22 November 2021

Macro Weekly

Week 47/2021

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SpareBank 1 MARKETS

Last week

The virus

- A majority of countries are still reporting more cases – and last week growth gained speed
- Hospitalisation have increased somewhat is most countries – and now even in the US and in the UK – but outside Eastern Europe, far from any health crisis (yet). Austria and Netherlands have introduced harsh restrictions in order to get control, and given the infection trends in other countries, more will probably have to follow suit
- The recent outbreaks – and now met with restrictions is some countries – will have some economic impact. We still suppose that more vaccinations and moderate changes in behaviour will be sufficient and that the economic consequences will be limited in most sectors, but the recovery in services may of course be delayed
- Mobility is so far close to stabile at high levels in the West, and as the virus is on the retreat in most countries in the Asia, mobility is normalising here too, which should ease supply chains problems stemming from this part of the world

The economy, part I

- **USA**
  - » **Retail sales** once more surprised at the upside. Core goods sale volume probably rose 1.2% in volume terms in October – and sales are 20% above the pre-pandemic level, far above any reasonable trend
  - » **Homebuilders** report increased activity, possibly as material prices (at least lumber) have fallen sharply. Actual **housing starts** are still falling slowly but the level is OK
  - » **Manufacturing production** rose more than expected in October, supported by a large lift in auto production from a very low level (at production was still 16% vs. the 2019 level in Oct)
  - » **Philadelphia Fed's manufacturing survey** was much strong than expected in November. The headline index rose almost back to the best level since 1985 (from March/April), at the sub-indices were the best since 1973 (and the 2nd best ever), and more companies reported higher selling prices since 1974 (and the 2nd highest ever). **NY Fed's survey** was also better than expected. So demand and prices are still increasing at an incredible pace, at the same time as the Federal Reserve is doing its upmost (ever) to stimulate demand further. We have NEVER seen anything like this before. BTW, enjoy the view, something will have to give, sooner rather than later
  - » State data do still not reveal any impact of the **early termination of unemployment benefit programs** in June/early July, neither in employment growth nor decline in unemployment vs the states that stayed on until early September termination

Last week: The economy, part II

- **EMU**
  - **Unemployment** fell to below the pre-pandemic level in September, and **employment** grew further by 0.5% in Q3. The no. of **unfilled vacancies** shot up in Q3, to way above anything seen before
  - Both **consumer and producer prices** are increasing rapidly. However, most of the lift in consumer prices are due to a 24% increase in energy prices, and price cuts/low prices for other goods and services last year. Measured over 2 years, inflation is still below the 2% target, 1.9% for the headline HICP (even included energy), and 1.1% for core index (and nothing comparable to the US data)
- **UK**
  - **CPI inflation** crossed the 4% line – and the core index is up 3.4% y/y. Here too, energy explain a lot, prices are up 22% y/y, after a 9% lift in Oct. Measured over 2 years both rates are at 2.4% (per year)- still above BoE's 2% inflation target. A hike in December is very likely
  - **Unemployment** is falling rapidly, even if a furlough scheme was terminated, and the **vacancy rate** is record high, by far. Still, **wage inflation** has not been aggressive resent months, the 3m/3m rate has fallen to almost 2%
- **Sweden**
  - **Core inflation** surprised on the upside in October, but it remains low, at 1.8% - and last year it was close to 1%. So underlying inflation is still pretty well behaved

Norway

- **Mainland GDP** grew more than expected in September (0.6%), and in Q3 GDP was up by 2.6% (10.8% annualised), slightly above NoBa's fcast Q3 GDP was 1.8% above the level in Q4-19, although several services are still well below par even after growing rapidly in Q3. GDP is some 1.6% below the pre-pandemic trend path. Given the tight labour market, this gap may be hard to close short term
- **Oil companies** reported a larger increase in 2022 investments than we expected, still signalling a decline next year. More projects will be added, as oil companies will take benefit of the temporary tax cut but even so we expect a 5% cut in volume terms in 2022, following zero growth in 2021. From 2023, we expect a mini boom (and thereafter a bust as the inventory will be emptied)
- **Manufacturing companies** plan to increase their investments significantly in 2022, while the **power supply sector** signals a further deep cut in investments next year
- **Consumer confidence** rose to an average level in Q3, according to Finans Norge's survey, as the outlook for the Norwegian economy strengthened. However, households suddenly completely lost confidence in their own economy for the coming year. Are they really that scared for a gradual normalisation of interest rates, or is it something else?
- **Finanstilsynet's (FSA) mortgage lending survey** revealed that more loans were given with a loan-to-income ratio at above 4x, and many up towards the 5x limit as well. The average loan-to-value ratio for new loans is steady drifting upwards. Without regulations, household credit would have 'exploded'. An argument for normalising interest rates?

The Calendar: Prelim. PMIs, FOMC minutes. Norwegian retail sales, empl/unempl.

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 22					
14:30	US	National Activity Index	Oct		-0.13
16:00	US	Existing Home Sales	Oct	6.20m	6.29m
16:00	EC	Consumer Confidence	Nov A	-5.5	-4.8
Tuesday Nov 23					
09:15	FR	Manufacturing PMI	Nov P	53.0	53.6
09:15	FR	Services PMI	Nov P	55.3	56.6
09:30	GE	Manufacturing PMI	Nov P	56.8	57.8
09:30	GE	Services PMI	Nov P	51.6	52.4
10:00	**EC**	**Manufacturing PMI**	**Nov P**	**57.2**	**58.3**
10:00	**EC**	**Services PMI**	**Nov P**	**53.5**	**54.6**
10:00	**EC**	**Composite PMI**	**Nov P**	**53.0**	**54.2**
10:30	UK	Manufacturing PMI	Nov P	57.4	57.8
10:30	UK	Services PMI	Nov P	58.5	59.1
15:45	US	Manufacturing PMI, Markit	Nov P	59.0	58.4
15:45	**US**	**Services PMI, Markit**	**Nov P**	**59.0**	**58.7**
Wednesday Nov 24					
01:30	JN	Manufacturing PMI	Nov P		53.2
08:00	NO	Payroll stats, wages	Oct		
08:00	NO	Current account	Q3		
10:00	GE	IFO Expectations	Nov	94.4	95.4
14:30	US	Initial Jobless Claims	Nov-20	260k	268k
14:30	US	Advance Goods Trade Balance	Oct	-$94.8b	-$96.3b
14:30	US	GDP Annualized QoQ, rev	3Q S	2.2%	2.0%
14:30	**US**	**Durable Goods Orders**	**Oct P**	**0.2%**	**-0.3%**
14:30	US	Cap Goods Orders Nondef Ex Air	Oct P	0.5%	0.8%
16:00	US	Personal Income	Oct	0.2%	-1.0%
16:00	**US**	**Personal Spending**	**Oct**	**1.0%**	**0.6%**
16:00	**US**	**PCE Core Deflator MoM**	**Oct**	**0.4%**	**0.2%**
16:00	US	PCE Core Deflator YoY	Oct	4.1%	3.6%
16:00	US	U. of Mich. Sentiment	Nov F	66.8	66.8
16:00	US	New Home Sales	Oct	798k	800k
20:00	US	FOMC Meeting Minutes	Nov-03		
Thursday Nov 25					
08:00	**NO**	**Unemployment Rate AKU**	**Sep**	**3.9% (3.9)**	**4.0%**
Friday Nov 26					
08:00	**NO**	**Retail Sales W/Auto Fuel MoM**	**Oct**	**0.3%(-0.5)**	**0.5%**
08:00	NO	Consumption of goods	Oct	0.3%	0.5%
08:00	NO	Hotel guest nights	Oct		
09:00	SW	Economic Tendency Survey	Nov		120
09:30	SW	Retail Sales MoM	Oct		-0.3%
10:00	EC	Credit growth	Oct	7.4%	7.4%

- **Preliminary November PMIs**
  - » **PMI data** sets from the rich part of the world is expected to remain at strong levels in US and UK and slightly above par in EMU. We think we are close to peak delivery times/price increases but a quieter post-Christmas season may be a better guess than early November for some easing
- **USA**
  - » More hawkish signals in the minutes from the last **FOMC meeting** (when tapering was decided)? Most likely, from 'some' members at least.
  - » **Personal spending** was very likely strong, given the retail sales report. **Income** growth has slowed considerably, and in October the **savings rate** probably fell to below a pre-pandemic level. The accumulated savings through the pandemic is still (almost) intact though. The CPI rose rapidly in October, and the PCE deflator will follow suit
  - » The revised **Q3 GDP** report will include corporate profit data
- **EMU**
  - » **Credit growth** has remained in check through the pandemic, household credit slightly up but following a surge last spring, low underlying growth in the corporate sector
- **Norway**
  - » We expect the **payroll (employee register)** stats to report a further increase in employment in October but still modest wage growth
  - » **Retail sales** are trending down towards more normal levels – and we expect a small decline in October. Consensus is for a 0.3% growth m/m. We expect a further increase in **hotel guest nights**, at least from Norwegians

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

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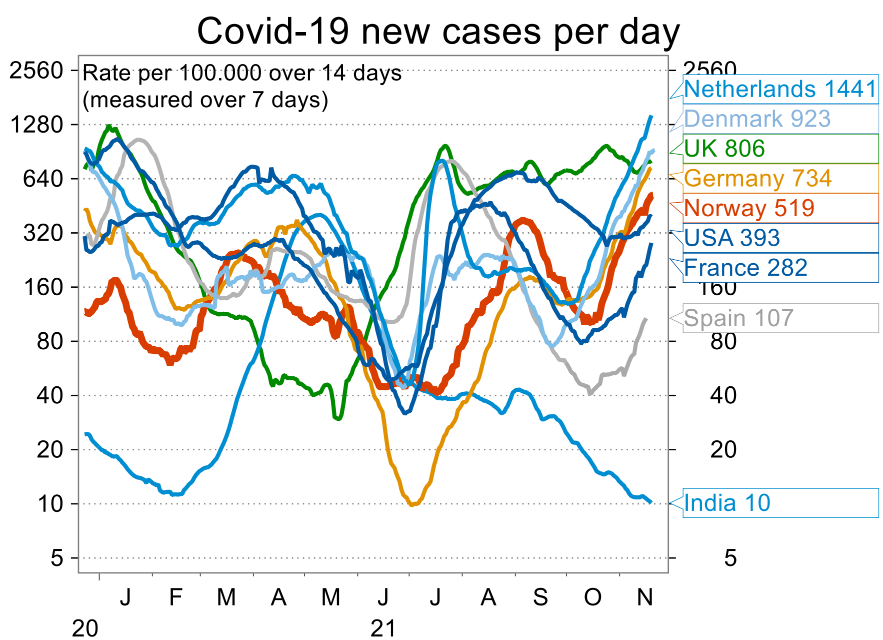
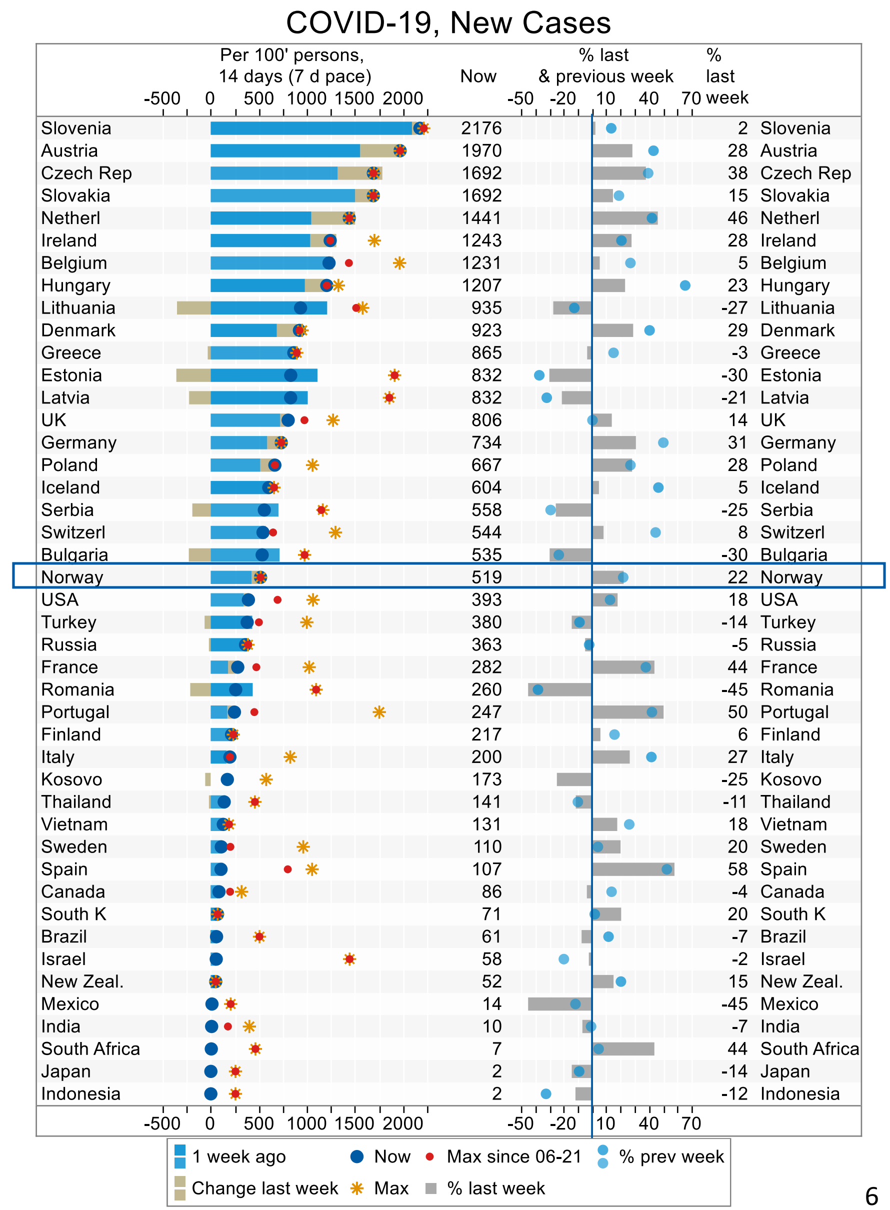
The virus is still gaining ground

A majority of countries are reporting more cases

- <u>24 countries were reporting more cases</u> the last week, up from 23 one week ago, and growth accelerated somewhat. Eastern Europe is still the epi-centre, but nearby Austria join the party two weeks ago. Cases are increasing in US and UK again too, together with most other rich countries
- <u>17 countries reported fewer cases</u>, 2 more than the previous week
- Austria and Netherlands, the two Western European countries with most cases (and still rapidly increasing) have introduced rather harsh measures, especially Austria. Given the surge in many other countries, more restrictions are probably on the way



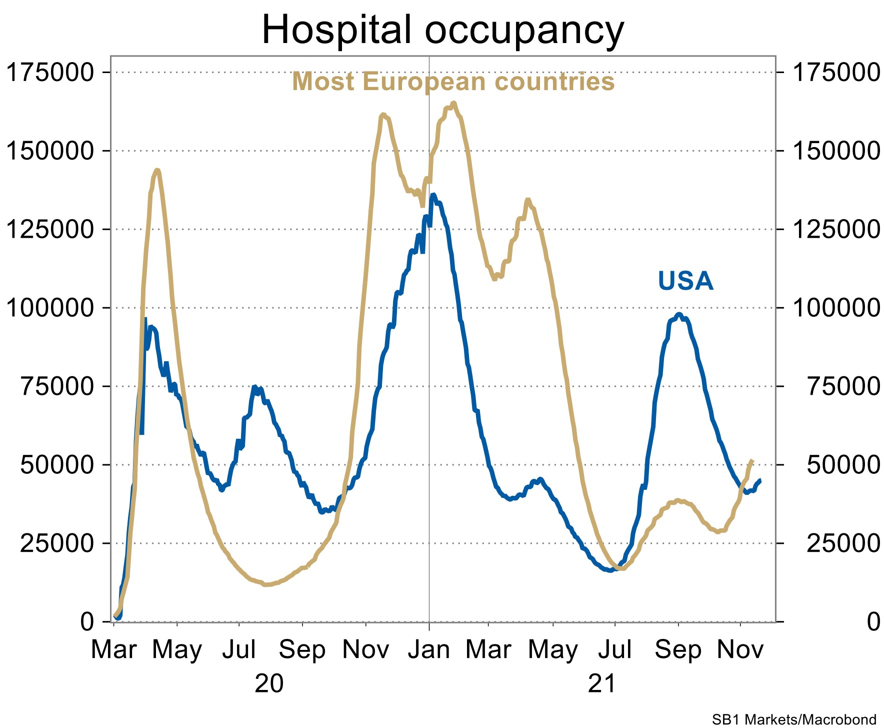
SB1 Markets/Macrobond

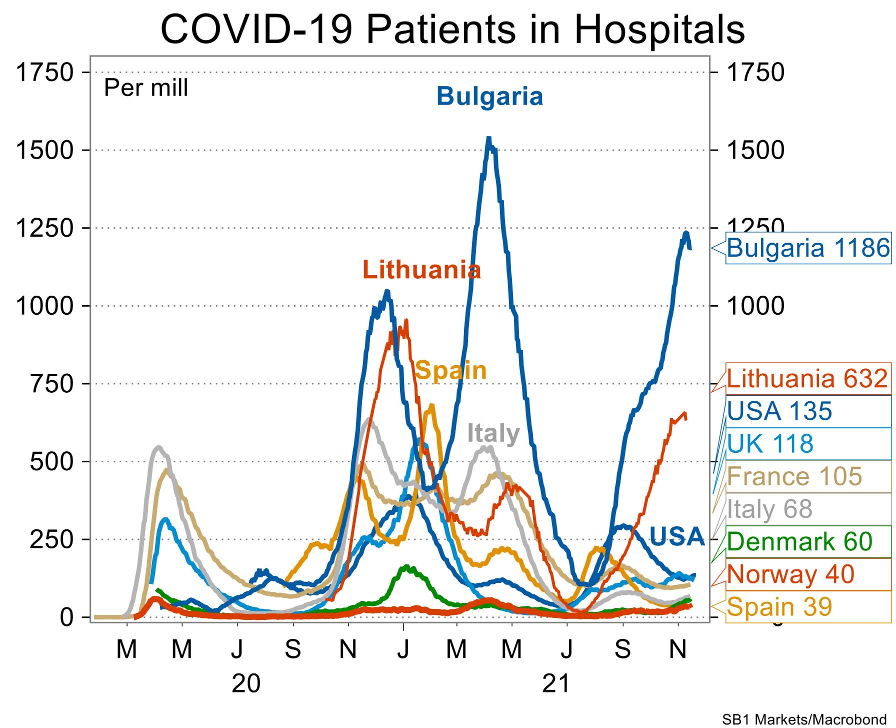


SB1 Markets/Macrobond

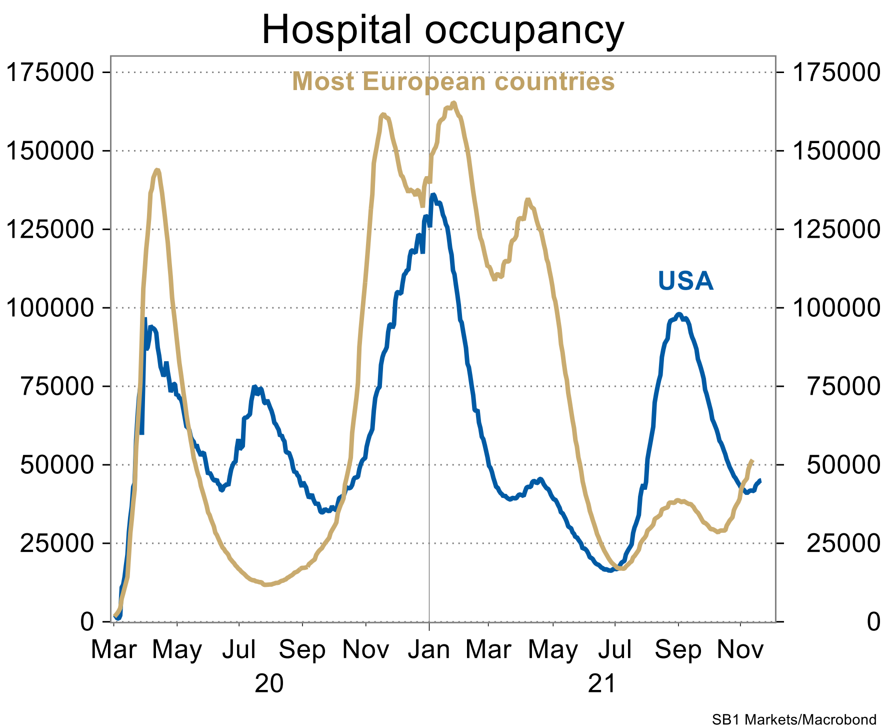
More hospitalisations in Europe, and the now in the US as well

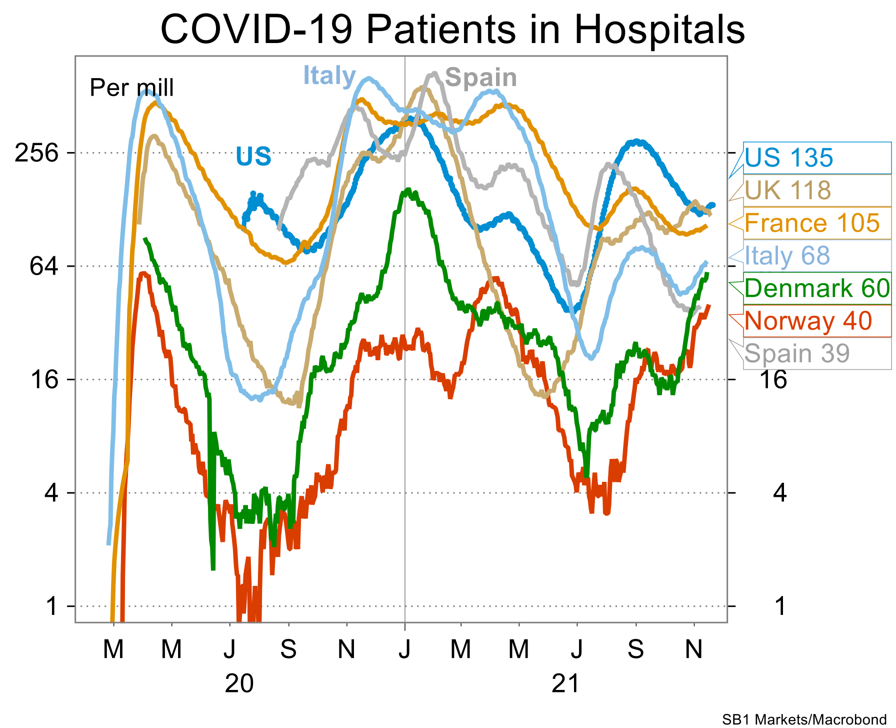
However, levels are still low outside Eastern Europe





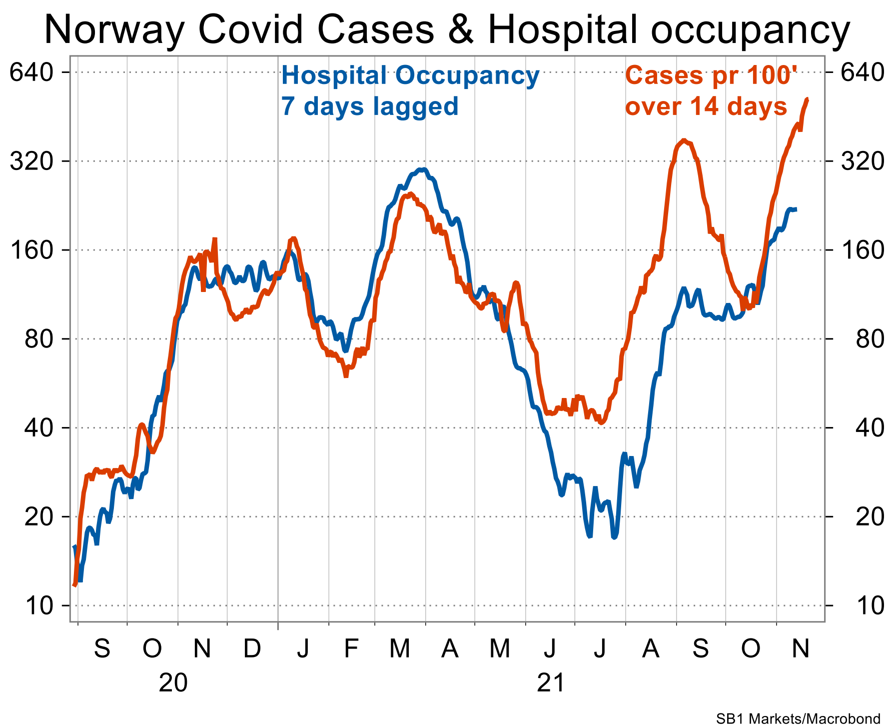
More hospitalisations in Europe, and the now in the US as well



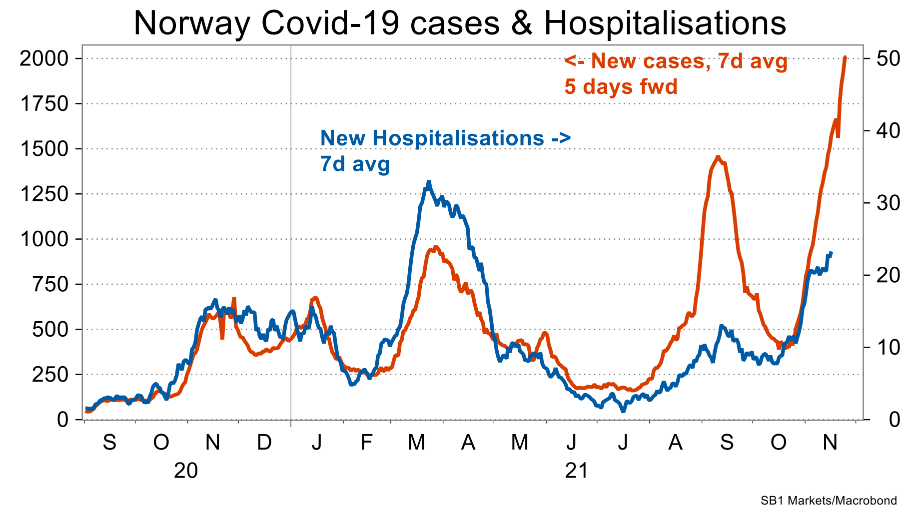


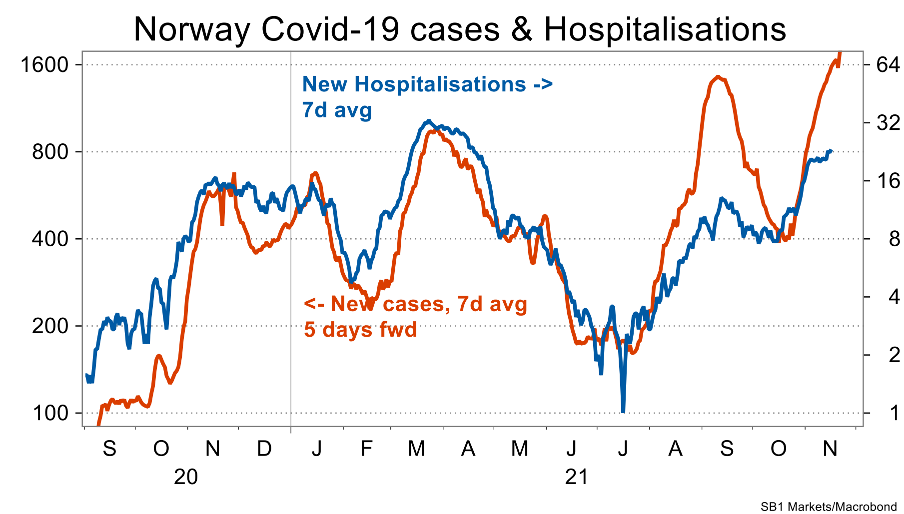
Norway: Growth in new cases and hospitalisations have slowed

A 3rd dose, some changes in behaviour may be sufficient to flatten these curves



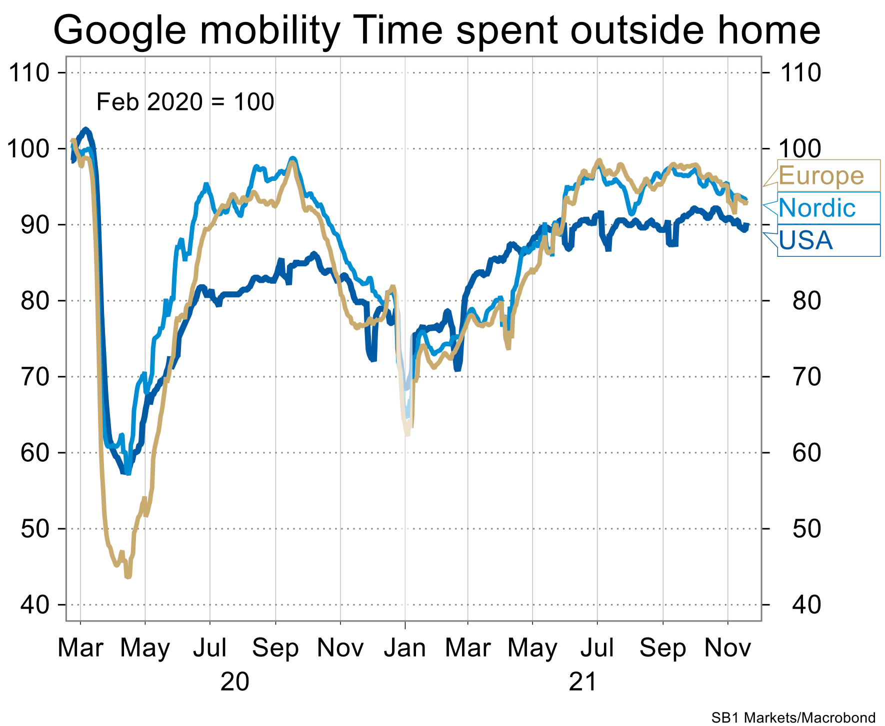
- However, we are miles from a serious health crisis – check at the bottom of the chart to the right 2 pages backwards ☺

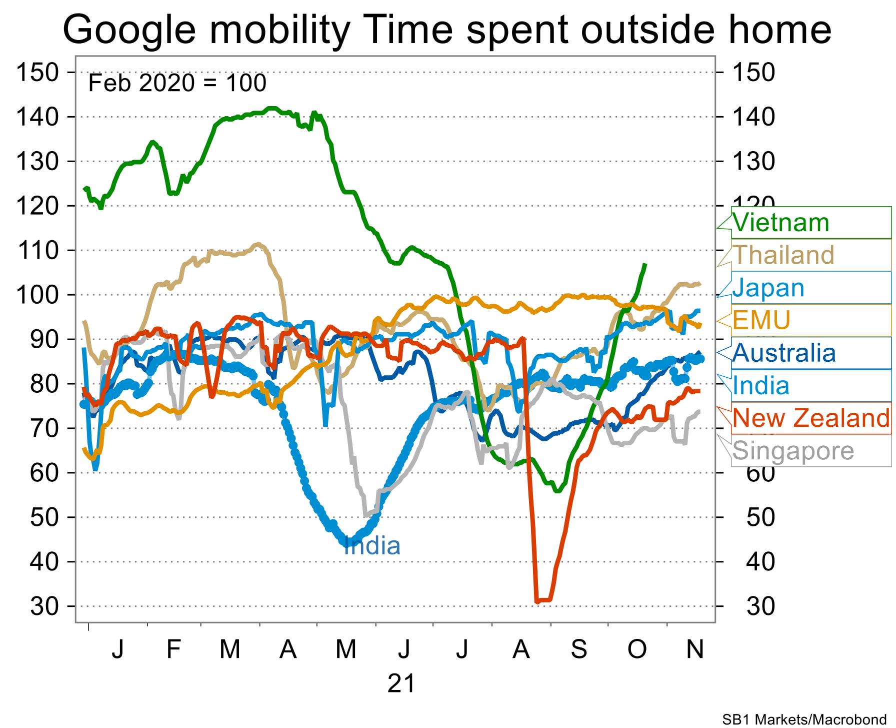




Mobility is slightly reduced: The season or the virus? We think the season

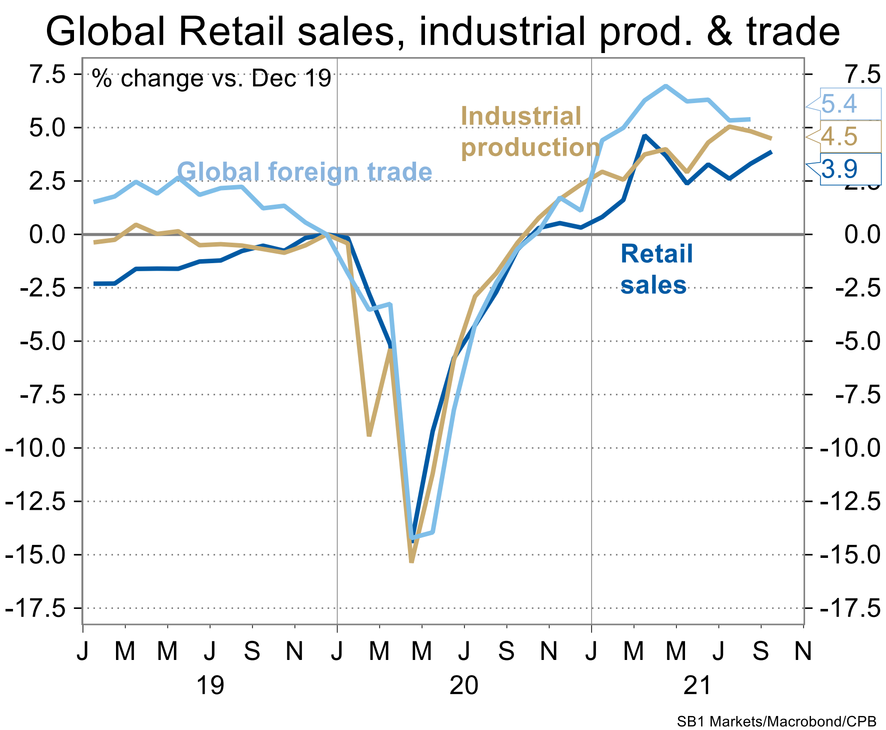
Mobility in Asia is on the way up, and some countries are back at pre-Delta levels

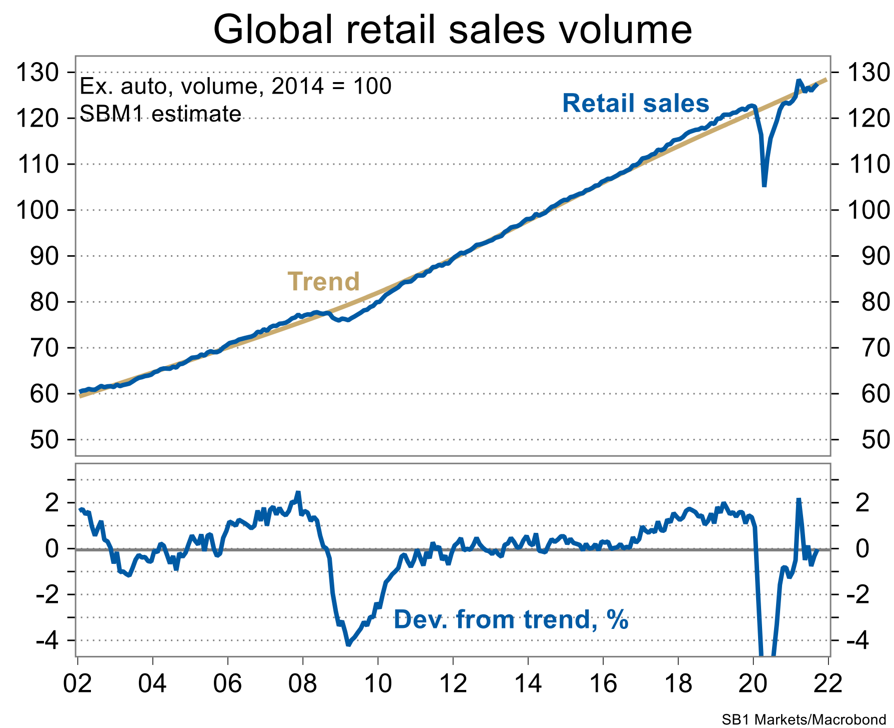




Global retail sales have flattened, global trade is sliding down

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

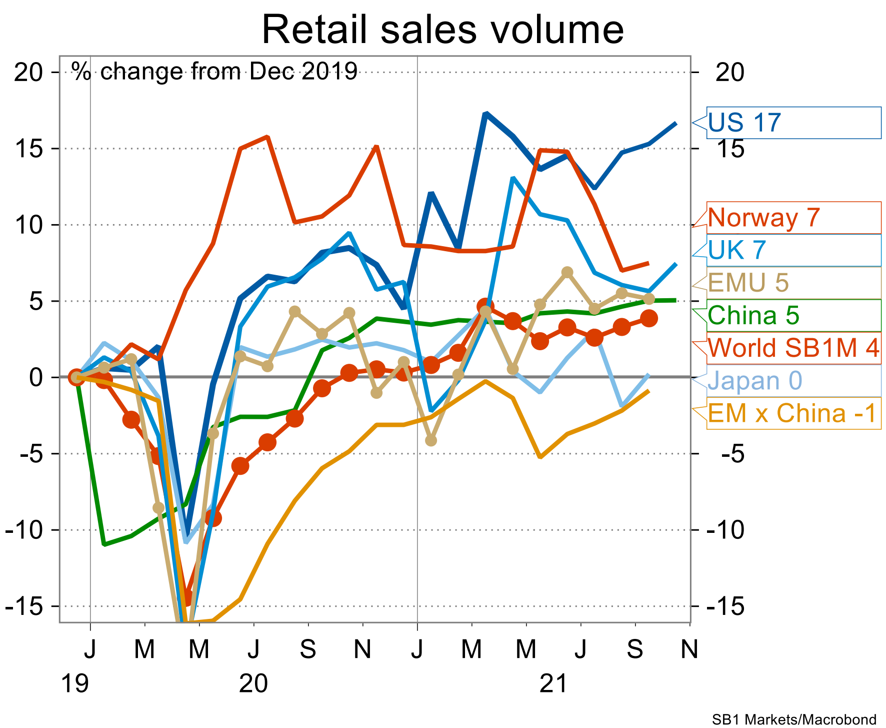


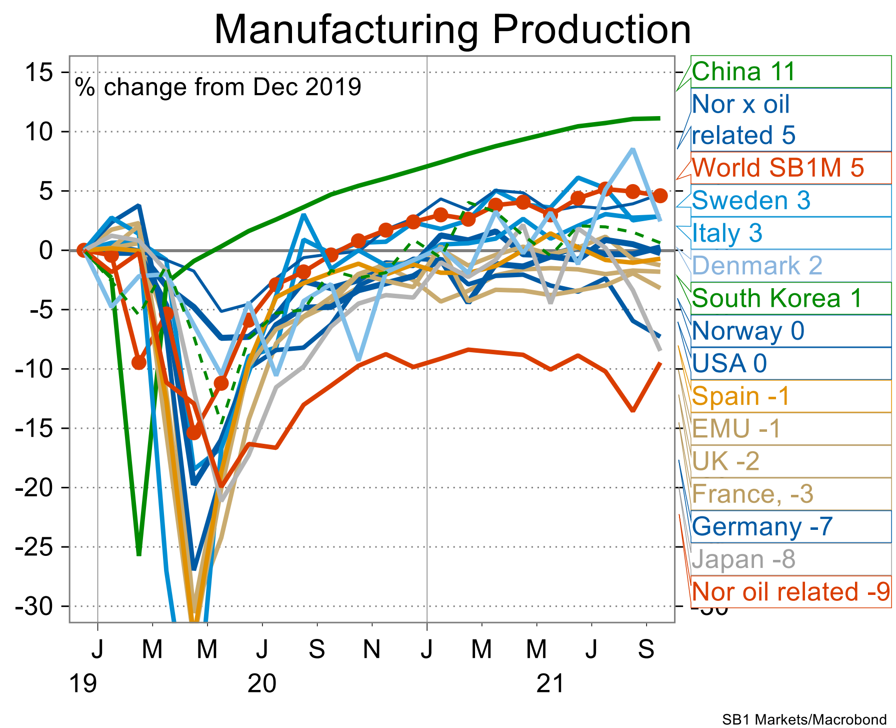


- **Retail sales** rose further in Sept and is up 4% vs. the pre-pandemic level
- **Manufacturing production** stagnated in Aug and Sept mostly due deep cuts in auto production. The level is some 4.5% above the pre-pandemic level. The first October data are more encouraging
- **Global foreign trade** 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
- US retail data are still very strong, although below the March peak
- **Manufacturing production** has been hampered by a deep decline in auto production. The manufacturing PMIs are down but not weak

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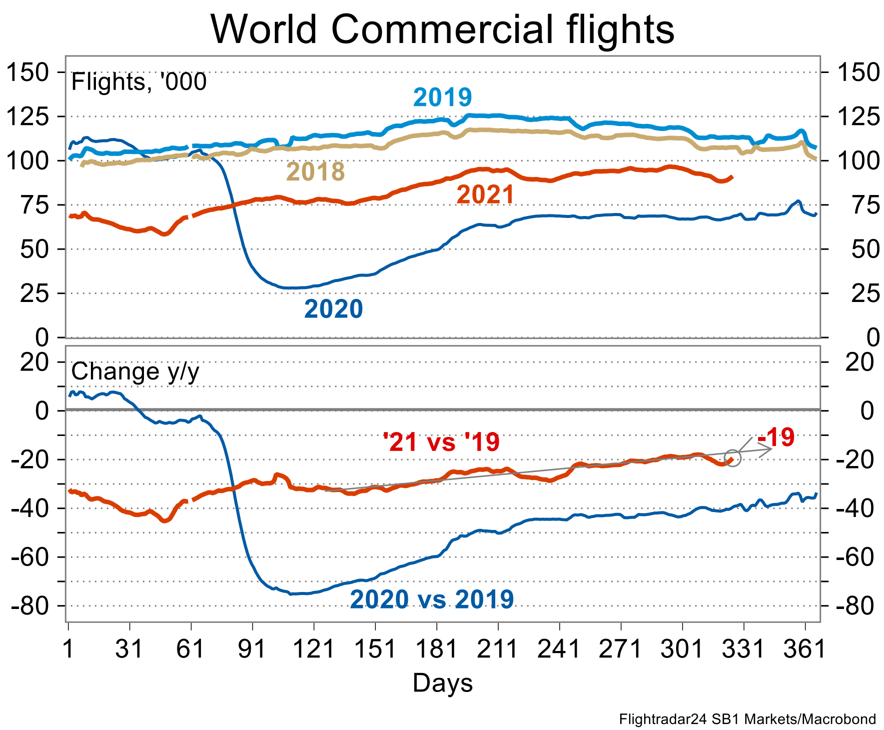
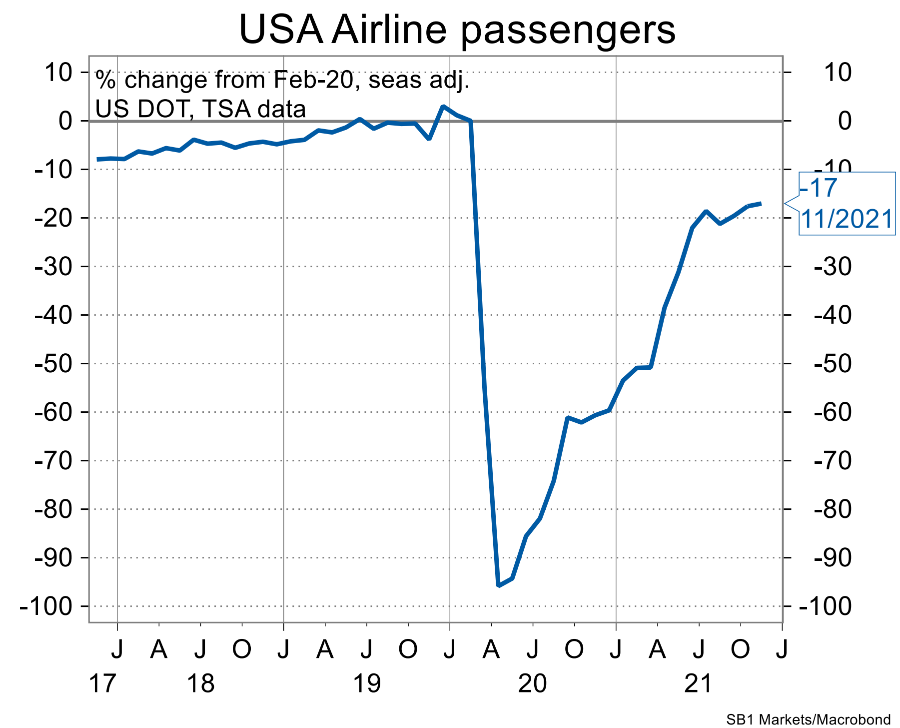
Global airline traffic has not recovered further recent weeks

Last week was down 19% vs. the 2019 level, vs. -21% the previous weeks

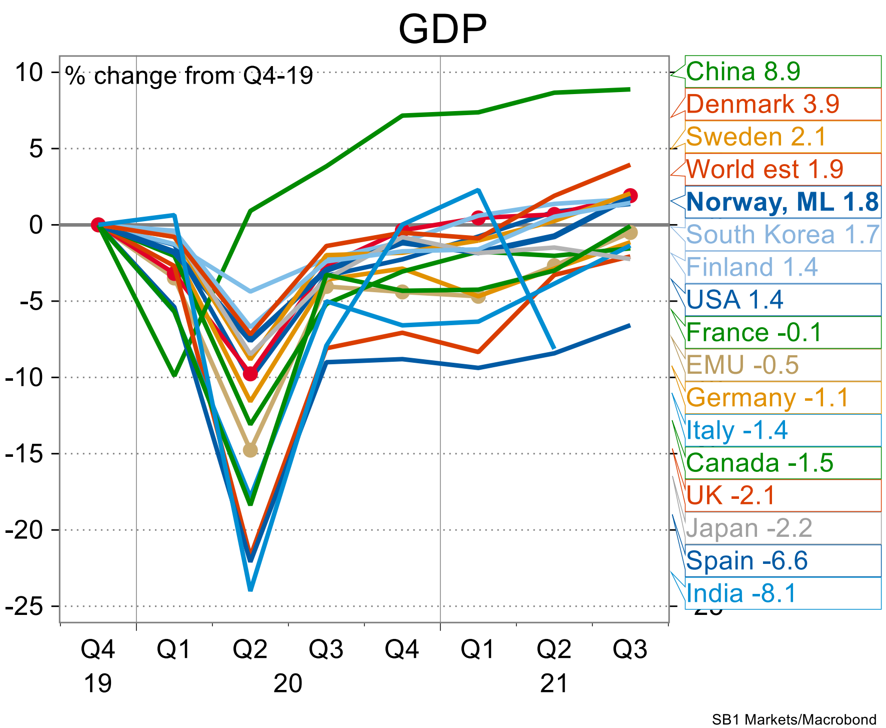


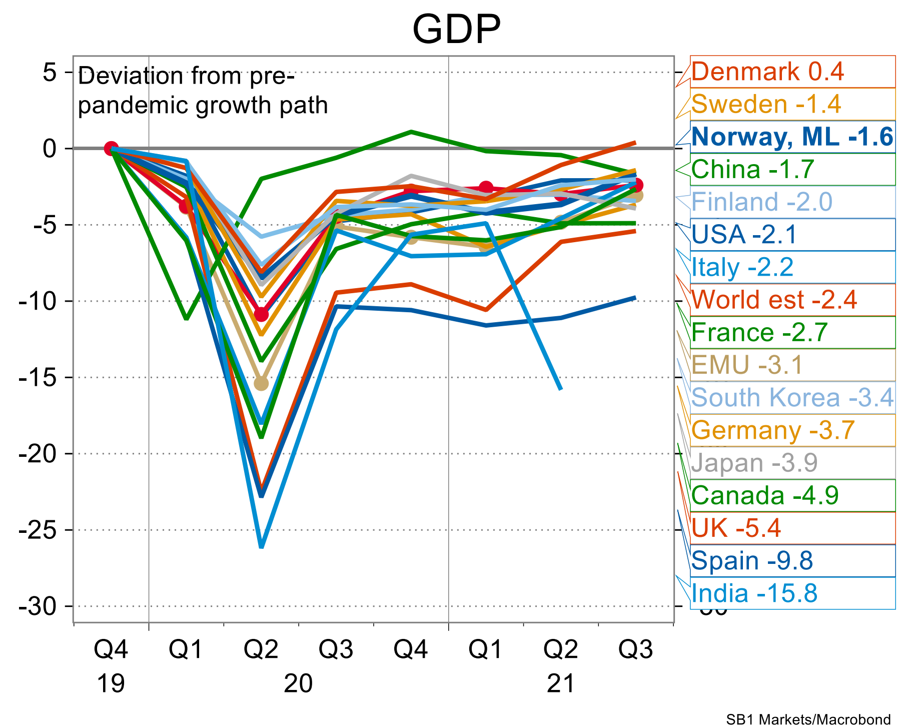


- The no. of passengers has stagnated in the US as well (but Thanksgiving may change the picture)

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

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

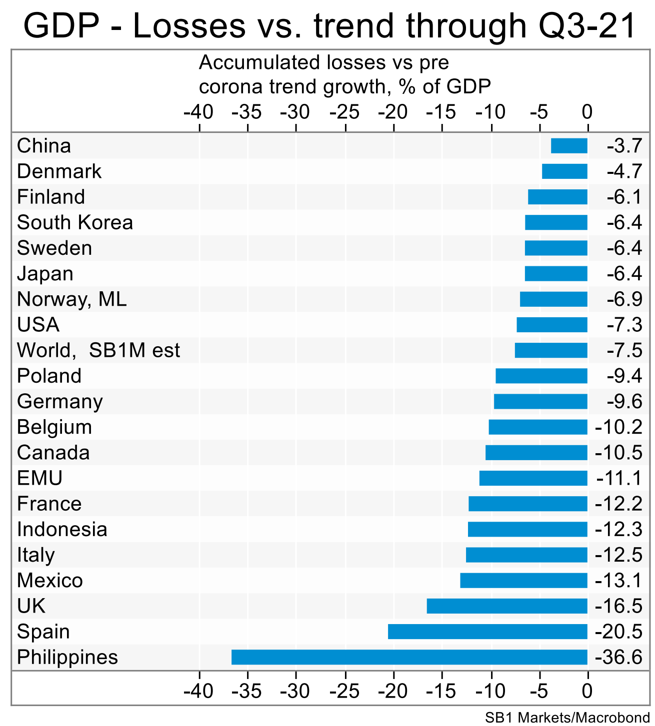




- Sweden: Our est

GDP still below the pre-pandemic trend growth paths everywhere

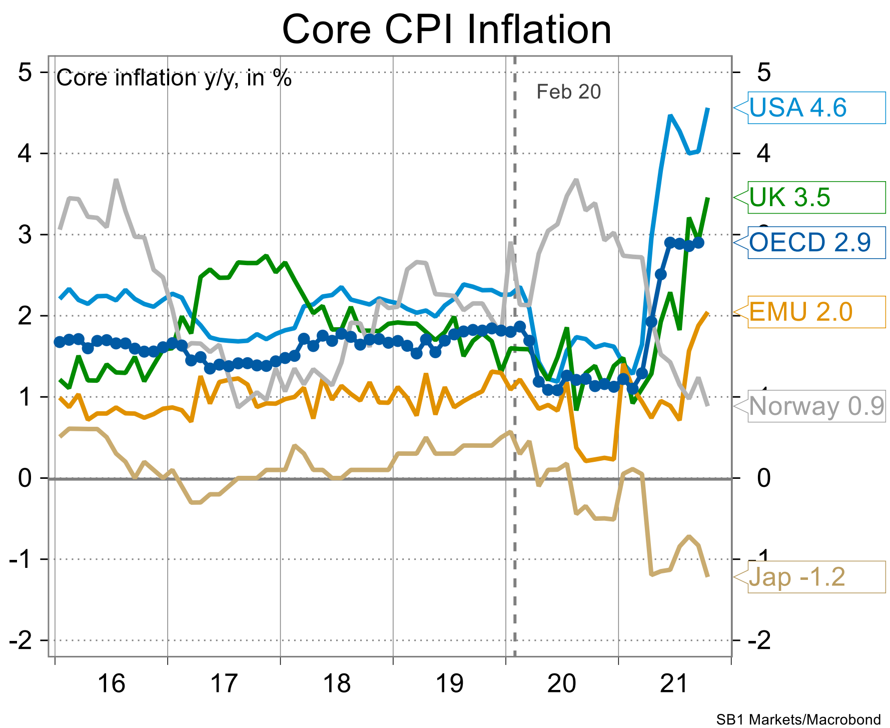
… and accumulated losses are substantial in several countries

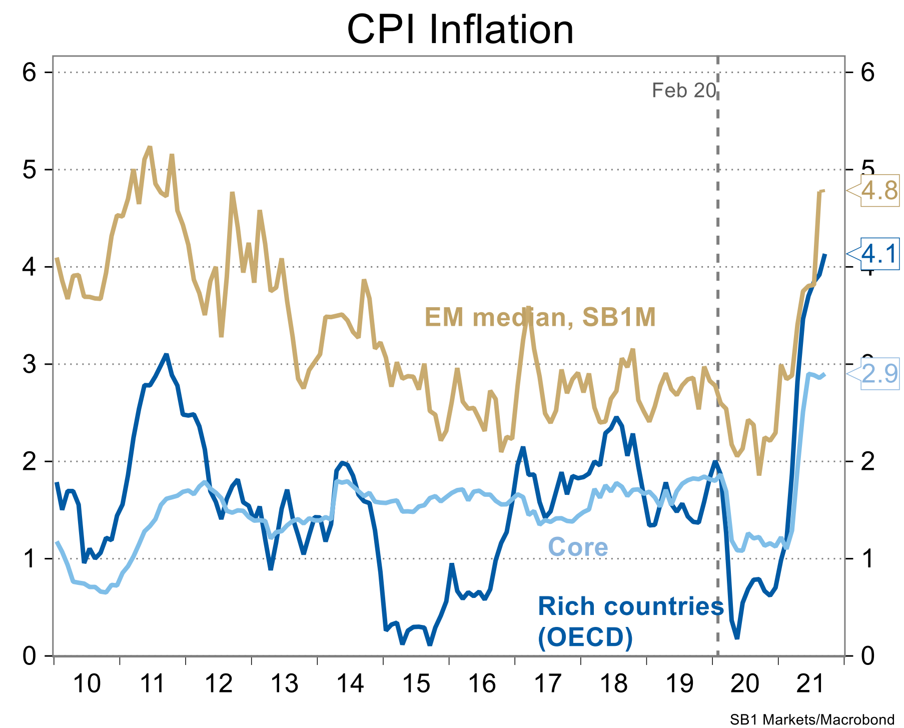


- Sweden is our estimate

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

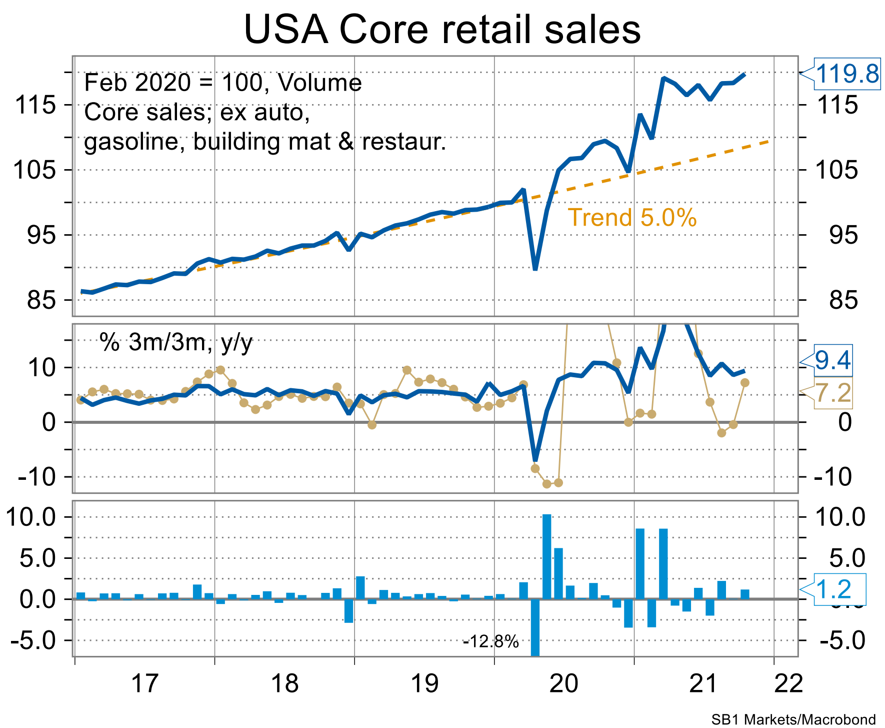
Energy prices the main culprit, but core inflation has turned up more places

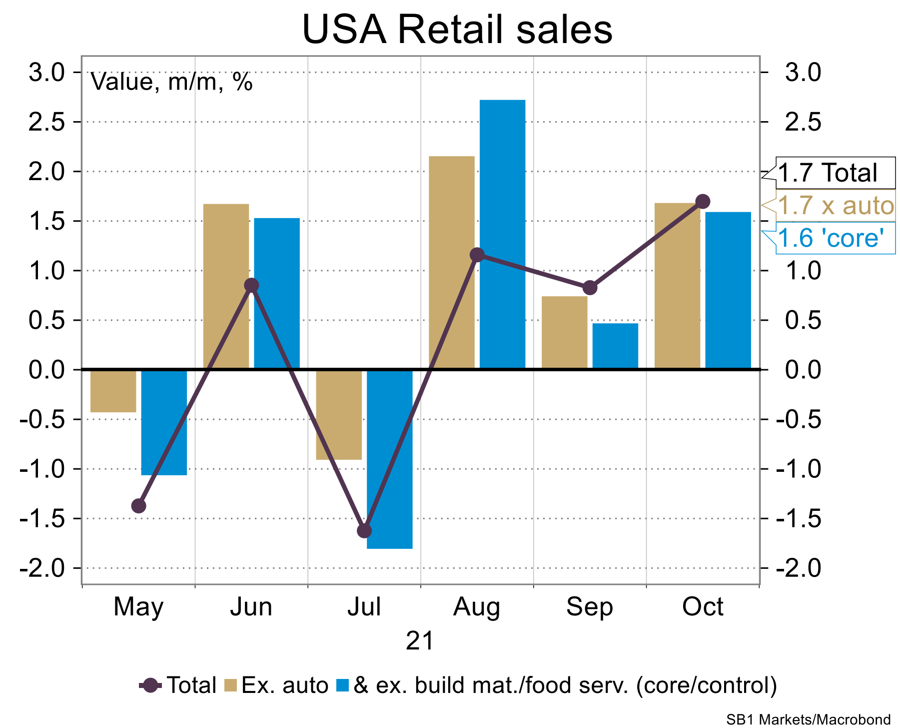




Retail sales surprised on the upside in ~~September~~ October too

Core sales up 1.6%, and the trend is upwards again – volume up 20% vs. the Feb-20!!

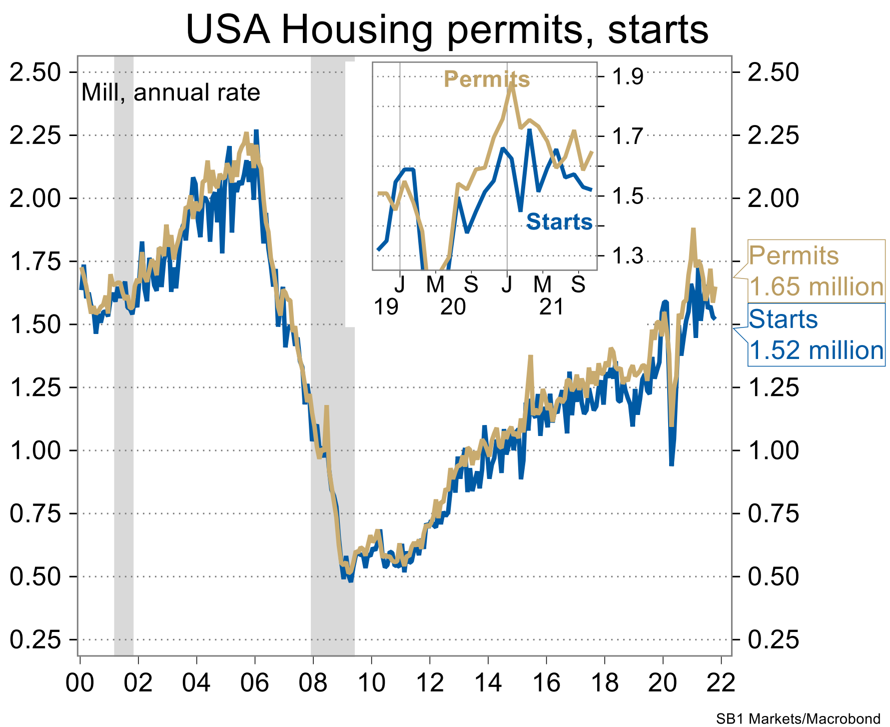


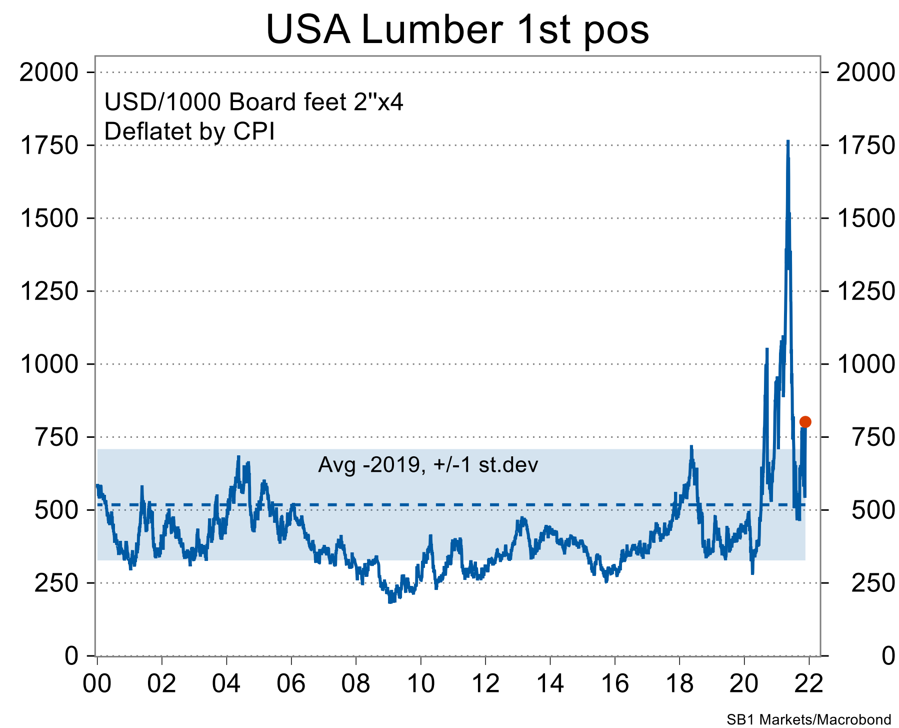


- **Total nominal sales** rose by 1.7 % in Oct, expected up 1.1%. Sept was revised 0.1 pp up to 0.8%. Sales are up 21% vs. Feb-20!!
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) grew by 1.6% in Oct, expected up 0.8%. Sept was revised down 0.3 pp to 0.5%. In volume terms, we assume sales rose 1.2% - and sale volumes are 20% above the Feb-20 level, and sales were the highest ever, above the March level – even if more services are opened up
- Sales in **restaurants & bars** have flattened since July, and was unch in October– still up 9% vs the Feb-20 level!
- **Consumption of goods** is very likely far above a sustainable level, and we still expect sales to decline the coming months/quarters – and growth has not been strong since the spring!

Housing starts are sliding down but still above (pre) pre-pandemic level

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

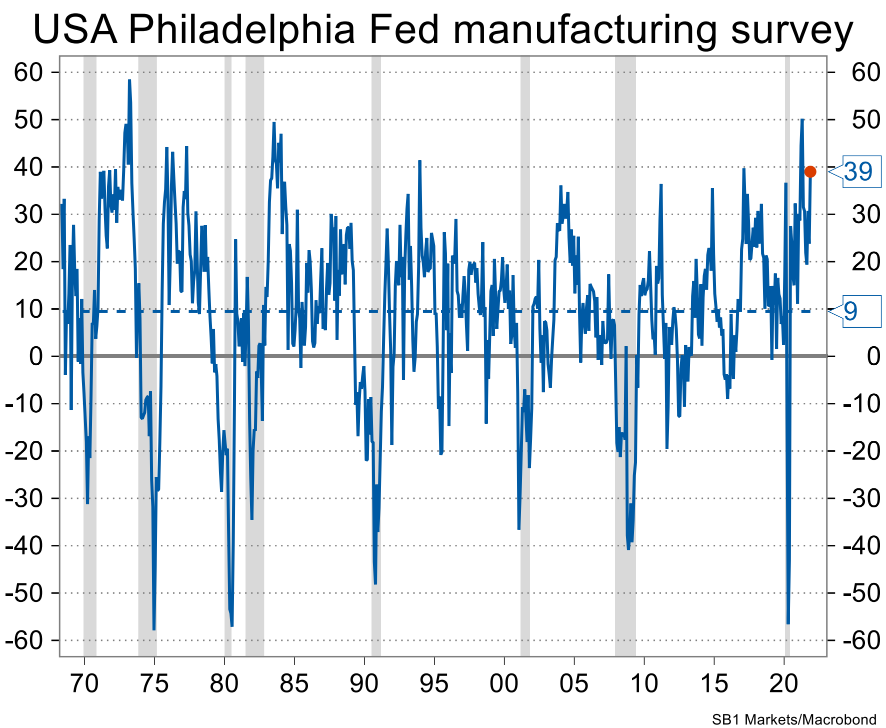


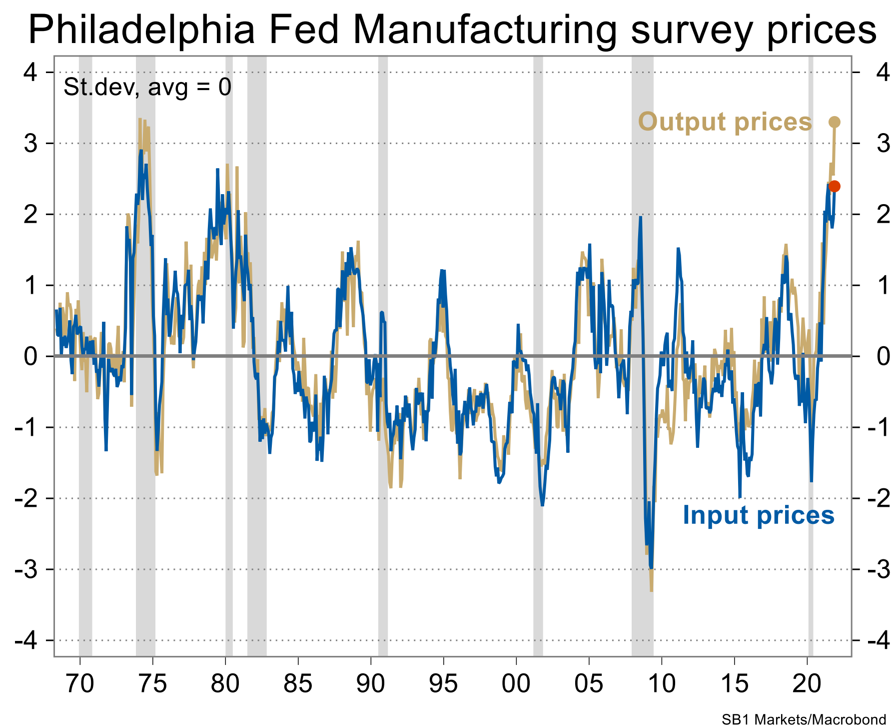


- **Housing starts** decreased to 1.52 mill in Oct , from 1.53 mill in Sept, expected marginally up to 1.58 mill
- **Building permits** rose to 1.65mill, from 1.59 mill, expected up to 1.63
- **Starts have fallen slightly since June, while permit have flattened**. Starts are roughly on par with the pre-pandemic level (which was strong, due to surge during H2-19. Permits are clearly above – still down vs the 15 y peak in January
- Given the incredible strong existing home market, with an 'empty' inventory and soaring prices, starts should normally have strengthened further, amid still very low mortgage rates and a recovering economy
- **Supply & capacity problems and higher costs** in the building sector may explain the lack of response. However, those constraints may be easing, at least lumber is available at a far lower price than in the late spring

Philly Fed survey: More companies report higher output prices than since Feb-74

And Feb-74 is (so far) ATH. The headline index straight up, the sub-components best since March-73



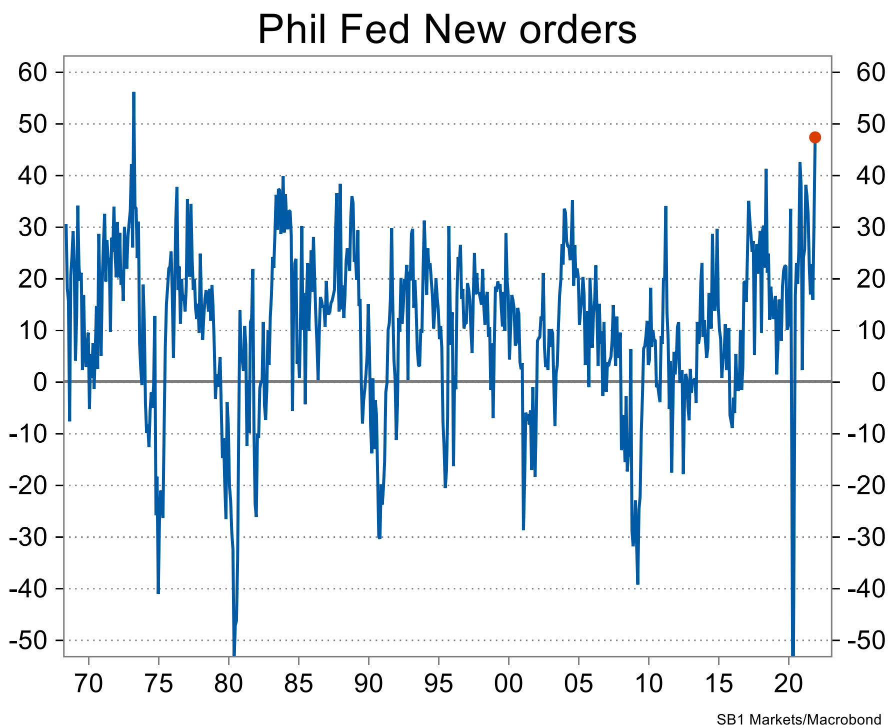


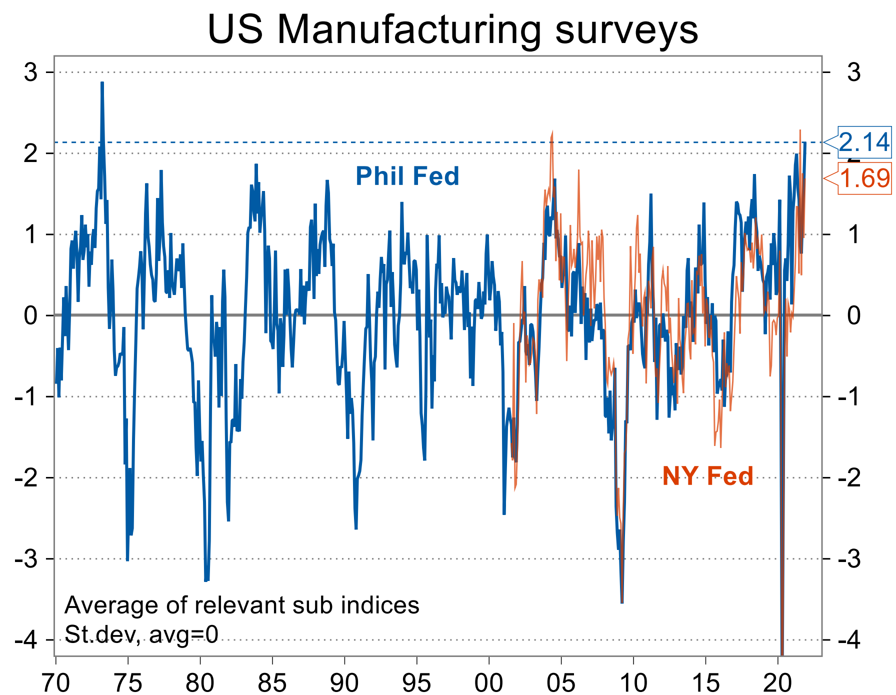
Another indication that the times they are pretty good

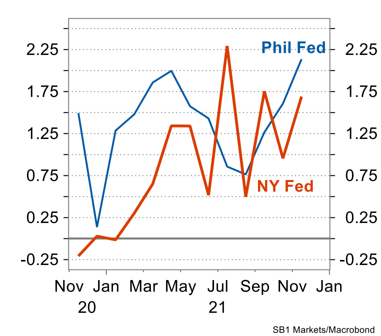
- **Philadelphia Feds manufacturing activity index** rose to 39 in Nov from 24 in Oct, expected unch! The level is the 3rd highest since 1985 (just March/April '21) better.
- **The details** were even better: The average of the 'relevant' (ISM like) sub-indices was the 2. best ever, just March-73 above!
- The **new order index** was also the 2. best ever – signaling a very strong growth in orders
- **Prices** (which are not included in the relevant sub-indices) are skyrocketing. Both the input and output price indices rose sharply. Just once before, in Feb-74, more companies have reported that they have increased their prices vs the previous month than in November
- It is perhaps not surprising that **FOMC members** now are signaling willingness to taper at a faster pace?

A strong Phil Fed new order index. The NY Fed index up to elevated levels too

Two charts just for the record







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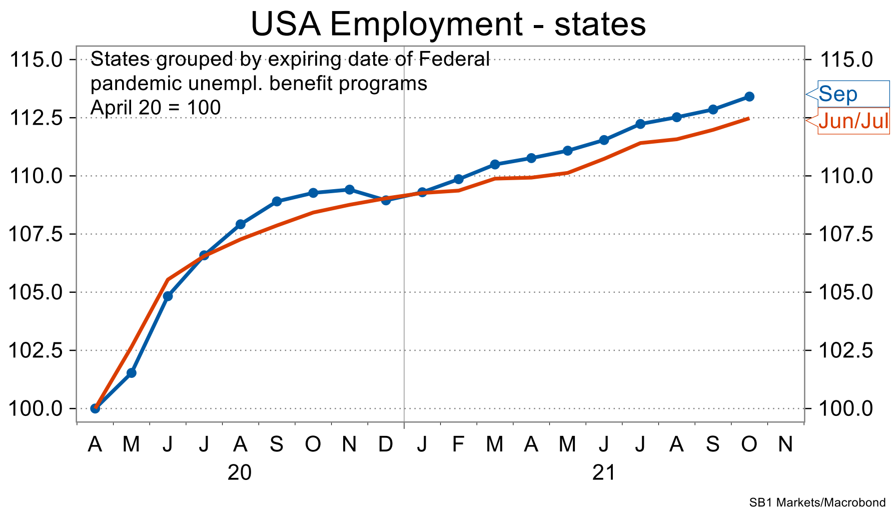
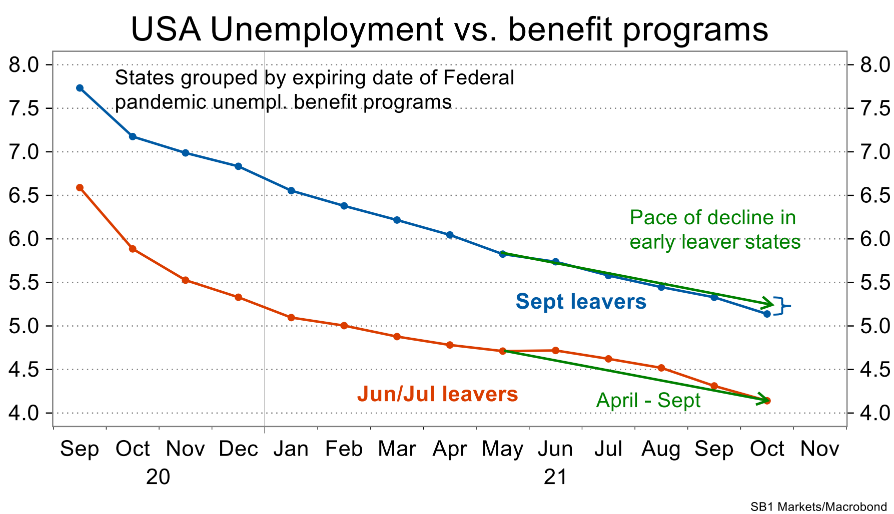
No extra employment growth in states that left unempl. benefit programs early

Unemployment has fallen just marginally slower – thus <u>no surge in the participation rate either</u>

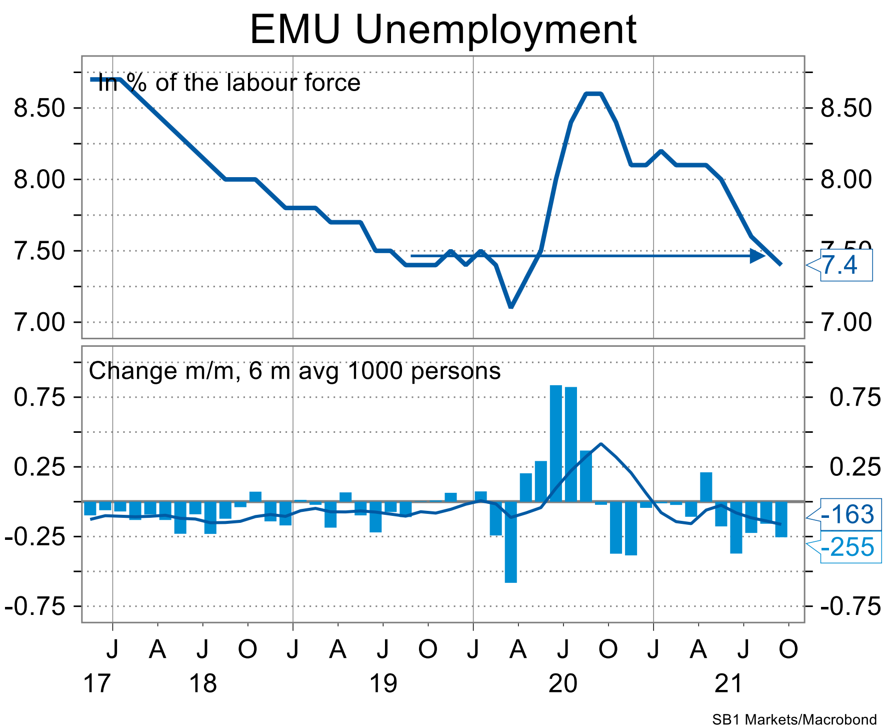


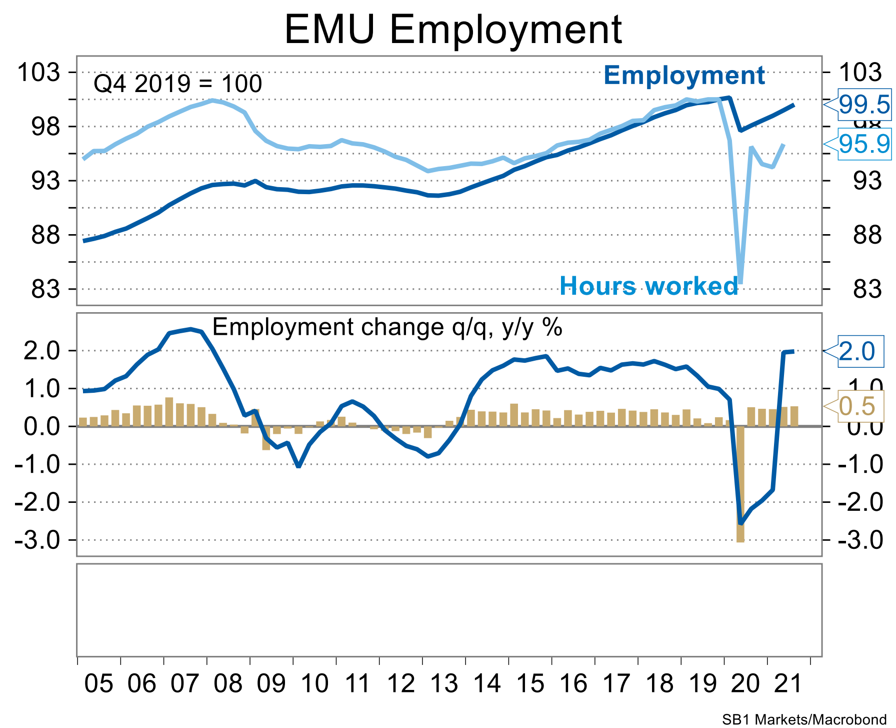


- Half of the states left the two temporary federal unemployment benefit programs in June and early July, that is before the programs were terminated everywhere in early September. There has been <u>no difference in **employment** growth in the two groups of states through October</u>
- State **participation rates** are not published but the unemployment rate has fallen <u>marginally slower</u> (0.1 pp) in the early-leaver states vs. the remaining states, signalling <u>just a marginal increase in the participation rate</u>, and not a tsunami of workers into the labour market to fill all the vacant positions
- A wonder may still happen – a surge in labour supply as workers recognise that they have to earn money or the virus one day is brought under full control so that nobody stay at home due to covid related problems

Unemployment fell below the pre pandemic level in September

Employment grew further in Q3, by 0.5% - and it is 0.5% below the Q4-19 level

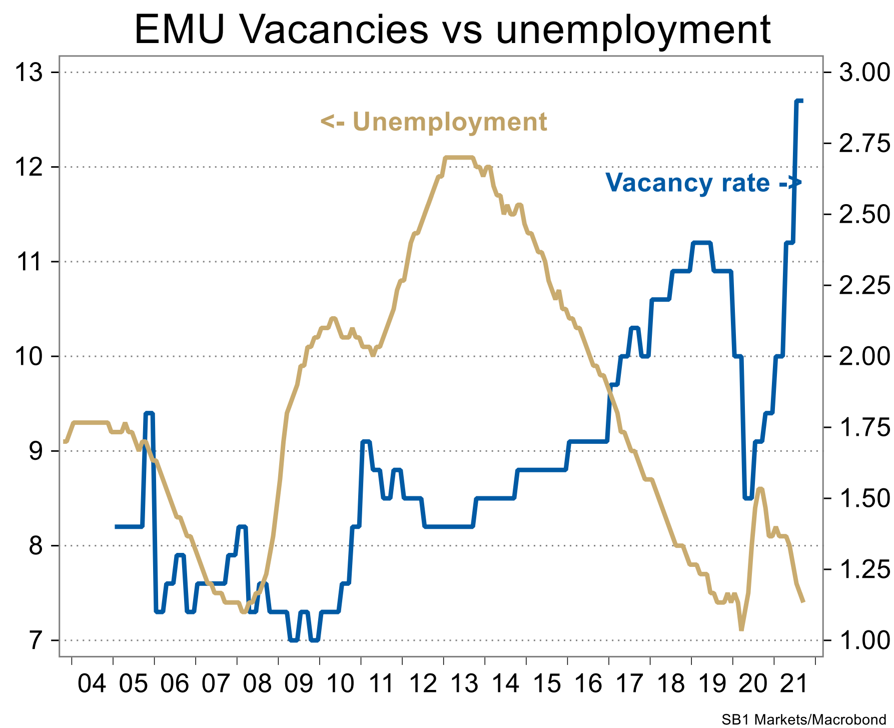


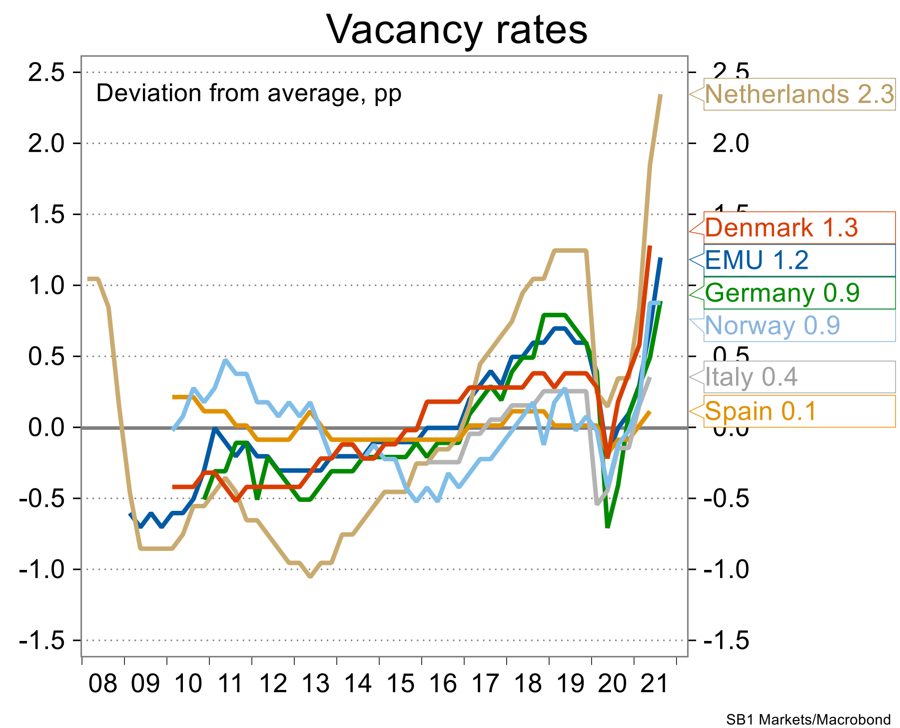


- **Unemployment** is falling rapidly as the economies are opening up. In September, the unemployment rate fell 0.1 pp to 7.4%, as expected, and the level is below the average in the months before the pandemic hit
- **Employment** rose by 0.5% in Q3, as over the previous 4 quarters, and it was 0.5% below the pre-pandemic level
  - » 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. Q3 was far better but no data yet
- The no. of **unfilled vacancies** rose sharply in Q3, to the highest level ever (chart next page)

The vacancy rate 'exploded' in Q3

An ATH for the Eurozone, and in most countries. Labour markets are no doubt tight

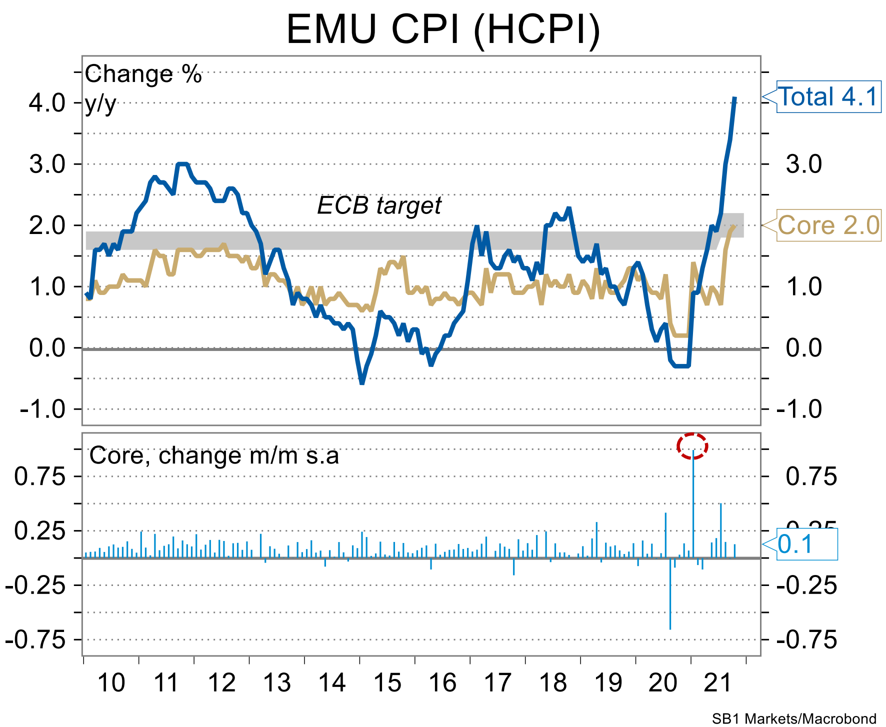


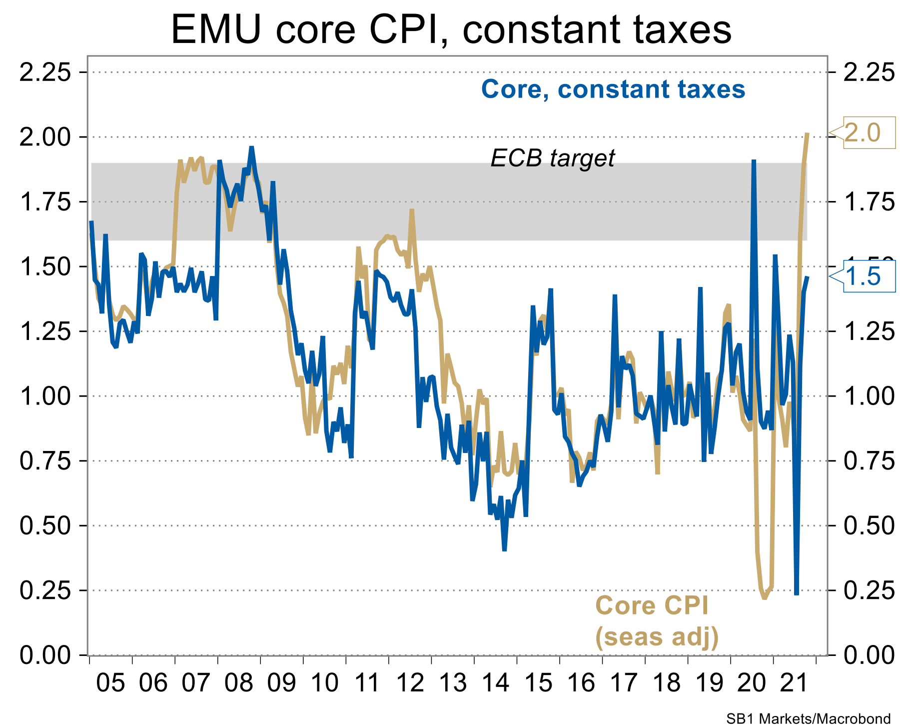


- Not all countries have repored Q3 vacancy data

Eurozone inflation confirmed up 0.6 pp 4.1% - as energy prices soared

Core inflation was revised down 0.1 pp to 2.0% in October

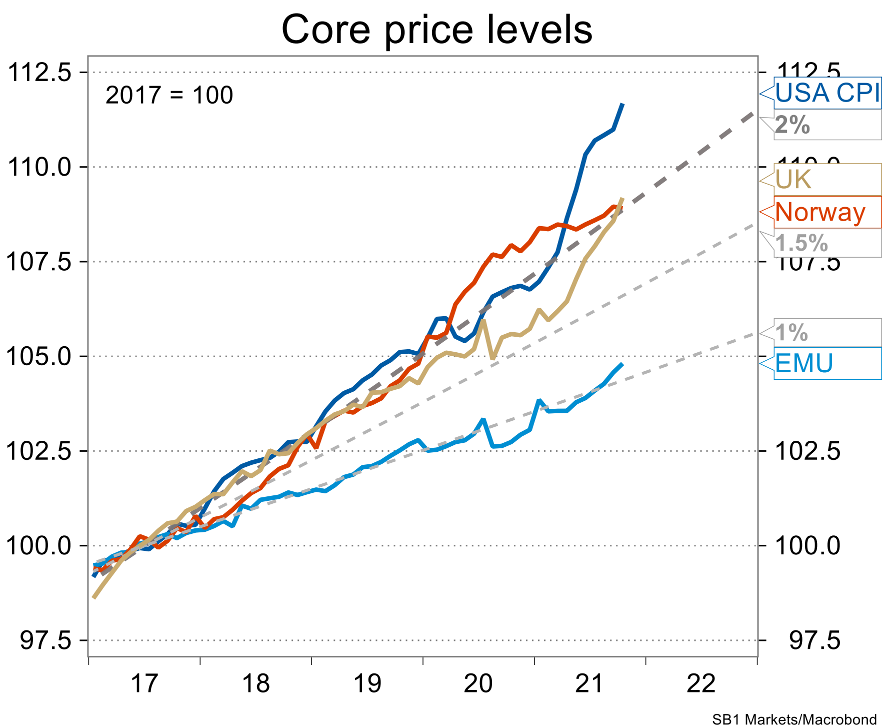




- **The headline HICP** rose 0.7% m/m, as energy prices added 9% m/m– and they are now up 24% y/y (but still 'just' up 13% above the avg 2019 level)
  - » The annual rate at 4.1% is far above ECB's inflation target – but prices are just up 1.9% over the past 2 years (in average). Last October the headline CPI was down 0.3% y/y
- **Core prices** rose 0.1% m/m, and the annual rate rose to 2%, equal to the price target. Again, one year ago, annual inflation was just 0.2%, and the average over the past 24 months is just 1.1%
  - » The core CPI rate will probably decline substantially in Jan-22, as prices rose 1% m/m in Jan-21 (red circle, left chart)
  - » Food and beverage prices rose 0.4% m/m, while services were down 0.2%
- **Adjusted for changes in taxes**, the core was up 1.5% y/y in October, up from 1.4% in Sept. Over the past year this calculation has been very volatile and we are far from sure this calculus is correct now

EMU & the ECB do not have the same challenges as USA & the Federal Reserve

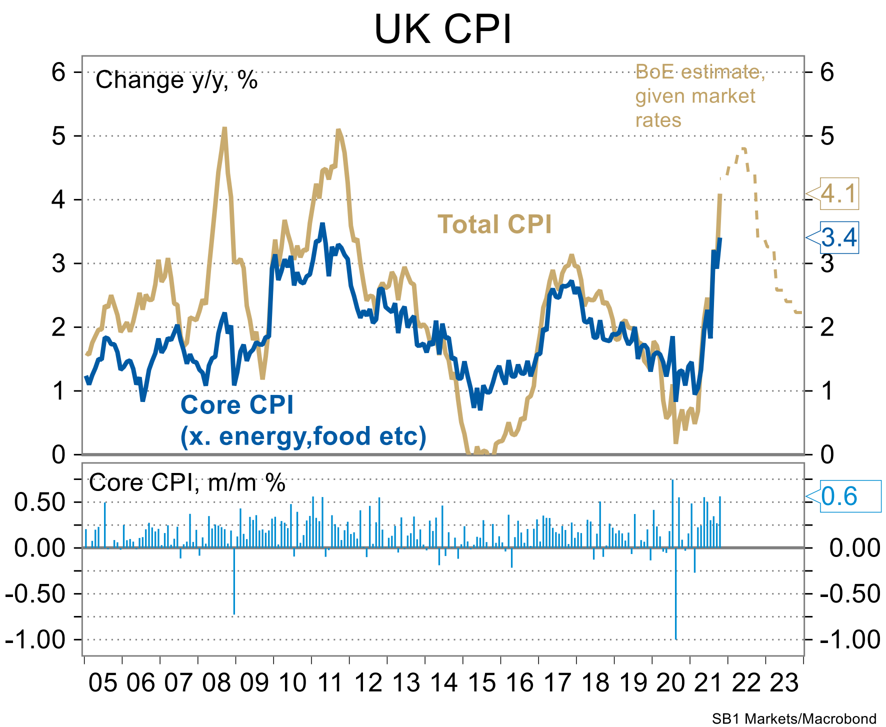
.. And something my be happening in the UK too



- Spot the huge difference between EMU and the others

Inflation crosses the 4% line, BoE expects more to come

Headline up 1 pp to 4.1% as energy prices rose sharply. Still, the core up 0.6% m/m, 0.4 pp to 3.4% yy



- **The total CPI** increased by 1.2% m/m (seas adj), and the annual rate rose to 4.1%, 0.2 pp more than expected
  - » A 9% lift in energy prices explains a substantial part of the lift in the headline CPI in October. Energy prices are now up 22% y/y
- **The core index** rose by 0.6% m/m, and is up 3.4% y/y, 0.3 pp more than expected
- Measured over 2 years, the both the headline and the core CPI is up 2.4%, which illustrates the base effects on the present much higher y/y rates – as inflation fell sharply during the first phase of the pandemic last year. Still, inflation is higher than BoE's 2% target
- Transport has lifted CPI by 1.4 pp. 2nd hand cars are sharply up, as are fuel prices
- Housing, included energy, has lifted the CPI by 1 pp. Still, there are many other contributors left…
- Bank of England surprised markets (but not economist) by not hiking in November. A December hike is now clearly on the table

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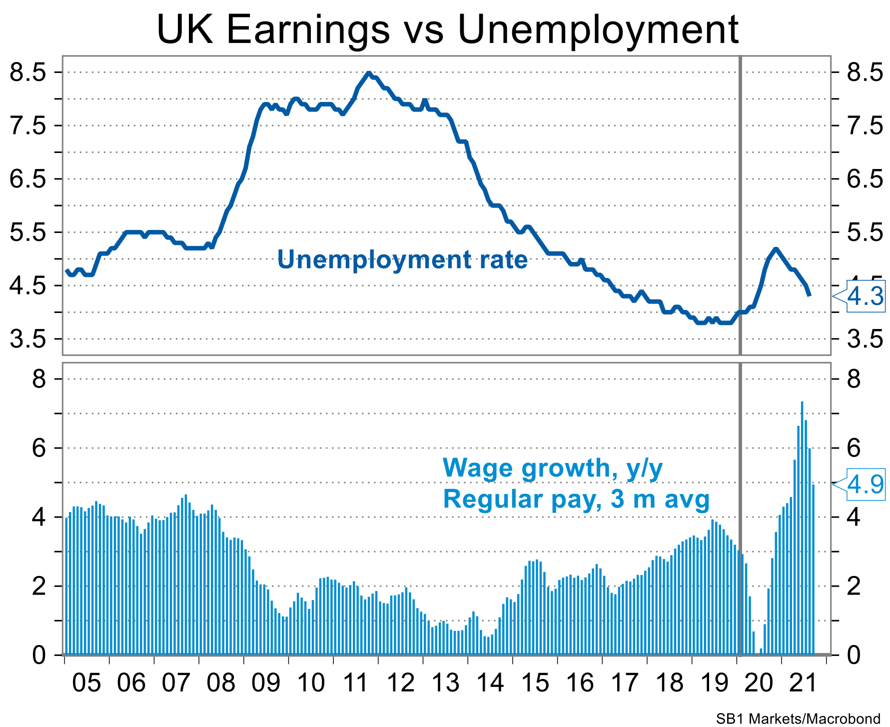
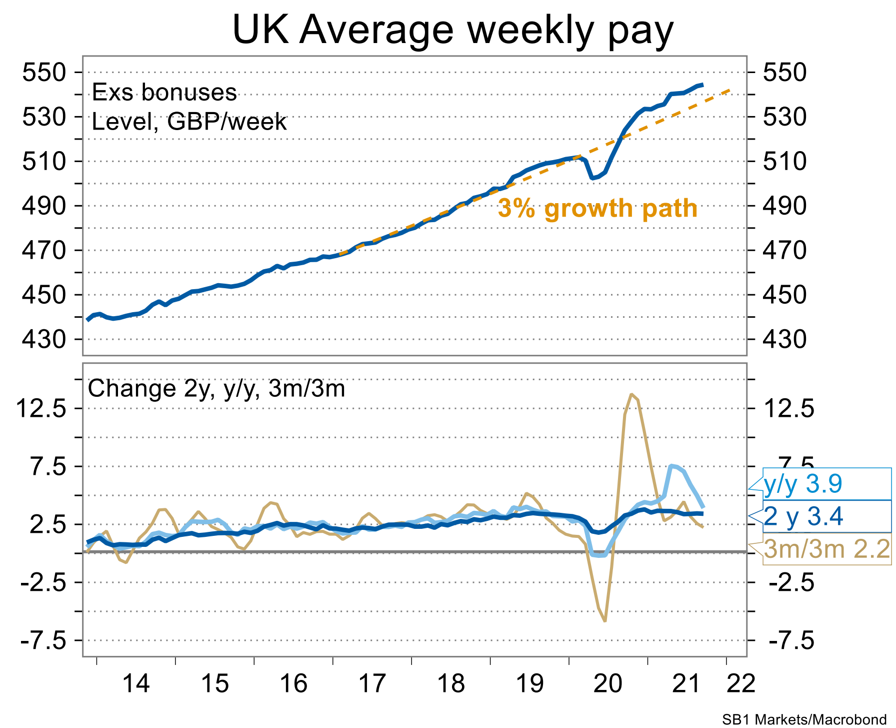
The first furlough scheme was terminated, and the unemployment fell!

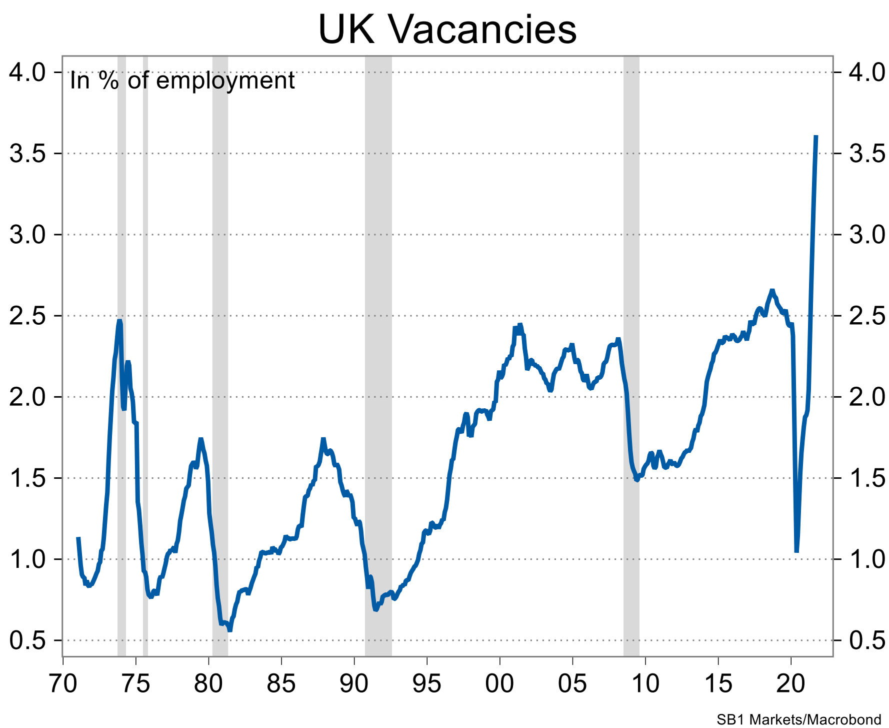
Bank of England will start hiking in December? Most likely. Wage inflation has slowed!

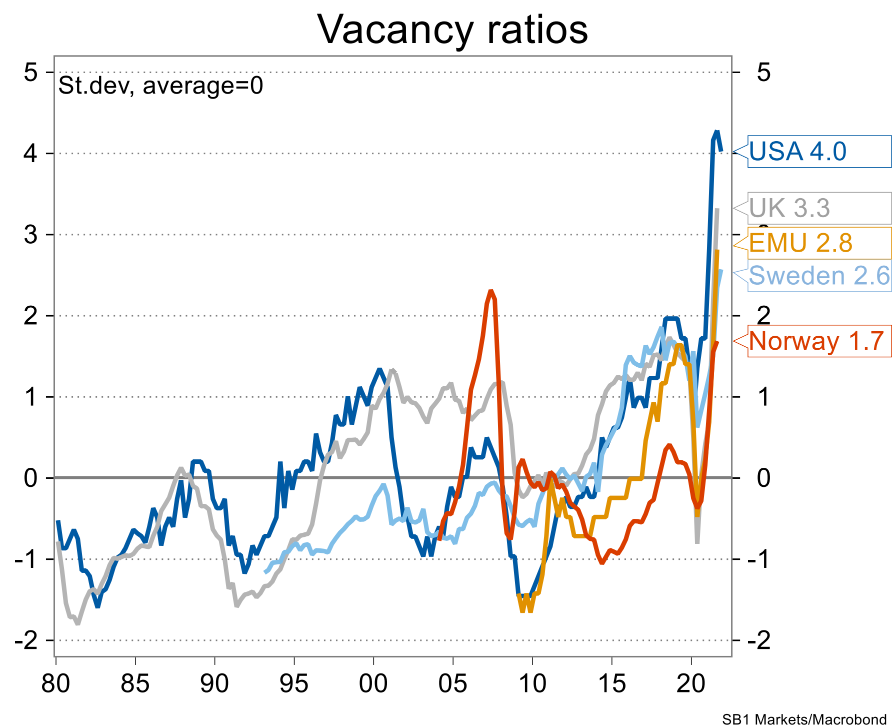




- The **'LFS/ILO' unemployment rate** fell 0.2 pp to 4.3%, expected down 0.1 pp. Unemployment is 0.3 pp higher than before the pandemic
- **Annual wage growth** (regular pay) decreased to 3.9% in Sept from 5.0% in August (the 3 m avg to 4.9% from 6%, expected 5.0)
- However, the annual rate is boosted by the sharp contraction in wages last year. Total weekly pay is up 3.4% over the past 2 years – and just as important, the underlying 3m/3m pace has fallen to almost 2%!
  - » A 3.4% wage inflation is higher than the 10 years average, but not high given reports of lack or labour in many sectors

Vacancies have climbed to a record high – as most other places





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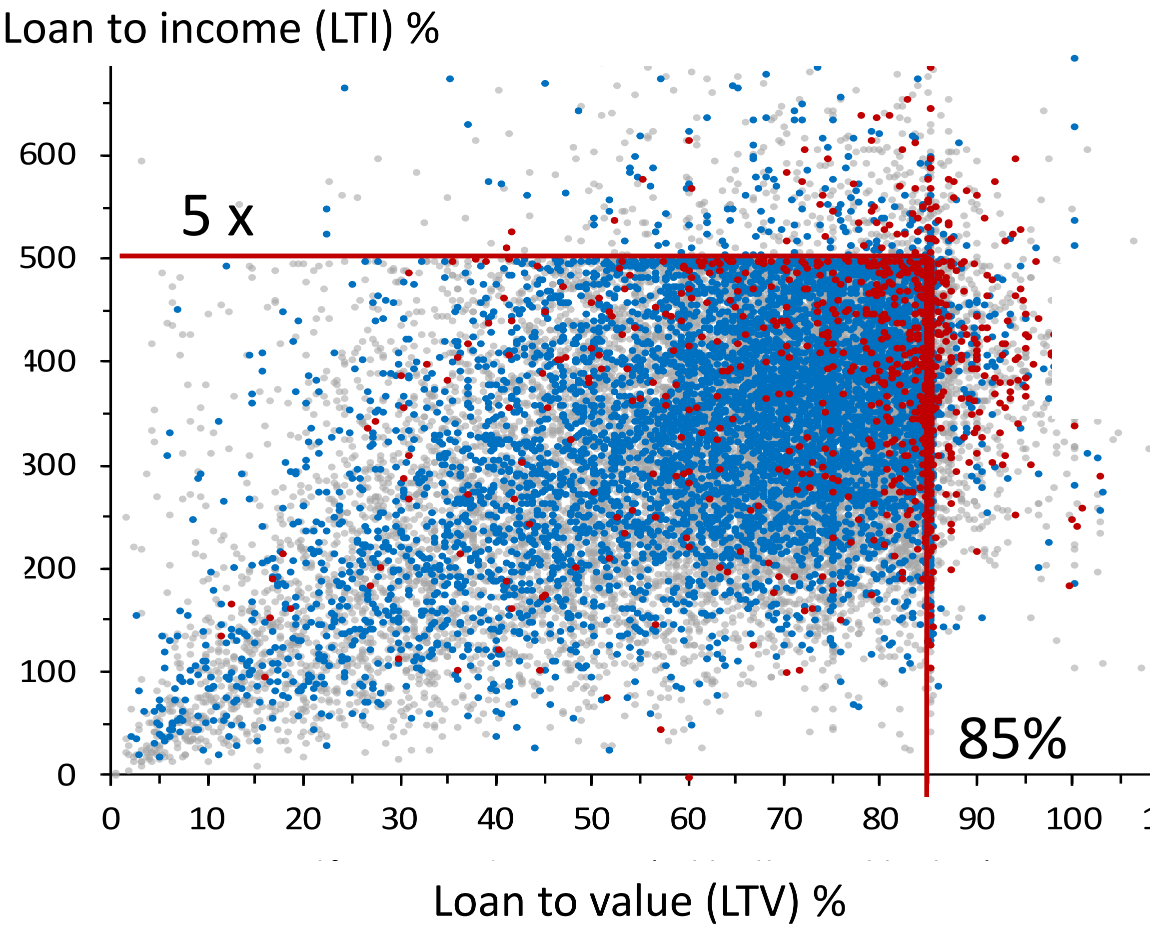
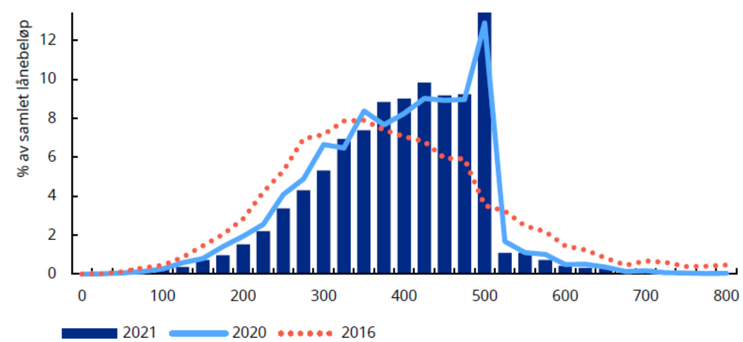
Finanstilsynet (FSA): More mortgage lending at high LTI income ratios

More mortages are clustering the against the maximum 5 x loan-to-income ratio

Single loans 2018 - 2021, LTI & LTV



LTI ratio, new loans
Share of loans

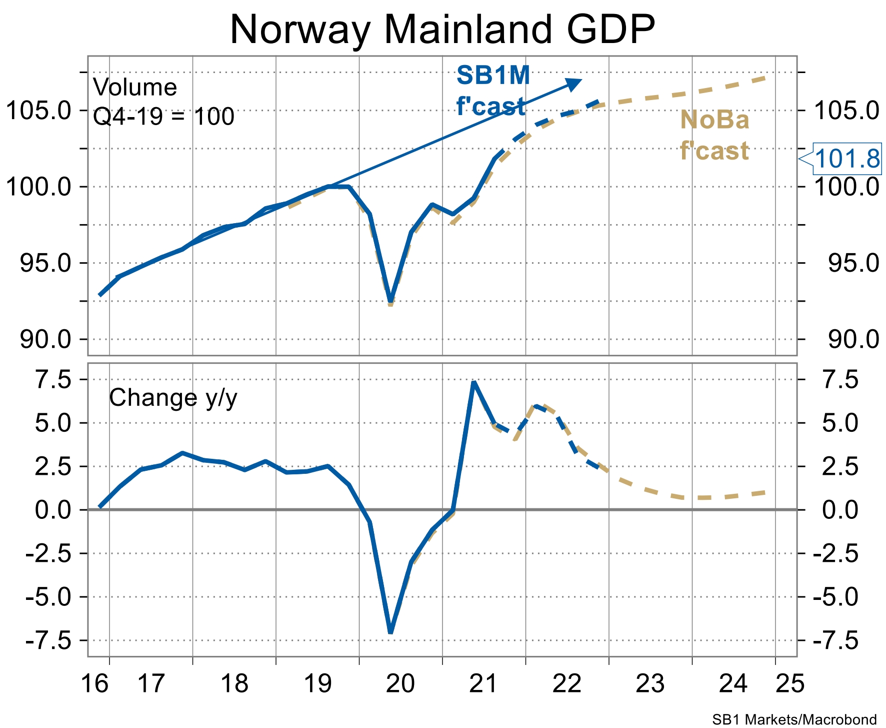


* Avmerkingen langs x-aksen angir øvre grense i intervaller på 25 prosentenheter for gjeldsgraden.
Kilde: Finanstilsynet

Source; Finanstilsynet. Grey 2018-19; Red first time buyers 2021; Blue others 2021

A full scale reopening recovery in Q3 – and a solid pace into Q4

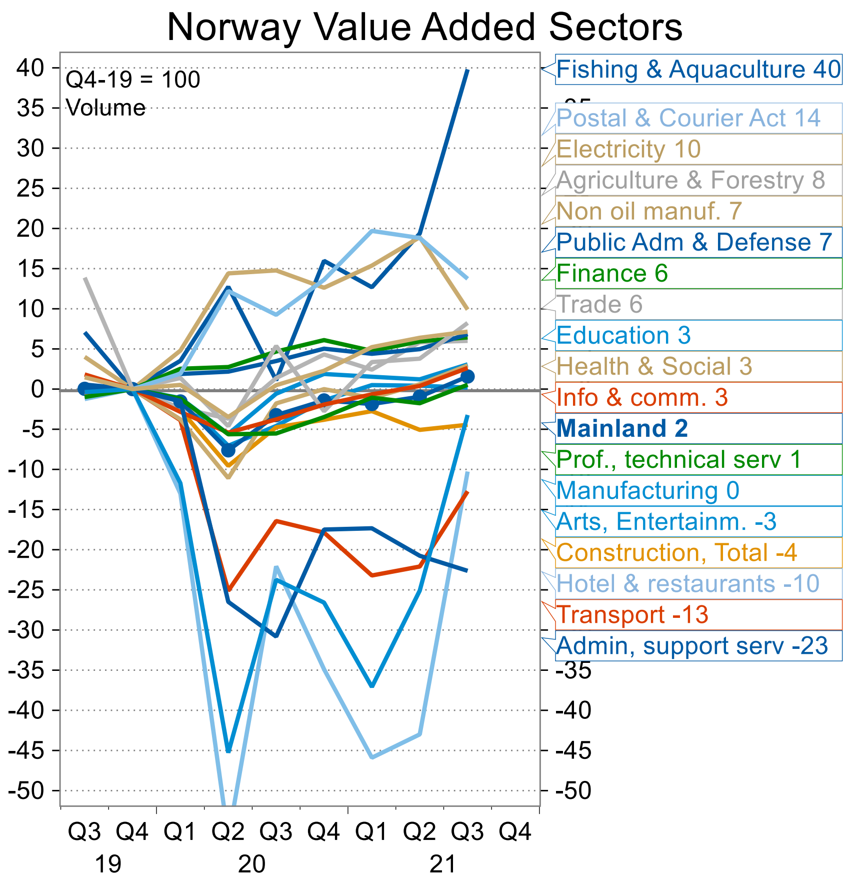
Q3 GDP up 2.6% in Q2 (10.8% annualised)



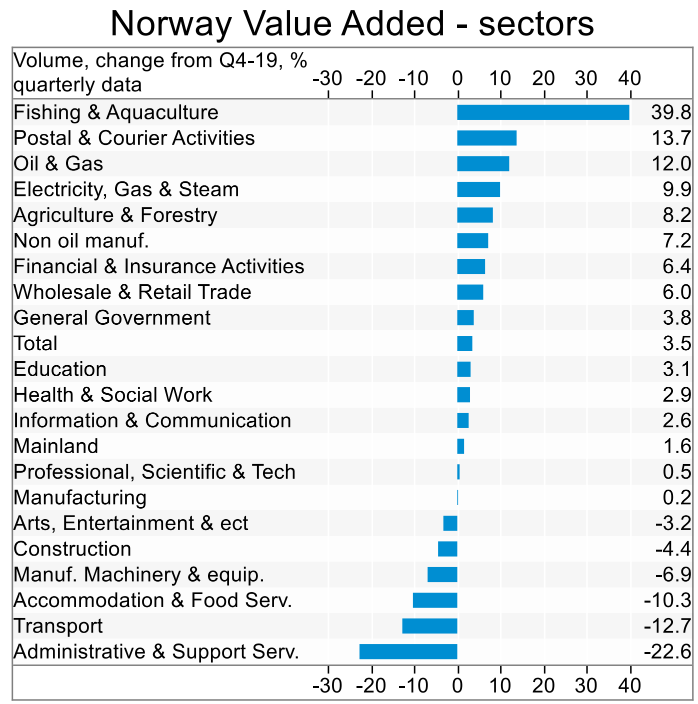
- **Mainland GDP** rose by 0.6% in September, and 2.6% in Q3. Growth in Sept was higher than expected following the August huge mackerel catch but Q3 in line with most forecasts. Q1 GDP was revised down, Q2 up by the same amount
  - » Norges Bank expected a 2.4% growth in Q3
  - » The Q3 Mainland GDP is 1.8% above the Q4-19 level. In September, GDP was 2.2% above the Feb-20 level
  - » Still, GDP is some 1.6% below the pre-pandemic growth path
  - » Q3 Mainland GDP was up 4.9% y/y
  - » Total GDP grew 3.8% q/q (16% annualised), 0.3 pp more than we expected. Oil and gas production (+shipping) added 10.7% q/q
- **Production:** Private services contributed most, as transport (12%), arts & entertainment (29%) and hotel& restaurants (57%) reopened in Q3. These sectors reported growth in Sept too. In Aug and Sept admin/business services grew rapidly as well – but all 4 remains below the Q4-19/Feb-20 level. In total, services, services gained 3.6%, lifting Mainland GDP by 1.6 pp. Most other sector also reported growth in Q3, fishing & agriculture the most – the latter lifting GDP by 0.2 pp. Manufacturing was flat and postal/courier activities fell
- **Demand:** Private consumption, exports (including foreigners spending in Norway), and oil investments rose in Q3, while housing and business investments fell
- **The outlook:** Several services have still a way to go, but growth will slow substantially from here

Production: The huge mackerel catch is lifted fishing and aquaculture in Q3

Several services still on the low side Q3, but they are heading up (even admin. services)



SB1 Markets/Macrobond



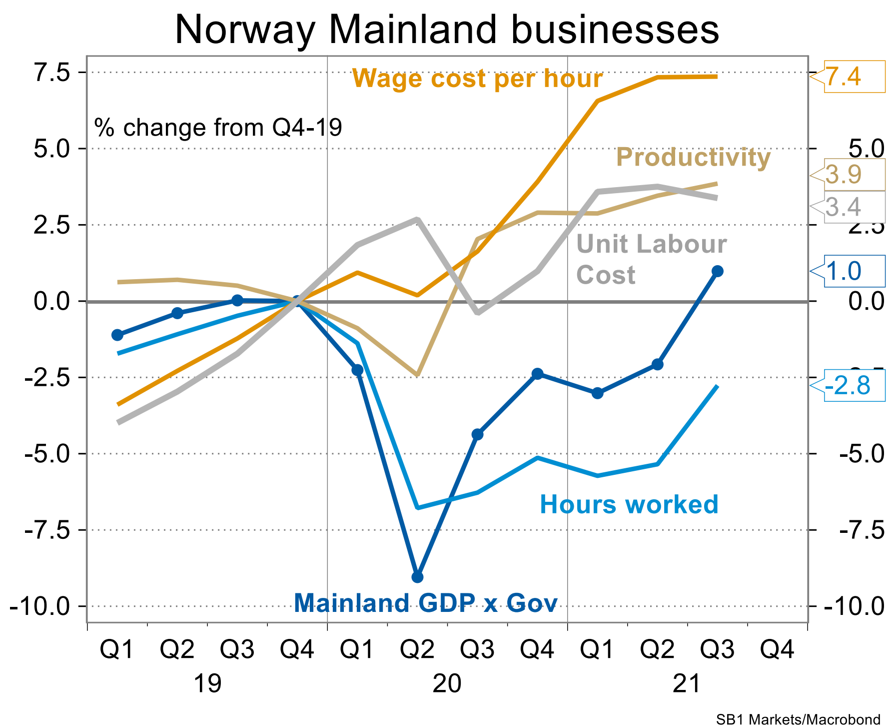
SB1 Markets/Macrobond

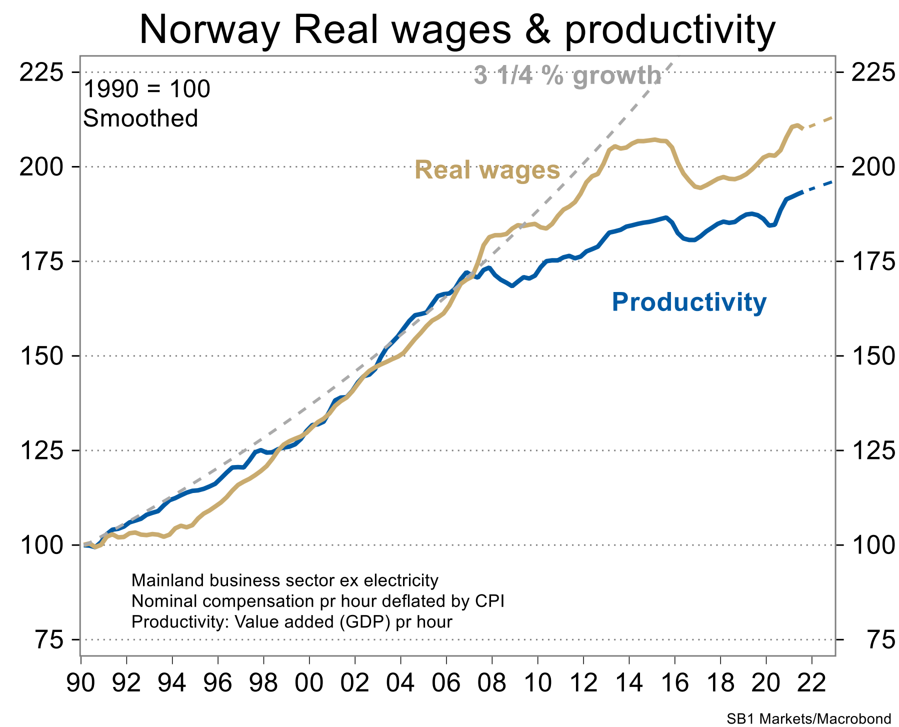
The Q3 data vs Q4-19 (some monthly aggregates at the previous page)

- **Hotels & restaurants** are down 10% vs Q4-19. Culture & Entertainment -3%
- **Administrative & support services** (like staffing & travel agencies, cleaning, canteens, leasing etc) are down 23%, but rose sharply in Aug/Sept
- **Transport** -13%, due to personal transport (bus, trains, airlines)
- **Construction** is far weaker than we have assumed, 4% down vs. Q4-19
- **Manufacturing** flat, due to the decline in production in oil related industries, others are up 6% vs Q4 19
- **Fisheries & Aquaculture at the top of the list, +40%, lifting GDP by 0.2 pp in Q3**
- **Postal & courier activities**, +14%. We have all seen them around – but activity is now declining

Unit labour cost inflation at a 2% pace since before the pandemic

Wage inflation at 4.2%, as lower paid workers have not fully returned





- The **average hourly wage** has climbed sharply since Q4-19, at a 4.2% pace
- However, **productivity** has increased at a 2.2% pace, partly due to reduced employment in low value added sectors (hotels, restaurants, culture, business services)
- **Thus, unit Labour Costs** have been increasing at a 2% pace

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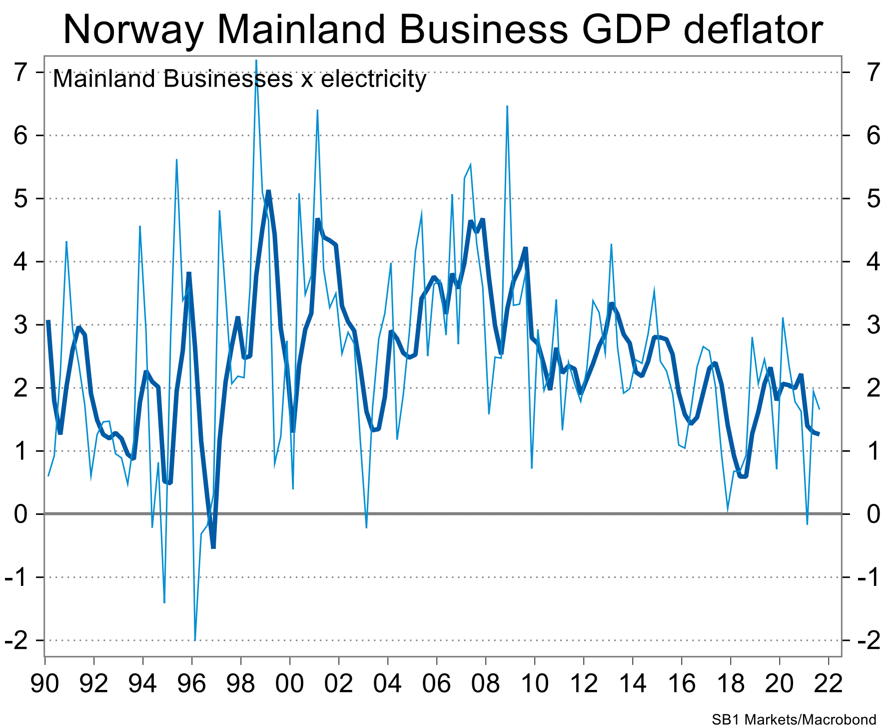
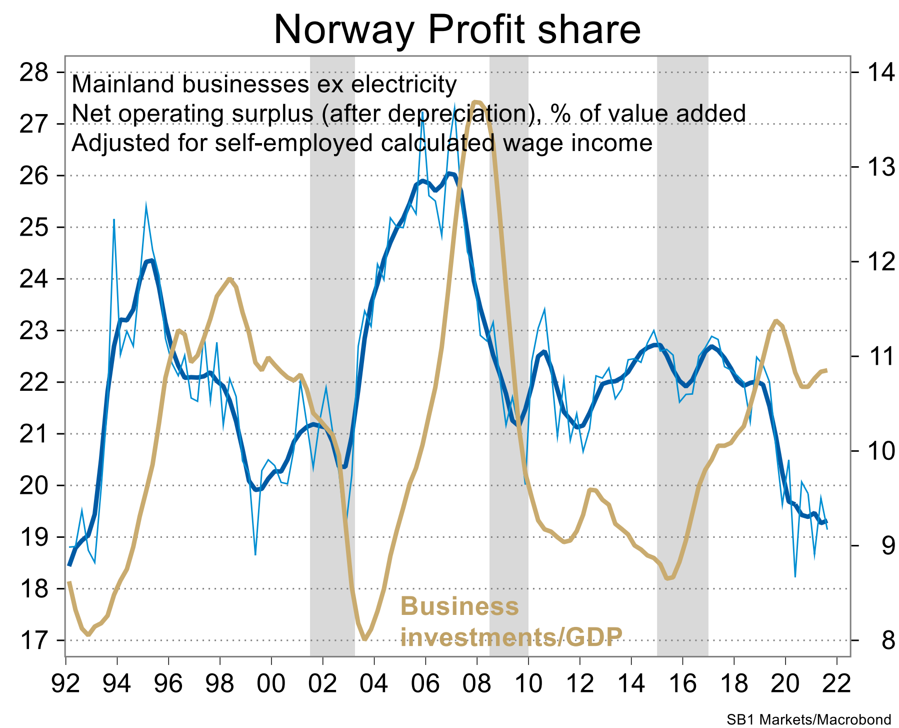
The profit share was under pressure, before corona – and still is

Gross margins are still heading down – and the level is rather low. Investments exposed?

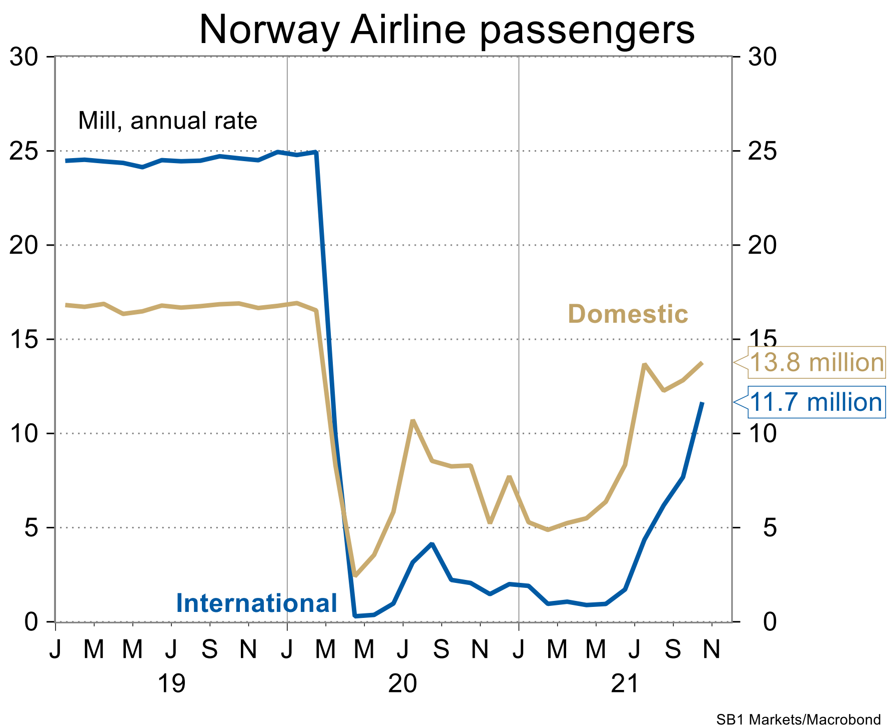


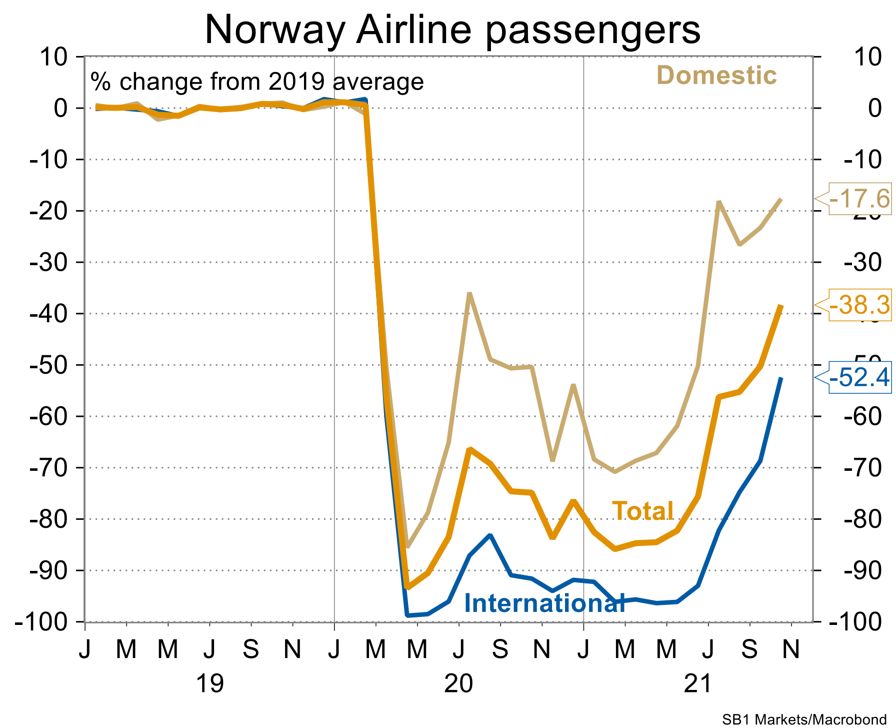


- The Mainland business GDP price deflator (ex the volatile electricity sector) slowed to approx. 1.5%
- Wage growth – productivity growth is marginally higher (at 2%), and the gross margin is still slowly deteriorating
- The level is rathe low – which signals some risk vs the investment level

Airline traffic further up in October – domestic 'just' down 18% but internat. -52%

… vs the pre-pandemic level – so still a way to go. International traffic is now climbing fastest

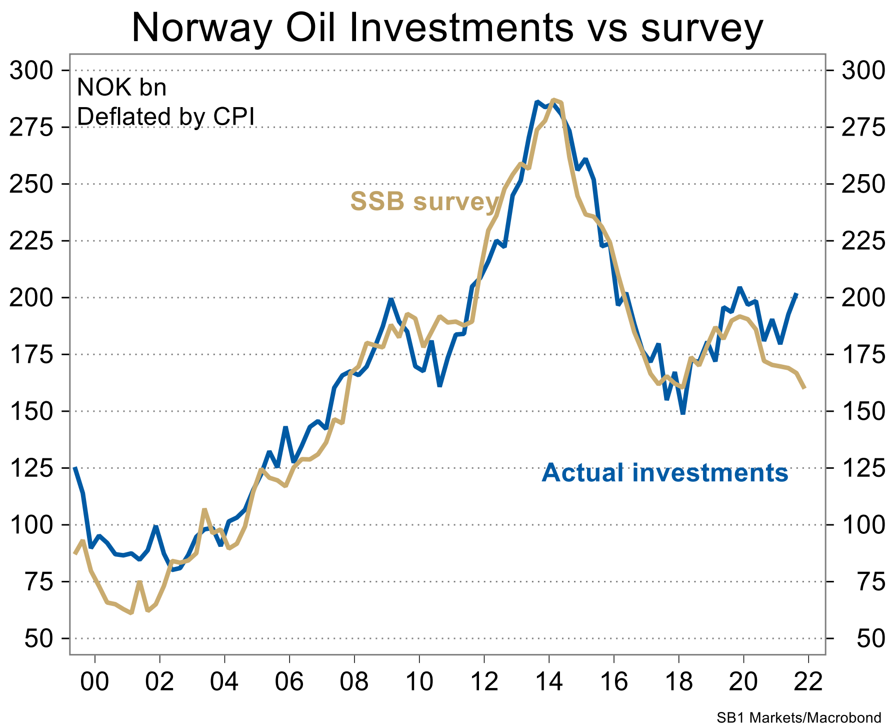


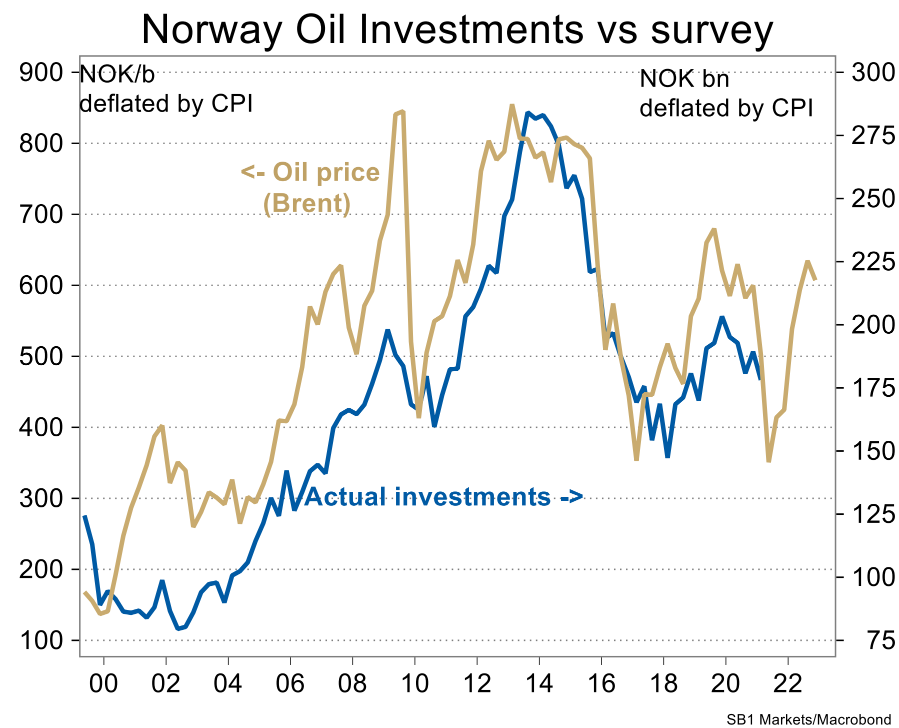


- Total traffic still down 53% - though from -76% in August. A couple more months with such growth, we are back ☺ (but it will no doubt take more time…)

’22 oil investments: Q4 survey better than we expected, still a small downturn?

We forecast a 5% drop in real investments next year, less than we (and Norges Bank) have assumed

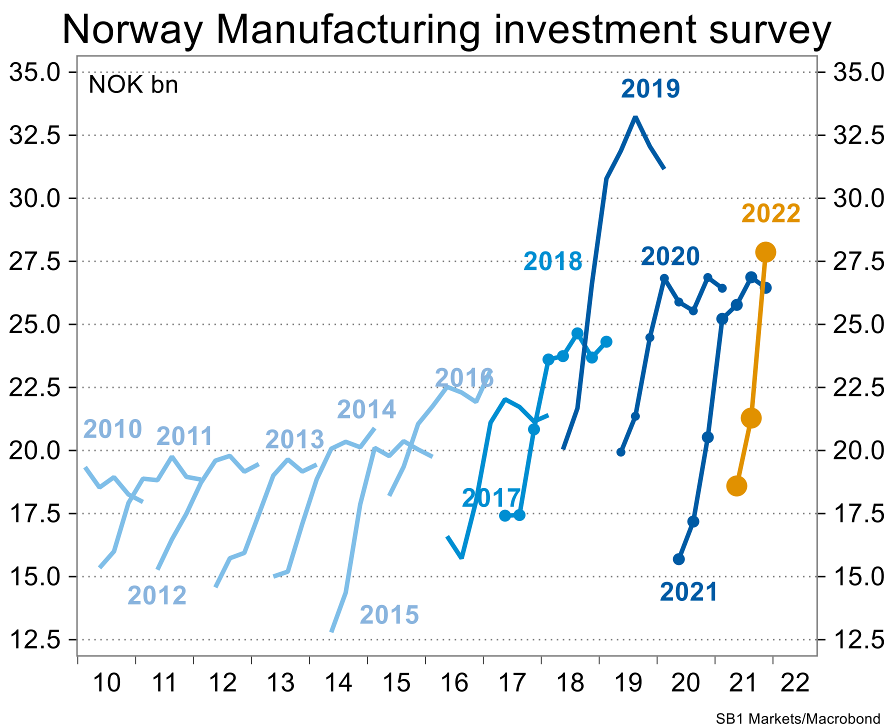


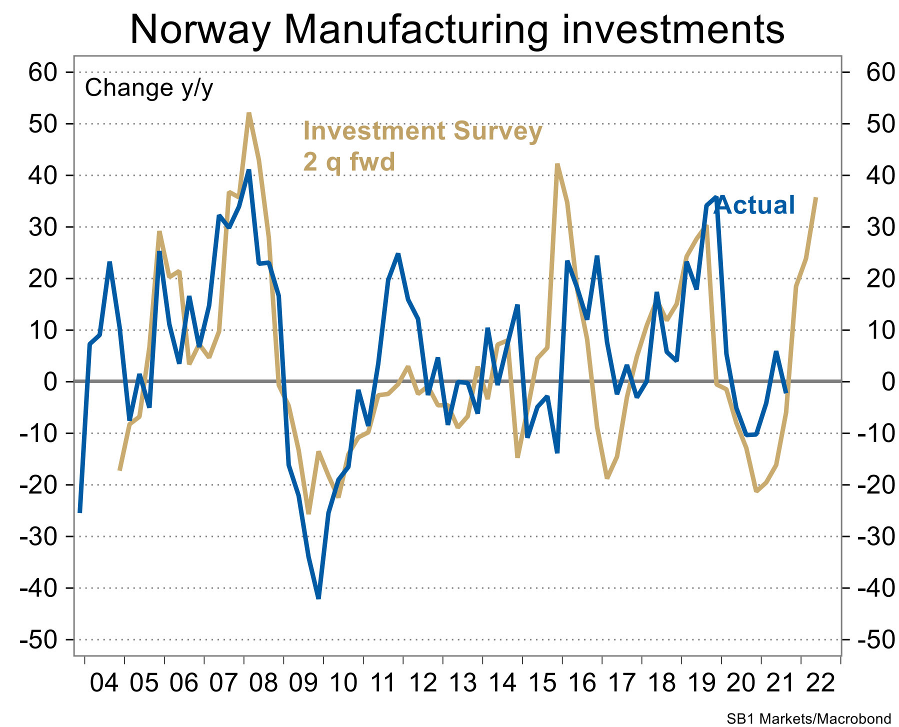


- Oil companies kept their **2021 investment forecast** unchanged at NOK 182 bn (as we expected), 2% below the equivalent 2020 estimate. <u>We expect a 4% decline, in volume terms</u>
- **The 2022 estimate** was revised up by 9% to 154 bn, 3% better than we assumed. The estimate is still 7% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) during this and next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. <u>Still, we expect another 4% drop in investment volumes next year. In September, Norges Bank assumed a 8% volume decline next year</u>

WOW, manufacturing investments revised sharply upward, a strong ’22 signalled

The 2022 investment estimate revised up by 31% to Nov vs. Aug, the 2nd largest revision ever

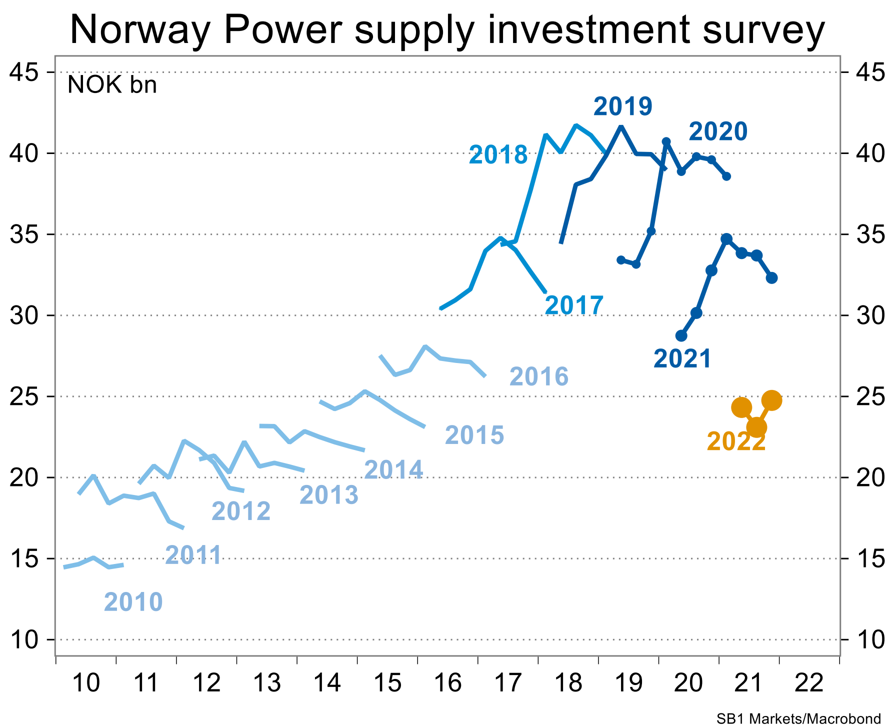


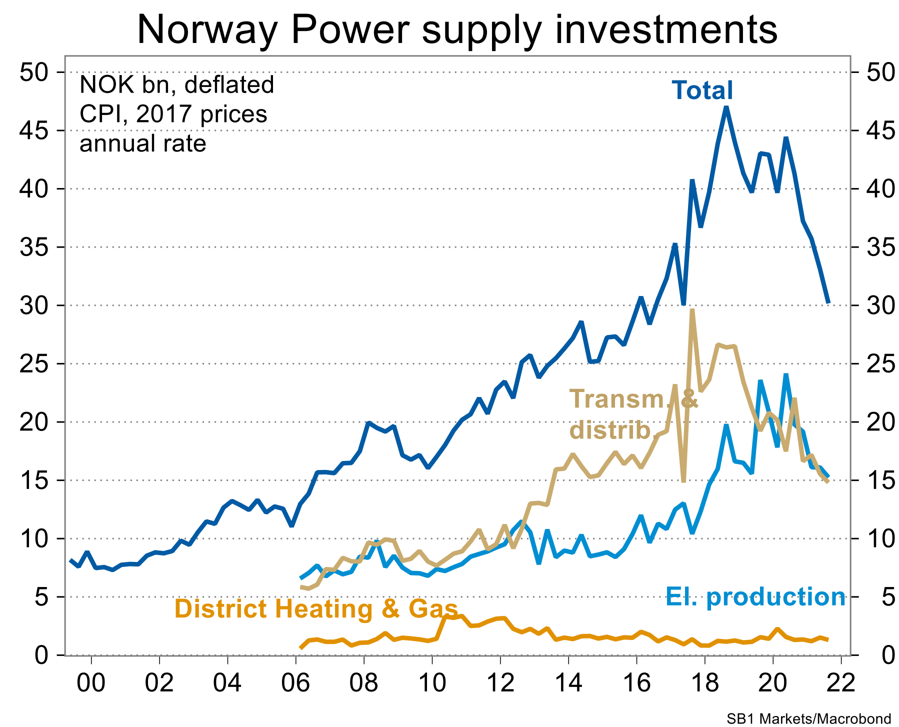


- Manufacturing companies revised their **2021 estimate** slightly down, as us usual at this stage of the planning process. Investment are unchanged from 2020
- Their **2022 forecast** was revised sharply up in the Q4 survey. The current forecast is up 36% vs the equivalent 2021 forecast. However, the 2021 estimate was adjusted up far more than normal from the Nov t-1 survey (in Feb-21 the ’21 f’cast was lifted 23%, far more than normal). Thus, we expect the final 2022 outcome to be some 20% above the 2021 level – still a decent growth. If so, the outcome will be in line with the investment level in 2019, in value terms (and still well below in real terms)
- In 2022, **non-ferrous metal industry** reports the most aggressive investment plans, together with the **chemical & refined products**

Power supply: Investments are heading rapidly down

Investments probably fell some 18% in 2021, and the 2022 f’cast signals a further 24% decline

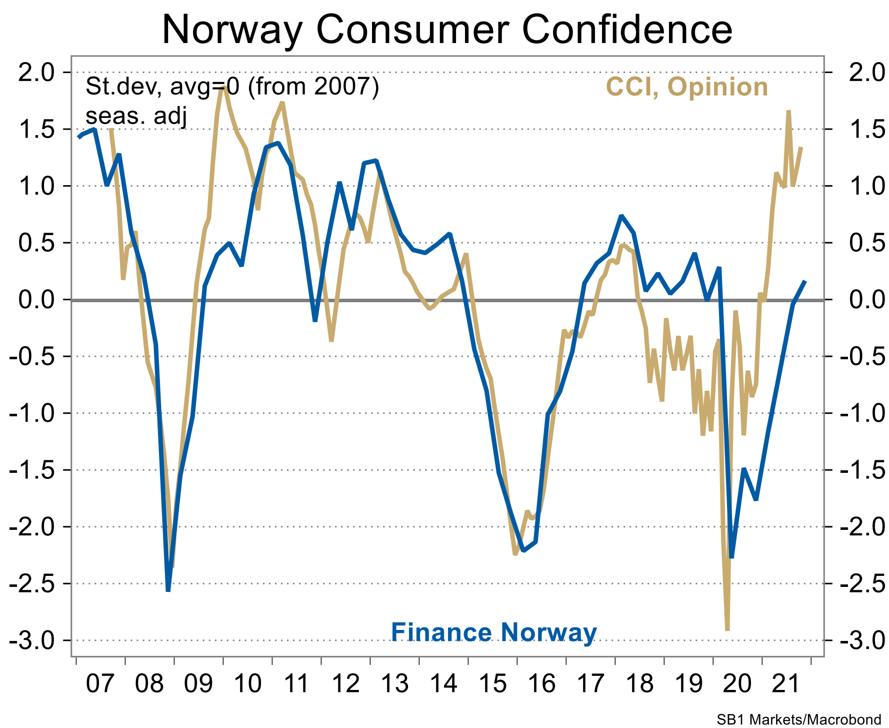


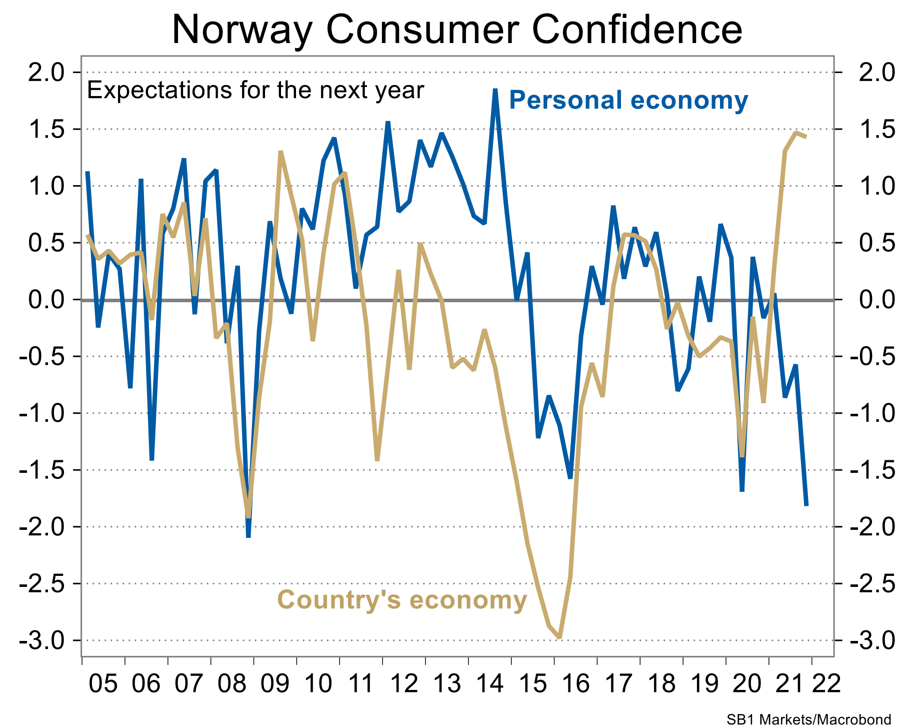


- Power supply (production & distribution) companies cut their Q4 (November) 2021 investment forecast by 3%, and a 18% decline from the 2021 level is signalled (in value terms) – the 3rd year of decline
  - » Some big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- Companies lifted their 2022 investment f’cast by 2 bn (7%) vs their Q3 prognosis, in line with a normal adjustment at this stage in the planning process. The gap vs. the 2021 f’cast given one year ago is 24%, the largest decline in 21 years. The final outcome is still uncertain, but recent years the November t-1 estimate has been close to the final outcome
- Until 2018, power supply investments had more than quadrupled since early 2000, by more than 10% p.a on average. The investment level as % of Mainland GDP was above 1%, the highest in decades. Both production & transmission have contributed. To 2022 from 2018, investments may decline by almost 40%, in nominal terms, and more in real terms. Will the green transition soon turn the tide? Quite likely

Finans Norges' Q4 consumer confid. slightly up but personal expectations down

The survey rose to +0.2 st.dev, from an average level – still way behind the CCI monthly survey

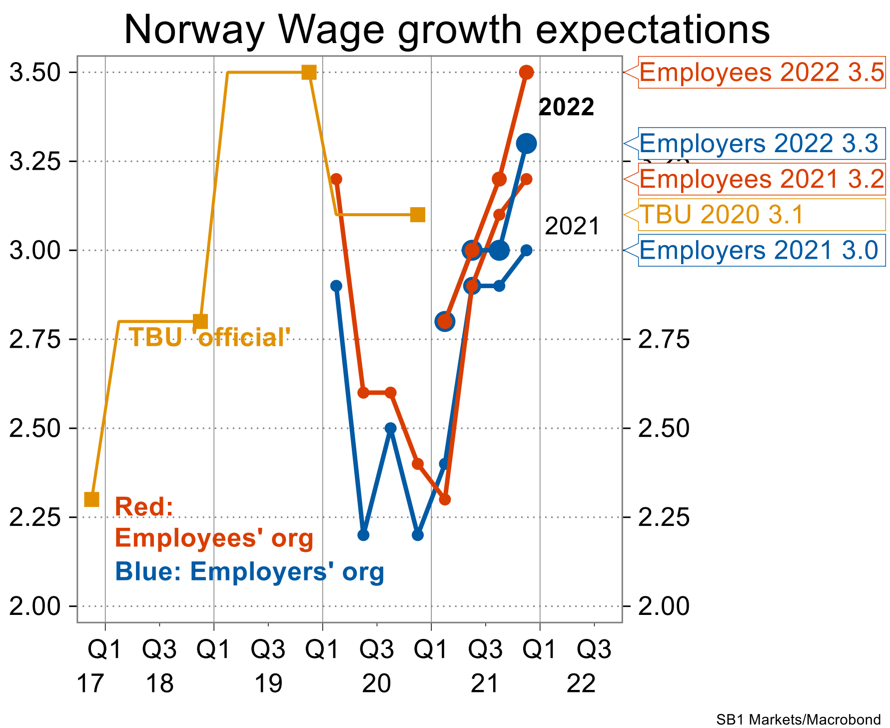




- Finance Norway's quarterly **consumer confidence index** climbed to 13.7 in Q4 from 11 in Q2 (we expected 15) to just above the average level since 2007 (but below the average measured from 1994)
  - » In October, the monthly CCI from Opinion was 1.3 st.dev above average, and close to the best level since 2011, following a surge the recent months. The gap between the two surveys is still puzzling
- **Households' expectations** of their own economy the next year fell sharply, to the lowest level since well into the financial crisis! At the same time, **expectations for the country's economy** is among the best on record.
  - » The only reasonable explanation: Households understand rates will be lifted!
- **Big item purchases** are still out of favour, as is travel. Savings & investment plans are upbeat!

NoBa Expectation survey: 2022 wage expectation up by 0.3 pp in Q4

Parties in the labour market expect wages up 3 ¼ - 3 ½% expected in 2022, above NoBa f'cast at 3.1%



2021

- Leaders in both employers' organisations and unions revised their forecast by 0.1 pp to 3.0% and 3.2% resp.
- Norges Bank assumed 3.0% growth in the Sept MPR

2022

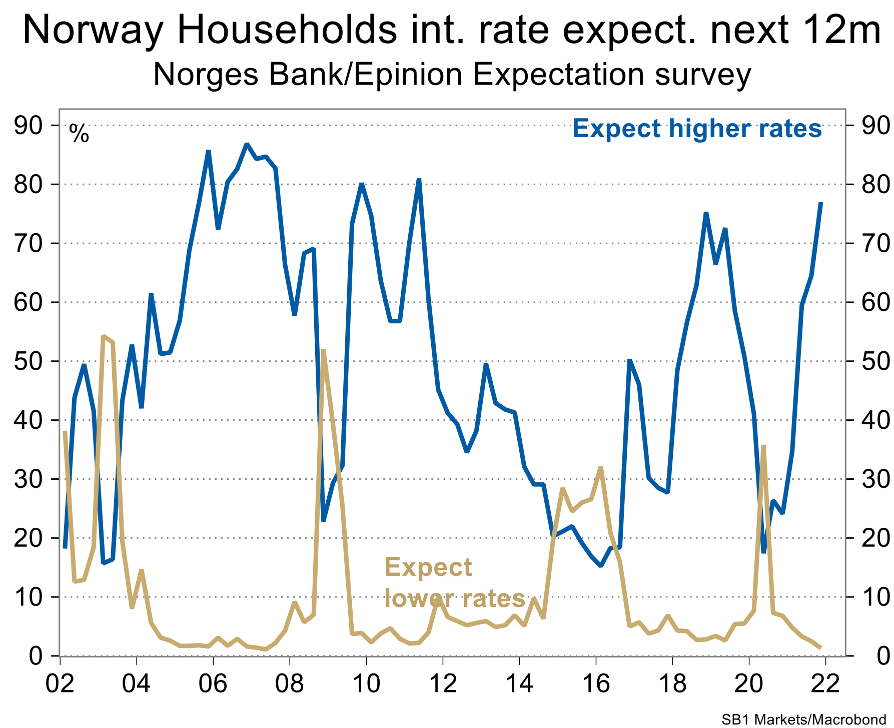
- Leaders in both employers' organisations and unions revised their forecast by 0.3 pp to 3.3% and 3.5% resp.
- Norges Bank assumed a 3.1 % growth rate in the Sept MPR

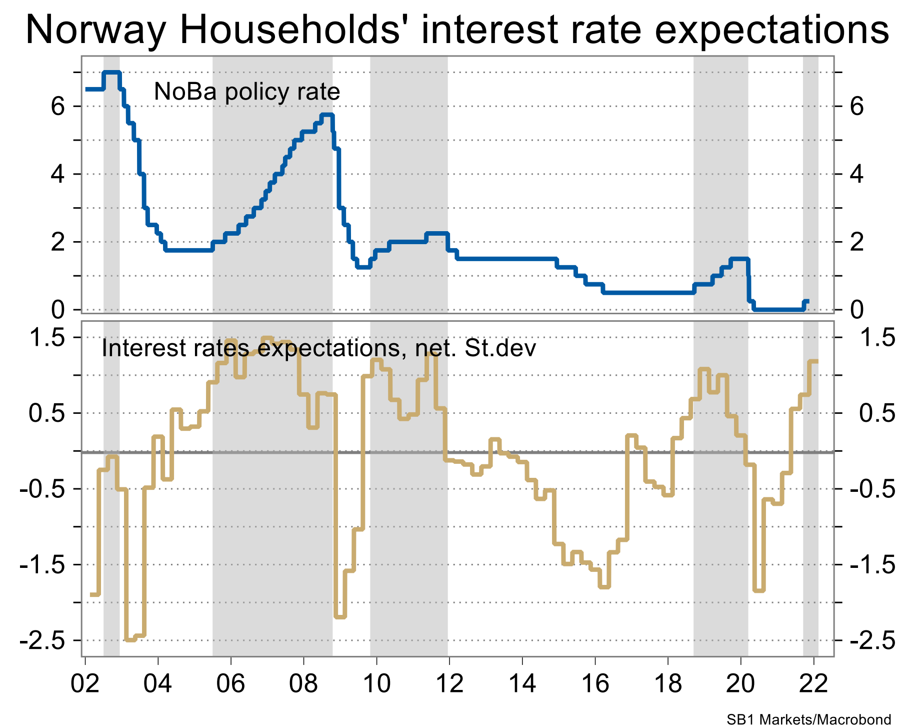
In sum

- Wage inflation is picking up steam but remains moderate – and, will not – at the current levels – challenge the 2% inflation target
- However, we expect further upward revisions the coming quarters as the labour market rapidly tightenes

Interest rate expectations have turned upwards, as they should

Households are often ahead of the curve when NoBa (well communicated) starts hiking

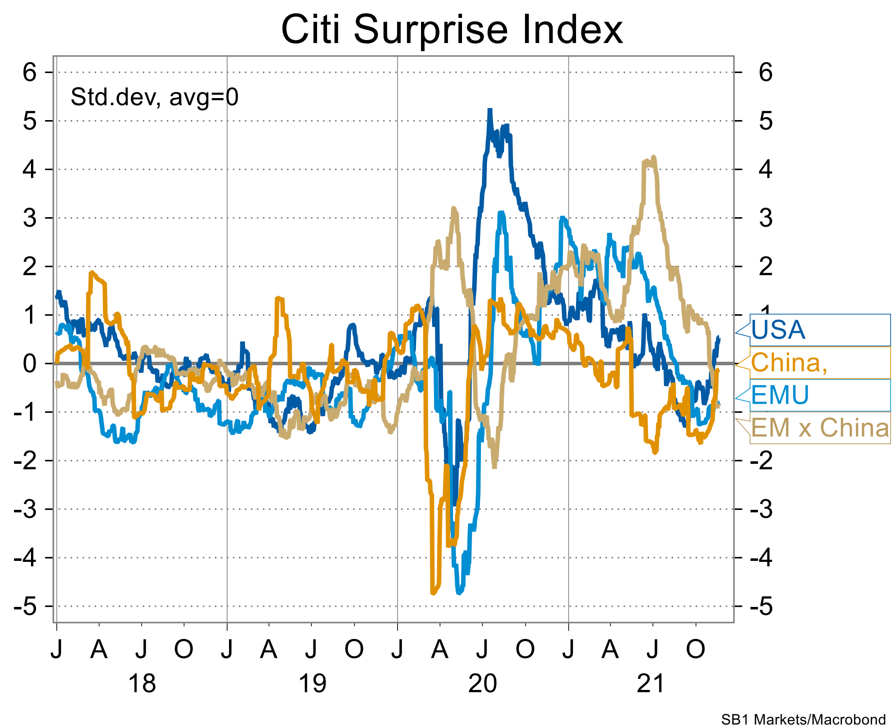


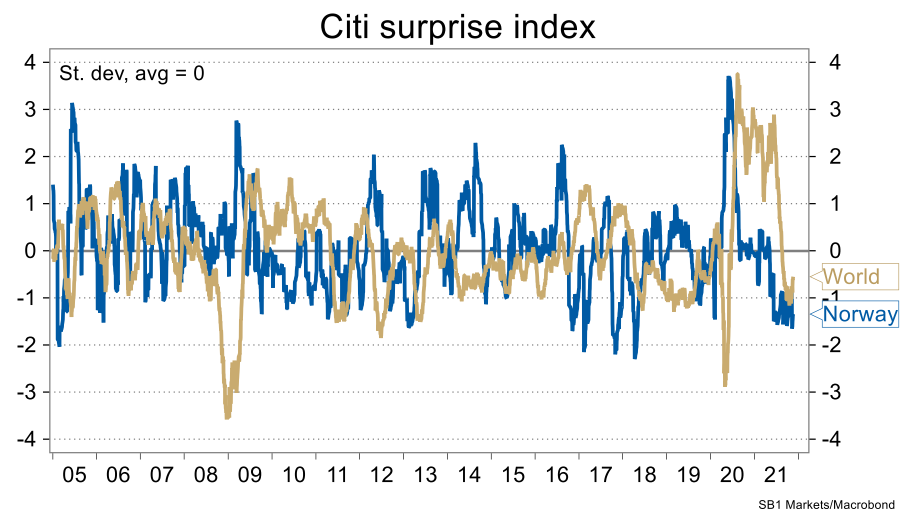


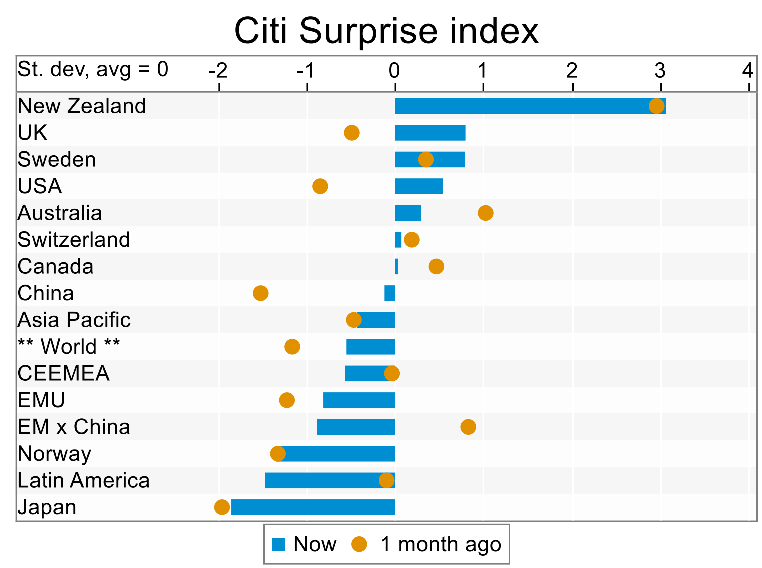
- 77% of households expect Norges Bank to hike the policy rate the coming 12 months, up from 65% 3 months ago, before NoBa hiked. Still 22% are not sure (just 1% expect the banks to cut interest rates)

US surprises on the upside, most other still at the downside

The global surprise index has recovered somewhat







- EMU and China still surprises are on the downside, but less last week too
- **Emerging Markets x China** have fallen to below par, after more than one year at the positive side. However, actual data from EM x China are 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

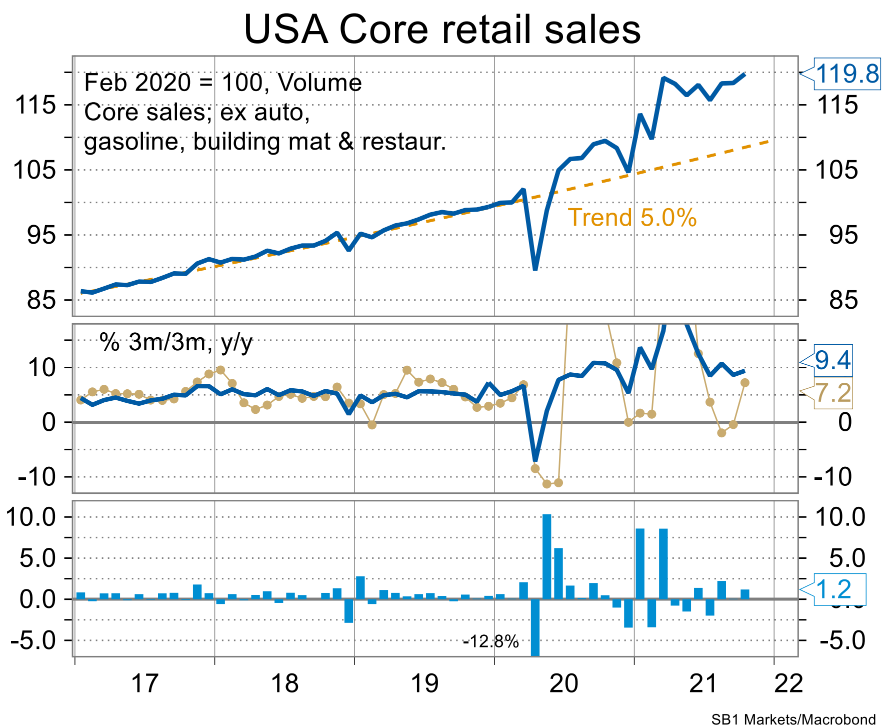
The world around us

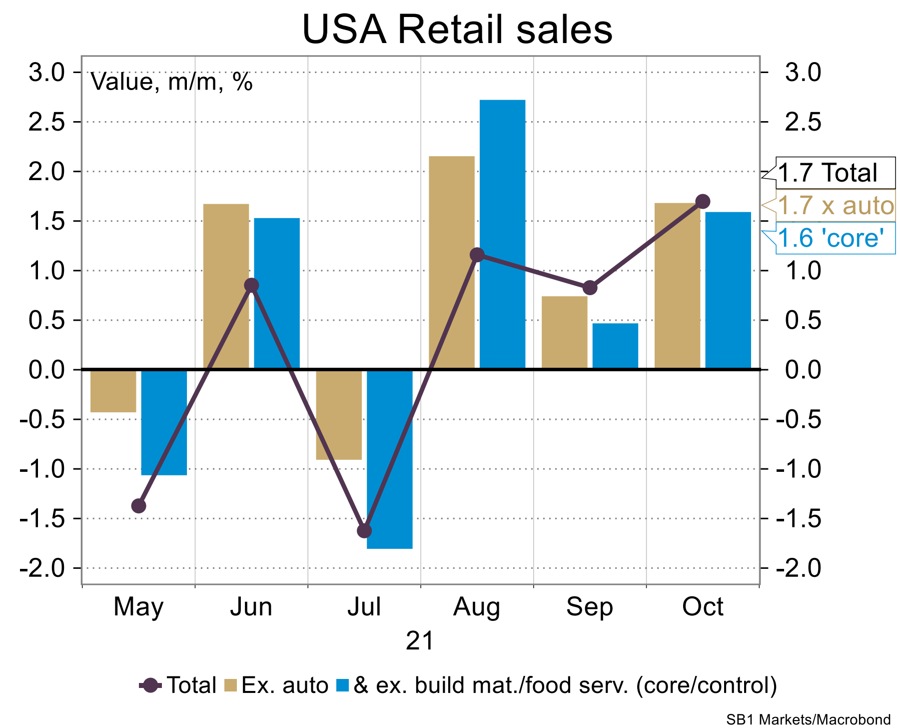
The Norwegian economy

Market charts & comments

Retail sales surprised on the upside in ~~September~~ October too

Core sales up 1.6%, and the trend is upwards again – volume up 20% vs. the Feb-20!!





- **Total nominal sales** rose by 1.7 % in Oct, expected up 1.1%. Sept was revised 0.1 pp up to 0.8%. Sales are up 21% vs. Feb-20!!
- **Core sales of goods** (=control group, excludes auto, gasoline, building materials & restaurants) grew by 1.6% in Oct, expected up 0.8%. Sept was revised down 0.3 pp to 0.5%. In volume terms, we assume sales rose 1.2% - and sale volumes are 20% above the Feb-20 level, and sales were the highest ever, above the March level – even if more services are opened up
- Sales in **restaurants & bars** have flattened since July, and was unch in October– still up 9% vs the Feb-20 level!
- **Consumption of goods** is very likely far above a sustainable level, and we still expect sales to decline the coming months/quarters – and growth has not been strong since the spring!

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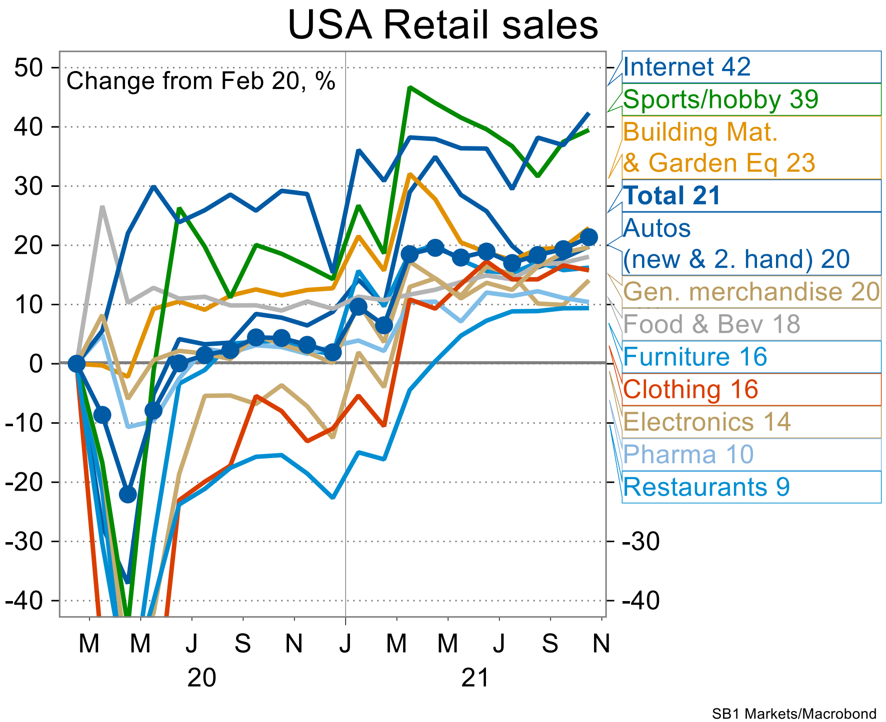
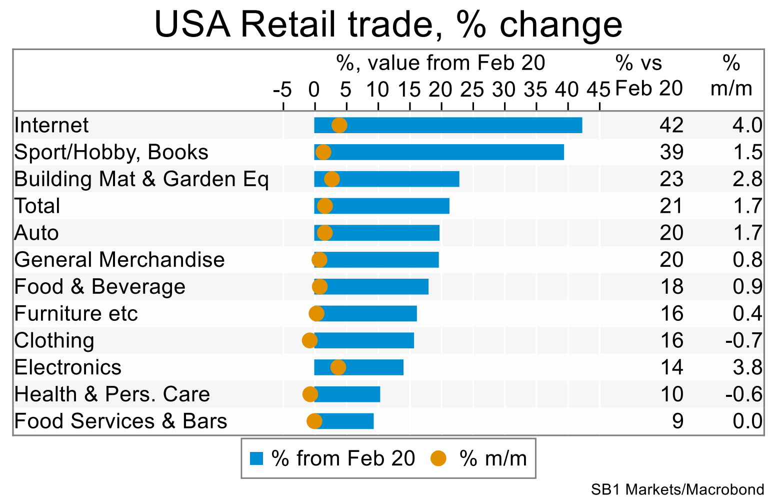
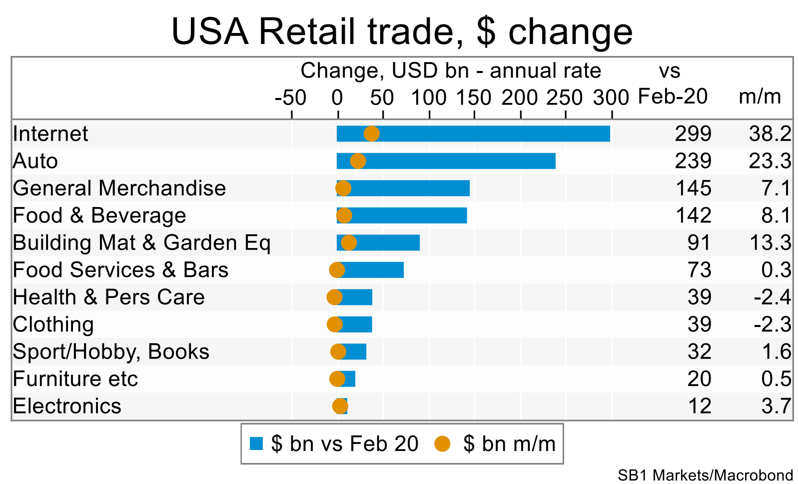
Most sectors up in October, just health/pers. care, clothing down

Auto sales, electronics, net sales, sport & building materials in the lead m/m







Last month

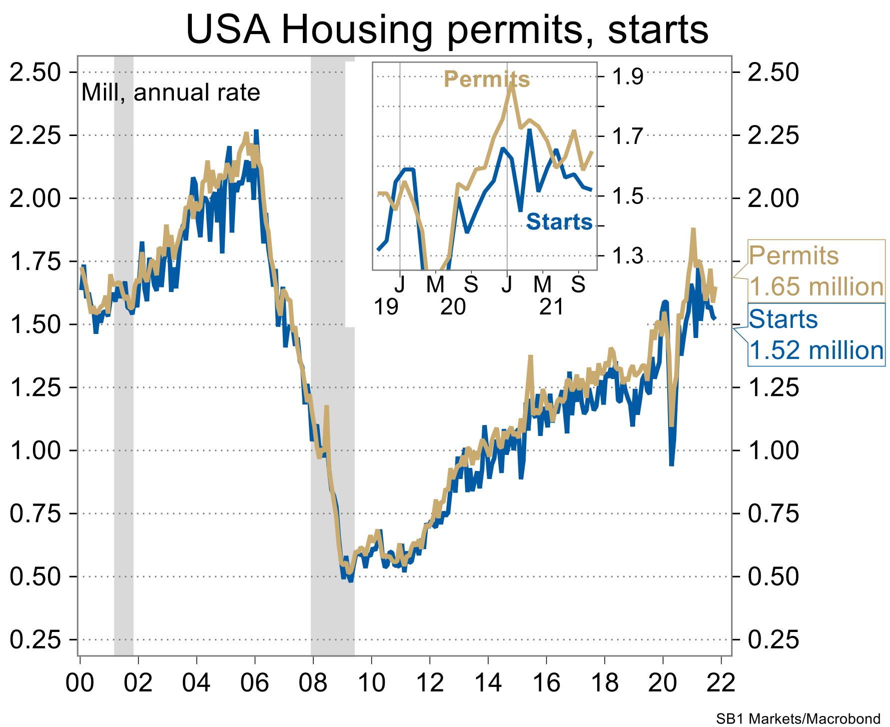
- 9 out of 11 main sectors reported growth in sales

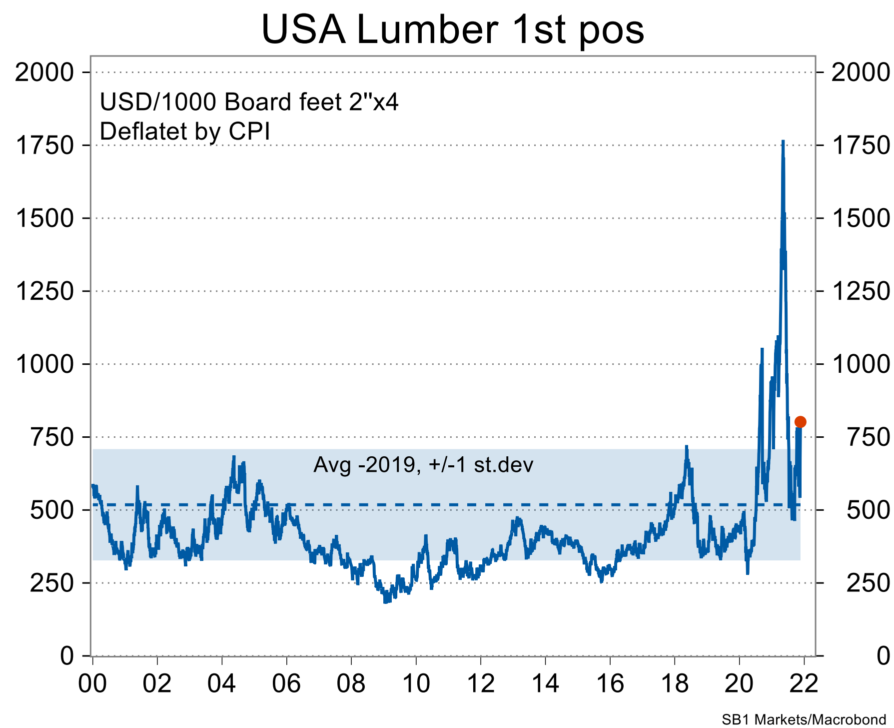
Since pre corona: All sectors up, from 9 % and upwards – *in value terms*

- **Restaurants** are 9% above the pre-Covid level
- **Clothing** is on the way up, is up 16% vs. Feb-20
- **Sports equipment** (+hobby/books) is up 39%, while auto sales are +20%, due to record high 2nd hand car prices
- **Net** sales are up 42%

Housing starts are sliding down but still above (pre) pre-pandemic level

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

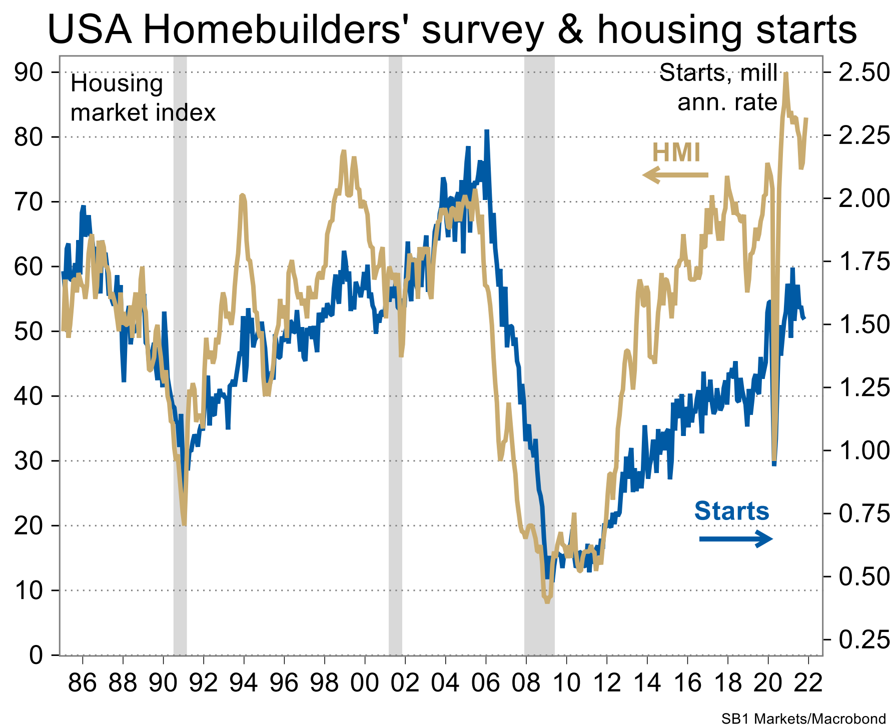


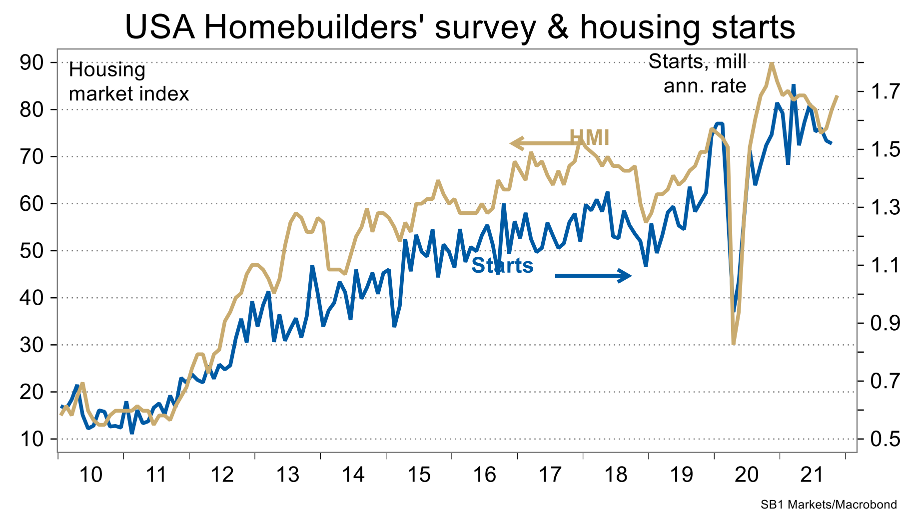


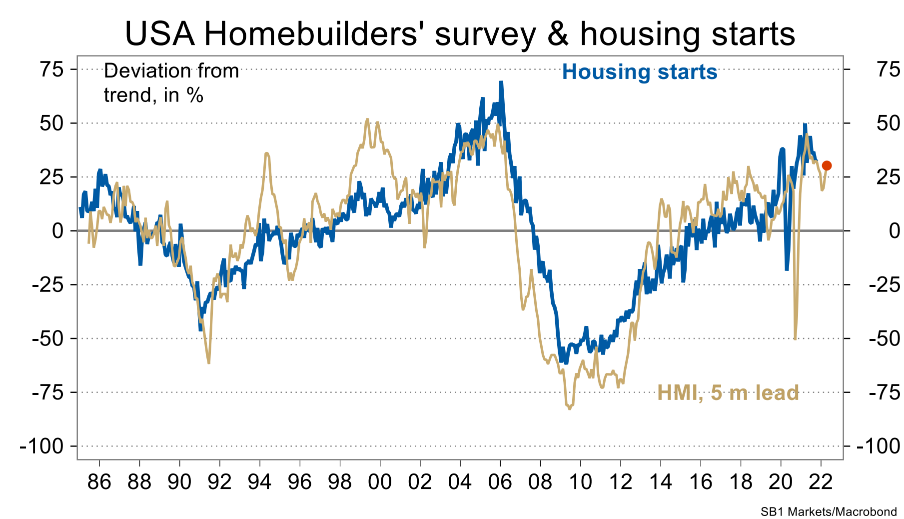
- **Housing starts** decreased to 1.52 mill in Oct , from 1.53 mill in Sept, expected marginally up to 1.58 mill
- **Building permits** rose to 1.65mill, from 1.59 mill, expected up to 1.63
- **Starts have fallen slightly since June, while permit have flattened**. Starts are roughly on par with the pre-pandemic level (which was strong, due to surge during H2-19. Permits are clearly above – still down vs the 15 y peak in January
- Given the incredible strong existing home market, with an 'empty' inventory and soaring prices, starts should normally have strengthened further, amid still very low mortgage rates and a recovering economy
- **Supply & capacity problems and higher costs** in the building sector may explain the lack of response. However, those constraints may be easing, at least lumber is available at a far lower price than in the late spring

Homebuilders' market index further up in November, the level is high

Demand is strengthening. Still, the index does not signal a surge in housing starts





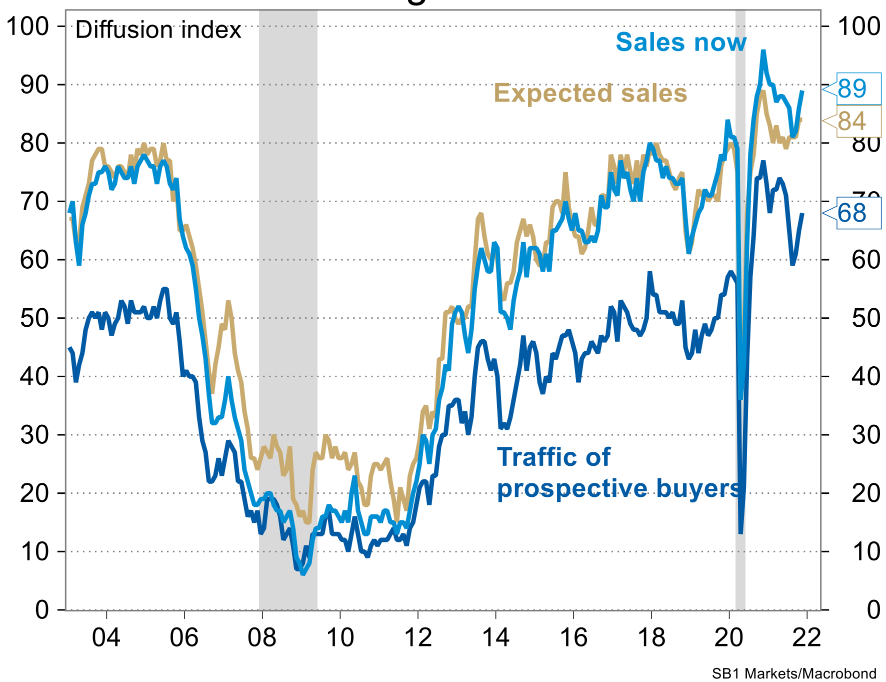


- **The Homebuilders' Housing Market Index** gained 3 p to 83 in Nov, expected unch. The level is high but still down from 90 last Nov
- **Rising material prices, supply chain and labour shortages are still** creating challenges for the home builders, according to the NAHB – but those shortages may have peaked (lumber prices are almost back to a normal level!)
- Even if the level is very high, the HMI does not signal higher housing starts, ref. the chart on the bottom right

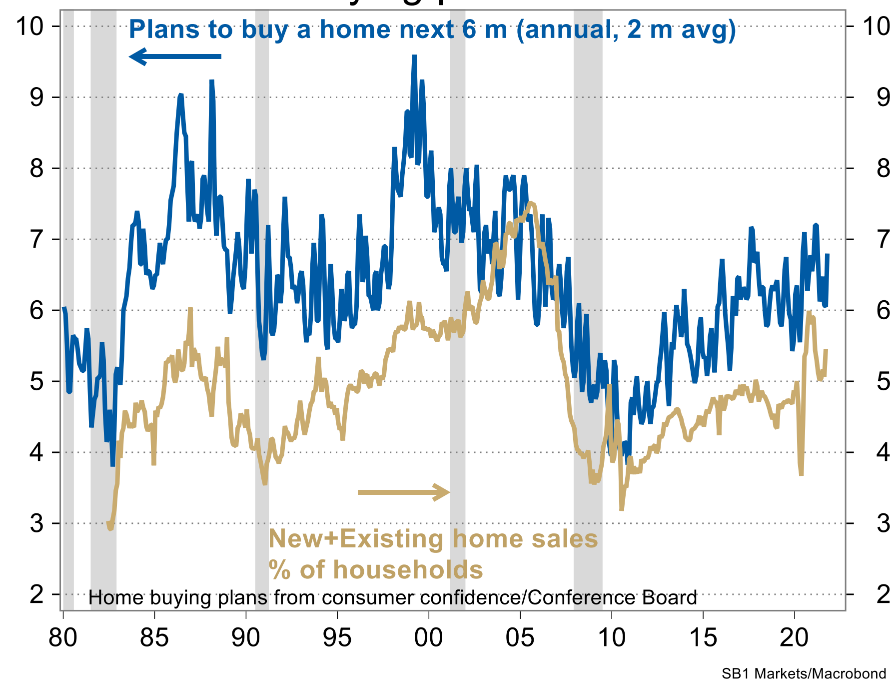
Home builders report more sales, more traffic of prospective buyers

… while homebuying plans are more or less stable

US Housing market index

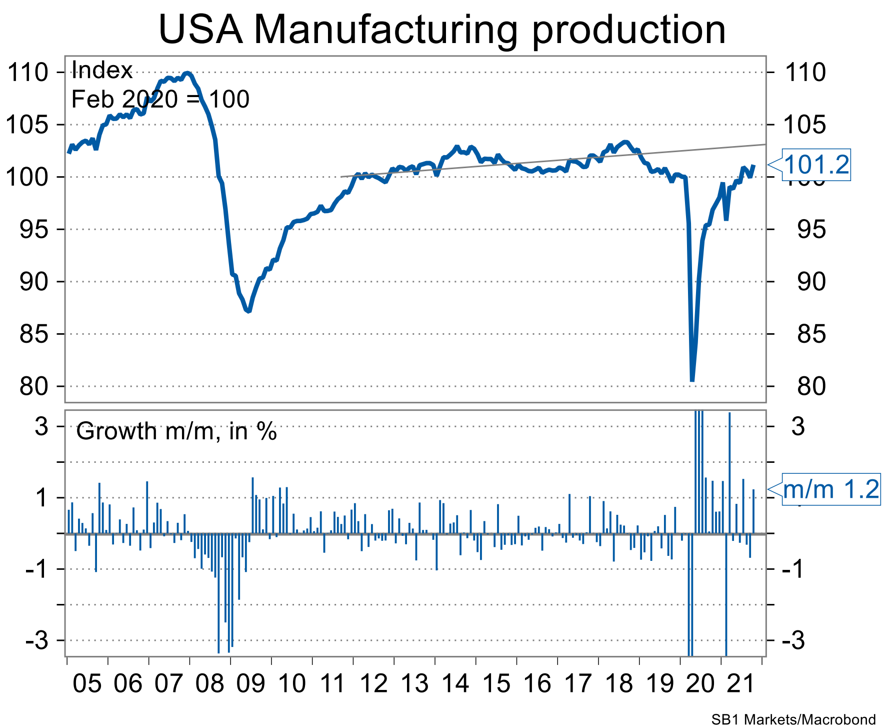


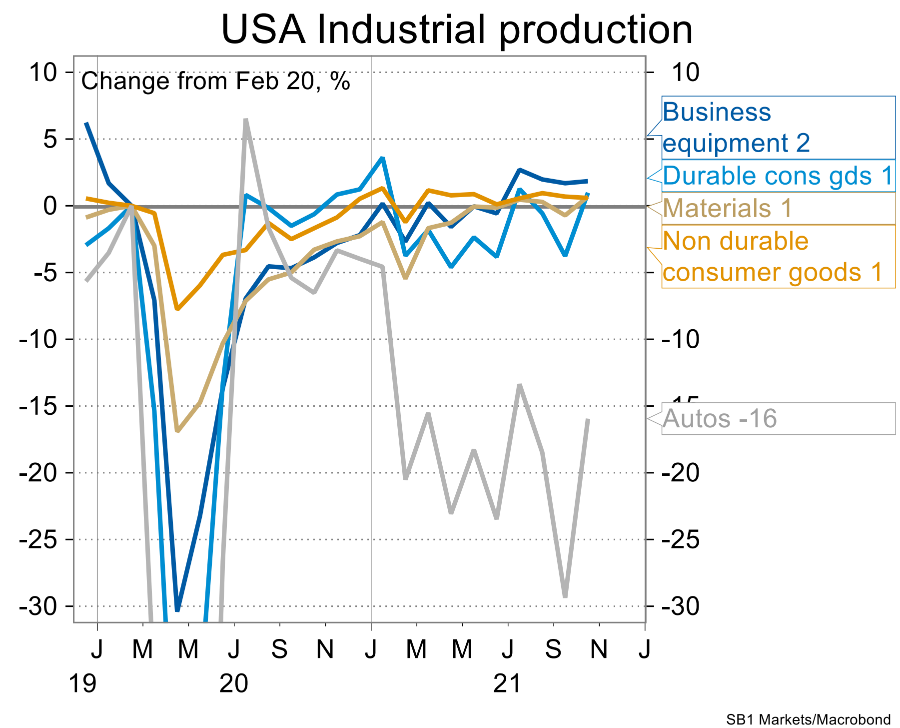
USA Home buying plans vs actual sales



Manufacturing production up 1.2% in October – to 1.2% above the Feb-20 level

Auto production rose 18% m/m but is still down 16% vs. the pre-pandemic level

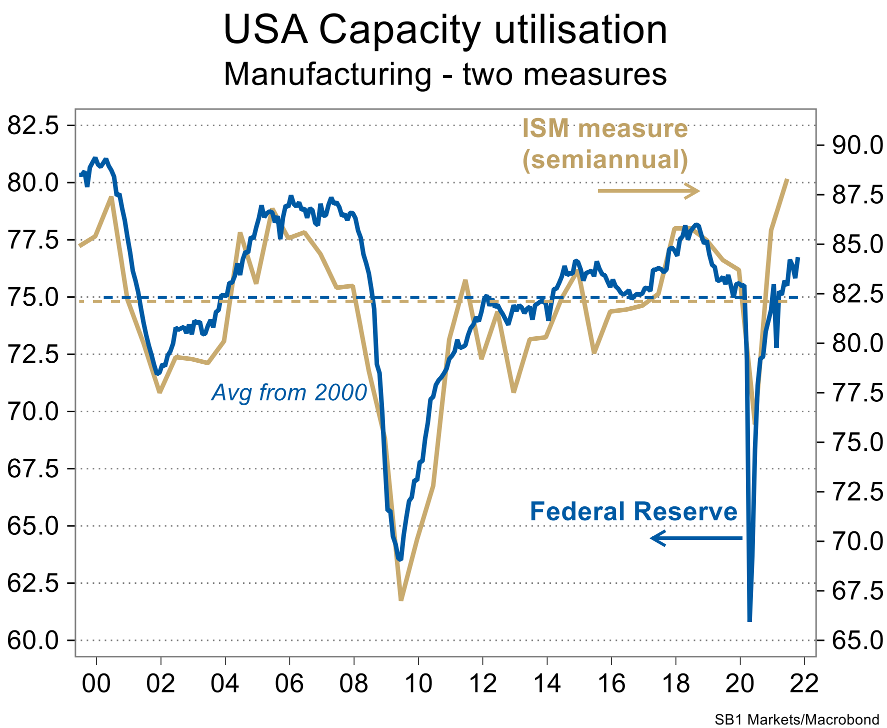




- **Manufacturing production** rose 0.3 pp more than expected – and the trend is still strong – even if the level is not that impressive
  - » The steep decline in auto production has been a drag on overall production in 2021
- **Total industrial production**, including utilities, mines/oil production rose 1.6% m/m expected up 0.9% as oil production recovered from the hurricane hit in September
- **PMI/ISM and all other surveys** signal a continued strong recovery
- **Capacity utilization** rose in October, and is above average. The ISM survey reports a record high utilization, check next page

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

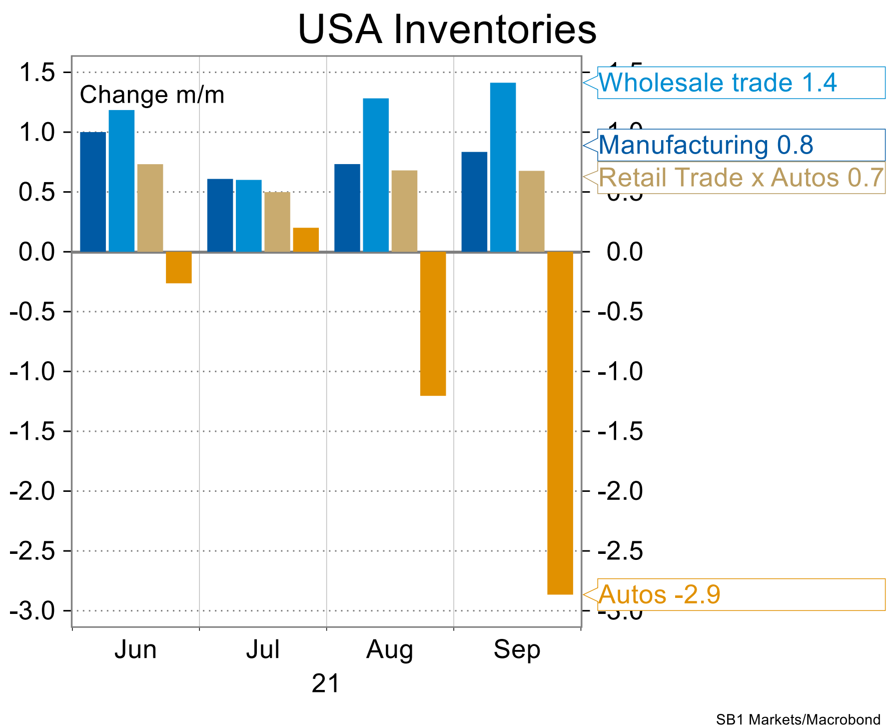
Not an irrelevant question

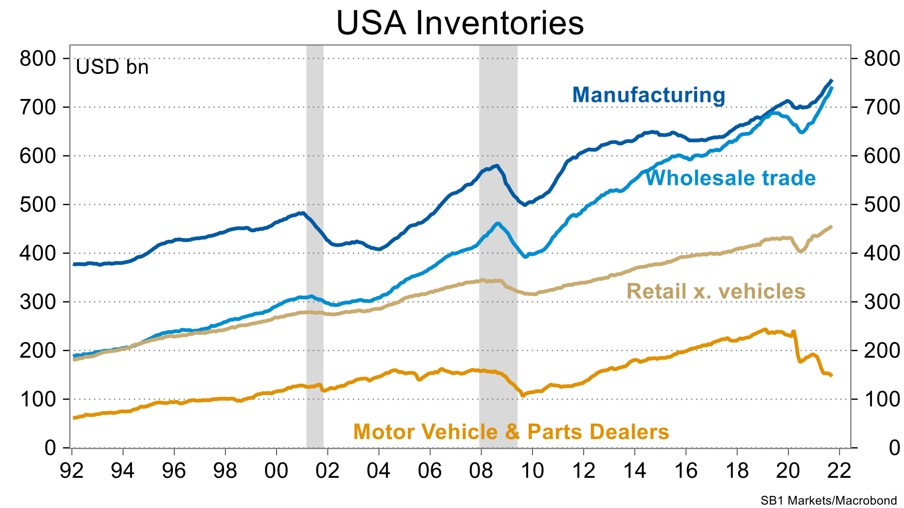


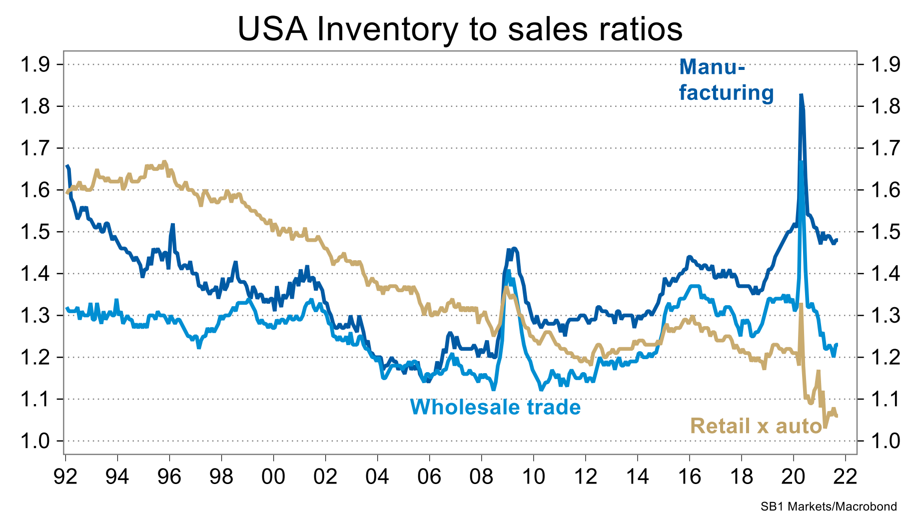
- **The Federal Reserve's** measure now yields a capacity utilisation at 75.9%, vs. the long term average at 75%
- **ISM's semi-annual** survey reported a further sharp increase H1/May, the highest level ever, 88% vs the average at 82.5%. (H2/Dec data out in early Dec, we expect a further increase)
  - » These two measures have not been 100% correlated but the current discrepancy is very large – and quite important when assessing the growth outlook
- The Fed's estimate is model based, while the ISM survey is based on companies assessment of their own capacity utilisation
- Given reports on labour shortages, material shortages, prices, the ISM survey seems to give the most reasonable result

Inventories on the way up, but less than sales

Inventories are probably too low vs sales, even is sales of goods should come down to normal levels



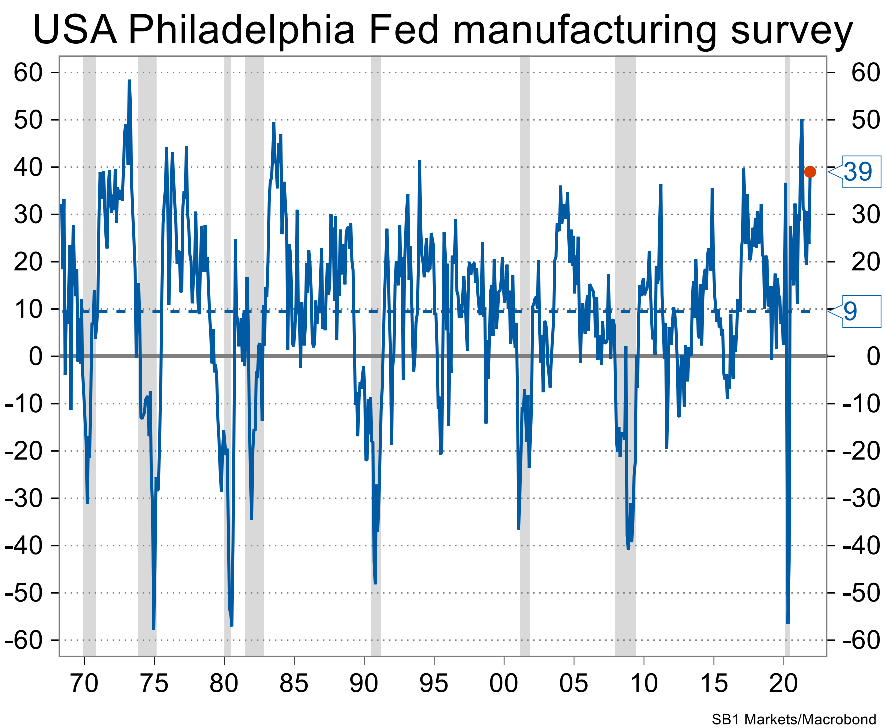


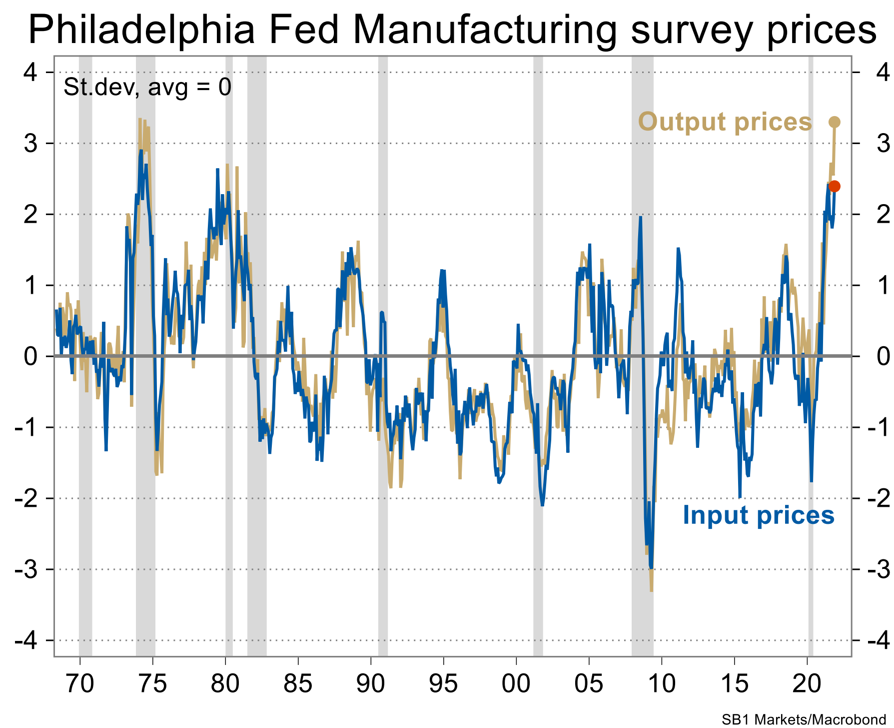


- The inventory is rather large vs. sales in manufacturing, not in wholesale/retail trade
- **Auto inventories** have been slashed during the pandemic. Following a stabilisation the recent months, a decline in September – and the level is very low

Philly Fed survey: More companies report higher output prices than since Feb-74

And Feb-74 is (so far) ATH. The headline index straight up, the sub-components best since March-73



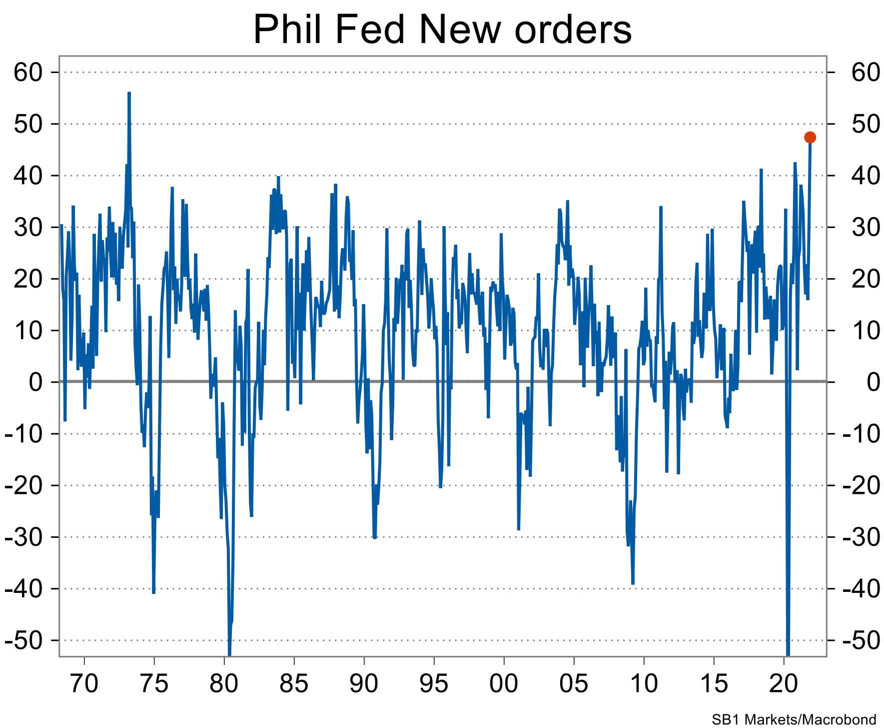


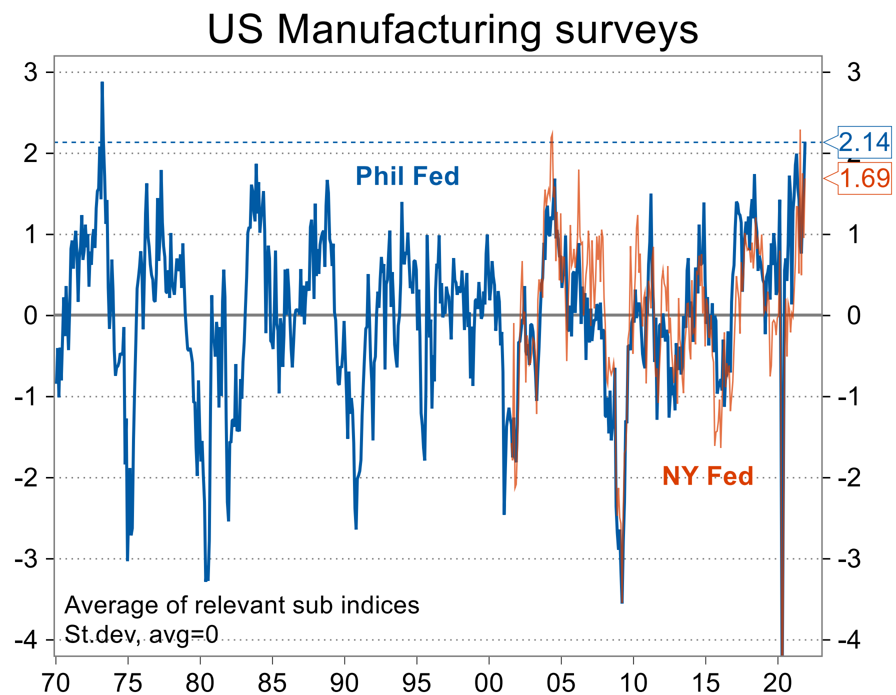
Another indication that the times they are pretty good

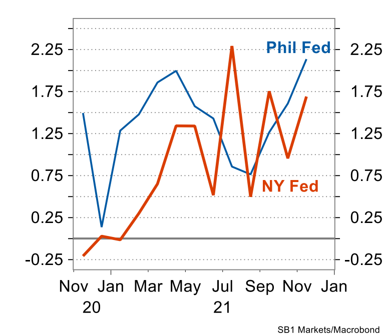
- **Philadelphia Feds manufacturing activity index** rose to 39 in Nov from 24 in Oct, expected unch! The level is the 3rd highest since 1985 (just March/April '21) better.
- **The details** were even better: The average of the 'relevant' (ISM like) sub-indices was the 2. best ever, just March-73 above!
- The **new order index** was also the 2. best ever – signaling a very strong growth in orders
- **Prices** (which are not included in the relevant sub-indices) are skyrocketing. Both the input and output price indices rose sharply. Just once before, in Feb-74, more companies have reported that they have increased their prices vs the previous month than in November
- It is perhaps not surprising that **FOMC members** now are signaling willingness to taper at a faster pace?

A strong Phil Fed new order index. The NY Fed index up to elevated levels too

Two charts just for the record

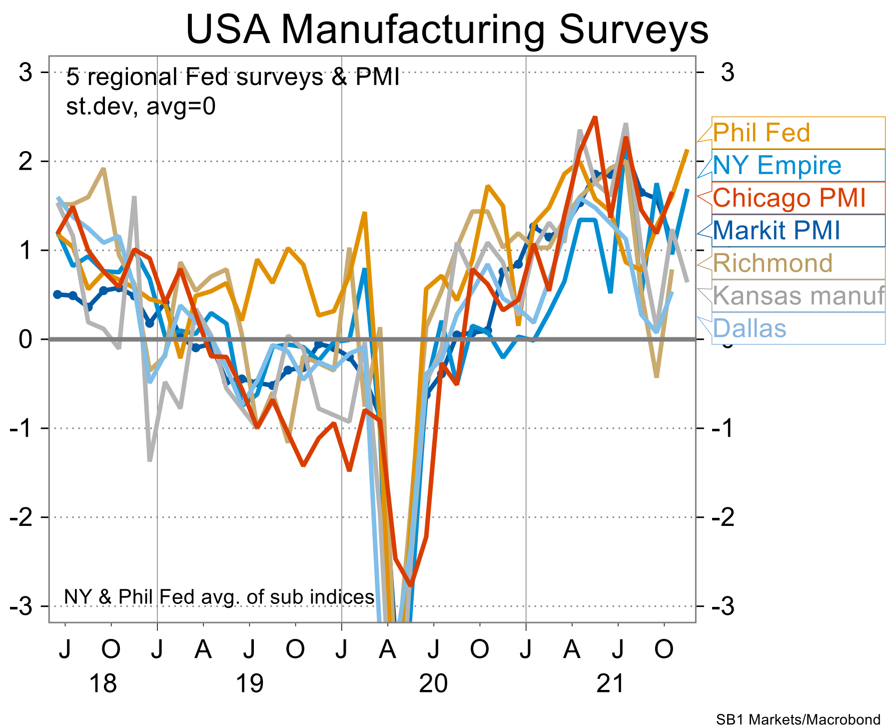


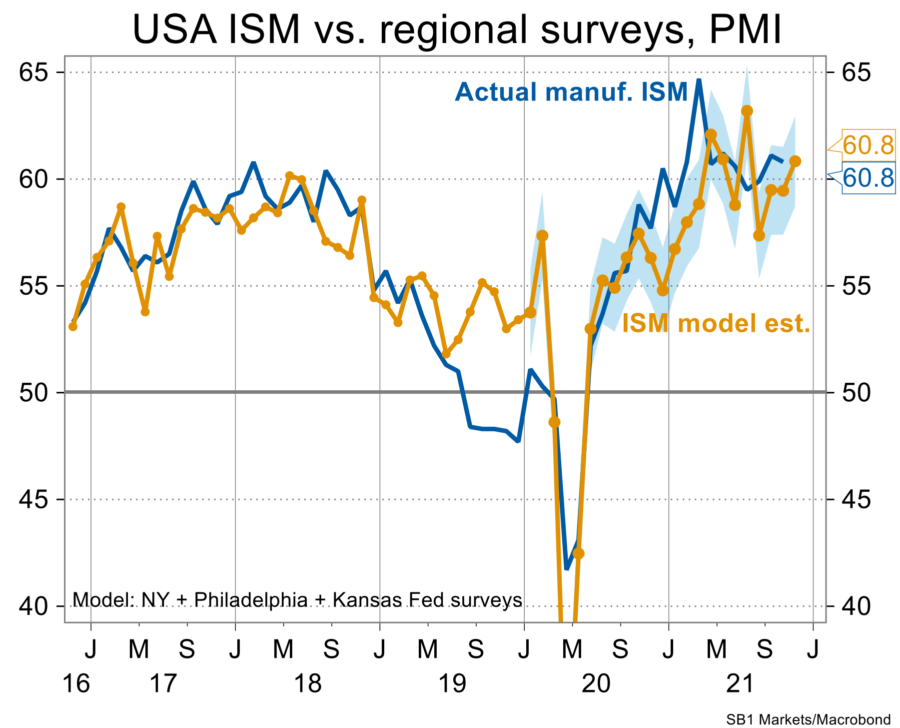




Manufacturing surveys so far in October: 2 up, 1 down

Philly Fed rose (the avg. of 'relevant' components' almost to ATH), NY Fed up, Kansas Fed down

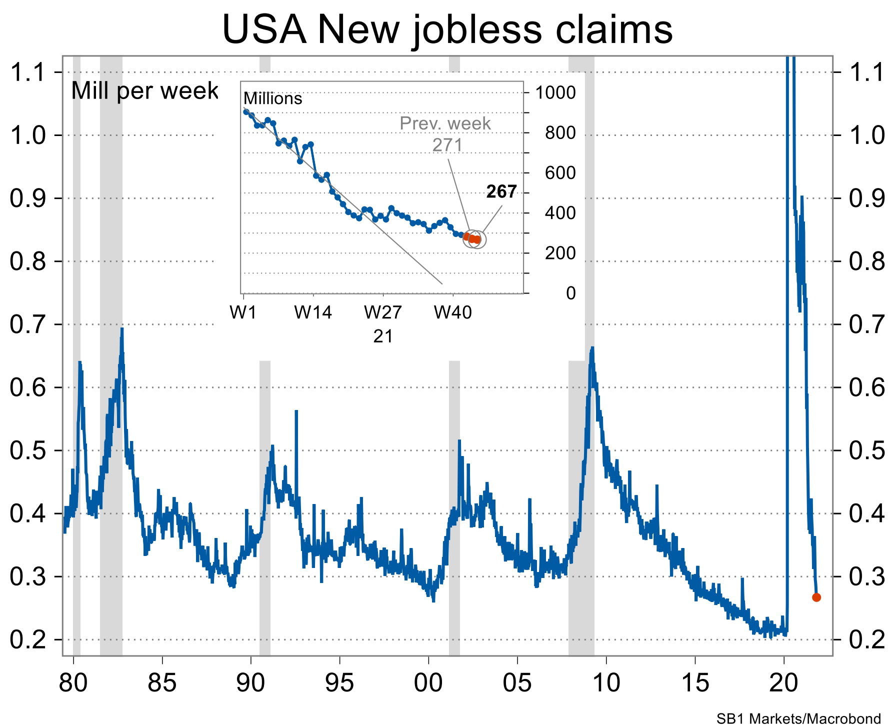


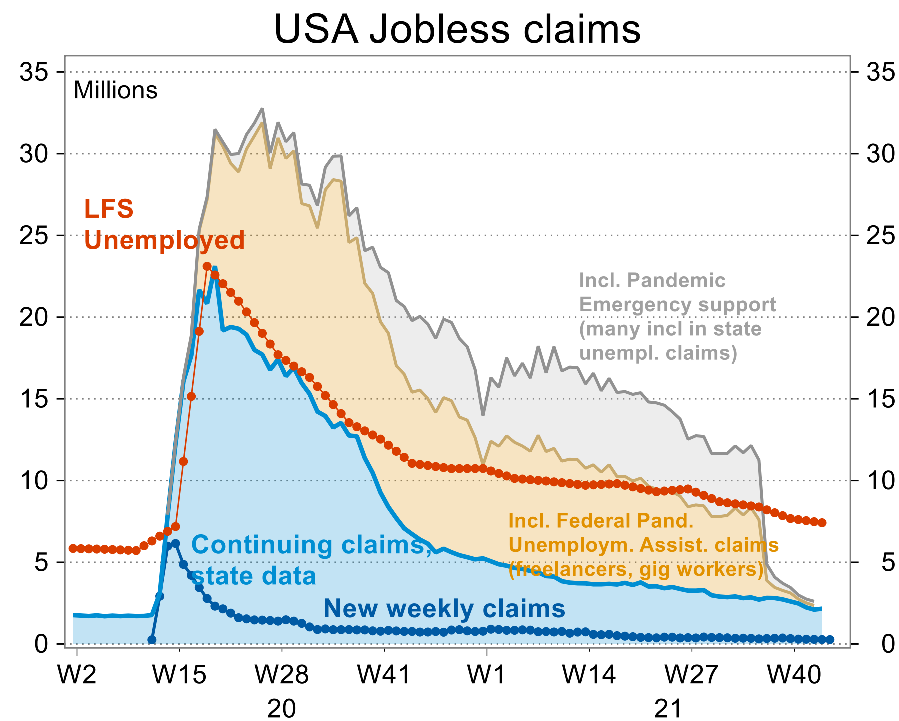


- Out simple model suggests an even stronger ISM manufacturing survey in November

New jobless claims still sliding down, continuing claims is trending fast down too

Another sign of a tighter labour market





- **New jobless claims fell** by 4' to 267' in week 44, expected 265', the 6th week in row below 300'
- **Ordinary continuing claims** rose by 59' to 2.2 mill in week 43 but the trend is sharply down, 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 came before most of the receivers of benefits lost them, and states which left the programs early have not reported faster employment growth than the others through October, check next page

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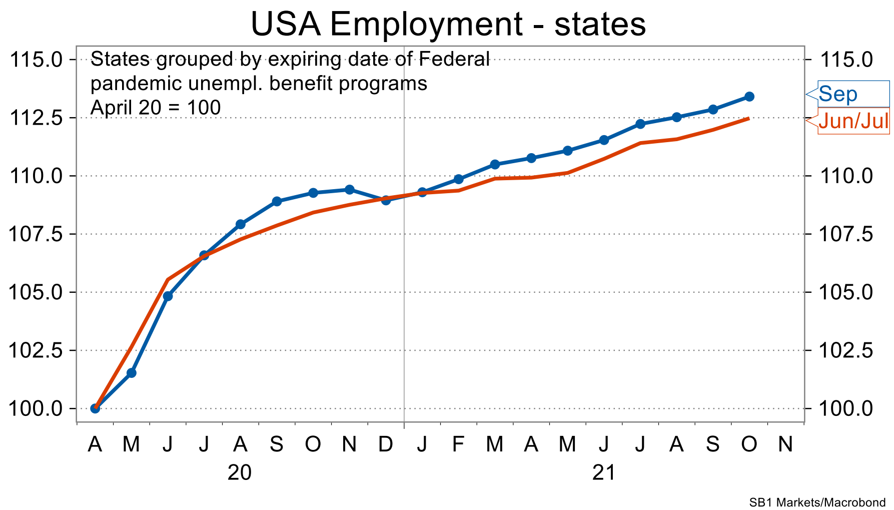
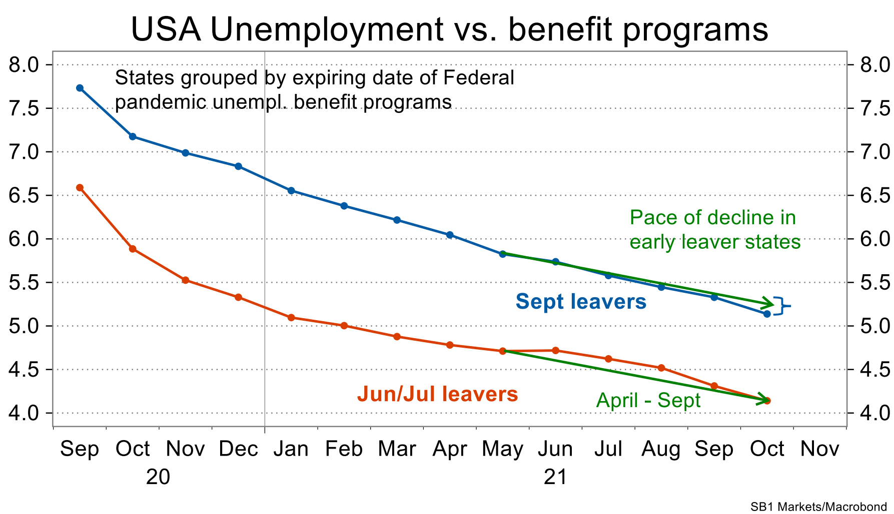
No extra employment growth in states that left unempl. benefit programs early

Unemployment has fallen just marginally slower – thus <u>no surge in the participation rate either</u>

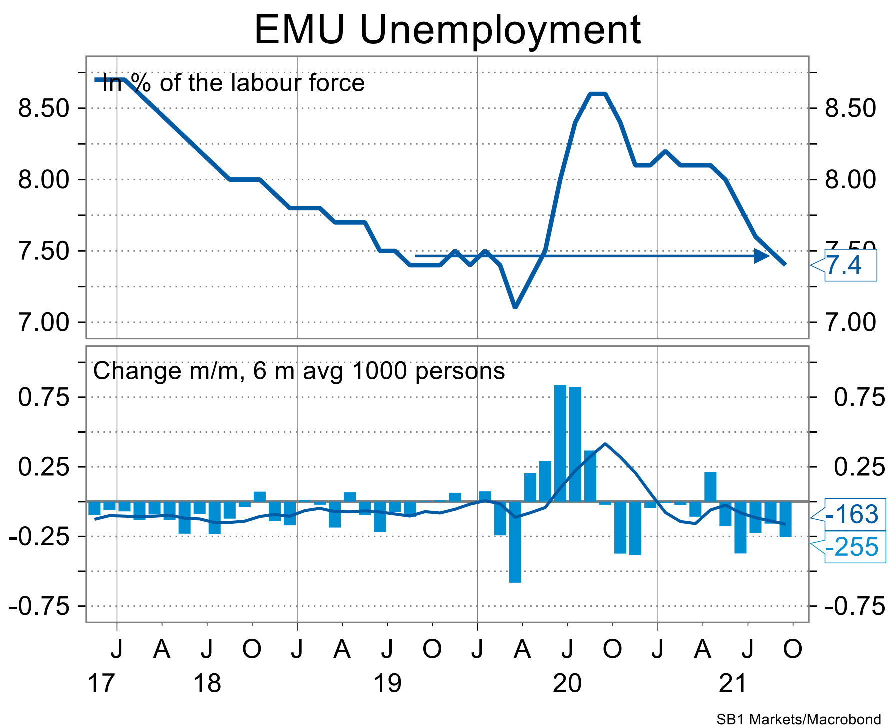


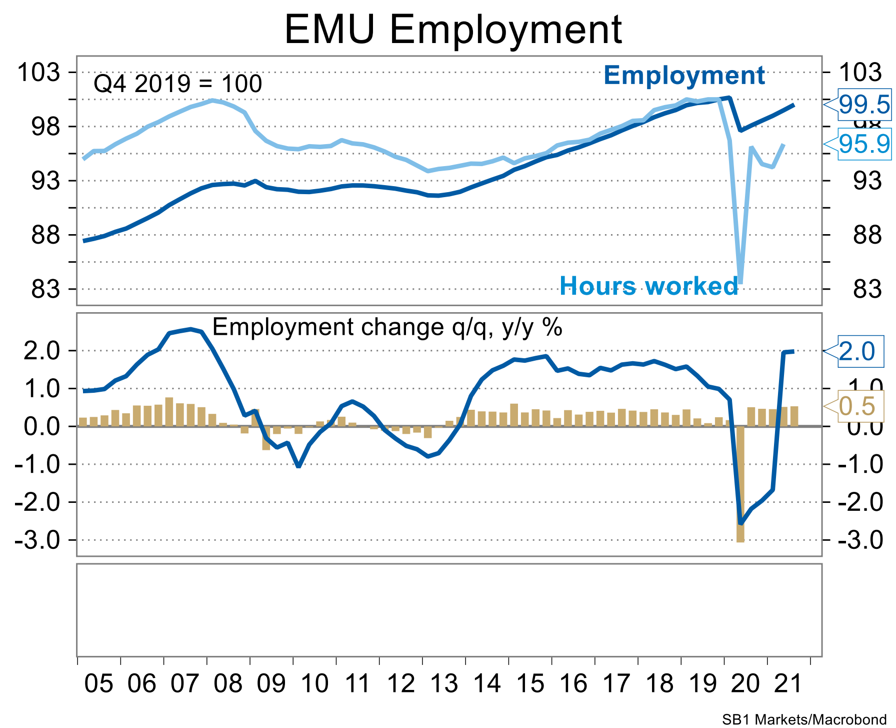


- Half of the states left the two temporary federal unemployment benefit programs in June and early July, that is before the programs were terminated everywhere in early September. There has been <u>no difference in **employment** growth in the two groups of states through October</u>
- State **participation rates** are not published but the unemployment rate has fallen <u>marginally slower</u> (0.1 pp) in the early-leaver states vs. the remaining states, signalling <u>just a marginal increase in the participation rate</u>, and not a tsunami of workers into the labour market to fill all the vacant positions
- A wonder may still happen – a surge in labour supply as workers recognise that they have to earn money or the virus one day is brought under full control so that nobody stay at home due to covid related problems

Unemployment fell below the pre pandemic level in September

Employment grew further in Q3, by 0.5% - and it is 0.5% below the Q4-19 level

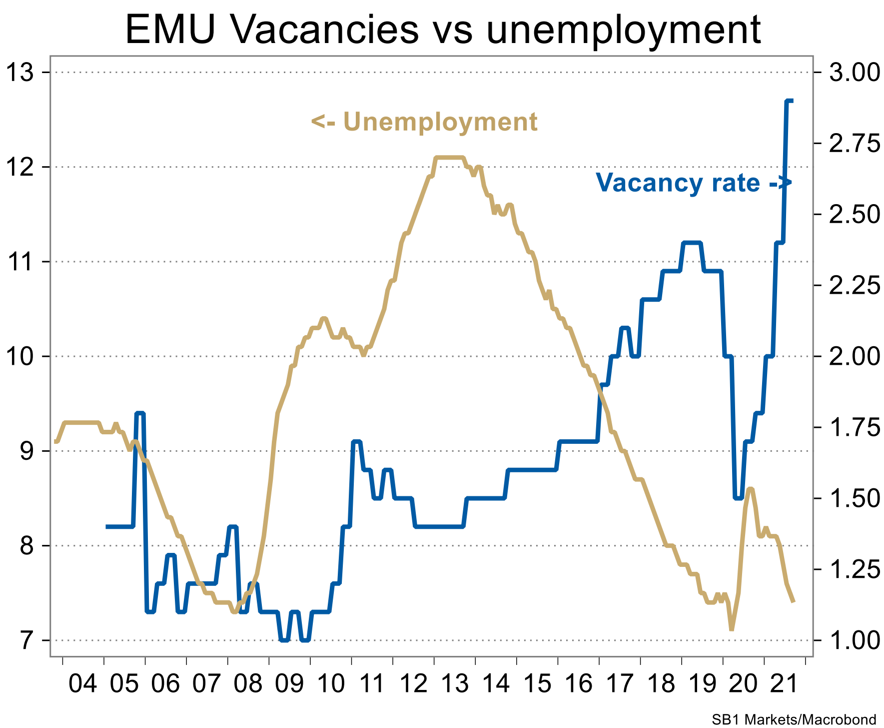


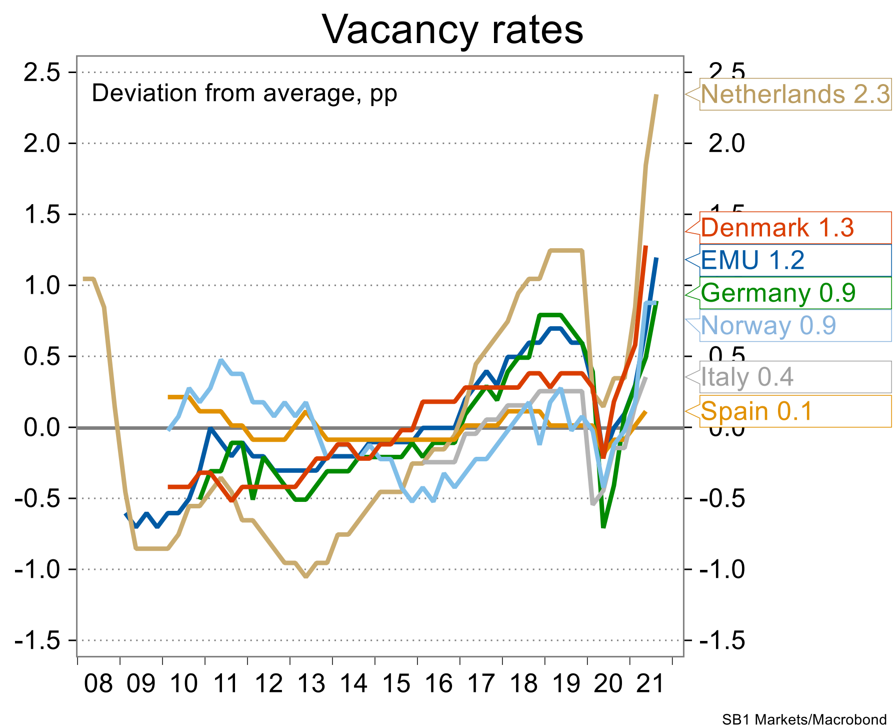


- **Unemployment** is falling rapidly as the economies are opening up. In September, the unemployment rate fell 0.1 pp to 7.4%, as expected, and the level is below the average in the months before the pandemic hit
- **Employment** rose by 0.5% in Q3, as over the previous 4 quarters, and it was 0.5% below the pre-pandemic level
  - » 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. Q3 was far better but no data yet
- The no. of **unfilled vacancies** rose sharply in Q3, to the highest level ever (chart next page)

The vacancy rate ‘exploded’ in Q3

An ATH for the Eurozone, and in most countries. Labour markets are no doubt tight





- Not all countries have repored Q3 vacancy data

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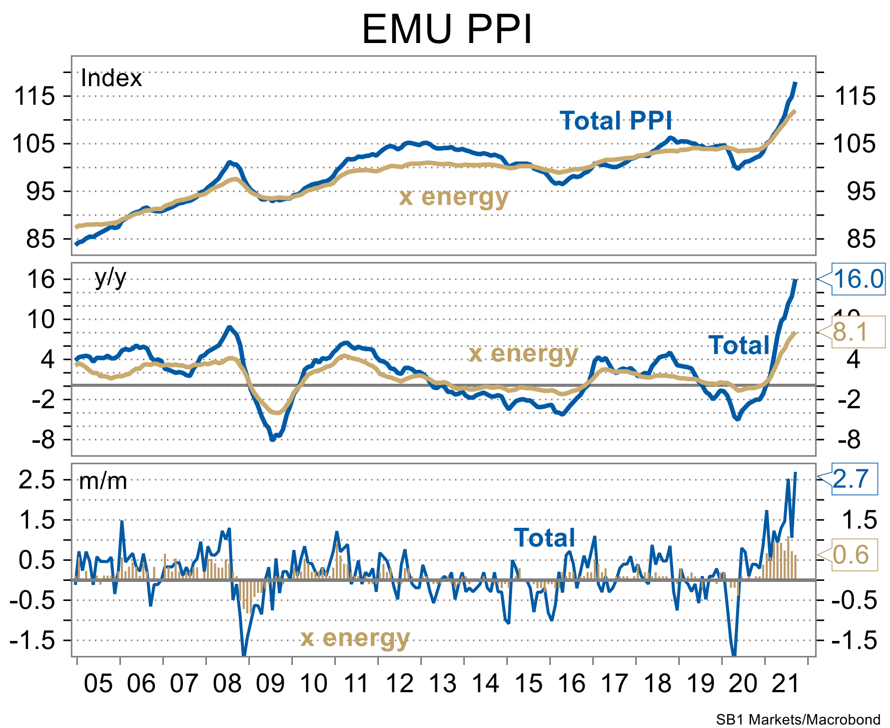
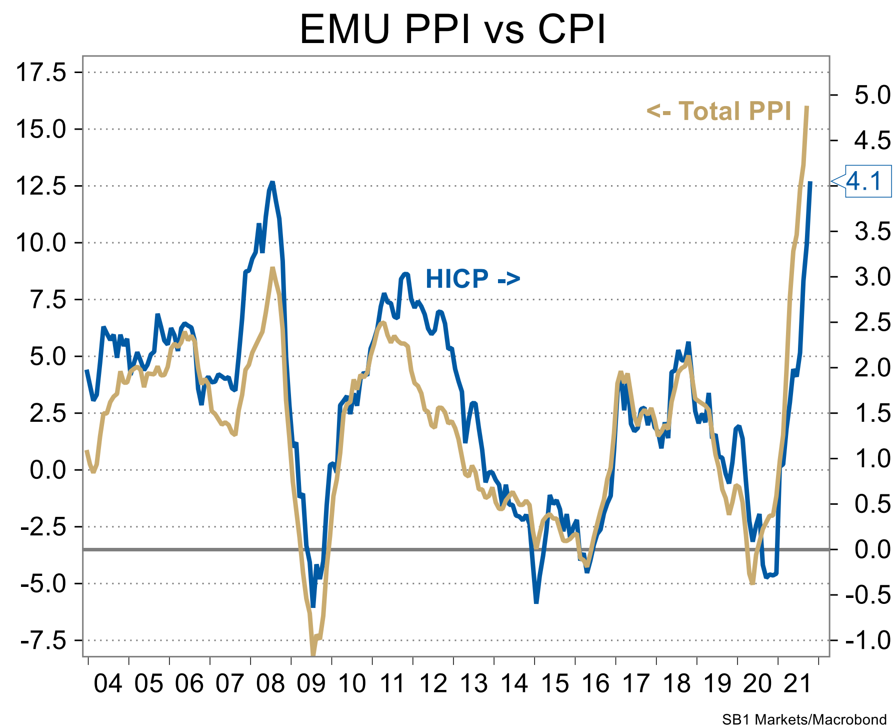
Producer prices up 2.7% in Sept – signals a further increase in CPI inflation

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





- **PPI ex energy** added 0.6% in Sept, and is up 'just' 8.1% y/y, the **highest level on record** – data from 2000
- **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!

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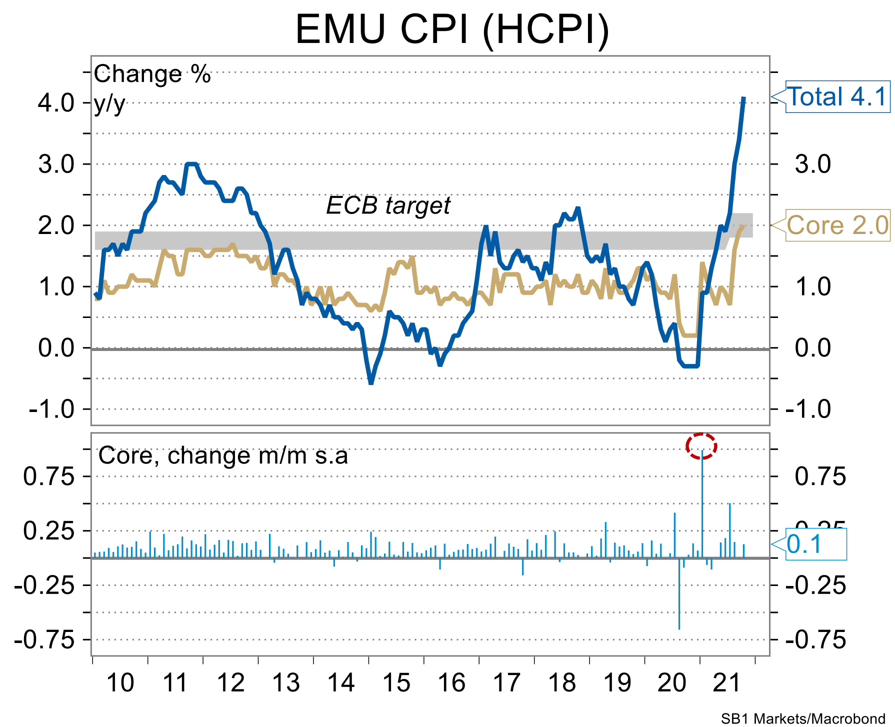
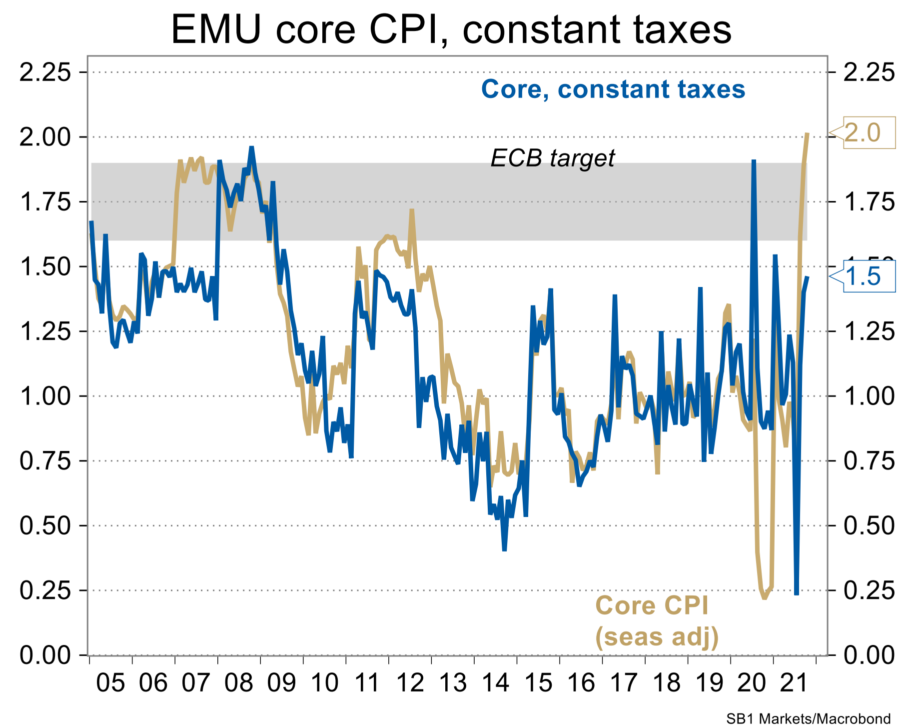
Eurozone inflation confirmed up 0.6 pp 4.1% - as energy prices soared

Core inflation was revised down 0.1 pp to 2.0% in October

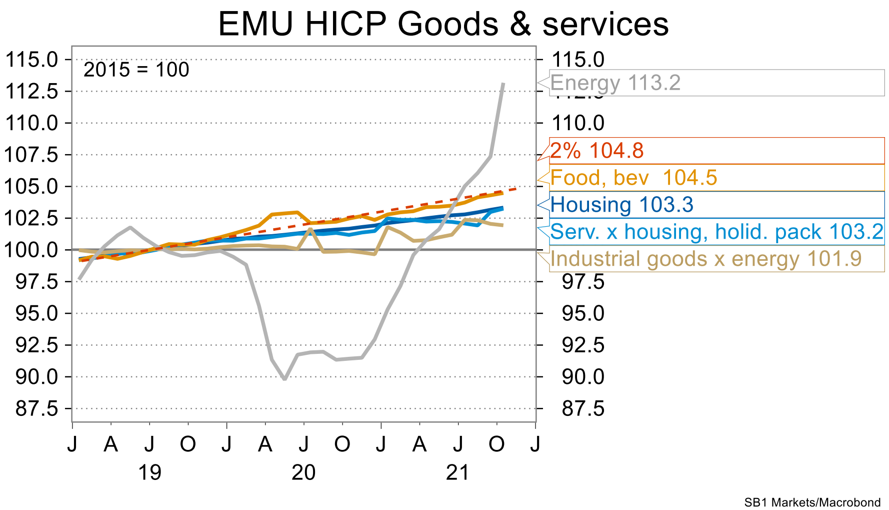


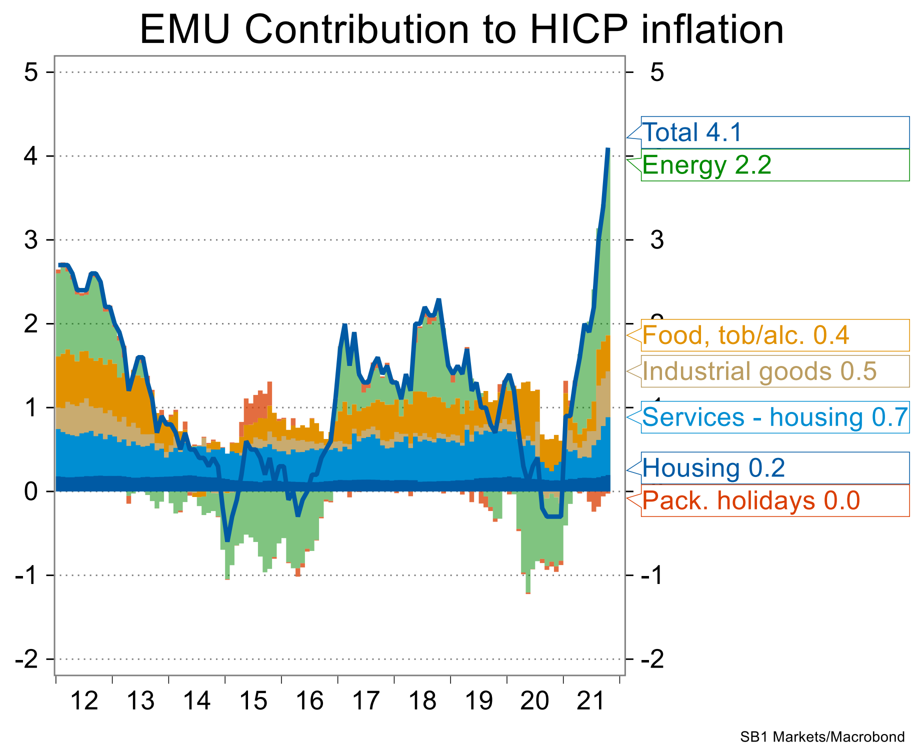


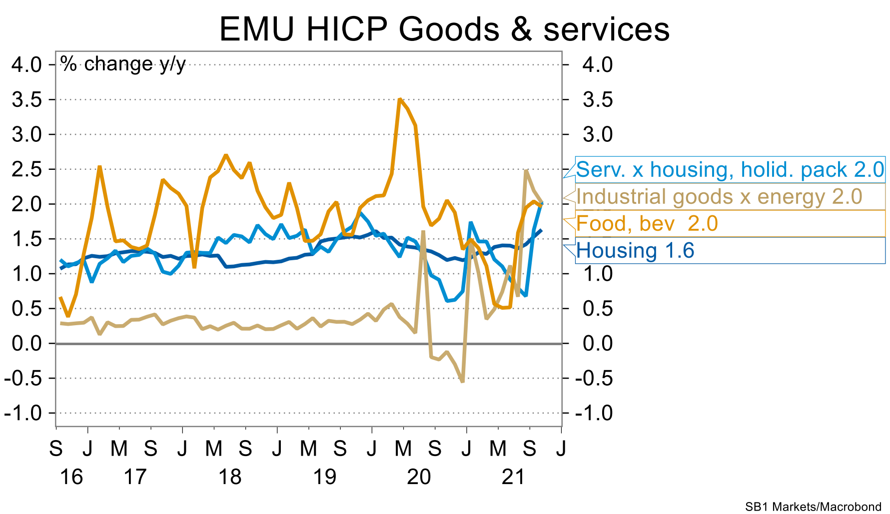
- **The headline HICP** rose 0.7% m/m, as energy prices added 9% m/m– and they are now up 24% y/y (but still 'just' up 13% above the avg 2019 level)
  - » The annual rate at 4.1% is far above ECB's inflation target – but prices are just up 1.9% over the past 2 years (in average). Last October the headline CPI was down 0.3% y/y
- **Core prices** rose 0.1% m/m, and the annual rate rose to 2%, equal to the price target. Again, one year ago, annual inflation was just 0.2%, and the average over the past 24 months is just 1.1%
  - » The core CPI rate will probably decline substantially in Jan-22, as prices rose 1% m/m in Jan-21 (red circle, left chart)
  - » Food and beverage prices rose 0.4% m/m, while services were down 0.2%
- **Adjusted for changes in taxes**, the core was up 1.5% y/y in October, up from 1.4% in Sept. Over the past year this calculation has been very volatile and we are far from sure this calculus is correct now

Energy remains main culprit, not much to worry about elsewhere

Energy prices rose 5% m/m, are up 24% y/y, and contributes 2.2 pp to headline y/y inflation







- Some other prices are rising faster y/y too, but mostly due to dips in prices one year ago

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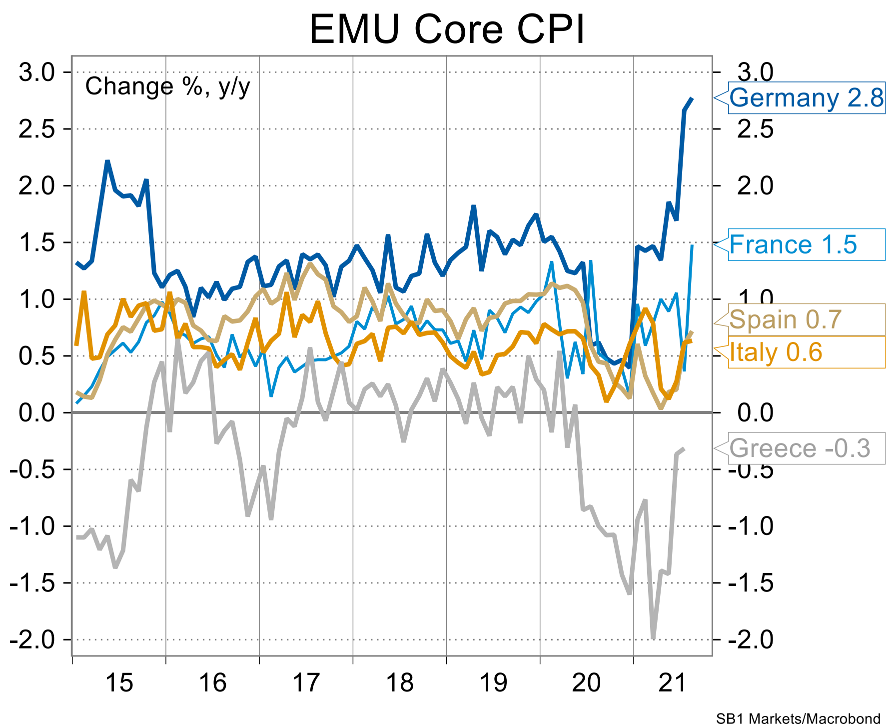
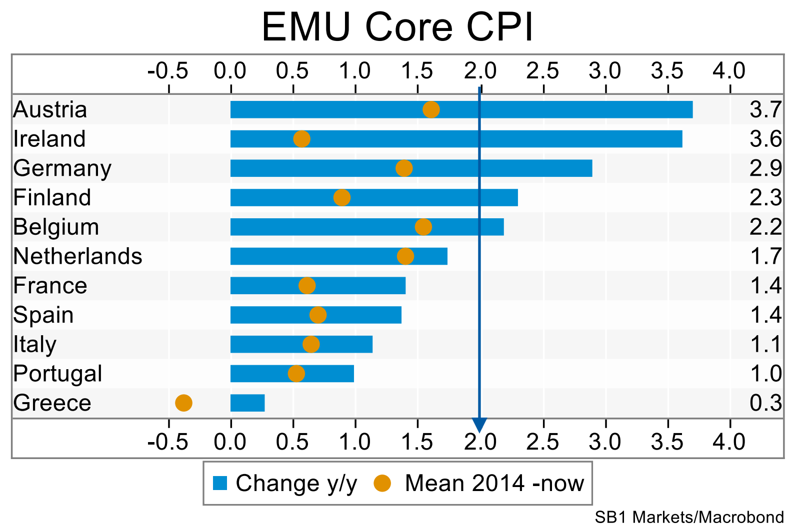
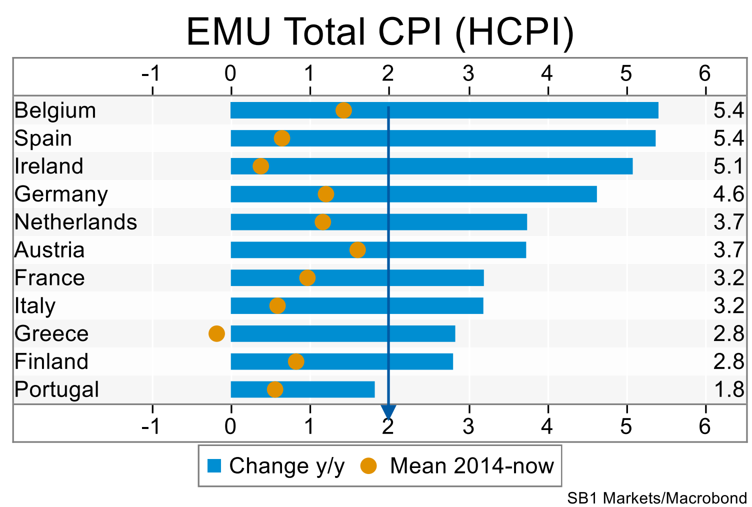
Core inflation still below 2% in many countries

In Germany, inflation sharply up to 4.6% (total) 2.9% (core)



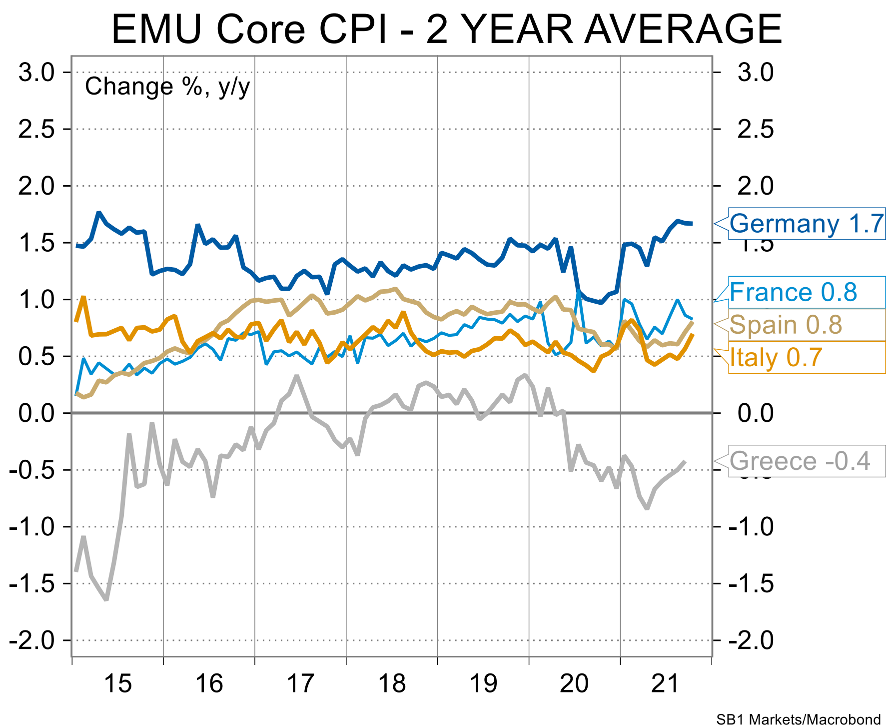


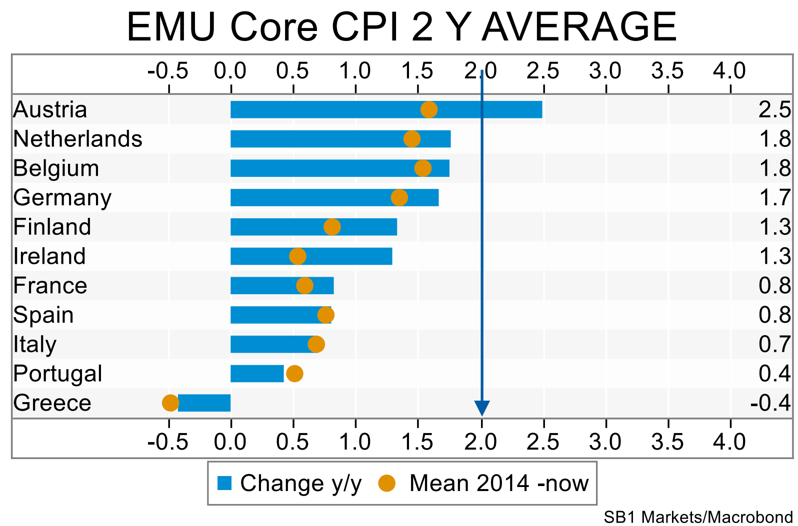


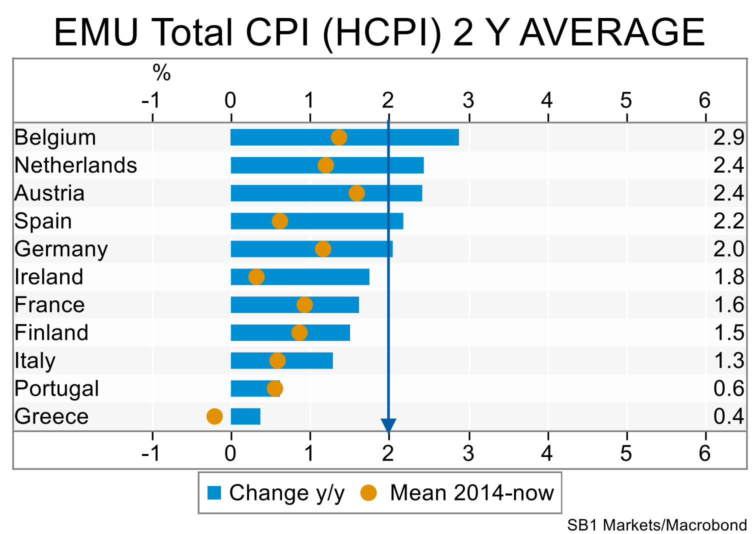
- The base effect is sustantial: Check next page

Over the 2 PAST YEARS: A bit more nuanced picture!

Core inflation below 2% almost everywhere



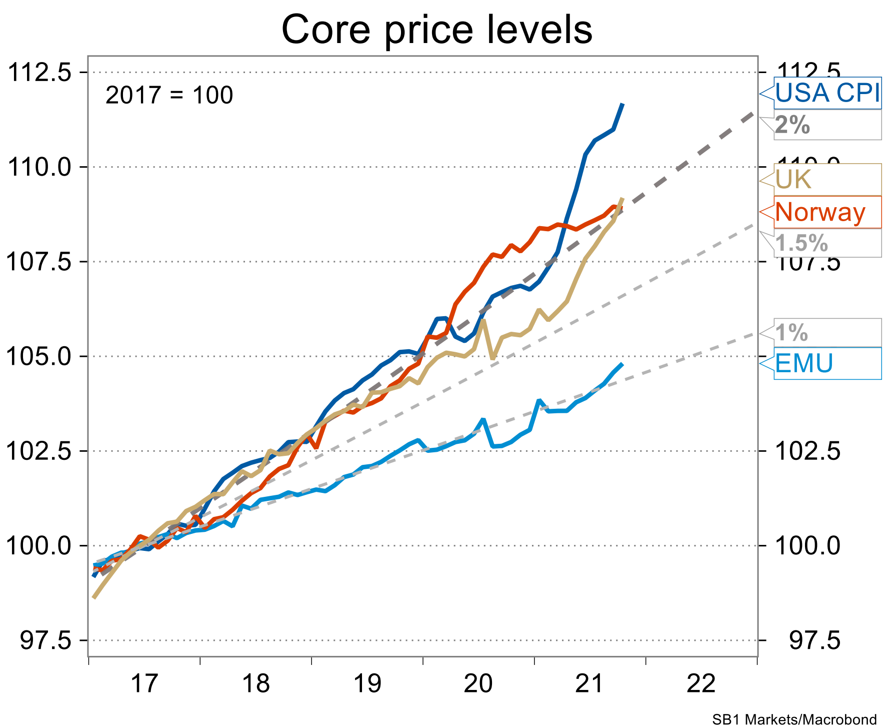




- The base effect is substantial. In Germany the average inflation over the two past years is

EMU & the ECB do not have the same challenges as USA & the Federal Reserve

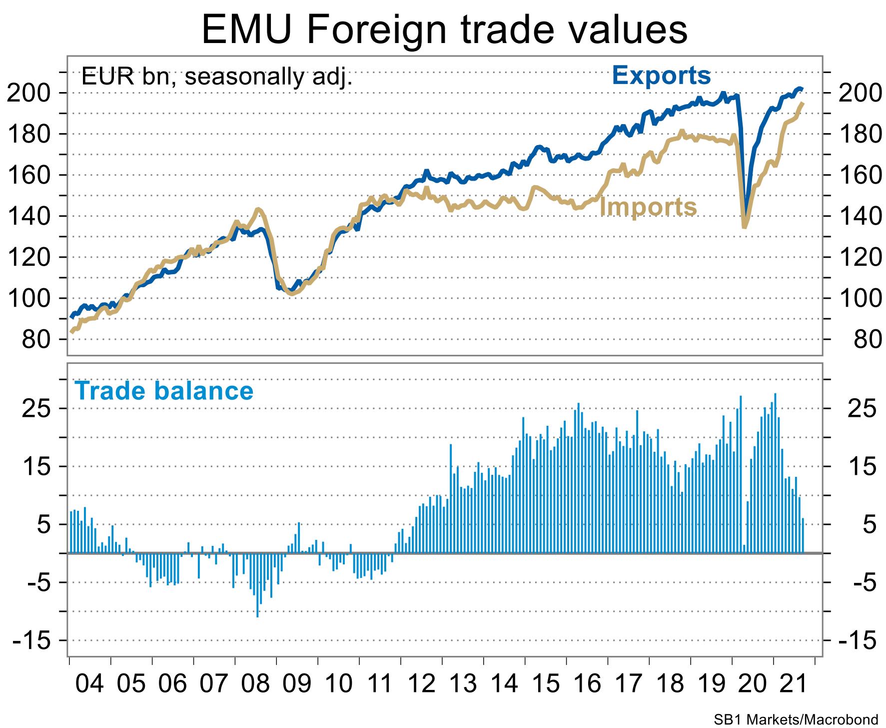
.. And something my be happening in the UK too

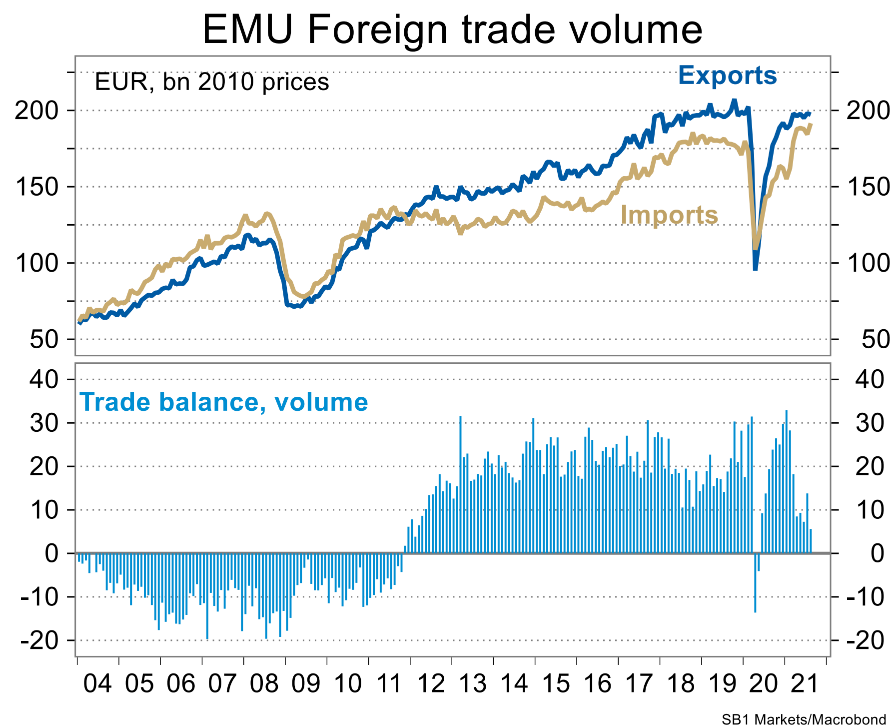


- Spot the huge difference between EMU and the others

Export volumes have flattened at the pre-pandemic level. Imports are well above

The trade surplus has fallen rapidly, both in value and volume terms

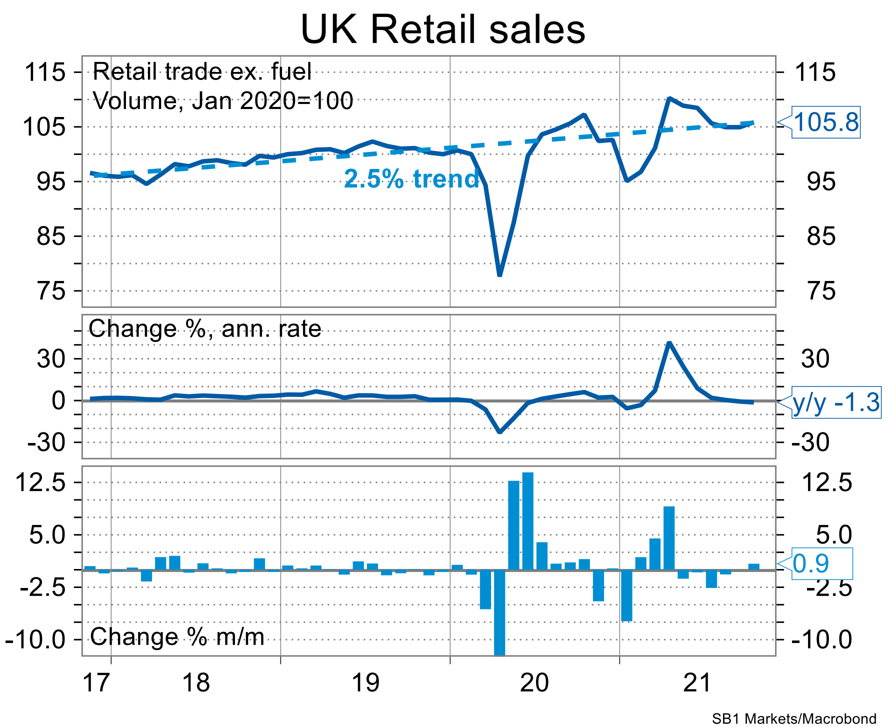


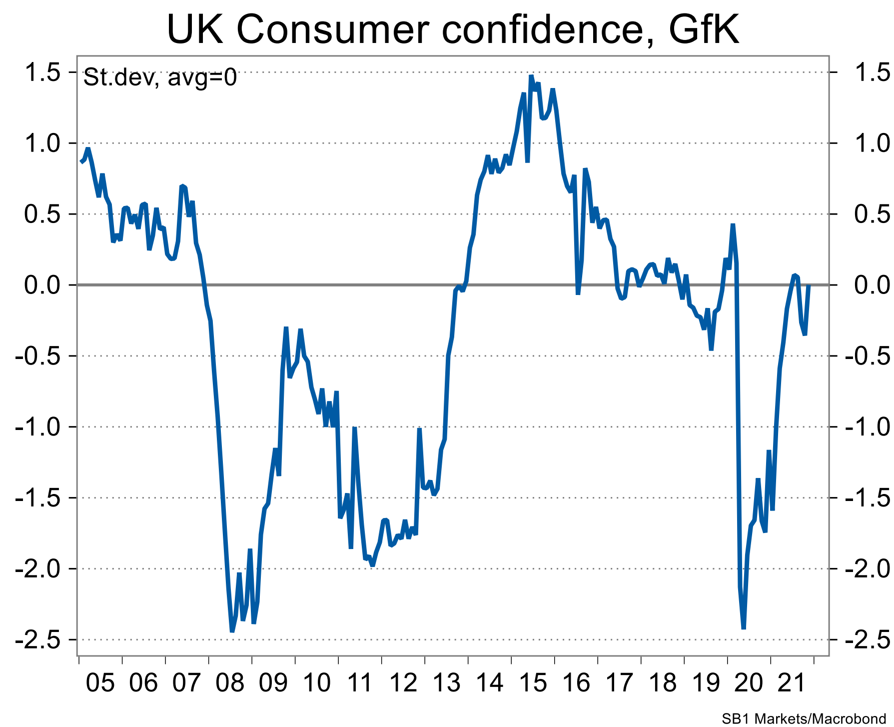


- Import volumes are up almost 10% - as domestic demand is not weak at all

Retail sales up 0.9% in October but is trending down – but level not high

Sales are 5.8% above the Jan-20 level, and on line with the pre-pandemic trend

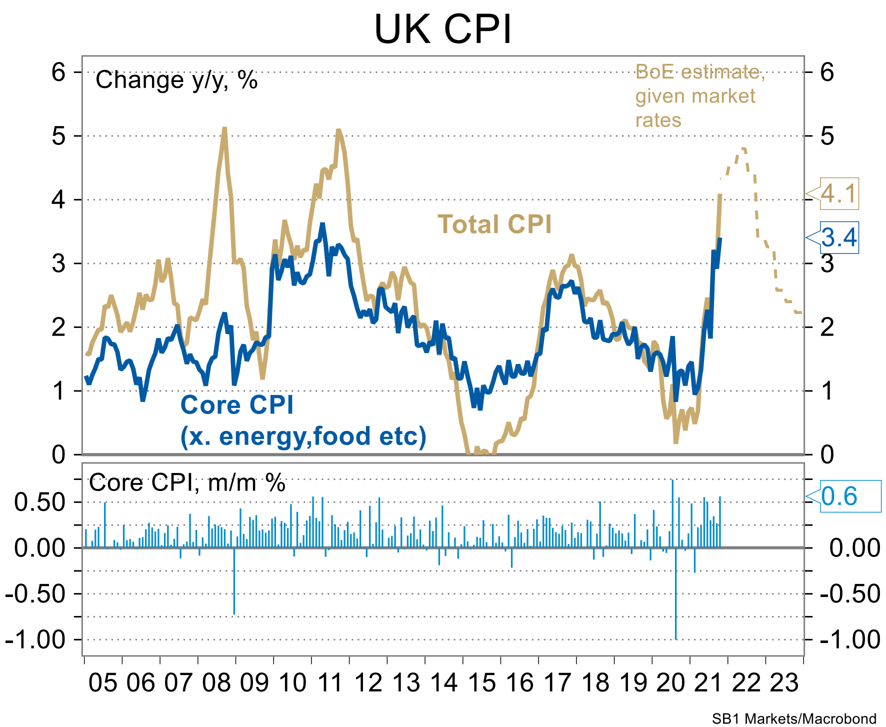




- **The Brits** have not been spoiled by huge transfers from the government, and income growth has not been impressive. Real disposable income in Q2 was at the same level as 3 years ago. Even if income very likely recovered in Q3, there may still be a downside risk to consumption of goods as spending on services has not fully recovered
- **Consumer confidence** fell earlier this autumn but recovered November, and is at an average level – even if energy prices and inflation are soaring!
  - » Confidence is far above normal in the Euro Area too. It is just in the US where households are in a bad mood, even if income growth has been splendid trough the pandemic and the employment rate is very low etc.

Inflation crosses the 4% line, BoE expects more to come

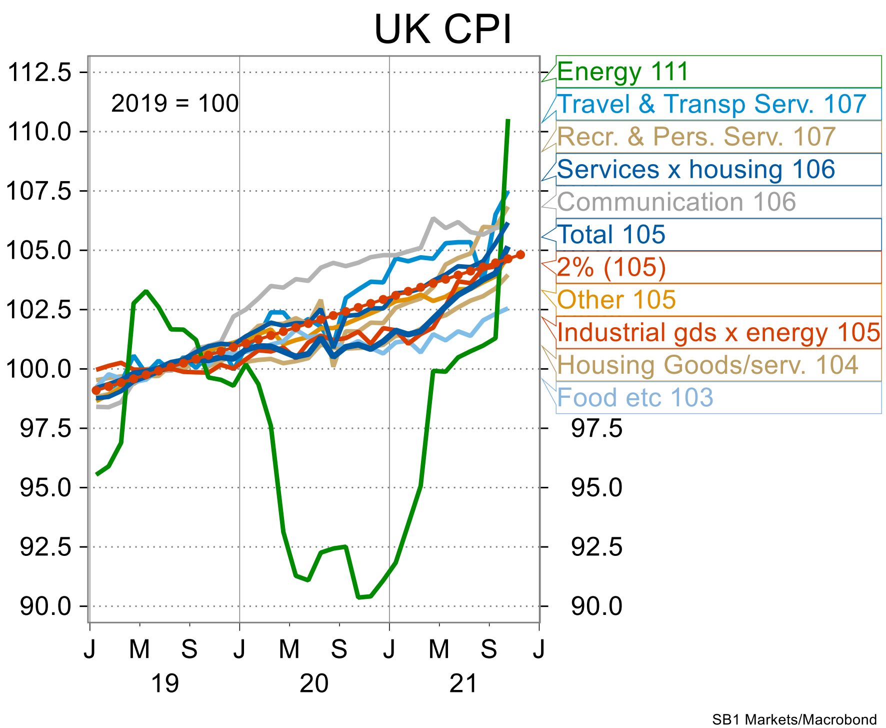
Headline up 1 pp to 4.1% as energy prices rose sharply. Still, the core up 0.6% m/m, 0.4 pp to 3.4% yy

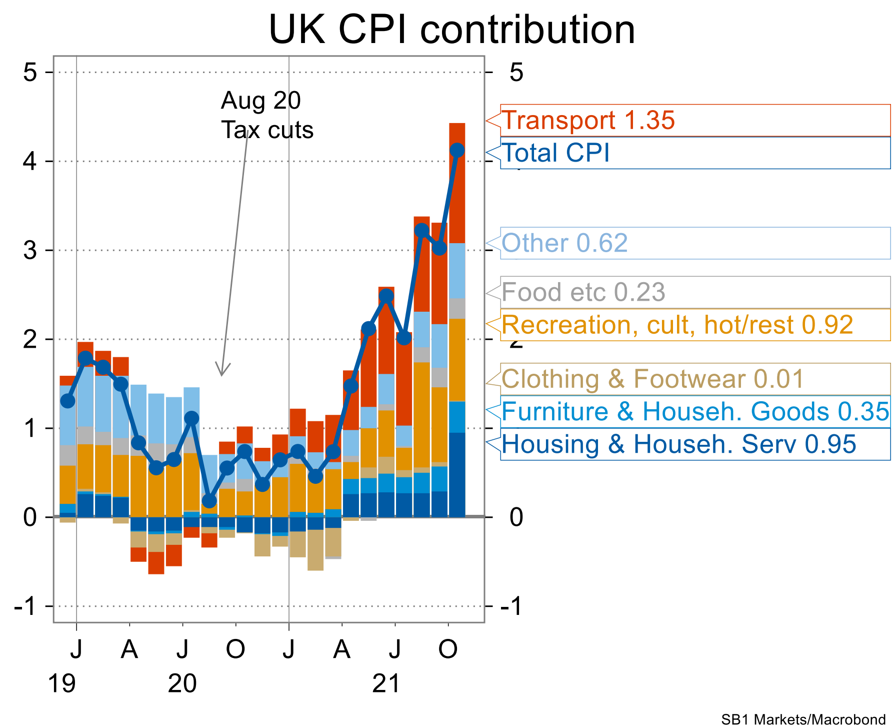


- **The total CPI** increased by 1.2% m/m (seas adj), and the annual rate rose to 4.1%, 0.2 pp more than expected
  - » A 9% lift in energy prices explains a substantial part of the lift in the headline CPI in October. Energy prices are now up 22% y/y
- **The core index** rose by 0.6% m/m, and is up 3.4% y/y, 0.3 pp more than expected
- Measured over 2 years, the both the headline and the core CPI is up 2.4%, which illustrates the base effects on the present much higher y/y rates – as inflation fell sharply during the first phase of the pandemic last year. Still, inflation is higher than BoE's 2% target
- Transport has lifted CPI by 1.4 pp. 2nd hand cars are sharply up, as are fuel prices
- Housing, included energy, has lifted the CPI by 1 pp. Still, there are many other contributors left…
- Bank of England surprised markets (but not economist) by not hiking in November. A December hike is now clearly on the table

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

Within transport and housing, the energy component is the main culprit



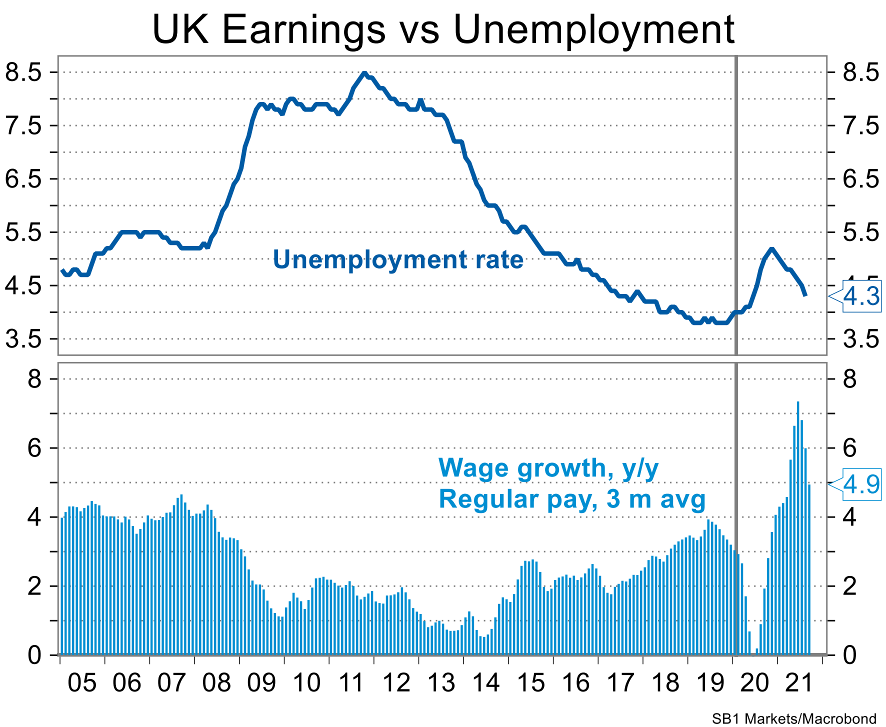


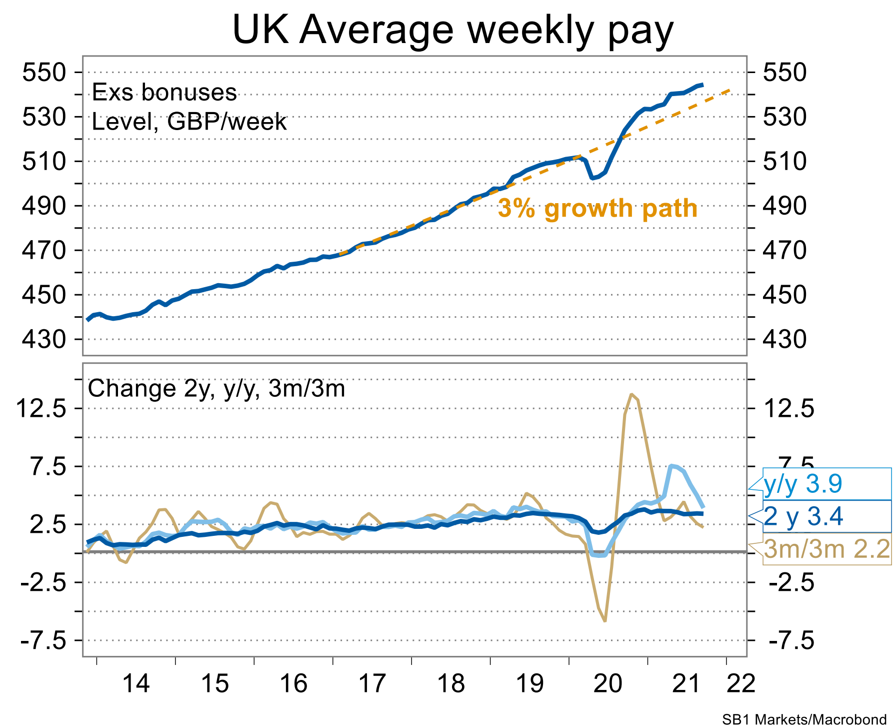
- **Energy prices** are up 22% y/y, rather modest vs. the lift in spot gas and electricity prices
  - » Residential energy is included in housing in the charts above

SpareBank 1 MARKETS

The first furlough scheme was terminated, and the unemployment fell!

Bank of England will start hiking in December? Most likely. Wage inflation has slowed!

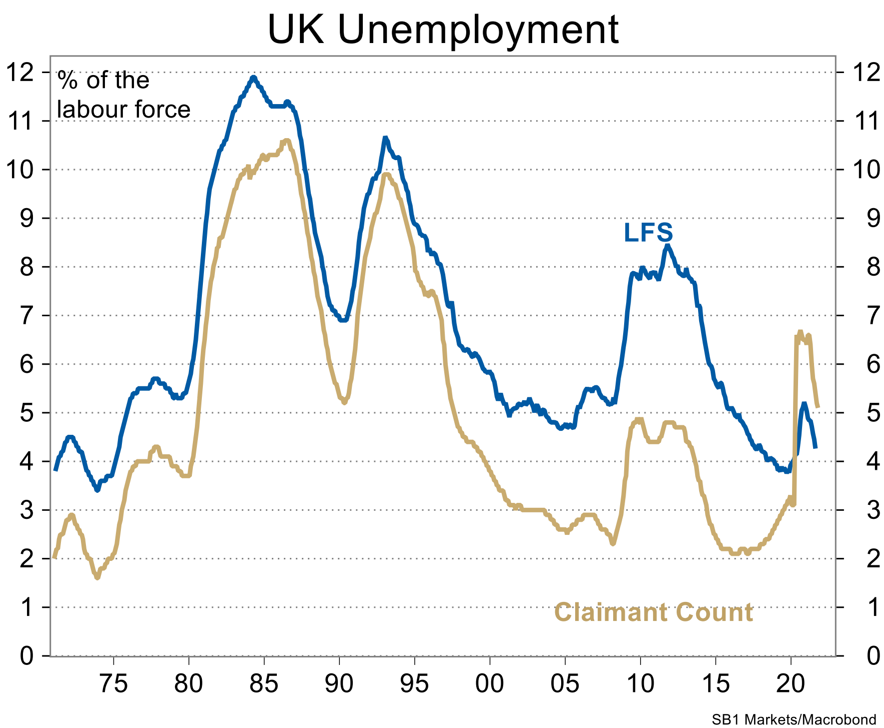


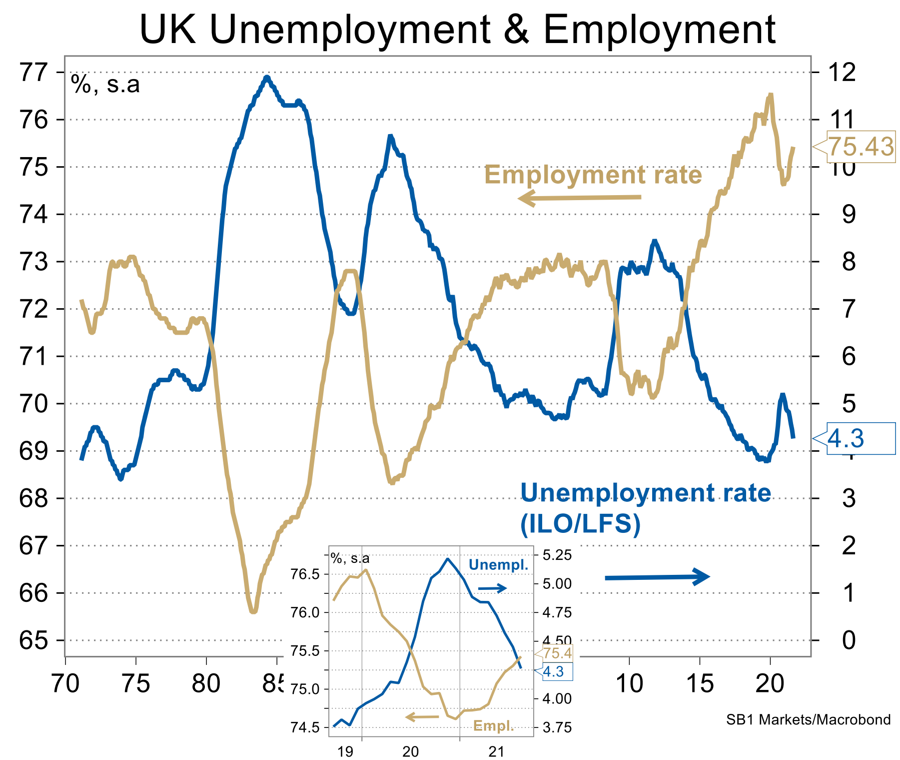


- The **'LFS/ILO' unemployment rate** fell 0.2 pp to 4.3%, expected down 0.1 pp. Unemployment is 0.3 pp higher than before the pandemic
- **Annual wage growth** (regular pay) decreased to 3.9% in Sept from 5.0% in August (the 3 m avg to 4.9% from 6%, expected 5.0)
- However, the annual rate is boosted by the sharp contraction in wages last year. Total weekly pay is up 3.4% over the past 2 years – and just as important, the underlying 3m/3m pace has fallen to almost 2%!
  - » A 3.4% wage inflation is higher than the 10 years average, but not high given reports of lack or labour in many sectors

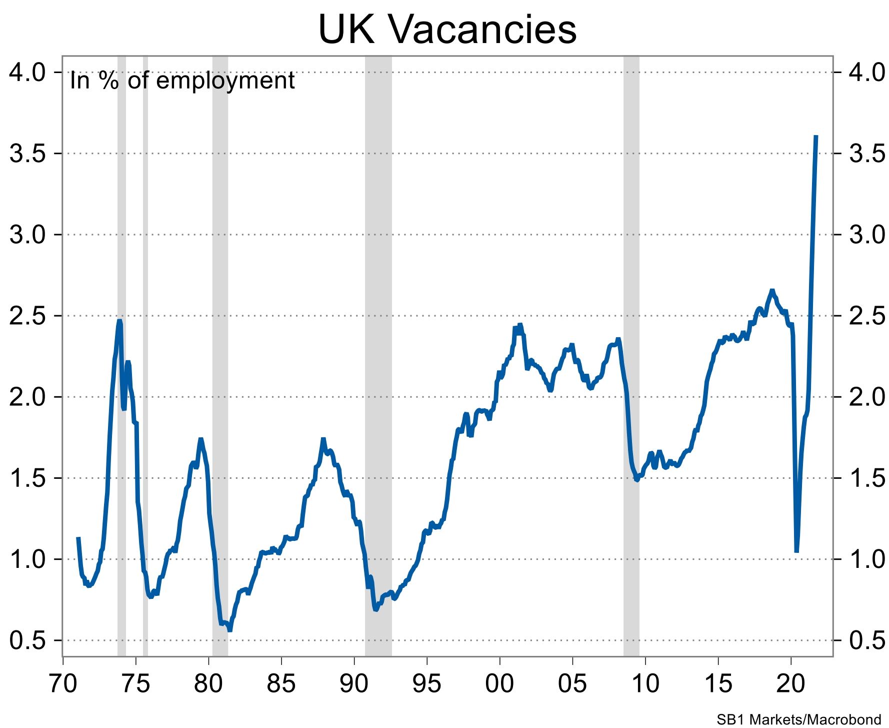
'Open' unemployment at 5.1%, sharply down since the spring but still 'high'

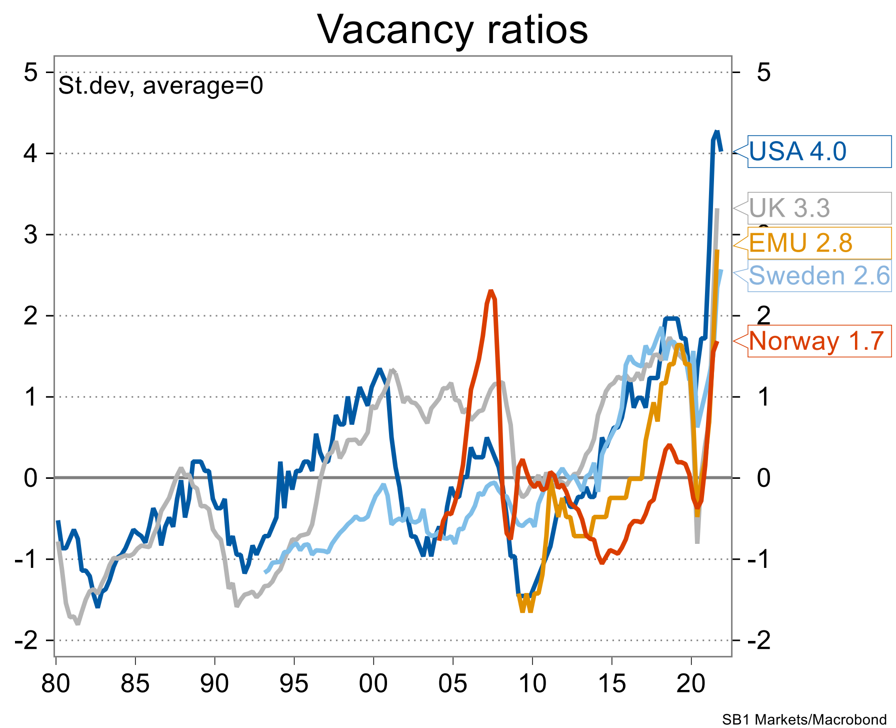
The employment rate is recovering, up by 0.8 pp from last Dec. At 75.4, still down 1.2 pp vs. pre-p.





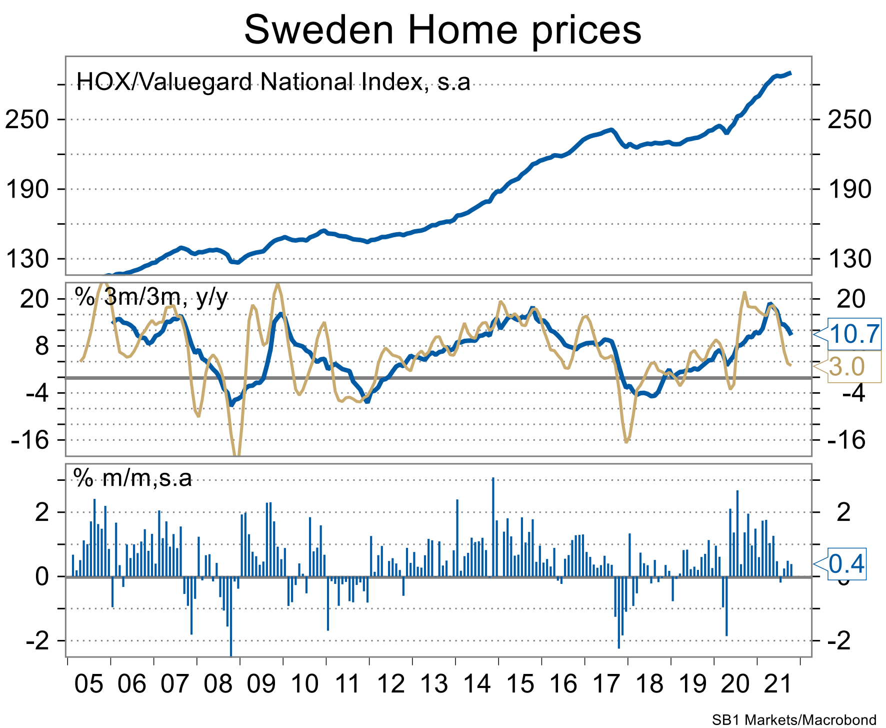
Vacancies have climbed to a record high – as most other places

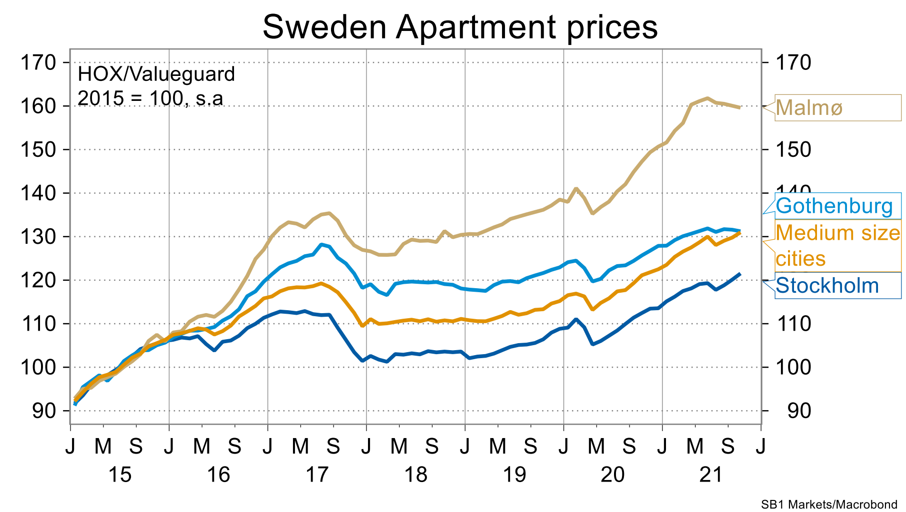


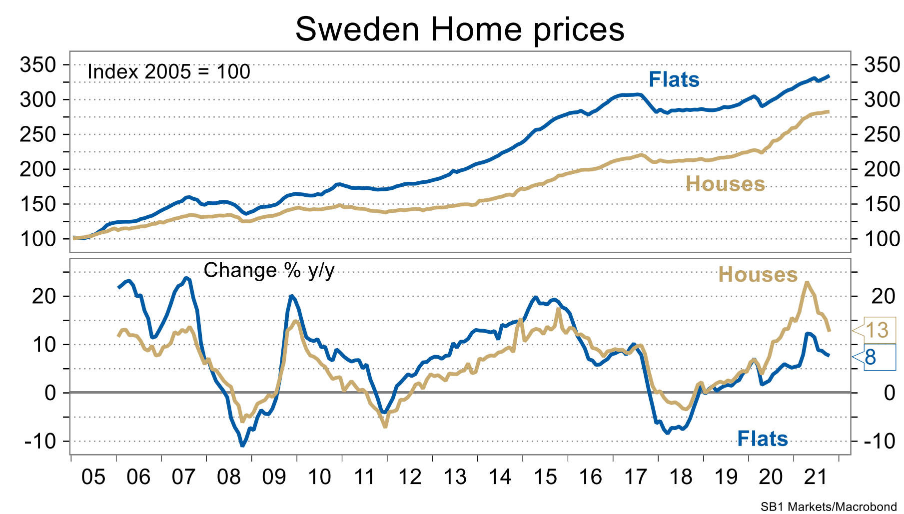


Swedish house prices up 0.4% in October – pace is slowing but level still elevated

The annual price growth has fallen to 11%, from the peak at 19%



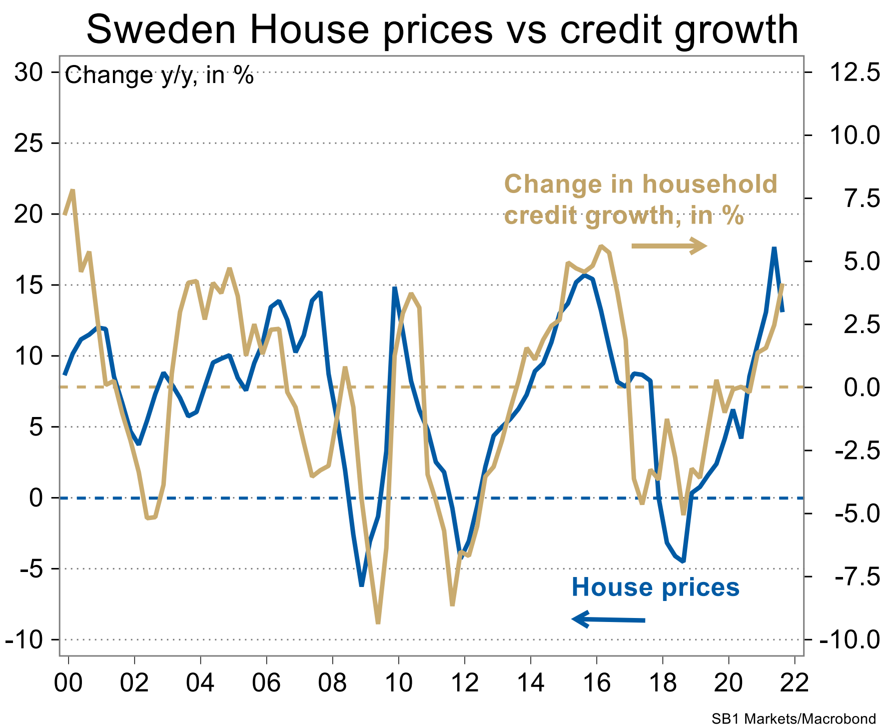


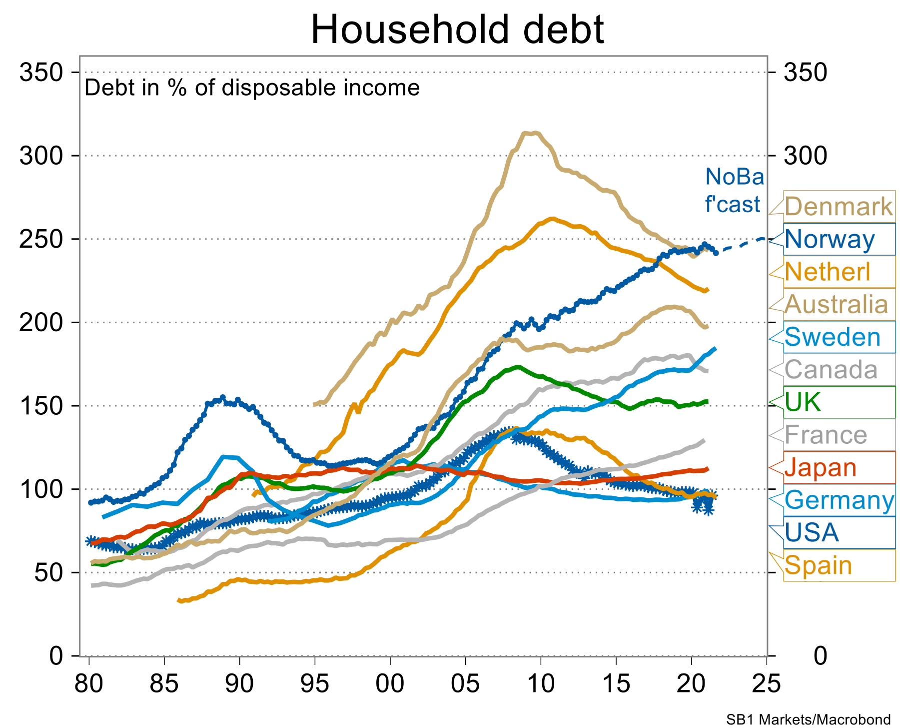


- The annual price inflation fell to 10.7% in October from 12.5% in September. In April the rate was 19%, measured from the local bottom in April 2020
  - » The underlying price growth (3m/3m) has slowed to just 3%
- Apartment prices fell in Malmø and Gothenburg (seas. adj.) and prices are below the May/June level. Stockholm prices rose further and was at ATH in October. House prices are slowing more than flat prices, reversing some of the opposite movement last year
- The Riksbank has 'promised' to keep interest rates unchanged until 2025

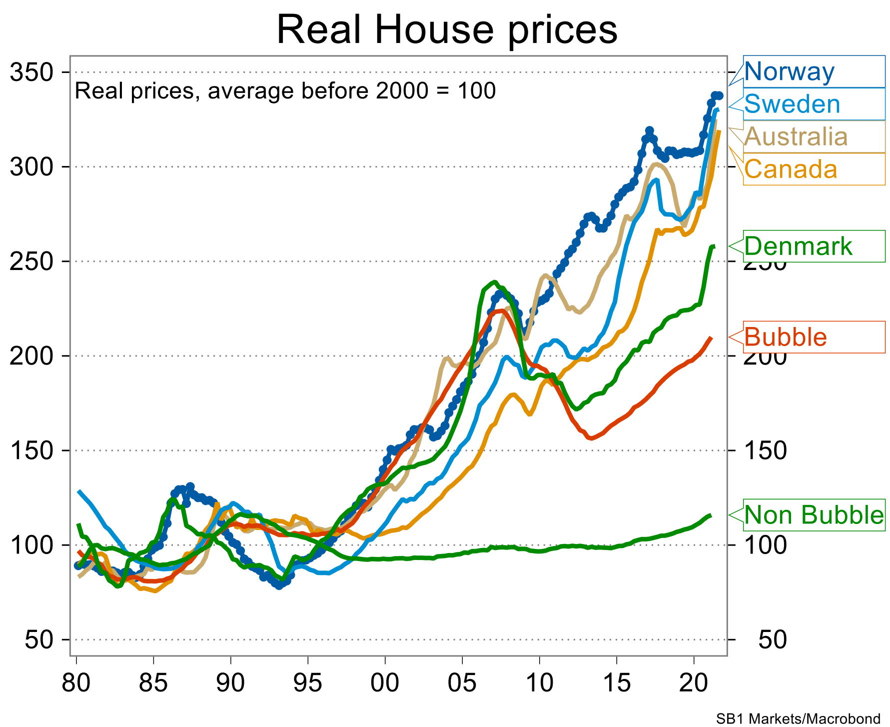
Credit growth is accelerating rapidly - and will for still a while

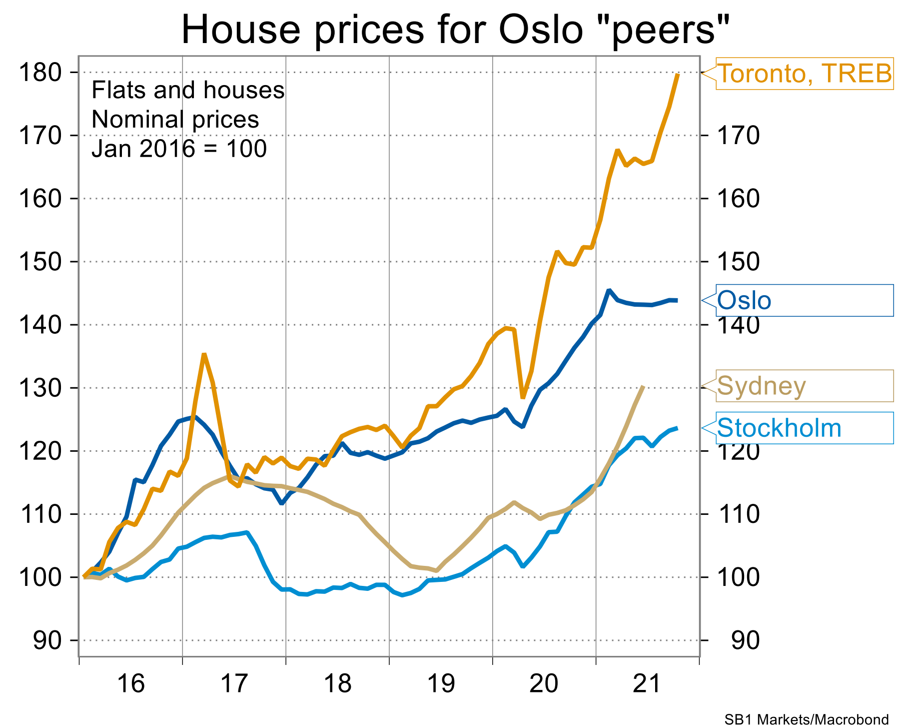
... and more than in any other rich country, without cuts in (record low) mortgage rates





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

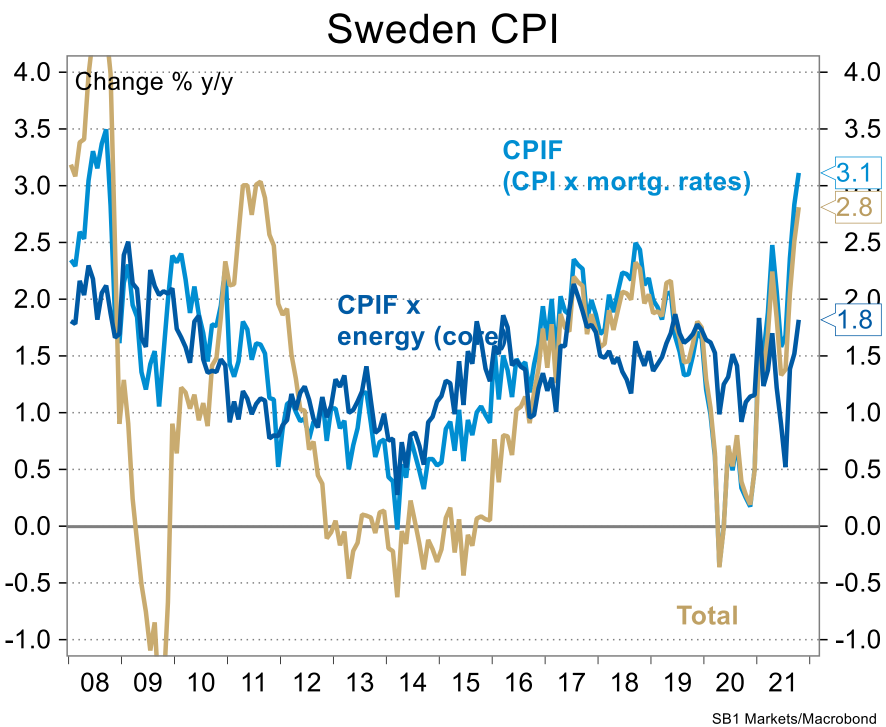


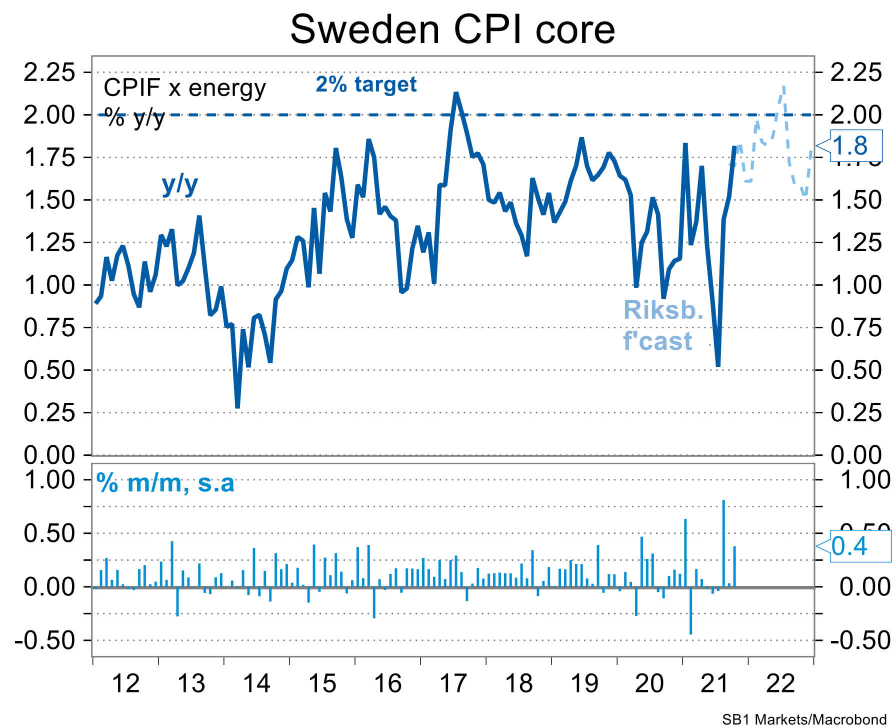


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Home prices in the capitals in these countries are mixed recent months, as Oslo and Toronto have taken a break – but Sydney is probably still on the way up

Ooops, CPI inflation up in Sweden too – but the core not more than Rix expected

The core up 0.4% m/m, up to 1.8% y/y from 1.5% - 0.2 pp more than expected. Total up 2.8%

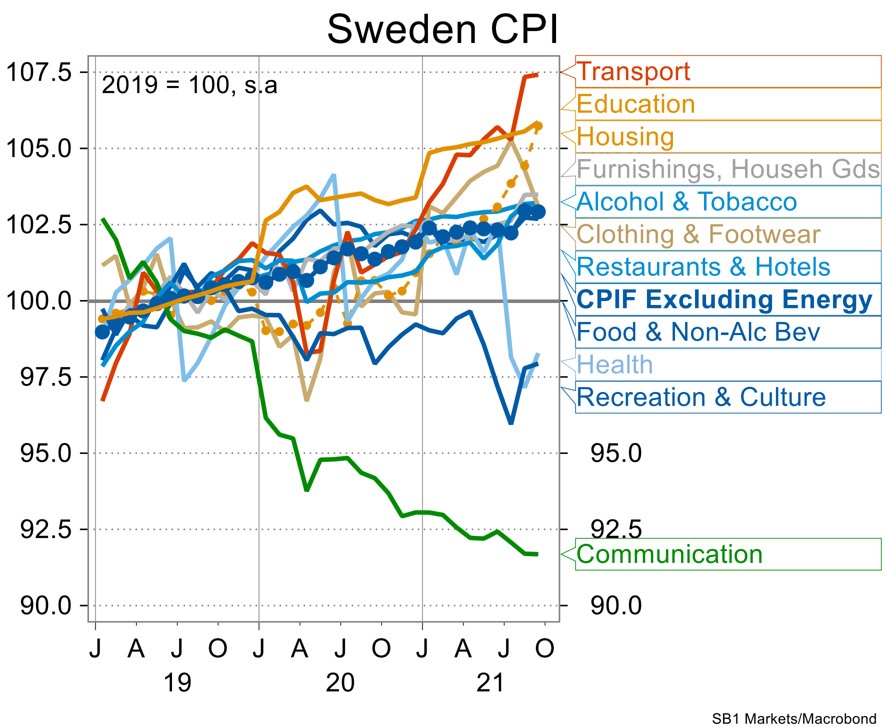


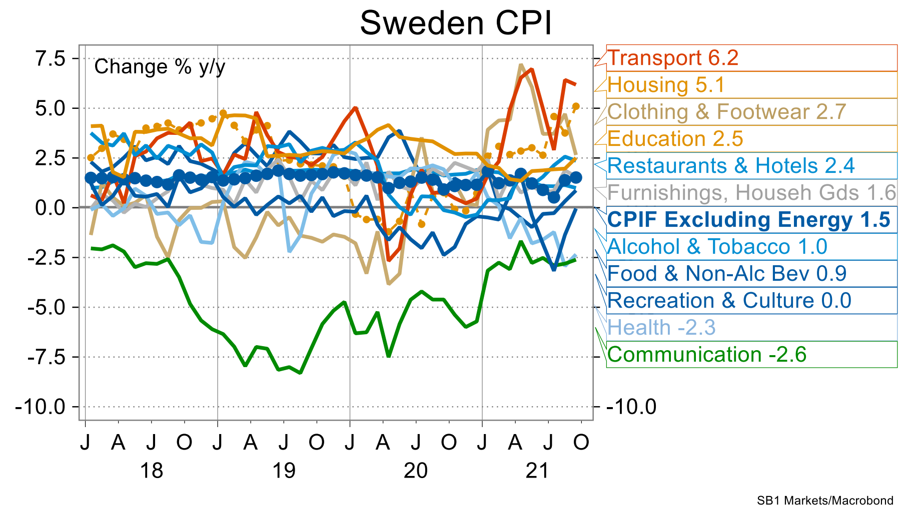


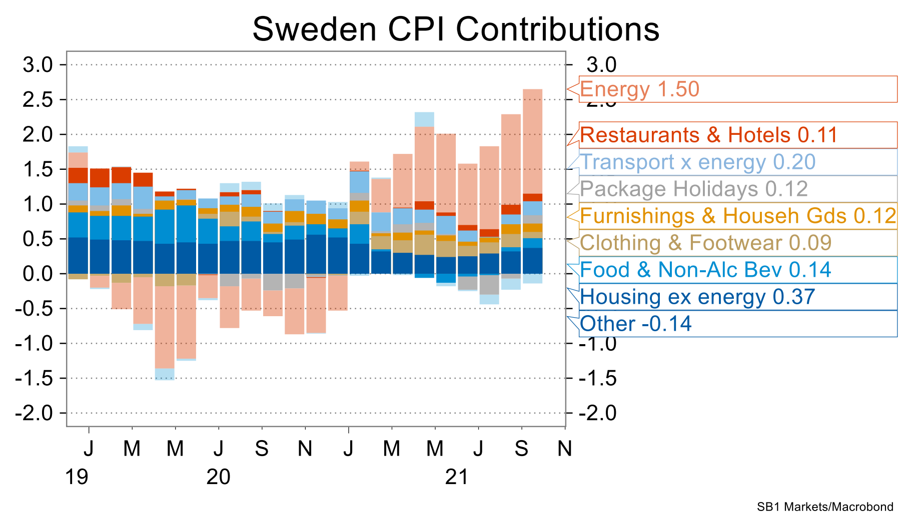
- **Headline inflation** accelerated 0.3 pp to 2.8% y/y in October, 0.1 pp more than consensus forecast
- **The CPI-F**, the constant interest rate inflation (CPI x mortgage rates) was up 0.4 pp to 2.8% y/y, 0.2 pp below expectations
- **CPI-F x energy, the 'real core'** was up 0.1% m/m, and the annual rate also rose by 0.1 pp to 1.5% y/y. The Riksbank expected 1.7%
- The increase in inflation was largely driven by an increase in energy, housing, and transport prices.

Energy, housing, and transport prices biggest contributors on the upside

In Sept, clothing prices fell sharply (1.2%) but most other sectors reported higher prices

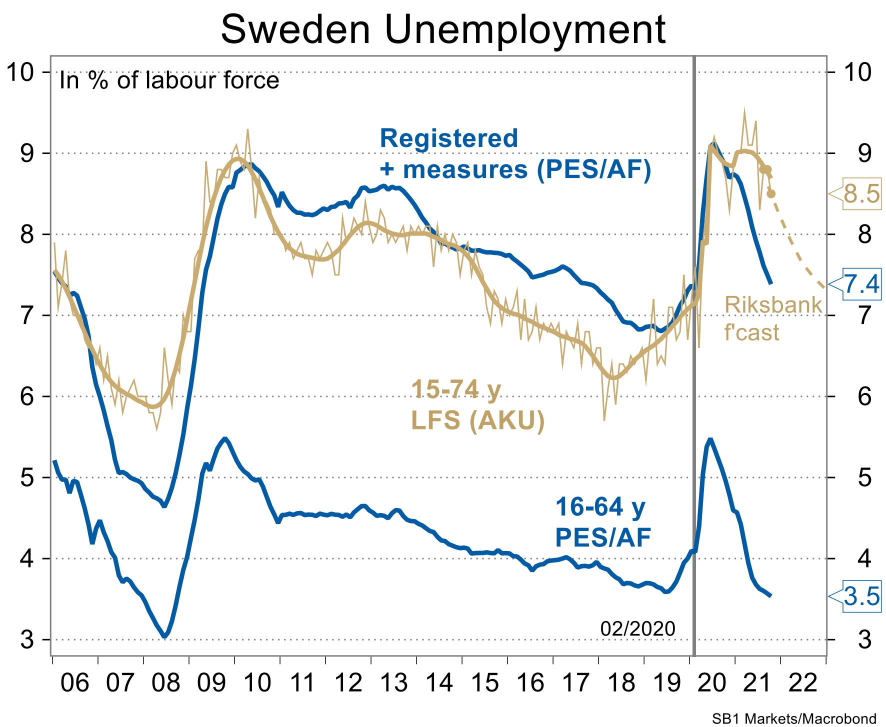


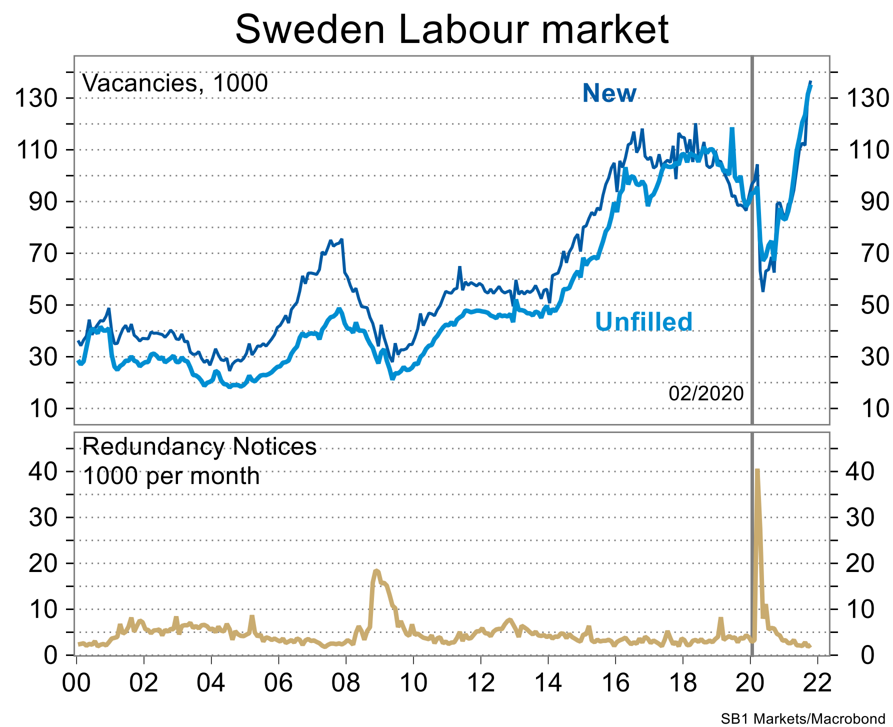




LFS unemployment is heading down, still at 8.5%, 1.3 pp above pre-p level

Open unemployment has fallen to 3.5%, to below the pre-pandemic level

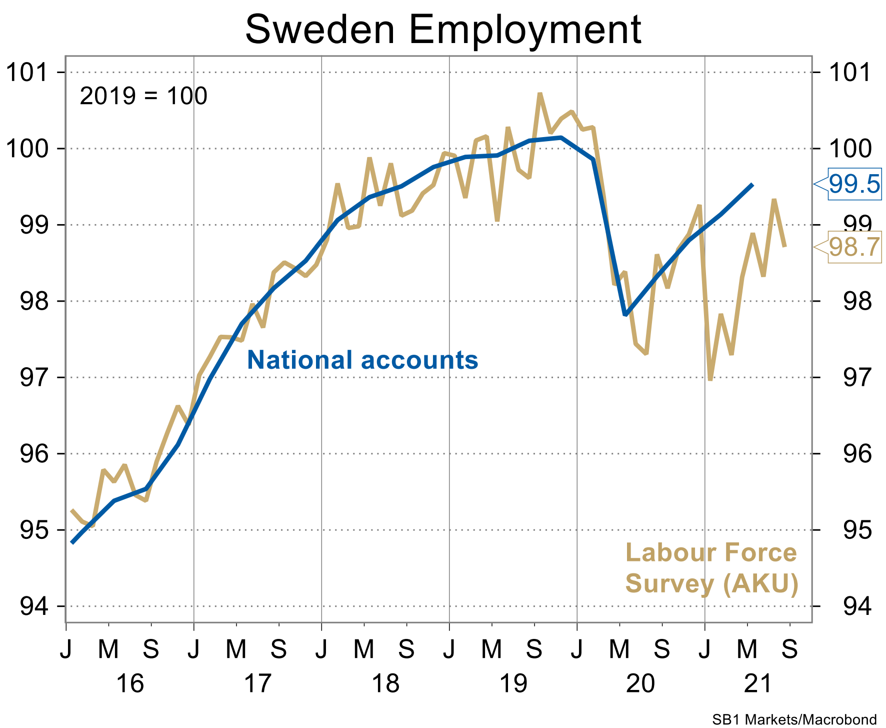


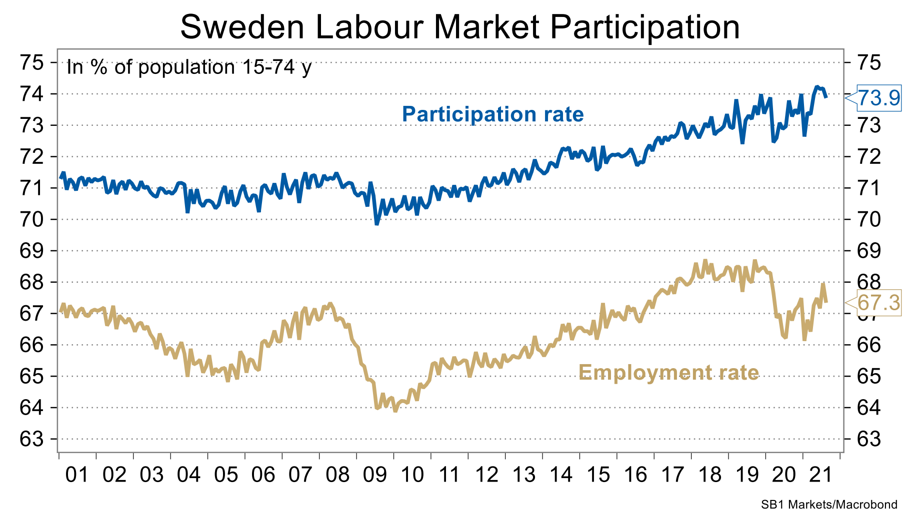


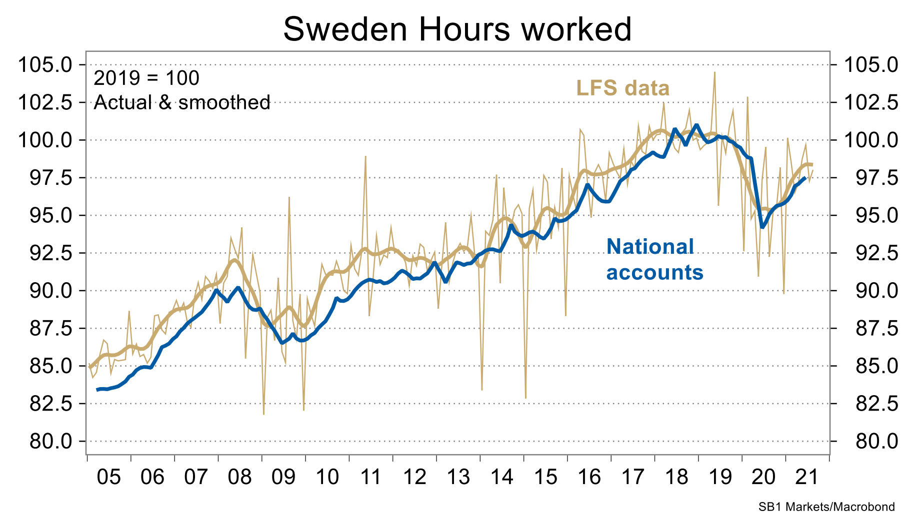
- The **LFS (AKU) unemployment fell 0.3 pp to 8.5%** in September, expected down to 8.4%. - and the level is up 1.3 pp higher than in early 2020. (However, this survey is heavily revised, and we are not sure the Swedes have made data comparable)
- **Registered 'open' unemployment** (PES/AF) has fallen rapidly since last June, and fell to 3.5% in Oct, and below the pre-pandemic level at 4.1%
- **Incl. labour market measures**, PES/AF unemployment is falling too. The rate fell by 0.1 pp to 7.4%, but the level is still 0.1 pp above the early 2020 level (but 0.7 pp above the local trough in mid-19)
- The **LFS (AKU) unemployment** was unch. at 8.8% in August (Sept data out this week) - and the level is up 1.2 pp higher than in early 2020. (However, this survey is heavily revised, and we are not sure the Swedes have made data comparable)
- The number of **new vacancies** and **unfilled vacancies** rose further, up to another ATHs! **Layoffs** were down in September.

The employment rate up, and labour force participation at record high levels!

Still, the employment rate is down 1.6% (1.1 pp) vs. late 2019. The participation rate is up!







- Employment is down approx. 1% from before the pandemic in Q2
- The participation rate fell marginally in August, but is at a record high level – which explains half of the increase in the unemployment rate since before the pandemic
- Hours worked has recovered substantially vs last spring, and are still on the way up - and are now 2% below the pre-pandemic level

Highlights

The world around us

The Norwegian economy

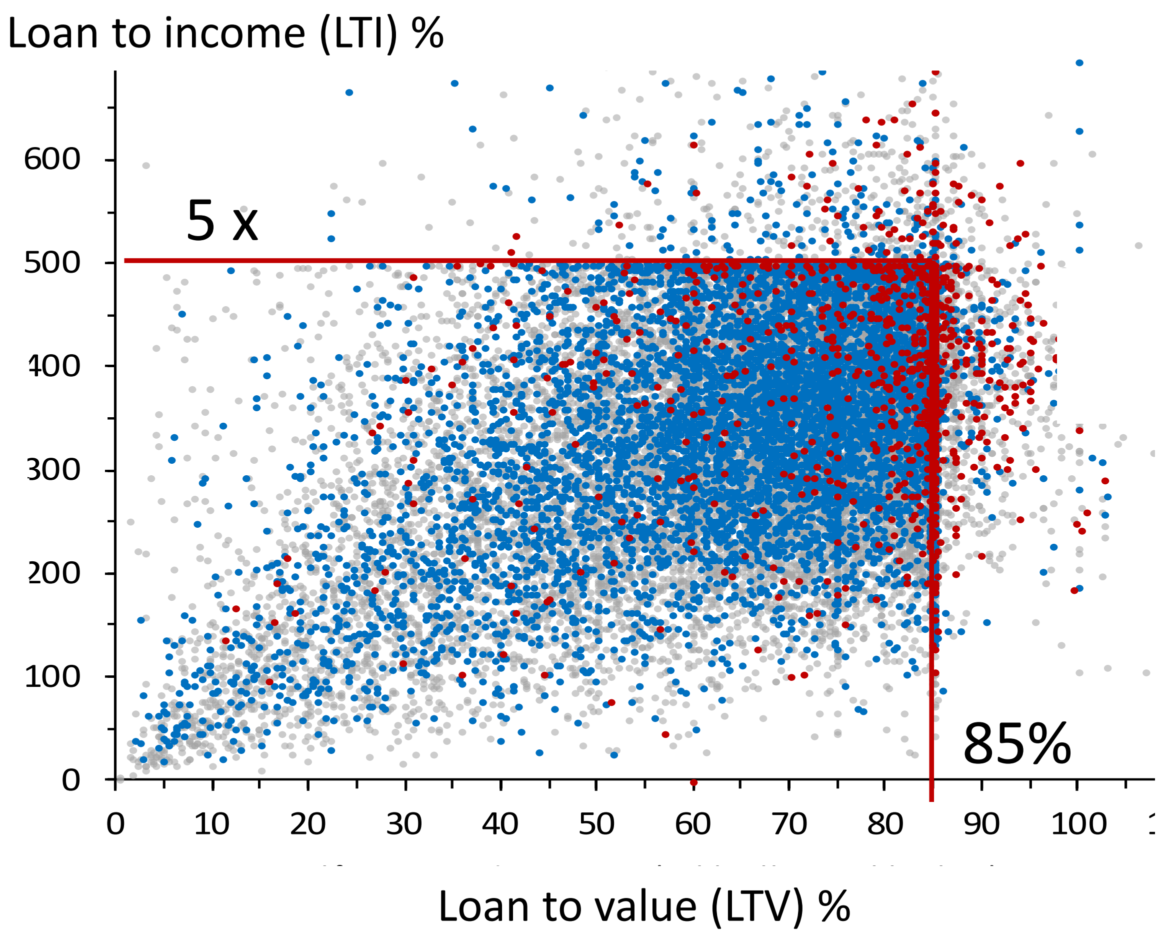
Market charts & comments

SpareBank 1 MARKETS

Finanstilsynet (FSA): More mortgage lending at high LTI income ratios

More mortages are clustering the against the maximum 5 x loan-to-income ratio

Single loans 2018 - 2021, LTI & LTV



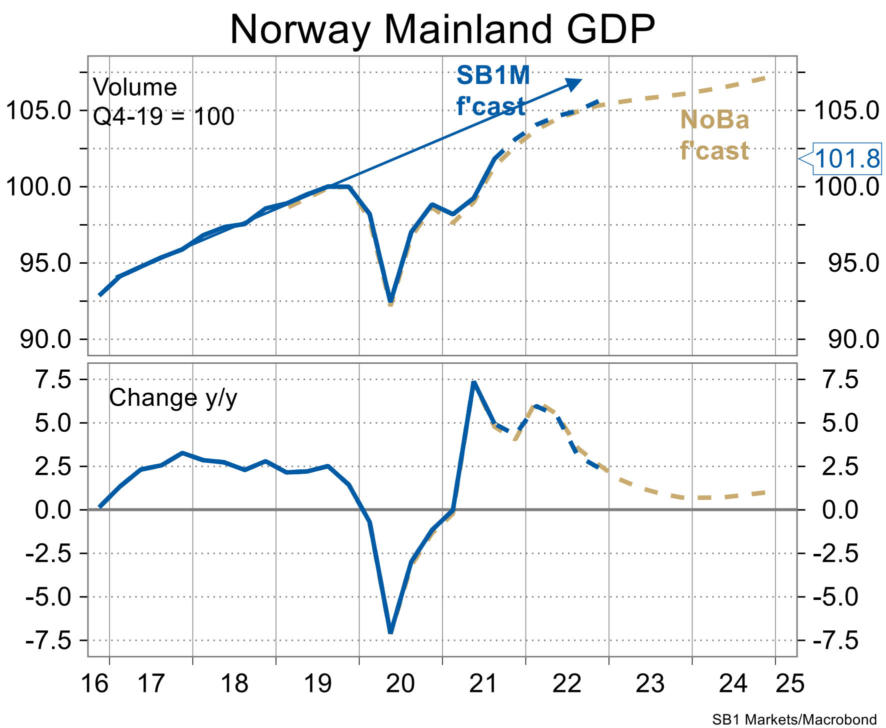
LTI ratio, new loans
Share of loans

* Avmerkingen langs x-aksen angir øvre grense i intervaller på 25 prosentenheter for gjeldsgraden.
Kilde: Finanstilsynet

Source; Finanstilsynet. Grey 2018-19; Red first time buyers 2021; Blue others 2021

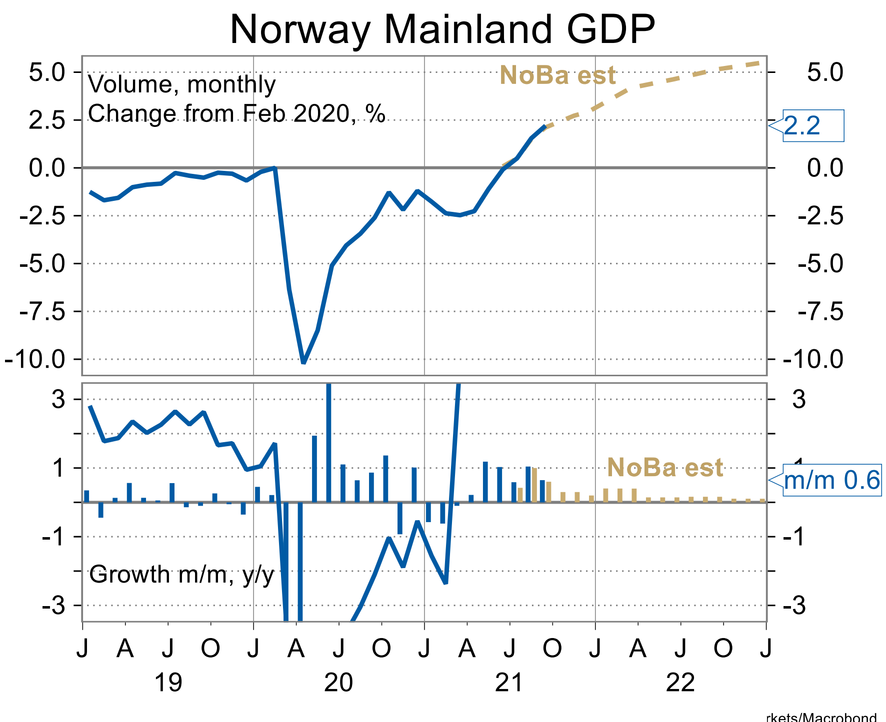
A full scale reopening recovery in Q3 – and a solid pace into Q4

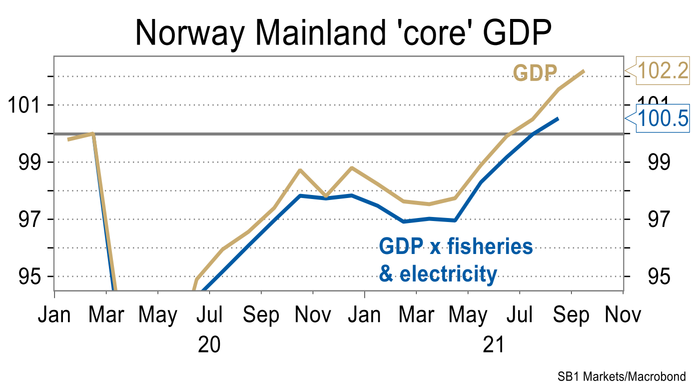
Q3 GDP up 2.6% in Q2 (10.8% annualised)



- **Mainland GDP** rose by 0.6% in September, and 2.6% in Q3. Growth in Sept was higher than expected following the August huge mackerel catch but Q3 in line with most forecasts. Q1 GDP was revised down, Q2 up by the same amount
  - » Norges Bank expected a 2.4% growth in Q3
  - » The Q3 Mainland GDP is 1.8% above the Q4-19 level. In September, GDP was 2.2% above the Feb-20 level
  - » Still, GDP is some 1.6% below the pre-pandemic growth path
  - » Q3 Mainland GDP was up 4.9% y/y
  - » Total GDP grew 3.8% q/q (16% annualised), 0.3 pp more than we expected. Oil and gas production (+shipping) added 10.7% q/q
- **Production:** Private services contributed most, as transport (12%), arts & entertainment (29%) and hotel& restaurants (57%) reopened in Q3. These sectors reported growth in Sept too. In Aug and Sept admin/business services grew rapidly as well – but all 4 remains below the Q4-19/Feb-20 level. In total, services, services gained 3.6%, lifting Mainland GDP by 1.6 pp. Most other sector also reported growth in Q3, fishing & agriculture the most – the latter lifting GDP by 0.2 pp. Manufacturing was flat and postal/courier activities fell
- **Demand:** Private consumption, exports (including foreigners spending in Norway), and oil investments rose in Q3, while housing and business investments fell
- **The outlook:** Several services have still a way to go, but growth will slow substantially from here

September details: Mainland GDP up 0.6%, 2.2% above Feb-20



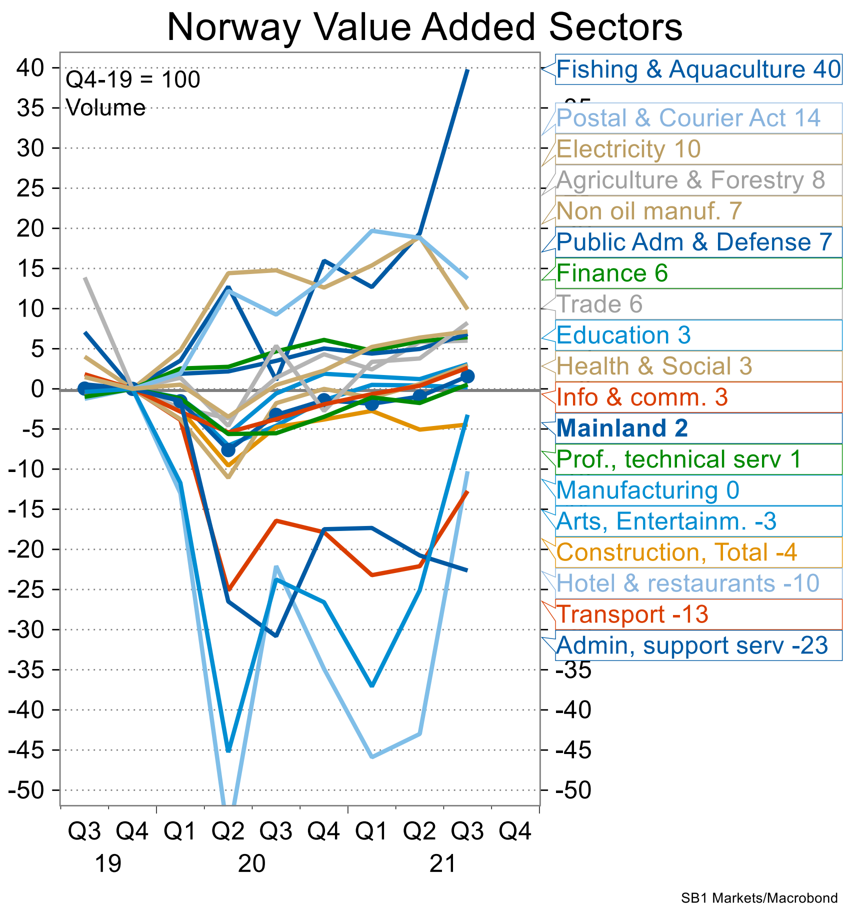


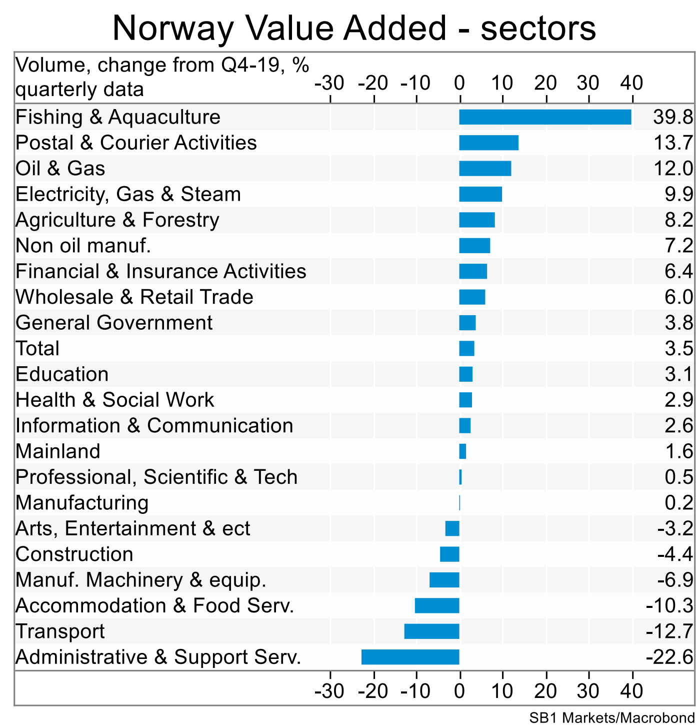
- **'Mainland' GDP** grew by 0.4 m/m in Sept, above consensus (0.4%) and our f'cast (0.3%) but in line with Norges Bank's f'cast. GDP is now 2.2% above the pre-pandemic level
  - » **August** growth was revised down 0.1 pp to 1.0%
  - » In August, production was then boosted by at huge lift in mackerel catches. We do not have precise info on fisheries in September but activity must have fallen – and the remaining 0.6% in September is rather impressive
  - » **Production in other sectors:** Private services were up 1.3 in m/m with a substantial contrib. from business services which gained 8% but transport and hotels/restaurants contributed too. Manufacturing production fell 0.4%
  - » **Demand:** Norwegians' spending at home was up 1.2%, services contributed the most. Mainland investments rose slightly, while oil investments fell marginally. Housing investments recovered from a steep decline the prev. 2 months
- **Mainland GDP is up 2.2% vs the Feb-20 level**
  - » **Adjusted** for fisheries and production of electricity, GDP is up some 1%
  - » **Production:** Hotels & restaurants, transport and business services are still down 8 - 15% (but far less than in Aug), in sum a 1% drag on GDP (from 1.6% in Aug). Trade is sharply up (8%), while manufacturing is down 1%, due to less production in oil related industries
  - » **Demand:** Norwegians' spending at home is up 7% from Feb-20, goods +15% (and is now heading down), services down just 0.1% and rapidly on the way up. Foreigners' spending is still down 51, and Norwegian households' abroad are still down 72%! So much more to come the next months and quarters (Oct airline traffic suggests as substantial increase). Mainland exports ex tourism is strong, as is housing investments. Just Mainland business investments are below Feb-19
- **The economy is recovering rapidly. The current virus outbreak will probably not hurt much, from a macro perspective**

SpareBank 1 MARKETS

Production: The huge mackerel catch is lifted fishing and aquaculture in Q3

Several services still on the low side Q3, but they are heading up (even admin. services)



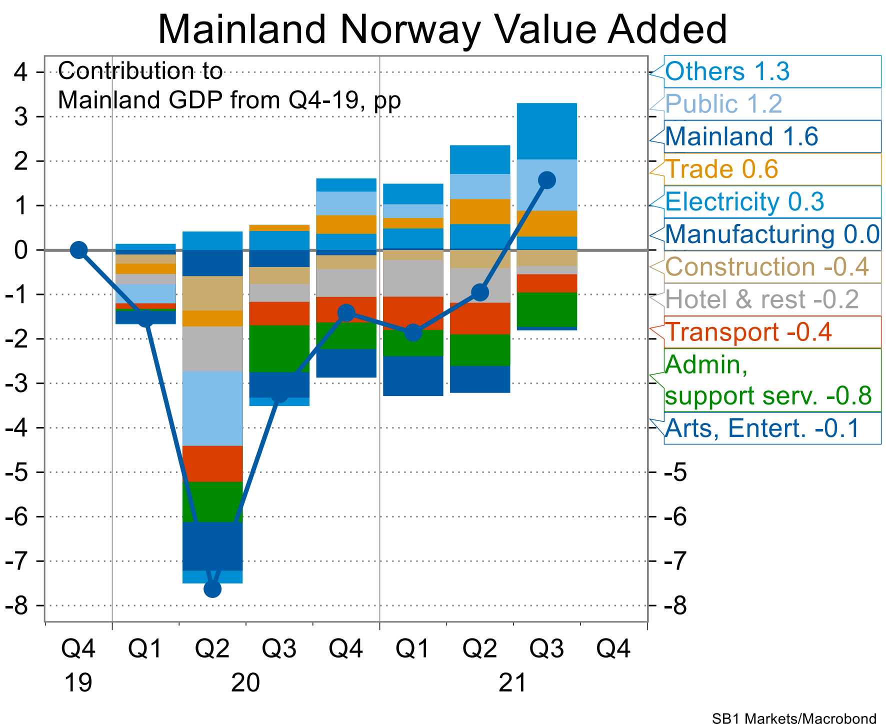


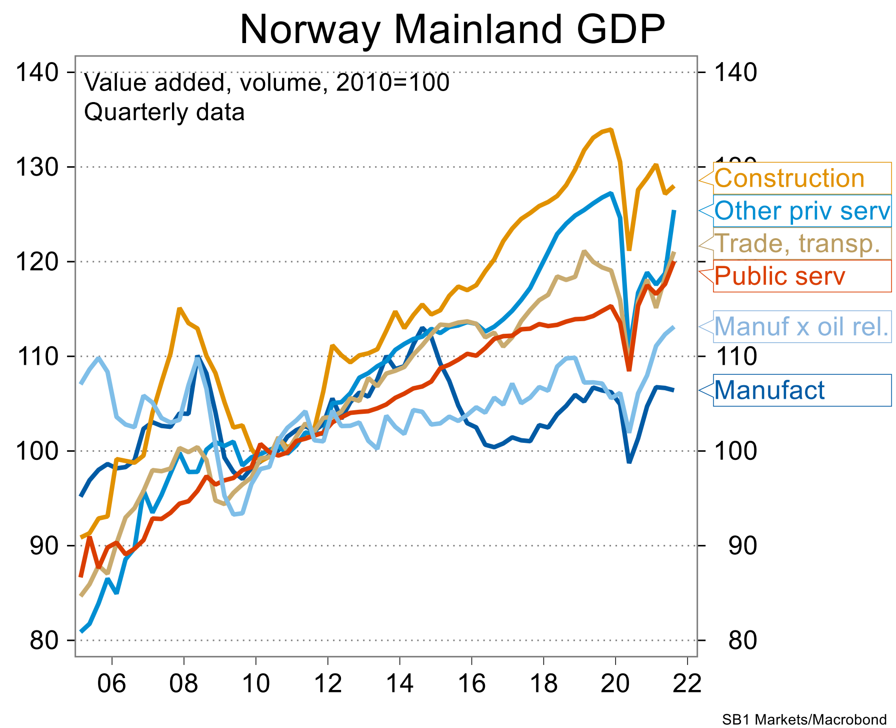
The Q3 data vs Q4-19 (some monthly aggregates at the previous page)

- **Hotels & restaurants** are down 10% vs Q4-19. Culture & Entertainment -3%
- **Administrative & support services** (like staffing & travel agencies, cleaning, canteens, leasing etc) are down 23%, but rose sharply in Aug/Sept
- **Transport** -13%, due to personal transport (bus, trains, airlines)
- **Construction** is far weaker than we have assumed, 4% down vs. Q4-19
- **Manufacturing** flat, due to the decline in production in oil related industries, others are up 6% vs Q4 19
- **Fisheries & Aquaculture at the top of the list, +40%, lifting GDP by 0.2 pp in Q3**
- **Postal & courier activities**, +14%. We have all seen them around – but activity is now declining

The hard hit service sectors still a 1.5% drag on Mainland GDP in Q3

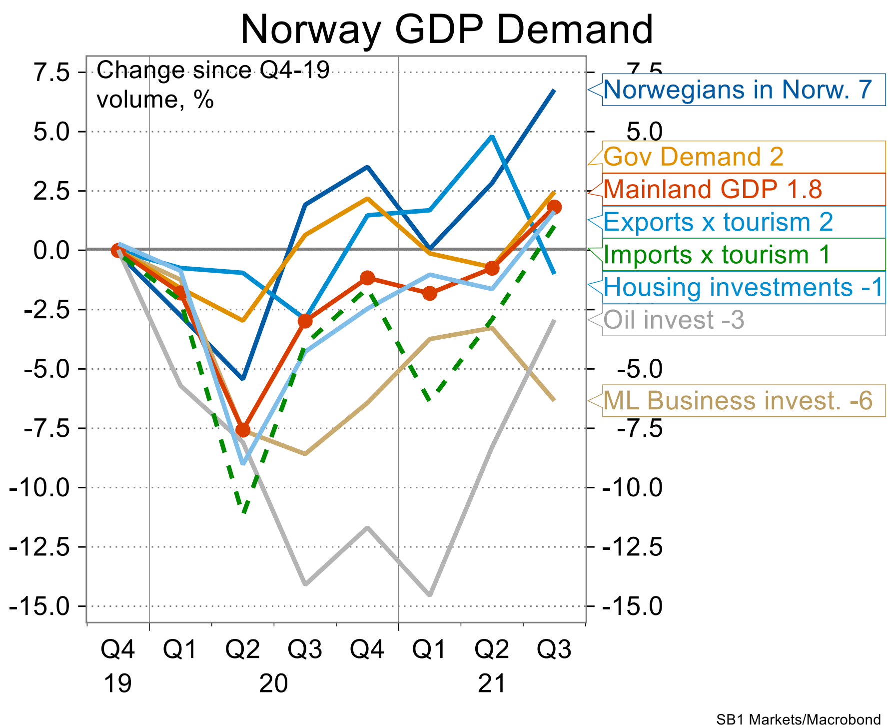
Construction is on the downside too

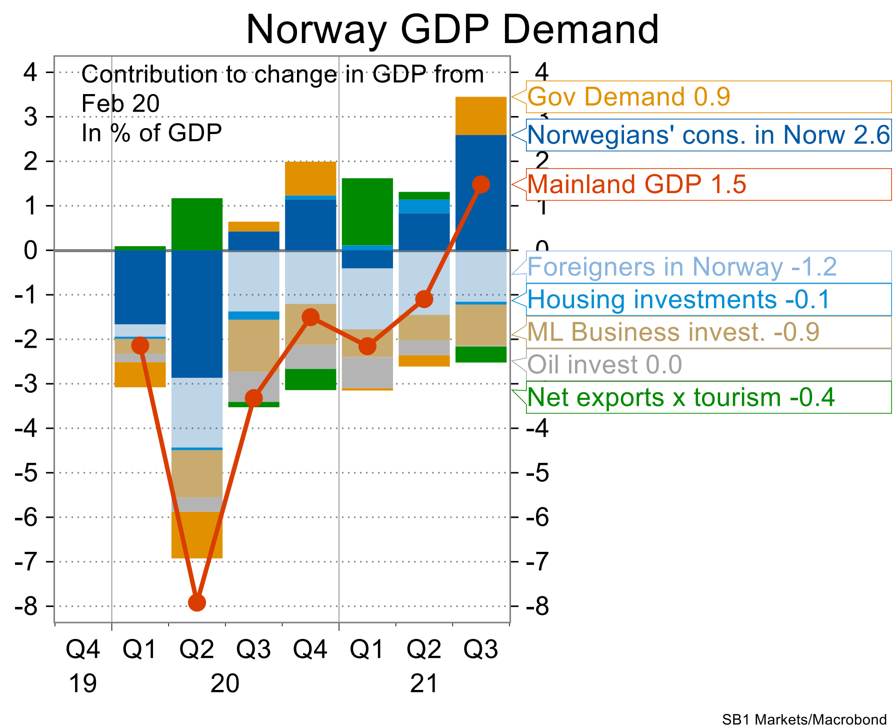




As Norwegians' spending at home climbed further

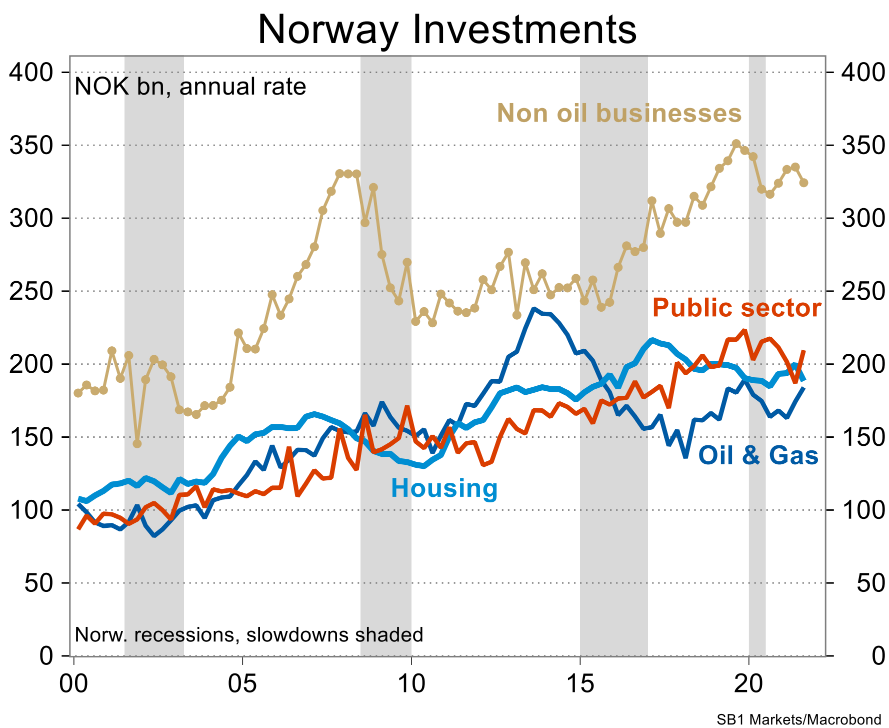
Oil investments, government demand up too. Housing & Mainland business investments down in Q3

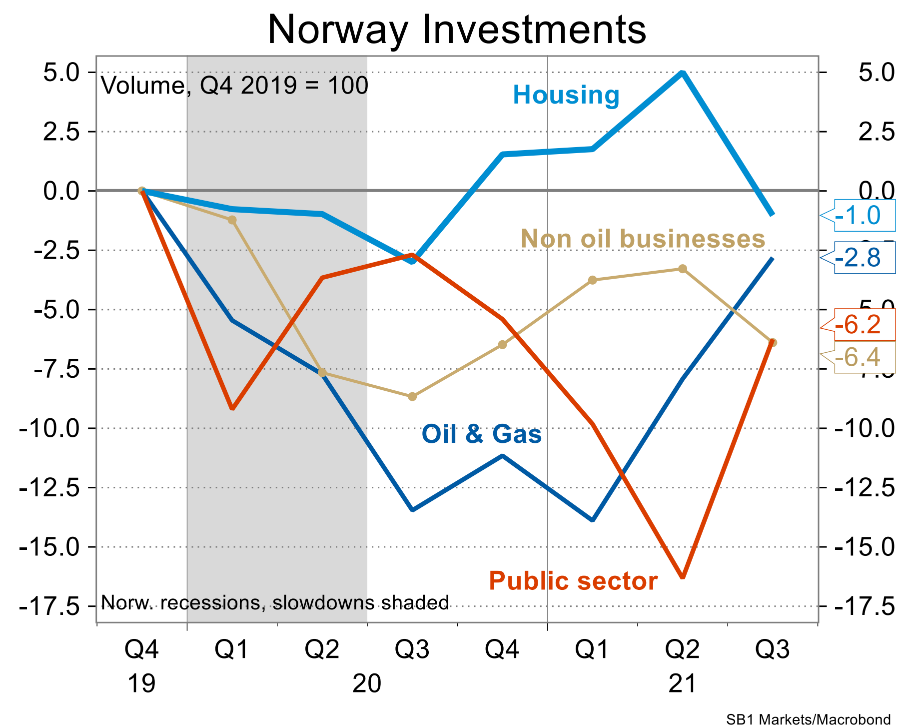




- Foreigners' spending is now recovering rapdily but is still far below a normal level, equalling 1.2% of GDP in Q3 (and 0.9% in September alone)

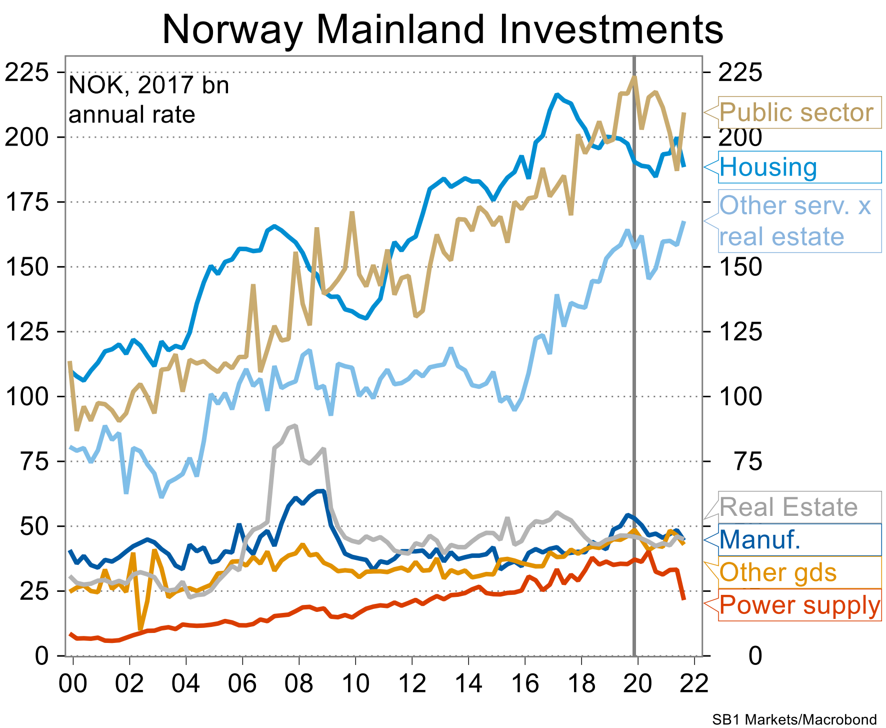
Investments mixed in Q3 – all main sectors below the Q4-19 level

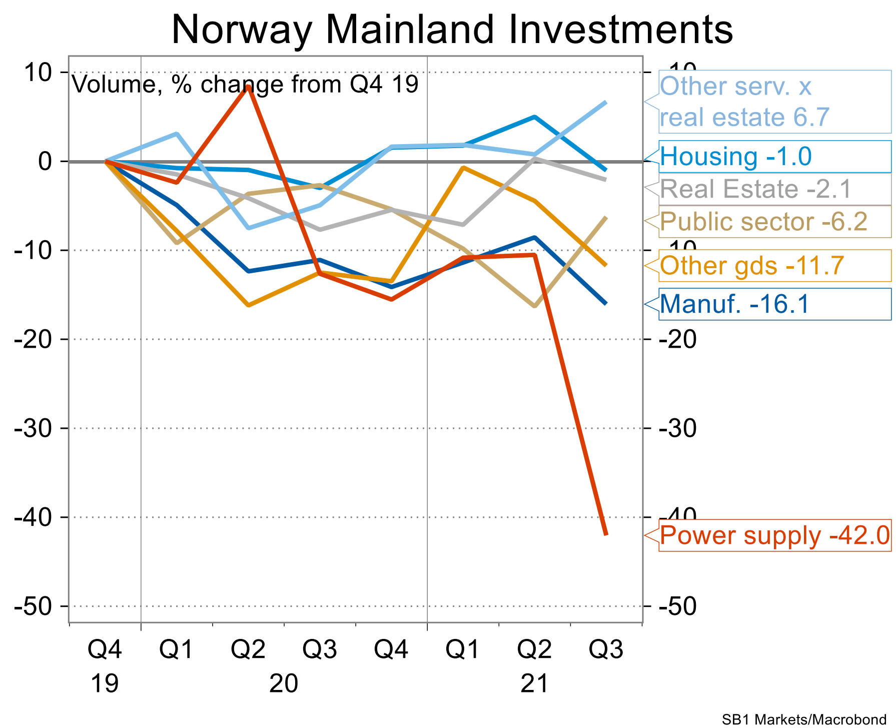




- Both Mainland business, housing, and oil sector investments were heading down before the corona virus hit, either measured by actual investments or vs. GDP, as signaled by investment plans/surveys (manufacturing & oil)
- Housing has been rather strong through the pandemic, others fell significantly. Housing investments fell in Q3, to 1% below the Q4-19 level
- Oil investments climbed in both Q2 and Q3 and are now just down 2.8% vs. Q4-19. Mainland businesses are down 6%
- Public investments are down fallen 6% (some fewer F-35 fighters?)

Mainland business investments down in Q3, full stop in power supply

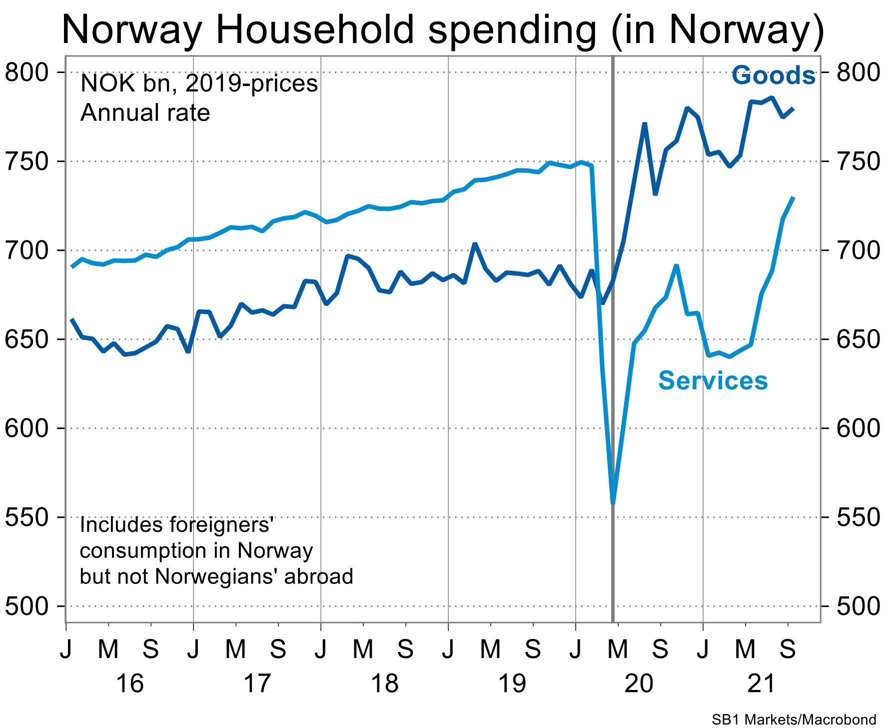


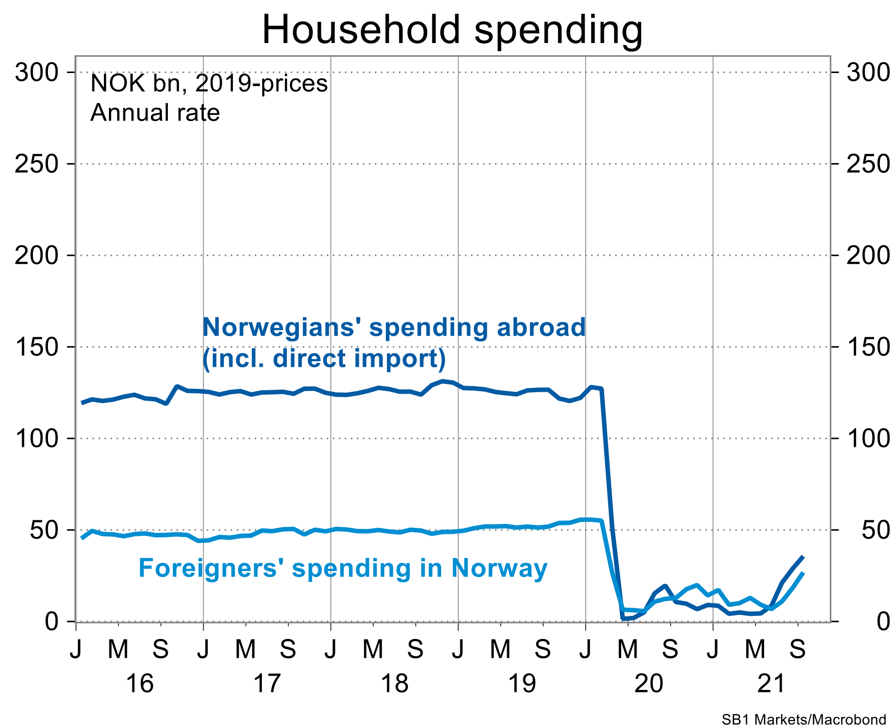


- **Public sector** investments are volatile but the underlying trend still downwards
- **Housing** investments fell to mid 2020 from 2017, but has since recovered. Currently up 4.2% vs. the Q4-19 level
- Investments in **private services** soared in 2016-2017, then flattened and fell sharply in H1 last year. Almost all of the corona setback was reversed in H2, before the level declined again in Q1. As of Q2, investments are 2% down from Q4 '19
- **Manufacturing** has flattened, following a 15% decline H1-20 as signalled by investment surveys before the pandemic. Surveys have now recovered, and investments increased in Q2
- **Real estate** investments were sharply up in Q2, but are still 4% down since before the pandemic
- **Power supply** investments fell last year – as signalled by SSB's investment survey – and is signalled sharply down in 2022

The recovery in services well underway but still more to come

And a substantial <u>downside</u> for goods, especially now as travel is possible again





- Foreigners' spending in Norway has recovered much faster than Norwegians' spending abroad
  - » Foreign spending is almost 50% of the normal
  - » Norwegian's spending abroad is down almost 75%

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

A continued increases in spending on services in September

Norway Consumption spending from Feb 20

Sales of consumer goods/ services & consumption	Change from Feb 20, NOK bn, annual rate, const. (bn)	% Change (%)
Sales in Norway	**73**	**5.1**
Goods	91	13.2
Services	-18	-2.4
Norwegians in Norway	**101**	**7.3**
Goods	102	15.3
Services	-1	-0.1
Foreigners in Norw.	**-28**	**-51.3**
Norwegians' consumption	**10**	**0.7**
In Norway	101	7.3
Abroad	-92	-72.0

SB1 Markets/Macrobond

Norway Consumption spending m/m

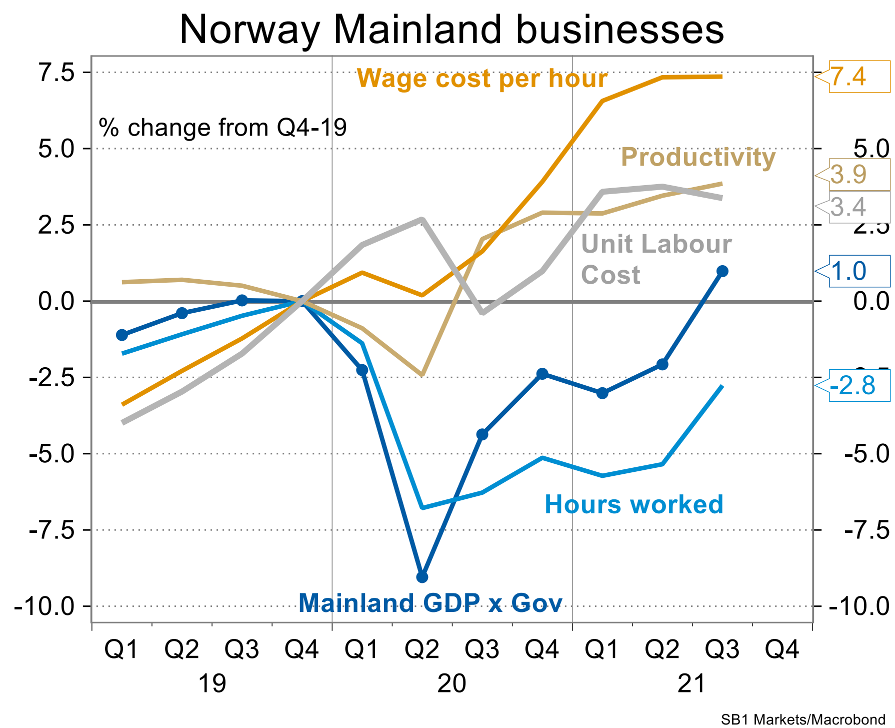
Sales of consumer goods/ services & consumption	Change m/m NOK bn, annual rate, const. (bn)	% Change m/m (%)
Sales in Norway	**18**	**1.2**
Goods	5	0.7
Services	12	1.7
Norwegians in Norway	**9**	**0.6**
Goods	2	0.2
Services	7	1.0
Foreigners in Norw.	**8**	**46.4**
Norwegians' consumption	**16**	**1.1**
In Norway	9	0.6
Abroad	7	23.6

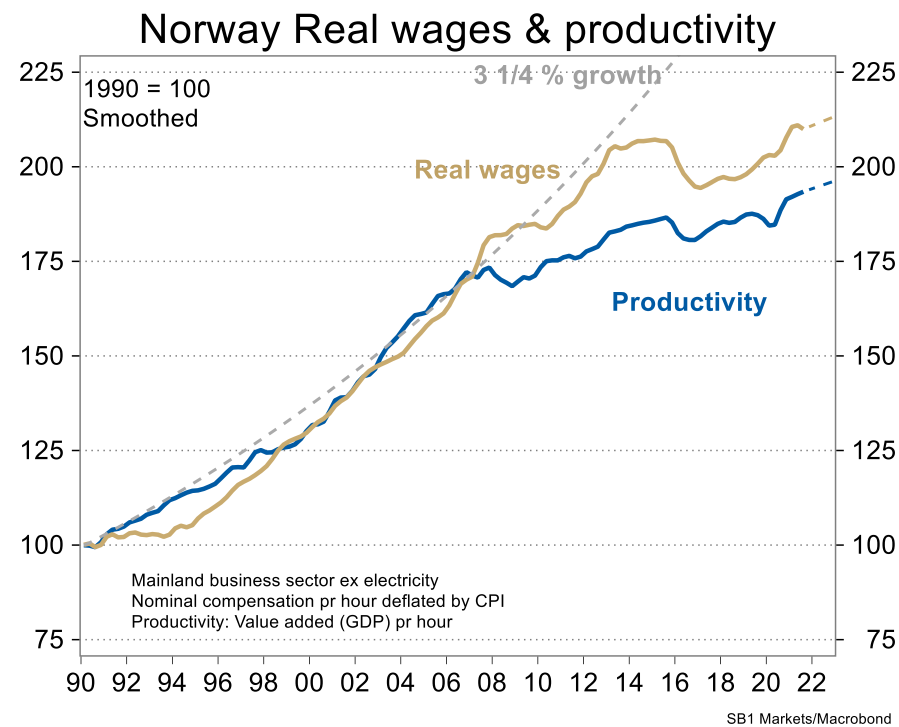
SB1 Markets/Macrobond

- **Sales of consumer goods** in Norway are up 13.2% vs. Feb-20, while services are down 2.4%, the sum up 5.1%
  - » **Norwegian households** have increased their consumption of goods in Norway by 15% while services are down 0.1%. The total up 7.3%
  - » **Foreigners demand in Norway** rose 46% m/m (from a low level…), and their spending in Norway is down 51% vs Feb-20
- **Total (Norwegian) household consumption** rose 1.1% in September, 0.6% in Norway, and 24% abroad. Consumption is up 0.7% vs. Feb-19, 7.3% in Norway, and spending abroad is still down 72%!!
- **We expect consumption to normalise** further the coming quarters. Demand for goods is very likely above long term trend and will slow when spending on services picks further up, and even more when we can start spending abroad again. Still, as foreign travel (at least excl. x-border trading in Sweden, will probably remain subdued for several quarters.
- We assume the **savings rate** fell by some 5 pp to 11.5% in Q3, still somewhat above the pre-pandemic level. What is 'left' will be spent abroad

Unit labour cost inflation at a 2% pace since before the pandemic

Wage inflation at 4.2%, as lower paid workers have not fully returned





- The **average hourly wage** has climbed sharply since Q4-19, at a 4.2% pace
- However, **productivity** has increased at a 2.2% pace, partly due to reduced employment in low value added sectors (hotels, restaurants, culture, business services)
- **Thus, unit Labour Costs** have been increasing at a 2% pace

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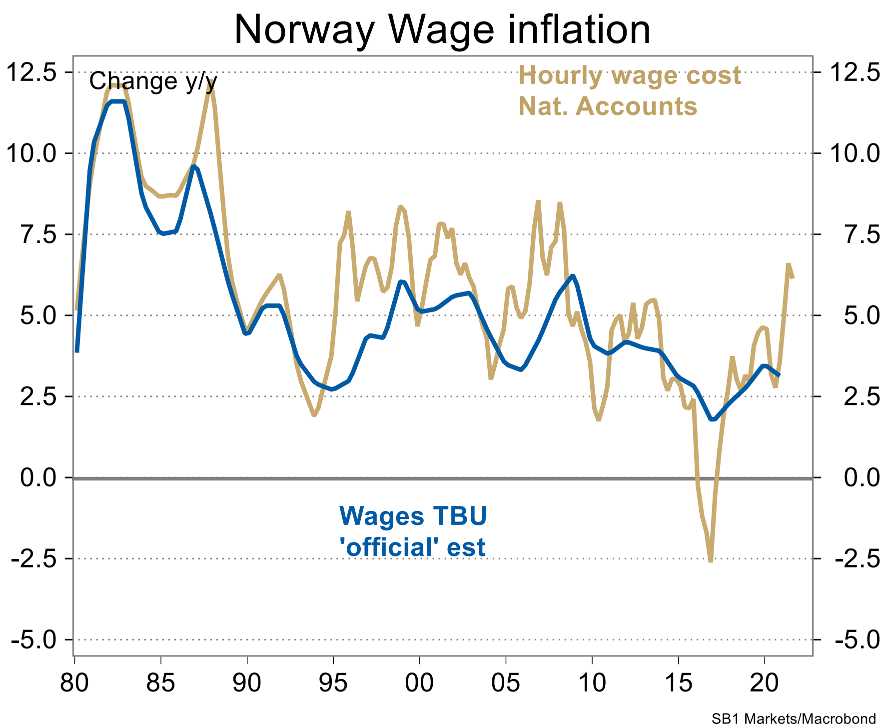
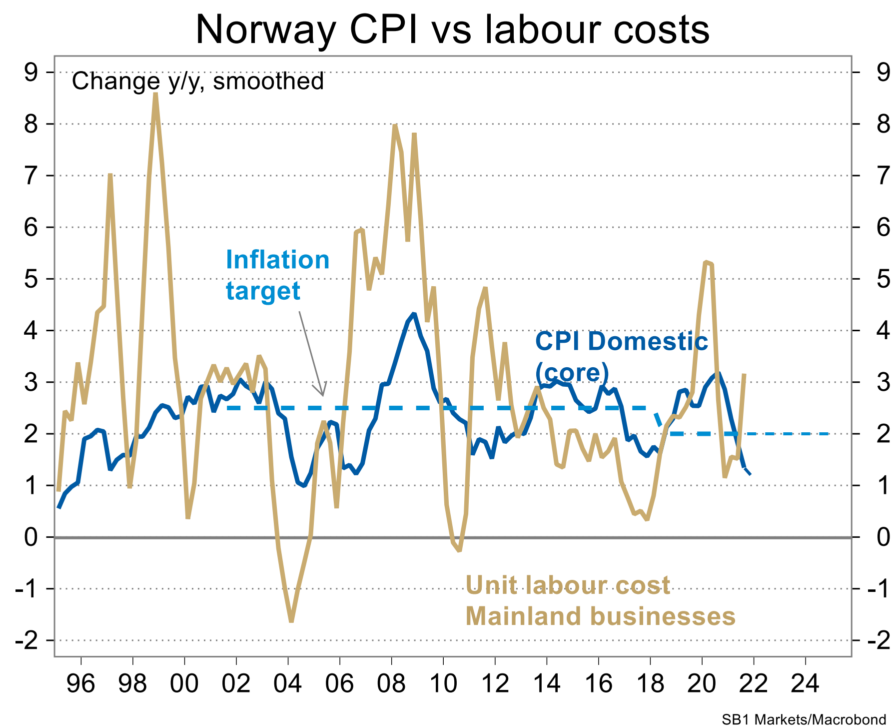
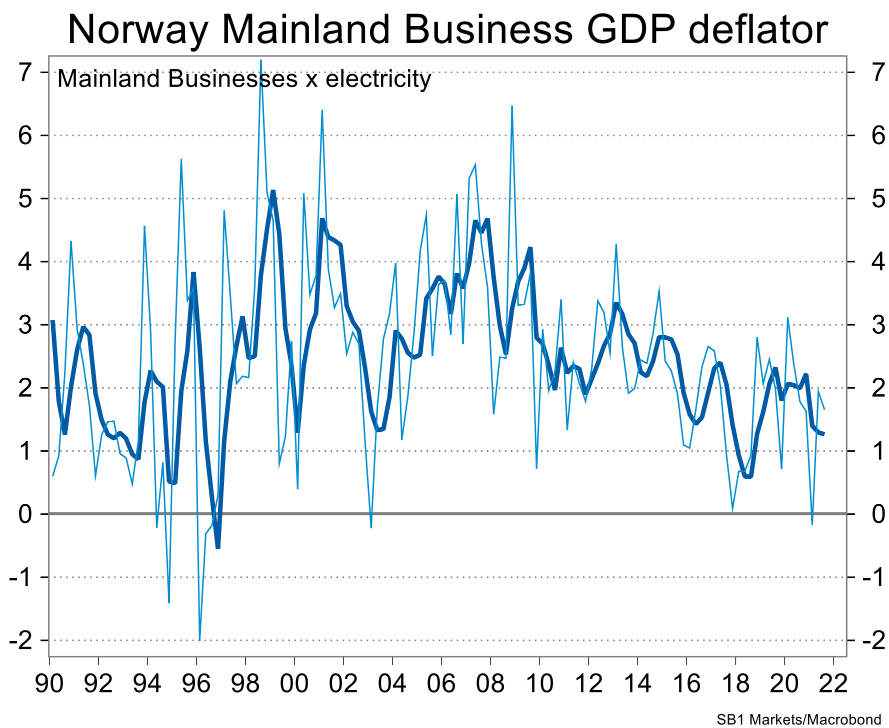
Cost inflation more or less in line with domestic core CPI inflatin

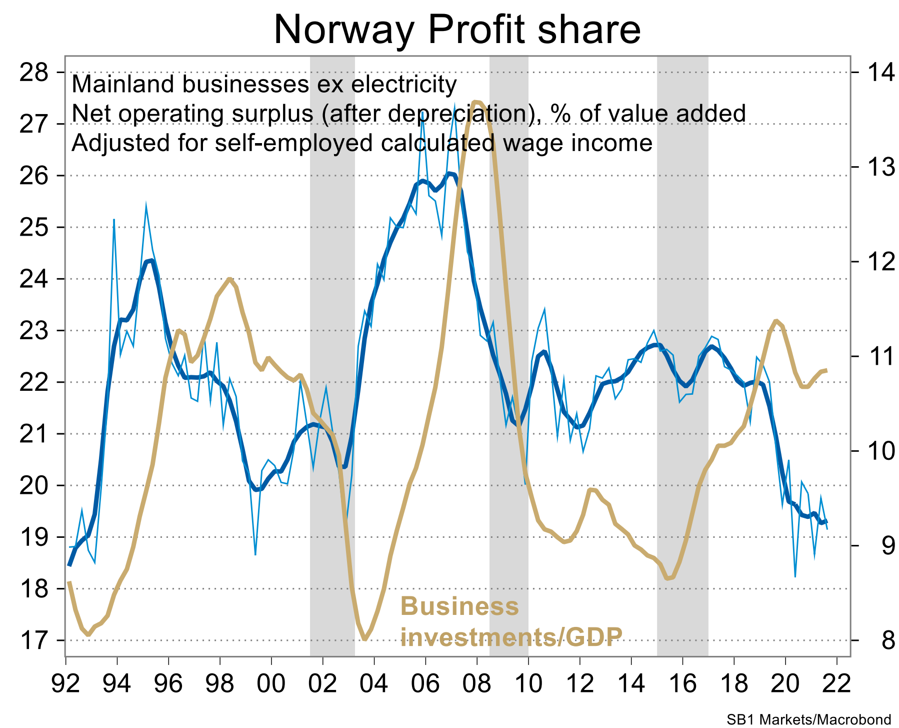




The profit share was under pressure, before corona – and still is

Gross margins are still heading down – and the level is rather low. Investments exposed?





- The Mainland business GDP price deflator (ex the volatile electricity sector) slowed to approx. 1.5%
- Wage growth – productivity growth is marginally higher (at 2%), and the gross margin is still slowly deteriorating
- The level is rathe low – which signals some risk vs the investment level

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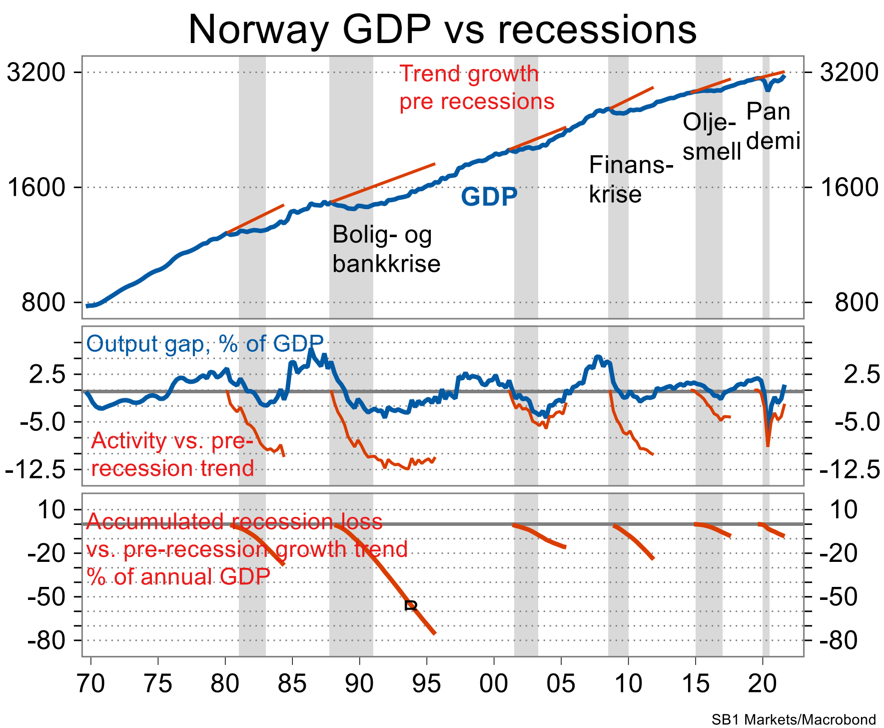
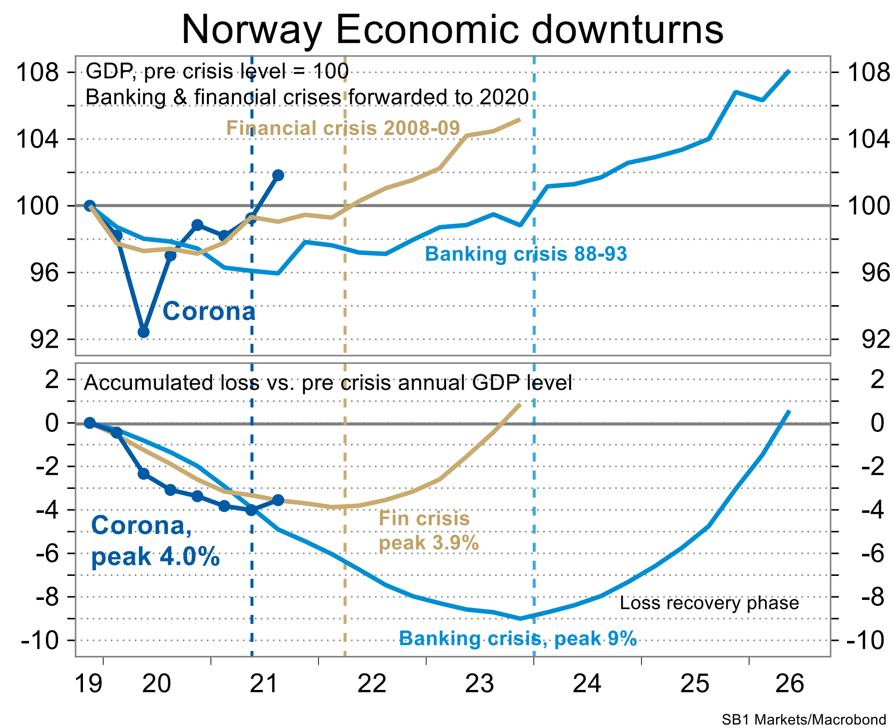
The Big Picture: Not a normal downturn, of course

The deepest and shortest downturn has not created large economic loses

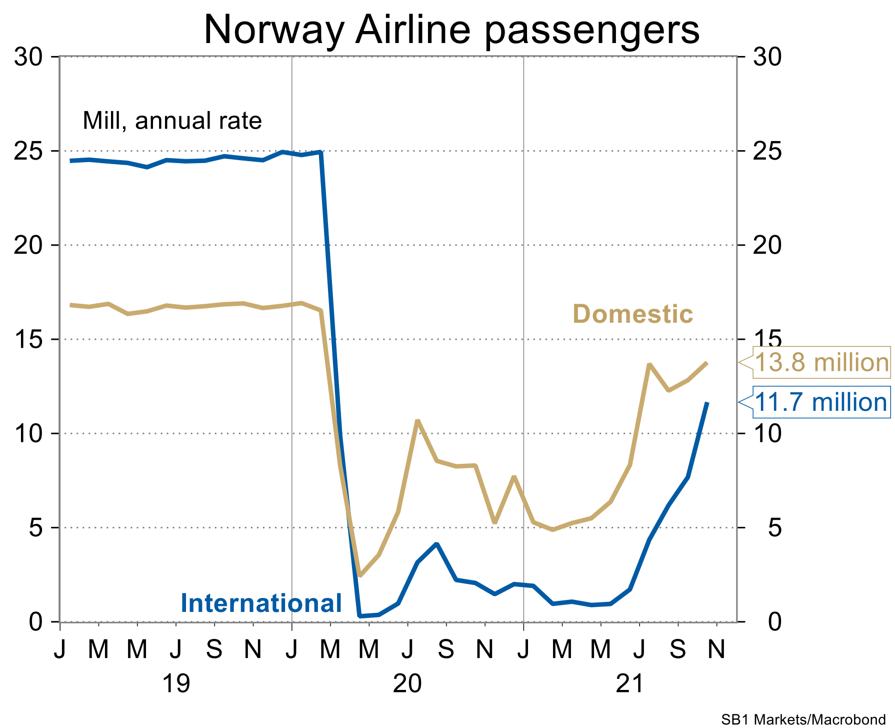


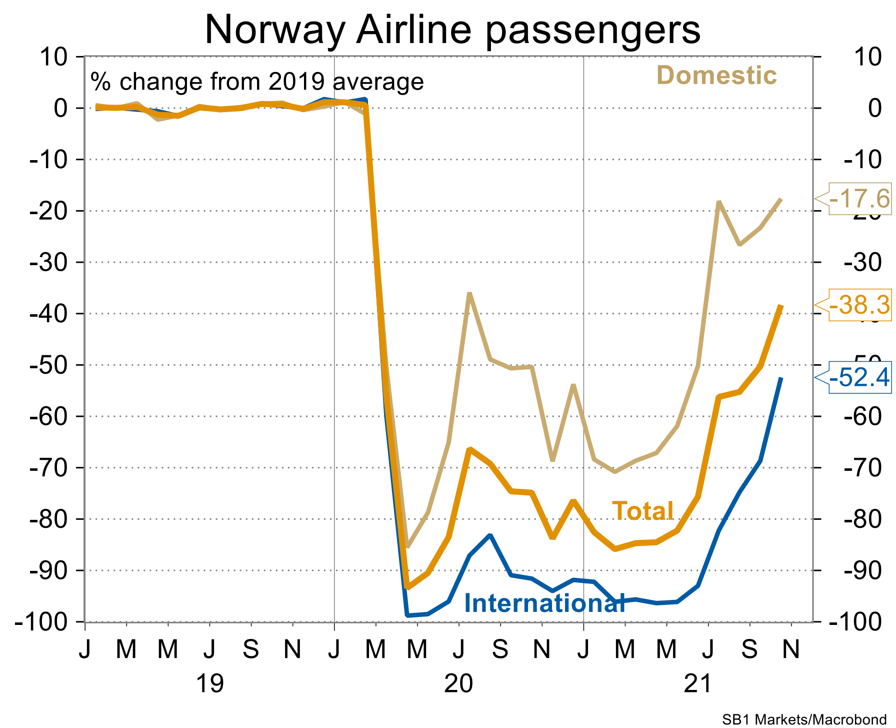


- A **pre-crisis growth trend** might be looked upon as a path that was expected among economic agents (household, companies, banks, market participants) before the crisis, based on their adaptive expectations. The loss vs this trend line is the economic/income loss vs. these expectations, a measure of the 'disappointment' (income, consumption, corporate earnings, etc)
- The accumulated loss vs the **pre-pandemic growth trend** is so far less than 10% of one year's GDP. The accumulated loss vs. the pre-pandemic GDP level peaked at 4.4%
- **The Banking Crisis** (88-93) created far longer and in sum much larger losses, in sum more than 70% of GDP (depending on when you stop counting, we do it rather arbitrary when our post the fact output gap is closed, in 1995). The loss vs. the pre Banking Crisis GDP level peaked at 9%
- The losses during and after the **Financial Crisis** (2008-2010) were substantial vs. the pre-crisis trend growth path, accumulated up to 25% of GDP before the output gap was closed in late 2011. However, the accumulated loss vs the pre FC GDP level was just 3.9% - less then the current loss during the pandemic downturn. GDP is now exactly at the same level vs the starting point as after the FC (upper panel, chart to the right above)

Airline traffic further up in October – domestic 'just' down 18% but internat. -52%

… vs the pre-pandemic level – so still a way to go. International traffic is now climbing fastest

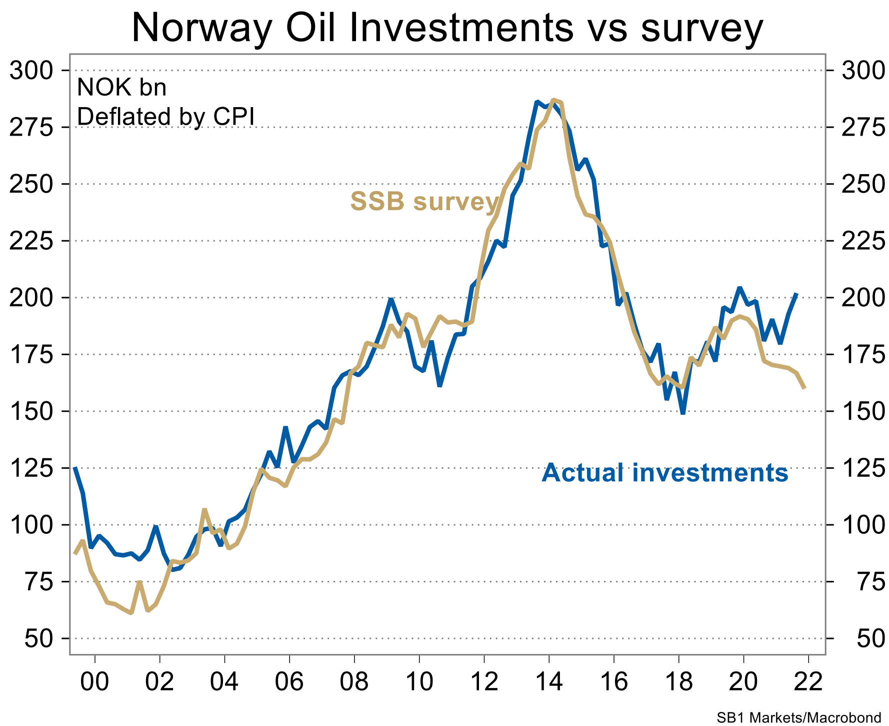


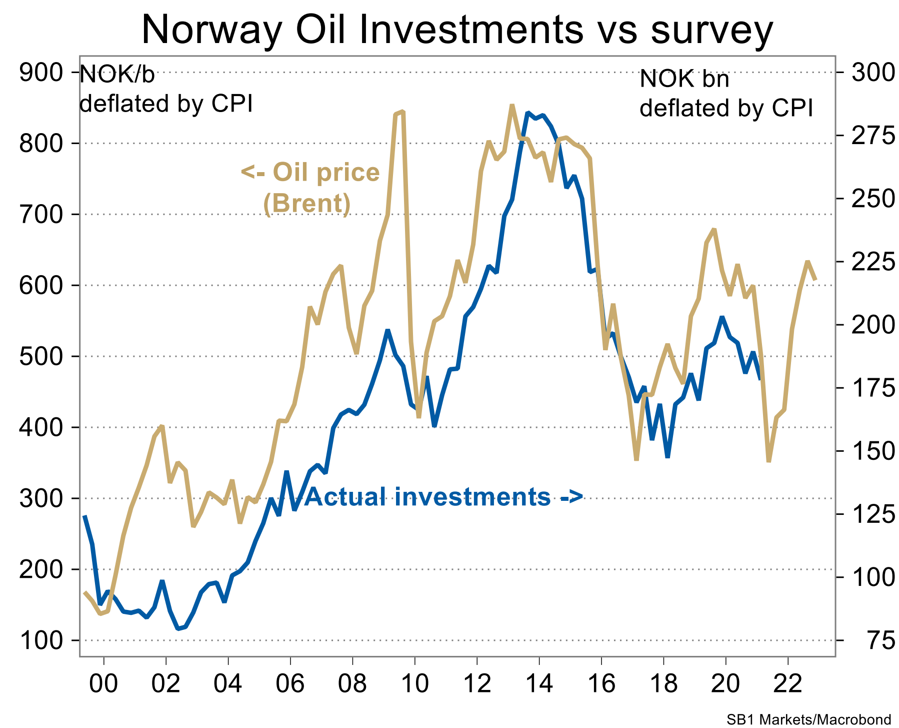


- Total traffic still down 53% - though from -76% in August. A couple more months with such growth, we are back ☺ (but it will no doubt take more time…)

’22 oil investments: Q4 survey better than we expected, still a small downturn?

We forecast a 5% drop in real investments next year, less than we (and Norges Bank) have assumed

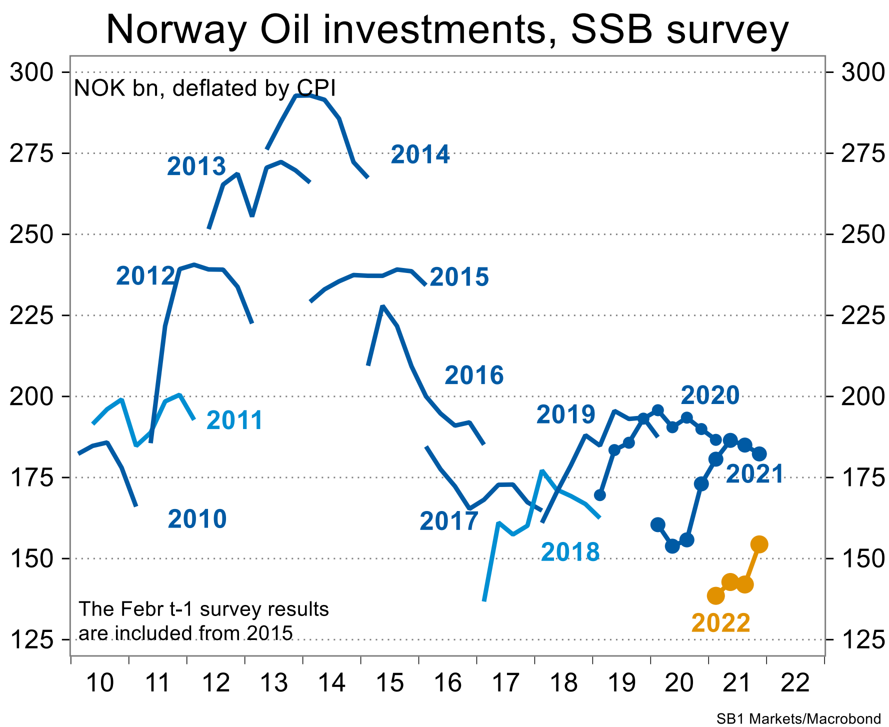




- Oil companies kept their **2021 investment forecast** unchanged at NOK 182 bn (as we expected), 2% below the equivalent 2020 estimate. <u>We expect a 4% decline, in volume terms</u>
- **The 2022 estimate** was revised up by 9% to 154 bn, 3% better than we assumed. The estimate is still 7% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) during this and next year in order to benefit from the temporary tax cuts decided last year – and a higher oil price is also supportive. <u>Still, we expect another 4% drop in investment volumes next year. In September, Norges Bank assumed a 8% volume decline next year</u>

2022 oil investments revised up but probably still a decline next year

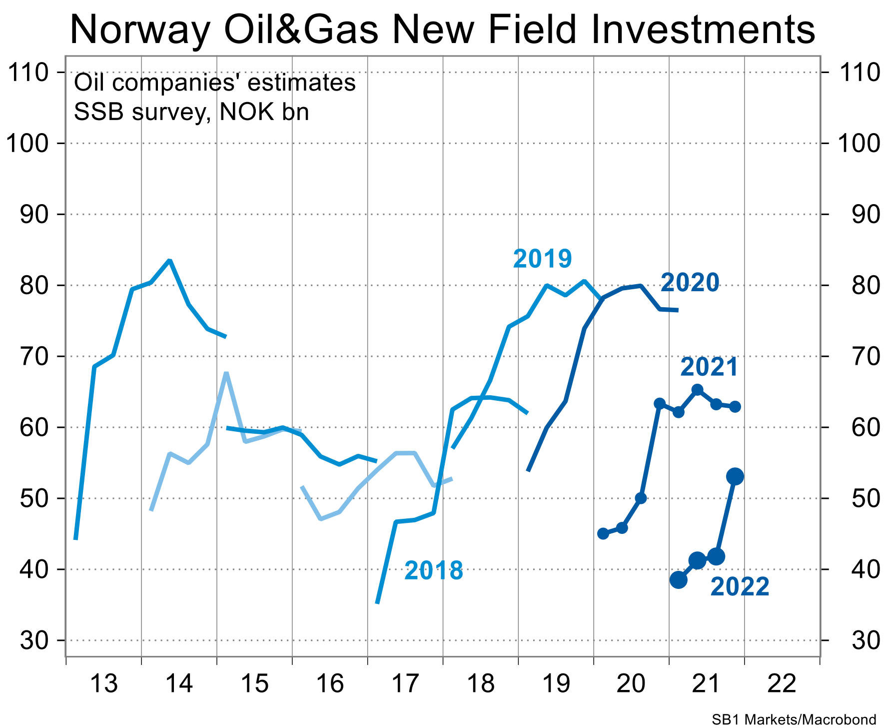
Some more projected will be added but the ‘tax cut surge’ will come in 2023 onwards

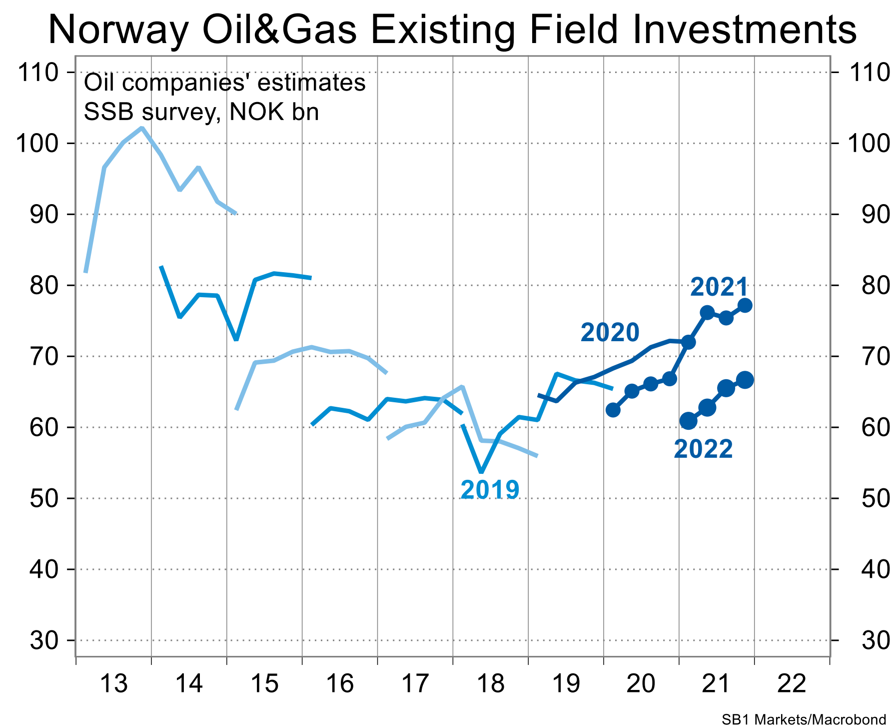


- In SSB’s Q4 oil & gas investment survey, companies kept their **2021 investment f’cast** close to unch at NOK 182 bn. The current estimate in line with the equivalent 2020 f’cast, which is a fair estimate for the final outcome as well. Prices have so far been up just 1%, and in volume terms a small decline is signalled. National accounts have so far in 2021 reported a growth in real investments, and barring a considerable setback in Q4, oil investments will increase by a small single digit number in 2021, better than most expected
  - » In 2021, exploration & investments in existing fields contributes at the upside, while investments in new fields are down some 18% as large projects (like Johan Sverdrup) were completed last year
- **The Q4 2022 investment estimate** was revised up by down by 9% to NOK 154 bn, still down 7% vs the equivalent ‘21 estimate, 3% better than we expected. More projects will be added in order to benefit from the temporary cut in oil taxes, but we still assume a small decline in value terms y/y in 2002, or 5% in volume terms, less than the 8% Norges Bank assumed in September. In 2023 and the coming years, we expect much higher investments
  - » The decline in 2022 is largely driven by a 18% drop in investments in new fields, and an even steeper decline in exploration and concept studies
- **Conclusion:** A short and shallow downturn in oil investments – then another boom, at least a mini boom. Norges Bank may lift its f’casts

Companies lift their new field '22 f'cast by NOK >10 bn to 53 bn, more to come?

Some projects will be added but probably not sufficient to prevent a decline in 2022

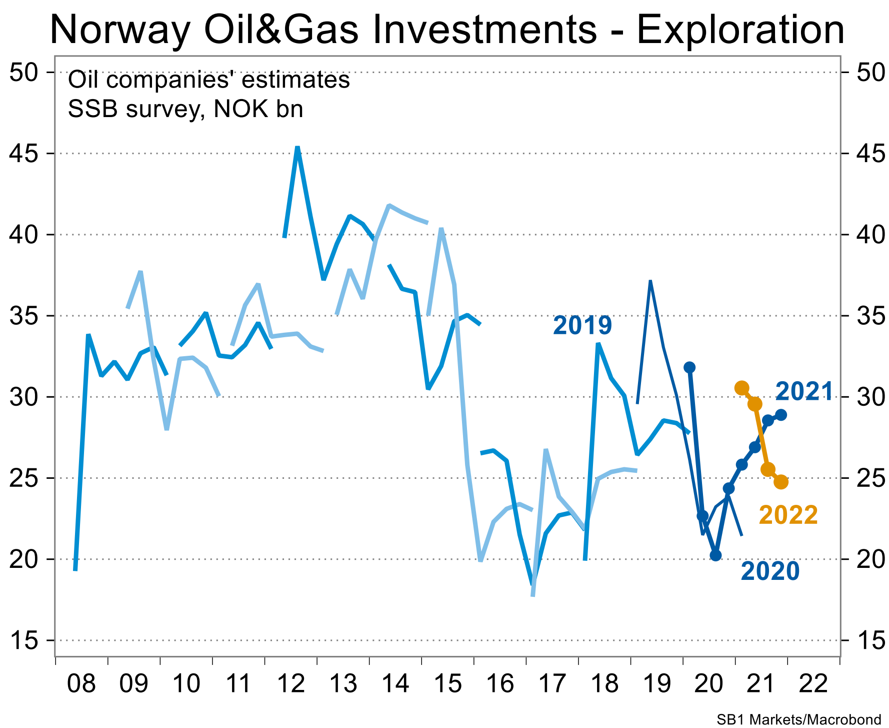


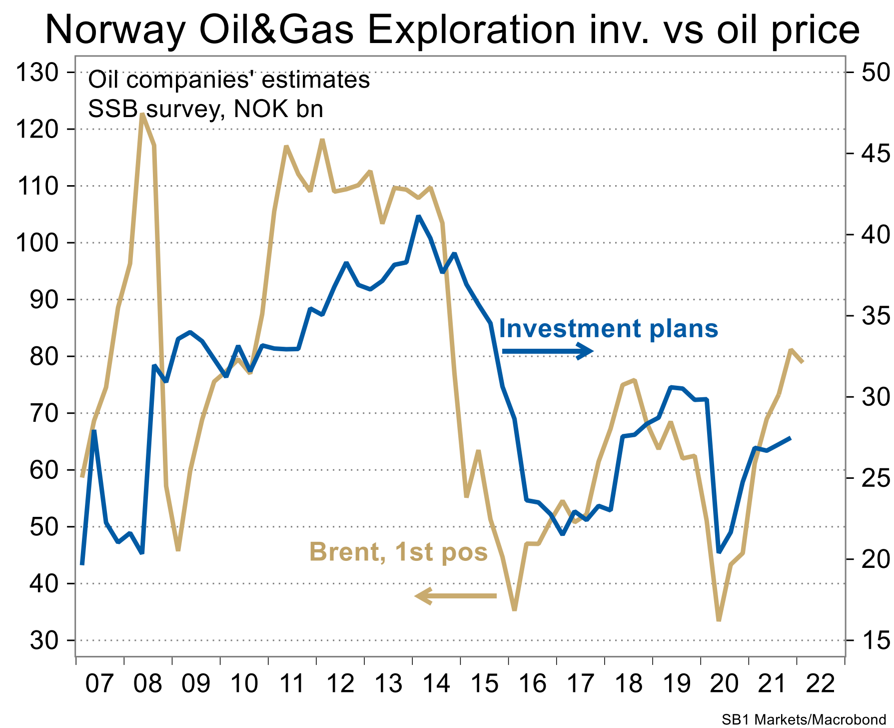


- **Investments in new fields**
  - Companies report an 18% drop in 2021 spending vs 2020, as big projects were completed last year (like Johan Sverdrup). The present f'cast is at NOK 63 bn
  - The '22 forecast was revised significantly up as to projects were added (the delivered the PDO (PUD) application to the authorities), and substantial cost overruns on other projects. The current estimate is down 16% vs. the 2021 forecast. In order to benefit from the temporary tax subsidies, companies will have to submit PDOs' before the end of 2022, and a huge no. of projects will seek approval next year. On these new projects, some investments added in 2022 – but the bulk of the spending will occur the coming years, and we expect a mini investment boom from 2023
- **Investments in fields on stream**
  - Both the '21 and the '22 forecast was revised upwards. Companies signal a 15% decline next year, following a 7% increase to NOK 77 bn in 2021

Spending plans for exploration & concept studies further down in 2022

A bit surprising, given the rush for delivering PDOs before the end of next year

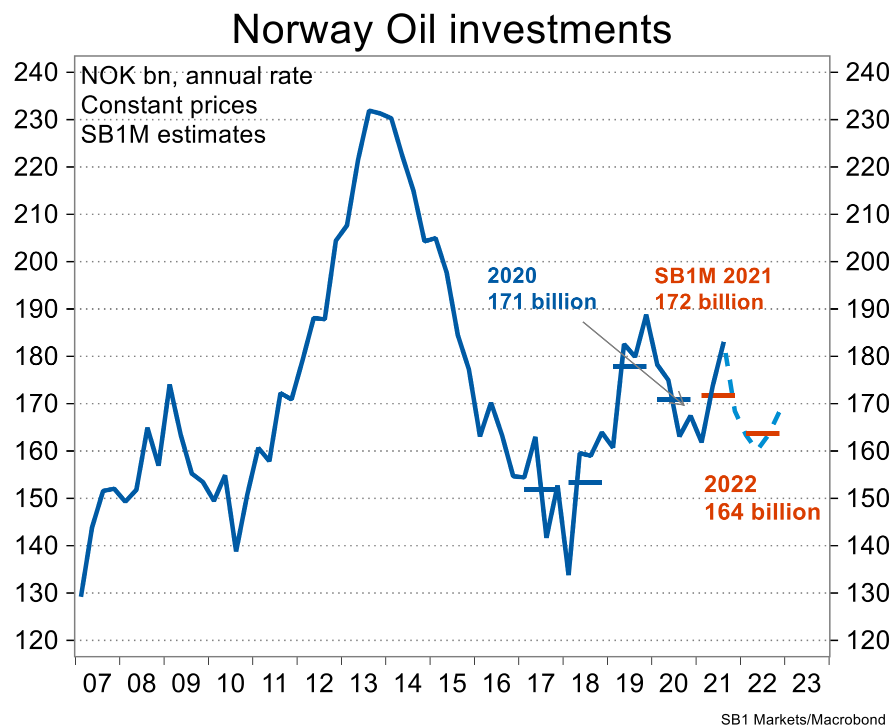


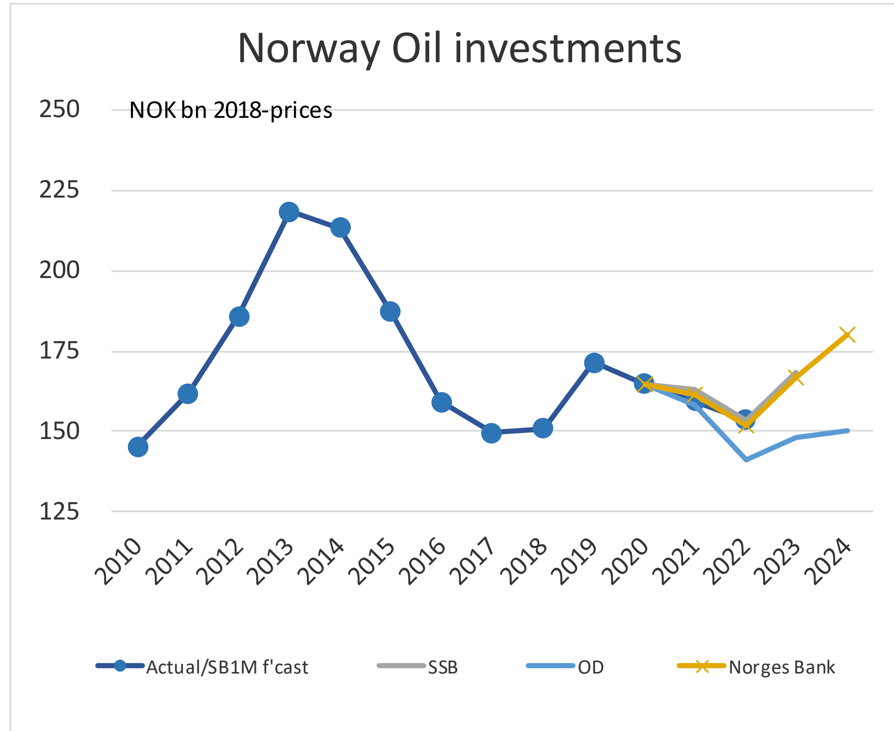


- Or has sufficient exploration been done on the fields now being planned for development the coming years?
- Anyway, the current ‘22 estimate is 15% down vs. the 21 estimate

Oil investments probably down next year too – before the next mini boom

The surge will come later, from 2023





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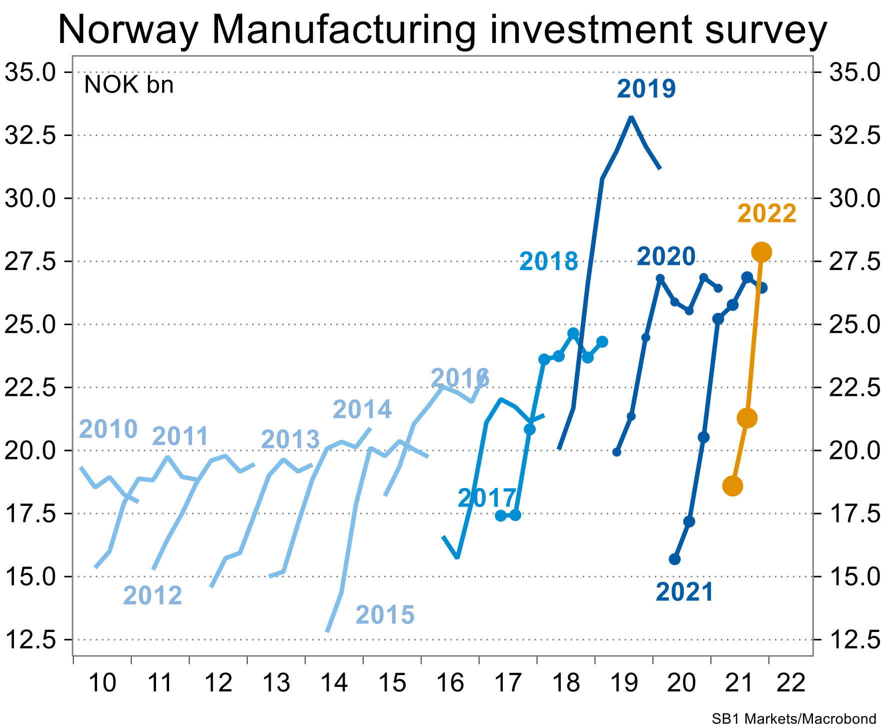
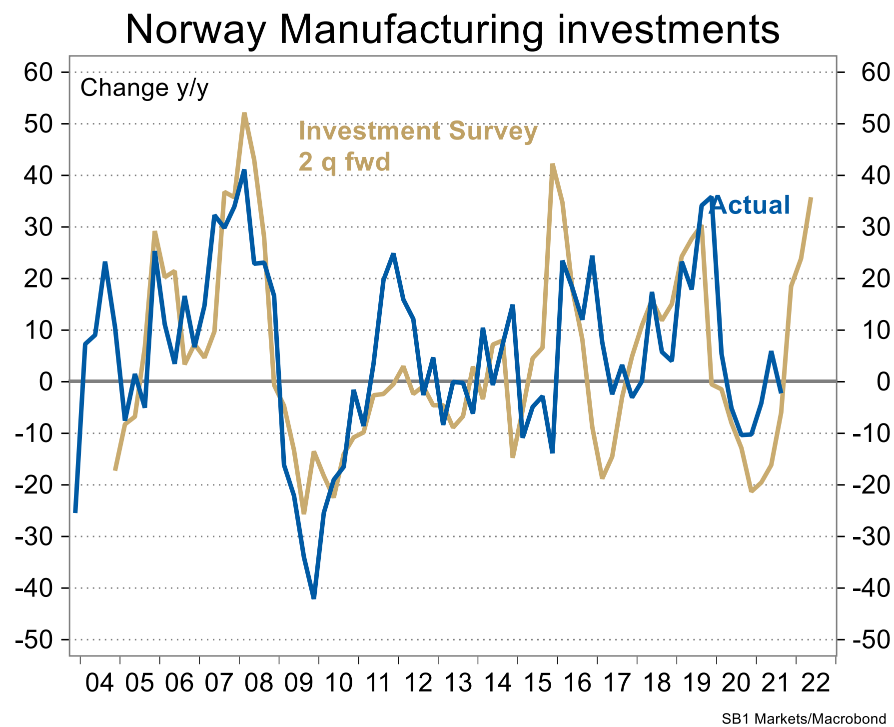
WOW, manufacturing investments revised sharply upward, a strong '22 signalled

The 2022 investment estimate revised up by 31% to Nov vs. Aug, the 2nd largest revision ever

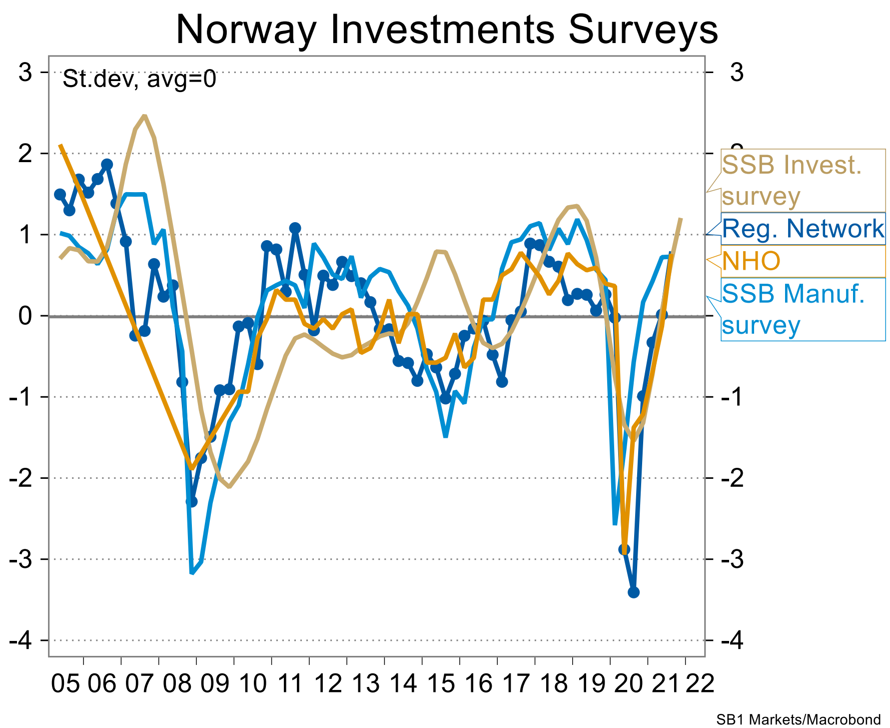




- Manufacturing companies revised their **2021 estimate** slightly down, as us usual at this stage of the planning process. Investment are unchanged from 2020
- Their **2022 forecast** was revised sharply up in the Q4 survey. The current forecast is up 36% vs the equivalent 2021 forecast. However, the 2021 estimate was adjusted up far more than normal from the Nov t-1 survey (in Feb-21 the '21 f'cast was lifted 23%, far more than normal). Thus, we expect the final 2022 outcome to be some 20% above the 2021 level – still a decent growth. If so, the outcome will be in line with the investment level in 2019, in value terms (and still well below in real terms)
- In 2022, **non-ferrous metal industry** reports the most aggressive investment plans, together with the **chemical & refined products**

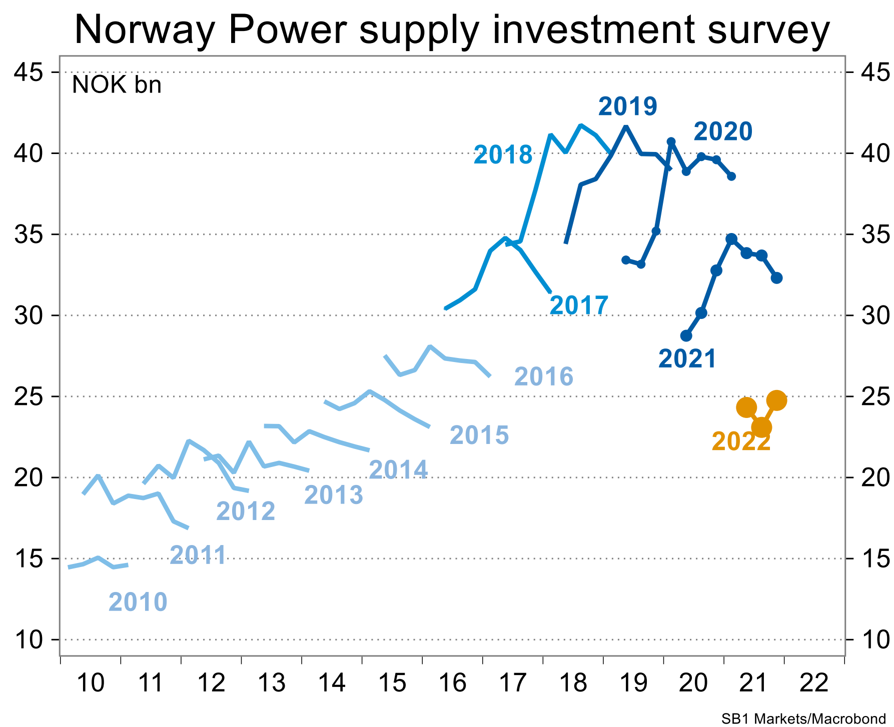
Other surveys are at least moving upwards

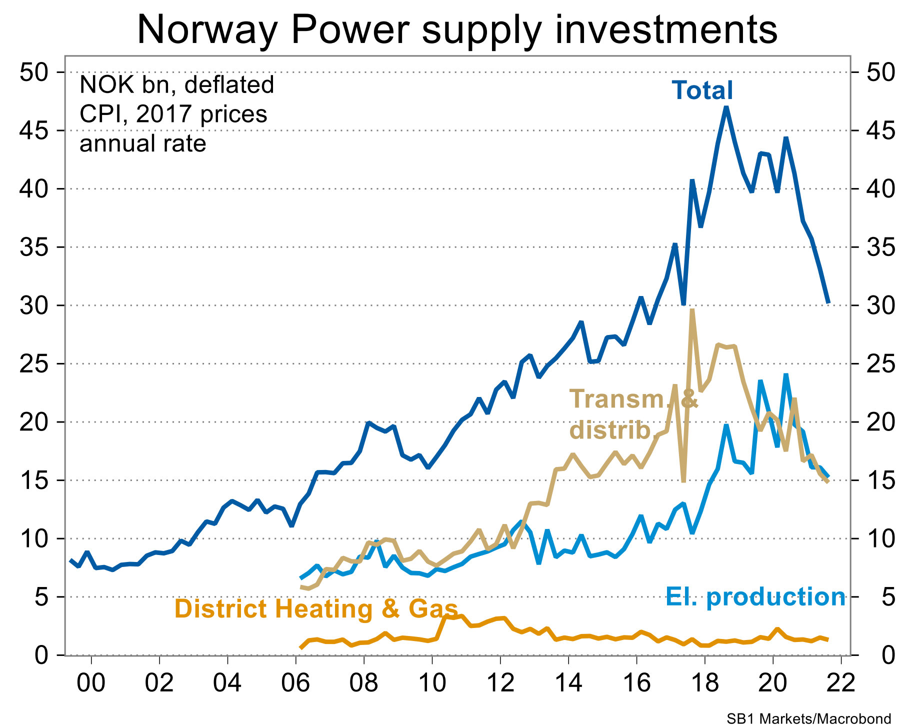
But 2 surveys still signal growth below par



Power supply: Investments are heading rapidly down

Investments probably fell some 18% in 2021, and the 2022 f'cast signals a further 24% decline





- Power supply (production & distribution) companies cut their Q4 (November) 2021 investment forecast by 3%, and a 18% decline from the 2021 level is signalled (in value terms) – the 3rd year of decline
  - » Some big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- Companies lifted their 2022 investment f'cast by 2 bn (7%) vs their Q3 prognosis, in line with a normal adjustment at this stage in the planning process. The gap vs. the 2021 f'cast given one year ago is 24%, the largest decline in 21 years. The final outcome is still uncertain, but recent years the November t-1 estimate has been close to the final outcome
- Until 2018, power supply investments had more than quadrupled since early 2000, by more than 10% p.a on average. The investment level as % of Mainland GDP was above 1%, the highest in decades. Both production & transmission have contributed. To 2022 from 2018, investments may decline by almost 40%, in nominal terms, and more in real terms. Will the green transition soon turn the tide? Quite likely

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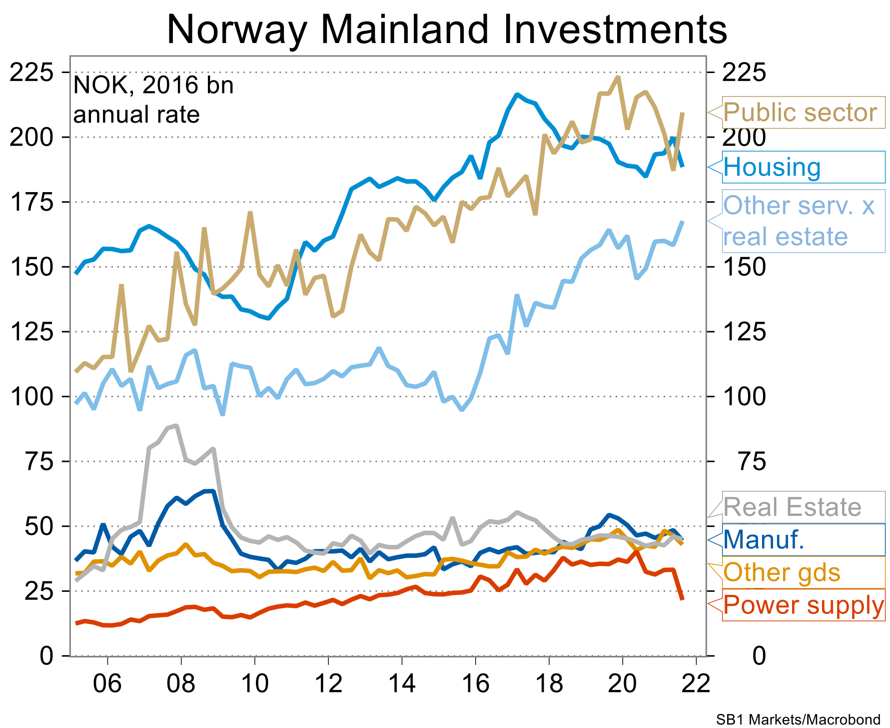
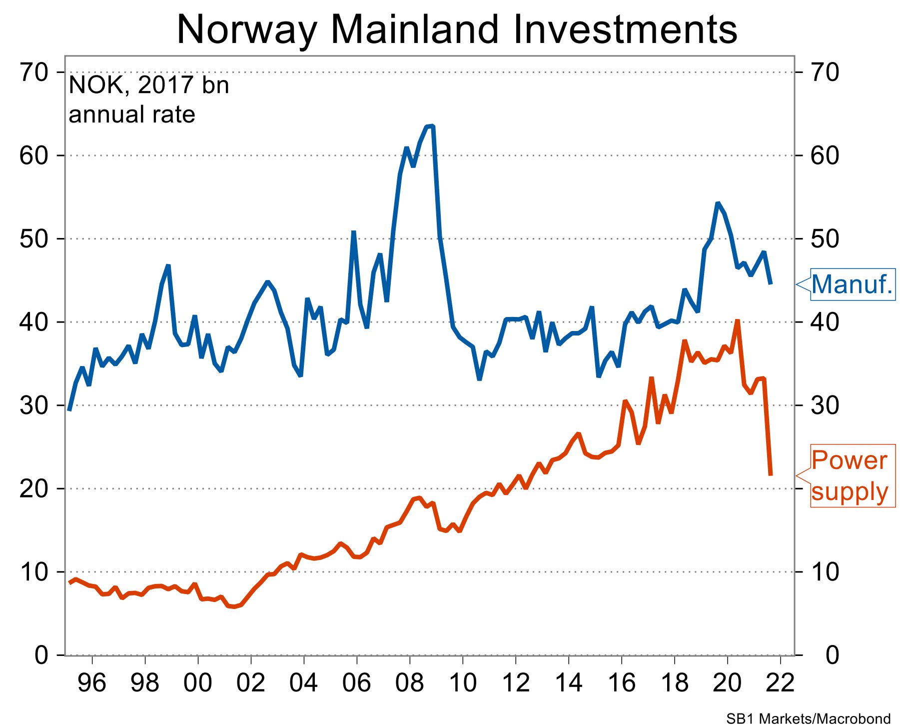
Both manufacturing and power supply investments have peaked

... and both sharply down in Q3, especially power supply (down by more than 1/3)





- In volume terms, investments in the manufacturing have accelerated sharply the past two years, but investments fell in 2020, and companies are only signalling a marginal increase in 2021
- The outlook for Mainland business investments has brightened recent months. Board investment surveys have recovered substantially, and actual investments flatted in H2 last year

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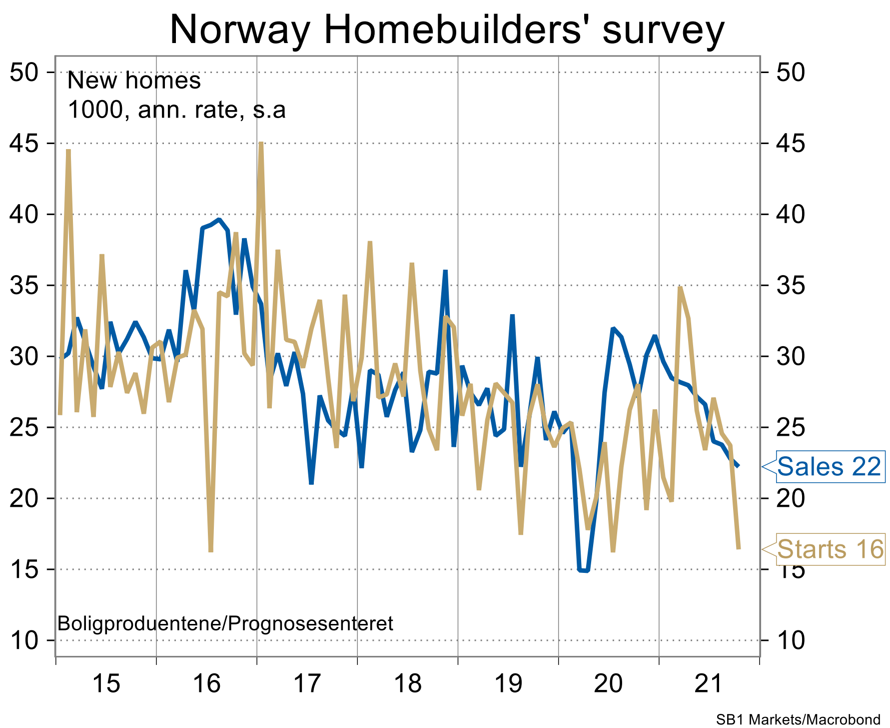
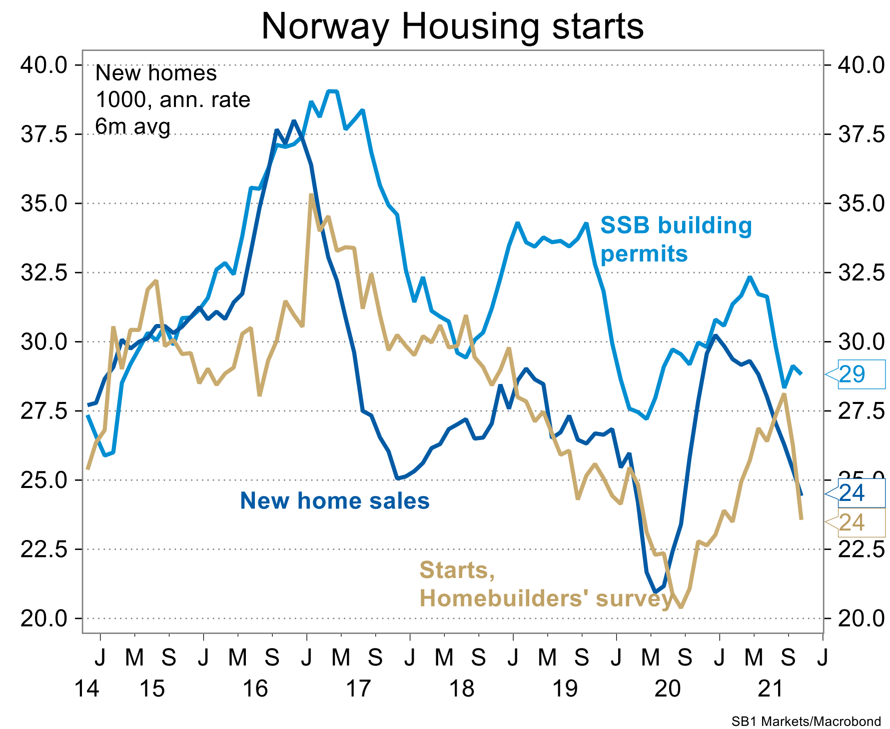
New home sales are sagging, starts nosediving, according to the homebuilders

October sales equaled 22' annualised, down from 30' in early '21. Starts fell sharply, to a 16' pace

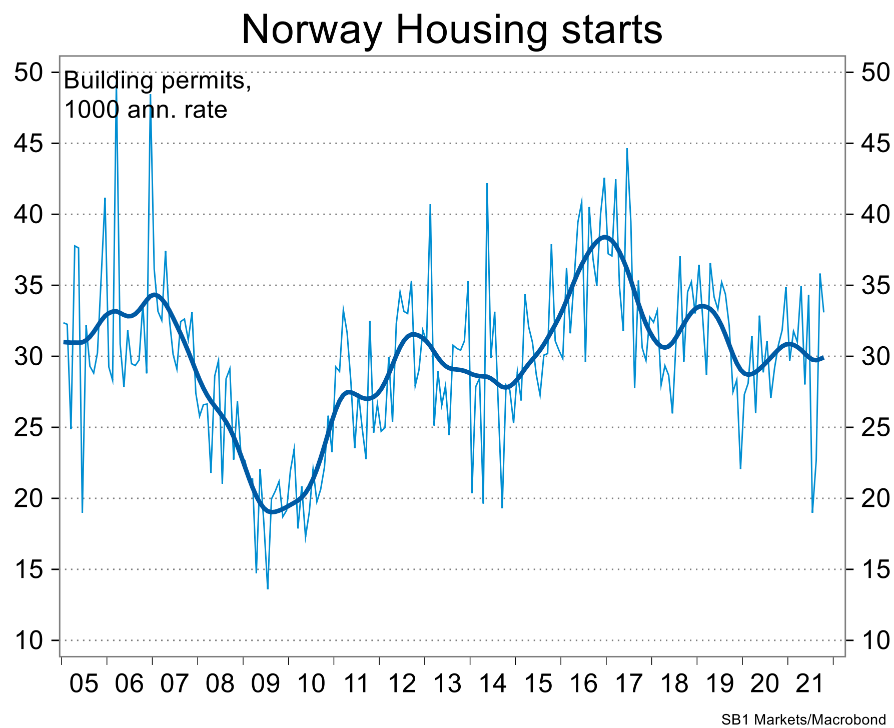


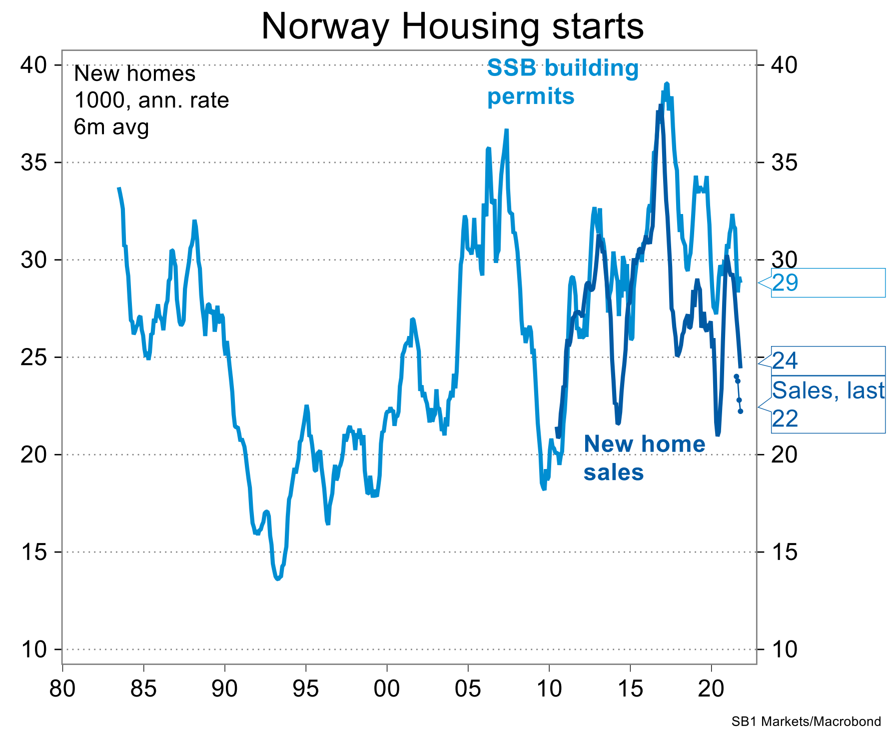


- **Boligprodusentene (Home builders)** blame higher material cost and now also high land costs for the decline in sales, not an unreasonable hypothesis (but strangely enough, higher interest rates were not mentioned). However, as existing home prices are substantially up over the past year, new homes are probably still competitive
- **SSB** does not agree – housing starts have not fallen recently. Check more the following pages

SSB: Housing permits at a high level in October too

Permits down to 33’ from 36’ in Sept - both way above the average over then past years





- The average no. of permits the past 6 months at 29’, clearly above the estimate from the Homebuilders

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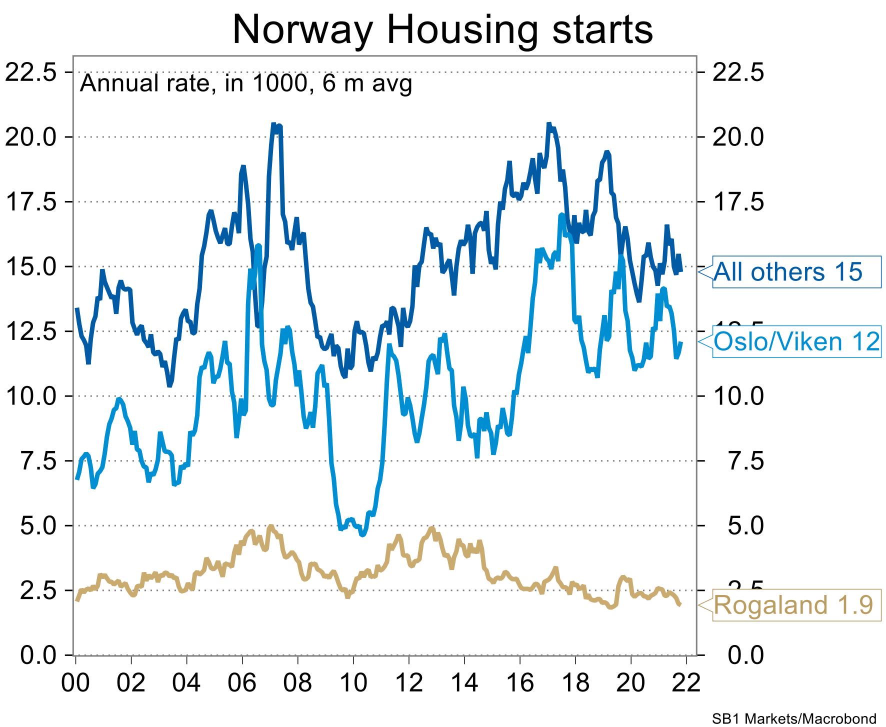
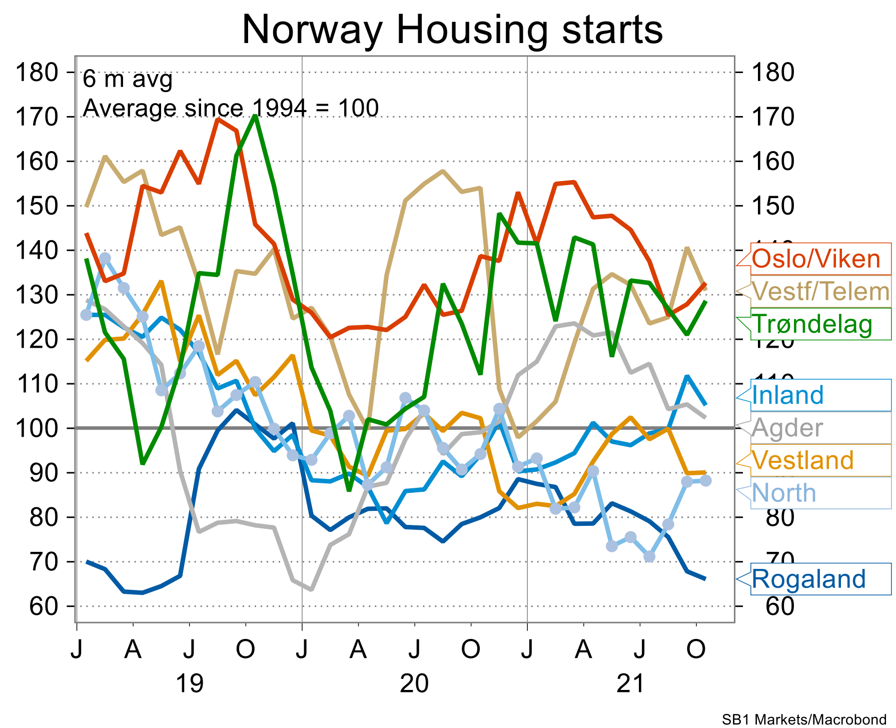
Permits yielding in Rogaland, ‘normal’ elsewhere

The 6 m avg dragged down by a low no. of permits given in June/July





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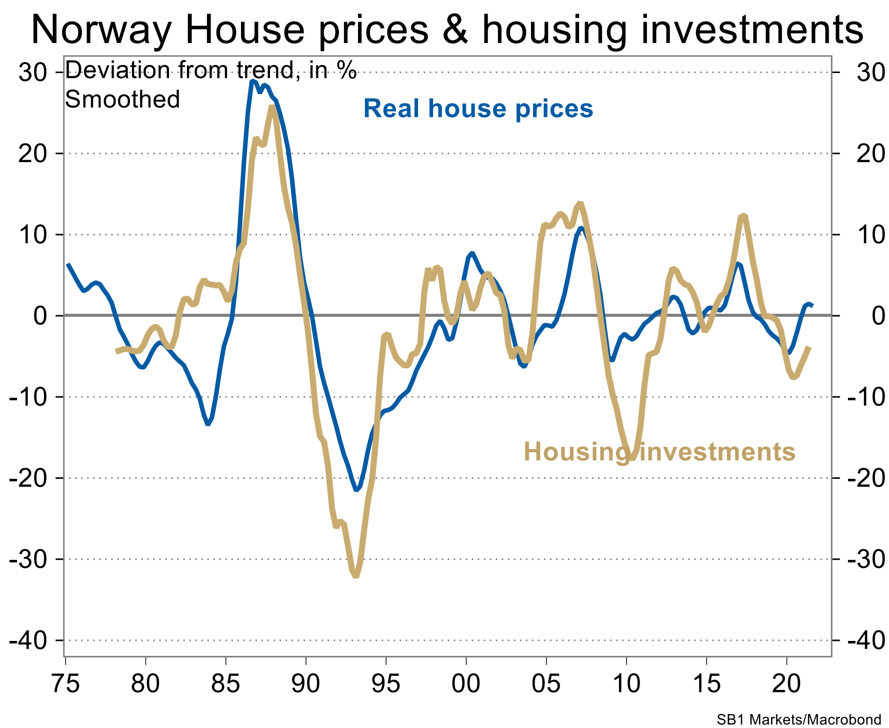
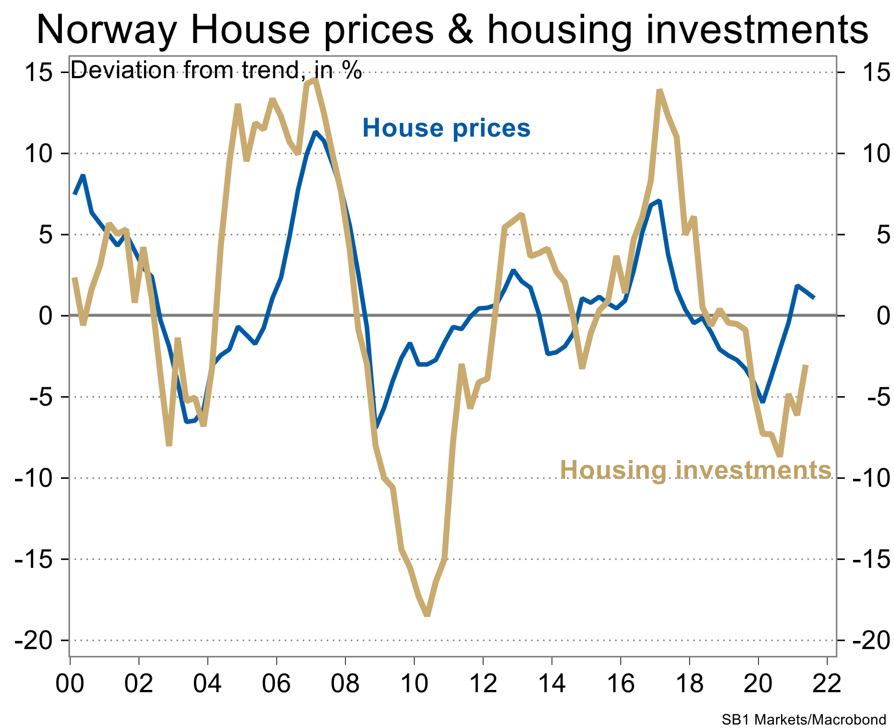
Housing starts/investments normally in tandem with house prices, no surprise

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

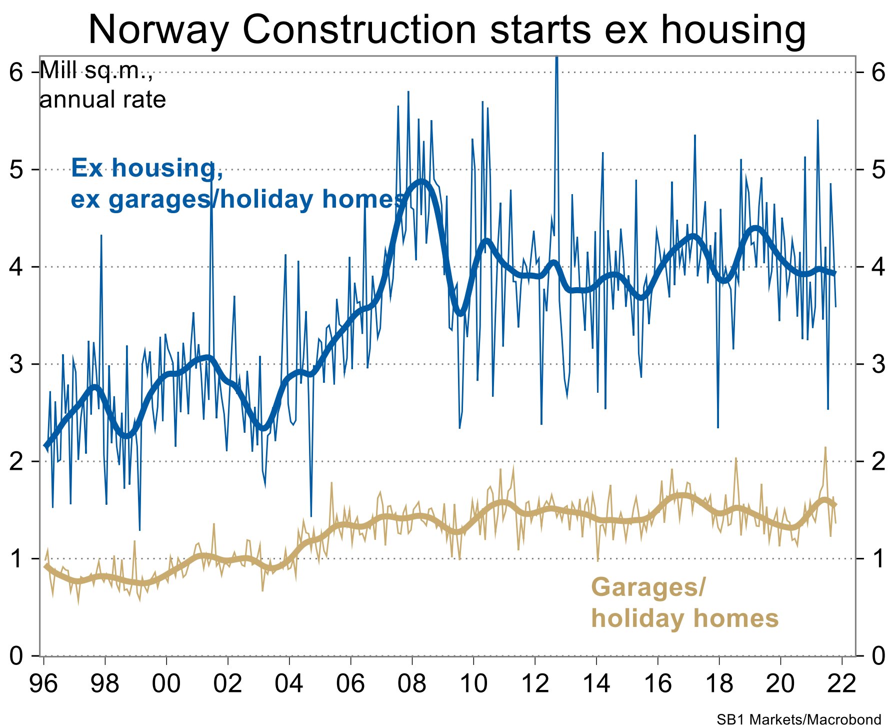


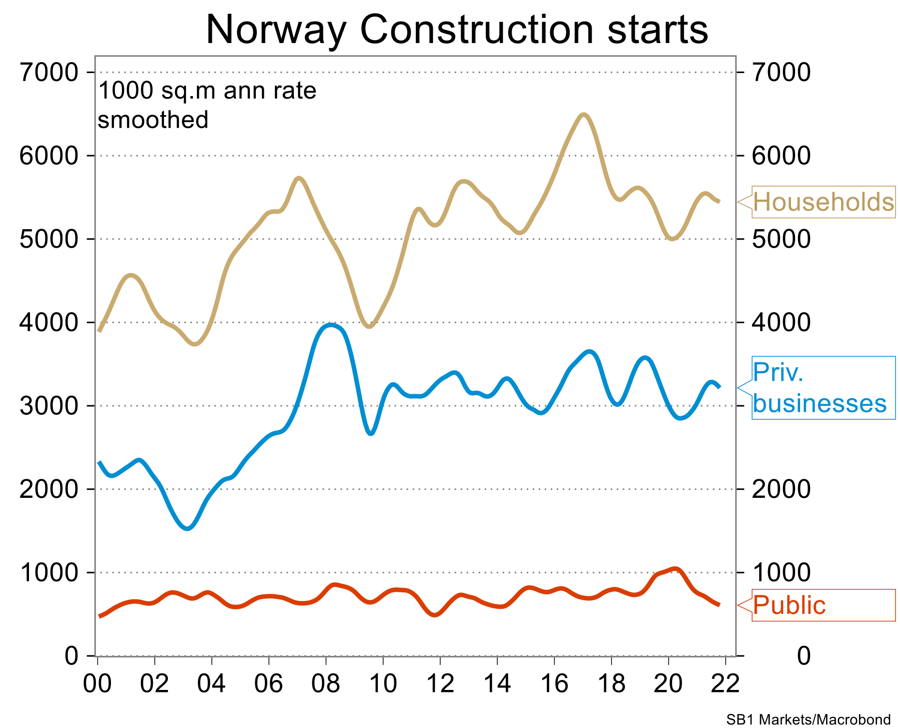


- However, prices are yielding somewhat – and housing starts will slow?

Non-residential construction down in Oct

A flattish trend in non-household construction, garages/holiday homes up so far in 2021

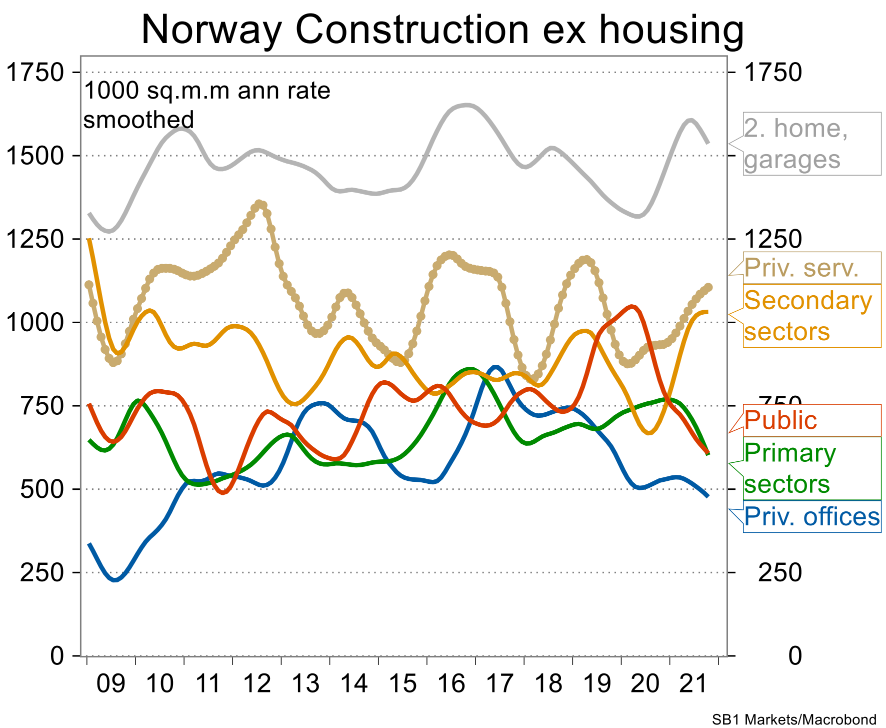


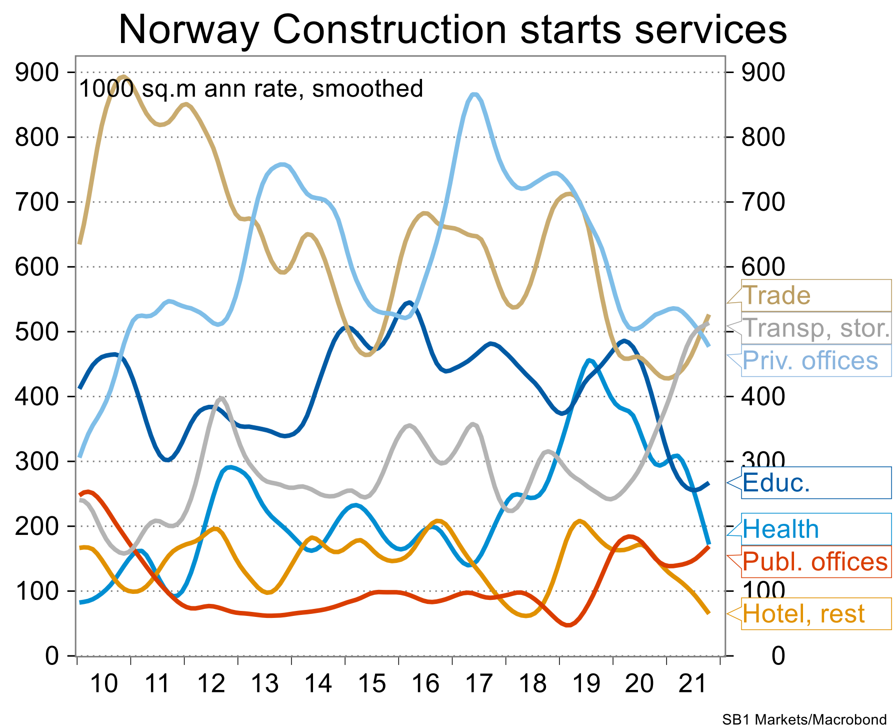


- **Construction starts ex housing & garages/cabins** is very volatile
  - » **Private non-residential starts** have stabilised
  - » **Public sector construction starts** have fallen almost 50% since early 2020
- **Construction starts of cabins/garages** are have climbed 30 – 40% from early 2020

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

Education sharply down too, health even more

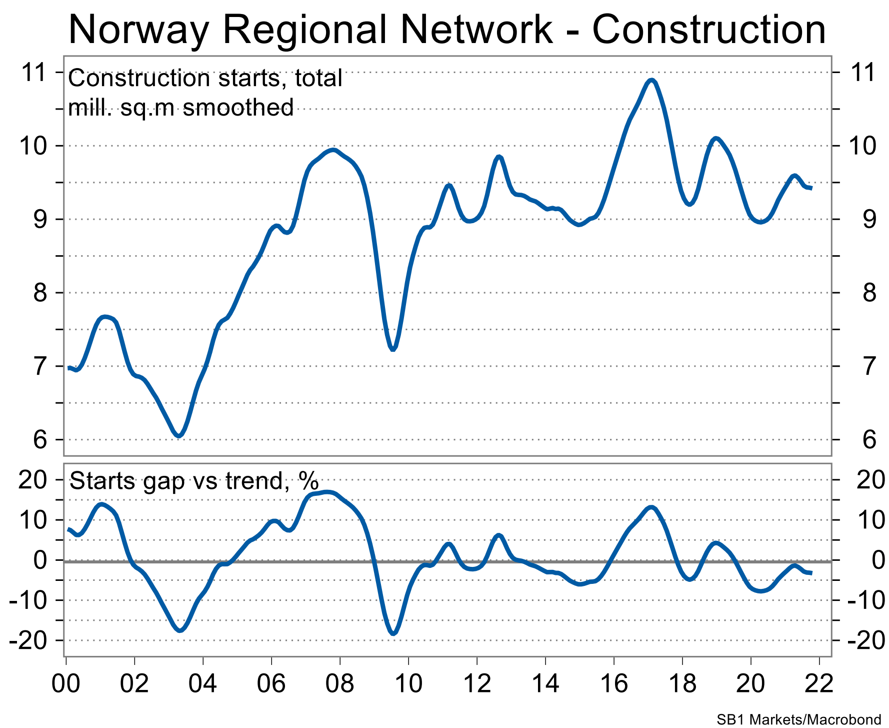


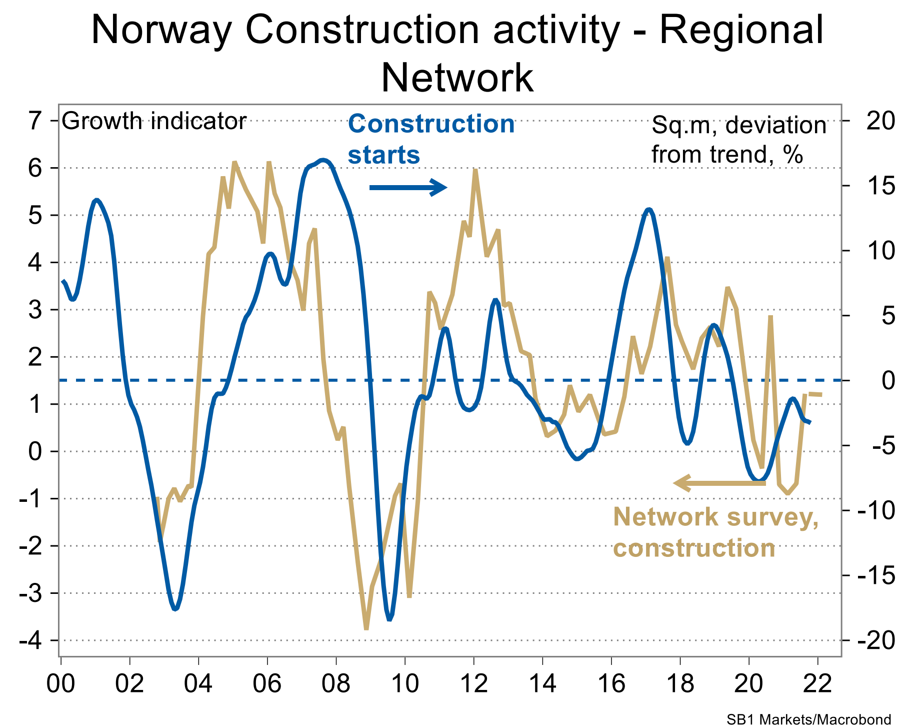


Public on the chart to the left, and at the previous page: Construction starts in public administration, education and health

The Q3 NoBa Regional Network signals moderate growth

…and construction starts are trending down

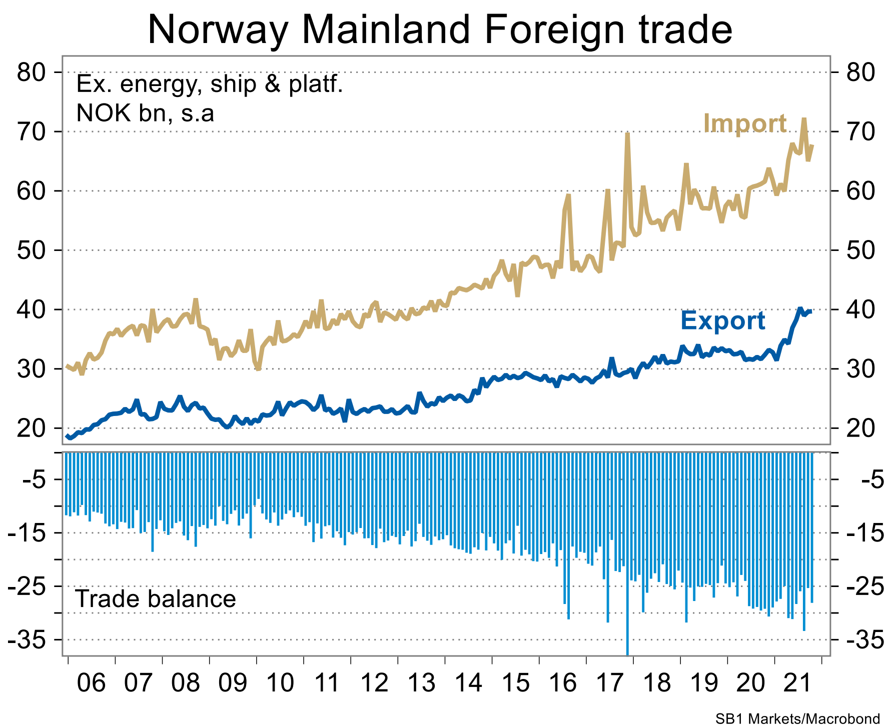


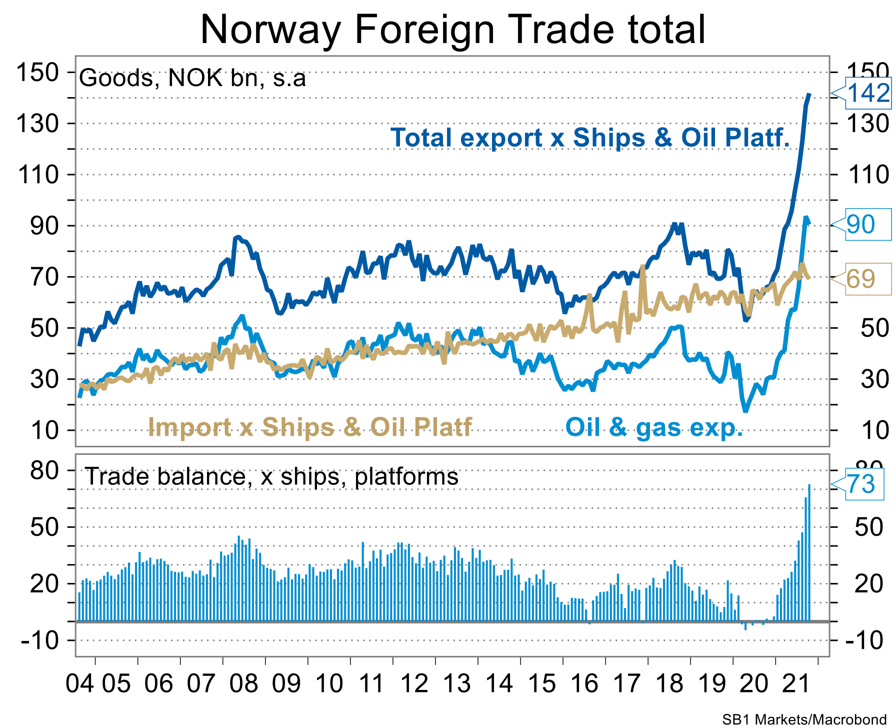


- Actual starts are close to flat y/y – and the 'long term' trend is down since early 2017

Another ATH trade surplus, driven by gas exports

Total surplus at NOK 73 bn, or >25% of (Mainland) GDP

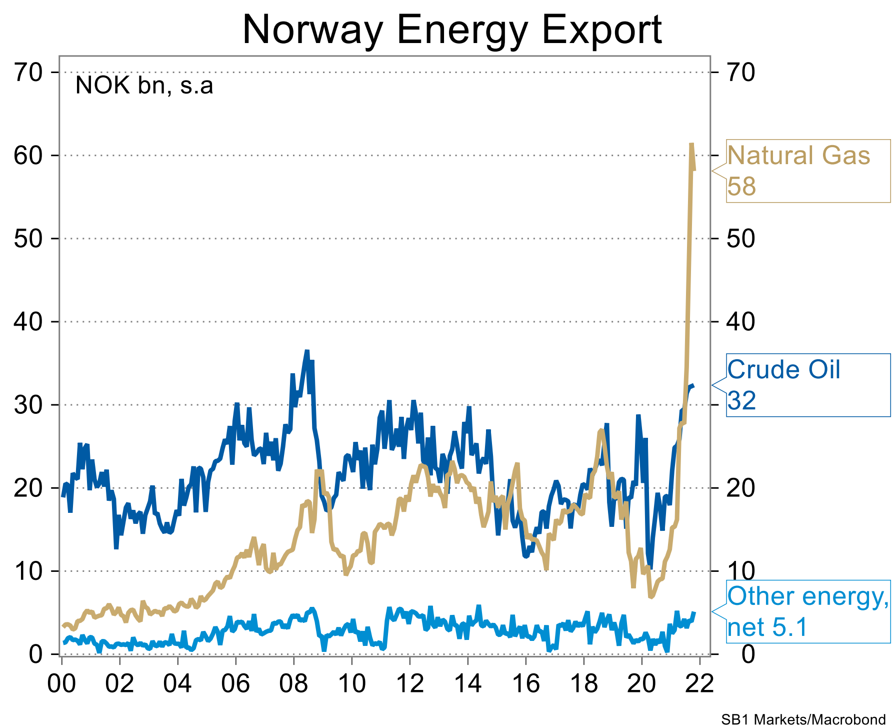


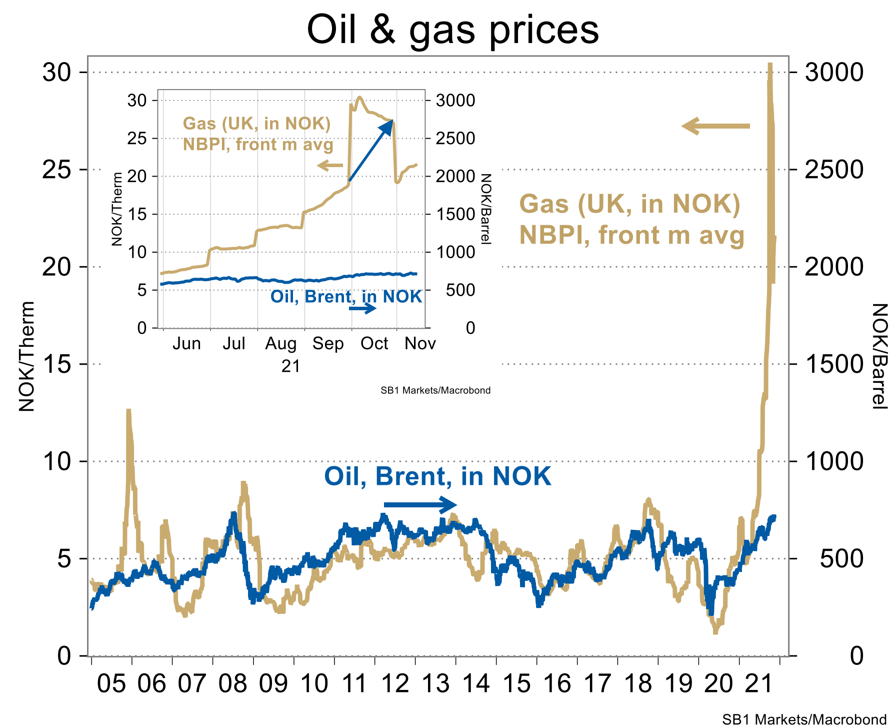


- **The <u>Mainland (non energy) trade deficit in goods</u>** decreased sharply rose to NOK 28 bn in October, from 25 bn in Sept.
- **Non-energy exports** were flat. Exports are up almost 30% vs late last year
- **Imports** rose somewhat but less than the Sept decline – and imports are climbing at 10% pace
- **Actual gas exports rose sharply**, but in seasonal adjusted terms, gas exports fell (gas exports always surges in Oct). Oil exports rose marginally, and sum oil & fell slightly, seas. adjusted – to NOK 90 bn. In Nov, gas prices fell sharply, and most likely the value of gas exports will decline
- **The trade surplus in goods** (ex ships/platforms) rose to NOK 73 (exports of gas products from the Mainland, electricity included), an enormous amount – more than 26% of Mainland GDP!
- **The government's extra revenues** from oil and gas exports (and direct ownership) in Sept and Oct alone will be some NOK 100 bn, which will be transferred to the oil Fund

Gas exports slightly down, at least adjusted for the normal season

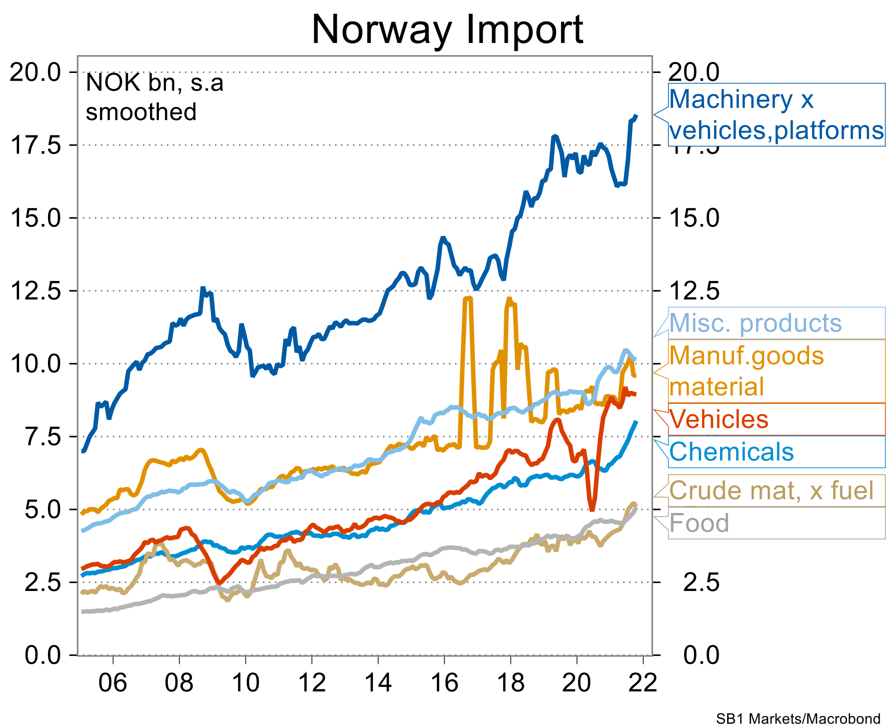
Still, an extreme high level – and oil exports at the best level since 2008

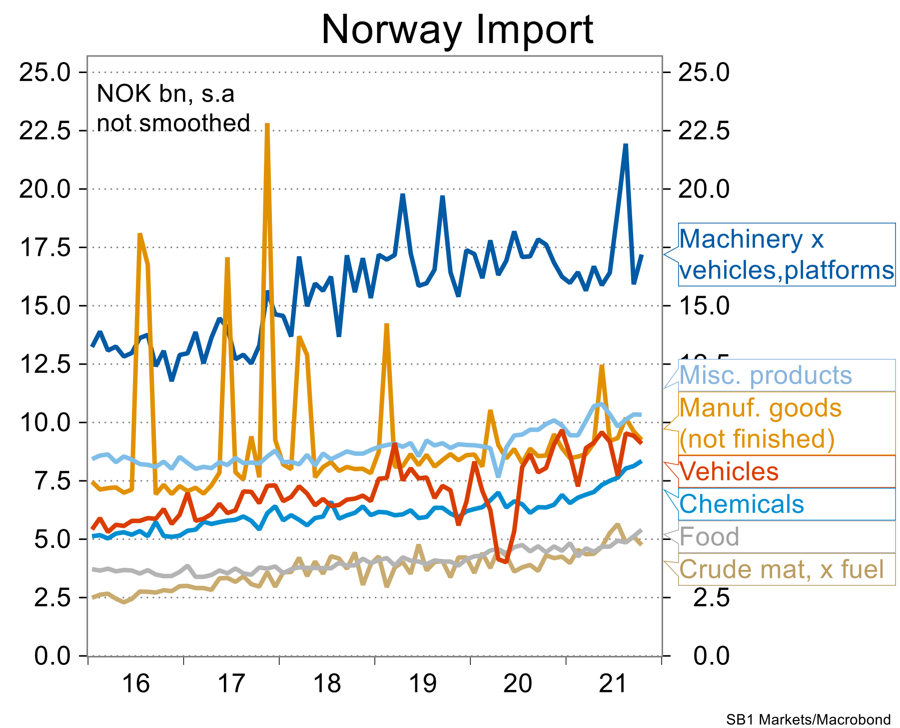




- **British gas** prices rose further in Oct (the NBPI at the charts to the right, the average for each month, calculated from the start of the month, the front month). So far in November, prices have fallen some 20%. The future market signals a further decline the coming months. Gas prices are now totally uncorrelated to oil prices, which is rather unusual (but is has happened before, like in late 2005)
- **Crude oil** exports rose marginally (in NOK bn) – to the best level since before the Financial crisis when just some few months recorded even higher export revenues

Most imports are trending upwards





- The spikes in imports of manufactured goods are due to unfinished platforms or ships

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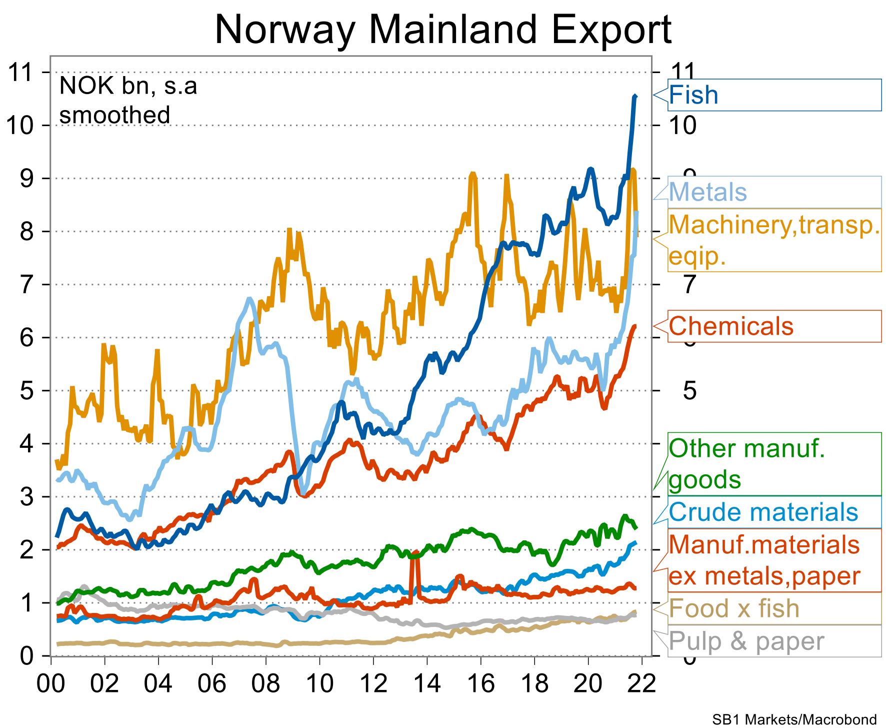
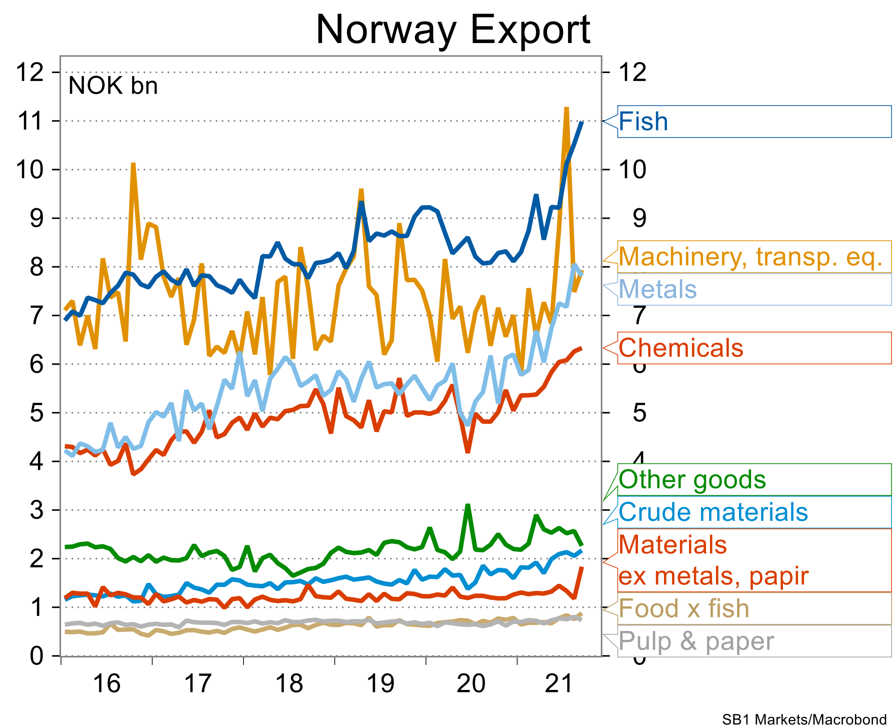
Fish exports are surging, metals, chemicals sprinting upwards too

Machinery & transport equipment on the way up too (but are much more volatile)

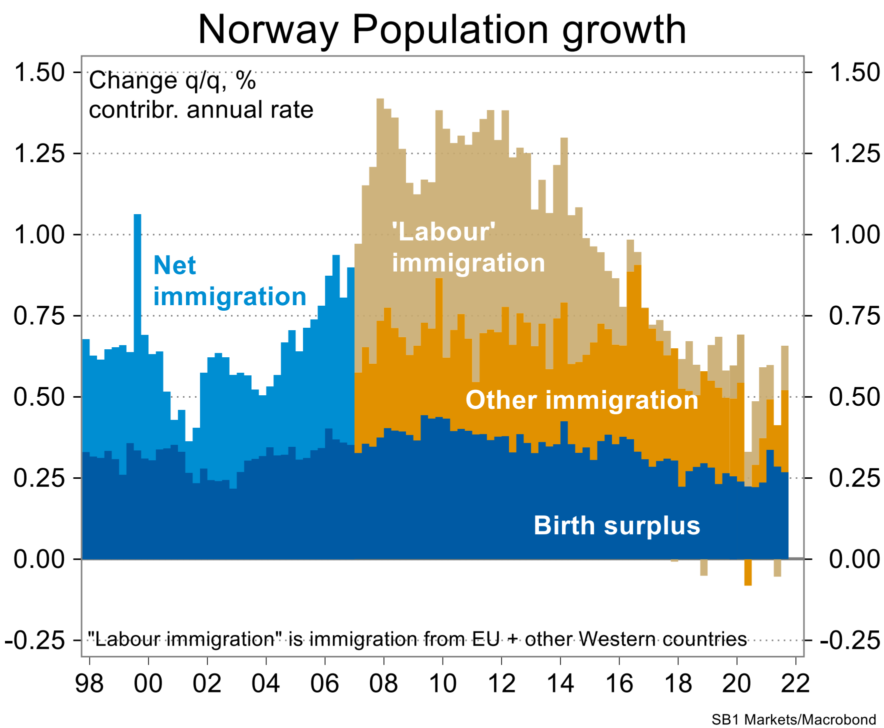


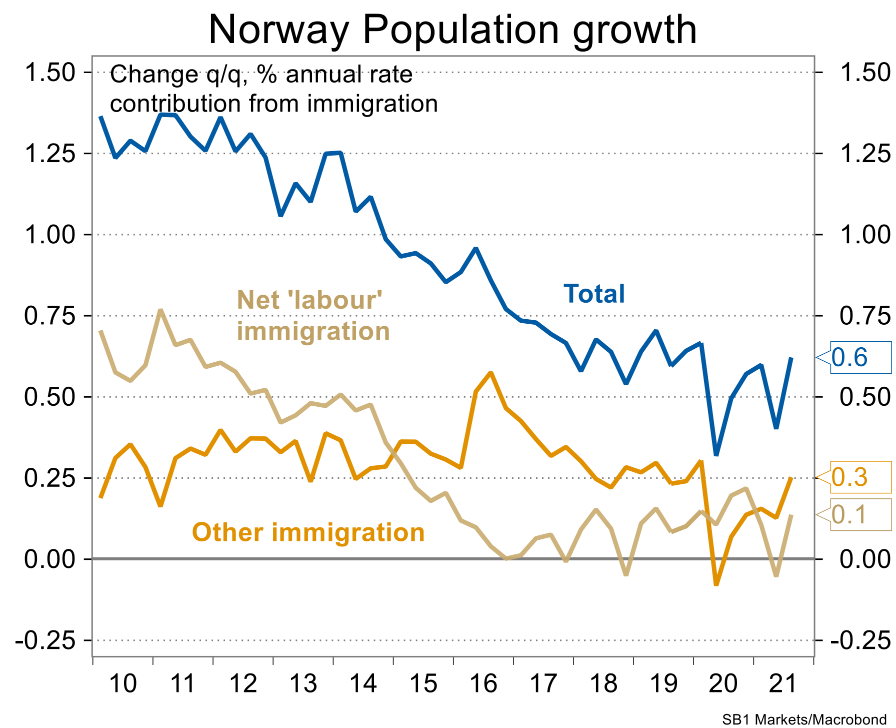


- Exports of machinery and transport equipment (of which much is related to oil activities abroad) decreased by 34% in August (following s similar spike in July, du to exports of ships (ferries) but stabilised in September. The short trend is upwards (but flattish from 2014, due to the setback in investments in the oil and gas industry)
- Metals, fish, machinery and chemicals are all up 30% – 40% y/y – almost entirely due to higher prices

Immigration back up to the normal (low) level

The birth surplus still somewhat higher than normal – but declining





- Total population grew by 8.400 in Q2 (seasonally adj), equalling a 0.6% annualised rate
  - » Labour immigration returned to slightly above the average level over the previous years, from slightly below zero in Q2
    - Labour (EU/Western) immigration depends on demand for labour in Norway, and in the EU. Labour immigration has been running at low level since 2016
  - » Other immigration gained speed too in Q3 – and is also back to the same level as before the pandemic
  - » So far, not any ketchup effect, that 'lost underlying immigration' (immigration has been lower than normal through the pandemic) was recovered in Q3

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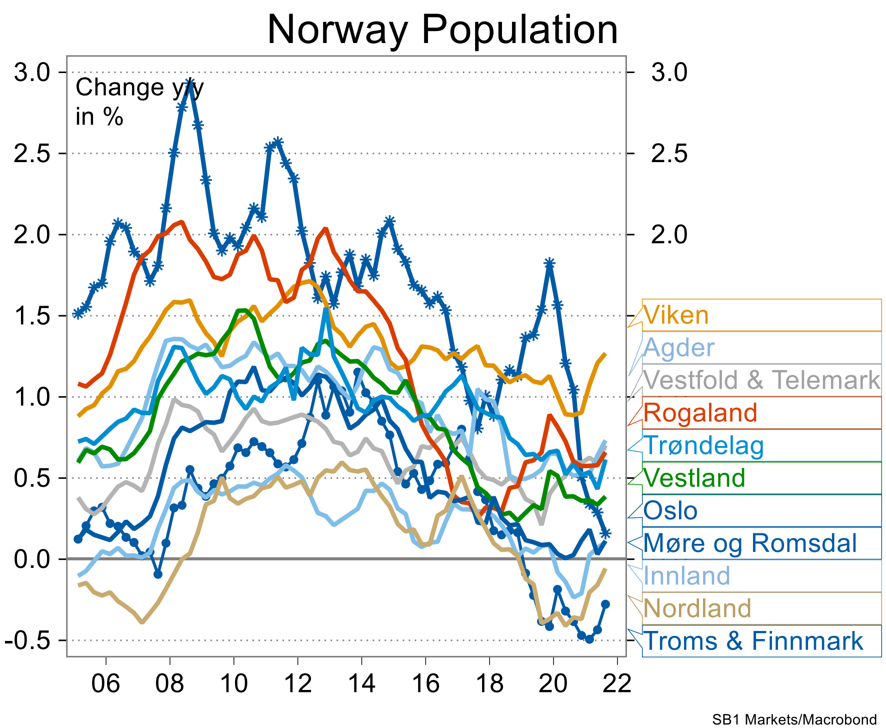
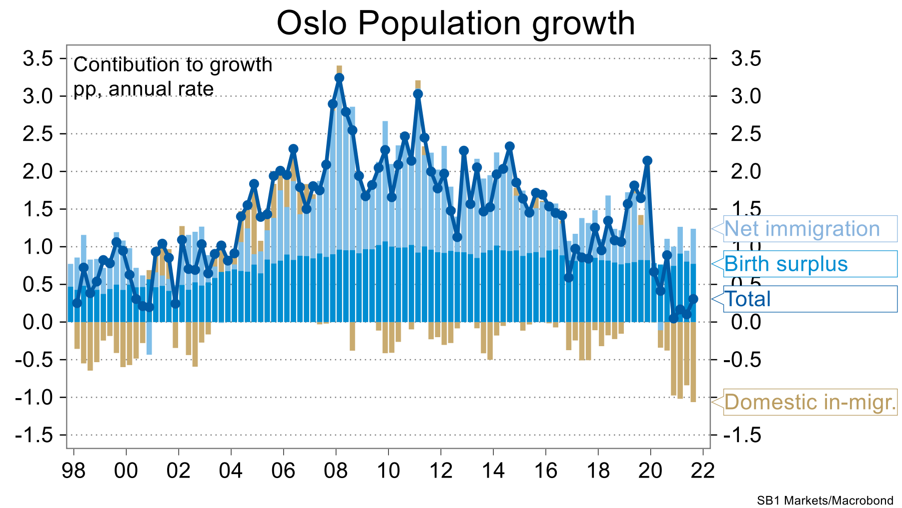
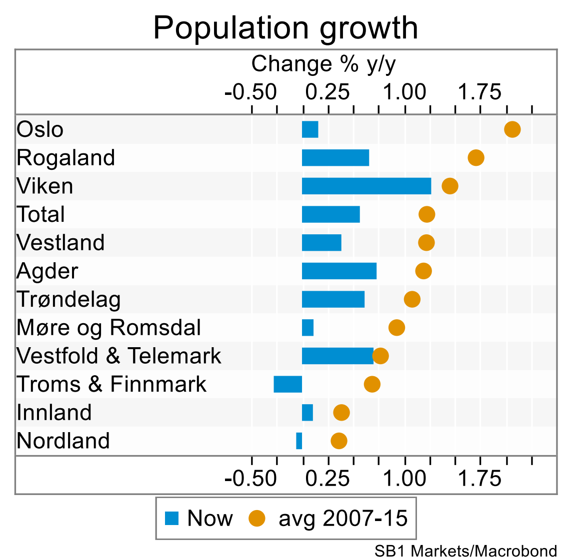
Record large domestic out migration from Oslo and larger cities

…and a continued decline in the North







- From 2012/13 until 2018, population growth slowed in most regions – but the least in Viken (Akershus kept up best). Following a mini immigration wave in 2019, growth is slowing sharply in Oslo, and the population grew by a mere 0.06% in Q2 (seas. adj.), mainly due to a substantial net out migration to other parts of Norway (at a 0.7% pace). A corona adjustment?
- Population growth has cooled substantially in all other regions, to well below 2010-2015 levels most places (barring Viken and Vestfold and Telemark). Due to accelerated domestic out migration, population growth is close to zero og below in Møre og Romsdal, Innland and Norland, Troms & Finnmark

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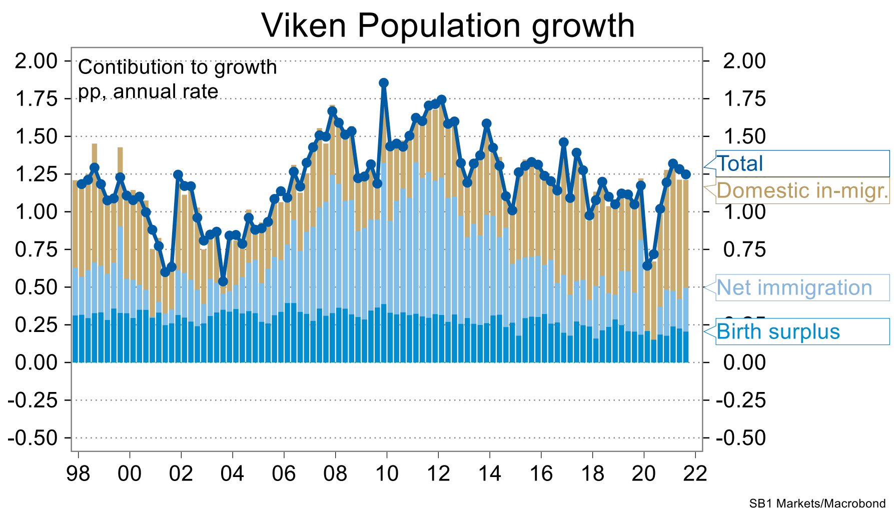
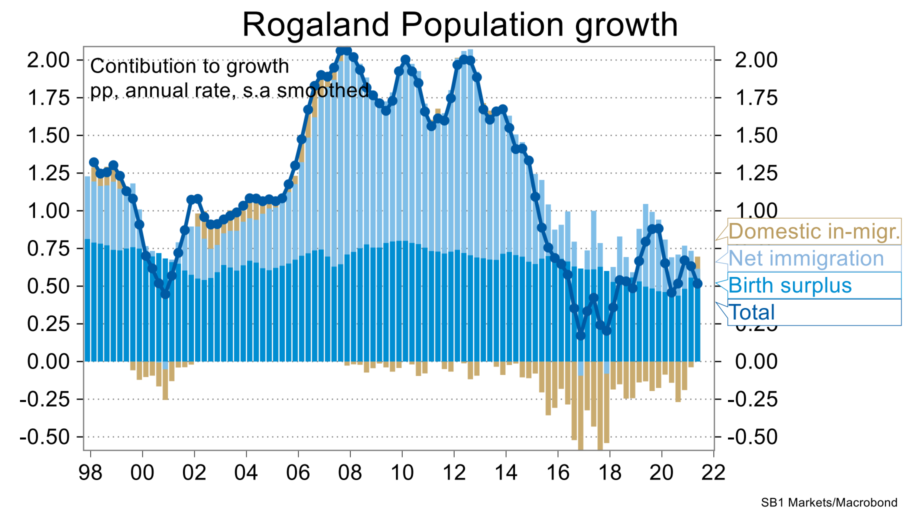
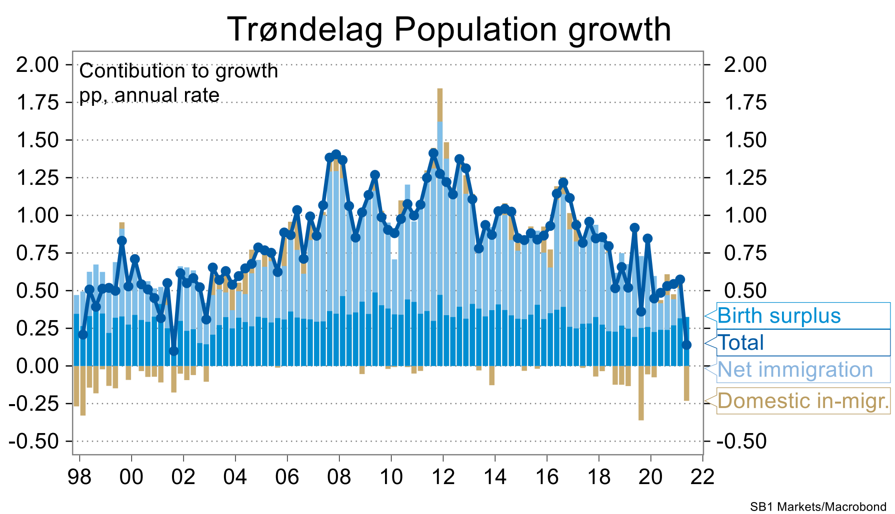
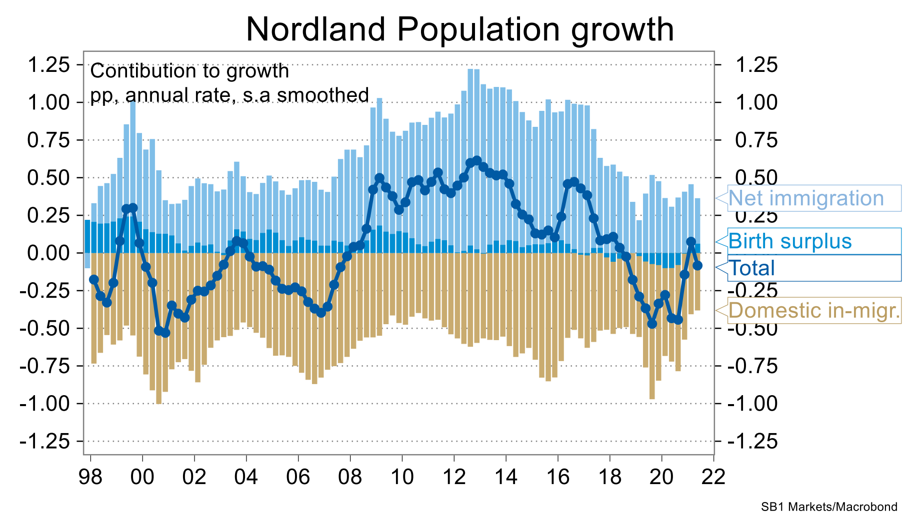
Some serious regional differences

(And sum Oslo+Viken records a net domestic in-migration)



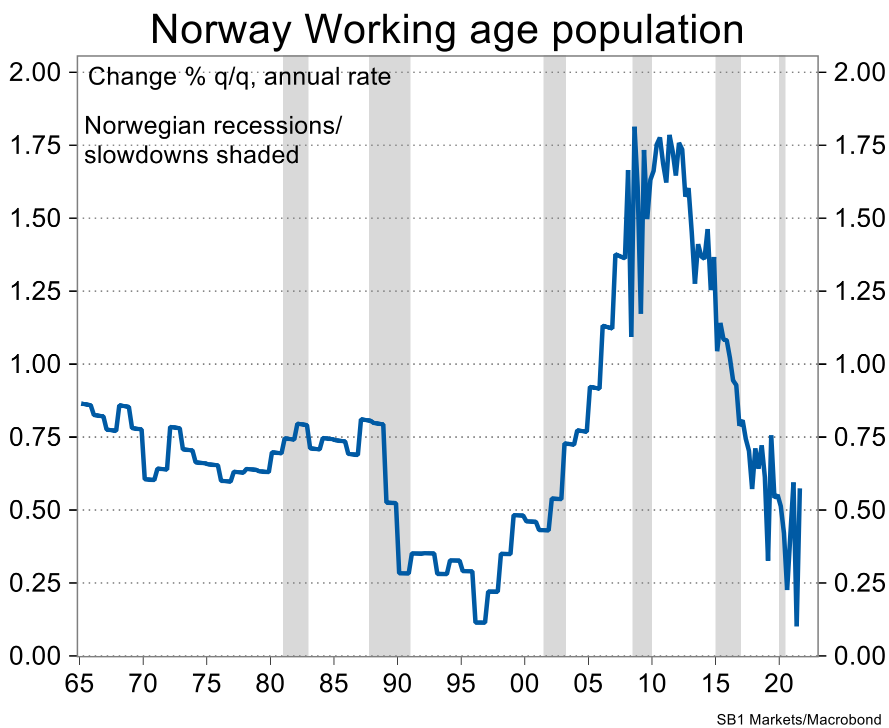


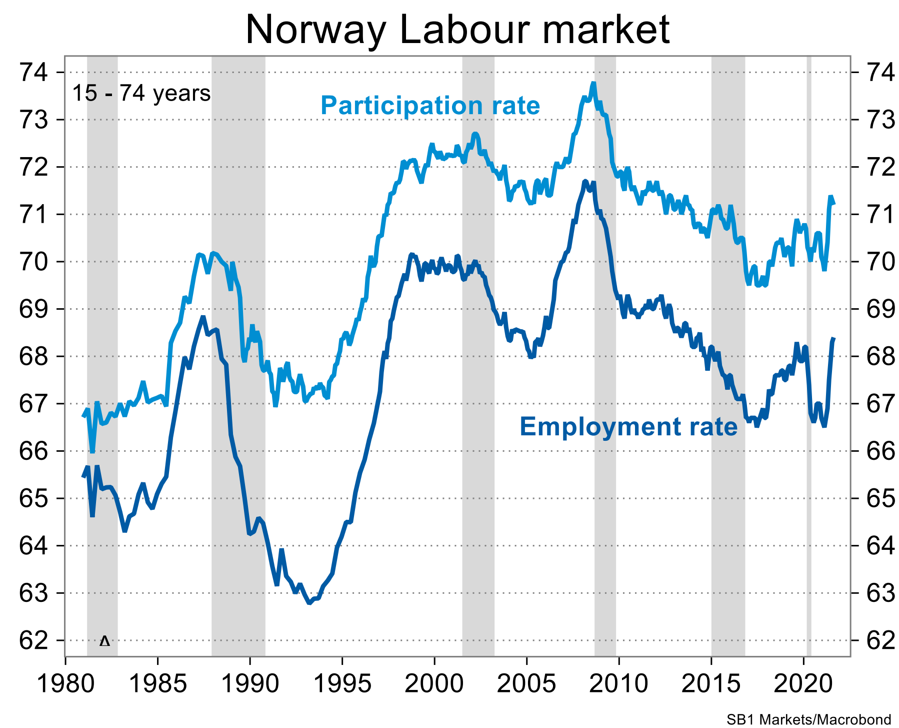




Working age population growth un in Q3 but still low

Growth at 0.5% - down from 1¾% few years ago

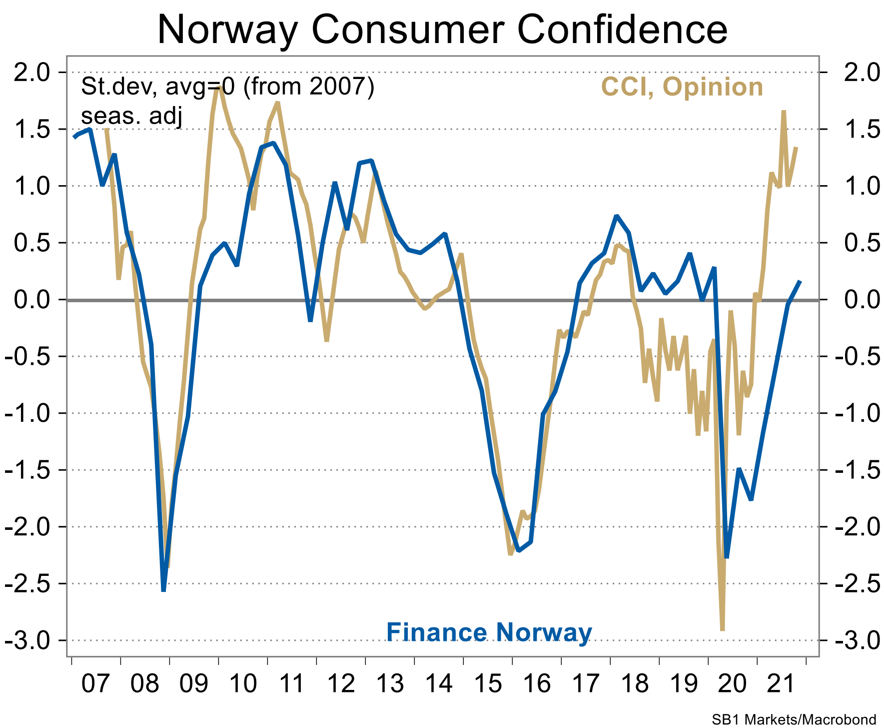


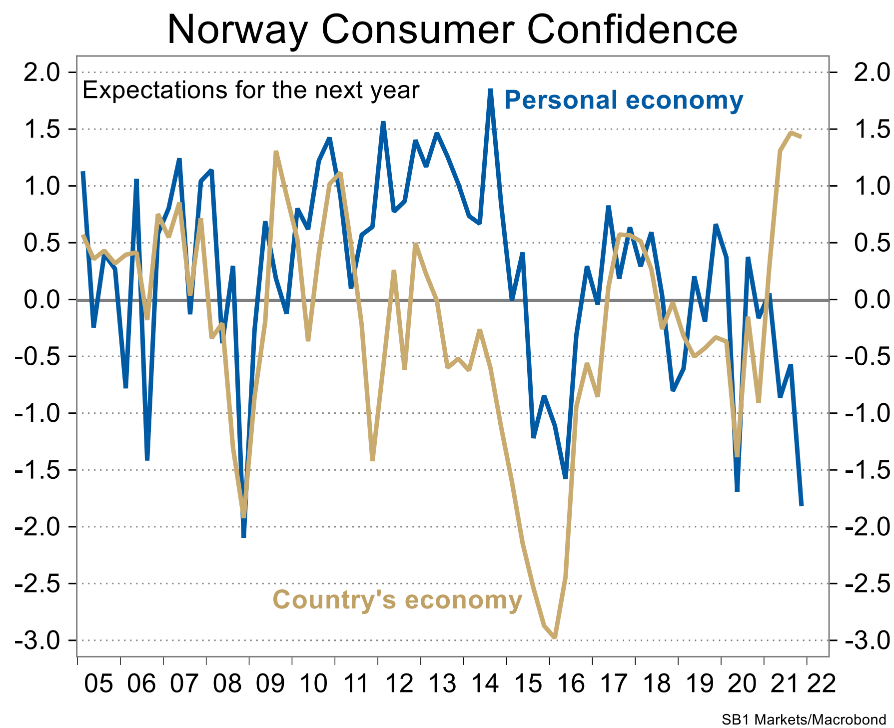


- The slow growth in working-age population is supporting participation & employment rates

Finans Norges' Q4 consumer confid. slightly up but personal expectations down

The survey rose to +0.2 st.dev, from an average level – still way behind the CCI monthly survey

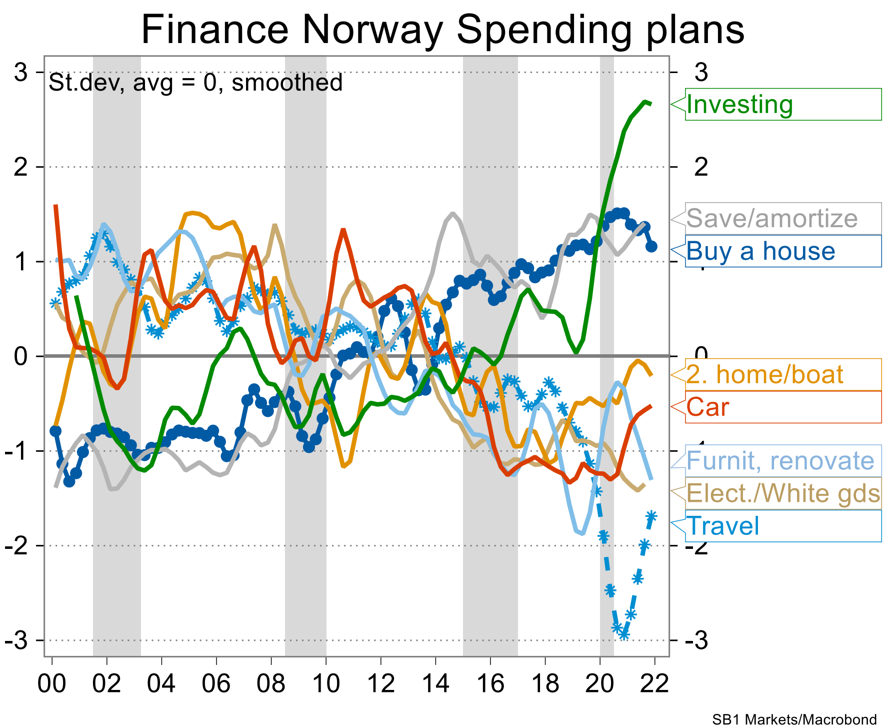


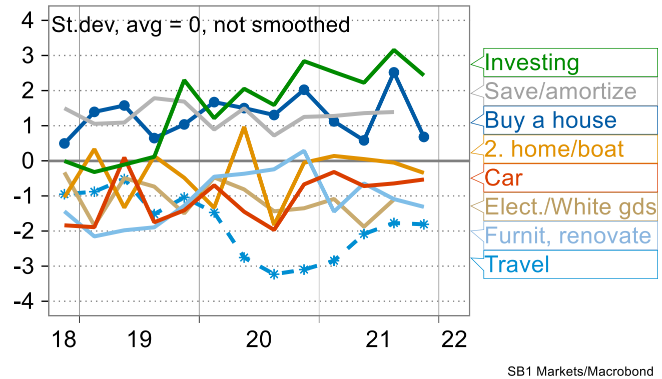


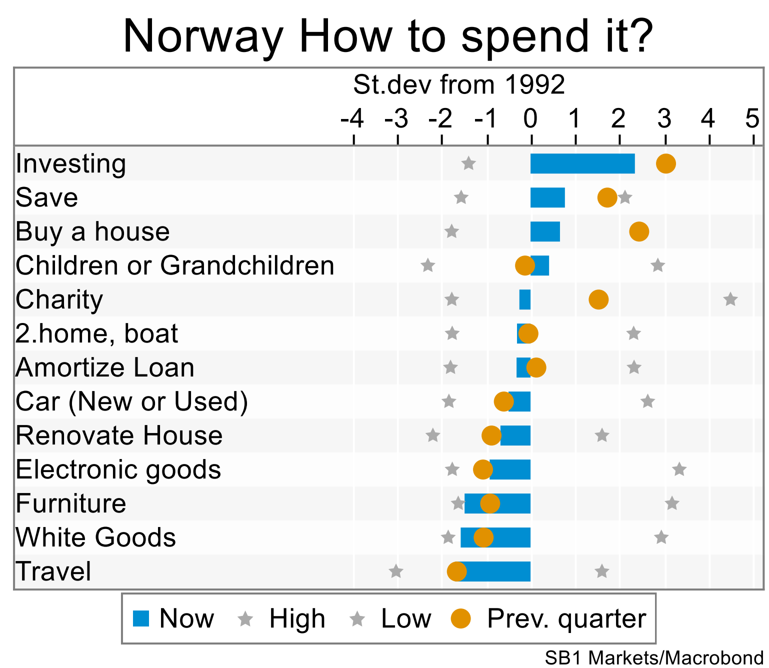
- Finance Norway's quarterly **consumer confidence index** climbed to 13.7 in Q4 from 11 in Q2 (we expected 15) to just above the average level since 2007 (but below the average measured from 1994)
  - » In October, the monthly CCI from Opinion was 1.3 st.dev above average, and close to the best level since 2011, following a surge the recent months. The gap between the two surveys is still puzzling
- **Households' expectations** of their own economy the next year fell sharply, to the lowest level since well into the financial crisis! At the same time, **expectations for the country's economy** is among the best on record.
  - » The only reasonable explanation: Households understand rates will be lifted!
- **Big item purchases** are still out of favour, as is travel. Savings & investment plans are upbeat!

House buying plans down, still above par, 'no' travel plans, it's time for 'investing'

Plans for spending og furniture, cars – even 2nd homes/boats below average



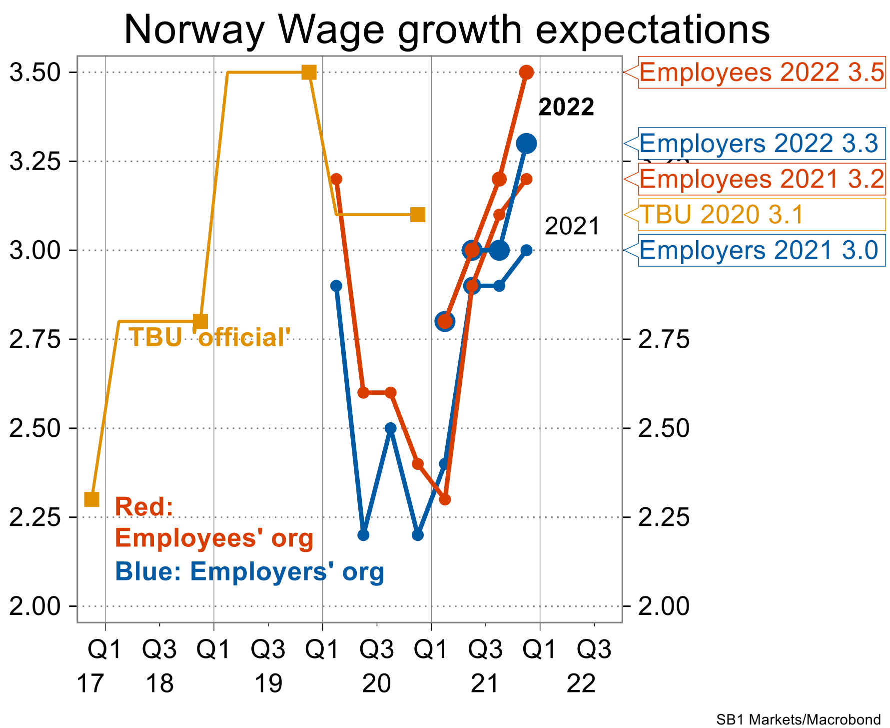




- **Home buying plans** fell in Q4 – could it be the first hike in the interest rate – and the outlook for more to come? Even so, the index is above an average level
- Demand for **2. homes and boats** has strengthened but remains below average – not in line with media reports. **Car buying plans** are modest too
- Plans to **invest/save and pay down mortgages** are all at very high levels, with investments in the lead

NoBa Expectation survey: 2022 wage expectation up by 0.3 pp in Q4

Parties in the labour market expect wages up 3 ¼ - 3 ½% expected in 2022, above NoBa f'cast at 3.1%



2021

- Leaders in both employers' organisations and unions revised their forecast by 0.1 pp to 3.0% and 3.2% resp.
- Norges Bank assumed 3.0% growth in the Sept MPR

2022

- Leaders in both employers' organisations and unions revised their forecast by 0.3 pp to 3.3% and 3.5% resp.
- Norges Bank assumed a 3.1 % growth rate in the Sept MPR

In sum

- Wage inflation is picking up steam but remains moderate – and, will not – at the current levels – challenge the 2% inflation target
- However, we expect further upward revisions the coming quarters as the labour market rapidly tightenes

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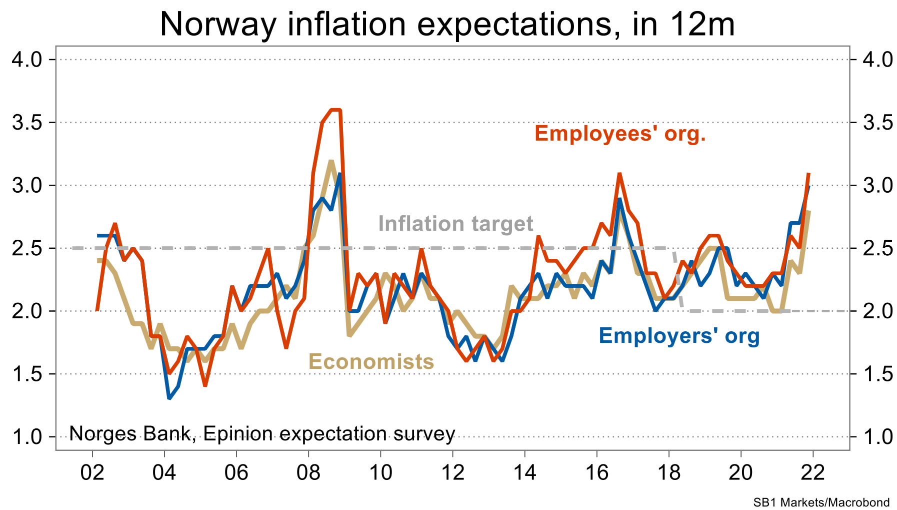
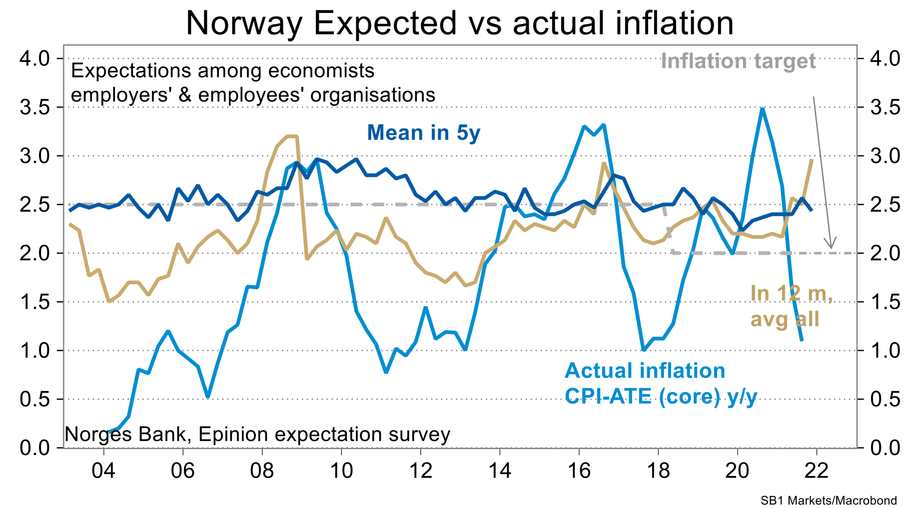
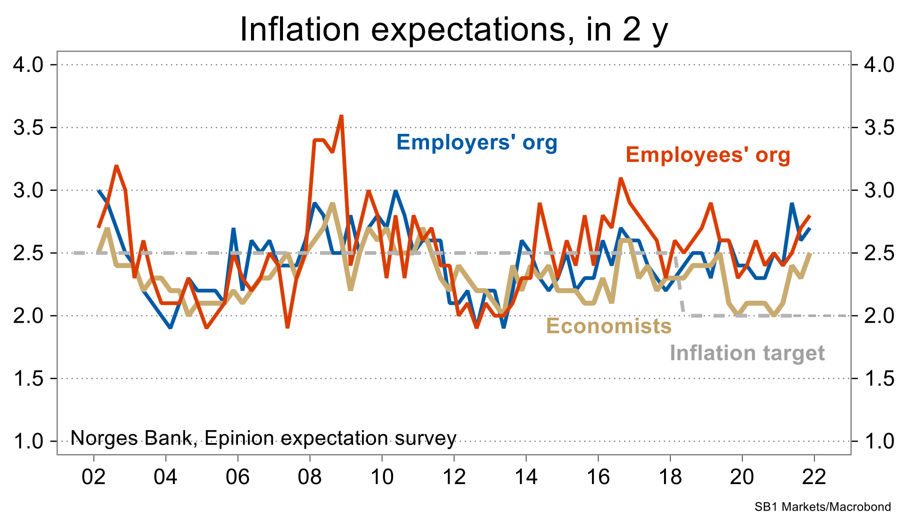
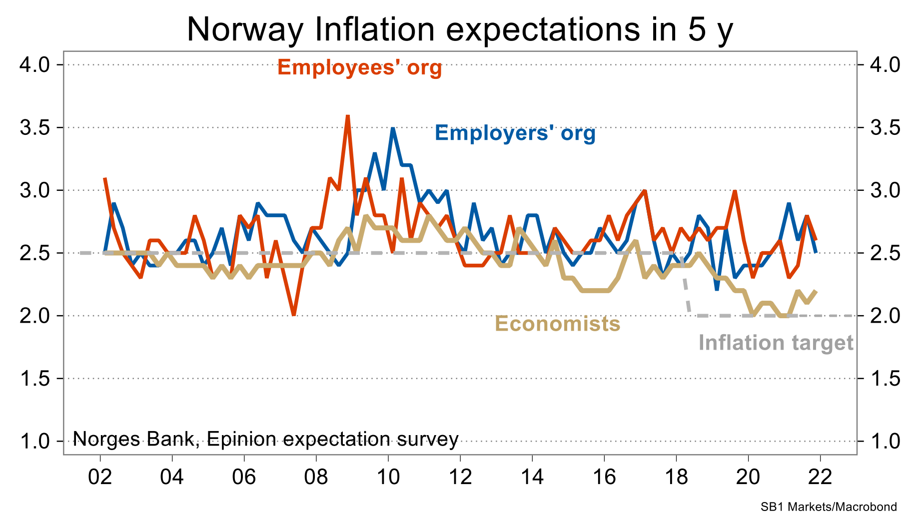
Short term inflation expectations further up, long term exp. remain too high

Labour market organisations expect 2.5%+ inflation long term, just economists (almost) believe in the 2% targ.

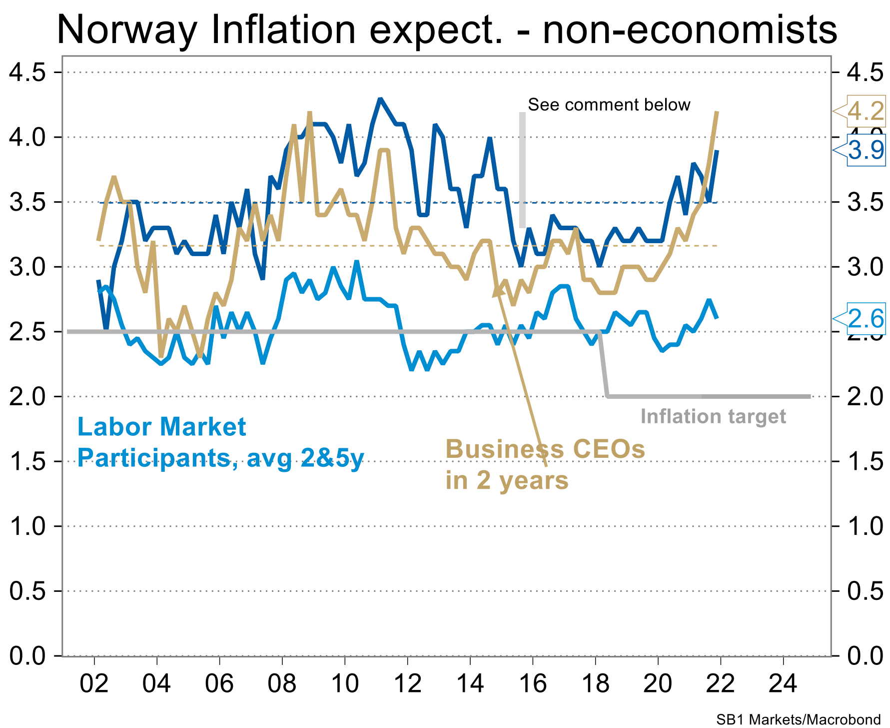








Household, business inflation expectation are not particularly well anchored



Business leaders' & households' expectations are rising sharply to well above normal (very high) levels

- **Labour market participants** (leaders in trade unions & employees' assoc.) are probably listening to their economists, and they expect a 2.6% longer term rate of inflation, in line with their average expectations (2.6%) – though unaffected by the 50 bps cut in the inflation target in 2018
- **Business leaders** are expecting a 4.2% inflation rate in 2 years time – up 1.2 pp since before corona, and higher than their average expectation (3.1%) (and no impact of the lower inflation target)
- **Households** have always expected incredibly high inflation going forward (even after an adjustment of data prior to Q1 '15, due to a clarification of 'inflation', see below) – on average 3.5%. Now, **they expect 3.9% in** 2 to 3 years time, up 0.7 pp from before corona
  - » Should we just ignore these 'silly' expectations, or should we reflect on them?
  - » We should at least put some emphasis on the significant rise in inflation expectations – to above average levels
  - » **Perhaps we could even explain demand for credit from households by the 2 pp negative gap between mortgage lending rates and expected inflation?**

The questions regarding expected inflation in 2 or 2 – 3 years time for business leaders and households were slightly altered in Q1 2015 survey. Since then, they have been asked about the expected rate of annual inflation in 2/2-3 year time, not just 'inflation' which could have an unambiguous interpretation. Household revised their expectations down by 0.6 pp in the Q1 '15 vs the Q4 '14 survey due to this clarification. Business CEO's revised their expectations a tad upwards. Since there were no other major change in actual inflation or inflation expectations among other groups during these months, we have just revised households' expectations down by 0.6 pp pre Q4 '14.

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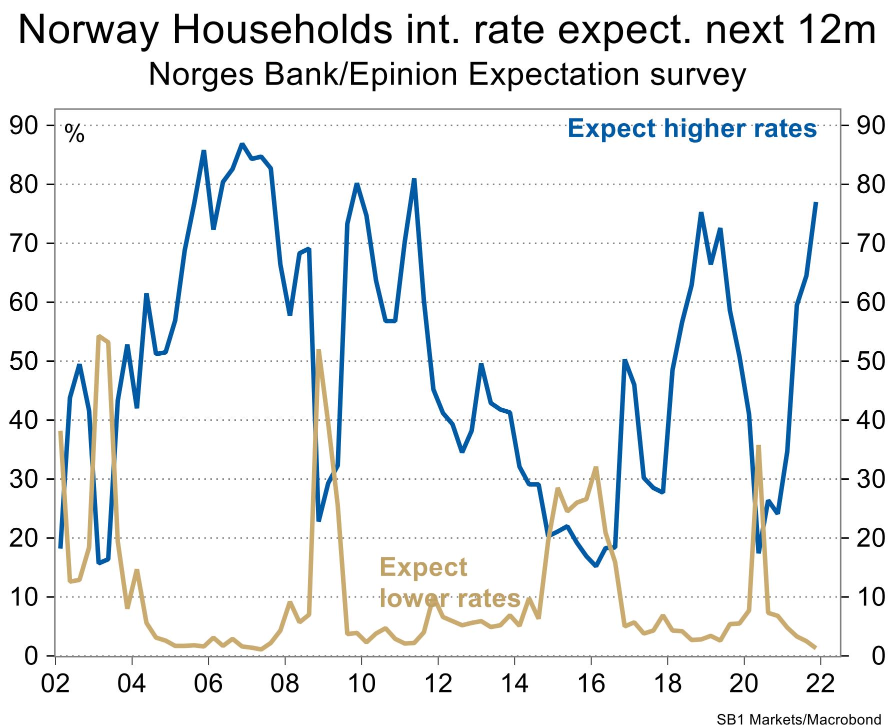
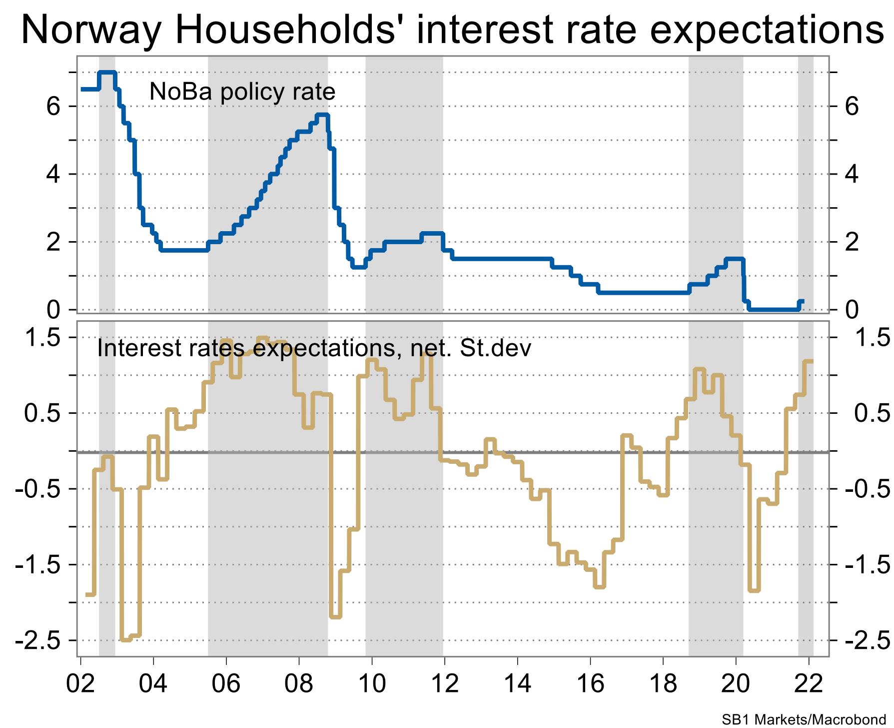
Interest rate expectations have turned upwards, as they should

Households are often ahead of the curve when NoBa (well communicated) starts hiking





- 77% of households expect Norges Bank to hike the policy rate the coming 12 months, up from 65% 3 months ago, before NoBa hiked. Still 22% are not sure (just 1% expect the banks to cut interest rates)

Highlights

The world around us

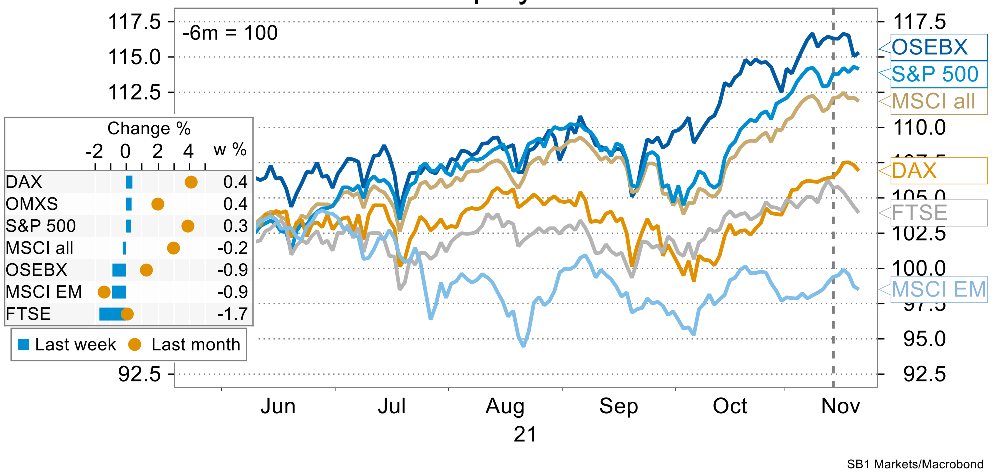
The Norwegian economy

Market charts & comments

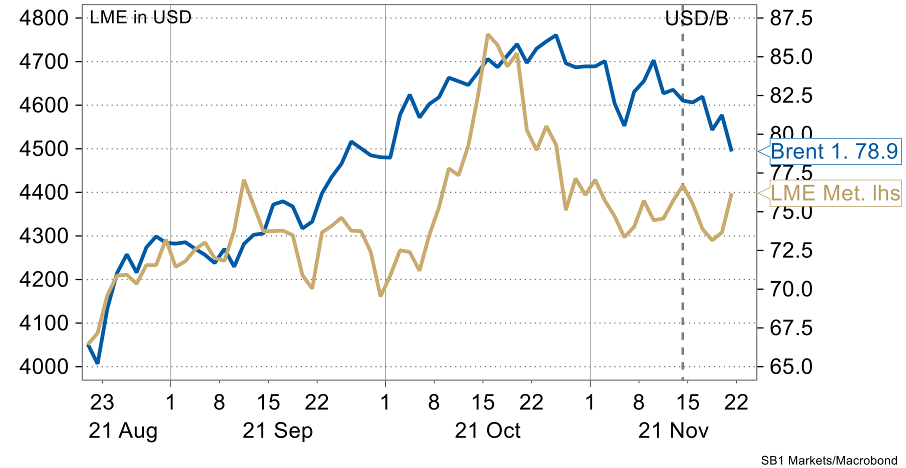
Equities mixed, oil down, bond yields reversed last week gains

And the NOK continued downwards

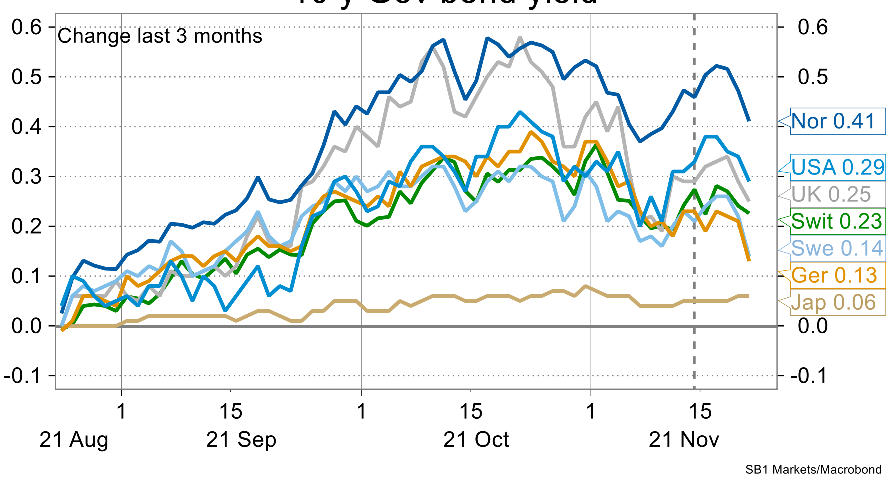
Equity Indices



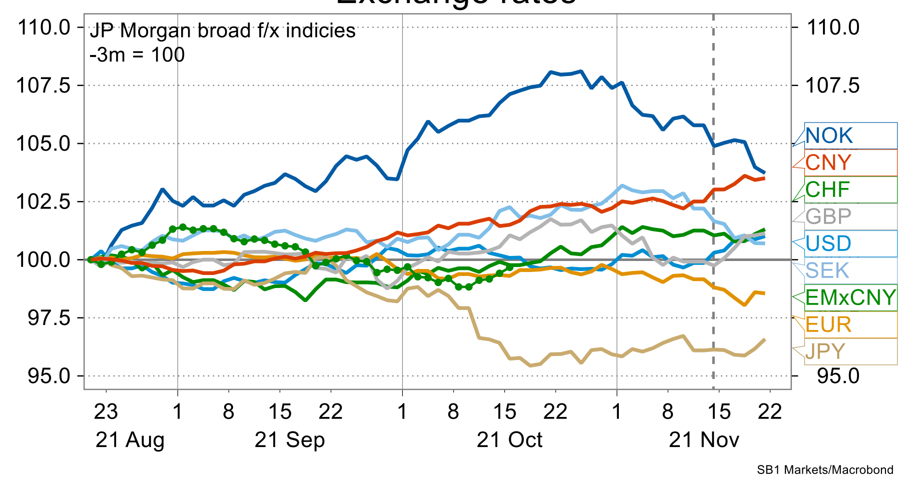
Oil vs. metals



10 y Gov bond yield



Exchange rates



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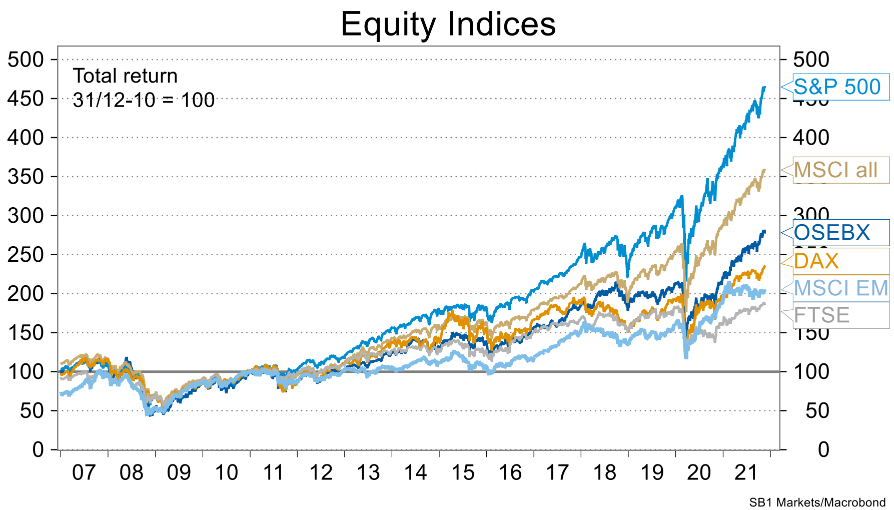
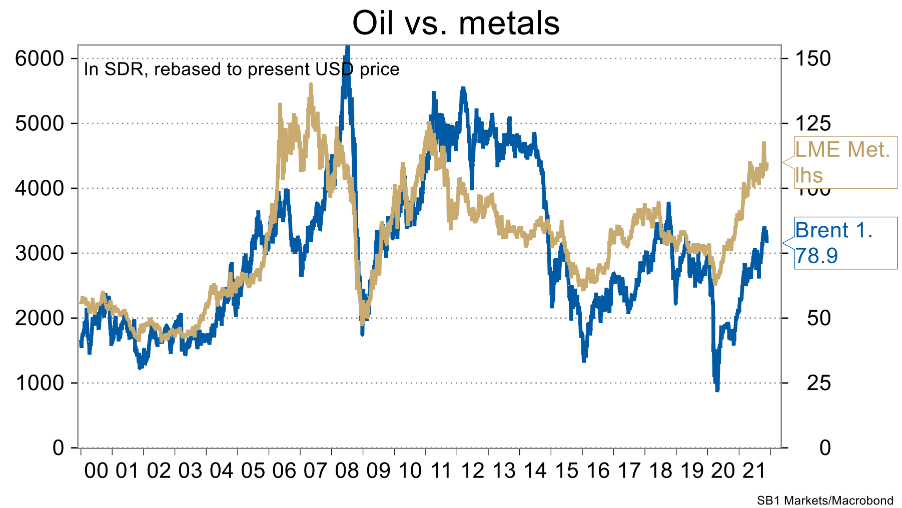
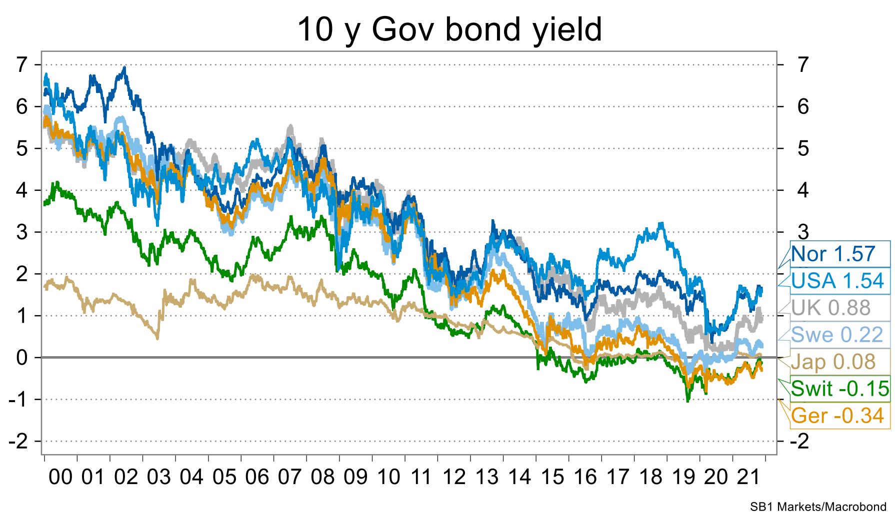
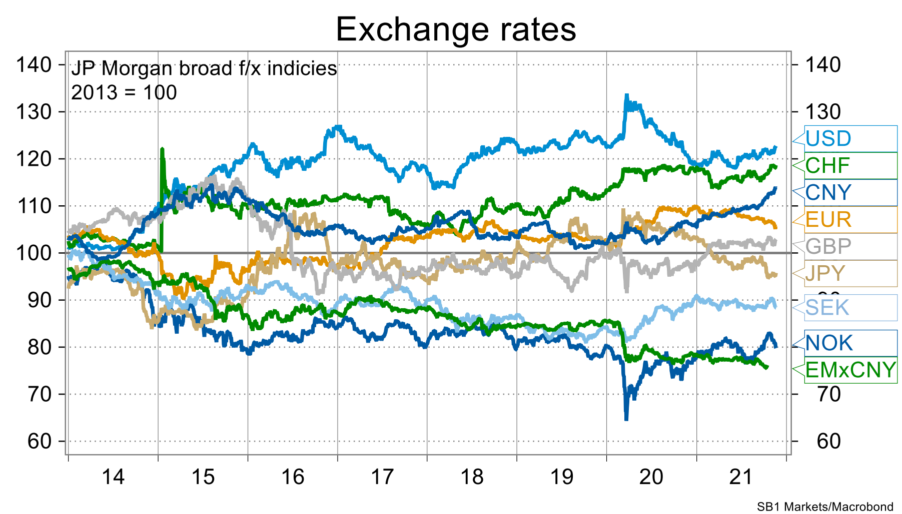
The big picture: Risk is on – and bond yields are still probably drifting upwards

Equity markets, commodities are still on the move upwards. The CNY the strongest currency

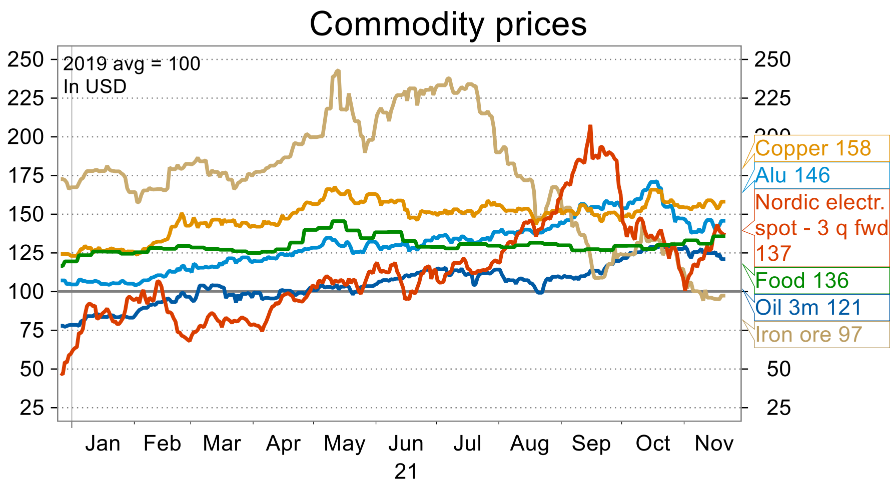


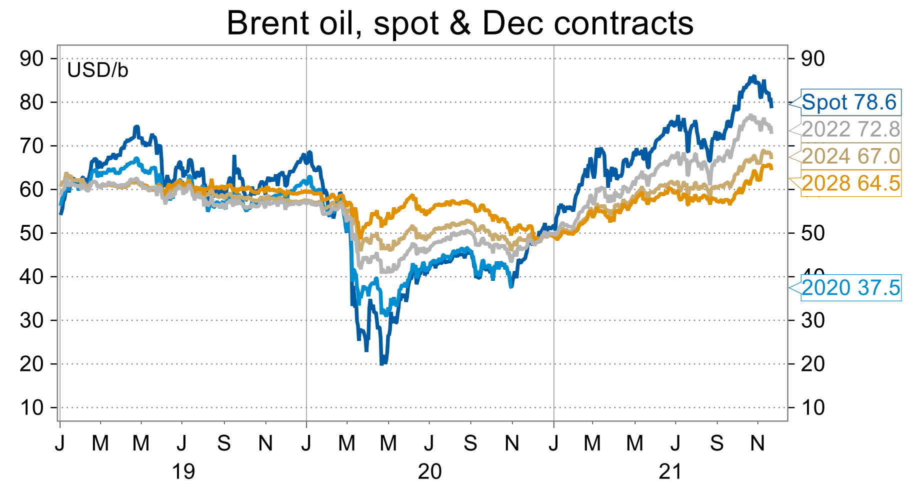






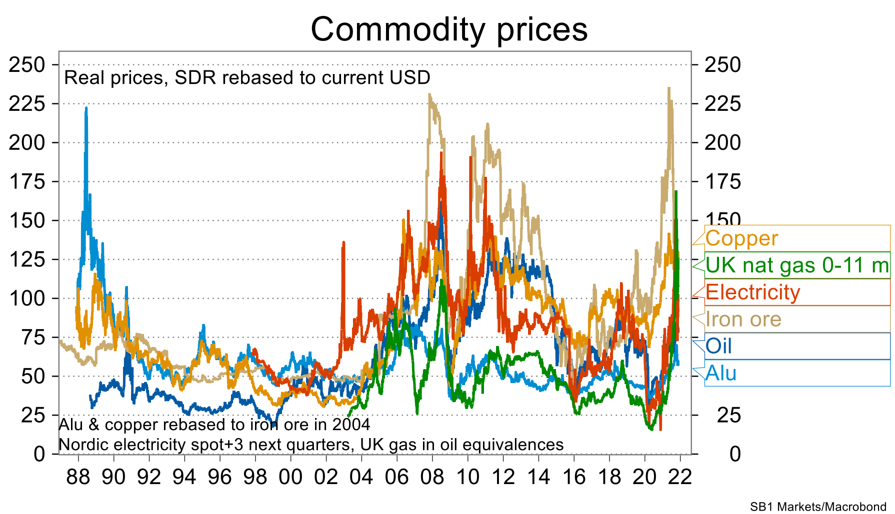
Metal prices flattish, food prices up while the short end of the oil price curve fell

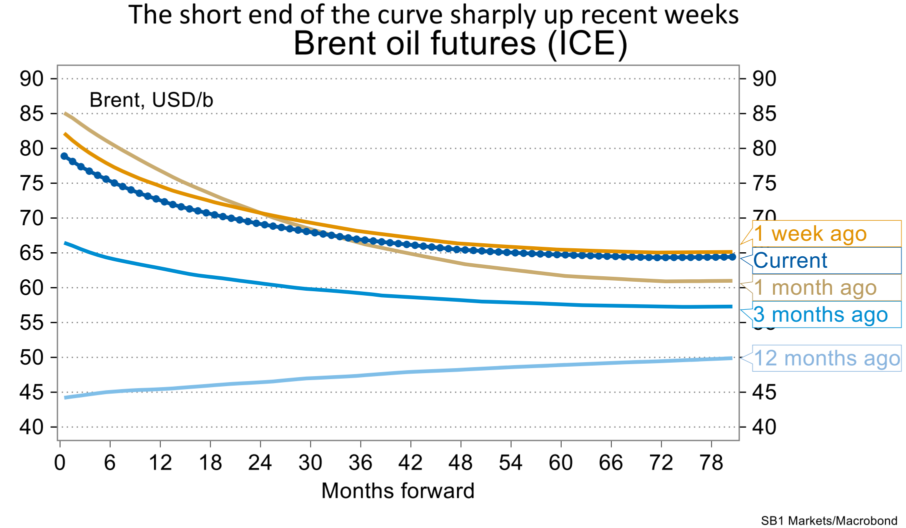




Longer dated oil contracts are heading down

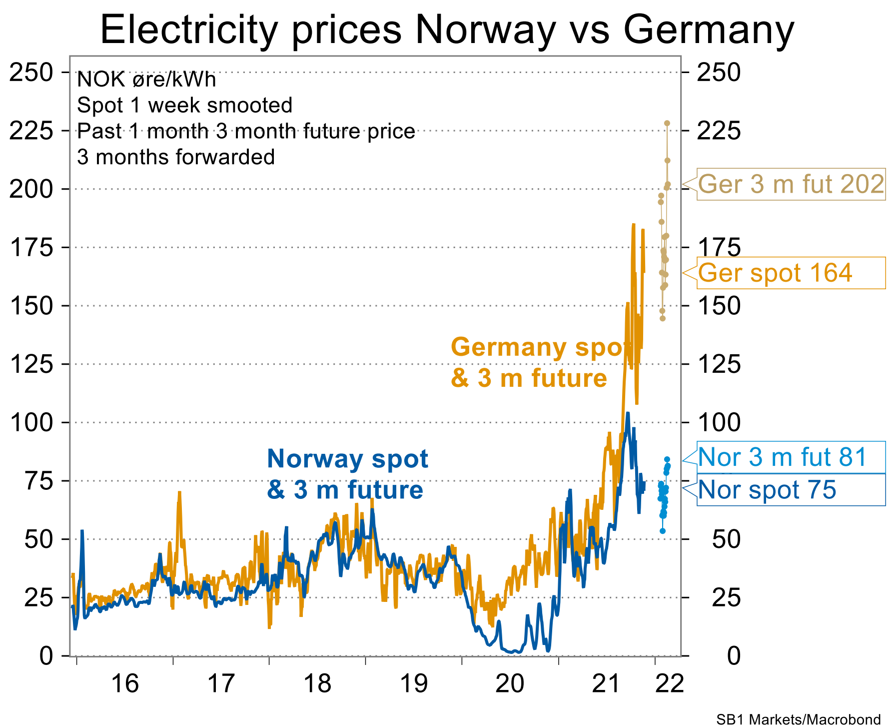
The short end of the curve sharply up recent weeks

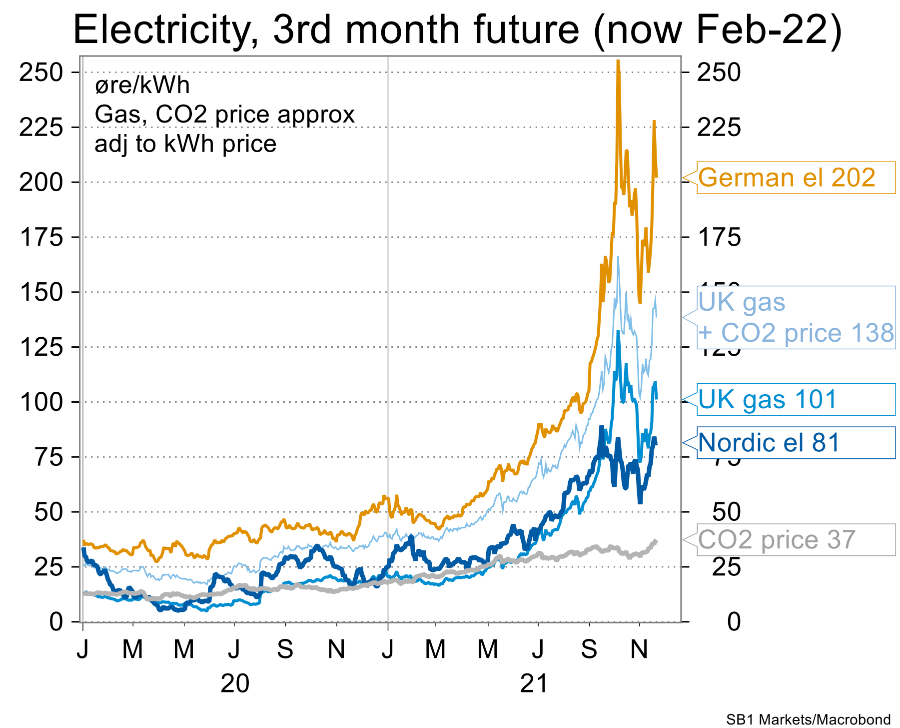




European electricity, gas prices up last week – still far below recent peaks

The Nord Stream 2 gas prosject was delayed, due to formalities – and energy prices in Europe rose





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

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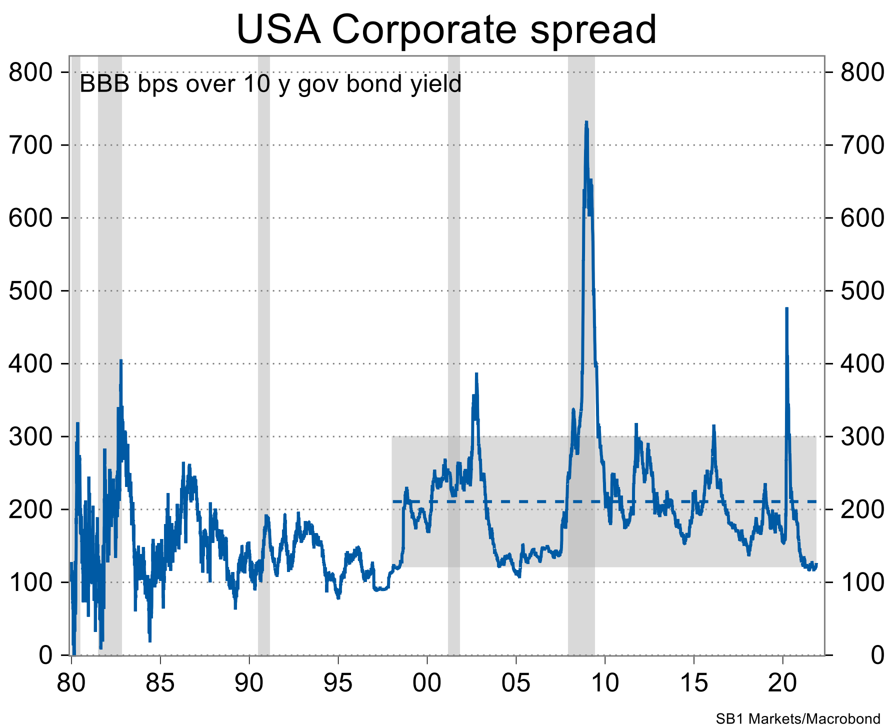
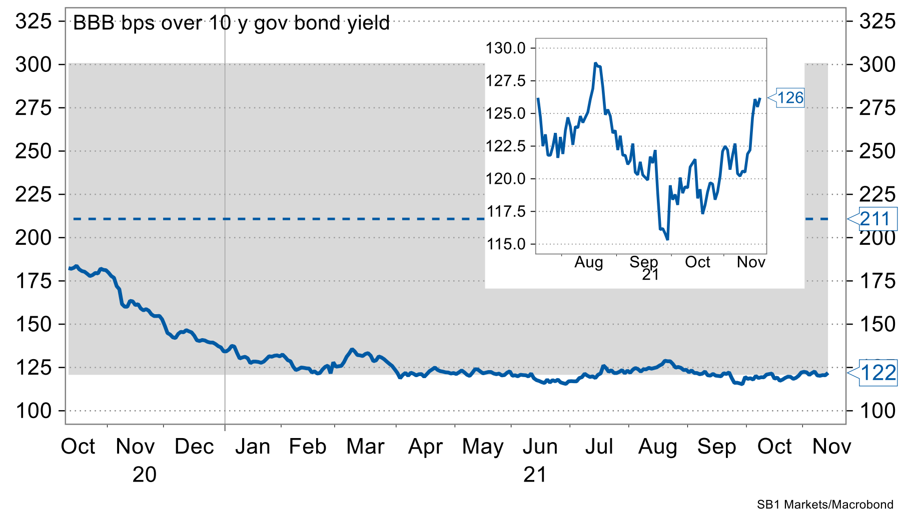
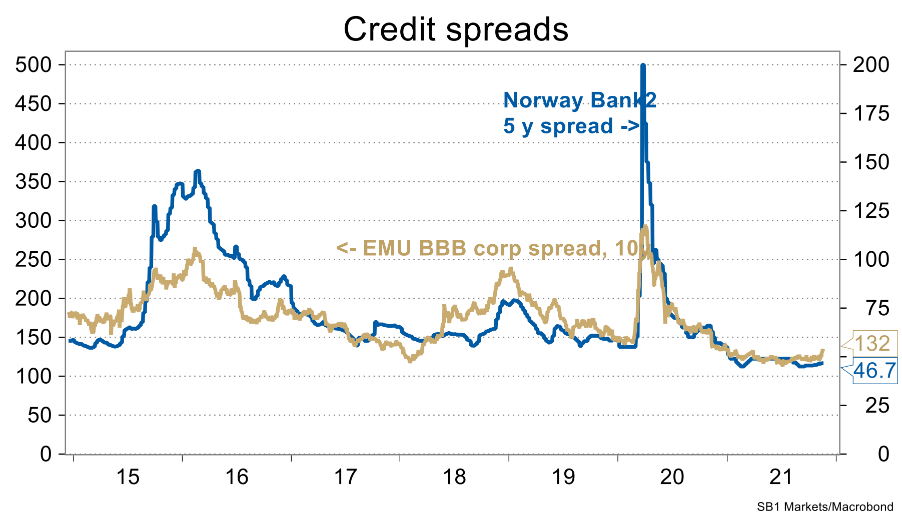
Credit spreads up last week, no drama yet

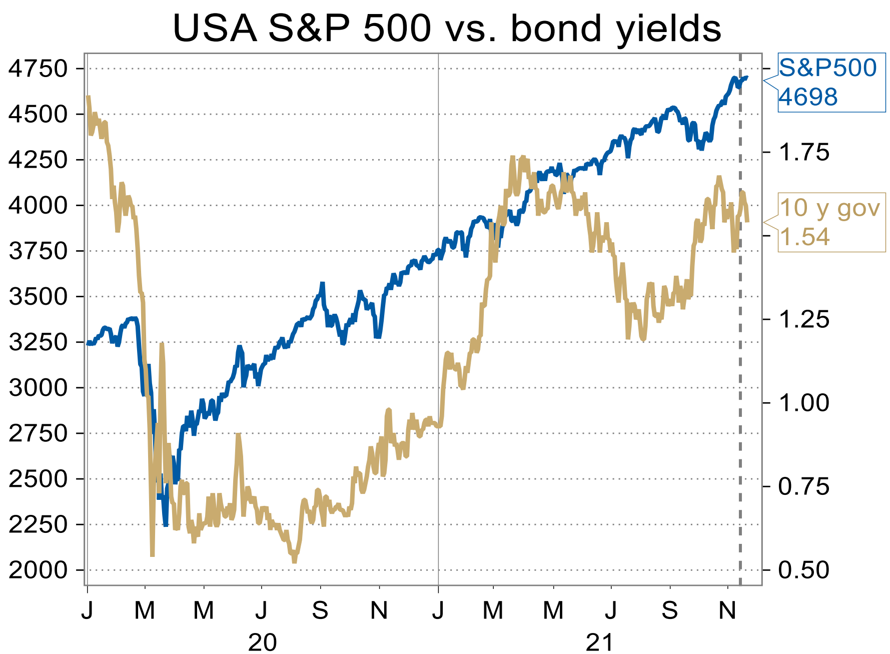


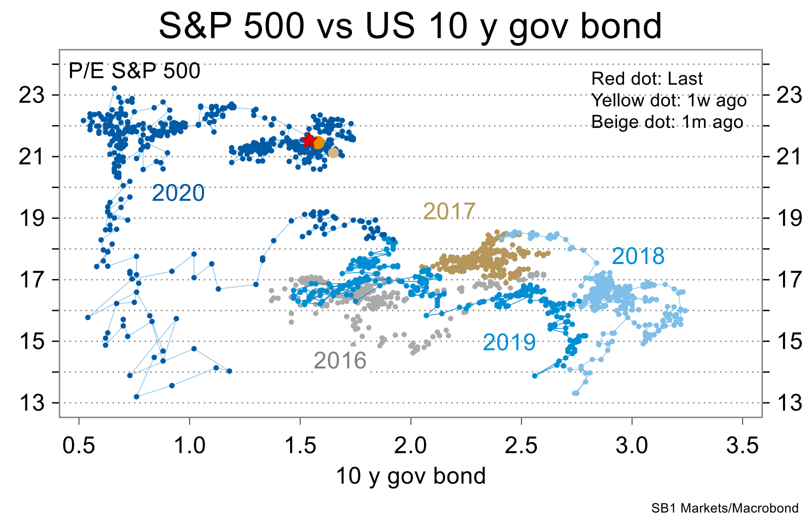


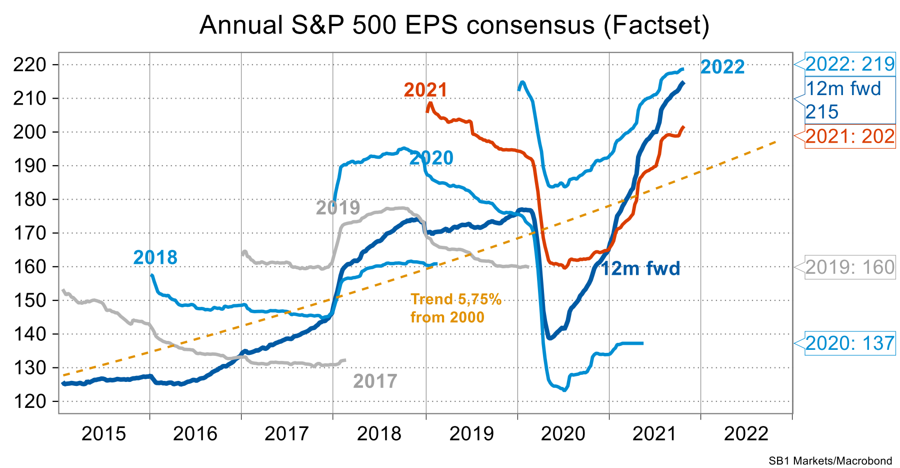


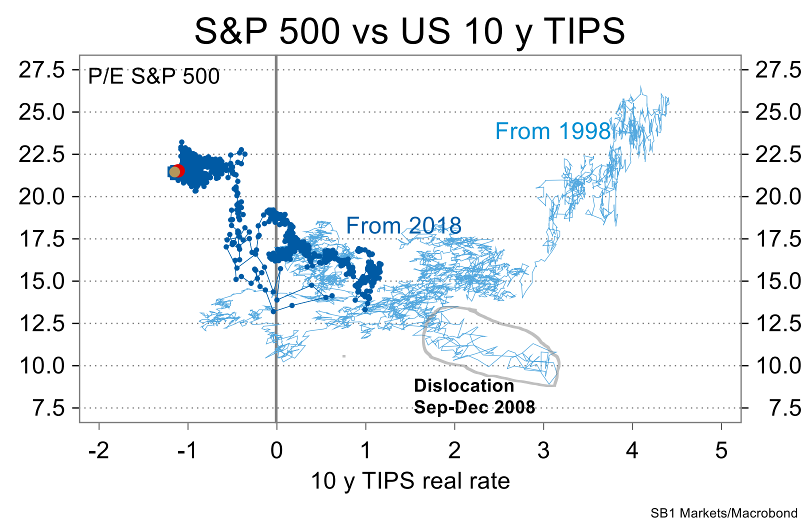
S&P 500 up 0.3% to another ATH – and the 10 y bond yield fell 4 bps to 1.54%

S&P 500 up 0.3%





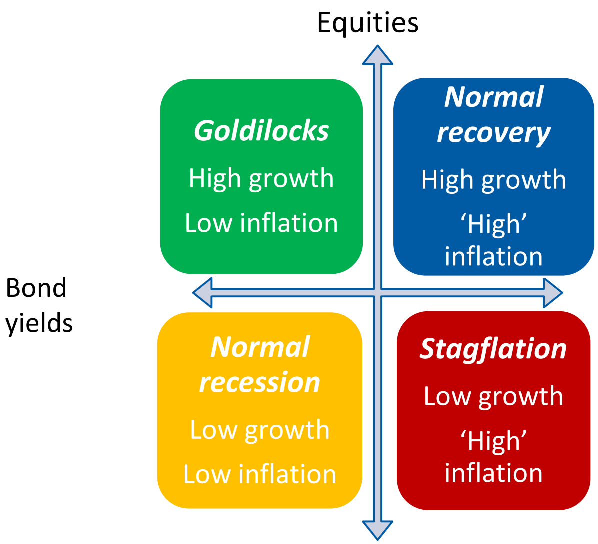


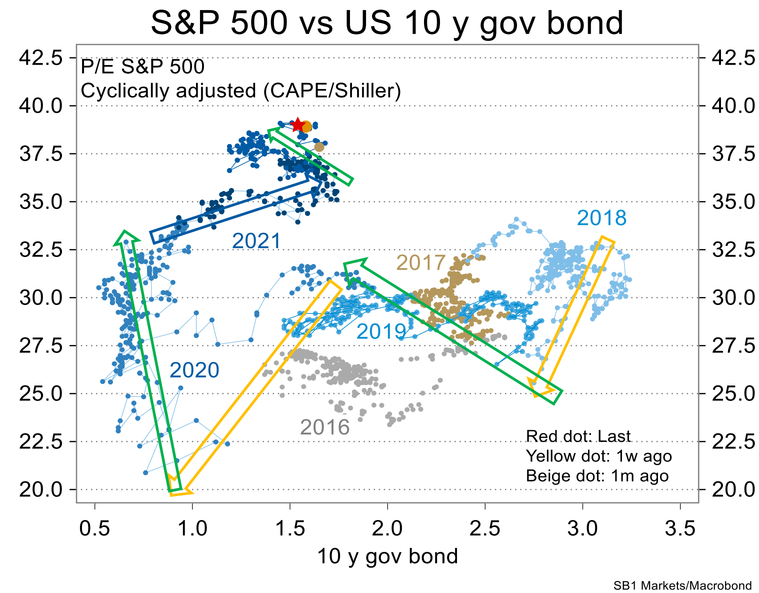


SpareBank 1 MARKETS

Further into the 'Goldilocks corner'!

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

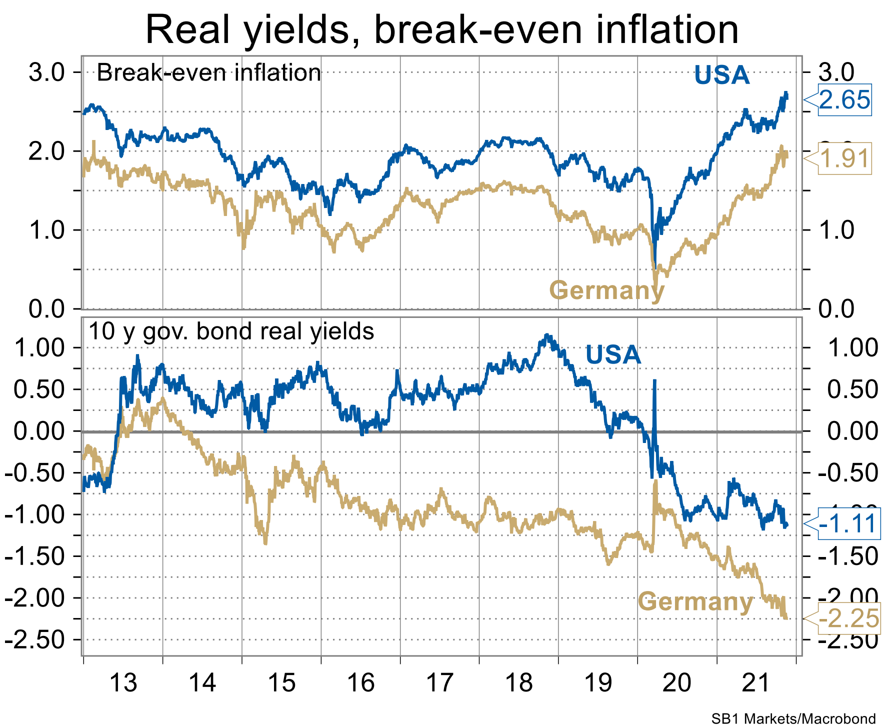


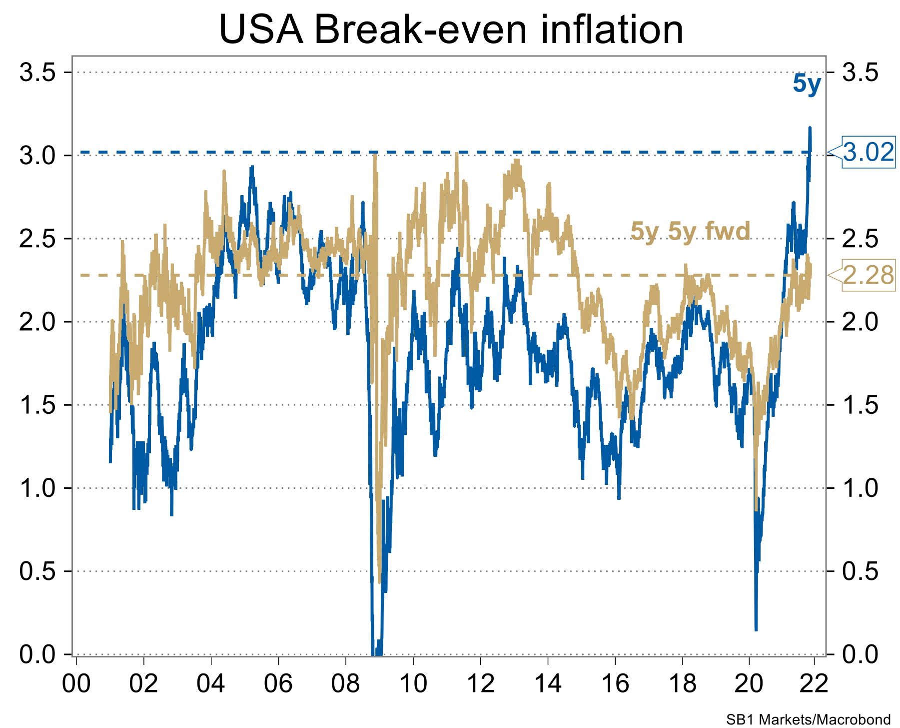


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield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

Break-even inflation expectations down, real interest rates up in the US

In Germany, both inflation expectations and real rates fell – real rates are 1 bps above ATL at -2.25%





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.54	-0.04	-0.11	0.52
.. break-even inflation	2.65	-0.08	0.11	1.06
.. TIPS real rate	-1.11	0.04	-0.22	-1.19
Germany nominal bund	-0.34	-0.10	-0.19	-0.65
.. break-even inflation	1.91	-0.03	-0.04	0.40
.. real rate	-2.25	-0.07	-0.15	-2.26

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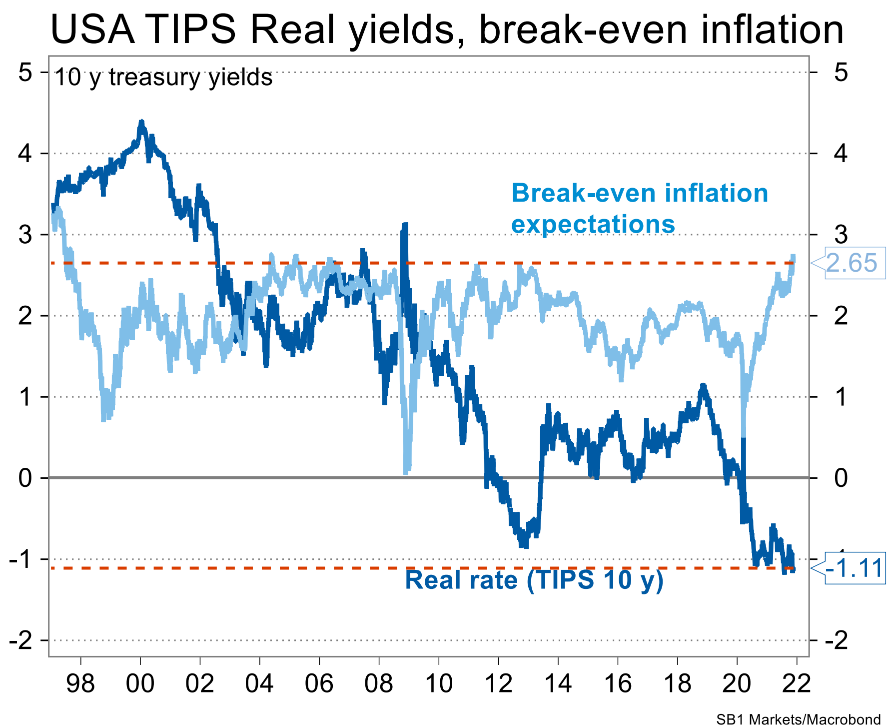
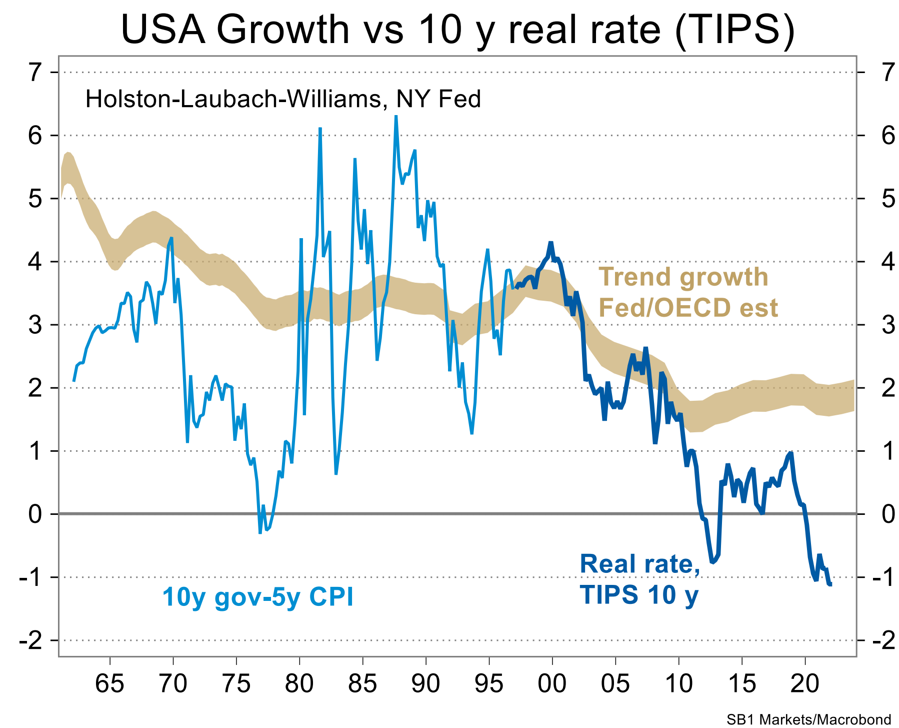
- The **US 10 y break-even** (inflation expectation component) declined 8 bps following the 10 bps hike the previous week. Real rates rose 4 bps to -1.11%
- In **Germany**, 10 y the break-even rose 8 bps to 1.92%, rather high in an German context. Real yields ended the week down 10 bps to -2.18% after reaching ATH at Tuesday at -2.25%!

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

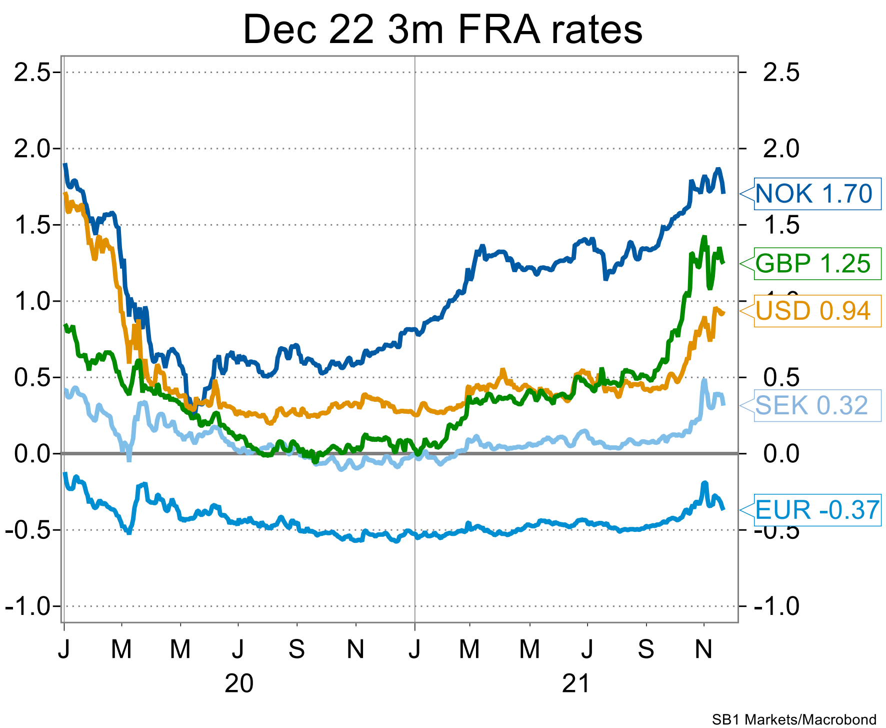
… while growth expectations are not that bad at all. Something will have to yield?

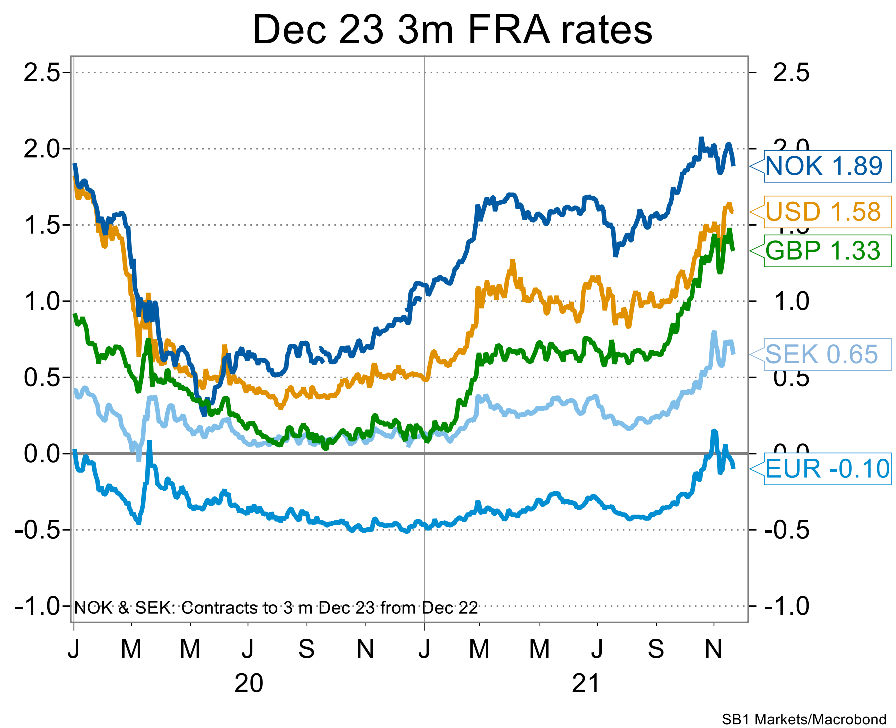




- We very much doubt the present -1% real rate vs. growth expectations at +2% is a long term equilibrium

FRAs: Expectations down last week – but not by that much





- **UK:** 5 hikes are before end of 2022 are back on the table
- **US:** The Fed is expected to start hiking between May and July next year, and 2 – 3 more hikes before next Christmas
- **SEK** rates are discounting more than one hike before end of net year

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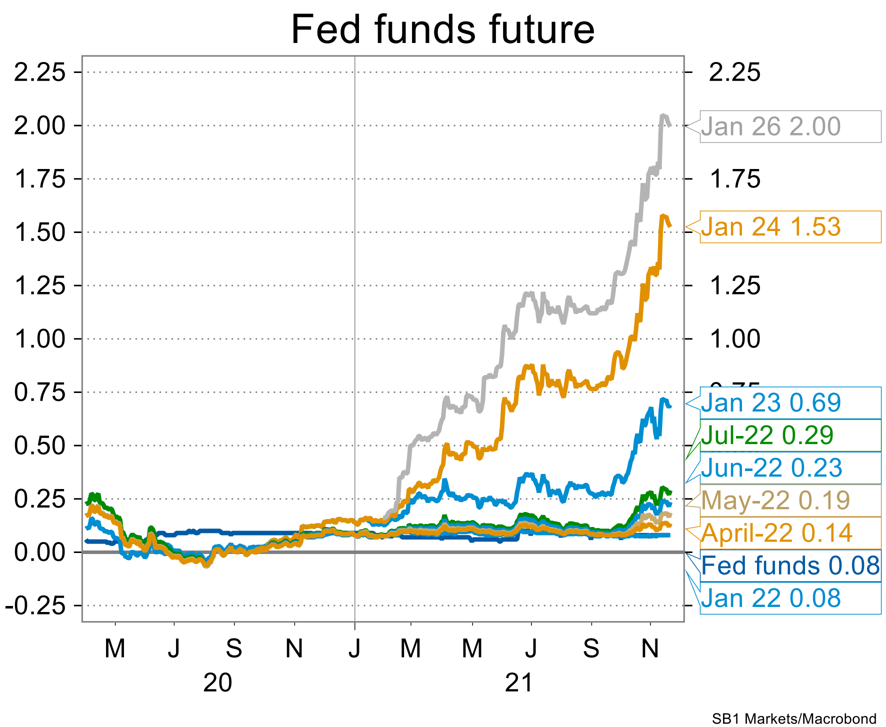
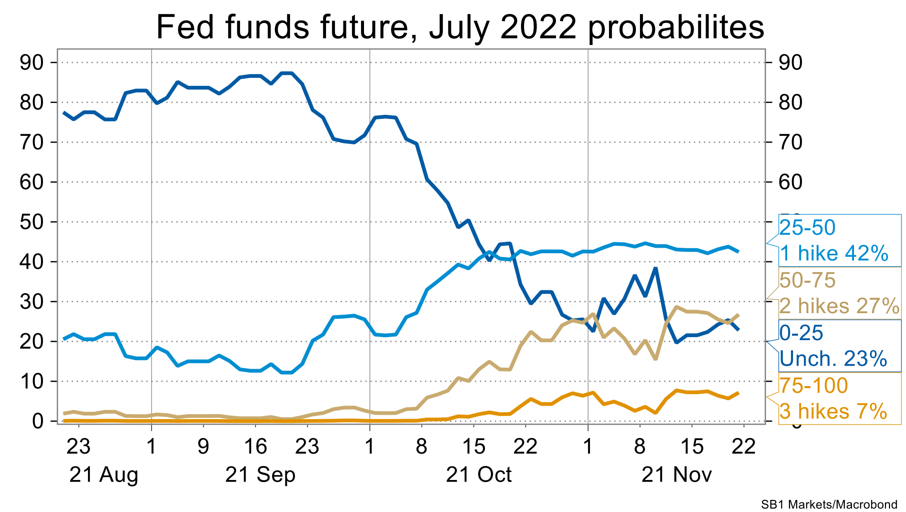
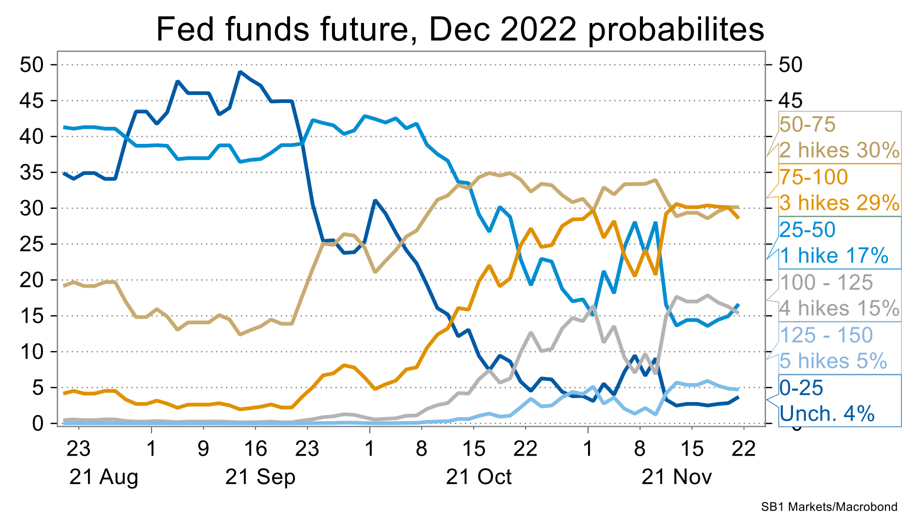
The market accepts it: Fed Fund future contracts shot up on the CPI surprise

A 73% prob. for one or more hikes at or before the July meeting (from 60% a week ago)

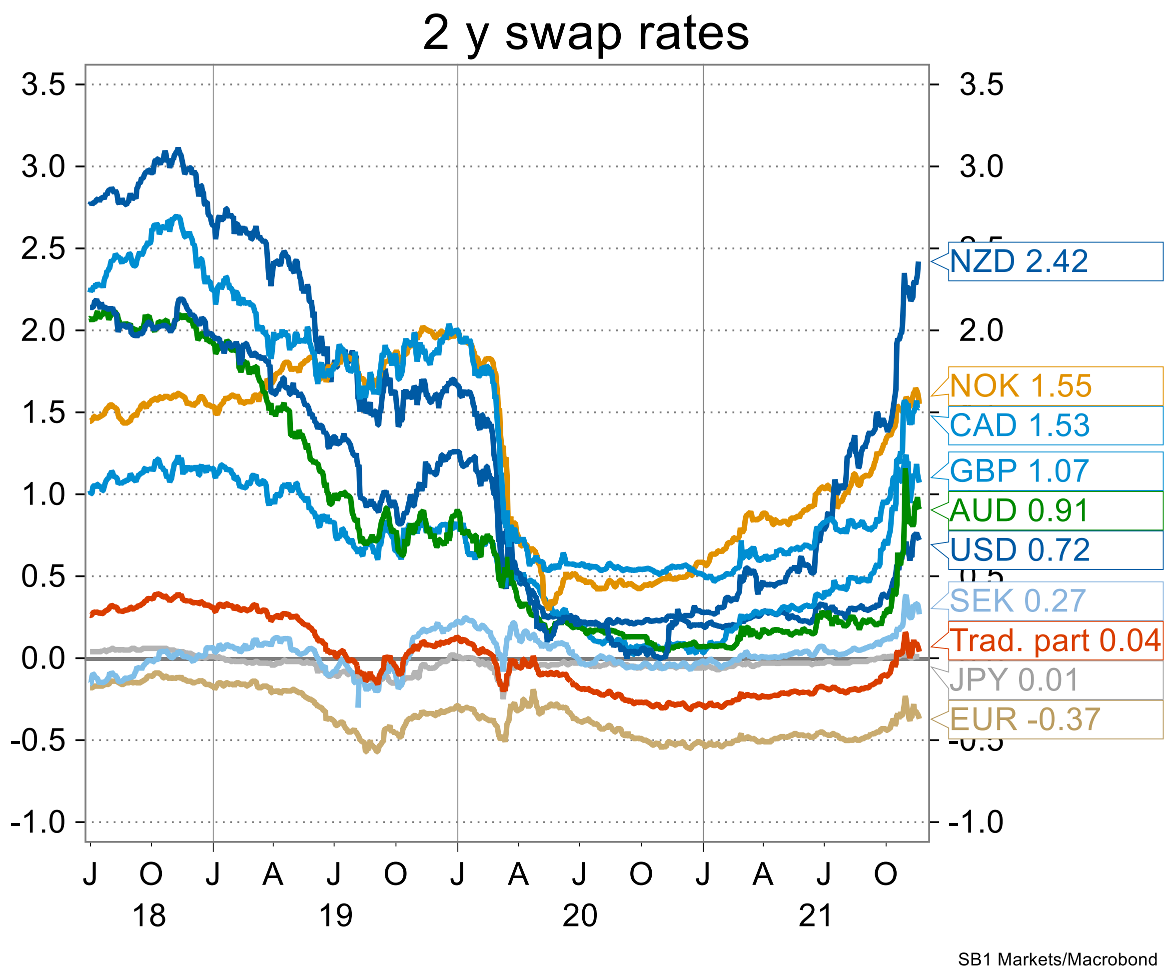


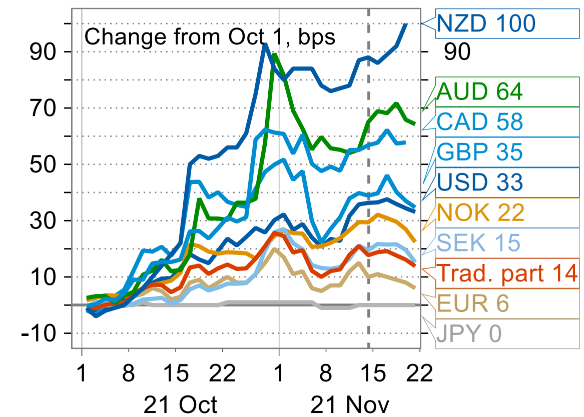


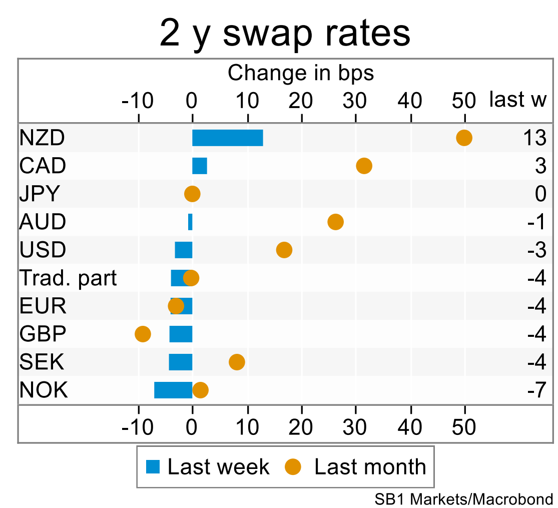


- **A rate hike before end of 2022 is 'very' likely:**
- A rather unusual change in the interest rate outlook since mid September!

Mostly down in the short end of the curve but less than the lift the prev. week







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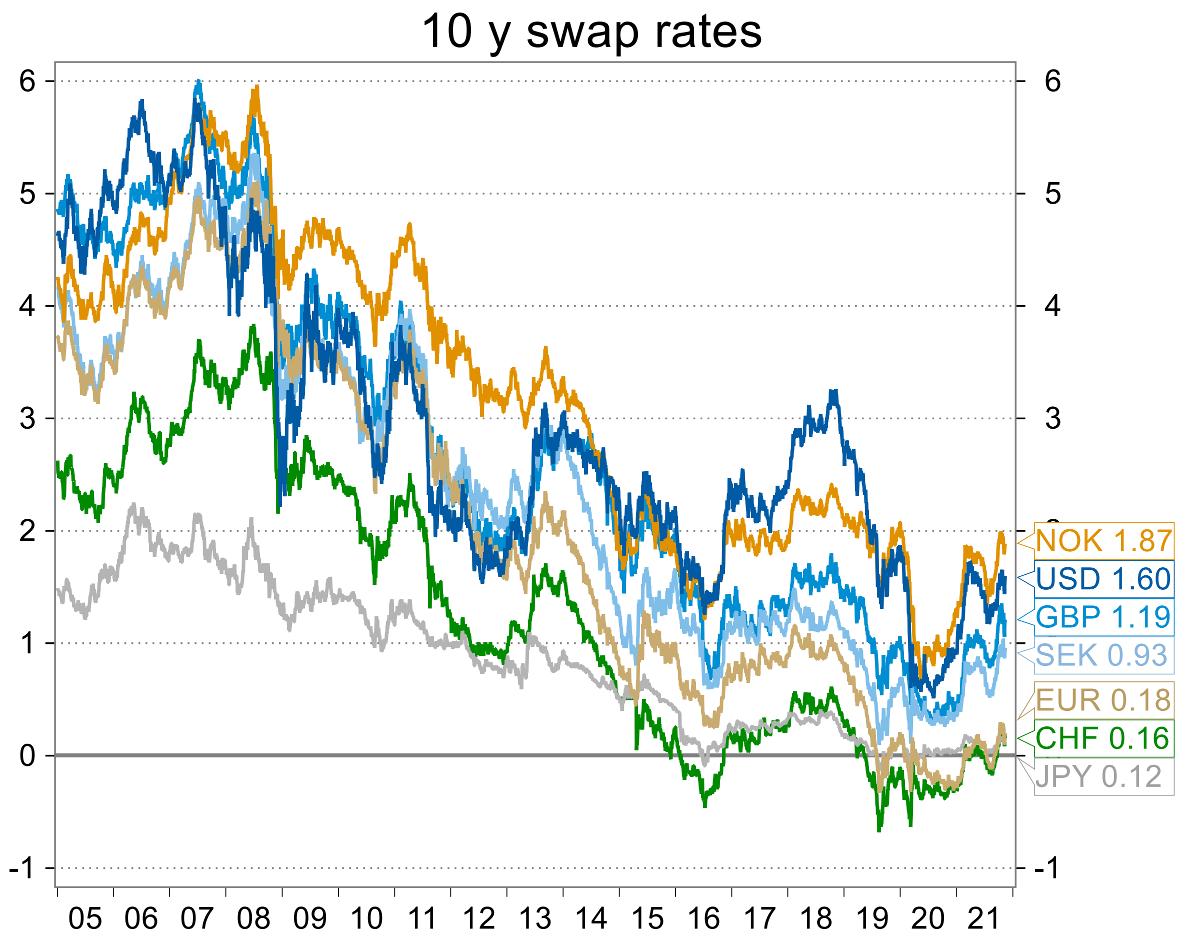
An upward correction following the decline the previous week



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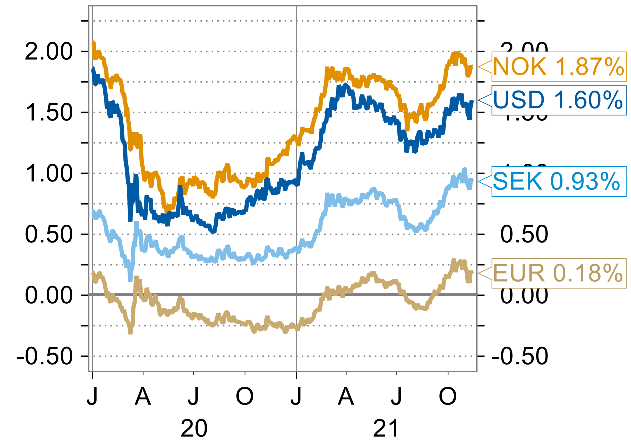

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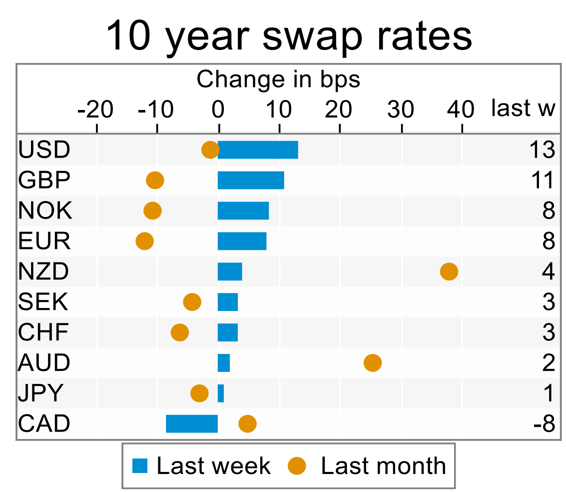

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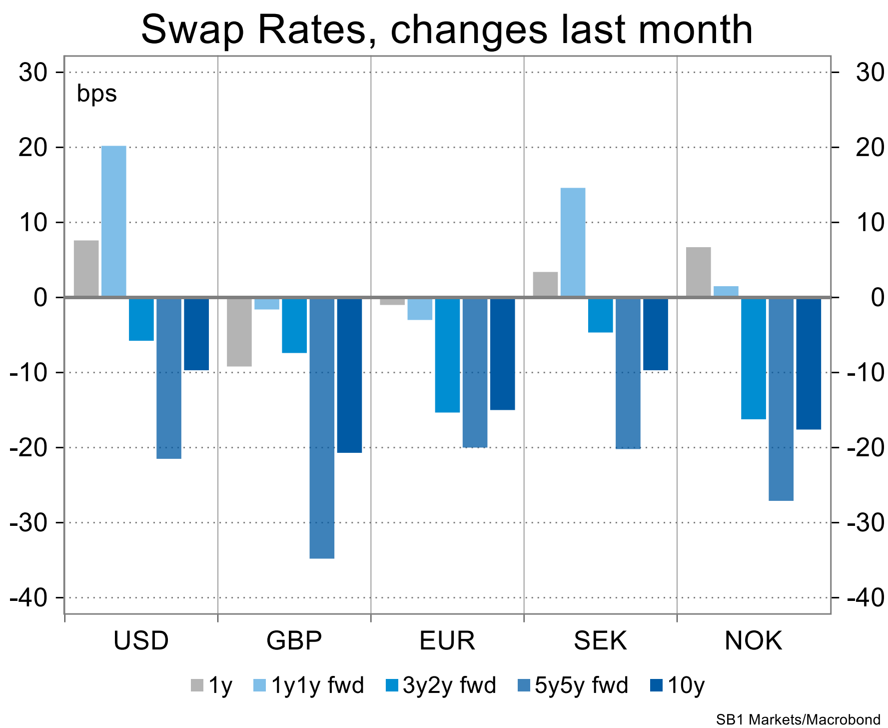
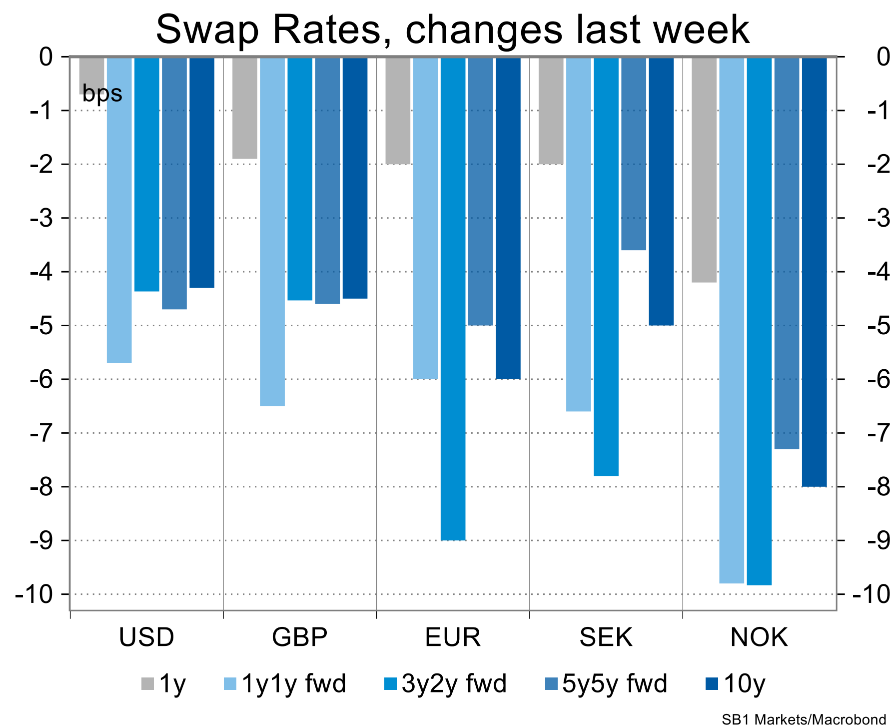
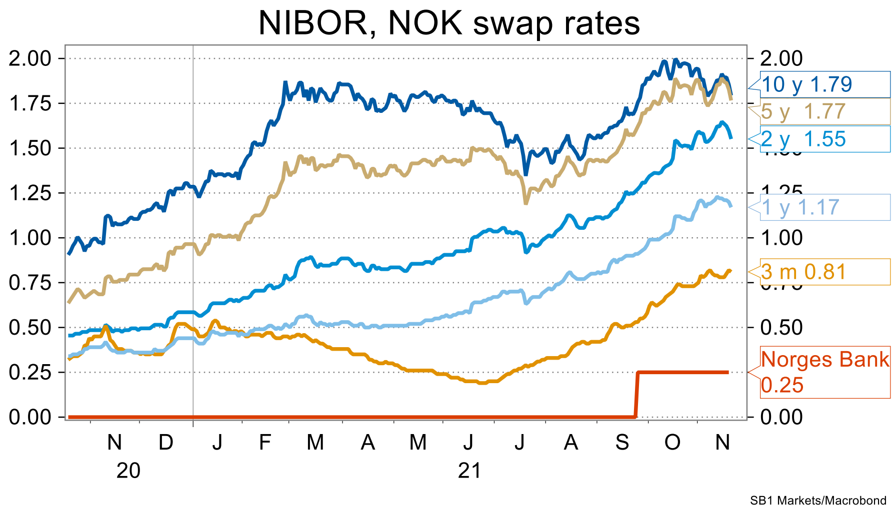
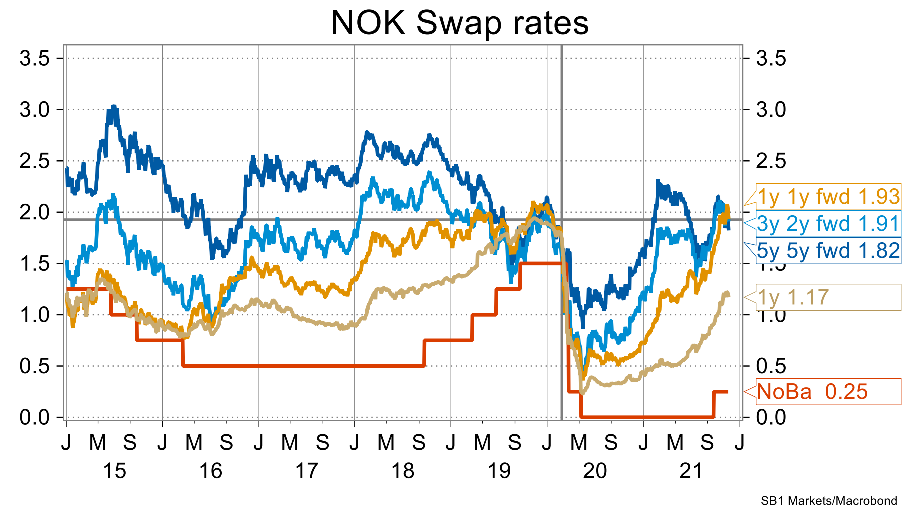
A broad decline in interest rates last week – and the most in Norway

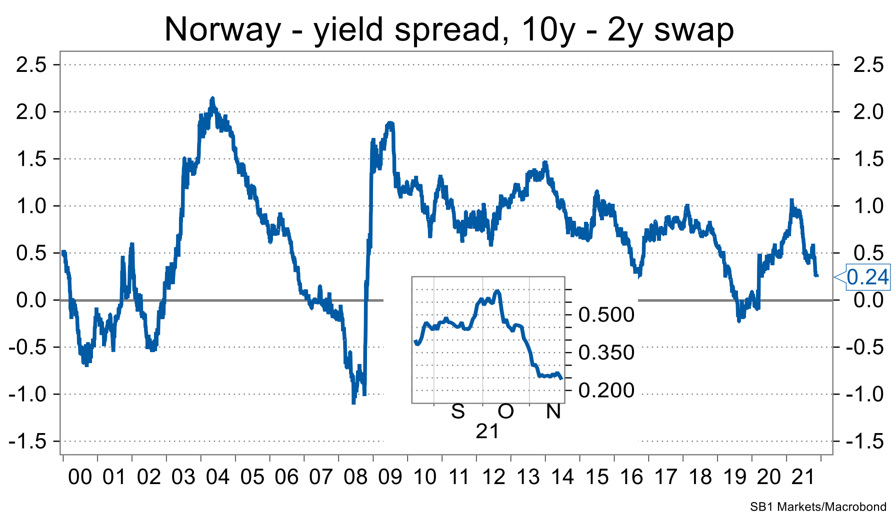


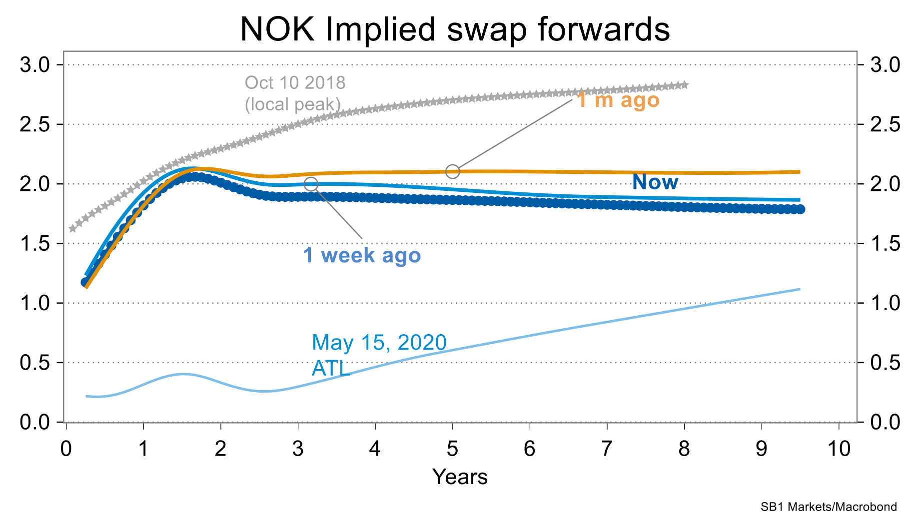


A broad shift downward last week (and month), except for the very short end



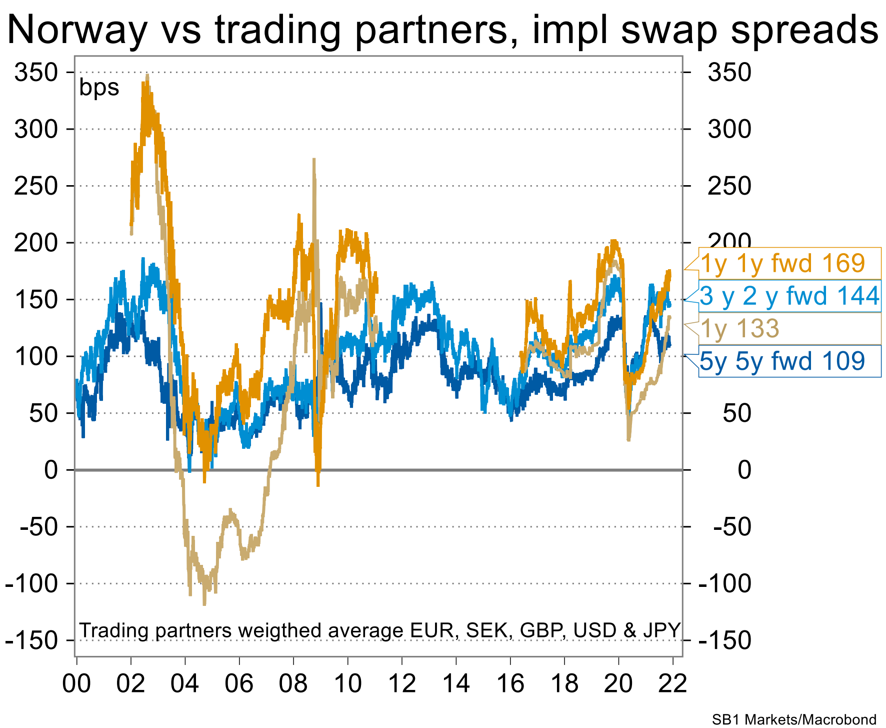


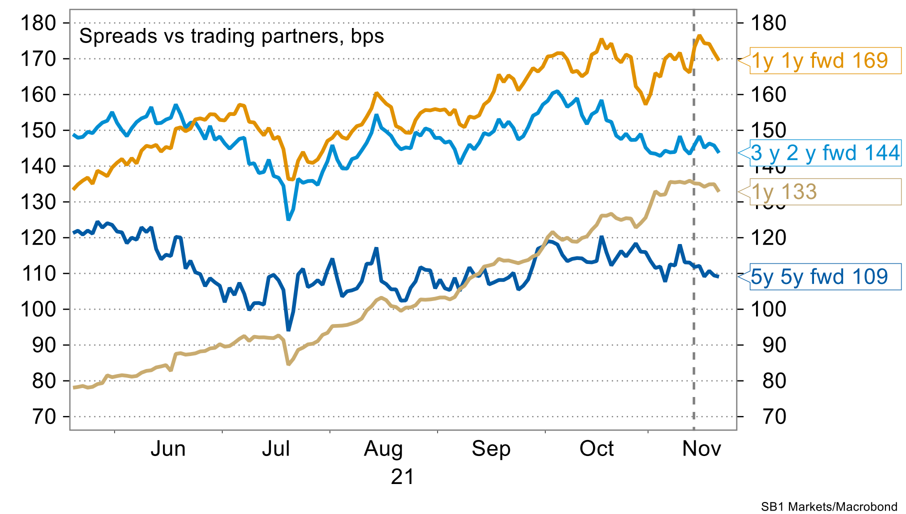


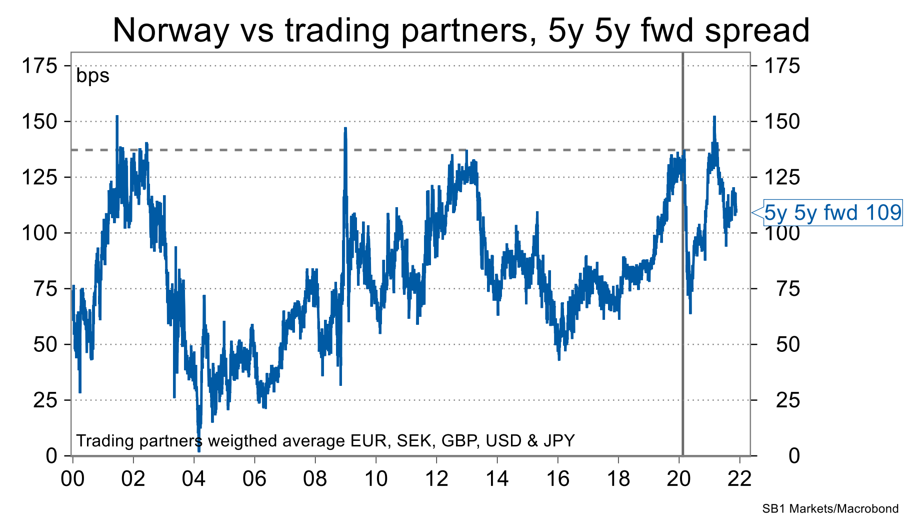


Implied fwd spreads marginally down last week

From 2 years: Spreads are trending slowly in







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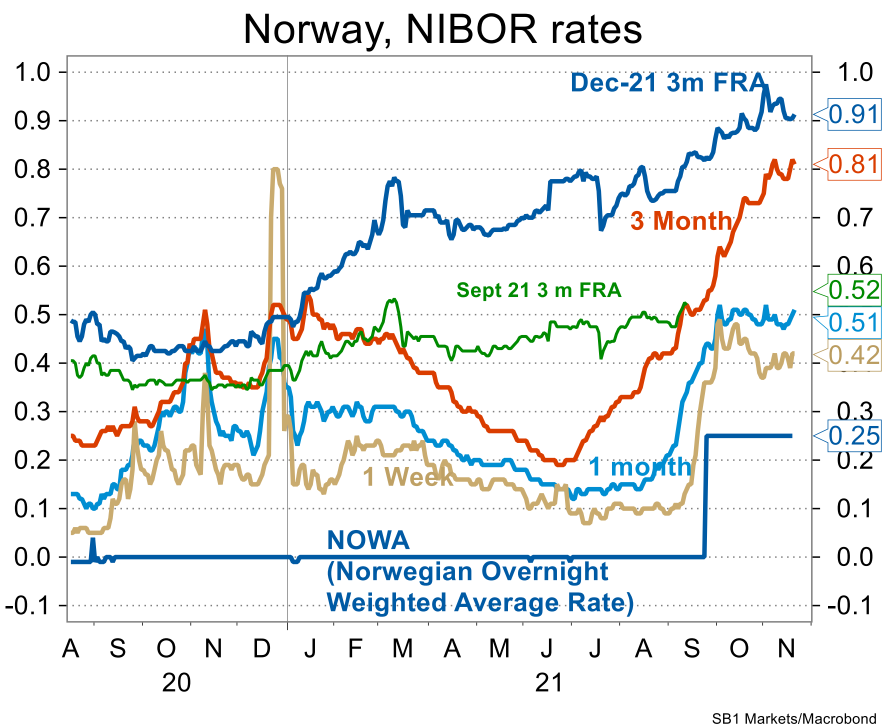
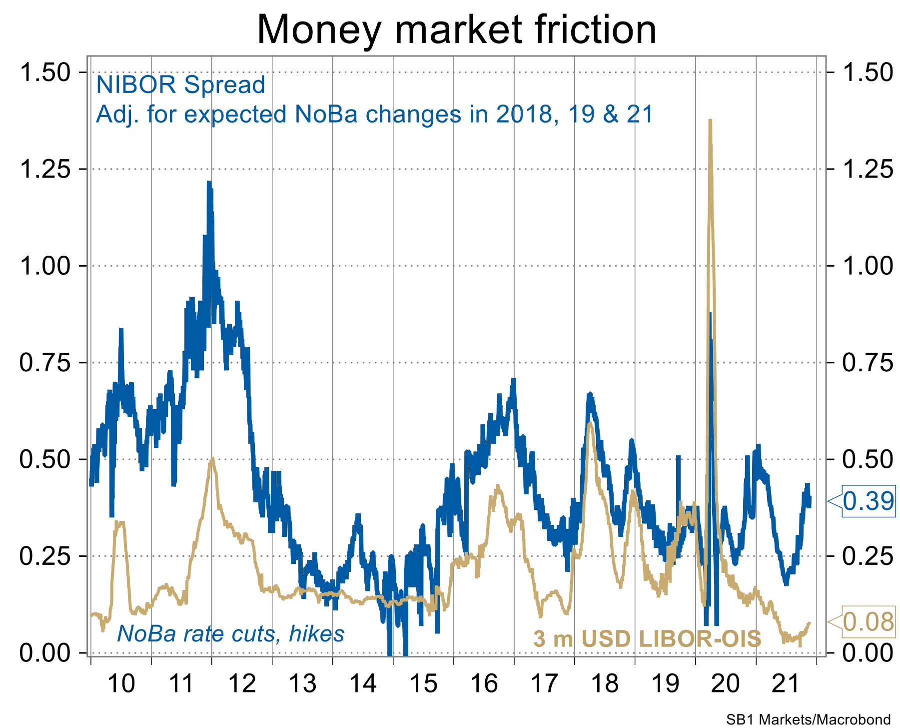
3 m NIBOR up 3 bps to 0.8%, the NIBOR spread up 1 bps to 38





- The Dec 3m FRA contract implies a 41 bps NIBOR spread (given a hike in Dec, and no hike before March)
- 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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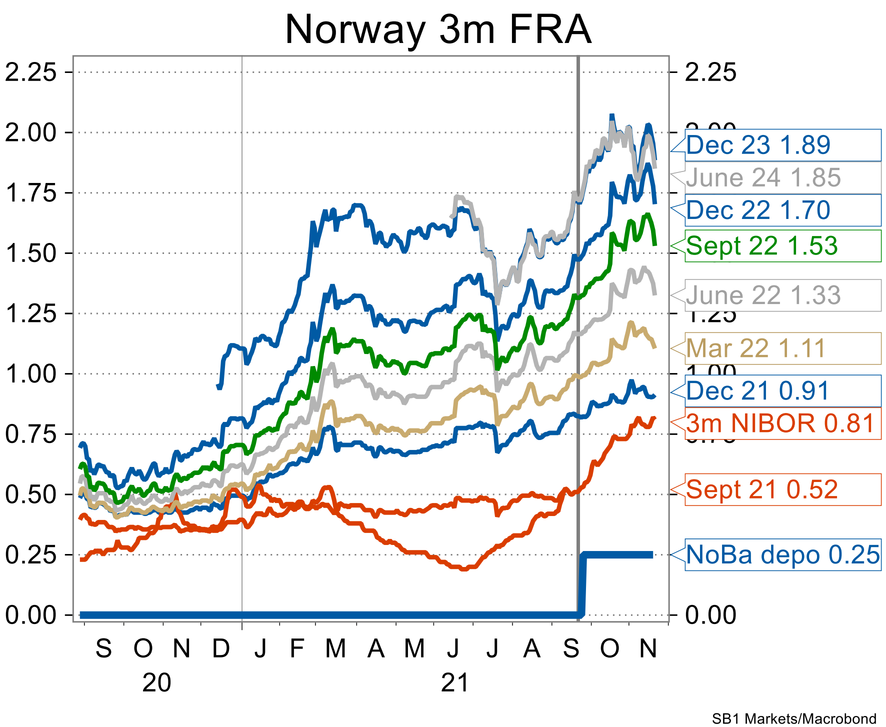
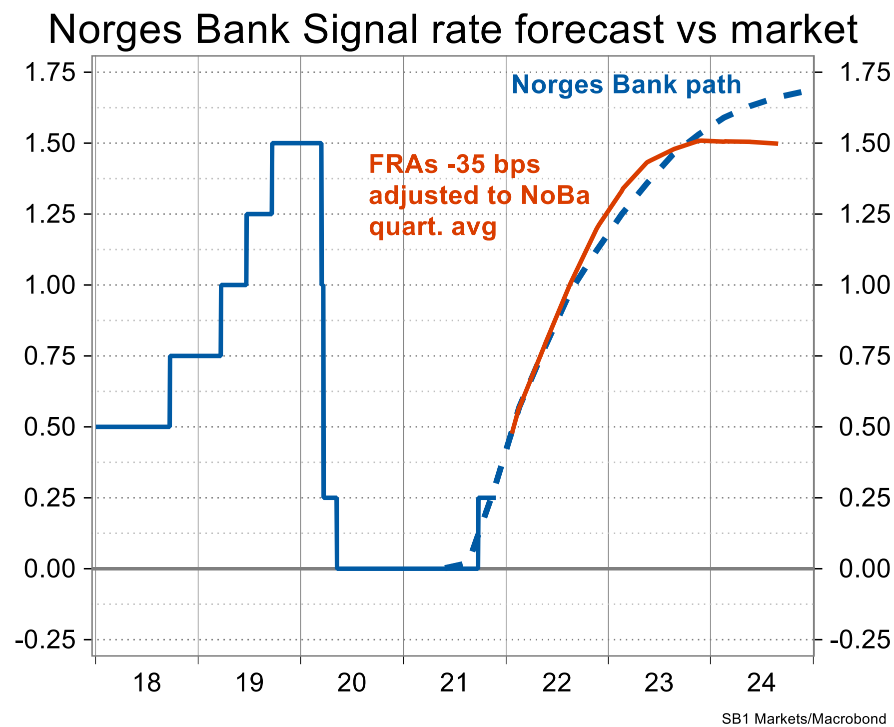
The zigzagging continues: The FRA curve down by up to 14 bps

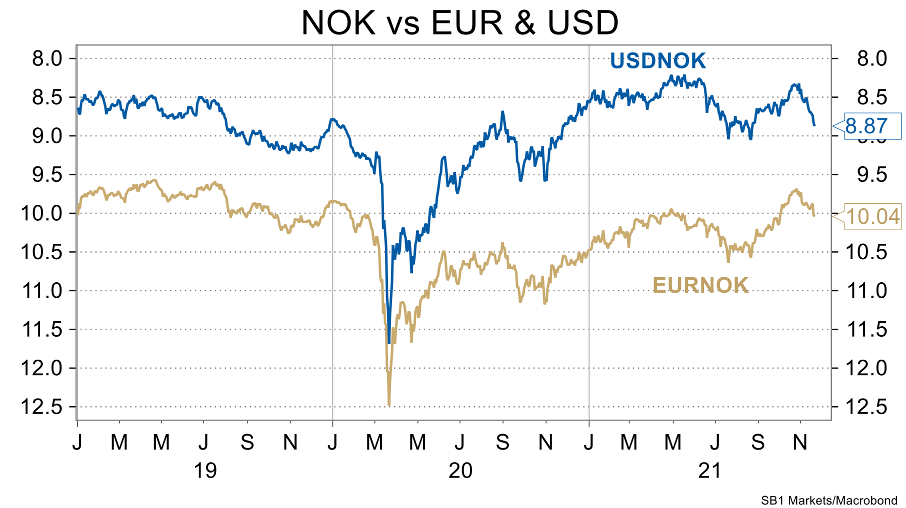
The FRA curve is still somewhat above NoBa's Sept interest rate path

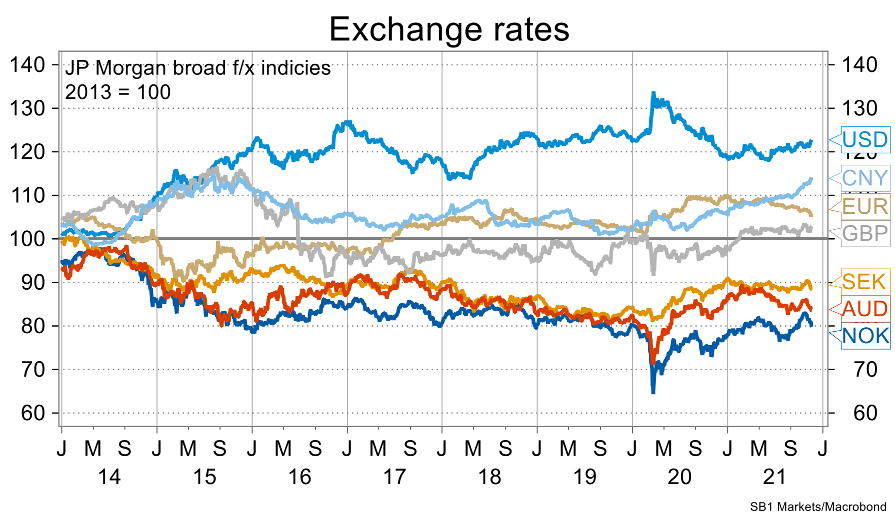


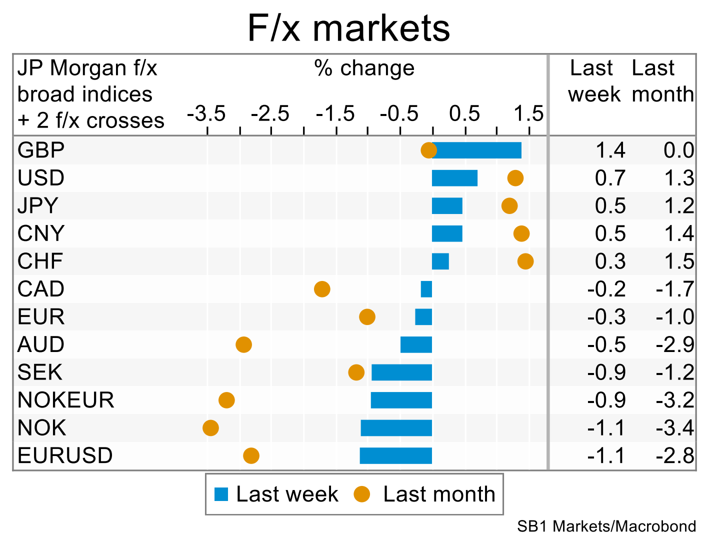


The GBP last weeks winner, XXXXX rates on the way up

NOK among the losers, with AUD/SEK. EUR is sliding down too

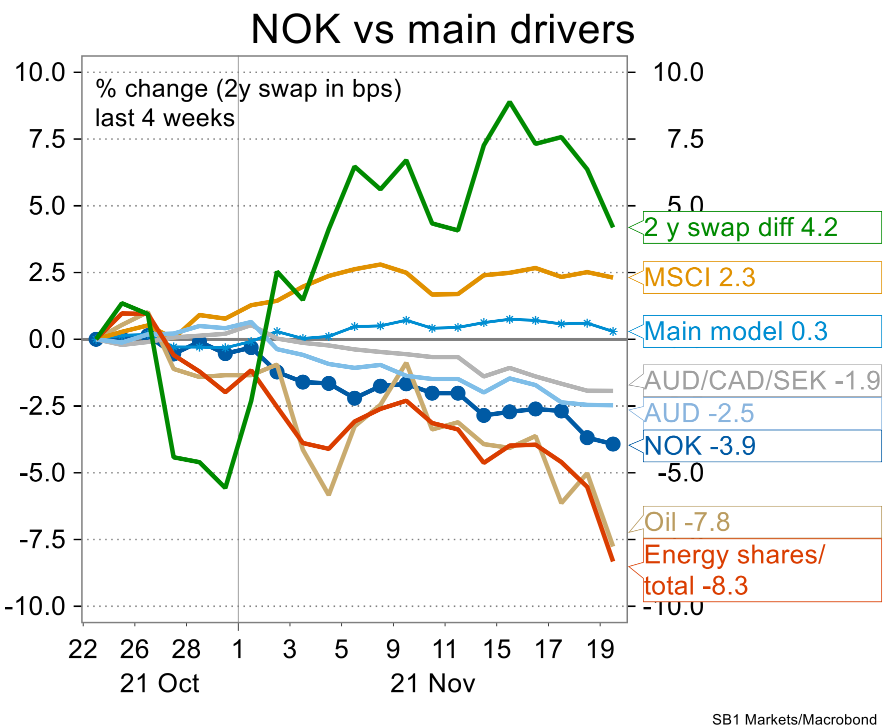


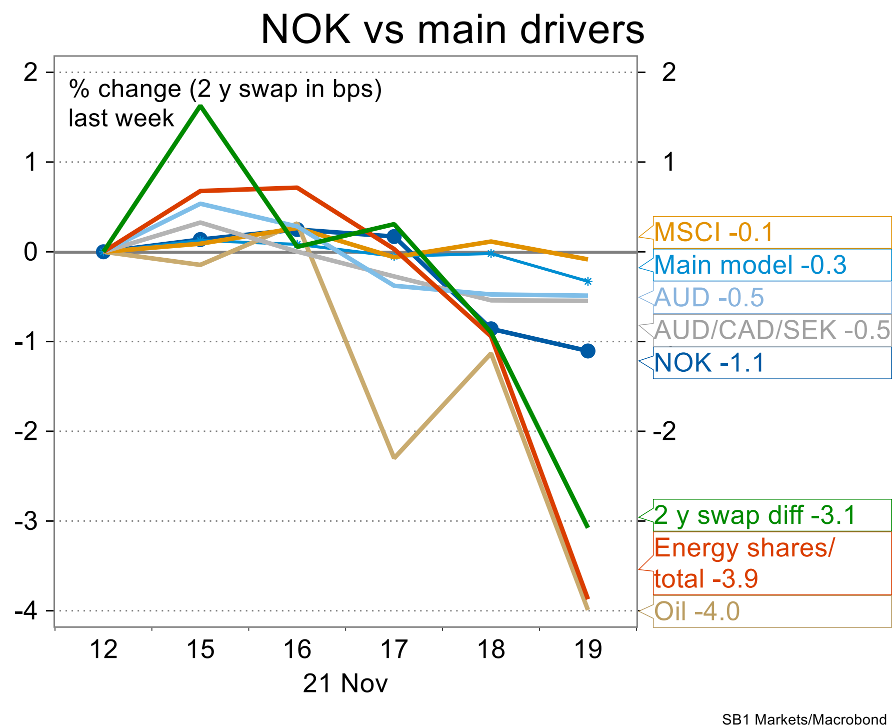




NOK down 1.1%, the surprising cut in NoBa's NOK buying takes half of the blame?

The NOK fell Thursday as Norges Bank announced it would stop buying NOK 700/day for the Govmt.





The status vs. the normal drivers:

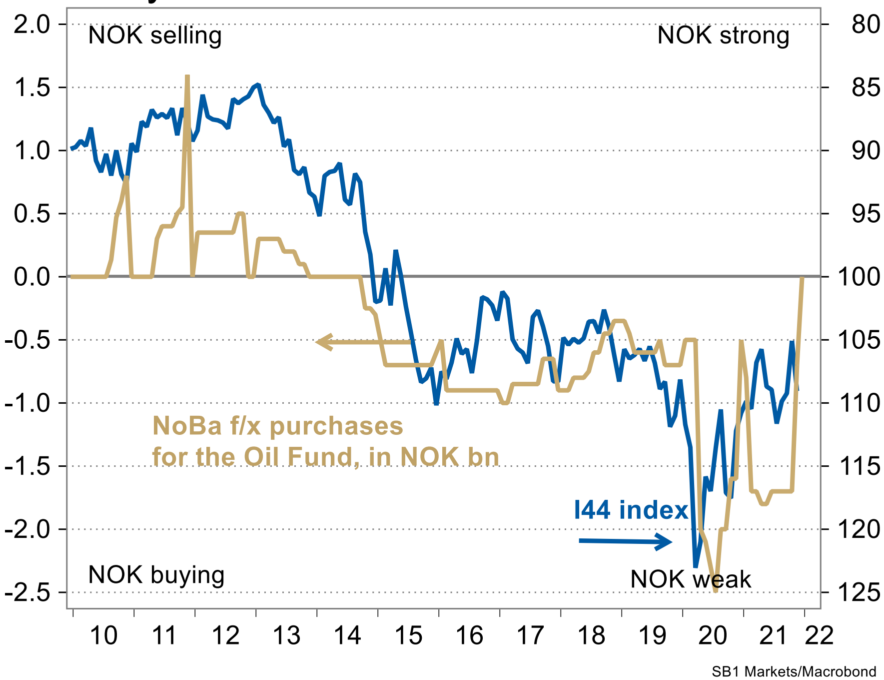
- ***The NOK fell 1.1%, more than our traditional model suggested (-0.3%), to -1% below the model est (from 1% below)***
  - » The oil price fell 4%, and the interest rate differential vs. trading partners (2 y swap) fell 3 bps
- The NOK is 6% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 5%) – they fell 0.5%, the NOK 1.1%
- NOK is far (9%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market) (unch)
- On the 'real' correlation between NoBa's NOK buying/selling and the NOK, check next page ☺

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

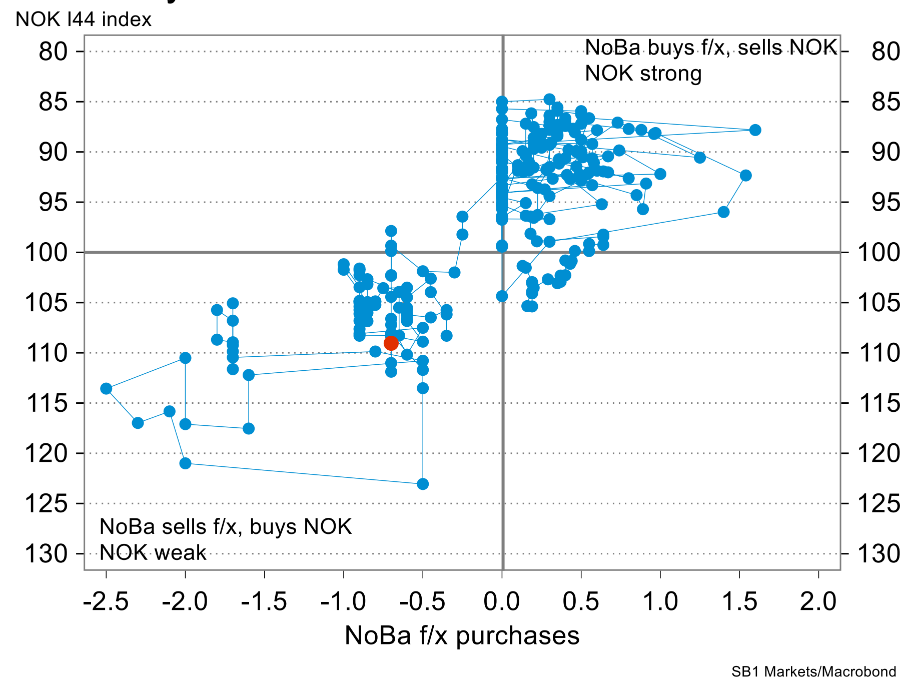
The NOK is correlated to NoBa's NOK buy/selling for the government

... but in the opposite way of what many think: NOK is WEAK when Norges Bank BUYs NOK

Norway NOK vs. NoBa NOK f/x transactions



Norway NOK vs. NoBa NOK f/x transactions



- ... because Norges Bank buys NOK when the oil price is low! And the oil prices dominated completely
- Even in a full model, the partial effect has the wrong sign!
- And NoBa's NOK transactions does correlates with the 'wrong' sign vs the relative AUD/NOK f/x indices (check next page)

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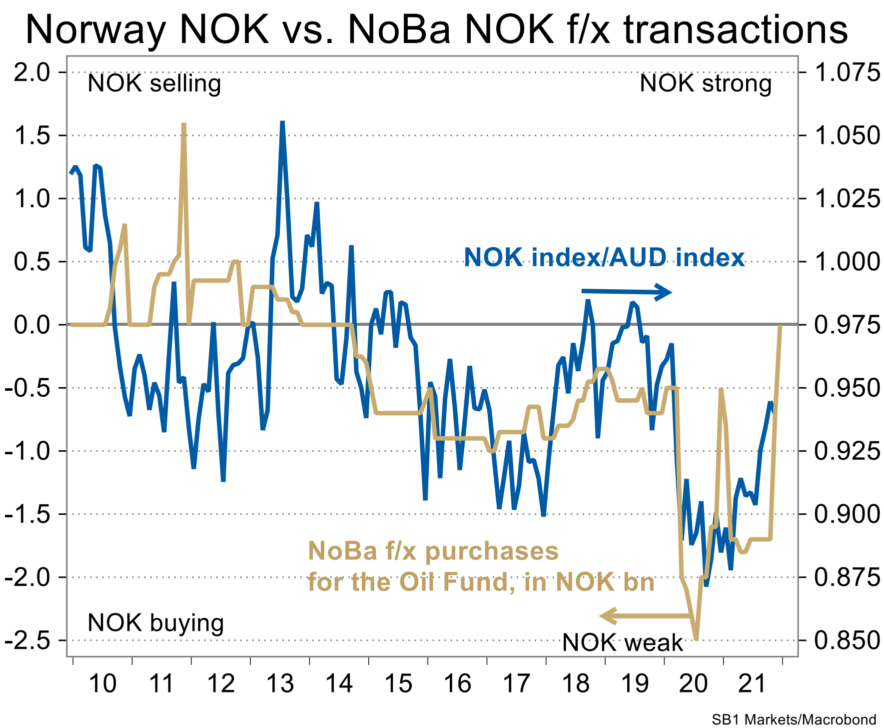
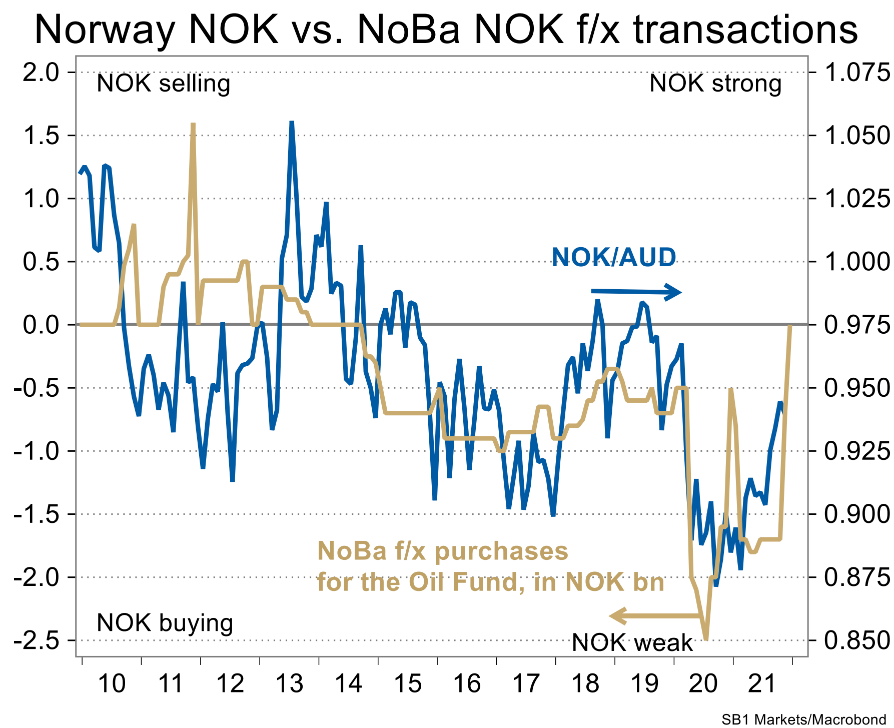
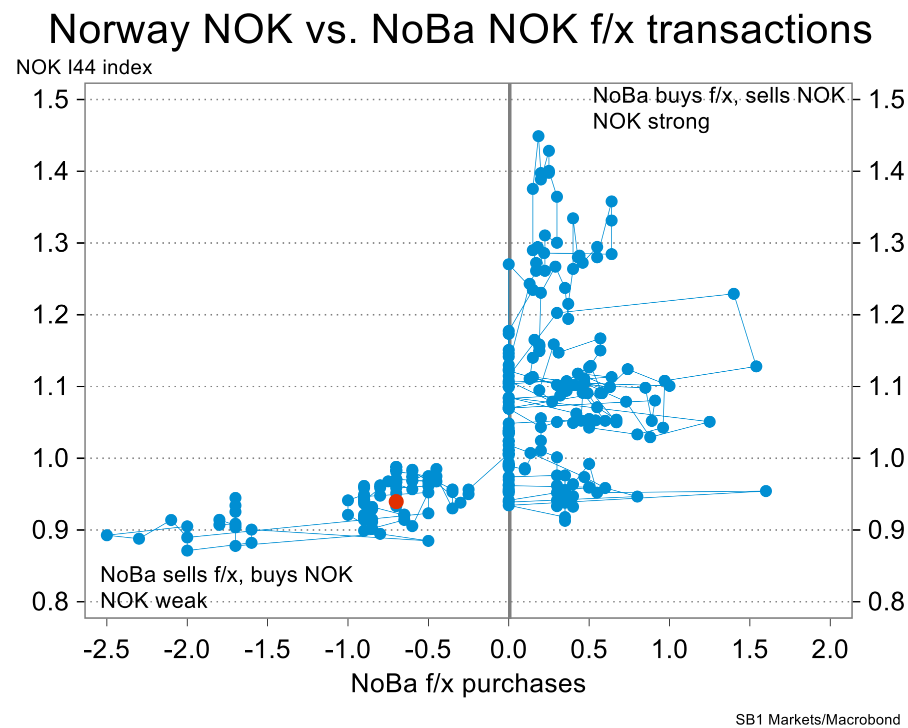
NOK is weak vs the AUD when NoBa is buying NOK



The NOK is correlated to NoBa's NOK buy/selling for the government

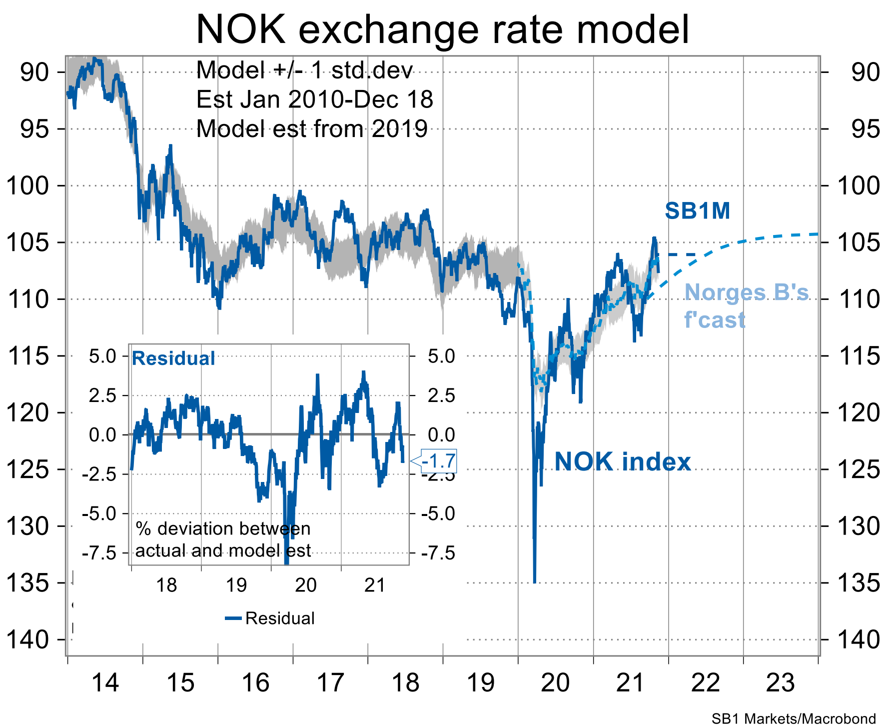
… but in the opposite way of what many think: NOK is WEAK when NoBa bu

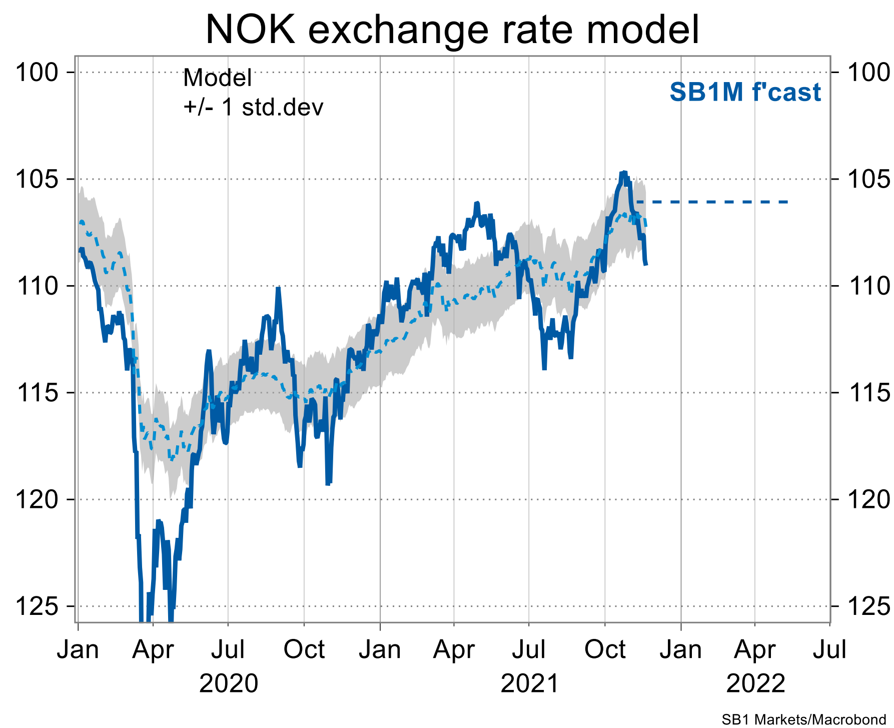




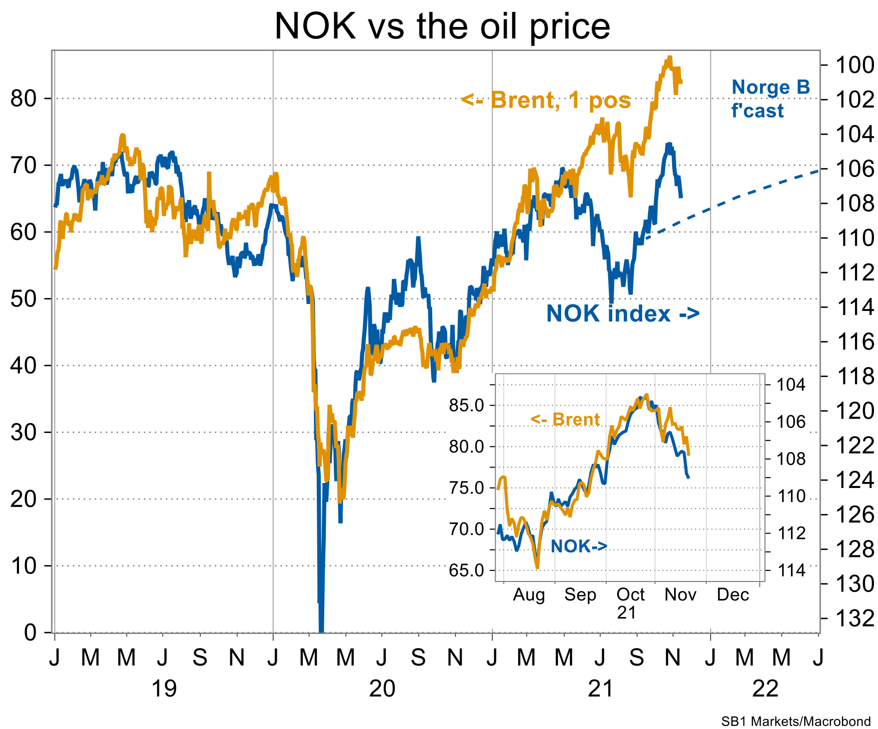
NOK down, out model suggested close to unch

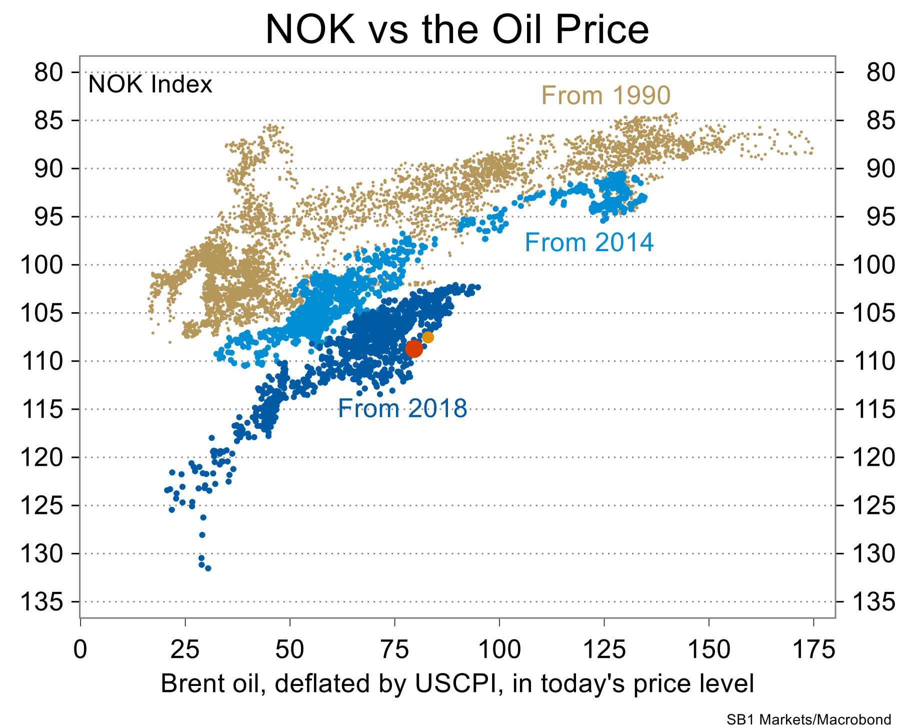
And the residual fell to zero to -1%





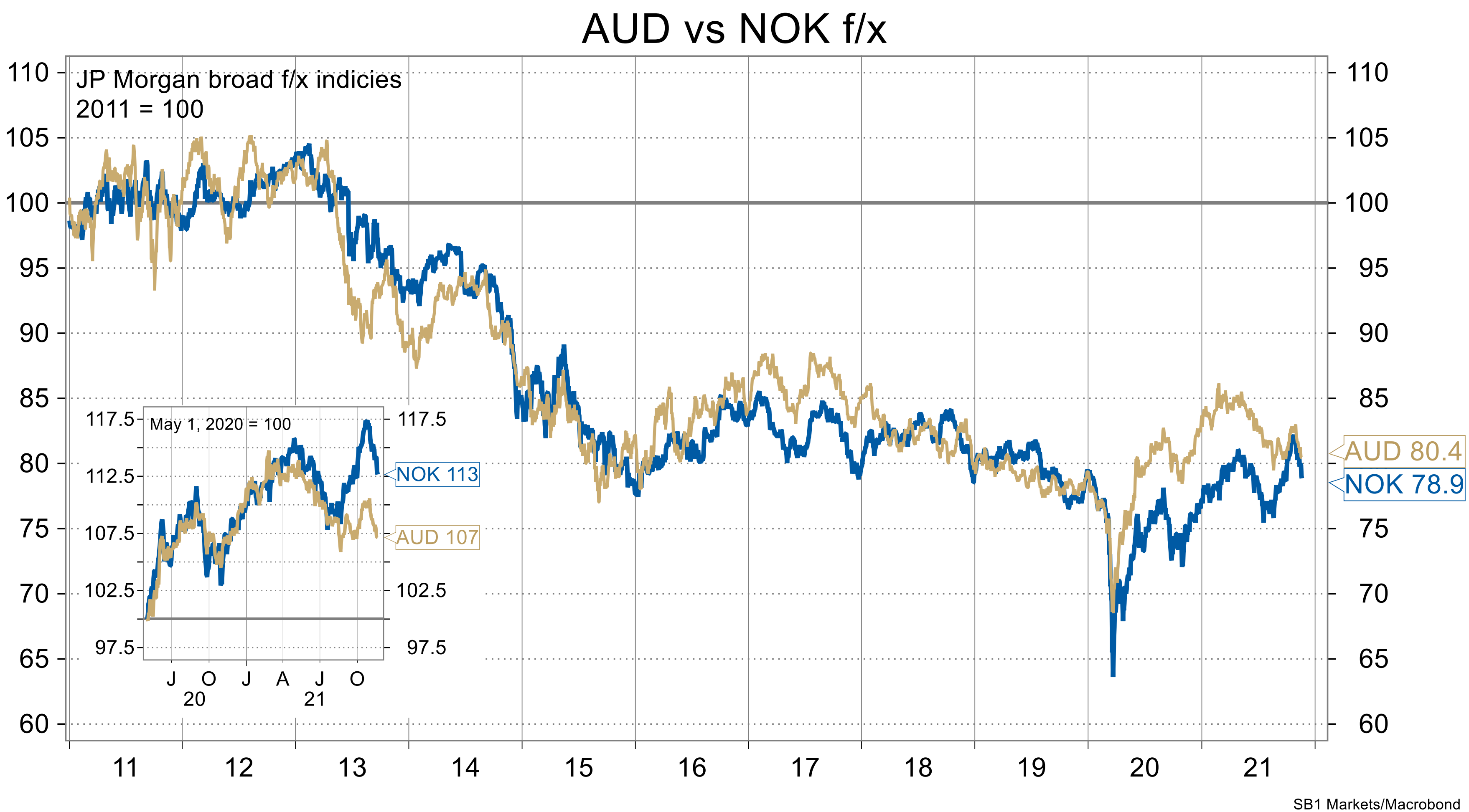
NOK down and a tad more than the oil price





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

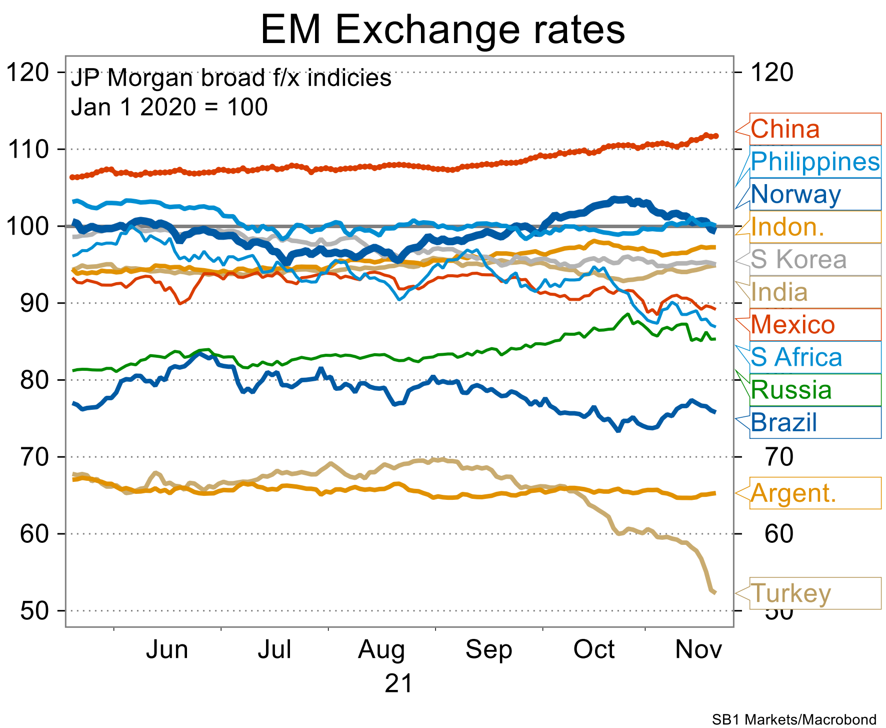
XXX Both NOK and AUD down last week, NOK the most

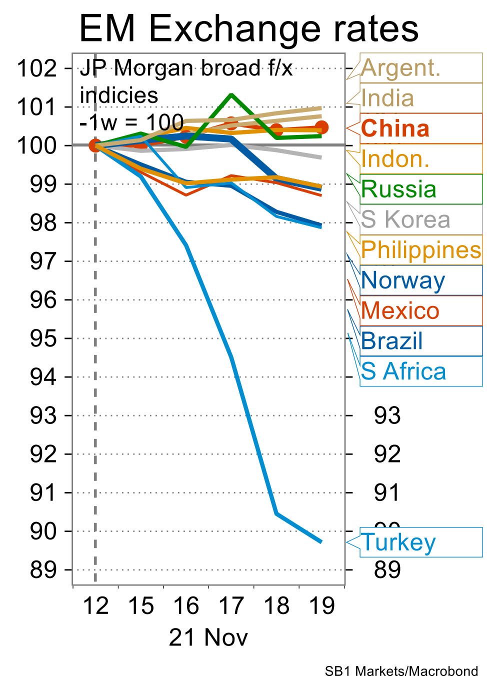


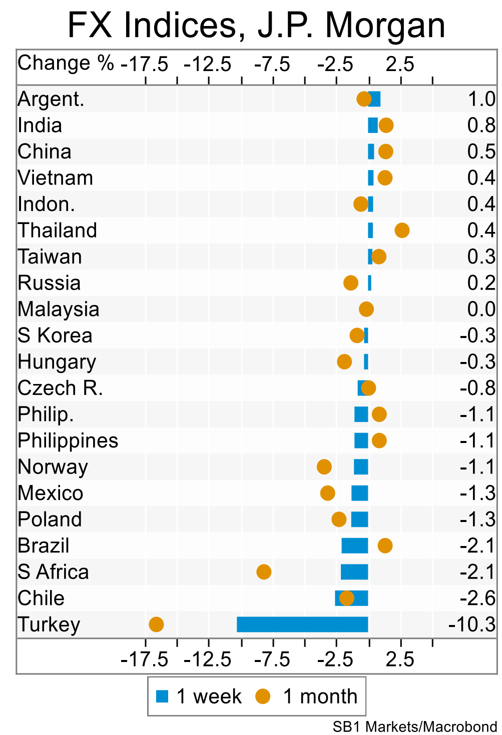
The two f/x indices are back to the 2011 parity (from which they never since have deviated much)

The Turkish fell off the cliff after a surprising interest rate cut, inflation is soaring

The average EM f/x space down last week. The CNY steady on the way up, housing trouble or not







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