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Macro Weekly

Week 49/2021

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week: The virus, part I

Omicron: High transmissibility seems to be confirmed.
But how many will need hospital treatment? No consensus yet

- The past week has **not revealed many new facts** on the Omicron variant. We were quite sure one week ago that the new variant was much more transmissible than the Delta variant, which has been confirmed – both in South Africa and in Oslo
  - In the S-A Gauteng province, the number of new cases grew 5 times last week (400%). **The R equals some 3+**, given the present social distancing/immunity/vaccination there. **The Delta variant had an R at 1** or below in the same environment. (The comparison may be even worse, we assume social distancing has increased in Gauteng – and even so Omicron cased are exploding. In addition, we assume that a majority of those who are infected, are not tested – which may be good news vs. the probability of hospitalisation
  - So far **the most transmissible variant has conquered the virus market** everywhere, and it seems very likely that Omicron soon will become dominant, globally – and that it will not take long time. The virus is now found in a large number of countries
  - **Immunity from previous infections** are sharply reduced compared to the previous variants where an infection reduced the probability for being reinfected by some 80%. The Omicron was 2.4 times more effective in breaking through, which should imply that the real immunity rate has been lowered to 50%
  - There is no research regarding to what extent **vaccines are protecting** against infection from Omicron, which is critical in well vaccinated countries. Scatec's Oslo Christmas party, where half of 120 participants (and 60 other guests/employees at the restaurant) quite likely got infected from two participants who had come in from South Africa implies that the **vaccines do not protect any better than earlier infections, that is 50%.**
  - If protection from earlier infections or vaccines are reduced to 50% from 80%, **the virus will spread at 2 – 3 x faster pace among these groups.**
  - **In most countries the Delta R close to 1 now. If an Omicron virus is allowed to spread - everything else qual, after some 10 weeks, 50 - 60% of the population will be infected at the same time. Then we would better hope that just a very tiny proportion of those need any medical help, because it can not be given.** (The total no. of beds in hospitals is some 0.15% in Norway, not to mention the 0.015% ICU bed capacity)
  - Should **social distancing be the preferred strategy** to keep the Omicron at bay (an R not much above 1) until new vaccines will become available after some months, draconian measures will be needed
  - Most likely, **more information** will be available during regarding transmissibility and the effectiveness of vaccines during this or the next week
- Even more important **how harmful the Omicron variant is for both vaccinated and those unvaccinated**
  - **Different stories** have come out form South Africa, the initial reports said that the symptoms were 'exceptionally mild', and some researcher claim that symptoms are similar to an ordinary cold (and there may be some common cold elements in the new virus, and it may fasten in the upper part of the respiratory system, not deep down in the lungs, as the previous versions of the virus have done
  - **South African data** implies a substantial reduction in the hospitalisation rate but given that the virus have exploded over a very short period of time, this calculus is uncertain (see charts some few pages out in this report). The best hope would be the real no. of infections is much higher than reported
  - **Most immunologists** expect the T-cells created by **vaccines will protect rather well against serious illness and death**, also against the Omicron variant. The outcome is extremely important for how much harm the new variant will create**.** So far, no clinical results are published, as far as we know
  - Most likely, this or the next week will reveal **some facts on how harmful the new virus variant is**

Last week: The virus, part II

Omicron: High transmissibility seems to be confirmed.
But how many will need hospital treatment? No consensus yet

Our scenarios are the same as one week ago – as news during week has not brought any clarity on the uncertain points

1) **The best case:** We will 'all' be infected but very few do get really sick – while those infected with Omicron also gains immunity vs the other variants. If so, we will soon win the fight against the Covid!
2) **A bad case:** If health consequences are anything close to the Delta variant's and a much higher number of people will be infected, serious challenges in our health systems, of which some are already under pressure. A substantial increase in social distancing will be needed to prevent a health crisis. It will still take time to for the virus to burn through the population. Bad for the economy & most markets (and probably more than what is priced in now)
3) **The ugly case:** The new variant spreads like a wildfire, and more of those infected get really sick – and it will take time to develop good vaccines (Moderna says early 2022!!). A nightmare, of course. Some very hard choices will have to be made – and many people will decide themselves – by self isolating. Economic & market consequences will be substantial, at least for some months

Scenario 3 seems too pessimistic, but even 2 may become rather dramatic as the number of persons infected at the same time will become far higher than earlier in the pandemic. On the other hand, it will not last forever. Barring another strange variant turns up…

- **Post festum, on the Delta variant: It would have been manageable!**
  - » Last week, a large majority of countries reported a decline in new cases vs. an increase the previous weeks
  - » Both Austria and Netherlands are reporting a decline in new cases, following the lockdowns/restrictions imposed 2 – 3 weeks ago. They managed to takt the Delta R below 1 – and Austria well below 1. They could soon start easing the tight restrictions. At least if not the Omicron arrives…
  - » In Austria, the number for hospitalised patients are on the way down too. In Norway, the hospitalisation rate have fallen sharply, at least partly because those over 65 have received a booster vaccine shot
  - » Mobility is so far close to stabile at high levels in the West, barring Austria and Netherlands – but there is now of course a substantial downside risk
  - » 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. Until the Omicron arrives…

Last week: The economy

- **November (final) PMIs**
  - » **The global composite PMI** gained 0.3 p to 54.8 in November, signalling a 4 – 5% global growth rate, well above trend – before the new virus variant arrived in late November. Rich countries (DM) contributed at the upside, EM slightly at the downside, including (on of) the Chinese PMI. Just 2 countries are reporting PMIs < 50. The **US ISM service sector index** (not included in the global PMI) was extremely strong. Delivery times may have peaked but price indices are still surging, signalling a further uptick in inflation. However, commodities prices are now easing due the Omicron risk – as also the growth outlook has become more uncertain
- **Auto sales**
  - » Sales fell in both US and EMU but rose in Japan. Global sales are down almost 20% vs the 2019 level. Norwegian sales are up by a incredible 30%! More countries are reporting this week
- **USA**
  - » **Transitory turned out to be transitory**. Federal Reserve's Powell finally acknowledged what colleagues at the FOMC and the market has told him for a while, it is no longer appropriate to describe the surge in inflation as 'transitory'. Even more important, he described the economy as very strong. If the Omicron does not knock down the economy, the FMOC will taper off the bond buying program faster than signalled in at the November meeting. Then the Fed could start hiking far earlier than indicated so far. Interest rate expectations rose but less than they fell on the initial Omicron news. The long end of the curve has fallen sharply, on lower inflation expectations – as the Fed now signals willingness to address the short term challenges. How it is possible to do so without lifting the real rate which was unchanged, and deeply into negative territory is still a mystery to us. **Feds Beige book**, published after Powell's message confirmed that capacity constraints (materials, labour) are limiting activity, not demand
  - » **Nonfarm payrolls growth** was less than half a strong as expected in November but the household survey reported much higher growth, and the unemployment rate fell by 0.4 pp to 4.2% (expected 4.5%). The most positive piece of news was a 0.2 pp lift in the participation rate – which still remains well below the pre-pandemic level. A further increase can not be ruled out but the supply side has been stubbornly slow to respond to the unprecedented strong demand for labour – confirmed by the NFIB (SMB) survey on ability for fill job openings and plans for wage hikes the coming months (and a low inflow of jobless claims last week too). Actual wages rose a tad slower than expected in November but wage inflation is well above the pre-pandemic level
- **EMU**
  - » **CPI inflation** accelerated sharply in November, both the headline and the core, to 4.9% and 2.6% resp. However, the core is still up just 1.4% in average of the past 2, as years. The steep surge in energy prices is the main culprit. However, the surge in producer prices, also excluding energy, is a warning sign, as are aggressive plans for lifting prices
  - » **Unemployment** is steadily falling, and fell further below the pre-pandemic level in October to 7.3%, as expected. At the same time, the vacancy rates has 'exploded', to the highest level ever. Still wage inflation seems to be in check, at least compared to the US
- **Norway**
  - » **NAV open unemployment** fell by 0.2 pp to 2.3%, 0.1% below NoBa's forecast – and just 0.2 pp above the low pre-pandemic level. New jobless remains very low, and new vacancies are still on the way up
  - » **House prices** rose 0.3%, 0.1 pp less than we assumed. Price inflation has slowed and the upside is probably is probably limited even if Norges Bank should not hike rates (because the economy stumbles due to the Omicron attack -this time, rates will not be cut!). The inventory of unsold homes is close to record low and if not for rate outlook we suspect prices would have climbed by ¾ - 1% per month
  - » **Domestic credit growth remains** in check, unch at 5.3% y/y in October. Business are borrowing more, households not. Because households are not allowed to borrow as much as they like

The Calendar: Omicron + China foreign trade, credit; US inflation, vacancies; A lot of No data

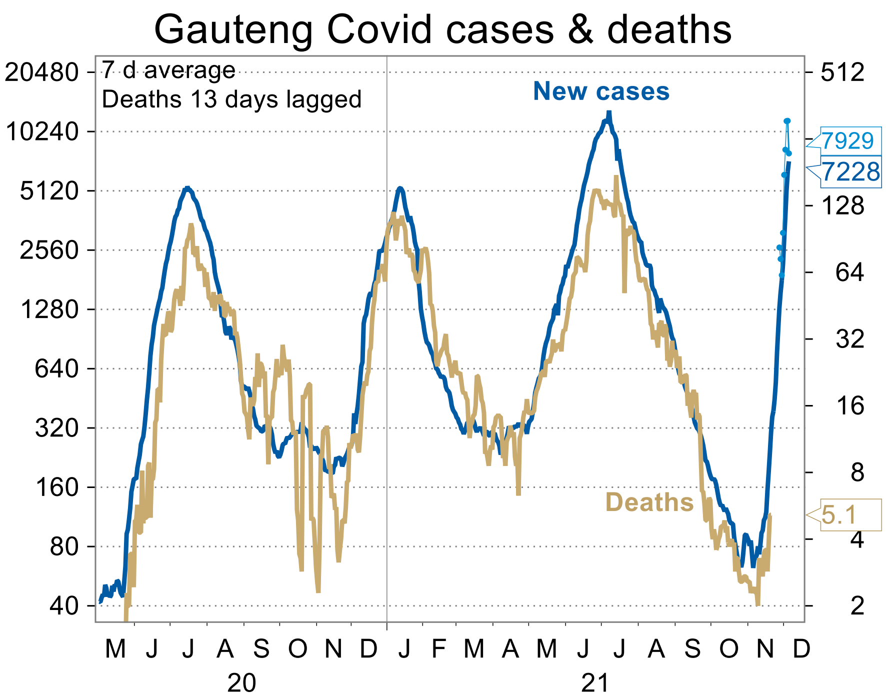
Time	Count.	Indicator	Period	Forecast	Prior
Monday Dec 6					
08:00	NO	Financial sector accounts	Q3		
08:00	GE	Factory Orders MoM	Oct	-0.3%	1.3%
Tuesday Dec 7					
	CH	Trade Balance	Nov	$82b	$85b
	CH	Exports YoY	Nov	19.8%	27.1%
	CH	**Imports YoY**	**Nov**	**22.0%**	**20.6%**
08:00	GE	Industrial Production SA MoM	Oct	1.0%	-1.1%
08:00	NO	Ind Prod Manufacturing MoM	Oct	(0.5%)	0.6%
09:30	SW	GDP Indicator SA MoM	Oct		1.6%
10:00	NO	Region Survey: Output Past 3M	Nov	(2)	1.79
10:00	**NO**	**Region Survey: Output Next 6M**	**Nov**	**(3)**	**1.65**
11:00	GE	ZEW Survey Expectations	Dec	25.1	31.7
11:00	EC	GDP SA QoQ	3Q F	2.2%	2.2%
14:30	US	Unit Labor Costs	3Q F	8.3%	8.3%
14:30	US	Trade Balance	Oct	-$66.8b	-$80.9b
Wednesday Dec 8					
12:00	US	NFIB Business optimism, prices	Nov		98.2
16:00	**US**	**JOLTS Job Openings**	**Oct**		**10438k**
Thursday Dec 9					
02:30	CH	CPI YoY	Nov	2.5%	1.5%
02:30	CH	PPI YoY	Nov	12.0%	13.5%
08:00	NO	GDP MoM	Oct		2.2%
08:00	**NO**	**GDP Mainland MoM**	**Oct**	**(0.4%)**	**0.6%**
14:30	US	Initial Jobless Claims	Dec-04	228k	222k
18:00	US	Flow of funds	3Q		
Friday Dec 10					
08:00	NO	CPI YoY	Nov	4.4%(4.5)	3.5%
08:00	**NO**	**CPI Underlying YoY**	**Nov**	**1.2%(1.3)**	**0.9%**
08:00	UK	Monthly GDP (MoM)	Oct	0.4%	0.6%
08:00	UK	Manufacturing Production MoM	Oct	0.1%	-0.1%
14:30	US	CPI YoY	Nov	6.7%	6.2%
14:30	US	CPI Ex Food and Energy YoY	Nov	4.9%	4.6%
14:30	**US**	**CPI Ex Food and Energy MoM**	**Nov**	**0.5%**	**0.6%**
16:00	US	U. of Mich. Sentiment	Dec P	68	67.4
20:00	US	Monthly Budget Statement	Nov		-$165b
During the week					
	CH	**Aggregate Financing CNY**	**Nov**	**2700b**	**1590b**
	CH	New Yuan Loans CNY	Nov	1590b	826b

- **Global auto sales**
  - » Both US and EMU has reported lower sales in November, while sales in Japan rose m/m. Global sales are down almost 20% - due to the severe lack of data components
- **China**
  - » **Exports** have been very strong recent months after a pause during the summer. Volumes are up 20% vs the pre-pandemic level. **Import** volumes have fallen sharply recent months and the volume is just up a couple of pre cent late 2019. Consensus forecasts imply small changes m/m in trade values in Nov
  - » **Credit growth** accelerated in October – but the trend is downwards – as the authorities wanted, until this autumn. Now they are trying to push the accelerator, at least they are trying to secure funding for solvent real estate developers.
- **USA**
  - » **November inflation** data are not expected to be a nice view, but next month it seems likely that energy prices will turn downwards, providing some relief for headline inflation at least. However, companies are reporting plans for hiking prices like we have not seen before (data from 1974) – new data from the **NFIB (SMB) survey** also out this week
  - » The **JOLTS report unfilled job openings**, quits etc. Vacancies have probably peaked but remains at extreme high levels
- **EMU**
  - » Finally, **EMU GDP** details will be available. Growth was excellent, 2.2% or more than 9% at an annualised pace
- **Norway**
  - » **Norges Bank's regional network** will very likely report growth above trend the past months (is has been way above!), and that respondents expect slower but not slow growth the coming 6 months. However, as activity/employment in many sectors have normalised, and unemployment has fallen to a low level, the capacity for growth is more limited. A disclaimer: The Network has not been useful during the pandemic, as companies have not been able to calibrate their answers to what we are looking for, growth forecasts
  - » We expect the expansion in **Mainland GDP** to continue in October. Employment grew rapidly, and activity in travel and hotels rose further. We expect business services to gain speed too. Fisheries may become a drag
  - » We expect **CPI inflation** to accelerate in November, both headline and core. The big lift in the headline CPI will however come in Dec due to the recent hike in electricity prices. **Core inflation** was at just 0.9% in Oct, we expect a substantial lift in Nov, to 1.3%. Actual inflation is not important for NoBa's monetary policy stance

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

The omicron hotspot: The Gautang provice in South Africa

An explostion of new cases last week



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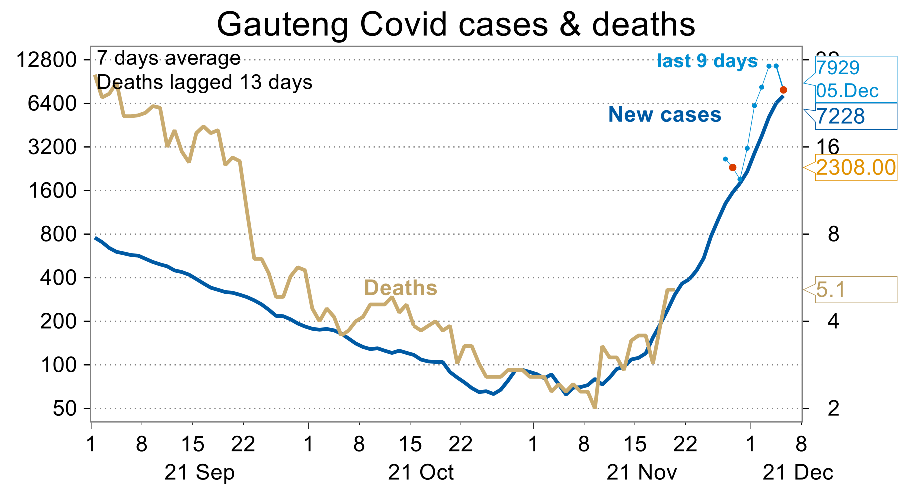

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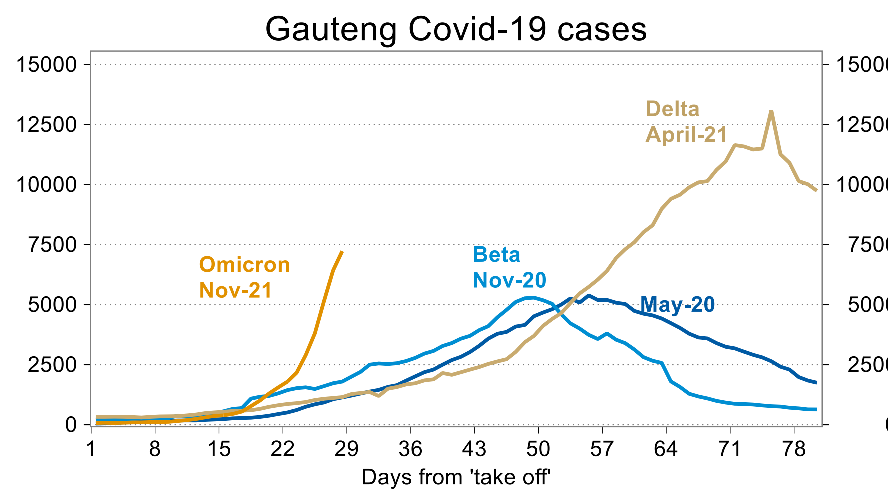


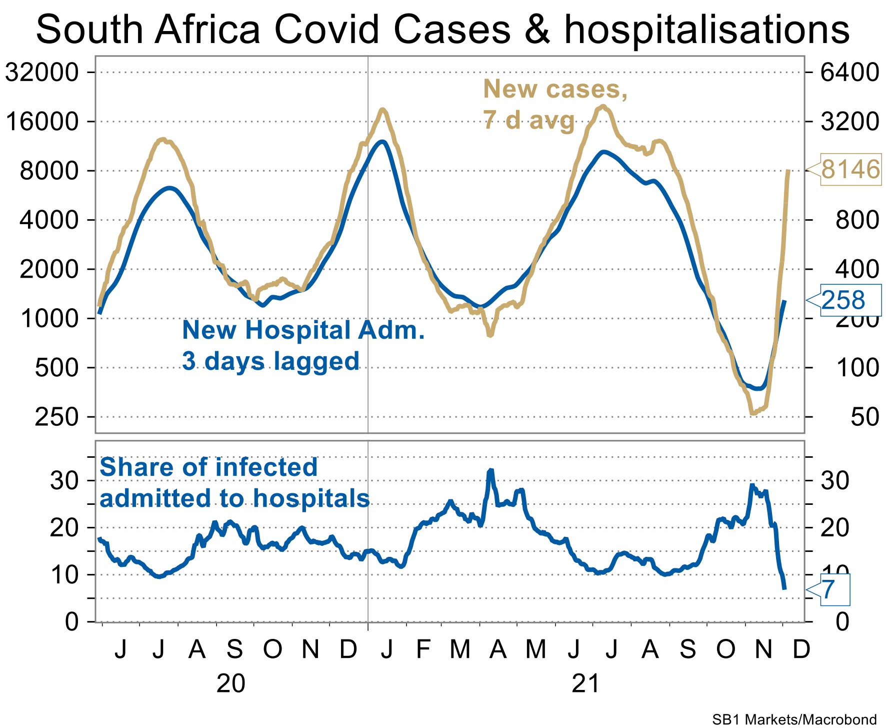
SB1 Markets/Macrobond

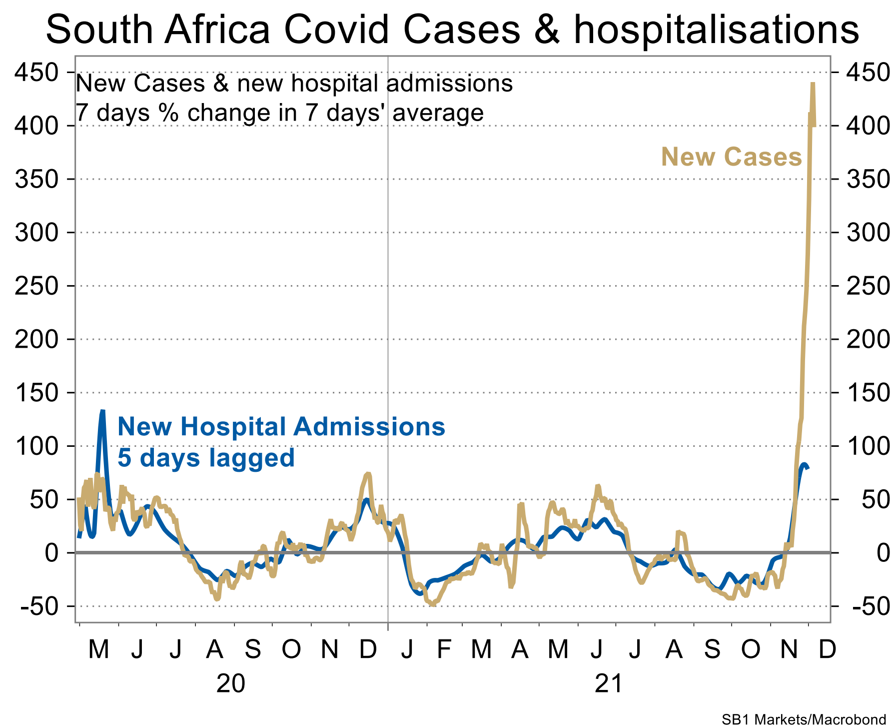
- The Omicron is highly transmissible, some 3 times more than the Delta variant in the Gautang region, at least (an R at 3 now, Delta managed an R at 1 now)
  - » Previous infections do not protect that well against reinfections
  - » Very likely, vaccines protect far less vs. infections, cfr. the Scatec Oslo Christmas party
- However, there is still no consensus on the proportion of infected that need hospital treatment, neither for those who are vaccinated or the unvaccinated. So far, the proportion seems to be lower – but the Omicron outbreak is still too young (too few have been sick for long enough to make an assessment). Even so, the no. of hospitalised persons is on the way up too, due to Omicron

One outlier for both new cases and deaths are corrected

The 2 most important charts today - Hospitalisations are less up than new cases

However, the calculus is still uncertain, especially as new cases in South Africa are exploding



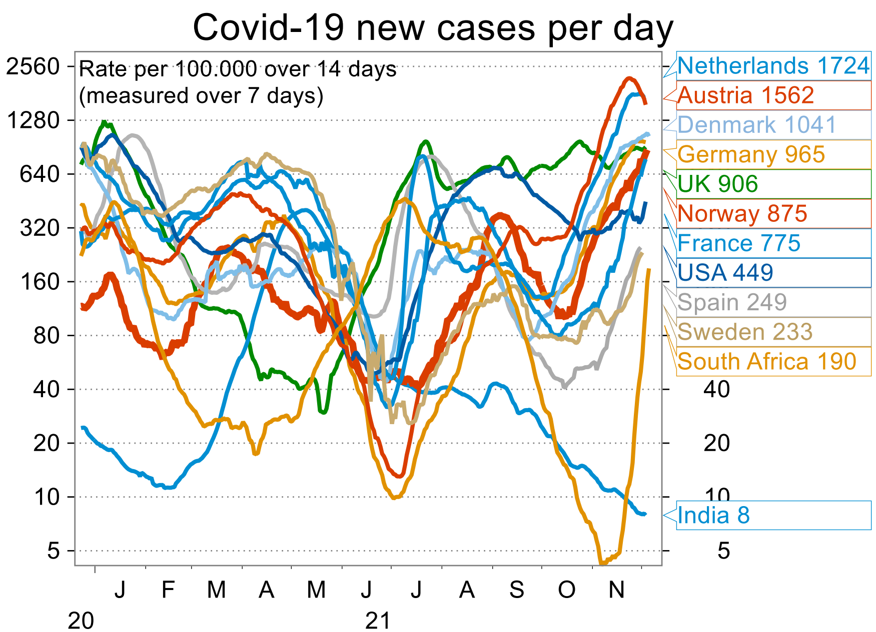


- Recently, 'just' some 7% of those infected have been admitted to hospitals, the lowest rate so far in the pandemic – as the number of new cases has grown much faster than new admissions (5 days ago cases were up 280%, while hospital admissions were up less than 100%
  - » <u>Even so, the number of new hospitalisations have grown faster than ever during the pandemic</u>
- In addition, as admission data are weekly sums (calculated per day at the chart above), and as cases are now exploding small changes in the lag structure may change the calculus substantially

The Delta turned out to be manageable. Will the Omicron?

More countries reported fewer cases last week

- <u>15 countries were reporting more cases</u> the last week down from 25 the previous week
- <u>28 countries reported fewer cases</u>, up from 17!
- Austria reported a steep decrease in new cases, following the tight lockdown
- Most likely, the **Omicron** is now having an impact in more countries than in South Africa
- **South Africa** reported an extreme steep rise in new cases last week – due to the Omicron – but the level is still not high – as it is reported. But the real number of infected are probably much higher



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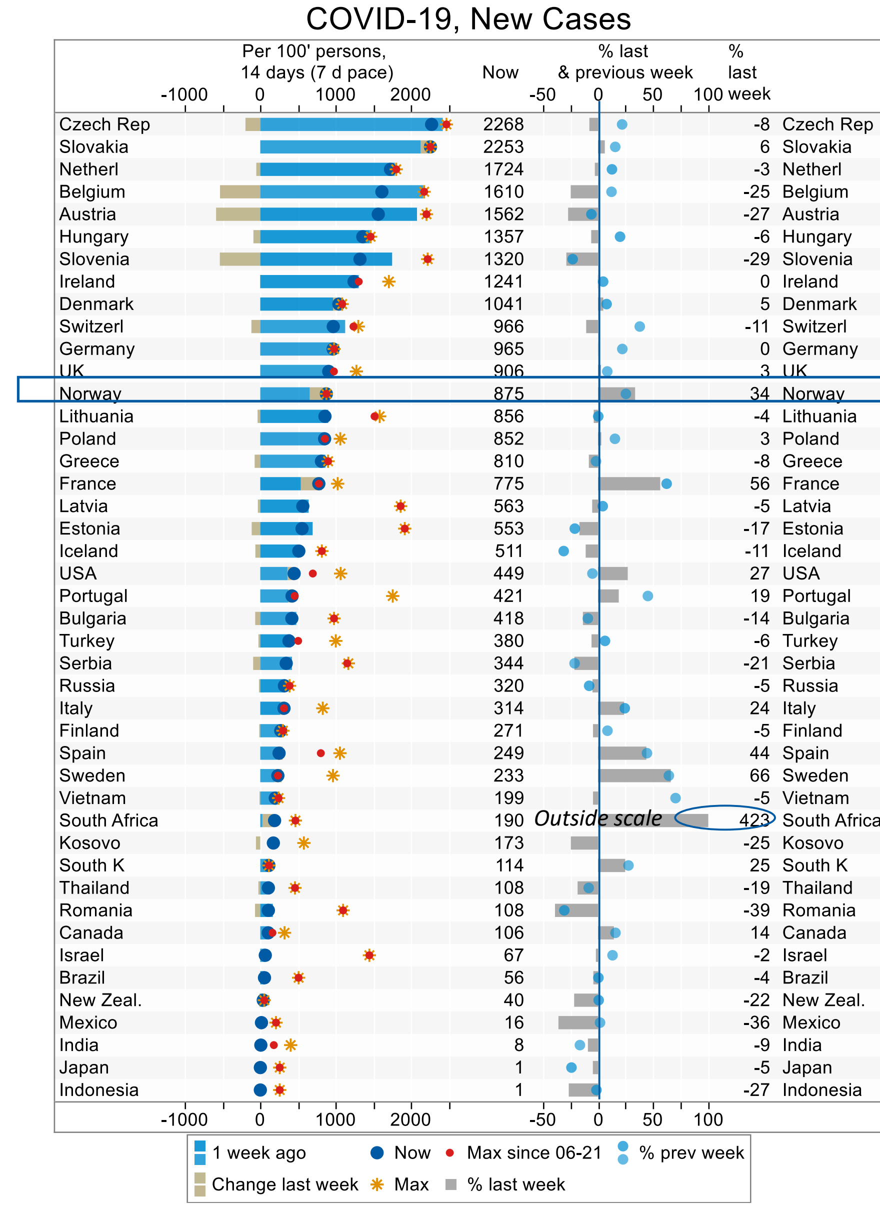

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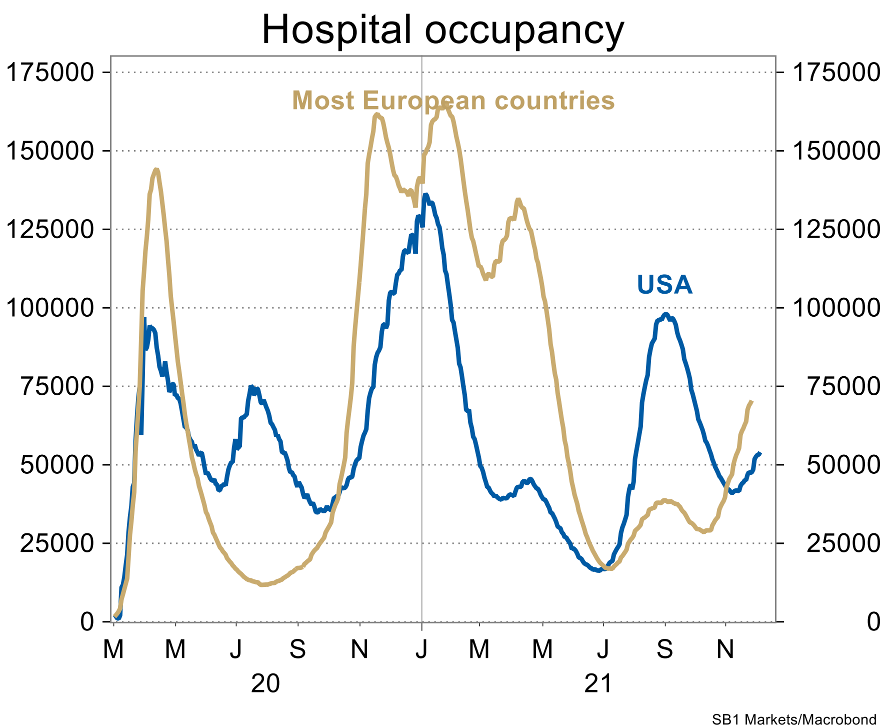
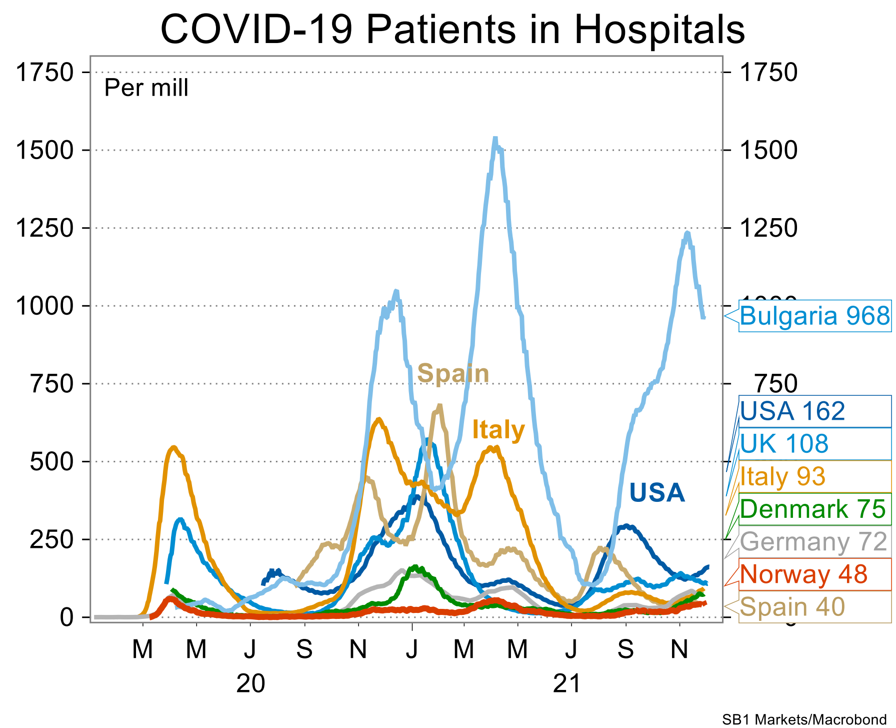
More hospitalisations in Europe, and the in the US as well

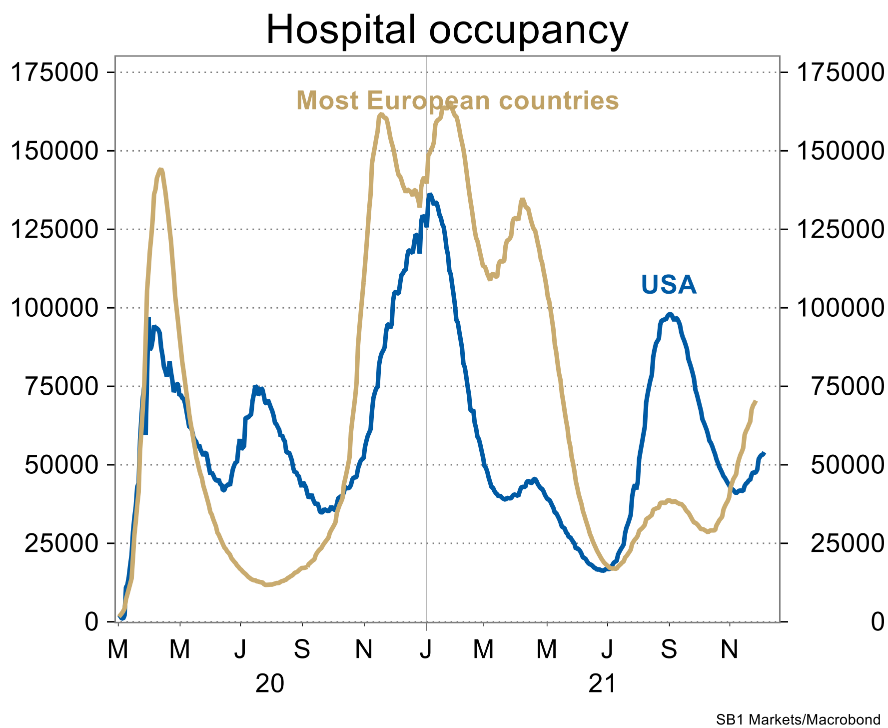
However, levels are still not low outside Eastern Europe

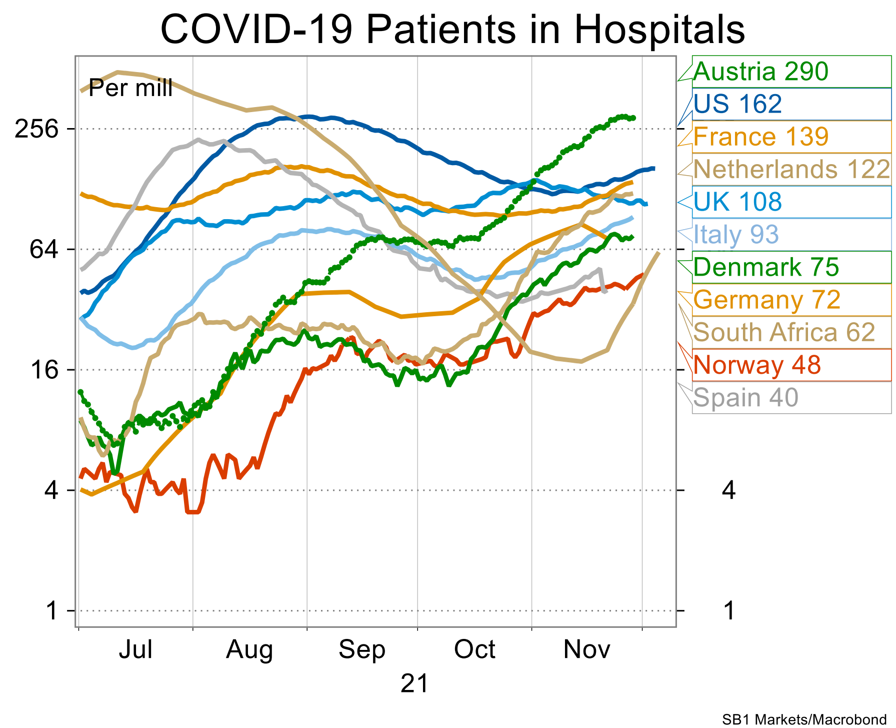




But Austria has turned the tide, and the no of hospitalised in UK is falling steadily

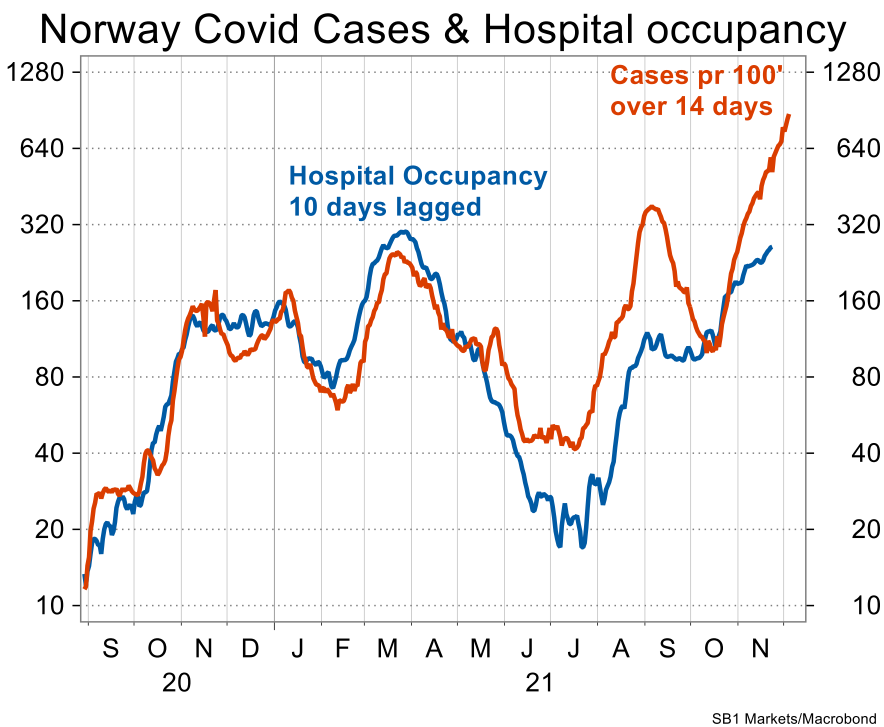
Growth has slowed in Norway. At least until the Omicron starts spreading

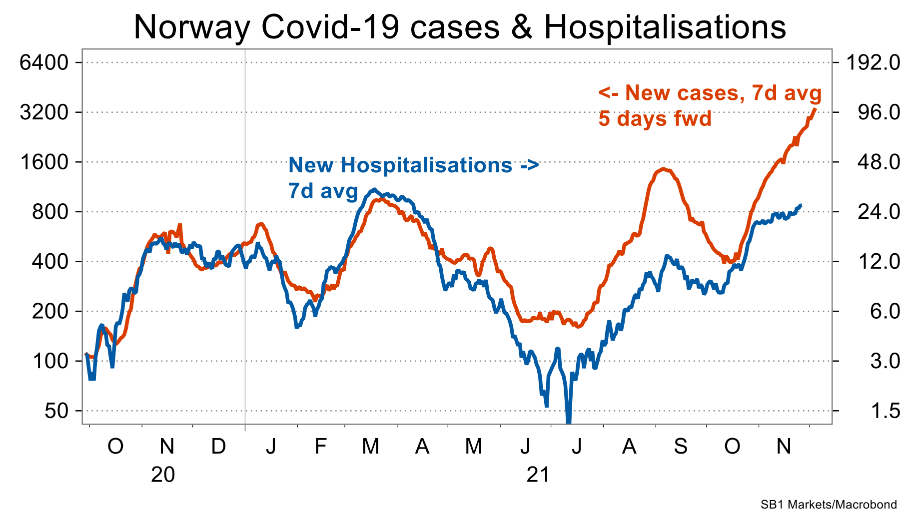


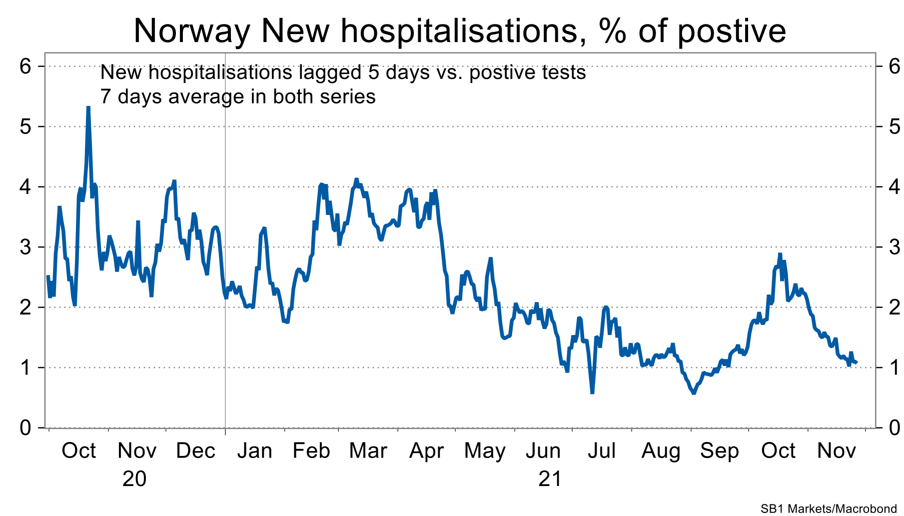


Norway: New cases are not accelerating, growth in hospitalisations have slowed

A 3rd dose, some changes in behaviour may have been sufficient to flatten the hospital. curve. Until…



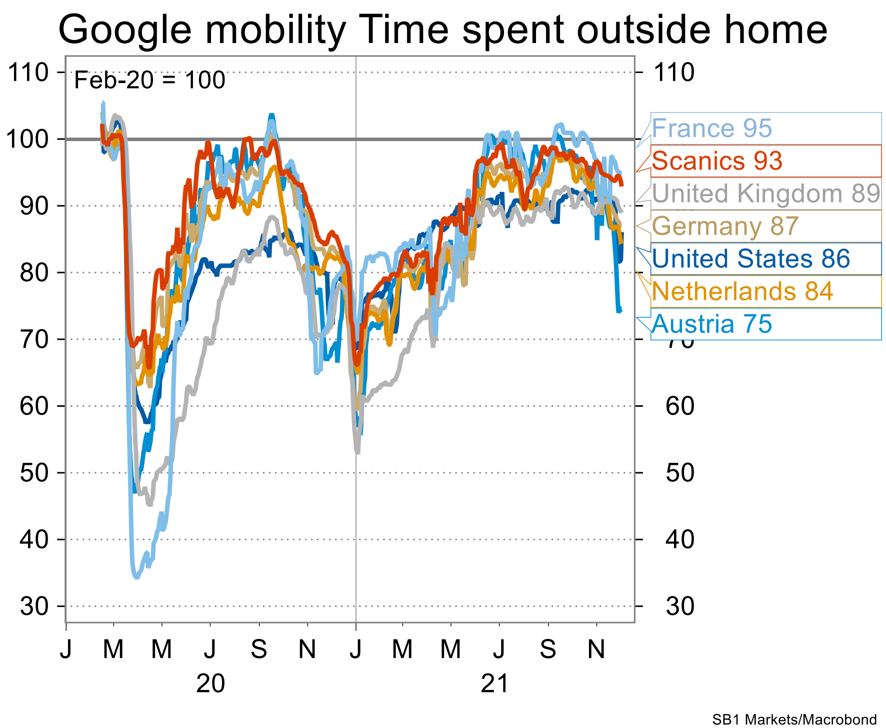


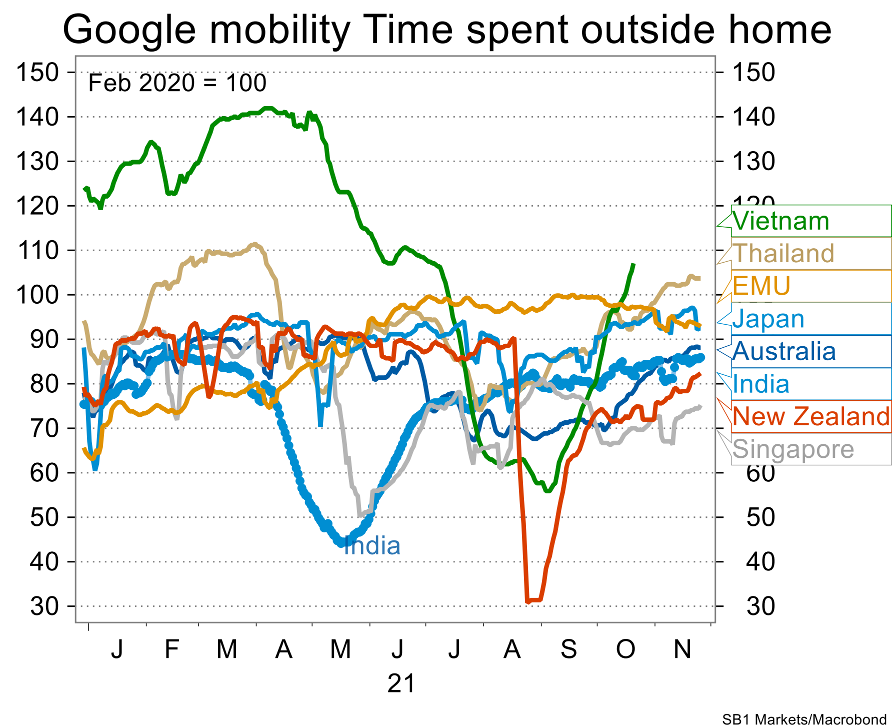


- … the Omicron spreads

Mobility down in Austria, Netherland, Germany – but not much elsewhere

We are also spending more time at home at this time of the year at the Northern Hemisphere

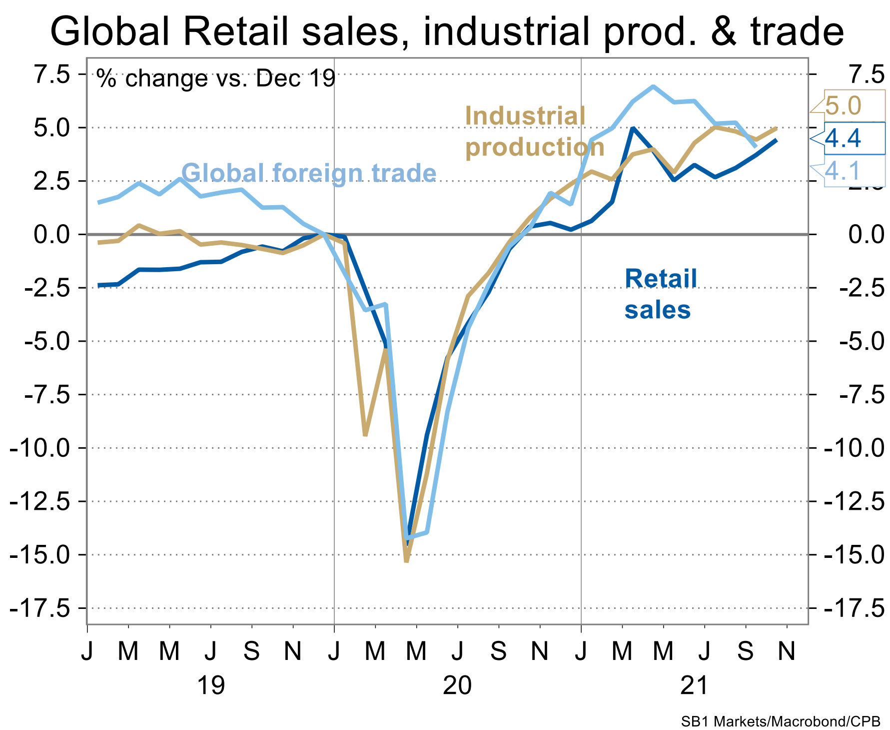


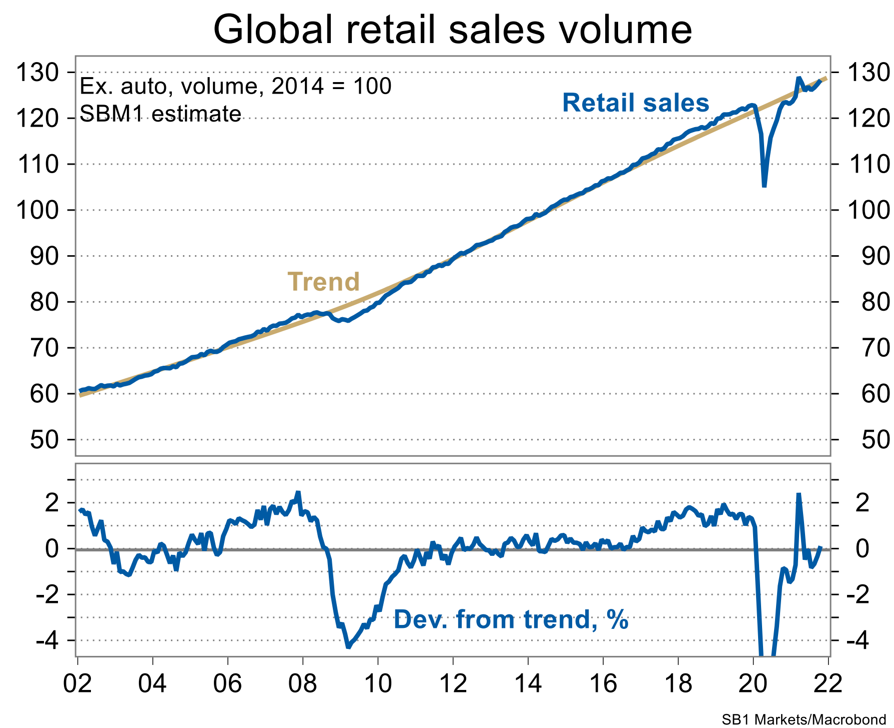


- The reduction in mobility is so less than during previous virus fights, at least outside Austria (were cases are falling rapidly)
- The recent drop in mobility the US is due to Thanksgiving
- Mobility in Asia is on the way up, and some countries are back at pre-Delta levels

Global retail has strengthened recent months, global trade is sliding down

Manufacturing production has been flattened due to the problems in auto industry

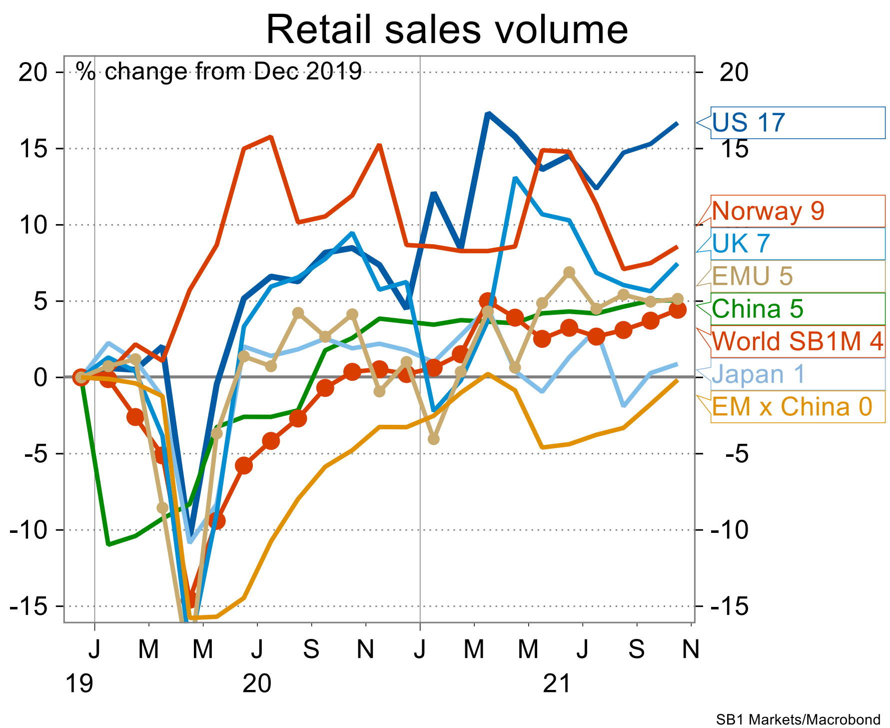


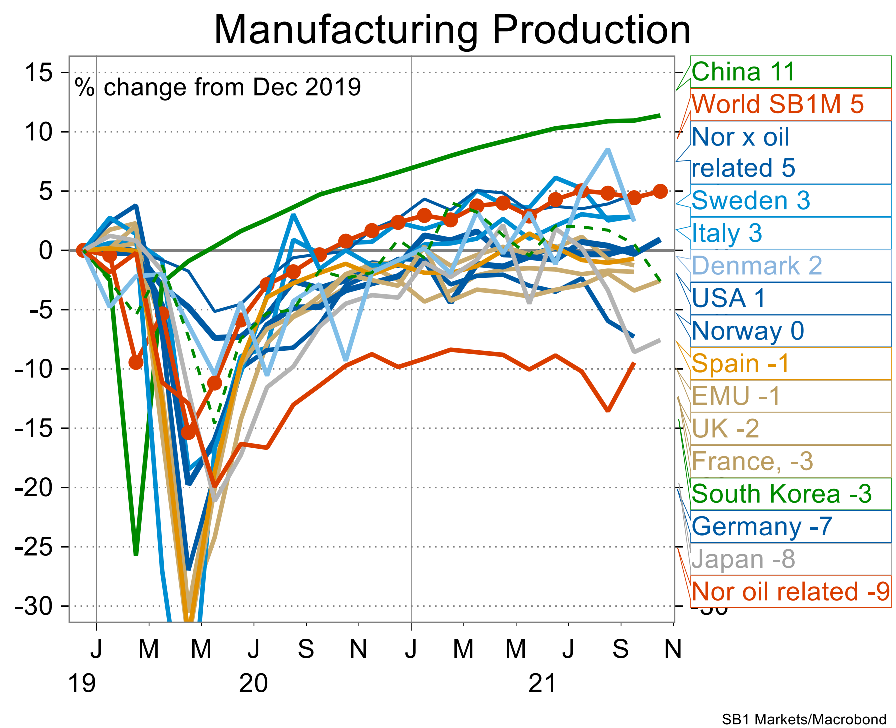


- **Retail sales** rose further in October and is 4½ % up vs the pre-pandemic level
- **Manufacturing production** has stagnated since Aug mostly due deep cuts in auto production. The level is some 5% above the pre-pandemic level in October
- **Global foreign trade** peaked in May and has fallen slightly thereafter. In September trade volumes fell more than 1%. The level is still more than 4% 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



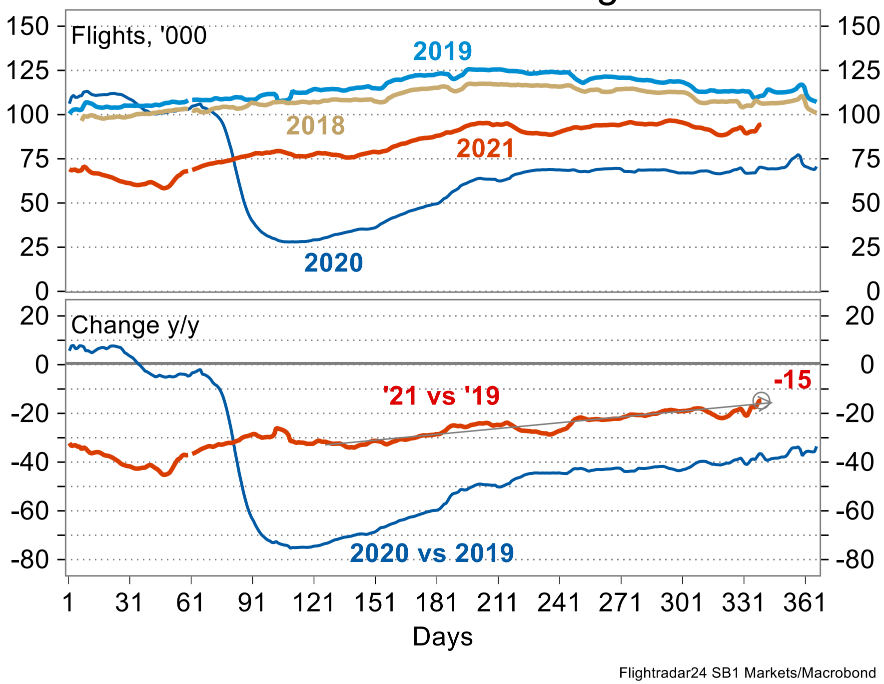


- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India, and thereafter in other parts of Asia. Now a substantial recovery is very likely underway
- US retail data are still very strong, although marginally below the March peak
- **Manufacturing production** has been hampered by a deep decline in auto production. The manufacturing PMIs are down but not weak

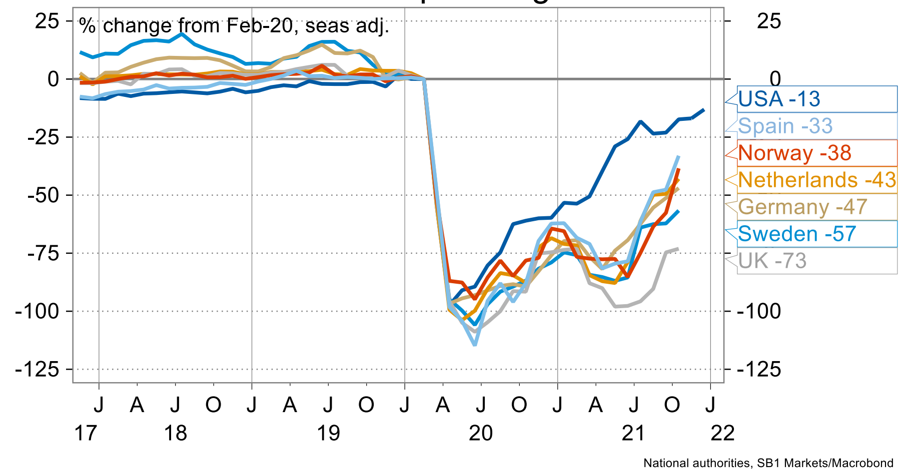
Global airline traffic strengthened last week but some clouds on the horizon

Last week -15% vs. 2019, up from -21% the prev. week (but some volatility in late November)

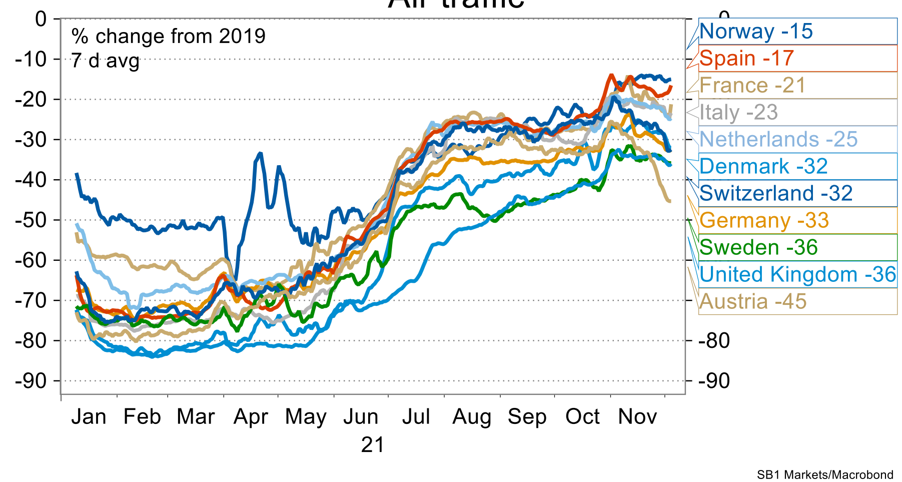
World Commercial flights



Airline passengers



Air traffic

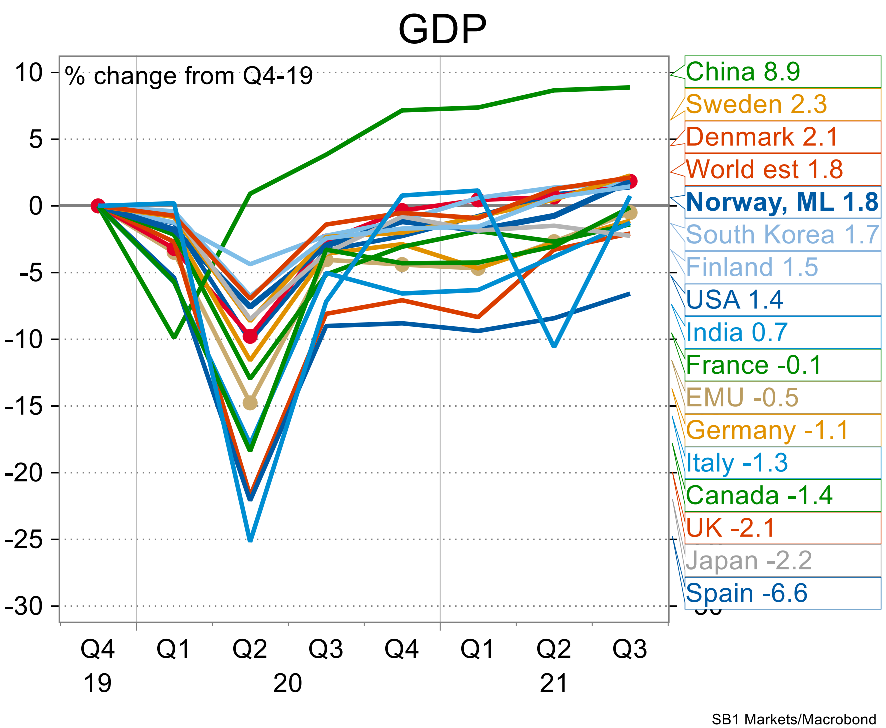


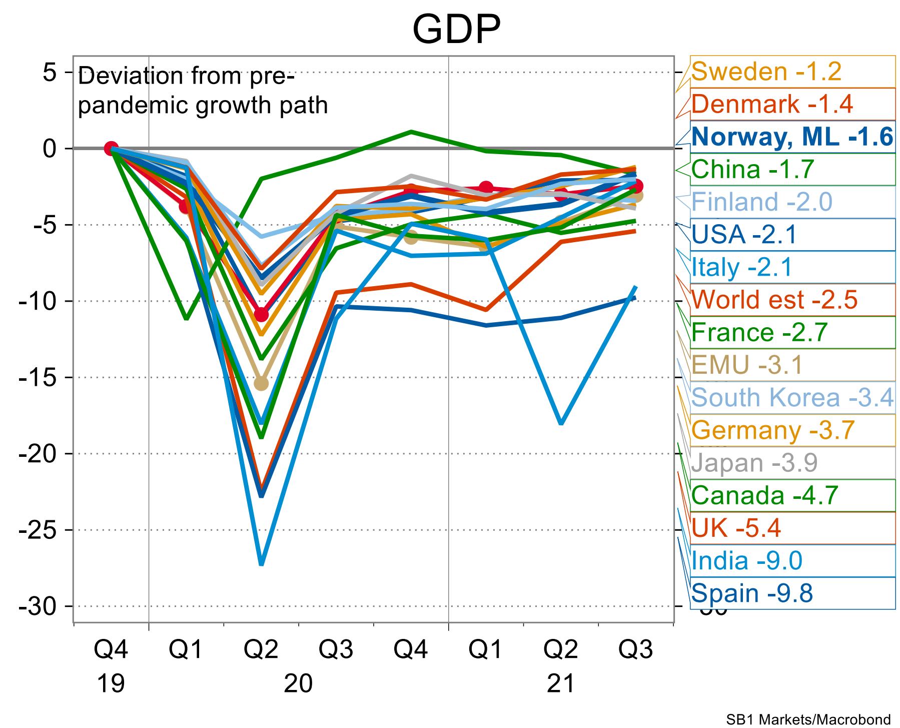
- Until October, strong growth in no. of passengers in Europe, and the gap vs the US was reduced
- The fight against the Delta has reduced aircraft movements in Europe especially in Austria (lower chart to the right)

SpareBank 1 MARKETS

Global GDP gained as India recovered sharply

Strong growth in the EMU also contributed well. US & China grew just slowly

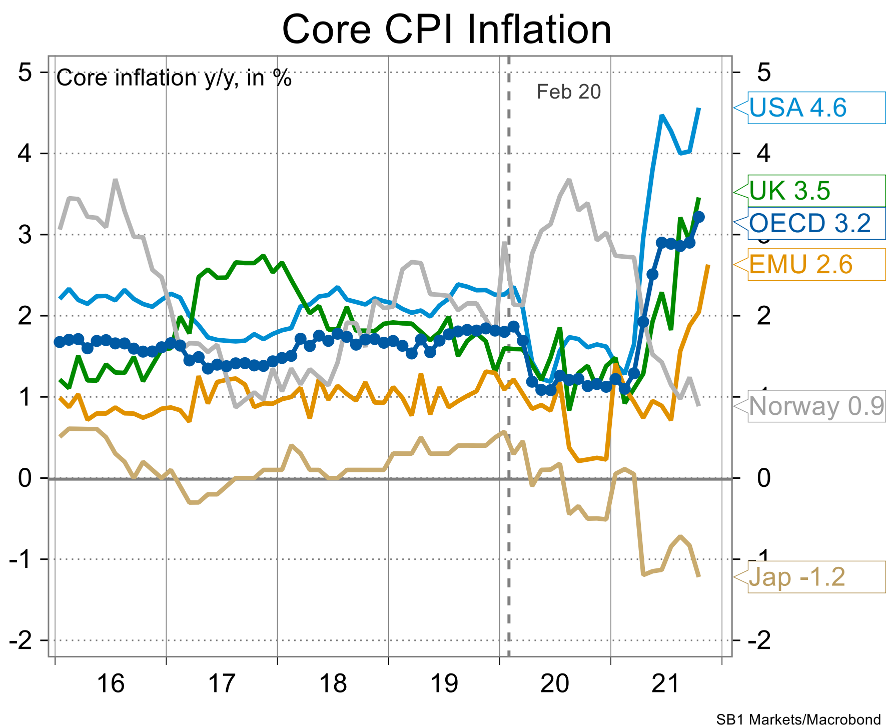


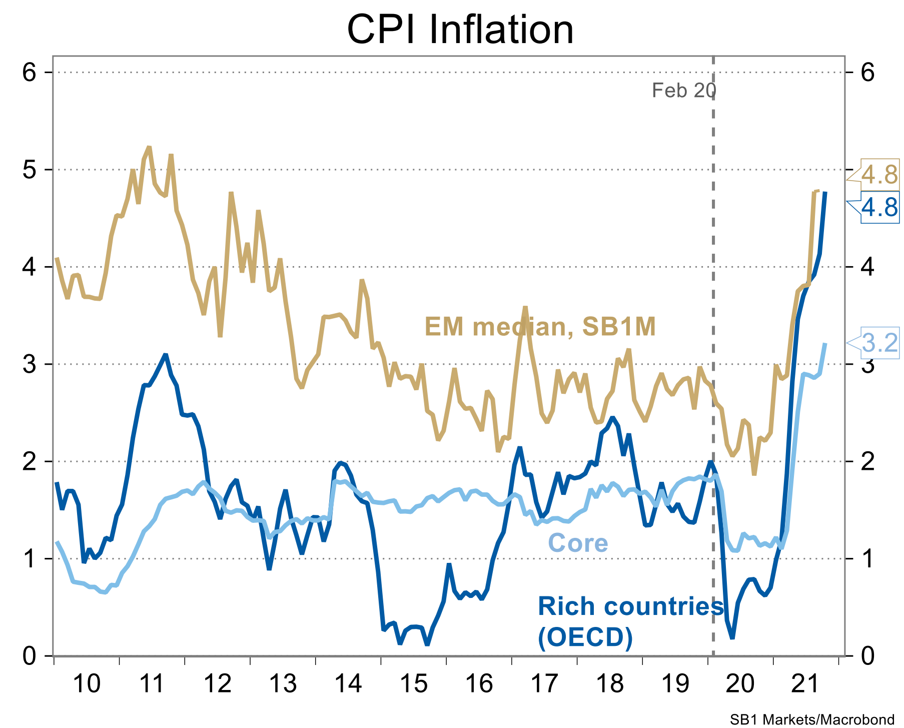


- GDP in India grew 12.2% in Q3, following the 12.3% Delta virus setback in Q3 – substantially better than we assumed (7.5%)
- Thus, global GDP grew 0.3 pp more than we assumed in Q3, by 1.6%. In Q2, the collapse in India cut global growth to 0.1%. The average over these two quarters at 0.85% equals a 3.5% growth pace, not impressive given the still substantial gaps vs. pre-pandemic growth trends (chart to the right). The global GDP is some 2.5 below trend
- Sweden, Denmark, Norway, China and Finland is at the top of the list. UK, India and Spain is at the bottom (more countries next page, in fact Turkey is at the top ☺)

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

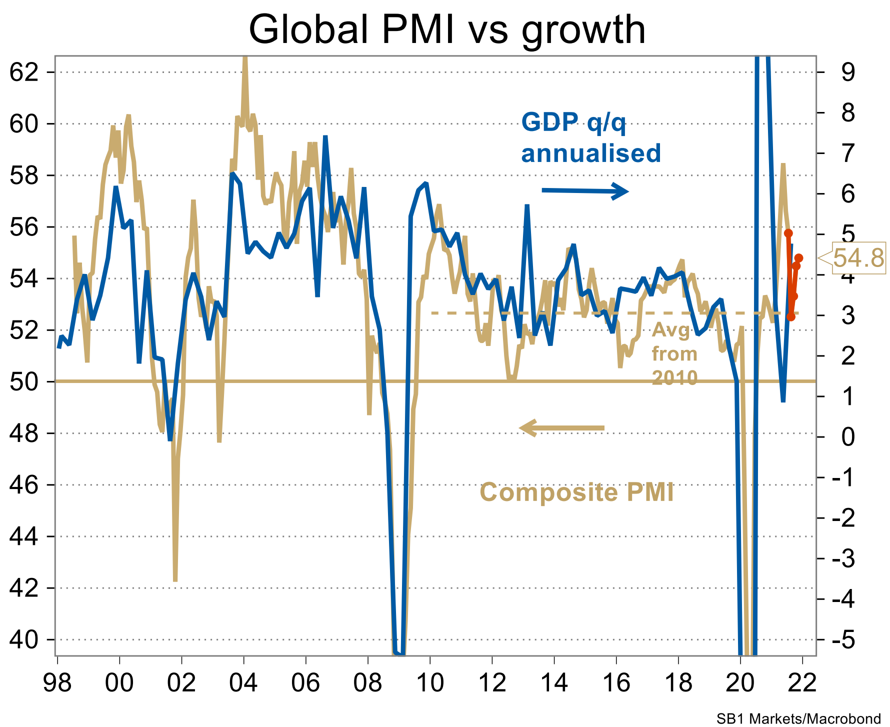
Energy prices the main culprit, but core inflation has turned up more places

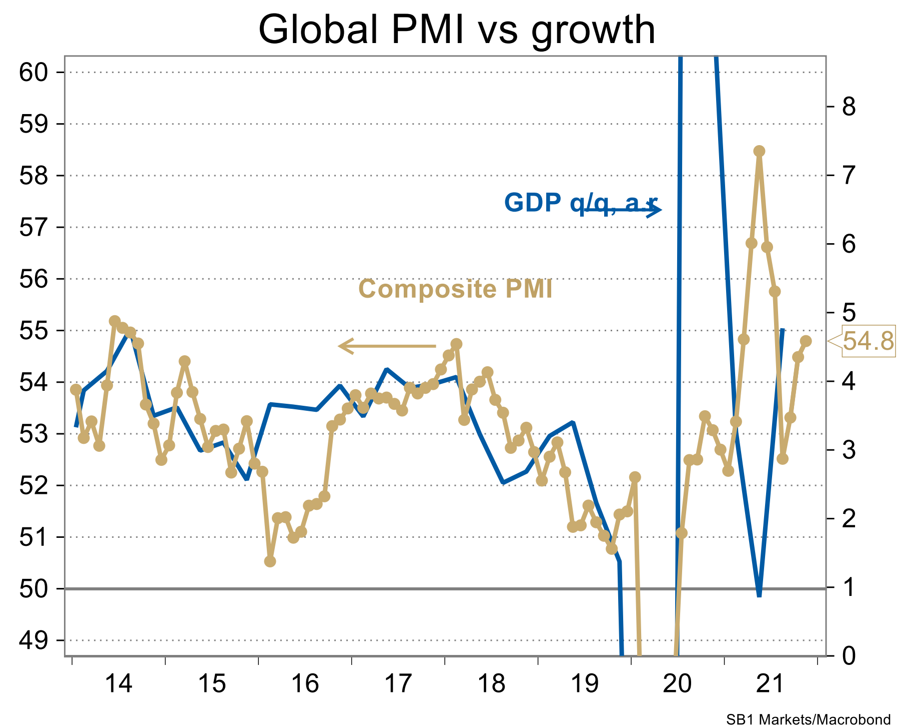




The global PMI further up in November, DMs still in the lead

The composite PMI rose by 0.3 p to 54.8, signalling growth well above trend, at a 4.5% pace

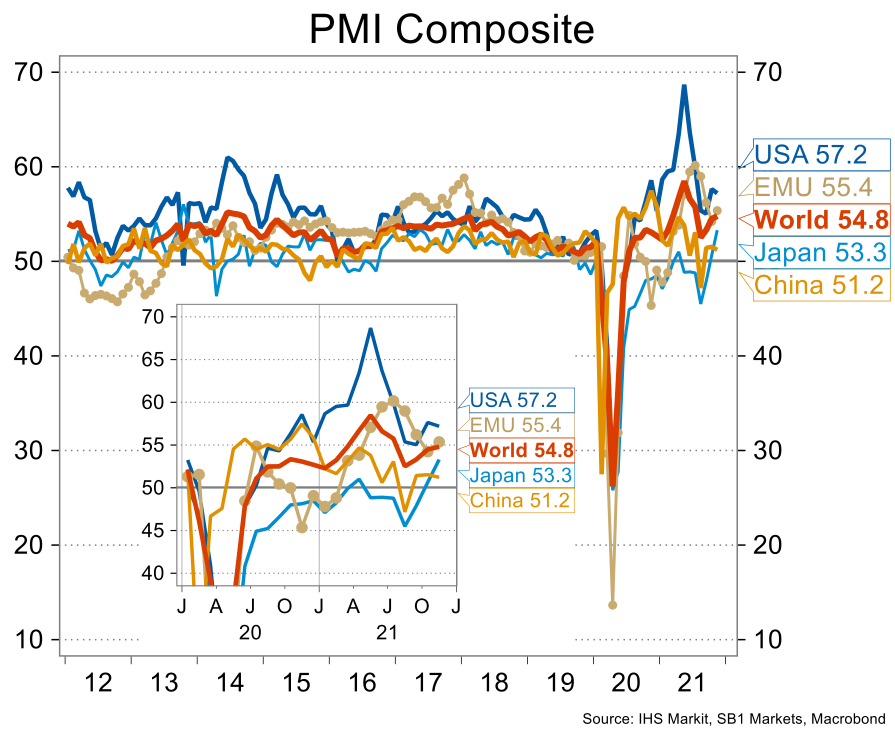


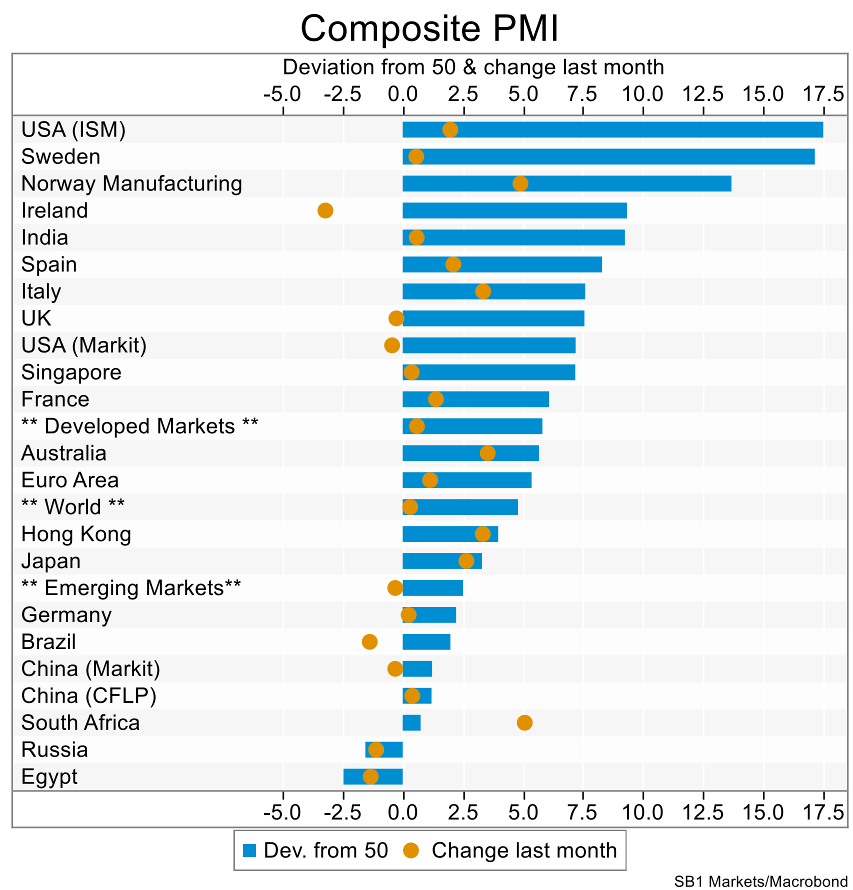


- The global PMI was 0.1 pp below our forecast, based on the flash estimates from the rich part of the world
  - » Small changes in both the manufacturing & services PMIs

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

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

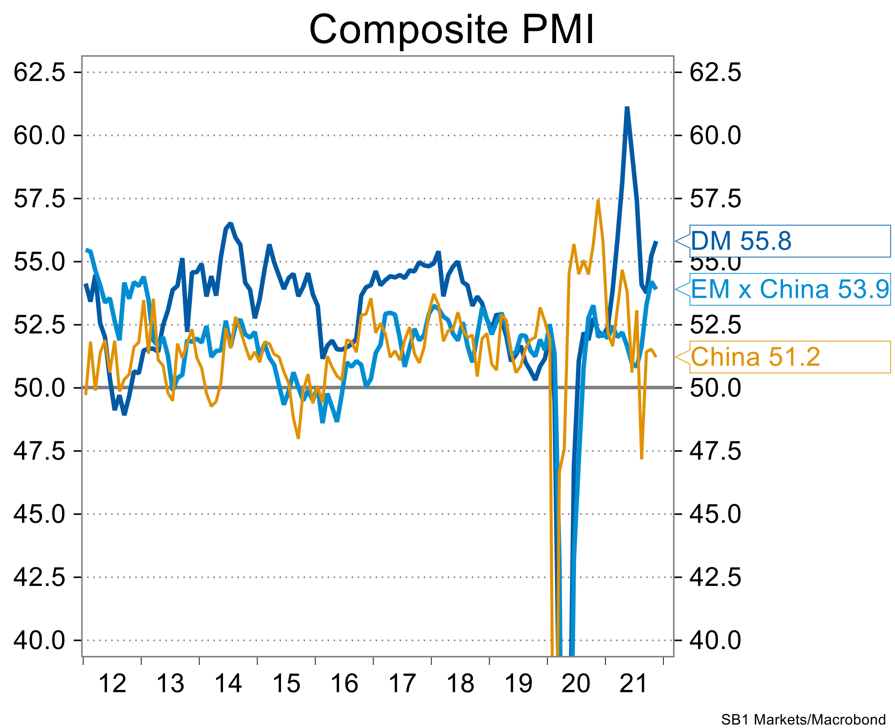


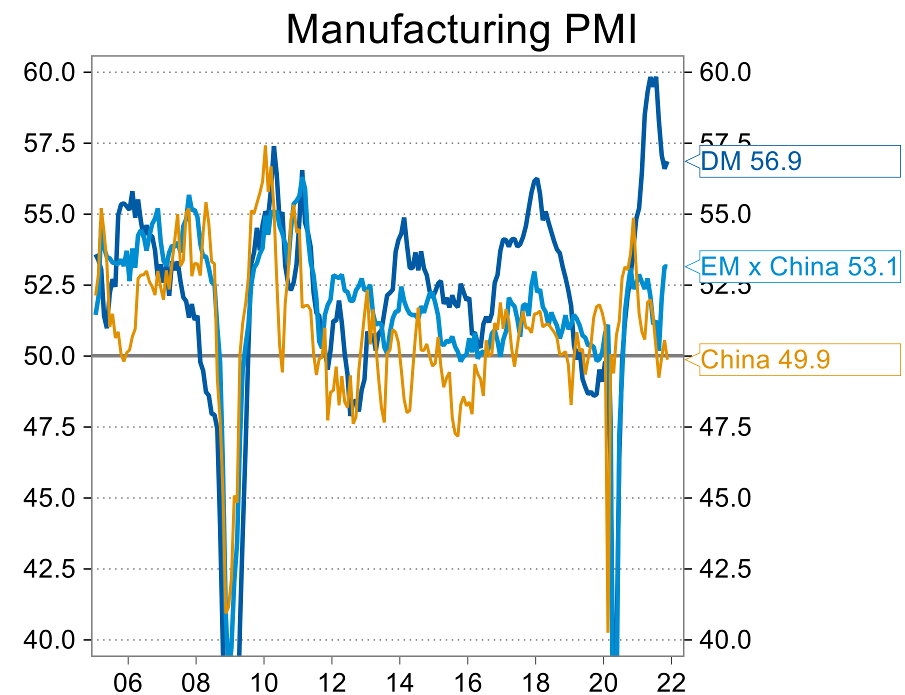


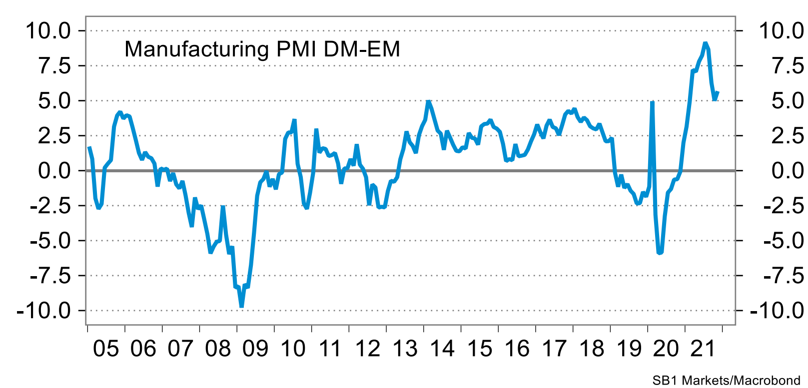
- 17countries/regions up in November (up from 13), 8 down (from 13), and just 2 below the 50-line (from 3)
- Our ISM composite index up to the lead, Sweden downgrade to the 2nd place. The Norwegian manufacturing PMI (total index) is no. 3 (but we do not compete in the composite league)
- The Chinese PMIs have flattened, both are marginally above 50 – and signals growth not far below normal
- Other EMs mixed, and in sum marginally down, as both Brazil and Russia reported weaker PMIs

EM x China slightly down but still close to the best level since 2012

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

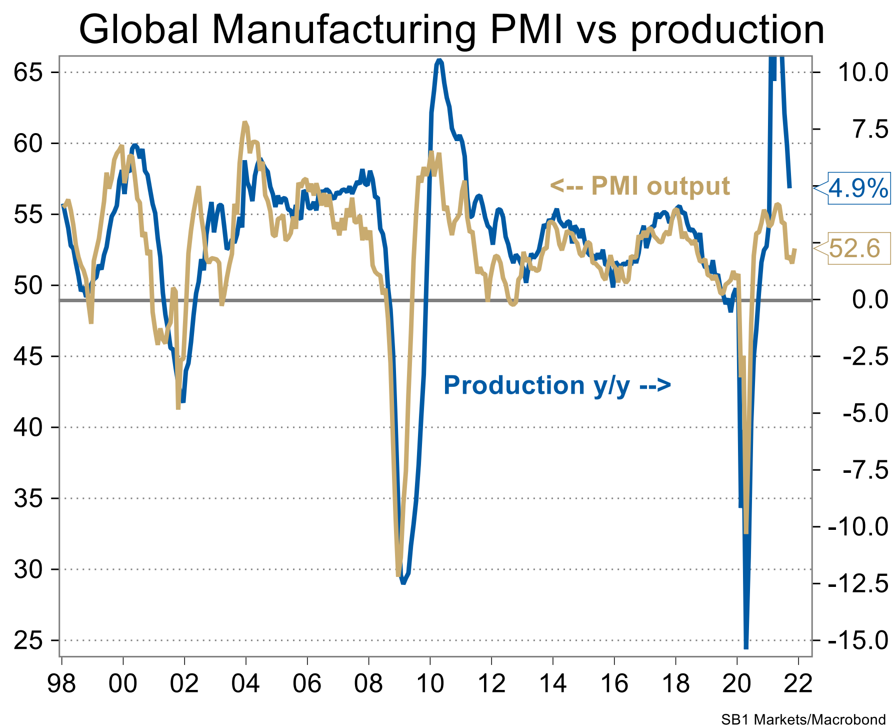


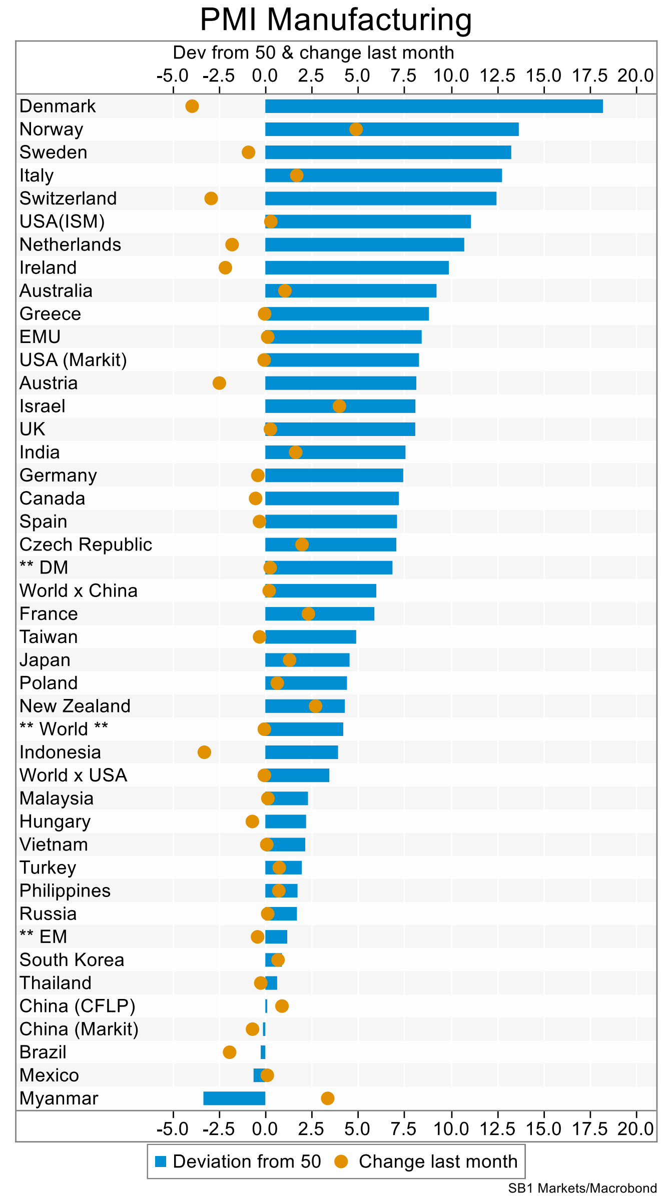




Manufacturing PMI slightly up in Oct, Emerging markets on the way back

Just 3 of 43 surveys below the 50 line. <u>Dk, No & Sw at the top!</u>

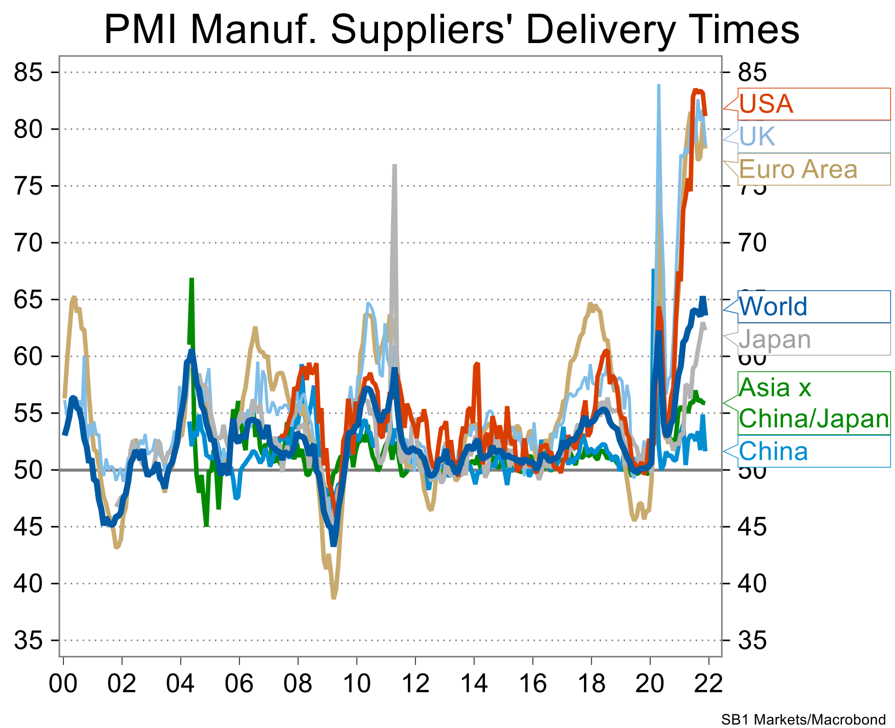


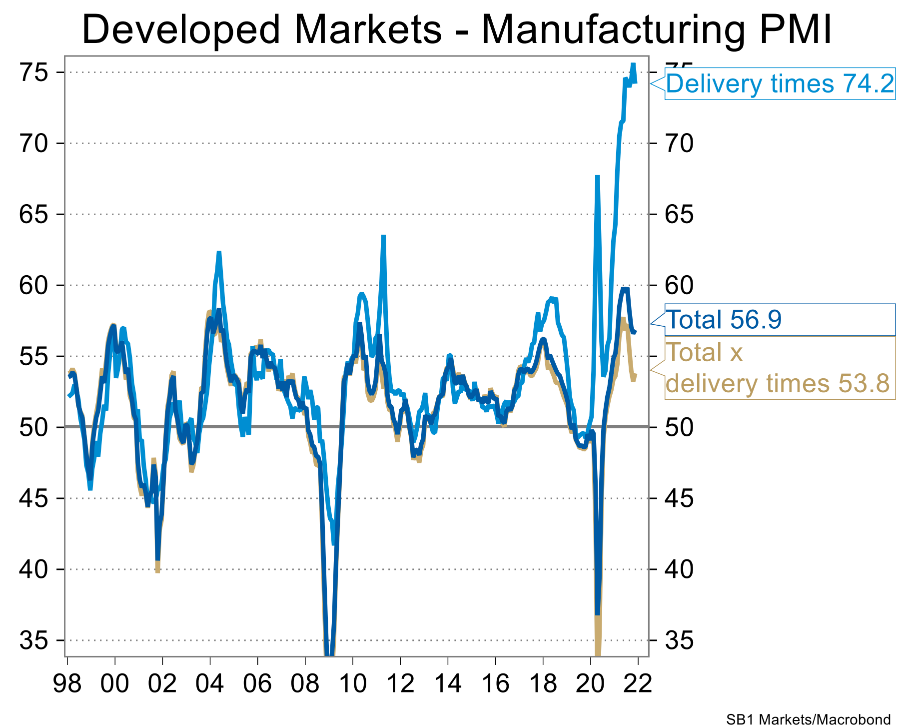


- The **global total manufacturing PMI** flattened in November while the output index rise slightly
  - » 51% of countries/regions reported higher higher total PMIs in Nov vs Oct, down from 60%
  - » European countries dominate the top of the list – but US PMI & ISM are up there too
  - » **India** gained further ground at the top in the EM universe
  - » The **Chinese PMIs** were is sum marg. up., and both are close to 50
  - » **EMs** are still far weaker than DM, and the gap did not shrink further in Nov

The delivery times index down in November, has peaked??

Why have delivery times exploded only in the rich part of the world? Due to strong demand here?

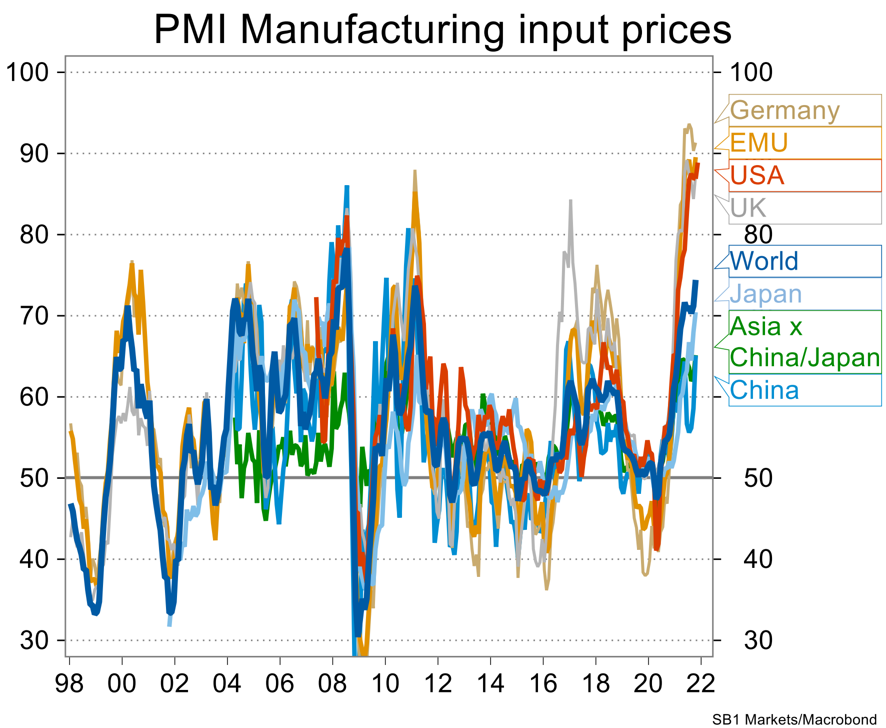


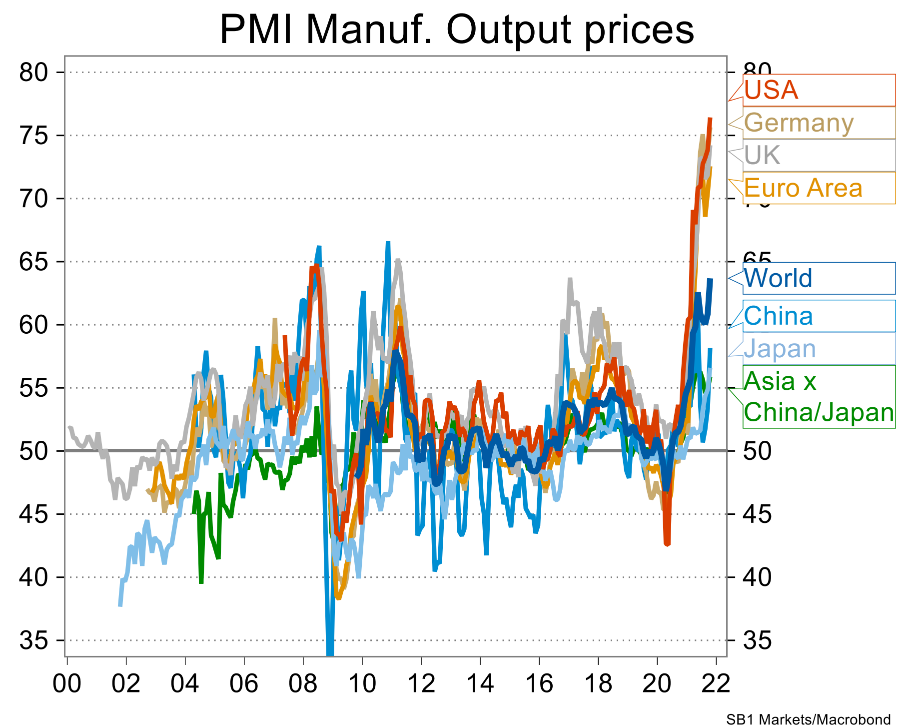


- The unprecedented increase in the delivery times index – which probably mostly is due to the unprecedented growth in demand for goods in the rich part of the world. In EMs companies are complaining about longer delivery times
- The surge in delivery times are not a sign of strength in the manufacturing sector, even if no doubt is caused by strong demand. Usually, the delivery times index (15% of the total index) has moved in tandem with a the other activity indicators, and has not influenced the total index - so we could use the total index as a proxy for activity. Not so now, the output index is more relevant

Manufacturing price increases accelerated further in November

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





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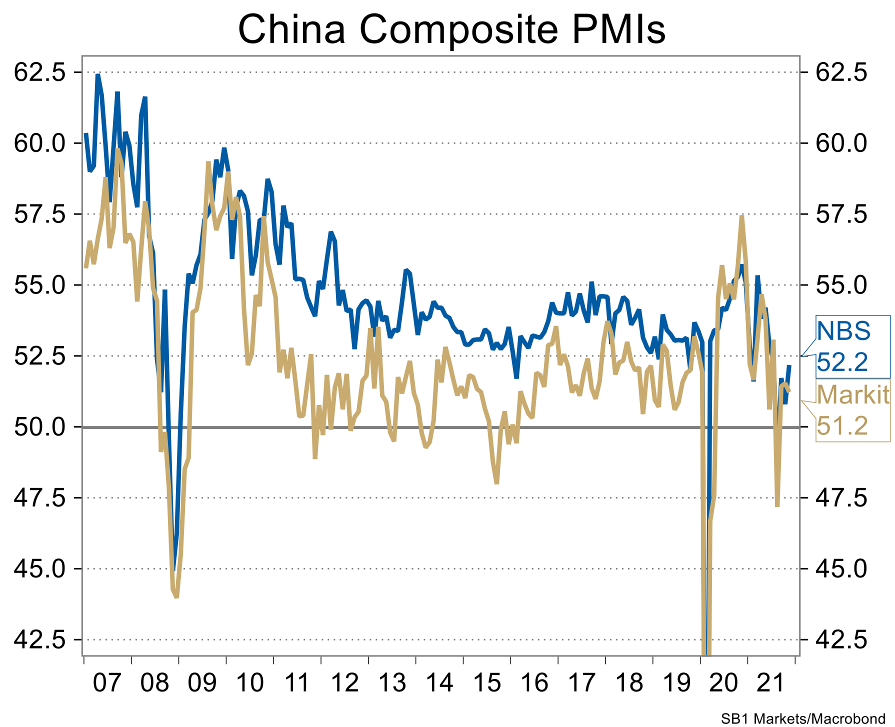
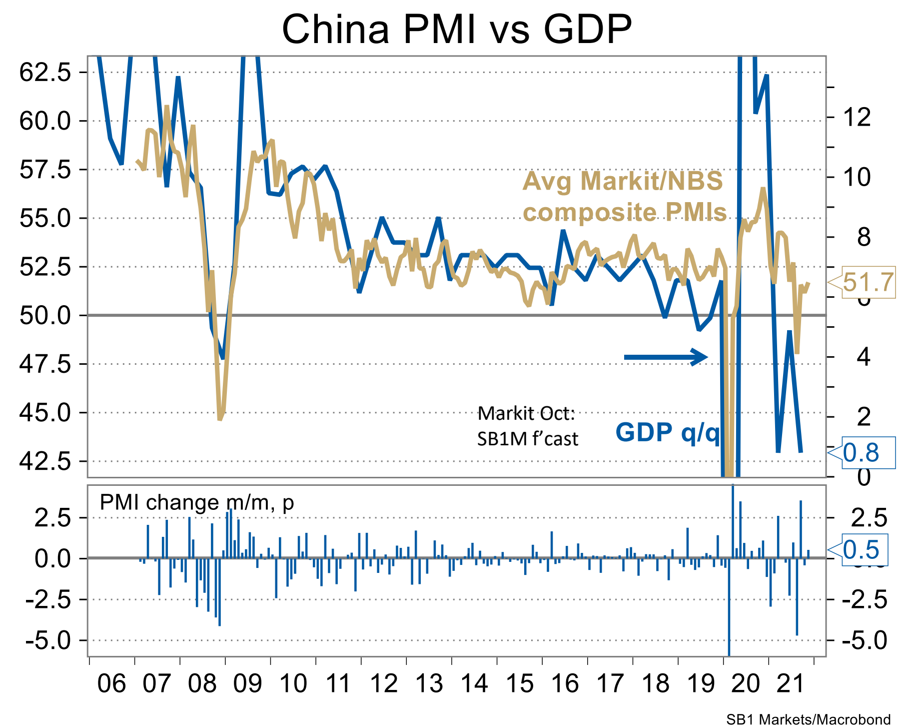
Mixed November PMIs, in sum marginally up – and the level is not that low

The average of the two PMI data sets rose 0.5 p to 51.7, less than 1 p below the average since 2012

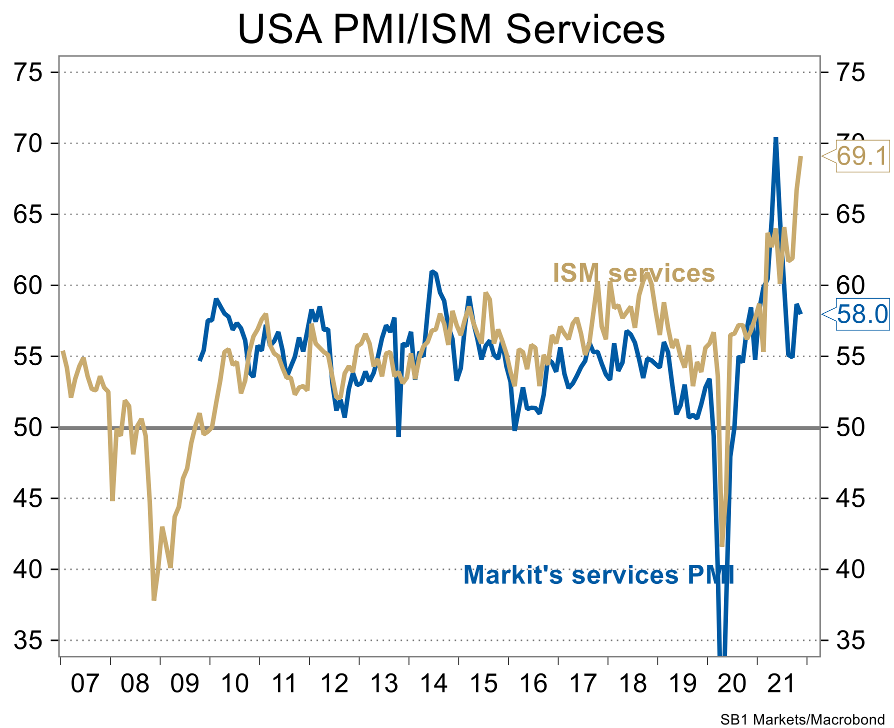


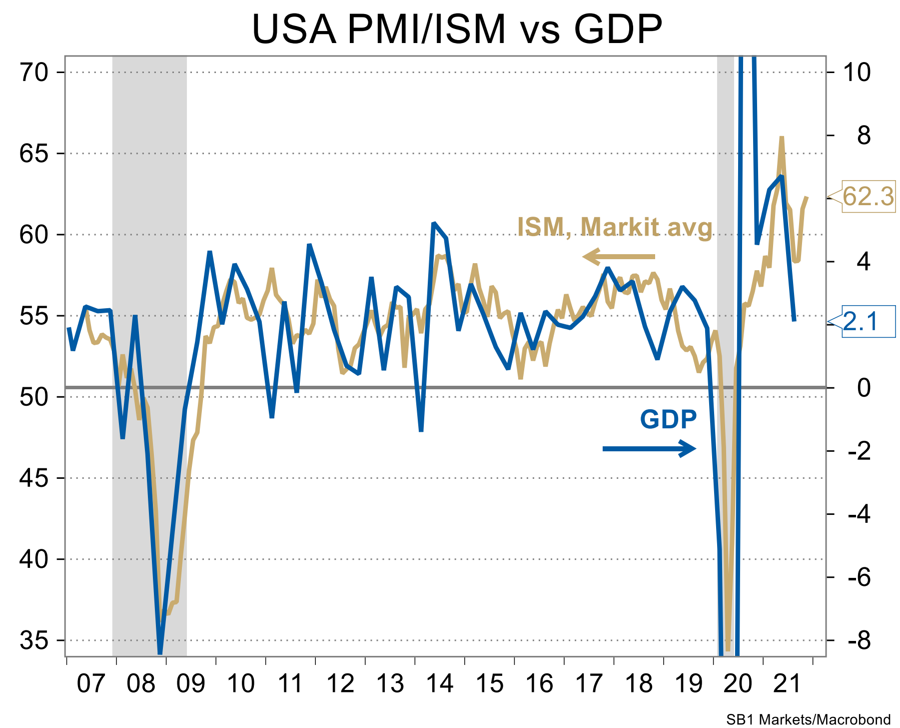


- The **NBS composite PMI rose** by 1.4 p to 52.2, better than expected. The level is 1.6 p <u>below</u> average
- **Markit's composite** lost 0.3 p 51.2. The level is 0.2 p <u>below</u> the average since 2012
- **In sum,** the two PMIs were slightly up but still somewhat below par, signalling GDP growth below normal – but far better than over the 3 past quarters
  - » However, the PMIs have been to optimistic so far in 2021, and growth may well remain below the level signalled by these surveys

Services ISM up to another ATH. The composite ISM/Markit signals 6% growth!

Up 4.1 p to 69.1, exp down to 65. All 18 sectors reported growth. No virus problem. In November…





- **ISM services** orders, delivery times, input prices are surging but not faster in Novemver. Employment is growing faster, as was the 'business activity' index but slower
- **Markit's service PMI fell slightly** (0.1 p more than expected). The index is at 58.0, a more than decent level
- Together with their manufacturing indices, the **PMI/ISMs** signal some 6% Q4 GDP growth, well above the actual growth in Q3 (2.1%)
- **Prices indices** are still reporting record high price growth (check next page), for input prices as well as output prices (in Markit's PMI)

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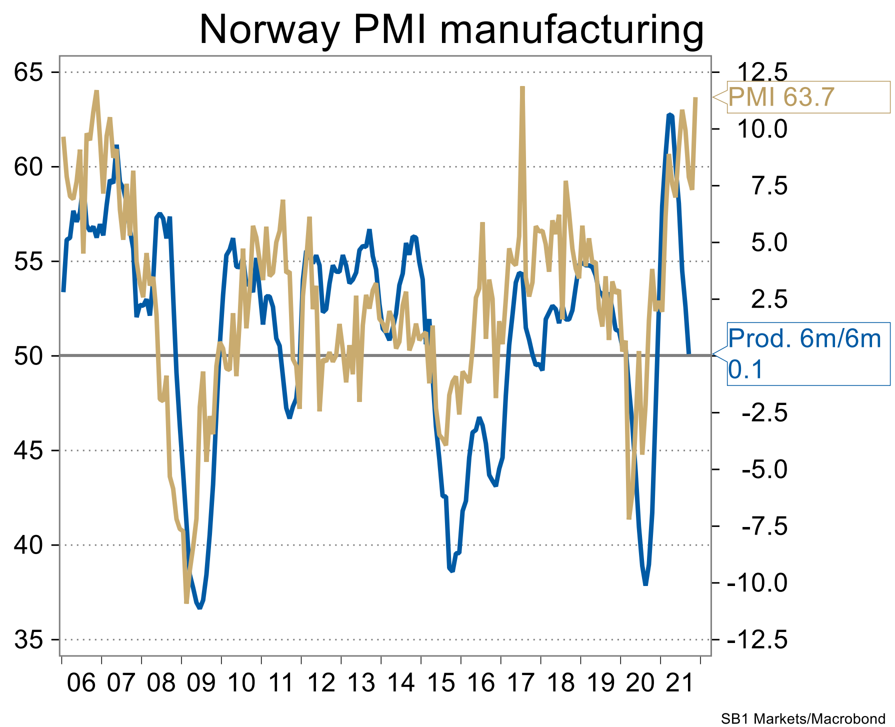
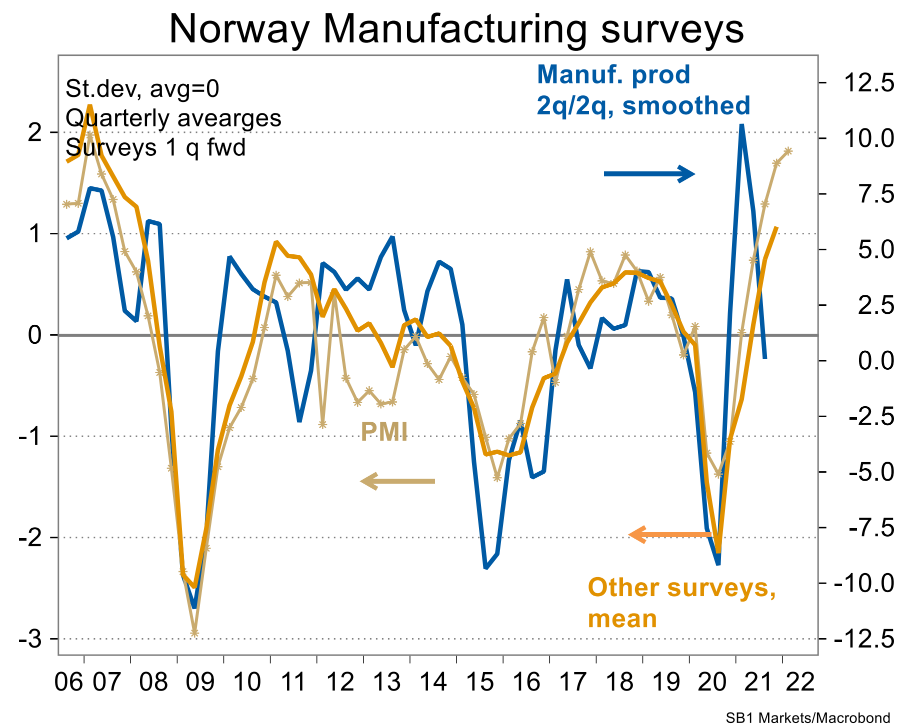
Oobs, the Norwegian PMI shot up 4.9 p to 63.7, the 2nd best in the world

We expected a small decline! Delivery times boost the index but the core is still at 59.7!

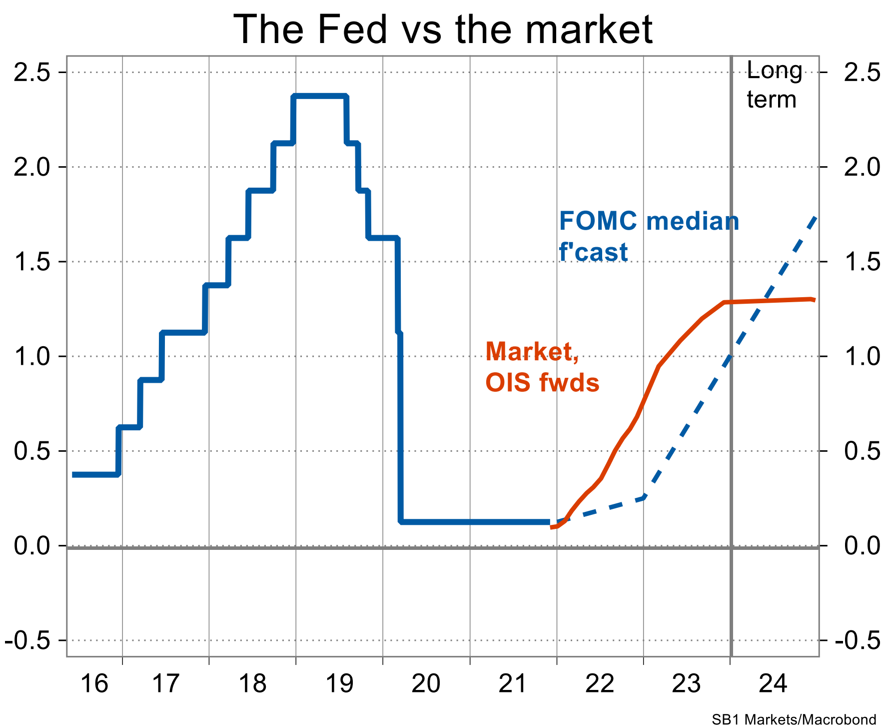




- All sub-indices in the total index contributed at the upside. Orders were the most sober – and export orders are just in the balance
- Businesses in Norway, as in other rich countries, are reporting of bottlenecks and increased input prices (check next page). We doubt the record high delivery time index signal strength in the manufacturing sector, and an index excl. this component is more relevant now (like in other countries, check next page)
  - » In November the input price index slowed somewhat – but companies are still reporting rapid price increases
- Other manufacturing **surveys** have turned up lately to above-average levels
- Even if surveys have been reporting growth, **actual production** has fallen slightly since April. Hope for something better now (if the virus does not take us down)

Beige book: Growth at a modest to moderate pace, due to supply constraints

Supply side disruptions and labour shortages keeps growth in check, wages & prices on the way up

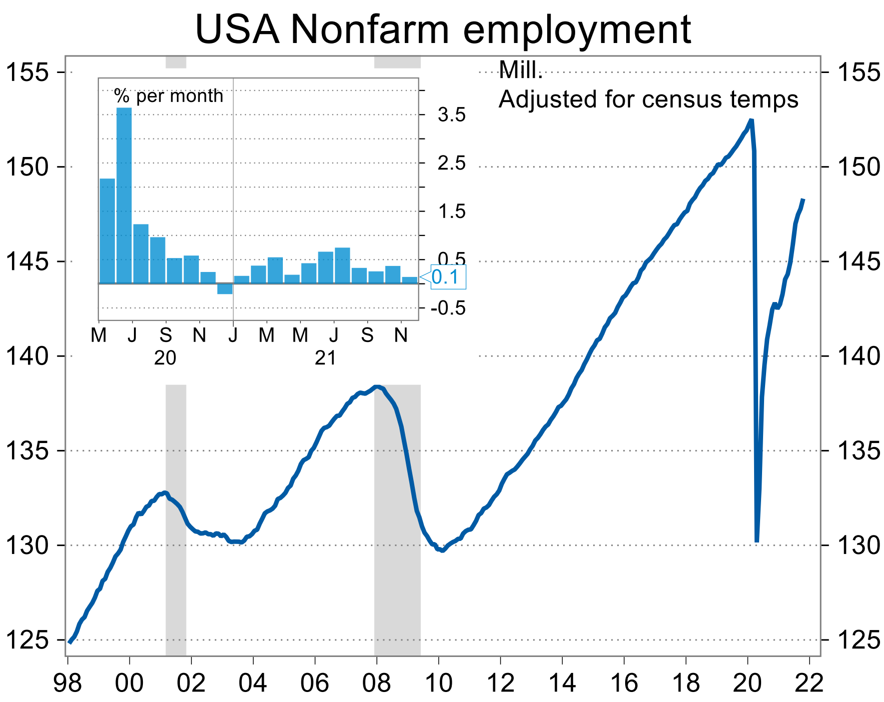


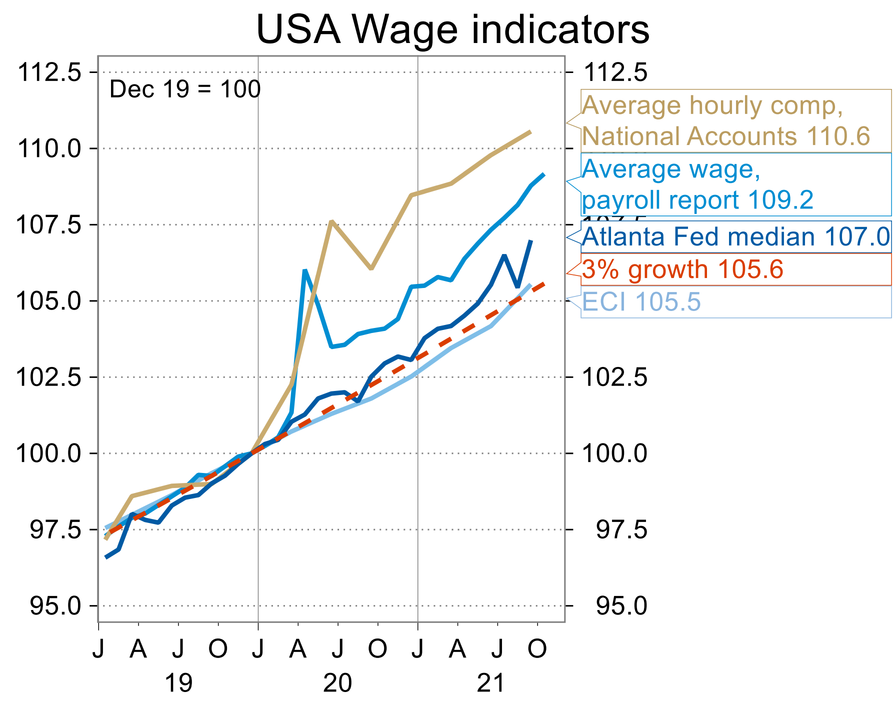
- New signals from the Federal Reserve due to the Beige book?
  - **No, a policy tightening was announced by Fed's Powell himself before the Beige book was published**! Barring a serious Omicron setback, the Federal Reserve will wind down its bond buying program faster than announced in November, paving the way for an earlier lift in the Fed funds rate

- Growth was unchanged at **modest to moderate pace** in most districts past six weeks (from moderate pace 12 weeks ago), according to the Fed's 12 district banks. The Delta variant/covid was mentioned fewer times, while constraints due to supply chain and labour shortages were widespread explanations and not demand – which still was strong – were limiting production
  - No district reported strong growth, down from 2 in October
- No sector reported weaker **demand**
- Most districts/sectors report further growth in **employment**, but growth was constrained by lack of labour**.** Childcare, retirement & covid safity concerns were cited as reasons for labour shortages
- **Wage inflation** accelerated and many districts are seeing a continued upward pressure on wages
- **Price increases** were widespread, as input factors became more expensive, and companies could lift their own selling prices with little pushback as demand was strong. A bright spot: Semiconductors and steel products had become more available
- **The outlook for overall activity** remained positive in most districts but there were some uncertainty when supply chain and labour shortages would ease
- **In sum:** The reports out of the 12 districts confirms that demand is not the problem, the supply side is!

Mixed employment data but unemployment is falling rapidly

Wages are still growing faster than before the pandemic – because the labour market is very tight

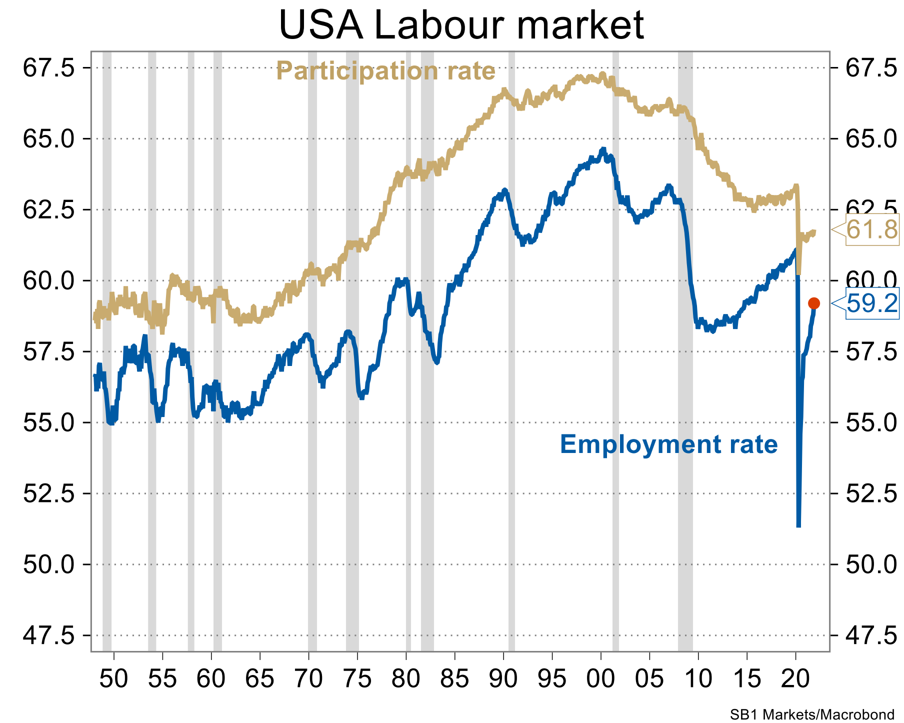


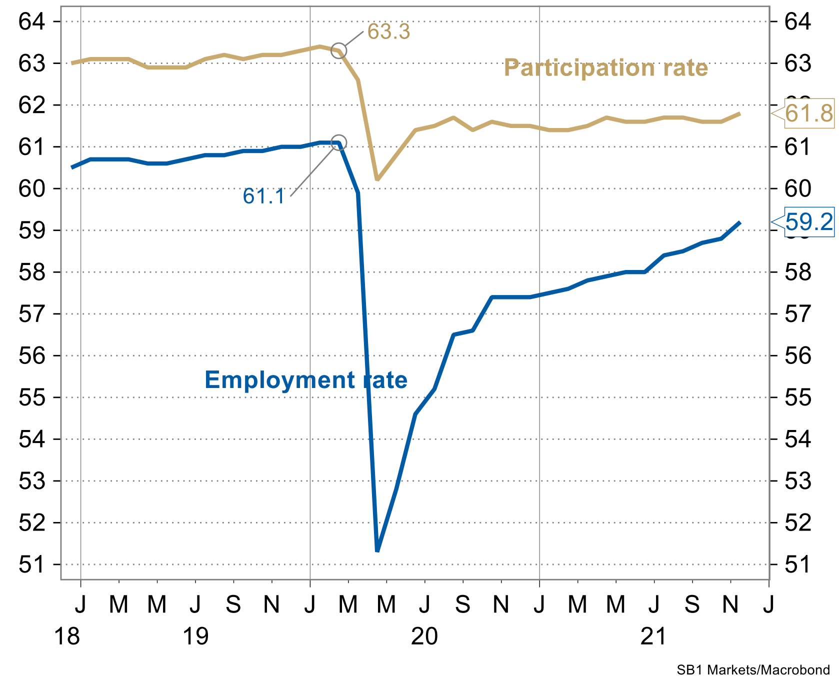


- **Nonfarm payrolls** rose by 210' in November, far less than the expected 550'. Private sector added 235' jobs. No major revisions. Payrolls are still down 3.9 mill (-2.6%) vs. the pre-pandemic level. The employment rate is down 3.1%, implying 5 mill lost jobs (that is, adjusted for growth in the working age population)
  - » The lift in employment was broad, with leisure/hospitality in the lead - but this sector is still down 8.2% vs. the pre-pandemic level. Education is still lagging, down 70' – and down 5% vs. Feb-20
- **The participation rate gains 0.2 pp to 61.8% (expected up to 61.7)**, the best level so far in the pandemic – the best news in this report! Even so, the response from the supply side of the labour market has been extremely dismal during the strong employment recovery. The participation rate is down 2.4% (1.5 pp, 3,1 mill persons) vs the pre-p level
- **The unemployment rate** 'collapsed' by 0.4 pp to 4.2%, expected 4.5% - and it as fallen faster the past 5 months than ever before (barring last summer)
- **Average wages** rose by 0.3%, 0.1 pp less than expected, Wages are up 4.8% y/y (0.2 pp below consensus), far above the pre-p norm. All sectors are reporting higher wage inflation – and all wage indicators now tell the same story
- Even if the participation rate finally grew in November, the supply side is obviously the bottleneck at the labour market. The tight labour market signals continued wage inflation at a level that is not consistent with inflation at 2% over time (barring a substantial productivity shock)

Finally, the participation gained two ticks but remains far below pre-p levels

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



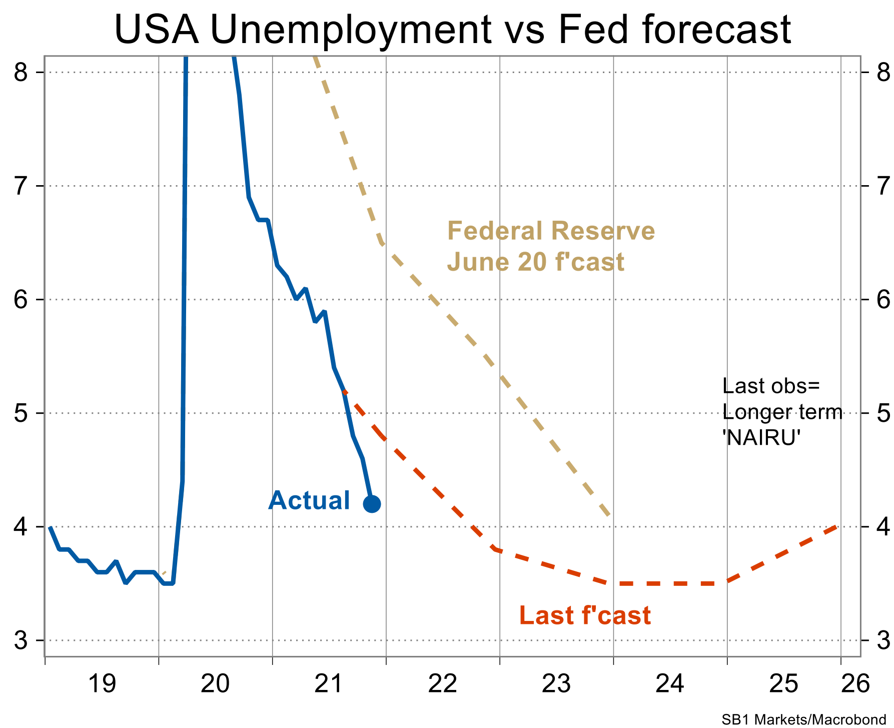


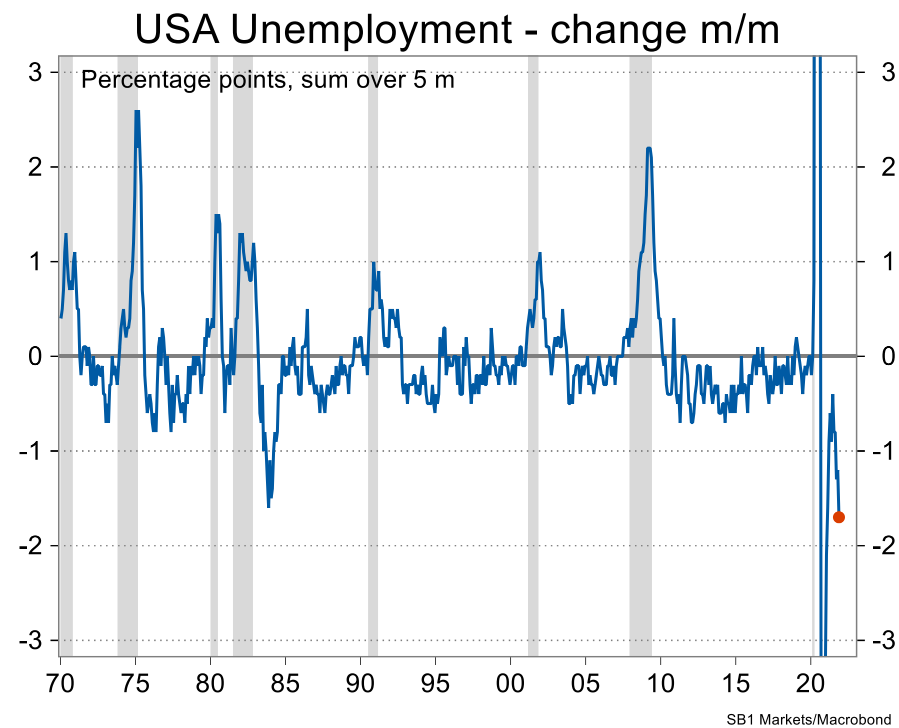
- **The labour force participation rate** rose by 0.2 pp to 61.8% (of the working age population, 16 y +), the highest level so far during the pandemic – <u>no doubt the best piece of news in the labour market report</u>
- Still, the participation rate is down 1.5 pp (vs the working age population) vs the pre pandemic level, equalling 2.4% or 3.9 mill persons
  - » In November, 1.3 mill persons (-0.1 mill) responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons. Thus, most of those who have 'not returned' do not blame the coronavirus pandemic
- **The employment rate** climbed 0.4% to 59.2% (that's why the unemployment rate fell by 0.4% of the labour force) or by 1.14 mill, or 5 times more than the increase in non-farm payrolls. Over time, these two measures are reporting the same growth rates, but they may differ from month to month. The employment rate is still down 1.9 pp, equalling 3.1% or 5 mill persons

USA

Unemployment is falling at a record pace

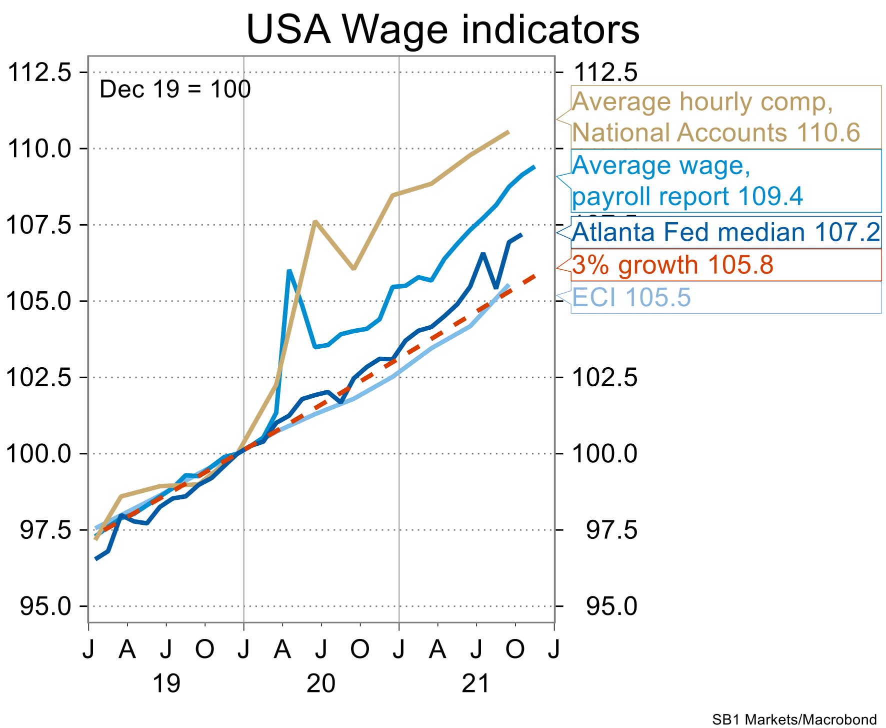
The unemployment rate nosedived 0.4 pp 4.2% in November, 0.3 pp more than expected!

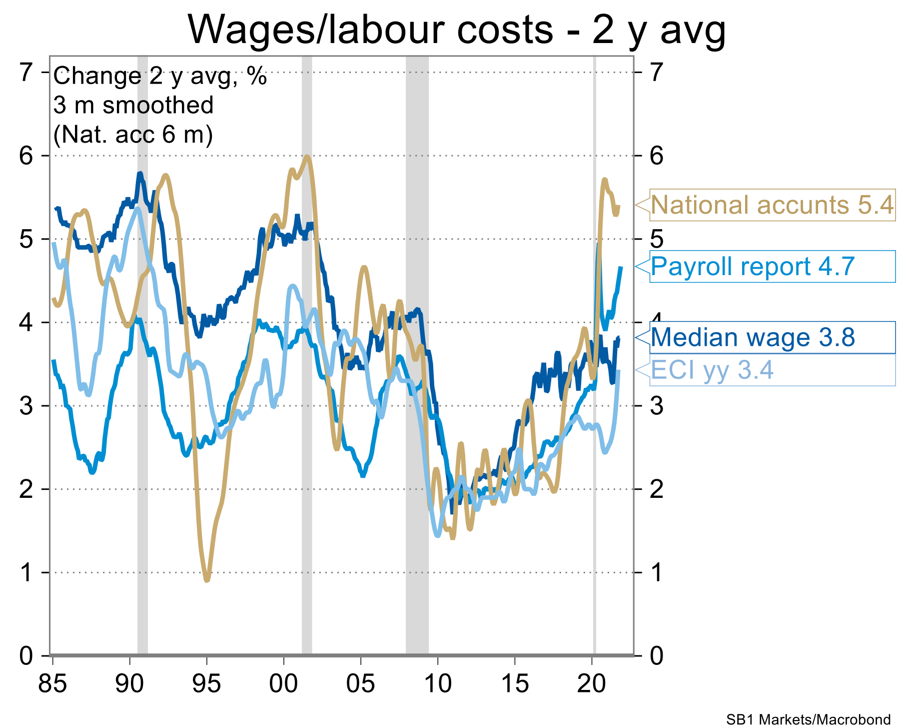




- The recent five months, the unemployment rate has fallen at the fastest pace ever, barring the initial decline in the unemployment rate after the first Covid-19 shock last spring/summer
- In September, the FOMC members expected that the unemployment rate would decline to 4.8% in Q4. In November it was 0.6 pp below this estimate, a level the bank assumed would be reached approx. in /August next year. It took just 3 months, not 12
- Households report that jobs very easy to get, as it the unemployment rate was well below 4%

All wage indicators are reporting higher wage inflation

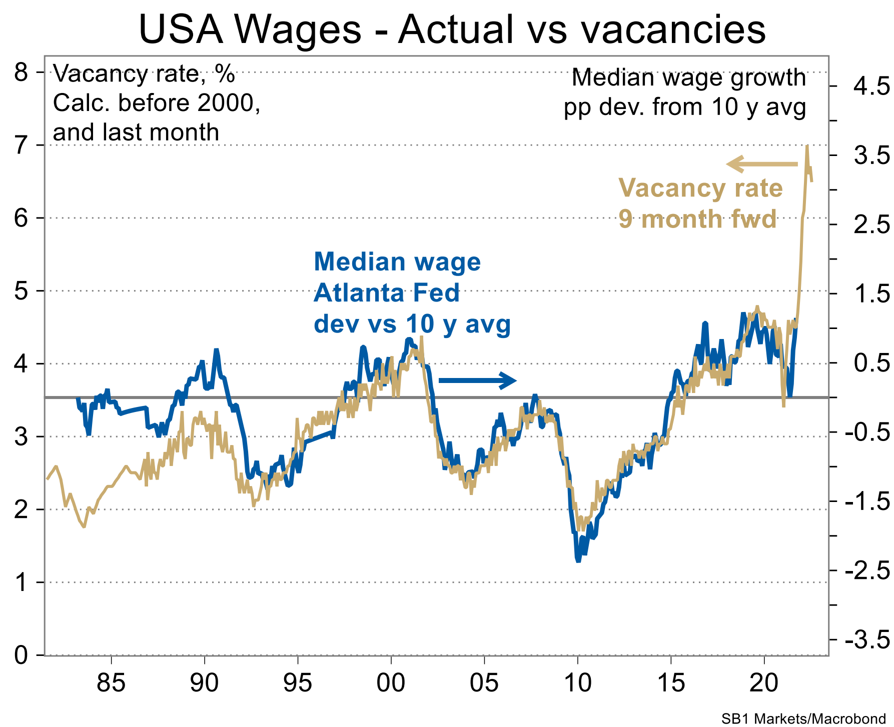


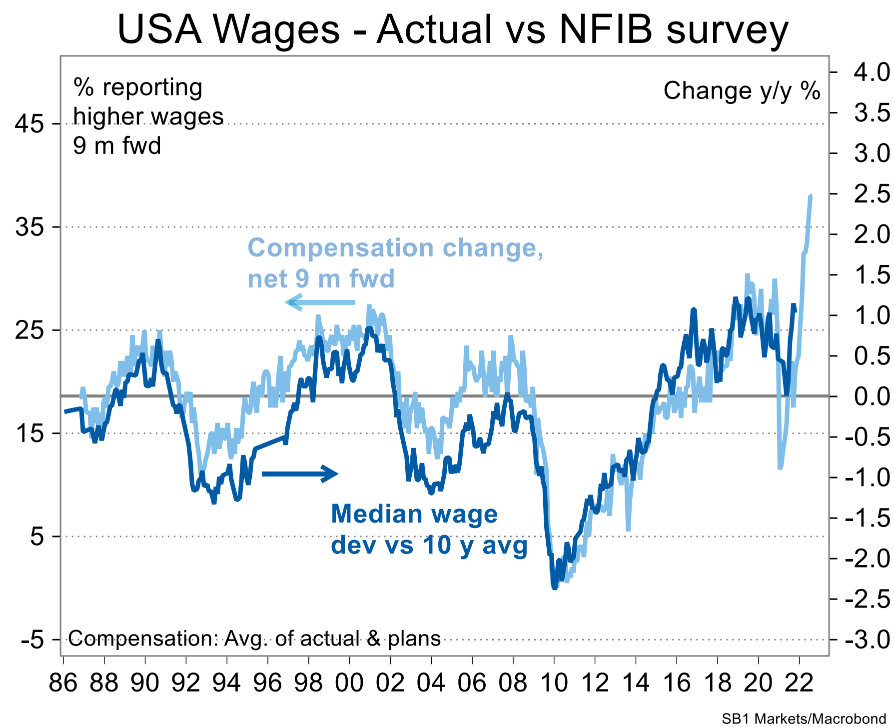


- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes in the first part of the pandemic (chart to the right)
- Wage/earnings/compensation is at least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

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

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





- More companies than ever before (data from 1986) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled vacancies and actual wage growth is even tighter, with the same lag
- No doubt, these data were important for Powell and the Federal Reserve when they announced the change tack last week, after all inflation was perhaps not transitory

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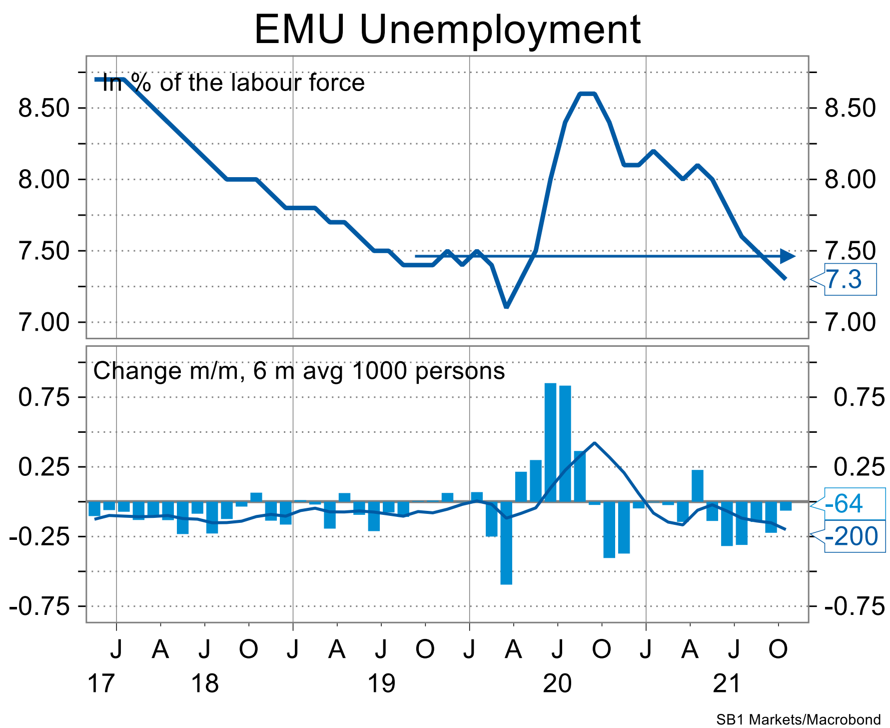
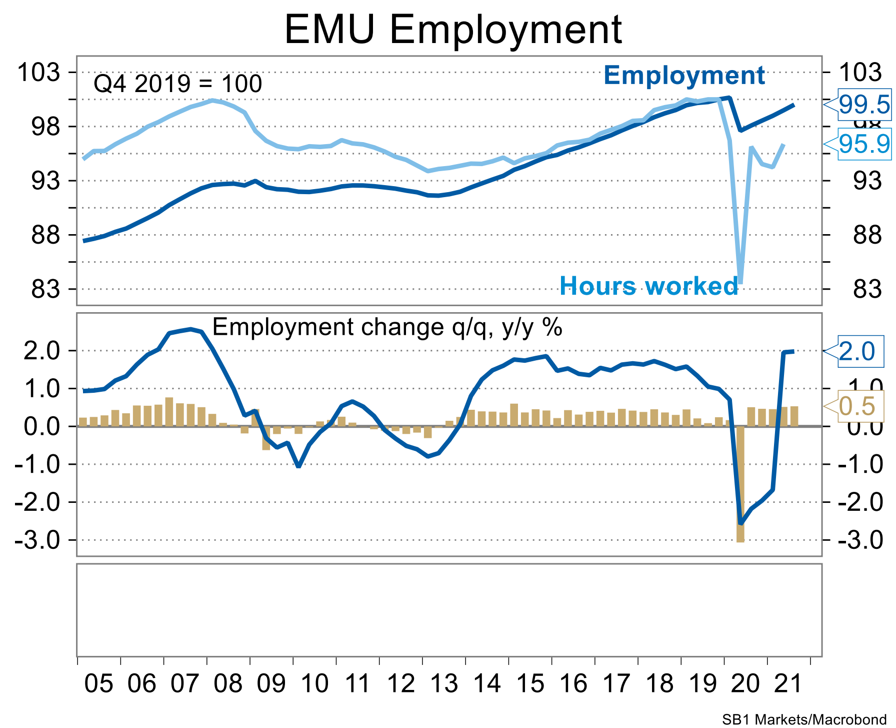
Unemployment fell further in October – to 7.3%

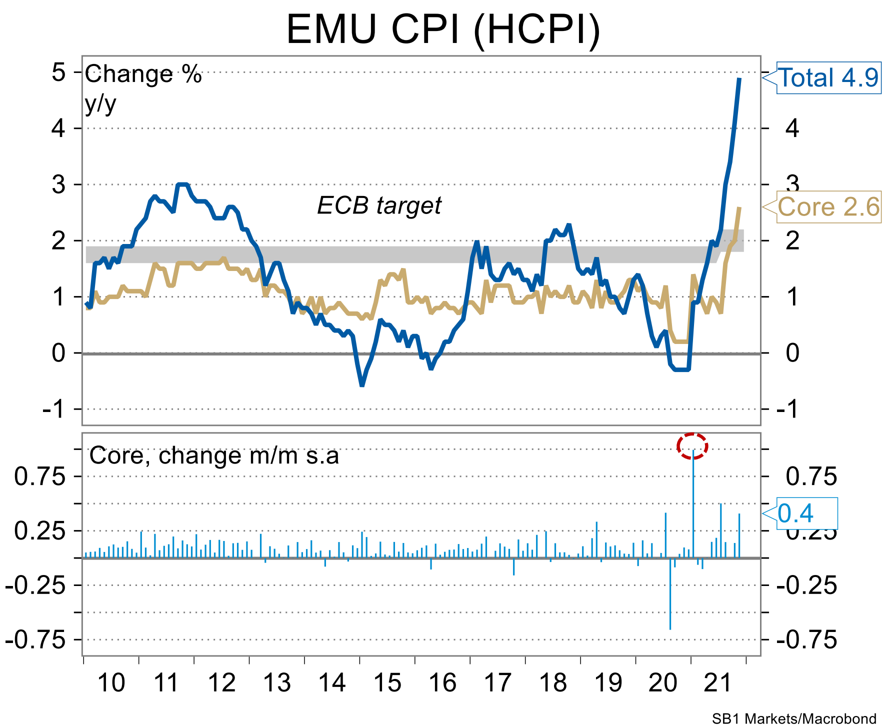


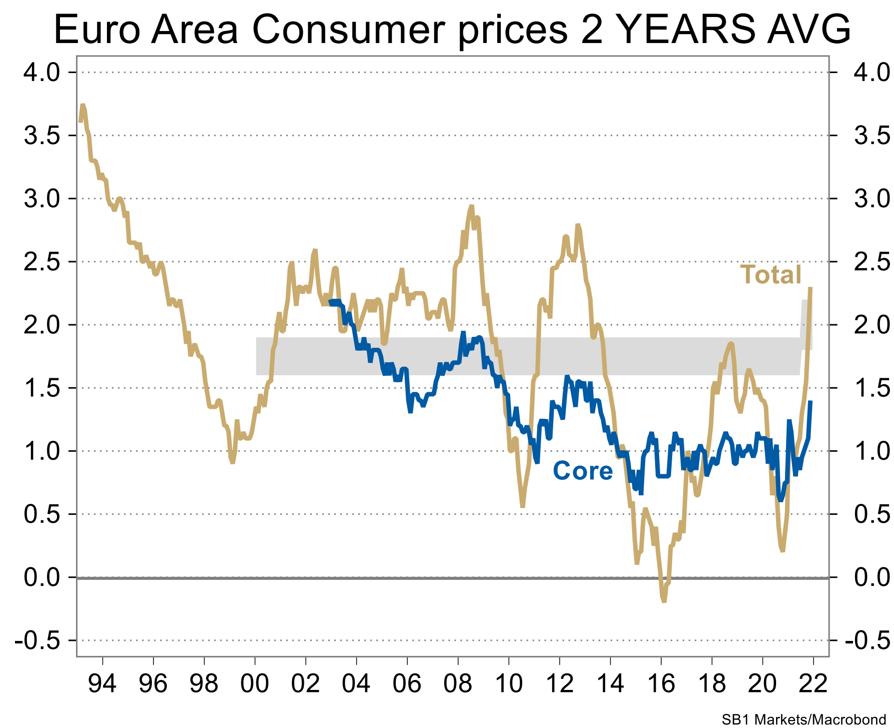


- **Unemployment** is falling rapidly as the economies are opening up. In October, the unemployment rate fell 0.1 pp to 7.3%, as expected, and the level is well below the average in the months before the pandemic hit
  - » However, the monthly decline measured in '000 to 64', the slowest reduction since the lift in unemployment in April
- **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** sharply in Q3, to the highest level ever (chart 2 pages fwd)

Inflation up 0.8 pp to 4.9% in Nov, core up 0.6 pp to 2.6%, 20 – 30 y high!

And way above expect. (4.4 & 2.3%). Energy prices and the dip in prices one year ago to blame, but…

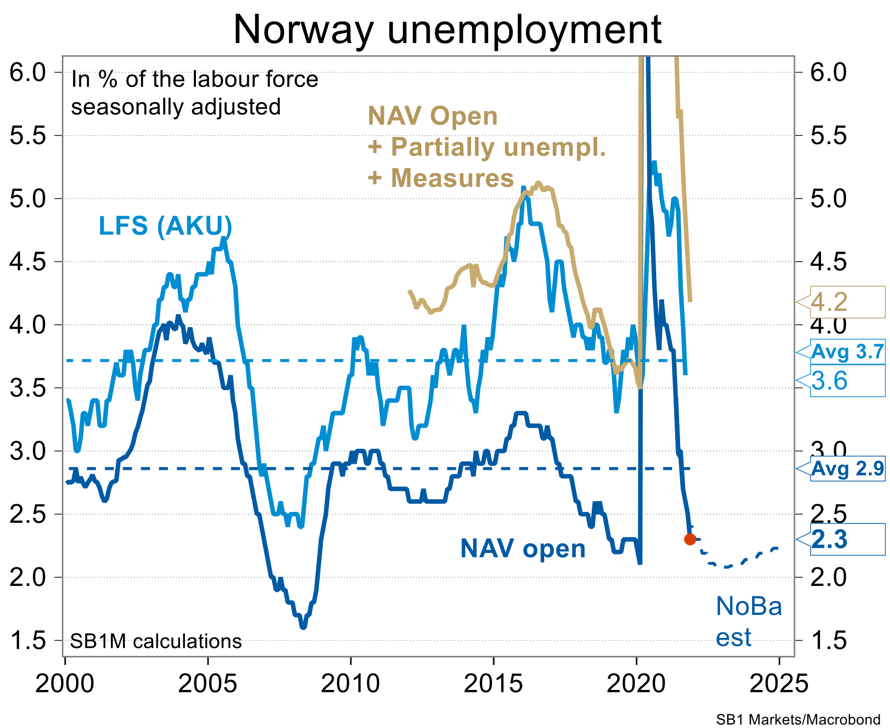


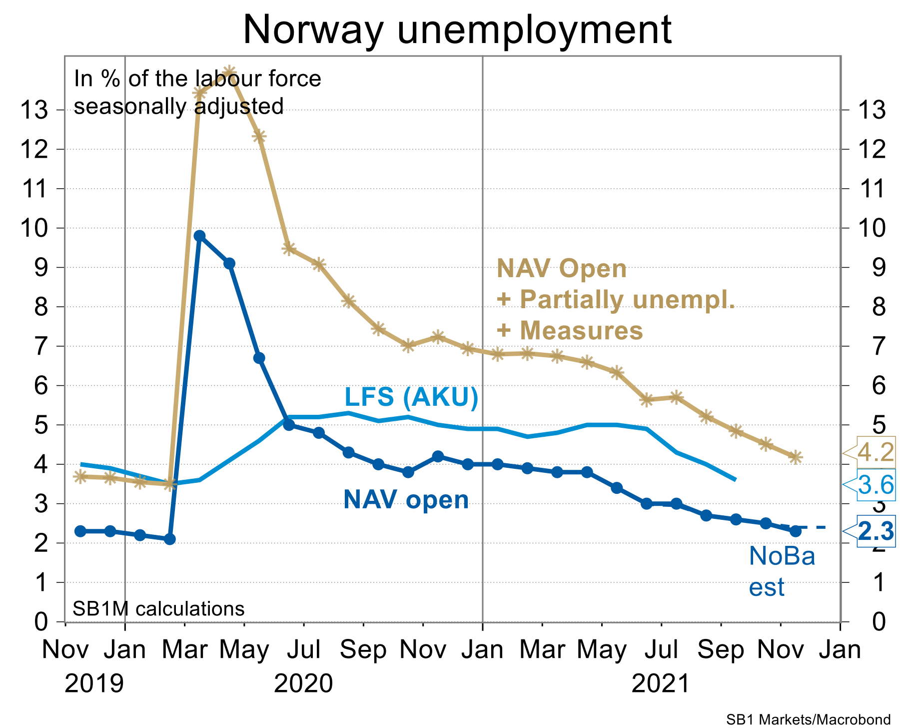


- **… the are some other stories too – and inflation is the highest in decades**
- **The headline HICP** rose 0.7% m/m in November, as in October. Energy prices rose sharply – and they are now up 28% y/y (but still 'just' up 17% above the avg 2019 level). The annual rate at 4.9% is far above ECB's inflation target – but prices are just up 2.3% over the past 2 years (in average)
- **Core prices** rose 0.4% m/m, and the annual rate rose to 2.6%. Again, one year ago, annual inflation was just 0.2%, and the average over the past 24 months is just 1.4%. The core CPI rate will probably decline substantially in Jan-22, as prices rose 1% m/m in Jan-21 (left chart, red circle)
  - » Food and beverage prices rose 0.4% m/m, while services were down 0.2%
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices

NAV unemployment further down in Nov, 'no' new claims, vacancies further up

Open unemployment down 0.2 pp to 2.3%, below NoBa's f'cast. Level just 0.2 pp above Feb-20

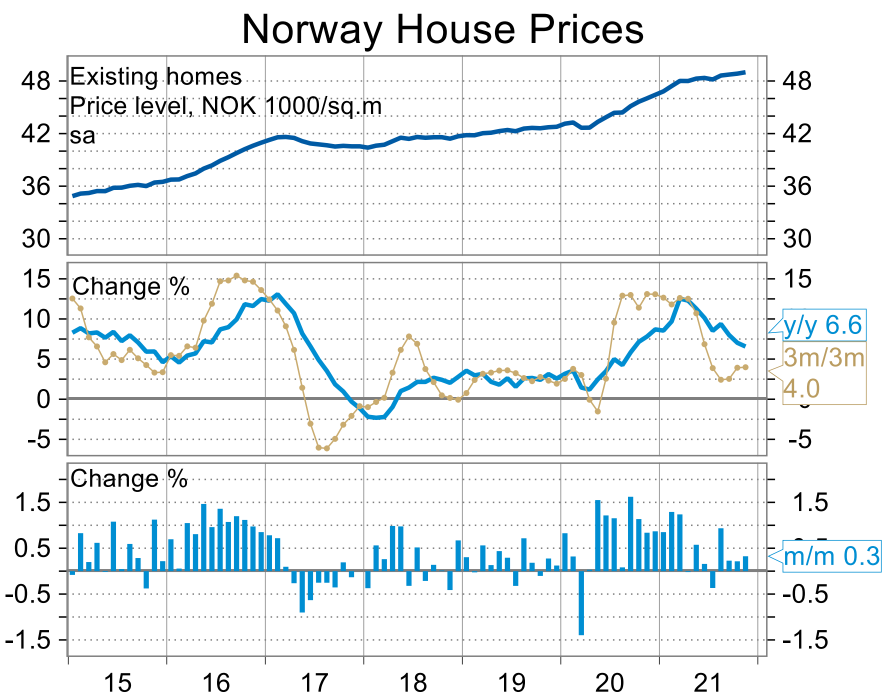


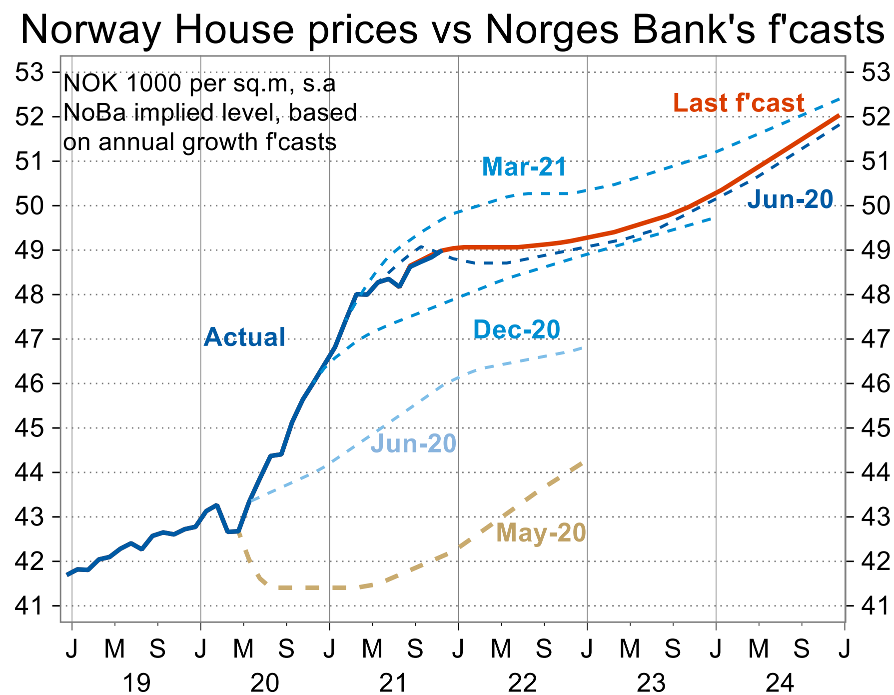


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 4' in September (seas. adj) to 65' we expected -2' to 69' (Oct was revised down). The rate fell by 0.2 pp to 2.3%, 0.1 pp below NoBa forecast. (Unadjusted, the rate fell by 0.1 pp to 2.1%, vs. 2.2% expected by us & consensus). The 2.3% rate is well below the 2000 – 2019 avg at 2.9%, and just 0.2 pp above the pre-pandemic level. Unemployment is falling rapidly everywhere and for all sorts of labour
- In addition, the number of **partially unemployed** (not included in the ordinary unemployment no.) fell even more, to by 4' to 40'. Incl. labour marked measures, the **total unemployment** fell by 10' to 120', to 20' above the pre-pandemic level. The rate is 4.2%, up from 3.5% in Feb-20
- The inflow of **new job seekers** fell further, and the **inflow of new vacancies** rose further from a high level the previous 6 months
- Last week: **The LFS (AKU) unemployment rate** nosedived by 0.4 pp to 3.6% in Sept, far more than expected, as the **employment rate** rose further

House price inflation has slowed – up 0.2% in October

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

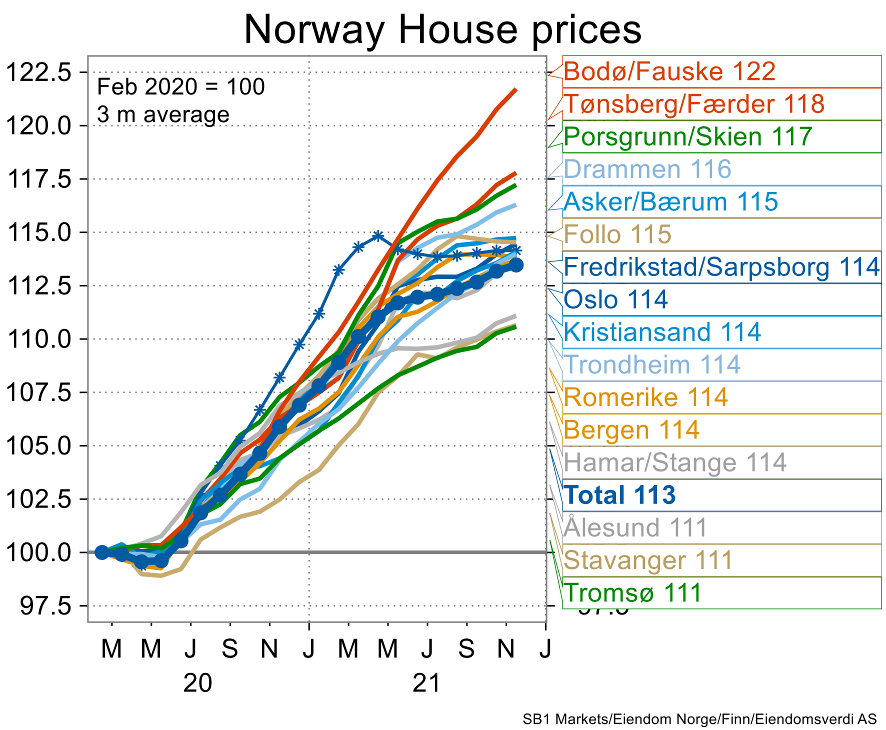


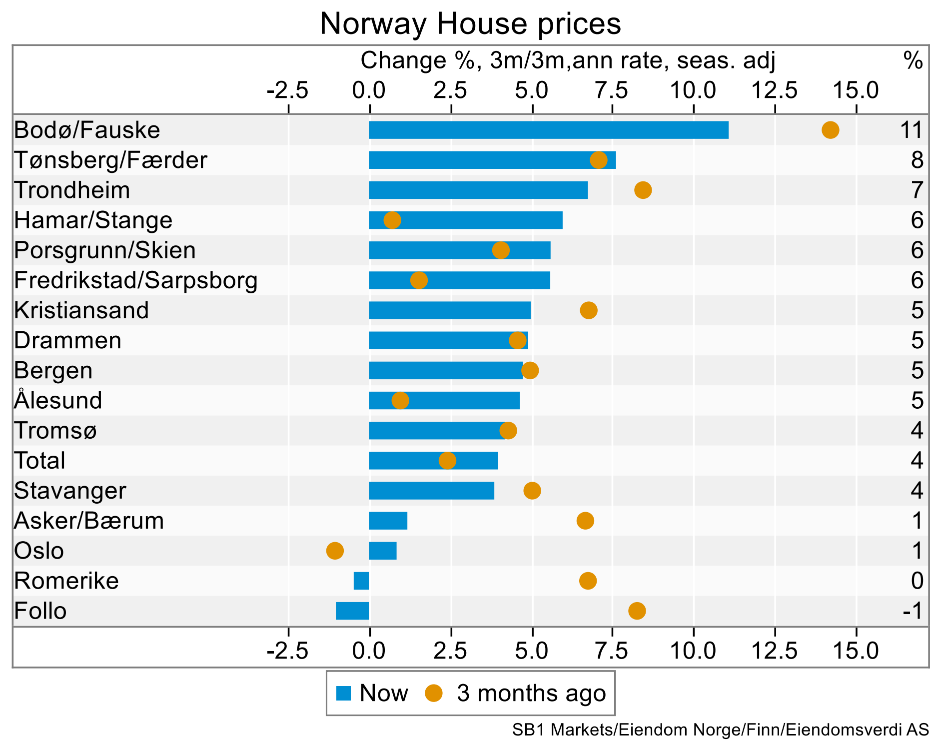


- **House prices** rose by 0.3% in Nov, up 0.1 pp from Oct, we expected 0.4%. Prices are up by 4% 3m/3m (annualised), down from above 12% in March. Prices are up 6.6% y/y
- Prices in **Oslo** fell by 0.1%, and faster in Trondheim and Tromsø. Prices rose most other places, and most in Kristiansand and Stavanger, following price cuts last month. Now clear pattern of a 'out of towns' scenario, not last month or over the past months. Price inflation has slowed everywhere, and most in Oslo and in the surrounding 'towns'
- The **number of transactions** climbed to a rather high level. The **inventory of unsold homes** rose marginally but is still very low
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model almost +1%, from zero 6 months ago. Very likely, the outlook for higher rates is dampening willingness to pay
- **Norges Bank** expect house prices to appreciate a moderate pace the coming months, and flatten during most of 2022

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

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

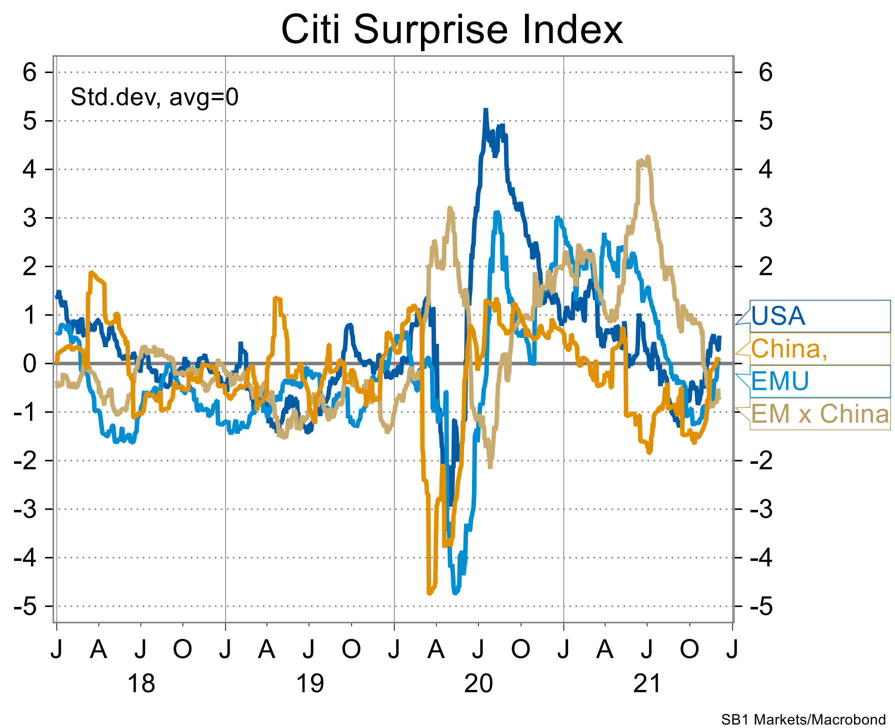


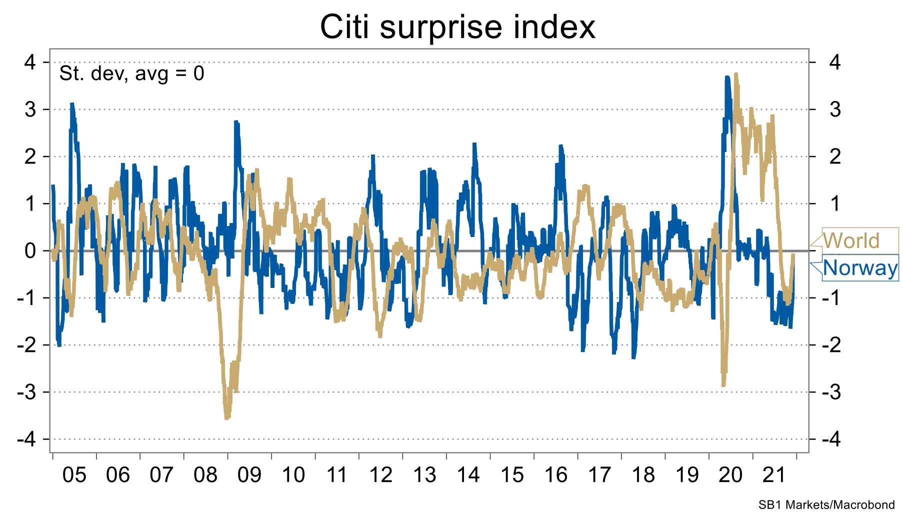


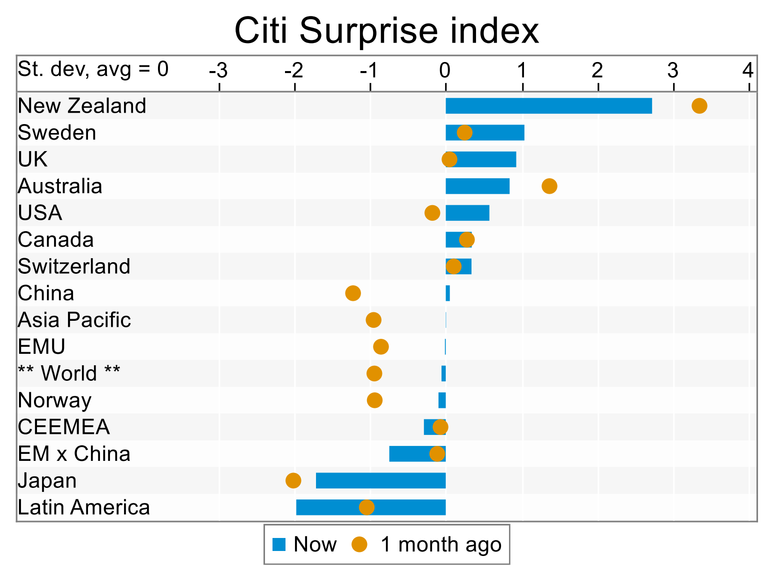
- Bodø the winner the past few months (3m/3m) as well
- No clear pattern in changes in house prices during the pandemic or over the recent months but the 4 biggest cities have been somewhat on the weak side since before the pandemic. However, recent months both Trondheim and Bergen has been on the upper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

The global surprise index continues upwards almost up to par

US still above average, at China & the EMU crossed the line last week, Emerging x China still weak







- **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 (at least until November)
- **Norway** has been surprising sharply on the downside, according to Citi. But last week we returned almost to neutral, at least partly due the strong NAV report

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

Highlights

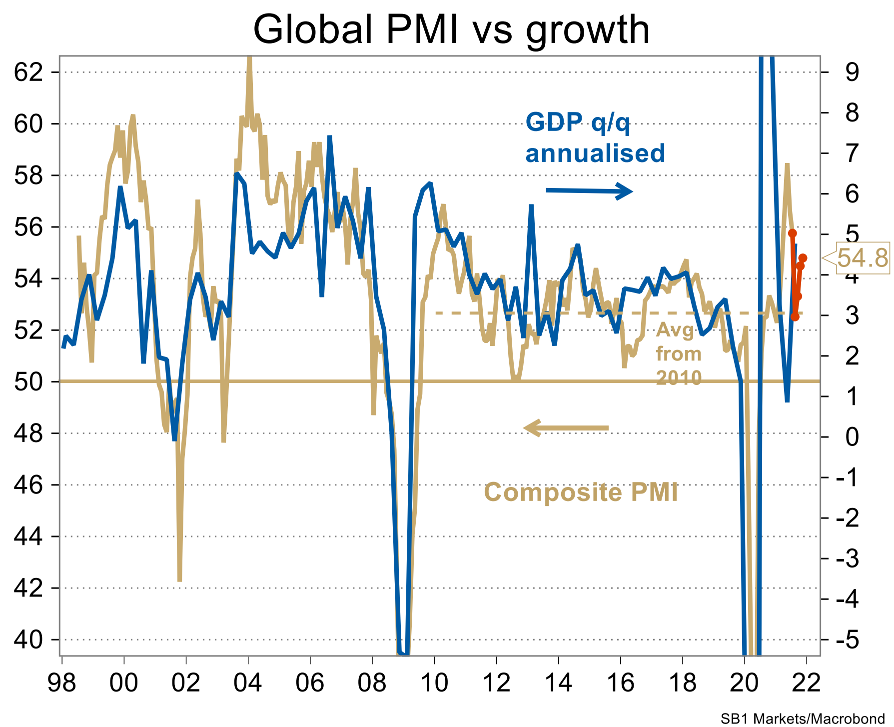
The world around us

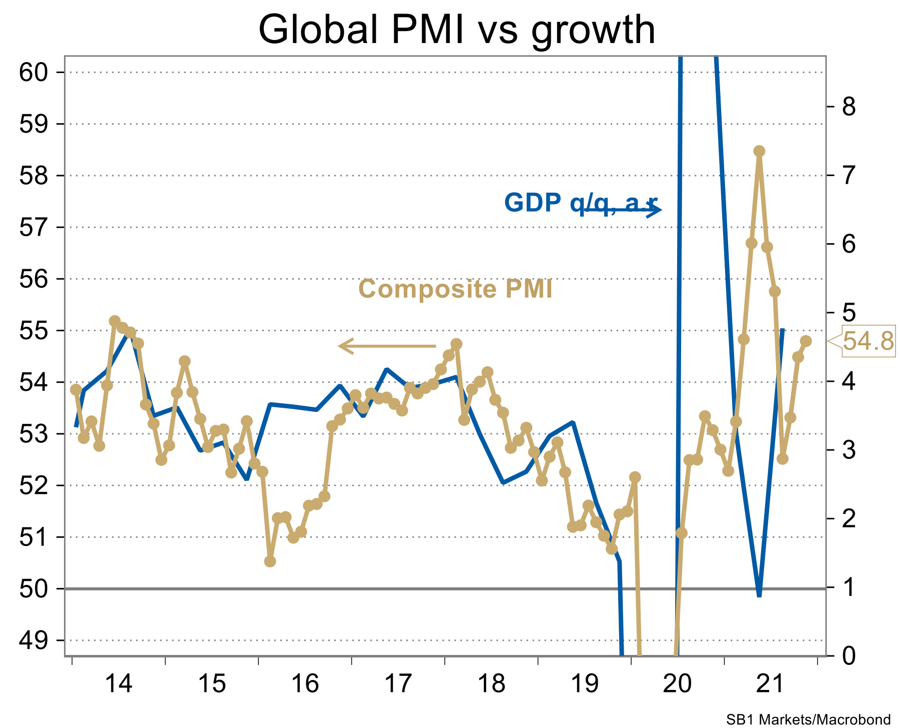
The Norwegian economy

Market charts & comments

The global PMI further up in November, DMs still in the lead

The composite PMI rose by 0.3 p to 54.8, signalling growth well above trend, at a 4.5% pace

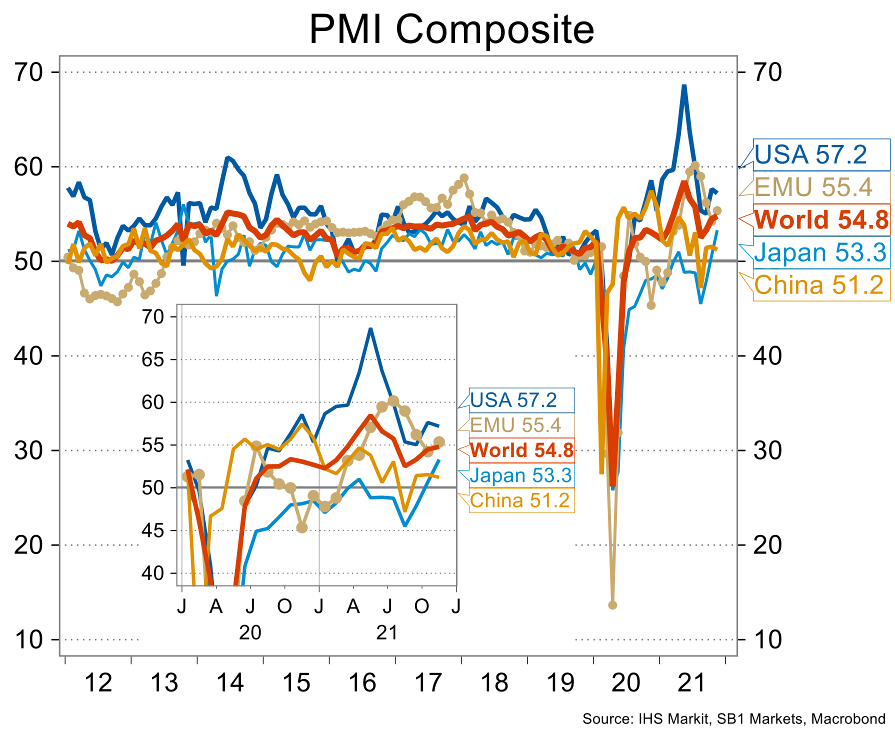


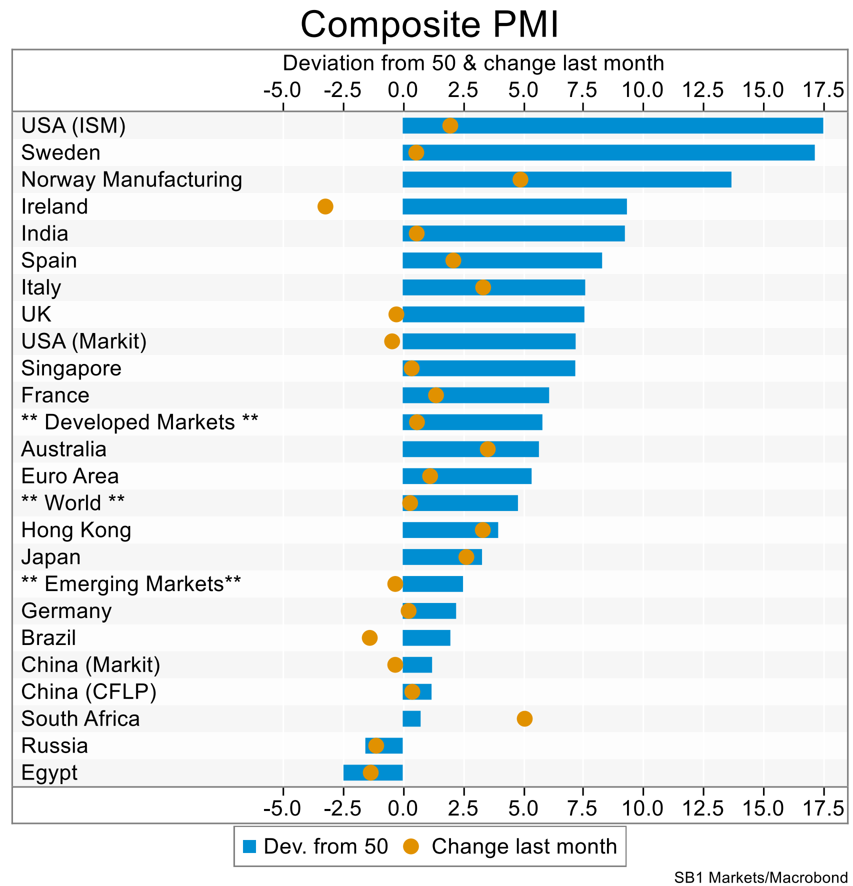


- The global PMI was 0.1 pp below our forecast, based on the flash estimates from the rich part of the world
  - » Small changes in both the manufacturing & services PMIs

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

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

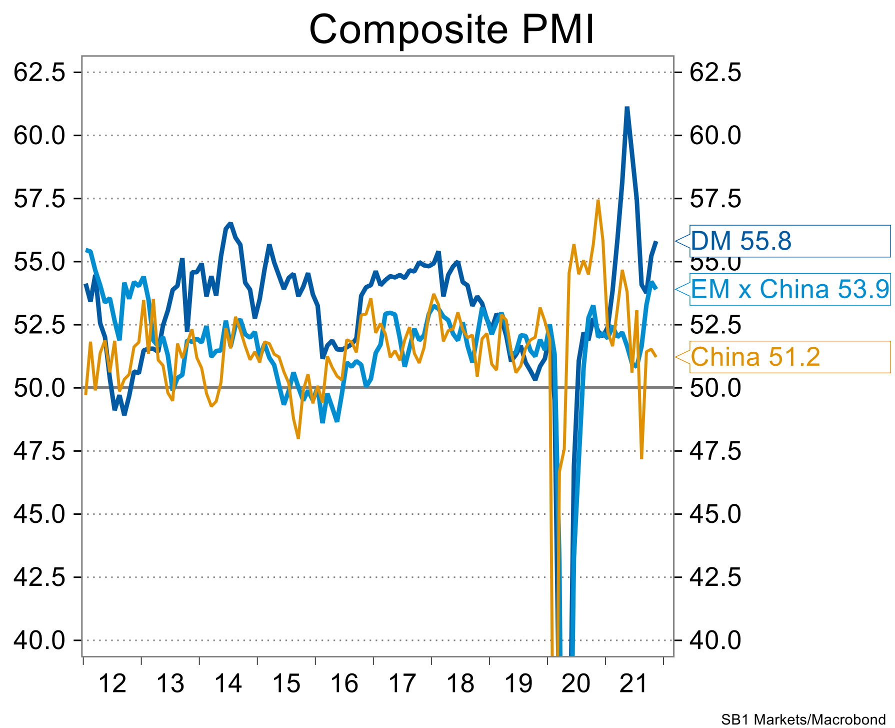


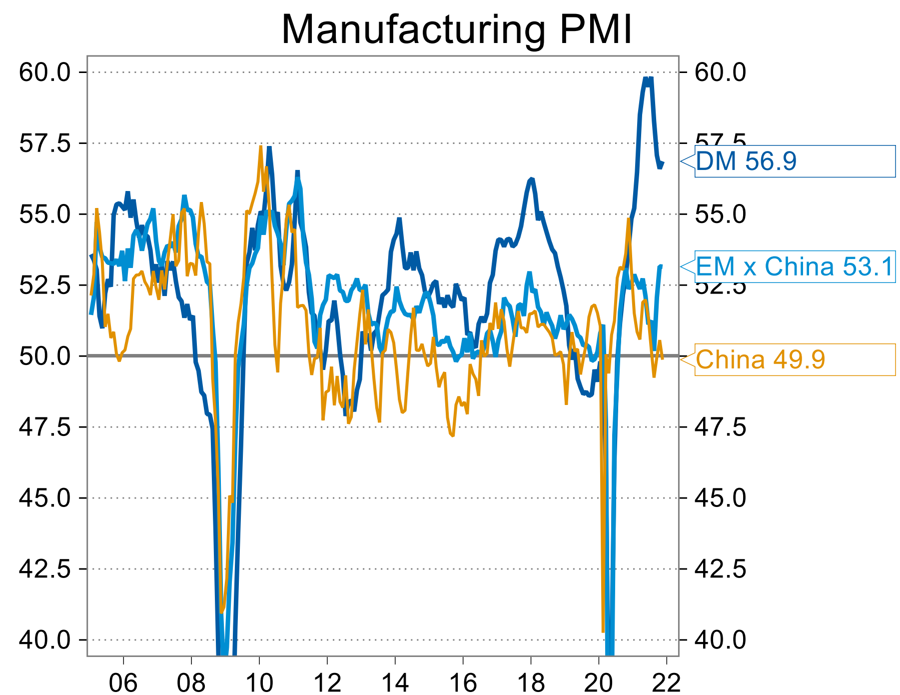


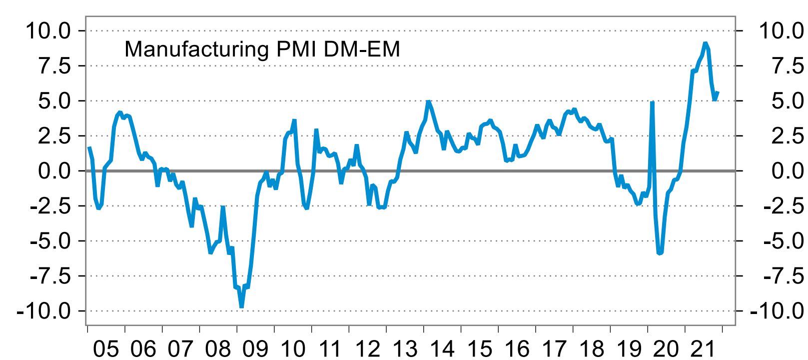
- 17countries/regions up in November (up from 13), 8 down (from 13), and just 2 below the 50-line (from 3)
- Our ISM composite index up to the lead, Sweden downgrade to the 2nd place. The Norwegian manufacturing PMI (total index) is no. 3 (but we do not compete in the composite league)
- The Chinese PMIs have flattened, both are marginally above 50 – and signals growth not far below normal
- Other EMs mixed, and in sum marginally down, as both Brazil and Russia reported weaker PMIs

EM x China slightly down but still close to the best level since 2012

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

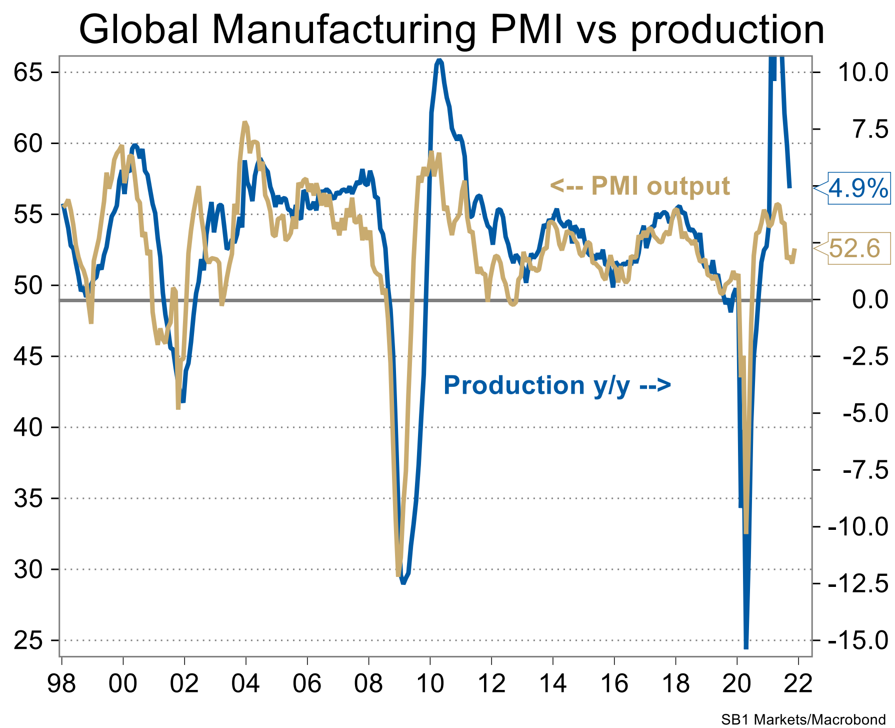


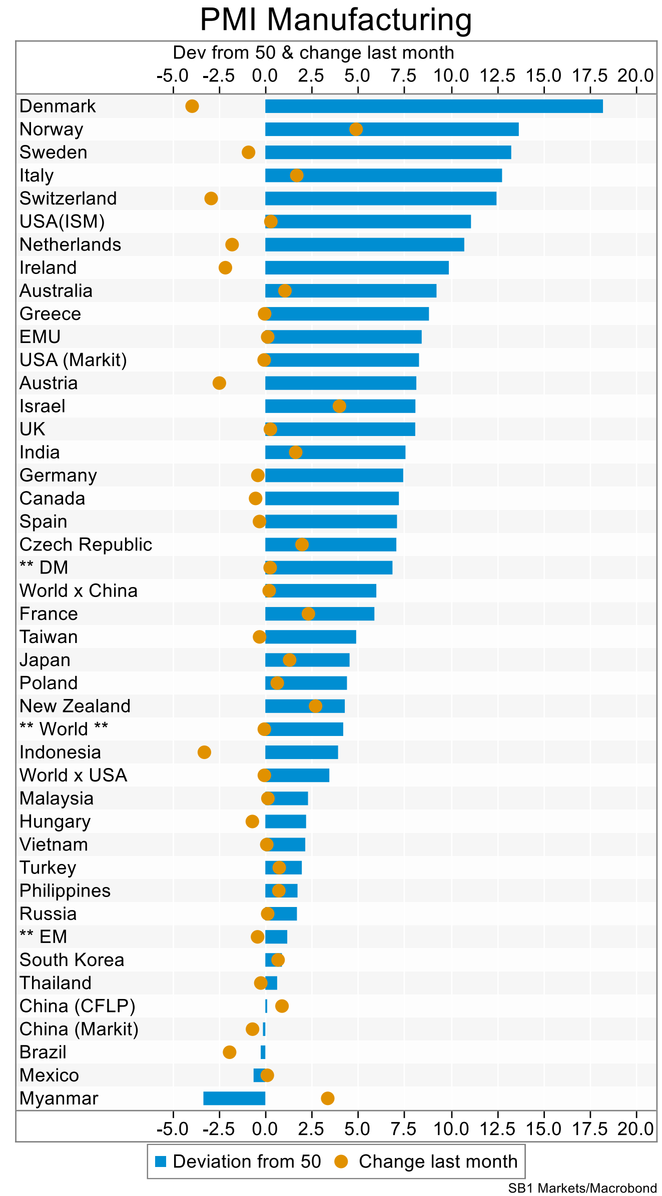




Manufacturing PMI slightly up in Oct, Emerging markets on the way back

Just 3 of 43 surveys below the 50 line. <u>Dk, No & Sw at the top!</u>

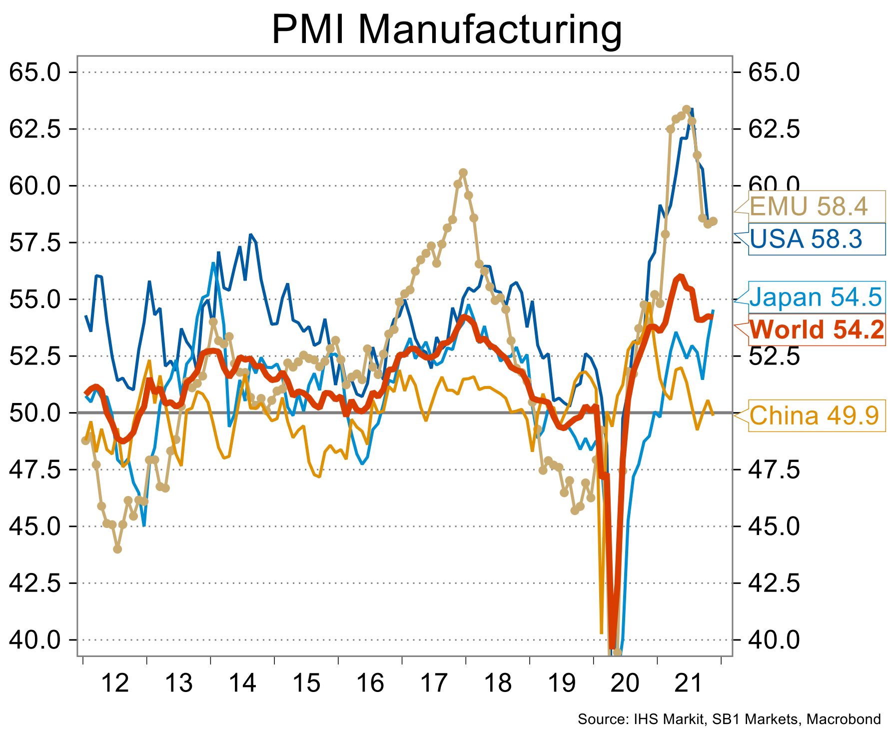


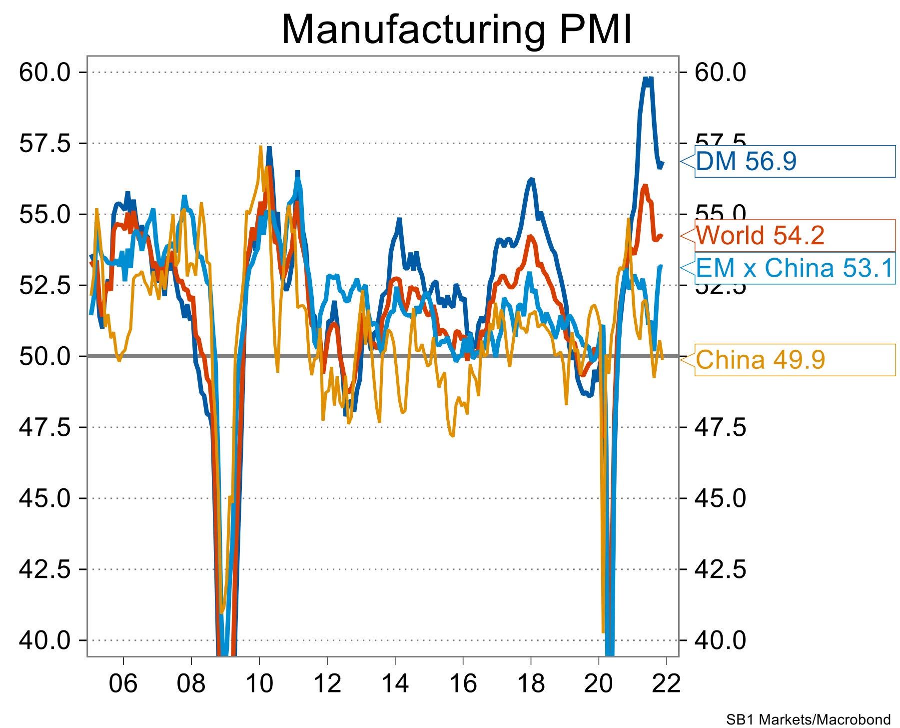


- The **global total manufacturing PMI** flattened in November while the output index rise slightly
  - » 51% of countries/regions reported higher higher total PMIs in Nov vs Oct, down from 60%
  - » European countries dominate the top of the list – but US PMI & ISM are up there too
  - » **India** gained further ground at the top in the EM universe
  - » The **Chinese PMIs** were is sum marg. up., and both are close to 50
  - » **EMs** are still far weaker than DM, and the gap did not shrink further in Nov

The boom in the manufacturing is broad, in rich countries – even Japan better!

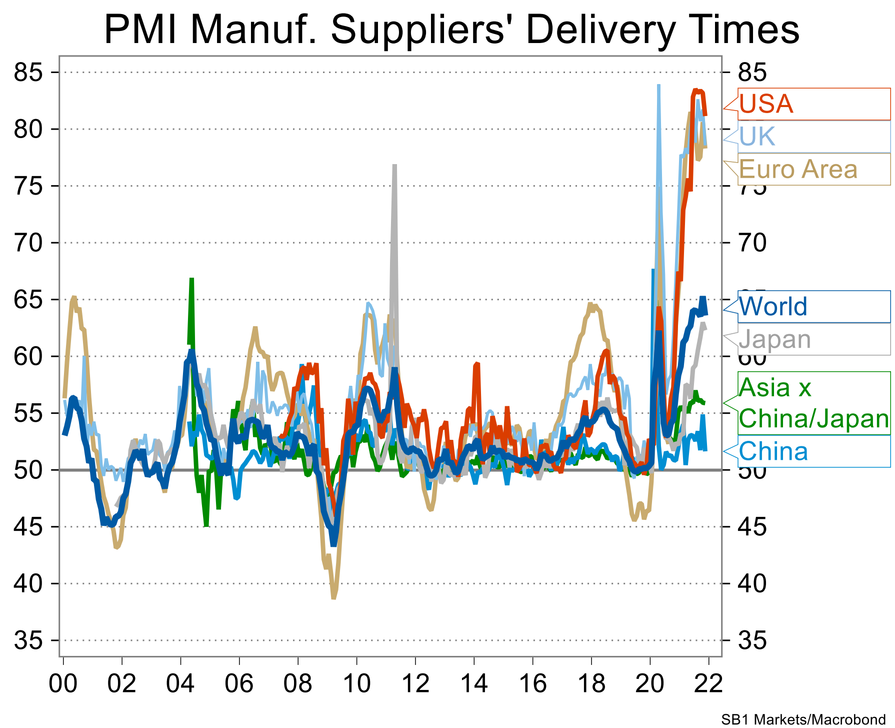
Emerging markets are lagging – but have strengthened recent months

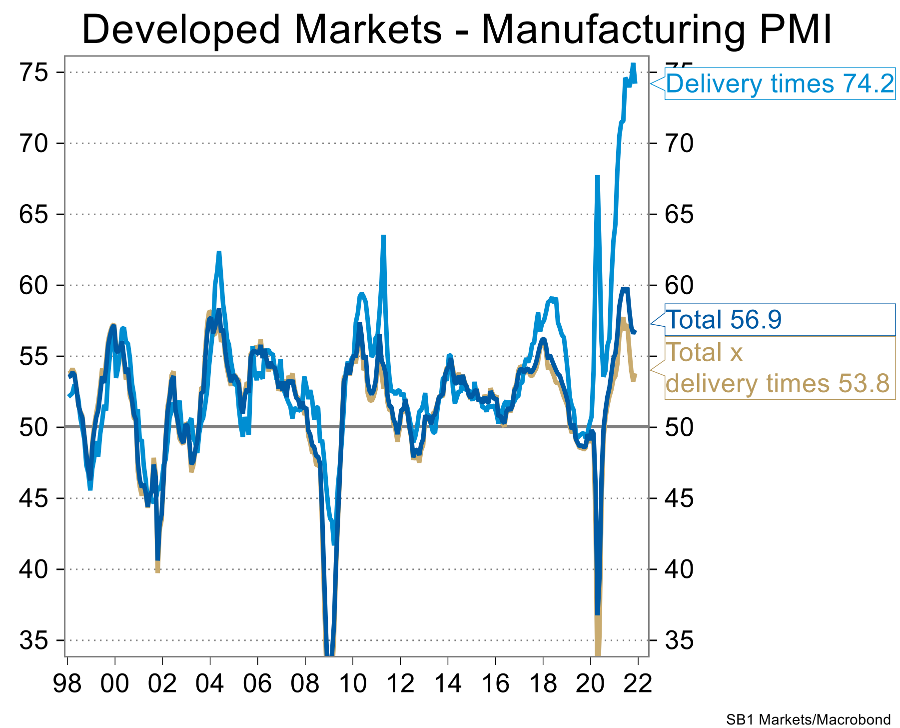




The delivery times index down in November, has peaked??

Why have delivery times exploded only in the rich part of the world? Due to strong demand here?





- The unprecedented increase in the delivery times index – which probably mostly is due to the unprecedented growth in demand for goods in the rich part of the world. In EMs companies are complaining about longer delivery times
- The surge in delivery times are not a sign of strength in the manufacturing sector, even if no doubt is caused by strong demand. Usually, the delivery times index (15% of the total index) has moved in tandem with a the other activity indicators, and has not influenced the total index - so we could use the total index as a proxy for activity. Not so now, the output index is more relevant

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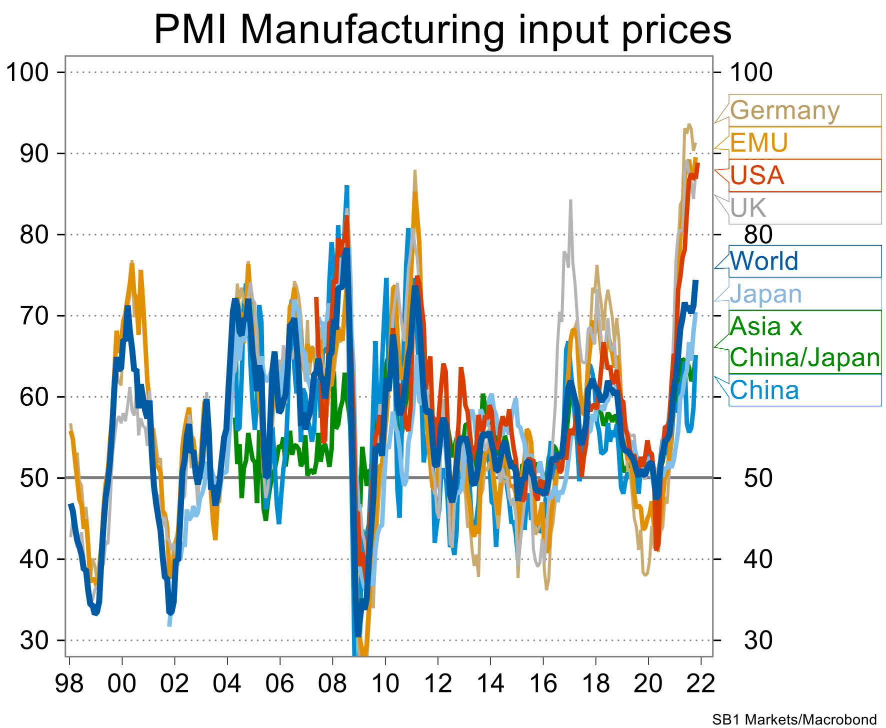
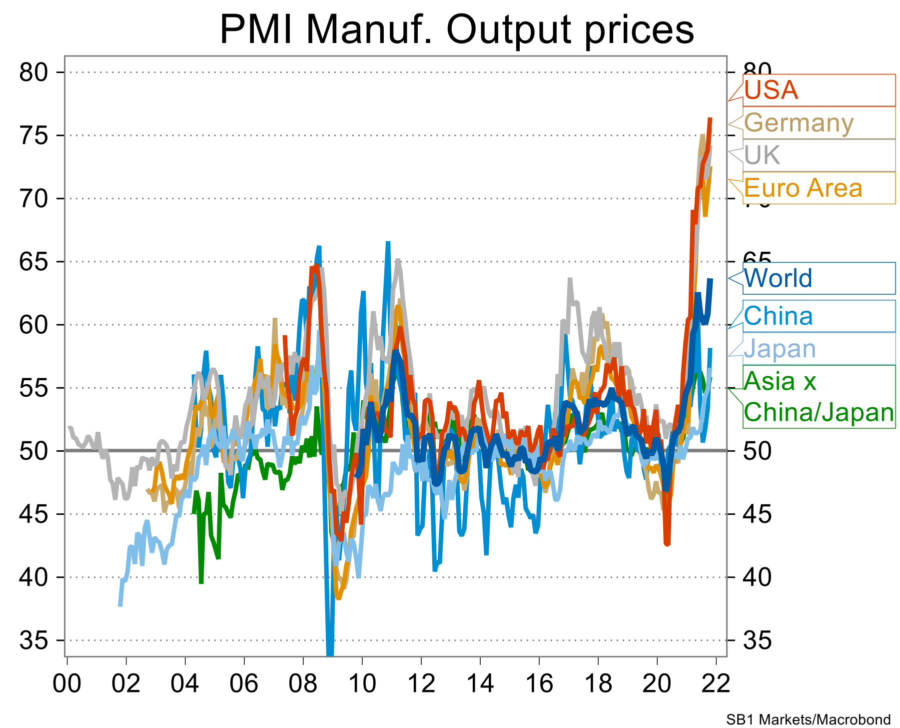
Manufacturing price increases accelerated further in November

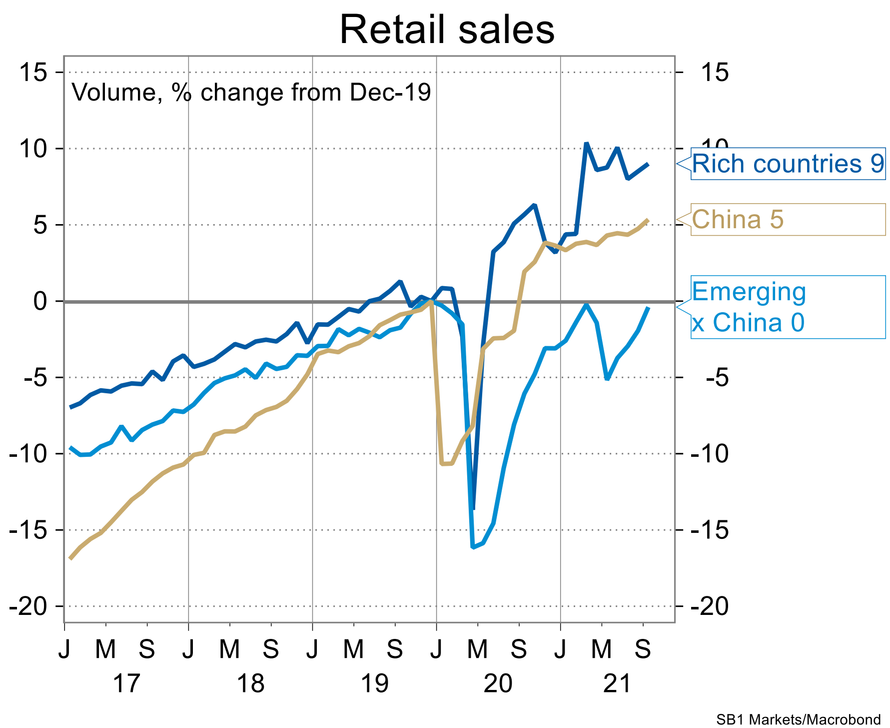
Price increases have been rather modest in Emerging Markets, even if they too are on the way up

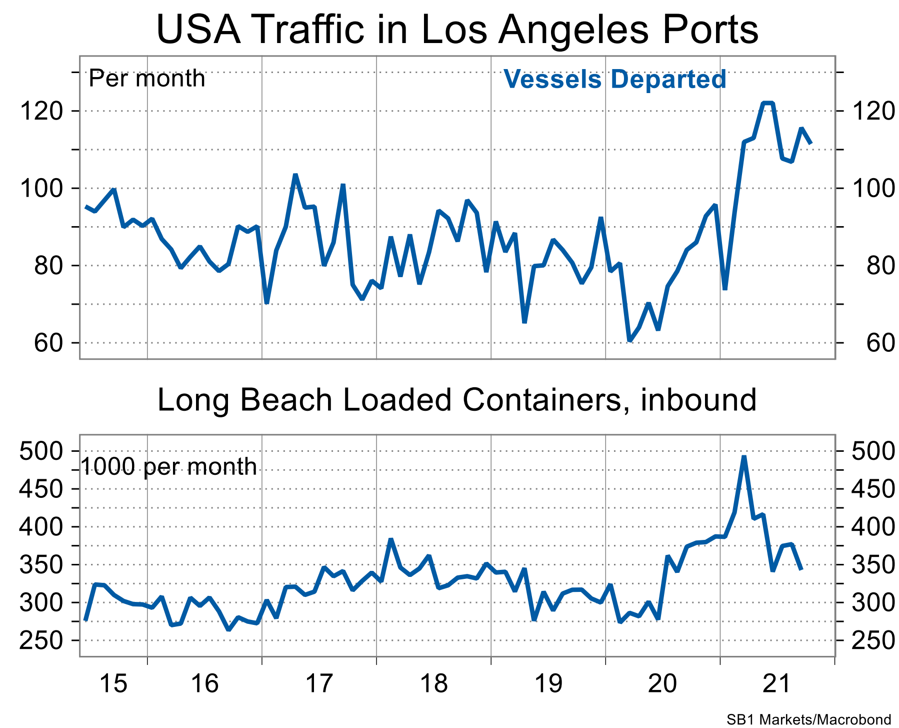




Delivery times/prices increasing a problem just in the rich part of the world?

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

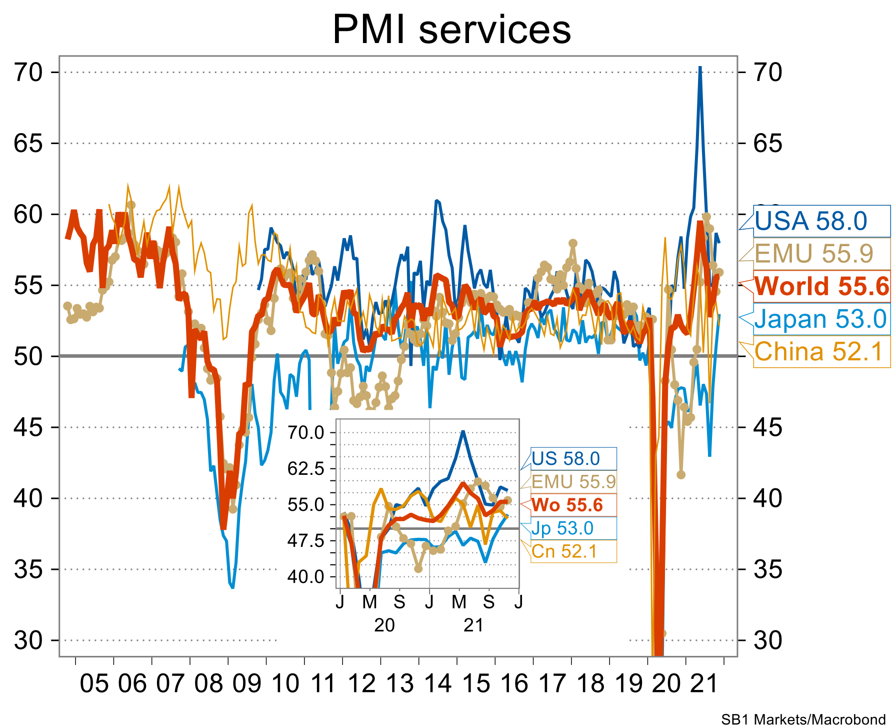


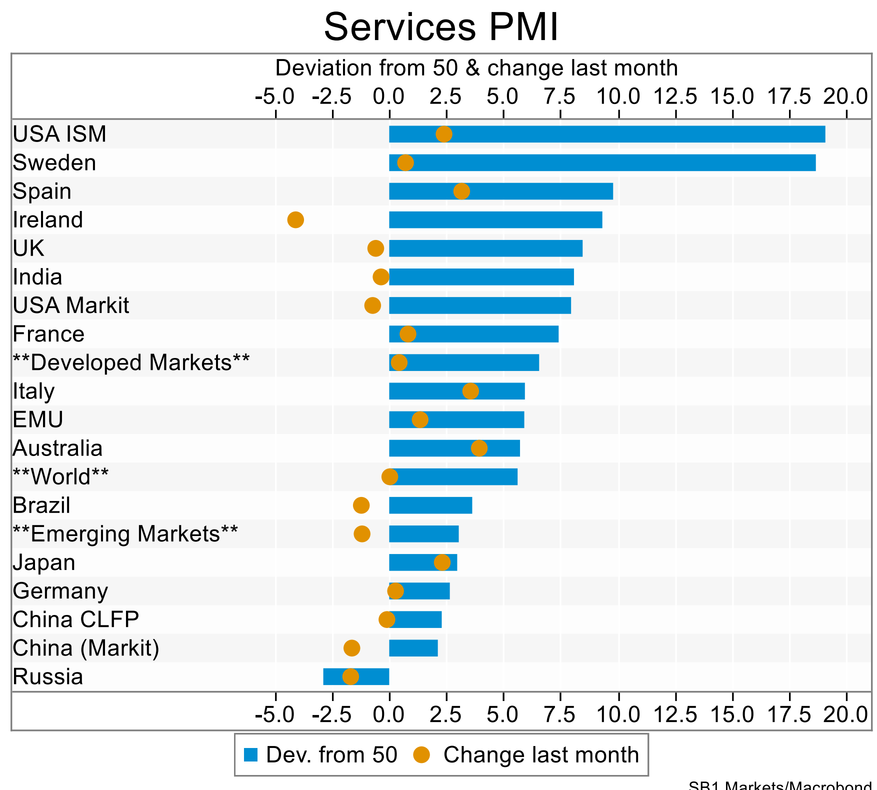


- Could it be that too many ships came to the same harbour at the same time – because demand for goods has been incredibly strong through the pandemic?
- Might the

The service sector PMI unchanged November, level far above average

US ISM services up in the lead, up to another ATH. Just Russia reports a contraction

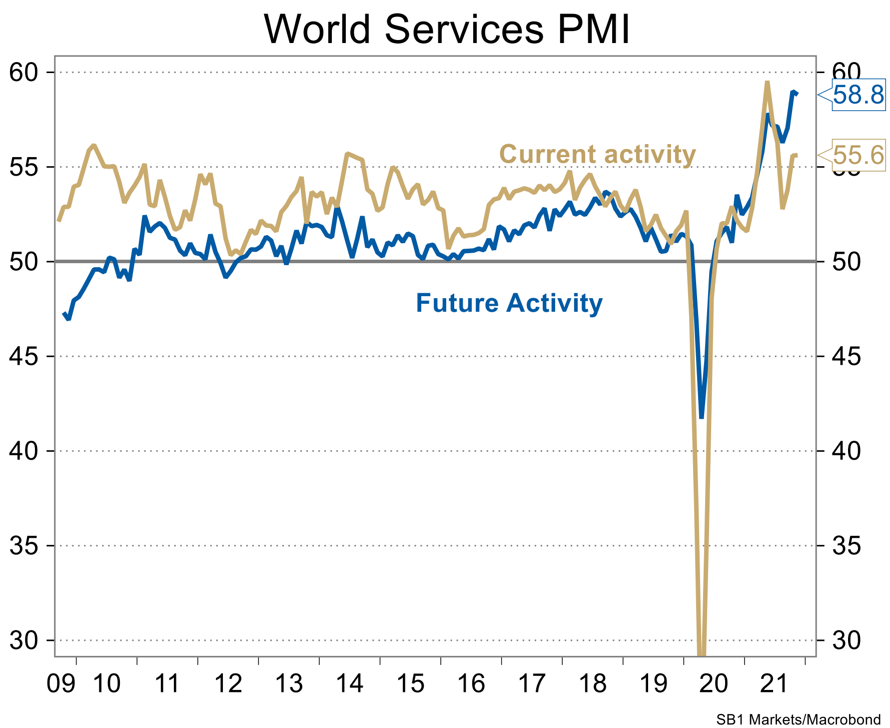


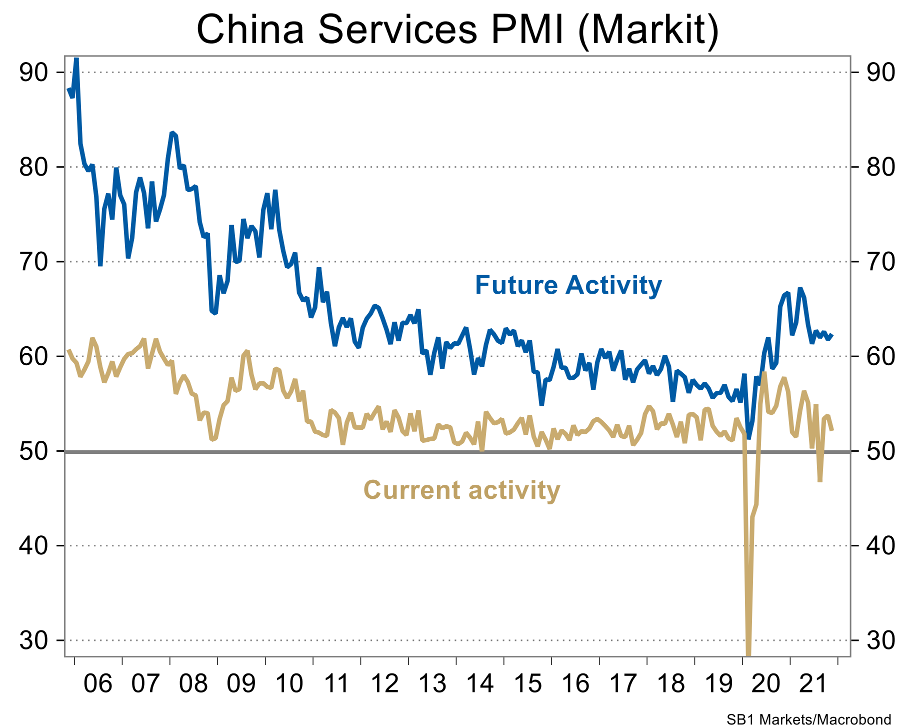


- **The global service sector PMI** was unchanged at 55.6 – signalling strong growth in services
  - » 10 countries/regions up (from 12 in Oct), 8 down (unch); Just 1 (Russia) below the 50-line (1), 19 above
- **Rich countries** increased their lead in November, as the EM lost 1.2 p to 53.0. Even so, the trend is upwards for EM
- Both **Markit's and ISMs US services PMIs** rose sharply, the ISM index up to 69.1, another ATH
- In the **EMU,** the services PMI rose marginally, to 55.9
- The **Indian** service sector has recovered sharply but did not increase further in November
- BTW, **Sweden** has been degraded to no. at the list

The service sector expected the goods times to last (in November, that is…)

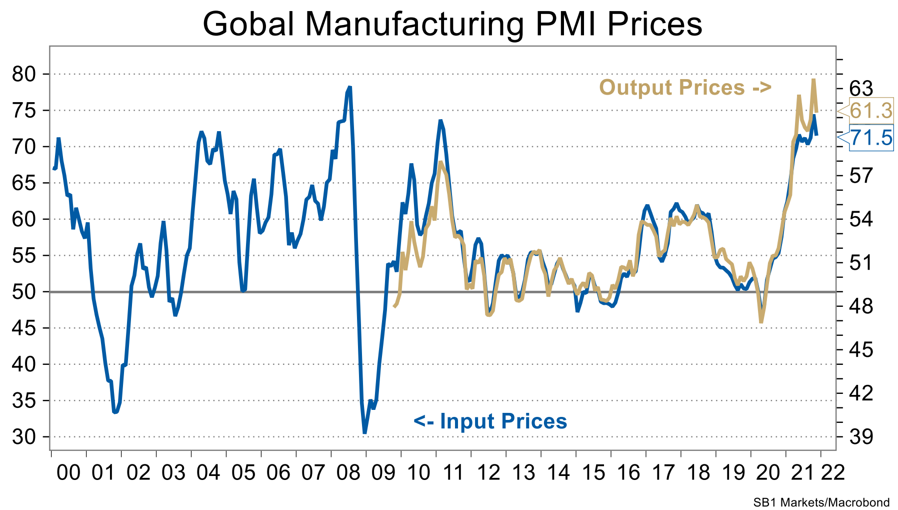
The future has never been brighter, according to the businesses, at least outside China

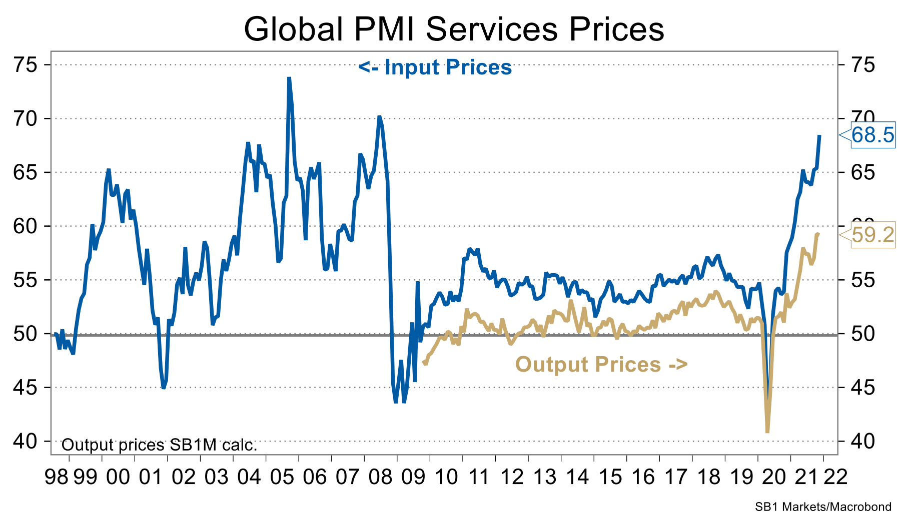


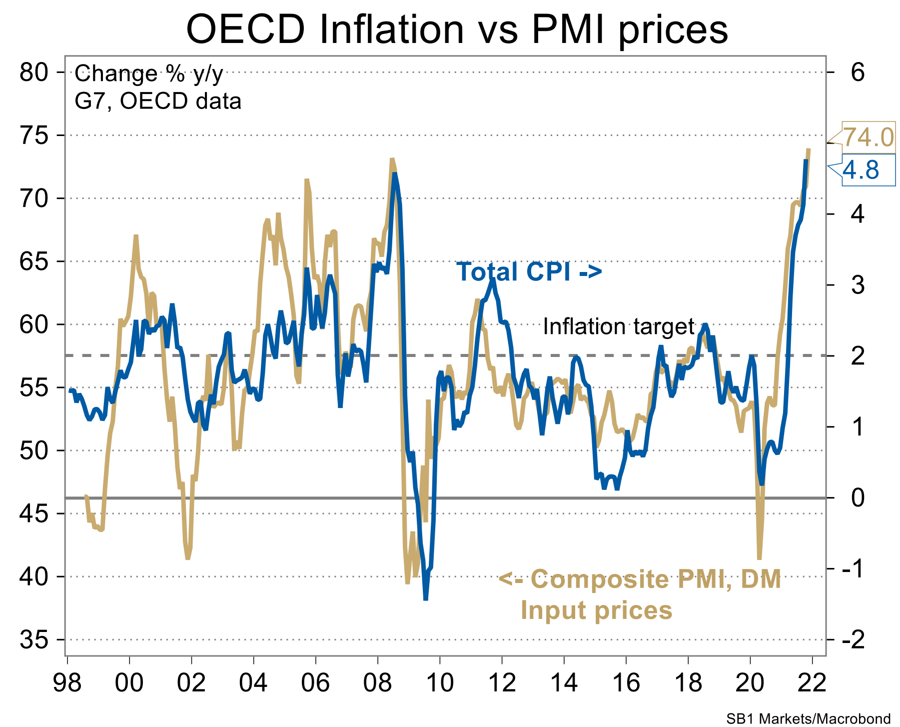


Businesses report an even faster growth in input/output prices

Still, we think the peak inflation is near

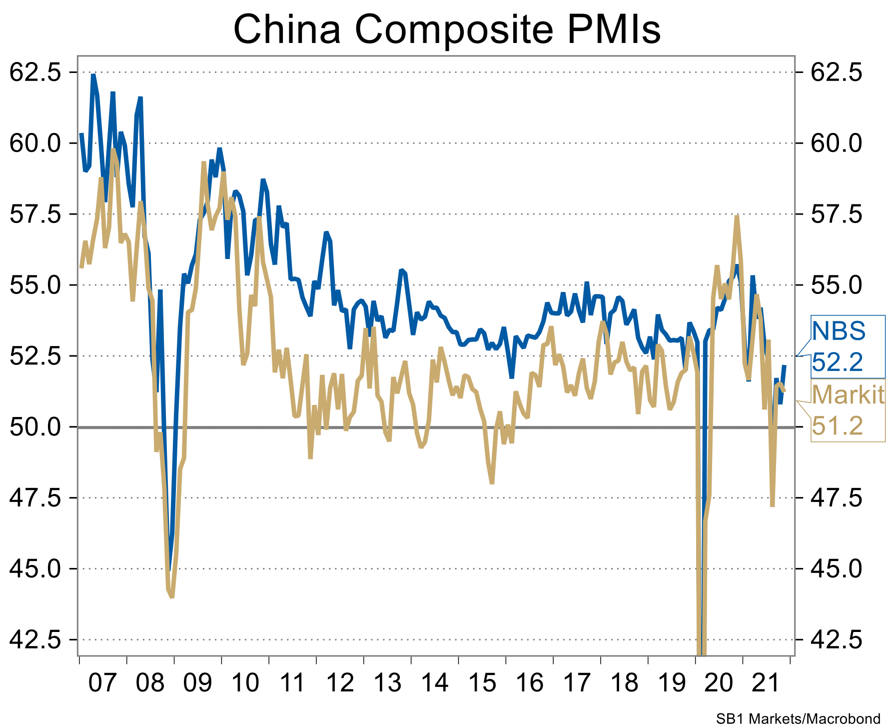


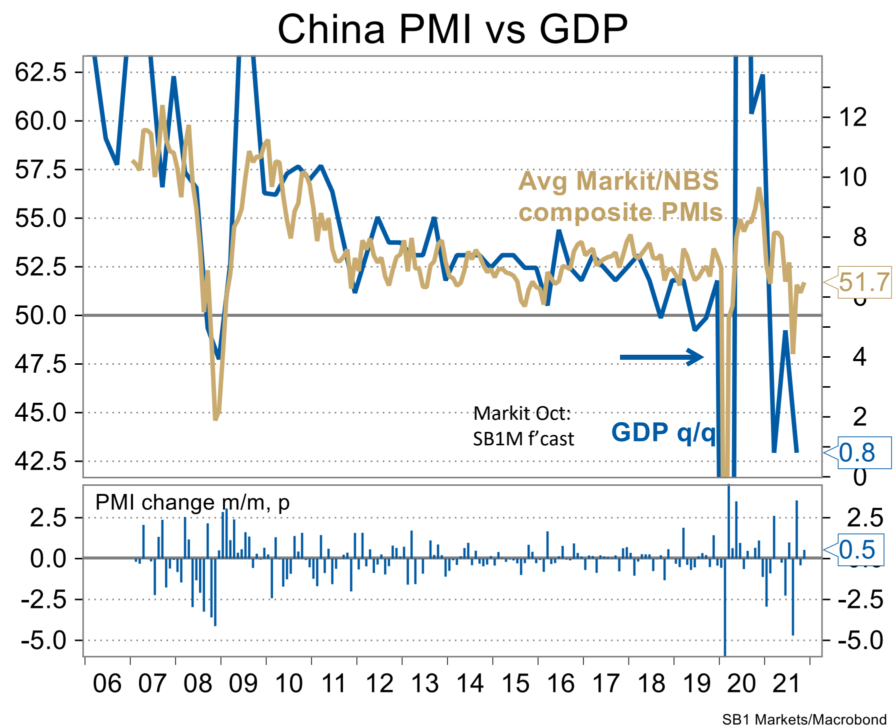




Mixed November PMIs, in sum marginally up – and the level is not that low

The average of the two PMI data sets rose 0.5 p to 51.7, less than 1 p below the average since 2012

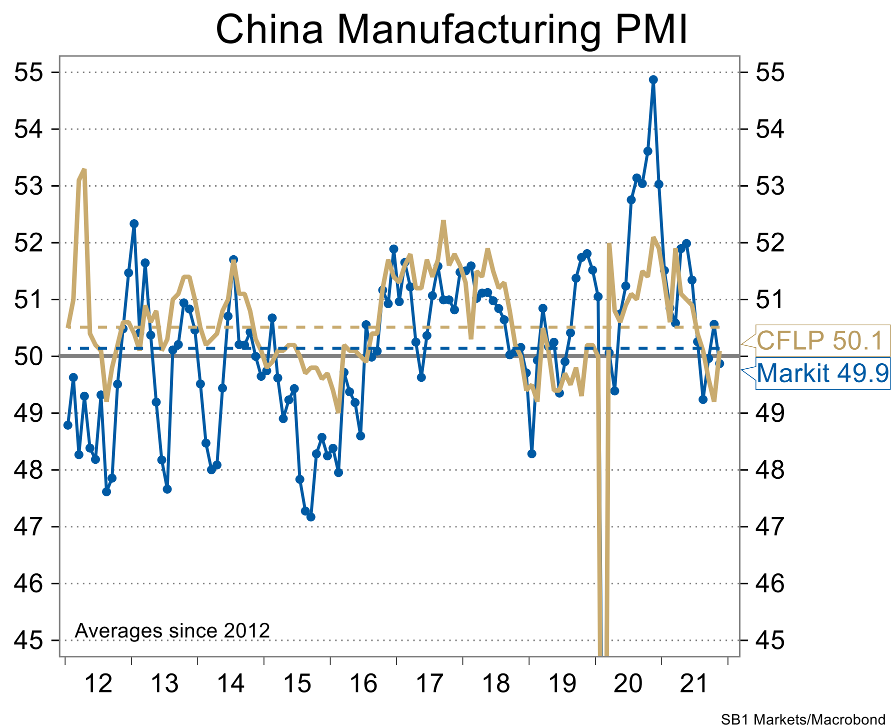


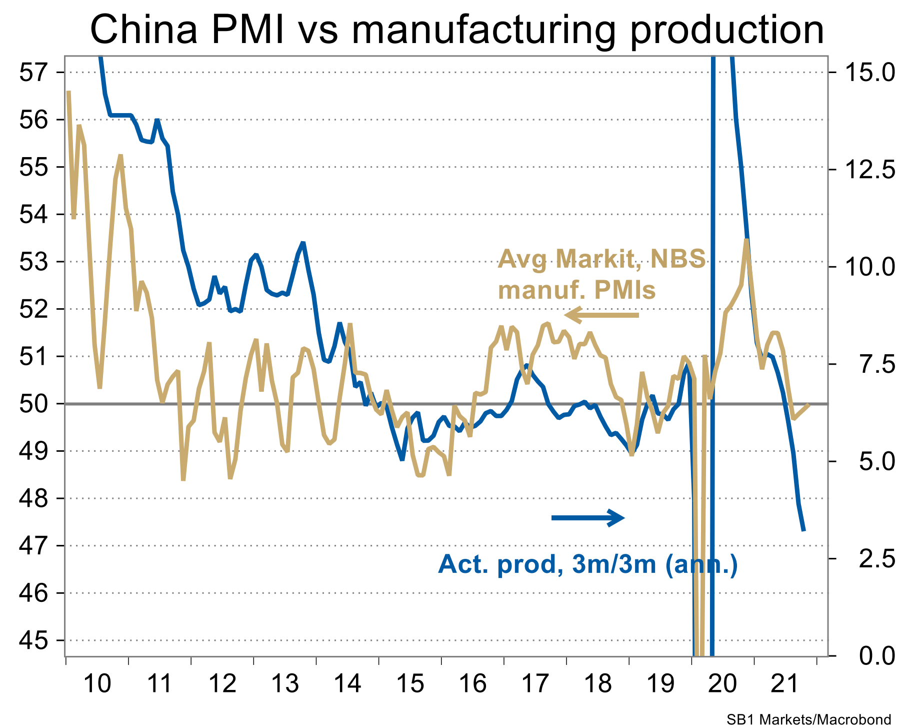


- The **NBS composite PMI rose** by 1.4 p to 52.2, better than expected. The level is 1.6 p below average
- **Markit's composite** lost 0.3 p 51.2. The level is 0.2 p below the average since 2012
- **In sum,** the two PMIs were slightly up but still somewhat below par, signalling GDP growth below normal – but far better than over the 3 past quarters
  - However, the PMIs have been to optimistic so far in 2021, and growth may well remain below the level signalled by these surveys

Mixed manufacturing PMIs in November, the average marginally up – to 50

... which normally imply a decent growth in Chinese manufacturing production

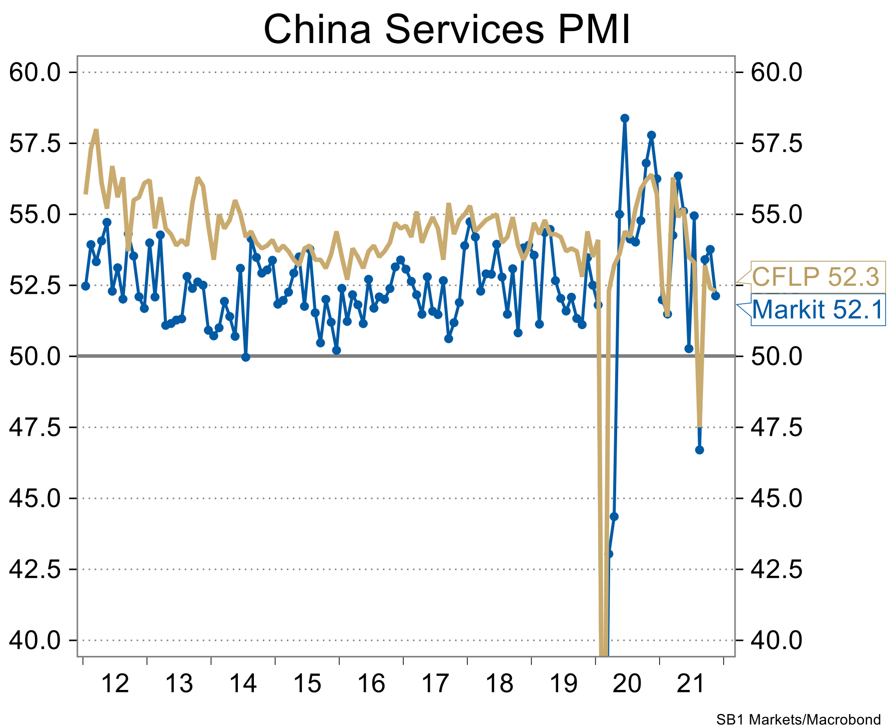


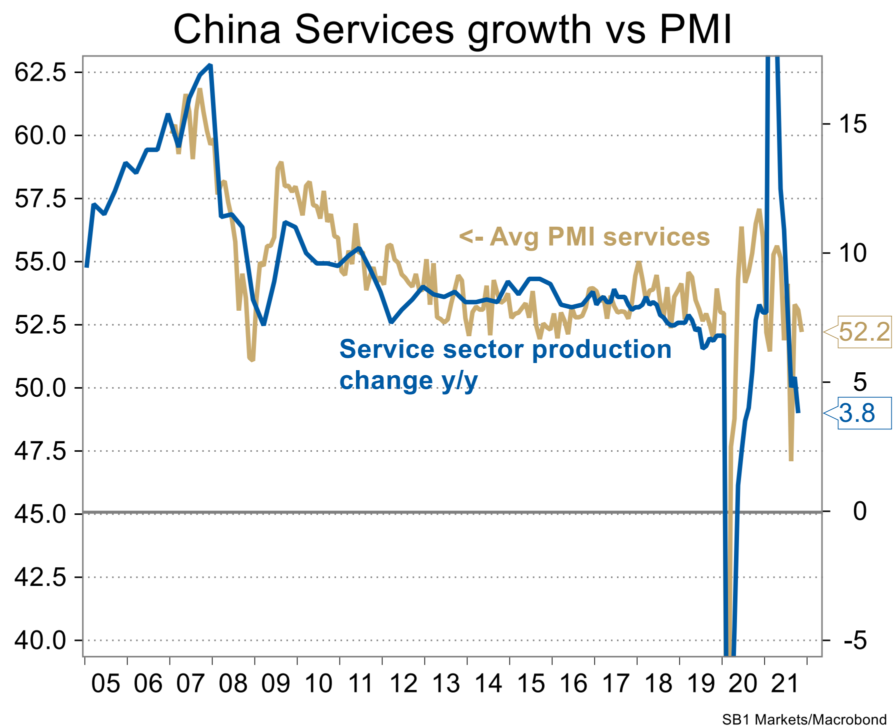


- The **NBS/CFLP PMI** added 0.9 p to 50.1, while **Markit's PMI** gave away the Oct. gain, down 0.7 to 49.1
  - » In sum, the two indices were marginally weaker than expected
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- In China a PMI below 50 does not imply a contraction but rather growth just slightly below trend, at some 5% – 6%

Services PMIs down, growth somewhat below par

Both surveys down, Markit's the most (and more than expected). Average level slightly below par





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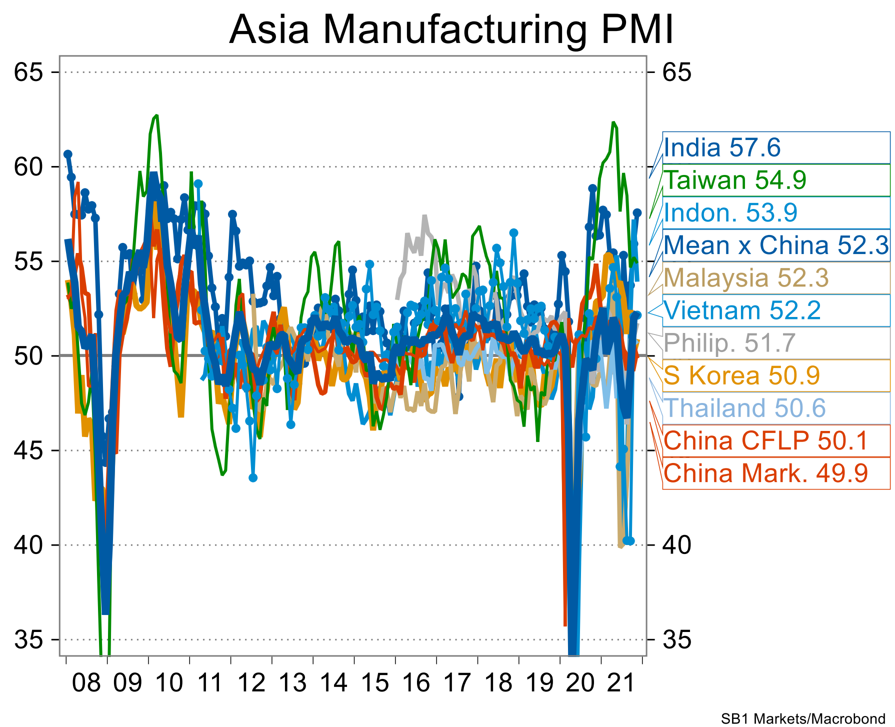
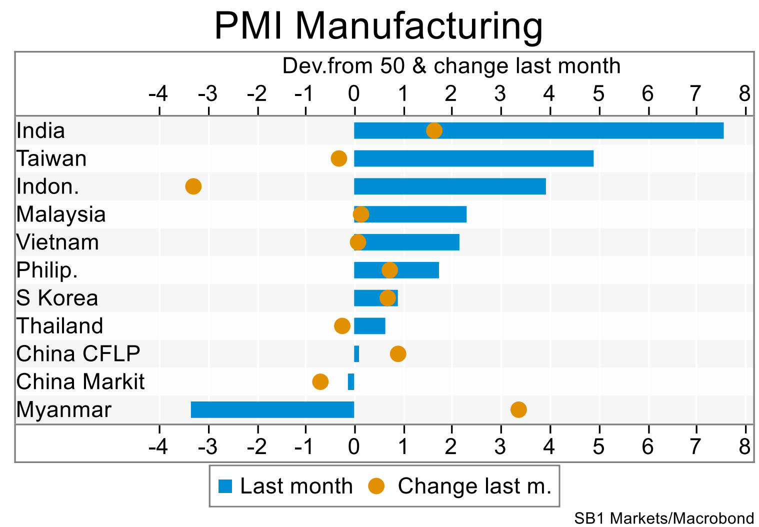
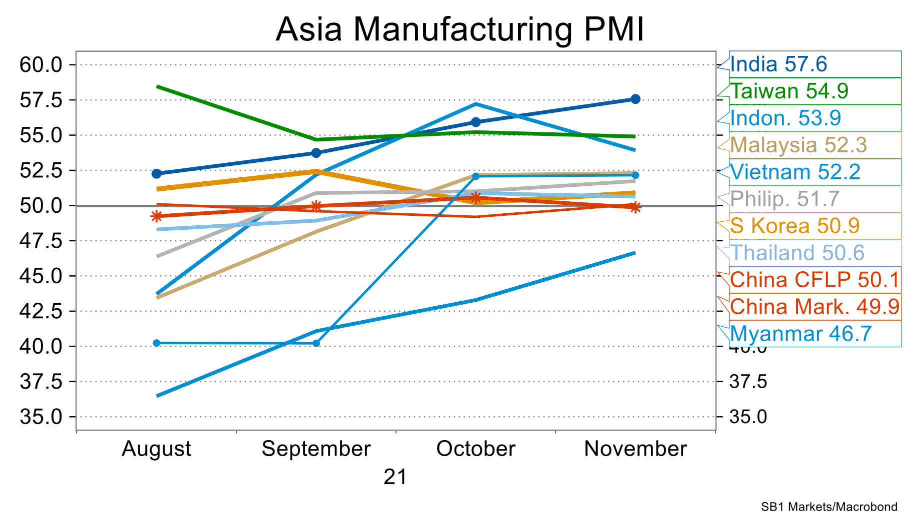
Rest of Asia: Manufacturing PMIs broadly up, just Indonesia substantially down

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



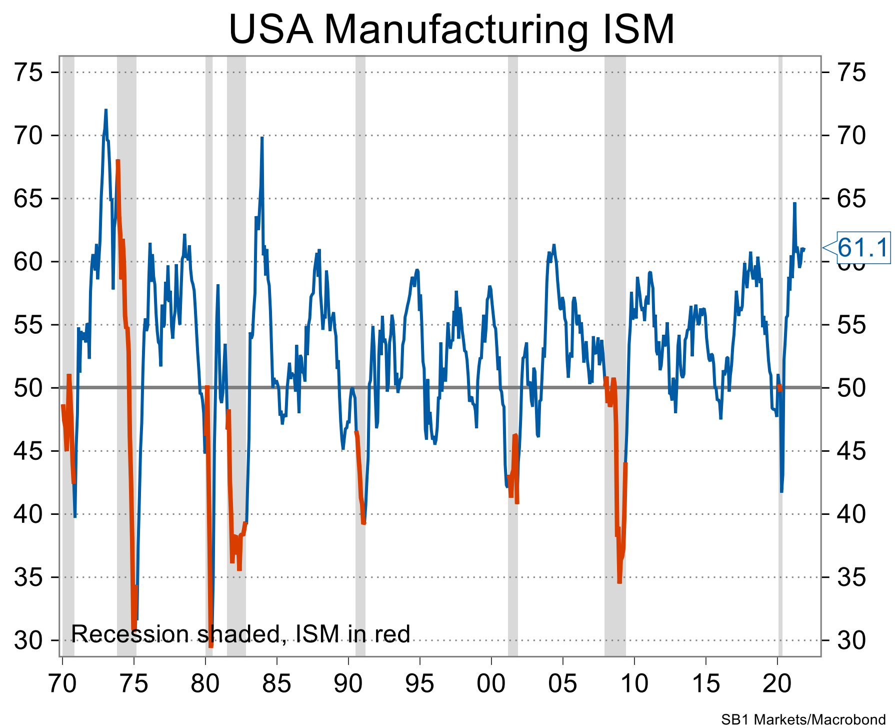


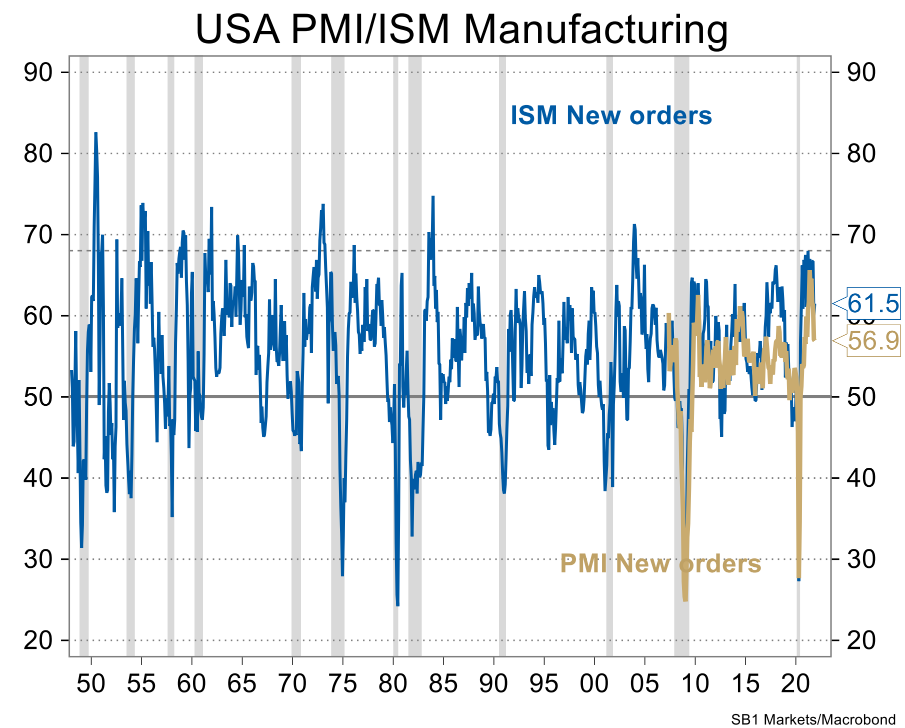


- 9 PMIs are at or above the 50-line (unch), 2 are below (unch)
- India & Taiwan in the lead
- The average x China is among the best since 2011

Manufacturing ISM remained very strong in November

Up 0.3 p to 61.1, close to expectations. Delivery times, price inflation may have peaked

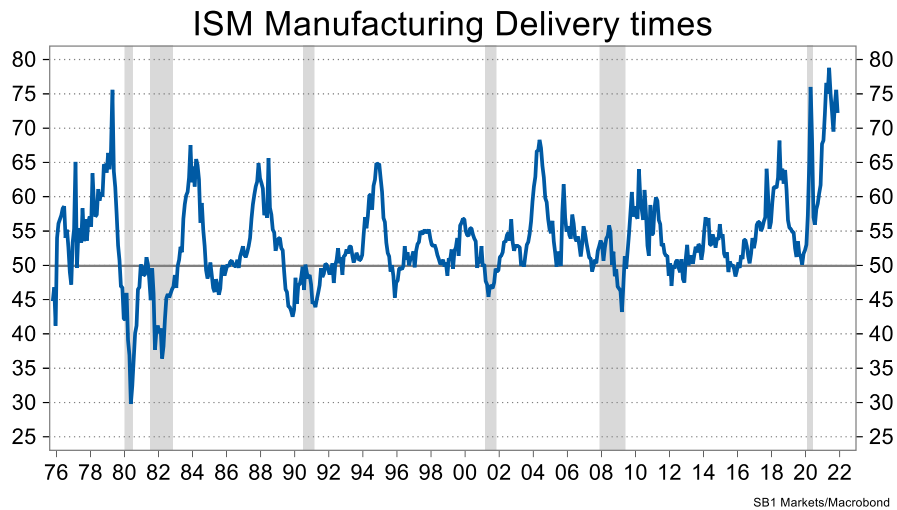


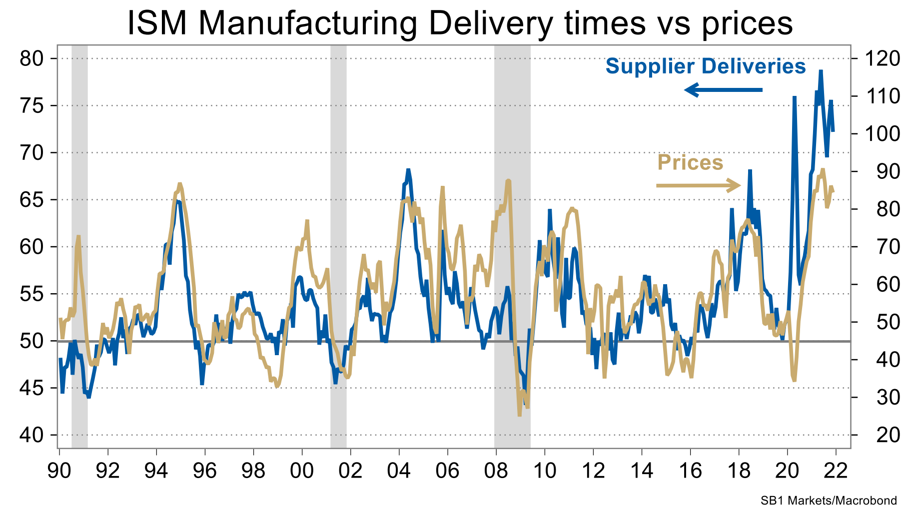


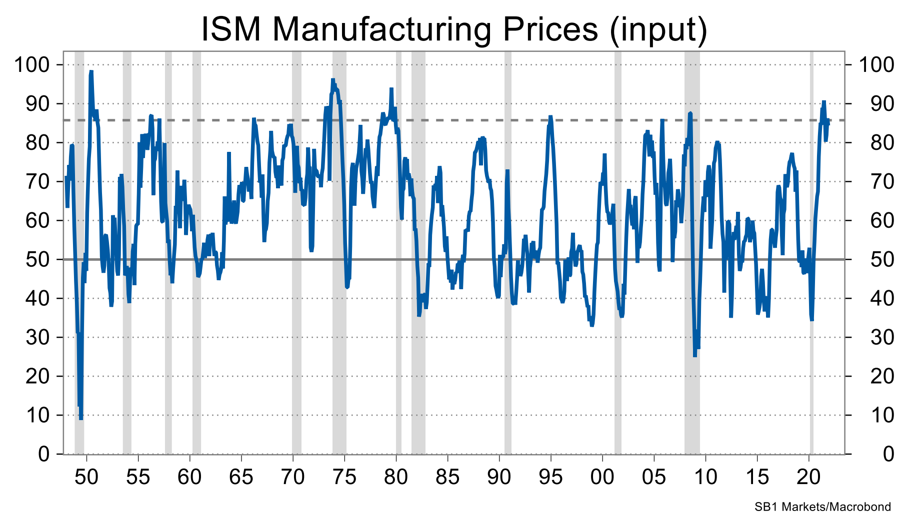
- The **ISM manufacturing** has been at a very high level for months, in fact through the entire 2021, and the best 12 avg since 1984, when the US economy recovered from the deep double recession (BTW last time the Fed had to get inflation down. However, growth in actual production has been dismal
  - In November 13 of 18 manufacturing sectors reported growth, down from 16, 2 sectors reported a decline (printing and primary metals)
  - The **new orders** index rose 1.7 p to 61.5
- 37 commodities (from 42) are up in **price**, 5 are down (from 1) (at the peak 56 commodities)
- 'Just' 20 commodities were reported in **short supply** down from 23 (At the peak, more than 50 commodities were reported in short supply a few months ago). The supplier deliveries index declined somewhat in November, and has very likely peaked
- **In their comments**, companies are complaining on all sorts of shortages, including extreme labour shortages. Demand is still strong

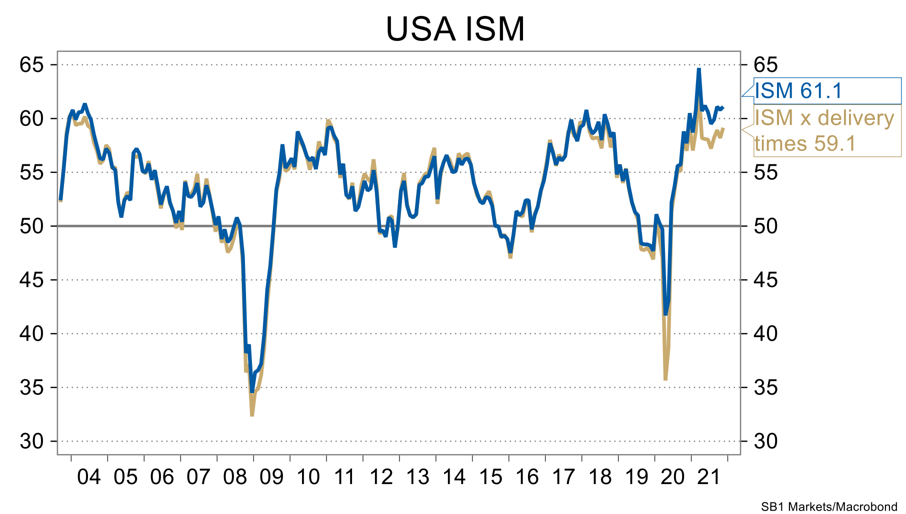
Delivery times are not slowing, and neither is input price inflation

… but the



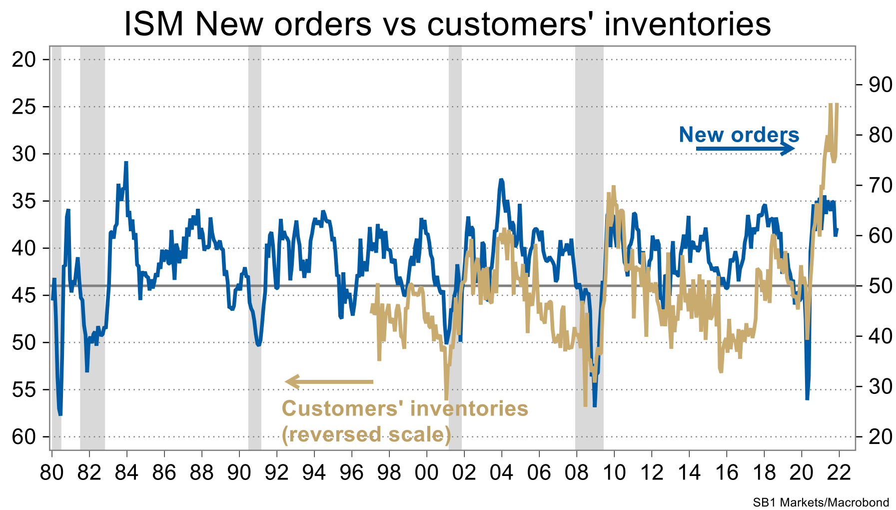


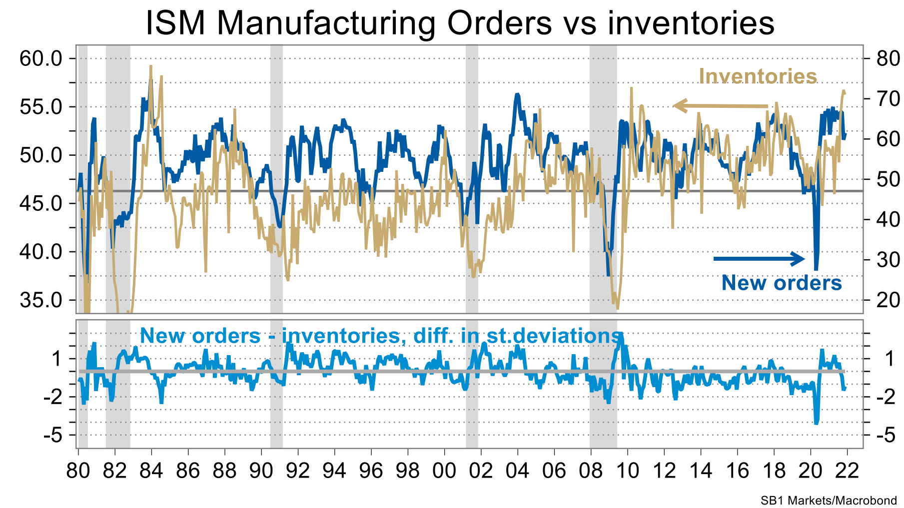


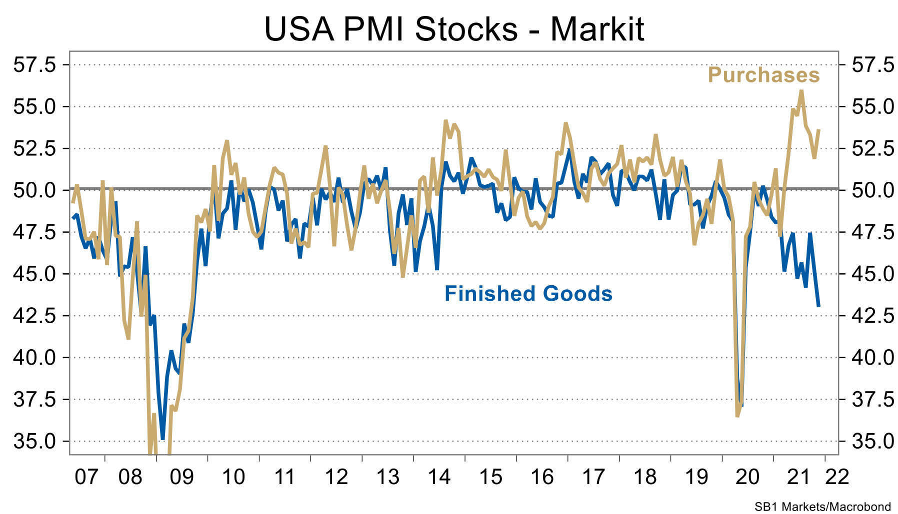


New orders slightly up in November, customers are emptying their shelves

Manufacturers customers' inventories were run down, according to the manufacturers.Signals growth

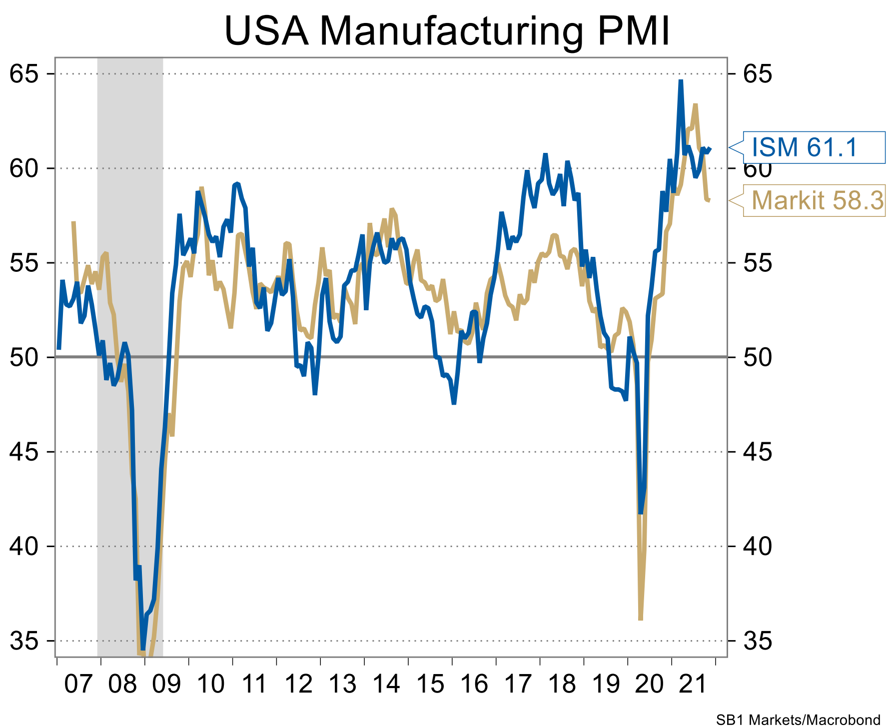


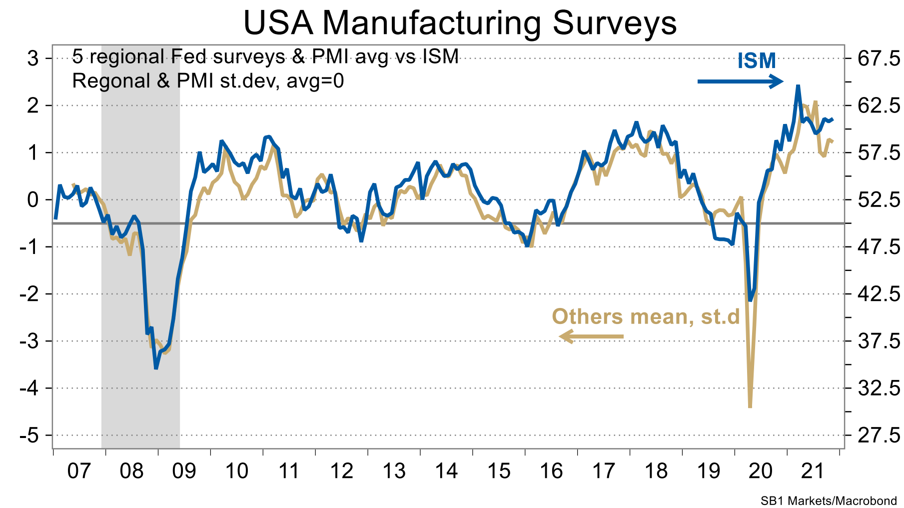


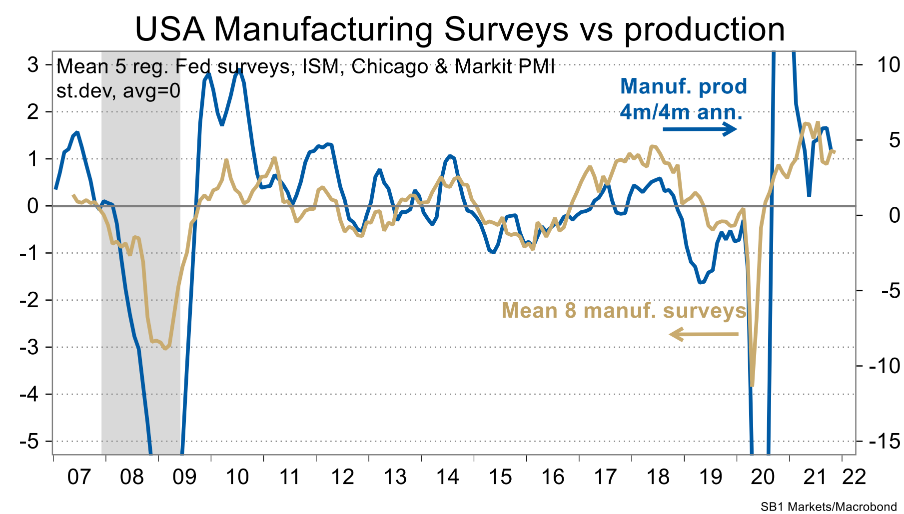


- **The only ISM real 'soft' spot**: Manufacturers' own inventories (of purchases, not finished goods) are rising at a fast pace. Two explanations:
  1) Production is running slower than expected, due to weaker demand or due lack of come components, labour, transport services etc.
  2) Companies have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

Sum of manufacturing surveys: Marginally down in November, still strong







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

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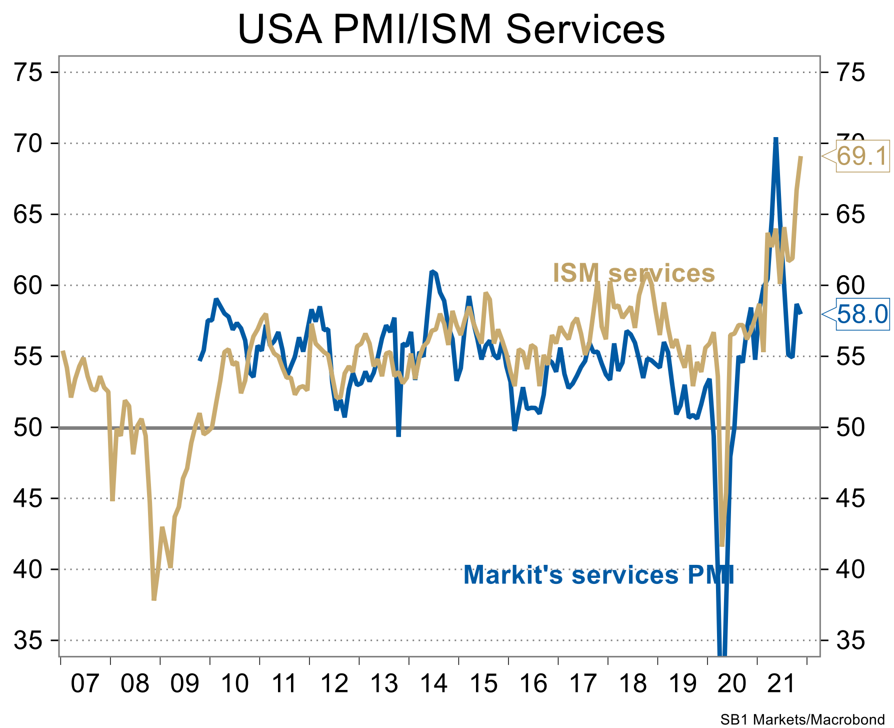
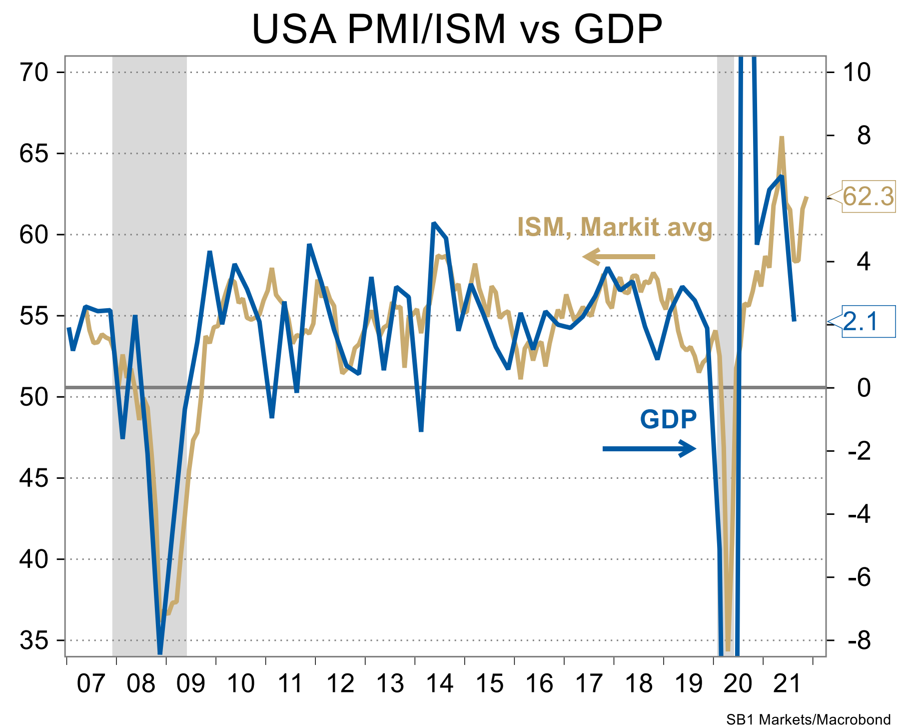
Services ISM up to another ATH. The composite ISM/Markit signals 6% growth!

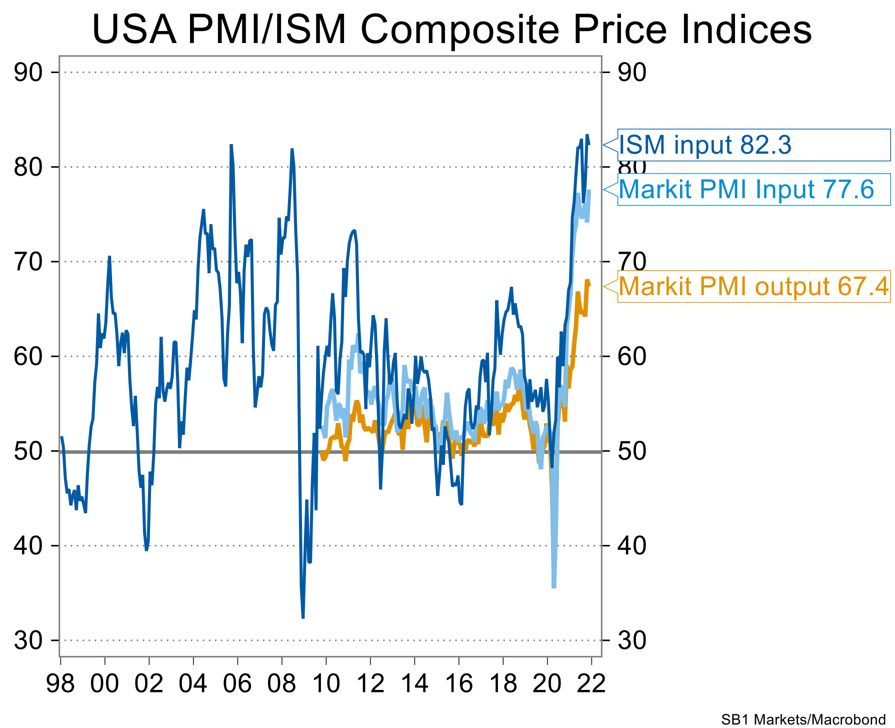
Up 4.1 p to 69.1, exp down to 65. All 18 sectors reported growth. No virus problem. In November…

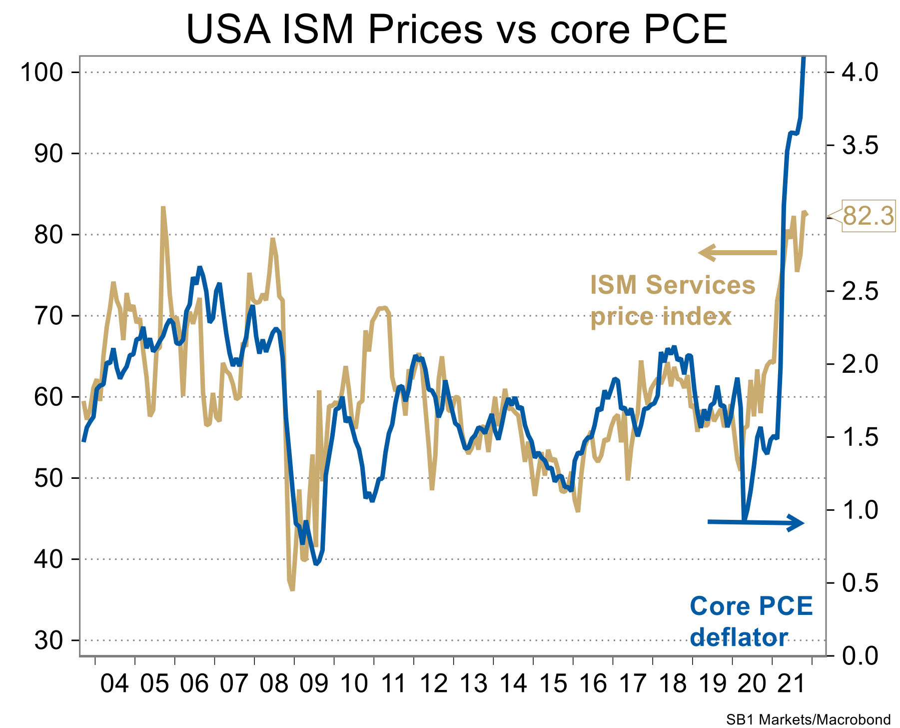




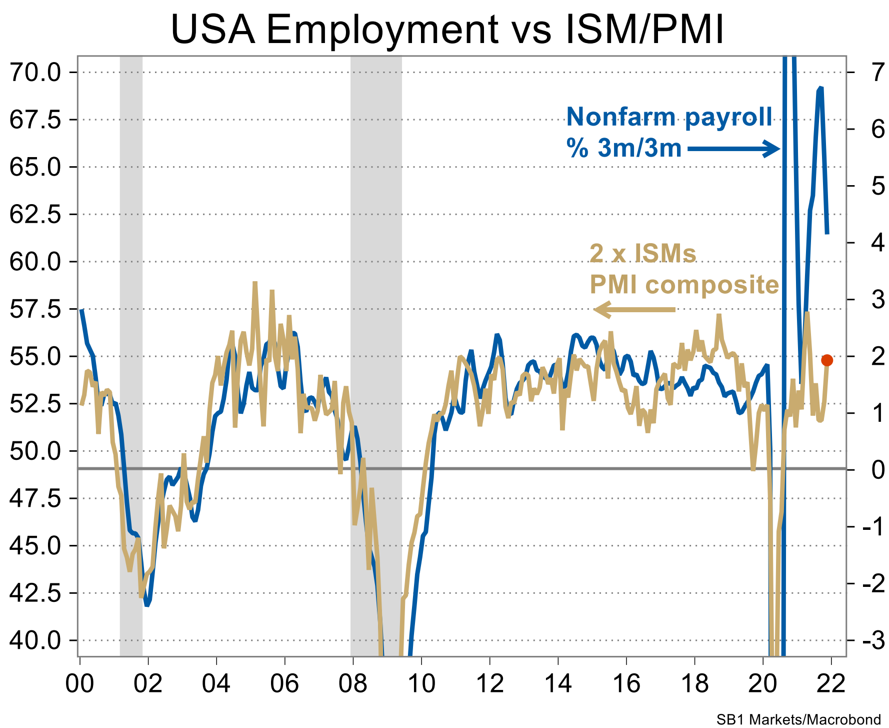
- **ISM services** orders, delivery times, input prices are surging but not faster in Novemver. Employment is growing faster, as was the 'business activity' index but slower
- **Markit's service PMI fell slightly** (0.1 p more than expected). The index is at 58.0, a more than decent level
- Together with their manufacturing indices, the **PMI/ISMs** signal some 6% Q4 GDP growth, well above the actual growth in Q3 (2.1%)
- **Prices indices** are still reporting record high price growth (check next page), for input prices as well as output prices (in Markit's PMI)

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





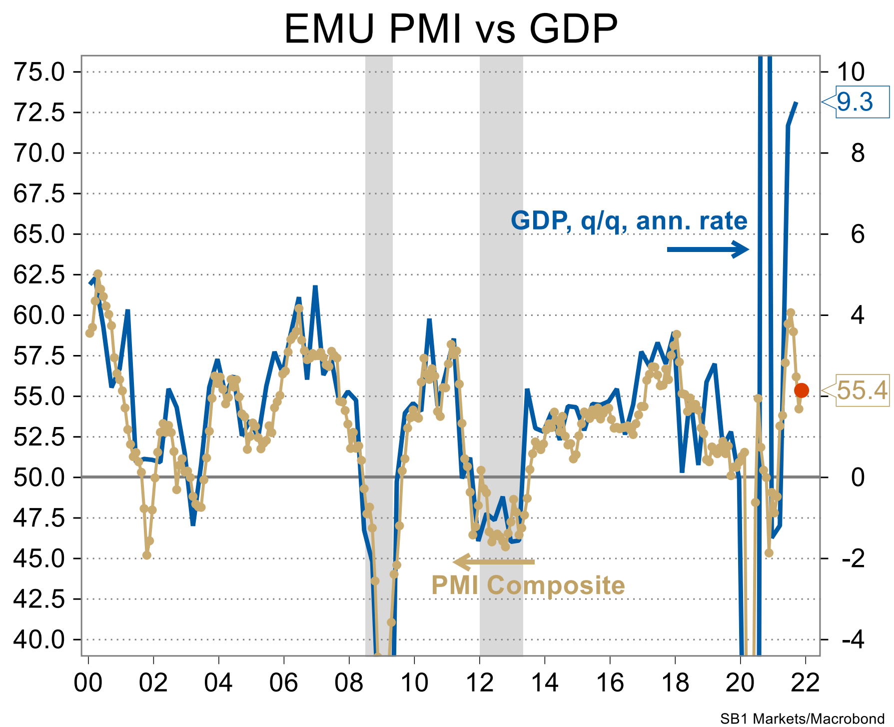
PMI/ISM: The employment indices signals modest employment growth

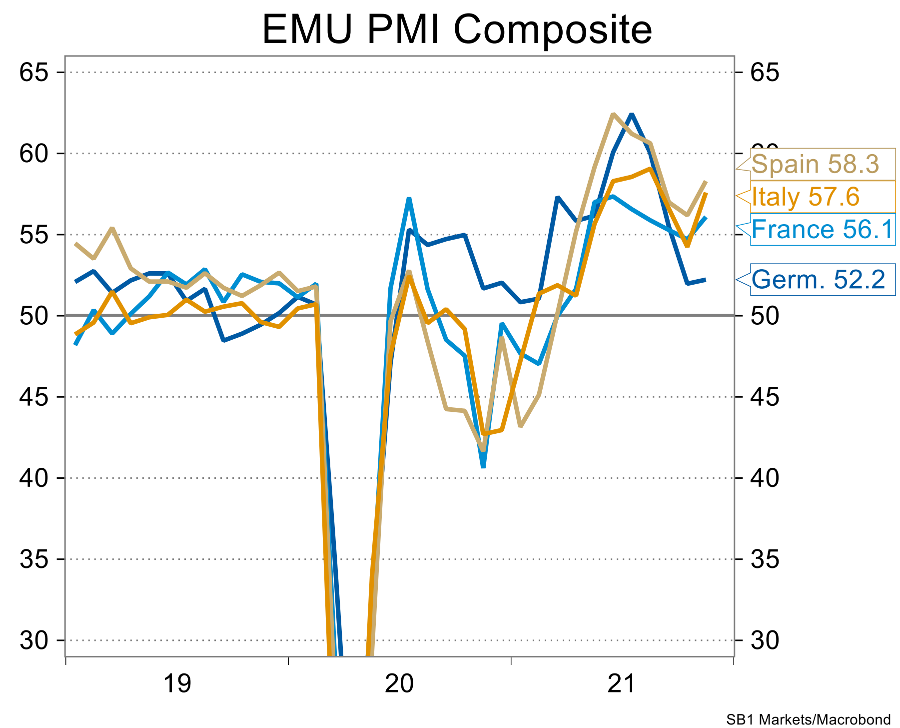


- **Actual employment** growth measured 3m/3m is still strong, at more than 4% pace
- The average of PMI & ISM employment indices signals less than a 2% growth pace – still an impressive growth rate

The November uptick was revised down – growth above trend still signalled

Still, the PMI gained 0.4 p to 55.4, 0.4 p less than the flash estimate

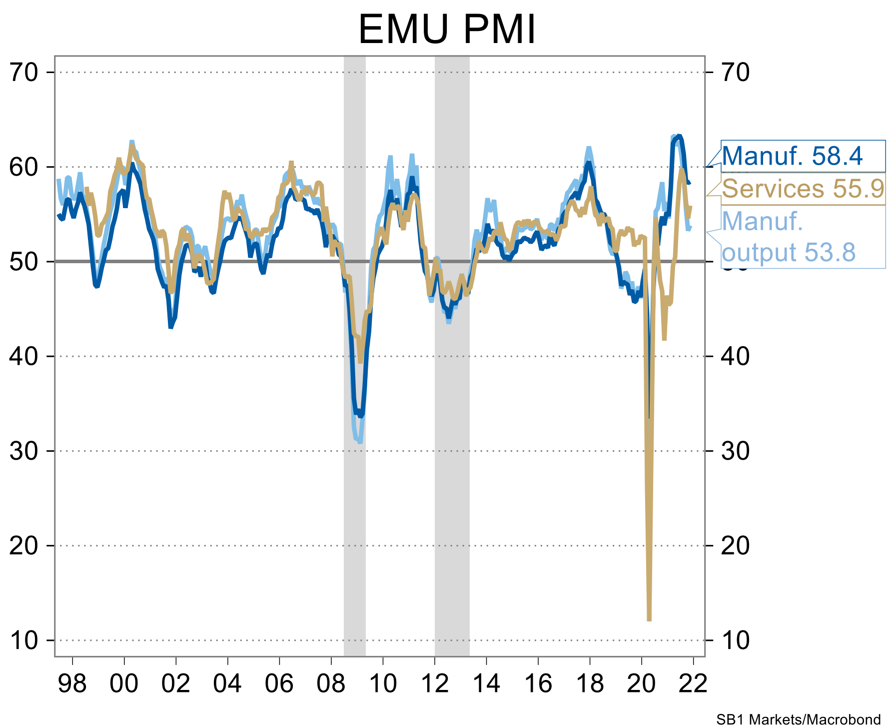


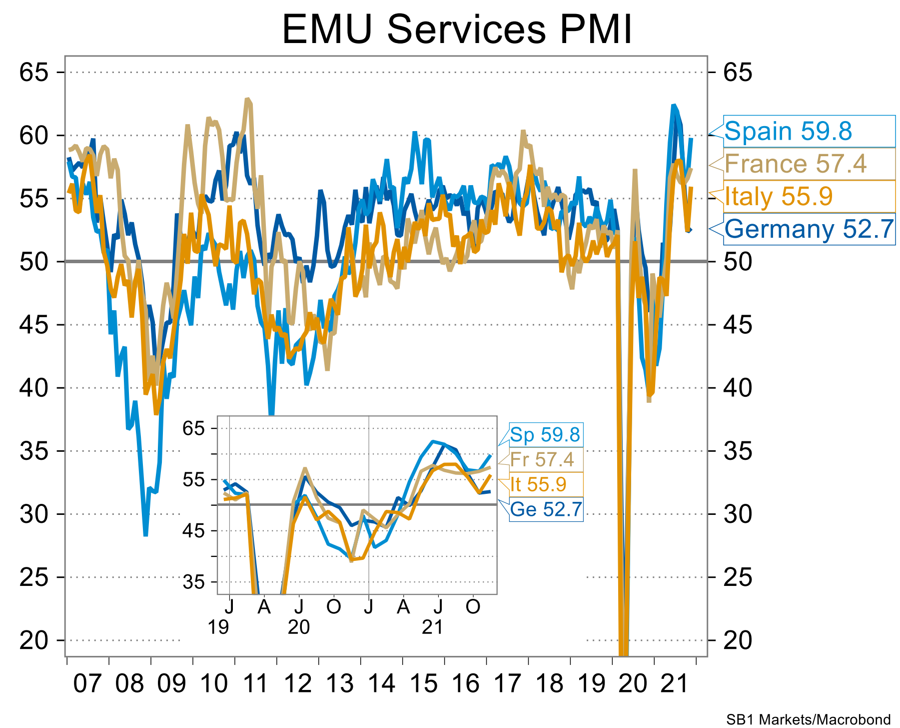


- The final **composite PMI** at 55.4 in November signals growth above trend, say at a 2% pace, 9.3% (annualised pace) recovery in Q3
- The PMIs in France and Germany as well as in implied average of the other countries were all marginally lower then in the first estimate – even in services surprised at the upside in Spain
- All main countries are still reporting growth, and all but Germany growth above trend

Both manufacturing & services reported marginally better growth in November

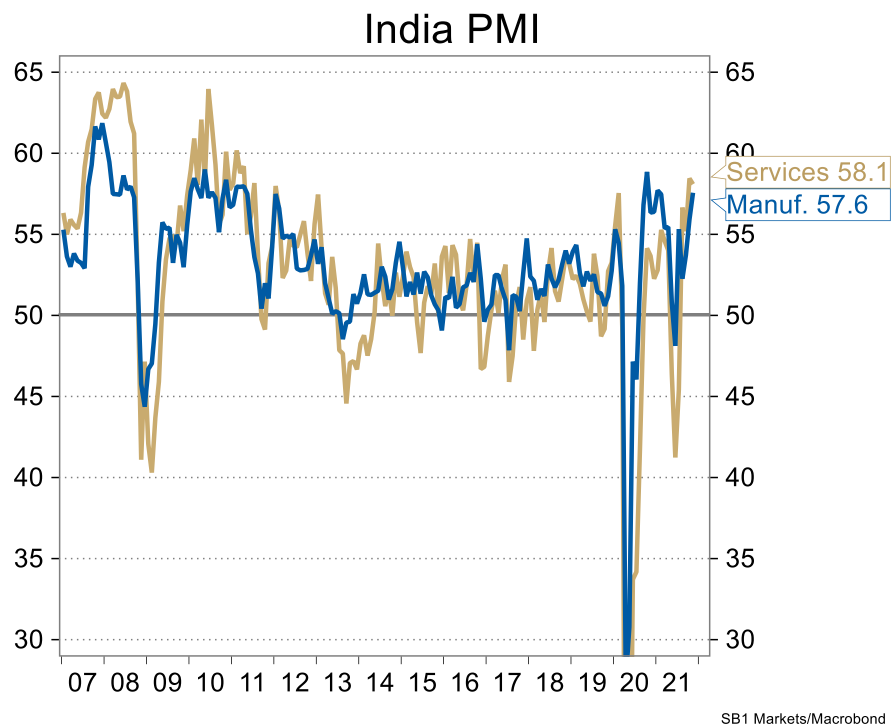
The manufacturing total index is boosted by delivery times index – output is a better gauge now

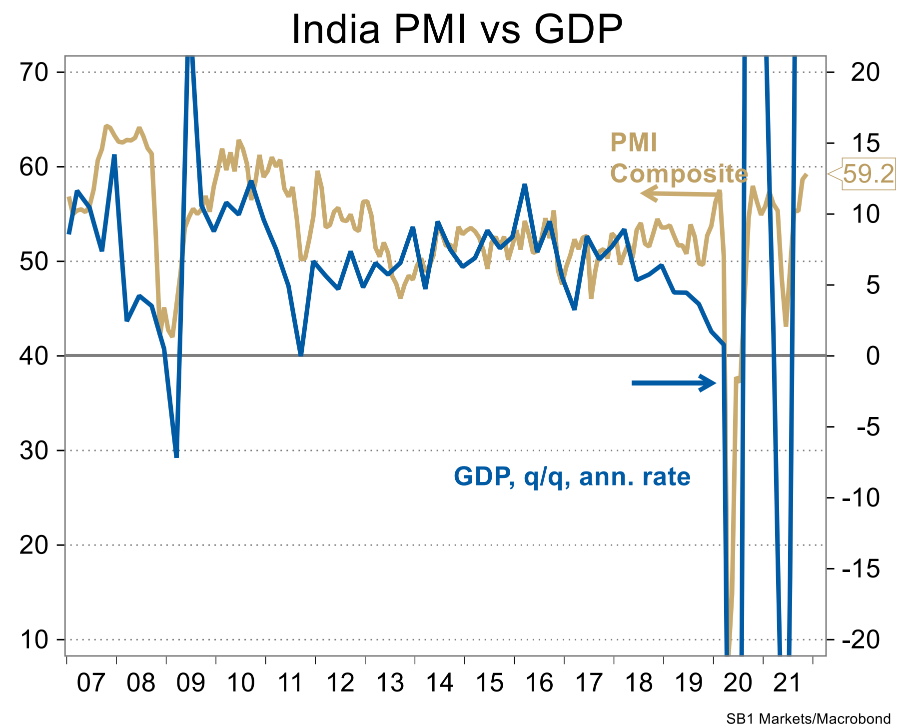




The business sector report a strong rebound in October, the PMIs best since '11

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

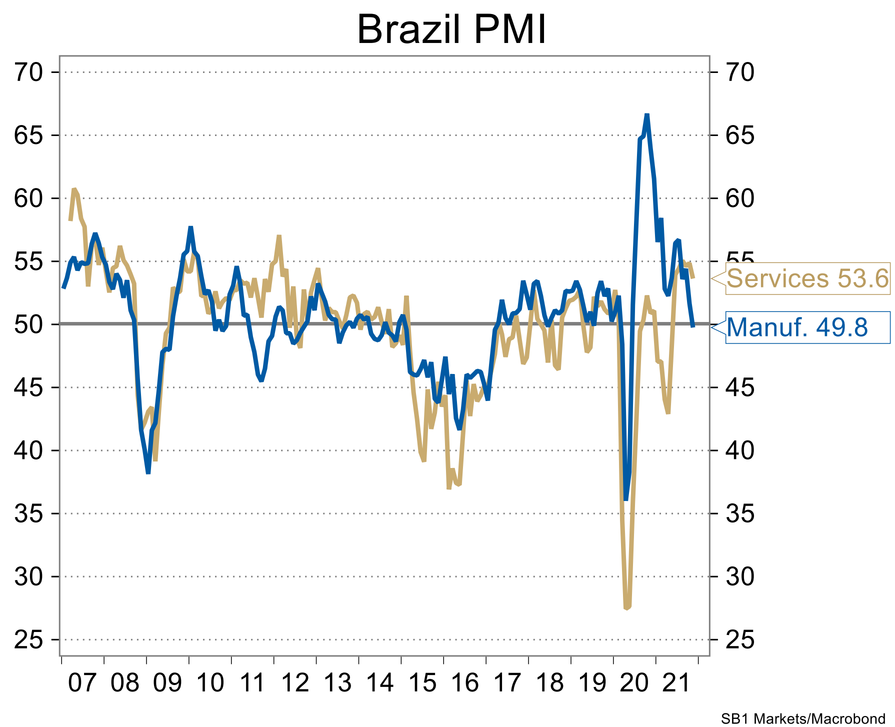


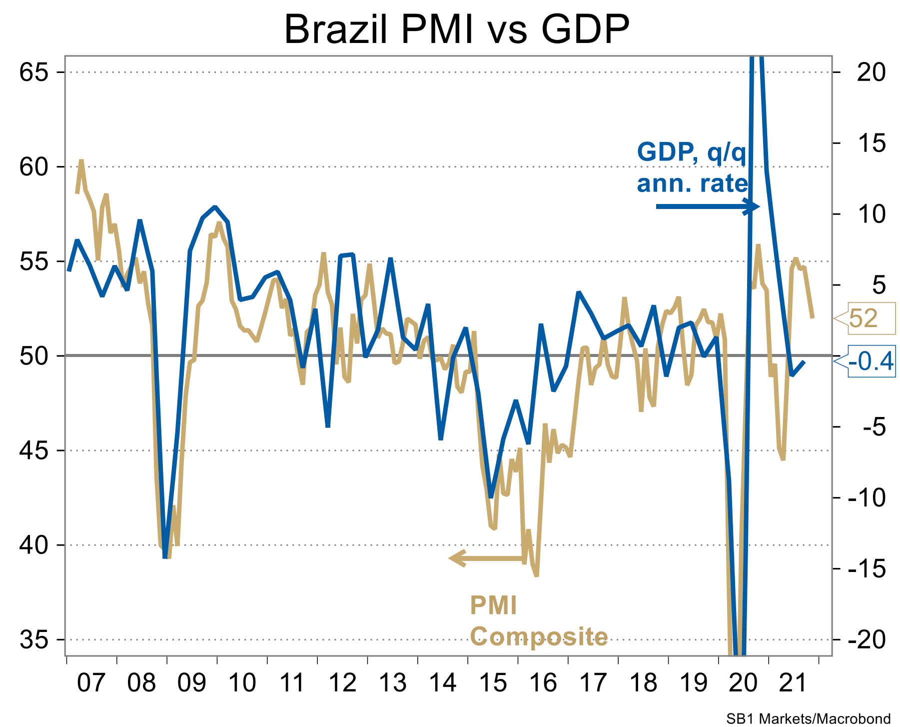


- **The services PMI** subtracted 0.4 p but at 58.1 it still is a the 2nd best level since 2010! The fight against Delta was won. And now??
- **The manufacturing PMI** gained 1.5 p to 57.6 among the best prints on record since 2010 (only the relief after the first Covid wave last year was stronger). New orders are surging, and not due to export orders. Delivery times are not increasing (but the index look suspicious). Input prices are sharply up but nothing compared to what manufacturers in the rich part of the world are reporting, and output prices are just increasing slowly
- **The composite index** rose to 0.5 p to 59.2, best level in 10 years, signalling strong growth in GDP (even if the correlation is not that impressive…
- **In Q3, Indian GDP** grew by 12.2% (or 61% at annualised pace ☺) – still down almost 2% from the Q1 level. Growth will be impressive in Q4 to (barring a full Omicron stop in December, which is not the most likely scenario)

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

The services PMI fell slightly but remains strong, while the manufacturing survey dipped below 50

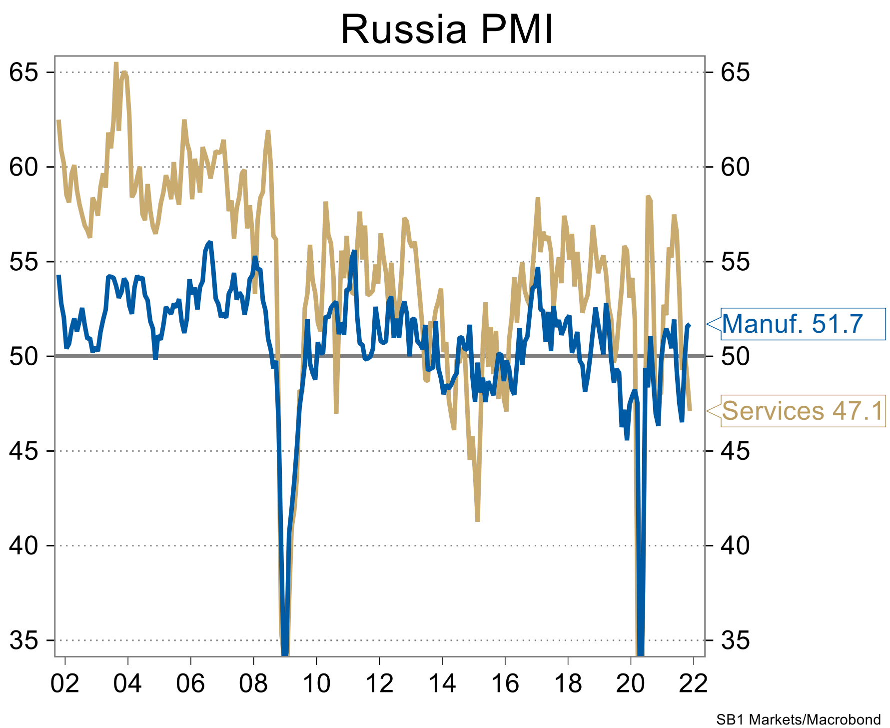


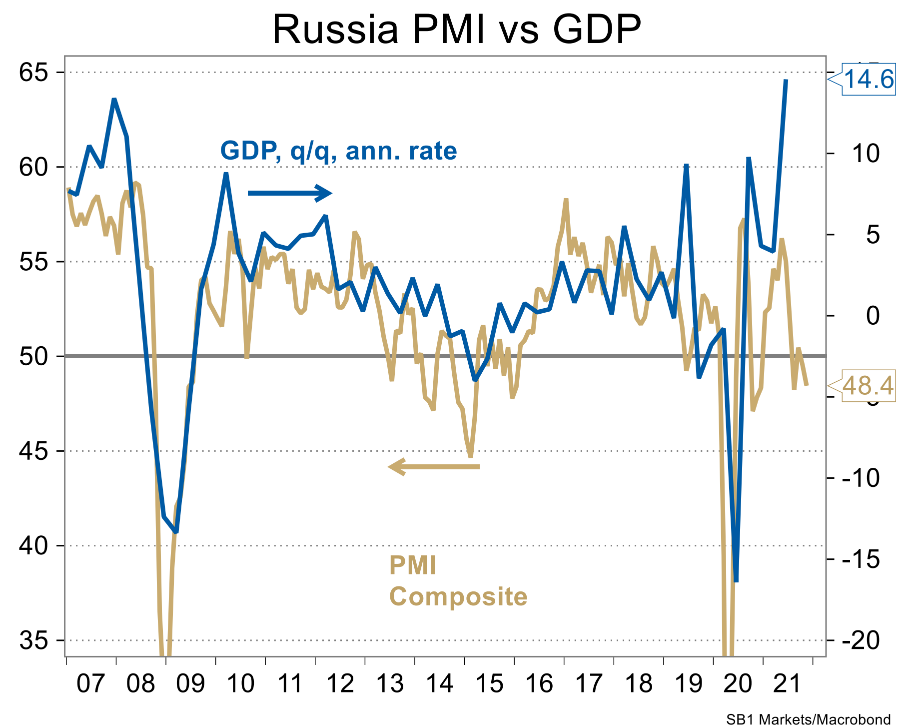


- **Manufacturing PMI** slipped 2 p to 49.8, which is not than low in a Brazilian context – the index is still signalling some growth
- **The service sector PMI** lost 1.2 p to 53.6, still far above a normal level. Barring the two past months, the level is the best level since 2011
- **The composite PMIs** fell 1.4 to 52.9. The level is far above an average level – signalling growth well above trend. However, the trend is far from impressive!
  - » In Q3 GDP fell -0.4%,the 2. decline in row, very likely due to the struggle against the virus. Now infections are on the retreat, an restrictions are eased. At least, that was the case…

No virus relief in Russia – the service sector report a further contraction

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

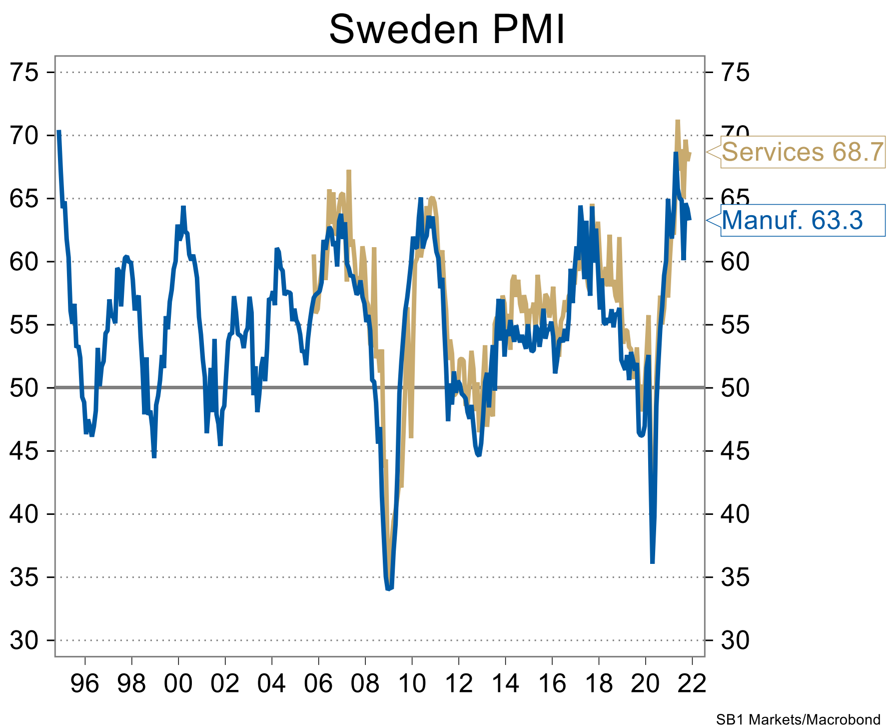


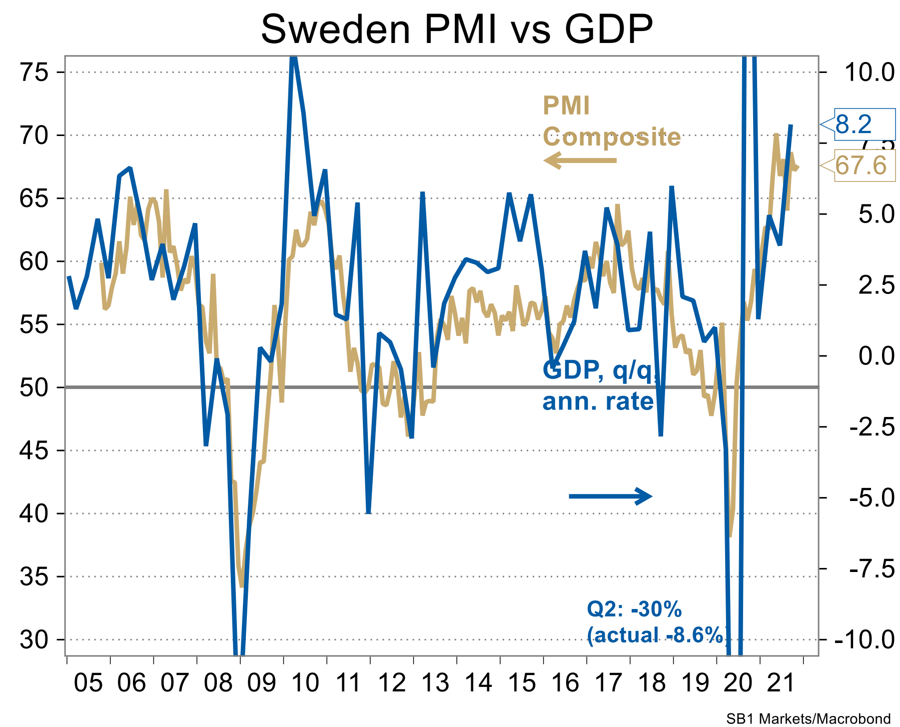


- **The composite PMI** fell by 1.1 p to 48.5 and the index is below 5 for the 2nd month in row. A PMI at this level normal signals a 3% contraction in GDP but the correlation has been dismal during the pandemic
- **GDP** rebounded sharply in Q2, and much more than the PMIs reported, but a low vaccination rate, a high infection rate – as well as a high inflation rate pose some risks. The central bank has lifted the signal rate by 325 bps to 7.5%

Swedish composite PMI up 0.6 to 67.6! Signals continued strong growth

Services contributed at the upside, manufacturing at the downside – but both are extremely strong!

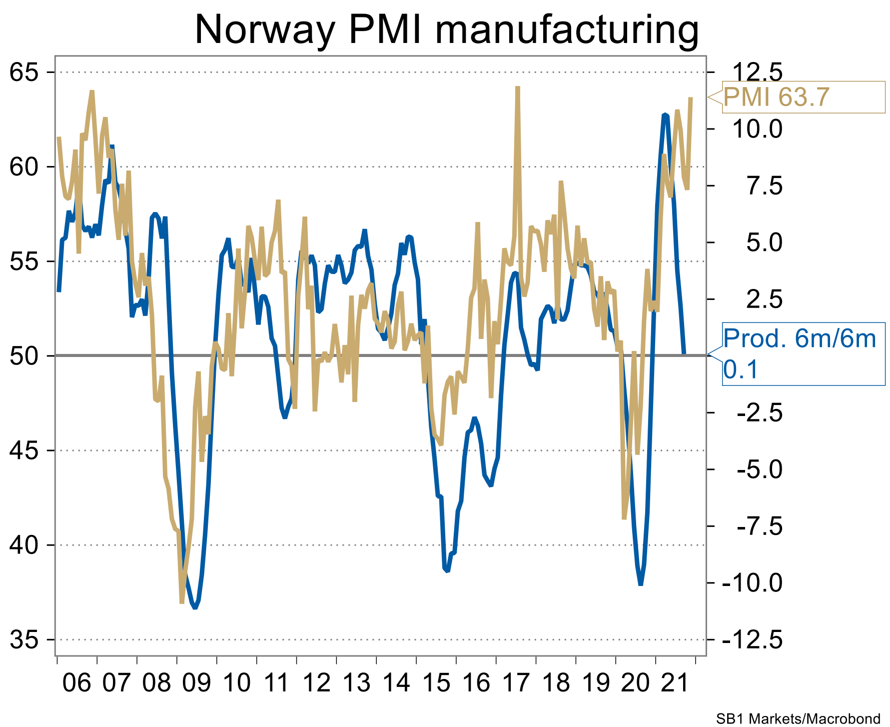


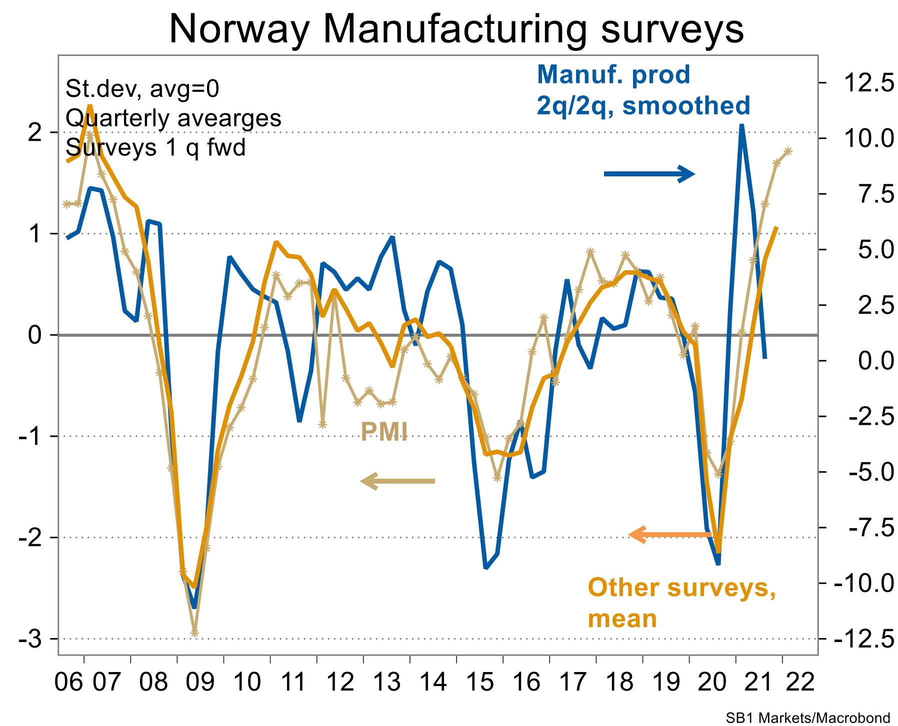


- The **composite PMI** fell slightly by at 67.6 signals exceptional strong growth in activity (6%)
  - » In Q3, GDP grew at a 8.2% pace!
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until late 2024. We have for a long time not been so sure about that. The market has come to the same conclusion (at least until Omicron turned up but still the market is pricing a hike next year)

Oobs, the Norwegian PMI shot up 4.9 p to 63.7, the 2nd best in the world

We expected a small decline! Delivery times boost the index but the core is still at 59.7!

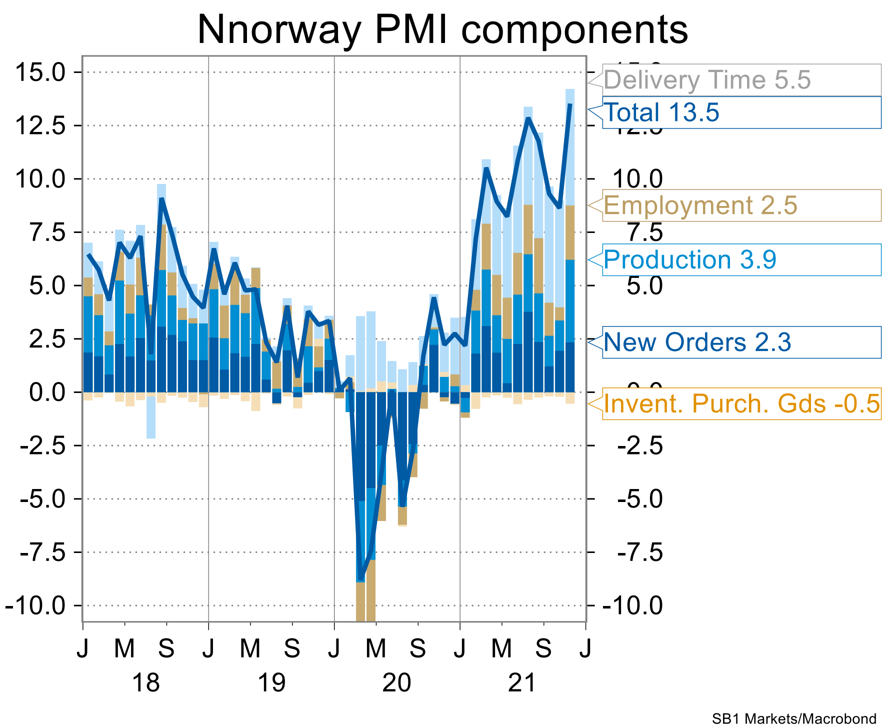


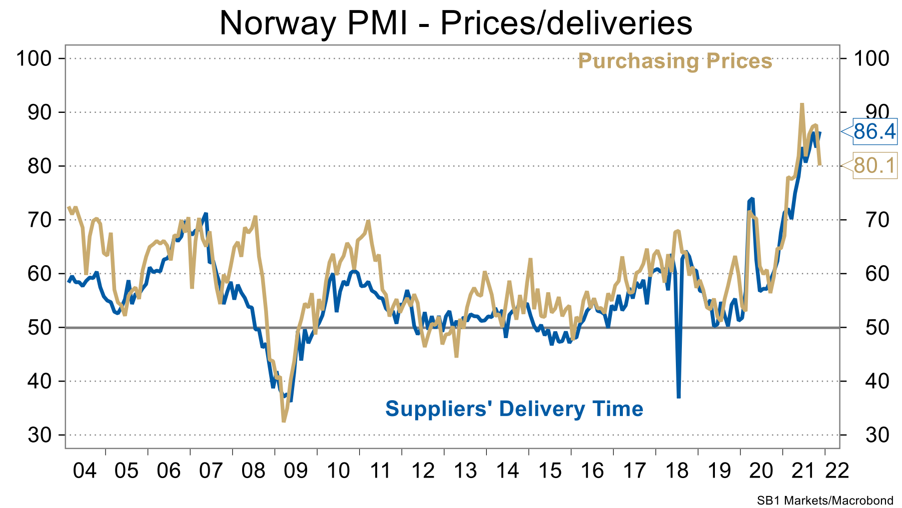


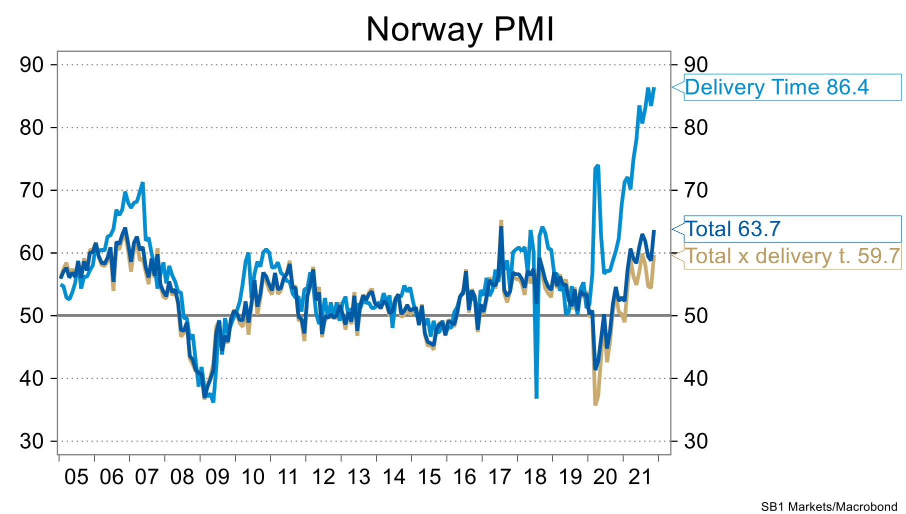
- All sub-indices in the total index contributed at the upside. Orders were the most sober – and export orders are just in the balance
- Businesses in Norway, as in other rich countries, are reporting of bottlenecks and increased input prices (check next page). We doubt the record high delivery time index signal strength in the manufacturing sector, and an index excl. this component is more relevant now (like in other countries, check next page)
  - » In November the input price index slowed somewhat – but companies are still reporting rapid price increases
- Other manufacturing **surveys** have turned up lately to above-average levels
- Even if surveys have been reporting growth, **actual production** has fallen slightly since April. Hope for something better now (if the virus does not take us down)

The delivery time index lifts the headline PMI artificially

However, a total index excluding the contribution from the delivery times is still at 59.7!!



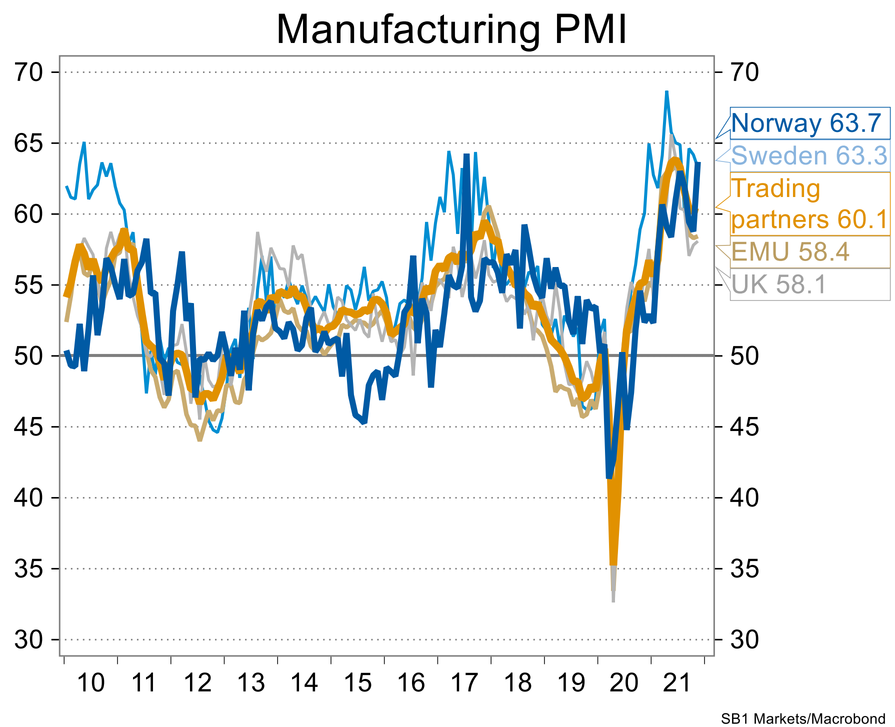


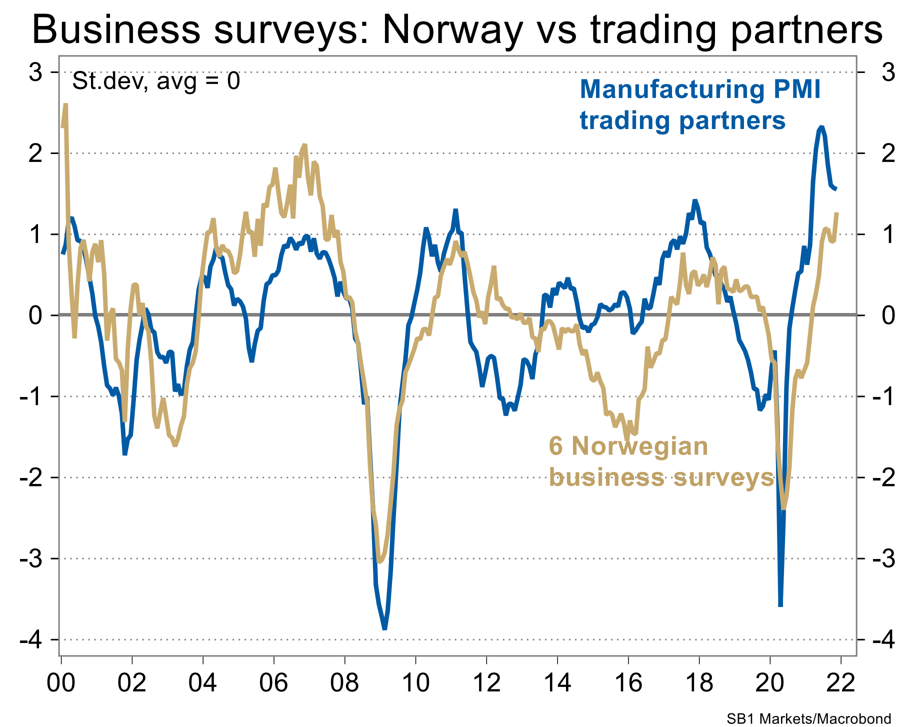


- Normally, the **delivery time index** has not had any sigificant impact on the total PMI index as the delivery times index has been quite closely correlated other components in the headline index. Now, it makes a difference – but the rest is very strong too!
- **Prices** are still rising at a fast pace – but clearly slower in November

SpareBank 1 MARKETS

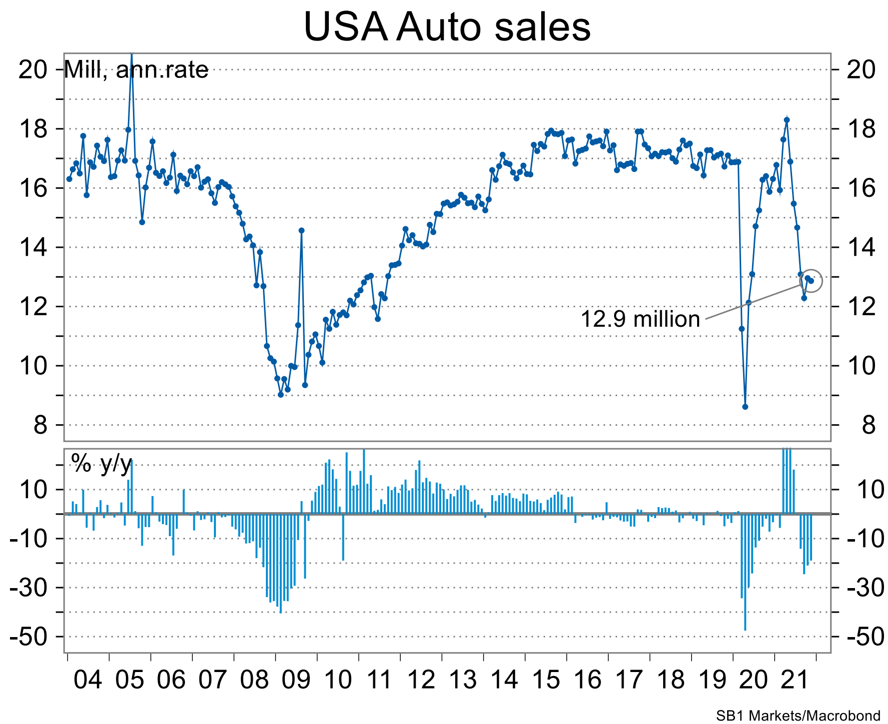
Norwegian manufacturers at the top of the list, at least according to the PMI

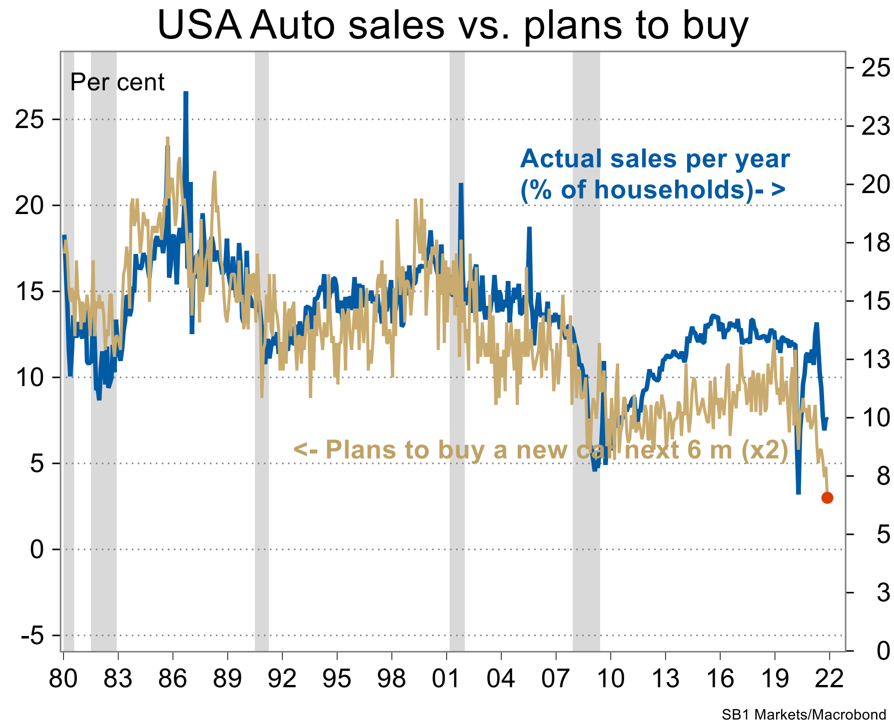




US auto sales close to unch in November – at a low level

Slow sales are only due to lack of supply, not lack of demand





- **Sales** contracted 0.1 mill to 12.9 mill (annual rate) in November, expected up to 13.2 mill. Sales are 23% below the 2019 level
- Households have revised down their **plans for buying a new car** substantially recent months as they probably have observed that there are delivery 'challenges'. In addition, prices are rising sharply (for identical cars), and more expensive models are prioritised by car producers (or rather cars with the highest margins)
- **Demand for cars** is still strong, as the 2nd hand market is 'emptied', and used car prices have soared >40%

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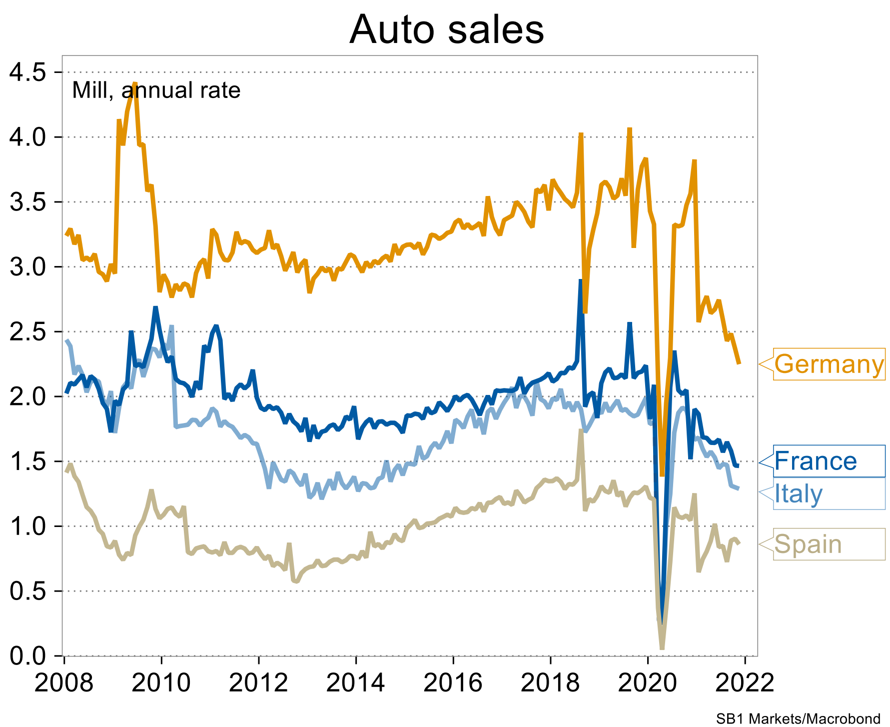
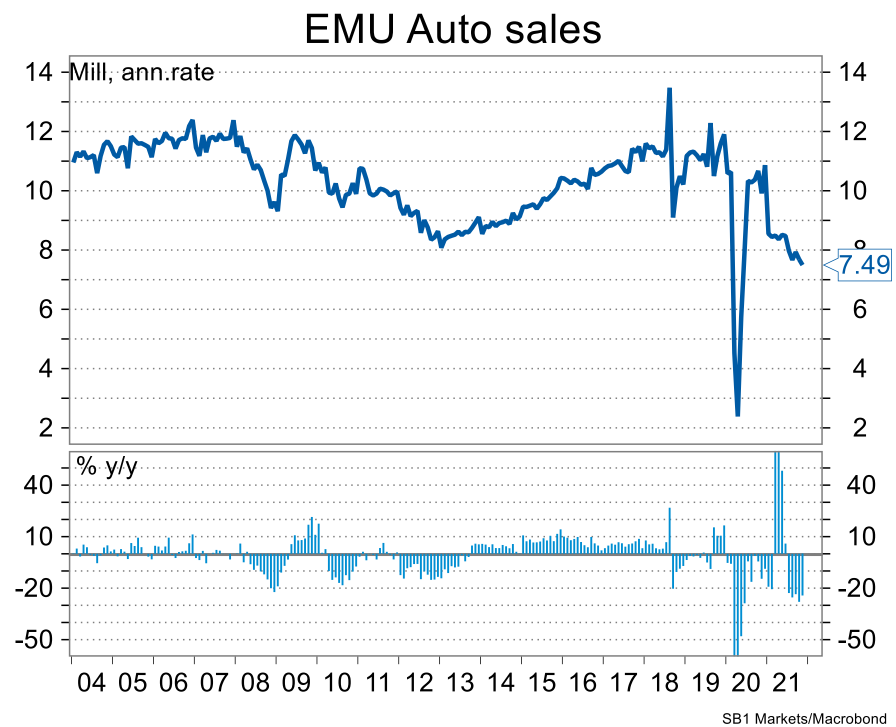
EMU: Auto sales further down in November, all big 4 contributed

German sales fell the most in November - as over the previous months

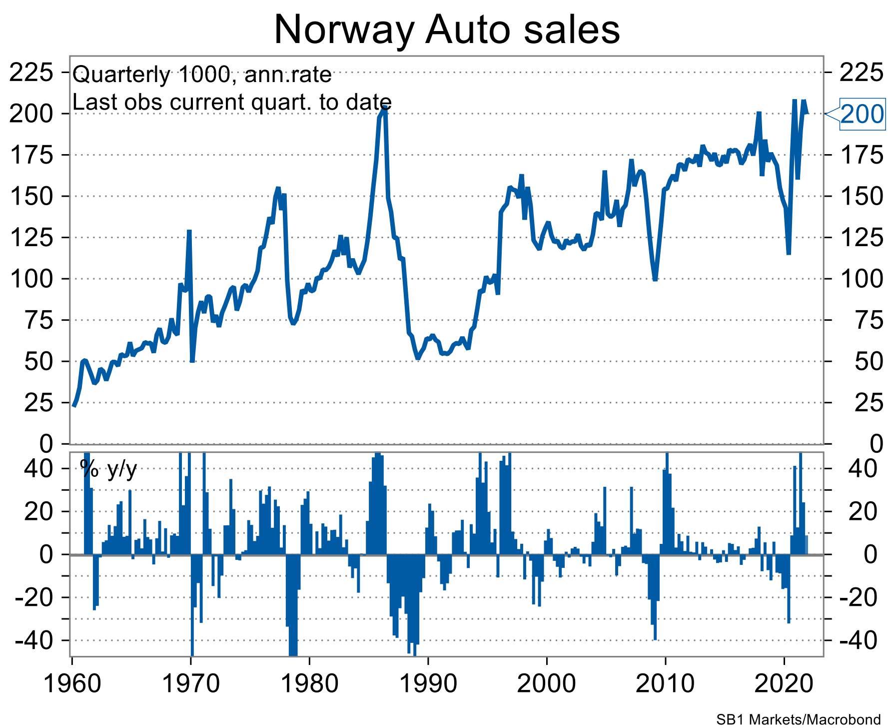


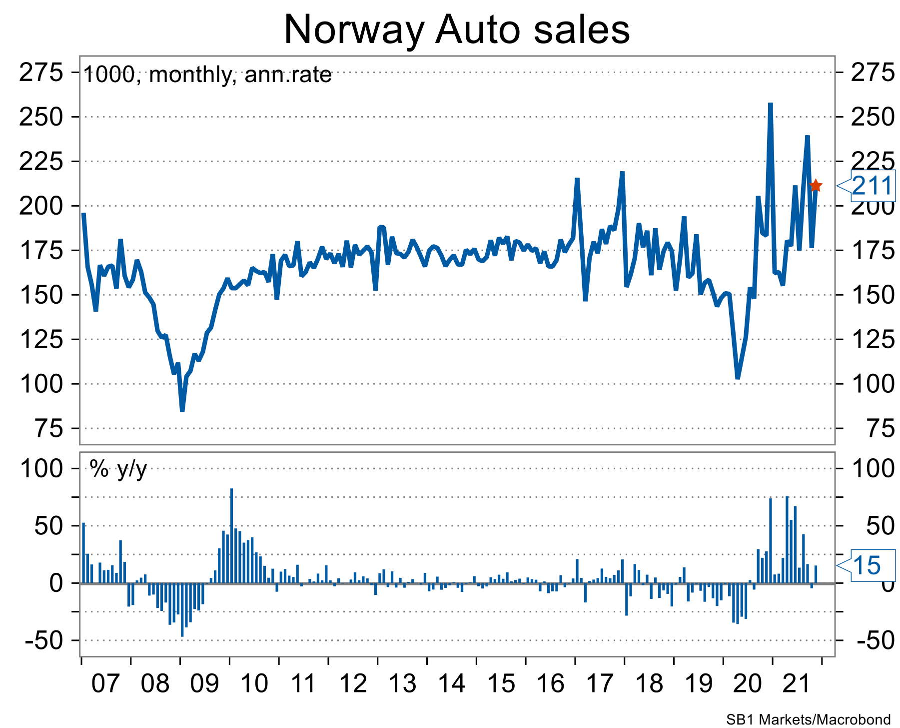


- EMU sales are down 34% from the 2019 average!
- German auto production is down 30% vs 2019 avg. Production in France and Spain is down even more, but Italy is ‘just’ down 15%=

Norway: Auto sales remain incredible strong, why are 'all' cars sold here?

Because we pay far better than others?? Sales are up 30% vs the 2019 average!

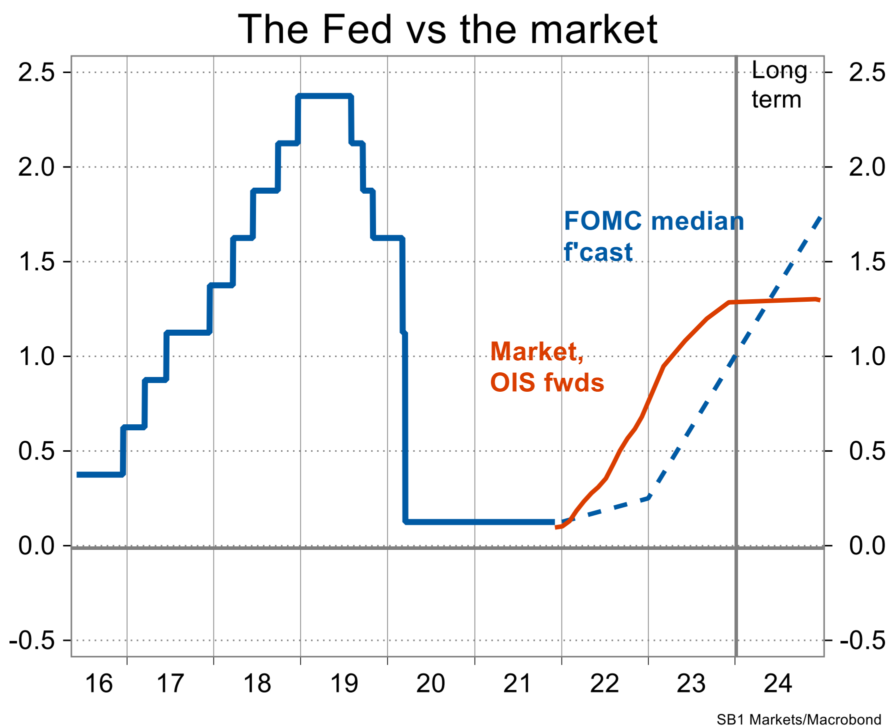




- Sales (first time registrations) rose to 211' in November from 176' in December

Beige book: Growth at a modest to moderate pace, due to supply constraints

Supply side disruptions and labour shortages keeps growth in check, wages & prices on the way up

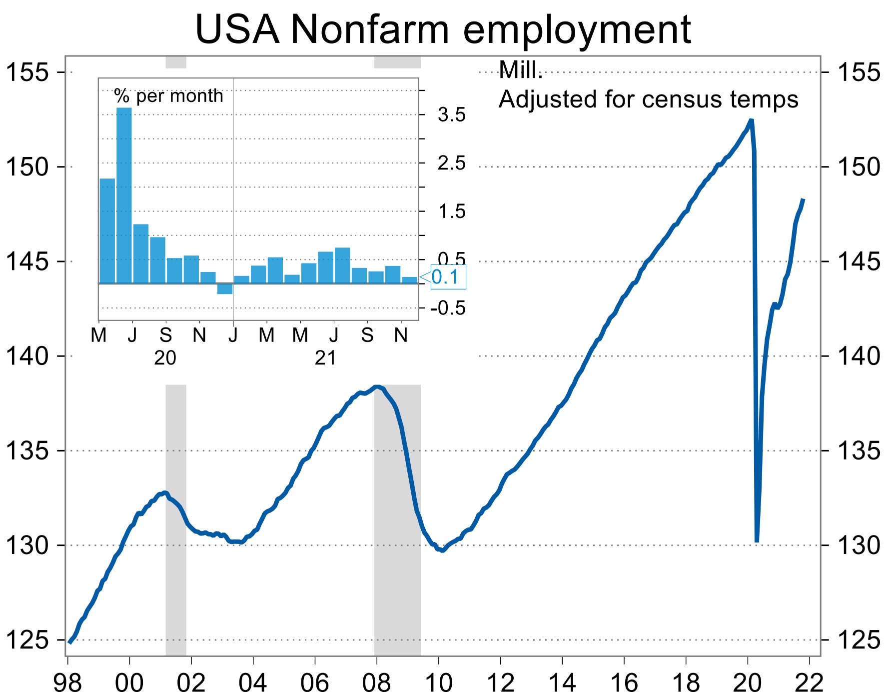


- New signals from the Federal Reserve due to the Beige book?
  - » **No, a policy tightening was announced by Fed's Powell himself before the Beige book was published**! Barring a serious Omicron setback, the Federal Reserve will wind down its bond buying program faster than announced in November, paving the way for an earlier lift in the Fed funds rate

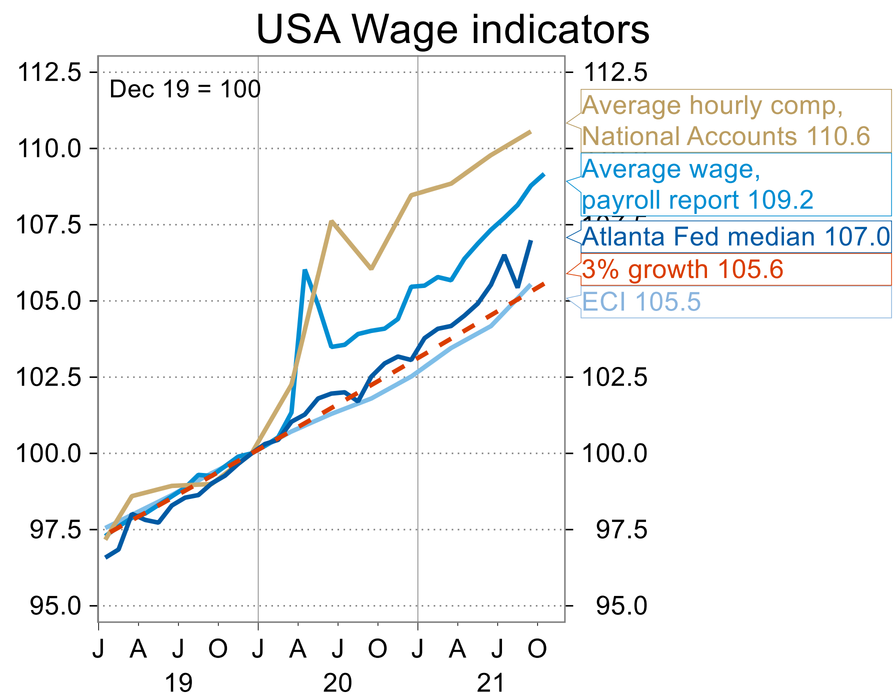
- Growth was unchanged at **modest to moderate pace** in most districts past six weeks (from moderate pace 12 weeks ago), according to the Fed's 12 district banks. The Delta variant/covid was mentioned fewer times, while constraints due to supply chain and labour shortages were widespread explanations and not demand – which still was strong – were limiting production
  - » No district reported strong growth, down from 2 in October
- No sector reported weaker **demand**
- Most districts/sectors report further growth in **employment**, but growth was constrained by lack of labour**.** Childcare, retirement & covid safity concerns were cited as reasons for labour shortages
- **Wage inflation** accelerated and many districts are seeing a continued upward pressure on wages
- **Price increases** were widespread, as input factors became more expensive, and companies could lift their own selling prices with little pushback as demand was strong. A bright spot: Semiconductors and steel products had become more available
- **The outlook for overall activity** remained positive in most districts but there were some uncertainty when supply chain and labour shortages would ease
- **In sum:** The reports out of the 12 districts confirms that demand is not the problem, the supply side is!

Mixed employment data but unemployment is falling rapidly

Wages are still growing faster than before the pandemic – because the labour market is very tight



SB1 Markets/Macrobond

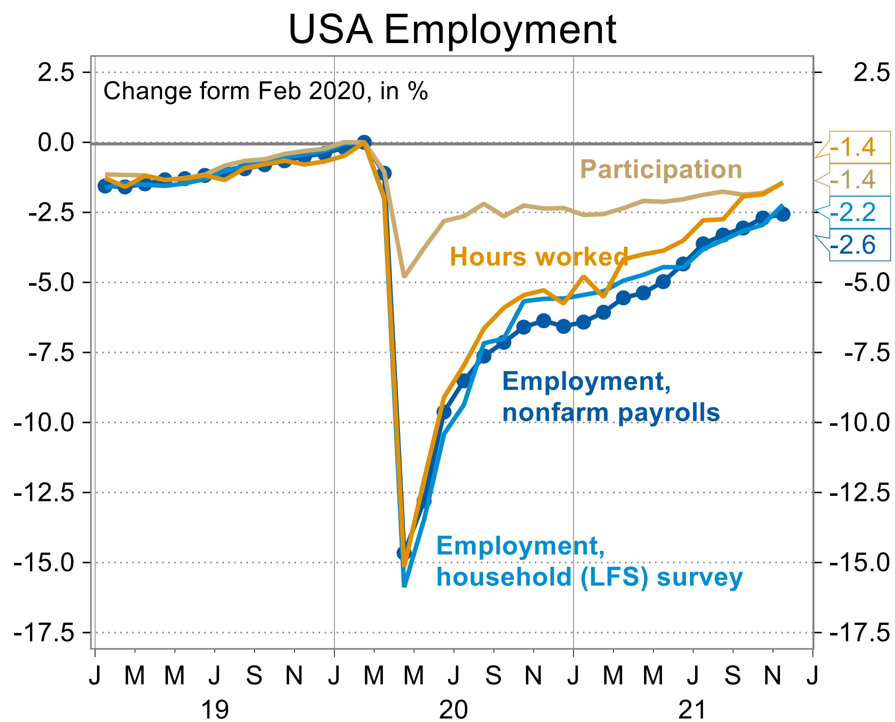


SB1 Markets/Macrobond

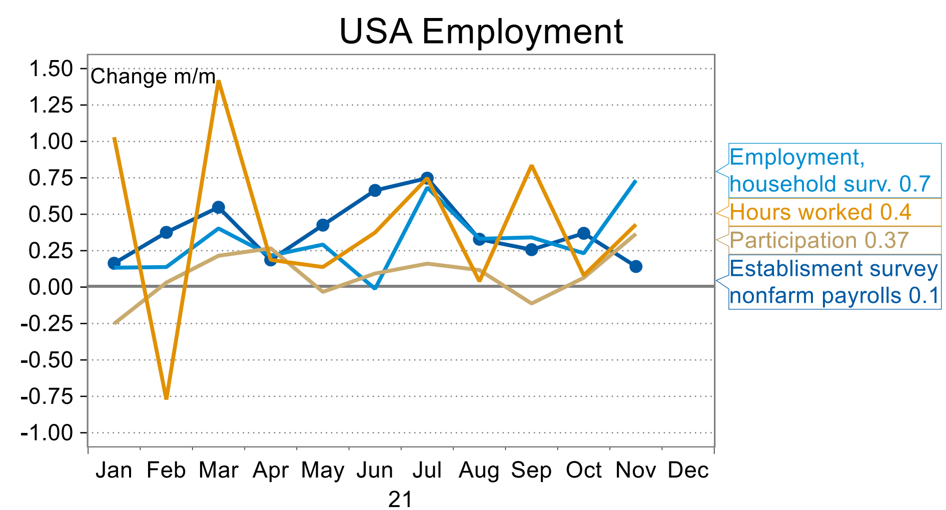
- **Nonfarm payrolls** rose by 210' in November, far less than the expected 550'. Private sector added 235' jobs. No major revisions. Payrolls are still down 3.9 mill (-2.6%) vs. the pre-pandemic level. The employment rate is down 3.1%, implying 5 mill lost jobs (that is, adjusted for growth in the working age population)
  - » The lift in employment was broad, with leisure/hospitality in the lead - but this sector is still down 8.2% vs. the pre-pandemic level. Education is still lagging, down 70' – and down 5% vs. Feb-20
- **The participation rate gains 0.2 pp to 61.8% (expected up to 61.7)**, the best level so far in the pandemic – the best news in this report! Even so, the response from the supply side of the labour market has been extremely dismal during the strong employment recovery. The participation rate is down 2.4% (1.5 pp, 3,1 mill persons) vs the pre-p level
- **The unemployment rate** 'collapsed' by 0.4 pp to 4.2%, expected 4.5% - and it as fallen faster the past 5 months than ever before (barring last summer)
- **Average wages** rose by 0.3%, 0.1 pp less than expected, Wages are up 4.8% y/y (0.2 pp below consensus), far above the pre-p norm. All sectors are reporting higher wage inflation – and all wage indicators now tell the same story
- Even if the participation rate finally grew in November, the supply side is obviously the bottleneck at the labour market. The tight labour market signals continued wage inflation at a level that is not consistent with inflation at 2% over time (barring a substantial productivity shock)

Labour market is recovering rapidly. *Even participation rose in November*

Payrolls surprised at the downside but the LFS survey reported 1.14 mill more jobs



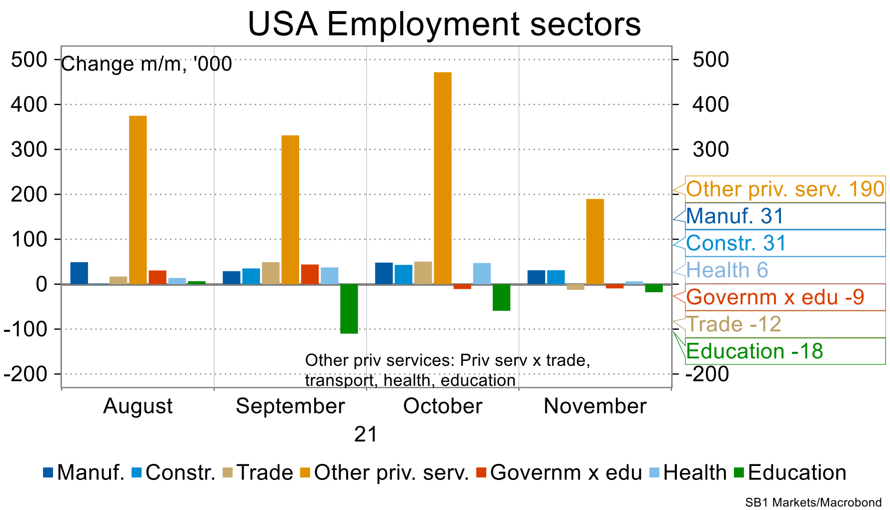
- **Nonfarm payrolls** are down 2.6% vs Feb '20, while **employment** measured by the **household survey** (LFS/'AKU') is down 2.2% following the lift in Nov. These survey data are more volatile the payrolls stats. The **employment <u>rate</u>** is 3.1% below par (1.9 pp, 5.0 mill persons)
- **Labour market participation** rose substantially, by 0.6 mill, and the participation **rate** gained 0.2 pp to 61.8, which is the highest level since before the pandemic – but it is still 2.4% (1.5 pp, 3.9 mill) below the pre-corona level
- **Aggregate hours worked in private sector** rose by 0.4%. The level is 'just' down 1.4% vs. Feb-20, as average working hours has increased

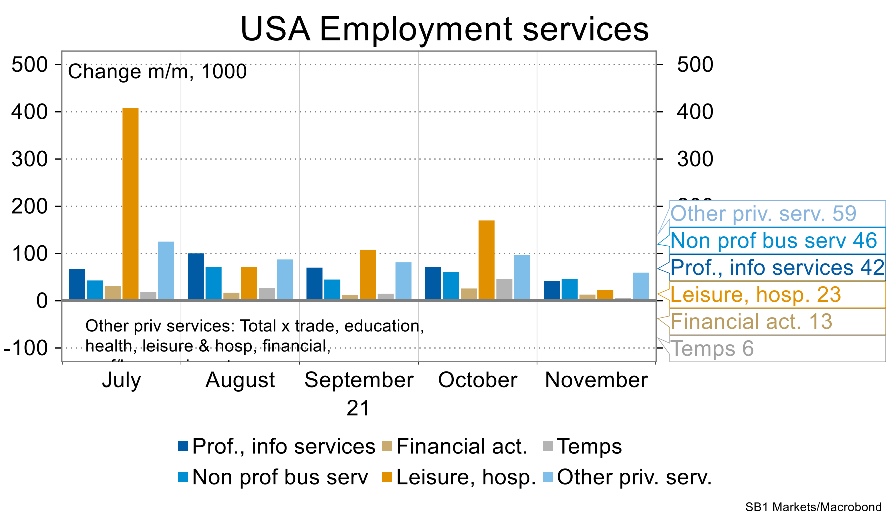


SB1 Markets/Macrobond

In Nov: Broad (growth) weakness in services, and retail and education down

Employment in manufacturing & construction up at a normal pace, but they are 'never' important

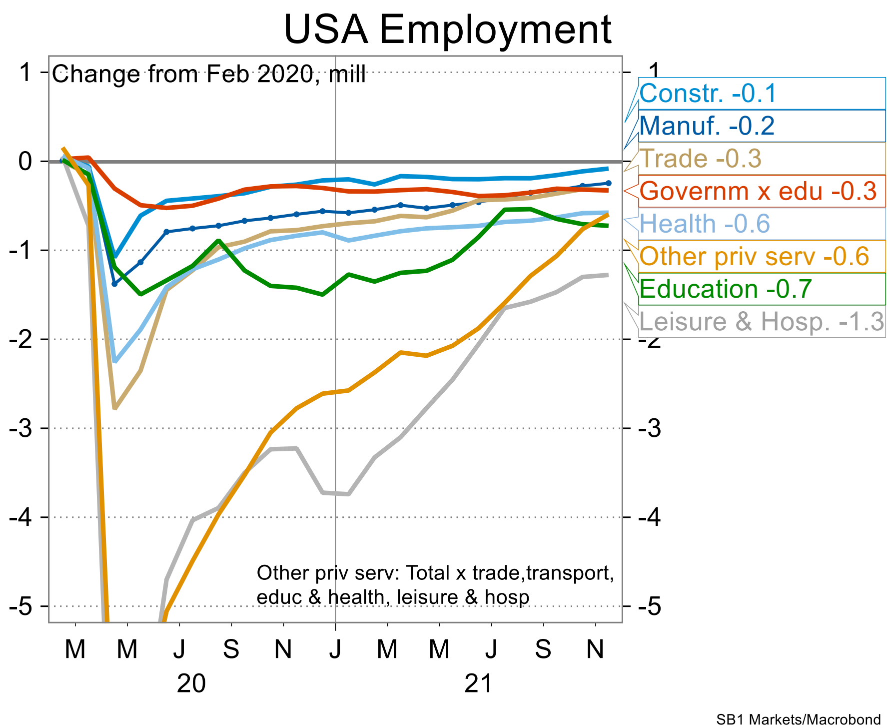


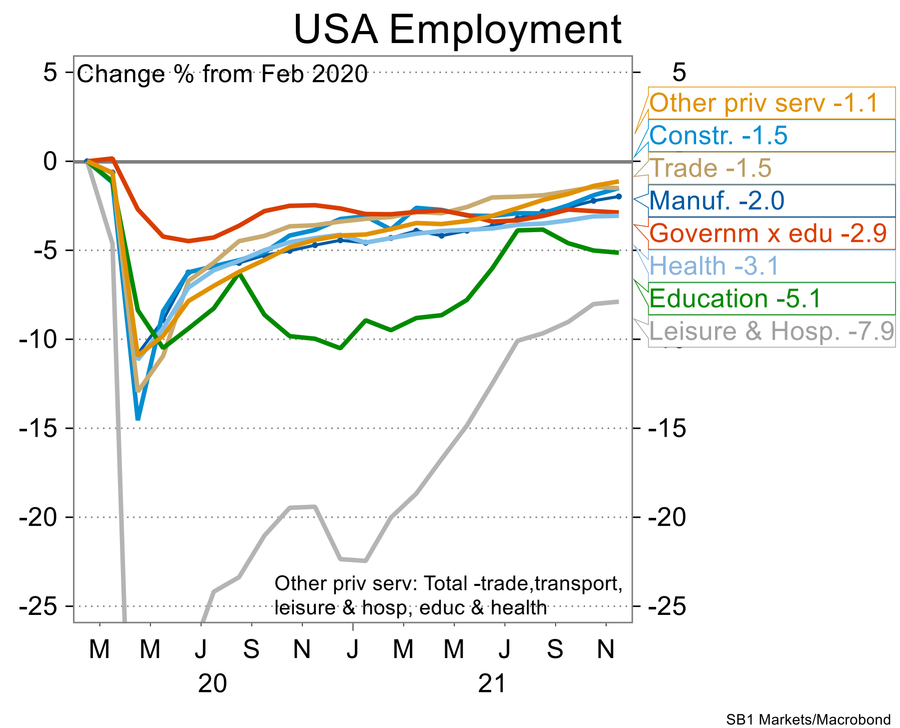


- **Last month: Some specific weakness, the rest OK**
  - **Education** (private & public) cut 48' jobs (seas. adj.), as some schools did not open as normal, very likely due to the virus. The sign must change – and employment should increase substantially
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added just 23' jobs without any obvious coronavirus excuse?
  - **Trade** cut 12' jobs – even if retail trade still going strong. Strange. A productivity shock underway?
  - **Business services** are now ramping up employment
  - **Other private services** added fewer jobs than over the past past months
  - **Manufacturing** added 31', not that bad
  - **Construction** sector employment is growing faster than normal
  - Employment in **government** (ex education) fell by 9'

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

Leisure & hospitality still down 7.9% vs. Feb-20, education 5.1%, government ex. edu 2.9%!

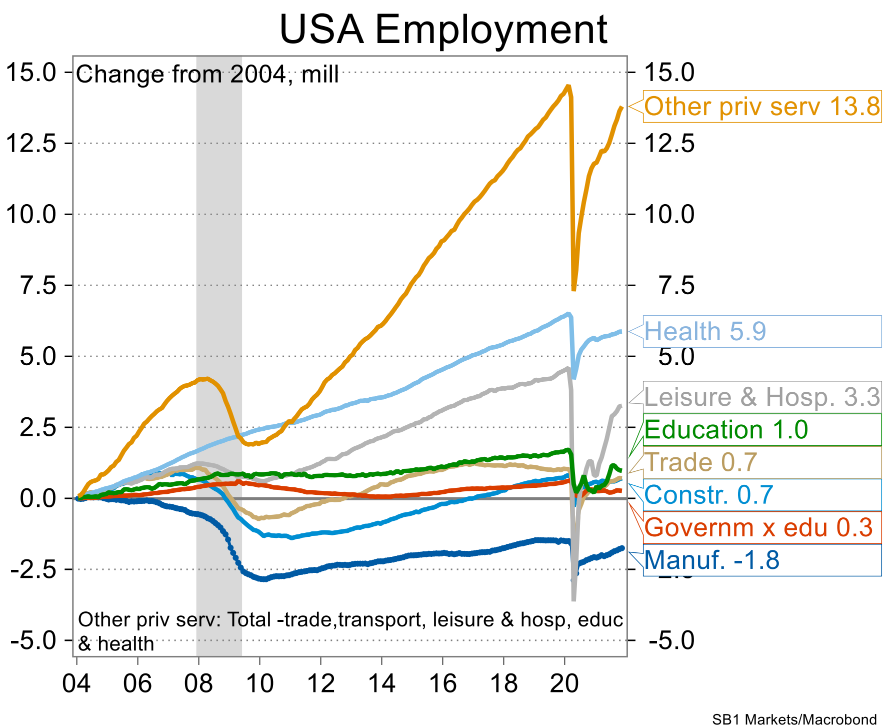


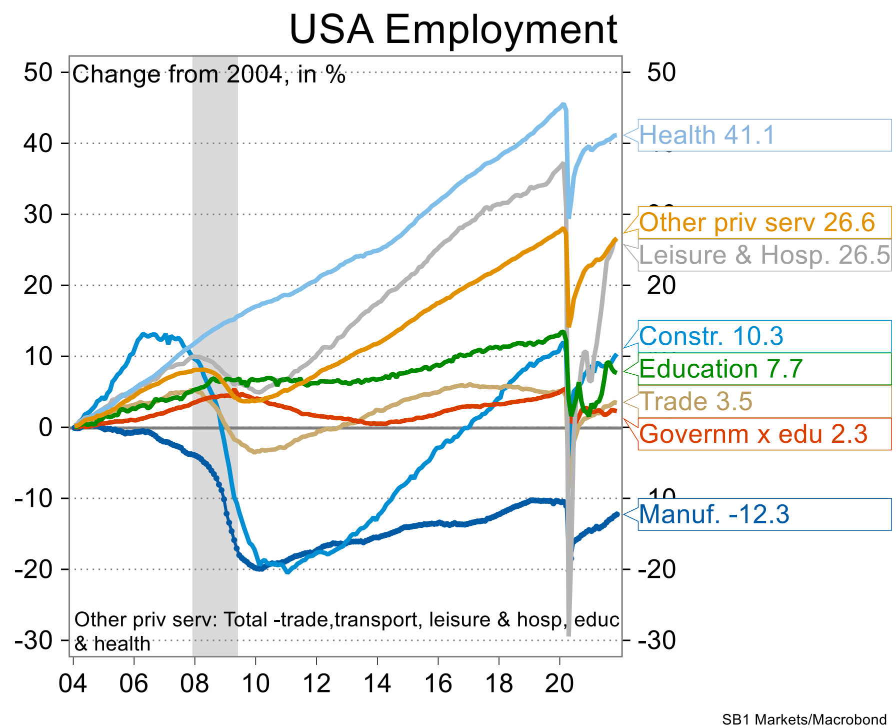


- No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits, in volume terms
- At the same time, some 10.4 mil jobs are **vacant**, and employers complain like never before than they are **not able to fill positions**
- We think it is very likely that employment is below the pre pandemic level, mostly due to lack of supply of labour, not lack of demand, the employers want to hire at an even faster pace!

A long term view: Most sectors far below pre-pandemic trends

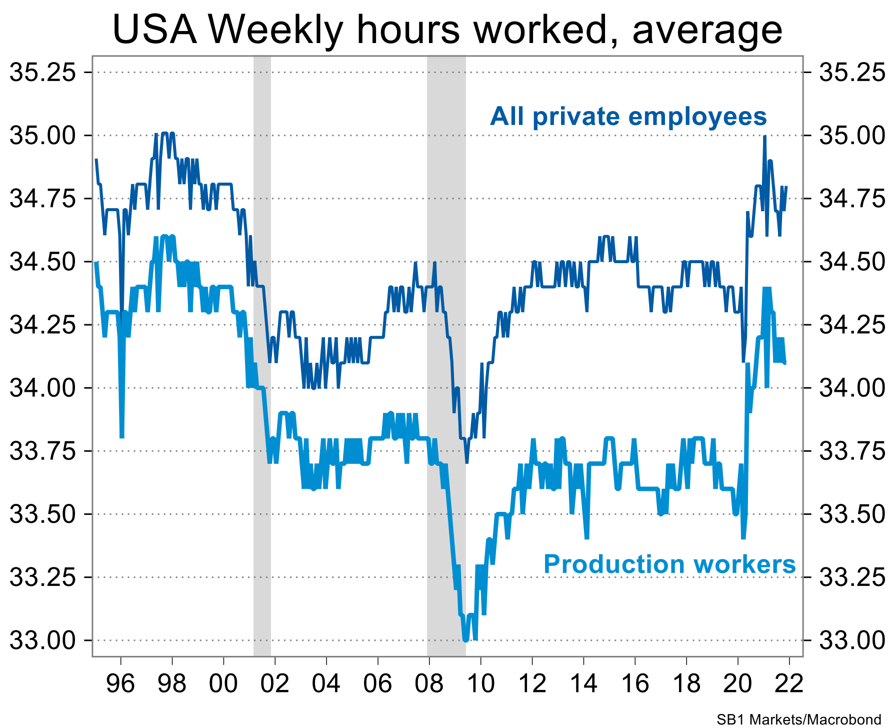
Manufacturing and construction reports the smallest losses

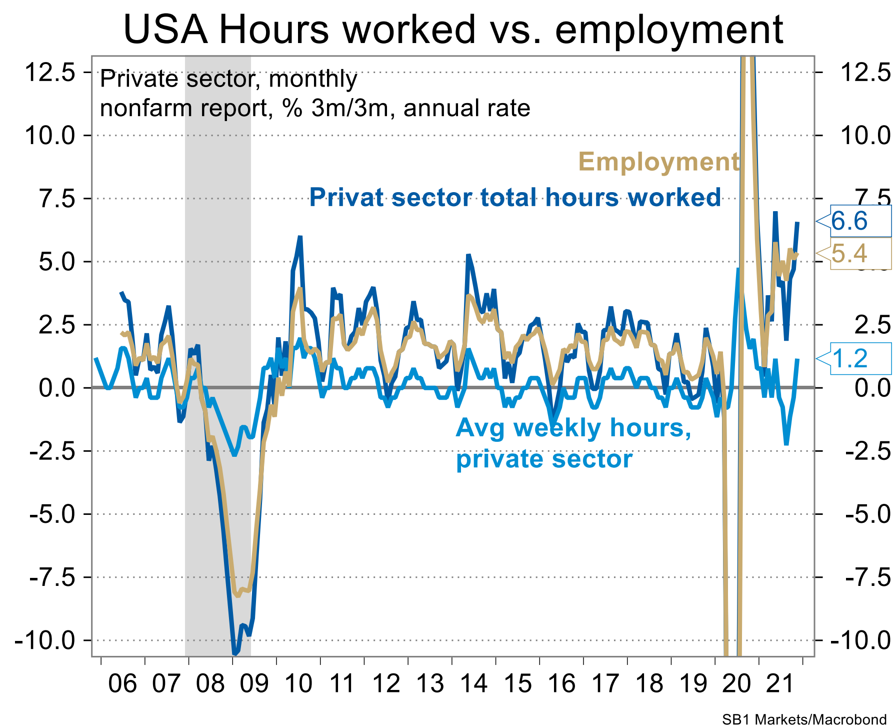




Average weekly hours slightly up in Nov, level far above normal

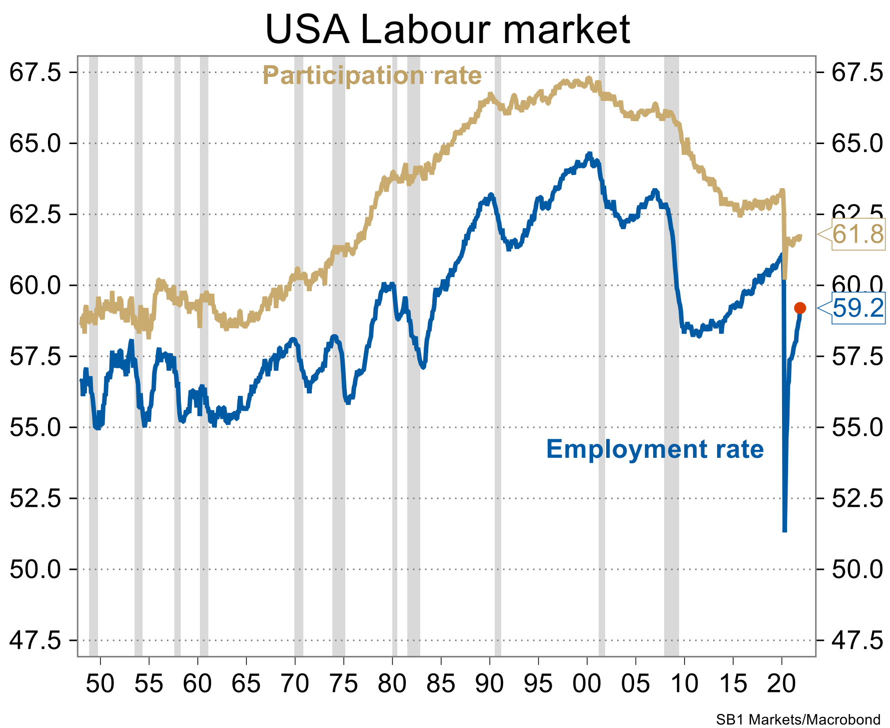
Employment up 5.4% 3m/3m, total hours worked 6.6%!

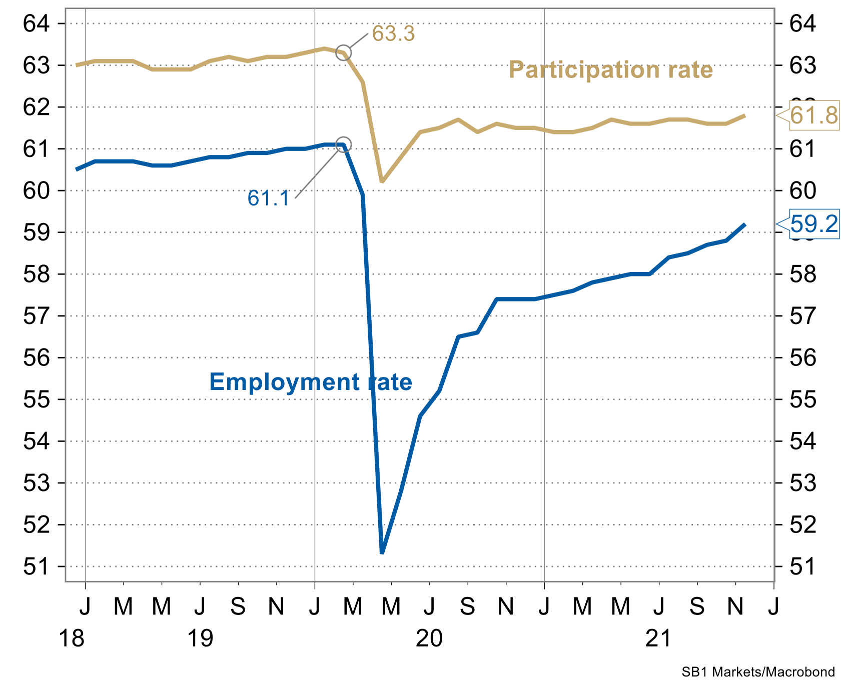




Finally, the participation gained two ticks but remains far below pre-p levels

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

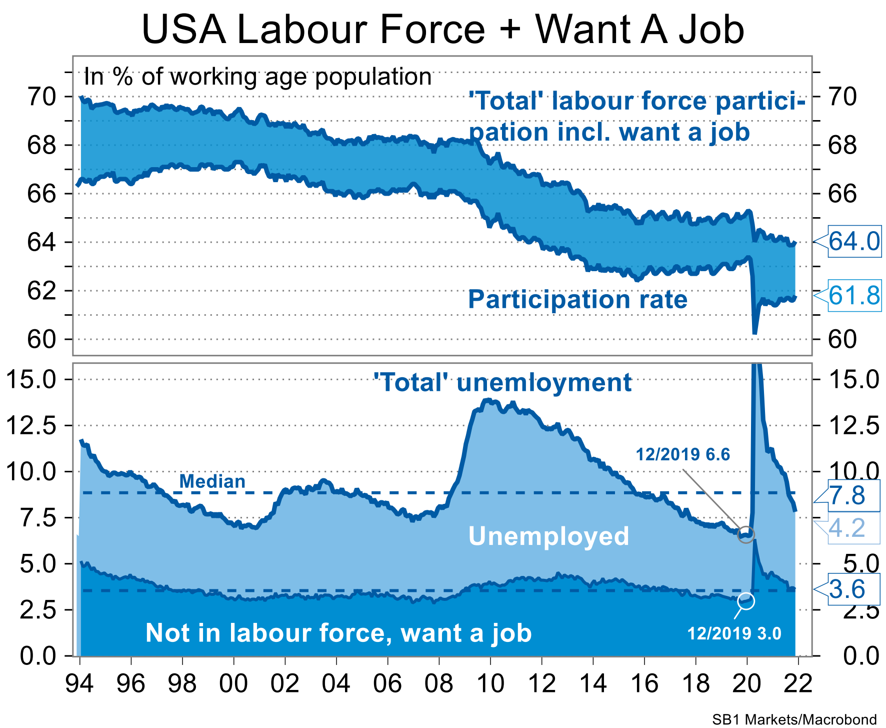


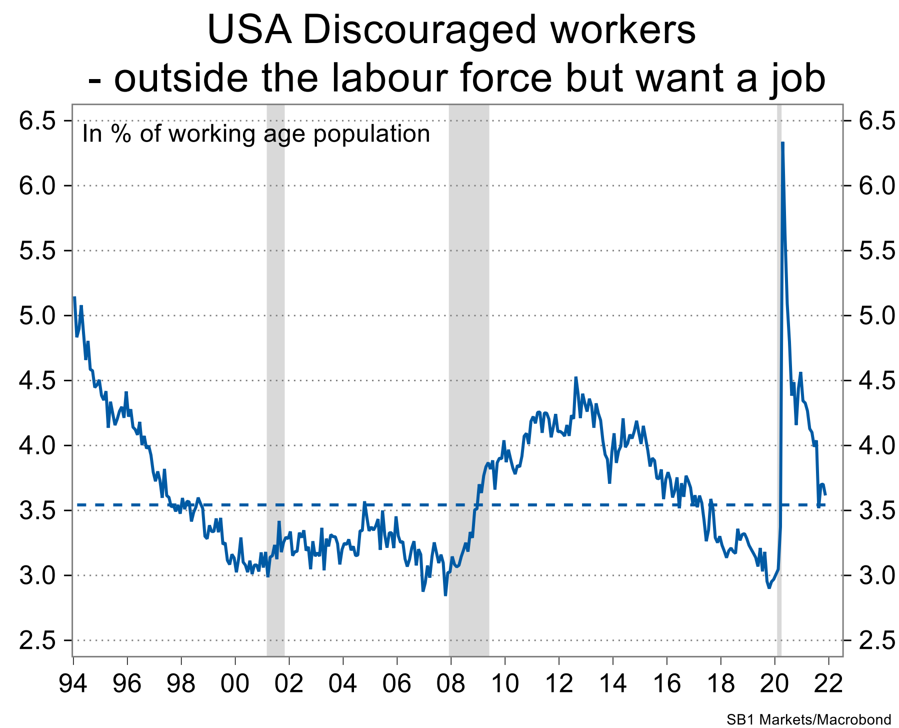


- **The labour force participation rate** rose by 0.2 pp to 61.8% (of the working age population, 16 y +), the highest level so far during the pandemic – <u>no doubt the best piece of news in the labour market report</u>
- Still, the participation rate is down 1.5 pp (vs the working age population) vs the pre pandemic level, equalling 2.4% or 3.9 mill persons
  - » In November, 1.3 mill persons (-0.1 mill) responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons. Thus, most of those who have 'not returned' do not blame the coronavirus pandemic
- **The employment rate** climbed 0.4% to 59.2% (that's why the unemployment rate fell by 0.4% of the labour force) or by 1.14 mill, or 5 times more than the increase in non-farm payrolls. Over time, these two measures are reporting the same growth rates, but they may differ from month to month. The employment rate is still down 1.9 pp, equalling 3.1% or 5 mill persons

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

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





- Covid related outsiders that say they want a job are included in these discouraged workers data

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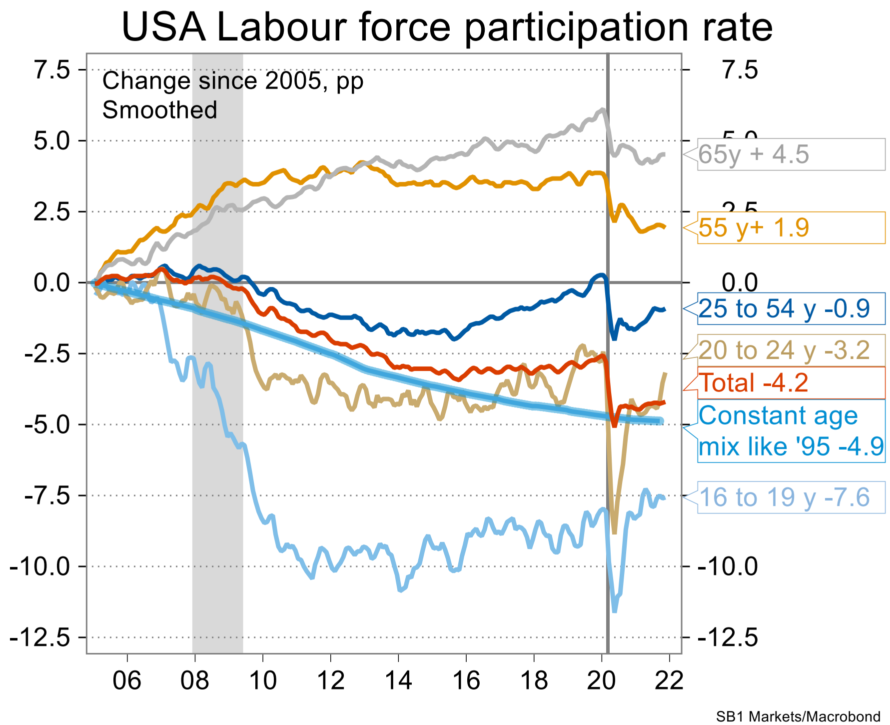
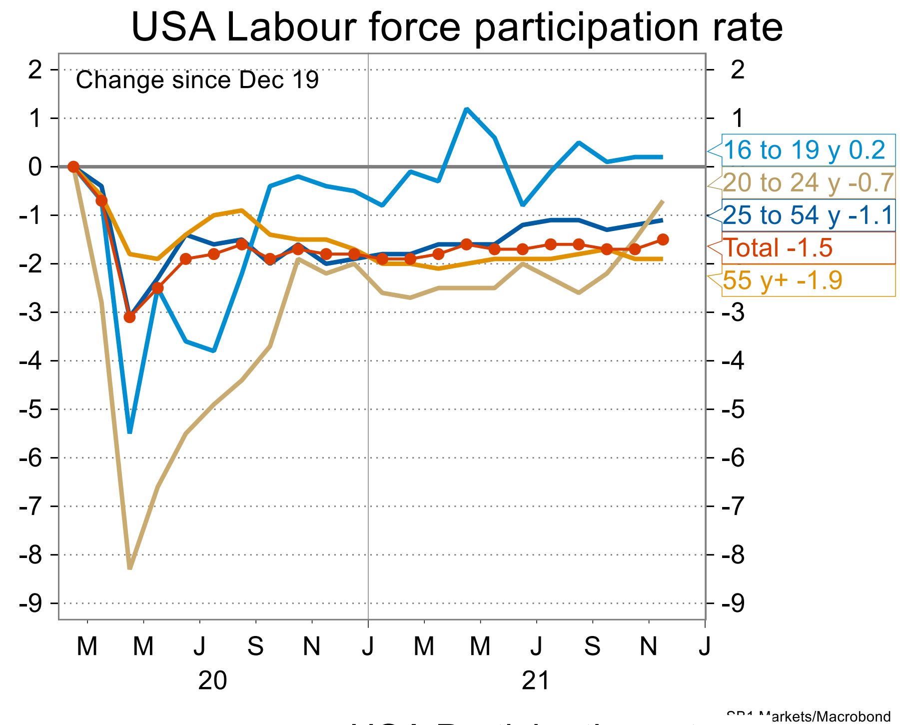
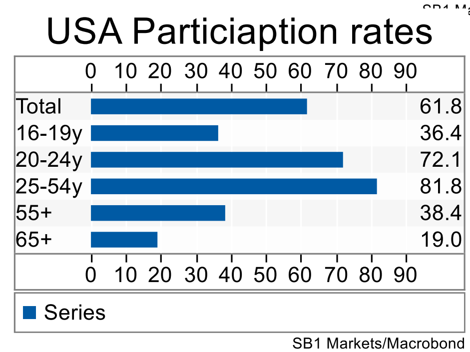
The potential: Participation among the core 25y -54y group is still trending upw.

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



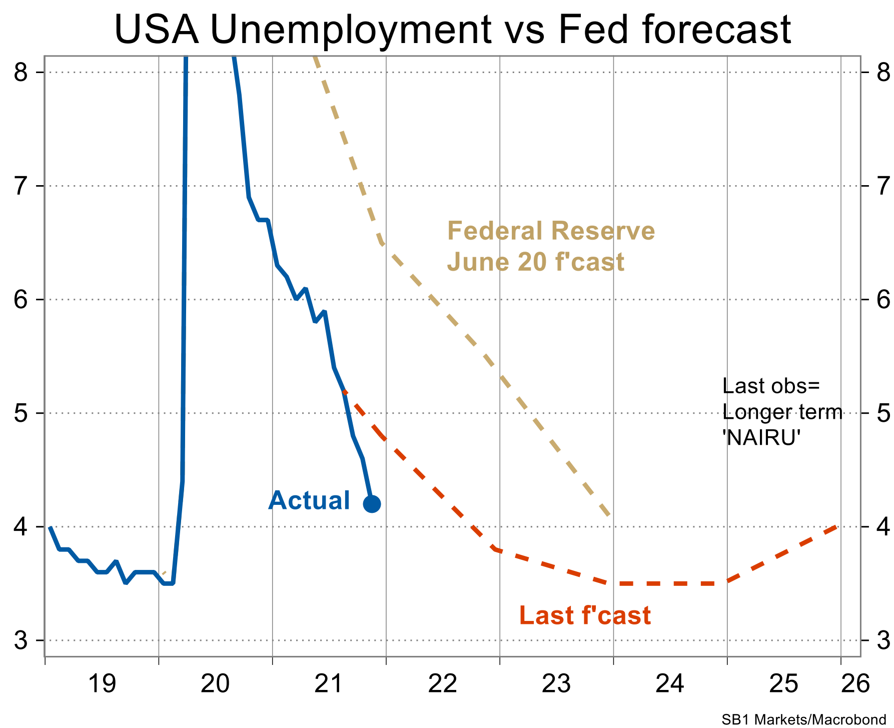


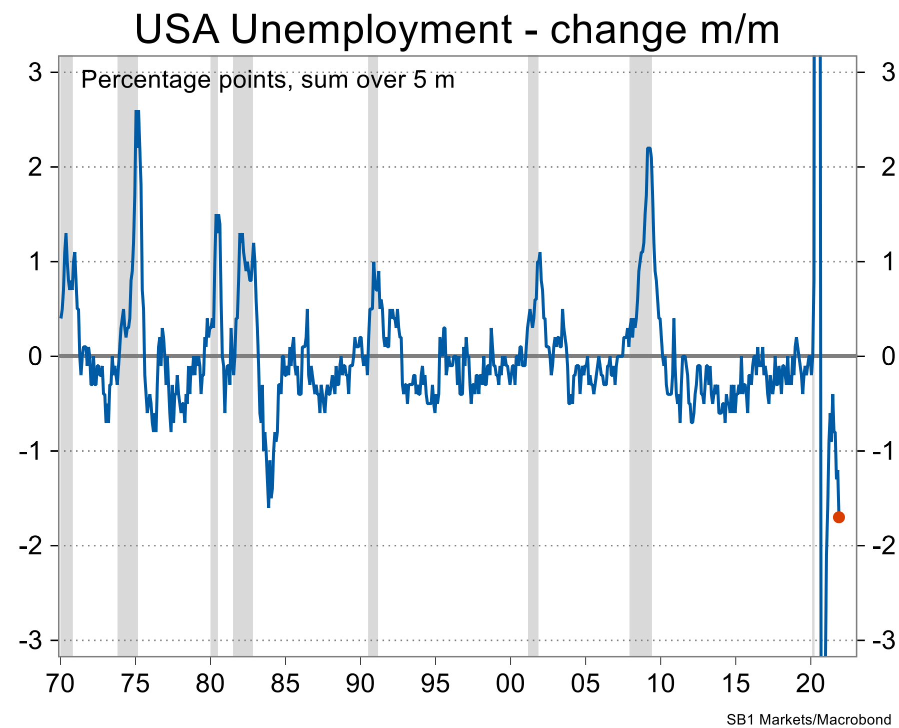
- A huge increase in participation (and employment) in the 20 – 24 y group past 3 months (and half of the 0.2 pp lift in the overall rate in Nov. was due to this cohort
- The trend has flattened among the 25 – 54 y group. Both men & women are still participating well less than before the pandemic
- As the US population is aging, a decline in the average participation rate over time is not a surprise. The chart above illustrates the this impact. The thick light blue line illustrates the impact on the participation rate due a higher share of older people in the work force since 2005



Unemployment is falling at a record pace

The unemployment rate nosedived 0.4 pp 4.2% in November, 0.3 pp more than expected!

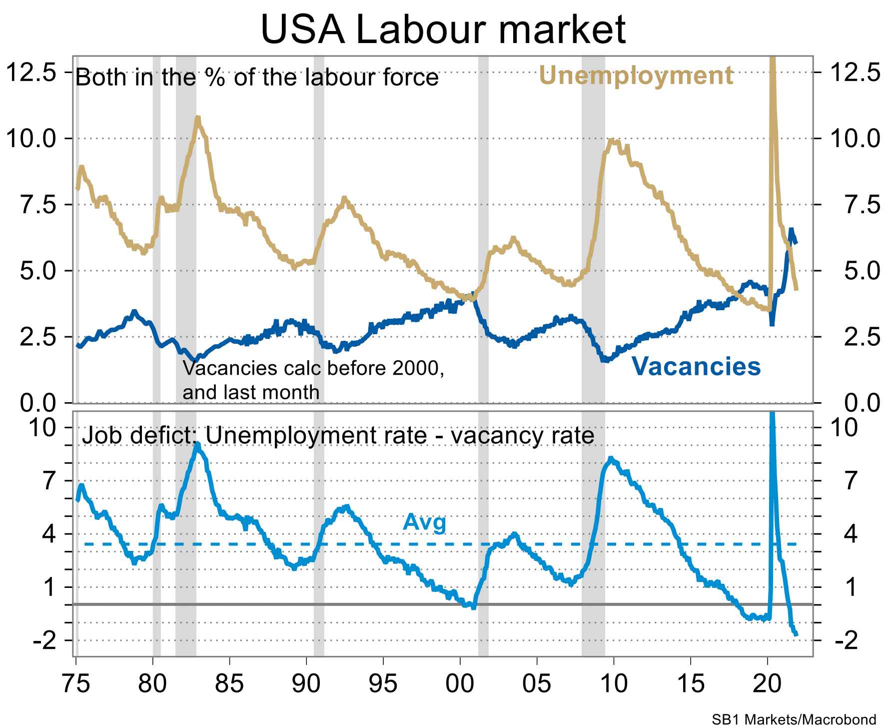


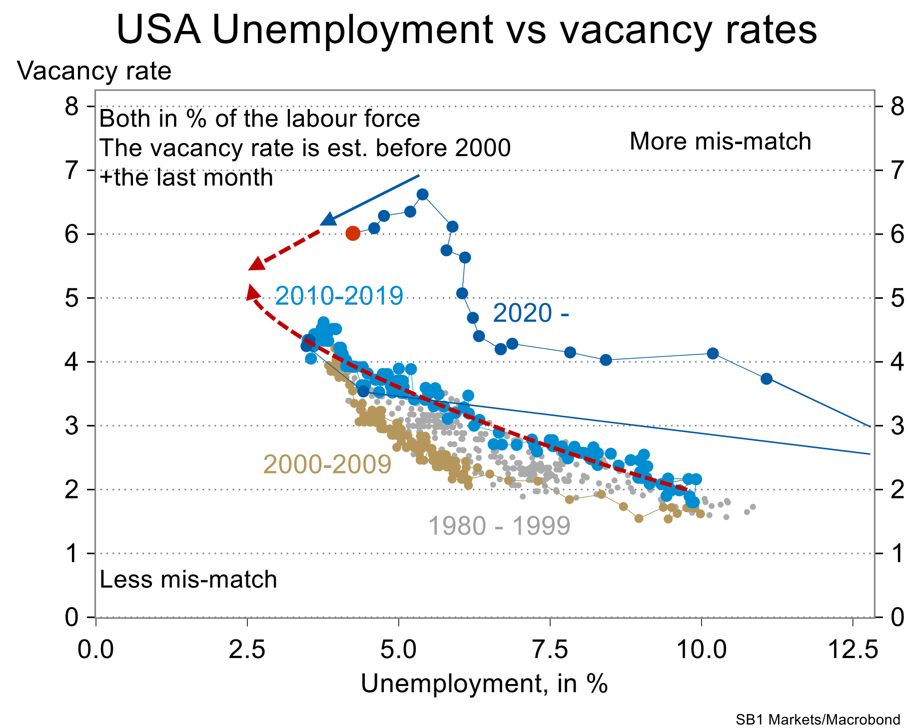


- The recent five months, the unemployment rate has fallen at the fastest pace ever, barring the initial decline in the unemployment rate after the first Covid-19 shock last spring/summer
- In September, the FOMC members expected that the unemployment rate would decline to 4.8% in Q4. In November it was 0.6 pp below this estimate, a level the bank assumed would be reached approx. in /August next year. It took just 3 months, not 12
- Households report that jobs very easy to get, as it the unemployment rate was well below 4%

An unprecedented mismatch on the labour market – but gradually decreasing

Still, the labour market is extremely tight

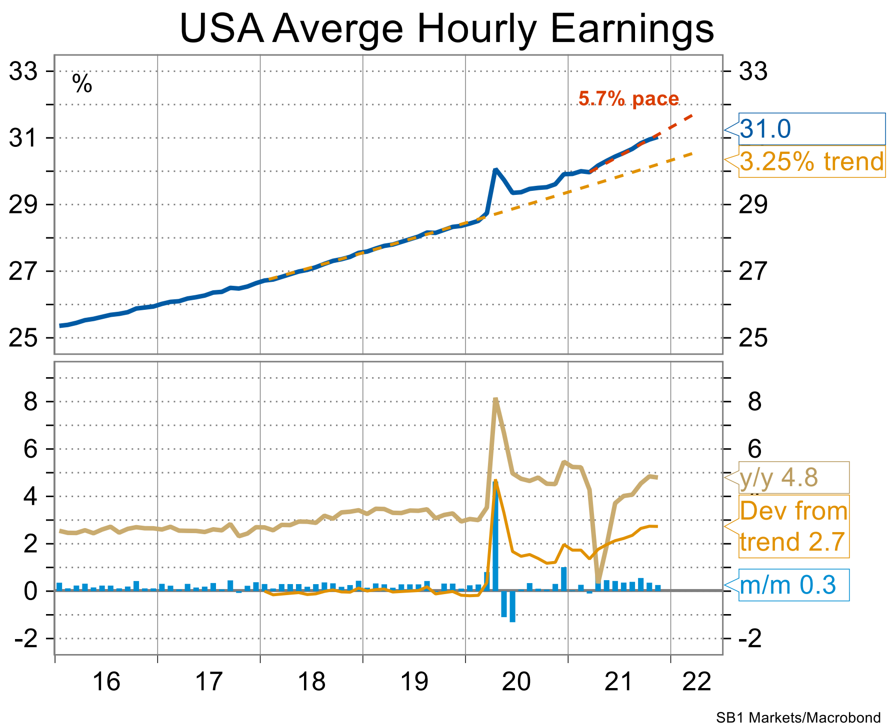




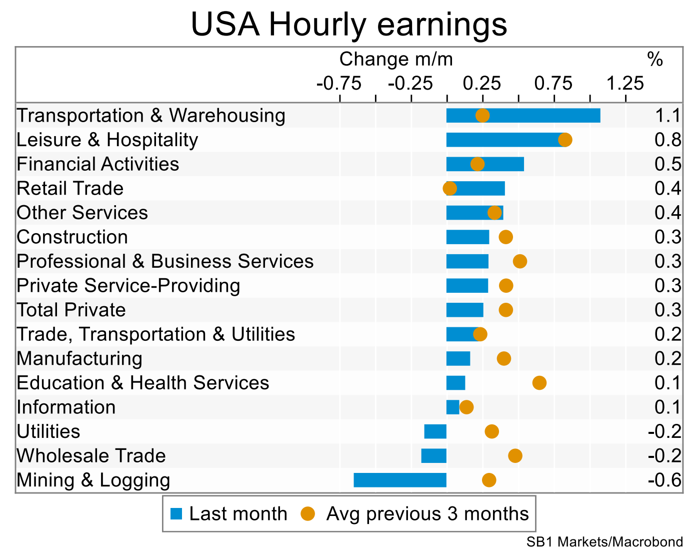
- 6.8 mill persons are **unemployed** - that is, they say they want a job and are actively search for a job but have not got a job
- At the same time, there are almost 10 mill **unfilled, vacant positions** (data until September, forecast by changes in not able to fill open positions in the NFIB survey in Oct & Nov). The record high gap equals almost 2% of the labour force (if all vacant positions were filled, unemployment would have been -2%, not that easy). In average, the unemployment rate has been almost 3.5% higher than the vacancy rate. The difference vs an 'average labour market' is 5 pp!
- Over the past 4 months, the UV-curve (Beveridge) has moved in the 'right' direction (blue arrow), as the vacancy has declined marginally. As unemployment is declining rapidly, the labour market may 'hit' the old UV-curve sometime next year, however at a position where the labour market is tighter than ever (low employment, still many vacancies (red arrows, up left at the UV-curve)

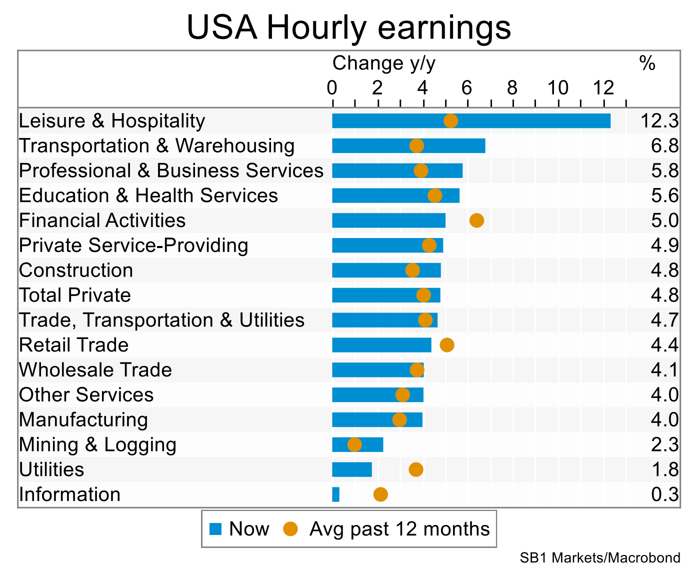
The average wage up 0.3% in Nov, the pace since the spring at 5.7%

Even if low paid employees have returned to the labour market…



- The average wage rose 0.3%, 0.1 pp less than expected. The annual rate rose was steady at a downward revised 4.8% rate (exp. 5.0%)
- Since April, the underlying wage growth has equalled 5.7%. It is not possible to blame the employment mix
- Wages in leisure, hotels & restaurants rose by 0.9% and they are up 12.3% y/y! Transport & warehousing added 1.1% in Nov, up 6.8% y/y
- <u>However wage growth has slowed in 10 of 15 sectors</u> (Nov m/m vs avg. the prev 3 m)





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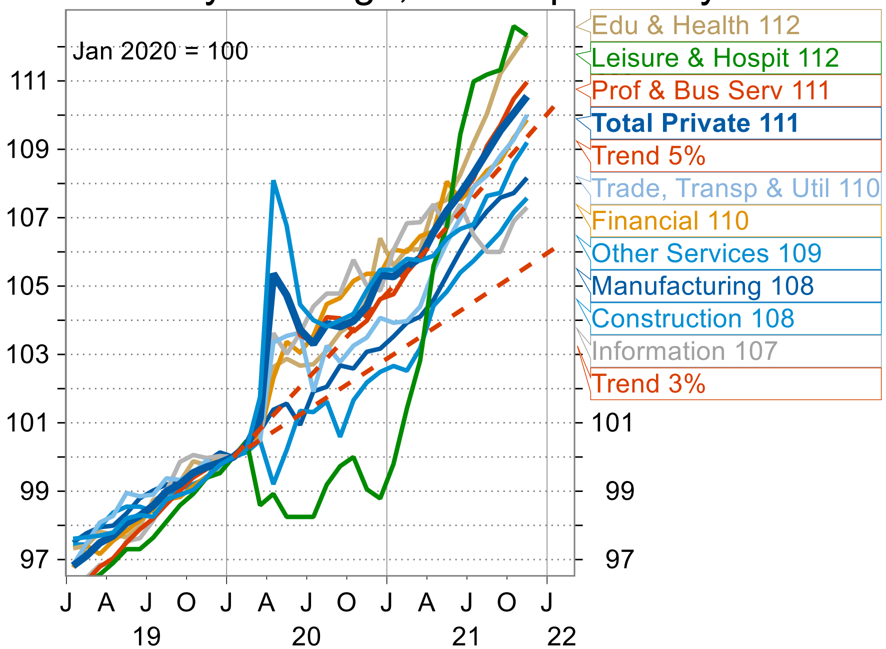
Wages are up 7% – 12% vs the pre-pandemic level (a 4 – 7% growth pace, avg 6%)

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

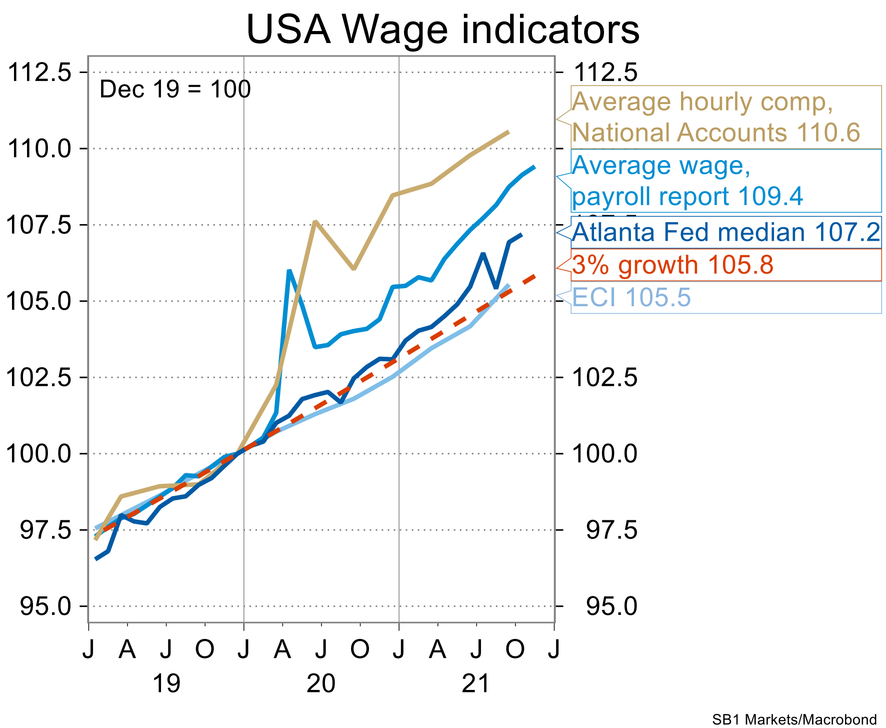
USA Hourly earnings, non-supervisory workers

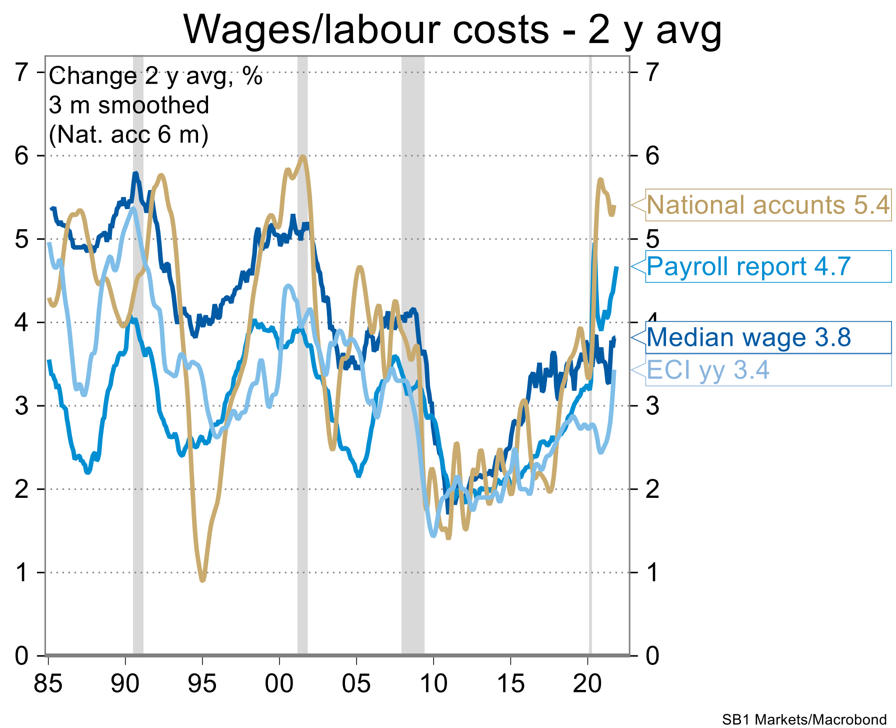


SB1 Markets/Macrobond

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

All wage indicators are reporting higher wage inflation





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

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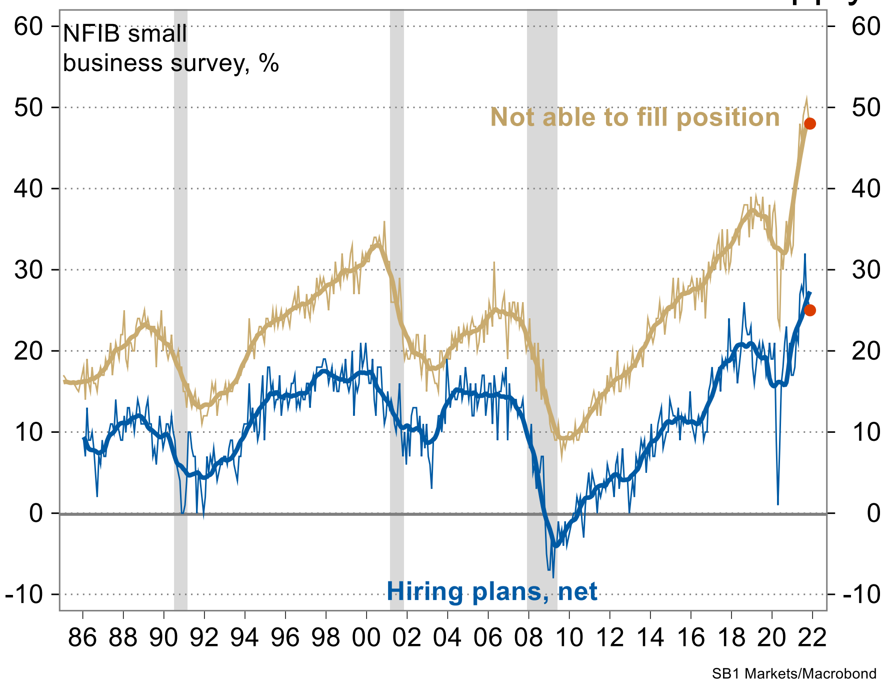
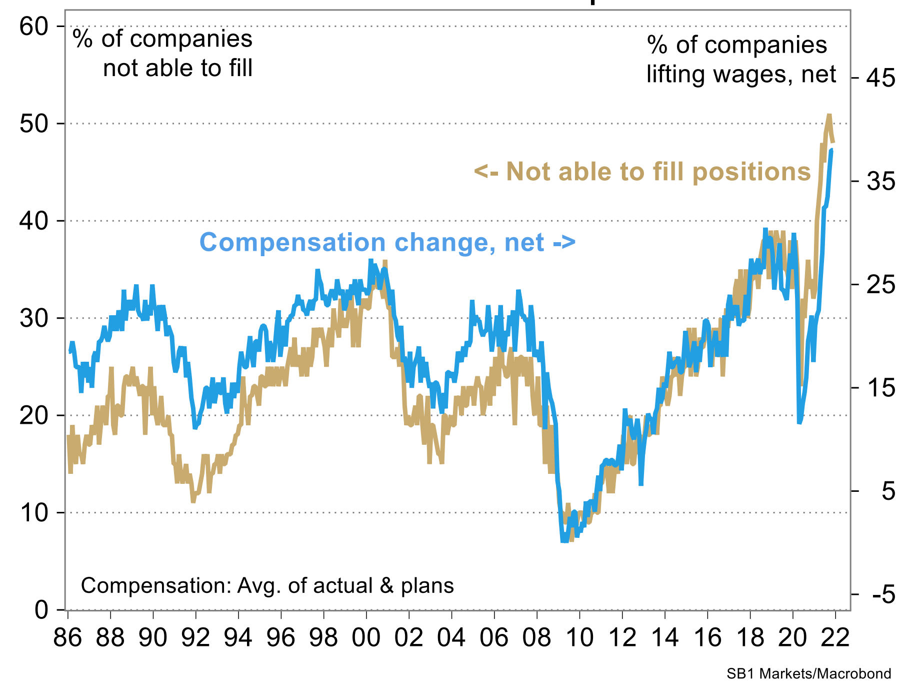
A tad fewer SMBs reported they were not able to fill open positions in Nov too…

But the share is close to ATH, and as record share of companies reported plans to increase wages

USA Small businesses labour demand/supply



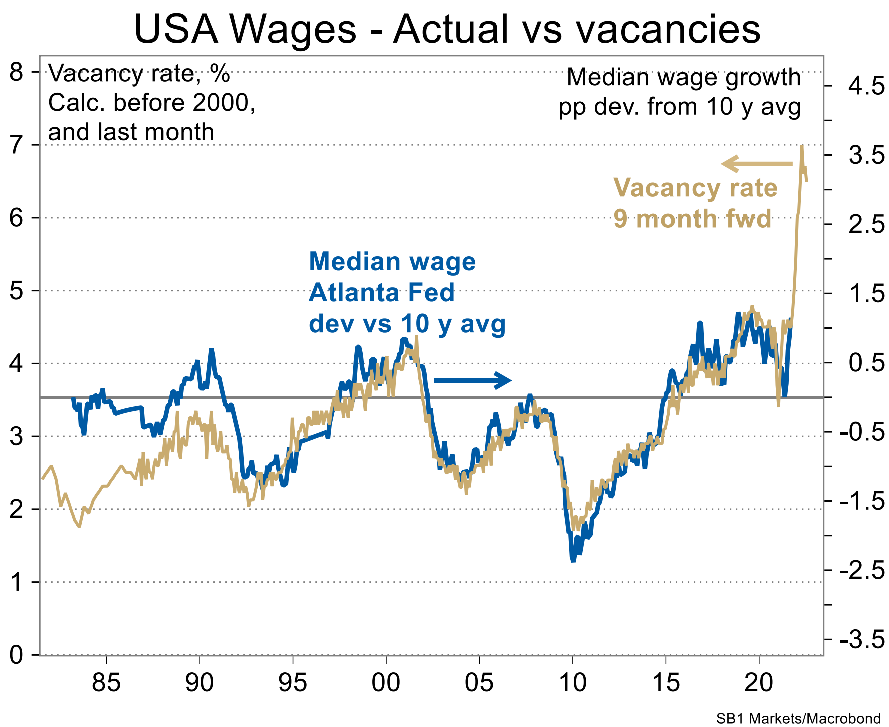
USA Vacancies vs. compensation

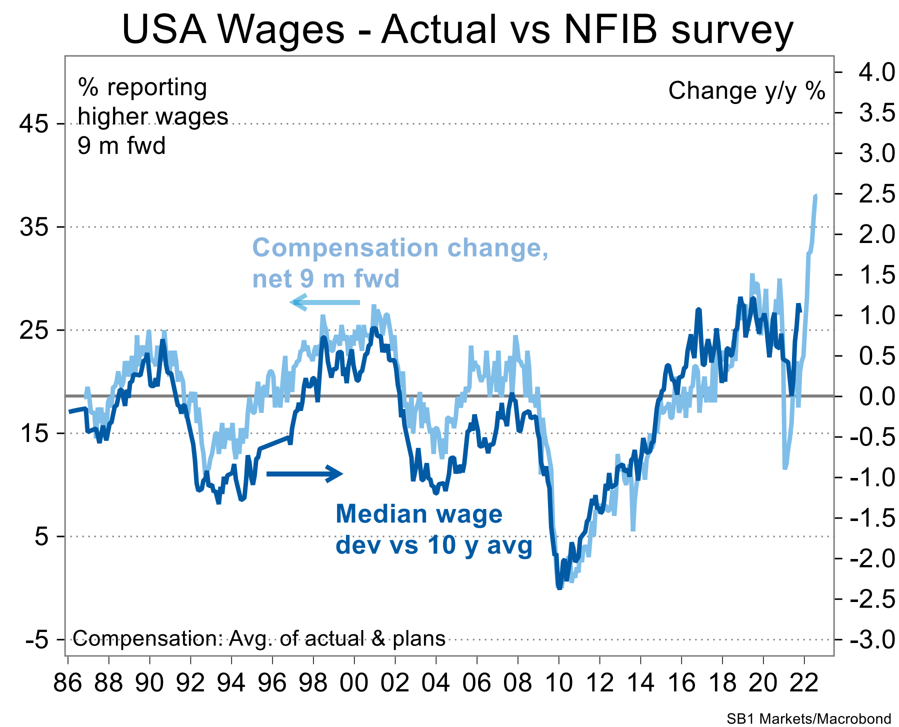


- **SMB's hiring plans** also declined marginally in November but are still close to record high too
- As a consequence, a record high share of companies continued to report that they plan to lift **labour compensation** in November (like in October, data from 1986)
  - » The share of companies that reported plans to lift compensation was unch at 38%. Until 2021, the max level was 30%, and the average level is below 20%
  - » The correlation to actual wage growth is pretty close, check the next page

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

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

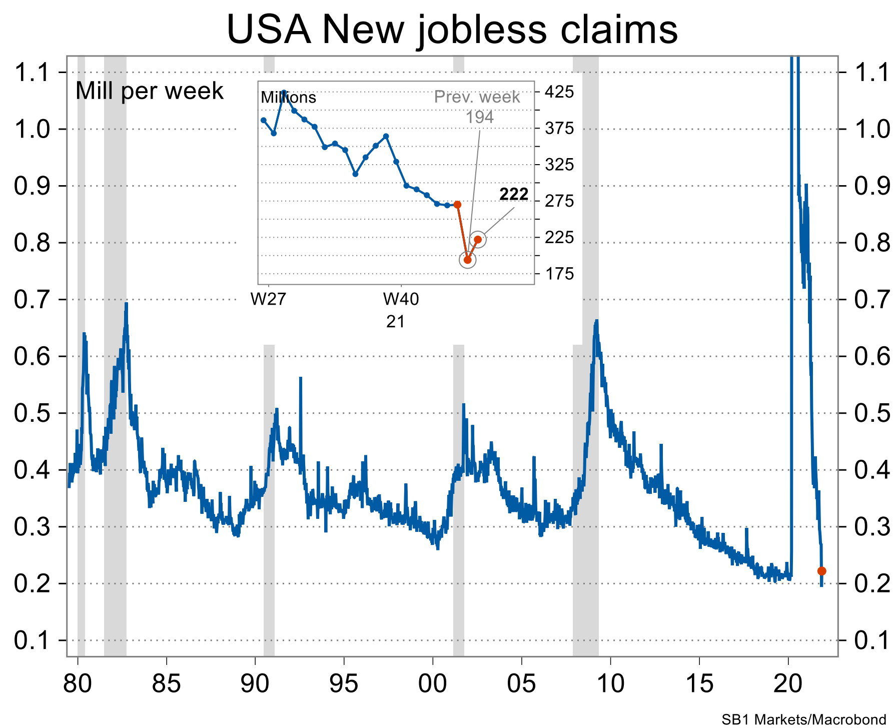


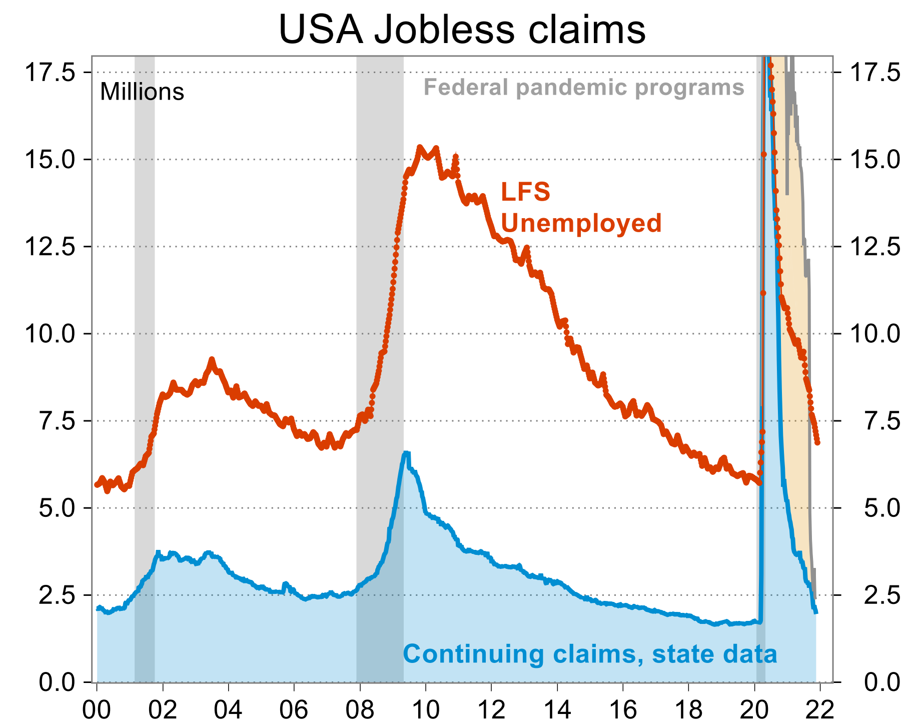


- More companies than ever before (data from 1986) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled vacancies and actual wage growth is even tighter, with the same lag
- No doubt, these data were important for Powell and the Federal Reserve when they announced the change tack last week, after all inflation was perhaps not transitory

New jobless claims up from ATL last week, level still very low

No of continued jobless claims is rapidly declining too

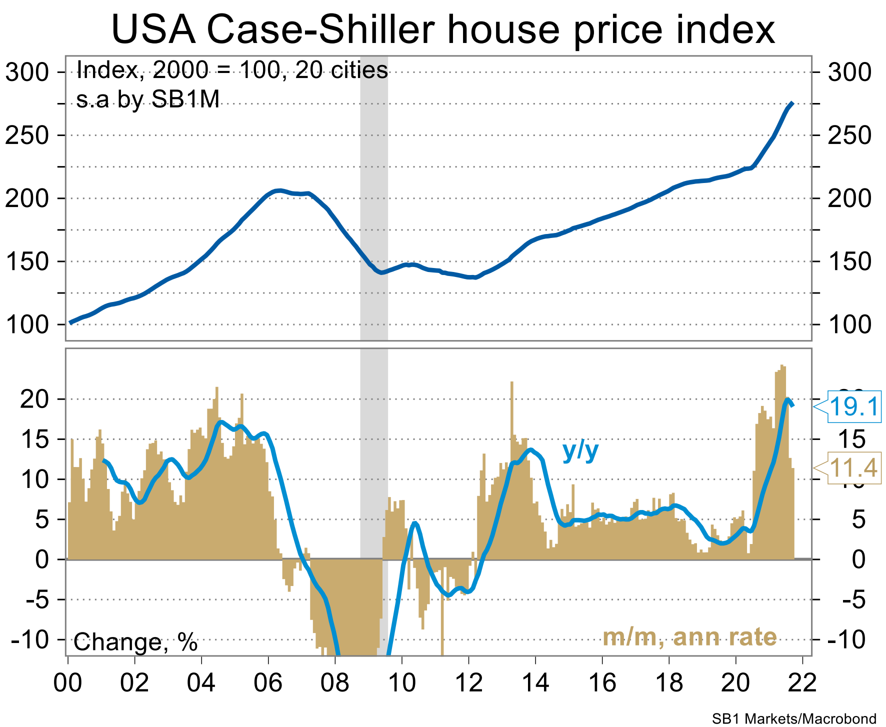


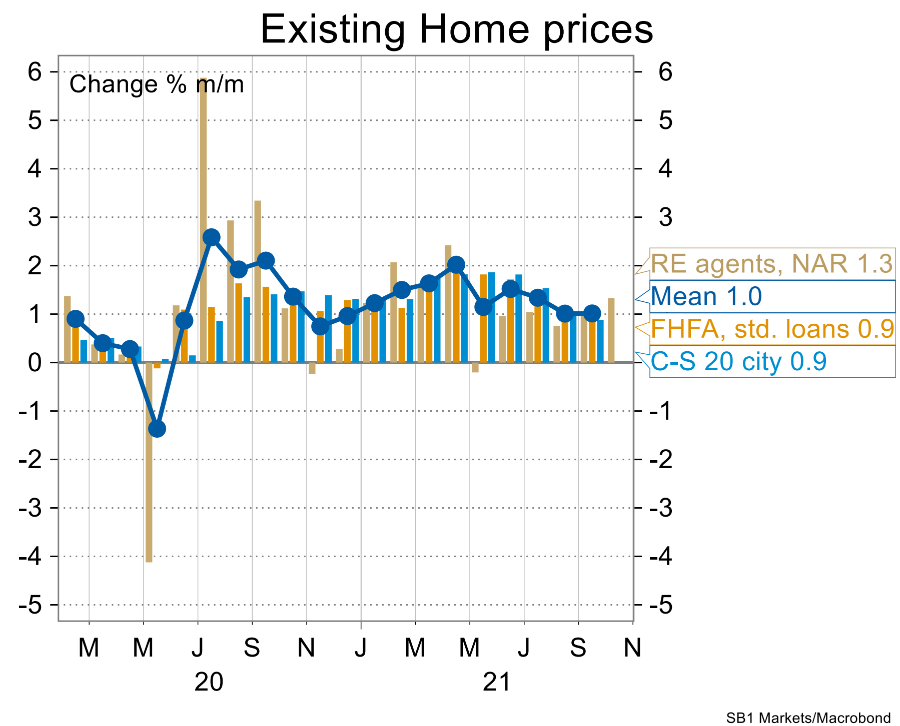


- **New jobless claims** fell to ALT at 194’ in week 46. Last week, 222’ turned up, expected up to 255’ – and still well below the 270’ level the 3 weeks before the drop to 194’
- **Ordinary continuing claims** fell by 107’ to 1.956 mill in <u>week 46, to less than 0.3 mill above the pre-pandemic level</u>
- This report surely confirms a tight labour market

House prices inflation is slowing but is still strong

Prices up 'just' 0.9% m/m (11% annualised), down from 1.6% in July. Other indices confirm slowdown

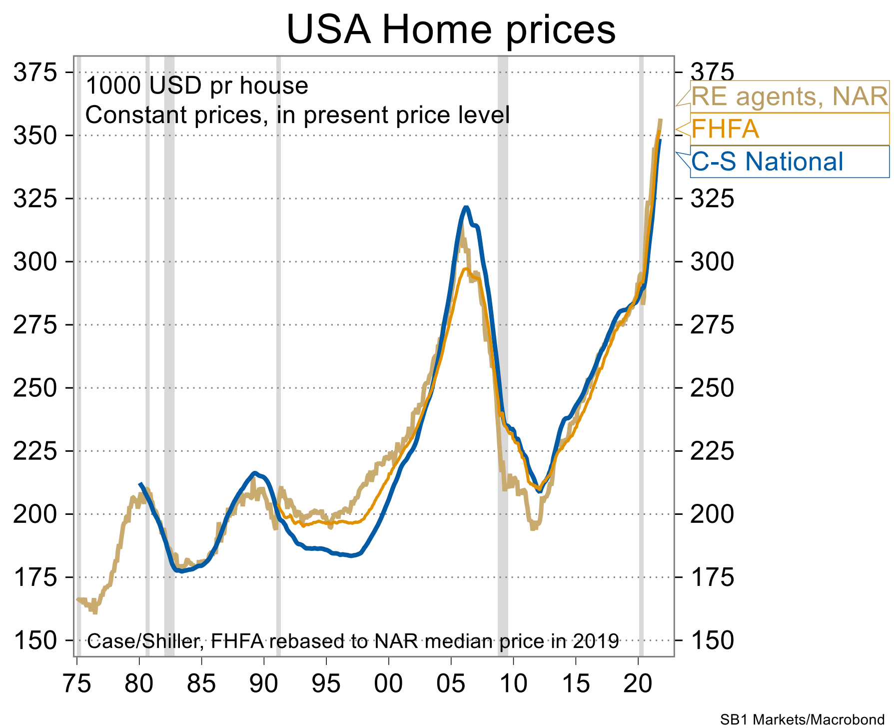


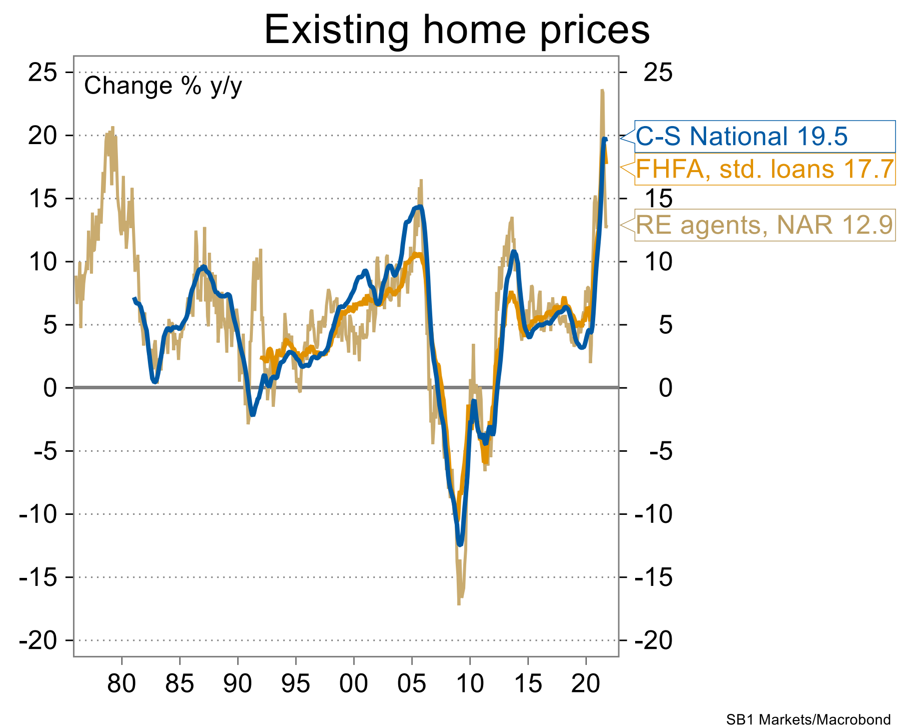


- **S&P's Case/Shiller's 20 cities** price index rose 1.6% m/m in August (July – Sept avg), equalling a 13% annualised pace, the slowest growth rate since July last year. The annual growth rate at 19.7 %, down from 20.0% in July – which was the highest growth rate since just after WWII. The **national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

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

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

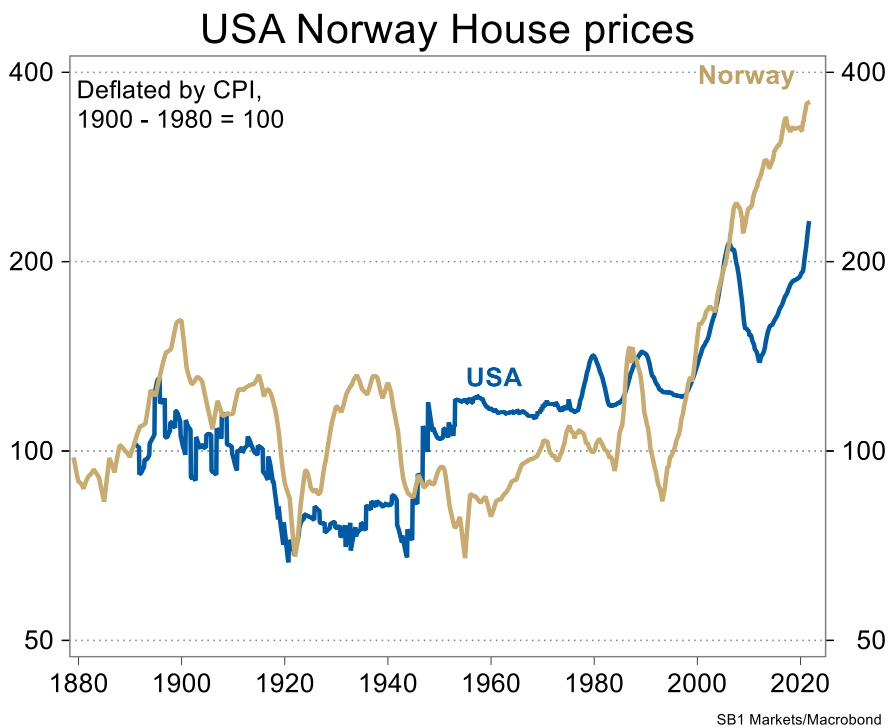


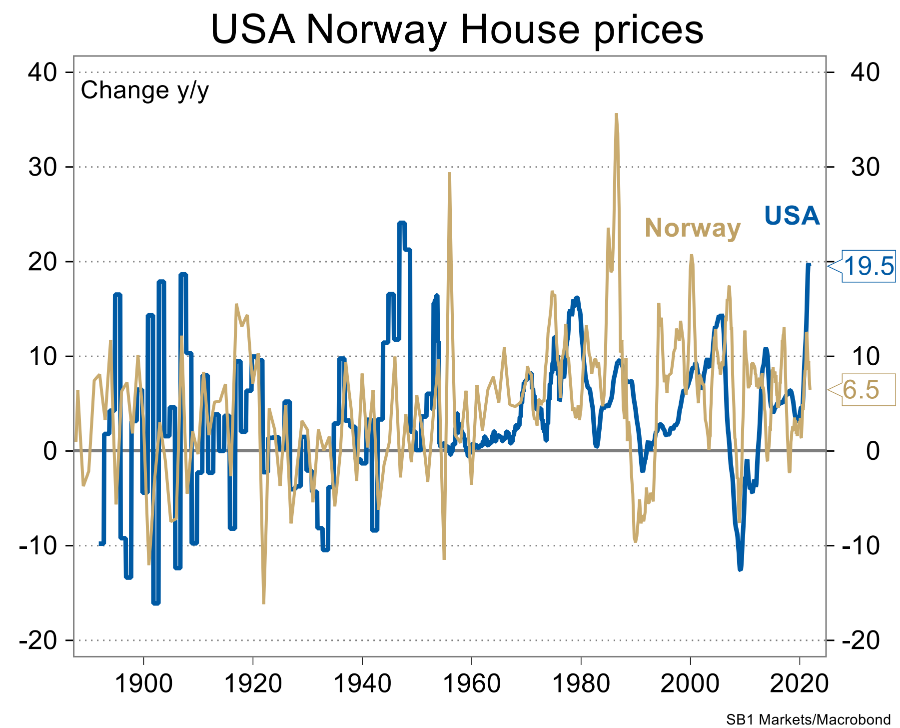


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index are reporting high highest house price appreciation ever (or since 1948), and record high real price levels, with data covering the past 30 – 45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

For the record

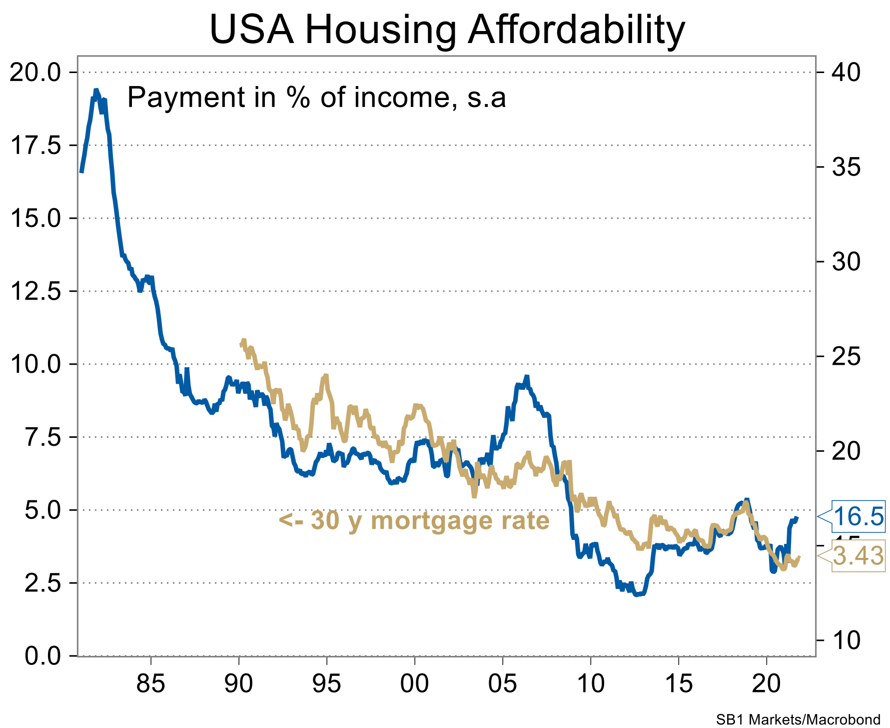
Some entertaining house price charts

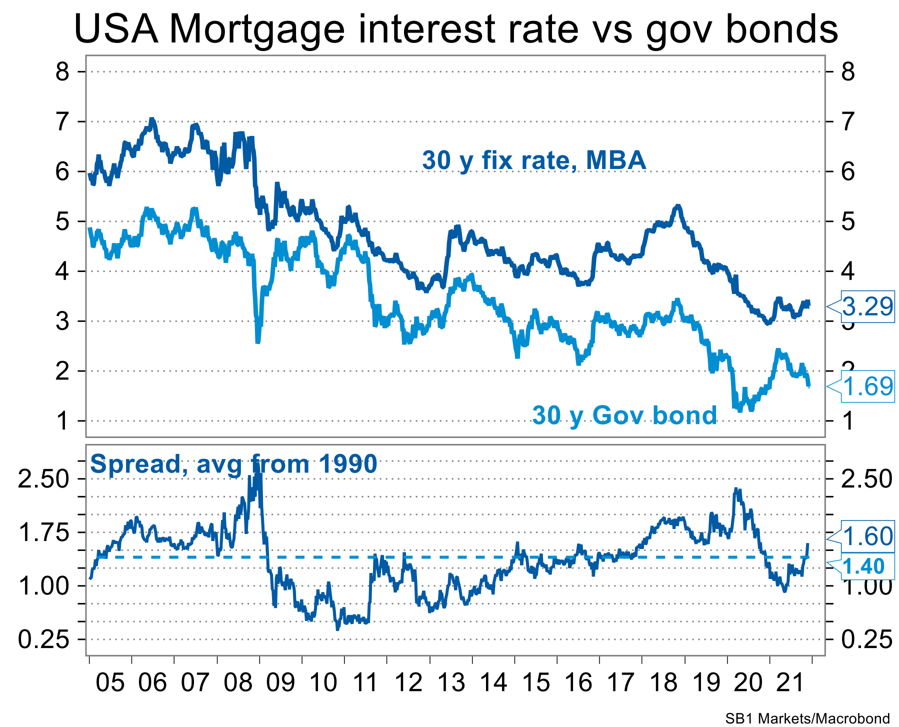


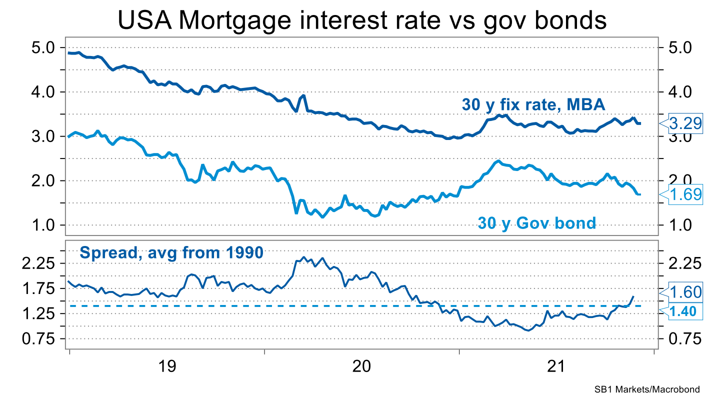


Mortgage rates are drifting up, the spread vs gov. bonds is widening

End of Fed's aggressive bond buying program in sight? The 30 mortg./gov spread up 60 bps to 160 bps

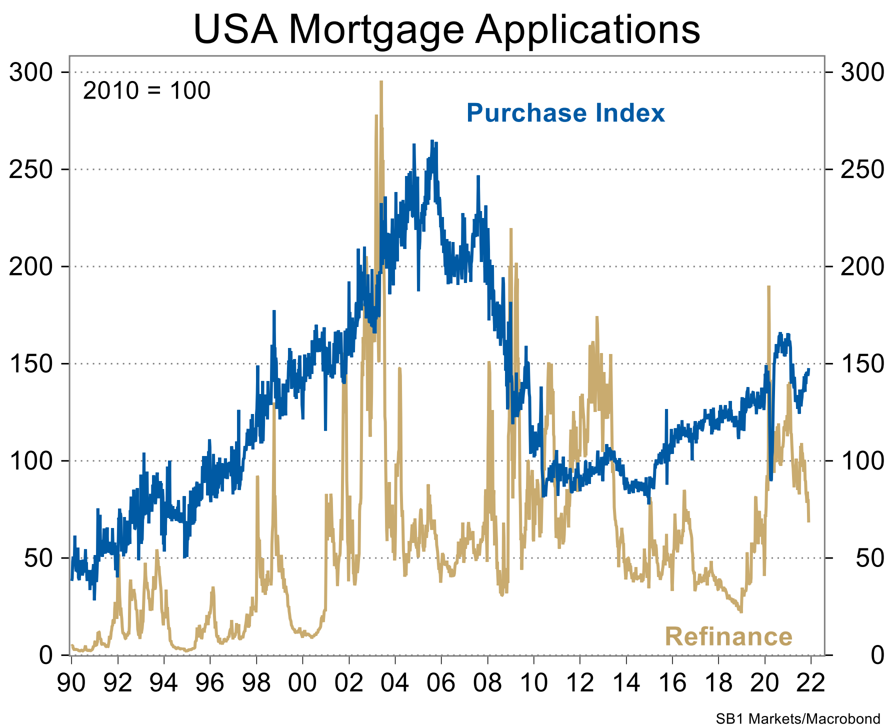


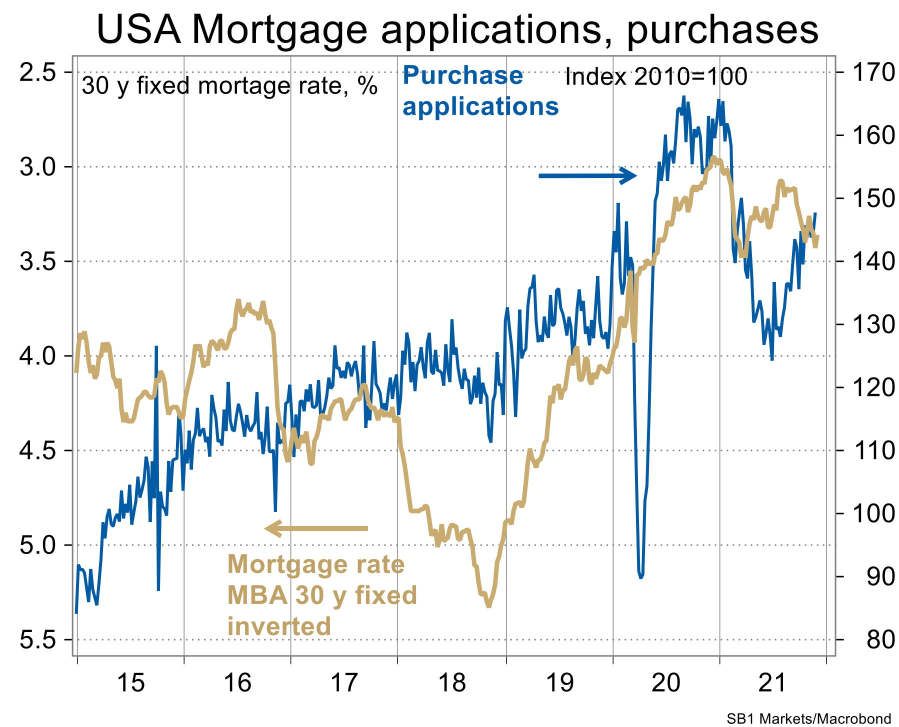




- **The 30 y fixed mortgage** rate has moved upward even if the 30 y Government bond rate has fallen substantially recent months
- **Household mortgage** debt is up by some USD 500 bn y/y. Fed has until November been buying USD 40 bn per month, 480 bn per year, as a part of the QE program. <u>The Fed has been funding the housing party, all of it! However, Fed has started winding down these purchases, and plans to do so, month by month</u>

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

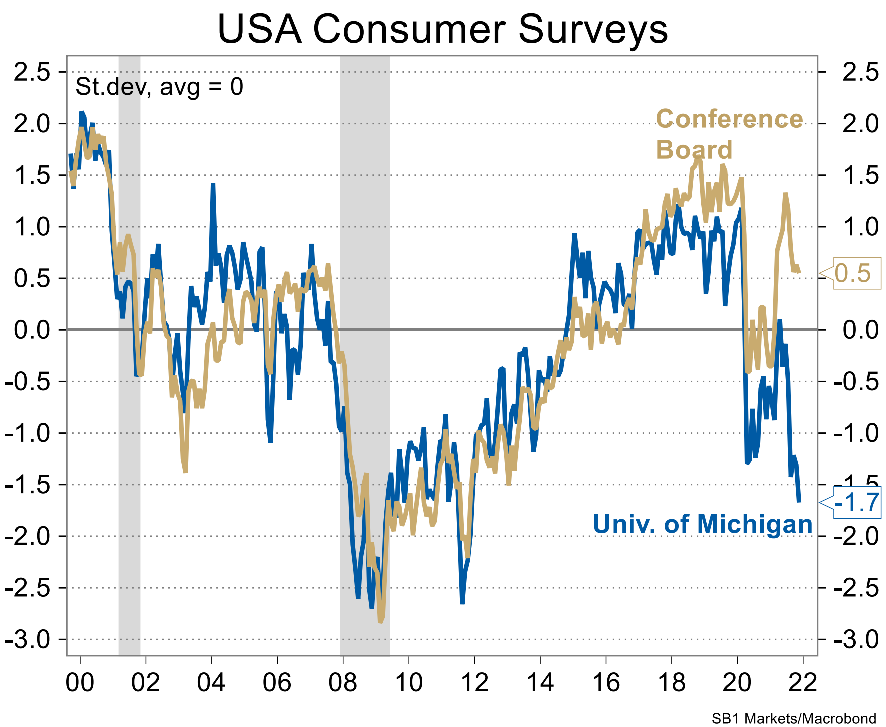




- Demand for new mortgages rose marginally last week but has not responded to the 40 bps decline in the 30-year mortgage rate since March – the no. of applications has fallen
- Demand for new mortgages (for buying, not refinancing) is not closely correlated to mortgage rates but the increase in demand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

Conference Board's confidence stronger in October – on another planet than UM

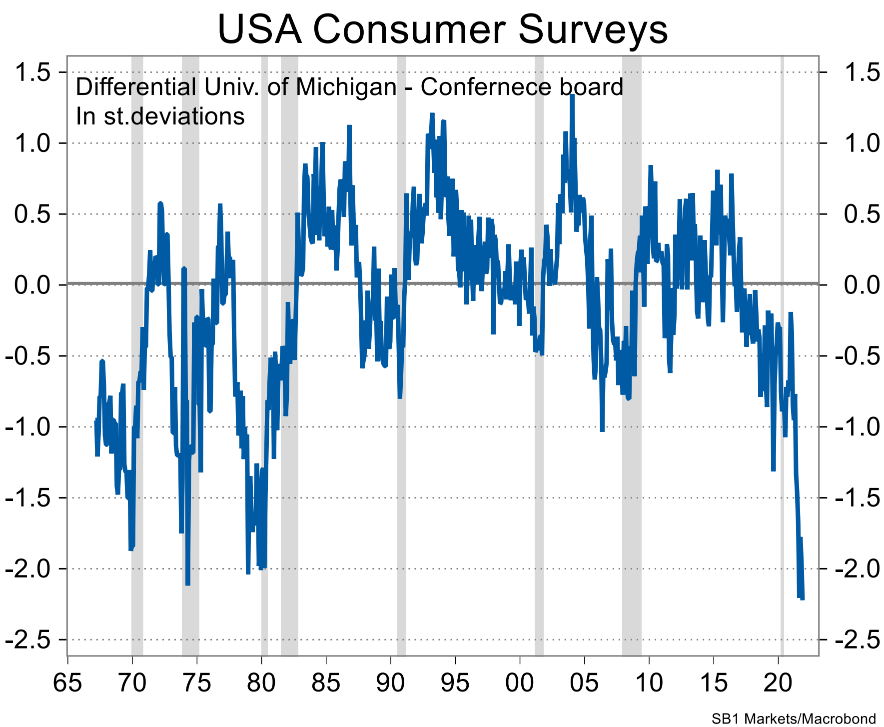
CB's index fell 0.1 st.dev to +0.5, slightly weaker than exp. But still miles above the Univ of Mich surv.

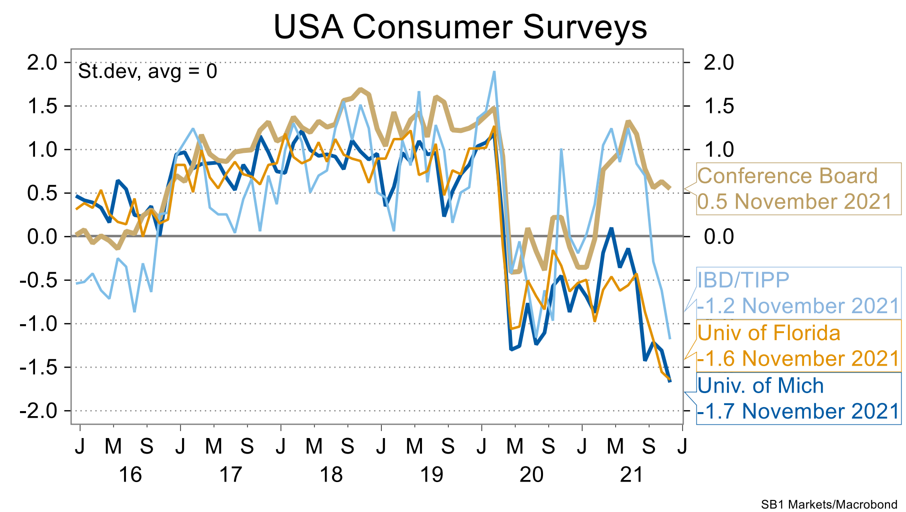


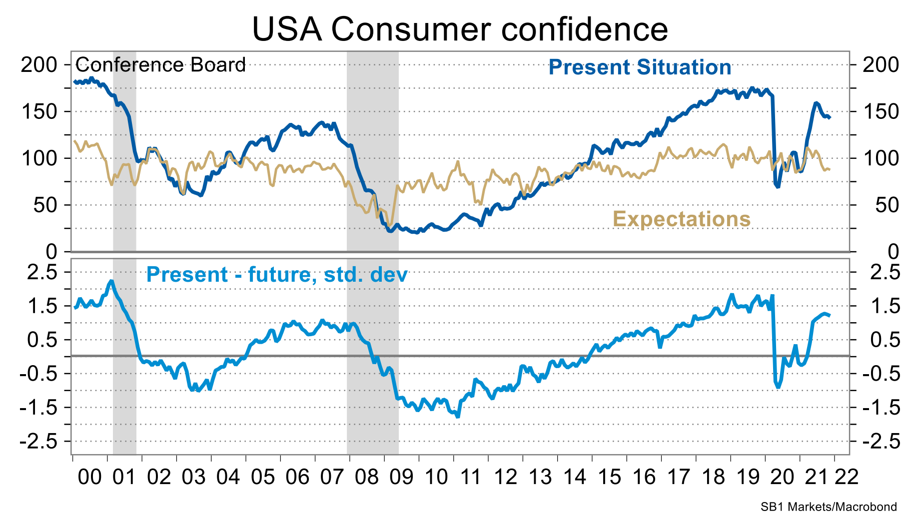
- The **Conference Board's consumer confidence** index fell to 109.5 in November, from 111.6 in October (revised down 2.2 p), expected 110.7. The index is 0.5 st.dev above average, down 0.1 last month. Both the assessment of the current situation and expectations rose (almost in tandem)
  - » Households still report a tight labour market and have adjusted their spending plans upwards for the first time since June
- **University of Michigan's sentiment** survey was revised just marginally up but are still down vs September. The level is 1.3 st.dev below average – below the level during the virus outbreak last spring
  - » Thus, discrepancy between the two surveys is still very large in October
  - » If the UM survey is falling faster than CBs survey, often something unfortunate happens afterwards, check next page

The gap between consumer surveys is highly unusual

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



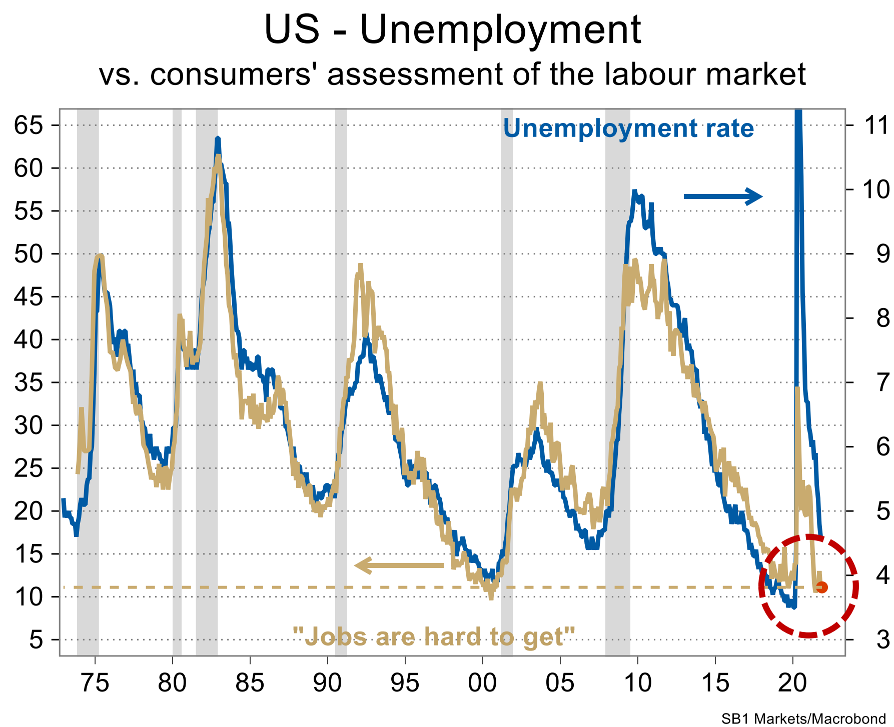


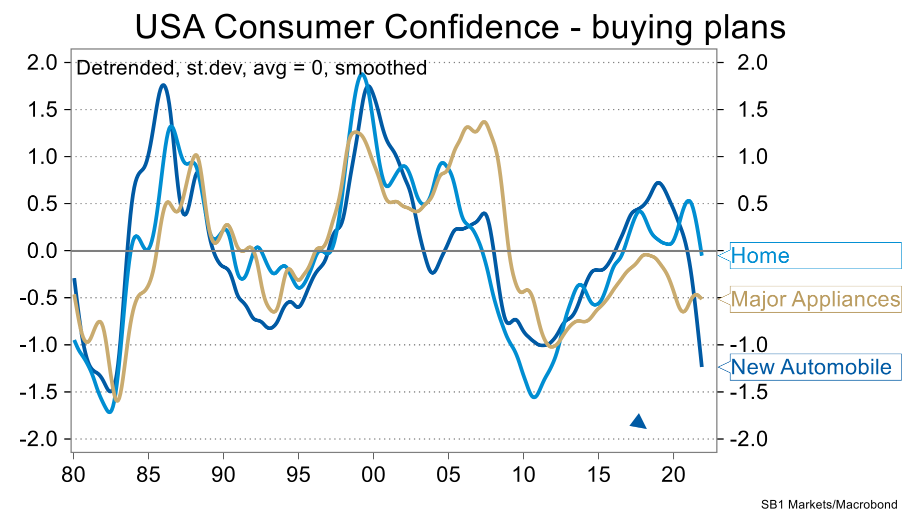


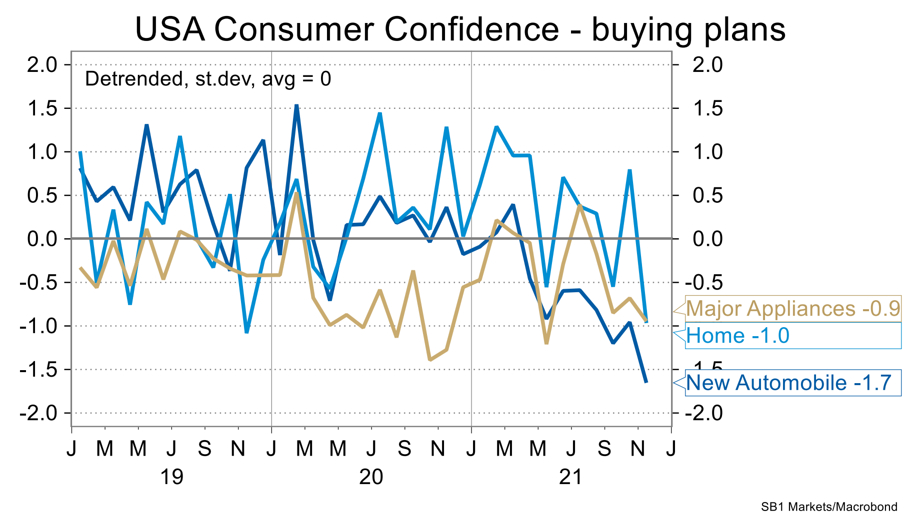
- All other surveys are down, and all but CB's survey have fallen to below average – and far below average
- High inflation is normally not welcomed, but we have not been able to explain the drop in UM sentiment by the traditional factors (including inflation and inflation expectations but also including growth, unemployment, mortgage rates etc). In addition, the sentiment soured without any deterioration of the Covid-19 situation (and of course well before Omicron arrived)
- Simply, we do not have good explanation!

Jobs are extremely easy to get, as if the unemployment was well below 4%

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



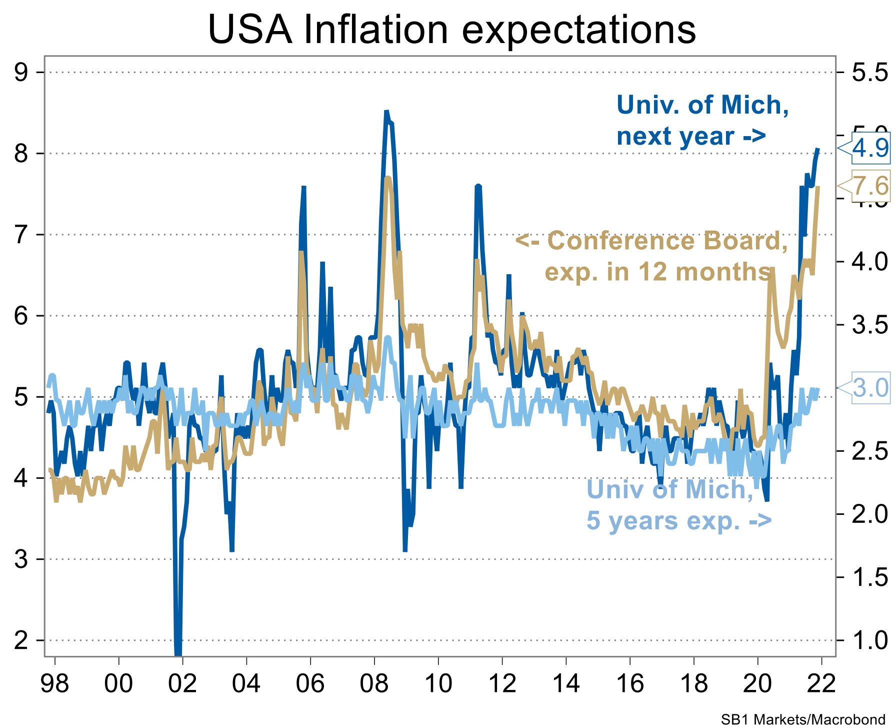




- … perhaps because the labour market is much tighter than the (quite low) current unemployment suggests?
- Household spending plans are volatile, and in sum not aggressive – and in November home buying plans fell sharply
  - » Plans for buying a new care as much lower than normal, for good reasons

Inflation expectations are still on the way up

Inflation expectations are elevated and climbed further in November

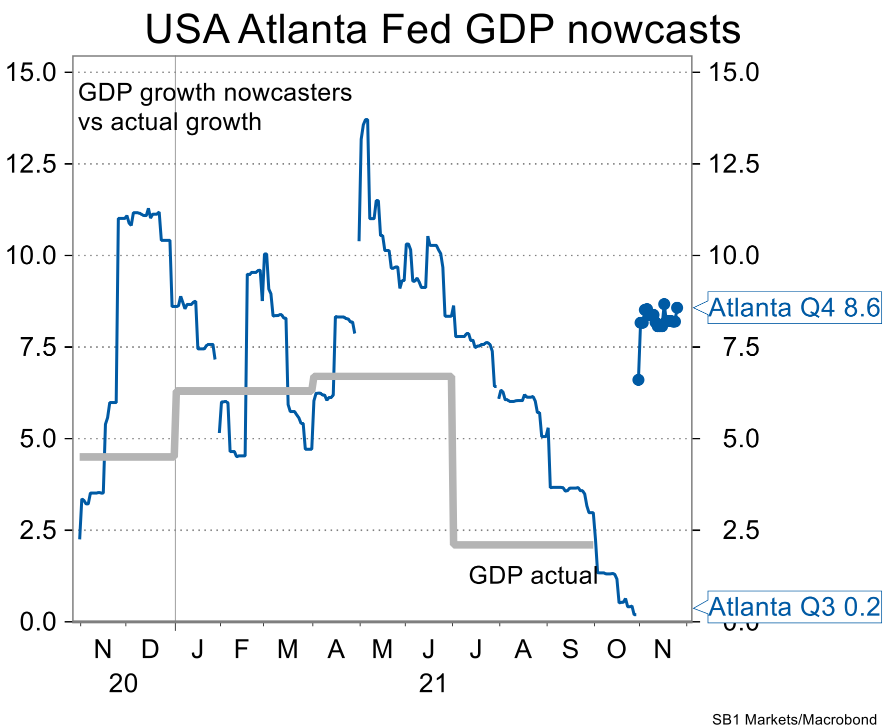


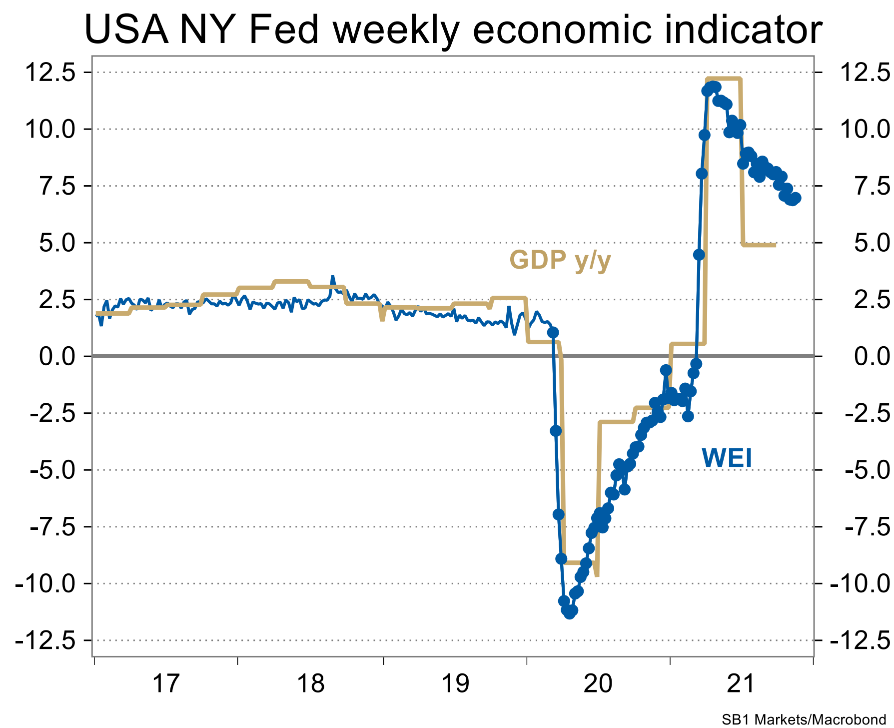
- However, we have seen higher expectations a decade ago – and it is not obvious how important they are, according to new research at the Federal Reserve

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

Atlanta Fed's nowcaster suggests 8.6% growth in Q4!

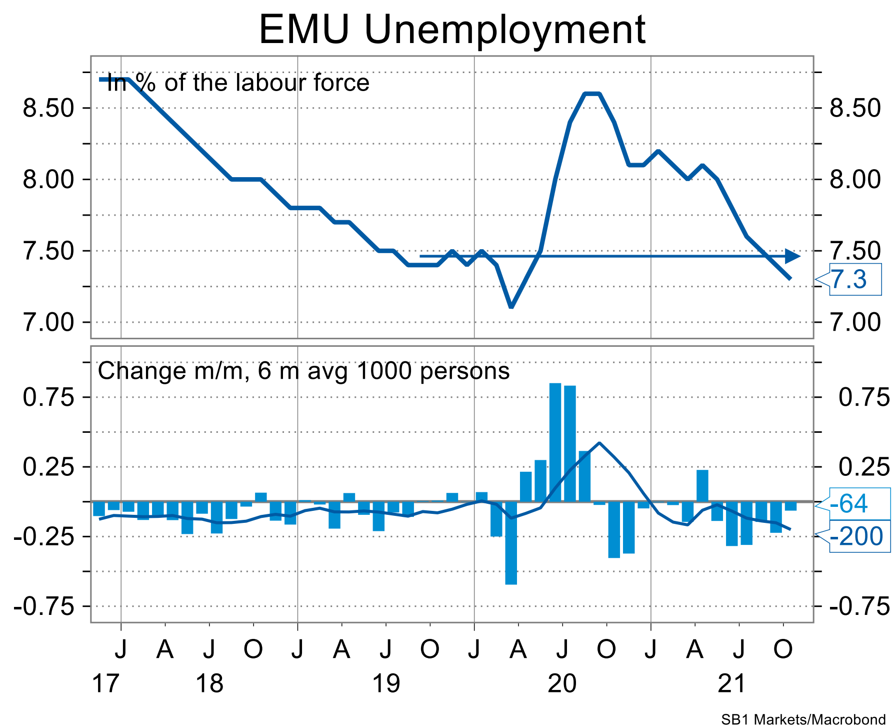
If so, GDP will be up 5.9% y/y in Q4, a tad less than NY Fed's weekly indicator suggests

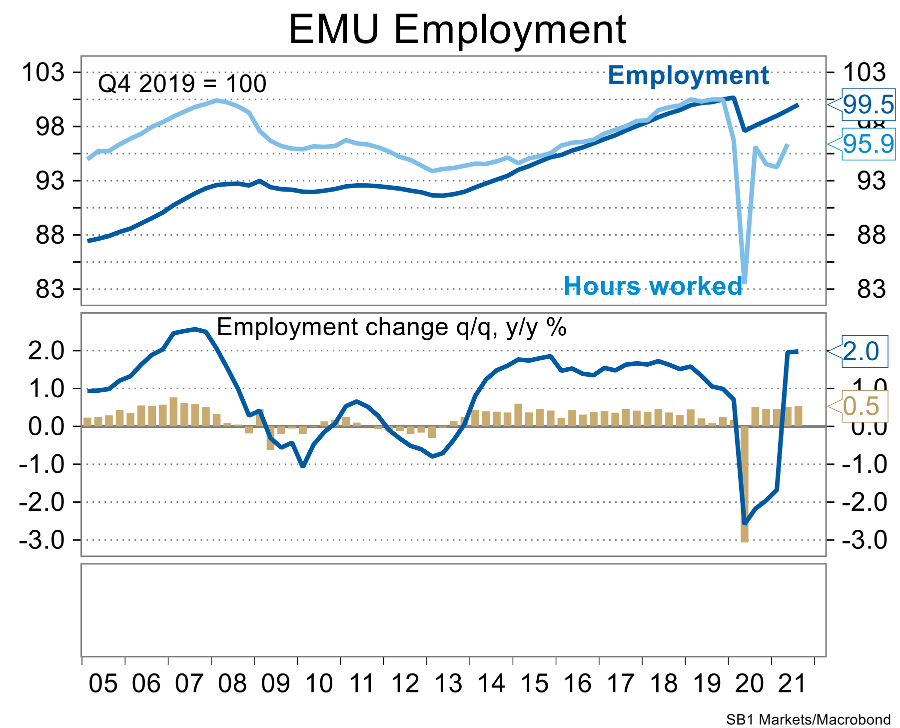




- … and in line with Federal Reserves September f'cast

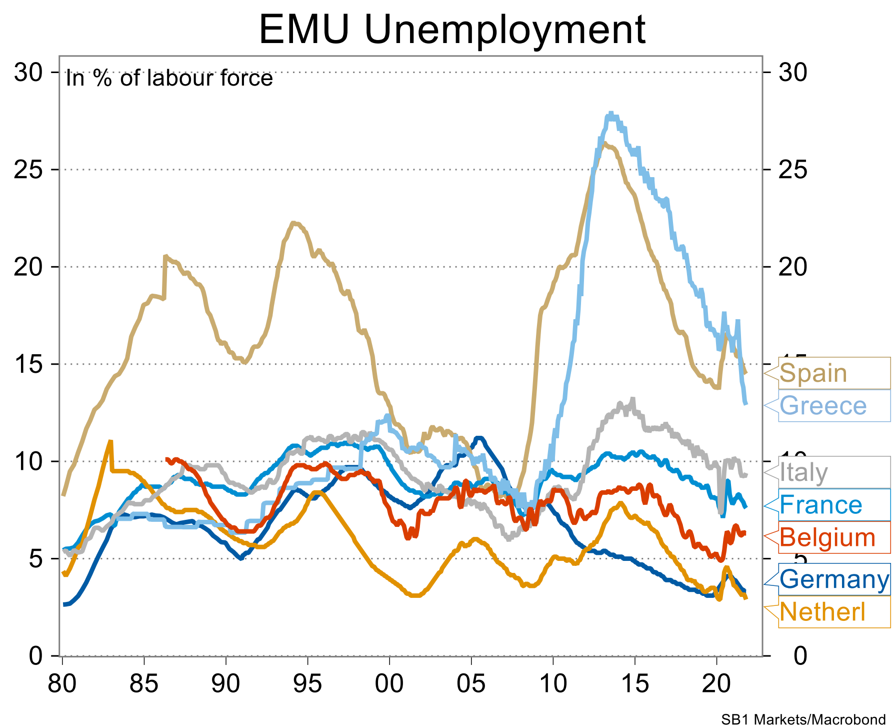
Unemployment fell further in October – to 7.3%

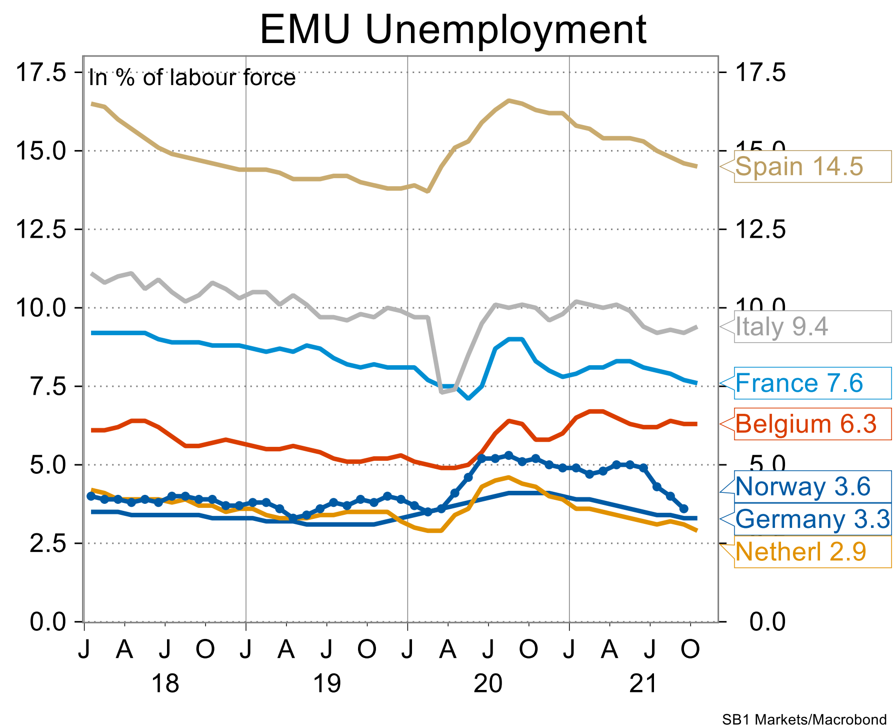




- **Unemployment** is falling rapidly as the economies are opening up. In October, the unemployment rate fell 0.1 pp to 7.3%, as expected, and the level is well below the average in the months before the pandemic hit
  - » However, the monthly decline measured in '000 to 64', the slowest reduction since the lift in unemployment in April
- **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** sharply in Q3, to the highest level ever (chart 2 pages fwd)

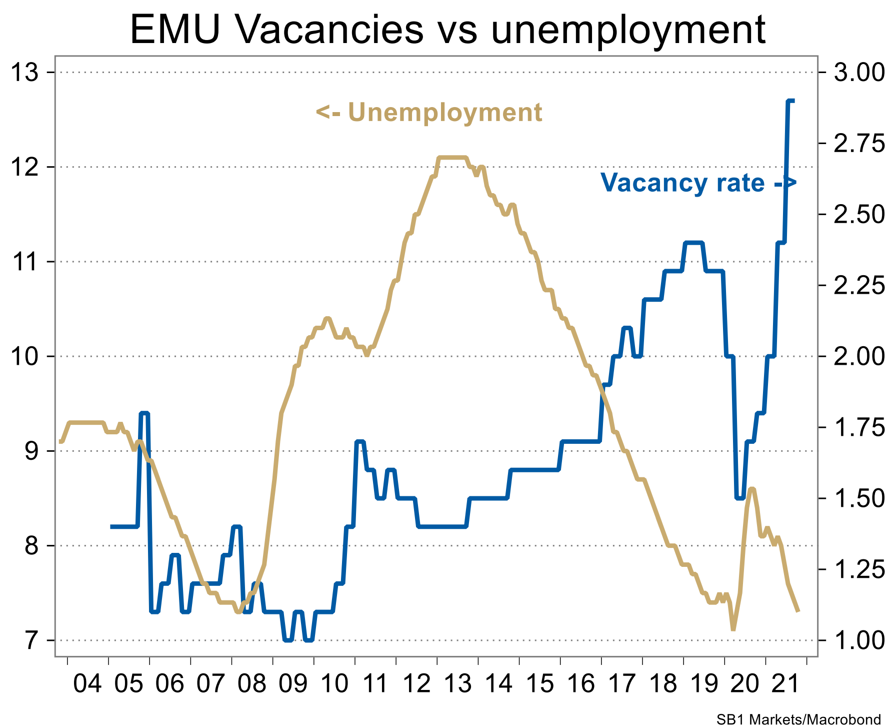
Unemployment is falling all over the region

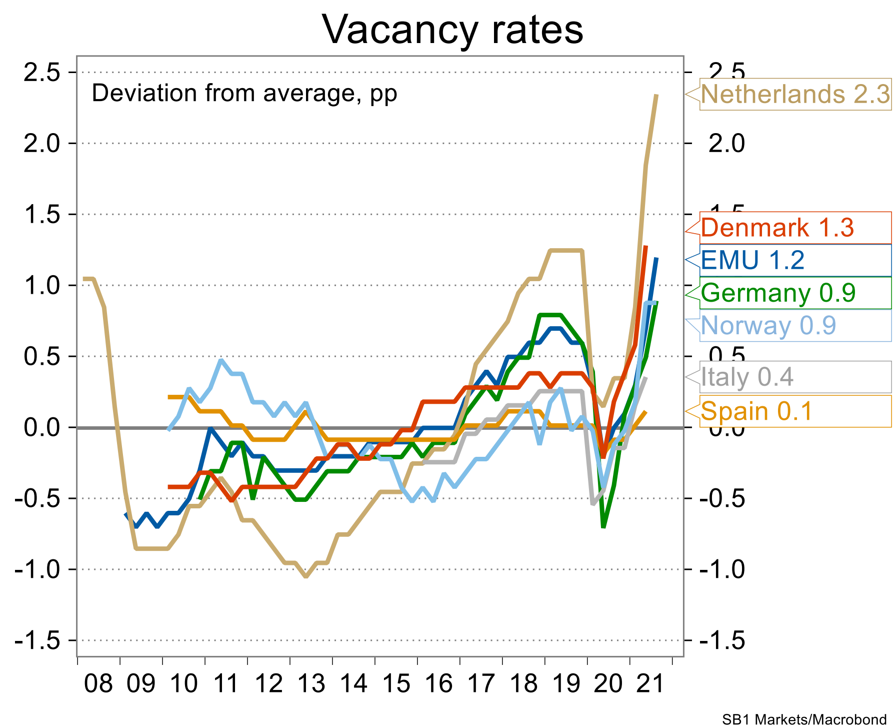




The vacancy rate exploded in Q3

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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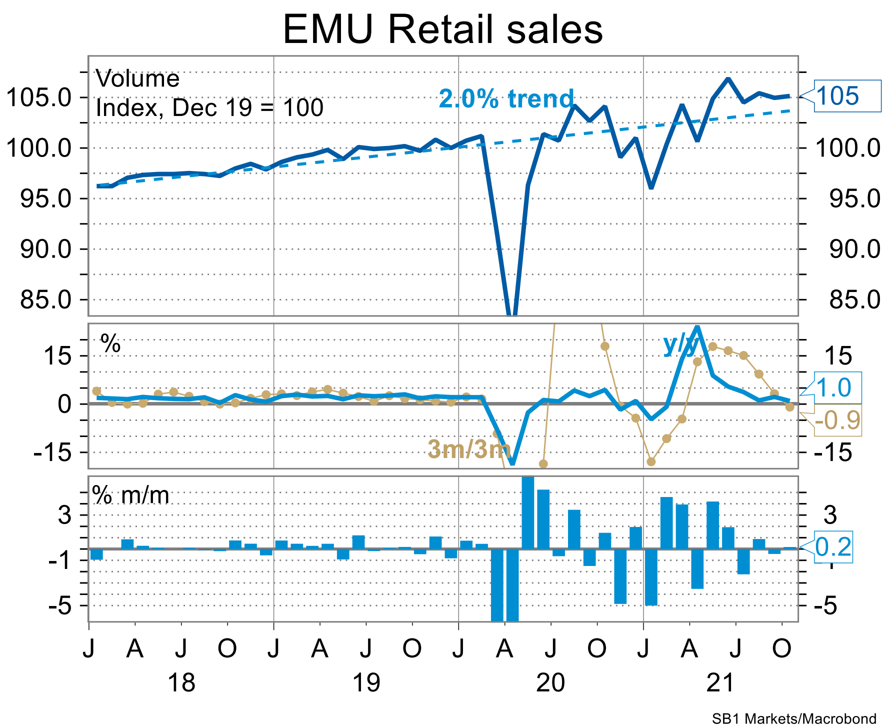
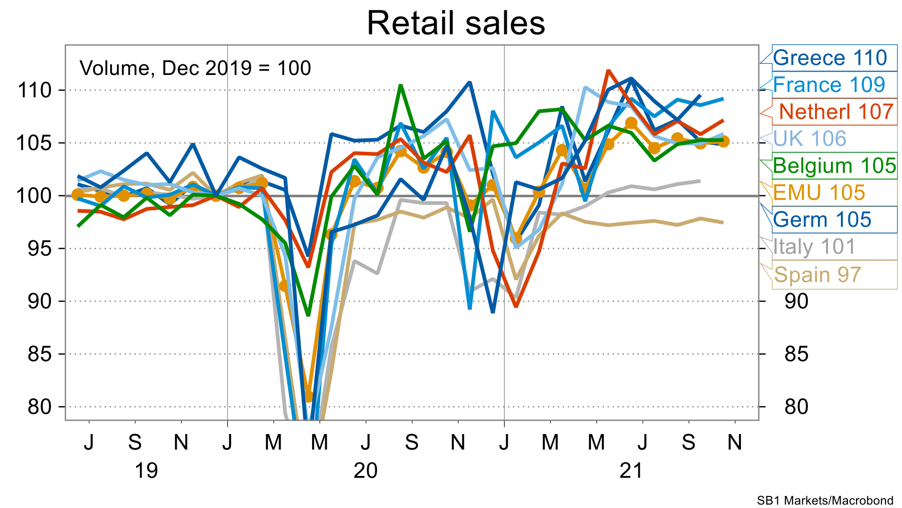
Retail marginally up in October, +0.2%, 5% above the pre-pandemic level

Mixed between countries; Germany & Spain down, France up

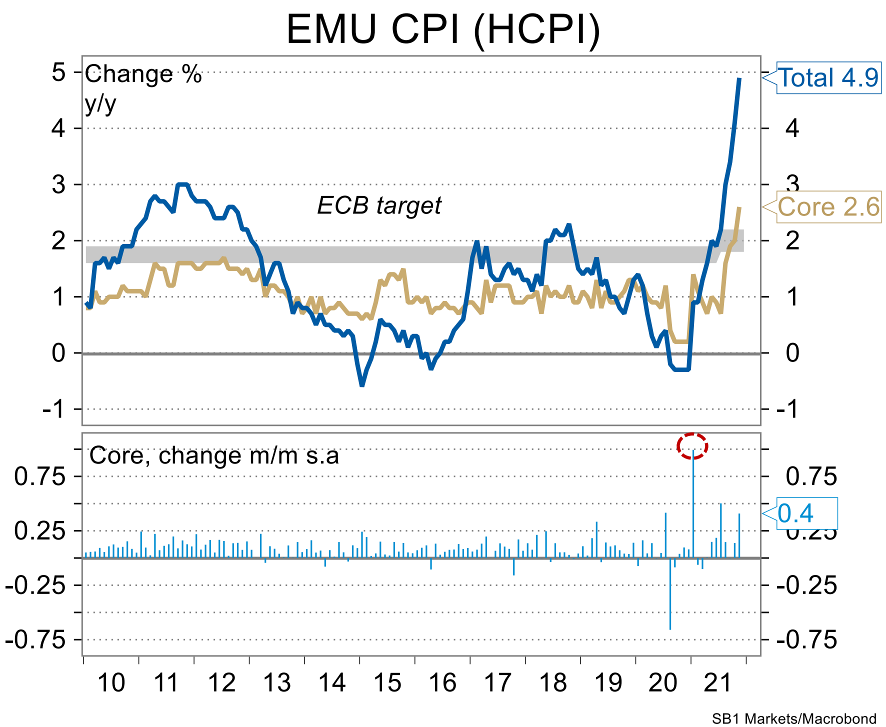


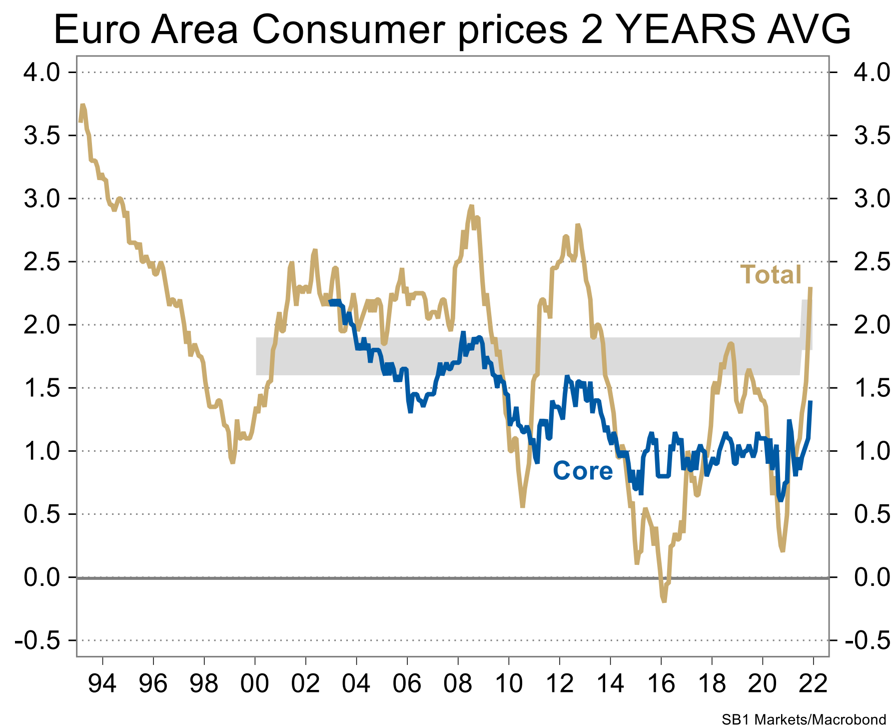


- Retail sales volumes have flattened since May, at a level well above the pre-pandemic trend path
- Since before the pandemic: Spain still down, Italy barely above (data through Sept, the others Oct). Germany up 5%, France up 9%

Inflation up 0.8 pp to 4.9% in Nov, core up 0.6 pp to 2.6%, 20 – 30 y high!

And way above expect. (4.4 & 2.3%). Energy prices and the dip in prices one year ago to blame, but…

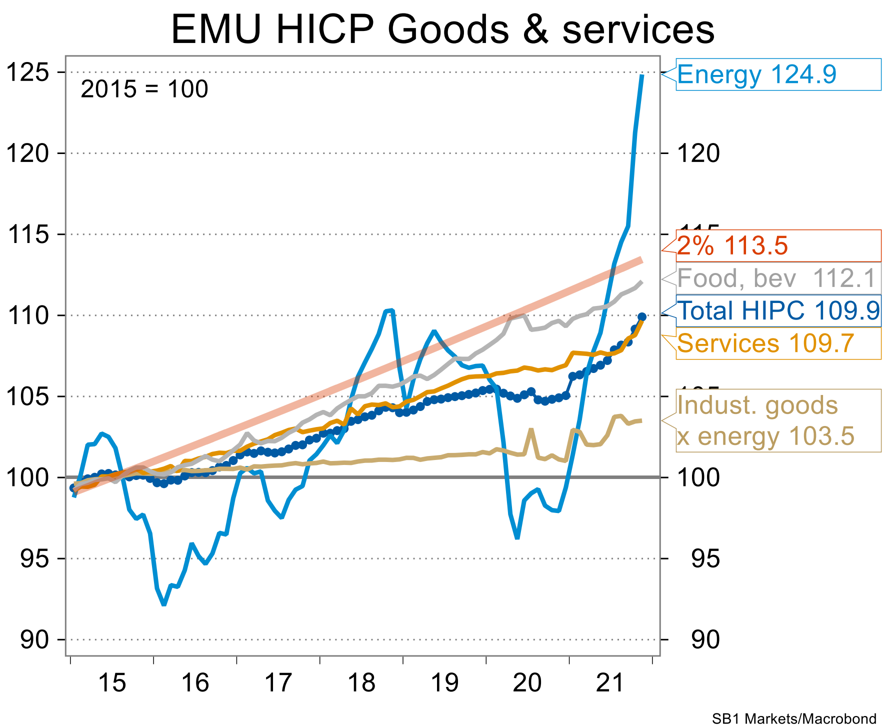


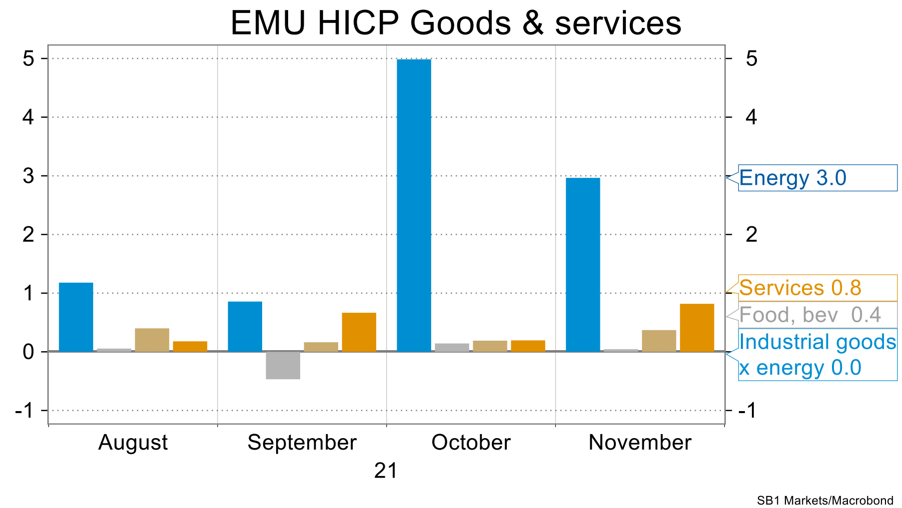


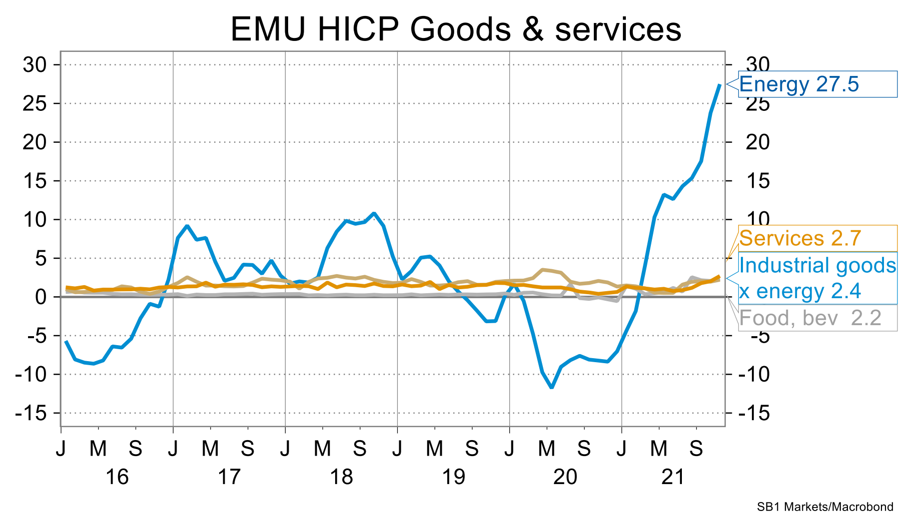
- **… the are some other stories too – and inflation is the highest in decades**
- **The headline HICP** rose 0.7% m/m in November, as in October. Energy prices rose sharply – and they are now up 28% y/y (but still 'just' up 17% above the avg 2019 level). The annual rate at 4.9% is far above ECB's inflation target – but <u>prices are just up 2.3% over the past 2 years (in average)</u>
- **Core prices** rose 0.4% m/m, and the annual rate rose to 2.6%. Again, one year ago, annual inflation was just 0.2%, and the <u>average over the past 24 months is just 1.4%</u>. The core CPI rate will probably decline substantially in Jan-22, as prices rose 1% m/m in Jan-21 (left chart, red circle)
  - » Food and beverage prices rose 0.4% m/m, while services were down 0.2%
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices

Inflation: It is more than energy, services are accelerating too

Still, given the longer term inflation history, not that many red flags yet







- Few details in the flash HICP estimate, more details in the full report in a couple of weeks

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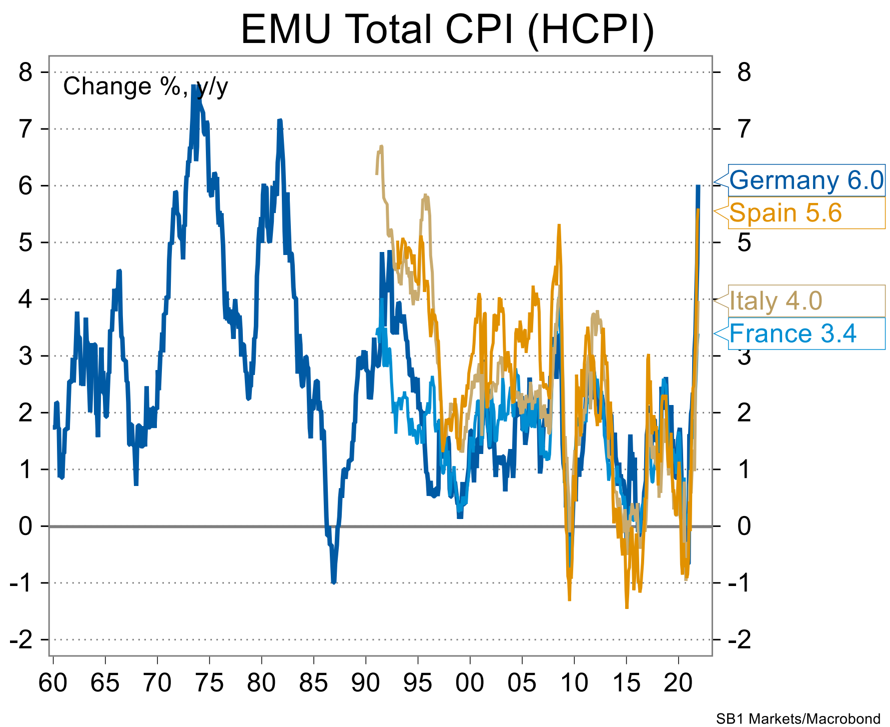
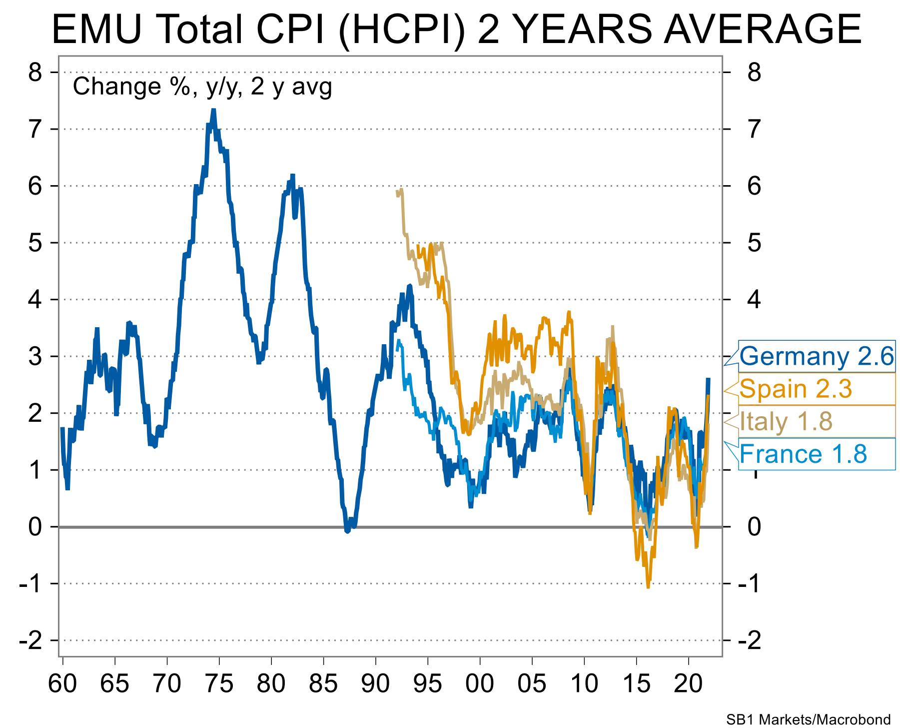
German inflation is the highest since 1980 but not that dramatic over past 2 years

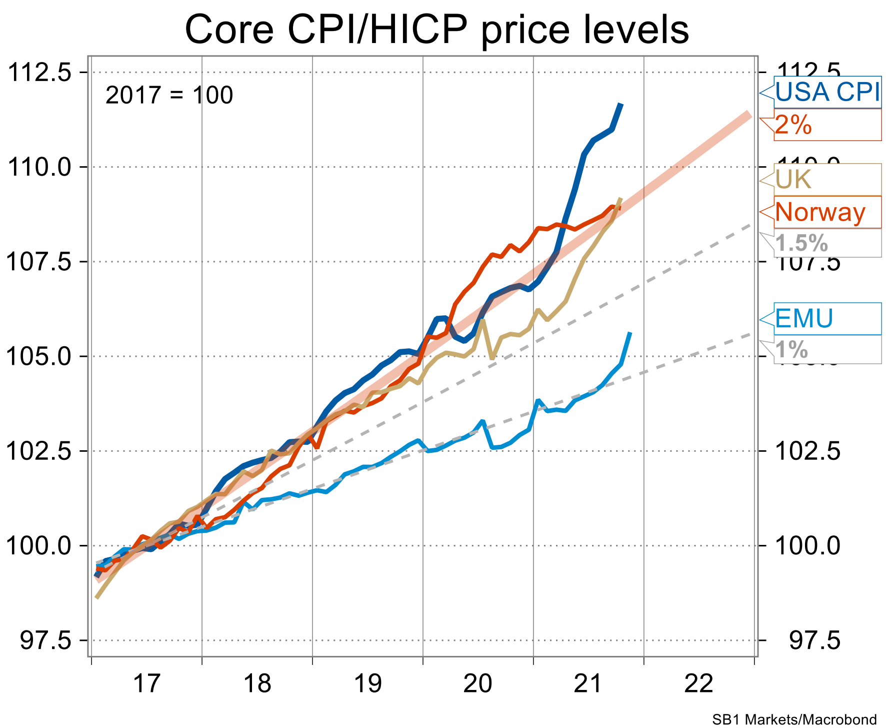
Still, the 6% inflation rate is making headlines in Germany





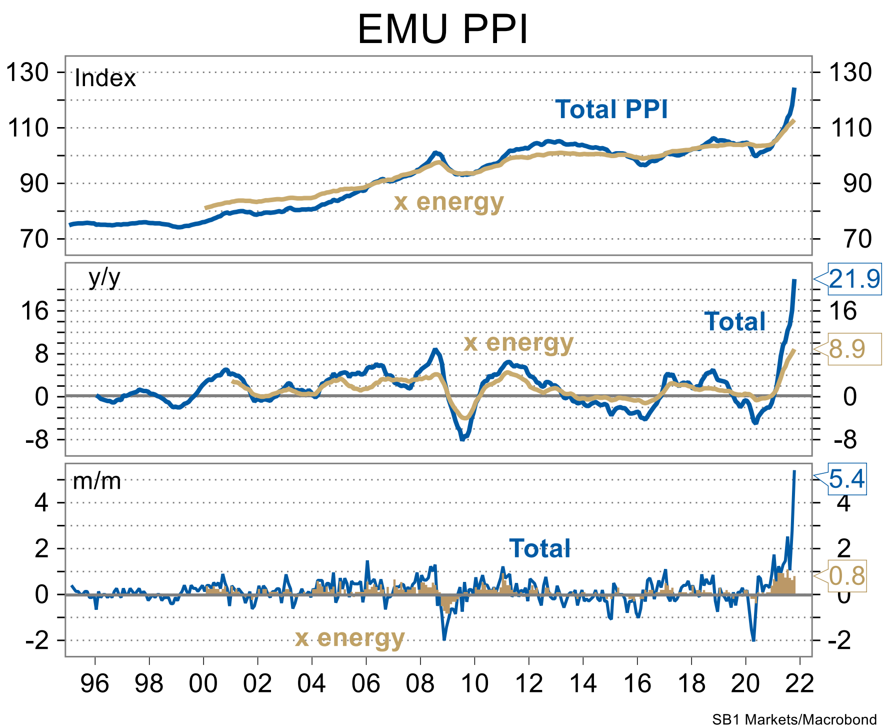
- Data are not available for November but most contries will report core inflation far below 2% measured over the past 2 years

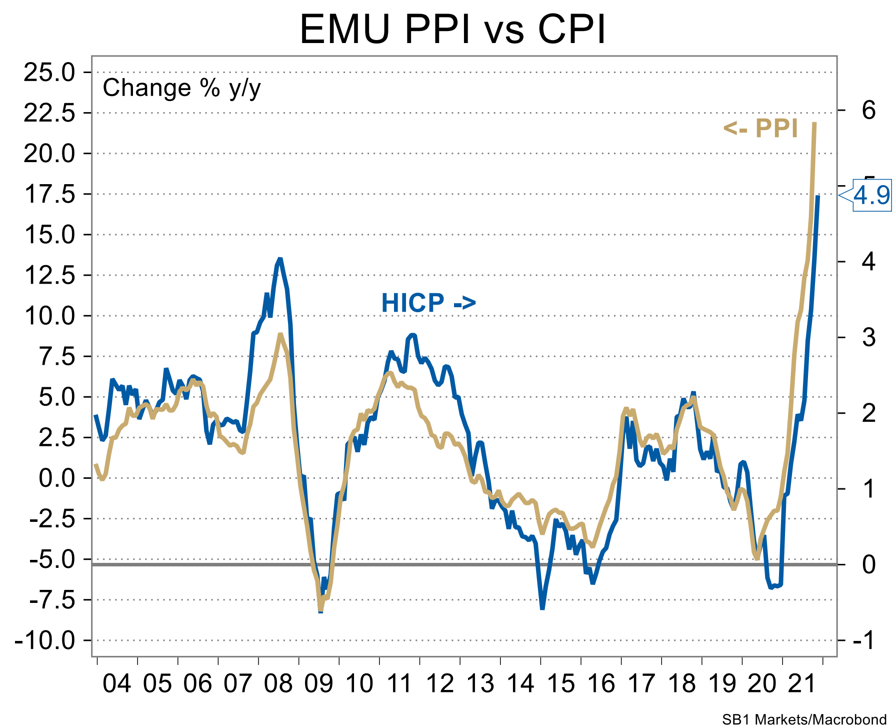
US inflation is still a rather special case



Producer prices continued up in Oct, the x energy is up 8.9% y/y

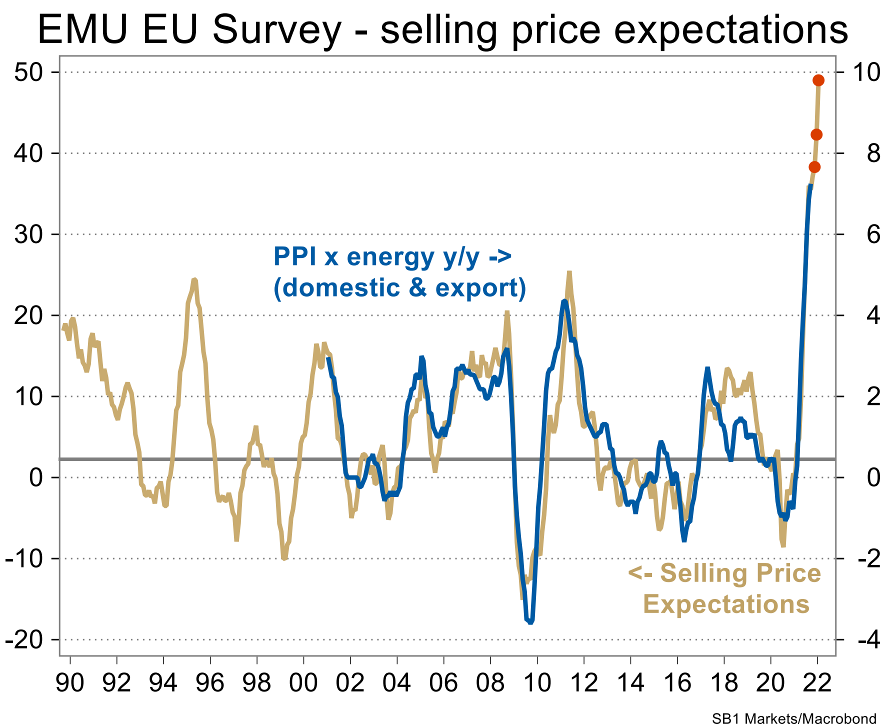
PPI up to 5.4% m/m in Oct, up 21.9% y/y. Ex energy up 0.8%, 8.9% y/y. Unprecedented

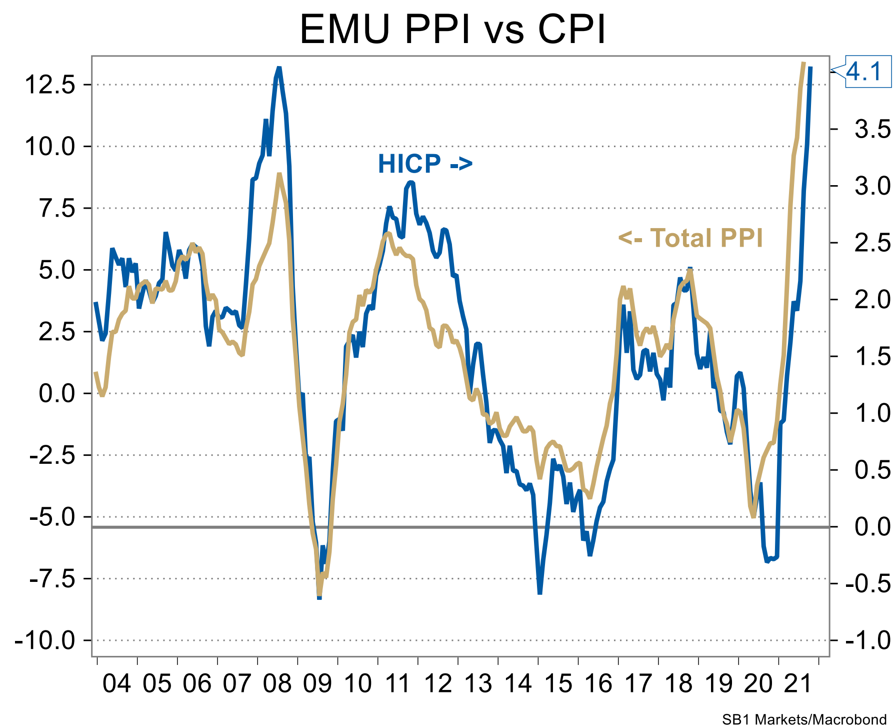




- Energy is of course a main challenge – but now other prices are moving rapidly upwards too

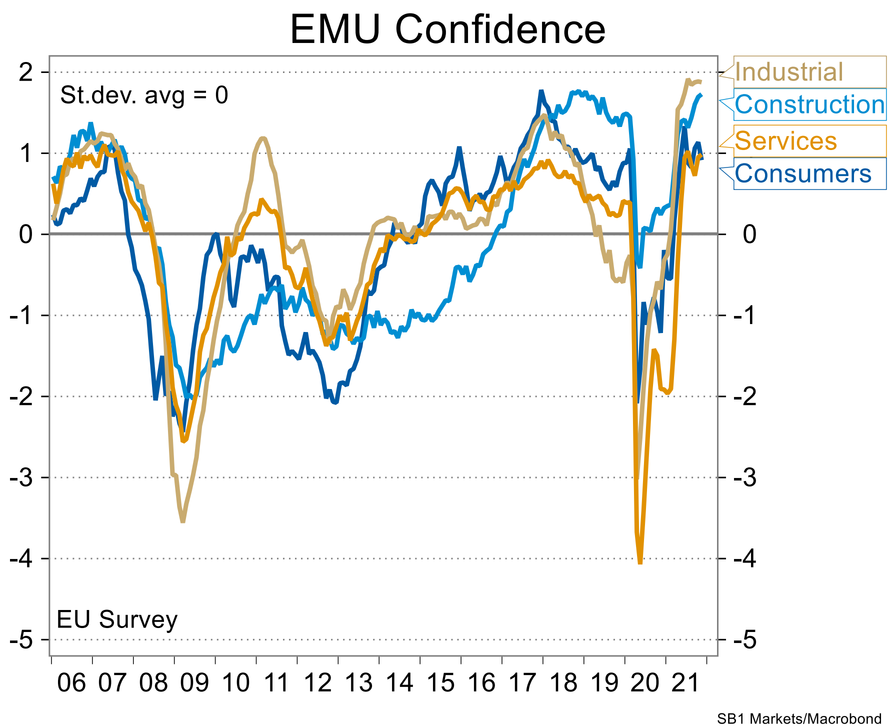
Businesses expects further acceleration in prices

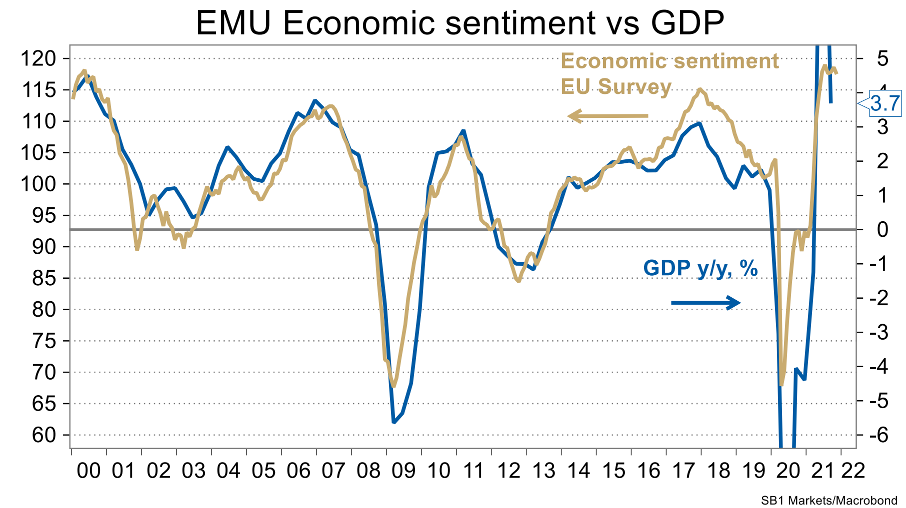


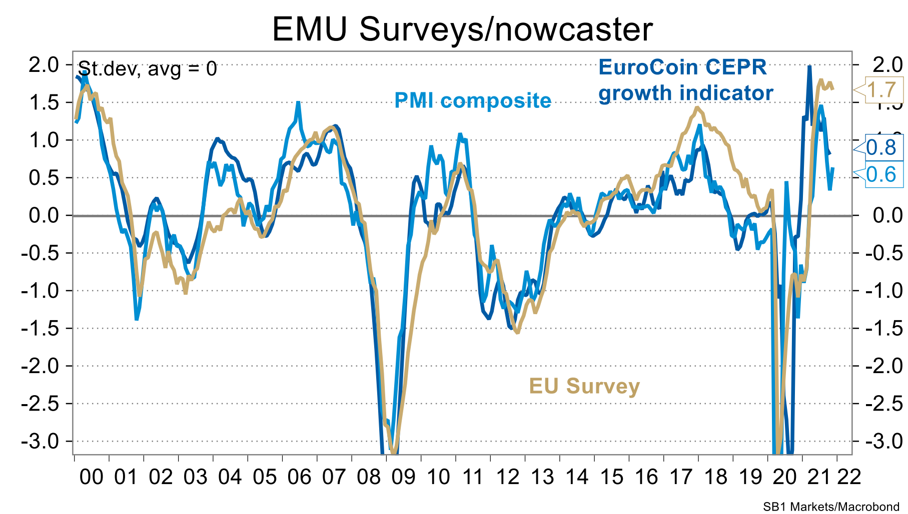


Economic sentiment marginally down in November, due to the consumers

Businesses are reporting the best sentiment ever! And then the virus kicked back…



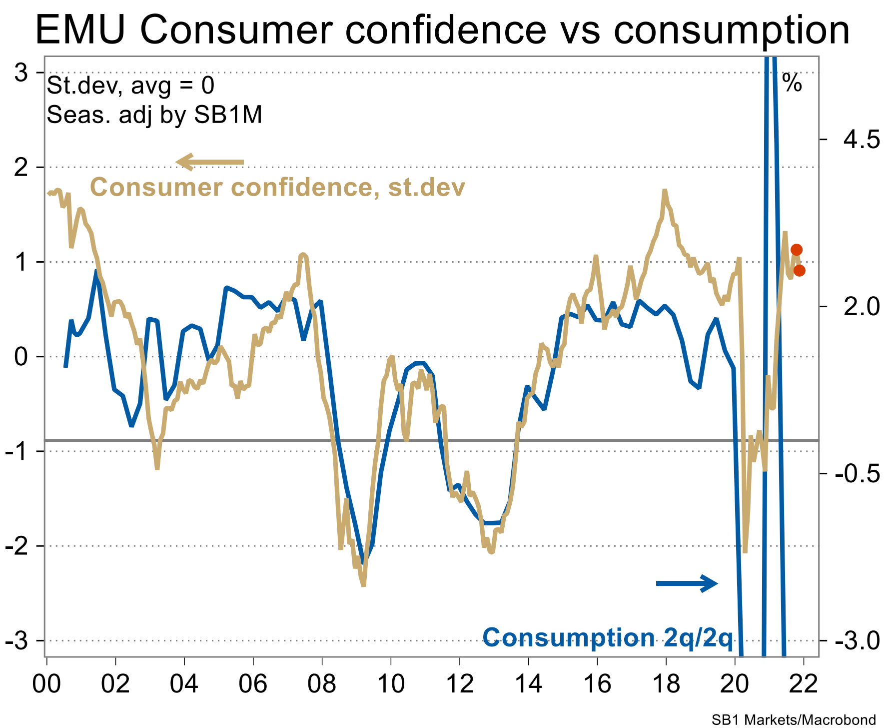


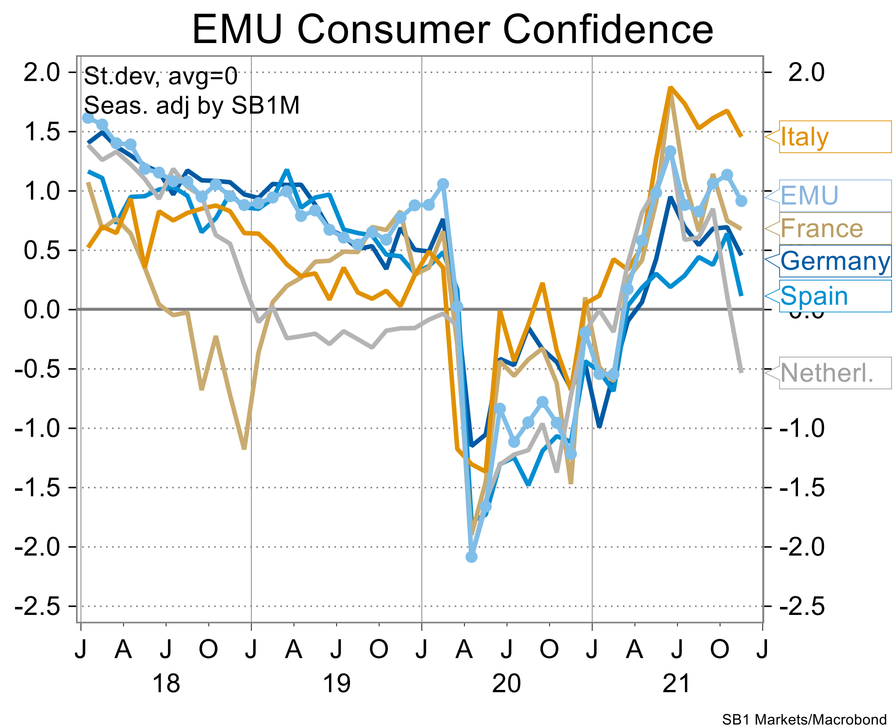


- **EU's confidence survey for the Euro area** declined 1.1 p to 117.5 in November, as expected. The level is just marginally below ATH from July
- The **main index** is 1.7 st.dev above average, signalling an GDP growth well above average – at 4 – 5%
  - » **All sectors** are signalling above average growth.
  - » **Industry confidence** was flat at the 2nd highest level in ever, construction strengthened, and is close to ATH and services almost reached the best level since 2001
- The **EuroCOIN GDP nowcaster** signals far slower growth than EUs survey, and the PMI reports even slower growth – but still above trend

The Delta variant has not killed consumer confidence

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

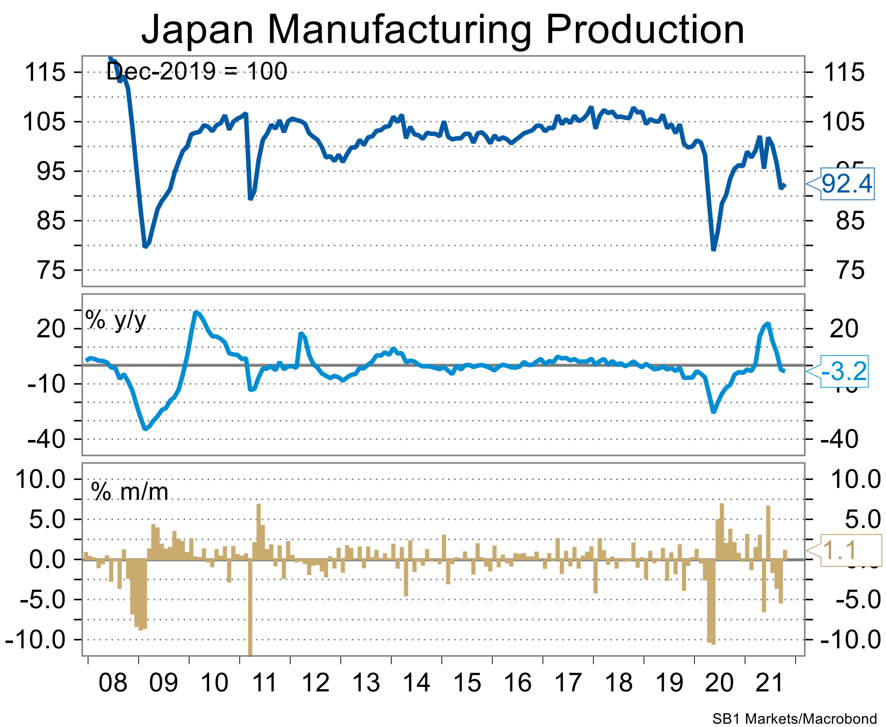


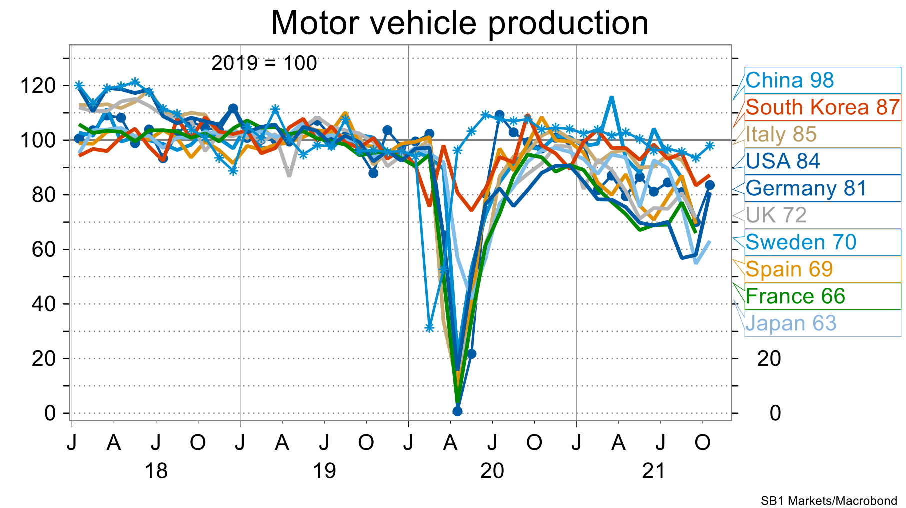


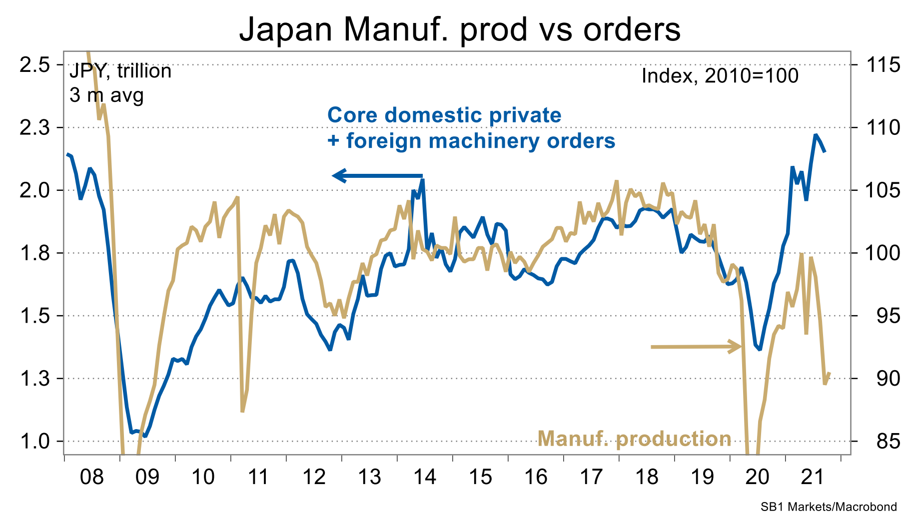
- **The consumer confidence index** rose further in October (after our seasonal adjustment), as the first estimate signalled
- The level is high and signals strong household demand. Consumers are especially in favour of making major purchases
- All of the large EMU economies reported confidence above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

Manufacturing production recovered just marginally in October

Production rose by 1.1, as expected – following the 9% drop the previous 3 months. Autos still week



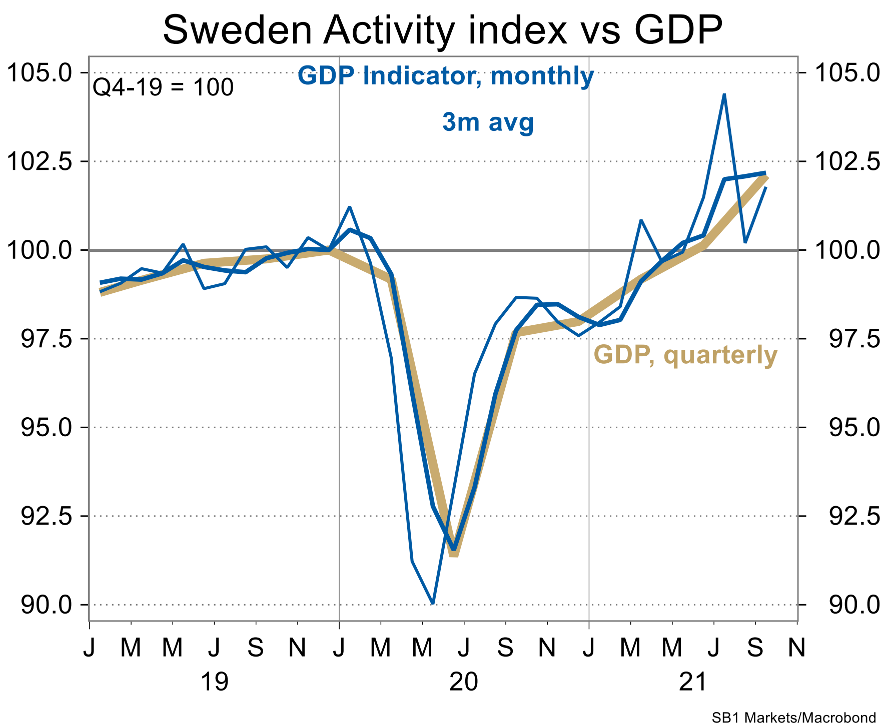


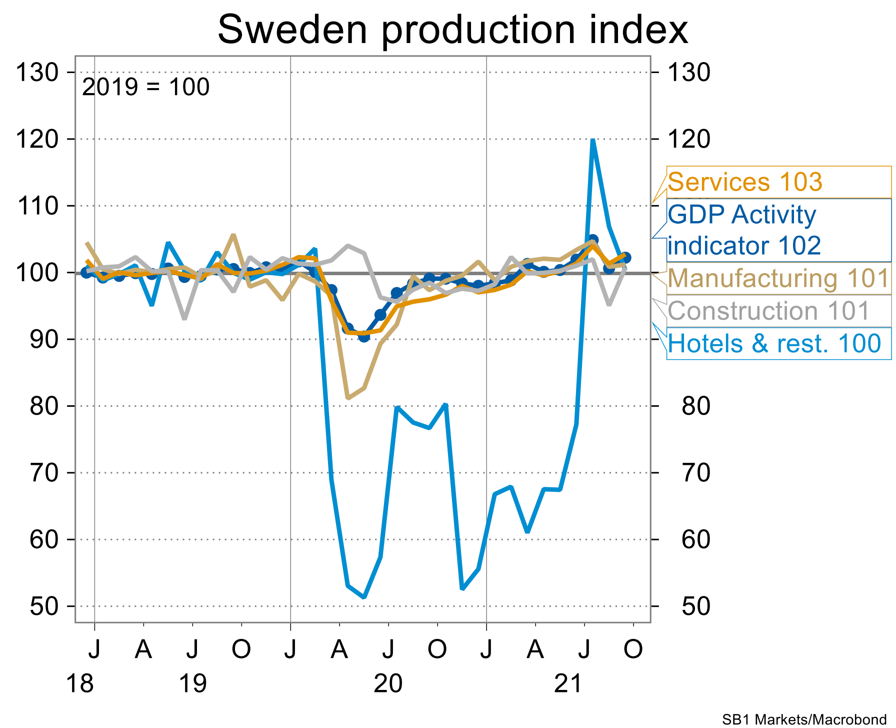


- **Manufacturing production** is almost down 8% vs a low pre-pandemic level
  - » Vehicle production is down almost 40%, as is the main contributor on the downside – due to lack of components
  - » **Overall order inflow** has strengthened substantially through 2021, and signals a higher manufacturing production level

GDP up 2% in Q3 (8.2% annualised) – to 2.1% above the pre-pandemic level

September activity grew by 1.6%, even if hotels & restaurant fell down to the pre-pandemic level





- **GDP** grew 0.2 pp faster than expected in Q2. The September GDP indicator was published the previous week. Both the Sept and Q3 levels are some 2% above the Q4-19 level
  - » GDP is still 1.4% below the 2% pre-pandemic growth path, and the LFS unemployment rate is higher than before the pandemic
  - » The recovery has been broad based – and during the summer hotels and restaurants experienced and unprecedented boom. However, most sectors are still below their longer pre-pandemic trends
- **The outlook** remains excellent, according to Swedish companies. THE KI (NIER) survey is still close to ATH, and the PMI is the 2nd best in the world (in fact just behind the US ISM, which is a PMI survey, but it is not include in Markit's PMI universe). We still question if the Riksbank's extremely expansionary stance is appropriate

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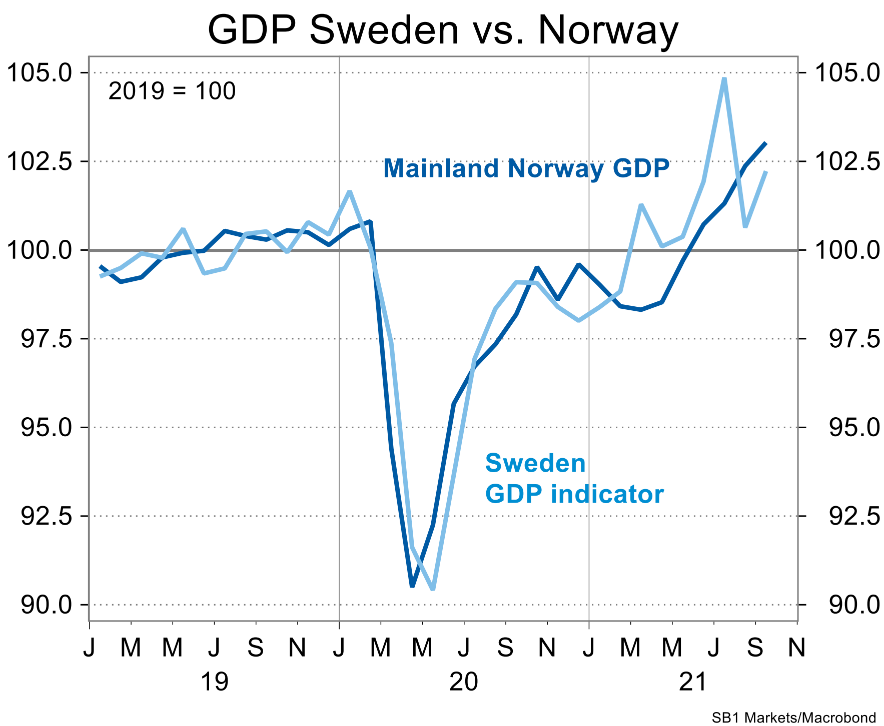
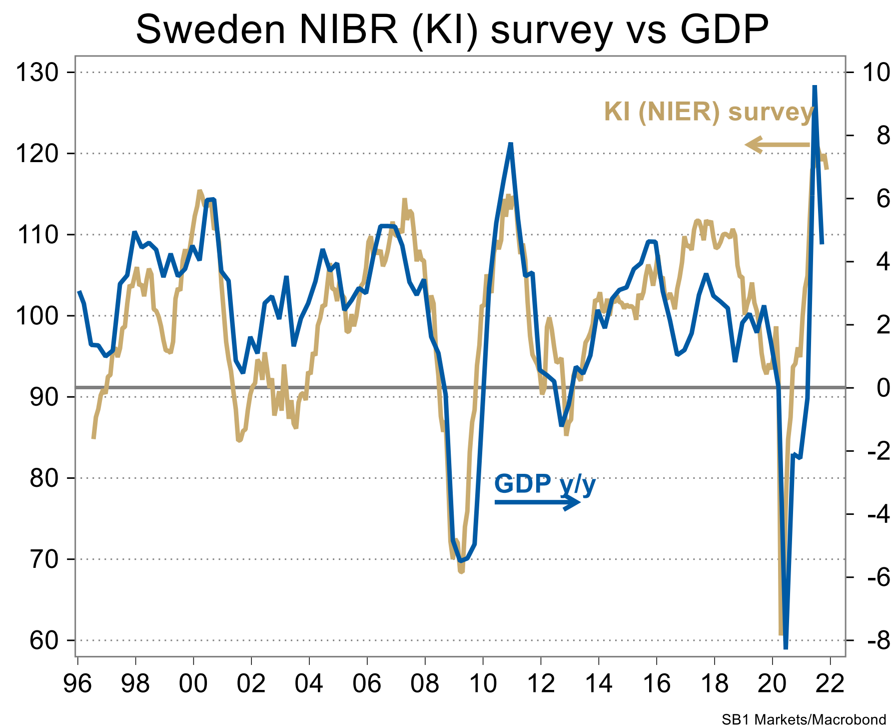
Norway & Sweden: Brothers in arms, even if the covid strategy differed

Sweden had a substantial higher health cost, of course. But no economic gain





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

Highlights

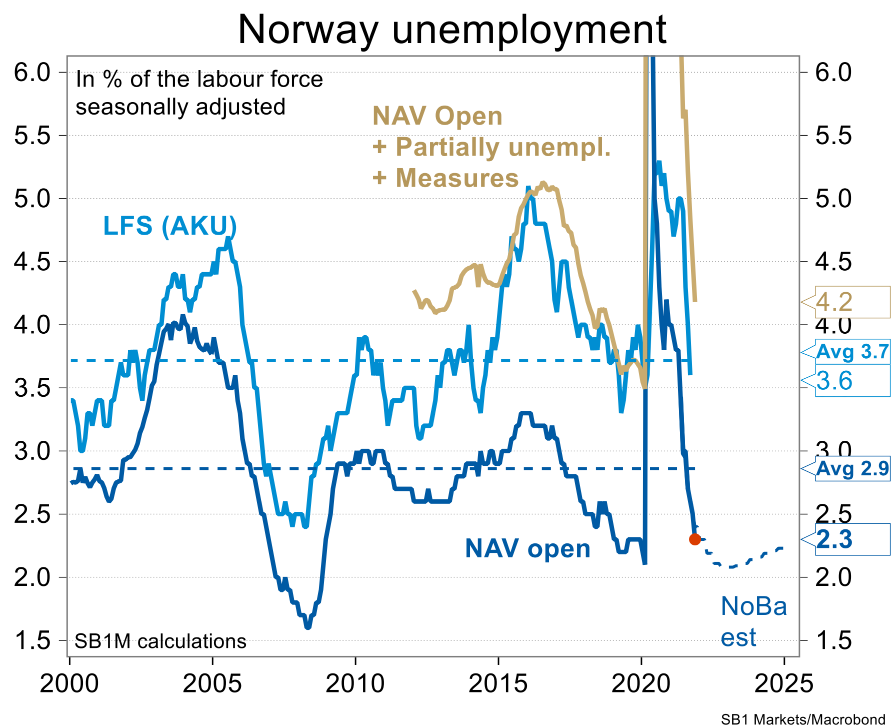
The world around us

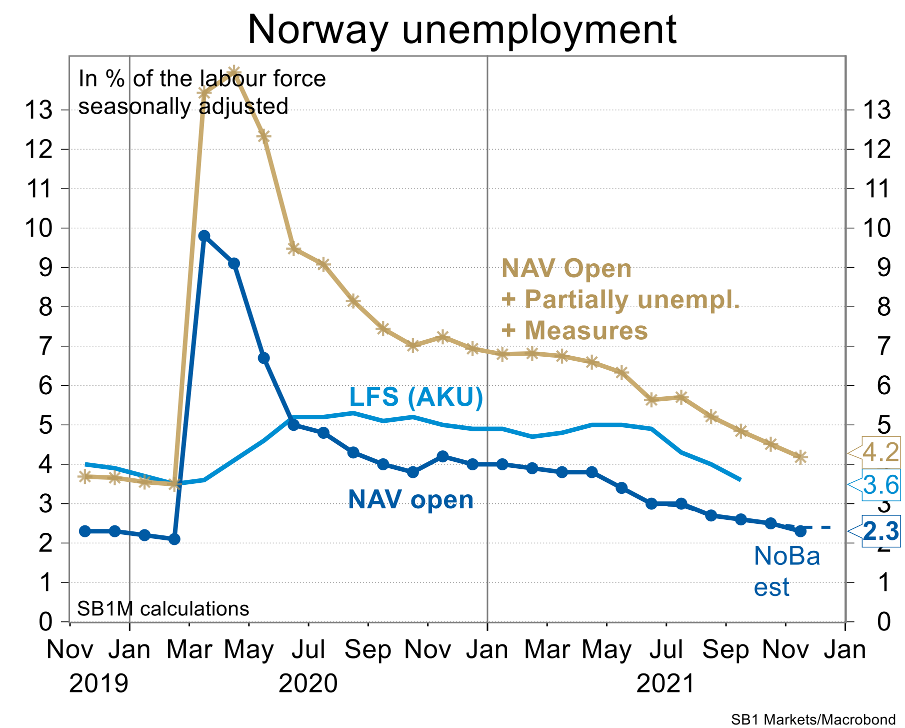
The Norwegian economy

Market charts & comments

NAV unemployment further down in Nov, 'no' new claims, vacancies further up

Open unemployment down 0.2 pp to 2.3%, below NoBa's f'cast. Level just 0.2 pp above Feb-20





- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 4' in September (seas. adj) to 65' we expected -2' to 69' (Oct was revised down). The rate fell by 0.2 pp to 2.3%, 0.1 pp below NoBa forecast. (Unadjusted, the rate fell by 0.1 pp to 2.1%, vs. 2.2% expected by us & consensus). The 2.3% rate is well below the 2000 – 2019 avg at 2.9%, and just 0.2 pp above the pre-pandemic level. Unemployment is falling rapidly everywhere and for all sorts of labour
- In addition, the number of **partially unemployed** (not included in the ordinary unemployment no.) fell even more, to by 4' to 40'. Incl. labour marked measures, the **total unemployment** fell by 10' to 120', to 20' above the pre-pandemic level. The rate is 4.2%, up from 3.5% in Feb-20
- The inflow of **new job seekers** fell further, and the **inflow of new vacancies** rose further from a high level the previous 6 months
- Last week: **The LFS (AKU) unemployment rate** nosedived by 0.4 pp to 3.6% in Sept, far more than expected, as the **employment rate** rose further

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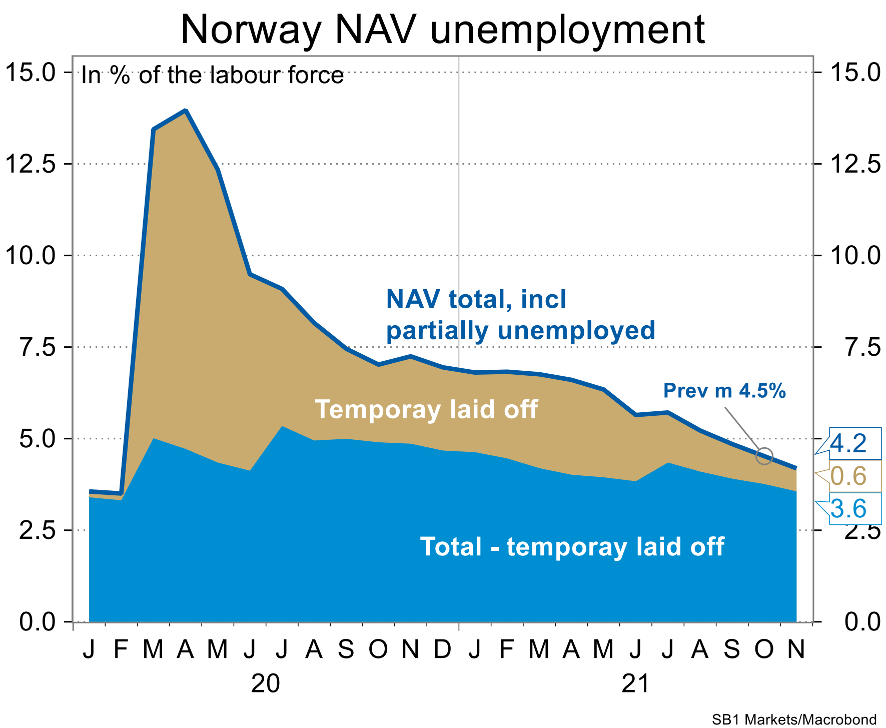
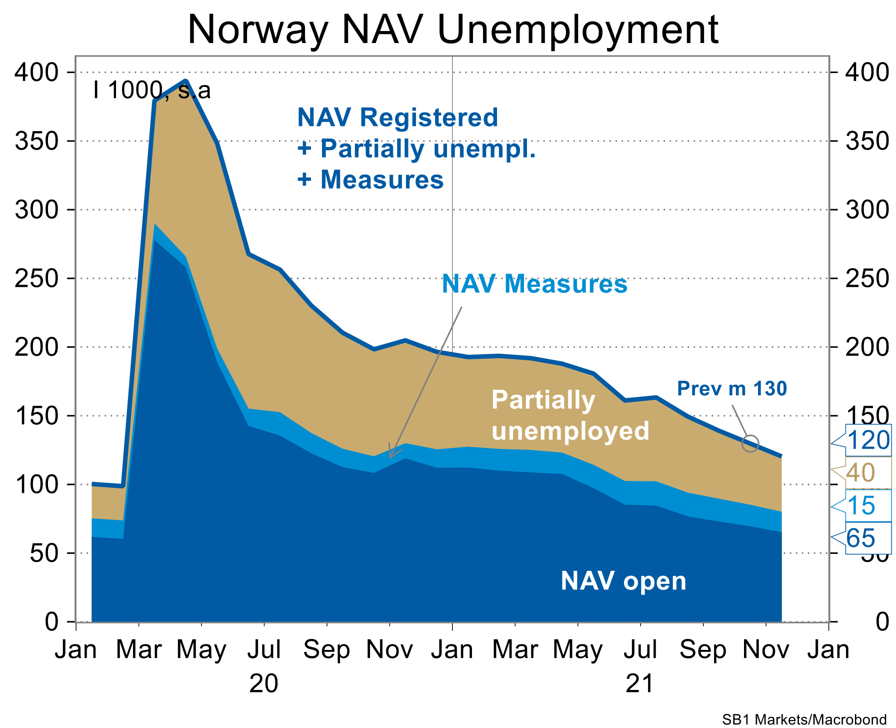
All shades of unemployment rapidly down: Grand total down 10', 0.3 pp in Nov

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

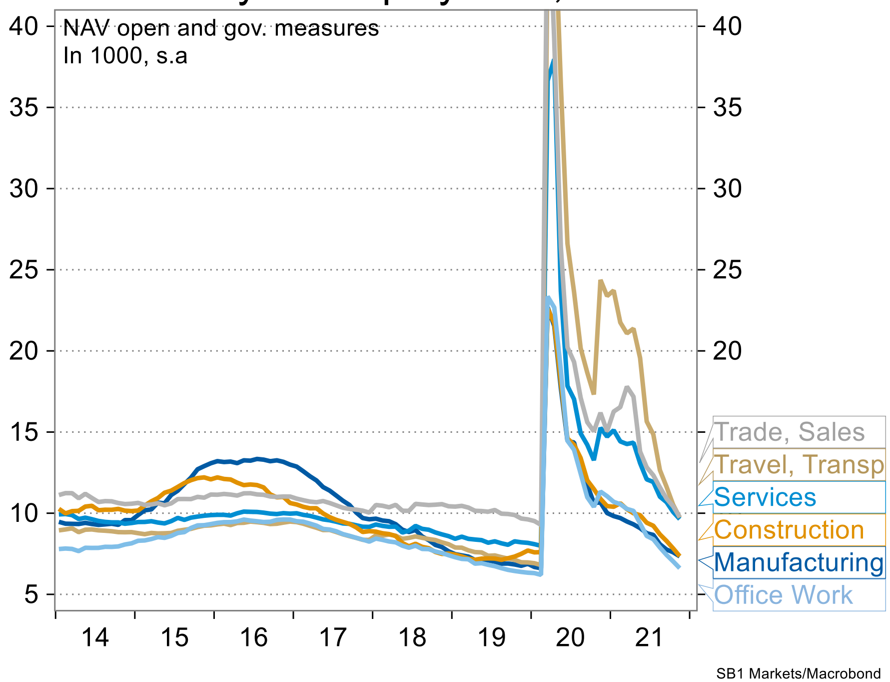




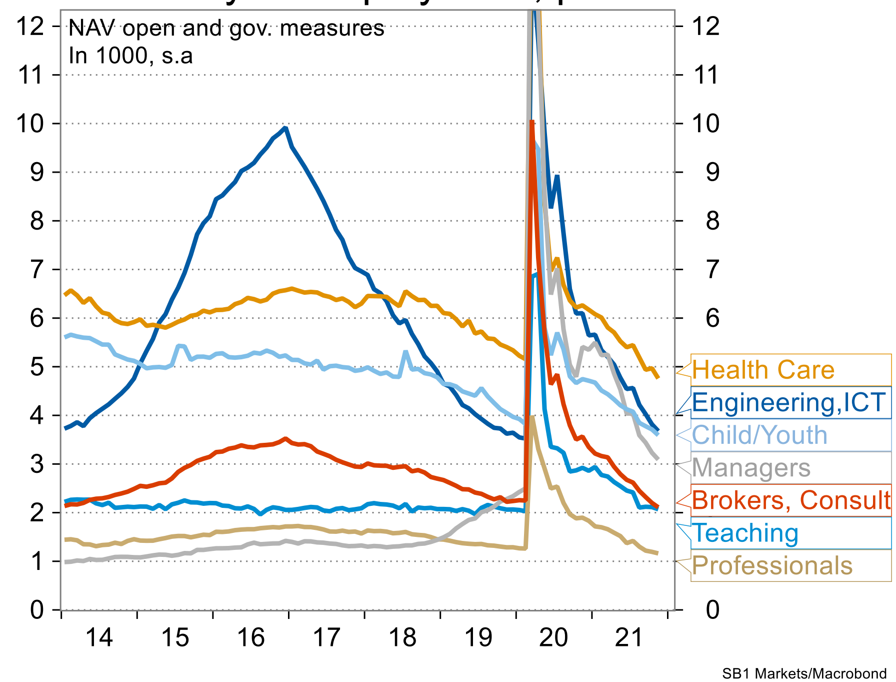
The unemployment sharply down across all sectors

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

Norway Unemployment, blue collar

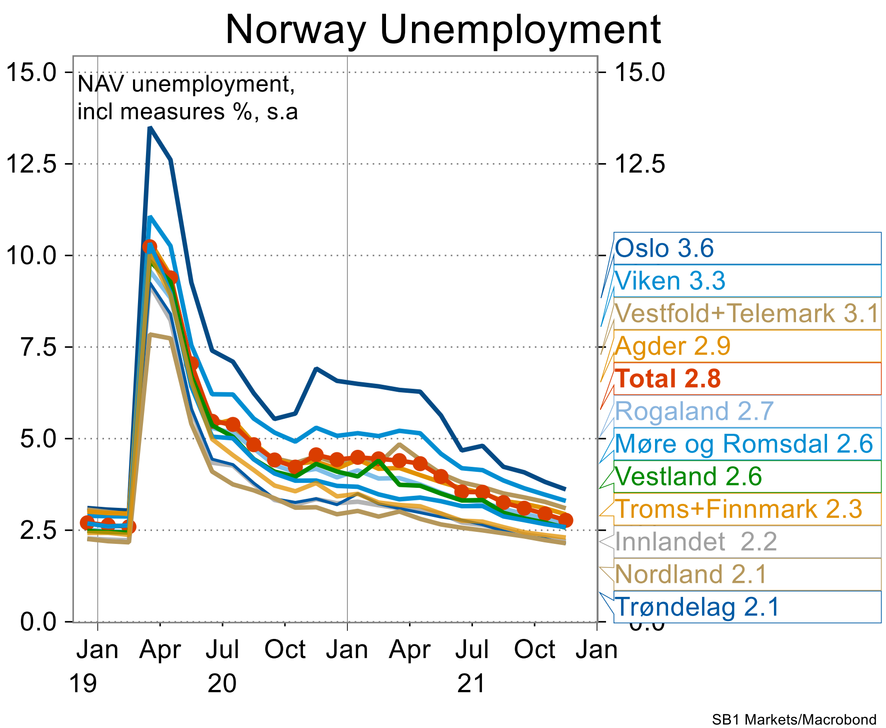


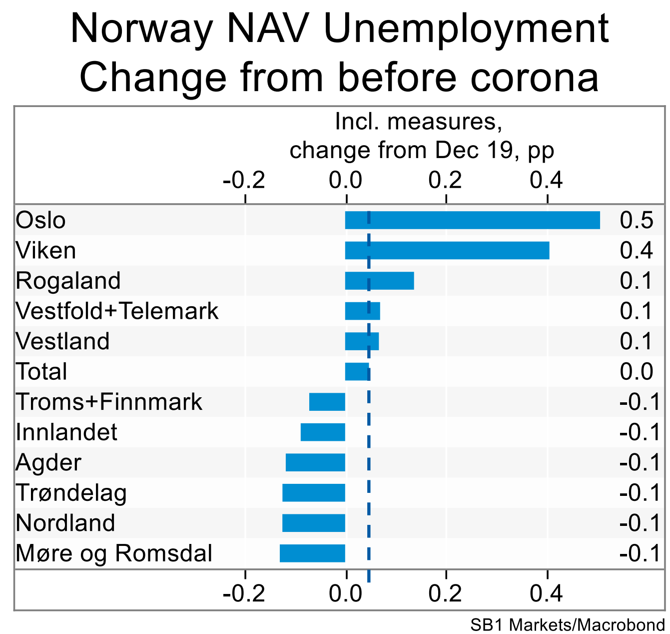
Norway unemployment, professionals



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

… where unemployment is the highest

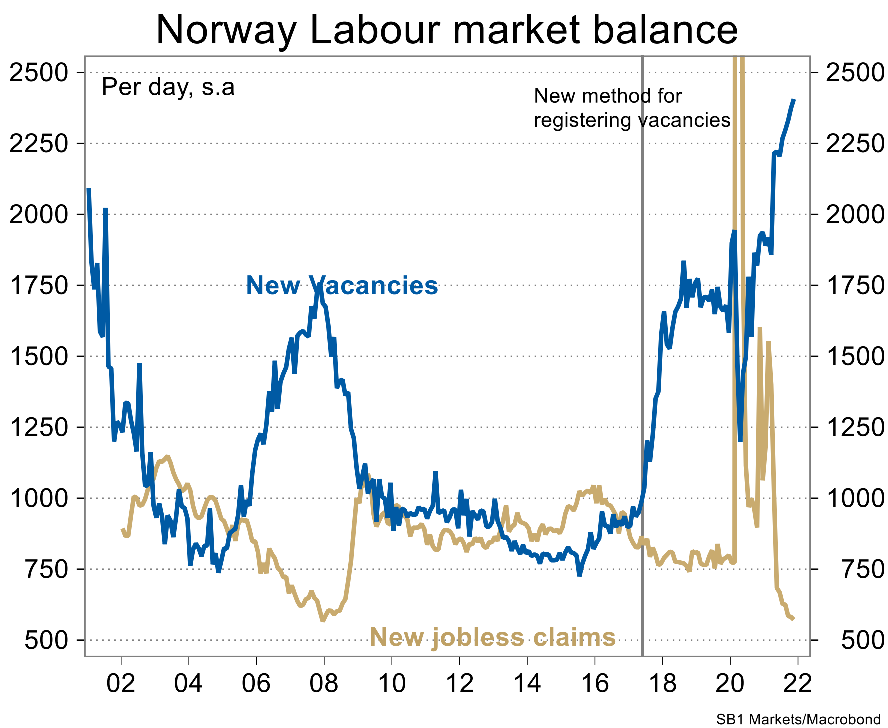


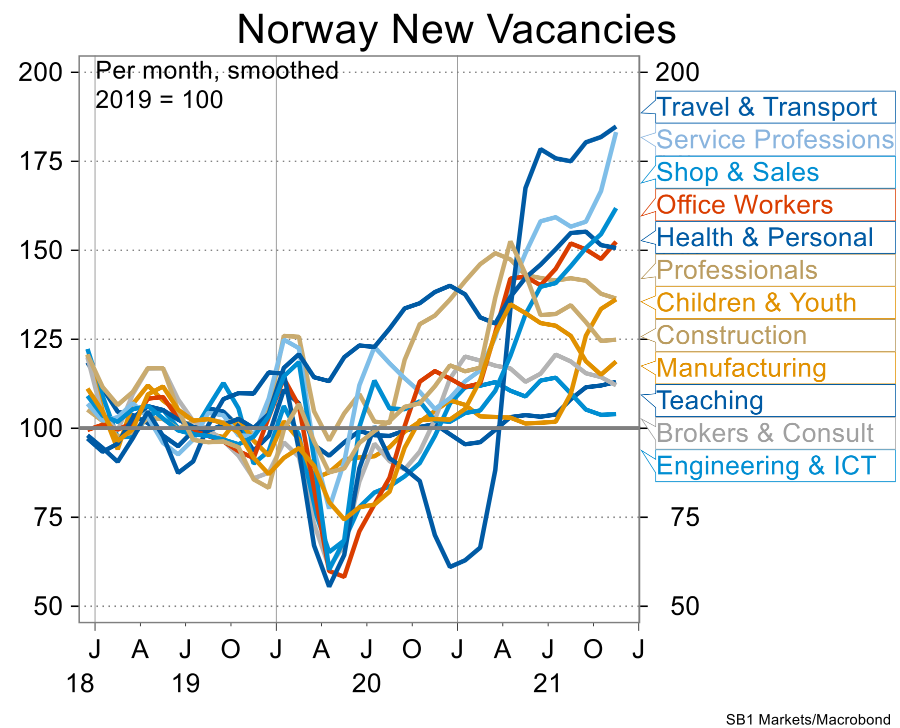


- **Oslo** has by far been the hardest hit county, both due to tighter restrictions and a large service sector – followed by Viken
- Ordinary unemployment (full time, temporary laid offs and measures included) falling everywhere – and it is approaching the pre-pandemic levels in most counties. Just Rogaland, Oslo & Viken are more than 0.4 pp up vs. Feb-20
  - » The national average is 2.3%, up less than 0.1 pp above the pre-pandemic level

A huge inflow of new vacancies for the 8th month in a row!

Travel/transport (restaurants incl.), service professions at the top



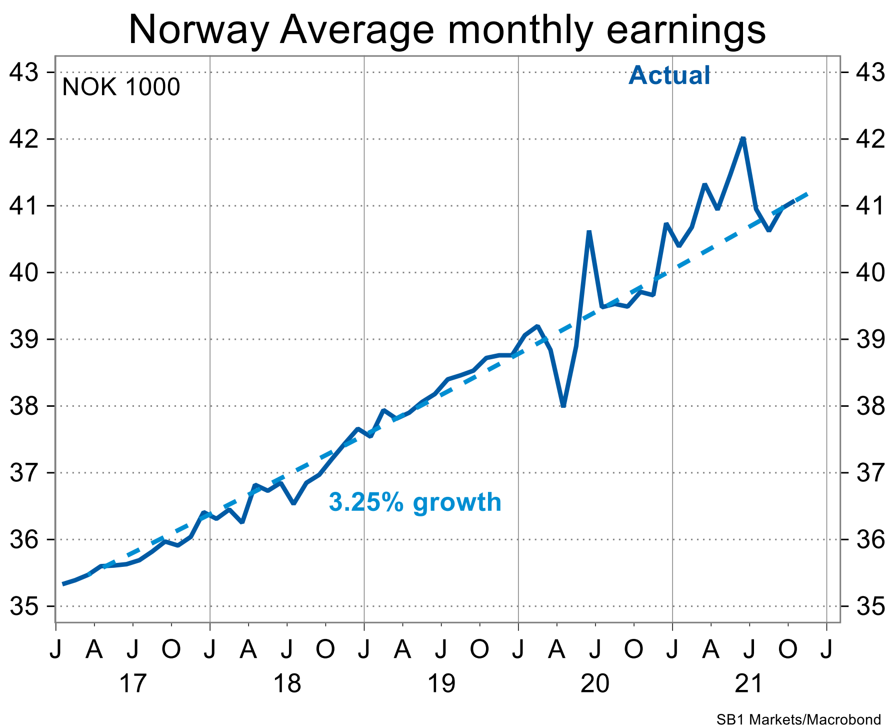


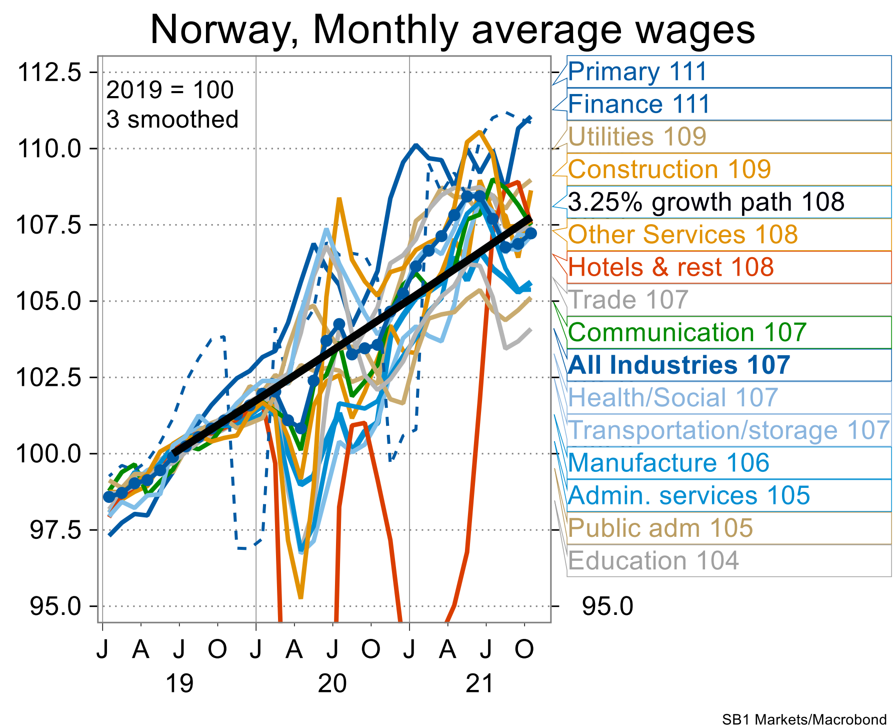
- A higher no. of vacancies in all sectors than in 2019 (we have adjusted data as good as possible)
- The no. of new jobless claims is still falling, and it is approaching the record low level in 2008
- These data confirm that the labour market is tightening

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

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

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

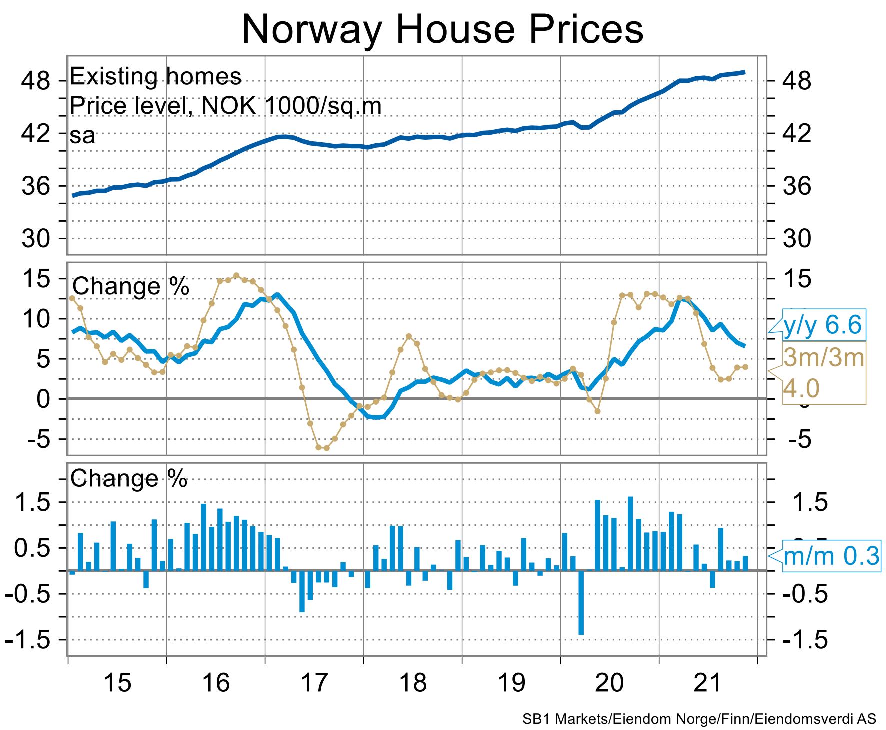


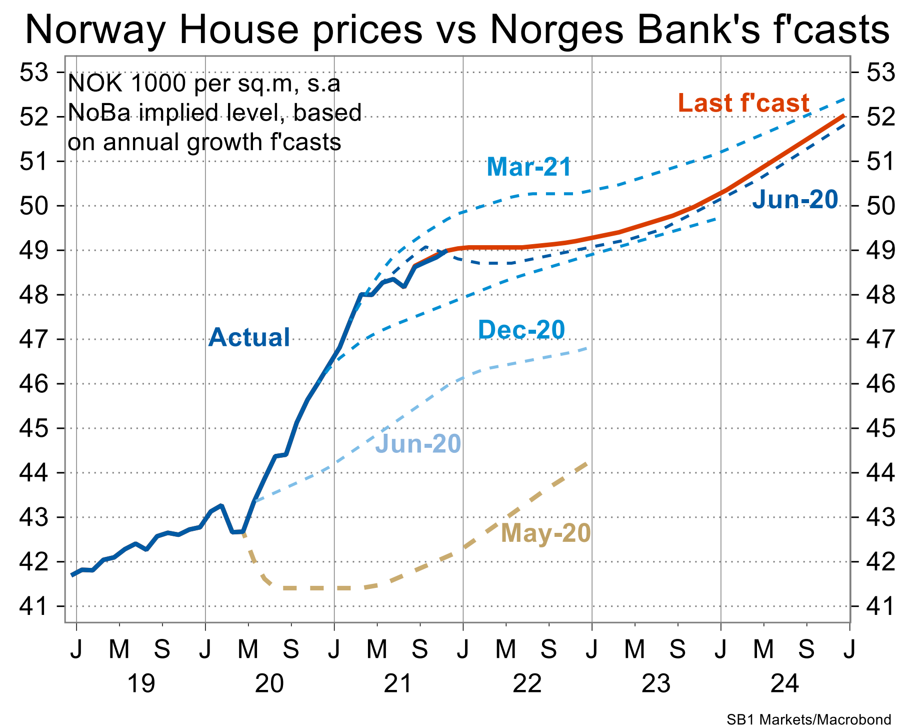


- Monthly average cash earnings are rather volatile, also depending on hours worked, bonuses
- Earnings have been above the 3.25% growth path from the start of the pandemic until June. We assume the return of low paid service sector workers took the average down

House price inflation has slowed – up 0.2% in October

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

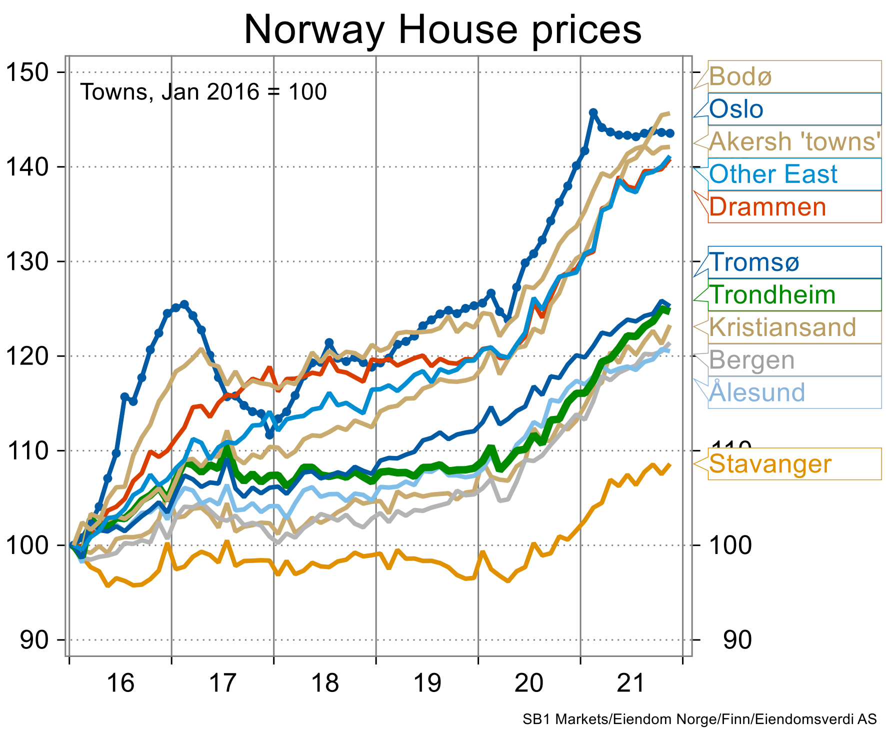


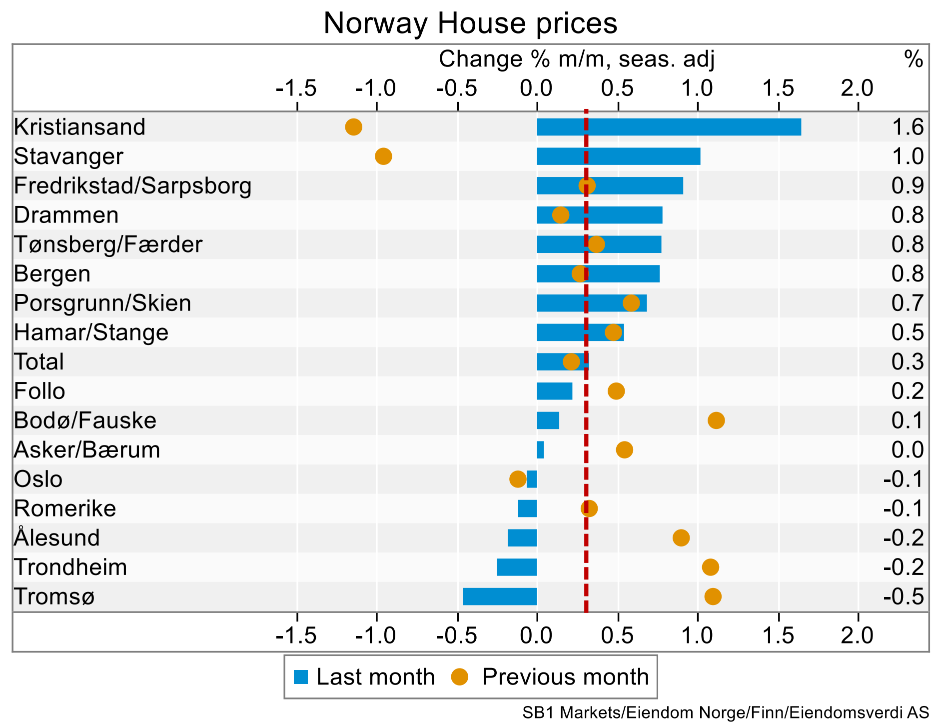


- **House prices** rose by 0.3% in Nov, up 0.1 pp from Oct, we expected 0.4%. Prices are up by 4% 3m/3m (annualised), down from above 12% in March. Prices are up 6.6% y/y
- Prices in **Oslo** fell by 0.1%, and faster in Trondheim and Tromsø. Prices rose most other places, and most in Kristiansand and Stavanger, following price cuts last month. Now clear pattern of a 'out of towns' scenario, not last month or over the past months. Price inflation has slowed everywhere, and most in Oslo and in the surrounding 'towns'
- The **number of transactions** climbed to a rather high level. The **inventory of unsold homes** rose marginally but is still very low
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model almost +1%, from zero 6 months ago. Very likely, the outlook for higher rates is dampening willingness to pay
- **Norges Bank** expect house prices to appreciate a moderate pace the coming months, and flatten during most of 2022

Mixed between cities in November, mostly reversal of October changes

Prices fell in Oslo, Romerike, Ålesund, Trondheim & Tromsø. Prices sharply up in Kr.sand, Stavanger

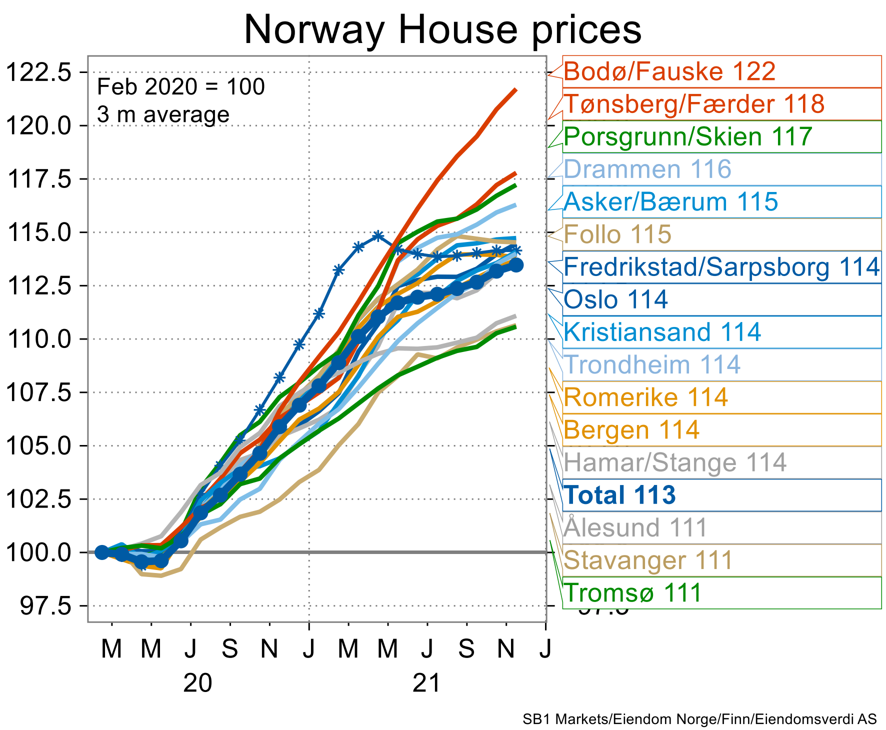


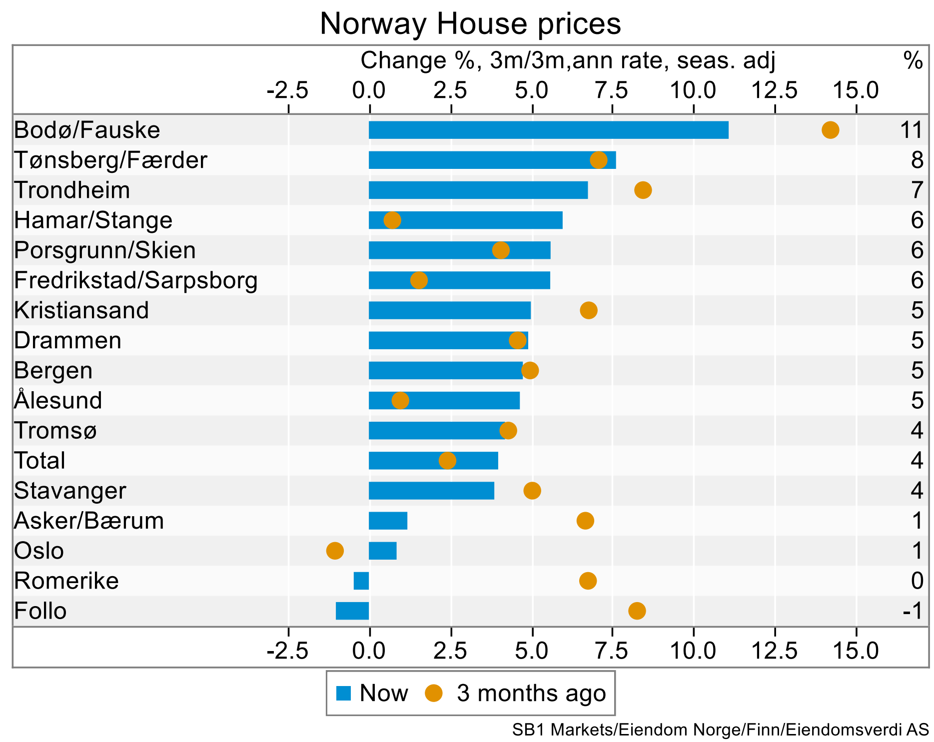


- 11 cities up (from 11 last month)
- 5 cities down (from 3)

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

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

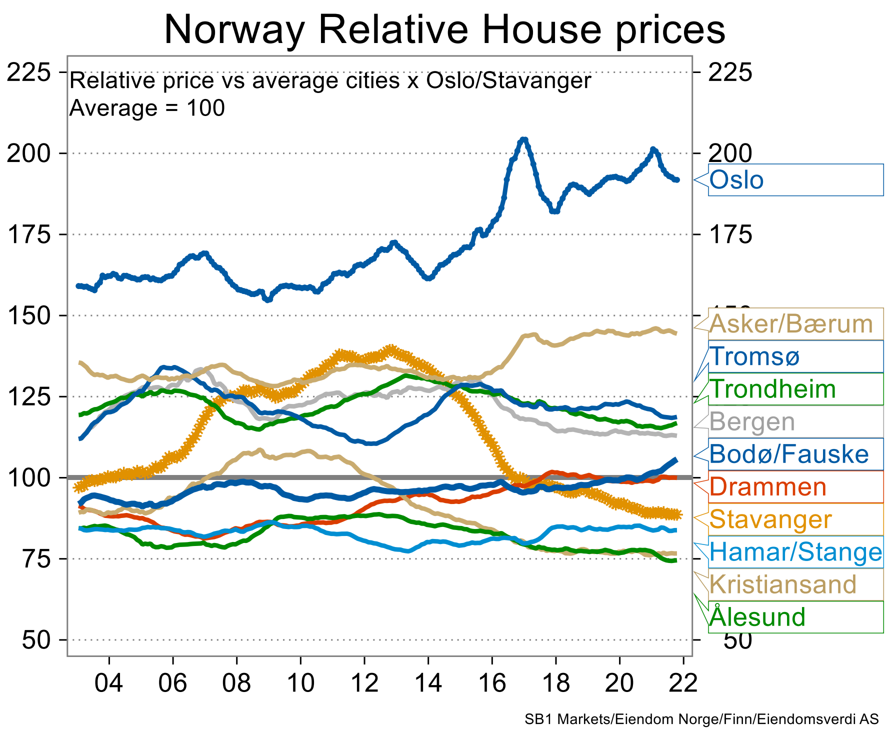


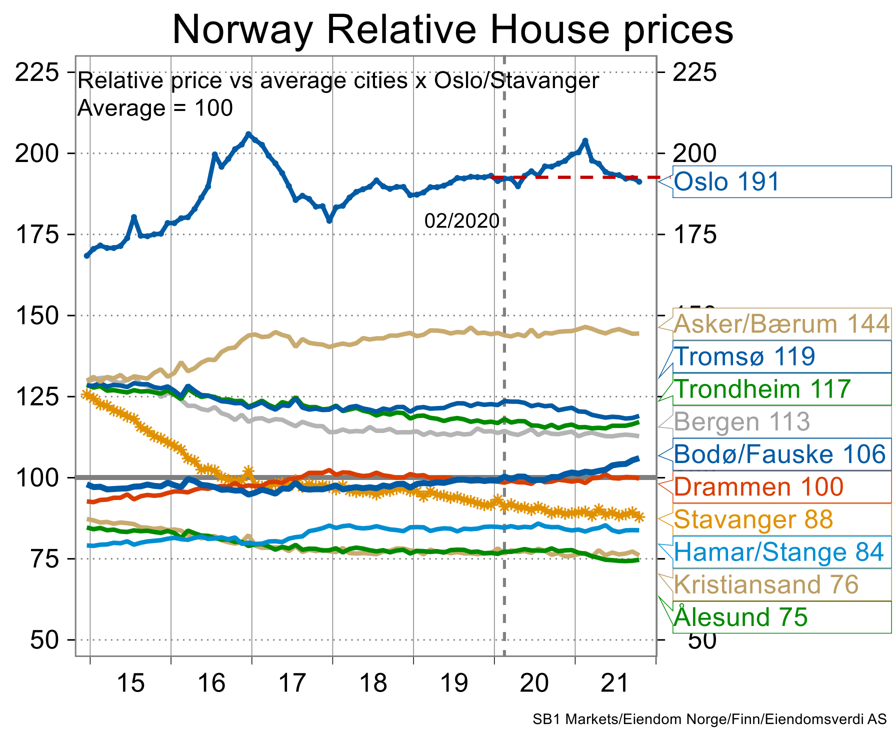


- Bodø the winner the past few months (3m/3m) as well
- No clear pattern in changes in house prices during the pandemic or over the recent months but the 4 biggest cities have been somewhat on the weak side since before the pandemic. However, recent months both Trondheim and Bergen has been on the upper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

Oslo relative prices slightly below the pre-pandemic level

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

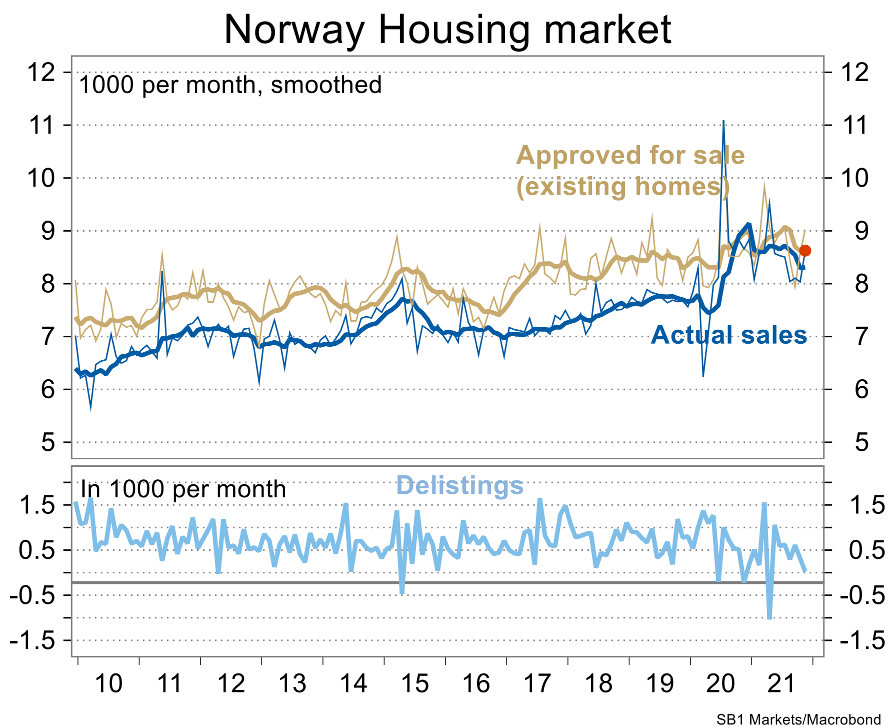


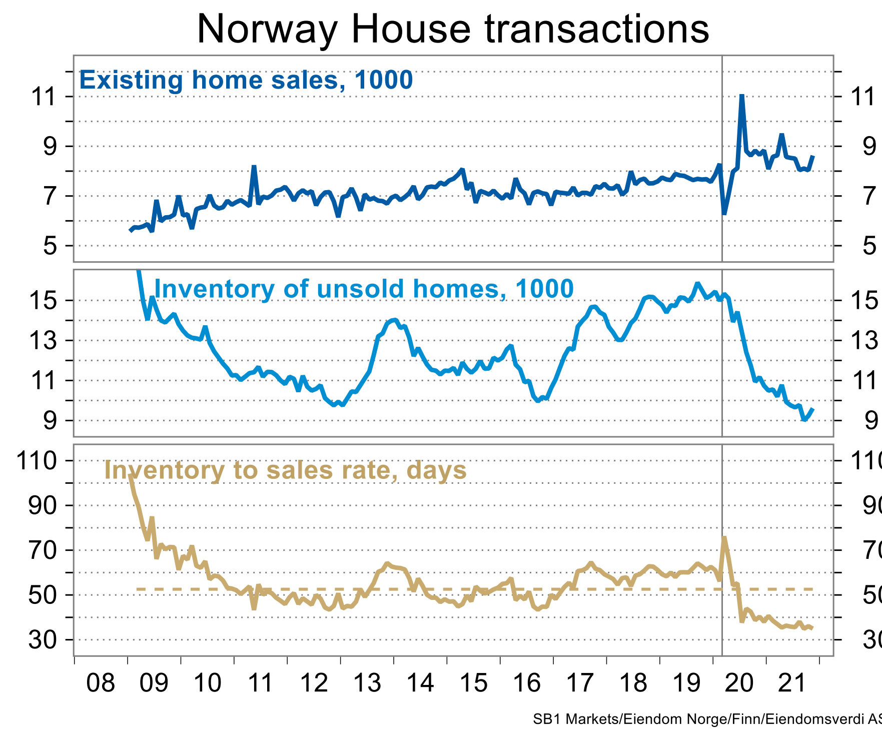


- Housing starts in Stavanger/Rogaland are still not lower than normal. It is still profitable to build, even at 'Hamar/Stange' prices! And why shouldn't it??

The inventory of unsold homes further up but still an extremely tight market

The transaction volume recovered sharply in November but more were added to the market



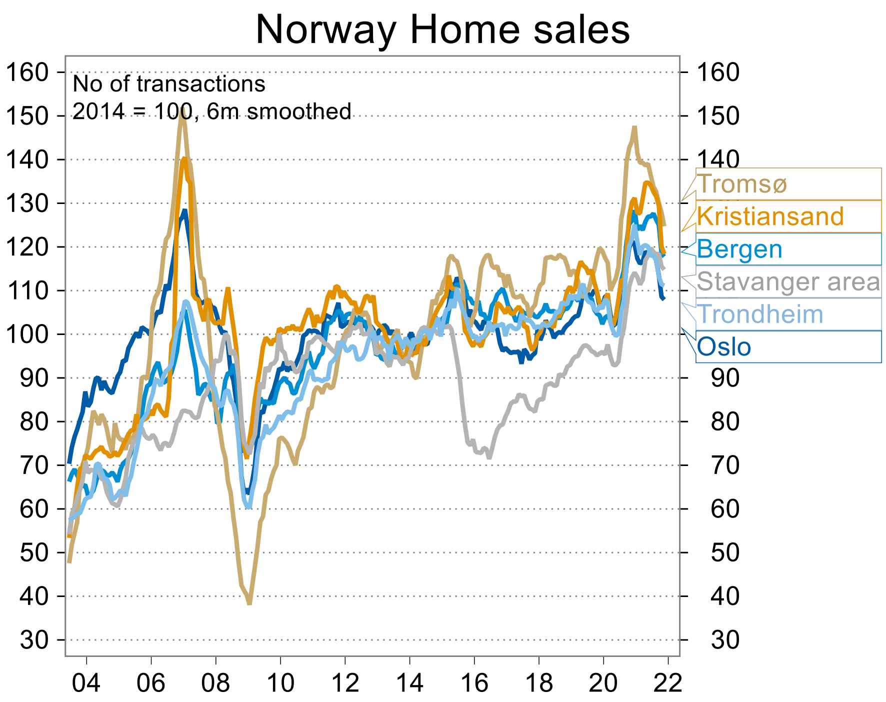


- **The number of transactions** climbed, from a 'low' level the previous months
- The **supply of new existing homes for sale (approvals)** rose as well, up to among the highest levels ever
- **The number of delistings** fell further
- The **inventory of unsold homes** grew in both Oct and Nov but no of homes for sale is still lower than in August (Sept was all time low)
- The **inventory/sales ratio** declined 1 day to 35 days, vs an average at 53 days
- The **actual time on market** for those homes sold still fell 1 day to 37 days, well down from more than 60 days last spring (the avg. is at 43 days)

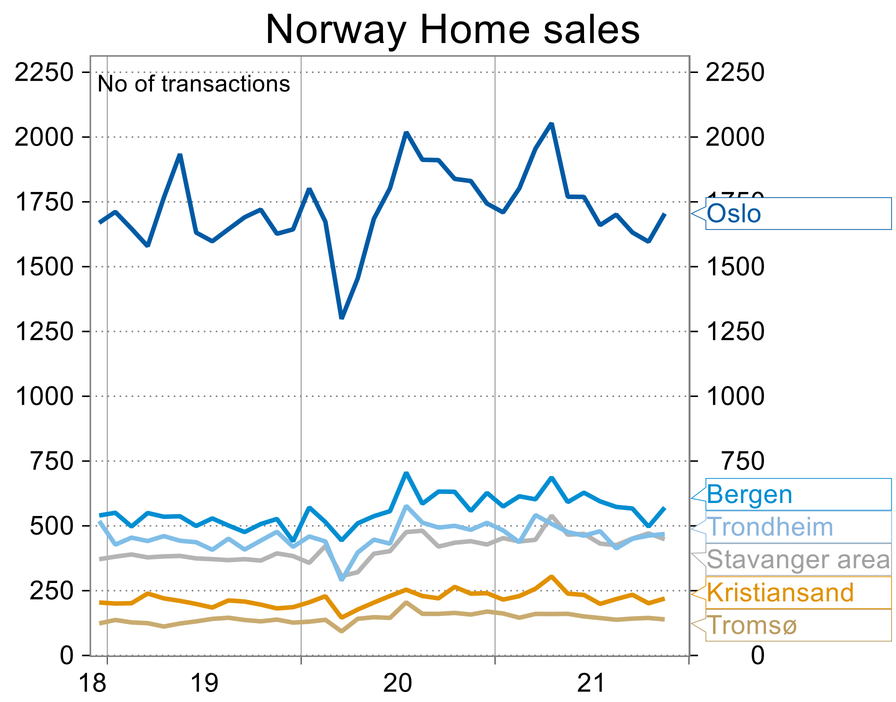
SpareBank 1 MARKETS

Number of transactions down are trending down most places

... But volumes are still higher than normal everywhere



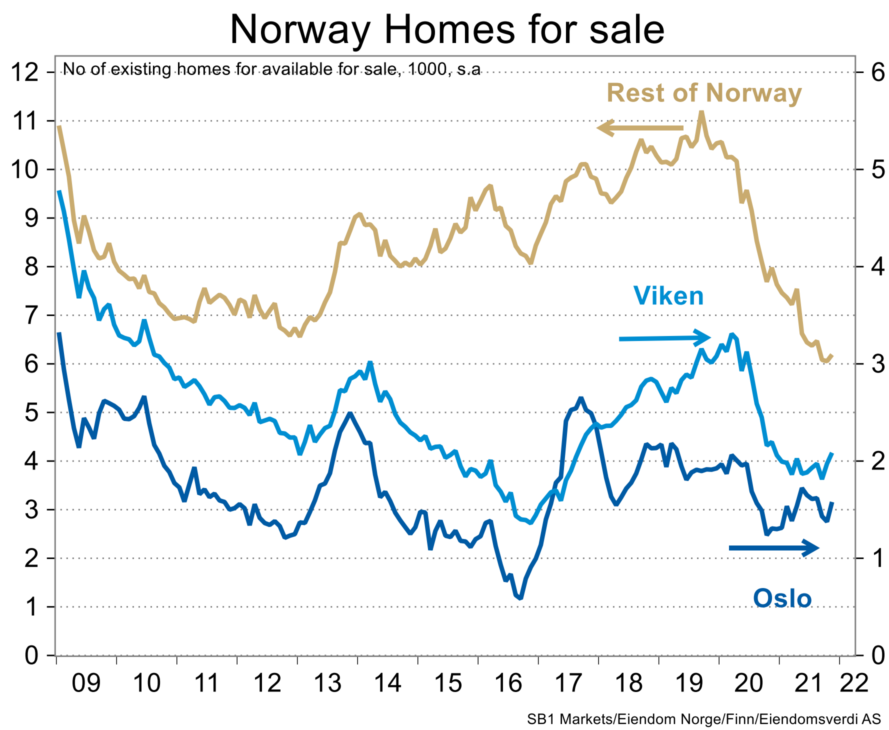
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

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

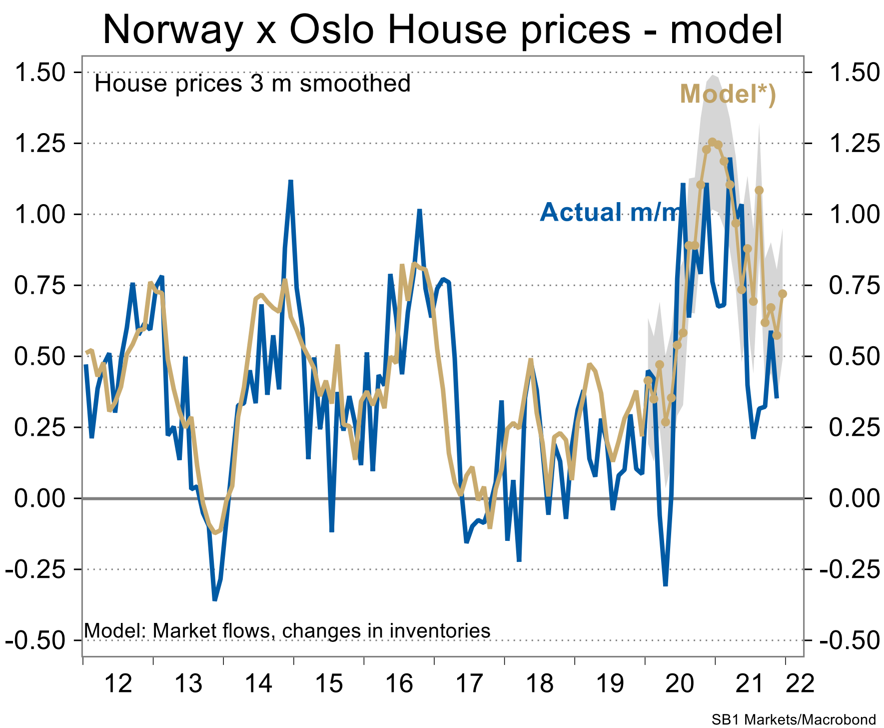
In addition, the inventory is lower than normal everywhere – except in Tromsø & at Romerike

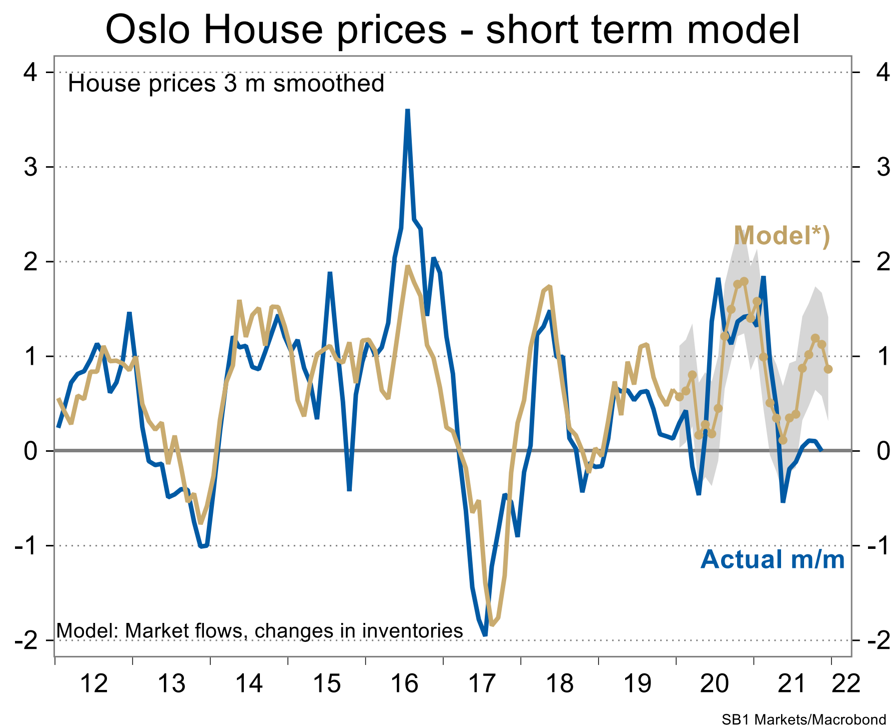


- Over the last year, the inventory has fallen everywhere, barring in Fredrikstad/Sarpsborg and in Oslo

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

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

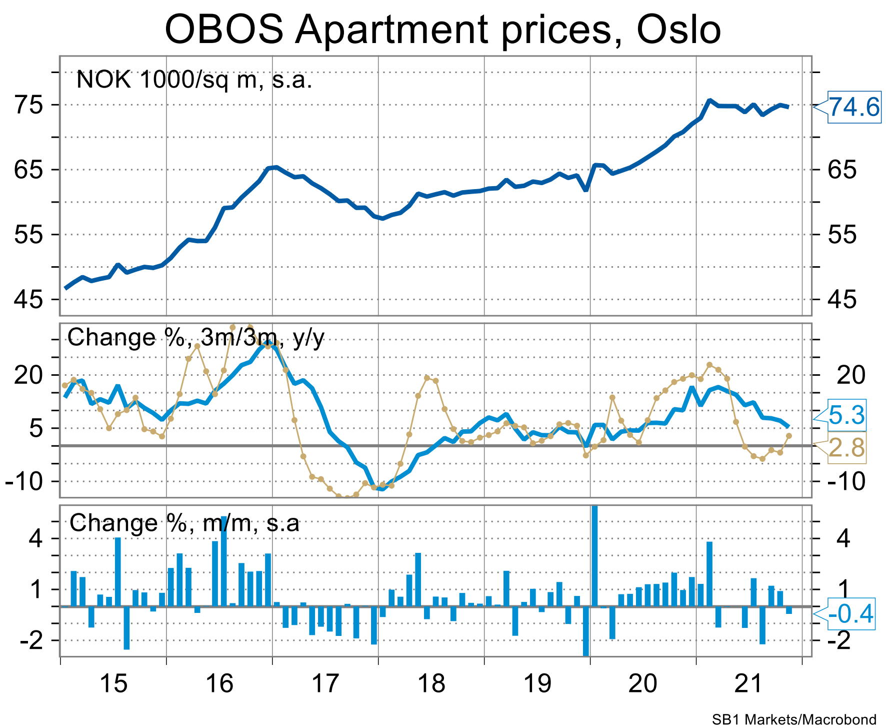


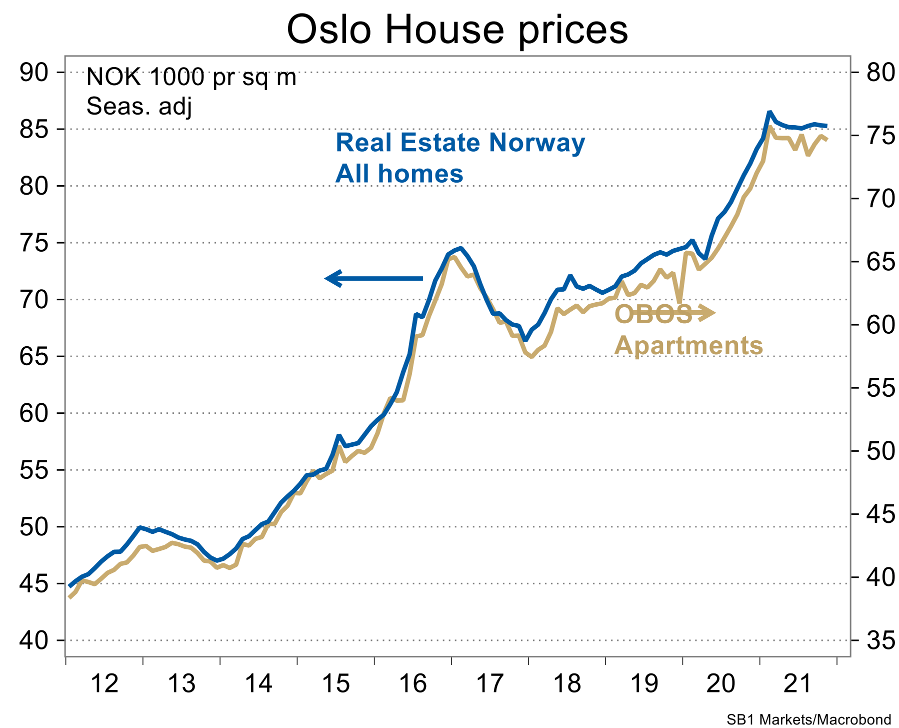


- Our **national x Oslo model** based on flows and the inventory signals a 0.7% growth in house prices per month
- Our **Oslo model** signals a 0.9% growth (up from zero 6 months ago)
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

OBOS apartment slipped 0.4% in Nov., prices close to flat since the Feb-21 peak

Prices are still up 5.3% y/y



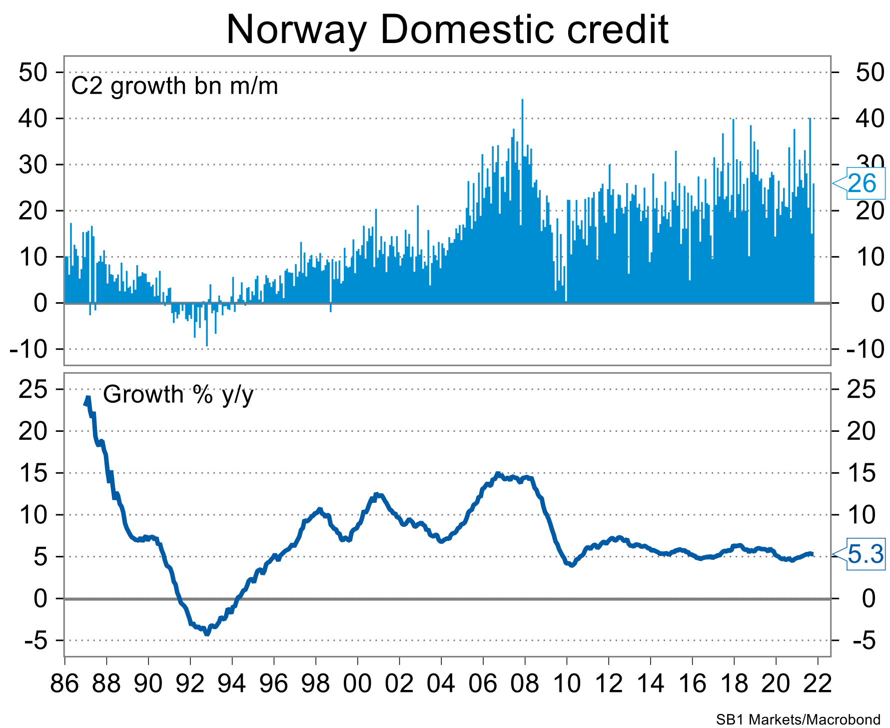


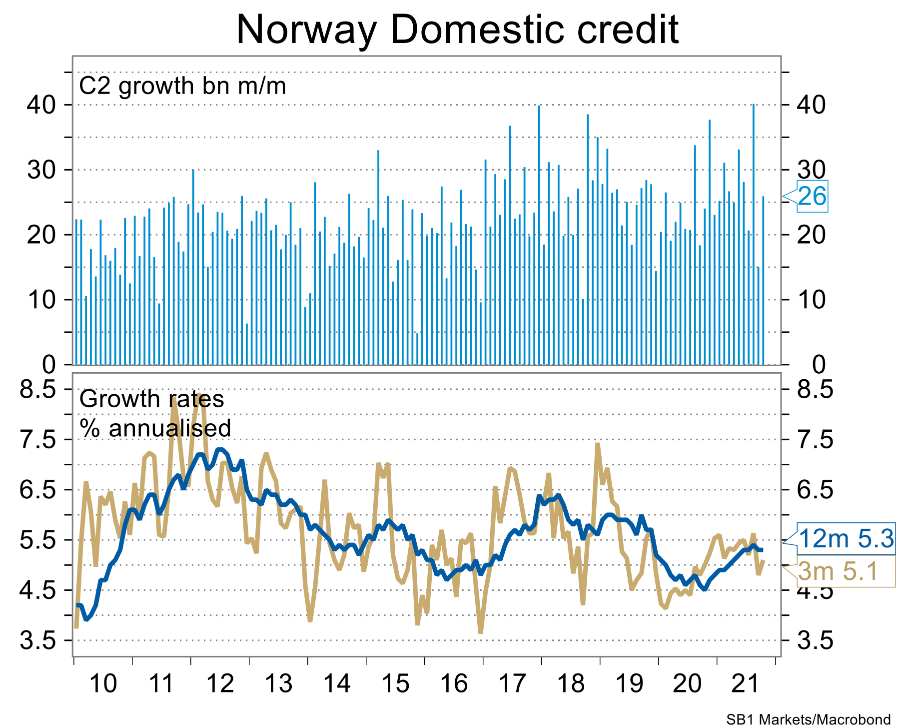
- The parallel change in both co-op & total house prices in Oslo signal a real turning point in the market in early 2021

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

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

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





- **Total domestic debt** (C2) rose by NOK 26 bn in Oct, up from 16 bn in Sept, we expected NOK 28 bn. The annual growth rate remained unchanged at 5.3%, which was in line with our estimate. We are not witnessing any credit boom. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 16 bn in Oct, up from 14 bn in Sept. We expected a somewhat higher demand of +18 bn from households. The annual rate was unch at 5.1%
- **Corporate C2 credit**, rose by NOK 7 bn following the NOK 2 bn trickle in Sept. The annual growth rate was unch at 5.1% as we expected. **Mainland corporations** increased their debt by 6.4% y/y (+ 0.7 pp from Sept)
- **Local governments** increased their borrowing by NOK 3 bn, up from 0,3 bn in Aug, we expected the growth to remain unch. The annual growth rate is at 7.5%, far above their income growth, as ususal

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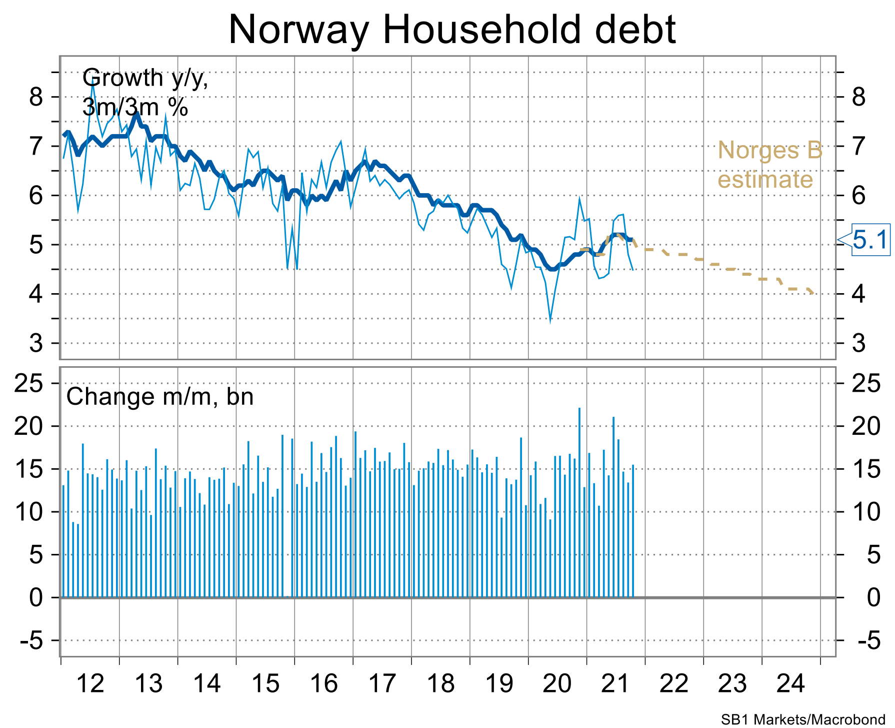
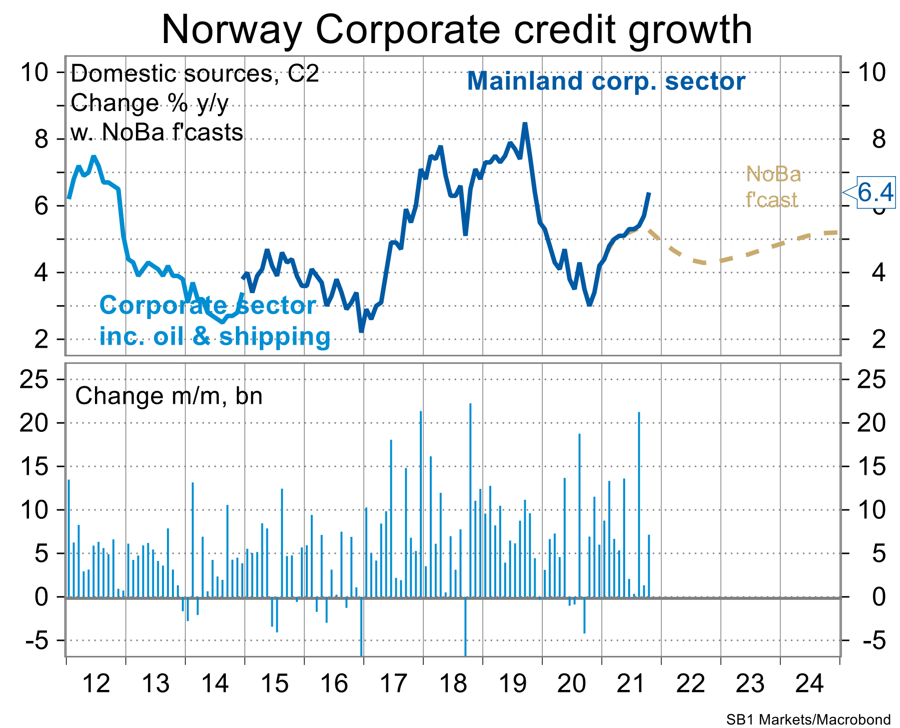
Strong growth in corporate credit in September as well

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

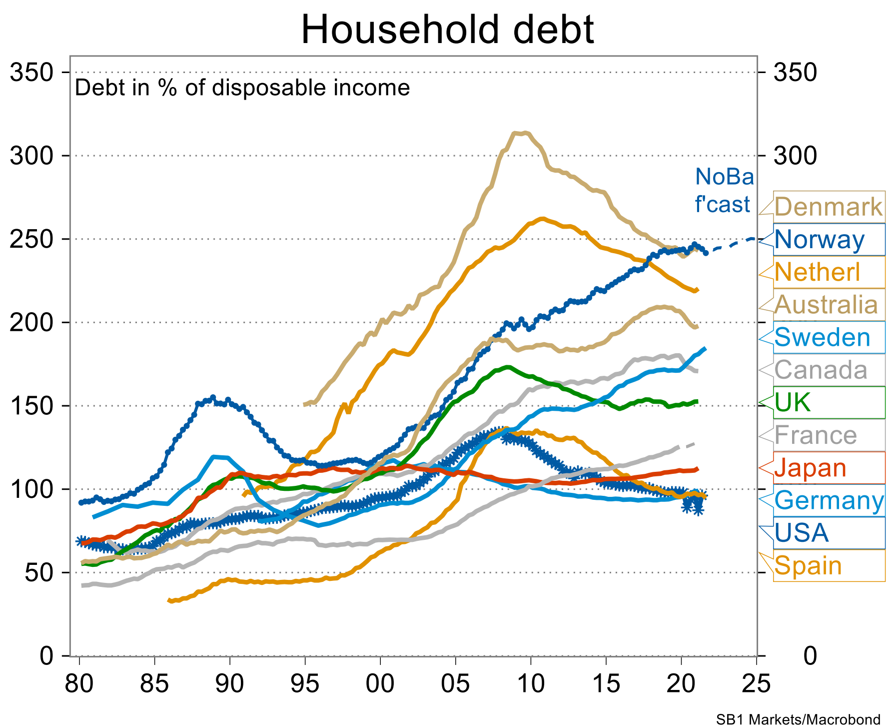


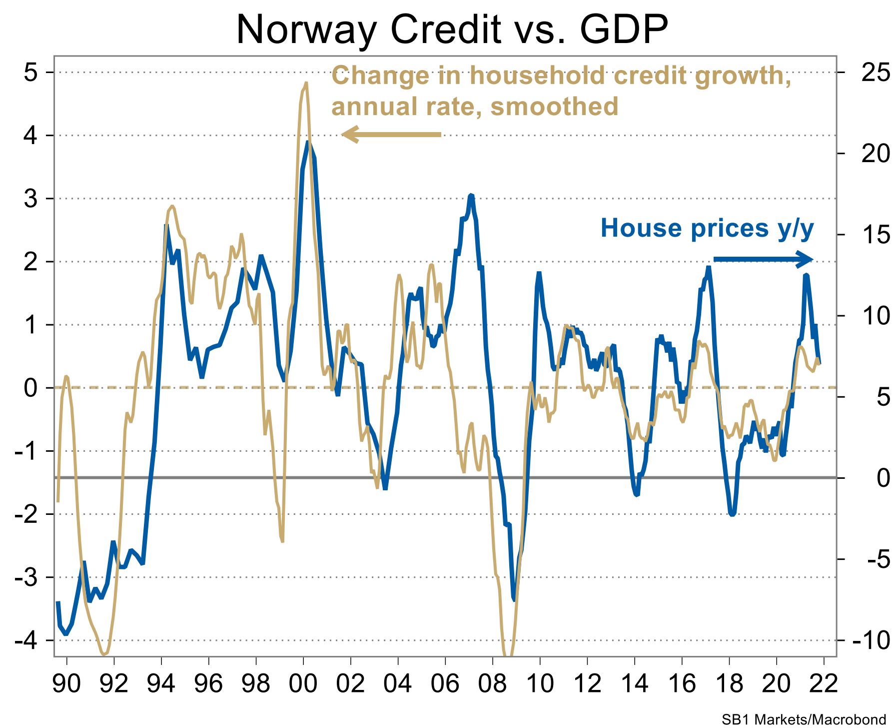


- Following a mild slowdown during the corona spring, **household credit** growth has now recovered, but has not accelerated that much. The annual rate was 5.1% in October, up from 4.5% last summer, the 3m/3m rate is just 4.5%! Norges Bank expect growth to slow gradually the coming years alongside a gradual increase in interest rates
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year and the first half of ’21. Growth was slow in June and July, but in August Mainland companies increased their borrowing by NOK 21 bn, one of the highest prints ever – however, and following a pause in September, ‘normal’ growth in November. The y/y rate accelerated to 6.4% from 5.7%, once more above Norges Bank’s estimate, as the Bank for long have expected growth turn down

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

What if the housing market slows?

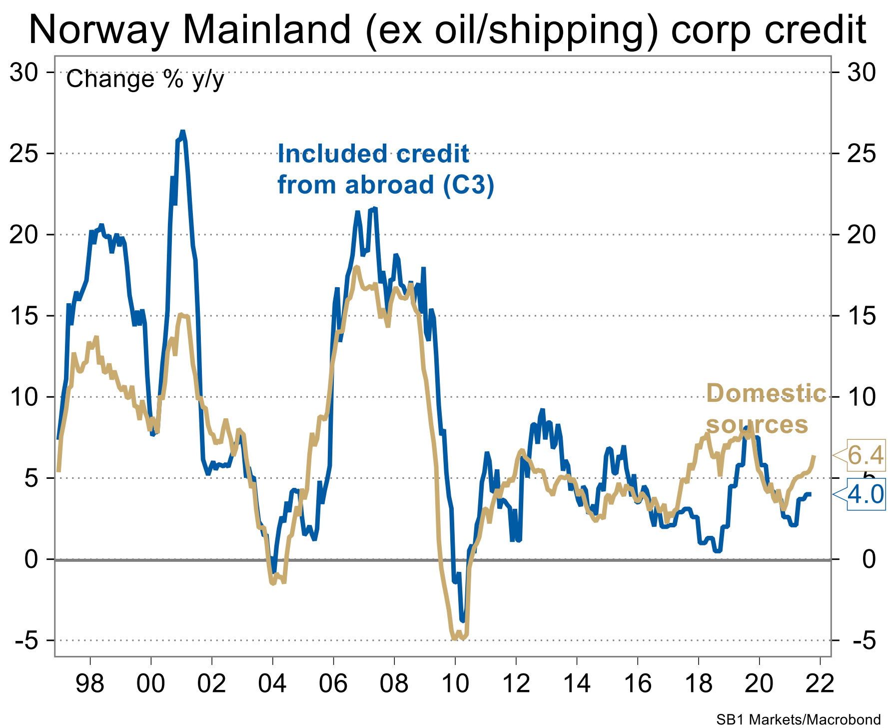


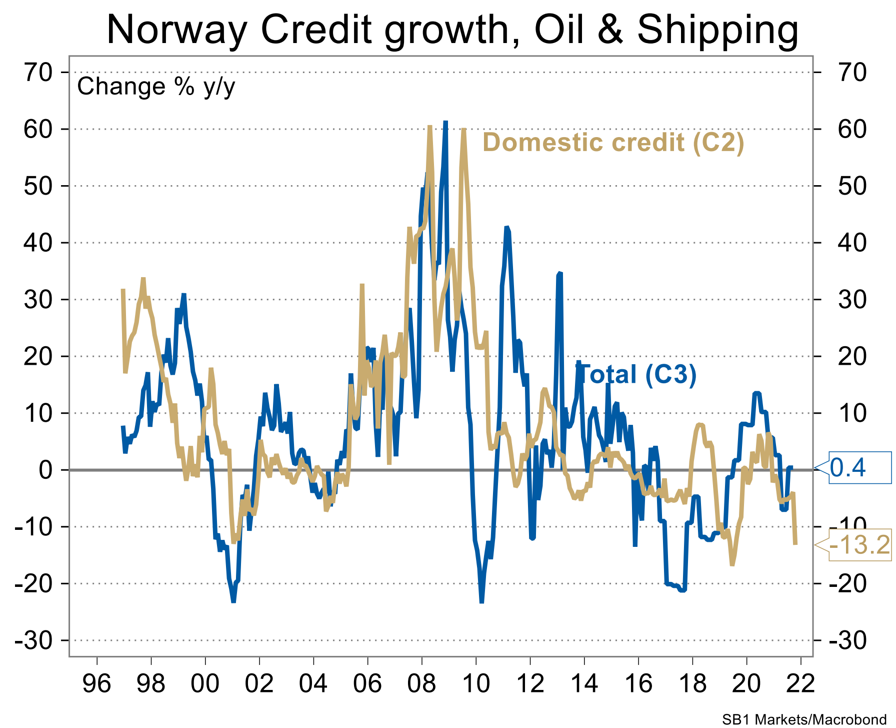


- **Norwegians households' debt** steady been growing faster than income but just marginally since early 2018
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic (like the decline in the debt/income ratio in the US due to the temporary surge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

SpareBank 1 MARKETS

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

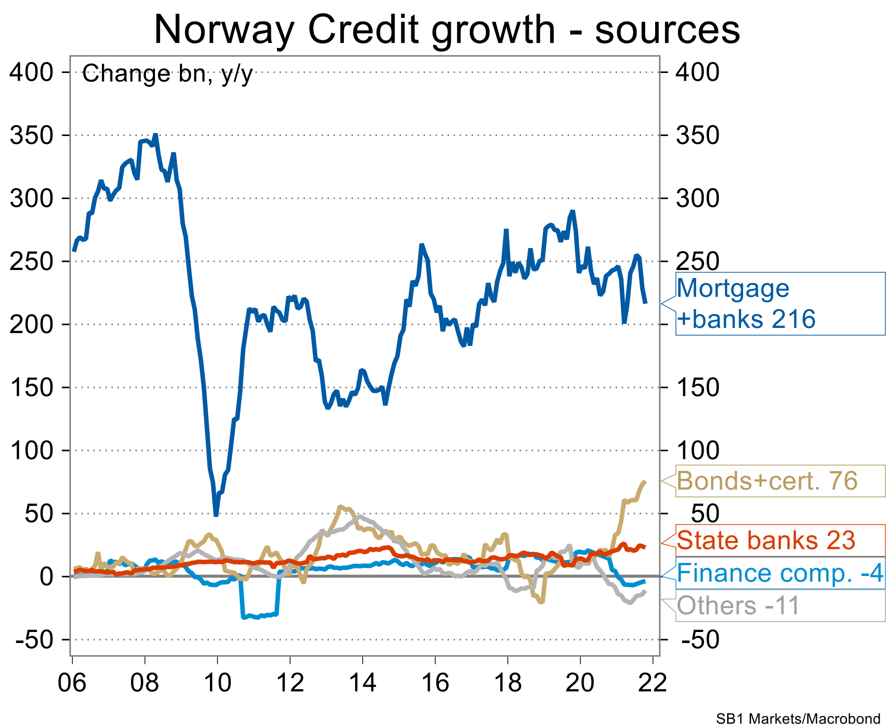


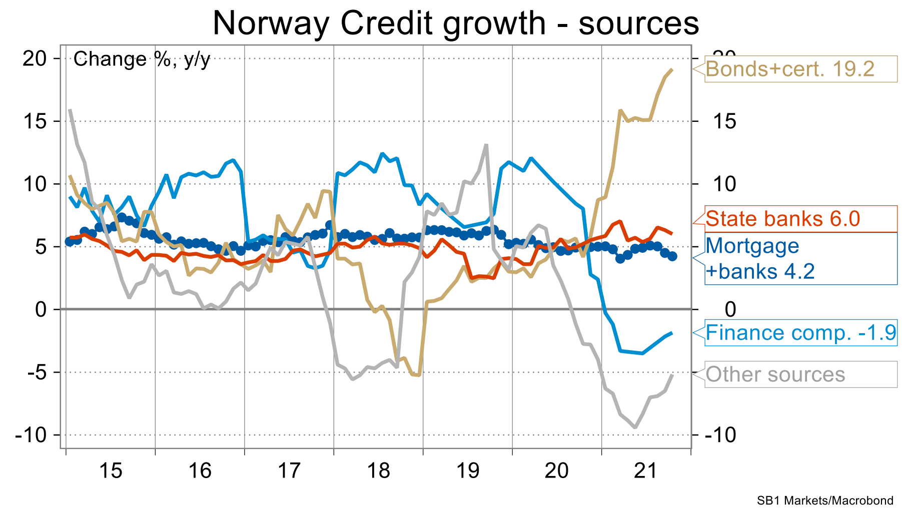


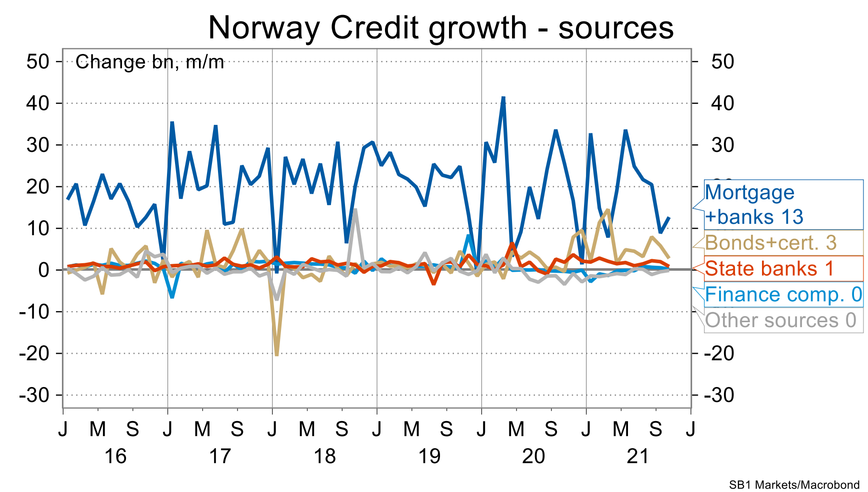
- While domestic credit supply to **Mainland businesses** have accelerated, their total debt, including credit from foreign sources has been rising at a slower speed, at least until Q2
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway.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

Bond borrowing further up in October, up NOK 76 bn y/y (+19%)

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







- Net issuance of bonds (to non-financial sector, not banks) is up NOK 76 bn (19%) y/y, highly unusual – the growth in October alone was NOK 3 bn
- Banks/mortgage companies are up NOK 216 bn (4.2%) y/y
- Finance companies and 'others' have reduced their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt is included in our residual 'others', but just the sum of SL & Eksportkreditt is down

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

Highlights

The world around us

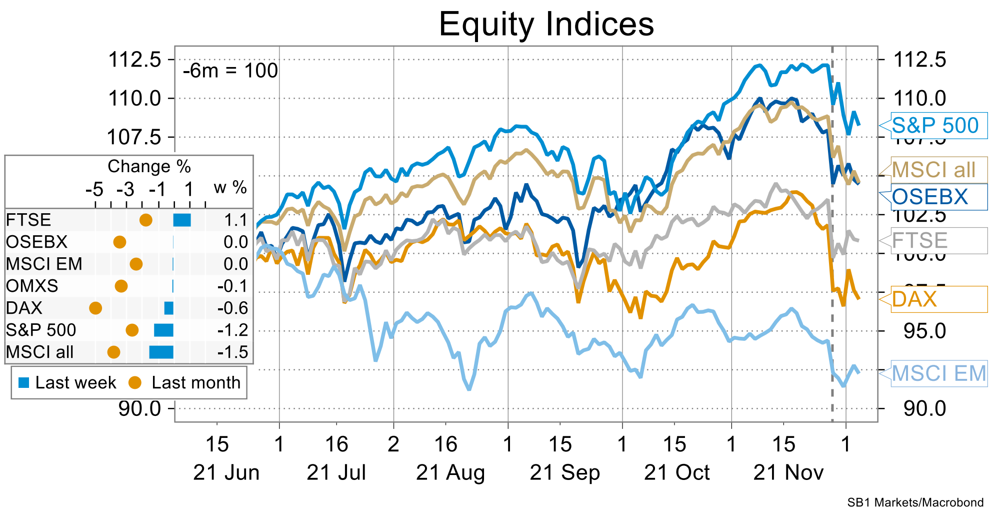
The Norwegian economy

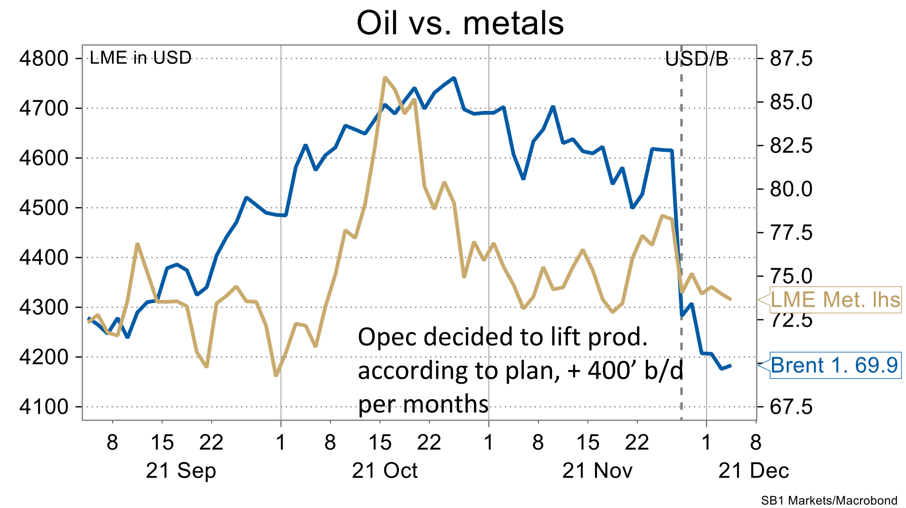
Market charts & comments

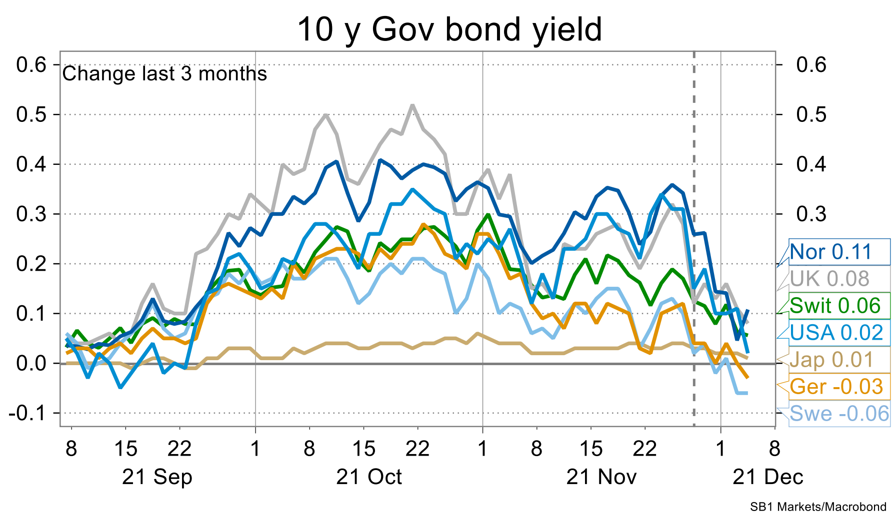
SpareBank 1 MARKETS

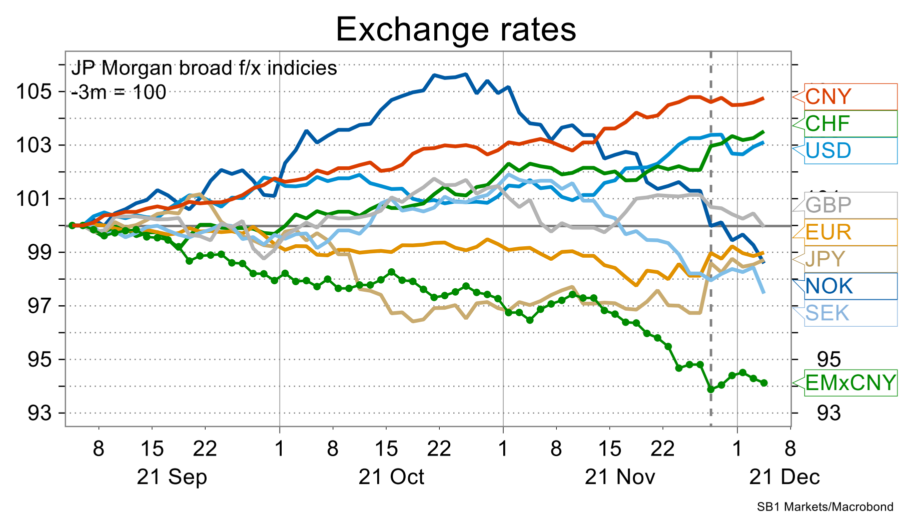
Equities are zigzagging downwards, bond yields & commodities down too

The uncertainty is for real, we do not know how to live with Omicron around





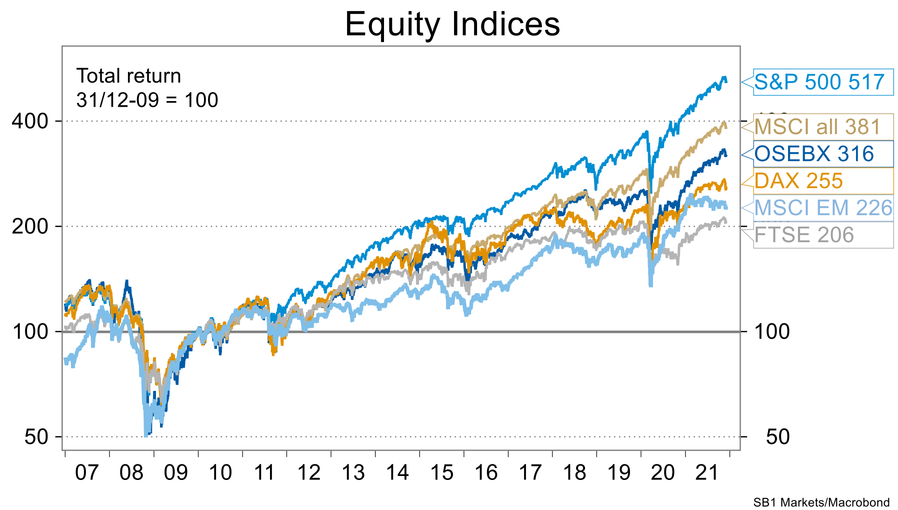


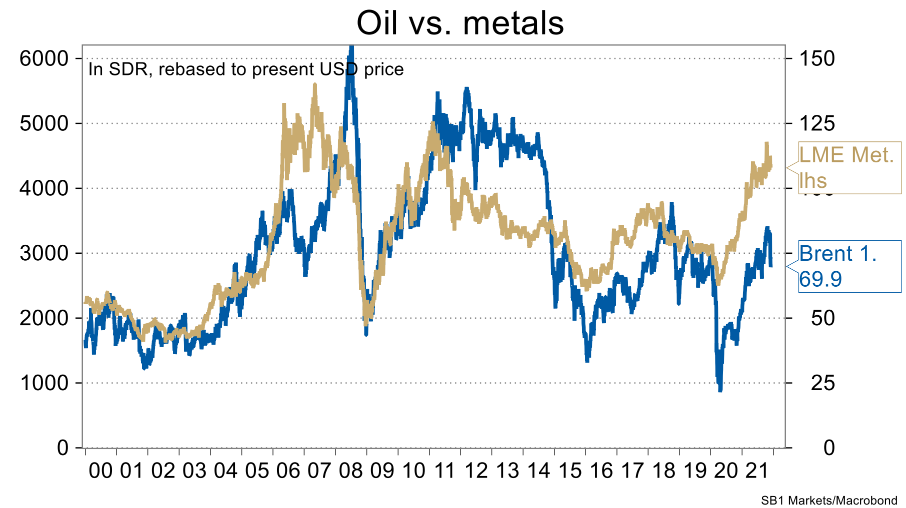


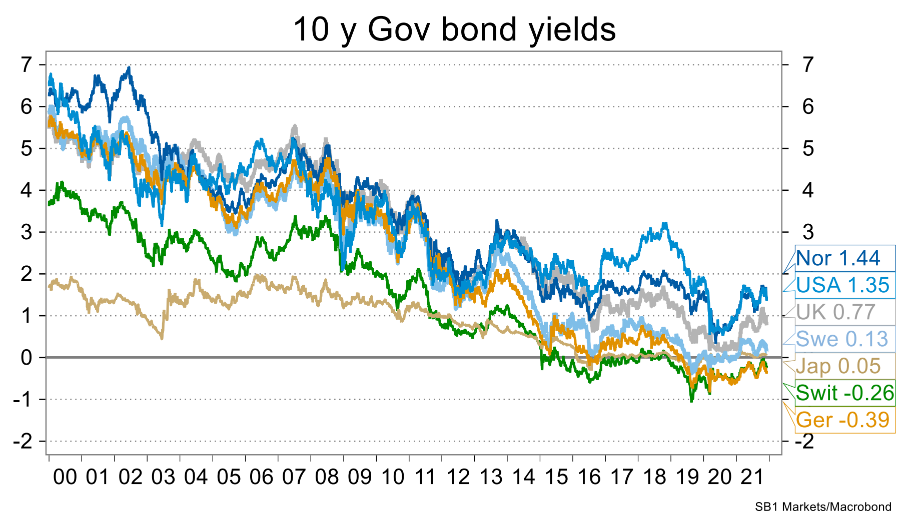
SpareBank 1 MARKETS

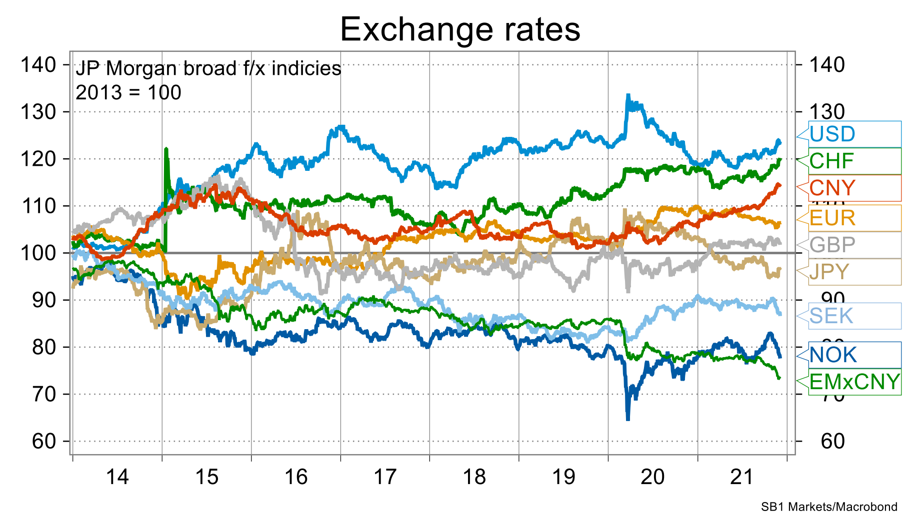
The big picture: Omicron may change everything but most likely not, for long

The bull market is still intact – with a substantial medium term downside risk



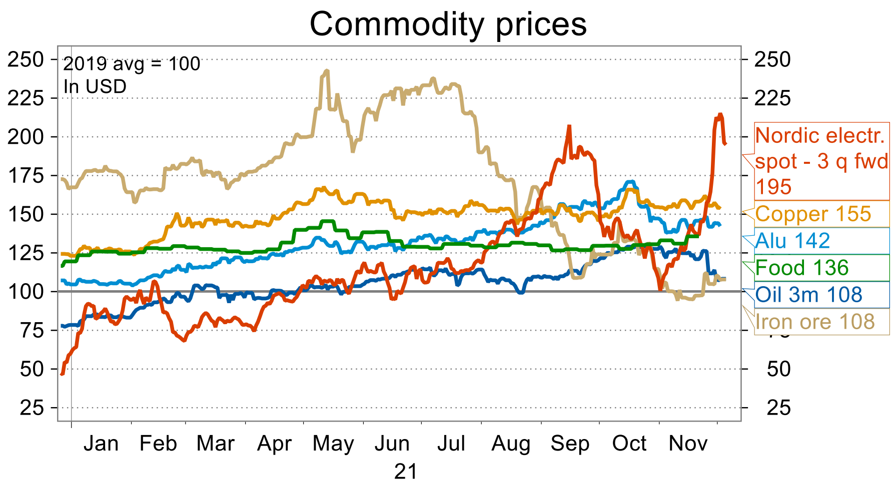


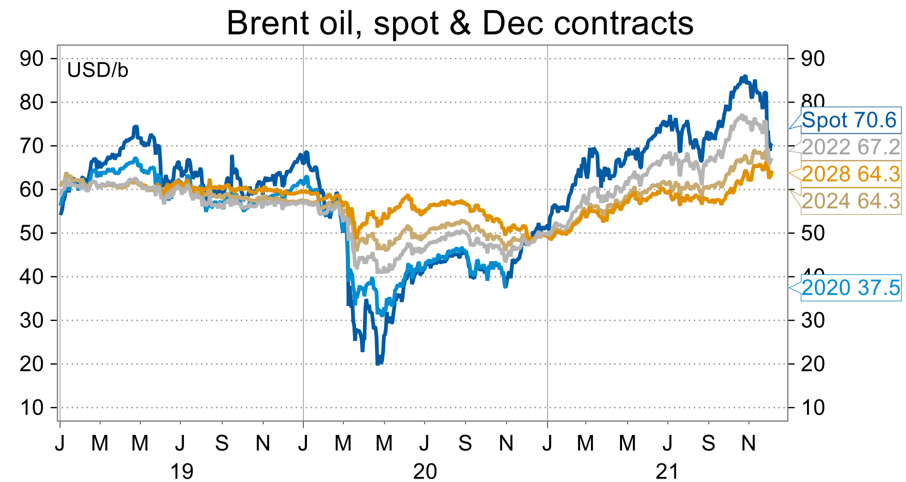


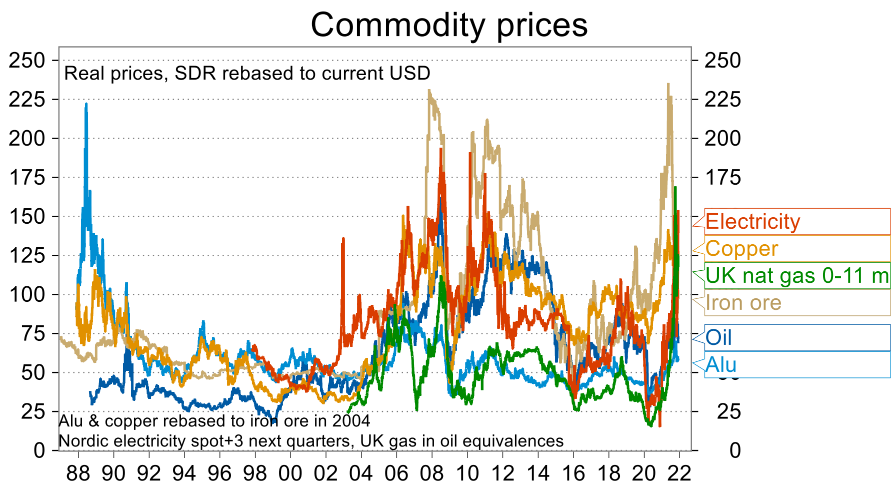


Just the short end of the oil curve down last week

Iron ore prices stabilised, and other metal prices down. Electricty prices still high (so are gas prices)

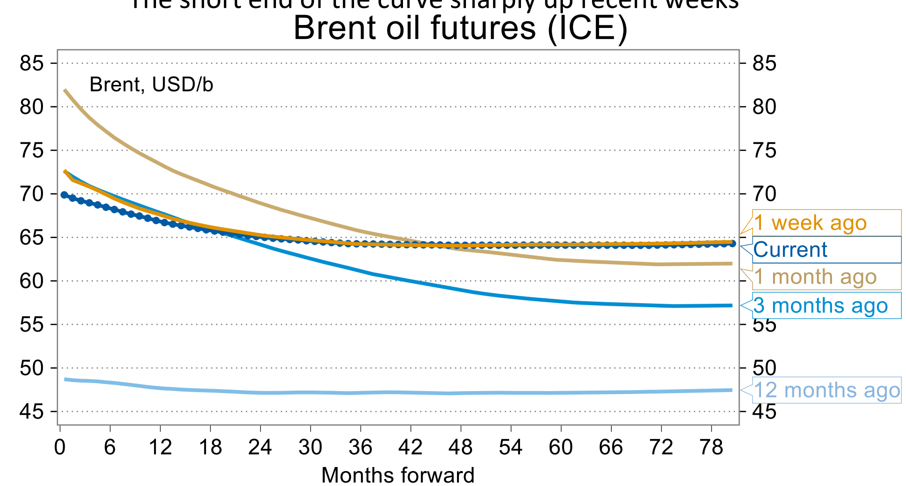






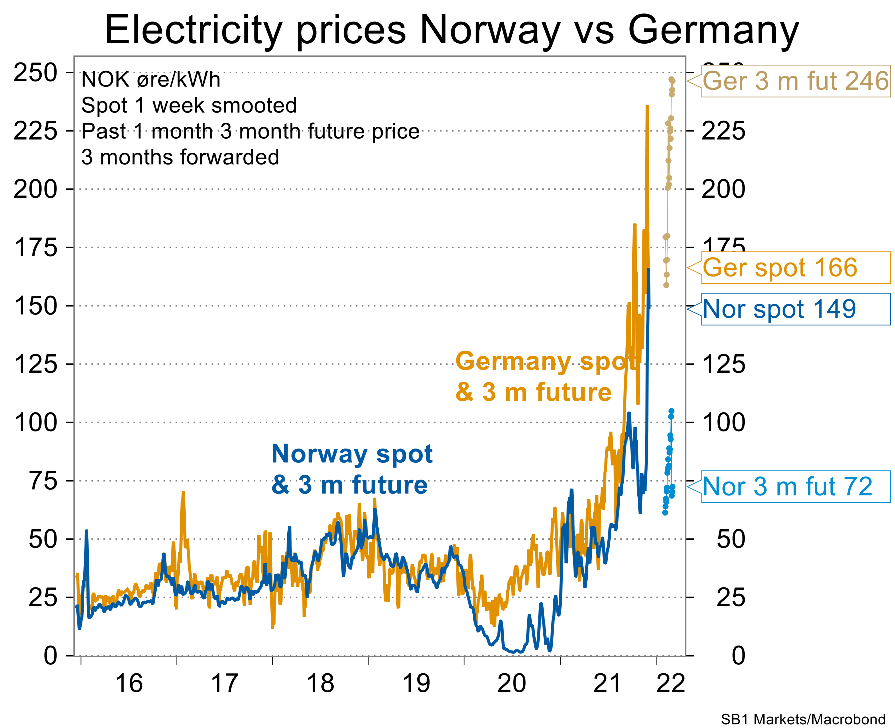
Longer dated oil contracts are heading down

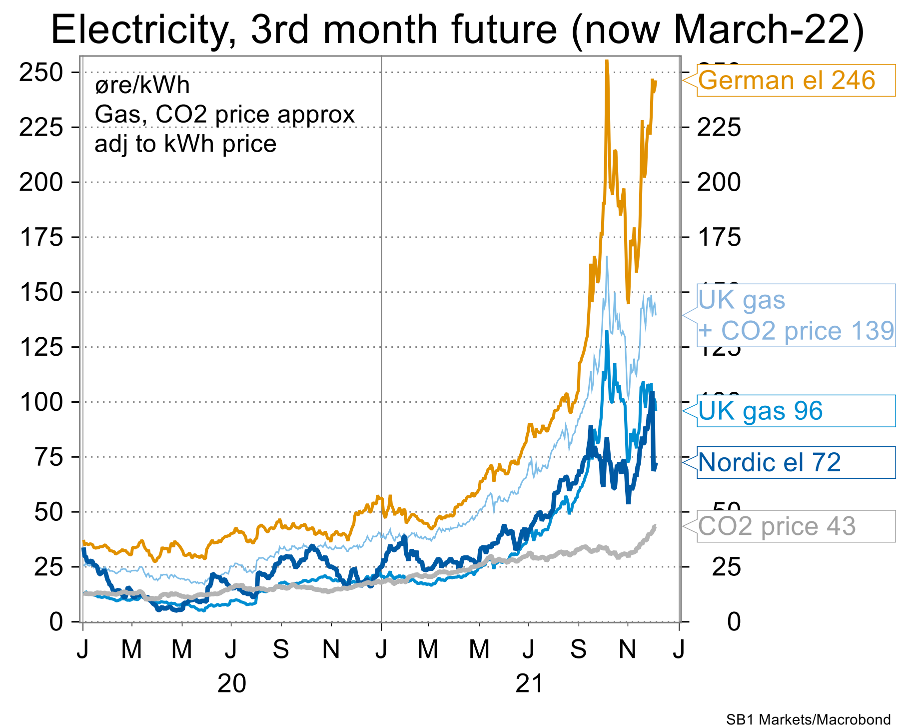
The short end of the curve sharply up recent weeks



European electricity prices up last week – to new ATHs

… and the winter is coming!





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

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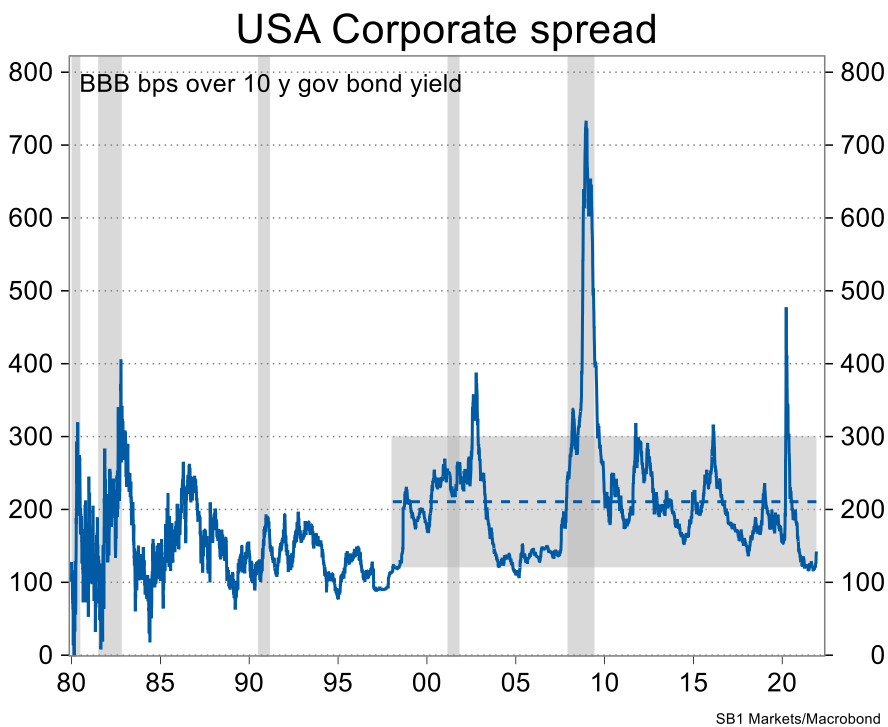
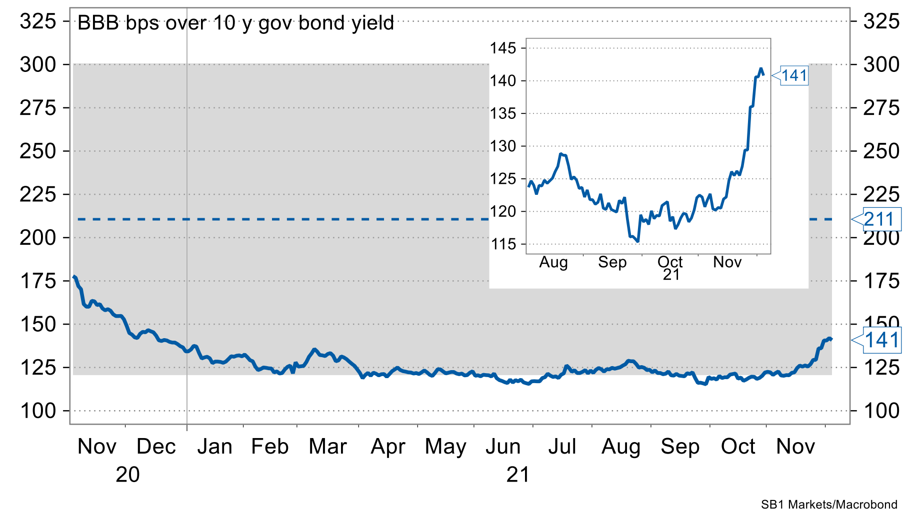
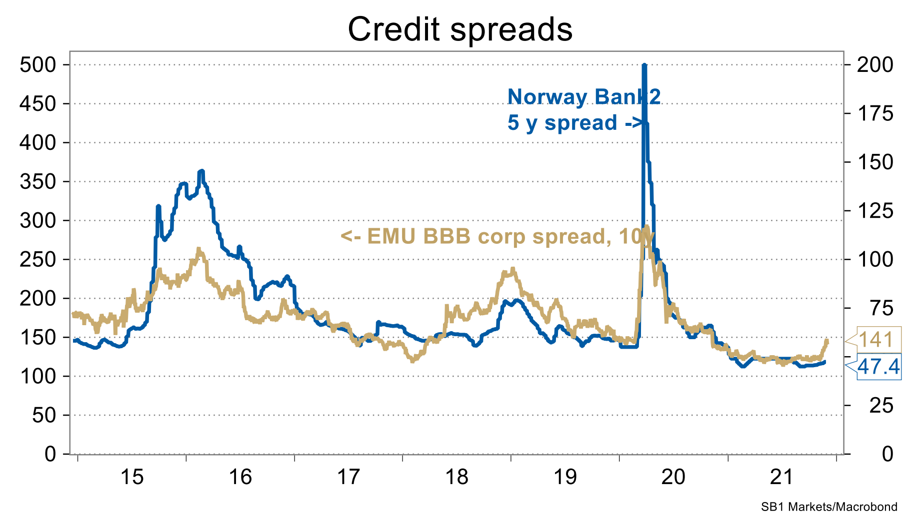
Credit spreads widened at Friday – but the trend was up well before that



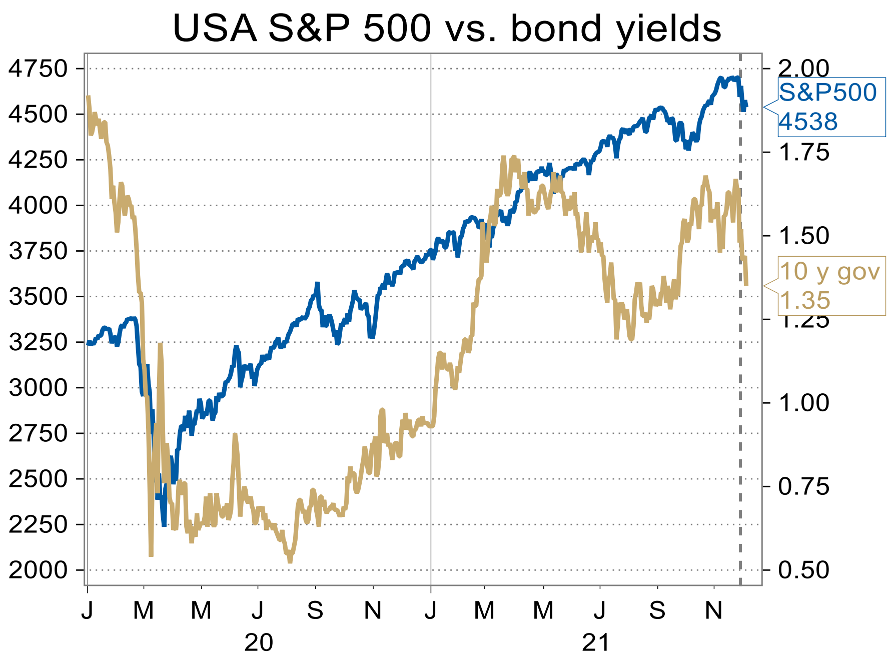


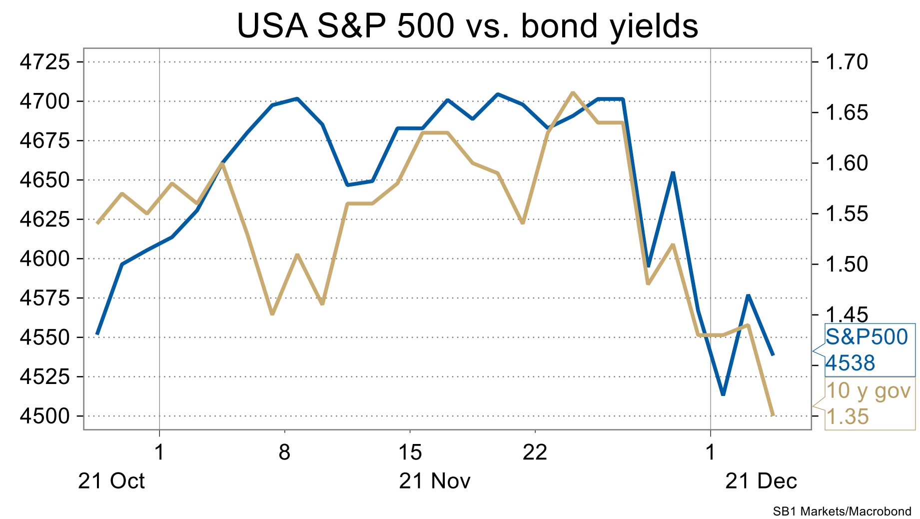


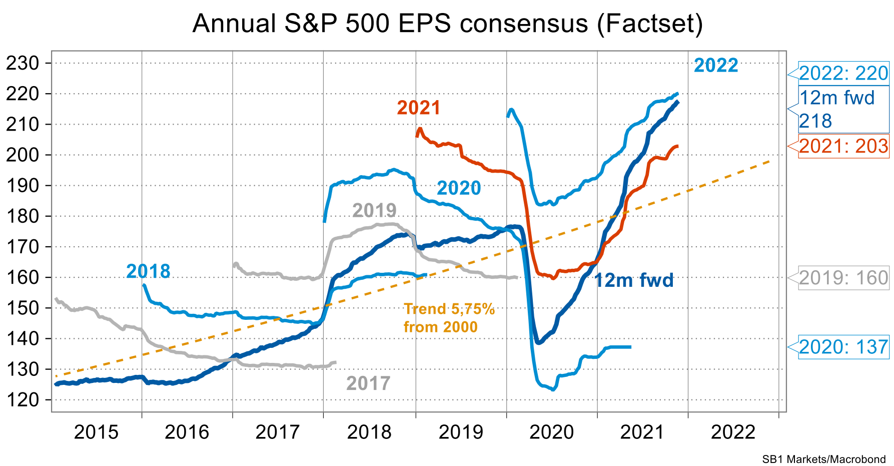
SpareBank 1 MARKETS

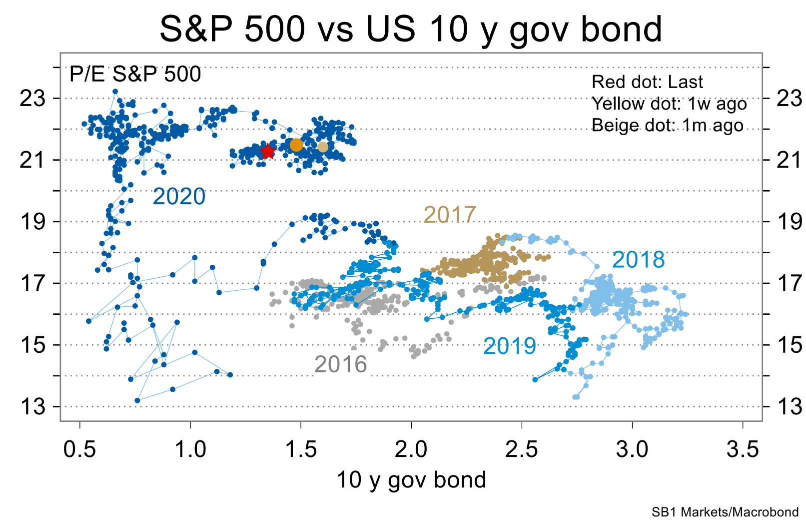
S&P 500 -1.2%, the 10 y bond -13 bps. From pre Omicron: -3.5%, -29 bp

A substantial repricing at the bond market, less so at the equity market



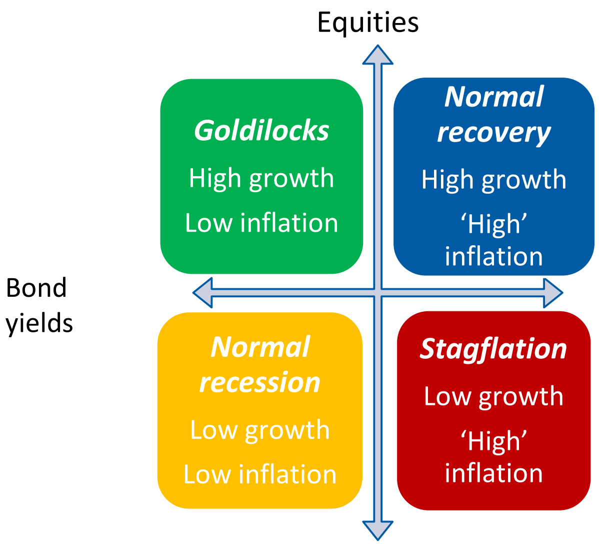


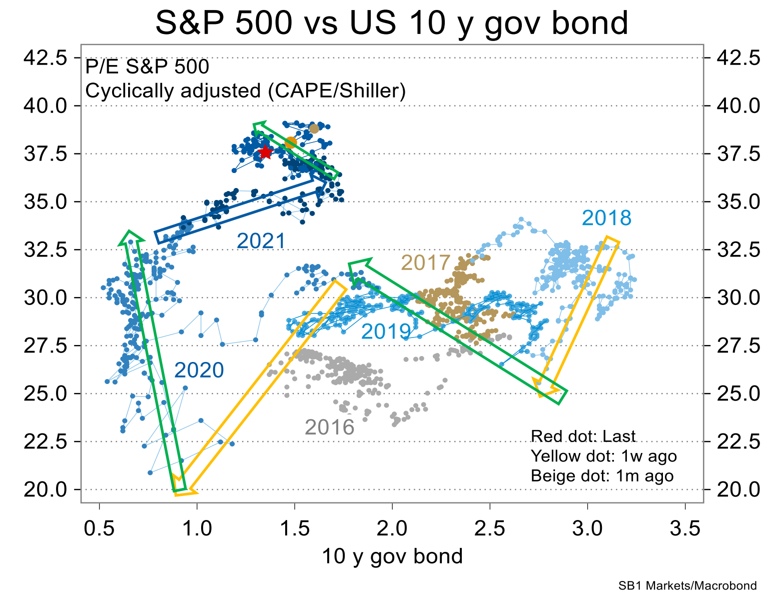




Still well inside the 'Goldilocks corner'!

Wage/price inflation dynamics will in the end decide. And not the Fed… Nor the virus



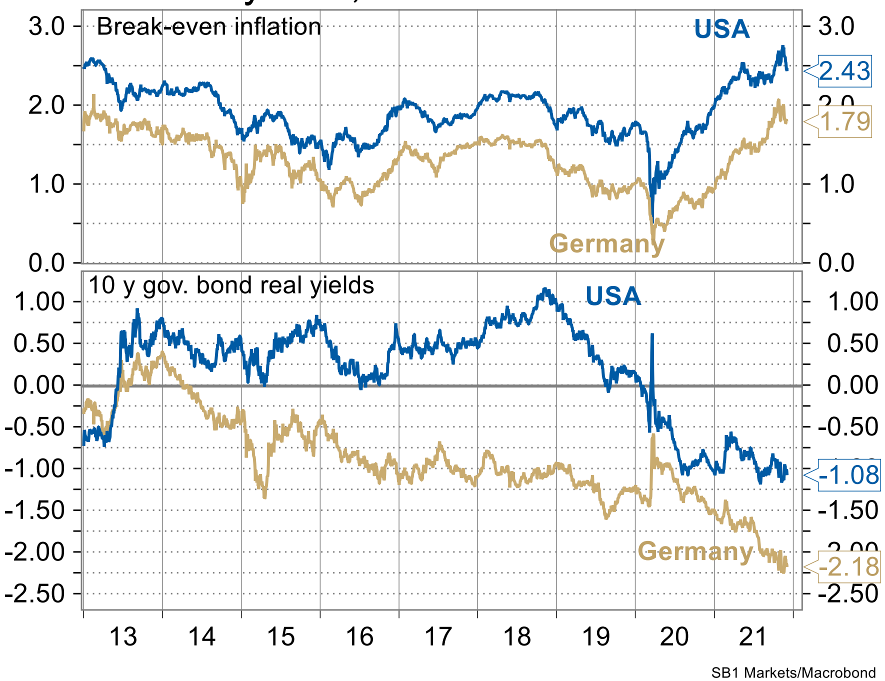


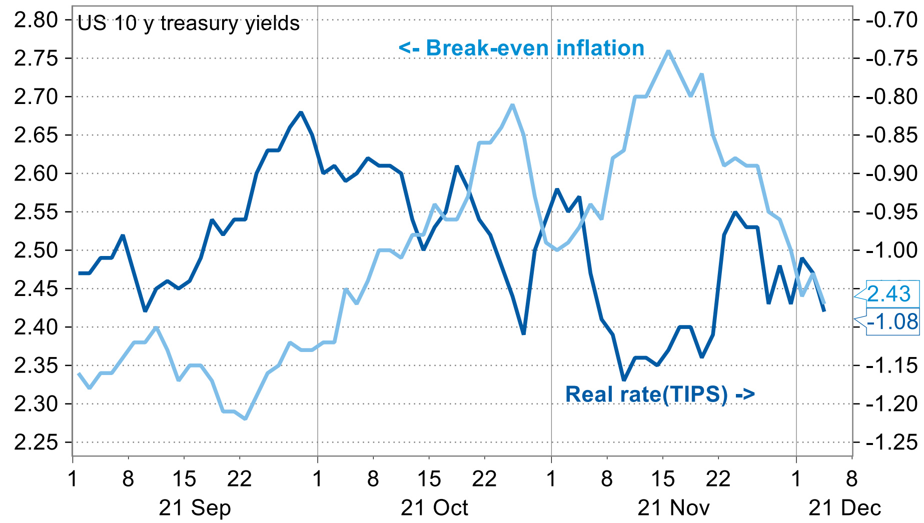
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level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

Break-even inflation expect. further down, as Powell signals willingness to fight

However, real rates remain stuck at close to record low levels

Real yields, break-even inflation





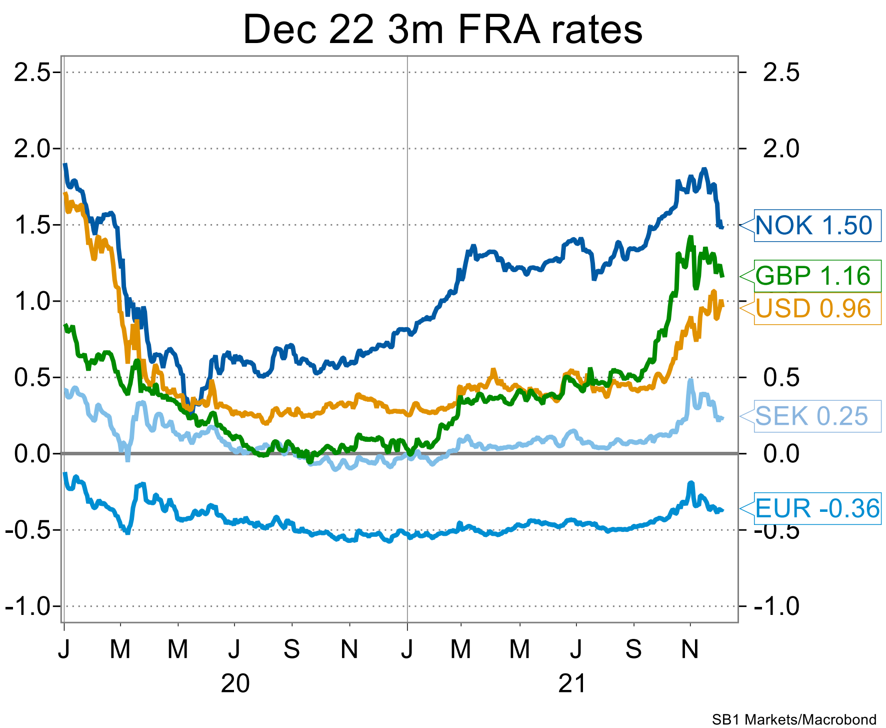
US & Germany 10 y Gov bond yield

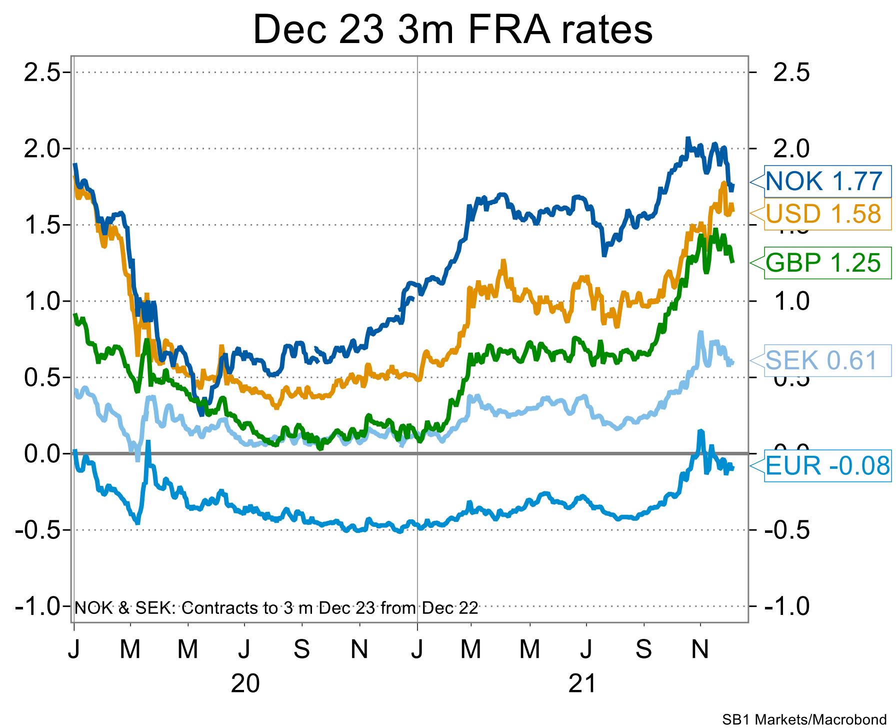
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.35	-0.13	-0.25	0.52
.. break-even inflation	2.43	-0.12	-0.10	1.06
.. TIPS real rate	-1.08	-0.01	-0.15	-1.19
Germany nominal bund	-0.39	-0.07	-0.20	-0.65
.. break-even inflation	1.79	0.02	-0.01	0.40
.. real rate	-2.18	-0.09	-0.19	-2.26

SB1 Markets/Macrobond

- The nominal US 10 y bond yield fell by 16 bps Friday, on the Omicron news – and were down 4 bps during the week. The Friday re-pricing was not aggressive, given the new virus risk
- **German real rates** rose sharply last week, by 16 bps as the break-even inflation rate fell by the same amount: The 10 y Bund was unch at -0.33%!

FRAs: Mixed – NOK 3 m Dec-22 down 17 bps, USD up 7 bps!

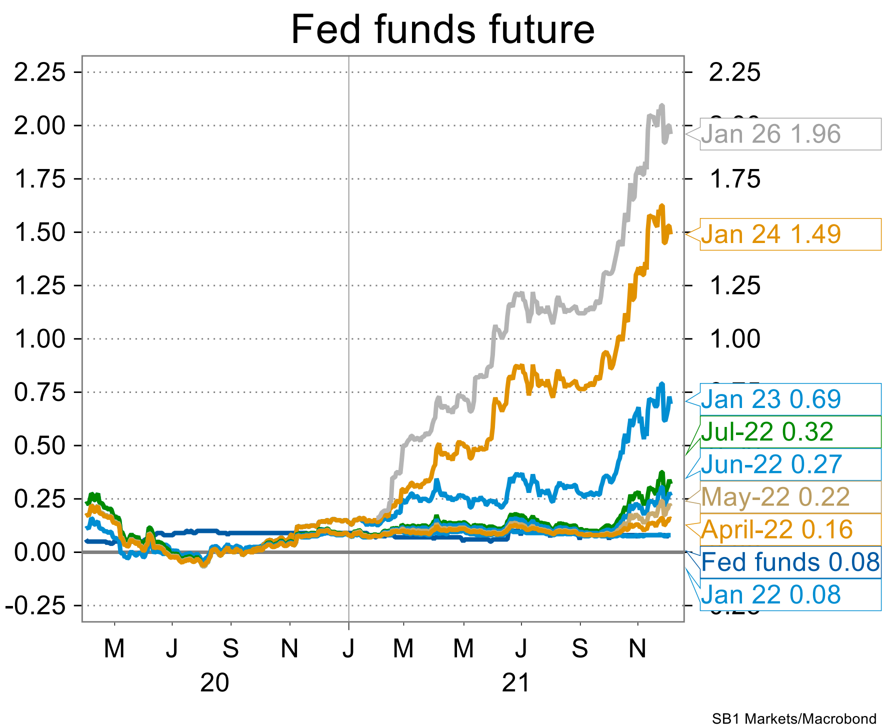


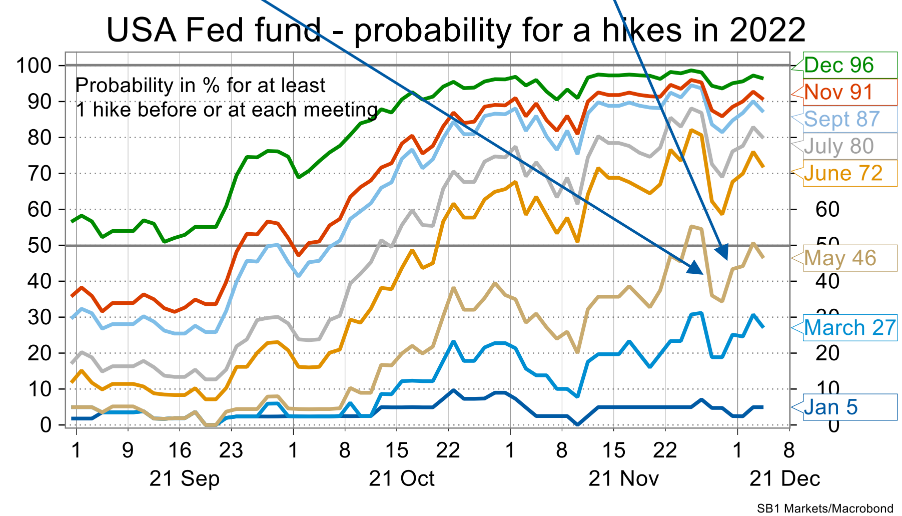


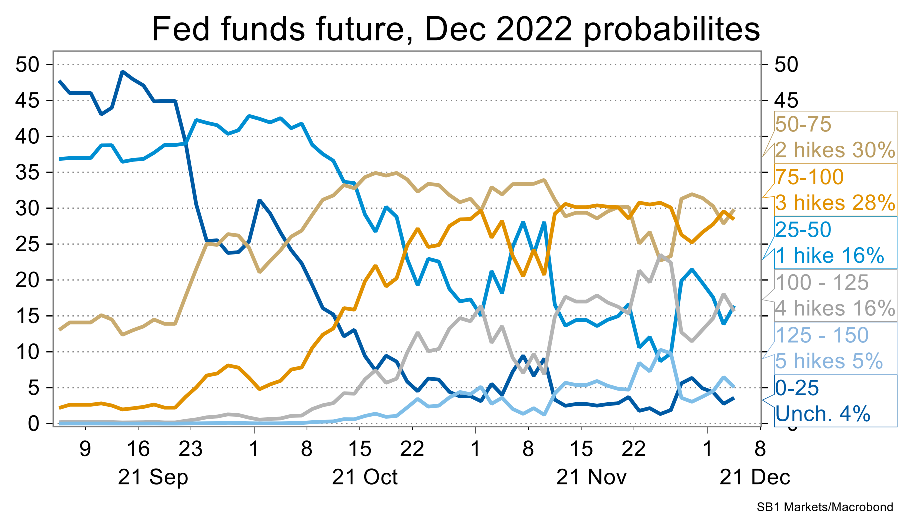
- **UK:** More the 4 hikes before end of 2022 are still on the table
- **USA:** The Fed is expected to start hiking between May and July next year, and 2 – 3 more hikes before next Christmas
- **Sweden:** The Riksbank does not expect to start hiking before late 2024, the market expect the bank to start hiking late 2022

First Omicron knocked rate expectations down, then Powell talked them back up

A hike before the summer is over is very likely



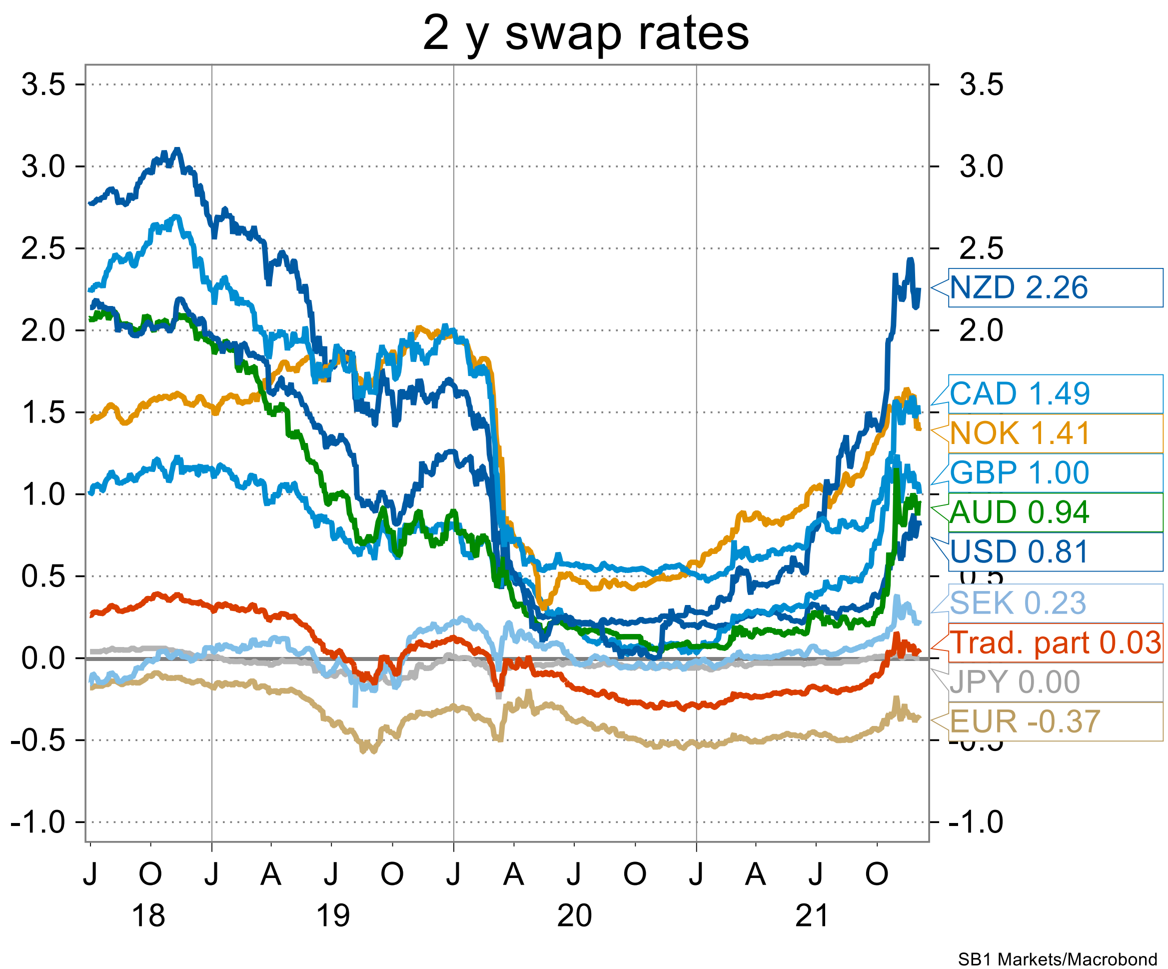


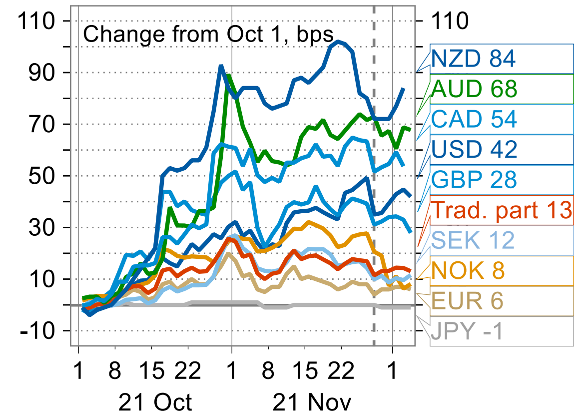


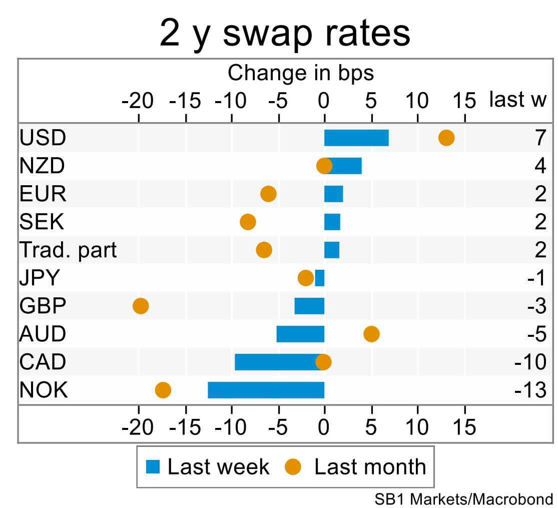
- 2 or more hikes are 80% likely before or at the Dec-22 meeting

Mixed in the short end – Powell talked US rates up

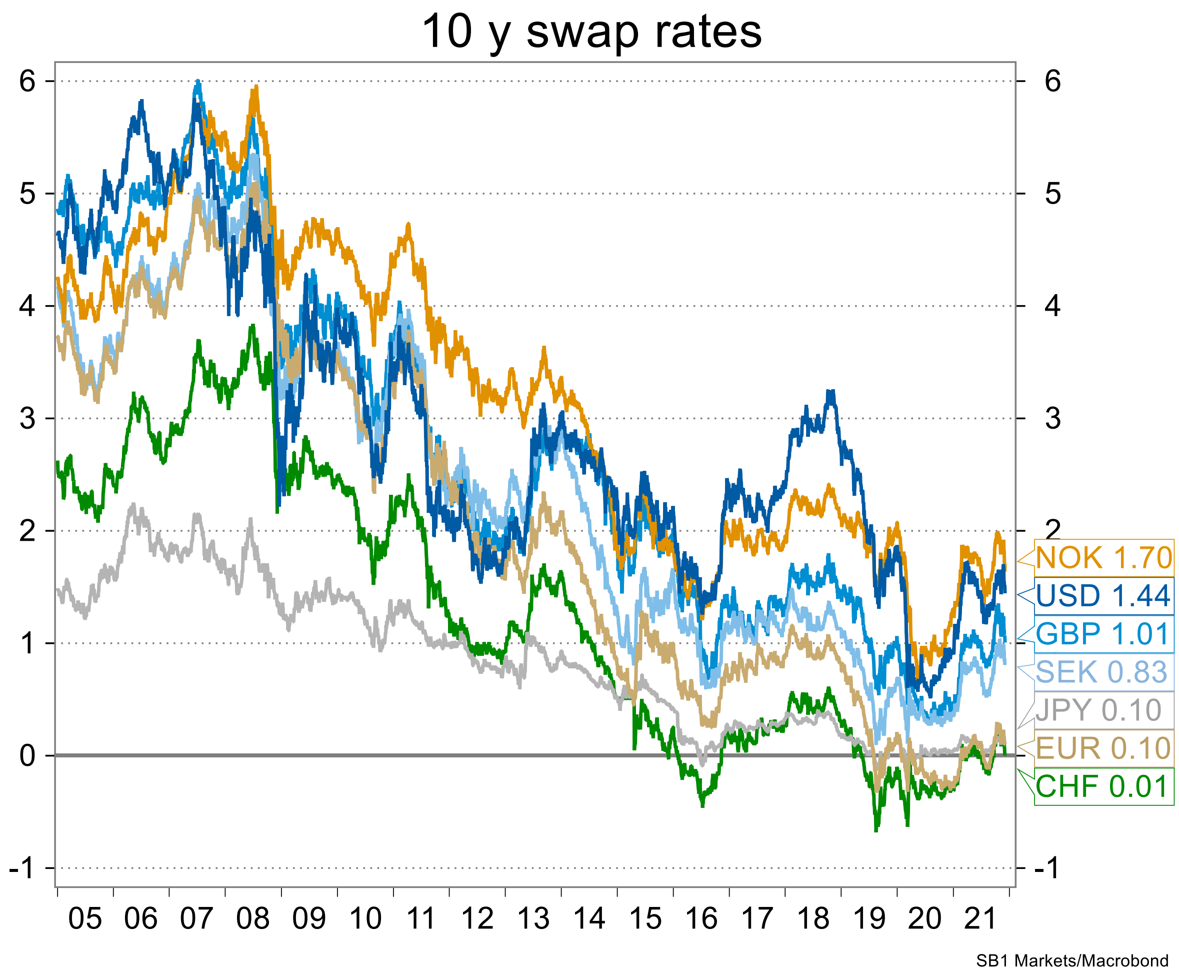
NOK rates fell the most – is still among the highest

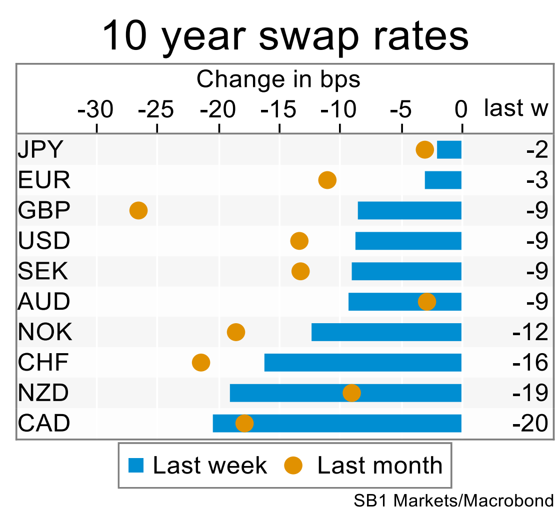




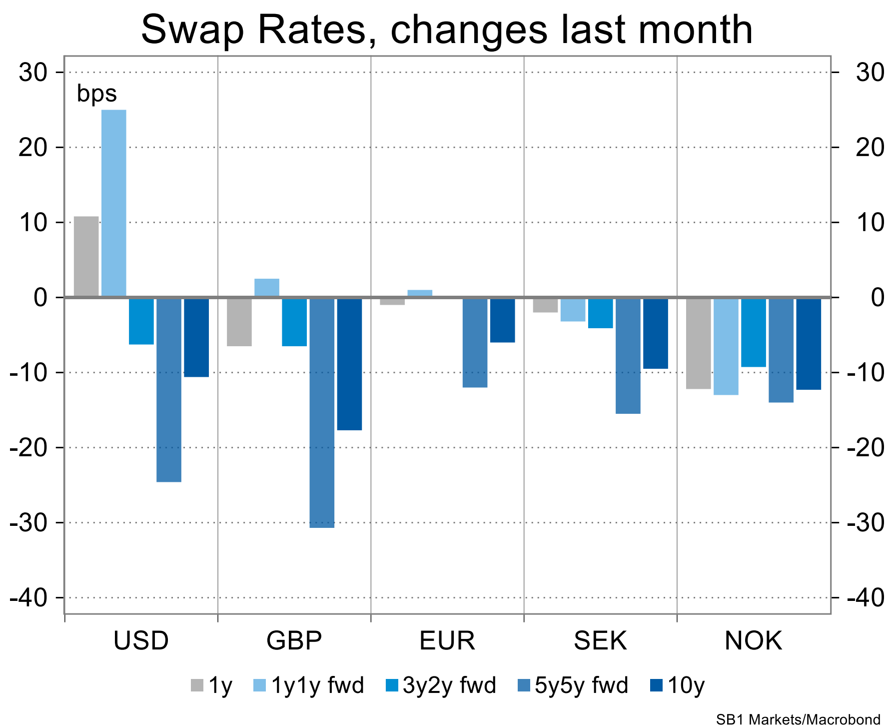


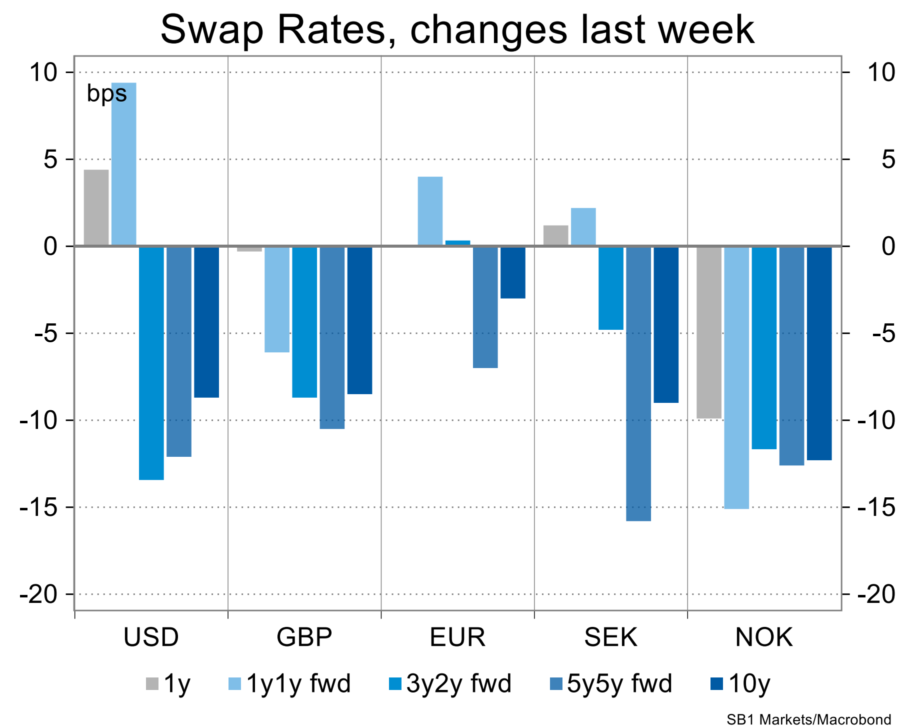
Risk off, the long end sharply down too – most where rates where the highest



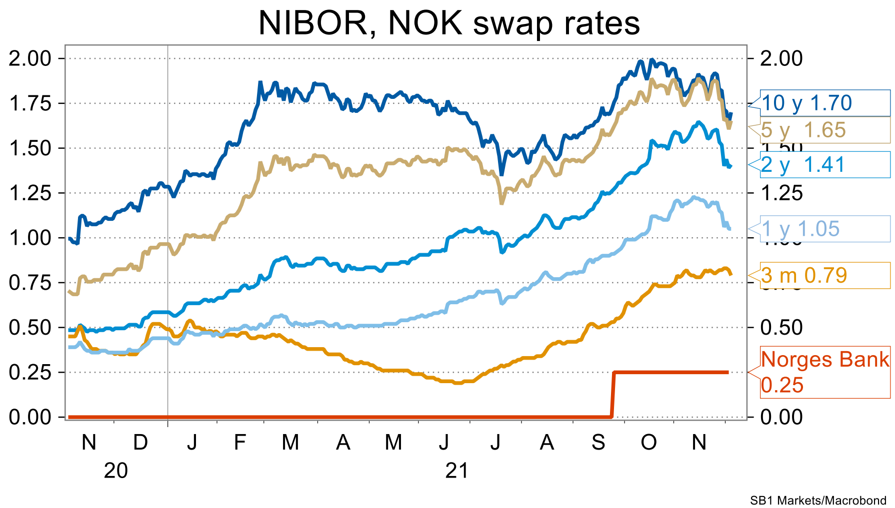


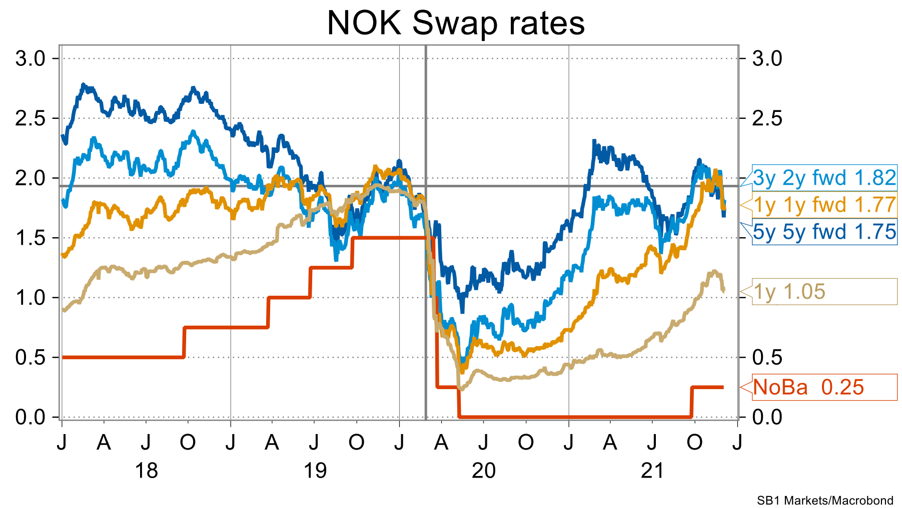
Powell talked the US short end up, while Omicron took care of the rest last week

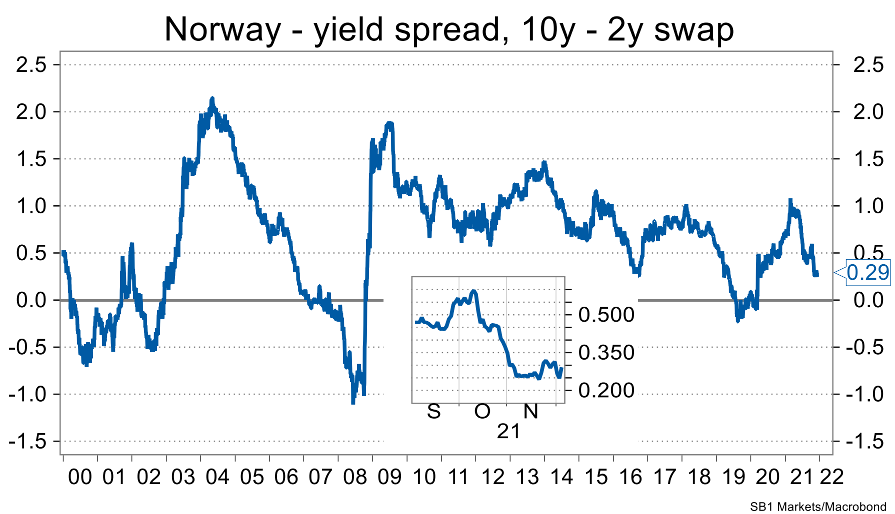


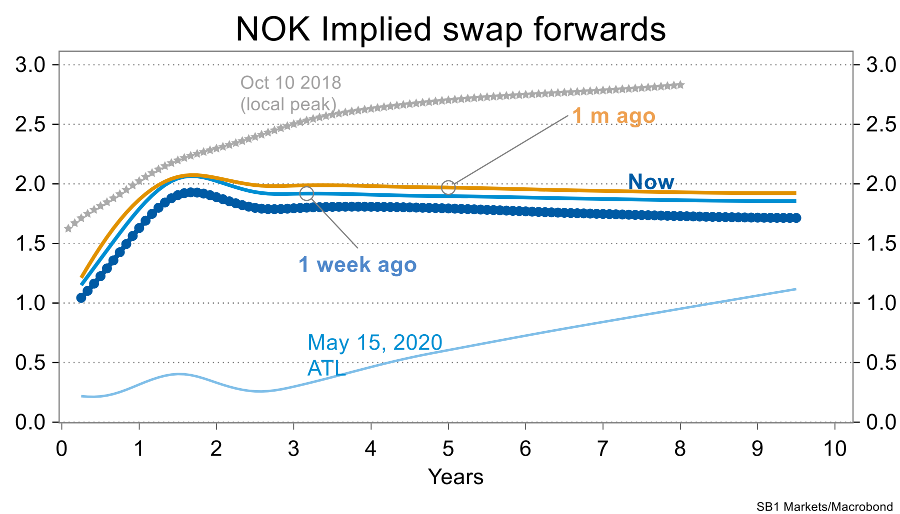


A substantial shift downwards last week

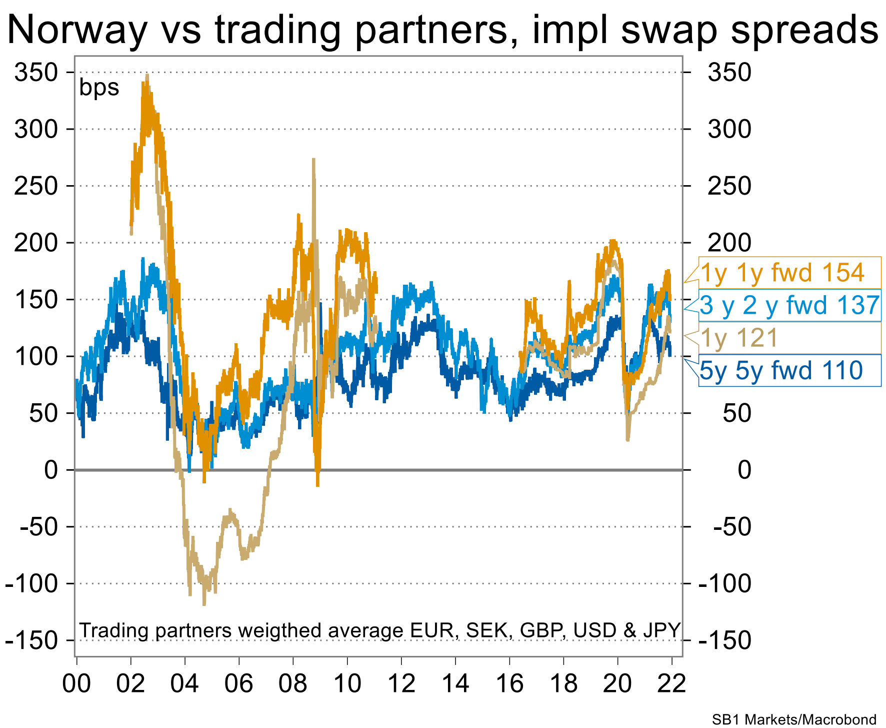


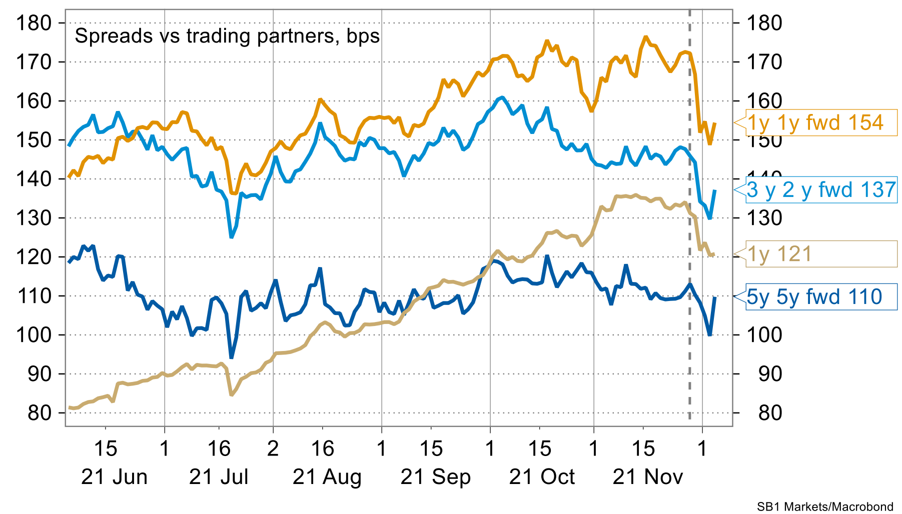


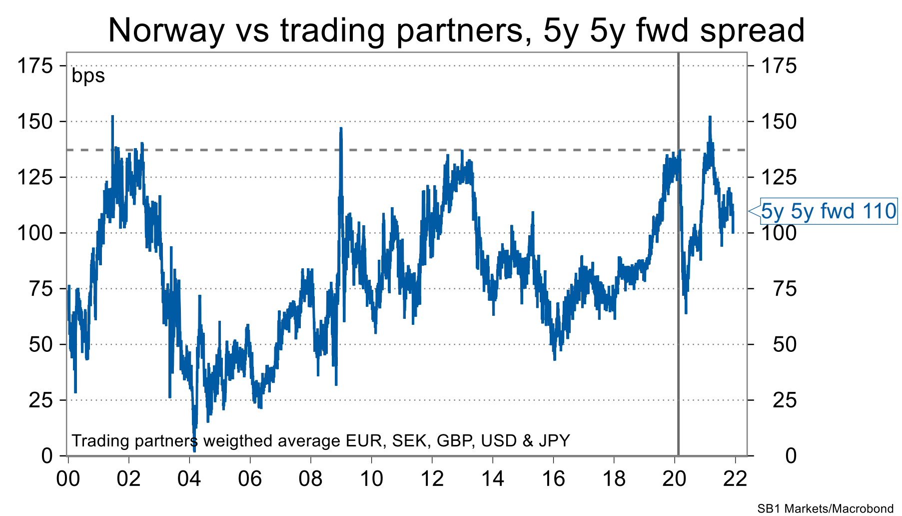




Implied fwd spreads fell sharply last week – even after the recovery at Friday

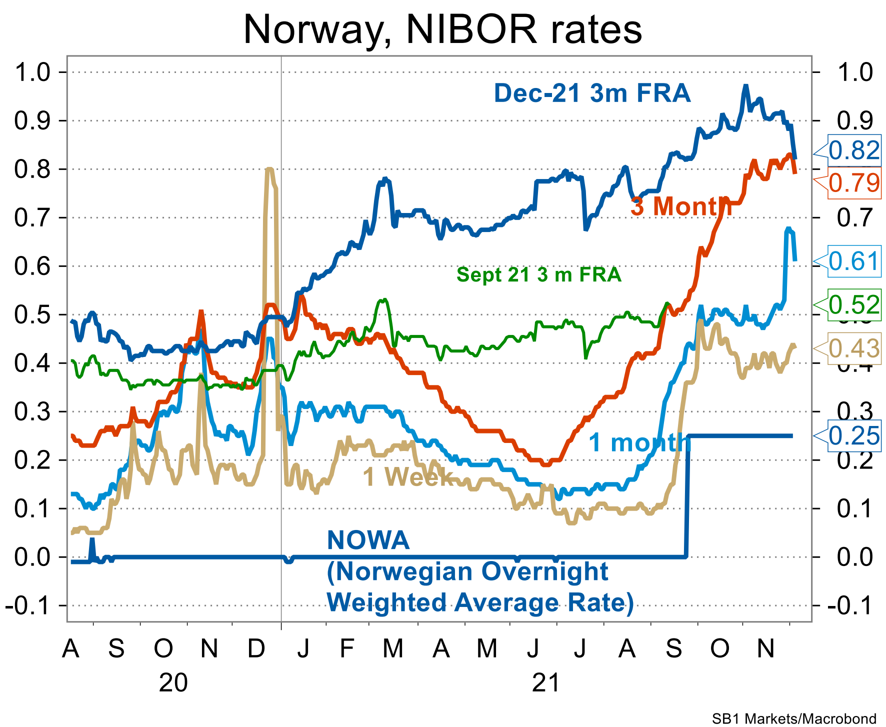


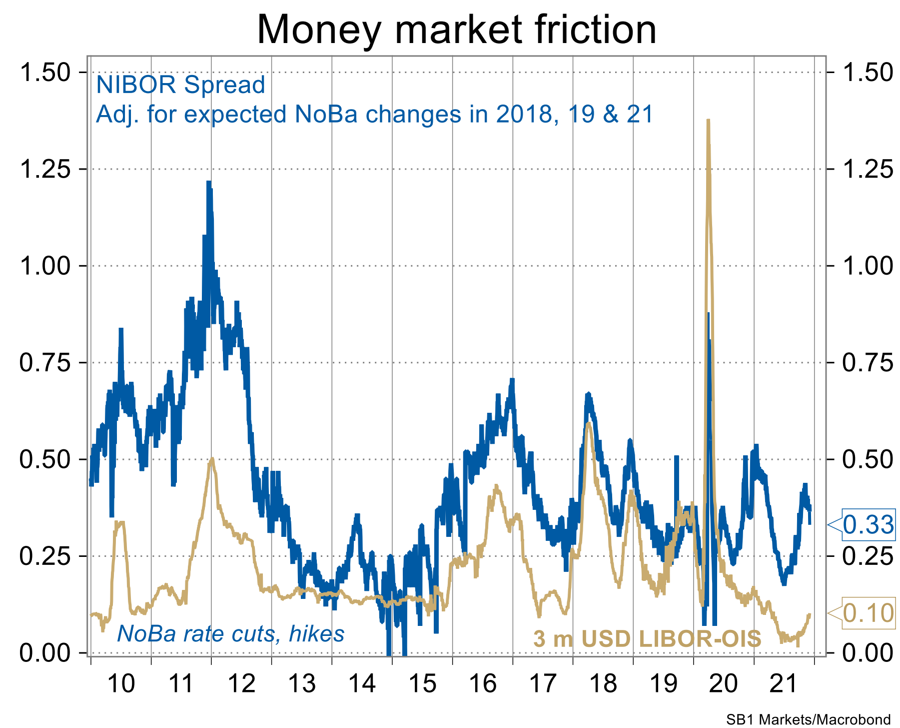




3 m NIBOR down 3 bps to 0.79% - a 25 – 40% probability for no hike next week

A December NoBa hike cannot be taken for granted – *if Omicron news turn out to be really bad*

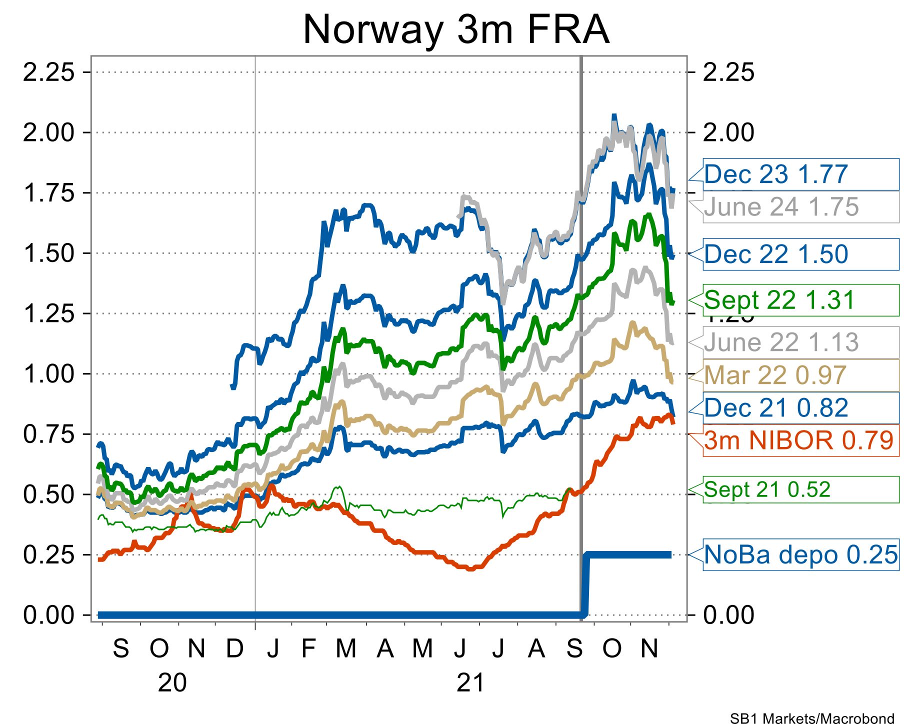


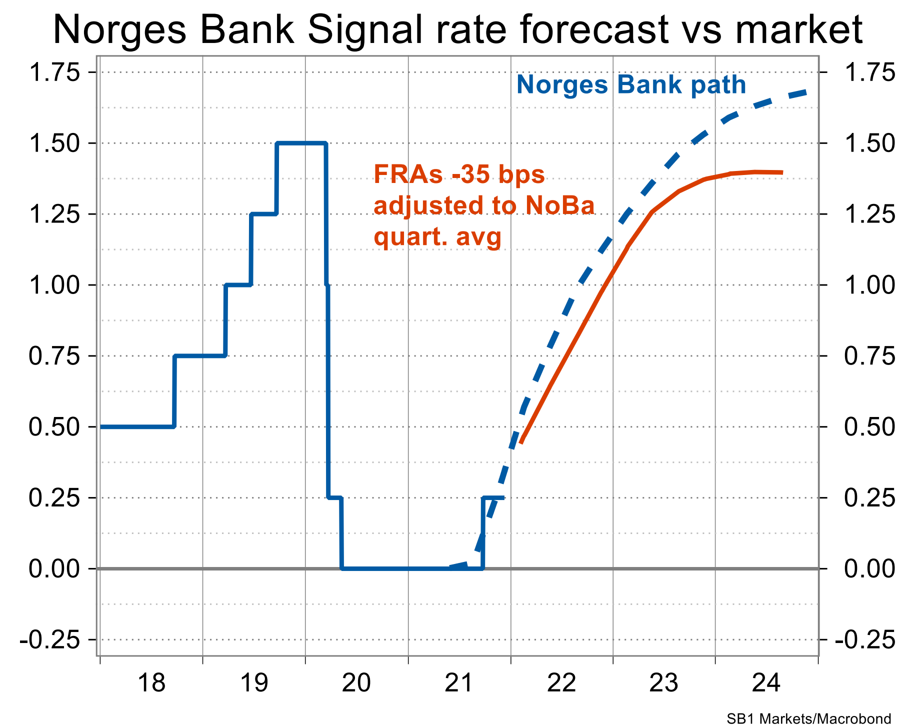


- The spread estimate at the chart to the right is based on a NoBa hike. Now, the probability for a hike is clearly less then 100%
- The Dec FRA has fallen by 15.5 bps from the early November peak, of which 10 bps since the Omicron news broke late Nov.
- The current Dec 3m FRA at 0.82% very likely signals a less than 100% probability for a hike next week:
  - Assuming the 0.92% pre Omicron level implied a 100% probability for a hike – that is a NIBOR-NoBa spread at 42 bps – the current 0.82% FRA implies a 60% probability for a hike
  - The 42 bps spread seemed a bit aggressive (but the NIBOR spread is normally higher over the year end). A 38 bps spread assumption implies a 74% probability for a hike
- NoBa may chose not hike if it seems likely that Omicron will create <u>substantially more health challenges </u>(no. of infections x probability for hospitalisation if infected) than the Delta variant, which will require broad based reduction of economic activity. If no clarity is obtained before early next week, an easy way out would be not hike, and communicate that <u>a hike at the mid meeting in late January was likely</u> if Omicron by then had not created too much problems
- <u>Anyway, monetary policy is almost completely irrelevant as a measure to compensate for the havoc the corona virus may create! If so, just hike ☺</u>

FRAs further down, by up to 17 bps – and by up to 40 bps from the mid Nov peak

The likelihood for a Dec hike has fallen to

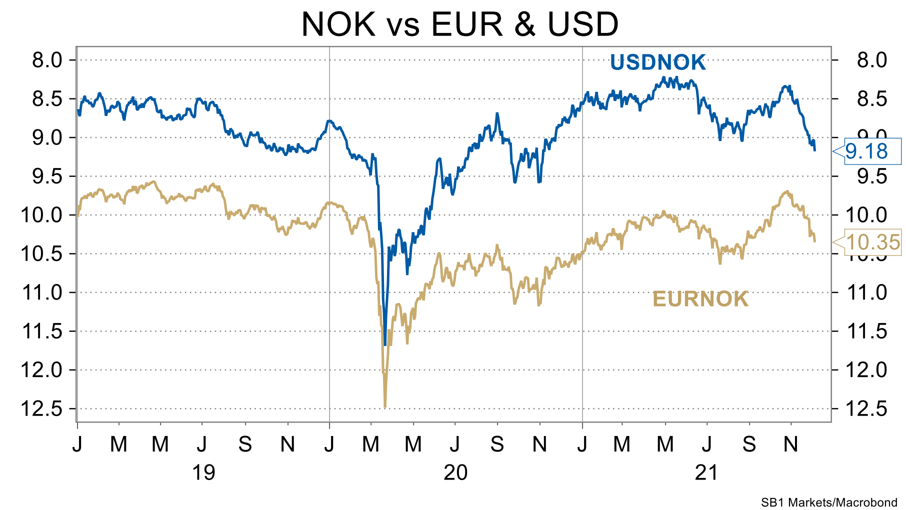


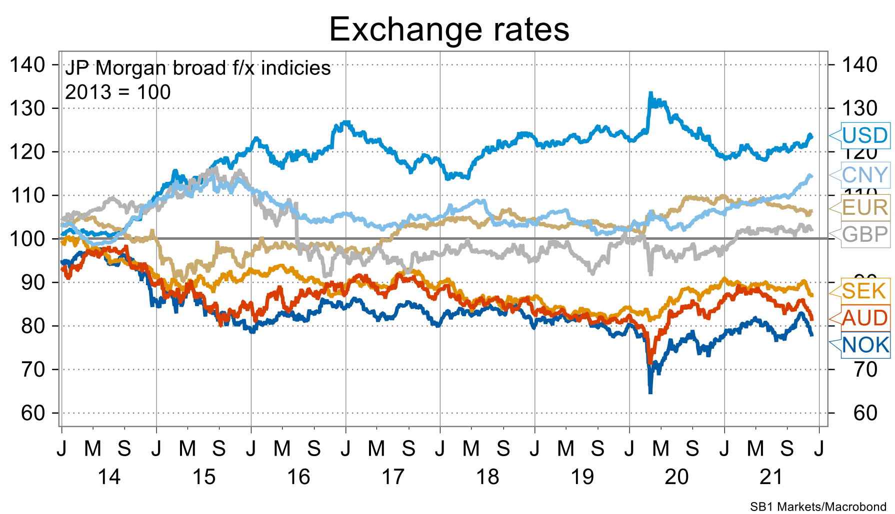


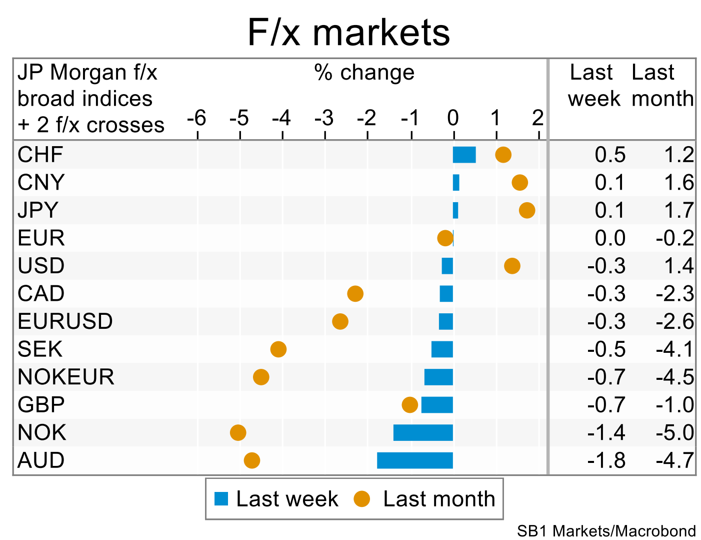
- FRA rates fell by up to 11 bps at Friday, a reasonable response
- Since last Friday, the near end of the curve fell by 5 bps, while the long end was marginally up!

AUD, NOK at the bottom of the f/x list last week

NOK down 5% last month







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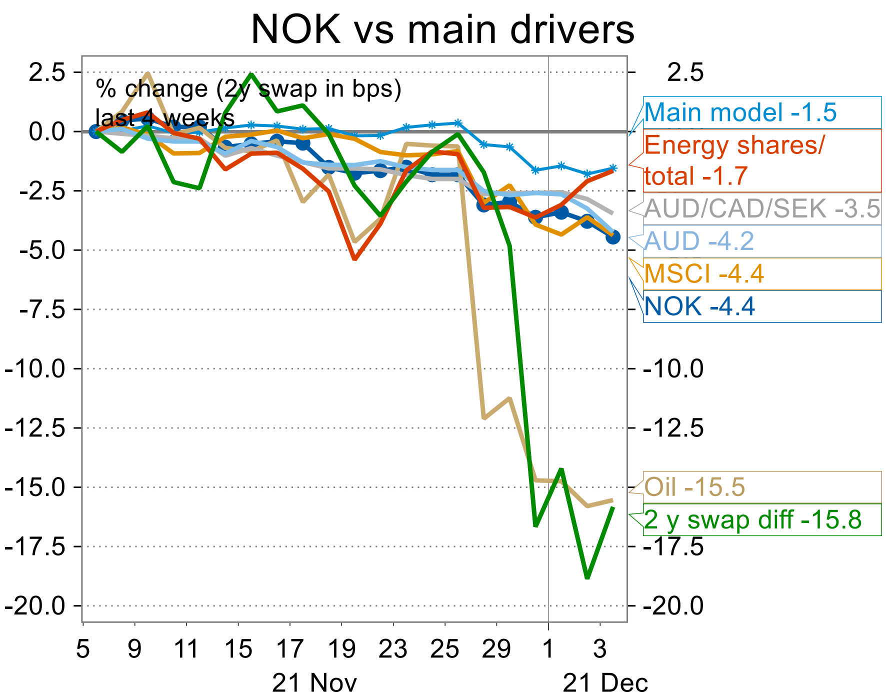
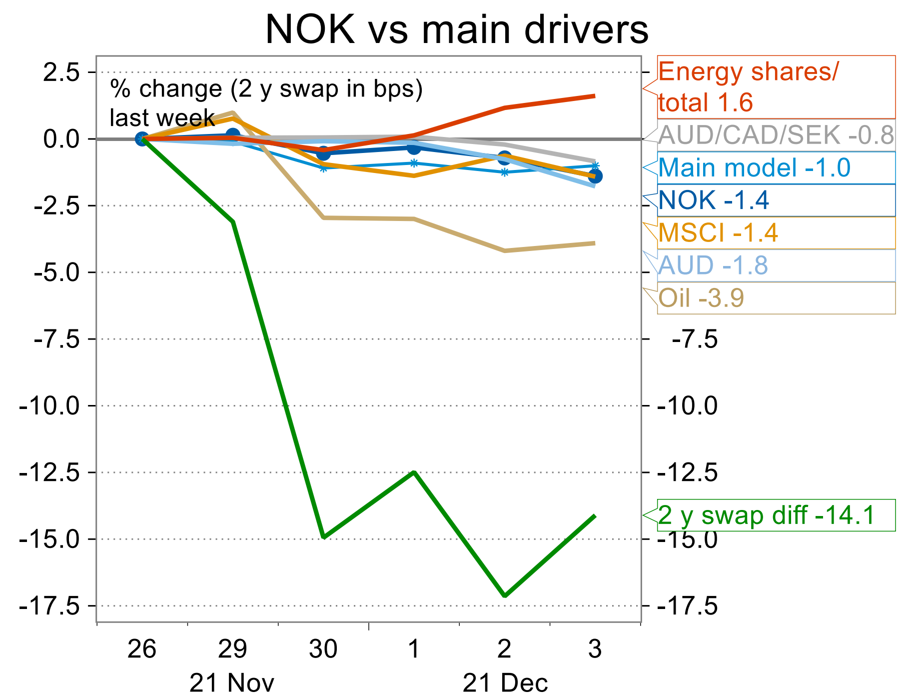
NOK down 1.4% last week too – a tad more than our model signalled

The oil price further down – and short term NOK swap rates fell sharply





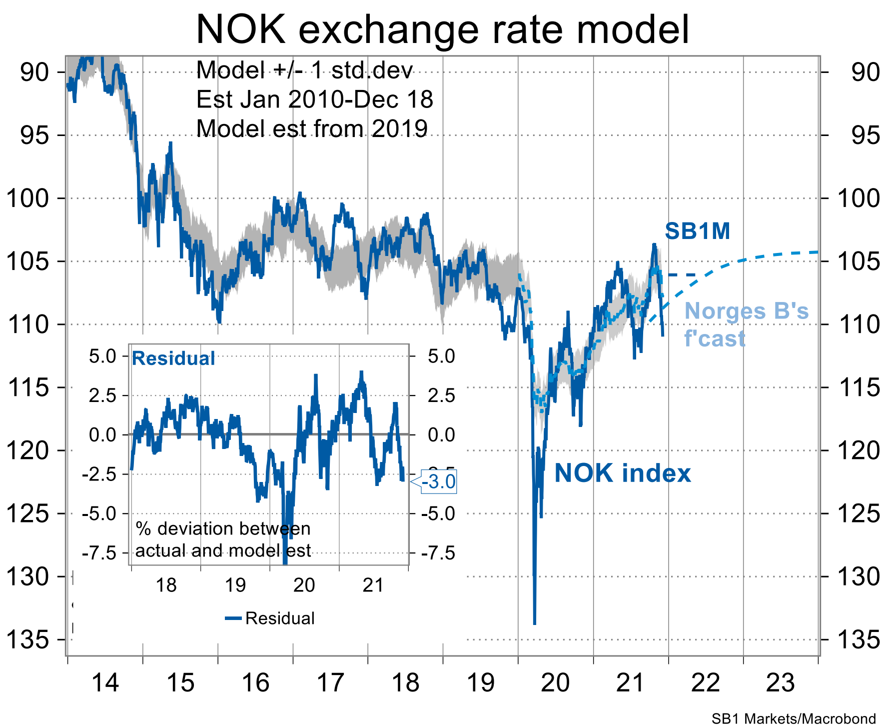
The status vs. the normal drivers:

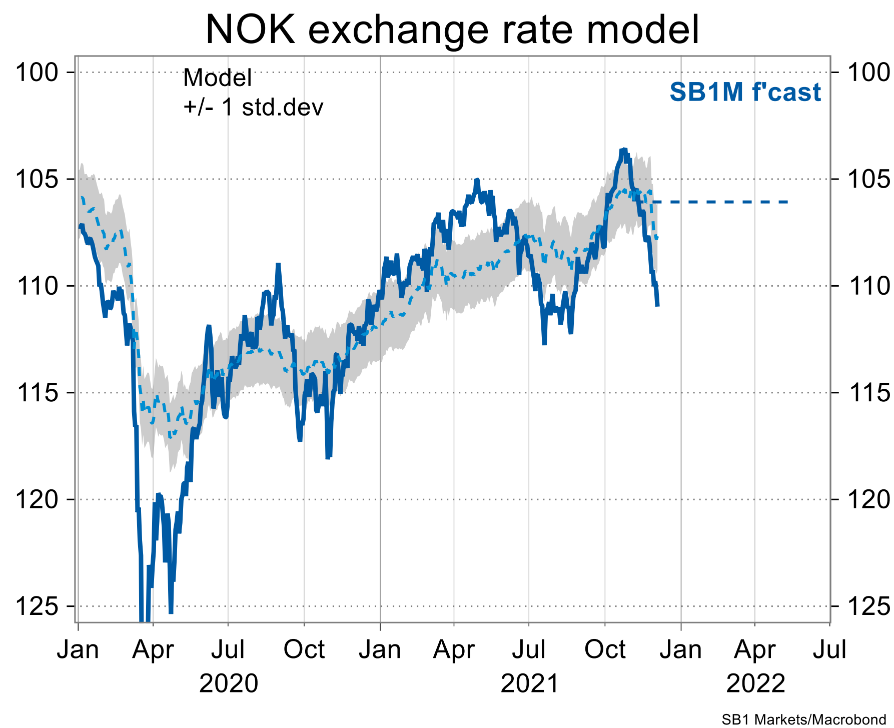
- ***The NOK fell 1.4%, more than our traditional model suggested (-1%), and the level is 3% below the model est (from 2%)***
  - » The oil price fell 3.9%
- The NOK is 6% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 5%). But the AUD fell 1.8%
- NOK is far (7%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (from 8%)

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

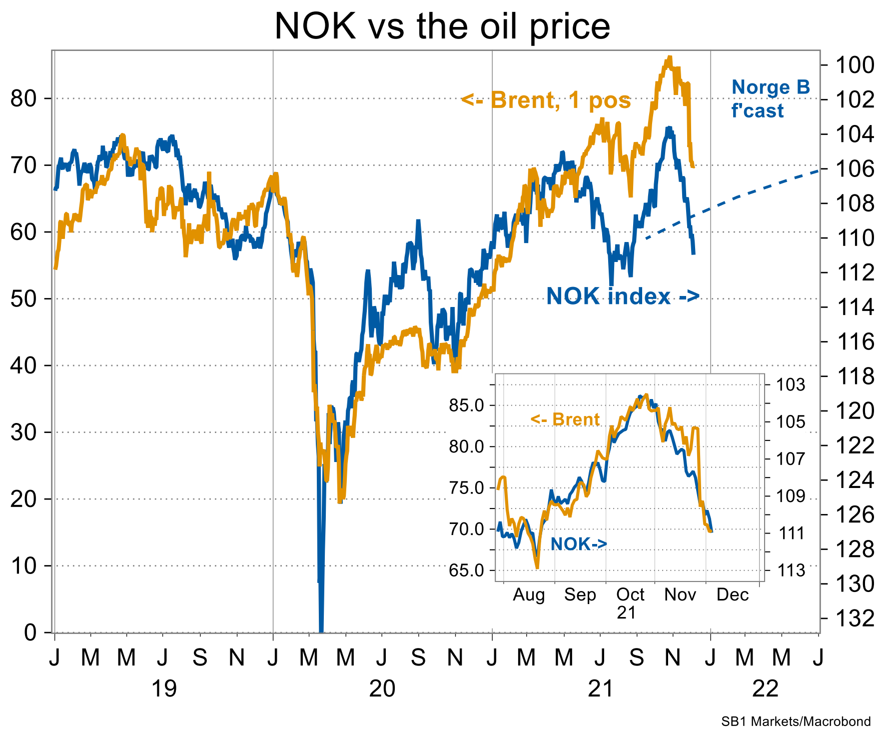
NOK

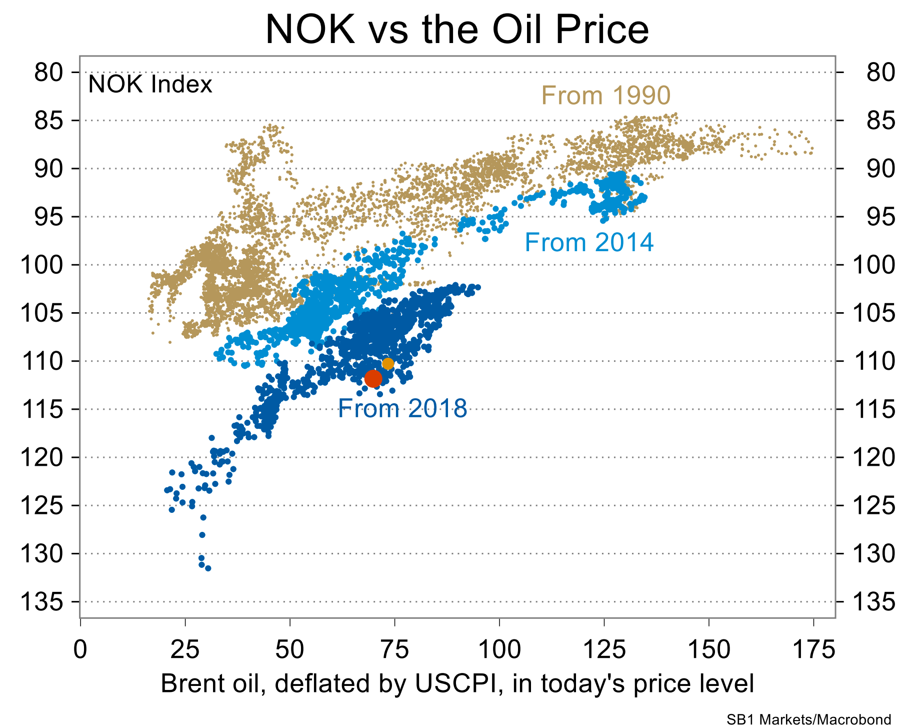
And the residual down 1 pp to -3%. A time for BUY is coming closer





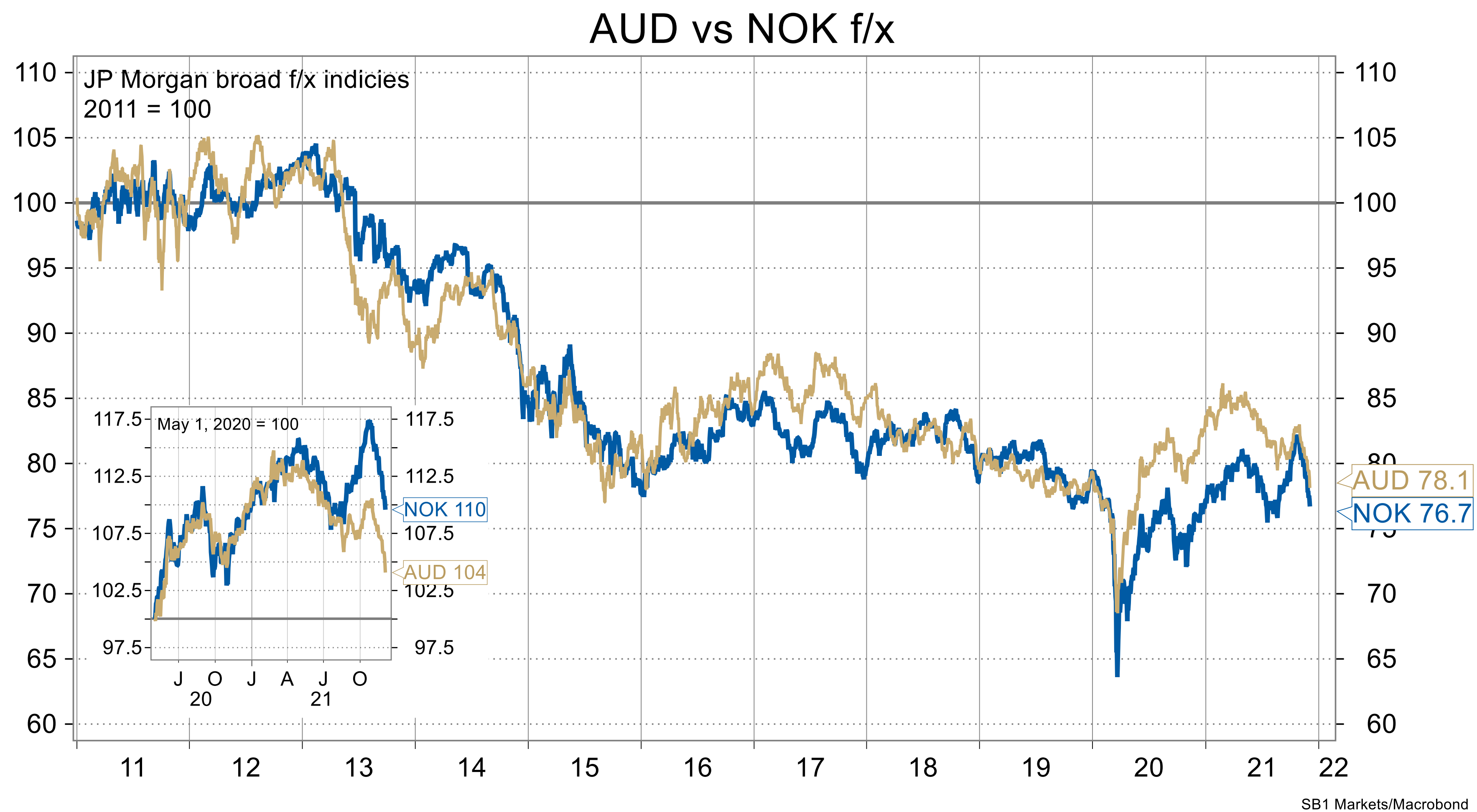
NOK fell more or less in line with the oil price





- 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

Both NOK and AUD down last week, NOK the most



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

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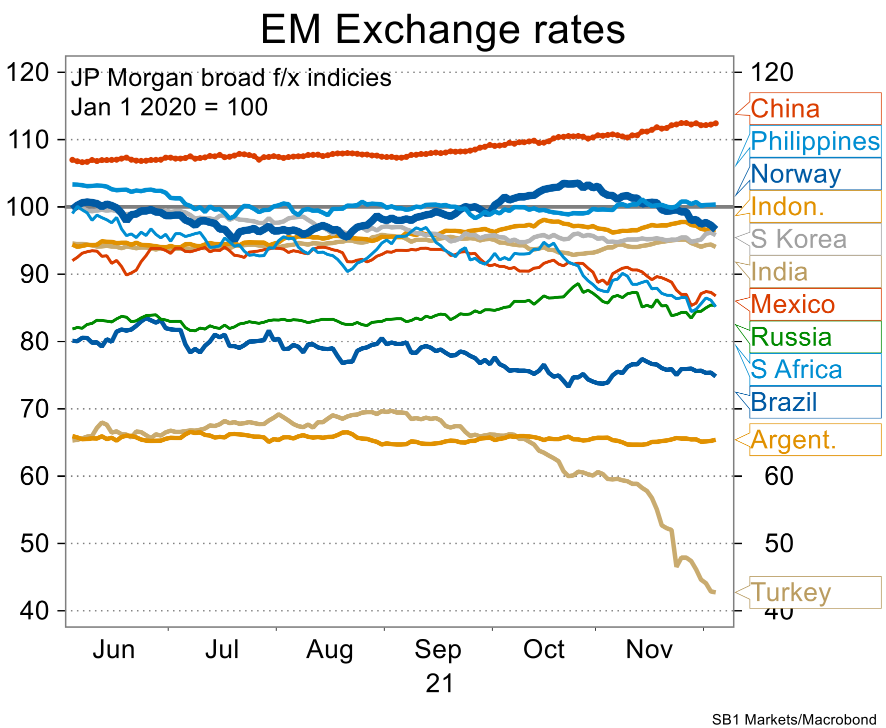
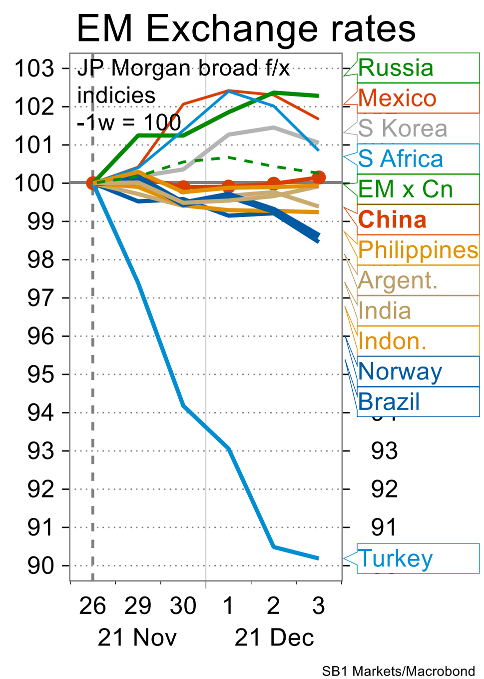
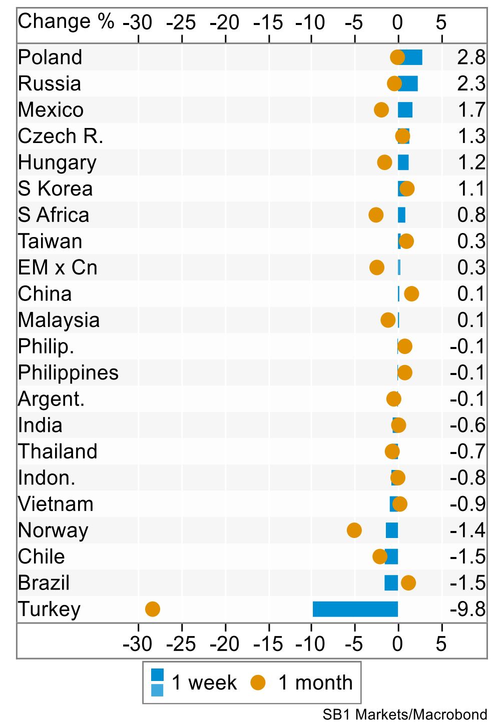
And then president Erdogan kicked the lira down to another new deep bottom

Last week because he sacked the Min. of Finance (once more). Th lira down almost 30% last month







- The currency has fallen much faster than inflation has accelerated, and the real TLR is probably below a fair level. A full price/wage control, cut in public spending – and after a while lower rates??
- No spread to other EM – and EM x China stabilised last week

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