8 November 2021

Macro Weekly

Week 45/2021

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week

The virus story is around

- A majority of countries are still reporting more cases but in sum growth slowed further last week. In the UK, new cases were down last week too. However, the Delta variant is aggressive, and 3rd booster shot is distributed in most rich countries
- Hospitalisation have increased somewhat but outside Eastern Europe, far from any health crisis
- Mobility is stable at high levels in the West, and as the virus is on the retreat in most countries in the East, mobility is normalising here too. However China is struggling with its zero tolerance policy

The economy, part I

- **Monetary policy**
  - » **The Federal Reserve** started tapering its USD 120 bn/month QE program immediately, as the FOMC judged that <u>sufficient progress has been made</u> towards Fed's two goals, inflation at 2% over time, and maximum employment. If the Fed continues to taper at the same speed, by USD 15 bn/month, purchases will end in June next year, as expected. However, the FOMC, or at least chair Powell, stressed that the dual mandate's <u>targets are not met</u>, and that the Fed funds rate will not be lifted anytime soon. Powell blamed the Covid virus, which is still around, for preventing the labour supply to normalise. We really hope he is right. If not…
  - » **Bank of England** surprised markets by not hiking the Bank rate at Thursday. The bank sounded more dovish than expected too, even if it said *it would be necessary over <u>coming months</u> to increase Bank Rate in order to return CPI inflation sustainably to the 2% target.* Rate expectations fell sharply, by up to 30 bps – down to the level 3 weeks ago. Still, close to 4 hikes before end of 2022 is discounted, down from 5 expected before the BoE meeting
  - » The BoE surprise sent interest rates down in most countries – even far out on the curves. A decline in the oil price may have contributed but in the US it was just the real rate (TIPS) that declined – to a very low level again. Which supported the equity market
  - » **Norges Bank** did not signal any changes in its plan to hike the deposit rate to 0.50% at the December meeting
  - » **Poland** hiked by 75 bps to 1.25% and the **Czech Republic** by 125 bps to 2.75%
  - » **Globally**, more than half of the interest rate cuts during the pandemic is now reversed
- **The global economy**
  - » **The global composite PMI** rose by 1.2 p to 54.5 in October, as both Emerging markets x China and Developed Markets reported higher growth. The PMI in EM x China is at the best level since 2013 – as more countries are recovering from Covid attack. US is reporting faster growth, and the ISMs were strong, and at ATH in the service sector. In the EMU, the PMIs fell as first reported. Delivery times are soaring in Western rich countries, as are still prices. In the rest of the world, far less problems. Because demand is much stronger in the 'overstimulated' West?
  - » We have not yet finalised our estimate for October **auto sales** but most likely stabilised, at least in DM. Sales rose in the US, UK and Japan but fell further again in the EMU

Last week: The economy, part II

- **China**
  - » **Exports** are continuing upwards, and are far above the pre-pandemic trend growth path. **Imports** rose in October, but in volume terms imports have fallen 8% since the spring to below the p-p trend, <u>confirming a slowdown in domestic demand</u> (all other Oct Chinese data out this week). The **trade surplus** was record high. Still, the surplus at the **current account** has fallen through 2021
- **USA**
  - » **Payrolls** rose more than expected in October, and the history was revised up. However, the **participation rate** was flat after the decline in September, and the **unemployment rate** fell by 0.2 pp to 4.6%, more than expected. The lack of response on the supply side may turn out to be the Achilles' heel vs. the length of the post-pandemic recovery. **Wage inflation** is still much higher than before the pandemic, up to a 5¾ pace now from 3¼ %. The SMBs (NFIB) reported a minor decline in the share of companies that report they are **not able to fill vacancies** but the rate is still much higher than anytime before, **hiring plans** remain very aggressive, and an ATH share of companies report they plan to **lift compensation** the coming months
  - » **Productivity** stumbled in Q3, down 5% (q/q annualised) and is down 0.5% y/y. However, the underlying trend is some 1.5%. Total **hourly compensation** is up at a 5.9% pace since before the pandemic, and growth in **unit labour cost** is at more than 4%, <u>far too high to achieve 2% inflation over time</u>, barring a substantial decline the corporate profit share. In Q3, ULC rose by 8% (annualised) but that was an outlier, as was the 5% drop in productivity
  - » The **trade deficit** was ATH in September as imports are shining while exports are falling, especially in volume terms
  - » With support from some Republicans, **Biden's infrastructure bill** was finally declined in the Congress. The headline amount was scaled down to USD 550 bn over 10 years (from USD 2.600 bn), and the annual amount is not large vs. the USD 22.000 bn US economy. Now the **welfare bill** is at the table, and a resolution is not unlikely but the size will just be less than half of the initial proposal at USD 3.500 bn
- **EMU**
  - » **Unemployment** fell by 0.1 pp to 7.4%, to below the pre-pandemic level
  - » **Retail sales** fell by 0.3% i October but the history was revised substantially upwards and sales are up 5% vs Dec-19. German sales contributed most at the downside
  - » **Producer prices** are up 8% even ex energy, the most (at least in Germany) in more than in 40 years. Total PPI is up 16% in the Euro zone, signalling almost 5% HICP inflation
- **Norway**
  - » **House prices** rose by 0.2% in October, slightly less than we (and Norges Bank) expected. Prices fell in Oslo, Kristiansand and Stavanger but rose elsewhere, and by the most in Bodø, as usual these days. There is no clear 'out of the big towns scenario', as both Oslo <u>and</u> surrounding towns are the laggards. The 3m/3m price inflation has slowed to below 4%, from 12% during the spring. **The inventory** of unsold homes is record low, and if not for the interest outlook, price inflation would very likely have substantially higher (at least a 1% per month pace)

The Calendar: China slows further? US inflation, vacancies. Norwegian vacancies, budget

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 8					
08:00	NO	Ind Prod Manufacturing MoM	Sep		0.0%
12:00	**NO**	**Supplementary budget**	**2022**		
Tuesday Nov 9					
08:00	NO	Payrolls, wages	Q3		
09:30	SW	Private Sector Production MoM	Sep		-4.7%
11:00	GE	ZEW Survey Expectations	Nov	20	22.3
12:00	US	NFIB Small Business Optimism	Oct	99.3	99.1
14:30	US	PPI Final Demand MoM	Oct	0.6%	0.5%
Wednesday Nov 10					
02:30	CH	CPI YoY	Oct	1.4%	0.7%
02:30	CH	PPI YoY	Oct	12.5%	10.7%
08:00	NO	CPI YoY	Oct	3.8%	4.1%
08:00	**NO**	**CPI Underlying YoY**	**Oct**	**1.2%**	**1.2%**
14:30	US	Initial Jobless Claims	Nov-06	265k	269k
14:30	US	CPI MoM	Oct	0.5%	0.4%
14:30	**US**	**CPI Ex Food and Energy MoM**	**Oct**	**0.4%**	**0.2%**
14:30	US	CPI Ex Food and Energy YoY	Oct	4.3%	4.0%
20:00	US	Monthly Budget Statement	Oct		-$61.5b
Thursday Nov 11					
06:00	SW	PES Unemployment Rate	Oct		3.7%
08:00	**NO**	**Vacancies**	**Q3**		**3.2%**
08:00	UK	GDP MoM	Sep	0.4%	0.4%
08:00	UK	GDP QoQ	3Q P	1.5%	5.5%
08:00	UK	Manufacturing Production MoM	Sep	0.2%	0.5%
Friday Nov 12					
08:00	NO	Construction costs YoY	Sep		11.2%
08:00	NO	Consumption of goods MoM	Sep		-1.8%
11:00	EC	Industrial Production SA MoM	Sep	-0.5%	-1.6%
16:00	**US**	**JOLTS Job Openings**	**Sep**		**10439k**
16:00	US	U. of Mich. Sentiment	Nov P	72.5	71.7
During the week					
	CH	**Aggregate Financing CNY**	**Oct**	**1600b**	**2900b**
	CH	New Yuan Loans CNY	Oct	800b	1660b
Monday Nov 15					
00:50	JN	GDP Annualized SA QoQ	3Q P	-0.7%	1.9%
02:30	CH	New Home Prices MoM	Oct		-0.1%
03:00	**CH**	**Retail Sales YoY**	**Oct**	**3.6%**	**4.4%**
03:00	**CH**	**Industrial Production YoY**	**Oct**	**3.0%**	**3.1%**
03:00	CH	Service sector production	Oct		5.2%
03:00	CH	Fix asset investments YTD	Oct	6.3%	7.3%

- **Global economy**
  - Several countries have reported October **auto sales** and so far a recovery is not in the cards in October – but not a large, further contraction either. DM sales probably rose marginanlly
- **China**
  - Export data were strong in October too, and early next Monday the full package of economic data will be released. Growth in **domestic demand** for goods has slowed substantially, both **retail sales** and i**nvestments**, which is confirmed by a decline in import volumes recent months. **Industrial production** has slowed too but less (thanks to exports), and the PMIs are signalling modest growth. Production in the **service sector** fell sharply in August, but recovered in Sept and probably further in Oct. In November new Covid measures may dampen growth again. **CPI inflation** is still low (but food prices are accelerating again). New **home prices** fell in Sept, and existing homes in both Aug and Sept. Media reports suggest a further decline in October. The **PPI** index is climbing double digit
- **USA**
  - **Core CPI inflation** is expected further up in October, but markets do not seem to care anymore as the Fed says it is expect the elevated inflation to be transitory. Both the CPI and the **PPI** is more up than in decades but crude PPI prices have now turned down. So it's still hope (if wage inflation slows too). Check out the **SMB (NIFB) survey** regarding price plans, they have been 'crazy' recent months
  - The most exiting data point this week may be the **unfilled vacancy rate** in September, following a minor decline in August. The level is far above anything seen before, 6.6% of jobs are vacant
- **UK**
  - Sept and Q3 **GDP** is expected to confirm strong growth – from level that was still low in Q2
- **Norway**
  - The new government will present its **supplementary budget** today. We do not expect the overall balance to be weakened but some taxes will be increased, as will spending at some areas, mostly symbolic, we think
  - The **vacancy rate** very likely climbed further in Q3, confirmed a tightening labour market. The complete **Q3 payroll stats** will reveal how foreign workers on temporary stay have returned. We think rather few have, which paves the way for more resident workers to enter the labour market
  - **Total consumption of goods** probably rose sharply in Sept, as auto registrations soared (though with a reversal in Oct)

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

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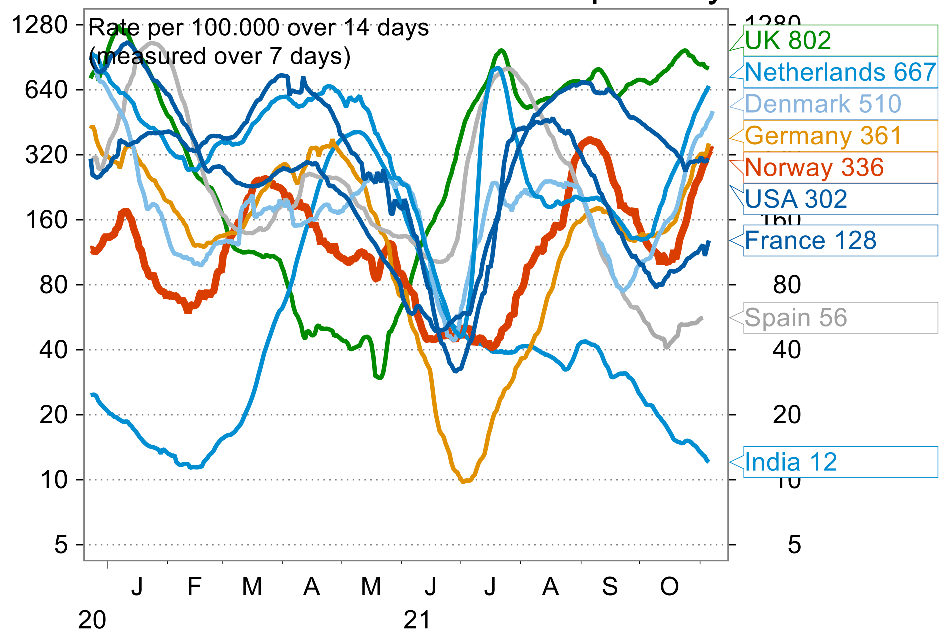
The virus won’t back down…

A majority of countries are reporting more cases again

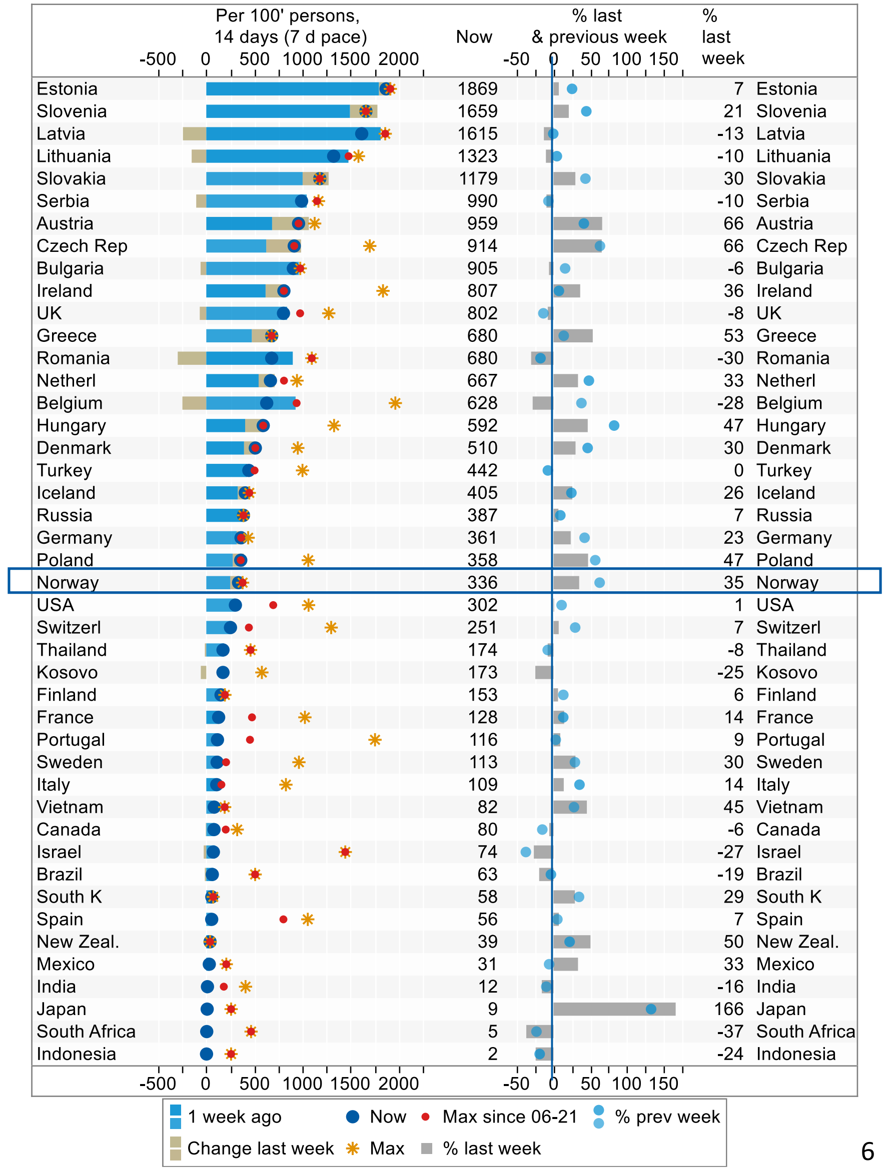
- 27 countries were reporting more cases the last week, but growth is in sum slowing somewhat. Most likely Eastern Europe is now getting control of the spread the hard way, by social distancing, closing down some activities, and immunity through infections
- Just 15 countries reported fewer cases, among them UK, following a substantial surge, visible even in hospitals. So, even the Delta variant can be combatted. Let’s hope a Gamma mutant do not turn up…

Covid-19 new cases per day



SB1 Markets/Macrobond

COVID-19, New Cases



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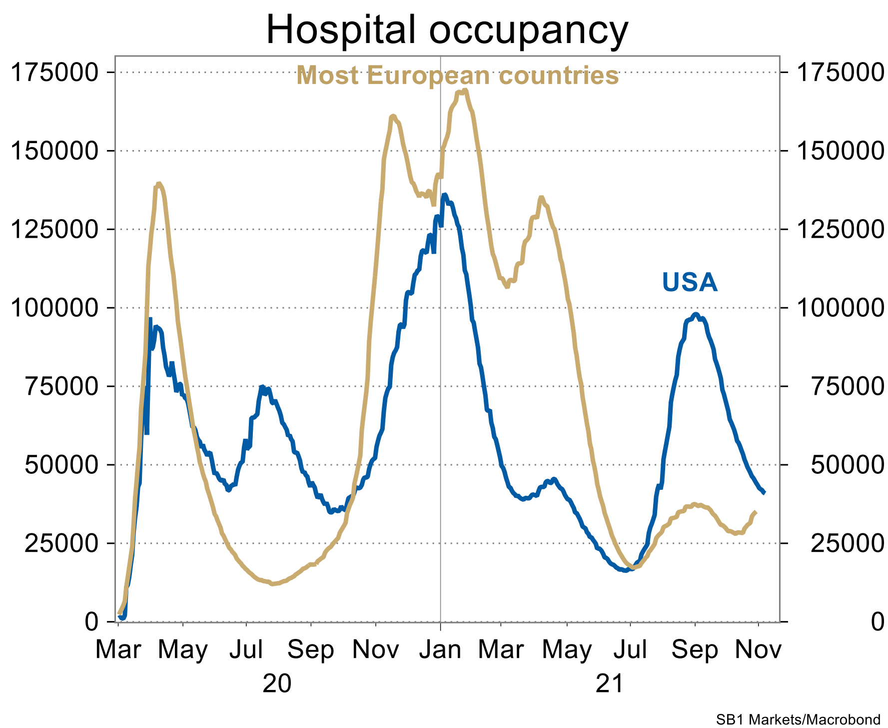
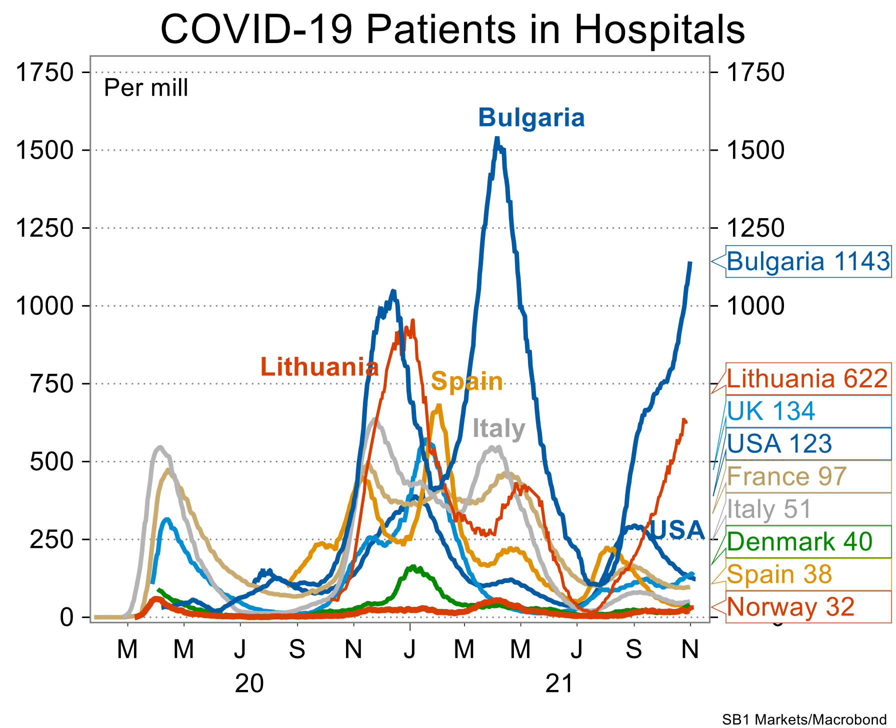
More hospitalisations in Europe, but the level is still low outside Eastern Eur.

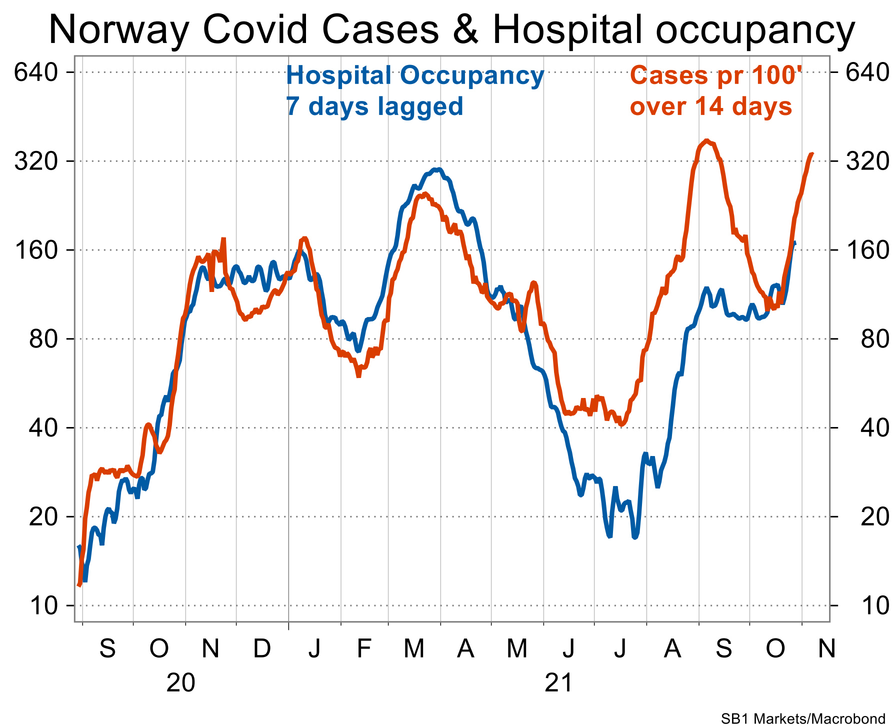
Growth in hospitalisations in the UK is slowing. And the US is steady on the way down

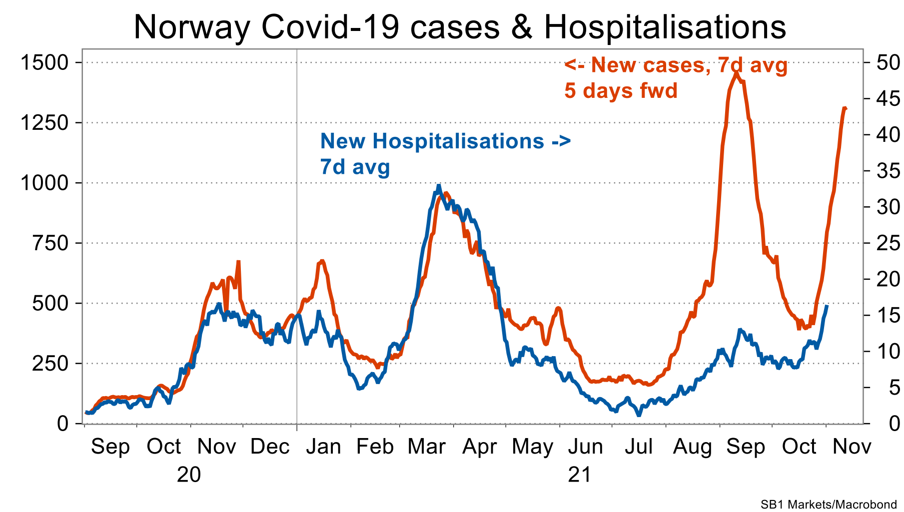


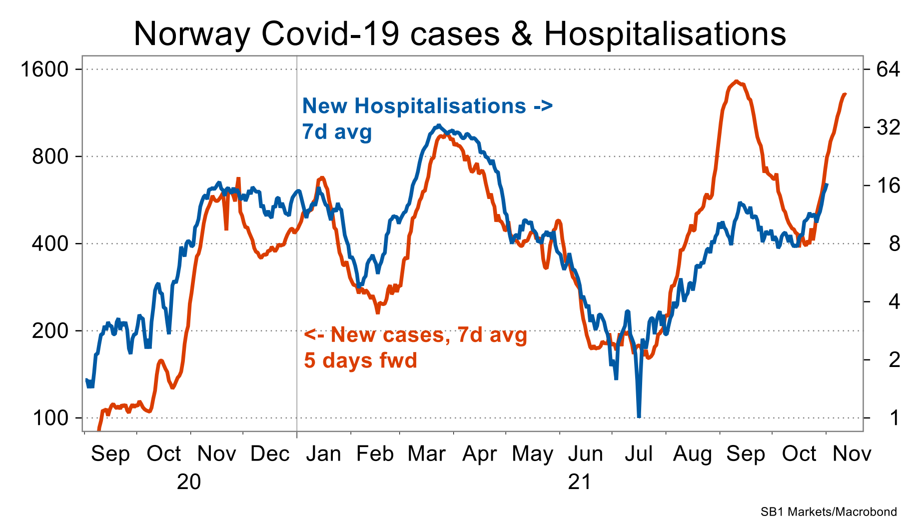


Norway: More new cases, more hospitalisations

Some are not vaccinated, and some vaccinated get the infection, and some few get sick



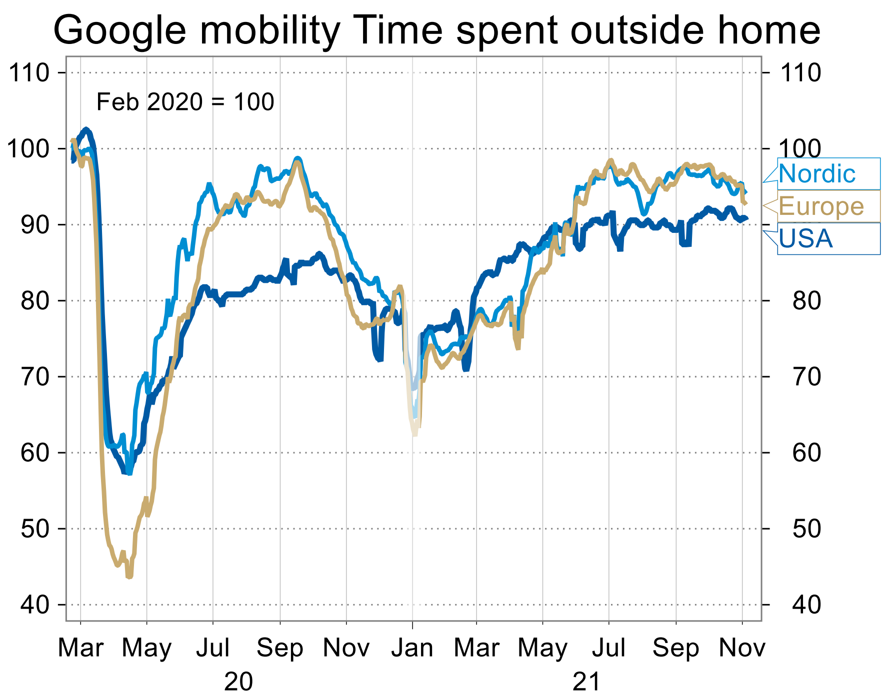




- However, we are miles from a serious health crisis – check at the bottom of the chart to the right on the previous page ☺

People in Europe/Nordics stay more home due to the temperature? US unch.

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



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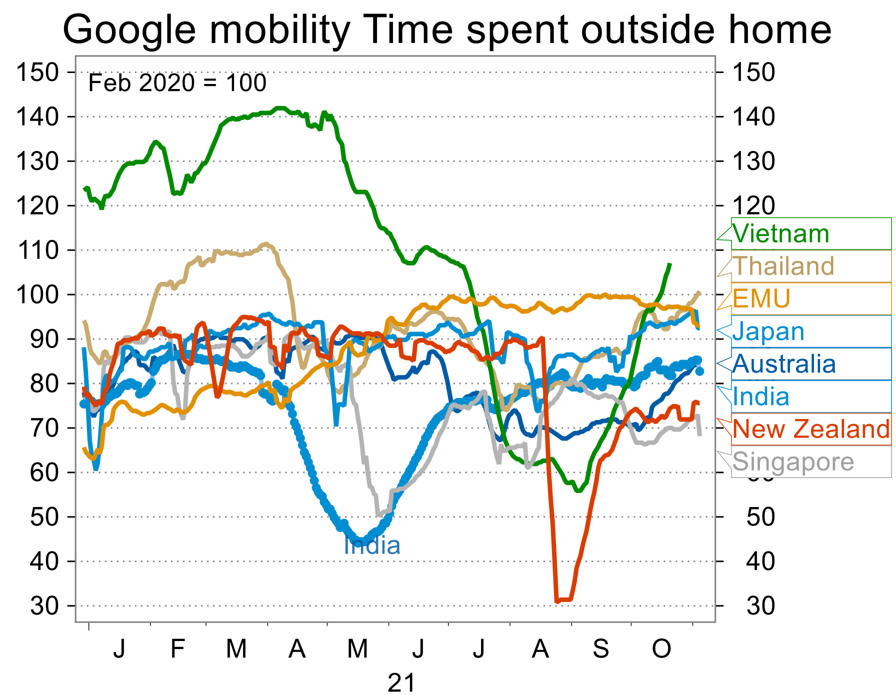

SB1 Markets/Macrobond

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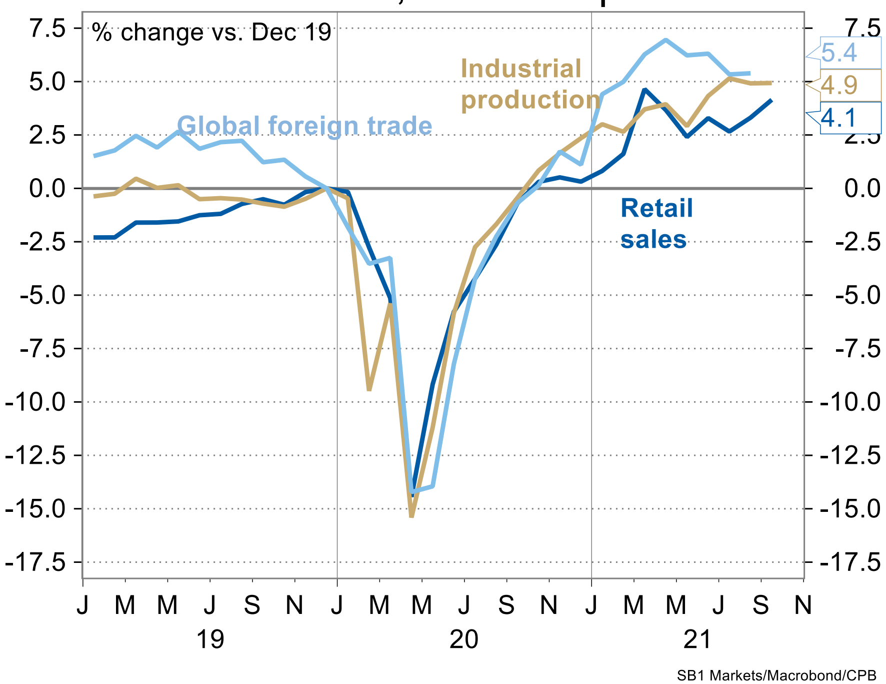
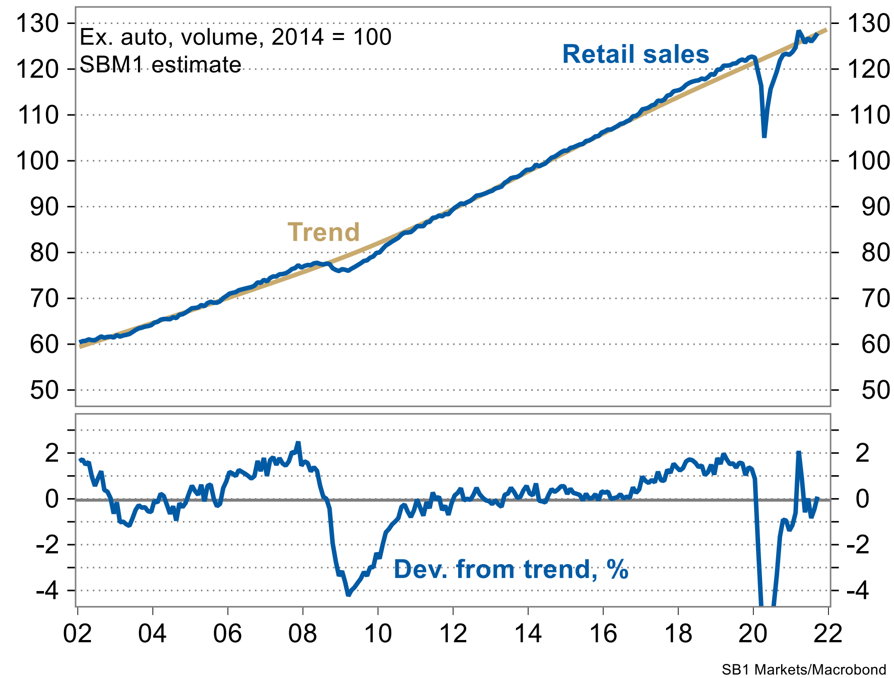
Global retail sales have flattened, global trade is sliding down

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

Global Retail sales, industrial prod. & trade



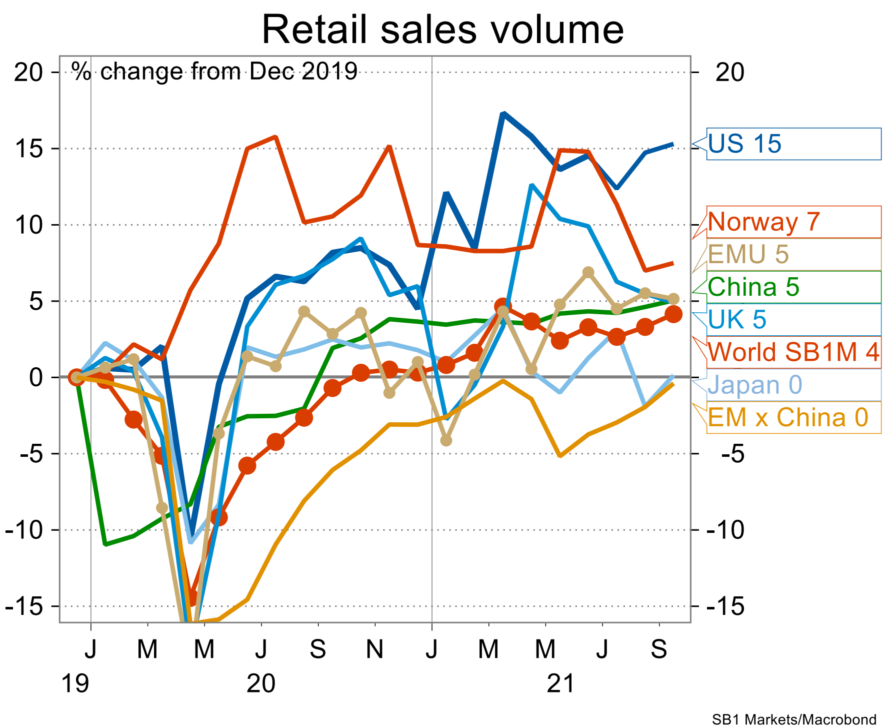
Global retail sales volume

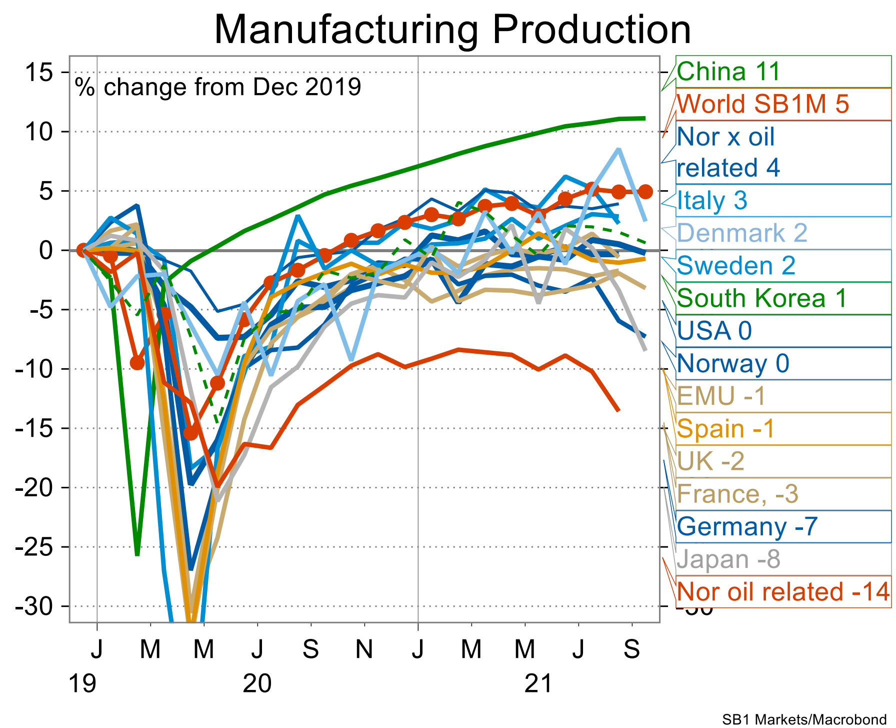


- **Retail sales** rose in Aug, and very likely in Sept according to our initial estimate, up 4% vs. the pre-pandemic level
- **Manufacturing production** stagnated in Aug and Sept mostly due deep cuts in auto production. The level is some 5% above the pre-pandemic level
- **Global foreign trade** peaked in May and has fallen slightly thereafter. In Aug, 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

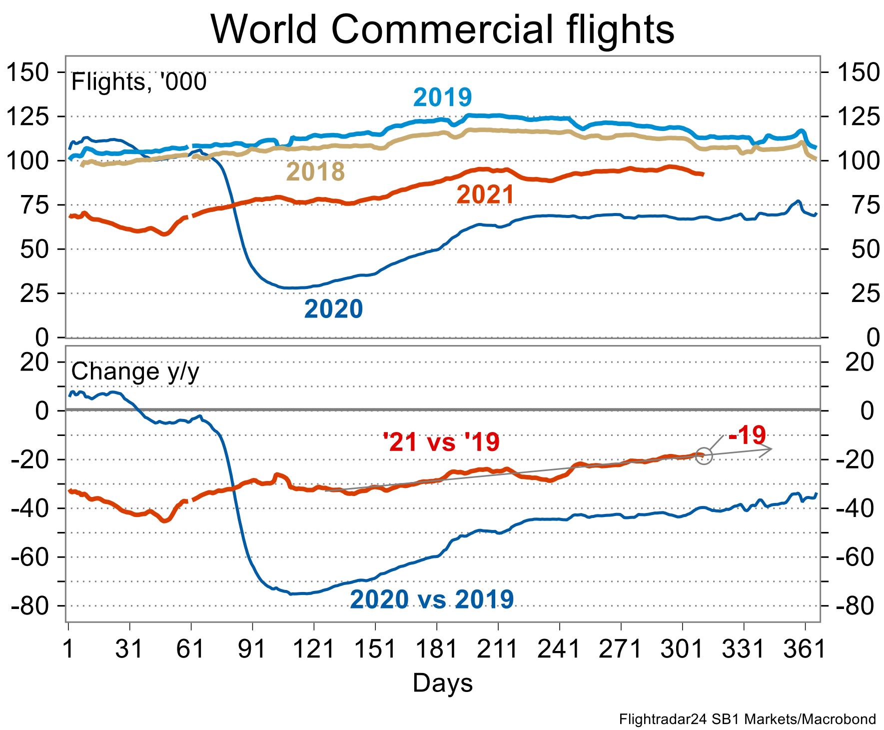


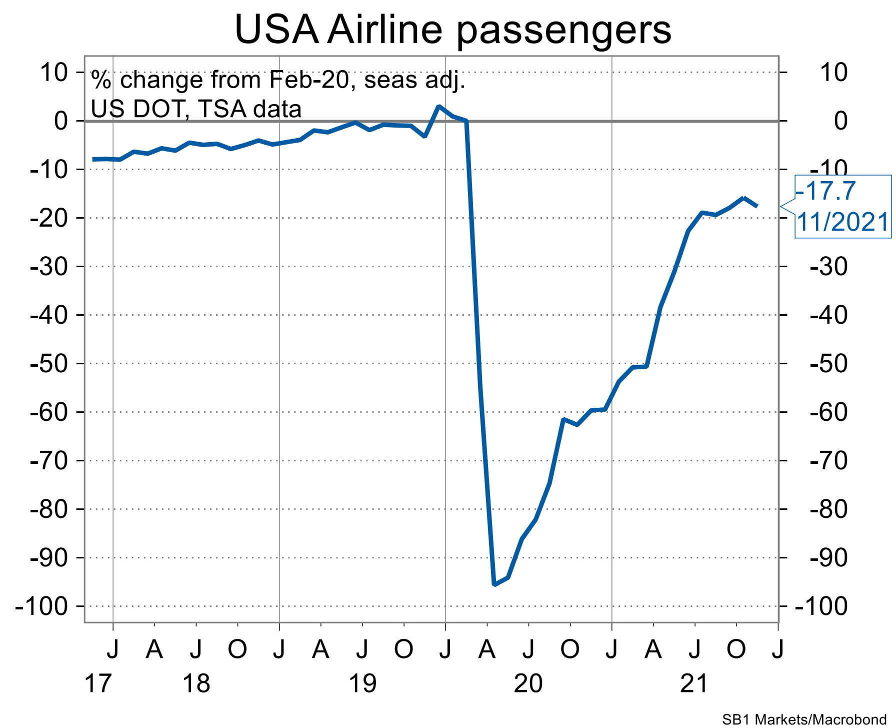


- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India, and thereafter in other parts of Asia. Now a substantial recovery is very likely underway
- **Manufacturing production** is still drifting upwards, most places, but growth has been hampered 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

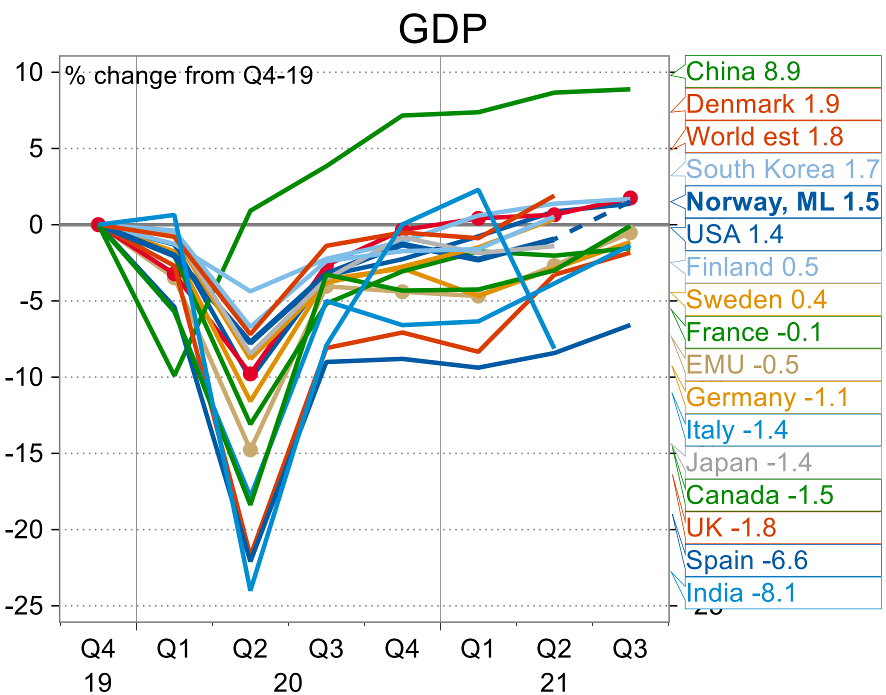




- Airline traffic normally drops some 10% from the peak summer season until the end of the year. Thus, a flattish development during this autumn implies a 1.7% ‘recovery’ per month – now the gap is declining by at least 1 pp per week
- The November estimate for US is based on just some few days

Global GDP very likely gained speed in Q3 but not due to US & China

Strong growth in the EMU and very likely in India the main contributors



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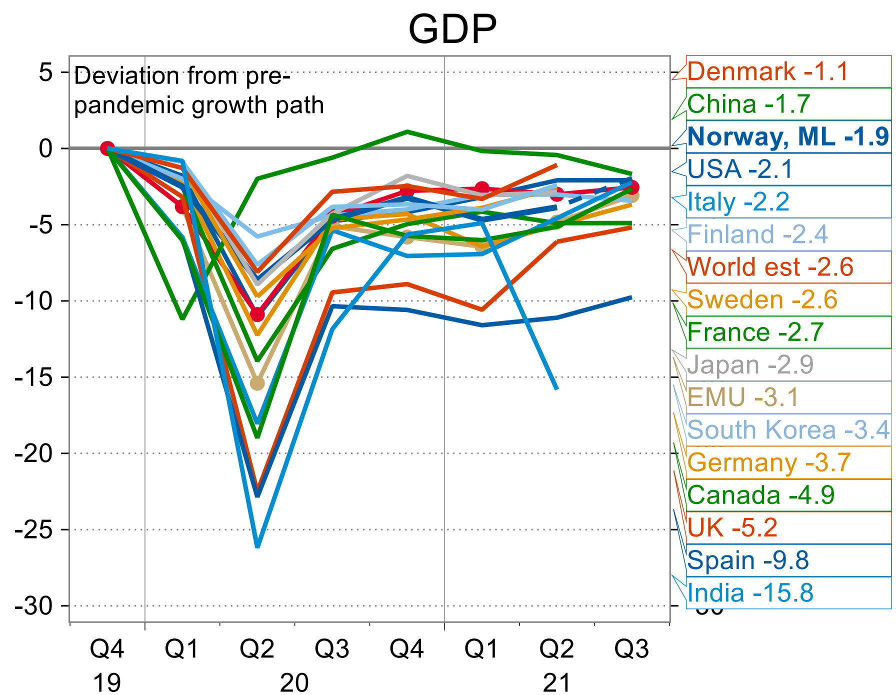

SB1 Markets/Macrobond

- We estimate a 1.1% (4.5% annualised) growth in Q3, up from 0.2% (1%) in Q2. GDP in India fell sharply in Q2 but very likely recovered sharply in Q3 (but no data yet). GDP grew more than 2% in the EMU (9.1% annualised)
  - » If so, GDP is 1.8% above the Q4-19 level but still some 2½ % below the pre pandemic growth path
- The global GDP is **now 1.8% above the pre-pandemic level**, but still 2.6 below the pre-pandemic trend growth path

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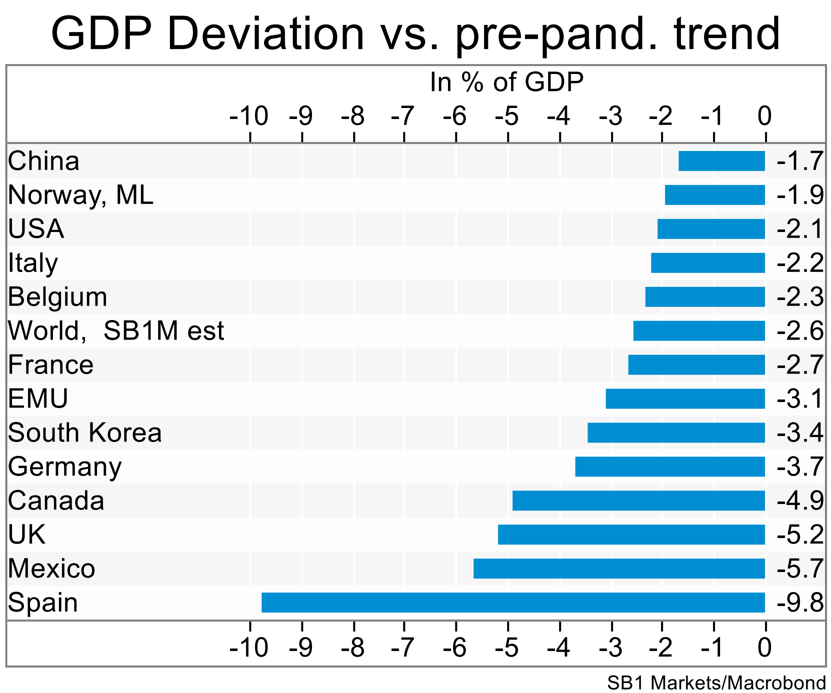
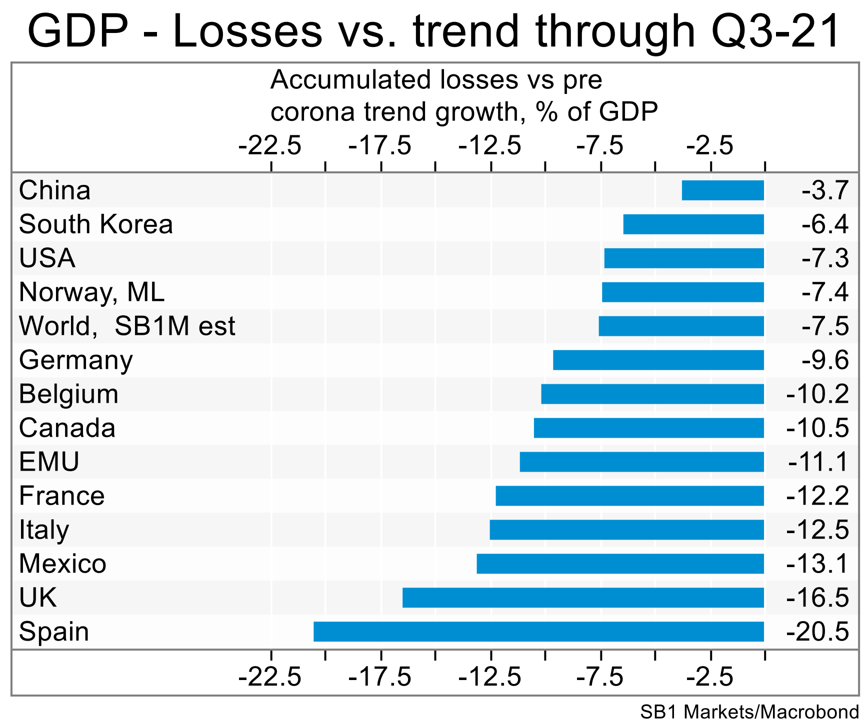
GDP still below the pre-pandemic trend growth paths everywhere

… and accumulated losses are substantial in several countries

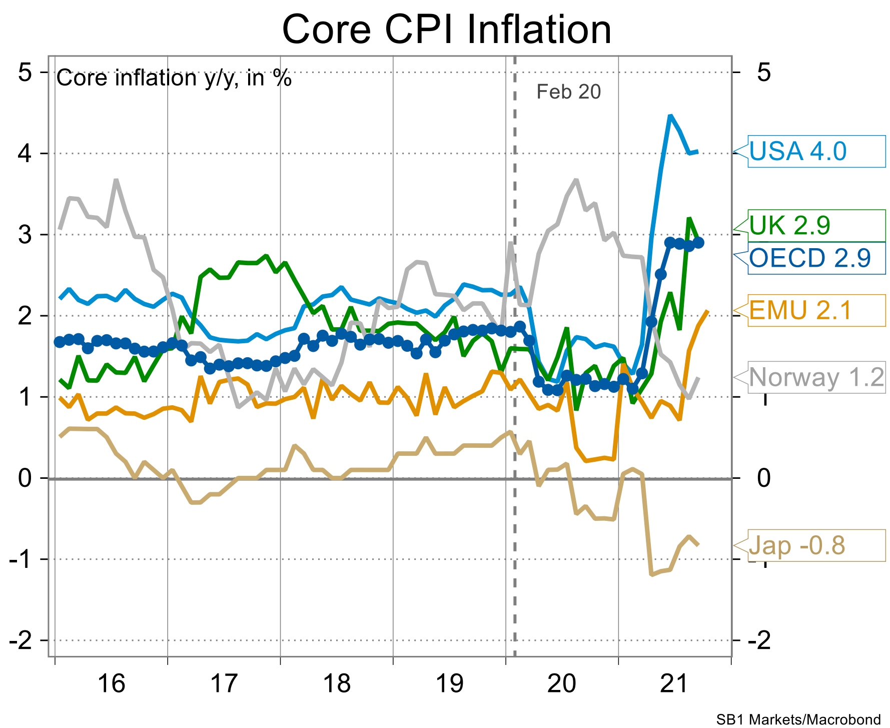


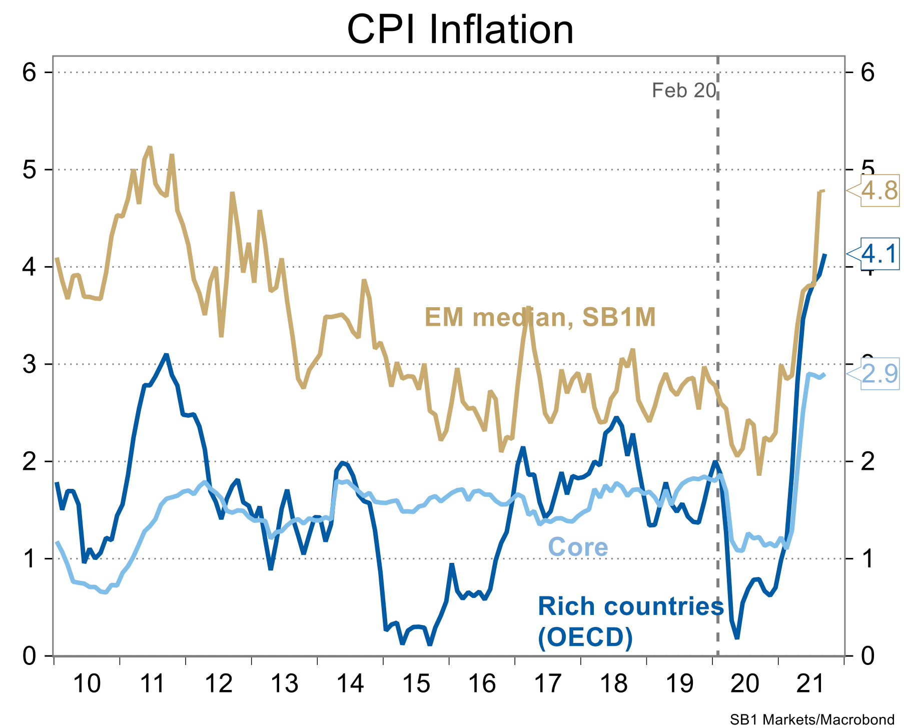


- UK, Sweden, and Norway Q3 data are our estimates

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

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





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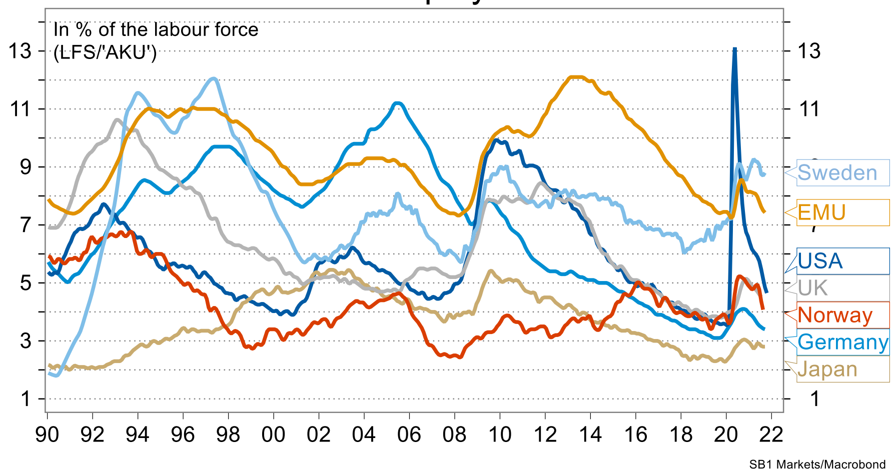
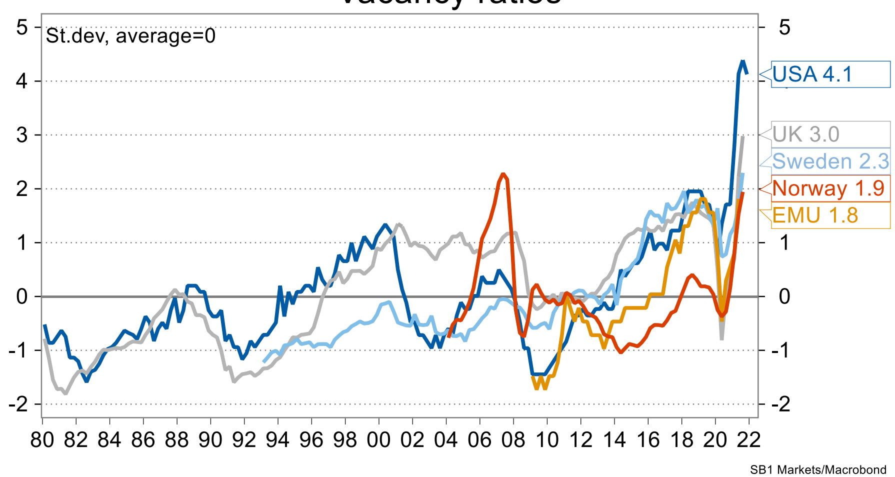
Unemployment on the way down everywhere, as unfilled vacancies soars

And unemployment is on par or lower than normal in 20 out of 23 countries!

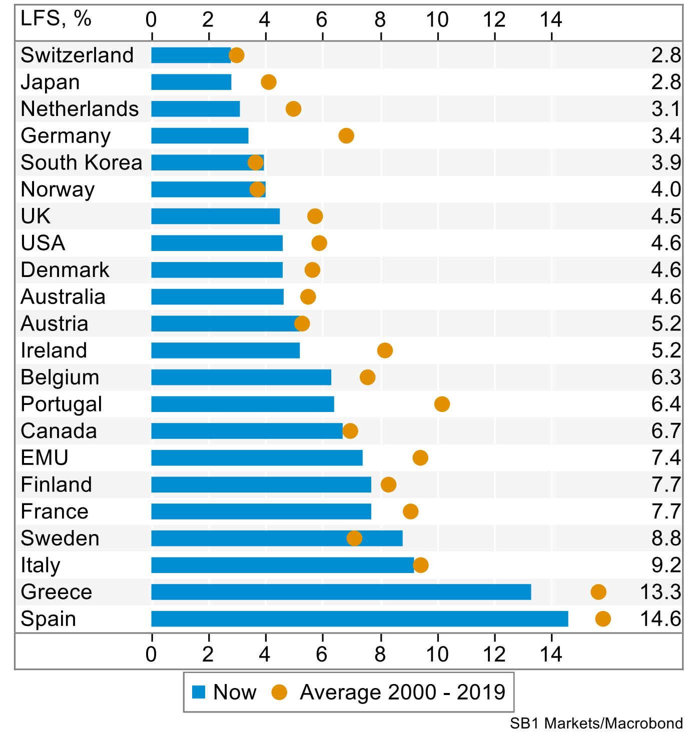
Unemployment



Vacancy ratios



Unemployment



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

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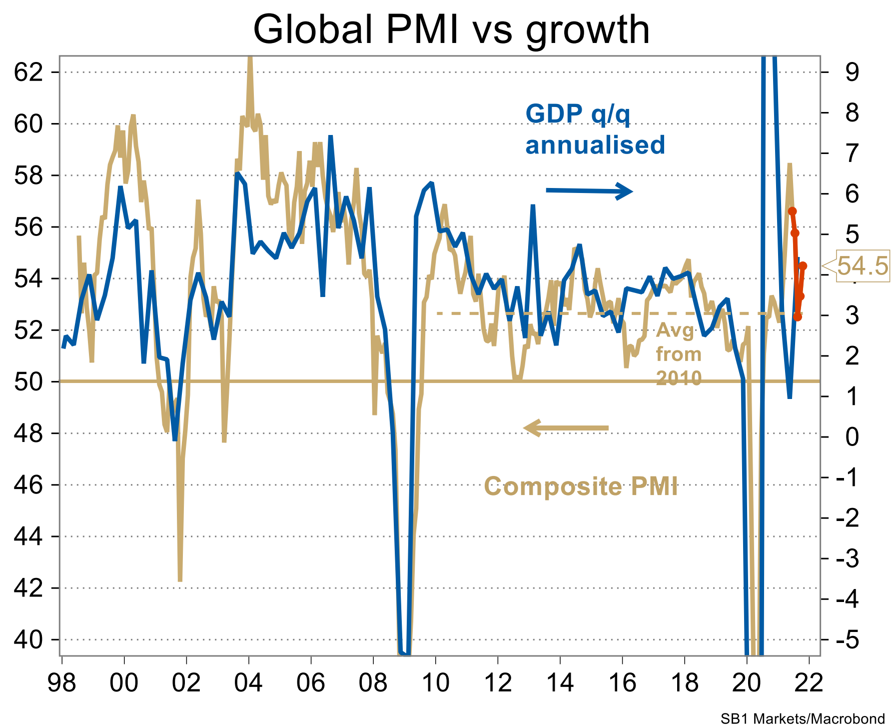
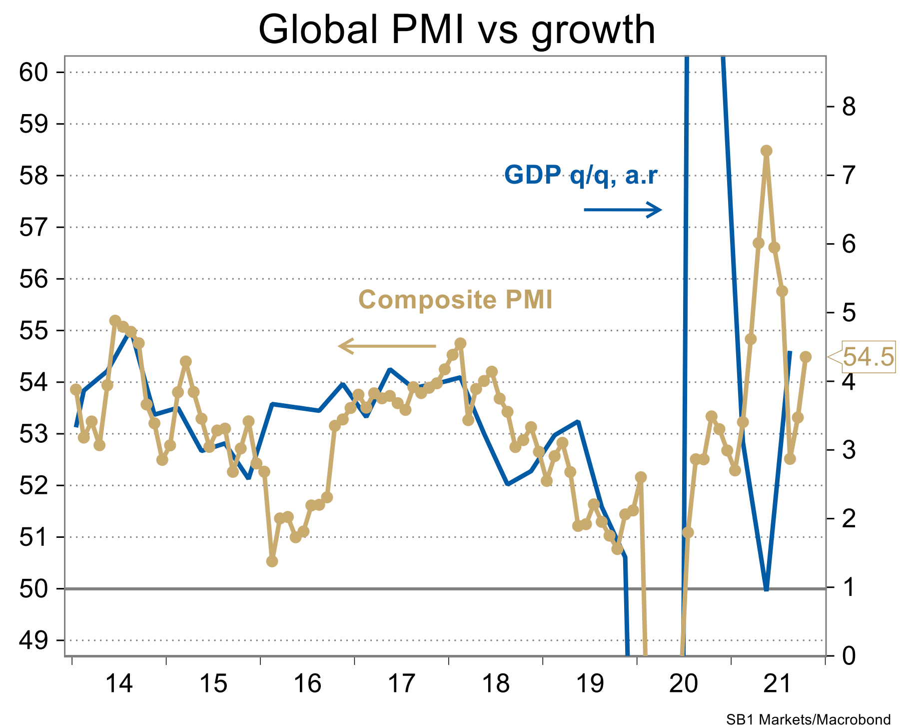
The global PMI further up in October, both DM and EM ex China up

The composite PMI rose by 1.2 p to 54.5, signalling growth well above trend

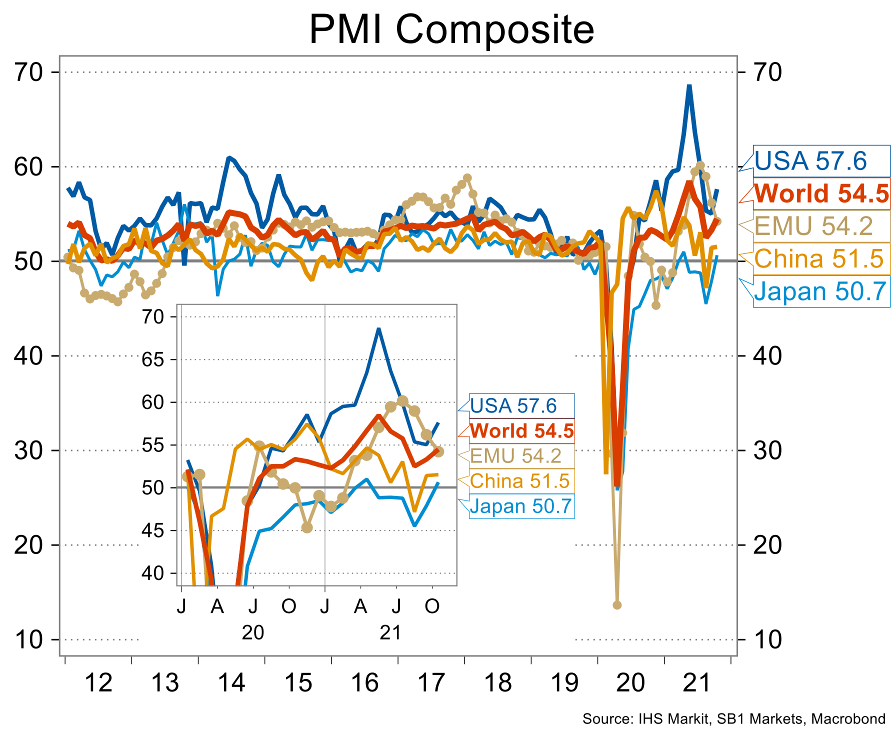


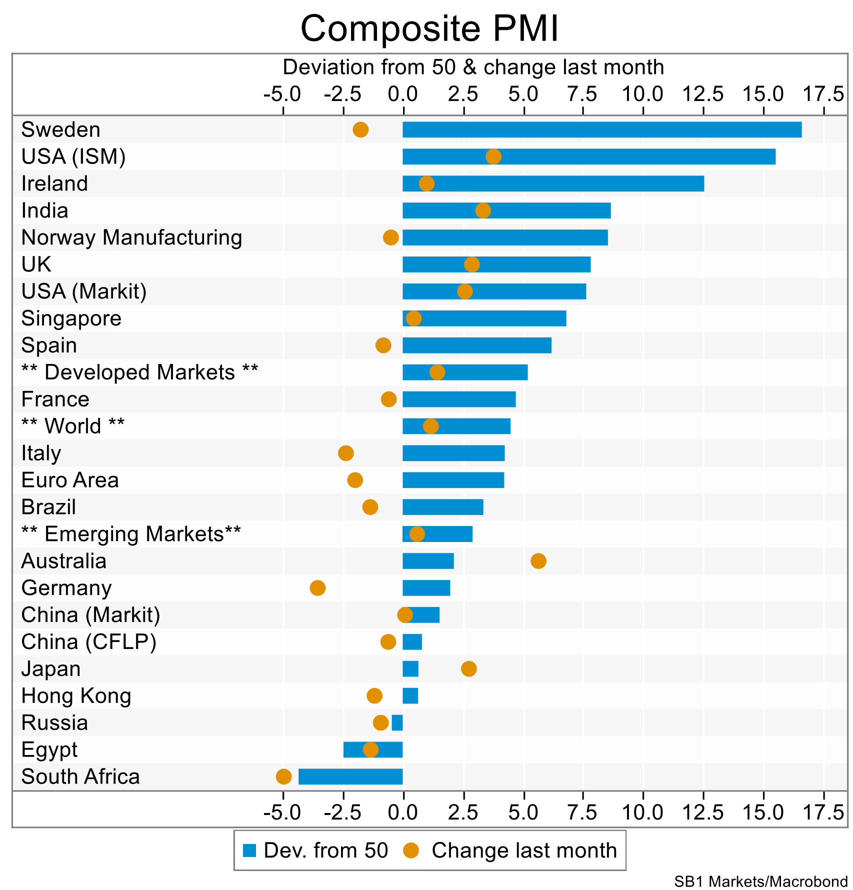


- The global PMIs were once more better than the preliminary PMIs signalled, and even 0.4 p above our forecast one week ago
- The global PMI signals global GDP growth clearly above trend, at a 4% pace – in line with our preliminary estimate of Q3 global growth
  - » Both manufacturing and services contributed to the lift, services the most

The EMU down but still an OK level, US sharply up and strong. China mixed

Just 3 countries report PMIs below 50 but still more countries down than up in October





- 11 countries/regions up in October (unch from Sept) Just 3 below the 50-line (from 8), 13 down
- Sweden still at the top, together with US ISM and Ireland. Then comes India (and Norwegian manufacturing)
- The Chinese PMIs flattened, close to 50 – still signalling growth not far below normal
- Other EMs mixed but in sum slightly up

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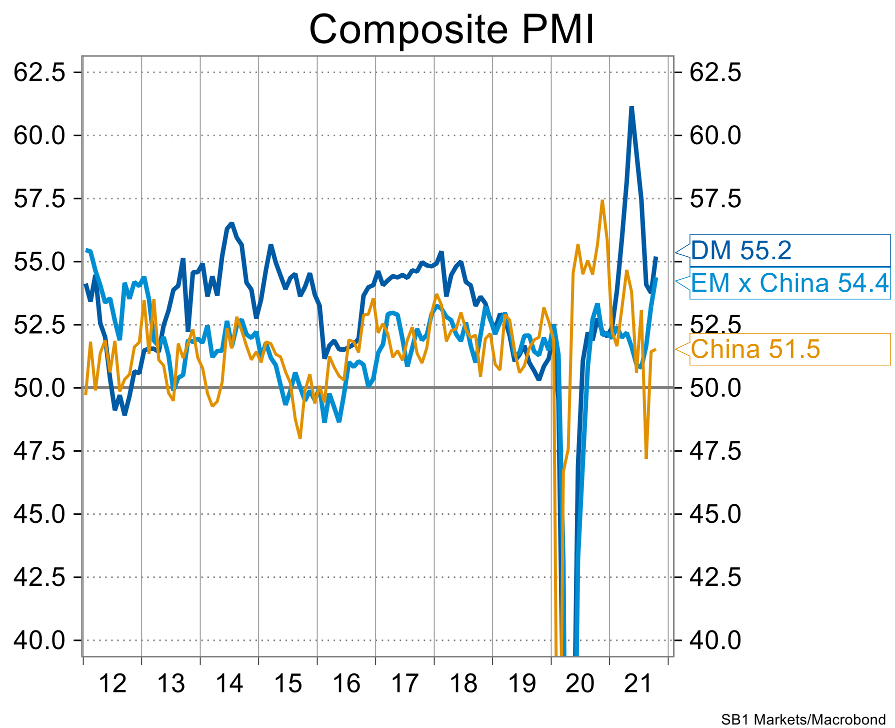
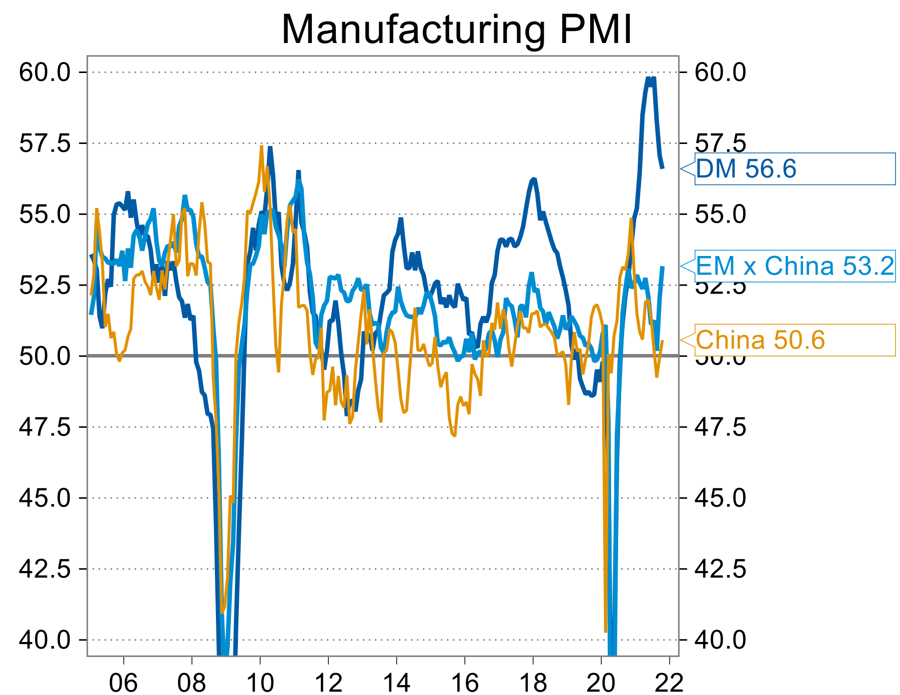
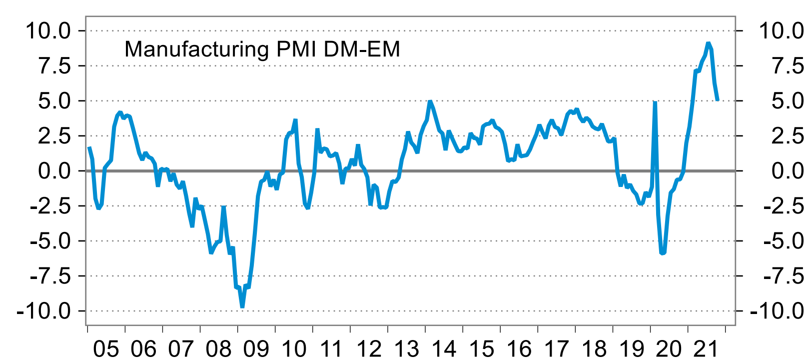
EM x China at the best level since early 2013, it is their turn now!

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

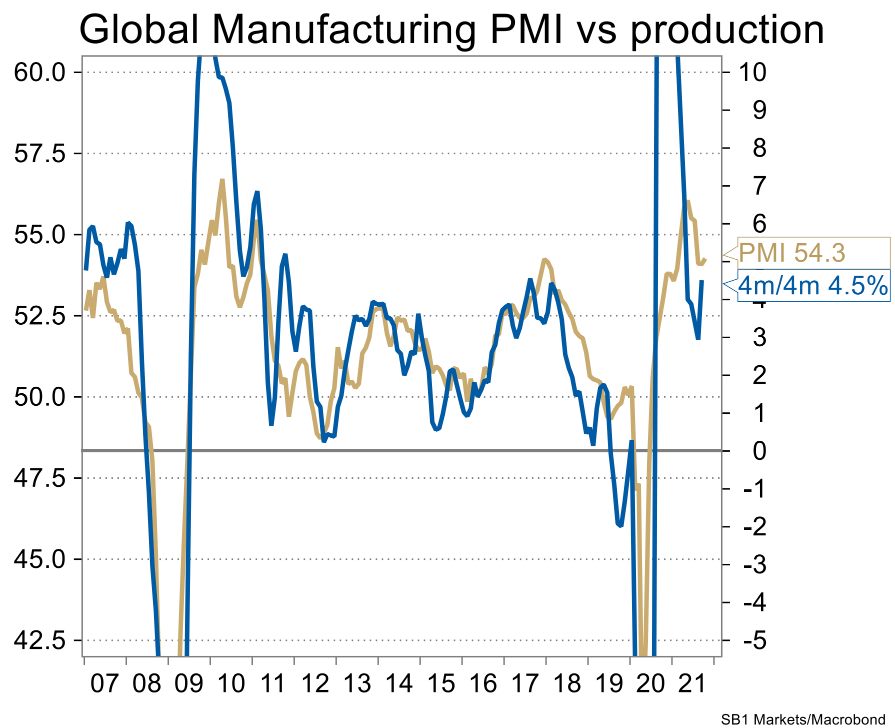


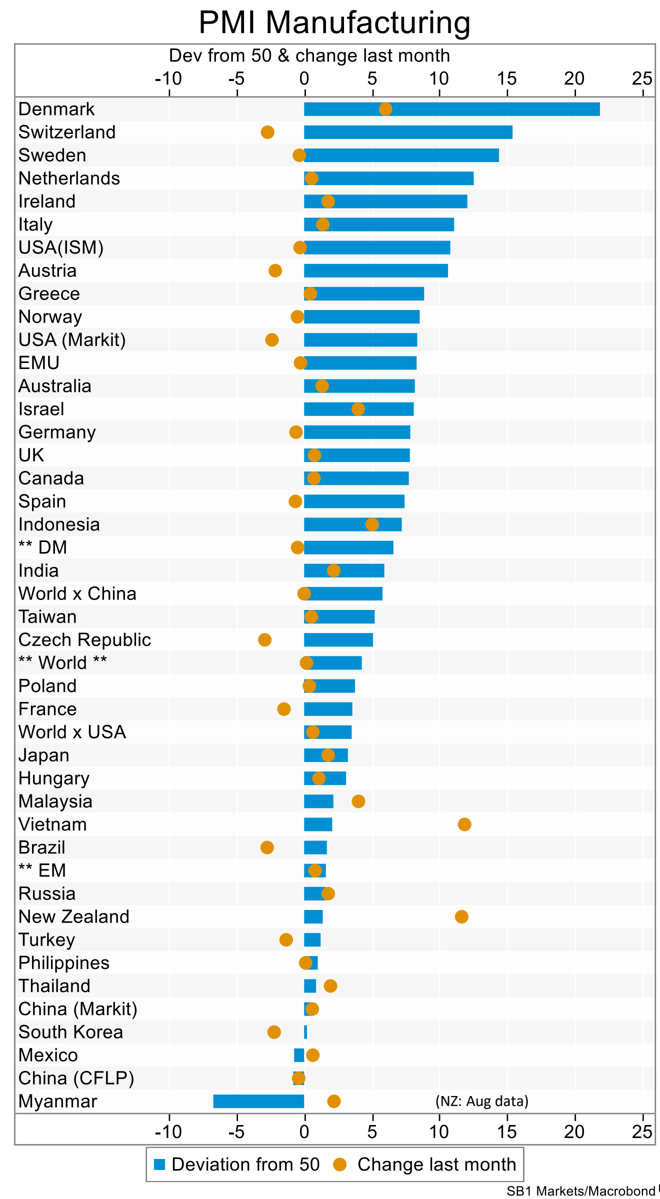




Manufacturing PMI slightly up in Oct, Emerging markets on the way back

Just 3 of 43 surveys below the 50 line

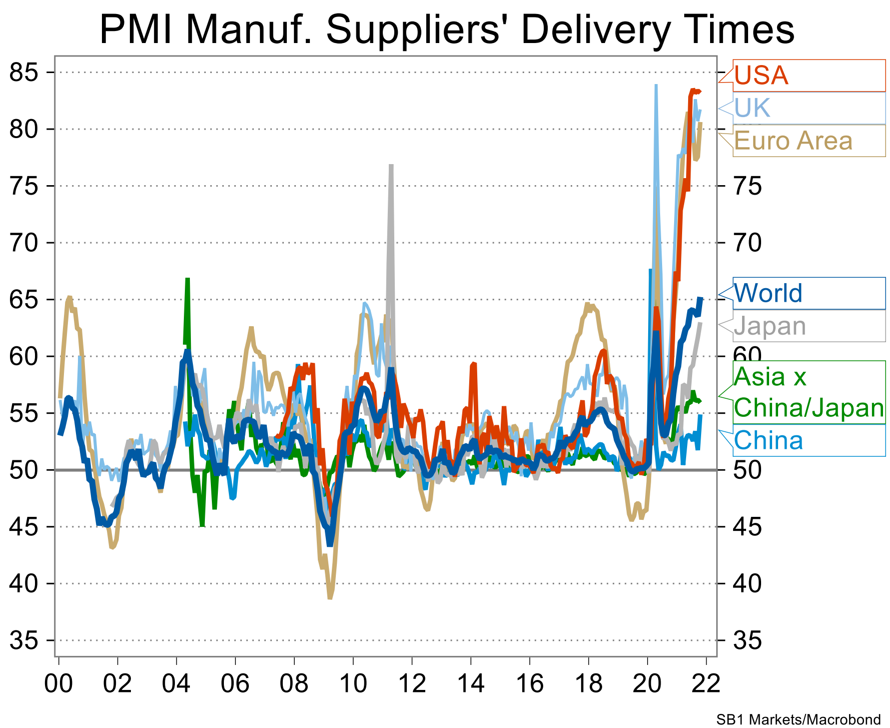


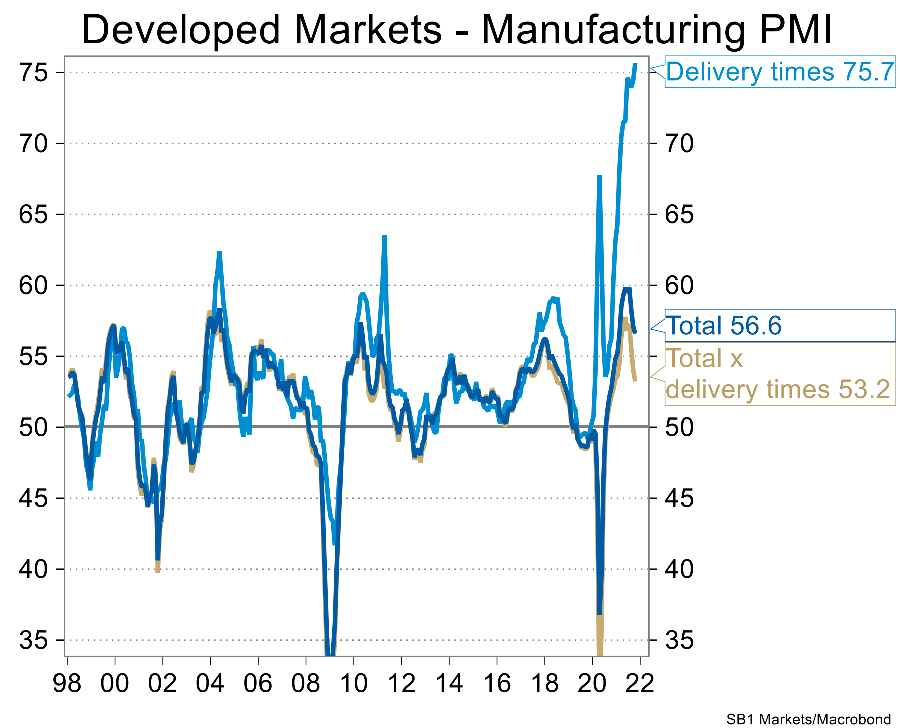


- The **global manufacturing PMI** flattened following a decline the prev. 3 m
  - » Over 60% of the countries/regions reported higher PMIs in Oct vs Sept
  - » European countries dominate the top of the list – but US PMI & ISM are up there too
  - » **India, Indonesia** are climbing further, the two at the top in the EM universe
  - » The **Chinese PMIs** were is sum close to unch., and both are close to 50
  - » **EMs** are still far weaker than DM but the gap narrowed further in Oct

Delivery times index further up in October – and lifts the total index by 2.4 p

The 'supply chain' shock does not signal strength in the manufacturing sector

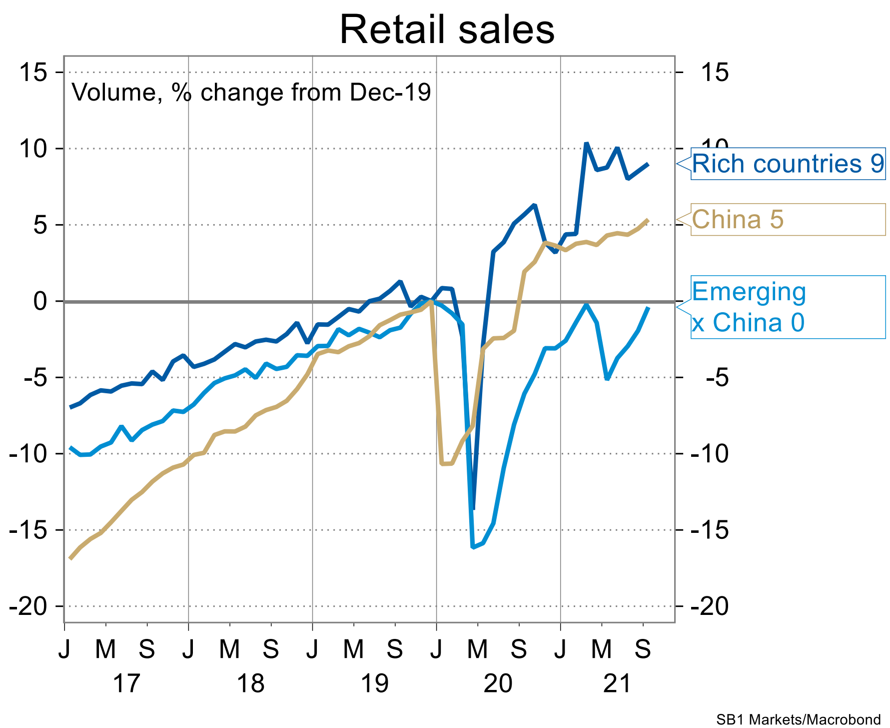


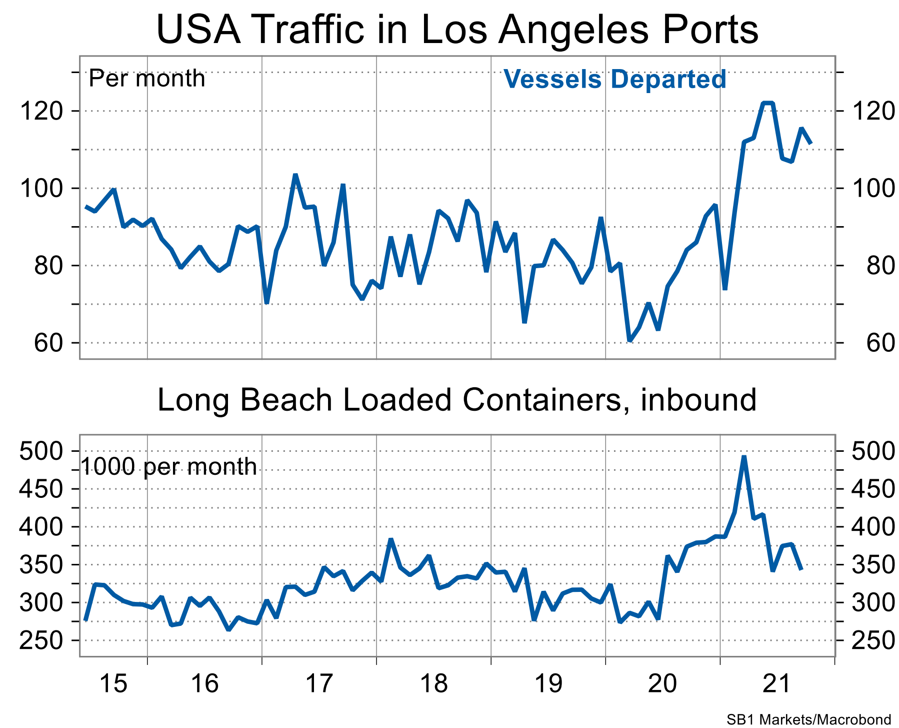


- The unprecedented increase in the delivery times index – which probably mostly is due to the unprecedented growth in demand for goods in the rich part of the world (where delivery times & prices have surged , the EM story is not the same) – has contributed to a substantial lift in the headline manufacturing PMI in Developed Markets
- The surge in delivery times are not a sign of strength in the manufacturing sector, even if no doubt is caused by strong demand. Usually, the delivery times index (15% of the total index) has moved in tandem with a the other activity indicators, and did not influence the total index - so we could use the total as a proxy for activity. Not so now

Delivery times/prices increasing a problem just in the rich part of the world?

Because demand is so strong in DM, not in EM? Why bottlenecks at some harbours?

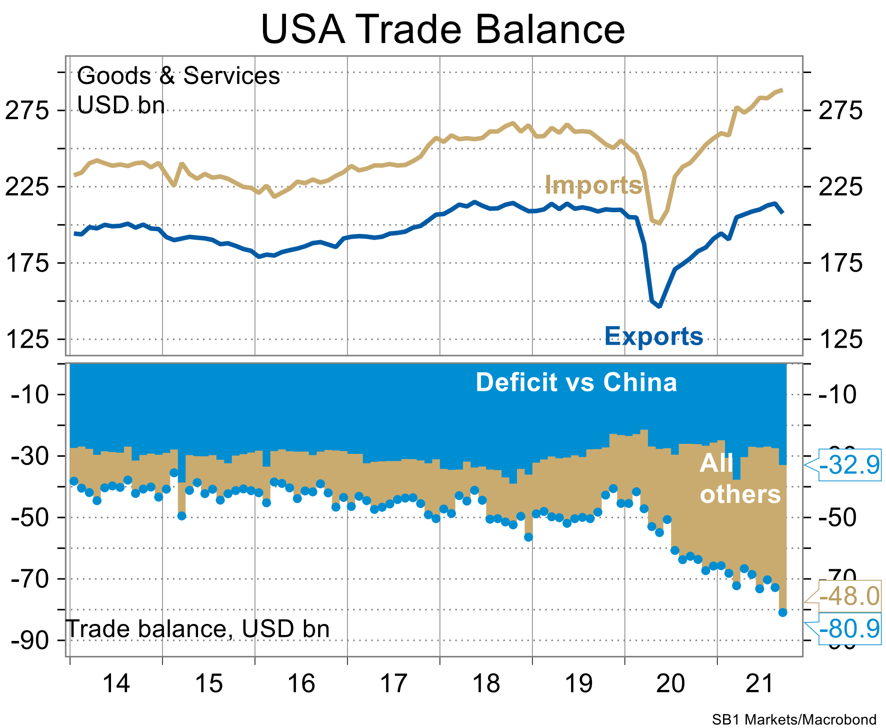


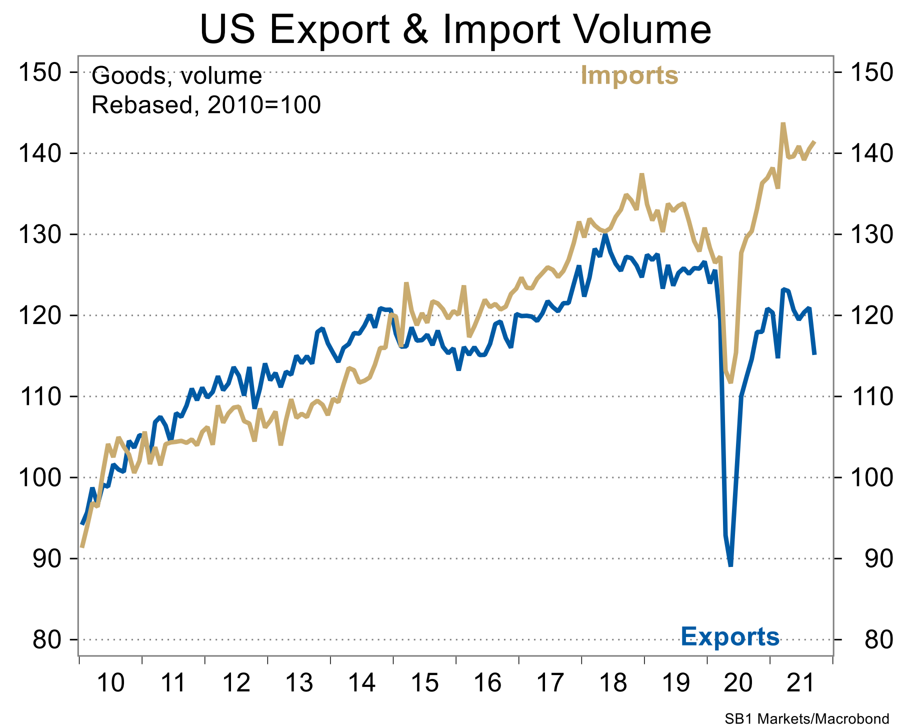


- Could it be that too many ships came to the same harbour at the same time – because demand for goods has been incredibly strong through the pandemic?
- Might the

An ATH trade deficit in September up to USD 81 bn, imports are really strong

… as demand for goods is still very high. Exports are weak, especially in volume terms



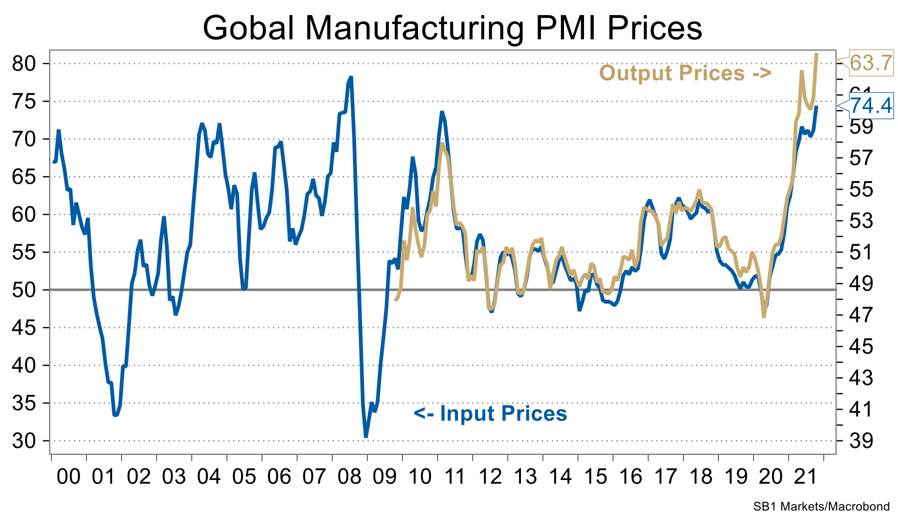


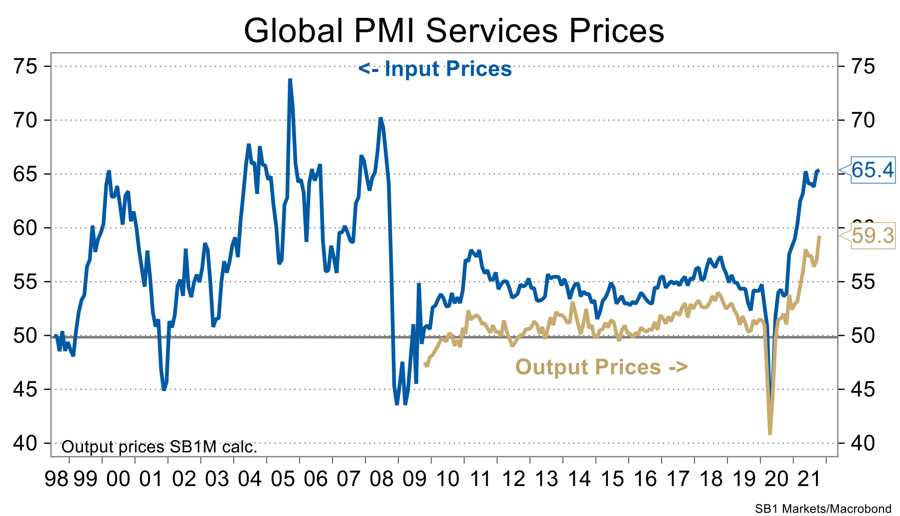
- **Exports** fell 3% m/m in Sept, and is close to unch since before the pandemic level (in value terms). In volume terms, exports of goods fell by 5%, and are down 7% from Feb 2020. We expect many of US' trading partners to increase their demand for US goods, and one day even for services (like travelling into US)
- **Imports** rose by 0.6% m/m, and is 15% above the Feb 2020 level. In volume terms, the imports of goods are 11% above! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **The trade deficit rose sharply in Sept to USD 81 bn**
- is trending upwards, also measured in per cent of GDP, now at 3.9%, up from less than 3% before corona
  - **The deficit vs China** is almost at the same level as when Trump became president in 2016. However, the total deficit vs. other countries has increased, also before corona

SpareBank 1 MARKETS

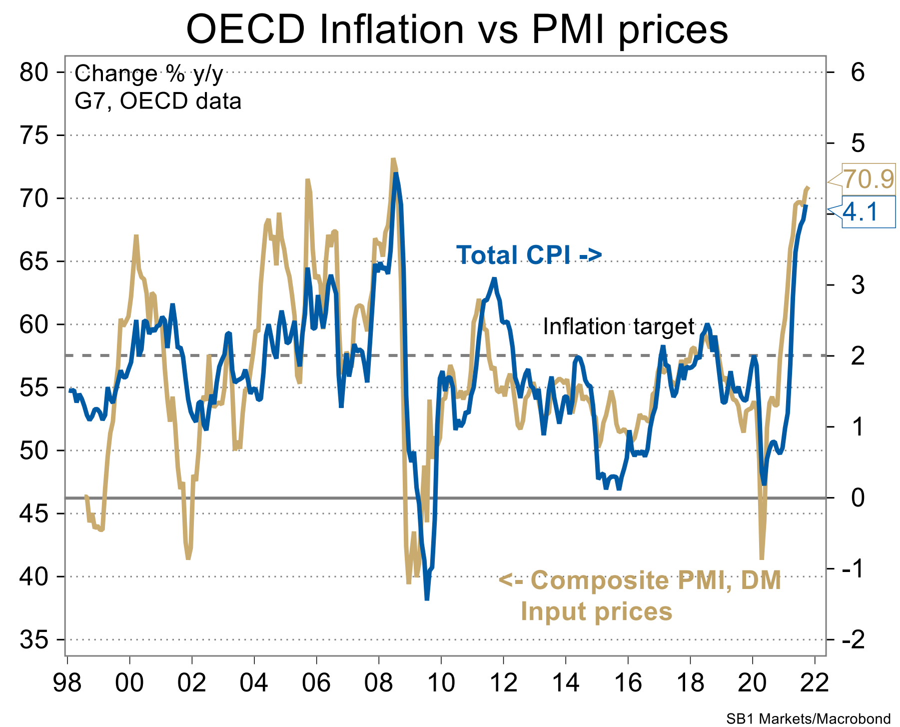
Businesses keep reporting a rapid growth in input/output prices

Still, we think the peak in price inflation is near





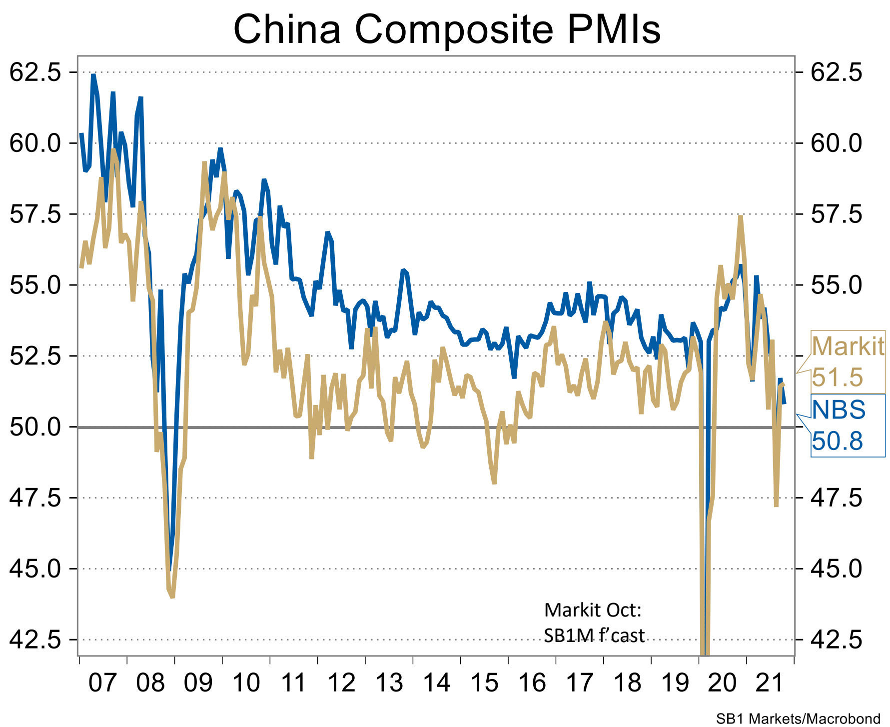
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

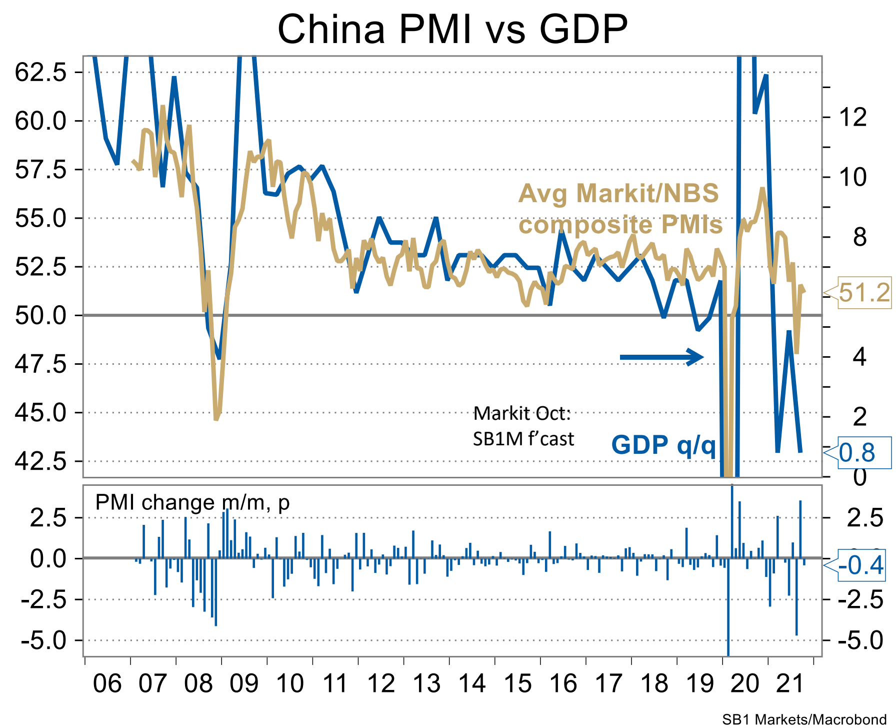


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices

October PMIs mixed, in sum marginally down

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





- 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 composite** rose by 0.1 p 51.5. The level is marginally <u>above</u> the average since 2012. The total manufacturing index rose but the output component fell. However, the service sector PMI rose marginally
- **In sum,** the two PMIs were unchanged and below par, signalling GDP growth below normal – but far better than over the 3 past quarters. However, the PMIs have been to optimistic so far in 2021, and growth may well remain below the level signalled by these surveys

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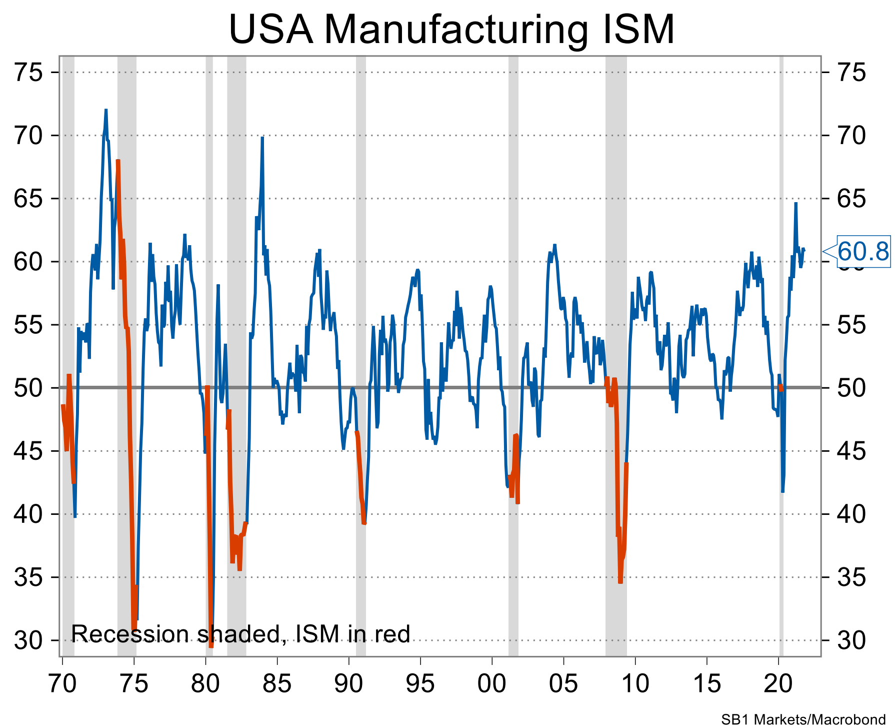
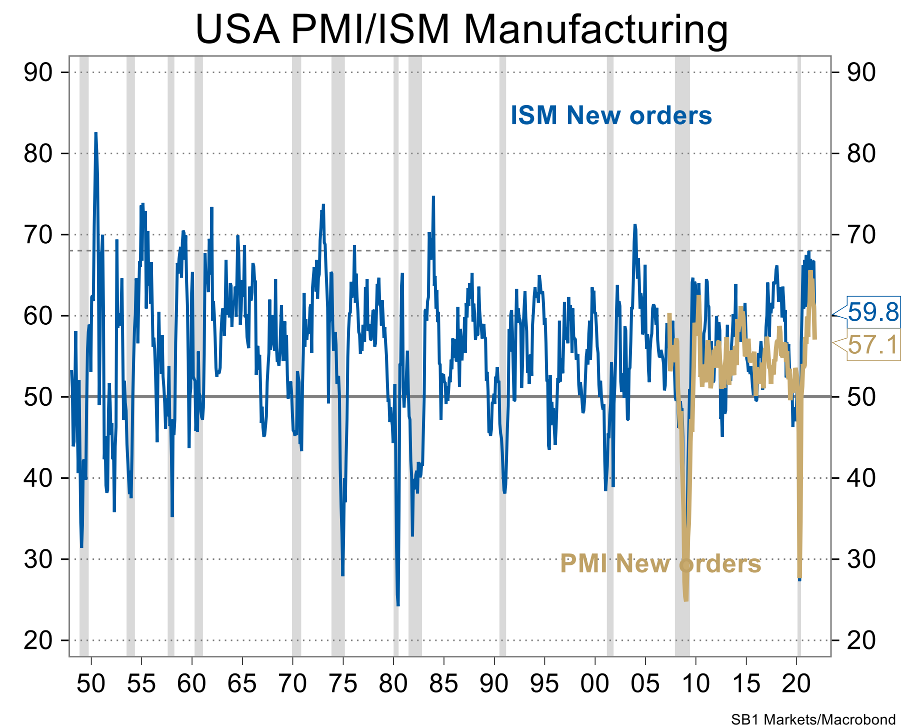
Manufacturing ISM marginally down in October, and still very strong!

The index was down 0.3 p to 60.8, 0.2 better than expected. Prices are still rising fast; orders slowed

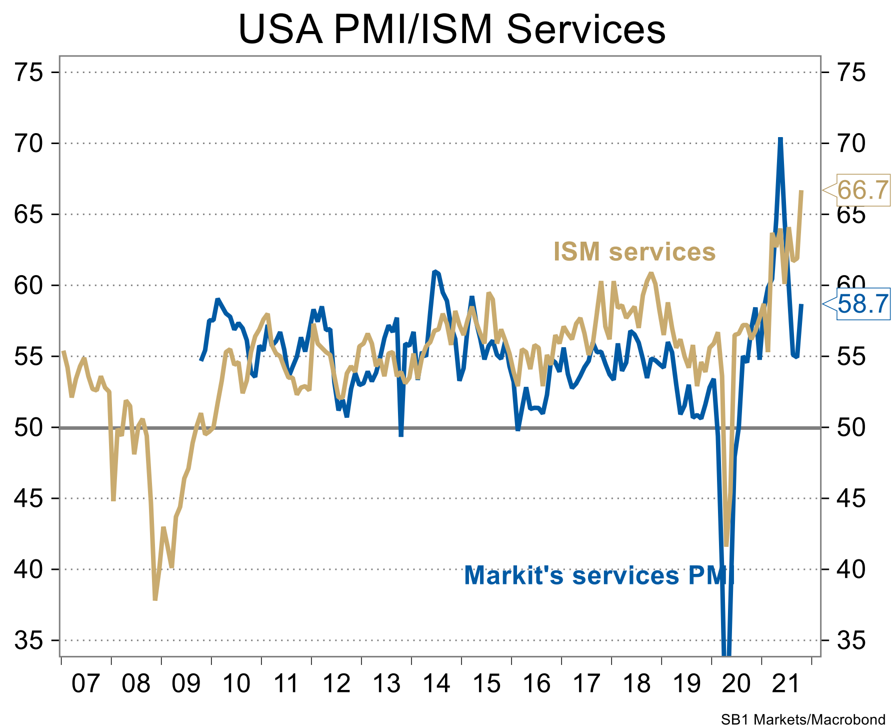


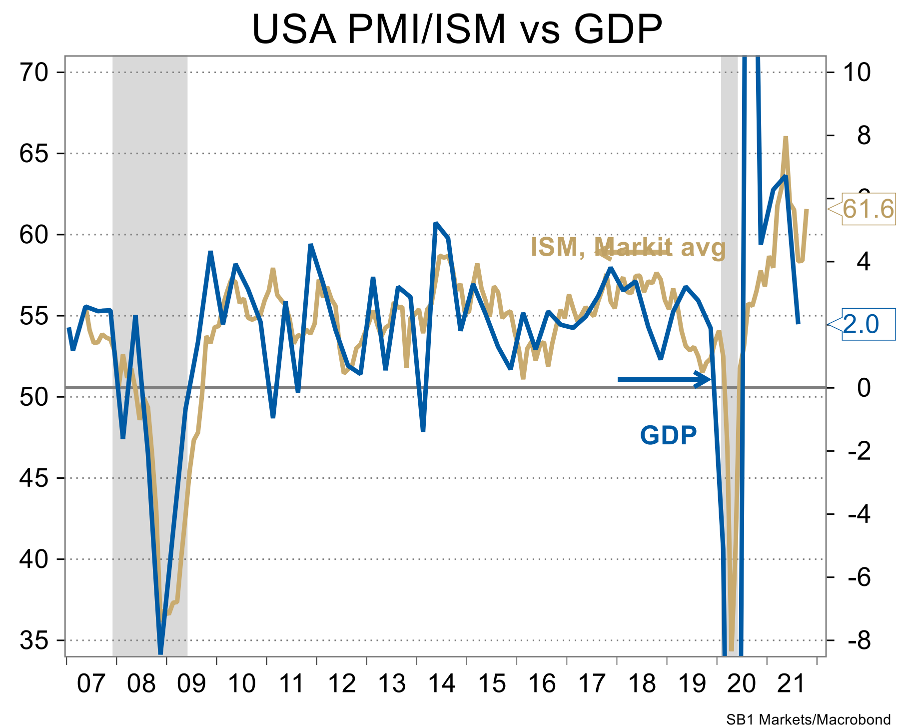


- The **ISM manufacturing** index fell slightly in October. However, the ISM has for months indicated – and still does - an unusual rapid growth in manufacturing production, <u>which so far has not been delivered</u>
  - » In October, 16 of 18 manufacturing sectors reported growth, down from 17, 2 down (wood products and non-metallic mineral products)
- The **new orders** index fell to 59.8, down 6.9 p from September
- 42 commodities (from 41) are up in **price**, only the price of wood was down
- Still, 'just' 26 commodities were reported in **short supply** but up from 24 in September (more than 50 were reported in short supply a few months ago). The supplier deliveries index anyway also rose in October, signalling longer delivery times
- **In their comments**, companies are complaining on <u>all sorts of shortages, including extreme labour shortages. Demand is still strong</u>

Services ISM shot up to ATH, by far!! The composite PMI signals 6% growth

Up 4.8 p to 66.7, expected unch! All 18 sectors reported growth. Delta is not any problem anymore

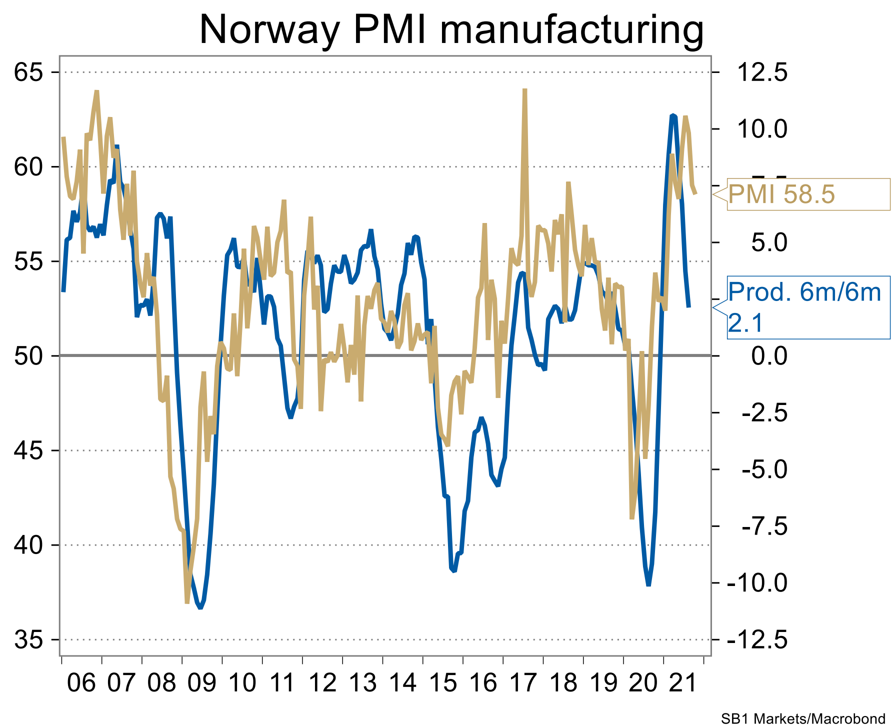


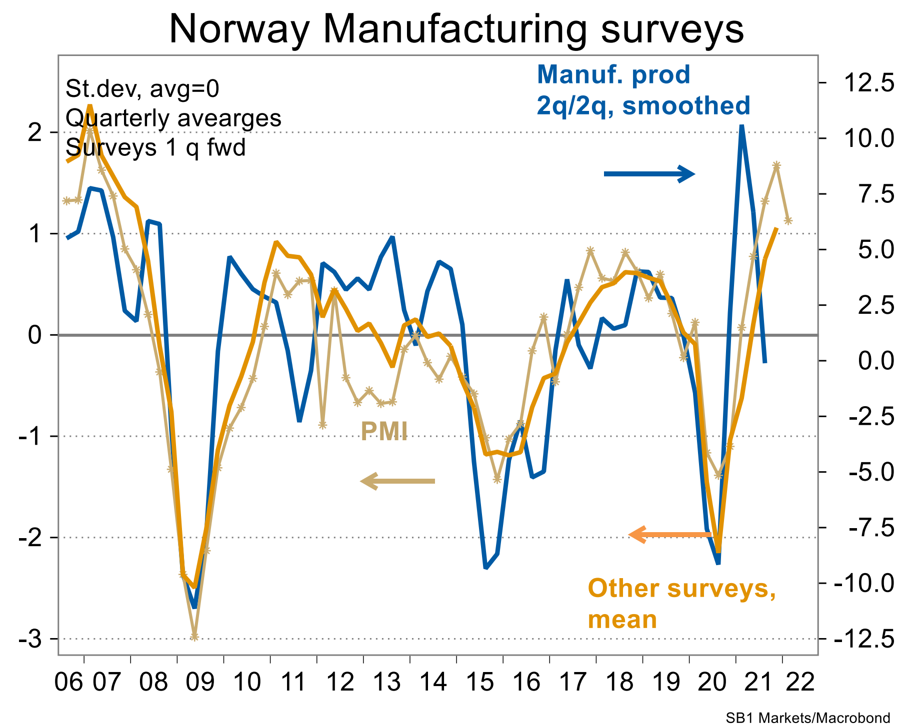


- … if it ever was. **ISM services** orders, delivery times, input prices are surging- and faster. Employment is growing but slower – and inventories are falling rapidly, according to ISM
- **Markit's service PMI** also rose sharply, and even more than first reported. The index is at 58.7, a more than decent level
- Together with their manufacturing indices, the **PMI/ISMs** signal some 6% Q3 GDP growth, well below the actual growth in Q2 (6.5%)
- **Prices indices** are soaring (check next page), for input prices as well as output prices (in Markit's PMI)

Norwegian manufacturing PMI a small tick down in October, level still high

The Norwegian PMI down 0.5 p to 58.5, we expected 58. Delivery times, prices straight up, here too

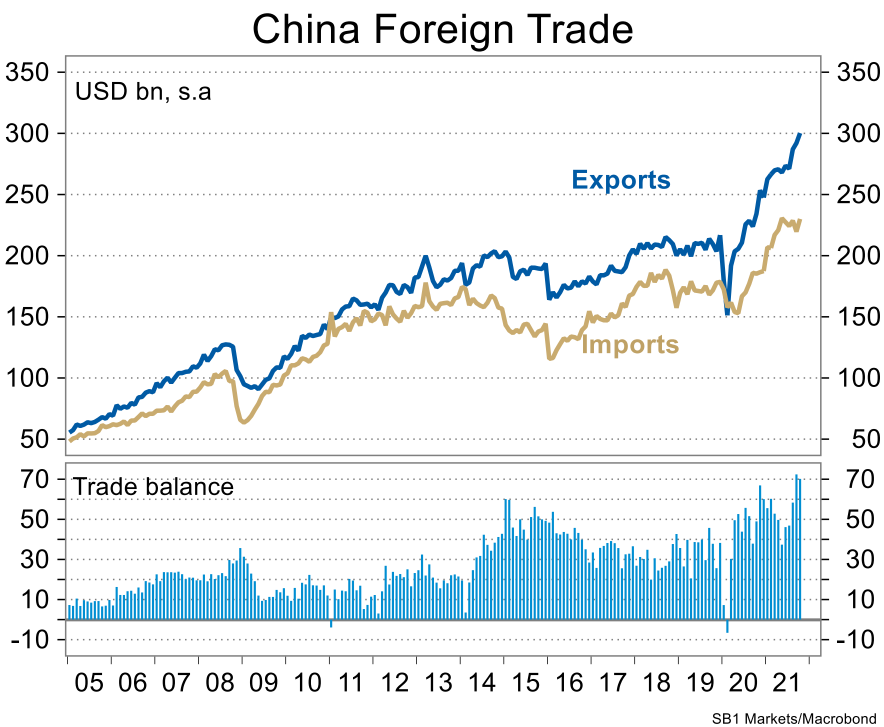




- The new orders index rose (both domestic & exports), while the employment index and the delivery times index fell
- Businesses here, as many other places, are reporting of bottlenecks and increased input prices (check next page). We doubt the record high delivery time index signal strength in the manufacturing sector, and an index excl. this component is more relevant now (like in other countries, check next page)
- Other **surveys** have turned up lately to above-average levels
- Even if surveys have been reporting growth, **actual production** has fallen slightly since April

Both exports & imports up in Oct, exports are record high. An ATH trade surplus

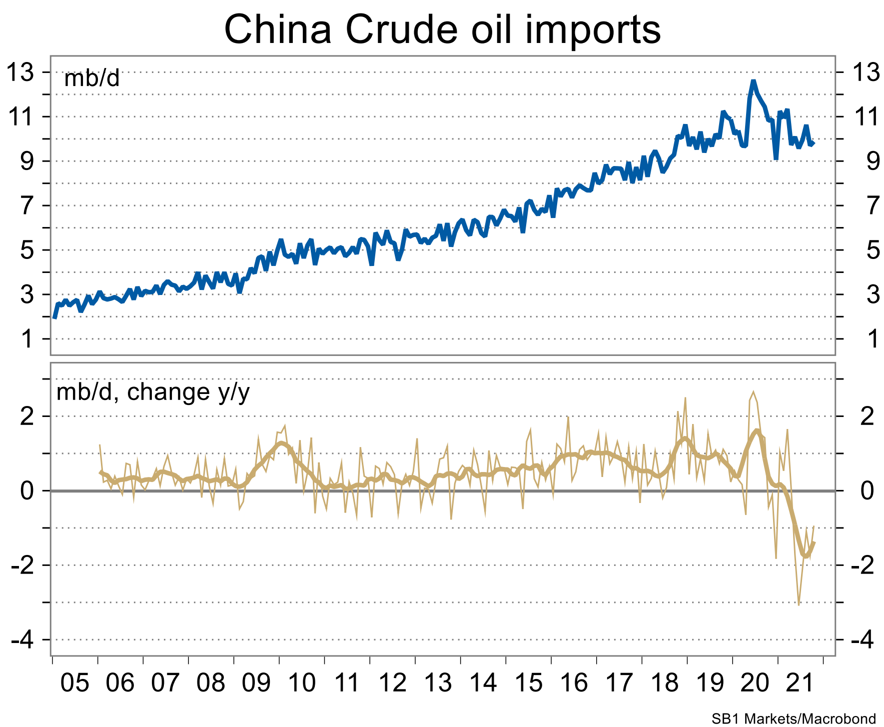
Exports 4% higher than expected, imports 2% lower – and import volumes are not impressive!

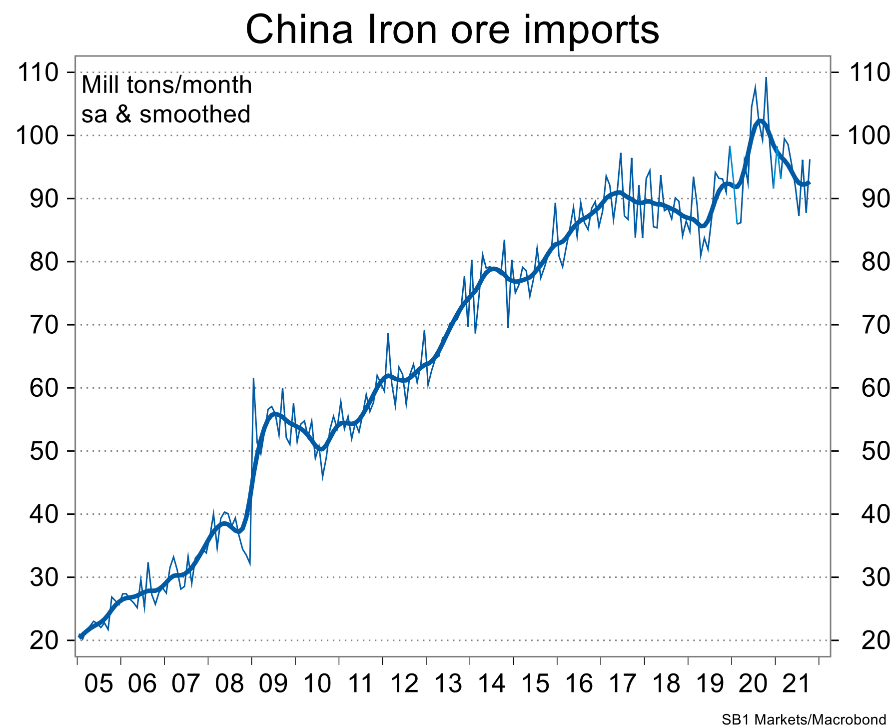


- **Exports** grew by 3% in USD terms in Oct (our seas adj), and are up 27% y/y, from 28% in Sept, expected down to 22%. Export volumes very likely rose too and the level is high, up 20% vs the pre-pandemic level and 13% above the p-p trend path! Signals still strong global demand for goods. Prices are up 15% y/y
- **Imports** values added 5% m/m and are up but are up 21% y/y, up from 18% in Sept, expected up 26% (an optimistic estimate). Recent months import values have flattened, and as prices have climbed, import volumes are down some 8% since the spring. Import volumes are now below the pre-pandemic trend. Prices are up 25% y/y. Oil and iron ore import volumes were still weak in Oct, while coal imports remained high following the surge in Aug
- The **trade surplus** was the highest ever in Oct, at USD 84 bn, expected 'just' 64 bn! However, seas. adj, the surplus fell slightly to USD 70, from ATH in Sept
- For some time we have expected an export slowdown in H2 due to lower demand for goods in the rich part of the world – but we are still wrong! The decline in imports confirms a softening of domestic demand, both retail sales and investments. So far, the slowdown is modest, in imports too, and within the 'normal ups and downs in activity

Oil imports flat since mid 2018, are down almost 20% (2 mb/d) since H1-20

Iron imports have stabilised recent months

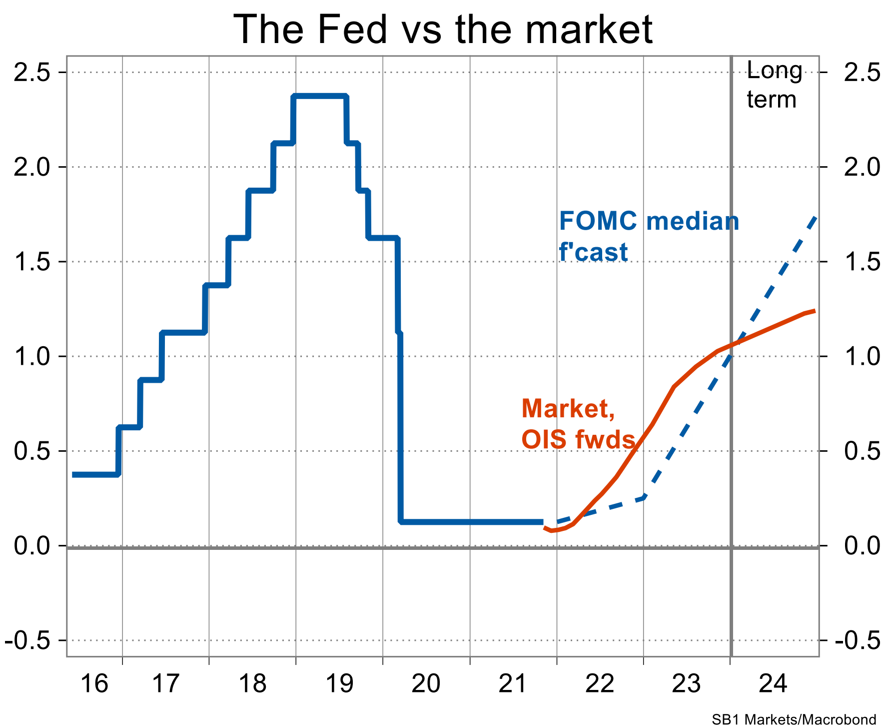




- 3 years without growth in oil import or domestic demand is rather surprising?
- Some inventory/reserve building/drawdowns may explain short term deviations

Fed starts tapering now, will come down to zero in June

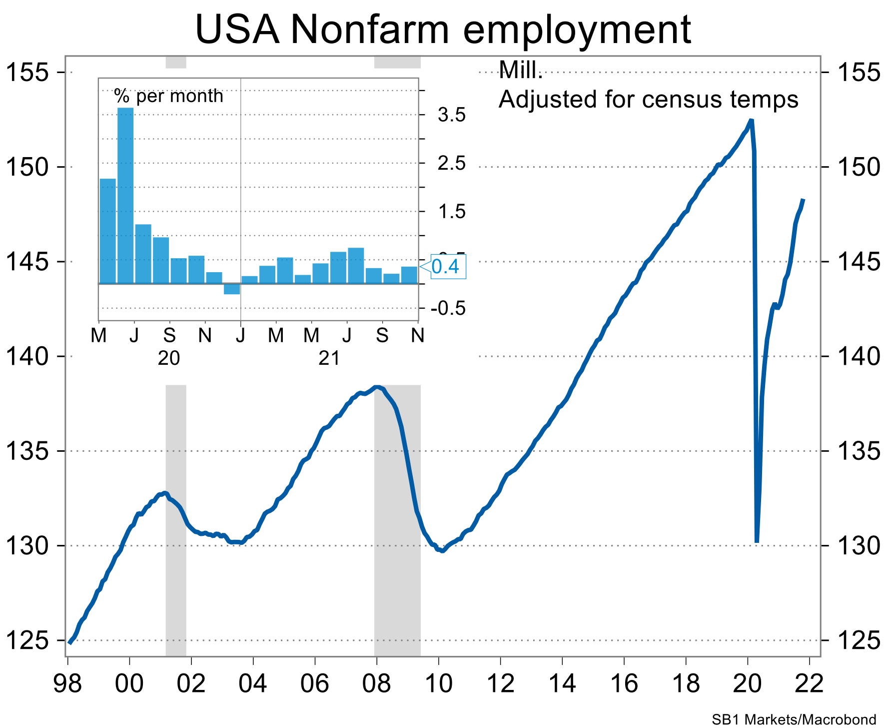
… but Powell still assume than employment is well below a maximum level, no rate hike anytime soon

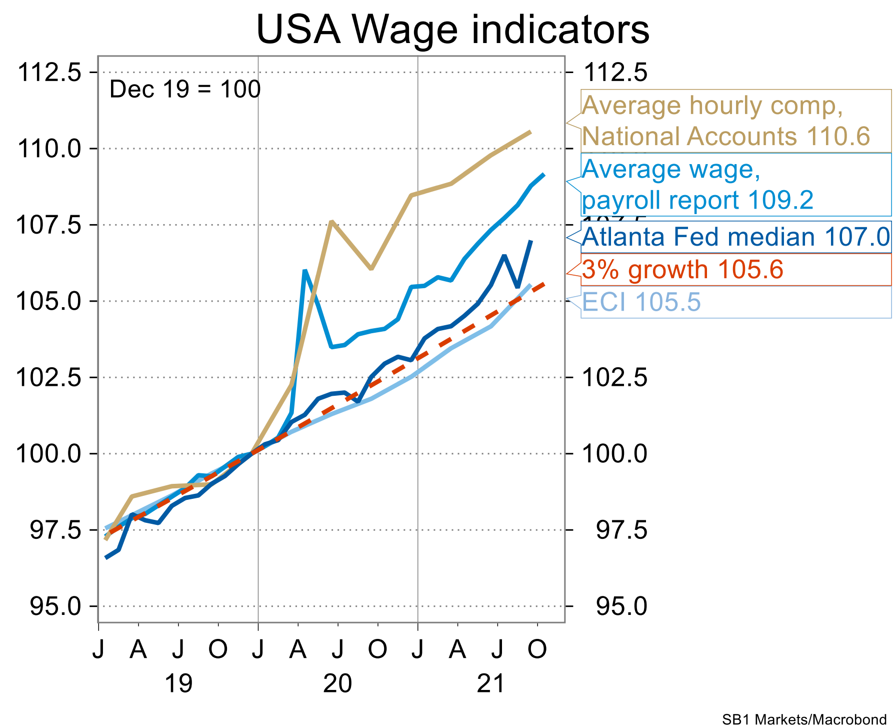


- The FOMC left the **target rate** unchanged at 0-0.25%, as everybody expected.
- The Federal Reserve will immediately **reduce its monthly QE program** by USD 15 bn, government bonds to USD 70 bn from 80 bn, and mortgage bonds to 35 bn from 40 bn. In December, the amount will be reduced by another 10 + 5 bn – and the last purchase will take place in June, if the tapering continues at the same pace
  - » The argument for starting tapering is that sufficient progress is made towards Fed's targets
- However, the FOMC is not planning to hike the signal rate anytime soon, at least according to chair Powell – as the maximum employment and 2% over time inflation targets are not met. Given actual inflation data – and the FOMCs Sept inflation forecast, it is the employment target which is not yet met. The FOMC even modified its 'transitory' inflation outlook, by stating that the elevated inflation is expected to be transitory
- At the press conference Powell stressed the need for getting employment back up to the pre-pandemic level, and several times stated that the Covid situation is responsible for the lack of supply and the increased mismatch at the labour market. The pandemic has also created havoc in the supply chains. On the other hand, he promised vigilance should inflation become a lasting challenge
- **Market reactions:** Yields rose some few bps at Wednesday – but fell sharply Thursday and Friday as the yield sentiment turned sharply down following Bank of England's no-hike decision

Solid gain in employment but no growth in the participation rate

Virus relief in October but the real story is the lack of supply – and wage growth

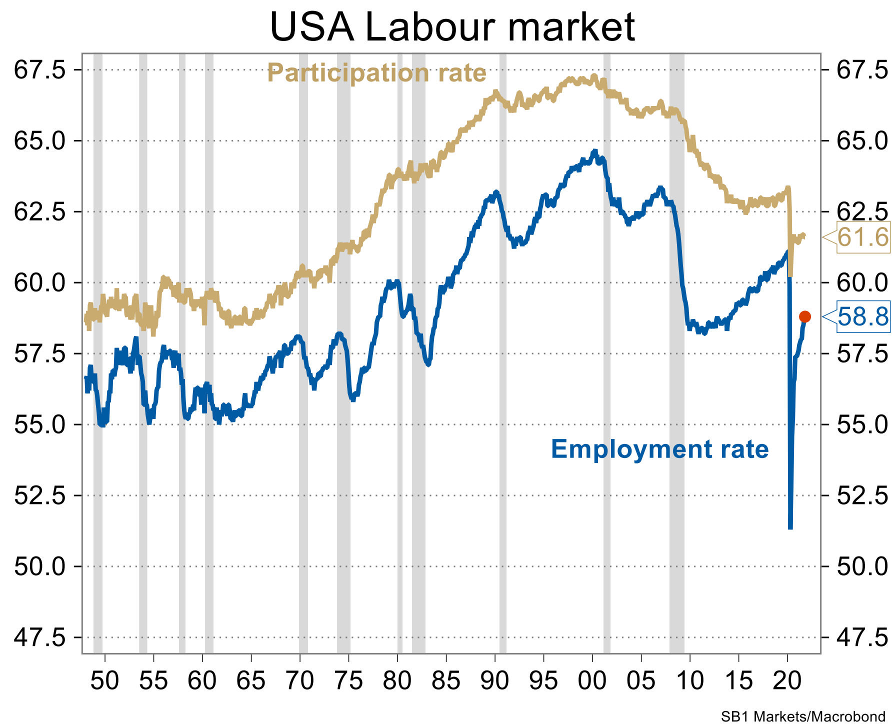


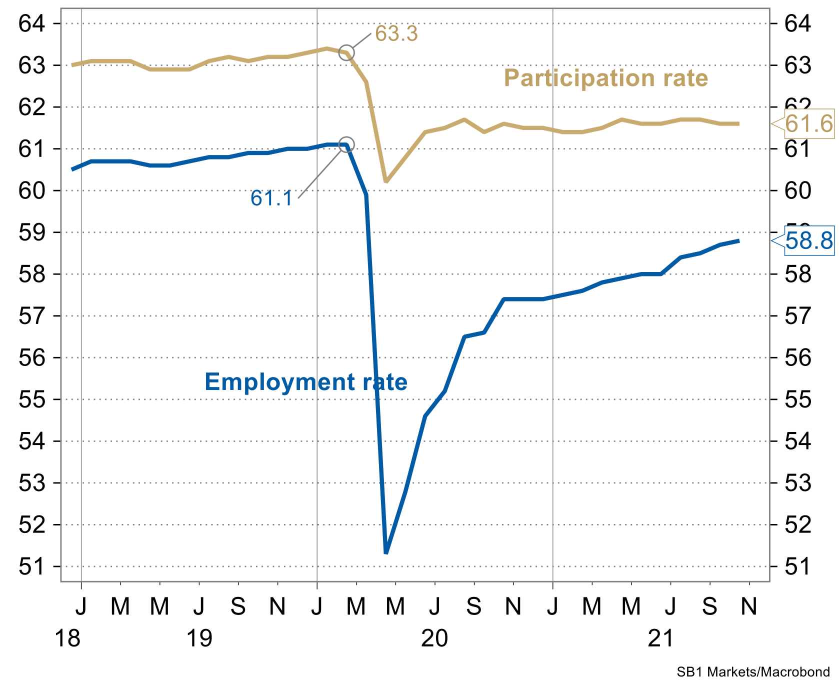


- **Employment** rose by 531’ in October, more than expected (400 – 450’) – though real expectations were lifted after the even better ADP report. Private sector +604’. The history was revised up totally 235’. Employment is still down 4.2 mill (-2.8%) vs. the pre-pandemic level. The employment rate is down 3.9%, implying 6.2 mill lost jobs
  - » The lift in employment was broad, with leisure/hospitality in the lead - but this sector is still down 8.2% vs. the pre-pandemic level. Education is still lagging, down 70’ – and down 5% vs. Feb-20
- **The participation rate was flat at 61.6%** ,expected one tick up – and the trend is still flat, even if demand for labour is strong. The unemployment rate fell 0.2 p to 4.6%, expected 4.7%. The unemployment rate has fallen faster the past 4 months than ever before (barring last summer). Underemployment is falling too, and is low
- **Average wages** rose by 0.4%, as expected, and wages are up 4.9% y/y. All sectors are reporting higher wage inflation – and all wage indicators now tell the same story
- **The lack of supply** – the flattish participation rate – is still the huge mystery, and threat. 4.4 mill workers are missing. Without an increase in the participation rate, US is running out of available workers – which the SMBs were still reporting in October. It became marginally less difficult to fill position – but still extremely difficult. The Fed can still claim that the maximum employment target is not yet met – but may the bank be forced to adjust its position not before too long?

The participation rate flat in October – at a very low level

Why are not more workers returning to the labour market when demand is so strong?

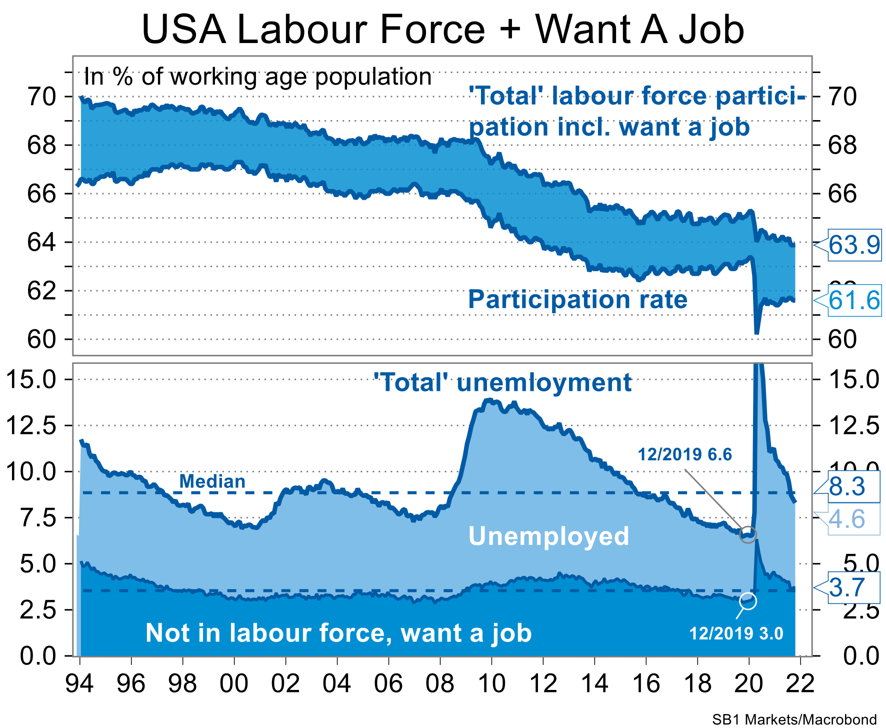


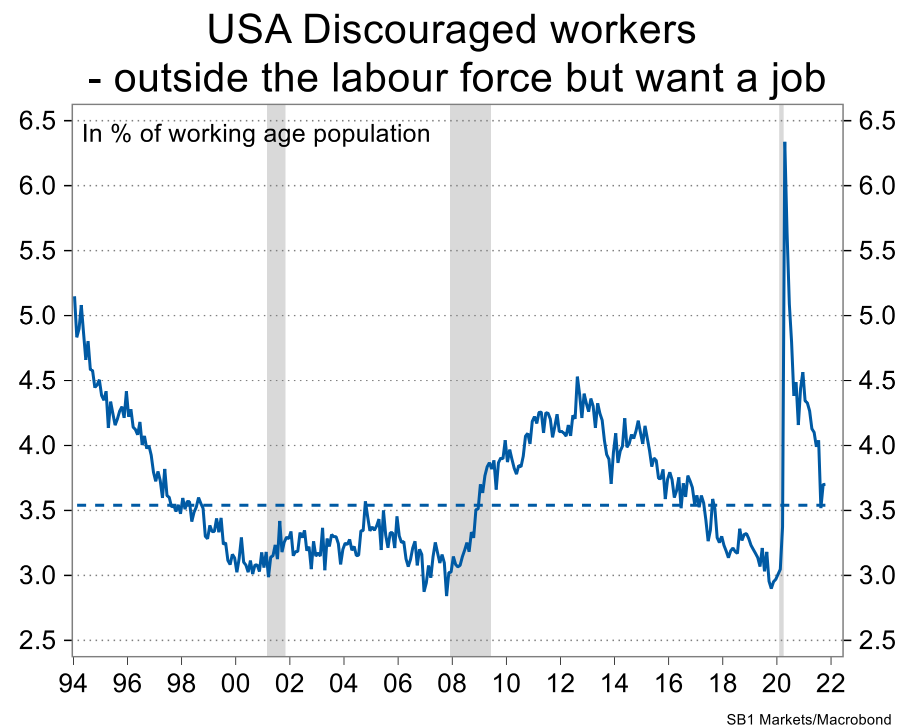


- The labour force participation rate is down 1.7 pp (vs the working age population) vs the pre pandemic level, equalling 4.5 mill persons
- In October 1.3 mill. persons (down from 1.6 mill in Sept and 2 mill in August) responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, and not because their job was closed down). These 1.3 mill persons equal 0.8% of the labour force, and represents a labour market reserve. However, there are not more workers outside the labour force than want a job than normal (see some pages further out)
  - » However, it is still unclear if all these workers will enter the labour force when the corona explanation is not relevant anymore, as 2/3 of them say that they do not want a job. Thus, the real reserve may be less than 0.5 mill

Not that many outside the labour force that say they want a job

In fact, this ‘reserve’ is at close to an average level – but higher than before the pandemic

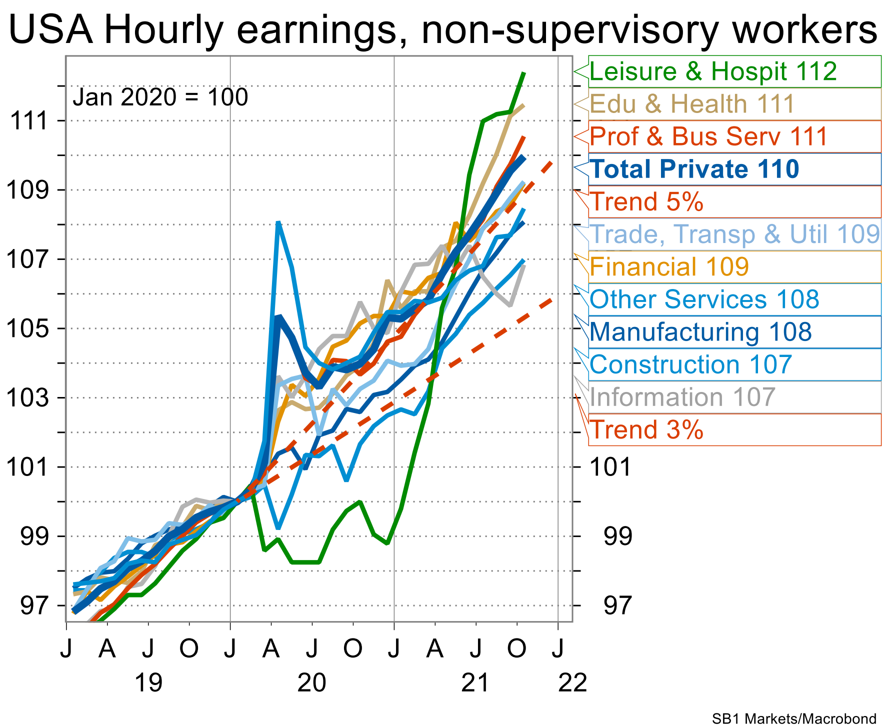


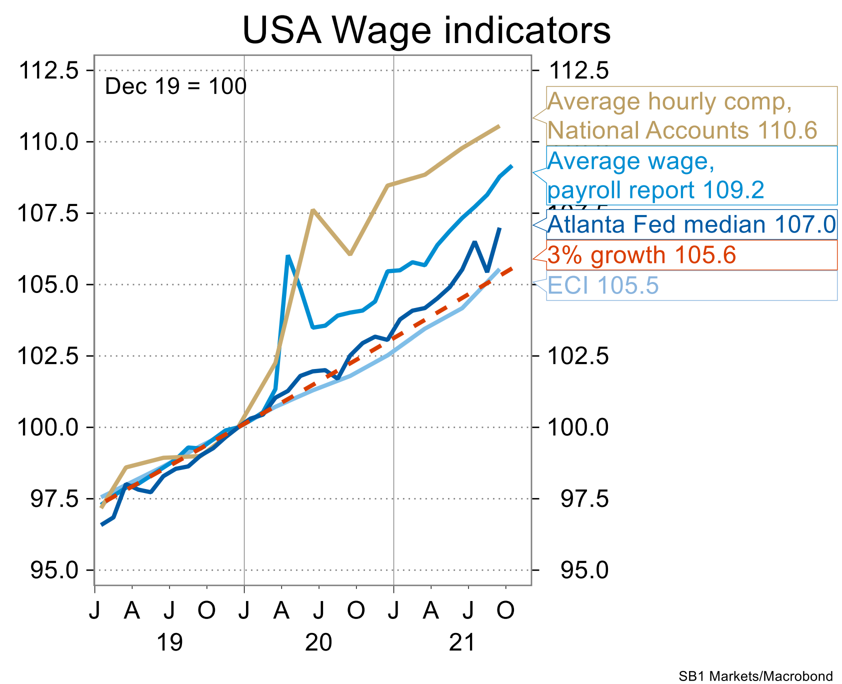


- Covid related outsiders are included in these discouraged workers data

Wages are up 7% – 12% vs the pre-pandemic level (a 3 – 7% growth pace, avg 6%)

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



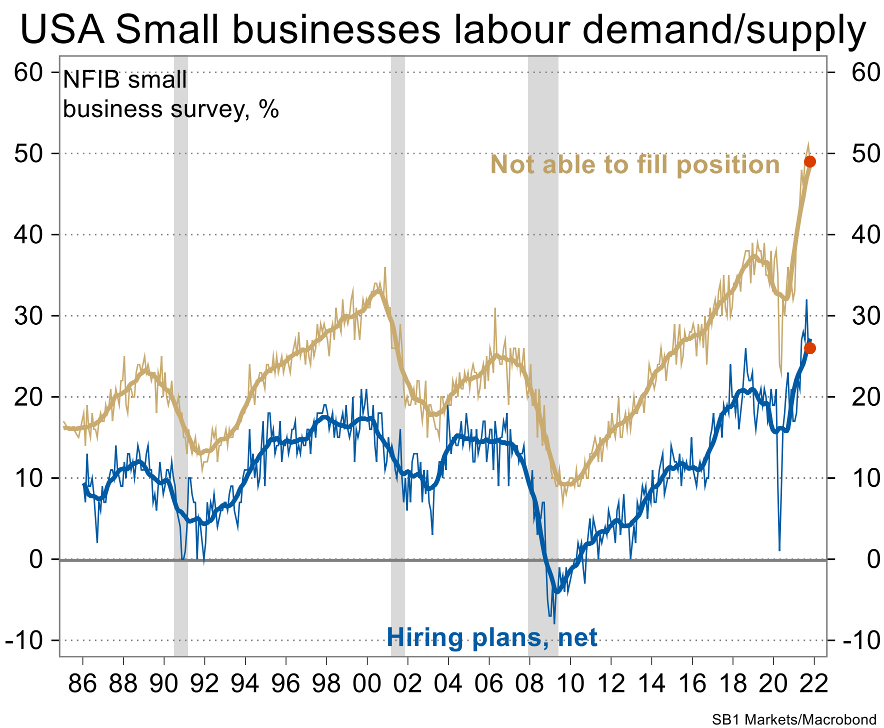


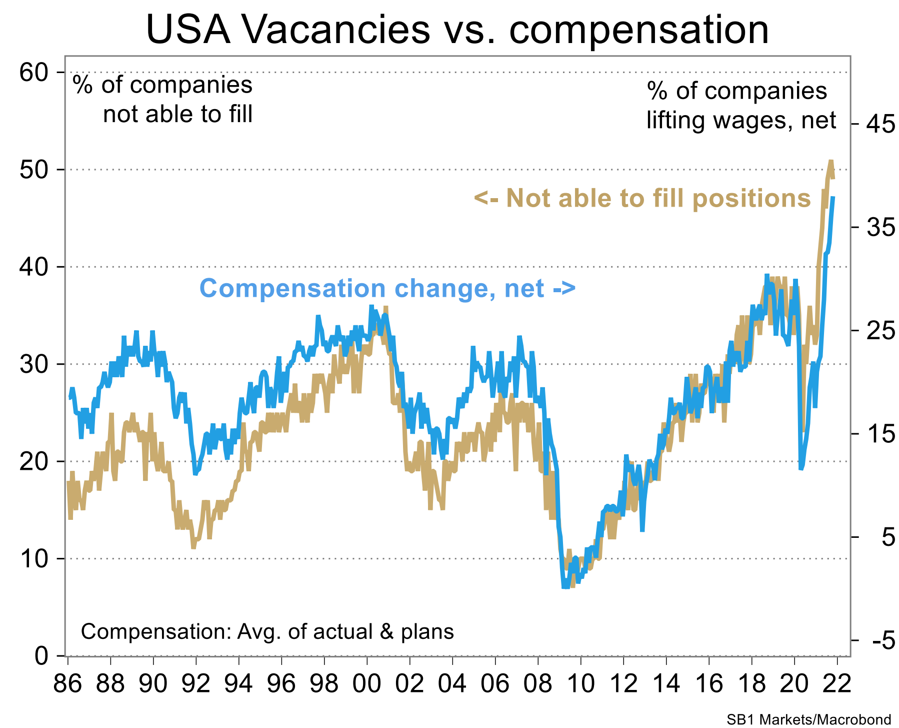
- The two wage indicators that takes into account the impact of changes in the employment mix, the Employment Cost Index and Atlanta Feds Median wage index have joined band, wages are now clearly accelerating
- The next two pages, our 'standard' charts on wage inflation vs. vacancies

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

A tad fewer SMBs reported they were not able to fill open positions in Oct…

But the share is close to ATH, and even more company reported plans to increase compensation



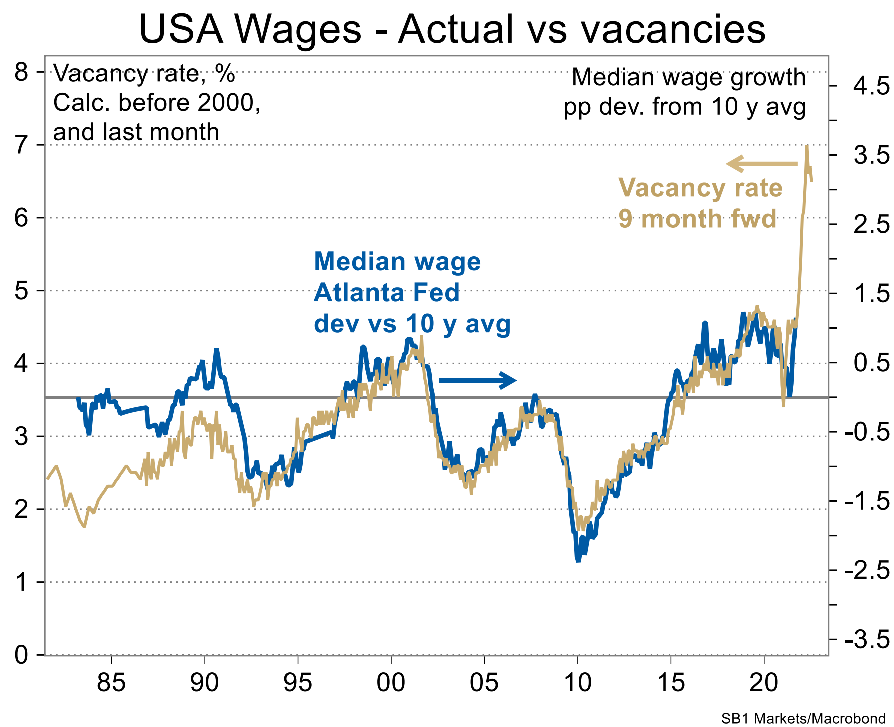


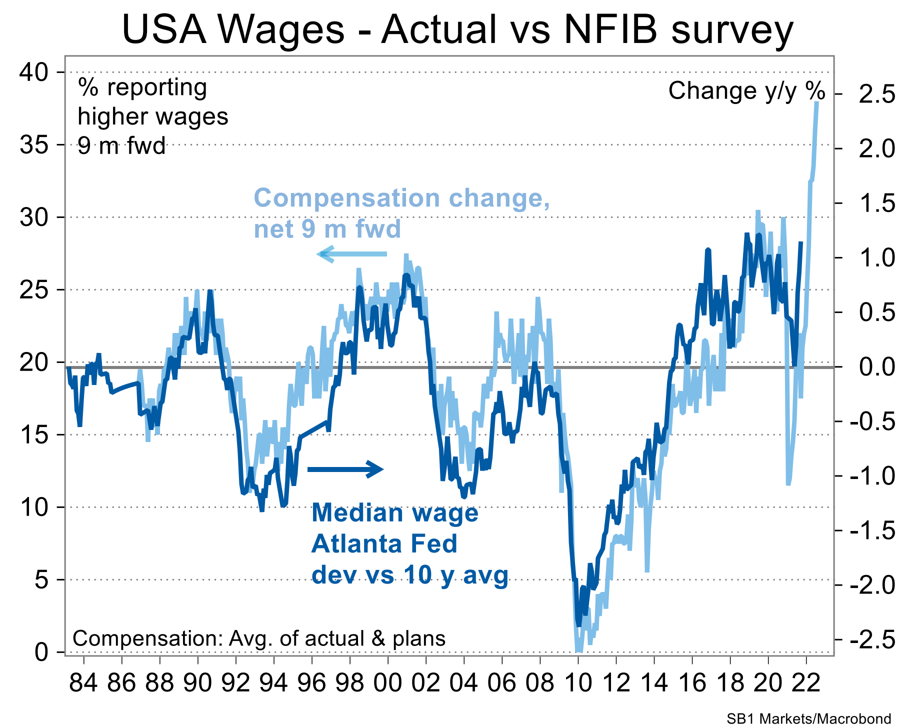
- **SMB's hiring plans** are still close to record high too, and unchanged to October from September
- As a consequence, companies reported the most aggressive **wage increase plans** ever in October (data from 1986)
  - » The share of companies that reported plans to lift compensation rose to 38% from 36%. Until 2021, the max level was 30%, and the average level is below 20%
  - » The correlation to actual wage growth is pretty close, check the next page

SpareBank 1 MARKETS

A tight labour market may well lead to substantially higher wage inflation

The correlation to changes in Atlanta Fed median wage index is very close

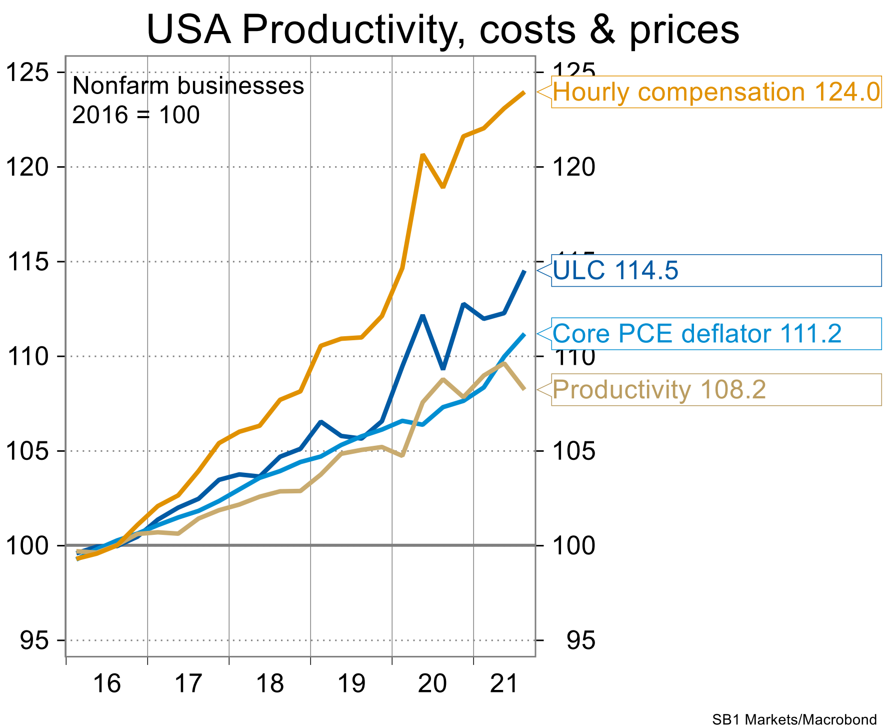


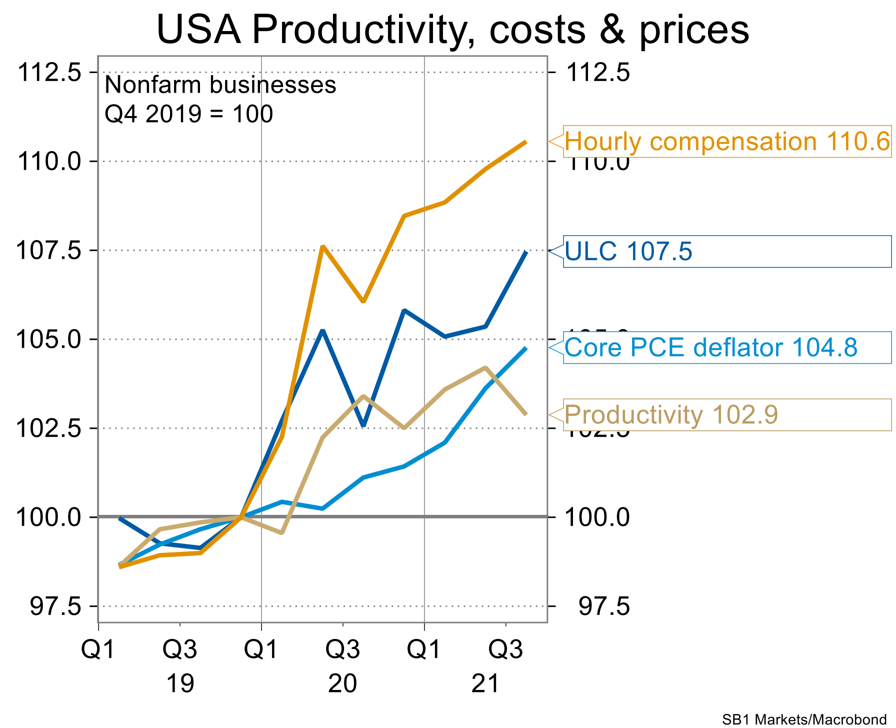


- More companies than ever before (data from 1986 though) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled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

Volatile data but cost inflation is probably accelerating

Hourly compensation has accelerated far more than productivity, unit cost inflation has increased

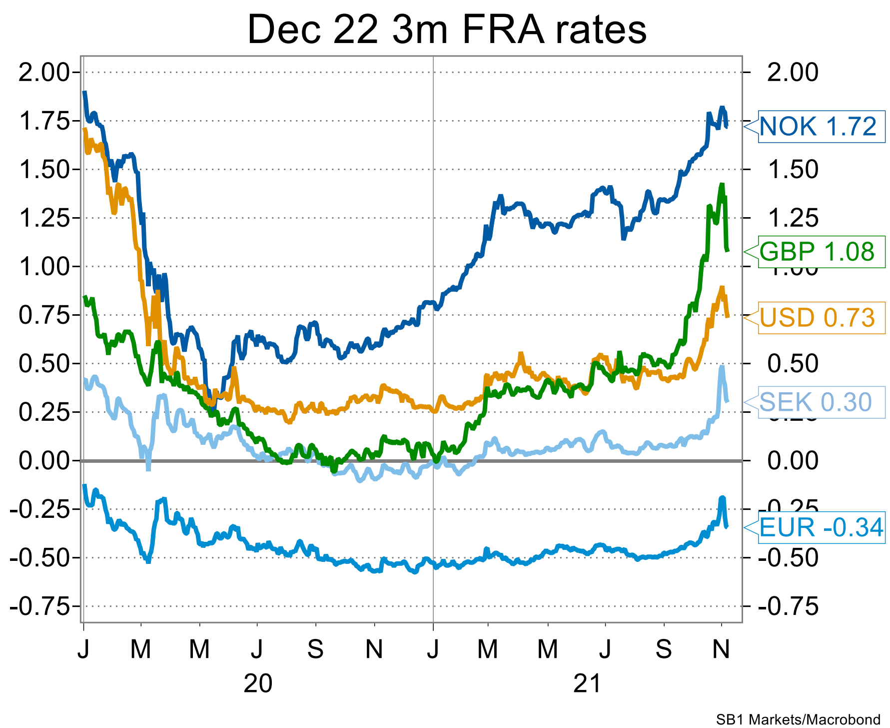




- **Productivity** fell by 5% q/q annualised in Q3, and is down 0.5% y/y. However, the underlying trend may be still be 1.5% (but 'formally' by 1.9% since Q4-19)
- **Hourly compensation** rose by 2.9% in Q3, and are up 4.3% y/y. However from Q4-19, compensation is up at a 5.9% pace, well above growth in productivity. If this growth due to changes in employment mix, productivity should have accelerated at the same pace, as low paid/low productivity jobs were cut
- **Unit labour costs** climbed at a 8.3% pace in Q3, and costs are up 4.8% y/y. Since Q4-19, ULC has increasing at a 4.2% pace, far above the pre-corona trend growth
- Over time, **price inflation** is close to equal to growth in labour costs. <u>The current pace of cost inflation is not consistent with 2% inflation over time</u>

Bank of England: Soon, but not now!

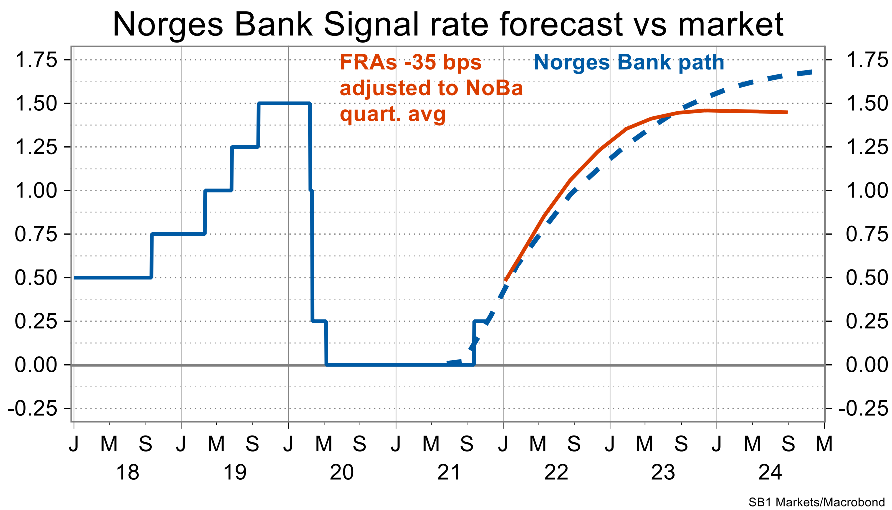
Markets (but not economists) expected a hike but a split BoE committee decided to wait

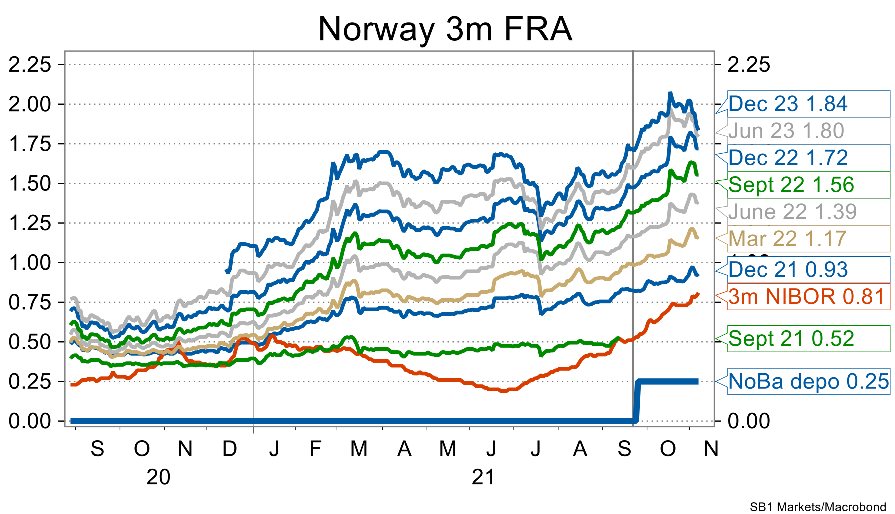


- It was a close call, the majority (7) said after the meeting, and two members voted for a hike to 0.25%, from the present 0.1%
- However, the bank states that *it would be necessary over coming months to increase Bank Rate in order to return CPI inflation sustainably to the 2% target*
- Still, the majority argued that by await the two employment reports before the December some uncertainty on the impact of the termination of the of the furlough scheme could be reduced
- The Bank recognises the record high vacancy rate, at the unemployment prognosis was lowered further
- The Bank expects inflation to be elevated for still some time but expect this surge to be 'transitory', and thus not persistent, that is not lead to higher wage inflation over time. The inflation rate is expected to decline to target not before 2024. The 2023 f'cast is lifted to 3.4% from 2.5%, even if the Bank accepts market rates, that had climbed by more than 75 bps since the August MPR was published
- No changes in the QE program, which has a target at GBP 875 bn in government bonds and an additional GBP 20 bn in corporate bonds. The target will soon reached. The sum stands at GBP 877 bn, and monthly purchases have slowed to 7 – 8 bn. Two members wanted to stop buying immediately
- Markets had expected the Bank to hike now, as governor Baily has been interpreted as signalling rate hike was near. The Bank was also judged to be dovish in some of its comments. Thus, market rates fell sharply, by up to more than 25 bps. Even so rate expectations are still higher than 3 weeks ago
- The GBP fell 1.7% last week. So from time to time, interest rates are important for the f/x market!

Norges Bank confirmed the plan, a next hike in December

The bank is not in all in doubt about the next step

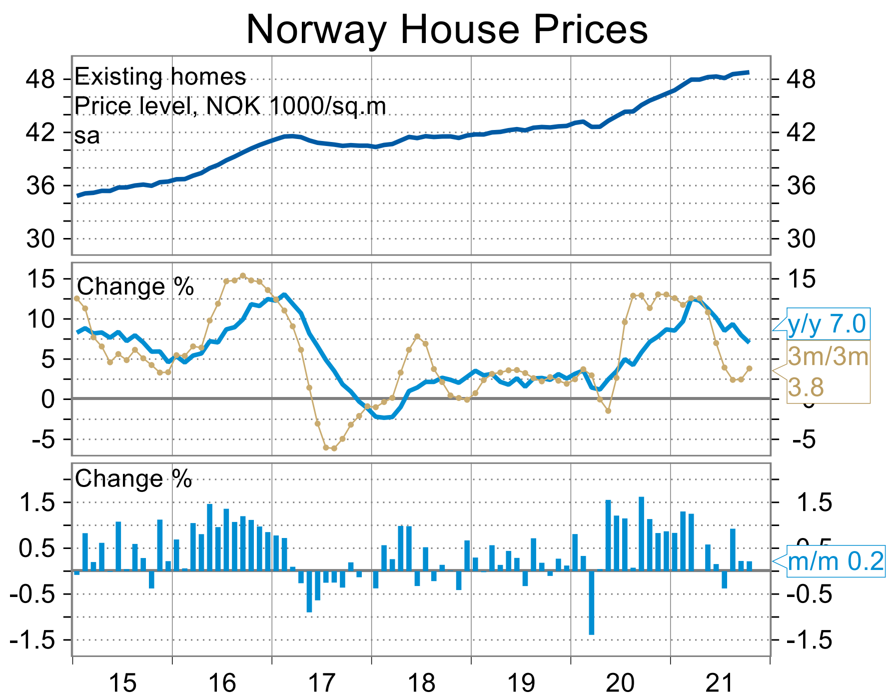




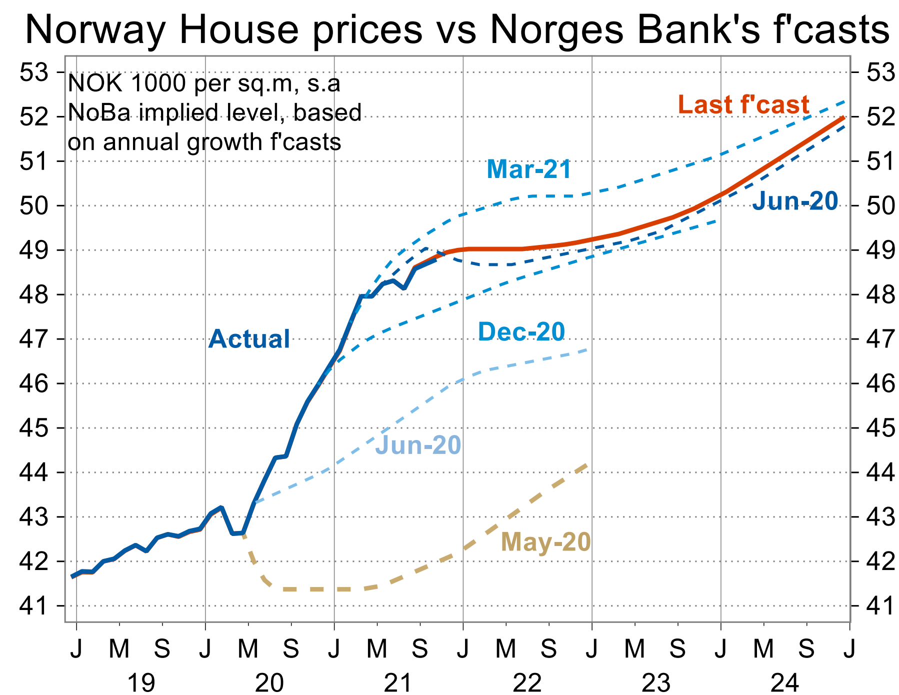
- **Key policy rate** was kept unchanged at 25 bps, as everybody expected
- Norges Bank repeats that '*a normalising economy suggests that it will be appropriate to raise the policy rate further from today's level. Uncertainty surrounding the effects of higher interest rates warrants a gradual rise in the policy rate*'.
- FRA-rates fell sharply last week, but not due to new signals from Norges Bank or weak Norwegian data (barring an increase in virus infections and hospitalisations). The setback was due to foreign factors
  - » The no-hike-decision in Bank of England, dovish comments from the Federal Reserve, and the decline in oil prices were probably the most important factors behind the decline in rate expectations abroad
- The FRA curve is still above Norges Bank's September interest rate path from mid 2022 to mid 2023. The FRA curve does not discount more than a 25 bp hike per quarter (and per Monetary Policy Report), and it did not before last week's moderation

House price inflation has slowed – up 0.2% in October

Our models signal a faster price increases than seen recently. Higher rates to blame for the slowdown



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

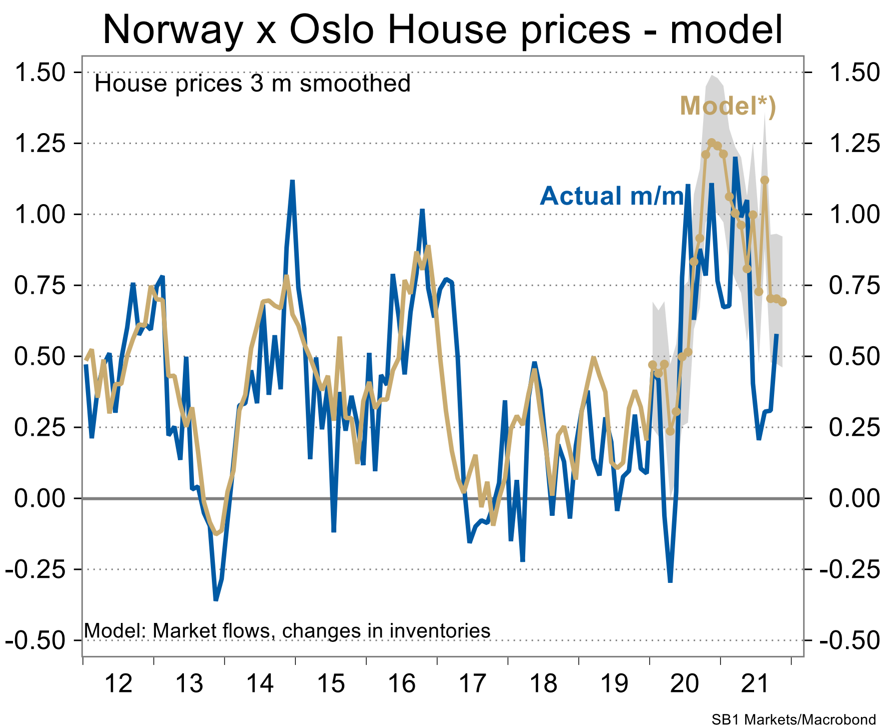


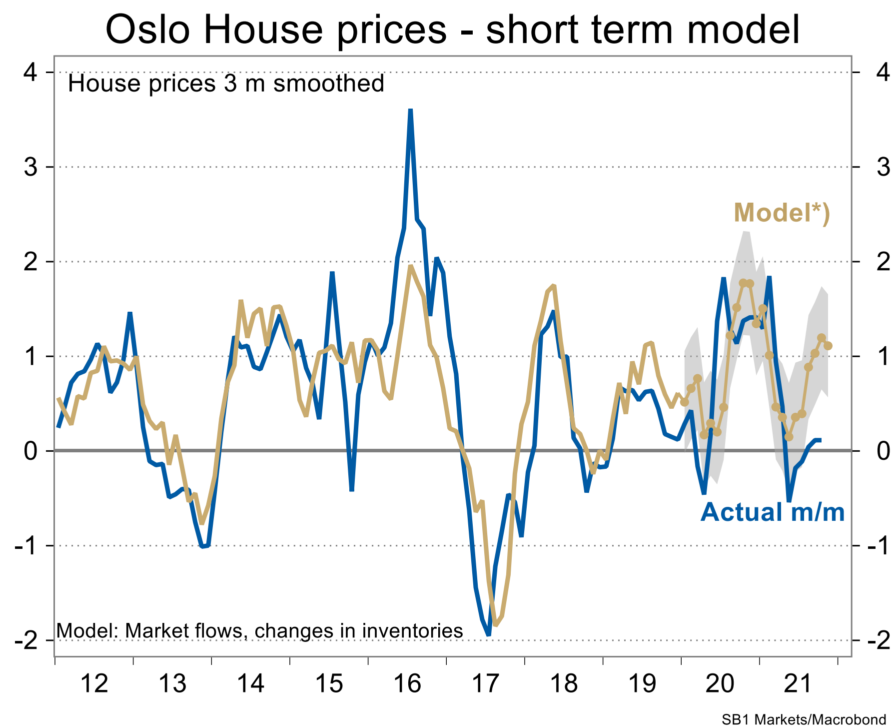
SB1 Markets/Macrobond

- **House prices** rose by 0.2% in Oct, unch from Sept, we expected 0.4%. Prices are up by 3.8% 3m/3m (annualised), down from above 12% in March. Prices are up 7% y/y. In both September and October prices rose a tad less than Norges Bank assumed in the Sept MPR
- Prices fell 1.1% in both Kristiansand and Stavanger, even if news from the oil sector has been good. Prices fell marginally in Oslo but rose in all other towns, the most in Bodø, as usual these days. Now clear pattern of 'out of towns', not last month or over the past months. Price inflation has slowed everywhere, and most in Oslo and in the surrounding 'towns'
- The **number of transactions** was stable, level still above the pre-Covid level. The **inventory of unsold homes** rose marginally from the ATL in September
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model +1%, from zero 6 months ago. Very likely, the outlook for higher rates is dampening willingness to pay
- **Norges Bank** expect house prices to appreciate a moderate pace the coming months, and flatten during most of 2022

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

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

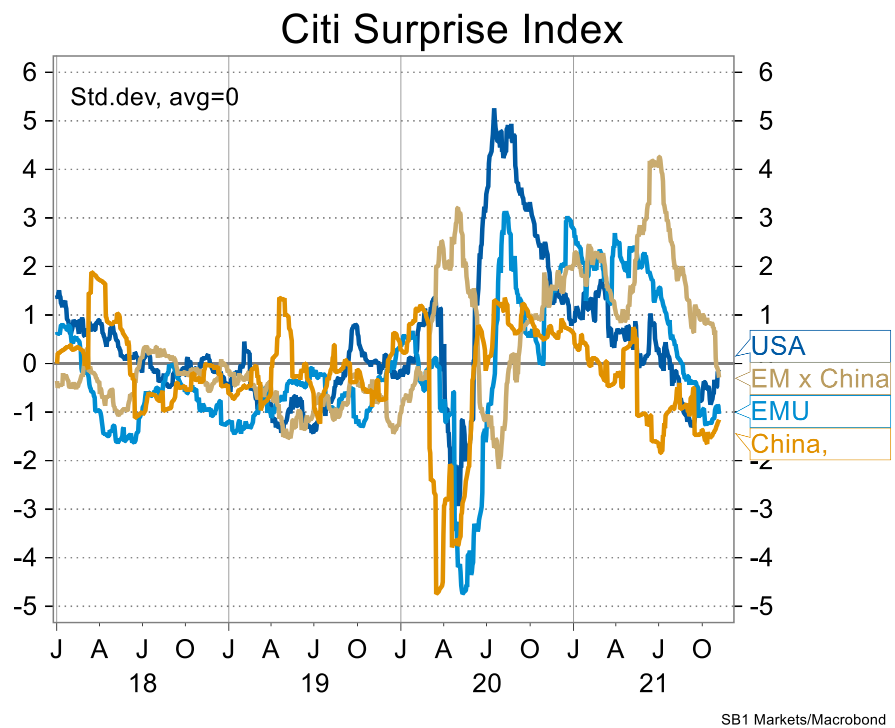


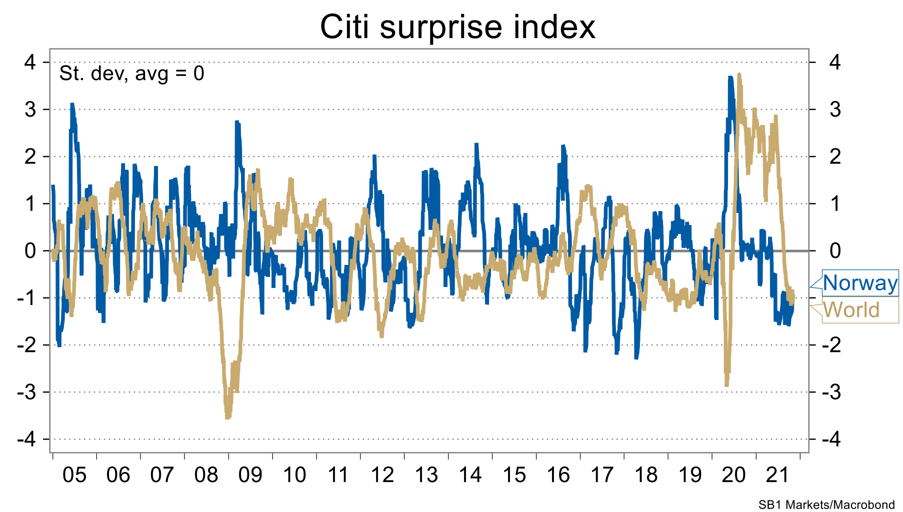


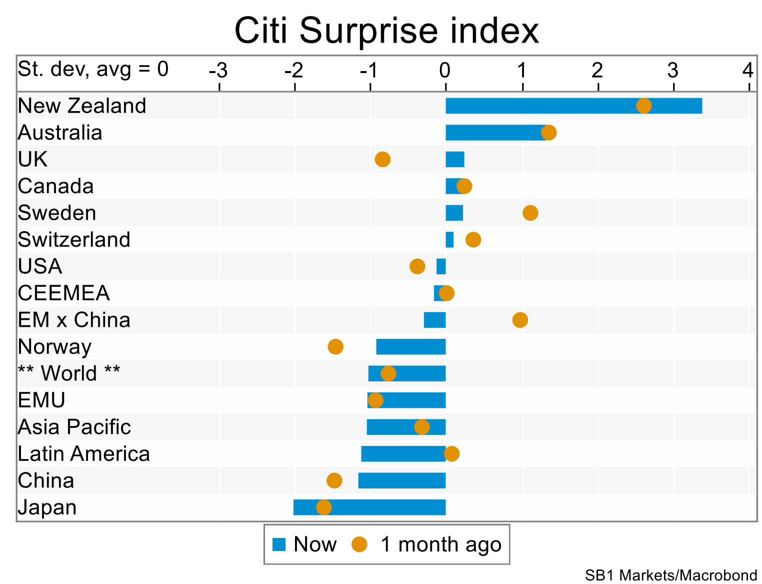
- Our **national x Oslo model** based on flows and the inventory signals a 0.7% <u>growth in house prices per month</u>
- Our **Oslo model** signals a 1%+ growth (up from zero 6 months ago)
- *These models are <u>not</u> long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

All main regions are surprising below par

But the global surprise index has stabilised recent weeks







- Both US, EMU and China surprises are on the downside, but less last week too
- **Emerging Markets x China** flipped sign, to the negative last week, after more than one year at the positive side. However, actual date from EM x China is not that bad, and the PMIs are recovering
- **Norway** has surprised sharply on the downside, according to Citi

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

Highlights

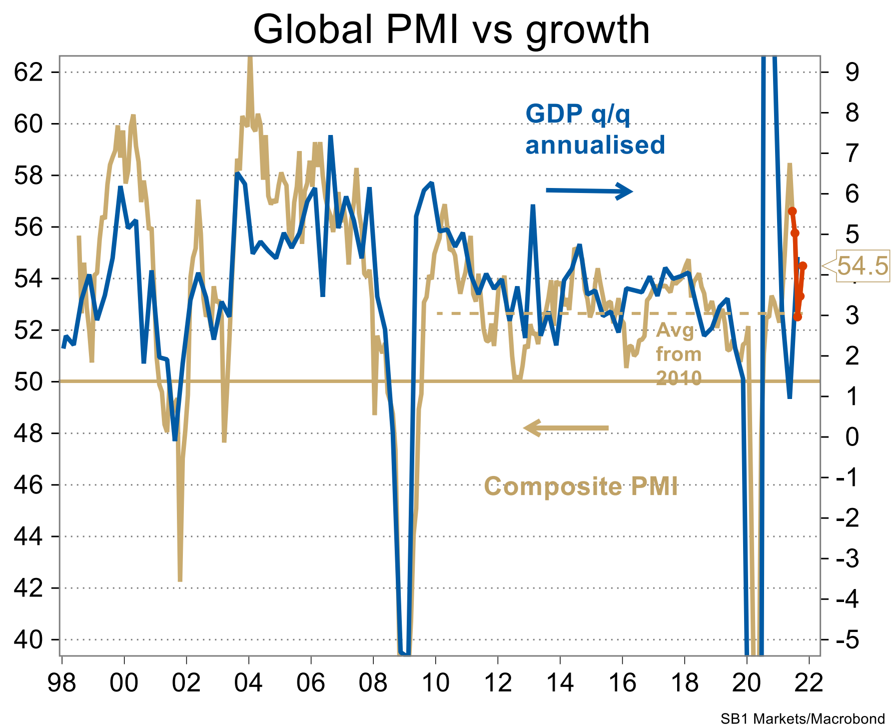
The world around us

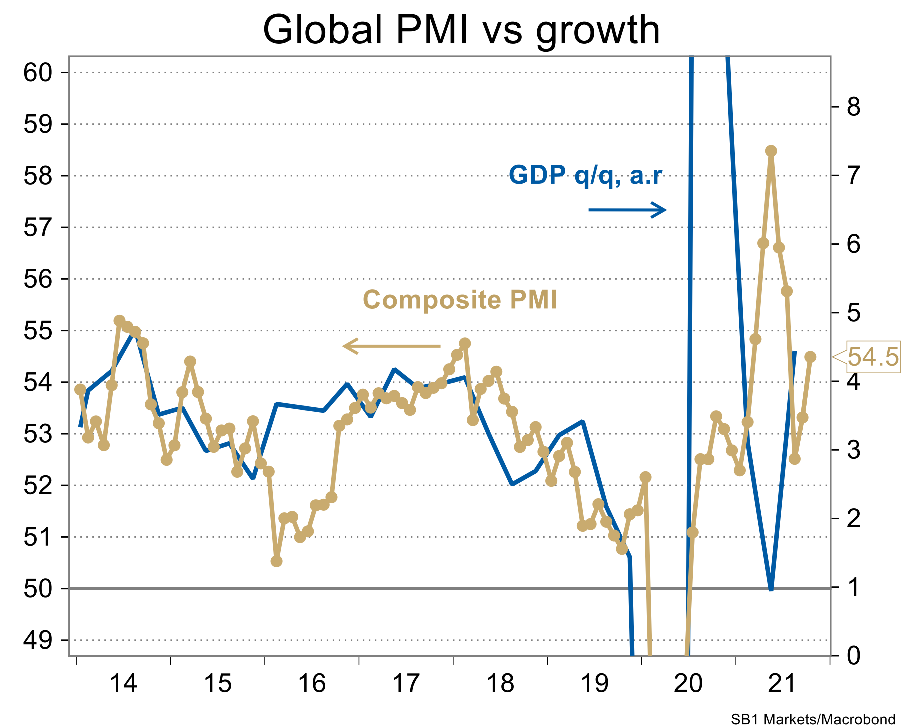
The Norwegian economy

Market charts & comments

The global PMI further up in October, both DM and EM ex China up

The composite PMI rose by 1.2 p to 54.5, signalling growth well above trend

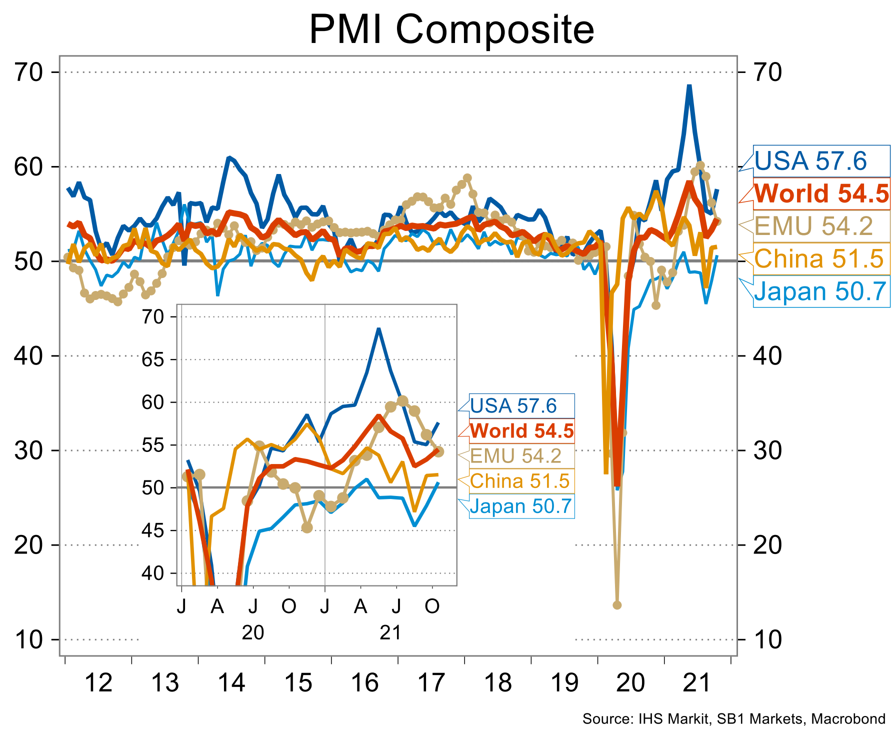


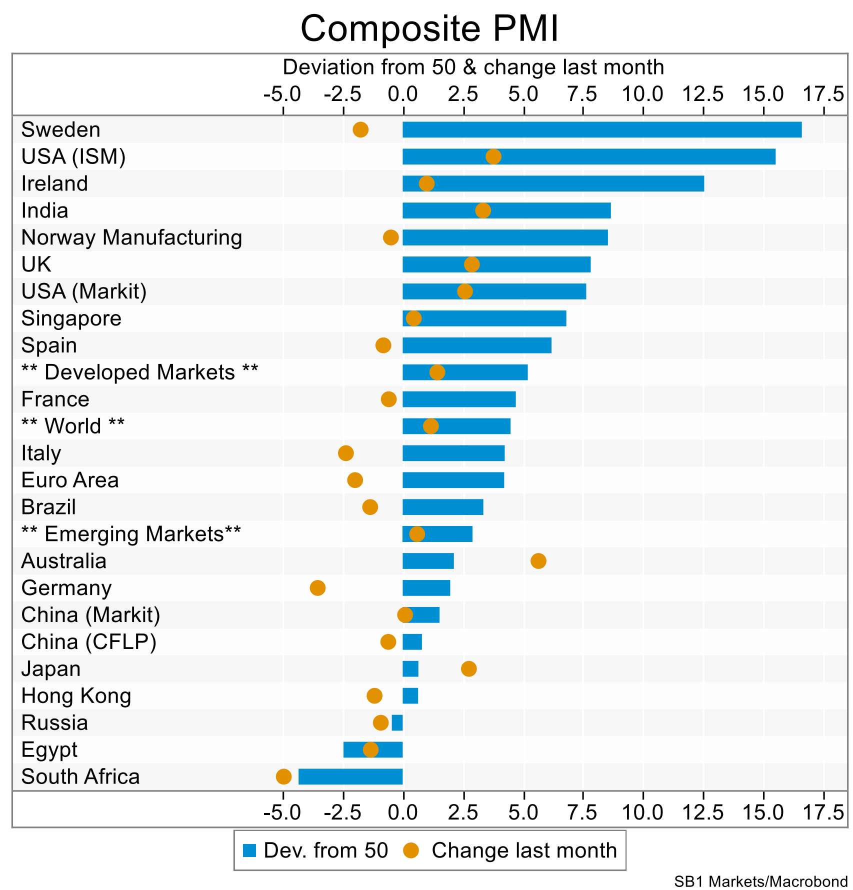


- The global PMIs were once more better than the preliminary PMIs signalled, and even 0.4 p above our forecast one week ago
- The global PMI signals global GDP growth clearly above trend, at a 4% pace – in line with our preliminary estimate of Q3 global growth
  - » Both manufacturing and services contributed to the lift, services the most

The EMU down but still an OK level, US sharply up and strong. China mixed

Just 3 countries report PMIs below 50 but still more countries down than up in October





- 11 countries/regions up in October (unch from Sept) Just 3 below the 50-line (from 8), 13 down
- Sweden still at the top, together with US ISM and Ireland. Then comes <u>India</u> (and Norwegian manufacturing)
- The Chinese PMIs flattened, close to 50 – still signalling growth not far below normal
- Other EMs mixed but in sum slightly up

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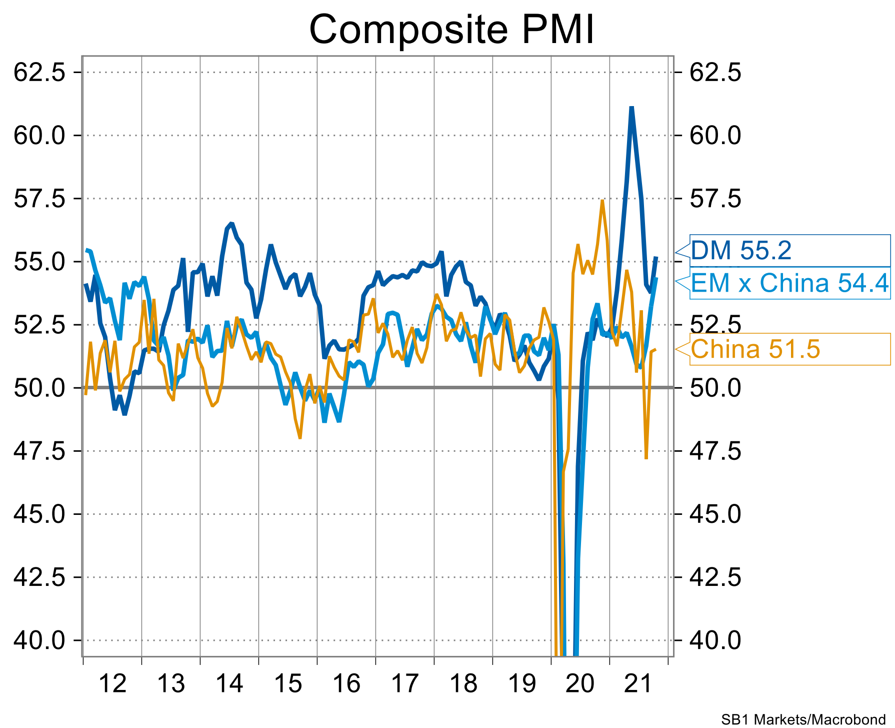
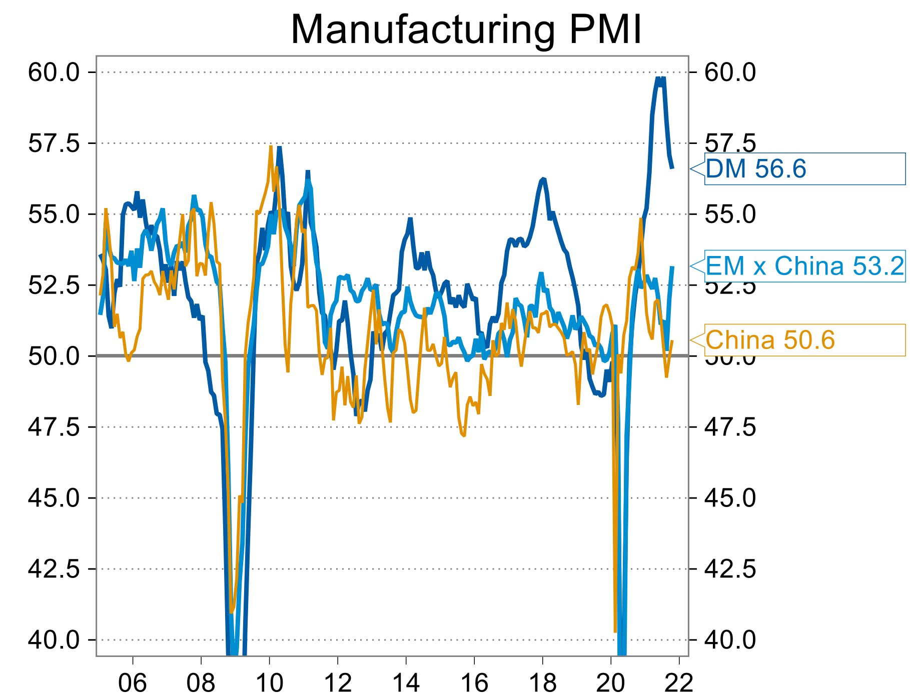
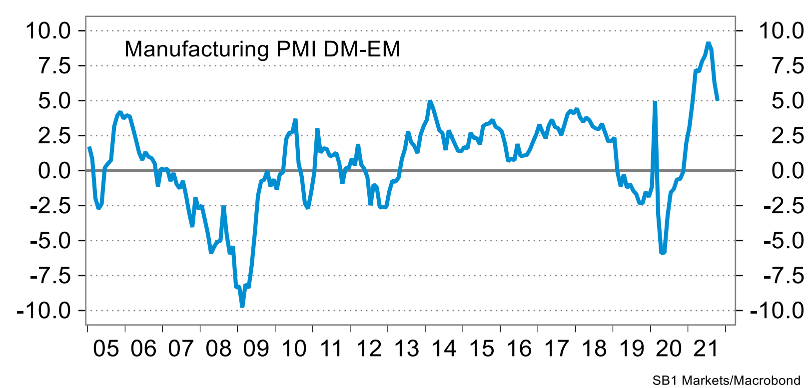
EM x China at the best level since early 2013, it is their turn now!

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

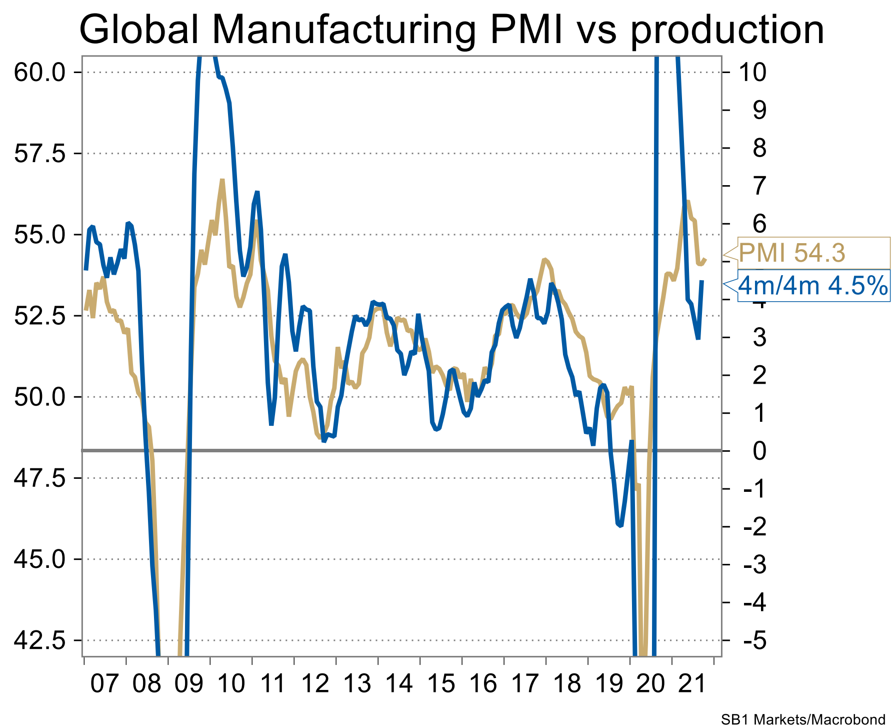


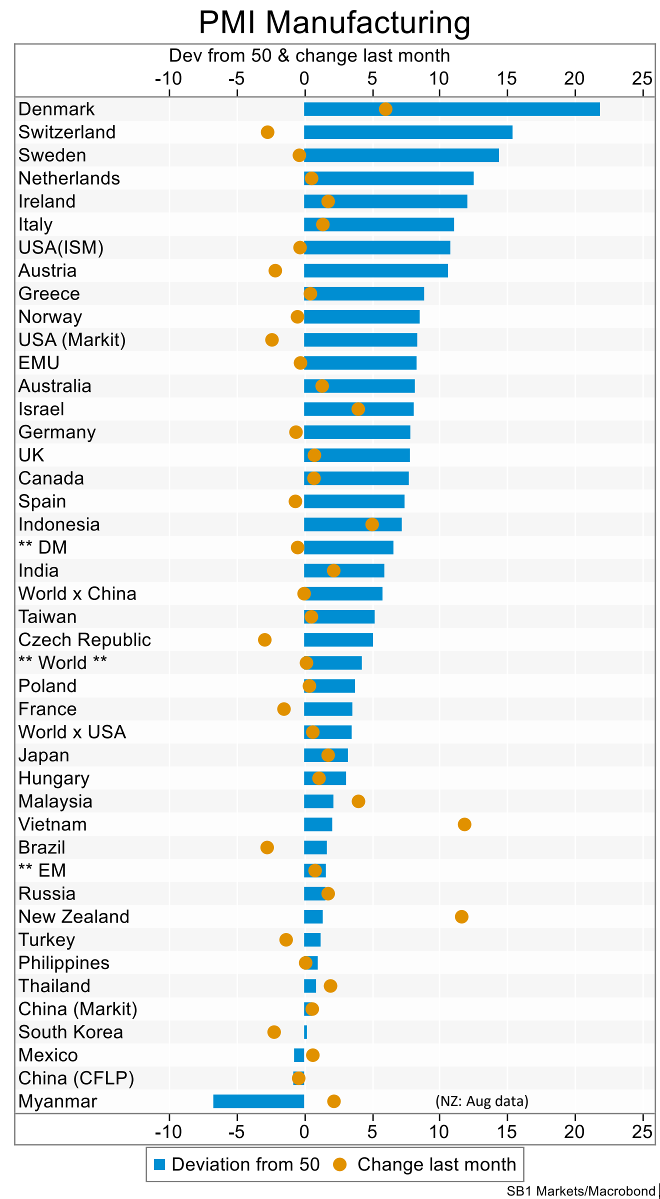




Manufacturing PMI slightly up in Oct, Emerging markets on the way back

Just 3 of 43 surveys below the 50 line

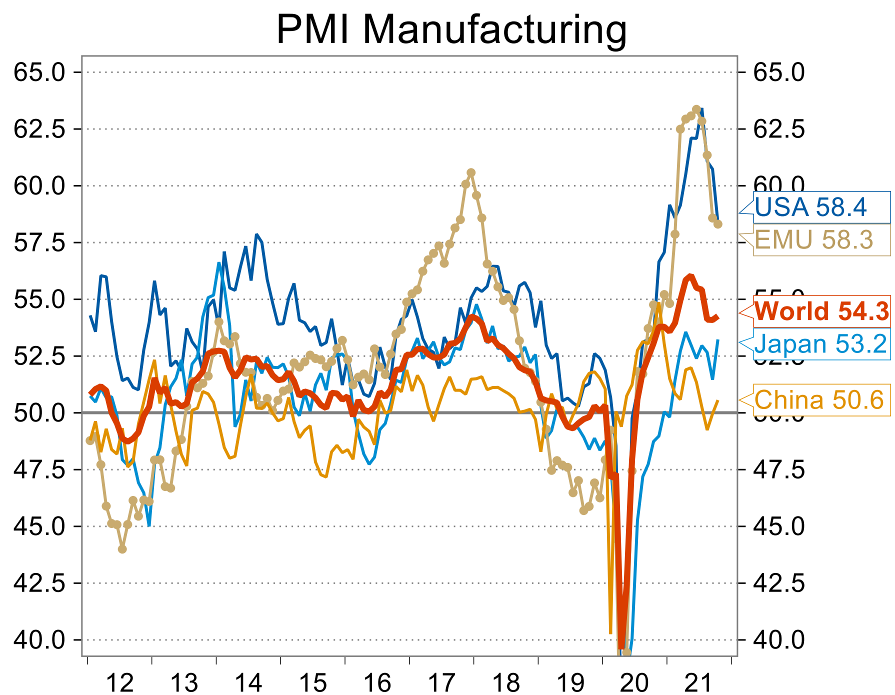




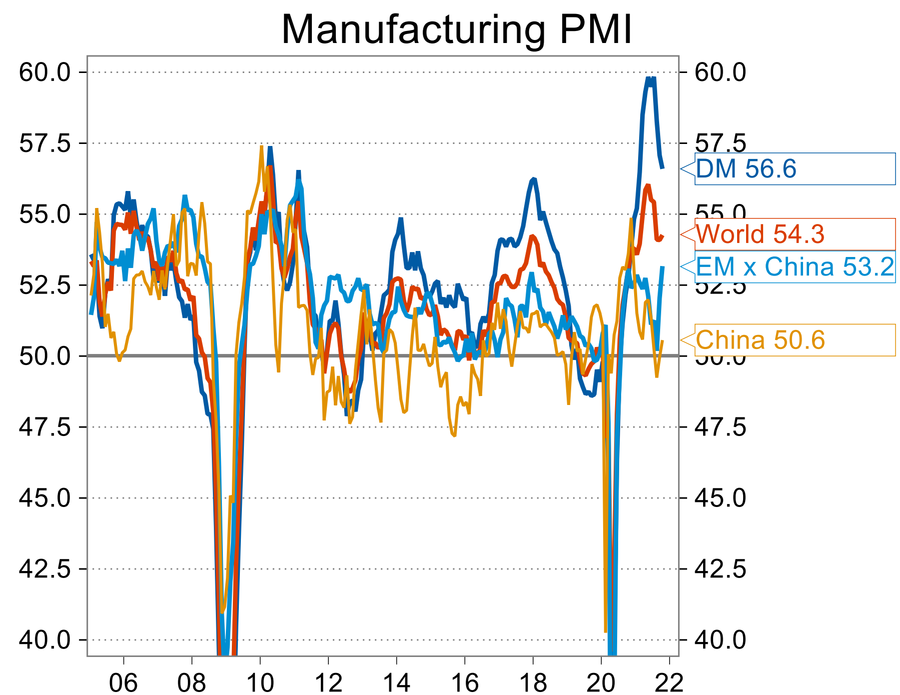
- The **global manufacturing PMI** flattened following a decline the prev. 3 m
  - Over 60% of the countries/regions reported higher PMIs in Oct vs Sept
  - European countries dominate the top of the list – but US PMI & ISM are up there too
  - **India, Indonesia** are climbing further, the two at the top in the EM universe
  - The **Chinese PMIs** were is sum close to unch., and both are close to 50
  - **EMs** are still far weaker than DM but the gap narrowed further in Oct

The boom in the manufacturing is broad, in rich countries

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



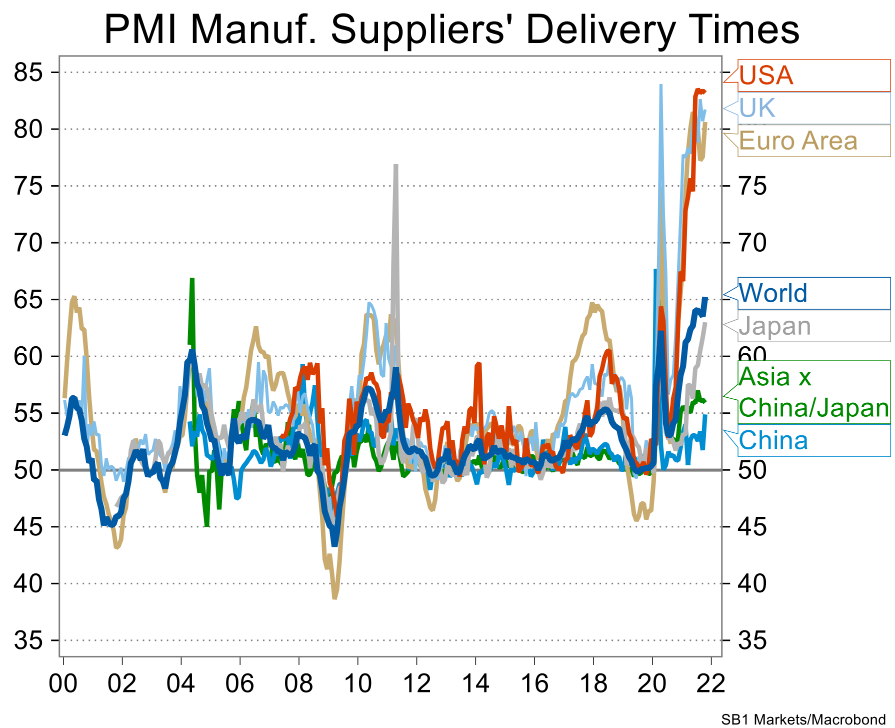
Source: IHS Markit, SB1 Markets, Macrobond

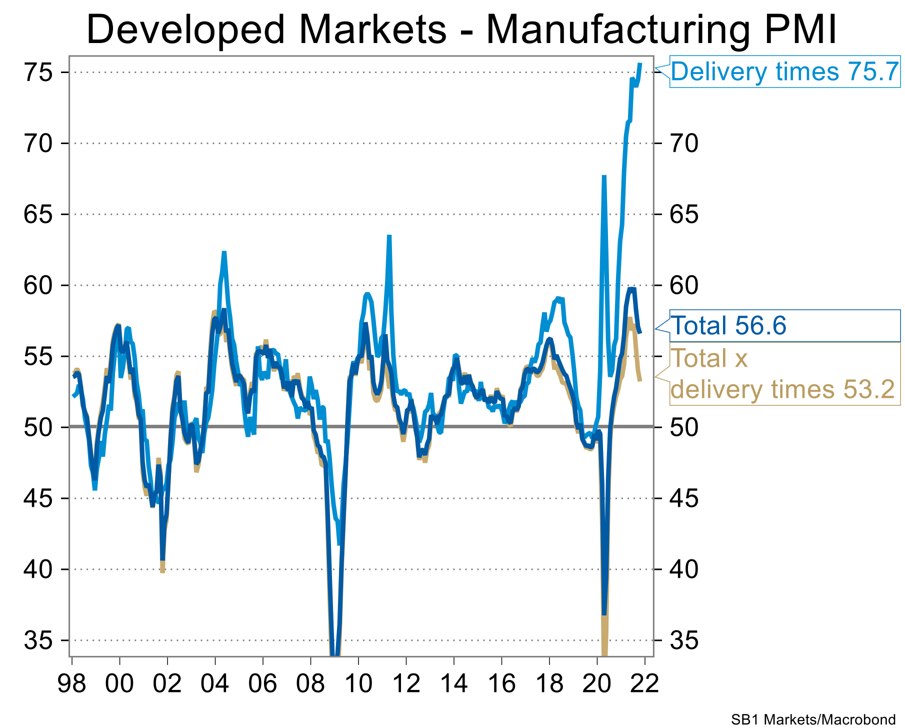


SB1 Markets/Macrobond

Delivery times index further up in October – and lifts the total index by 2.4 p

The ‘supply chain’ shock does not signal strength in the manufacturing sector

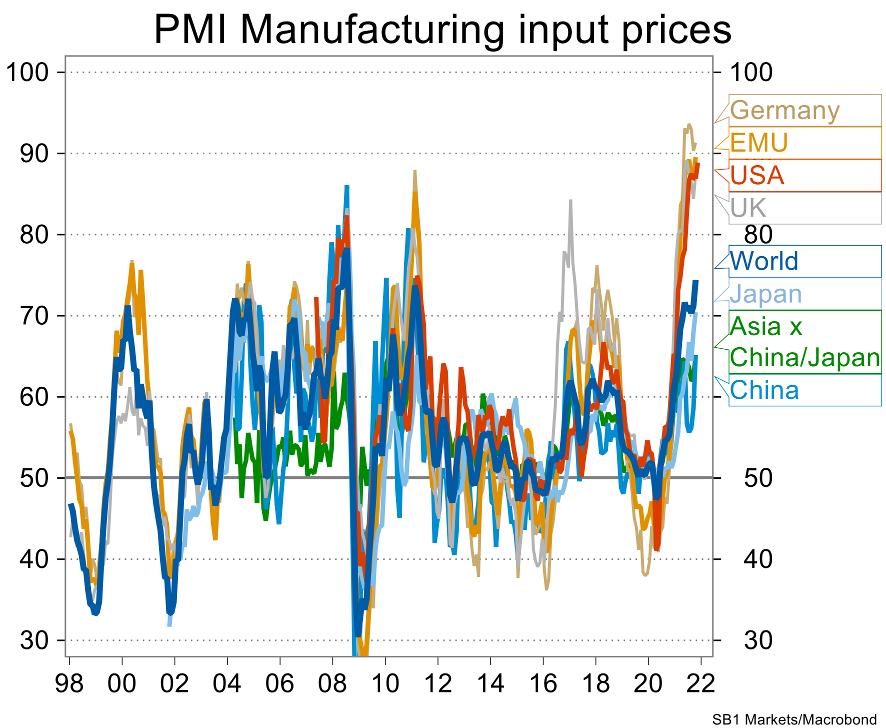


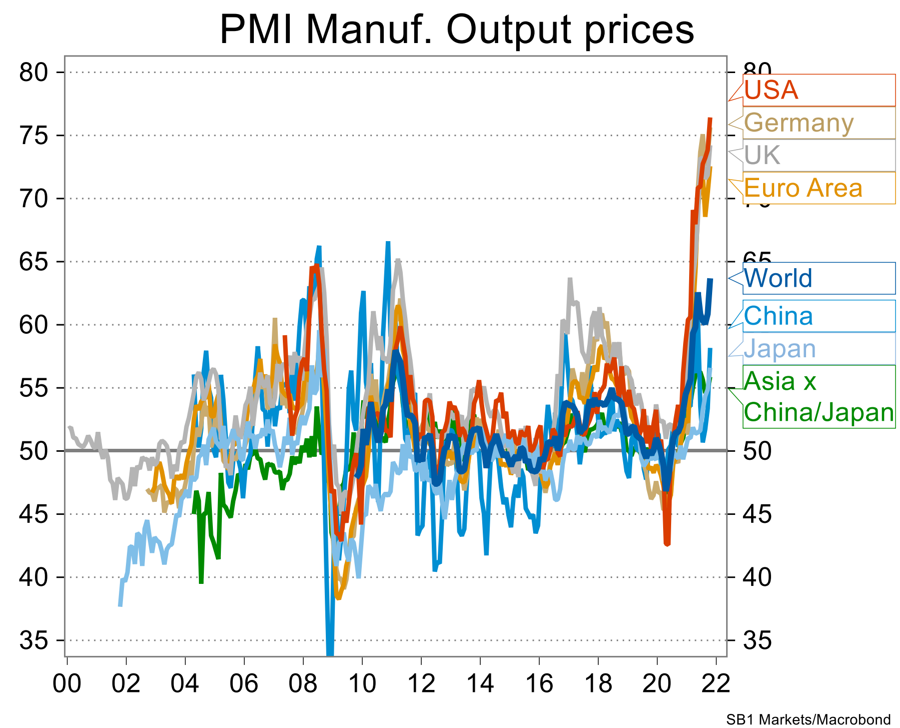


- The unprecedented increase in the delivery times index – which probably mostly is due to the unprecedented growth in demand for goods in the rich part of the world (where delivery times & prices have surged , the EM story is not the same) – has contributed to a substantial lift in the headline manufacturing PMI in Developed Markets
- The surge in delivery times are not a sign of strength in the manufacturing sector, even if no doubt is caused by strong demand. Usually, the delivery times index (15% of the total index) has moved in tandem with a the other activity indicators, and did not influence the total index - so we could use the total as a proxy for activity. Not so now

Manufacturting price increases accelerated again in October

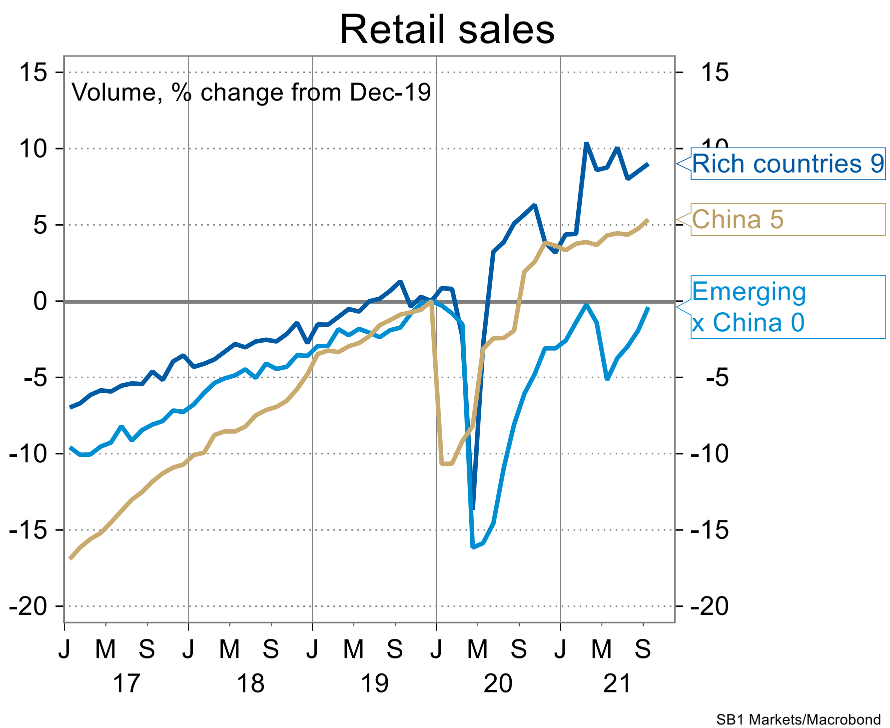
Price increases have been rather modest in Emerging Markets, even if they too are on the way up

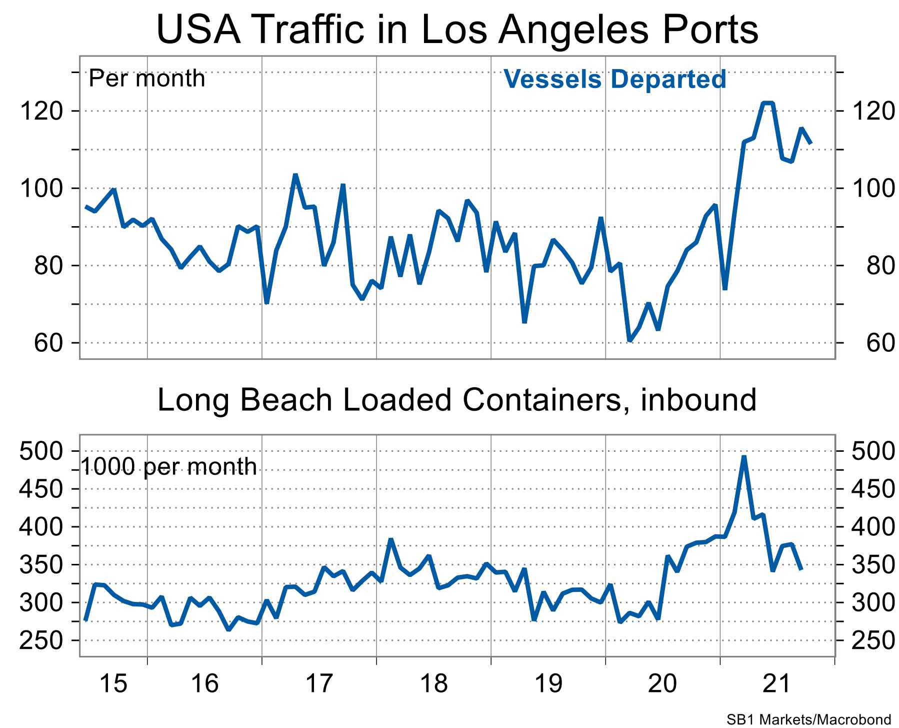




Delivery times/prices increasing a problem just in the rich part of the world?

Because demand is so strong in DM, not in EM? Why bottlenecks at some harbours?





- Could it be that too many ships came to the same harbour at the same time – because demand for goods has been incredibly strong through the pandemic?
- Might the

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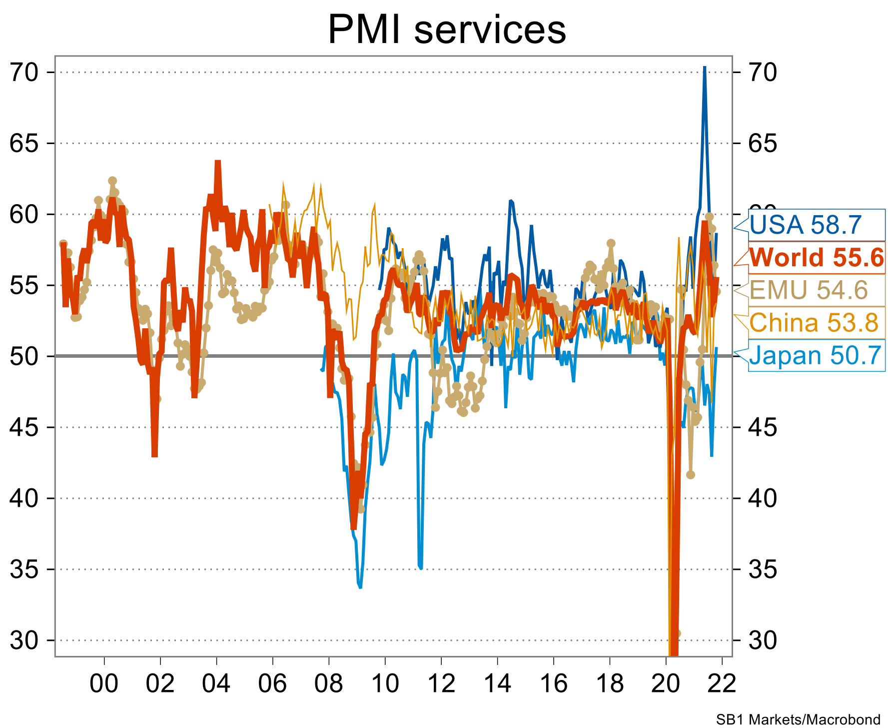
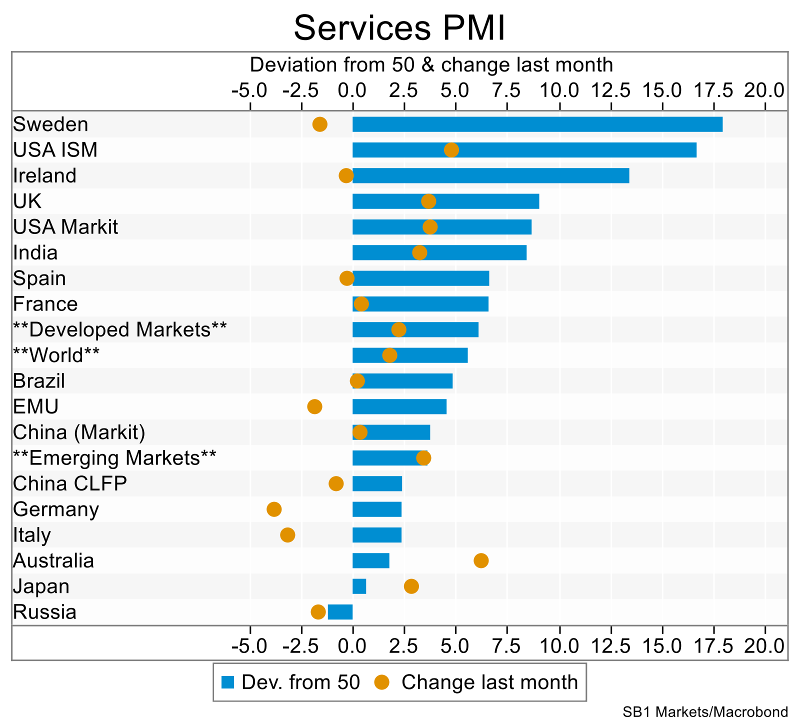
The service sector PMI further up in October – level far above avarage

US, India, Australia contributed most at the upside

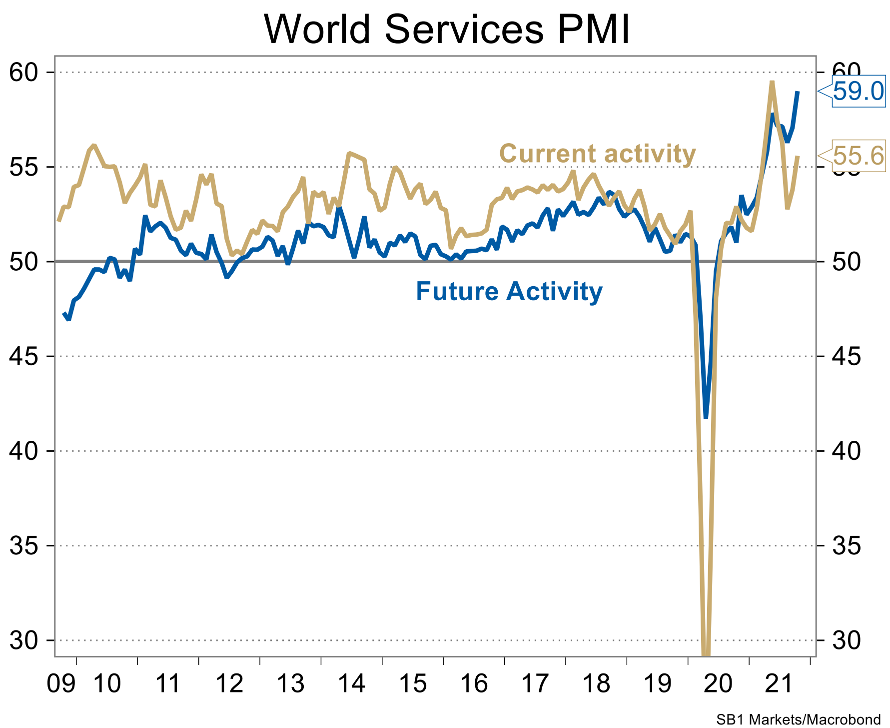


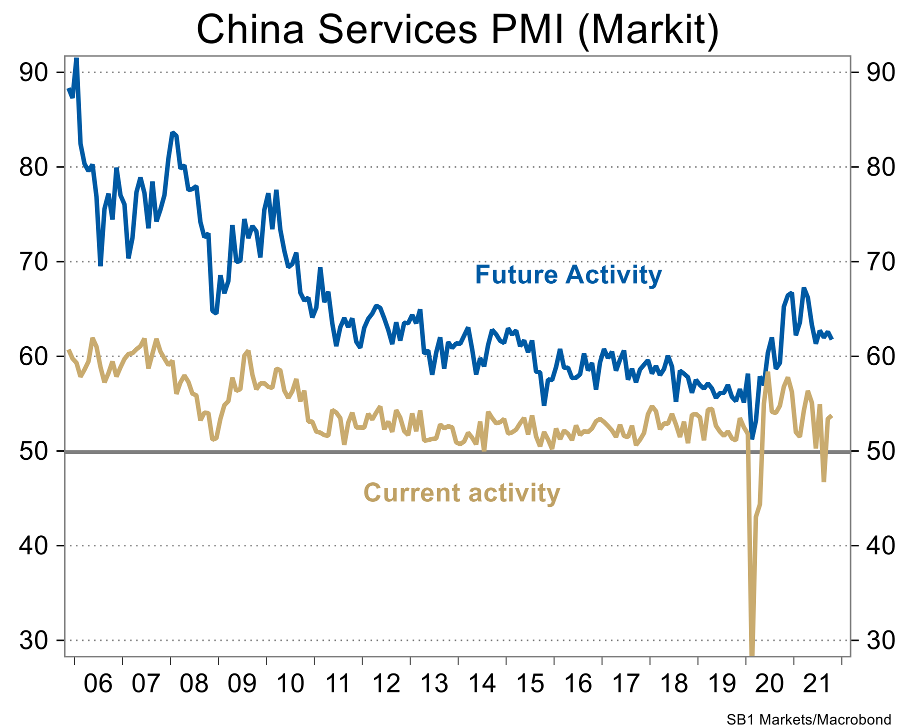


- **The global service sector PMI** rose by 1.8 p to 55.6 – to well above an average level
  - » 12 countries/regions up (from 10 in Sept, 2 in Oct), 8 down (17); Just 1 below the 50-line (3), 19 above
- **Rich countries** are increased their lead marginally in October – but the trend is better for EM than EM
- Both Markit's and ISMs US services PMIs rose sharply, the <u>US index up to to 66.7, ATH by far!!</u>
- In the **EMU,** the services PMI fell but the level is still high, at 54.6
- The **Indian** service sector PMI recovered sharply
- BTW, **Sweden** is still at the top

The service sector has not lost its confidence in the future

The future has never been brighter, according to the businesses





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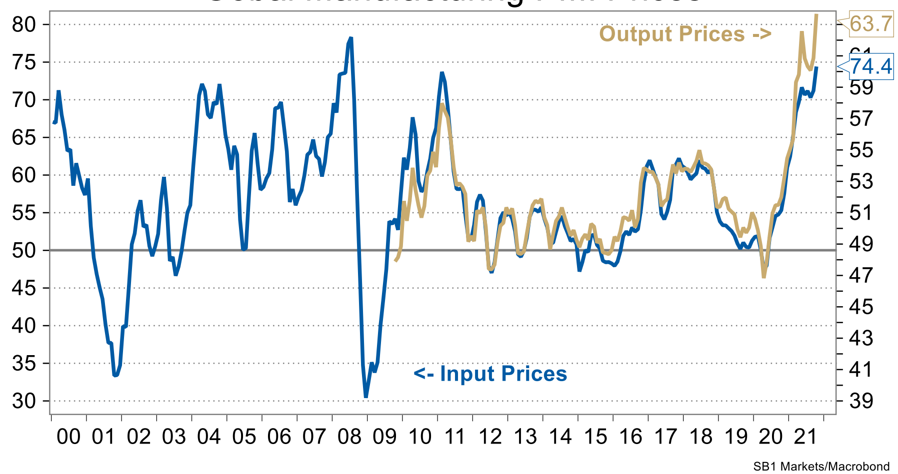
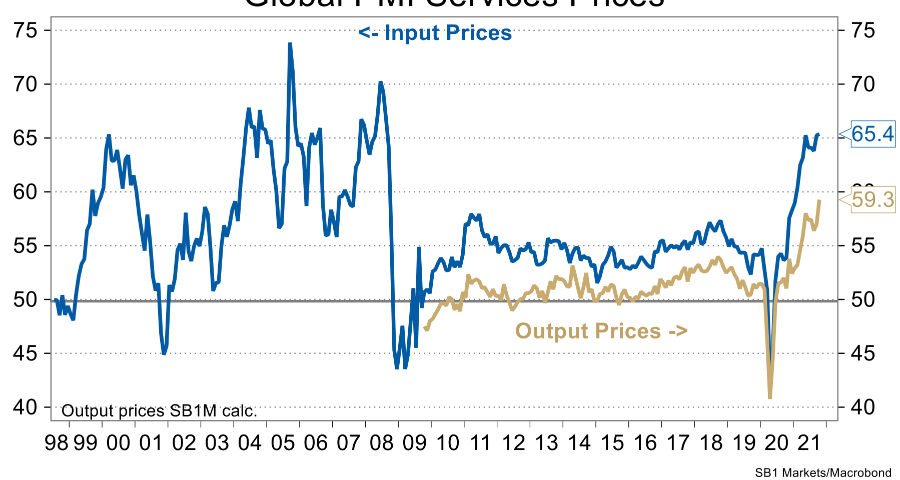
Businesses keep reporting a rapid growth in input/output prices

Still, we think the peak in price inflation is near

Gobal Manufacturing PMI Prices

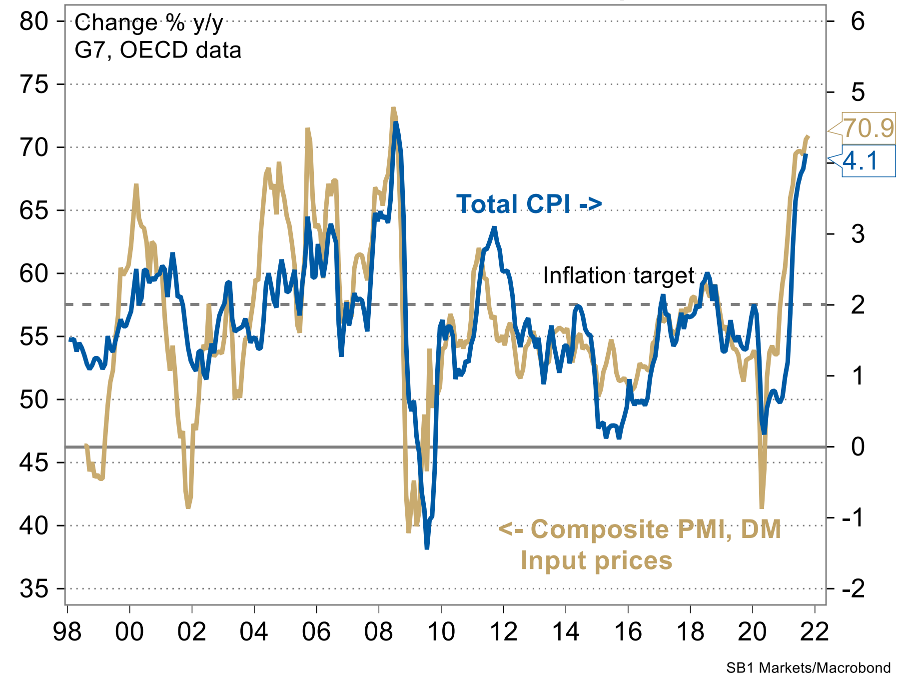


Global PMI Services Prices



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

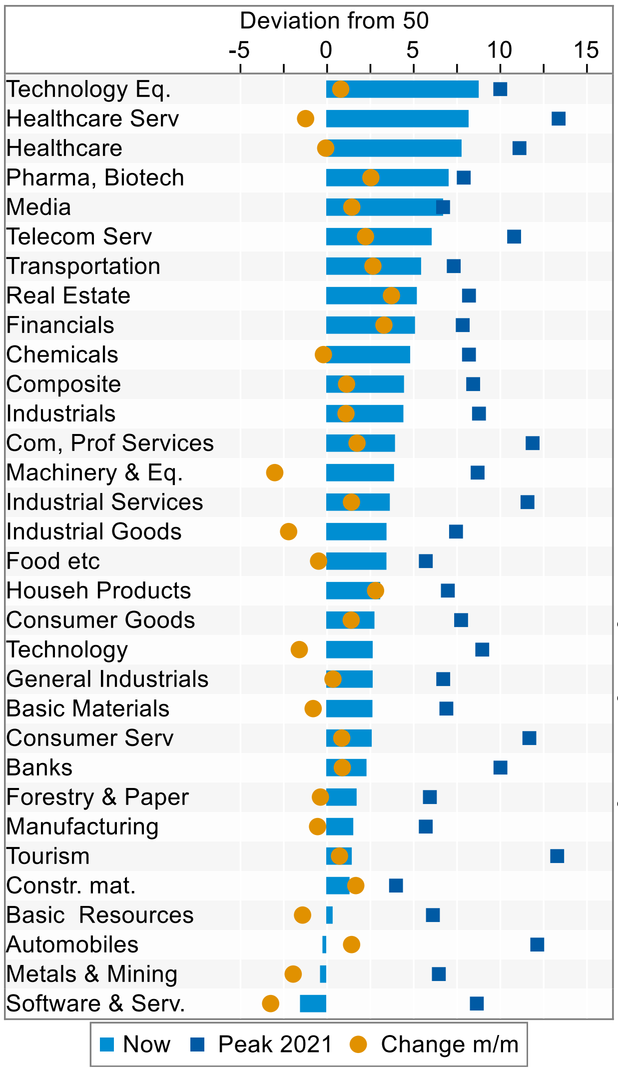
OECD Inflation vs PMI prices

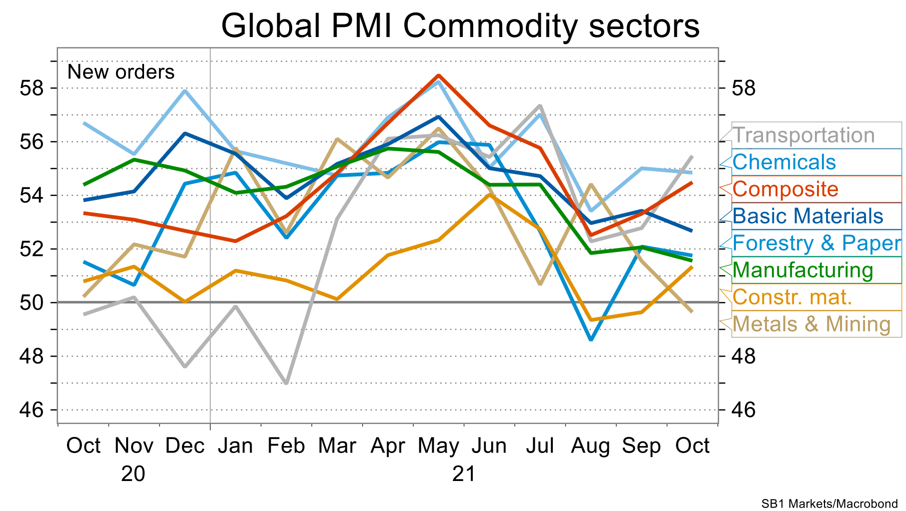


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices

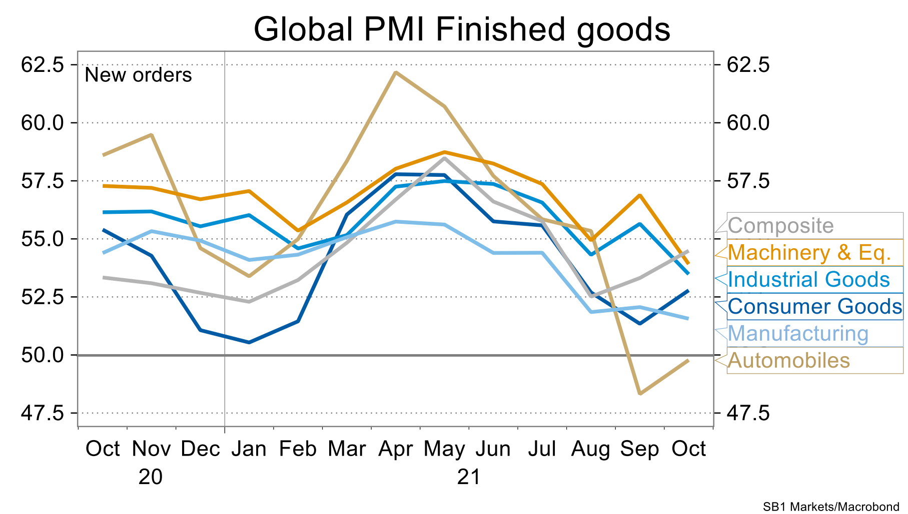
Most sectors are reporting higher growth in September and October

Just 3 sectors report PMI below 50, and autos almost crossed the line, on the way up



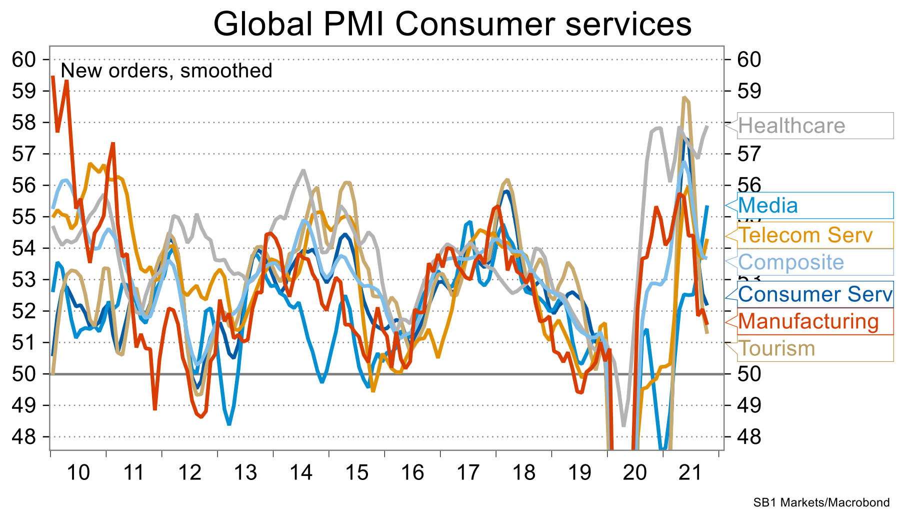


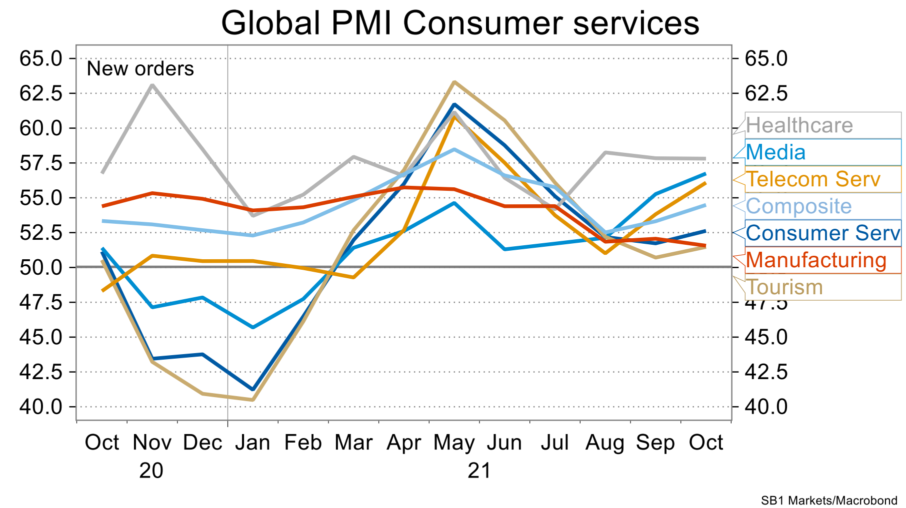
- Metals and mining has slowed substantially
- Software & services are at the bottom, rather surprisingly?
- The decline in Machinery is some-what surprising too

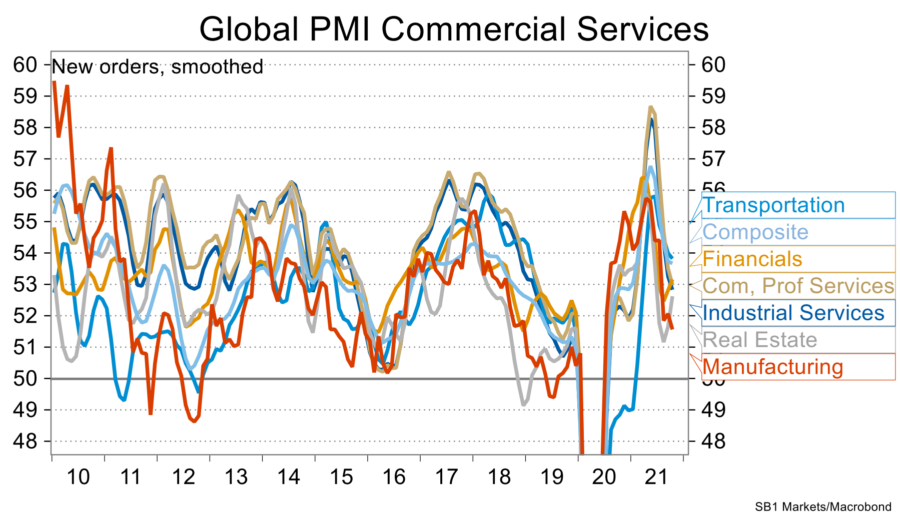


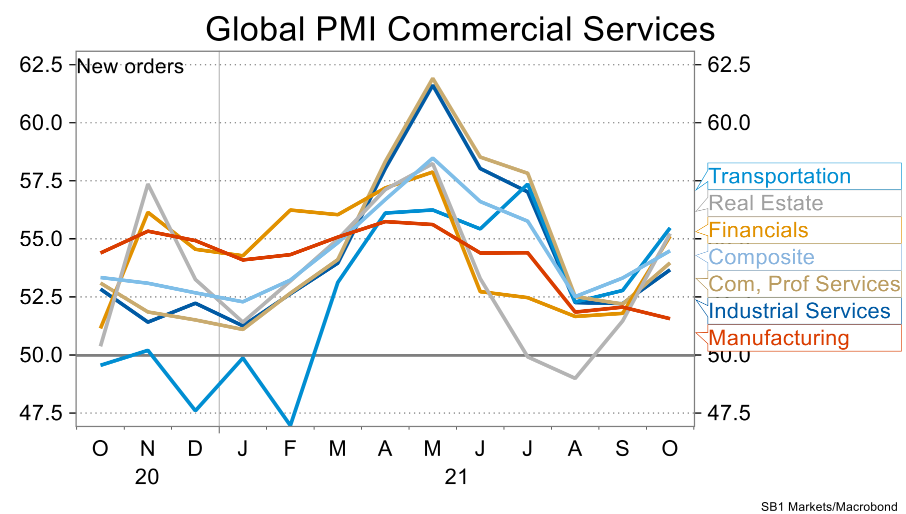
Services are reporting slower growth but far from slow

And the uptick in September and October was rather broad



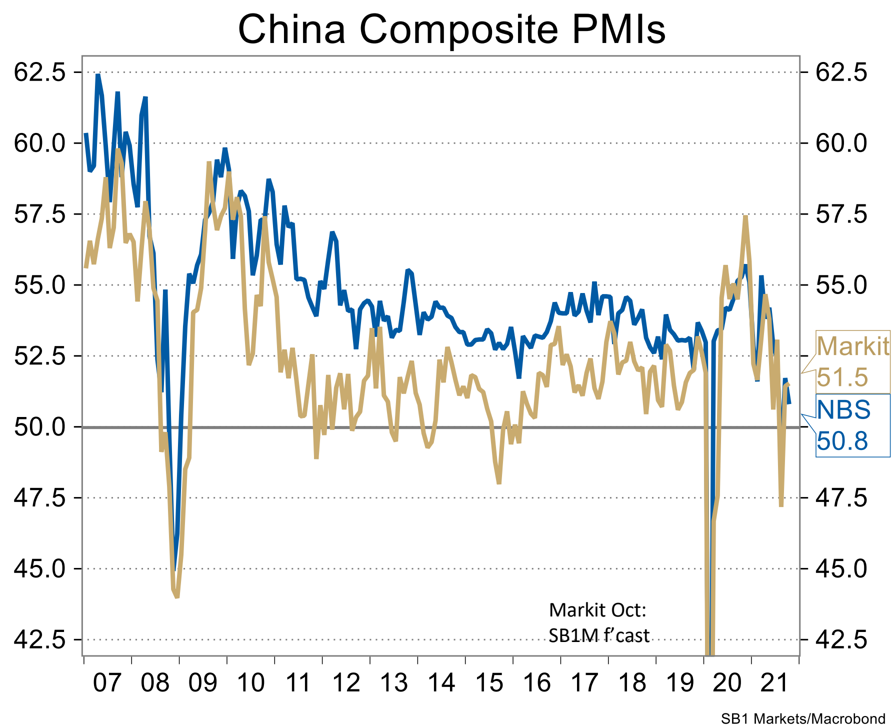


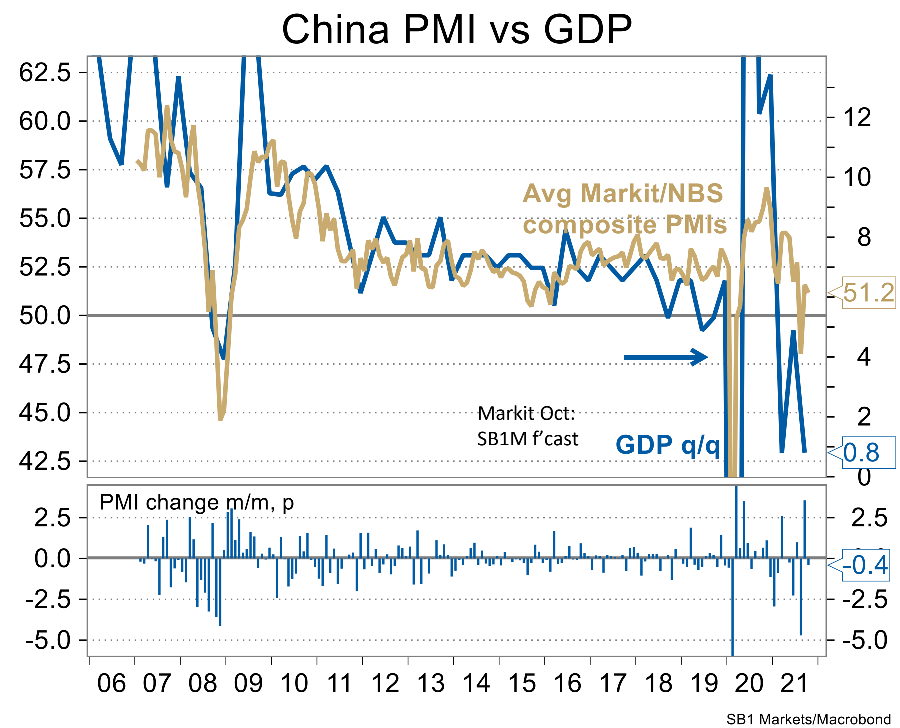




October PMIs mixed, in sum marginally down

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

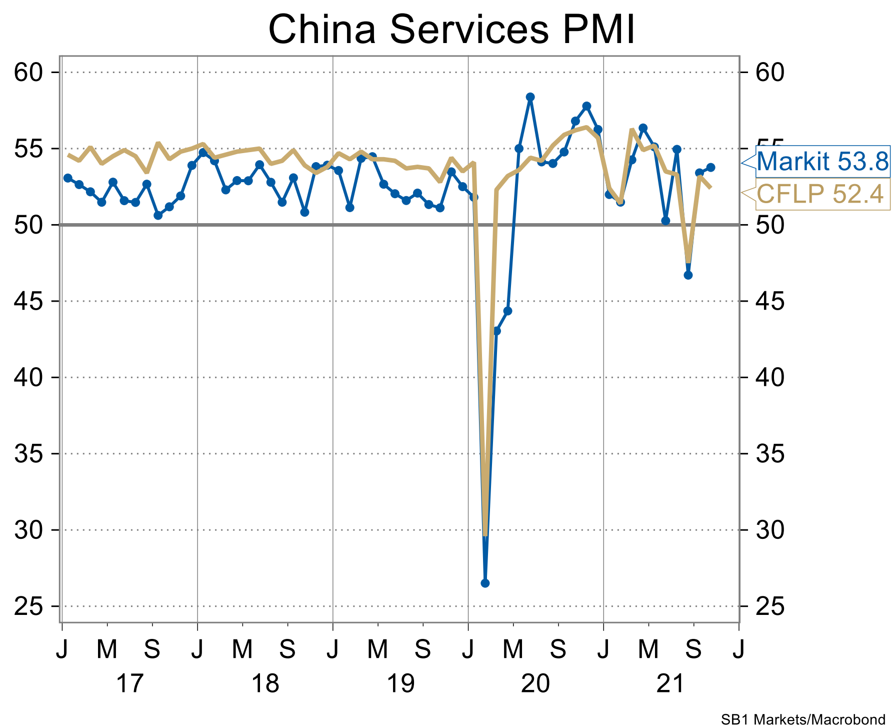


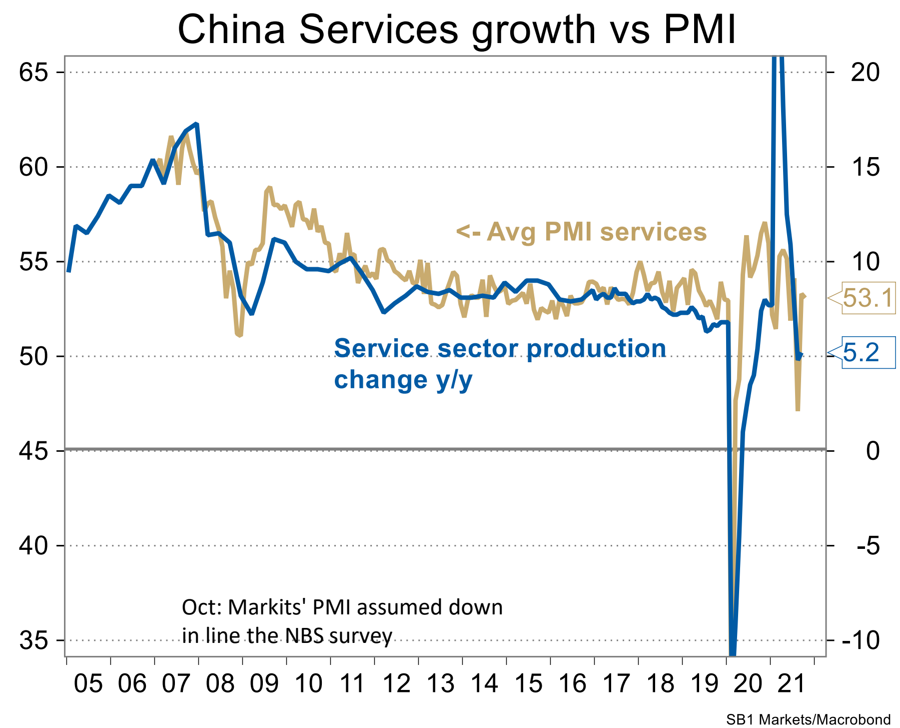


- The **NBS composite PMI fell** by 0.9 p in October to 50.8, expected unch. The level is 3 p below average. Both manufacturing and services slowed, manufacturing the most, the Oct print is among the weakest over the past 10 years, barring the Covid-19 shock last winter, and the Covid-19 setback in August
- **Markit's composite** rose by 0.1 p 51.5. The level is marginally above the average since 2012. The total manufacturing index rose but the output component fell. However, the service sector PMI rose marginally
- **In sum,** the two PMIs were unchanged and below par, signalling GDP growth below normal – but far better than over the 3 past quarters. However, the PMIs have been to optimistic so far in 2021, and growth may well remain below the level signalled by these surveys

Mixed in services, but growth is more or less as normal again

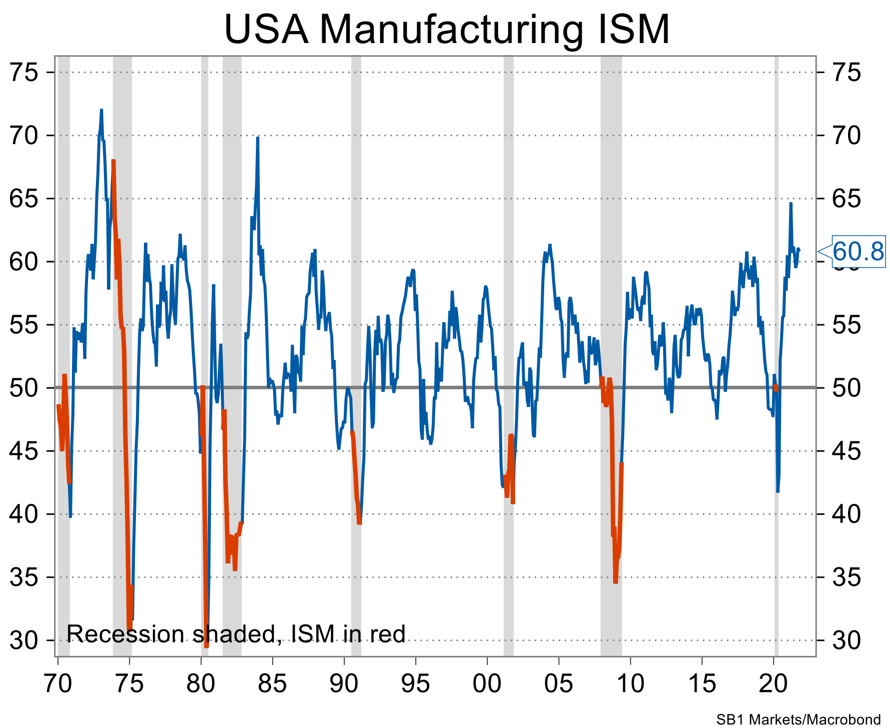
Following the lockdown weakness in August

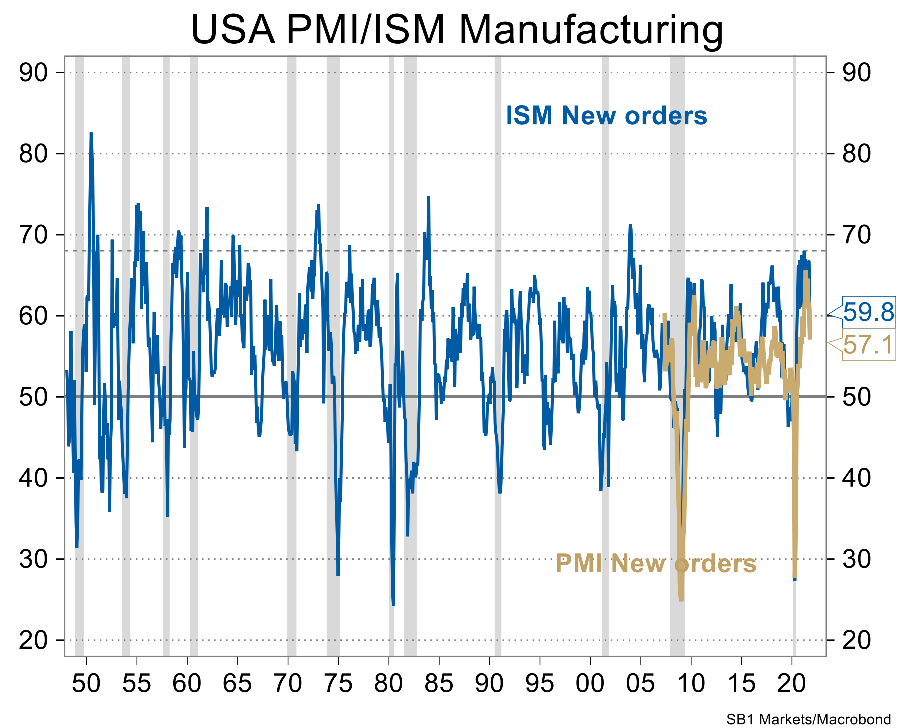




Manufacturing ISM marg. in October and still very strong!

The index was down 0.3 p to 60.8, 0.2 better than expected. Prices are still rising fast; orders slowed





- The **ISM manufacturing** index fell slightly in October. However, the ISM has for months indicated – and still does - an unusual rapid growth in manufacturing production, which so far has not been delivered
  - » In October, 16 of 18 manufacturing sectors reported growth, down from 17, 2 down (wood products and non-metallic mineral products)
- The **new orders** index fell to 59.8, down 6.9 p from September
- 42 commodities (from 41) are up in **price**, only the price of wood was down
- Still, 'just' 26 commodities were reported in **short supply** but up from 24 in September (more than 50 were reported in short supply a few months ago). The supplier deliveries index anyway also rose in October, signalling longer delivery times
- **In their comments**, companies are complaining on all sorts of shortages, including extreme labour shortages. Demand is still strong

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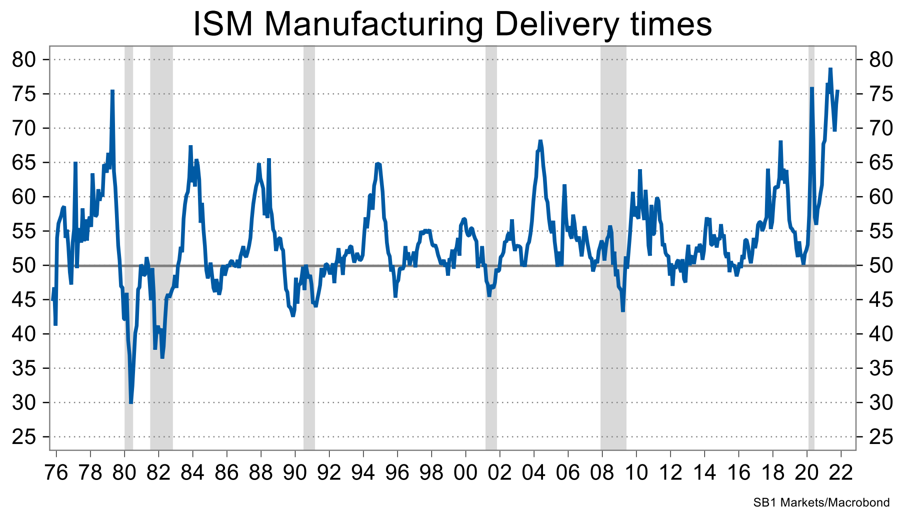
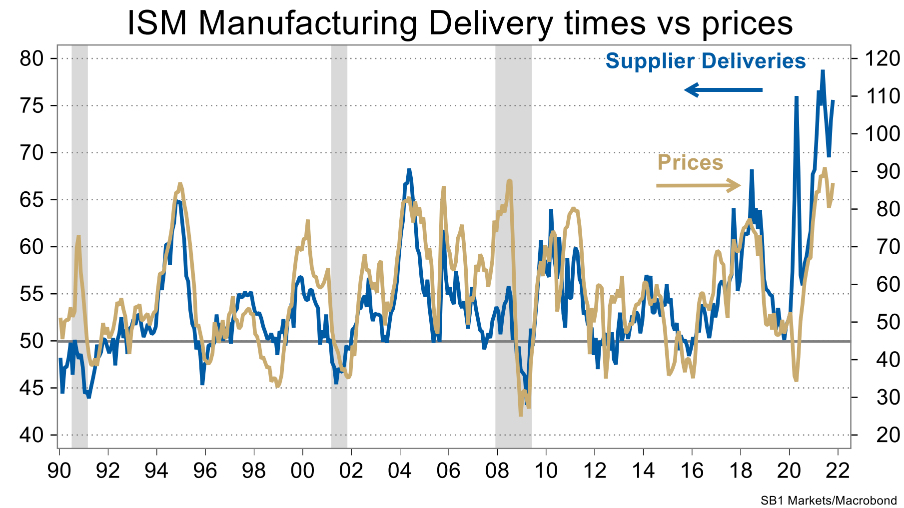
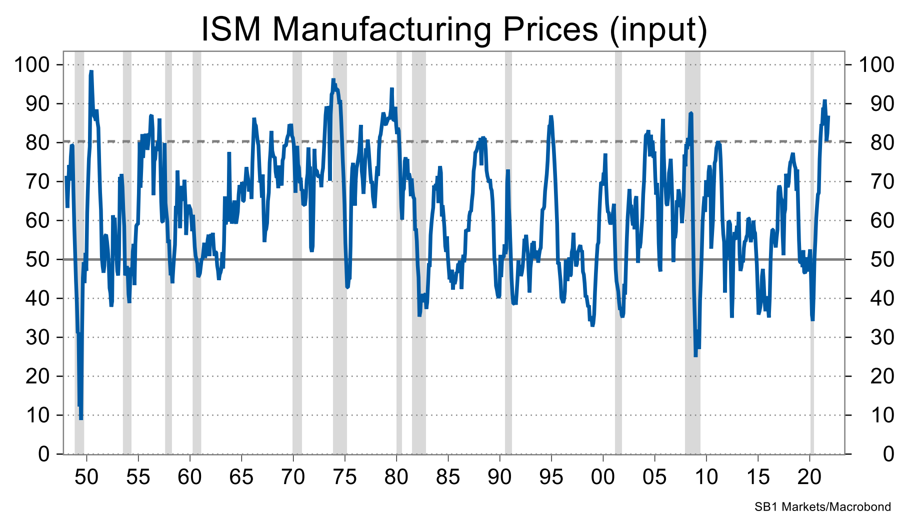
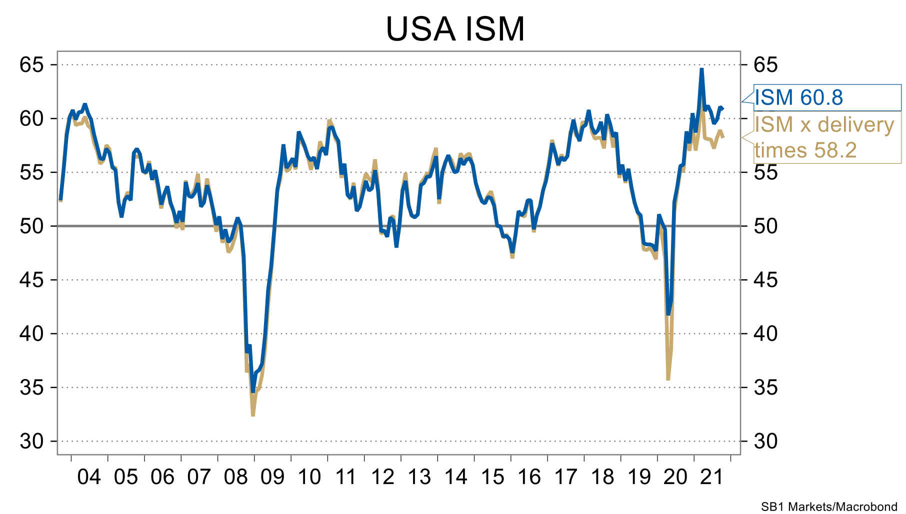
Delivery times are not slowing, and neither is input price inflation

… and the ISM total index is 'artificially' boosted by the elevated delivery times index



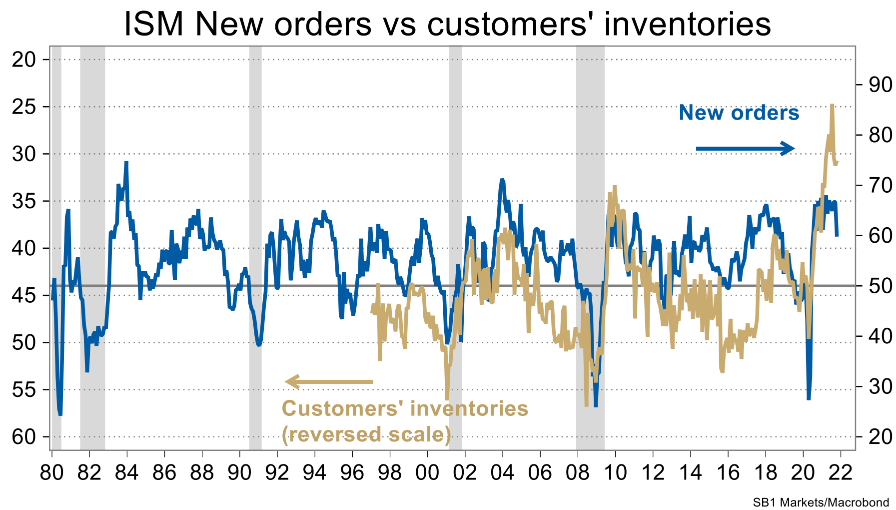


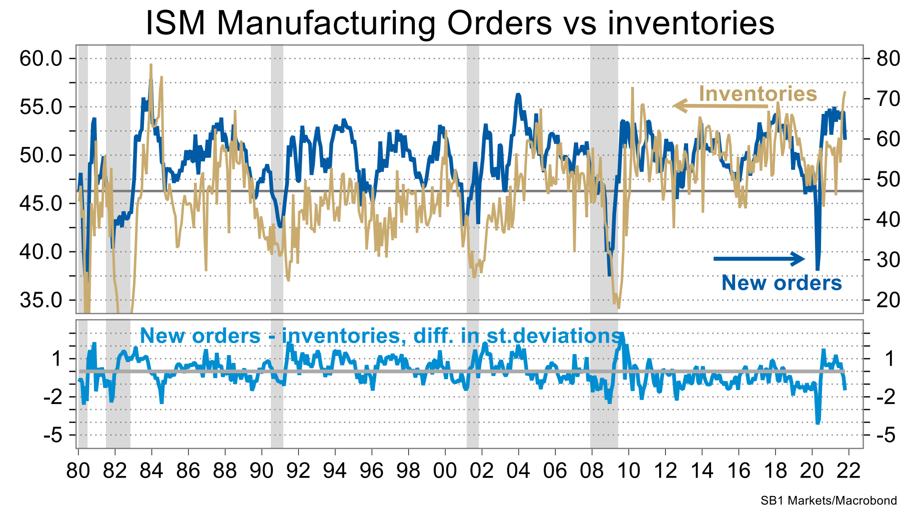


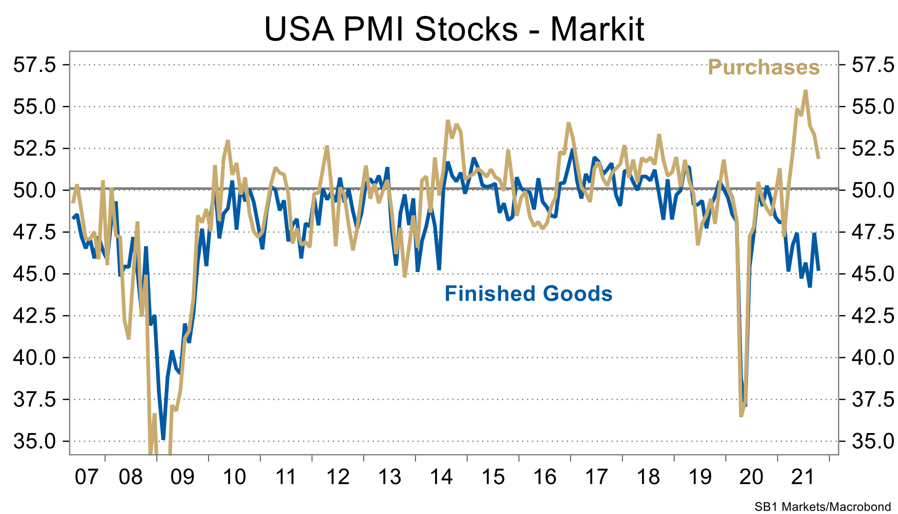


New orders lower in October, and manufacturers inventories grew further

Manufacturers customers' inventories were unchanged from the previous month – still at low levels

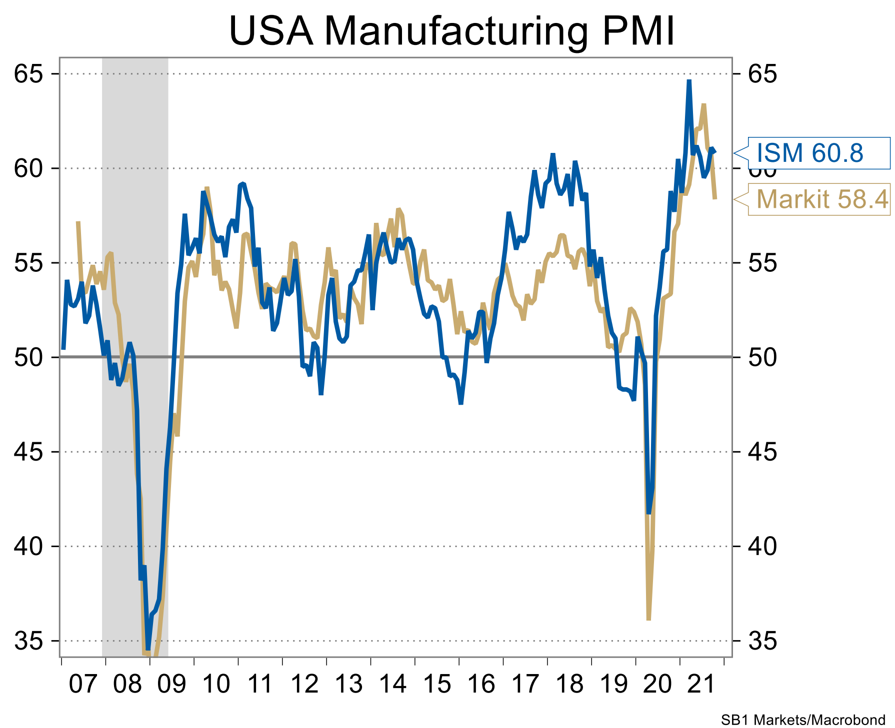


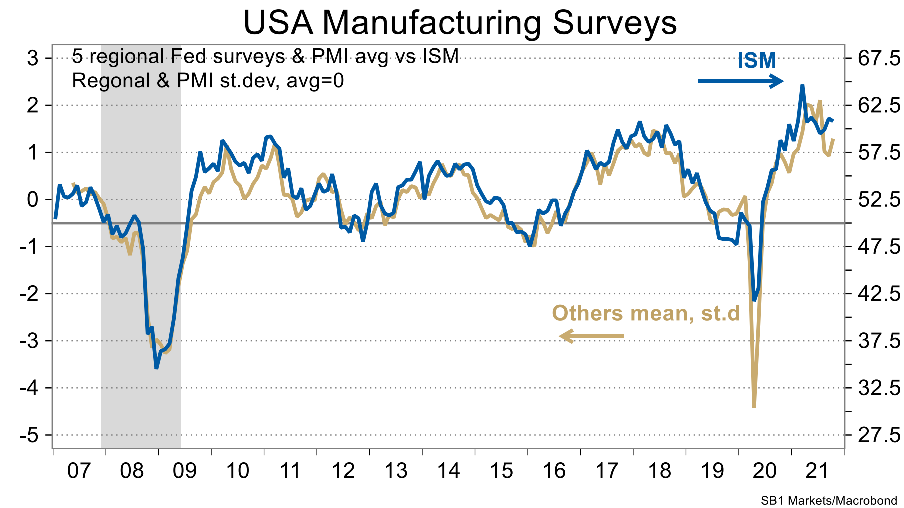


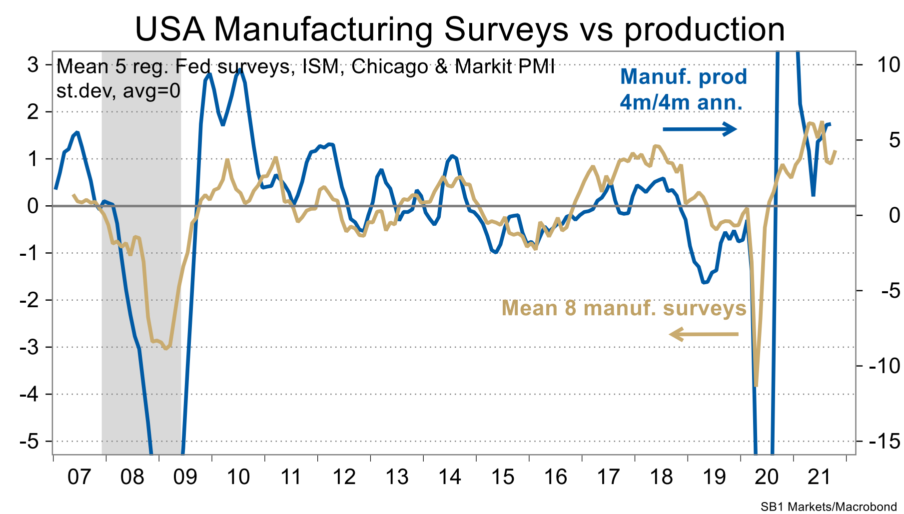


- **The only <u>ISM</u> real 'soft' spot**: Manufacturers' own inventories (of purchases, <u>not</u> finished goods) are rising at a fast pace. Two explanations:
  1) Production is running slower than expected, due to weaker demand or due lack of come components, labour, transport services etc.
  2)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

Sum of manufacturing surveys: up in October, growth above trend





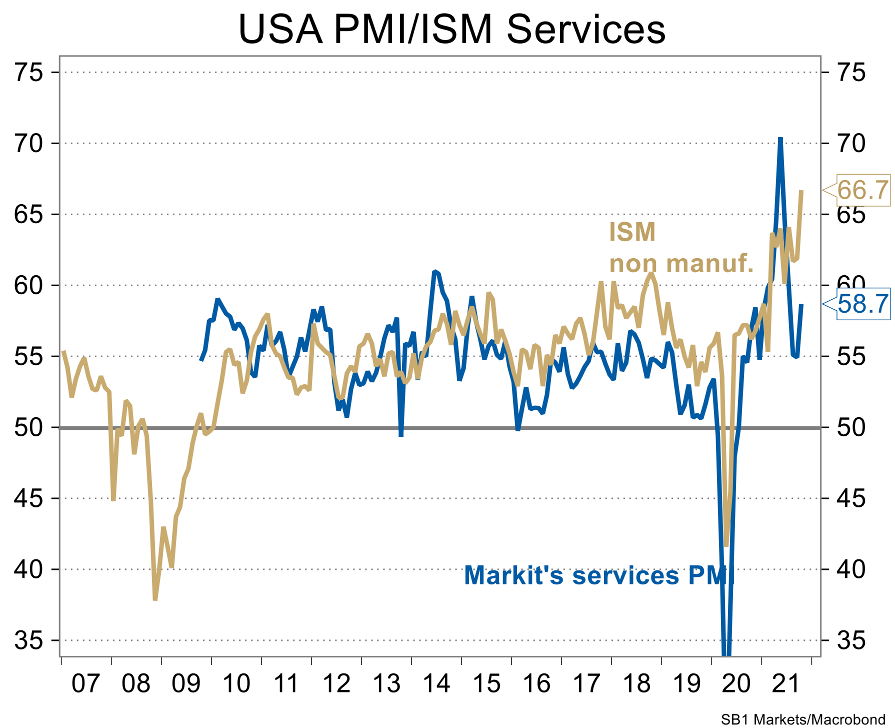


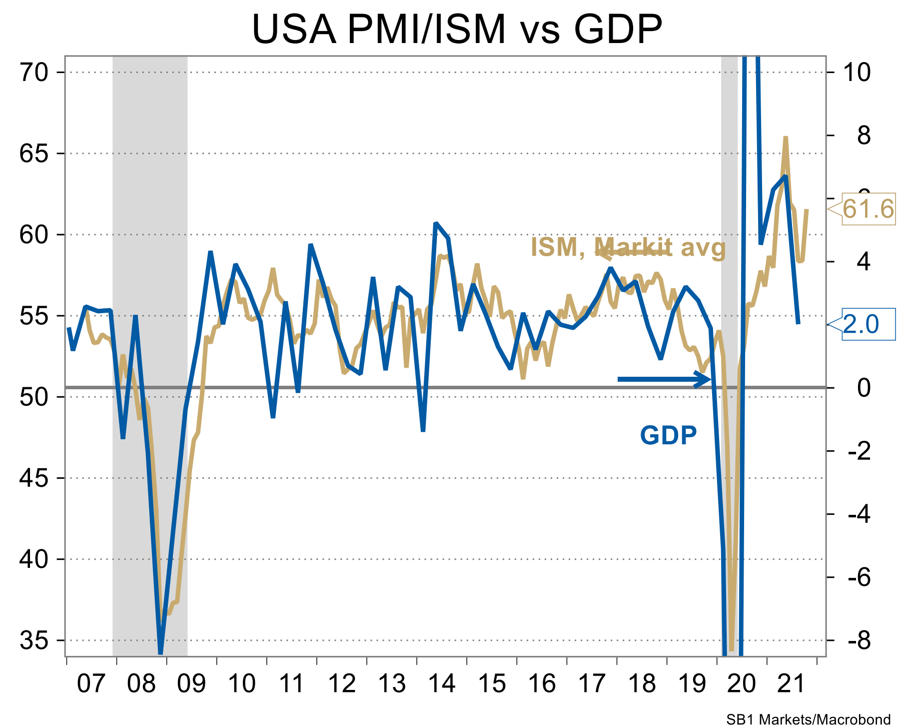
- Actual manufacturing production is on the recovery track but has not quite reached the pre-pandemic level yet
- We expect a continued growth the coming months. The inflow of core durable goods orders are above the pre-corona level
  - » Both exports and investments will probably climb further while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

SpareBank 1 MARKETS

Services ISM shot up to ATH, by far!! The composite PMI signals 6% growth

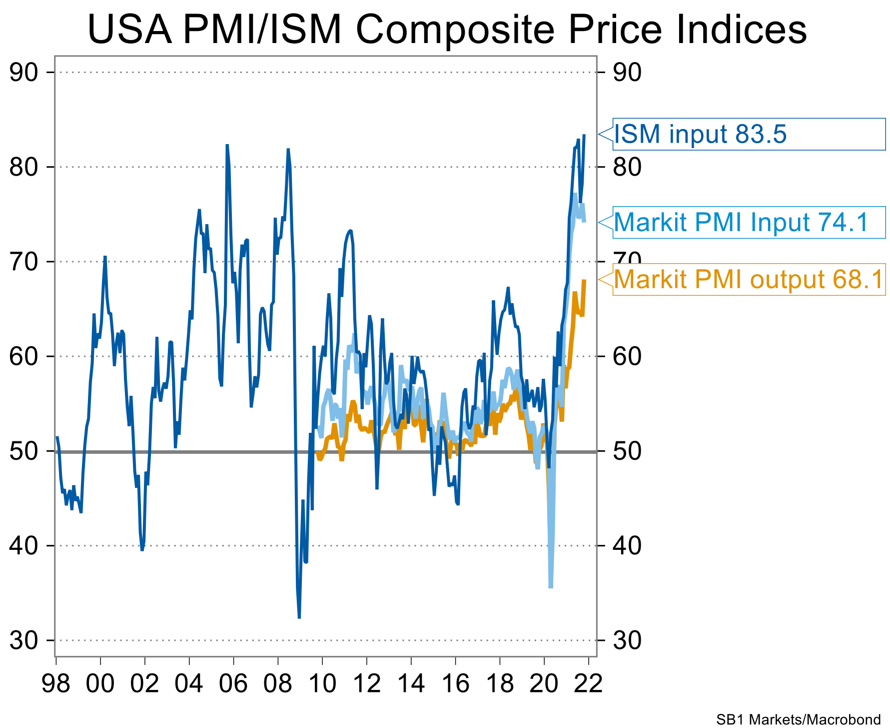
Up 4.8 p to 66.7, expected unch! All 18 sectors reported growth. Delta is not any problem anymore

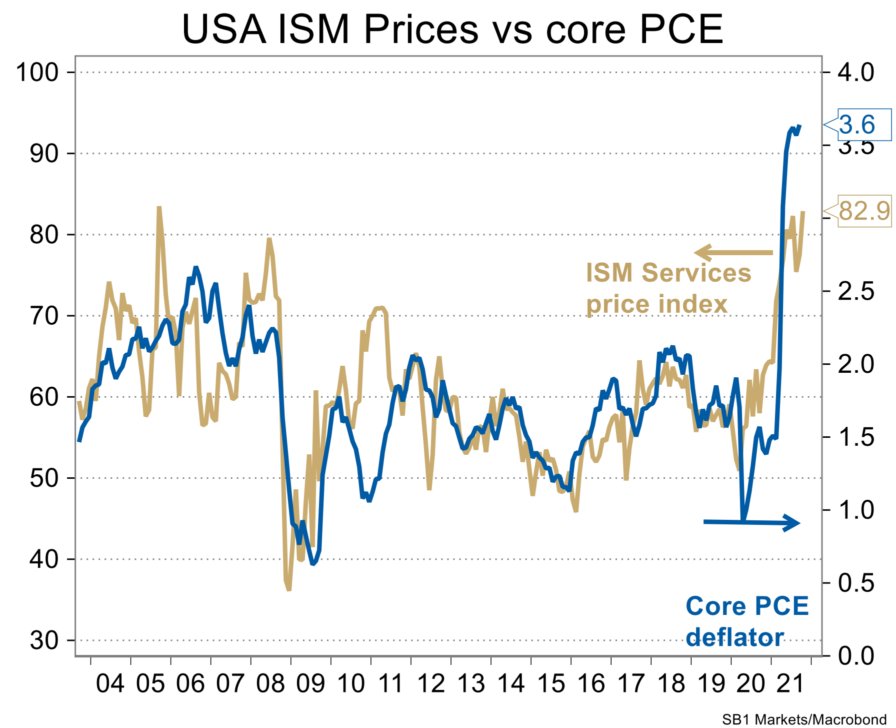




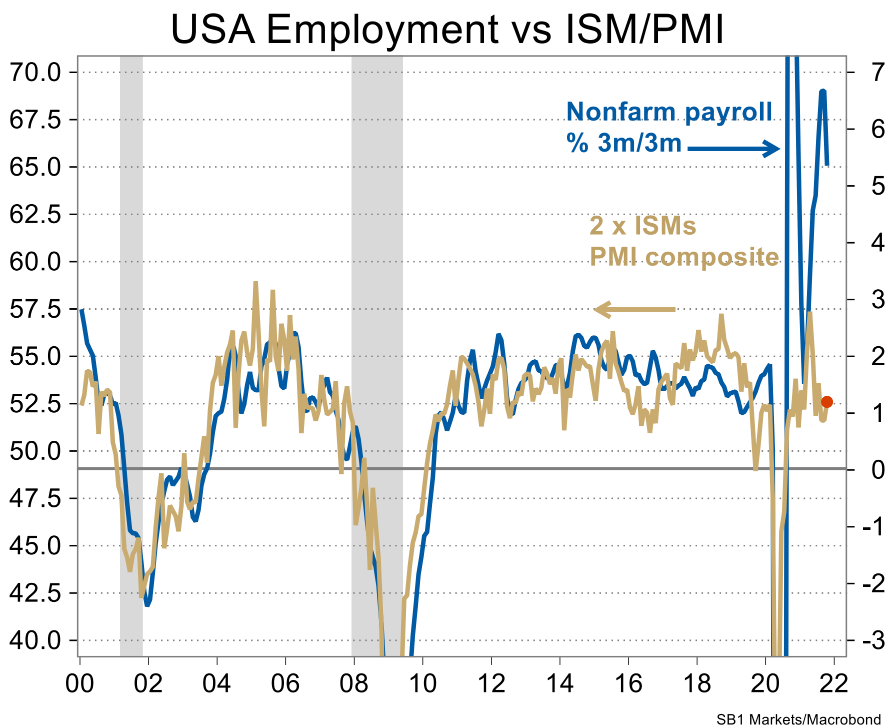
- … if it ever was. **ISM services** orders, delivery times, input prices are surging- and faster. Employment is growing but slower – and inventories are falling rapidly, according to ISM
- **Markit's service PMI** also rose sharply, and even more than first reported. The index is at 58.7, a more than decent level
- Together with their manufacturing indices, the **PMI/ISMs** signal some 6% Q3 GDP growth, well below the actual growth in Q2 (6.5%)
- **Prices indices** are soaring (check next page), for input prices as well as output prices (in Markit's PMI)

Record high price indices but that is already ‘priced in’ in the CPI?





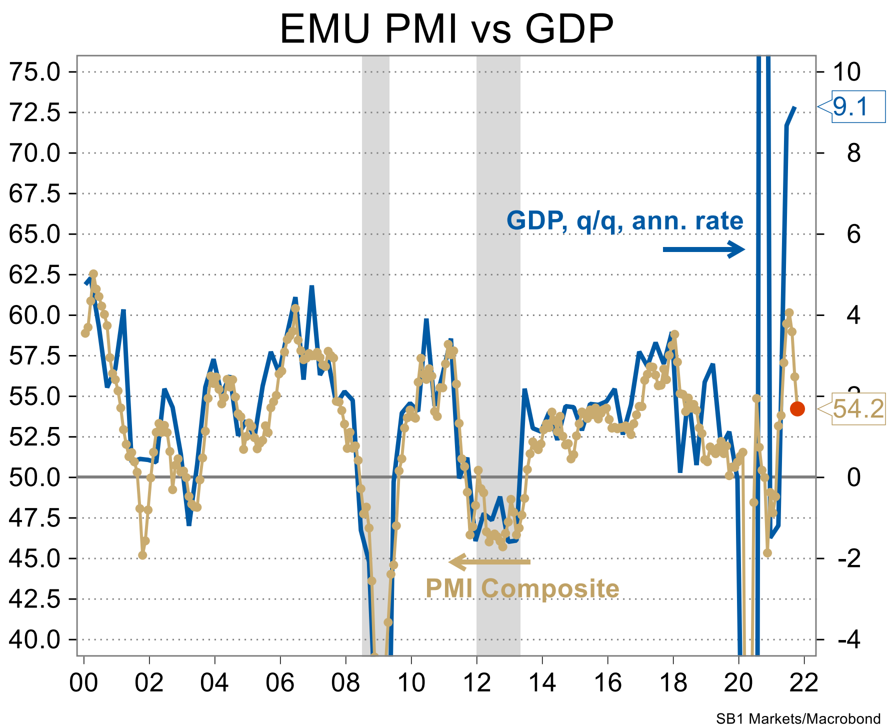
PMI/ISM: The employment indices signals modest employment growth

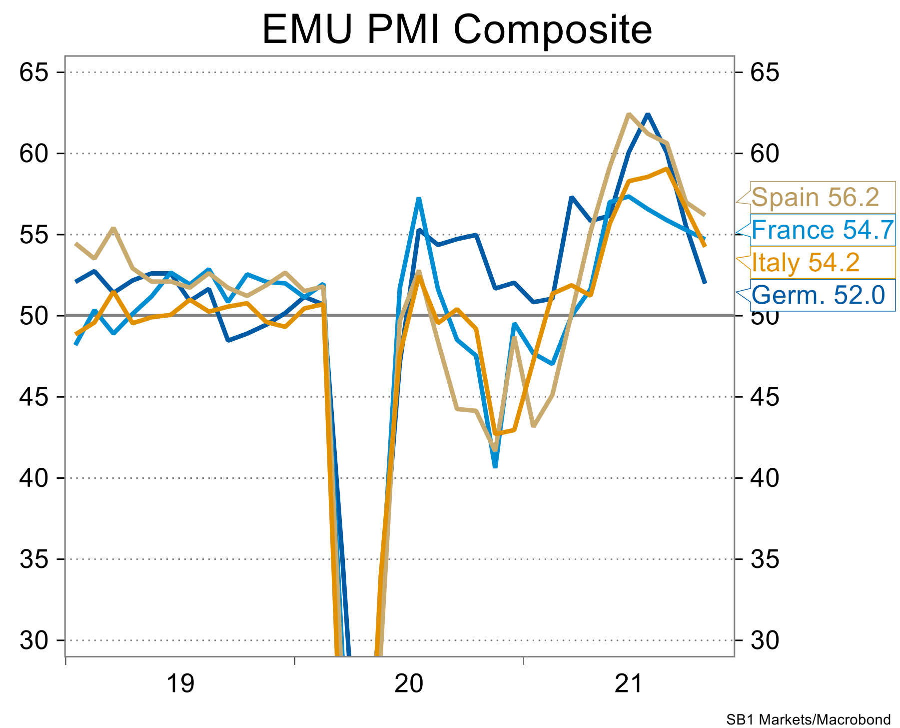


- **Actual employment** growth measured 3m/3m is still strong, at more than 5% pace
- The average of PMI & ISM employment indices signals less than a 1% growth pace

The October slowdown confirmed

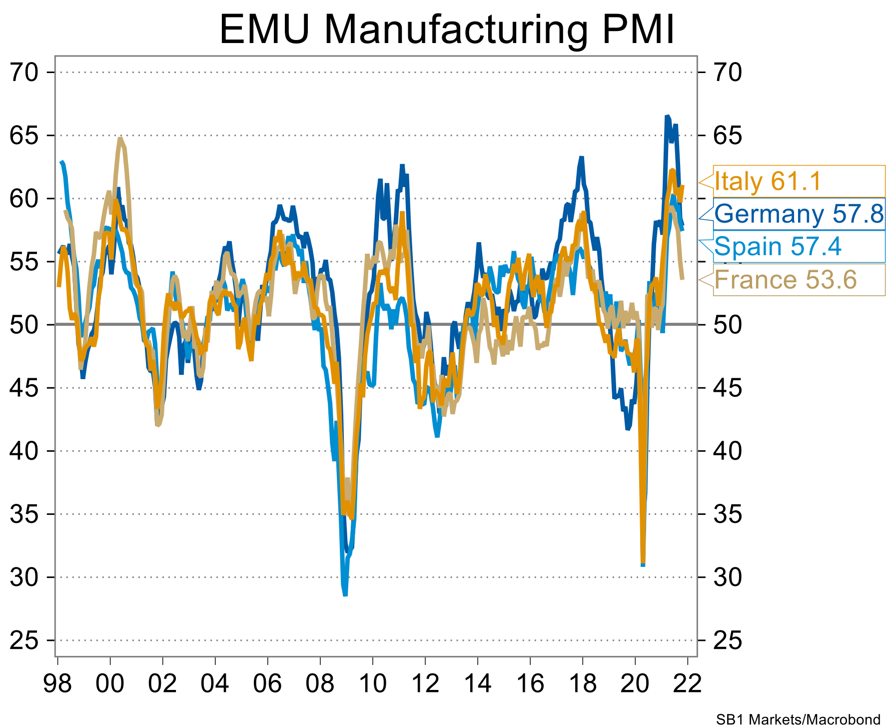
The composite PMI fell in the 4 big countries – and the most in Germany

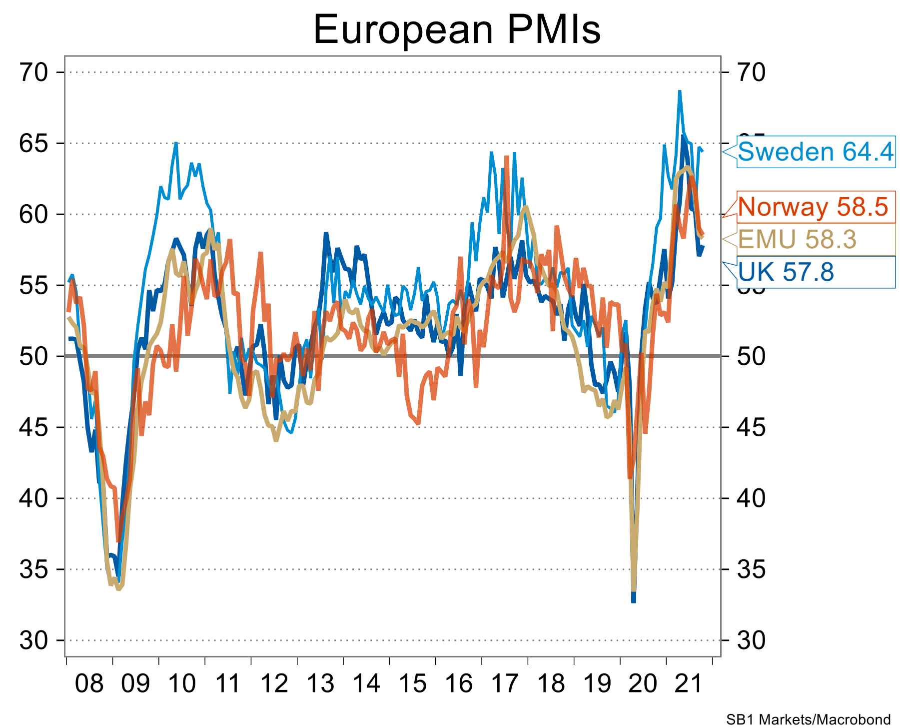




- The final **composite PMI** fell 2 p to 54.2 in October, 0.1 pp weaker than first reported, signalling 1.5 – 2% GDP growth far below the 9% pace in Q2 and Q3 – which was not at all signalled by the PMIs – so we cannot yet fully trust these surveys (as economic developments are still very unusual, and volatile
- All main countries are still reporting growth, and all but Germany growth above trend

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

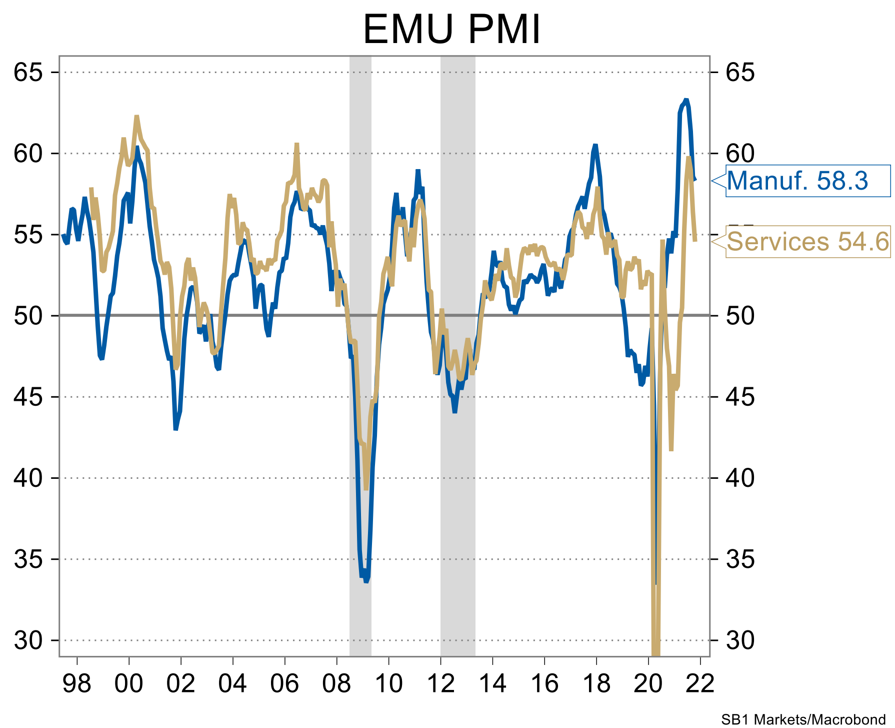


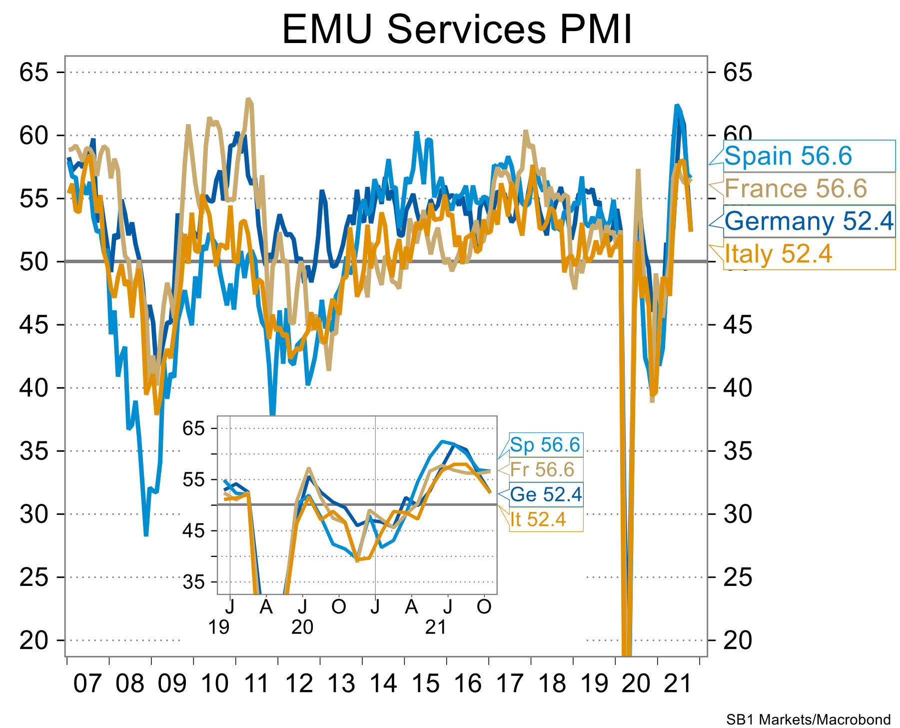


SpareBank 1 MARKETS

Both manufacturing & services are reporting slower growth

Services the most, down 1.8 p to 54.6. The manufacturing index down just 0.3 p to 58.3

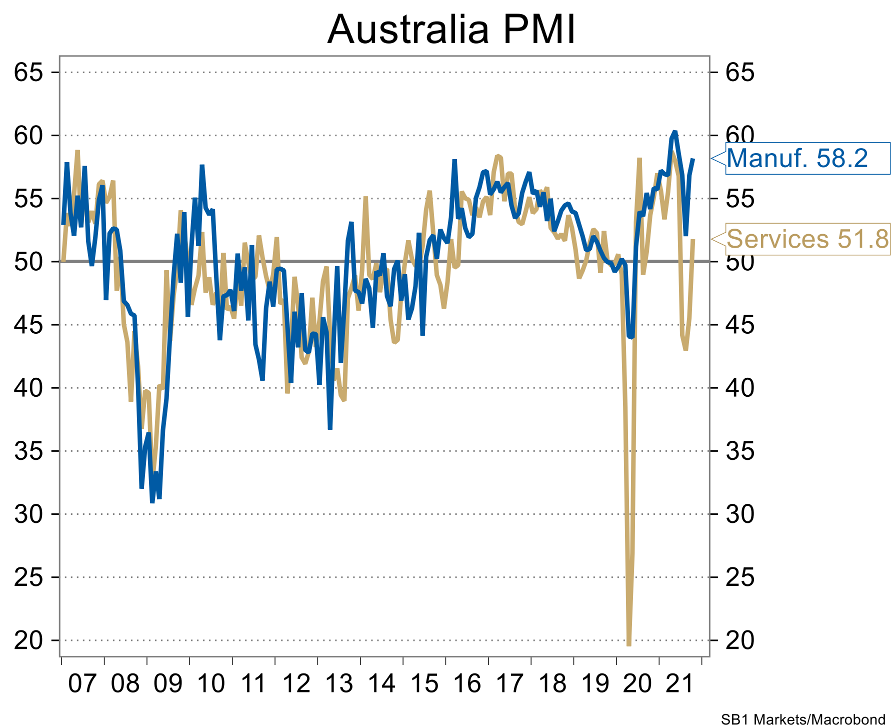


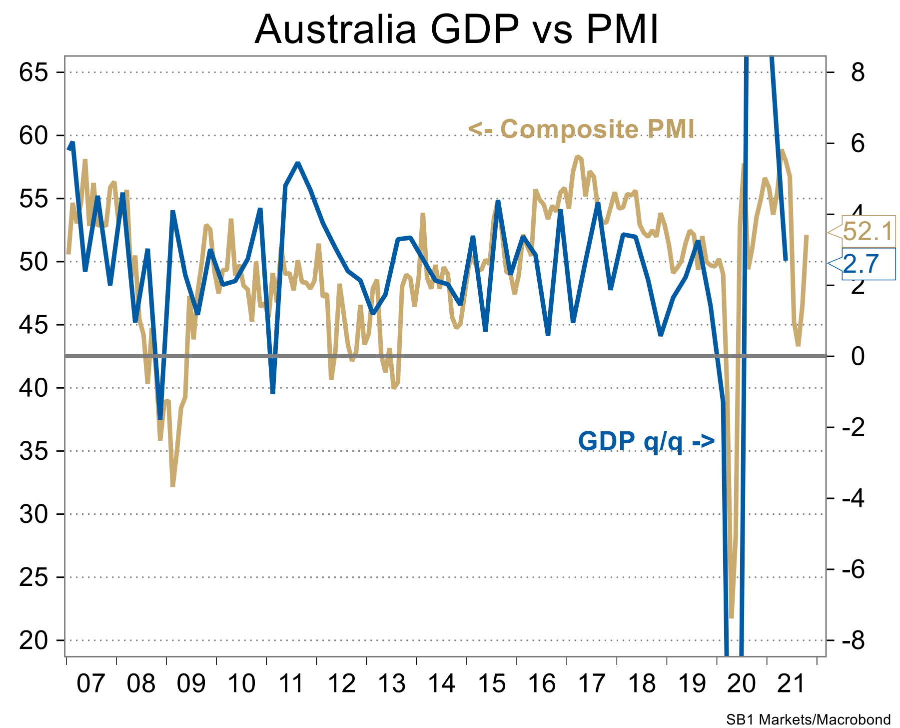


- Services are slowing everywhere but the PMI signal growth at trend or above

Australia has turned the corner, growth also in the service sector

Normal growth is signaled in October

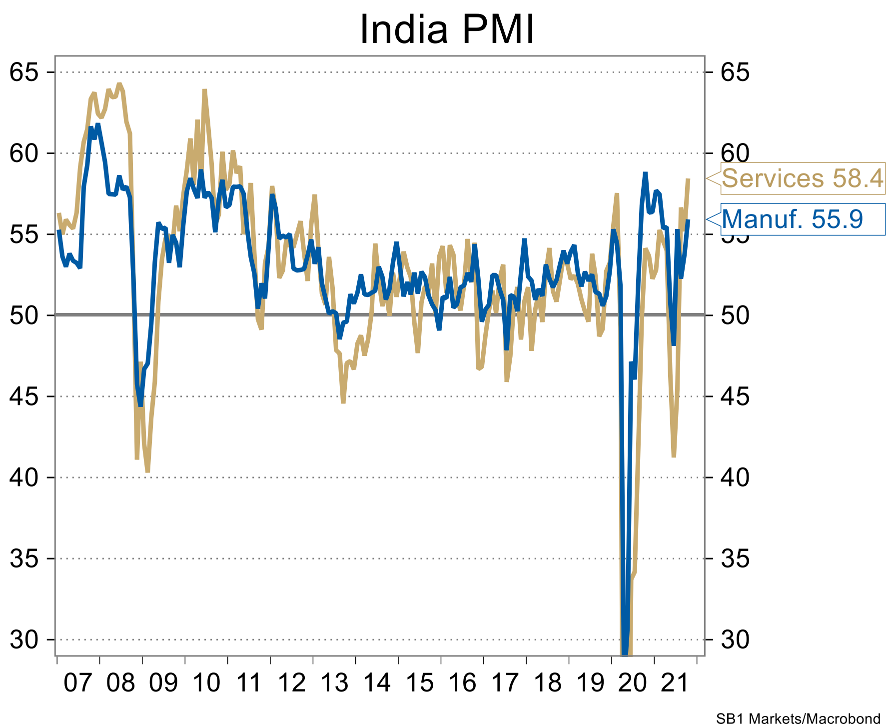


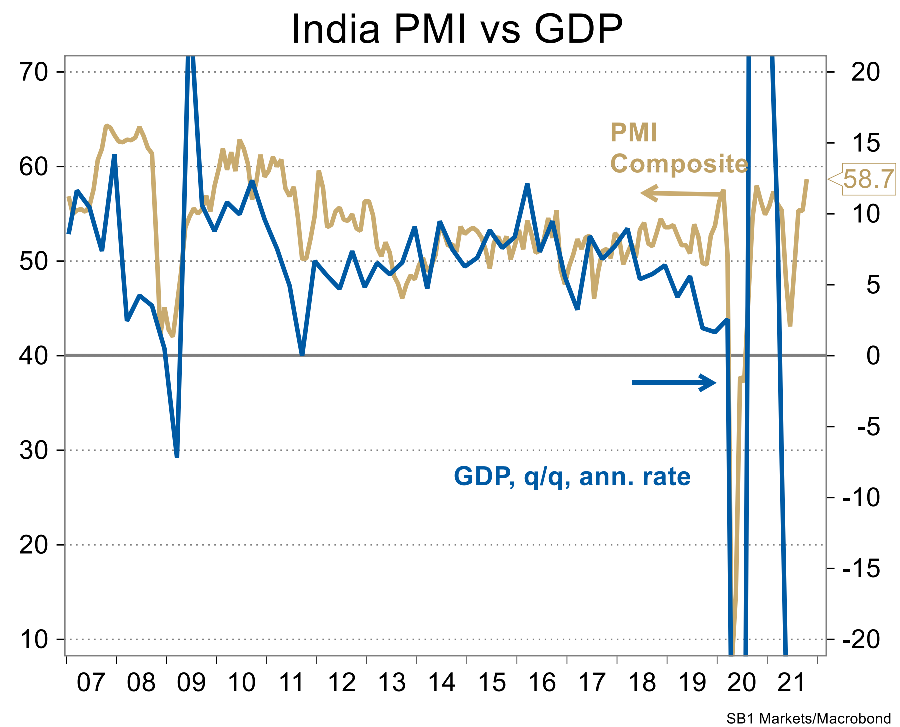


- **The service sector** PMI added 6.2 p to 51.8 in October, after staying below the 50 line for 3 months, during the lockdown period
- **The manufacturing sector PMI** rose 1.3 p to 58.2, one of the best prints ever. A slowdown in China has so far not been felt in the Australian manufacturing sector
- **The composite PMI** at 52.1 signals a growth rate at some 3%
  - » **GDP** Kom en mail inn - og da ser jeg jo at det har kommet en hilsen til den gamle mannen fra Sagesund! Takker og bukker
  - » Disclaimer: The correlation between PMI and GDP is not that impressive

The business sector report a strong rebound in October, the PMIs best since ‘11

Services straight up, signalling the virus problems are gone. Manufacturing strong as well

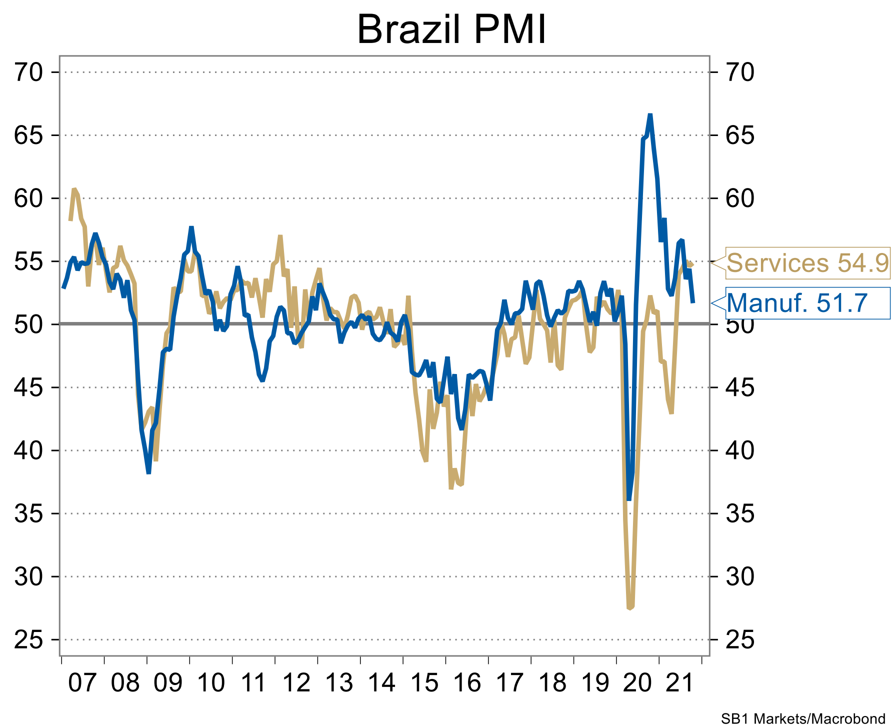


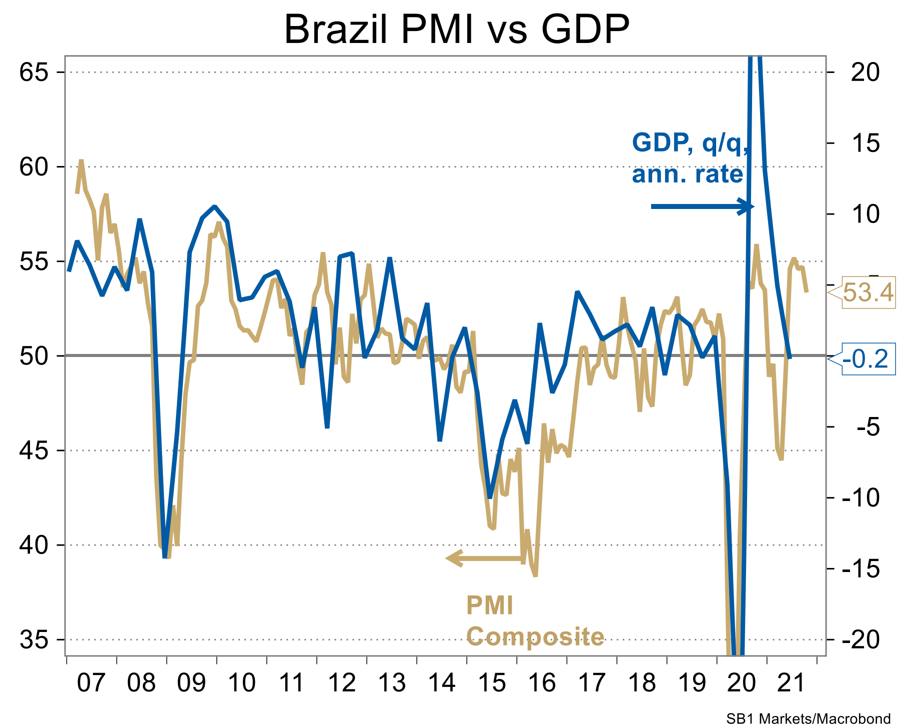


- **The services PMI** climbed 3.3 p to 58.4, the highest level in 10 years as the economy gains speed after the Delta setback in Q2
- **The manufacturing PMI** rose 1.2 p to 55.9, well above the 2012 – 2019 level. New orders are surging, and not due to export orders. Delivery times are not increasing (but the index look suspicious). Prices are sharply up but nothing compared to what manufacturers in the rich part of the world are reporting
- The composite index rose to 58.7, also the best level since 2011
  - » The correlation between **PMI and GDP** is not that impressive but the 58.7 composite PMI signals strong growth in GDP. That’s needed, following the 10% (35% annualised) decline in Q2 GDP

The momentum in the manufacturing sector is ebbing, services still above par

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

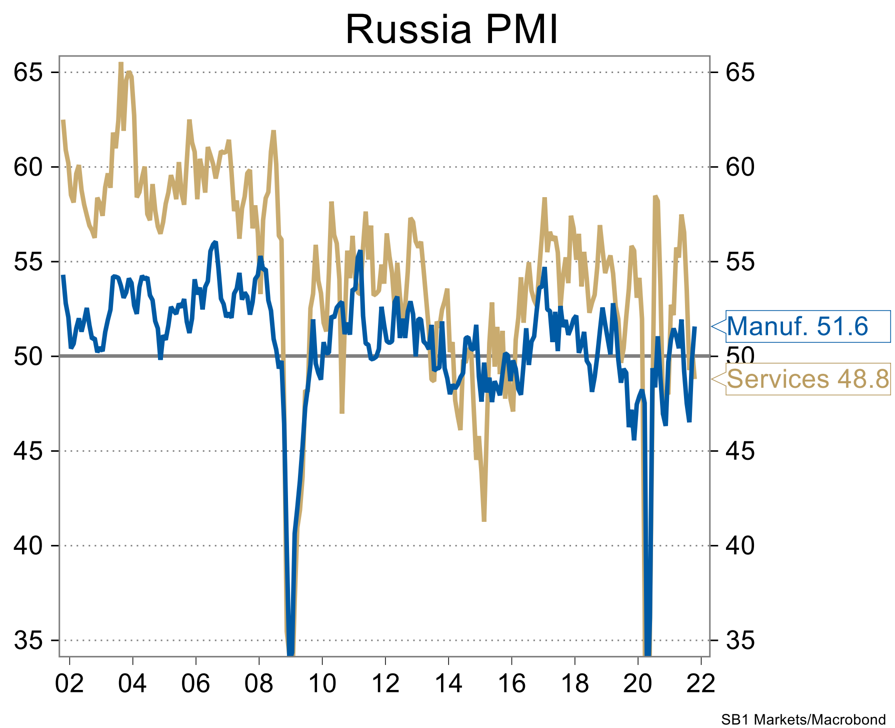


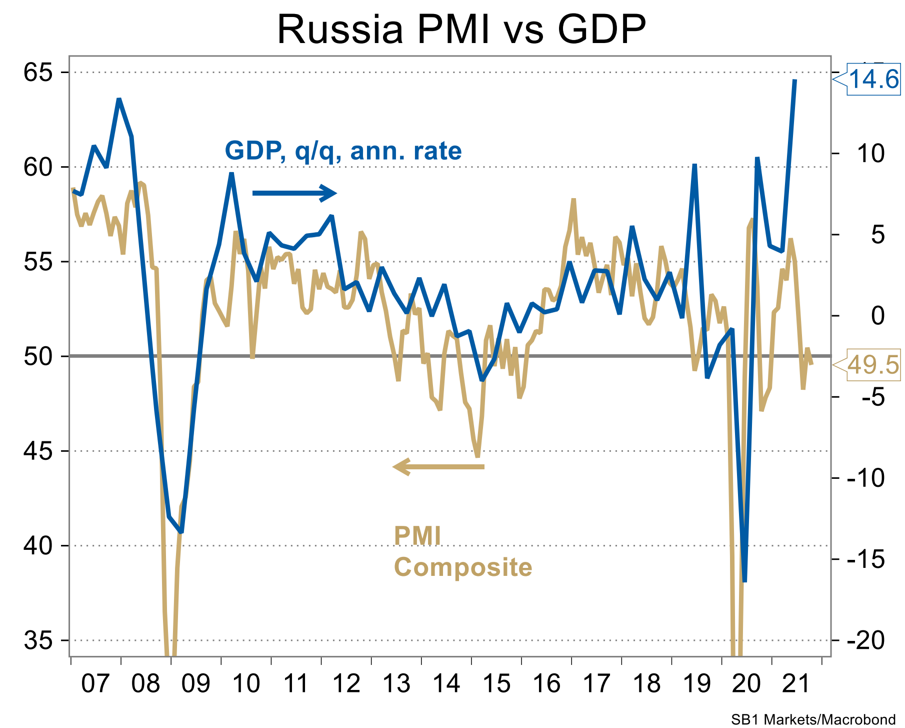


- **Manufacturing PMI** slipped 2.7 p to 51.7, which is not than low in a Brazilian context – the index is still signalling some growth
- **The service sector PMI** added 0.2 p to 54.9, a rather high level, far above a normal level. Barring the 55.1 August print, the level is the best level since 2011
- **The composite PMIs** fell to 53.4. The level is far above an average level – signalling growth well above trend
  - » In Q2 GDP fell -0.2%,very likely due to the struggle against the virus. Now infections are on the retreat, an restrictions are eased

No virus relief in Russia – the PMI down to below 50 again

Manufacturing reports growth, the service sector not. Russia still have some virus challenges

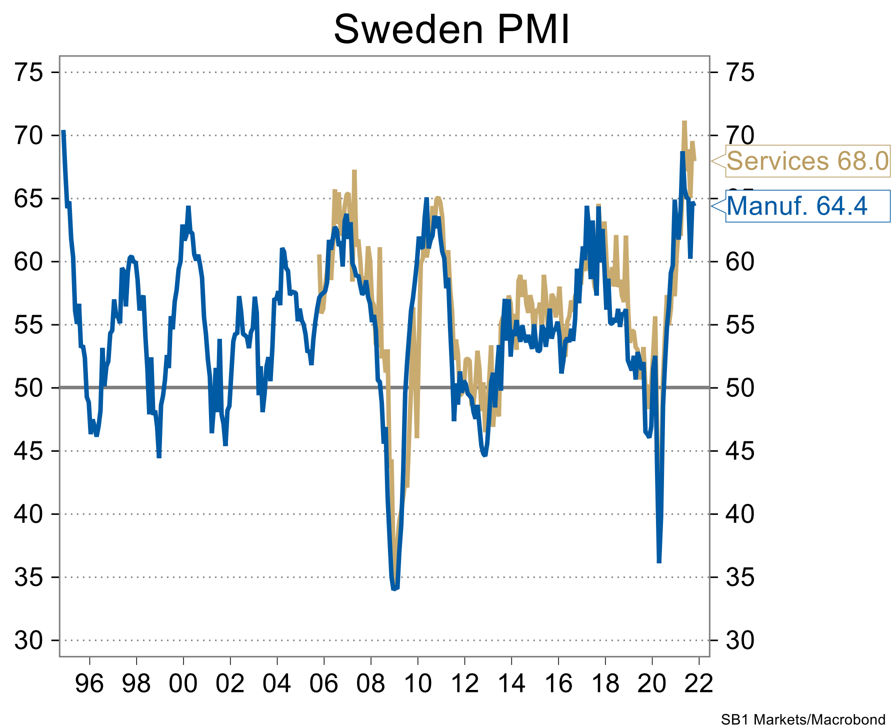


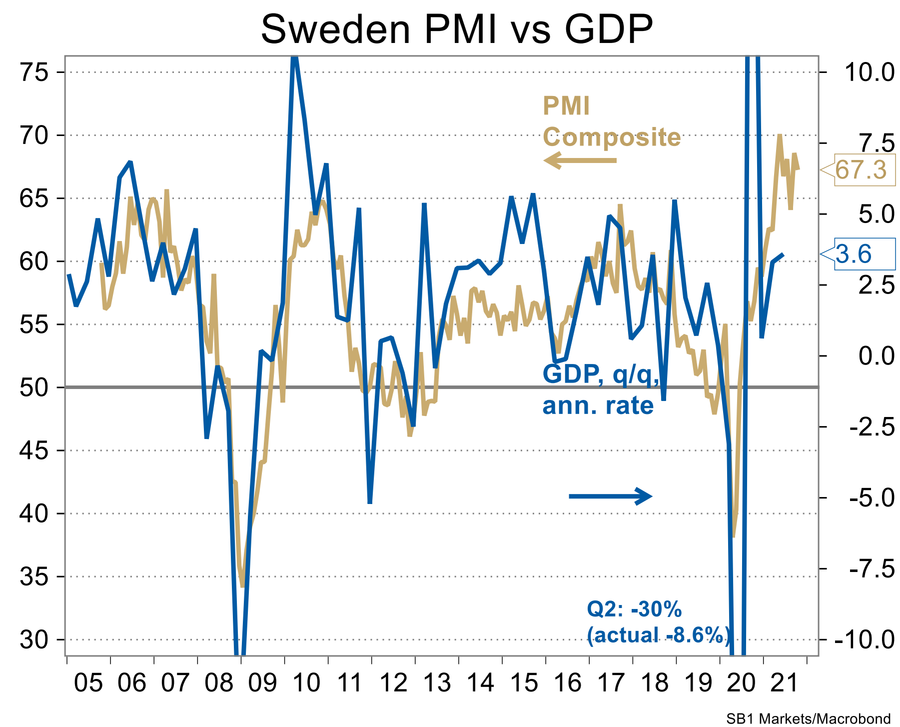


- **Manufacturing PMI** rose 1.8 p to 51.6 in October – and is close to an average level
- **The service sector PMI** declined by 1.2 p to 48.8, far below average
- **The composite PMI at** 49.5 use to signal a 2% contraction in GDP - but the correlation has been dismal during the pandemic
- **GDP** rebounded sharply in Q2, and much more than the PMIs reported, but a low vaccination rate, a high infection rate – as well as a high inflation rate pose some risks. The central bank has lifted the signal rate by 325 bps to 7.5%

Swedish composite PMI down in Sept, still the best in the world!

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

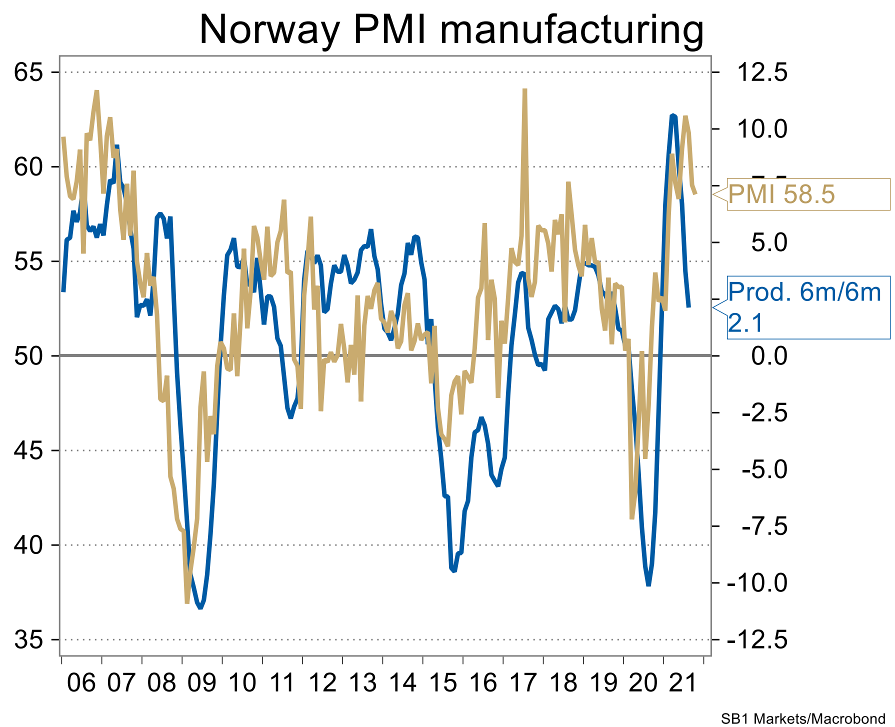


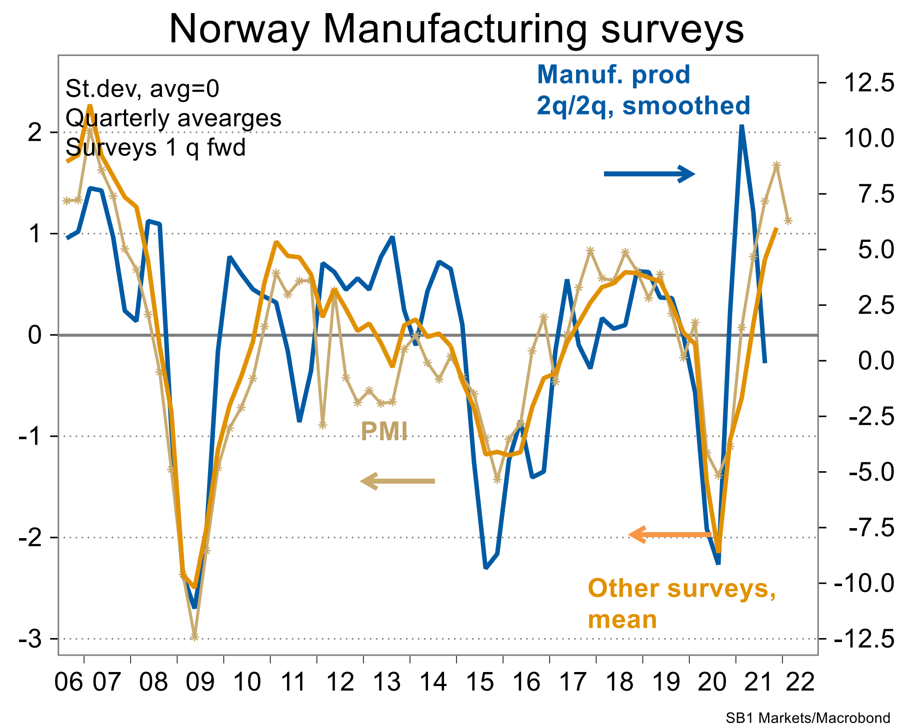


- **The manufacturing PMI** fell marginally following the 4.5 p hike in September. The level at 64.4 is very strong, and it is not just due to longer delivery times. Demand is strong too
- The **service sector PMI** fell 1.5 p to still an incredible strong 68.0
- Taken together, the **composite PMI** fell slightly by at 67.3 exceptional strong growth in activity is signalled
- **Actual GDP** fell 3.8% in August, however from a high level in July. Most likely, Sweden will report Q3 growth, perhaps close to the 3.6% pace in Q2
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until 2025. We have for a long time not been so sure about that. Suddenly the market has come to the same conclusion.

Norwegian manufacturing PMI a small tick down in October, level still high

The Norwegian PMI down 0.5 p to 58.5, we expected 58. Delivery times, prices straight up, here too

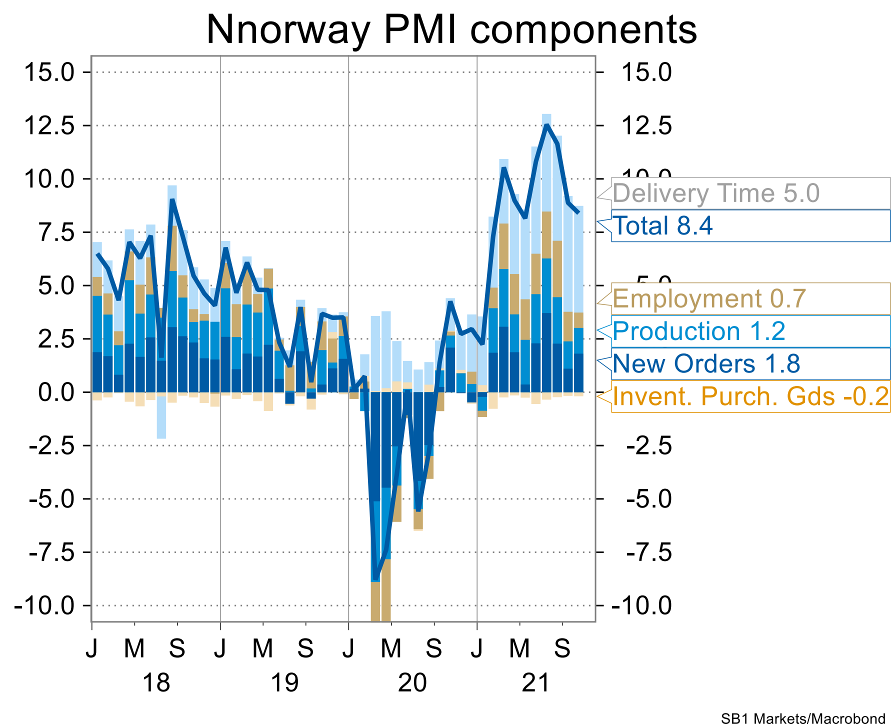


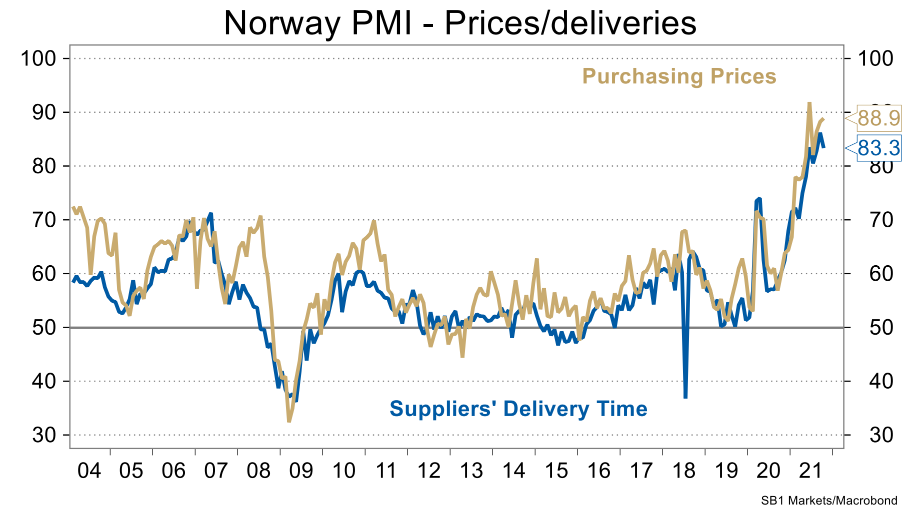


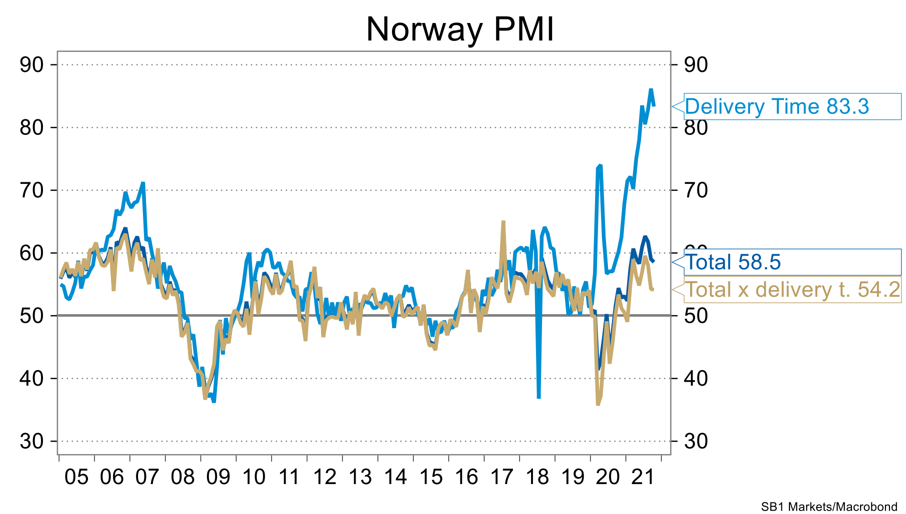
- The new orders index rose (both domestic & exports), while the employment index and the delivery times index fell
- Businesses here, as many other places, are reporting of bottlenecks and increased input prices (check next page). We doubt the record high delivery time index signal strength in the manufacturing sector, and an index excl. this component is more relevant now (like in other countries, check next page)
- Other **surveys** have turned up lately to above-average levels
- Even if surveys have been reporting growth, **actual production** has fallen slightly since April

The delivery time index lifts the headline PMI artificially

A total index excluding the contribution from the delivery times is more relevant now



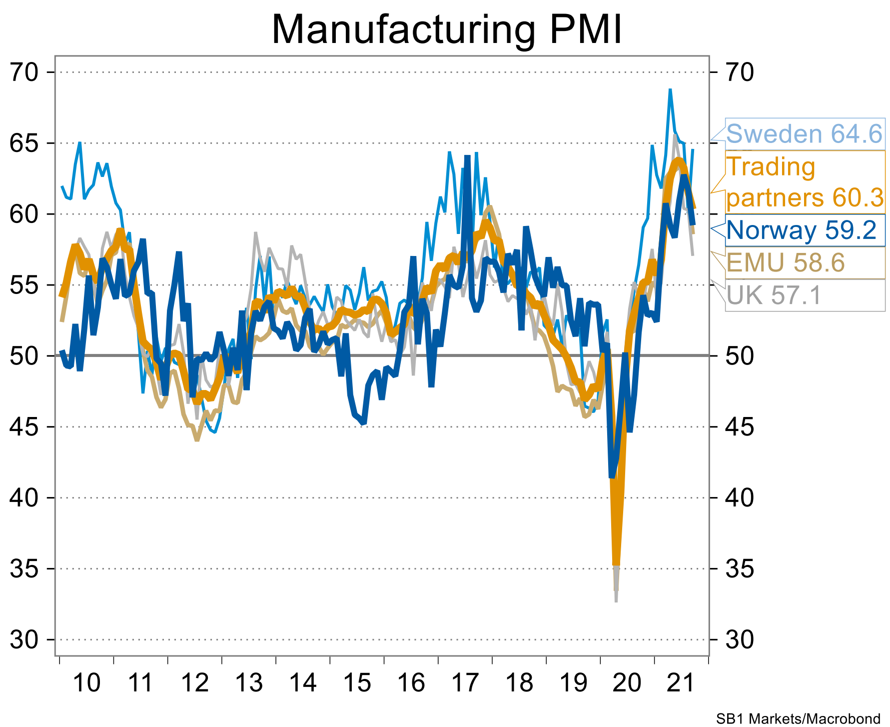


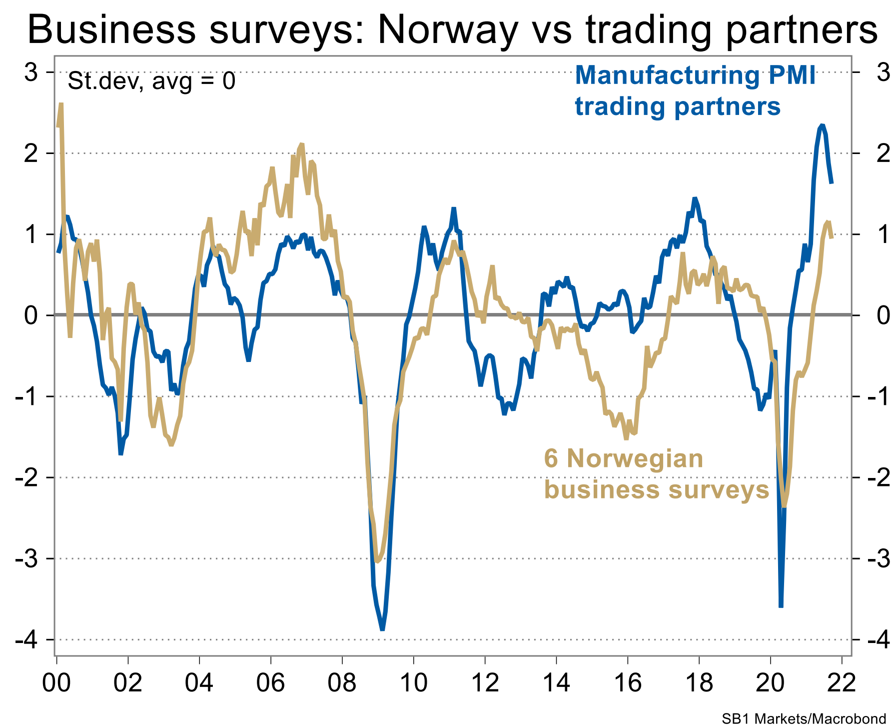


- Normally, the delivery time index has not had any sigificant impact on the total PMI index - Because the delivery times index has been quite closely correlated other components in the headline index
- The unprecedented lift in the delivery times index does not signal strong growth in activity in the manufacturing sector. Thus, the total index ex. delivery times or the new orders & output indices are more relevant for assessing the strength of the manufacturing sector. (The same goes for most other countries as well)

Norwegian manufacturers in tandem with our foreign peers

… but surveys are reporting decent growth

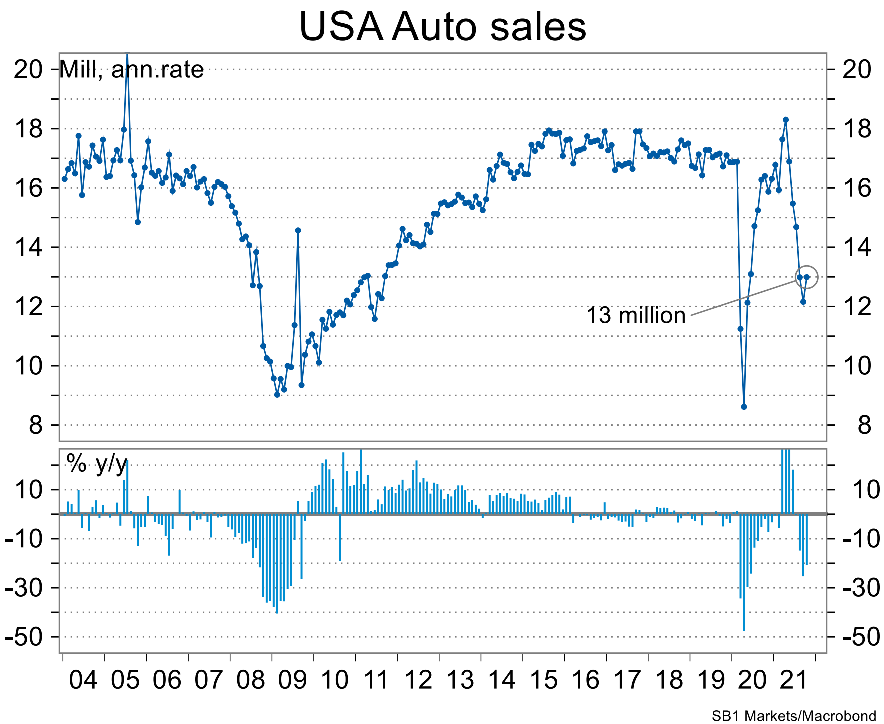


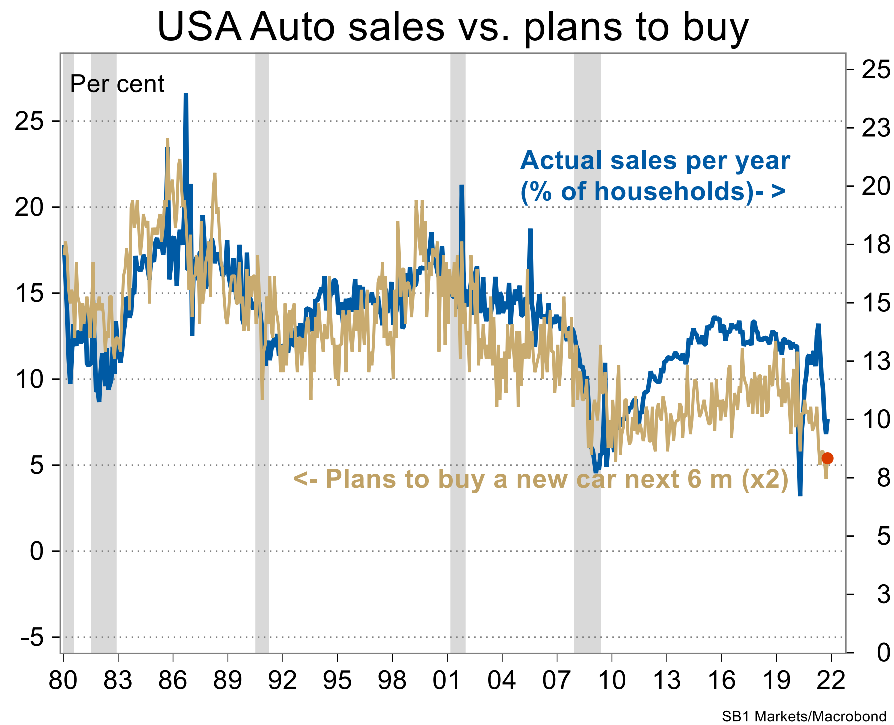


- The downturn in oil investments (until now) is very likely the explanation for Norway lagging our trading partners somewhat

US auto sales slightly up in October, still very low

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

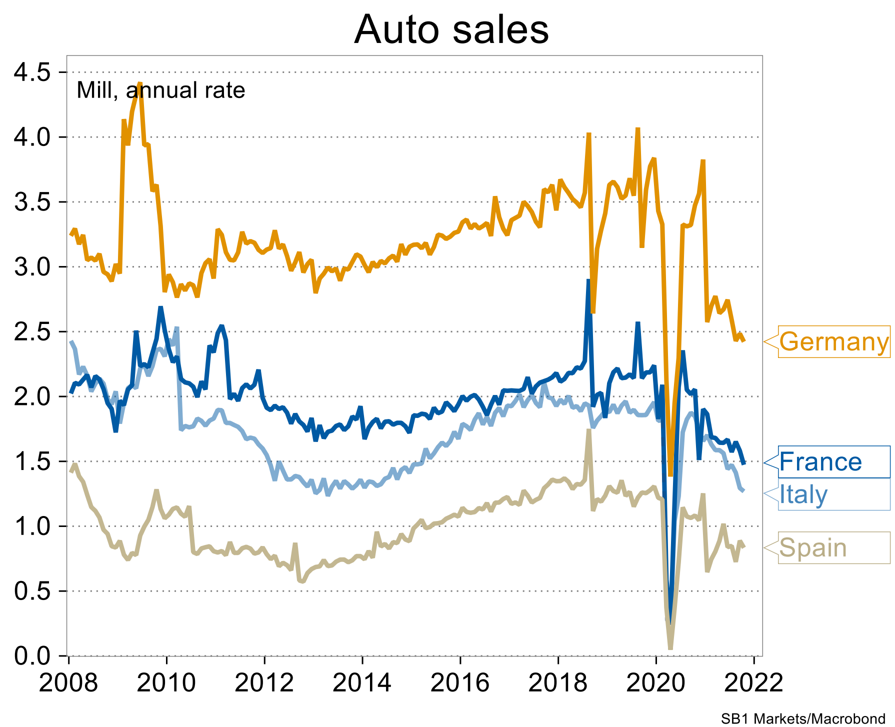


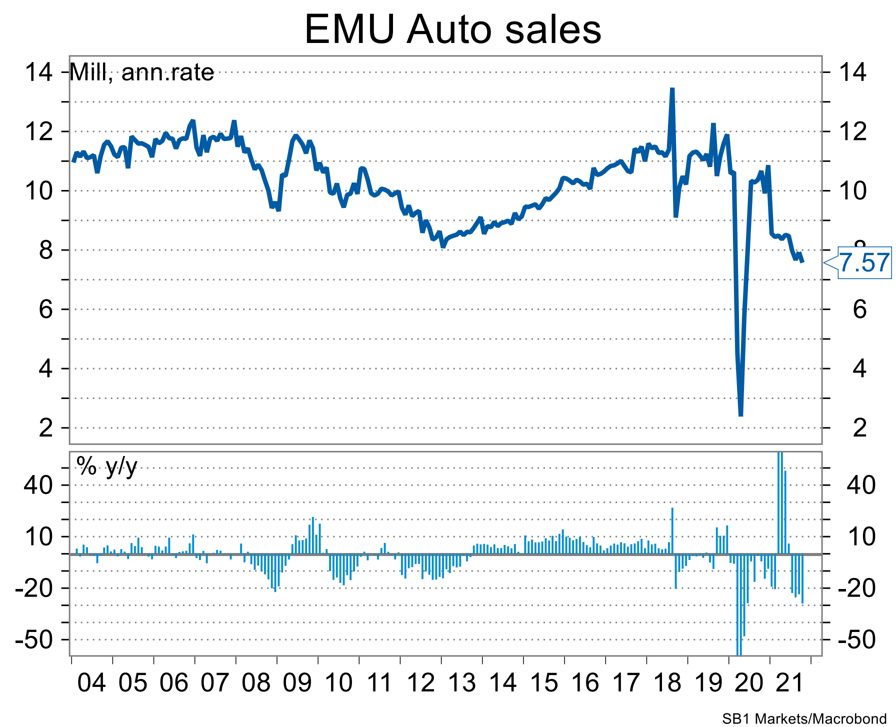


- **Sales** climbed to 13 mill (annual rate)in October from 12.1 mill in September, expected close to unchanged. The level is far below normal, due to lack of data components
- Households have revised down their **plans for buying a new car** substantially recent months as they probably have observed that there are delivery ‘challenges’. In addition, prices are rising sharply (for identical cars), and more expensive models are prioritised by car producers (or rather cars with the highest margins)
- **Demand for cars** is still strong, as the 2nd hand market is ‘emptied’, and used car prices have soared 40% (albeit falling slightly over the summer)

EMU: Auto sales further down in October – all big 4 contributed

Sales are down more than 30% from the 2021 level

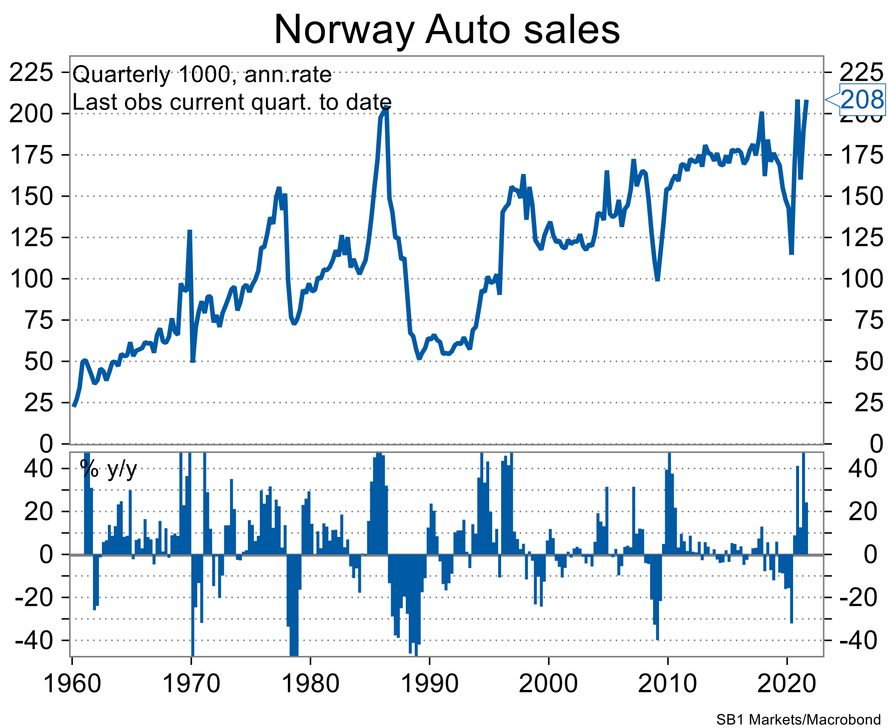


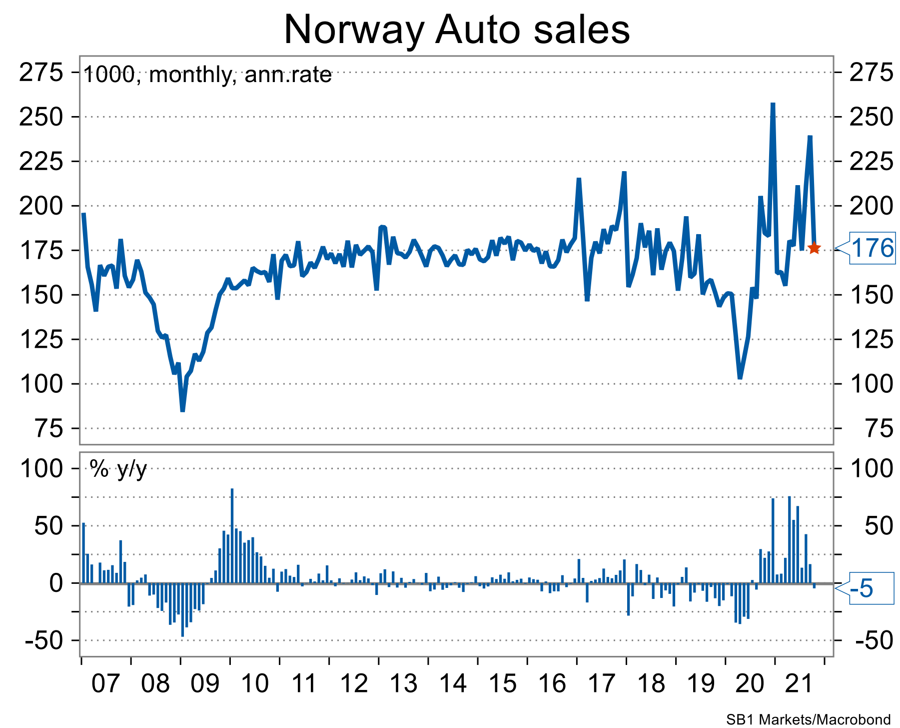


- Several countries have not yet reported but a substantial decline for the region seems very likely

Norway: Auto sales down to more a more ‘reasonable’ level in October

Sales (first time registrations) down to 176’ (annual rate) from 239’ (which was the 2nd highest ever)

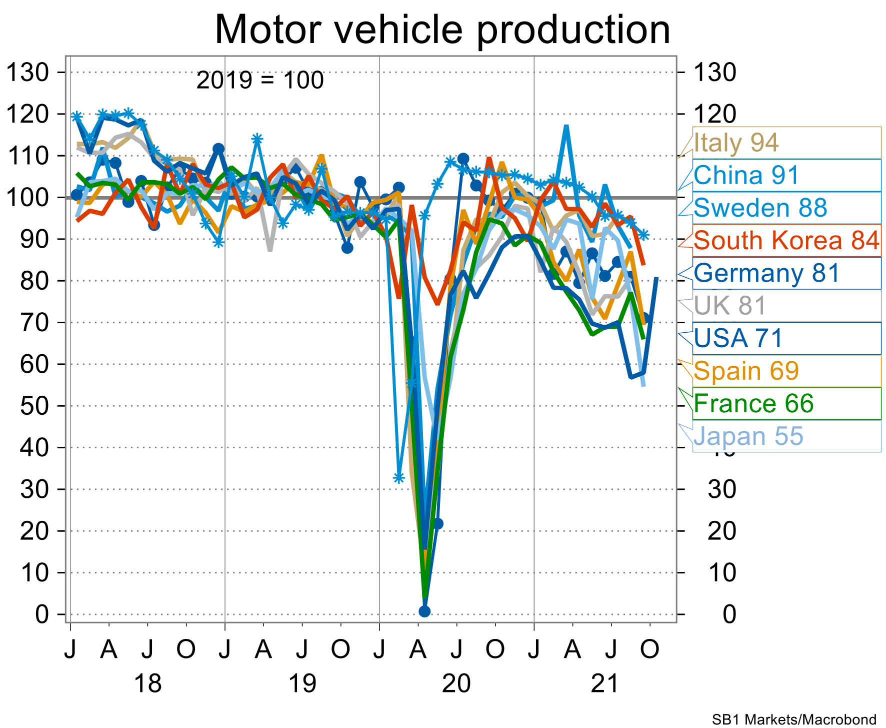




- Sales in October was still higher than the 2019 average! Not many countries are up there these days

German auto production up in October from an upward revised Sept. level

Production is down 19% vs the 2019 level, up from previously reported -60% in sept (now -40%)

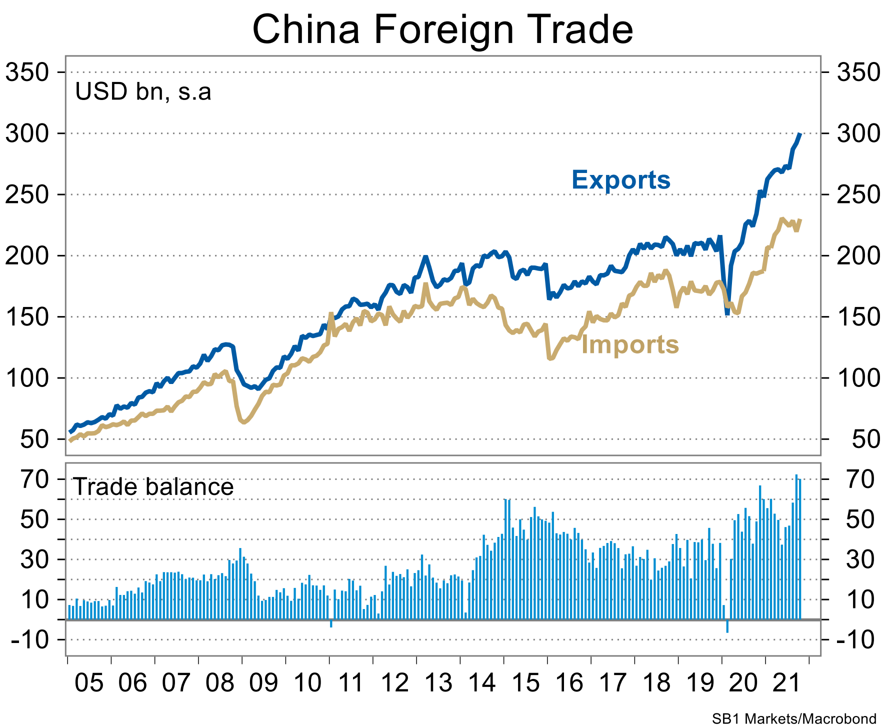


- At the same time, the imported share of US auto sales have increased recently – implying that US auto exports should have increased

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

Both exports & imports up in Oct, exports are record high. An ATH trade surplus

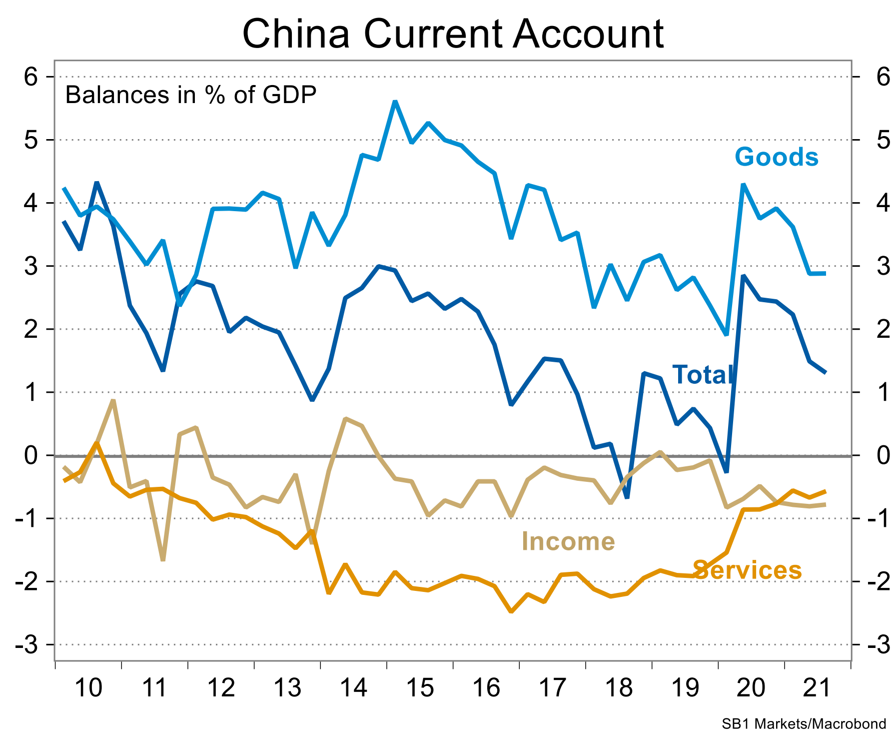
Exports 4% higher than expected, imports 2% lower – and import volumes are not impressive!



- **Exports** grew by 3% in USD terms in Oct (our seas adj), and are up 27% y/y, from 28% in Sept, expected down to 22%. Export volumes very likely rose too and the level is high, up 20% vs the pre-pandemic level and 13% above the p-p trend path! Signals still strong global demand for goods. Prices are up 15% y/y
- **Imports** values added 5% m/m and are up but are up 21% y/y, up from 18% in Sept, expected up 26% (an optimistic estimate). Recent months import values have flattened, and as prices have climbed, import volumes are down some 8% since the spring. Import volumes are now below the pre-pandemic trend. Prices are up 25% y/y. Oil and iron ore import volumes were still weak in Oct, while coal imports remained high following the surge in Aug
- The **trade surplus** was the highest ever in Oct, at USD 84 bn, expected 'just' 64 bn! However, seas. adj, the surplus fell slightly to USD 70, from ATH in Sept
- For some time we have expected an export slowdown in H2 due to lower demand for goods in the rich part of the world – but we are still wrong! The decline in imports confirms a softening of domestic demand, both retail sales and investments. So far, the slowdown is modest, in imports too, and within the 'normal ups and downs in activity

A large trade surplus but a smaller surplus at the current account

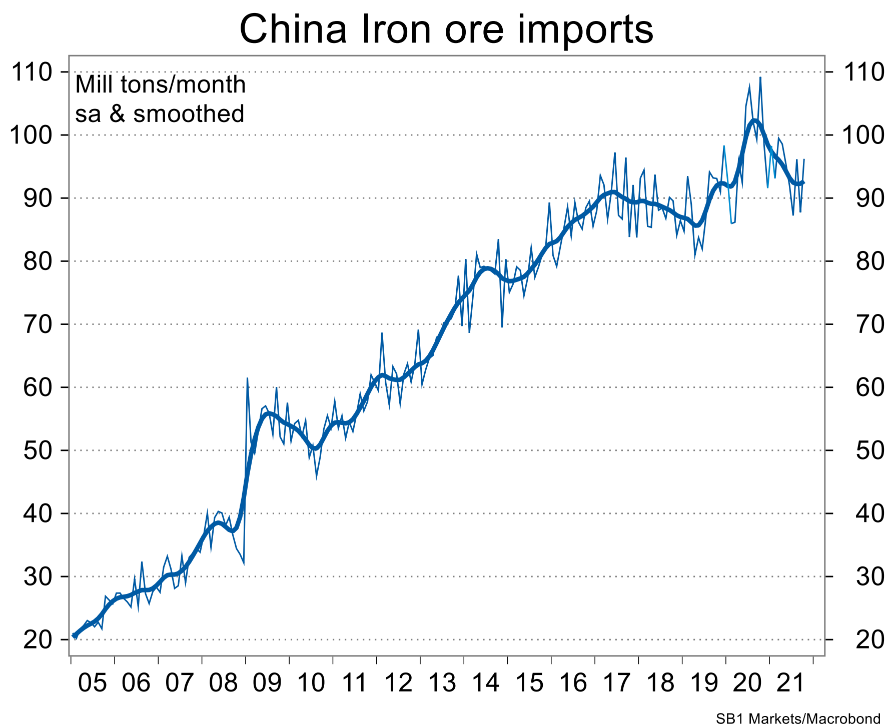
The C/A surplus is just above 1% of GDP but well above the pre-pandemic (low) level

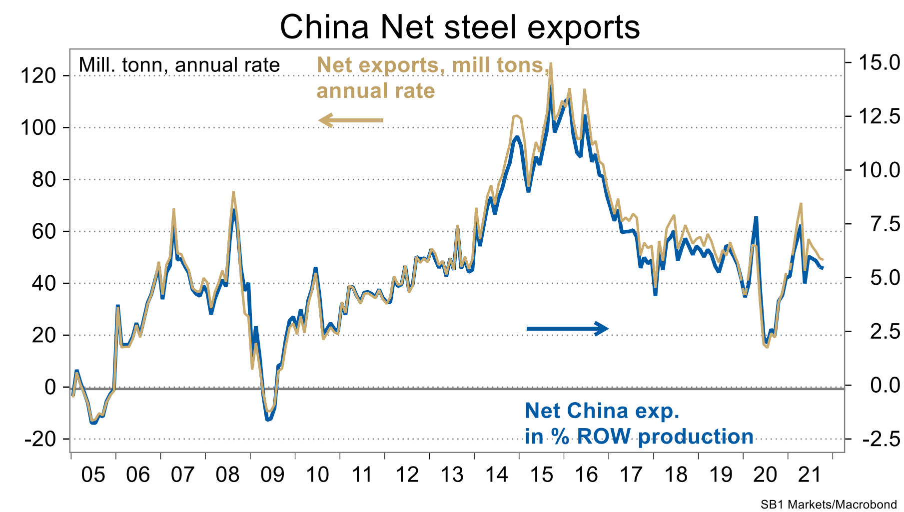


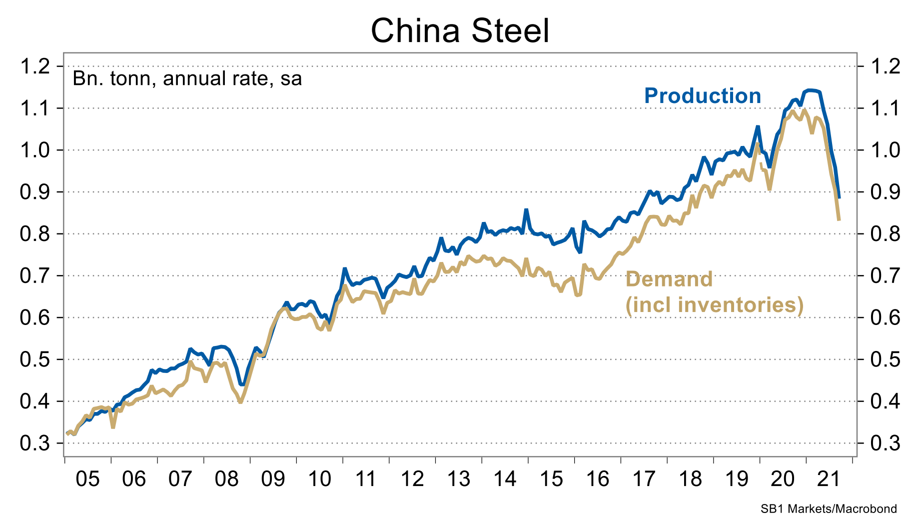
- The trade surplus in goods was some 3¾ % in Q3
- In services, China runs a 0.6% deficit (Q2), down from -2% in 2015 – 2019 (but from zero 10 years ago). For the time being, the Chinese do not travel abroad (and we do not visit them either)
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

Iron ore imports have fallen 10% but may be stabilising now

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



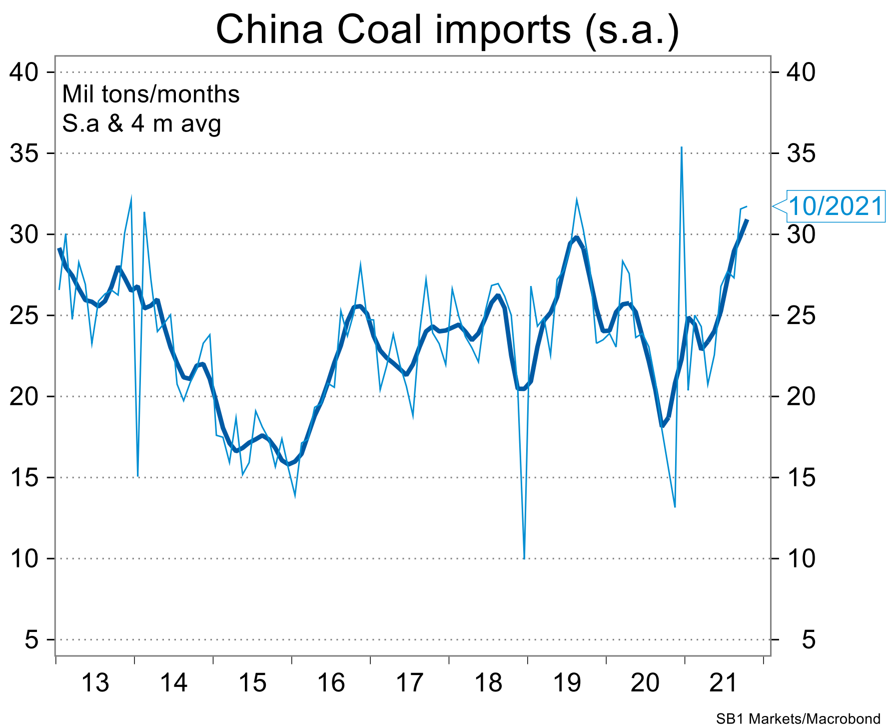


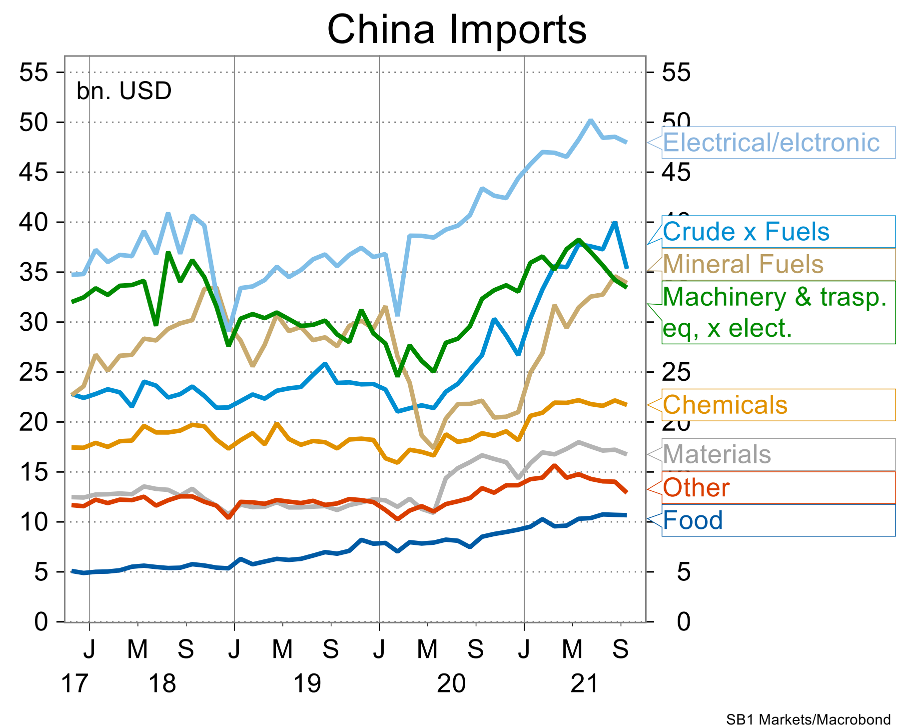


- **Iron ore** imports have fallen more than 10% since late last summer – but not further the past 3 months (Aug-Oct)
- **Steel production** has fallen sharply too (until Sept), and by more than 10%. Domestic demand is down, most likely due the decline in construction activity

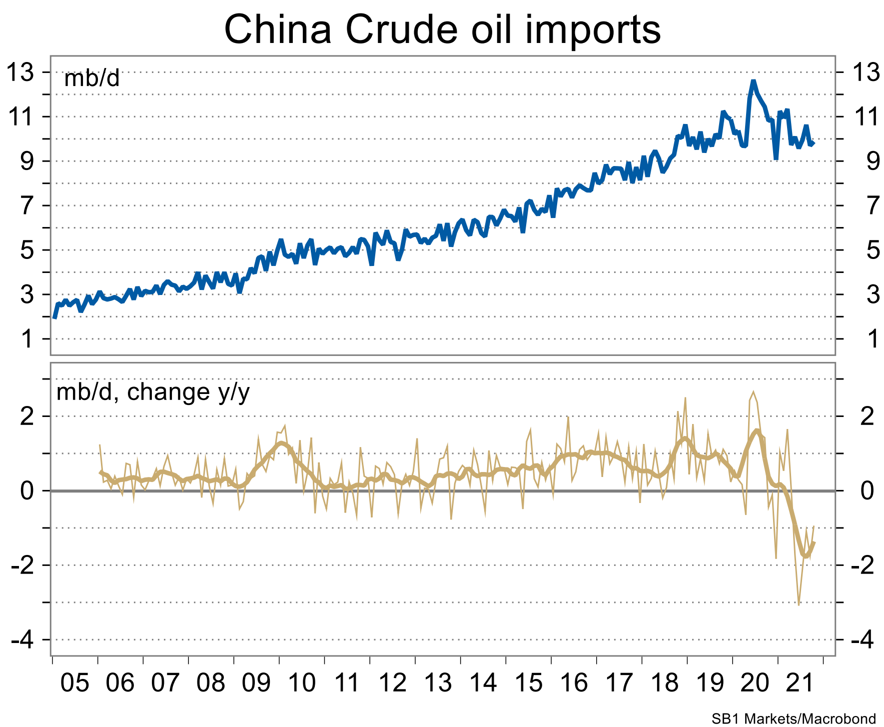
Coal imports at a very high level in October!

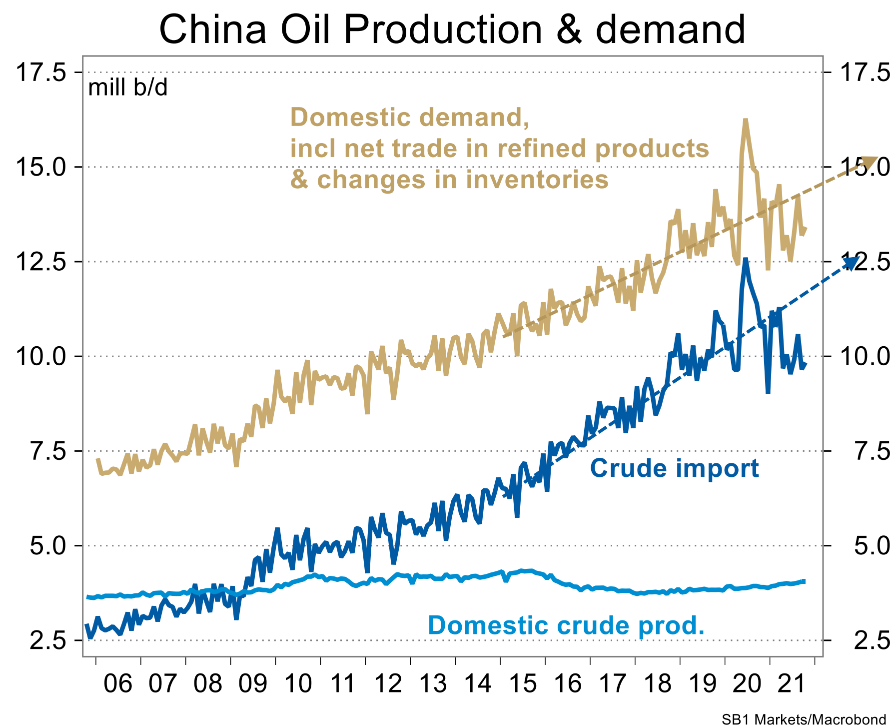
(Sep+Oct at all time high) Guess they found out that they had too little of the dirty stuff





Oil imports flat since mid 2018, are down almost 20% (2 mb/d) since H1-20

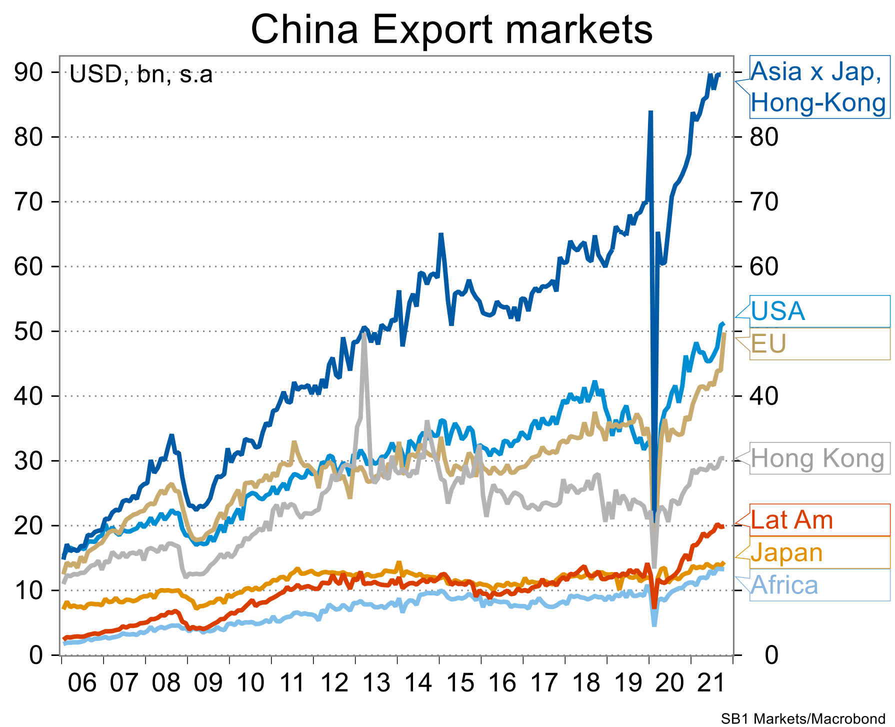




- 3 years without growth in oil import or domestic demand is rather surprising?
- Some inventory/reserve building/drawdowns may explain short term deviations

Chinese exports to all corners of the world sharply up

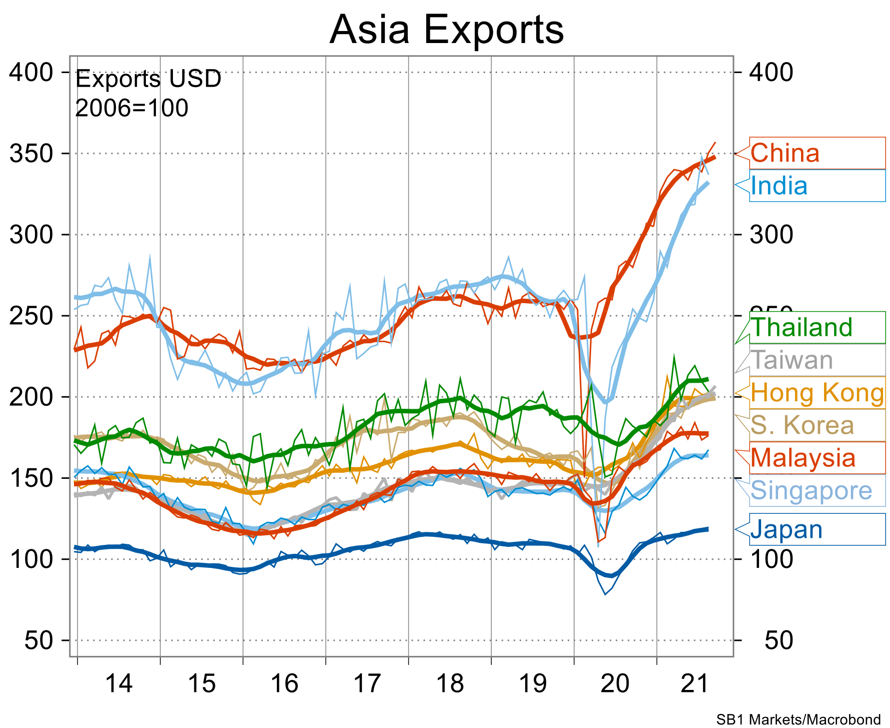
The recovery in exports through the pandemic has so far been impressive

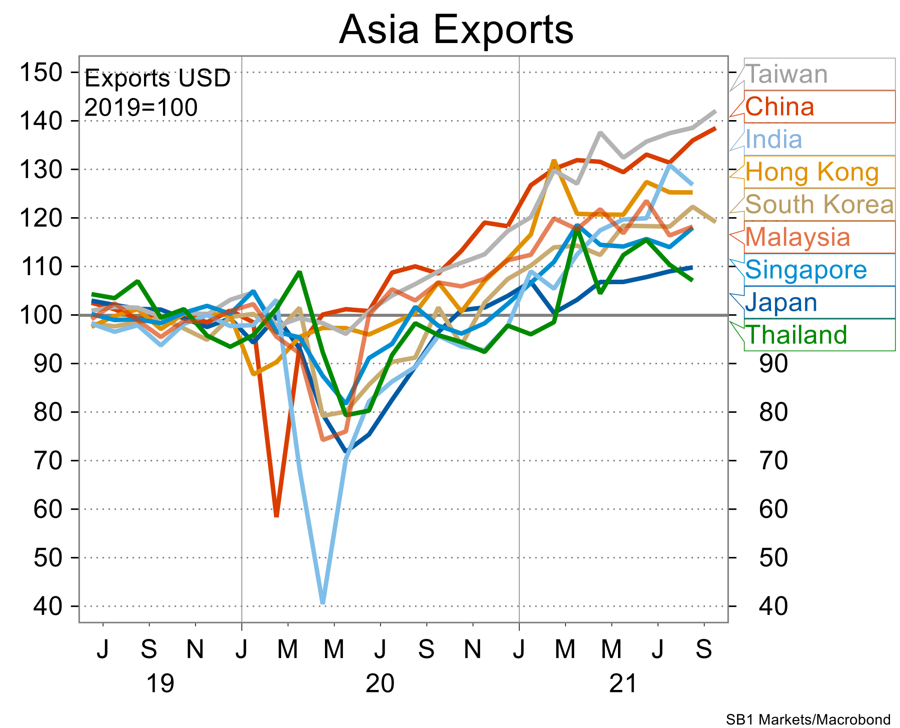


- Some slowing in exports to Hong Kong, Japan – and to rest of Asia

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

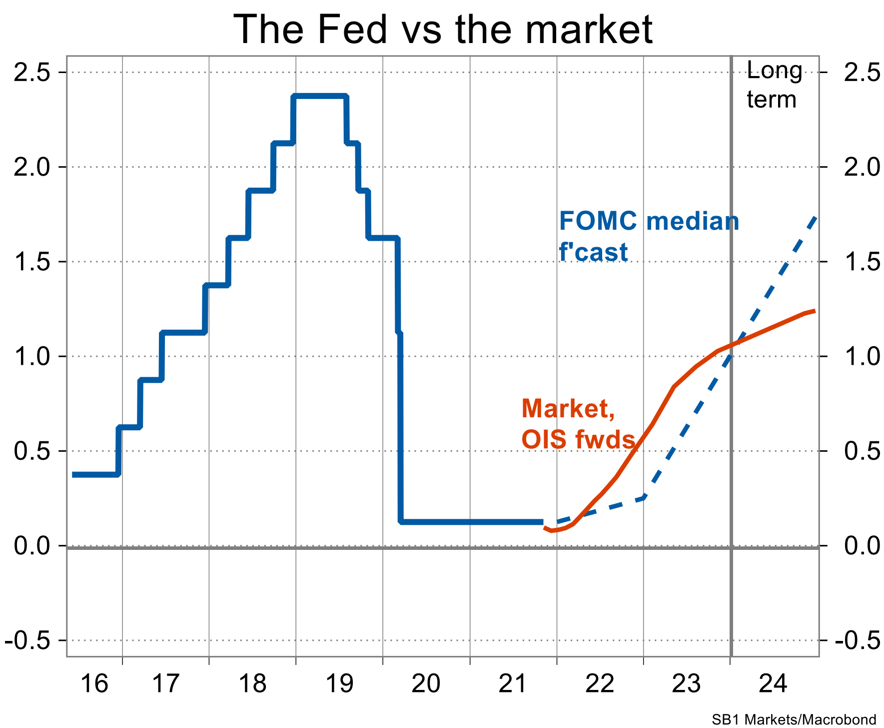
… but underlying growth is slowing everywhere





Fed starts tapering now, will come down to zero in June

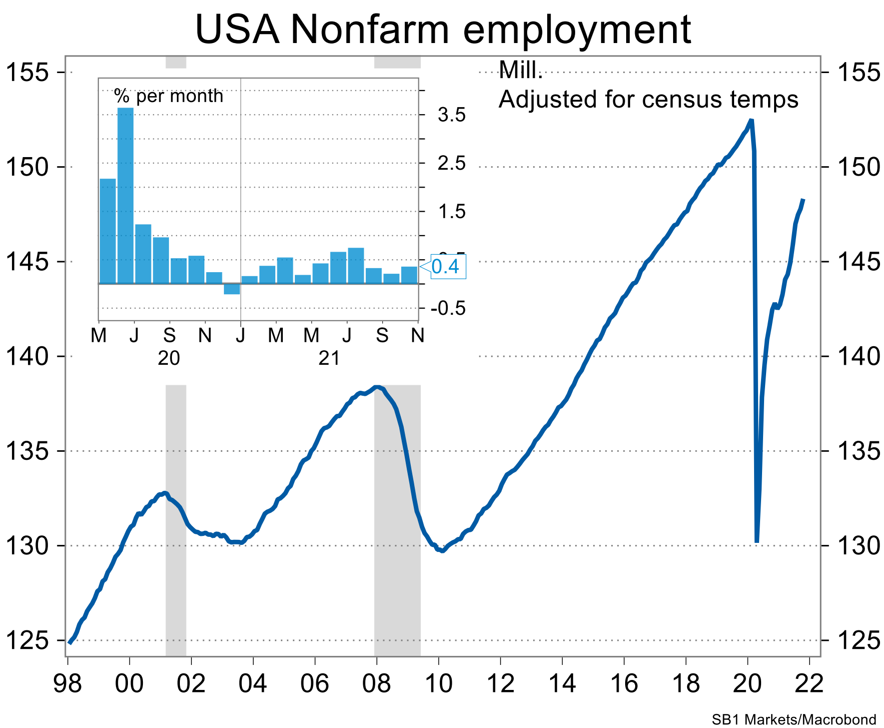
… but Powell still assume than employment is well below a maximum level, no rate hike anytime soon

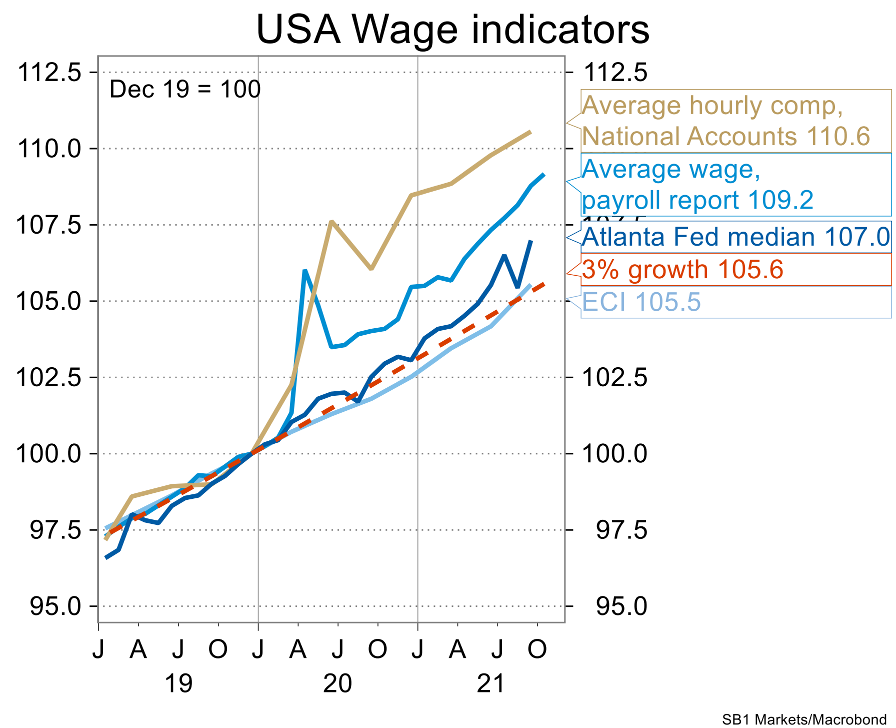


- The FOMC left the **target rate** unchanged at 0-0.25%, as everybody expected.
- The Federal Reserve will immediately **reduce its monthly QE program** by USD 15 bn, government bonds to USD 70 bn from 80 bn, and mortgage bonds to 35 bn from 40 bn. In December, the amount will be reduced by another 10 + 5 bn – and the last purchase will take place in June, if the tapering continues at the same pace
  - » The argument for starting tapering is that sufficient progress is made towards Fed's targets
- However, the FOMC is not planning to hike the signal rate anytime soon, at least according to chair Powell – as the maximum employment and 2% over time inflation targets are not met. Given actual inflation data – and the FOMCs Sept inflation forecast, it is the employment target which is not yet met. The FOMC even modified its 'transitory' inflation outlook, by stating that the elevated inflation is expected to be transitory
- At the press conference Powell stressed the need for getting employment back up to the pre-pandemic level, and several times stated that the Covid situation is responsible for the lack of supply and the increased mismatch at the labour market. The pandemic has also created havoc in the supply chains. On the other hand, he promised vigilance should inflation become a lasting challenge
- **Market reactions:** Yields rose some few bps at Wednesday – but fell sharply Thursday and Friday as the yield sentiment turned sharply down following Bank of England's no-hike decision

Solid gain in employment but no growth in the participation rate

Virus relief in October but the real story is the lack of supply – and wage growth

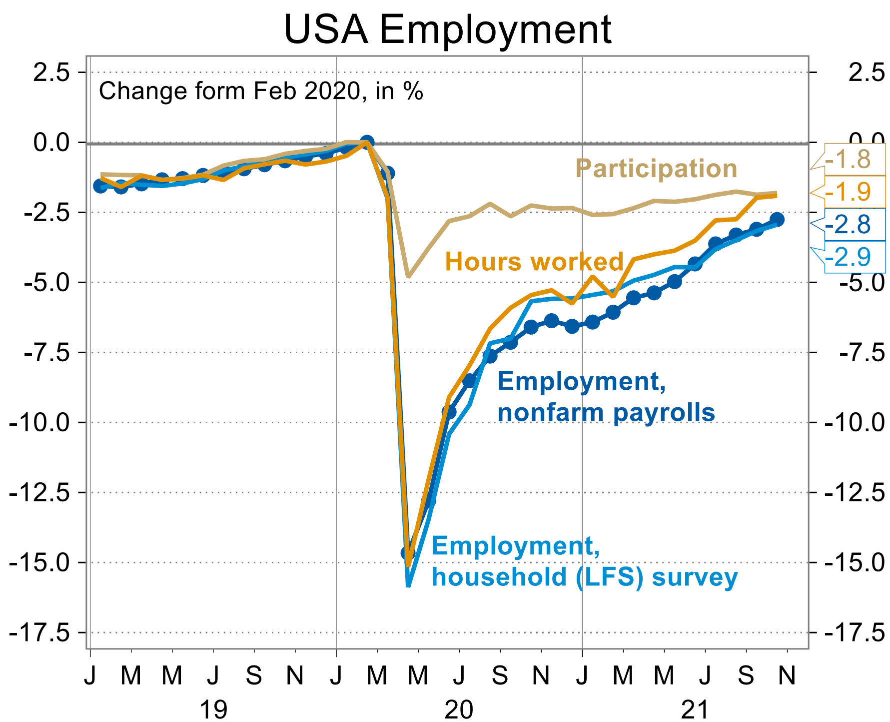




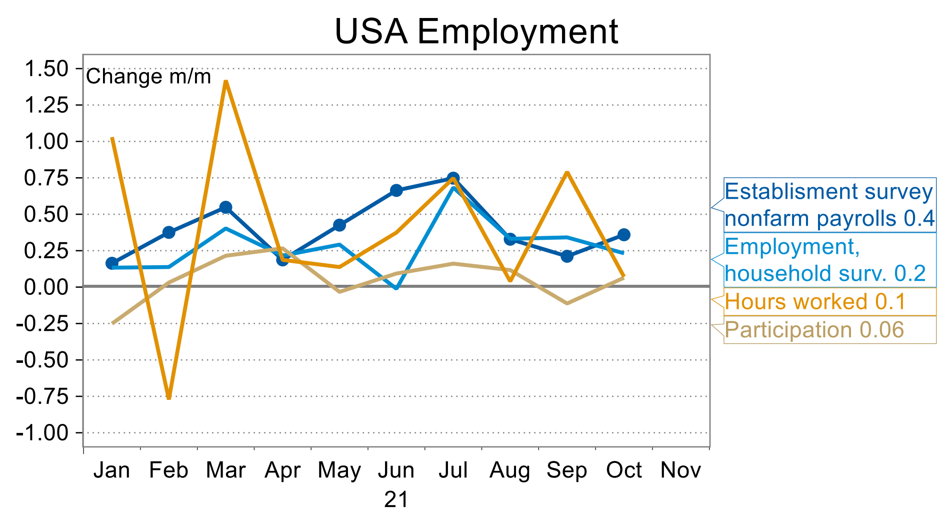
- **Employment** rose by 531' in October, more than expected (400 – 450') – though real expectations were lifted after the even better ADP report. Private sector +604'. The history was revised up totally 235'. Employment is still down 4.2 mill (-2.8%) vs. the pre-pandemic level. The employment rate is down 3.9%, implying 6.2 mill lost jobs
  - » The lift in employment was broad, with leisure/hospitality in the lead - but this sector is still down 8.2% vs. the pre-pandemic level. Education is still lagging, down 70' – and down 5% vs. Feb-20
- **The participation rate was flat at 61.6%** ,expected one tick up – and the trend is still flat, even if demand for labour is strong. The unemployment rate fell 0.2 p to 4.6%, expected 4.7%. The unemployment rate has fallen faster the past 4 months than ever before (barring last summer). Underemployment is falling too, and is low
- **Average wages** rose by 0.4%, as expected, and wages are up 4.9% y/y. All sectors are reporting higher wage inflation – and all wage indicators now tell the same story
- **The lack of supply** – the flattish participation rate – is still the huge mystery, and threat. <u>4.4 mill workers are missing</u>. Without an increase in the participation rate, US is running out of available workers – which the SMBs were still reporting in October. It became marginally less difficult to fill position – but still extremely difficult. <u>The Fed can still claim that the maximum employment target is not yet met – but may the bank be forced to adjust its position not before too long?</u>

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

Employment grew by 0.2 - 0.4% in October, hours worked just by 0.1%. Labour supply up by <0.1%



- **Nonfarm payrolls** are down 2.8% vs Feb '20, close to **employment** measured by the **household survey** (LFS/'AKU'), -2.9%. The **employment <u>rate</u>** is 3.9% below par
- **Labour market participation** barely rose, and the participation rate was flat – and it is 2.7% (1.7 pp) below the pre-corona level, <u>which is lowering the unemployment rate by the same amount</u>
- **Aggregate hours worked in private sector** rose by 0.1% in Oct. The level is 'just' down 1.9% vs. Feb-20, as average working hours has increased



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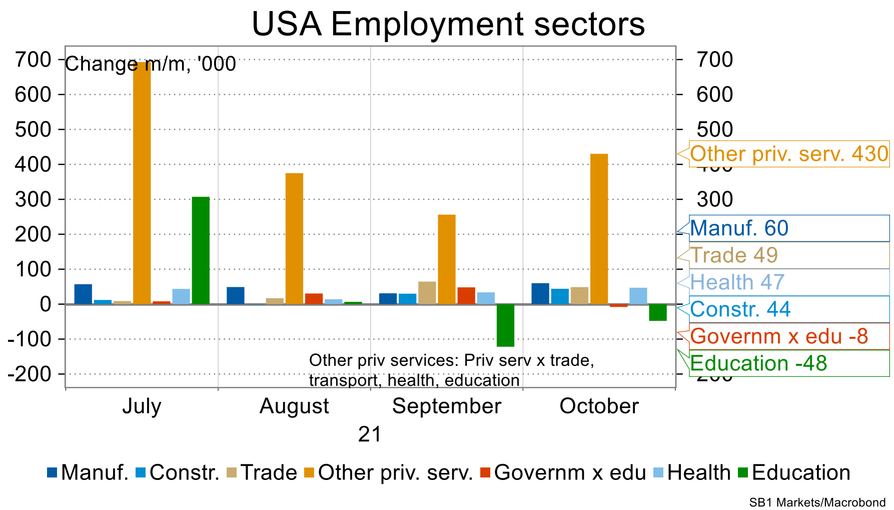
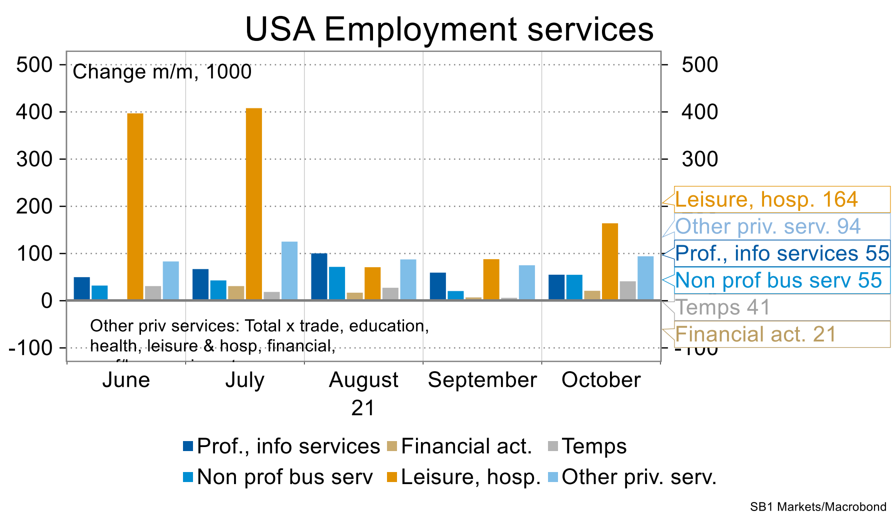
In Oct: Education still weak, due to covid. Government x edu flat. Others up!

The largest gain in leisure/hospitality, and non-professional business services

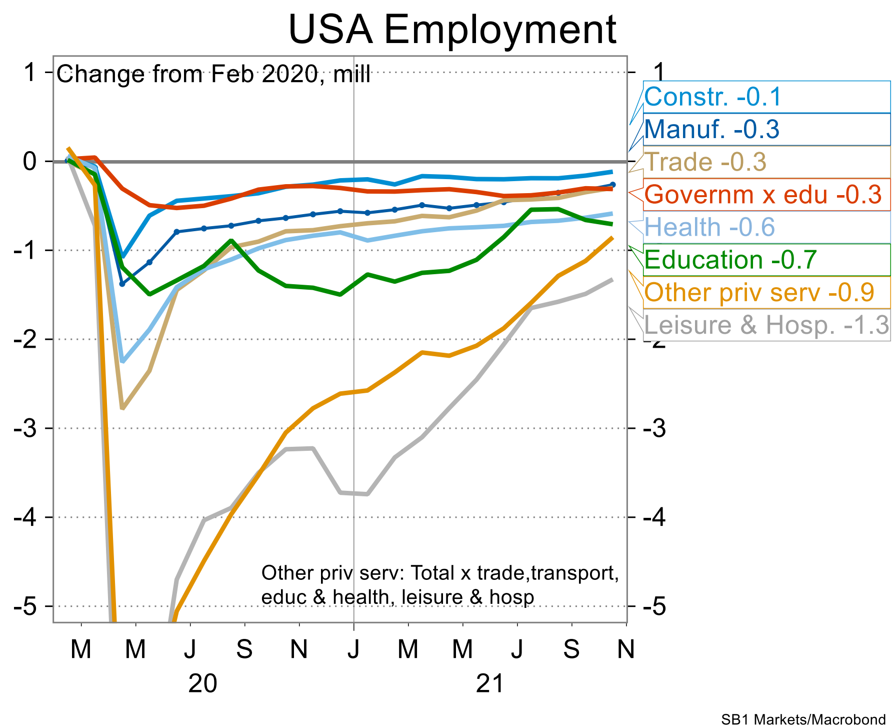


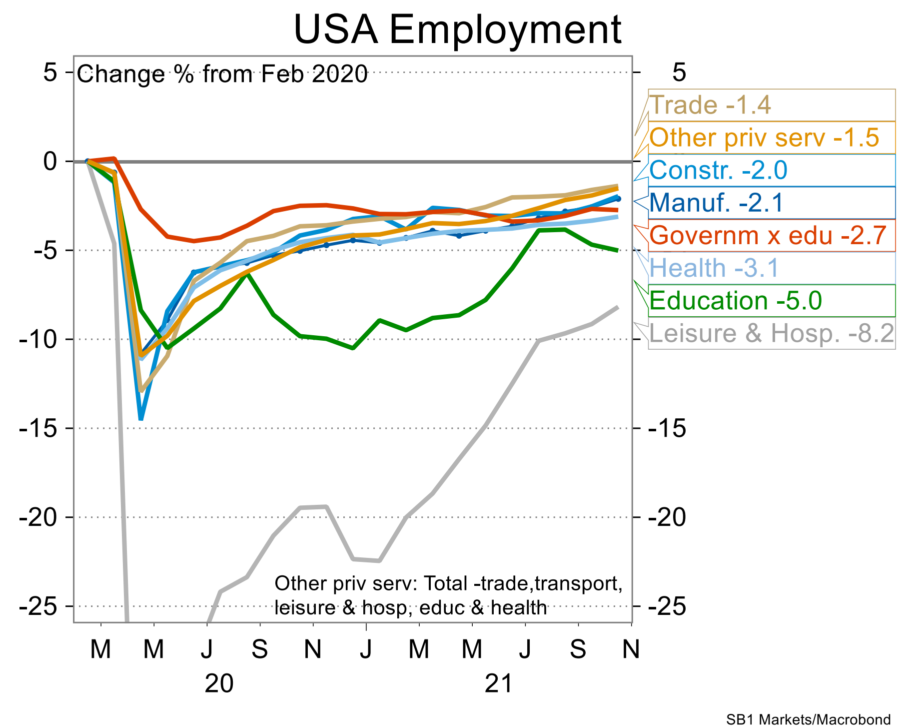


- **Last month: Some specific weakness, the rest OK**
  - **Education** (private & public) cut 48' jobs (seas. adj.), as some schools did not open as normal, very likely due to the virus. The sign must change – and employment should increase substantially
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 164' jobs, following 2 slow months – very likely due to the Delta outbreak
  - **Trade** added 48' jobs, more than normal
  - **Business services** are now ramping up employment
  - **Other private services** added a normal no. of new jobs
  - **Manufacturing** added 60', more than normal
  - **Construction** sector employment is growing slowly
  - Employment in **Government** (ex education) fell by 8'

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

Leisure & hospitality still down 8.2% vs. Feb-20, education down 5%, government ex. Edu 2.7%"!

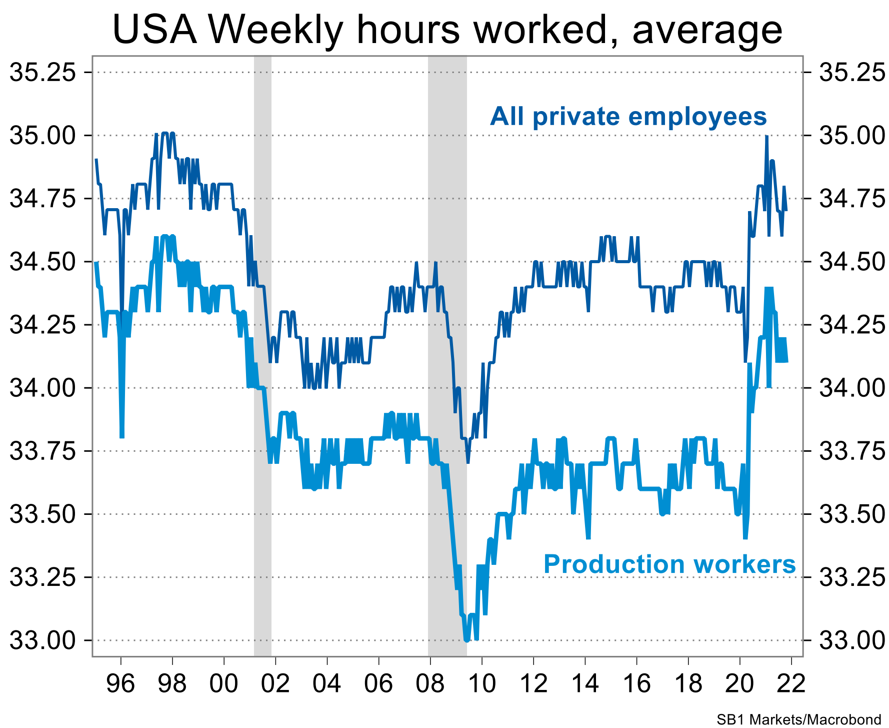


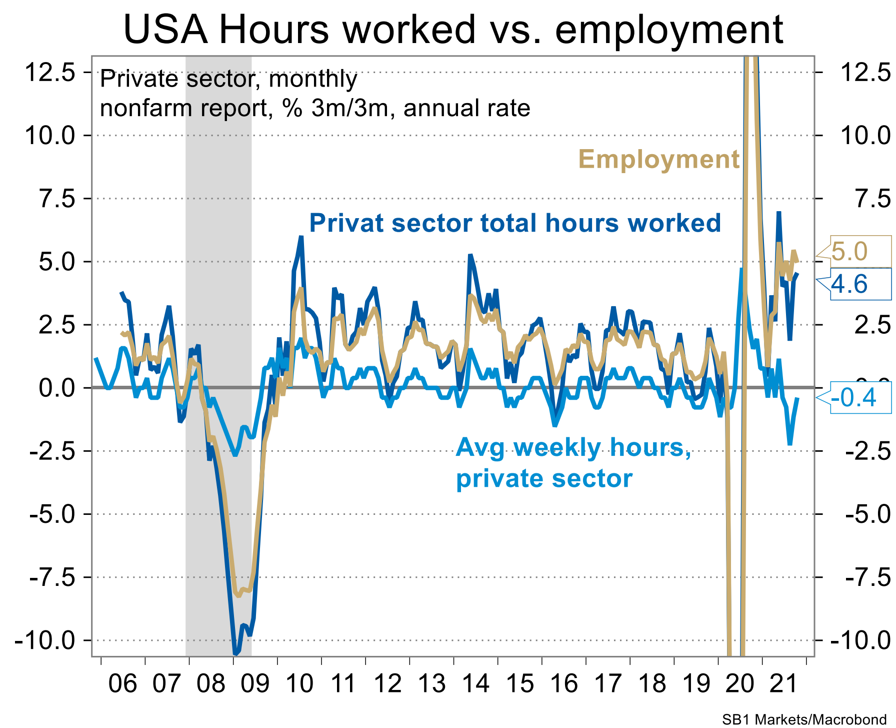


- No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits, in volume terms
- At the same time, 6.6% (10.4 mill, at least in August) jobs are **vacant**, and employers complain like never before than they are **not able to fill positions**

Average weekly hours slightly down in Oct, level far above normal

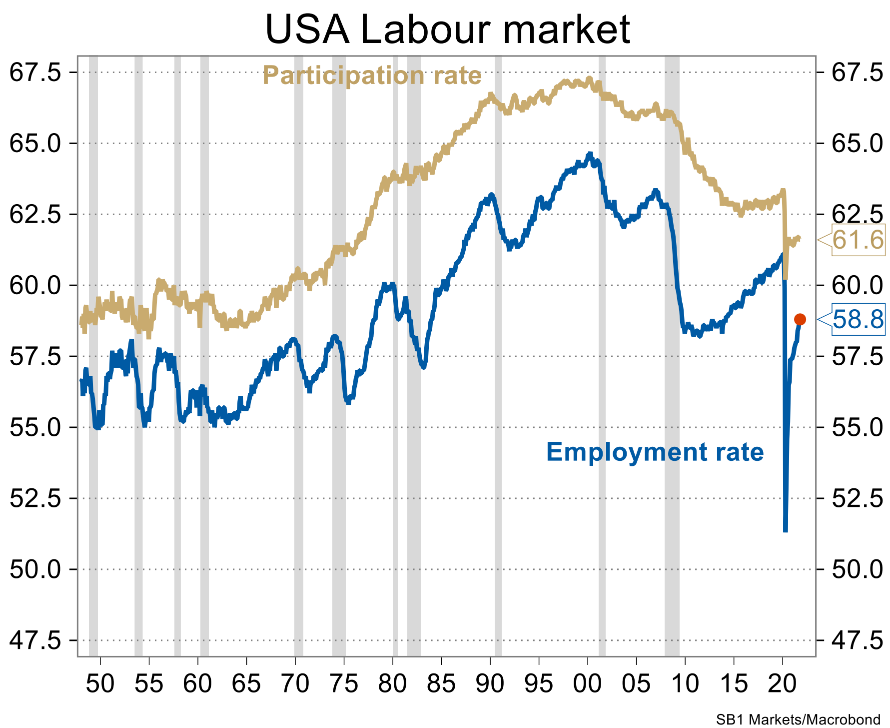
Employment up 5% 3m/3m, total hours worked 4.6%

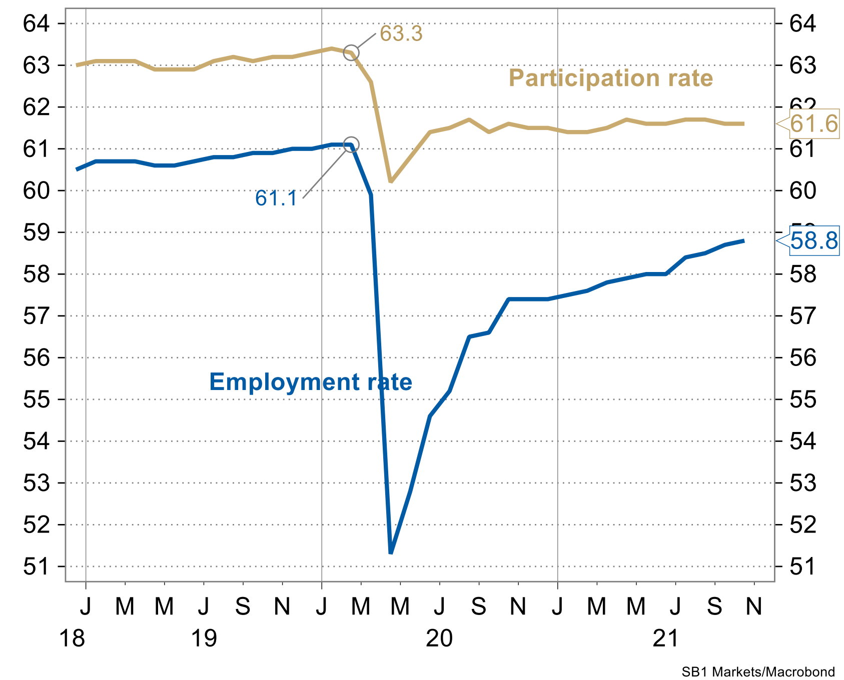




The participation rate flat in October – at a very low level

Why are not more workers returning to the labour market when demand is so strong?

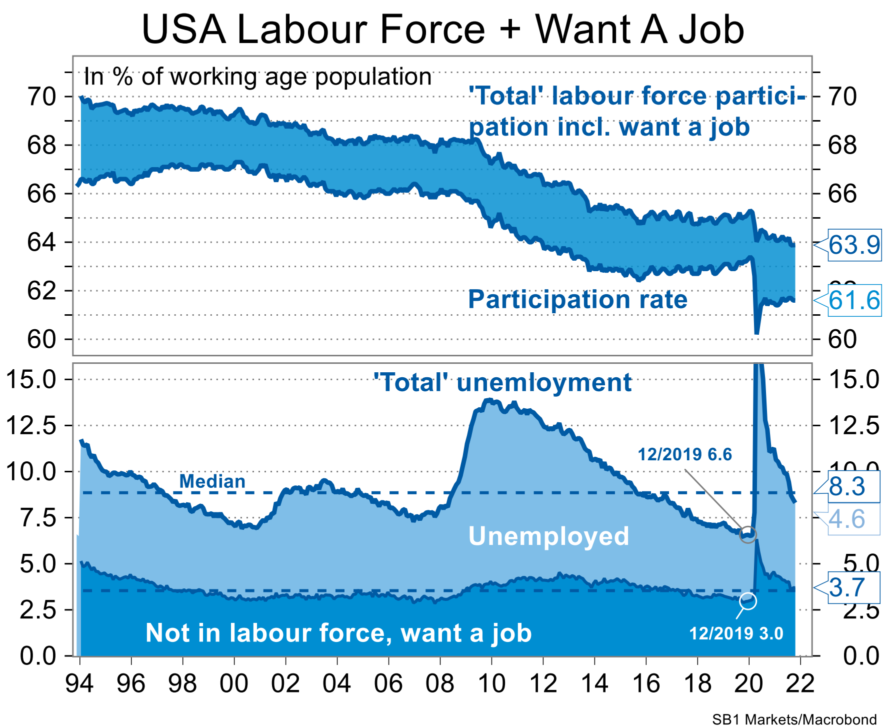


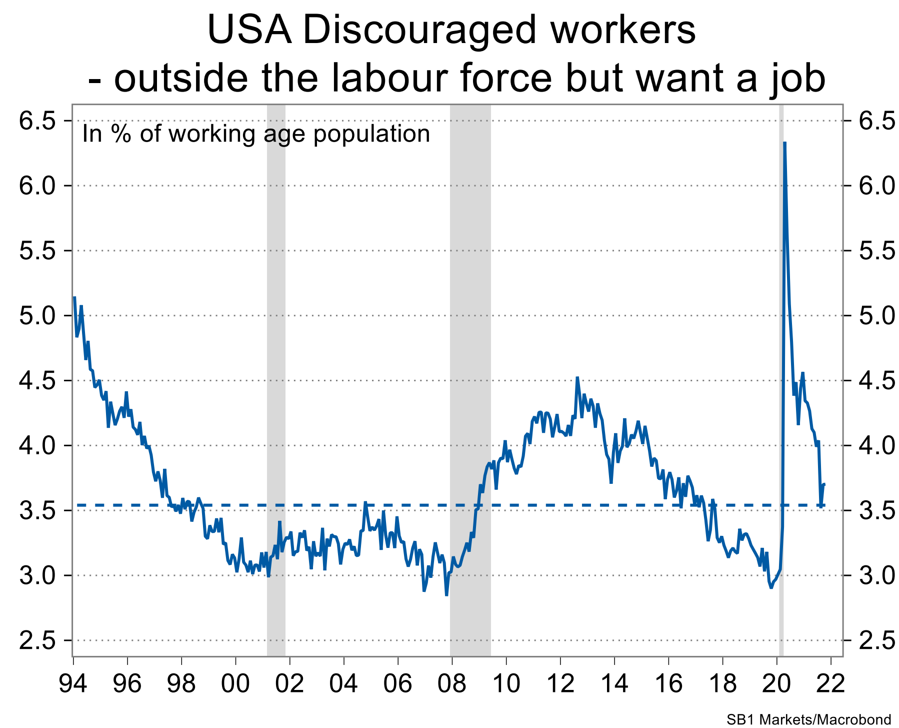


- The labour force participation rate is down 1.7 pp (vs the working age population) vs the pre pandemic level, equalling 4.5 mill persons
- In October 1.3 mill. persons (down from 1.6 mill in Sept and 2 mill in August) responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, and not because their job was closed down). These 1.3 mill persons equal 0.8% of the labour force, and represents a labour market reserve. However, there are not more workers outside the labour force than want a job than normal (see some pages further out)
  - » However, it is still unclear if all these workers will enter the labour force when the corona explanation is not relevant anymore, as 2/3 of them say that they do not want a job. Thus, the real reserve may be less than 0.5 mill

Not that many outside the labour force that say they want a job

In fact, this ‘reserve’ is at close to an average level – but higher than before the pandemic

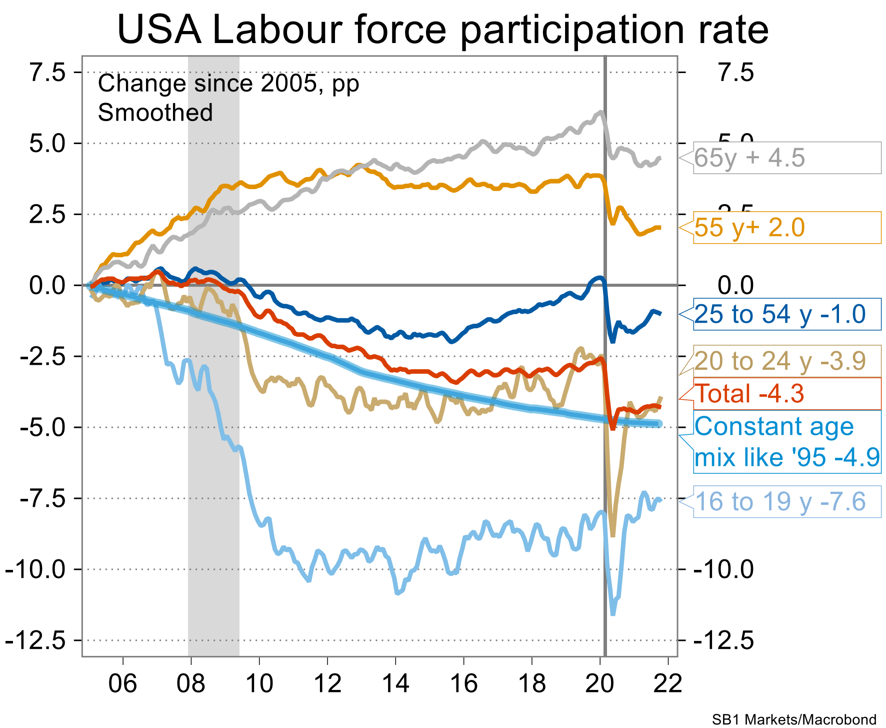


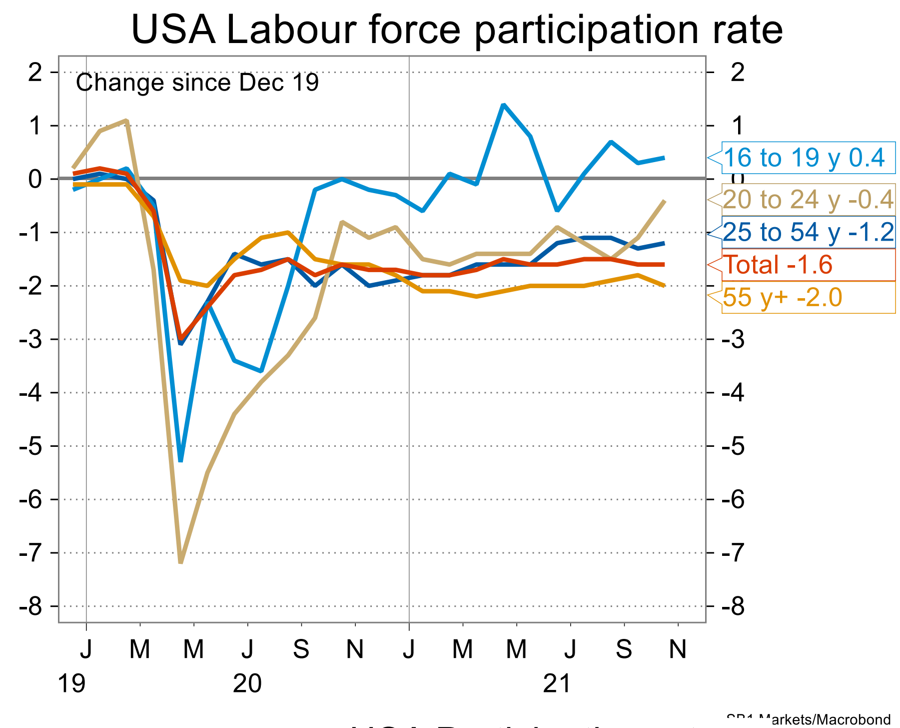


- Covid related outsiders are included in these discouraged workers data

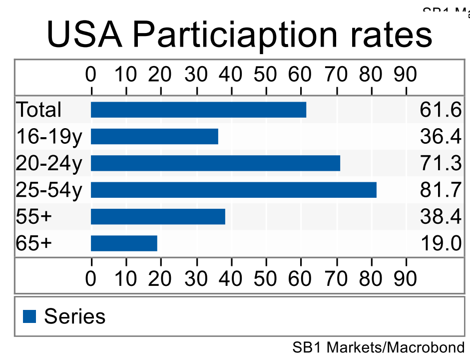
The potential: Participation among the core 25y -54y group is still trending upw.

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



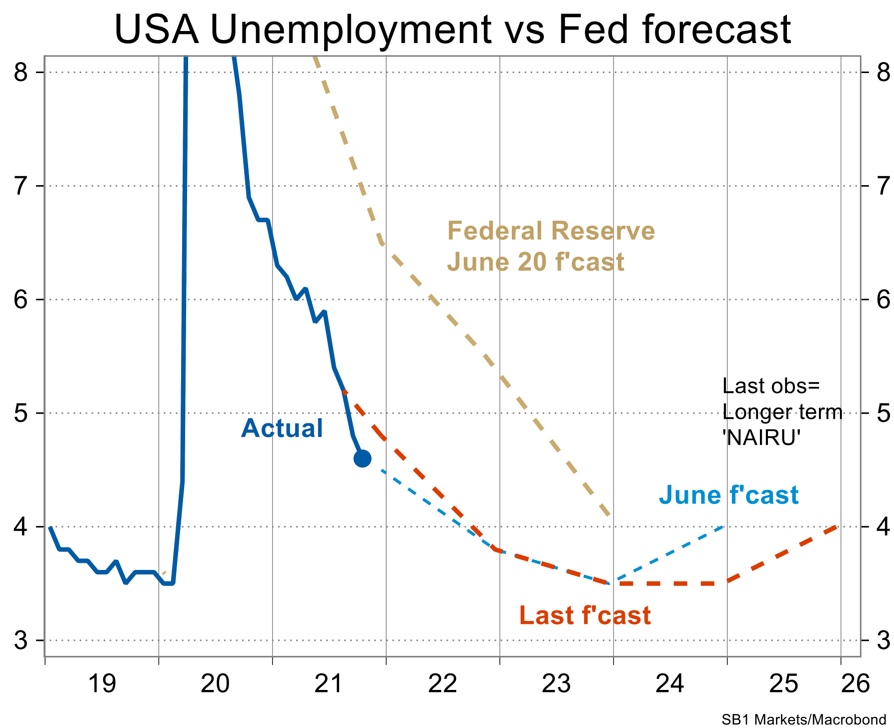


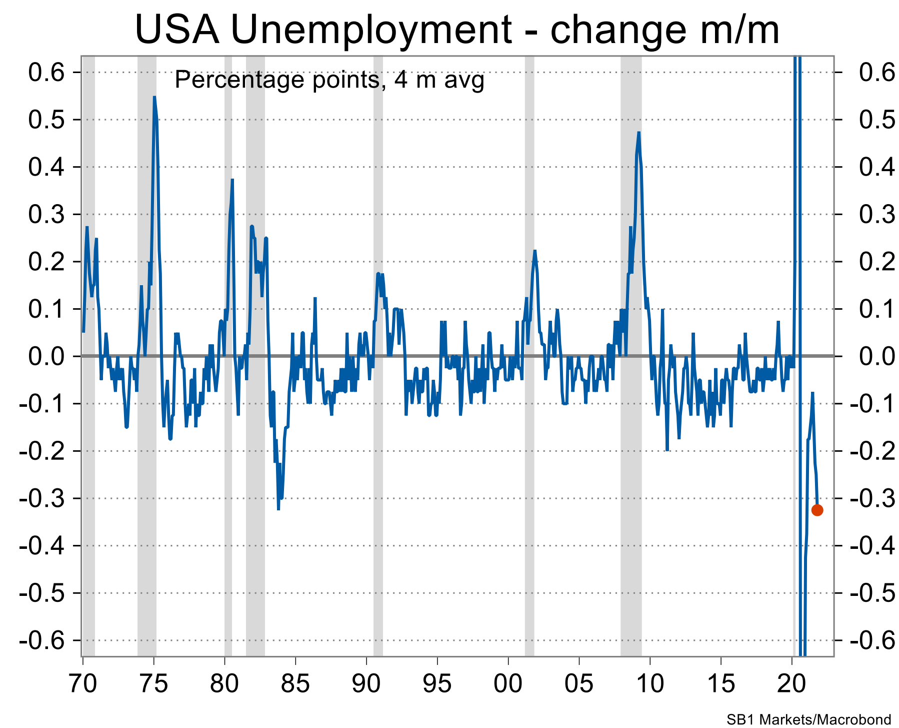
- Possibly some potential among the 16-19 & 20-44 years groups too, at least vs. the pre financial crisis level
- The chart above illustrates the impact of a higher share of older people in the work force: The average participation rate is down 4.5 pp since 2005, more than most sub-groups. The reason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



Unemployment is falling at a record pace

The unemployment rate nosedived 0.2 pp 4.6% in October, 0.1% lower than expected

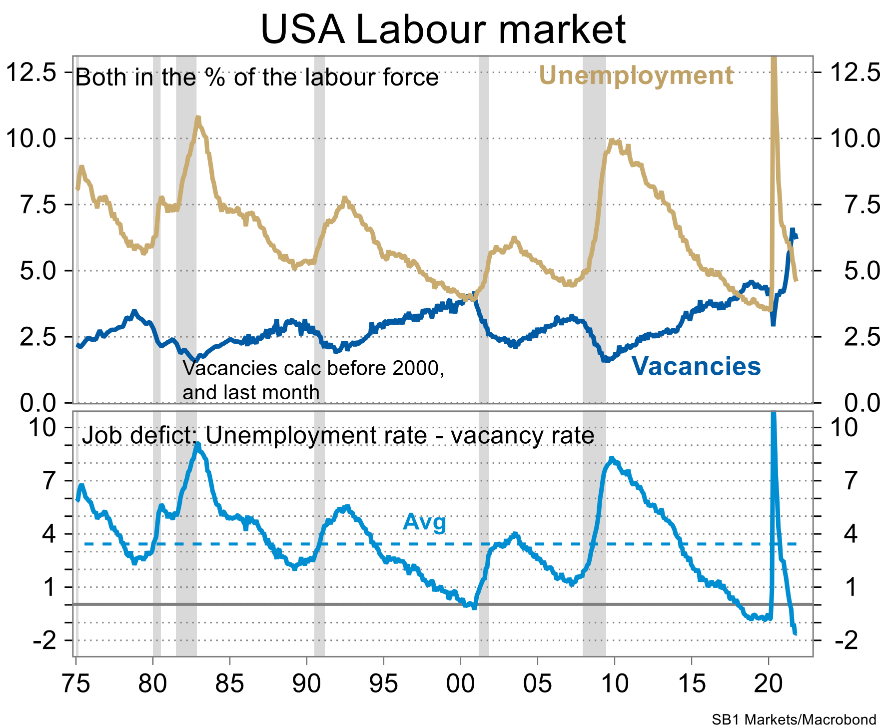


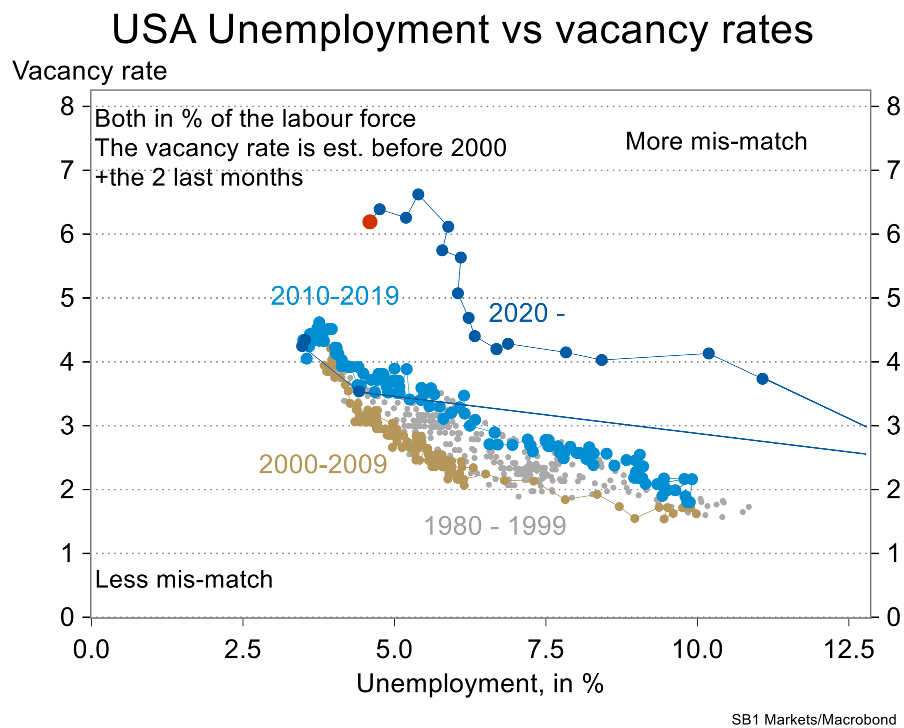


- The recent four months, the unemployment rate has fallen at a rapid pace, much faster than in normal economic recoveries (just the initial decline in the unemployment rate after the first shock last spring/summer has been even steeper)
- In September, the FOMC members expected that the unemployment rate would decline to 4.8% in Q4. In October it was 0.2 pp below Q4 avg estimate
- Households report that jobs are more easy to get than ever before, as it the unemployment rate was 3%

An unprecedented mismatch on the labour market

Why don't more of the 7.4 mill unemployed get hired in order to fill the 10+ mill vacant positions?



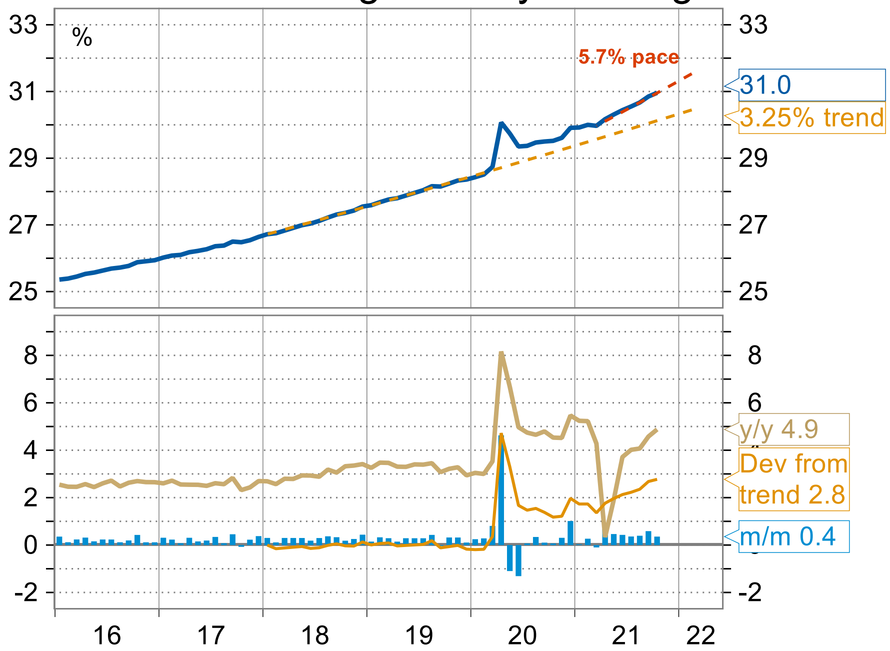


- 7.4 mill persons are unemployed - that is, they say they want a job and are actively search for a job but have not got a job
- At the same time, there are approx. 10 mill unfilled, vacant positions (data until August, forecast by changes in not able to fill open positions in the NFIB survey)
- The unprecedented mismatch now may of course be mostly due to temporary (transitory?) impacts of the pandemic; different sectors have reopened at a different pace, perhaps even geographically, and it will take time to match the job seekers and the vacant jobs etc. <u>However, there is a risk that some of the mismatch will turn out to be permanent, due to changes in qualification requirements, work preferences etc.</u>

The average wage up 0.4% in Oct, the pace since the spring at 5.7%

Even if low paid employees have returned to the labour market

USA Averge Hourly Earnings



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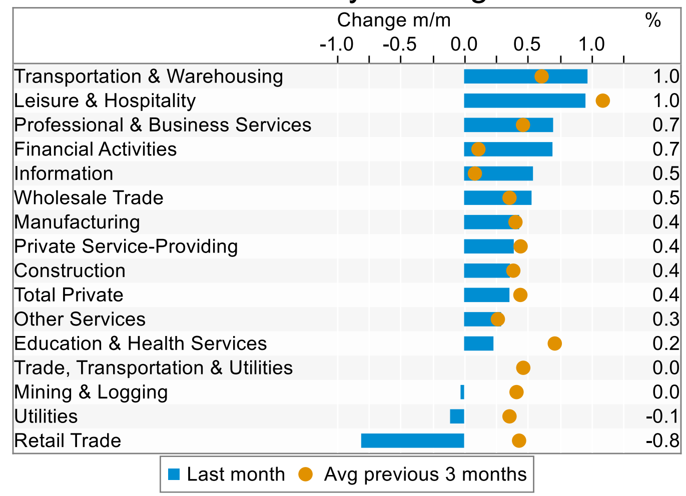
- The average wage rose 0.4%, as expected. The annual rate rose to 4.9% from 4.6%
- Since April, the underlying wage growth has equalled 5.7%. It is not possible to blame the employment mix, as low wage sectors have increased employment
- Wages in leisure, hotels & restaurants rose by 1% and they are up 11% y/y. However wage growth has slowed in 9 of 15 sectors (Oct m/m vs avg. the prev 3 m)

USA Hourly earnings



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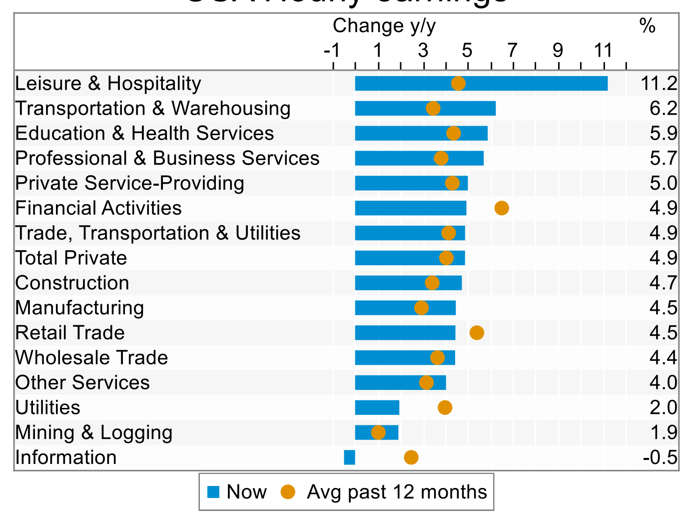
USA Hourly earnings



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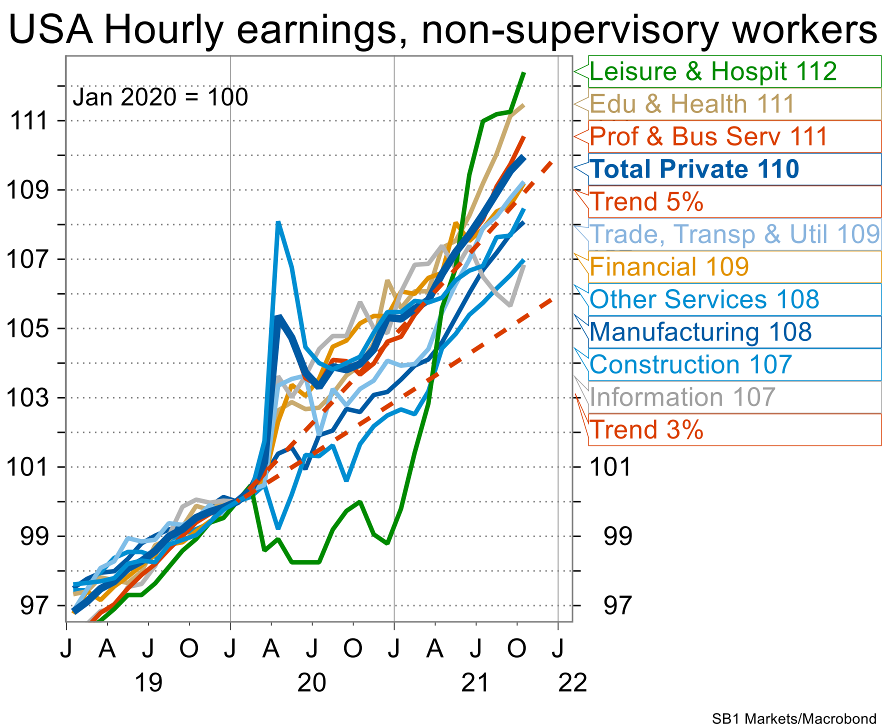
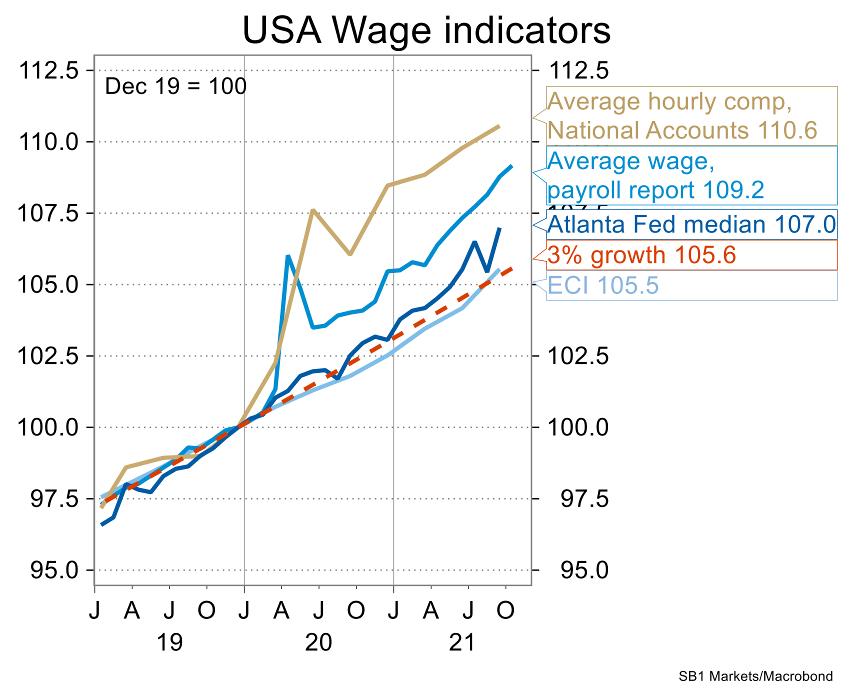
SpareBank 1 MARKETS

Wages are up 7% – 12% vs the pre-pandemic level (a 3 – 7% growth pace, avg 6%)

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



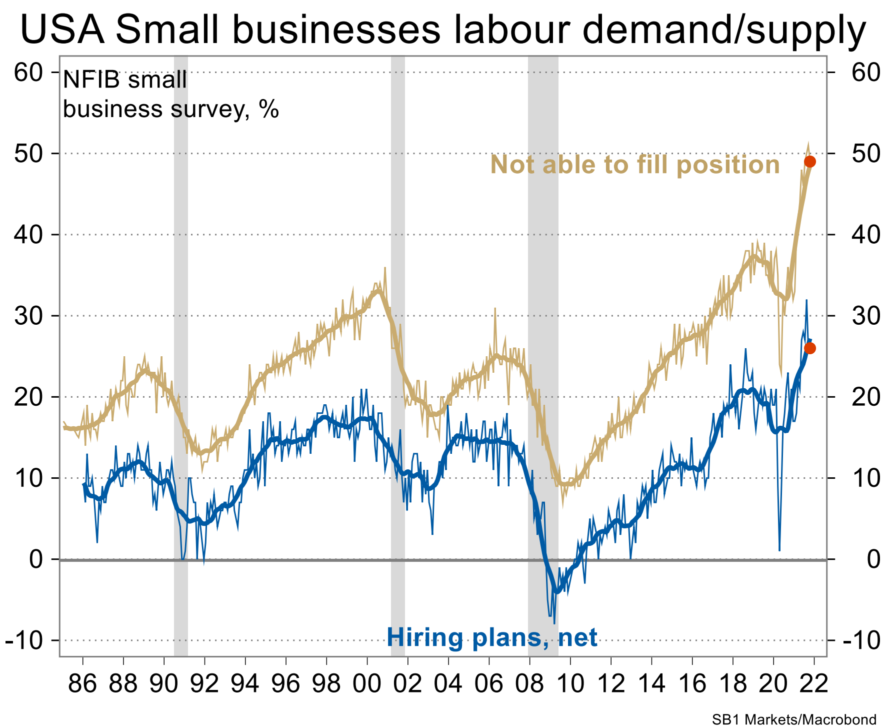


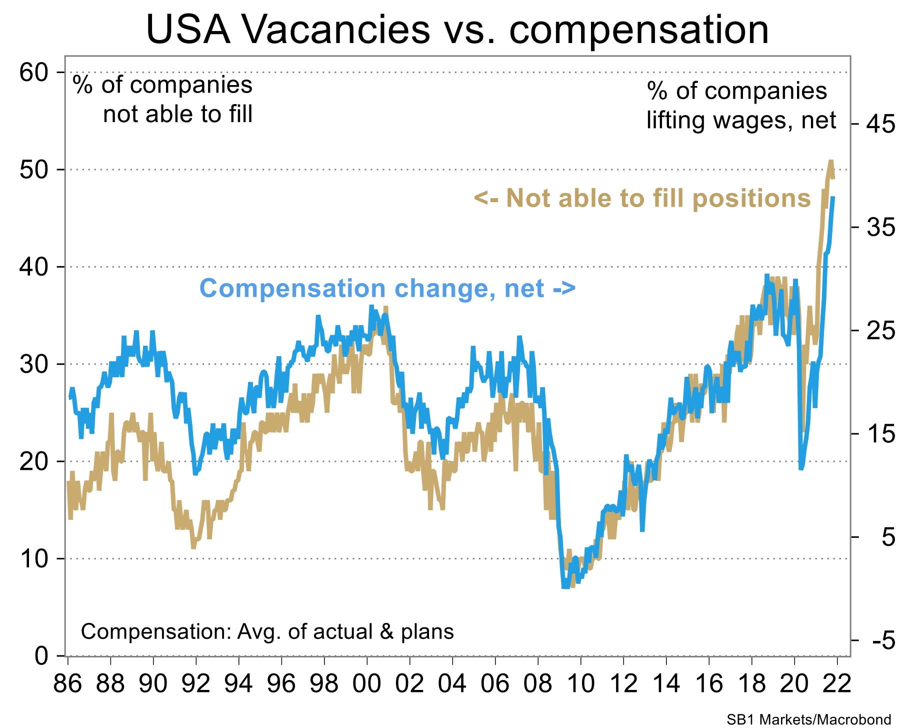
- The two wage indicators that takes into account the impact of changes in the employment mix, the Employment Cost Index and Atlanta Feds Median wage index have joined band, wages are now clearly accelerating
- The next two pages, our 'standard' charts on wage inflation vs. vacancies

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

A tad fewer SMBs reported they were not able to fill open positions in Oct…

But the share is close to ATH, and even more company reported plans to increase compensation

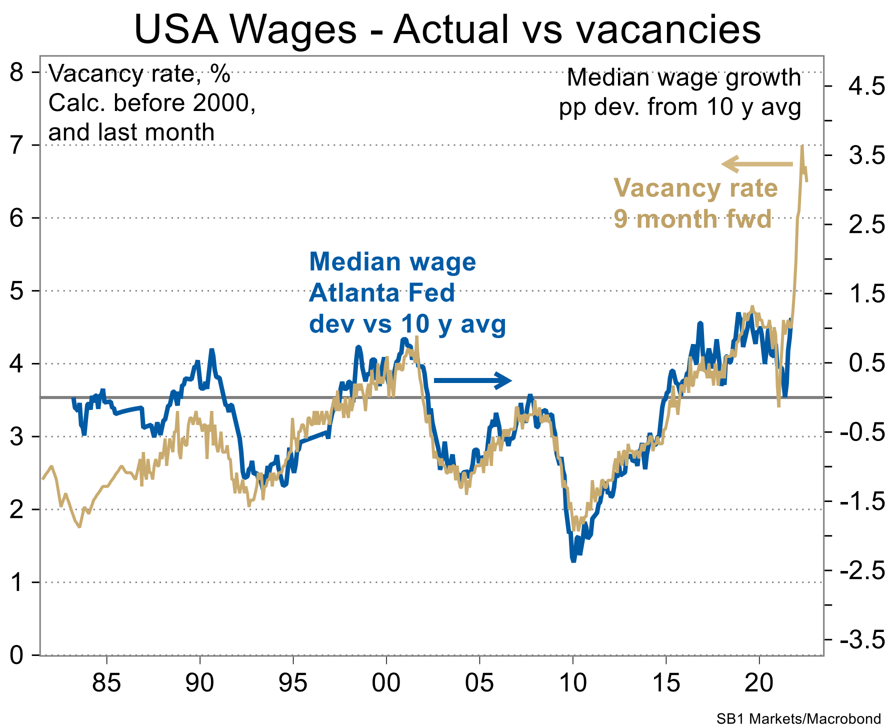


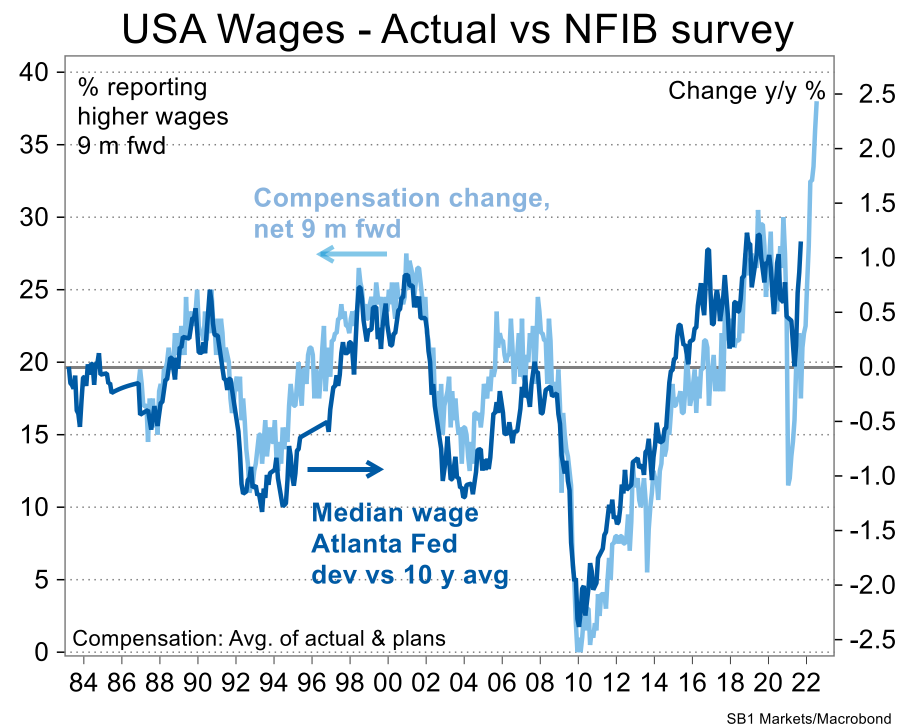


- **SMB's hiring plans** are still close to record high too, and unchanged to October from September
- As a consequence, companies reported the most aggressive **wage increase plans** ever in October (data from 1986)
  - » The share of companies that reported plans to lift compensation rose to 38% from 36%. Until 2021, the max level was 30%, and the average level is below 20%
  - » The correlation to actual wage growth is pretty close, check the next page

A tight labour market may well lead to substantially higher wage inflation

The correlation to changes in Atlanta Fed median wage index is very close

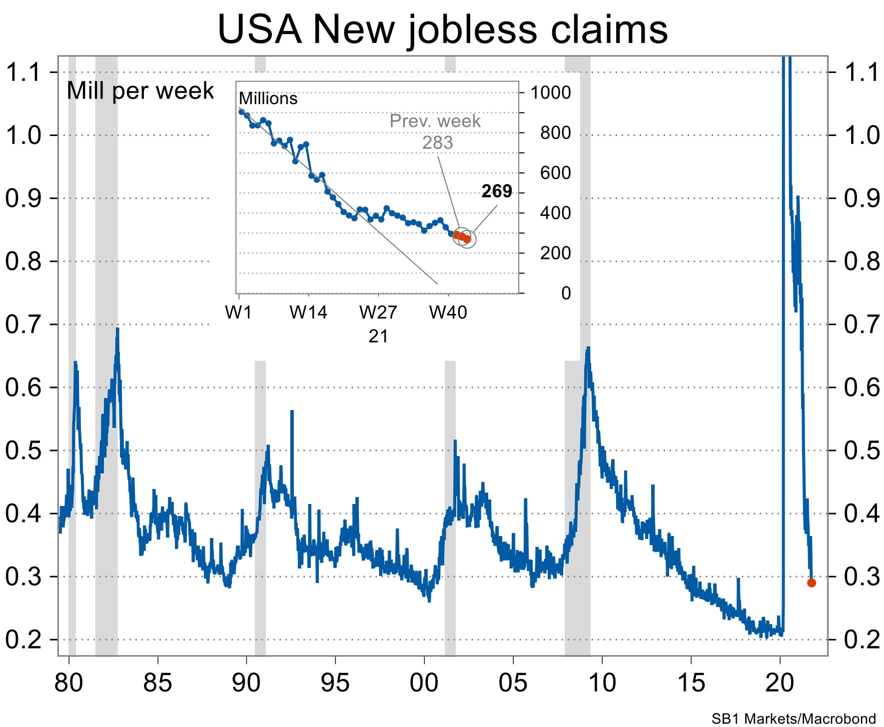


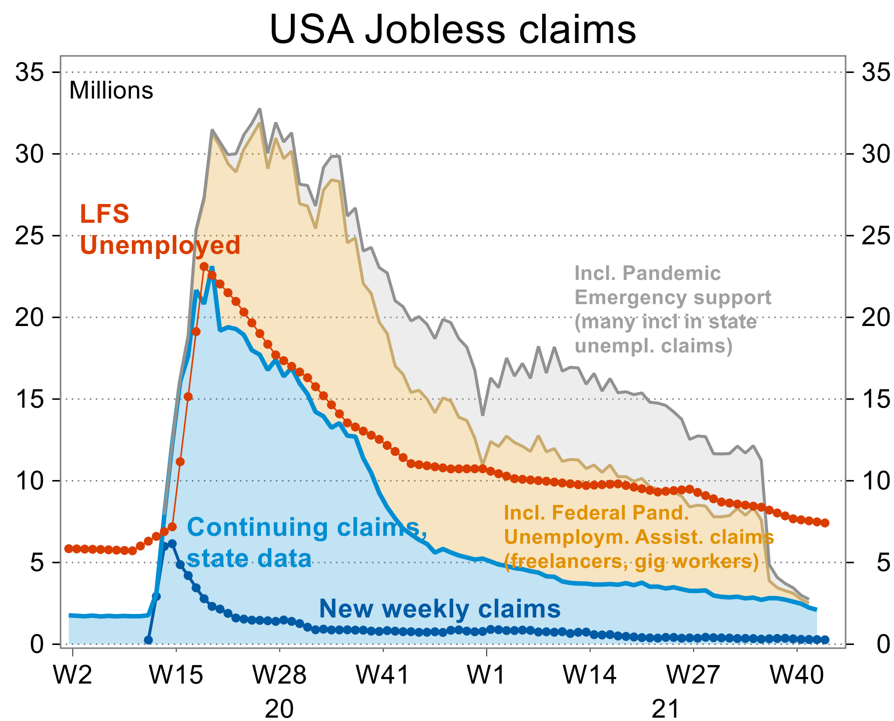


- More companies than ever before (data from 1986 though) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled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

New jobless claims still sliding down, few

Another sign of a tighter labour market

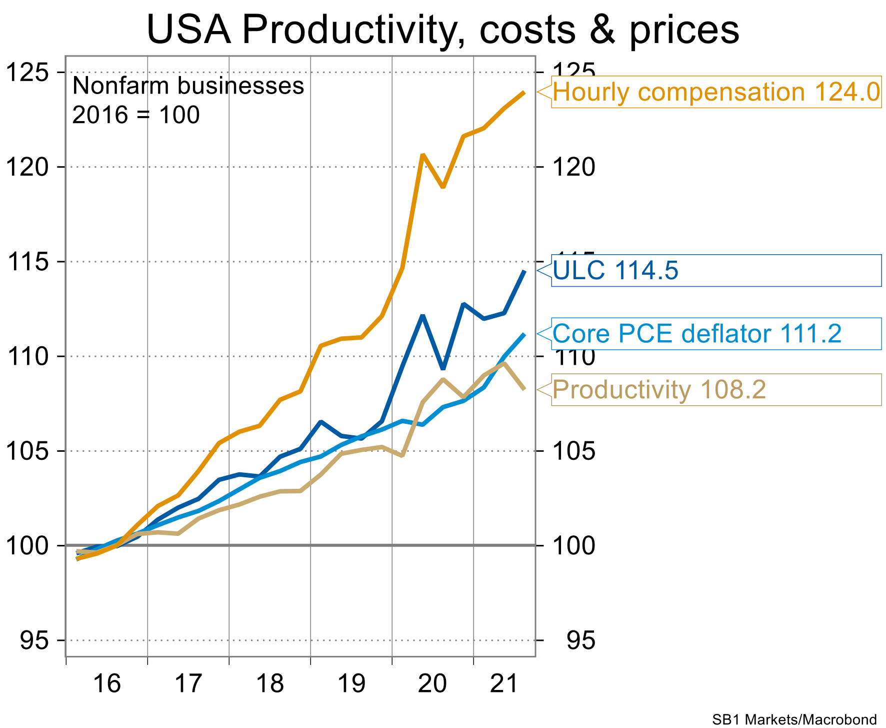


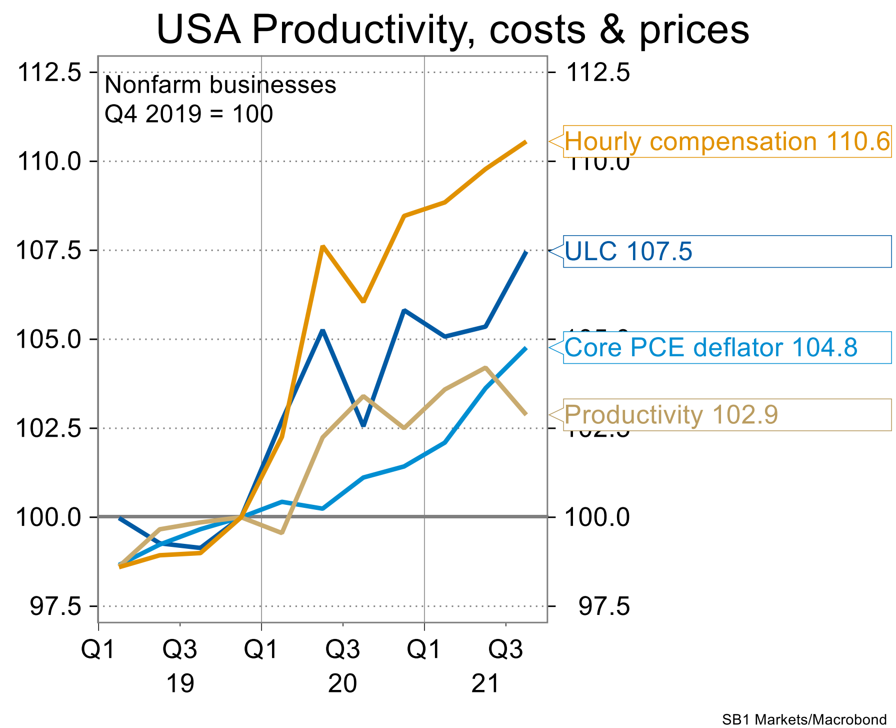


- **New jobless claims fell** by 14’ to 269’ in week 43, expected 271’, the 5th week in row below 300’
- **Ordinary continuing claims** is falling rapidly, by 137’ to 2.1 mill in week 42, and the level is just 0.4 mill above the pre-pandemic level, confirming a tight labour market
- The **two temporary federal pandemic unemployment benefit programs** ended on September 6th, are now finally fully terminated, in total 12 mill have lost their Federal unemployment support. What are these millions doing now?? They are very likely among the 3.4 mill that have been employed since June. However, most of the employment growth was before most of the receivers of benefits lost them, and in those states who left the programs early has not reported faster employment growth than the others

Volatile data but cost inflation is probably accelerating

Hourly compensation has accelerated far more than productivity, unit cost inflation has increased

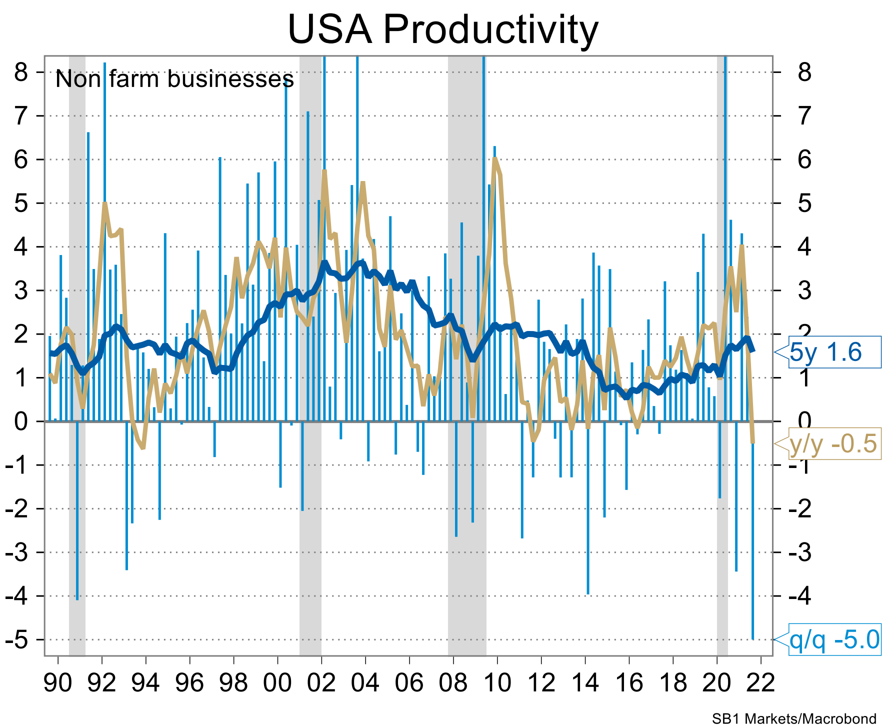


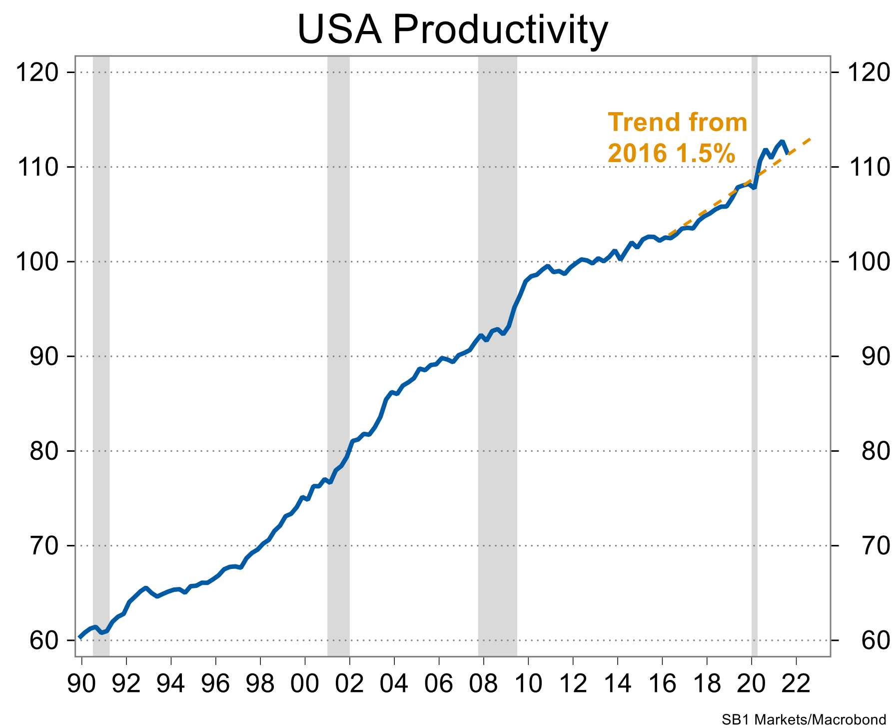


- **Productivity** fell by 5% q/q annualised in Q3, and is down 0.5% y/y. However, the underlying trend may be still be 1.5% (but 'formally' by 1.9% since Q4-19)
- **Hourly compensation** rose by 2.9% in Q3, and are up 4.3% y/y. However from Q4-19, compensation is up at a 5.9% pace, well above growth in productivity. If this growth due to changes in employment mix, productivity should have accelerated at the same pace, as low paid/low productivity jobs were cut
- **Unit labour costs** climbed at a 8.3% pace in Q3, and costs are up 4.8% y/y. Since Q4-19, ULC has increasing at a 4.2% pace, far above the pre-corona trend growth
- Over time, **price inflation** is close to equal to growth in labour costs. The current pace of cost inflation is not consistent with 2% inflation over time

The productivity trend still at a 1.5% growth path

Risk: It may slow somewhat if more low productivity workers return to the labour market

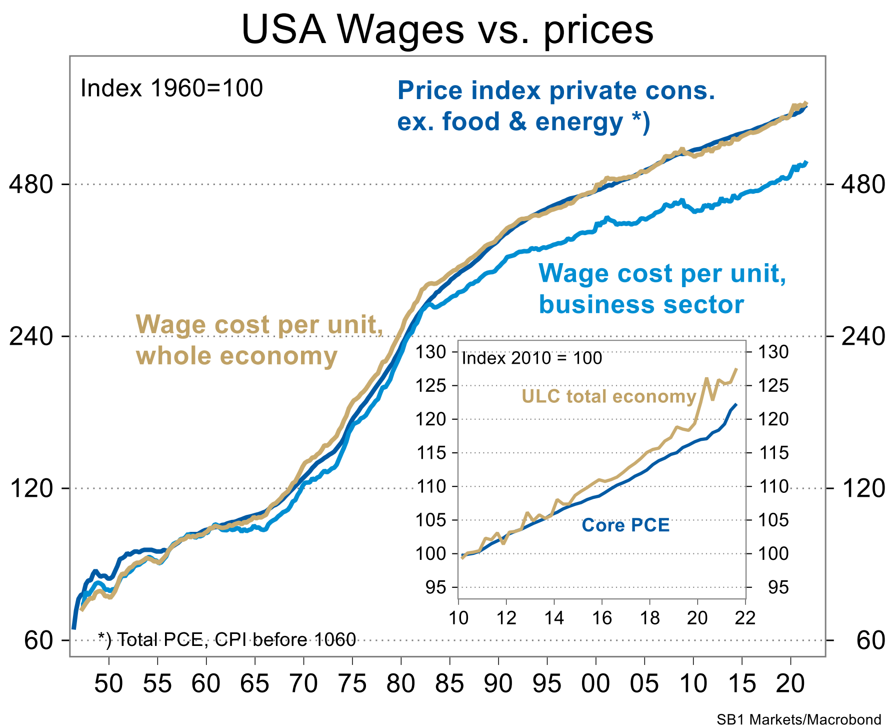


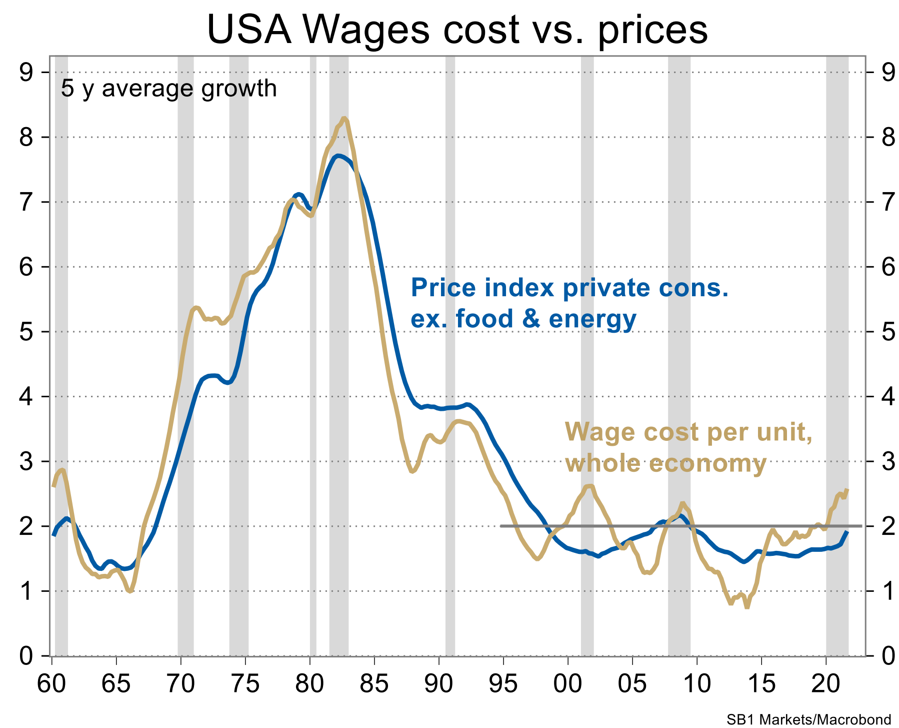


- **Productivity growth** accelerated during the first part of the pandemic, as low productivity jobs were closed down. As these jobs are partly coming back, growth has probably slowed. Quarterly data are extremely volatile – and productivity fell by 5% q/q annualised in Q3, and is down 0.5% y/y. However, the underlying trend may be still be 1.5%
  - » The 5 y average is at 1.6%. 5 years ago the 5y rate was well below 1%

A substantial lift in production costs, still risk for further price lifts?

Before covid Now the cost level has increased more than prices

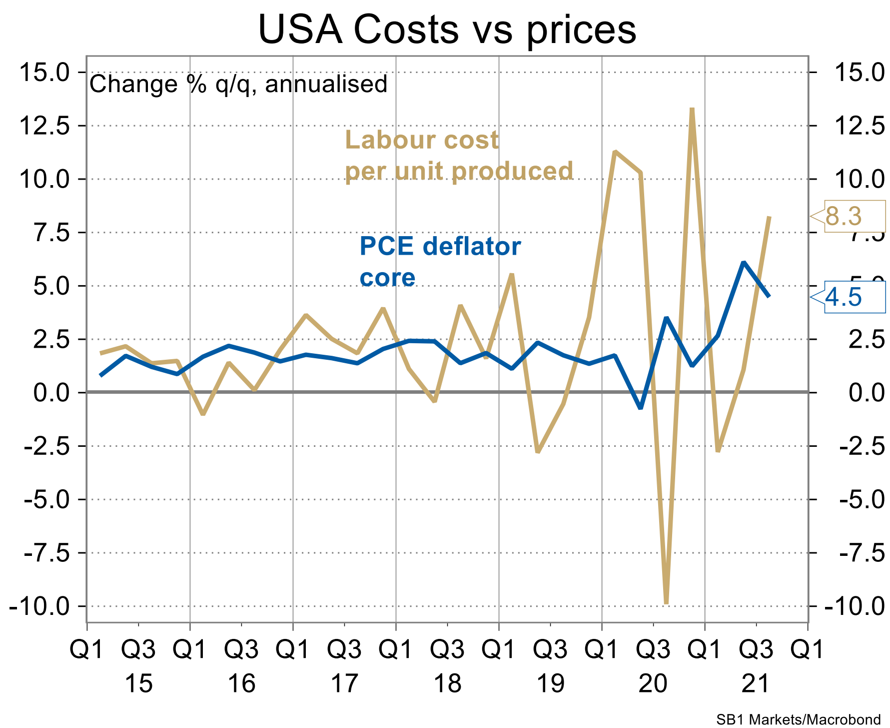


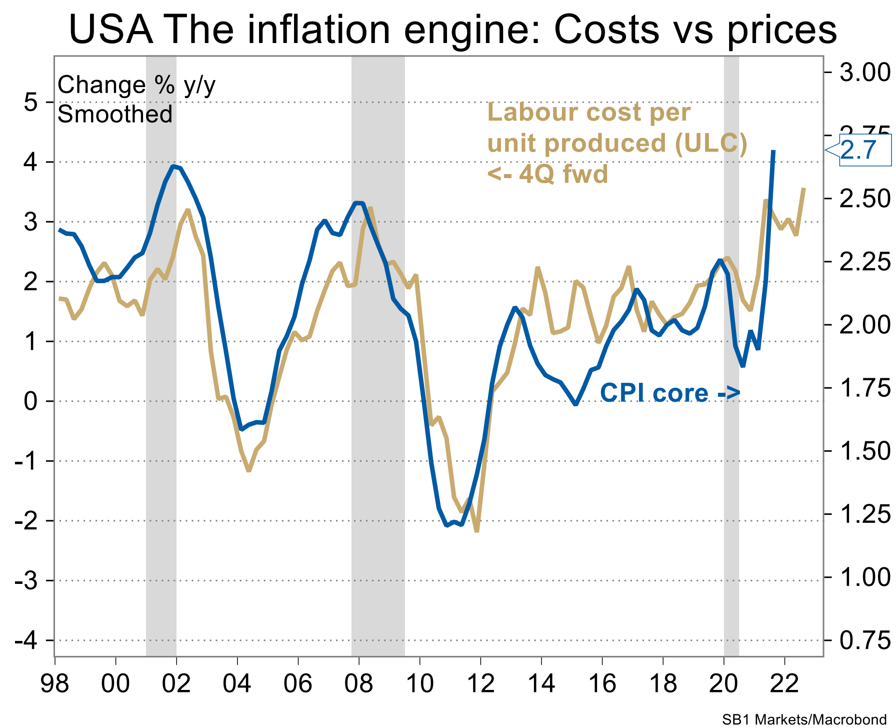


- **Unit labour cost (ULC)** is the main driver for inflation long term but ULC is very volatile, short term
  - » Short term, the price level is far more stable than the labour cost per unit produced
  - » Over time however, they are close to equal (barring changes in direct taxes/subsidies, import/export prices). They have to – if not, operating profits would become 'too' high or 'too' low. At the charts above we utilise ULC for the hole economy
- The recent lift in ULC poses a risk vs. further price increases – that so far have been partially kept in check due to large government support to the corporate sector during the pandemic

Short term, no correlation between ULC and prices

Over a couple of years: Usually correlated, but 1 pp higher ULC growth ->0.2% higher core PCE infl.

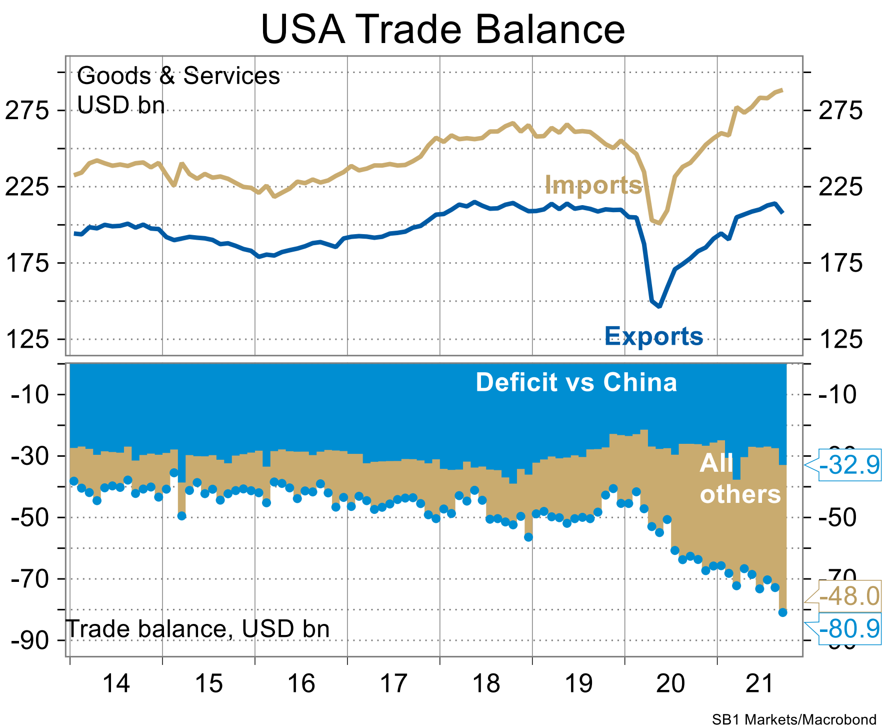


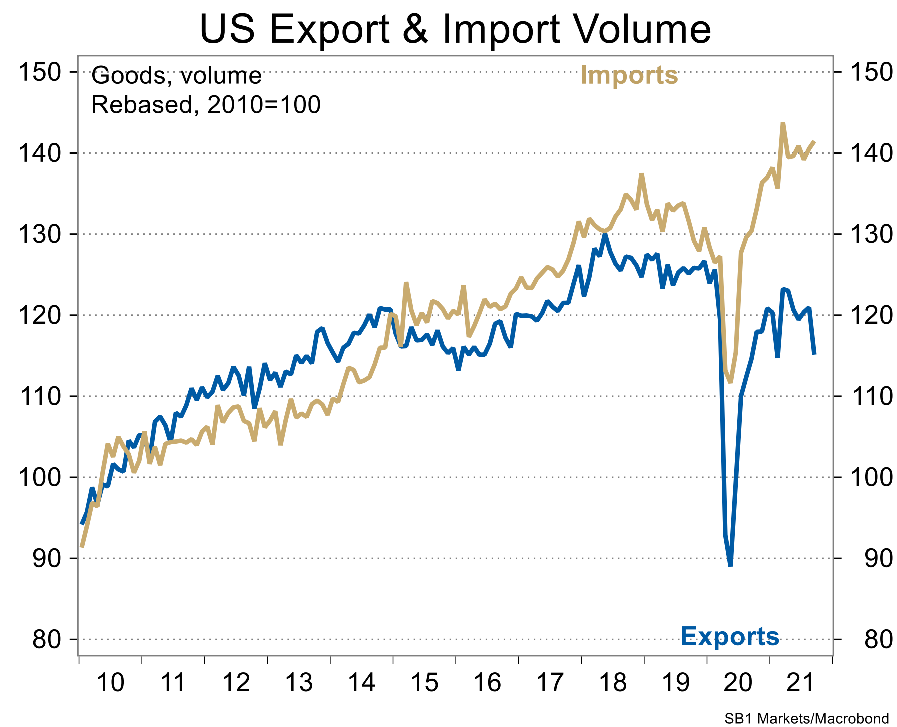


- The recent growth in ULC implies some problems in keeping PCE inflation at 2%; wage inflation may be some 2 pp too high (vs the 5.5% current smoothed growth rate)

An ATH trade deficit in September up to USD 81 bn, imports are really strong

… as demand for goods is still very high. Exports are weak, especially in volume terms

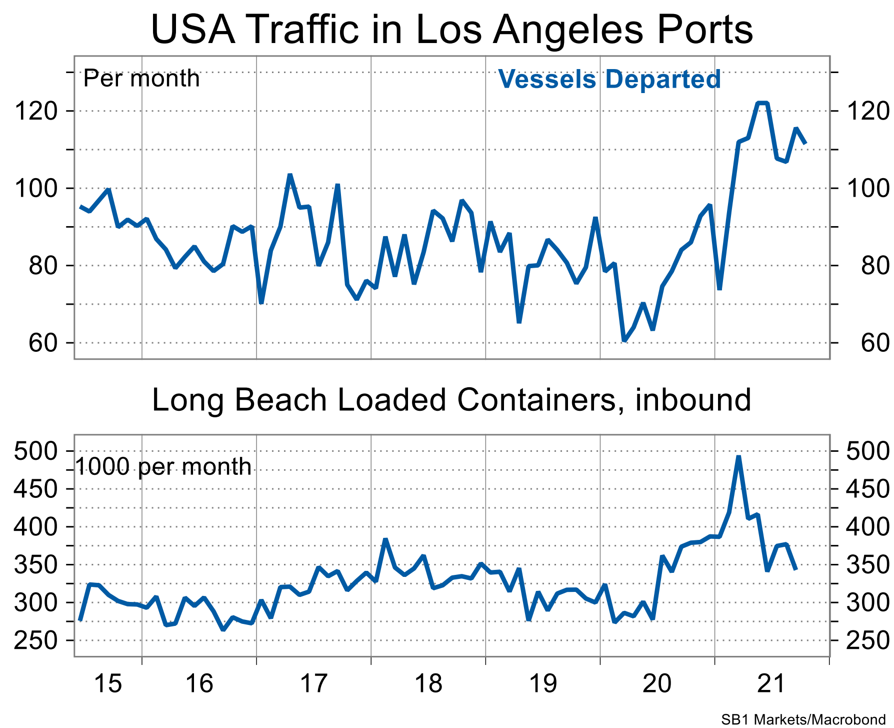




- **Exports** fell 3% m/m in Sept, and is close to unch since before the pandemic level (in value terms). In volume terms, exports of goods fell by 5%, and are down 7% from Feb 2020. We expect many of US' trading partners to increase their demand for US goods, and one day even for services (like travelling into US)
- **Imports** rose by 0.6% m/m, and is 15% above the Feb 2020 level. In volume terms, the imports of goods are 11% above! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **The trade deficit rose sharply in Sept to USD 81 bn**
- is trending upwards, also measured in per cent of GDP, now at 3.9%, up from less than 3% before corona
  - **The deficit vs China** is almost at the same level as when Trump became president in 2016. However, the total deficit vs. other countries has increased, also before corona

BTW, why are US harbours so crowded?

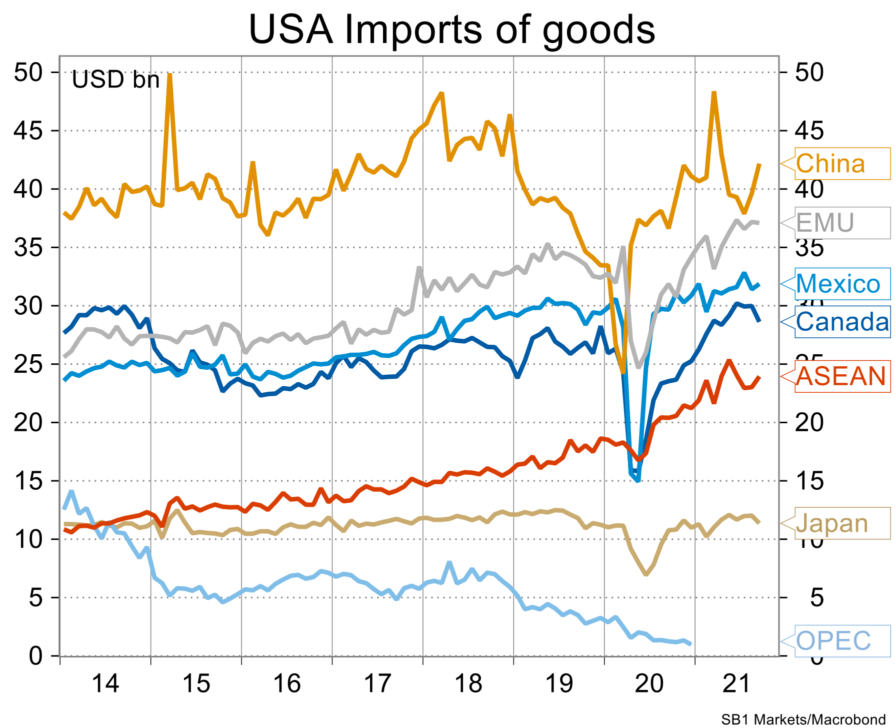
Because (inbound, of course) traffic is much higher than ever before

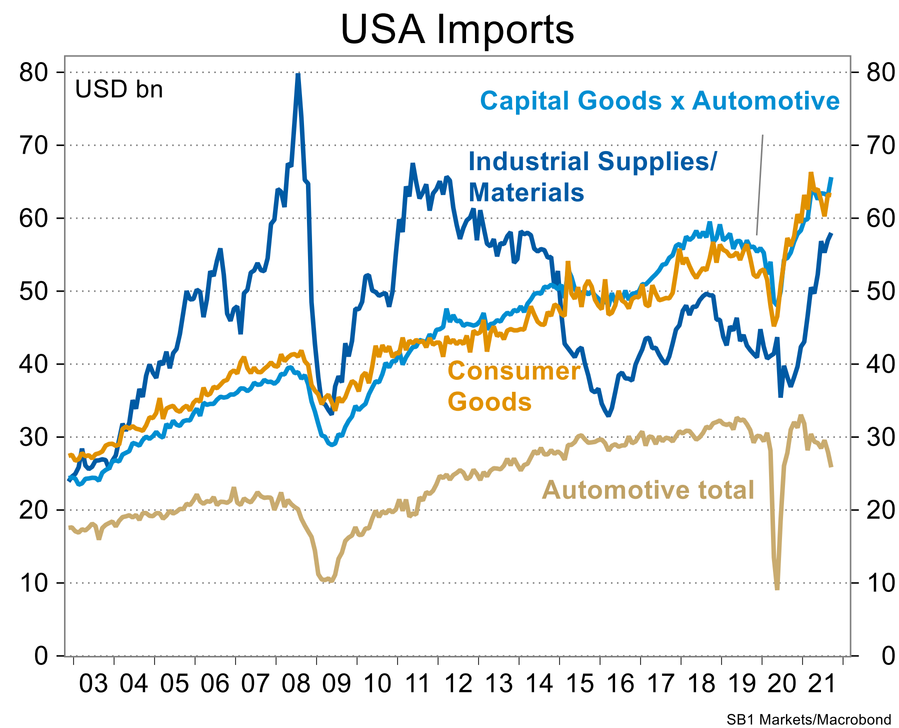


- Sure, there have surely been some capacity problems due to the pandemic but the main challenges have been that harbours have been overwhelmed by many more ship arrivals and much more (inbound) cargo than normal!
- ... Because demand for goods has been much higher than normal during the pandemic

Higher imports driven by everything, barring autos!

ASEAN exports are sharply on the way up, compensating for flattish imports (over time) from China



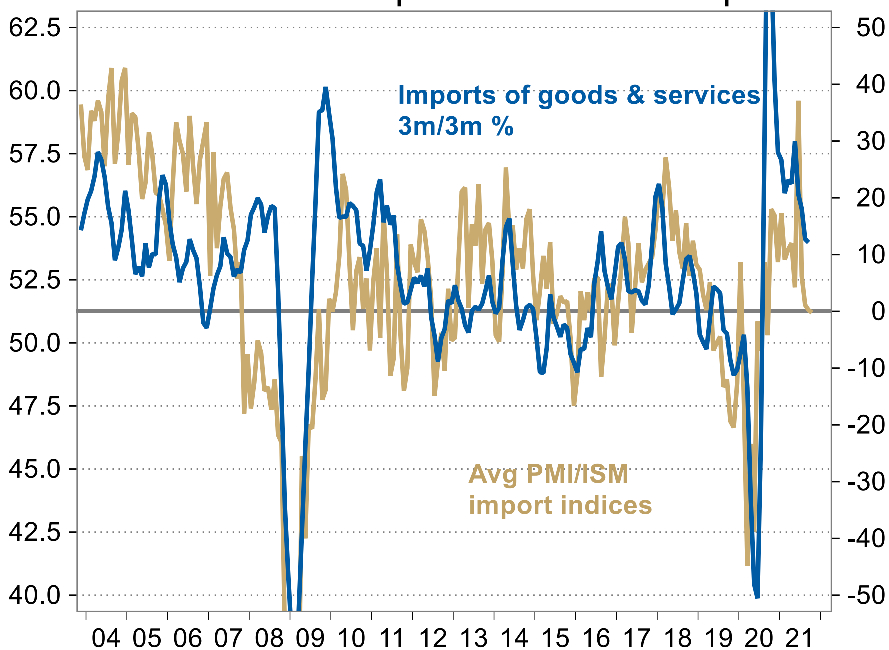


- **Imports from regions:**
  - » Imports from China are back at 2019-levels – and is the most important trading partner, at least vs. imports into the US
  - » Imports from ASEAN (the minor Asians) are trending sharply up
  - » Imports from the EMU has been growing rapidly during the pandemic, but has flattened recently
- **Imports by type of goods:**
  - » Auto imports fall sharply in September too, very likely due to production problems abroad due to lack of semiconductors
  - » Consumer goods imports increased sharply, after falling in the 4 months prior - and capital goods imports are very strong!

PMI/ISM signal a slowdown in imports

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

USA PMI/ISM Imports vs actual imports



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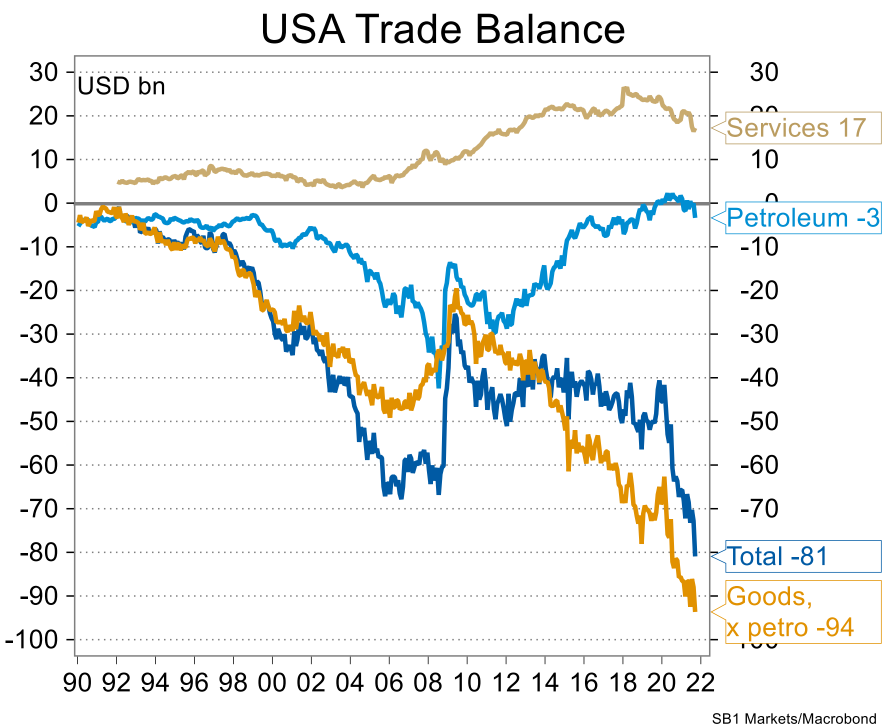
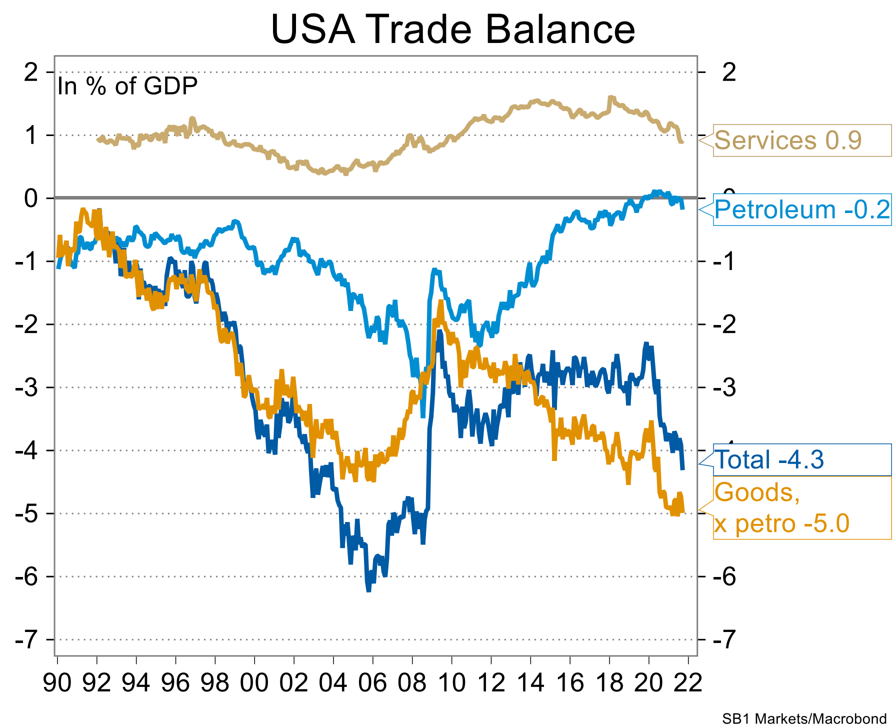
- But not yet, it seems like

Goods deficit very high, even in % of GDP

Surplus in services keeps narrowing

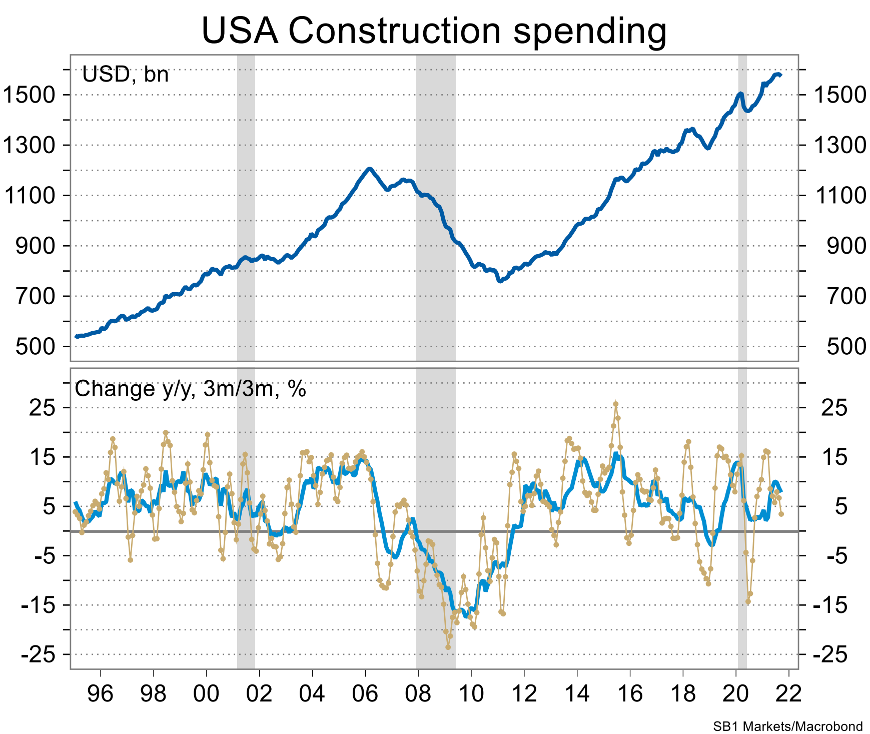


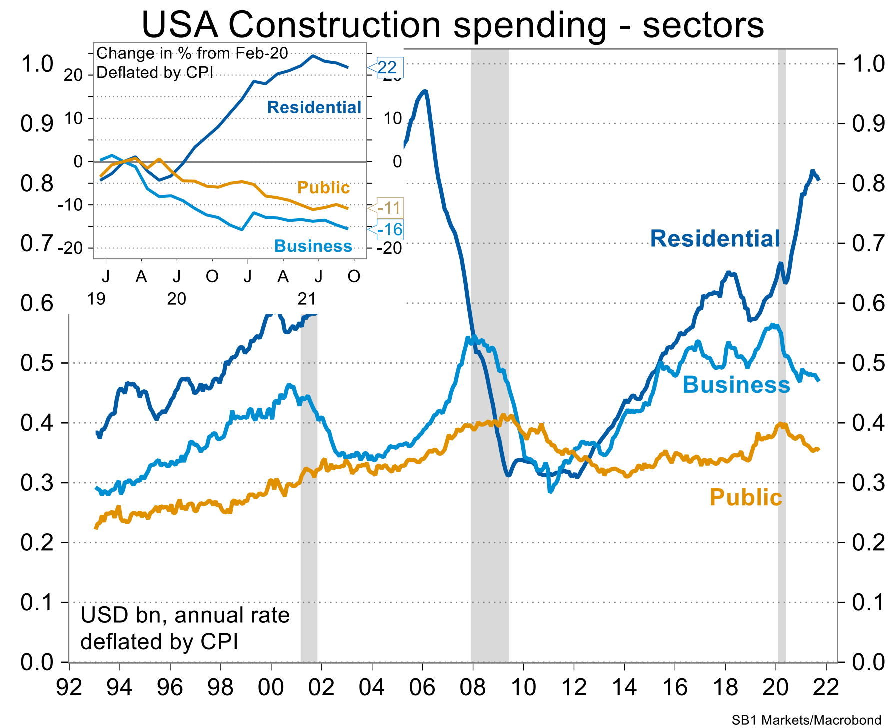


- **The goods x petro products** deficit was USD -94 bn in August. The deficit equals 5.0% of GDP
  - » Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
  - » The petroleum trade deficit is just USD 3 bn, from -30 bn/m in 2012!
- **The US runs a surplus in services** at USD 17 bn, equalling 0.9% of GDP, but it is trending down (and the downturn started well before corona)
- The total trade deficit equals 4.3% of GDP, well below the record at 6.2% in late 2005, thanks to the shale oil revolution. The deficit has widened from 2.5% in early 2020 – as domestic demand has been stronger in the US than abroad

Construction spending down 0.5% in September, August print revised down

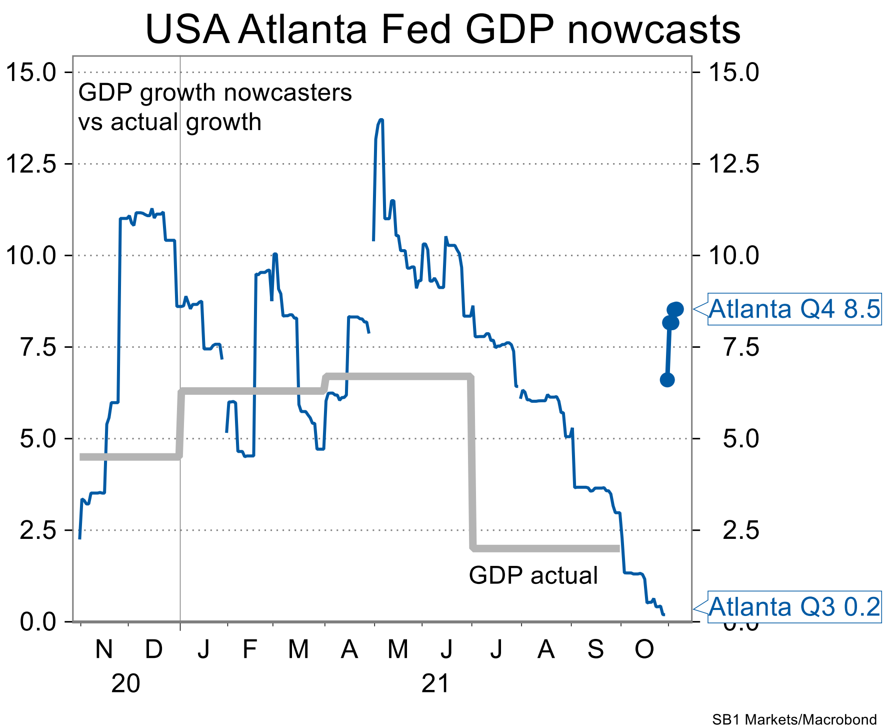
Business construction down 16% since Feb-20

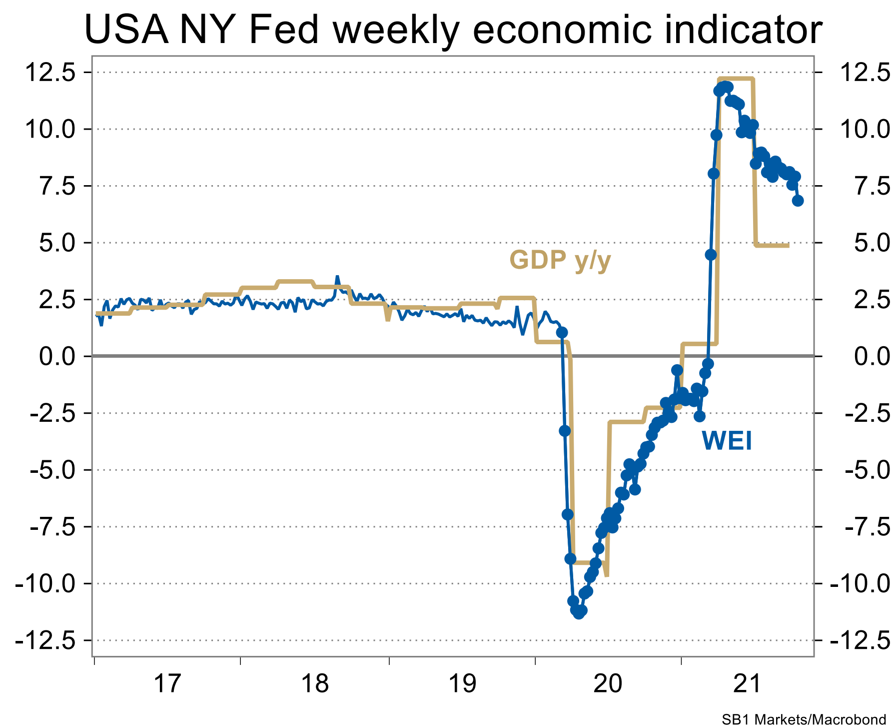




- The Covid crisis was not deep in the aggregated construction sector, and not long either – construction spending is well above the pre-pandemic level, in nominal terms, and marginally up if deflated (by a 12 m smoothed CPI). Growth has slowed recently
  - Construction spending fell by 0.5% in September, consensus estimate was +0.4%
- The lift in overall construction spending since before the pandemic is just due to the a surge in **residential construction** but growth has slowed somewhat last months – and was down 0.4% in September
- **Businesses** have reduced their construction investments sharply since early 2020 – and spending is still declining, down 0.5 % in Sept
- Spending on **public projects** also declined since the start of the pandemic, and was down 0.7% in July . The infrastructure package may help stabilising/lifting these investors

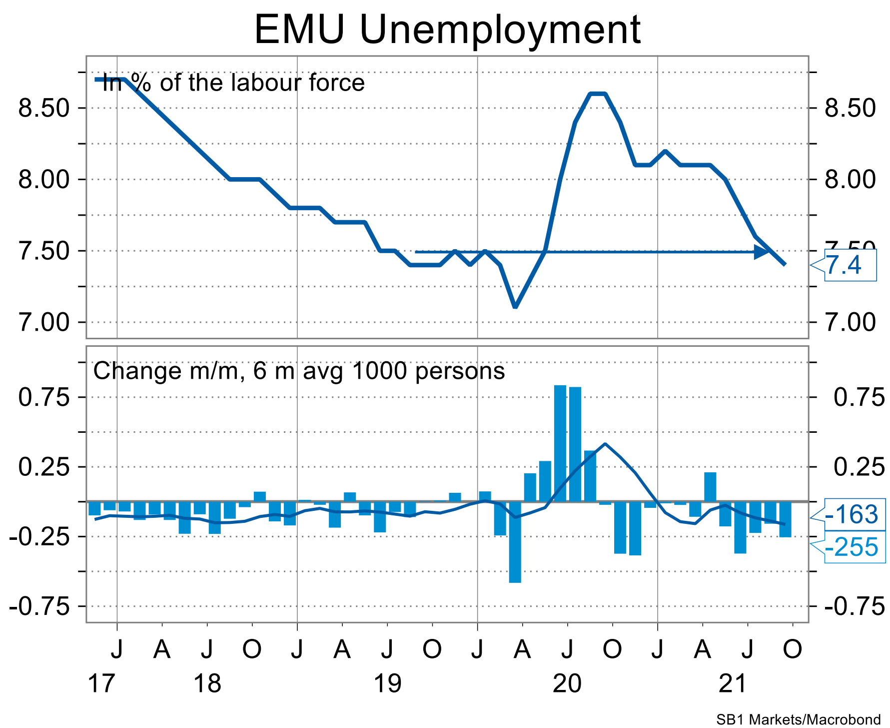
Atlanta Fed's nowcaster suggests 6.6% growth in Q4

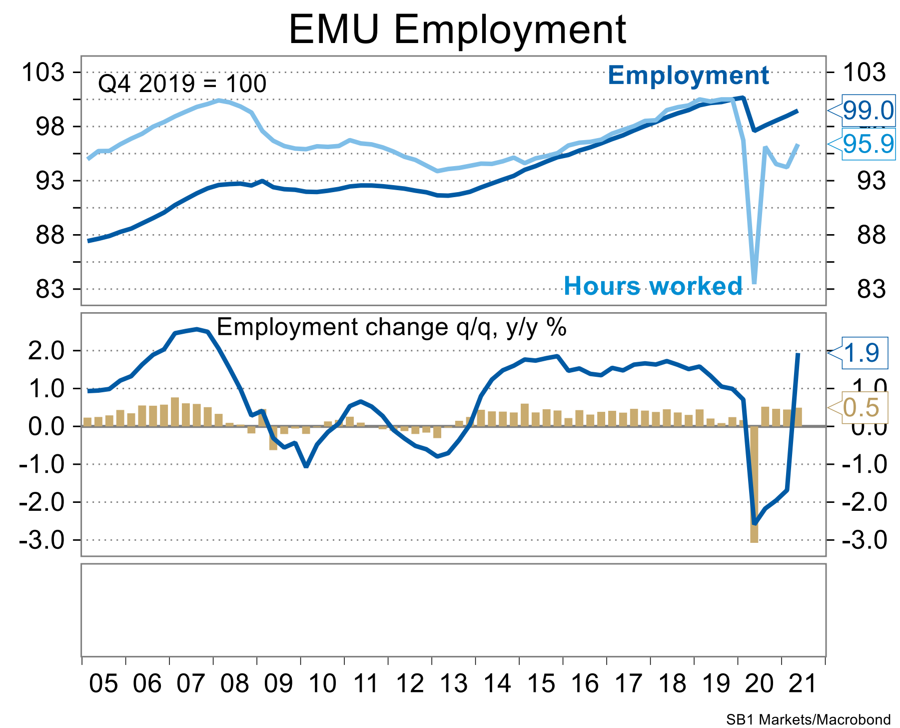




Unemployment fell below the pre pandemic level in September

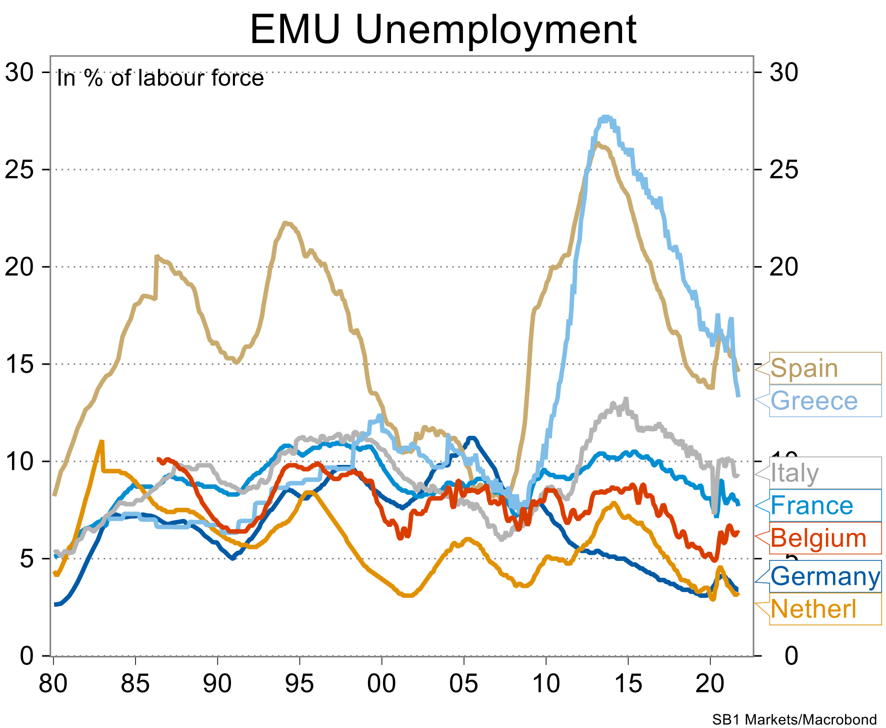
.. But employment was still below in Q2, and hours work very likely remained below in Q3

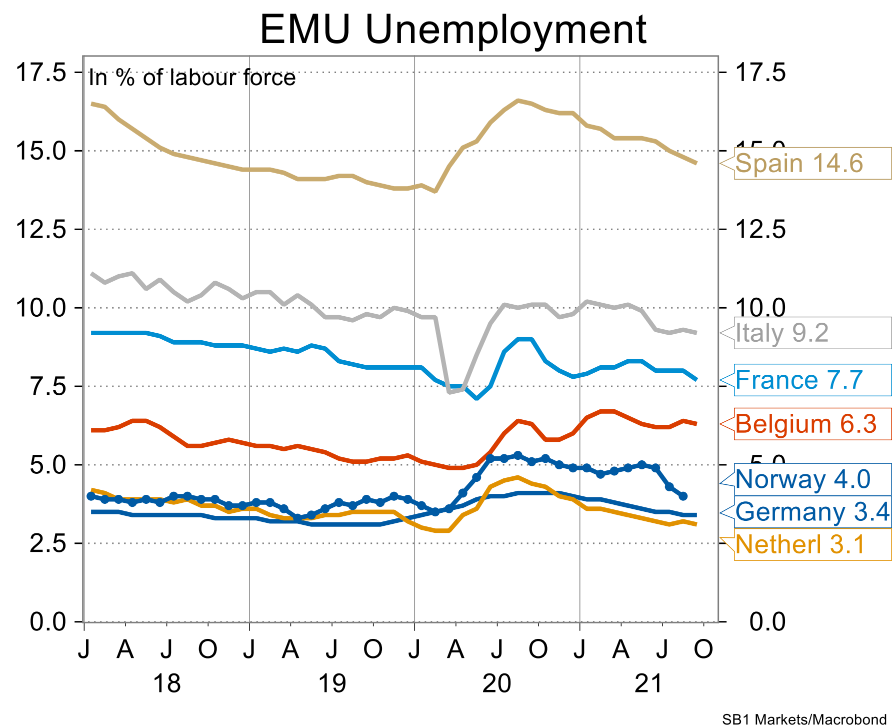




- **Unemployment** is falling rapidly as the economies are opening up. In September, the unemployment rate fell 0.1 pp to 7.4%, as expected, and the level is the average in the months before the pandemic hit
- **Employment** rose by 0.5% in Q2, as over the previous 3 quarters, and it was 1.0% below the pre-pandemic level. We do not have the Q3 data.
  - » However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q2, hours worked were down 4.1% vs the pre-pandemic level, as the average working hours have fallen sharply
- **GDP** grew further at a rapid pace in Q3, by 2.2% (9.1% annualised) – and both employment and hours worked very likely recovered further. The hours worked gap will still be substantial

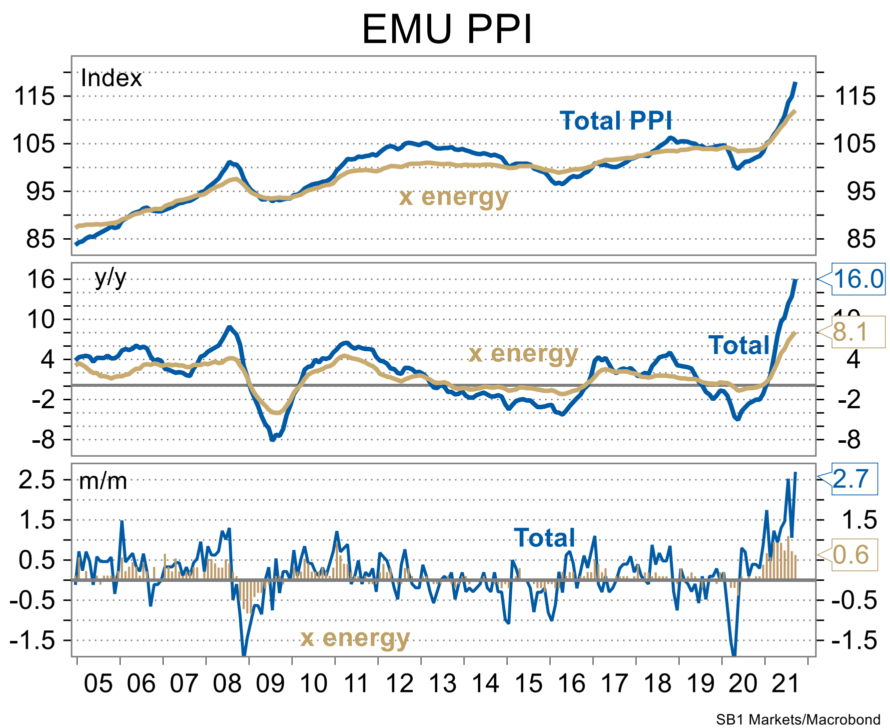
Unemployment is falling all over the region

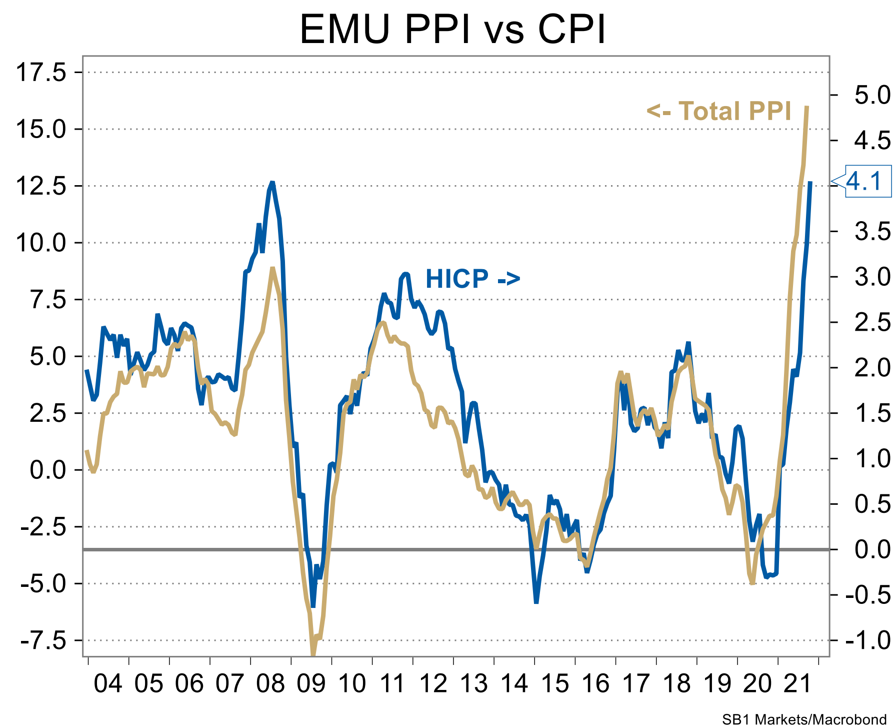




Producer prices up 2.7% in Sept – signals a further increase in CPI inflation

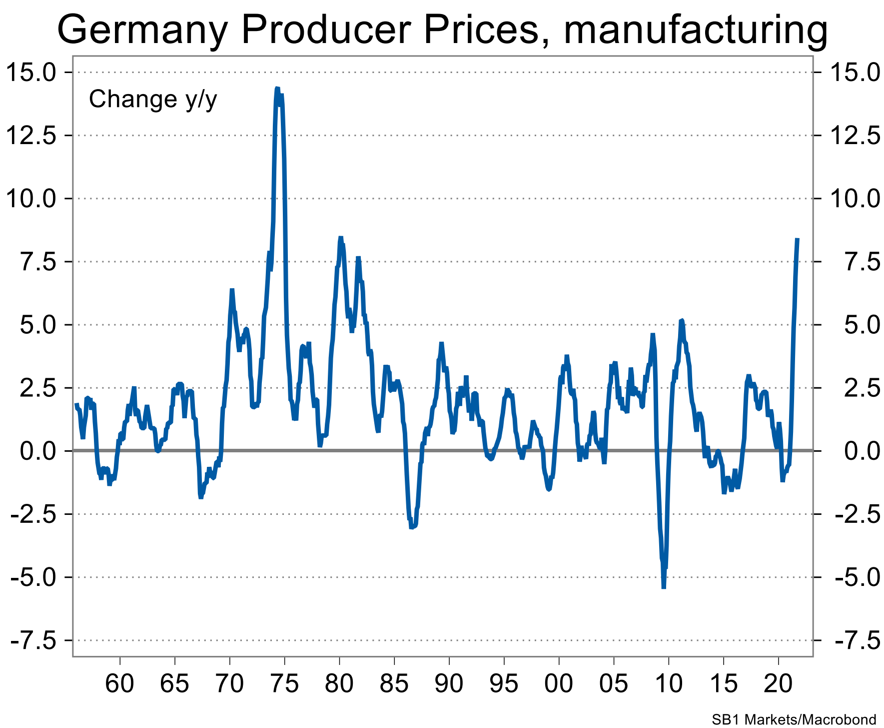
Total PPI 16.0% y/y – 0.4 pp higher than expected. CPI on the way up to 5%?





- The PPI ex energy added 0.6% in Sept, and is up 'just' 8.1% y/y, the **highest level on record** – data from 2000. Thus energy explains half of the lift in the total PPI. Still the 'core' is also up more than ever before (data though just back to 1995). Germany has not seen a manufacturing PPI up by more than 8% since 1980
- Luckily, this is all transitory… ☺
  - » And in fact, we believe it is! Raw material/logistic cycles have never lasted for long!

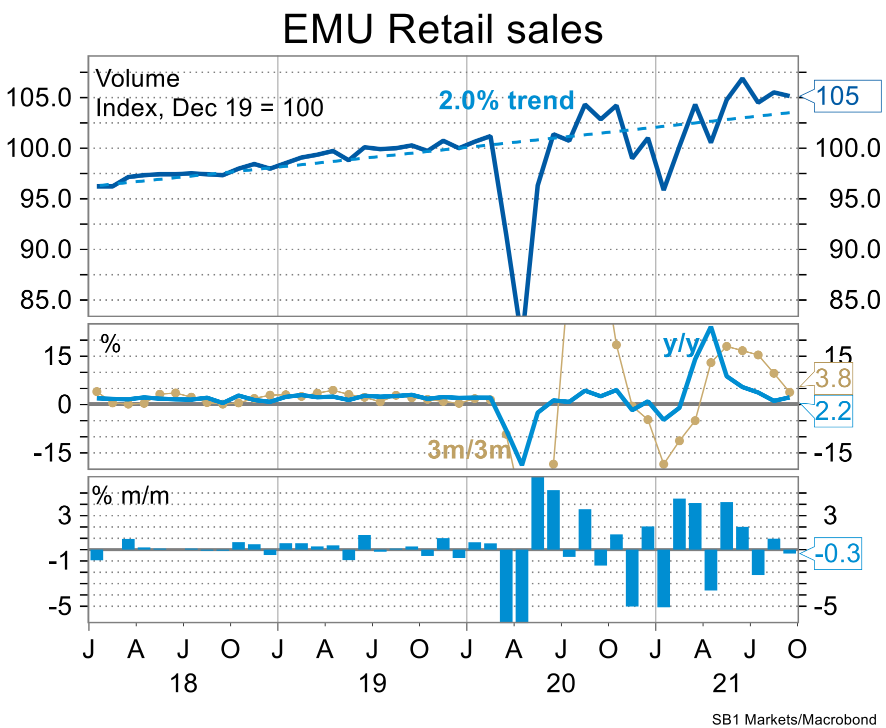
Just for the record: German producer prices

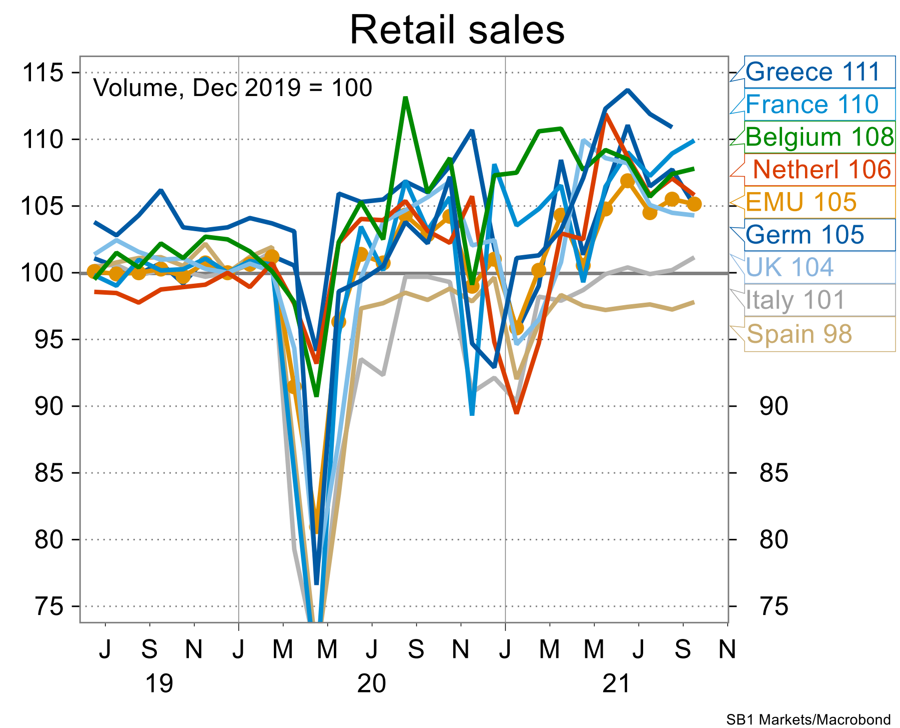


- Energy prices are <u>not</u> included

Eurozone retail sales down 0.3% in Sept, but history revised up – up 5% vs pre-p

Sales were expected up 0.3% - but the Aug level was revised up by 1.5%

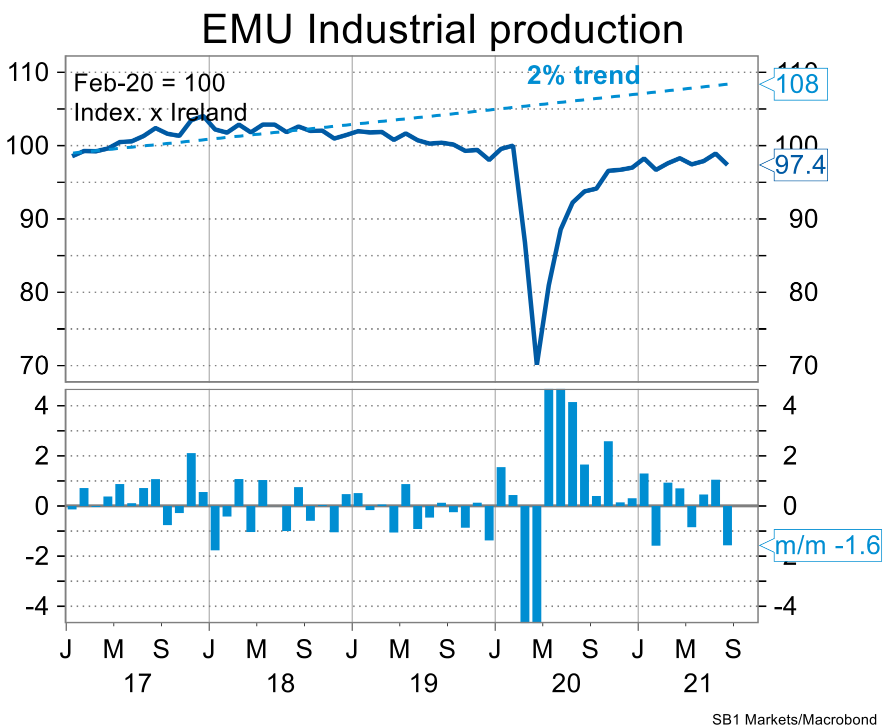


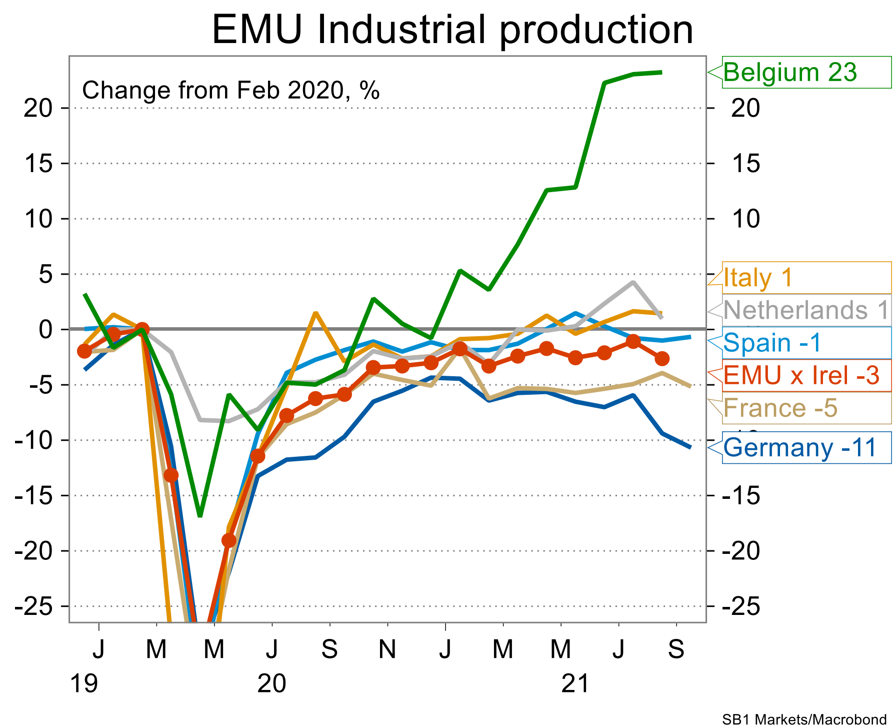


- Retail sales volumes have flattened since May, at a level well above the pre-pandemic trend path
- Mixed between countries in September: France, Italy & Spain up, Germany down
- Since before the pandemic: Spain still down, Italy barely above. Germany up 5%, France up 10%

Manufacturing production probably fell further in September

Germany and France has reported a 1.3 – 1.4% decline, Spain just a minor gain – the sum down 1%?

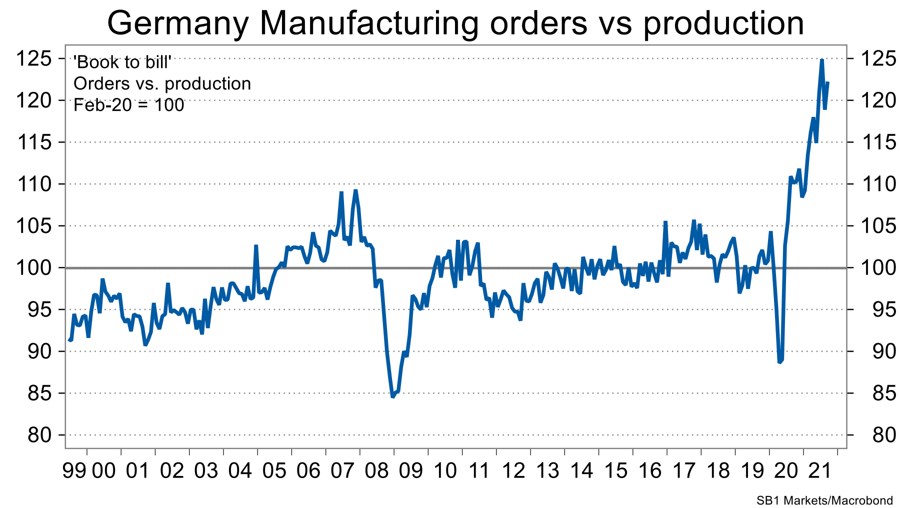


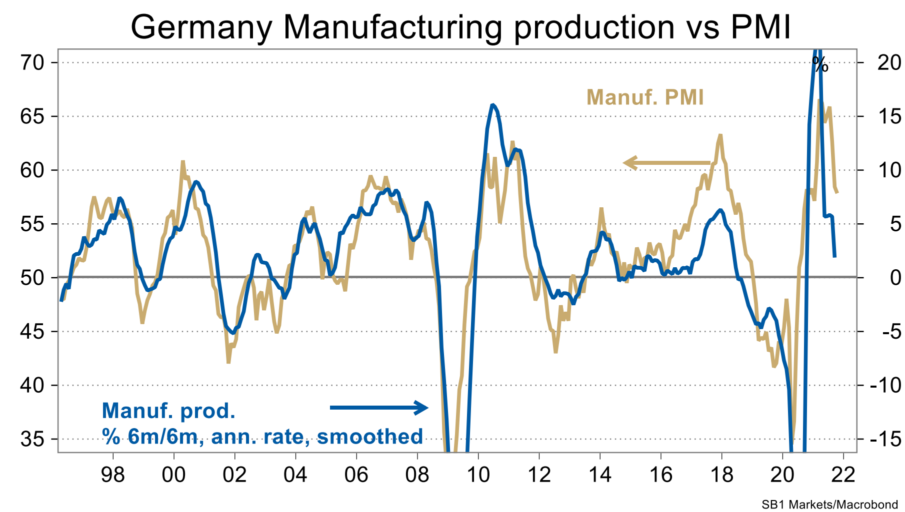


- If so, the production level would be some 3.5% below the pre pandemic level
- Production in Italy is higher than in Feb-20, while production in the other big 3 countries remain lower
  - » Germany is the laggard, down 11%. From time to time, auto production is not what you wish you had…
  - » Belgium (a pill producer) is up 23% , the Netherlands 1%

German factory orders stabilised in September, at a high level

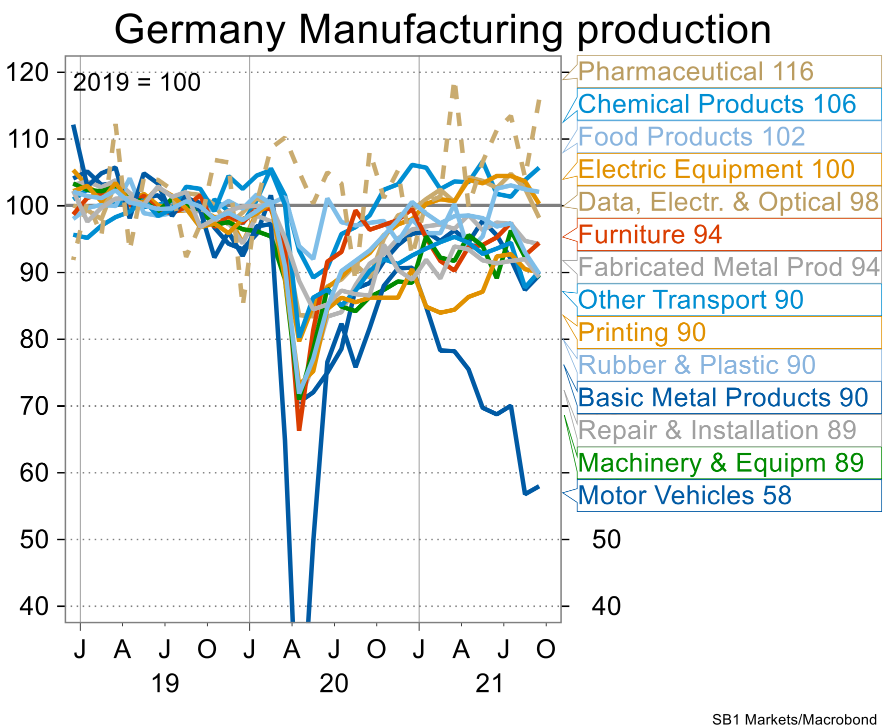
… but production is sagging due to lack of supplies

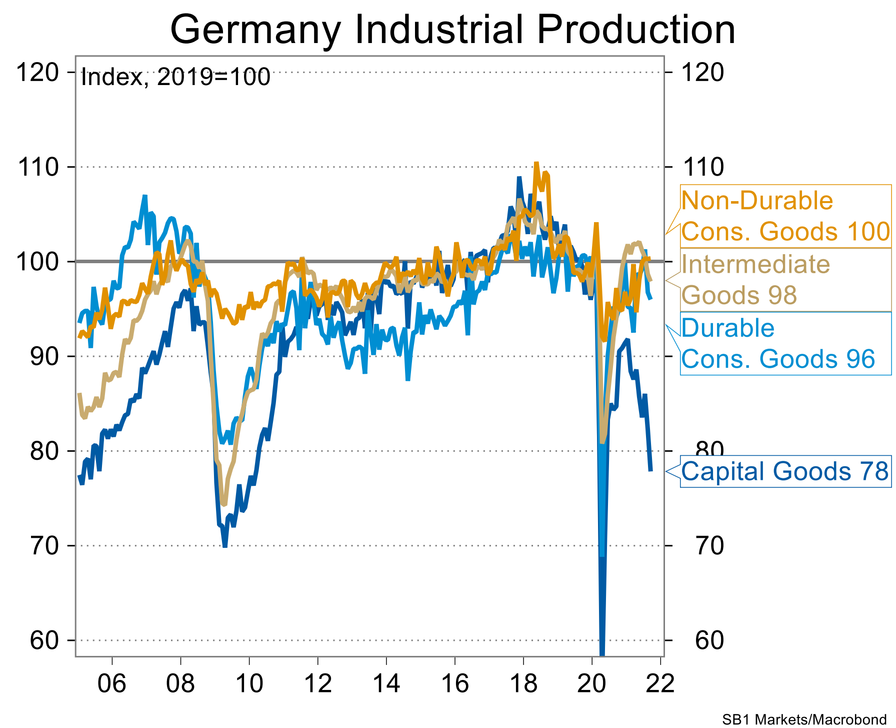




Pharma is up, most others are down – and motor vehicle prod is really weak

However, auto production recovered in October (check here)

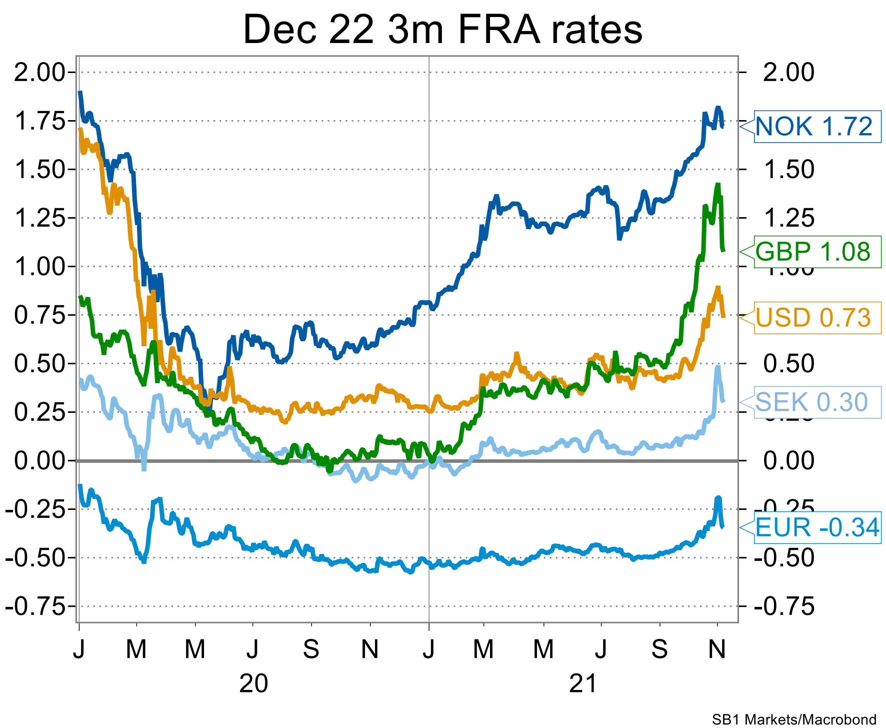




- The slowdown in production in Germany has been wide spread recent months. Some sectors outside the auto industry are now feeling the impact of the deep cuts in auto production. Even if these sectors now report weaker demand, it so not necessarily not due to lower final demand, just intermediary demand (or at least not due to lower 'real' final demand, say that nobody wants to buy German cars anymore, they can just not get them, now)

Bank of England: Soon, but not now!

Markets (but not economists) expected a hike but a split BoE committee decided to wait



- It was a close call, the majority (7) said after the meeting, and two members voted for a hike to 0.25%, from the present 0.1%
- However, the bank states that *it would be necessary over coming months to increase Bank Rate in order to return CPI inflation sustainably to the 2% target*
- Still, the majority argued that by await the two employment reports before the December some uncertainty on the impact of the termination of the of the furlough scheme could be reduced
- The Bank recognises the record high vacancy rate, at the unemployment prognosis was lowered further
- The Bank expects inflation to be elevated for still some time but expect this surge to be 'transitory', and thus not persistent, that is not lead to higher wage inflation over time. The inflation rate is expected to decline to target not before 2024. The 2023 f'cast is lifted to 3.4% from 2.5%, even if the Bank accepts market rates, that had climbed by more than 75 bps since the August MPR was published
- No changes in the QE program, which has a target at GBP 875 bn in government bonds and an additional GBP 20 bn in corporate bonds. The target will soon reached. The sum stands at GBP 877 bn, and monthly purchases have slowed to 7 – 8 bn. Two members wanted to stop buying immediately
- Markets had expected the Bank to hike now, as governor Baily has been interpreted as signalling rate hike was near. The Bank was also judged to be dovish in some of its comments. Thus, market rates fell sharply, by up to more than 25 bps. Even so rate expectations are still higher than 3 weeks ago
- The GBP fell 1.7% last week. So from time to time, interest rates are important for the f/x market!

Highlights

The world around us

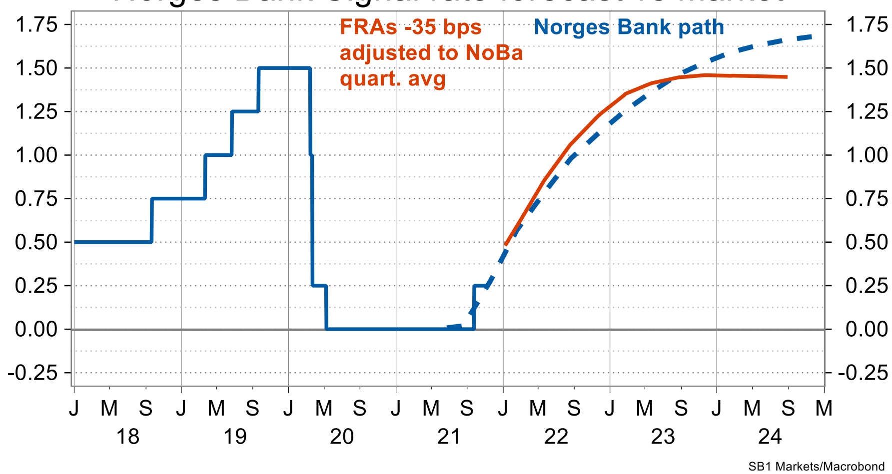
The Norwegian economy

Market charts & comments

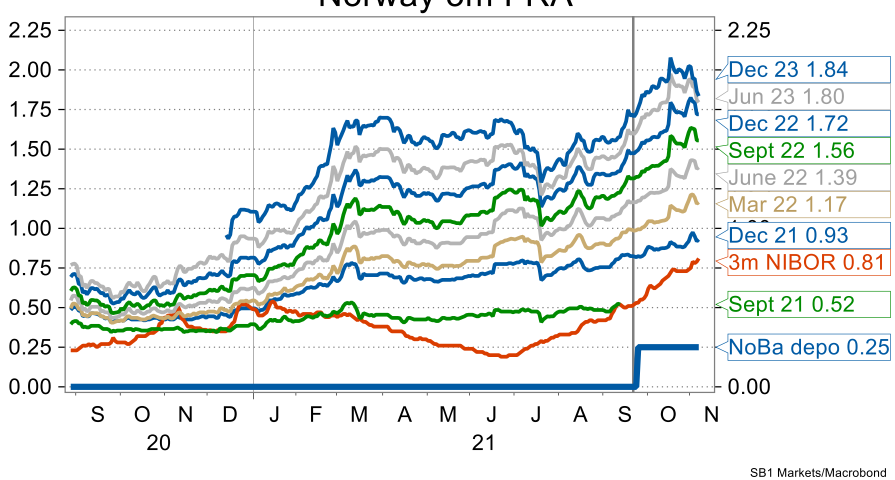
Norges Bank confirmed the plan, a next hike in December

The bank is not in all in doubt about the next step

Norges Bank Signal rate forecast vs market



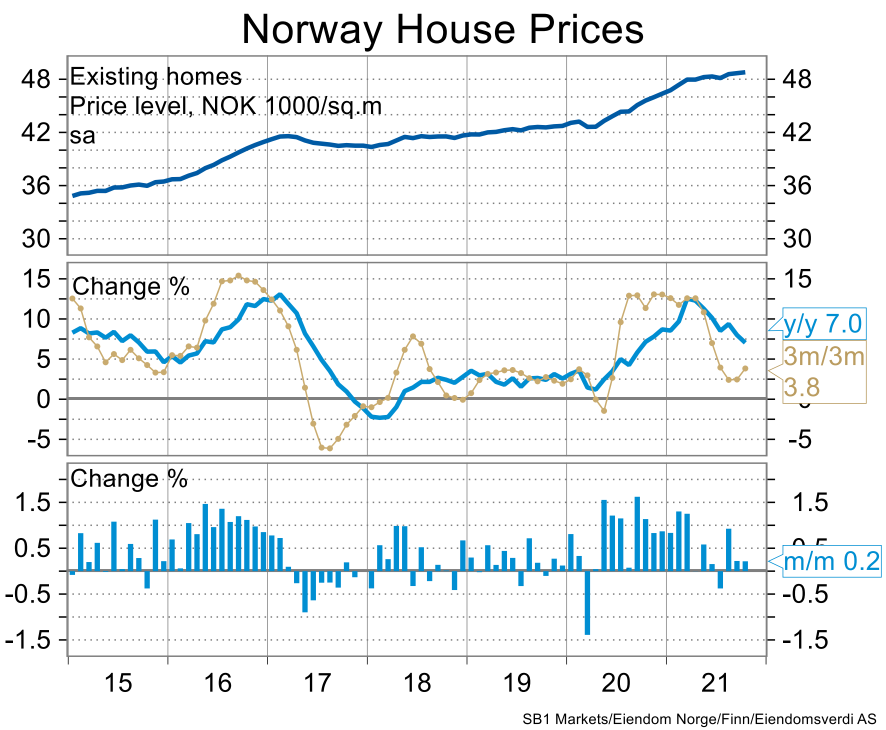
Norway 3m FRA

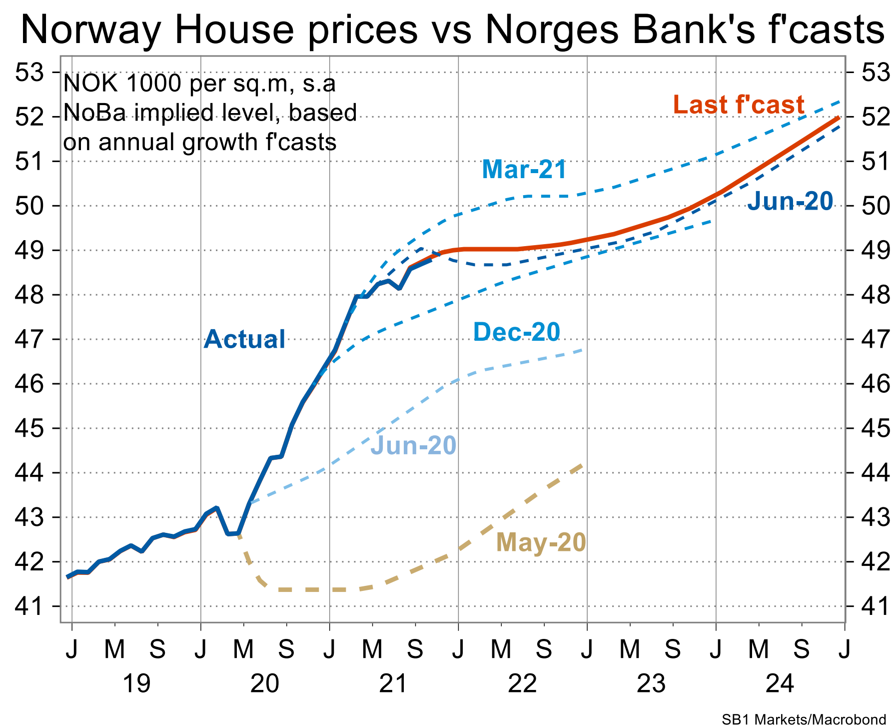


- **Key policy rate** was kept unchanged at 25 bps, as everybody expected
- Norges Bank repeats that *'a normalising economy suggests that it will be appropriate to raise the policy rate further from today's level. Uncertainty surrounding the effects of higher interest rates warrants a gradual rise in the policy rate'*.
- FRA-rates fell sharply last week, but not due to new signals from Norges Bank or weak Norwegian data (barring an increase in virus infections and hospitalisations). The setback was due to foreign factors
  - » The no-hike-decision in Bank of England, dovish comments from the Federal Reserve, and the decline in oil prices were probably the most important factors behind the decline in rate expectations abroad
- The FRA curve is still above Norges Bank's September interest rate path from mid 2022 to mid 2023. The FRA curve does not discount more than a 25 bp hike per quarter (and per Monetary Policy Report), and it did not before last week's moderation

House price inflation has slowed – up 0.2% in October

Our models signal a faster price increases than seen recently. Higher rates to blame for the slowdown



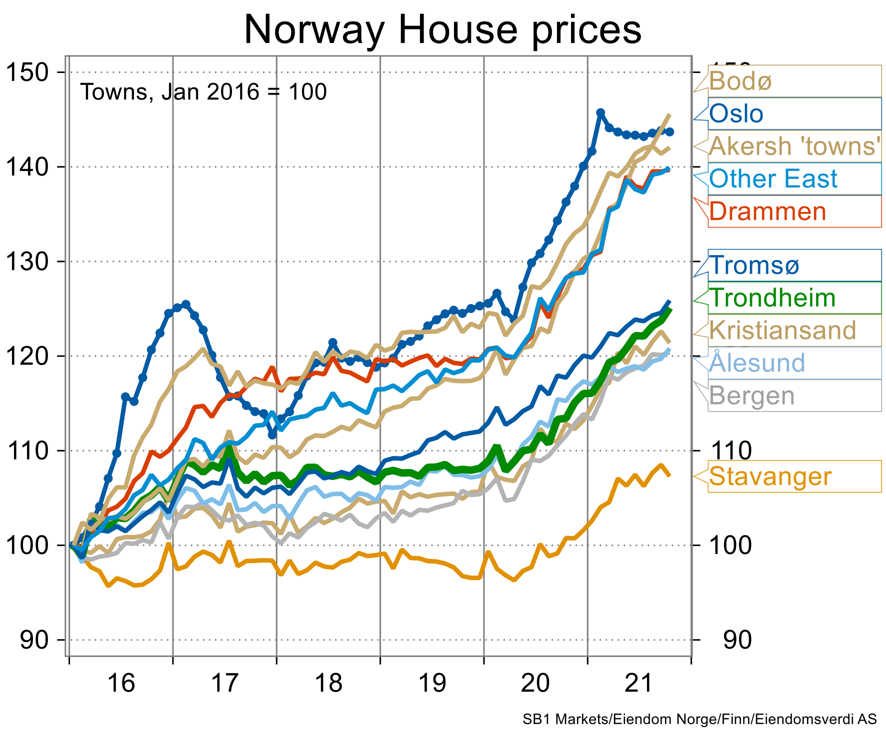


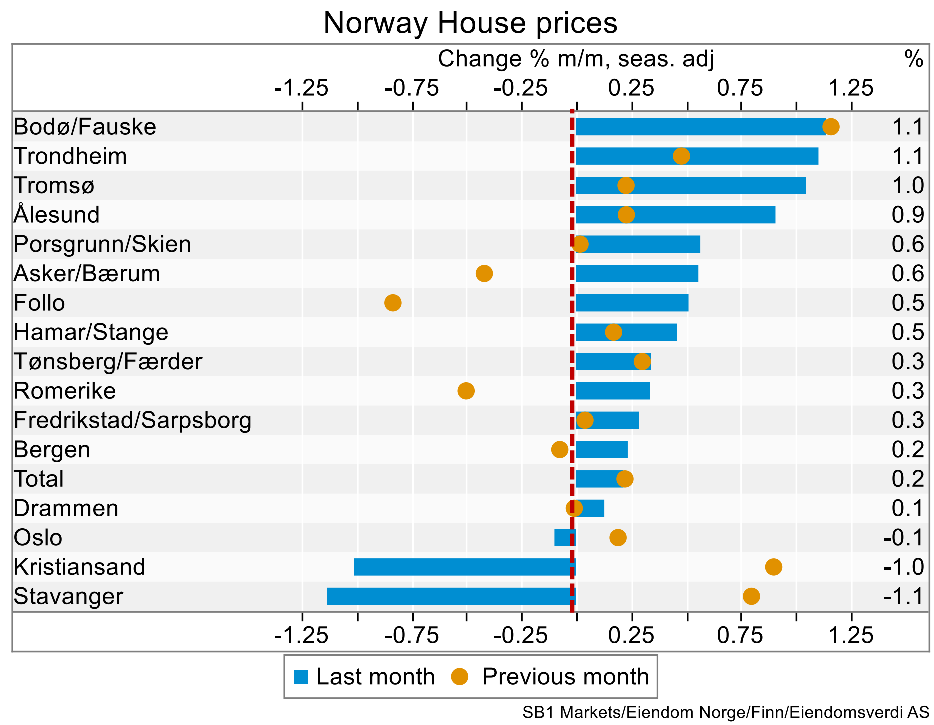
- **House prices** rose by 0.2% in Oct, unch from Sept, we expected 0.4%. Prices are up by 3.8% 3m/3m (annualised), down from above 12% in March. Prices are up 7% y/y. In both September and October prices rose a tad less than Norges Bank assumed in the Sept MPR
- Prices fell 1.1% in both Kristiansand and Stavanger, even if news from the oil sector has been good. Prices fell marginally in Oslo but rose in all other towns, the most in Bodø, as usual these days. Now clear pattern of 'out of towns', not last month or over the past months. Price inflation has slowed everywhere, and most in Oslo and in the surrounding 'towns'
- The **number of transactions** was stable, level still above the pre-Covid level. The **inventory of unsold homes** rose marginally from the ATL in September
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model +1%, from zero 6 months ago. Very likely, the outlook for higher rates is dampening willingness to pay
- **Norges Bank** expect house prices to appreciate a moderate pace the coming months, and flatten during most of 2022

SpareBank 1 MARKETS

Mixed between cities in October, Bodø/Fauske still in the lead

Prices fell in Oslo, Kristiansand and Stavanger but rose in the 13 other cities

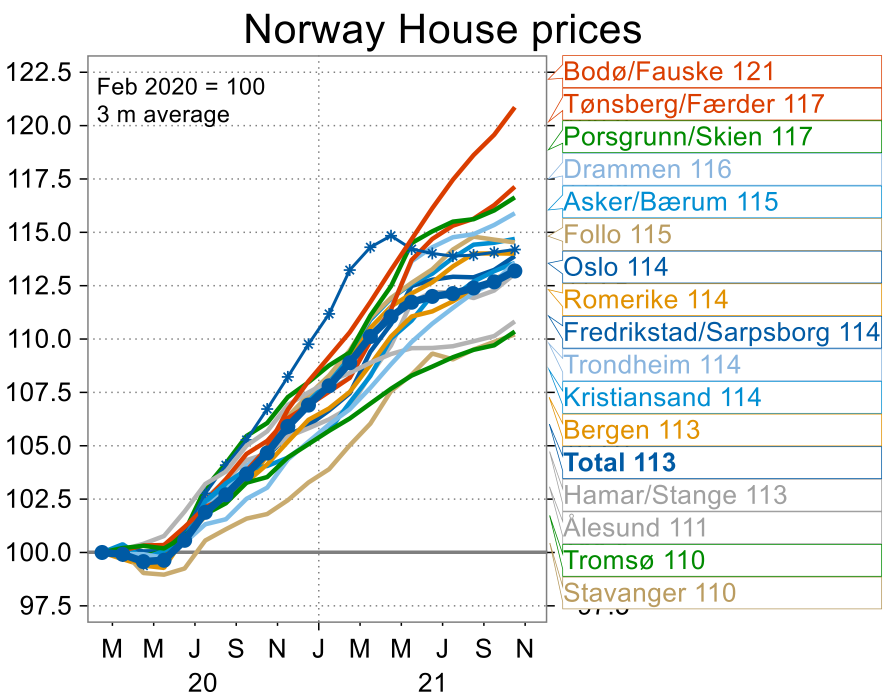




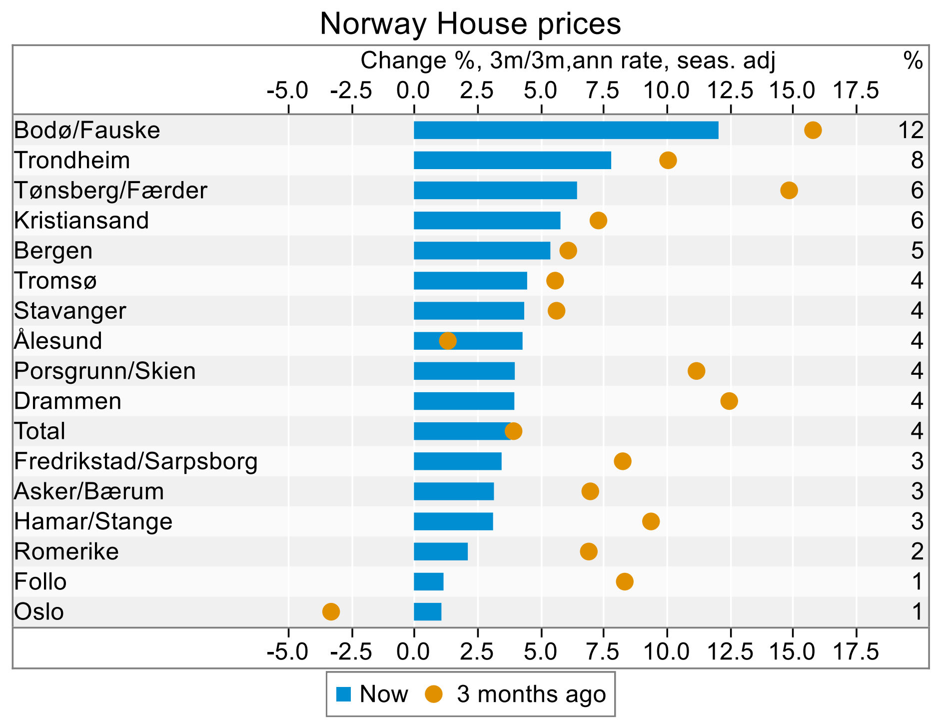
- In October: 13 cities up

During the pandemic: Bodø/Fauske the winner, Tromsø and Stavanger the losers

Oslo <u>and</u> surrounding Eastern 'towns' have been the laggards recent months



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

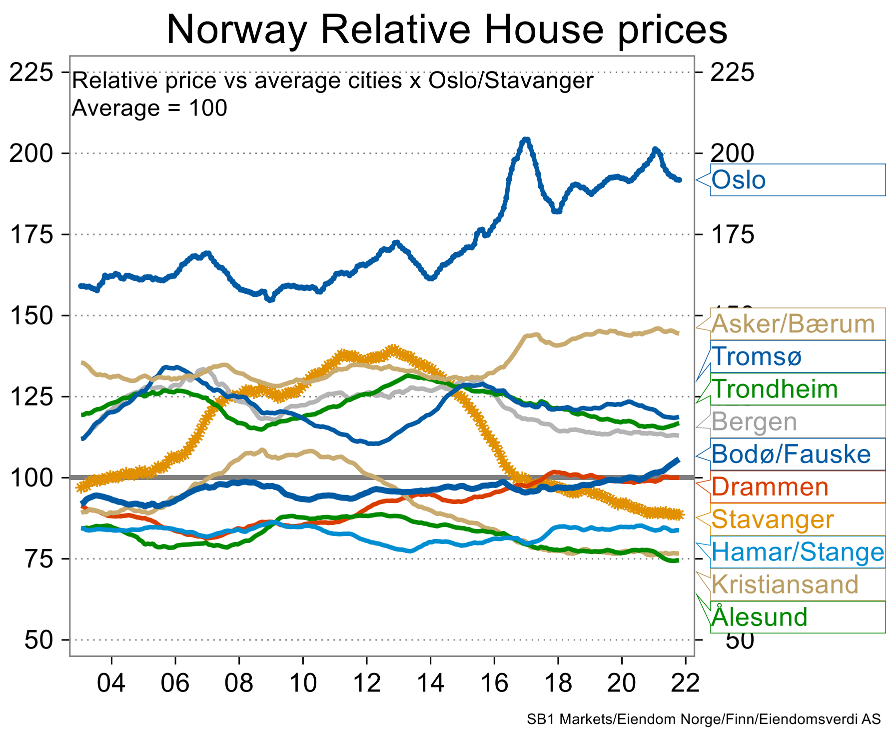


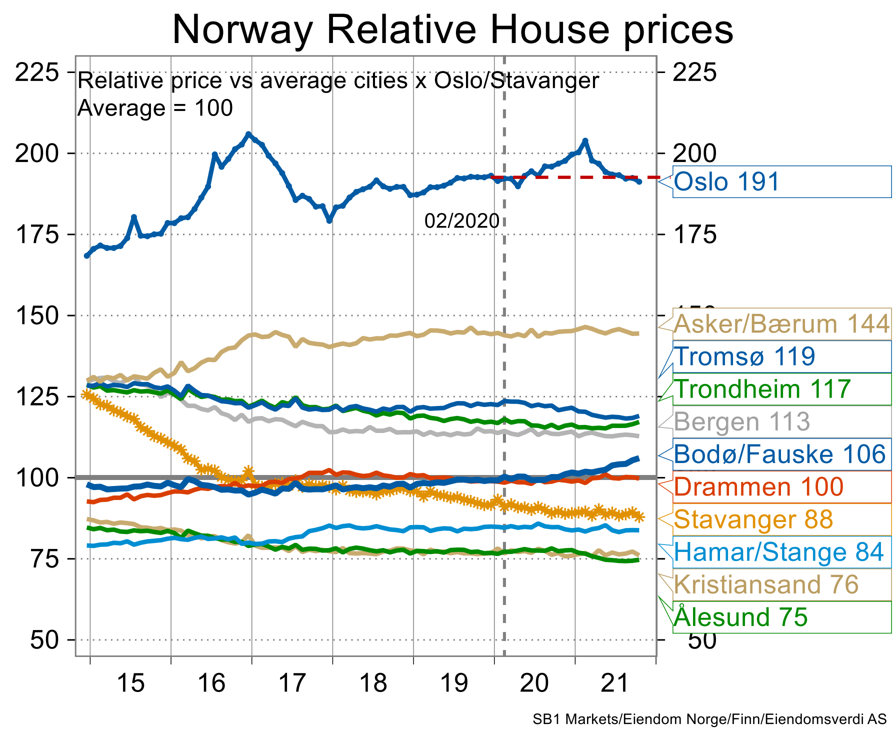
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Bodø the winner the past few months (3m/3m) as well
  - » Trondheim no. 2 on this ranking
- No clear pattern in changes in house prices during the pandemic or over the recent months but the 4 biggest cities have been somewhat on the weak side since before the pandemic. However, recent months both Trondheim and Bergen has been on the upper part of the ranking (3m/3m) – with Oslo at the bottom

Oslo relative prices slightly below the pre-pandemic level

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

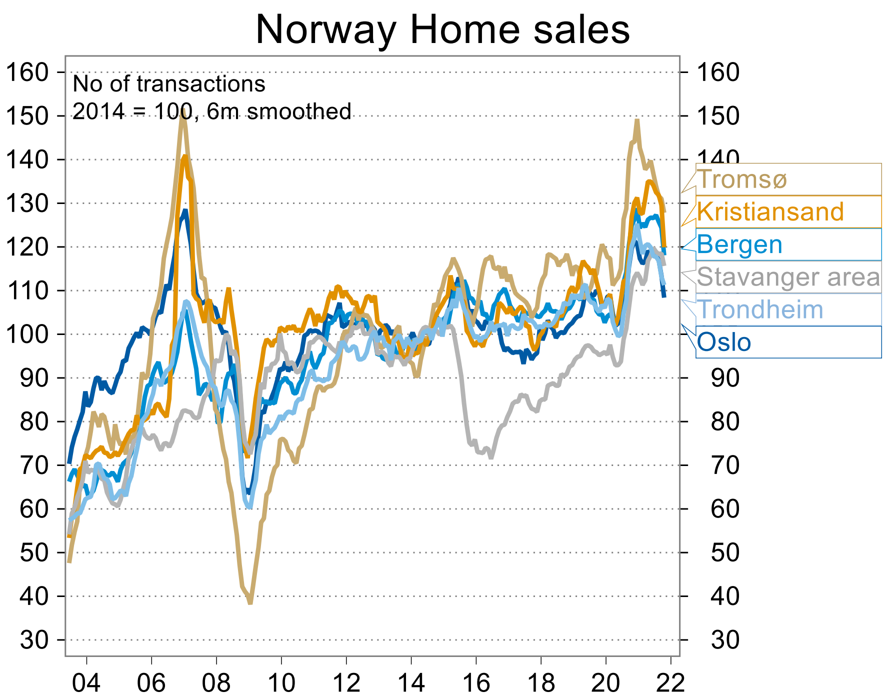




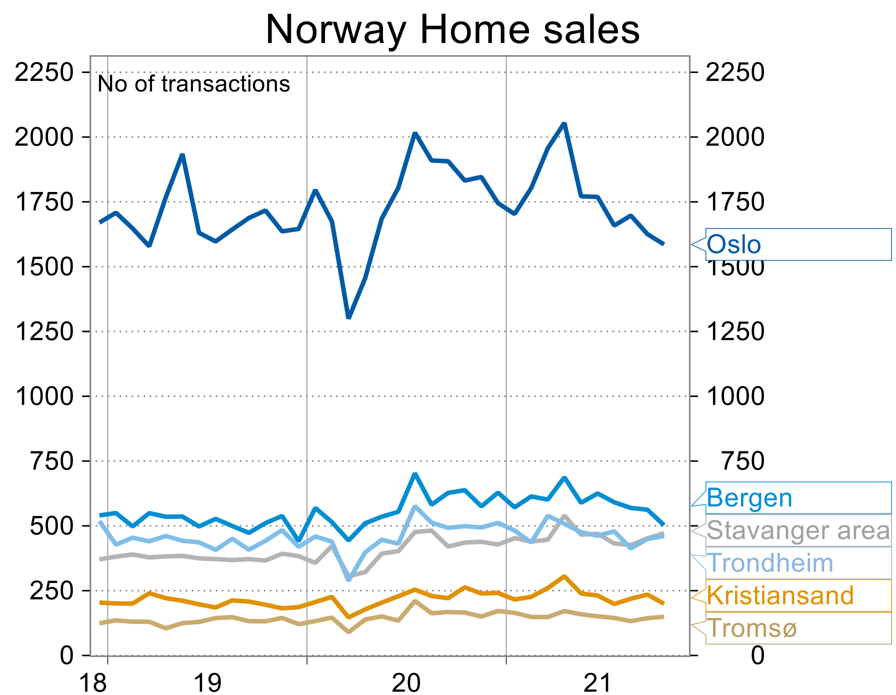
- Housing starts in Stavanger/Rogaland are still not lower than normal. It is still profitable to build, even at 'Hamar/Stange' prices! And why shouldn't it??

Number of transactions down are trending down most places

... But is higher than normal everywhere



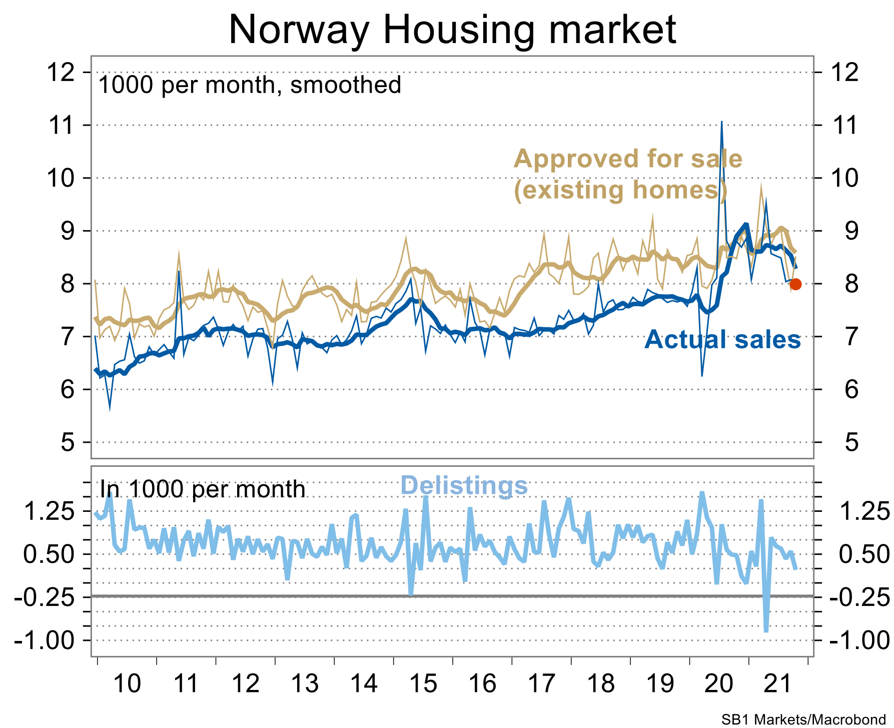
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

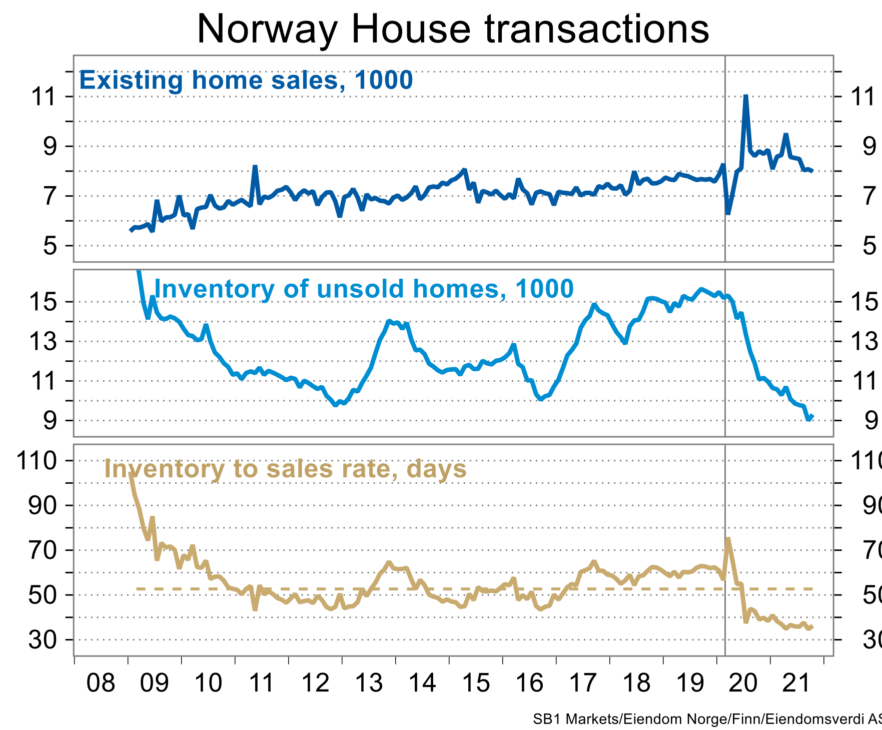


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

The inventory of unsold homes marginally up from ATL: A tight market

The transactions slightly down in Aug/Sept/Oct, still above the pre-pandemic level

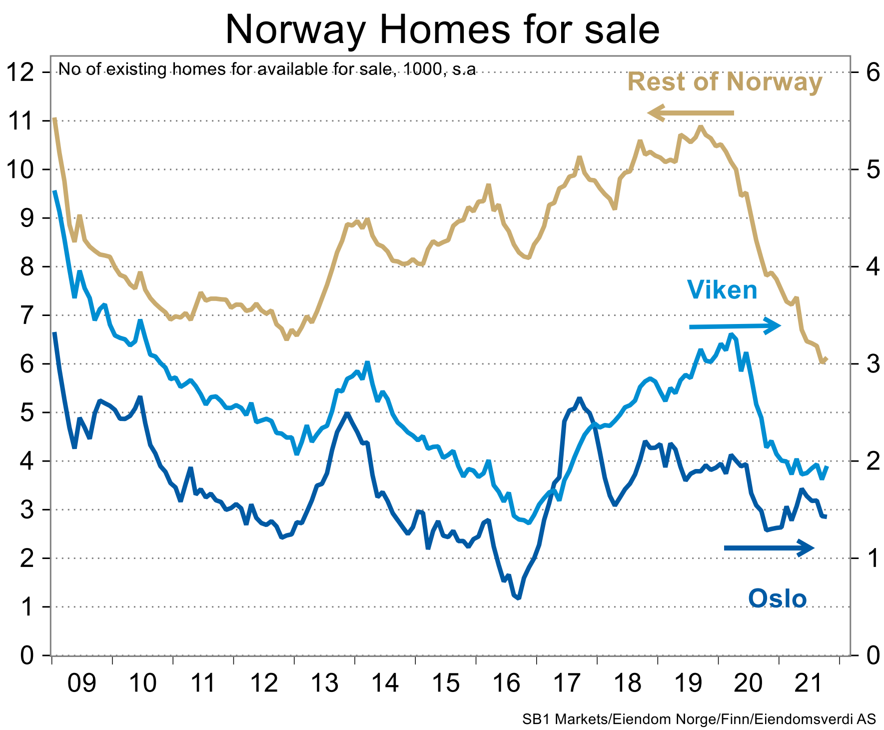




- **The number of transactions** fell marginally in Oct and remained a the same 'low' level as in Aug/Sept but well above the p-p level
- The **supply of new existing homes for sale (approvals)** has fallen to <u>below</u> the pandemic pace.
- **The number of delistings** was lower than normal level
- The **inventory of unsold homes** fell sharply in Sept, and rose just marginally in Oct
- The **inventory/sales ratio** rose 2 days from the Sept ALT, to 36 days, vs an average at 53 days
- The **actual time on market** for those homes sold still fell 2 days to 38 days, well down from more than 60 days last spring (the avg. is at 43 days)

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

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

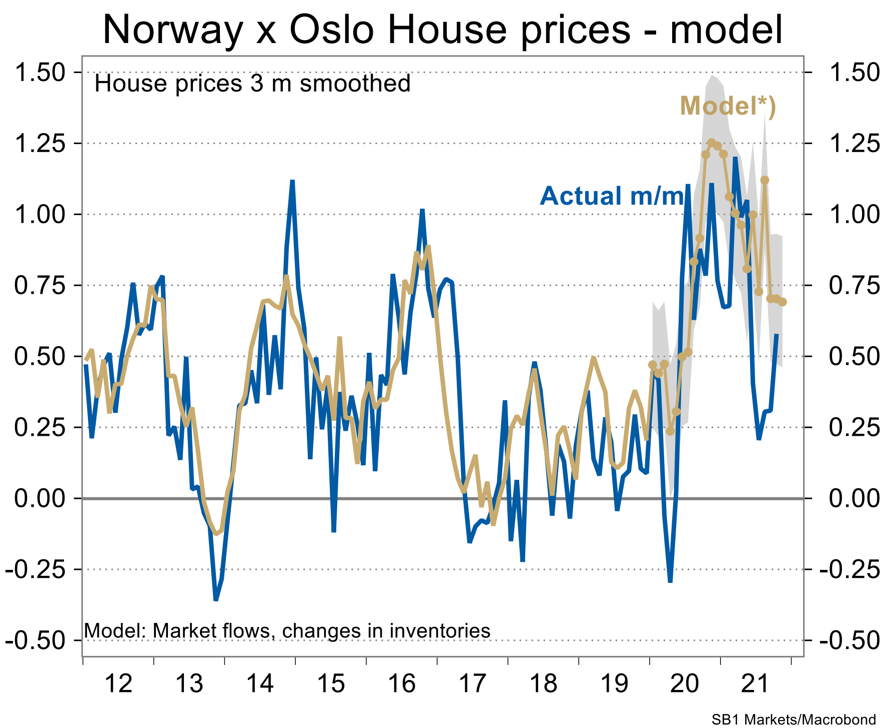


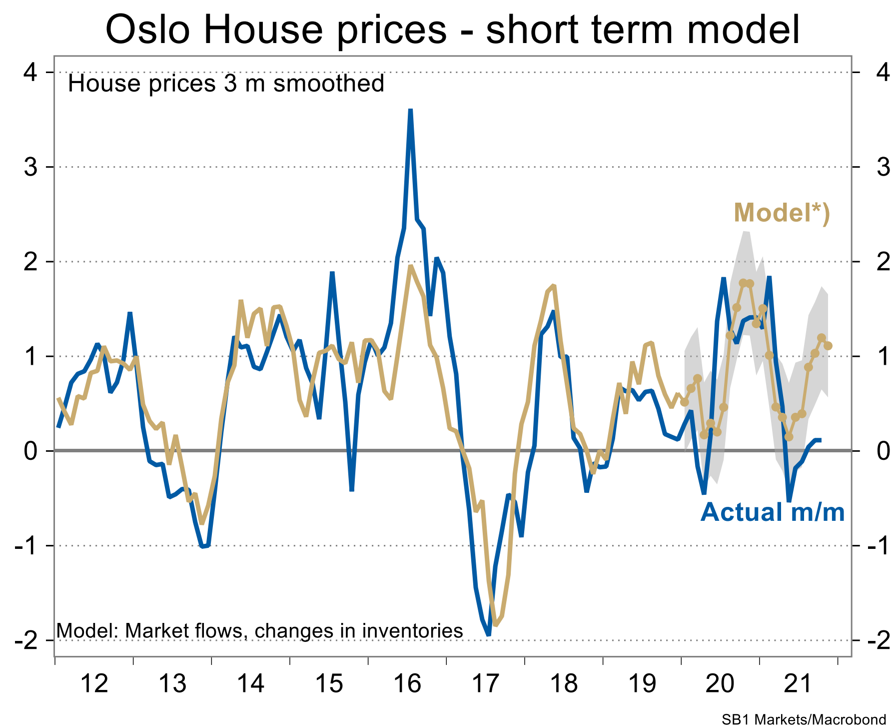
- Over the last year, the inventory has fallen everywhere, barring in Fredrikstad/Sarpsborg and in Oslo

SpareBank 1 MARKETS

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

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



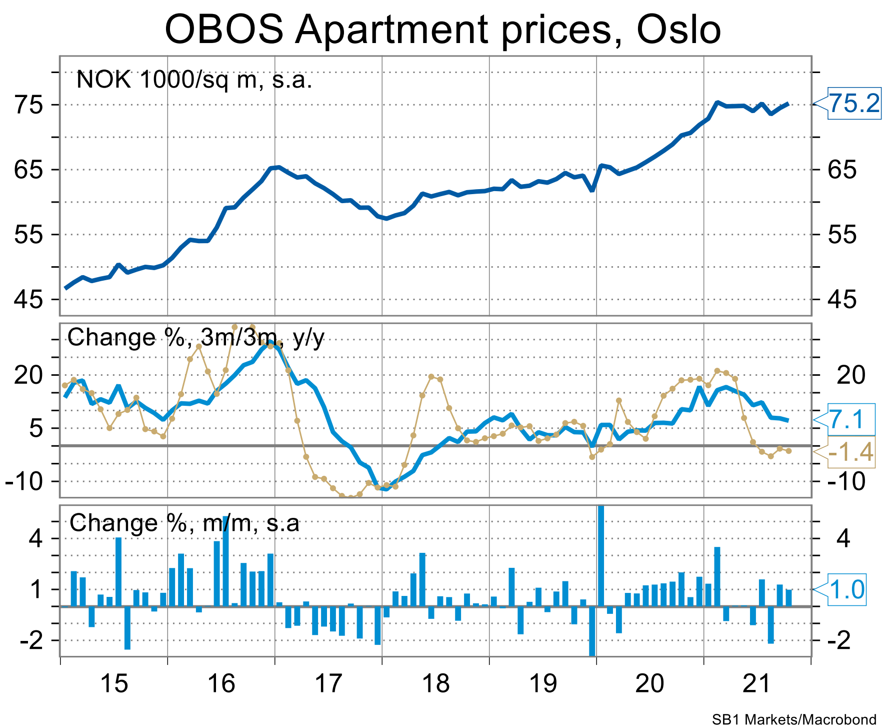


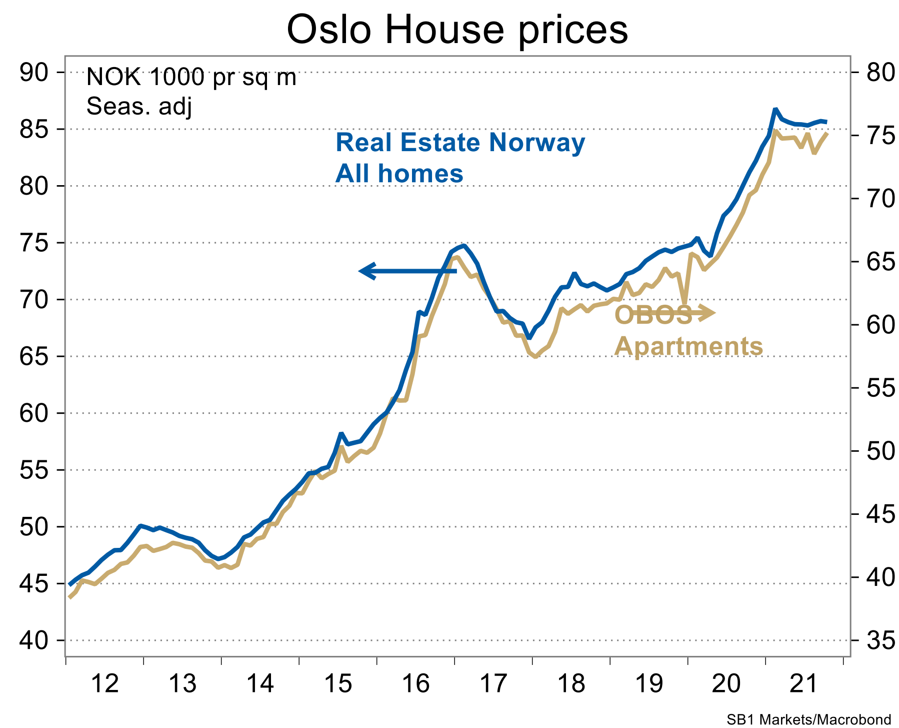
- Our **national x Oslo model** based on flows and the inventory signals a 0.7% growth in house prices per month
- Our **Oslo model** signals a 1%+ growth (up from zero 6 months ago)
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

SpareBank 1 MARKETS

OBOS apartment prices up 1% in Oct, still below the Feb peak

The 3m/3m rate at -1.4%. Prices are up 7.1% y/y (down from 17% y/y in March)





- The parallel change in both co-op & total house prices in Oslo signal a real turning point in the market in early 2021

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

Highlights

The world around us

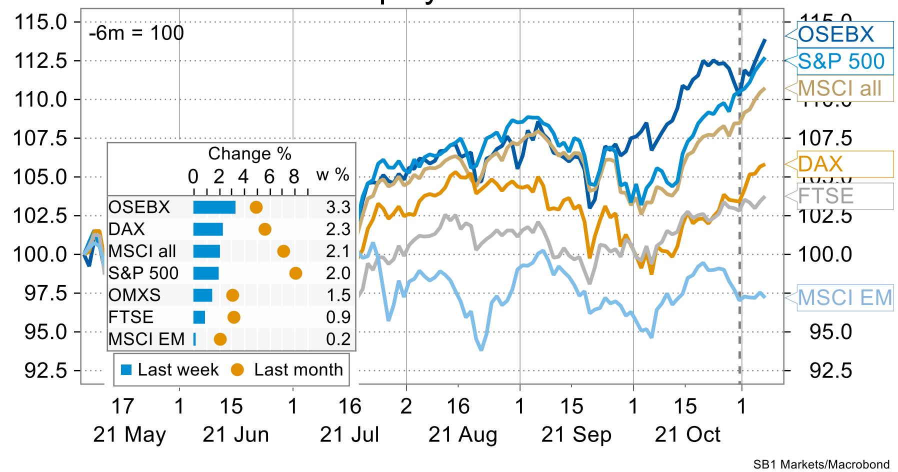
The Norwegian economy

Market charts & comments

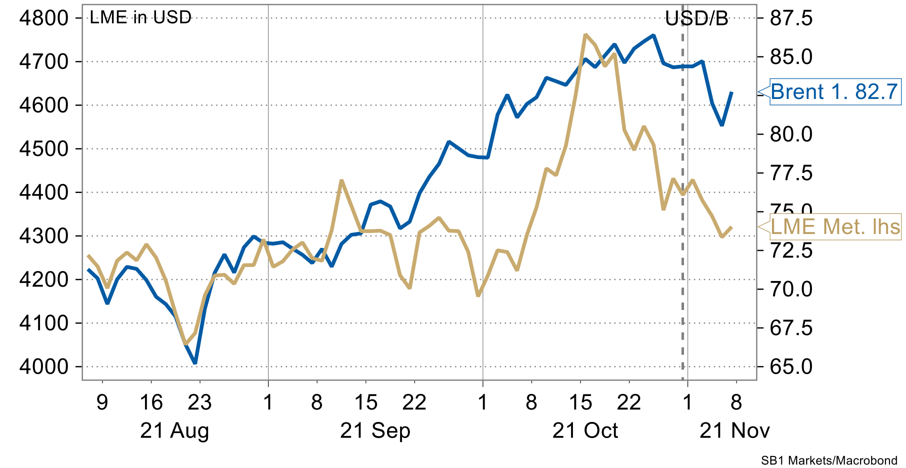
Oil, metal prices, bond yields down. But equities up, of course

The NOK did not appreciate the decline in the oil price (but longer dated oil prices rose!)

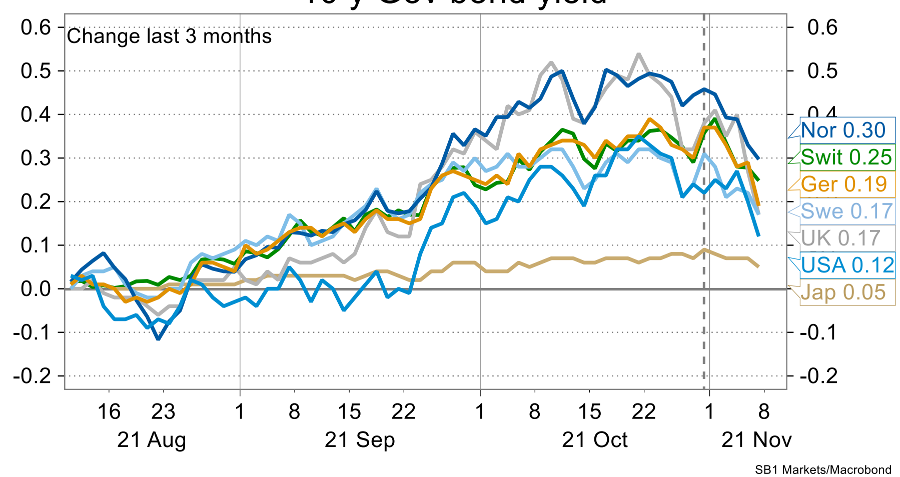
Equity Indices



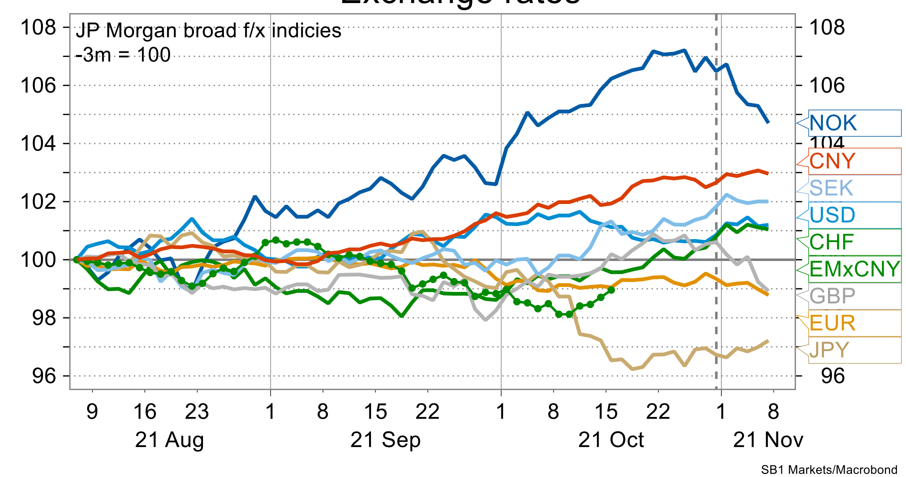
Oil vs. metals



10 y Gov bond yield



Exchange rates

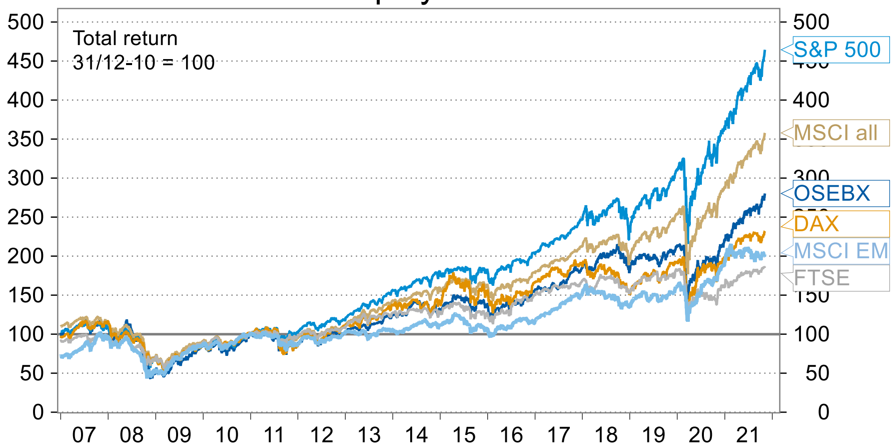


SpareBank 1 MARKETS

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

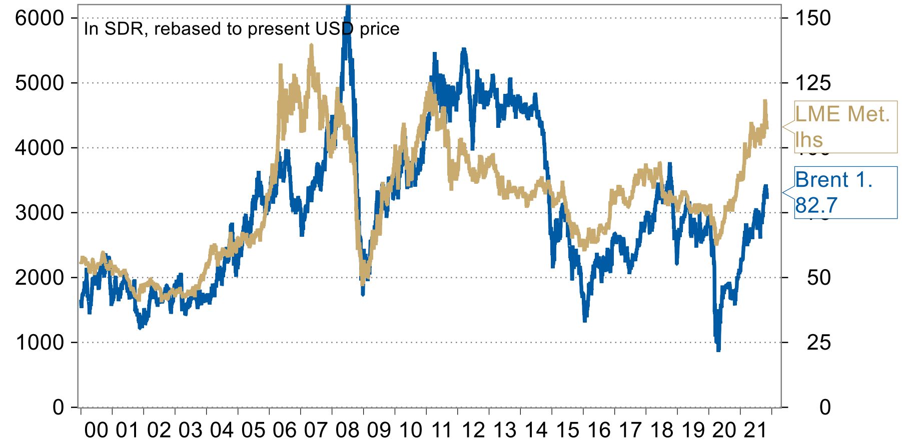
Equity markets, commodities are still on the move upwards

Equity Indices



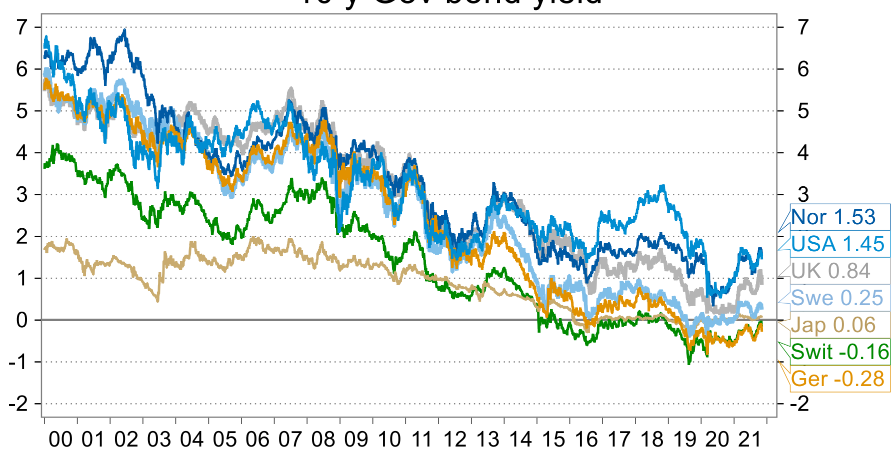
SB1 Markets/Macrobond

Oil vs. metals



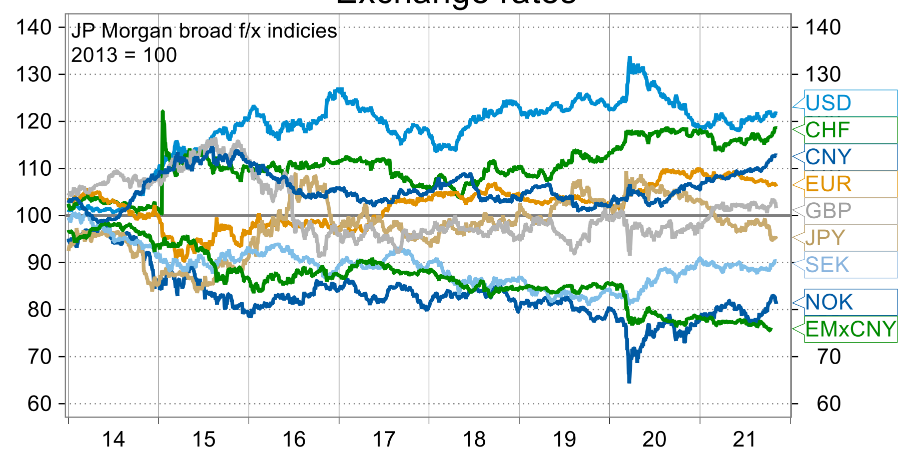
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

Exchange rates



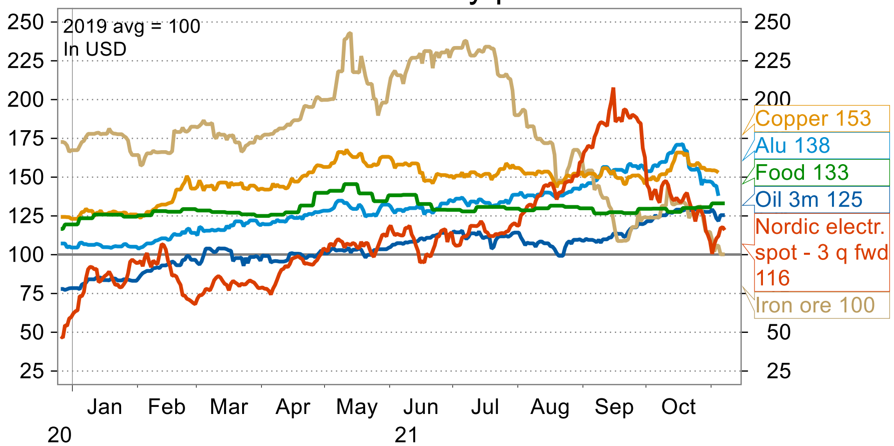
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Metal prices, oil down – but oil just in the short end, future prices sharply up

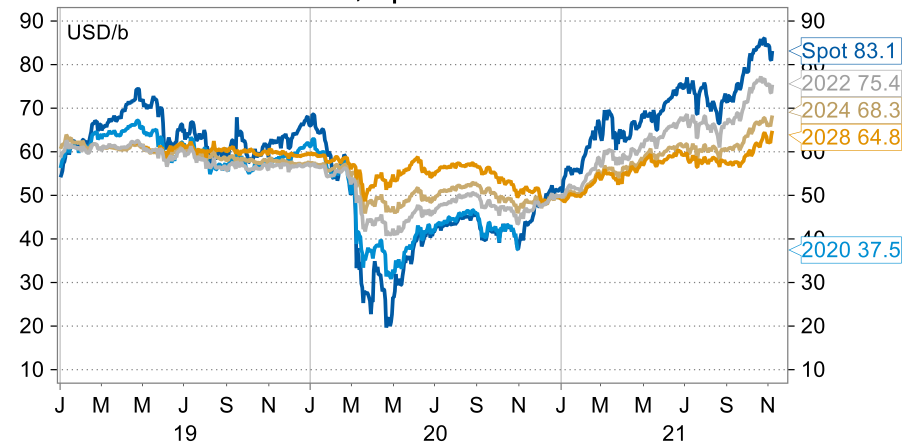
US may release strategic reserves but long term Opec's resistance towards lifting prod. more important?

Commodity prices



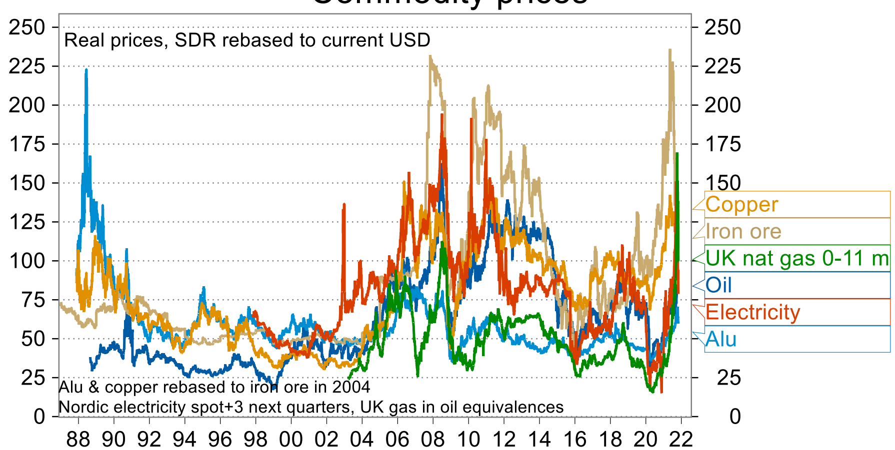
SB1 Markets/Macrobond

Brent oil, spot & Dec contracts



SB1 Markets/Macrobond

Commodity prices

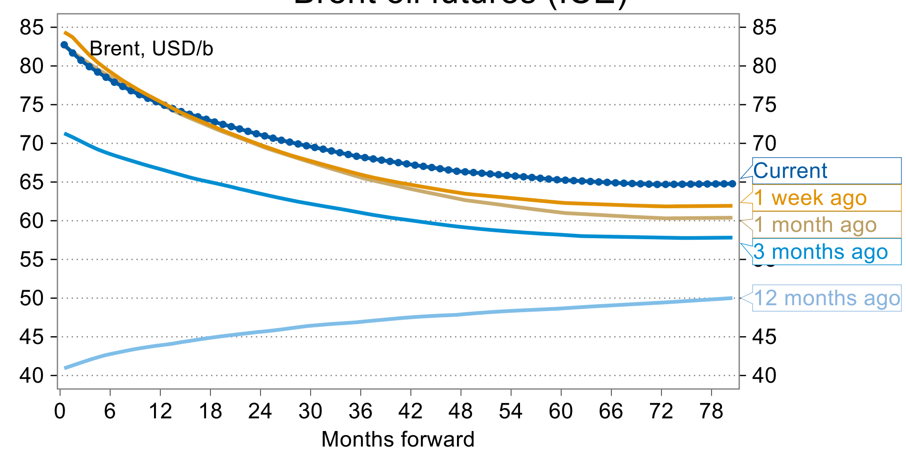


SB1 Markets/Macrobond

Longer dated oil contracts are heading down

The short end of the curve sharply up recent weeks

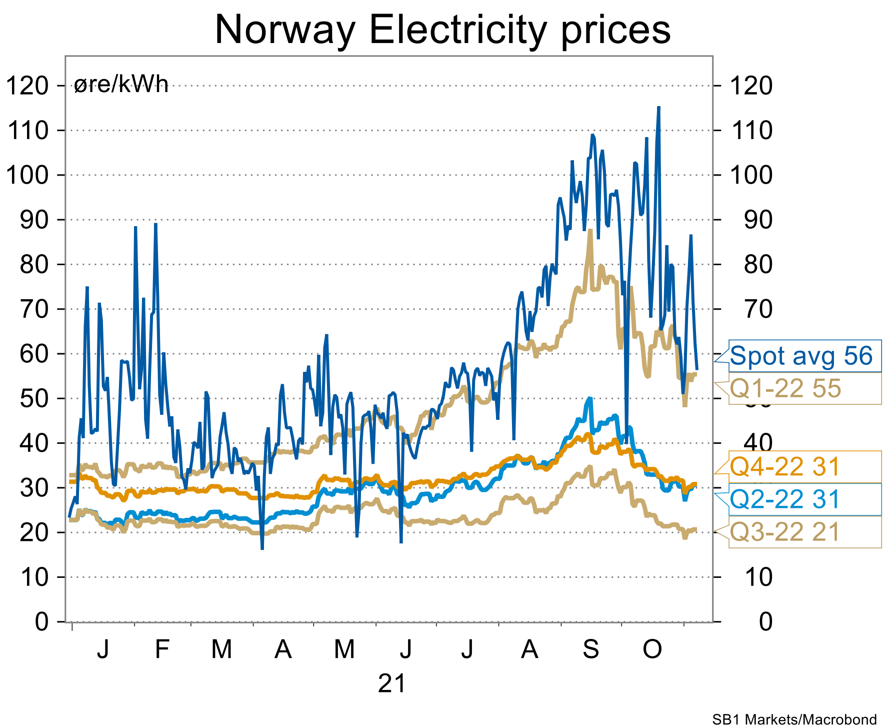
Brent oil futures (ICE)

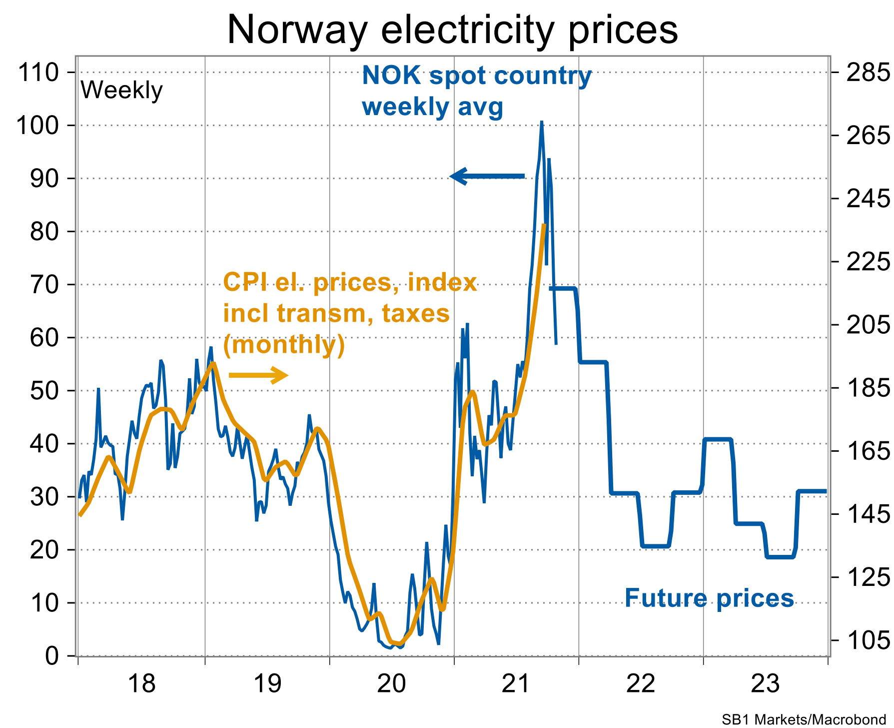


SB1 Markets/Macrobond

Spot electricity prices have fallen – and future prices are low

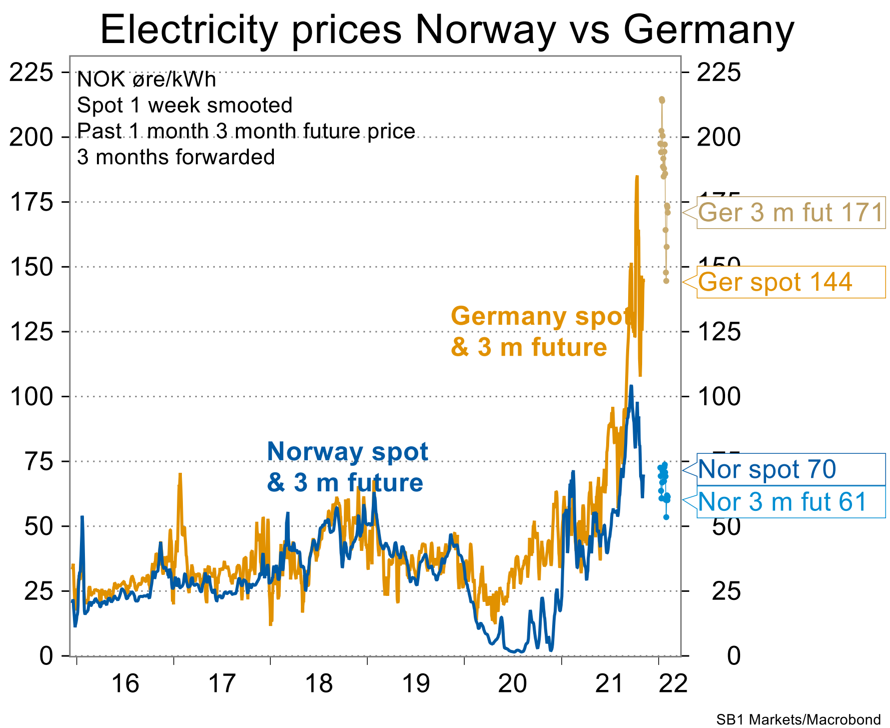
Have you noticed, few articles in news media on the electricity prices recently?

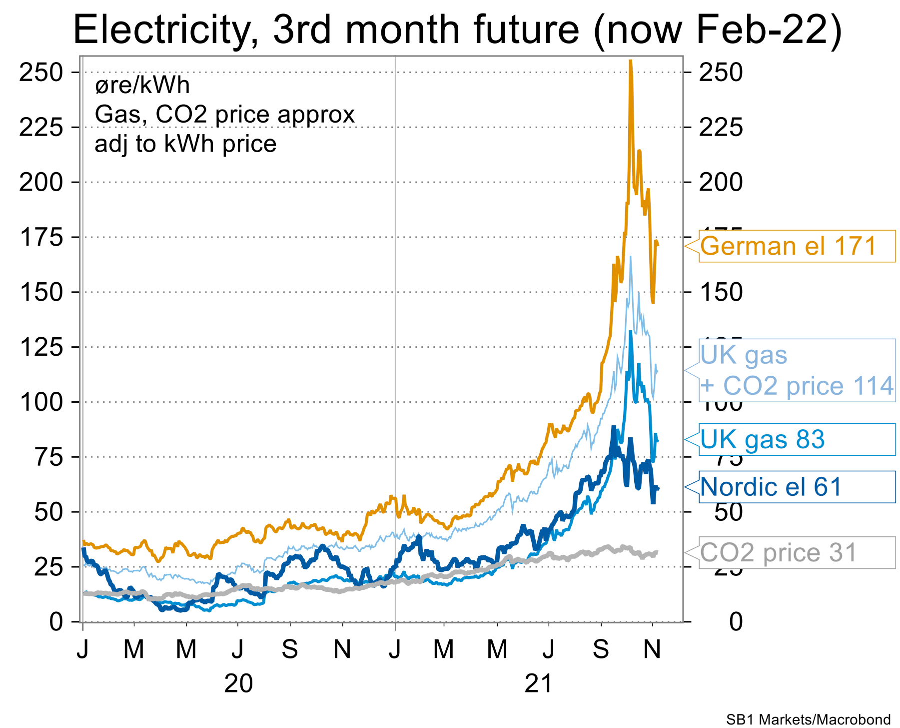




- However, today prices are soaring again – and it might be that the future market is completely far off

European electricity, gas prices up last week – still far below recent peaks

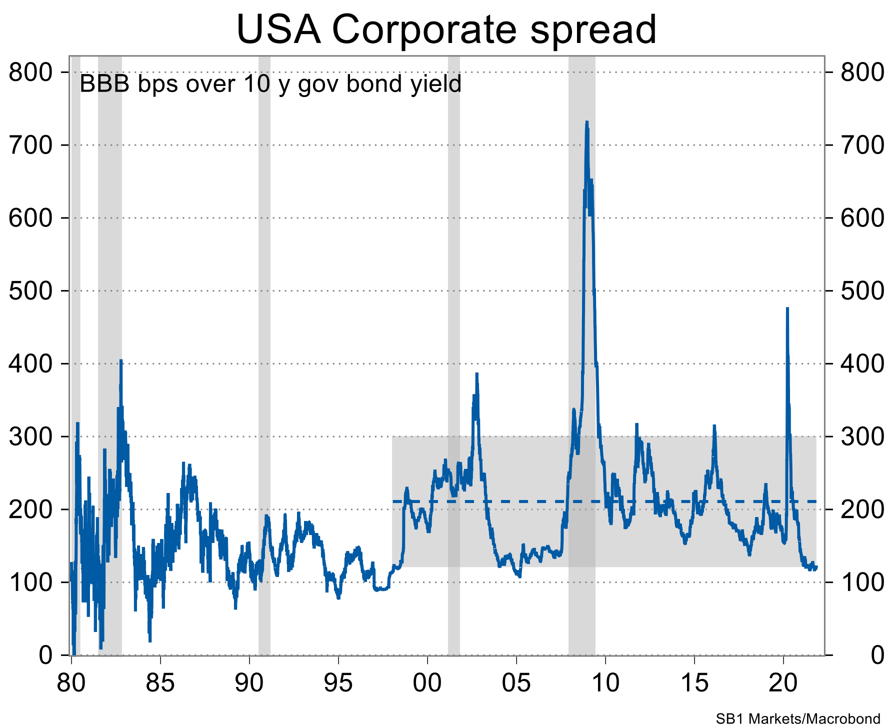


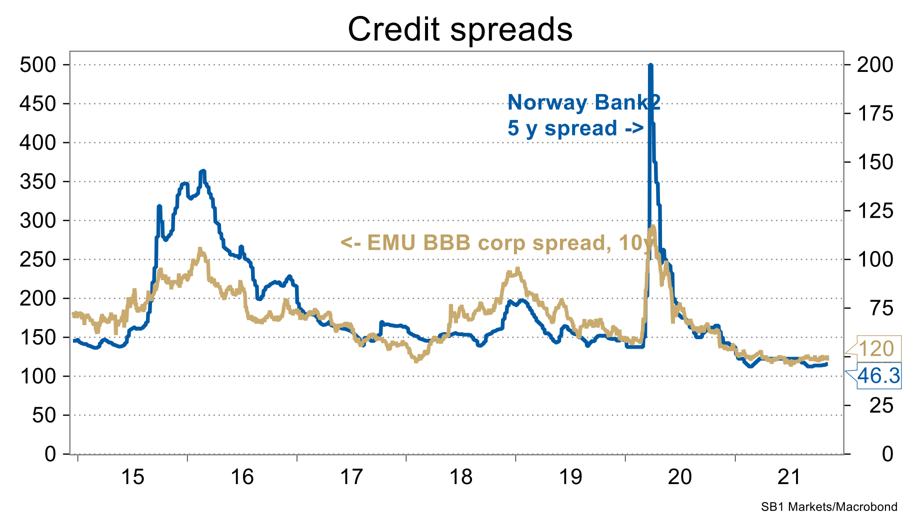


- Germen electricity future prices are still very high vs. Nordic prices

SpareBank 1 MARKETS

Credit spreads marginally out, still very low





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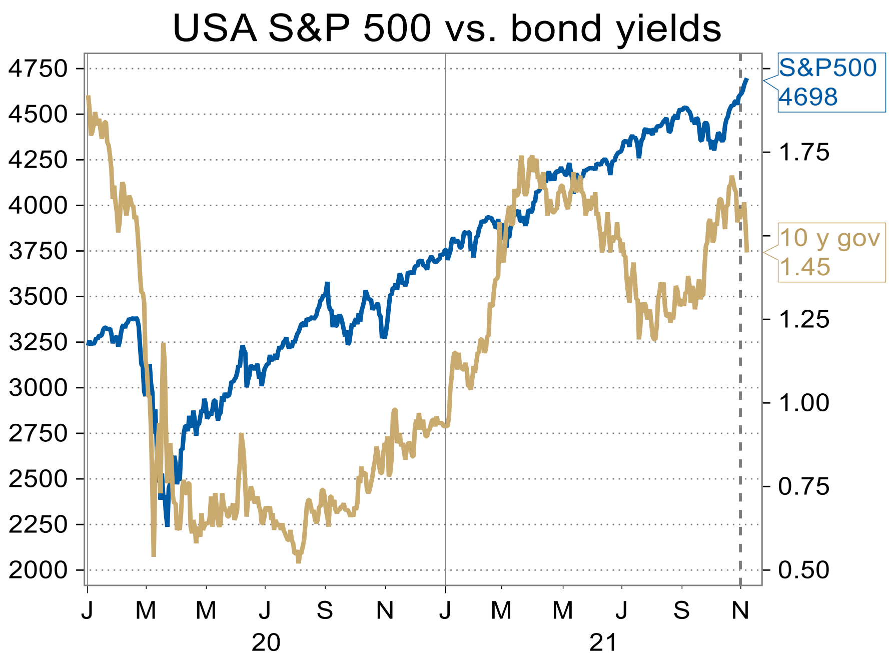
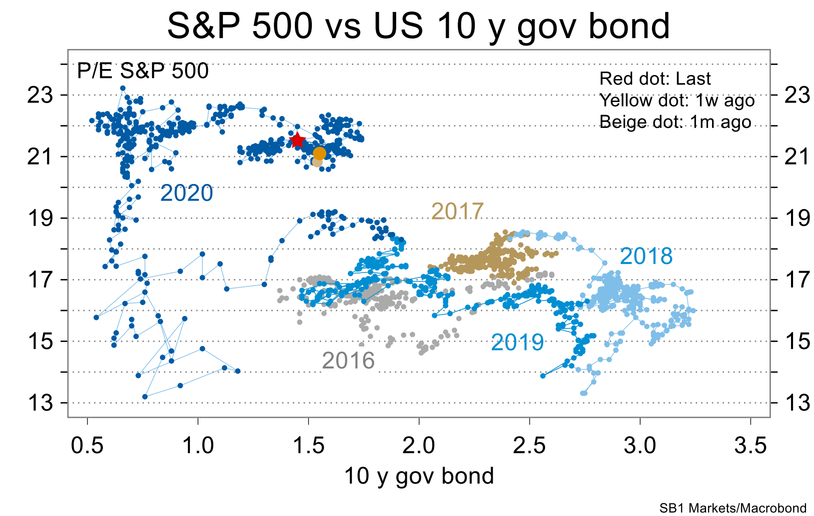
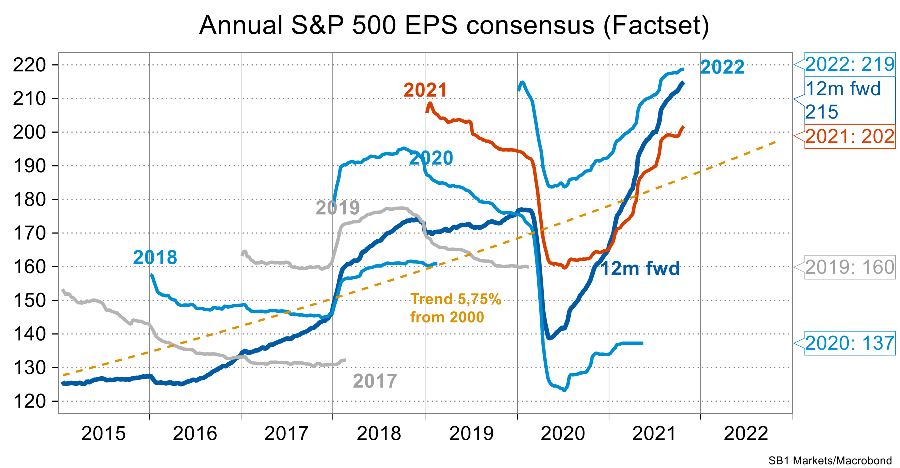
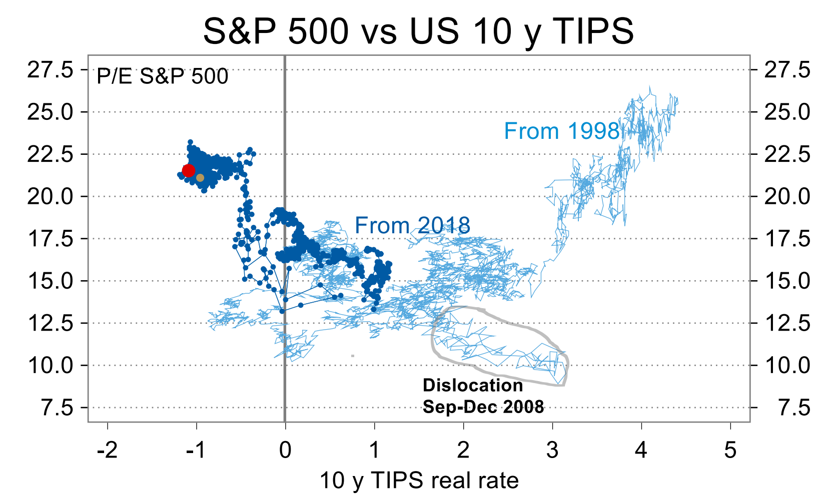
S&P 500 up 2.0%, to another new ATH. 10 y gov down 10 bps to 1.45%!

A dovish Fed, lower oil prices (but it was the real rate that fell last week…)





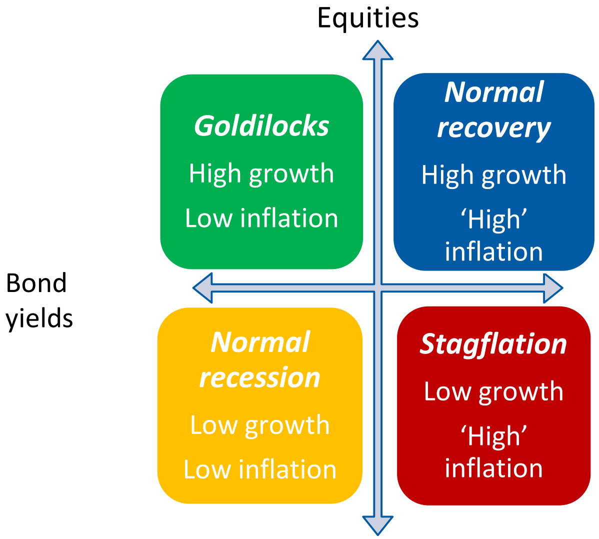


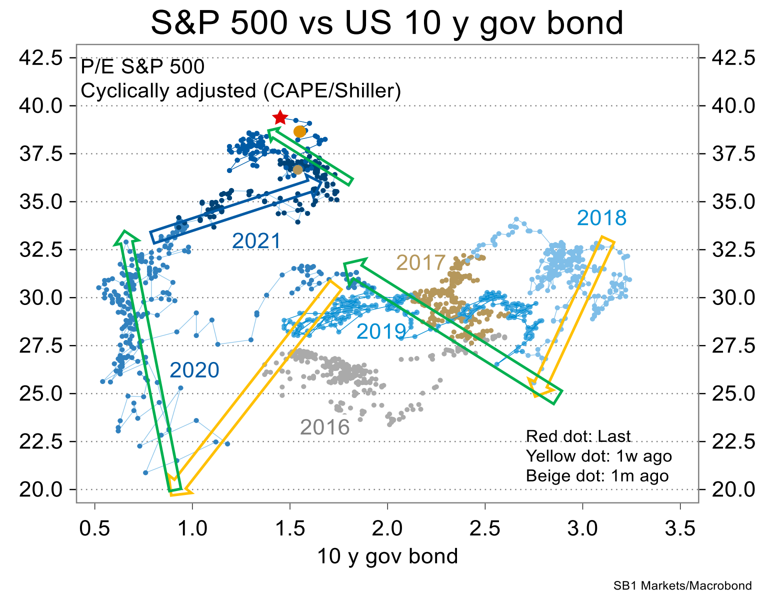


SpareBank 1 MARKETS

Further into the 'Goldilocks corner'!

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

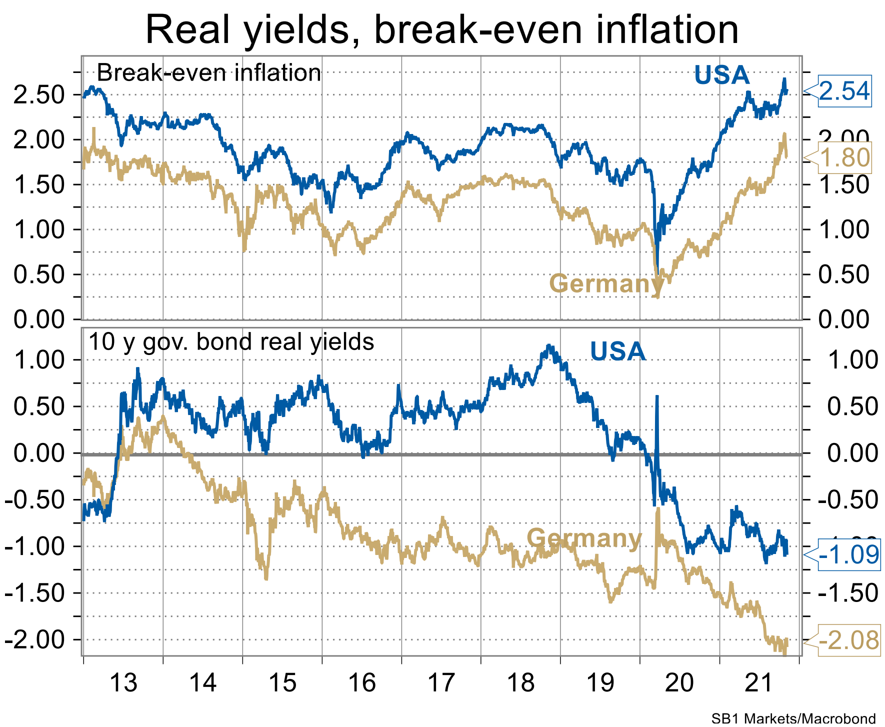


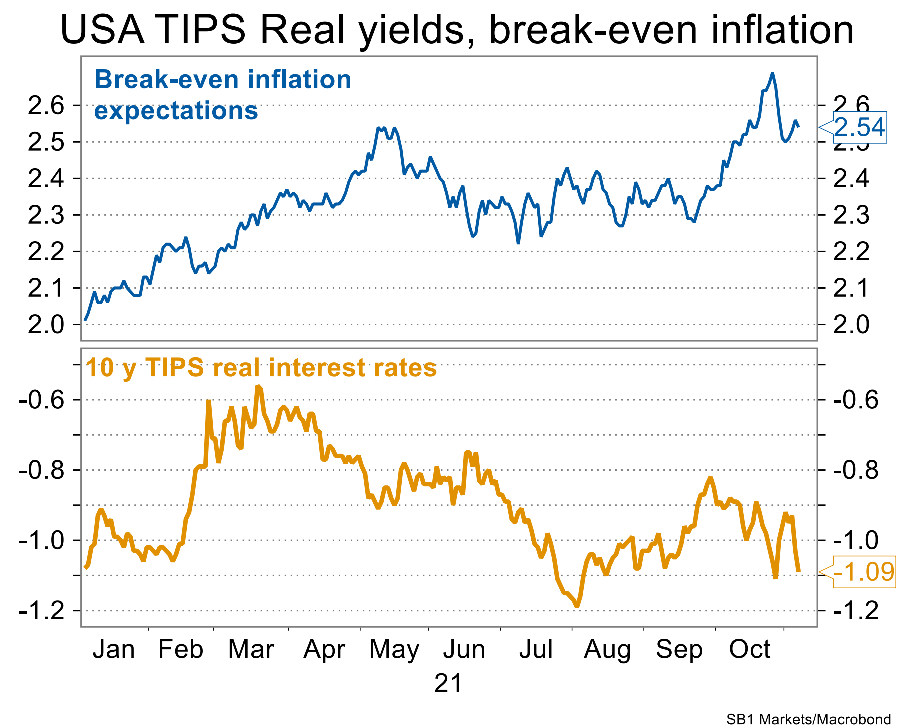


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level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

Real rates collapased in the US, inflation expectations in Germany

The US 10 y TIPS real rate down 13 bps, at -1.09% just 10 bps ATL





US & Germany 10 y Gov bond yield

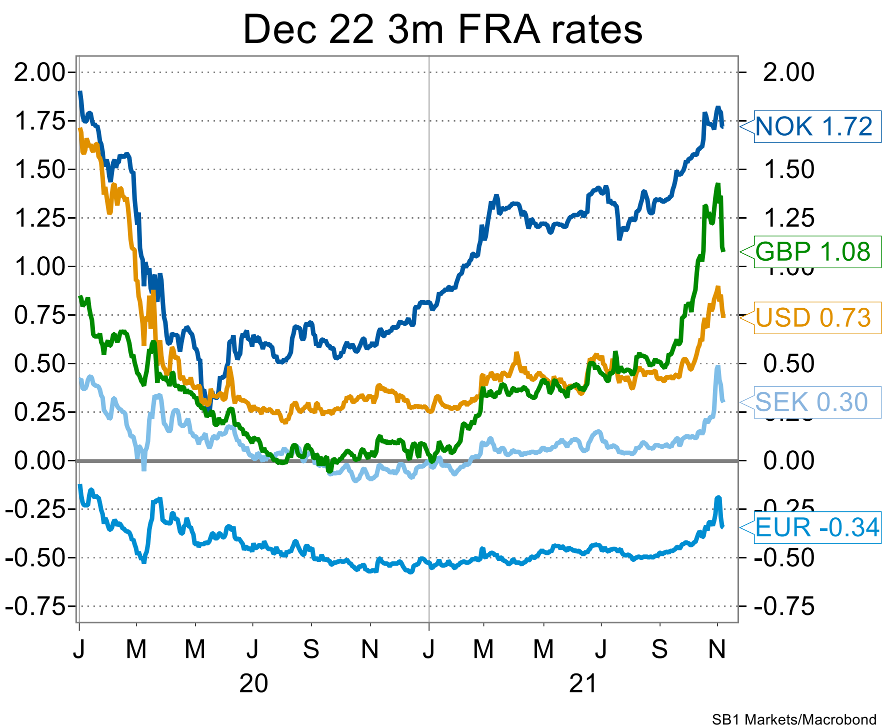
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.45	-0.10	-0.09	0.52
.. break-even inflation	2.54	0.03	0.09	1.06
.. TIPS real rate	-1.09	-0.13	-0.18	-1.19
Germany nominal bund	-0.28	-0.18	-0.05	-0.65
.. break-even inflation	1.80	-0.14	-0.08	0.40
.. real rate	-2.08	-0.04	0.03	-2.22

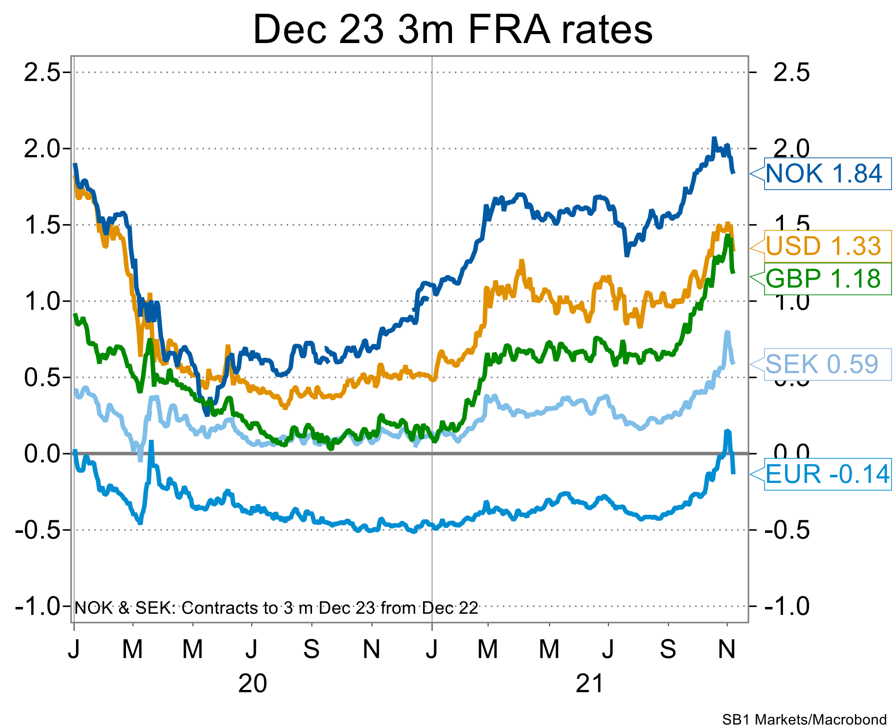
SB1 Markets/Macrobond

- The **US 10 y break-even** (inflation expectation component) rose 3 bps to 2.54% - and remains quite elevated
- In **Germany**, 10 y the break-even fell 14 bps following the 10 bps decline the previous week – down to 1.80%, which it still rather high in an German context. Real yields fell too – to 2.08%

FRAs: Expectations sharply down last week

A soft Bank of England the main culprit but rates peaked earlier in the week

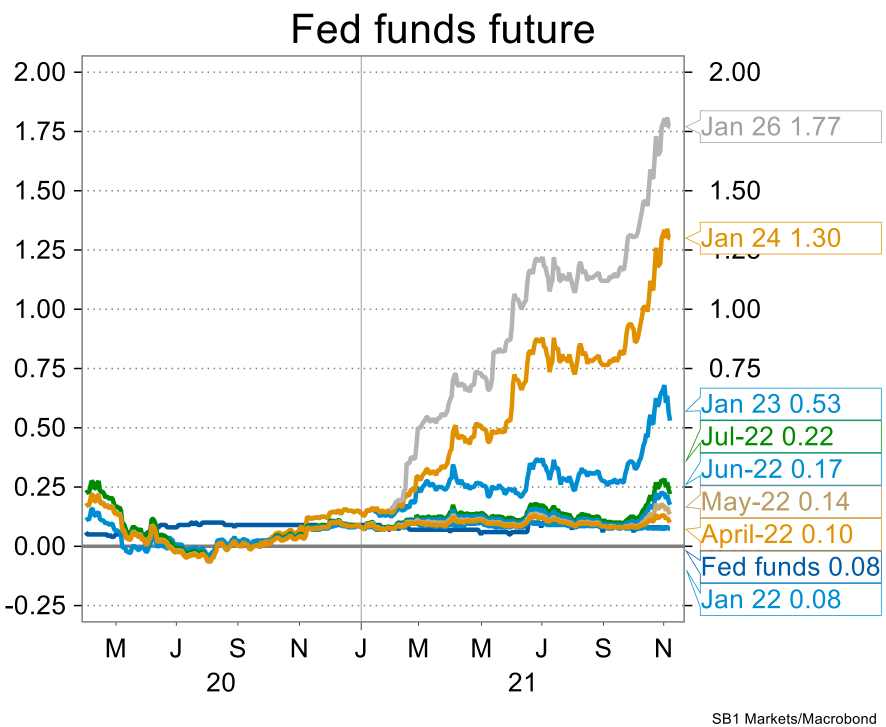


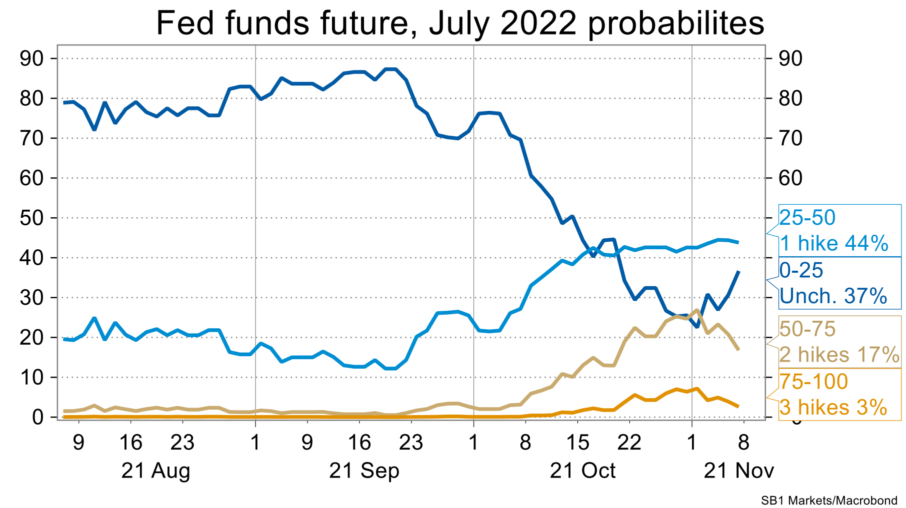


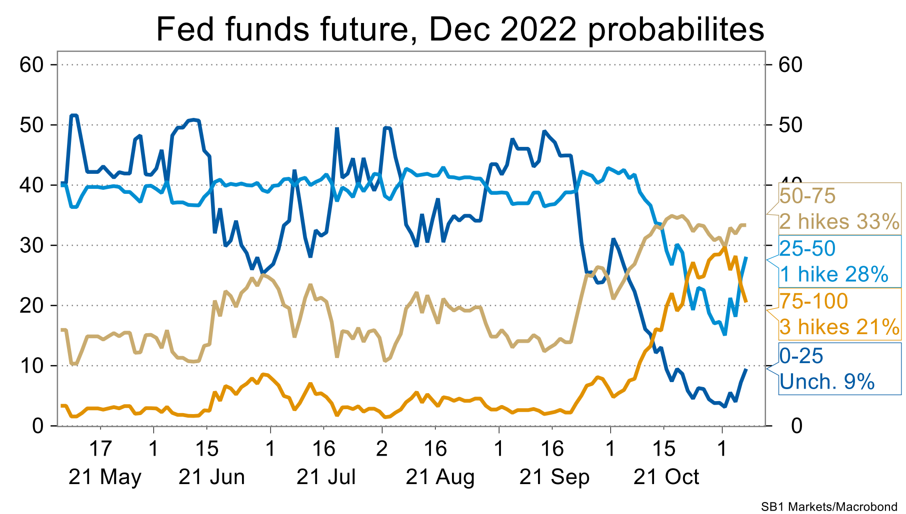
- Several hikes are still expected in the **UK**, some 4 before end of next year, from more than the 5 assumed early last week
- In the **US**, the Fed is expected to start hiking between May and July next year – and then at least another hike in H1 – and a Fed funds rate at 1.25% at the end of 2023
- **SEK** rates fell sharply last week – but are still above the level Wednesday the previous week – and a hike is expected next year - but not almost 2 as at the start of last week

Fed Fund future contracts down but a hike next summer most likely

More than a 60% prob. for one or more hikes at or before the July meeting (from 80% a week ago)



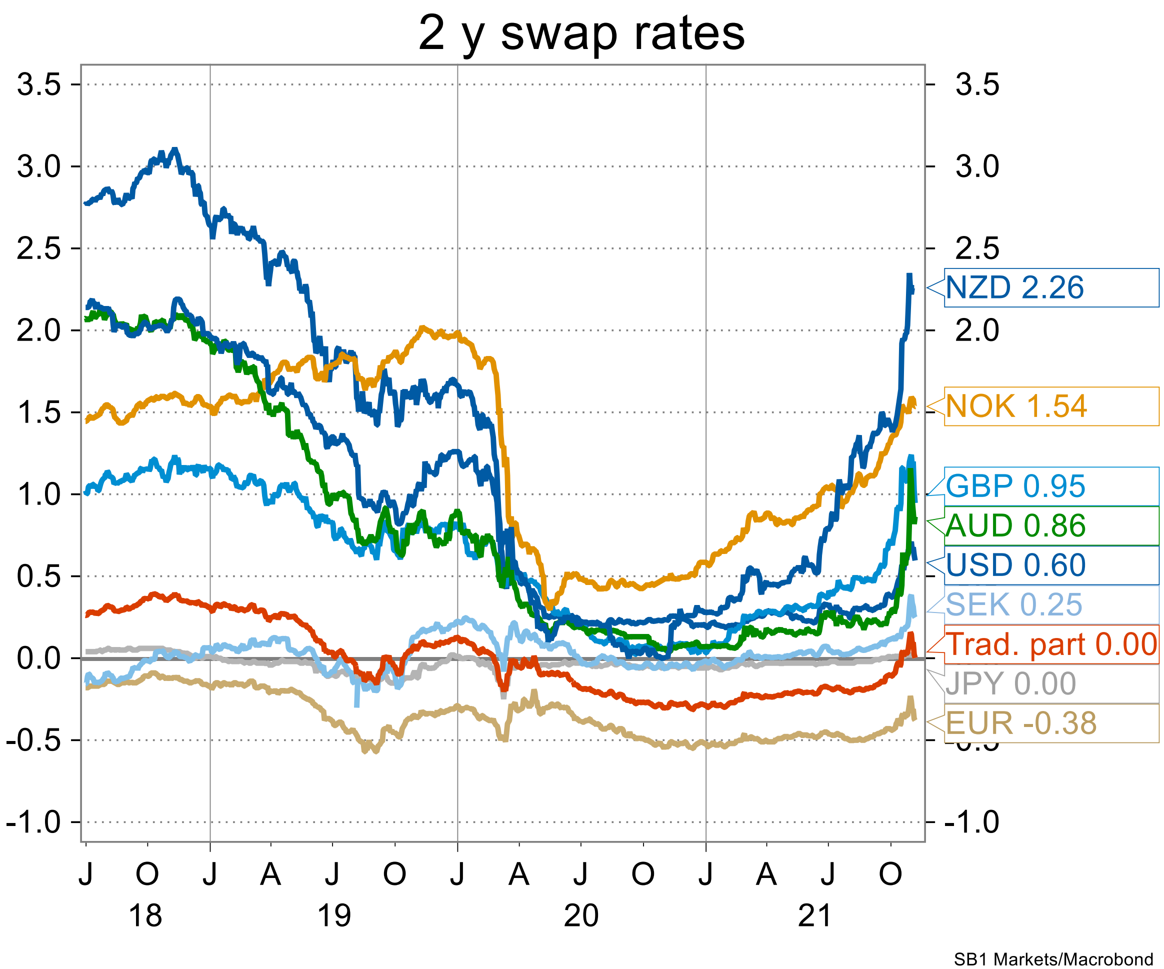




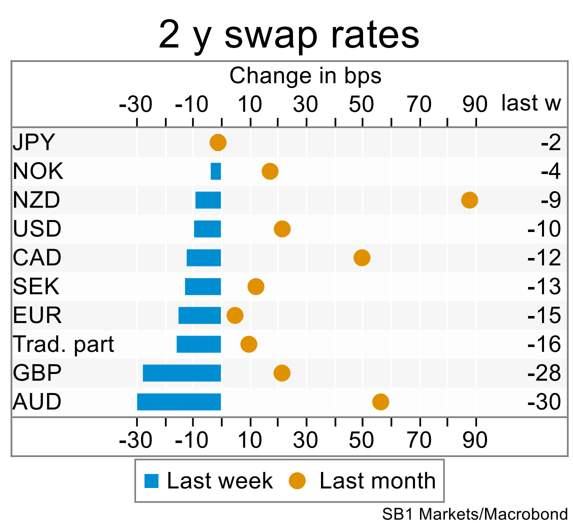
- A rate hike before end of 2022 is very likely, 9% for unch. 1 hike 28%. 2 or more hikes: 63%

Oops, a sharp decline in the short end of the curve! The most in GBP, AUD

… where rate expectations had shot up recently. NOK, NZD rates fell far less

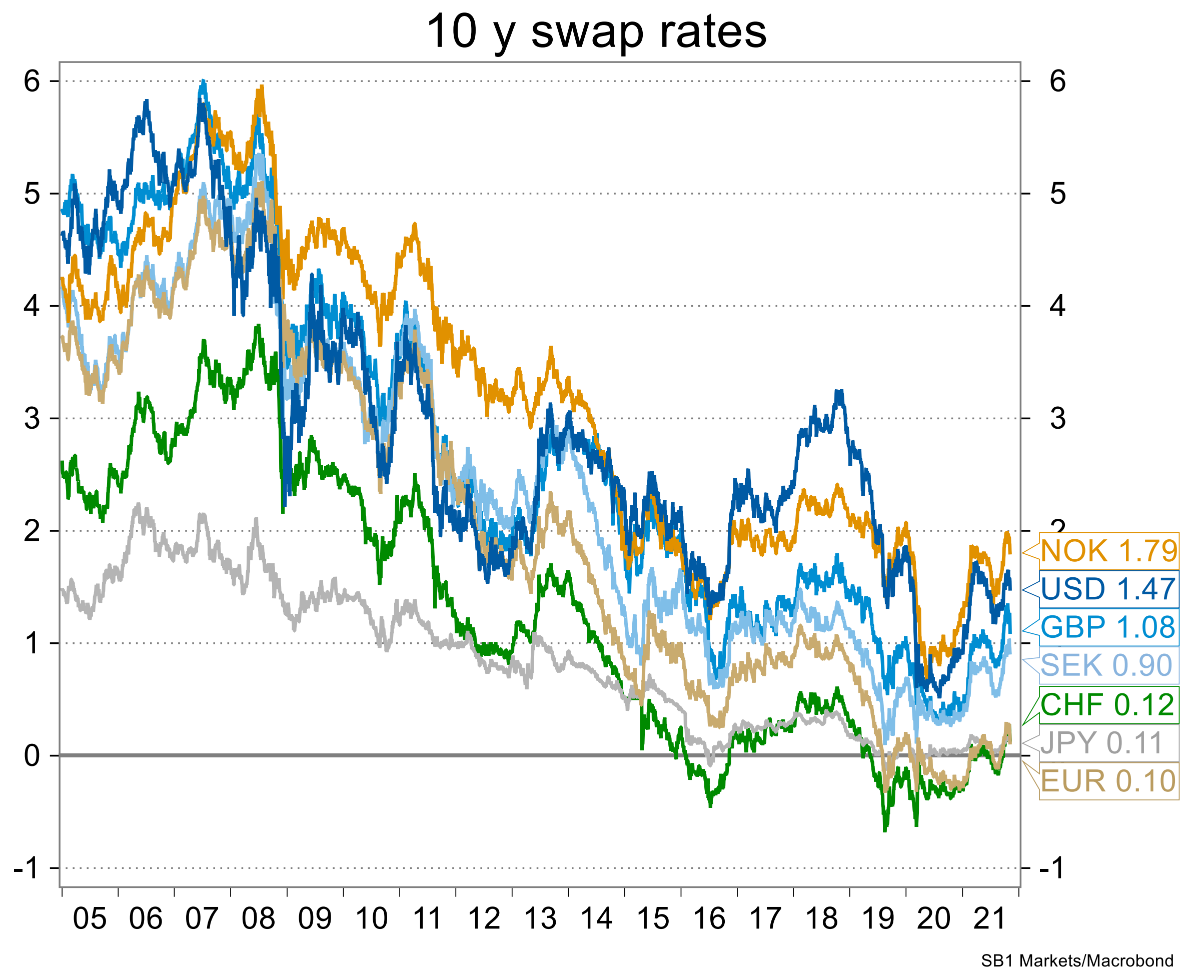


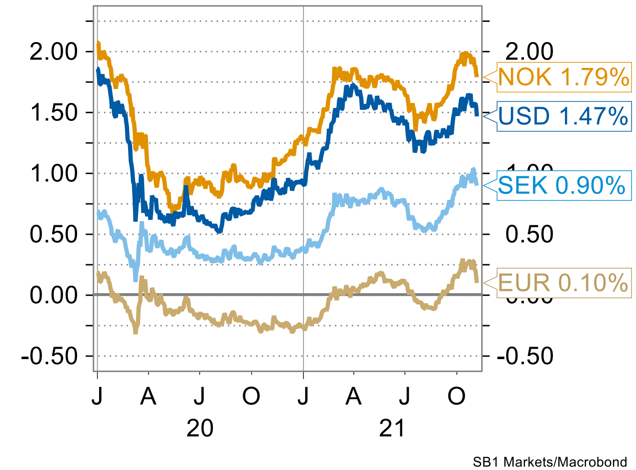
- **AUD 2 y rates** fell by 30 bps, following the 60 bps lift the previous week (and rates are higher than Thursday 1 ½ week ago)
- **GBP 2y rates** fell almost as much, back to the level in mid October
- Most of the decline in the short end globally came after the no-rate-hike message from the **Bank of England** at Thursday last week. However, most 2 y rates fell somewhat even Tuesday and Wednesday

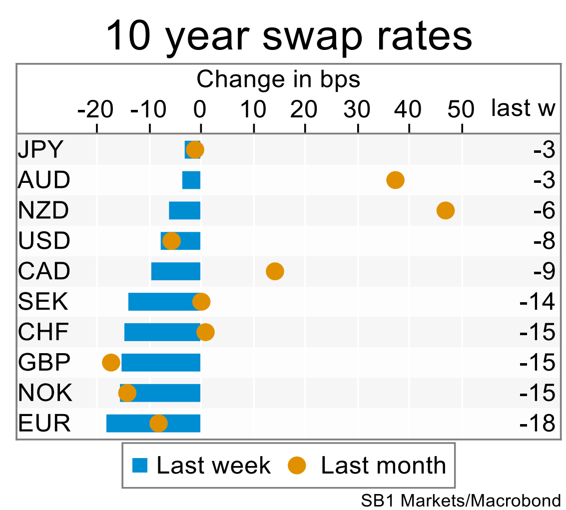


A sudden reversal, the long end of the curve down sharply

But far less than the increase since August

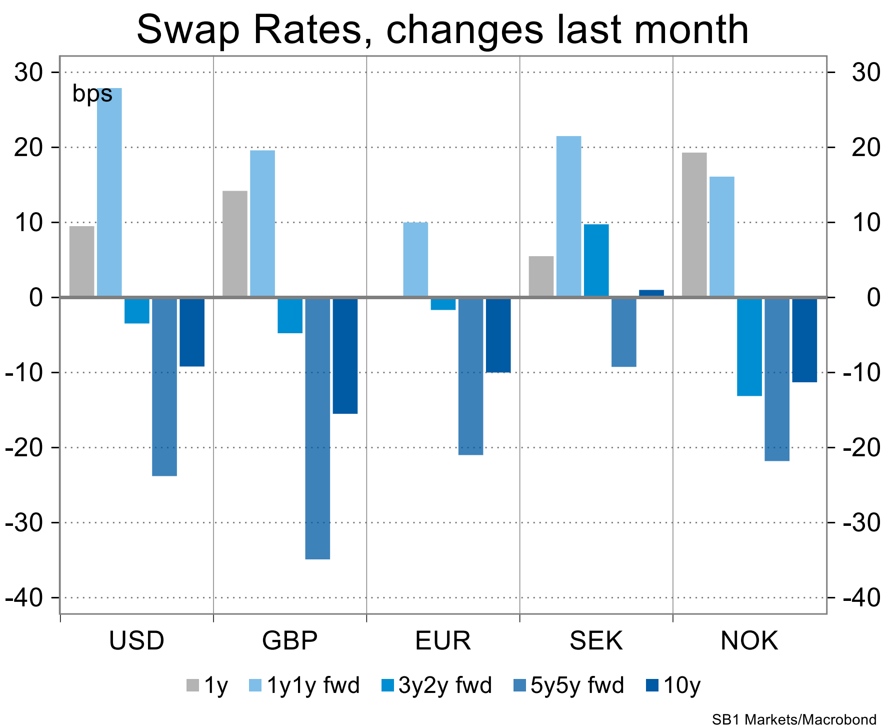


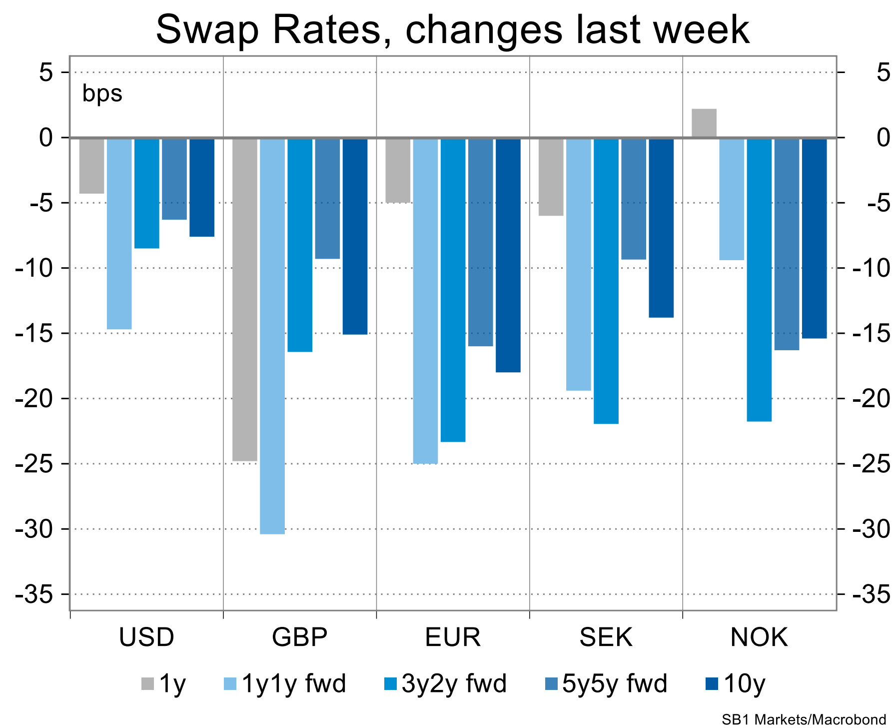




Rates sharply all over the place: More in Europe than in the US

Bank of England softened, and the short end of the GBP curve fell by 25 – 30 bps

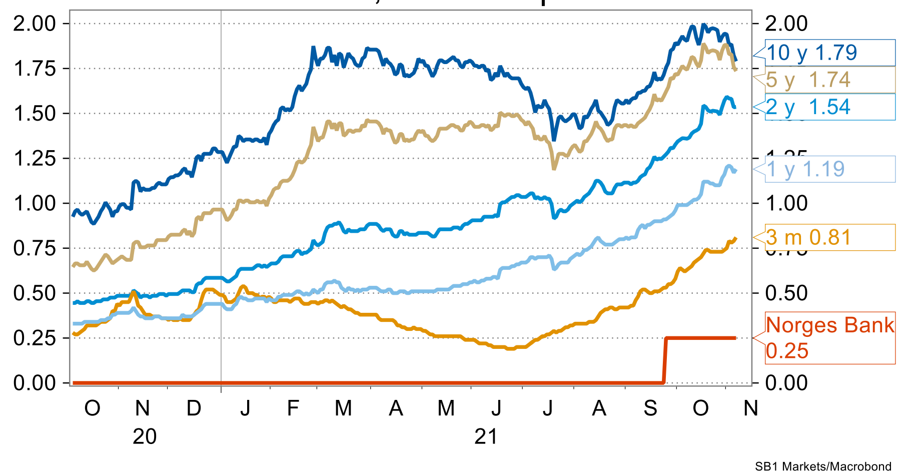




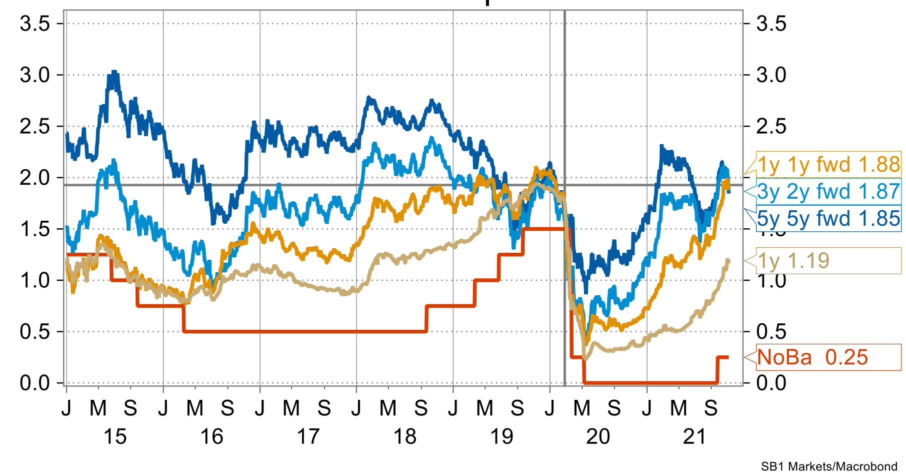
Rates up in the very short end but down by up to 15 bps (from 5 y)

Another week of a substantial curve flattening

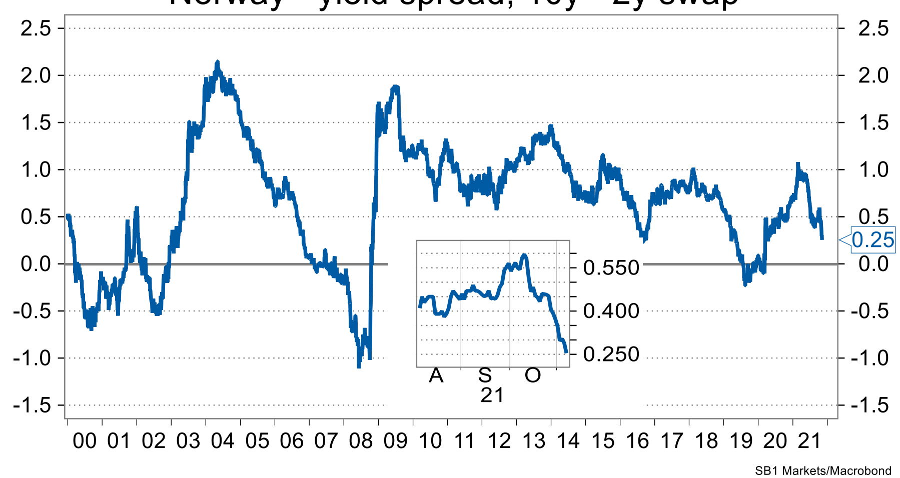
NIBOR, NOK swap rates



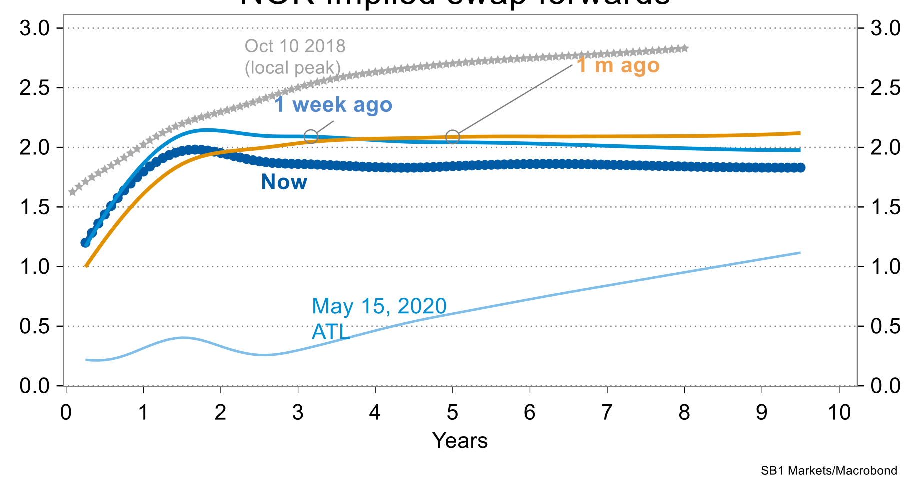
NOK Swap rates



Norway - yield spread, 10y - 2y swap

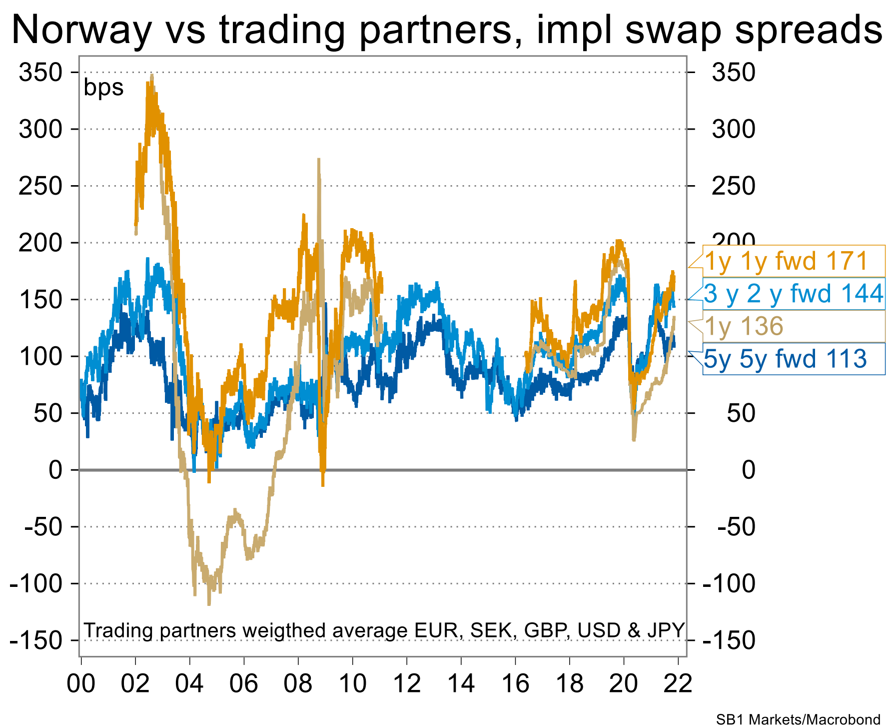


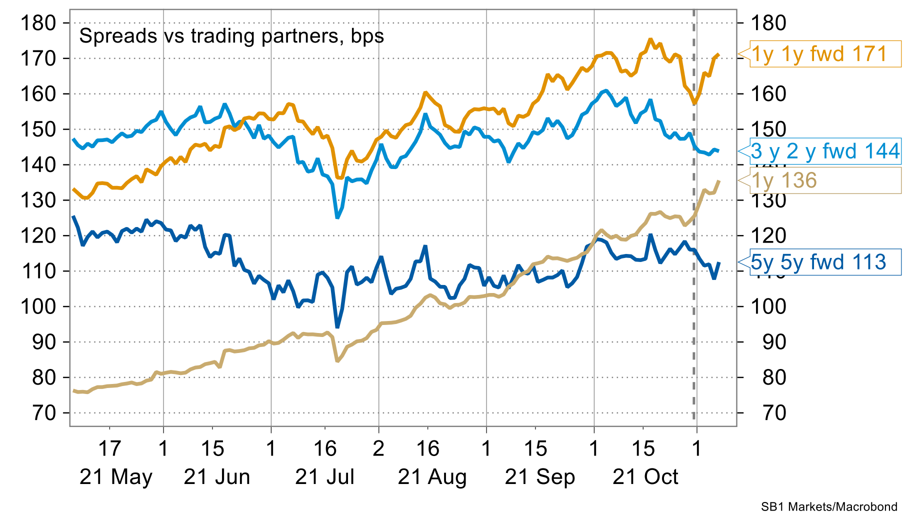
NOK Implied swap forwards

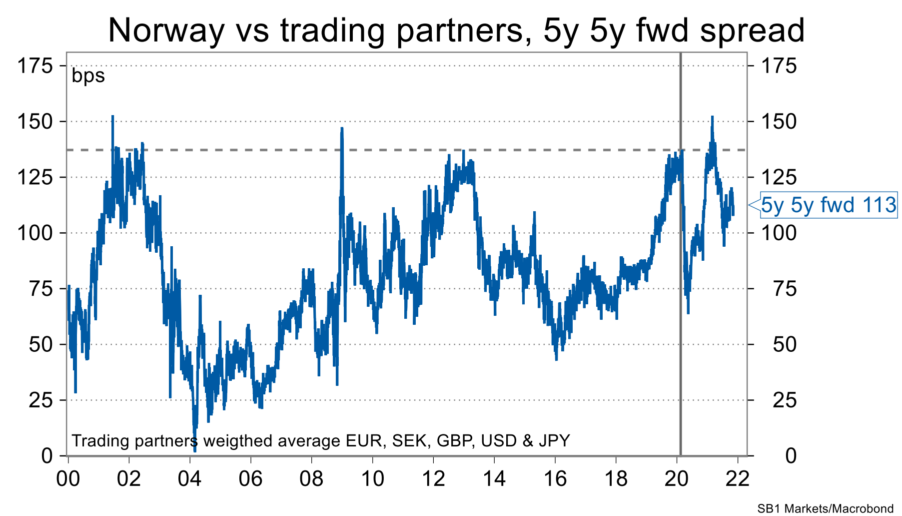


Implied spreads up until 2 y, down thereafter!

The NOK curve flattened more than curves abroad

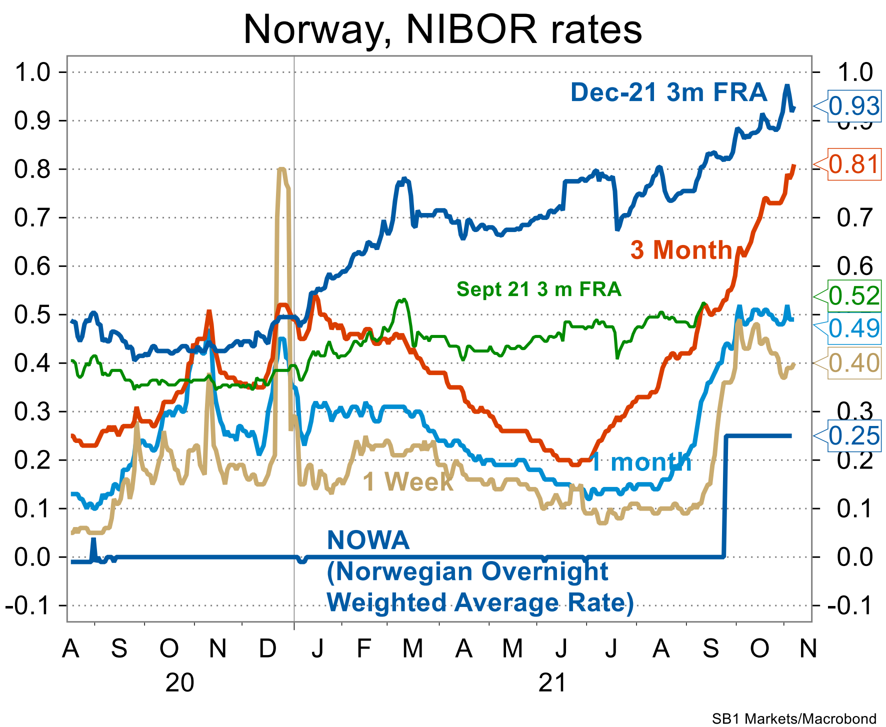


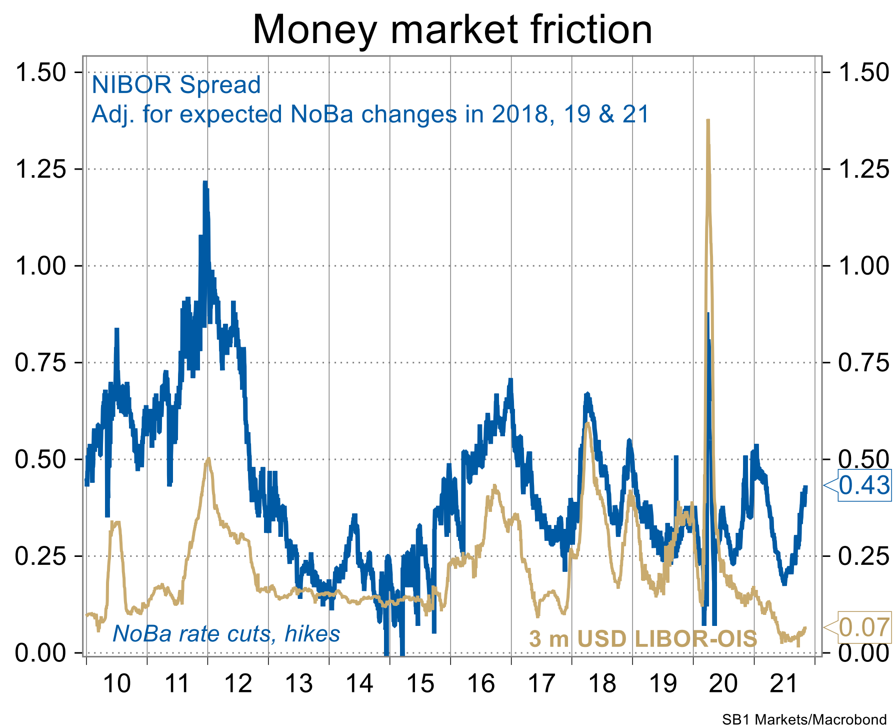




3 m NIBOR up 7 bp 0.81%, the NIBOR spread up to 43

The US LIBOR spread has increased marginally recently but remains very low





- The Dec 3m FRA contract also implies a 43 bps NIBOR spread (given a hike in Dec, and no hike before March), we guess impacted by the traditional 5 – 7 premium in Dec contracts (the New Year premium)
- However, the Mar 3m FRA contract at 1.17% is rather high, as a 42 bps spread is assumed, if NoBa hikes by 25 bps in both Dec and March. A small probability for a hike between the quarterly, MPR meetings or for a 50 bps hike may be priced in
- Norges Bank assumed a 35 bps spread in the Sept MPR (as in the June report), which we at that time thought was at the high end

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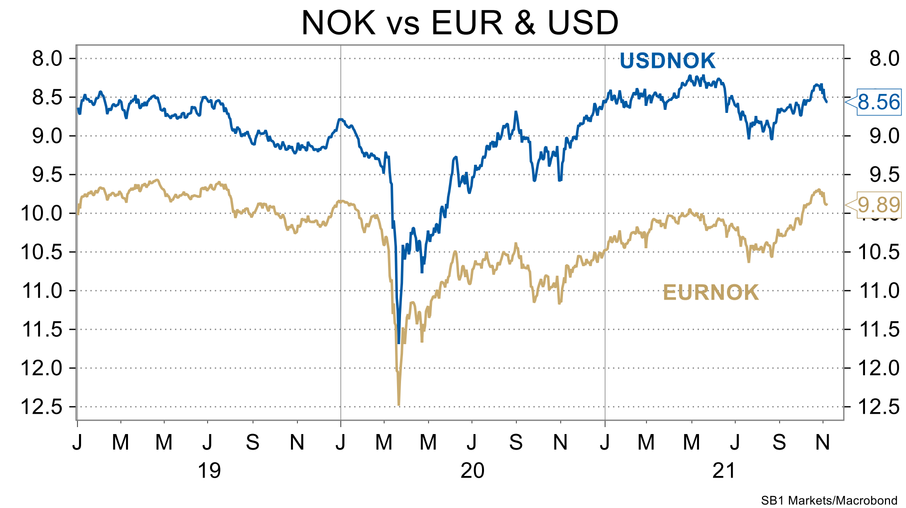
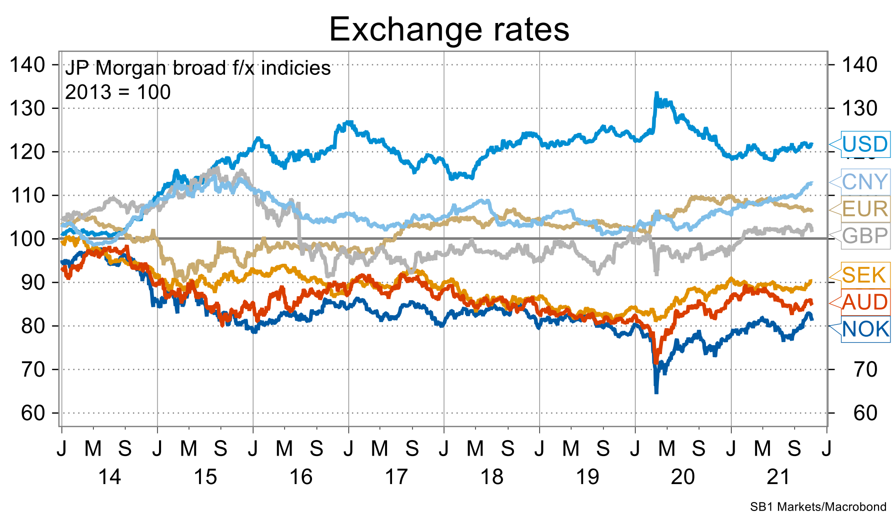
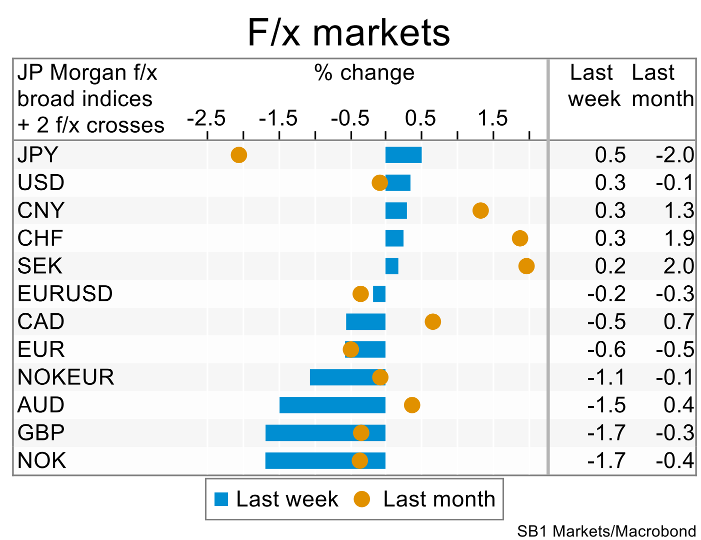
The AUD, GBP and the NOK last week's losers. USD up again

The GBP fell sharply as interest rate expectations fell off the cliff on BoE's no hike decision

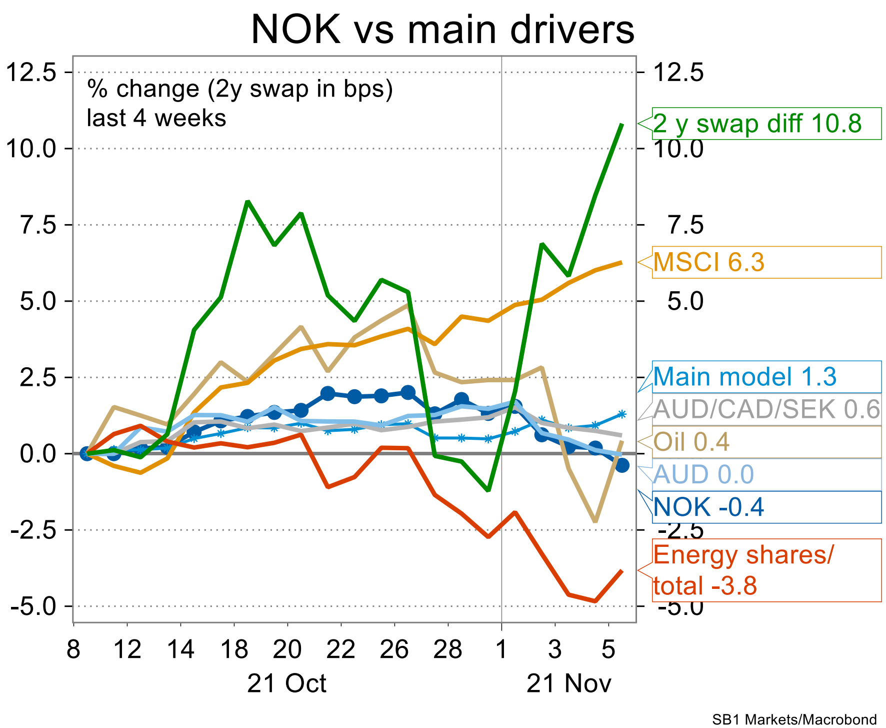


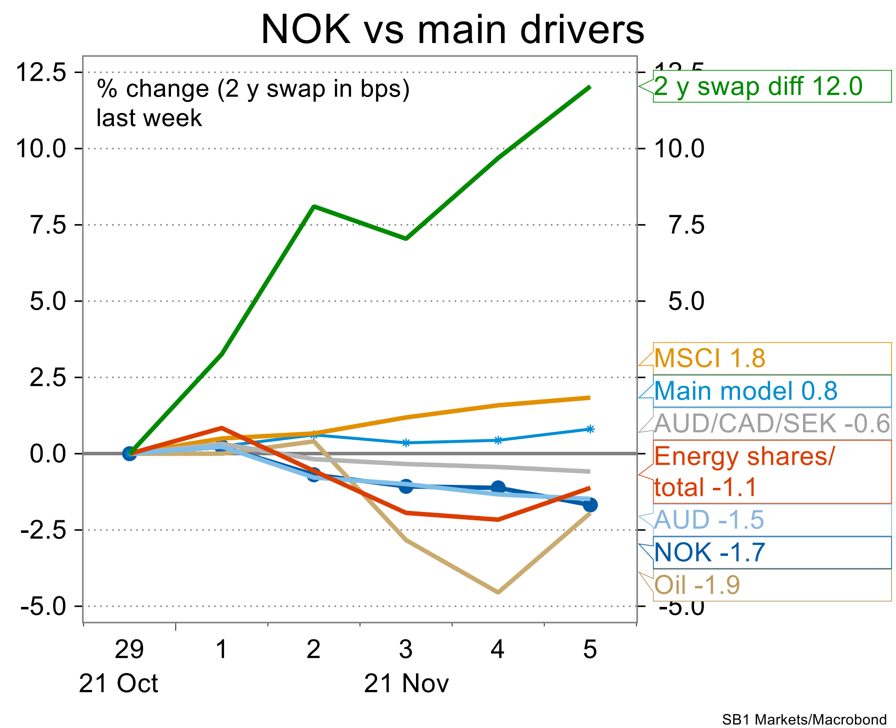




NOK down 1.7%, together with oil & (and the AUD)

While a higher interest spread supported the NOK





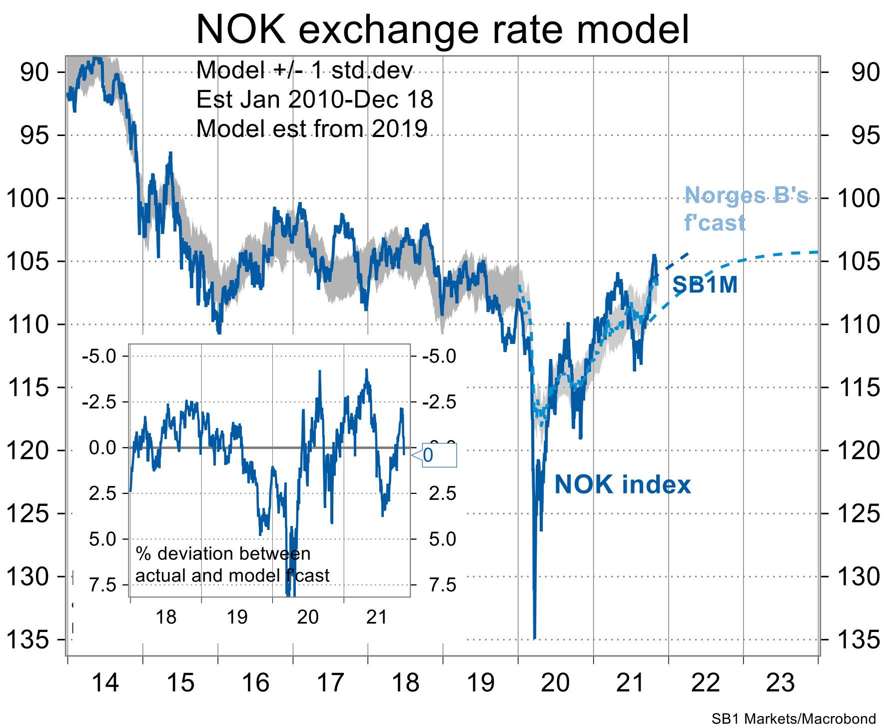
The status vs. the normal drivers:

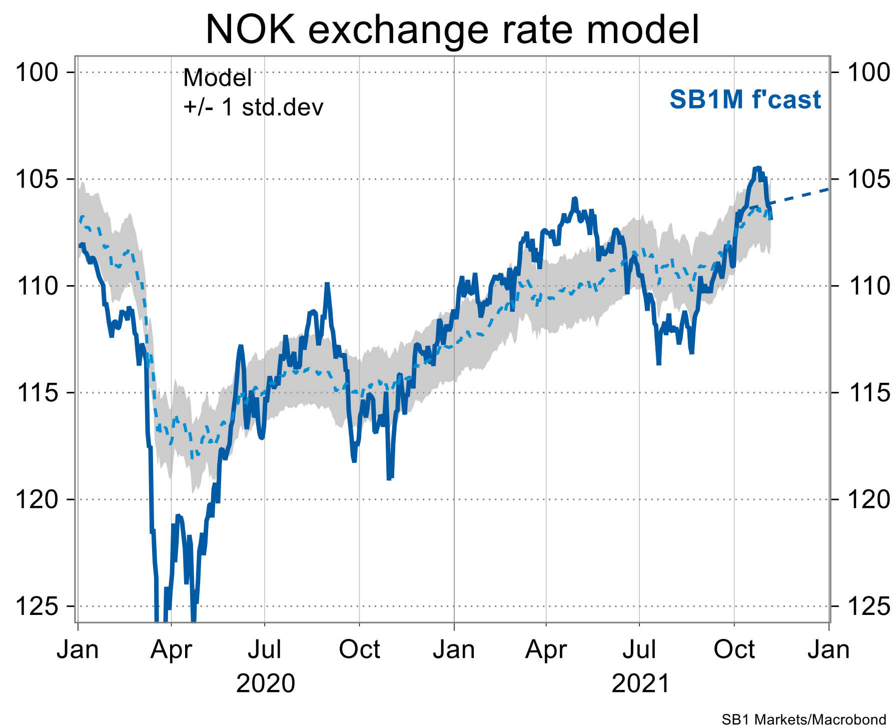
- ***The NOK is in line with our model forecast (from 2% above), and in line the short term correlation to the oil price***
- The NOK is well below the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 5% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -4%)
- 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 more down than our model suggested

And the residual fell to zero from +2%





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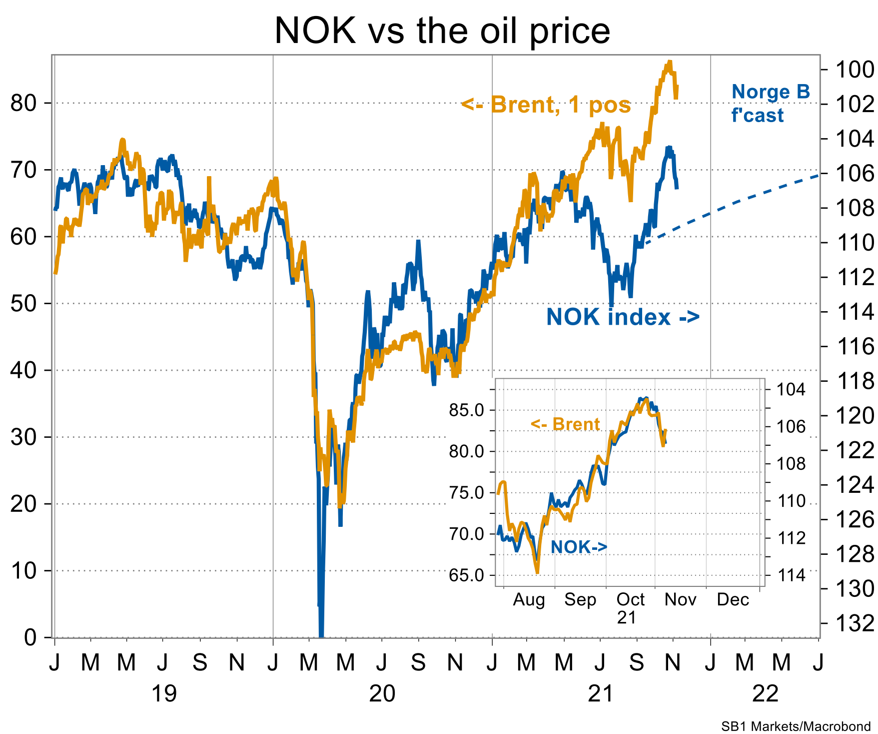
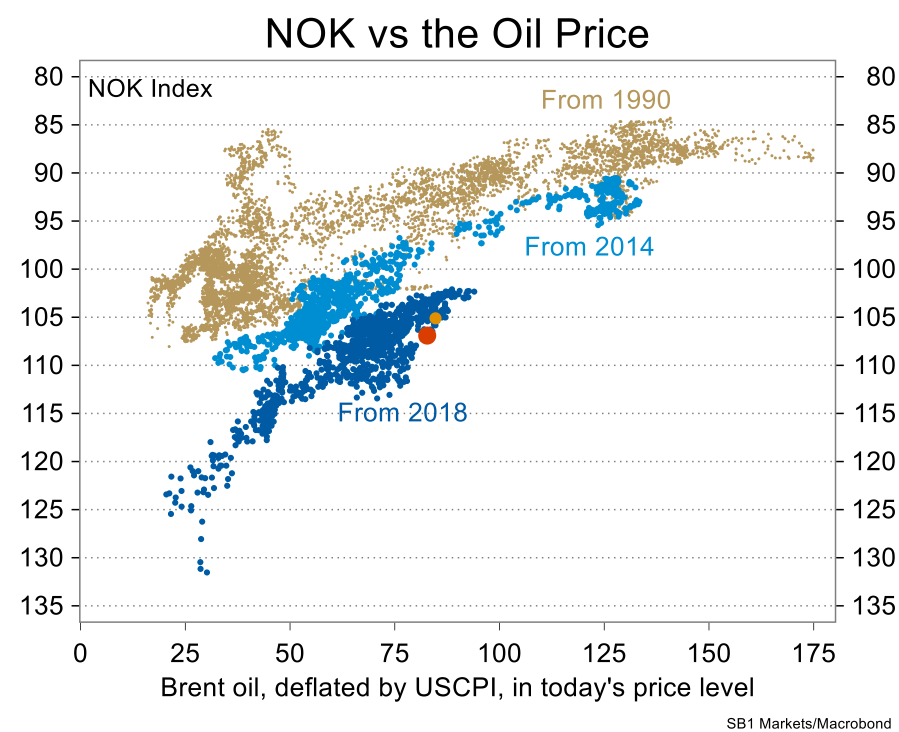
The NOK tightly correlated to the oil price – and both fell last week

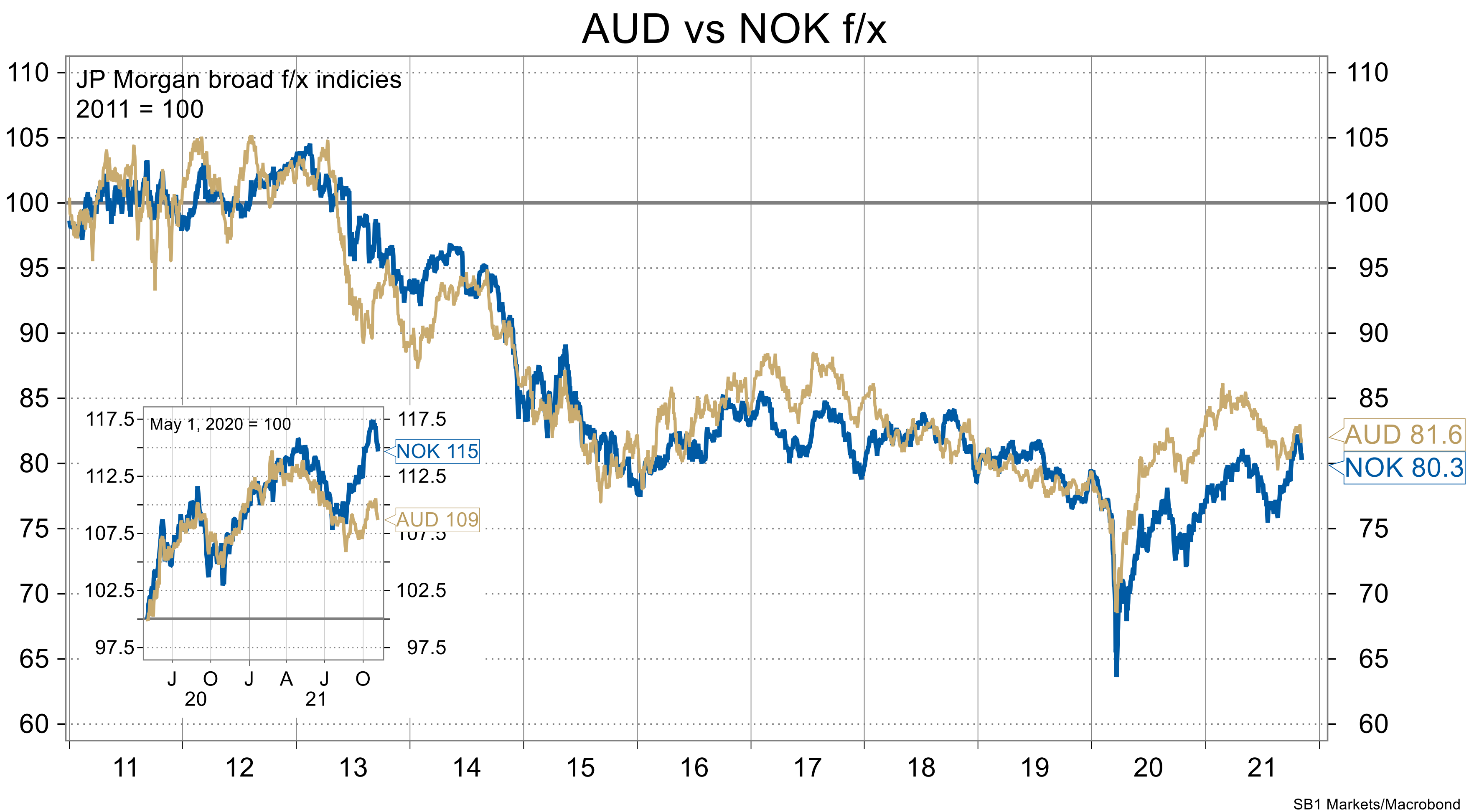




- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 4%, as a partial effect.
  Within a broader model, the impact is smaller

Both NOK and AUD down last week, NOK the most

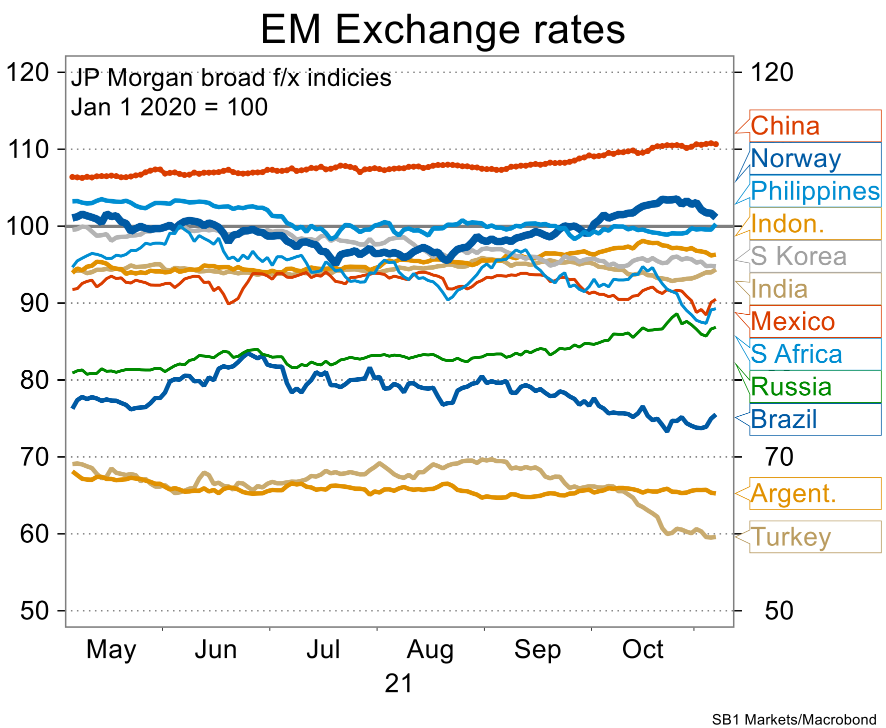
Even if AUD rates fell much more than NOK rates (and oil/iron ore prices were unch)

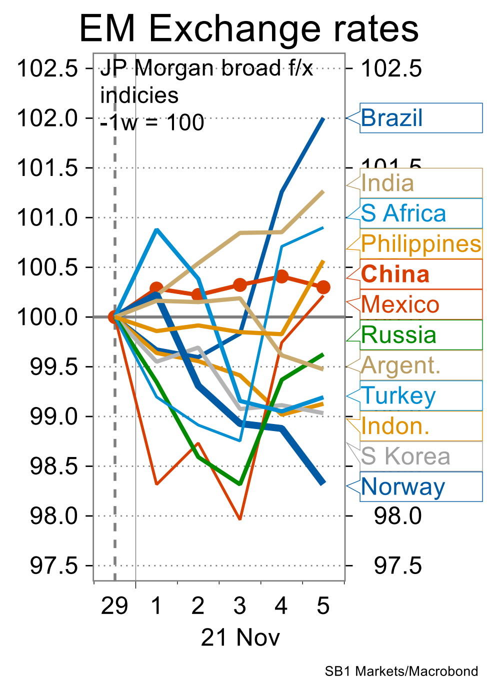


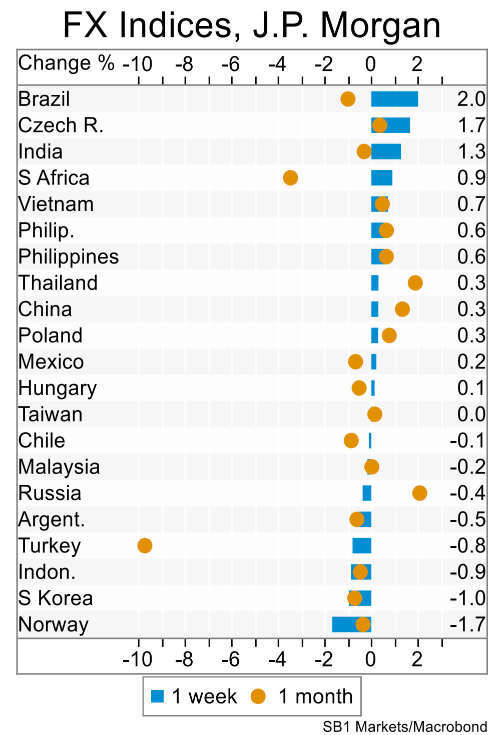
The two f/x indices are back to the 2011 parity (from which they never since have deviated much)

More EM f/x up than down last week too

… in spite of lower raw material prices







- The NOK is of course not an EM currency but from time to time, it behaves rather similar

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