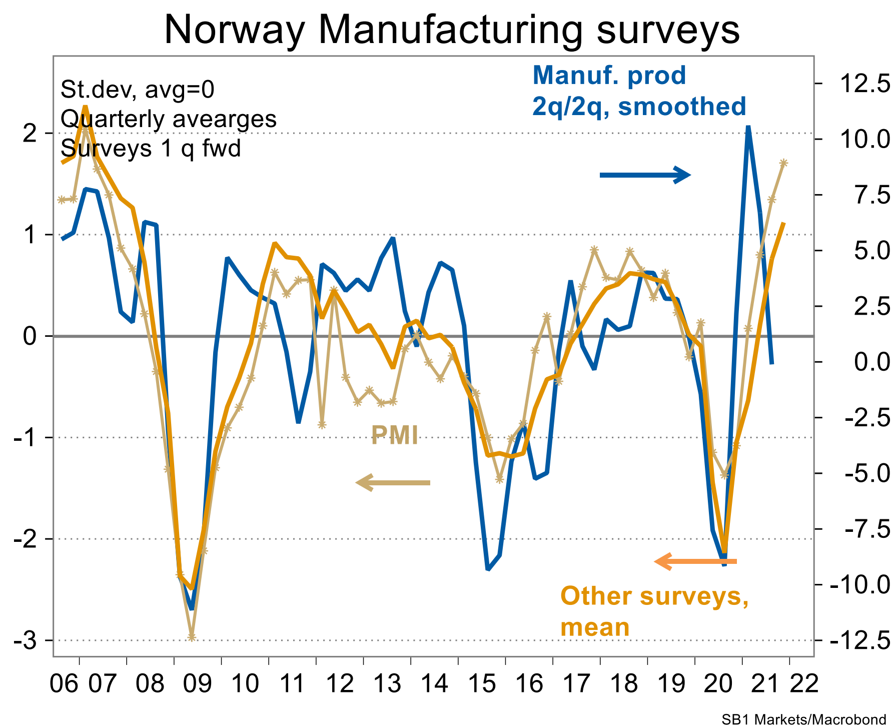




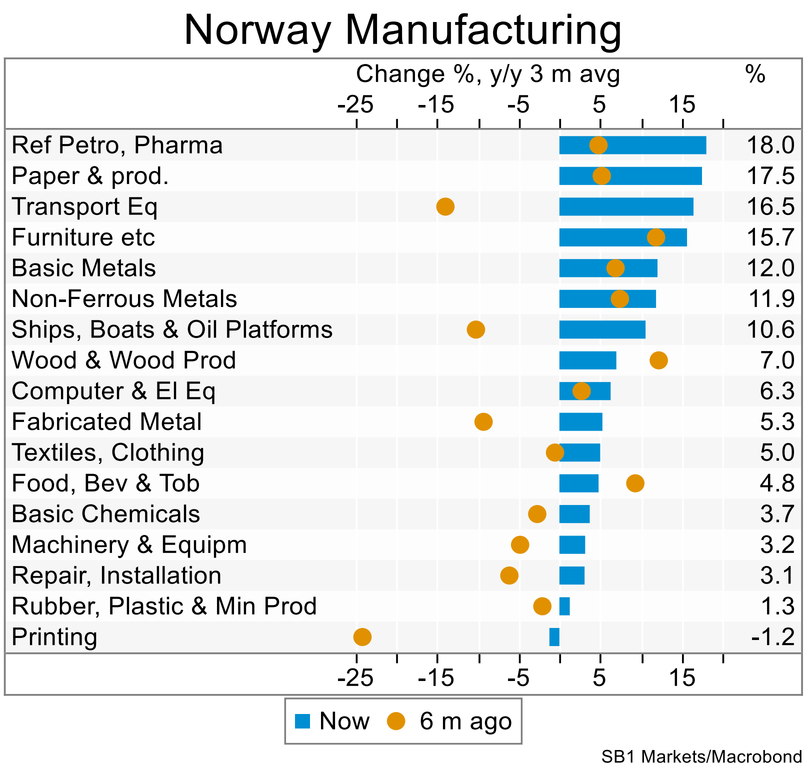
- Production was unch. in August, following the 0.6% decline in July.
  - » Oil related manufacturing production declined by 1.5%, other sectors were up 0.4%, mostly due to food production
- Manufacturing surveys are signalling strong growth in activity, but actual production has been flat since April, ant it is down almost 2% vs the first months of 2021 (and flat vs. the 2019 avg.)
- Production x oil related sectors is 3% above the pre-pandemic level, while oil related is down 9%!

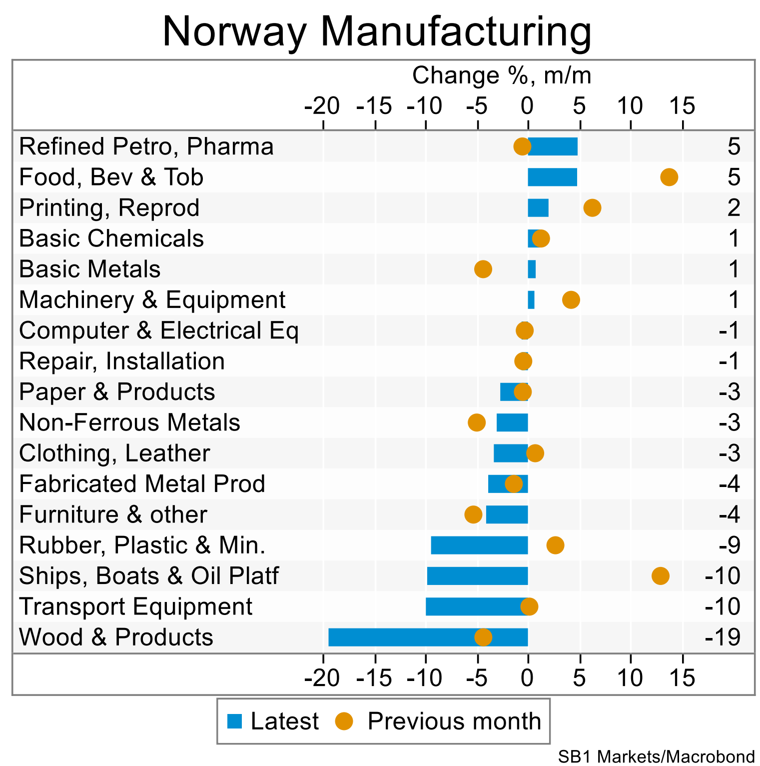
Surveys are signalling growth (like elsewhere)

… and production is not that impressive (like most most places)



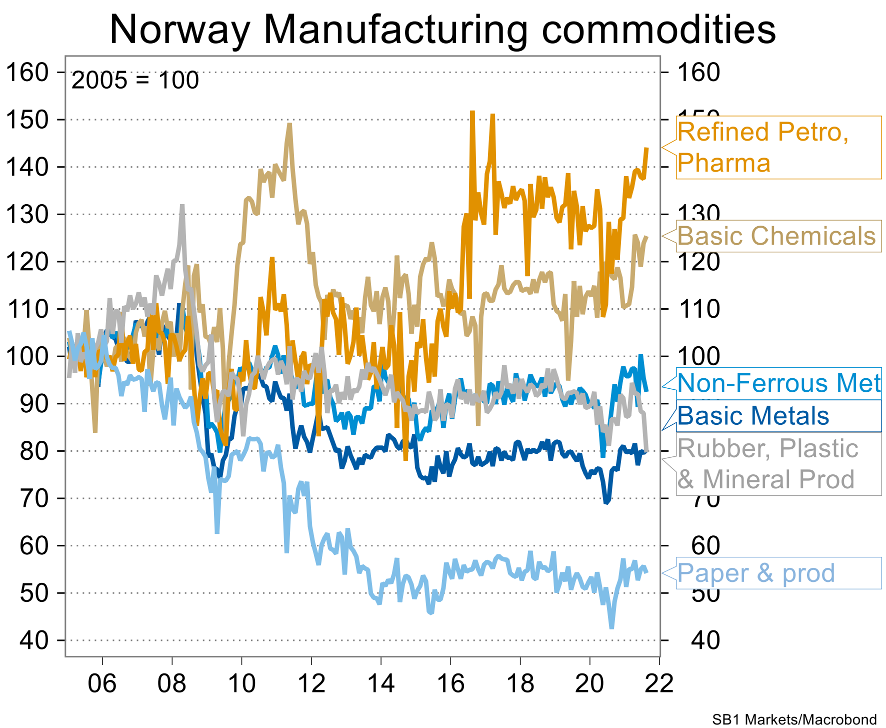
Almost all sectors up y/y, but most down m/m

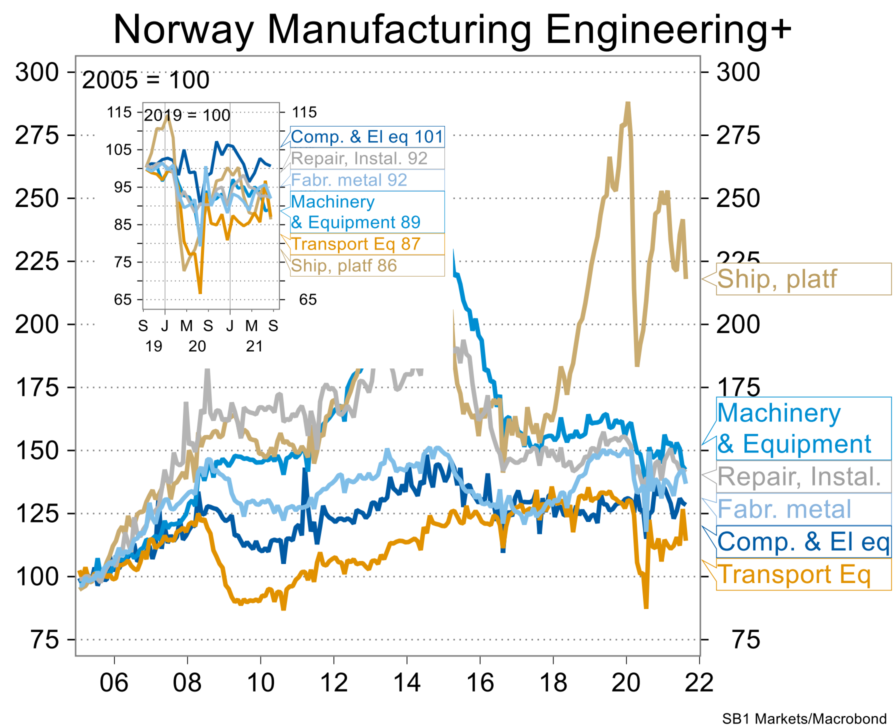




Engineering on the weak side in August

Mixed among commodities but just rubber/mineral products down

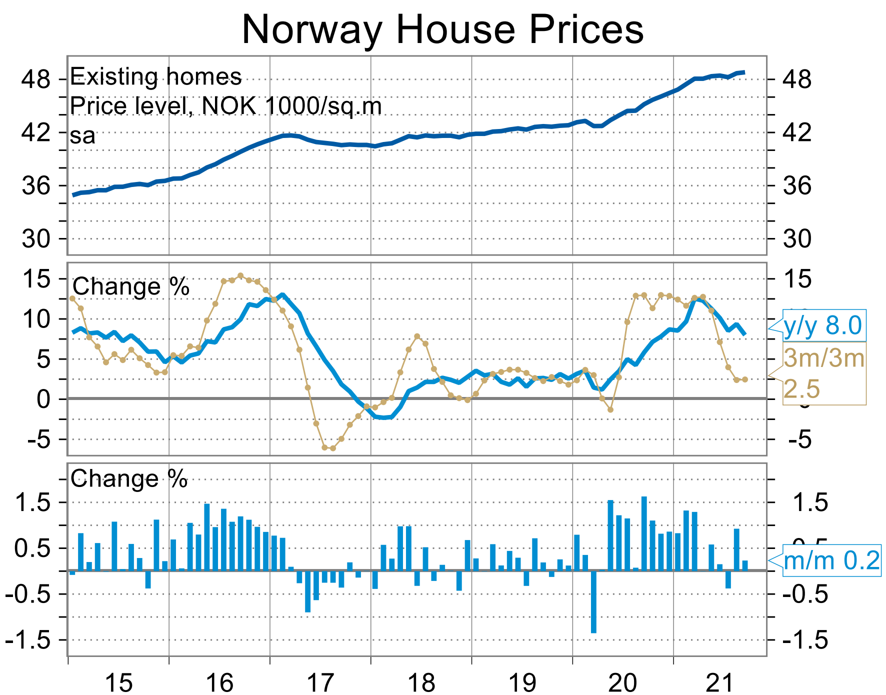


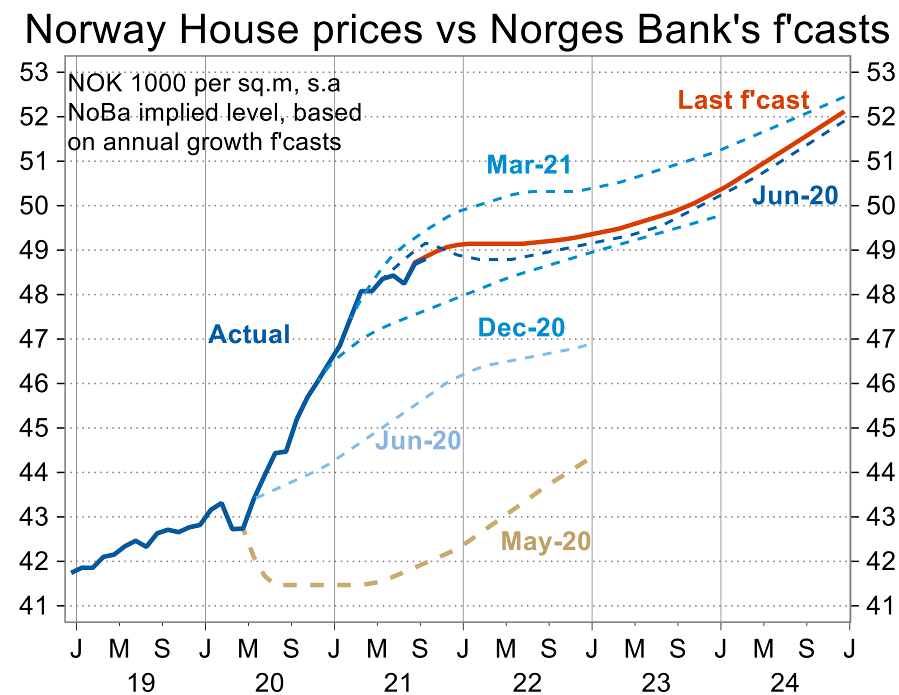


- **Production of ships & platforms** has been heading down so far in 2021
  - » Corona measures (lack of foreign labor, contacts with foreign vendors/customers), supply chain challenges probably explained parts of the recent drop – but oil investments have recovered recently, according to National Accounts
  - » **Commodities** are on the way up, but were mixed in July/August

House prices up 0.2% in Sept, prices are now increasing at a 2.5% pace

Our models signal a faster price increases than seen recently. The expected rate hikes to blame



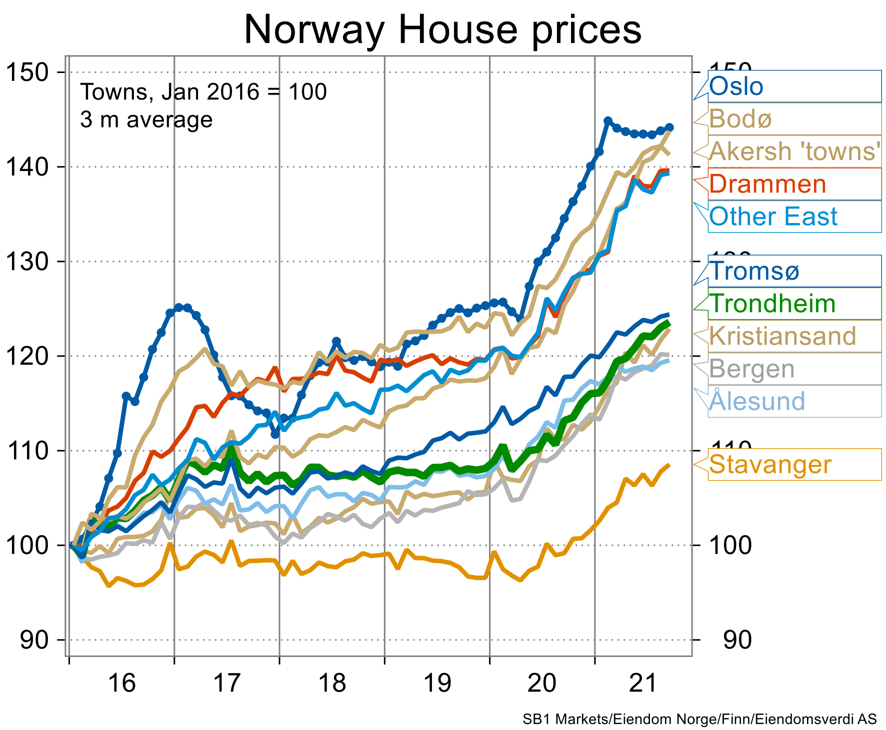


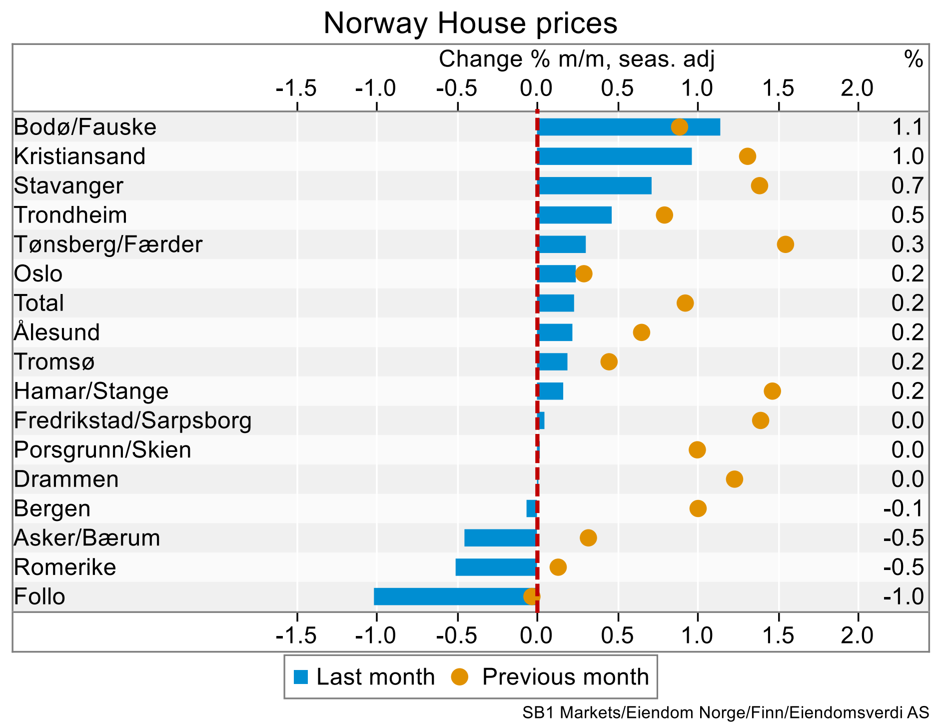
- **House prices** rose by 0.2% in Sept, we expected unch., down from +0.9% in Aug (revised from 1.0%. Prices are up by 2.5% 3m/3m (annualised), down from above 12% in March. Prices are up 8% y/y
- Prices fell in a close circle around Oslo but rose further in Oslo as in most other towns. Bodø/Fauske (as usual) in the top, followed by Stavanger and Kristiansand
- The **number of transactions** was stable following the 10% decline in Aug, level still above the pre-Covid level. The **inventory of unsold homes** fell sharply to the lowest level ever
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model +1%, from zero 5 months ago. Very likely, the outlook for higher rates is dampening willingness to pay
- **Norges Bank** expect house prices to appreciate a moderate pace the coming months, and flatten during 2022

SpareBank 1 MARKETS

Oslo prices on the way up again, some weakness around Oslo in September

Bodø/Fauske prices are still going strong. Kristiansand/Stavanger at the top too, better oil news?

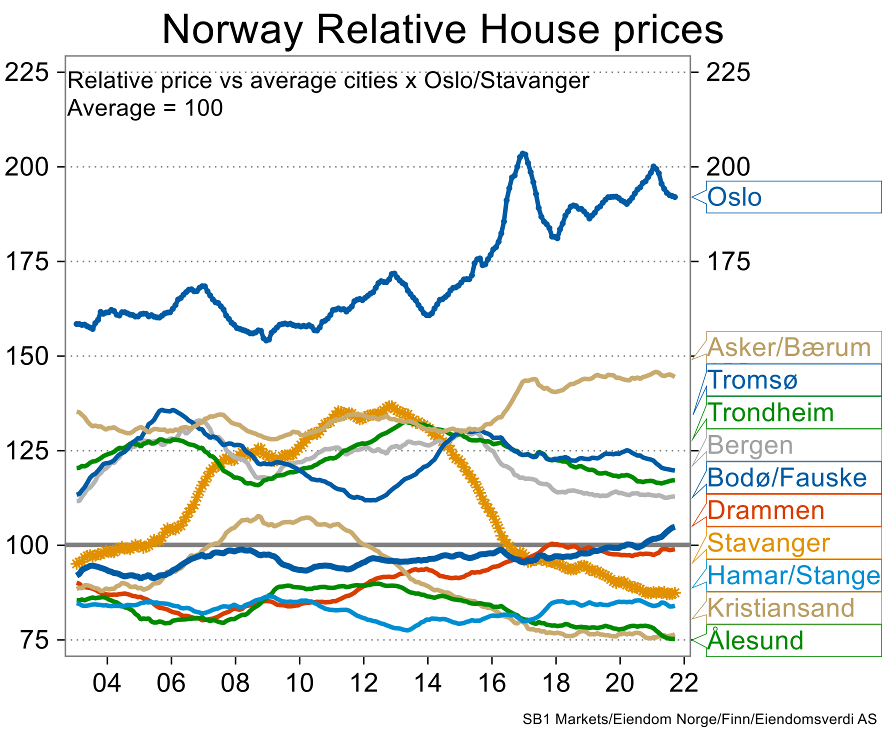


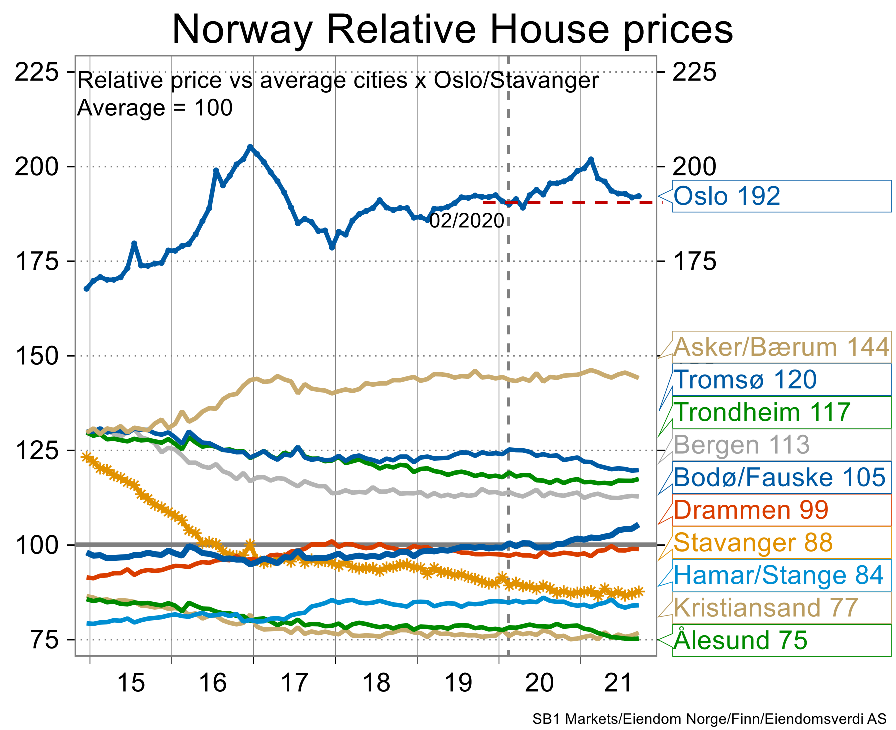


- In September: 9 cities up (from 15 in August); 4 down (from 1)

Oslo relative prices back to the pre-pandemic level

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

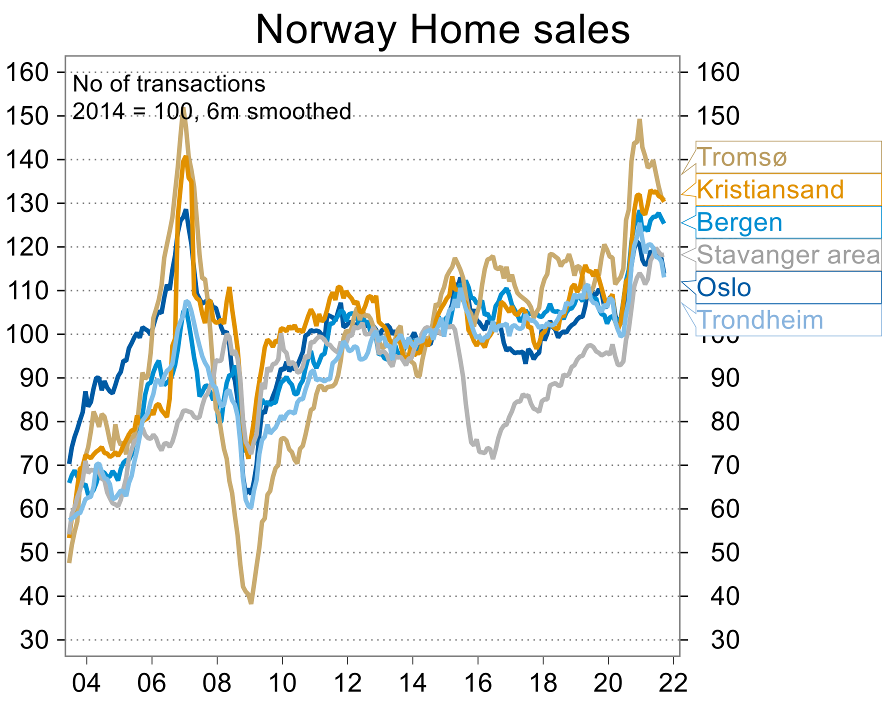


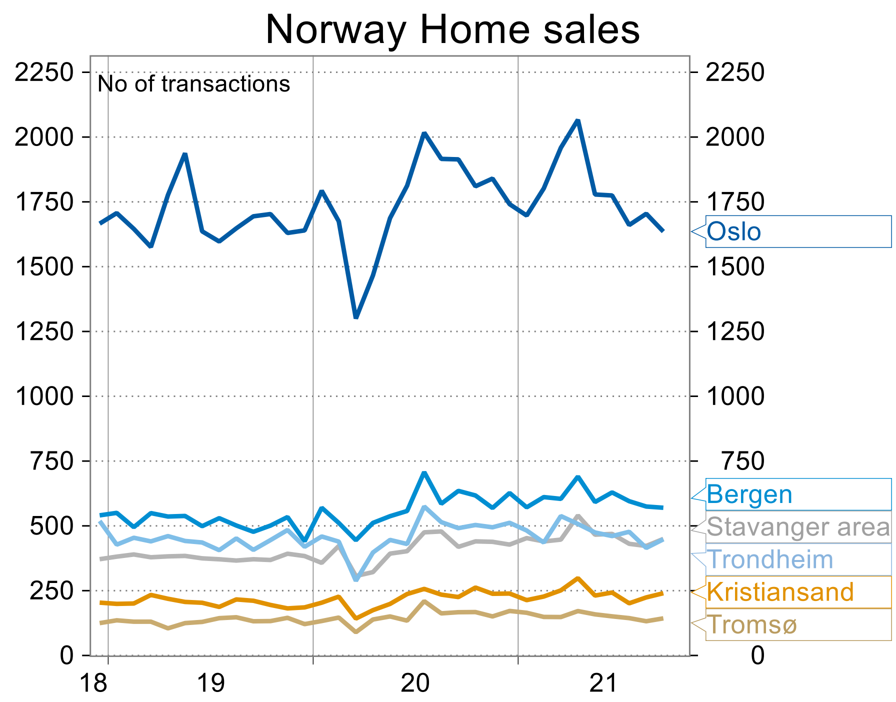


- Housing starts in Stavanger/Rogaland are still not lower than normal. It is still profitable to build, even at 'Hamar/Stange' prices!

SpareBank 1 MARKETS

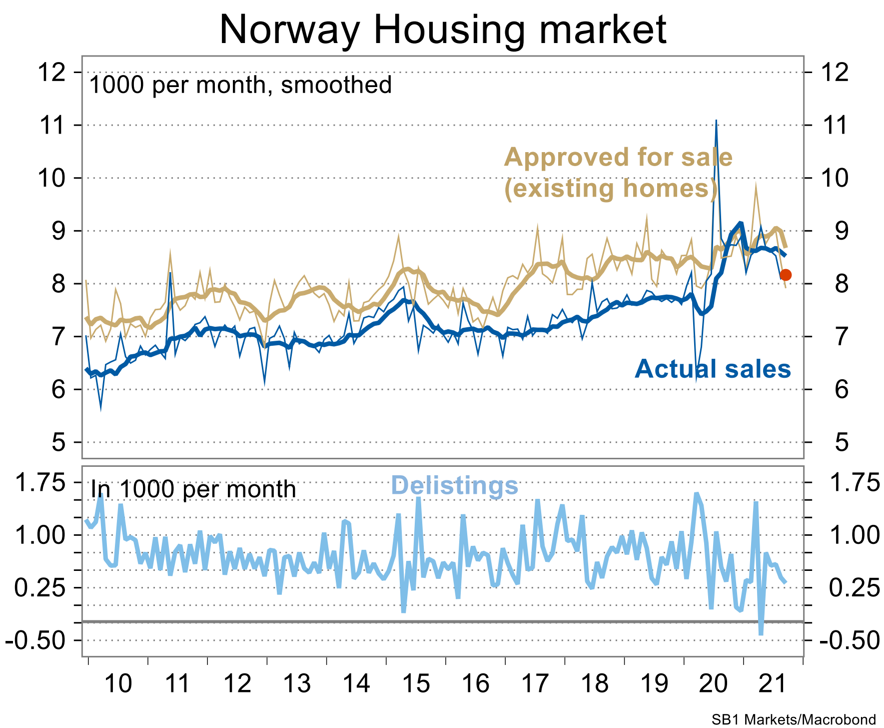
Number of transactions down everywhere but remain on the high side

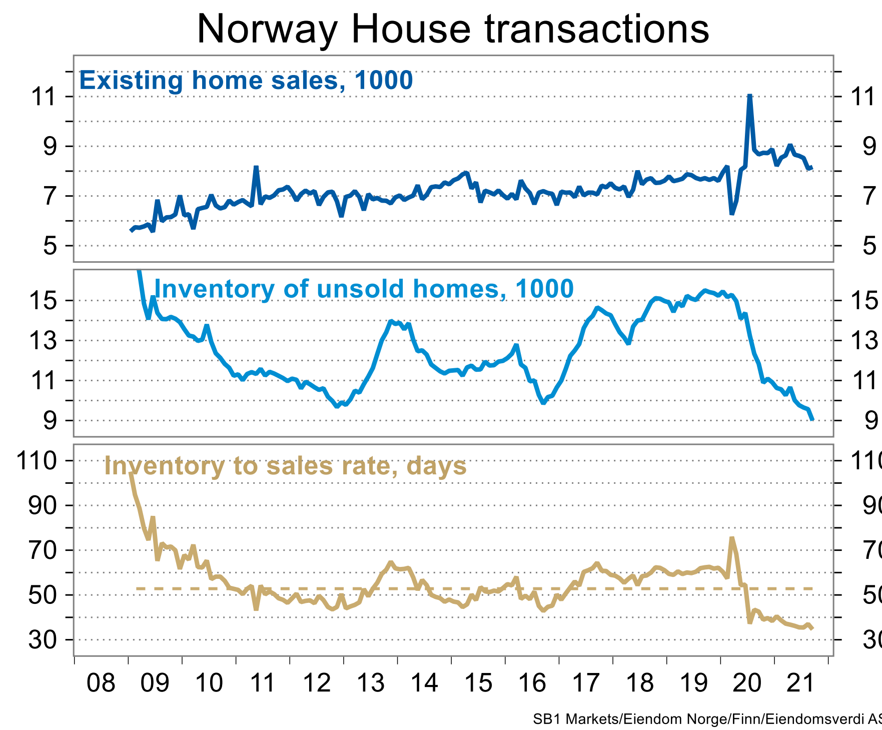




The inventory of unsold homes down to ATL!

The transaction level is slightly down in Aug/Sept

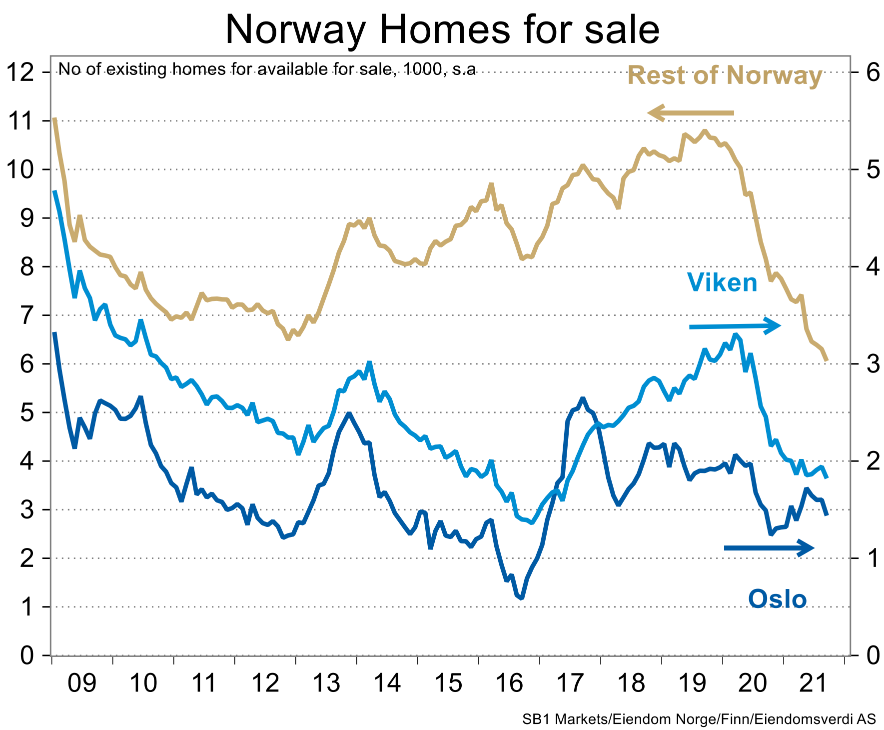




- **The number of transactions** was unch. in Sept following the decline in Aug. The level is sill higher than before the pandemic
- The **supply of new existing homes for sale (approvals)** has fallen to below the pandemic pace
- **The number of delistings** was at normal level
- The **inventory of unsold homes** fell sharply in September, to 9' – it was at 15' before the pandemic!
- The **inventory/sales ratio** fell to an ATL, to 34 days, vs an average at 53 days
- The **actual time on market** for those homes sold still climbed 2 day2 to 40 days, well down from more than 60 days last spring (the avg. is at 43 days), possibly because some 'shelfwarmers' are now finally sold as demand is brisk

The Oslo inventory has turned down, Viken slowly down, Rest of N. rapidly down

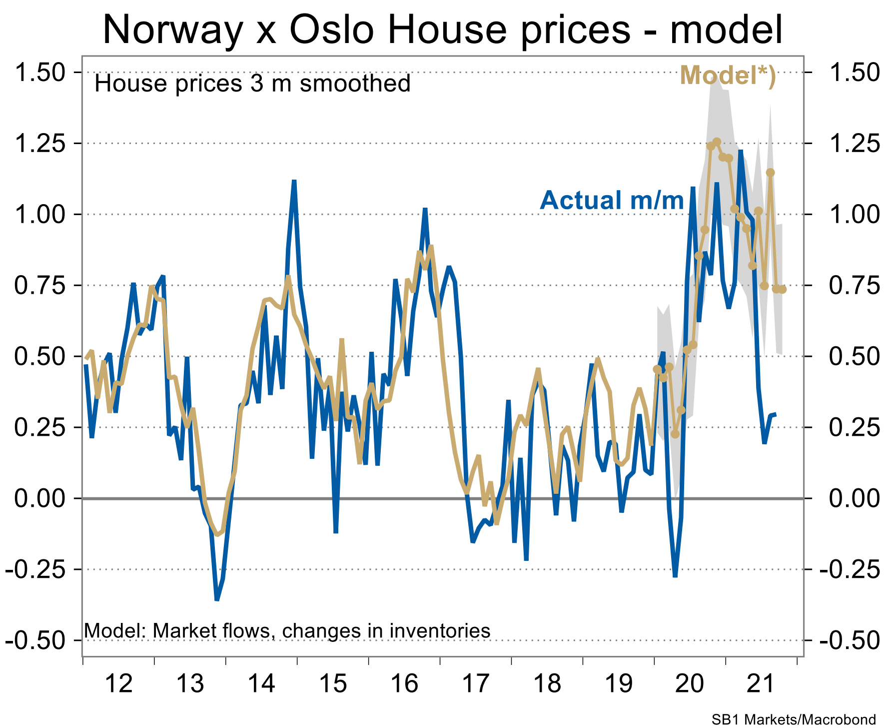
In addition, the inventory is lower than normal everywhere – except in Oslo & Tromsø

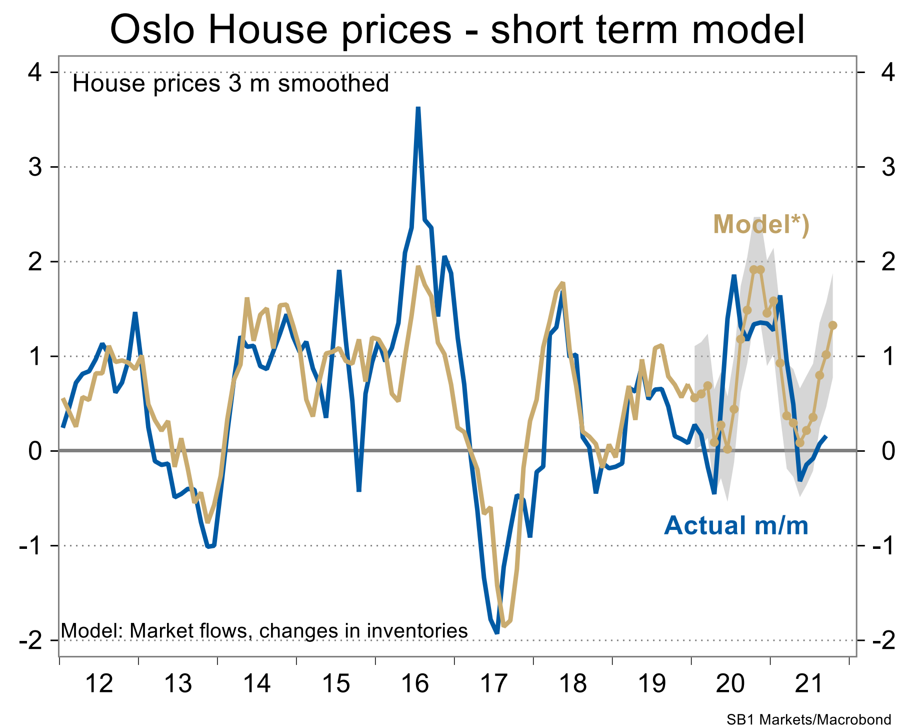


- The inventory is lower than the average since 2012 everywhere, except Tromsø, and it is smaller than one year ago everywhere

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

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



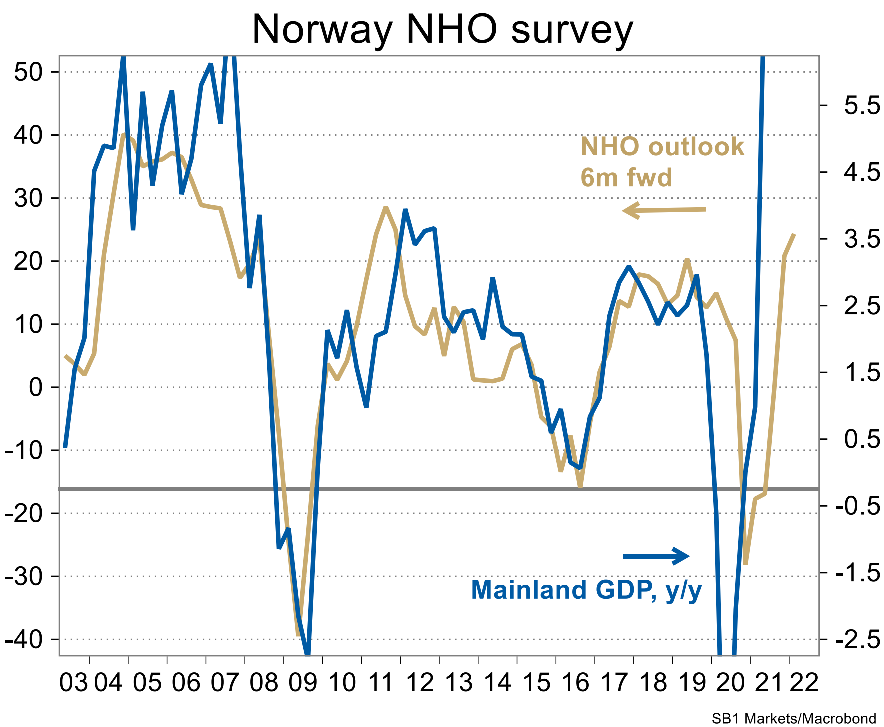


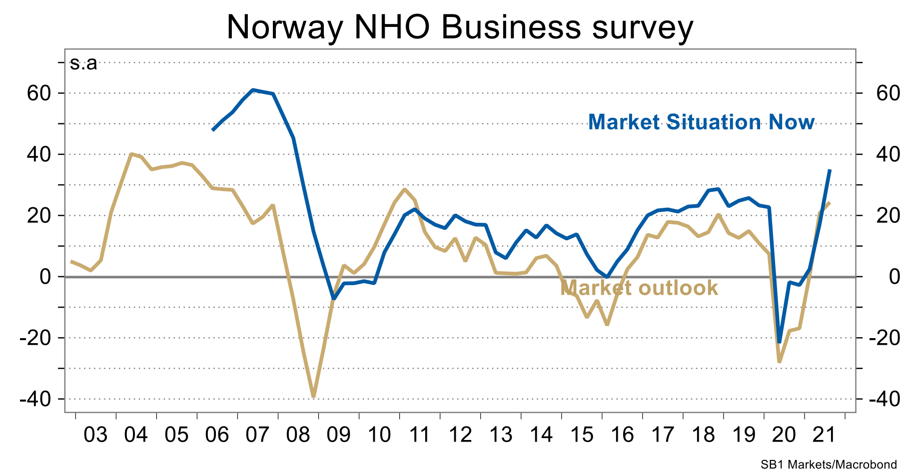
- Our **national x Oslo model** based on flows and the inventory signals a 0.75% growth in house prices per month
- Our **Oslo model** signals a 1%+ growth (up from zero 3 months ago)
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved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

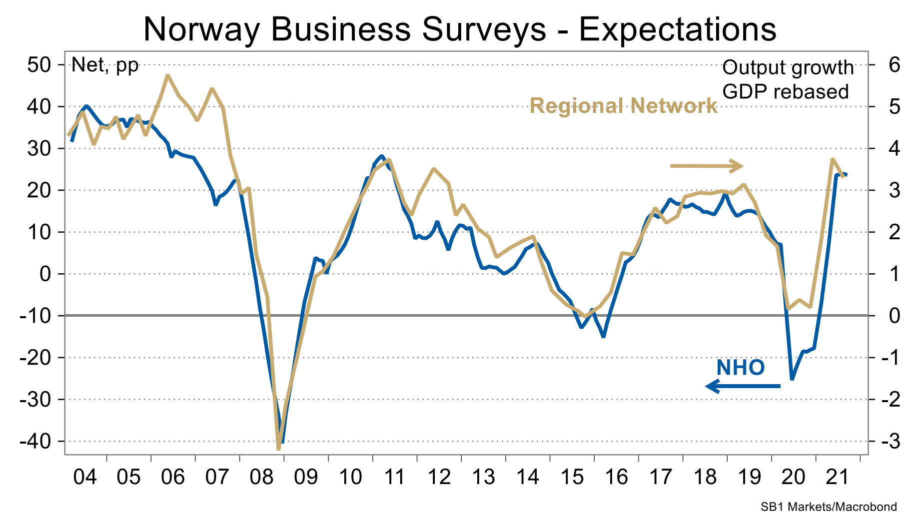
SpareBank 1 MARKETS

NHO Q3 survey reports the strongest growth and the best outlook in a decade

A 3.5% GDP growth rate is signalled – in line with Norges Bank's Regional Network survey

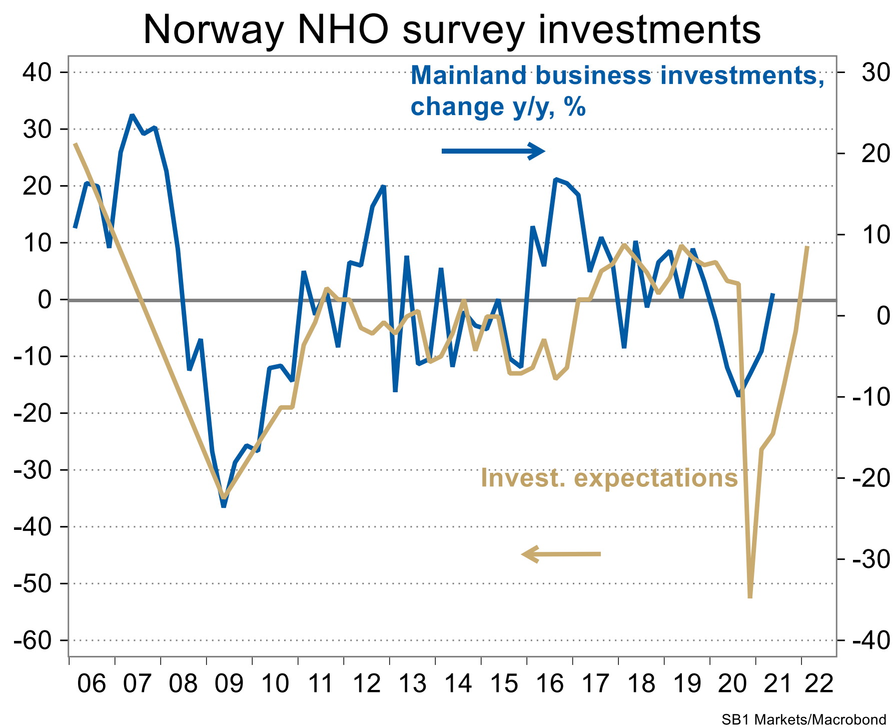


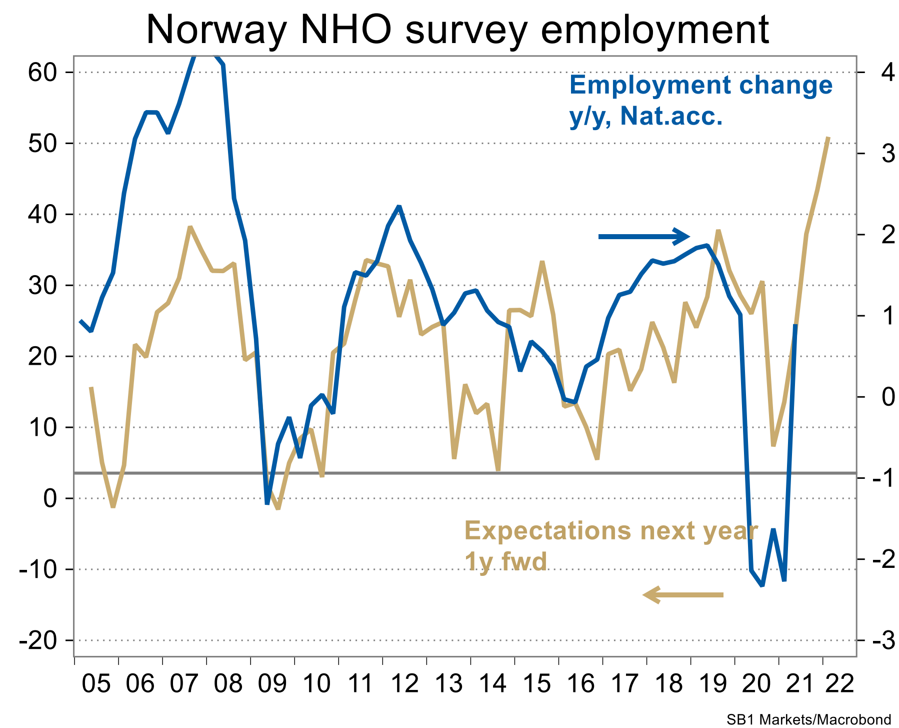




Businesses expect strong growth in investm, and an unprecedented empl. growth

We wonder if it will become possible to hire that many, given the close to record high vacancy ratio





- The unemployment rate is rather low too
- And even the NHO businesses complain about the lack of labour, now

Highlights

The world around us

The Norwegian economy

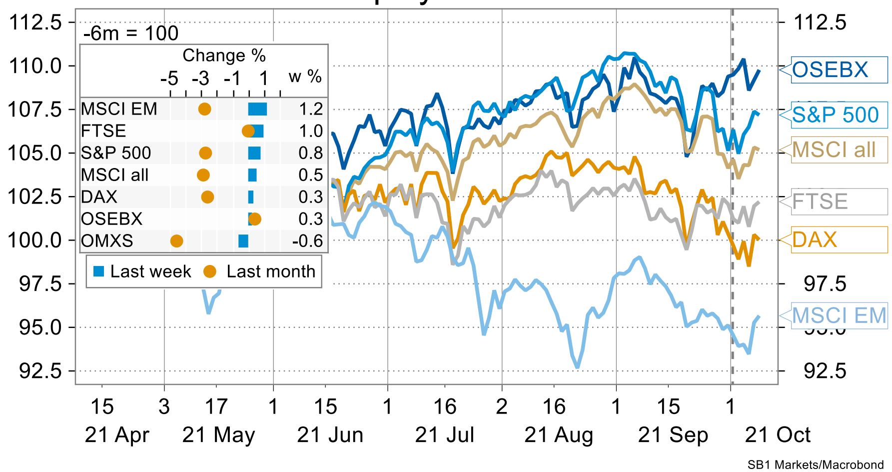
Market charts & comments

SpareBank 1 MARKETS

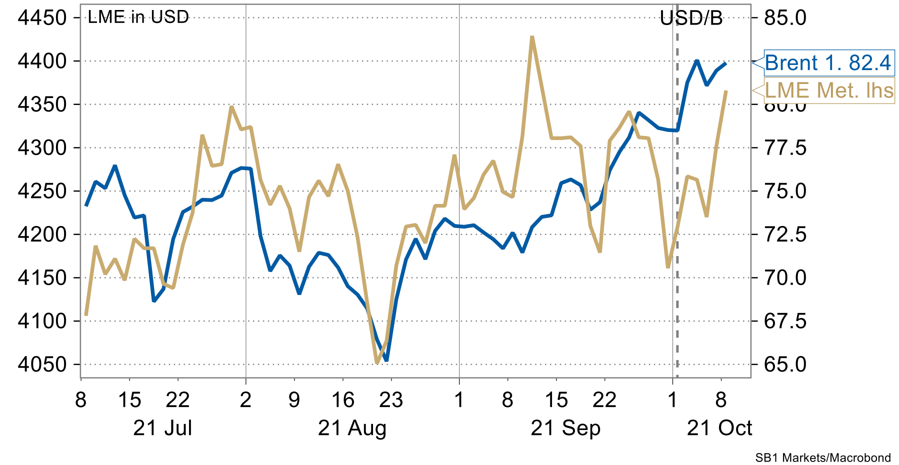
Equities up almost everywhere, bond yields further up

Metal prices sharply up – and the oil price returned to above USD 80/b. NOK one of the f/x winners

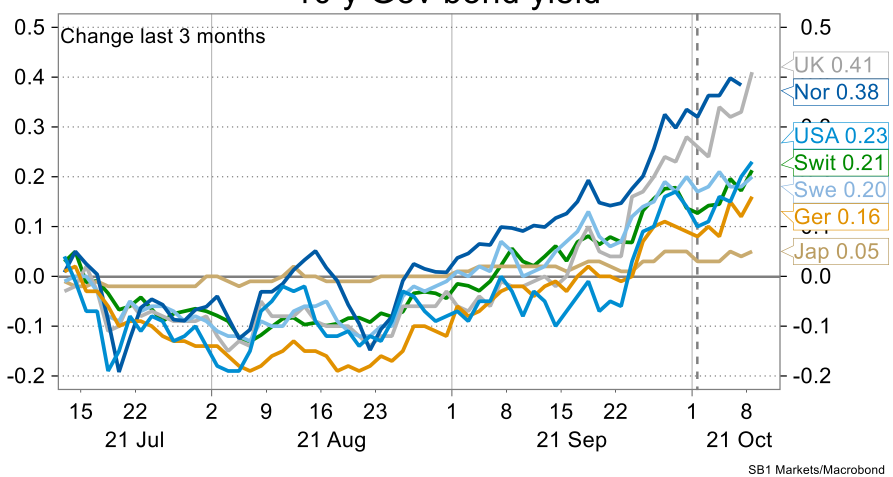
Equity Indices



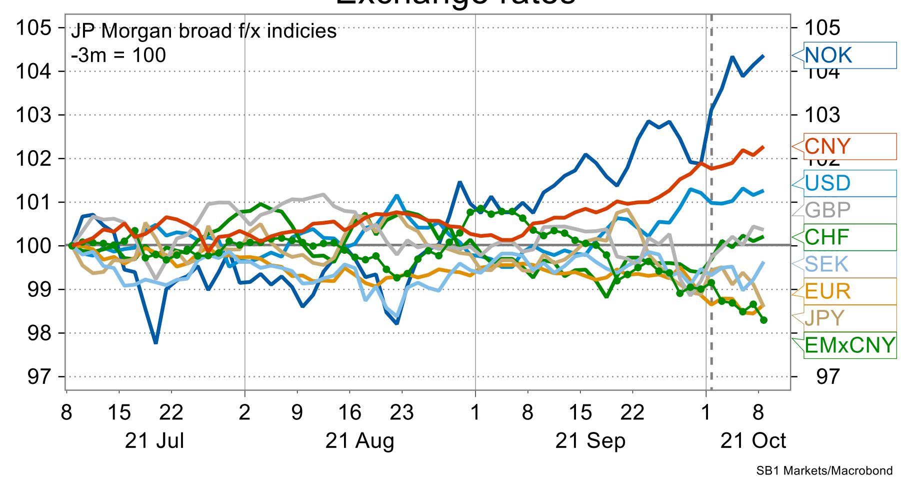
Oil vs. metals



10 y Gov bond yield



Exchange rates

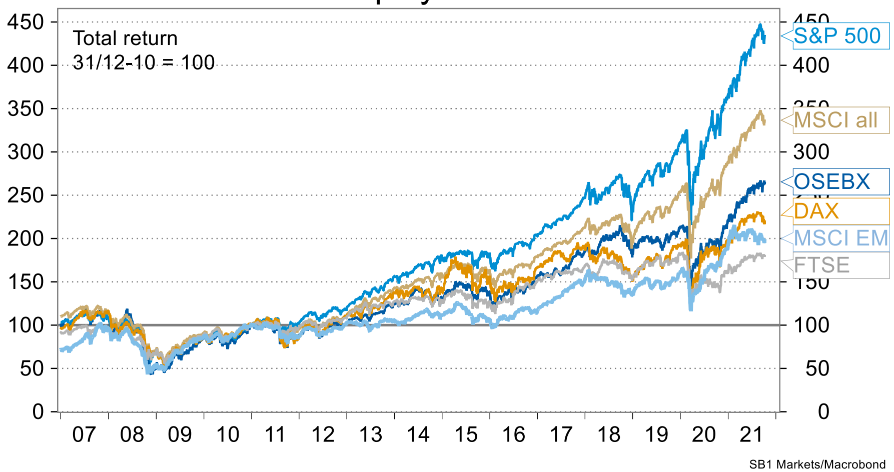


SpareBank 1 MARKETS

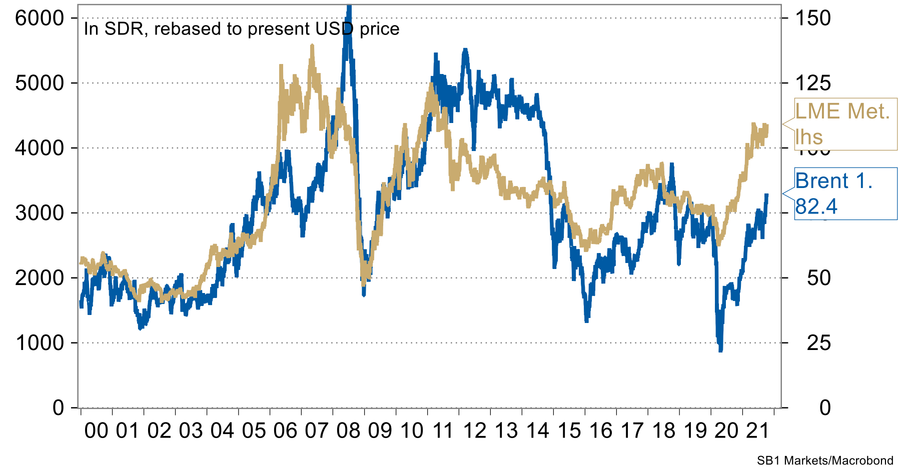
The big picture: We may have seen the stock market peak. Oil still on the way up

Yields on the way up, still low. The USD is drifting upwards, the EUR & GBP down

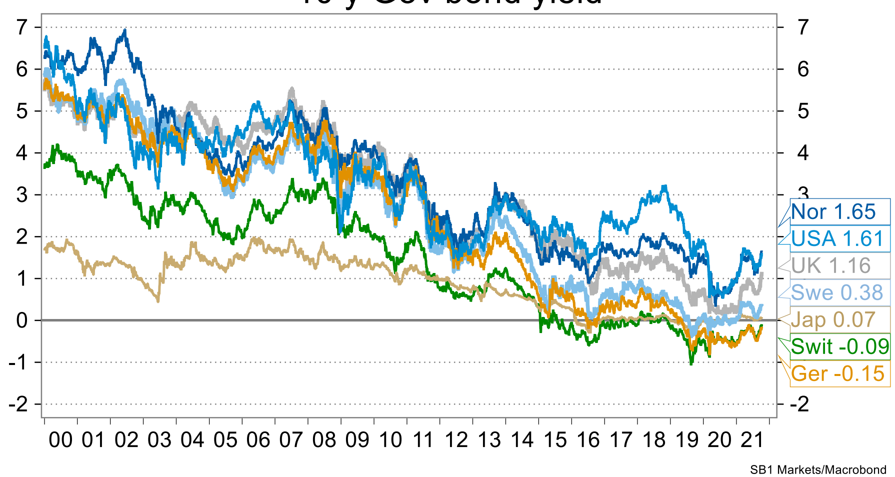
Equity Indices



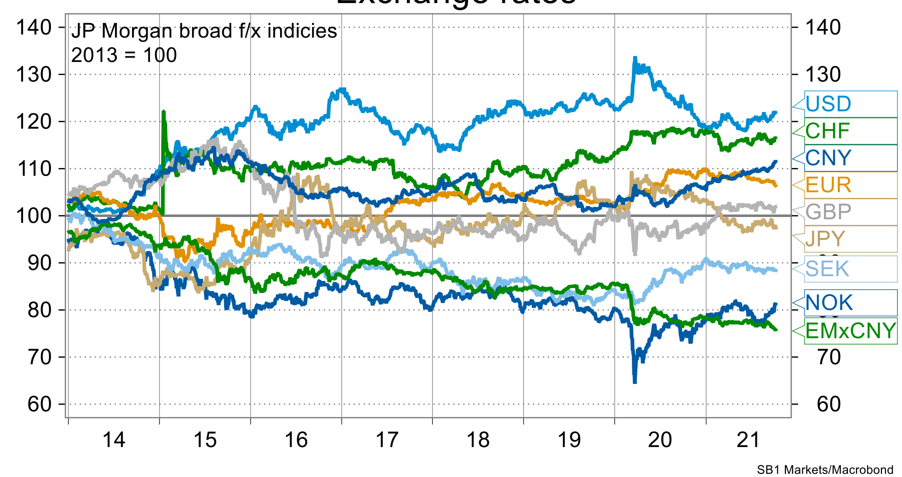
Oil vs. metals



10 y Gov bond yield



Exchange rates

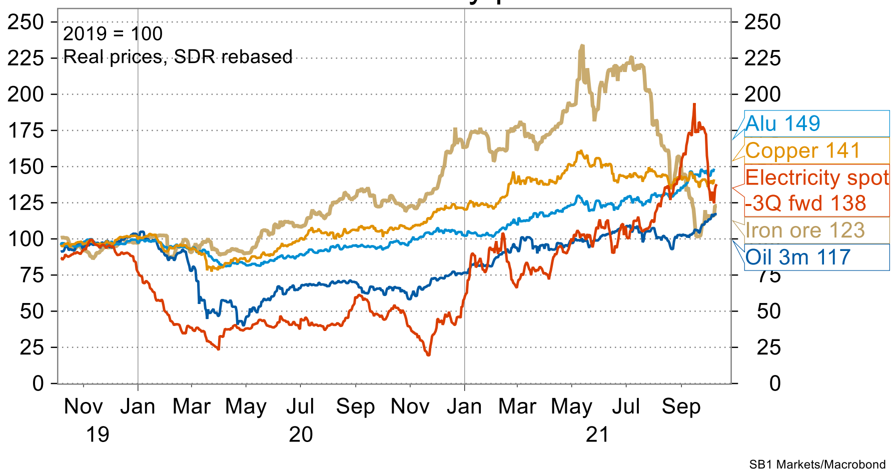


EM x China f/x are drifting down too

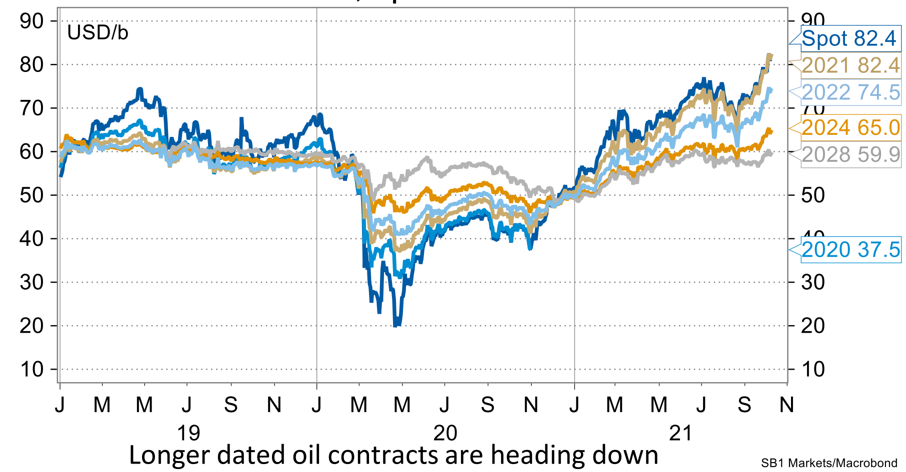
Mixed commodity prices, iron ore have recovered in spite of Evergreen fears

The oil curve up but not in the long end. Nordic electricity prices down, as are UK gas prices

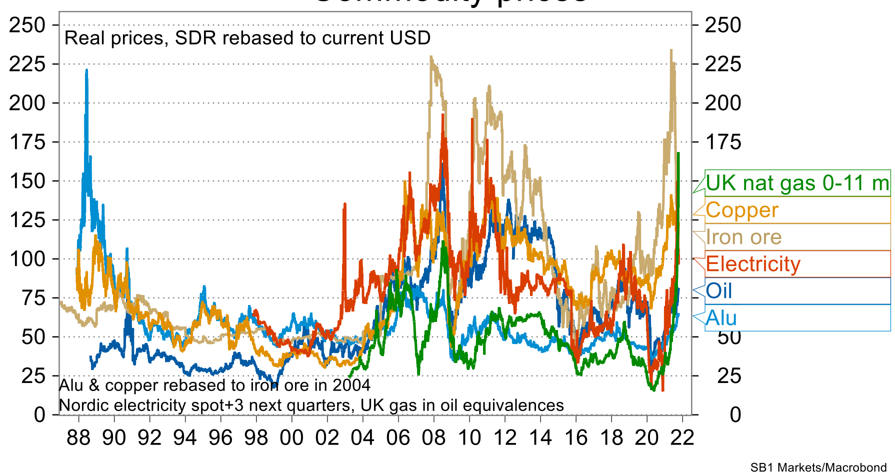
Commodity prices



Brent oil, spot & Dec contracts



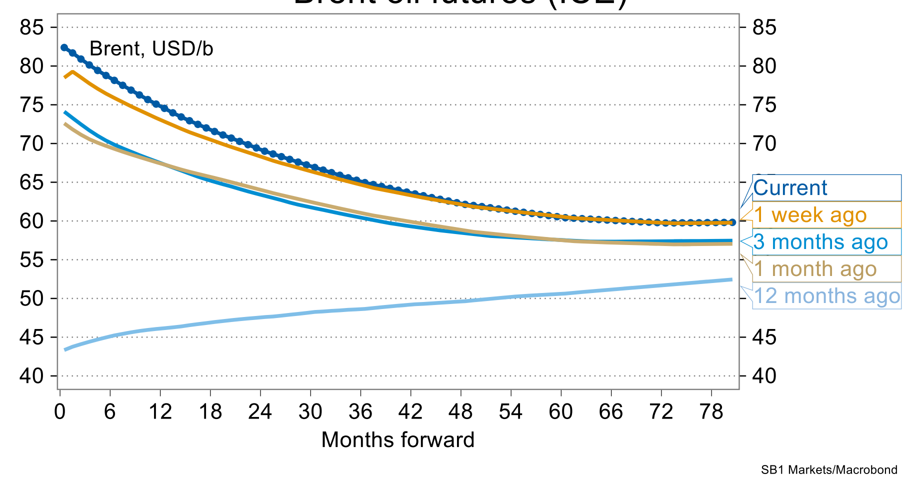
Commodity prices



Longer dated oil contracts are heading down

The short end of the curve sharply up recent weeks

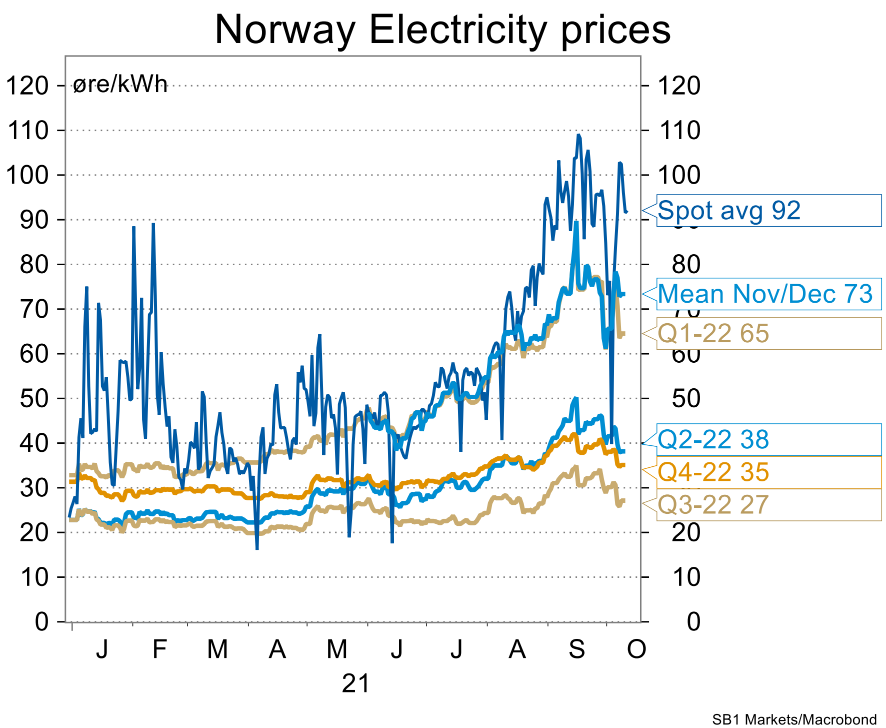
Brent oil futures (ICE)

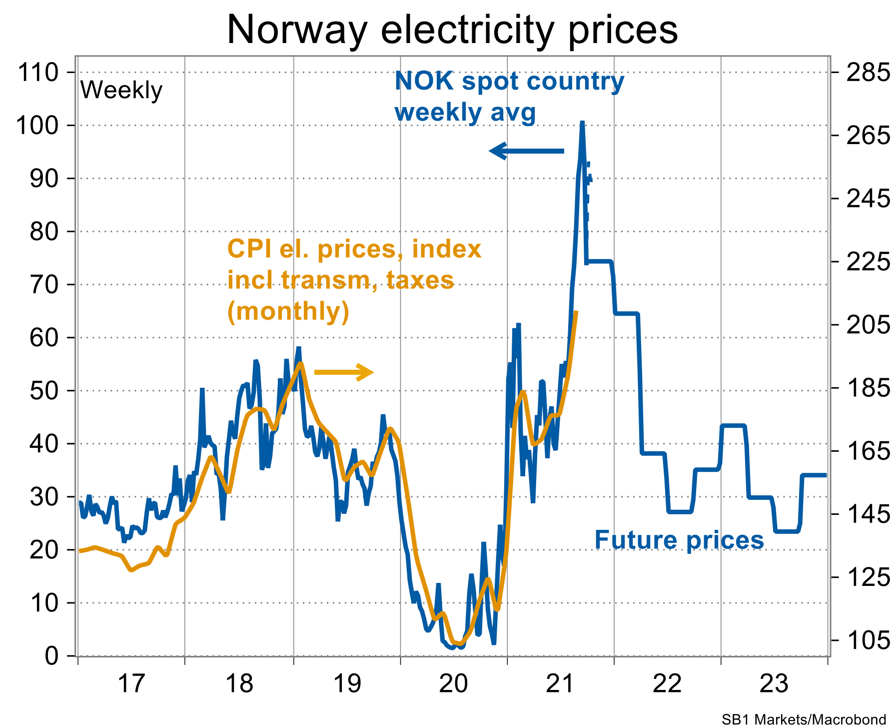


SpareBank 1 MARKETS

Nordic electricity future prices further down, probably some Putin/gas support

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

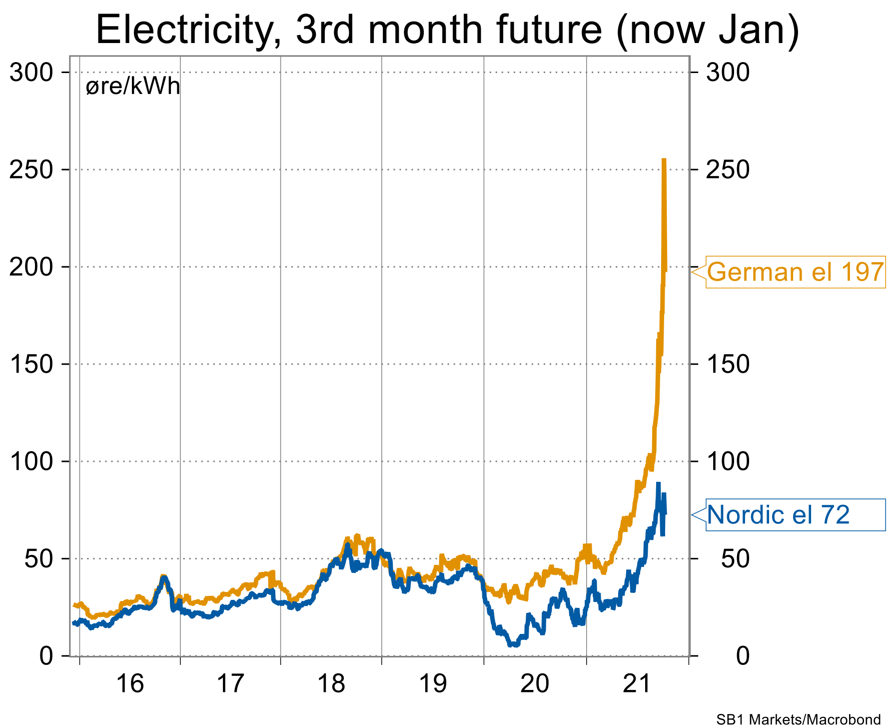


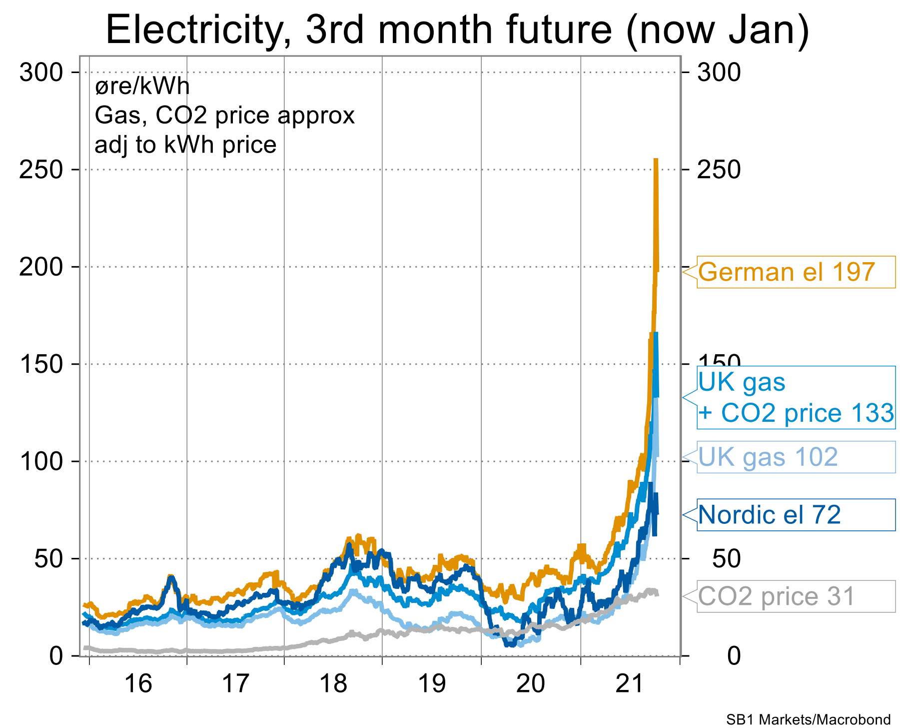


- Even when Norwegian electricity spot market prices soared in September, the future market was rather calm, at least from Q2 next year and onwards. Now, the market expect prices down to below 30 øre/kWh in Q3, below an average price
- Even Nov/Dec prices are significantly down, and 'just' some 45 øre/kWh above the long term average (up from last week). Further out, future prices fell further last week

European electricity, gas prices down last week. Putin may come to the rescue

Still: The gap between the Nordic & German electricity prices his winter is expected to be substantial



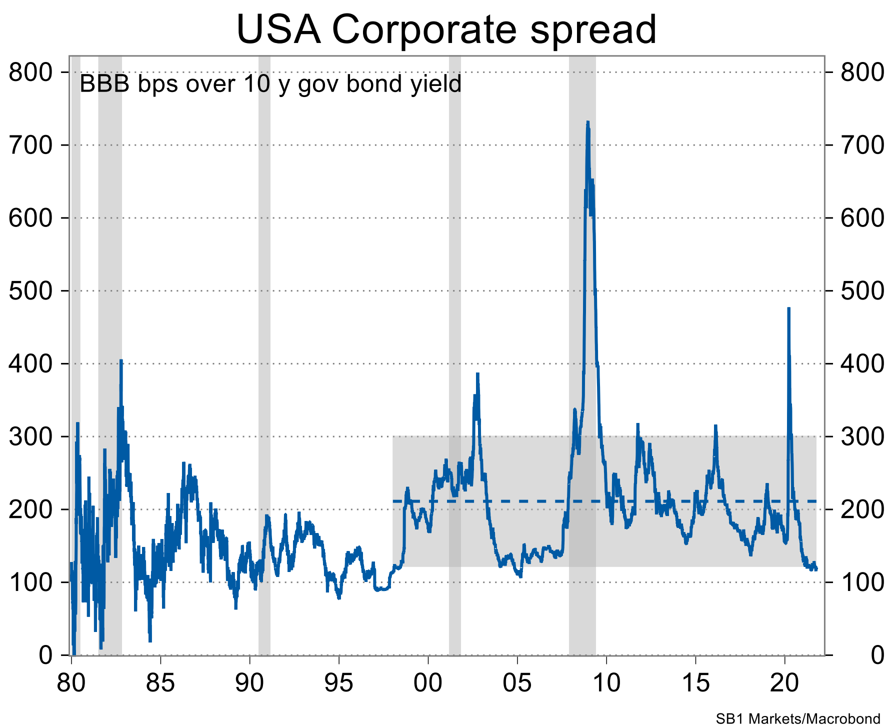


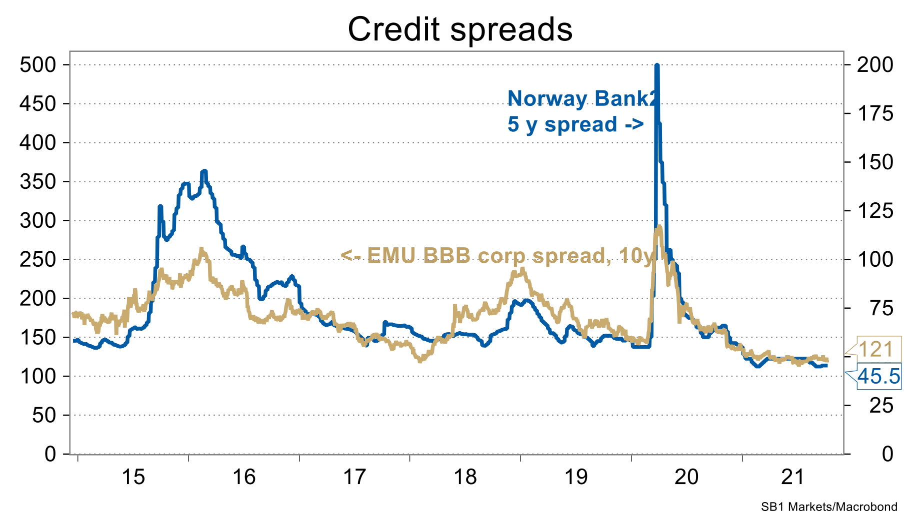
Should we take a large bet here? It seems so obvious. But we think someone has tried a similar betting strategy before, and it did not end well…

SpareBank 1 MARKETS

The US industrial BBB spread still very low, as are European, Norwegian spreads

(look away from the strange gyrations two weeks ago)

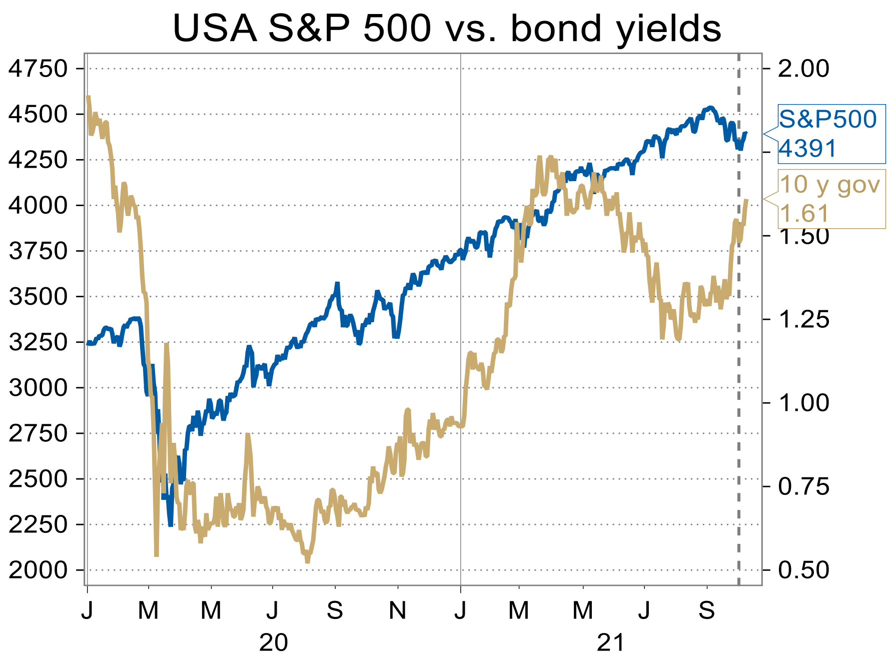


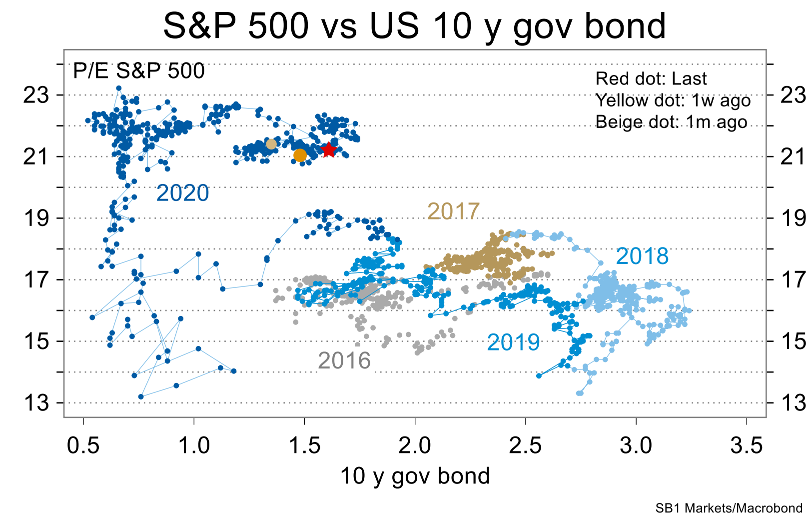


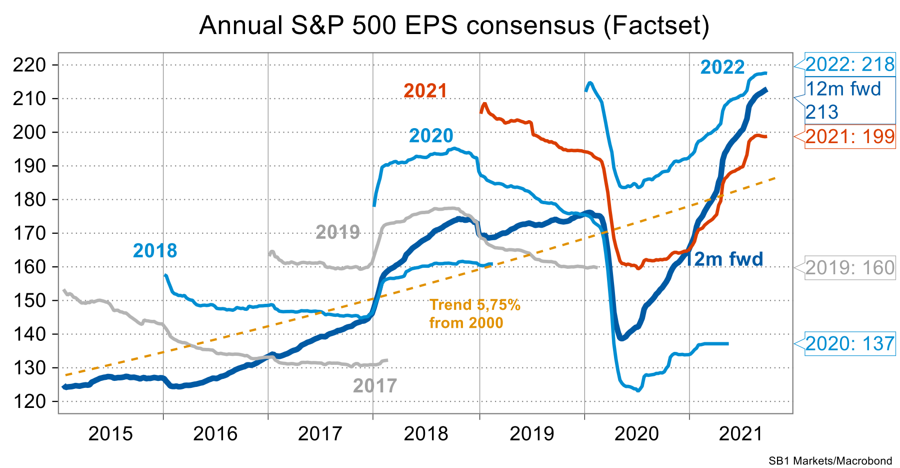
SpareBank 1 MARKETS

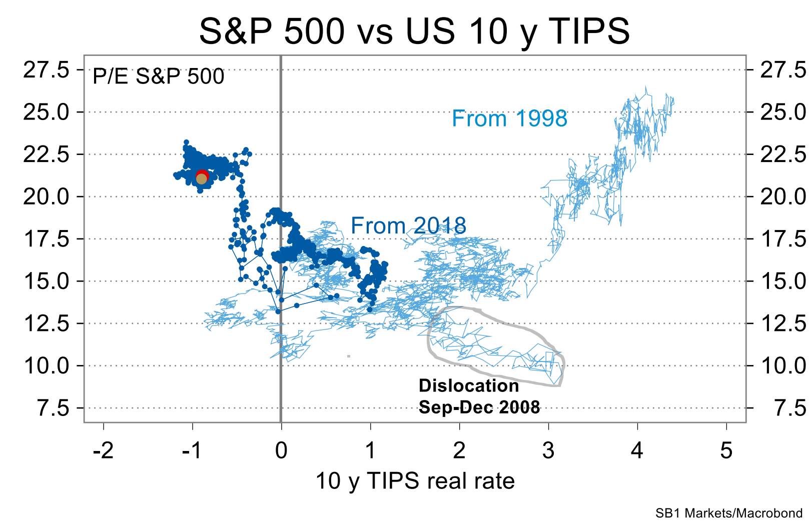
S&P 500 up 0.8% but the 'trend' is down. The 10 y bond yield +13 bps to 1.61%

Earnings expectations a tad weaker



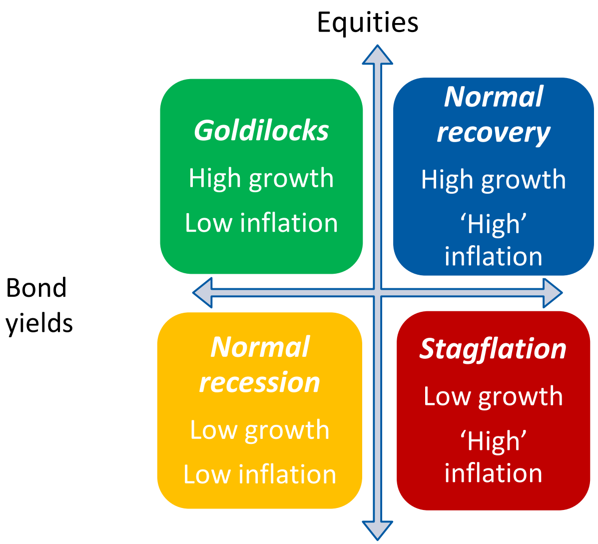


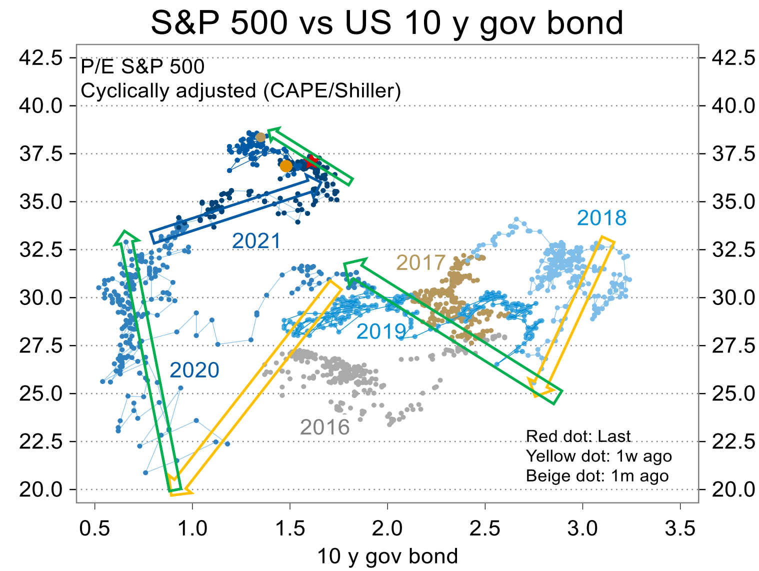




Still well into the 'Goldilocks corner' (but on the move??)

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



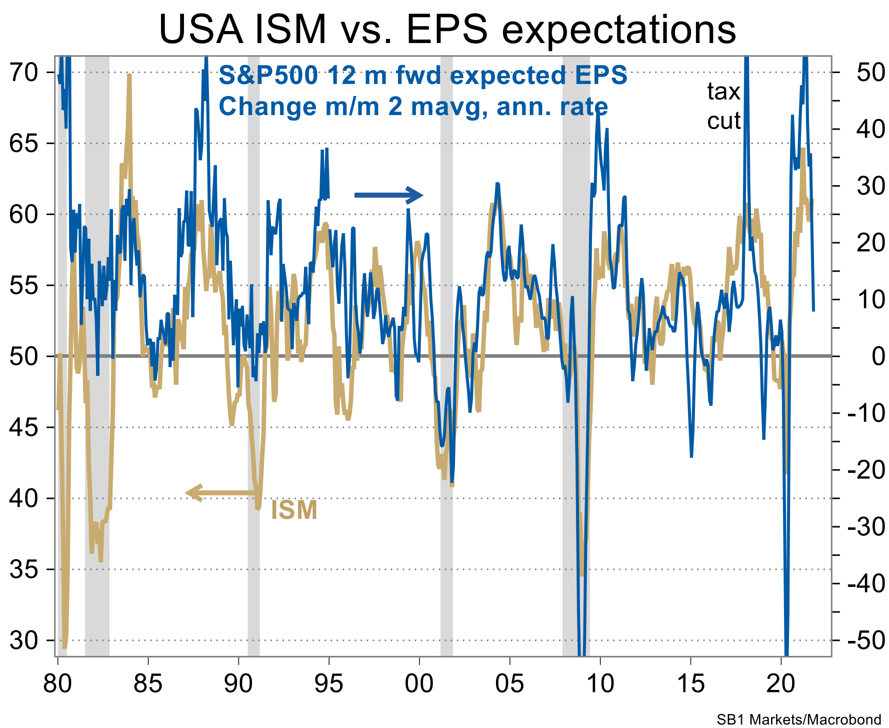


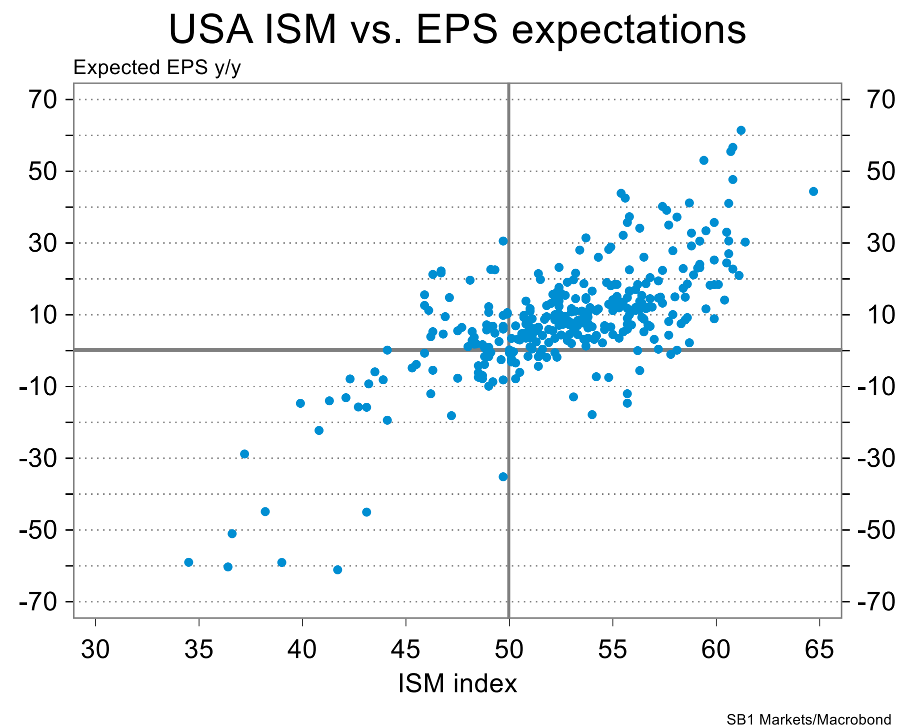
SB1 Markets/Macrobond

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

SpareBank 1 MARKETS

Expected earnings growth is slowing before surveys have sent the message

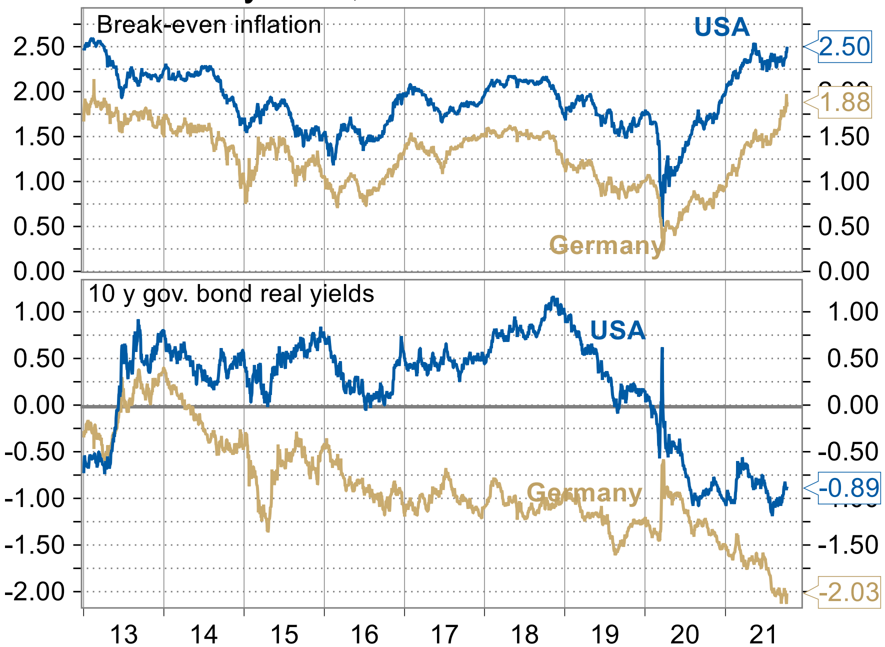




Inflation expectations did almost all of the heavy lifting last week

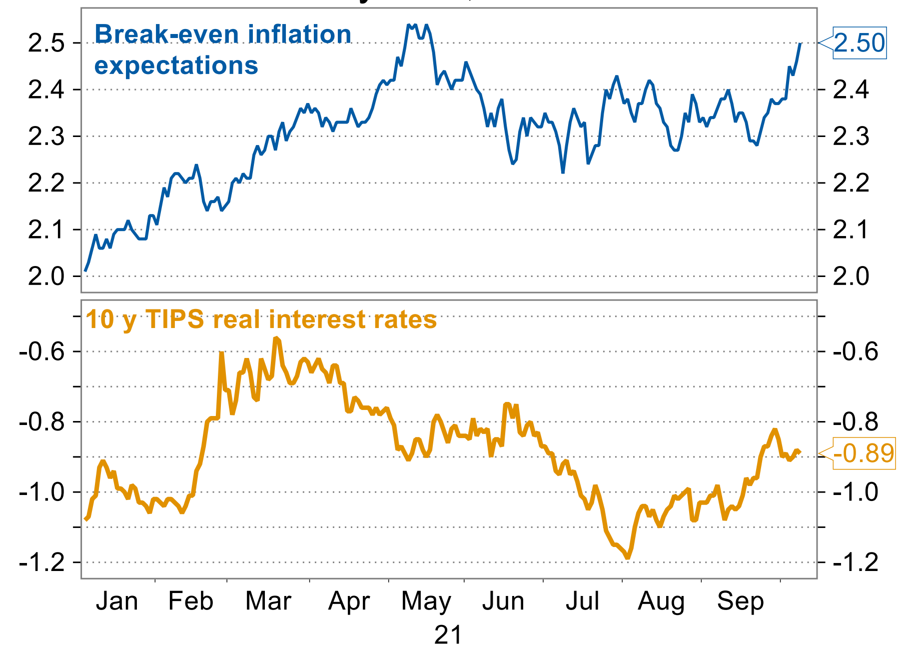
.. While we expected the real rates to do the job. Inflation expectations in the US are not low anymore

Real yields, break-even inflation



SB1 Markets/Macrobond

USA TIPS Real yields, break-even inflation



SB1 Markets/Macrobond

US & Germany 10 y Gov bond yield

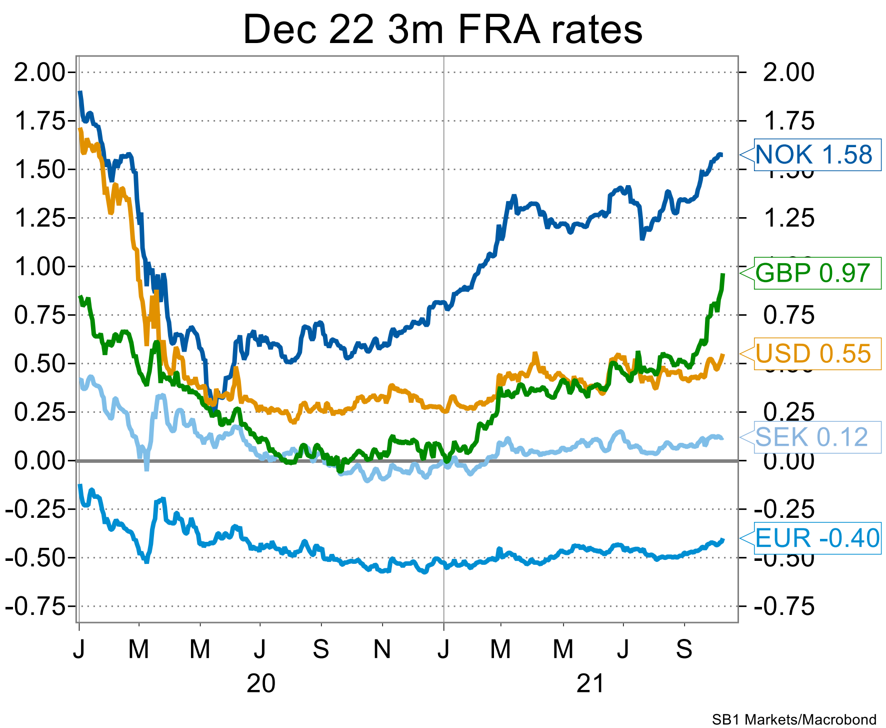
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.61	0.13	0.26	0.52
.. break-even inflation	2.50	0.12	0.12	1.06
.. TIPS real rate	-0.89	0.01	0.14	-1.19
Germany nominal bund	-0.15	0.08	0.18	-0.65
.. break-even inflation	1.88	0.08	0.19	0.40
.. real rate	-2.03	0.00	-0.01	-2.13

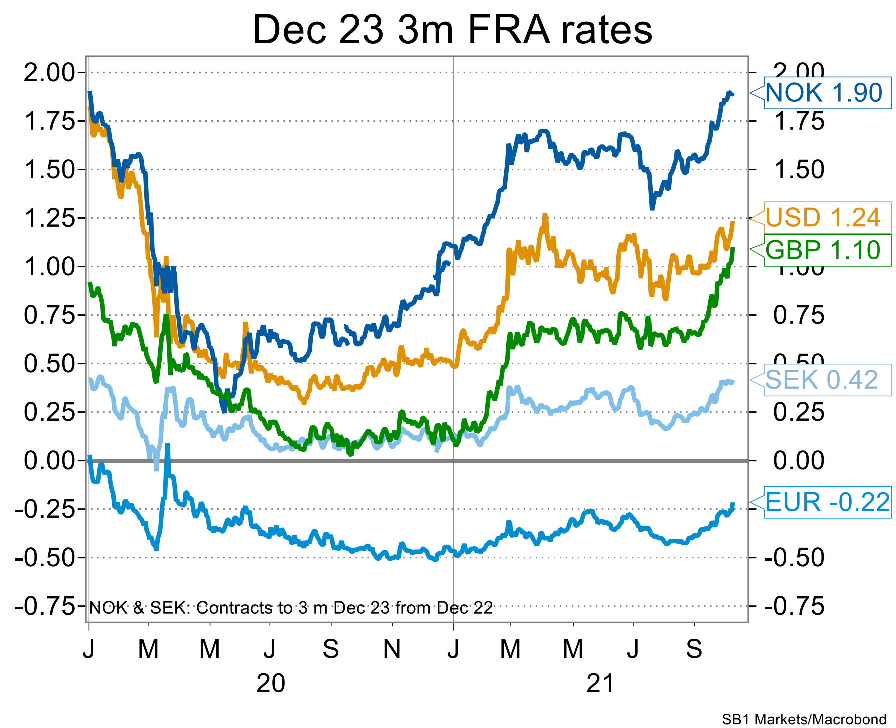
SB1 Markets/Macrobond

- German real yields are close to record low, the 10 y at -2.03%
- German inflation expectations have climbed to 1.88% (and was up to 1.98 at Wednesday in our data bank, this data point seems lofty). The 1.88% is still below ECB's new 2% target – but among the highest print since one day in 2013. Does market believe that ECB will finally gain some traction in its fight to get inflation up?

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

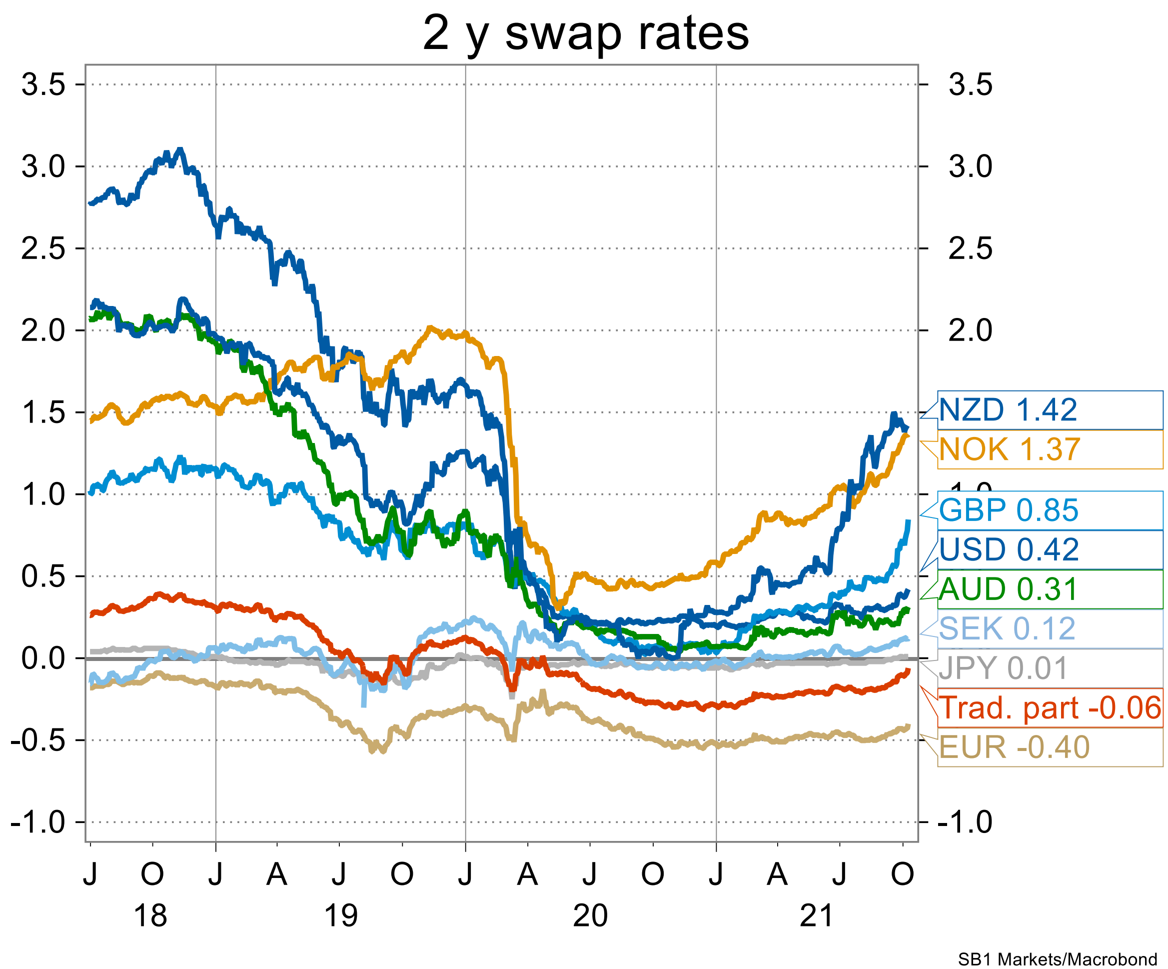


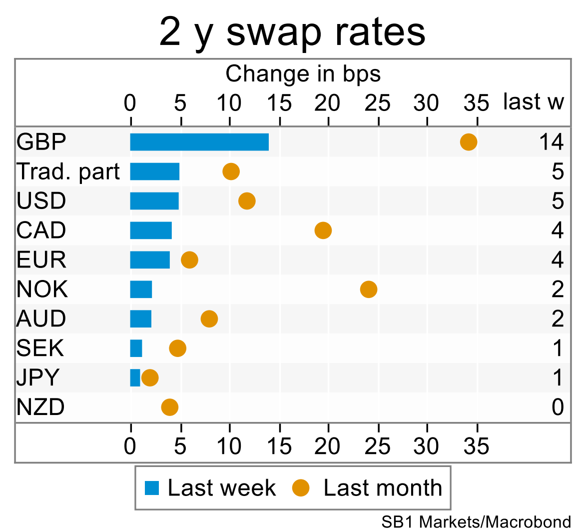


- The market expects the **Federal Reserve** to start hiking next year
- The Bank of England may start even late 2021. The OIS curve signal a slightly above 50/50 probability for within 3 months

Look to Britain! The BoE will soon hike?

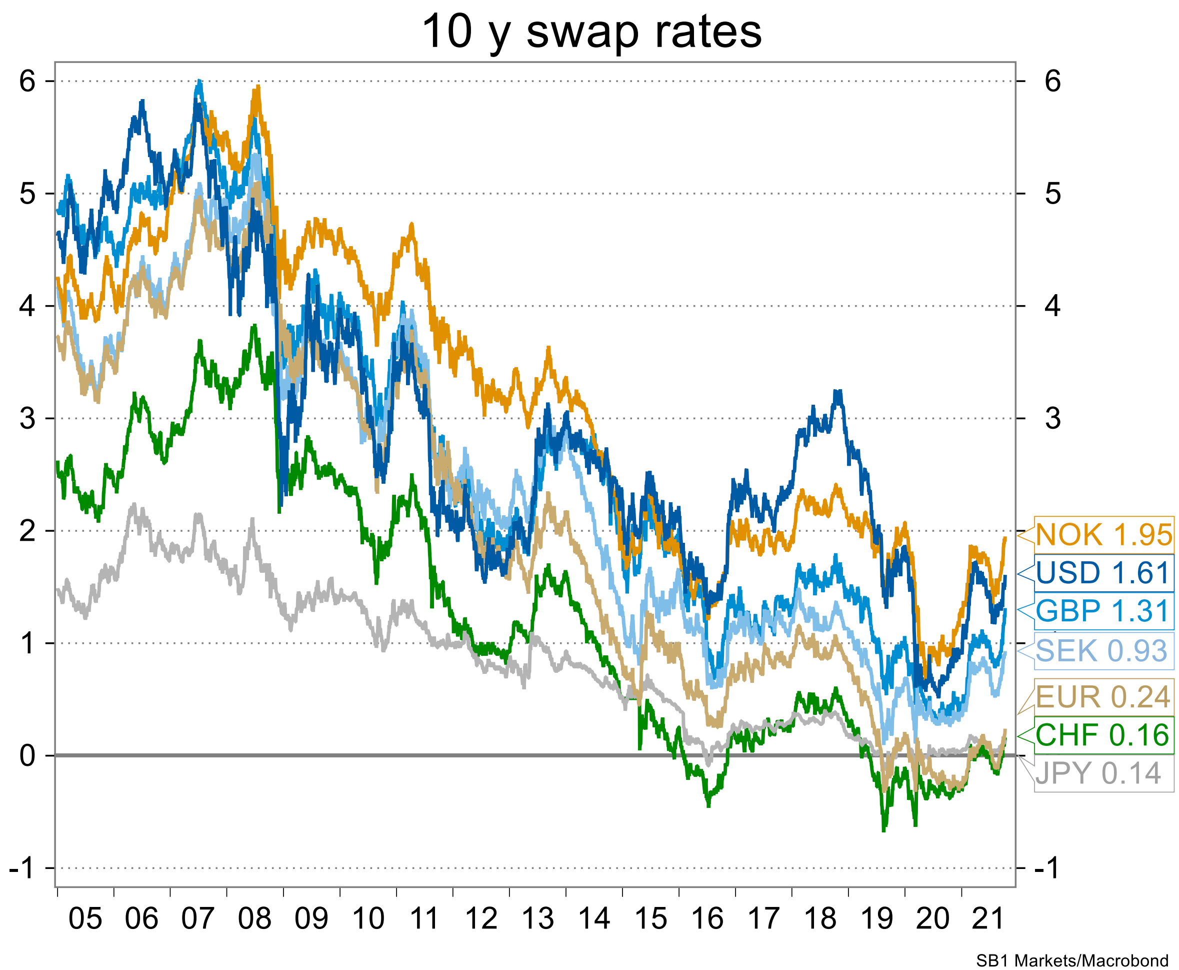
Central banks are on the move. New Zealand hiked as expected, no change in the 2 y swap

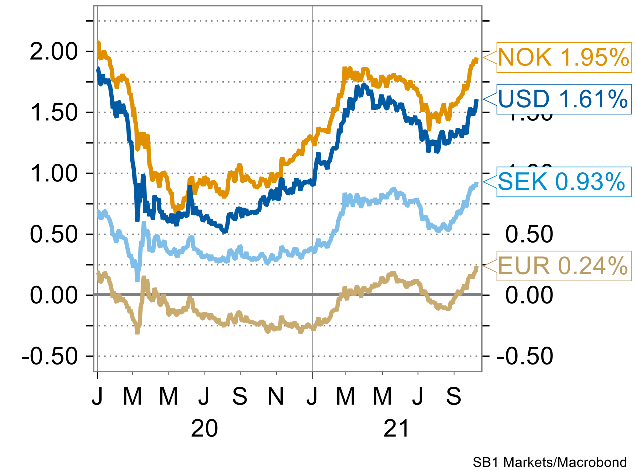


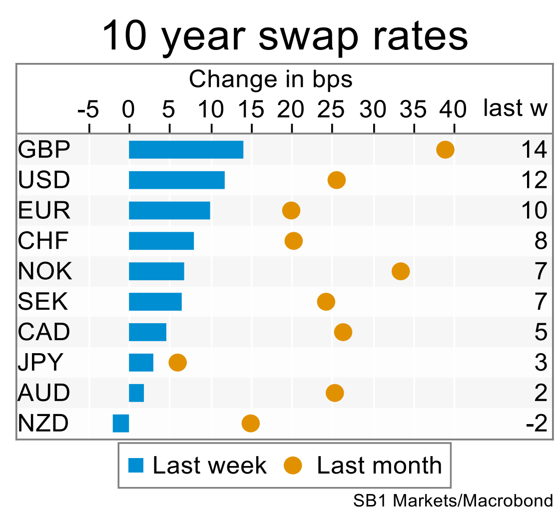


A further lift in rates, for the 7th week in a row. GBP +14 bps, US +12 bps

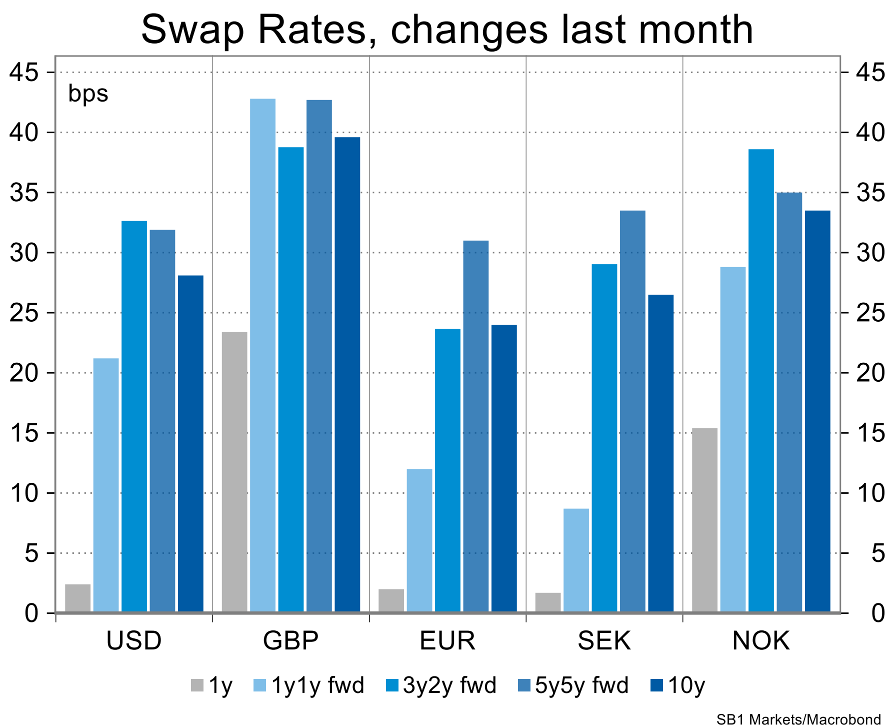
Yields in most countries have recouped the March to July loss, are on par or above the March level

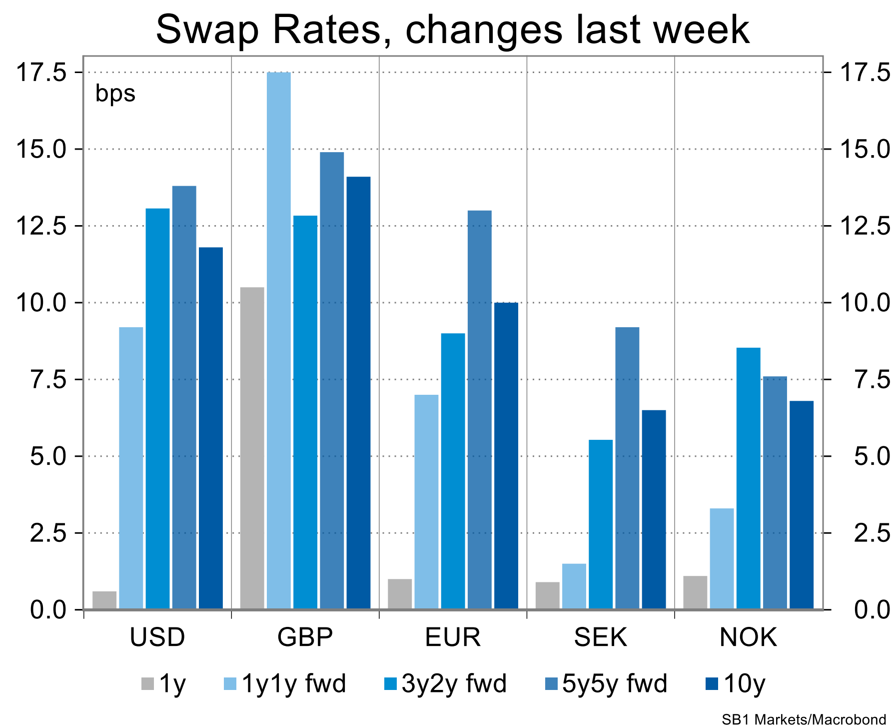




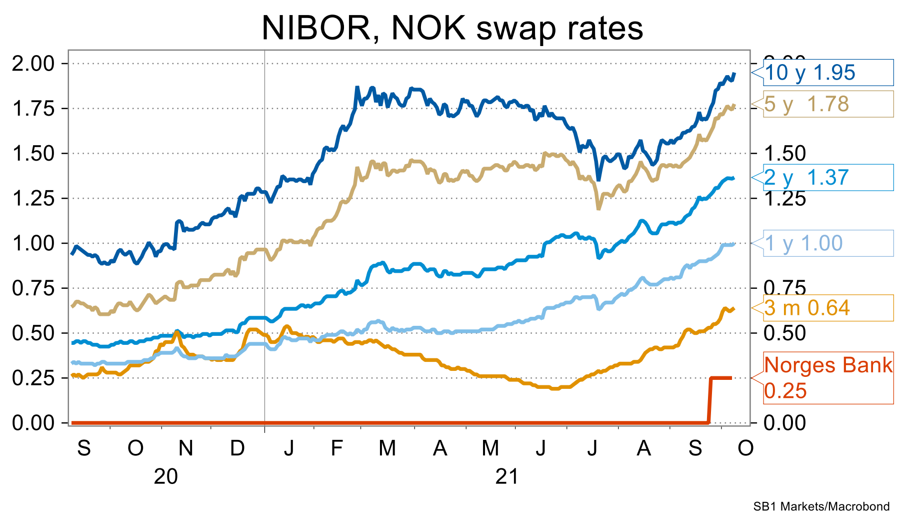


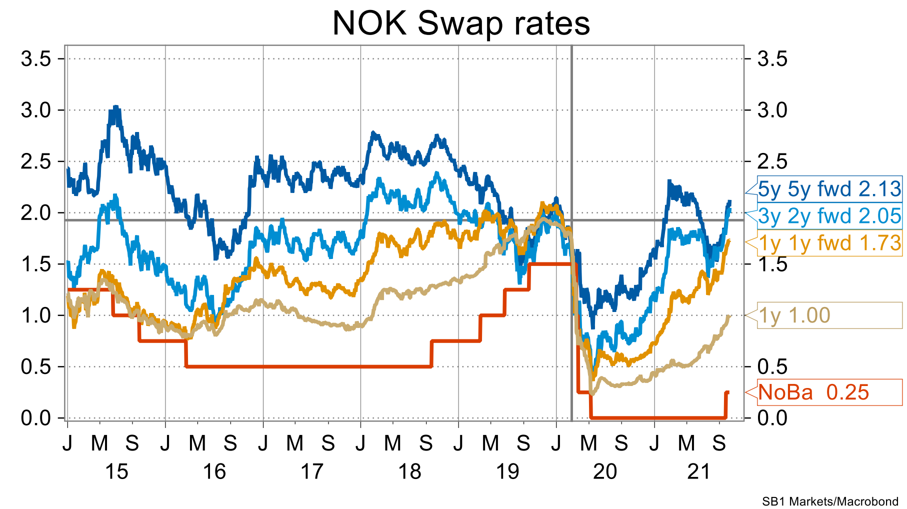
All rates up everywhere – last month & last week

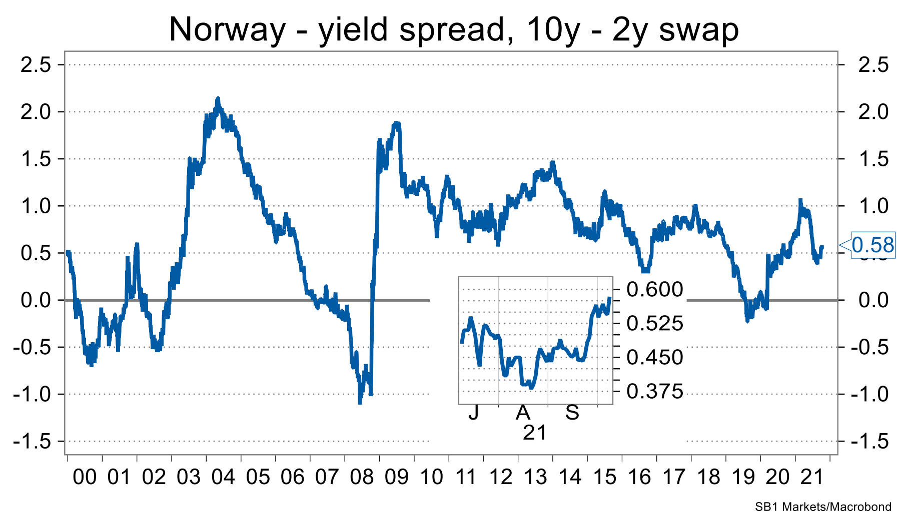


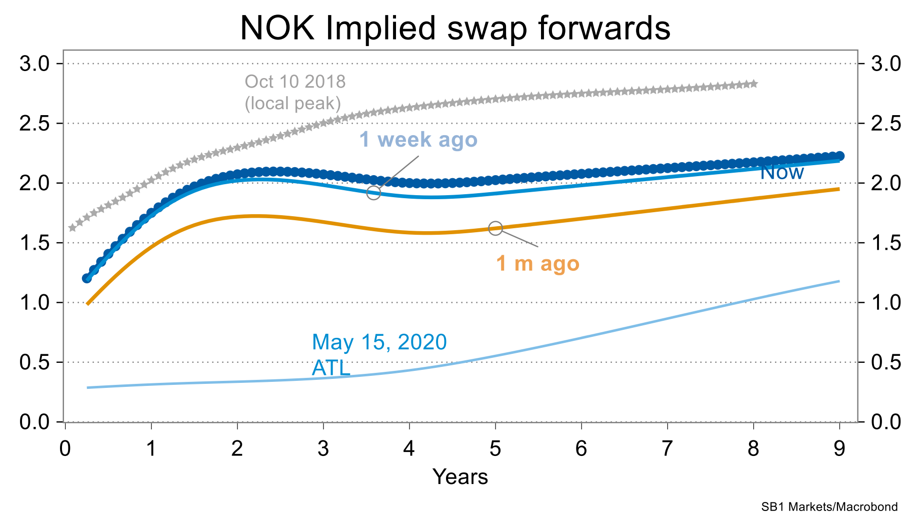


Another leap upwards, all over the curve, most at the mid segment



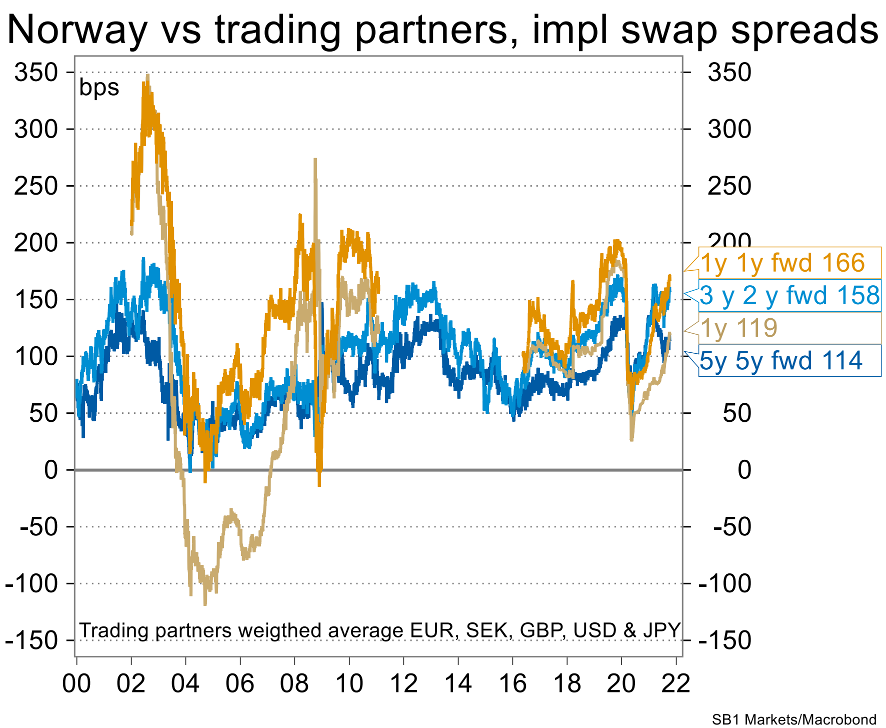


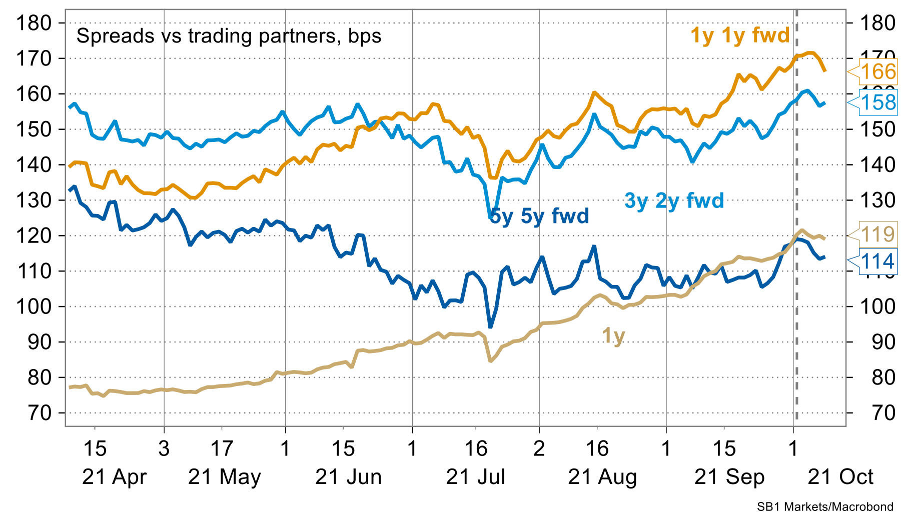


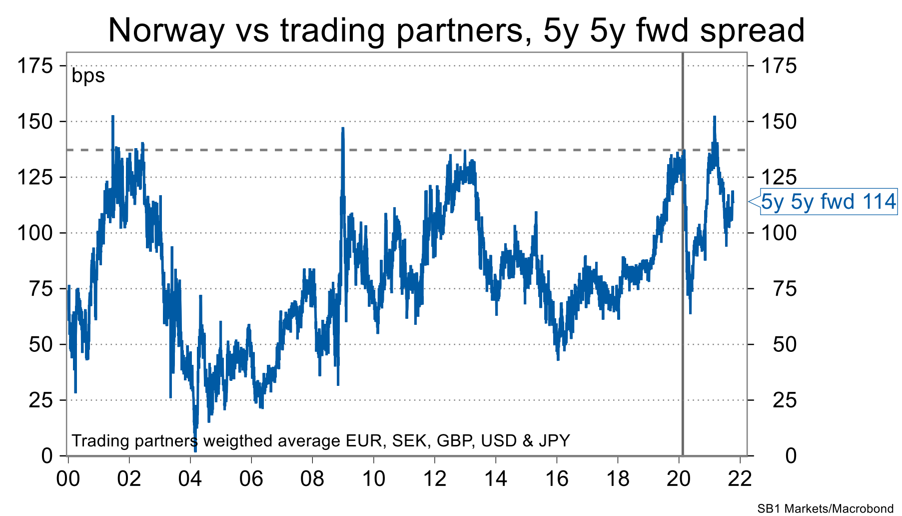


Forward spreads vs trading partners are drifting upwards again, all over the curve

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

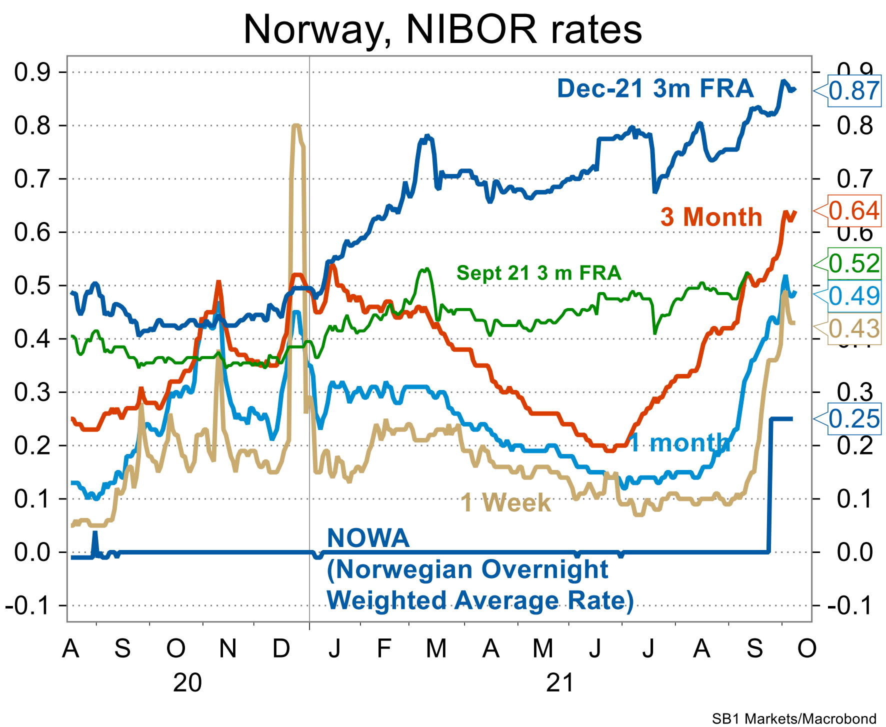


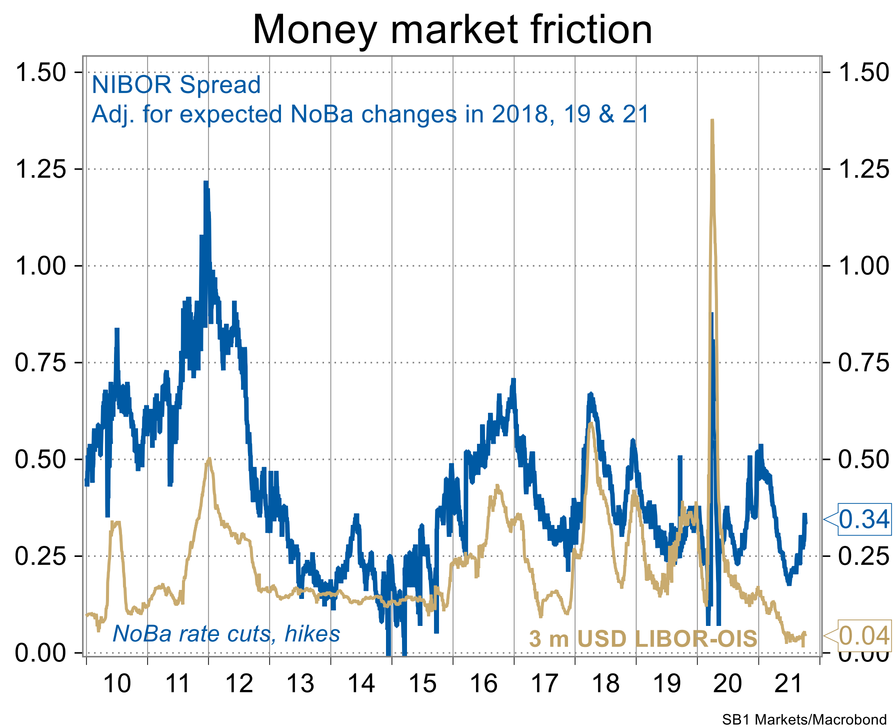




3 m NIBOR up 2 p 0.64%, the NIBOR spread marginally down to 34 bps

.. if we discount a Dec hike with a 100% probability

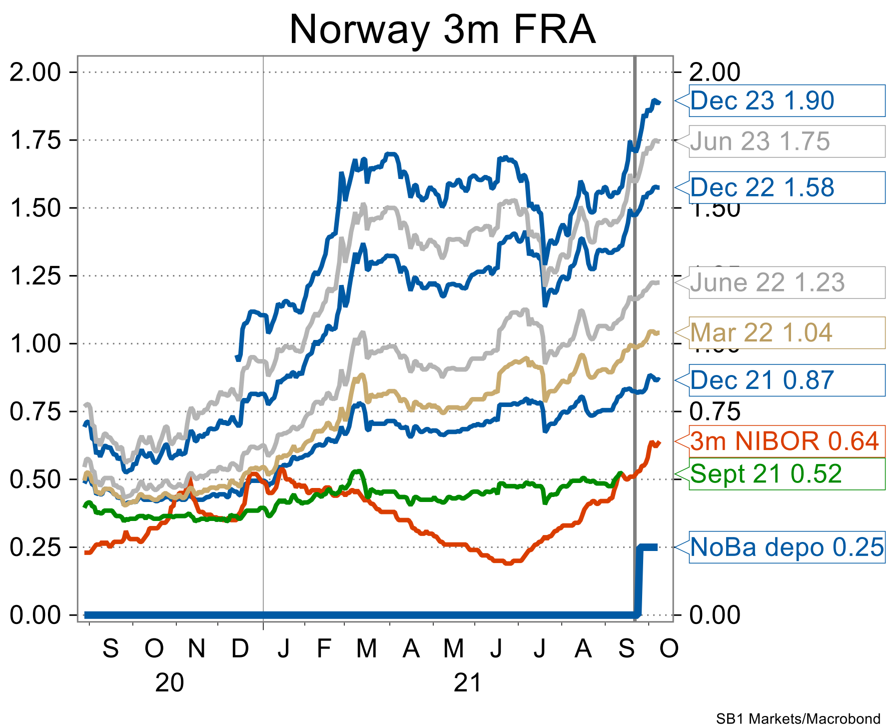


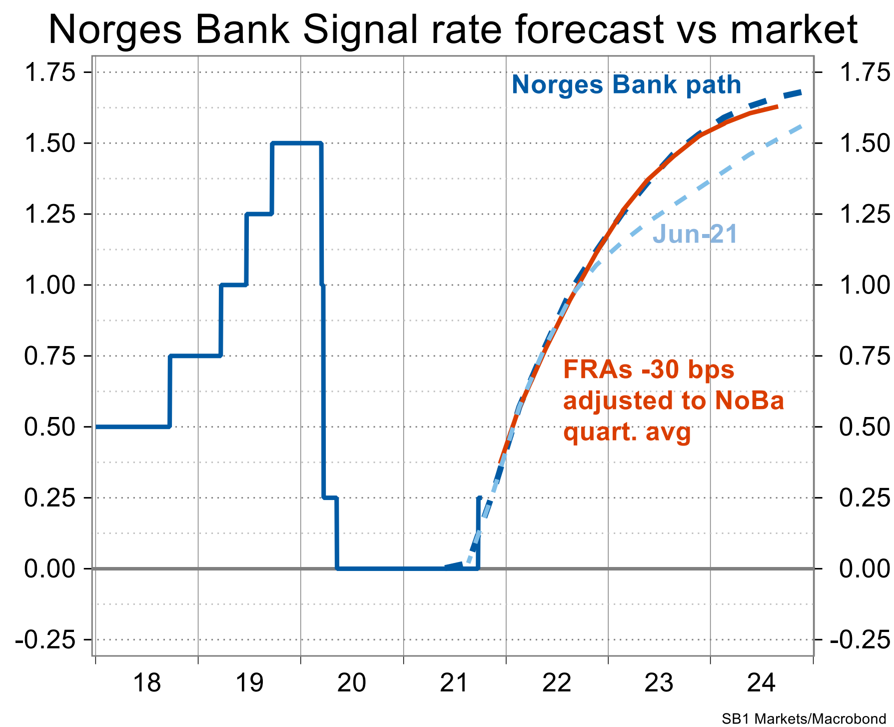


- The Dec-21 3 m FRA gave up 2 bps, perhaps as the expected NIBOR spread narrowed marginally
  - » Norges Bank assumed a 35 bps spread in the Sept MPR (as in the June report)

The FRA curve further up, in the long end – down in the short end

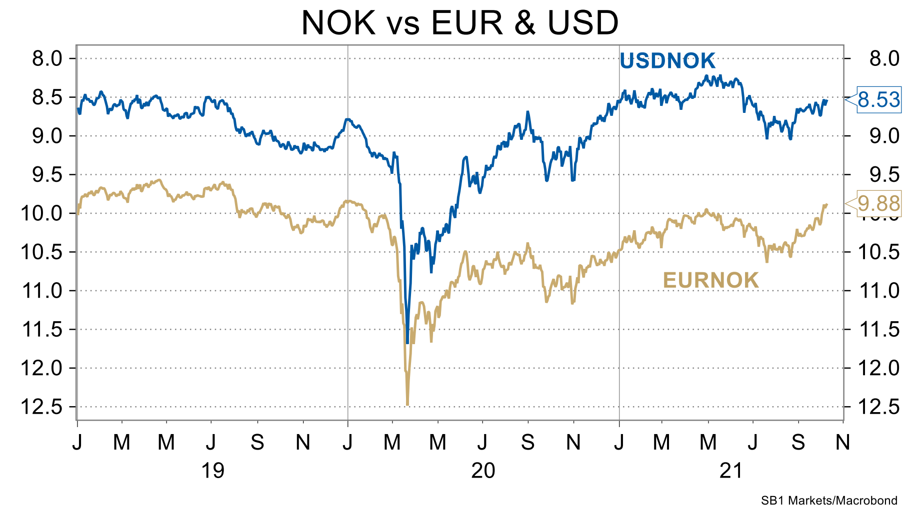
Over the previous weeks, a substantial lift in the FRA curve

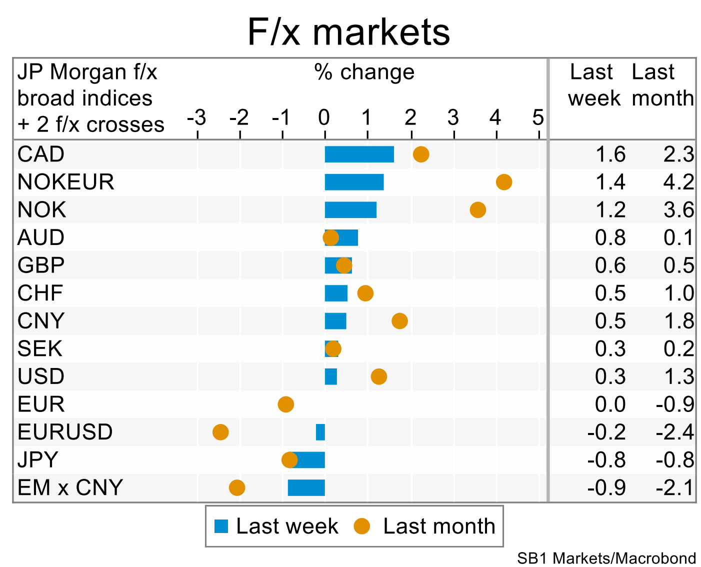




- Even if we had revised our NIBOR spread estimate at the chart to the right to 35 bsp from 30, the FRA-curve would have been closer to the NoBa path than ever before in this cycle
- We assume the market is now fully discounting a hike in December, and very likely hikes in March and quite likely in June too. If NoBa hikes in both Dec and Mar, the June-23 FRA at 1.23 implies a 52 – 72% probability for a 4th hike, depending on the assumed NIBOR spread (35 or 30 bps)
- Even in 2023, the FRA-path is close to the Norges Bank path

CAD at the top this week, NOK no. 2. The USD further up. EUR flattened (trade w)





JP Morgan f/x broad indices + 2 f/x crosses	Last week	Last month
CAD	1.6	2.3
NOKEUR	1.4	4.2
NOK	1.2	3.6
AUD	0.8	0.1
GBP	0.6	0.5
CHF	0.5	1.0
CNY	0.5	1.8
SEK	0.3	0.2
USD	0.3	1.3
EUR	0.0	-0.9
EURUSD	-0.2	-2.4
JPY	-0.8	-0.8
EM x CNY	-0.9	-2.1

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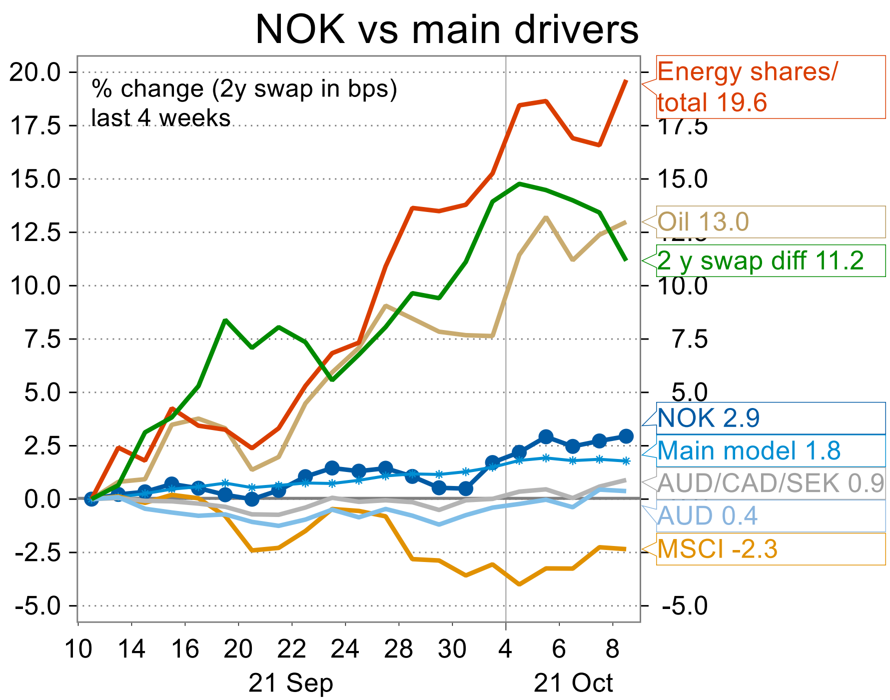
NOK up by further 1.2%, our model said +0.3%. Still a buy?

Oil up 5%, energy shares were strong, and our super-cyclical peers appreciated 0.9%



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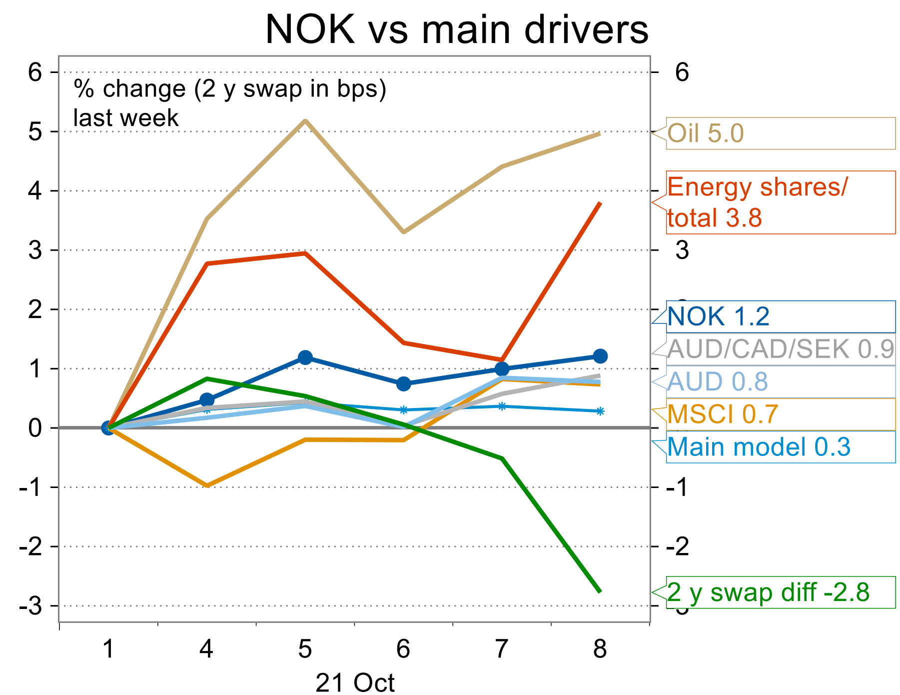

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The status vs. the normal drivers:

- ***The NOK is 1% stronger than suggested by our revised, green washed model (unch) (see more next page)***
- The NOK is less than 2 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from 2.4%)
- The NOK is 4% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- NOK is far (9%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (unch)

For October, we repeated our NOK buy recommendation, but less aggressively than for the previous months

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

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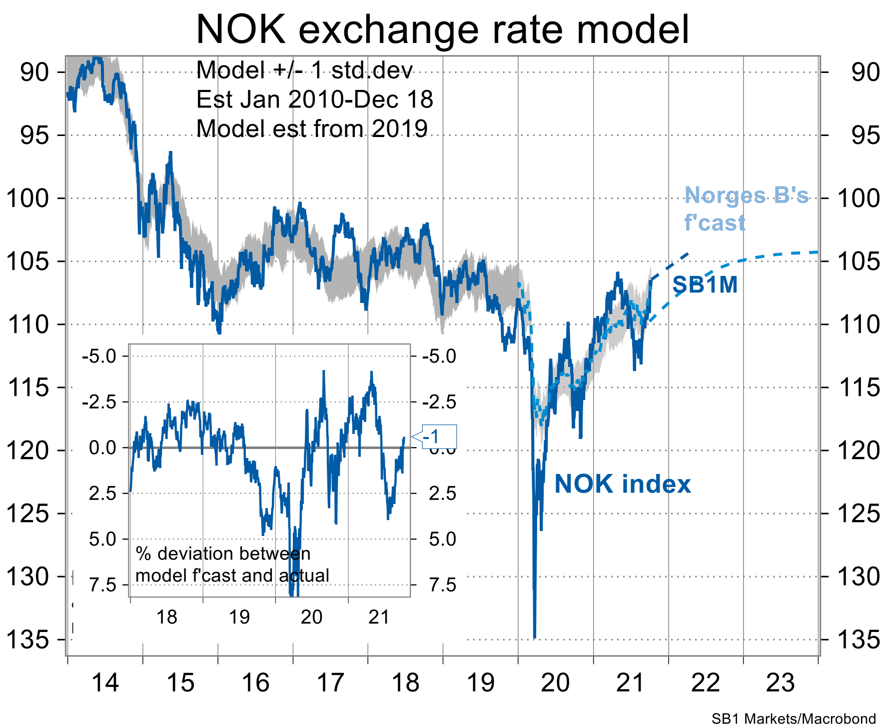
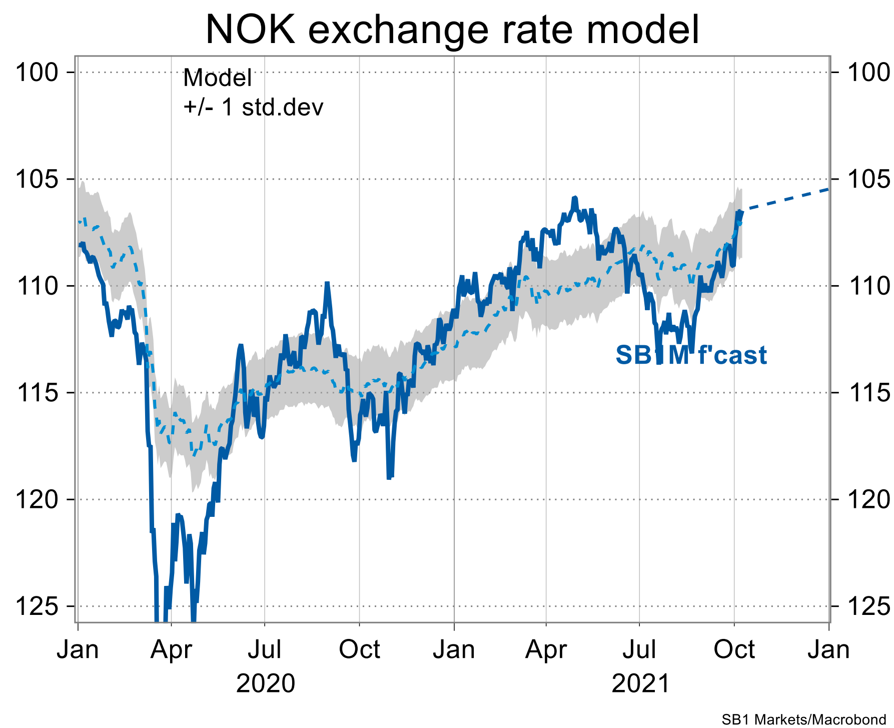
NOK 1% above our (new, green) workhorse model

We have adjusted our model for the reprising of fossil assets since early 2017

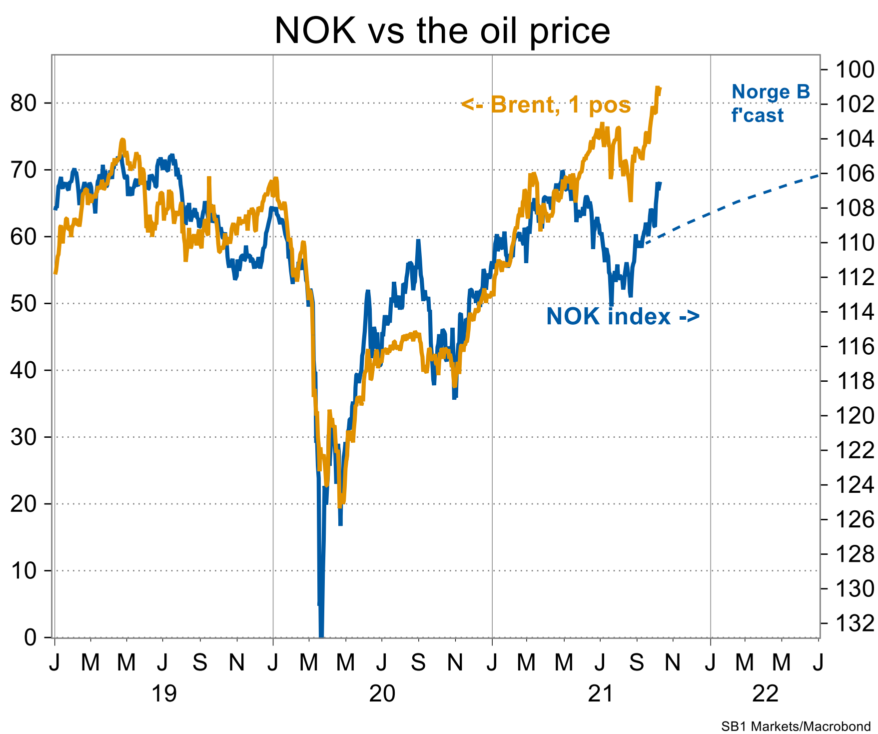


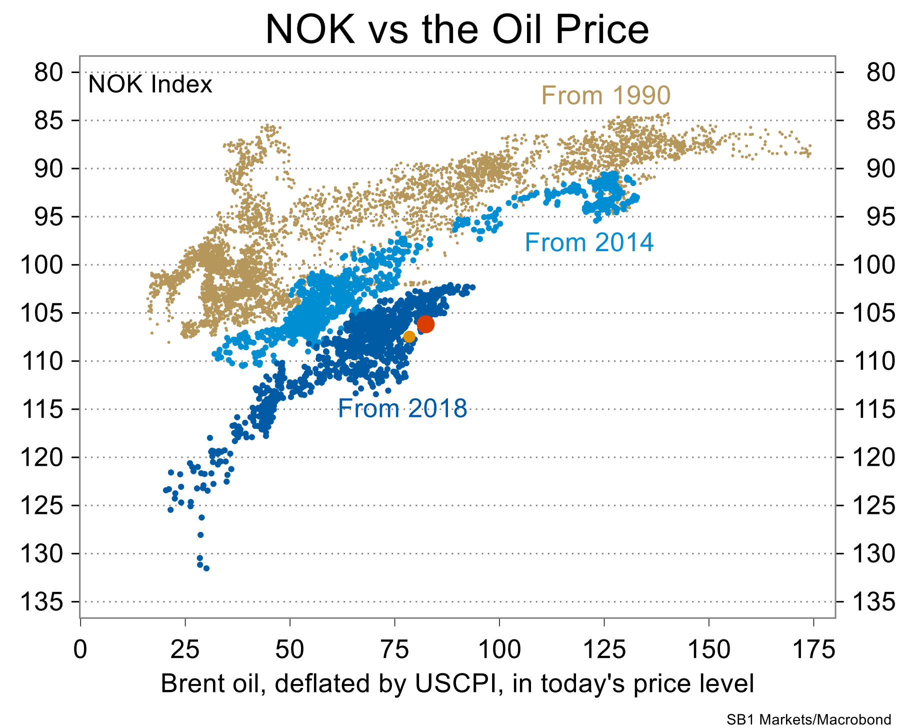


- We have long thought about this change, and our forecasts have been more than partly adjusted for the bias in our old model
- The model level is reduced by 7% from late 2019, in line with the weakening of the AUD, CAD and oil companies vs. the oil price
- It may now be that the current 'energy crisis' will bring the fossil industry and countries back in vouge, that is more than the rise in oil prices by itself explains, but be have not seen it so far

Oil and NOK um in tandem

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

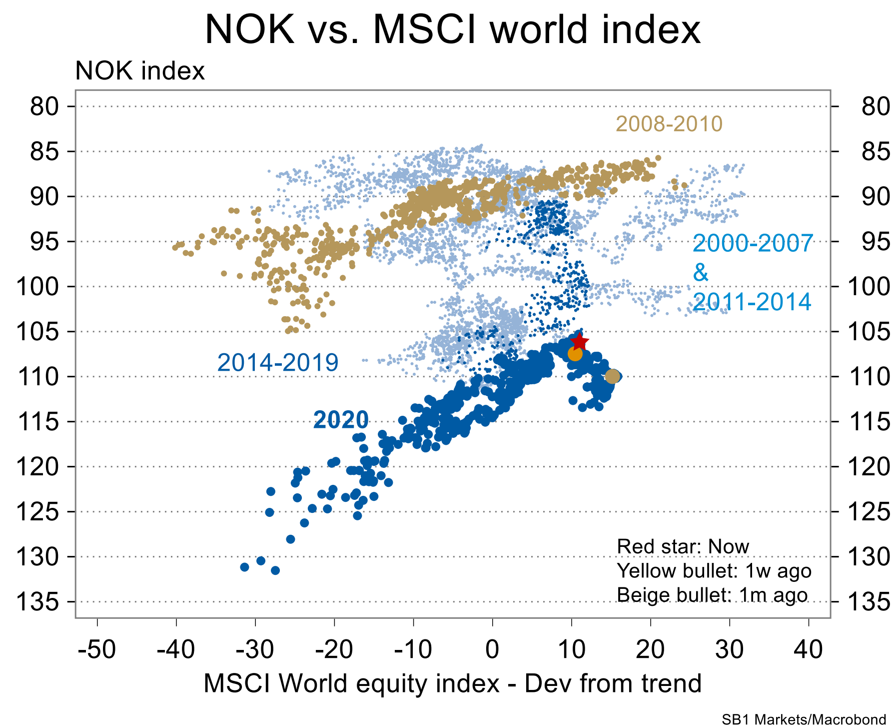




- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect.
  Within a broader model, the impact is somewhat smaller

The global stock market down, 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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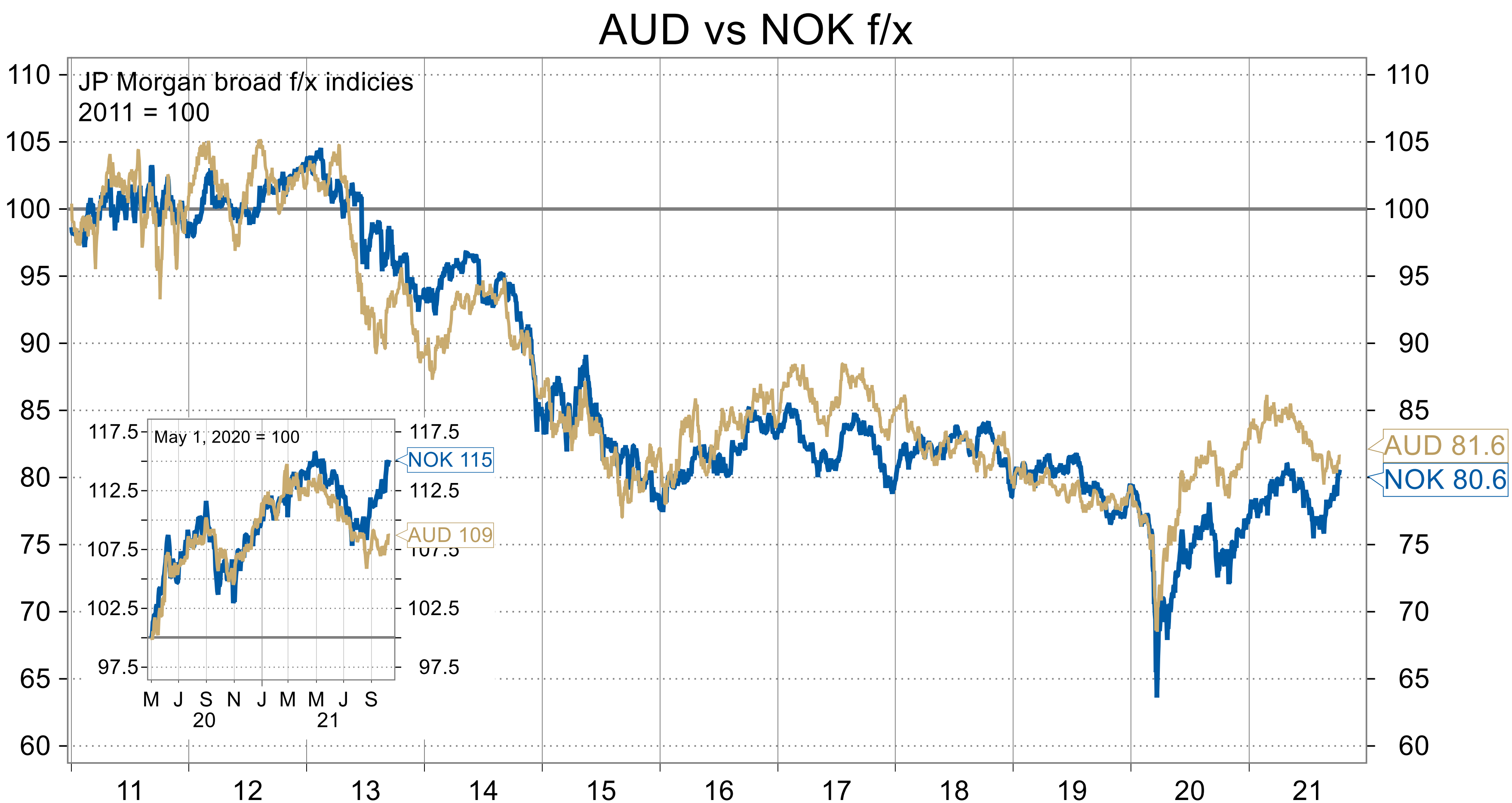
Both NOK and AUD up last week

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



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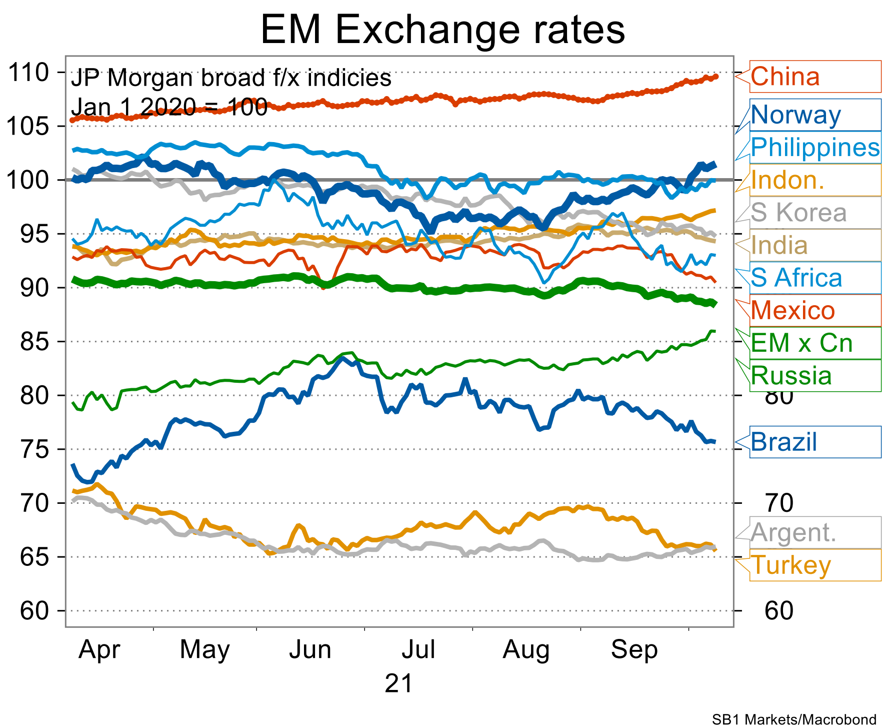
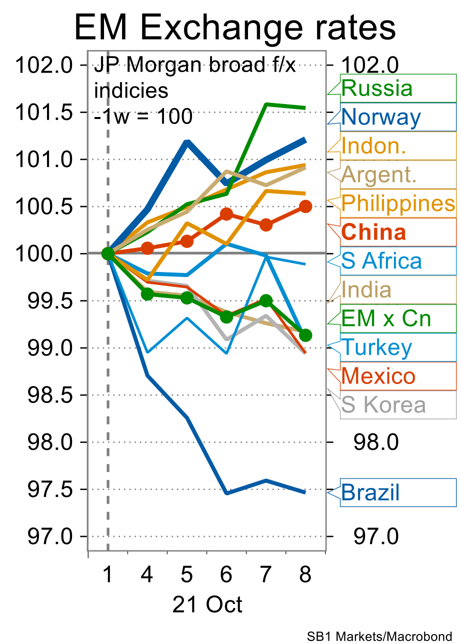
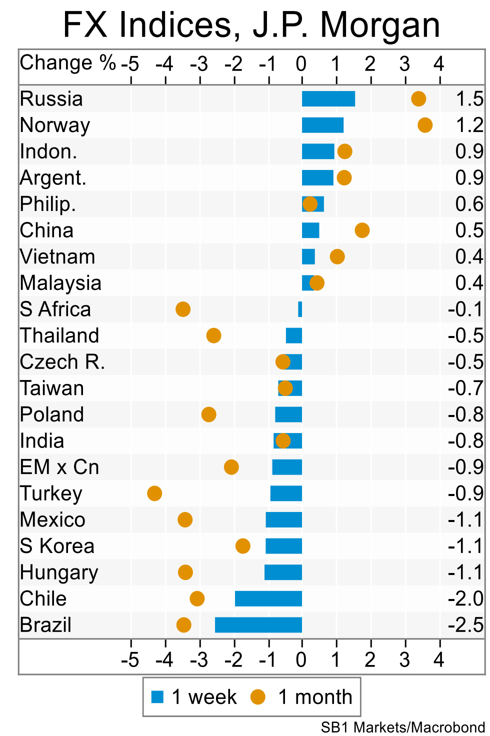
EM x China further down, the CNY still on the way up

Brazil last week's loser, Russia the winner (with Norway as no. 2 this week)







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