25 October 2021

Macro Weekly

Week 43/2021

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Last week

The (short) virus story

- The virus will not lay down. Last week, 26 countries, many of them in Eastern Europe, reported more cases, while 16 countries reported a decline cases. Even in Western Europe several countries are reporting more cases, and UK the no. of hospitalised persons are once more on the way up. In Eastern Europe, vaccination rates are too low – but more vaccinations are seemingly needed elsewhere too
- We still think the rich part of the world, and most of Asia, and Lat-Am has won the fight against the virus, at least in the sense that wide spread lockdowns with serious economic consequences will not be needed
- 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 is trending clearly upwards vs the 2019 level

The economy, part I

- **The global economy**
  - » **The preliminary October PMIs** were in sum better than expected even if the EMU surveys disappointed, as both US, UK, Japan and Australia reported higher growth, and better than expected. The uncertainty vs. the final data are larger than usual as the rich part of the world has been reporting a slowdown, while emerging markets have been reporting faster growth (though still below the DM growth rate) – and no EM has yet reported. We assume a 1 – 1½ lift in the global composite PMI, up to above 54, signalling a 4% growth pace in global GDP. The delivery times index rose to the highest level ever, and price inflation accelerated again – clearly creating more challenges for central banks. We still think the raw material/logistic 'crisis' will not last for several quarters ahead, at least if demand is not allowed to explode (read: higher interest rates). The real 'lasting' inflation risk is higher wage inflation in the US, possible in other countries as well
  - » **Interest rate expectations** rose sharply last week too, by up more than 20 bps in the US, and 25 bps in UK. In the US, market expect the first hike in Q2 next year, and 1 or 2 more hikes in H2 next year. In the long end of the curve, far less drama – and real rates fell last week. Inflation expectations moderated 5 y 5 y fwd, but rose sharply over the first 5 years of the curve, +20 bps to 2.91%. In UK the short end of the curve is up more than 75 bps during recent week. Markets are now expecting a hike in UK next week or in December, and then 3 or 4 more hikes during 2022.
  - » Due to the rise in inflation, more **EM central banks are lifting their signal rates**, and globally, more than half of the rate cuts last spring is reversed (the world weighted). Last week Russia hiked by 75 bp, and by 325 bps from the bottom, to 6.25%. Brazil has hiked 425 bps to 6.25%, Turkey by 675 bps to 15.75%. India has not hiked, neither has China (and the latter is probably contemplating cutting rates in order to stabilise the real estate sector
- **China**
  - » **Existing home prices** declined in August, and fell further in September, by 2.4% m/m (annualised). Prices are still up 2.4% y/y. N**ew home prices** fell slightly in September, for the first time since 2015

Last week: The economy, part II

- **USA**
  - **Fed's regional network, the Beige book** reports slightly slower growth both due to Covid-19 trouble and supply side factors, both lack of supplies and labour. Prices and wages are increasing fast. A clear message to the FOMC? Powell warned Friday that price pressures may prove less transitory – and signalled that tapering will be announced soon. A decision next week is now very well communicated
  - **Manufacturing production** was weaker than expected in September. Auto production fell sharply, while production of business equipment grew. Capacity utilisation is above average (Federal Reserve) or record high (the ISM semi-annual survey)
  - **Housing permits & starts** fell in September, and both are trending flat to down so far in 2021, mostly due to supply constraints and the hike in material costs. The **homebuilders** became more optimistic but the housing market index (NAHB) does not necessarily imply higher housing starts. **Existing home sales** rose in September, as did 2nd hand prices. The inventory of unsold homes is at a rock bottom level.
- **EMU**
  - **Core HICP inflation** was confirmed at 1.9%, **headline** at 3.4% in September. Energy explains the differential. Core inflation is still below ECBs new (symmetric) 2% target
  - **Consumer confidence** rose further in October, and is well above average, and higher than before the pandemic
- **UK**
  - **Inflation** surprised slightly at the downside in September but remains far above the inflation target. **Retail sales** fell further probably due to supply constraints as well a normalisation of demand for goods. Now sales are back to the pre-pandemic trend growth path
- **Sweden**
  - **House price inflation** is probably slowing but the labour market is tightening. A record high no. of **unfilled vacancies** in September
- **Norway**
  - **SSBs manufacturing survey** reports continued strong growth in demand but increasing capacity constraints due to lack of raw materials, labour and plant capacity. In fact, mix between demand or supply factor is has been 'stronger' just in 2008. Labour shortages have been higher just during two episodes since 1995
  - **Norges Banks bank lending survey** did not reveal any material changes in demand or credit standards. Lending margins are under pressure for a while since it takes time to effectuate lift in lending rates
  - More **housing permits** were given in September following two modest months. **Other construction starts** have turned slightly upwards

The Calendar: US, EMU GDP; US empl. costs; ECB; NOR labour market and retail sales

Time	Count.	Indicator	Period	Forecast	Prior
Monday Oct 25					
08:00	**NO**	**Employees & wages**	**Sep**		
10:00	GE	IFO Expectations	Oct	96.5	97.3
14:30	US	Chicago Fed Nat Activity Index	Sep		0.29
Tuesday Oct 26					
15:00	US	S&P CoreLogic CS 20-City YoY	Aug	20.1%	20.0%
16:00	US	New Home Sales	Sep	758k	740k
16:00	US	Conf. Board Cons. Confidence	Oct	108	109.3
Wednesday Oct 27					
10:00	EU	Credit growth	Sep		
14:30	US	Advance Goods Trade Balance	Sep	-$88.2b	-$87.6b
14:30	US	Durable Goods Orders	Sep P	-1.0%	1.8%
14:30	US	Cap Goods Orders Nondef Ex Air	Sep P	0.4%	0.6%
Thursday Oct 28					
01:50	JN	Retail Sales MoM	Sep	1.5%	-4.1%
08:00	**NO**	**Retail Sales MoM**	**Sep**	**-1.0%**	**-3.8%**
08:00	NO	Consumption of goods	Sep		-1.8%
08:00	**NO**	**AKU Unemployment**	**Aug**		**4.2%**
09:00	SW	Economic Tendency Survey	Oct		119.9
09:30	SW	Retail Sales MoM	Sep		0.7%
11:00	EC	Economic Confidence	Oct	116.6	117.8
13:45	**EC**	**ECB Deposit Facility Rate**	**Oct-28**	**-0.5%**	**-0.5%**
14:00	GE	CPI YoY	Oct P	4.4%	4.1%
14:30	US	Initial Jobless Claims	Oct-23	294k	290k
14:30	**US**	**GDP Annualized QoQ**	**3Q A**	**2.4%**	**6.7%**
	JN	BOJ Policy Balance Rate	Oct-28	-0.1%	-0.1%
Friday Oct 29					
	JN	BOJ Policy Balance Rate	Oct-28	-0.1%	-0.1%
01:50	JN	Industrial Production MoM	Sep P	-2.5%	-3.6%
07:30	FR	GDP QoQ	3Q P	2.3%	1.1%
	NO	Consumer confidence	Oct		
08:00	NO	Hotel guest nights	Sep		
08:00	NO	Credit Indicator Growth YoY	Sep		5.3%
10:00	**NO**	**Unemployment Rate**	**Oct**	**2.3%**	**2.4%**
10:00	GE	GDP SA QoQ	3Q P	2.2%	1.6%
11:00	**EC**	**GDP SA QoQ**	**3Q A**	**2.1%**	**2.2%**
11:00	EC	CPI Estimate YoY	Oct	3.7%	3.4%
11:00	**EC**	**CPI Core YoY**	**Oct P**	**1.9%**	**1.9%**
14:30	**US**	**Employment Cost Index**	**3Q**	**0.8%**	**0.7%**
14:30	US	Personal Income	Sep	-0.1%	0.2%
14:30	US	Personal Spending	Sep	0.5%	0.8%
16:00	US	U. of Mich. Sentiment	Oct F	71.4	71.4

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

- **USA**
  - » The most important data point this week is the **Q3 Employment Cost Index,** as the ECI is the only indicator that has not reported any material acceleration in wage growth. An uptick is expected but nothing like other indicators are signalling
  - » **Q3 GDP** growth is expected to slow to 2.4% (0.6% not annualised), from 6.7% (1.6%) in Q2. Private consumption has almost flattened but business investments continued upwards. The risk vs. the headline estimate is on the downside
  - » Will **house price inflation** stay at 20%? **Durable orders** are still going strong too, and survey data are still signalling growth above trend.
- **EMU**
  - » **Q3 GDP** data will be reported on Friday. A 2.1% (8.7% annualised!) growth rate is expected, down from 2.4% (10% annualised) in Q2. We deem the risk vs. the consensus forecast to be on the downside. Just the aggregate growth number is published
  - » The **ECB** has signalled that a revised QE program will be announced. Rates are stuck, even f there is some debate here too. However, as long as wage inflation remains low, inflation will not become more than a transitory problem. The **core CPI** is still below 2%, at least until October data are published this week. An unch. annual rate at 1.9% is expected
- **Norway**
  - » We expect **employment** (register data) to continue upwards, and **unemployment** (NAV & LFS (AKU) to decrease further, at least the less volatile NAV registered data
  - » **Retail sales** is on the way down to more sustainable levels but sales data has also been ‘distorted’ by a huge decline in sales of building materials (which is mostly to professionals). Households’ **consumption of goods** has kept up far better - but will very likely come down the coming months and quarters as more will be spent on services, and abroad (especially in Sweden)

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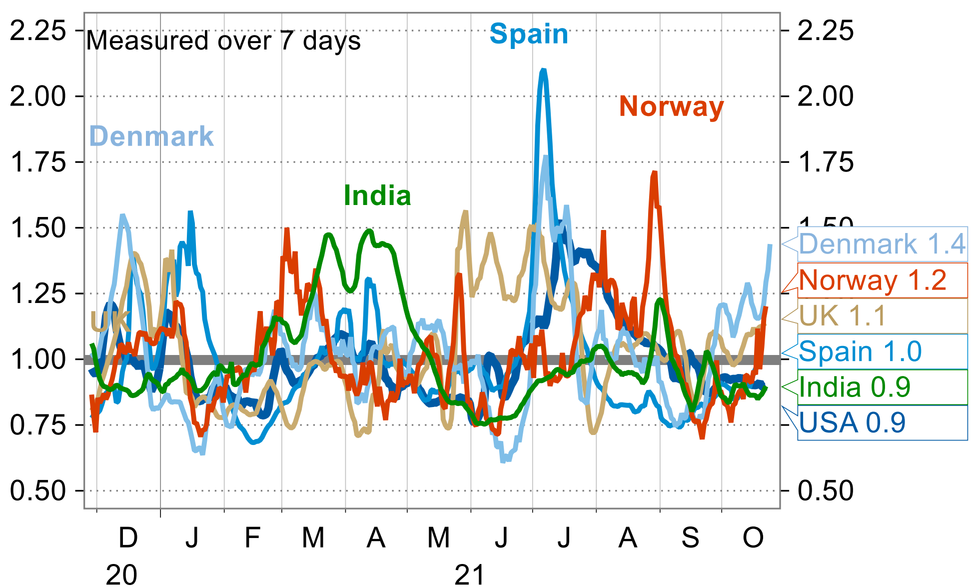
But it won't lay down… We have to pick up our old charts

A majority of countries are reporting more cases again

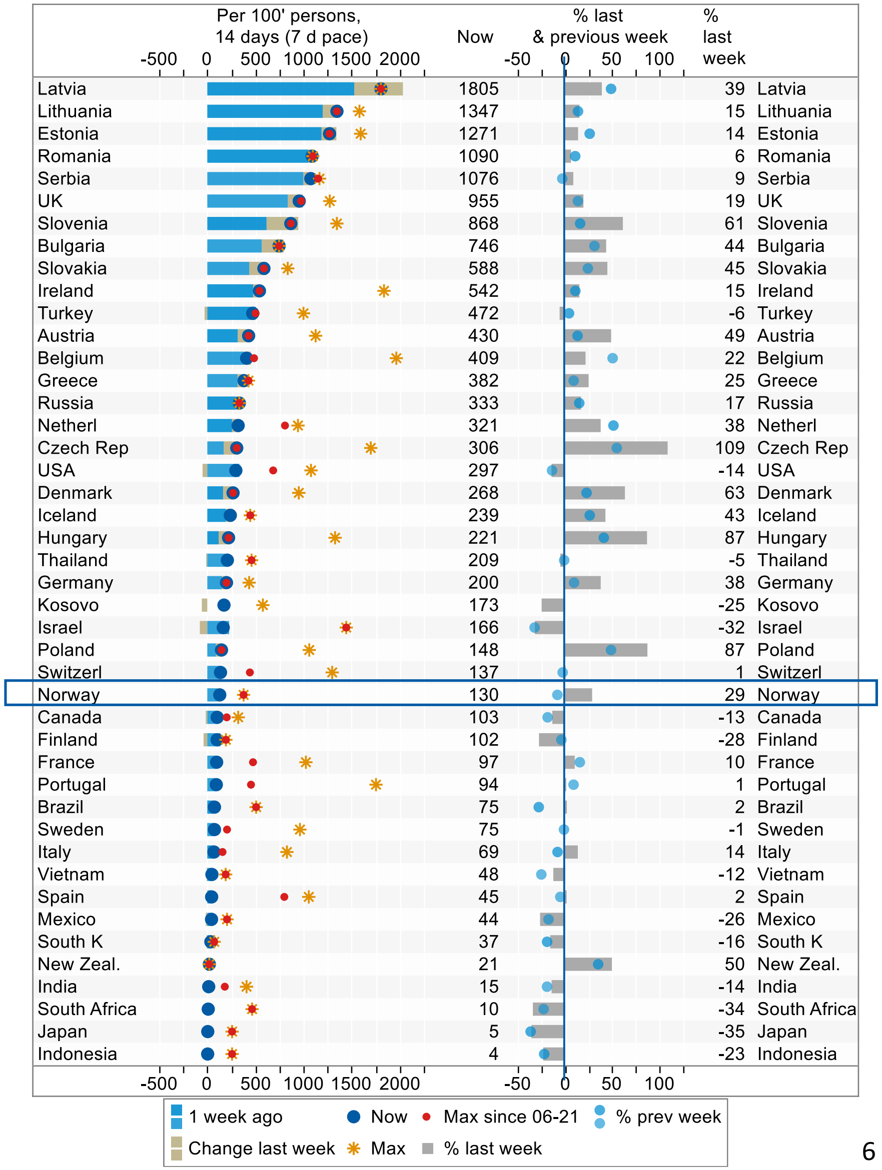
- <u>26 countries reported more cases</u> last week, most of them in Eastern Europe, but even some countries in Western Europe, like UK, Germany, France, Denmark, and Norway. However, just the UK has real 'trouble' in the West, with more hospitalisations again. <u>Just 15 countries reported fewer cases</u>
- A Delta+ variant is around, but the main problem is low vaccination rates in Eastern Europe

Covid-19 R



SB1 Markets/Macrobond

COVID-19, New Cases



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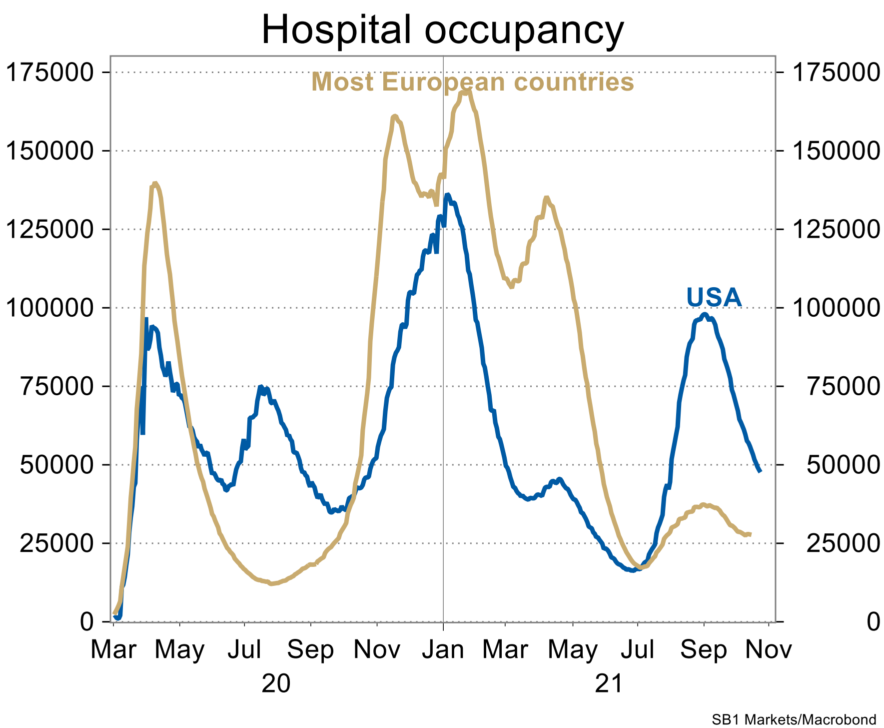
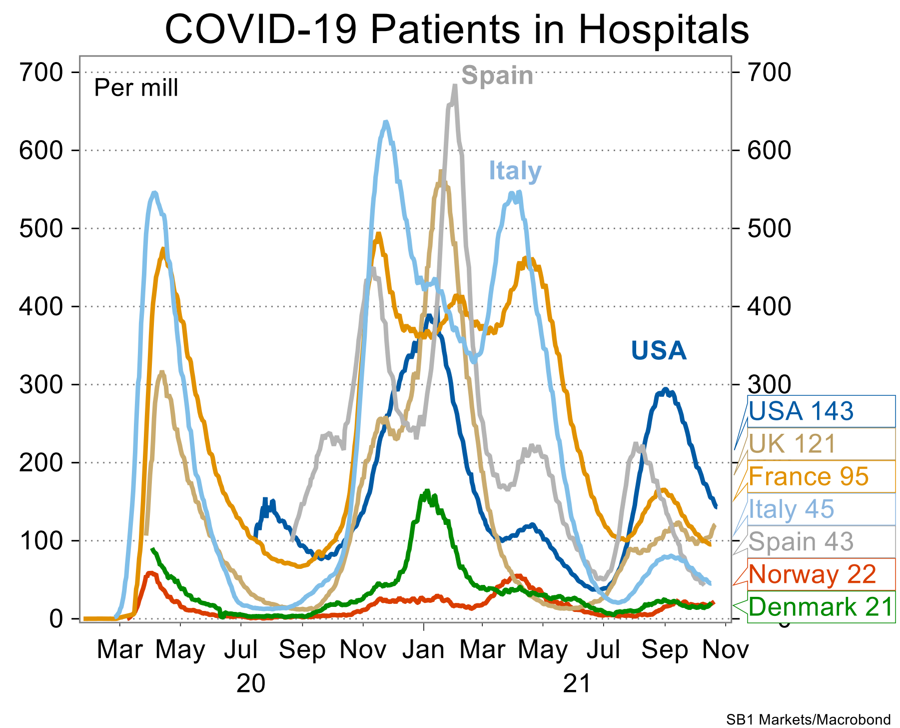
The UK is reporting more hospitalisations again – and Europe has flattened

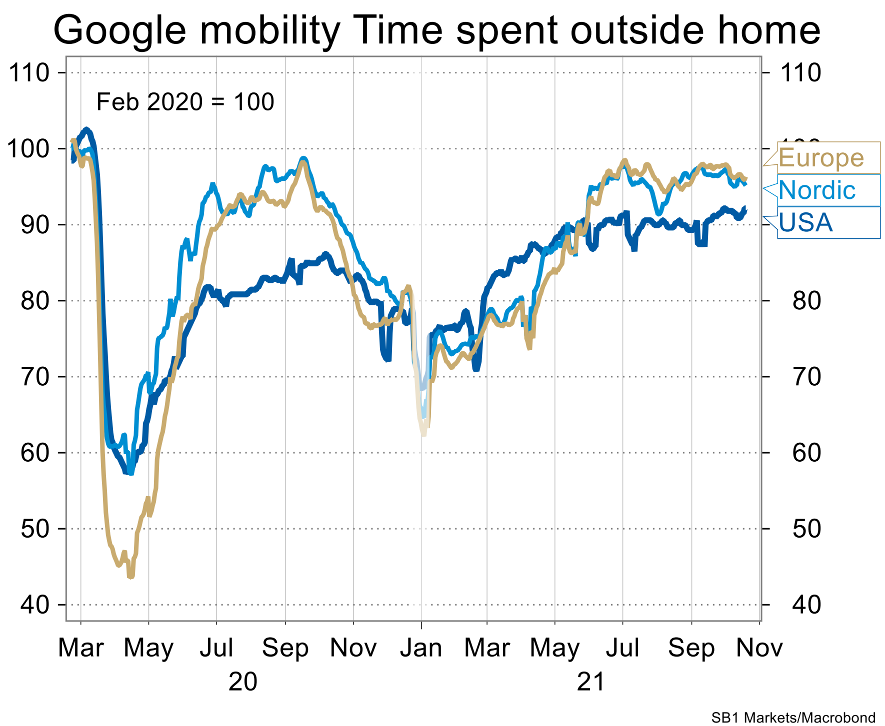


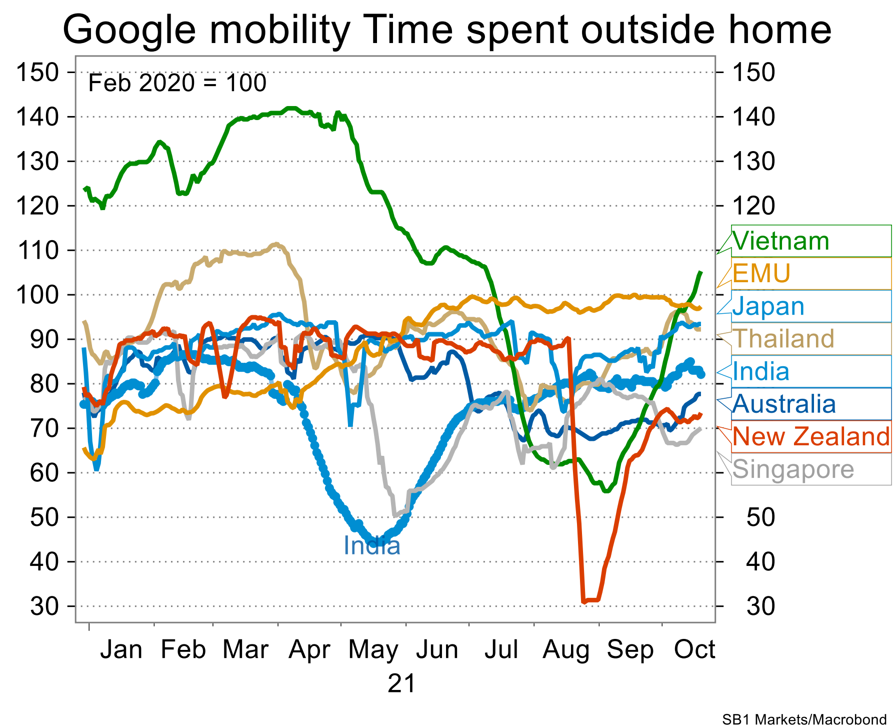


- The only risk now: A new vaccine resistant virus mutation

US mobility is recovering, Europe remains at a high level

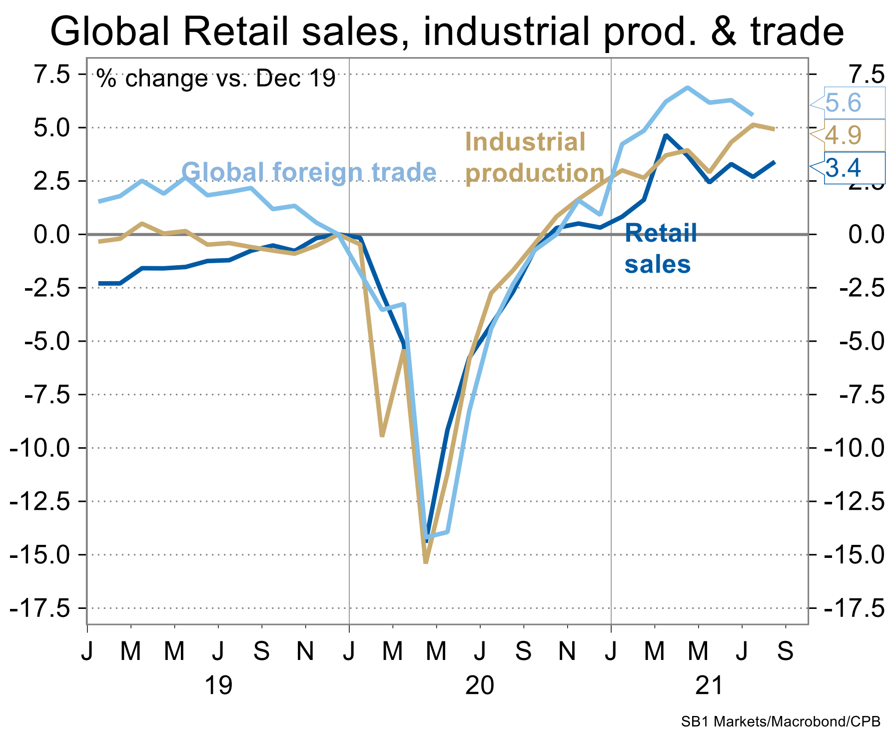
Asia on the way up too, and some countries are back at pre-Delta levels

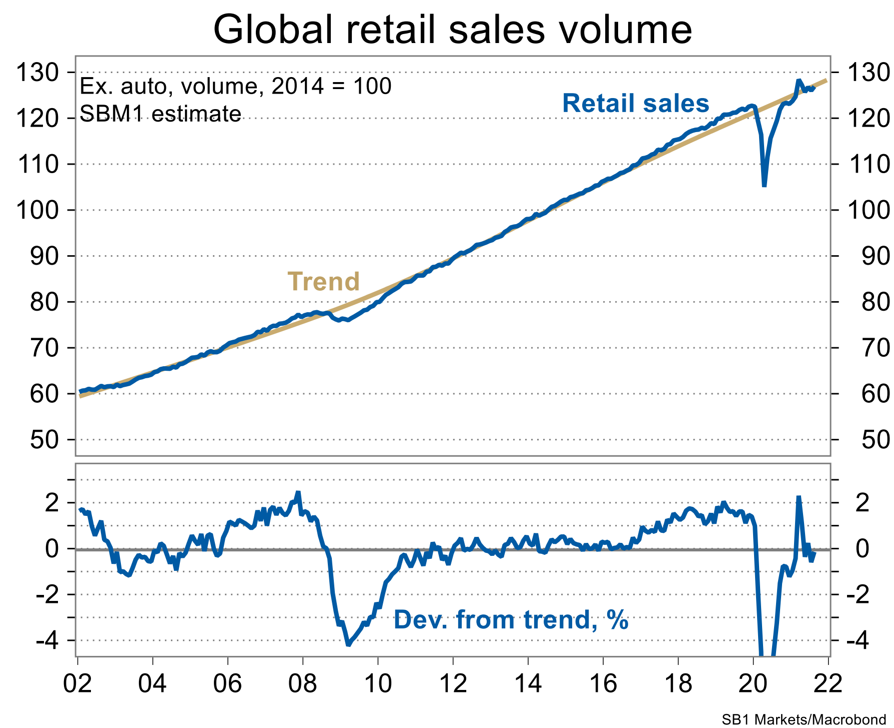




Global retail sales have flatted, global trade is declining

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

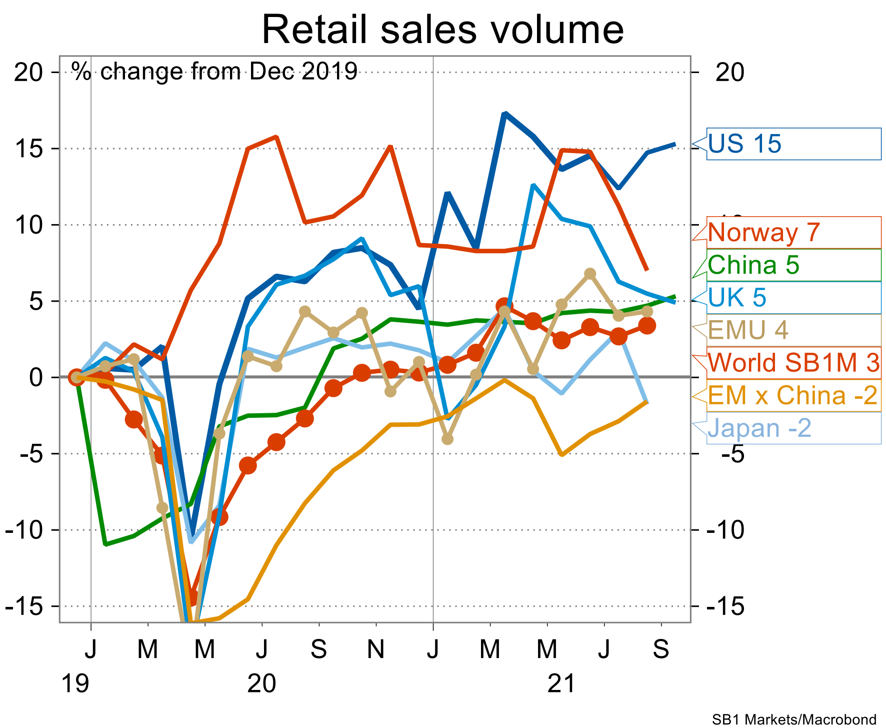


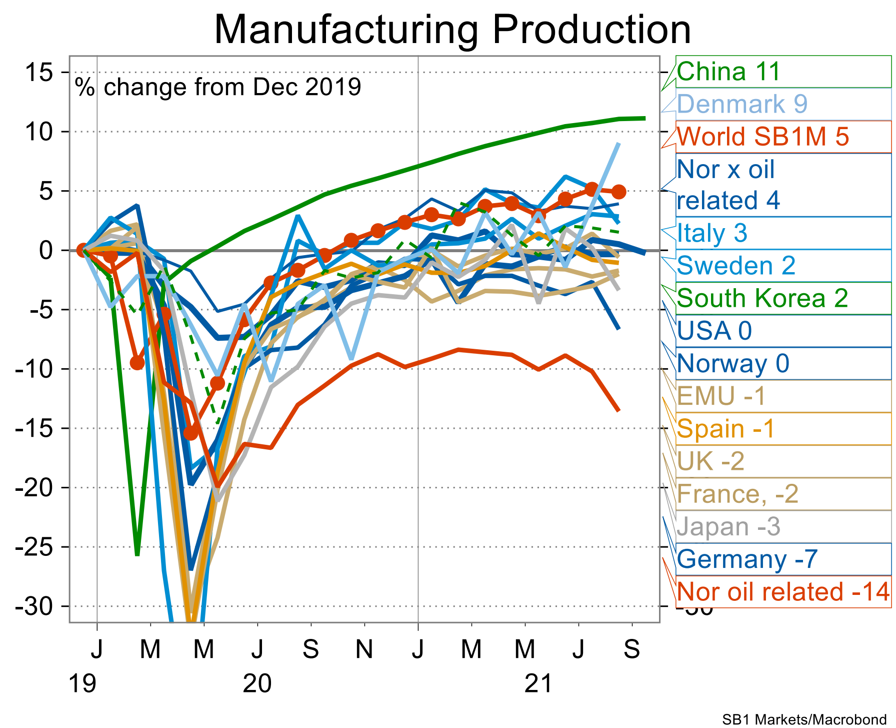


- **Retail sales** rose in August, but has flattened since early spring as demand is on the way down in several DMs, and EM is still fighting with the virus. The level is approx. 3½ % up vs the pre-pandemic level
- **Manufacturing production** stagnated in August. The level is some 5% above the pre-pandemic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

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

The upside potential is large for Emerging Markets

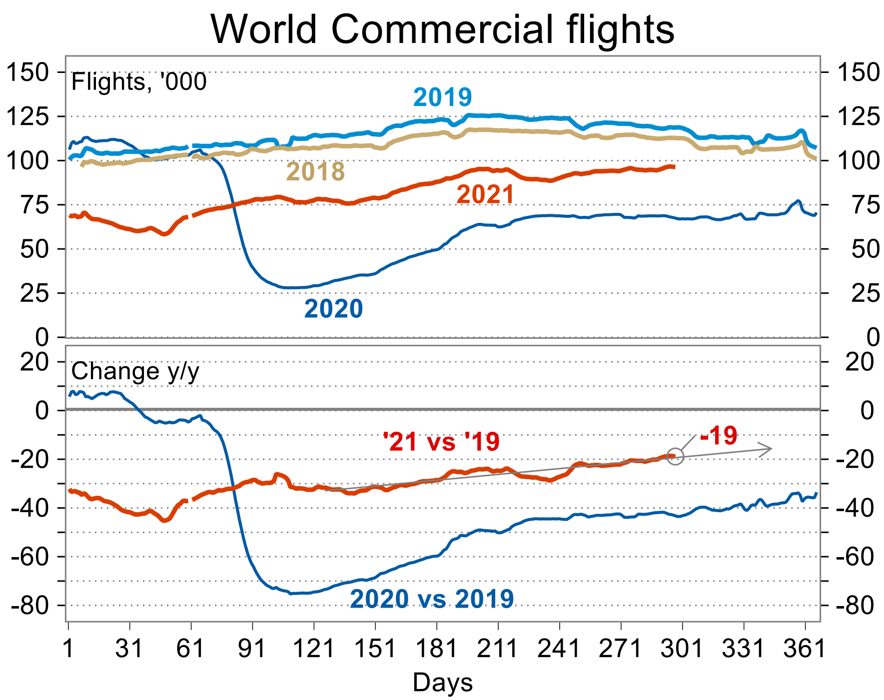




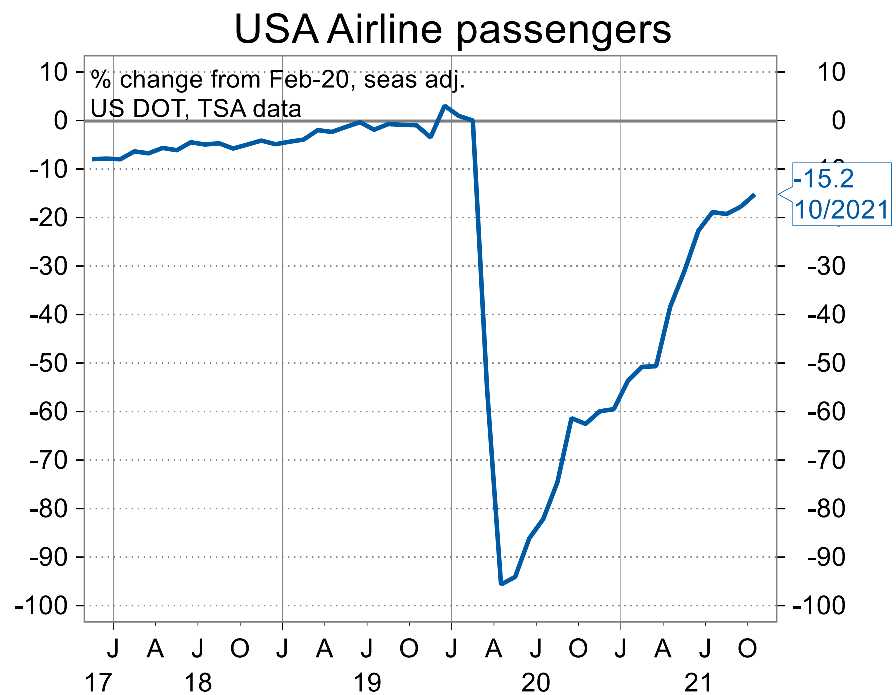
- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India, and thereafter in other parts of Asia. Now a substantial recovery is underway in India, and other Asian countries will follow suit
- **Manufacturing production** is still drifting upwards, most places. The manufacturing PMIs are down but not weak

Global airline traffic still down 19% vs the 2019 level

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



Flightradar24 SB1 Markets/Macrobond



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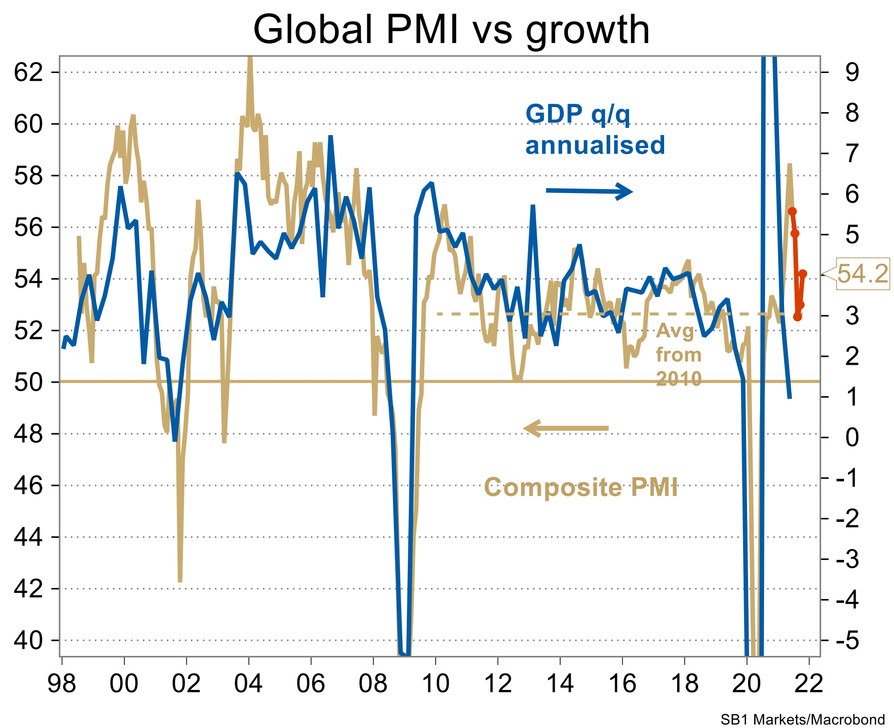
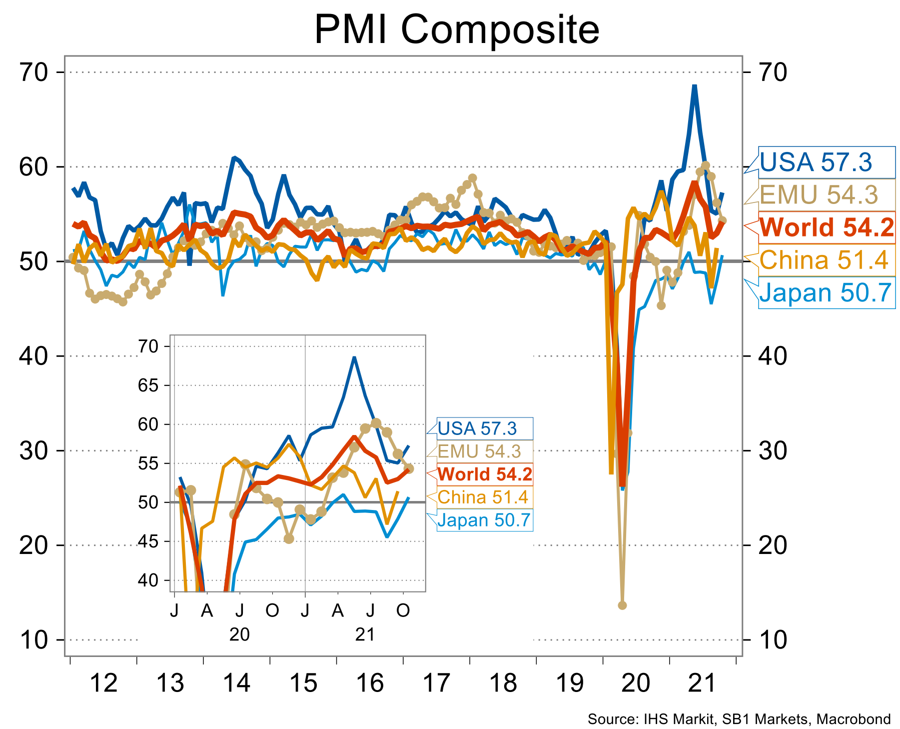
- Airline traffic normally drops some 10% from the peak summer season until the end of the year. Thus, a flattish development during this autumn implies a 1.7% ‘recovery’ per month – now the gap is declining by at least 1 pp per week

PMI very likely recovered further in October

We estimate a 1 – 1.5 p lift in the global composite PMI to 54.2, signalling a 4% growth pace





- **The global PMI** was better than we initially assumed in both Aug & Sept, as Emerging Markets fared much better than the rich part of the world, at least vs. m/m change in the PMI. We do not yet have any PMI from EMs but have assumed another increase in these surveys in October
- However, the PMIs in the **rich part of the world very likely rose too**, as a further downturn in the EMU was more counterweighted by in increase in US, UK, Japan and Australia. The manufacturing sector reported slower growth (but still very high growth, while the service sector PMI recovered further)
- Taken together, a significant lift in the global PMI in October, by 1 – 1.5 p to above 54, signalling a 4% growth pace in the global economy
- **Supply chain** problems are escalating. The delivery times index shot up again, to another ATH
- **Prices** are rising faster again. The composite PMI price index for rich countries is up to the same level as the peak in 2008

Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

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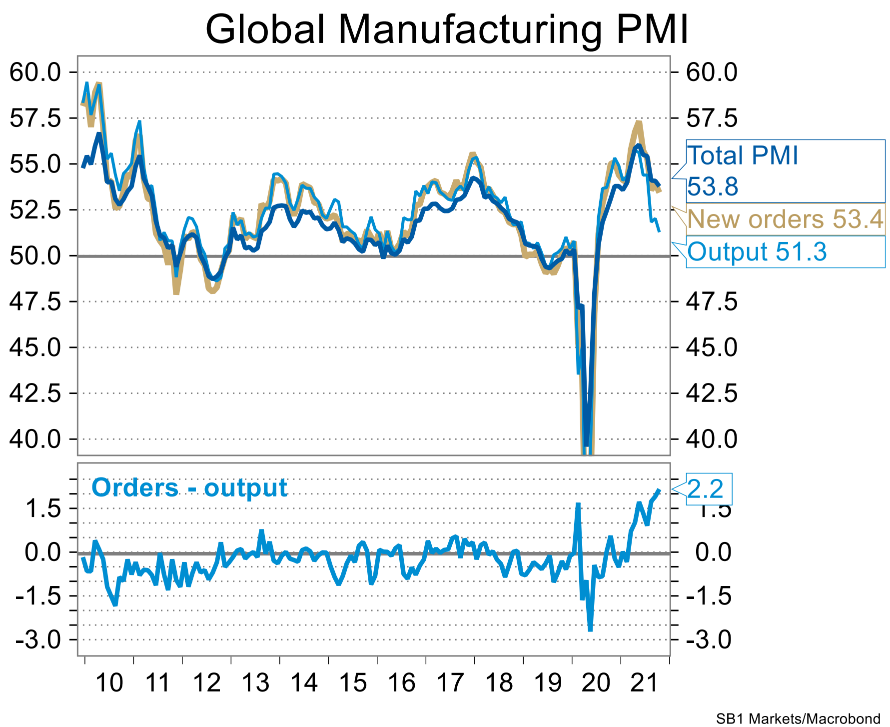
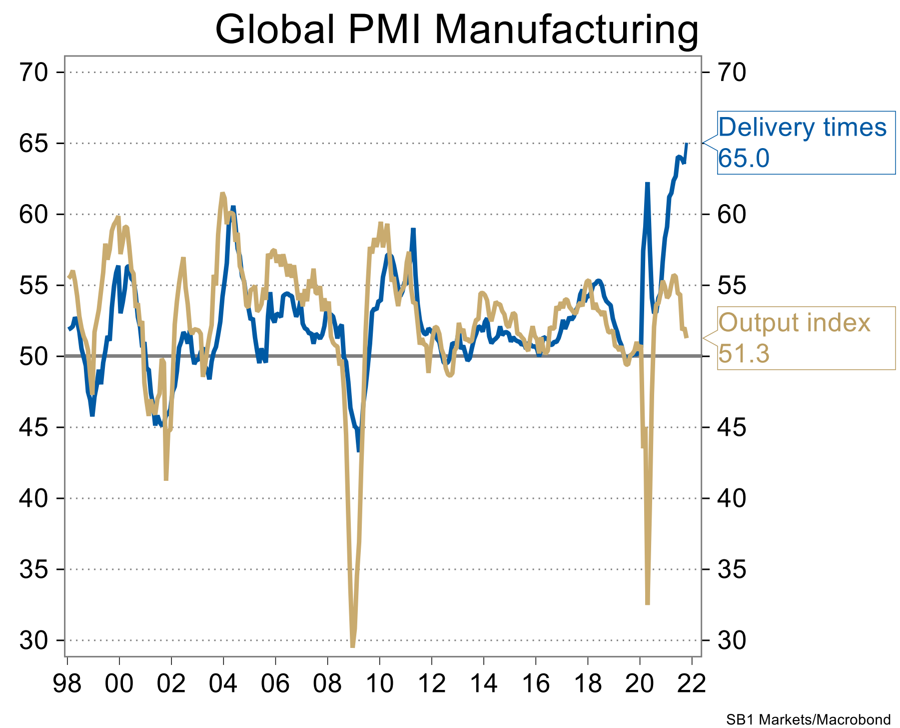
Manuf. output growth is slowing to below par, as delivery problems escalate

While order inflow is still growing faster than normal. Current capacity is (b)reached





- **The current capacity is more than reached**. The question is of course: How much is capacity (transitory) impaired by the fight against Covid-19? It is impossible to know before after the fact
- However, problems are most acute in Western countries where demand for goods have been much higher than normal. That may indicate the 'normal' capacity is not necessarily impaired but rather that demand for goods is exceptionally strong – of course buoyed by exceptionally fiscal and monetary policy measures during the pandemic
  - » An example: US import volumes are 10% above the pre-pandemic level (however below the 2012-18 trend path, import fell during 2019)

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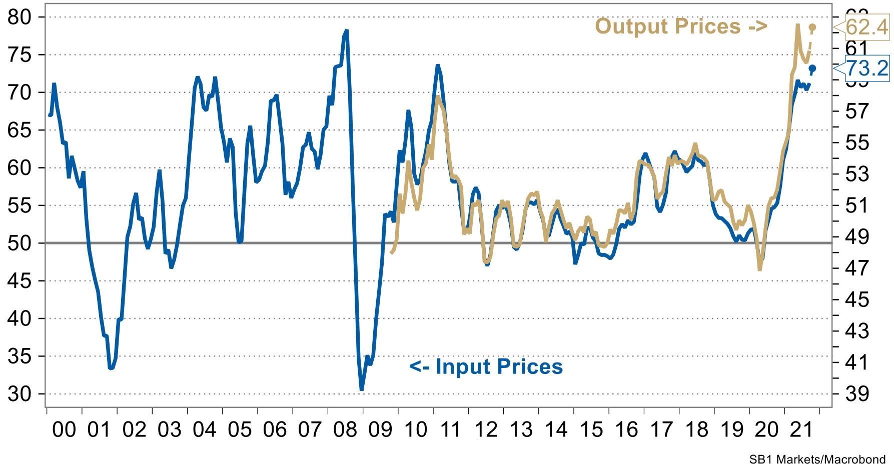
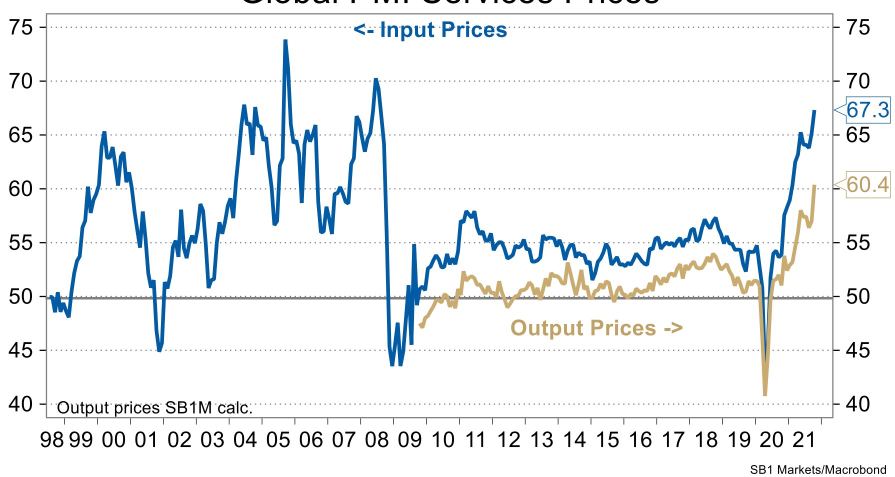
The global PMI price index up again, close to the 2008 peak level

Prices indices up in October, both manufacturing & services, input & output prices

Gobal Manufacturing PMI Prices

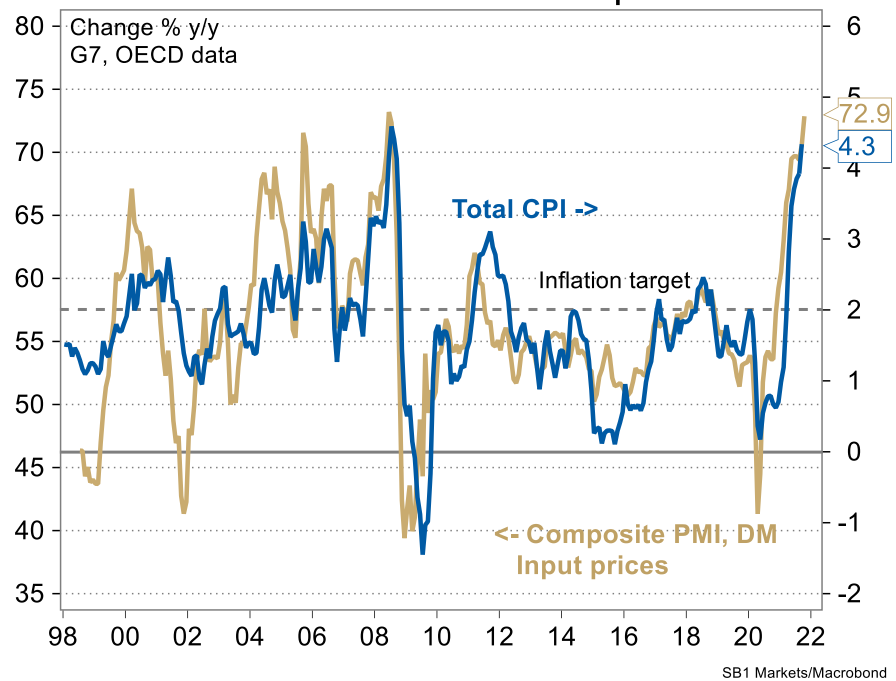


Global PMI Services Prices



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

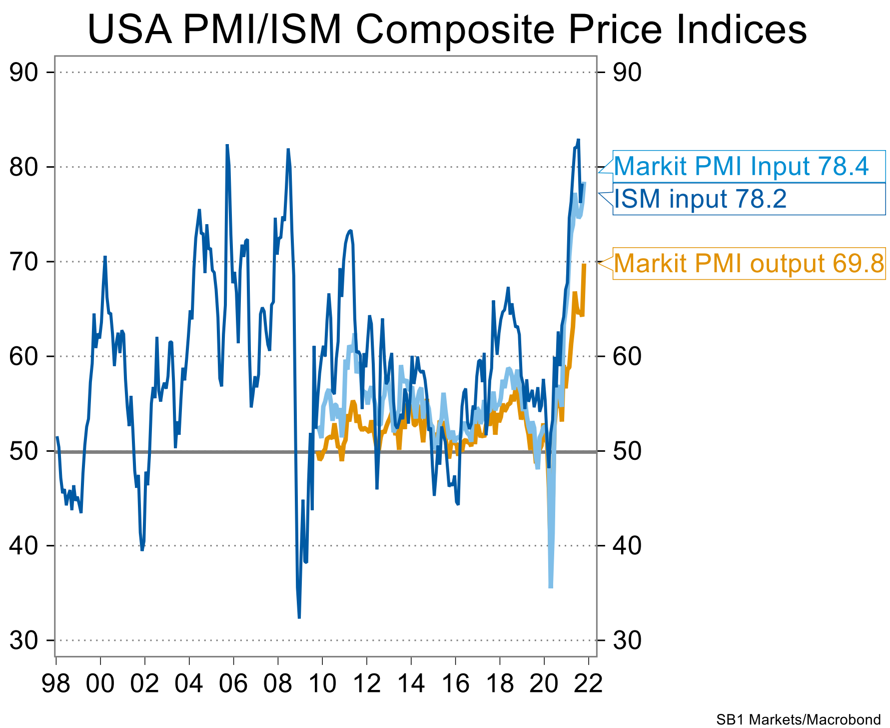
OECD Inflation vs PMI prices



- Companies world wide are reporting price increases far above normal levels, and actual inflation prints will remain elevated for months (at least annual growth rates)

The US challenge: Prices are soaring all over the place

For good reasons, Fed's Powell expressed some 'concerns' regarding inflation on Friday…



- ISM has not yet reported October data

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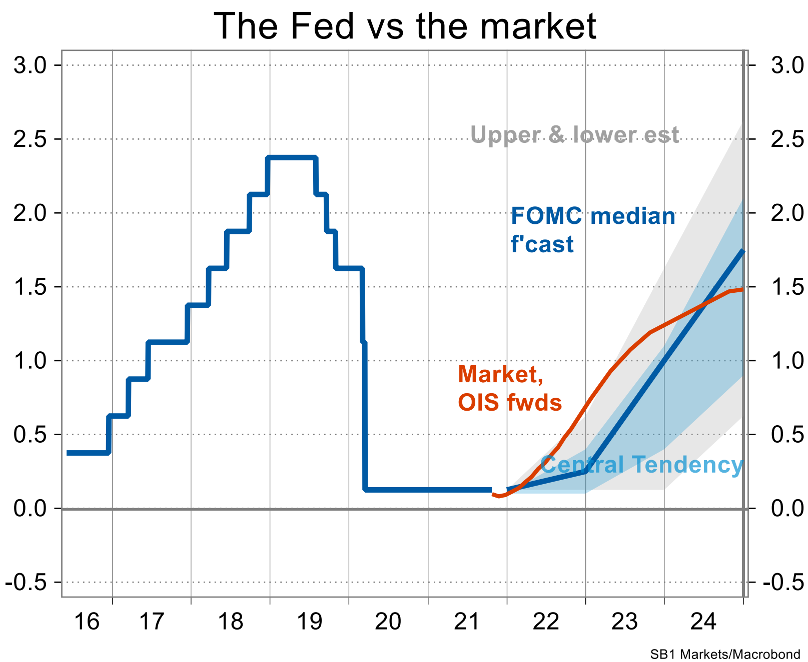
Beige book: Growth slowed slightly to a modest to moderate pace

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

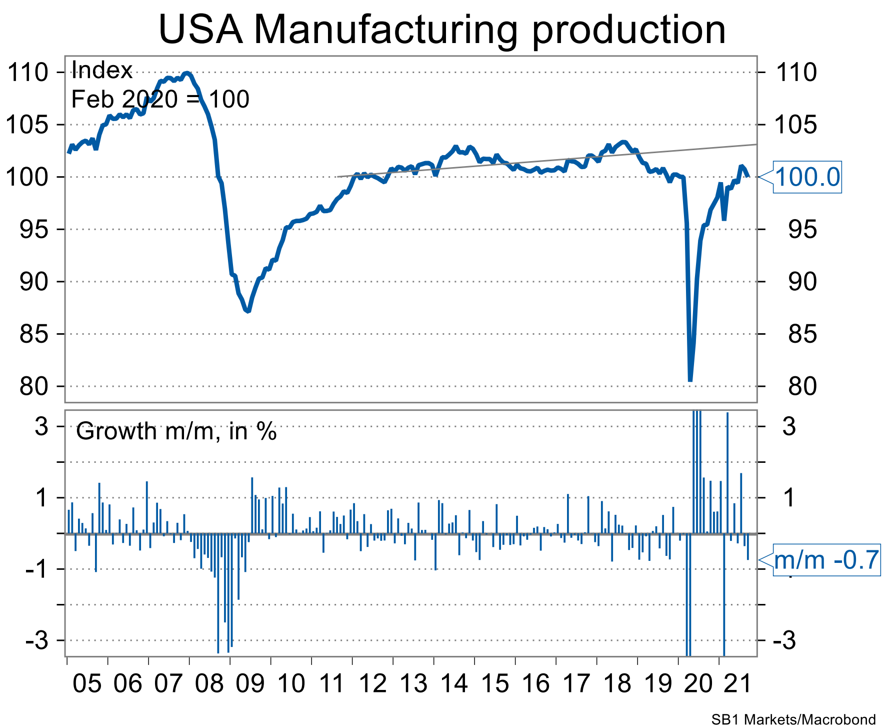


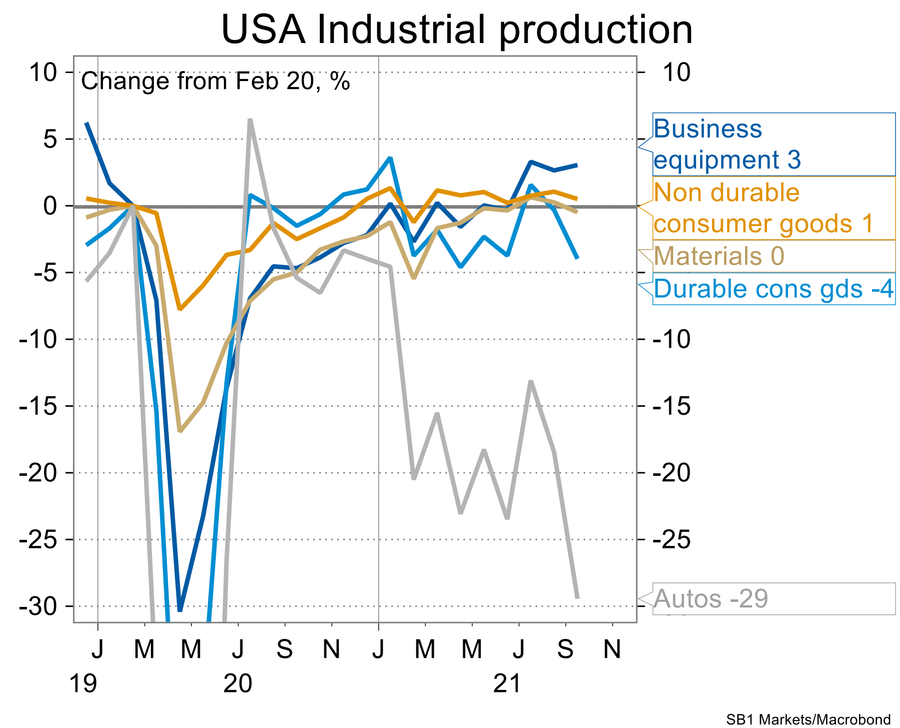
- New signals from the Federal Reserve due to the Beige book?
  - » **Tapering announcement**: Delta problems are still present but will subside, and growth in US is low limited from the supply side, not the demand side. The inflation target is more than met, and there has been progress towards the maximum employment rate. The Fed could go ahead with a November tapering decision, reduce bond buying in December (and stop buying by Jun/July)
  - » **The Fed funds rate:** When will the Fed start reflecting whether the maximum employment target may be/or could soon also be met – signalling that the interest rate may be lifted too? Or start reflecting on the risk for inflation becoming too high for too long? The Bank should have started now – and acknowledge that an expansionary monetary policy now may counterproductive. Will Powell send a signal in November. Most likely, he will try to tread water, perhaps until the Dec FOMC meeting. The market expect the first hike in Q2-22!

- Growth decelerated slightly to a **modest to moderate pace** (from moderate pace in the last report) in most districts past six weeks, according to the Fed's 12 district banks. Like in the last report, increased concerns due to the Delta variant, supply problems, and labour shortages were mentioned as reasons for decline in activity.
  - » 2 districts reported strong growth (down from 3 districts 6 weeks ago)
  - » 10 districts reported modest to moderate growth
- **Demand for leisure/hospitality services** have slowed as the Delta variant cases increased (Our comment: The virus is now on retreat). **Auto sales** were weaker due to supply-side issues
- **Manufacturing** reported above-average growth, despite supply chain challenges. **Construction activity** varied, but was on average unchanged or slowed to some extent. **Other sectors/activities** grew at a slight to modest pace
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted, and some firm reported cutting production due to lack of labour
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages. A growing number of firms offered signing bonuses and increased wages
- **Inflation** was significantly elevated. With pervasive resource shortages, input prices pressures continued to be widespread. Many businesses were able to pass along costs to the consumer as demand remained strong
- **In sum:** The reports out of the 12 districts are slightly more subdued than the previous reports, but growth is still satisfactory. The fact that the problems are largely supply-driven – and still escalating – should just underpin that a demand-supporting policy is not necessarily the best tool and can be moderated

Manufacturing production down in September – level on par with Feb-20

Th auto sector to blame, off course - down 29% vs Feb-20!

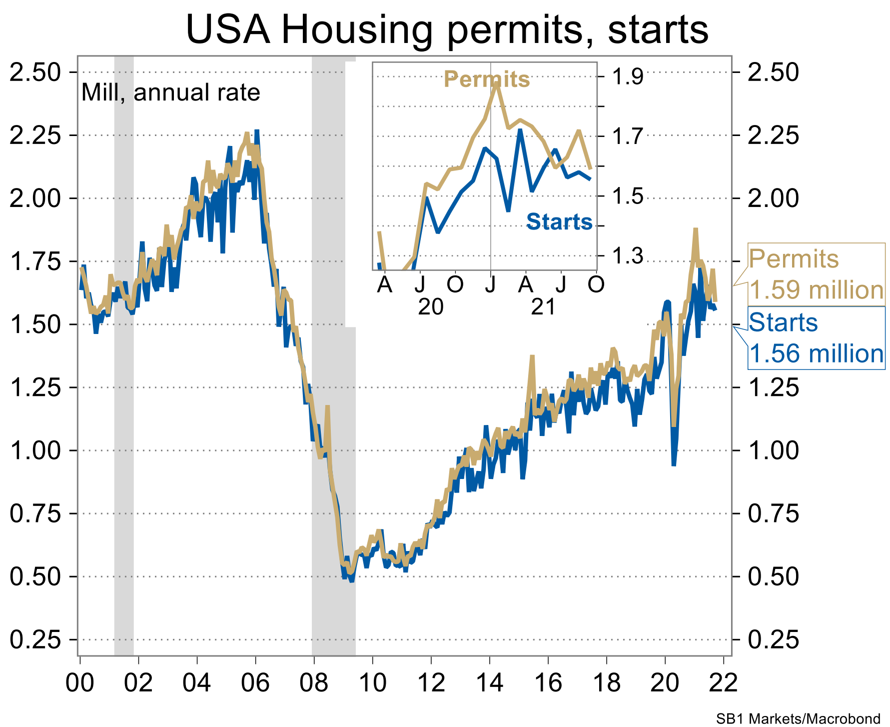


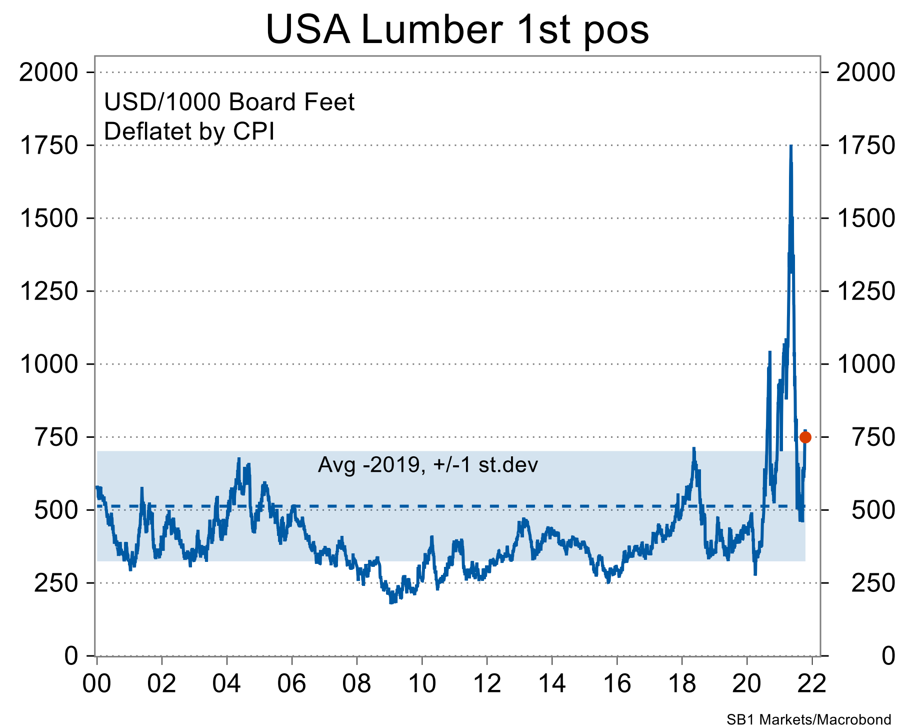


- **Manufacturing production** decreased 0.7% in September, expected up 0.2%, and August was revised down to -0,4% from +0.2% - in sum 1.5% weaker than assumed. Production is unch. from Feb-20, and that's an easy comparison. The production level is lower than the average 2012 – 2019 level!
- The weakness in September was broad but the auto industry cut back production sharply, by 13% - due to supply challenges of course. Hurricane Ida did also contribute on the downside in September
- **Total industrial production**, including utilities, mines/oil production fell by 1.3%, expected up 0.2% (and the hurricane was even more important vs total production, less oil in the Gulf area). August was revised down
- **PMI/ISM and all other surveys** signal a continued strong recovery
- **Capacity utilization** fell a little in Aug/Sept, but remains above average. The ISM survey reports a record high utilization, check next page

Housing starts, permits down in Sept, still above pre-pandemic level

Starts have flattened, permits are down from a higher level in early 2021

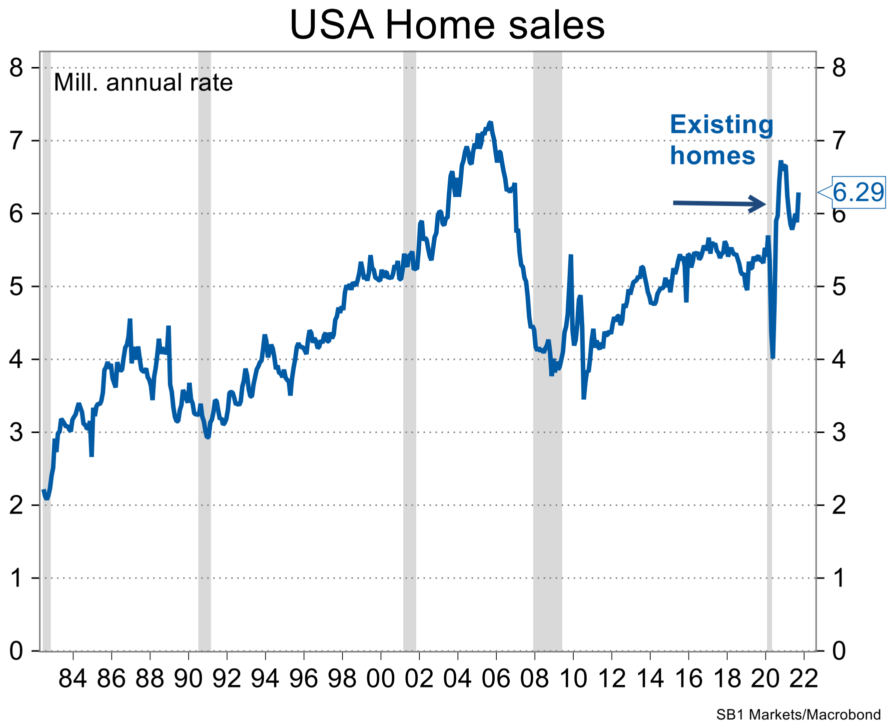


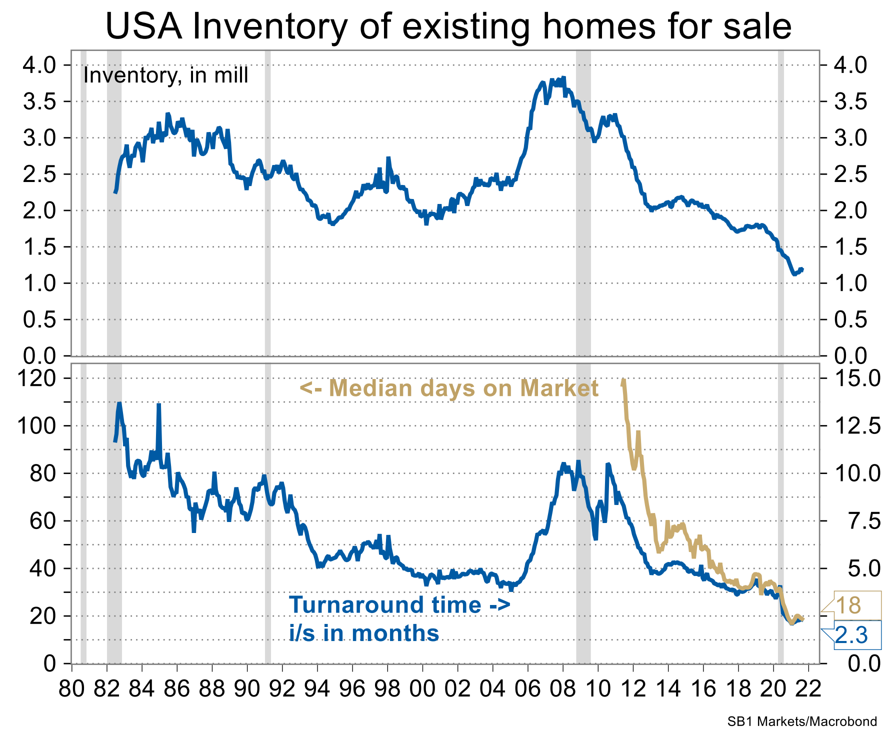


- **Housing starts** decreased to 1.52 mill in Sept , from 1.58 mill in August, expected marginally down from the previously reported 1.62 mill
- **Building permits** fell too, to 1.59 mill, from rose to 1.73 mill, up from 1.63 mill. in July, expected slightly down
- **Starts have flattened in 2021**, and barring some strong months late '20/early 21', the same goes for permits. The level is somewhat up vs. the pre-pandemic level. However, given the incredible strong existing home market, and soaring prices, starts should normally have strengthened further, amid still very low mortgage rates and a recovering economy
- **Supply & capacity problems and higher cost** in the building sector may explain the lack of response. However, those constraints may be easing, at least lumber is available at a far lower price than in the late spring

Existing home sales rose more than expected in September

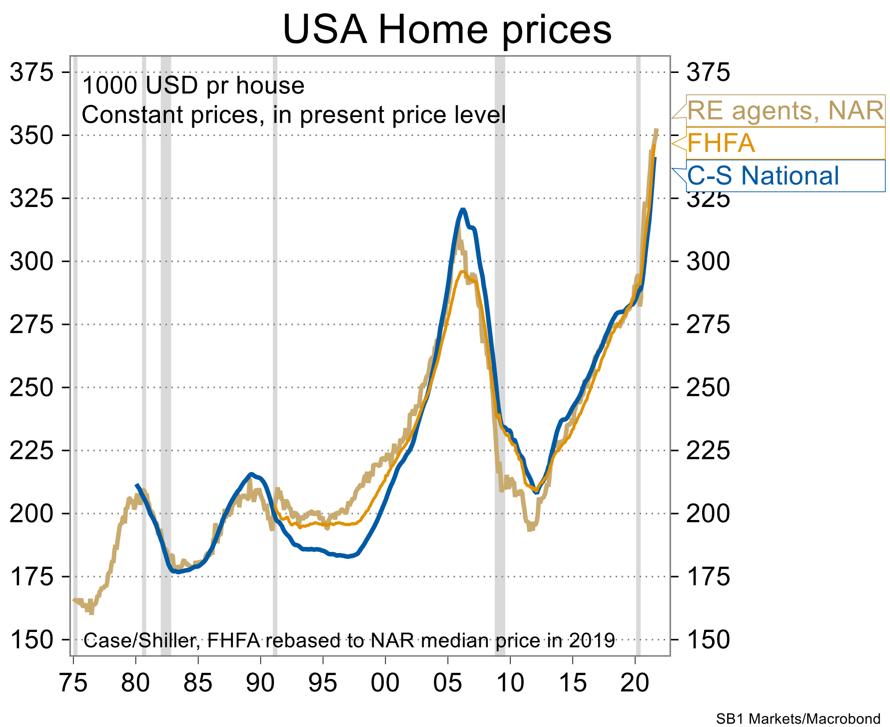
Prices rose faster again but are up ‘just’ 13% y/y



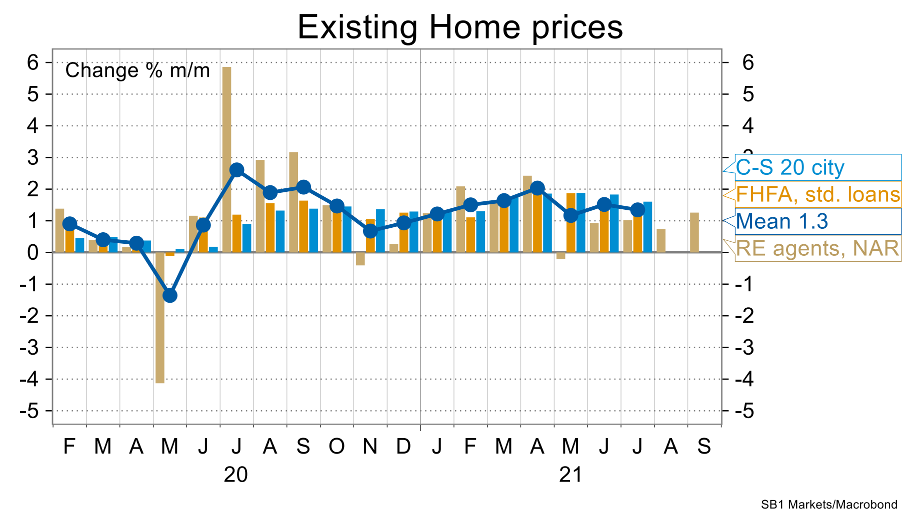


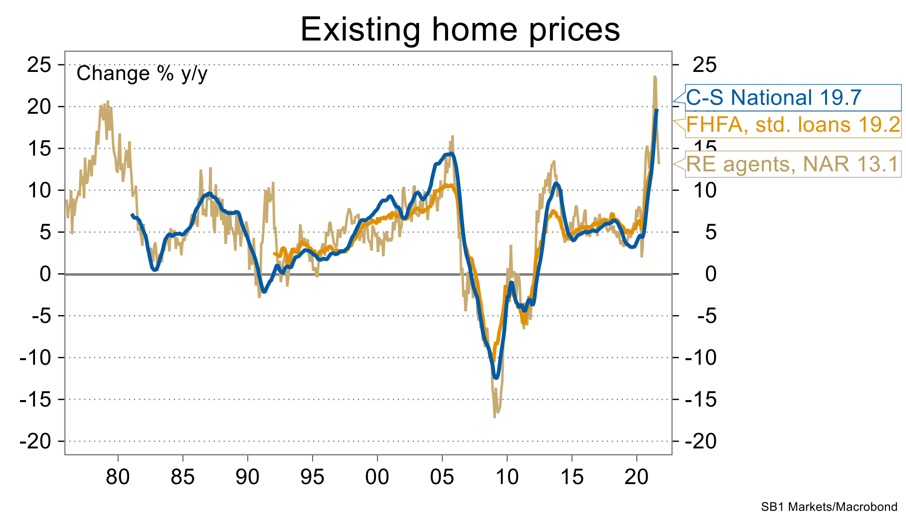
- Sales of **existing homes** jumped to 6.29 mill. (ann. rate) in September from 5.88 mill. (ann. rate) in Aug, expected up to 6.00 mill. Sales are down 7% from the local peak last autumn, but are almost 20% above the pre-pandemic level
- Sales are no doubt kept down due to a very low inventory of unsold homes. However, there are reports on buyers becoming more cautious following the steep rise in prices, and households judge the timing is very bad for home buying
- **The inventory of unsold homes** fell marginally in both Aug & Sept, and the level is close to the lowest ever - and equals just 2.3 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times is at 10 months. The median time at the market is just 18 days, down from 30 days before the pandemic (and 120 days in 2011)
- **Prices** rose 1.2% m/m in Sept, the fastest rates since April. Still, the annual rate fell further, to 13.1% from 14.9%

Existing home prices still on the way up



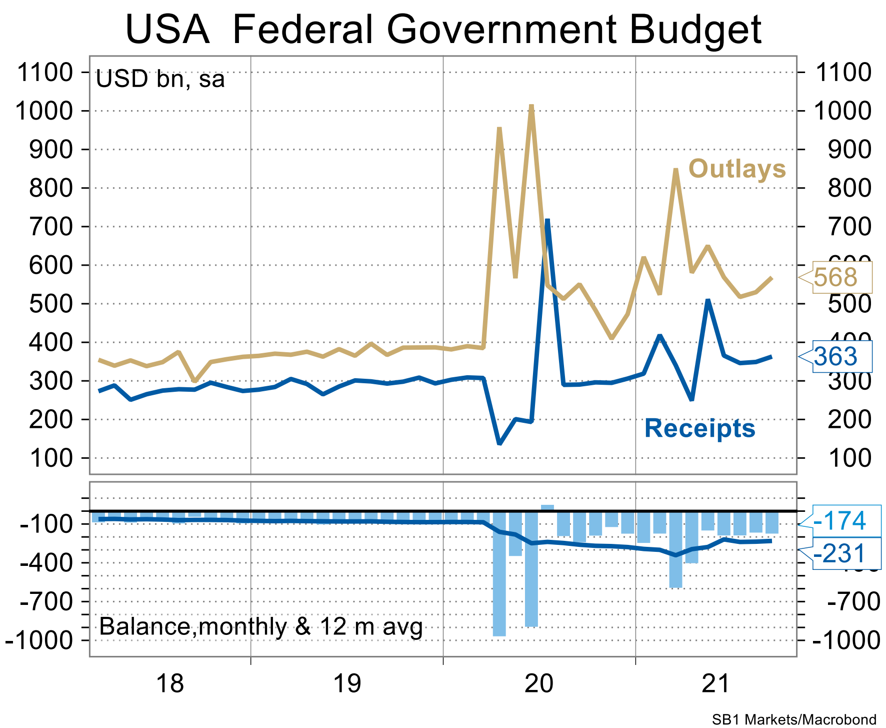
- **Prices** rose 1.2% m/m in September, according to the realtors – up from 0.5% in August. Growth has slowed somewhat, vs the spring sprint
  - » The annual rate fell to 13.9% from 14.9%
- **Other price indices** confirm a red hot housing market; prices are rising extremely fast, even after adjusting for the decline/slow growth last spring

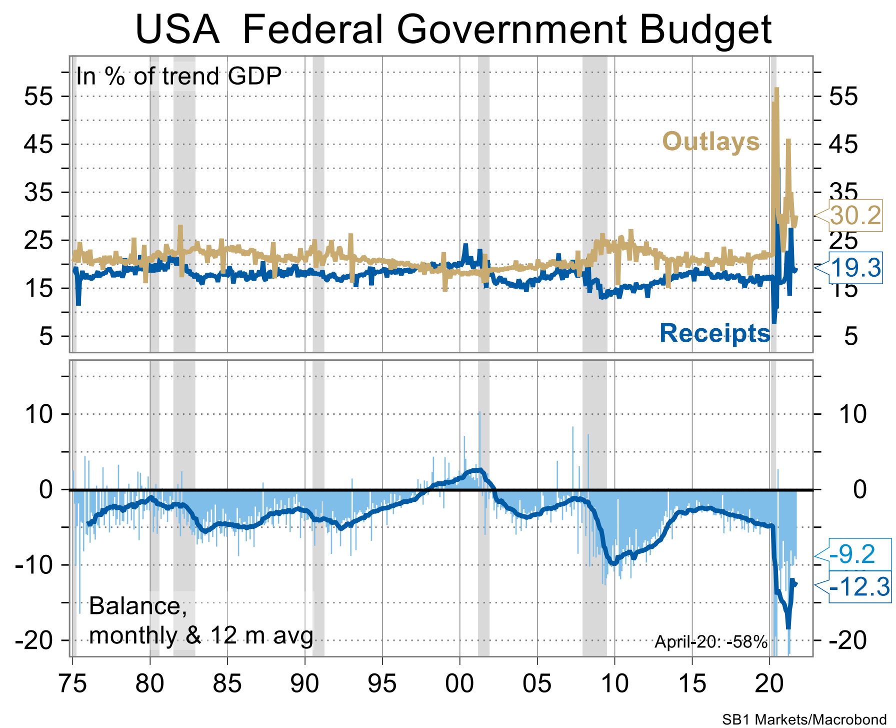




Budget deficit slightly wider in September, at 9% of GDP

Spending is more than 1.000 bn above the pre-pandemic level (5% of GDP), revenues far less

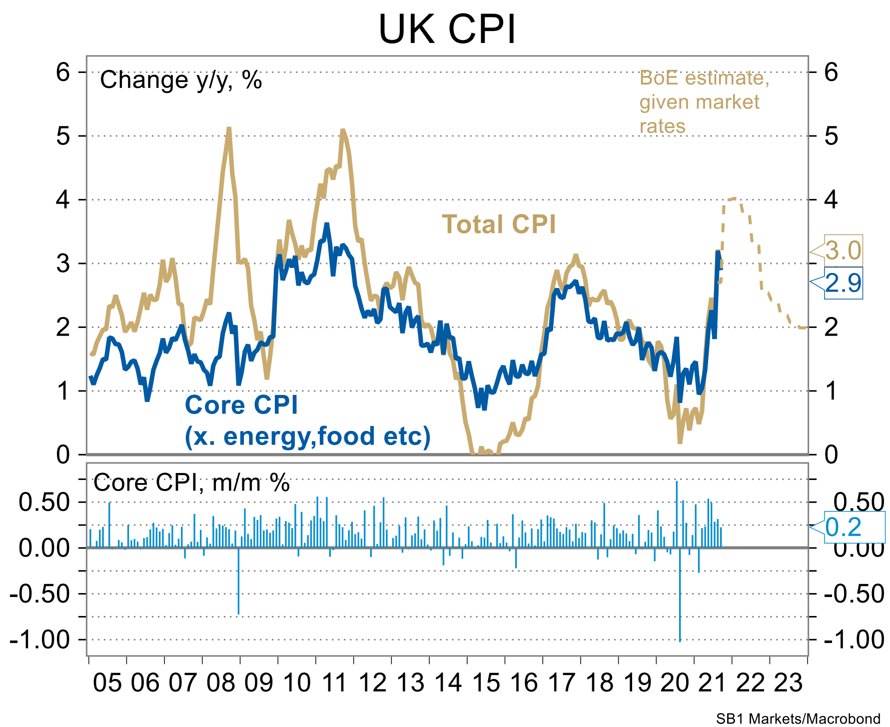




- **Federal expenses** to USD 568 bn in Sept (seasonally adjusted), equalling 30% of (monthly) GDP. Spending is some 8% of GDP higher than before the pandemic mostly due to income security spending, and transfers to states
- **Federal income rose to 332 bn**, 19% of GDP – and covering just 59% of the expenses. Revenues are just up 3% of GPD mostly due to higher tax payments from households that earn much more than before the pandemic
- The actual **deficit** was at USD 62 bn in Sept, expected USD 59 bn. The seas. adj deficit equalled USD 174 bn or 9.1% of GDP. Over the past 12 months the Federal deficit has equalled 12.3% of GDP
- The **Federal Reserve** is still buying gov't bonds, but 'just' at a pace equalling 4.5% of GDP. So no lack of paper for the rest of us (except that actual printing has slowed recently, due to the debt ceiling)

Inflation a tad down in September but monthly increase still too high

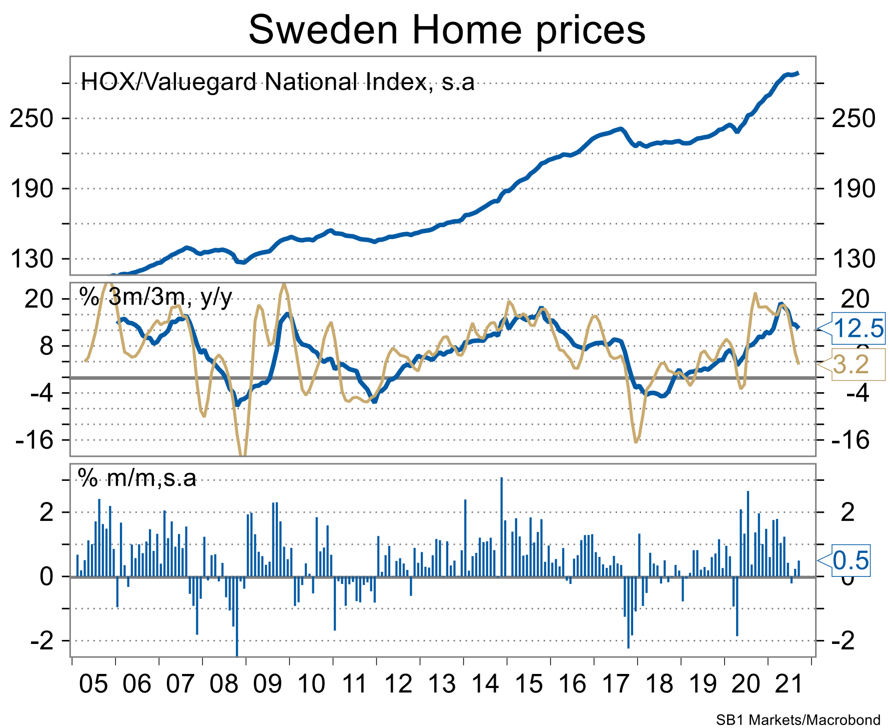
Total inflation down 0.2 pp to 3.0% & core down 0.1 to 2.9%; 0.1 – 0.2 pp below consensus

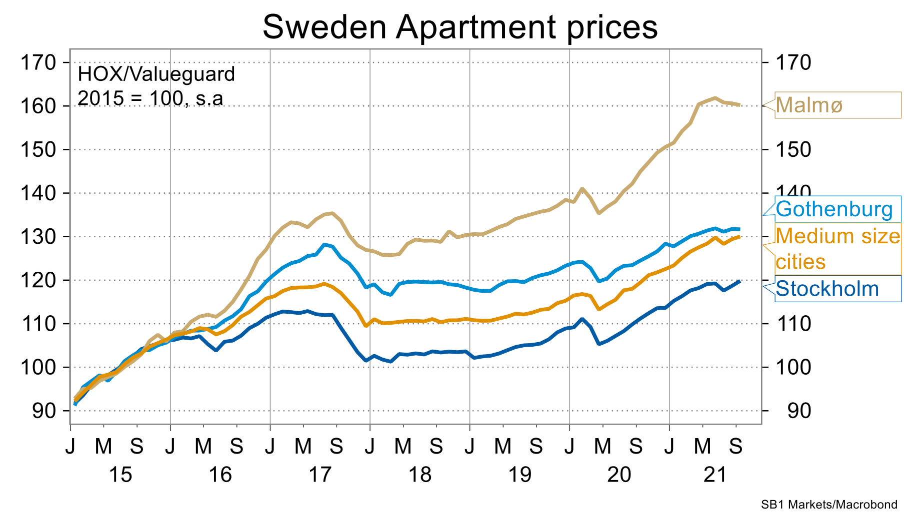


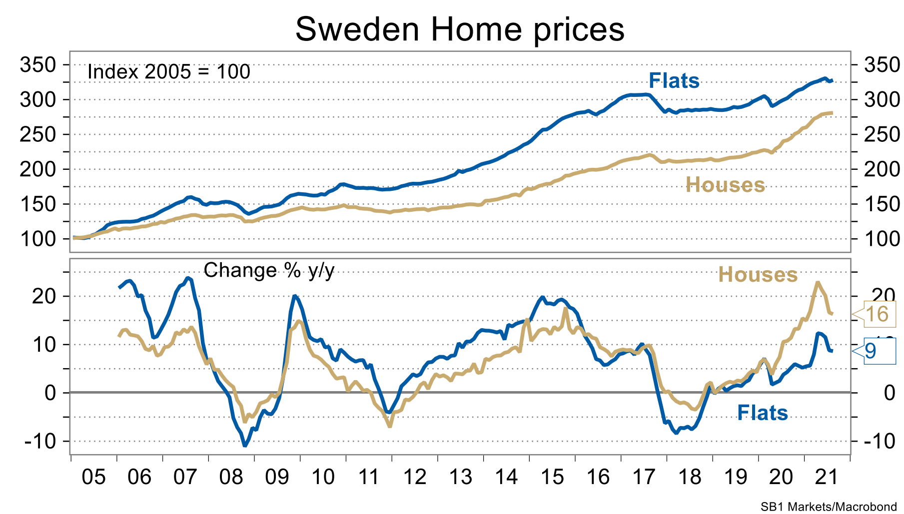
- Inflation is far above the 2% inflation target – following the steep rise in the annual rate when last year's subsidies fell out of the annual rate
- Transport has lifted CPI by 1.1 pp. 2nd hand cars are sharply up, as are fuel prices (both 18-19%)
- Residential energy prices are up just up 2.8% y/y, and the total energy bill is up just 10% - and prices are lower than in 2019
- However, other prices are on the way up – and Bank of England is worried and have clearly signalled than rates may soon be hiked

Swedish house prices up 0.5% in August – pace is slowing but level still elevated

The annual price growth has fallen to 13%, from the peak at 19%







- The annual price inflation fell to 12.5% in September from 13.4% in August. In April the rate was 19% (as prices fall last spring)
  - » The underlying price growth (3m/3m) has slowed to just 3.2%
- Apartment prices fell in Malmø and Gothenburg (seas. adj.) and prices are below the May/June level. Stockholm prices rose further and is at ATH in Sept
- The Riksbank has 'promised' to keep interest rates unchanged until 2025

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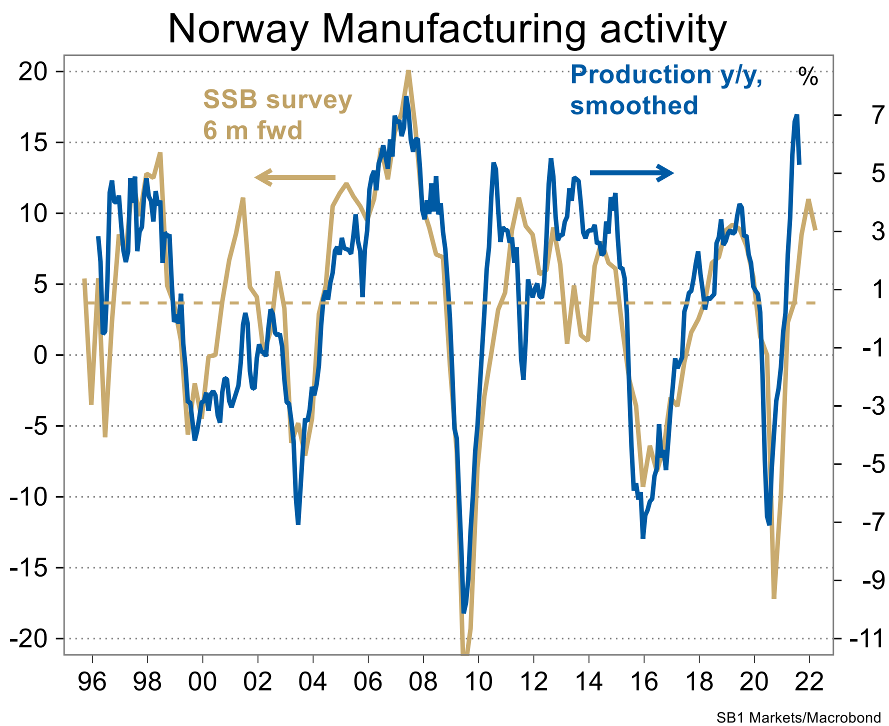
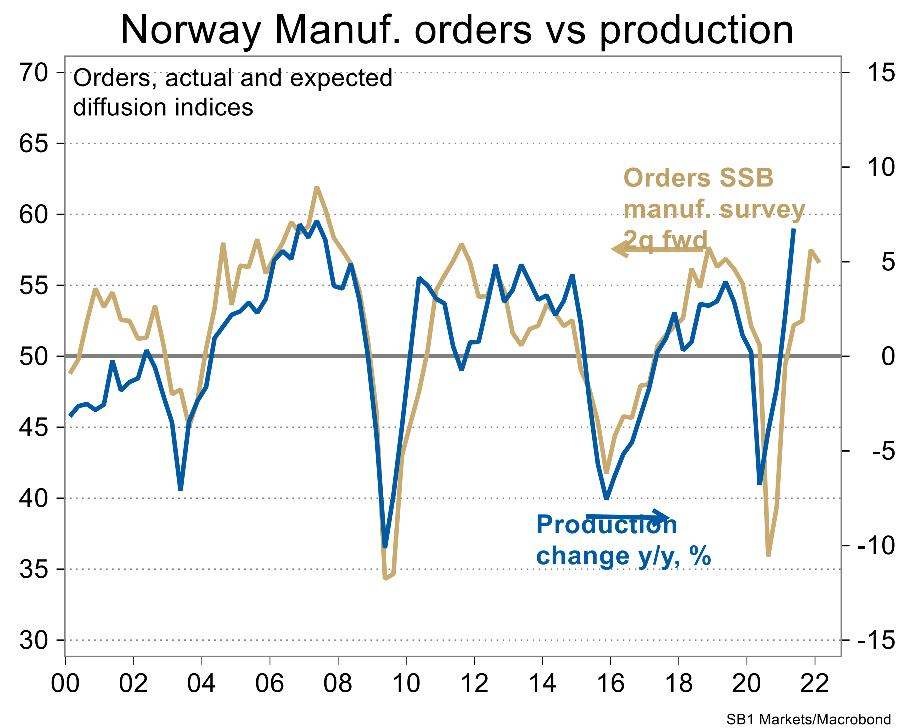
SSB's manufacturing a tad down in Q3, mostly on supply concerns

Signals growth well above trend the coming months, broad based

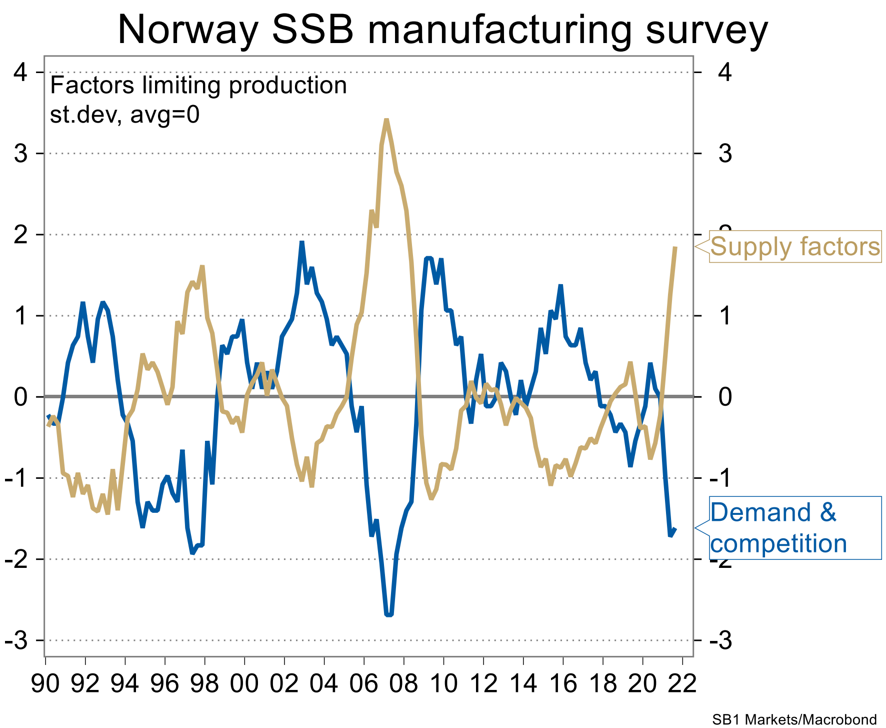


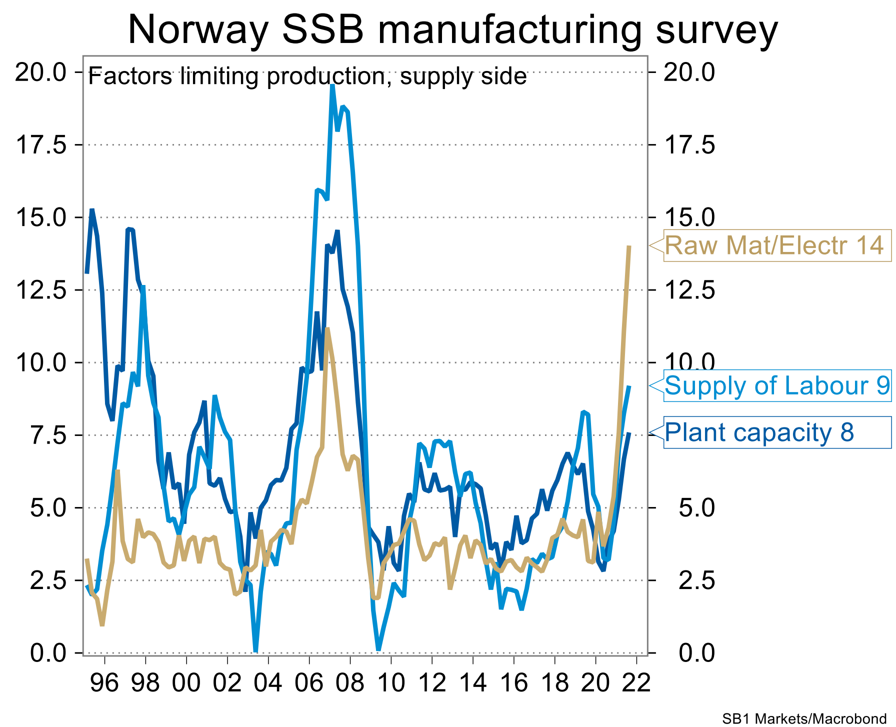


- The composite index in SSB's manufacturing survey fell to 8.8 in Q3 from 11 Q2 (rev. up from 8), we expected an increase up to 12. The level is 5 p above the average (or +0.7 st.dev above avg, down from 0.9 Q2)
  - » The index signals growth well above trend in production, 3½ GDP growth and a 20% growth in expected corporate (OSEBX) earnings
- Orders are growing rapidly but not faster in Q3. Foreign orders are now increasing faster than domestic orders, and oil related industries reported a recovery
- ***Supply constraints the most serious since 2008. Demand/competition is far less of a problem than normal***
- ***Companies are reporting they expect prices to rise faster than ever (data from 1990)***

Limiting production: Supply factors far above average, demand far below

As if we were in a booming economy…



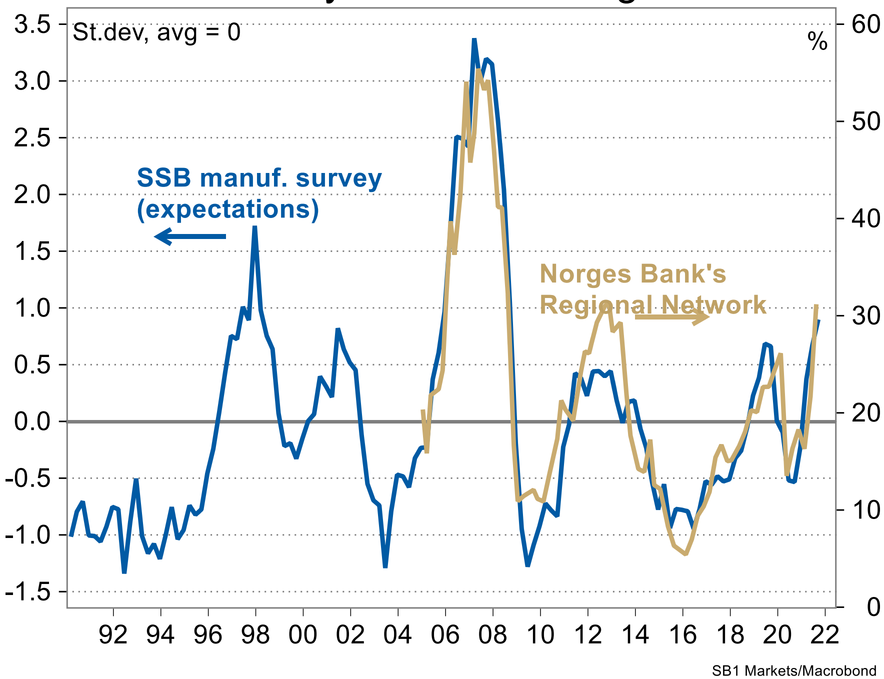


- More companies are reporting supply side factors as limiting production, up to the highest share since 2008
  - » More companies are reporting that lack of raw materials/electricity as a limiting factor than anytime before
  - » More companies are reporting supply of labour and plant capacity as limiting factors than since 2008
- Far fewer companies than normal are reporting lack of demand or competition as limiting factors. The share rose in Q3 but just marginally, from the lowest level since 2008
- ***No demand crisis – and it never was during the pandemic***

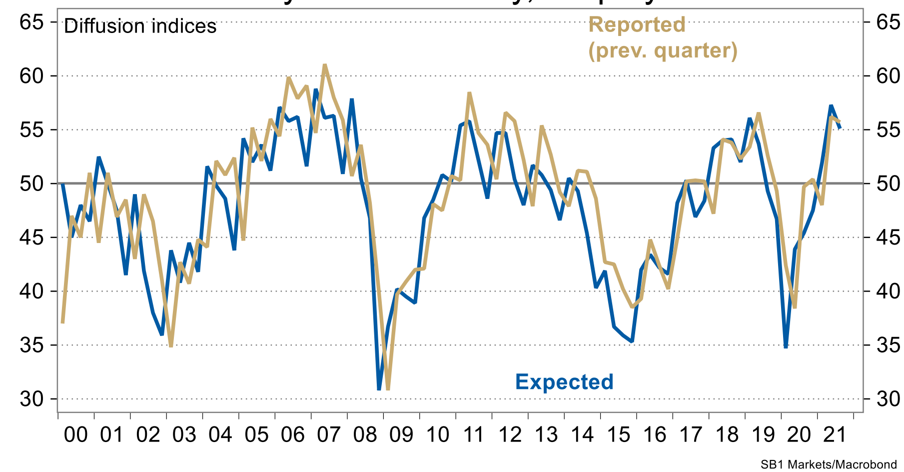
Labour shortages further up, but still far below the 2008-peak

Manufacturers and other sectors reports very aggressive hiring plans

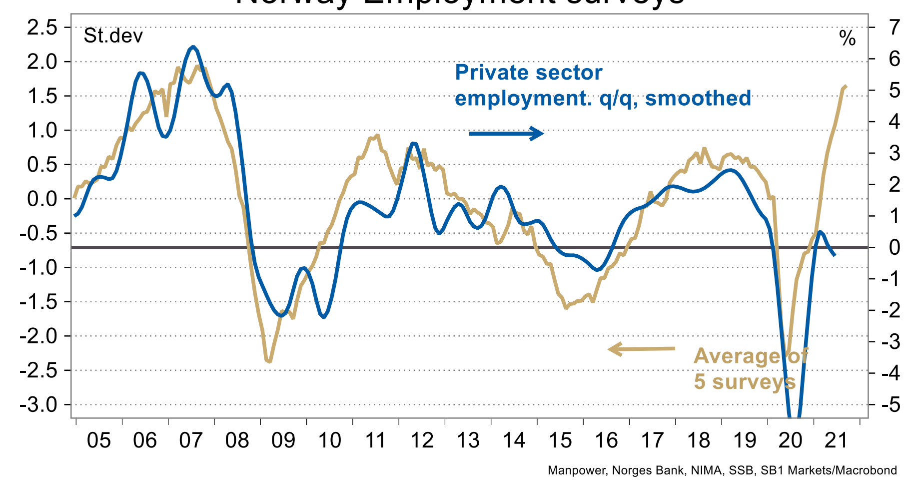
Norway Labour shortages



Norway Manuf. survey, Employment



Norway Employment surveys



- Taken together with other surveys, SSBs manufacturing survey signals strong employment growth – at the fastest pace since 2008

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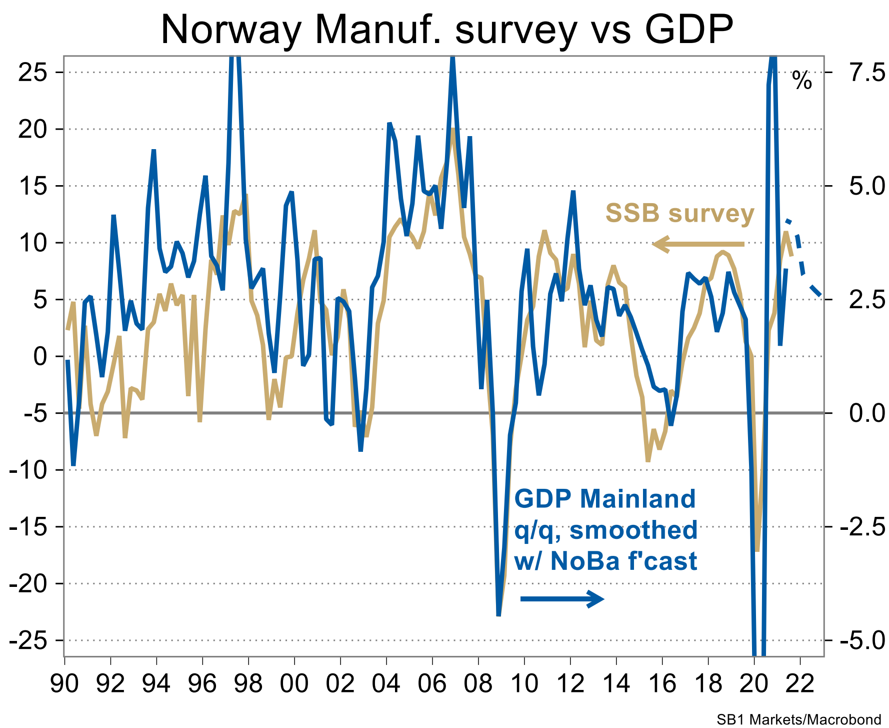
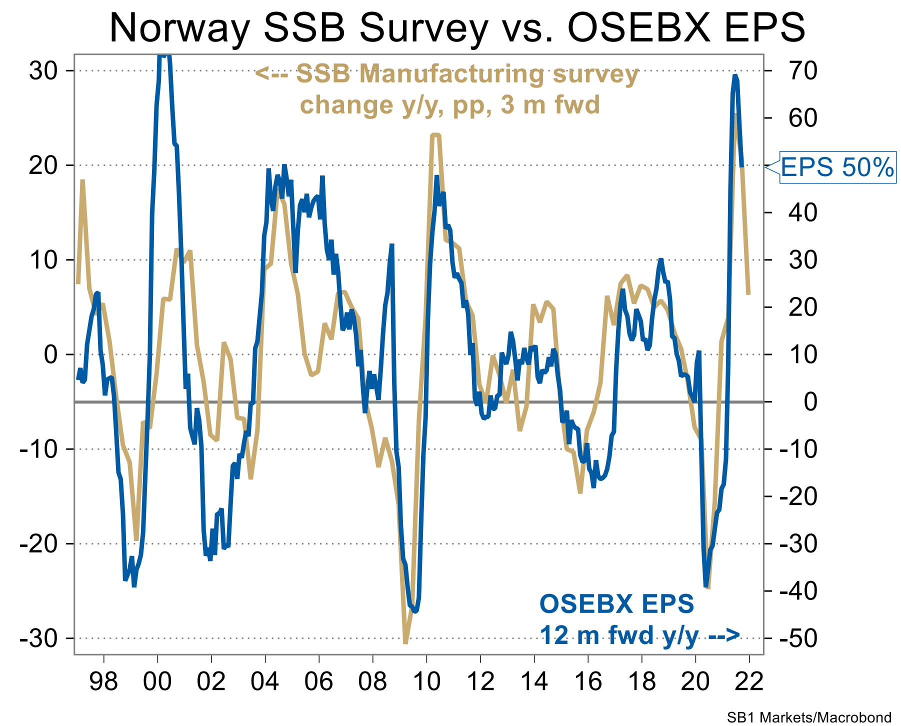
SSB's manufacturing survey signals 3½ % GDP growth, and still strong EPS growth





- Our simple EPS-model is not perfect when oil prices are volatile

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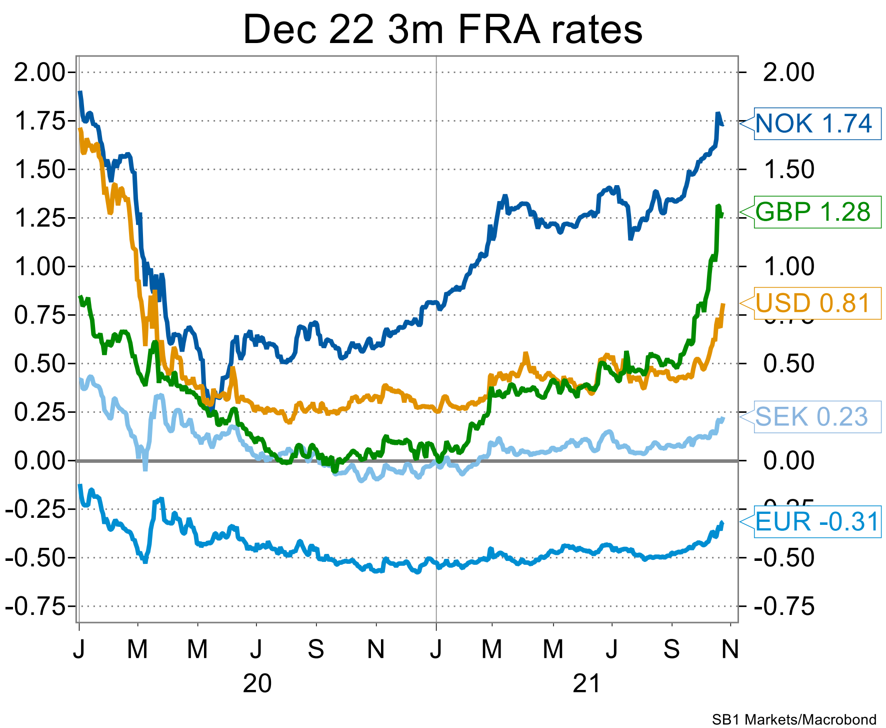
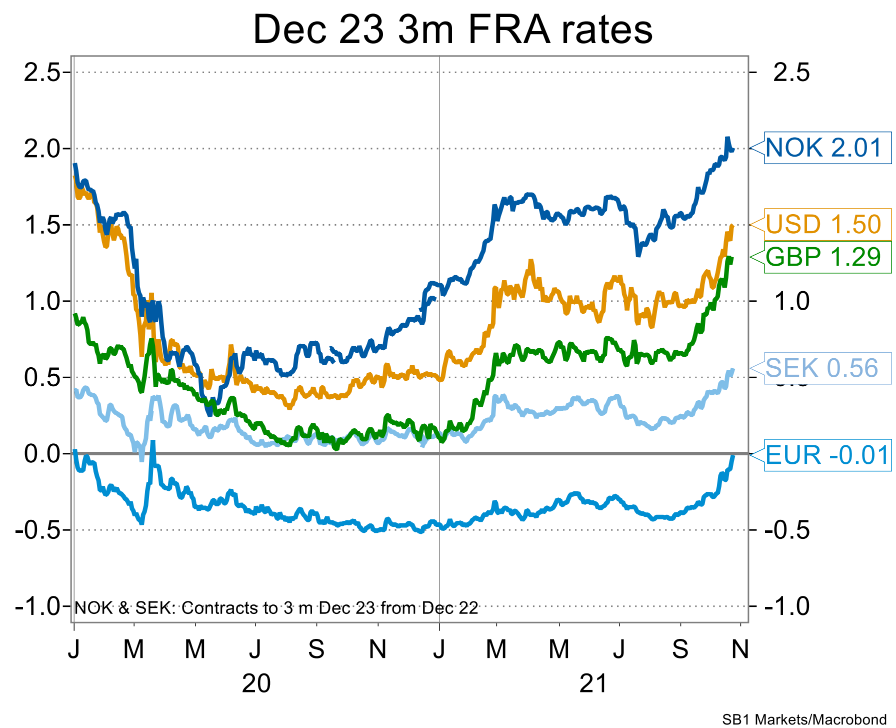
FRAs: GBP rate expectations 25 bps last week, 75 bps past few weeks

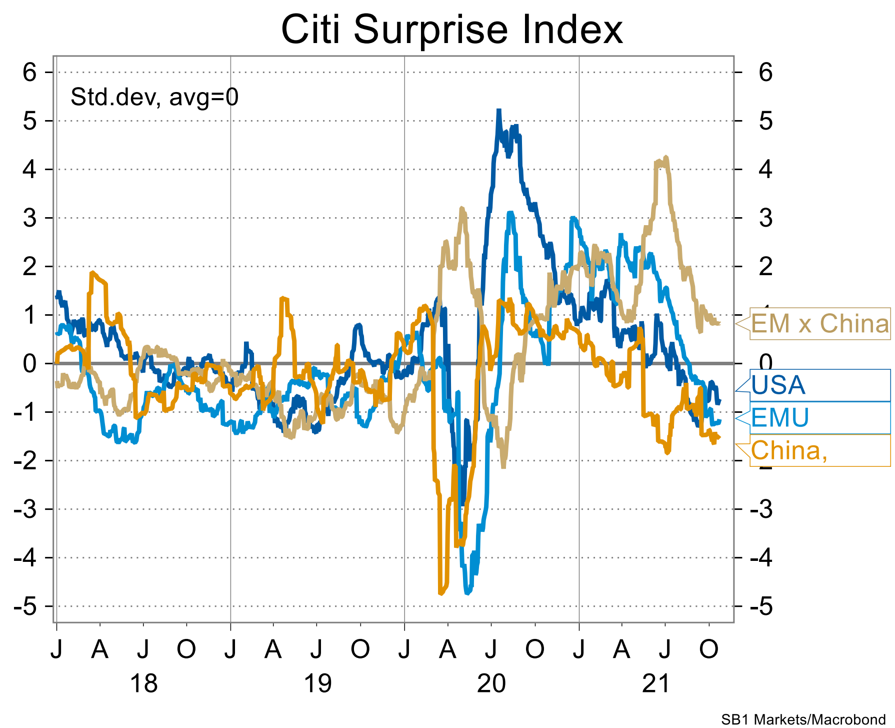
The BoE will hike in November or December? And will hike 2 or 3 times next year?

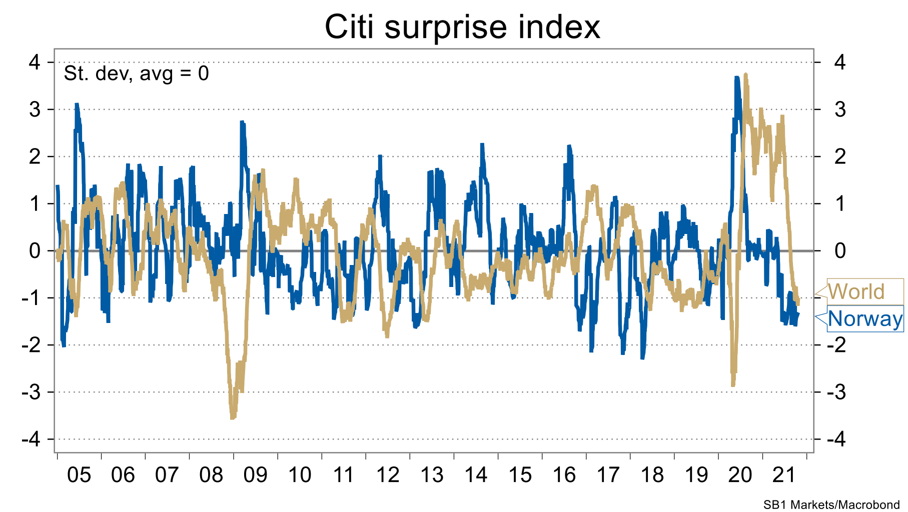


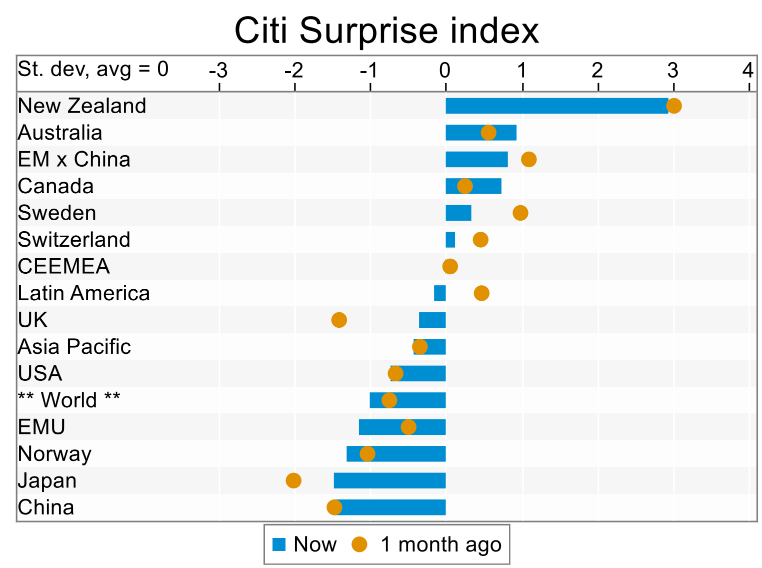


Still mostly negative surprises – but not more last week either

Some signs of stabilisation past 2 – 3 weeks, perhaps has expectations adjust







- Both US, EMU and China surprises are on the downside
- **Emerging Markets x China** are still reporting <u>better</u> data than expected
- **Norway** has surprised sharply on the downside, according to Citi

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

Highlights

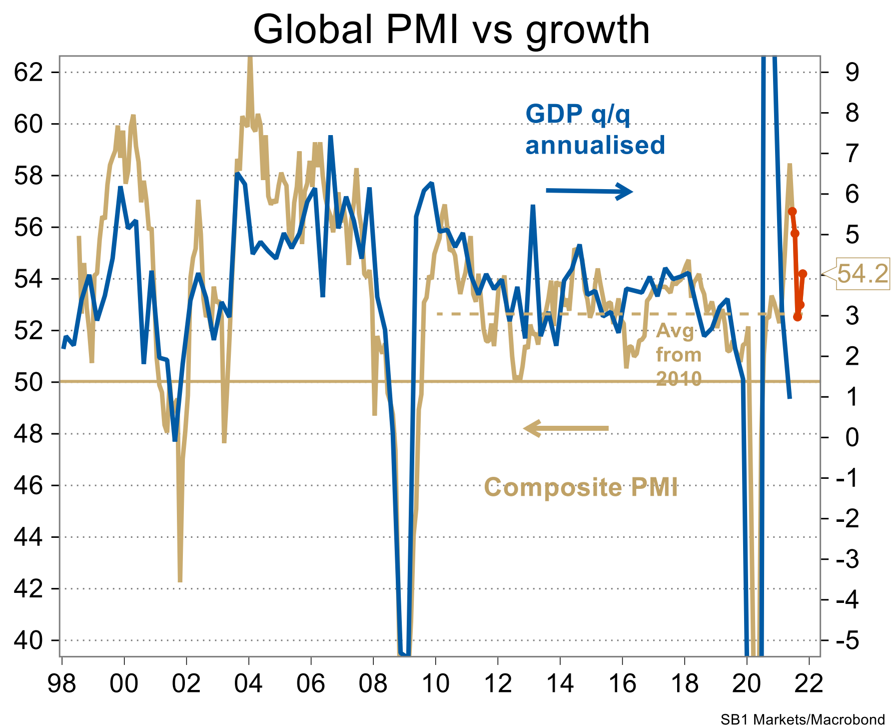
The world around us

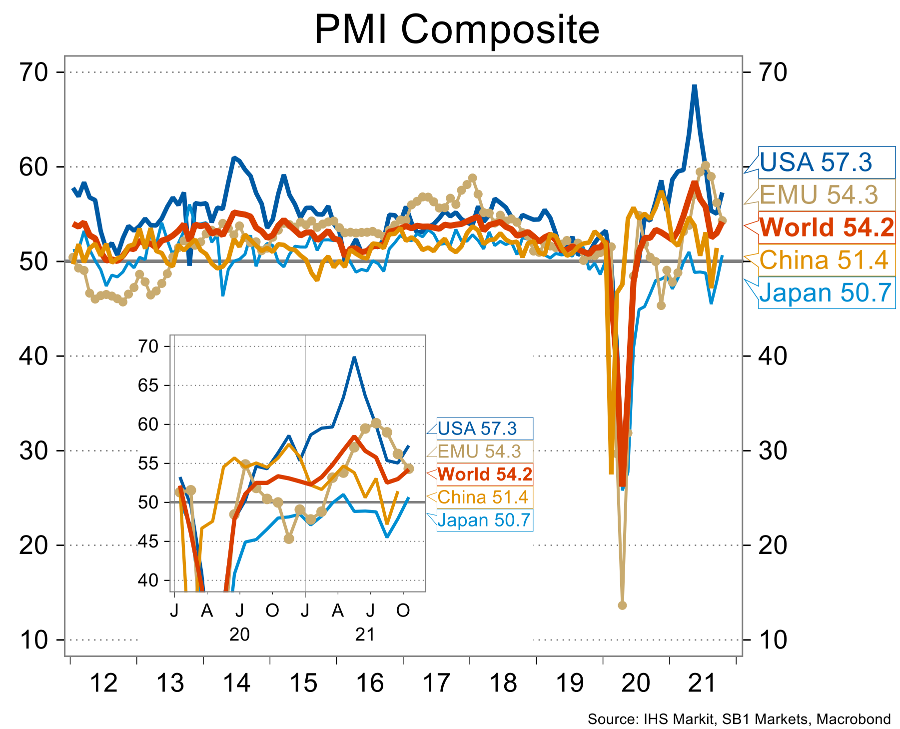
The Norwegian economy

Market charts & comments

PMI very likely recovered further in October

We estimate a 1 – 1.5 p lift in the global composite PMI to 54.2, signalling a 4% growth pace

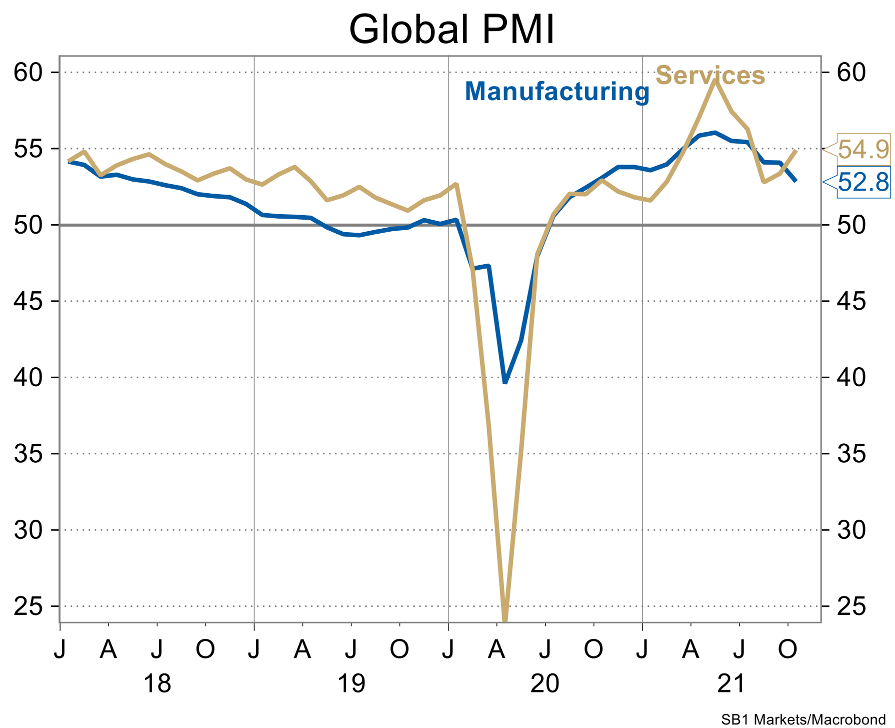


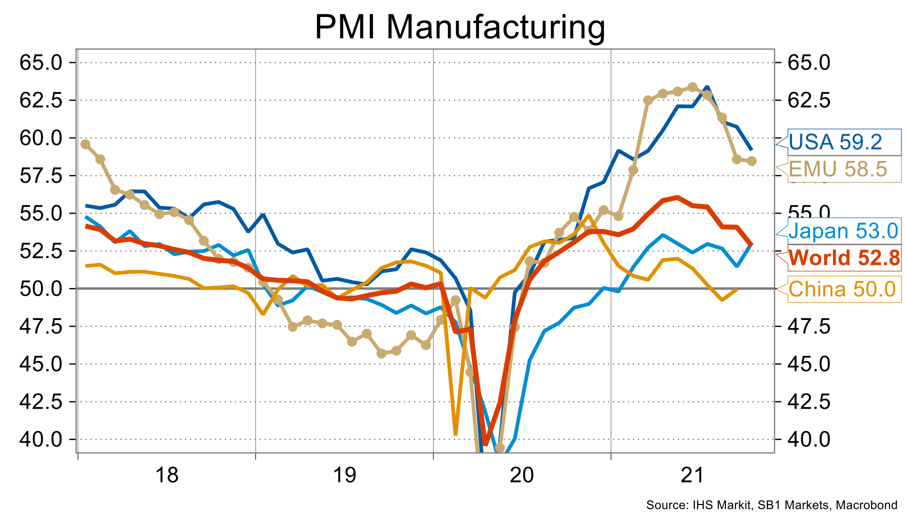


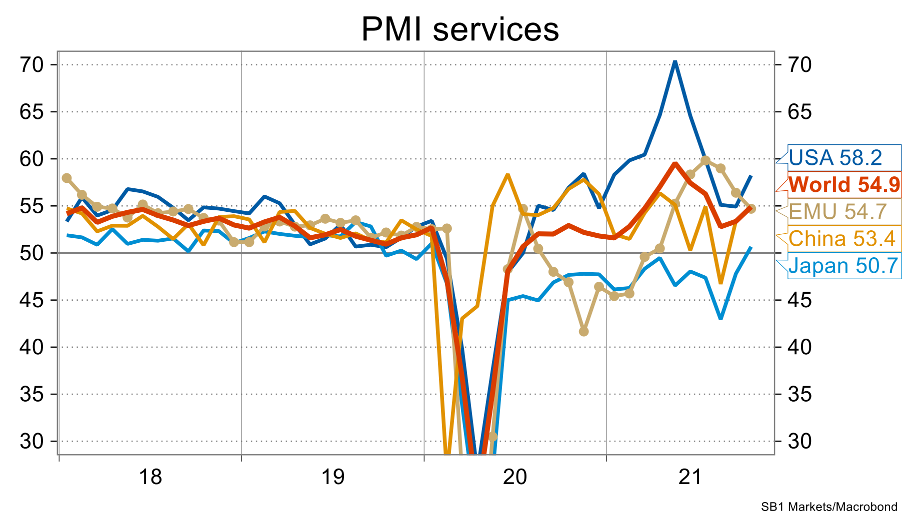
- **The global PMI** was better than we initially assumed in both Aug & Sept, as Emerging Markets fared much better than the rich part of the world, at least vs. m/m change in the PMI. We do not yet have any PMI from EMs but have assumed another increase in these surveys in October
- However, the PMIs in the **rich part of the world very likely rose too**, as a further downturn in the EMU was more counterweighted by in increase in US, UK, Japan and Australia. The manufacturing sector reported slower growth (but still very high growth, while the service sector PMI recovered further)
- Taken together, a significant lift in the global PMI in October, by 1 – 1.5 p to above 54, signalling a 4% growth pace in the global economy
- **Supply chain** problems are escalating. The delivery times index shot up again, to another ATH
- **Prices** are rising faster again. The composite PMI price index for rich countries is up to the same level as the peak in 2008

Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

Manufacturing PMIs down, services up in October



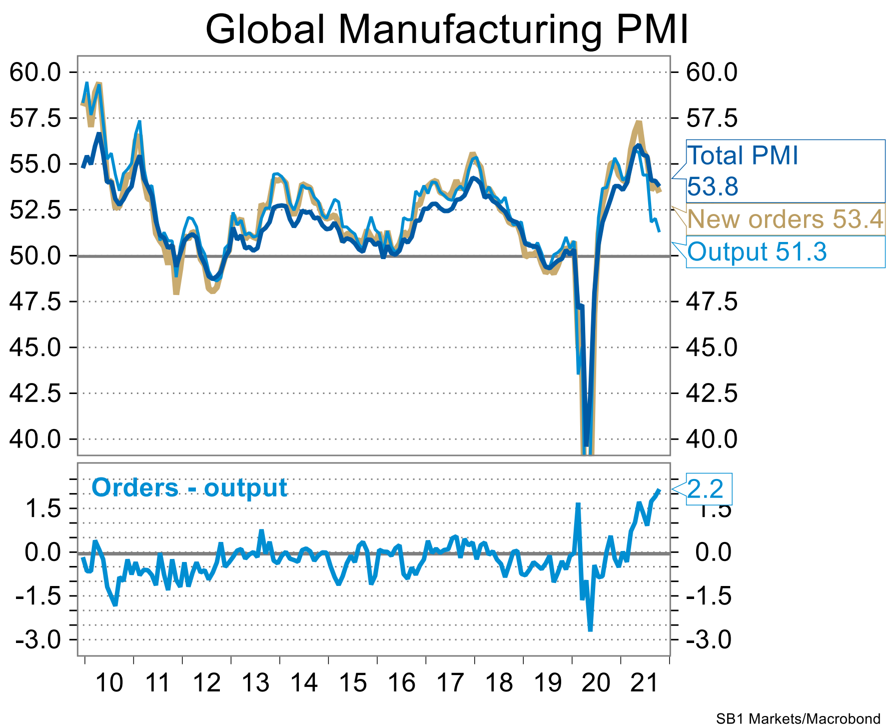


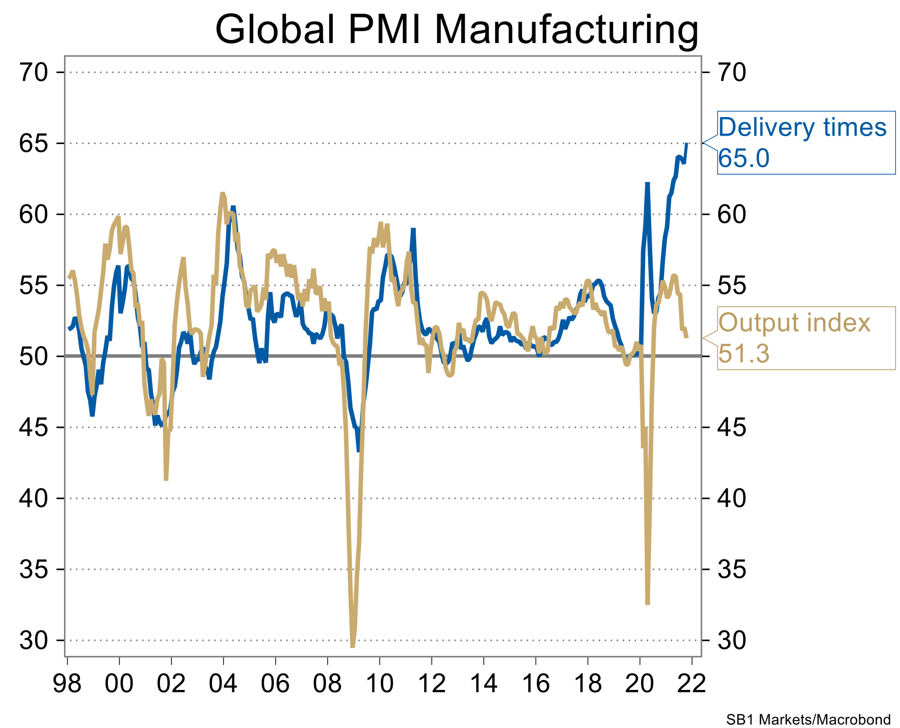


- We estimate a ¾ p decline in the **manufacturing PMI** but a 1.5 p lift in **services PMI**
- The slowdown in the manufacturing PMI seems to be broad in October too, but the level still strong in DM – and EMS are probably on the way further up
- Services in the EMU continued down but are still reporting growth well above trend

Manuf. output growth is slowing to below par, as delivery problems escalate

While order inflow is still growing faster than normal. Current capacity is (b)reached

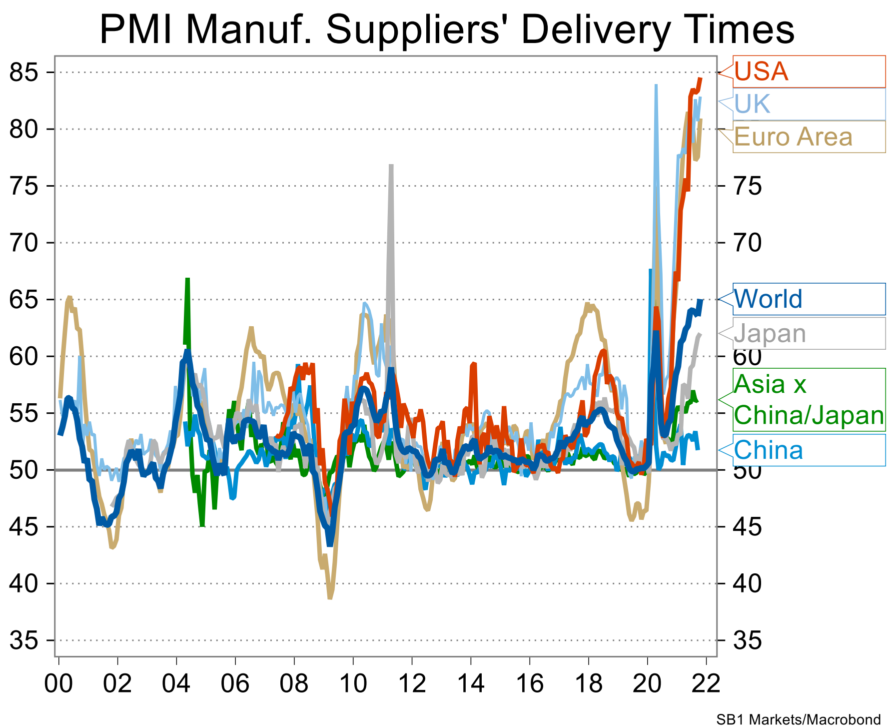




- **The current capacity is more than reached**. The question is of course: How much is capacity (transitory) impaired by the fight against Covid-19? It is impossible to know before after the fact
- However, problems are most acute in Western countries where demand for goods have been much higher than normal. That may indicate the 'normal' capacity is not necessarily impaired but rather that demand for goods is exceptionally strong – of course buoyed by exceptionally fiscal and monetary policy measures during the pandemic
  - An example: US import volumes are 10% above the pre-pandemic level (however below the 2012-18 trend path, import fell during 2019)

Delivery times index up to ATH again – but it's still just a Western problem!

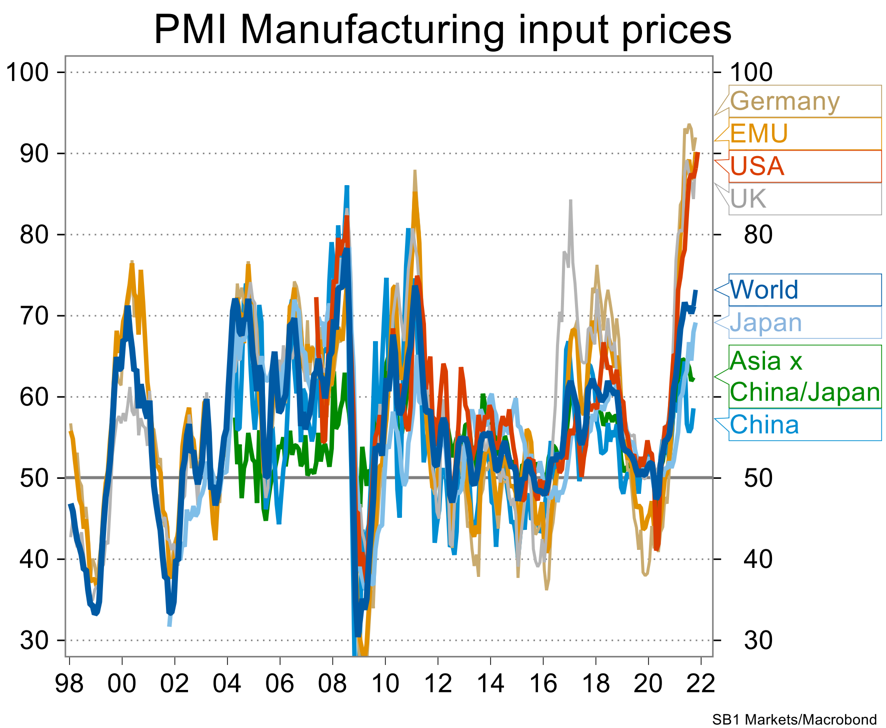
… at least mostly, Japan is reporting somewhat longer delivery times too

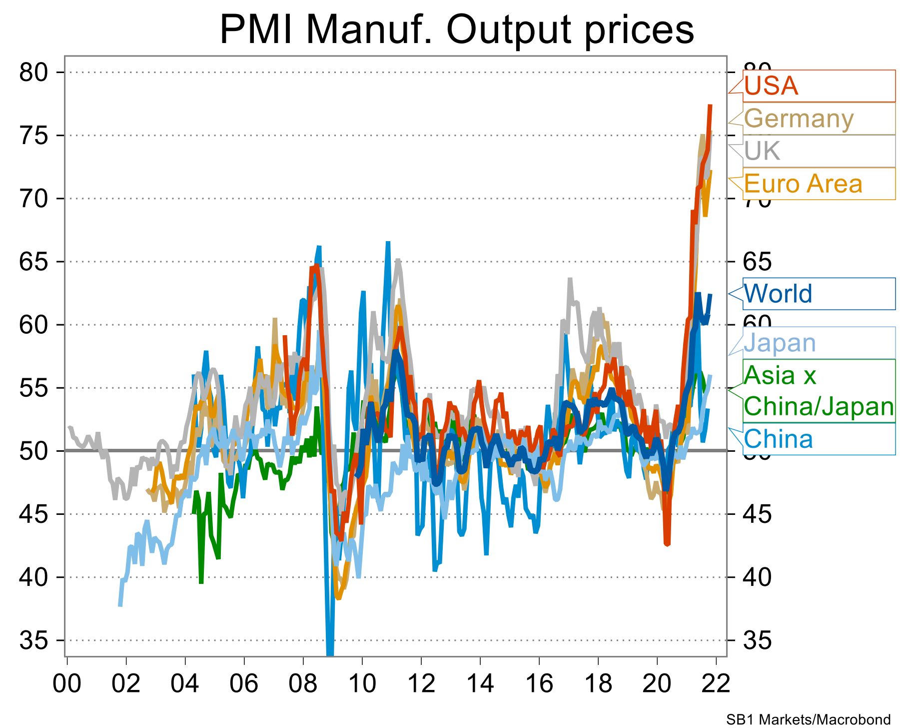


- If it was mainly a Covid related problem: Why are not Asian counties reporting more delivery challenges?
  - » OK, transport bottlenecks may cause the problem, but what if those problems are mainly due to strong demand for goods in this part of the world?

- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) rose in both the US, EMU and Japan in October – and very likely globally. These survey data confirm company statements, and a surging stream of media reports

Both input & output prices climbed faster in October





- **Both EMU and US** manufacturing industries reported the steepest growth in both input and output prices ever in October

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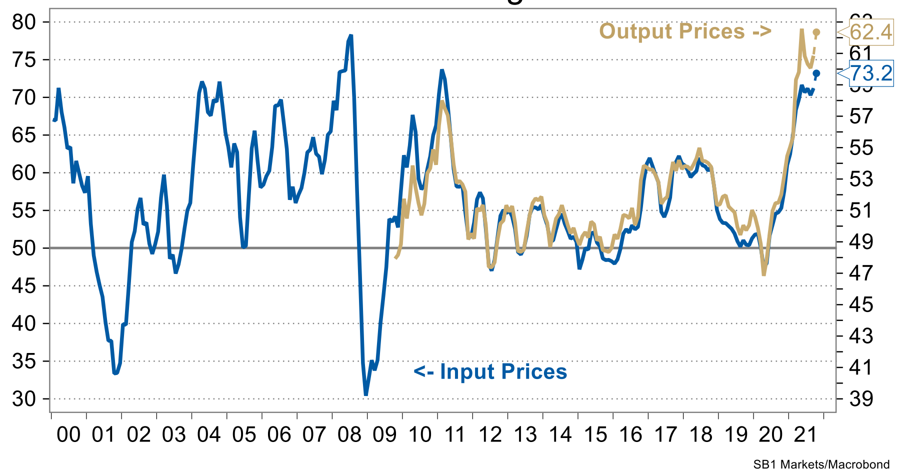
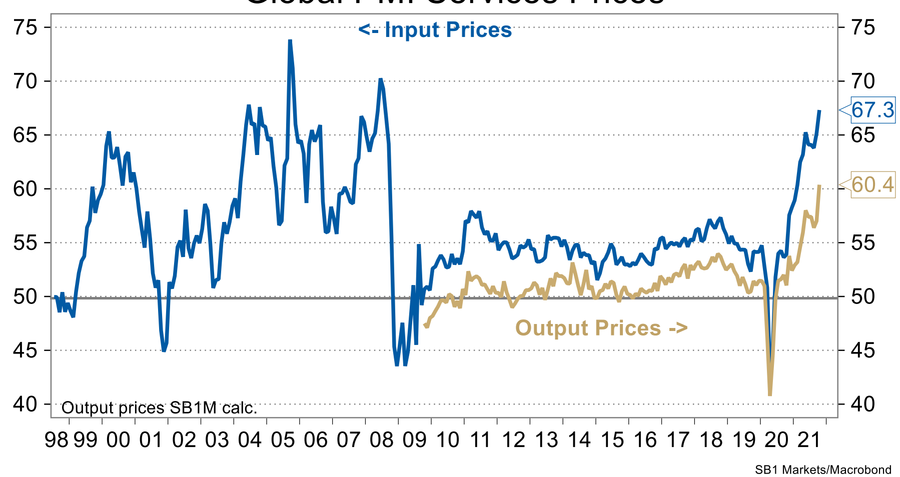
The global PMI price index up again, close to the 2008 peak level

Prices indices up in October, both manufacturing & services, input & output prices

Gobal Manufacturing PMI Prices

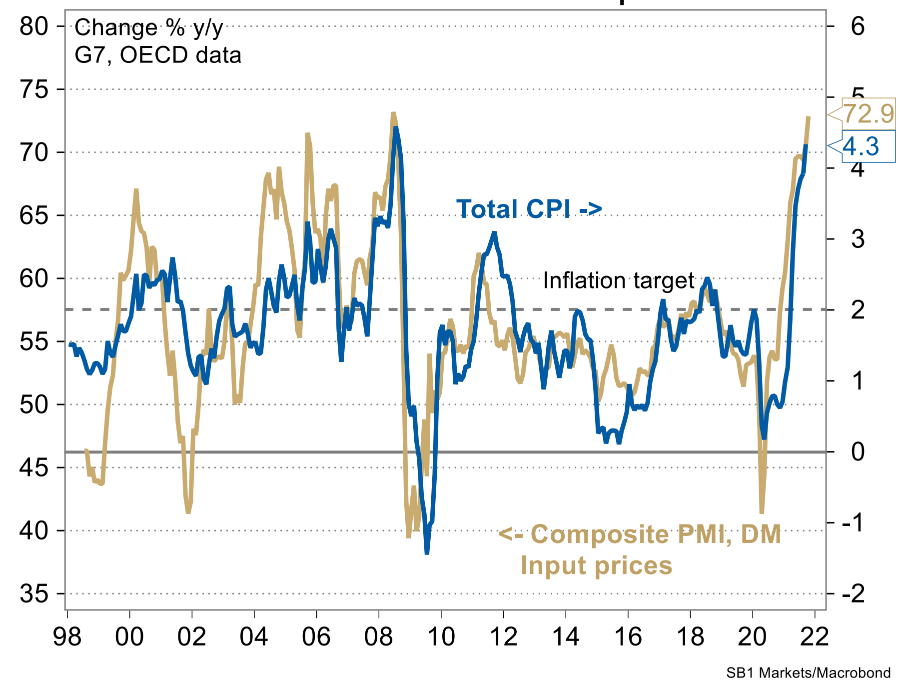


Global PMI Services Prices



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

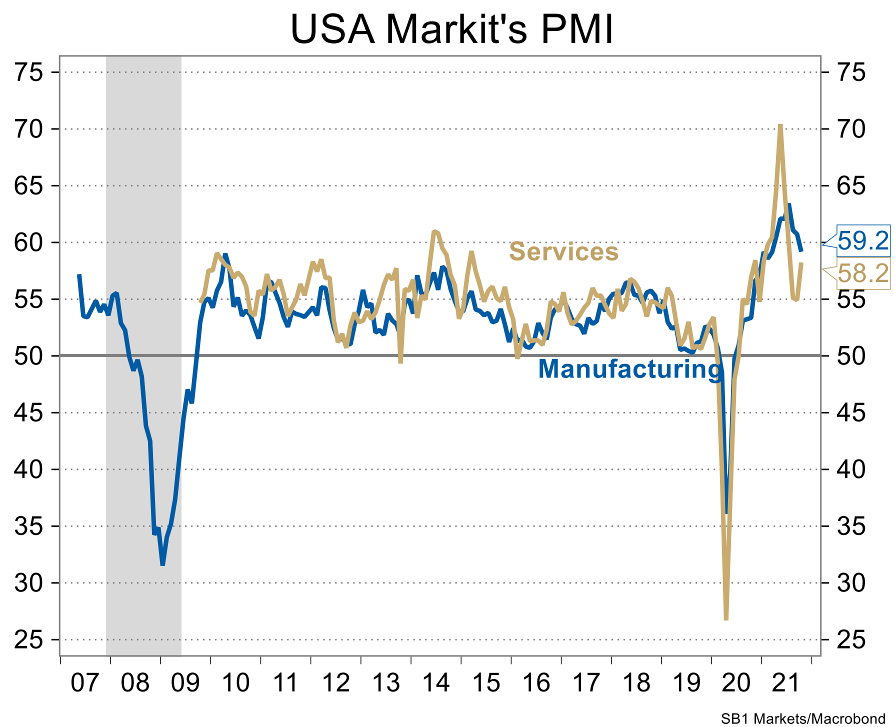
OECD Inflation vs PMI prices

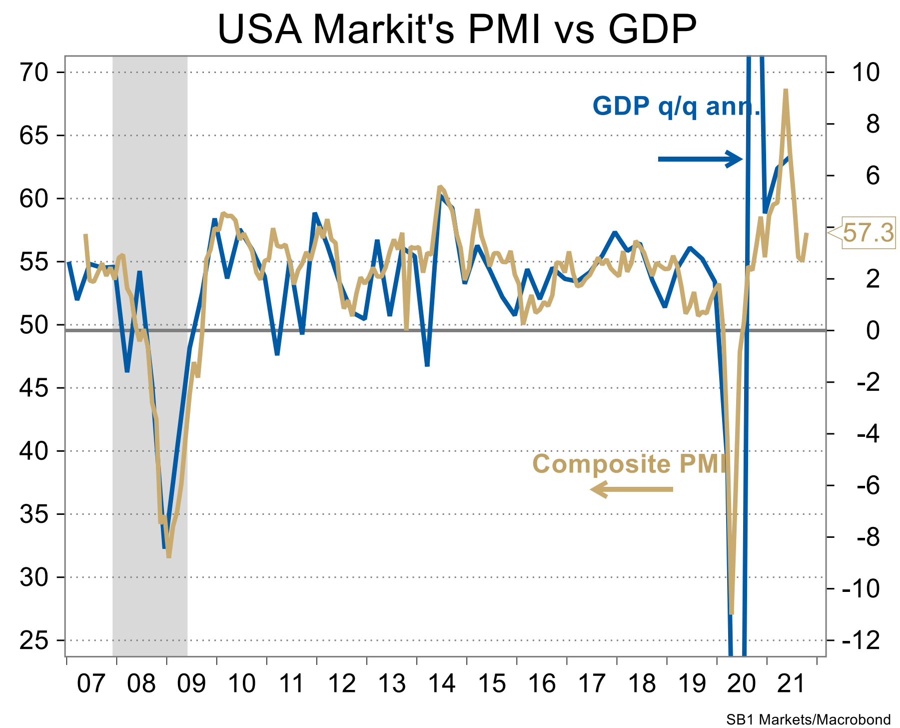


- Companies world wide are reporting price increases far above normal levels, and actual inflation prints will remain elevated for months (at least annual growth rates)

Services pick up steam again – as Delta retreats? Manufacturing down, still strong

The composite 57.3 level signals a 4% GDP growth pace





- **The composite PMI climbed** 1.7 to 56.8; expected up 0.2 p
  - » The **manufacturing** index fell by 1.6 p to 59.2, expected down just 0.2 p. Still, the level is of course still a very high
  - » The **services PMI** gained 3.3 p to 58.3, expected up 0.2 p. The level is well above average
- The Delta outbreak is easing and may explain the recovery in the service sector PMI. Companies reported they have been able to employ more people in October
- **Prices** are still soaring – and cost inflation was the 2nd highest since the composite index was introduced in 2009

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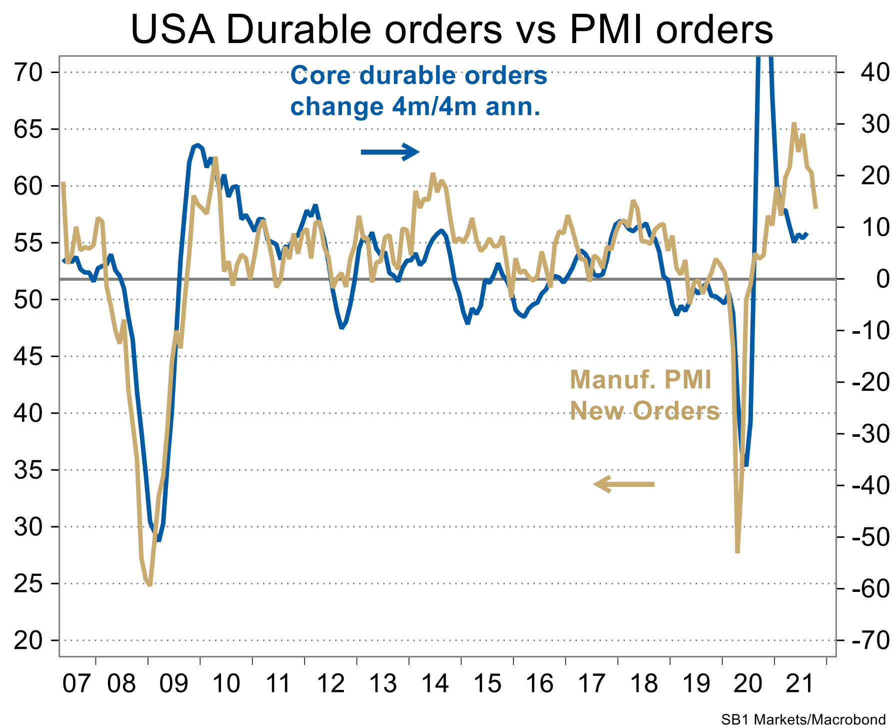
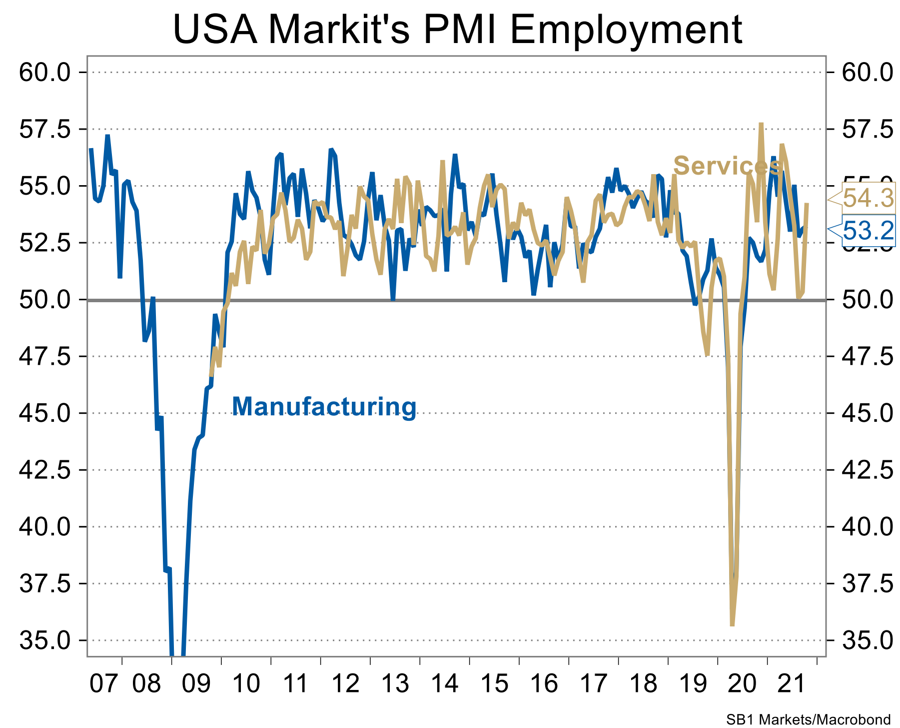
Manufacturing orders still strong – and employment growth slightly up in Sept.

No employment growth in Services in Sept, in line with what other reports are telling us





- We believe that the rise in the spread of the Delta variant as well as a lack of supply of labour are the reasons for the downturn in the services employment index. Employment growth in the manufacturing sector was stronger in September

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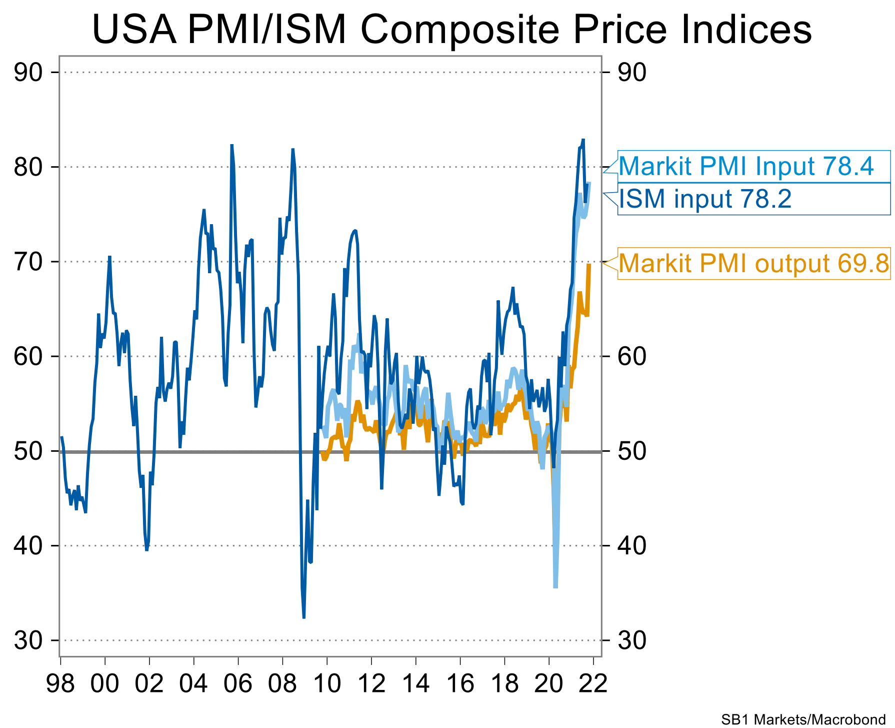
The US challenge: Prices are soaring all over the place

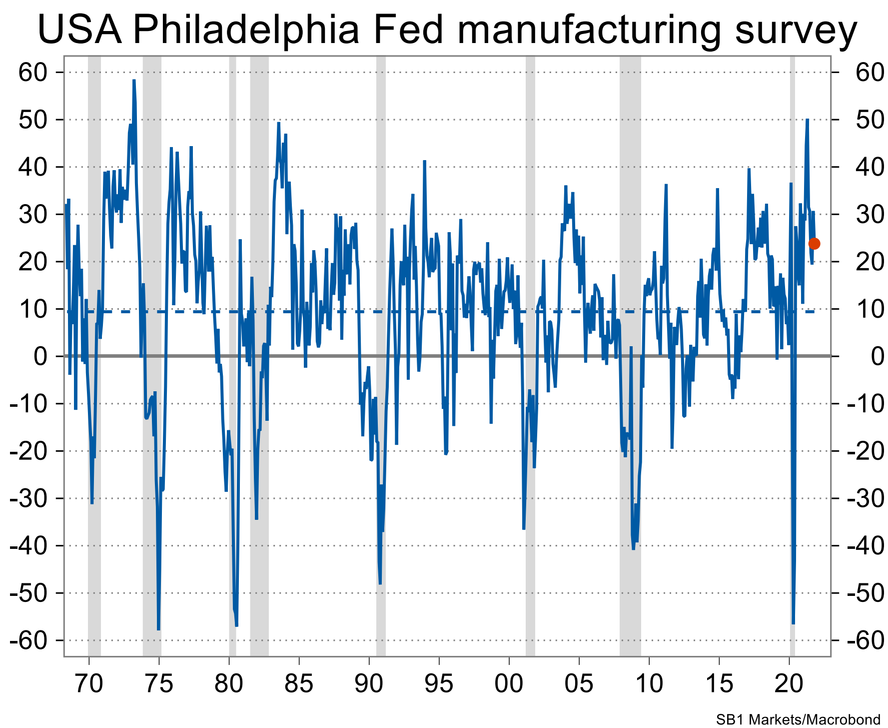
For good reasons, Fed's Powell expressed some 'concerns' regarding inflation on Friday…

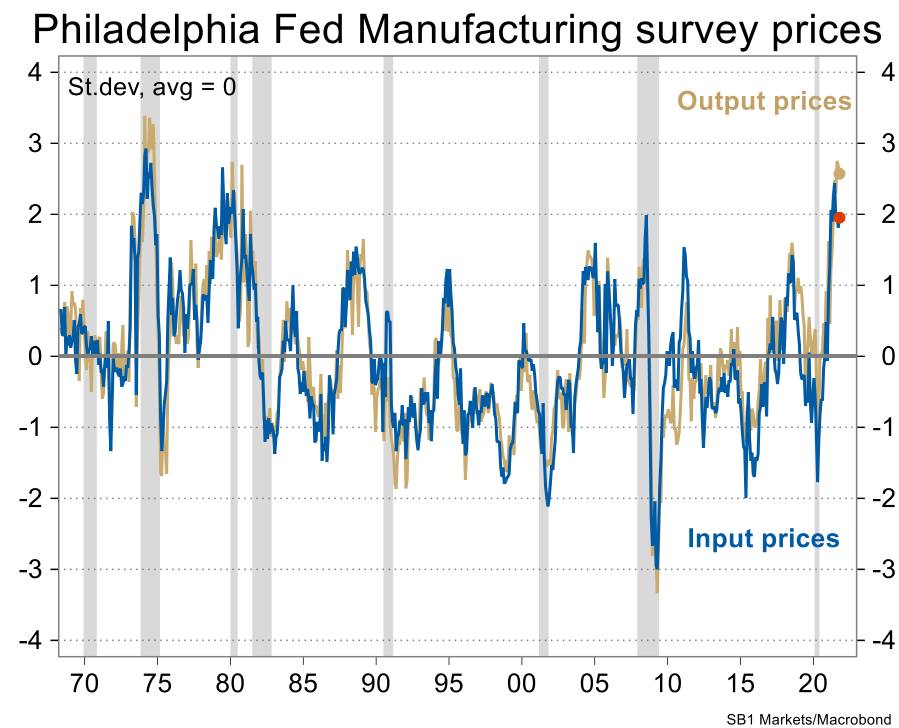


- ISM has not yet reported October data

Philly Fed survey down in October, still far above an average level

Order inflow is still close to the best level in 40 years, and prices are climbing faster than in 40 years

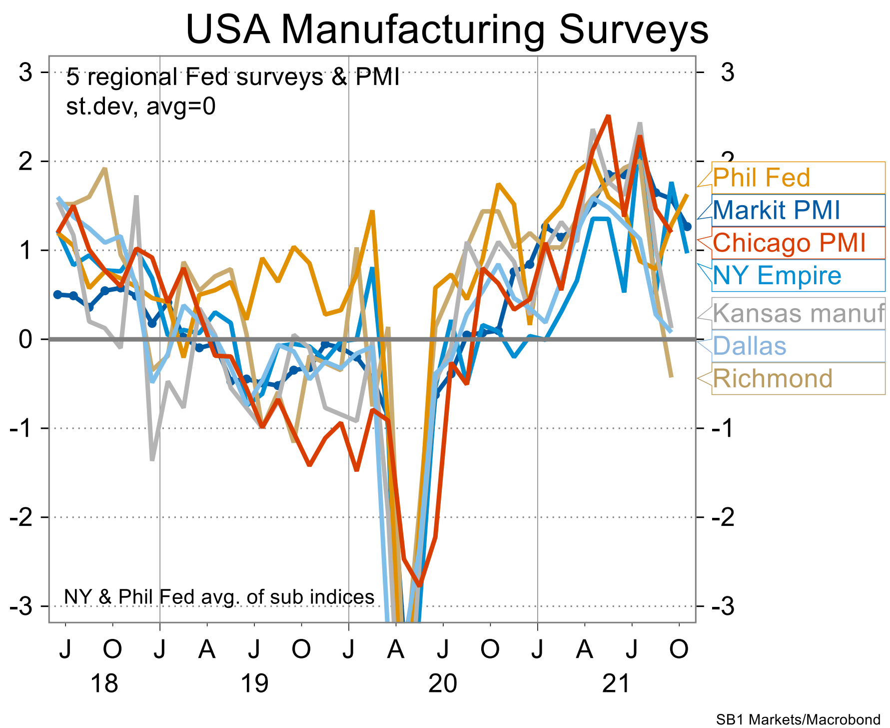


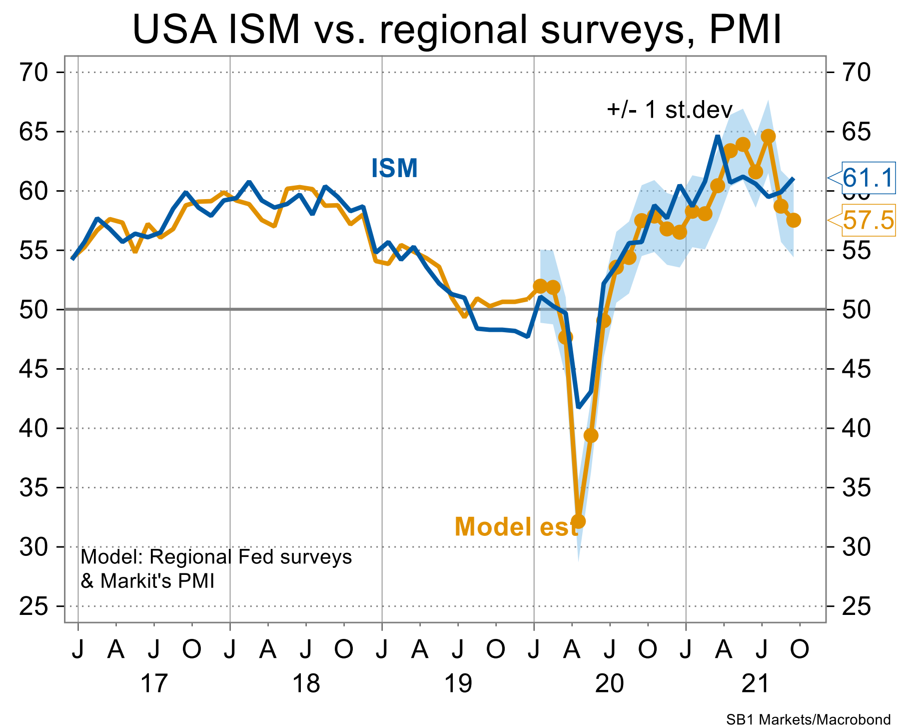


- The **general activity index** fell to 23.8 in October from 30.7 in September, expected 24.5 still above an average level of 10. In April, the index was at 60, the 2nd highest level in the history (data back to 1968).
- An **average of the most relevant sub-indices** rose to 34 in October from 23 in September, or to +1.6 st.dev above average (from 1.3) – signaling growth above average
- **The new orders** index shot up 14.9 to 30.8 in October. **Delivery times** grew sharply again, and **input prices** and **output prices** are still growing faster than in many generations

Manufacturing surveys so far in October: 1 up, 2 down

Philly Fed rose (the average of 'relevant' components'), the NY Fed's Empire index and PMI fell

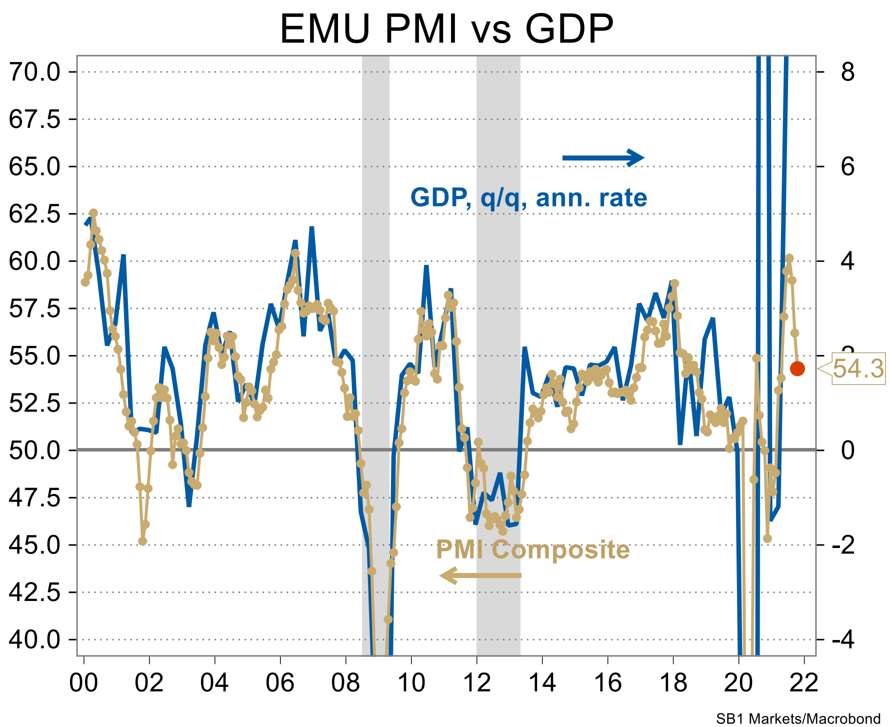


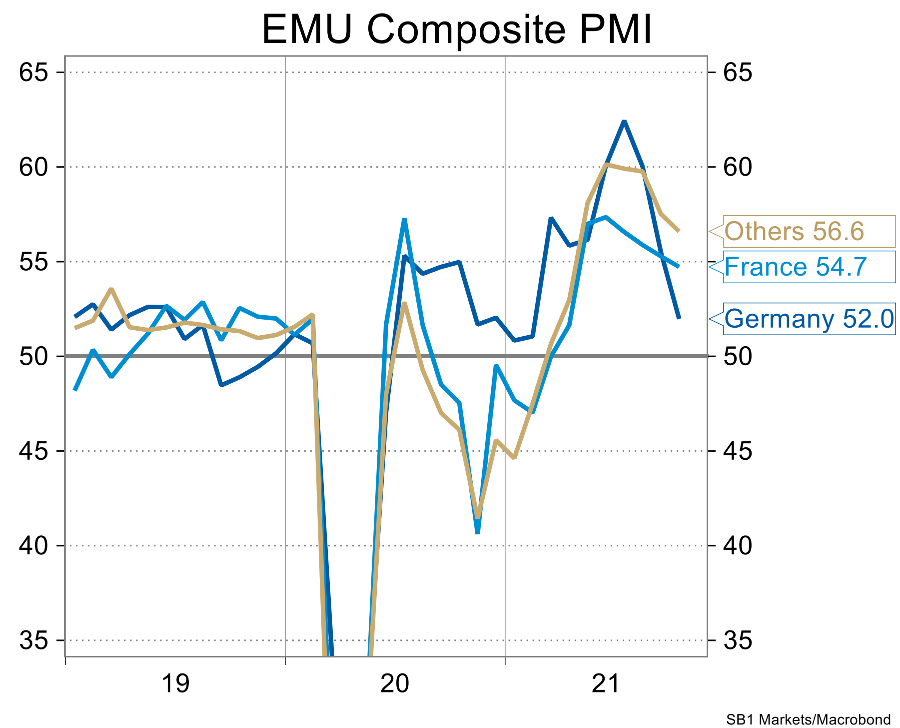


- NY Fed's manufacturing survey fell, both the headline and the main components.

EMU PMI weaker on supply chain constraints & virus concerns

Weakest expansion in 6 months – supply bottlenecks and rising input and output costs dominate

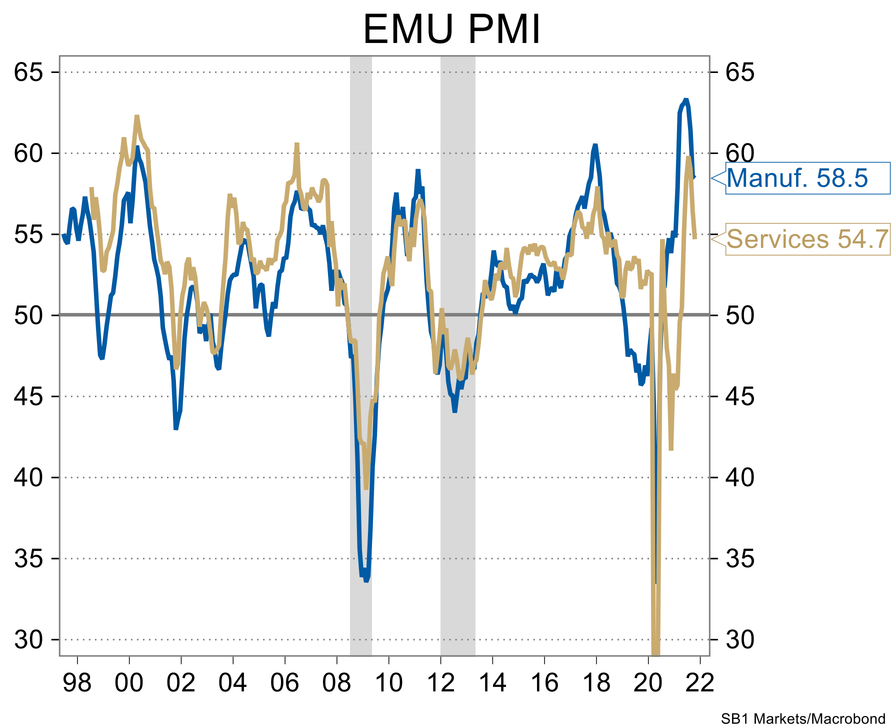


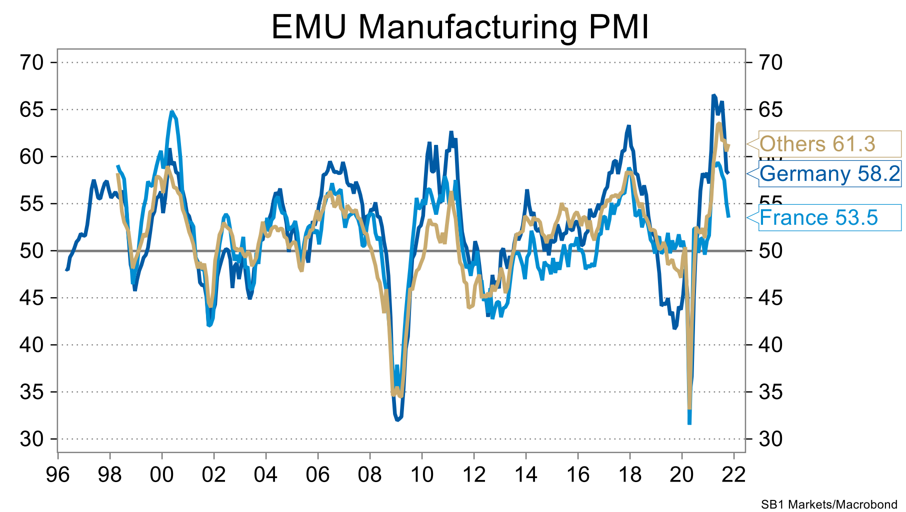


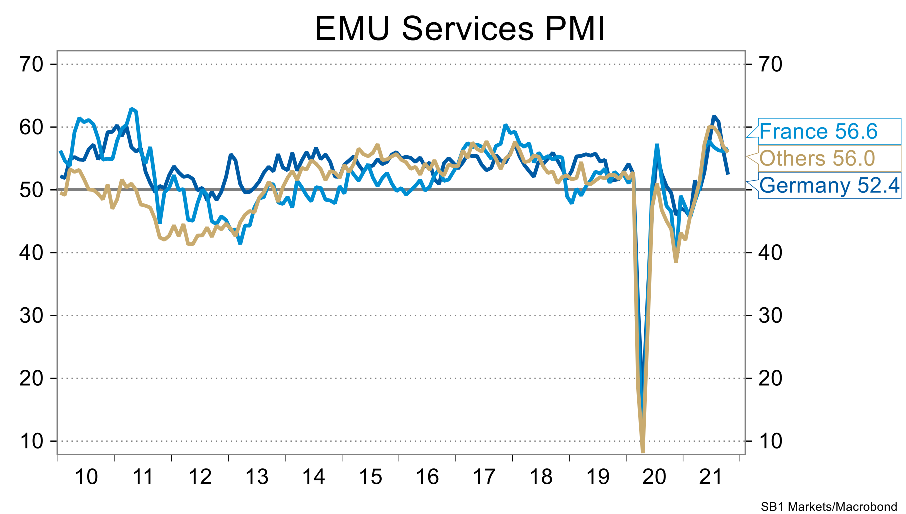
- **The composite PMI** fell 1.9 p to 54.3 (expected down to 55.2), which signals a 1.7% pace of growth in GDP (or 0.4% per quarter)
  - » The composite index fell in Germany and France. The average of Spain & Italy (and very likely both countries) was also down – but the PMI for these latter countries are still at very decent levels. The German PMI fell to just 52, which does not signal strong growth
- The **service sector PMI** fell 1.7 p to 54.7, expected 55.5
- The **manufacturing PMI** fell 0.1 p to 58.5, expected down to 57.0

PMIs down everywhere, both in manufacturing & services

Still, economy is still expanding everywhere



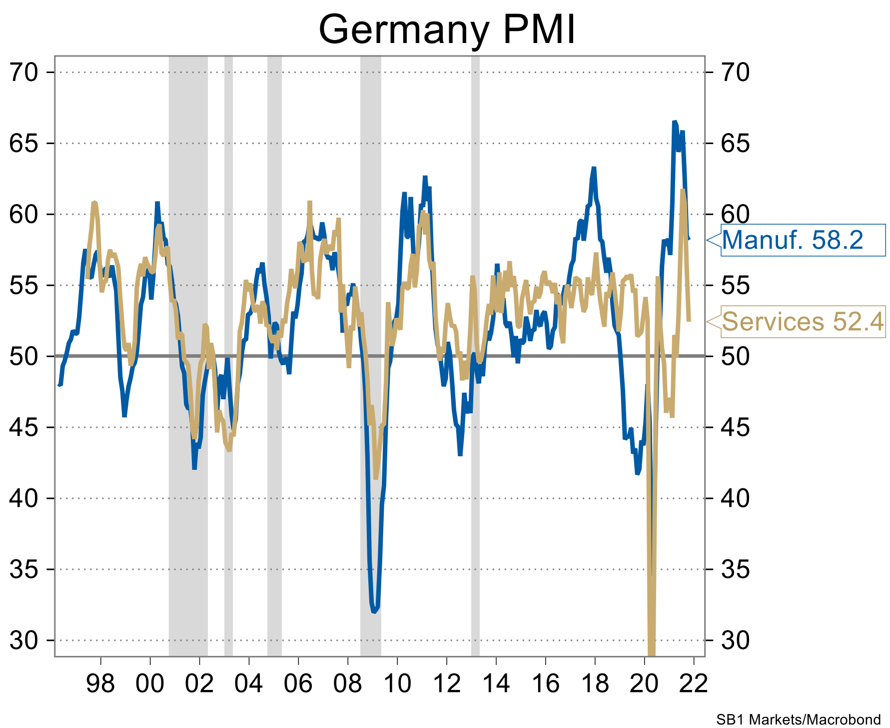


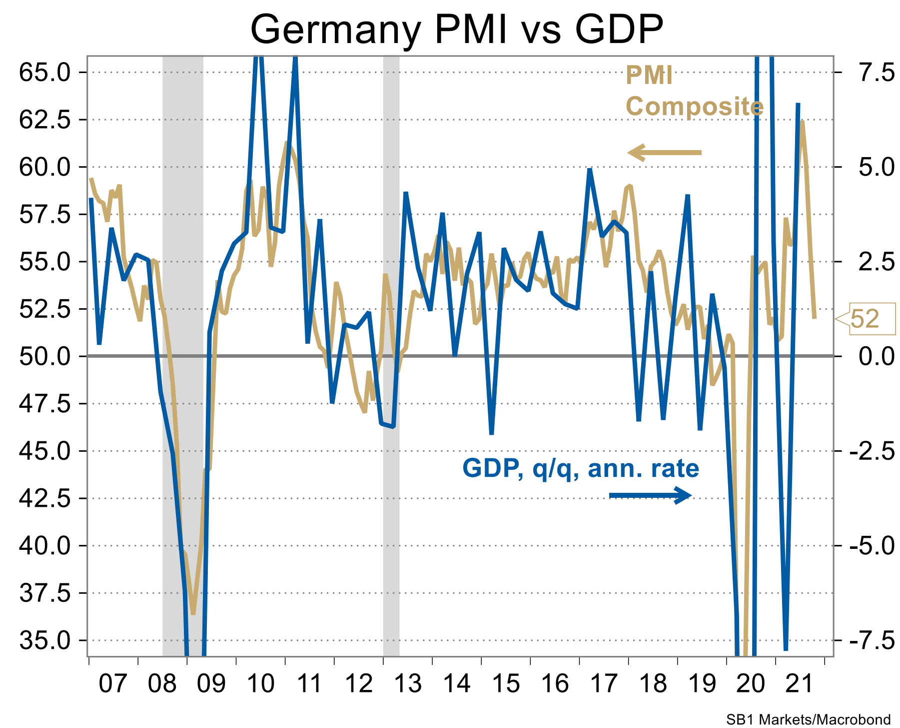


- The **service sector PMI** fell 1.7 p to 54.7
- The **manufacturing PMI** fell 0.1 p to 58.5

Germany: PMI continued the fall in October – as services PMI plunged

The composite PMI was down 3.5 p to 52, expected down to 54

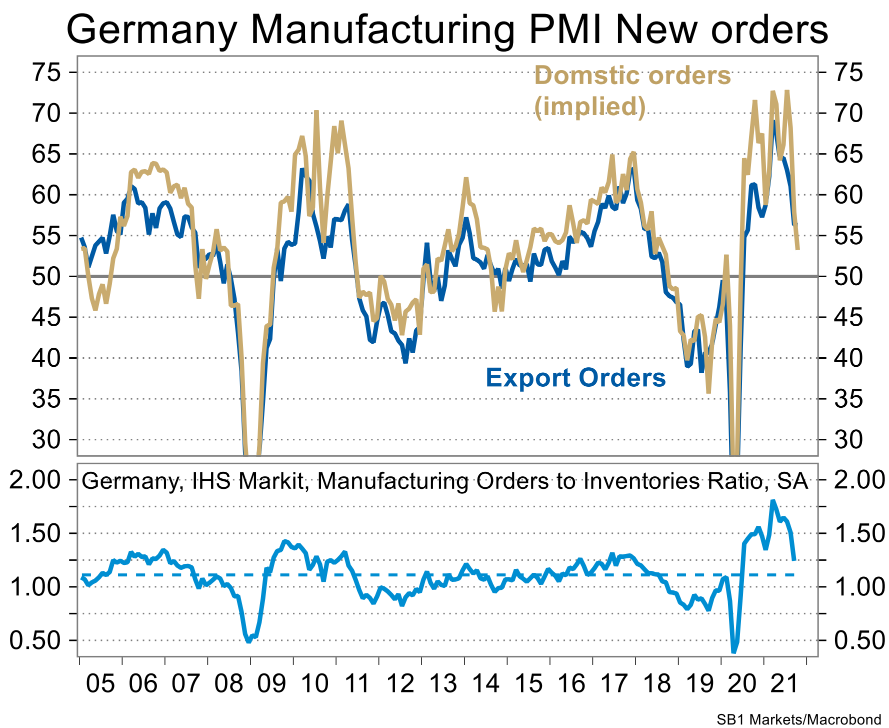


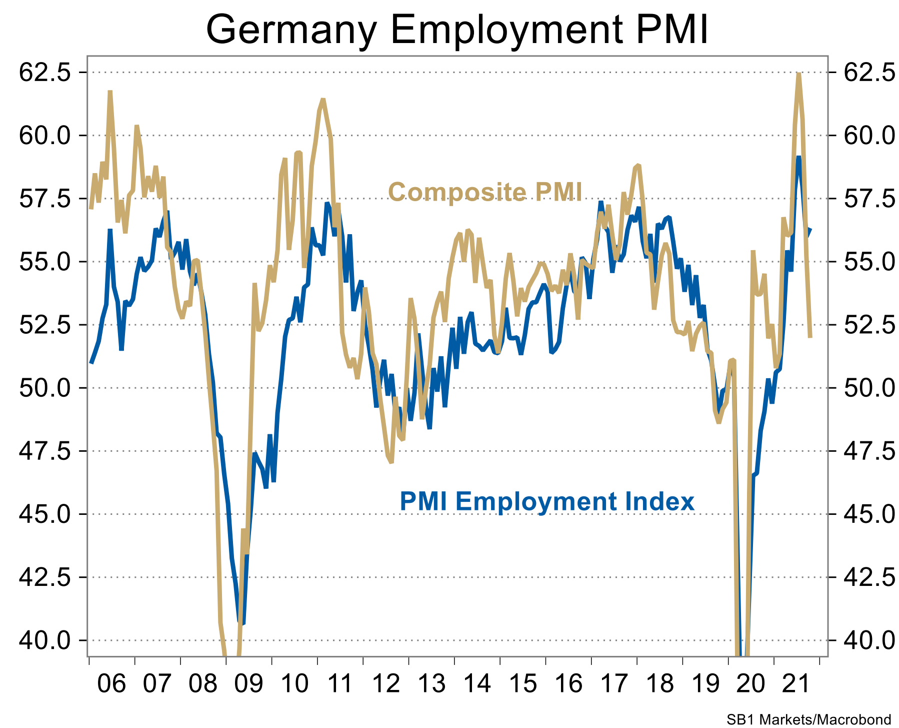


- **The prelim. manufacturing PMI** decreased by 0.2 p to 58.2, expected down 56.5. The auto sector is very likely to blame, while supply constraints are still restricting growth, and price pressures are weighing on sentiment
- **The service sector PMI** fell sharply for the 2nd month, down 3.8 p to 52.4, expected at 55
- **The composite PMI** now signals around 1% GDP growth, which is well below the German trend

Germany: Growth in orders further down, while employment growth rose a tad

… levels are still ok





- Weaker demand for new autos in particular is drawing on new orders

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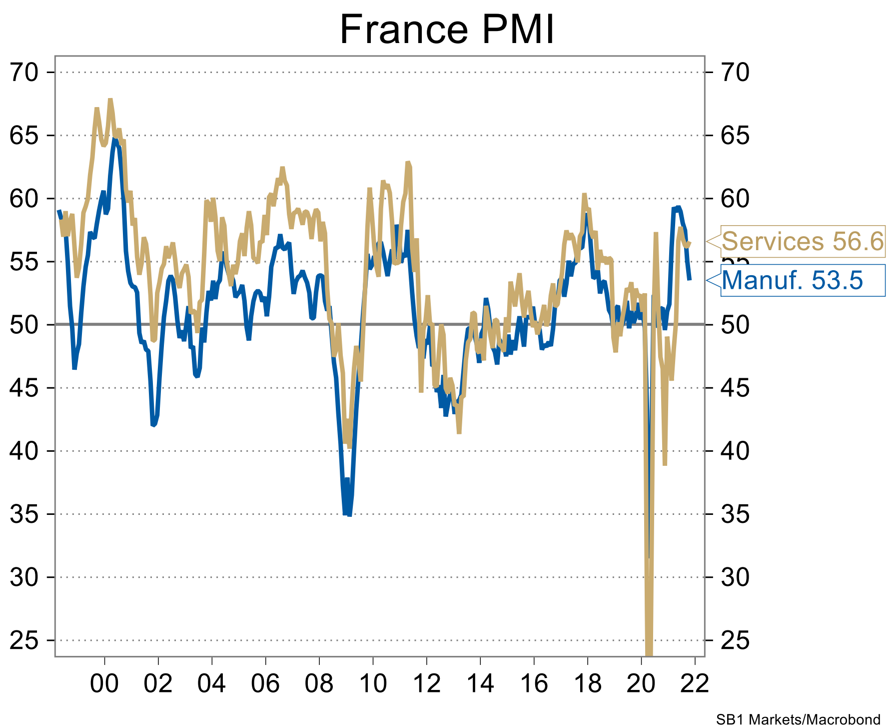
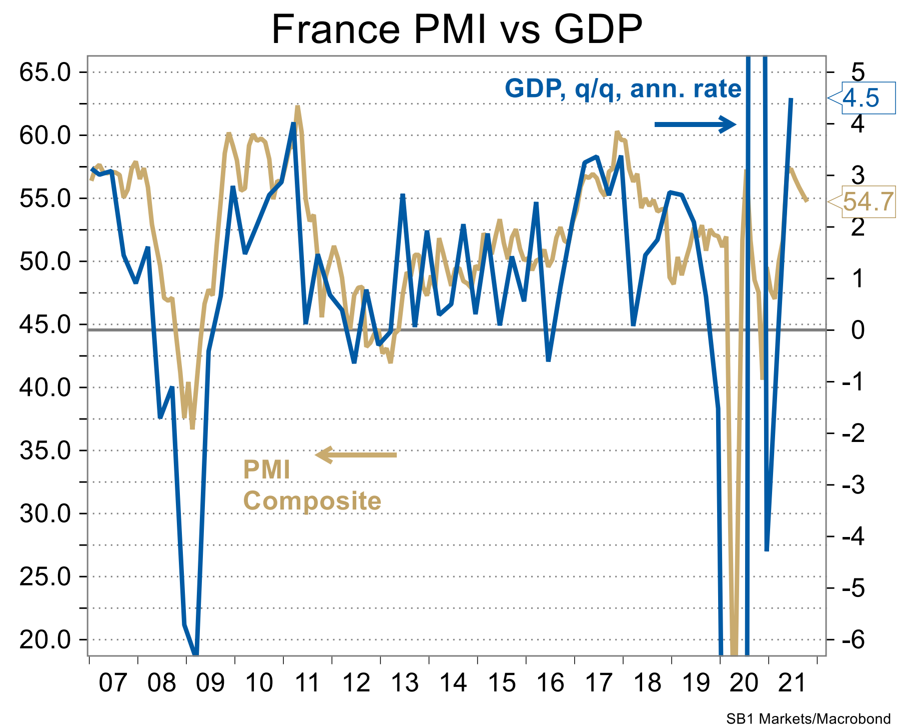
France: The manuf. PMI further down in October – level still decent

The comp. PMI still signals 2.5% growth, which is not impressive following the reopening of society

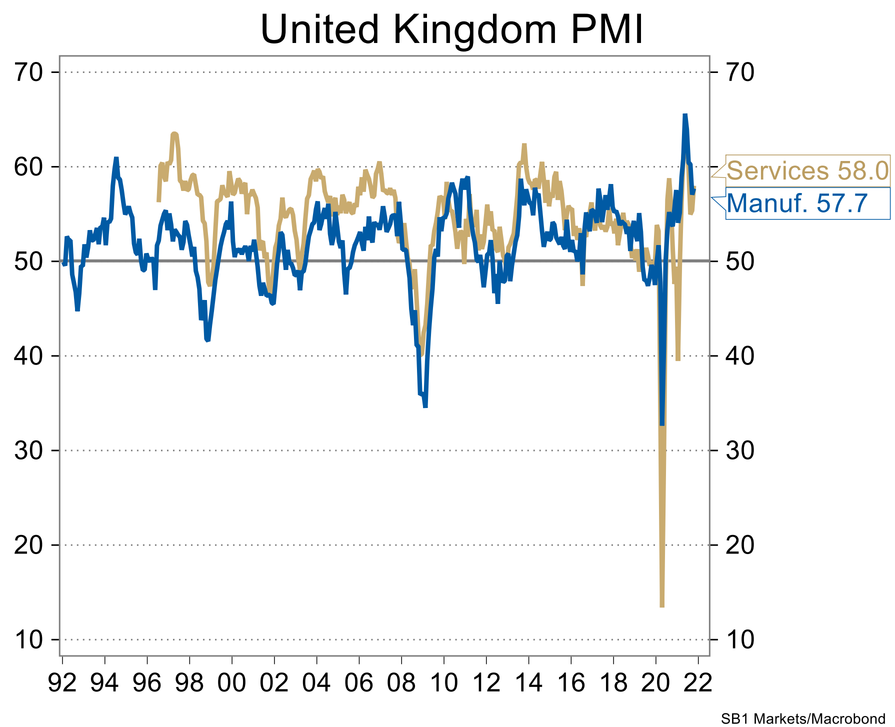


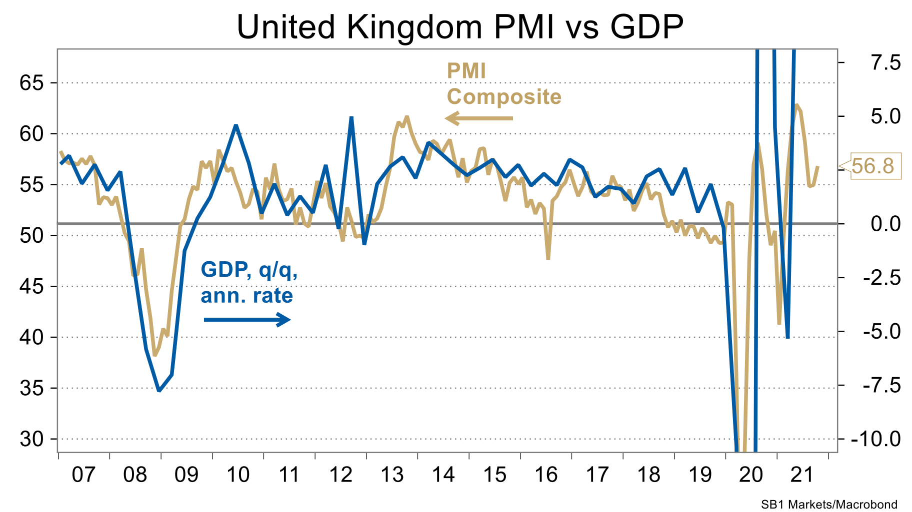


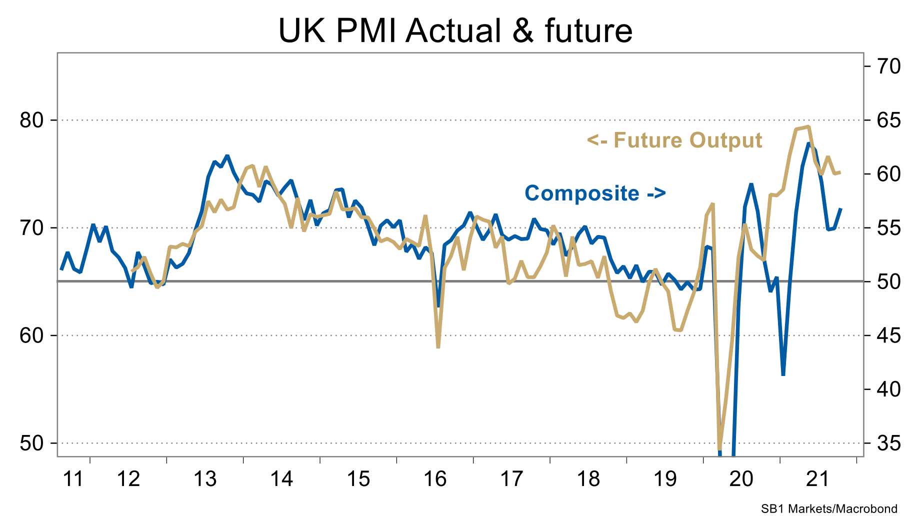
- The **services** PMI was up 0.4 p to 56.6 (1.1 p above expectations), while the **manufacturing** PMI fell 1.5 p to 53.5, 0.5 p below expectations
- Reported demand is still strong but supply-chain problem is putting a drag on the manufacturing sector
- The composite index fell 0.6 p to 54.7, which was in line with market expectations

UK PMIs up in October – services PMI jumped to 58!

Supply constraints are still curbing growth in manufacturing and input cost pressures hit another ATH



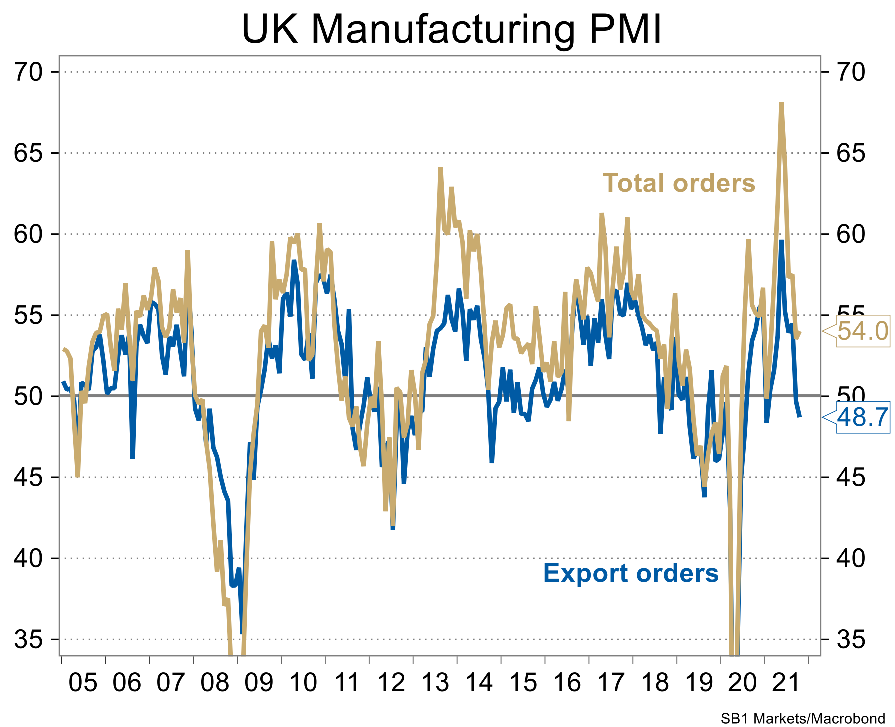


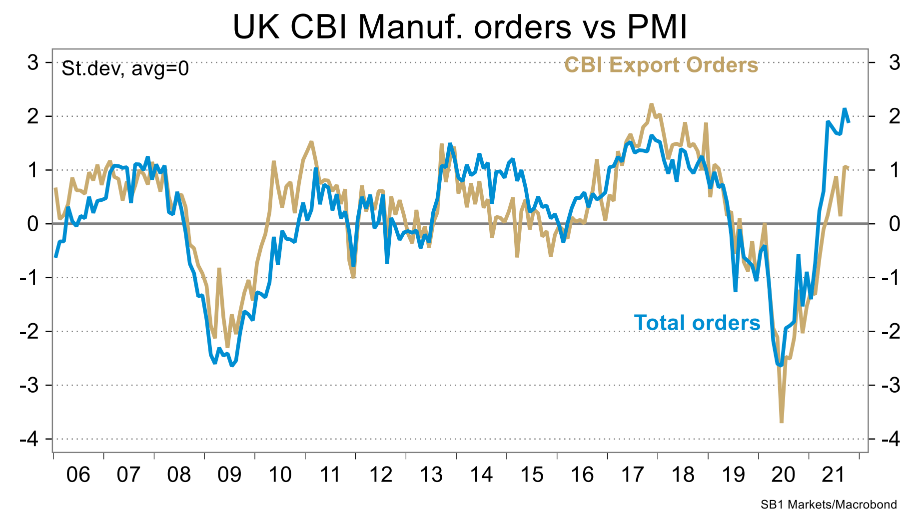


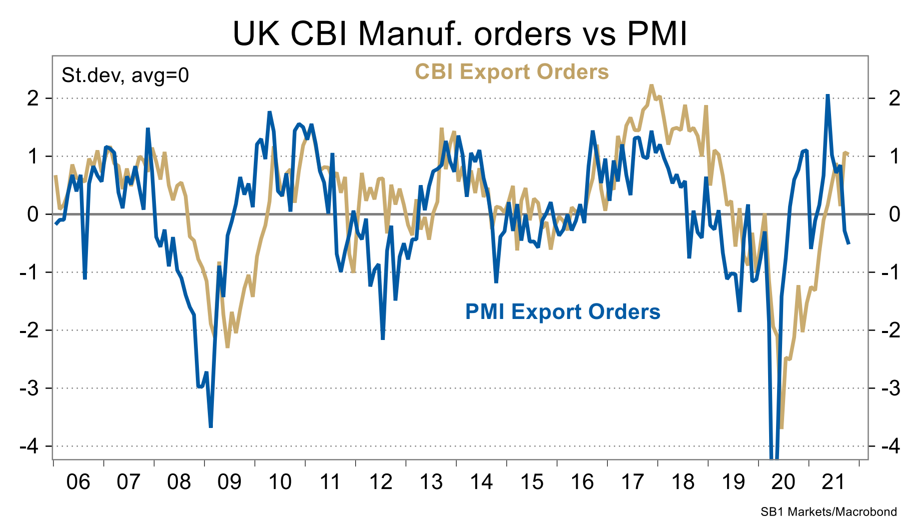
- **The composite PMI** rose by 2.4 p to 56.8, signalling 2.6% growth (but the precision is not that impressive). The market expected a print of 54
- **The total manuf. PMI** was up 0.6 p to 57.7
- **Services PMI** increased by 2.6 p to 58, expected down 0.9 p
- **Employment growth** remains near ATH, but firms cannot find workers and wages are increasing, putting a pressure on businesses' bottom line

New orders & backlogs increased

PMI export orders down below an average level, the CBI index report growth above trend

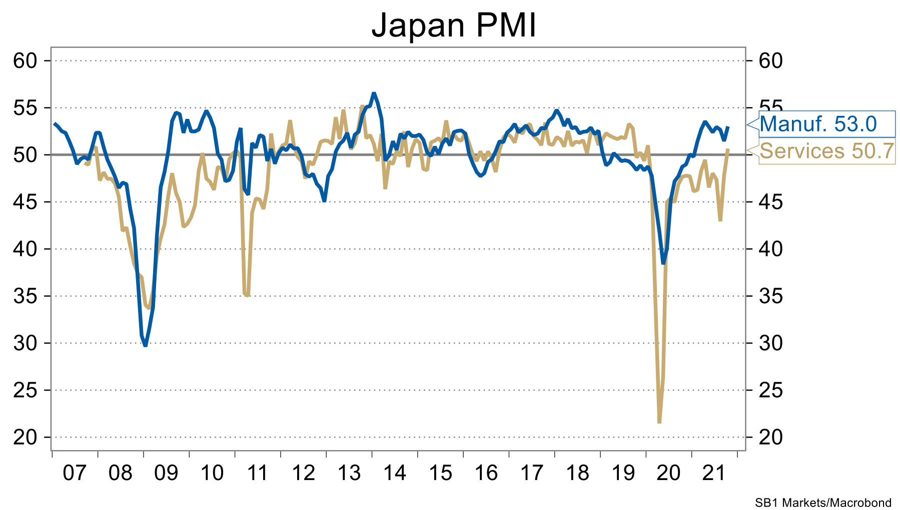


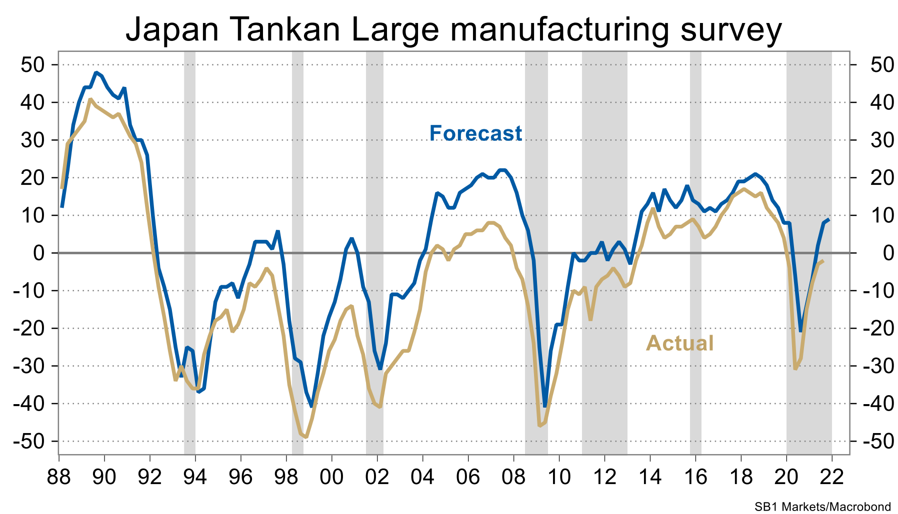


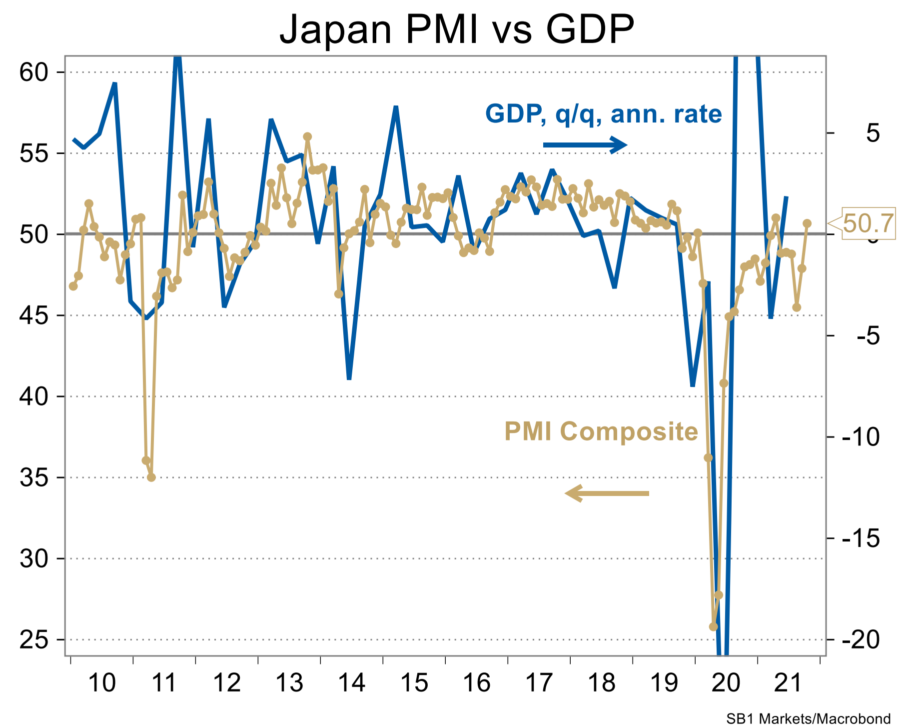


Japan PMI strengthened in October – now signalling marginal growth

The composite PMI at 50.7 signals roughly a 0.5% annual growth in GDP



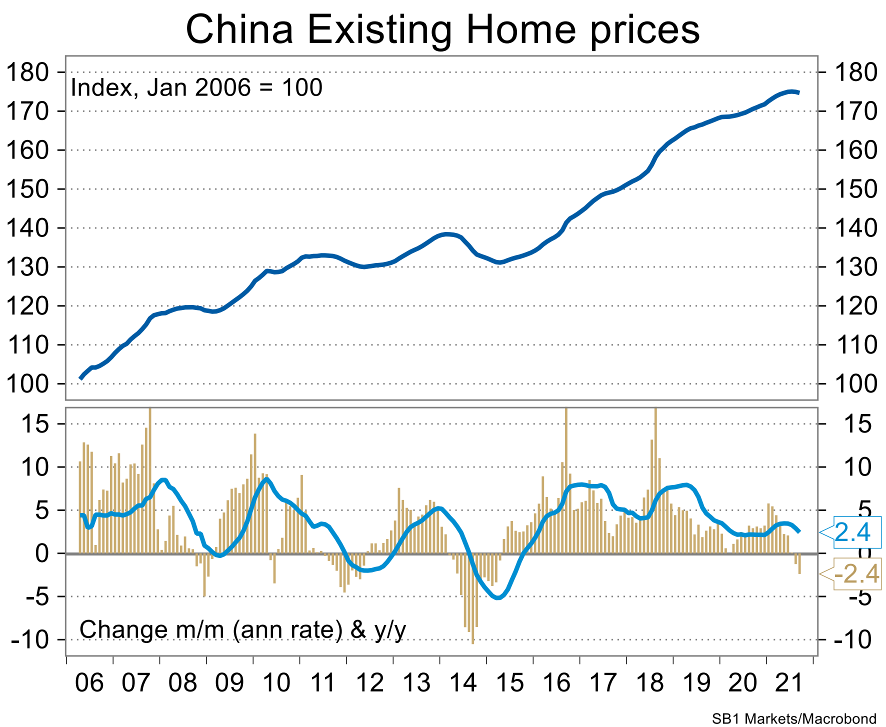


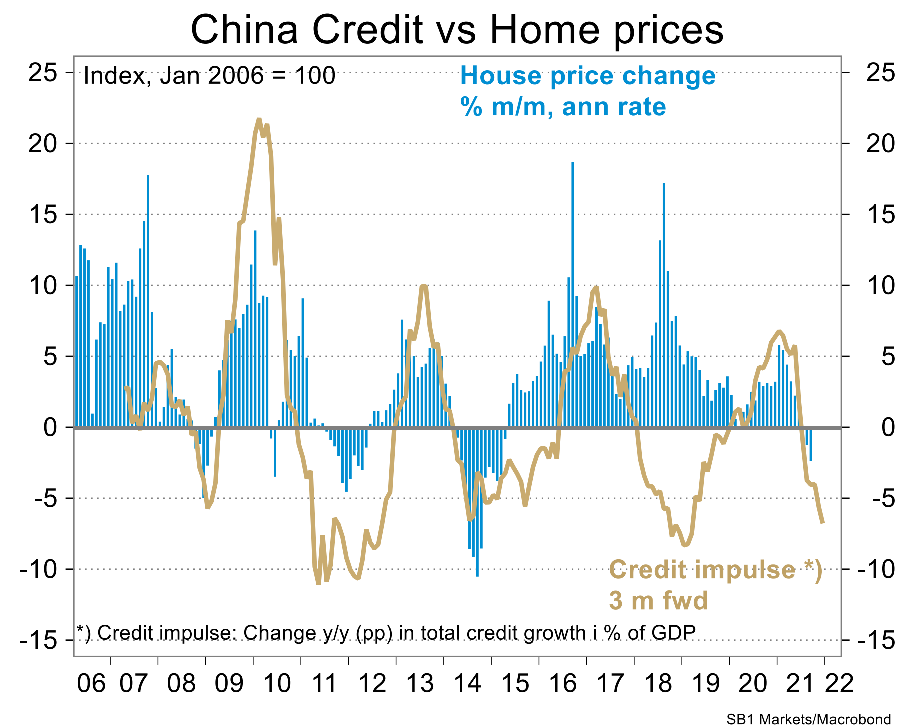


- The **composite PMI** was up 2.8 p to 50.7 and signals a marginal growth in GDP, but the correlation is not impressive
- **Manufacturing PMI** rose by 1.5 p to 53, and here too price pressures and supply issues are containing growth
- The **services PMI** continued the strong sentiment from September and was up 2.9 p to 50.7, as Covid cases are down and restrictions eased

House prices are falling – for the first time since 2015

Existing house prices fell in both August and September, though but just by 0.1% – 0.2%

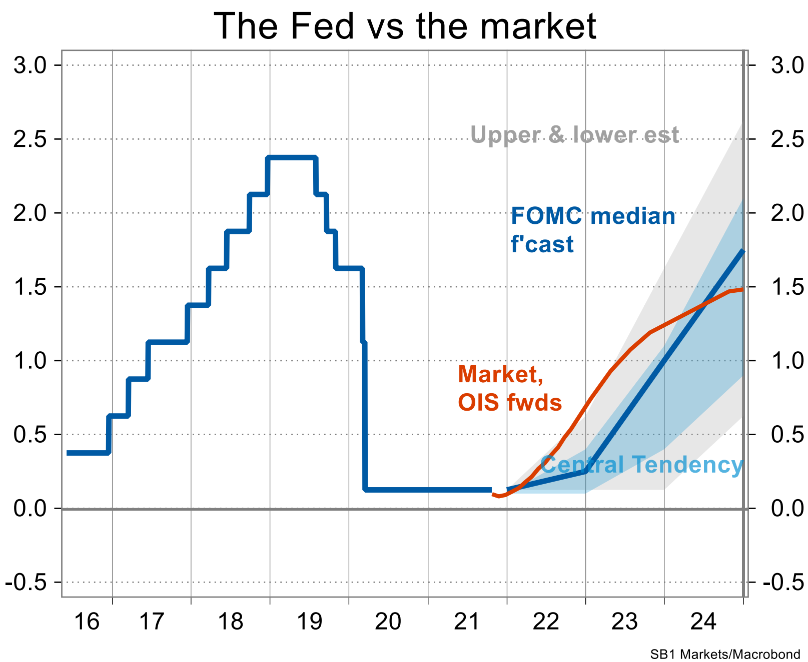




- Existing home price inflation has gradually slowed, and in August price decreased by 1.1% and by 2.4% in September (annualised). The annual rate has fallen to 2.4%
- New home prices rose in August but fell in September, by 1.1% (annualised)
- Credit policy was tightened last autumn and the credit growth has slowed (= a negative credit impulse)
  - » The correlation to house prices is far from tight but there is 'something' there
- Now, the trouble for some real estate companies – may influence the overall housing market as well

Beige book: Growth slowed slightly to a modest to moderate pace

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

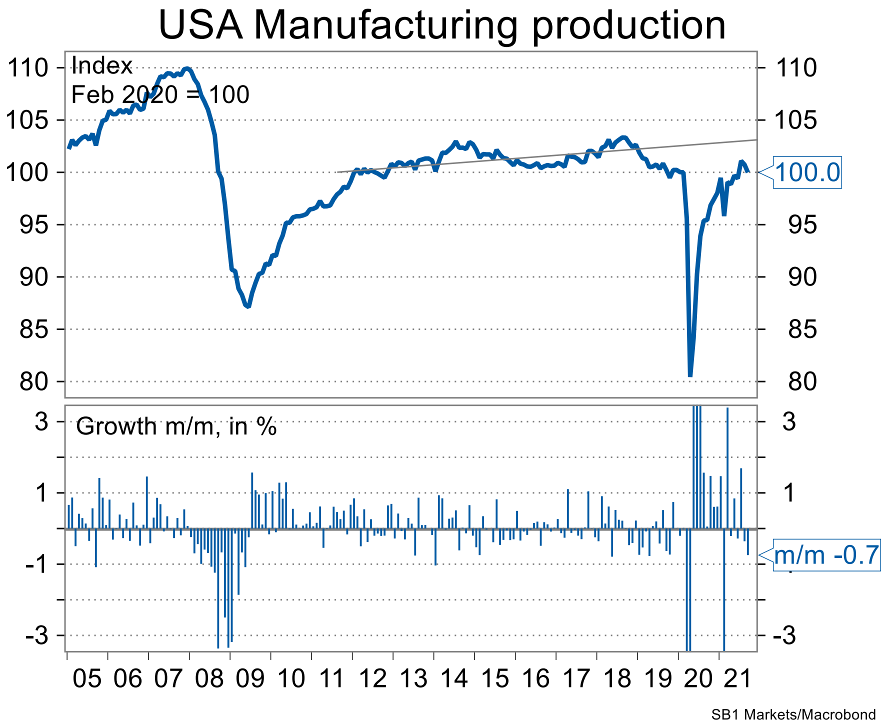


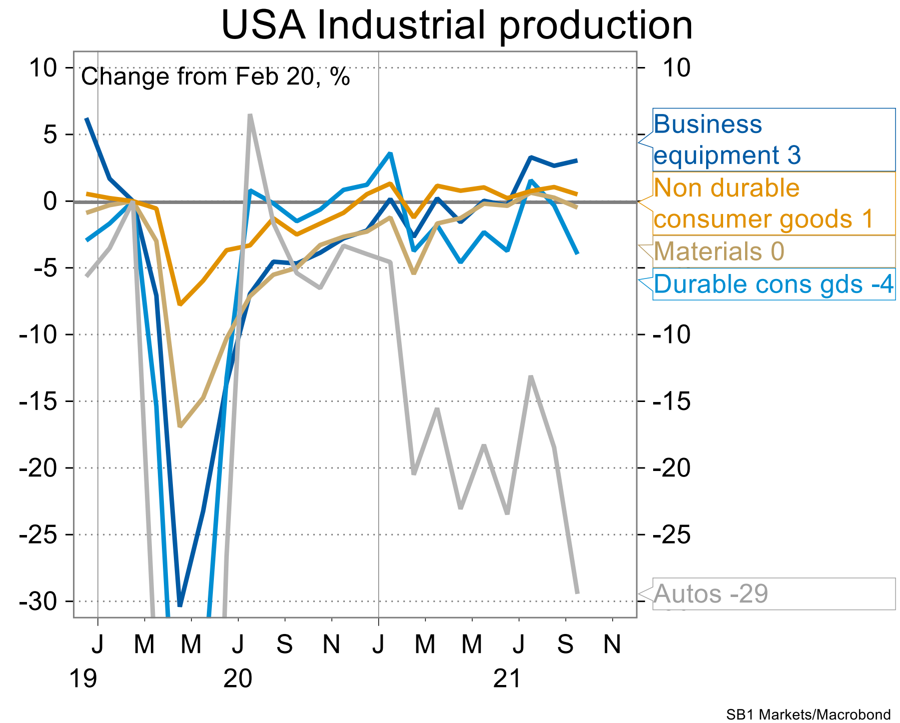
- New signals from the Federal Reserve due to the Beige book?
  - » **Tapering announcement**: Delta problems are still present but will subside, and growth in US is low limited from the supply side, not the demand side. The inflation target is more than met, and there has been progress towards the maximum employment rate. The Fed could go ahead with a November tapering decision, reduce bond buying in December (and stop buying by Jun/July)
  - » **The Fed funds rate:** When will the Fed start reflecting whether the maximum employment target may be/or could soon also be met – signalling that the interest rate may be lifted too? Or start reflecting on the risk for inflation becoming too high for too long? The Bank should have started now – and acknowledge that an expansionary monetary policy now may counterproductive. Will Powell send a signal in November. Most likely, he will try to tread water, perhaps until the Dec FOMC meeting. The market expect the first hike in Q2-22!

- Growth decelerated slightly to a **modest to moderate pace** (from moderate pace in the last report) in most districts past six weeks, according to the Fed's 12 district banks. Like in the last report, increased concerns due to the Delta variant, supply problems, and labour shortages were mentioned as reasons for decline in activity.
  - » 2 districts reported strong growth (down from 3 districts 6 weeks ago)
  - » 10 districts reported modest to moderate growth
- **Demand for leisure/hospitality services** have slowed as the Delta variant cases increased (Our comment: The virus is now on retreat). **Auto sales** were weaker due to supply-side issues
- **Manufacturing** reported above-average growth, despite supply chain challenges. **Construction activity** varied, but was on average unchanged or slowed to some extent. **Other sectors/activities** grew at a slight to modest pace
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted, and some firm reported cutting production due to lack of labour
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages. A growing number of firms offered signing bonuses and increased wages
- **Inflation** was significantly elevated. With pervasive resource shortages, input prices pressures continued to be widespread. Many businesses were able to pass along costs to the consumer as demand remained strong
- **In sum:** The reports out of the 12 districts are slightly more subdued than the previous reports, but growth is still satisfactory. The fact that the problems are largely supply-driven – and still escalating – should just underpin that a demand-supporting policy is not necessarily the best tool and can be moderated

Manufacturing production down in September – level on par with Feb-20

Th auto sector to blame, off course - down 29% vs Feb-20!

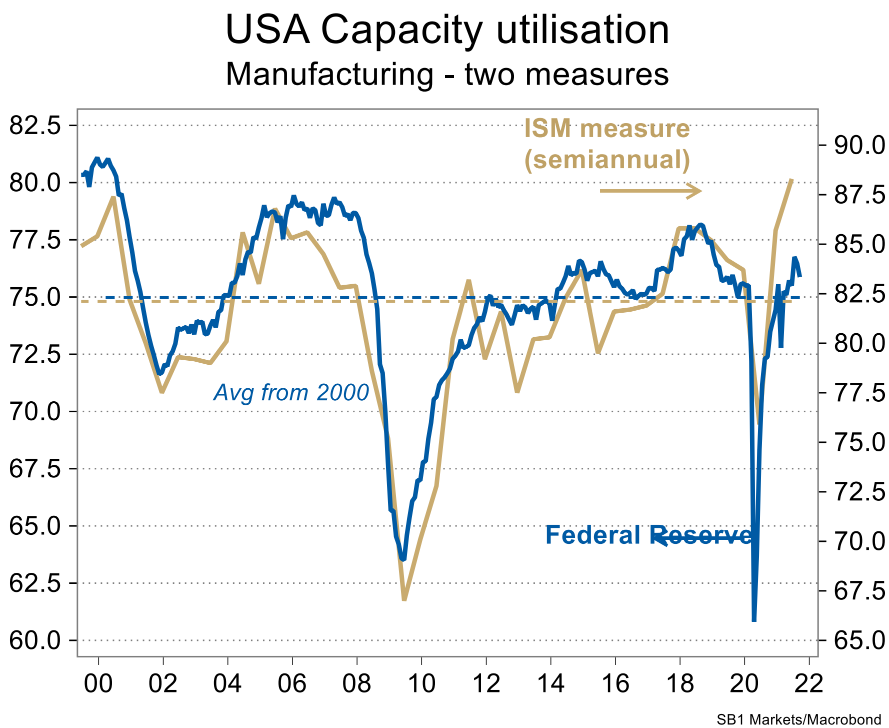




- **Manufacturing production** decreased 0.7% in September, expected up 0.2%, and August was revised down to -0,4% from +0.2% - in sum 1.5% weaker than assumed. Production is unch. from Feb-20, and that's an easy comparison. The production level is lower than the average 2012 – 2019 level!
- The weakness in September was broad but the auto industry cut back production sharply, by 13% - due to supply challenges of course. Hurricane Ida did also contribute on the downside in September
- **Total industrial production**, including utilities, mines/oil production fell by 1.3%, expected up 0.2% (and the hurricane was even more important vs total production, less oil in the Gulf area). August was revised down
- **PMI/ISM and all other surveys** signal a continued strong recovery
- **Capacity utilization** fell a little in Aug/Sept, but remains above average. The ISM survey reports a record high utilization, check next page

Is capacity utilisation just somewhat above a normal level, or record high?

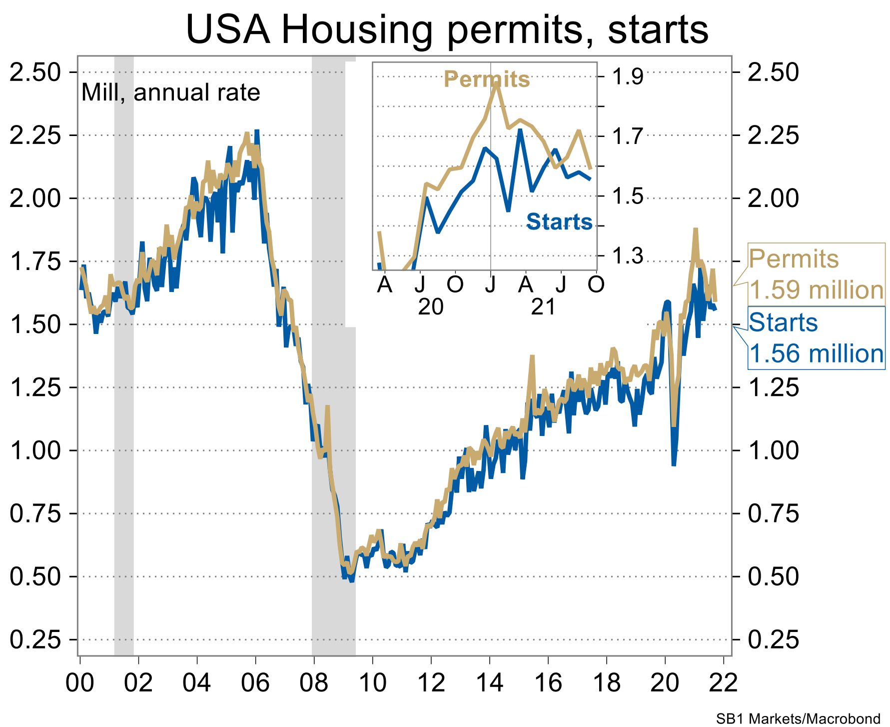
Not an irrelevant question

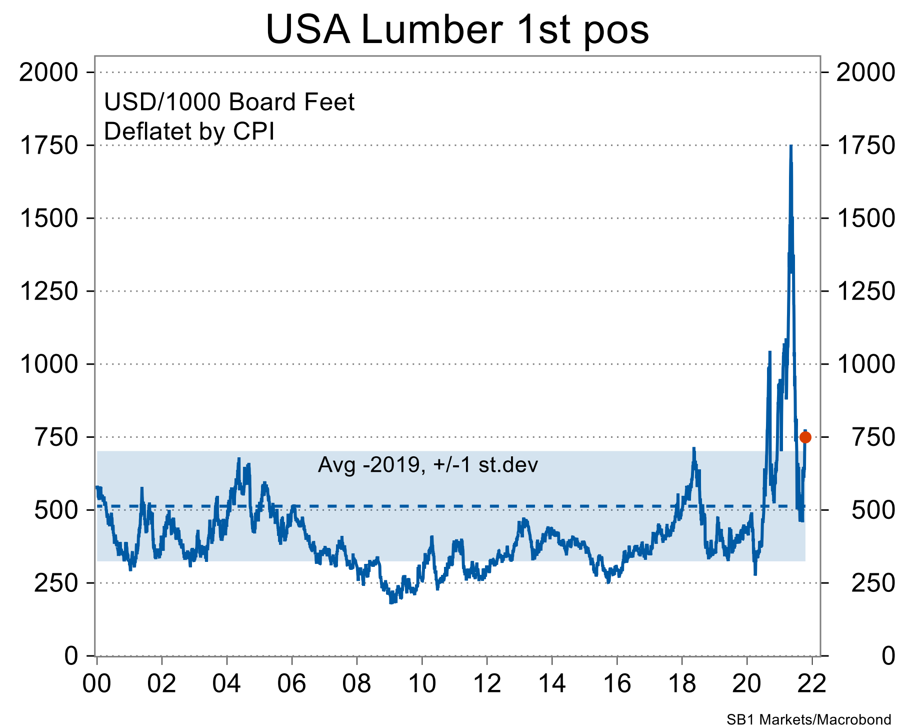


- **The Federal Reserve's** measure now yields capacity utilisation at 75.9%, vs. the long term average at 75%
- **ISM's semi-annual** survey reported a further sharp increase H1/May, the highest level ever, 88 vs the average at 82.5%.
  - » These two measures have not been 100% correlated but the current discrepancy is very large – and quite important when assessing the growth outlook
- The Fed's estimate is model based, while the ISM survey is based on companies assessment of their own capacity
- Given reports on labour shortages, material shortages, prices, the ISM survey seems to give the most reasonable result

Housing starts, permits down in Sept, still above pre-pandemic level

Starts have flattened, permits are down from a higher level in early 2021

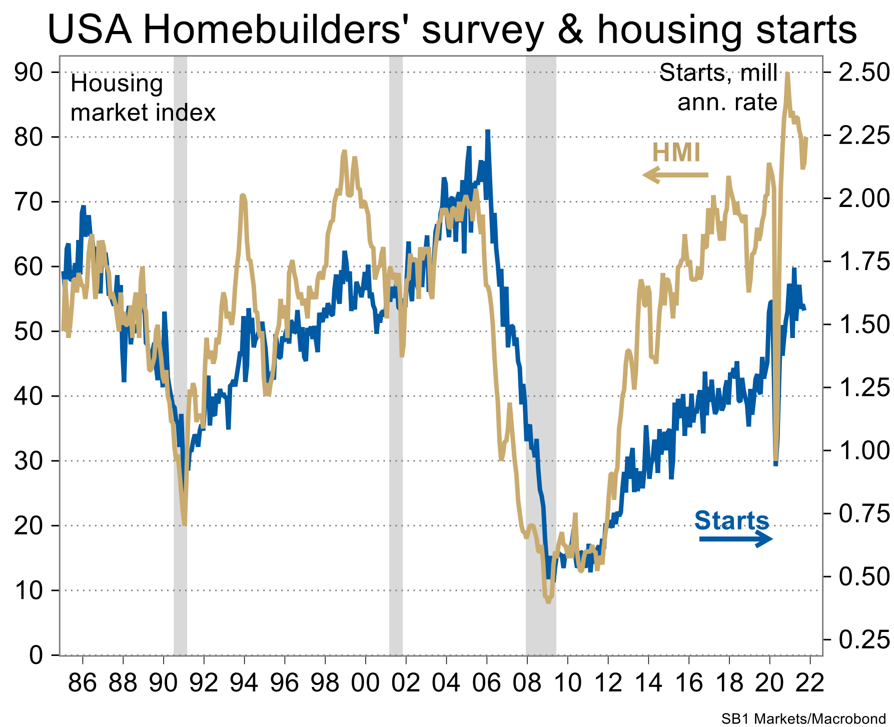


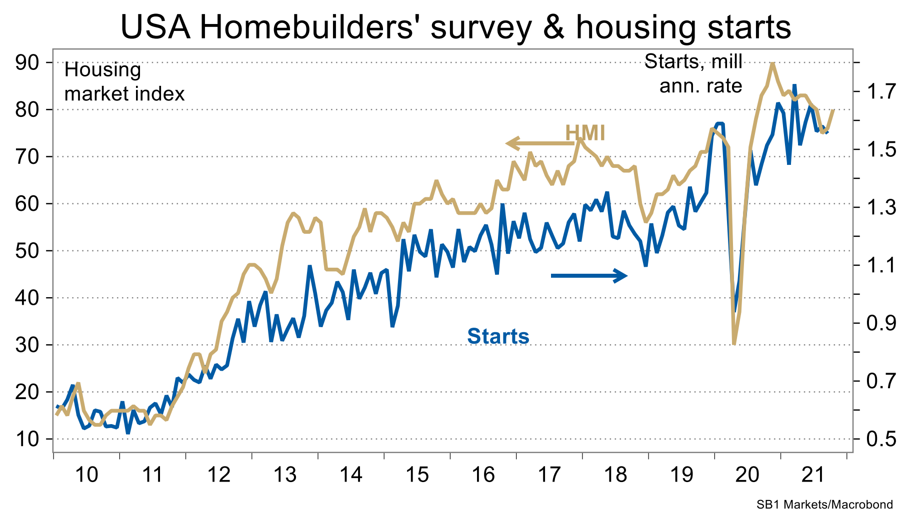


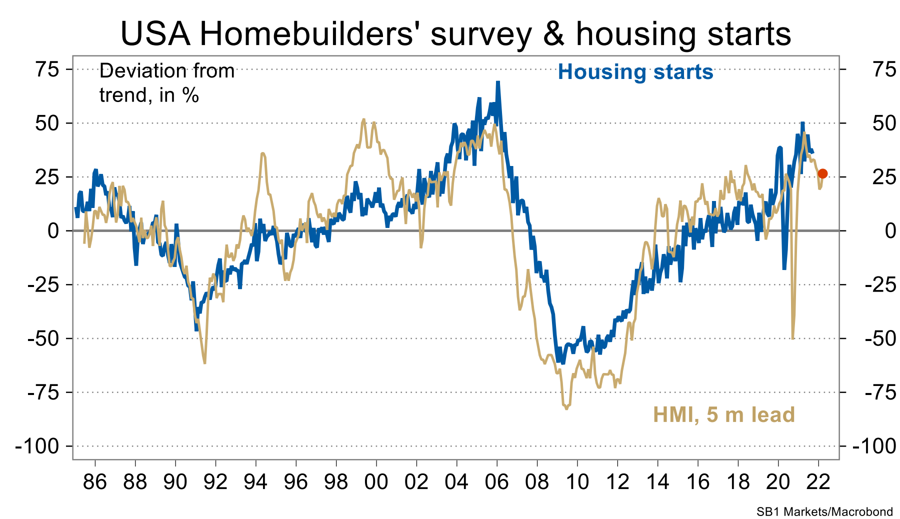
- **Housing starts** decreased to 1.52 mill in Sept , from 1.58 mill in August, expected marginally down from the previously reported 1.62 mill
- **Building permits** fell too, to 1.59 mill, from rose to 1.73 mill, up from 1.63 mill. in July, expected slightly down
- **Starts have flattened in 2021**, and barring some strong months late '20/early 21', the same goes for permits. The level is somewhat up vs. the pre-pandemic level. However, given the incredible strong existing home market, and soaring prices, starts should normally have strengthened further, amid still very low mortgage rates and a recovering economy
- **Supply & capacity problems and higher cost** in the building sector may explain the lack of response. However, those constraints may be easing, at least lumber is available at a far lower price than in the late spring

Homebuilders' market index up in October, the level is high

… But the index does probably not signal more housing starts



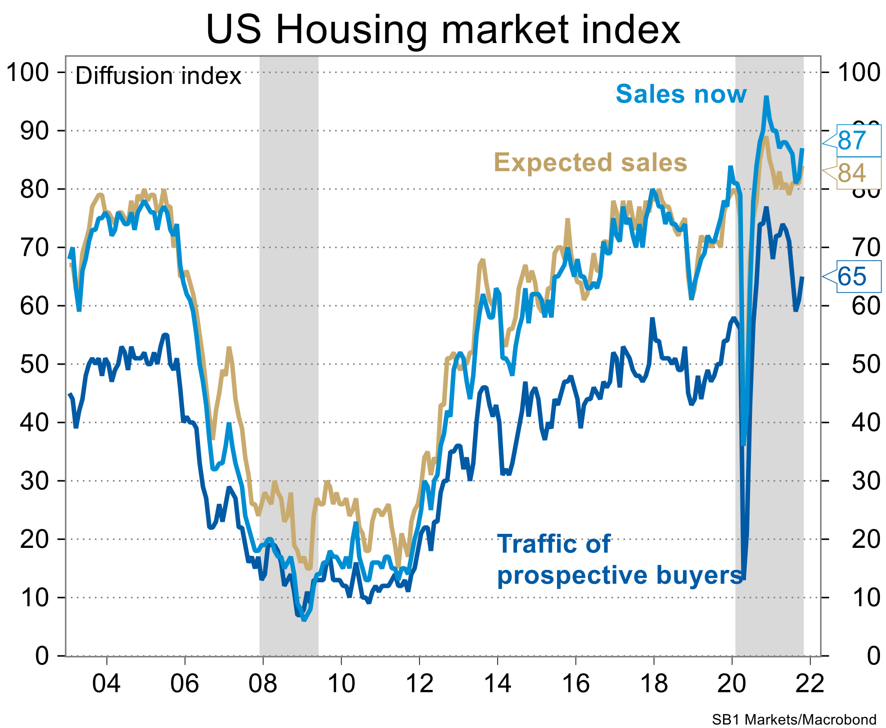


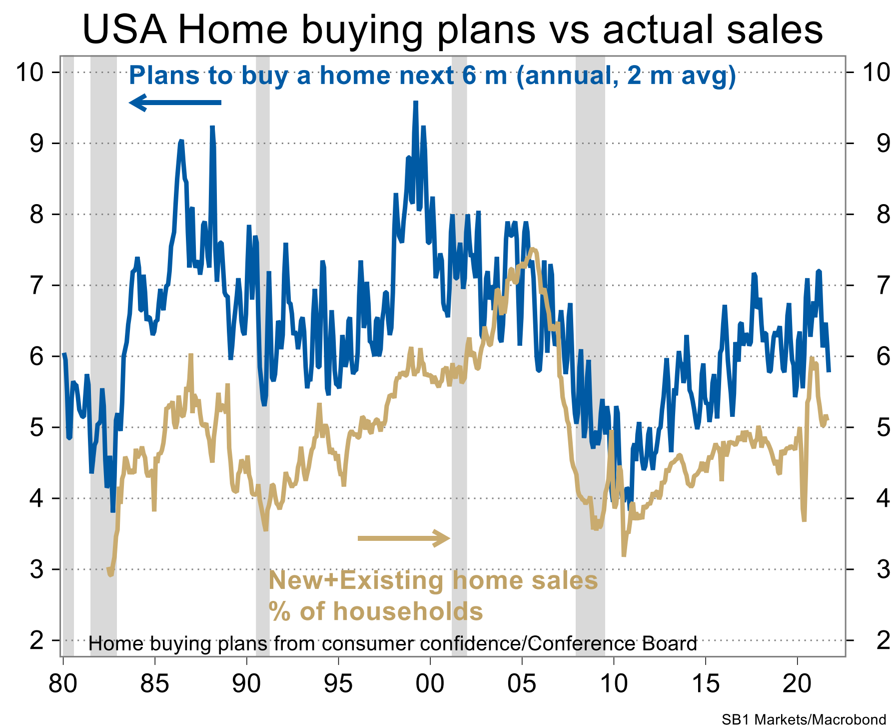


- **The Homebuilders' Housing Market Index** gained 4 p to 80 in Oct, expected unch. The level is high but still down from 90 last Nov
- **Rising material prices and supply chain shortages** are creating challenges for the home builders, according to the NAHB – but those shortages may have peaked
- <u>Even if the level is very high, the HMI signals a moderate decline in housing starts, ref. the chart on the bottom right</u>

Home builders report more sales, more traffic of prospective buyers

… while homebuying plans have moderated somewhat recent months





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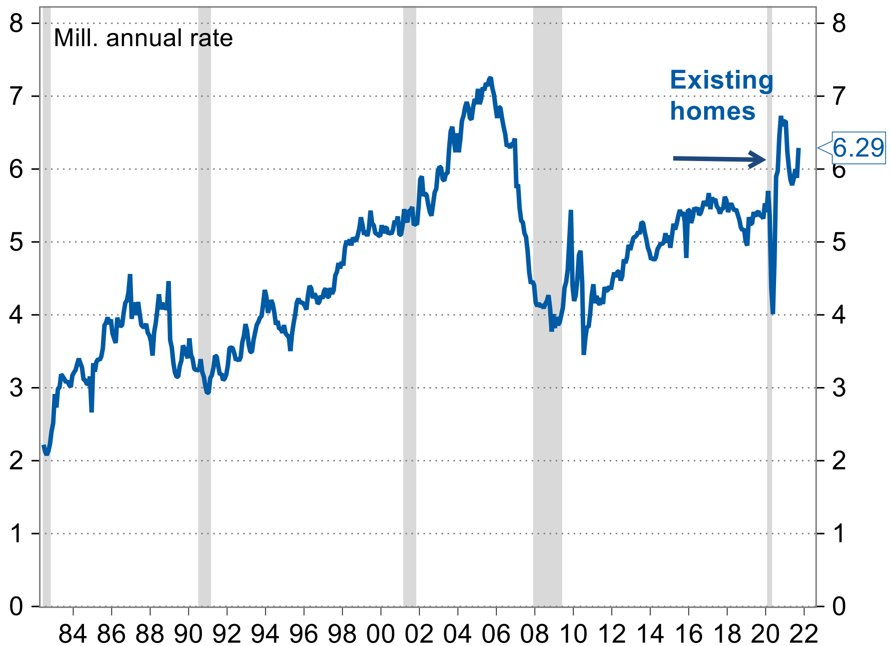
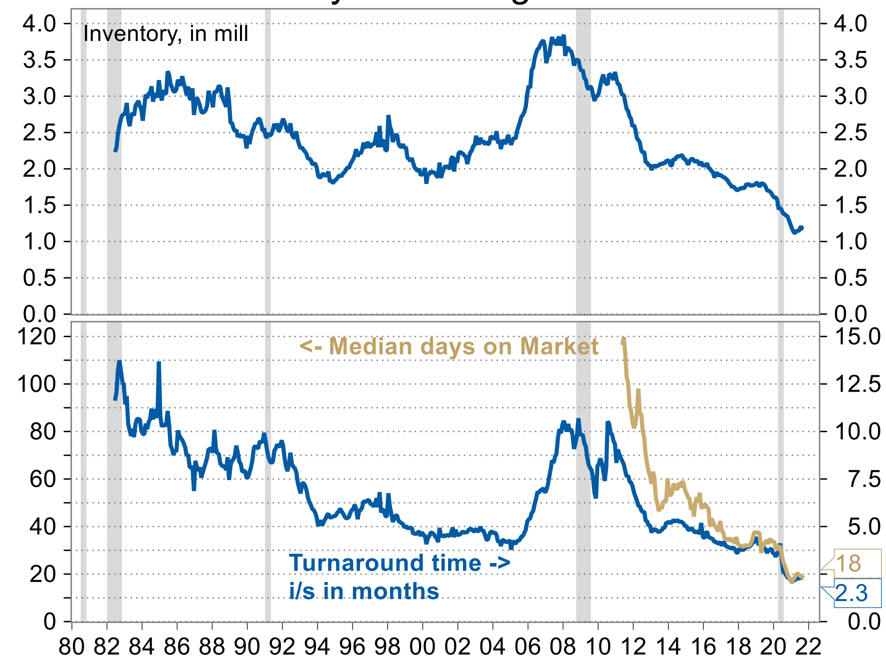
Existing home sales rose more than expected in September

Prices rose faster again but are up ‘just’ 13% y/y

USA Home sales

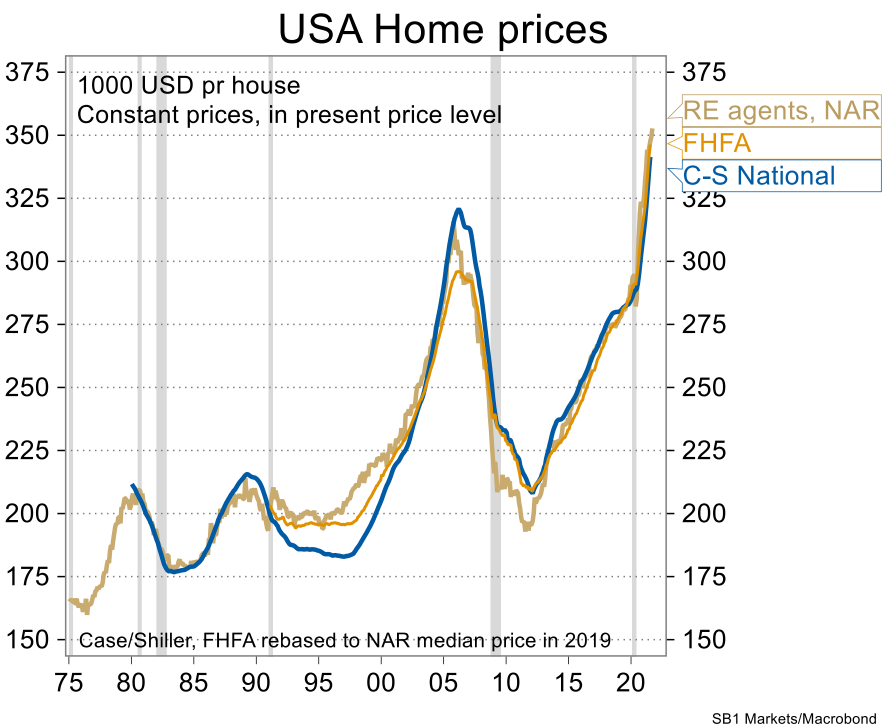


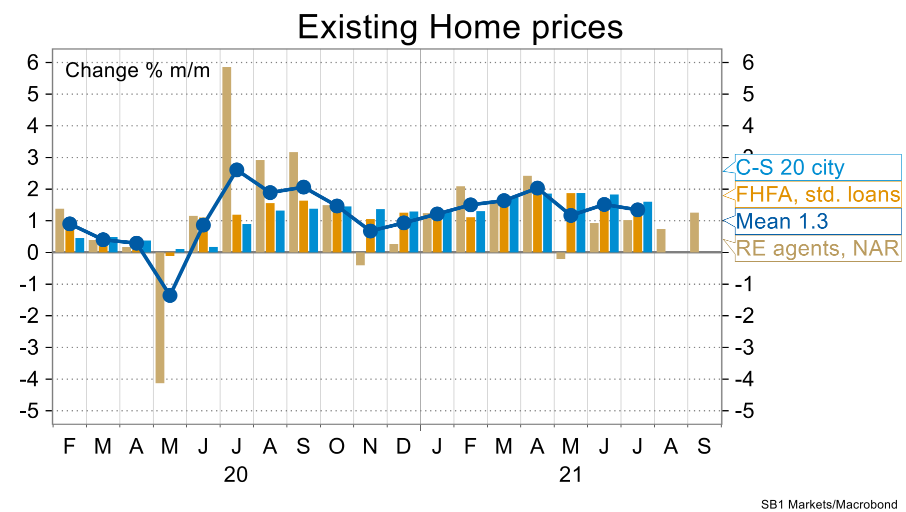
USA Inventory of existing homes for sale

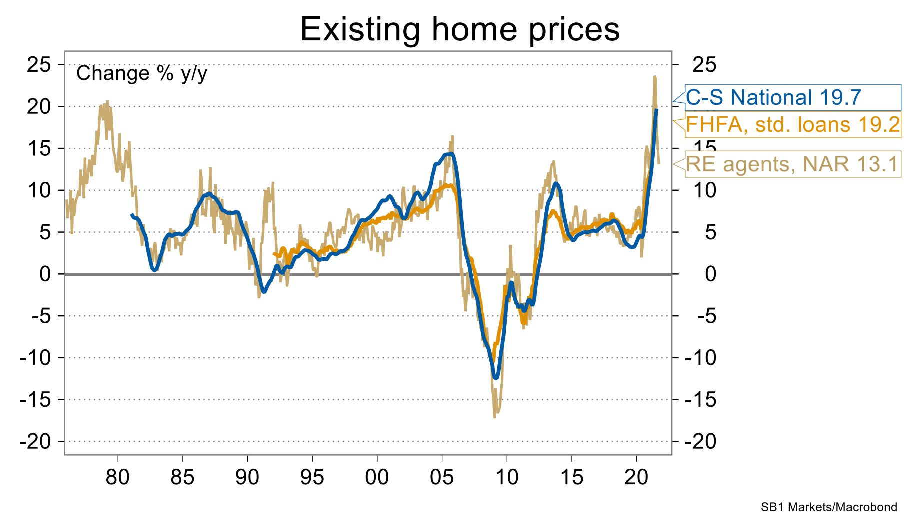


- Sales of **existing homes** jumped to 6.29 mill. (ann. rate) in September from 5.88 mill. (ann. rate) in Aug, expected up to 6.00 mill. Sales are down 7% from the local peak last autumn, but are almost 20% above the pre-pandemic level
- Sales are no doubt kept down due to a very low inventory of unsold homes. However, there are reports on buyers becoming more cautious following the steep rise in prices, and households judge the timing is very bad for home buying
- **The inventory of unsold homes** fell marginally in both Aug & Sept, and the level is close to the lowest ever - and equals just 2.3 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times is at 10 months. The median time at the market is just 18 days, down from 30 days before the pandemic (and 120 days in 2011)
- **Prices** rose 1.2% m/m in Sept, the fastest rates since April. Still, the annual rate fell further, to 13.1% from 14.9%

Existing home prices still on the way up



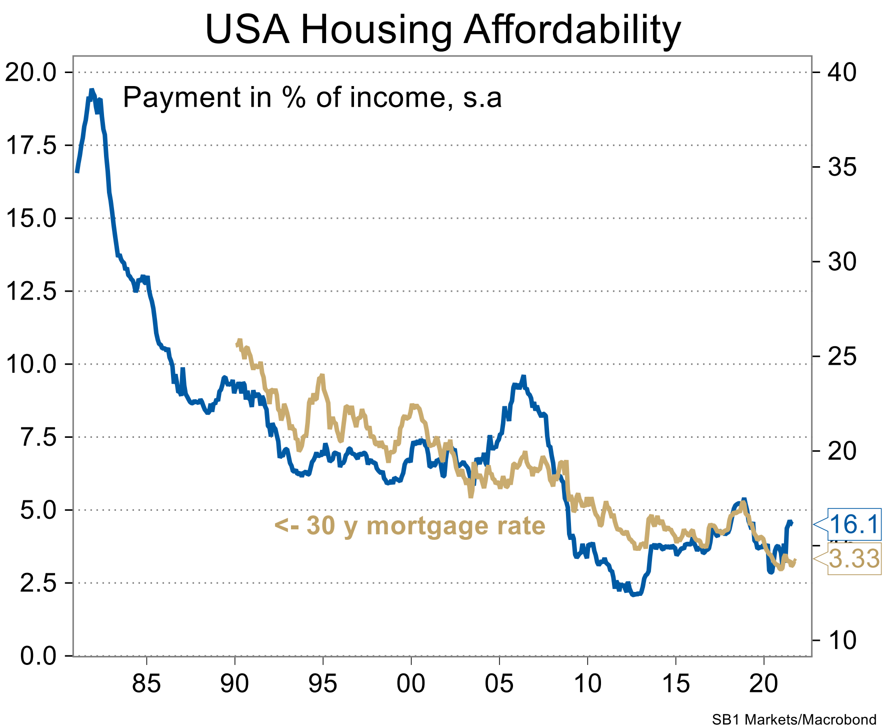


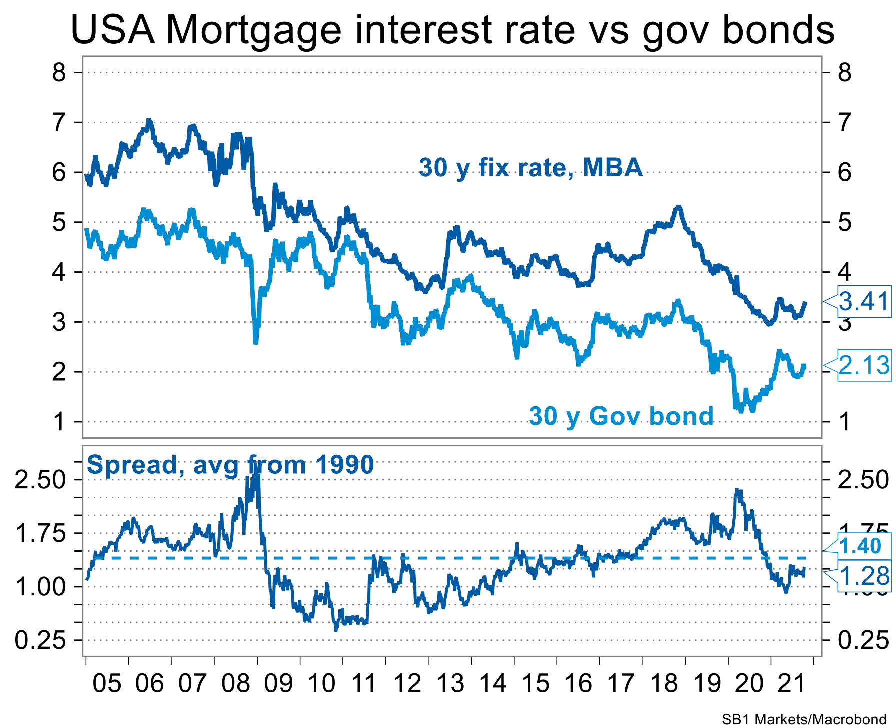


- **Prices** rose 1.2% m/m in September, according to the realtors – up from 0.5% in August. Growth has slowed somewhat, vs the spring sprint
  - » The annual rate fell to 13.9% from 14.9%
- **Other price indices** confirm a red hot housing market; prices are rising extremely fast, even after adjusting for the decline/slow growth last spring

Homes are still very affordable, because the mortgage rate is so low!

However, mortgage rates have more or less flattened – and home prices are sharply up





- The lift in prices is felt, no doubt

- **The 30 y fixed mortgage rate** is up some 30 bps since the summer, alongside the rise in the 30 y gov bond rate
- **Household mortgage** debt is up USD 500 bn y/y. Fed is buying USD 40 bn mortgage backed bonds per month, 480 bn per year. <u>The Fed is funding the housing party, all of it! Cheers ☺</u>

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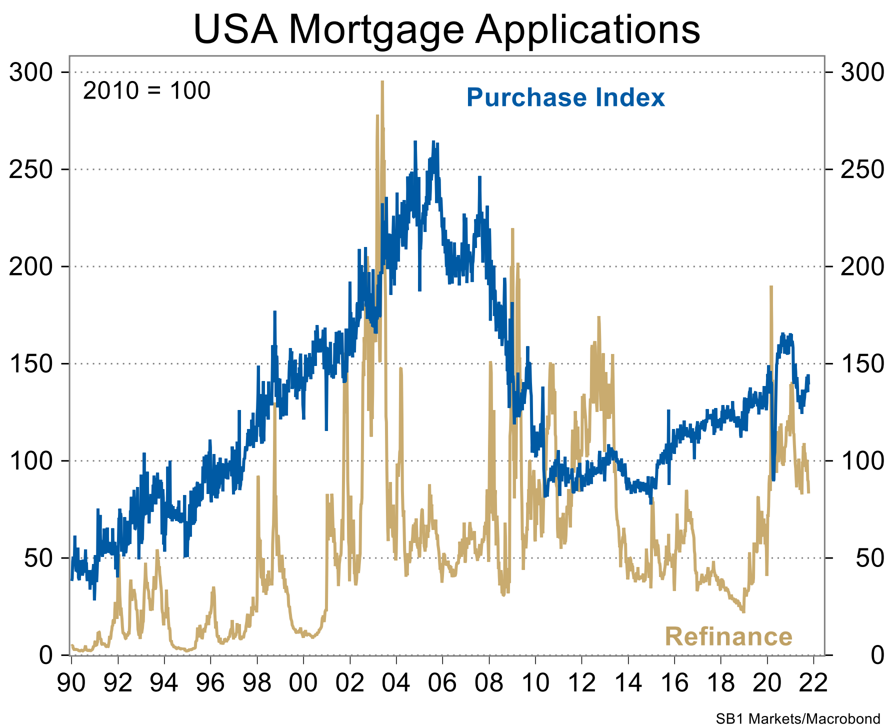
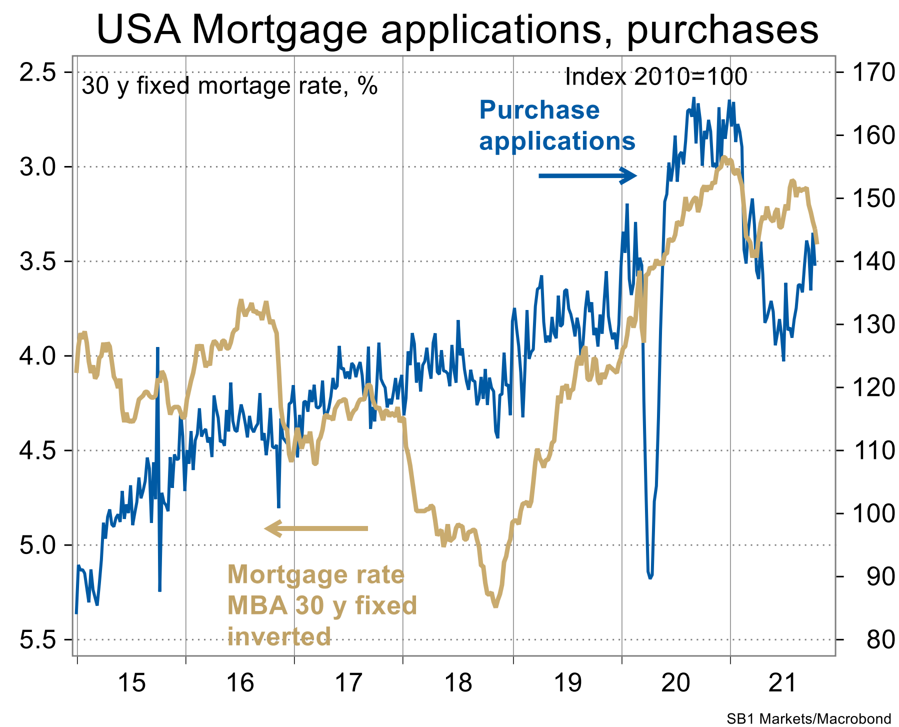
Mortgage rates are slightly up but demand for mortgage is still on the way up

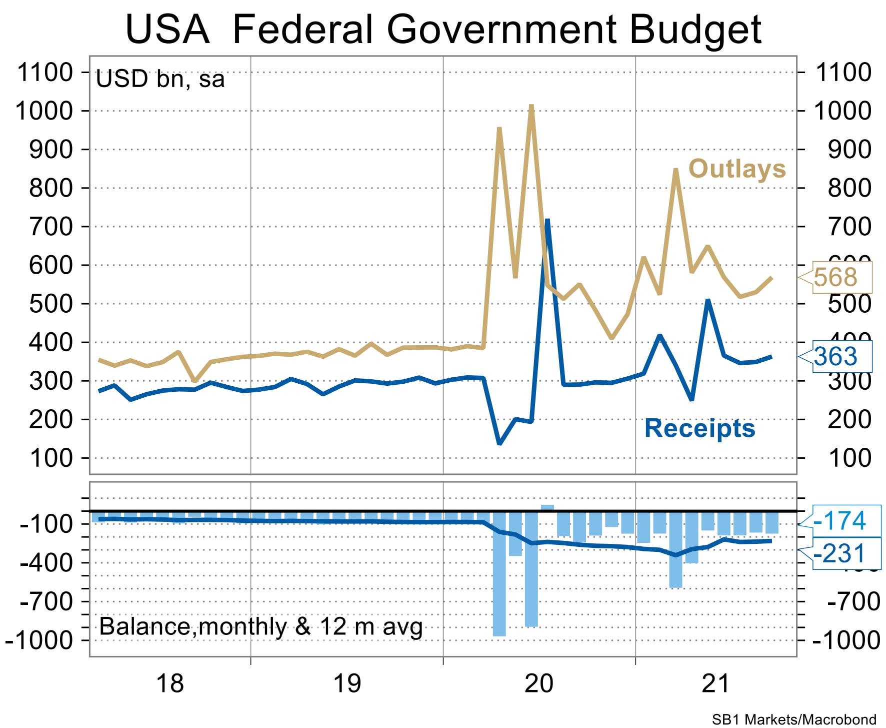


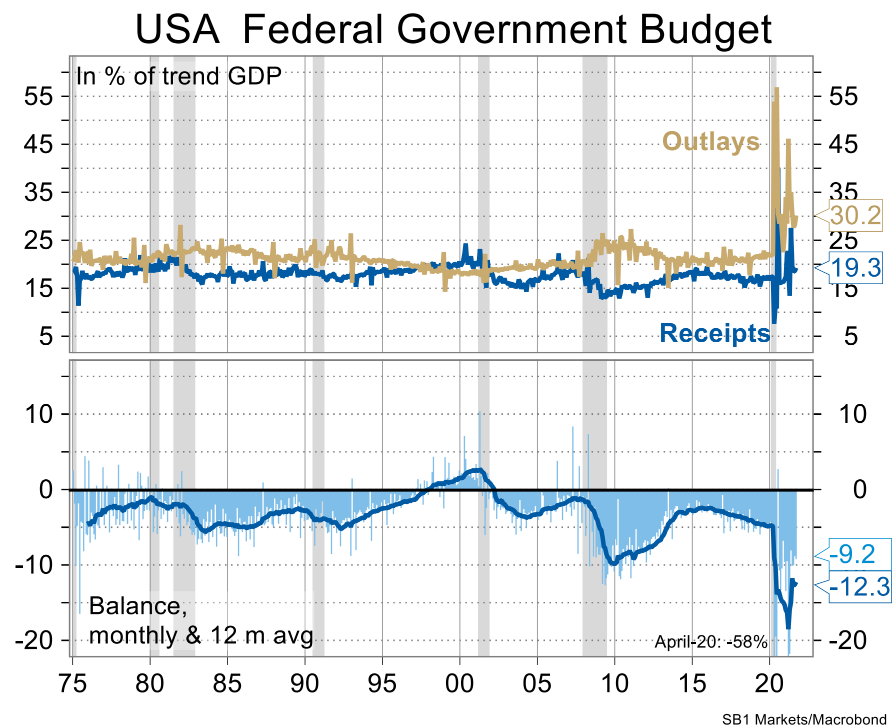


- Demand for new mortgages (for buying, not refinancing) is not closely correlated to mortgage rates but the increase in demand last year was influenced by the steep decline in mortgage rates

Budget deficit slightly wider in September, at 9% of GDP

Spending is more than 1.000 bn above the pre-pandemic level (5% of GDP), revenues far less

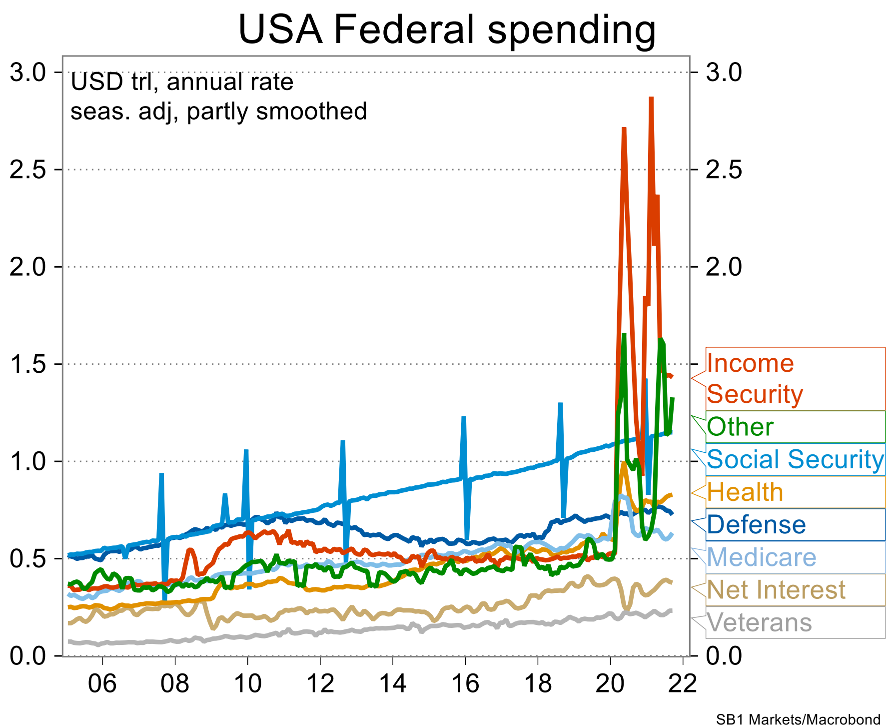


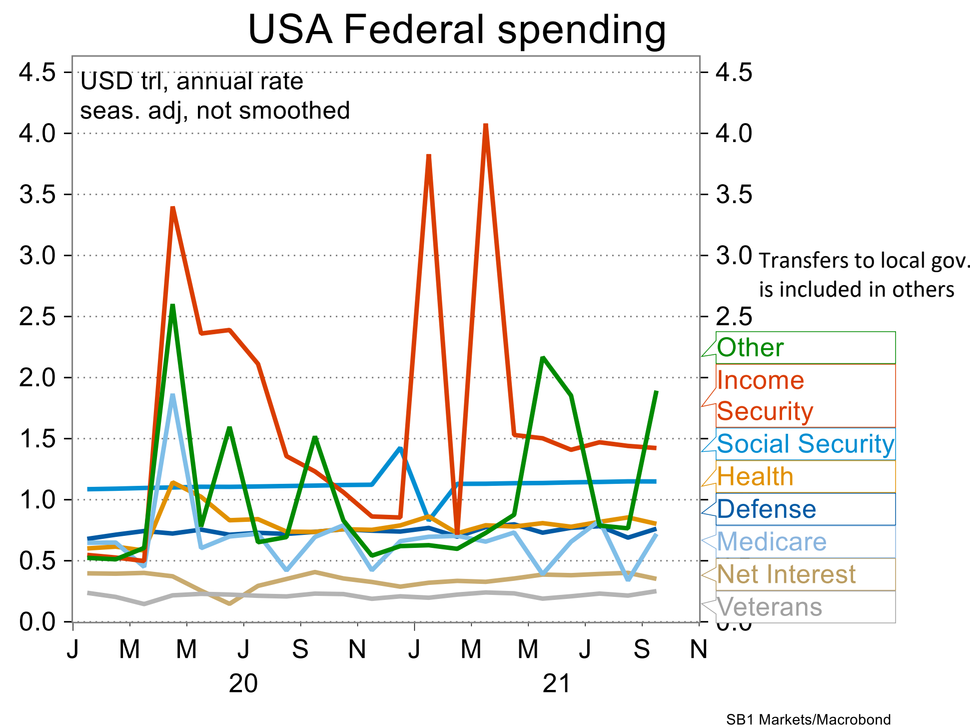


- **Federal expenses** to USD 568 bn in Sept (seasonally adjusted), equalling 30% of (monthly) GDP. Spending is some 8% of GDP higher than before the pandemic mostly due to income security spending, and transfers to states
- **Federal income rose to 332 bn**, 19% of GDP – and covering just 59% of the expenses. Revenues are just up 3% of GPD mostly due to higher tax payments from households that earn much more than before the pandemic
- The actual **deficit** was at USD 62 bn in Sept, expected USD 59 bn. The seas. adj deficit equalled USD 174 bn or 9.1% of GDP. Over the past 12 months the Federal deficit has equalled 12.3% of GDP
- The **Federal Reserve** is still buying gov't bonds, but 'just' at a pace equalling 4.5% of GDP. So no lack of paper for the rest of us (except that actual printing has slowed recently, due to the debt ceiling)

‘Other’ spending up again in October, probably more transfers to states

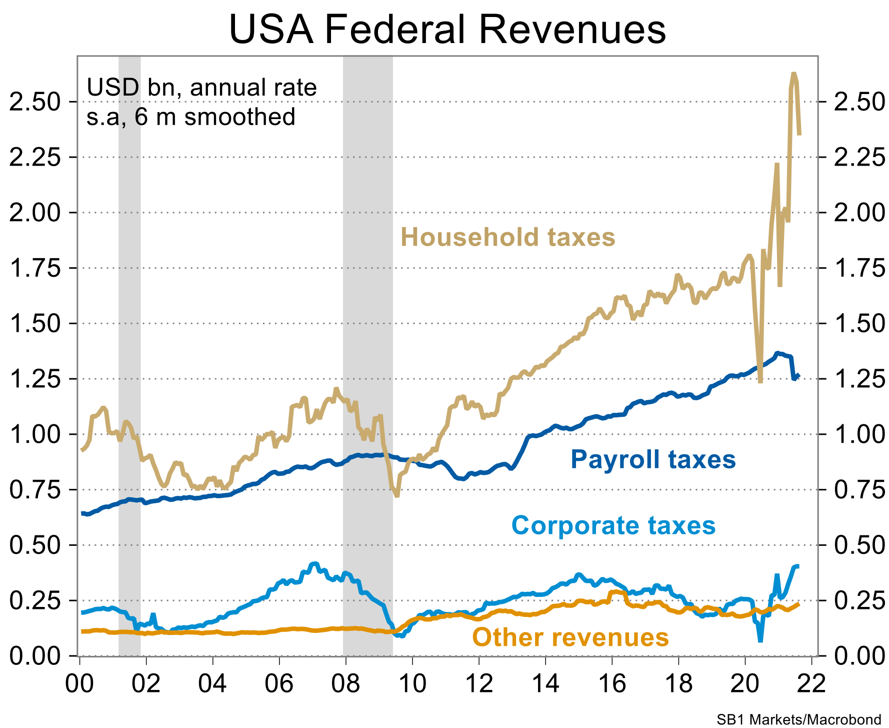
Income security spending still at high level, even if extra unempl. benefits were terminated in Sept

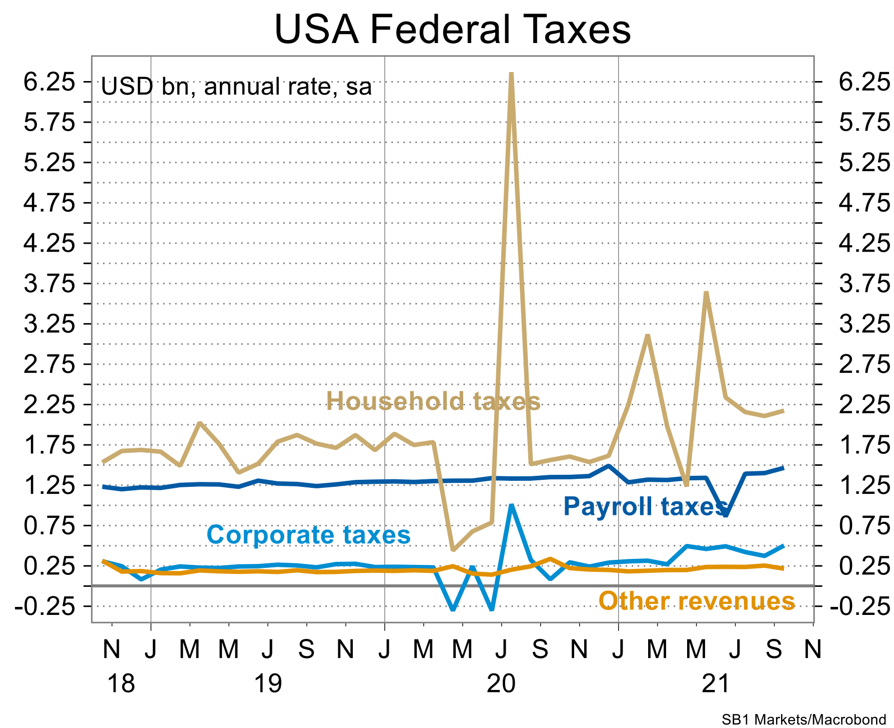




- Both Income security and ‘other spending’ is far above the pre-pandemic level, by 4% and 3% resp. Health spending is up too
- We still deem most of this extra spending to be temporary and due to the stimulus packages, and other Covid related measures

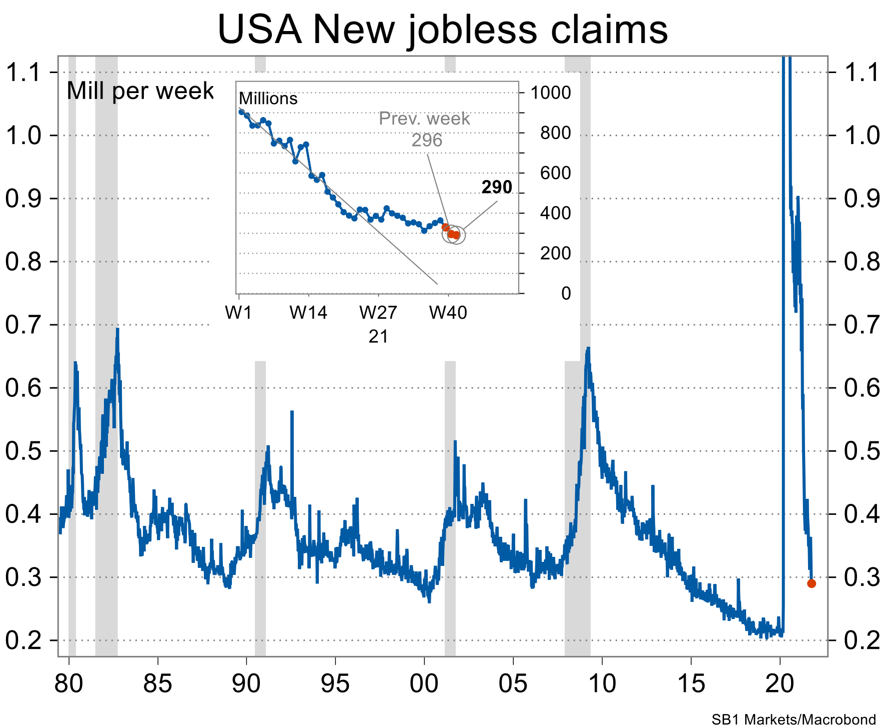
Tax revenues have normalised - and were stable in September

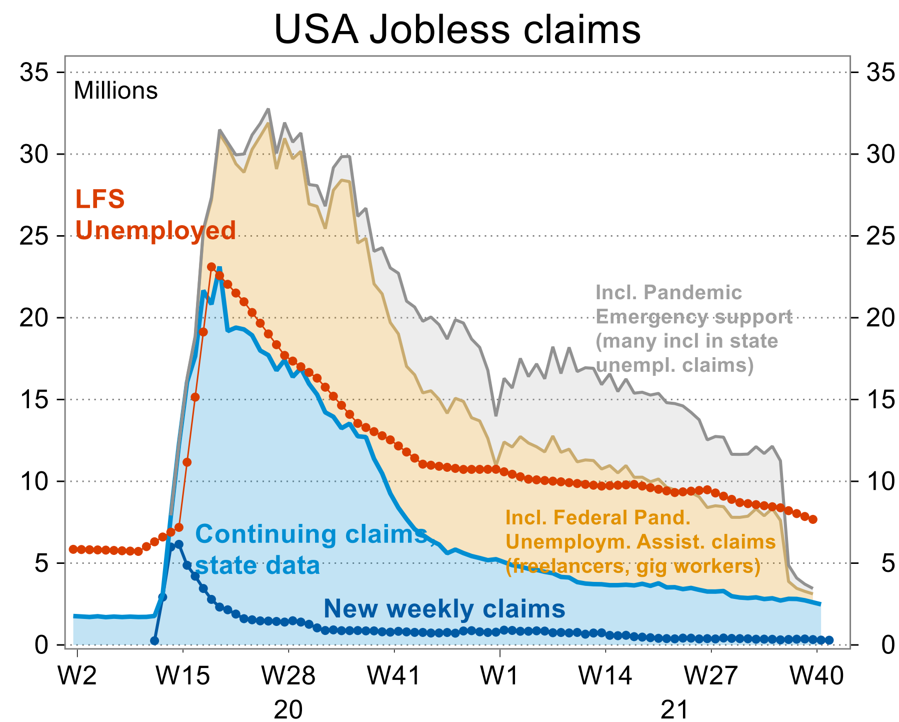




New jobless claims below 300’

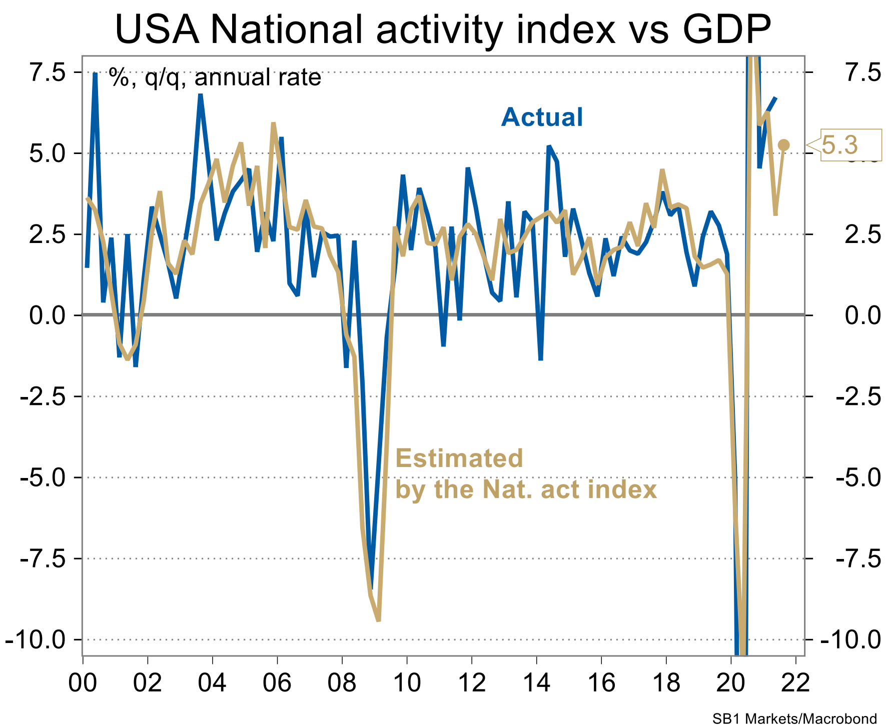
Another sign of a tighter labour market

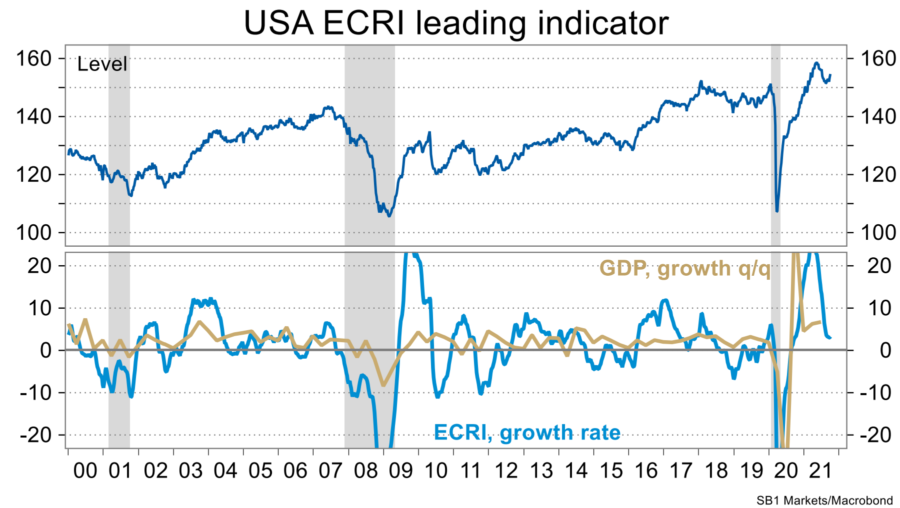


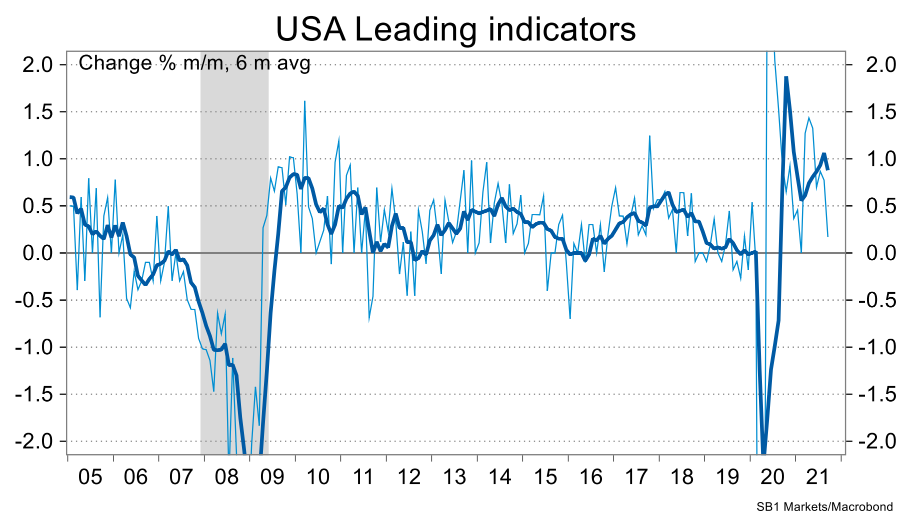


- **New jobless claims fell** by 6’ to 290 in week 41 – expected 302’, the 2nd week in row below 300’
- **Ordinary continuing claims** decreased by 12’ to 2.48 mill in week 40. The trend is steadily downwards but the level still ¾ mill > the Feb 20 level
- The **two temporary federal pandemic unemployment benefit 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 0.85 mill in week 39 from 9 mill in early Sept (and from 12 mill in March)
- What are those 8 mill workers doing now? Not many of them have found a job (cfr the employment report, the official vacancy report, and the SMB survey). They are not searching for work either, at least not more than before the temporary programs were terminated. Will they show up at the labour market anytime soon? The labour market survey signals that the potential is limited (next page)

Mixed signals: Leading indicators signal slow growth, the activity indicator upbeat

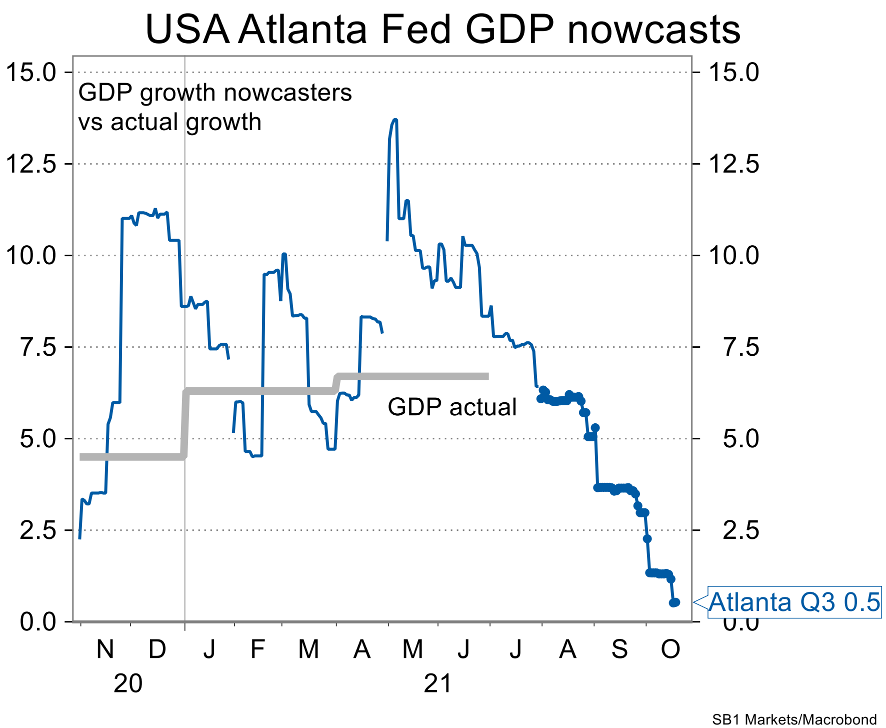


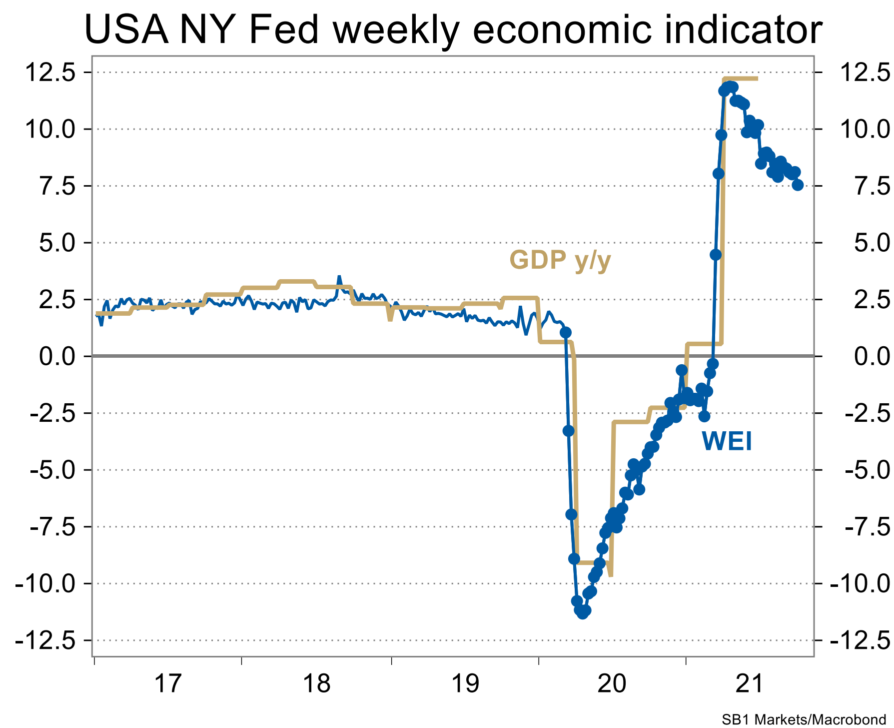




What, towards a setback in Q2? Consumption to blame

Recent data implies 0.5% GDP growth in Q3, according to Atlanta Fed

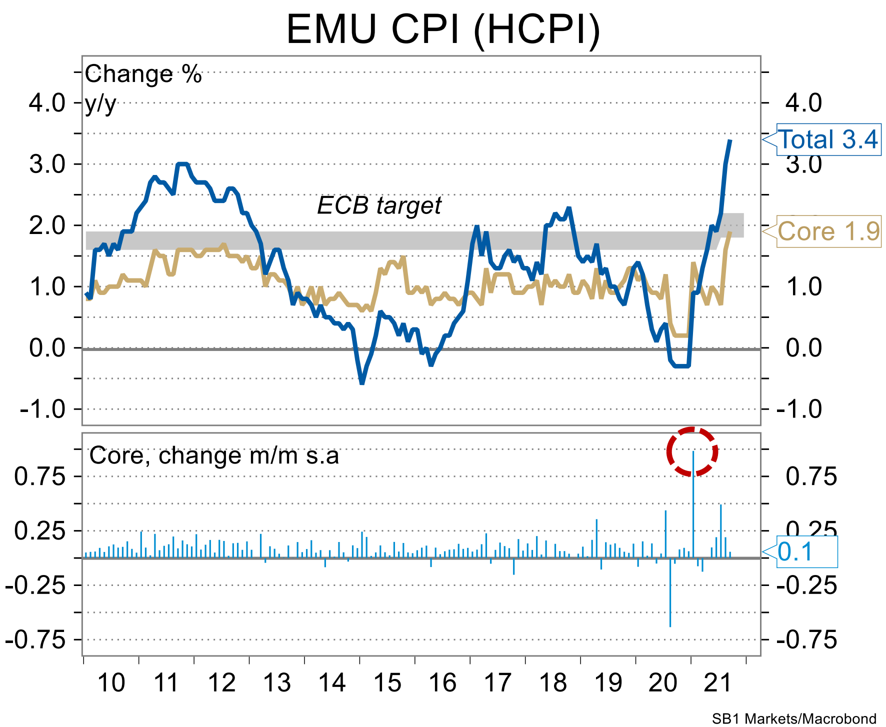


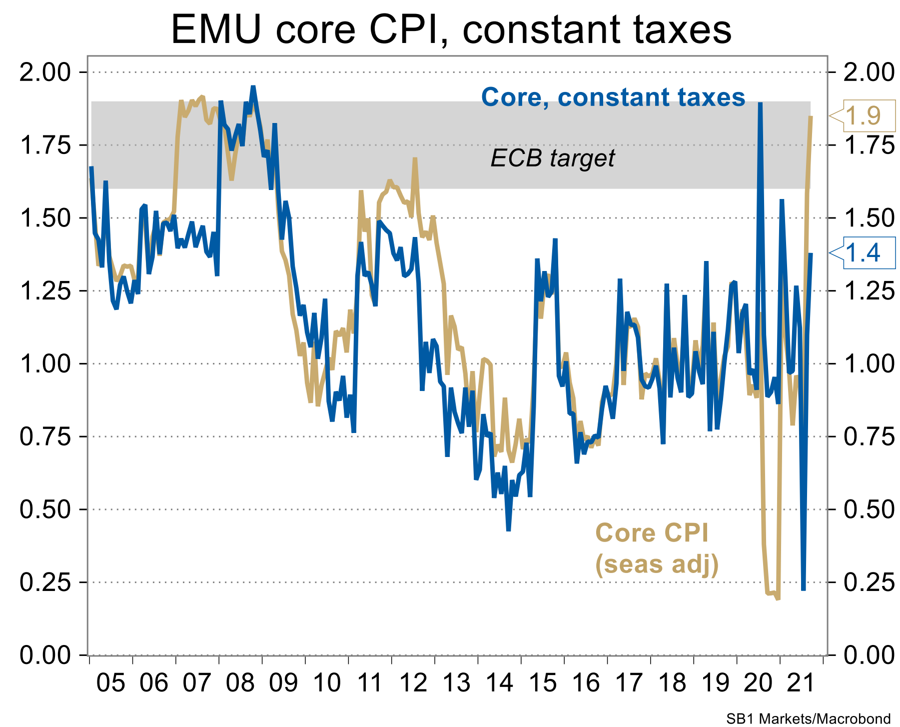


- The forecast started at 6%, in early August

Eurozone core inflation confirmed up 0.3 pp to 1.9%, total at 3.4%

Energy prices to blame – and tax changes





- **Core prices** were confirmed up 0.1% m/m. Still the annual rate shot up rose 0.3 pp to 1.9% as prices fell slightly in Sept last year
  - » **Adjusted for changes in taxes**, the core was at 1.4% y/y in August, according to Eurostat. Over the past year this calculation has been very volatile and we are skeptical this calculus is correct now
  - » The core CPI rate will probably decline substantially in Jan-22, as prices rose 1% m/m in Jan-21
- **Headline inflation** was confirmed up 0.4 pp to 3.4% in September
- Food and beverage prices rose 0.2% m/m, while service prices rose sharply

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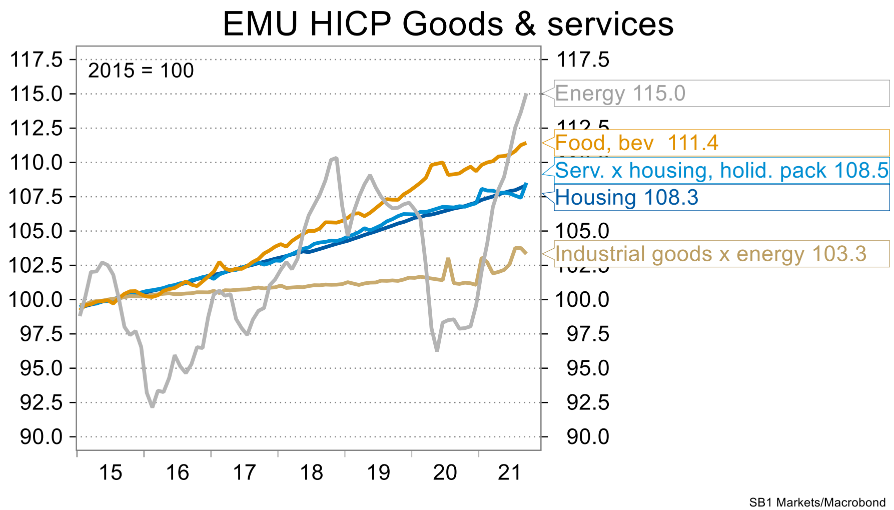
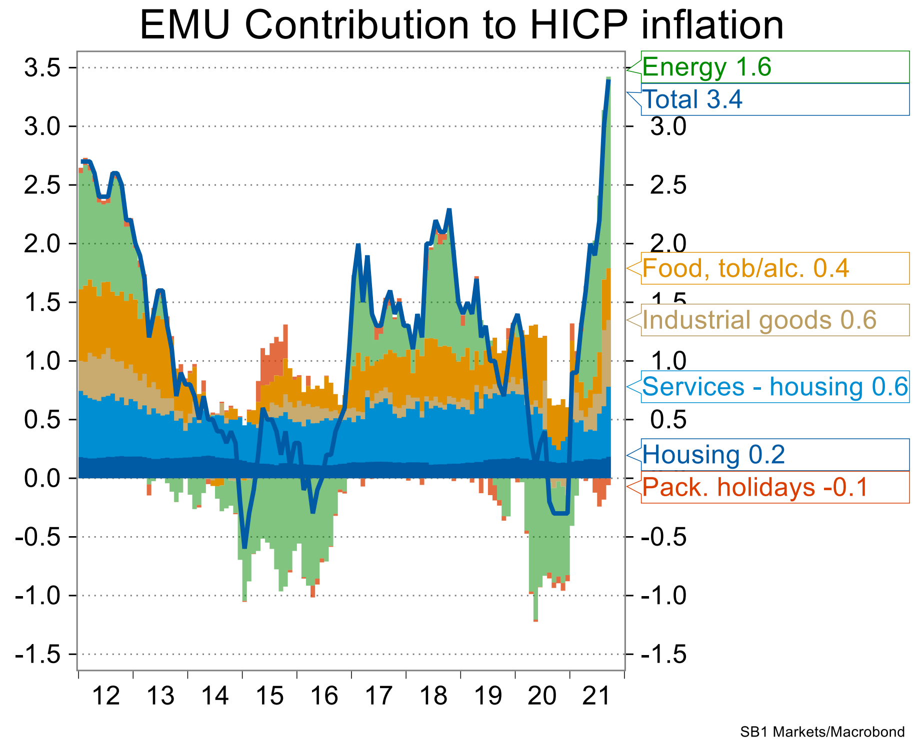
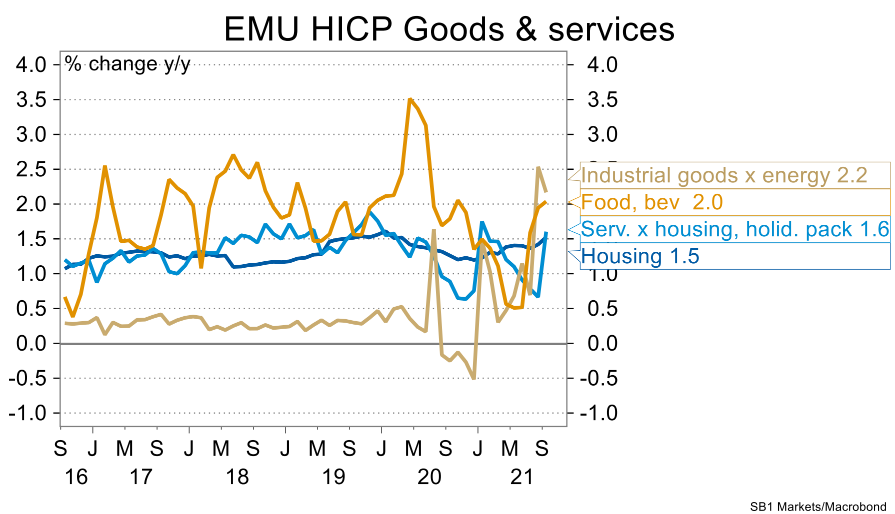
Energy was the main culprit again, and services prices are declining

Energy prices were up 1.2% m/m and contributed 1.6 pp to headline inflation y/y







- The steep rise industrial goods x energy prices are due to higher food prices, clothing, building materials, cars
- Still, the main – and almost only – culprit for the high headline CPI print is the lift in energy prices

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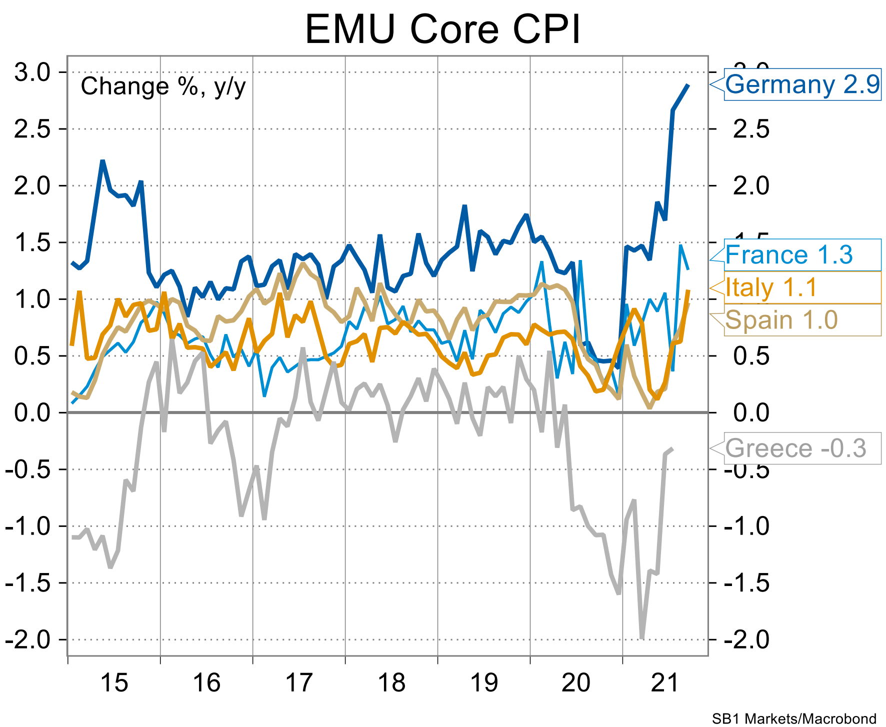
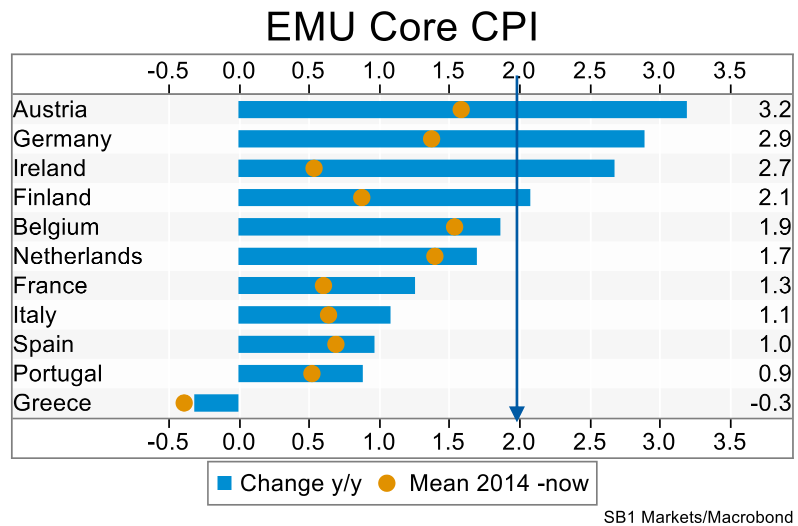
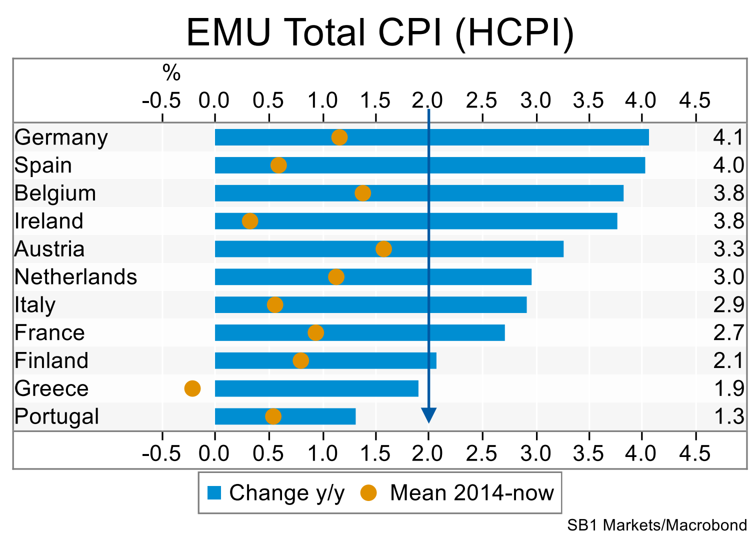
Core inflation below 2% most places – total inflation above almost everywhere

In Germany, inflation sharply up to 4.1% (total) 2.9% (core) – as last years' VAT cut impact fell out

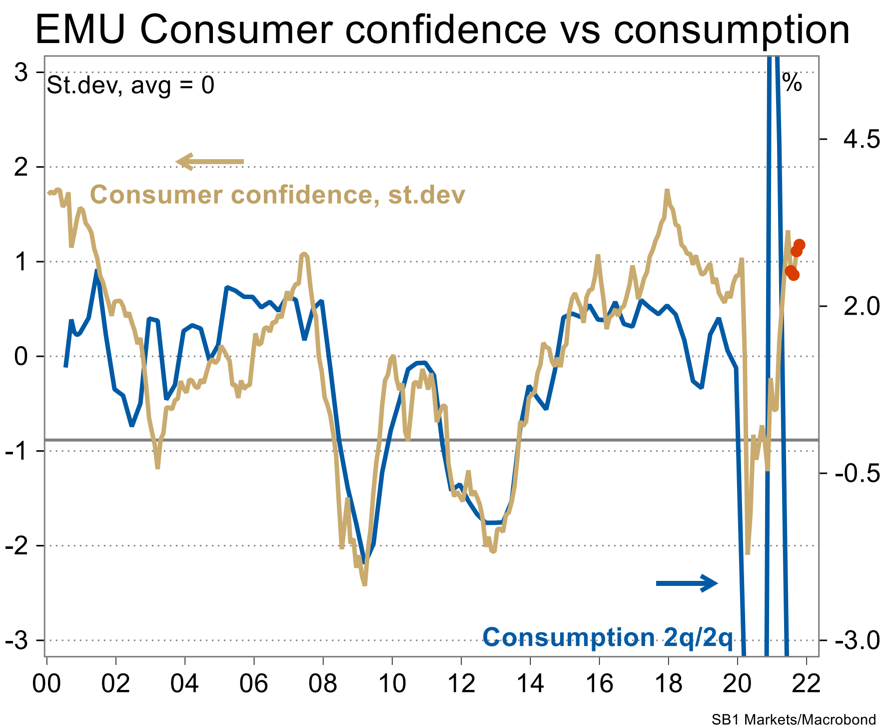


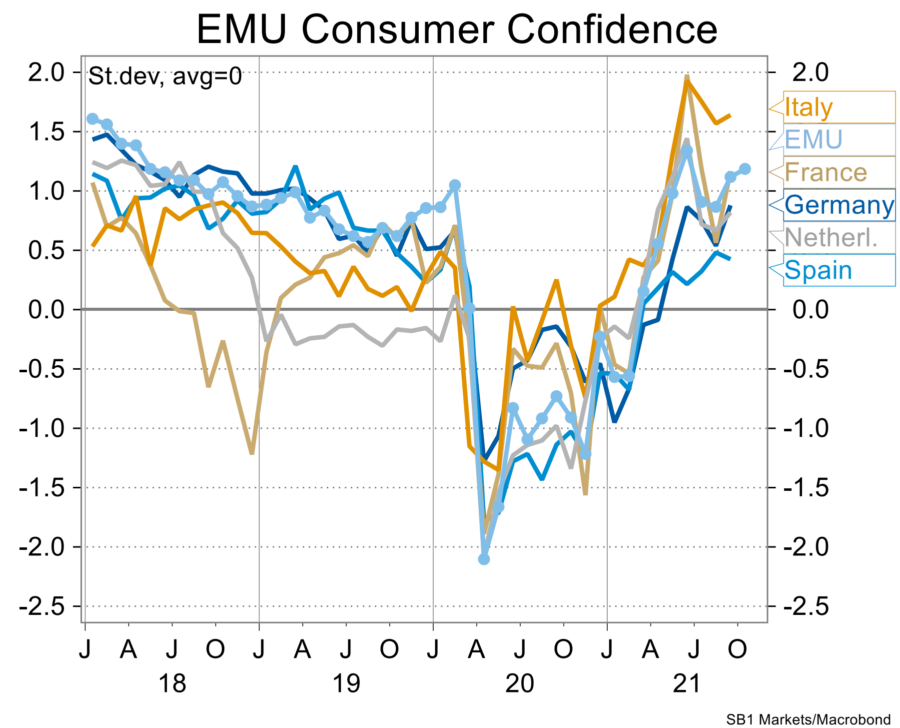




Eurozone consumer confidence further up in Oct, well above pre-pandemic level

Consumer confidence rose by 0.1 st.dev in Oct; level is 1.2 st.dev <u>above</u> average!!

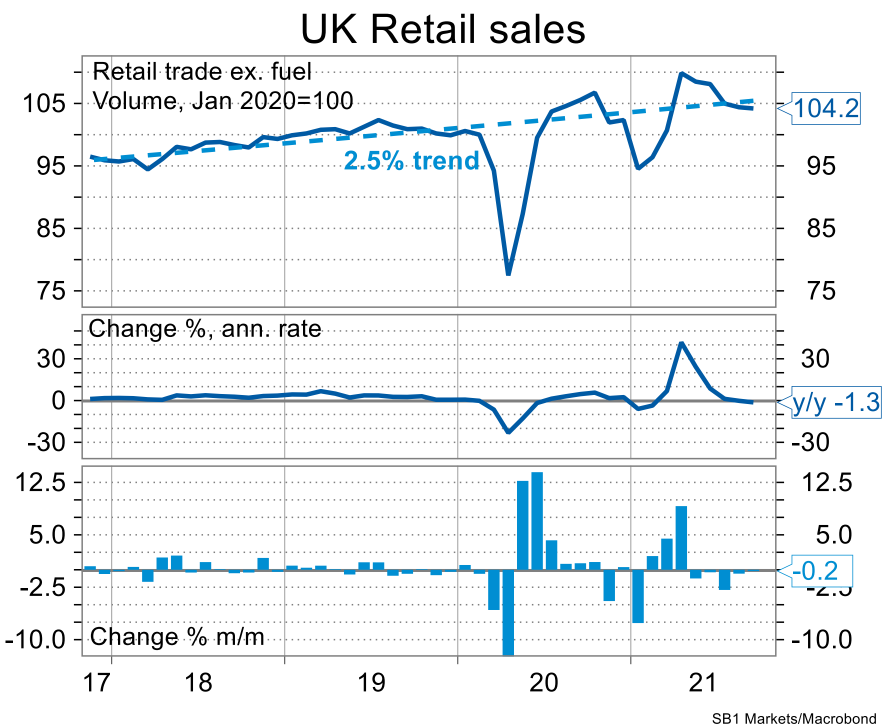


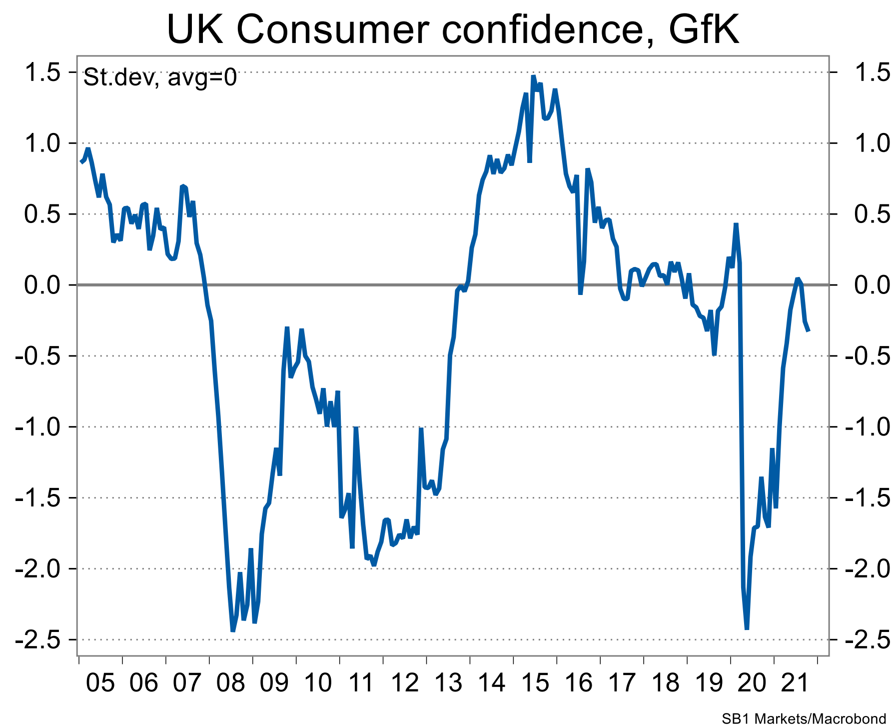


- **The consumer confidence index** fell to -4.8 in October from -4.0 in September, expected down to -5.0. However, seasonally adjusted the index climbed marginally.
- <u>The level is among the best past 2 decades! Most likely, households have recognised that the fight against the corona virus has been successful</u>
- A positive sign for household demand in the coming months
- No October country data or details yet
  - » All of the large EMU economies reported confidence above par in September. Italy has been above average since December, and is in the lead

Retail sales fell for the 5th month, down 0.2% in Sept – down to pre-Covid trend

Sales were expected up 0.5%, and Aug, revised marginally down

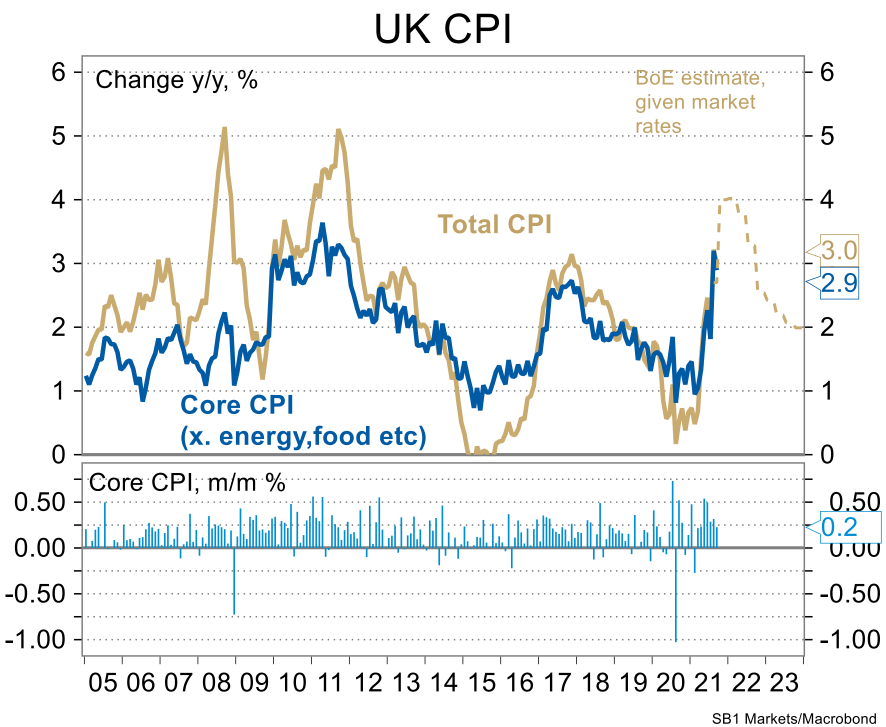




- **Retail sales** peaked in April, and the gradual decline has brought sales almost down to the pre-pandemic 2.5% growth path
  - » The outbreak of the Delta virus may explain some of the weakness over the past couple of months. However, a gradual normalisation of sales seems was inevitable anyway when spending on services could return towards a more normal level
- **Consumer confidence** fell both in Aug, Sept & Oct, and is now slightly below an average level. The Delta outbreak, and some supply side problems probably explain the setback – which so far is rather moderate – and nothing compared to last spring's loss of confidence

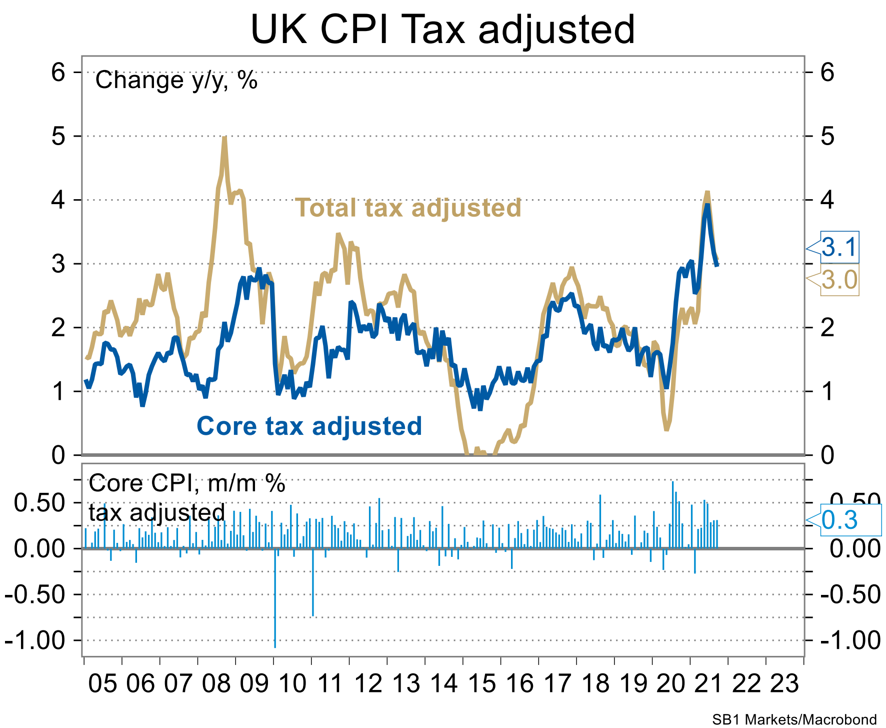
Inflation a tad down in September but monthly increase still too high

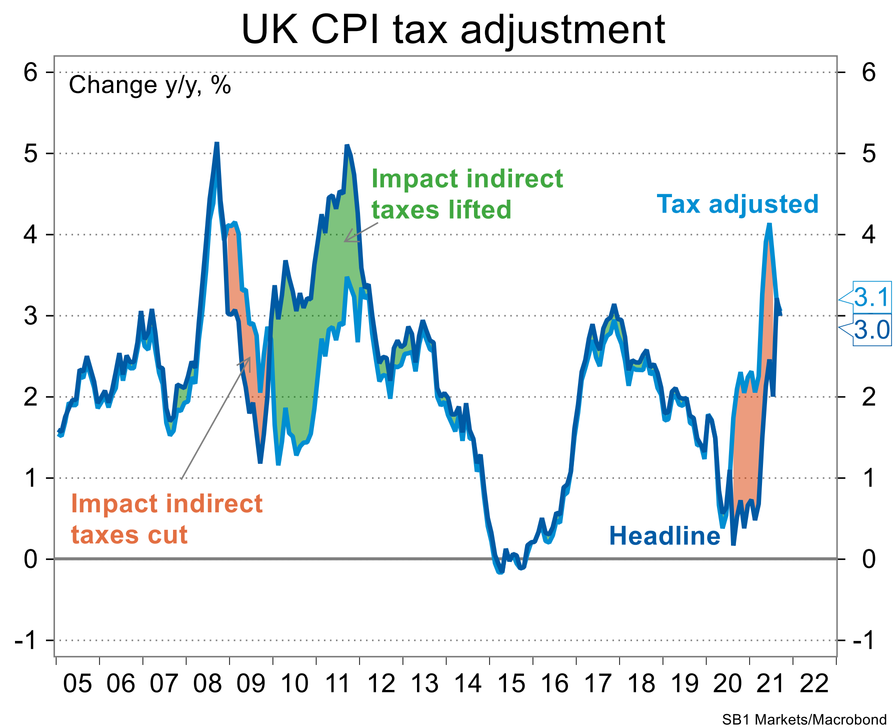
Total inflation down 0.2 pp to 3.0% & core down 0.1 to 2.9%; 0.1 – 0.2 pp below consensus



- Inflation is far above the 2% inflation target – following the steep rise in the annual rate when last year's subsidies fell out of the annual rate
- Transport has lifted CPI by 1.1 pp. 2nd hand cars are sharply up, as are fuel prices (both 18-19%)
- Residential energy prices are up just up 2.8% y/y, and the total energy bill is up just 10% - and prices are lower than in 2019
- However, other prices are on the way up – and Bank of England is worried and have clearly signalled than rates may soon be hiked

Tax cuts/subsidies out of the annual rate – and inflation is not low





- The corona measures (Eat Out to Help Out Scheme and some other support programs implemented last August) equalled 1.6% of CPI. Prices fell less than that m/m (vs a normal price increases at that time, which though were very volatile m/m, most likely because restaurants etc. kept some of the subsidy themselves)

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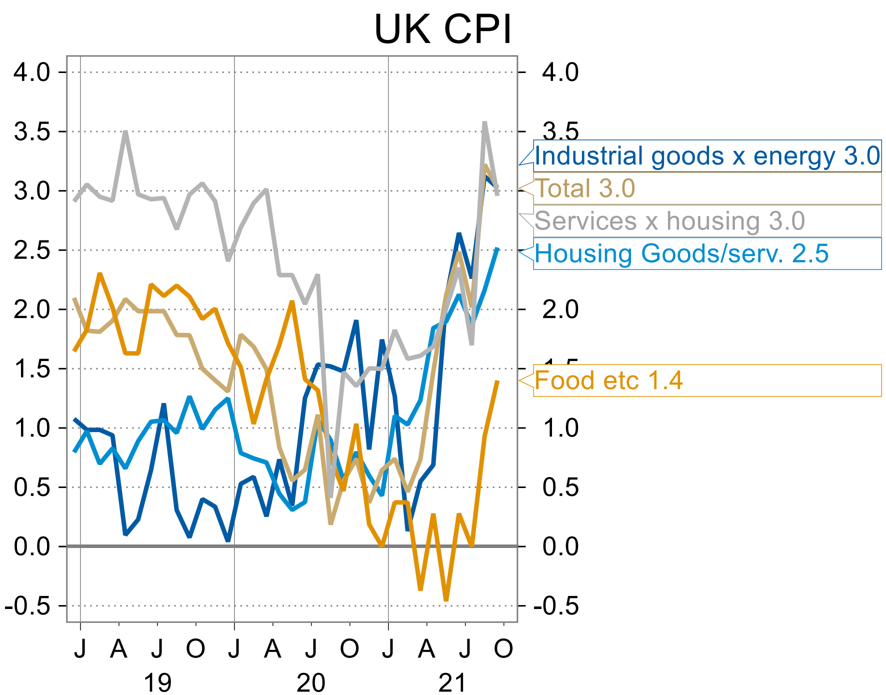
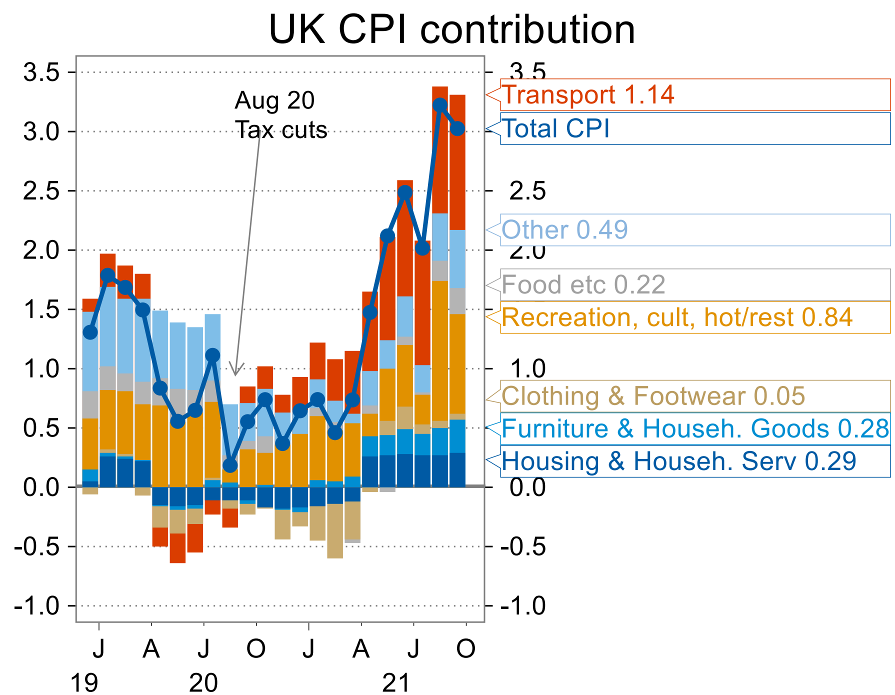
Transport, housing, recreation/hotels/restaurants the main contributors

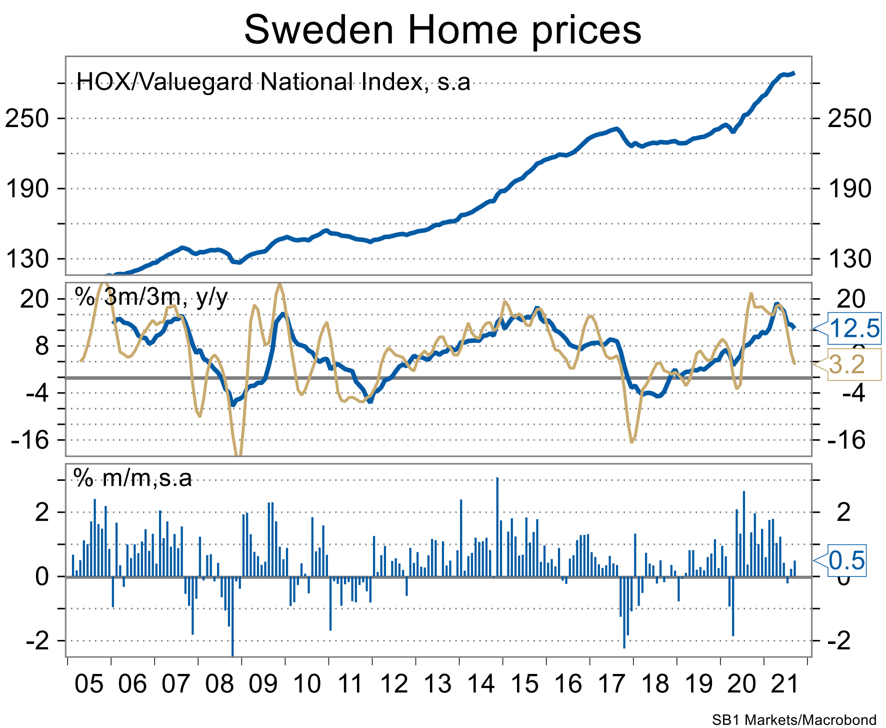


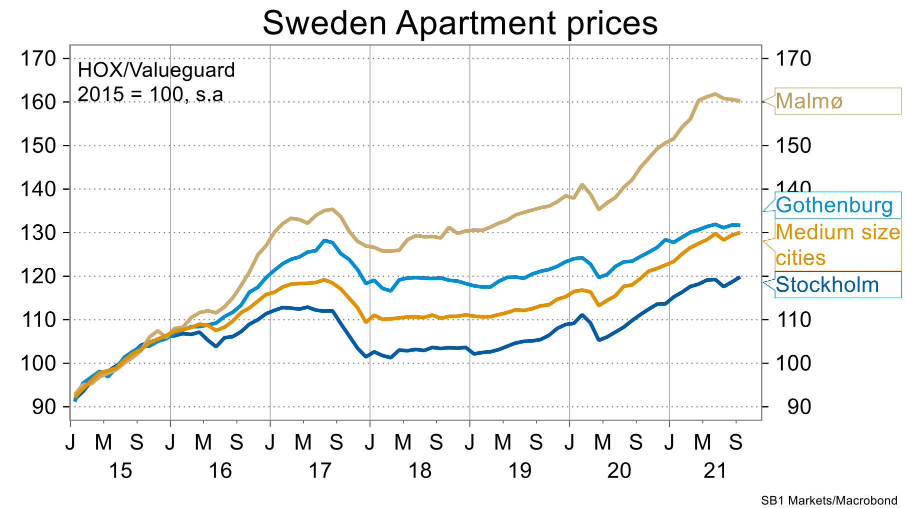


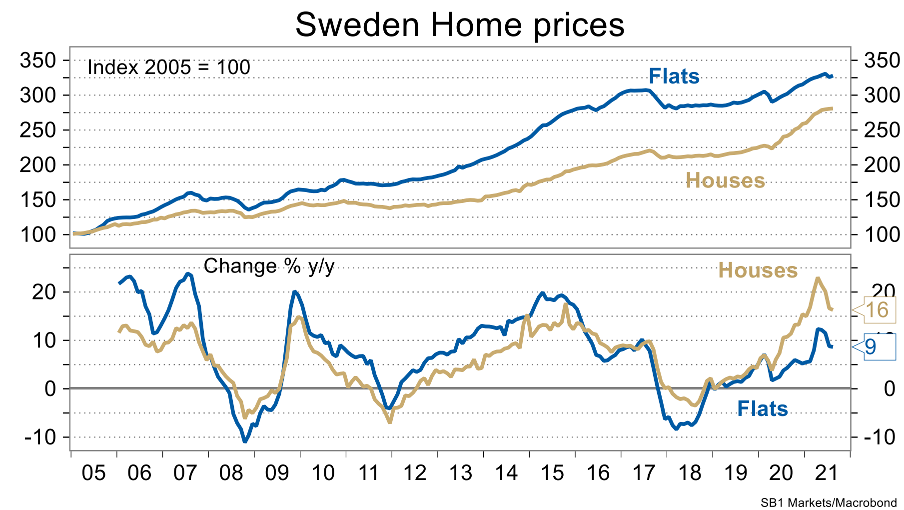
- **Energy prices** are up 10% y/y, rather modest vs. the lift in spot prices – and the energy bill in September was lower than during most of 2019. UK household must have entered long term contracts
  - » Residential energy is included in housing in the charts above

Swedish house prices up 0.5% in August – pace is slowing but level still elevated

The annual price growth has fallen to 13%, from the peak at 19%



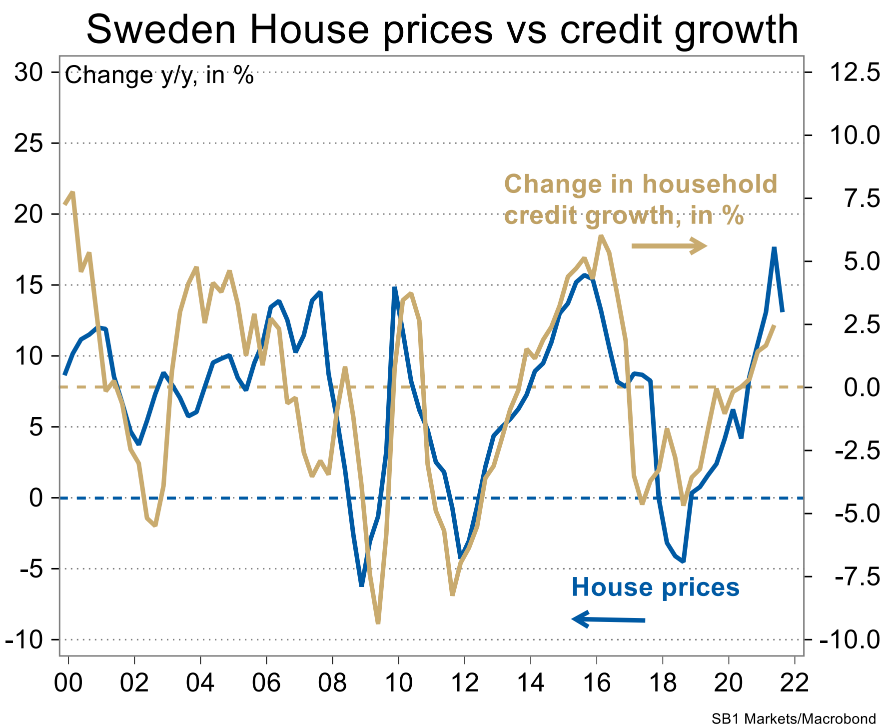


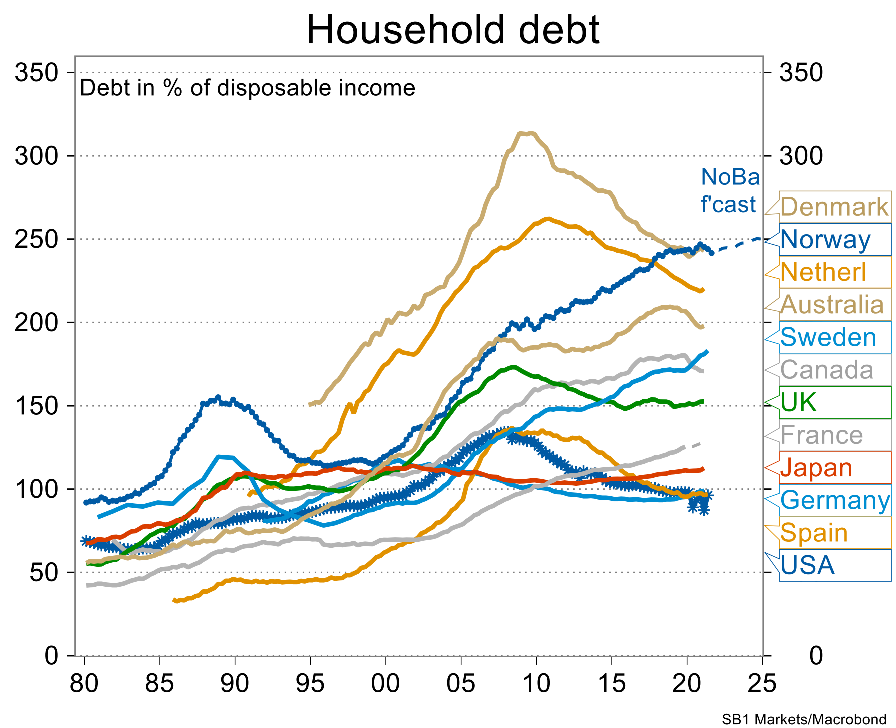


- The annual price inflation fell to 12.5% in September from 13.4% in August. In April the rate was 19% (as prices fall last spring)
  - » The underlying price growth (3m/3m) has slowed to just 3.2%
- Apartment prices fell in Malmø and Gothenburg (seas. adj.) and prices are below the May/June level. Stockholm prices rose further and is at ATH in Sept
- The Riksbank has 'promised' to keep interest rates unchanged until 2025

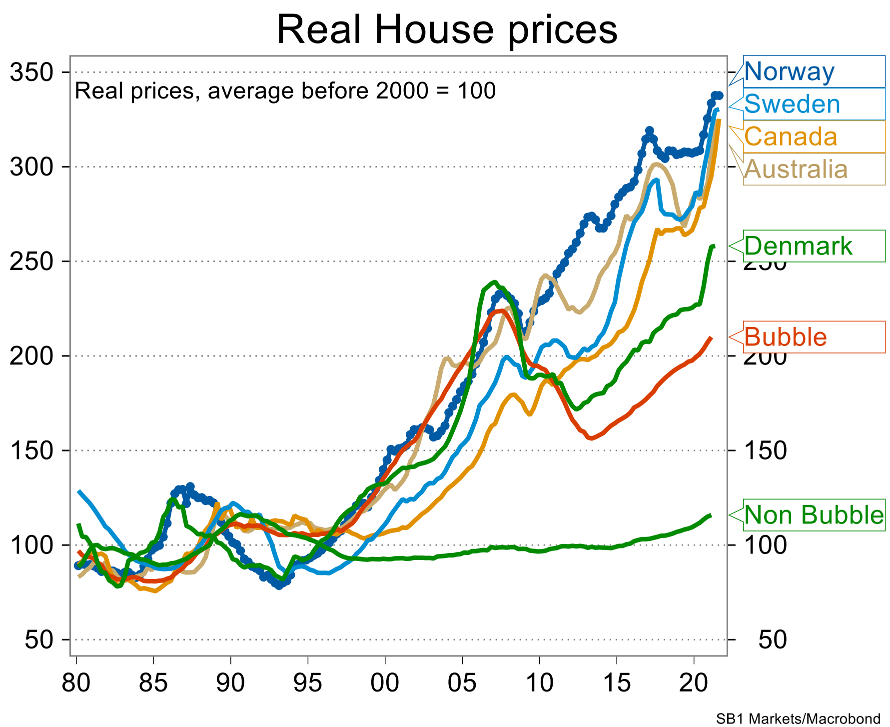
Credit growth is accelerating rapidly

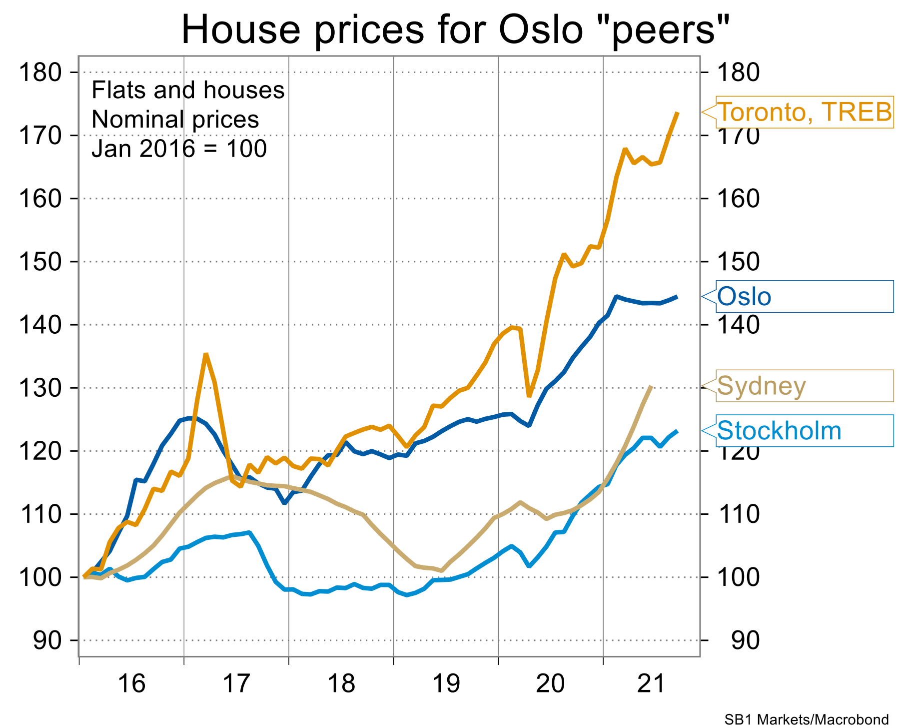
… and more than in any other rich country, without cuts in (record low) mortgage rates





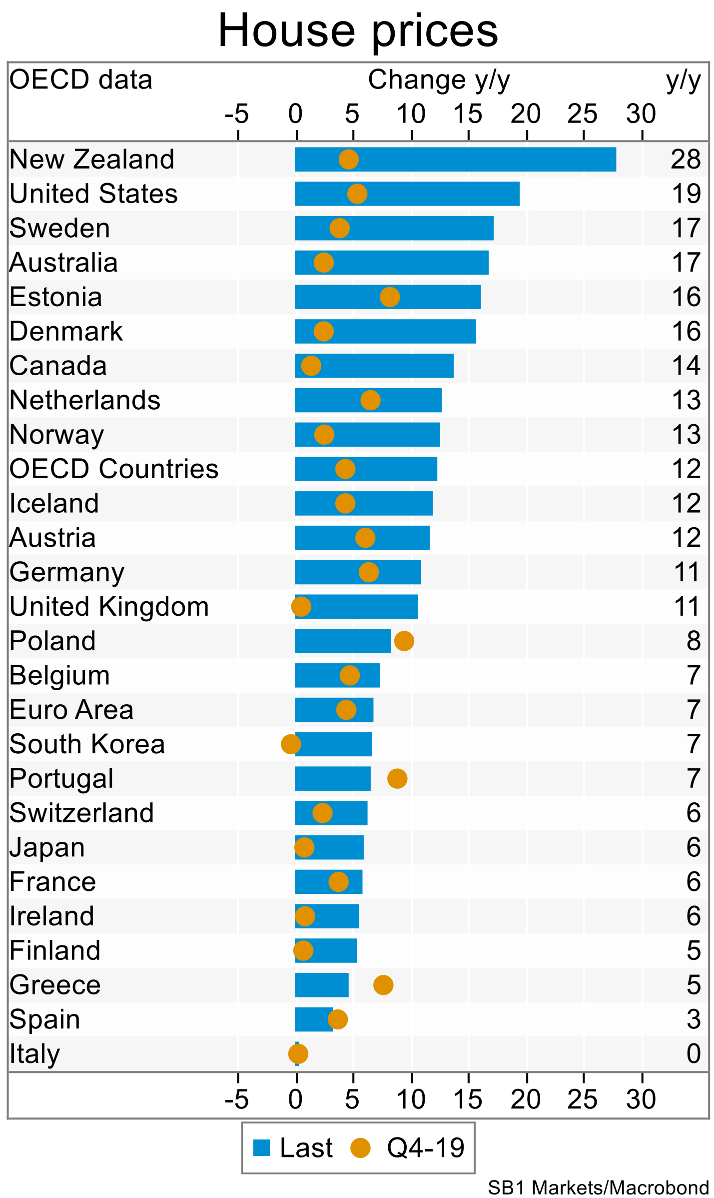
Zero-interest rates are just wonderful! At least for a while





- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Home prices in the capitals in these countries are mixed recent months, as Oslo and Toronto have taken a break – but Sydney is probably still on the way up

House prices up everywhere, and have accelerated in 21 of 26 countries

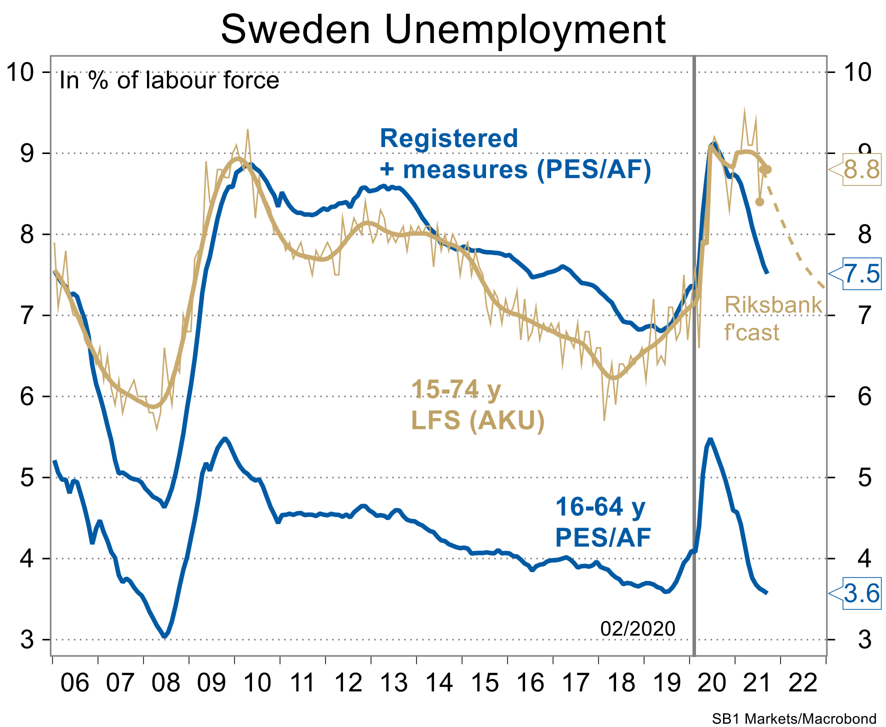


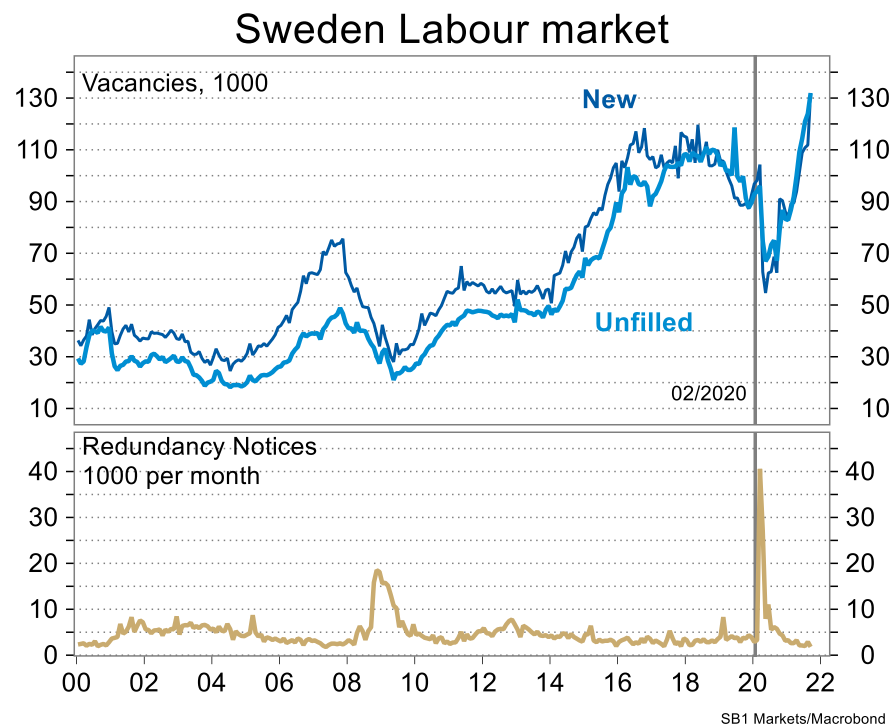
OECD quarterly data, the last quarter Q1 or Q2-21

- The average price appreciation in the OEDC area was 12% in Q2, up from a 4% before the pandemic
- Denmark, New Zealand, Sweden and Norway have reported the steepest acceleration vs. pre-corona growth rates
- Price inflation has slowed the most in Greece, for good reasons – the tourist country has been through a harsh downturn. The house markets in Spain and Portugal have been hurting, for the same reason

Total unemployment down 0.1 pp to 7.5% in Sept, vacancies up to ATH!

LFS (AKU) unemployment rate unch. at 8.8%





- **Registered 'open' unemployment** (PES/AF) has fallen rapidly since last June, and currently stands at 3.6%, unchanged for the past couple of months, and below the pre-pandemic level at 4.1%
- **Incl. labour market measures**, PES/AF unemployment is falling too. The rate fell by 0.1 pp to 7.5%, but the level is still 0.2 pp above the early 2020 level (but 0.7 pp above the trough in mid-19
- The **LFS (AKU) unemployment** was unch. at 8.8% in September - and the level is up 1.2 pp higher than in early 2020. (However, this survey is heavily revised, and we are not sure the Swedes have made data comparable)
- The number of **new vacancies** and **unfilled vacancies** rose further, up to another ATHs! **Layoffs** were down in September.

Highlights

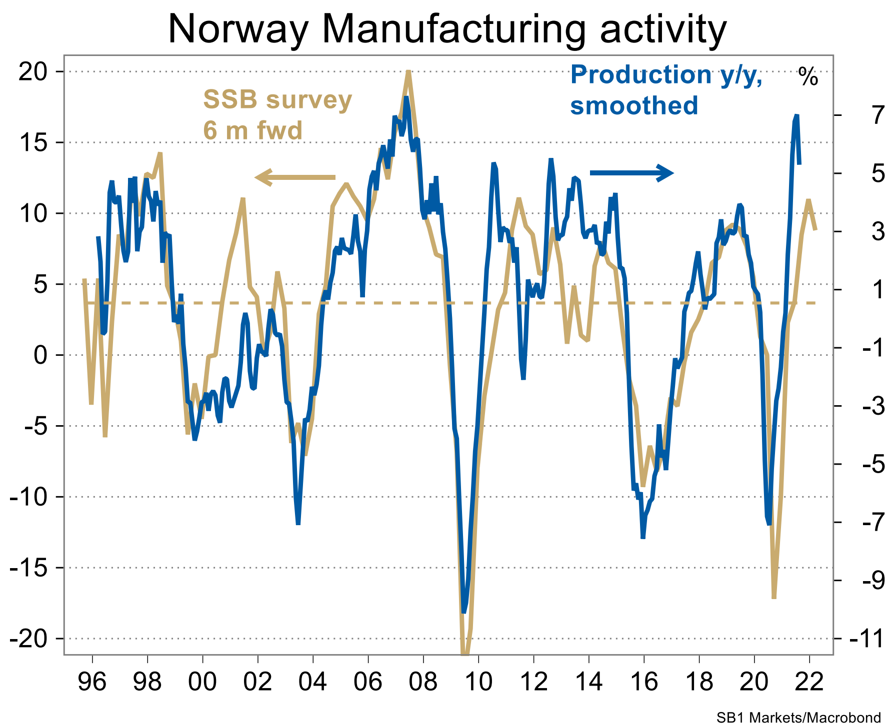
The world around us

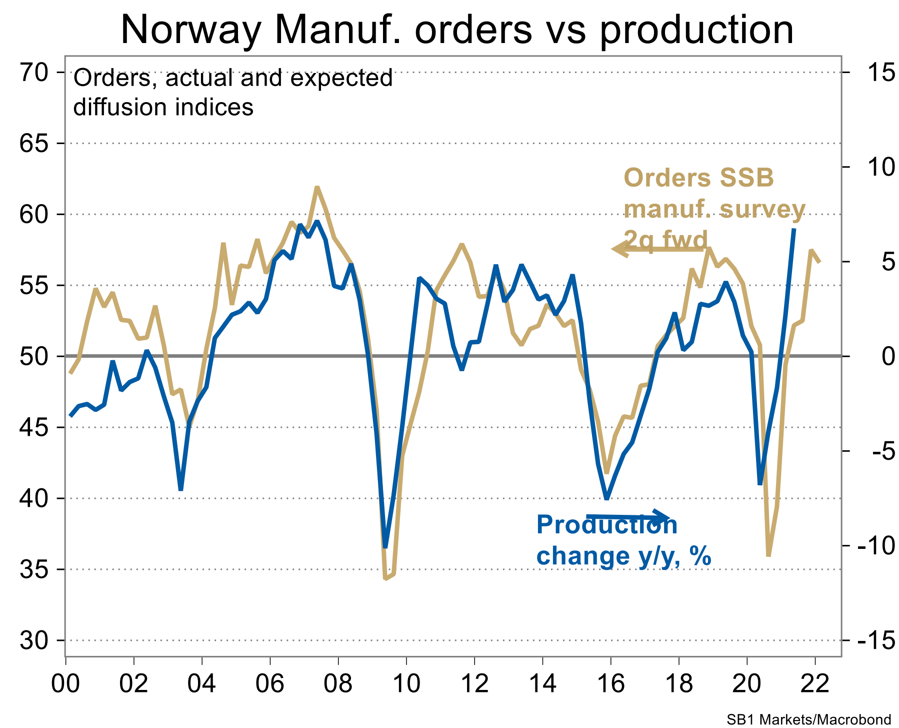
The Norwegian economy

Market charts & comments

SSB's manufacturing a tad down in Q3, mostly on supply concerns

Signals growth well above trend the coming months, broad based

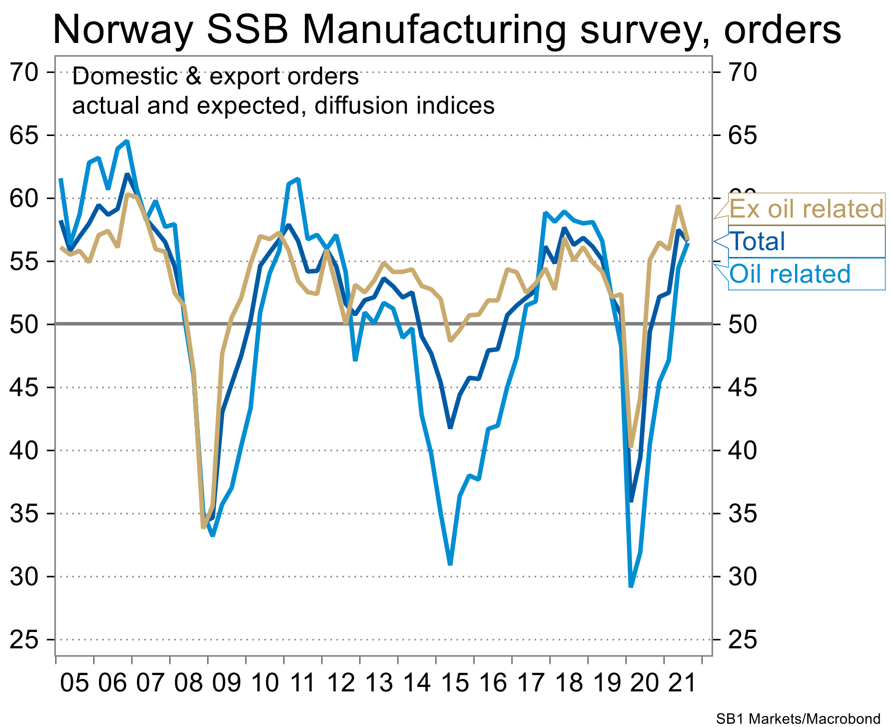


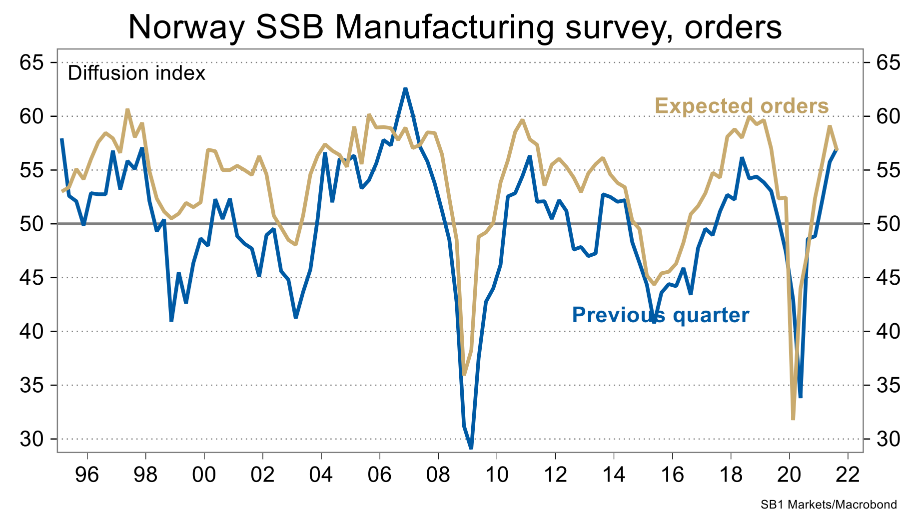


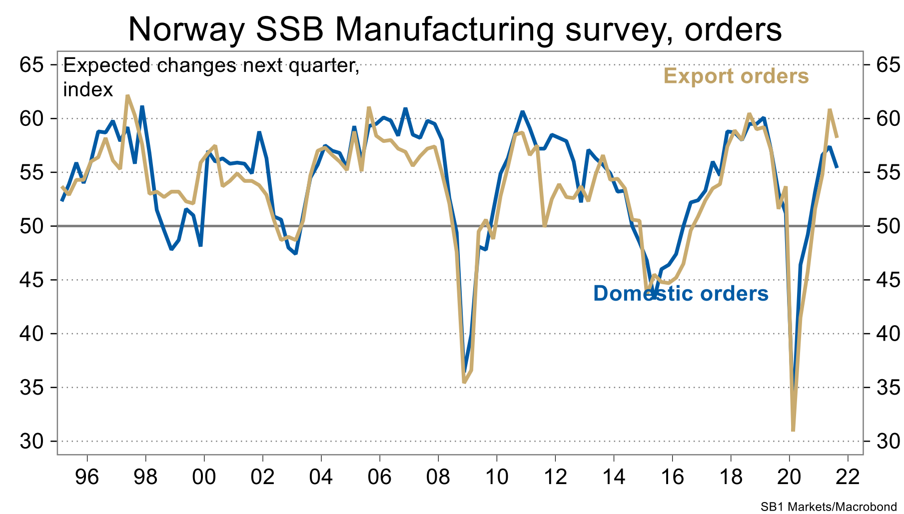
- The composite index in SSB's manufacturing survey fell to 8.8 in Q3 from 11 Q2 (rev. up from 8), we expected an increase up to 12. The level is 5 p above the average (or +0.7 st.dev above avg, down from 0.9 Q2)
  - » The index signals growth well above trend in production, 3½ GDP growth and a 20% growth in expected corporate (OSEBX) earnings
- Orders are growing rapidly but not faster in Q3. Foreign orders are now increasing faster than domestic orders, and oil related industries reported a recovery
- ***Supply constraints the most serious since 2008. Demand/competition is far less of a problem than normal***
- ***Companies are reporting they expect prices to rise faster than ever (data from 1990)***

The (expected) order inflow is increasing a fast pace but not faster

Growth in oil-related orders sharply up, growth ex. oil-related slightly down







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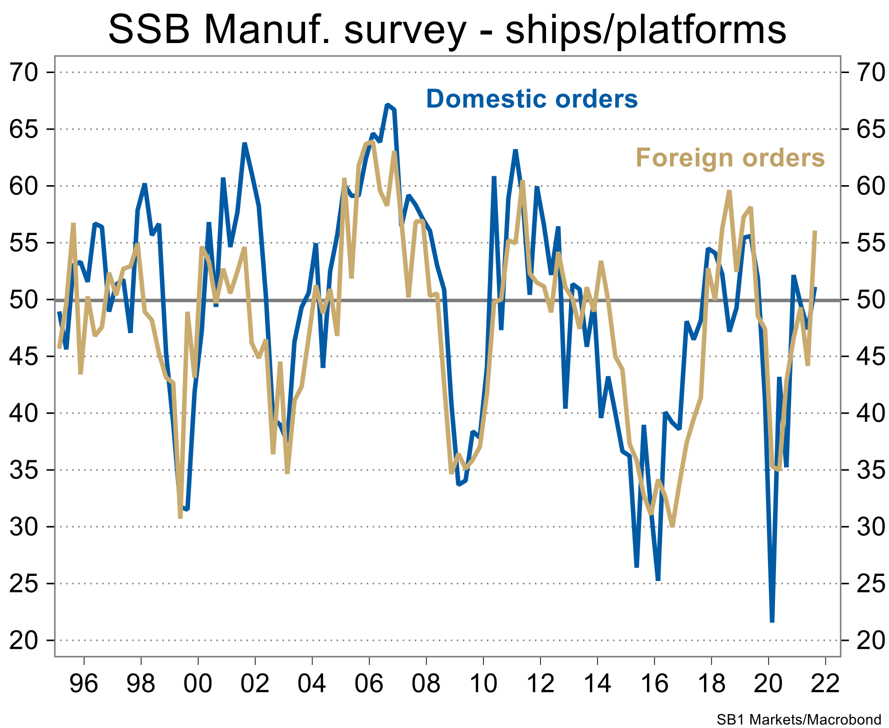
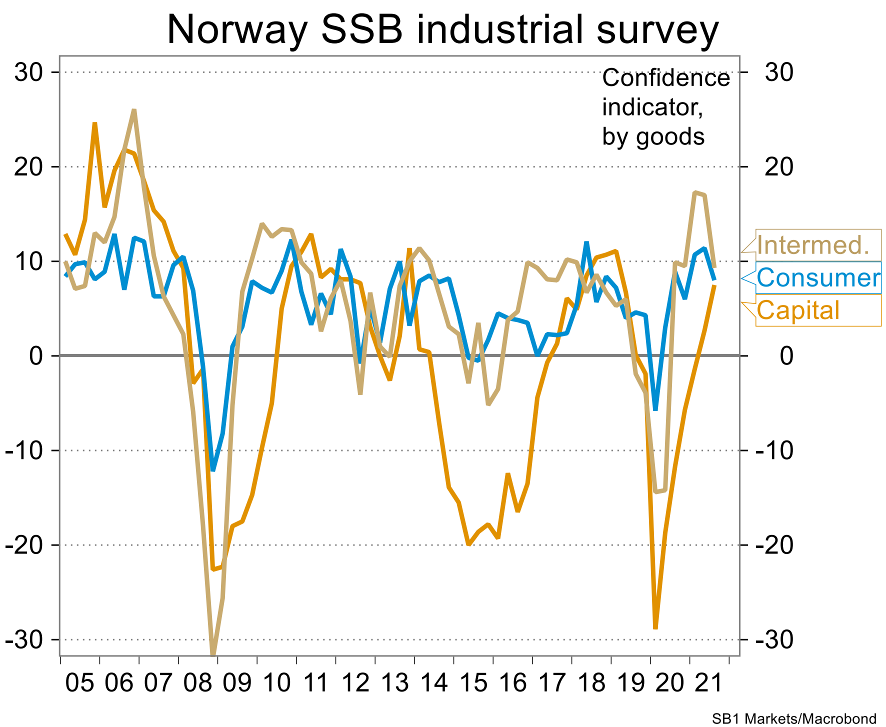
Ships/platforms: Orders are recovering

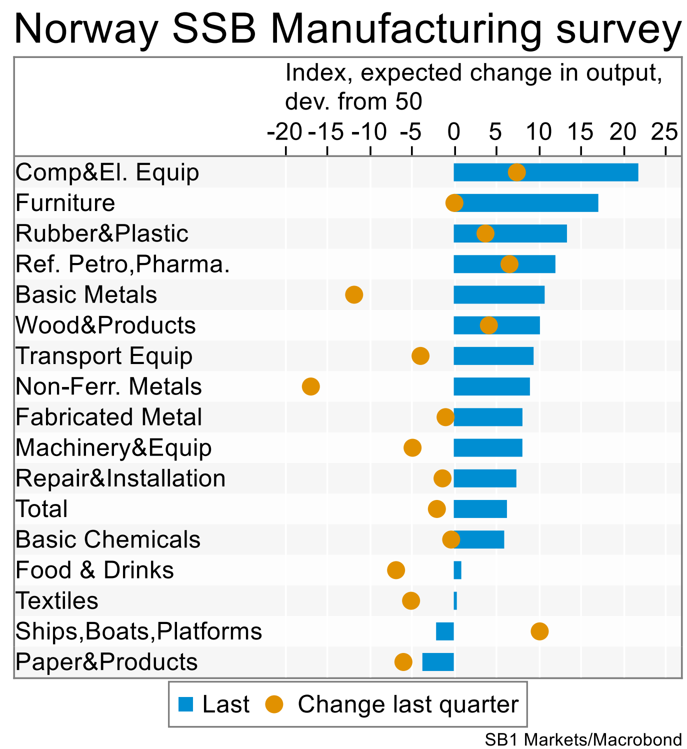
Especially from abroad. We expect more to come from home the coming quarters (or years)



Capital goods producers report stronger growth, intermediate slower

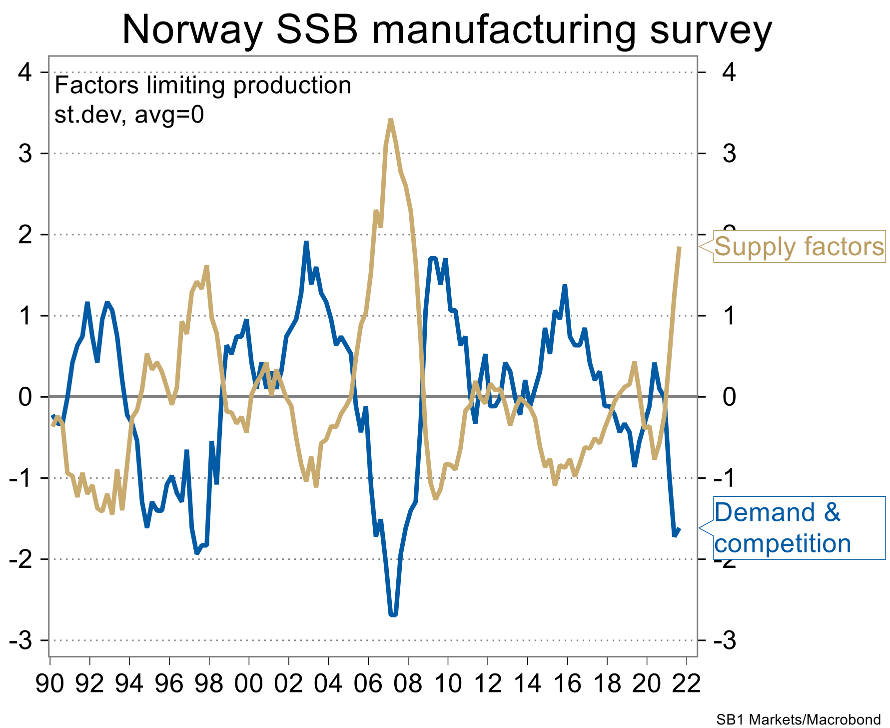
More sectors down than up in Q3. Much slower growth in basic & non-ferrous metals

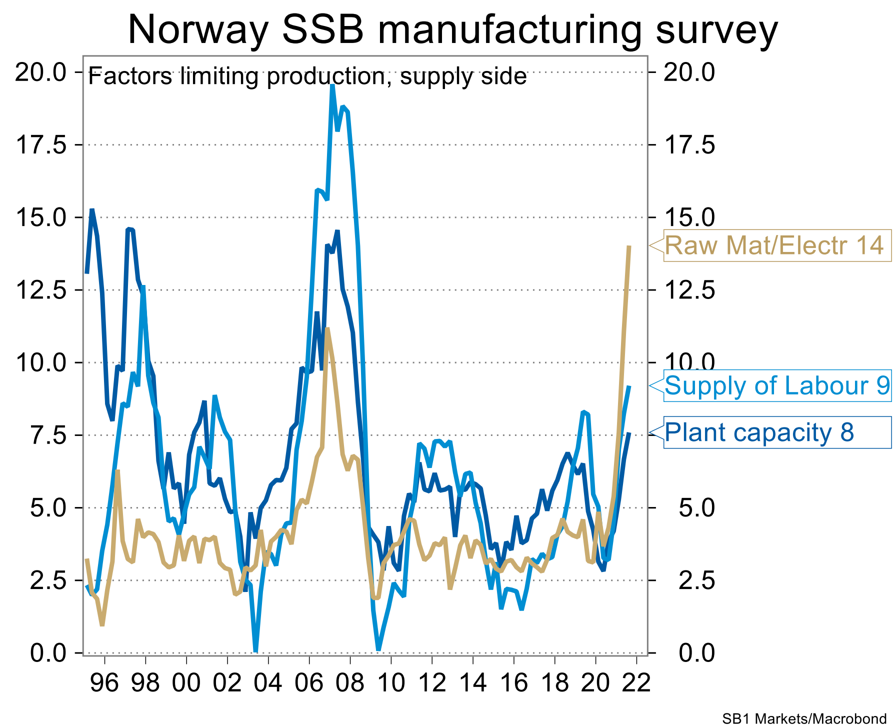




Limiting production: Supply factors far above average, demand far below

As if we were in a booming economy…

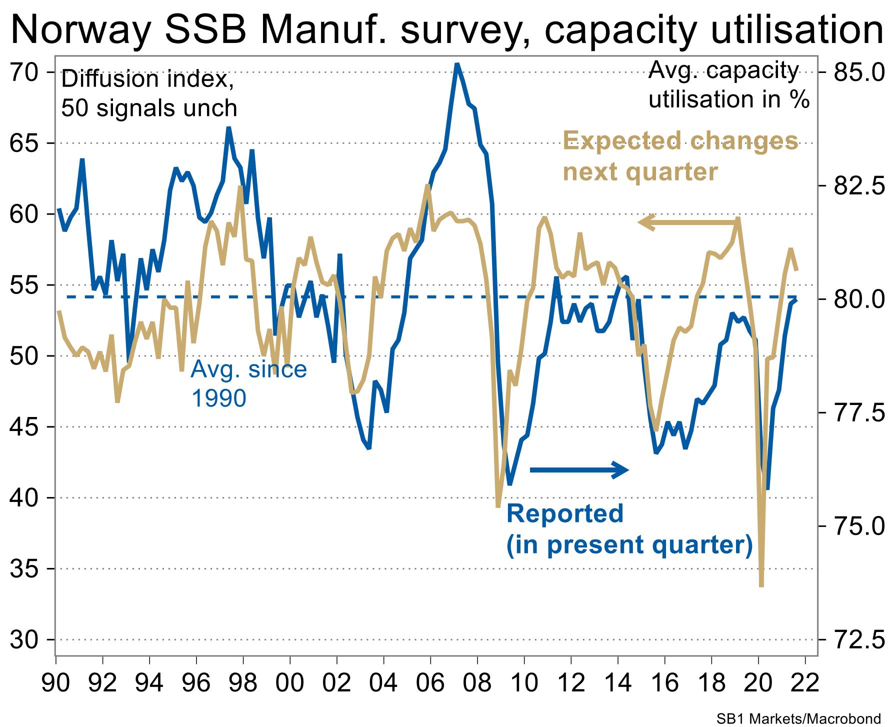


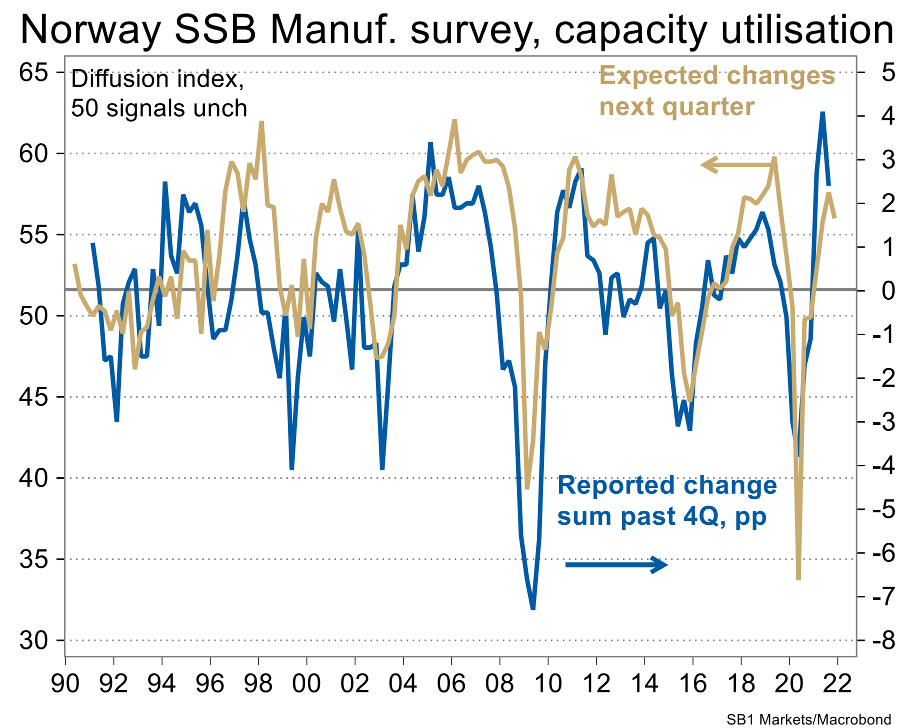


- More companies are reporting supply side factors as limiting production, up to the highest share since 2008
  - More companies are reporting that lack of raw materials/electricity as a limiting factor than anytime before
  - More companies are reporting supply of labour and plant capacity as limiting factors than since 2008
- Far fewer companies than normal are reporting lack of demand or competition as limiting factors. The share rose in Q3 but just marginally, from the lowest level since 2008
- ***No demand crisis – and it never was during the pandemic***

Reported capacity utilisation further up but still only to an average level

A tad fewer companies expect an increase in utilisation in Q4

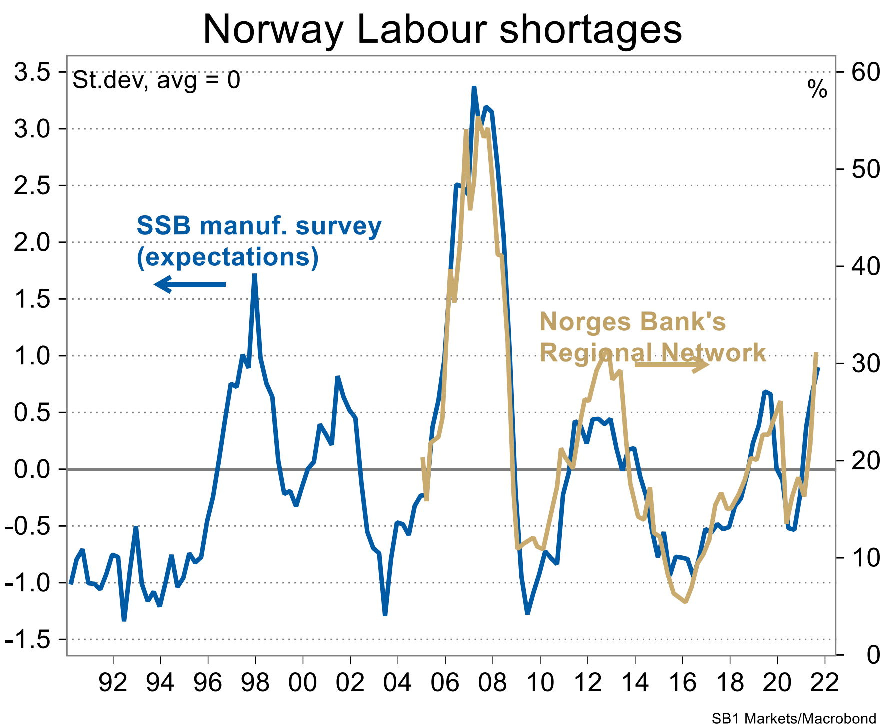


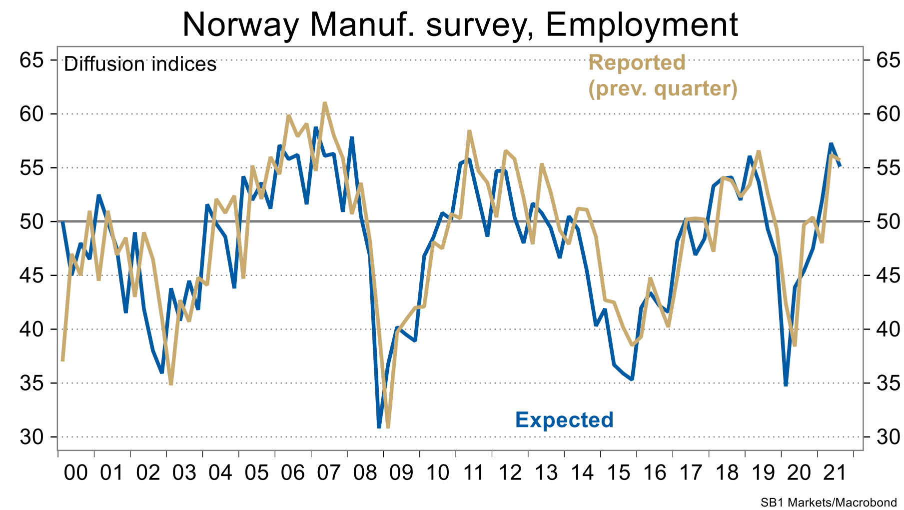


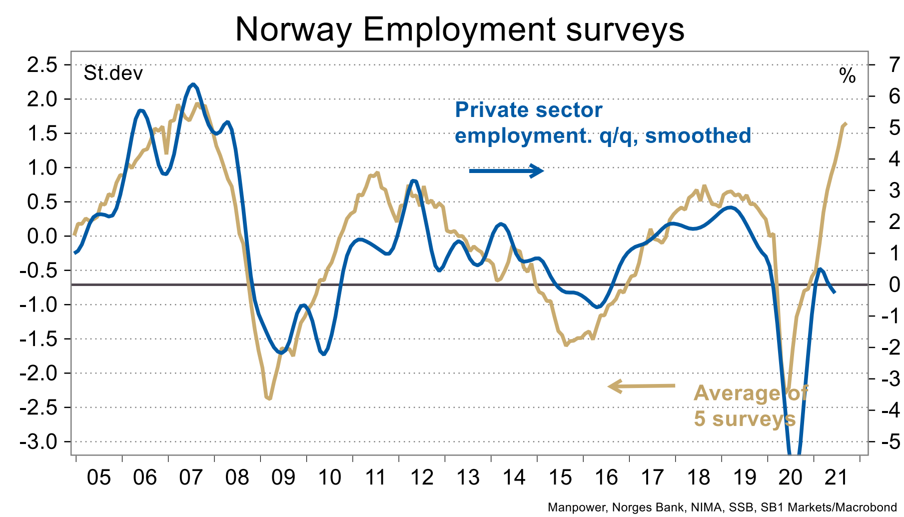
- The lift in capacity utilisation recent quarters have been impressive – from a low level last spring
- Companies expect a higher capacity utilisation in Q4, and they are usually right

Labour shortages further up, but still far below the 2008-peak

Manufacturers and other sectors reports very aggressive hiring plans







- Taken together with other surveys, SSBs manufacturing survey signals strong employment growth – at the fastest pace since 2008

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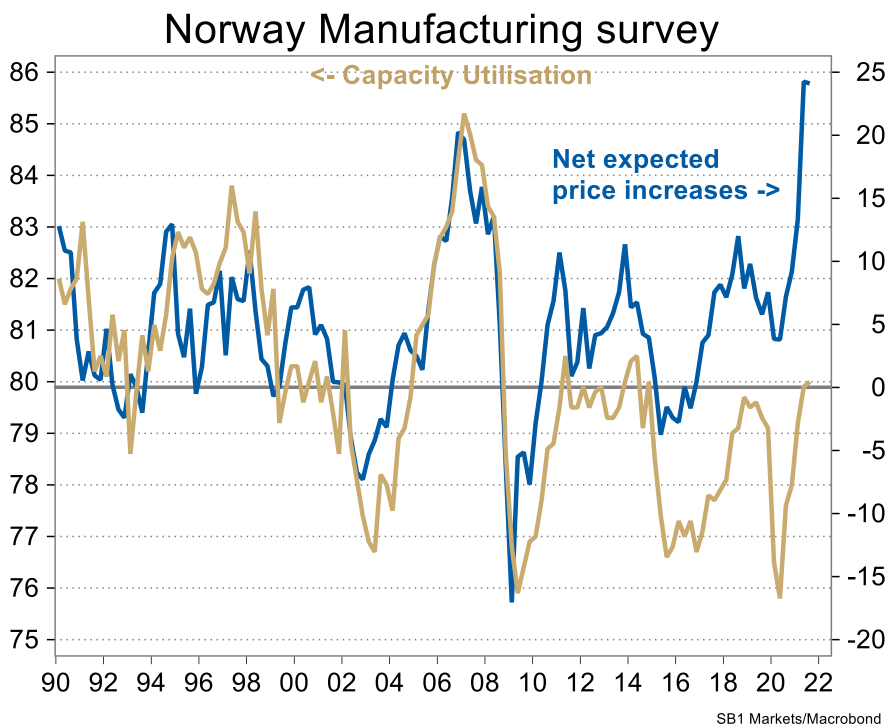
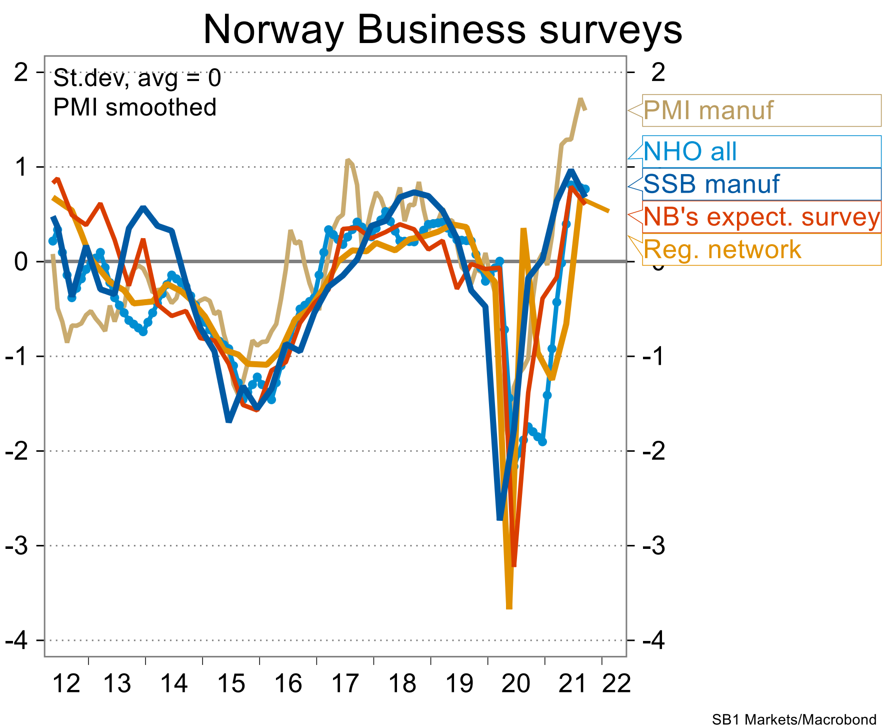
Ehm… Prices are expected straight up, here too!

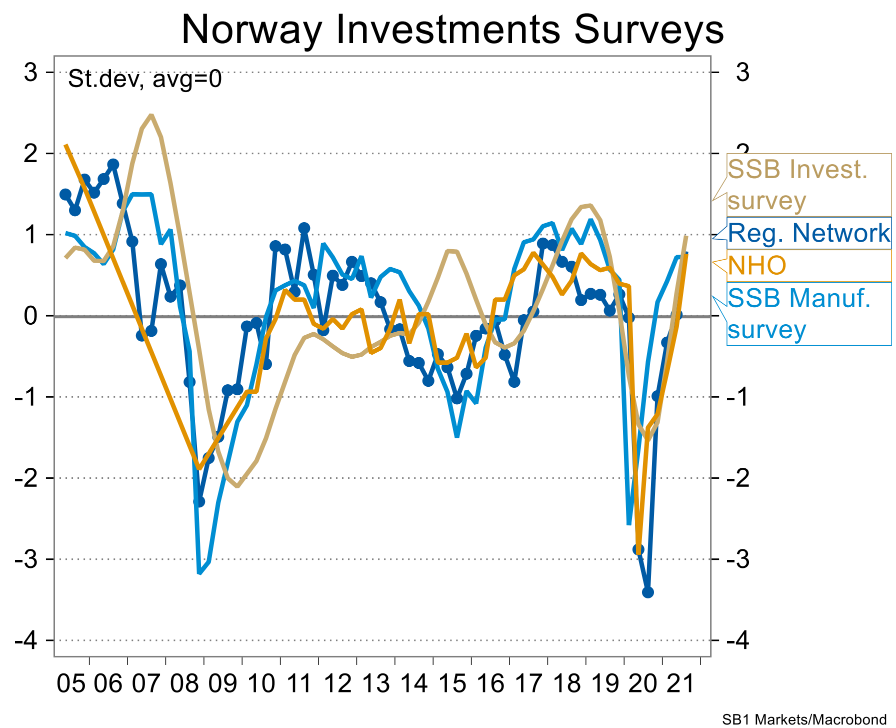
The price index stabilised at a level we never have seen before in Q3



- Prices are expected up far more than suggested by the reported capacity utilisation

Surveys: Peak growth is behind us, strong growth still reported





- In the current manufacturing SSB survey, companies upgraded their **investment plans further,** and they are now signalling an above-average <u>growth</u>
- Other surveys are signalling growth at average or above

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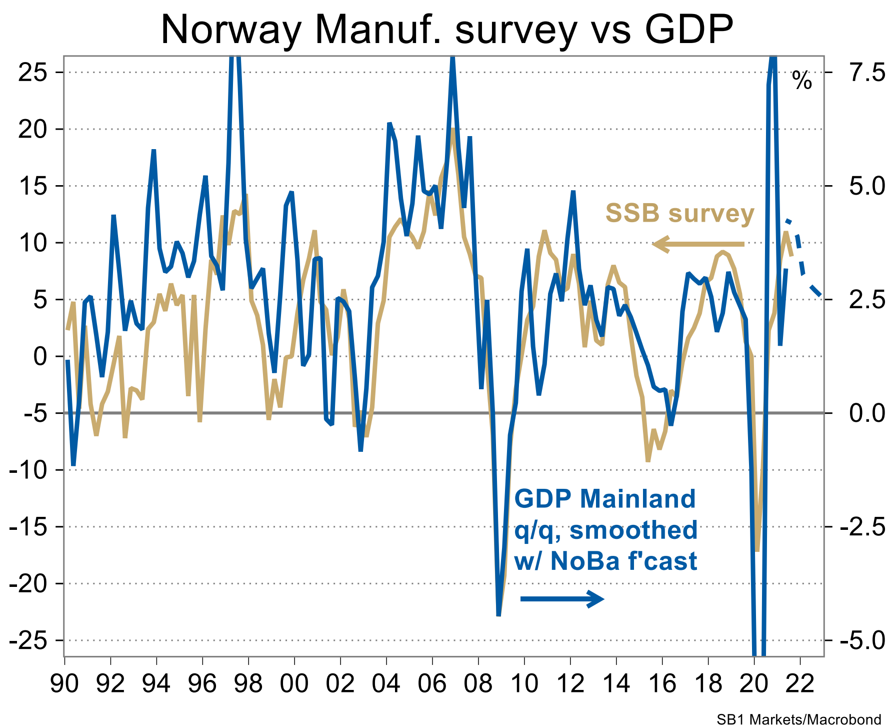
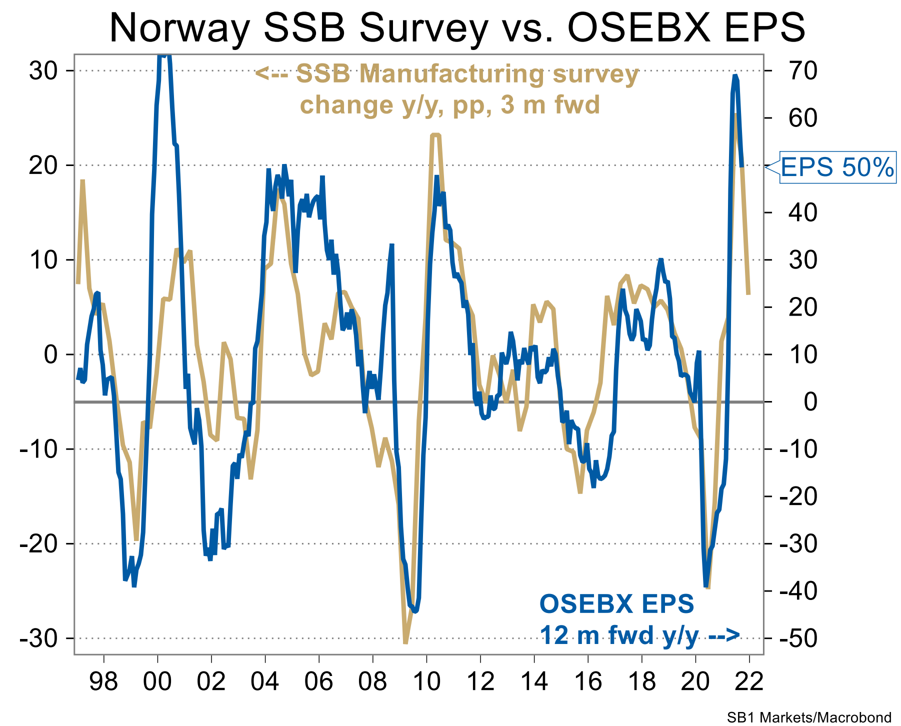
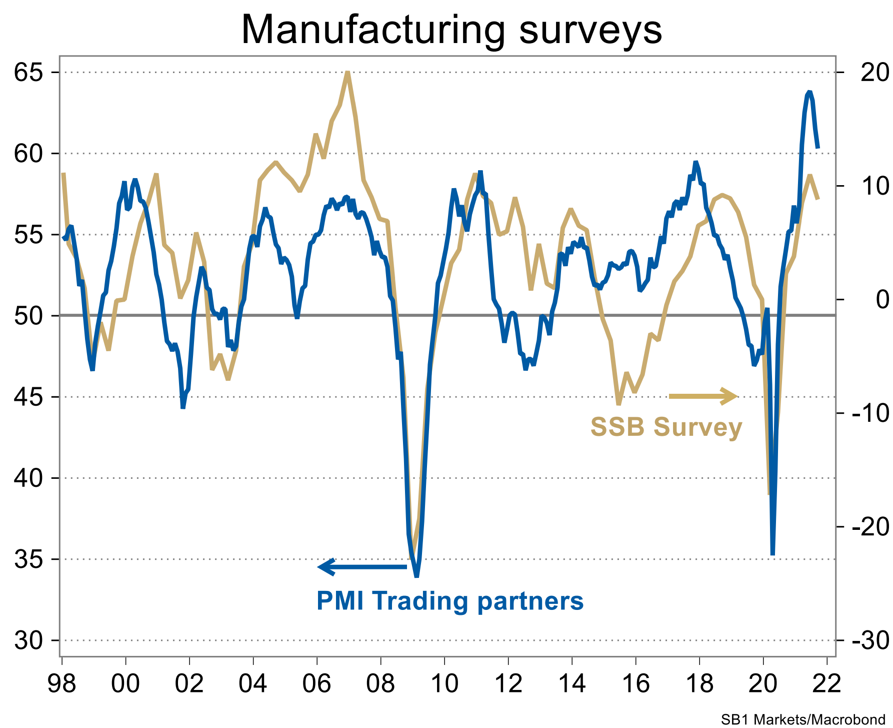
SSB's manufacturing survey signals 3½ % GDP growth, and still strong EPS growth

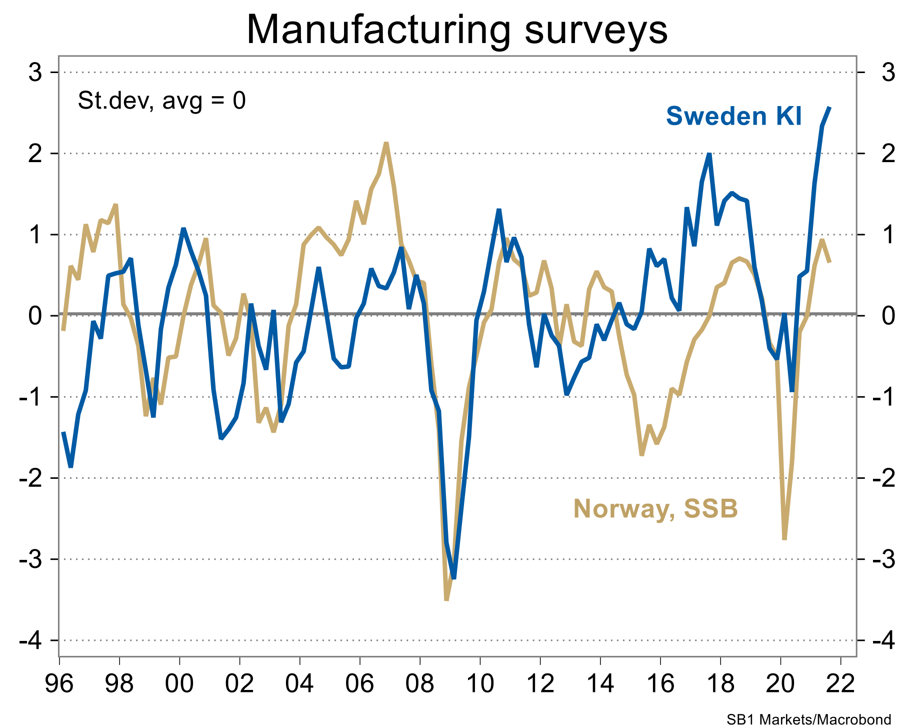




- Our simple EPS-model is not perfect when oil prices are volatile

Norway is follower of foreign fashions, as usual





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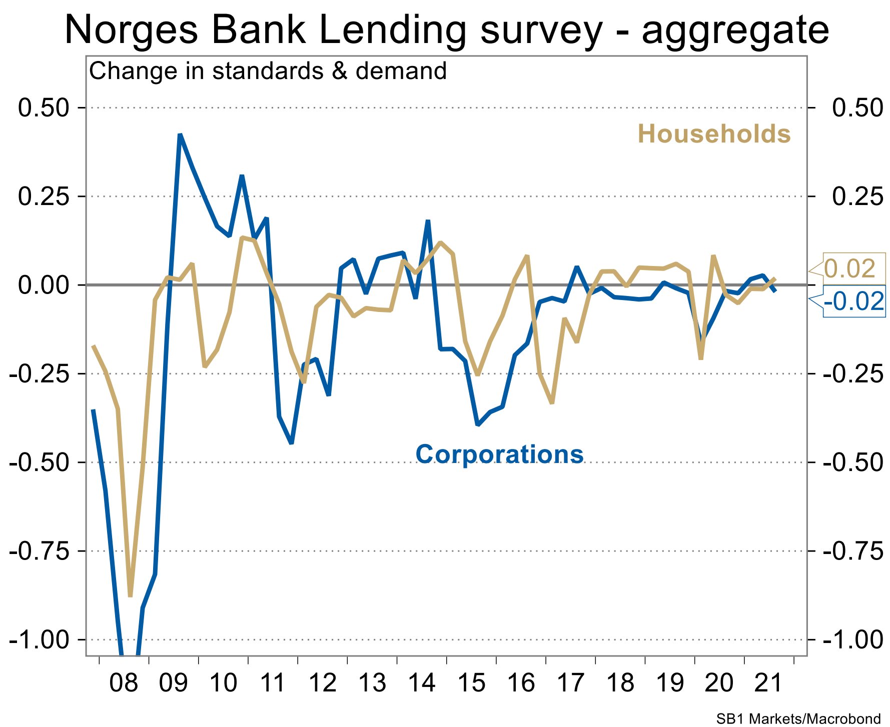
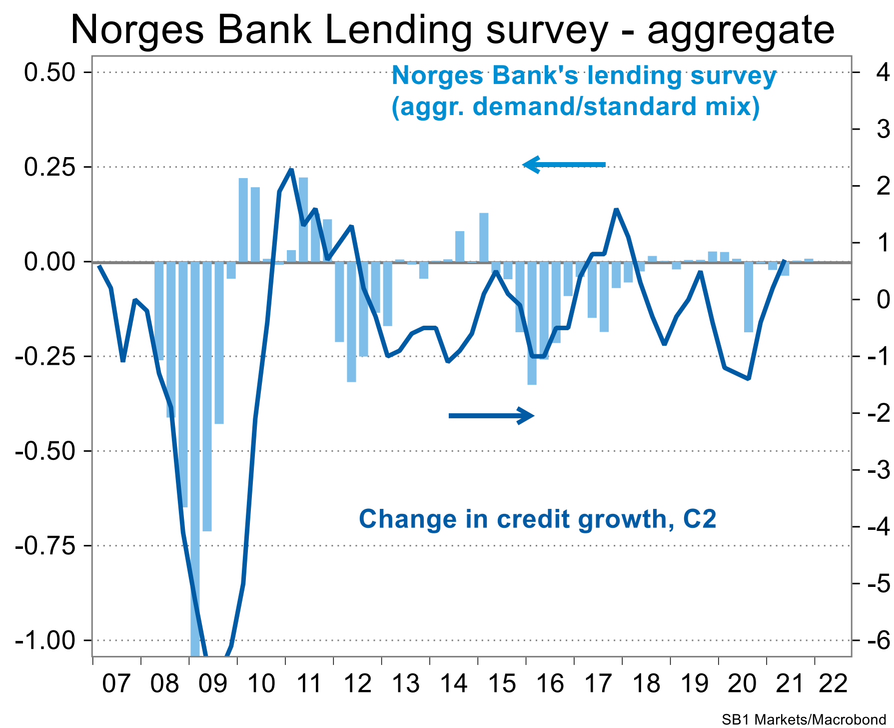
Bank lending survey indicates no change in credit standards or demand

NoBa's Q3 survey signal close to normal demand for loans, and no expectations of future changes



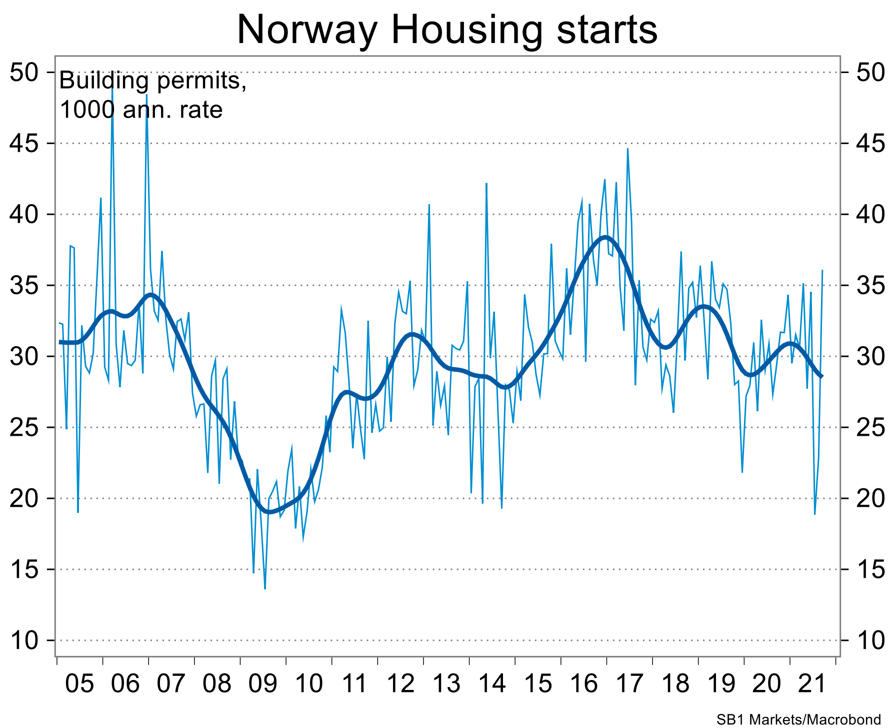


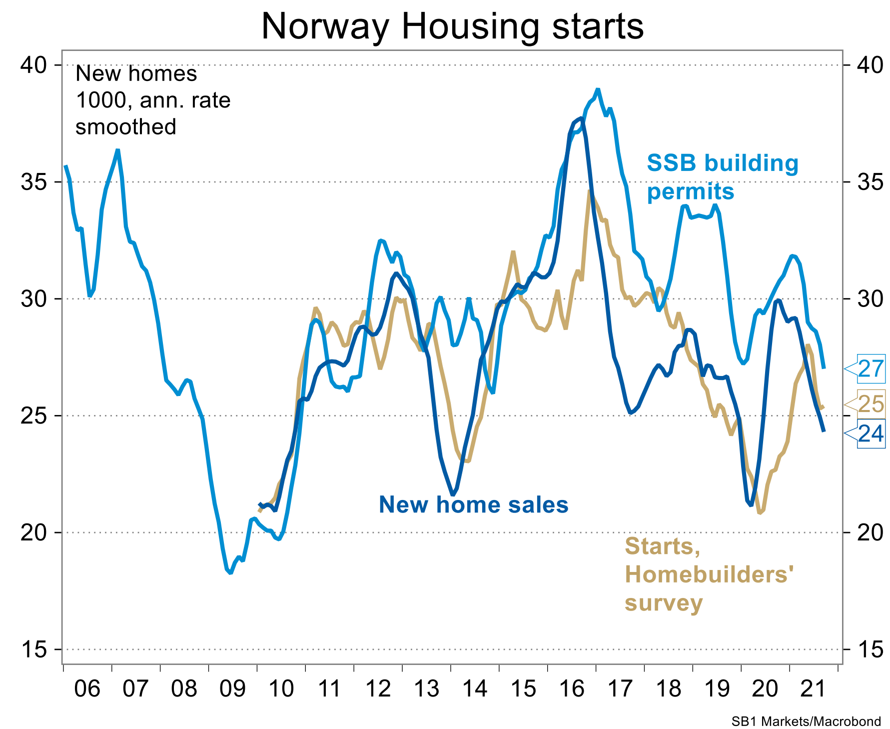
- There was virtually no change in demand nor lending standards for corporate credit, and banks do not expect any changes in Q4 either. However, margins has narrowed somewhat
  - » Also, banks are not expecting any changes to demand or lending standards in Q3
- Lending margins to households fell in Q3 as the NIBOR rose ahead of the NoBa hike – and margins will decline further in Q4 as it takes several weeks before lending rates are adjusted

SpareBank 1 MARKETS

SSB: After two slow months, more building permits in September

Permits may be trending down but the September print was the best in 2½ years



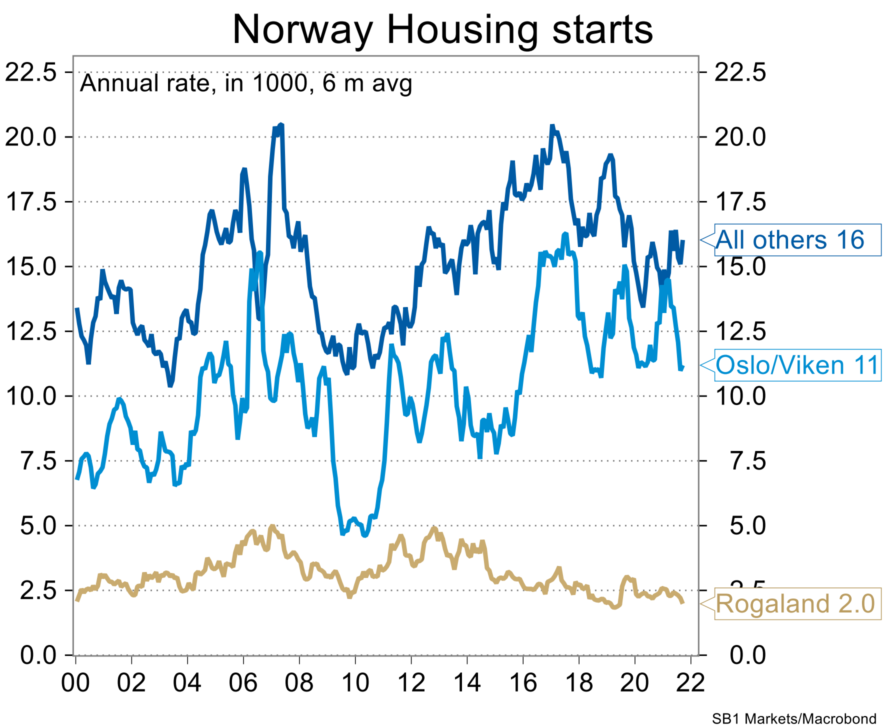


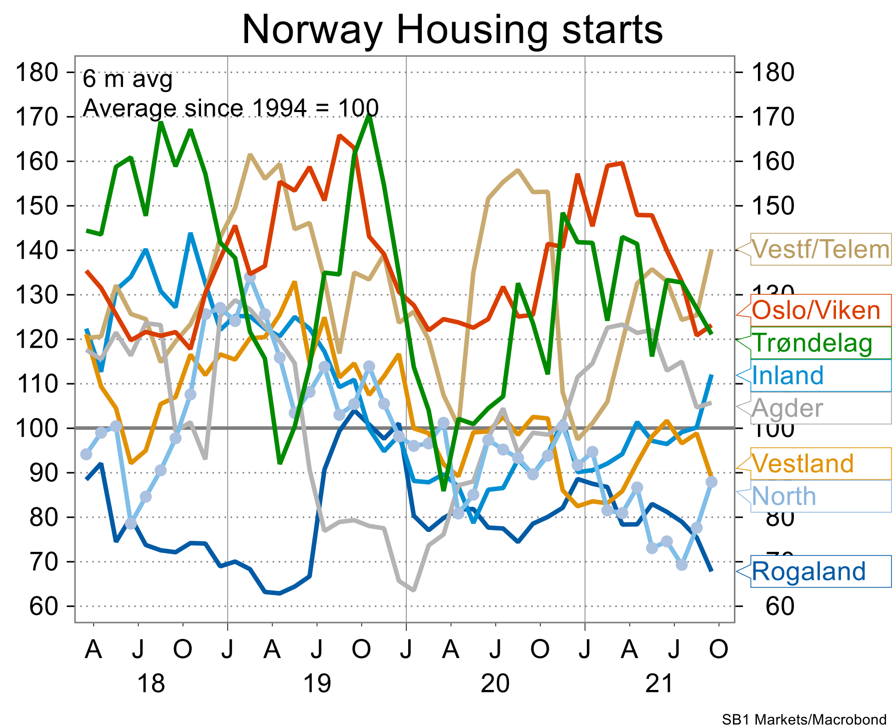
- According to **SSB**, **building permits** doubled to 36’ in September, from 18’ in July, via still low 23’ in August. The average over the past 6 months is at 29’, down from a local peak at 32’ in April
  - » Oslo/Viken have contributed on the downside, as have Rogaland and Agder. Most others up
- **Homebuilders** reports a 25’ pace for new starts. Sales have averaged 24’ recent months, significantly down vs. late 2020

SpareBank 1 MARKETS

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

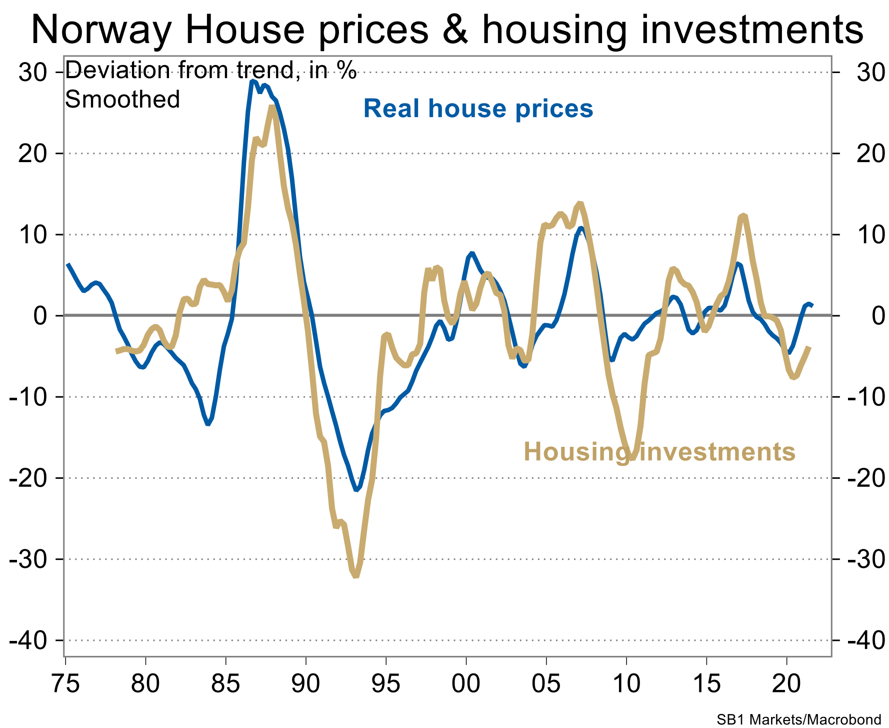
However, the steep drop in July was almost entirely due to Viken and Oslo (down 60-70% m/m)

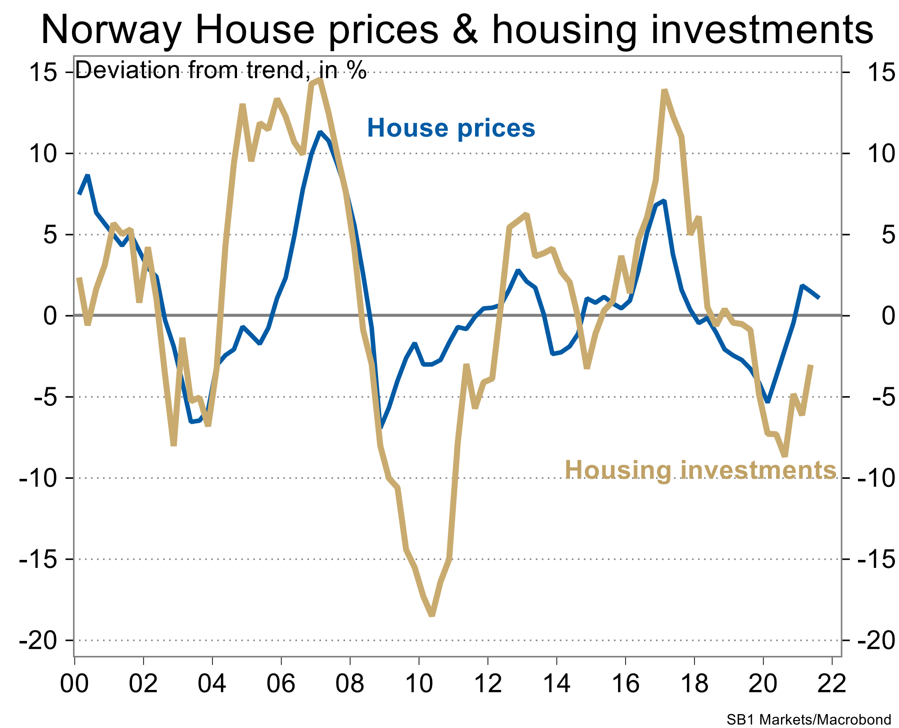




Housing starts/investments normally in tandem with house prices, no surprise

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





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

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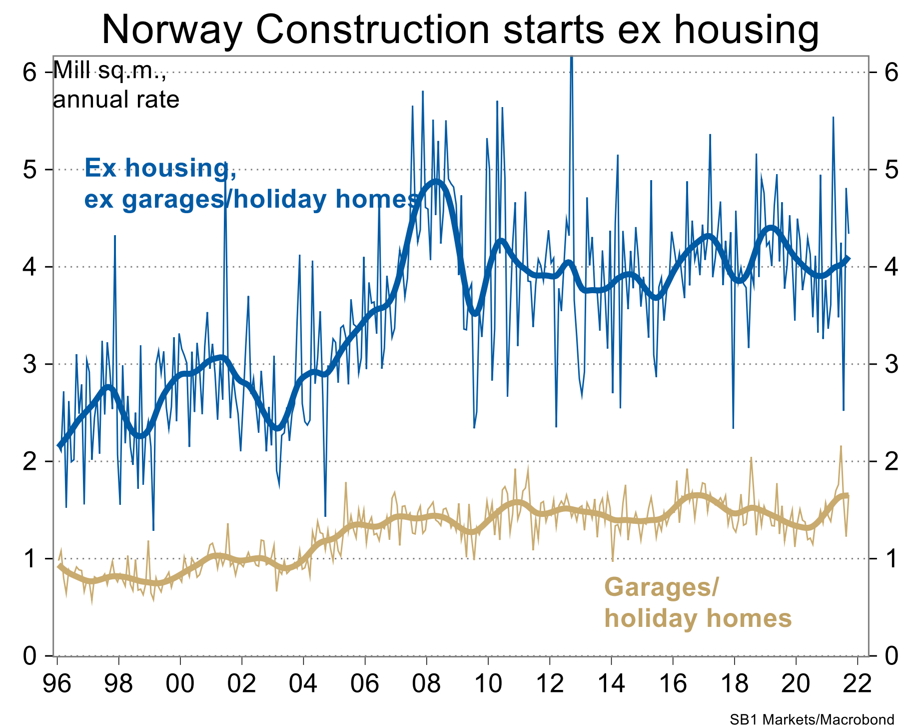
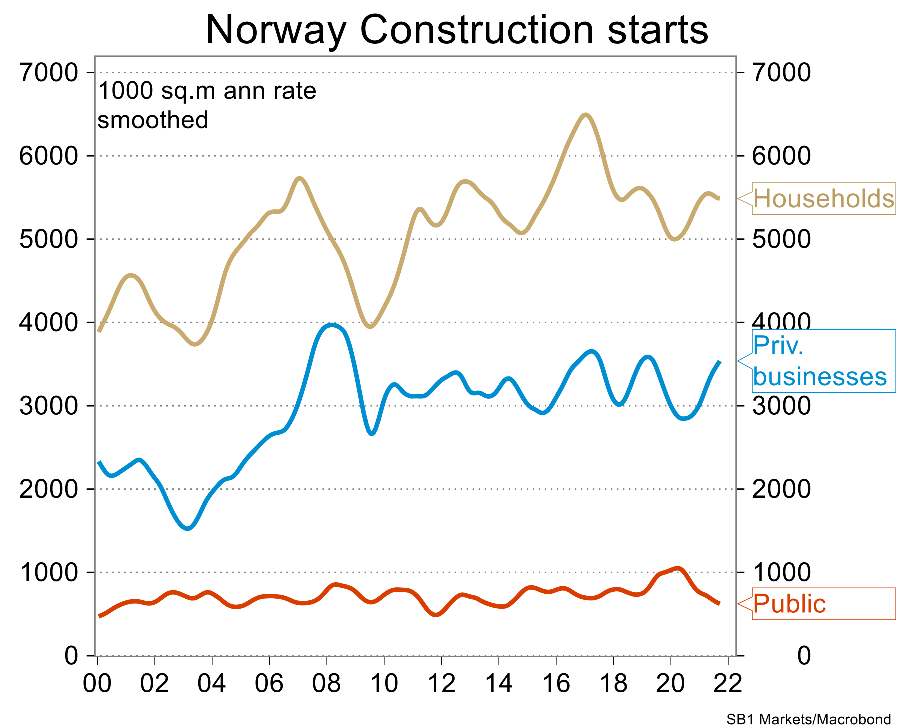
Non-residential construction flattish, 2nd homes/garages have surged

In sum, private business construction has recovered, public (mostly health/educ.) has slowed

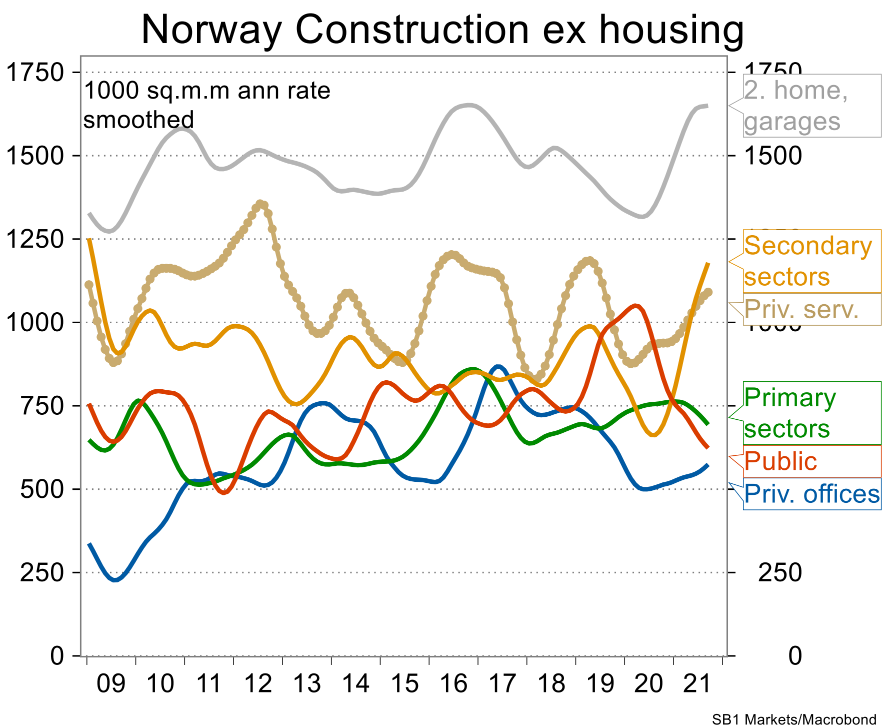


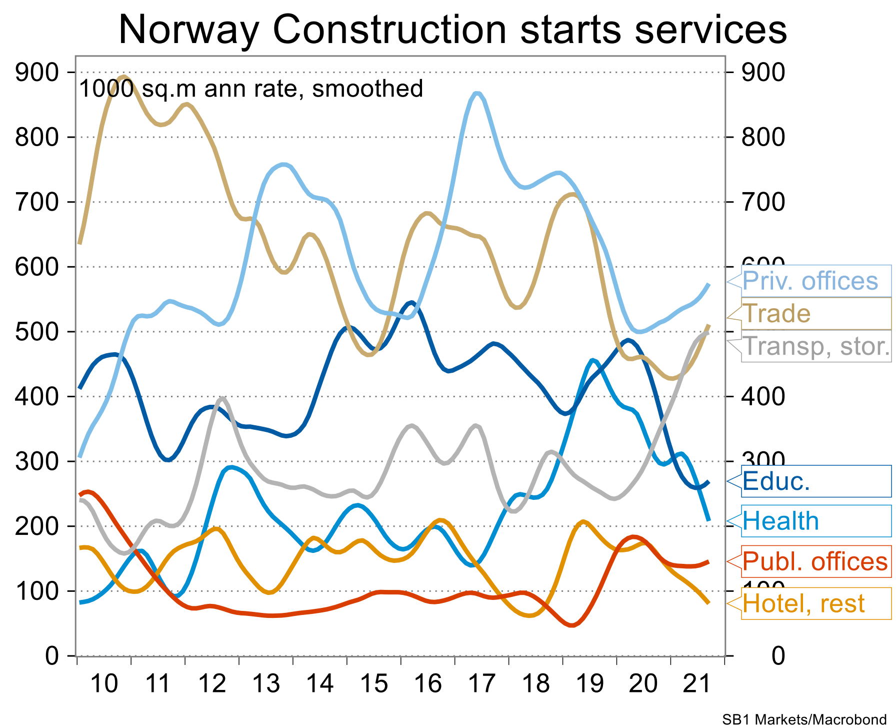


- **Construction starts ex housing & garages/cabins** is very volatile but the Aug/Sep was on the high side
  - » **Private non-residential starts** have recovered recent months
  - » **Public sector construction starts** have fallen almost 50% since early 2020
- **Construction starts of cabins/garages** are heading sharply up, following a decline from the peak in 2016

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

Education sharply down too





- Education has lost steam, no big projects started recently. No big health sector projects either

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

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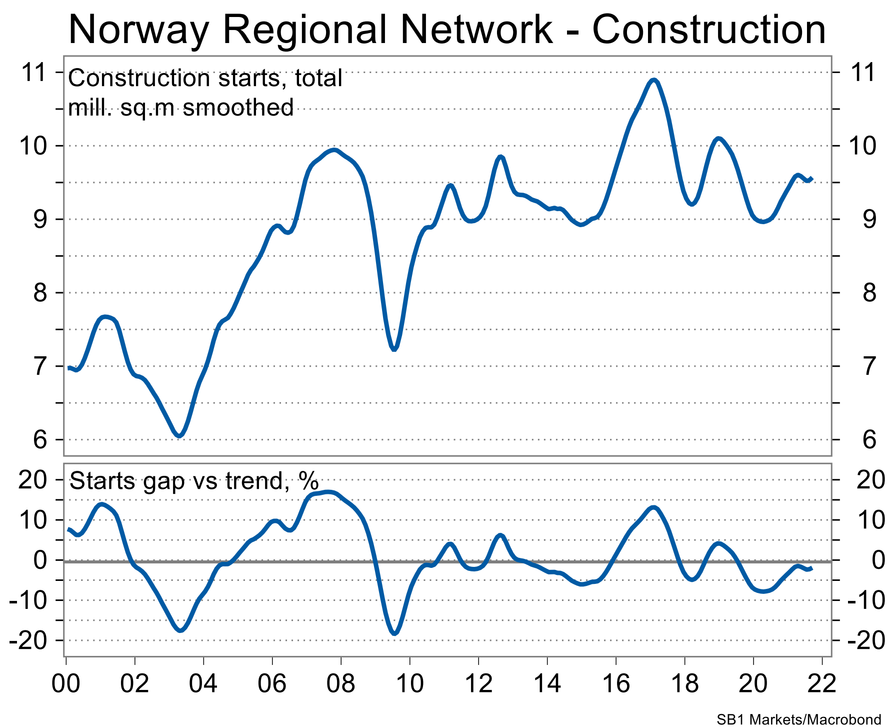
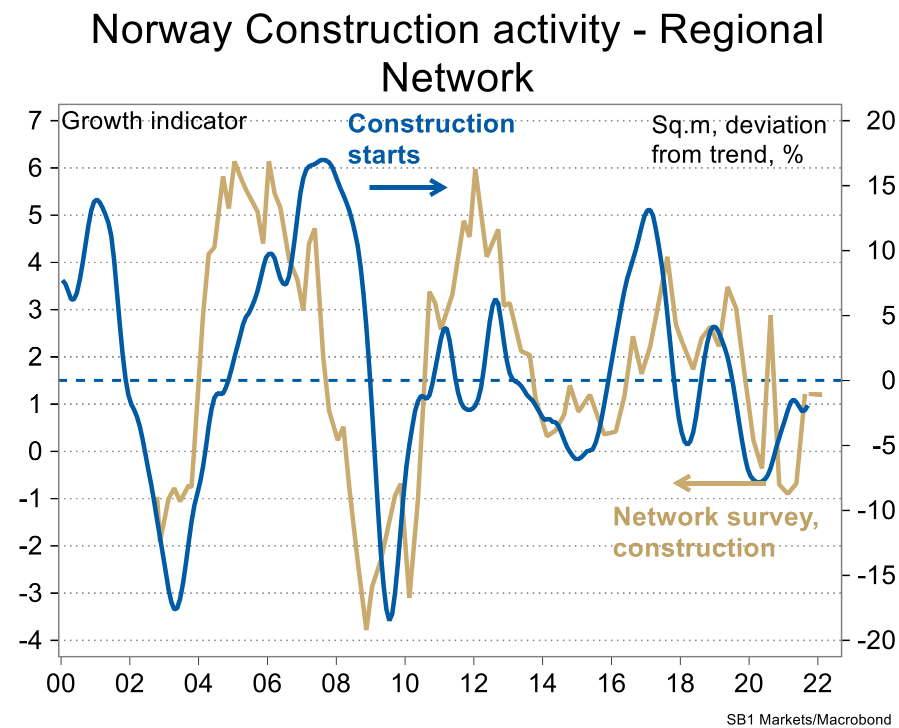
The Q3 NoBa Regional Network signals moderate growth

…and construction starts are trending down





- Actual starts are close to flat y/y – and the trend is down since early 2017

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Highlights

The world around us

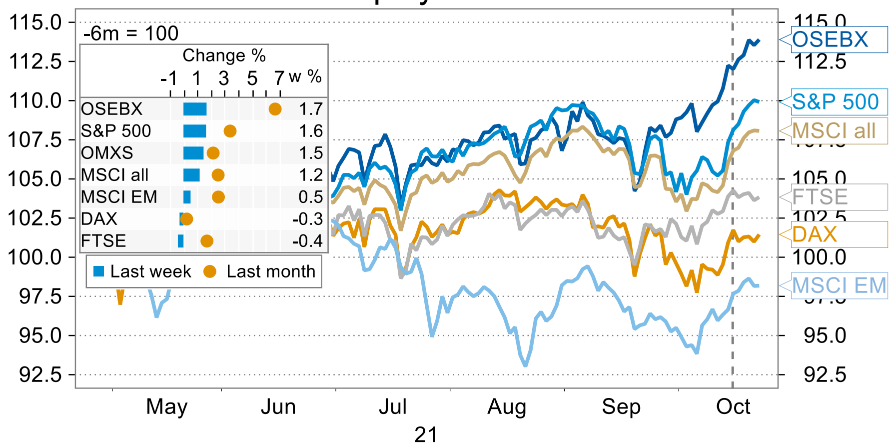
The Norwegian economy

Market charts & comments

Risk ON! Equites up most places, bond yields sharply up, metals down

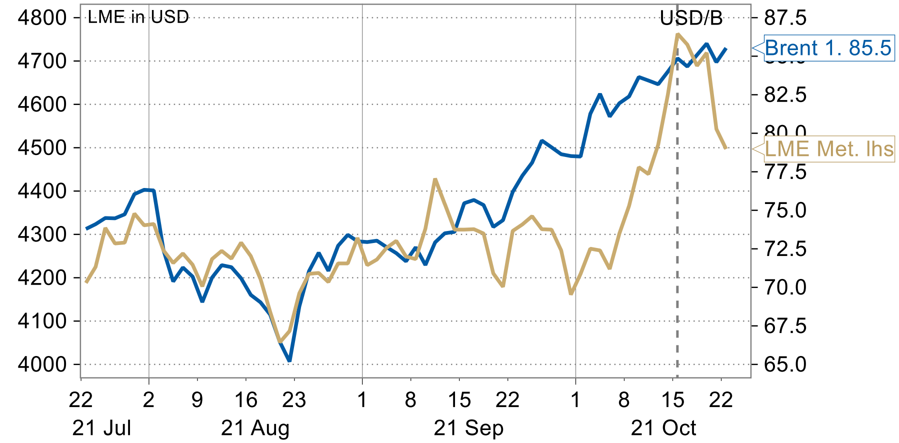
S&P back up to ATH again, as were several other markets (incl. OSEBX). NOK the f/x winner last week too

Equity Indices



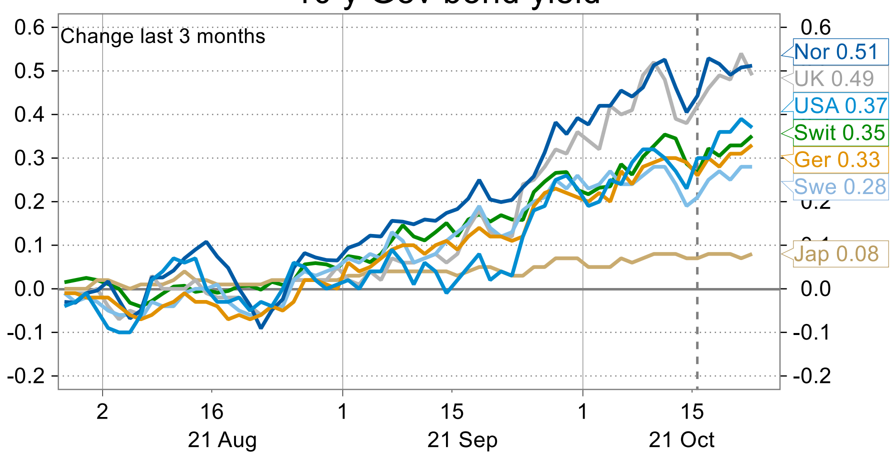
SB1 Markets/Macrobond

Oil vs. metals



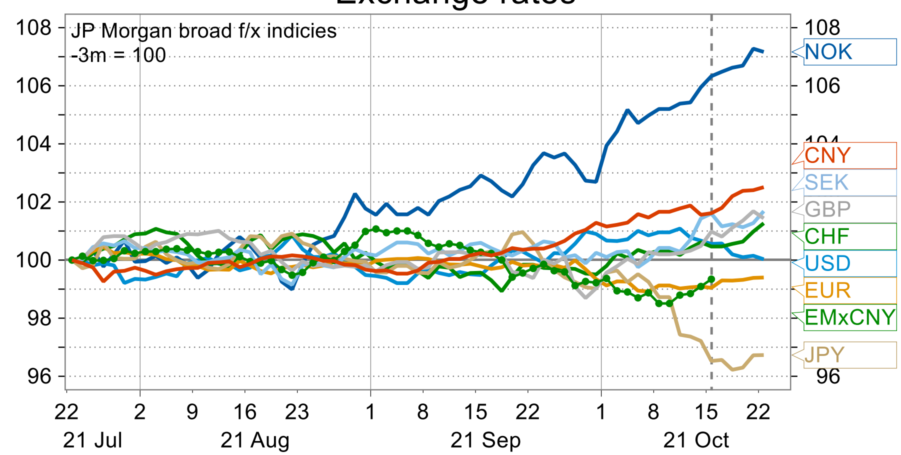
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

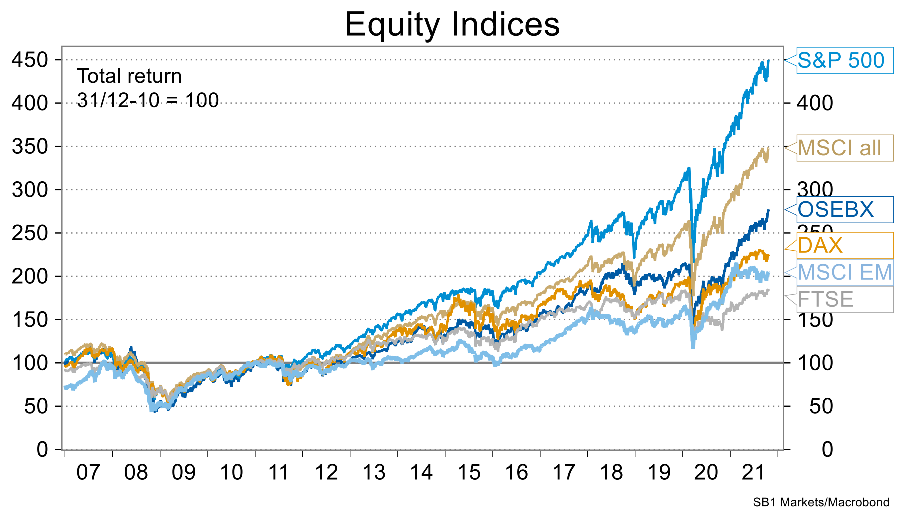
Exchange rates

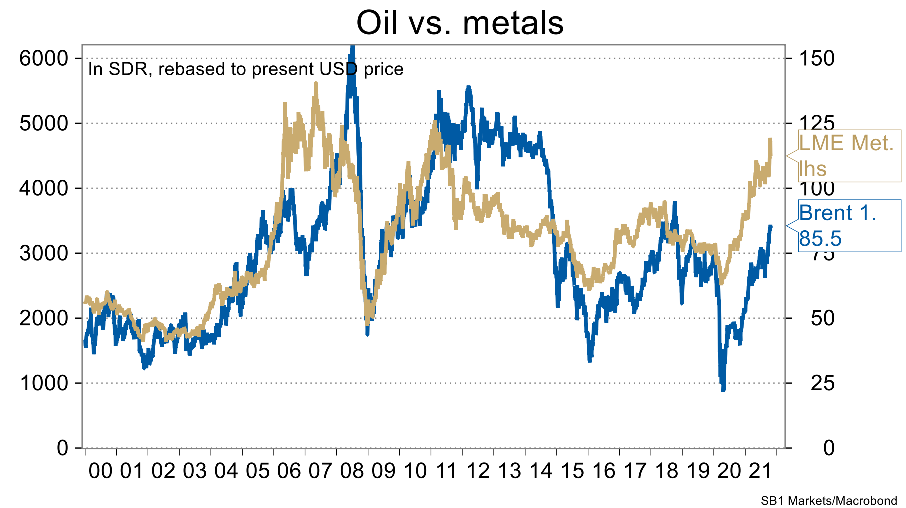


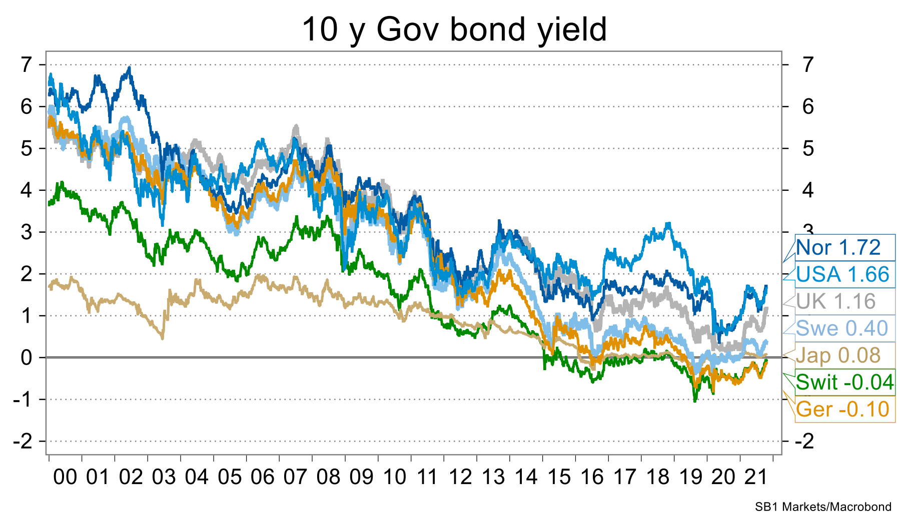
SB1 Markets/Macrobond

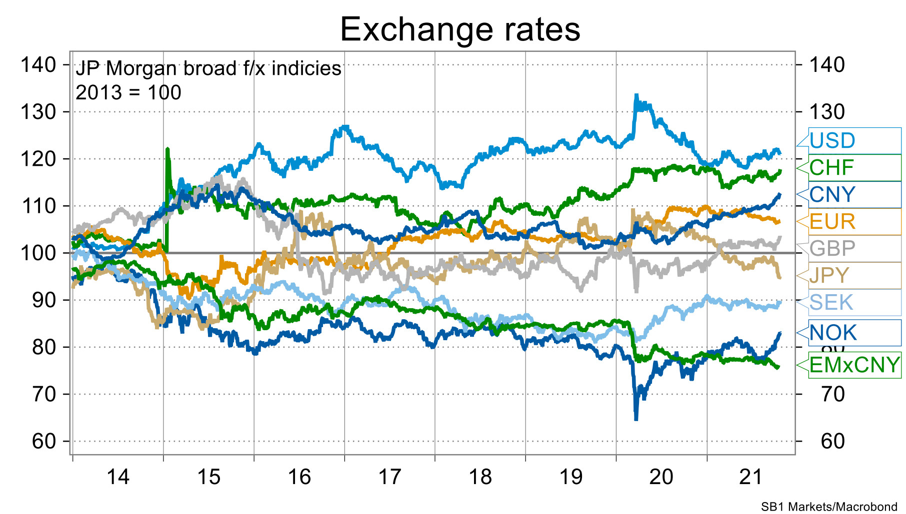
The big picture: The lift in metal prices is significant – growth optimism returned?

The CNY the f/x winner (among the majors), another sign of no fear of a Chinese constr. meltdown

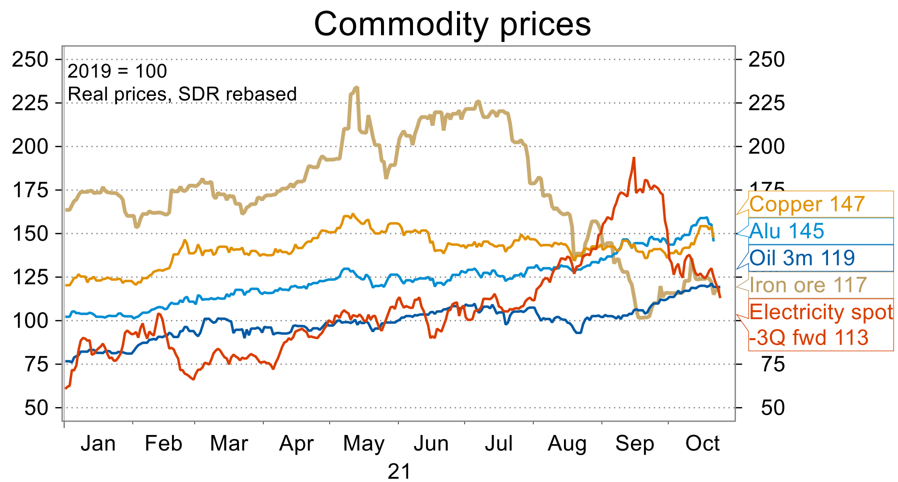


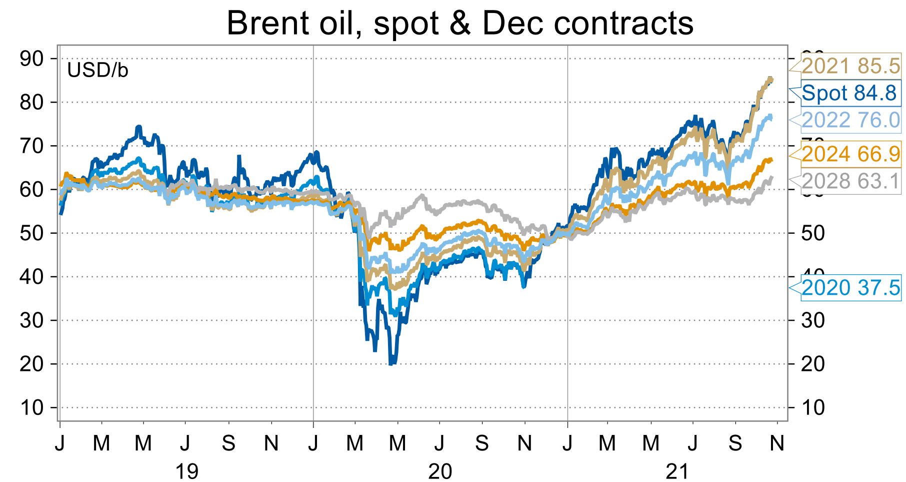


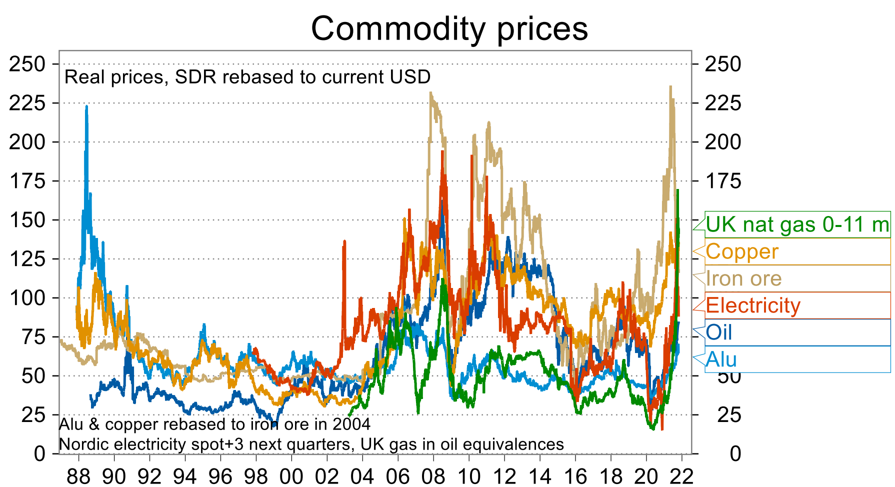


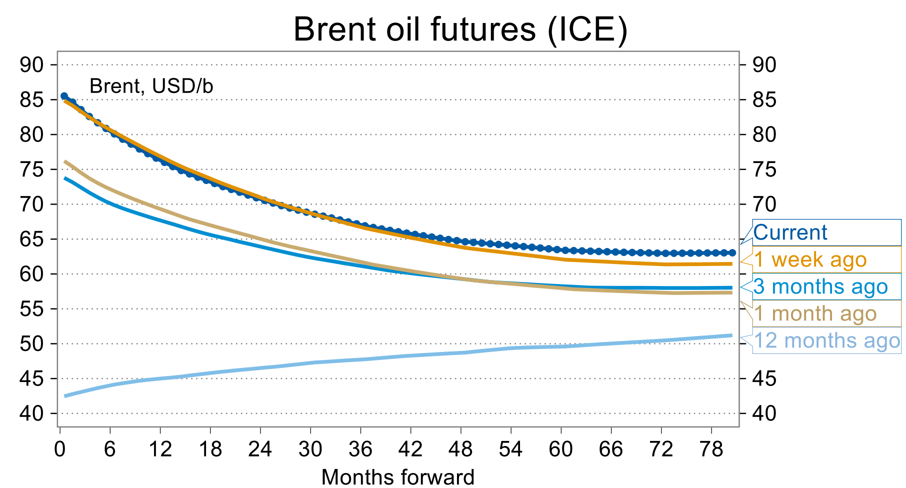


Most commodity prices down last week – oil close to flat









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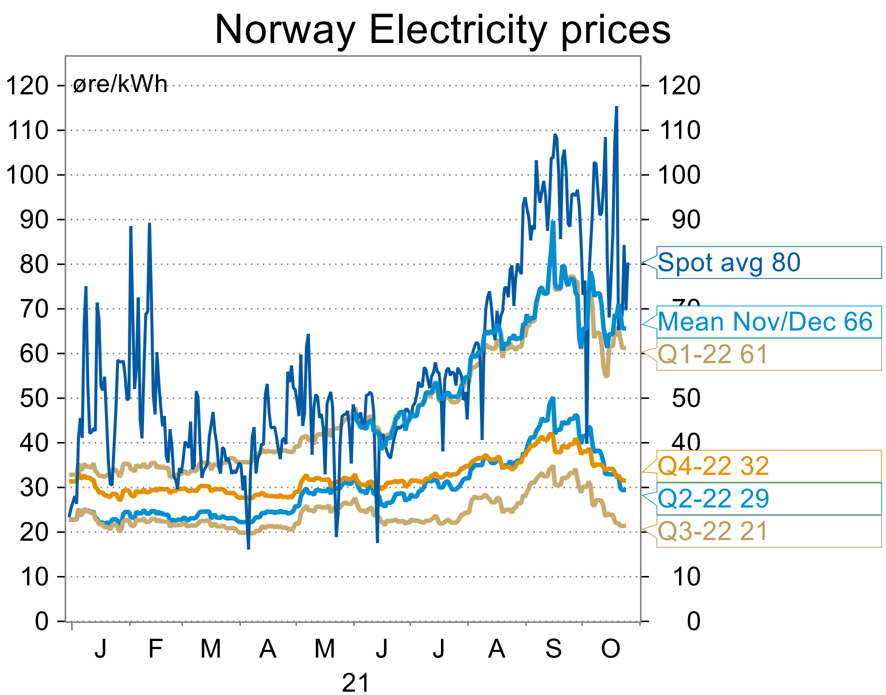
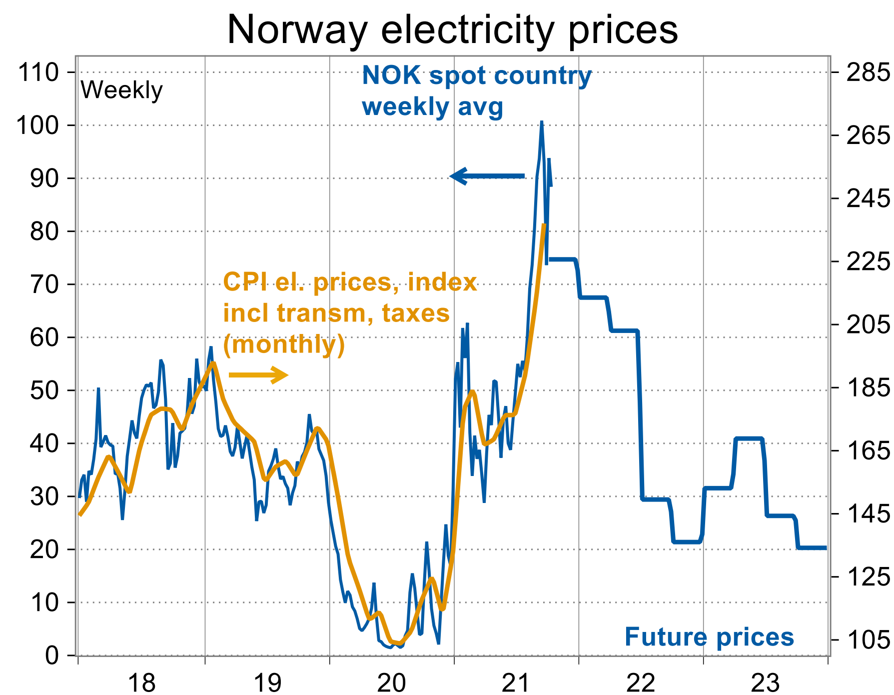
Nordic electricity future prices further down

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



SB1 Markets/Macrobond



SB1 Markets/Macrobond

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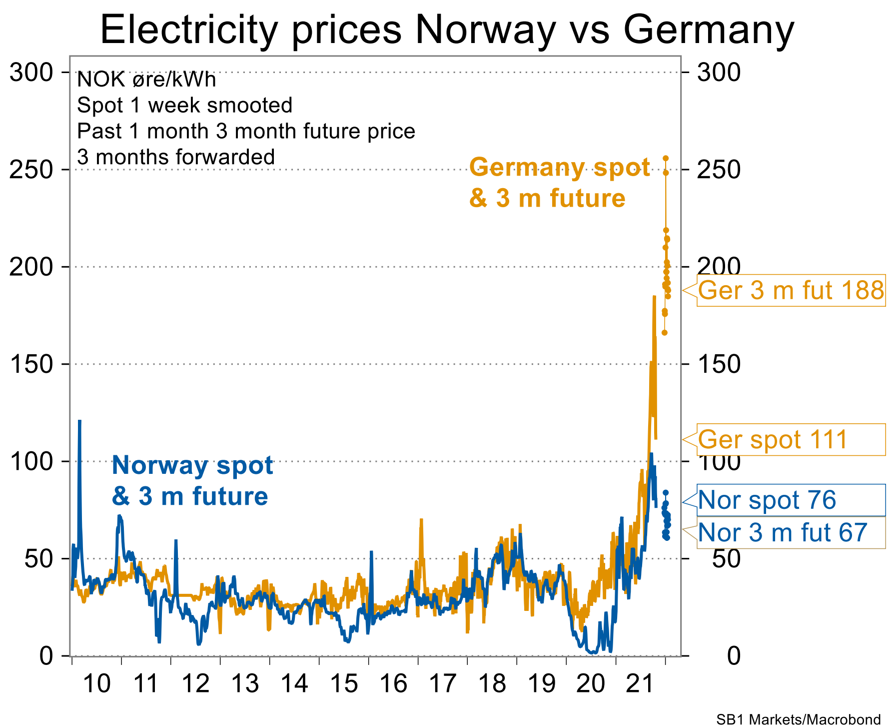
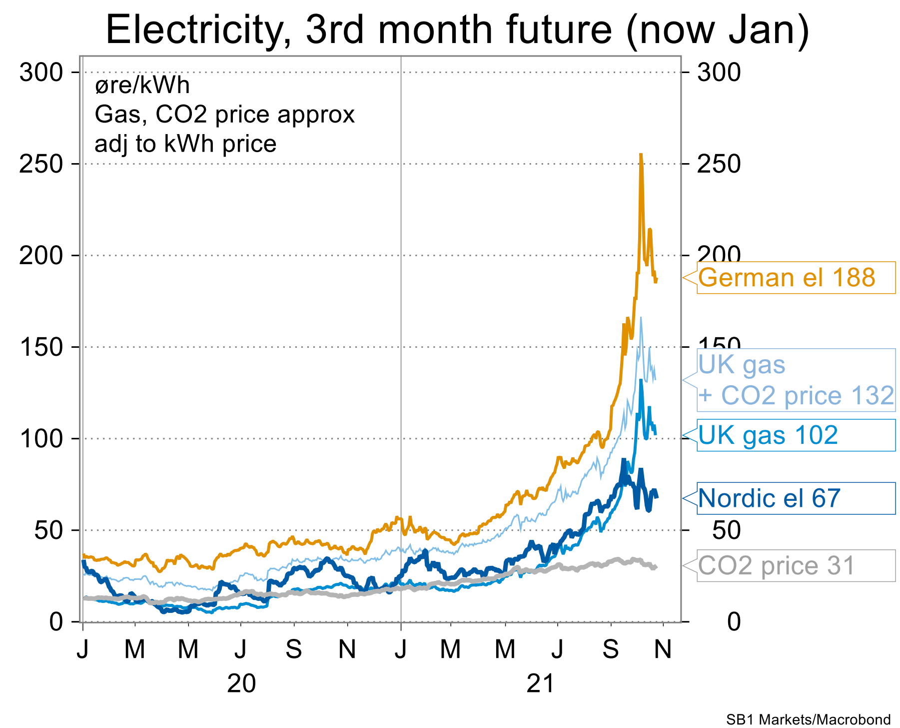
European electricity, gas prices down from the peak – still very high

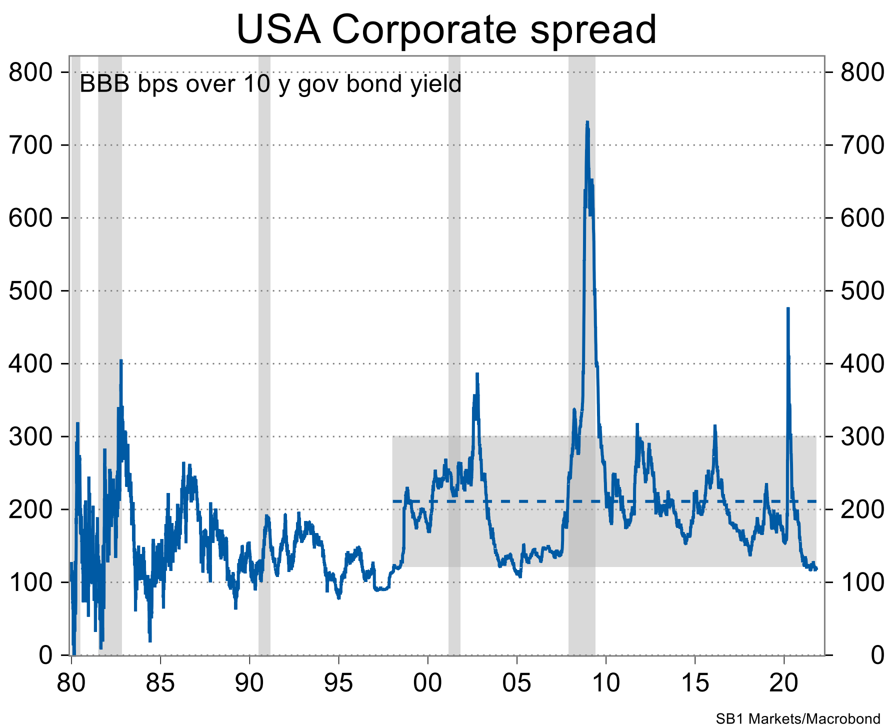
The gap between the Nordic & German el. prices is reduced but still high

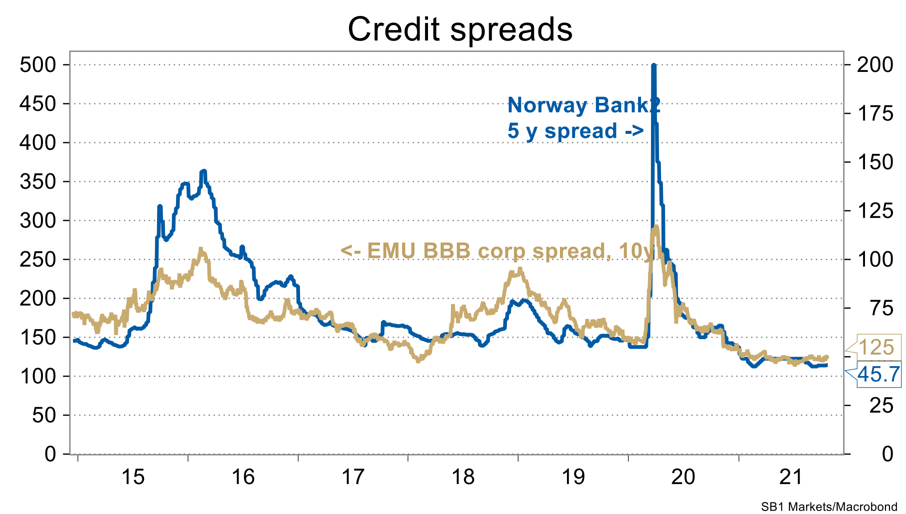




Spreads marginally out, still very low

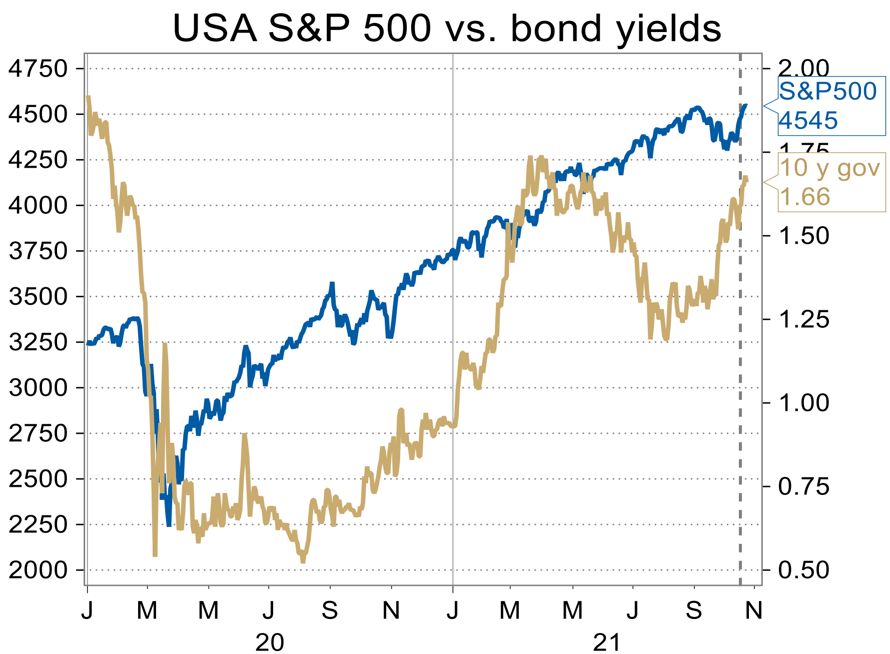
(look away from the strange gyrations 4 weeks ago)

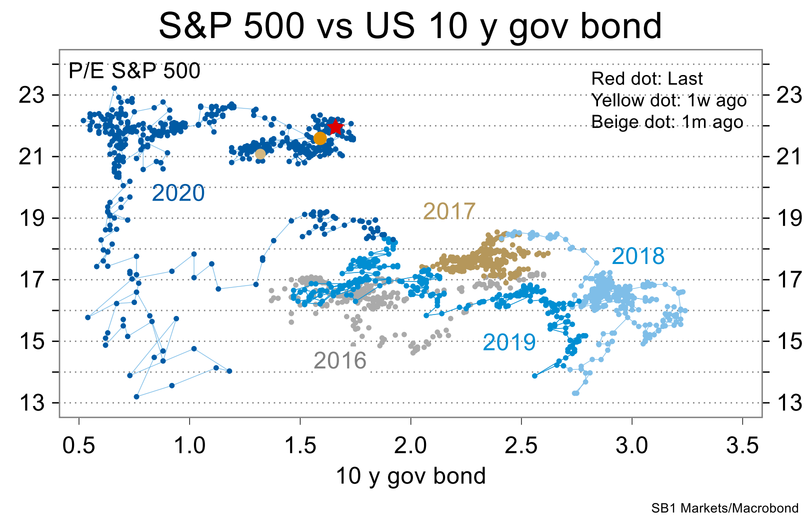


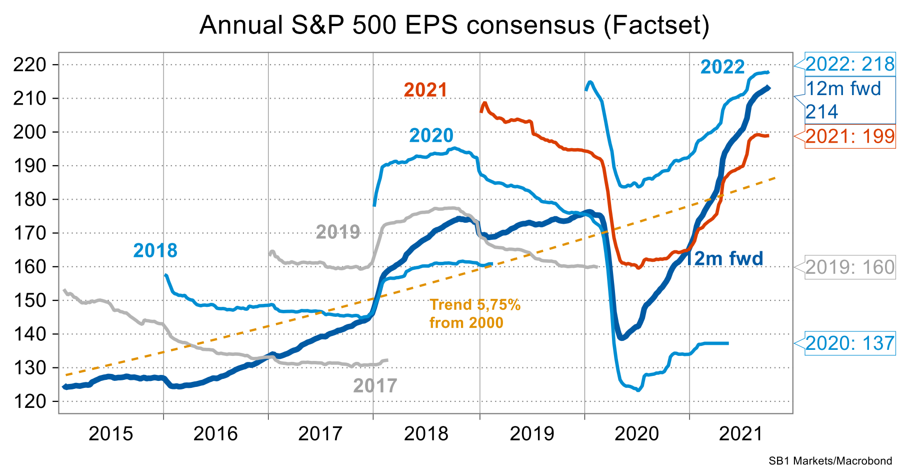


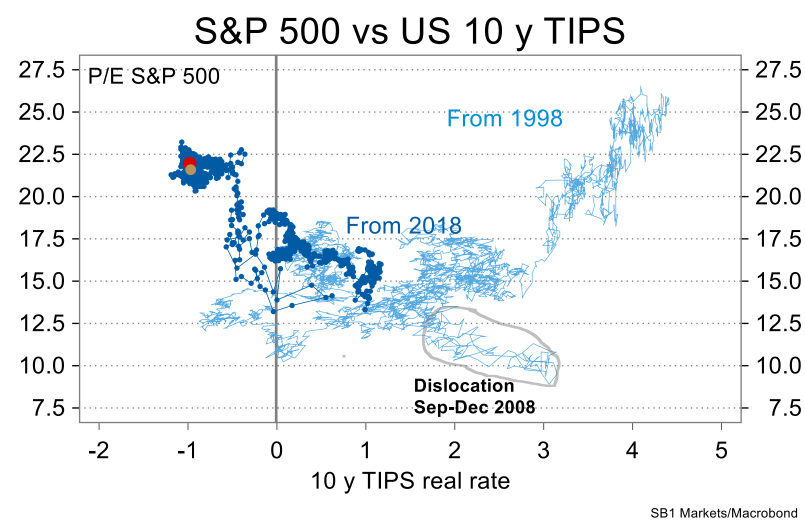
S&P 500 up 1.6%, to a new ATH. 10 y gov up 7 bps to 1.66%

Growth in earnings expectations have moderated lately (like normal into Q4)





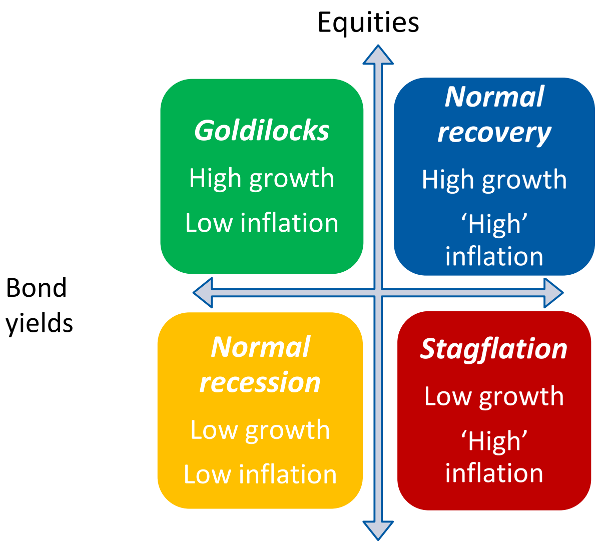


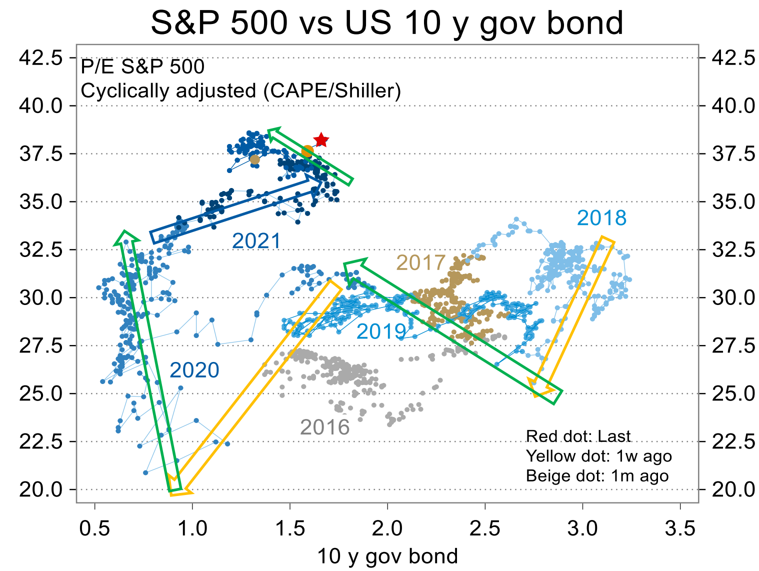


SpareBank 1 MARKETS

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…





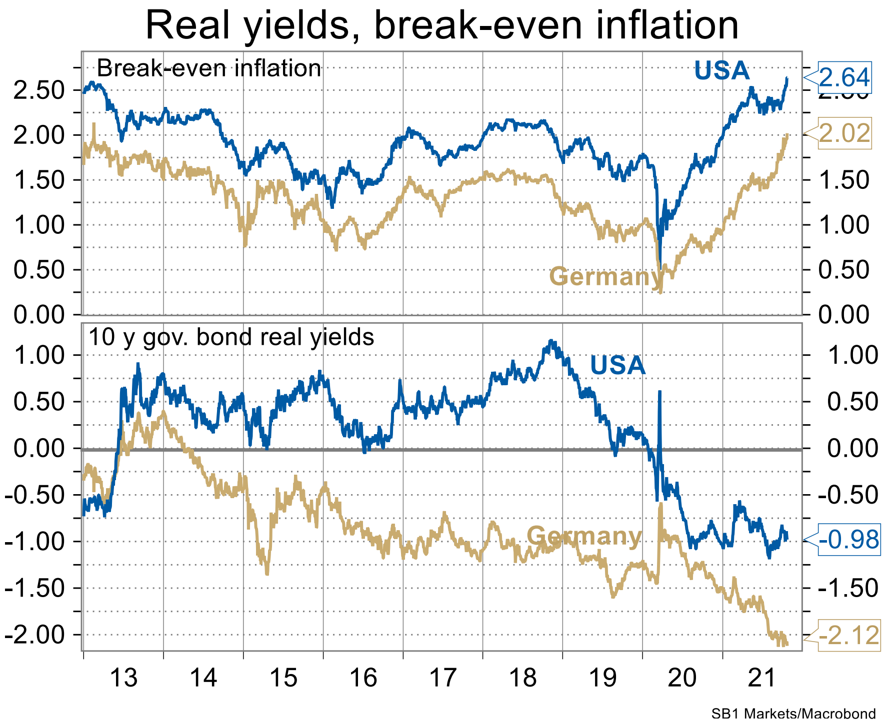
SB1 Markets/Macrobond

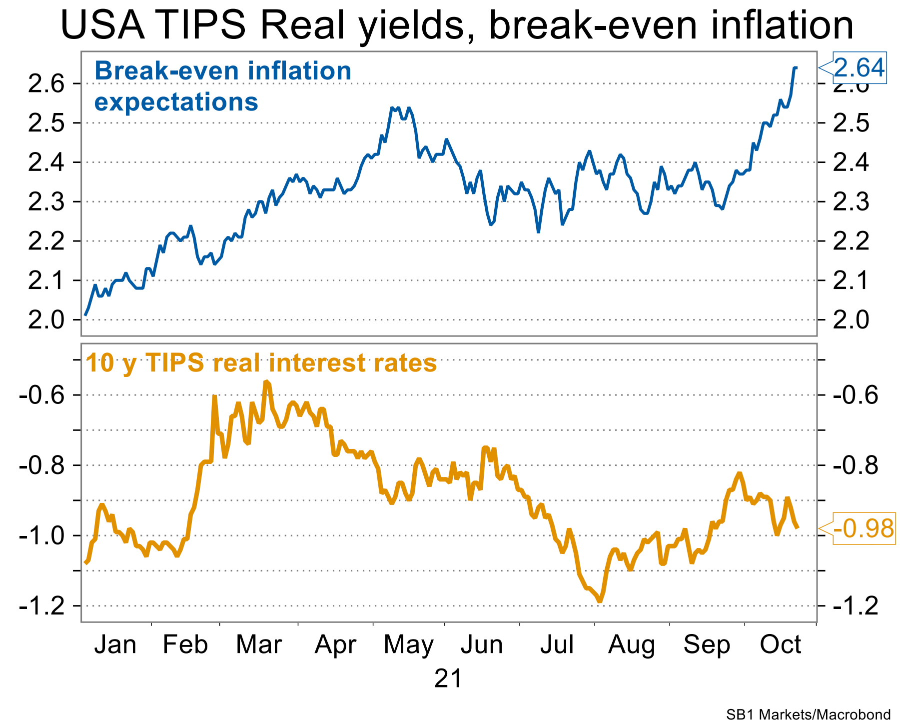
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield 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

It is incredible, real rates down as inflation expectations 'surge'

Inflation expectations in the US are not low anymore





US & Germany 10 y Gov bond yield

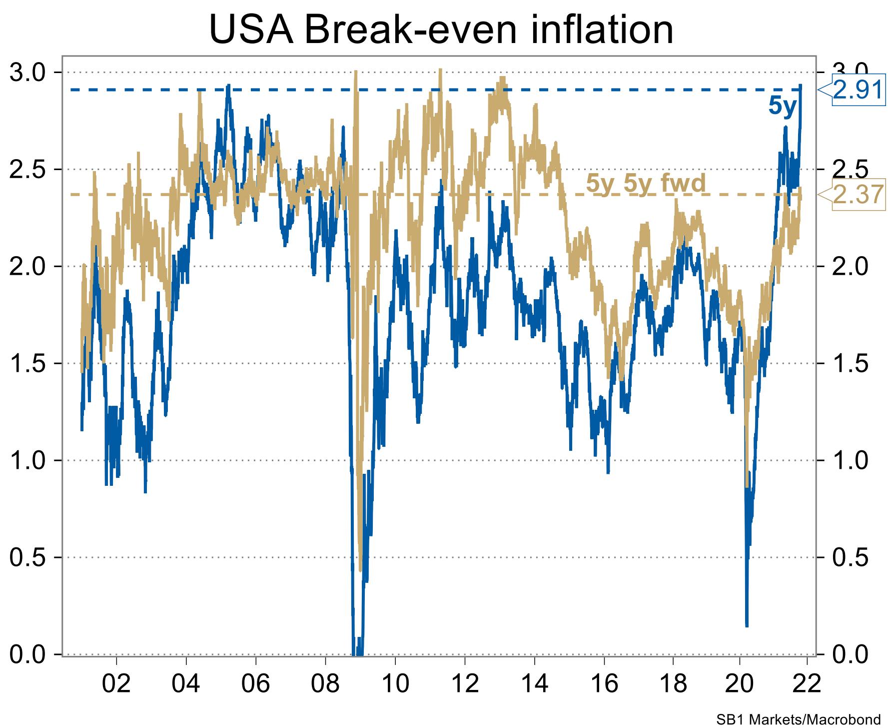
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.66	0.07	0.34	0.52
.. break-even inflation	2.64	0.08	0.36	1.06
.. TIPS real rate	-0.98	-0.01	-0.02	-1.19
Germany nominal bund	-0.10	0.07	0.22	-0.65
.. break-even inflation	2.02	0.11	0.29	0.40
.. real rate	-2.12	-0.04	-0.07	-2.13

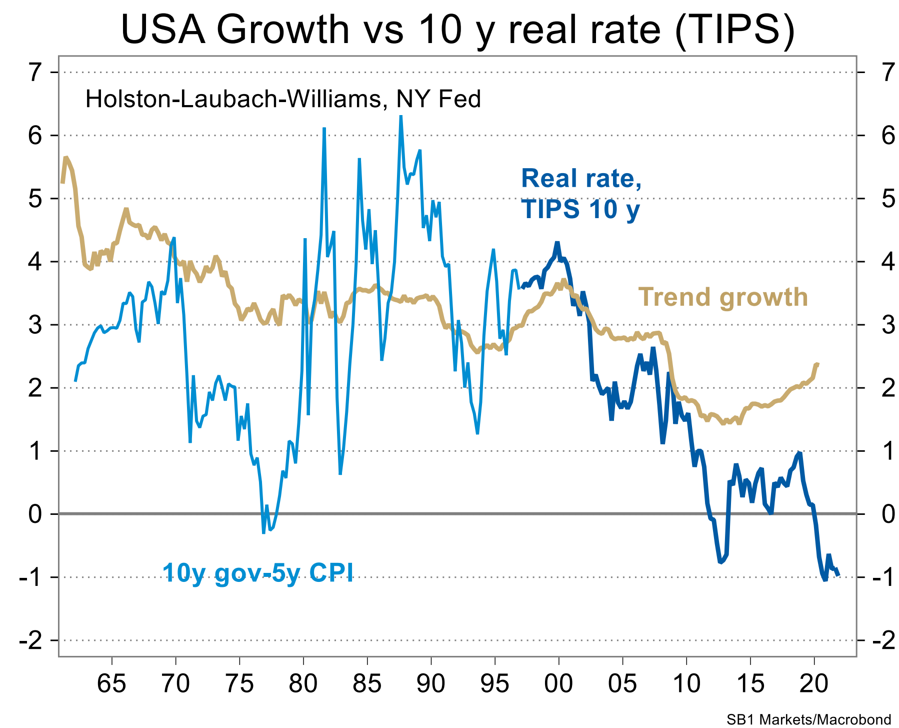
SB1 Markets/Macrobond

- The **US 10 y break-even** (inflation expectation component) climbed 8 bp to 2.64%, the highest print since 2012, and among the 1% top observations since 2000.
  - The first 5 years rose 20 bps to 2.91% – and far above Fed's 2% target
  - The 5y 5y fwd fell 4 bp to 2.37%, still not a low print vs Fed's target (which though is measured vs. the PCE deflator, normally 0.3 pp below the CPI
  - The 10 y real yield is at -0.98%
- In **Germany**, 10 y the break-even has crossed to 2% line for the first time since 2013. German real yields are very close to record low, the 10 y at -2.12%!

Some special data points: Inflation expectations record high, real rates record low

… while growth expectations are not that bad at all. Something will have to yield?



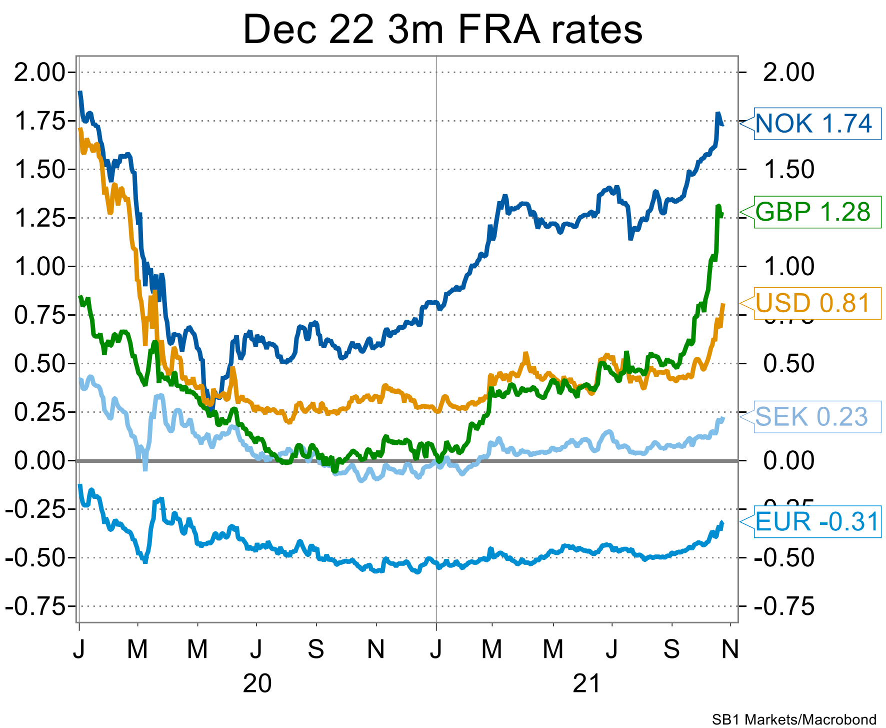


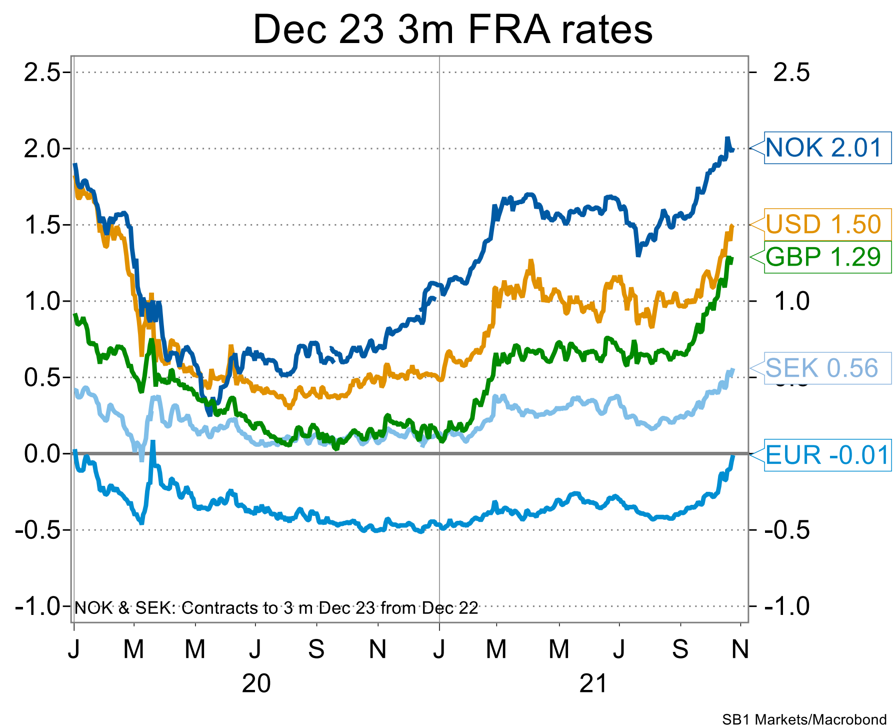
- We very much doubt the present -1% real rate vs. growth expectations at +2% – 3% is a long term equilibrium

SpareBank 1 MARKETS

FRAs: GBP rate expectations 25 bps last week, 75 bps past few weeks

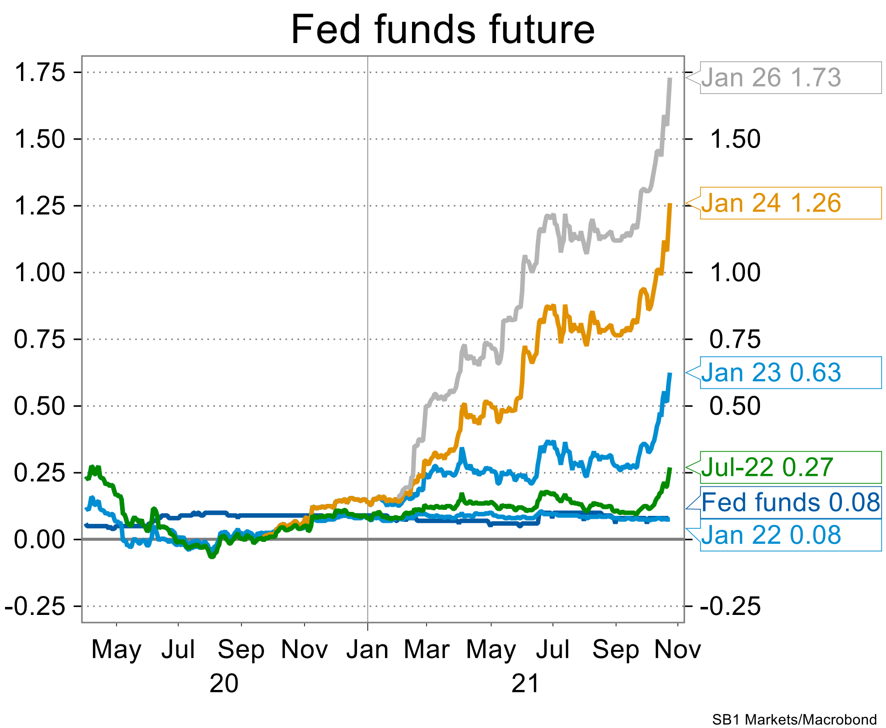
The BoE will hike in November or December? And will hike 2 or 3 times next year?





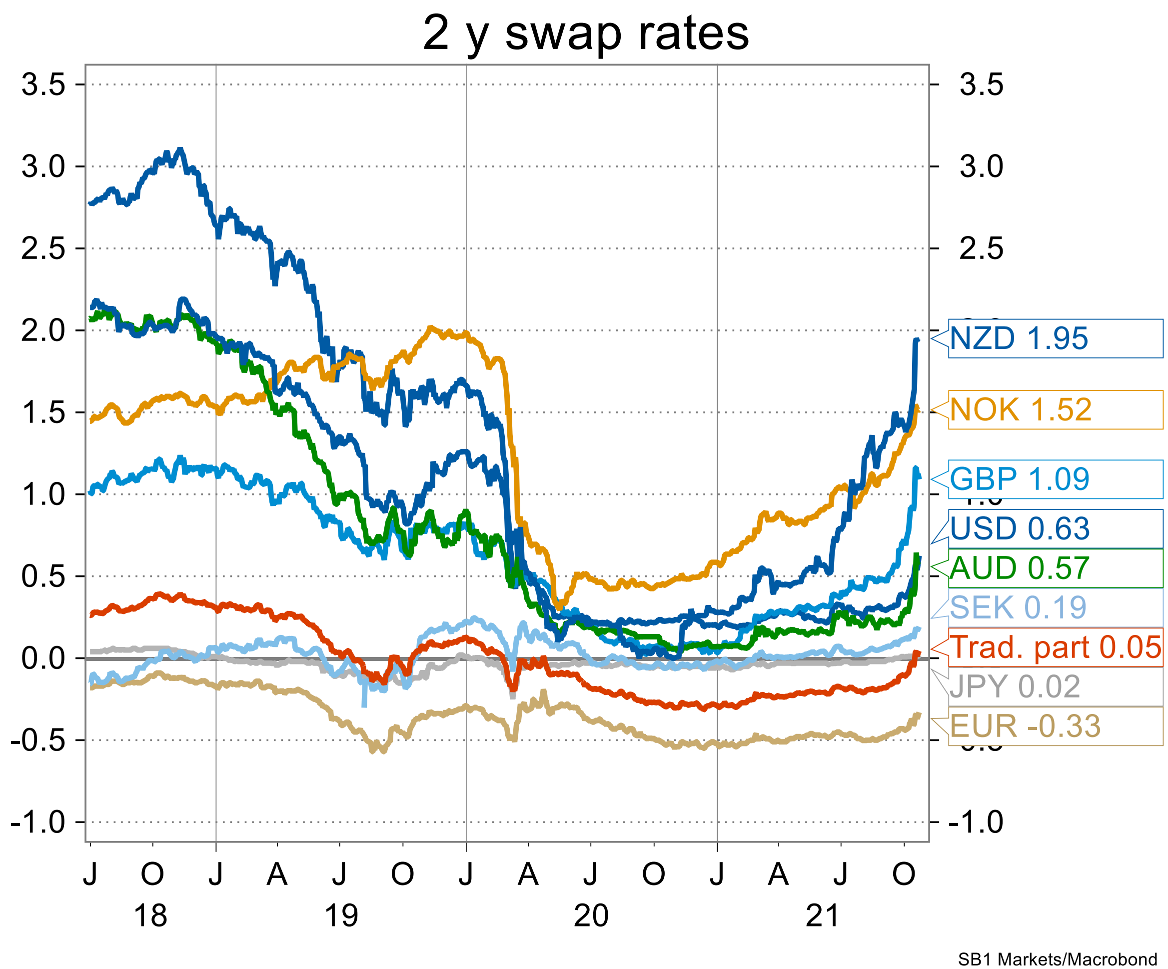
Fed Fund future contracts sharply up last week too, by up to 21 bps!

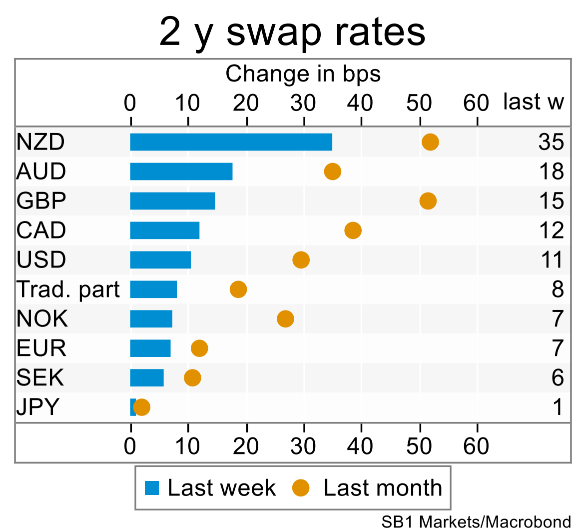
75% probability for a hike in Jun-22, 100% for 2 hikes before Jan-23, and 20% for a 3rd hike!



- Rate expectations have climbed by 50 bps over the past few weeks

The short end of the curve up by up to 35 bp (NZD) and even European rates up





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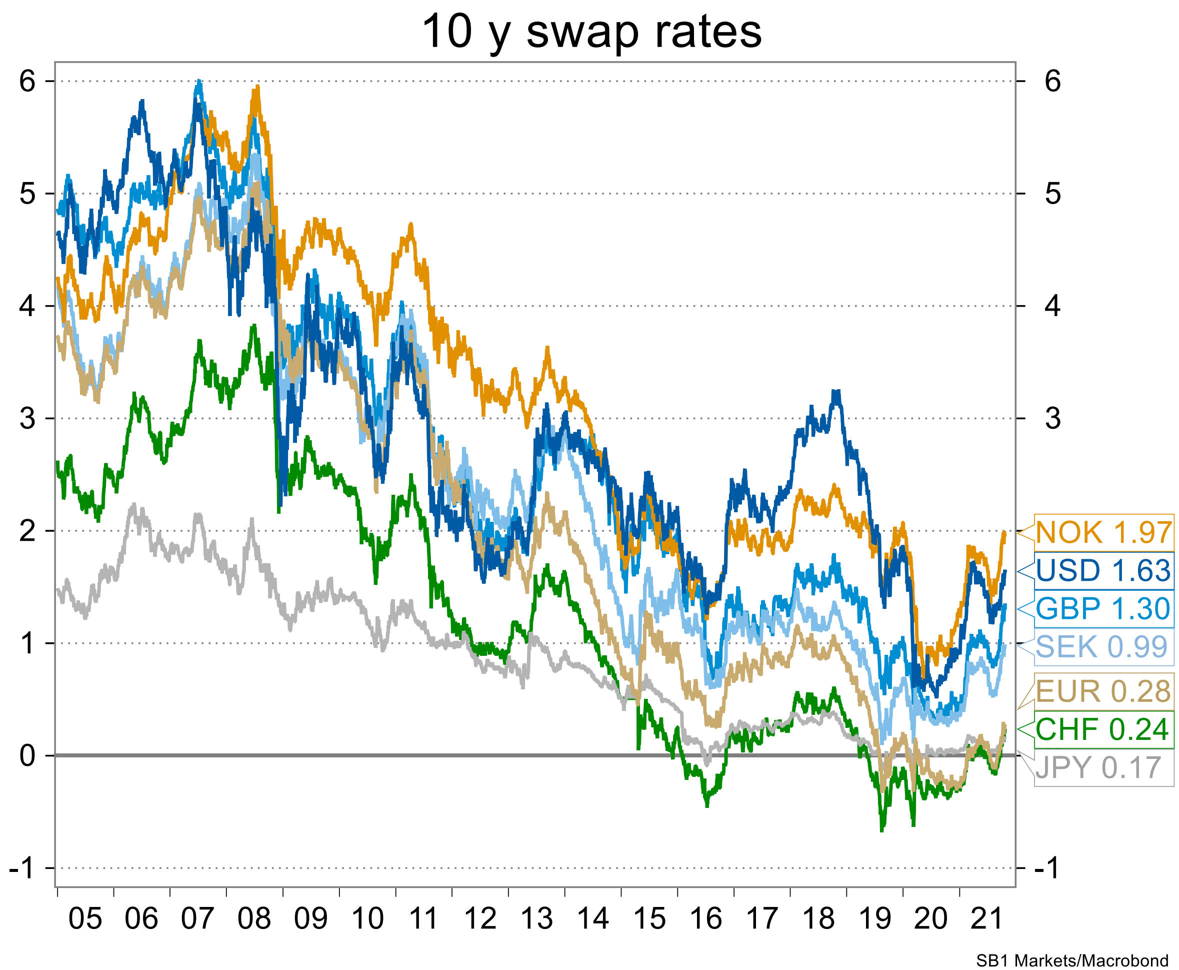
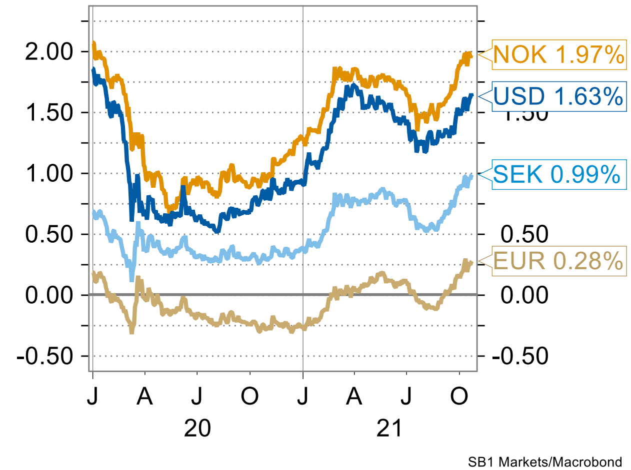
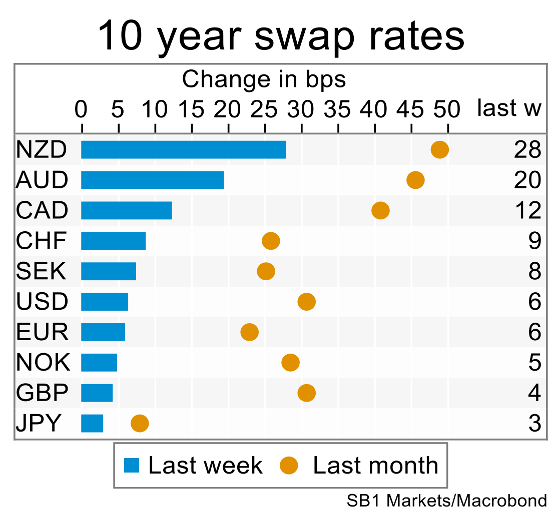
The long end of the curve up 8 of the 9 last weeks

… following the previous week's minor decline. NOK rates less up than most others

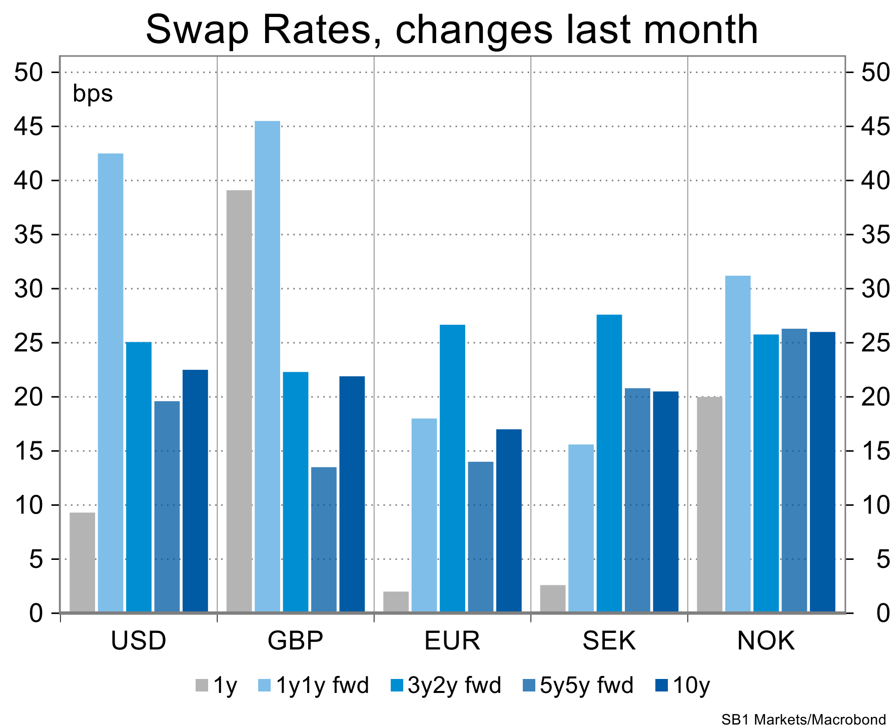


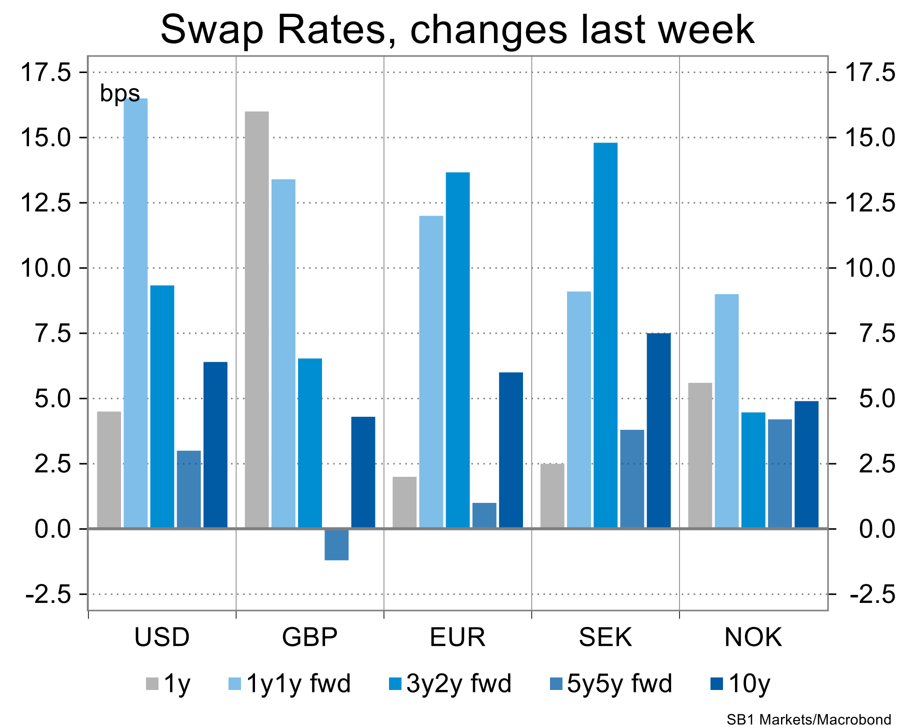




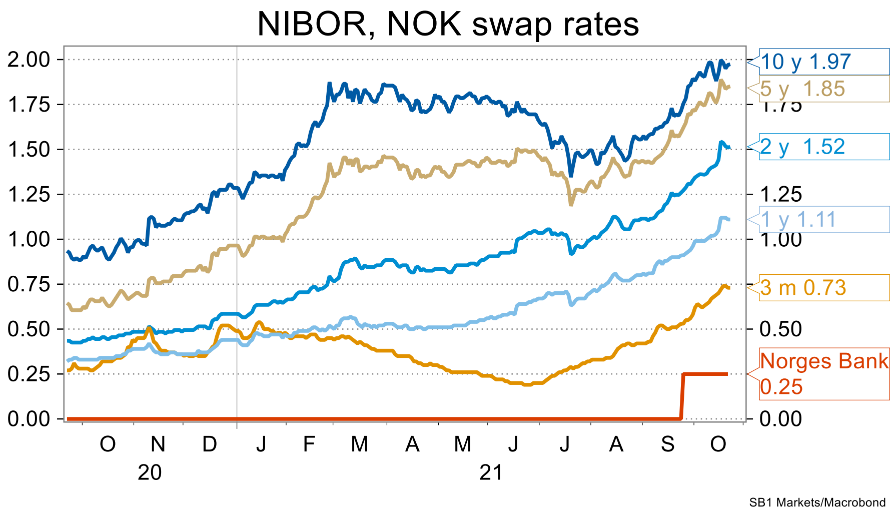
The long end of the curve up but far less than the first half

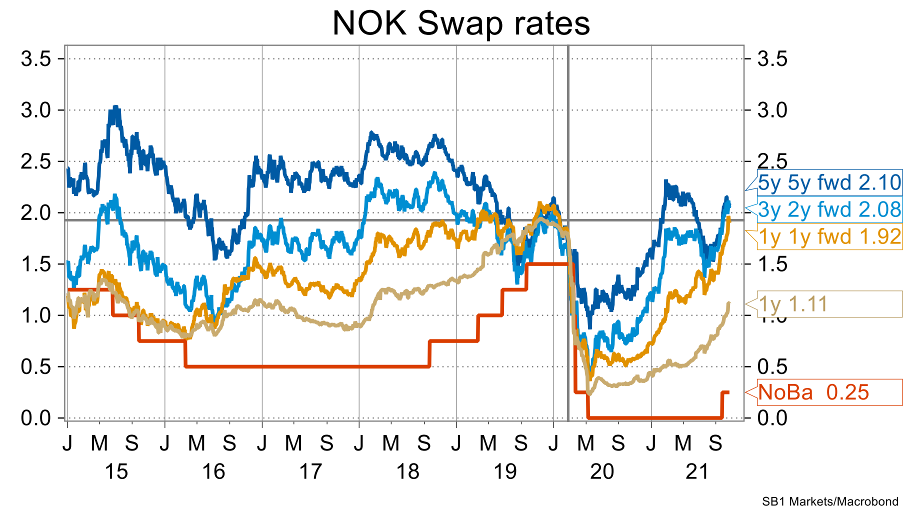
Signals belief in the central banks? More aggressive now, less need for more tightening later?

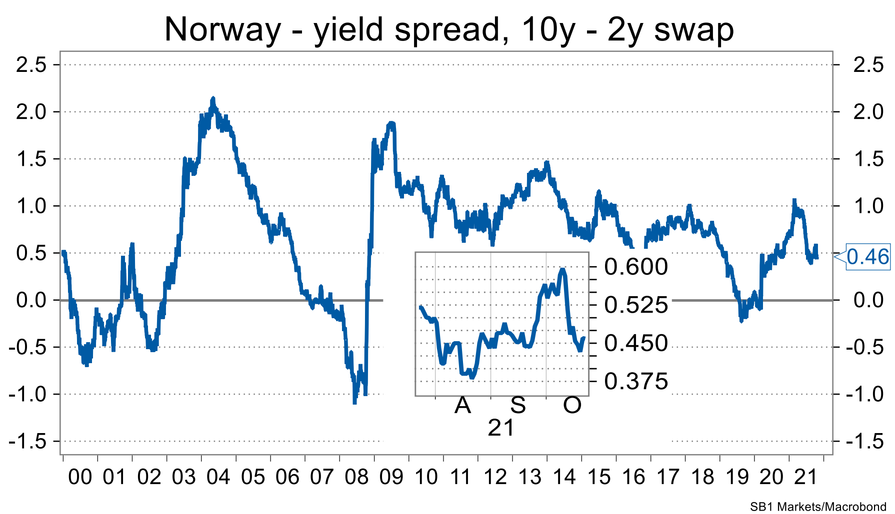


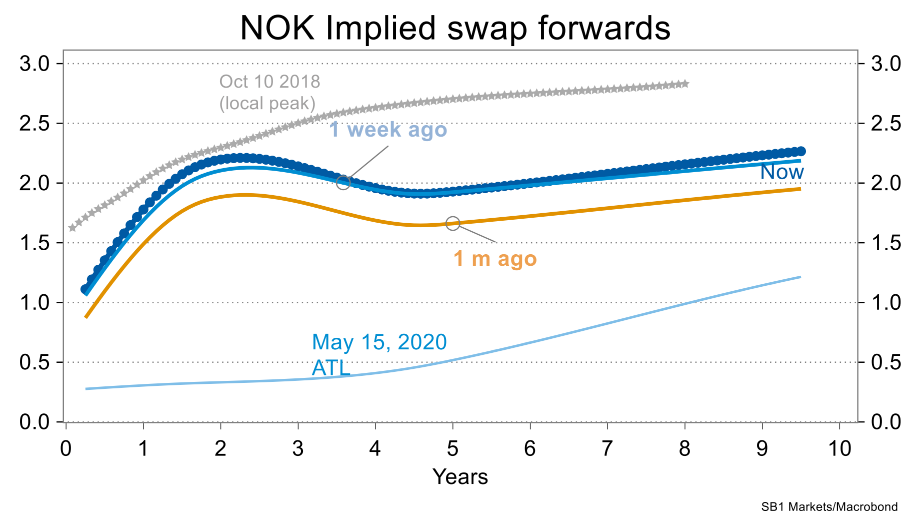


Another week with a lift in NOK rates, all over the curve





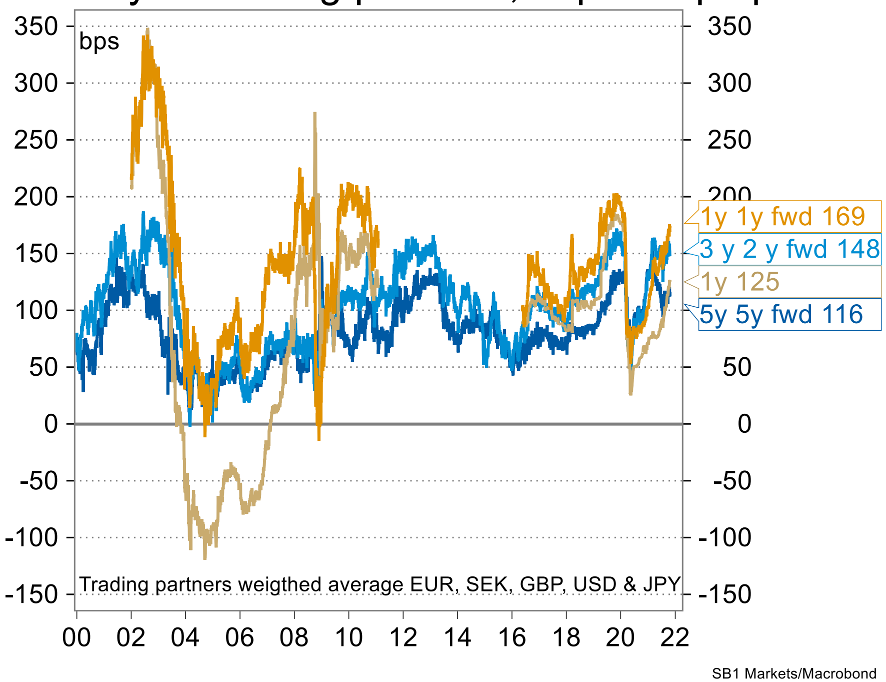


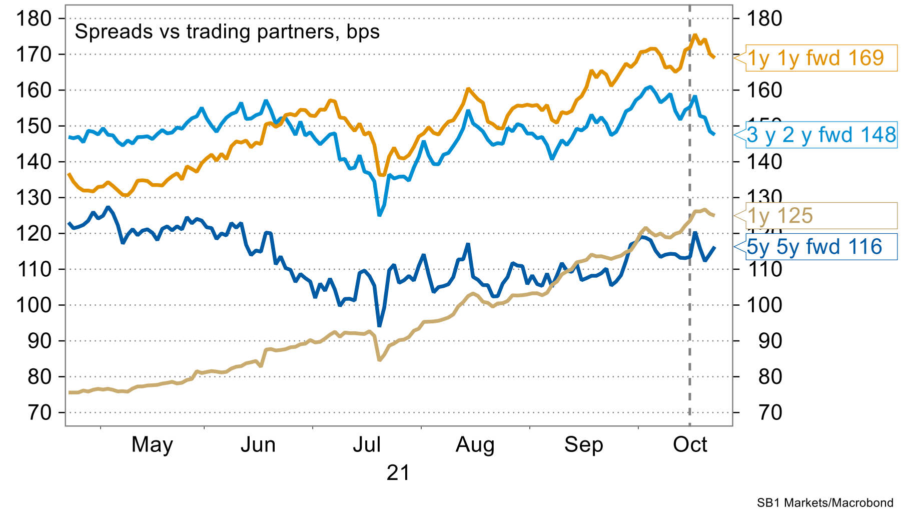


The 2 – 5 y segment more up among trading partners than in Norway

As the NOK curve is still well above other curves, the upside risk is less here than abroad

Norway vs trading partners, impl swap spreads

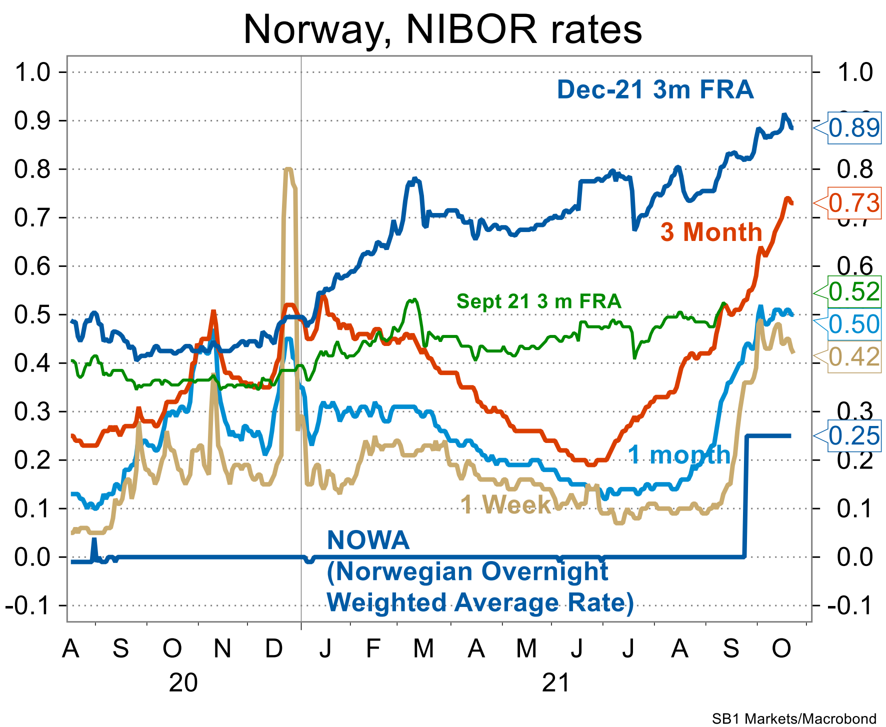


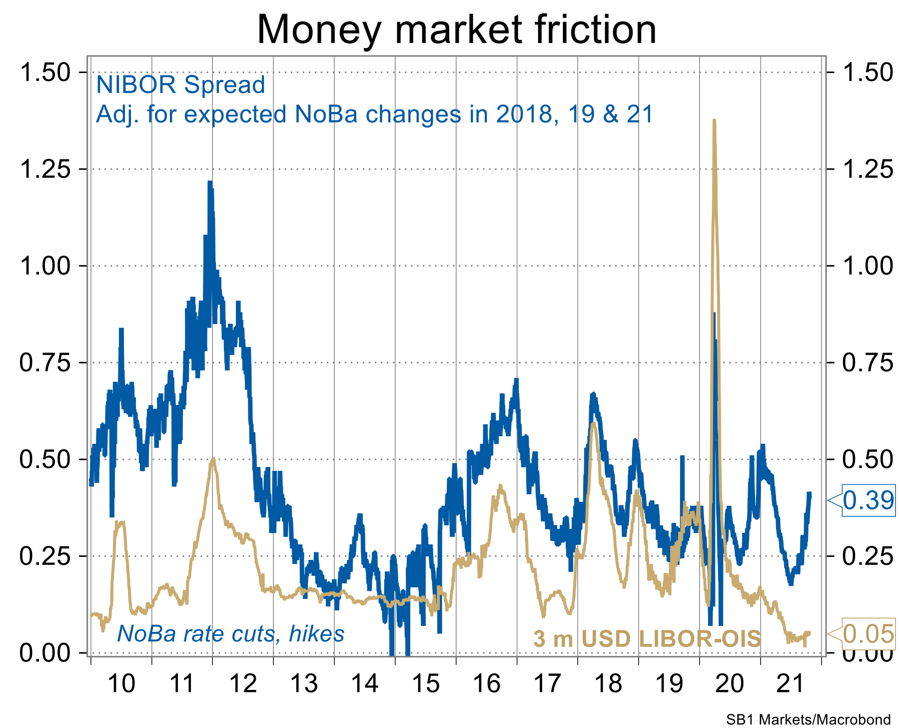


Norway vs trading partners, 5y 5y fwd spread

3 m NIBOR up 3 p 0.73%, the NIBOR spread up another bp, to 39 bps

Without any help from abroad





- Norges Bank assumed a 35 bps spread in the Sept MPR (as in the June report)

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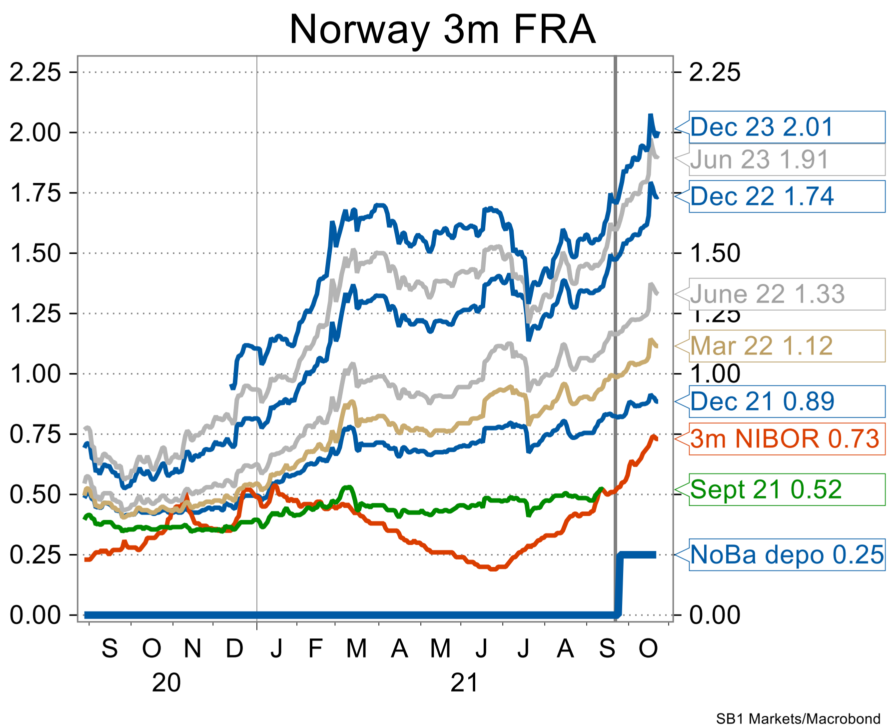
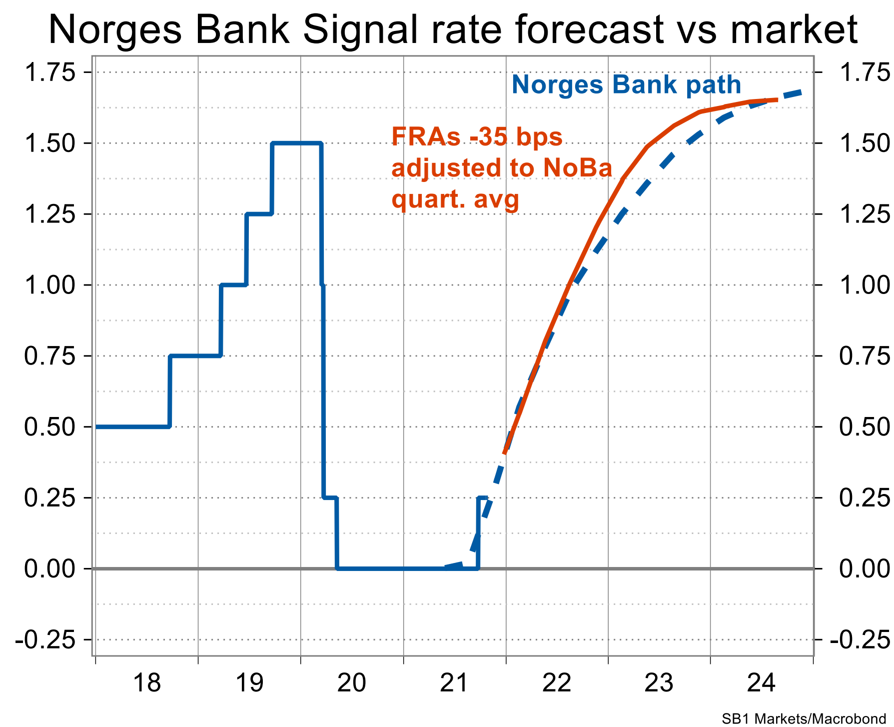
The FRA curve up by up to 8 bps – and is more aggressive than NoBa in ’23!

The market is now expecting more hikes than NoBa signalled in Sept, still no more than 25 bps/Q





- We had revised our NIBOR spread estimate on the chart to the right to 35 bps from 30 bps. Still the FRA-curve is now well above NoBa’s (Sept MPR) path in 2023
- The market is now fully discounting a hike in December, and in March and very likely in June too. If NoBa hikes in both Dec and March, the June-23 FRA at 1.33%, and a NIBOR spread at 35 bps implies a 90% for a 4th hike next summer
- Thereafter, less than extra 25 bp/quarter is expected – but still more then NoBa assumed five weeks ago

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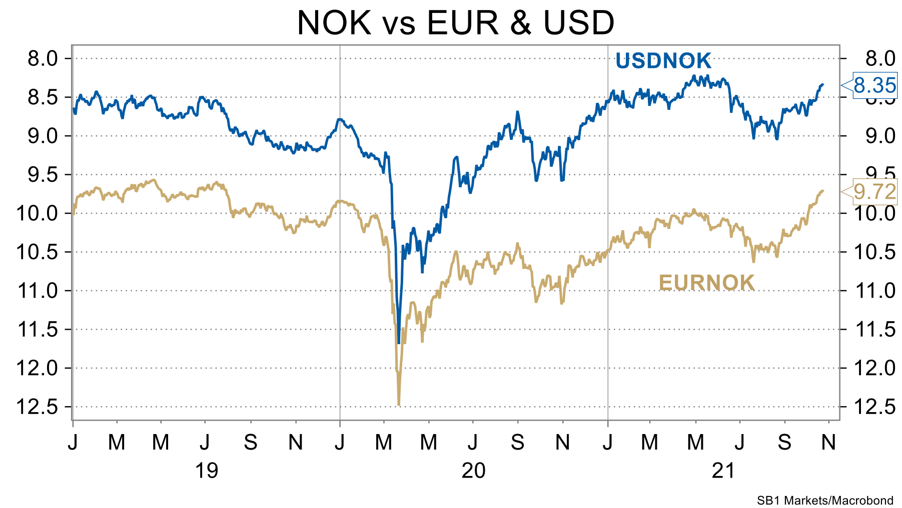
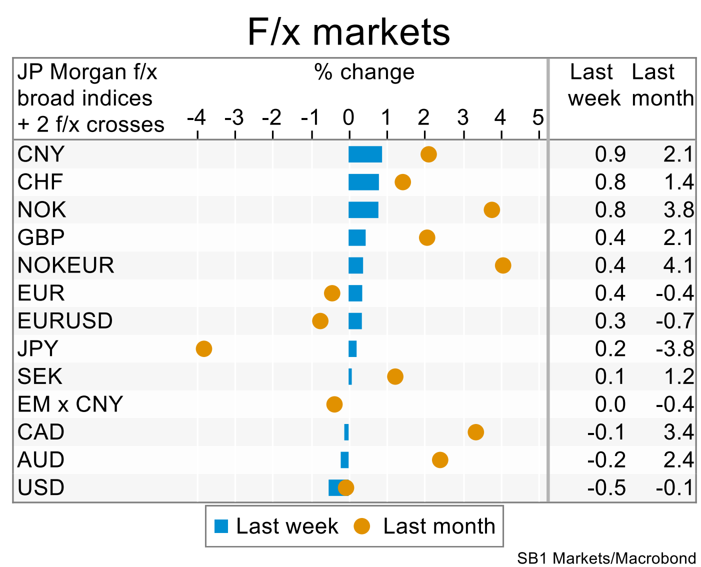
CNY last week's winner, USD the loser, even if rate expectations rose sharply

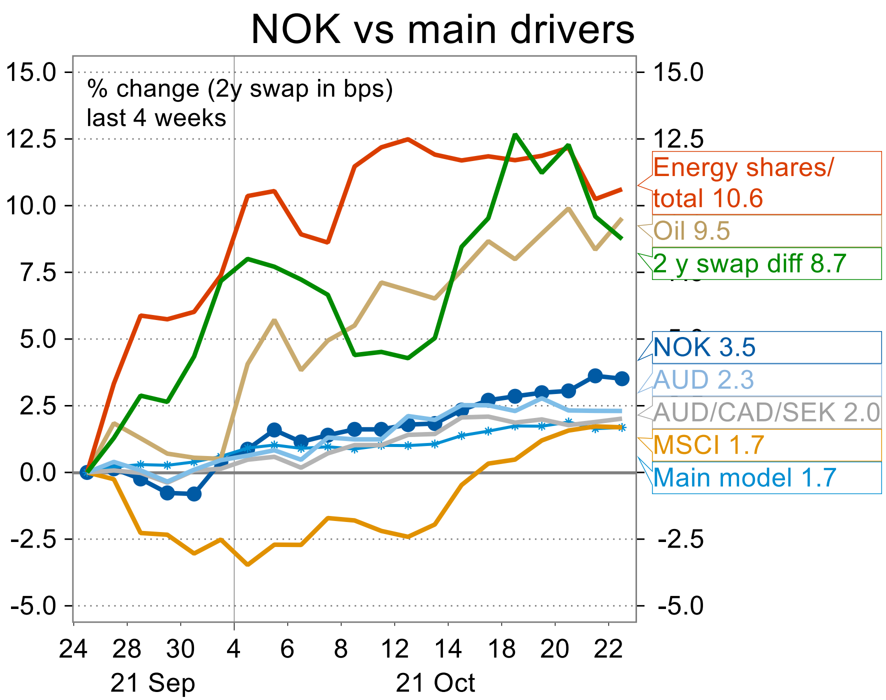
Norway close to the top following several strong weeks. EUR slightly up



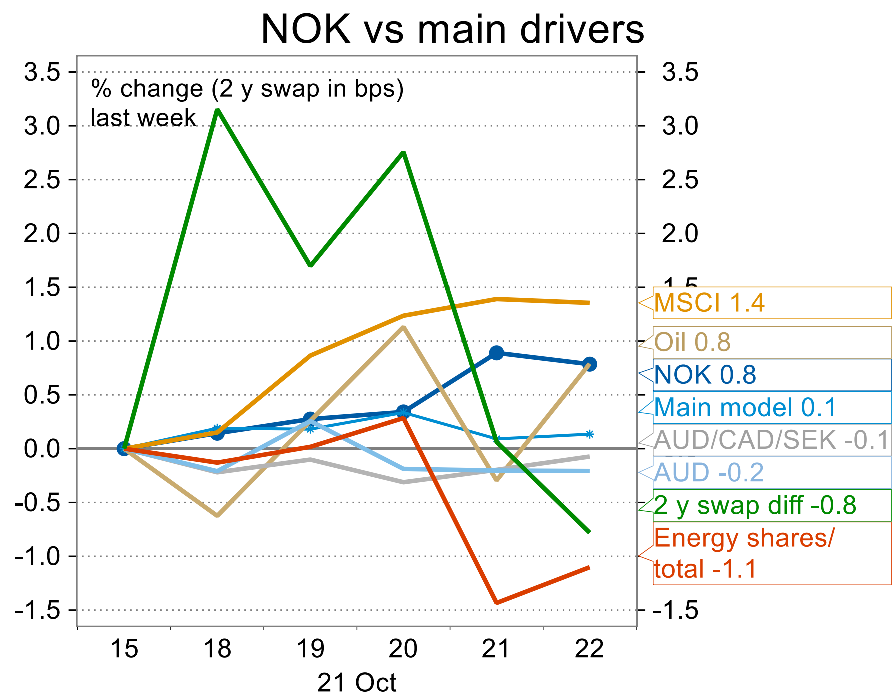


Up, up, up. The sun shines on the NOK, up another 0.8% last week

… better than our super-cyclical peers. Oil up 0.8%. NOK rates up, but less than abroad



SB1 Markets/Macrobond



SB1 Markets/Macrobond

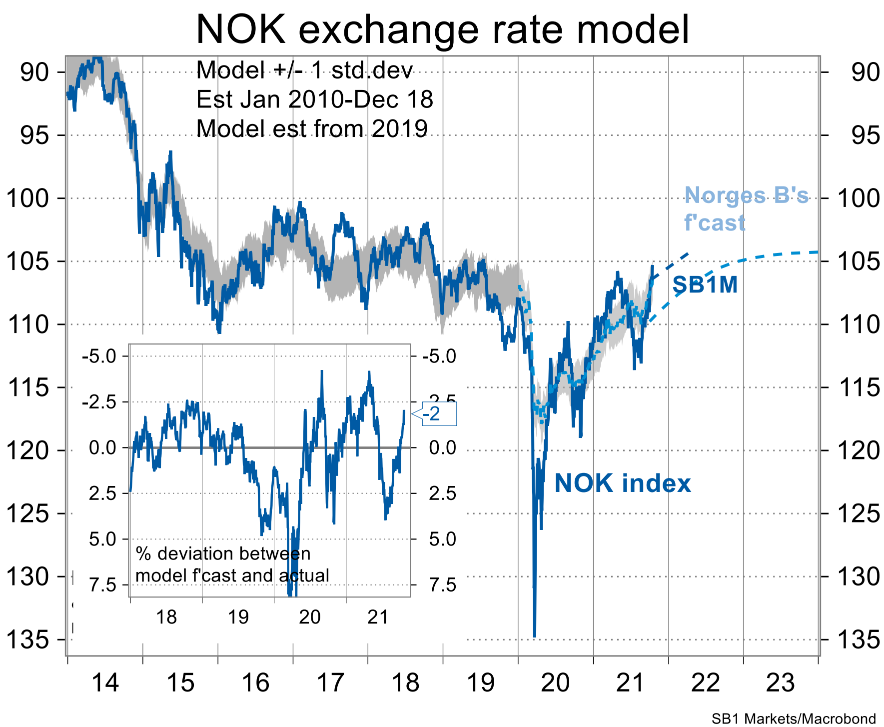
The status vs. the normal drivers:

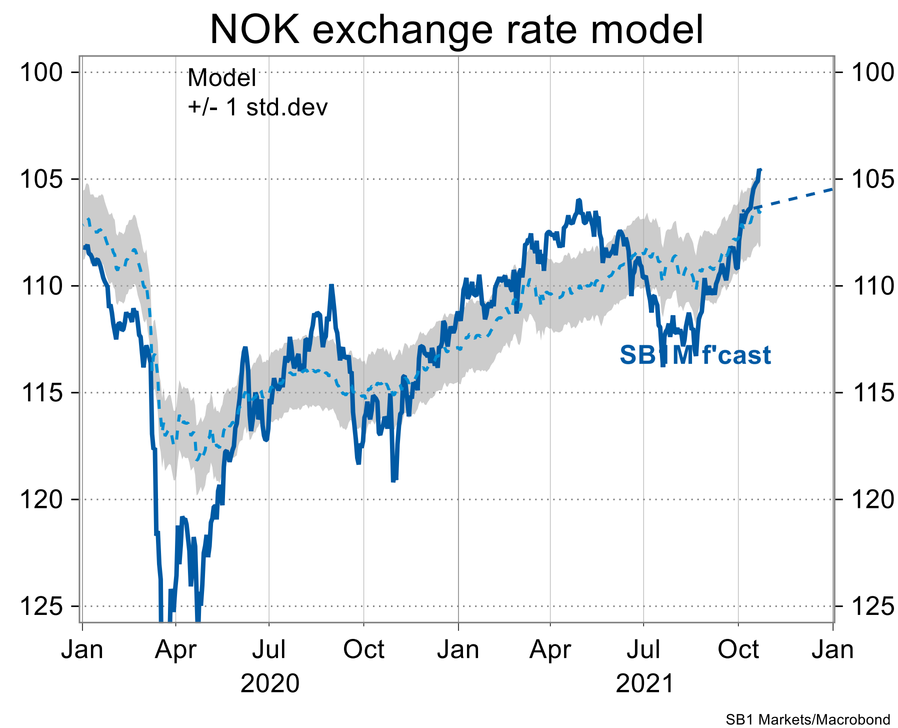
- ***The NOK is 2% <u>stronger</u> than suggested by our revised, green washed model (from 1%) (see more next page)***
- The NOK is almost at par with the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 3% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 4%)
- NOK is far (11%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market) (from 10)

For October, we r<u>epeated our NOK buy recommendation</u>, but less aggressively than for the previous months

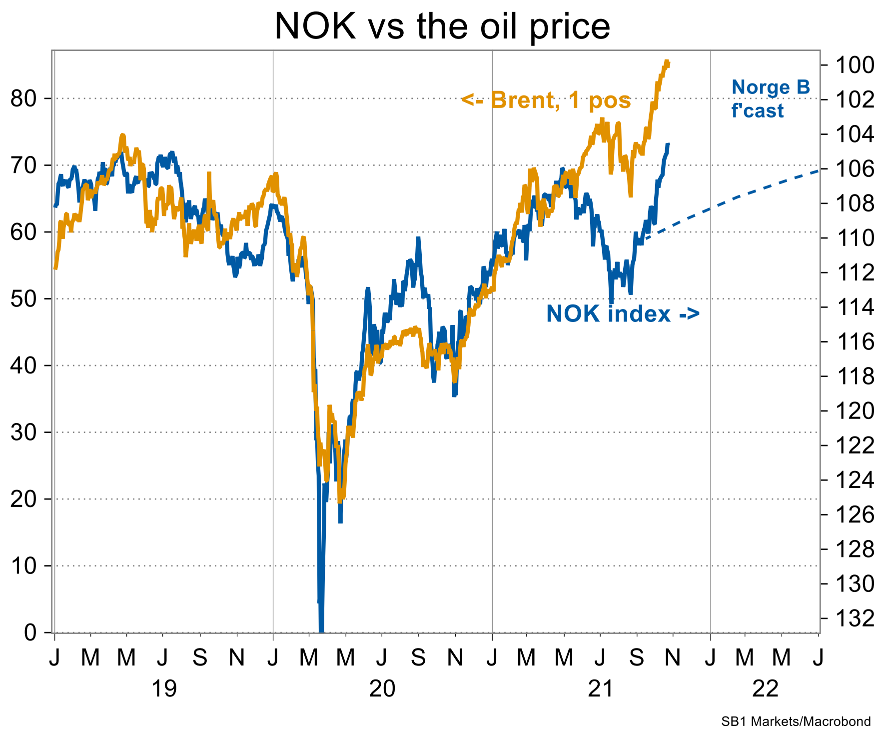
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for fx crosses. There are no substantial difference between these two indices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

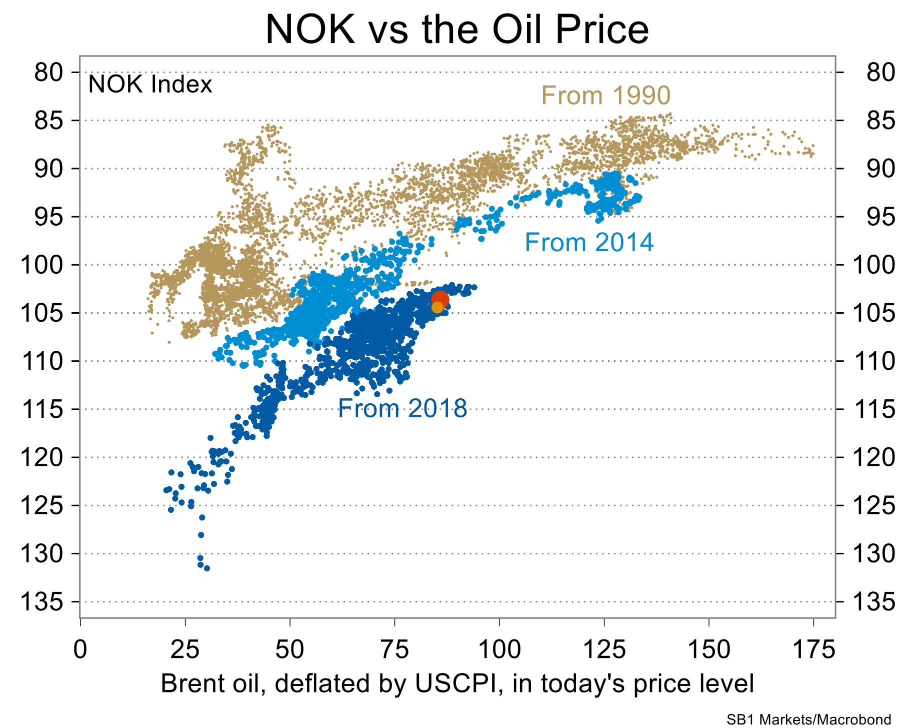
NOK 2% above our (new, green) workhorse model





Oil slightly up – NOK a bit more





- 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

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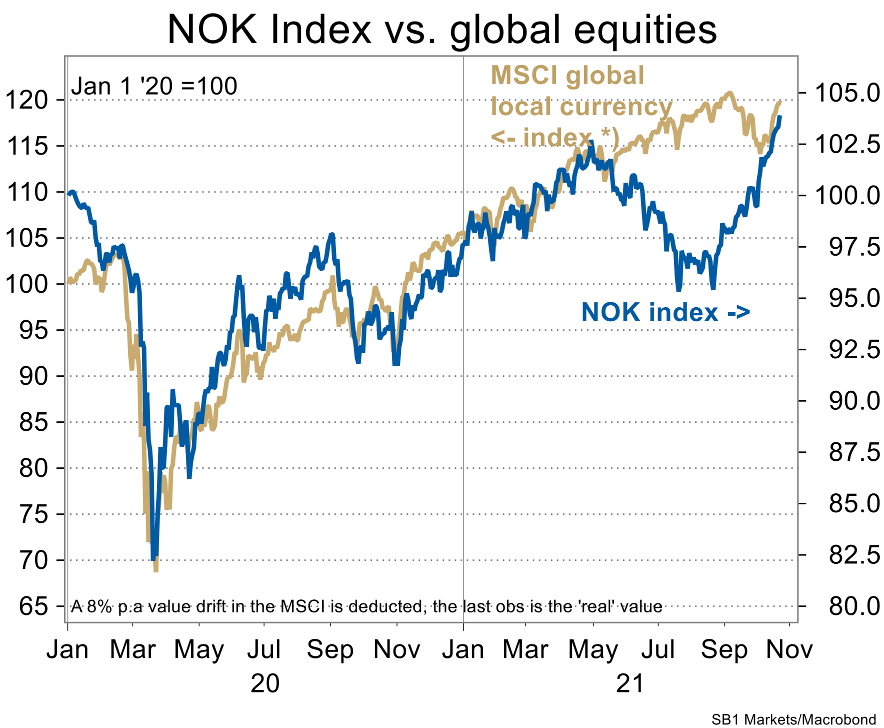
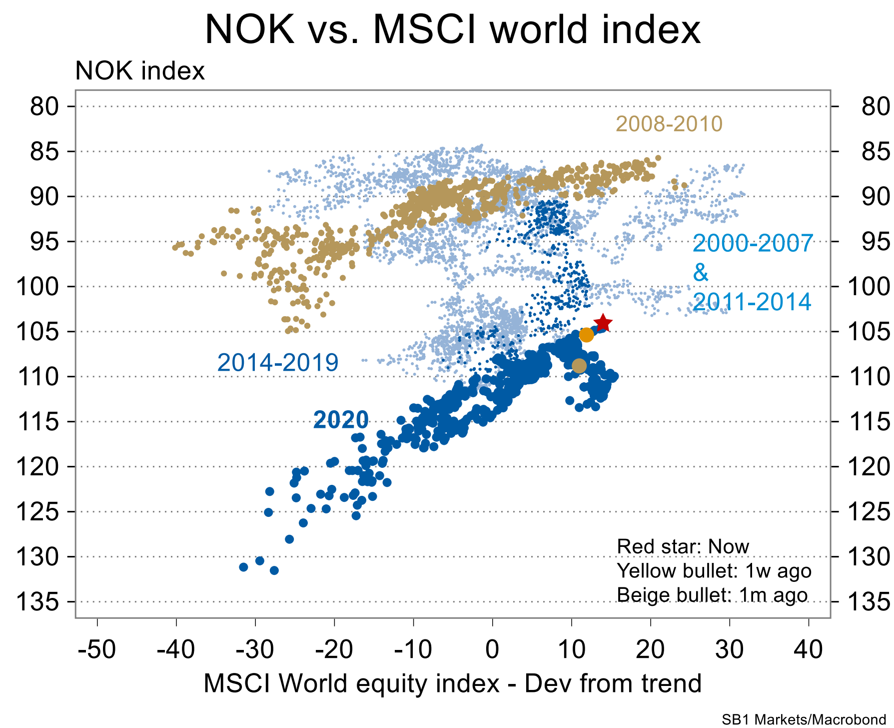
The global stock market up, NOK up

The NOK has almost closed the 'gap' vs the stock marked – as the correlation broke down…





- 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 close to par vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020)
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund are larger than the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually

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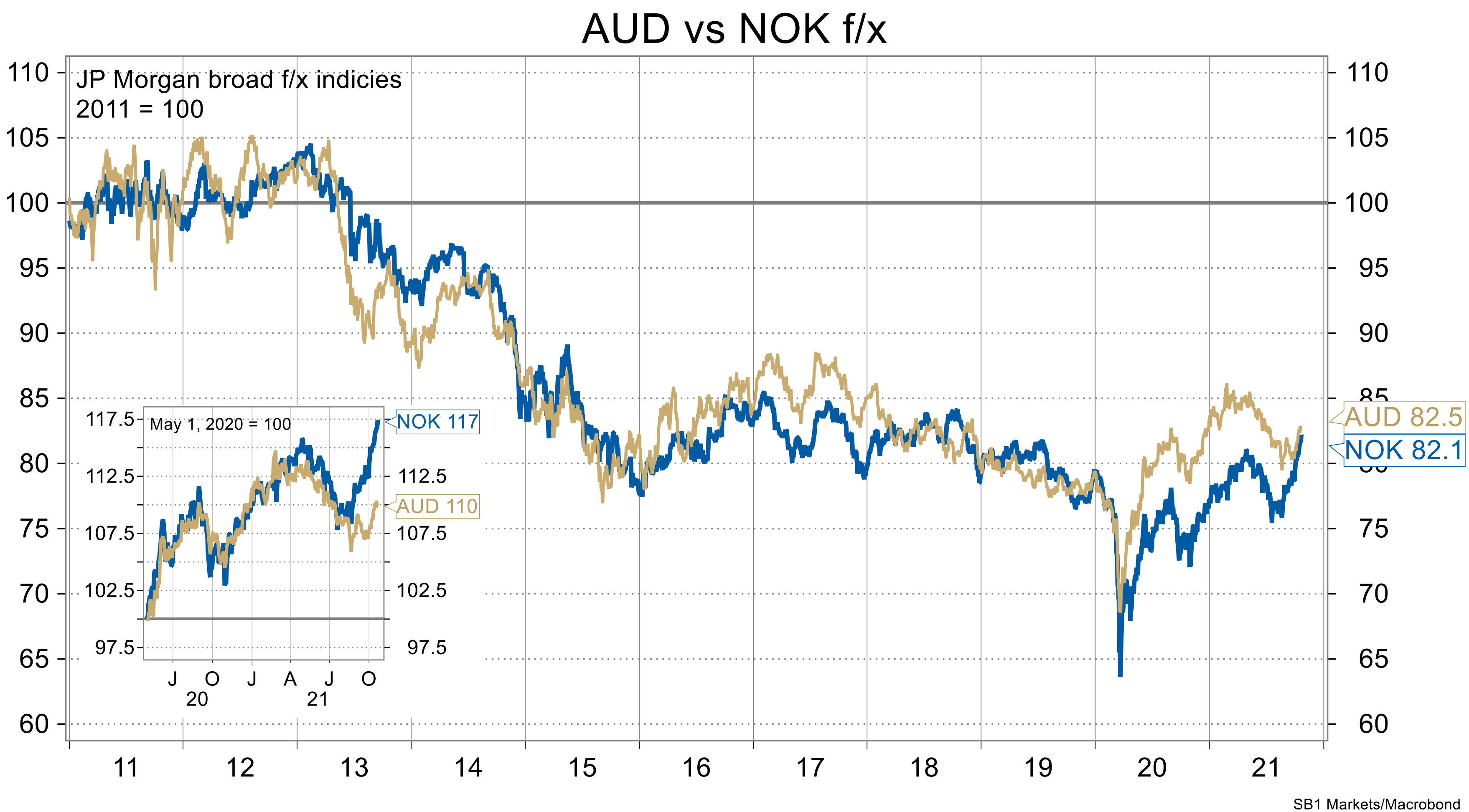
NOK up and AUD marginally down last week

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



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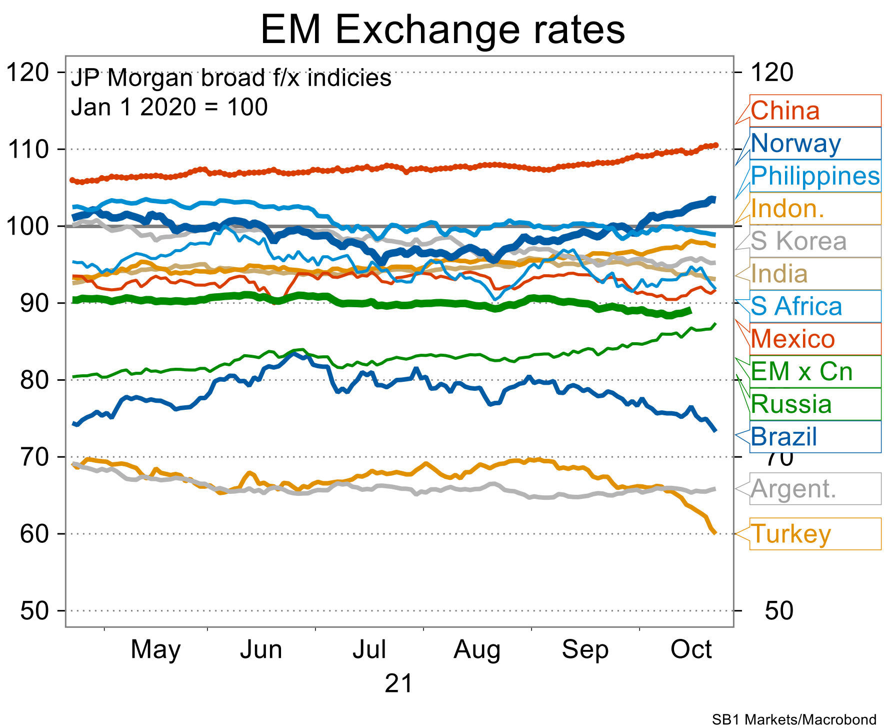
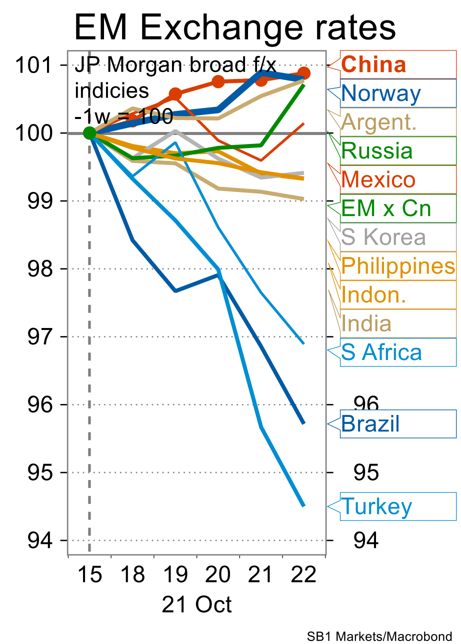
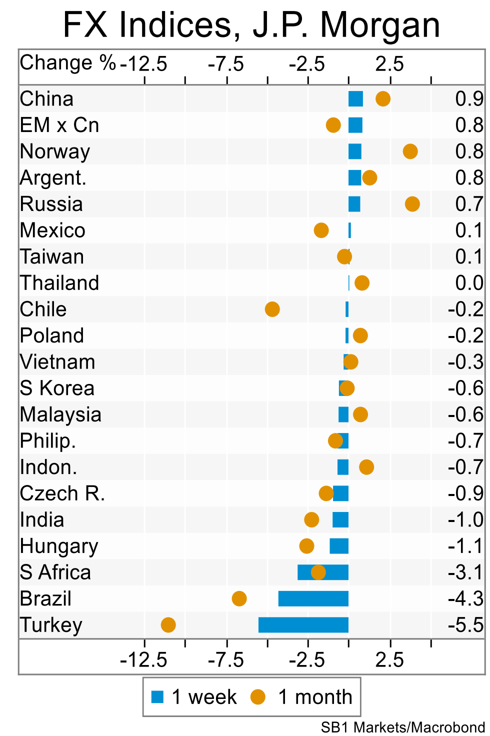
Turkey is still creating problems for itself again, and the Brazilian real is sliding too

… in spite of higher raw material prices (at least ex iron ore). The CNY is still on the way up







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Last week

The (short) virus story

- The virus will not lay down. Last week, 26 countries, many of them in Eastern Europe, reported more cases, while 16 countries reported a decline cases. Even in Western Europe several countries are reporting more cases, and UK the no. of hospitalised persons are once more on the way up. In Eastern Europe, vaccination rates are too low – but more vaccinations are seemingly needed elsewhere too
- We still think the rich part of the world, and most of Asia, and Lat-Am has won the fight against the virus, at least in the sense that wide spread lockdowns with serious economic consequences will not be needed
- 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 is trending clearly upwards vs the 2019 level

The economy, part I

- **The global economy**
  - **The preliminary October PMIs** were in sum better than expected even if the EMU surveys disappointed, as both US, UK, Japan and Australia reported higher growth, and better than expected. The uncertainty vs. the final data are larger than usual as the rich part of the world has been reporting a slowdown, while emerging markets have been reporting faster growth (though still below the DM growth rate) – and no EM has yet reported. We assume a 1 – 1½ lift in the global composite PMI, up to above 54, signalling a 4% growth pace in global GDP. The delivery times index rose to the highest level ever, and price inflation accelerated again – clearly creating more challenges for central banks. We still think the raw material/logistic 'crisis' will not last for several quarters ahead, at least if demand is not allowed to explode (read: higher interest rates). The real 'lasting' inflation risk is higher wage inflation in the US, possible in other countries as well
  - **Interest rate expectations** rose sharply last week too, by up more than 20 bps in the US, and 25 bps in UK. In the US, market expect the first hike in Q2 next year, and 1 or 2 more hikes in H2 next year. In the long end of the curve, far less drama – and real rates fell last week. Inflation expectations moderated 5 y 5 y fwd, but rose sharply over the first 5 years of the curve, +20 bps to 2.91%. In UK the short end of the curve is up more than 75 bps during recent week. Markets are now expecting a hike in UK next week or in December, and then 3 or 4 more hikes during 2022.
  - Due to the rise in inflation, more **EM central banks are lifting their signal rates**, and globally, more than half of the rate cuts last spring is reversed (the world weighted). Last week Russia hiked by 75 bp, and by 325 bps from the bottom, to 6.25%. Brazil has hiked 425 bps to 6.25%, Turkey by 675 bps to 15.75%. India has not hiked, neither has China (and the latter is probably contemplating cutting rates in order to stabilise the real estate sector
- **China**
  - **Existing home prices** declined in August, and fell further in September, by 2.4% m/m (annualised). Prices are still up 2.4% y/y. N**ew home prices** fell slightly in September, for the first time since 2015