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Macro Weekly

Week 44/2021

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- Highlights
- The world around us
- The Norwegian economy
- Market charts & comments

Last week

The (remaining) virus story

- A majority of countries still report more cases but growth slowed in most of these countries last week. Eastern European countries are struggling, and hospitals are overwhelmed but social distancing (and immunity through infections) will have to do the job, as people hesitate getting vaccinated
- UK reported fewer cases last week. Hospitalisation are falling most places or remain stabile at low levels. The risk for a health crisis that will slow the economies in Western Europe or in US is very low. Mobility is stable at high levels
- The virus is on the retreat in Asia too, and mobility has recovered substantially

The economy, part I

- **Global monetary policy**
  - **Brazil** hiked the signal rate by 1.50 pp to 7.75%, the largest hike in almost 20 years. Canada signalled it will end its QE program and start hiking interest rates earlier. Australia may abandon its Yield Curve Control policy, and the short end of the curve shot up late last week. Globally, more than half of the interest rate cuts conducted last year are now reversed, thanks to some 30 Emerging Market countries that have started hiking rates
- **China**
  - **The Chinese PMIs** published so far are on the weak side but does not signal a sharp setback. The NBS survey reported a 0.9 p decline to 50.8, with the manufacturing sector in the 'lead'. Markit's manufacturing total PMI rose 0.6 p to 50.6. We assume the average of the two PMI surveys declined by 0.7 p, signalling growth below somewhat par into Q4 as well. The steel industry reported an unusual steep decline in October, while the construction reported better (but far from strong) growth in orders
  - **Other Asian countries** reported far better manufacturing PMIs, on average, just South Korea signalled slower growth
- **USA**
  - **GDP** grew just 2.0% in Q3, somewhat less than expected. The decline in the auto industry reduced GDP growth by 1.5 pp. As a consequence, private demand grew at a slow pace too. The Delta variant slowed the recovery in services. Business investments grew weaker than expected too. Prices are of course surging but at a tad slower pace than in Q2. Wage costs are accelerating, and a government subsidies to the corporate sector declined, we estimate a decline in corporate profits- and we expect more to come as the tight labour market lifts labour costs even faster than prices.
  - **The Employment Cost Index** grew 1.3% in Q3 (5.4% annualised), at the fastest q/q pace since 1991, and far above the expected 0.8 – 0.9%. The annual rate rose to 3.7% from 2.8%, the highest since 2004. In the private sector, employment costs grew even faster (1.4%/4% y/y). Thus, now all main wage indicators tell the same story, wage inflation has accelerated. At the present pace, at least 1 pp higher wage inflation than over the past 5 – 10 years, it is far from given that inflation will return to 2%. In addition, given the tight labour market, a further acceleration in wage inflation quite likely
  - **Household spending** rose and **income** fell in September as Federal unemployment benefits were terminated – and the **savings rate** fell almost 2 pp back to the pre-pandemic level. PCE inflation is slowing m/m as the core rose just 0.2%, as expected. However price increases are broadening, and the Fed has fewer excuses left. Consumer confidence surprised at the upside. Households deem jobs very easy to get – it has never before been easier
  - **Existing home price inflation** have peaked (m/m) but the broad indices are still up 17 – 20% y/y. New home sales surprised on the upside in September. New home prices are climbing at the same pace as existing home prices, and well above construction cost inflation, signalling that land prices are surging on record strong demand for homes. The inventory of new homes is very low, but more starts will help, over time

Last week: The economy, part II

- **EMU**
  - **ECB tapers** moderately but the board postponed to December how to replace the EUR 80 bn/month PEPP programs that runs until March. The bank recognises that inflation will stay higher for longer, but expect a decline to below 2% in 2023, and given that forecast, an interest rate hike is out of question. Markets are not so sure, a small hiked is discounted by end of next year
  - **GDP** grew by 9.1% in Q3 (2.2% not annualised), a tad faster than expected and than in Q2. GDP is still 0.5% below the Q4-19 level but will probably cross the line in Q4. Spain is the big laggard, down 6.6% vs the pre-pandemic level, due to lack of tourists
  - **Headline CPI inflation** surged 0.7 pp to 4.1% in October, 0.4 pp higher than expected, and the core surprisingly accelerated 0.2 p to 2.1%. Still underlying core inflation is not that high, and as long as wage inflation remains moderate, inflation will not be a problem for a long while. So, the ECB may be right. On the other hand, more companies than ever before plan to hike their selling prices, according to the EU business survey – that was among the best, growth wise too
- **Japan**
  - **Manufacturing production** fell 5.3% in September following the 3.6% setback in August – much of it due to a sharp decline in auto production. **Retail sales** recovered some of the August decline in September but has been trending down recently, at least partly due to Covid-19. Now mobility has recovered substantially
- **Sweden**
  - **Retail sales** fell 0.3% in September but are 7% above the pre-pandemic level. Business confidence remains very strong
- **Norway**
  - **The no. of employees** rose by 0.9% in September, according to payrolls data, and the **LFS** (AKU) confirm the strong trend. The **employment rate** is above the pre-pandemic level. **LFS unemployment** fell by 0.2 pp to 4.0%, and would have been lower than before the pandemic if not for the surge in the **participation rate**. **NAV registered unemployment** fell further in October, the grand total down 10' to 130'. The ordinary open rate down to 2.5%, well below the long term average, as expected. The inflow of new vacancies rose further, for the 7th month in row. Very likely, the unfilled vacancy rate rose further in Q3. Still, wage inflation is not accelerating, according to the payroll stats
  - **Retail sales** rose 1% in September, expected unchanged. A 7% lift in building materials explained half of the lift. Sales are still above reasonable long term trends in most branches
  - **Credit growth** was stabile at 5.3% in September. Household debt grew less than we assumed, and growth is not accelerating. Growth in the corporate sector debt is slowly increasing

The Calendar: Fed will taper, BoE may hike, NoBa confirm Dec. PMIs + US labour market

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 1					
08:00	GE	Retail Sales MoM	Sep	0.4%	1.1%
08:30	SW	Manufacturing PMI	Oct		64.6
10:00	NO	Manufacturing PMI	Oct	(58)	59.2
14:45	US	Manufacturing PMI, Markit	Oct F	59.2	59.2
15:00	US	Construction Spending MoM	Sep	0.5%	0.0%
15:00	**US**	**ISM Manufacturing**	**Oct**	**60.3**	**61.1**
Tuesday Nov 2					
10:00	EC	Manufacturing PMI	Oct F	58.5	58.5
16:00	**WO**	**Manufacturing PMI**	**Oct**	**(54.2)**	**54.1**
	US	Auto sales	Oct	12.45m	12.18m
Wednesday Nov 3					
02:45	**CH**	**Services PMI, Caixin**	**Oct**	**53.5**	**53.4**
08:30	SW	Services PMI	Oct		69.6
11:00	**NO**	**House prices, MoM, s.a**	**Okt**	**(0.4%)**	**0.2%**
11:00	EC	Unemployment Rate	Sep	7.4%	7.5%
13:15	US	ADP Employment Change	Oct	400k	568k
14:45	US	Services PMI, Markit	Oct F	58.2	58.2
15:00	**US**	**ISM Services**	**Oct**	**61.8**	**61.9**
19:00	**US**	**FOMC Rate Decision (Upper B)**	**Nov-03**	**0.25%**	**0.25%**
Thursday Nov 4					
08:00	GE	Factory Orders MoM	Sep	1.9%	-7.7%
10:00	EC	Services PMI	Oct F	54.7	54.7
10:00	EC	Composite PMI	Oct F	54.3	54.3
10:00	**NO**	**Deposit Rate**	Nov-04	**0.25%**	**0.25%**
11:00	EC	PPI MoM	Sep	2.3%	1.1%
13:00	**UK**	**Bank of England Bank Rate**	**Nov-04**	**0.1%**	**0.1%**
13:30	US	Initial Jobless Claims	Oct-30	278k	281k
13:30	**US**	**Productivity**	**3Q P**	**-2.5%**	**2.1%**
13:30	US	Unit Labor Costs	3Q P	5.6%	1.3%
13:30	US	Trade Balance	Sep	-$75.0b	-$73.3b
16:00	**WO**	**Composite PMI**	**Sep**	**(54.1)**	**53.0**
Friday Nov 5					
08:00	GE	Industrial Production SA MoM	Sep	1.0%	-4.0%
08:45	FR	Manufacturing Production MoM	Sep	0.4%	1.1%
11:00	EC	Retail Sales MoM	Sep	0.3%	0.3%
13:30	**US**	**Change in Nonfarm Payrolls**	**Oct**	**400k**	**194k**
13:30	**US**	**Unemployment Rate**	**Oct**	**4.7%**	**4.8%**
13:30	US	Average Hourly Earnings YoY	Oct	4.9%	4.6%
13:30	**US**	**Labor Force Participation Rate**	**Oct**		**61.6%**
Sunday Nov 7					
	CH	Trade Balance	Oct		$67b
	CH	**Exports YoY**	**Oct**		**28.1%**
	CH	**Imports YoY**	**Oct**	**20.0%**	**17.6%**

- **Global economy**
  - » The preliminary indices suggest at further lift in the **global composite PMI** in Oct, signalling growth above trend. The output component in the manuf. survey probably fell further, due to lack of supplies - orders are still growing at a fast pace. However, services recovered further, as the Covid-19 was beaten back. Emerging Markets have been picking ups steam since the summer, and we expect more to come Oct. Delivery times are surging, as are input and output prices – signalling that prices pressure from the supply side has not peaked yet
  - » Many countries will report Oct **auto sales** through the week – and we do not expect any recovery, based on reports from major manufacturers. The supply side squeeze has not eased
- **China**
  - » **Exports** have so far been very strong, the level is far above the pre-pandemic growth trajectory. while **imports** have sagged recently. The latter may indicate a slowdown in domestic demand – which Chinese data confirm
- **USA**
  - » The **Federal reserve** will formally announce the plan for scaling back the QE program. The bank may start tapering immediately or in Dec, and finish by June/July. The bank will also acknowledge the risk for inflation to be less transitory than hoped for, and it should recognise the uncertainty on how far the US is from maximum employment. The bank would then signal that the Fed funds rate might be hiked earlier than so far assumed (which the market has not discounted, a start in in Q2 or Q3 next year)
  - » The **labour market report** most likely will confirm a further tightening of the labour market. The participation rate is the most important figure alongside hourly wages. The growth/inflation outlook is dismal without a substantial recovery in labour force participation after the termination of the temporary unemployment benefit programs in early Sept, given the current strong demand for labour. The NFIB (SMBs) will also report the labour market part of its October report, lack of labour, hiring & compensation plans
  - » GDP data suggests a decline in **productivity** in Q3, and a substantial lift in **unit labour cost** – the main (and almost only) driver of inflation over time
- **EMU**
  - » **Retail sales** are expected further up, at a modest pace, while country reports on **manufacturing production** will reveal continued problems in the auto sector
- **UK**
  - » Will the **Bank of England** hike the bank rate? Economists do not think so, but the market has moved towards a hike at this meeting. If not in Nov, then in Dec
- **Norway**
  - » **Norges Bank** will not hike again at the 'in-between' meeting on Thursday, but the message from the board will not leave any doubt vs the planned December hike. No press conference is planned
  - » The flow/inventory balance at the **housing market** suggests a rapid increase in house prices, both in Oslo and in the rest of the country. However, higher interest rates weights on the downside. We expect a modest increase in house prices in October

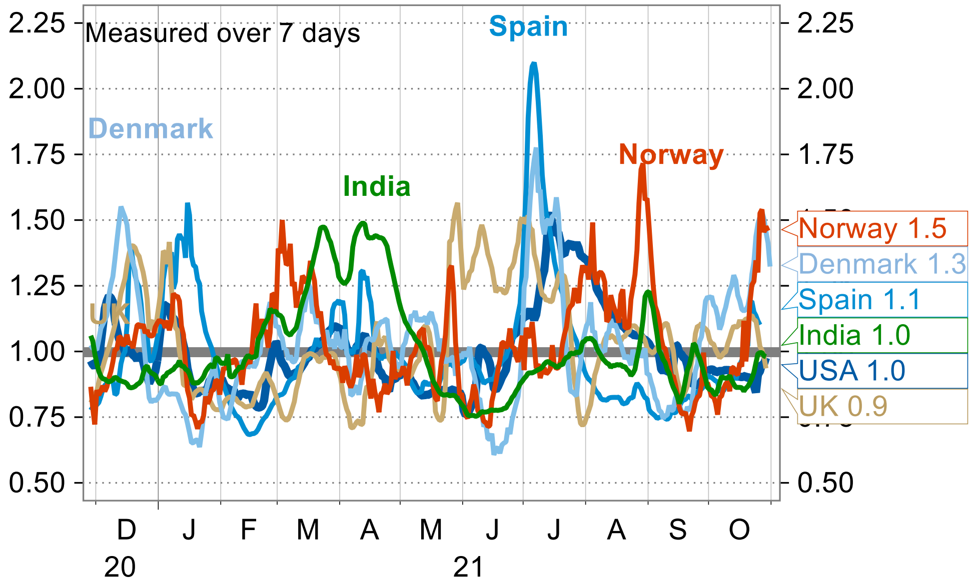
Sources: Bloomberg. SB1M est. in brackets. Key data are highlighted, **the most important in bold**

The virus won’t back down… We have to pick up our old charts

A majority of countries are reporting more cases again

- 26 countries were reporting more cases the last week too, but growth has slowed substantially. Most likely Eastern Europe is now getting control of the spread the hard way, by social distancing and closing down some activities
- Just 12 countries reported fewer cases, among them UK, following a substantial surge, visible even in hospitals

Covid-19 R



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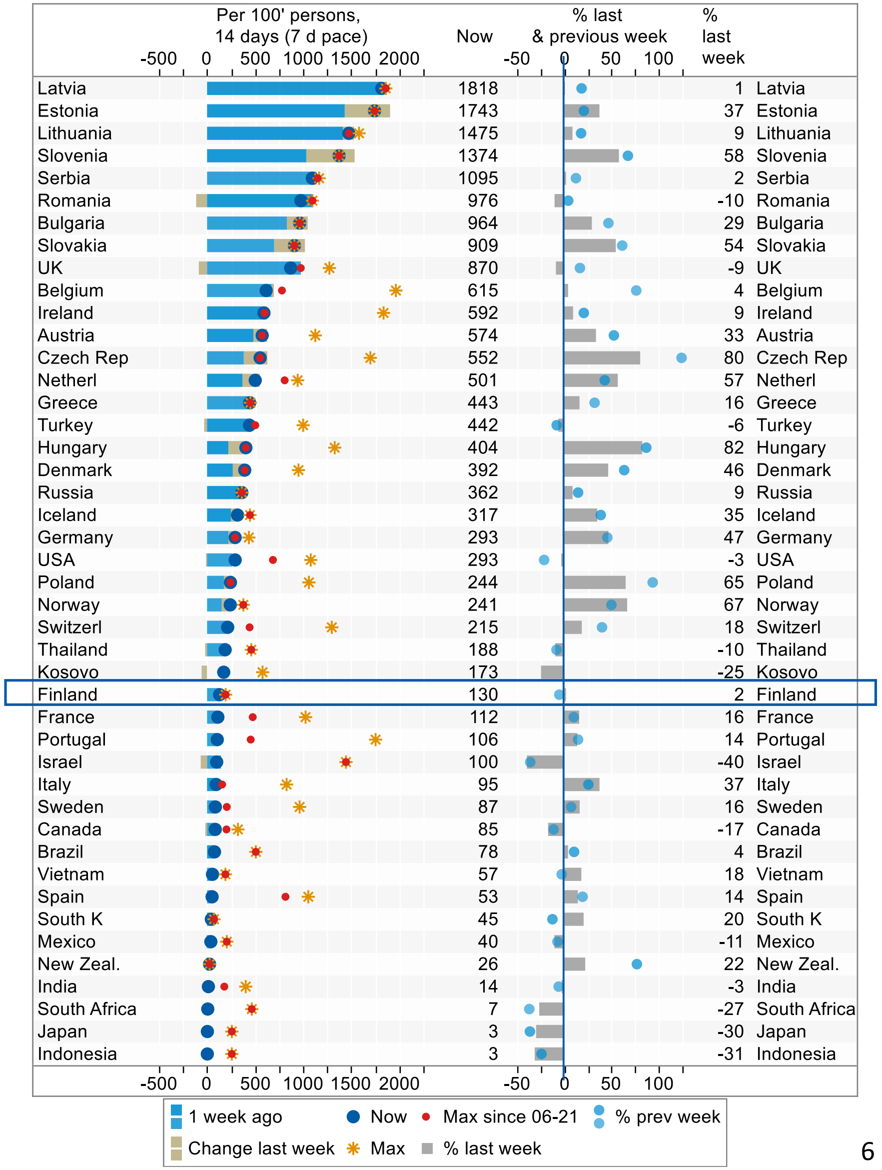
COVID-19, New Cases



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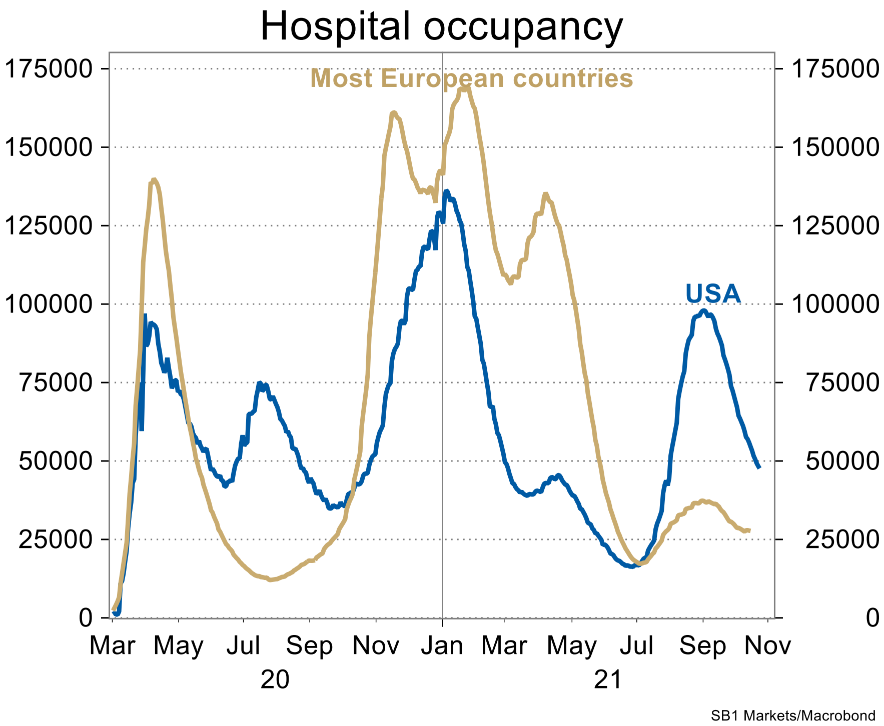
The UK is reporting more hospitalisations again – and Europe has flattened

Some Eastern European countries have trouble, as far too few are vaccinated



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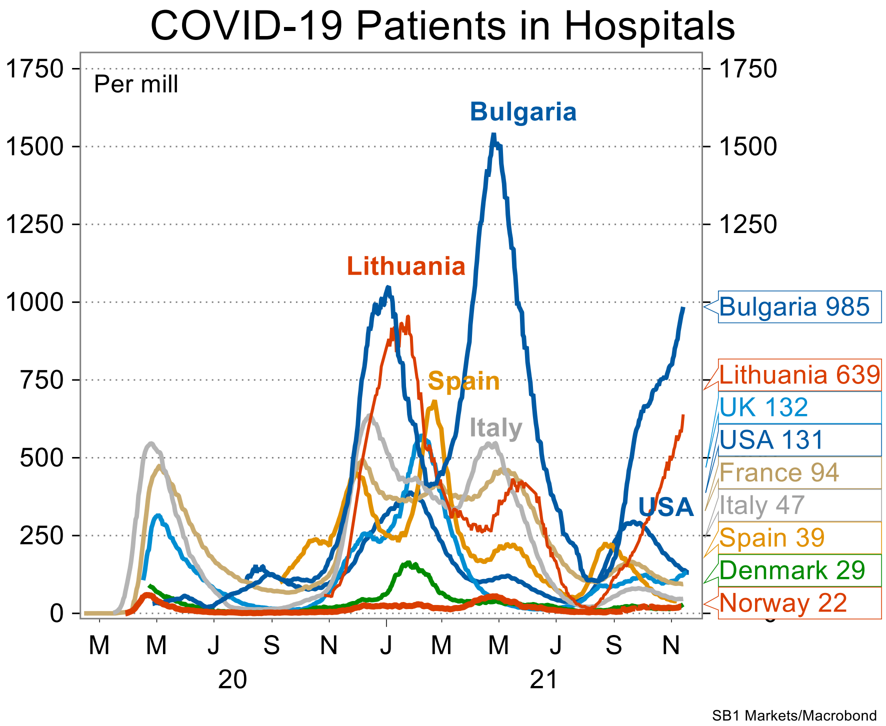

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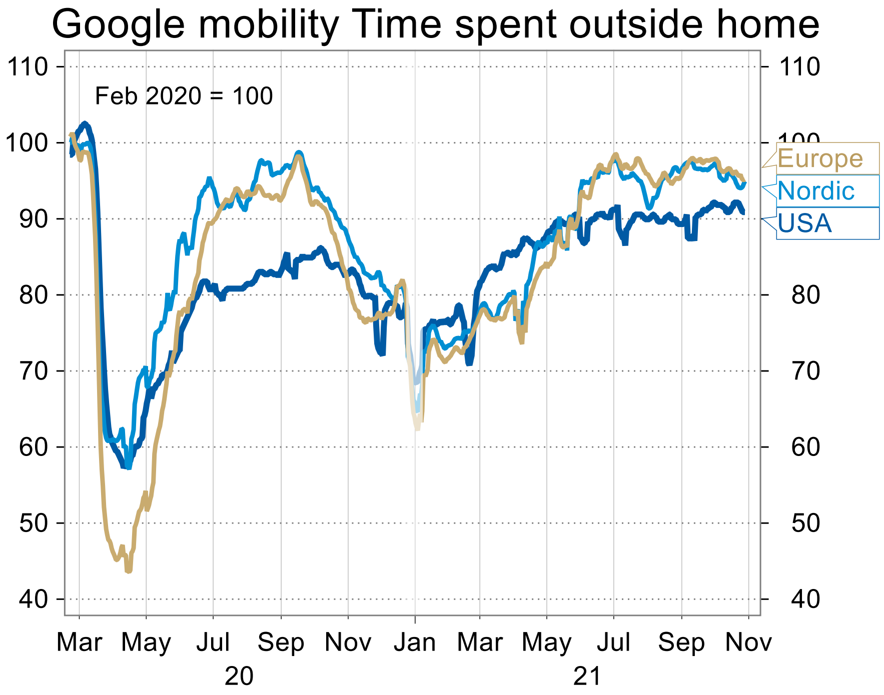
- However, most Western European countries report fewer – and quite few – hospitalised persons
- The only risk now: A new vaccine resistant virus mutation

US mobility recovers, Europe/Nordics stay more home due to the temperature?

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



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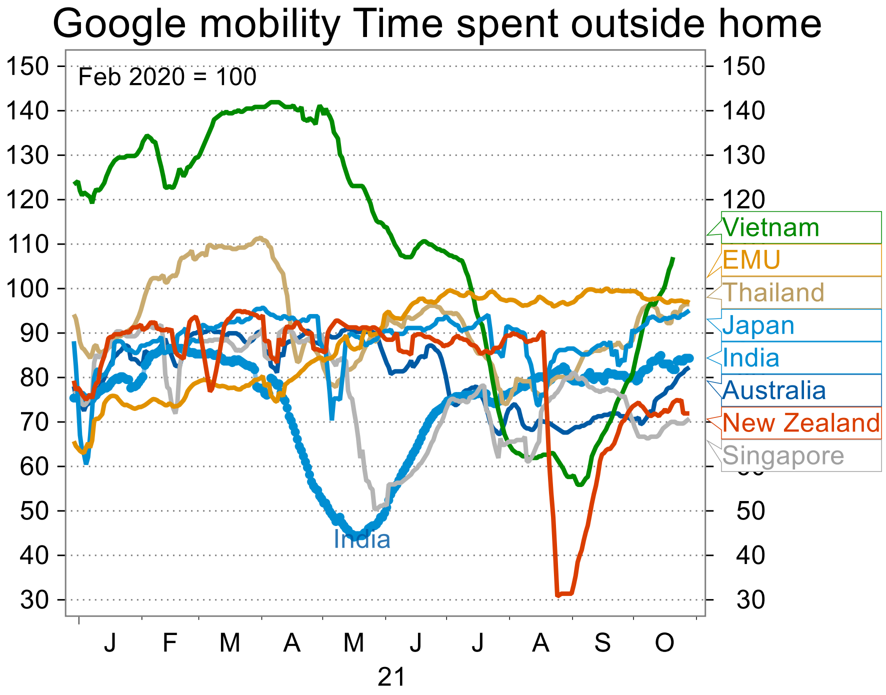

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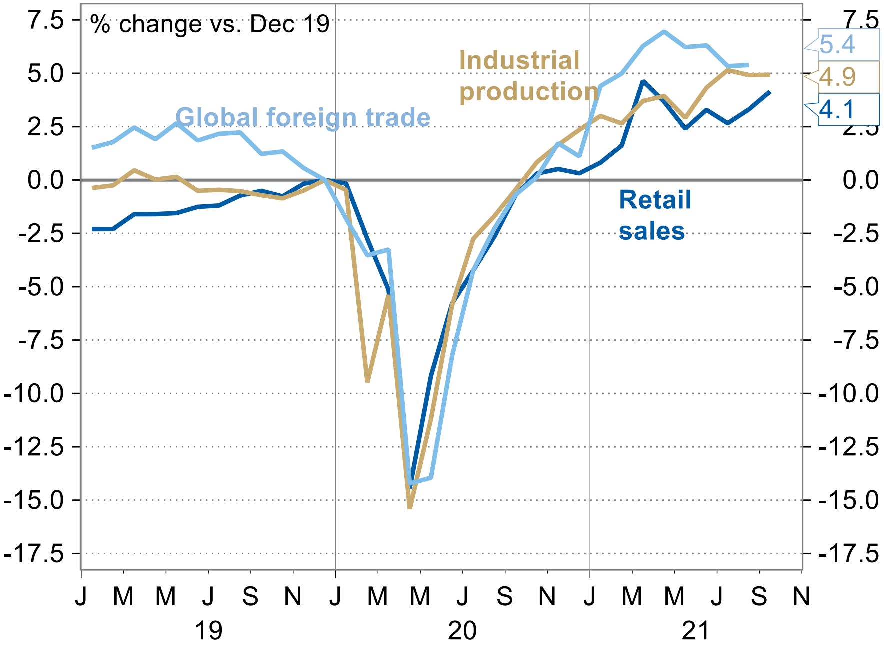
Global retail sales have flattened, global trade is sliding down

Now Emerging Markets demand for goods is recovering, while rich countries are heading down

Global Retail sales, industrial prod. & trade



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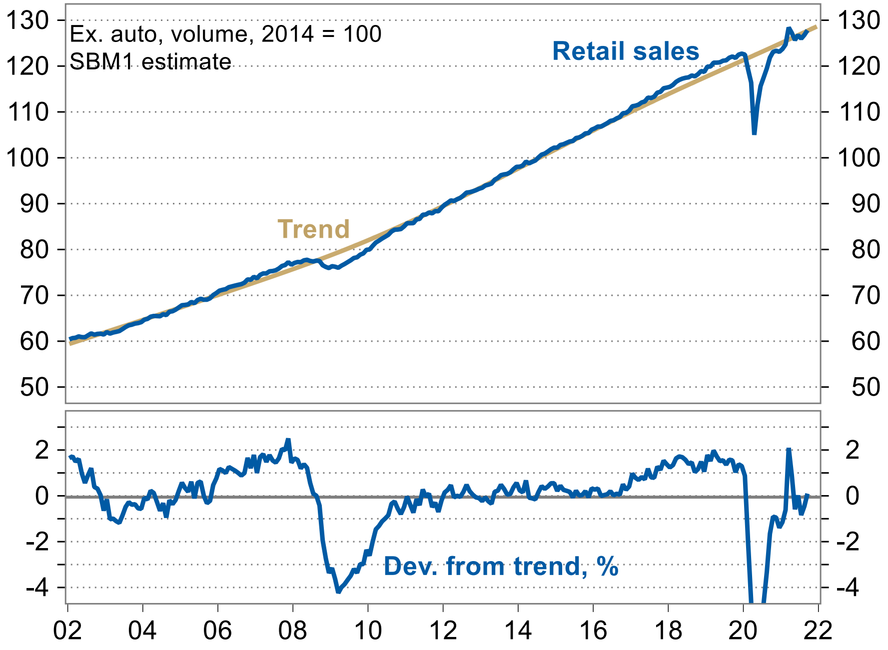
Global retail sales volume



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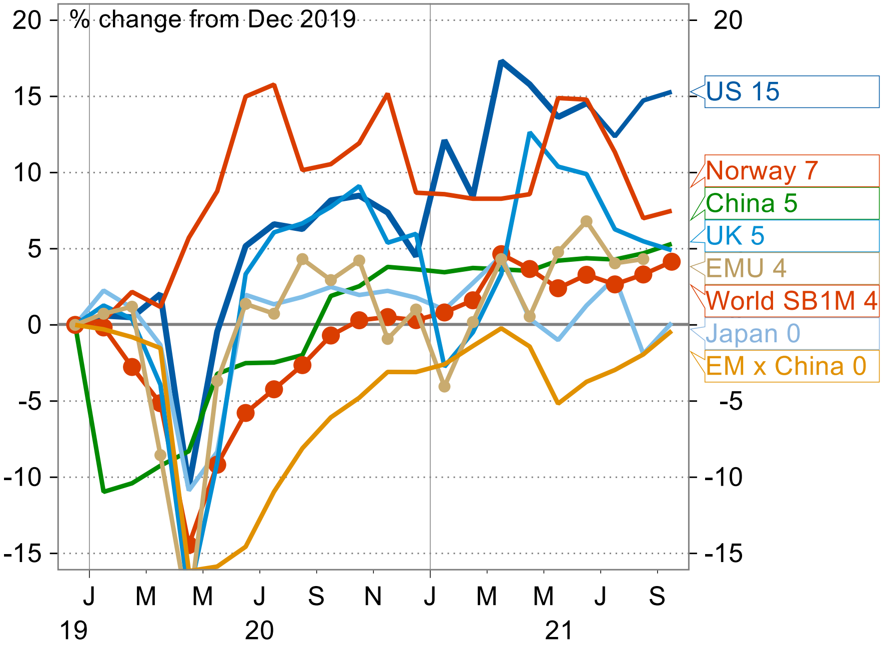
- **Retail sales** rose in August, and very likely in September according to our initial estimate, up 4% vs. the pre-pandemic level
- **Manufacturing production** stagnated in August and September mostly due deep cuts in auto production. The level is some 5% above the pre-pandemic level
- **Global foreign trade** peaked in May and has fallen slightly thereafter. In August, trade volumes were flat. The level is still more than 5% 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 x China, and the recovery has started


Retail sales volume

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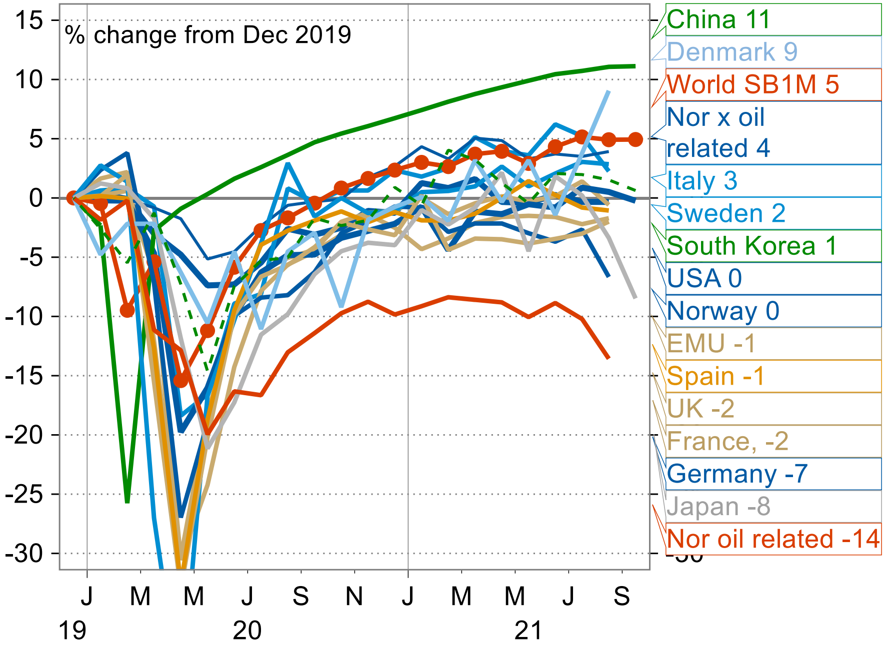
Manufacturing Production

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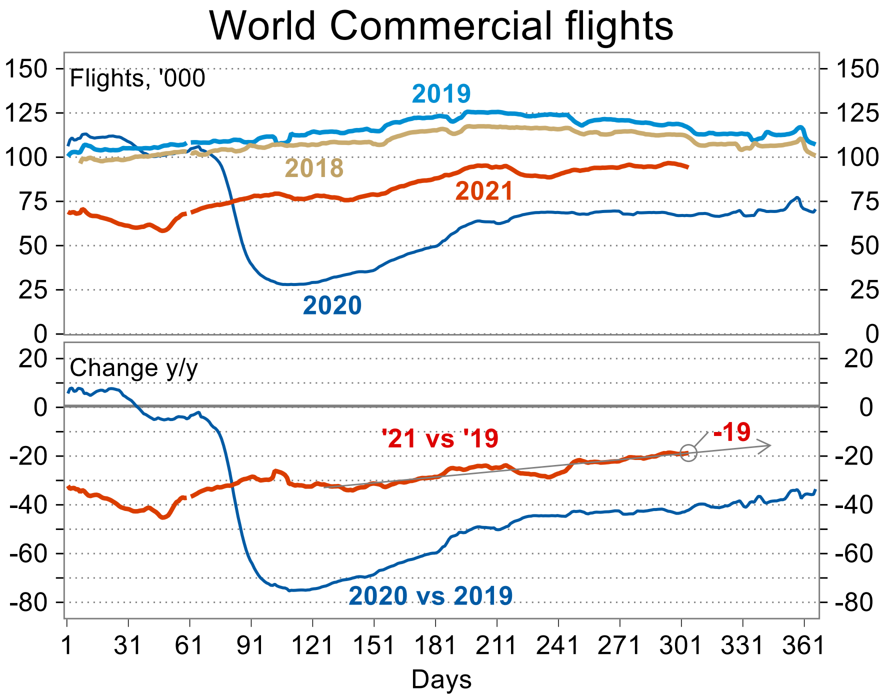
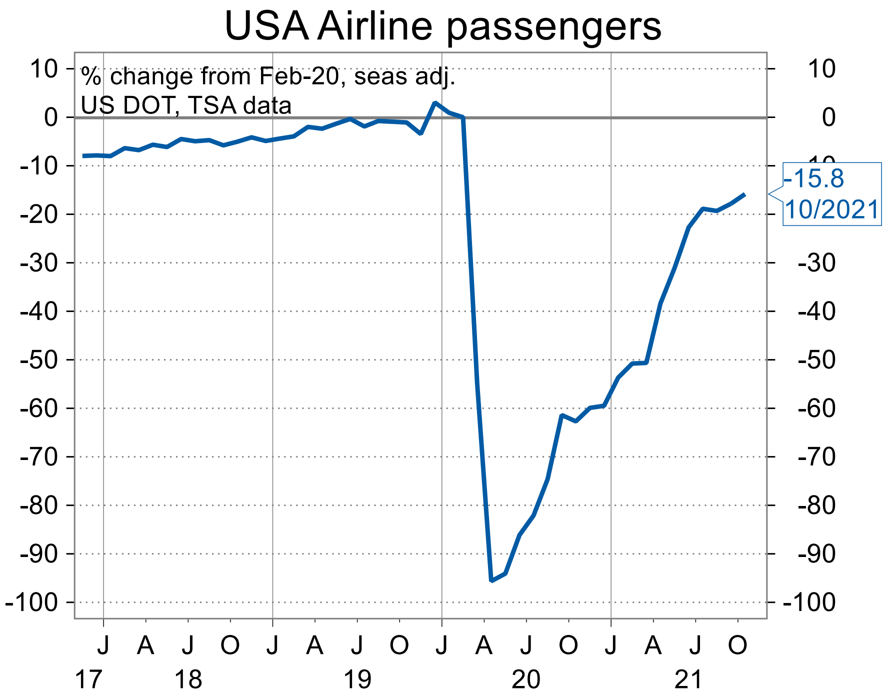
- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India, and thereafter in other parts of Asia. Now a substantial recovery is very likely underway
- **Manufacturing production** is still drifting upwards, most places, but growth has been hampered by a deep decline in auto production. The manufacturing PMIs are down but not weak

Global airline traffic still down 19% vs the 2019 level - but the gap is trending in

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



Flightradar24 SB1 Markets/Macrobond



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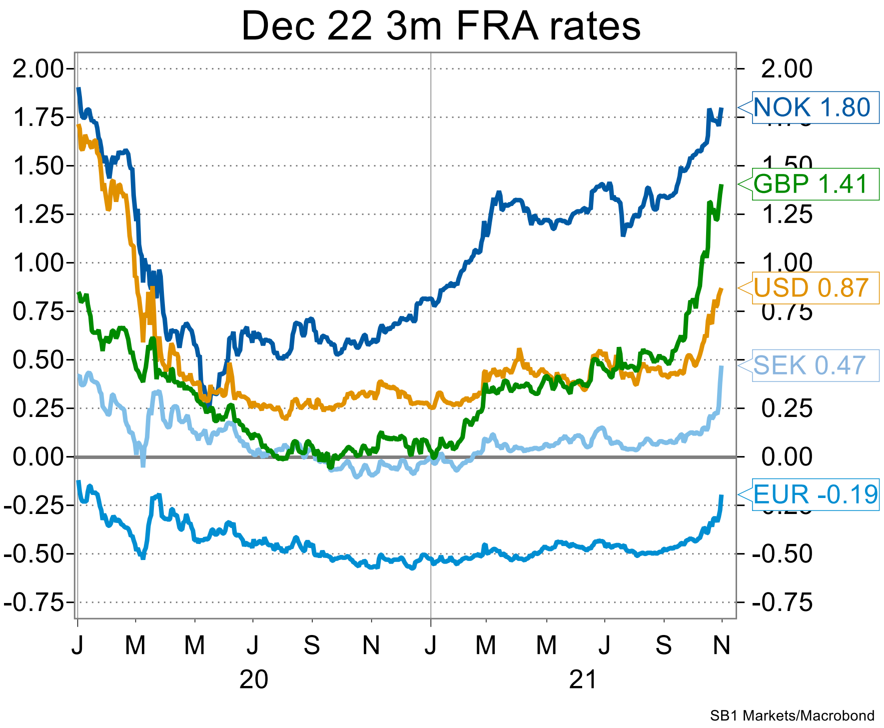
- Airline traffic normally drops some 10% from the peak summer season until the end of the year. Thus, a flattish development during this autumn implies a 1.7% ‘recovery’ per month – now the gap is declining by at least 1 pp per week

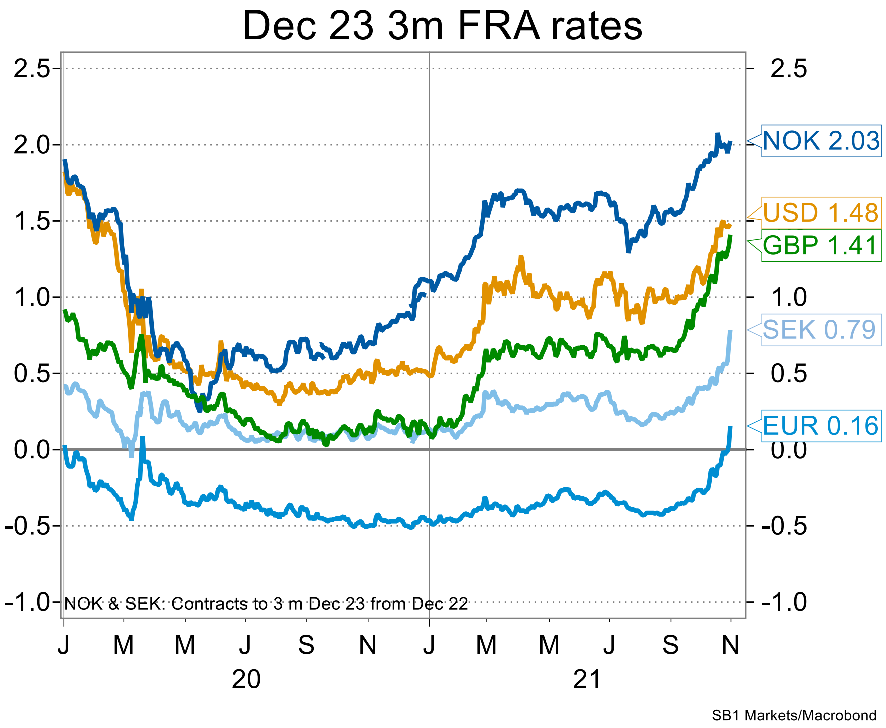
FRAs: Even EUR & SEK rates rose sharply last week

GBP rates continued upwards last week too and a first hike this week is now fully discounted



Dec 22 3m FRA rates

SB1 Markets/Macrobond



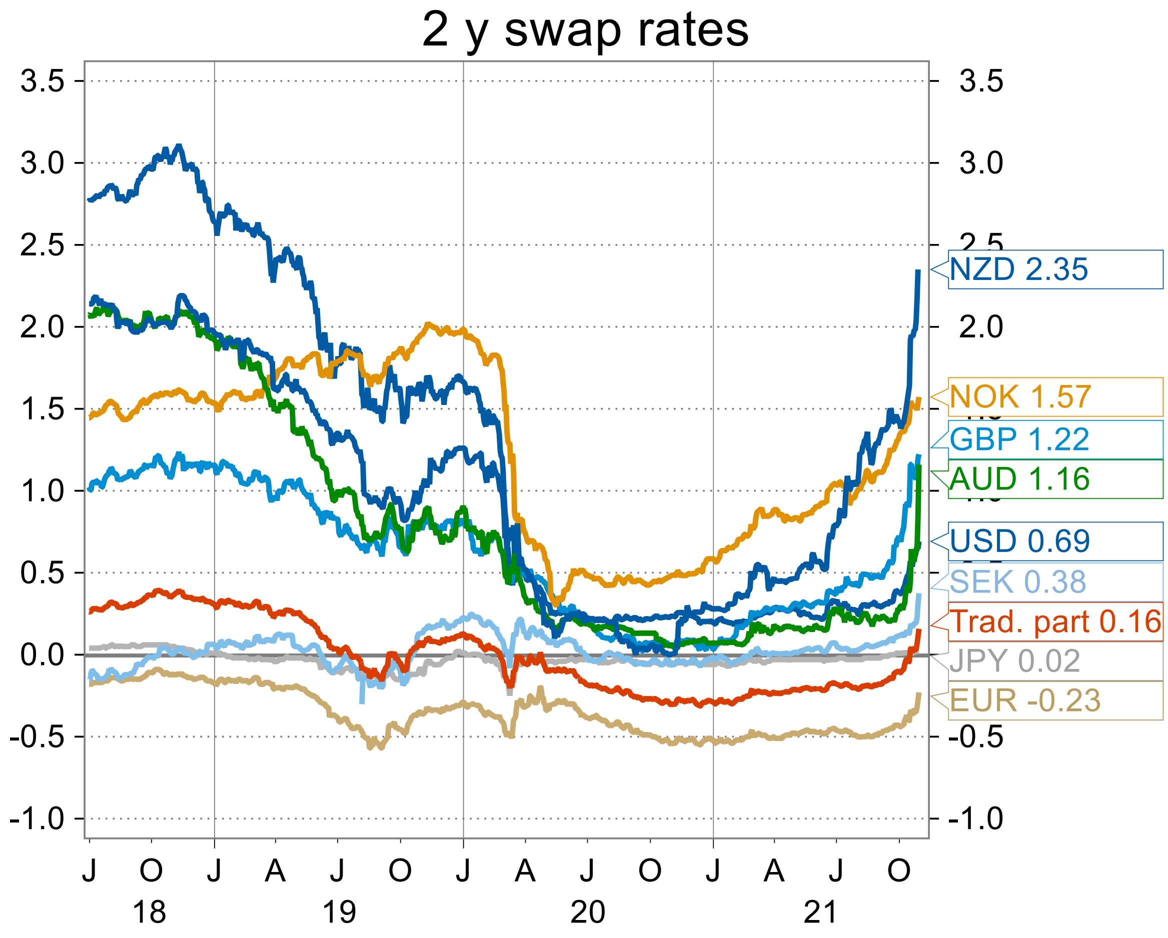
Dec 23 3m FRA rates

SB1 Markets/Macrobond

- In 2022, 4 more hikes are discounted in the UK – but then the curve flattens! No more hikes in 2023!
- In the US, the Fed is expected to start hiking between May and July next year – and then at least another hike in H1 – and a Fed funds rate at 1.3% at the end of 2023
- SEK rates shot up by up to 25 bps is one go last week! Market expect the Riksbank to start hiking late next year

A steep increase in short term rates almost everywhere last week too

… the least in USD, NOK, JPY. Those down under (NZD, AUD) in the lead



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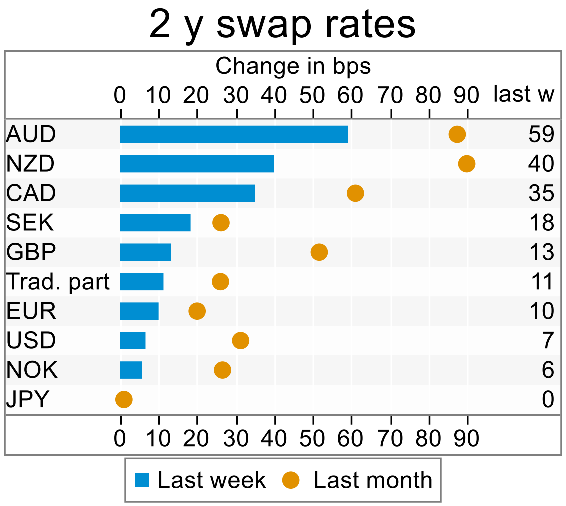
The Australian RBA probably contemplates to abolish the Yield Control Curve policy. The 2 y rate rose by 60 bps on the week (but the AUD was kept in check)!

The Canadian BoC will end its QE program and signals earlier rate hikes. The 2 y up 35 bps!



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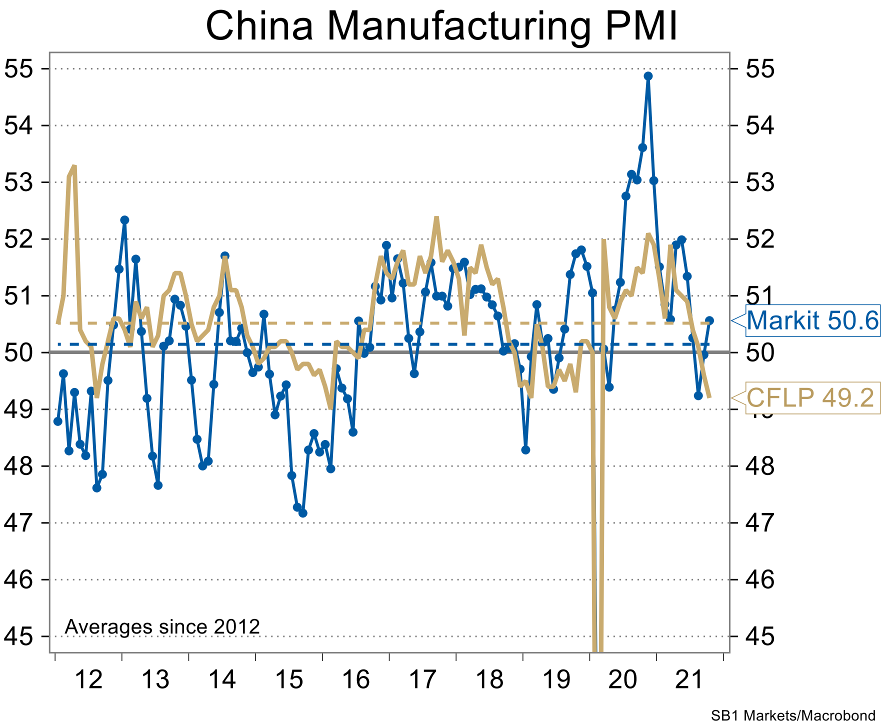
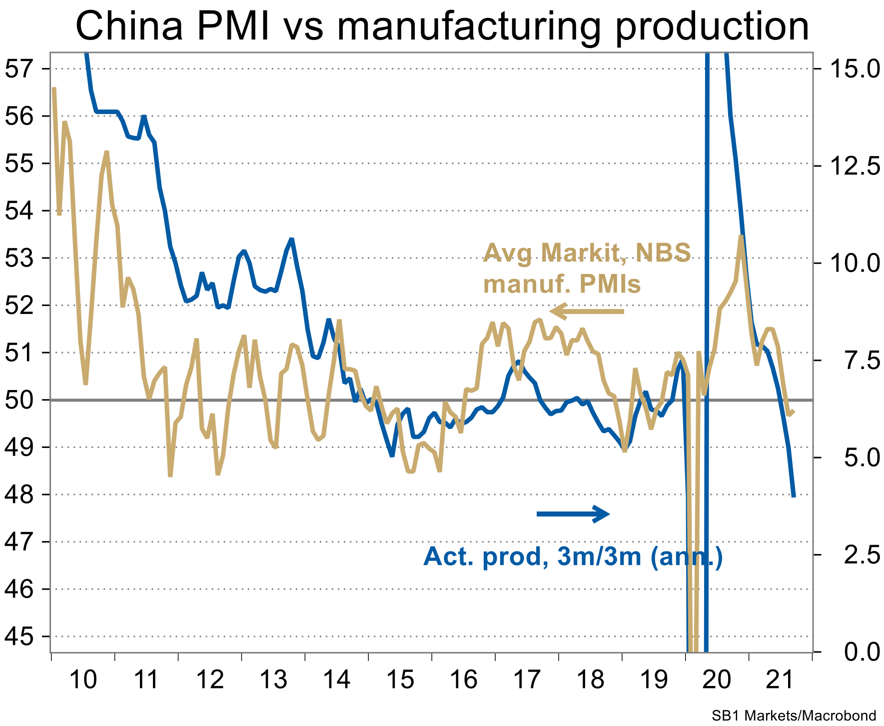
Mixed manufacturing PMIs in October, in average up

… though still below 50, and marginally below the 10 y avg


China Manufacturing PMI

SB1 Markets/Macrobond


China PMI vs manufacturing production

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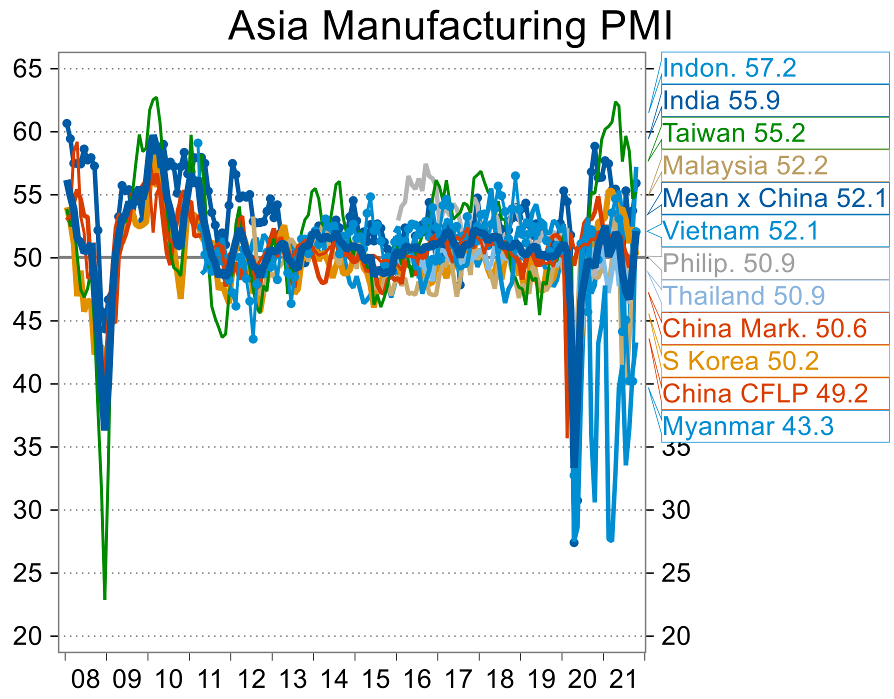
- The **NBS/CFLP manufacturing PMI** declined 0.4 p to 49.2, expected up 0.1 p. The level 1.3 p below the average since 2012, and it has been lower just once since 2012, barring the full stop during the Covid-19 outbreak last winter. The decline since early 2021 is also substantial, and in line the 2018 slowdown
- On the other hand, **Markit's PMI** recovered further, by 0.6 p to 50.6, expected unch. The level is 0.6 p, above the average since 2012. The **output index** fell still fell 0.2 p to 48.8, 1.8 pp below average
- In sum, the two indices were marginally better than expected, in average up 0.1 p
  - The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The NBS survey received media comments like '*the contraction in the Chinese manufacturing sector worsened….*' However, in China a PMI below 50 does not imply a contraction but rather growth just slightly below trend, at some 5% – 6%. However, the correlation is not that close

Rest of Asia: Manufacturing PMIs broadly up, just South Korea down

Signals that activity is gaining speed again following the virus setback during the summer



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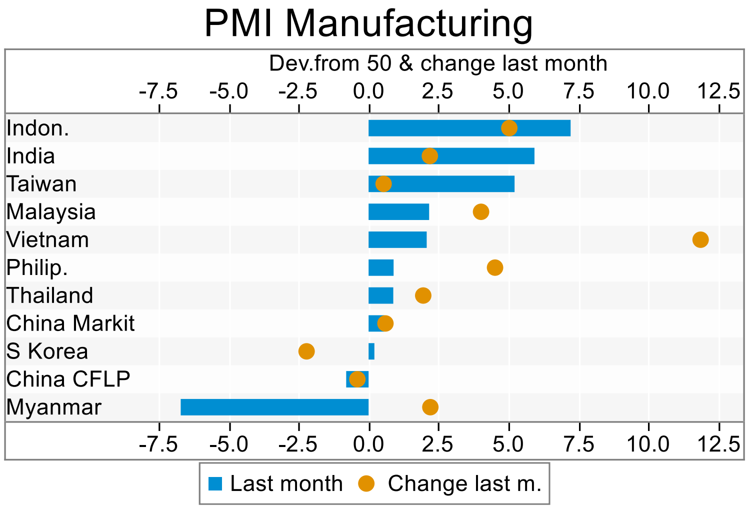

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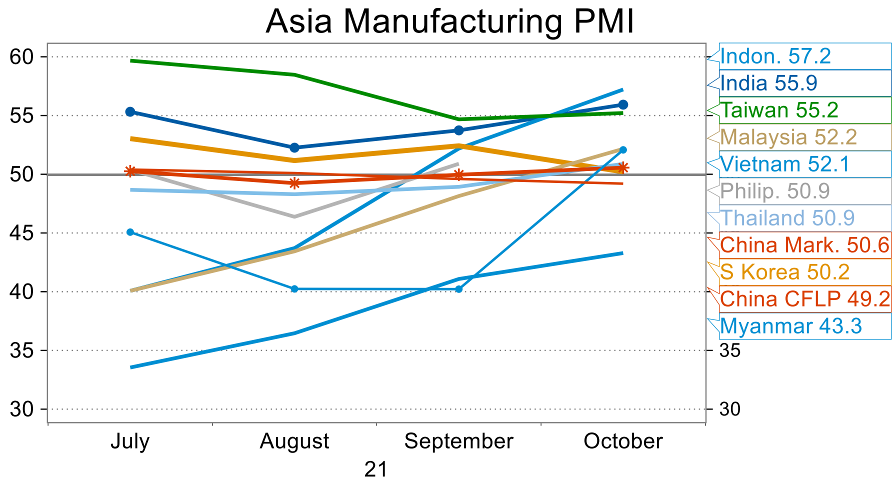

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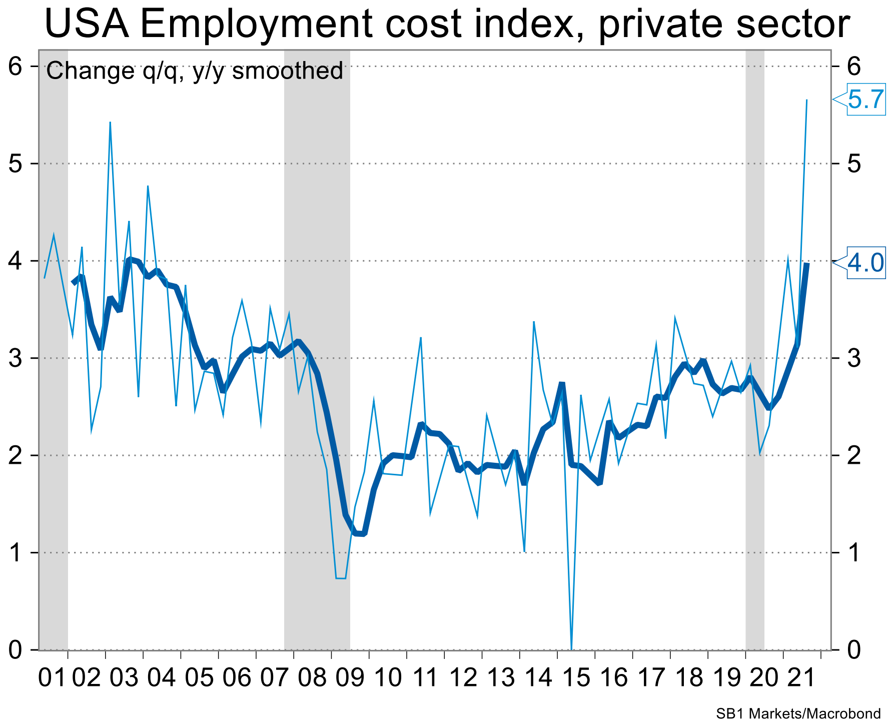
- 9 PMIs are at or above the 50-line (from 6), 2 are below (from 5)
- Indonesia, India & Taiwan in the lead. Vietnam rose sharply to above the 50 line
- The average x China is above the average since 2012

Now it's 'official': the Empl. Cost Index joined the party, wages ARE on the way up

Employment costs rose at 5.7% pace in the private sector in Q3, the highest on record (data from '01)



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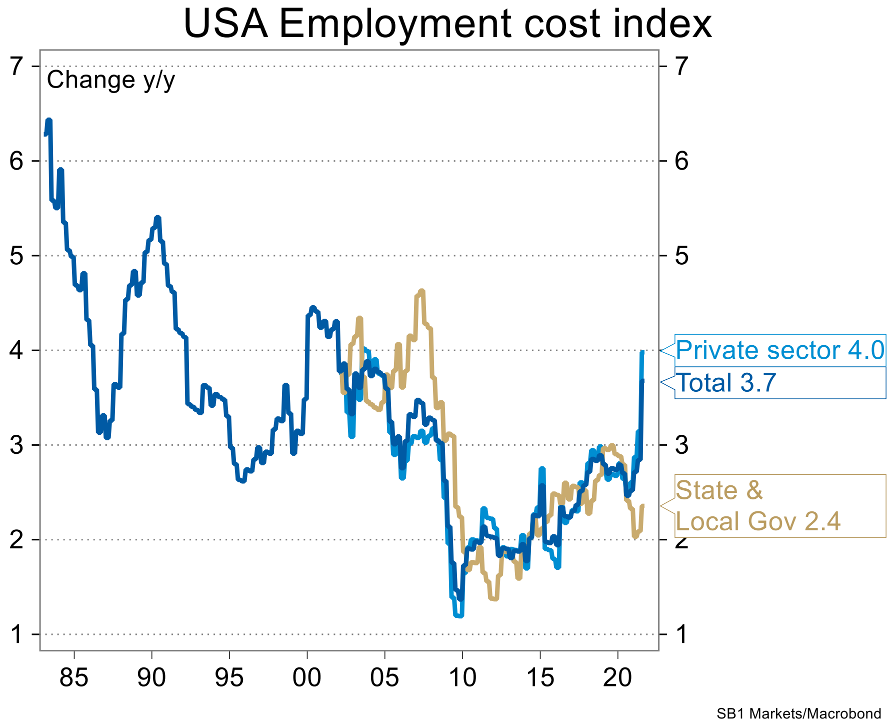

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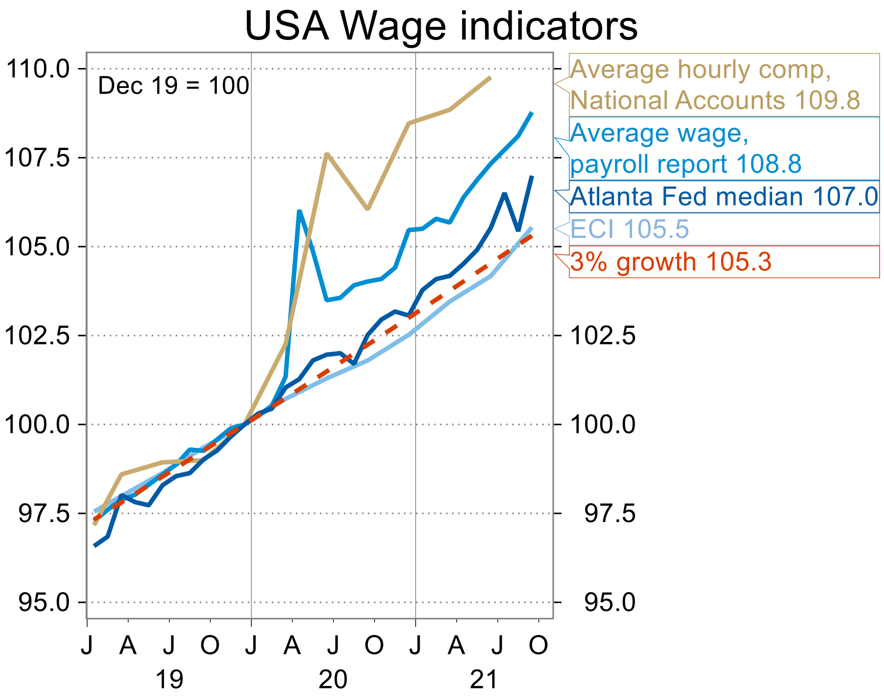
- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs (and is not influenced by changes in employment between sectors/type jobs), rose by 1.3% q/q in Q3, 0.5 pp (!) more than expected, or at a 5.4% annualised pace, the fastest since 1991. The annual rate shot up to 0.9 pp to 3.7%, the highest since 2005
  - In the private sector, the ECI rose by 1.4% q/q, and it is up 4% y/y, the highest rate since 2003
  - Wages & salaries in the private sector is up 4.6% y/y, highest since 1985. Benefits are up just 2.6 (and the sum 4.0%)
  - In general, low paid services reported the highest wage growth, both q/q & y/y
- **All other wage indicators have reported higher wage growth for a while. Now even the ECI followed suit**

Now all wage indicators are reporting higher wage inflation

The ECI is still reporting the lowest annual wage growth



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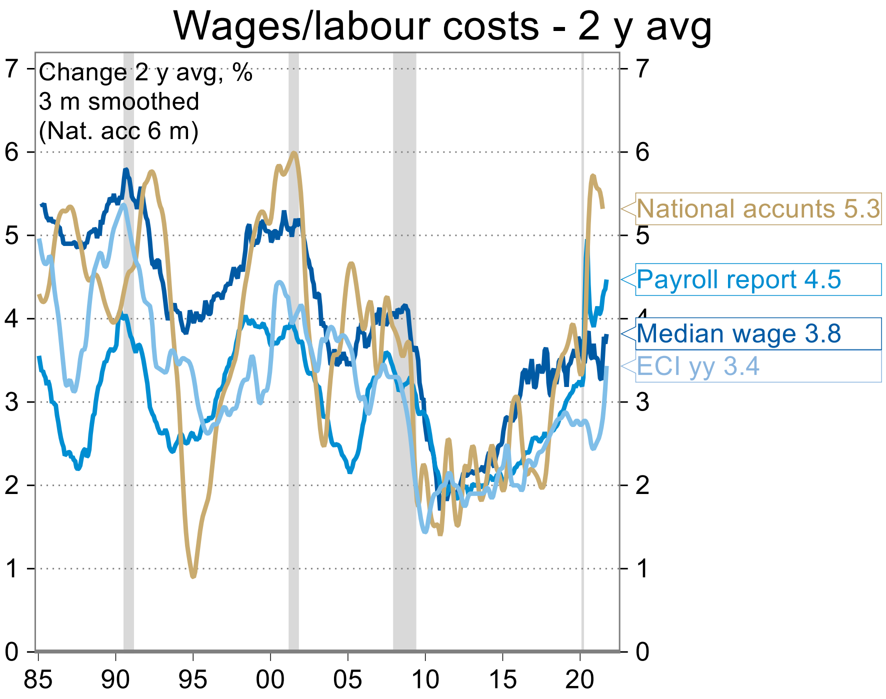

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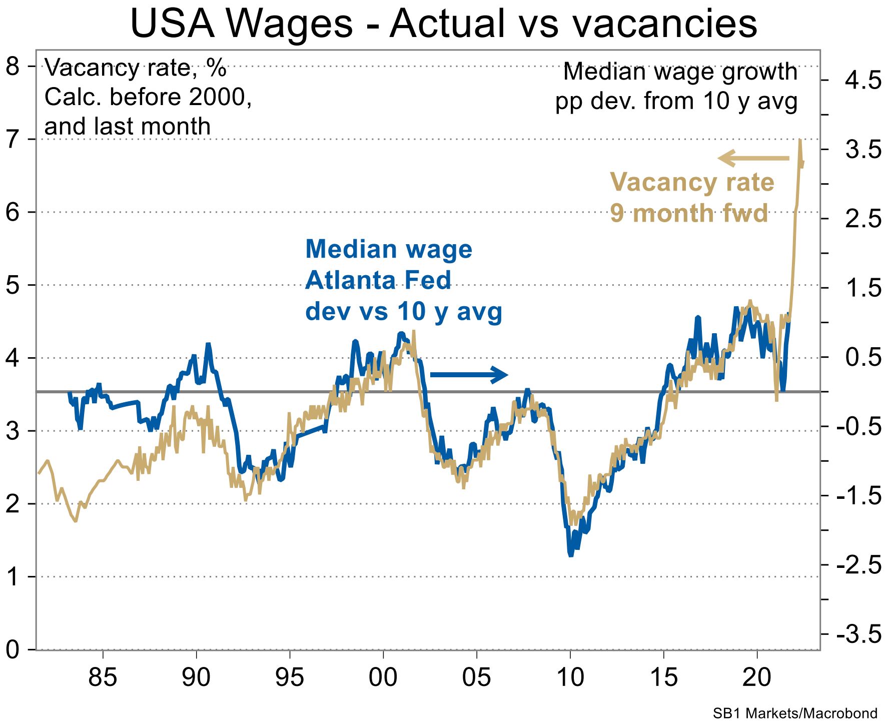
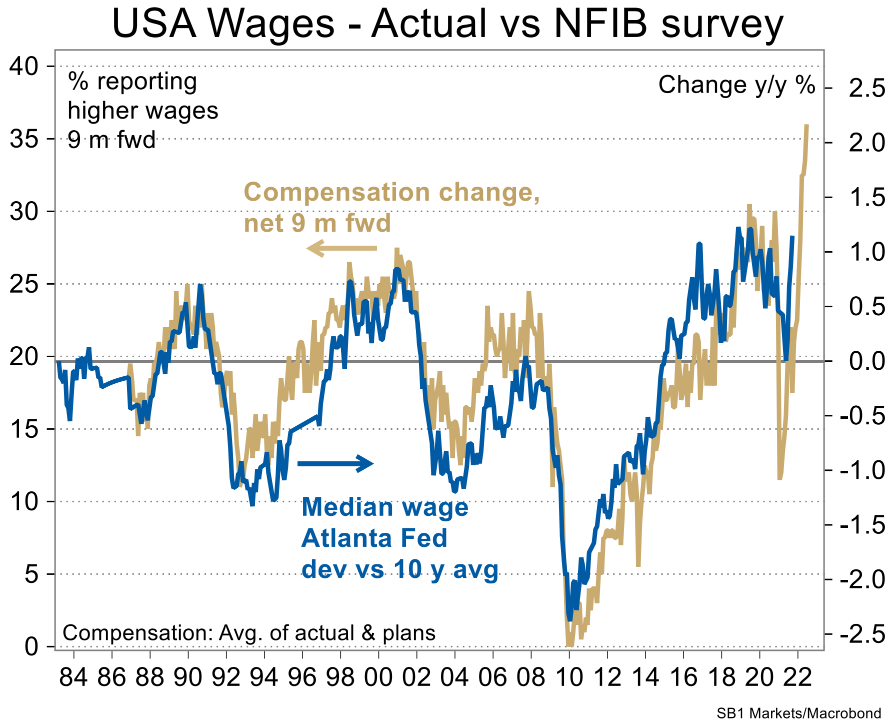
- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes in the first part of the pandemic (chart to the right)
- Wage/earnings/compensation is at least 1 pp above the 10 y average. There is an obvious risk that wage inflation will accelerate further (check next page) – probably until the next recession hits as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a challenge to keep inflation at 2% if wage inflation remains at 4% or above. However, profit margins will probably decline substantially from the present very high level, leaving room for higher wage inflation without higher price inflation

Wage inflation could accelerate further…

The vacancy level & SMBs' compensation plans lead actual wage growth by ≈ 9 months. And now...

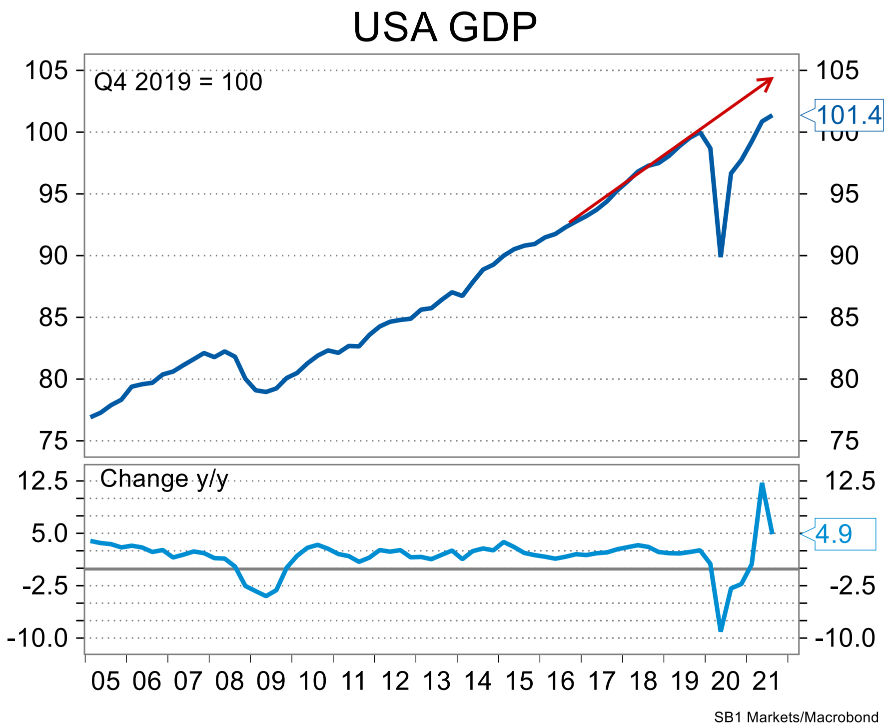




- More companies than ever before (data from 1986 though) are reporting that they have lifted or plans **to lift compensation** over the next months, as they never before have been so unable to fill positions (the correlation is incredibly tight)
- The **vacancy rate** fell in August but remains extremely high
- The correlation between these two variables, and the median wage growth is rather close, with vacancies and plans leading by 6 – 12 months. IF this correlation holds, wage inflation will accelerate substantially from the present level – which already is high enough vs. the 2% inflation target
- We do not know FOMC's wage forecasts but we assume they are rather upbeat, as the Bank expects inflation to remain above target the coming 3 years (and the price level to deviate even more from a long term 2% path). However, the Bank could impossibly not have factored in a wage growth anything close to what companies now tell or even less what the current tightness of the labour market signals

GDP grew just 2% in Q3, dragged down 1.5 pp by the auto industry

Services were somewhat affected by the Delta outbreak – faster growth in Q4 very likely



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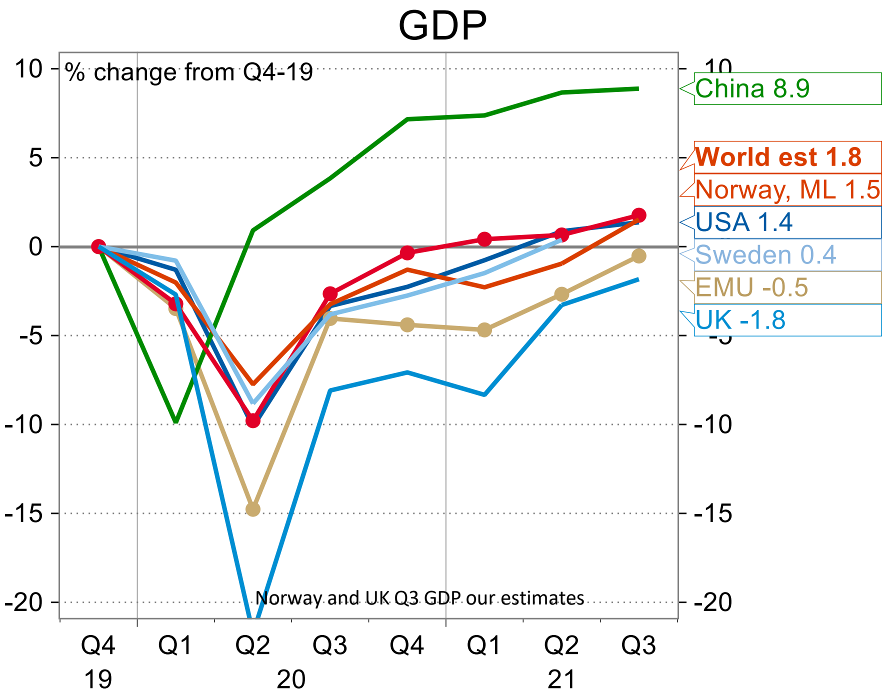

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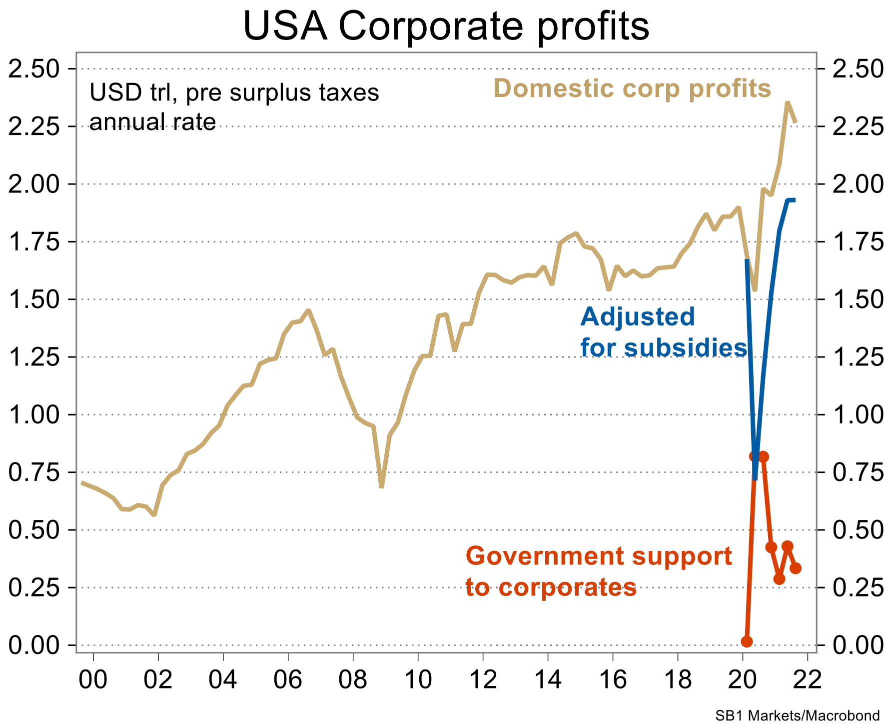
- **GDP** grew by 2.0% annualised in Q3 (0.5% not annualised), down from 6.7% in Q2, expected 2.5%. The GDP level is 1.4% above the Q4-19 level – but still some 2.8% below the pre-pandemic (2.4%) growth trend, as services still operate far below normal level
  - GDP is up just 4.9% y/y, and it will be very hard to get to Fed's 5.9% forecast in Q4 as it requires a 9% growth pace in Q4
- **Private consumption** slowed as auto sales fell sharply – but other parts of goods consumption slowed too, business investment grew just slowly and housing investments fell further. Profits may have fallen as subsides were cut back, and wage costs grew faster
- **The EMU Q3 GDP** leapfrogged 9.1% in Q3 (2.2% not annualised), and the gap vs US narrowed to 1.9% vs the Q4-19 starting point. Calculated per capita in working age, the difference is even smaller

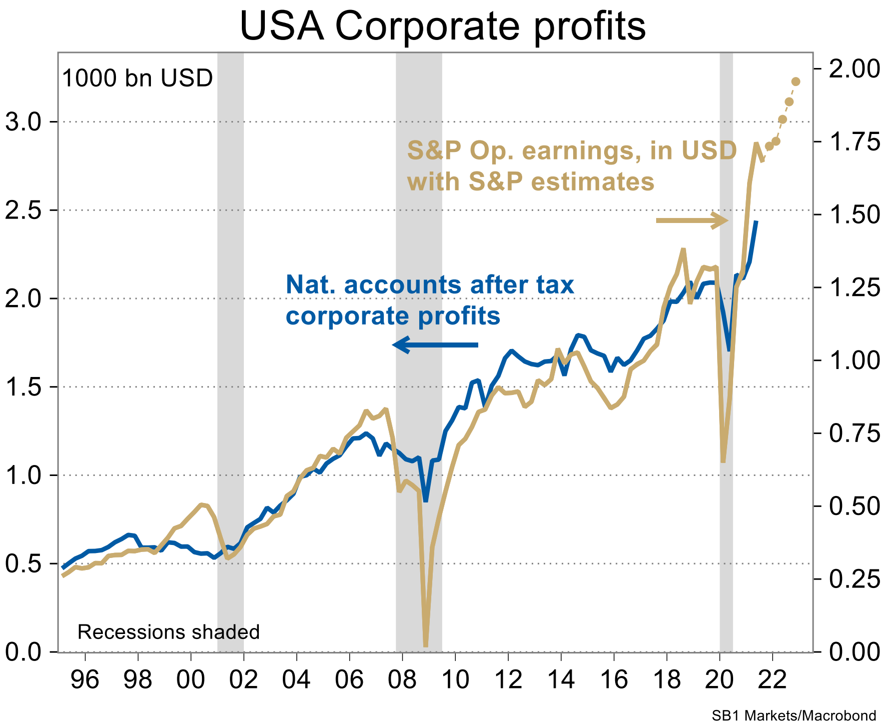
National accounts corporate profits may have stalled in Q3

Less subsidies but also a fast growth in the wage bill to blame


USA Corporate profits

USD trl, pre surplus taxes annual rate

SB1 Markets/Macrobond


USA Corporate profits

1000 bn USD

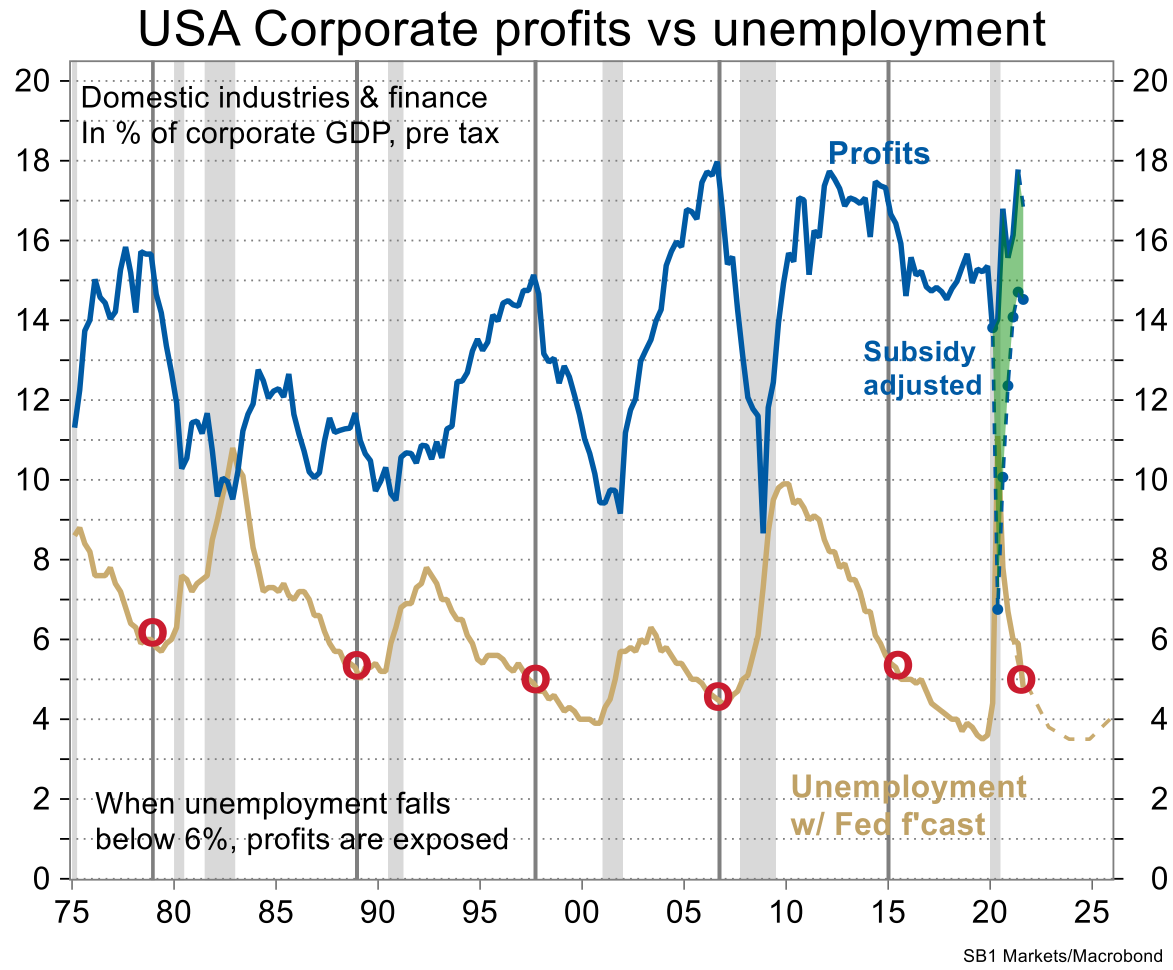
Recessions shaded

SB1 Markets/Macrobond

- We estimate a 4% decline in domestic corporate profits in Q3 (data are not yet published)
  - » The main reason is a decline in government subsides (or in the product taxes – subsidies payments). The government support to corporates on the chart to the right is the difference between normal product taxes – subsidies payments and the current
  - » Wage inflation is accelerating sharply. The wage bill rose by 9% (annualised) in Q3 (domestic corporate sector). Hourly compensation must have increased by some 4% – 6% (which is in line with what wage indicators report)
- The profit share (vs. GDP, corporate GDP) very likely fell in Q3. We expect a further decline the coming quarters, whatever the Fed does to counter the inflationary pressures

The profit share peaked in Q2?

Our estimate suggests so. Subsidies are reduced (and more to come), the wage bill inflates



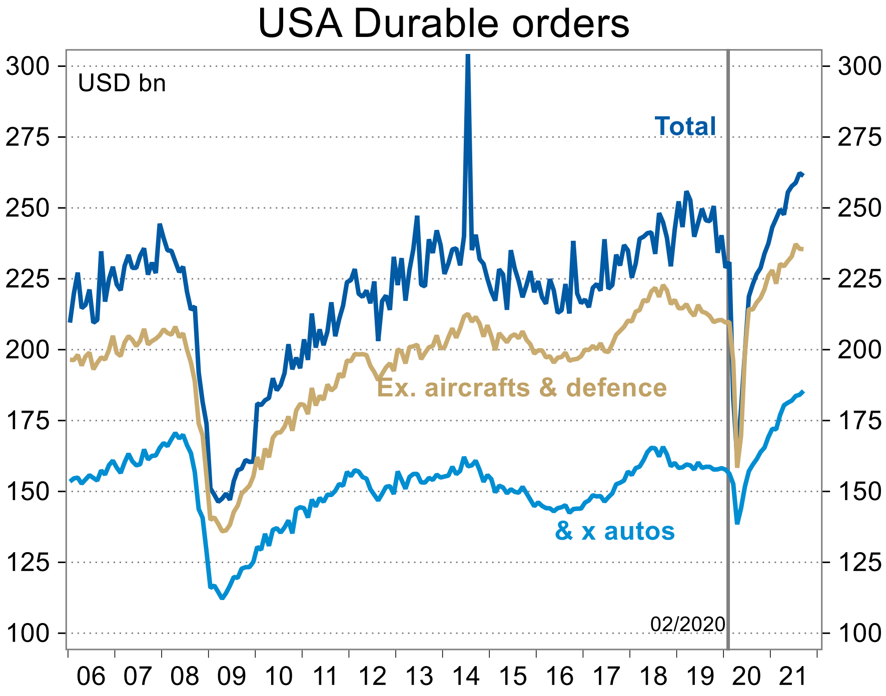
SB1 Markets/Macrobond

- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now at 4.8%, and other indicators (especially vacancies) suggest that the labour market is even tighter than the 4.8% signals
  - » Thus, it is quite likely that the profit share is headed downwards from here

All data are not yet published, and the Q3 numbers is just our estimate

Strong order inflow in September too – except for aircrafts, autos

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



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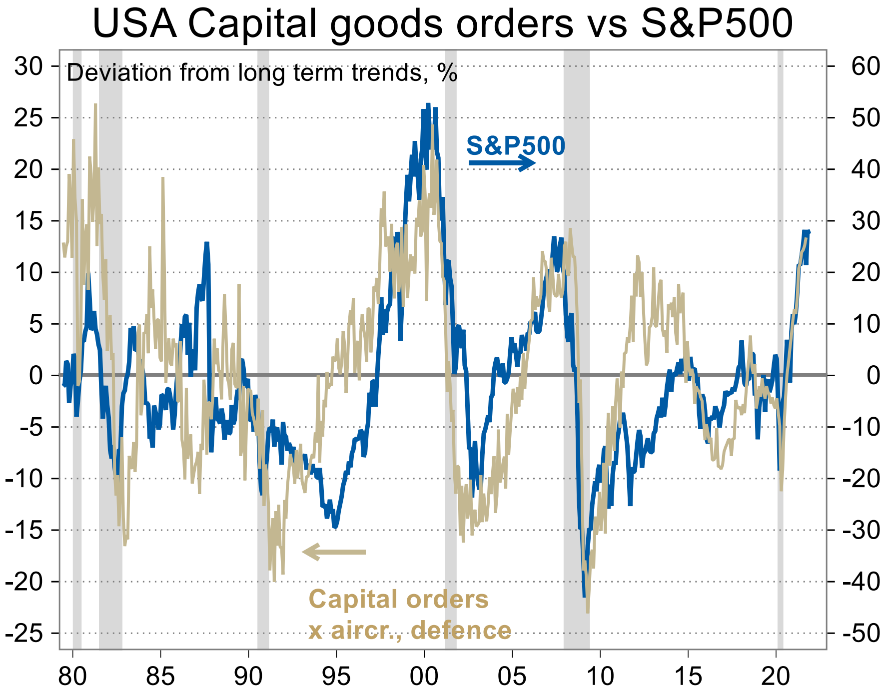
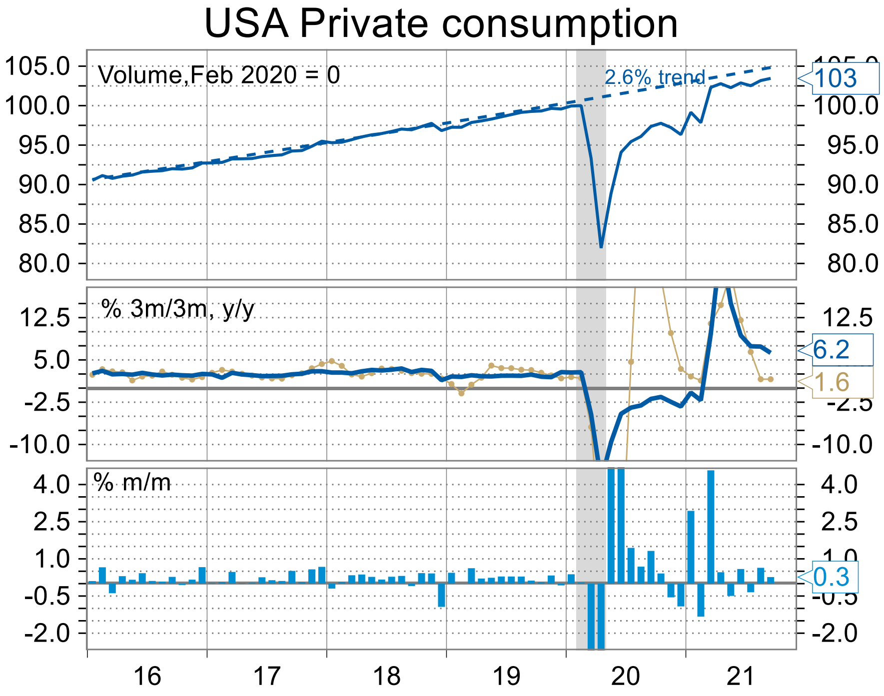


SB1 Markets/Macrobond

- **Total durable** orders fell by 0.4% in Sept, expected -1.1%. The volatile aircraft orders declined by 27%, dragging down the headline by 1.5% (but aircraft have recovered well from the downturn last year). Auto orders fell by 3% - taking the total down by 0.5%. The decline in auto orders is very likely due to the lack of supply of cars/component shortages
- **Core orders** (ex aircrafts, defence) were flat, and in line with expectations. The trend is strong.
  - » Adjusted for auto order, the 'real' core rose by 0.7% - ant the trend is even stronger!
- **Core <u>investment</u> goods orders** were up 0.8%, and the trend is still straight up
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

Household income down on less unempl. benefits, spending up 0.3%

The savings rate back to the pre-pandemic level but the ‘wall of money’ still intact



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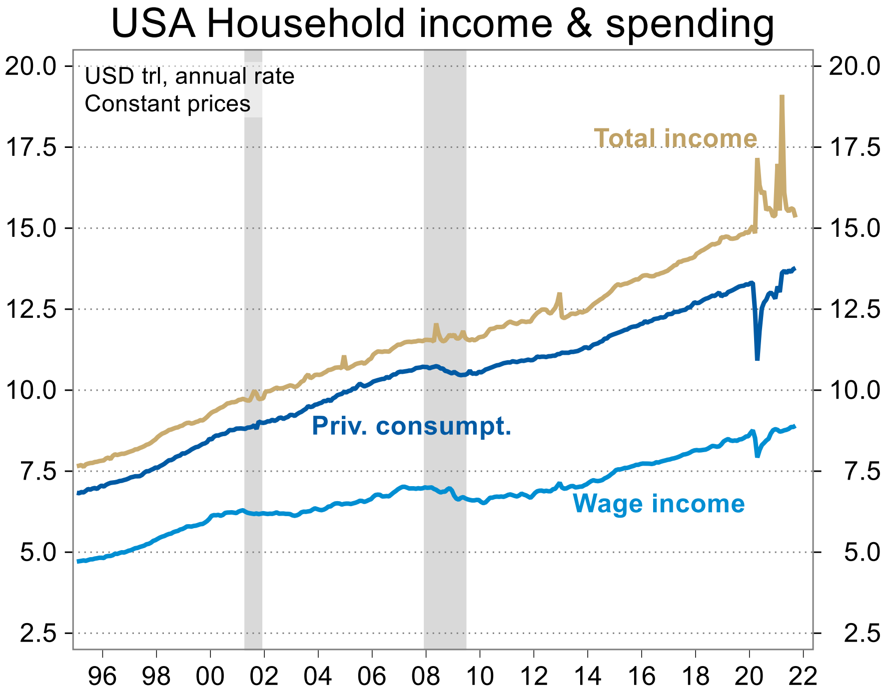
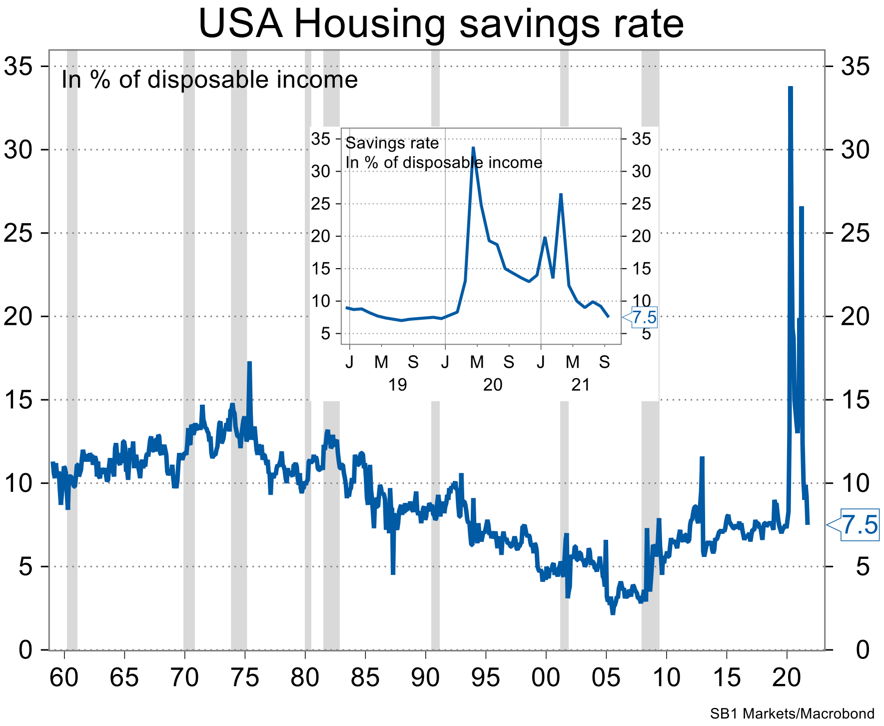


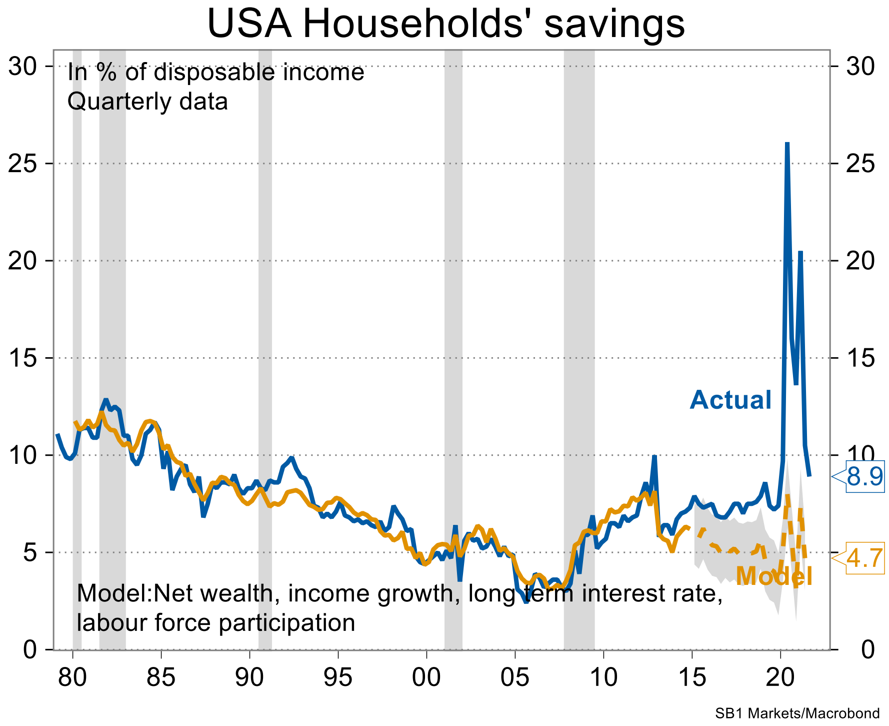
SB1 Markets/Macrobond

- **Private consumption** rose by 0.3% in real terms in September, as expected (spending rose 0.6%, also as expected). Consumption in real terms have slowed substantially March and rose just 1.6% in Q3. Consumption of goods is trending back to a more normal level while services are on the way up but still well below the pre-pandemic level (-1.4%) and far below the pre-pandemic trend growth path (-5%). Services have been slowed by the Delta outbreak, while the decline in auto sales have slowed goods consumption (but the rest is slowing too). Total consumption is up 3.5% vs. the Feb-20 level, and 1% below the pre-pandemic 2.6% growth path
- **Real personal disposable income** fell by 1.4% in September. Income before taxes fell by 1%, far more than the expected -0.3%. Unemployment benefits fell sharply (a 1.5 pp negative contribution, other net incomes rose) as the federal programs were terminated. Wage revenues are growing quickly, at least in nominal terms (to above the pre-pandemic trend, even if employment is still well below), and even in real terms with a 4.4% annual PCE rate of inflation!
- **The savings rate fell** by 1.7 pp to 7.5%, down to the pre-pandemic level. Will the rate decline further? Households have saved an extra amount equalling 13% of one year’s GDP during the pandemic. Some of this ‘Wall fo Money’ be spent the coming quarters

The savings rate down to the pre-pandemic level at 7.5%

The rate fell by 1.7 p to 7.5% in September, from a slightly downward revised level in Aug

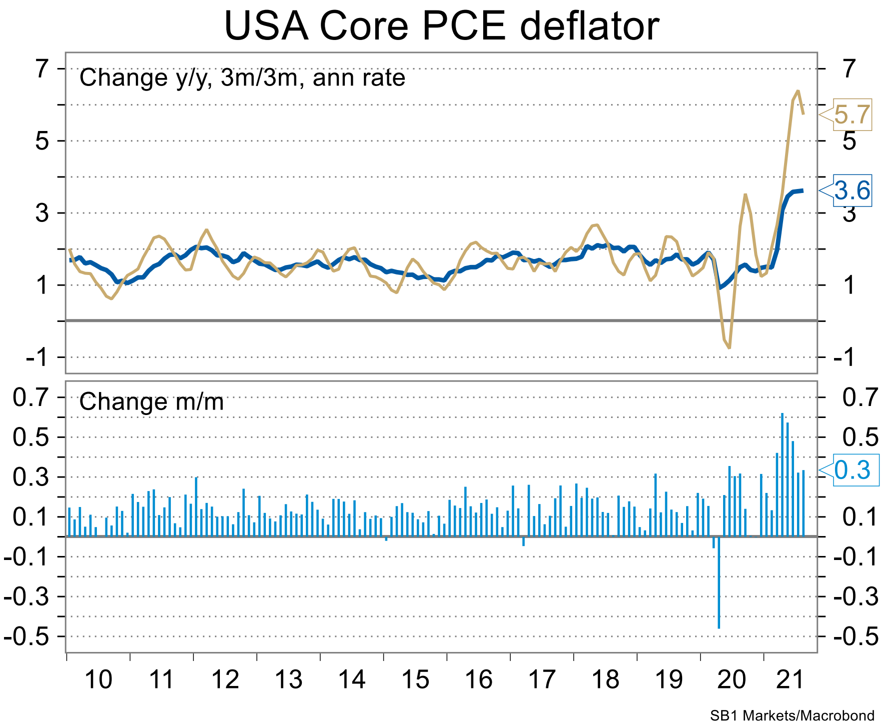




- Our old savings model, yields a 4.7% savings rate in Q2, and very likely even lower in Q3. However, the model has underestimated savings by some 2 pp in the years before the pandemic, and the savings rate may stabilise at the current level
- A downside potential for the savings rate (and upside for spending): **the accumulated households excess savings** during the covid crisis amount to some 13% of annual disposable income – the 'Wall of Money', check next page

Price inflation is slowing but still broadening

The total PCE deflator rose 0.3% & the core 0.2% in September, both as expected



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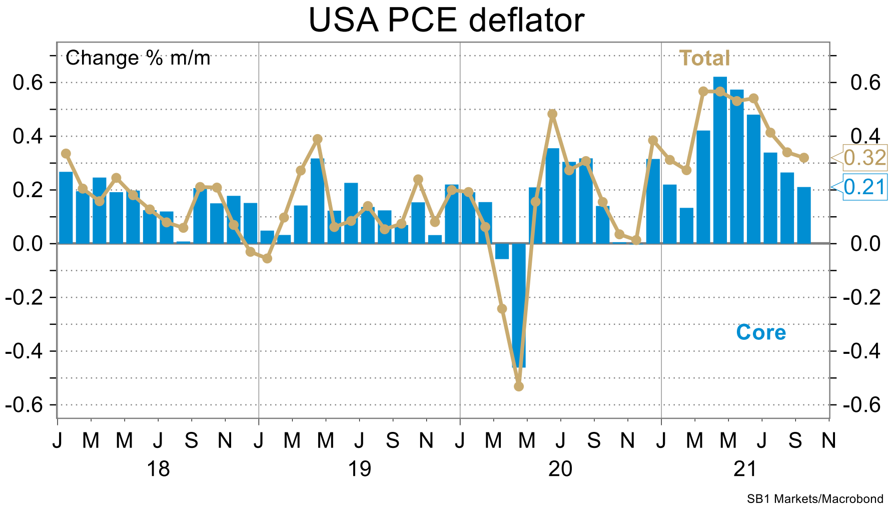

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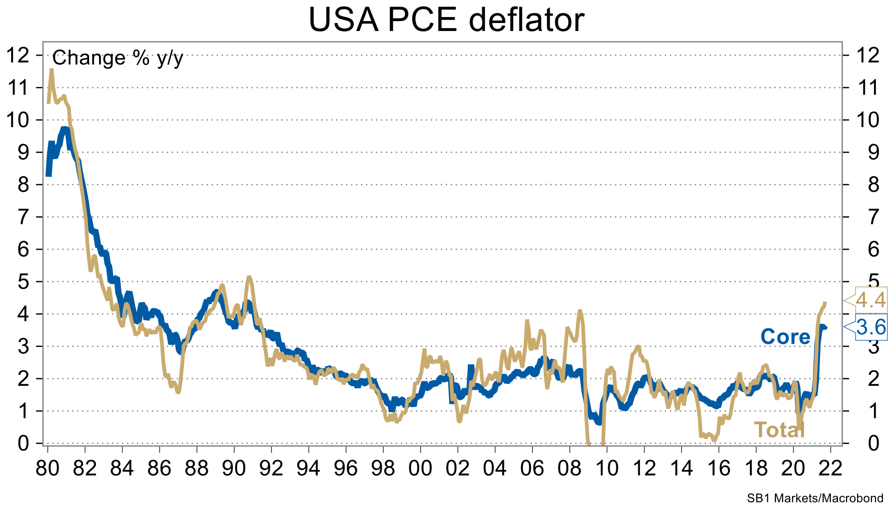
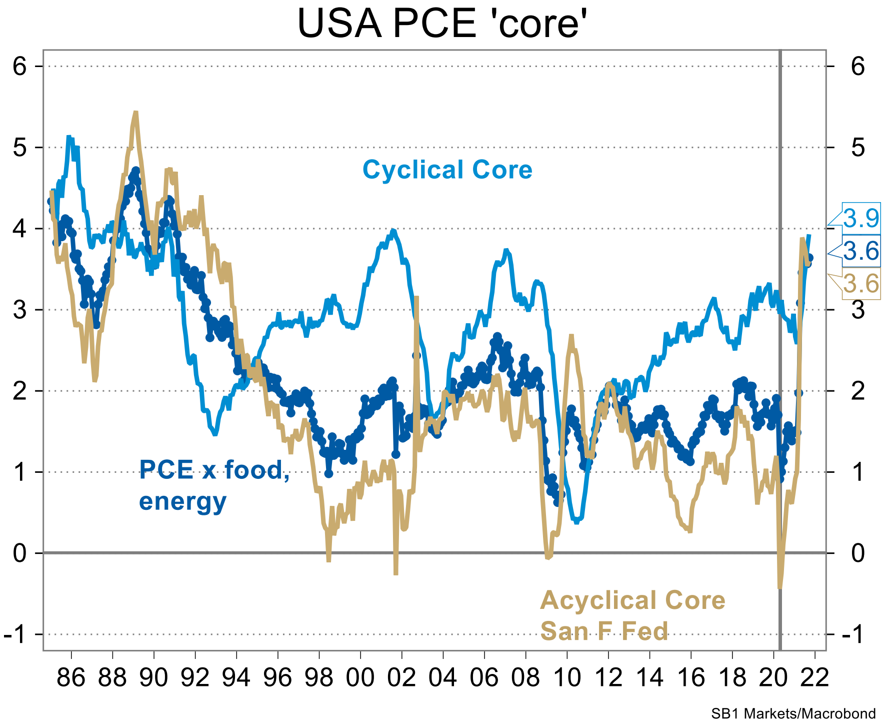


SB1 Markets/Macrobond

- **The total PCE deflator** rose by 0.3%, as in September, and the annual rate rose 0.1 pp to 4.4%
- **The core price consumption deflator** rose by 0.2% m/m in Sept, and the monthly rates has slowed steadily since the 0.6% peak in April. Measured y/y, the core is up 3.6% (unch)
- **Inflation has peaked** (measured m/m), but given reports from the businesses on price plans – and the acceleration of wage inflation pose substantial threats going forward – and inflation is still broadening, all underlying inflation measures are heading upwards

On inflation, the Fed is soon running out of excuses (or has it already?)

Inflation is broadening, all measures are now above the 3% line, not seen in decades



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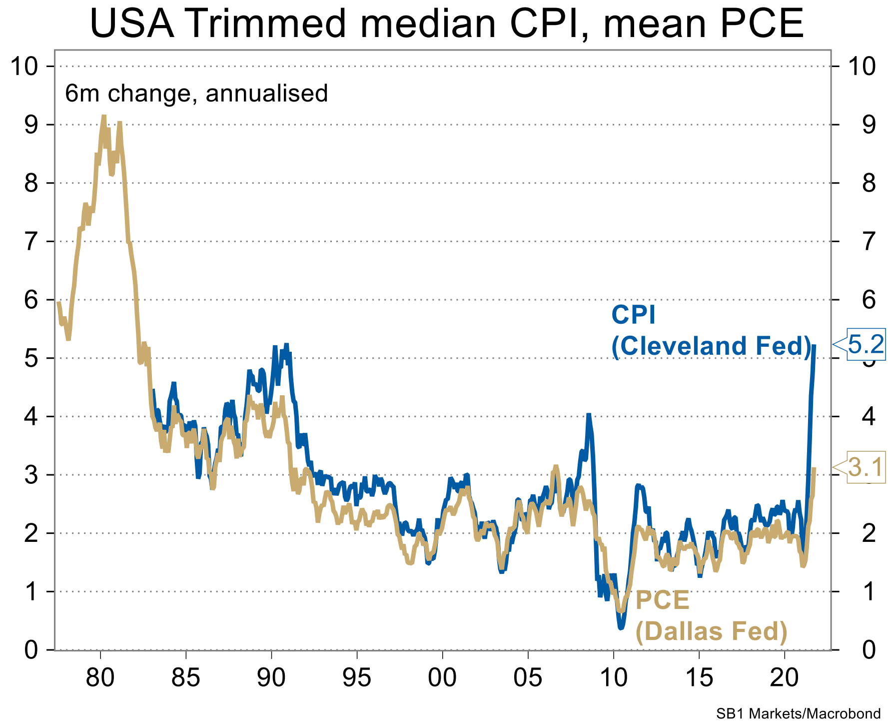

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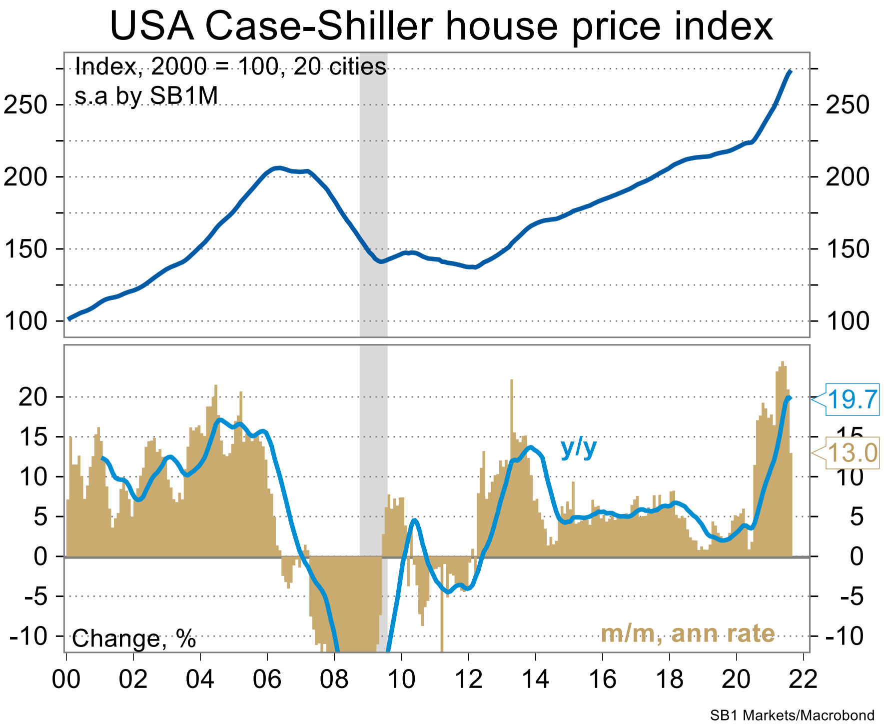
- The **trimmed PCE mean** (Dallas Fed) is up at a 3.1% pave over the past 6 months, up from 2% ahead of the pandemic. This indicator of underlying inflation has not been growing faster since August 2006. At that time the Federal Reserve had lifted the Fed funds rate to 5.25% in June 2006 from 1% in 2004 – by the way by hiking at each and every meeting in between (17 times in row ☺)
- The trimmed median CPI is up 5.2%, the highest on record, data back to 1983
- Other measures of underlying inflation are also at the highest levels in 30 years. And at that time, the Fed funds was not at zero

House prices inflation slowed in August, according to Case-Shiller

Prices up ‘just’ 1% m/m (13% annualised), down from 1.6% in July. Other indices confirm slowdown



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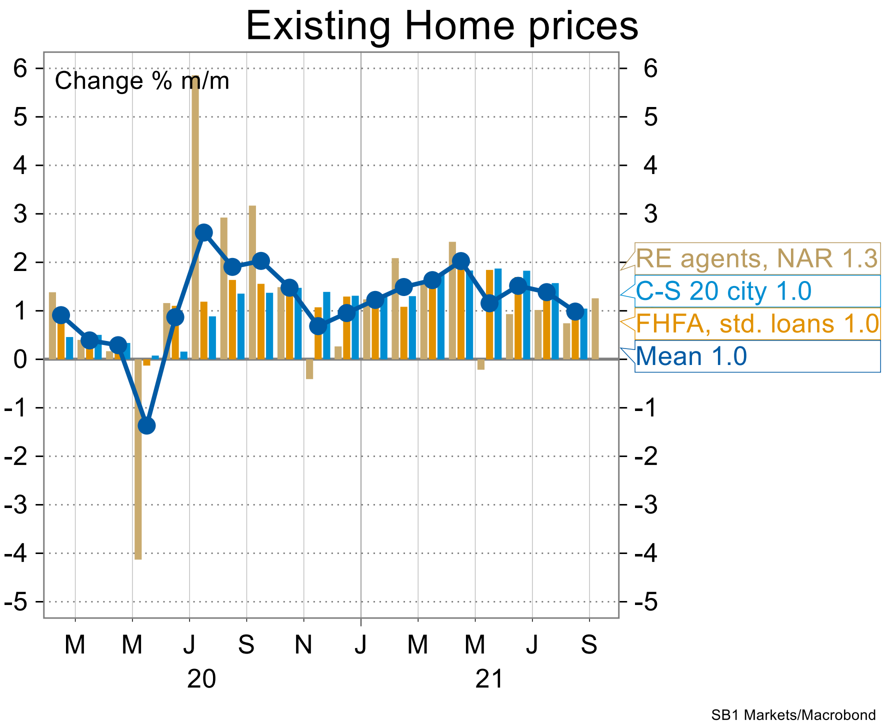

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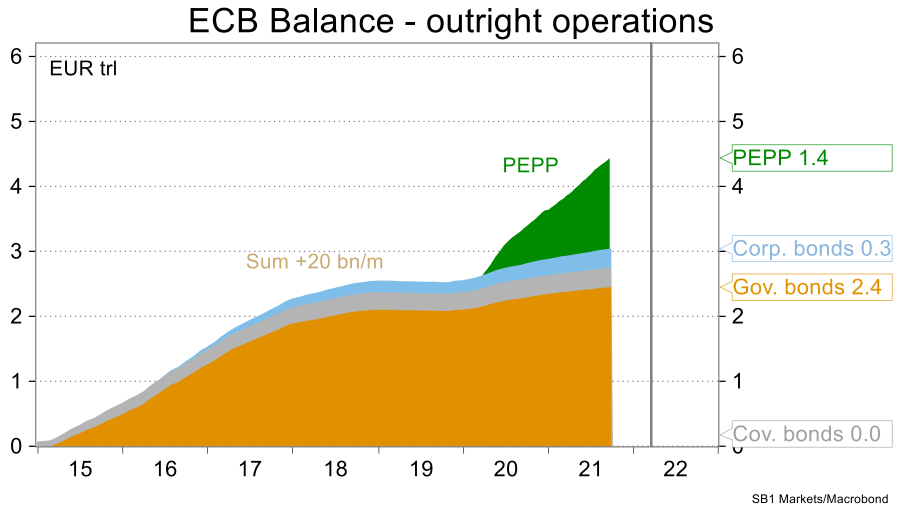
- **S&P’s Case/Shiller’s 20 cities** price index rose 1.6% m/m in August (July – Sept avg), equalling a 13% annualised pace, the slowest growth rate since July last year. The annual growth rate at 19.7 %, down from 20.0% in July – which was the highest growth rate since just after WWII. The **national C-S index** is up 19.9% y/y
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac (“Husbankene”, has a countrywide coverage), rose 1.0% in Augusts, and are up 18.5% y/y. The peak annual rate before the pandemic surge was 11%, ahead of the housing crisis 15 years ago (chart next page)
- **Relators** reported a 1% price lift m/m July, and the annual rate is 17.9%

ECB: Important decisions postponed to Dec – but policy will remain expansionary

Market unsure what the ECB will do, expects a hike late next year, the ECB woes to wait longer



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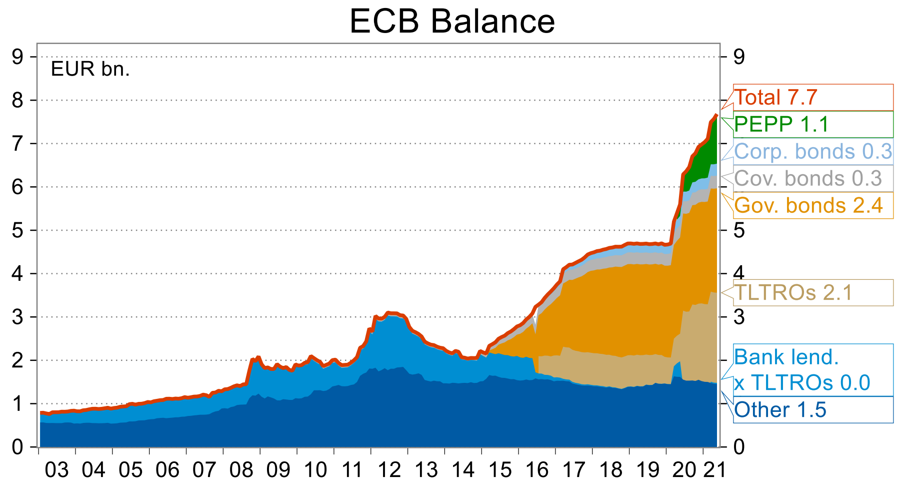
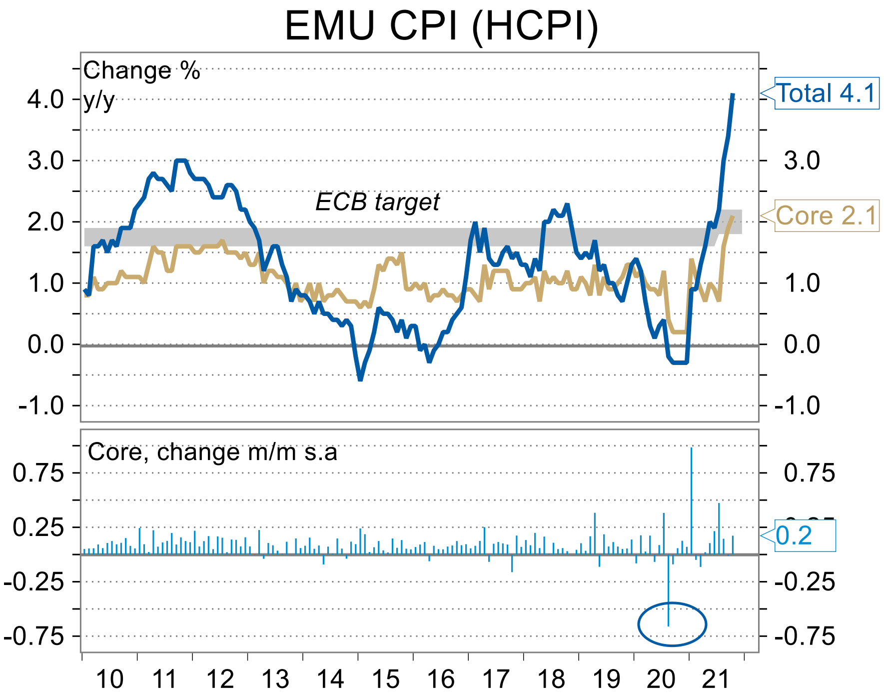


SB1 Markets/Macrobond

- **The policy signal rate** remained at -0.5%, and Lagarde says the bank intent to keep it there for a long while – as ECB expects inflation to fall below 2% in 2023 – even if the current surge will last longer than first expected. The policy rate will be kept unchanged until the ECB's inflation forecast is at 2% at the end of the forecast period. Lagarde said inflation was debated heavily but the bank is still comfortable
  - » We assume the bank can remain dovish until wage inflation starts accelerating (which now it the Fed's real challenge)
- On the **QE programs**
  - » The 'ordinary' Asset Purchasing Program QE program will continue at approx. EUR 20 bn (government, corporate, covered bonds)
  - » The Pandemic Emergency program (PEPP) will run until next March, by somewhat less than the original EUR 80/month (however, actual accumulation has been somewhat lower since the summer)
  - » The board postponed to December what to do when the PEPP runs out – and Lagarde promised to do enough…
- **ECB vs markets**
  - » Markets are questioning ECBs stance on rates, and the market is now discounting a first rate hike in late 2022
  - » The long end of the curve has been lifted by the 'global' surge in long term yields

Eurozone inflation up 0.7 pp to 4.1% in October, core up 0.2 pp to 1.9%

And well above expectations. Energy prices the main culprit.



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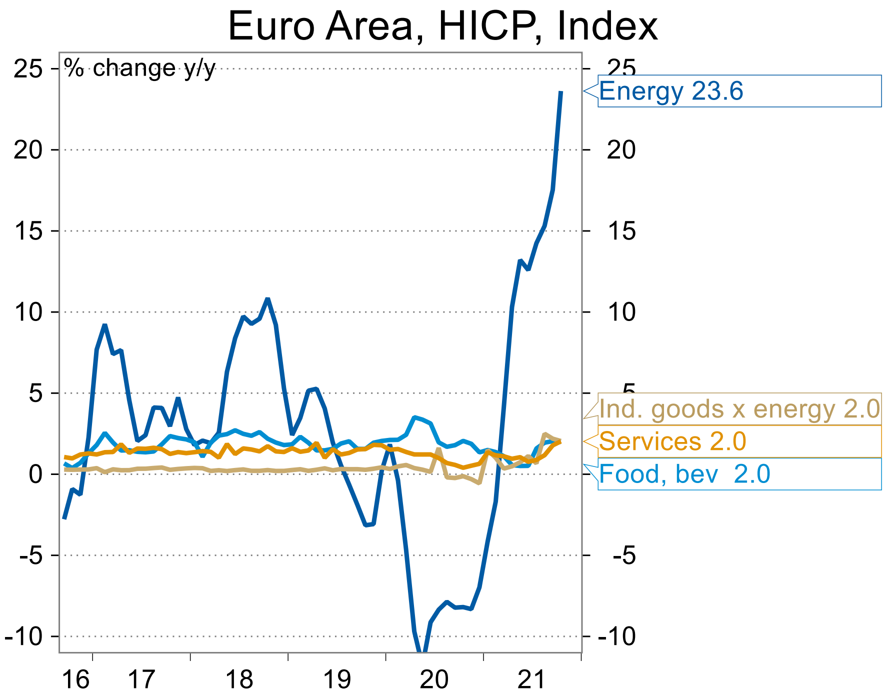
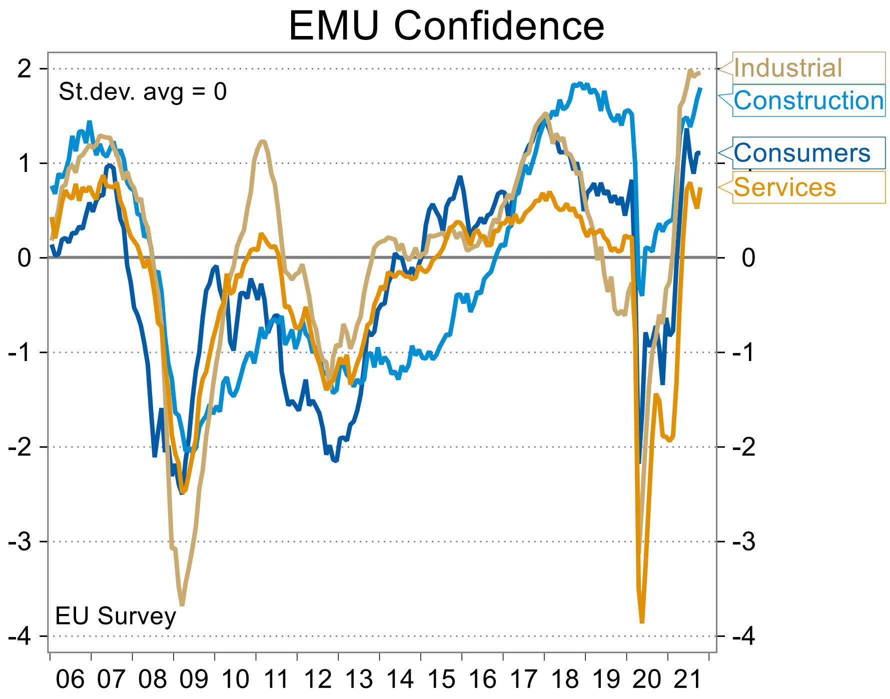


SB1 Markets/Macrobond

- **Core prices** were up 0.2% m/m in Oct, and the annual rate rose 0.2 pp to 2.1%, expected unchanged and finally above ECB's 2% target – and the highest since 2002. However, core inflation has been far below 2% for a long time, in contrast to the US
  - » Industrial goods x energy prices fell 0.1 % m/m – but they are up 2.0% y/y
  - » Services were up 0.2% m/m, and prices are up 2% y/y
- **Headline HIPC inflation** was up 0.7 pp to 4.1% in Oct, 0.4 pp higher than expected – and the highest on record (data back to '98). Energy is the biggest contributor, +5.3% m/m up 23.6% y/y (a 1.6 pp contribution to total HICP). The annual rate will probably stay elevated the coming months, as the monthly increases were low/negative until Dec-20
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices

Economic sentiment almost up to ATH again in October

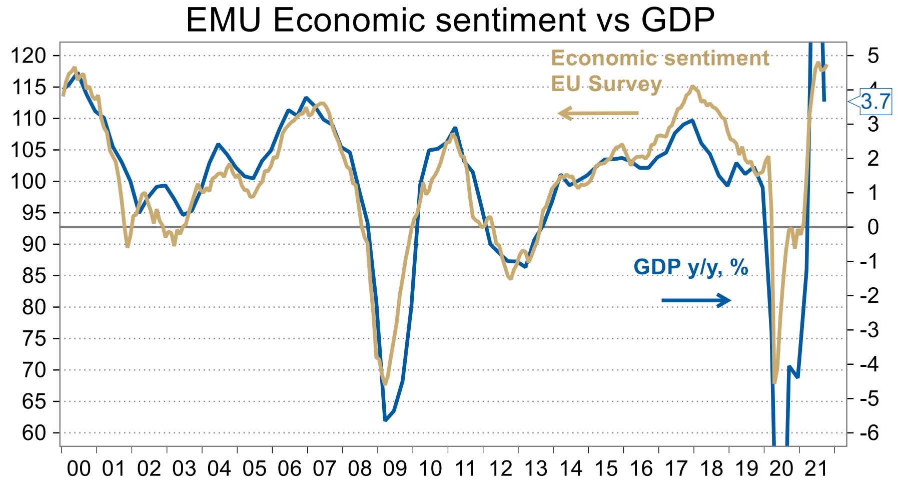
3 of 4 sub-sector indices were up – signals continued strong growth in the Eurozone



EMU Confidence

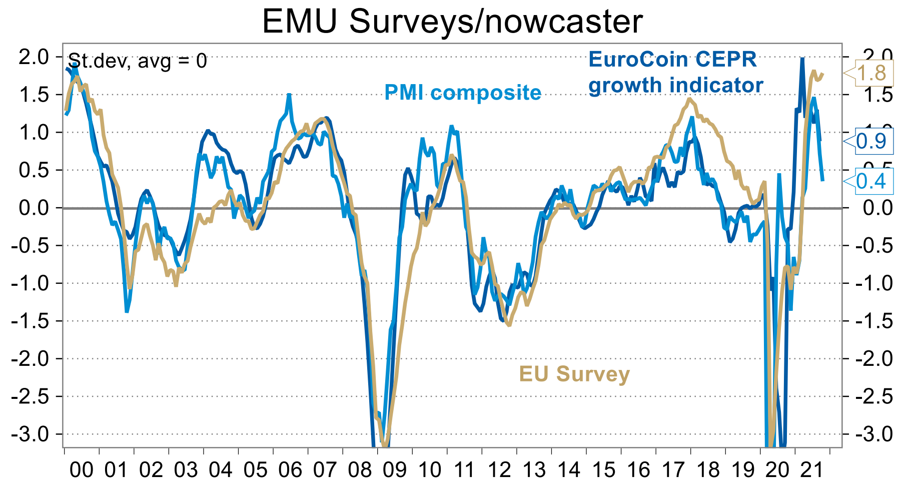
SB1 Markets/Macrobond

- **EU's confidence survey for the Euro area** rose 0.9 p to 118.6 in October, expected down to 116.9 and the level is just below the ATH in July
- The **main index** is 1.8 st.dev above average, signalling an GDP growth
  - » **All sectors** are signalling above average growth. 3 of 4 sectors grew more confident in October. Consumer confidence rose further in Oct, even if price expectations reached highest level since 1992!
  - » **Industry confidence** is still at the 2nd highest level in history
  - » The **EUROCOIN nowcaster** confirm the strong growth momentum in the Eurozone economy, while the Oct PMI has fallen substantially recent months (but remains at a decent level)



EMU Economic sentiment vs GDP

SB1 Markets/Macrobond

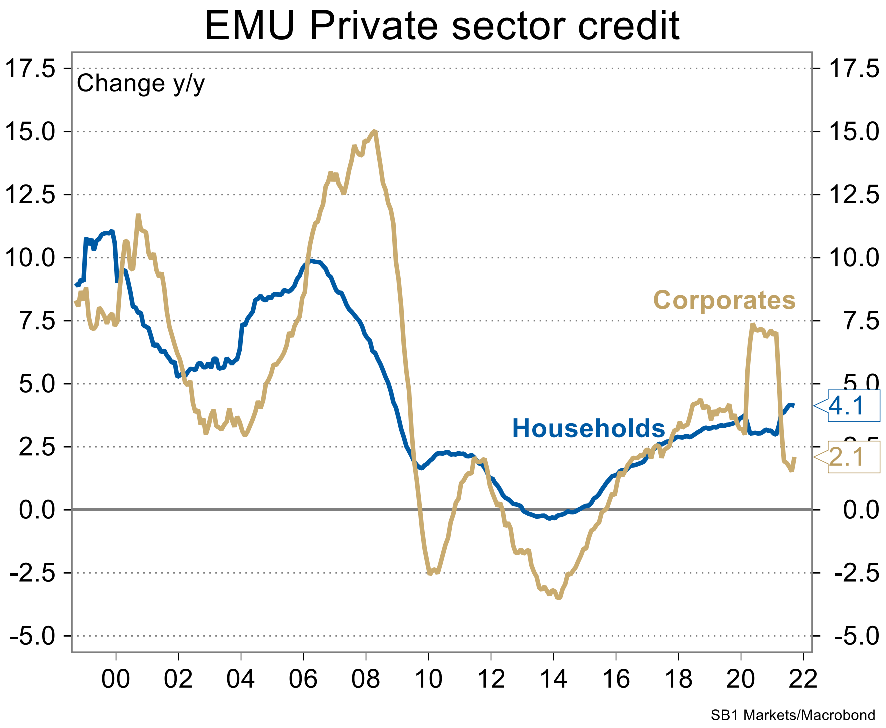


EMU Surveys/nowcaster

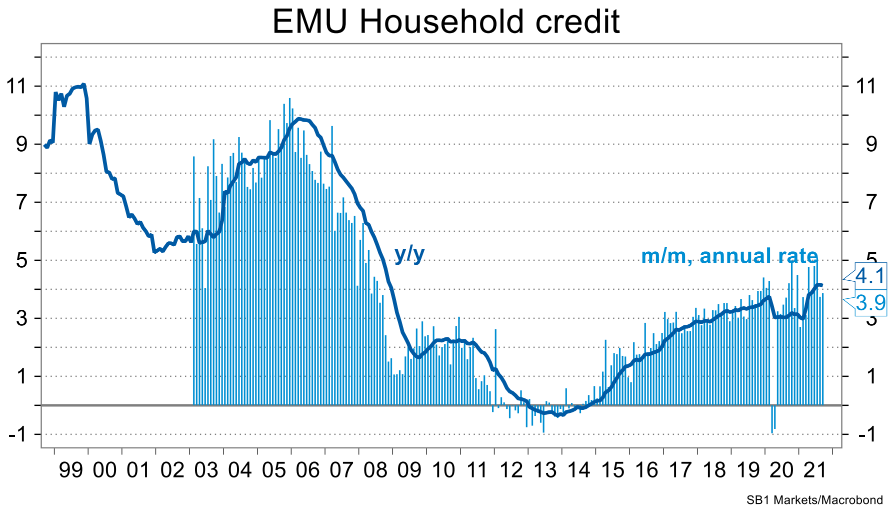
SB1 Markets/Macrobond

Corporate credit is flattening, household debt still growing at a decent pace

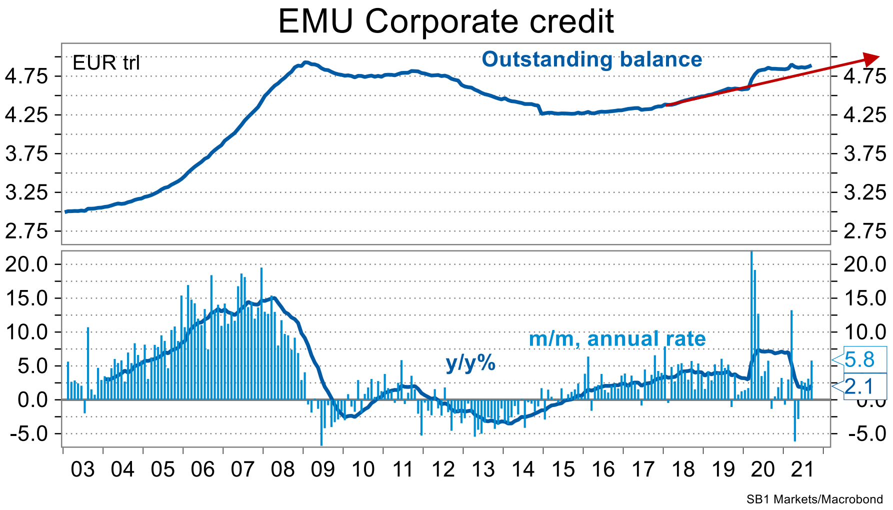
… but just by 4.1% y/y, and growth slowed m/m in Sept. No dangerous credit boom to be seen


EMU Private sector credit

SB1 Markets/Macrobond


EMU Household credit

SB1 Markets/Macrobond

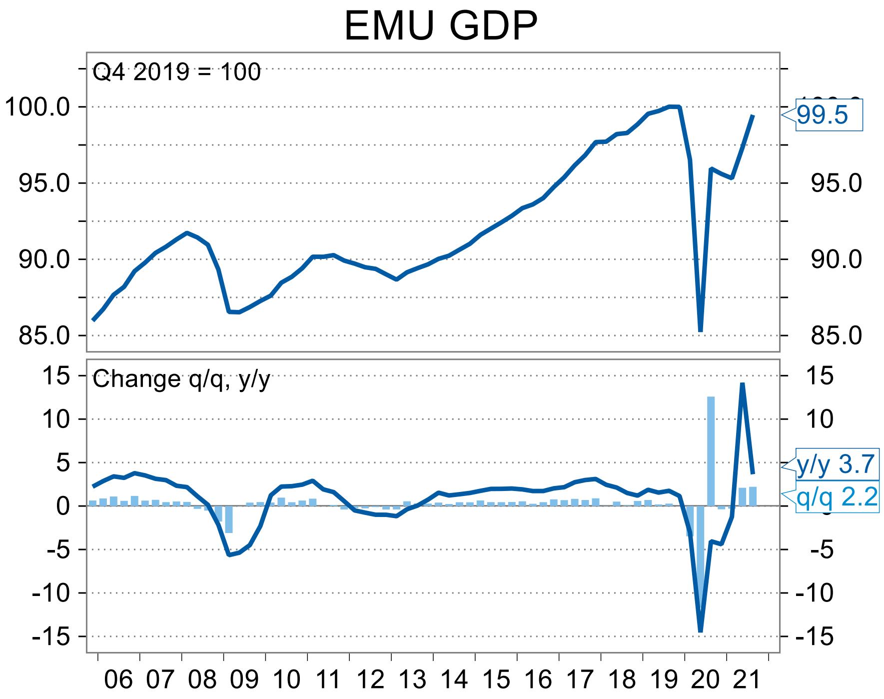

EMU Corporate credit

SB1 Markets/Macrobond

- The corporate debt level is still above the pre-pandemic trend growth path but not by much
  - » Corporate debt rose sharply last spring, when all credit gates were wide open – but growth m/m has slowed to a trickle
  - » The average growth over the past 2 years is 3.3%

GDP up 9.1% (2.2% not annualised) in Q3, marginally faster than in Q2

GDP just 0.5% below the Q-19 level. Spain the big laggard, still down 6.6%, due to lack of tourists



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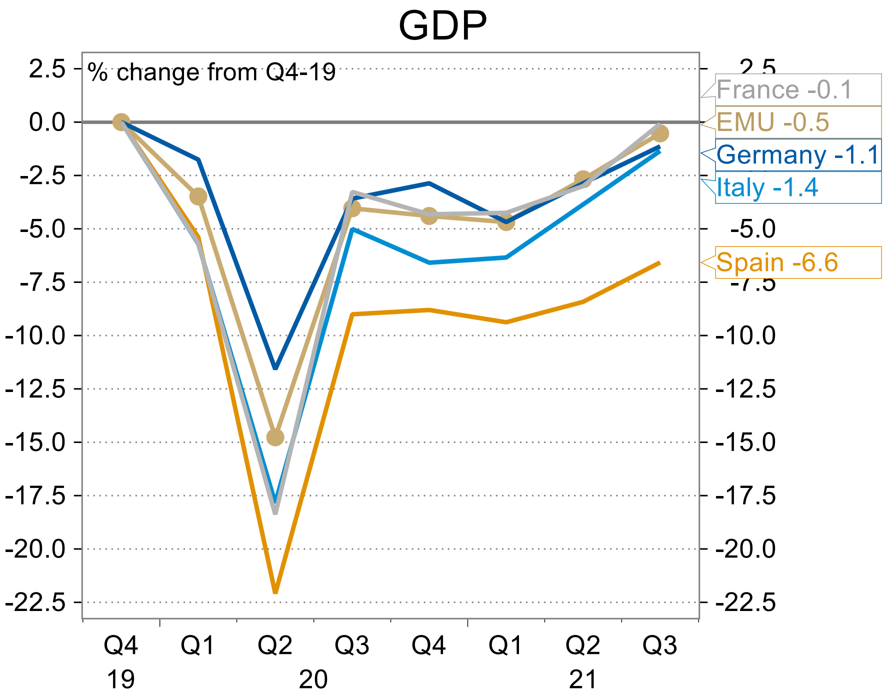
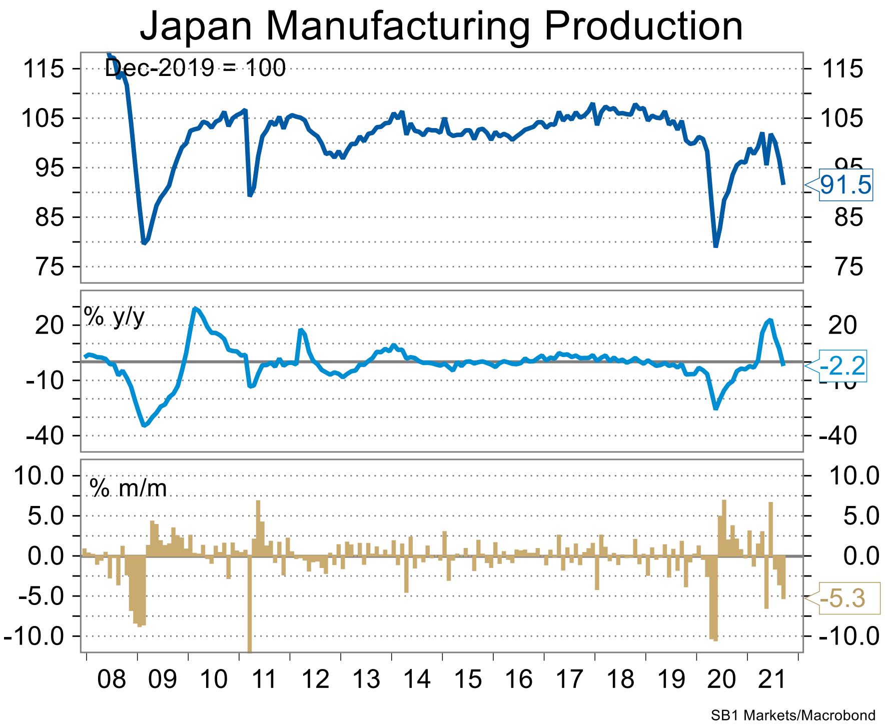


SB1 Markets/Macrobond

- Euro Area GDP fell in Q1, but recovered at a strong pace in both Q2 and Q3. In Q3, growth was 0.1 pp higher than expected. GDP has almost recovered from the pandemic losses – but still the well pre-pandemic growth path. No demand details yet
- Just to celebrate the strong growth data, we present them in the American, annualised rate: France +12.6%, Italy 10.8%, Spain 8.3%, and Germany 7.3%. France is down 0.1% vs Q4-19, Germany -1.1%, Italy (just!) 1.4% but Spain is down 6.6%. Tourism is no doubt to blame

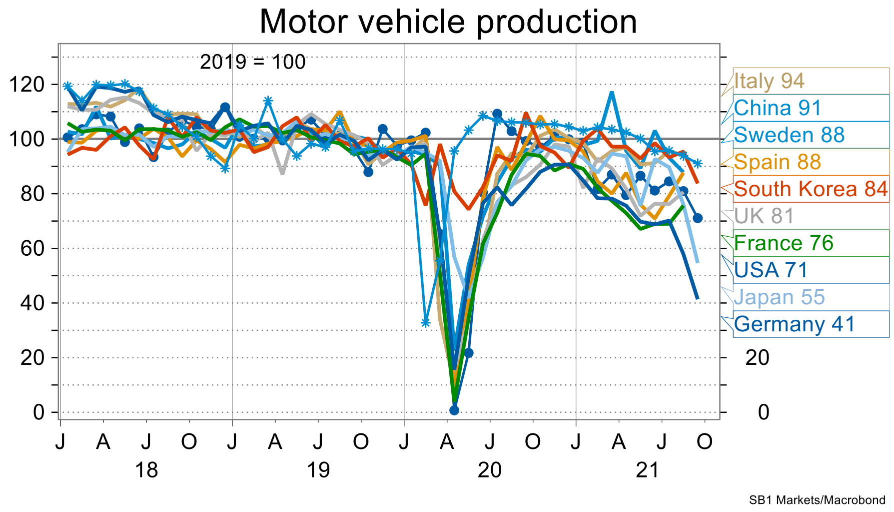
Manufacturing production plunged in September (too)

Down almost 9% past two months. The auto industry mainly to blame (chip shortages)

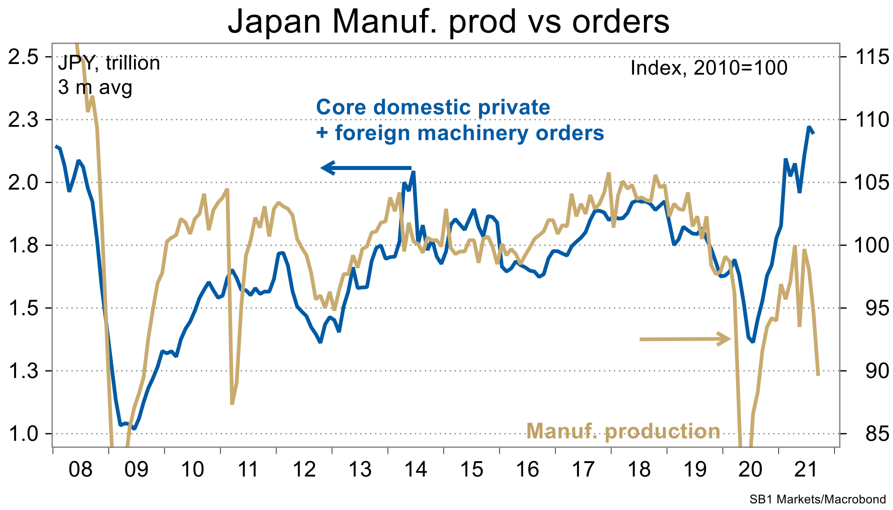

Japan Manufacturing Production

SB1 Markets/Macrobond

- **Manufacturing production** fell by 5.3% in September, expected down 'just' 2.5% - following the 3.6% setback in August (revised from -3.2%)
  - » Production is 8.5% below the Dec-19 level! Vehicle production is down 45%, as is the main contributor on the downside – due to lack of components
  - » **Overall order inflow** has strengthened substantially through 2021, and signals a higher manufacturing production level (chart next page)


Motor vehicle production

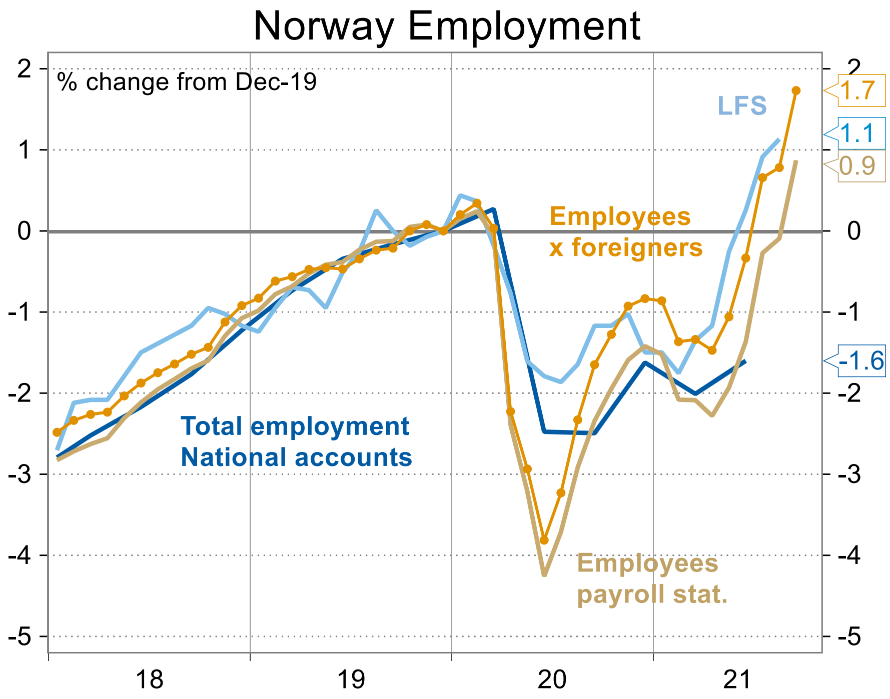
SB1 Markets/Macrobond


Japan Manuf. prod vs orders

SB1 Markets/Macrobond

Reg. employment surged by 0.9% m/m in September, well above the pre-pandemic level

The LFS confirms strong employment growth

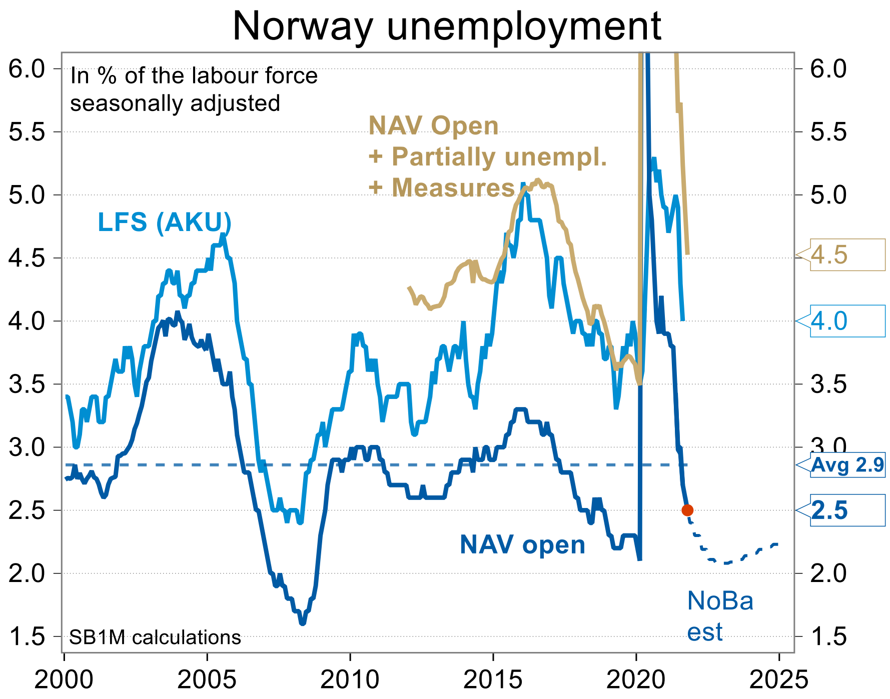


SB1 Markets/Macrobond

- The increase in the register based no. of employees in September suggest at brisk growth in Mainland GDP (at least adjusted for mackerel fishing)
  - » Total no. of employees grew by 0.9% m/m and is now 0.9% above the level in Dec-19
  - » We estimate the employment among permanent residents (Norwegian and foreign born) to be 1.7% above the pre-pandemic level (based on our Q3 estimate for foreign workers on short-term stay)
  - » The increase in employment is broad based
- **The LFS** (survey) employment data (both employees and self-employed) have also been strong recent months and employment grew further in August (Jul-Sept avg), and the level is up 1.1% vs. Dec-19
  - » Employment was revised down by some 0.6% for Q4/Q1 but not growth since then – and at a similar pace as the payroll stats for employees
- **National Accounts** reported a modest rise in overall employment in Q2. The NA data includes foreigners on short-term stay. Q3 data will be MUCH better ☺

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

Open unemployment down 0.1 pp to 2.5%, in line with NoBa f’cast. Level just 0.4 pp above Feb-20



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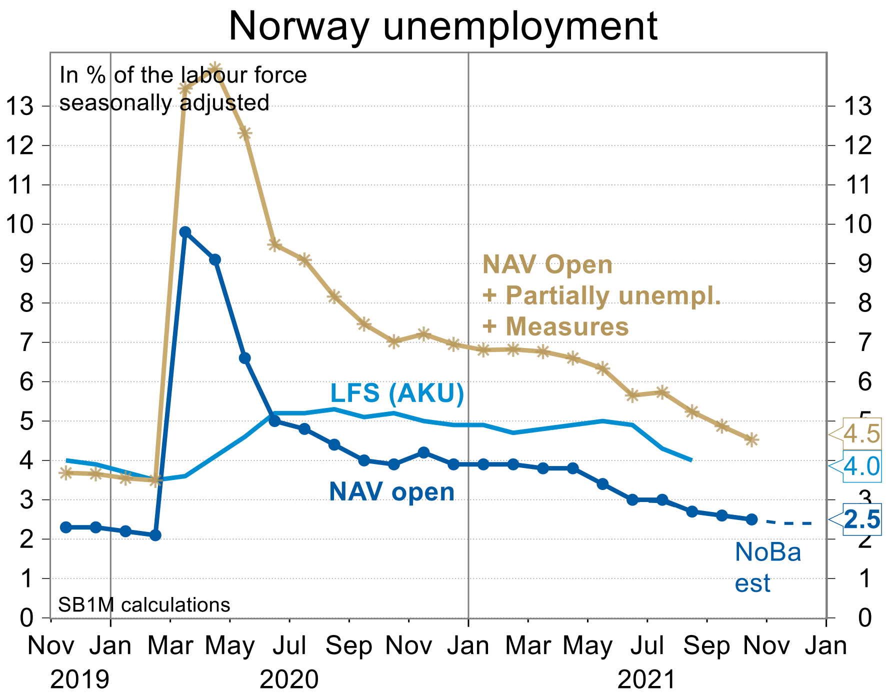

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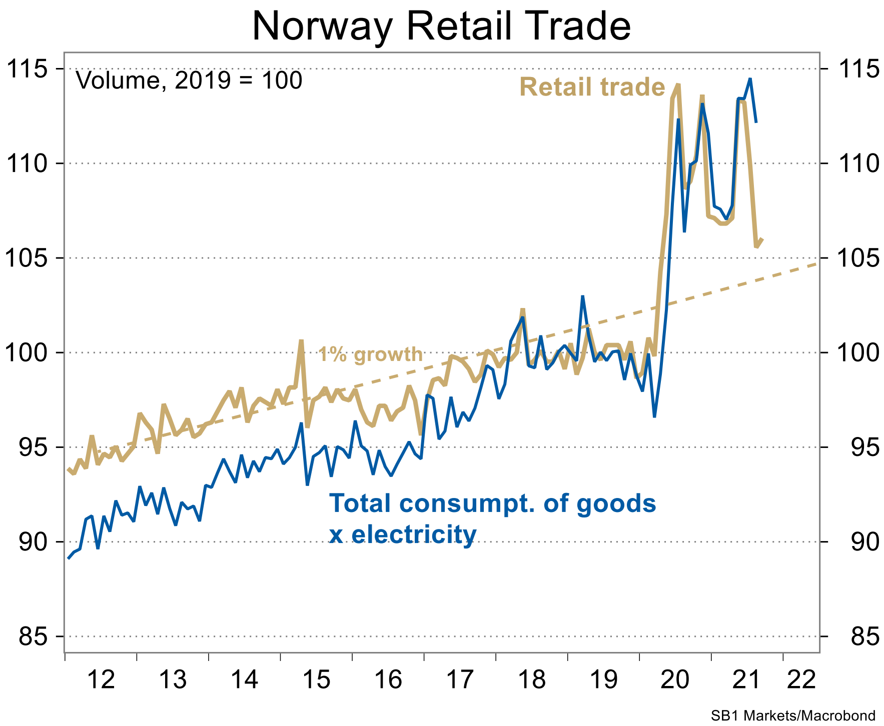
- **The ‘full time’ open NAV unemployment**, which includes furloughed workers, fell by 3’ in September (seas. adj) to 71’ we expected -4’. The rate fell by 0.1 pp to 2.5%, equal to NoBa forecast. (Unadjusted, the rate fell by 0.2 pp to 2.2%, vs. 2.3% expected by consensus). The 2.5% rate is below the 2000 – 2019 avg at 2.9%. Unemployment is falling rapidly everywhere and for all sorts of labour
- In addition, the number of **partially unemployed** (not included in the ordinary unemployment no.) fell even more, to by 6’ to 44’. Incl. labour marked measures, the **total unemployment** fell by 10’ to 130’, to 30’ above the pre-pandemic level. The rate is 4.5% up from 3.5% in Feb-20
- The inflow of **new job seekers** fell further in Oct, and the inflow of new vacancies rose further from a high level the previous 6 months
- **The AKU unemployment rate** fell further by 0.2 pp to 4.0%, and more than expected as the **employment rate** rose further. In addition, the **inflow of new vacancies** rose further, and the level is high

Retail sales stronger in September as sales of building materials rose 7%

Sales rose 0.5%, expected -1.0% - the level is still high



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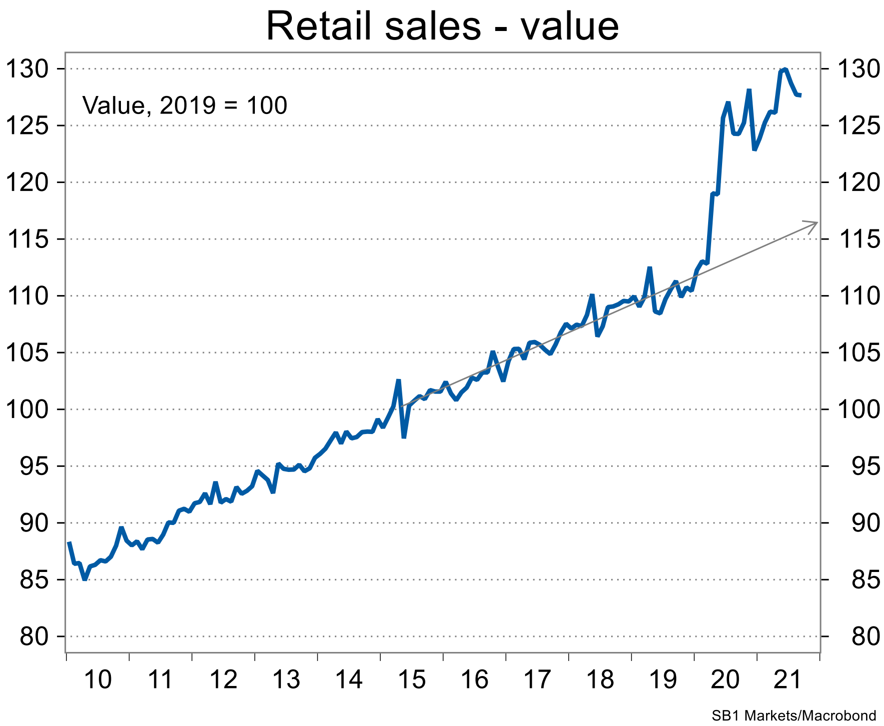

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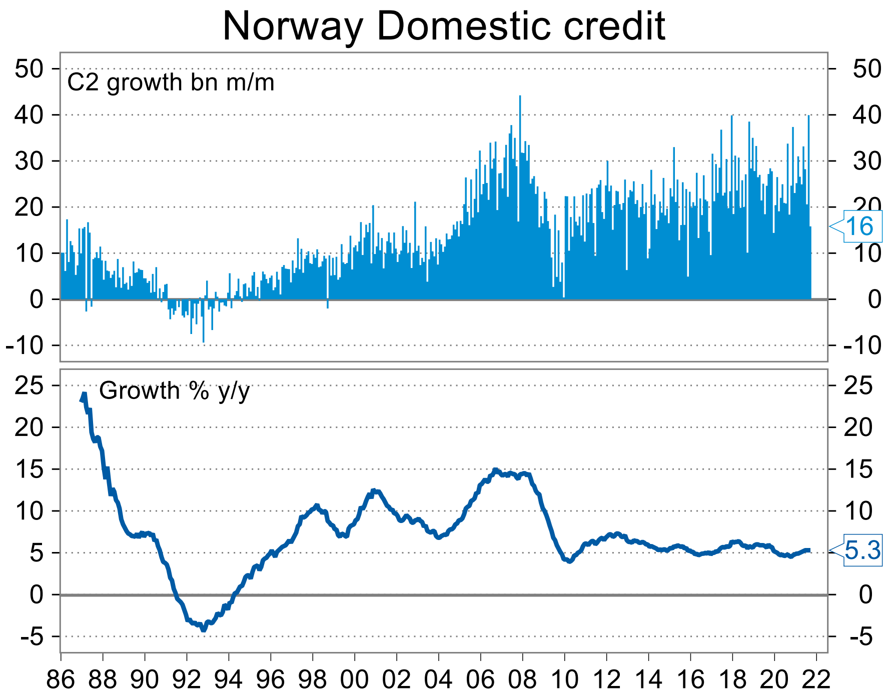
- **Building materials contributed to increase in retail sales; currently 6% above the pre-pandemic level**
  - » Sport equipment down 4.5% m/m in September, ITC-1.7%, grocery sales down 0.4% - as we went to restaurants and were shopping in Sweden, at least in parts of the month. Clothing sales were down 1.4%, while the 7% volume lift in sales of building materials lifted total sales by some 0.5 pp
- **Consumption of goods** data are delayed until Nov 12
- **We still expect retail sales consumption of goods** to normalise the coming quarters, back the pre-corona trend path, way below the current +12% above pre-corona level!

Domestic credit growth (C2) still modest, unch 5.3% in September

Monthly growth well below our forecast, as businesses took a break after the August spurt



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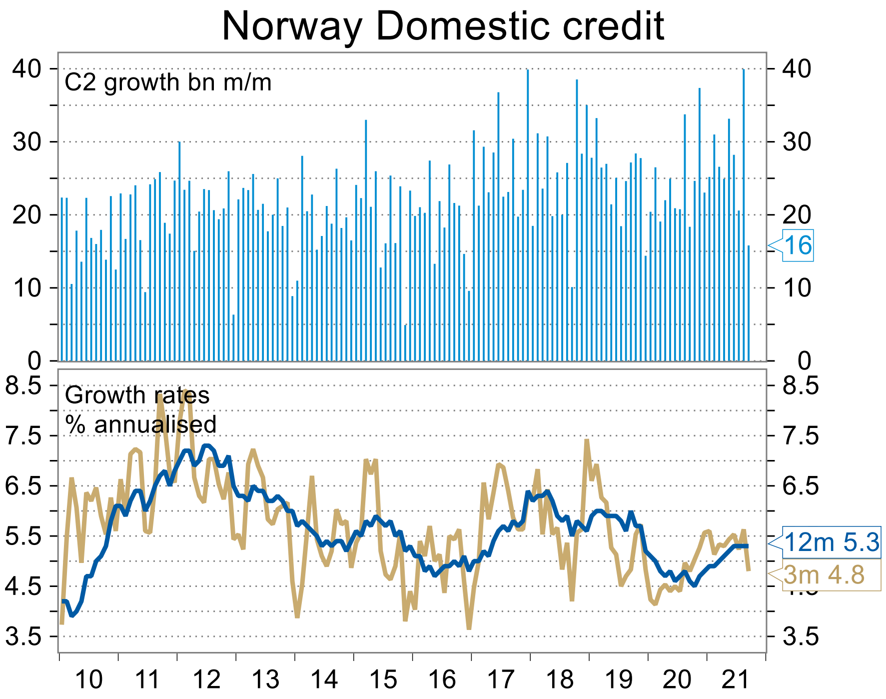

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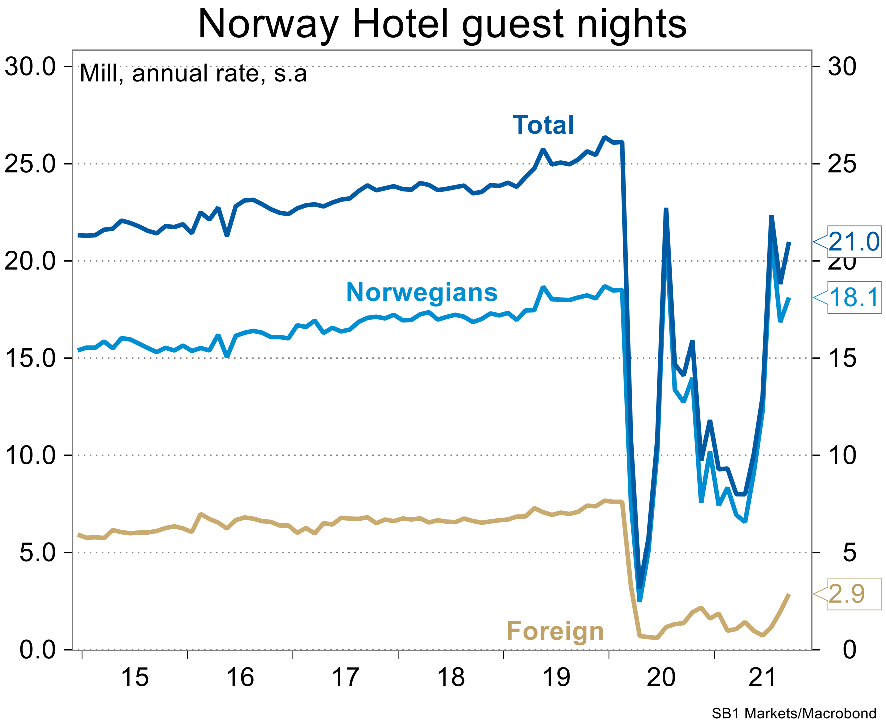
- **Total domestic debt** (C2) rose by NOK 16 bn in Sept, down from 40 bn in Aug, we expected NOK 22 bn. The annual growth rate remained unchanged at 5.3%, which was in line with our estimate. We are not witnessing any credit boom. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 14 bn in Sept, down from 15 bn in Aug (revised up by 0.5 bn). We expected a somewhat higher demand of +18 bn from households. The annual rate declined 0.1 pp to 5.1%
- **Corporate C2 credit**, rose by NOK 2 bn following the NOK 21 bn surge in August. The annual growth rate still accelerated 5.1% from 4.8%, we expected a 5.0%. **Mainland corporations** increased their debt by 5.7% y/y (+ 0.3 pp from Aug)
- **Local governments** increased their borrowing by NOK 0.3 bn, down from 4 bn in Aug, we expected the growth to remain unch. The annual growth rate is at 7.0%, down from 8.1%

More hotel guests in Sept, 16% down vs the 2019 level, foreigners to blame

Room prices have fallen back to a more normal level



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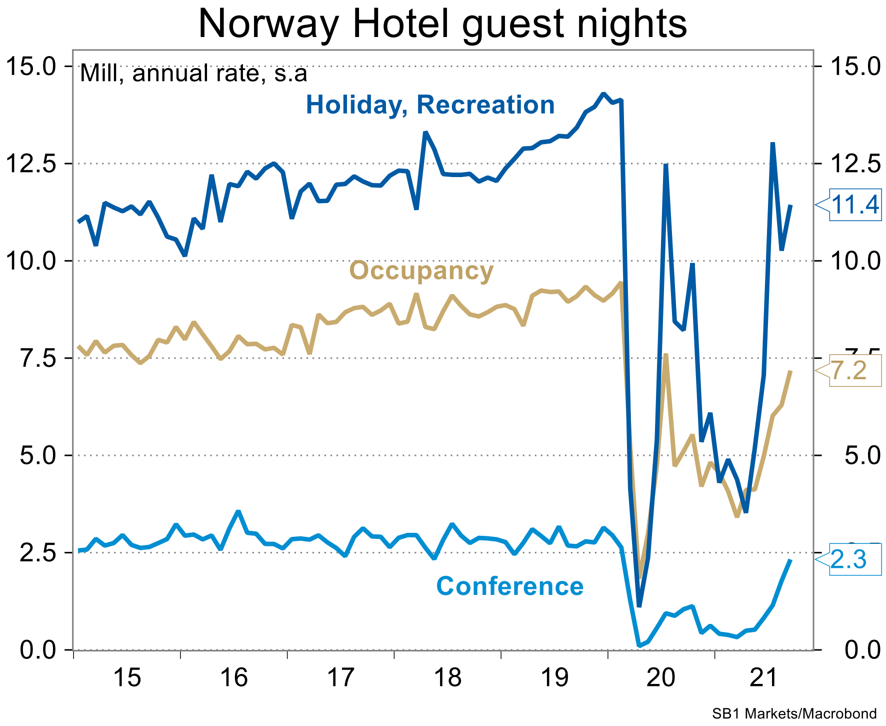

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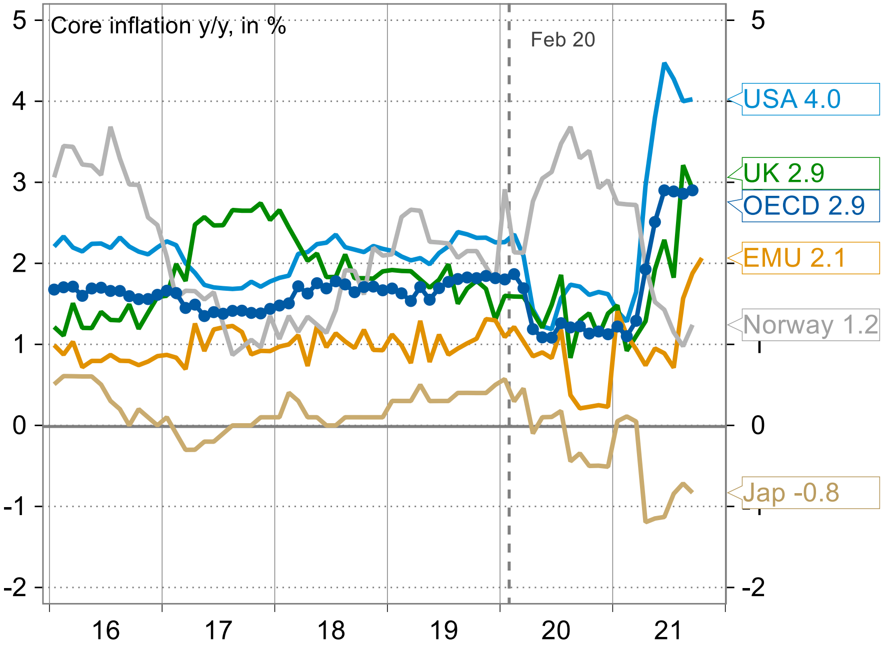
- **The no. of guest nights** was just 16% below the 2019 level in September – solely due to the lack of foreigners. Norwegians guest nights are only down 1.4% vs the 2019 level, from +9% in August. Foreigners' guest nights are still down 59% (from -72% in August)
- **Business travelling** (sum occupation & conferences) is still down almost 25% vs Sept-19, both due to fewer Norwegian & foreign guests – but no split is available. The conference markets is down less than 20% - and we assume a further recovery in October
- **Thus, Norwegian recreational traffic** saved the day in September too (no explicit data available, but given the low number of foreigners, the conclusion is given)
- **The outlook for Q4 not that bad:** The conference market is recovering rapidly, ordinary business travel will probably recover further (but perhaps not fully, new habits are learned. As upside for Norwegian guests must be limited, let's wait for the foreigners to return!

Inflation may be peaking ~~now~~ soon – at a high level

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

Core CPI Inflation



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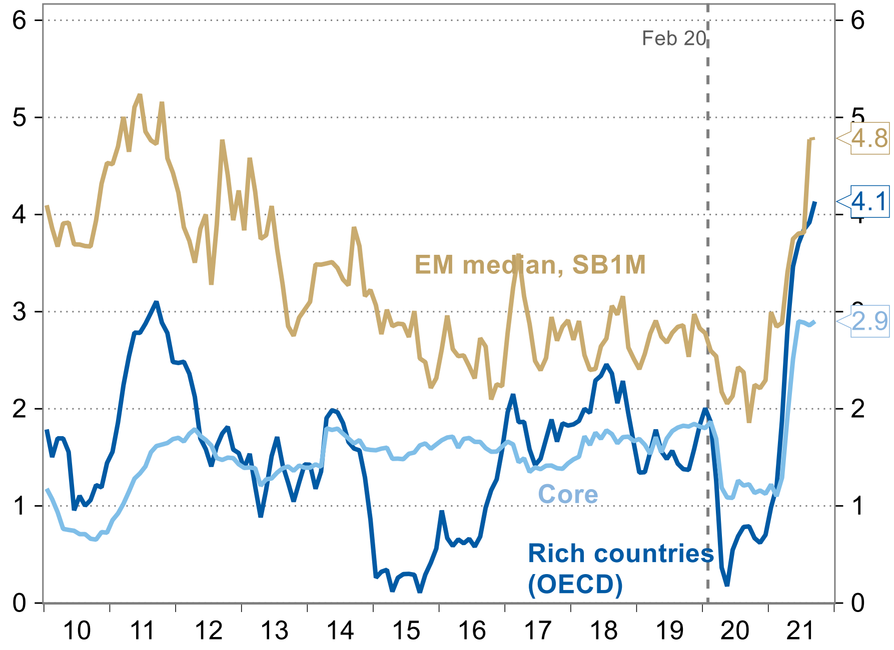
CPI Inflation



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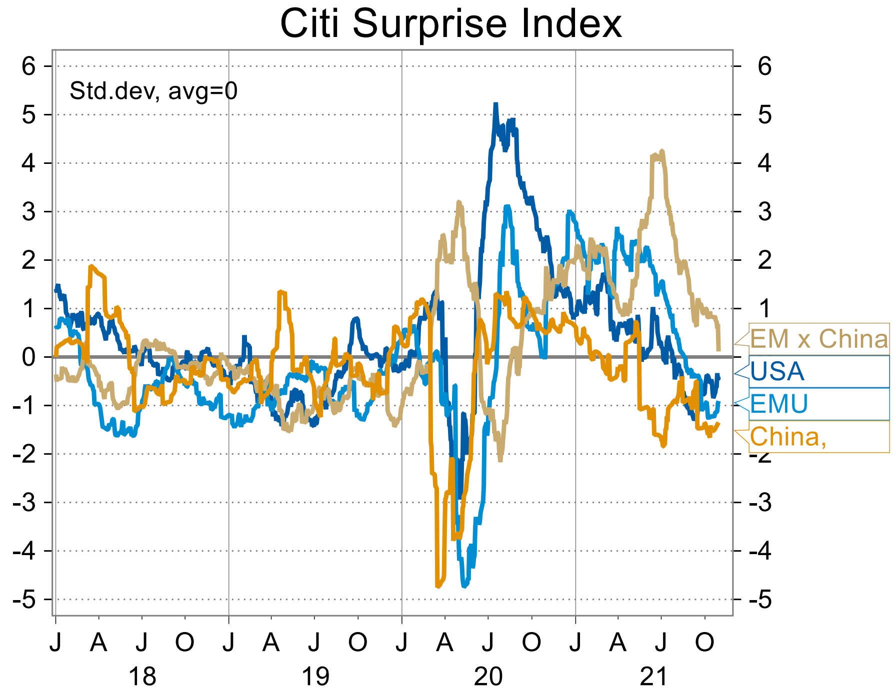
Still mostly negative surprises – but not more last week either

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



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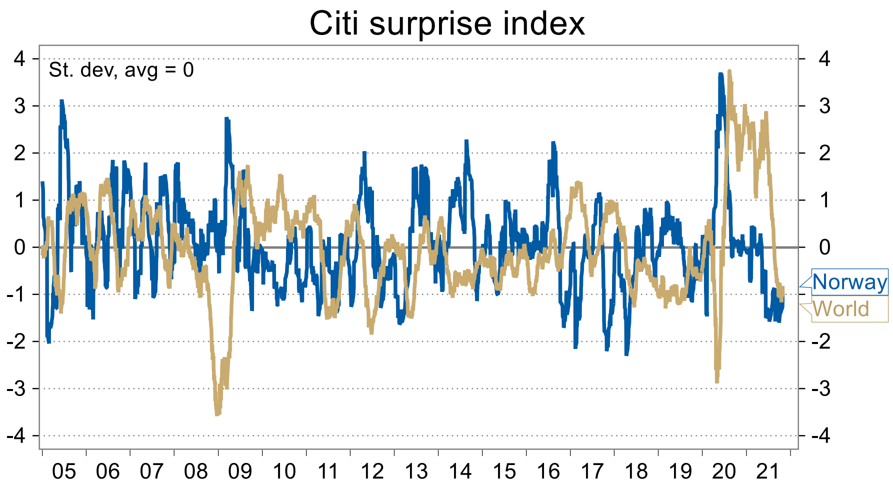

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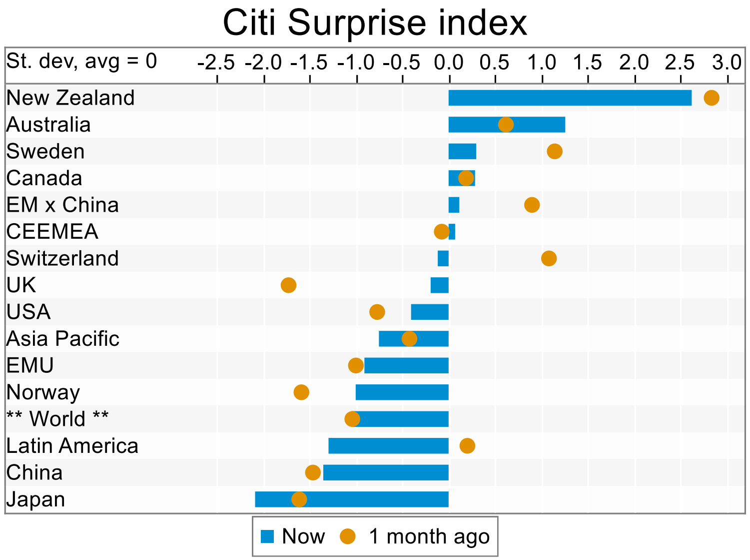

- Both US, EMU and China surprises are on the downside, but less last week
- **Emerging Markets x China** are still at the positive side, but less so last week
- **Norway** has surprised sharply on the downside, according to Citi

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

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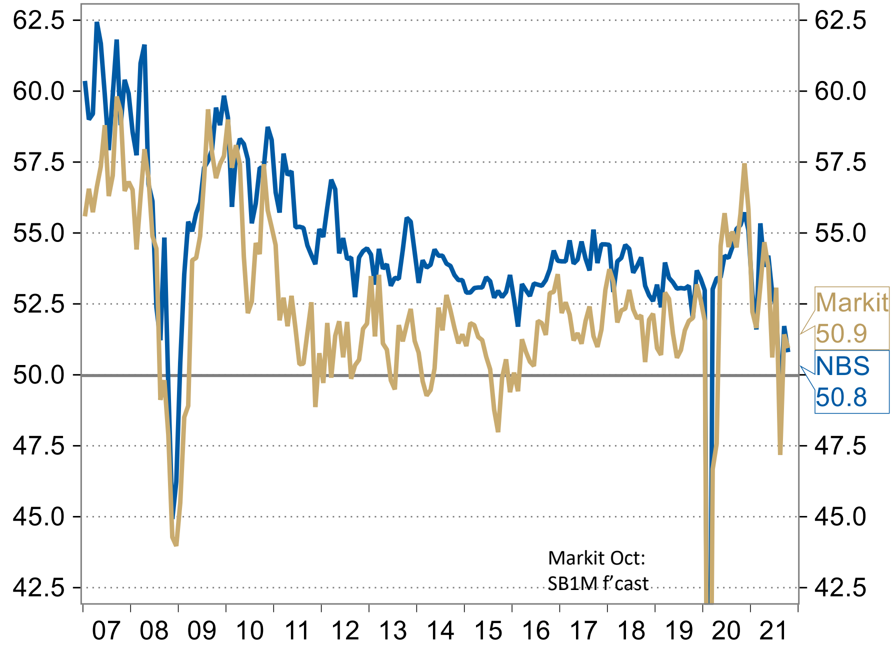
October PMIs in sum probably down, but mixed reports from the manuf. sector

We assume a decline in the average composite PMI by 0.7 p to 50.9, to below average

China Composite PMIs



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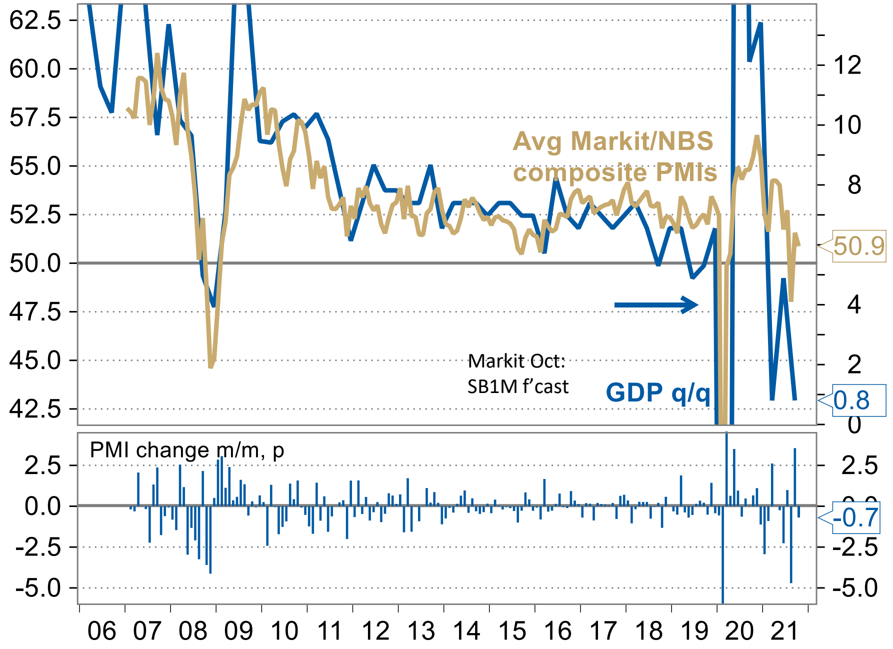
China PMI vs GDP



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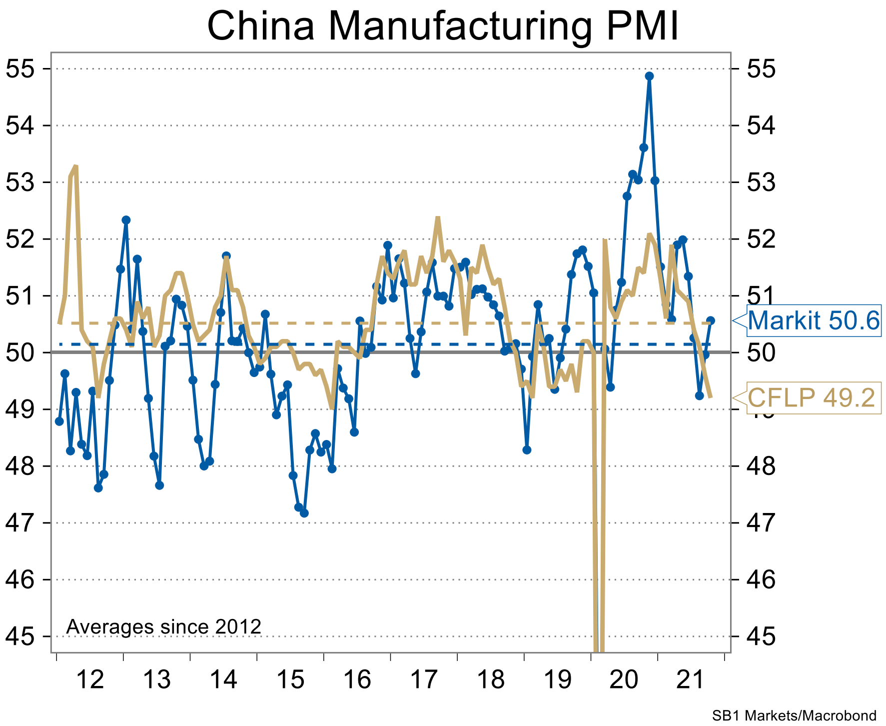
- The **NBS composite PMI fell** by 0.9 p in October to 50.8, expected unch. The level is 3 p below average. Both manufacturing and services slowed, manufacturing the most, the Oct print is among the weakest over the past 10 years, barring the Covid-19 shock last winter, and the Covid-19 setback in August
- **Markit's manufacturing PMI** rose 0.6 p to 50.6 but the output index (which is include in the composite index) fell 0.2 p to 48.8
- **In sum**, assuming a decline in Markit's service sector PMI, the average of the two composite PMIs fell 0.7 p to 50.9, 0.5 p below average. The PMI data set signals growth somewhat below trend, but not by much

Mixed manufacturing PMIs in October, in average up

… though still below 50, and marginally below the 10 y avg



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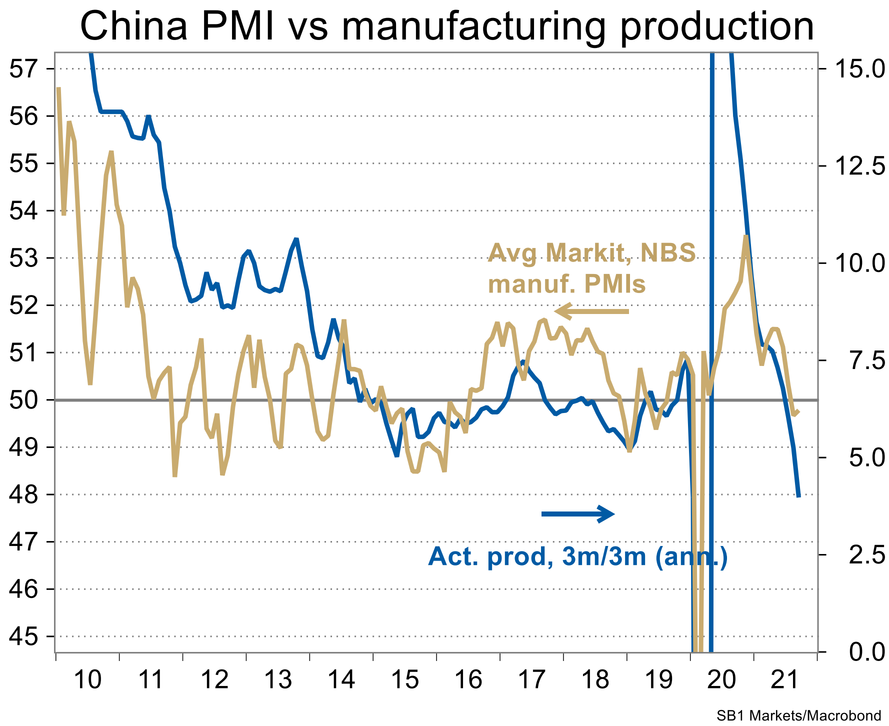

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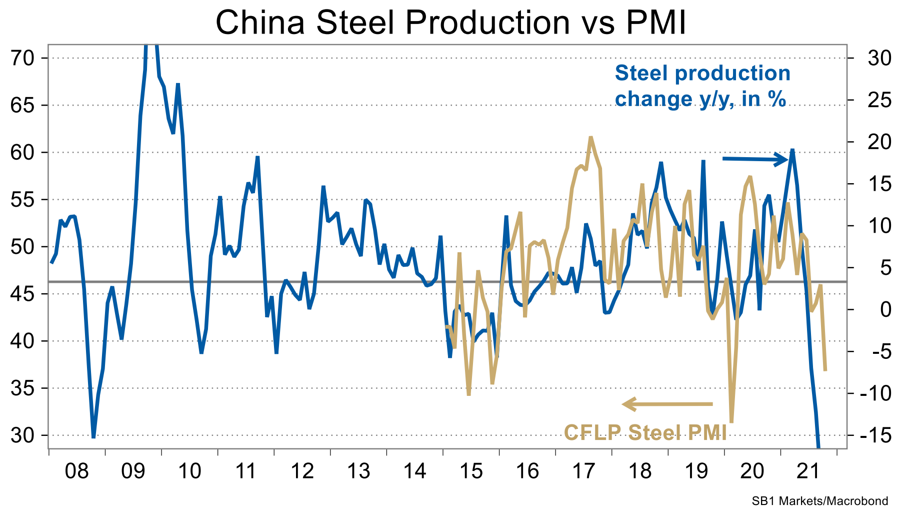
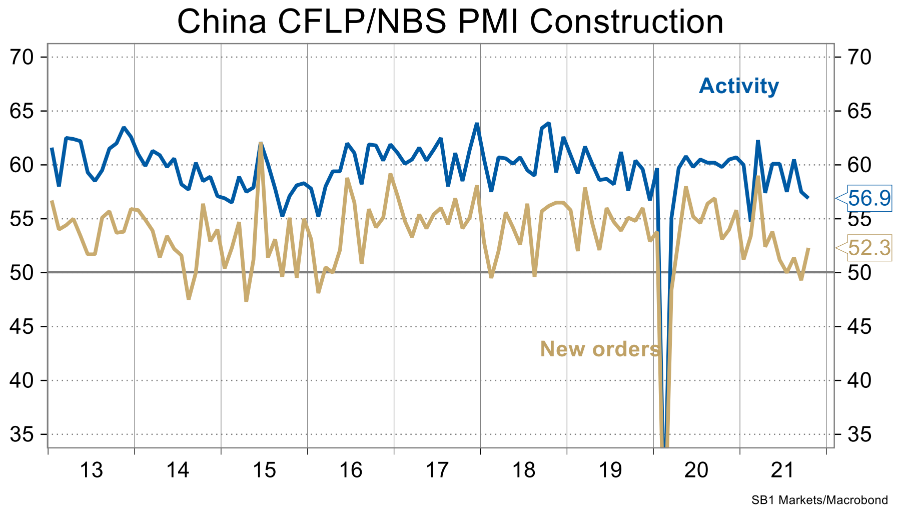
- The **NBS/CFLP manufacturing PMI** declined 0.4 p to 49.2, expected up 0.1 p. The level 1.3 p below the average since 2012, and it has been lower just once since 2012, barring the full stop during the Covid-19 outbreak last winter. The decline since early 2021 is also substantial, and in line the 2018 slowdown
- On the other hand, **Markit's PMI** recovered further, by 0.6 p to 50.6, expected unch. The level is 0.6 p, above the average since 2012. The **output index** fell still fell 0.2 p to 48.8, 1.8 pp below average
- In sum, the two indices were marginally better than expected, in average up 0.1 p
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The NBS survey received media comments like '*the contraction in the Chinese manufacturing sector worsened….*' However, in China a PMI below 50 does not imply a contraction but rather growth just slightly below trend, at some 5% – 6%. However, the correlation is not that close

The steel PMI sharply down, construction not that bad

Construction orders strengthened in October, no Evergrande initiated sudden death

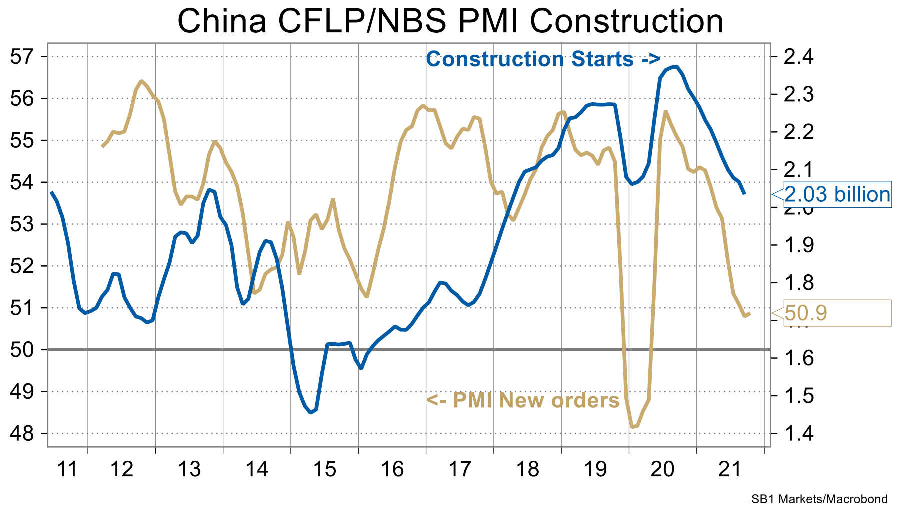

China Steel Production vs PMI

SB1 Markets/Macrobond


China CFLP/NBS PMI Construction

SB1 Markets/Macrobond

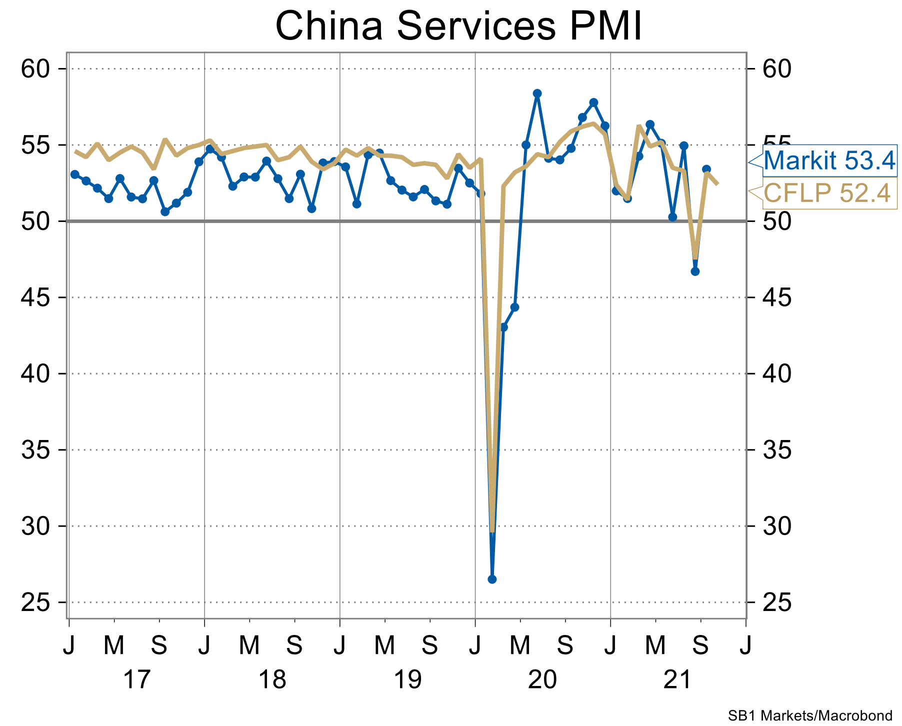
- The **Evergrande** debacle has so far not led to a harsh setback in the Chinese construction industry, according to Oct construction PMI. However, the new orders index has fallen since March, and the level at 52.3 in Oct is still below average
  - » Regrettably, the correlation between PMI and actual construction starts is weak
  - » Still, during the recent months, construction starts have fallen by 15% – 20%, though from a high level – alongside the decline in the new orders index
  - » This decline in construction starts have not yet created any crisis in the overall Chinese economy – or elsewhere (even if some sectors are hurt)
- The authorities have introduced harsh measures to cut back **steel production** (CO2-cuts, lower demand from the construction sector). Production has fallen more than 10% vs. the early H1 level. The steel sector PMI fell sharply to 36 in October, signaling a further setback, very likely also influenced energy supply


China CFLP/NBS PMI Construction

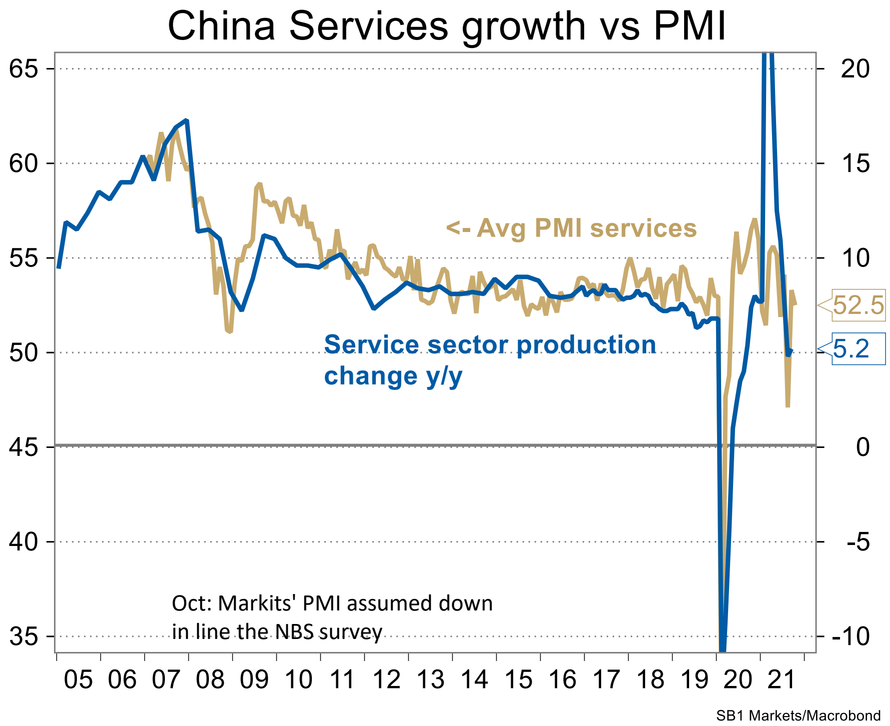
SB1 Markets/Macrobond

The service sector PMI marginally down in October, level close to normal

The NBS service sector PMI fell by 0.8 p to 53.4



SB1 Markets/Macrobond



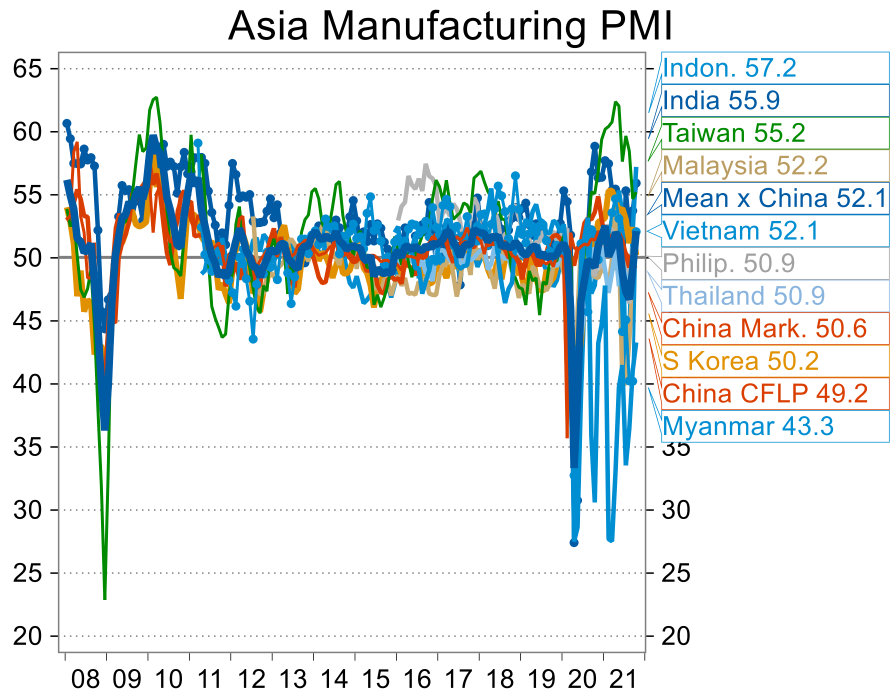
Oct: Markits' PMI assumed down in line the NBS survey

SB1 Markets/Macrobond

- In August **the service sector average PMI** fell 7 p to 47.1, the 2nd largest decline ever, to a level not seen anytime before, except for Feb-20. In September, both PMIs recovered sharply, almost back to the August average, and the decline in October was just marginal, at least by the NBS survey (Caixin/Markit has not yet reported)
- **Actual activity** in the service sector fell in both July and August, but recovered in September
- No doubt, this mini-cycle in services is due to the fight against the virus – and not due to a general weakening of the Chinese economy

Rest of Asia: Manufacturing PMIs broadly up, just South Korea down

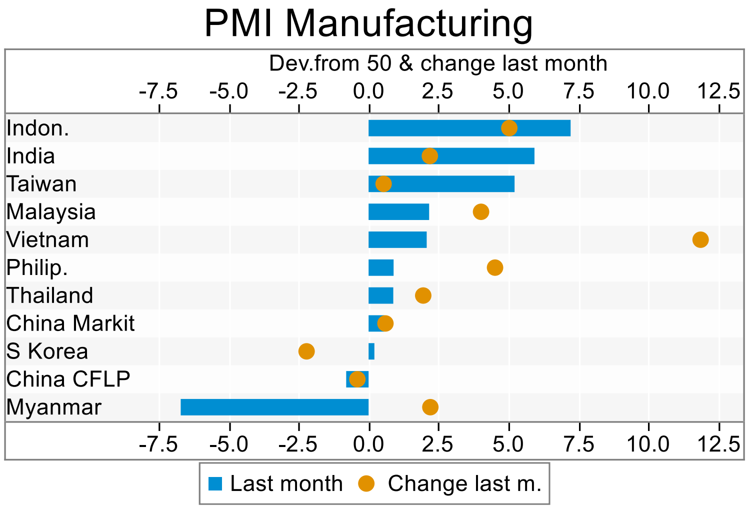
Signals that activity is gaining speed again following the virus setback during the summer



Asia Manufacturing PMI

SB1 Markets/Macrobond

- 9 PMIs are at or above the 50-line (from 6), 2 are below (from 5)
- Indonesia, India & Taiwan in the lead. Vietnam rose sharply to above the 50 line
- The average x China is <u>above</u> the average since 2012



PMI Manufacturing

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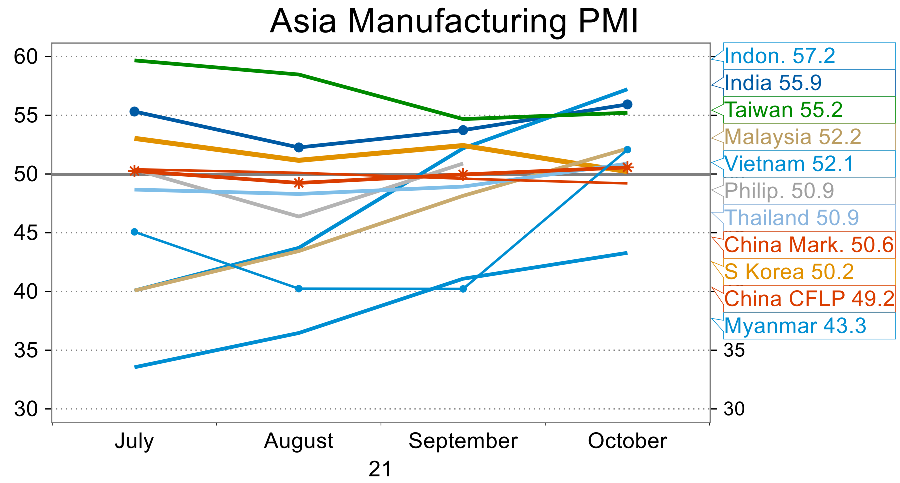

Asia Manufacturing PMI

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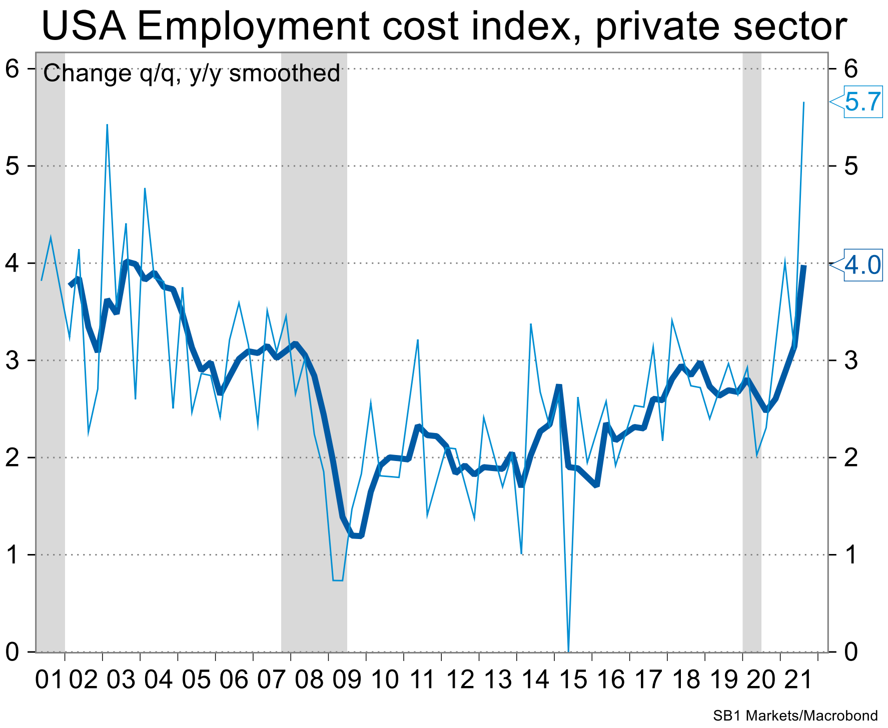
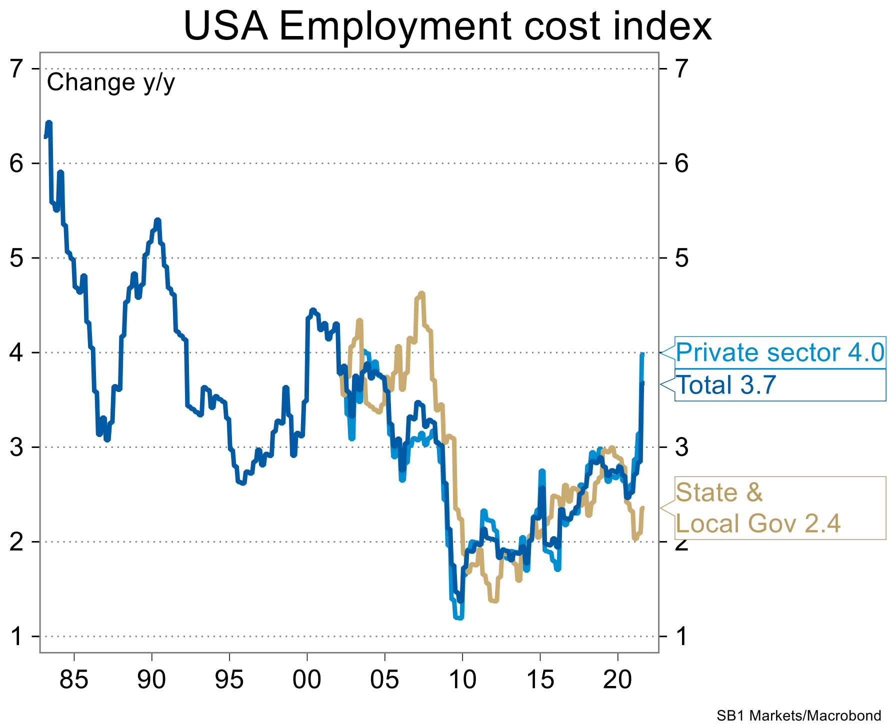
Now it’s ‘official’: the Empl. Cost Index joined the party, wages ARE on the way up

Employment costs rose at 5.7% pace in the private sector in Q3, the highest on record (data from ‘01)


USA Employment cost index, private sector

SB1 Markets/Macrobond


USA Employment cost index

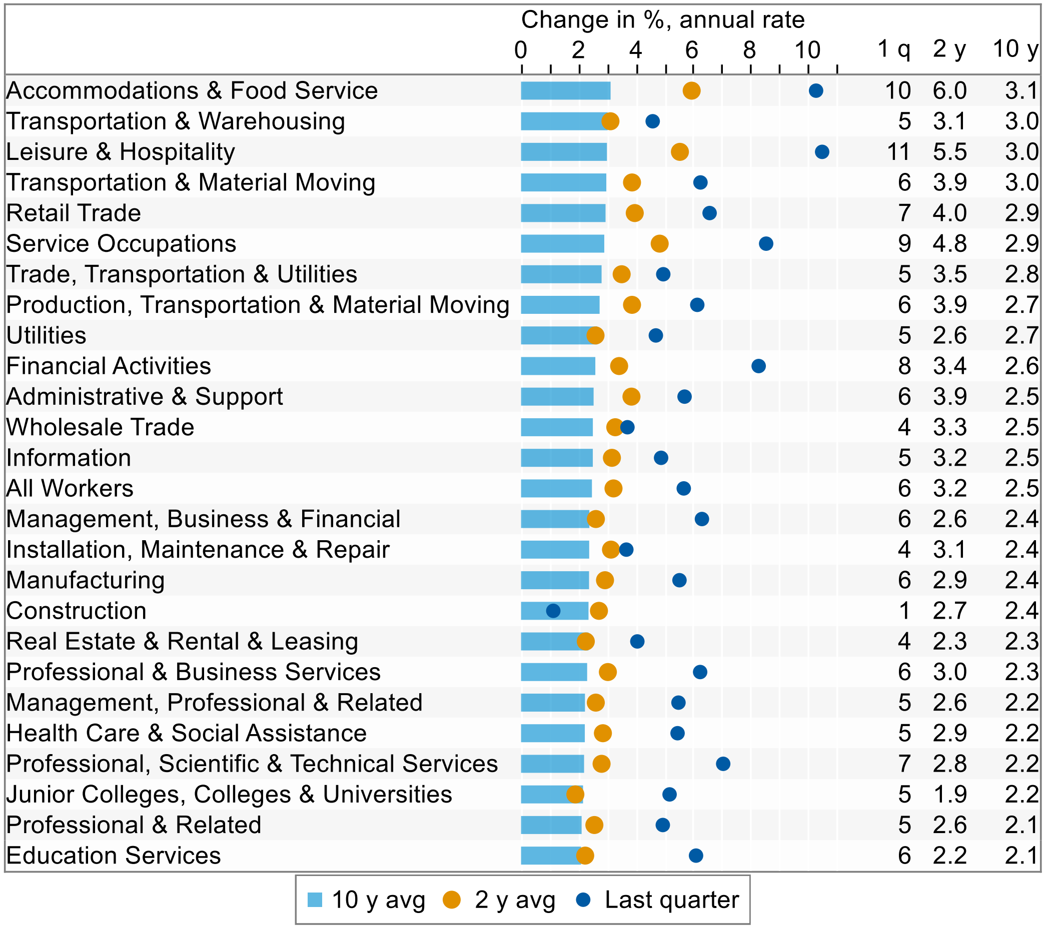
SB1 Markets/Macrobond

- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs (and is not influenced by changes in employment between sectors/type jobs), rose by 1.3% q/q in Q3, 0.5 pp (!) more than expected, or at a 5.4% annualised pace, the fastest since 1991. The annual rate shot up to 0.9 pp to 3.7%, the highest since 2005
  - » In the private sector, the ECI rose by 1.4% q/q, and it is up 4% y/y, the highest rate since 2003
  - » Wages & salaries in the private sector is up 4.6% y/y, highest since 1985. Benefits are up just 2.6 (and the sum 4.0%)
  - » In general, low paid services reported the highest wage growth, both q/q & y/y
- **All other wage indicators have reported higher wage growth for a while. Now even the ECI followed suit**

Wages in hotels & restaurants sharply up in Q3 – and up 6% y/y past 2 years

23 of 26 sectors/sub-sectors report higher 2y growth than the 10y avg. All of them q/q > 2y avg!

USA ECI Private industries



	1 q	2 y	10 y
Accommodations & Food Service	10	6.0	3.1
Transportation & Warehousing	5	3.1	3.0
Leisure & Hospitality	11	5.5	3.0
Transportation & Material Moving	6	3.9	3.0
Retail Trade	7	4.0	2.9
Service Occupations	9	4.8	2.9
Trade, Transportation & Utilities	5	3.5	2.8
Production, Transportation & Material Moving	6	3.9	2.7
Utilities	5	2.6	2.7
Financial Activities	8	3.4	2.6
Administrative & Support	6	3.9	2.5
Wholesale Trade	4	3.3	2.5
Information	5	3.2	2.5
All Workers	6	3.2	2.5
Management, Business & Financial	6	2.6	2.4
Installation, Maintenance & Repair	4	3.1	2.4
Manufacturing	6	2.9	2.4
Construction	1	2.7	2.4
Real Estate & Rental & Leasing	4	2.3	2.3
Professional & Business Services	6	3.0	2.3
Management, Professional & Related	5	2.6	2.2
Health Care & Social Assistance	5	2.9	2.2
Professional, Scientific & Technical Services	7	2.8	2.2
Junior Colleges, Colleges & Universities	5	1.9	2.2
Professional & Related	5	2.6	2.1
Education Services	6	2.2	2.1

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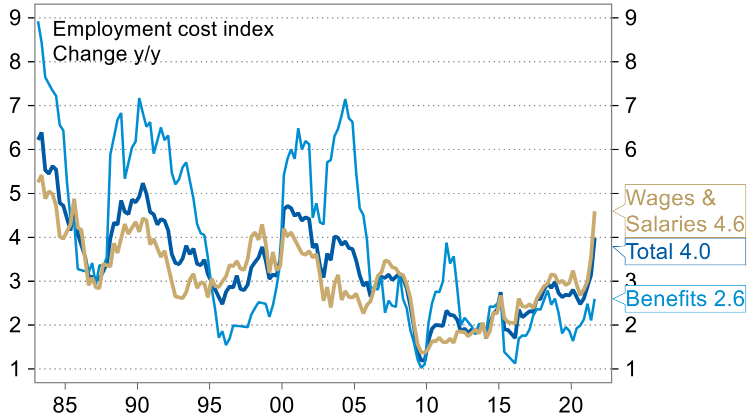
- The reopening of parts of the **service sector** has been accompanied by a significant lift in employment costs
- 23 of 26 sectors/sub-sectors reported higher q/q employment cost inflation in Q3 than the average over the past 2 years (from 19 in Q2), just 1 sector slower growth
- Over time, wages are rising at rather similar pace between sector
- In the private sector, wage & salaries are up 4.6% y/y, benefits are up 2.6%, the former the fastest pace since 1985!

USA ECI - Private sector



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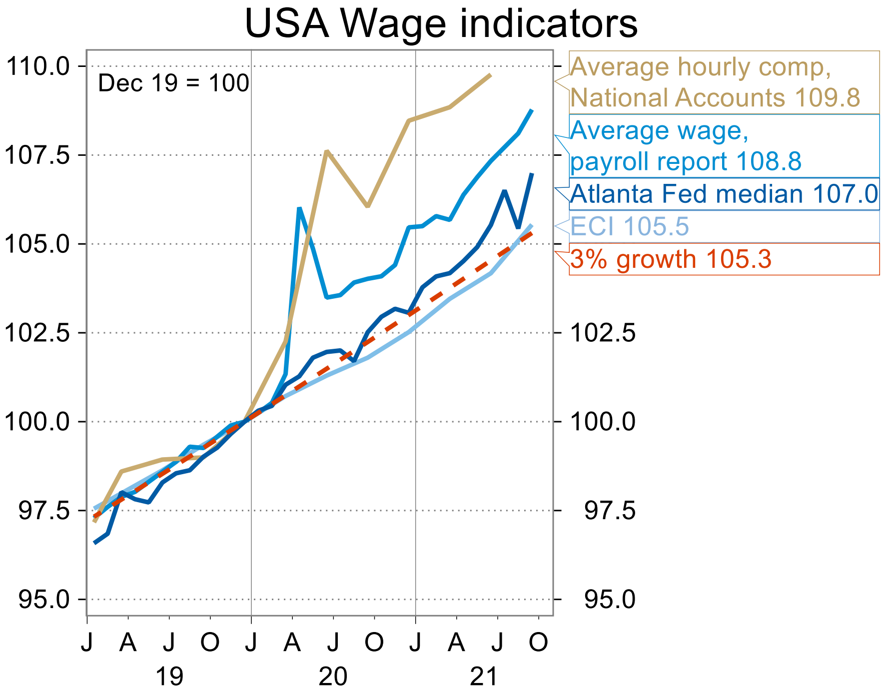
Now all wage indicators are reporting higher wage inflation

The ECI is still reporting the lowest annual wage growth



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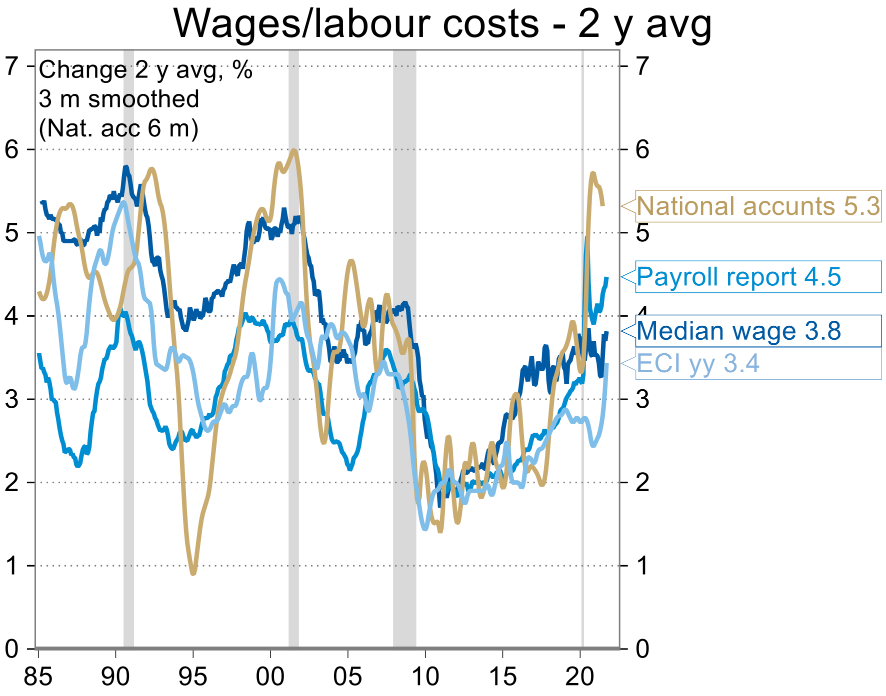

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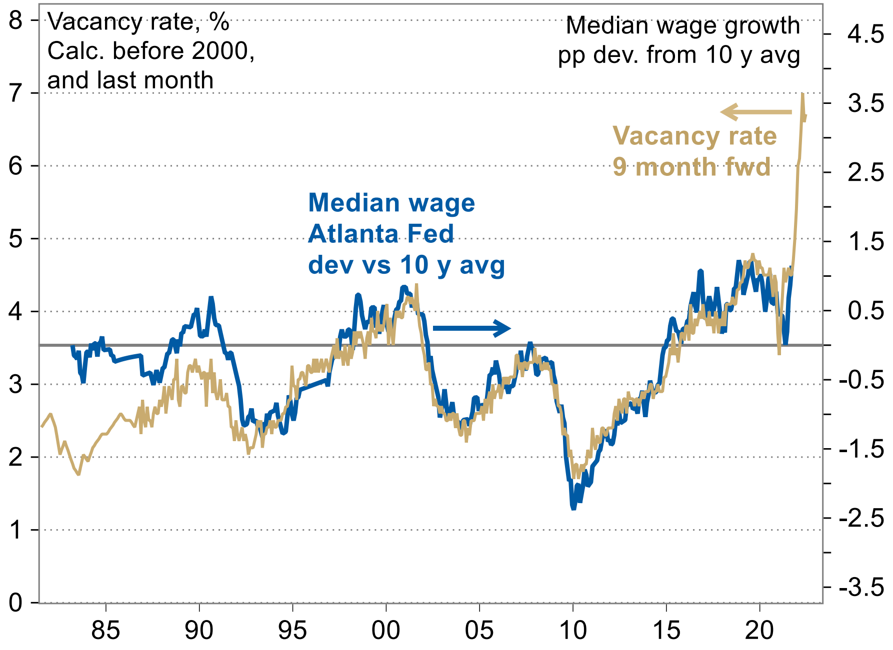
- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes in the first part of the pandemic (chart to the right)
- Wage/earnings/compensation is at least 1 pp above the 10 y average. There is an obvious risk that wage inflation will accelerate further (check next page) – probably until the next recession hits as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a challenge to keep inflation at 2% if wage inflation remains at 4% or above. However, profit margins will probably decline substantially from the present very high level, leaving room for higher wage inflation without higher price inflation

Wage inflation could accelerate further…

The vacancy level & SMBs' compensation plans lead actual wage growth by ≈ 9 months. And now...

USA Wages - Actual vs vacancies



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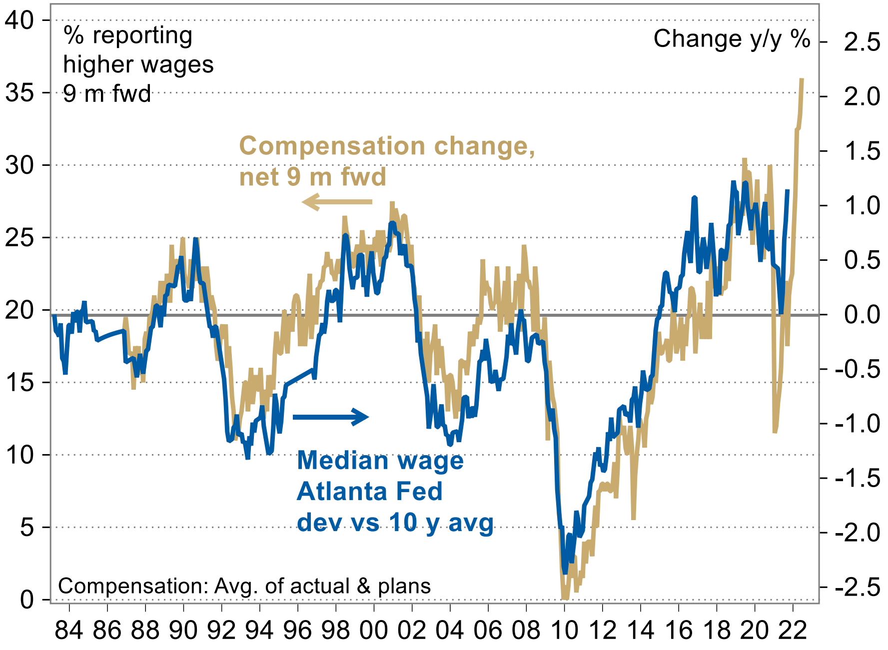
USA Wages - Actual vs NFIB survey



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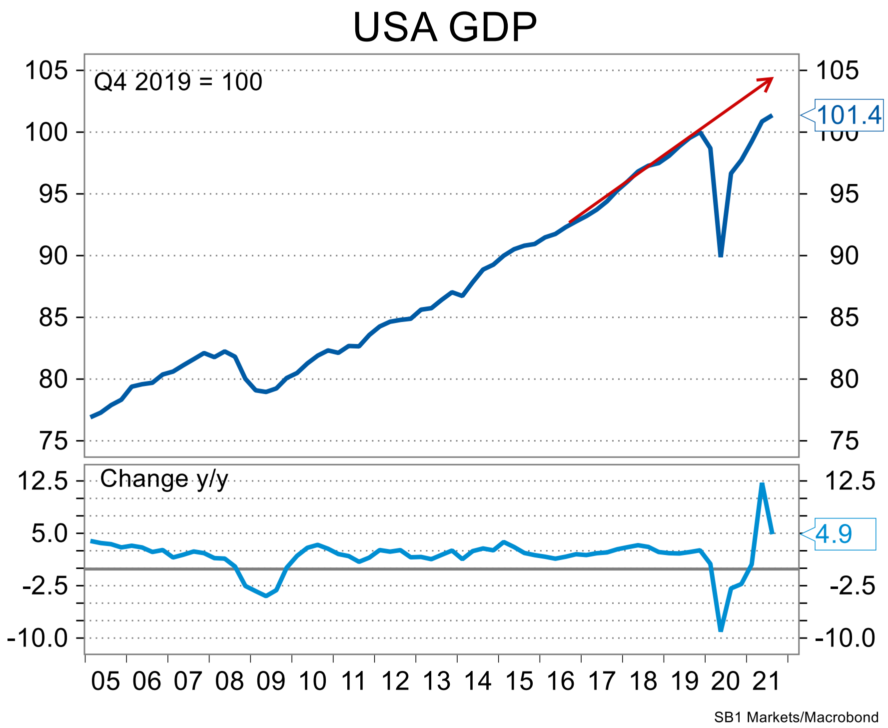
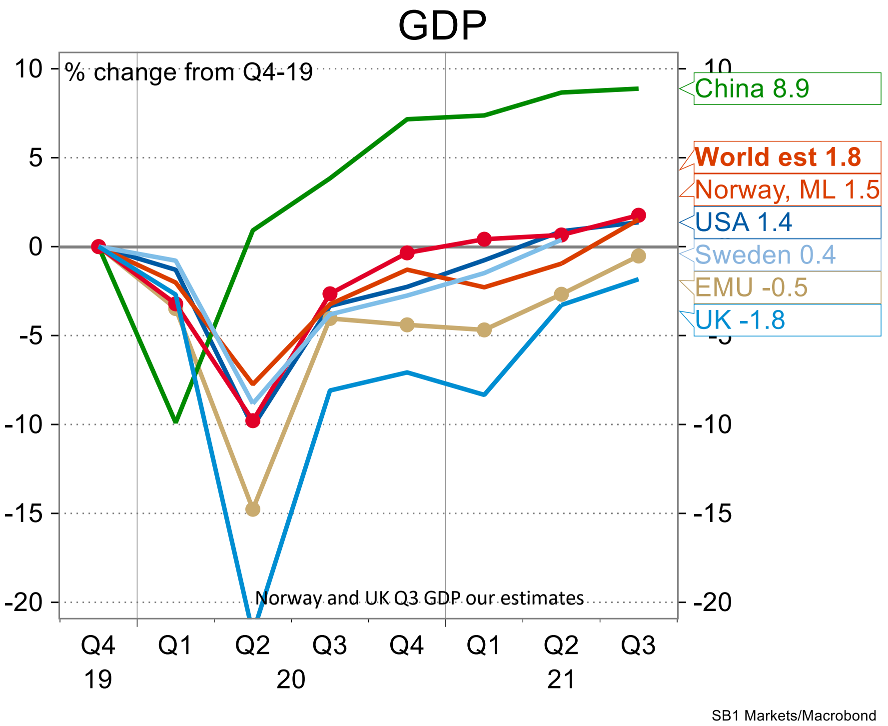
- More companies than ever before (data from 1986 though) are reporting that they have lifted or plans **to lift compensation** over the next months, as they never before have been so unable to fill positions (the correlation is incredibly tight)
- The **vacancy rate** fell in August but remains extremely high
- The correlation between these two variables, and the median wage growth is rather close, with vacancies and plans <u>leading by 6 – 12 months</u>. IF this correlation holds,<u> wage inflation will accelerate substantially from the present level – which already is high enough vs. the 2% inflation target</u>
- We do not know FOMC's wage forecasts but we assume they are rather upbeat, as the Bank expects inflation to remain above target the coming 3 years (and the price level to deviate even more from a long term 2% path). However, the Bank could impossibly not have factored in a wage growth <u>anything close to what companies now tell or even less what the current tightness of the labour market signals</u>

GDP grew just 2% in Q3, dragged down 1.5 pp by the auto industry

Services were somewhat affected by the Delta outbreak – faster growth in Q4 very likely



SB1 Markets/Macrobond

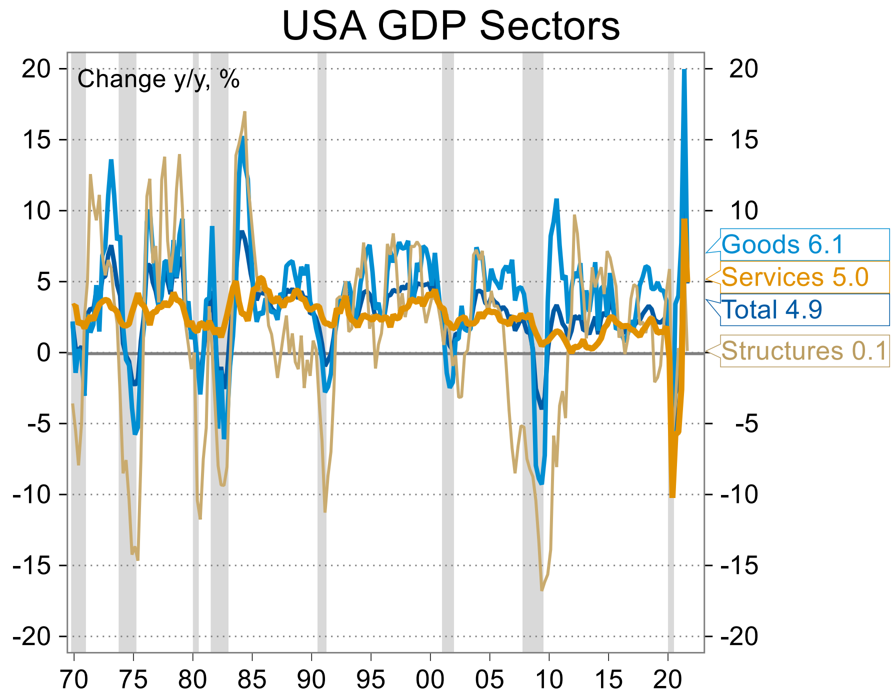


SB1 Markets/Macrobond

- **GDP** grew by 2.0% annualised in Q3 (0.5% not annualised), down from 6.7% in Q2, expected 2.5%. The GDP level is 1.4% above the Q4-19 level – but still some 2.8% below the pre-pandemic (2.4%) growth trend, as services still operate far below normal level
  - » GDP is up just 4.9% y/y, and it will be very hard to get to Fed's 5.9% forecast in Q4 as it requires a 9% growth pace in Q4
- **Private consumption** slowed as auto sales fell sharply – but other parts of goods consumption slowed too, business investment grew just slowly and housing investments fell further. Profits may have fallen as subsides were cut back, and wage costs grew faster
- **The EMU Q3 GDP** leapfrogged 9.1% in Q3 (2.2% not annualised), and the gap vs US narrowed to 1.9% vs the Q4-19 starting point. Calculated per capita in working age, the difference is even smaller

Goods flattened in Q3, services still on the way back

Services are 1.0% below the pre-pandemic level, but 5% below the pre-pandemic trend path



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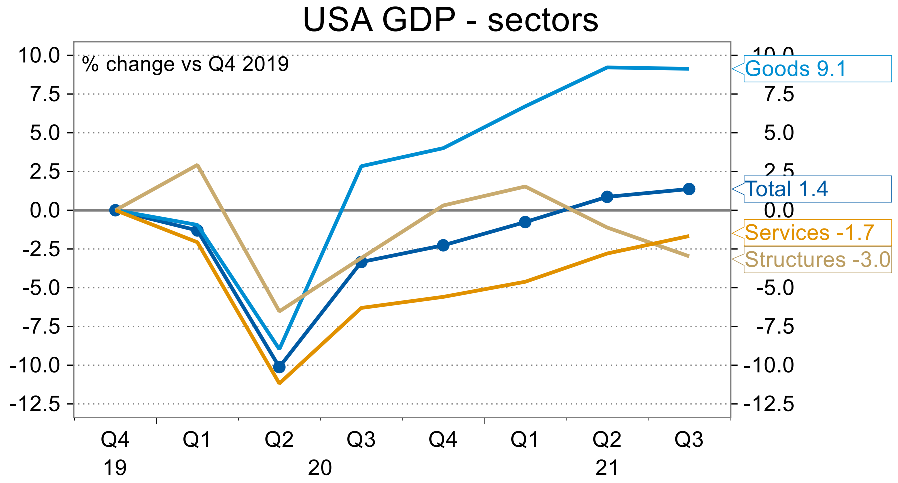

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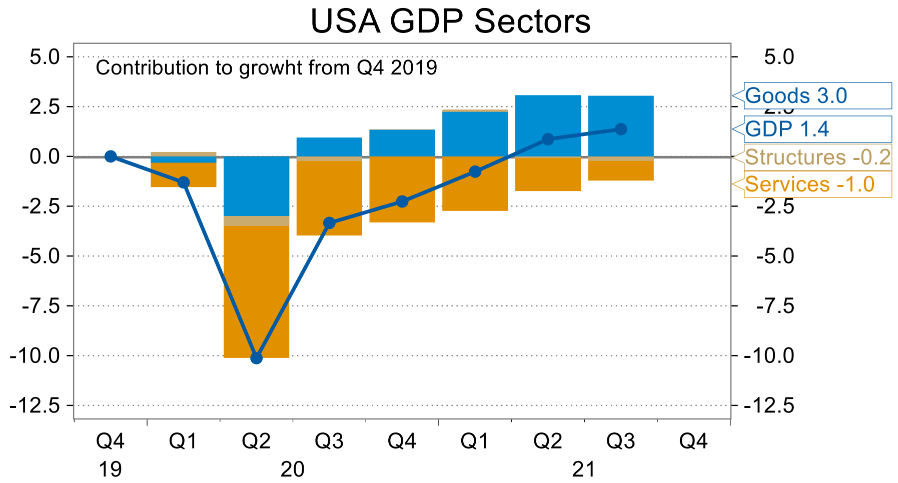
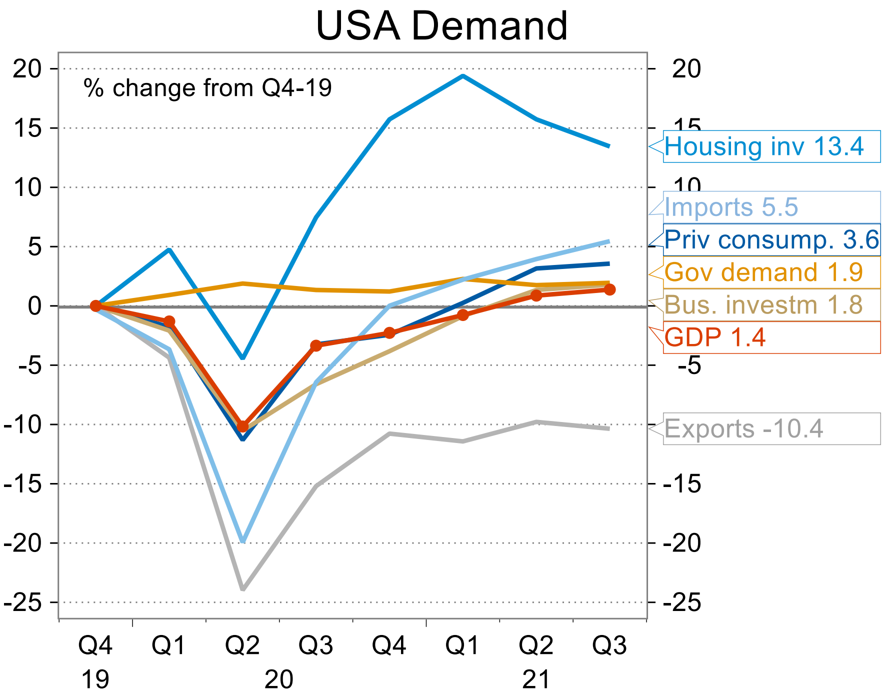


SB1 Markets/Macrobond

- Services production rose by 4.7% in Q3 (annualised) down from 7.9% in Q2. The Delta virus outbreak is at least partly to blame for this slowdown
- The 'weakness' in goods is of course due to the decline in auto production – which one day will recover

Consumption flattened in Q3, auto sales the main culprit

However, business investments almost flattened, and housing investment fell further



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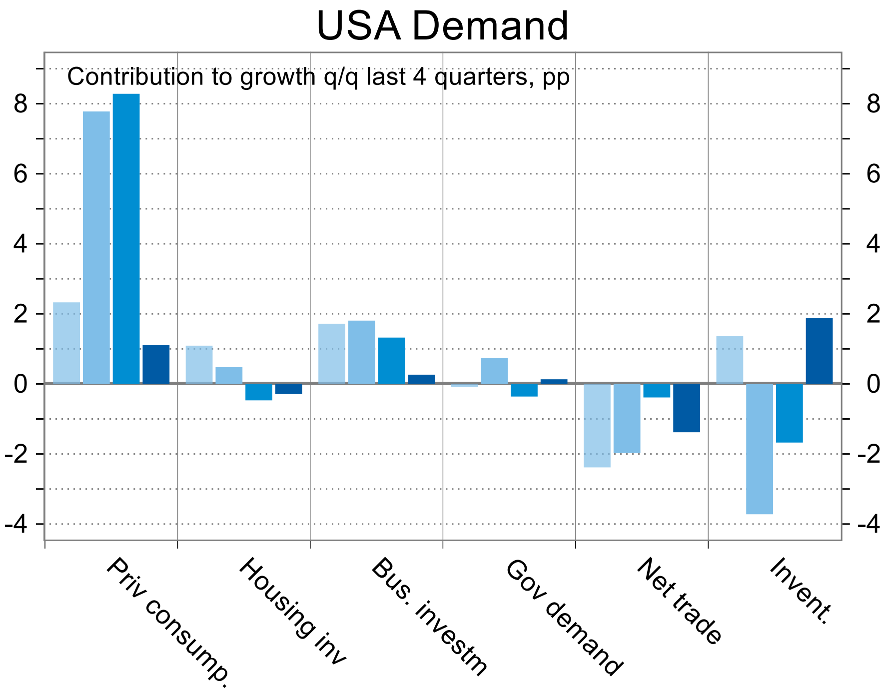

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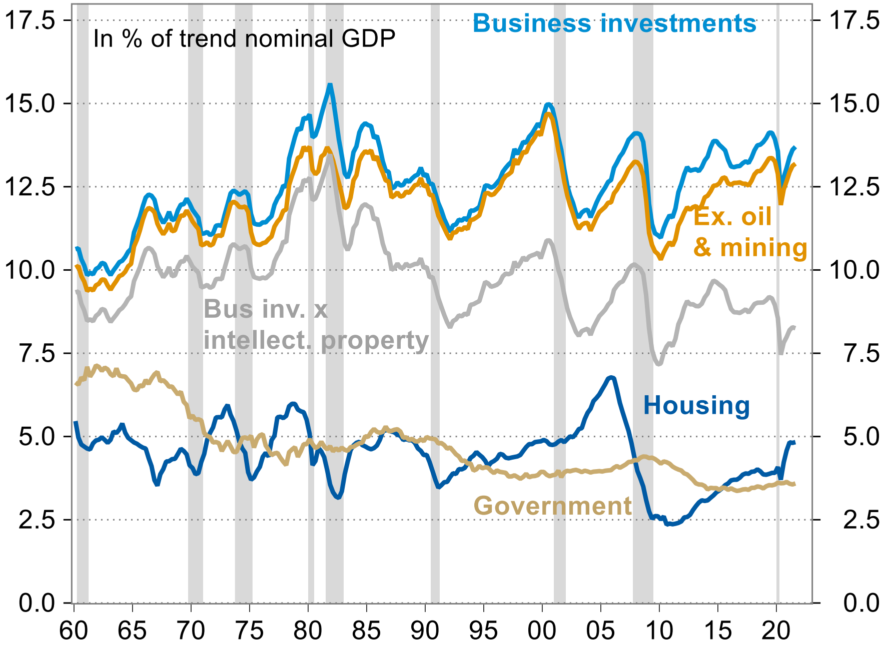
- **Private consumption** grew at 1.6% pace in Q3, as 'consumption' of durable goods fell by more than 20%, as auto sales fell sharply. However, consumption of non-durable goods also slowed, to some 3%. The consumption level is somewhat below the pre-pandemic trend
- **Housing investments** fell further in Q3, but the level is still 13% above Q4-19
- **Business investment** slowed, and was up just 1.8% - and the level is just 1.8% above the Q4-19 level, and below trend
- **Government demand** was close to flat
- **Exports** fell in Q3 and are still 10% below the Q4 level, as services are lagging. **Imports** grew 6% - and net trade deducted 1.4% pp from growth in GDP
- **Inventories** fell at slower pace, and added 1.9% to GDP growth – as domestic final demand just grew by 1.1%

Investments: Total business investments strong, housing investment high too

Business investments above trend just due to IP & software, ICT. Other equipment, structures still weak

USA Investments



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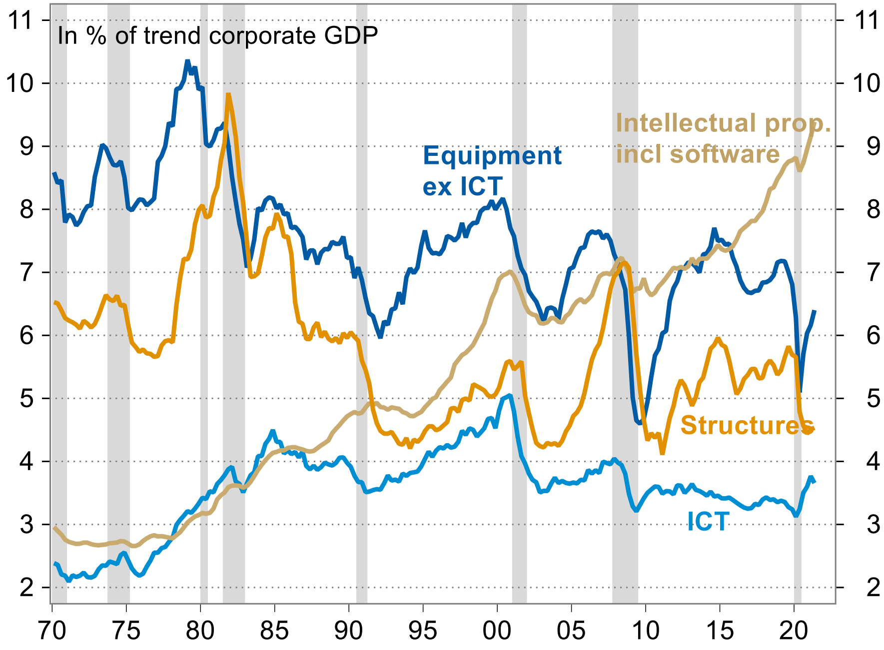
USA Business investments

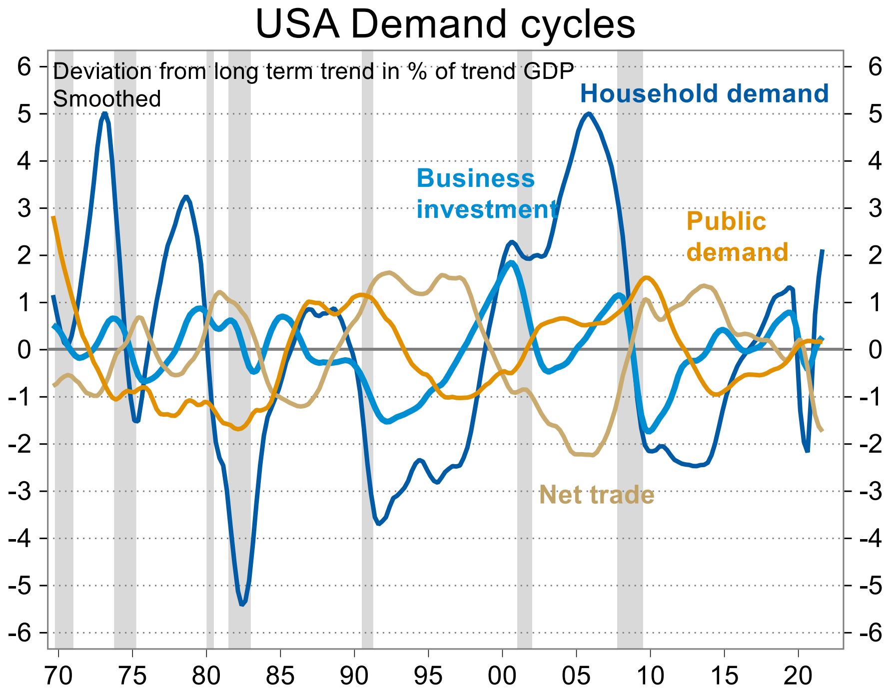


SB1 Markets/Macrobond

- **Business investments** are up 1.8% vs. the Q4-19 level, driven IP/software and ICT equipment. Investments in structures are still very low. Investments in equipment x ITC may be close to trend
  - » Thus the outlook for business investments is not clear: The boom in IP/software/ICT may well continue, even if the levels are high. There is still upside for other equipment and structures, at least vs the normal cycles in these sectors
- **Housing investments** fell in Q2 and Q3 but remain rather high
- **Government investment** as share of GDP have fallen past 2 quarters (as % of trend GDP). The infrastructure package will lift the investment ratio by less than ½% of GDP

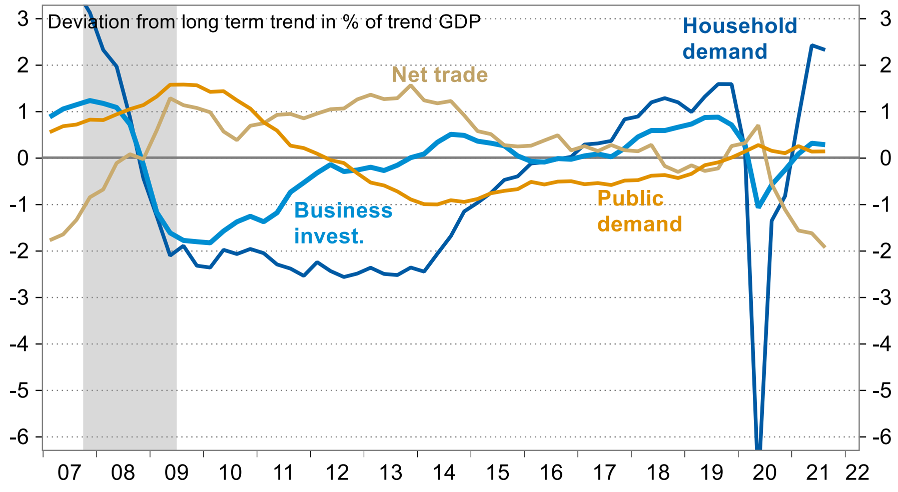
A private consumption cycle. Or rather, a virus cycle…

A shallow & short business investment downturn. Net trade is on the weak side, but exports will recover?



USA Demand cycles

SB1 Markets/Macrobond



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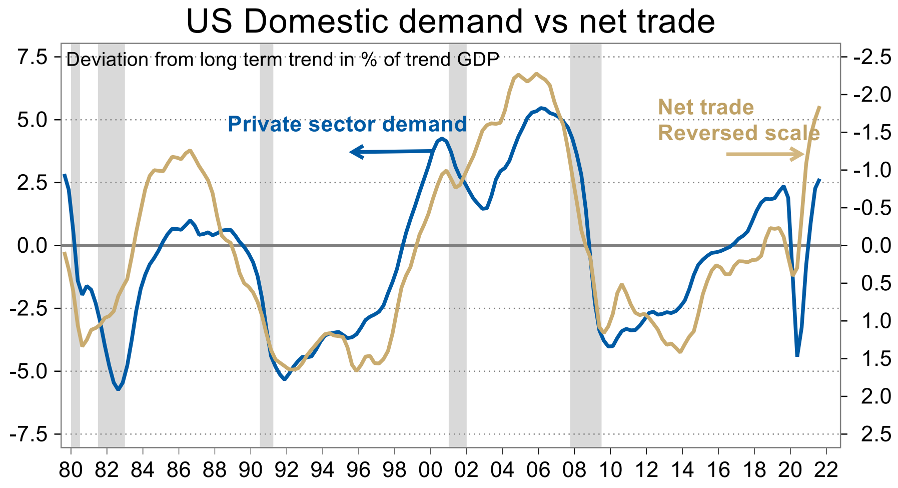

US Domestic demand vs net trade

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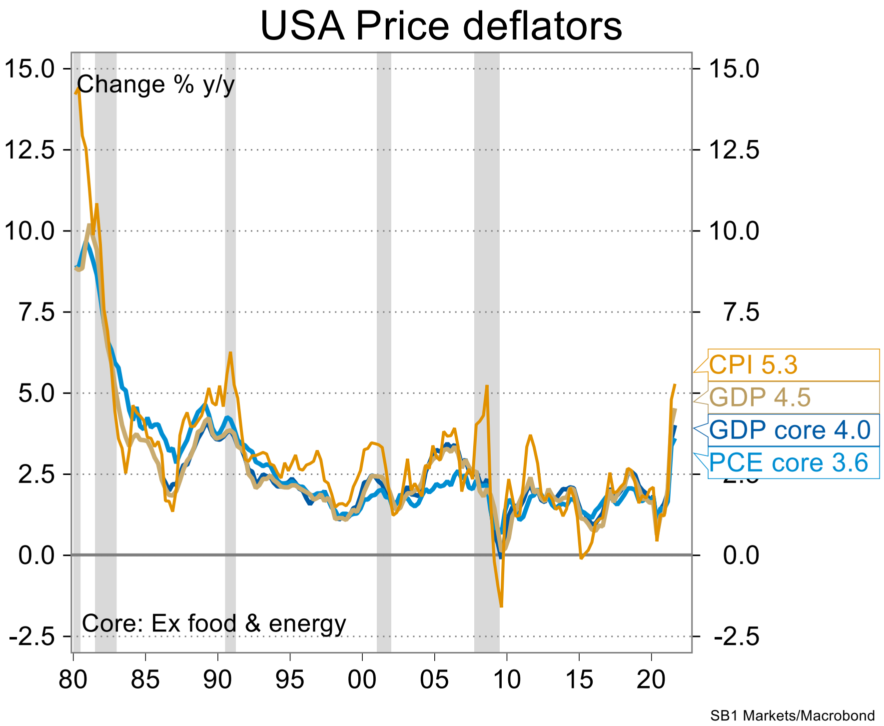
- *Check more on the household sector some few pages forward*

Price increases slowed in Q3 but remain very high

All GDP/PCE deflators up 4.5 – 5.7% in Q3 – the highest in decades



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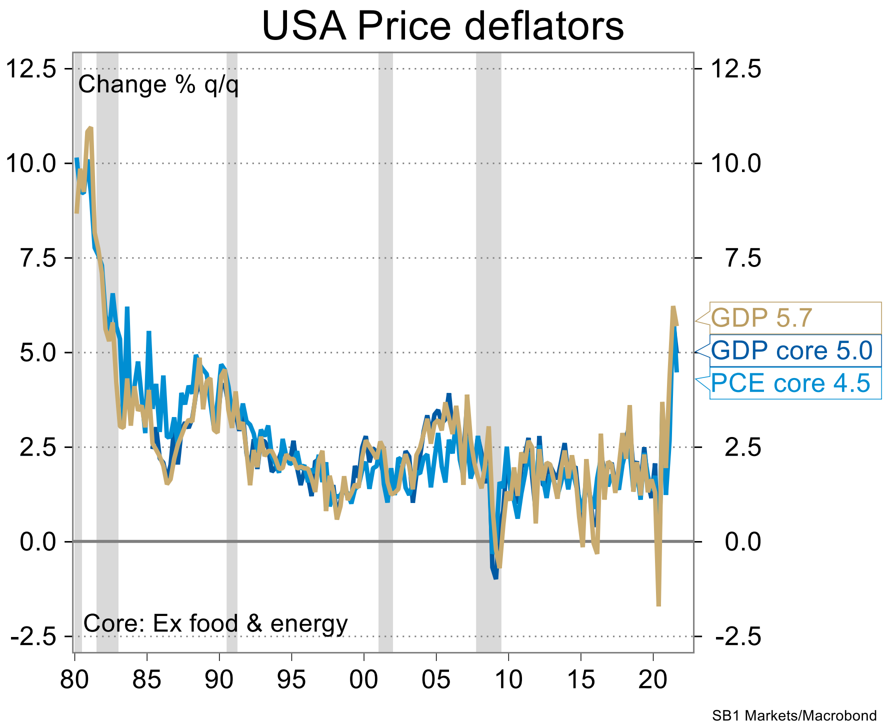

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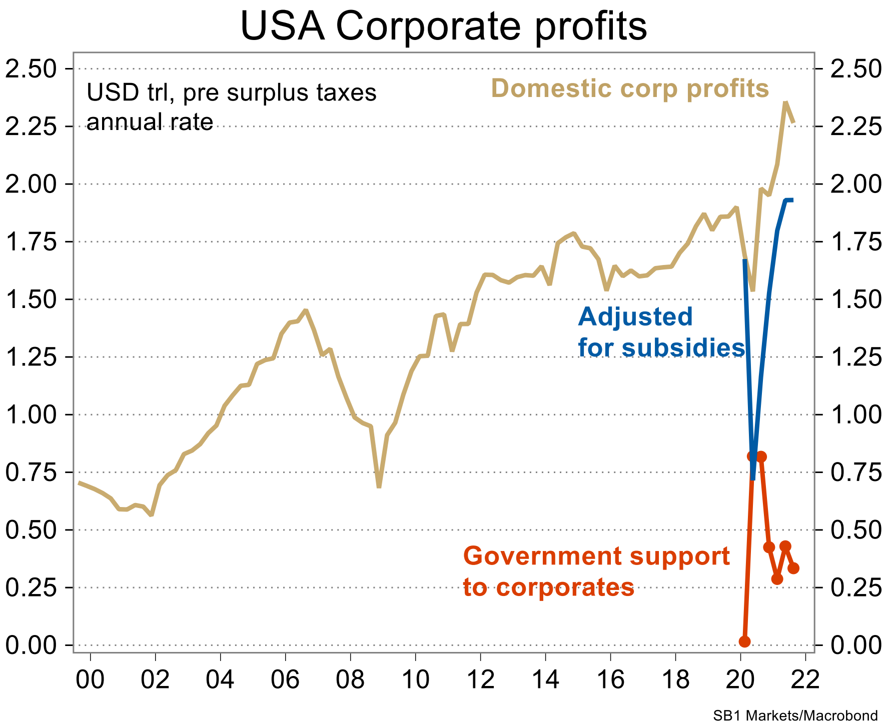
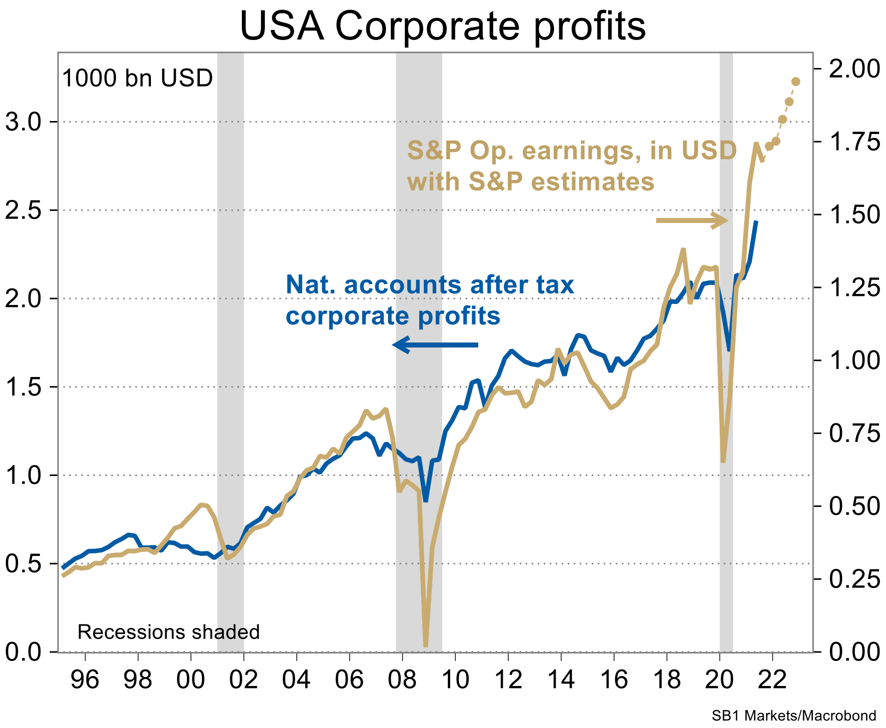
- Higher energy prices partly to blame but other prices have also contributed in Q3. The growth rates in Q2 and Q3 are the highest since 1982
- The core (x energy, food) PCE deflator (Fed's preferred measure) is up 3.6% y/y (and by 4.5% in Q3), the highest since 1991. The 40% lift in used auto cars explains a substantial part of the lift in the core PCE
- Nominal GDP grew at a close to 8% pace in Q3, the price deflator rose 5.7%

National accounts corporate profits may have stalled in Q3

Less subsidies but also a fast growth in the wage bill to blame



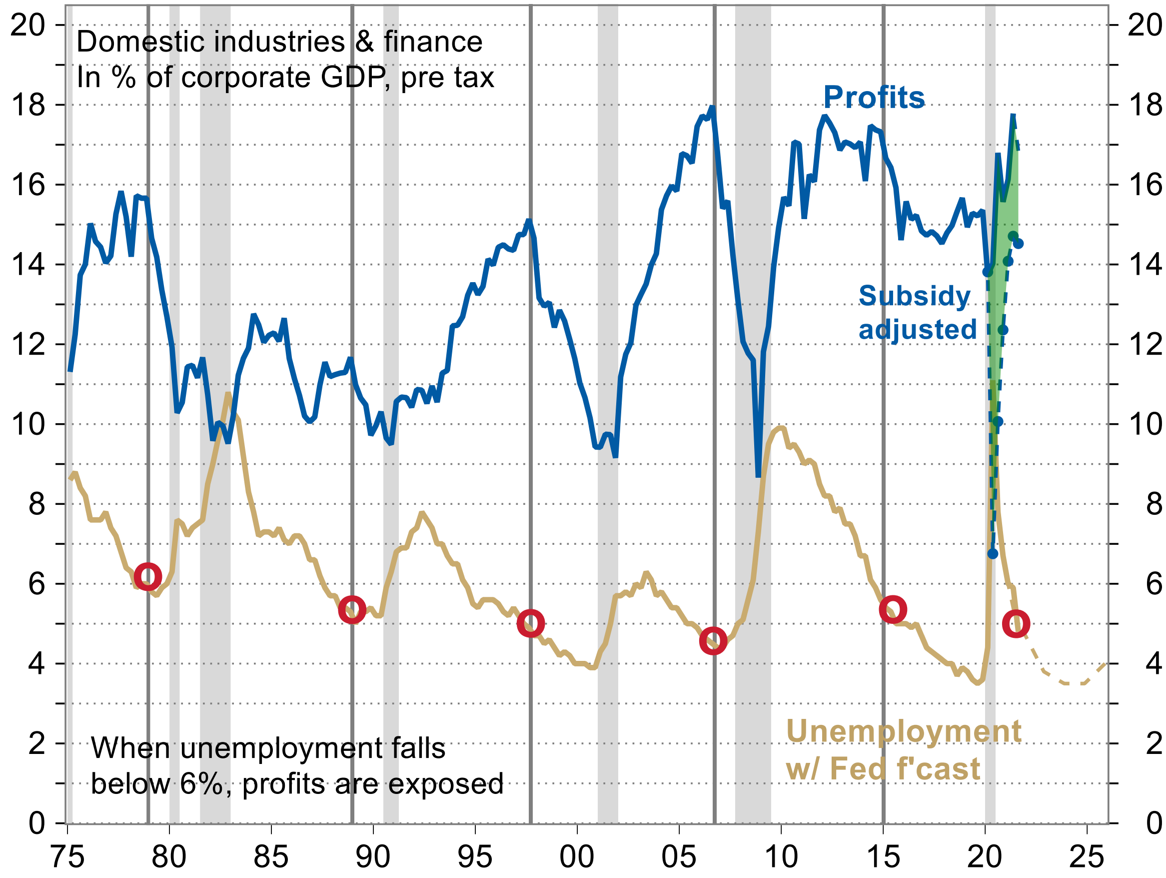


- We estimate a 4% decline in domestic corporate profits in Q3 (data are not yet published)
  - » The main reason is a decline in government subsides (or in the product taxes – subsidies payments). The government support to corporates on the chart to the right is the difference between normal product taxes – subsidies payments and the current
  - » Wage inflation is accelerating sharply. The wage bill rose by 9% (annualised) in Q3 (domestic corporate sector). Hourly compensation must have increased by some 4% – 6% (which is in line with what wage indicators report)
- The profit share (vs. GDP, corporate GDP) very likely fell in Q3. We expect a further decline the coming quarters, whatever the Fed does to counter the inflationary pressures

The profit share peaked in Q2?

Our estimate suggests so. Subsidies are reduced (and more to come), the wage bill inflates

USA Corporate profits vs unemployment



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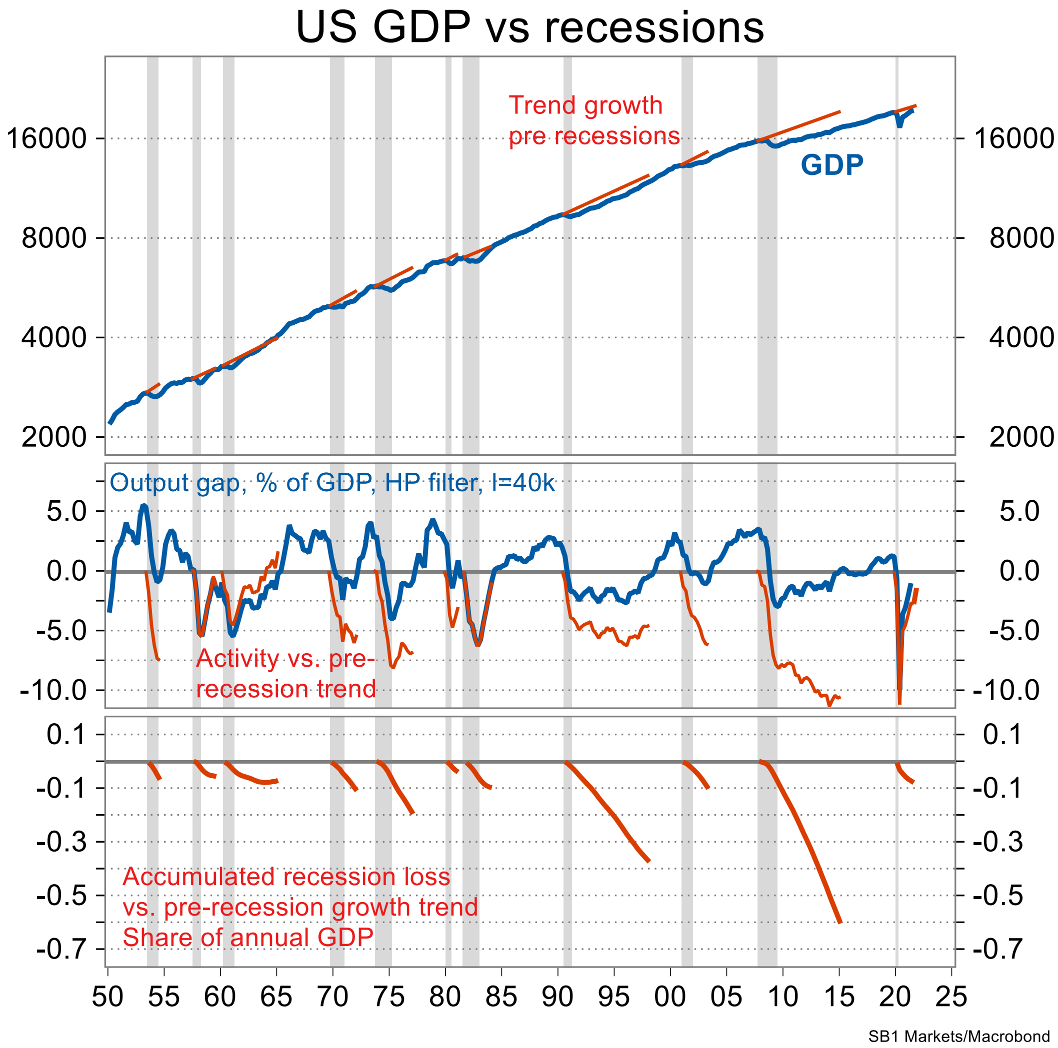
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now at 4.8%, and other indicators (especially vacancies) suggest that the labour market is even tighter than the 4.8% signals
  - » Thus, it is quite likely that the profit share is headed downwards from here

All data are not yet published, and the Q3 numbers is just our estimate

The big picture: The pandemic downturn was deep but very short

The accumulated economic loss is very likely among the smallest in history



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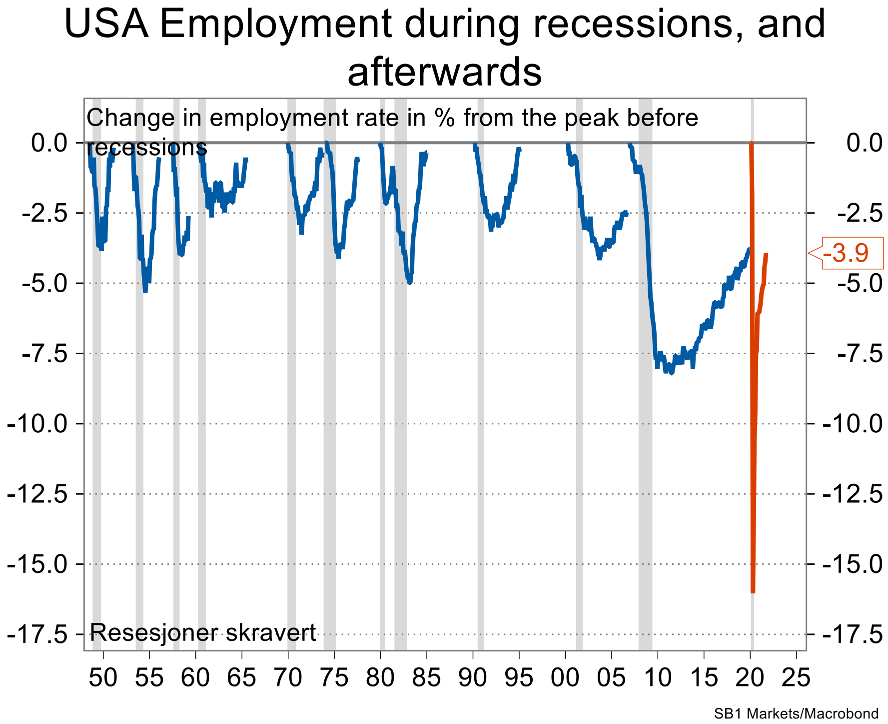

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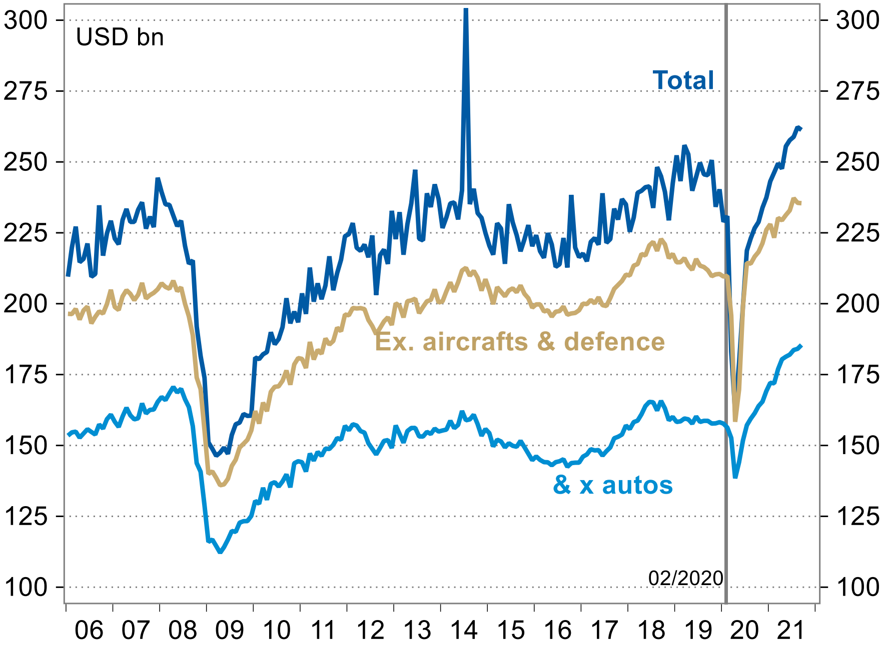
- **The accumulated GDP loss** at the bottom chart to the left is calculated by accumulating the gap to a reasonable growth forecast ahead of the recession based on actual growth trends in the 3 – 5 years before the downturn (adaptive expectations; red lines at the top panel to the left). These gaps are accumulated until the traditional output gap is closed (which is an arbitrary ending point of course, and unknown real-time)
- Most metrics will conclude that the Financial crisis (2008 – 09) created the hardest economic downturn since WWII by far, as growth the following years was far lower than most expected before the crisis
- The accumulated employment loss was large as well – and rather limited this time!

Strong order inflow in September too – except for aircrafts, autos

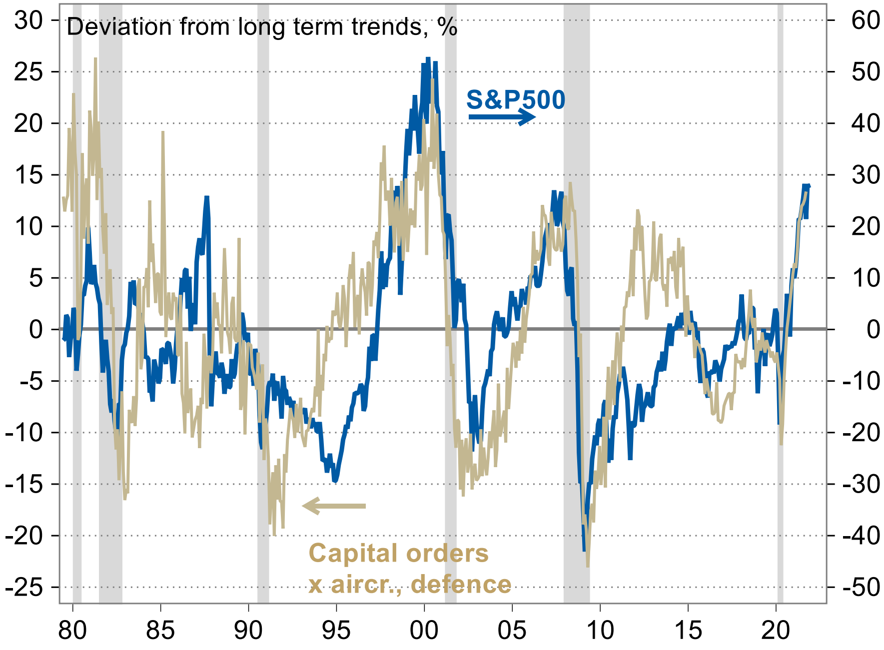
Investment goods orders are trending up, signalling further growth in business investments

USA Durable orders



SB1 Markets/Macrobond

USA Capital goods orders vs S&P500



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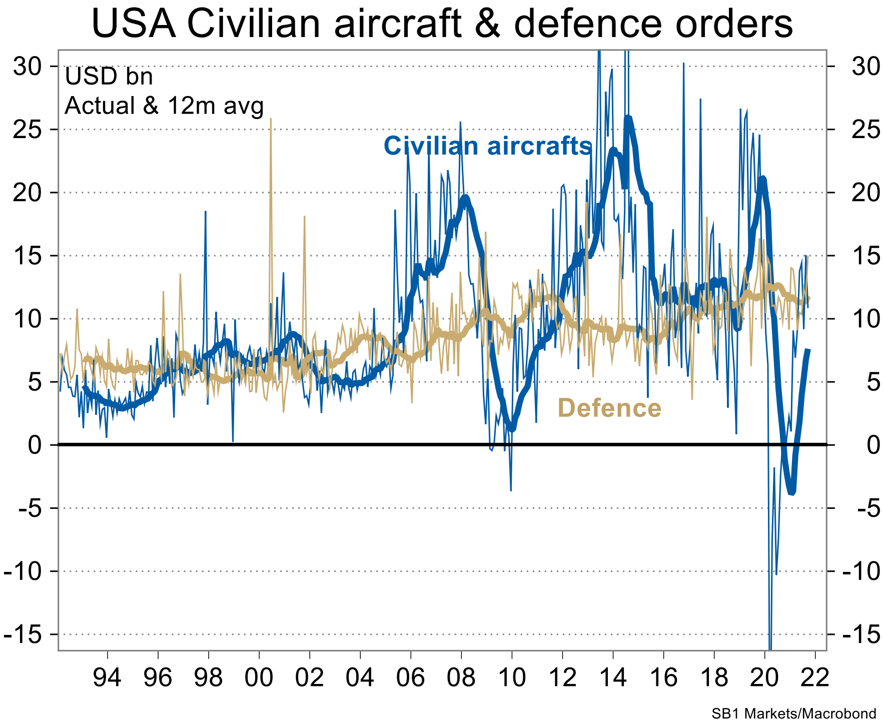
- **Total durable** orders fell by 0.4% in Sept, expected -1.1%. The volatile aircraft orders declined by 27%, dragging down the headline by 1.5% (but aircraft have recovered well from the downturn last year). Auto orders fell by 3% - taking the total down by 0.5%. The decline in auto orders is very likely due to the lack of supply of cars/component shortages
- **Core orders** (ex aircrafts, defence) were flat, and in line with expectations. The trend is strong.
  - » Adjusted for auto order, the 'real' core rose by 0.7% - ant the trend is even stronger!
- **Core investment goods orders** were up 0.8%, and the trend is still straight up
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

Aircraft orders were down in September (defence stronger)

… and auto orders fell by another 2.9% m/m



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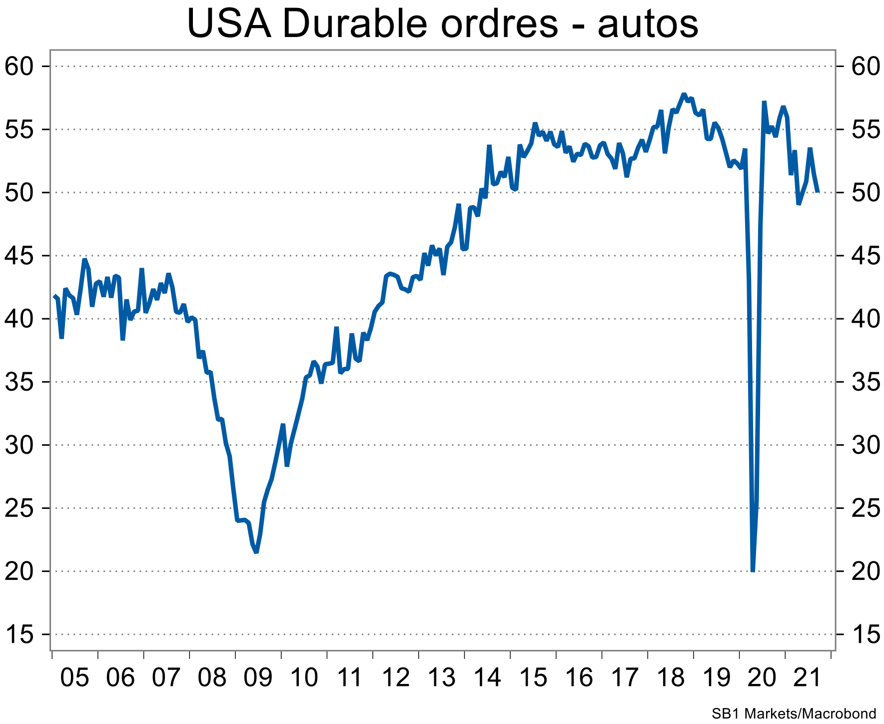

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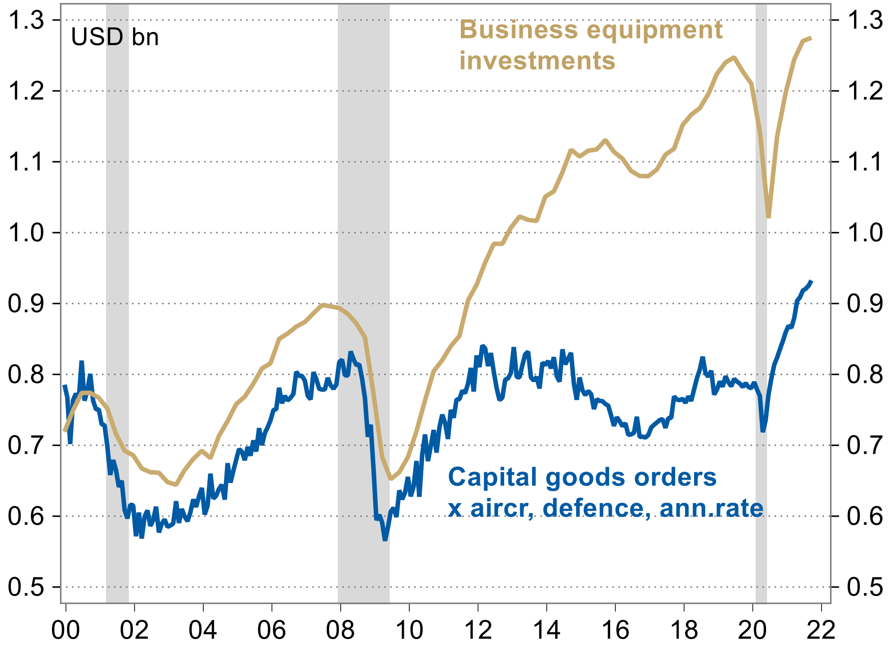
Core capital orders are still going strong

Signal decent growth in business investments into Q4 following a weak Q3

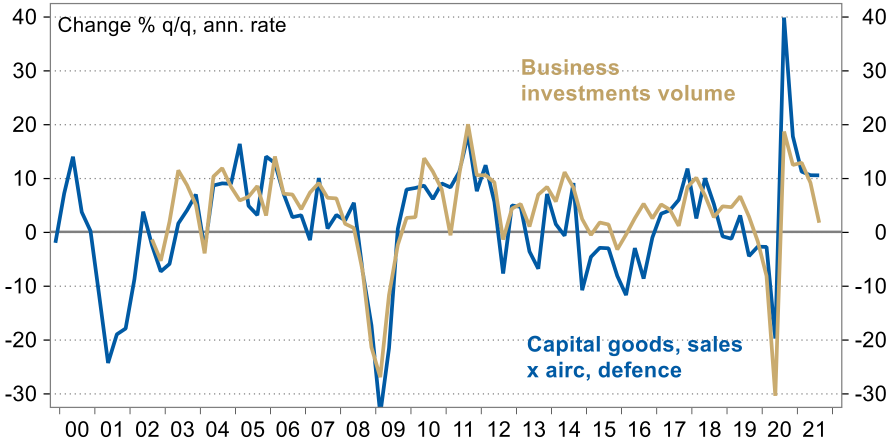
USA Investment goods orders



SB1 Markets/Macrobond

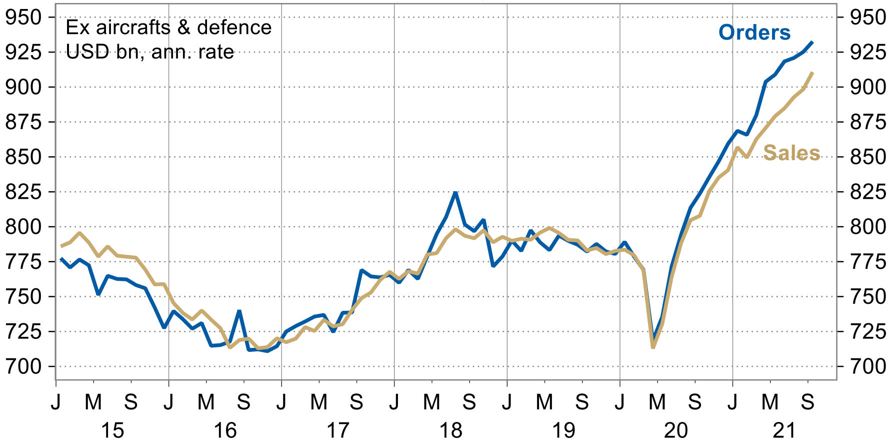
- **Core (x aircraft, defence) capital goods orders keep** increasing and were up 0.8% in September. Shipments were up 1.4%. Both are growing at a brisk underlying pace, signalling growth in business investments into Q4
- **The business investment** level is well above the pre-pandemic level – and not at low vs. a reasonable long term trend (see more data, comments here)

USA Investment goods sales



SB1 Markets/Macrobond

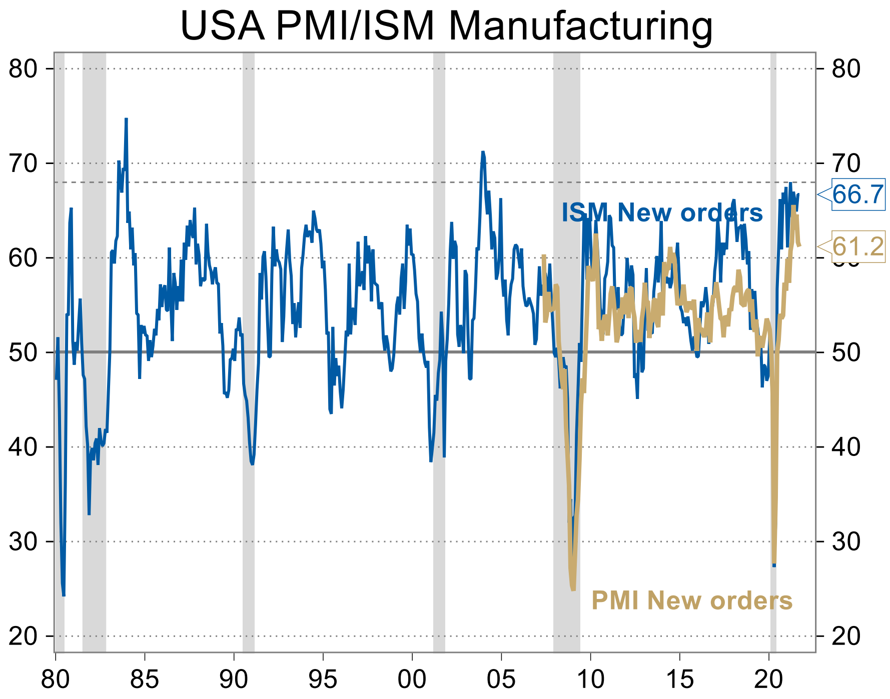
USA Investment goods orders



SB1 Markets/Macrobond

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

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



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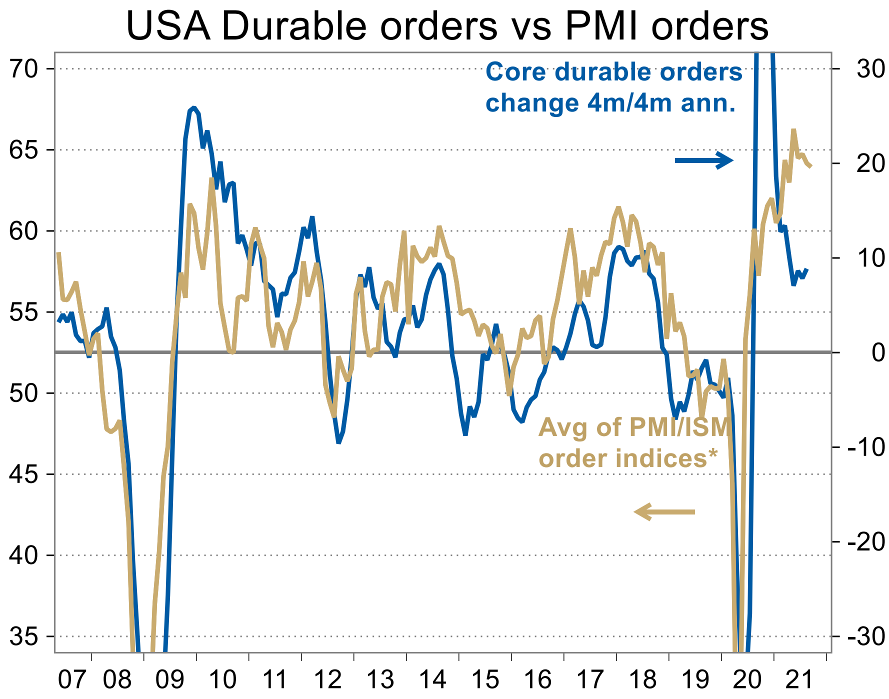

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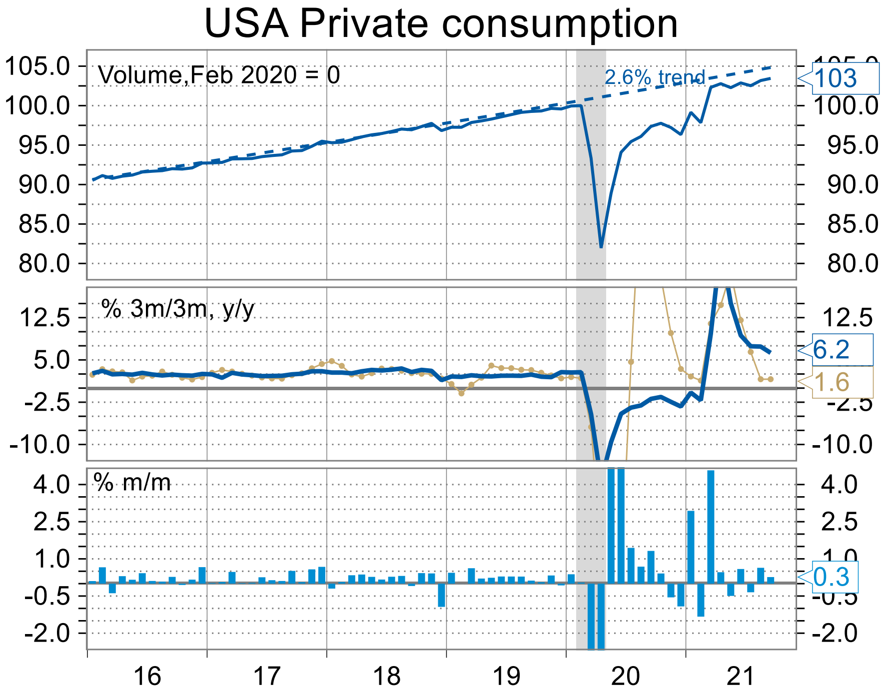
* The ISM order index is

Household income down on less unempl. benefits, spending up 0.3%

The savings rate back to the pre-pandemic level but the 'wall of money' still intact



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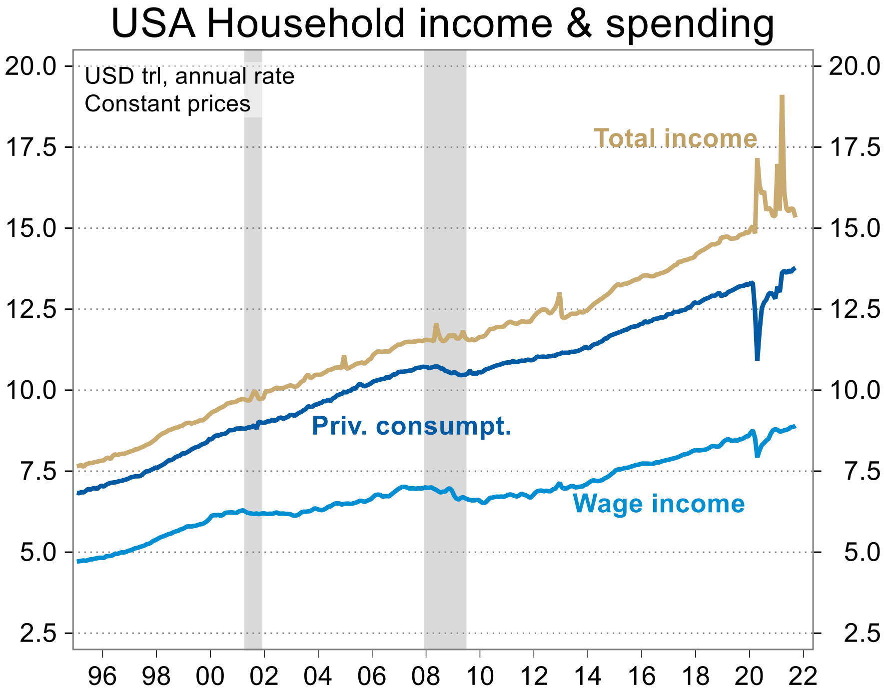


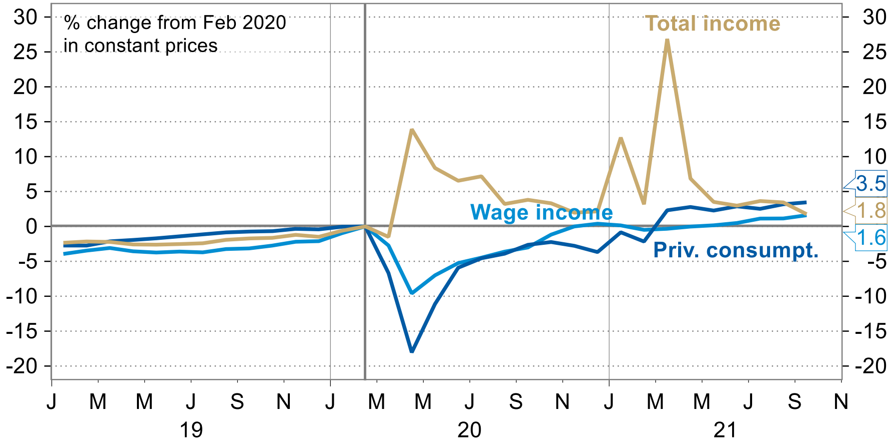
SB1 Markets/Macrobond

- **Private consumption** rose by 0.3% in real terms in September, as expected (spending rose 0.6%, also as expected). Consumption in real terms have slowed substantially March and rose just 1.6% in Q3. Consumption of goods is trending back to a more normal level while services are on the way up but still well below the pre-pandemic level (-1.4%) and far below the pre-pandemic trend growth path (-5%). Services have been slowed by the Delta outbreak, while the decline in auto sales have slowed goods consumption (but the rest is slowing too). Total consumption is up 3.5% vs. the Feb-20 level, and 1% below the pre-pandemic 2.6% growth path
- **Real personal disposable income** fell by 1.4% in September. Income before taxes fell by 1%, far more than the expected -0.3%. Unemployment benefits fell sharply (a 1.5 pp negative contribution, other net incomes rose) as the federal programs were terminated. Wage revenues are growing quickly, at least in nominal terms (to above the pre-pandemic trend, even if employment is still well below), and even in real terms with a 4.4% annual PCE rate of inflation!
- **The savings rate fell** by 1.7 pp to 7.5%, down to the pre-pandemic level. Will the rate decline further? Households have saved an extra amount equalling 13% of one year's GDP during the pandemic. Some of this 'Wall fo Money' be spent the coming quarters

Less unemployment benefits, and disposable income fell by 1.4% in Sept

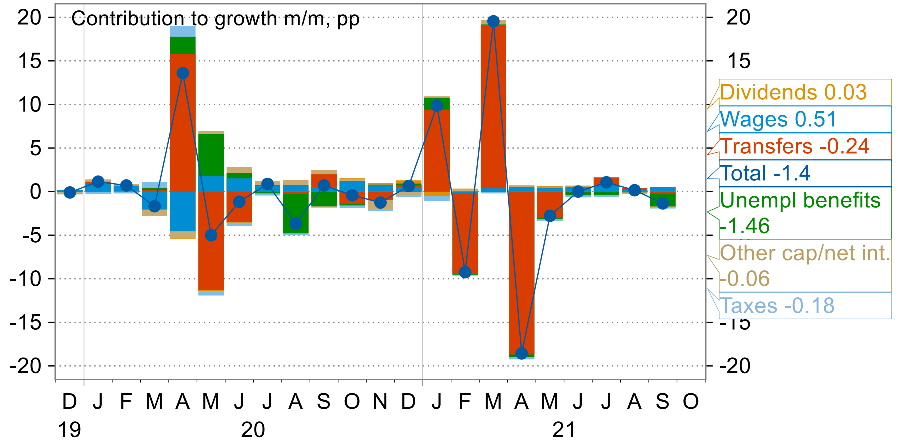
Wage incomes are on the way up, but did not compensate for lower benefits last month

USA Household income & spending



SB1 Markets/Macrobond

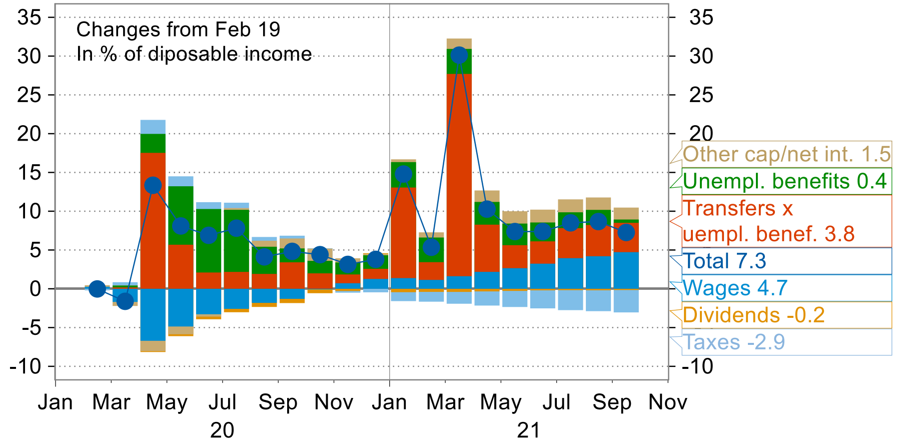
USA Household disposable income



SB1 Markets/Macrobond

- **Total income has** fallen down to a more normal level due to falling public transfers, as unemployment benefits have fallen down to the pre-pandemic level, with a substantial decline in September when the two federal UI programs were terminated. Other transfers are still elevated vs. the pre-pandemic level
- **Total wage income** is growing rapidly and are above the pre-pandemic growth path at 4.25%, even if employment & hours worked remain well below the pre-pandemic level. The reason is of course the sharp increase in wage inflation

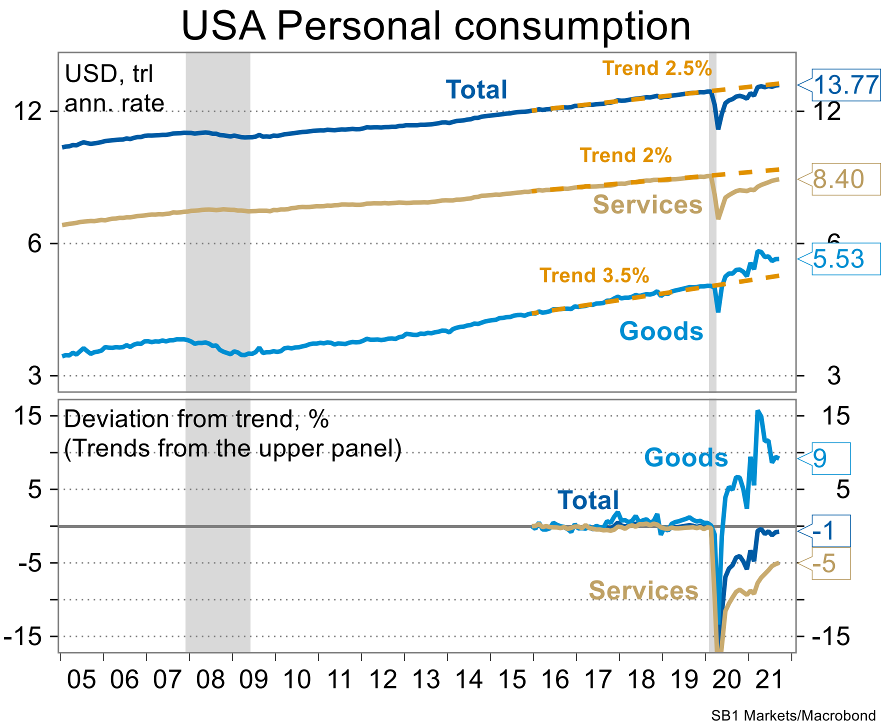
USA Household disposable income

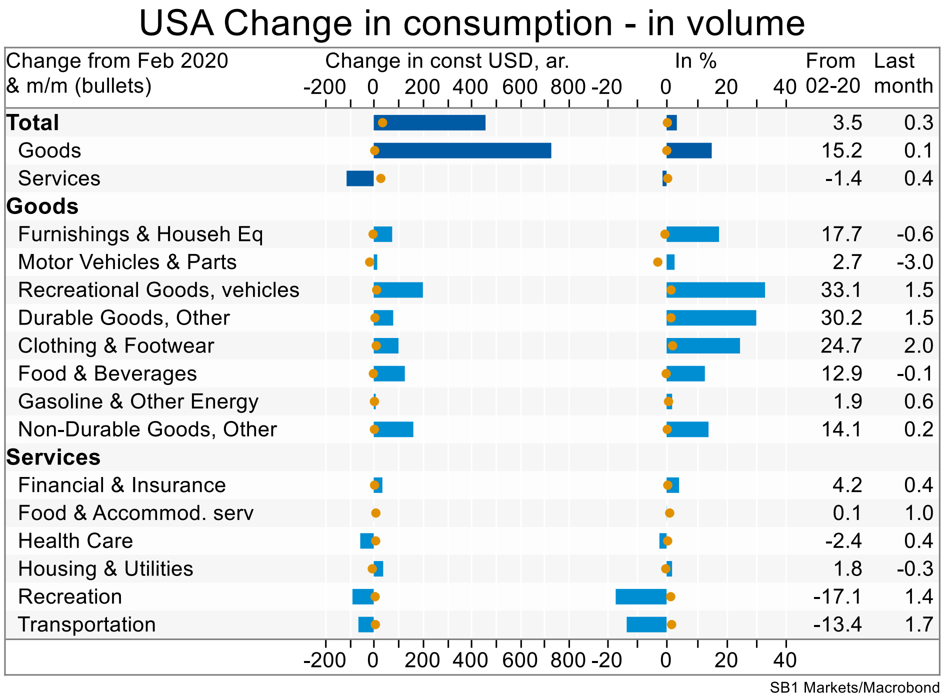


SB1 Markets/Macrobond

Service consumption still 5% below the pre-Covid trend, goods are 9% above!

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





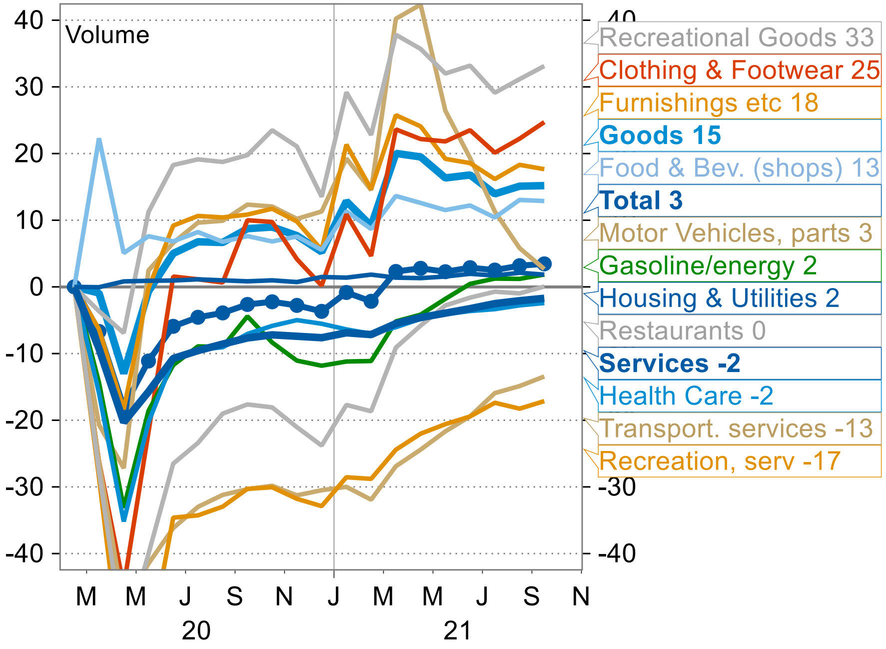
- Services are recovering, but even so down 1.4% vs. the Feb-20 level, and down 5% vs the pre-pandemic trend path

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

Consumption of goods trends down, still up 15% vs the pre-pandemic level!

Services are recovering but none are above the p-p level. Recreational services are down 17%!

USA Private cons. % change from Feb '20

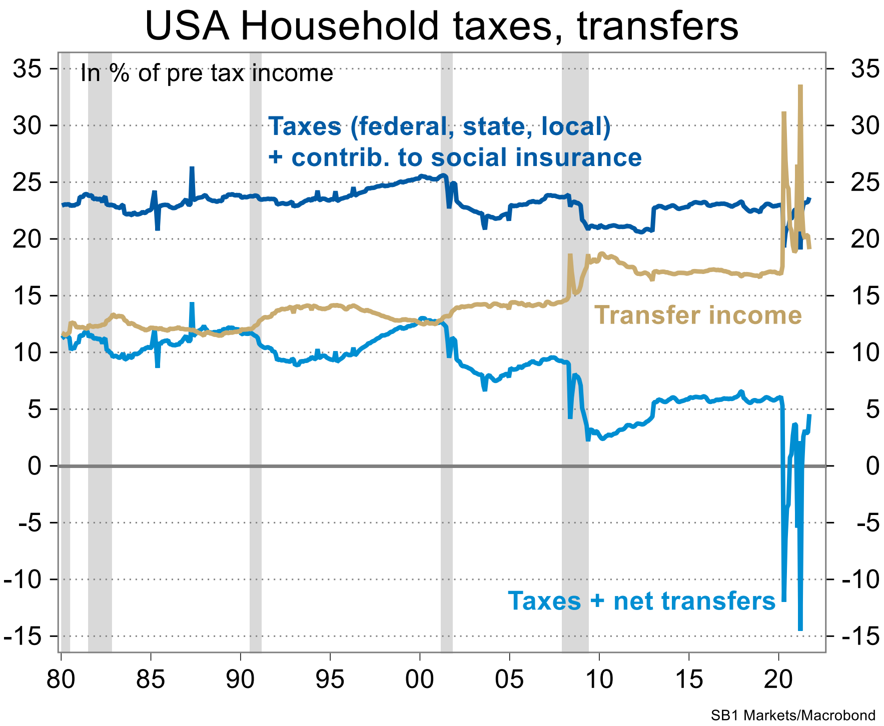


SB1 Markets/Macrobond

- **Consumption of goods** rose marginally in Sept, the trend is down from still a very high level. The downside is substantial
- **Consumption of services** rose just 0.4% in Sept, as in Aug, no doubt hampered by the Delta outbreak. Spending is now 2% below the Feb-20 level, in volume terms. Restaurants are back to the starting point, in volume terms ('meals served'), while transportation (-13%) and recreation (-17%) are far below – so there must be more to go the coming months/quarters
- Total consumption is up 3.5% vs. Feb-20, below a normal growth rate over 18 months – and total spending has more or less flattened in real terms since March (3m/3m is up at a 1.6% pace)

Towards more normal times – transfers significantly down, still above normal

Net taxes at 4% of pre-tax income is 2% below the pre-pandemic level – which was far too low



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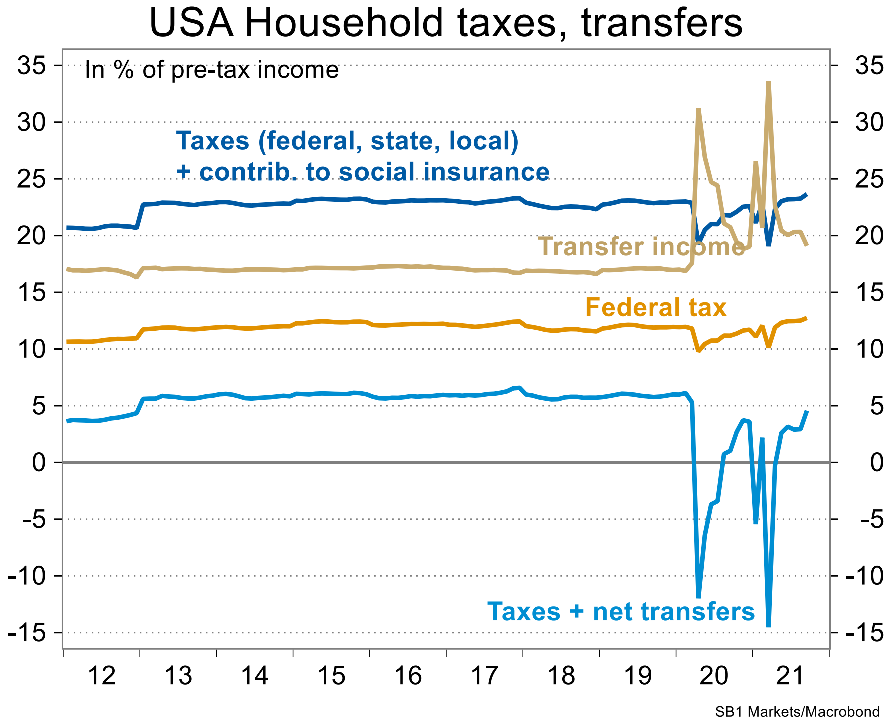

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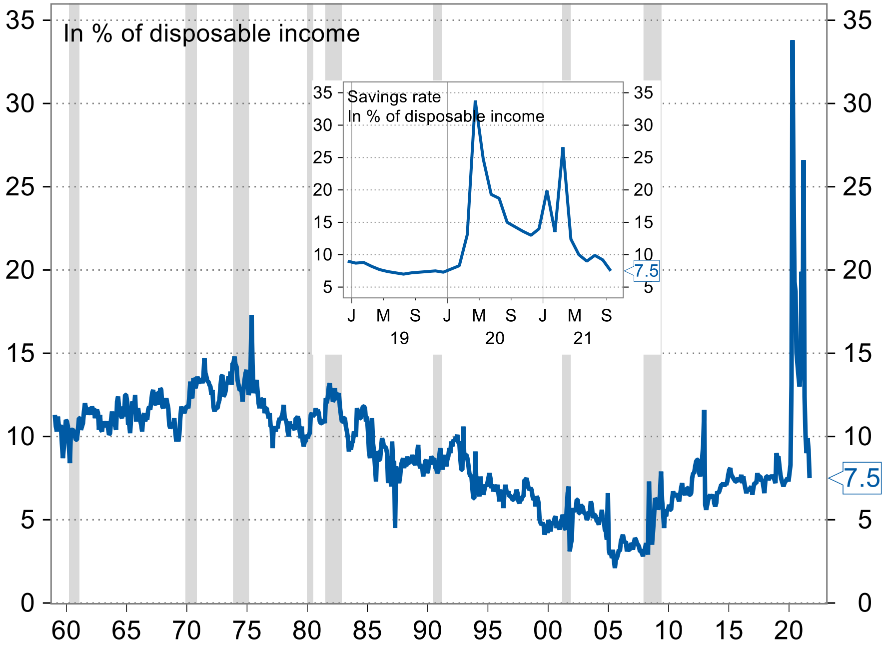
- The 'normal' net tax rate implied a substantial government deficit – which was not sustainable either
  - » Before year 2000, the net payment to the federal government equalled 10% - 12% of pre-tax income …. and somewhat below 10% until the Financial crisis. Since 2012, the net tax rate has been some 6% of GDP, and the budget balance far larger than before (which it still is)

The savings rate down to the pre-pandemic level at 7.5%

The rate fell by 1.7 p to 7.5% in September, from a slightly downward revised level in Aug

USA Housing savings rate



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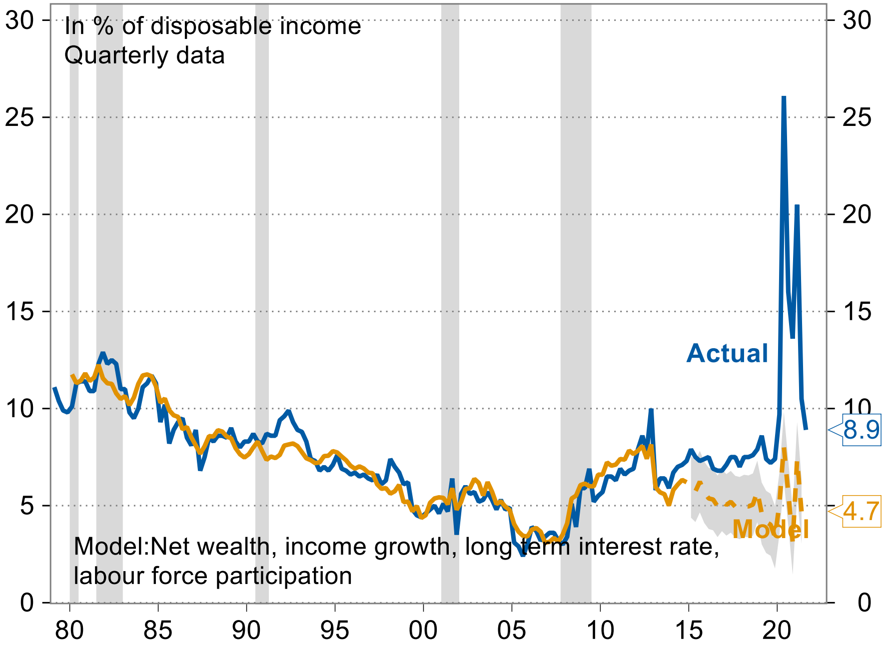
USA Households' savings



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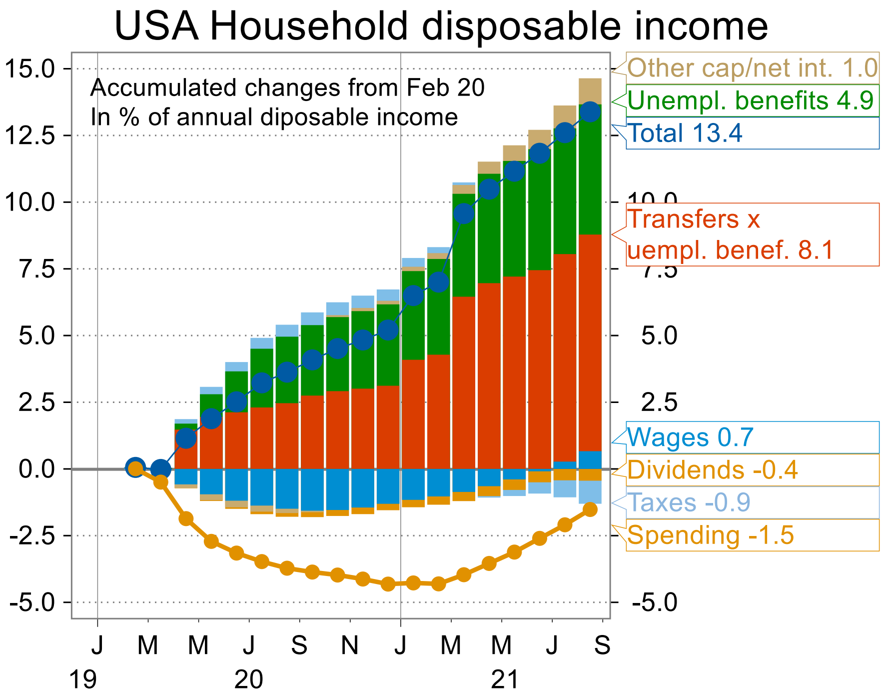
- Our old savings model, yields a 4.7% savings rate in Q2, and very likely even lower in Q3. However, the model has underestimated savings by some 2 pp in the years before the pandemic, and the savings rate may stabilise at the current level
- A downside potential for the savings rate (and upside for spending): **the accumulated households excess savings** during the covid crisis amount to some 13% of annual disposable income – the ‘Wall of Money’, check next page

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

The height of the wall is now flattening, but the saved money are intact



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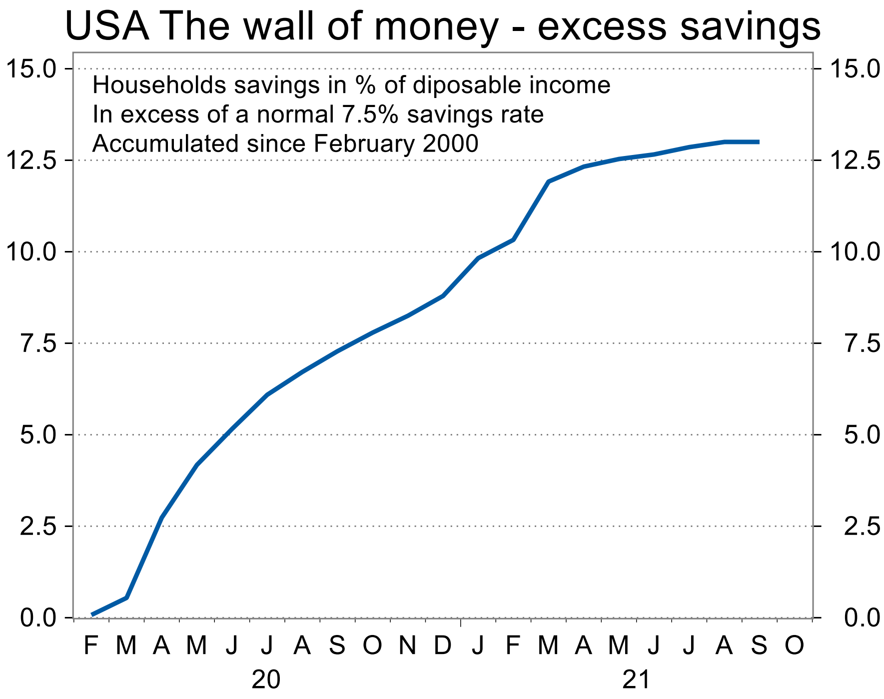

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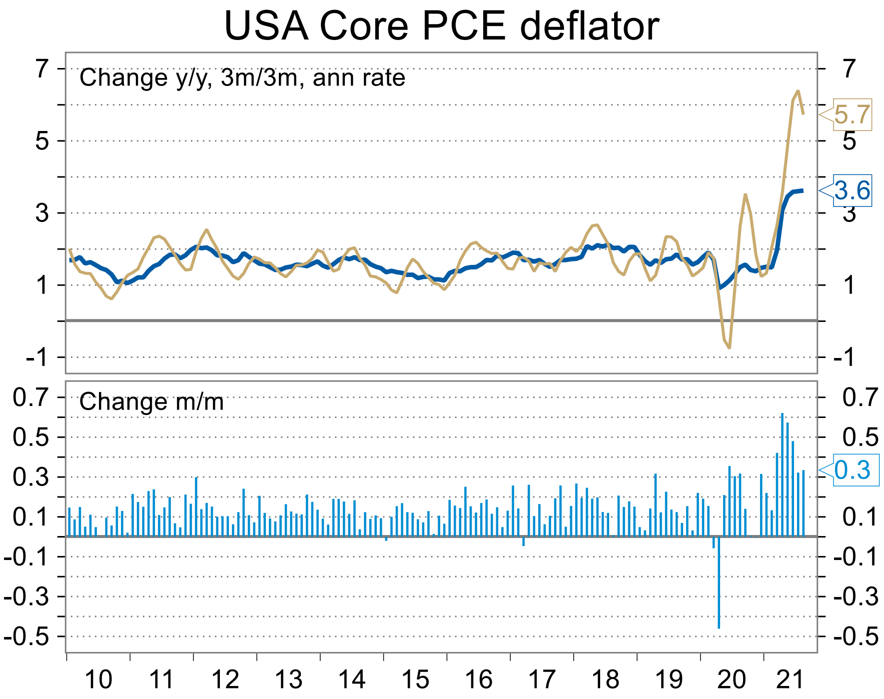
- Transfers from the government and low spending (on services) explains the lift in savings

Price inflation is slowing but still broadening

The total PCE deflator rose 0.3% & the core 0.2% in September, both as expected



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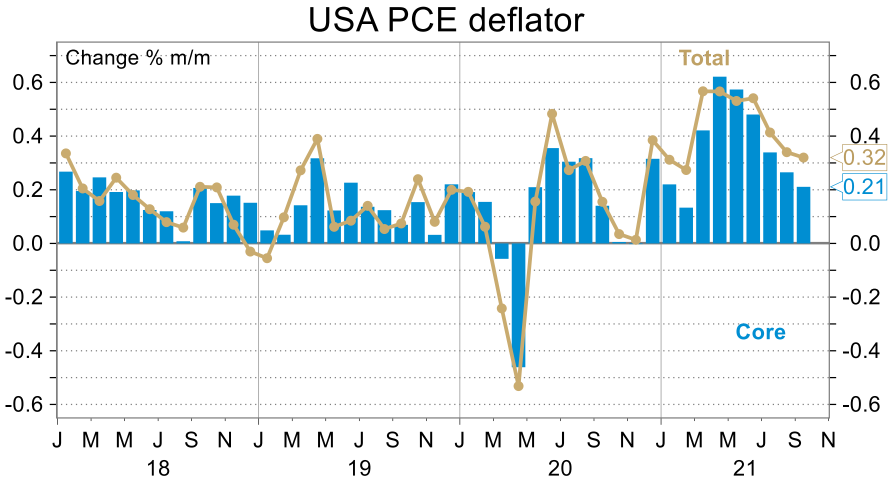
- **The total PCE deflator** rose by 0.3%, as in September, and the annual rate rose 0.1 pp to 4.4%
- **The core price consumption deflator** rose by 0.2% m/m in Sept, and the monthly rates has slowed steadily since the 0.6% peak in April. Measured y/y, the core is up 3.6% (unch)
- **Inflation has peaked** (measured m/m), but given reports from the businesses on price plans – and the acceleration of wage inflation pose substantial threats going forward – and inflation is still broadening, all underlying inflation measures are heading upwards



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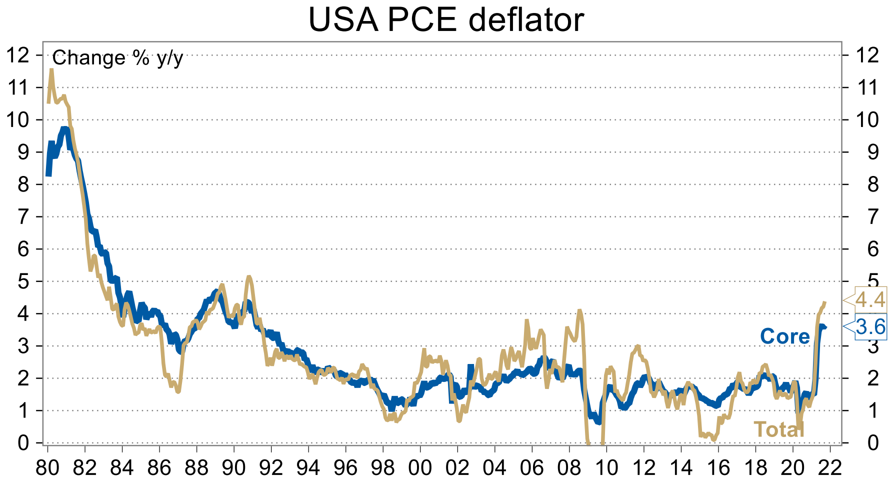

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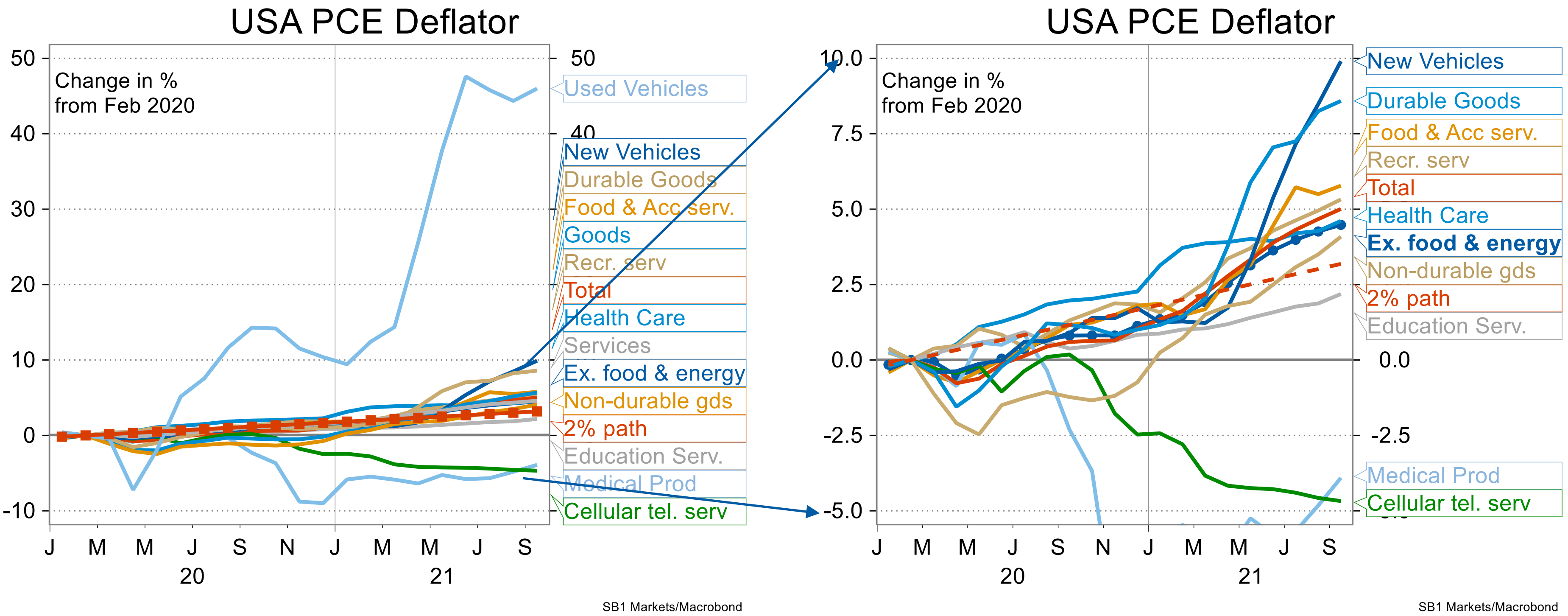
Most prices are up more than at a 2% pace since before the pandemic

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



USA PCE Deflator

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USA PCE Deflator

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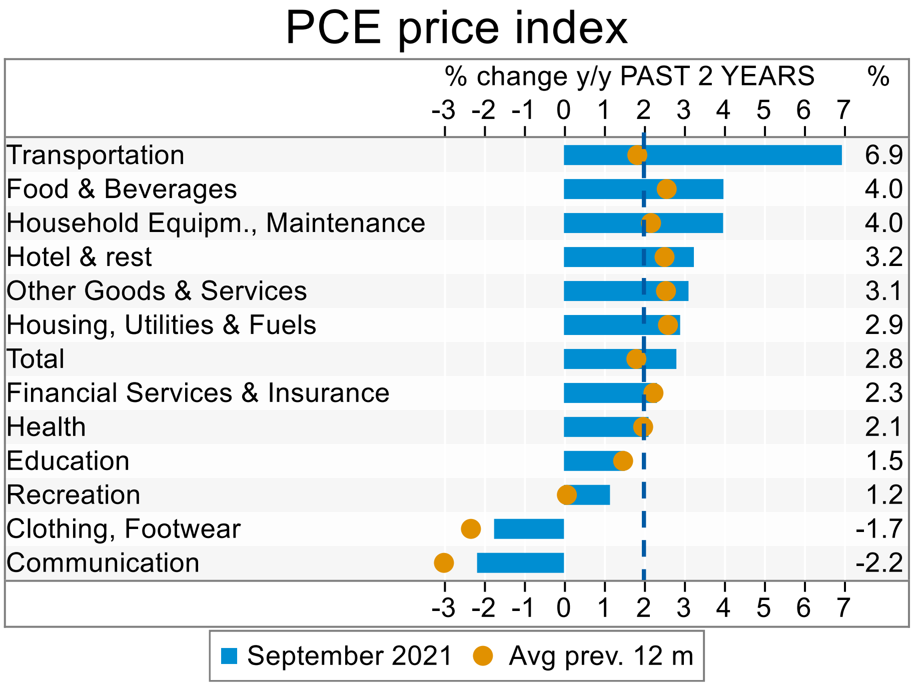
- **Used car** prices has at least flattened – but new vehicle prices are still on the way up
- **Hotel & restaurant prices** are up 6% since Feb-20

PCE by main sectors: Most sectors report >2% growth past 2 years

… and most sectors are up more than 2% measured 3m/3m, the total is up 4.2%



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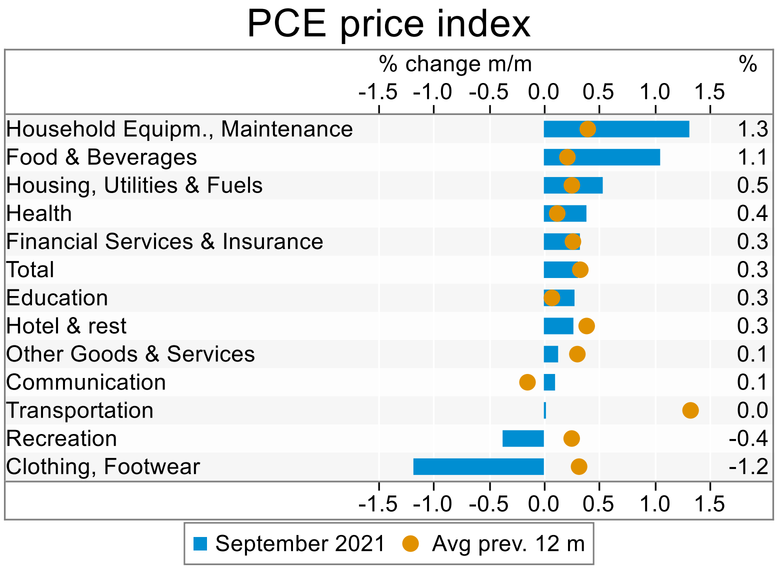
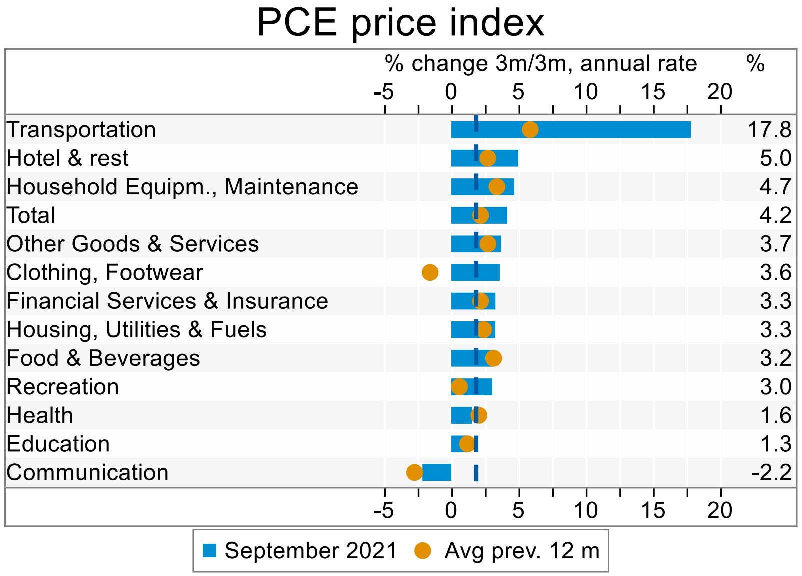


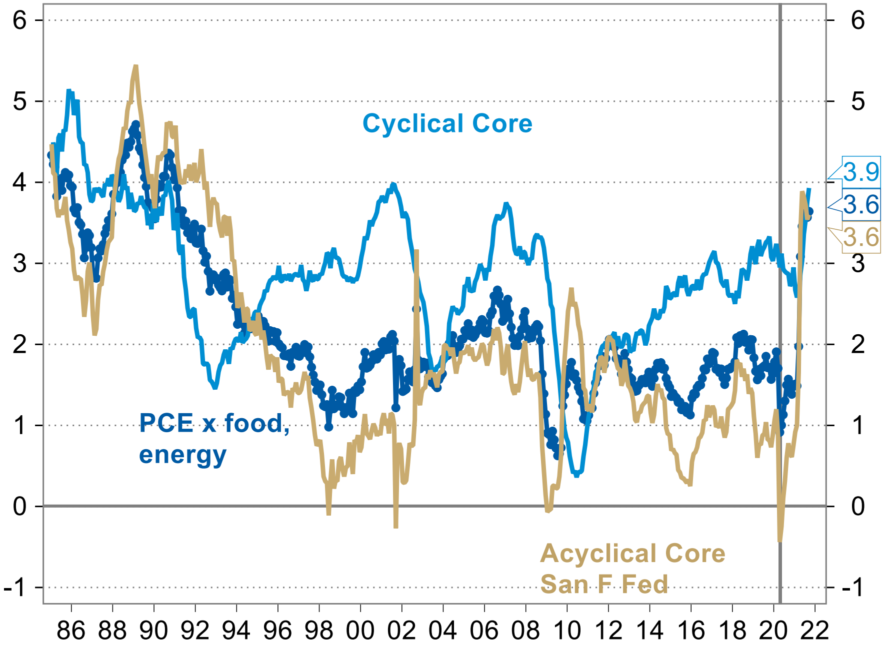


- Just clothing & footwear, communication, recreation and education prices are up less than 2% on average over the past 2 years
- The momentum is still strong, most sectors accelerating (3m/3m is above the annual rate)

On inflation, the Fed is soon running out of excuses (or has it already?)

Inflation is broadening, all measures are now above the 3% line, not seen in decades

USA PCE 'core'



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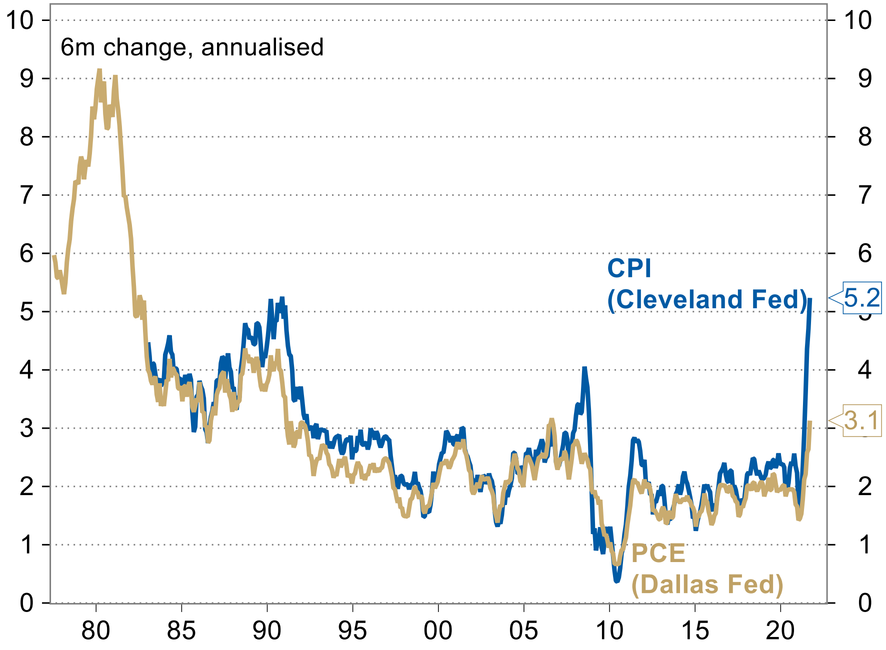
USA Trimmed median CPI, mean PCE


6m change, annualised

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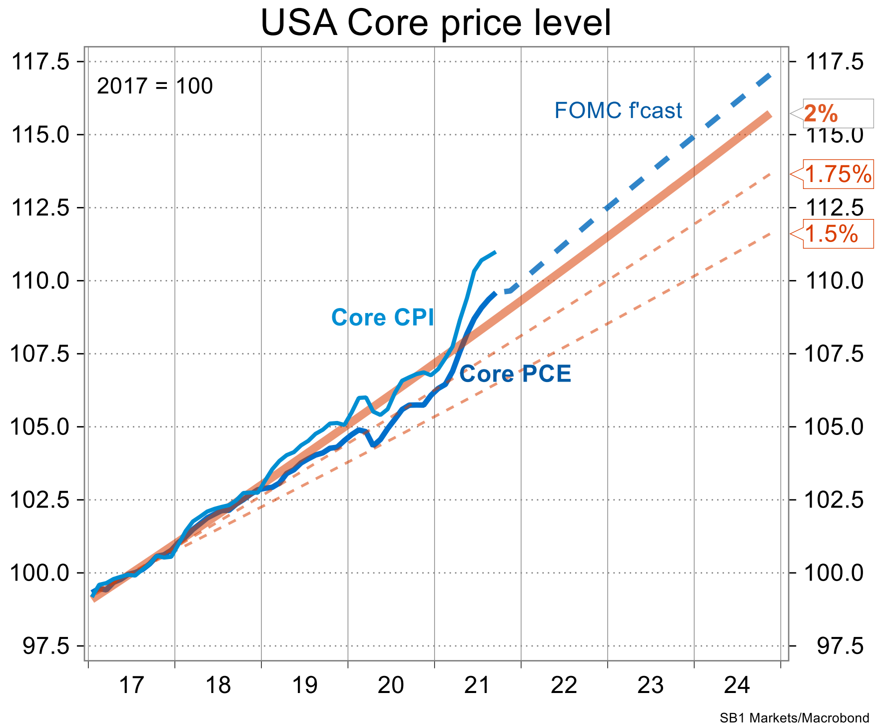
- The **trimmed PCE mean** (Dallas Fed) is up at a 3.1% pave over the past 6 months, up from 2% ahead of the pandemic. This indicator of underlying inflation has not been growing faster since August 2006. At that time the Federal Reserve had lifted the Fed funds rate to 5.25% in June 2006 from 1% in 2004 – by the way by hiking at each and every meeting in between (17 times in row ☺)
- The trimmed median CPI is up 5.2%, the highest on record, data back to 1983
- Other measures of underlying inflation are also at the highest levels in 30 years. And at that time, the Fed funds was not at zero

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

Fed's decision: Accept a inflation above the long term target to get the labour market back on track


USA Core price level

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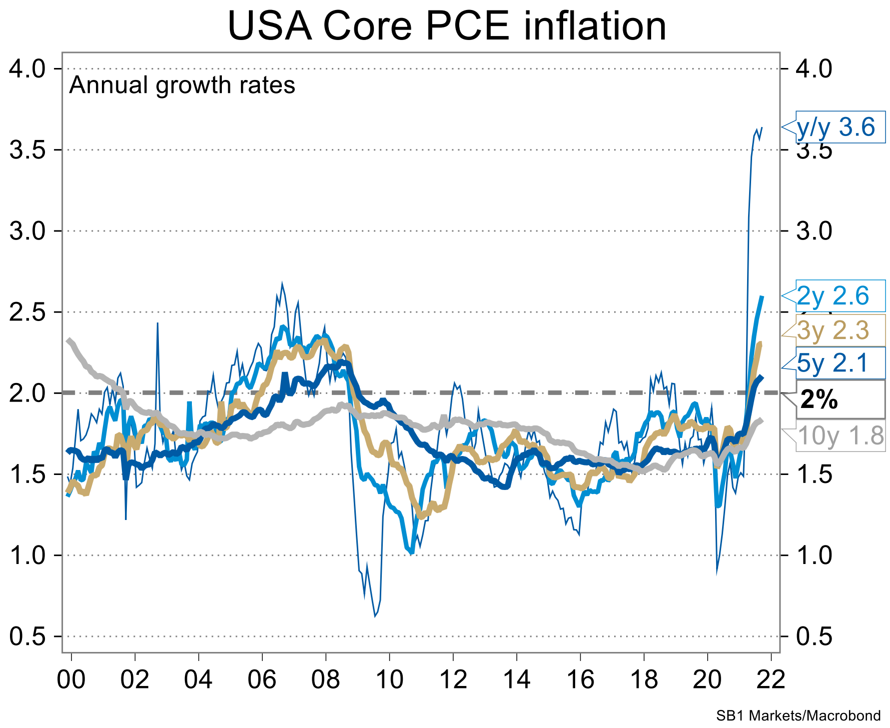
USA Core PCE inflation

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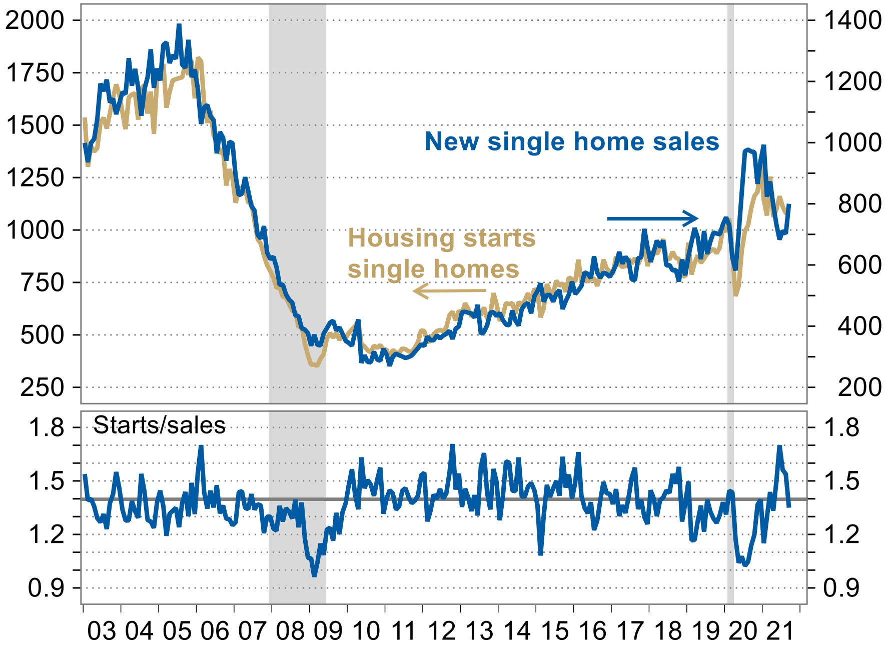
We stick to our main inflation analysis:

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

New home sales better than expected in September, prices remain high

More homes for sale but the inventory of completed homes is still very low

USA New home sales and housing starts



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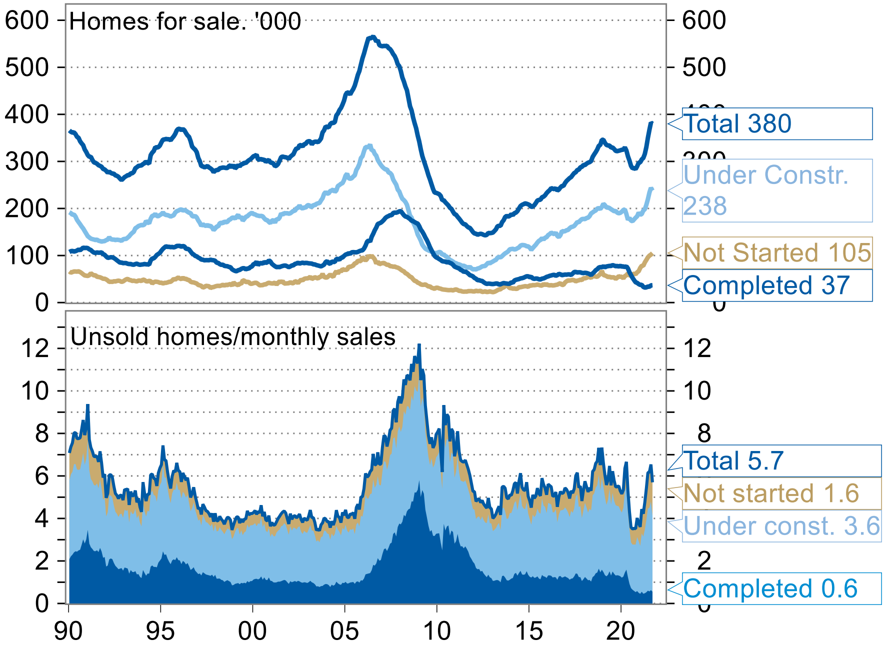
USA New Homes for sales



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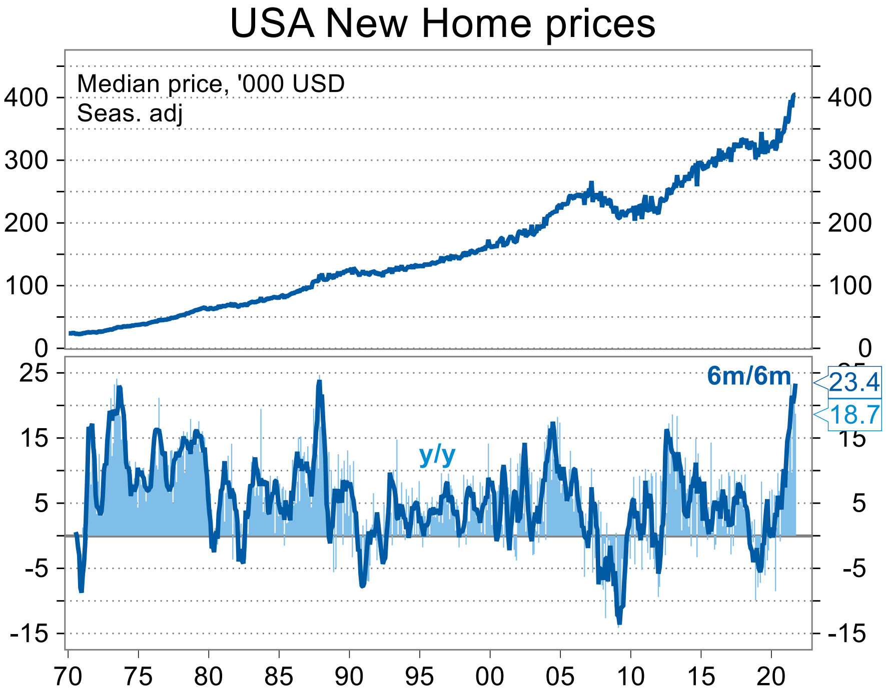
- **New home sales** rose to 800’ (annualised rate) in September, up from 702’ in August (revised down from 740’), expected at 758’, in sum somewhat better than expected
  - » Sales are still lower then in early January, but above the pre-pandemic level at some 700’
- The inventory of unsold homes has increased somewhat the past 8 months primarily because many projects that haven’t started yet have been added, in fact more new projects than ever, a sign that the supply side is responding to the strong demand. The no. of completed homes for sale is record low, equalling 18 days’ sale (if homes are sold 7 days a week)

Construction costs up, but new home prices even more

Construction costs are up 12% y/y, selling prices +17-19%. Land prices are surging, <u>demand is strong</u>



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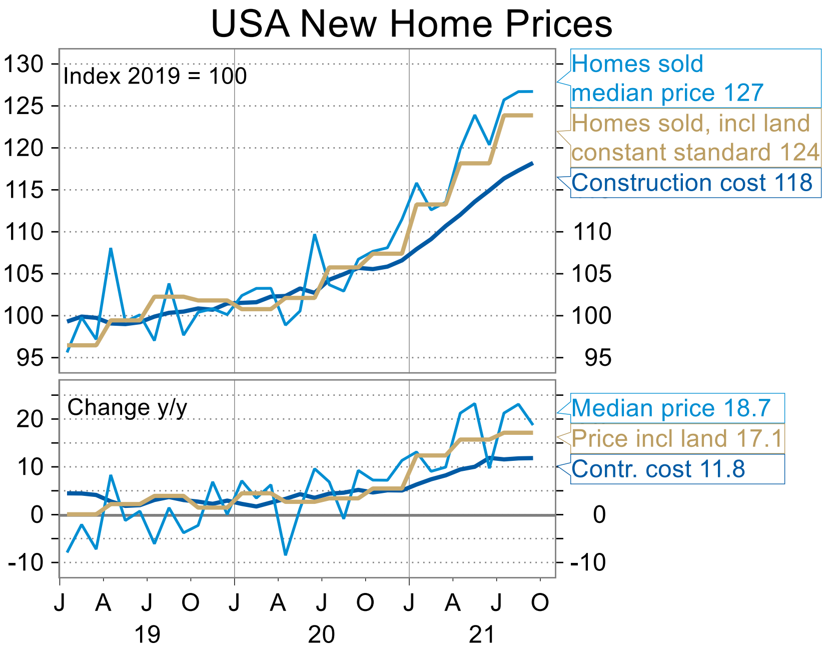
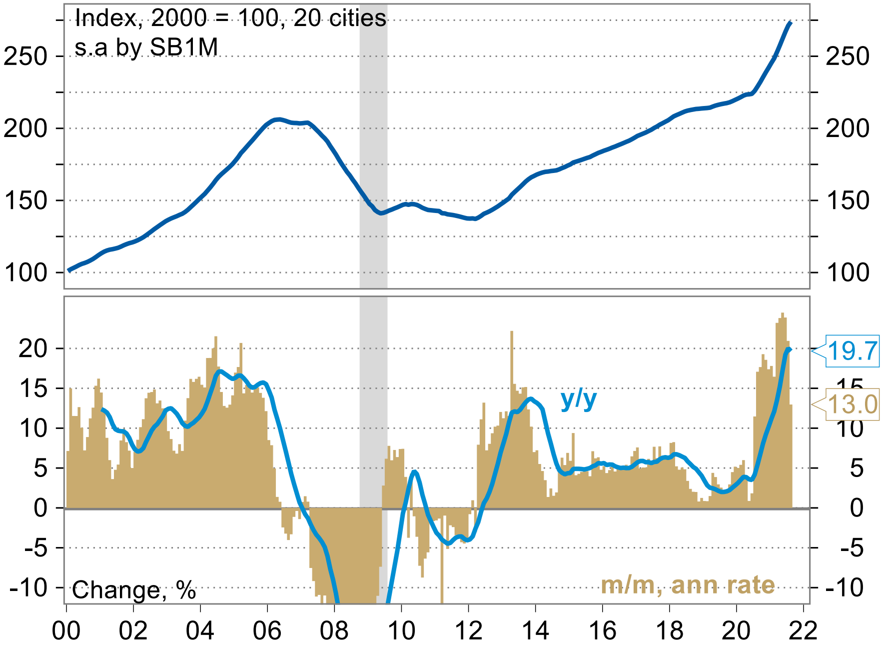


SB1 Markets/Macrobond

- Monthly **median new home sales prices** are volatile, in August the annual rate was 18.7%. A 6m/6m less short term volatile rate at 23% still makes in impossible to deny the fact: New home prices are sharply up
  - » This price index is influenced by changes in the mix of homes sold – and over time by changes in standards & size
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land, and they are up by 11.8% and 17% resp. y/y
  - » As prices are still up <u>more including land than the construction cost index</u> (which of course is influenced by higher material costs), signalling an even faster increase in <u>land prices</u>. Thus, <u>demand must be the main driver for the hike in prices, not the construction cost (if demand was weak due to high prices, prices including land would have climbed less than construction costs)</u>

House prices inflation slowed in August, according to Case-Shiller

Prices up ‘just’ 1% m/m (13% annualised), down from 1.6% in July. Other indices confirm slowdown



USA Case-Shiller house price index

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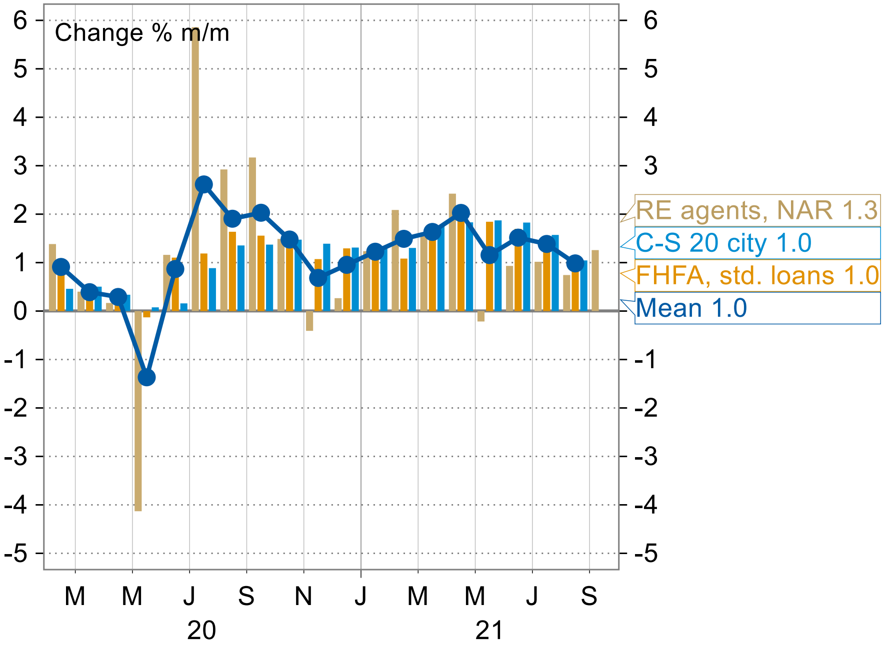

Existing Home prices

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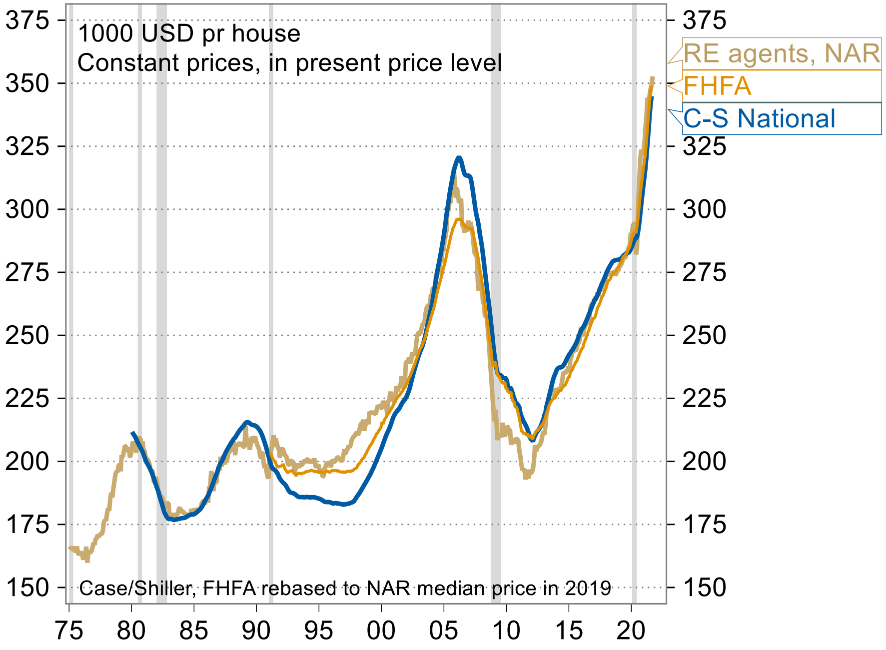
- **S&P’s Case/Shiller’s 20 cities** price index rose 1.6% m/m in August (July – Sept avg), equalling a 13% annualised pace, the slowest growth rate since July last year. The annual growth rate at 19.7 %, down from 20.0% in July – which was the highest growth rate since just after WWII. The **national C-S index** is up 19.9% y/y
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac (“Husbankene”, has a countrywide coverage), rose 1.0% in Augusts, and are up 18.5% y/y. The peak annual rate before the pandemic surge was 11%, ahead of the housing crisis 15 years ago (chart next page)
- **Relators** reported a 1% price lift m/m July, and the annual rate is 17.9%

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

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

USA Home prices



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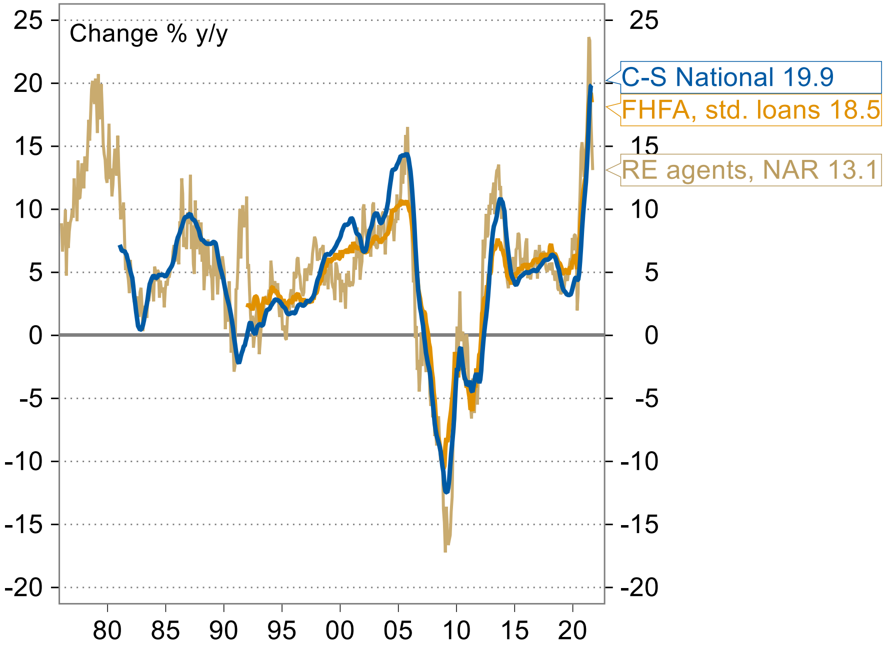
Existing home prices



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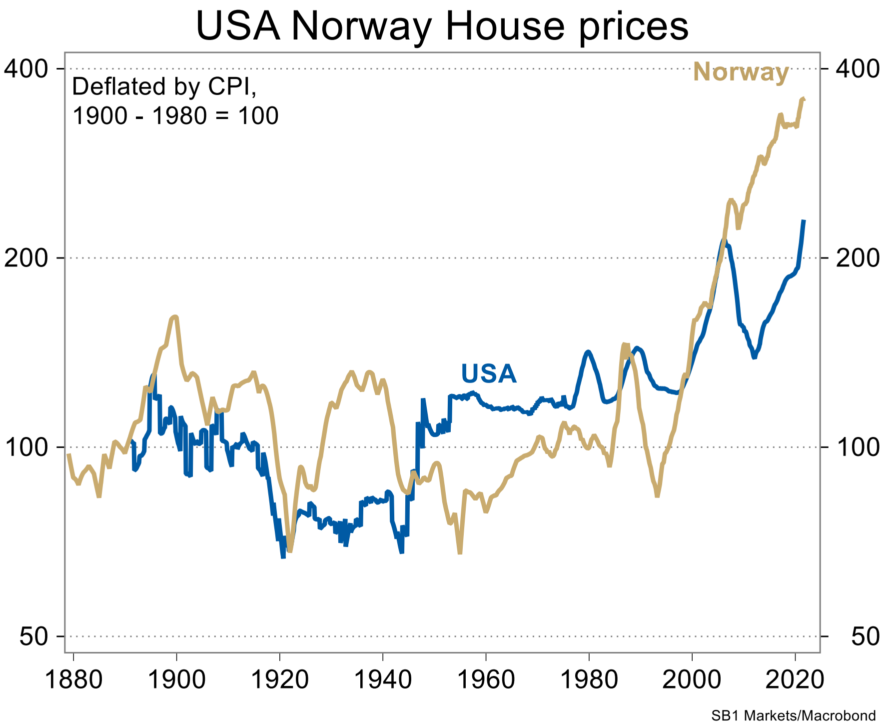
- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever (or since 1948), and record high real price levels, with data covering the past 30 – 45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

For the record

Some entertaining house price charts



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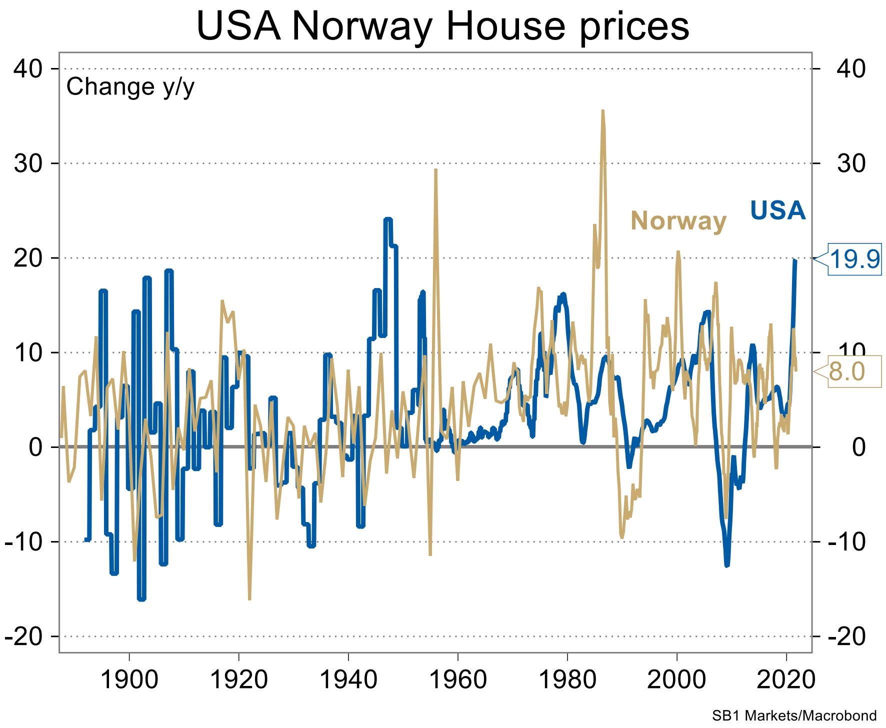

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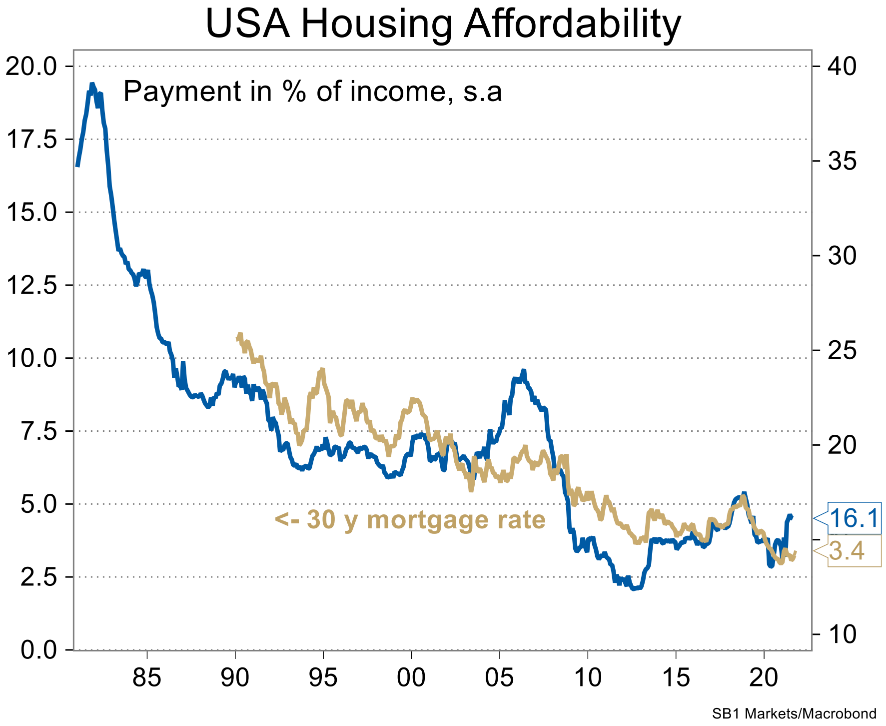
Homes are still very affordable, because the mortgage rate is so low!

However, mortgage rates have climbed marginally recent weeks



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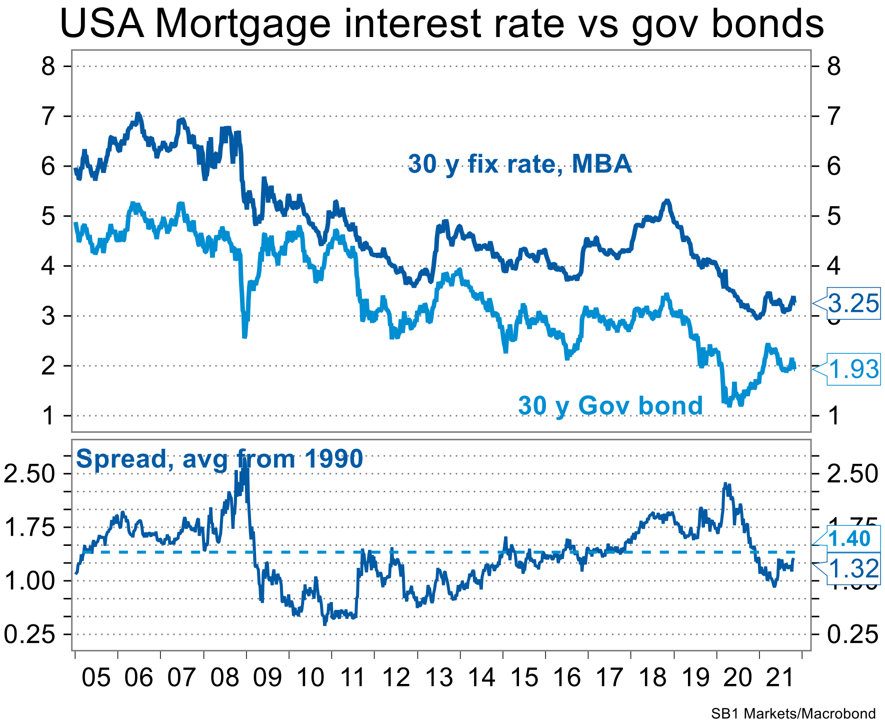

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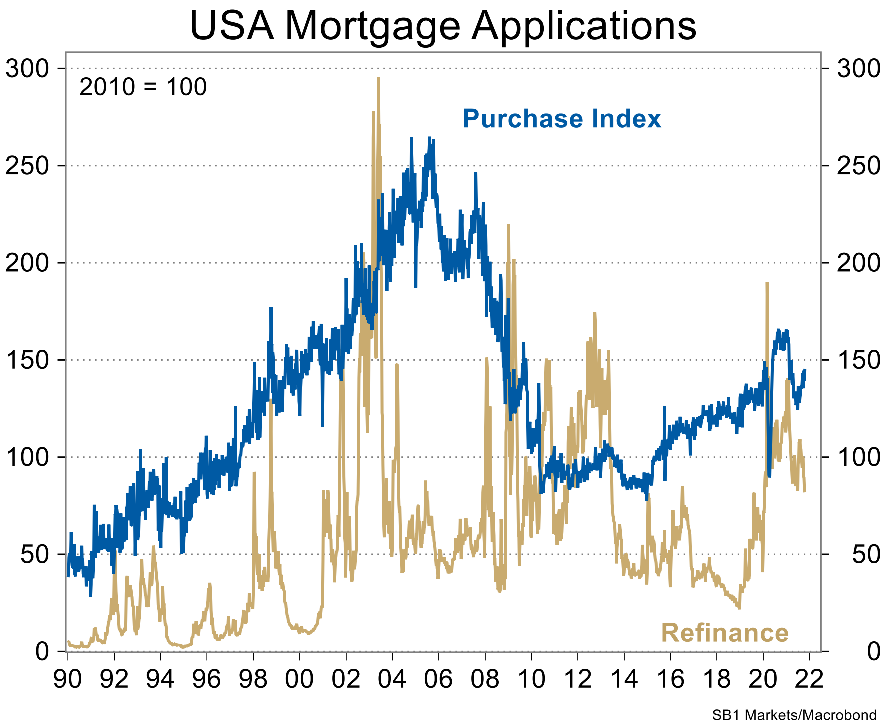
- The lift in prices is felt, no doubt

- **The 30 y fixed mortgage** rate has not recovered the decline during the spring/early summer
- **Household mortgage** debt is up USD 500 bn y/y. Fed is buying USD 40 bn per month, 480 bn per year. The Fed is funding the housing party, all of it! Cheers ☺

Mortgage rates are up – but demand for new mortgages still on the way up



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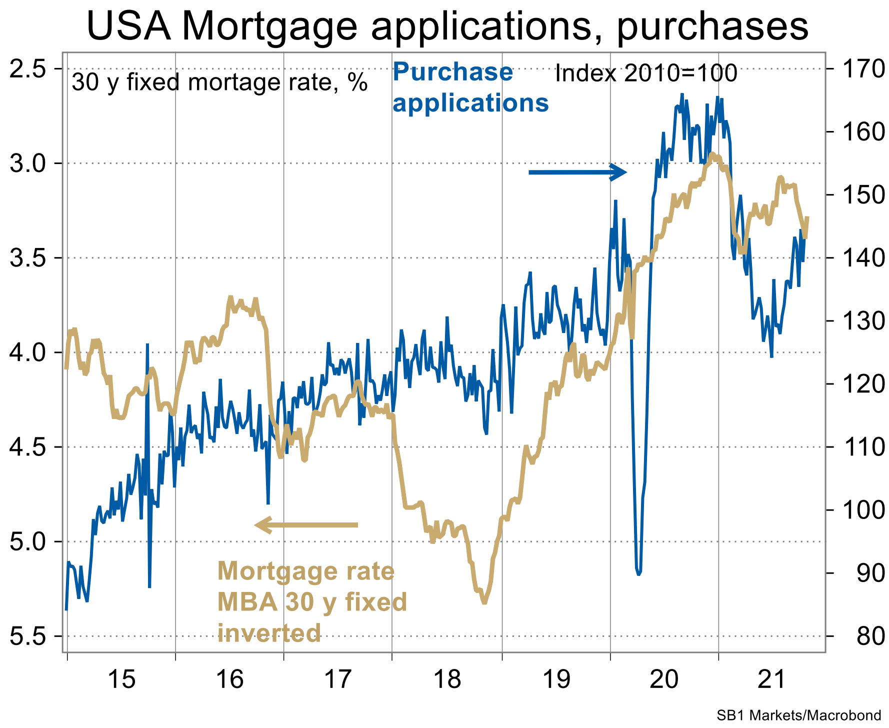

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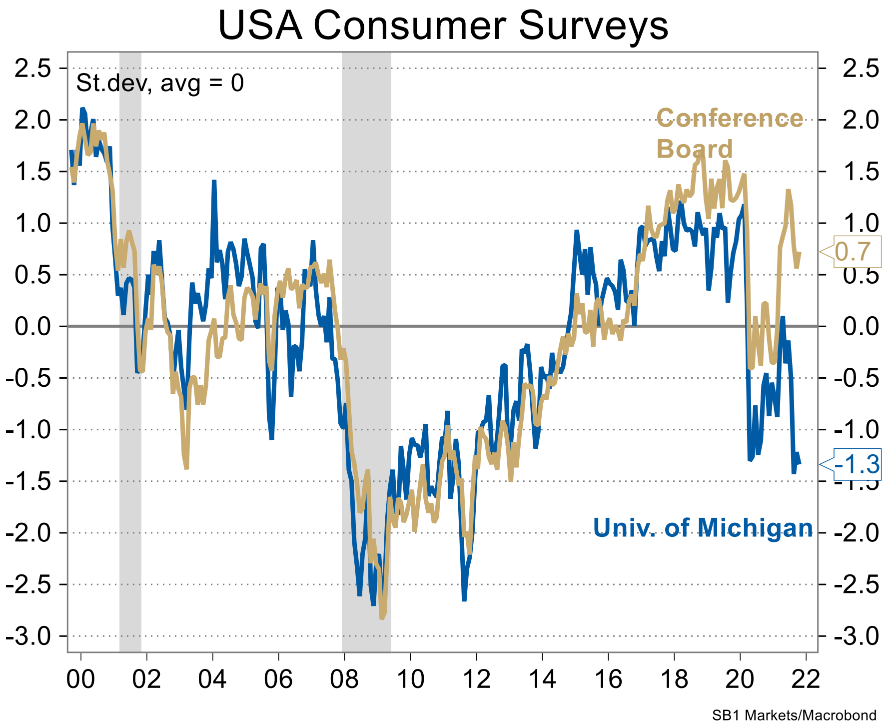
- Demand for new mortgages rose marginally last week but has not responded to the 40 bps decline in the 30-year mortgage rate since March – the no. of applications has fallen
- Demand for new mortgages (for buying, not refinancing) is not closely correlated to mortgage rates but the increase in demand last year was influenced by the steep decline in mortgage rates

Conference Board's confidence stronger in October – far better than UM's survey

CB's index rose 0.2 st.dev to +0.7, exp. slightly up. The UM survey confirmed down, to -1.3 st.dev

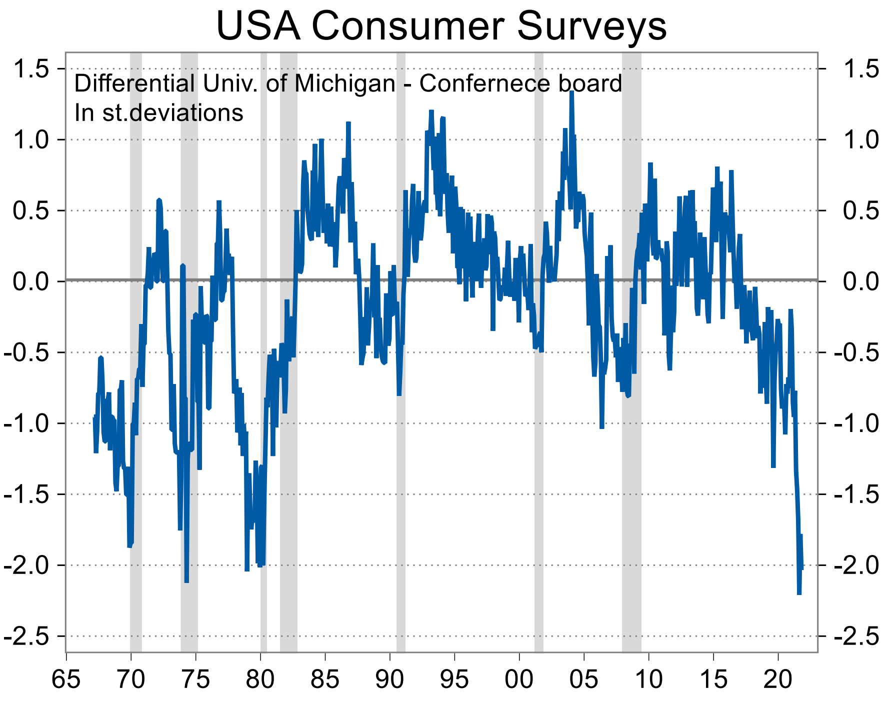


SB1 Markets/Macrobond

- The **Conference Board's consumer confidence** index rose to 113.8 in October, from 109.8 in September (revised up 0.5 p), expected down to 108.3. The index is 0.7 st.dev above average. Both the assessment of the current situation and expectations rose (almost in tandem)
  - » Households still report a tight labour market and have adjusted their spending plans upwards for the first time since June
- **University of Michigan's sentiment** survey was revised just marginally up but are still down vs September. The level is 1.3 st.dev below average – below the level during the virus outbreak last spring
  - » Thus, discrepancy between the two surveys is still very large in October
  - » If the UM survey is falling faster than CBs survey, often something unfortunate happens afterwards, check next page

The gap between consumer surveys is highly unusual

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



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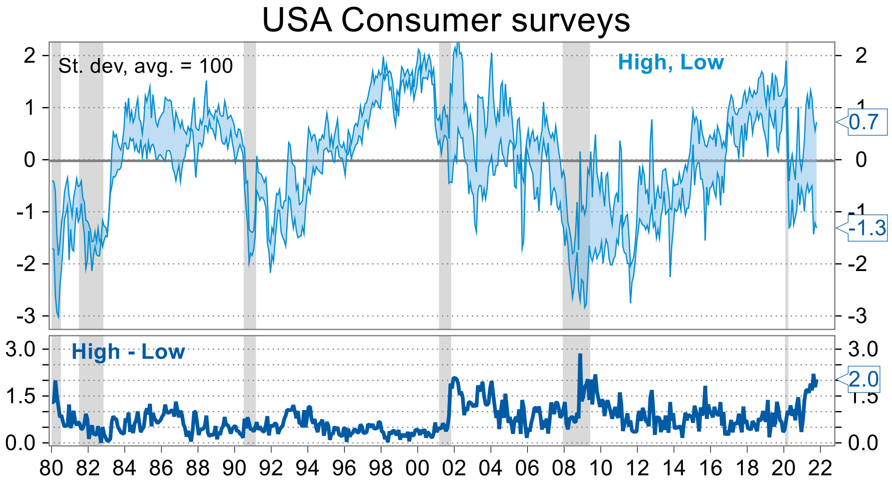
- All other surveys are down, and all but CB's survey have fallen to below average



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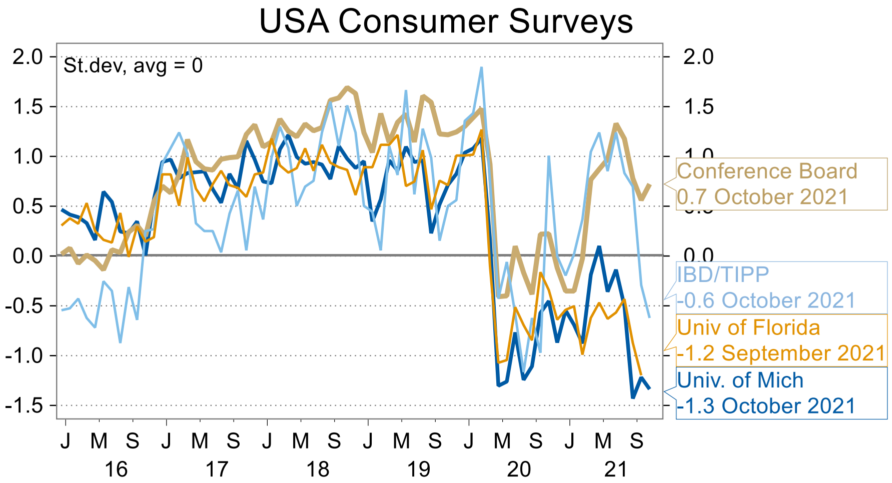

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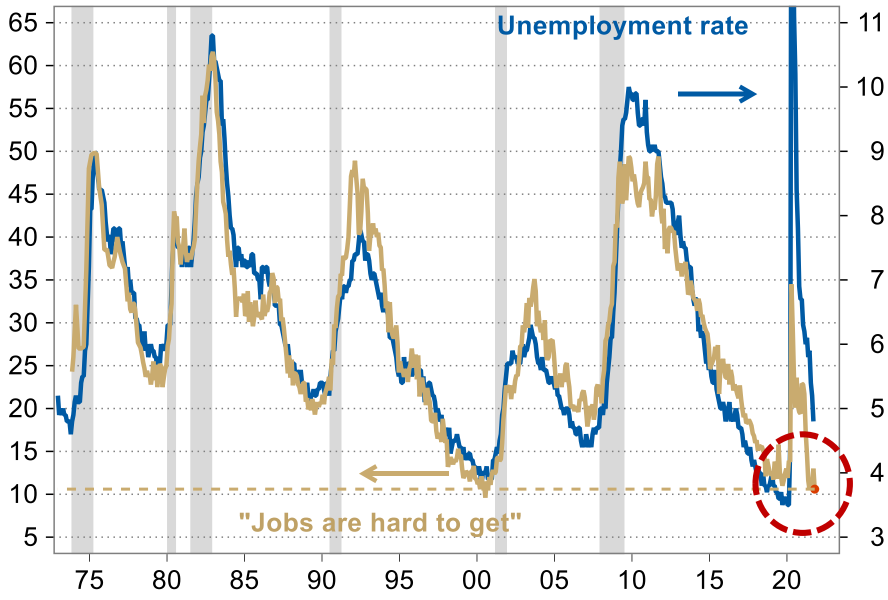
Jobs are extremely easy to get, as if the unemployment was below 4% (or 3%)

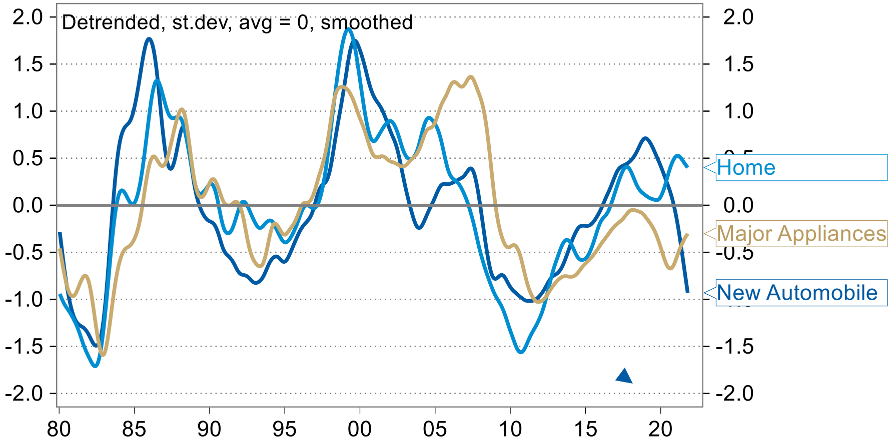
Households judge the labour market to be far tighter than indicated by the 4.8% unemployment rate



US - Unemployment

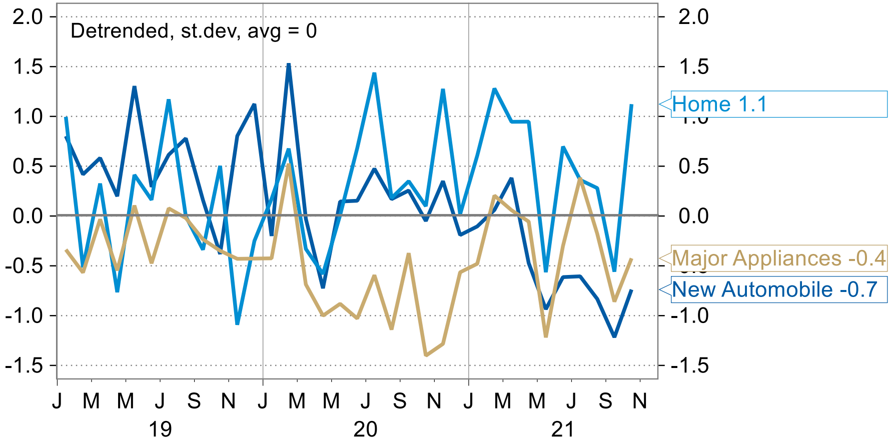
vs. consumers' assessment of the labour market

SB1 Markets/Macrobond



USA Consumer Confidence - buying plans

SB1 Markets/Macrobond



USA Consumer Confidence - buying plans

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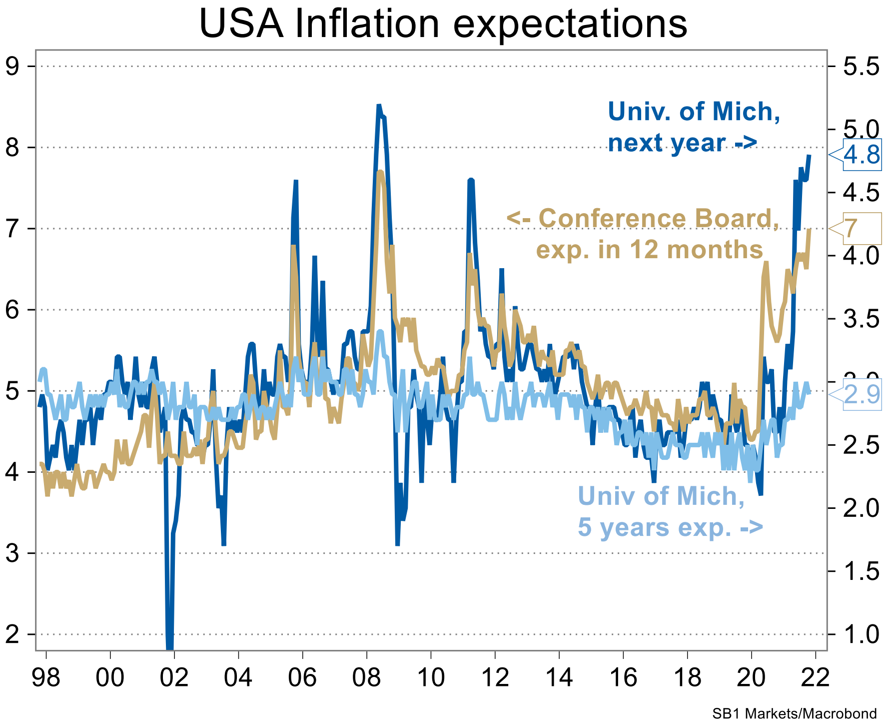
- … perhaps because the labour market is much tighter than the (quite low) current unemployment suggests
- Household spending plans are volatile, and in sum not aggressive. October was better than September, especially in the housing market
  - Plans for buying a new care as much lower than normal, for good reasons

Inflation expectations are still on the way up

Inflation expectations are elevated and climbed further in October

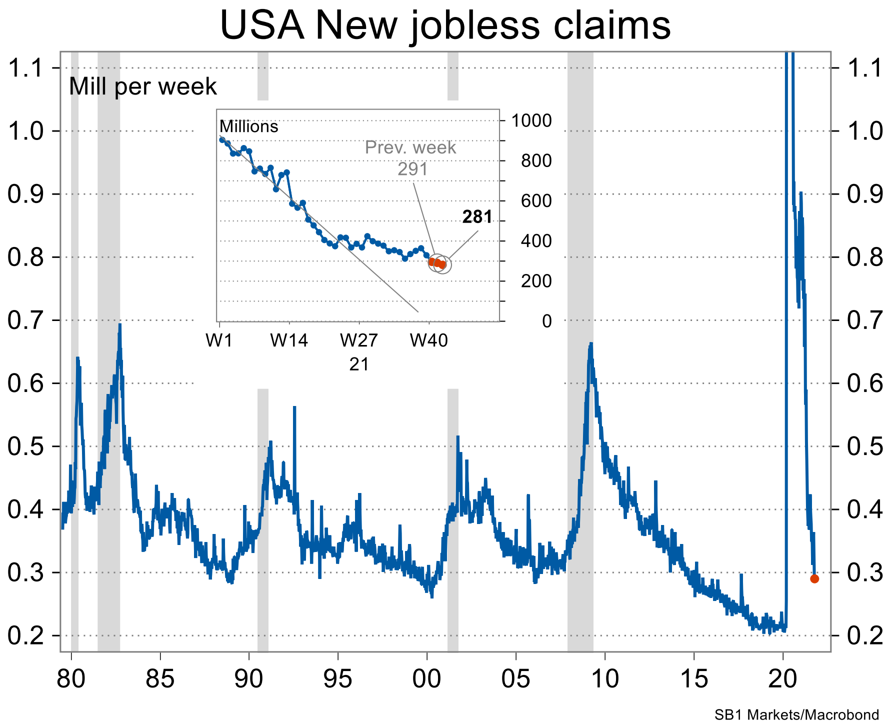


- However, we have seen higher expectations a decade ago – and it is not obvious how important they are, according to new research at the Federal Reserve

Rudd, Jeremy B. (2021). "Why Do We Think That Inflation Expectations Matter for Inflation? (And Should We?),

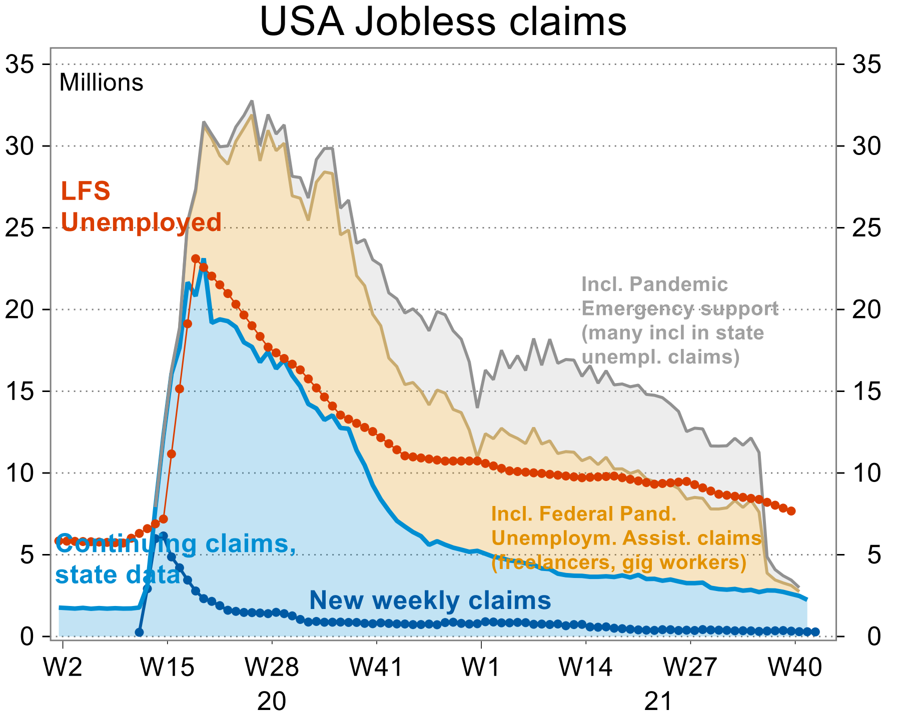
New jobless claims still sliding down. ½ mill no longer on the dole but < 3 mill left

Another sign of a tighter labour market



USA New jobless claims

SB1 Markets/Macrobond

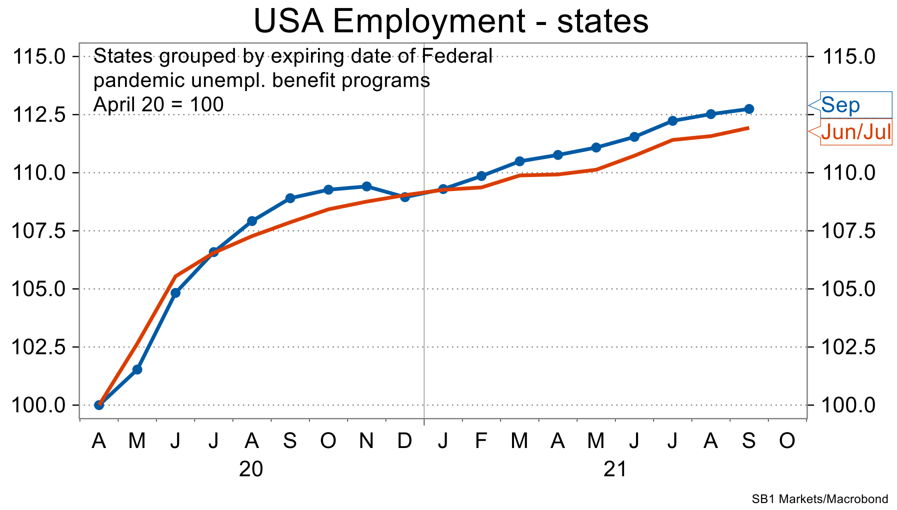


USA Jobless claims

- **New jobless claims fell** by 10' to 281' in week 42, expected 288'', the 4th week in row below 300'
- **Ordinary continuing claims** decreased by 237' to 2.24 mill in week 41. The trend is steadily downwards and now just ½ mill above the Feb-20 level (and last week ¼ mill left the dole. 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 fell by 0.35 mill to 0.55 mill in week 40 from 9 mill in early Sept (and from 12 mill in March)
- In sum, ½ mill workers left the dole (if not during same week), which implied better employment growth in October. However, there are now just 2.5 mill persons left on the dole, not far above the all time low at 1.7 mill, just before the pandemic
- What are the 9 mill workers who lost their benefits now doing? We hope and pray that employment & participation rate will surge the coming months. Nothing has so far (in September) happened at the labour market in those state that abolished the federal programs in June and early July, check next page

Still no sign of faster employment growth in the early leaver states

Unemployment has fallen just marginally slower – thus no surge in the participation rate



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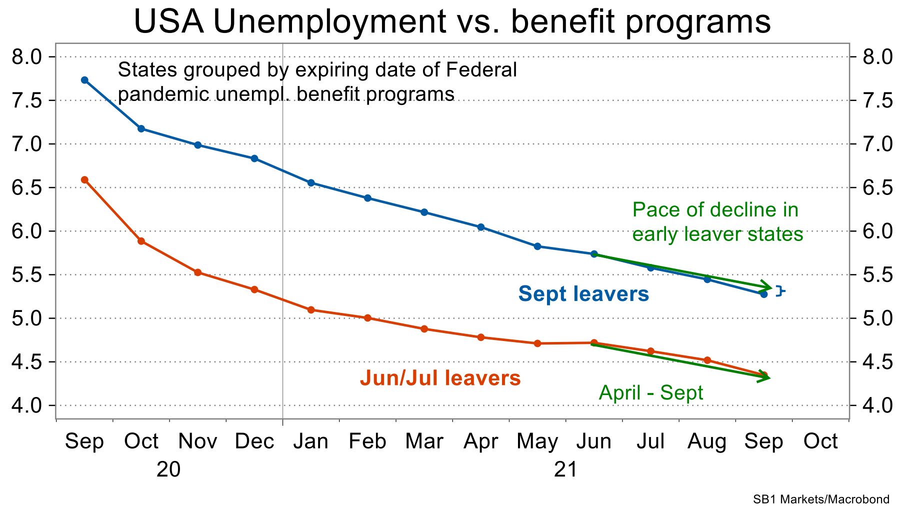

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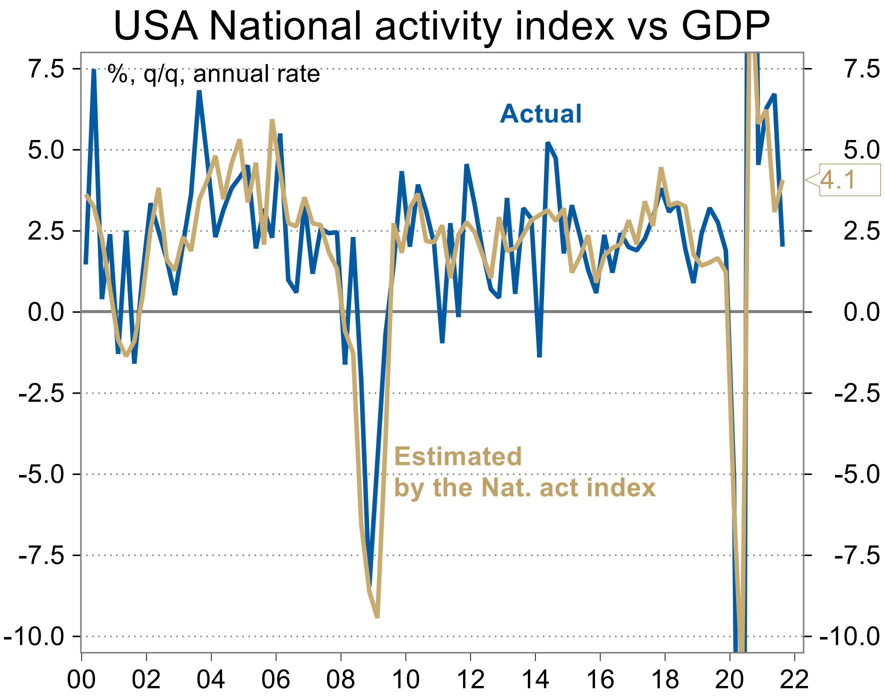
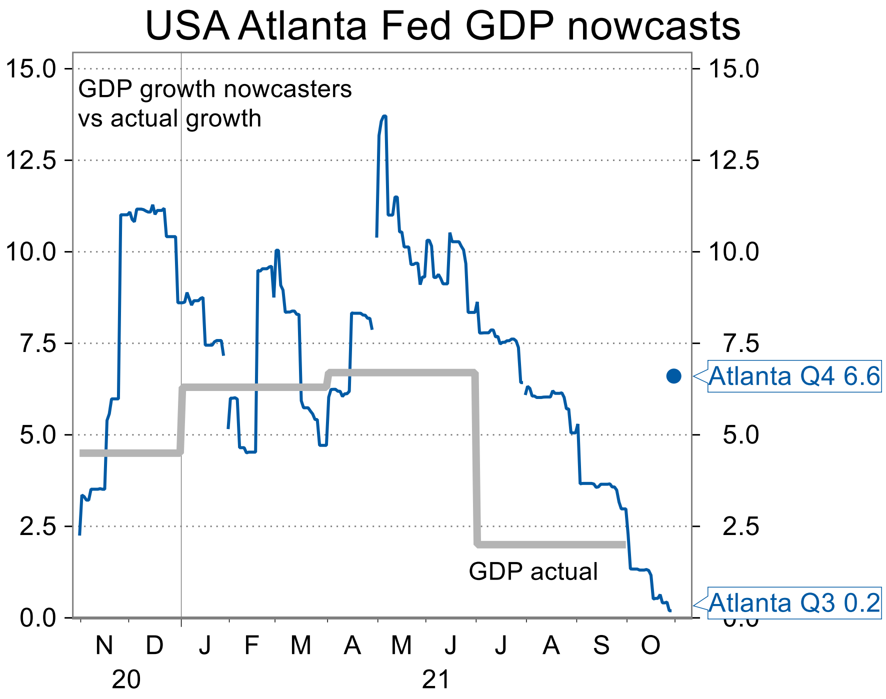
- Half of the states left the two temporary federal unemployment benefit programs in June and early July, that is before the programs were terminated everywhere in early September – so far without any difference in **employment** growth through September
- State **participation rates** are not published but the unemployment rate has fallen marginally slower (0.1 pp) in the early-leaver states vs. the remaining states, signalling just a marginal increase in the participation rate, and not a tsunami of workers to fill all the vacant positions
- Data are still just for September - and a wonder could have happened in October – but so far we do not have any indications of that – even in the no. of continued claims fell sharply last week. The level is far too low be a significant reservoir of available labour

The national activity index signals a 4.1% GDP growth pace

Atlanta Fed's nowcaster suggests 6.6% growth in Q4


USA National activity index vs GDP

SB1 Markets/Macrobond


USA Atlanta Fed GDP nowcasts

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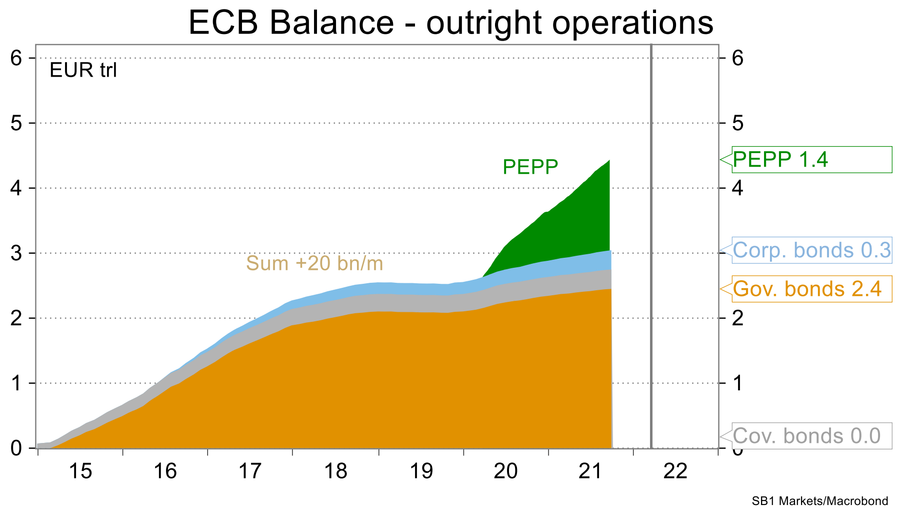
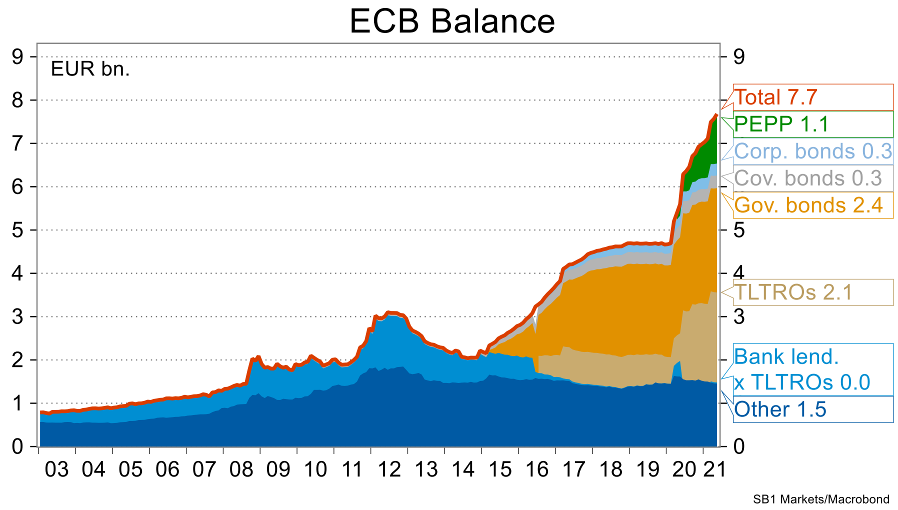
ECB: Important decisions postponed to Dec – but policy will remain expansionary

Market unsure what the ECB will do, expects a hike late next year, the ECB woes to wait longer


ECB Balance - outright operations

SB1 Markets/Macrobond

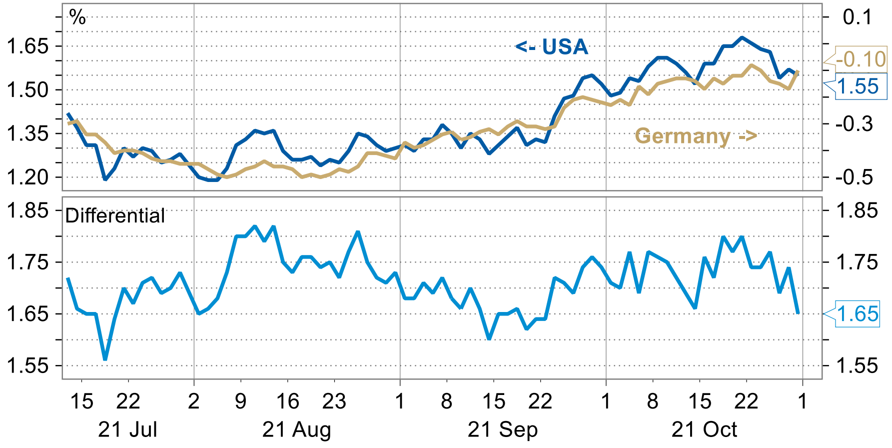

ECB Balance

SB1 Markets/Macrobond

- **The policy signal rate** remained at -0.5%, and Lagarde says the bank intent to keep it there for a long while – as ECB expects inflation to fall below 2% in 2023 – even if the current surge will last longer than first expected. The policy rate will be kept unchanged until the ECB's inflation forecast is at 2% at the end of the forecast period. Lagarde said inflation was debated heavily but the bank is still comfortable
  - » We assume the bank can remain dovish until wage inflation starts accelerating (which now it the Fed's real challenge)
- On the **QE programs**
  - » The 'ordinary' Asset Purchasing Program QE program will continue at approx. EUR 20 bn (government, corporate, covered bonds)
  - » The Pandemic Emergency program (PEPP) will run until next March, by somewhat less than the original EUR 80/month (however, actual accumulation has been somewhat lower since the summer)
  - » The board postponed to December what to do when the PEPP runs out – and Lagarde promised to do enough…
- **ECB vs markets**
  - » Markets are questioning ECBs stance on rates, and the market is now discounting a first rate hike in late 2022
  - » The long end of the curve has been lifted by the 'global' surge in long term yields

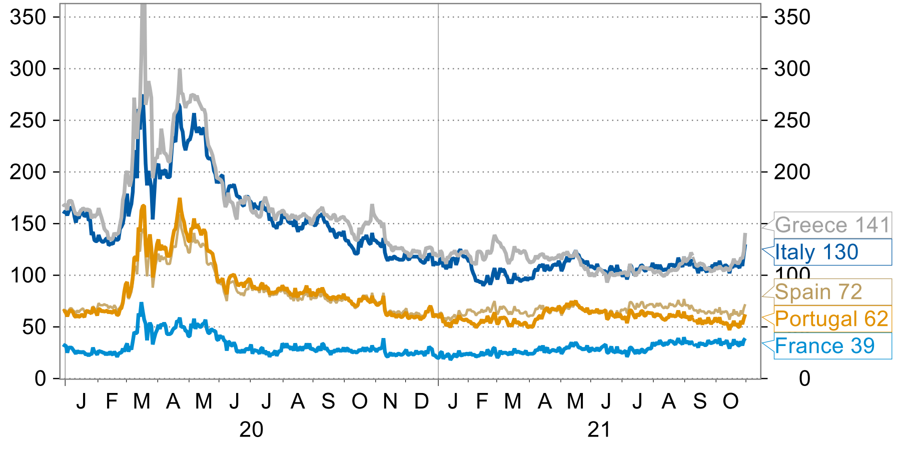
Volatile bond markets – Germany flattish last week, the periphery sharply up

Break-even inflation down from decade high levels, real rates up, still very low



US & Germany 10 year gov bond

SB1 Markets/Macrobond



EMU 10 y gov spreads vs Germany

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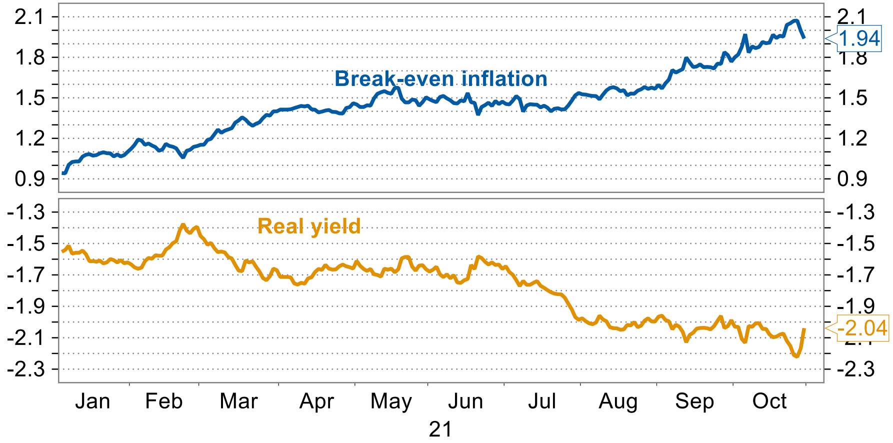

Germany 10 y real yields, break-even inflation

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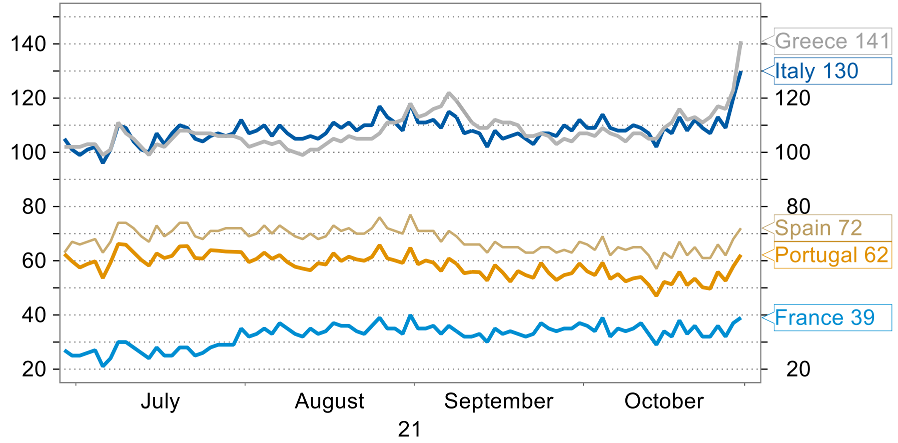

EMU 10 y gov spreads vs Germany

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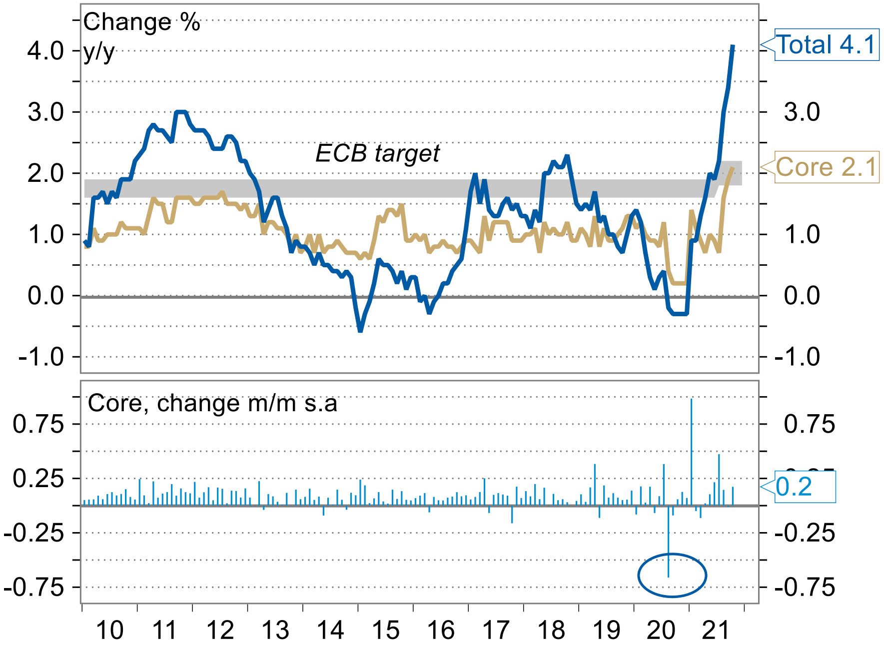
Why are EMU spread widening? Whatever the ECB says now, less QE – and less support for Greece and Italy?
Or Draghi goes for (a lame duck) Italian president insted being a (reforming) PM?

Eurozone inflation up 0.7 pp to 4.1% in October, core up 0.2 pp to 1.9%

And well above expectations. Energy prices the main culprit.

EMU CPI (HCPI)



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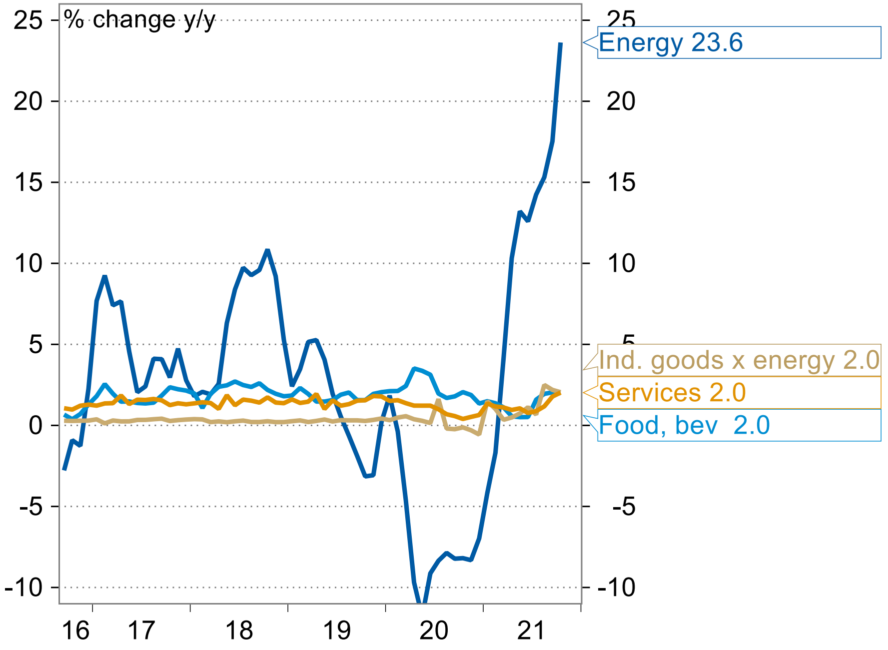
Euro Area, HICP, Index



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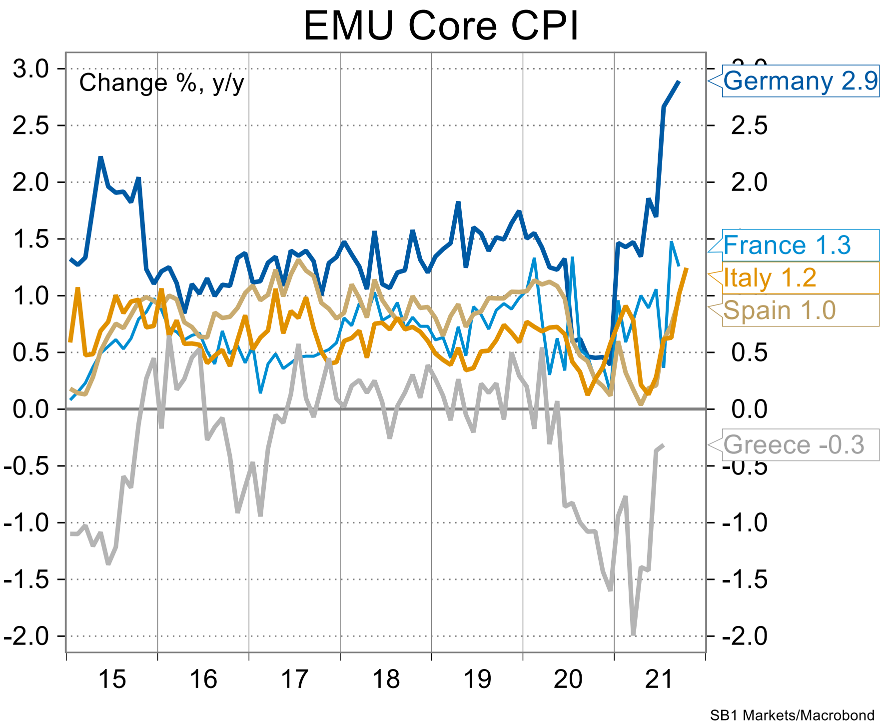
- **Core prices** were up 0.2% m/m in Oct, and the annual rate rose 0.2 pp to 2.1%, expected unchanged and finally above ECB's 2% target – and the highest since 2002. However, core inflation has been far below 2% for a long time, in contrast to the US
  - » Industrial goods x energy prices fell 0.1 % m/m – but they are up 2.0% y/y
  - » Services were up 0.2% m/m, and prices are up 2% y/y
- **Headline HIPC inflation** was up 0.7 pp to 4.1% in Oct, 0.4 pp higher than expected – and the highest on record (data back to '98). Energy is the biggest contributor, +5.3% m/m up 23.6% y/y (a 1.6 pp contribution to total HICP). The annual rate will probably stay elevated the coming months, as the monthly increases were low/negative until Dec-20
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices

Core inflation still below 2% in many countries (Sept data) but Germany at 2.9%

Headline inflation is above 2% almost everywhere – and Germany is at 4.6%, Spain at 5.5%, both ATH



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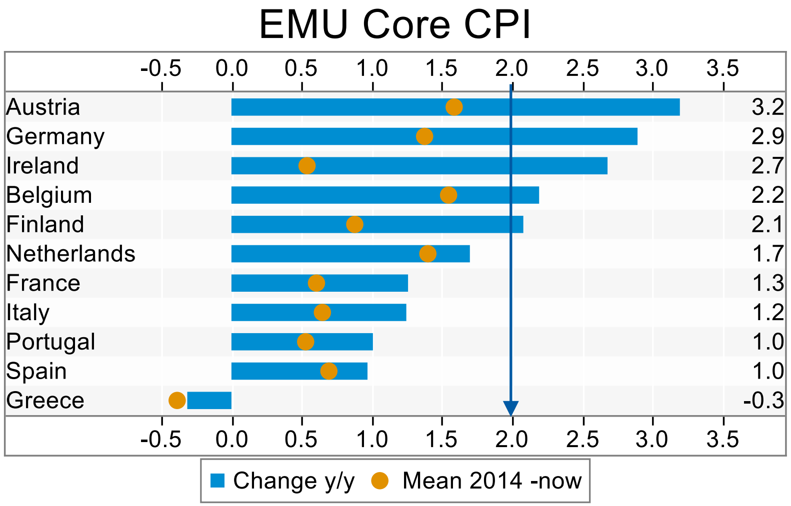

Austria	3.2
Germany	2.9
Ireland	2.7
Belgium	2.2
Finland	2.1
Netherlands	1.7
France	1.3
Italy	1.2
Portugal	1.0
Spain	1.0
Greece	-0.3

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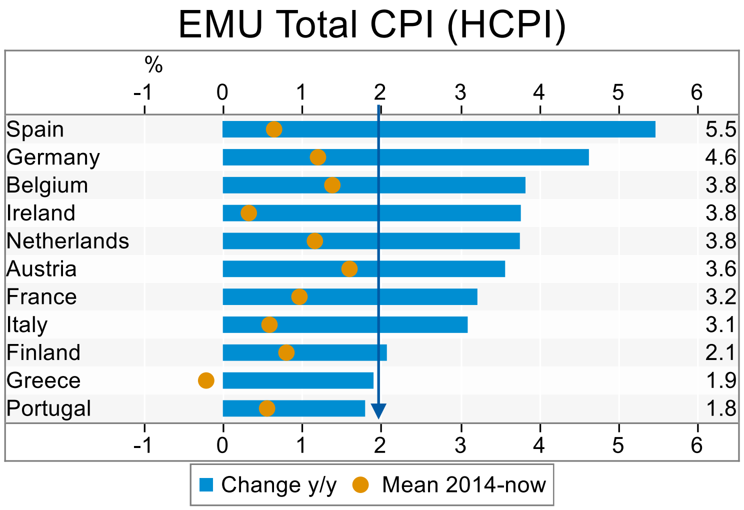

Spain	5.5
Germany	4.6
Belgium	3.8
Ireland	3.8
Netherlands	3.8
Austria	3.6
France	3.2
Italy	3.1
Finland	2.1
Greece	1.9
Portugal	1.8

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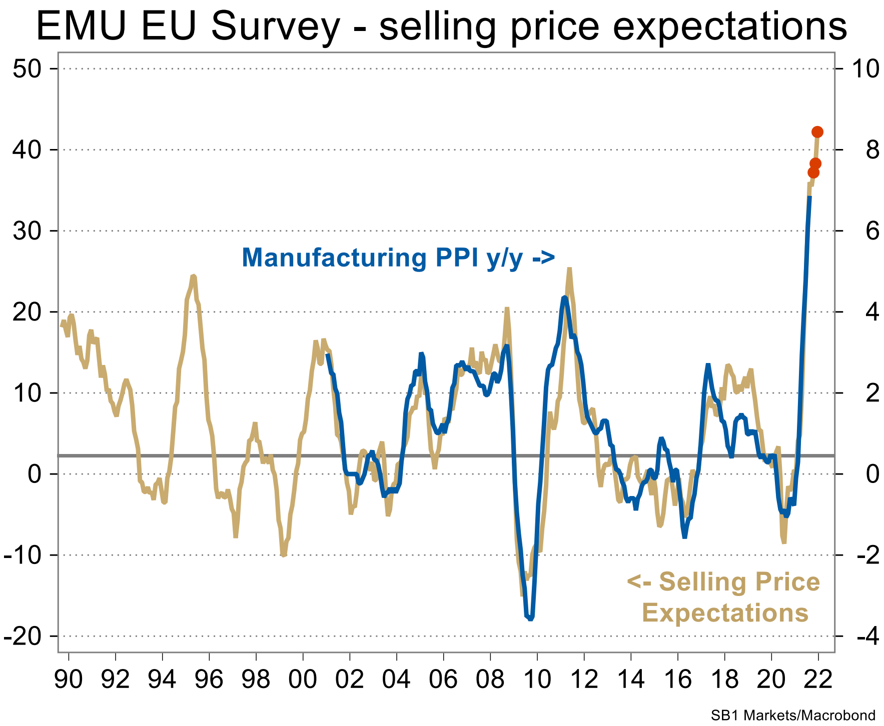
- Germany at 4.6%, Spain at 5.5%, the highest on record, data back to 1996/1993 (for the HICP indices)
- Most core HICP data are updated until September
- Most headline HCPI data are updated through October

Businesses expects further acceleration in prices



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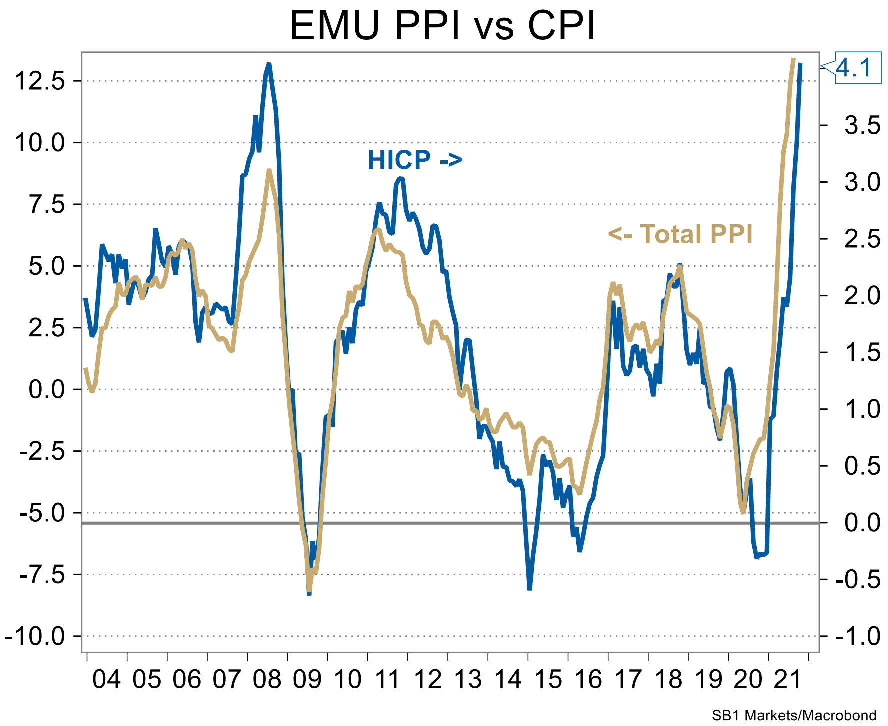

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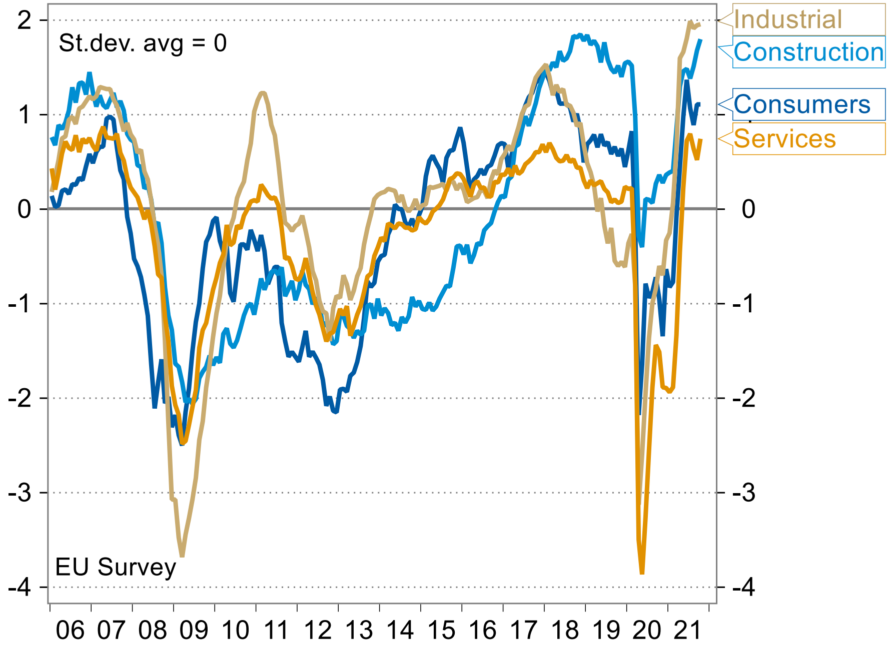
Economic sentiment almost up to ATH again in October

3 of 4 sub-sector indices were up – signals continued strong growth in the Eurozone

EMU Confidence



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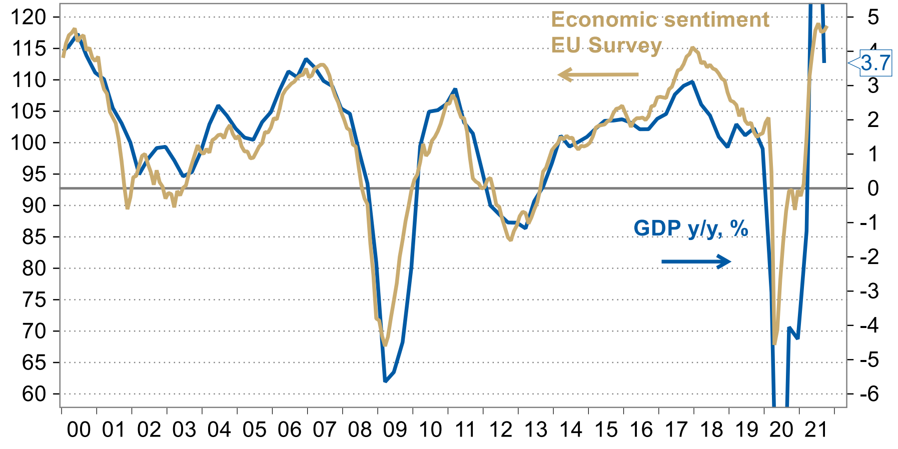
- **EU's confidence survey for the Euro area** rose 0.9 p to 118.6 in October, expected down to 116.9 and the level is just below the ATH in July
- The **main index** is 1.8 st.dev above average, signalling an GDP growth
  - » **All sectors** are signalling above average growth. 3 of 4 sectors grew more confident in October. Consumer confidence rose further in Oct, even if price expectations reached highest level since 1992!
  - » **Industry confidence** is still at the 2nd highest level in history
  - » The **EuroCOIN nowcaster** confirm the strong growth momentum in the Eurozone economy, while the Oct PMI has fallen substantially recent months (but remains at a decent level)

EMU Economic sentiment vs GDP



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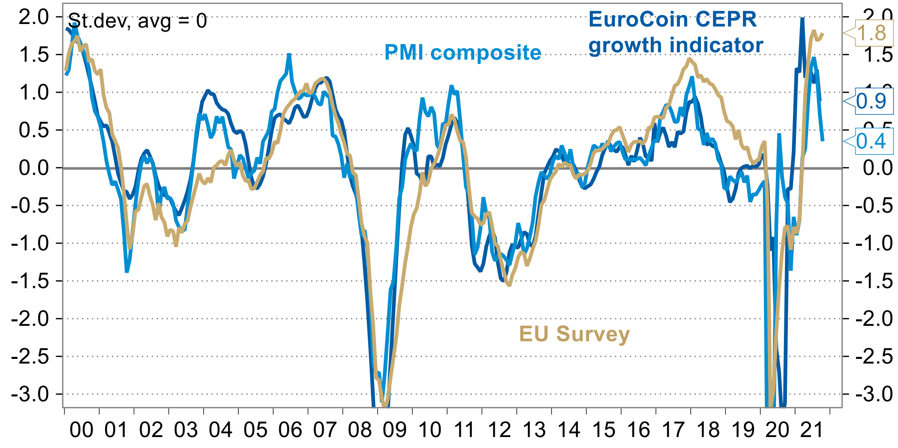
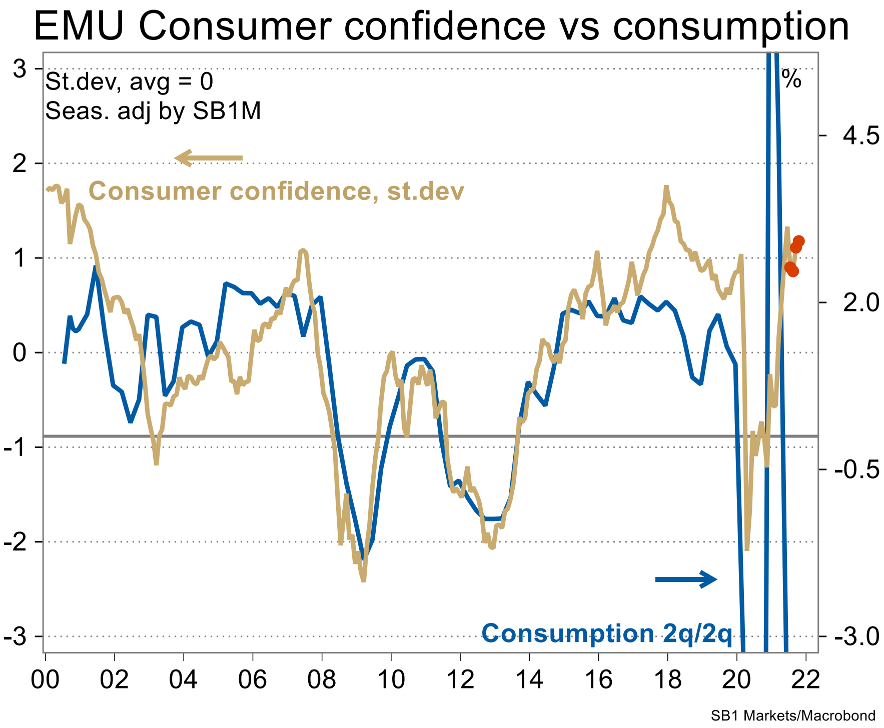
EMU Surveys/nowcaster

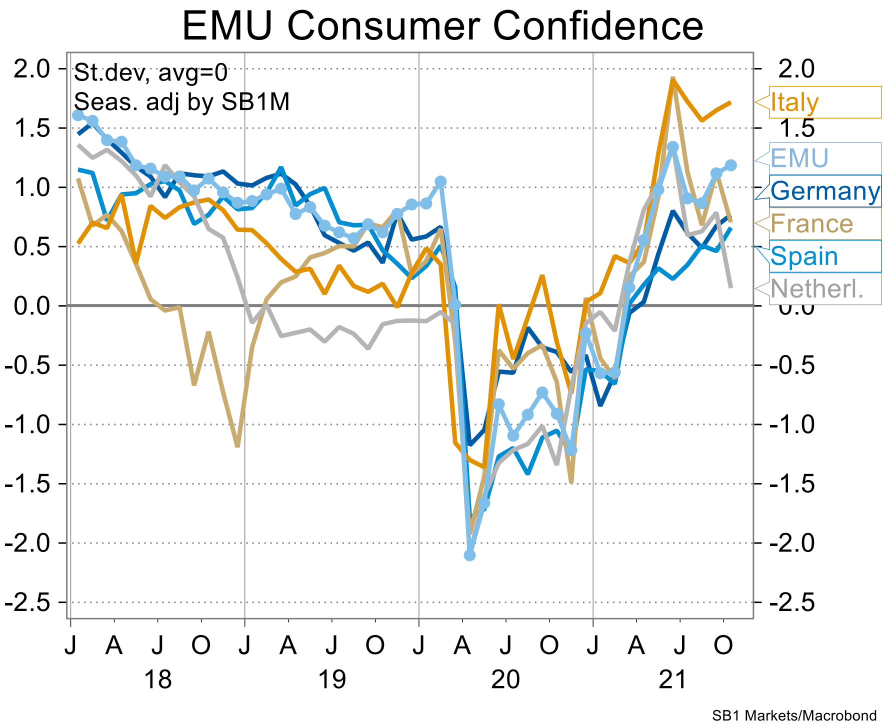


SB1 Markets/Macrobond

The Delta variant has not killed consumer confidence

The level is now 1.2 st.dev above average – and highest since 2018!

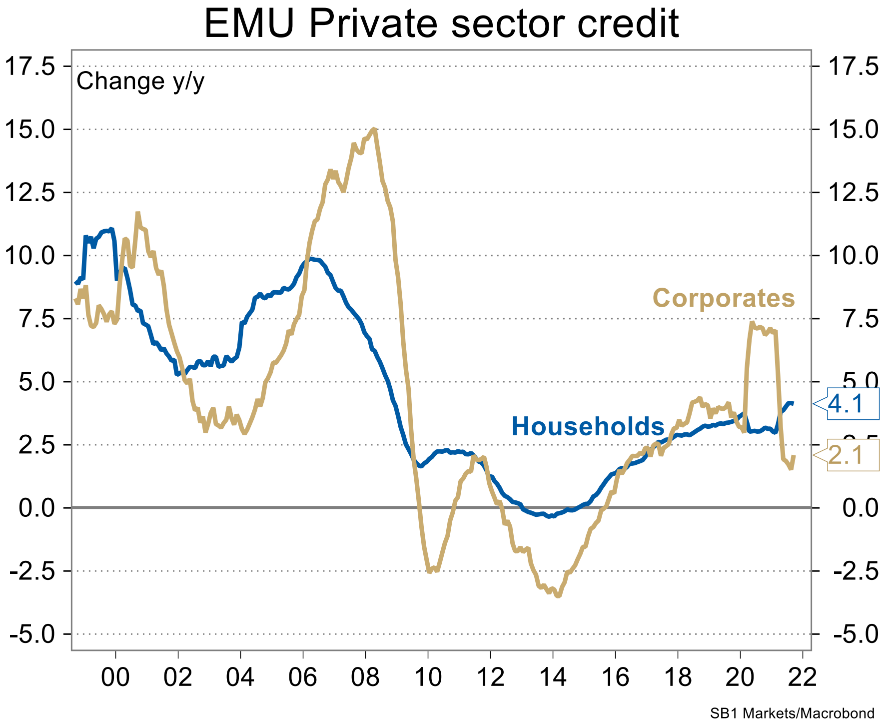




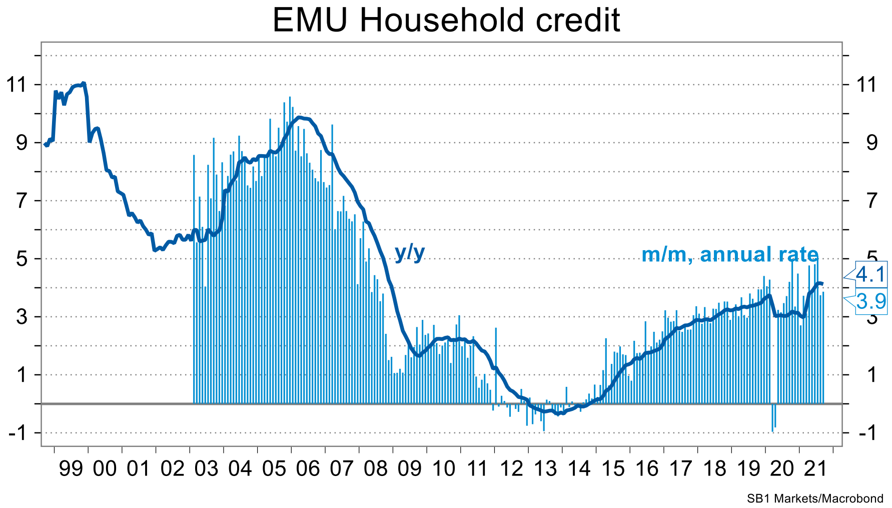
- **The consumer confidence index** rose further in October (after our seasonal adjustment), as the first estimate signalled
- The level is high and signals strong household demand. Consumers are especially in favour of making major purchases
- All of the large EMU economies reported confidence above par in October, but France reported a decline m/m, the others reported an uptick. Netherlands turned down too

Corporate credit is flattening, household debt still growing at a decent pace

… but just by 4.1% y/y, and growth slowed m/m in Sept. No dangerous credit boom to be seen


EMU Private sector credit

SB1 Markets/Macrobond


EMU Household credit

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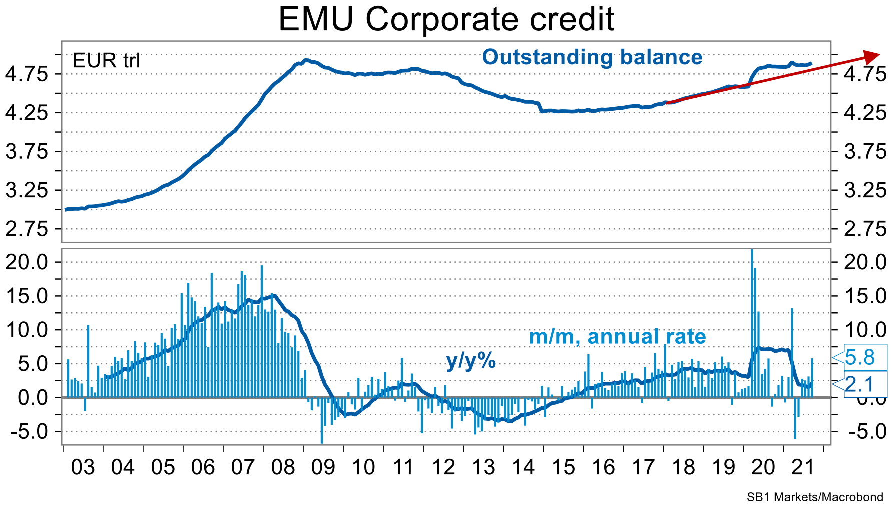
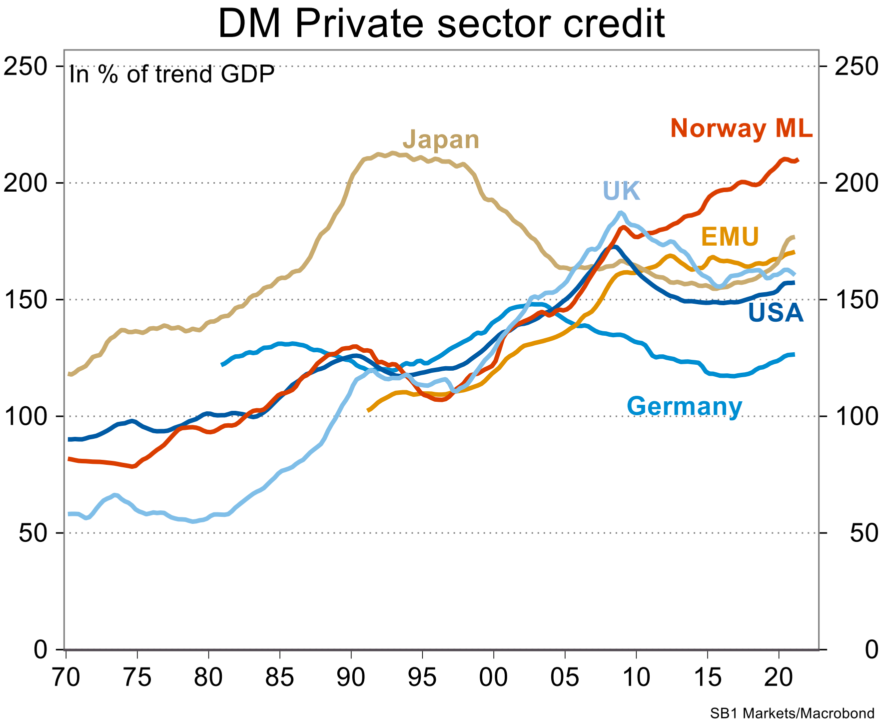

EMU Corporate credit

SB1 Markets/Macrobond

- The corporate debt level is still above the pre-pandemic trend growth path but not by much
  - » Corporate debt rose sharply last spring, when all credit gates were wide open – but growth m/m has slowed to a trickle
  - » The average growth over the past 2 years is 3.3%

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

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



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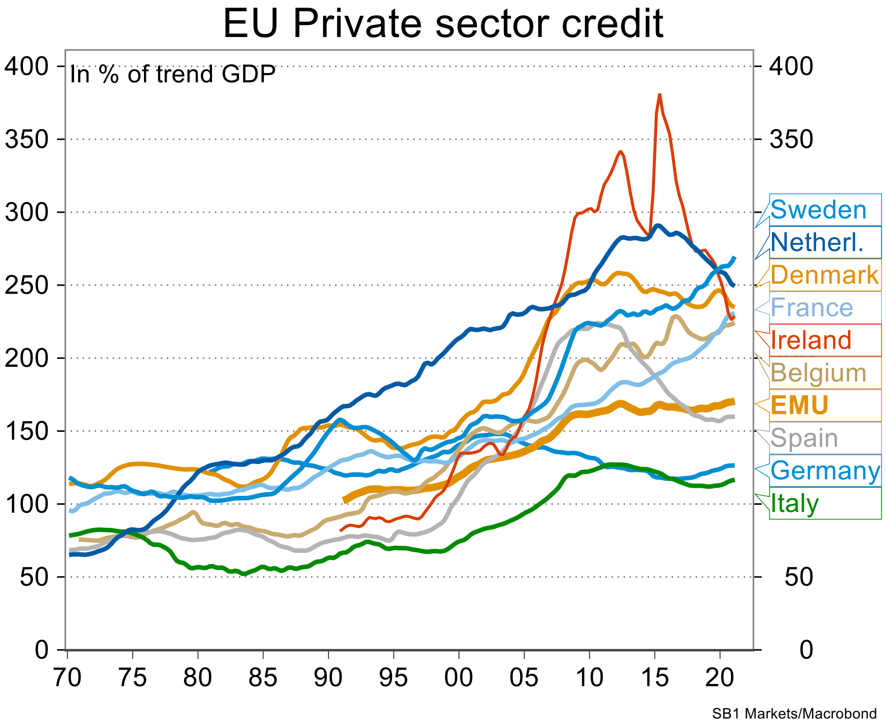
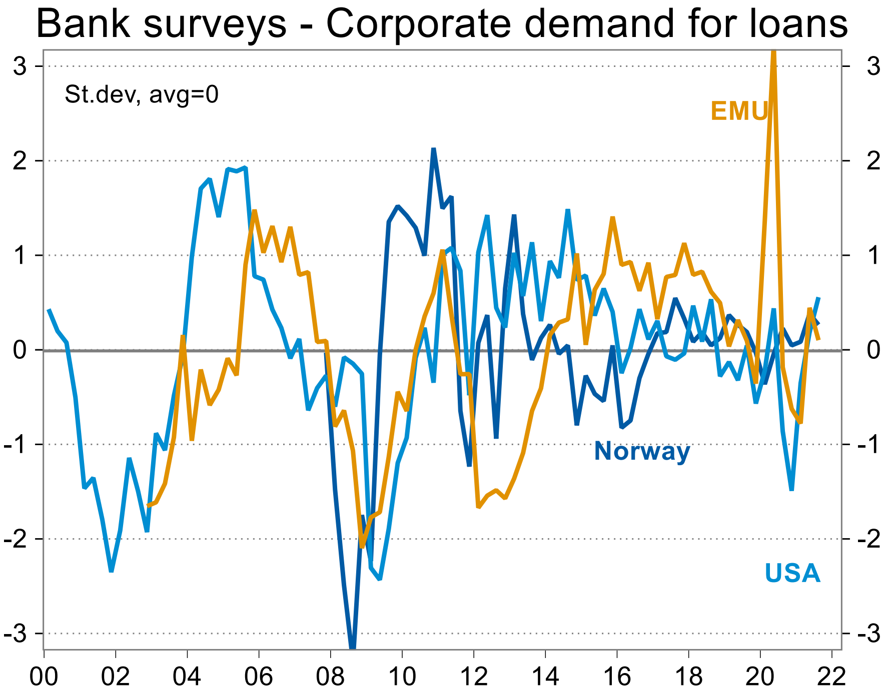


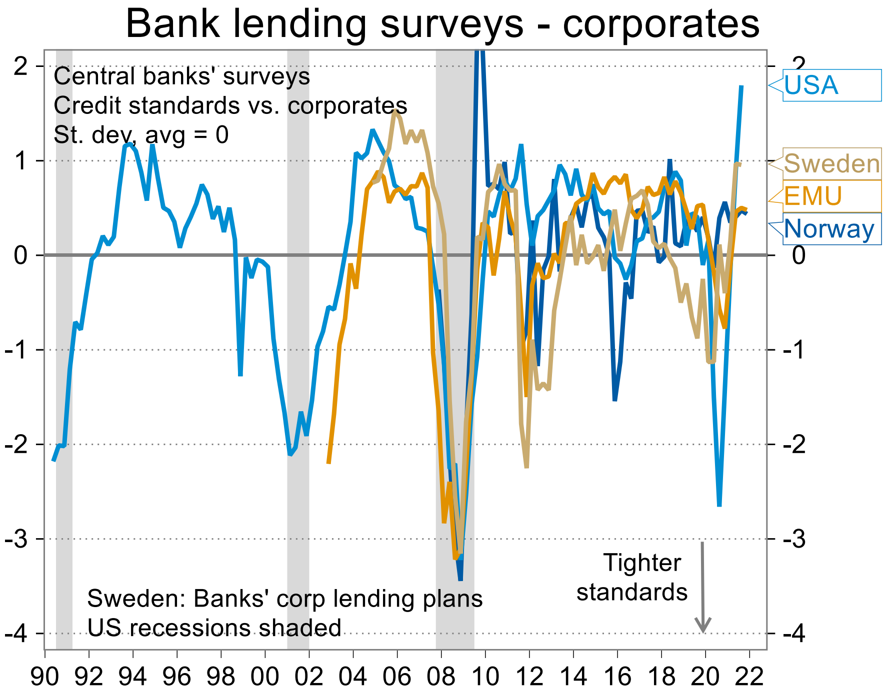
SB1 Markets/Macrobond

EMU banks report lower demand for credit in Sept., and are easing standards

Banks in Norway report the same – and US banks assumes an ATH easing vs corporates!



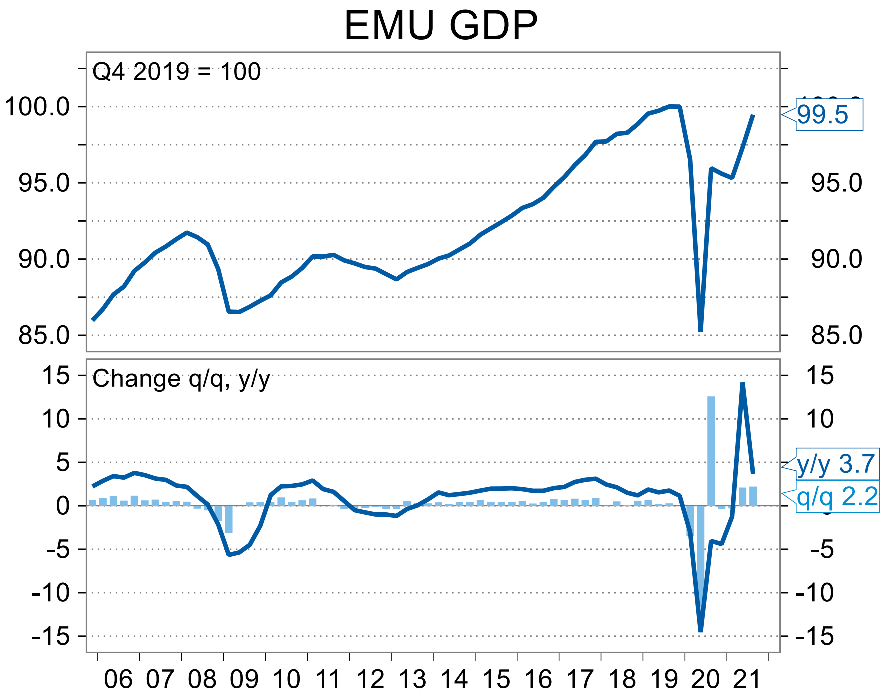
SB1 Markets/Macrobond



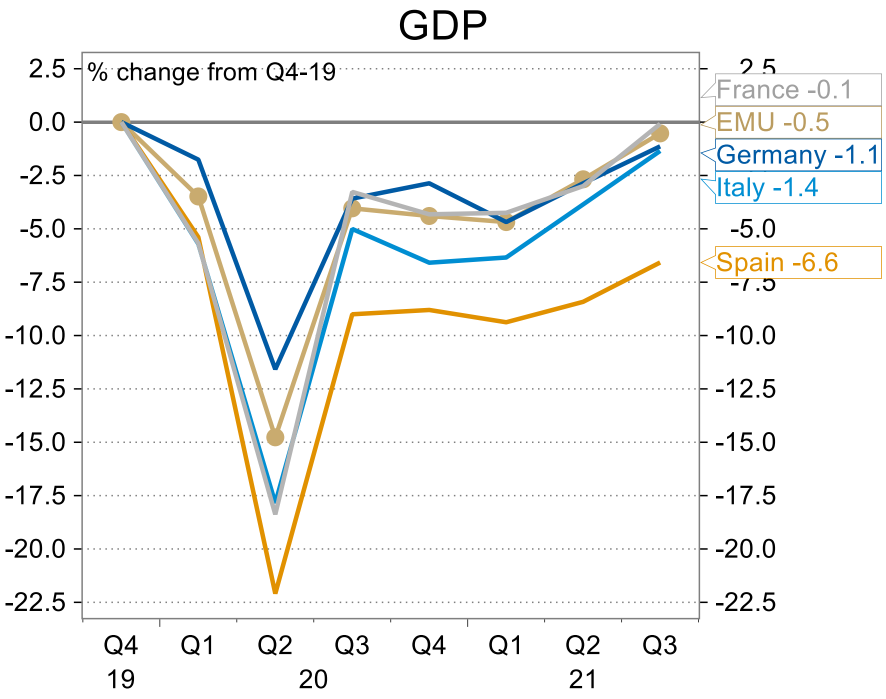
SB1 Markets/Macrobond

GDP up 9.1% (2.2% not annualised) in Q3, marginally faster than in Q2

GDP just 0.5% below the Q-19 level. Spain the big laggard, still down 6.6%, due to lack of tourists



SB1 Markets/Macrobond



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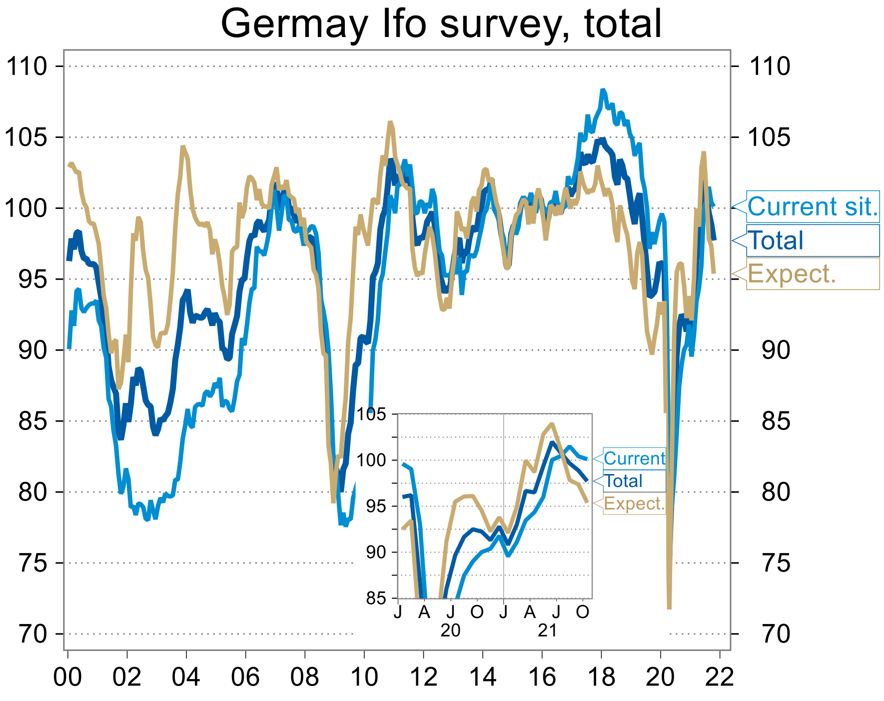
- Euro Area GDP fell in Q1, but recovered at a strong pace in both Q2 and Q3. In Q3, growth was 0.1 pp higher than expected. GDP has almost recovered from the pandemic losses – but still the well pre-pandemic growth path. No demand details yet
- Just to celebrate the strong growth data, we present them in the American, annualised rate: France +12.6%, Italy 10.8%, Spain 8.3%, and Germany 7.3%. France is down 0.1% vs Q4-19, Germany -1.1%, Italy (just!) 1.4% but Spain is down 6.6%. Tourism is no doubt to blame

Ifo expectations further down in October. Current situation still strong

Manufacturing and retail are slowing from a high level. Construction further up



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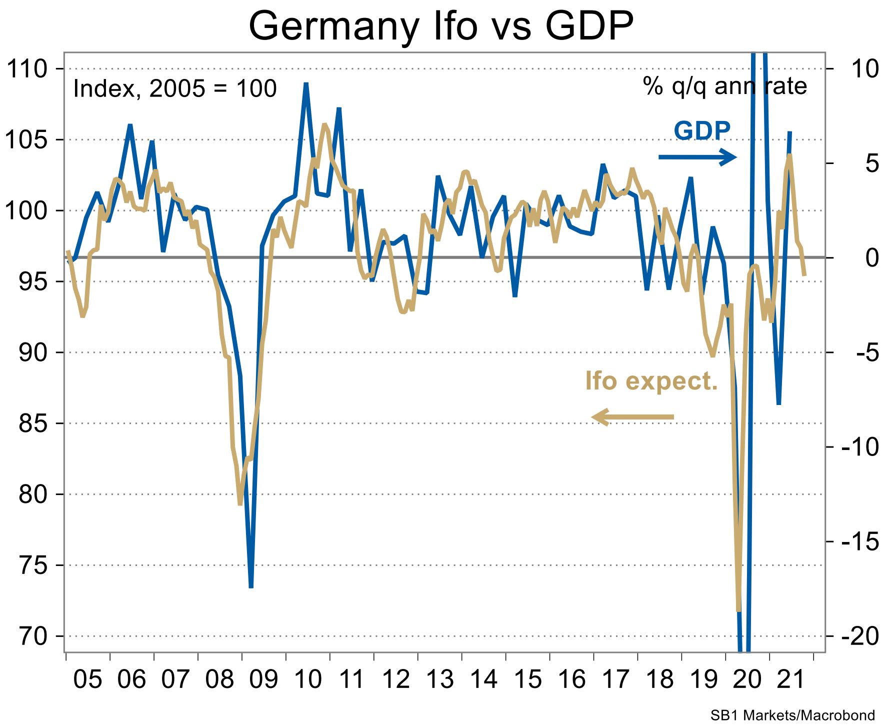
- In October, the **expectations index** fell by 2 p to 95.4, and the level is now 0.4 st.dev below average
- The assessment of the **current situation** fell 0.3 p to 100.1 – and the level is 0.7 st.dev above average
- **Manufacturing** business climate (average of current situation & expectation) declined further in October and has been declining since June, but the level is still marginally above average. The **retail** sector has also slowed since the comeback in the spring. Other parts of the **service sector** has also had a setback and is now 0.05 st.dev below avg., most likely due to Delta trouble but nothing like during the midst of the pandemic, of course. **Construction** is reporting even stronger growth
- **All other German surveys** have become softer recent months – and all are now at or below average, signalling growth at or marginally below trend – due to supply issues and increasing Delta cases

By and large, surveys signal growth slightly below or close to trend



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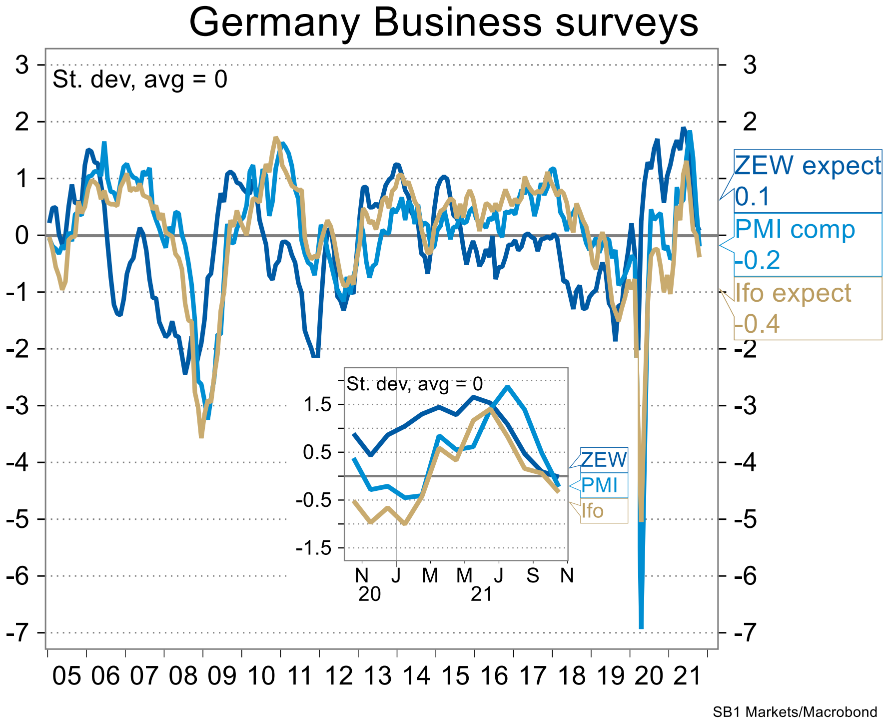
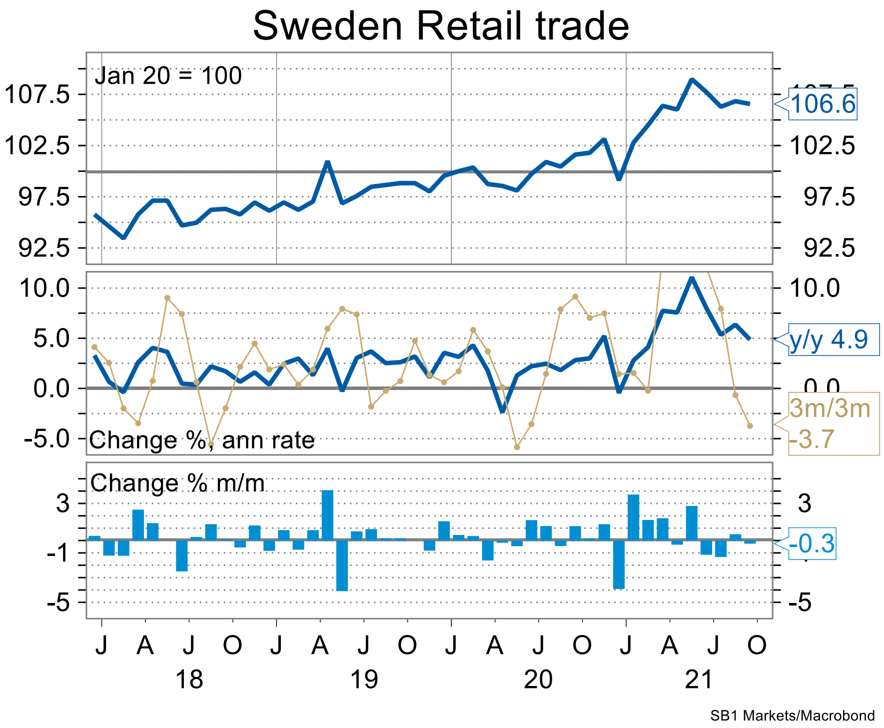


SB1 Markets/Macrobond

Retail sales lower by 0.3% in September, level as expected

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



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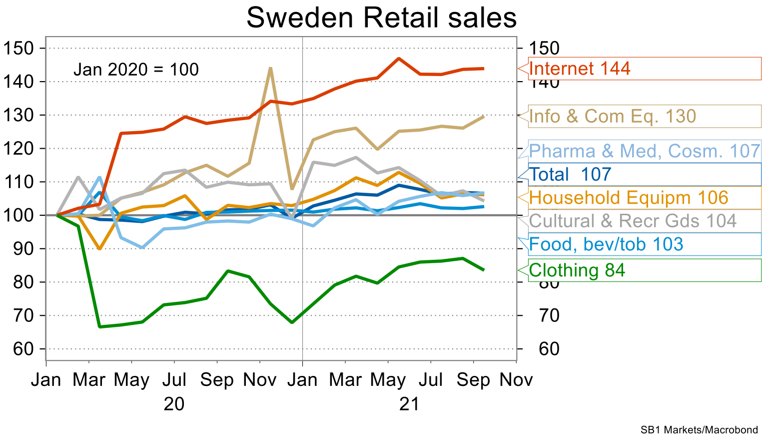
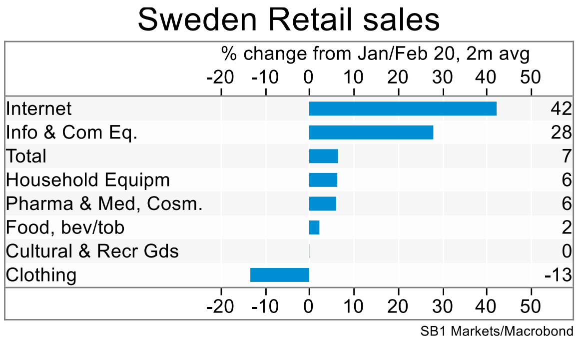


SB1 Markets/Macrobond



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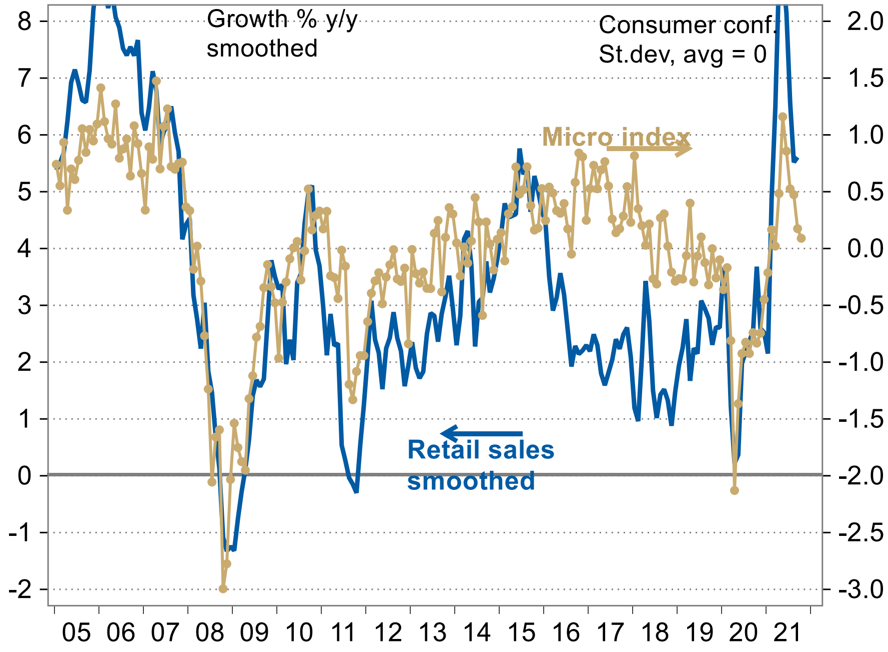
- Sales were expected down 0.5%, following the 0.5% increase in August – which was revised down from +0.7% (and the level in Sept was as expected)
  - » Huge sectoral differences. Internet sales up 42% (here like in many other countries), info/communication +28%. Food sales are close to flat, which is strange, given far less activity at restaurants (and Norwegians do not normally buy that much in Sweden, do we??). Also, clothing sales are still down 13% vs Jan-20
- As for Norway and several other countries: Retail sales are very likely above a the long term trend – and will decline as spending on services (and abroad) normalises

Consumer confidence further down in October, still marginally above average

House price inflation is slowing too – and retail sales will slow further down?

Sweden Consumer confidence vs retail sales



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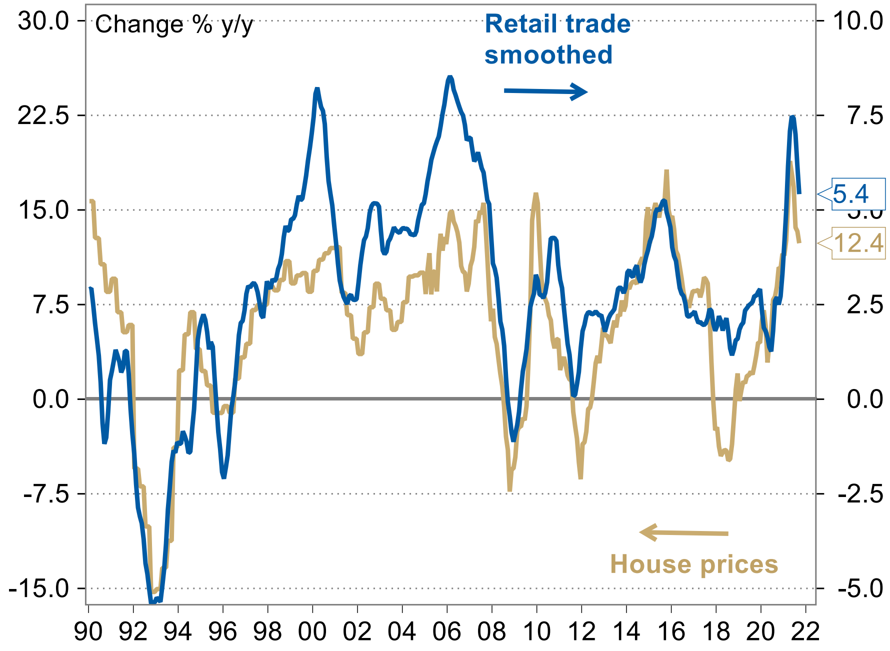
Sweden retail trade vs. house prices



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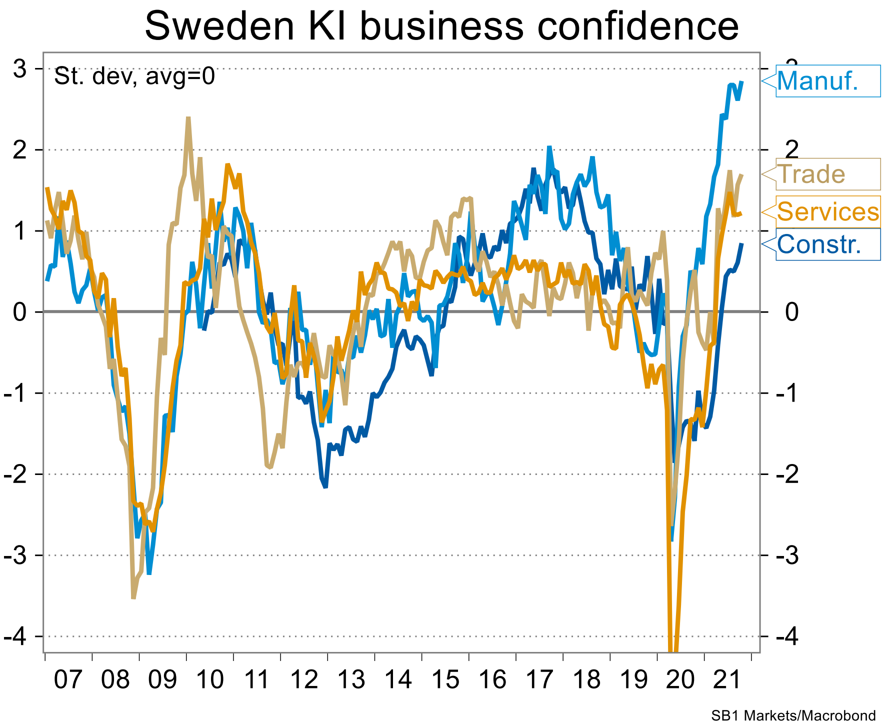
- **Confidence** is well above the pre-pandemic level, alongside retail sales - and a booming housing market, at least until a couple of months ago
- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened. So no reason the expect Swedes to stop spending now

KI business survey rose marginally in October, the level is very high

All sectors up, and reporting growth well above trend. Manufacturers in the lead, up to ATH!!



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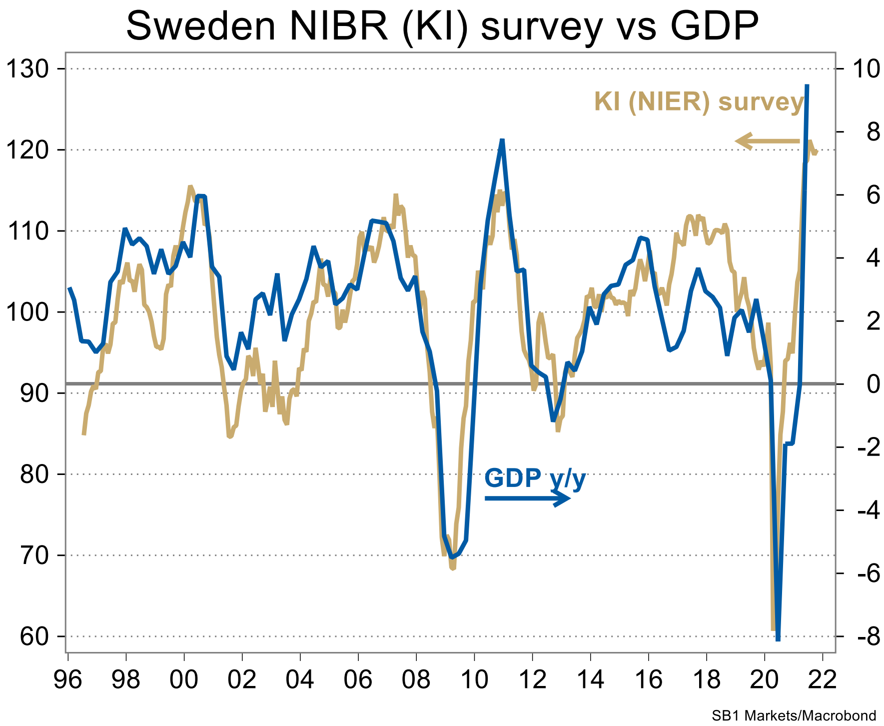

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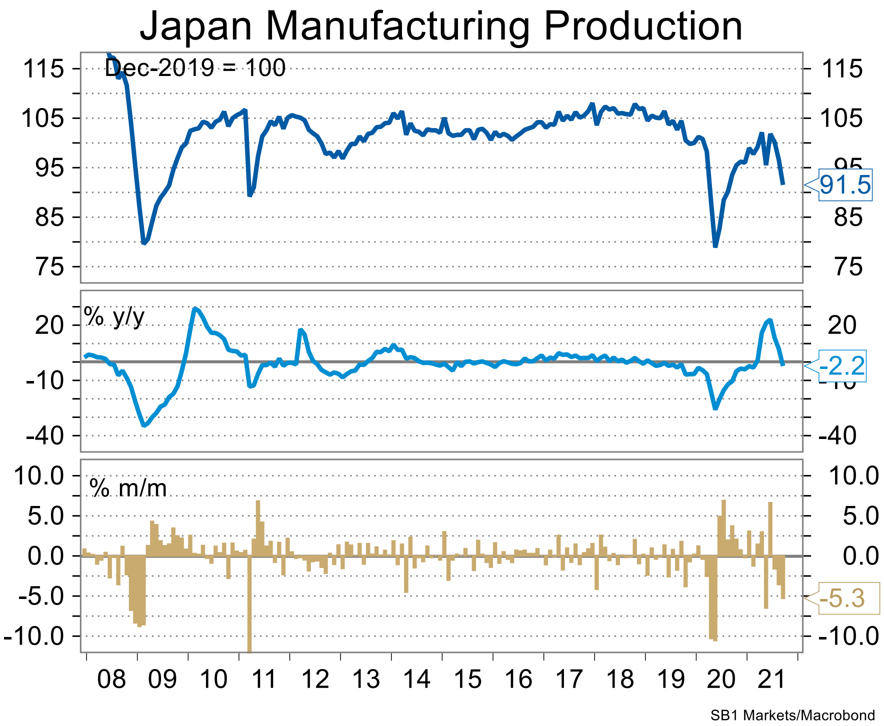
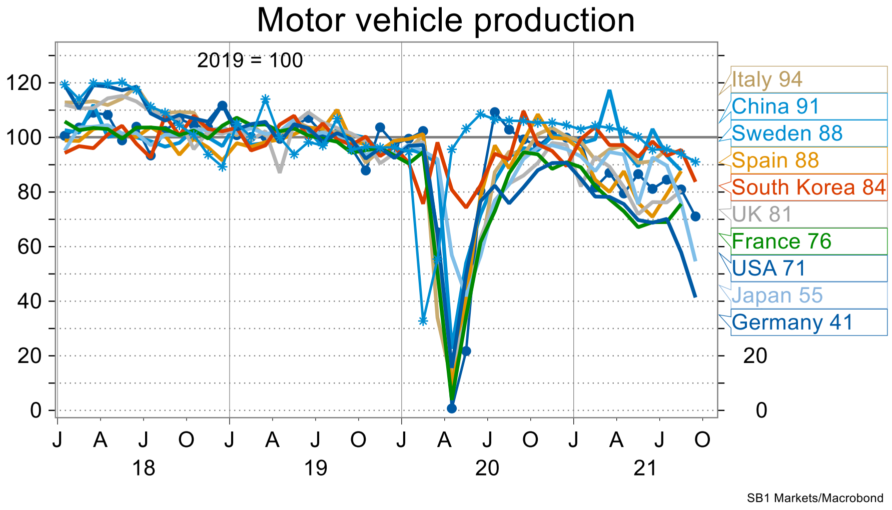
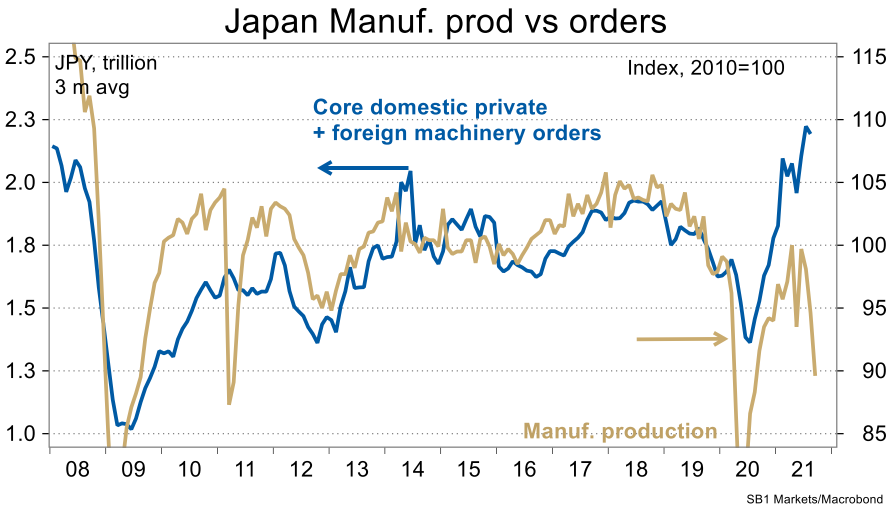
- **The composite index** rose to 120 in October from 119.4 the previous month. The survey still signals a 7.4% GDP growth rate
- **All 4 main sub-sectors** rose in October: Confidence among **manufacturers** increased to another ATH even if face of the current supply chain challenges, and the construction, trade, and service (marginally) sectors grew more confident as well
- Most likely, growth is now close to peaking as the gap to the pre-pandemic growth path was closed already in July (the first DM to do that?)
- The **Riksbank** is still concerned about the impact of the corona crisis, and thinks it will keep the policy rate at zero forever. At least until into 2025. If growth subsides rapidly, that may be OK. If not..

Manufacturing production plunged in September (too)

Down almost 9% past two months. The auto industry mainly to blame (chip shortages)



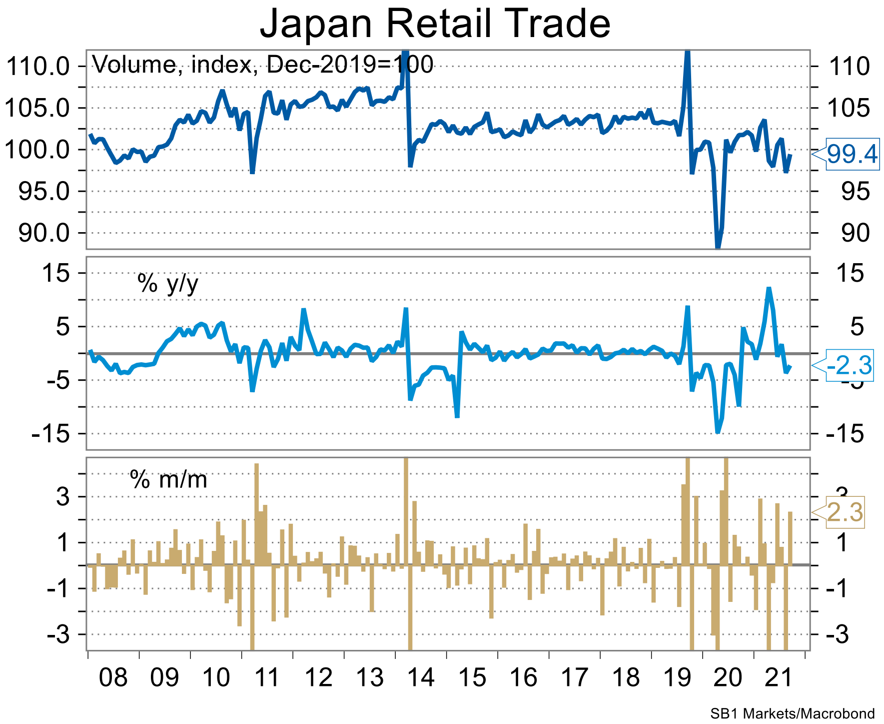




- **Manufacturing production** fell by 5.3% in September, expected down 'just' 2.5% - following the 3.6% setback in August (revised from -3.2%)
  - » Production is 8.5% below the Dec-19 level! Vehicle production is down 45%, as is the main contributor on the downside – due to lack of components
  - » **Overall order inflow** has strengthened substantially through 2021, and signals a higher manufacturing production level (chart next page)

Retail sales recovered in September but are still weak

Mobility has increased further in October, sales will probably follow suit



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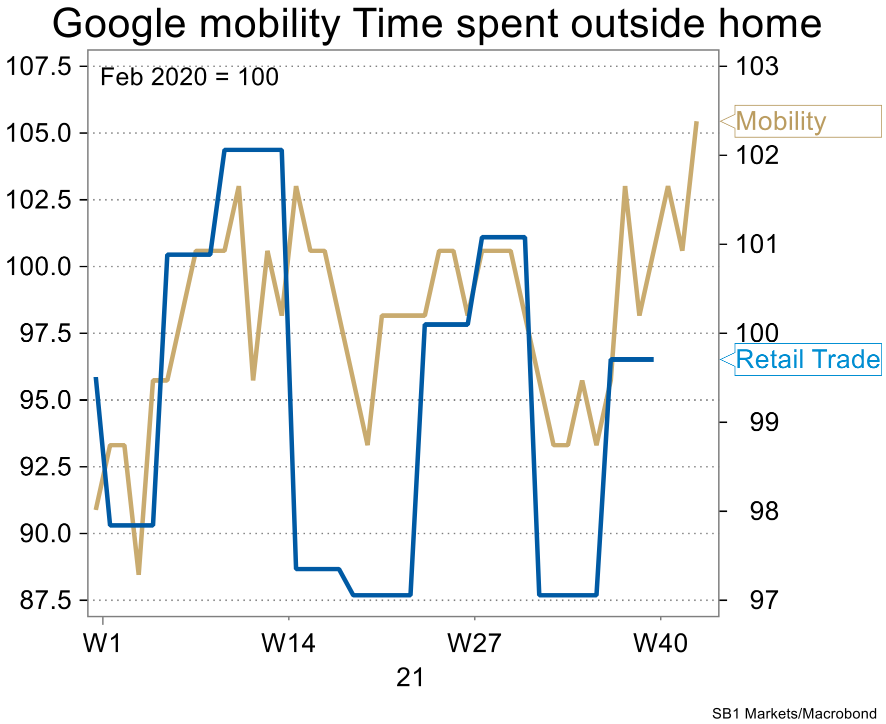

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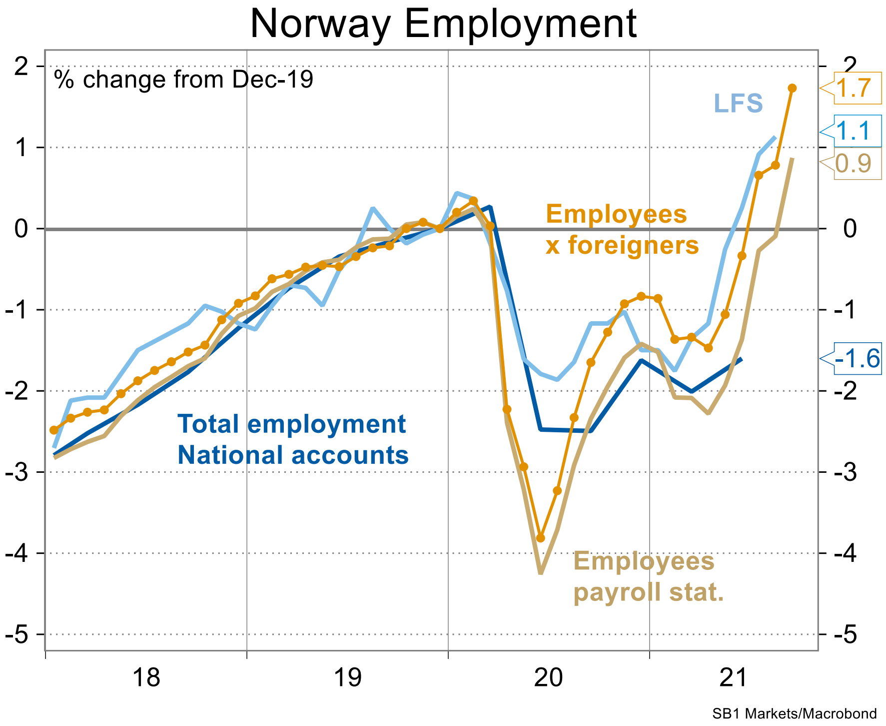
- **Retail sales** climbed 2.7% in value terms in September, expected up 1.5% following the 4% setback in August, when mobility fell sharply due to the corona attack.
- In **volume terms** sales rose by 2.3% - and sales are down 2.3% y/y. The level is now just 0.6% below the pre corona level – but that was an easy comparison. Sales are down some 3% vs. the 2018 level

- Highlights
- The world around us
- The Norwegian economy
- Market charts & comments

Reg. employment surged by 0.9% m/m in September, well above the pre-pandemic level

The LFS confirms strong employment growth



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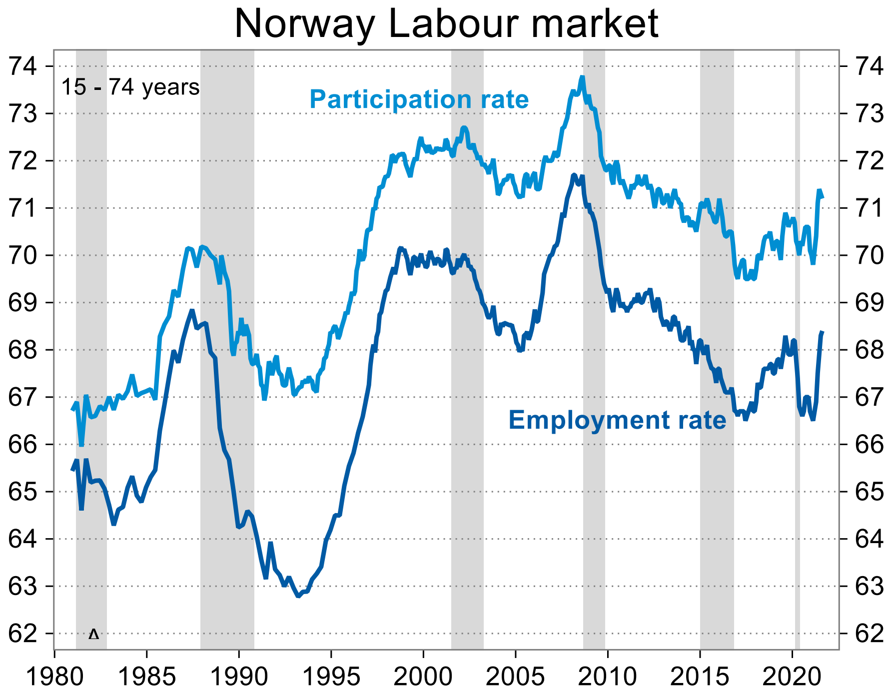
- The increase in the register based no. of employees in September suggest at brisk growth in Mainland GDP (at least adjusted for mackerel fishing)
  - » Total no. of employees grew by 0.9% m/m and is now 0.9% above the level in Dec-19
  - » We estimate the employment among permanent residents (Norwegian and foreign born) to be 1.7% above the pre-pandemic level (based on our Q3 estimate for foreign workers on short-term stay)
  - » The increase in employment is broad based
- **The LFS** (survey) employment data (both employees and self-employed) have also been strong recent months and employment grew further in August (Jul-Sept avg), and the level is up 1.1% vs. Dec-19
  - » Employment was revised down by some 0.6% for Q4/Q1 but not growth since then – and at a similar pace as the payroll stats for employees
- **National Accounts** reported a modest rise in overall employment in Q2. The NA data includes foreigners on short-term stay. Q3 data will be MUCH better ☺

An impressive lift in both particiaption & employment rates!

Has less competition from foreigners helped more permanent residents back to the labour market



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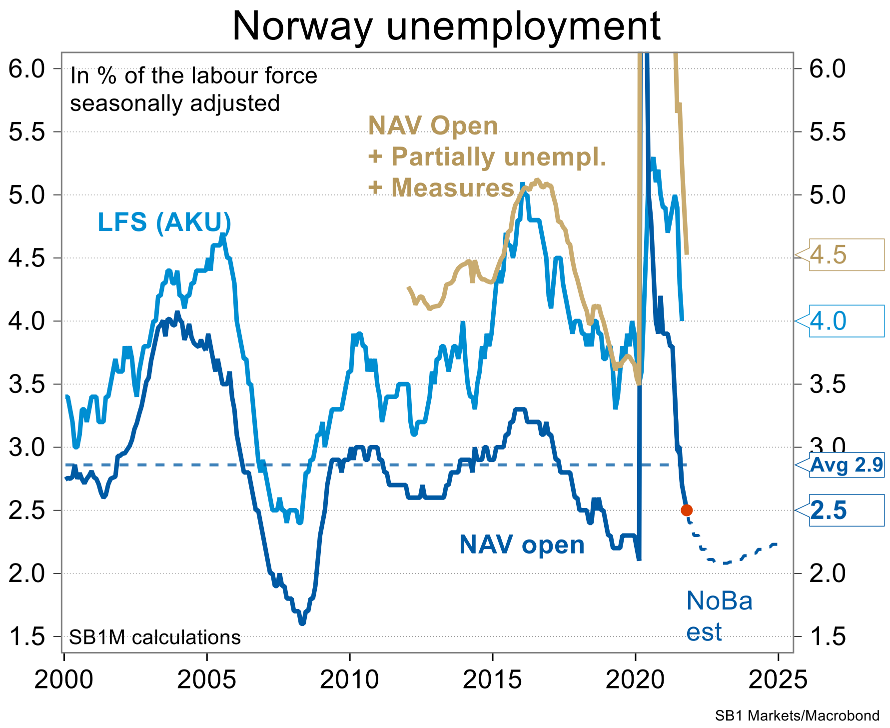
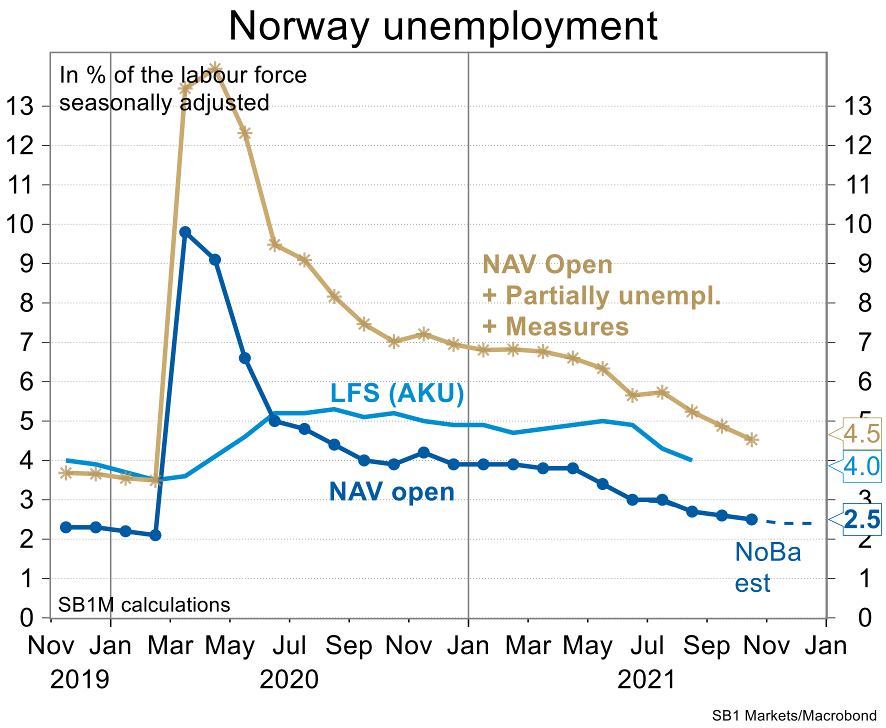
- The employment rate is above the pre pandemic level, far above the post ‘oil crisis’ through in 2017
  - » In August, the rate rose by 0.1 pp to 68.4. Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017)
- The participation rate has increased even more – and that’s the only reason why the LFS (AKU) unemployment rate remains above the pre-pandemic level
- Both rates are at the highest levels since 2014

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

Open unemployment down 0.1 pp to 2.5%, in line with NoBa f’cast. Level just 0.4 pp above Feb-20


Norway unemployment

SB1 Markets/Macrobond


Norway unemployment

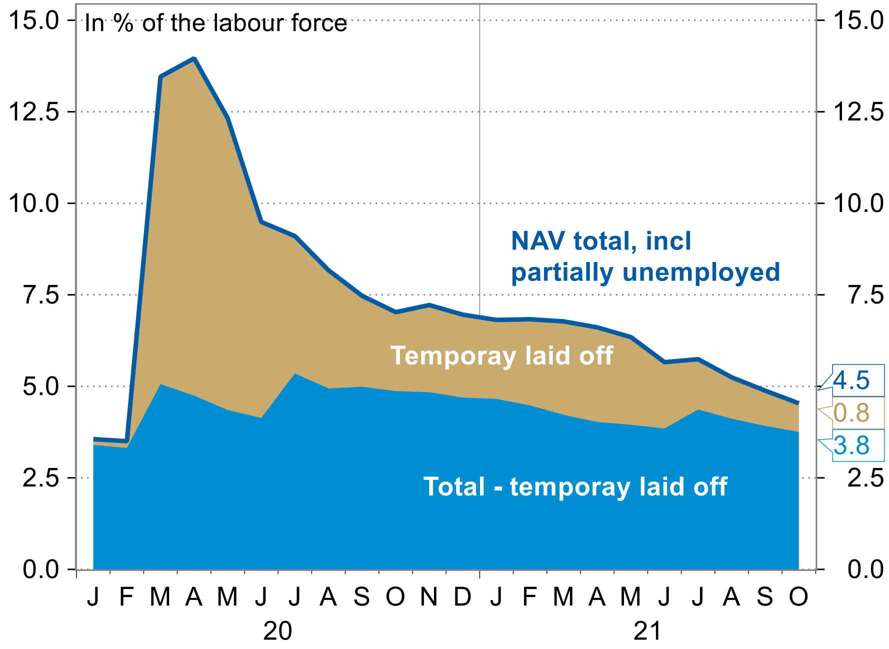
SB1 Markets/Macrobond

- **The ‘full time’ open NAV unemployment**, which includes furloughed workers, fell by 3’ in September (seas. adj) to 71’ we expected -4’. The rate fell by 0.1 pp to 2.5%, equal to NoBa forecast. (Unadjusted, the rate fell by 0.2 pp to 2.2%, vs. 2.3% expected by consensus). The 2.5% rate is below the 2000 – 2019 avg at 2.9%. Unemployment is falling rapidly everywhere and for all sorts of labour
- In addition, the number of **partially unemployed** (not included in the ordinary unemployment no.) fell even more, to by 6’ to 44’. Incl. labour marked measures, the **total unemployment** fell by 10’ to 130’, to 30’ above the pre-pandemic level. The rate is 4.5% up from 3.5% in Feb-20
- The inflow of **new job seekers** fell further in Oct, and the inflow of new vacancies rose further from a high level the previous 6 months
- **The AKU unemployment rate** fell further by 0.2 pp to 4.0%, and more than expected as the **employment rate** rose further. In addition, the **inflow of new vacancies** rose further, and the level is high

All shades of unemployment rapidly down

The number of furloughed workers is declining rapidly – and no. of partially unemployed follows suit

Norway NAV unemployment



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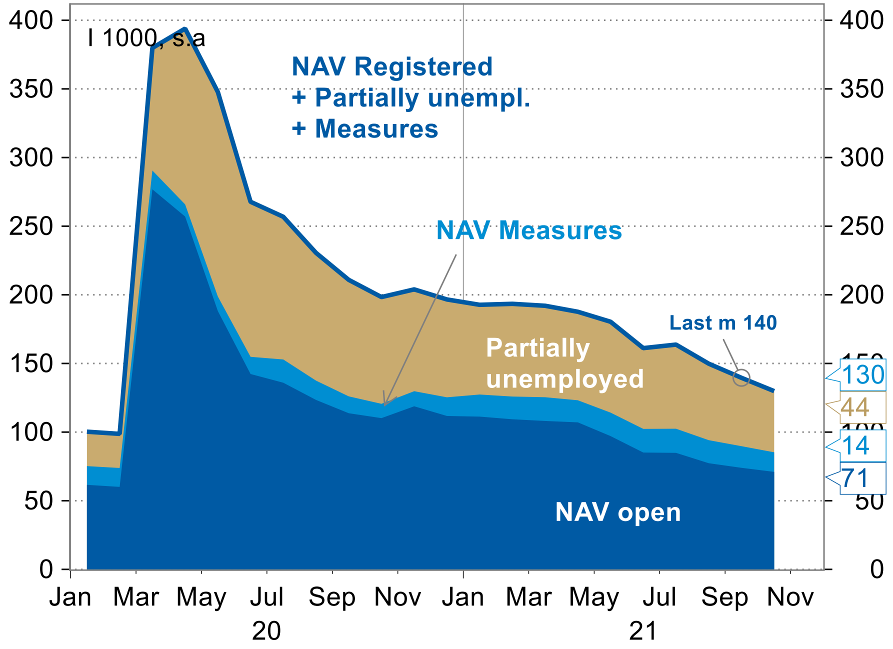
Norway NAV Unemployment



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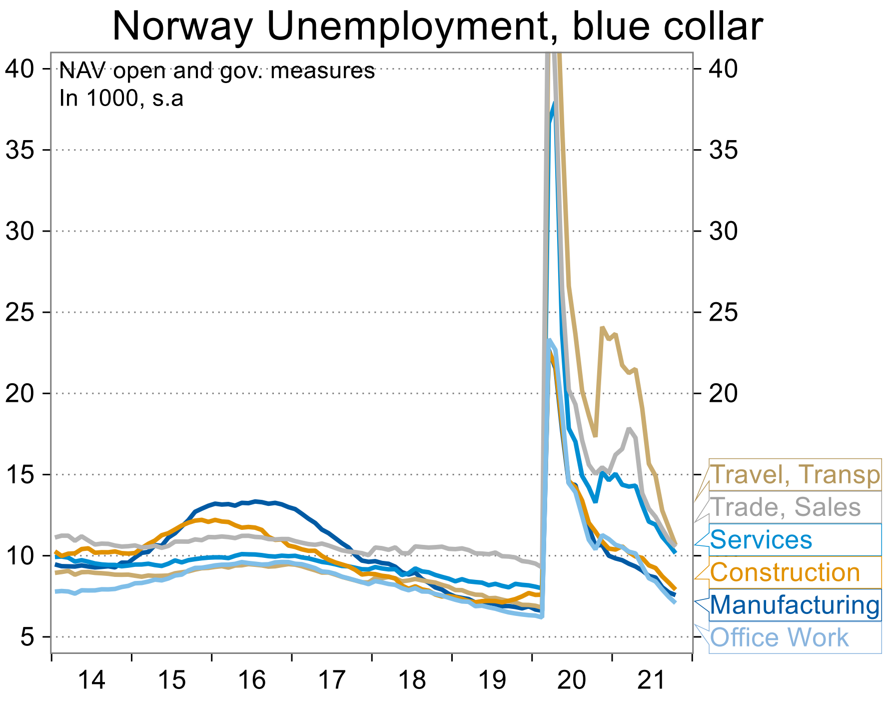
The unemployment sharply down across all sectors

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



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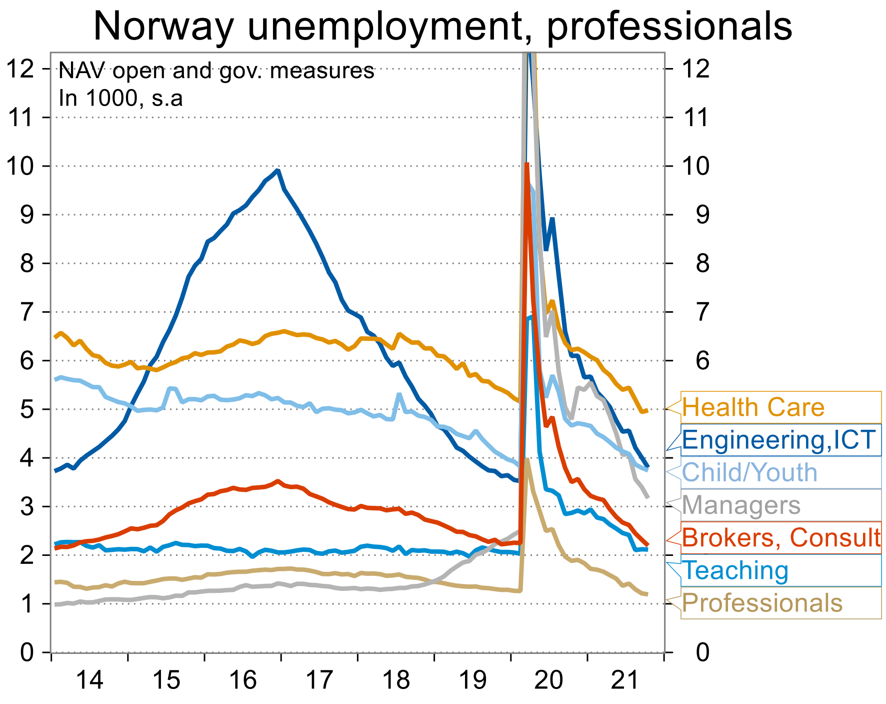

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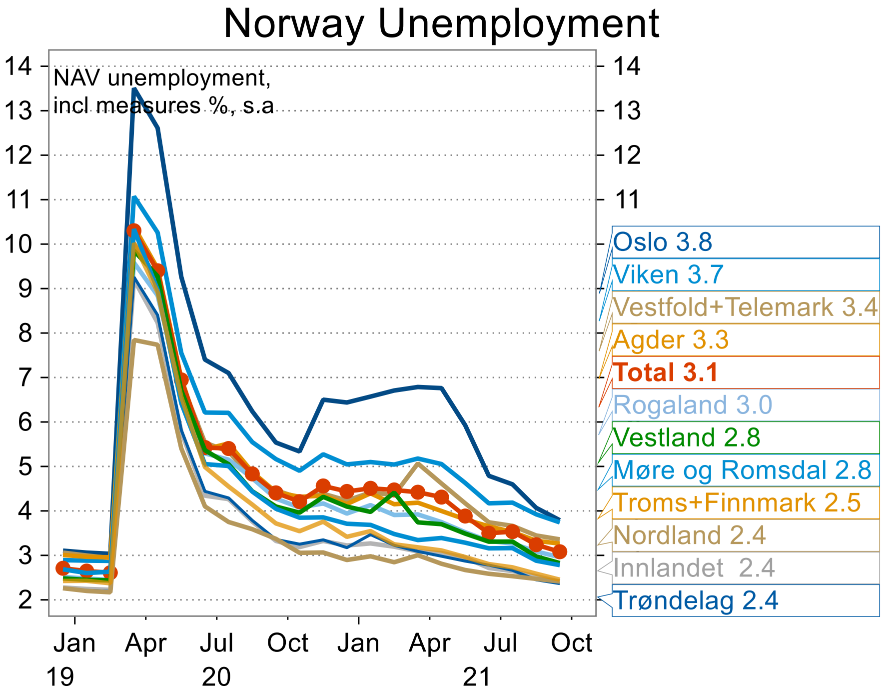
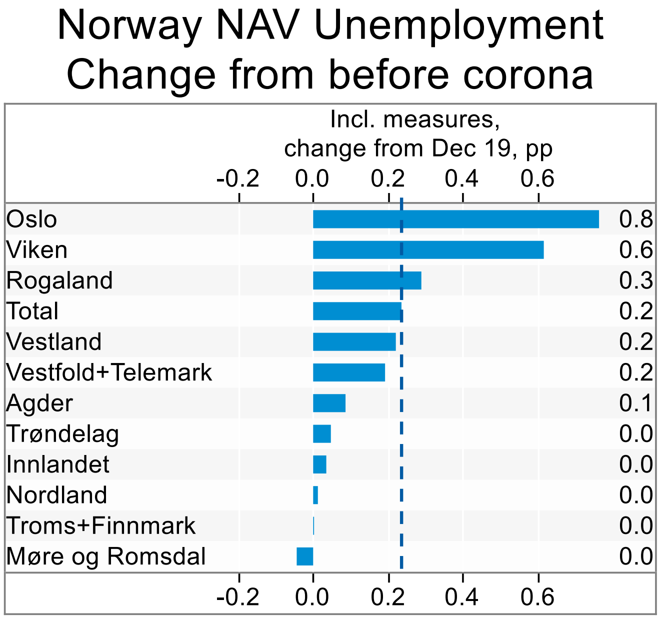
Unemployment further down everywhere in Oct. Oslo/Viken is still the laggard

… where unemployment is the highest


Norway Unemployment

SB1 Markets/Macrobond

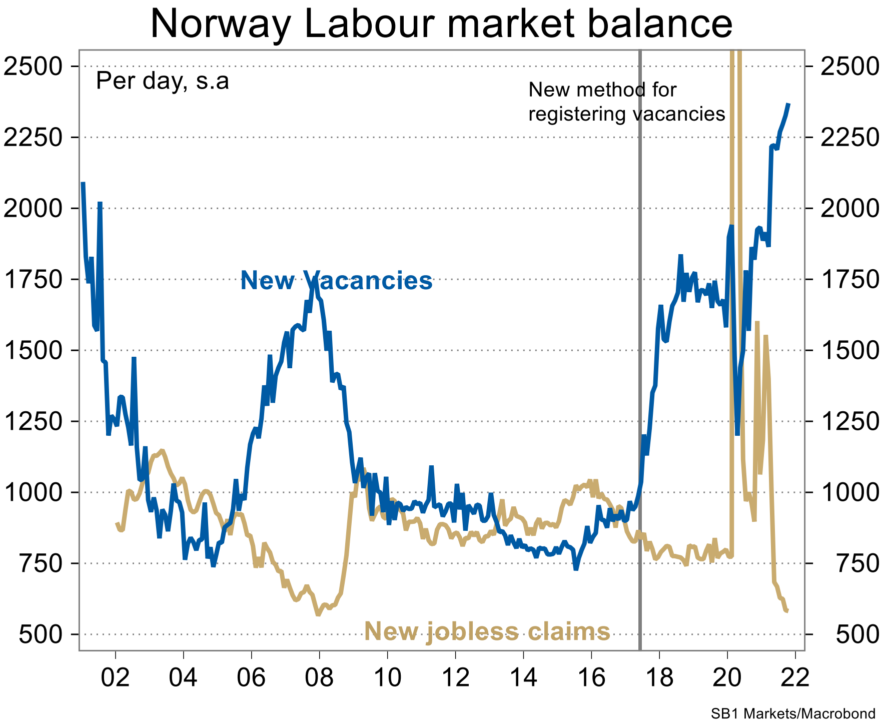

Norway NAV Unemployment
Change from before corona

SB1 Markets/Macrobond

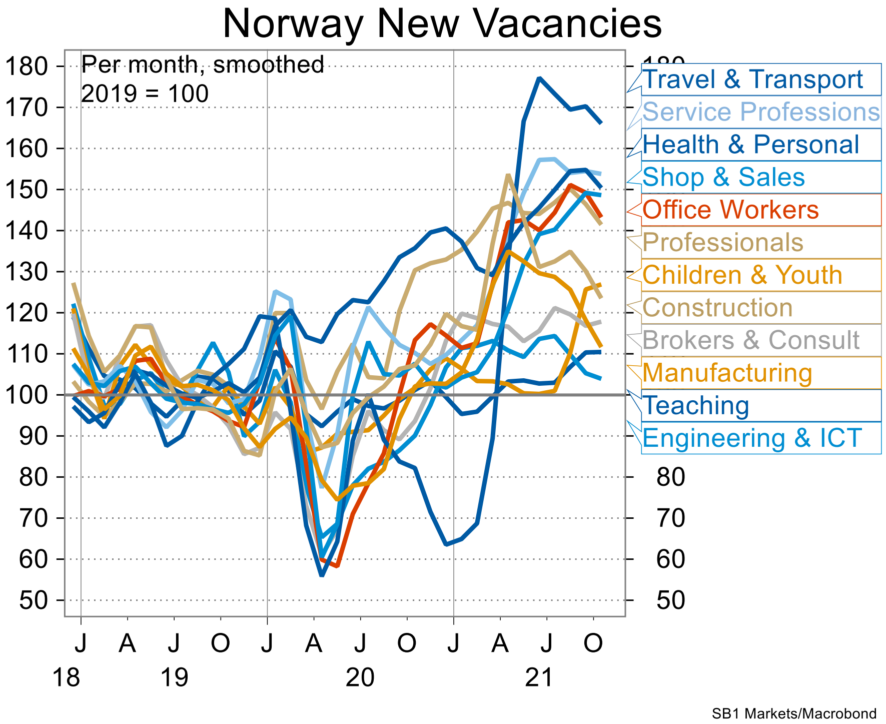
- **Oslo** has by far been the hardest hit county, both due to tighter restrictions and a large service sector – followed by Viken
- Ordinary unemployment (full time, temporary laid offs and measures included) falling everywhere – and it is approaching the pre-pandemic levels in most counties. Just Rogaland,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

A huge inflow of new vacancies for the 7th month in a row!

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



SB1 Markets/Macrobond



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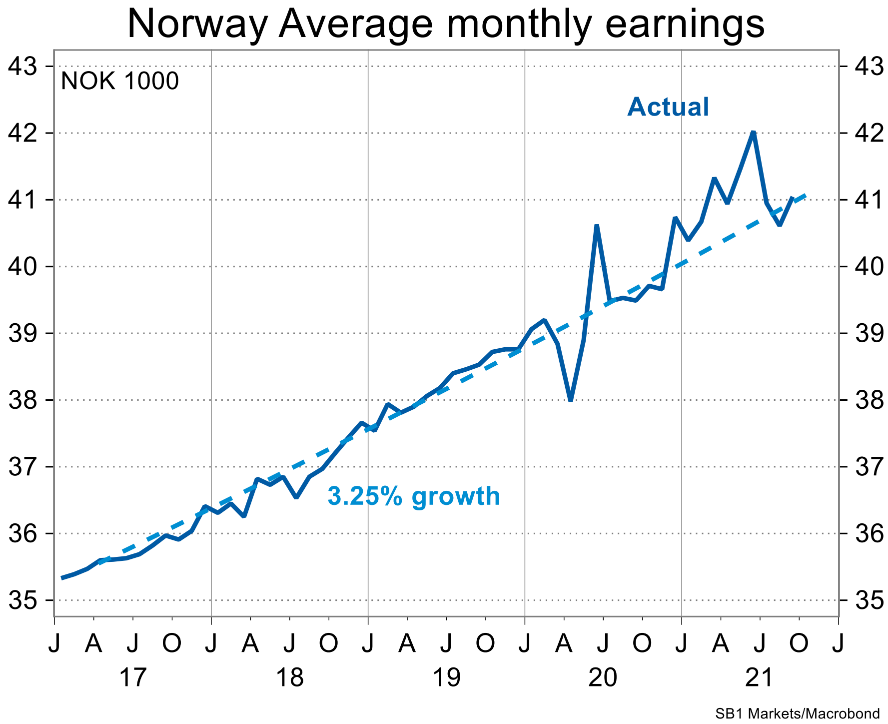
- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)
- The no. of new jobless claims is still falling, and it is approaching the record low level in 2008
- These data confirm that the labour market is tightening

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

Wage growth still in check – it could still be at a 3.25% growth track

Some sectors are above the pre-pandemic trend, others are below



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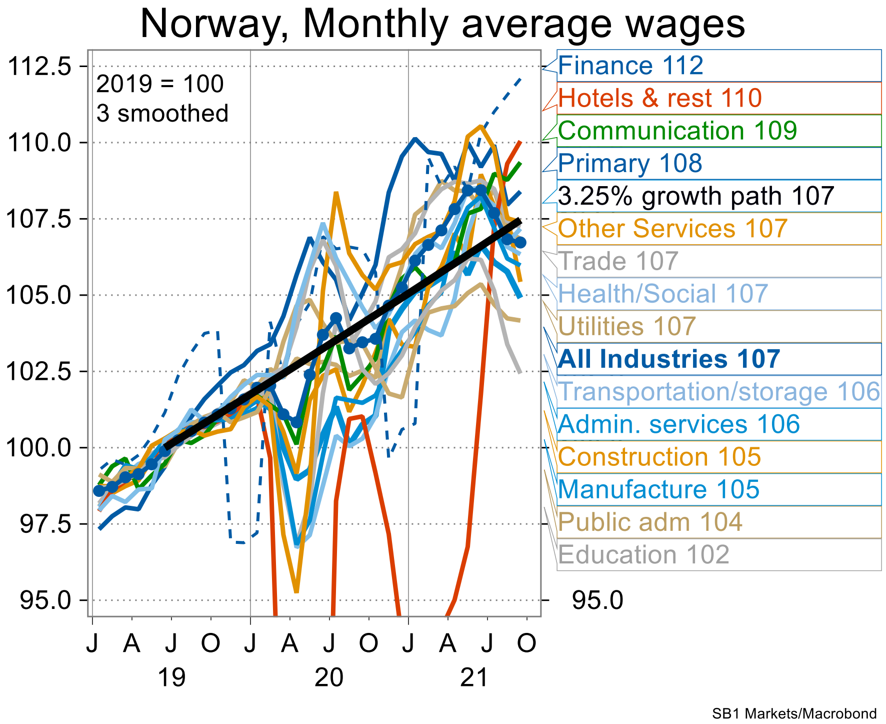
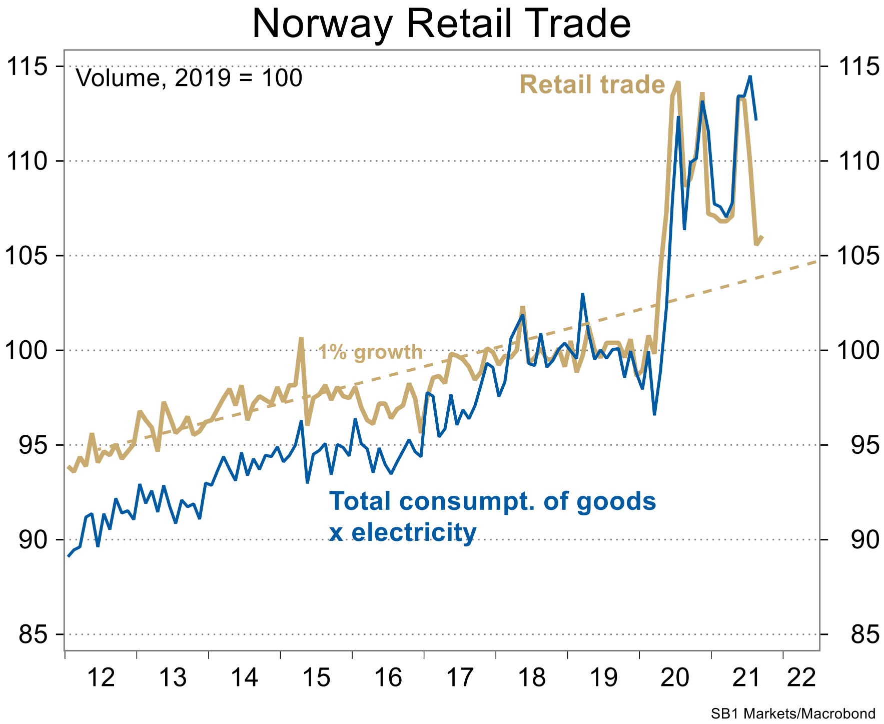


SB1 Markets/Macrobond

- Monthly average cash earnings are rather volatile, also depending on hours worked, bonuses
- Earnings have been above the 3.25% growth path from the start of the pandemic until June. We assume the return of low paid service sector workers took the average down

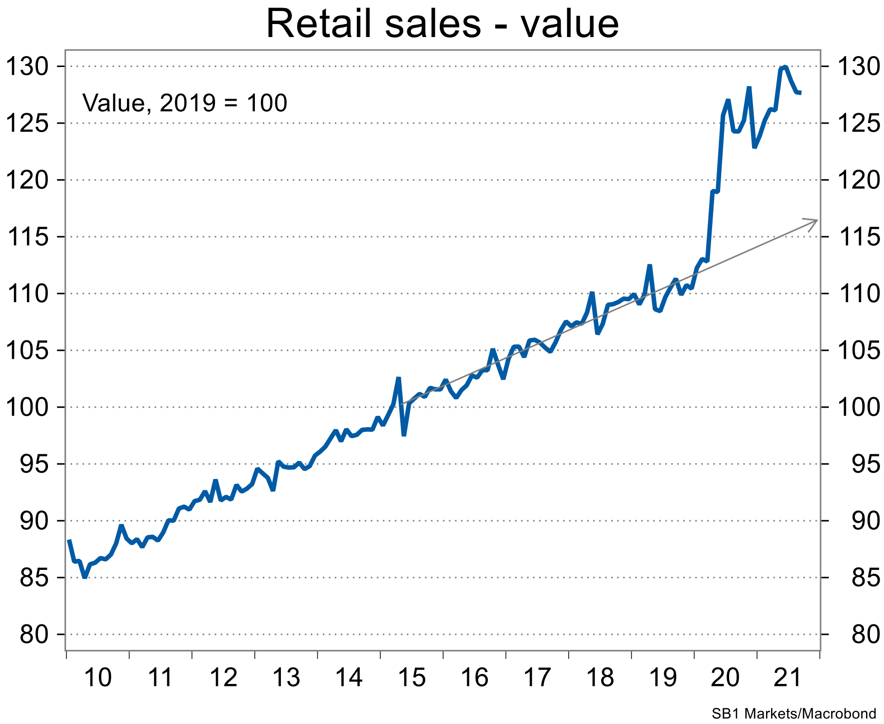
Retail sales stronger in September as sales of building materials rose 7%

Sales rose 0.5%, expected -1.0% - the level is still high



Norway Retail Trade

SB1 Markets/Macrobond



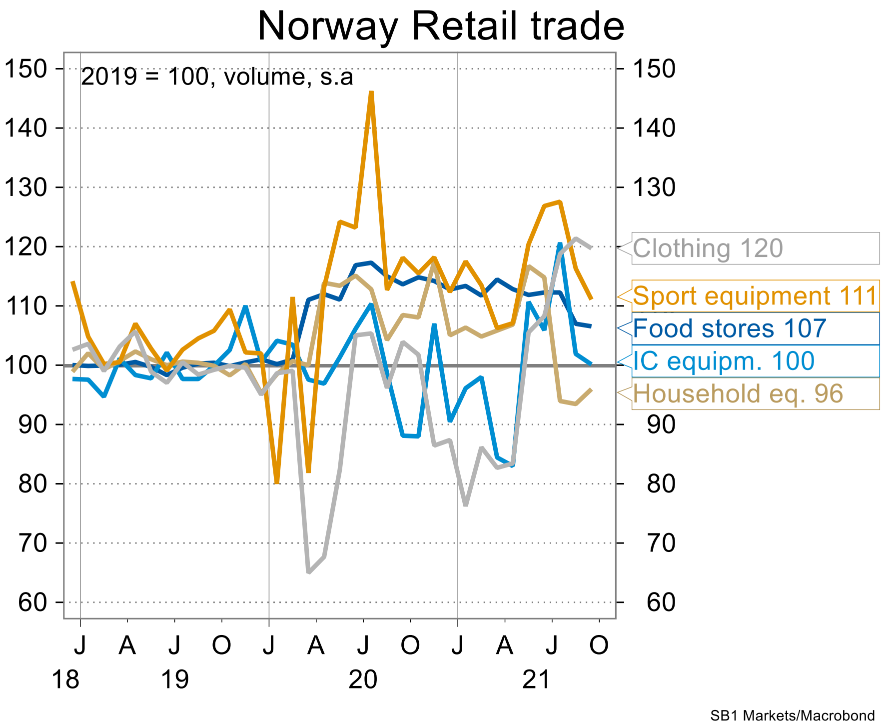
Retail sales - value

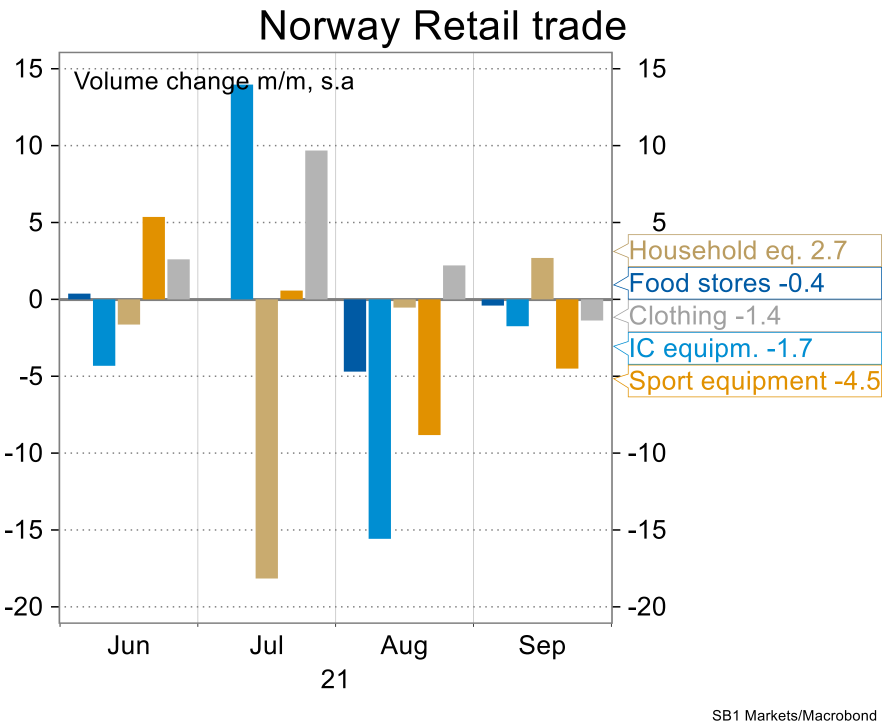
SB1 Markets/Macrobond

- **Building materials contributed to increase in retail sales; currently 6% above the pre-pandemic level**
  - » Sport equipment down 4.5% m/m in September, ITC-1.7%, grocery sales down 0.4% - as we went to restaurants and were shopping in Sweden, at least in parts of the month. Clothing sales were down 1.4%, while the 7% volume lift in sales of building materials lifted total sales by some 0.5 pp
- **Consumption of goods** data are delayed until Nov 12
- **We still expect retail sales consumption of goods** to normalise the coming quarters, back the pre-corona trend path, way below the current +12% above pre-corona level!

Huge sectoral changes: sport equip. -4.5%, household equip. +2.7% in Sept

Increase in sales of building materials boosted household equip. sales. Supply issues in ICT & sport?

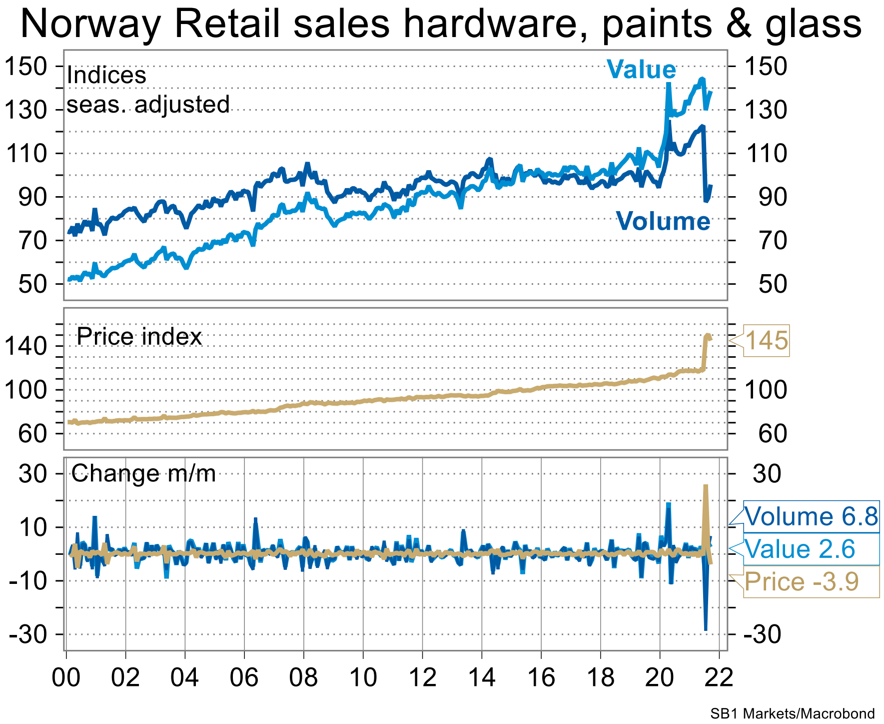




- Building materials are included in household equipment, check next page
- Food store/grocery store sales were down 0.4%, as more people are eating out and in canteens at work. Including specialised food & beverage stores (and some more), total consumption of food & alcohol fell by another 5.5%, after falling 6% in August. This is likely due to the fact that we are dining out more and are able to travel across the border to Sweden again

Sales of building materials up in Sept. after the previous months' weakness

Sales increased by 6.8% volume wise, while prices were retreated 3.9% m/m – much more to come



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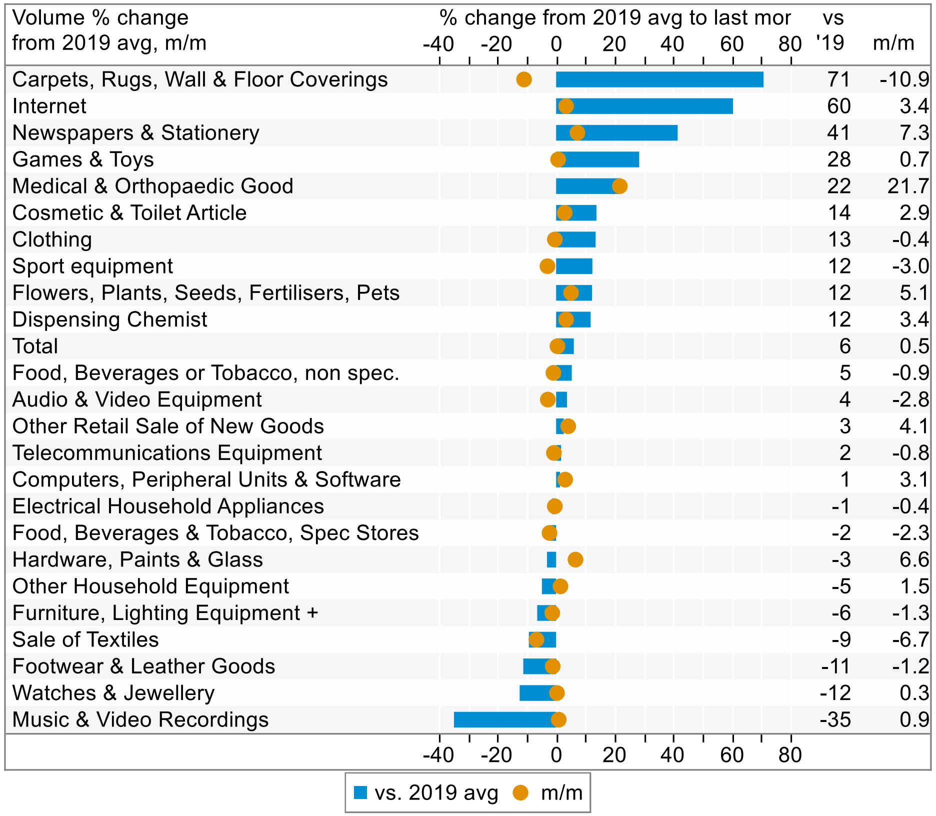
- The level has been far above a normal level since the start of the pandemic, almost 20% above the pre-pandemic sale volumes!
- The decline in sales volumes in July by 25% was caused by the extreme price increases on building materials
- Now, prices have turned marginally down, and sales volumes recovered somewhat. We expect building material prices to come down the coming months
- Even so, sales volumes will probably not return to very high levels during the pandemic (up 15 % vs a normal level)

- Households buy just of small fraction of total retail sales of building materials, homebuilders and professionals are the main clients

Since before the pandemic: Still huge sectoral differences

– home refurnishing at the top (though fell in Sept). The losers were losers before the pandemic too

Norway Retail Sales



Volume % change from 2019 avg, m/m	vs '19	m/m
Carpets, Rugs, Wall & Floor Coverings	71	-10.9
Internet	60	3.4
Newspapers & Stationery	41	7.3
Games & Toys	28	0.7
Medical & Orthopaedic Good	22	21.7
Cosmetic & Toilet Article	14	2.9
Clothing	13	-0.4
Sport equipment	12	-3.0
Flowers, Plants, Seeds, Fertilisers, Pets	12	5.1
Dispensing Chemist	12	3.4
Total	6	0.5
Food, Beverages or Tobacco, non spec.	5	-0.9
Audio & Video Equipment	4	-2.8
Other Retail Sale of New Goods	3	4.1
Telecommunications Equipment	2	-0.8
Computers, Peripheral Units & Software	1	3.1
Electrical Household Appliances	-1	-0.4
Food, Beverages & Tobacco, Spec Stores	-2	-2.3
Hardware, Paints & Glass	-3	6.6
Other Household Equipment	-5	1.5
Furniture, Lighting Equipment +	-6	-1.3
Sale of Textiles	-9	-6.7
Footwear & Leather Goods	-11	-1.2
Watches & Jewellery	-12	0.3
Music & Video Recordings	-35	0.9

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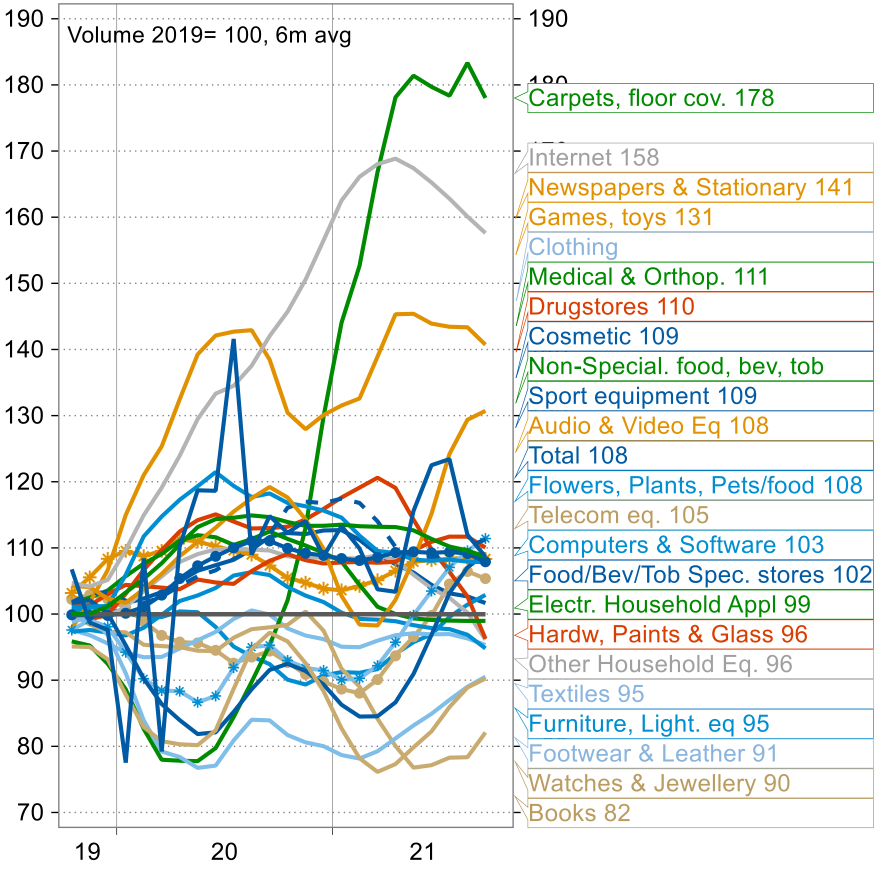
Retail sales



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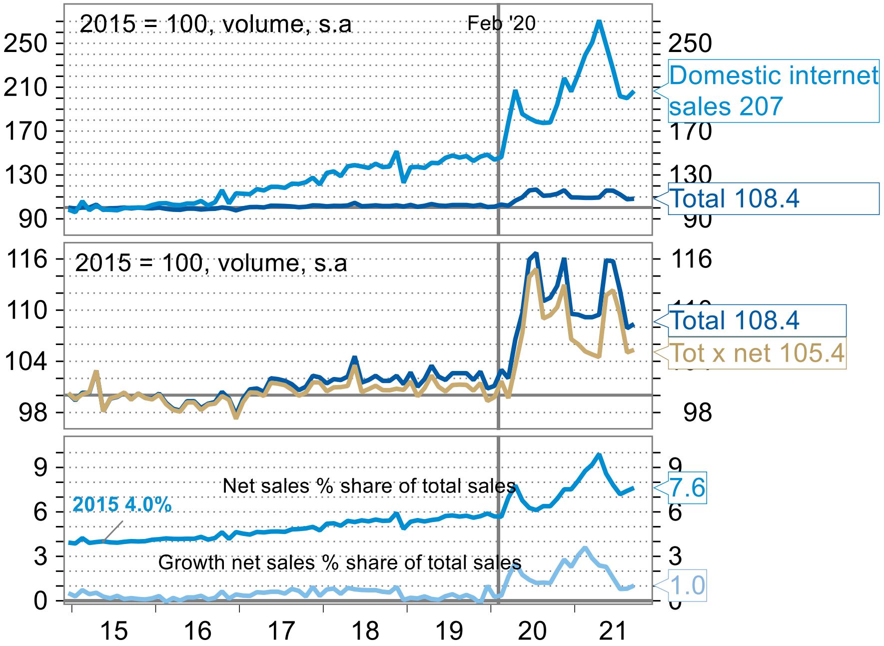
Internet sales were up m/m, but have dropped sharply since shops reopened

The market share has fallen to 7.6% from 10% - and it is not far above the 6% pre-pandemic level!

Norway Retail Sales



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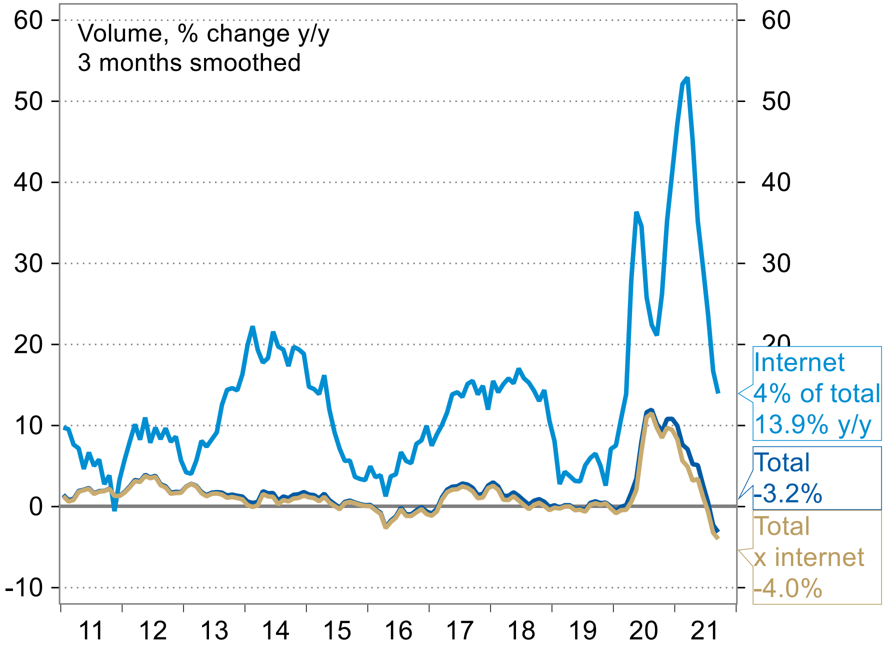
Norway Retail trade



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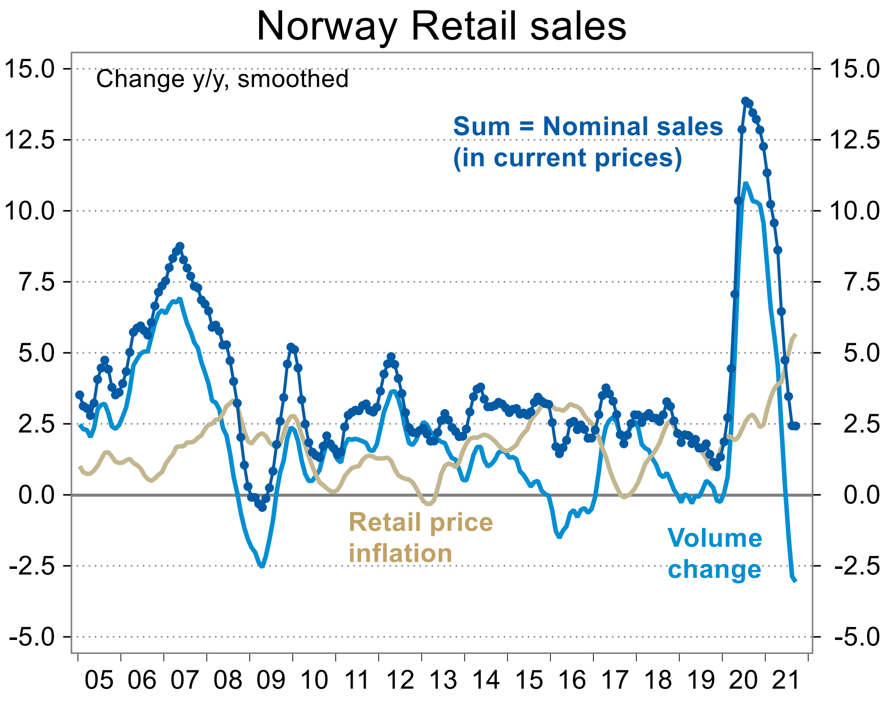
- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to 7.6% from 4%, via 6% just before the pandemic, to 10% at the top in April. The 1.6 pp gain from before the pandemic is not that impressive
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

Retail sales are down 3.1% y/y in volume terms. But prices are up 5.7%!!

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



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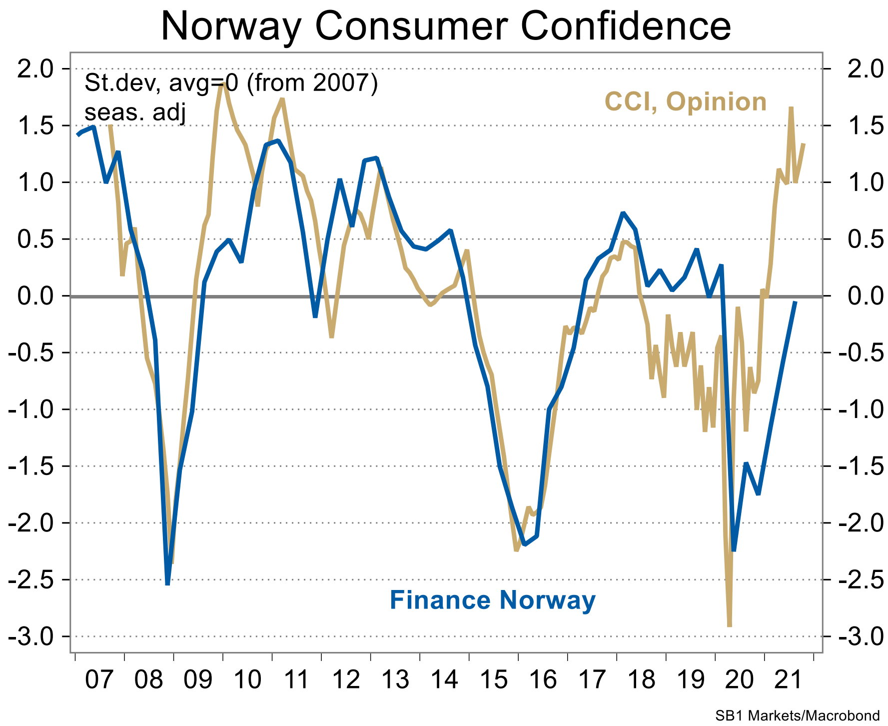
Consumer confidence up in October, not far from the local peak in July

Opinion’s CCI climbed 0.3 st.dev to +1.3 st.dev above average, one of the best prints evert



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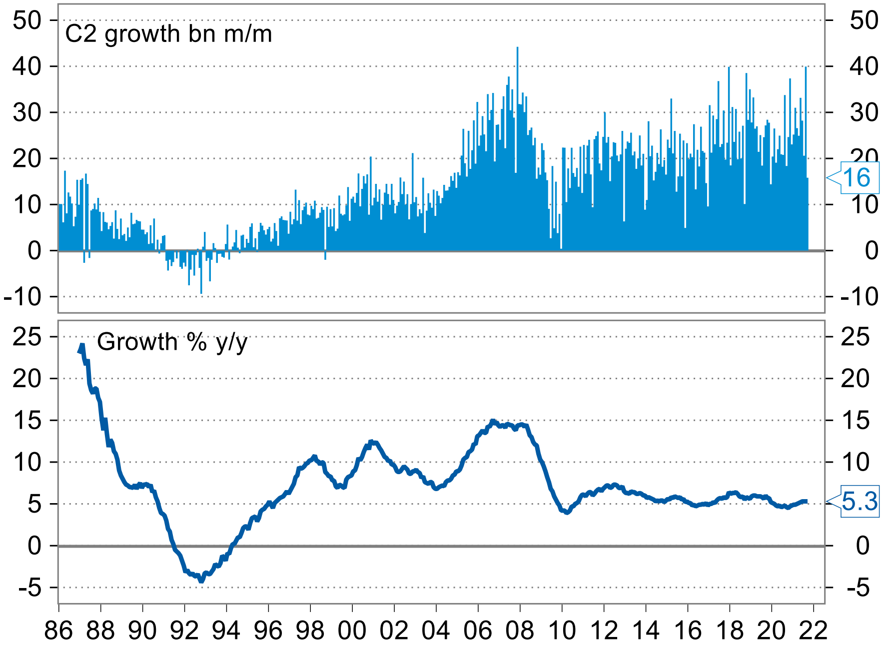
- Since May, this index has reported a strong sentiment among households, at 1 – 1.5 st.dev above average, very likely due to the retreat of the virus and reopening of the society
- Old data: Finans Norge’s confidence quarterly survey rose to an average level in Q3. This survey has been far weaker (some 1 st.dev) than the CCI survey the last year – and it still is. We have no good explanation for this discrepancy
    - » Given retail sales & the housing market Finans Norge’s survey seems too weak

Domestic credit growth (C2) still modest, unch 5.3% in September

Monthly growth well below our forecast, as businesses took a break after the August spurt

Norway Domestic credit



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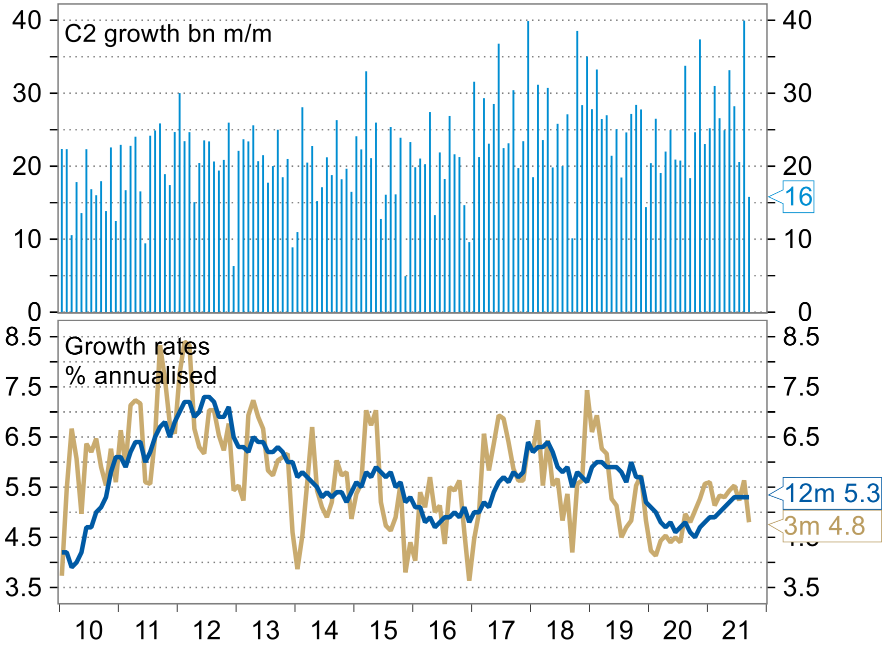
Norway Domestic credit

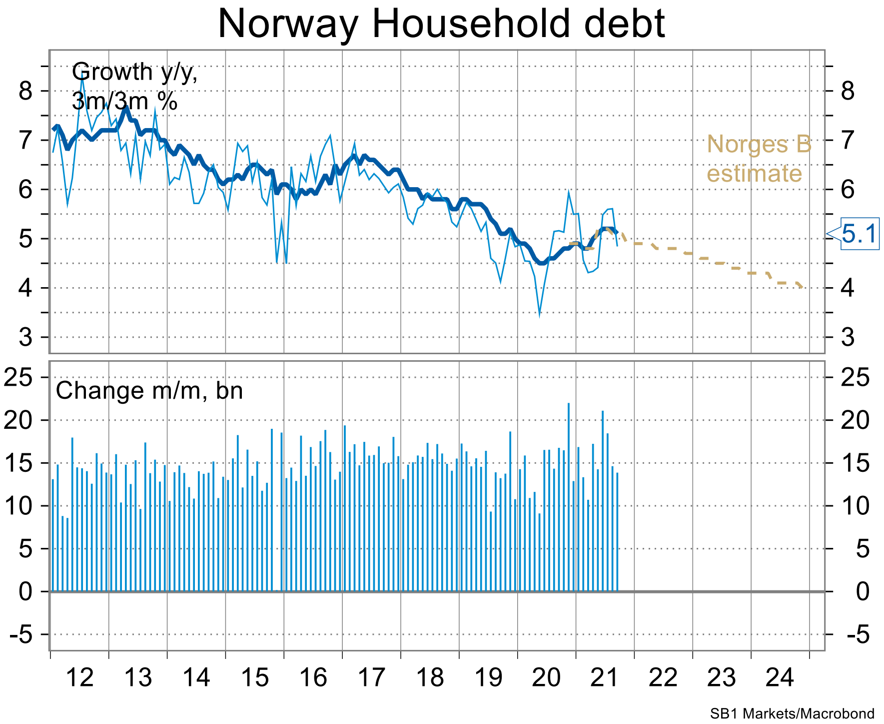


SB1 Markets/Macrobond

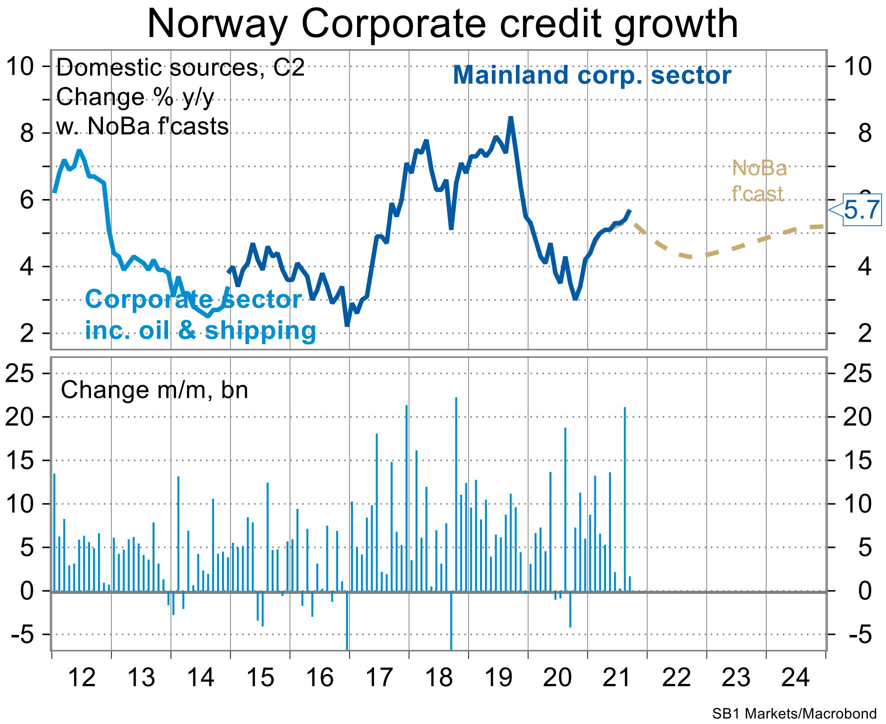
- **Total domestic debt** (C2) rose by NOK 16 bn in Sept, down from 40 bn in Aug, we expected NOK 22 bn. The annual growth rate remained unchanged at 5.3%, which was in line with our estimate. We are not witnessing any credit boom. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 14 bn in Sept, down from 15 bn in Aug (revised up by 0.5 bn). We expected a somewhat higher demand of +18 bn from households. The annual rate declined 0.1 pp to 5.1%
- **Corporate C2 credit**, rose by NOK 2 bn following the NOK 21 bn surge in August. The annual growth rate still accelerated 5.1% from 4.8%, we expected a 5.0%. **Mainland corporations** increased their debt by 5.7% y/y (+ 0.3 pp from Aug)
- **Local governments** increased their borrowing by NOK 0.3 bn, down from 4 bn in Aug, we expected the growth to remain unch. The annual growth rate is at 7.0%, down from 8.1%

Strong growth in corporate credit in September as well

Household debt -0.1 pp to 5.1%. Have households started accounting for the coming rate hikes?



SB1 Markets/Macrobond

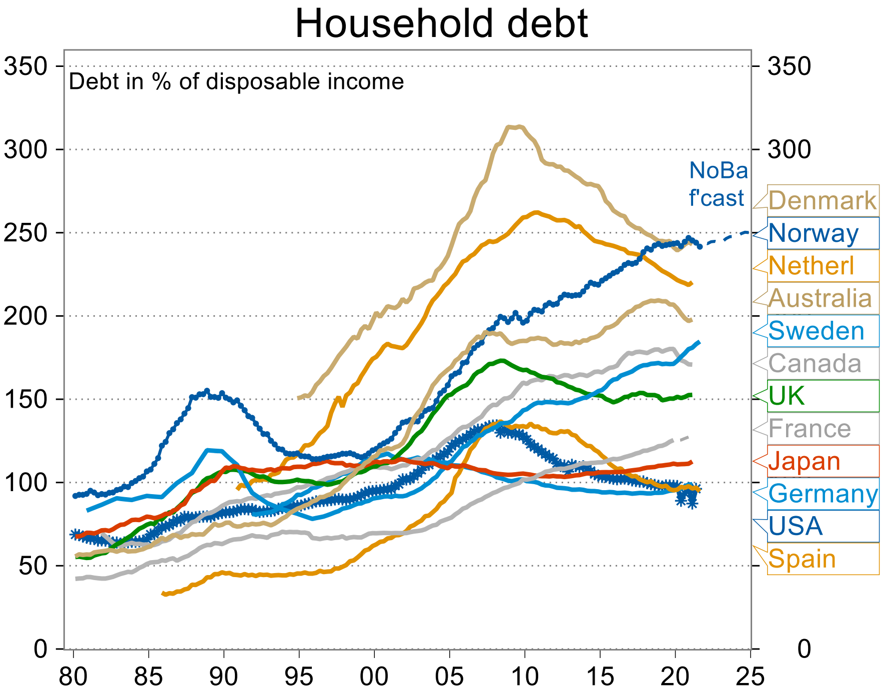


SB1 Markets/Macrobond

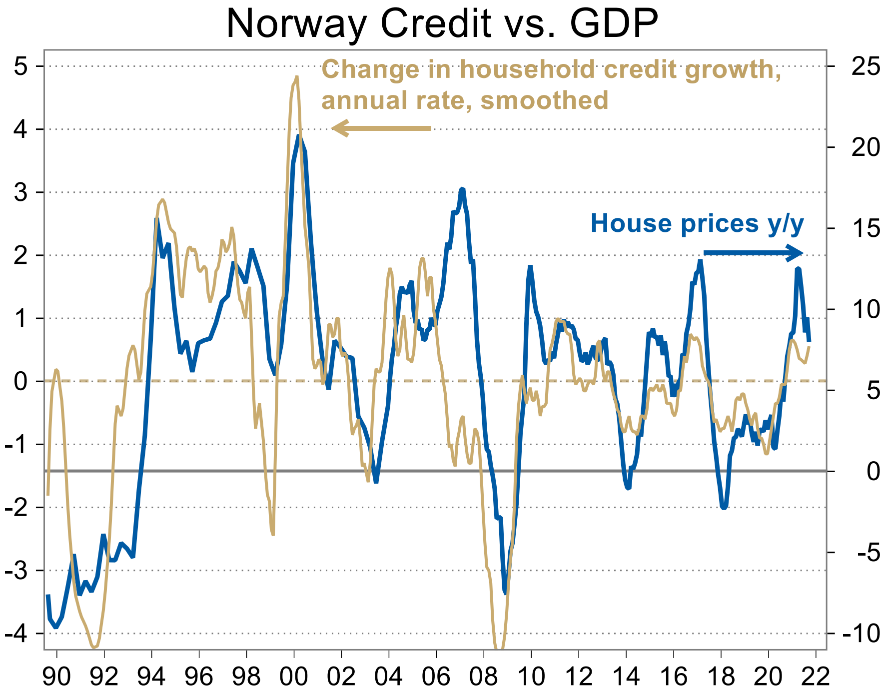
- Following a mild slowdown during the corona spring, **household credit** growth has now recovered, but has not accelerated that much. The annual rate was 5.1% in September, down 0.1 pp from August, and up from 4.5% last summer, the 3m/3m rate is 4.9%. In September, household debt rose by NOK 14 bn, below our expectations at 18 bn. Norges Bank expect growth to slow gradually the coming years – and
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year and the first half of ’21. Growth was slow in June and July, but in August Mainland companies increased their borrowing by NOK 21 bn, one of the highest prints ever – however, September was another slow month with growth of just NOK 1.7 bn. The y/y rate accelerated to 5.7% from 5.4%, above Norges Bank’s estimate, but the Bank expects growth turn down over the next years

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

What if the housing market slows?



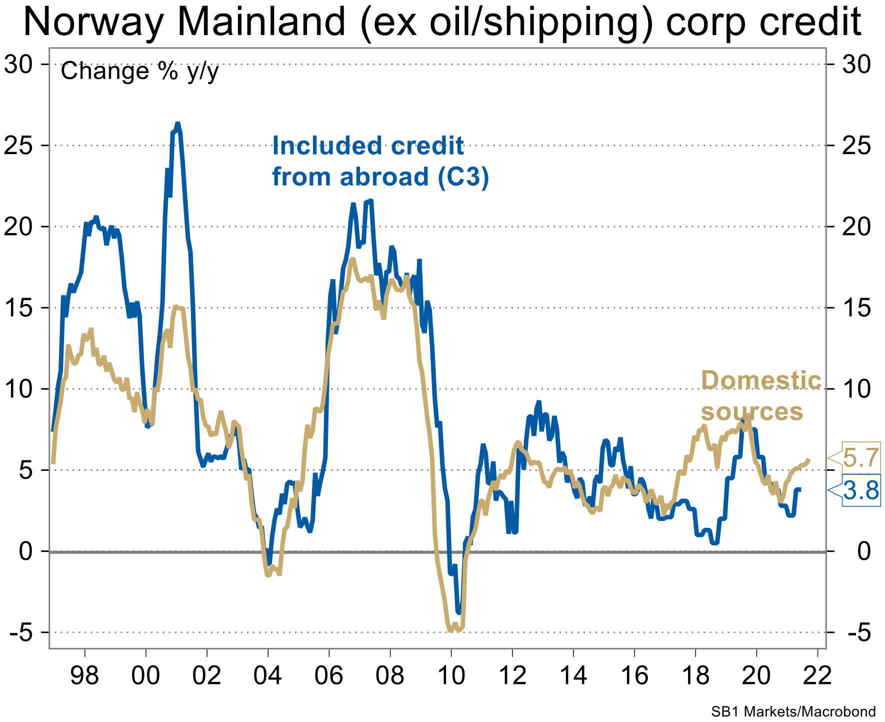
SB1 Markets/Macrobond



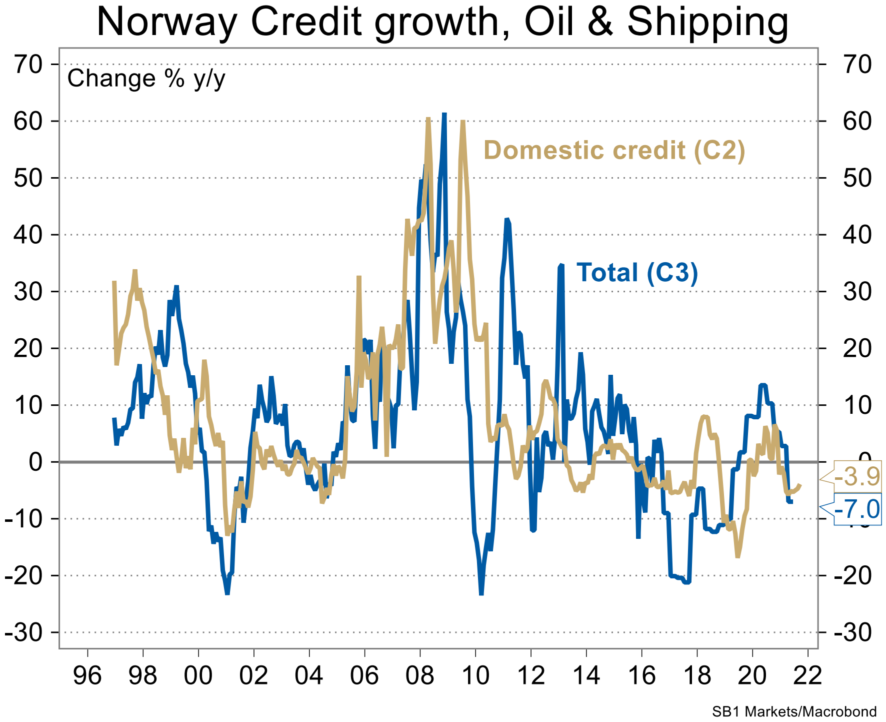
SB1 Markets/Macrobond

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

Mainland corporates are increasing total debt less than 4%, vs domestic +5.7%



SB1 Markets/Macrobond

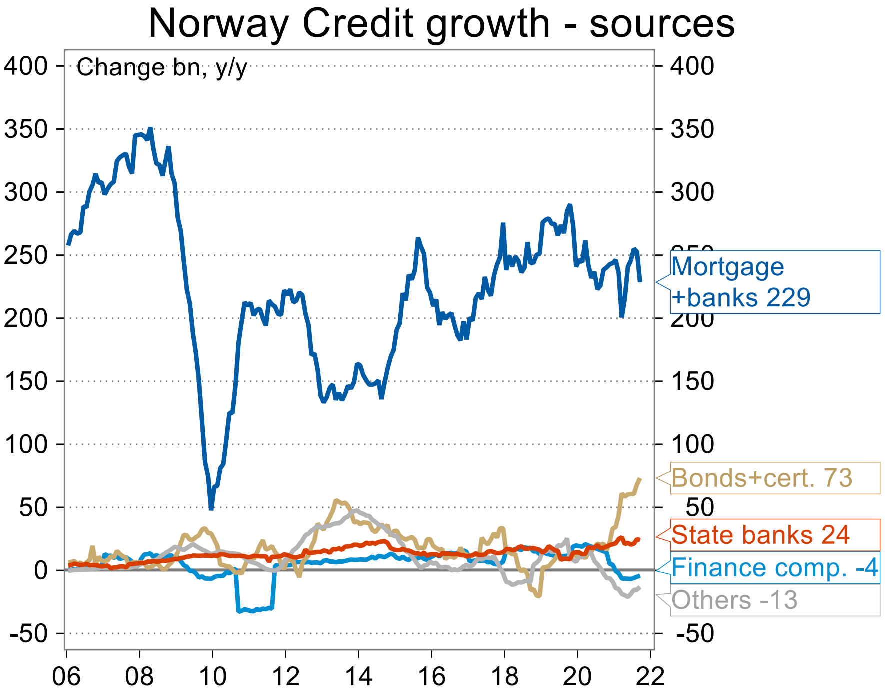


SB1 Markets/Macrobond

- While domestic credit supply to **Mainland businesses** have accelerated, their total debt, including credit from foreign sources has been rising at a slower speed, at least until Q2
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. Now they are paying down both at home and abroad, the sum down by 7%

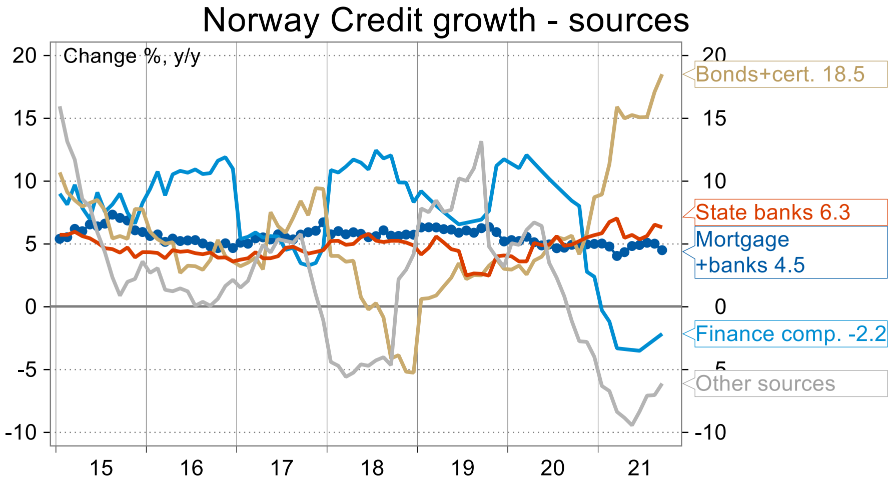
Bond borrowing further up in September, up NOK 73 bn y/y (+18.5%)

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

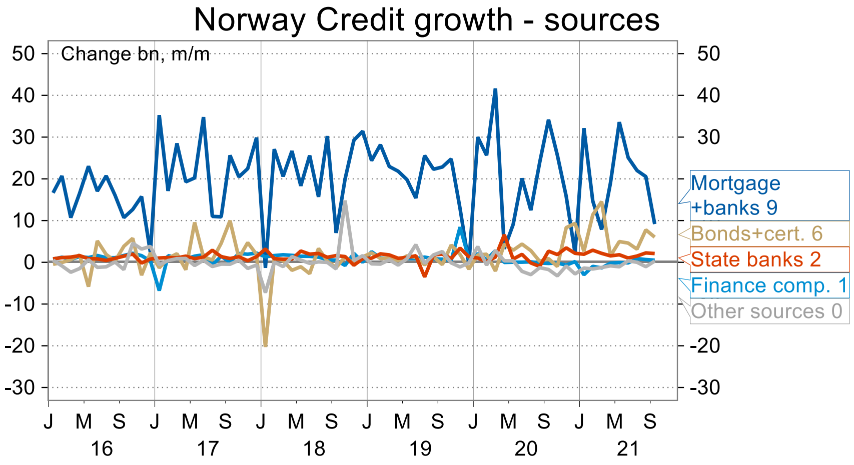

Norway Credit growth - sources

SB1 Markets/Macrobond

- Net issuance of bonds (to non-financial sector) is up NOK 73 bn (19%) y/y, highly unusual – the growth in September alone was NOK 6 bn
- Banks/mortgage companies are up NOK 229 bn (5%) y/y
- Finance companies and ‘others’ have reduced their lending
    - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt is included in our residual ‘others’, but just the sum of SL & Eksportkreditt is down


Norway Credit growth - sources

SB1 Markets/Macrobond

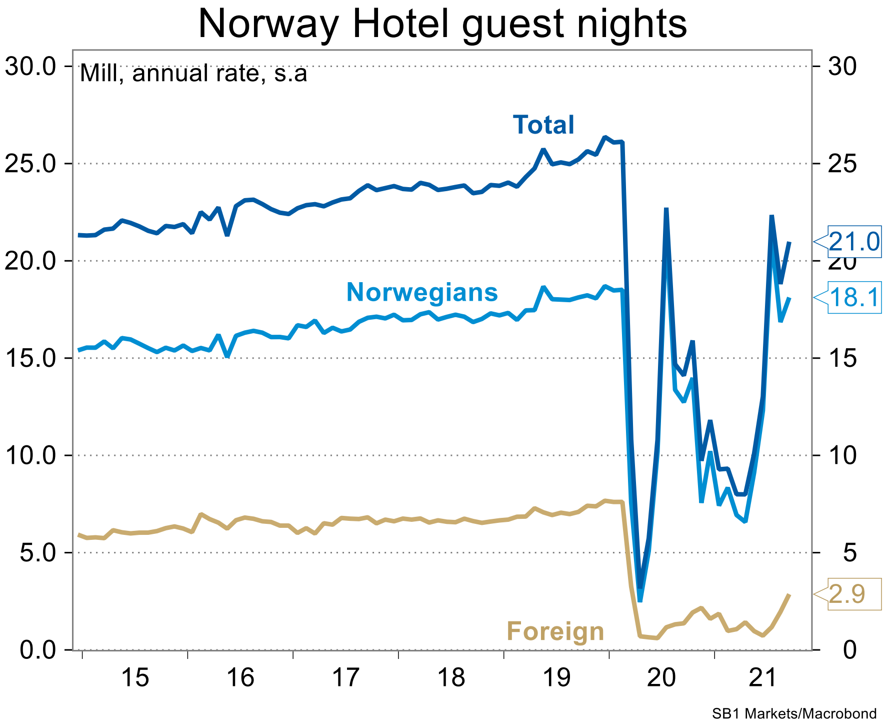

Norway Credit growth - sources

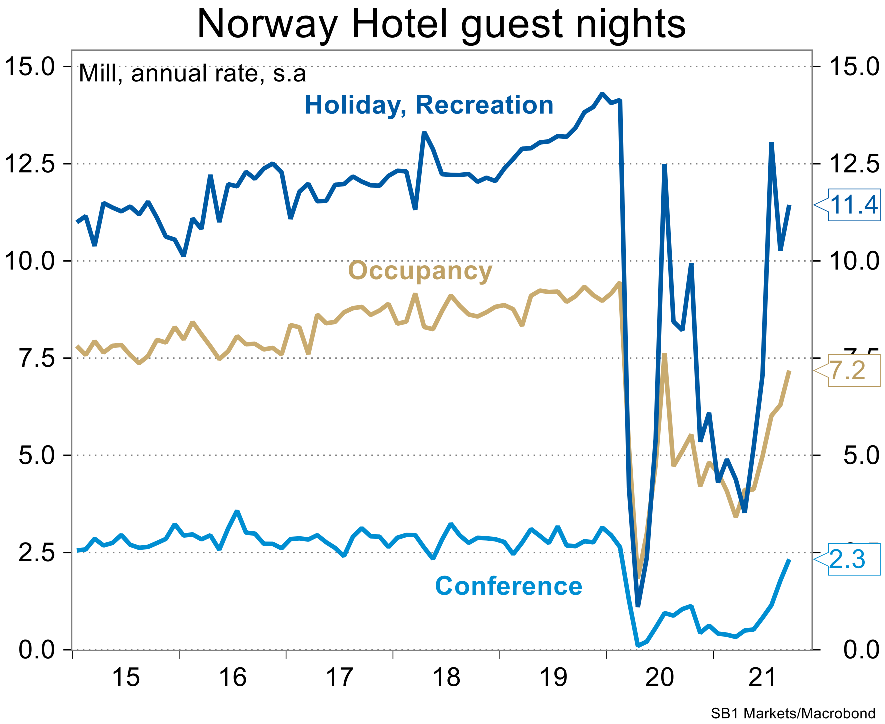
SB1 Markets/Macrobond

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

More hotel guests in Sept, 16% down vs the 2019 level, foreigners to blame

Room prices have fallen back to a more normal level



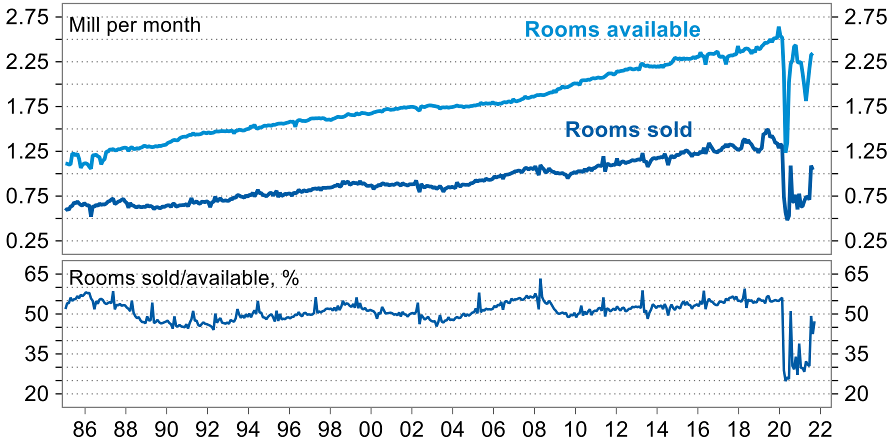


- **The no. of guest nights** was just 16% below the 2019 level in September – solely due to the lack of foreigners. Norwegians guest nights are only down 1.4% vs the 2019 level, from +9% in August. Foreigners' guest nights are still down 59% (from -72% in August)
- **Business travelling** (sum occupation & conferences) is still down almost 25% vs Sept-19, both due to fewer Norwegian & foreign guests – but no split is available. The conference markets is down less than 20% - and we assume a further recovery in October
- **Thus, Norwegian recreational traffic** saved the day in September too (no explicit data available, but given the low number of foreigners, the conclusion is given)
- **The outlook for Q4 not that bad:** The conference market is recovering rapidly, ordinary business travel will probably recover further (but perhaps not fully, new habits are learned. As upside for Norwegian guests must be limited, let's wait for the foreigners to return!

Room prices up 7% vs. the pre-pandemic level, total revenues are down 8%

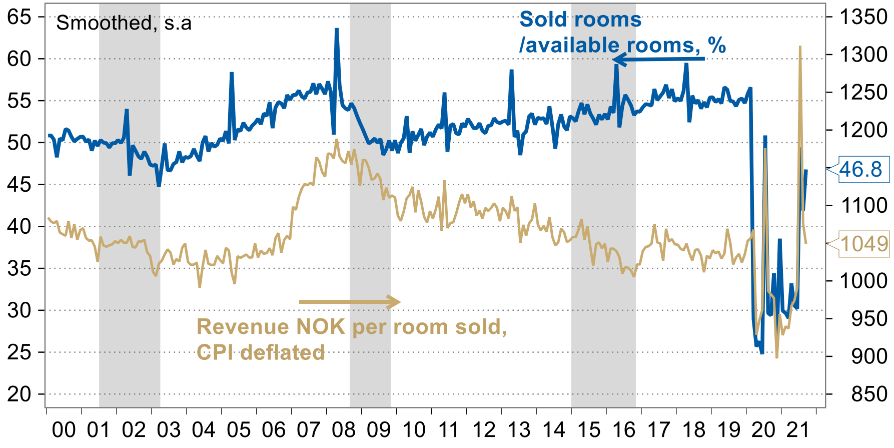
Capacity utilisation is down 15%

Norway Hotel Capacity



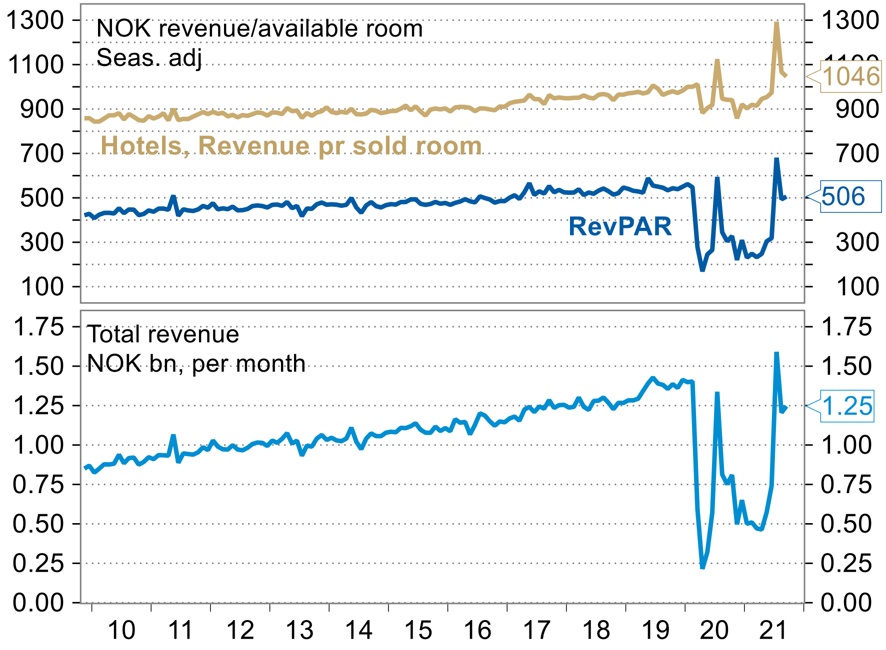
SB1 Markets/Macrobond

Norway Hotel capacity/revenues



SB1 Markets/Macrobond

Norway Hotel Revenues



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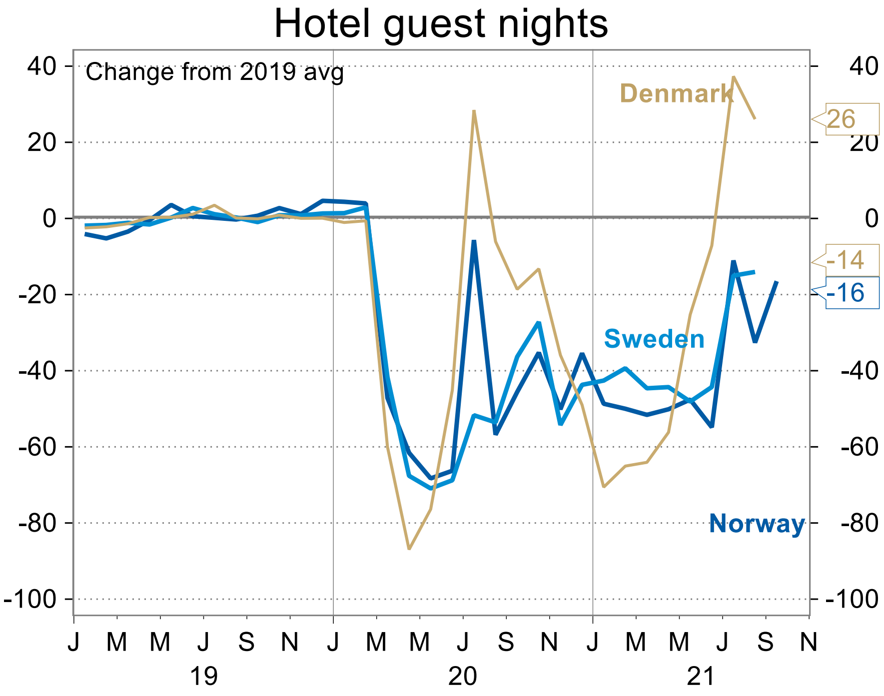
- **Capacity utilisation** (room sold vs. rooms available) was 47% in September, 15% below the average 55% level
- **Revenue per sold room** was extremely high in July, 30% higher than normal. Prices have since fallen, but are still up 7% vs. the 2019 level
- **RevPAR** (revenue pre available room) is down 7% vs the 2019 level, as capacity utilisation was well below a normal level
- **Total revenues** are down ‘only’ 8% vs. the 2019 level

The same story in Sweden – Denmark far ahead

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



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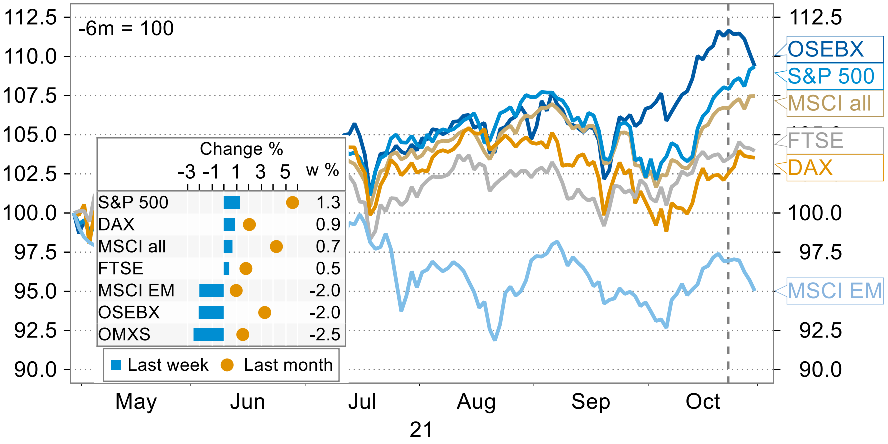
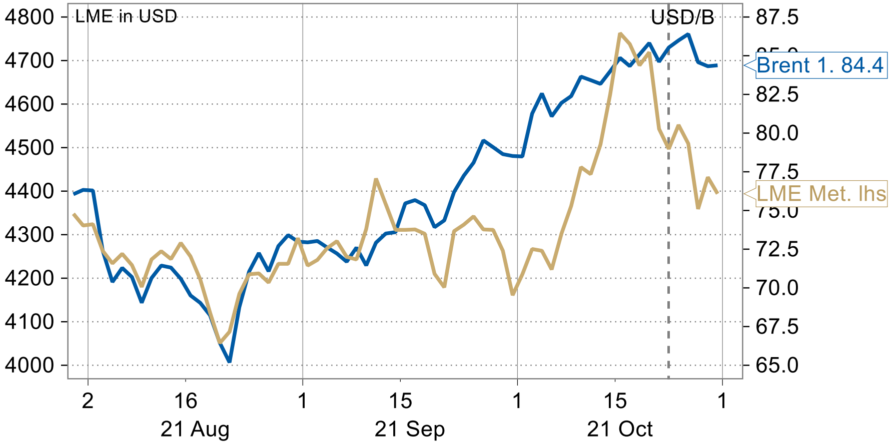
The global stock market up to ATH but OSEBX, EM down

Oil slightly down, metals more. Most long term bond yields down



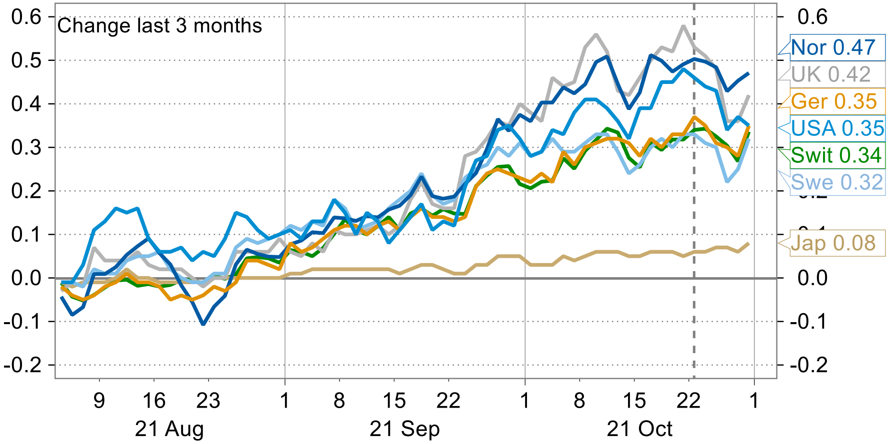
Equity Indices

SB1 Markets/Macrobond



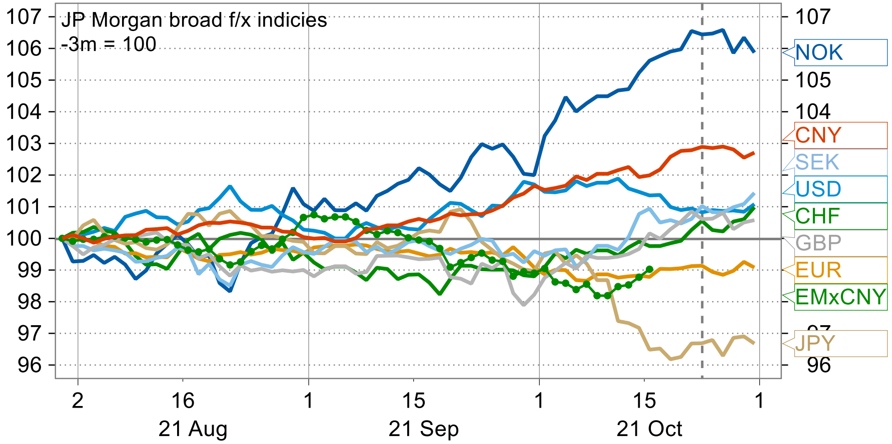
Oil vs. metals

SB1 Markets/Macrobond



10 y Gov bond yield

SB1 Markets/Macrobond



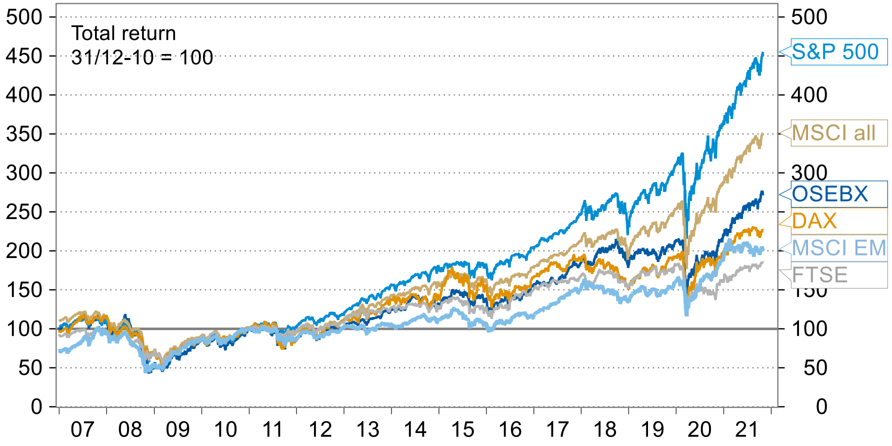
Exchange rates

SB1 Markets/Macrobond

The big picture: Risk is still on – and bond yields are drifting upwards

CNY has been the f/x winner – and the NOK is recovering 2019/20 losses

Equity Indices



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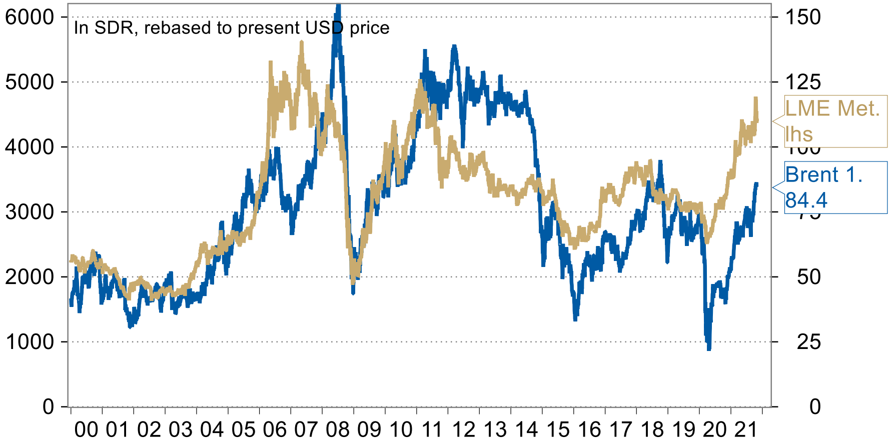
Oil vs. metals



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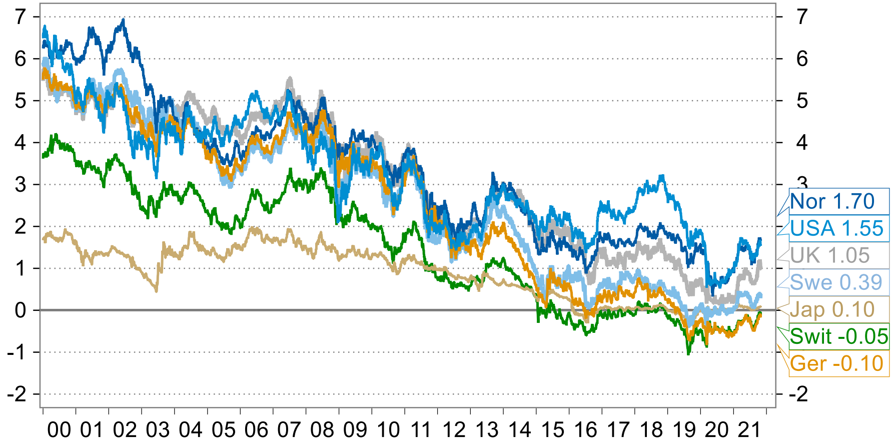
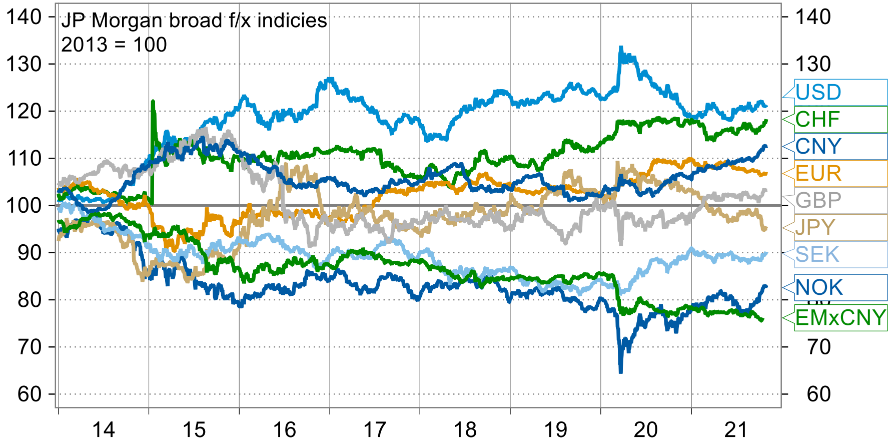
10 y Gov bond yield



SB1 Markets/Macrobond

Exchange rates

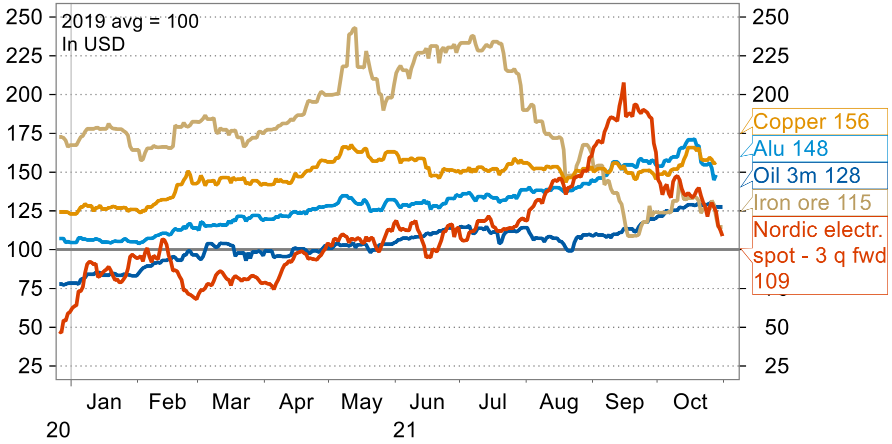


SB1 Markets/Macrobond

Commodity prices down, broadly

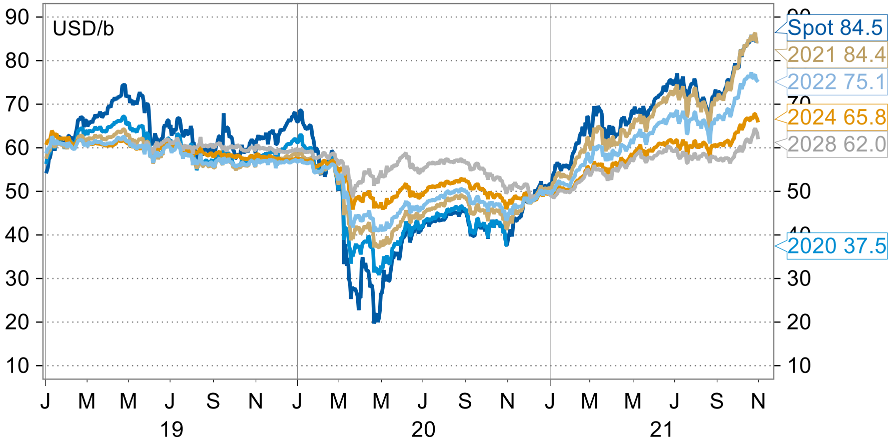
Electricty prices for the next 12 months close to normal

Commodity prices



SB1 Markets/Macrobond

Brent oil, spot & Dec contracts



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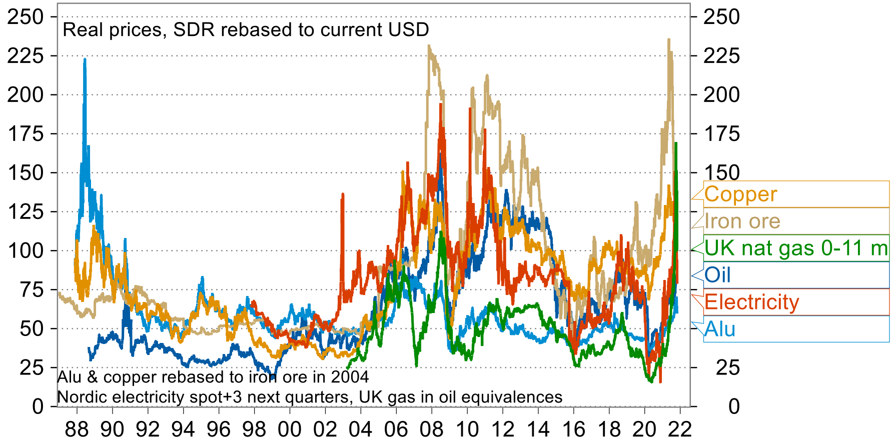
Commodity prices

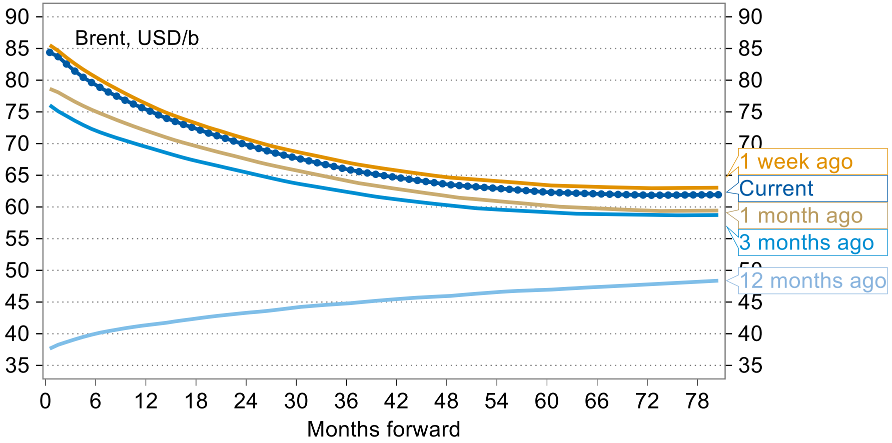


SB1 Markets/Macrobond

Longer dated oil contracts are heading down

The short end of the curve sharply up recent weeks

Brent oil futures (ICE)



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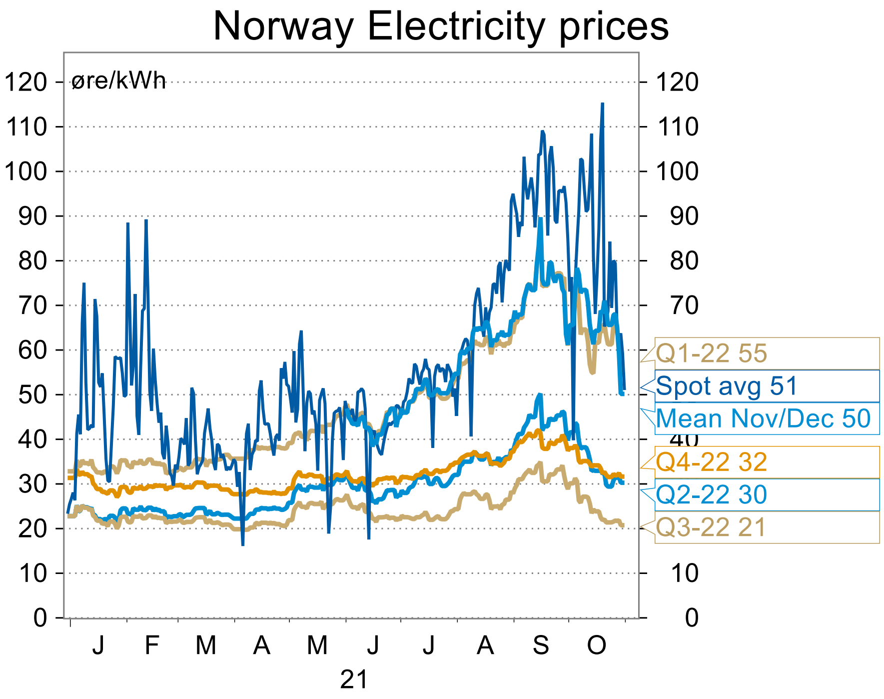
Spot electricity prices are nosediving, the futures as well!



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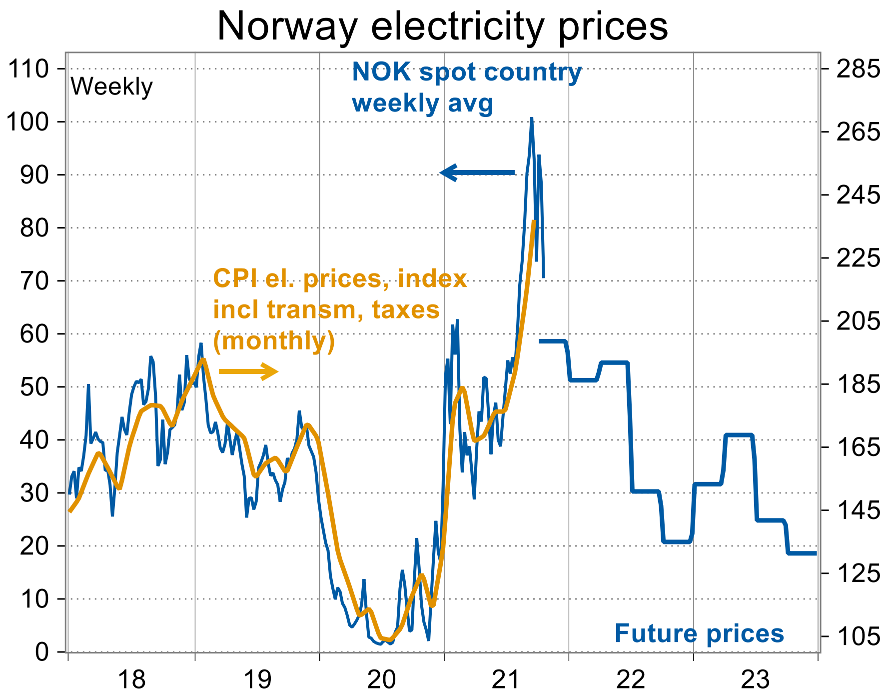
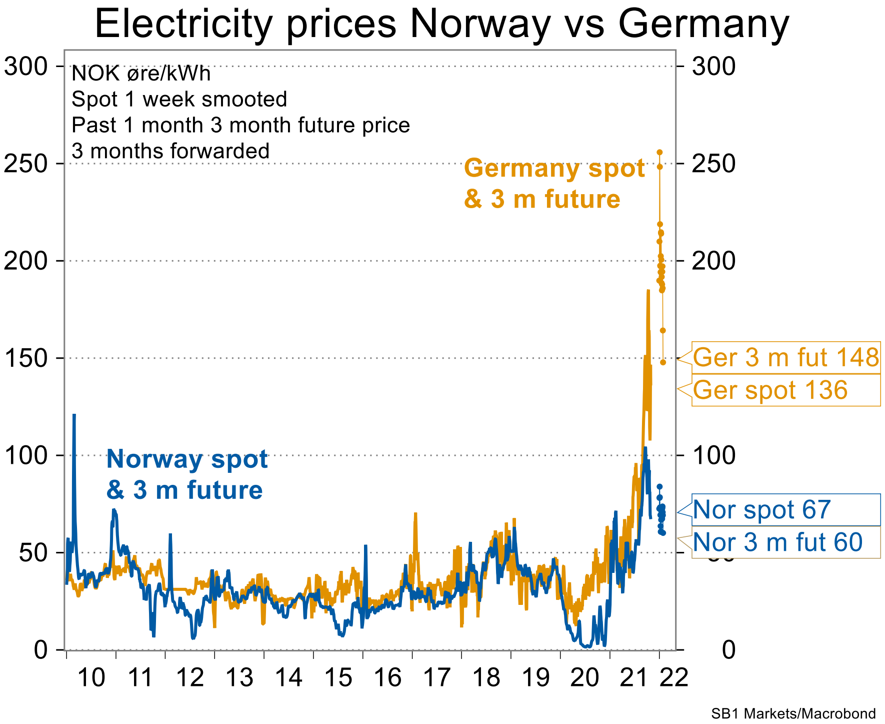
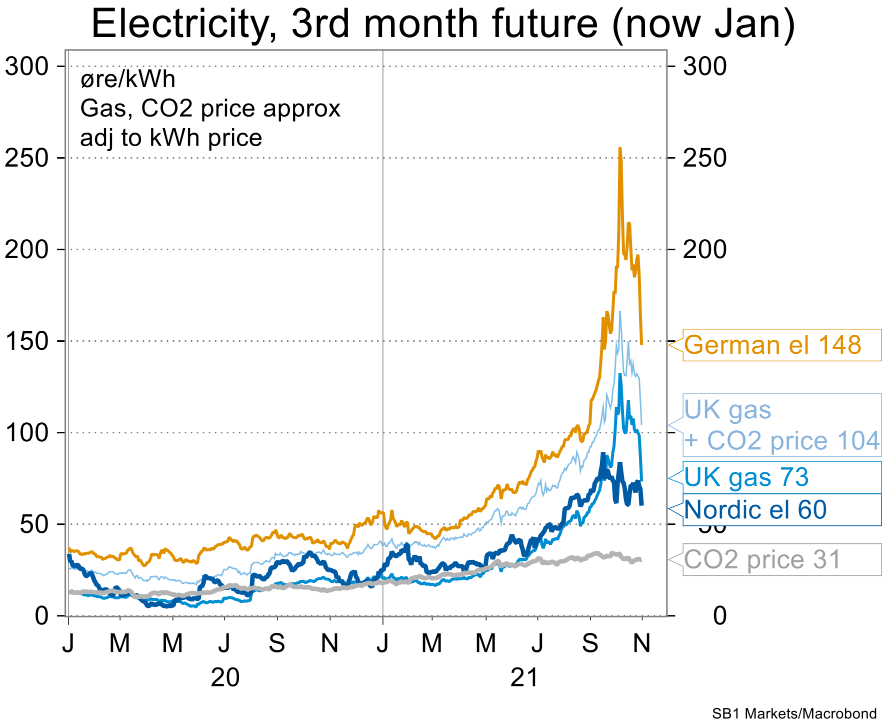


SB1 Markets/Macrobond

European electricity, gas prices down sharply down last week too

UK gas prices are down 50% - no crisis even if prices are still higher than normal

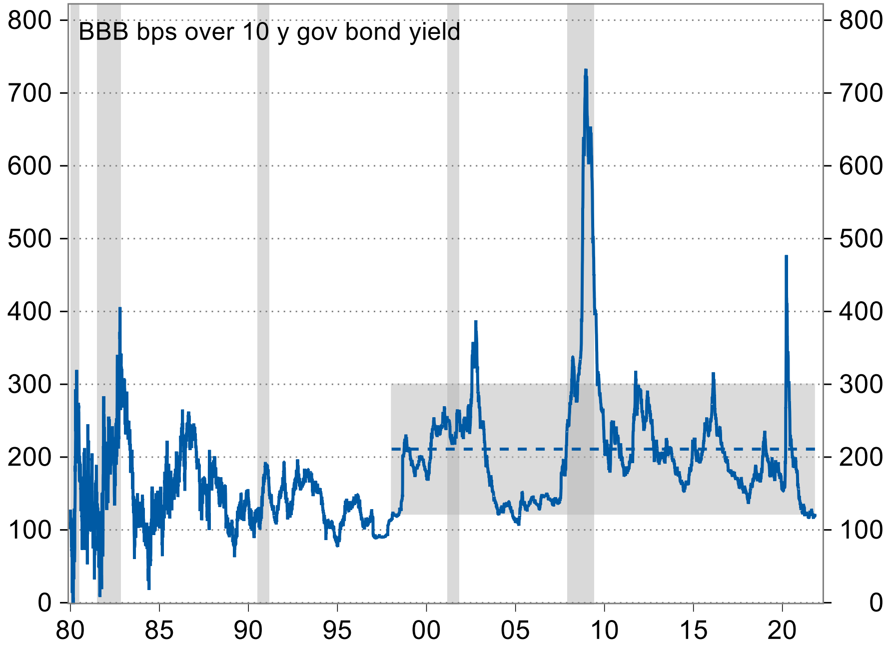




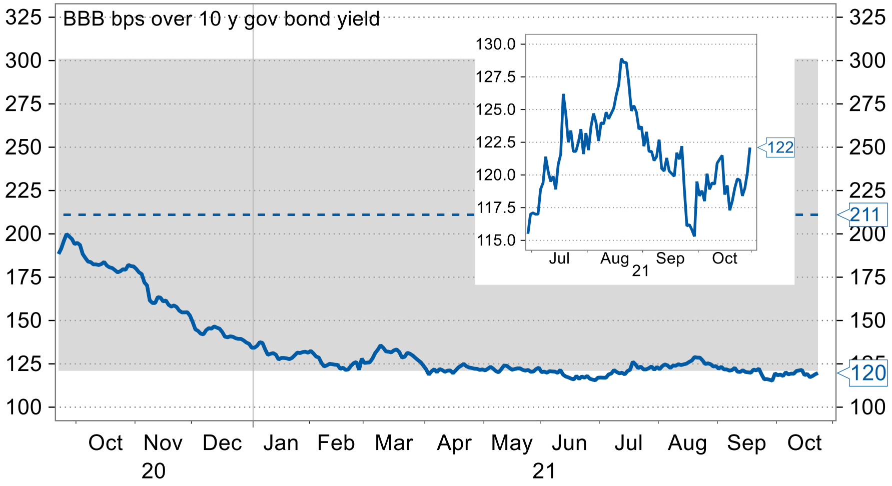
- However, the gap between the Nordic & German el. prices is reduced but still high

Credit spreads marginally out, still very low

USA Corporate spread

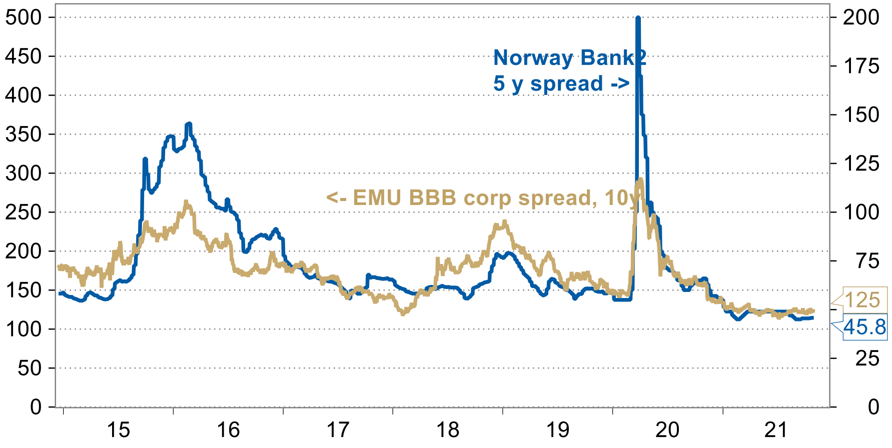


SB1 Markets/Macrobond



SB1 Markets/Macrobond

Credit spreads



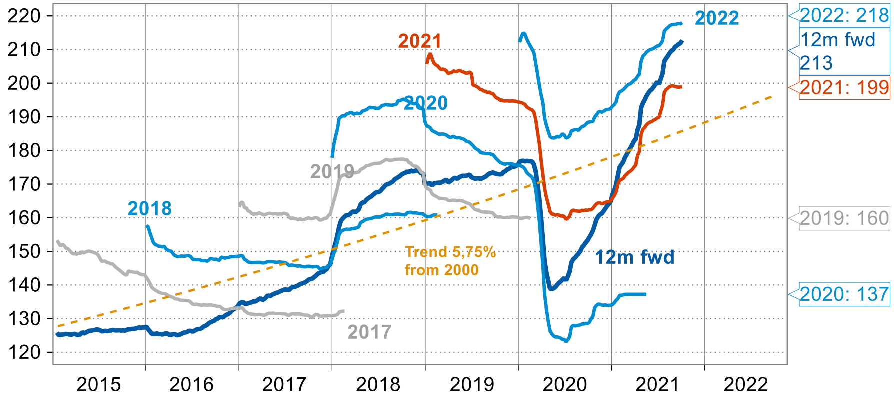
SB1 Markets/Macrobond

S&P 500 up 1.3%, to another new ATH. 10 y gov down 11 bps to 1.55%!

Growth in earnings expectations have moderated lately, and a tad more than the season explains

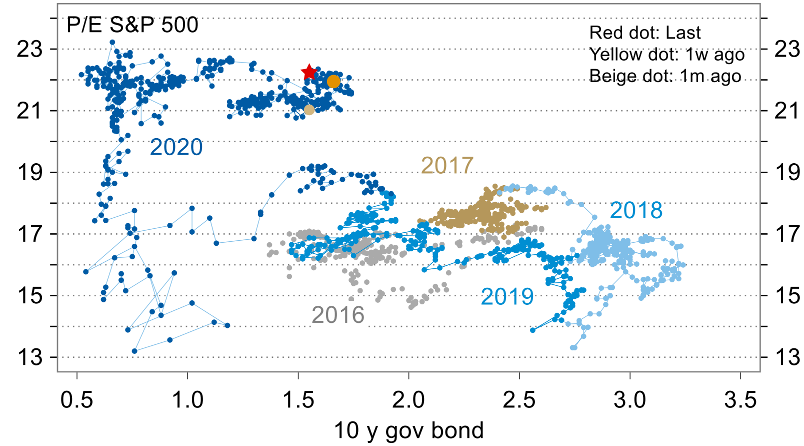
USA S&P 500 vs. bond yields

Annual S&P 500 EPS consensus (Factset)



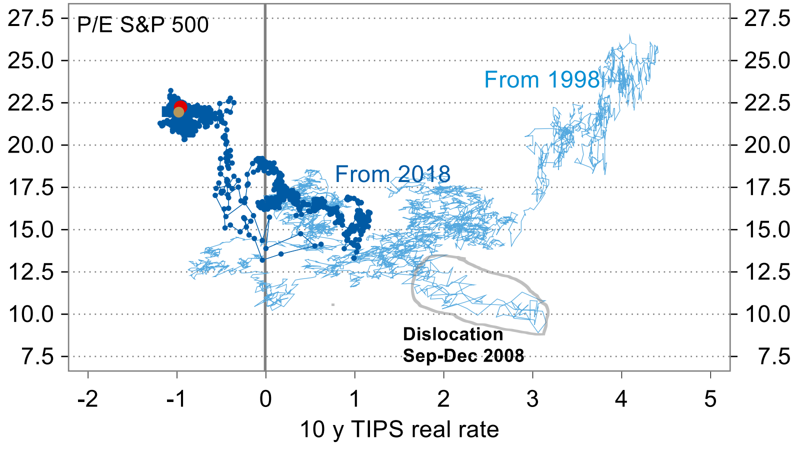
SB1 Markets/Macrobond

S&P 500 vs US 10 y gov bond



SB1 Markets/Macrobond

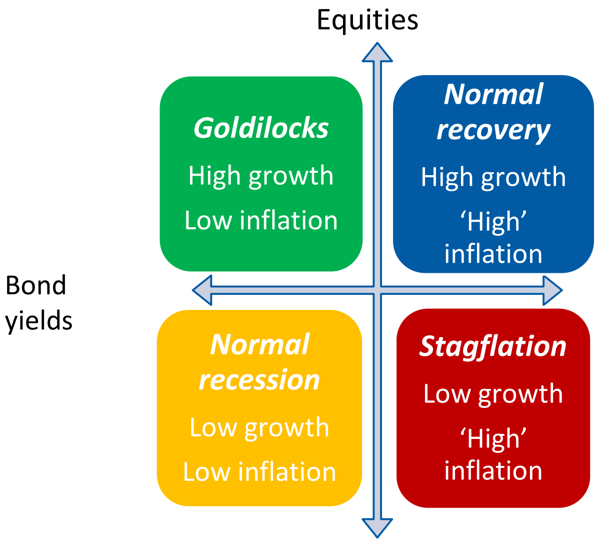
S&P 500 vs US 10 y TIPS



SB1 Markets/Macrobond

Still well into the 'Goldilocks corner'

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



Equities

Bond yields

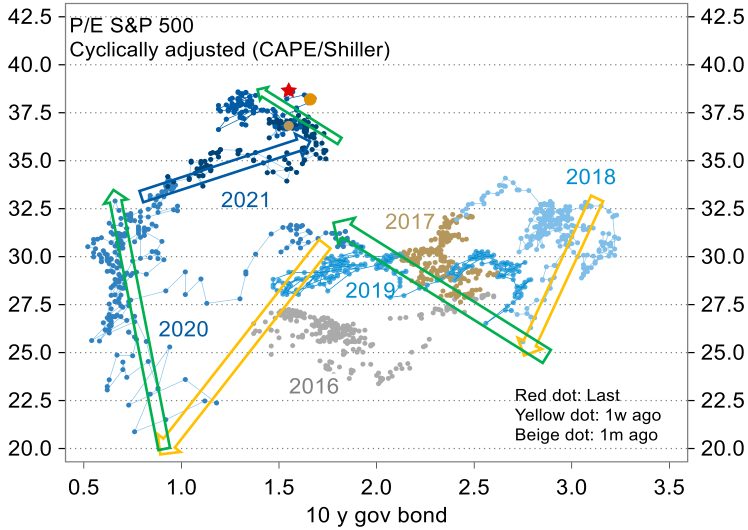
Goldilocks
High growth
Low inflation

Normal recovery
High growth
'High' inflation

Normal recession
Low growth
Low inflation

Stagflation
Low growth
'High' inflation

S&P 500 vs US 10 y gov bond

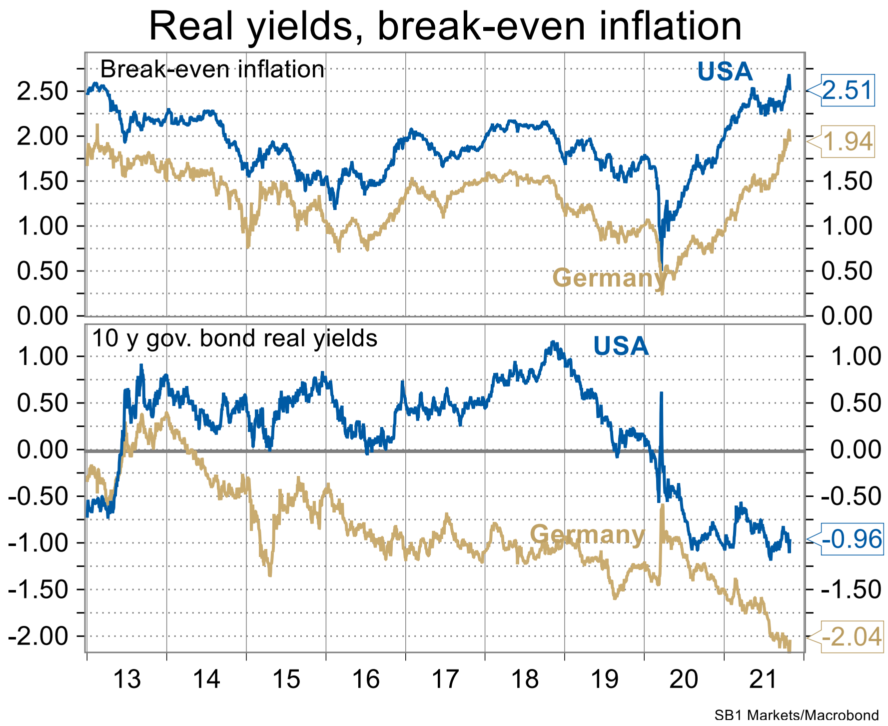


SB1 Markets/Macrobond

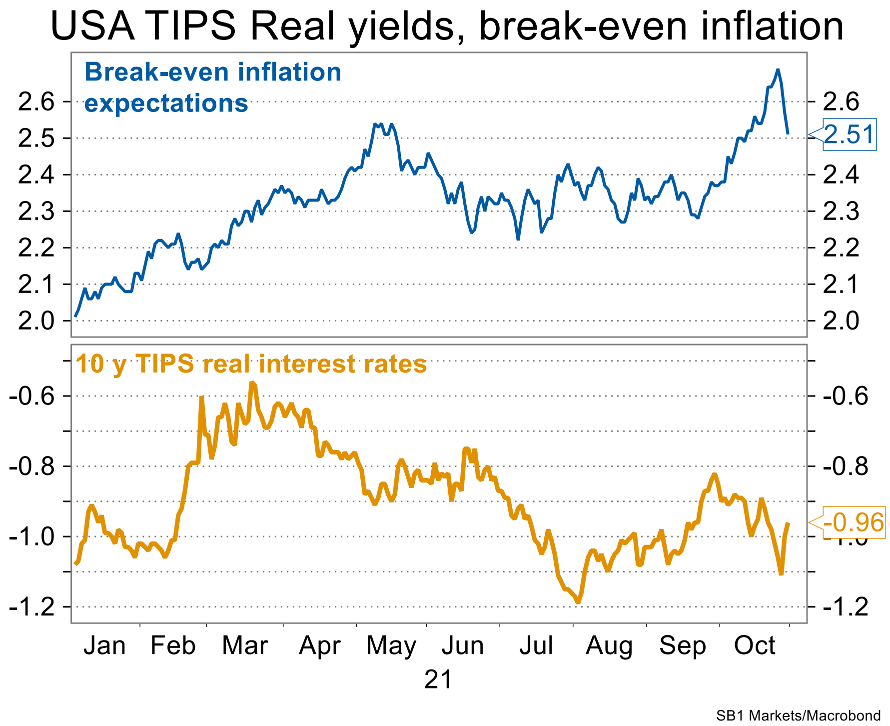
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield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

Real rates slightly as inflation expectations fell sharply!

US short time inflation expectations steady, the 5y 5y fwd down 24 bps!


Real yields, break-even inflation

SB1 Markets/Macrobond


USA TIPS Real yields, break-even inflation

SB1 Markets/Macrobond

US & Germany 10 y Gov bond yield

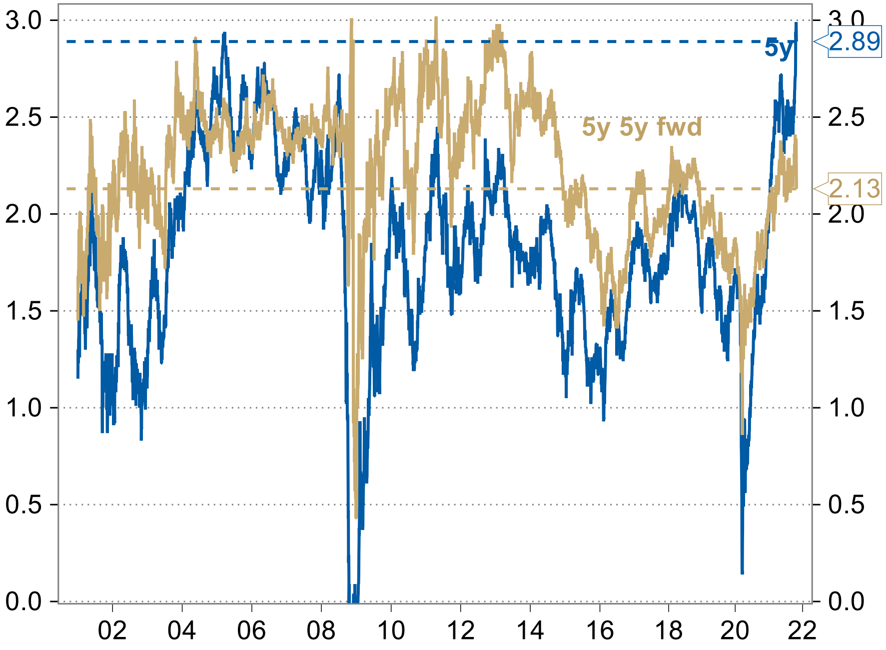
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.55	-0.11	0.00	0.52
.. break-even inflation	2.51	-0.13	0.14	1.06
.. TIPS real rate	-0.96	0.02	-0.14	-1.19
Germany nominal bund	-0.10	-0.02	0.11	-0.65
.. break-even inflation	1.94	-0.10	0.12	0.40
.. real rate	-2.04	0.08	-0.01	-2.22

SB1 Markets/Macrobond

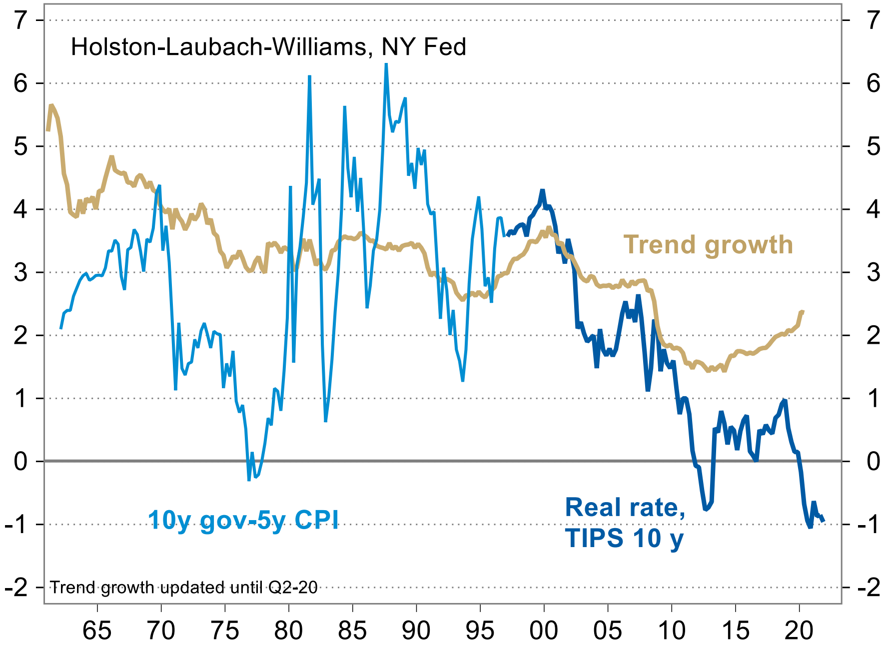
- The **US 10 y break-even** (inflation expectation component) fell 12 bps to 2.51% - and remains quite elevated
  - The first 5 years just fell marginally, by 2 bps to 2.89%, after been up above the 3% line!
  - However, the 5y 5y fwd fell 24 bp to 2.13%!! Just what the Fed needed to avoid panicking??
  - The 10 y real yield is at -0.96%
- In **Germany**, 10 y the break-even fell 10 bps – to below the 2% line. Real yields rose 8 bps but are still very low

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?


USA Break-even inflation

SB1 Markets/Macrobond


USA Growth vs 10 y real rate (TIPS)

SB1 Markets/Macrobond

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

FRAs: Even EUR & SEK rates rose sharply last week

GBP rates continued upwards last week too and a first hike this week is now fully discounted

Dec 22 3m FRA rates

SB1 Markets/Macrobond

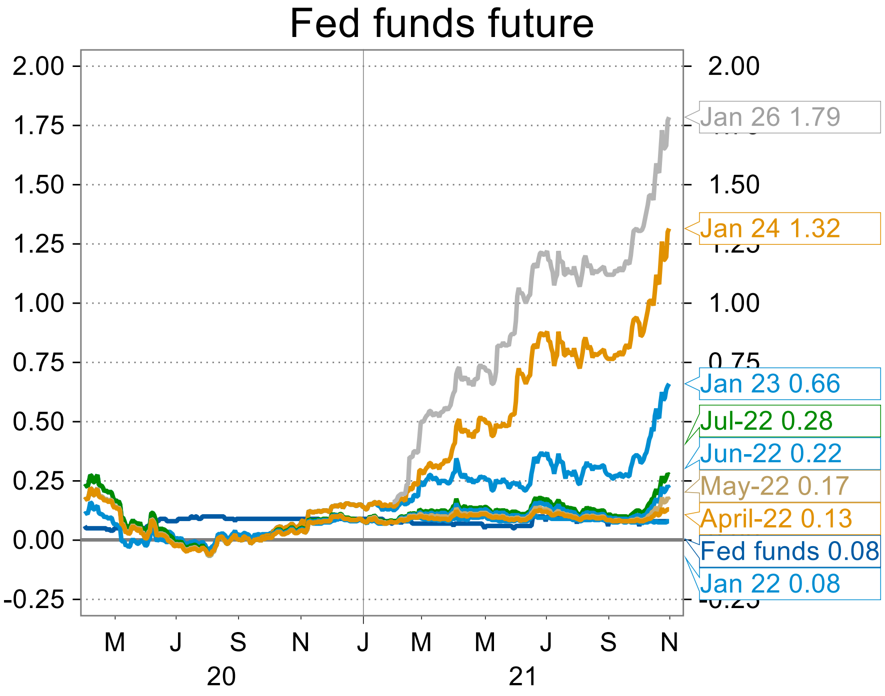
Dec 23 3m FRA rates

SB1 Markets/Macrobond

- In 2022, 4 more hikes are discounted in the UK – but then the curve flattens! No more hikes in 2023!
- In the US, the Fed is expected to start hiking between May and July next year – and then at least another hike in H1 – and a Fed funds rate at 1.3% at the end of 2023
- SEK rates shot up by up to 25 bps is one go last week! Market expect the Riksbank to start hiking late next year

Fed Fund future contracts sharply up last week too

80% prob. for a hike in Jun-22 (at the latest), 100% for 2 hikes before Jan-23, and 30% for a 3rd hike!

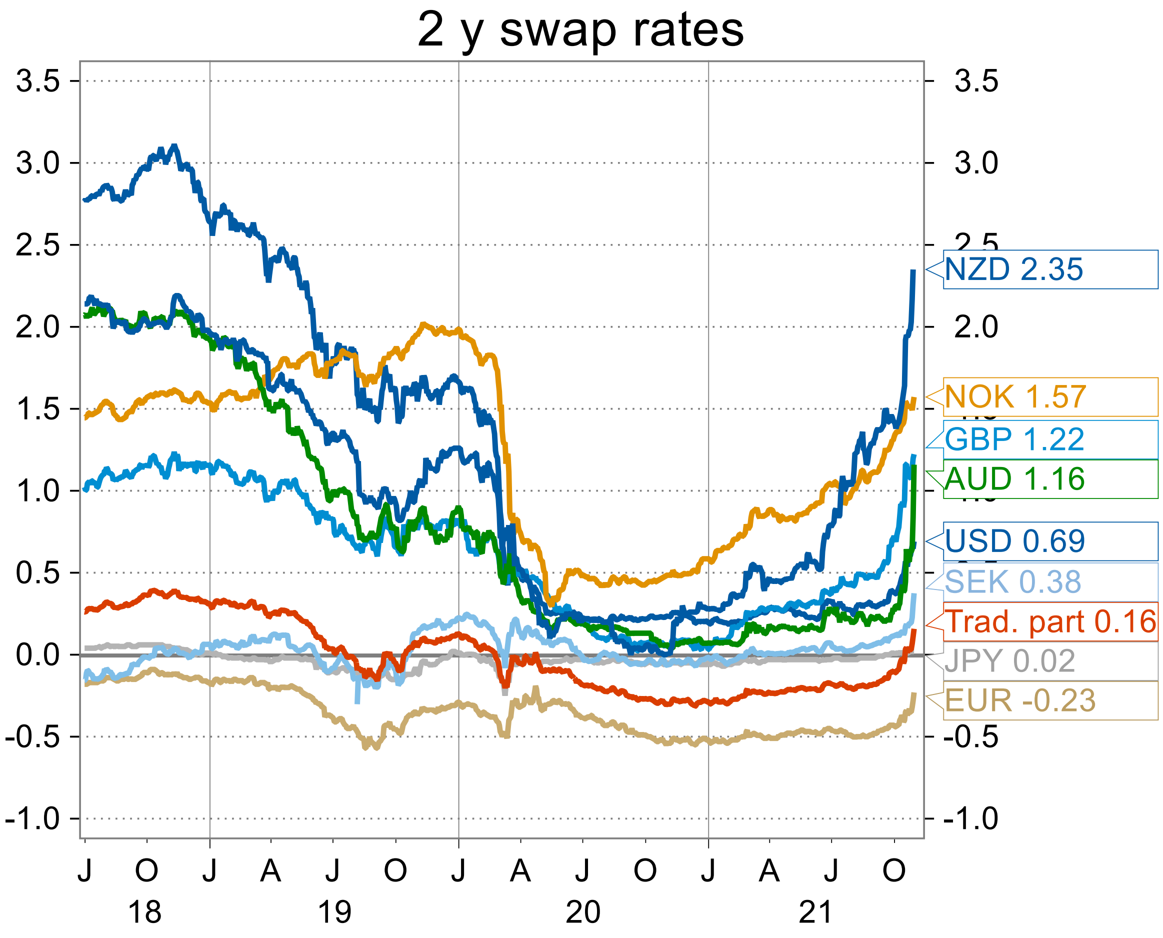


SB1 Markets/Macrobond

- Rate expectations have climbed by up almost 70 bps over the past few weeks

A steep increase in short term rates almost everywhere last week too

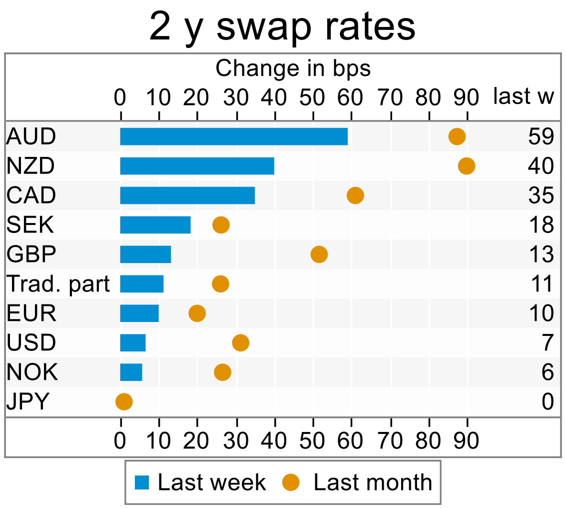
… the least in USD, NOK, JPY. Those down under (NZD, AUD) in the lead



SB1 Markets/Macrobond

The Australian RBA probably contemplates to abolish the Yield Control Curve policy. The 2 y rate rose by 60 bps on the week (but the AUD was kept in check)!

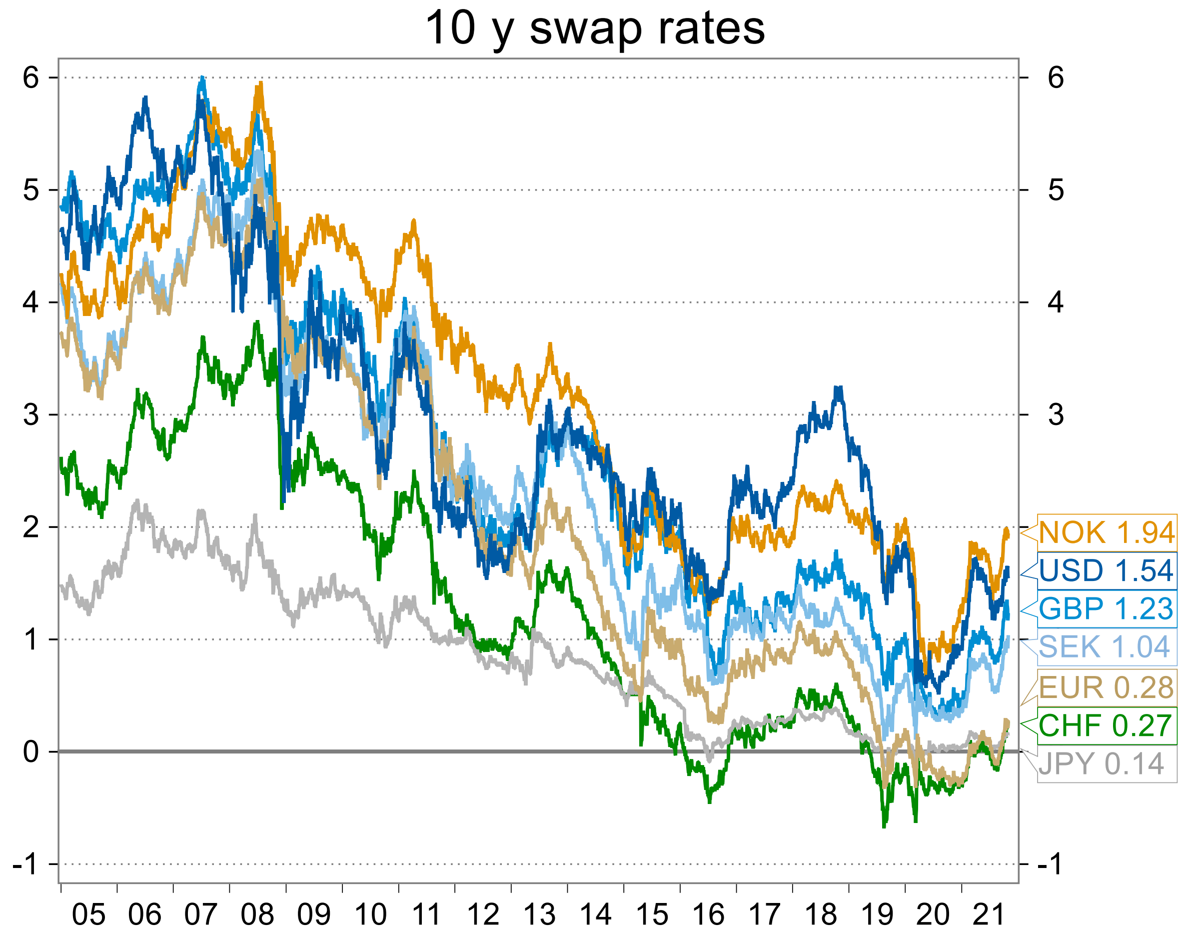
The Canadian BoC will end its QE program and signals earlier rate hikes. The 2 y up 35 bps!



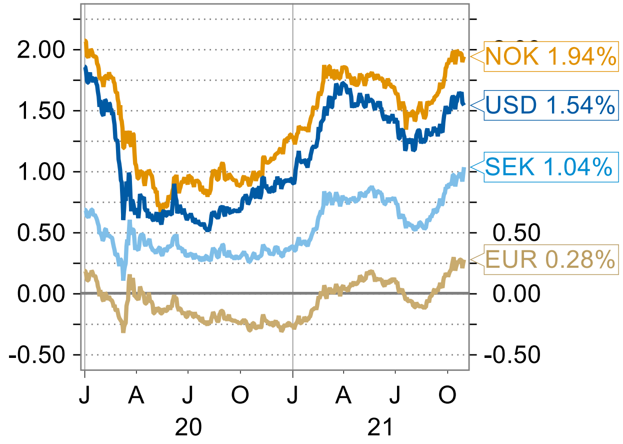
SB1 Markets/Macrobond

All curves flattened – the long end of the curve in average unchanged last week!

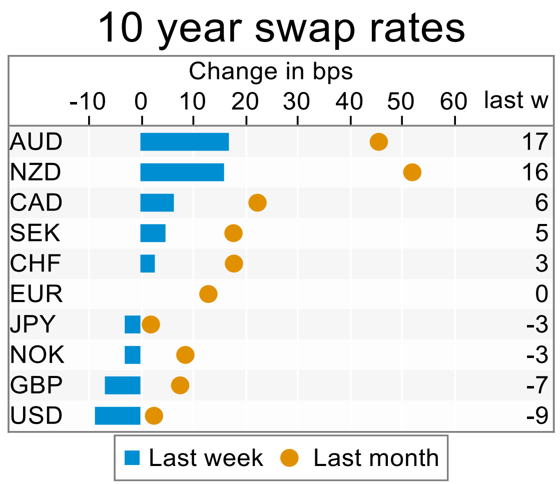
The NOK 10 y rate down, together with GBP, USD



SB1 Markets/Macrobond



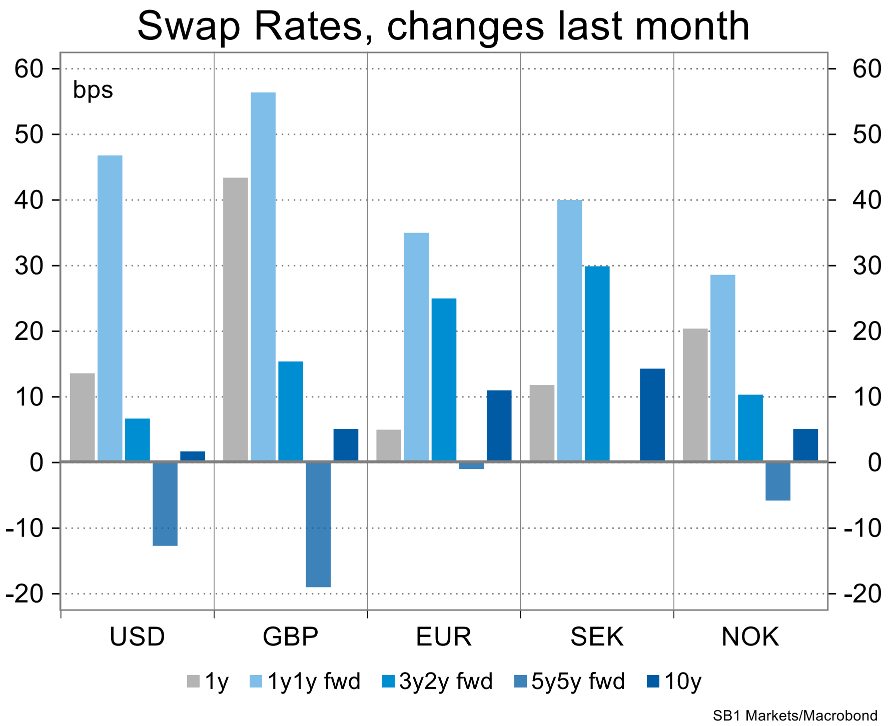
SB1 Markets/Macrobond



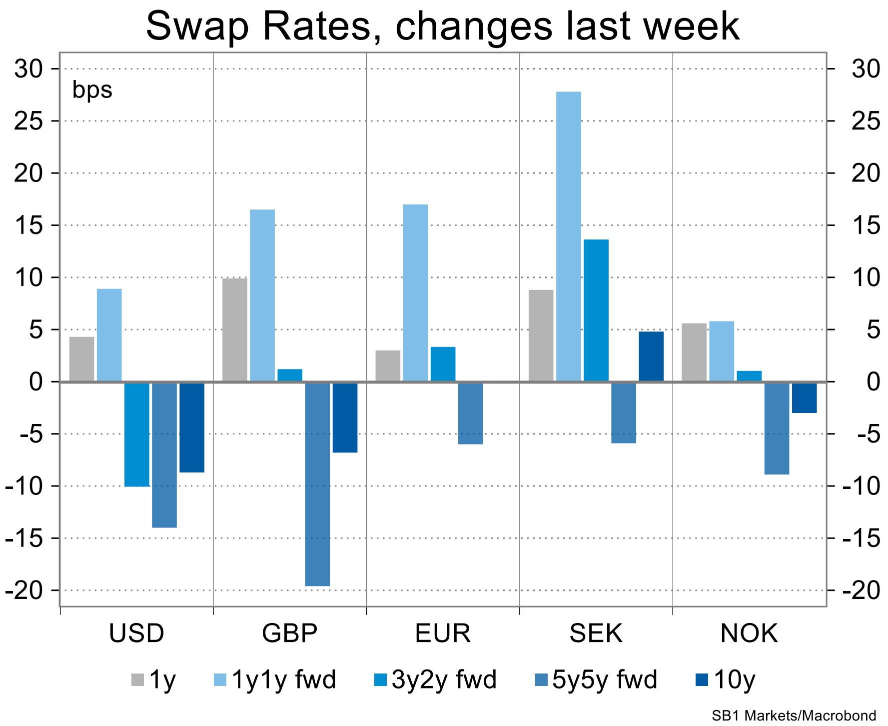
SB1 Markets/Macrobond

Rates all over the place: The short end up and the 5y 5y down everywhere

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


Swap Rates, changes last month

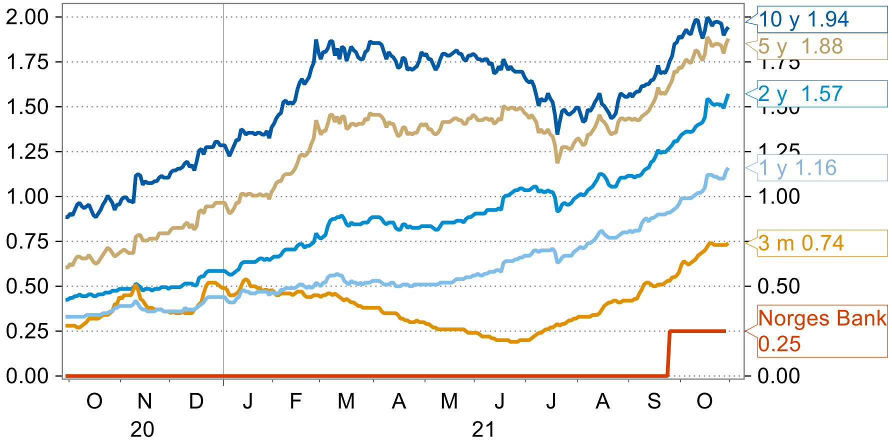
SB1 Markets/Macrobond


Swap Rates, changes last week

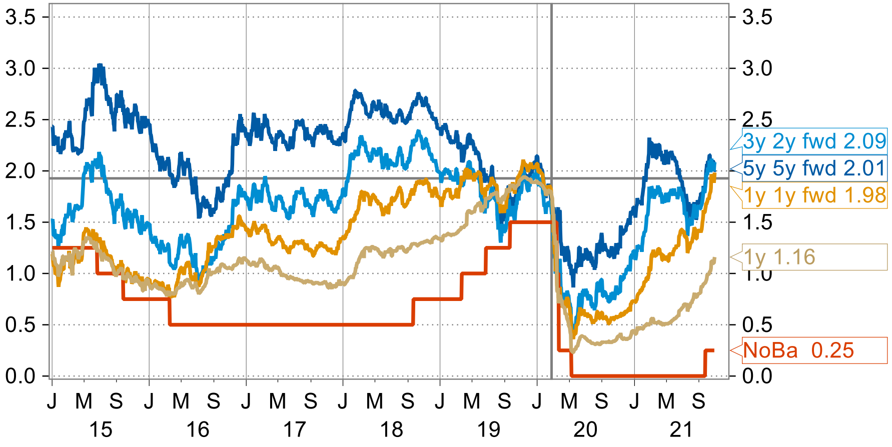
SB1 Markets/Macrobond

Rates up until 7y, just the very long end of the curve down

Another week of curve flattening


NIBOR, NOK swap rates

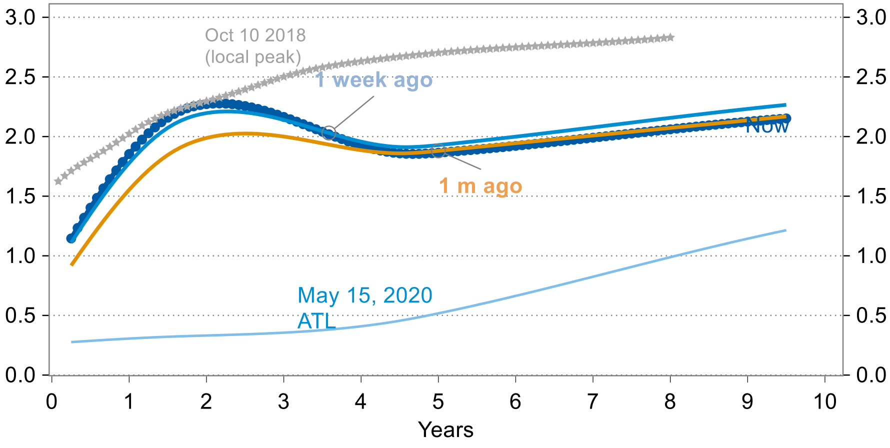
SB1 Markets/Macrobond


NOK Swap rates

SB1 Markets/Macrobond


Norway - yield spread, 10y - 2y swap

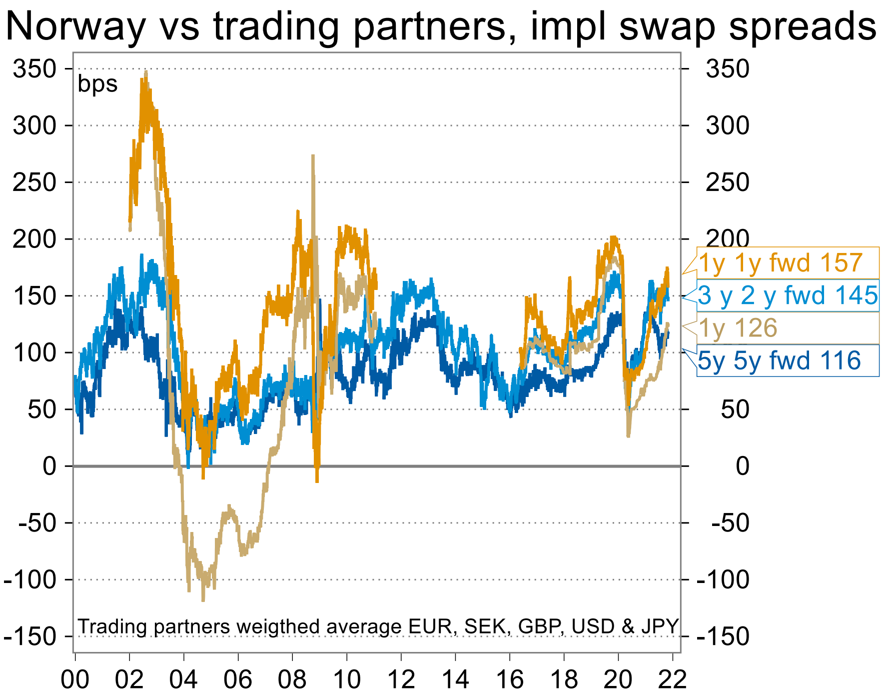
SB1 Markets/Macrobond


NOK Implied swap forwards

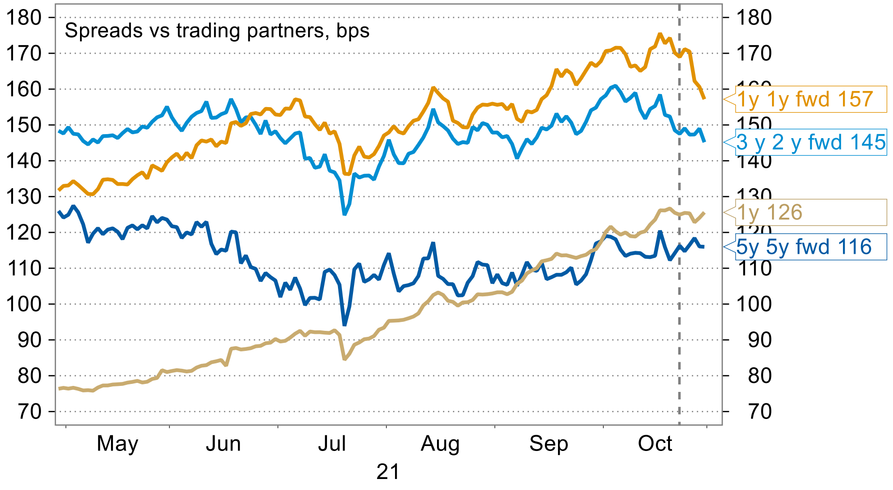
SB1 Markets/Macrobond

Implied spreads down until 5 y, the 5y 5y fwd spread stabile vs. trading partners

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



SB1 Markets/Macrobond



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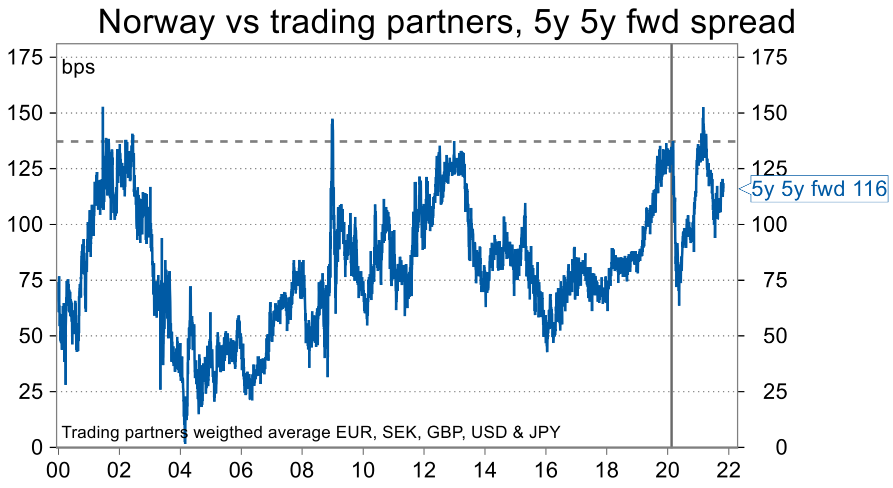

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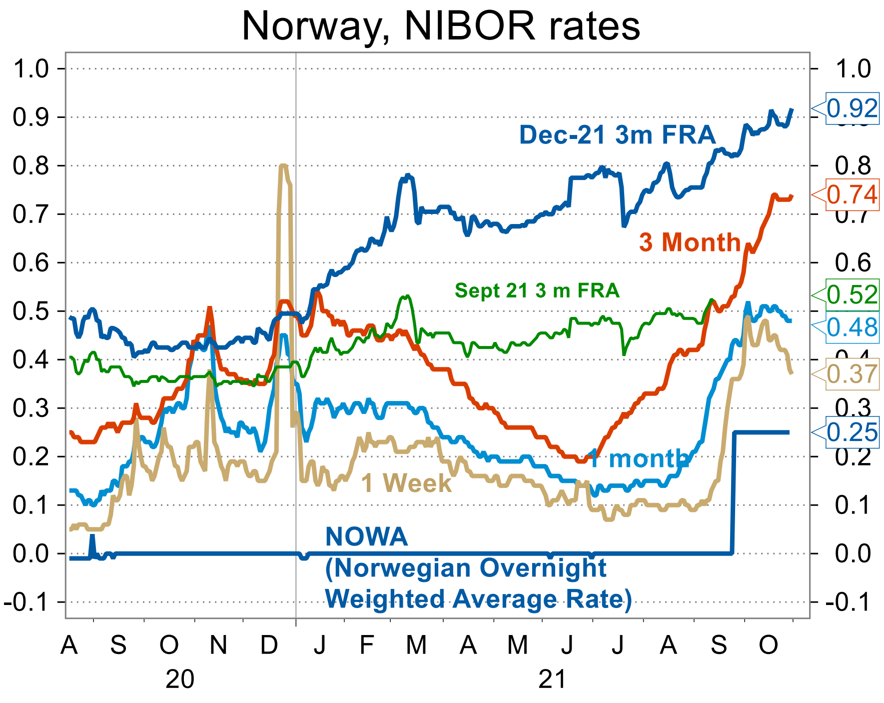
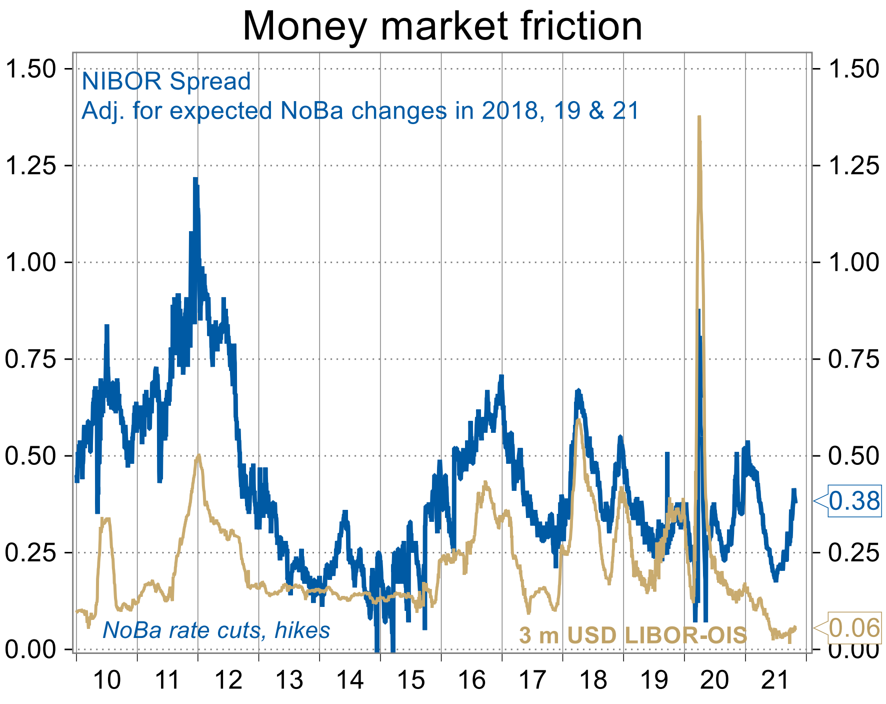
3 m NIBOR up 1 bp 0.74%, the NIBOR spread down 1 bp to 38 bps

The US LIBOR spread is marginally up



SB1 Markets/Macrobond

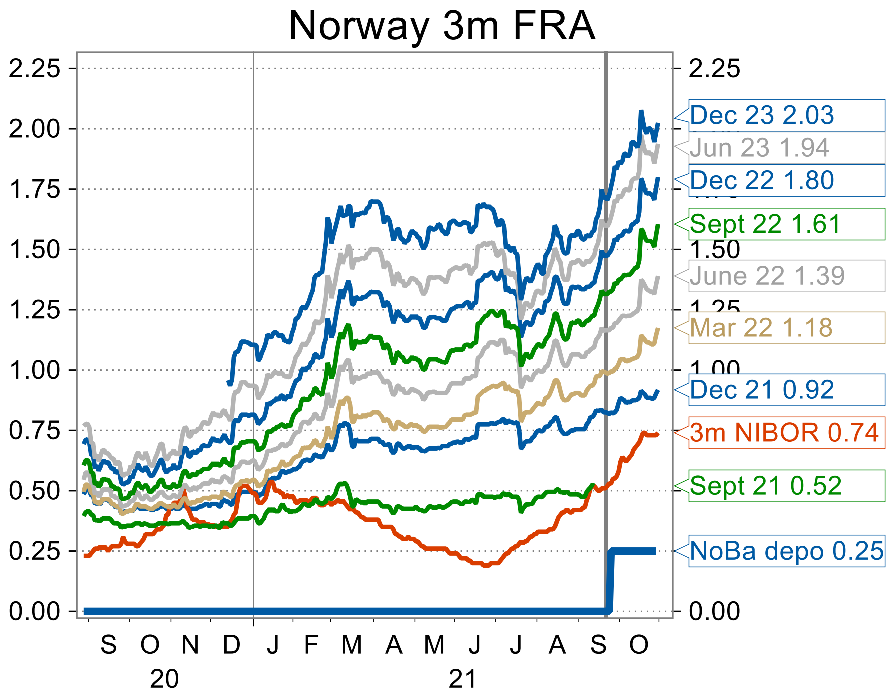


SB1 Markets/Macrobond

- Norges Bank assumed a 35 bps spread in the Sept MPR (as in the June report), which now seems to be a reasonable estimate

The FRA curve further up by until 6 bps last week

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



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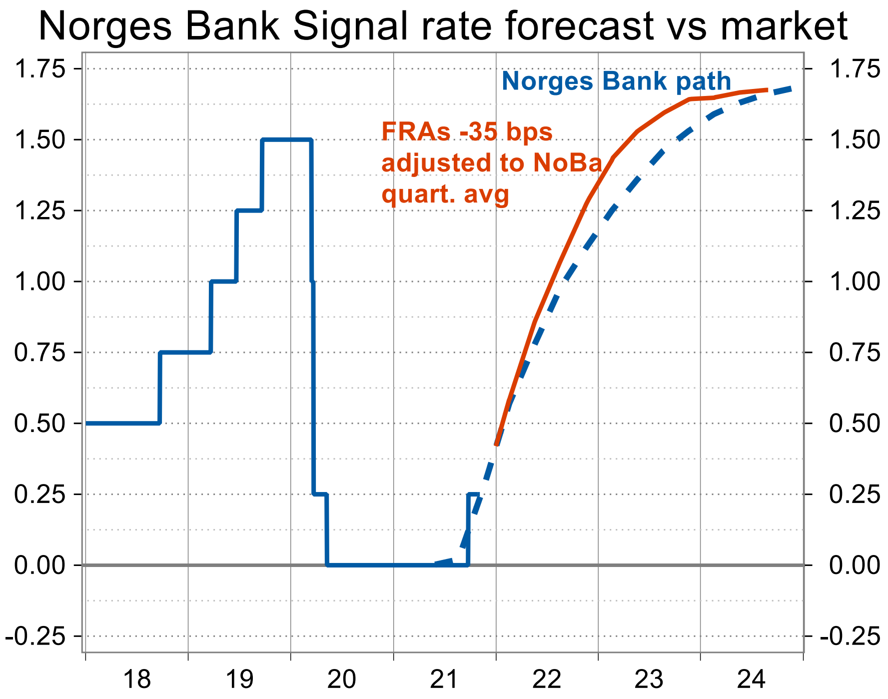

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- More NoBa hikes in both Dec, March, June & September is now fully discounted, and a 6th hike to 1.5% next December is quite likely too – and the 35 bps spread adjusted FRA-trajectory is 25 bps above the NoBa path from Dec-22 through 2023

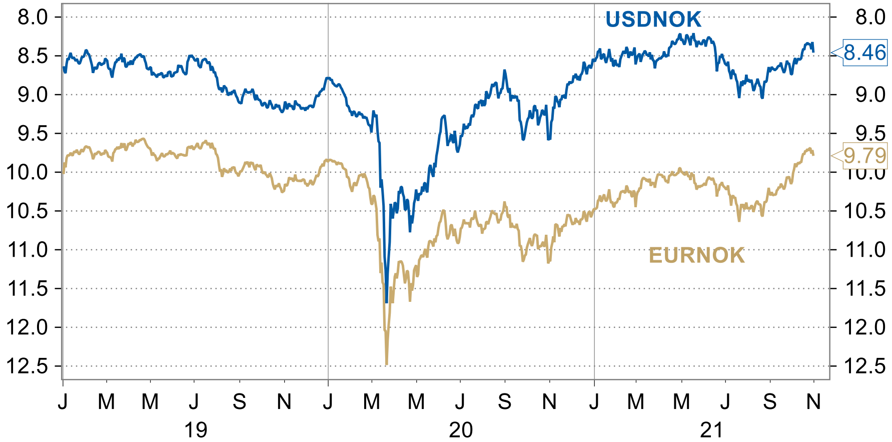
EUR & NOK down, USD (and AUD) up

NOK still on the top of the list last month

EURUSD

SB1 Markets/Macrobond

NOK vs EUR & USD



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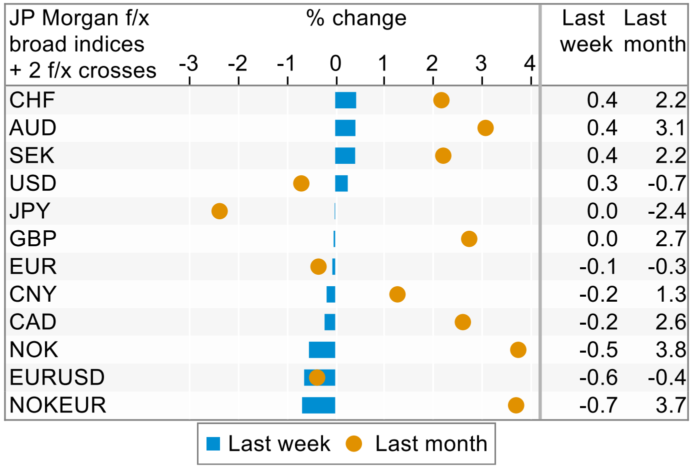
F/x markets



JP Morgan f/x broad indices + 2 f/x crosses	Last week	Last month
CHF	0.4	2.2
AUD	0.4	3.1
SEK	0.4	2.2
USD	0.3	-0.7
JPY	0.0	-2.4
GBP	0.0	2.7
EUR	-0.1	-0.3
CNY	-0.2	1.3
CAD	-0.2	2.6
NOK	-0.5	3.8
EURUSD	-0.6	-0.4
NOKEUR	-0.7	3.7

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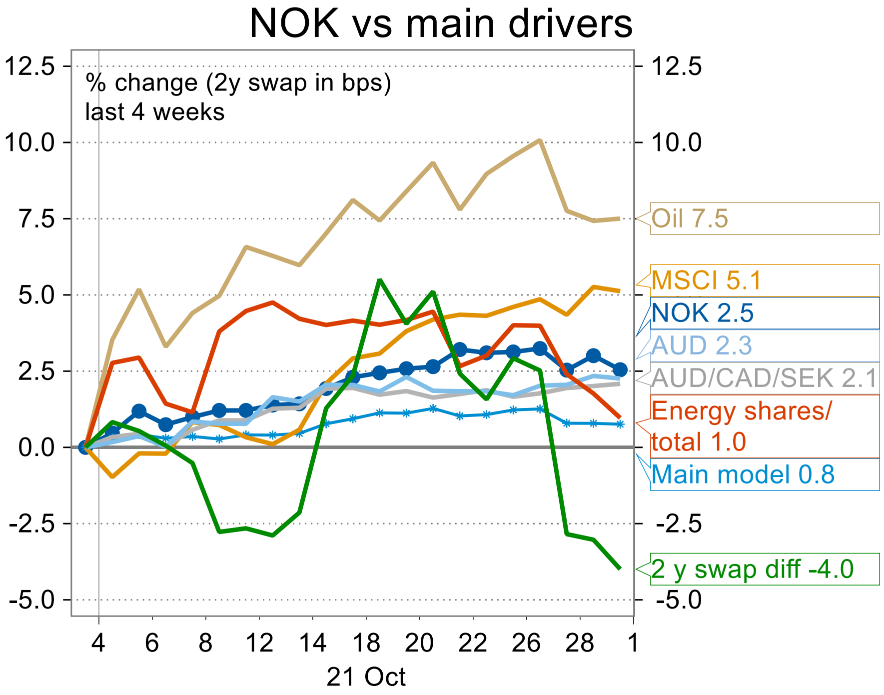
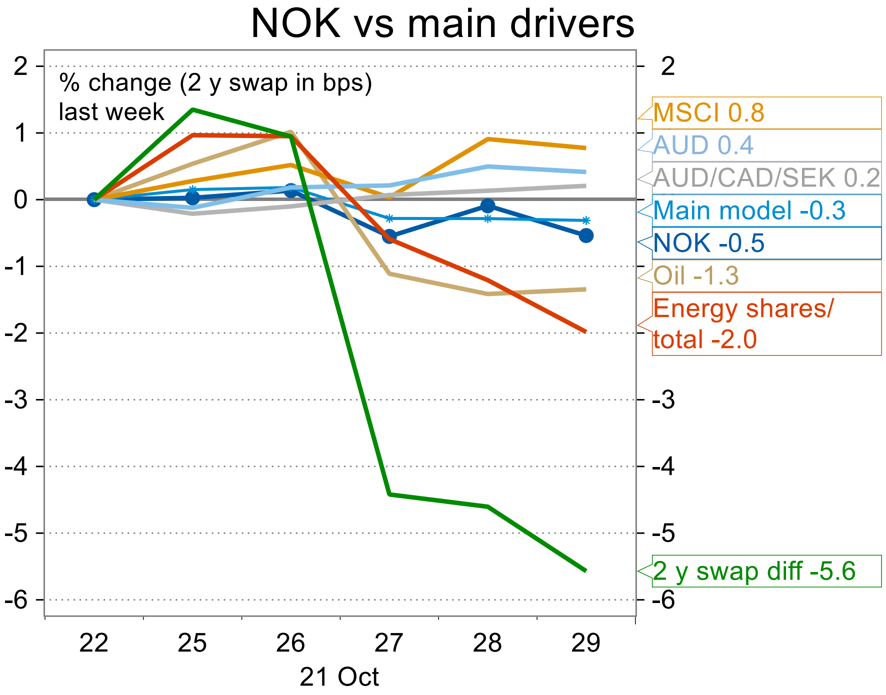
NOK down 0.5%, together with oil & the interest rate spread

… while the AUD appreciated



SB1 Markets/Macrobond



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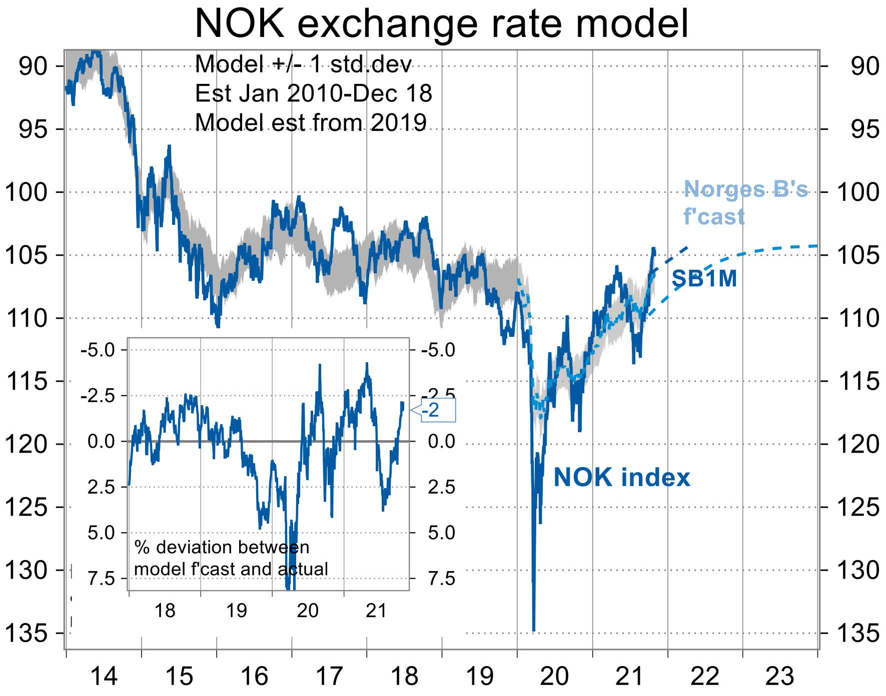
The status vs. the normal drivers:

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

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



NOK exchange rate model

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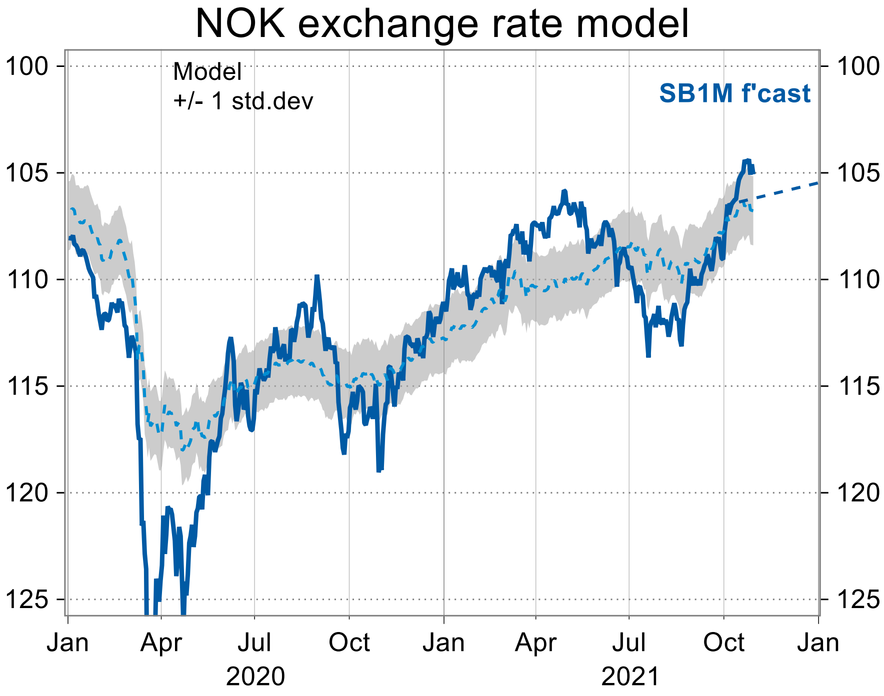

NOK exchange rate model

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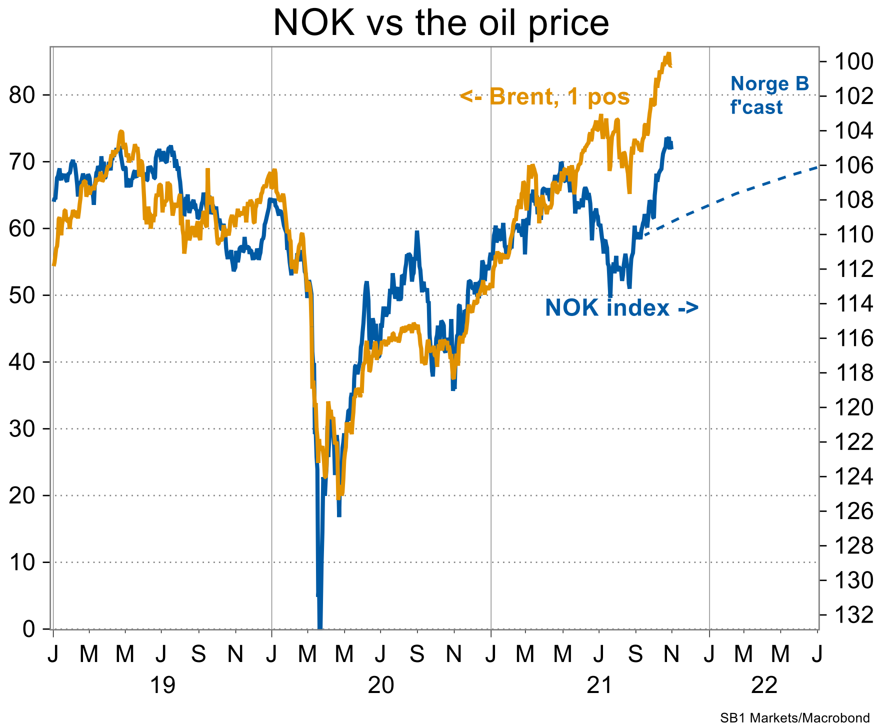
NOK down as the oil price retreated somewhat too



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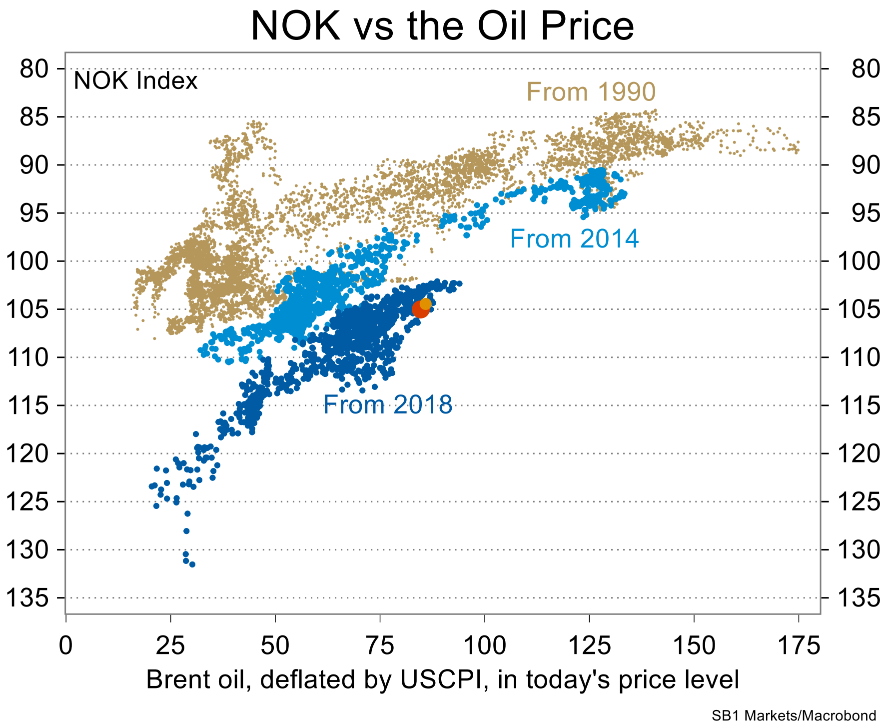

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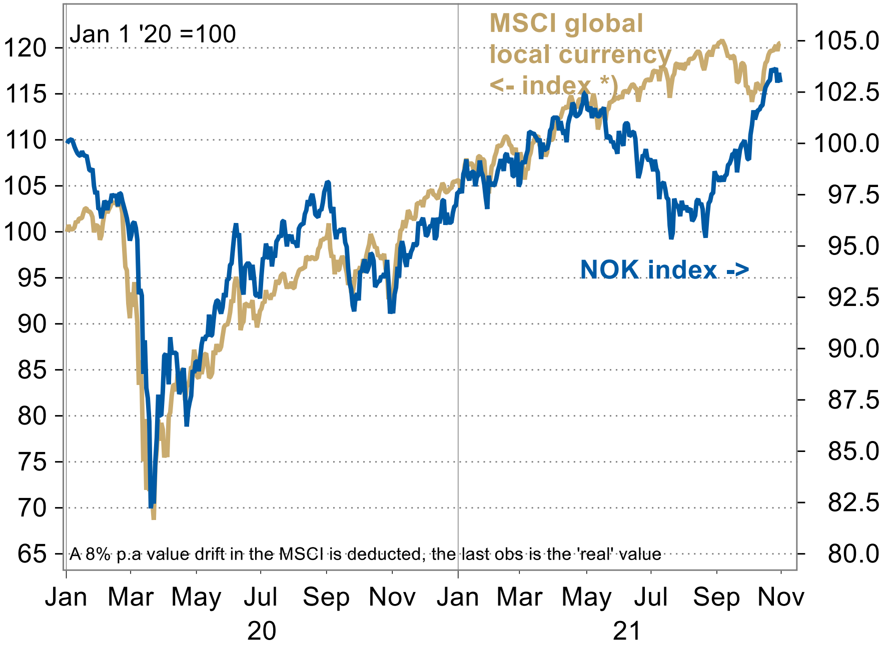
- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect.
  Within a broader model, the impact is somewhat smaller

The global stock market up, NOK down

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

NOK Index vs. global equities



A 8% p.a value drift in the MSCI is deducted, the last obs is the 'real' value

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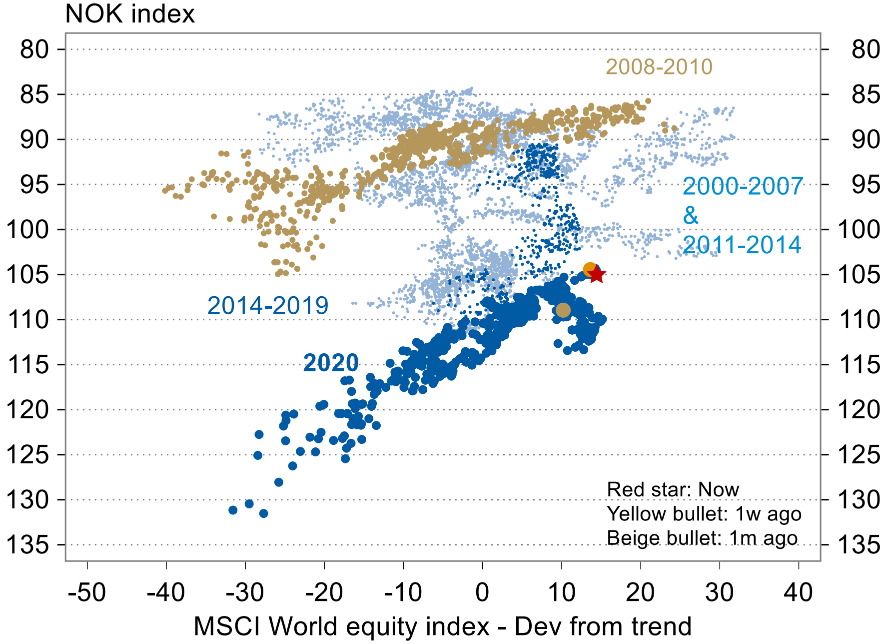
NOK vs. MSCI world index



Red star: Now
Yellow bullet: 1w ago
Beige bullet: 1m ago

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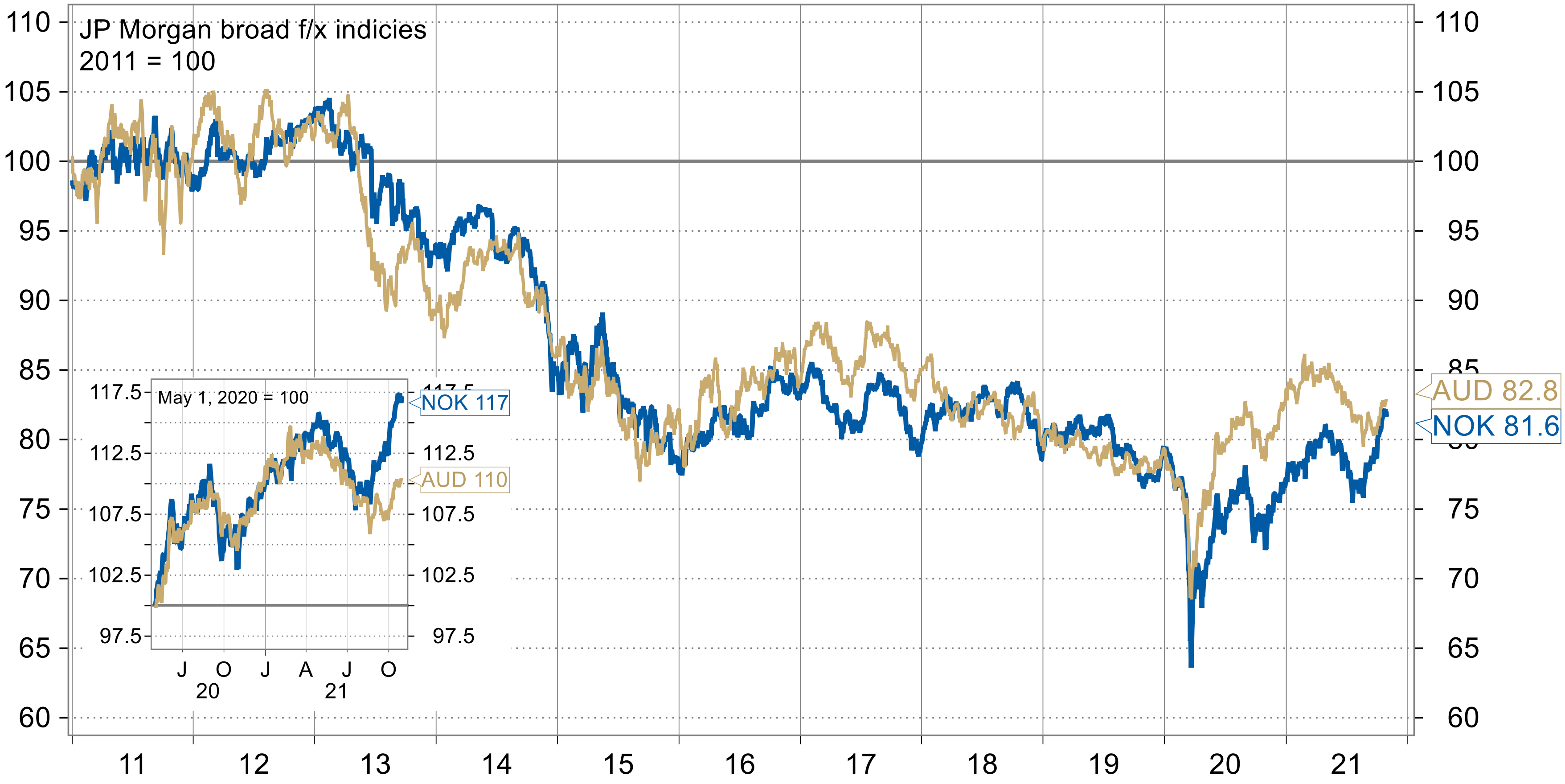
- Over time, there has not been any stabile correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (On the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, 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

NOK down and AUD marginally up last week

Last month's AUD interest rate shock (AUD 2y up 90 bps vs 30 bps in the NOK) has no visible impact

AUD vs NOK f/x



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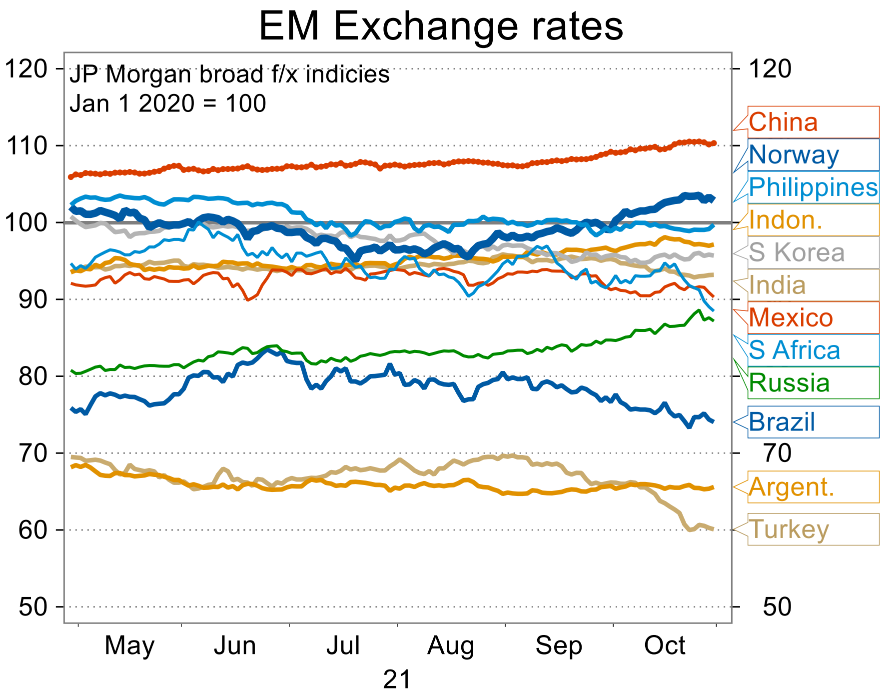
The two are back to the 2011 parity (from which they never since have deviated much)

More EM f/x up than down last week

… in spite of lower raw material prices



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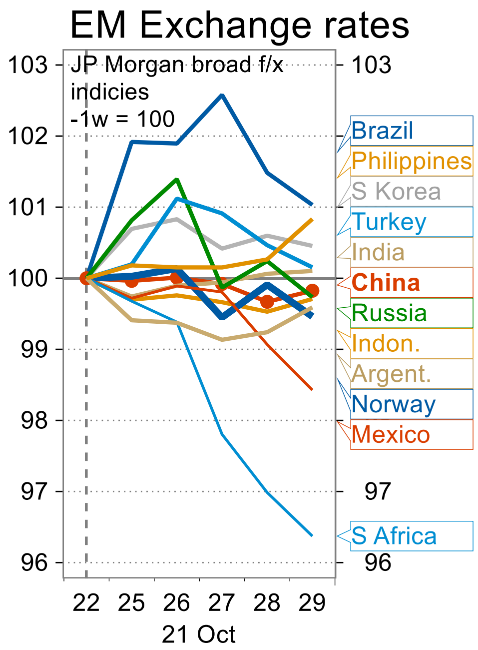

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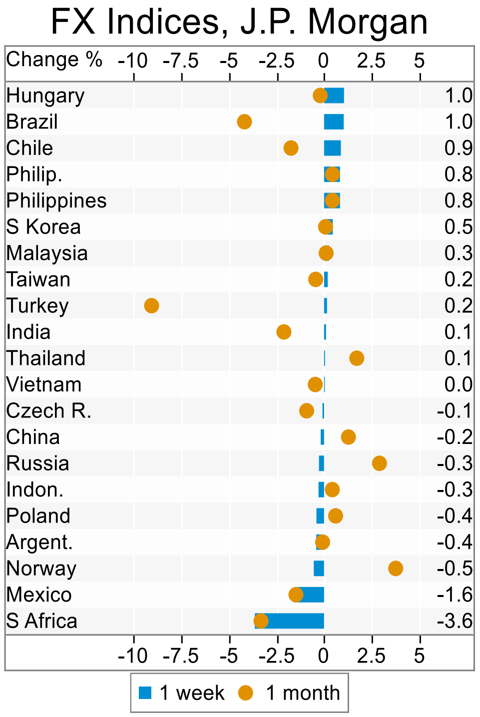

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