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Macro Weekly

Week 50/2021

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week: The virus, part I

Some tentative but positive South African news

- **The growth in new cases slowed considerably last week**. Growth is still high, some 70% w/w (equalling an R at 1.5), but far less than the previous week. Data are volatile, and testing policies may change but the slowdown is significant
- What is just as important: We de not have any indications that a sharp reduction in **mobility** has contributed to the slowdown in growth in new cases, like we saw during the earlier virus attacks. Is herd immunity already reached – and are people not that worried?
- The **no. of new hospitalisation** probably grew by more than 100% last week but that's far below the growth in cases the week before (data not yet final yet). The share of positive cases that ends up in hospital beds is approx. 8% (however hard to calculate exact when the no. of cases is growing rapidly). Earlier during the pandemic an average of 20% of new cases have been hospitalised, say a 50% reduction is the risk of being hospitalised
- **Of those hospitalised**
  - » the time in hospital seems to be shorter than during the Delta wave
  - » approx. 9% need treatment in an ICU unit, down from 15 – 20% - a 50% reduction
  - » 3% need treatment in a ventilator, down from 7 – 10%, a 66% reduction
  - » 14% are given oxygen, down from approx. 20%, a 40% reduction
- In sum, if ½ as many as hospitalised as with Delta, and 66% fewer of them need the most intensive care in a ventilator, the health risk when infected by Omicron may be some ¼ to 1/6 of a that from a Delta infection
  - » These number are uncertain and may not be applied to other populations with other characteristics (race, age, vaccination status, earlier infections etc)
- **Death stats** are confirming that Omicron creates less illness. Still, the no. of official corona related deaths has increased, and the no. of total excess deaths even more – but still less than growth in no. of new cases (some 2/3 lower)
- *Disclaimer: These data updated until yesterday, and the frequencies, when hospitalised, have been quite stable recently. We are more uncertain on the hospitalisation rates, as cases are still growing rapidly – and the coming days hospitalisations, ICU & ventilator patients will probably increase further*

Last week: The virus, part II

Other virus news/analysis

- There seems to be a consensus that double vaccines do not protect well against Omicron but that a 3rd booster is effective, at least vs. serious illness and death
  - » The problem is that it will take several weeks to distribute a booster to all. And in most countries a substantial share of the population has not taken a vaccine at all
- It also seems likely that previous infections do not protect well against an Omicron infection
- **The challenge** now if Omicron still has an R far above 1 given the current social distancing, the no. of new cases will explode. In case you have forgotten the calculus, check the table to the right. So even if the heath risk may considerably lower vs. the previous variants, the no. of patients that need serious hospital treatment could easily exceed all available capacity if too many get infected at the same time
- **Norway** may be a case. Growth in new cases has accelerated to 50% per week, implying at R at 1.25 - 3 and increasing, probably because the Omicron is rapidly gaining ground. Everything else equal, a further increase in the growth rate may be expected as Omicron gains market share the coming weeks
  - » **Social distancing** is now increasing and will dampen the 'automatic' increase in R when Omicron overtakes Delta (which will be brought under control due to less social contact) the next week
  - » Then we could assume a **significant reduction in the risk for hospitalisation, need for ICU and ventilators** like the South African data indicates, say a ¾ to 5/6 risk reduction.
  - » However, if the Omicron R stays at 1.5, the reduction in the risk for serious illness will just give the hospital system a 3 – 4 weeks' leeway, before demand for hospital beds again explodes (by the same 70% per week as the Omicron virus spreads – until something stops the virus
  - » It is far from evident that the current measures will bring the Omicron R sufficiently down, even if the health impact may be 'mild' for most of those infected and that just 'a few' will need hospital treatment

Week	R = 3	R = 1.5	R = 1.2	R = 1
0	100	100	100	100
1	400	170	130	100
2	1.600	289	169	100
3	6.400	491	220	100
4	25.600	835	286	100
5	102.400	1.420	371	100
6	409.600	2.412	483	100
7	1.638.400	9.648	627	100

Delta news

- A large majority of countries reported a decline in new cases
- Austria, Netherlands and Germany seem to have gained control
  - » Especially Austria with an R << 1, and a sharp reduction in hospital patients too. So harsh measures worked, once more. Against the Delta variant, that is

Last week: The economy

- **Global auto sales**
  - Sales were close to unchanged in November – and still down 18% vs. the 2019 average. Small changes in the large countries/regions. US is down 24%, EMU -34% vs. 2019. Norway at the top, +30%, how is than possible?? German auto production is down almost 40%. The lack of components is critical
- **China**
  - **Banks' reserve requirements** were cut by 0.5 pp for the 2nd time in this cycle, the first came in July. The impact is limited but signals that the authorities want credit to flow a tad faster, at least through the ordinary banking system. In November, **credit growth** accelerated for the 2nd month in row, mostly due to increased borrowing by local governments. Bank credit is slowing sharply – and total credit growth has slowed since mid-20, even if the 2 last months were stronger. Credit growth (underlying 11%) is higher than any reasonable estimate of trend growth in nominal GDP, and the debt/GDP ratio is still on the way up. It is not easy to teach old dogs new tricks, especially if it hurts, short term. China Evergrande as well as some other overindebted real estate developers are in or close to bankruptcy but more formal news last week was in reality old news but the final countdown will probably not stimulate credit growth or construction activity short term
  - **CPI inflation** accelerated by 0.8 pp to 2.3% in November as energy prices rose sharply. Core ex food & energy inflation slowed 0.1 pp to 1.2%
  - **Both exports and imports** values grew m/m in November, we assume in volume terms too. After a setback during the spring/summer, import volume are back to the pre-pandemic trend growth path. Export volume are 14% above!
- **USA**
  - **Headline inflation** accelerated to 6.8% from 6.2%, and core rate to 4.9% from 4.6%, both as expected. Energy and new/used auto prices explains half of the growth in the headline index, and these prices will not climb forever – but more prices are rising faster. The Federal Reserve/Powell has announced more rapid policy tightening, so now nobody cares, except for a limited lift in the short end of the yield curve. The Fed will just bring inflation down, *without anybody getting hurt*!
  - The no. of **unfilled vacancies** recovered most of the limited decline in Sept, and is close to all time high, far above anything seen before the pandemic. The no. of **new jobless claims** fell to the lowest level ever. We really hope that a) a tsunami of available workers soon floods the US labour market or b) that the extreme close correlation between labour shortages (vacancies) and wage inflation suddenly breaks totally down. If not, inflation will become higher than 2% for a long while. Or somebody will have to do something to reduce demand for labour. *And then somebody will get hurt…*
  - **Households** are still investing more than before in **financial assets**, mostly in bank deposits – but also more in equities. Now, a higher growth in debt makes that possible, because the net cash flow has fallen back to a normal level. **Corporate** debt growth is not worrisome.
- **Europe**
  - **UK GDP** has almost flattened since the summer, and GDP is still 0.1% below the pre-pandemic level even if the recovery in service industries have continued. Manufacturing, construction and the public sector has slowed
  - **Swedish GDP** added 1.2% in October, to 3% above the pre pandemic level. Now, services are in the lead
- **Norway**
  - **Core CPI** accelerated to 1.3% in November from 0.9%, as we expected. The headline CPI added 0.8 pp to 5.1%, the highest since 2008, as electricity prices rose further. Still, the extra electricity bill deducts less than 2% from disposable household income vs a normal el. price level (prices were extremely low last year). December will be tougher, as prices so far are well above the Nov. However, at Saturday the government announced a compensation scheme for households which will reduce the bill if prices are really high (starting form December). If future markets are not dead wrong, el. prices will come sharply down during the spring. The aggregated loss for the households may not become that large (just somewhat above 1% of annual disposable income in 2021/22)
  - **Norges Bank's regional network** expects slow growth going forward but the Network has not been precise vs actual growth rates during the pandemic. We think the very steep rise in the share of companies that reports capacity constraints and labour shortages are much more important as a policy 'advice'. The network still reports less capacity/labour shortages than at the peak of the boom before the financial crisis, but that's the next target if something does not yield pretty soon
  - **Mainland GDP** flattened in October, due to a 20%+ decline in deep water fisheries (no more mackerel left in the Norwegian sector!). However the underlying trend in production and employment is still strong – at least it was until early December….
  - **The households savings rate** fell sharply in Q3 as consumption surges but it is still somewhat higher than normal. However, growth in bank deposits is not longer far above a normal level. Households are normally not investing much in fund shares (or in equities), but the inflow is still higher than normal

The Calendar: Central banks everywhere, prelim. Dec PMIs. China data. US trade/manuf, +NAV

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday Dec 14					
08:00	UK	Average Weekly Earnings	Oct	4.6%	5.8%
09:30	SW	CPI YoY	Nov	3.2%	2.8%
11:00	EC	Industrial Production SA MoM	Oct	1.3%	-0.2%
12:00	US	NFIB Small Business Optimism	Nov	98.4	98.2
14:30	US	PPI Final Demand YoY	Nov	9.2%	8.6%
Wednesday Dec 15					
02:30	**CH**	**New Home Prices MoM**	**Nov**		**-0.3%**
03:00	**CH**	**Retail Sales YoY**	**Nov**	**4.8%**	**4.9%**
03:00	**CH**	**Industrial Production YoY**	**Nov**	**3.8%**	**3.5%**
03:00	**CH**	**Fixed Assets Ex Rural YTD YoY**	**Nov**	**5.4%**	**6.1%**
08:00	UK	CPI YoY	Nov	4.7%	4.2%
08:00	NO	Trade Balance	Nov	--	84.5b
14:30	US	Empire Manufacturing	Dec	25	30.9
14:30	**US**	**Retail Sales Advance MoM**	**Nov**	**0.8%**	**1.7%**
14:30	US	Retail Sales Control Group	Nov	0.8%	1.6%
16:00	US	Business Inventories	Oct	1.0%	0.7%
16:00	US	NAHB Housing Market Index	Dec	84	83
20:00	**US**	**FOMC Meeting**	**Dec-15**	**0.25%**	**0.25%**
Thursday Dec 16					
01:30	JN	Jibun Bank Japan PMI Mfg	Dec P	--	54.5
09:15	FR	Services PMI	Dec P	56	57.4
09:30	SW	Unemployment Rate SA	Nov	8.4%	8.5%
09:30	GE	Manufacturing PMI	Dec P	57	57.4
09:30	GE	Services PMI	Dec P	51	52.7
10:00	**NO**	**Deposit Rates**	**Dec-16**	**0.5%(0.25**	**0.25%**
10:00	**EC**	**Manufacturing PMI**	**Dec P**	**57.8**	**58.4**
10:00	**EC**	**Services PMI**	**Dec P**	**54.2**	**55.9**
10:00	**EC**	**Composite PMI**	**Dec P**	**54.2**	**55.4**
10:30	UK	Manufacturing PMI	Dec P	57.6	58.1
10:30	UK	Services PMI	Dec P	56.9	58.5
11:00	EC	Labour Costs YoY	3Q		-0.1%
13:00	**UK**	**Bank of England Bank Rate**	**Dec-16**	**0.10%**	**0.10%**
13:45	**EC**	**ECB Deposit Facility Rate**	**Dec-16**	**-0.50%**	**-0.50%**
14:30	US	Initial Jobless Claims	Dec-11	200k	184k
14:30	US	Housing Starts	Nov	1568k	1520k
14:30	US	Building Permits	Nov	1660k	1650k
14:30	US	Philadelphia Fed Business	Dec	29	39
15:15	US	Manufacturing (SIC) Production	Nov	0.60%	1.20%
15:45	US	Manufacturing PMI, Markit	Dec P	58.3	58.3
15:45	**US**	**Services PMI, Markit**	**Dec P**	**50.0**	**58.0**
Friday Dec 17					
08:00	UK	Retail Sales Inc Auto Fuel MoM	Nov	0.8%	0.8%
10:00	GE	IFO Expectations	Dec	93.5	94.2
10:00	**NO**	**Unemployment Rate, NAV**	**Dec**	**2.2%(2.2)**	**2.1%**
11:00	EC	CPI YoY	Nov F	4.9%	4.9%

- **Central banks**
  - **The recent Delta and Omicron outbreaks** will probably influence decision in UK and on the balance, we think in Norway as well – but will not prevent the Federal Reserve to confirm the significant policy shift announced 2 weeks ago
  - **Federal Reserve** will confirm a more rapid tapering, by indicating it plans to end the QE buying in March (and not in June as signalled in Sept). That will pave the way for hiking rates before the summer. We expect the bank to revise its inflation forecasts further up, for 2021 (which of course is a done deal) and the two next years – from the above 2% path forecasted in Sept. The dot-plot will be revised more than any time before, we cannot imagine that any of the 9 FOMC members that expected the first hike in 2023 will repeat that forecast. In addition, most of those who thought 2022 was appropriate for the first will lift their forecast by at least 2 hikes. The market now expects 3 hikes next year. Most likely, the FOMC will tighten the screws gradually, so the last word on monetary policy in 2022 is not said at this Dec-21 gathering
  - **The ECB** may present some QE news but the policy stance will be unchanged even if the heat is on vs inflation in the Euro area too
  - **Bank of England** will probably postponed the 'planned' initial hike once more, as the Brits are very concerned about the possible consequences of Omicron. Markets still expect the BoE to hike in a couple of months time, and in total lift the signal rate 4 times through 2022
  - Will **Norges Bank** chose to postpone its well announced 2nd hike? <u>On the balance, we think the bank will go for a 'hawkish pause'</u>, postponing the hike, now to January, and at the same time lift the interest rate path from H2 next year, signalling that it intend to normalise the signal rate at faster pace than signalled in September. *Details next page*
- **Preliminary December PMIs**
  - **US, EMU, UK, Japan and Australia** will report flash PMI estimates. Will we see substantial impacts of Covid restrictions in Europe? The services PMIs are expected down but not by much. In the US, the services PMI is expected up, from a high level
- **China**
  - **How much is China really slowing?** Production and domestic demand data out this week, as well as house prices. Demand has slowed, and construction activity has fallen some 20% - and we expect more to come. However, the overall economy has not been hurt that much and business surveys signal growth not much below trend
- **USA**
  - **Retail sale** have been very strong, and a further lift is expected in November, even adjusted for the steep rise in prices. **Manufacturing production** is less impressive but is now heading upwards, surveys are still very upbeat
- **EMU**
  - **Manufacturing production** is trending sideways. **Labour cost inflation** is still low
- **Norway**
  - Will hotels, restaurants, entertainment start furloughing their works before Christmas due to the new Covid restrictions ? Some few may have done so before **NAV's** Dec 11 (the cutoff day) but not that many. In the rest of the economy demand for labour is very strong, and unemployment should have fallen further. We expect an unchanged no of **unemployed,** seasonally adjusted

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

Norges Bank: To wait or not, that's the question

We are in doubt but a hawkish pause seems to give the best risk reward for the Bank (and the economy)

Stick to the well communicated plan! (And lift the path)

- **Low interest rates are not effective** against corona symptoms, fiscal policy is. In fact, low interest rates may create more problems than they solve
- Where the interest rate works, it is too low
- **The labour market is very tight**, and will remain tight in most sectors, even in Delta/Omicron measures will hurt some few parts of the service sector
  - » Bank's Network last week report serious capacity constraints, including labour shortages
  - » Wage expectations are on the way up
- **Electricity prices** are high but are expected down during the spring - and the government will pick up parts of the bill. Household savings have been high through the pandemic, most households can both pay the electricity bill and spend like normal
- **The NOK** is weaker than assumed
- **Interest rate expectations abroad** have increased since the last MPR
- **Risk markets** are still upbeat vs. the economic outlook
- **The market** is expecting a hike
- Incoming data suggest that the **interest rate path** should have been lifted from H1-22 but now the bank can signal steeper curve from H2-22

Wait and see! A hawkish pause

- In November, the MPC reasoned that even if *infection rates have risen again recently* (..), *a high vaccination rate will likely limit the need for new* (..) *restrictions*. Now **new restrictions** are decided, but the economic impact is still uncertain
- **Omicron** may create substantial challenges, even after some few weeks
- The high **electricity prices** reduce household disposable income, and may hurt spending at least among some groups
- The bank can **afford to wait and see six weeks** until the January meeting in order to assess the impacts on the economy of the new Covid measures, and to assess the impact of the Omicron variant. (Bank of England will probably do the same). A hike in both January and March could be signalled, if economic activity is not hurt, broad based
- At the same time, the Bank can lift the **interest rate path from H2-22**, and signal 4 to 5 hikes in 2022 in in order to return to the pre-pandemic interest rate in the first part of 2023 instead of in late 2023. This scenario would of course require that eventual virus setbacks will be both narrow and transitory

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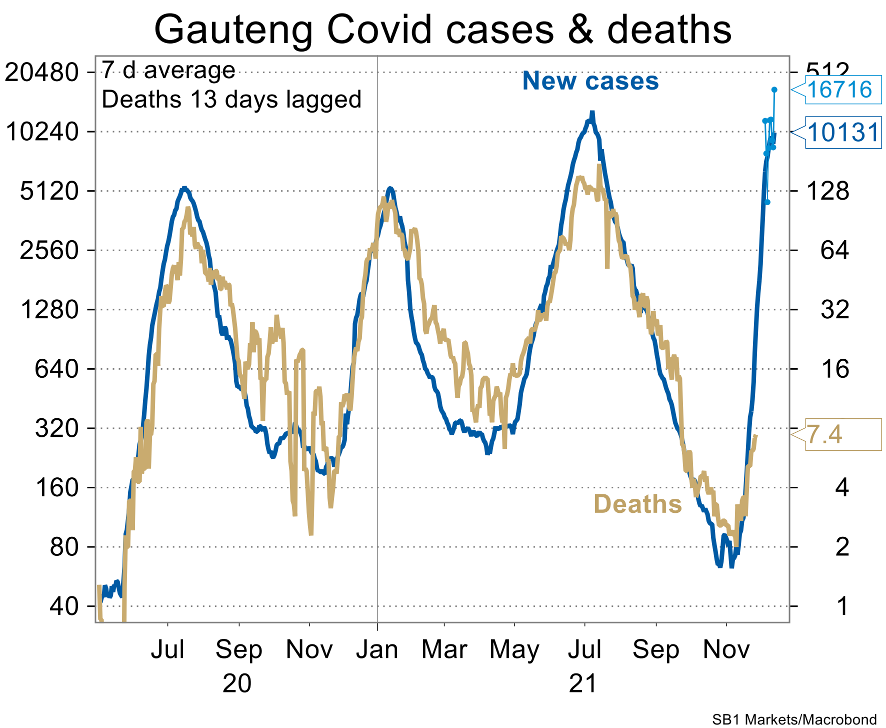
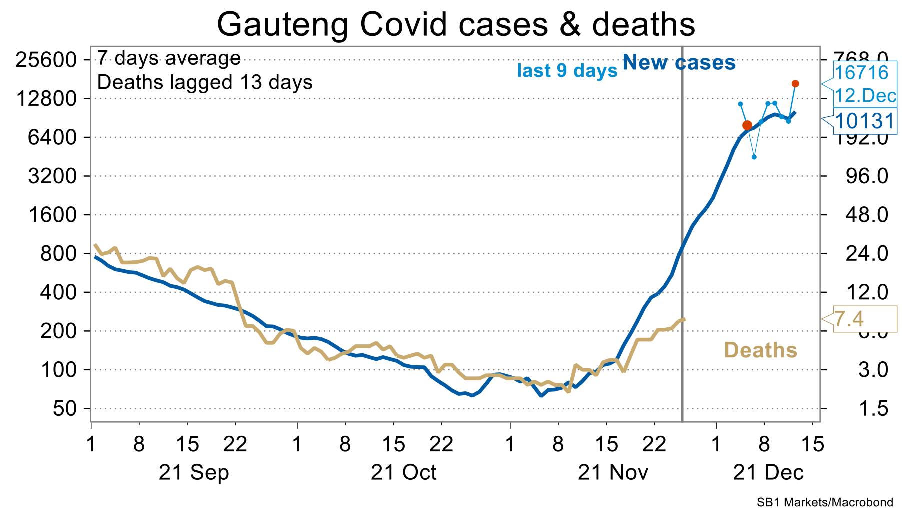
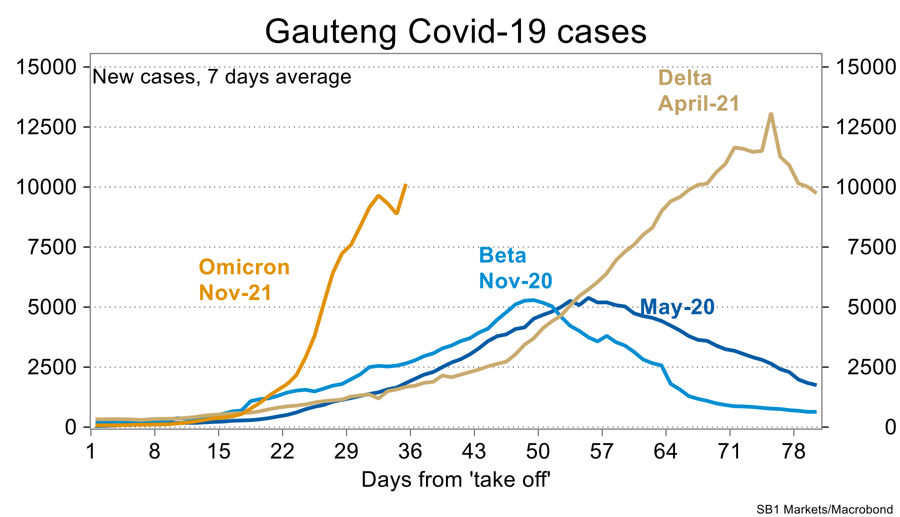
Gauteng, South Africa: Growth in new cases is slowing

Is herd immunity already reached? If so, surprisingly rapidly







- Mobility has not changed much in South Africa, like we have seen during previous virus waves – because the population recognises that it is not that dangerous, health wise? (See more next page)
- Covid deaths are up but just by 1/3 vs the increase in new cases. Excess deaths in SA has increased substantially past weeks but less than the increase in new case

One outlier for both new cases and deaths are corrected

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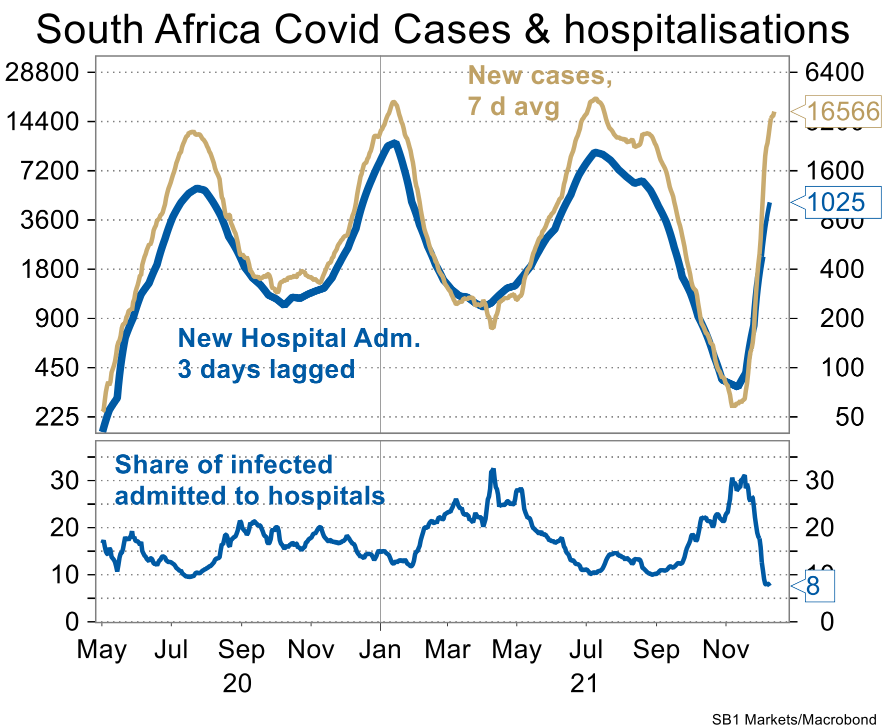
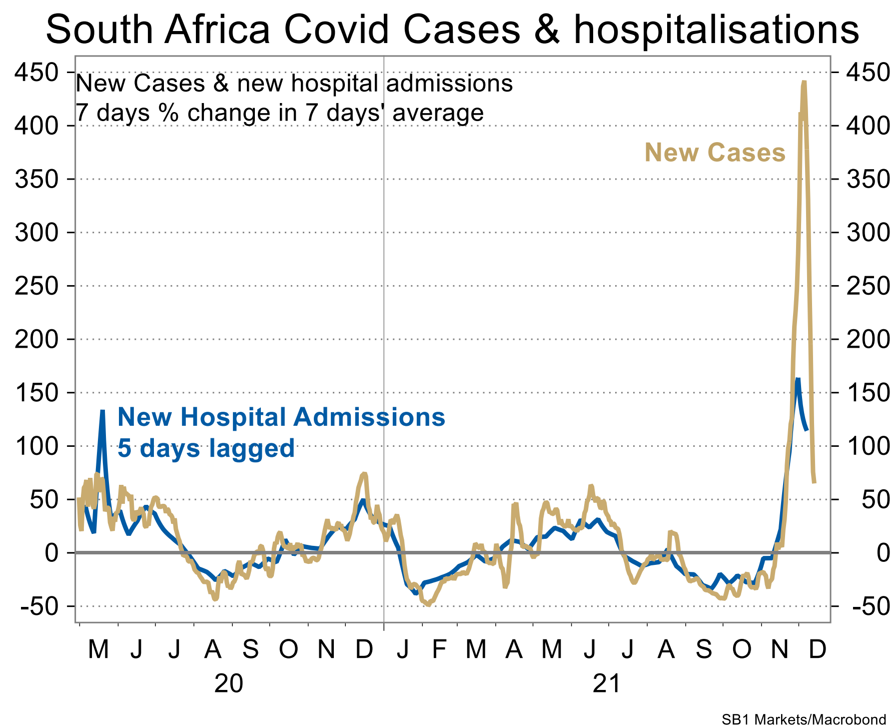
South Africa: Growth in new cases is slowing sharply

The growth in new hospitalisations probably slowed too



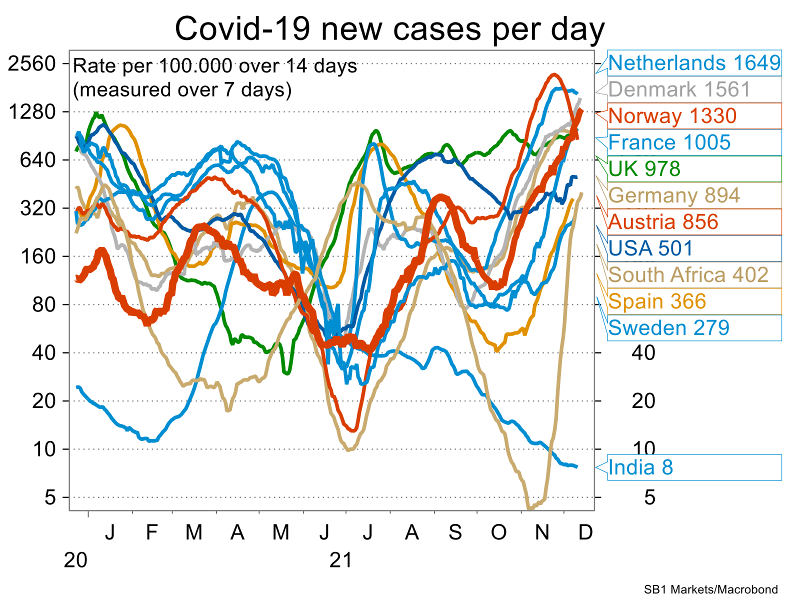


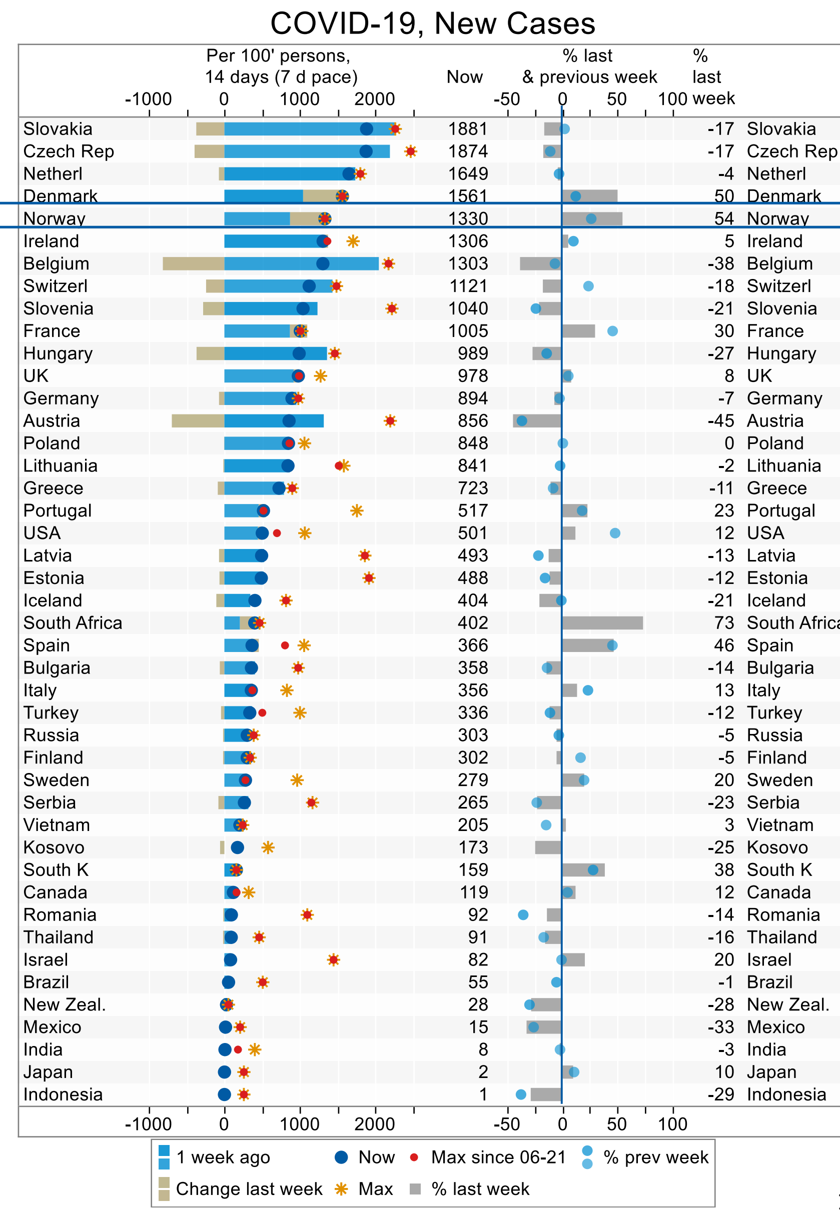
- The weekly hospitalisation data are not final yet

Norway towards the top of the ranking…

More countries reported fewer cases last week

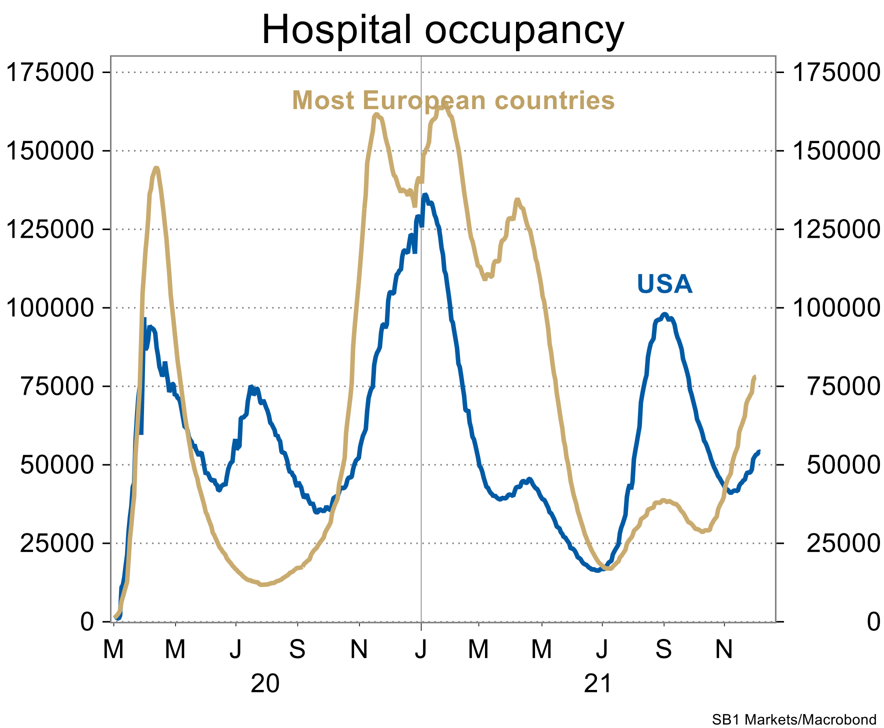
- 14 countries were reporting more cases the last week down from 25 two weeks ago
- 28 countries reported fewer cases, up from 17 two weeks ago
- Austria is still reporting a ‘collapse’ in new cases, the R is <<1!
- Most likely, the **Omicron** is now having an impact in more countries than in South Africa (where growth slowed), but still countries like UK is reporting slow growth
- **Norway** is climbing rapidly at the list, together with Denmark – and the two of us may well top the list next week. It seems very likely that the Omicron variant is to blame. Hospitalisation are growth rather rapidly, but there are no data on Delta vs Omicron patients
- Still few cases in **Sweden**

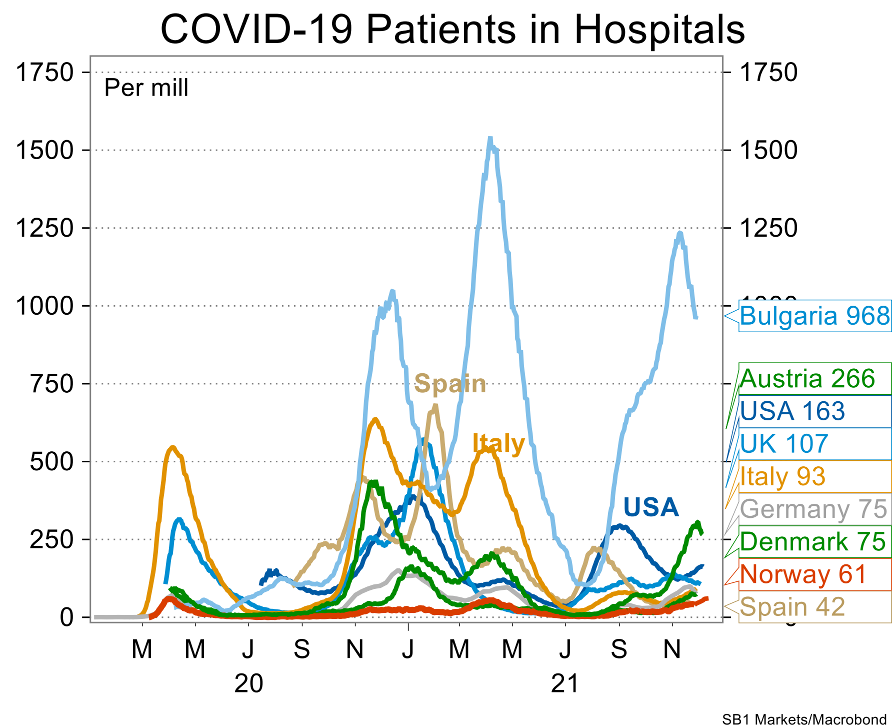




More hospitalisations in Europe, and the in the US as well

However, levels are still not low outside Eastern Europe





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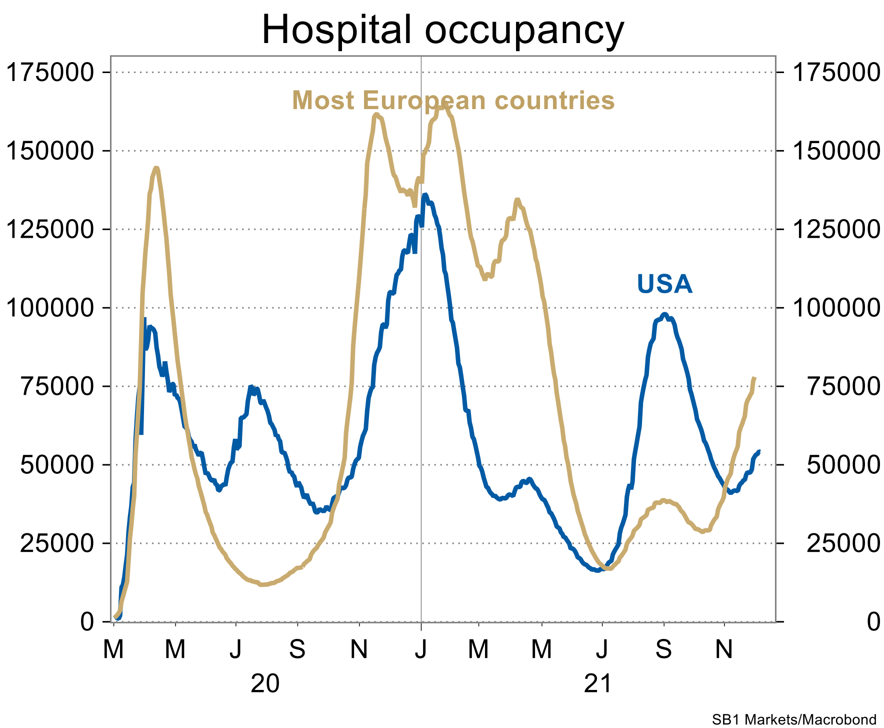
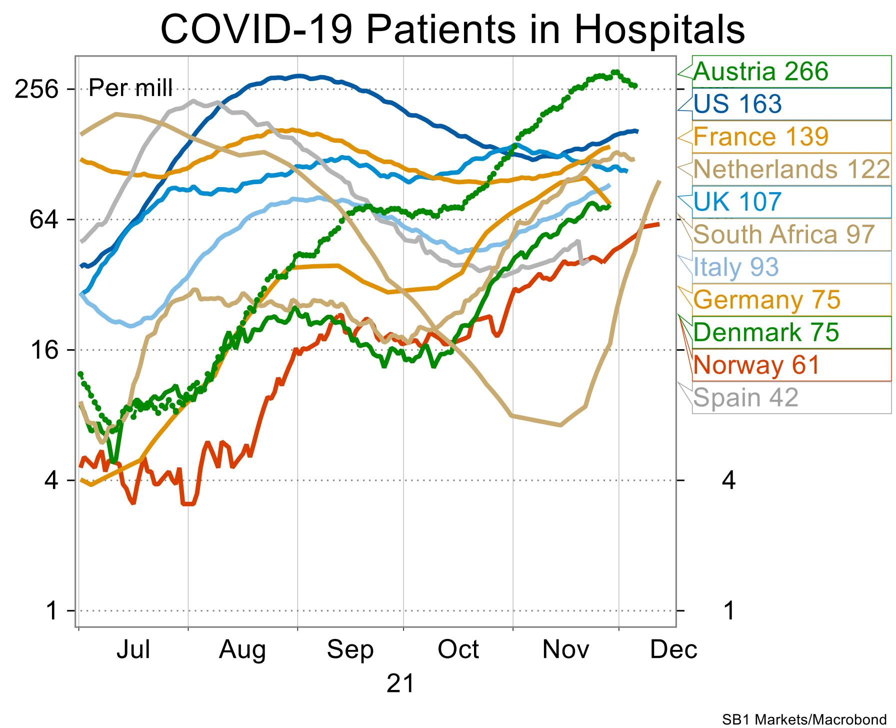
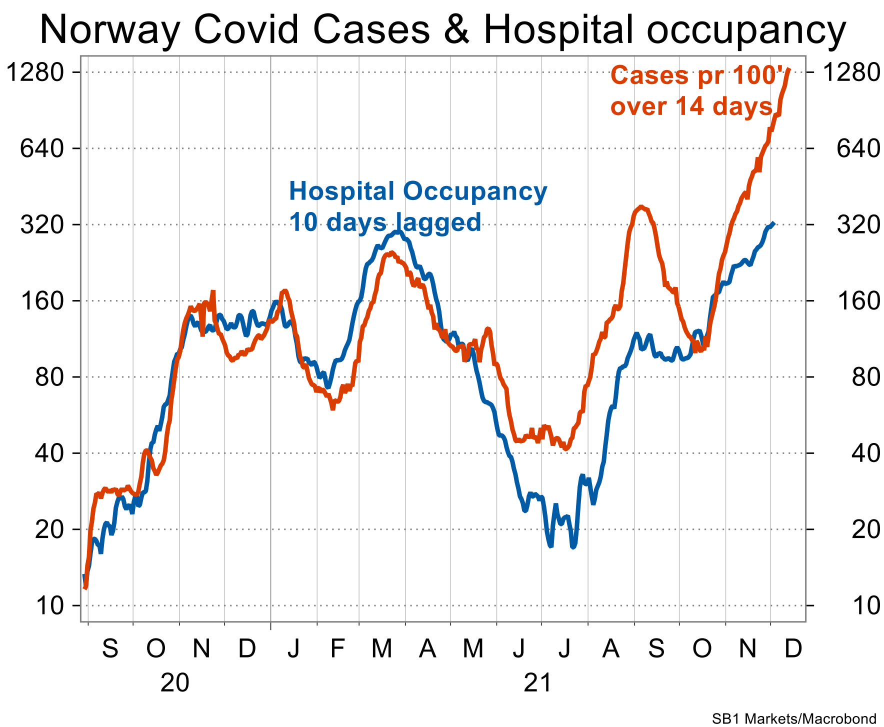
Austria, Netherlands has turned the tide, UK too



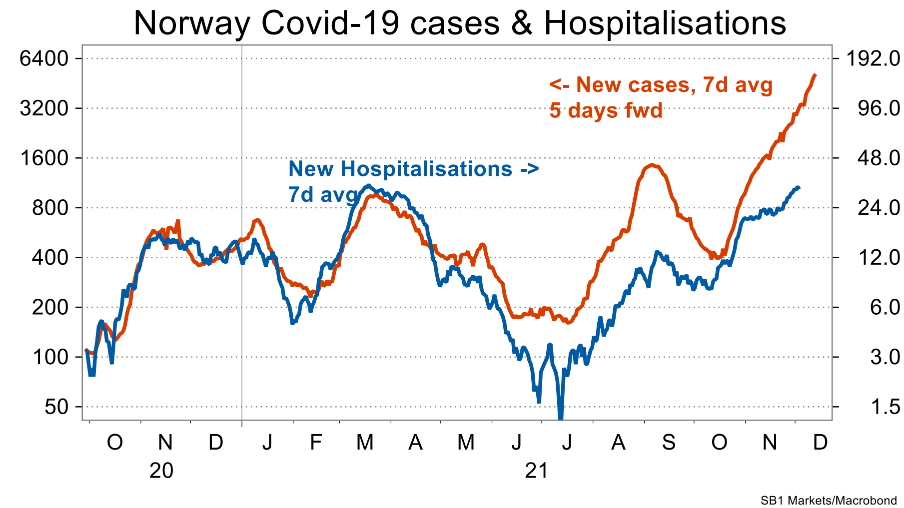


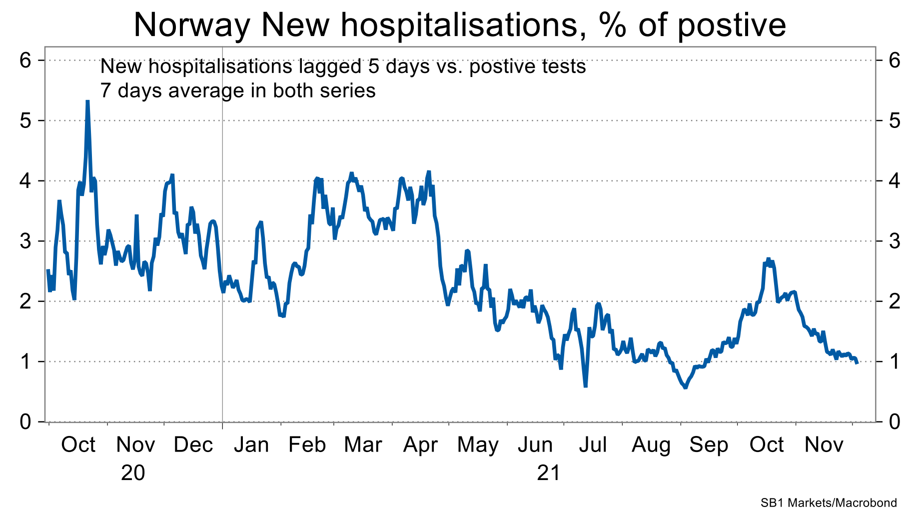
Norway: New cases are accelerating, very likely due to Omicron

New hospitalisations, hospital occupancy are also increasing but at a slower pace



- The problem is however that growth in total cases very likely will accelerate further as the Omicron variant gains market share, form the current R = 1.25 – 1.3 pace (30 - 50% per week) –up to higher level – and the no. of infected will 'explode' in a few weeks time
- Growth in hospitalisations is lower than for new cases but still 20 – 25% per week
- We need a sharp reduction in the share of positive cases that need hospital treatment in order to prevent steep rise in the no. of patients





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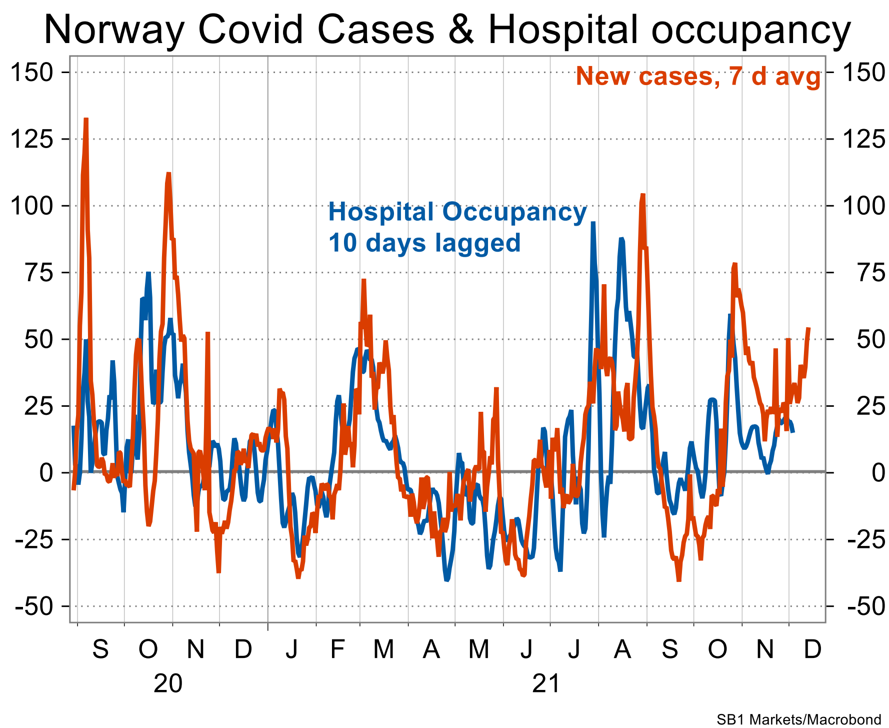
Norwegian growth rates have accelerated



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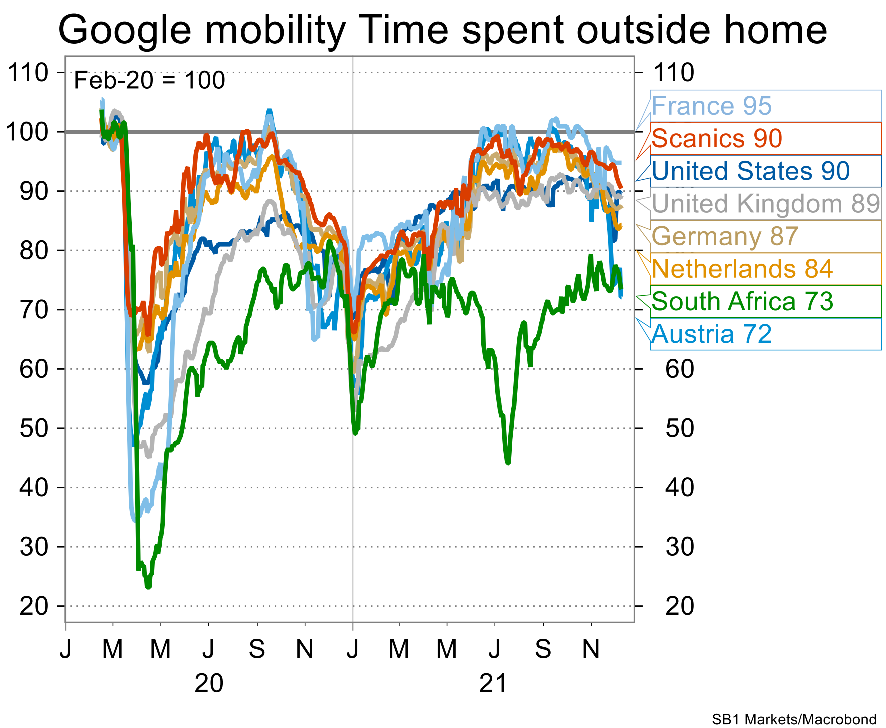
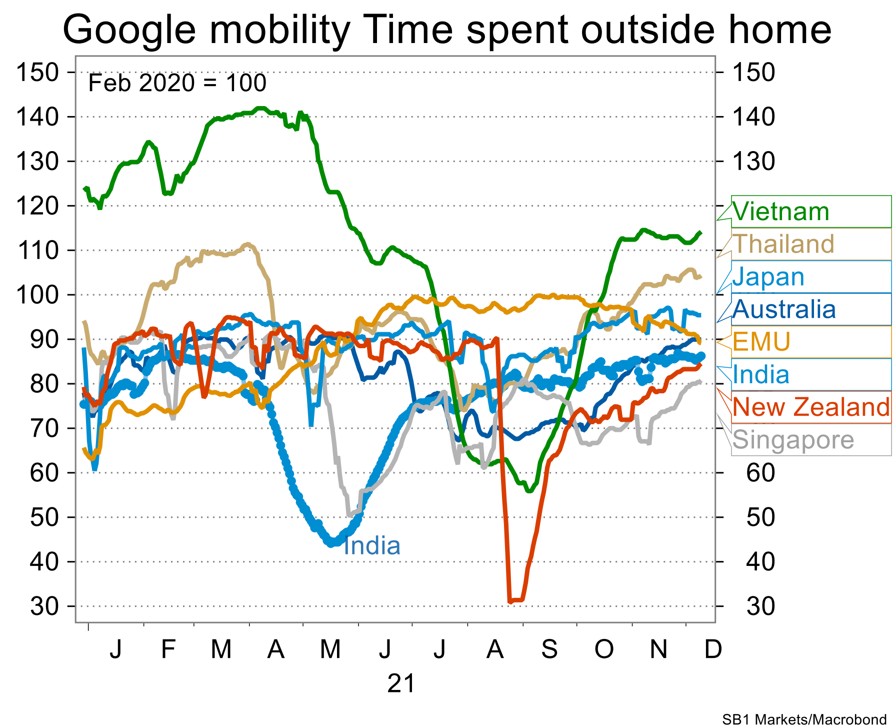
Mobility down in Austria, Netherland, Germany – but not much elsewhere

Economic activity is probably not that munch hurt. No reduction in mobility in South Africa, so far

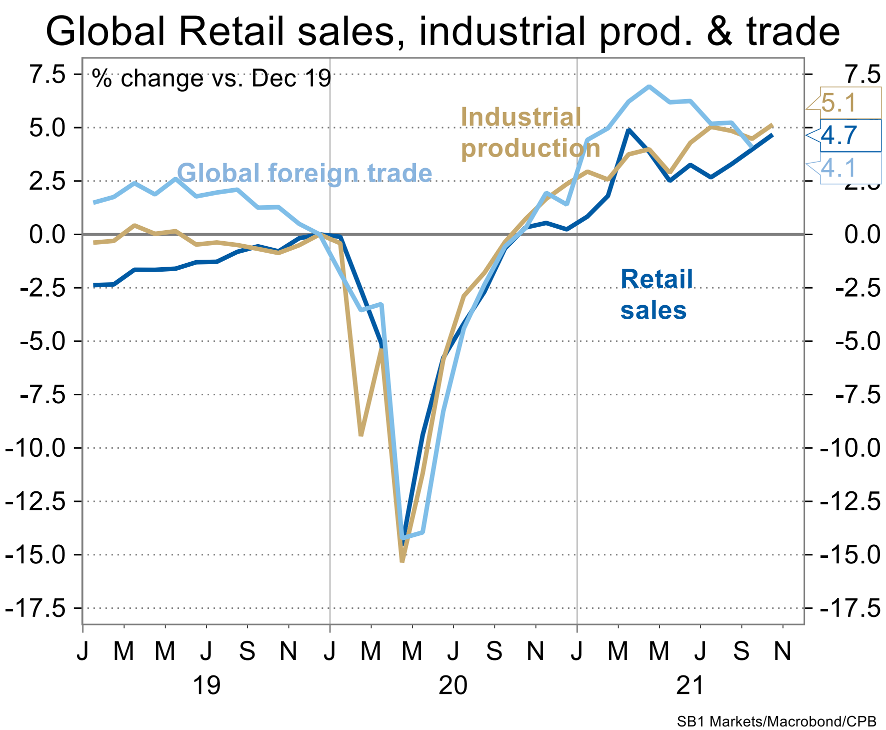


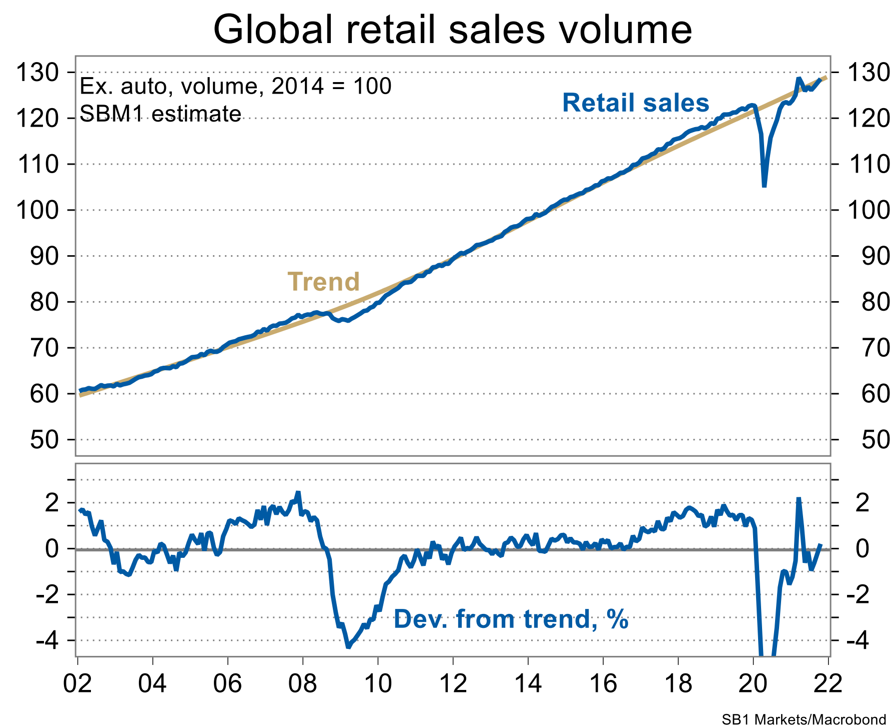


- The reduction in mobility is so less than during previous virus fights, at least outside Austria (were cases are falling rapidly)
- Mobility in Asia is on the way up, and some countries are back at pre-Delta levels

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

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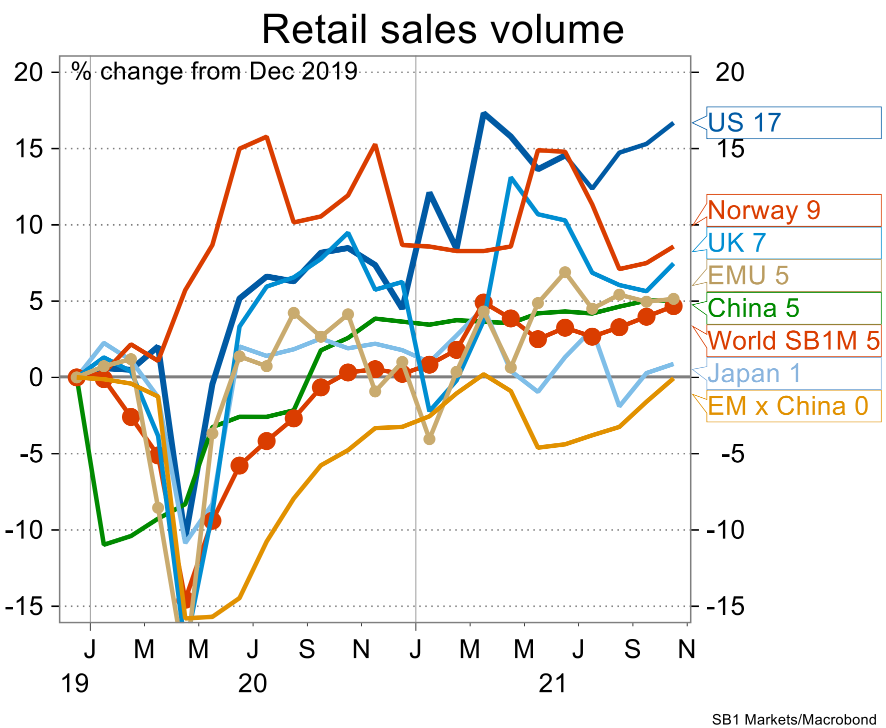
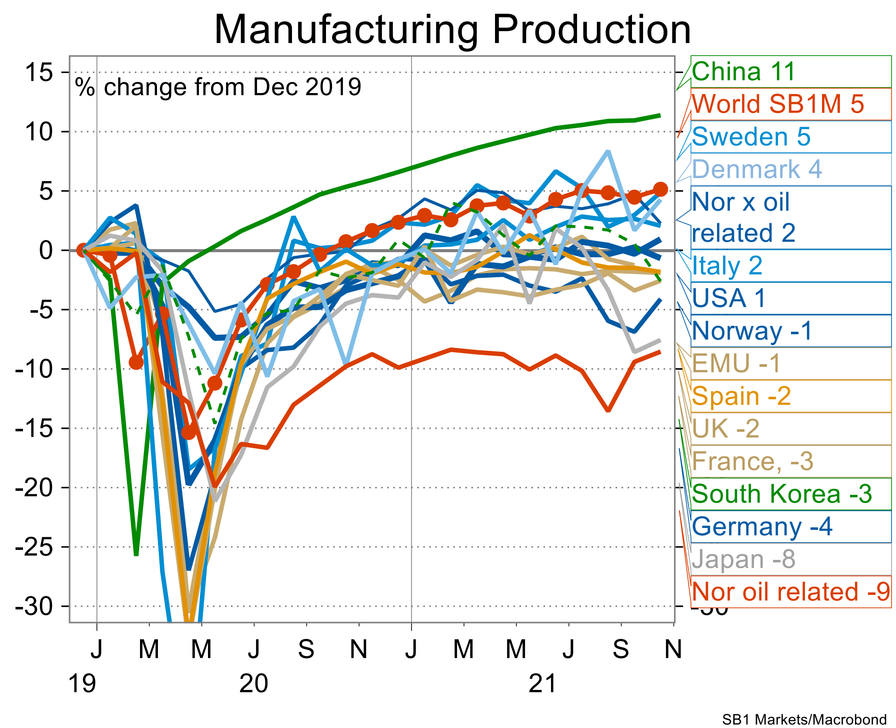
DM demand for consumer goods have peaked, EMs are recovering from a low lev

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 demand is** 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 still strong

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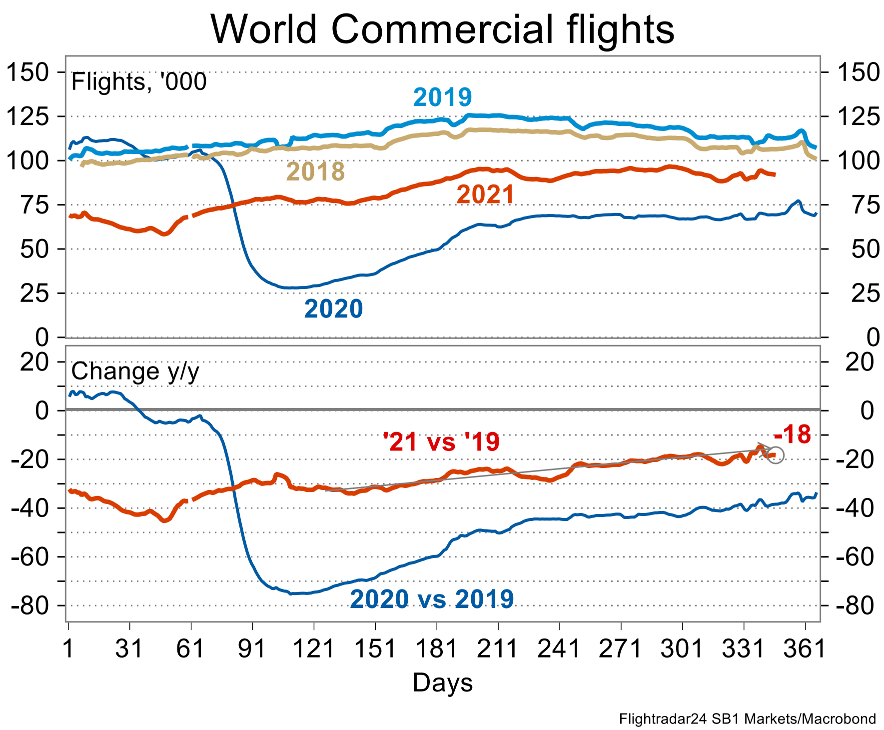
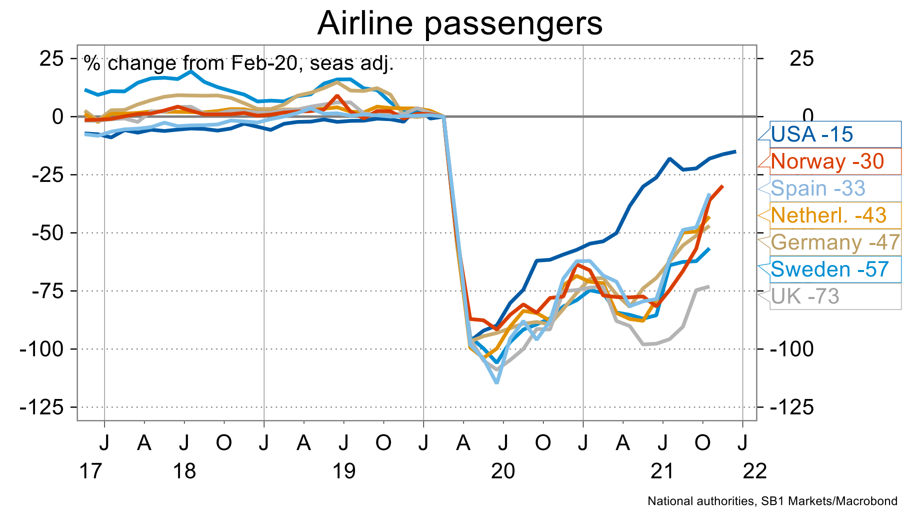
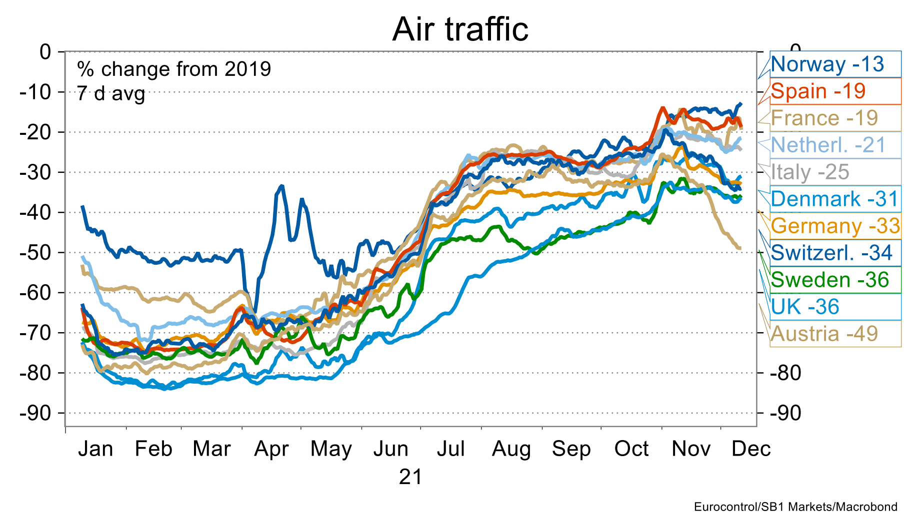
Global airline traffic still gradually on the way up, still down 18% vs. 2019



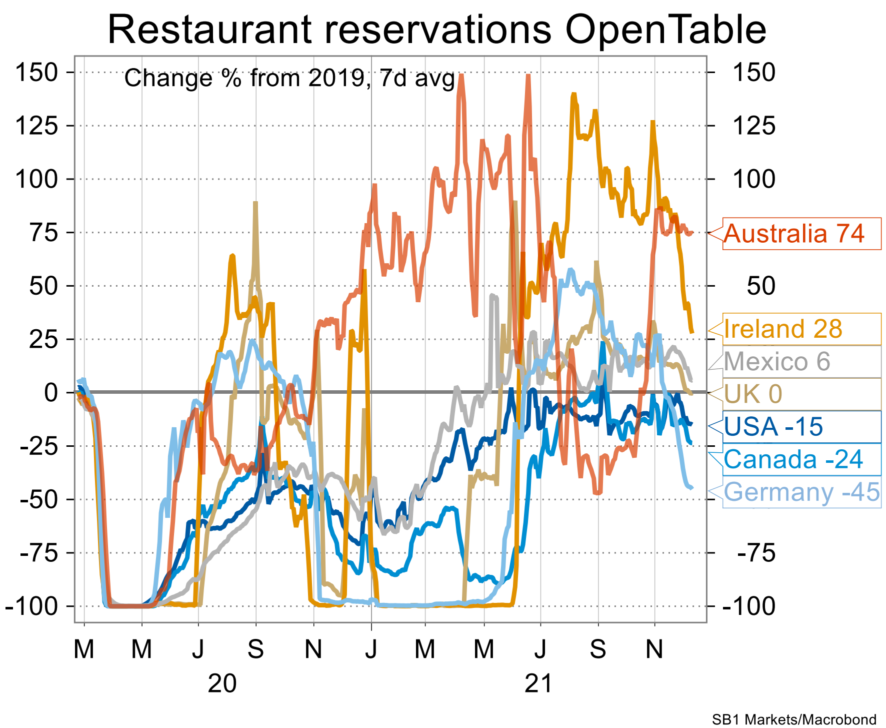


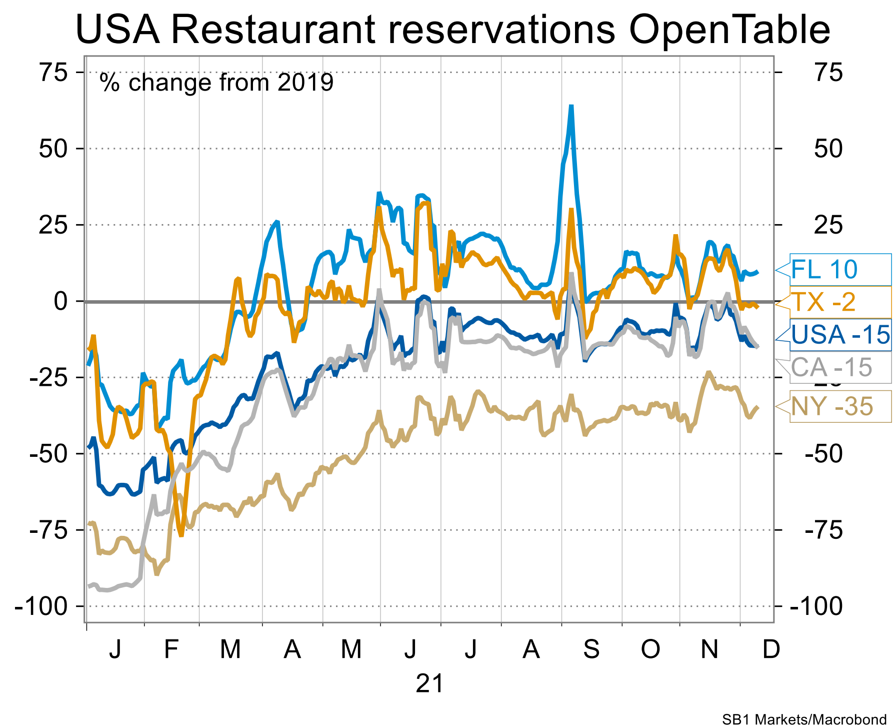


- Until October, strong growth in no. of passengers in Europe, and the gap vs the US was reduced
- The fight against the Delta has reduced aircraft movements in Europe, especially in Austria (lower chart to the right)

Delta/Omicron creates new challenges for the restaurant industry

At least in Europe, especially in Germany – but somewhat also in UK (and Ireland)

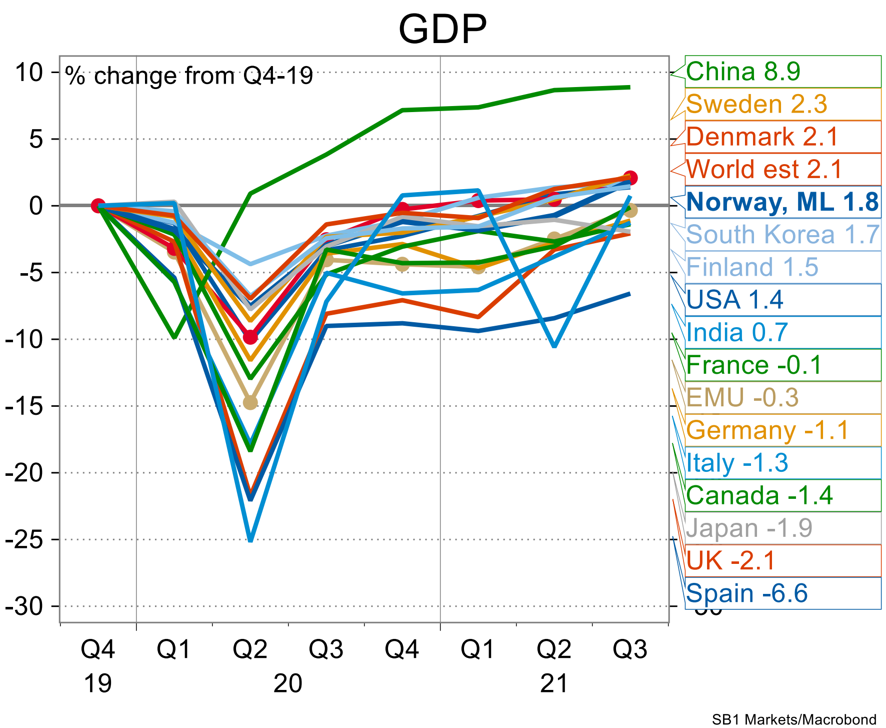


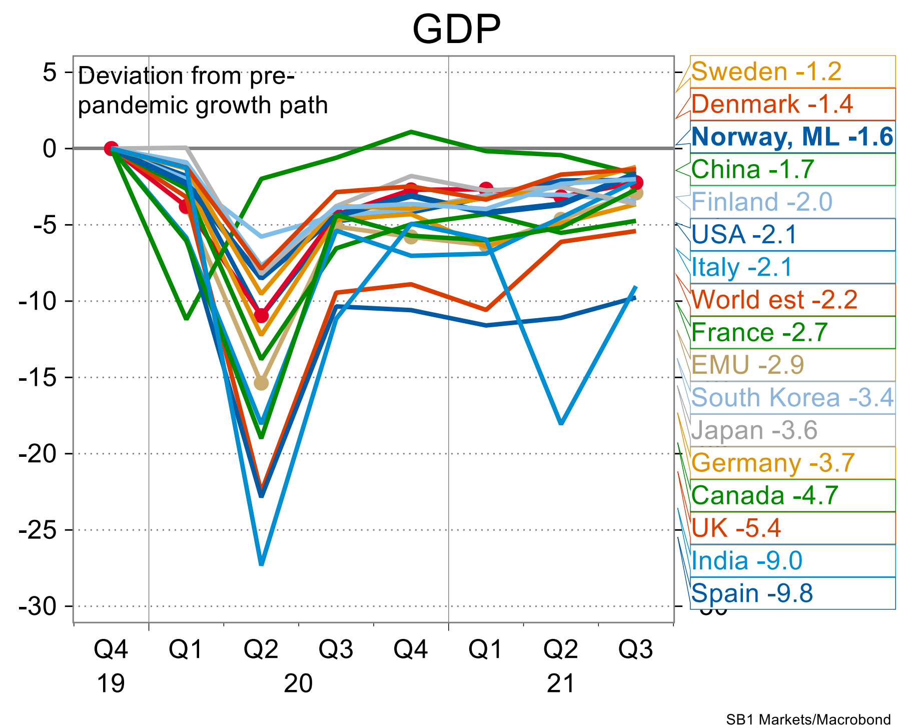


- Still, Europe is not locked down (at least not yet)
- No significant change in the US so far

Global GDP gained as India recovered sharply

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

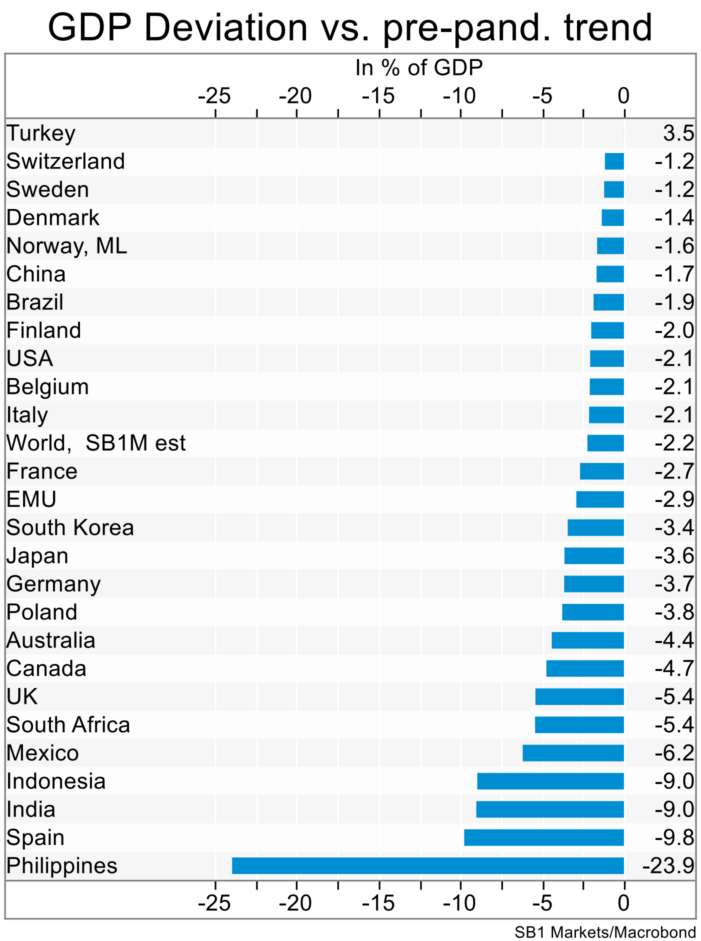


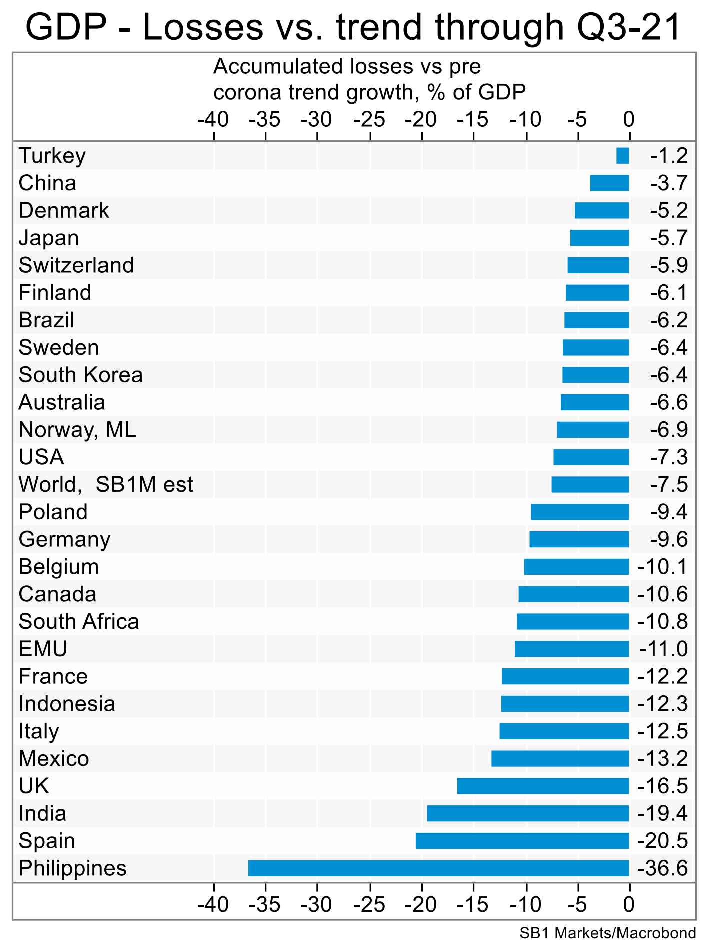


- GDP in India grew 12.2% in Q3, following the 12.3% Delta virus setback in Q3 – substantially better than we assumed (7.5%)
- Thus, global GDP grew 0.3 pp more than we assumed in Q3, by 1.6%. In Q2, the collapse in India cut global growth to 0.1%. The average over these two quarters at 0.85% equals 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 ☺)

GDP still below the pre-pandemic trend growth paths everywhere

… and accumulated losses are substantial in several countries. BTW, Turkey is at the top of these lists!

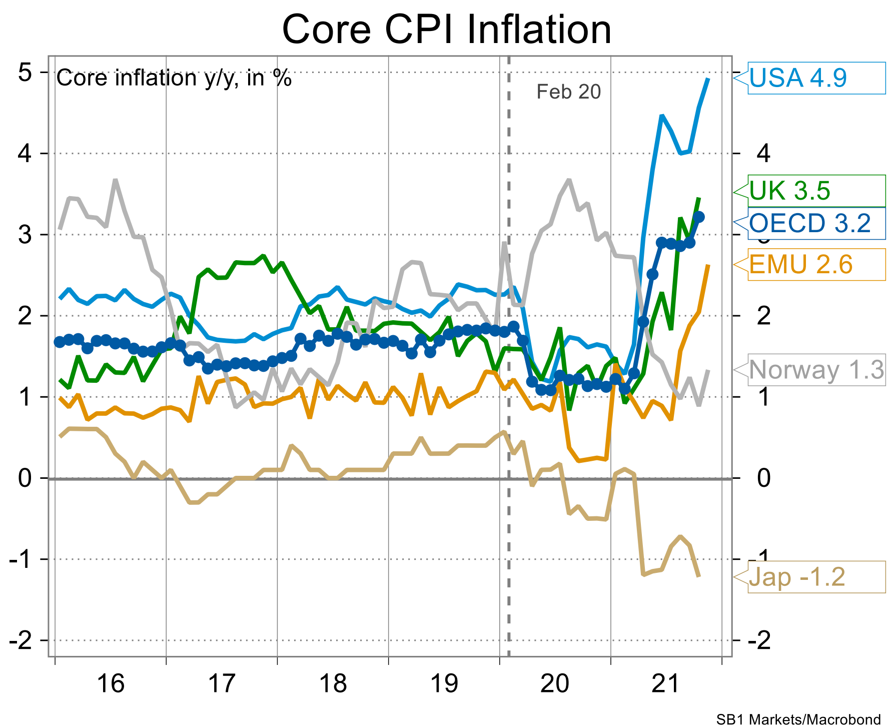


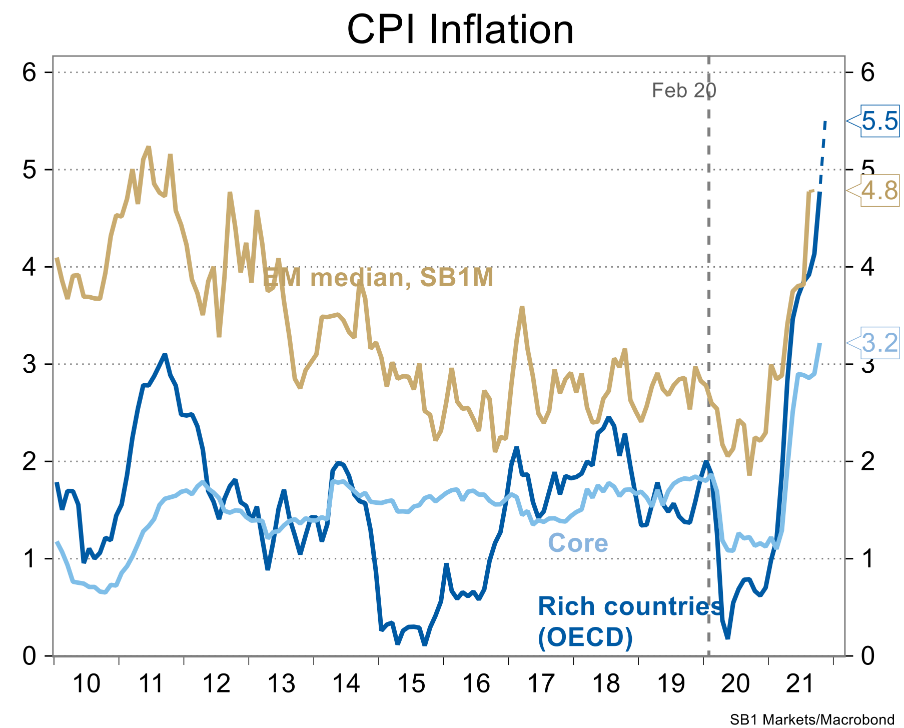


- At least according to Tukrish data

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

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





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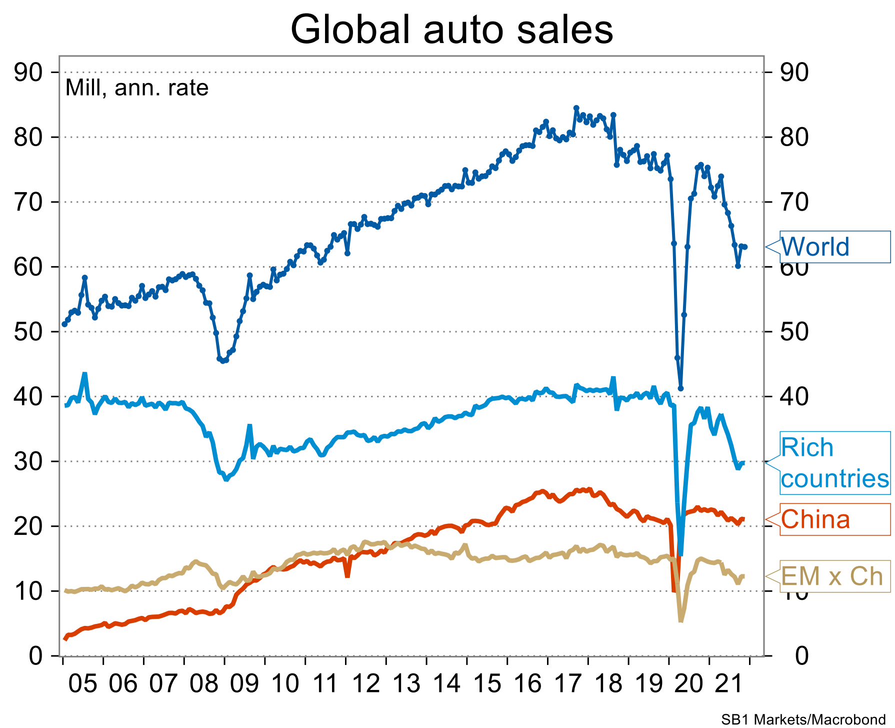
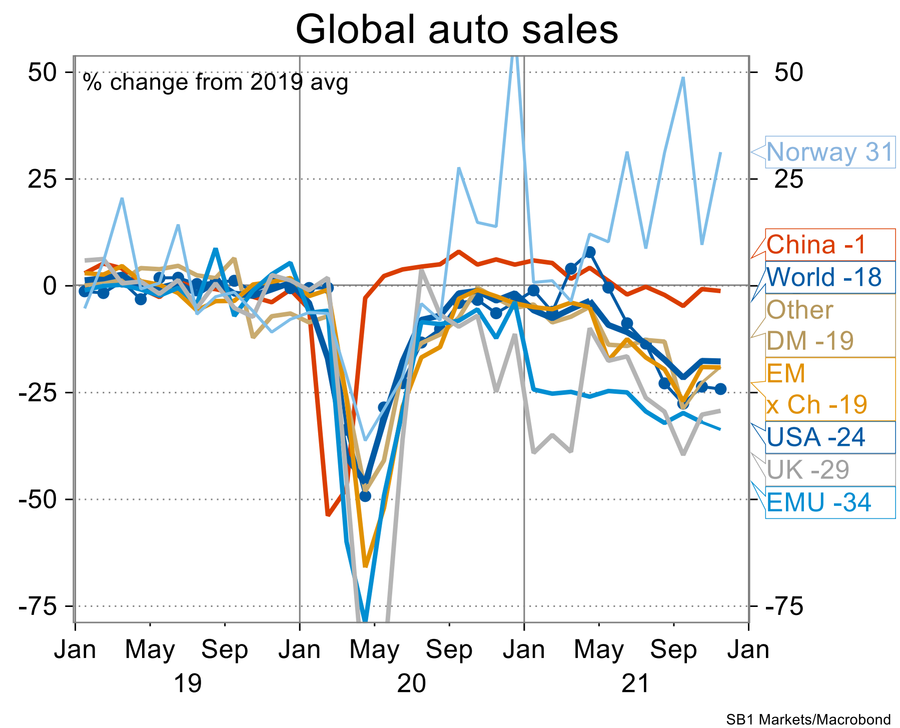
Auto sales flat in Nov after the small lift last month – down 19% vs 2019 level

Small changes in main countries/regions in November

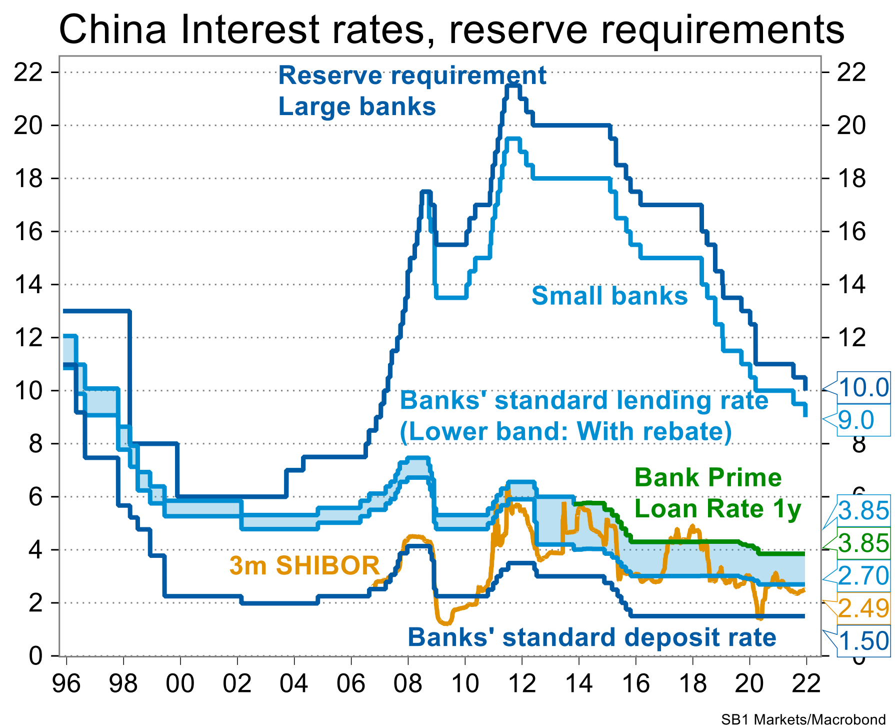




- Sales in **China** were flat m/m in Nov, and are down just 1% vs. the 2019 average – but are at the same level as first reached in 2015 (and sales are down 20% from the 2017 peak!) Sales in other Emerging Markets rose to, but are down 19 % vs. 2019. The trend was down before the pandemic
- **Sales in the US** and EMU fell slightly, and are down 24% and 34% resp. Sales in UK are down 24%
- **Norwegian** sales are up 31%, the only rich country up vs. 2019 (and Turkey & Malaysia the only EM countries)
- The recent decline in sales is of course not due to lack of demand but due to <u>lack of supply</u>, and the global auto industry has not been able to secure deliveries of semi-conductors. The upside is huge, as soon as components can be produced and delivered

A 2nd small cut in banks' reserve requirements

Authorities want to help banks lending more – but are not acting too aggressively either



- In July, the reserve requirement was cut by 0.5 pp to 10.5% for large banks and to 9.5% for smaller banks
- Last week, the PBoC decided to cut the rates by another 0.5 pp, to the lowest level since 2006
- The cut will free up some RMB 1 trl in lending capacity in the banking system, equaling 3 weeks' growth in credit supply from banks. No more, no less
- Still, the measure signals that authorities do not want credit tightening to go too far, even if they at the same time are worried that credit has grown too fast for too long, bringing the debt/income ratio too high, increasing the risk for financial instability. The authorities may still want to curb credit to some highly indebted sectors, like property developers
- Such change of tack in credit/monetary policy is rather common in China – as in many other countries
- Interest rates are not yet touched – confirming than authorities are not panicking

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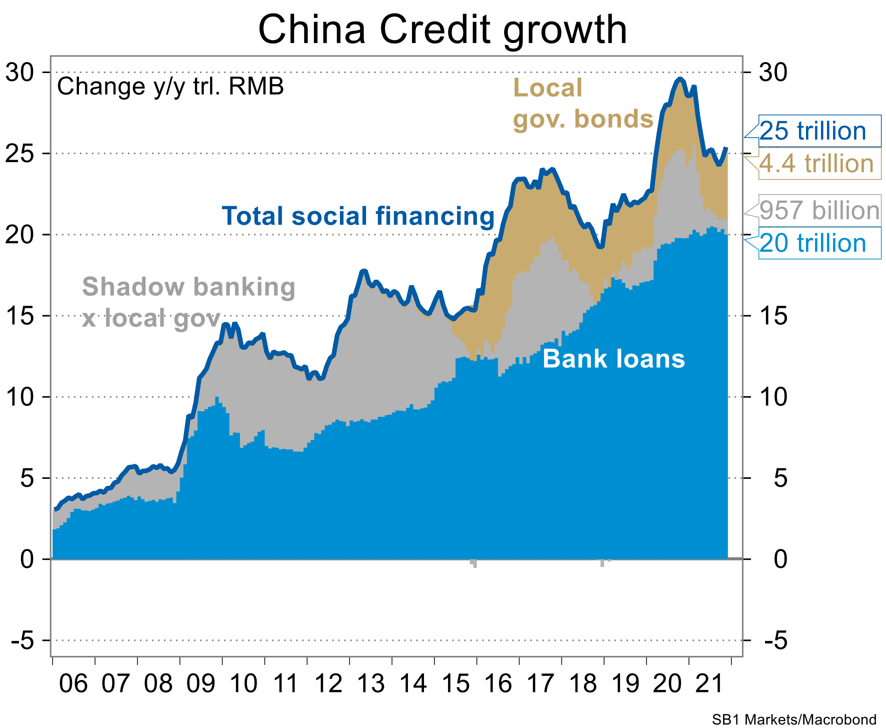
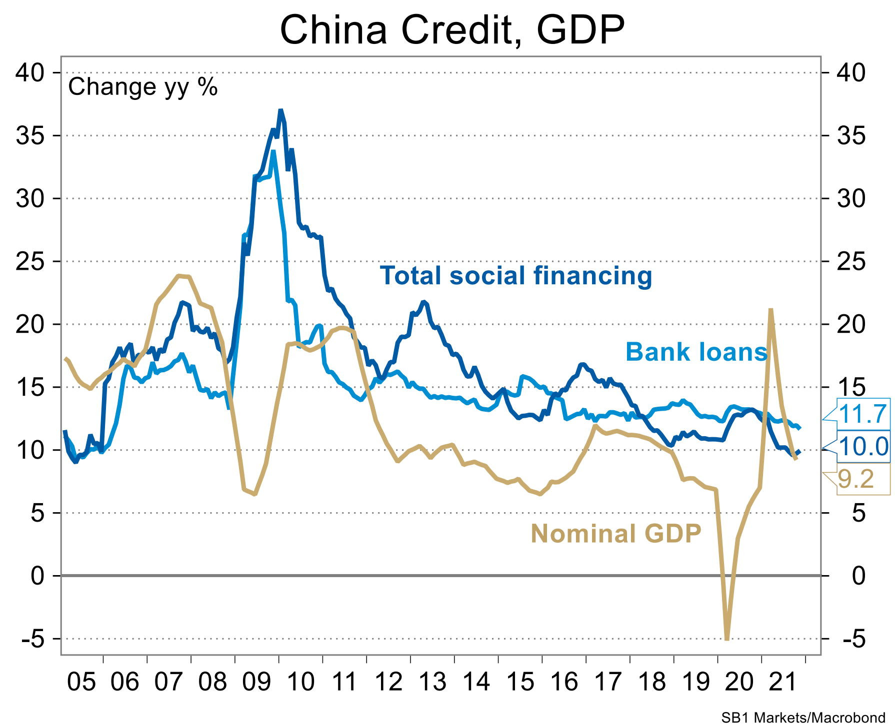
Credit growth growth has bottomed?

However, strong growth in local governments may not be sustainable. And bank lending is slowing

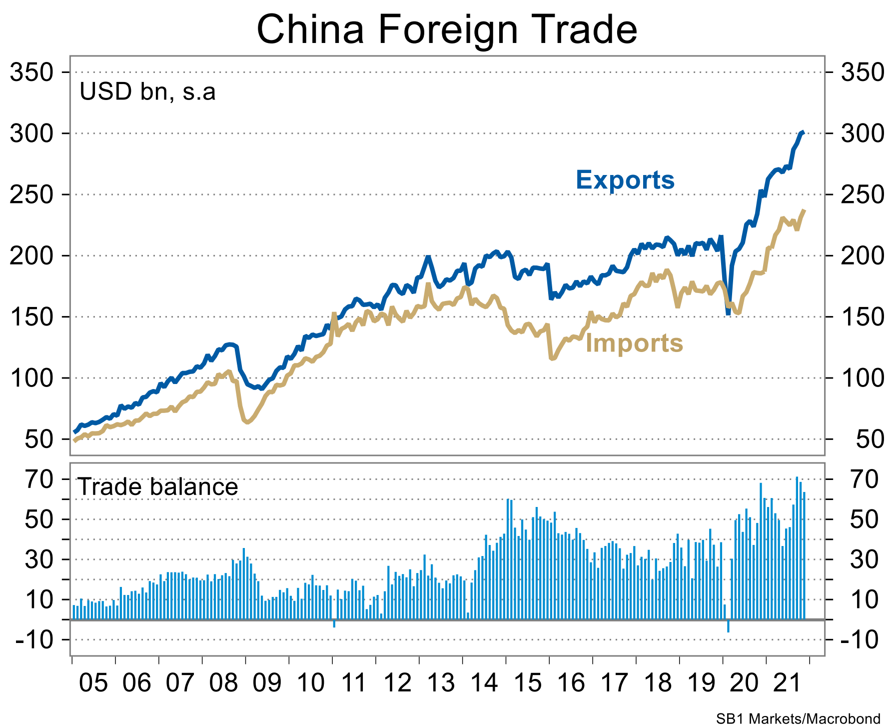




- Over the past year, **total credit** has expanded by RMB 25 trl, equalling almost 24% of annual GDP, down from RMB 30 trl at the peak in 2020
- **Banks** supplied RMB 20 trl of the y/y increase
- **Local governments** have accelerated their credit growth, now up 4.4 trl y/y
- Growth in other credit – via the **shadow credit market x local gov bonds** – has slowed to less than RMB 1 trl from 5 trl, a dramatic slowdown (like many times before) – and credit is up just 1% y/y
- **Total credit** growth accelerated 0.3 pp to 10% y/y, above nominal GDP growth before the pandemic, and above our best case estimate of 5.5% potential GDP growth + a 2% rate of inflation = 7.5% growth in nominal GDP

Exports slightly up in November, even volumes sky high!

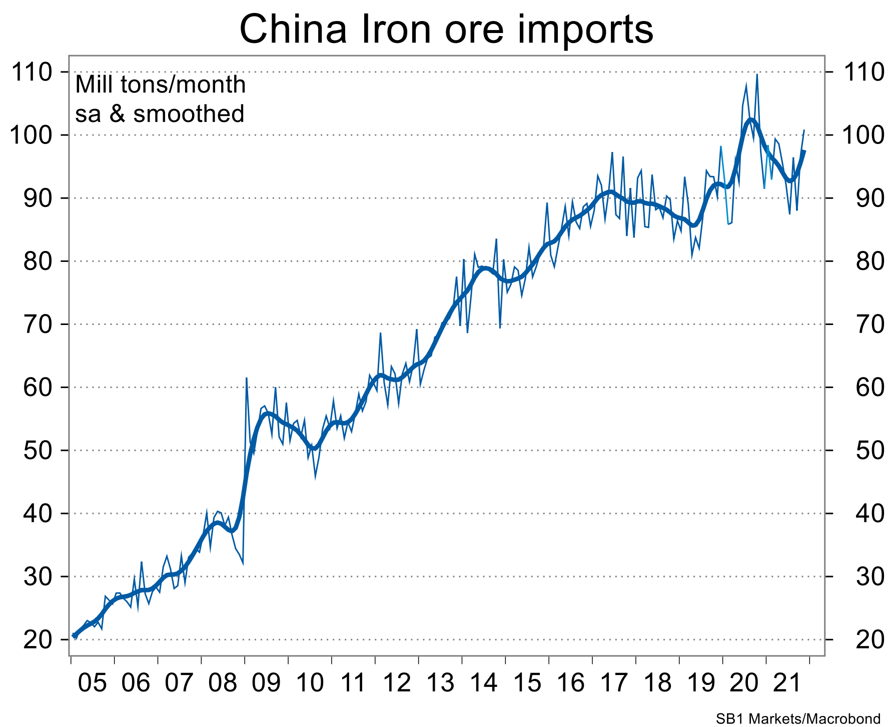
Imports better than expected, and volumes back to the pre-pandemic trend

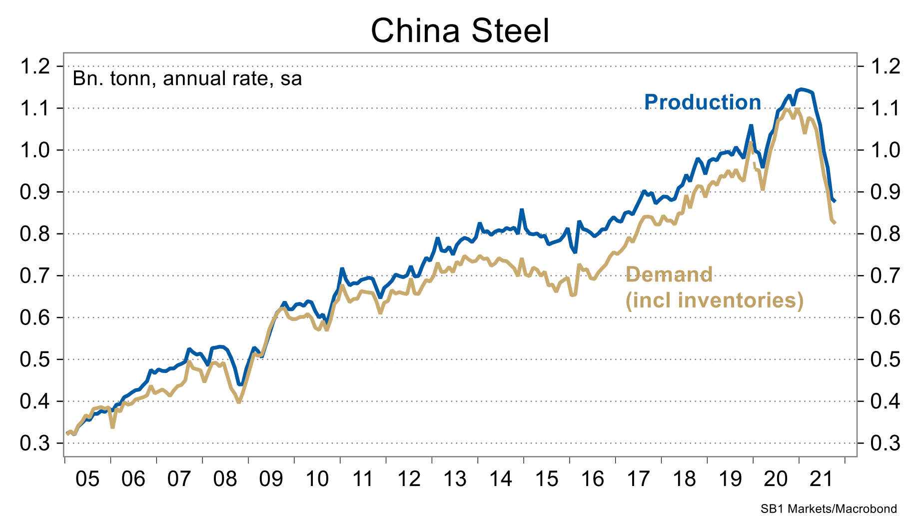


- **Exports** grew by 1% m/m in USD terms in Nov (our seas adj), and are up 22% y/y, down from 27% in Oct, expected down to 20%. Export volumes may have fallen slightly m/m but still are very strong, up more than 20% vs the pre-pandemic level and 14% above the p-p trend path! Signals still strong global demand for goods. Prices are up 13% y/y
- **Import** values added 3% m/m following a 5% lift in Oct, and are up 32% y/y, up from 21% in Oct, expected up 22%. Import probably rose in volume terms too but are no mort than 7% above the pre-pandemic level and in line with the pre-pandemic trend path, following two strong months. Import volumes are still below the March peak, signalling a softer growth in domestic demand. Prices are up 23% y/y. Coal imports rose to the highest level ever, while iron ore imports also recovered. Oil import volumes are flattish, well down from the 2018 peak
- The **trade surplus** fell further in Nov but remains one of the highest ever, at more than USD 60/m

Iron ore imports are recovering – has domestic steel demand turned up?

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



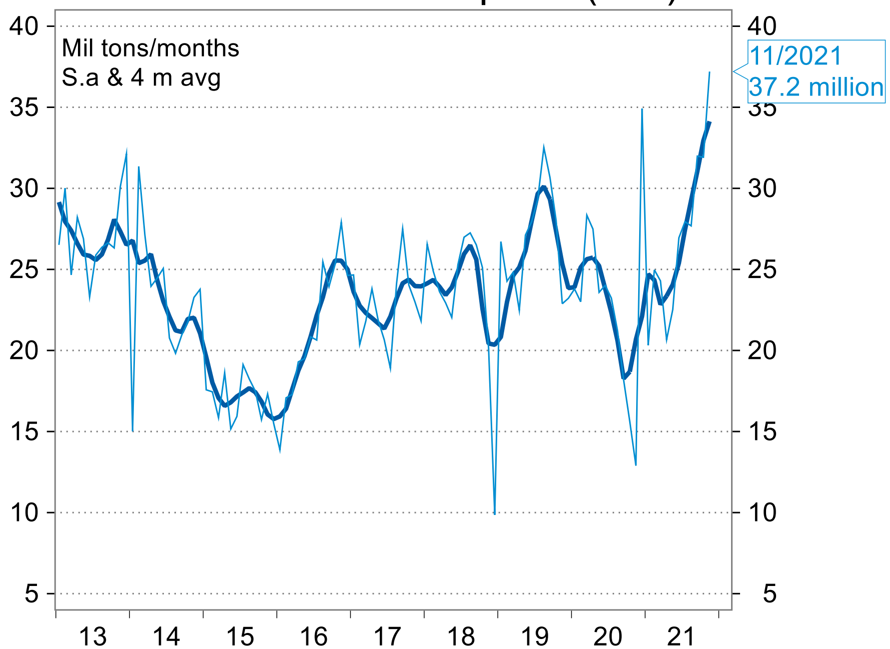


- **Iron ore** imports were almost back to a peak level in Nov, which is rather strange, given the more than 20% decline in domestic demand and production vs the peak levels in late 2020 or early 2021 – which again correlates to a similar decline in construction starts
- Steel exports have fallen too

Coal imports up to ATH in November!

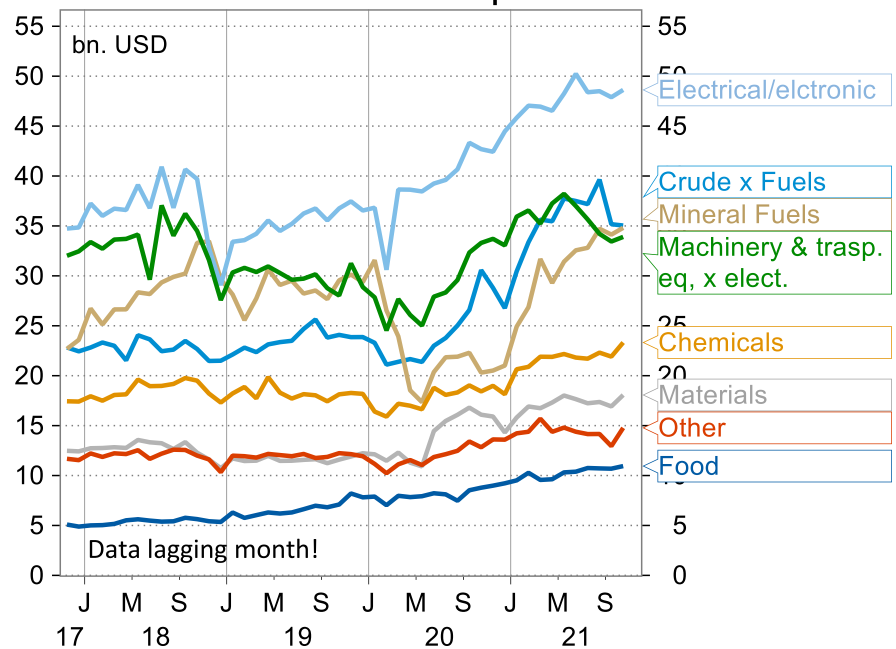
Guess they found out that they had too little of the dirty stuff

China Coal imports (s.a.)



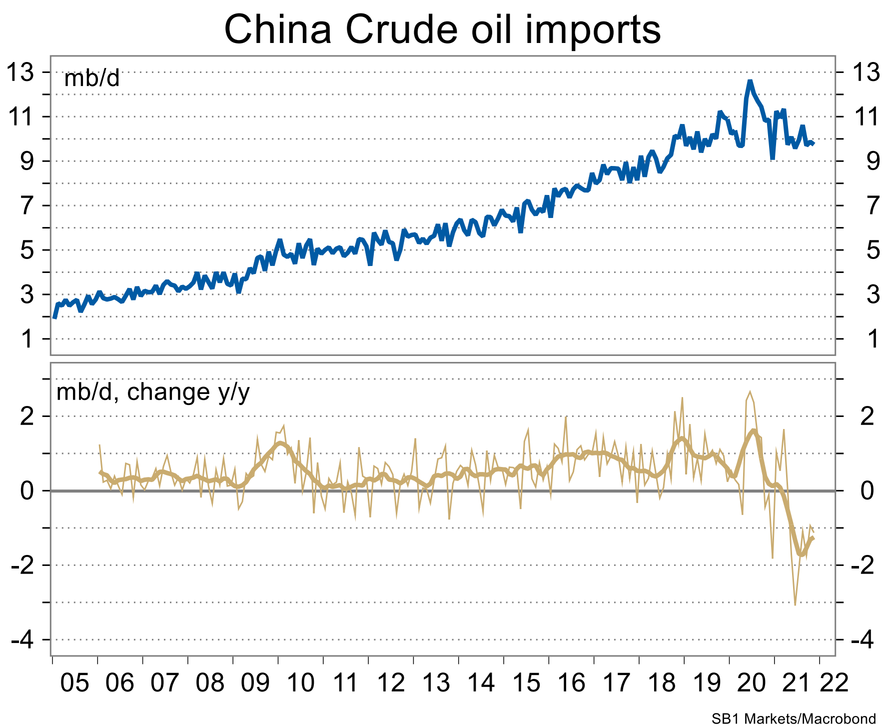
SB1 Markets/Macrobond

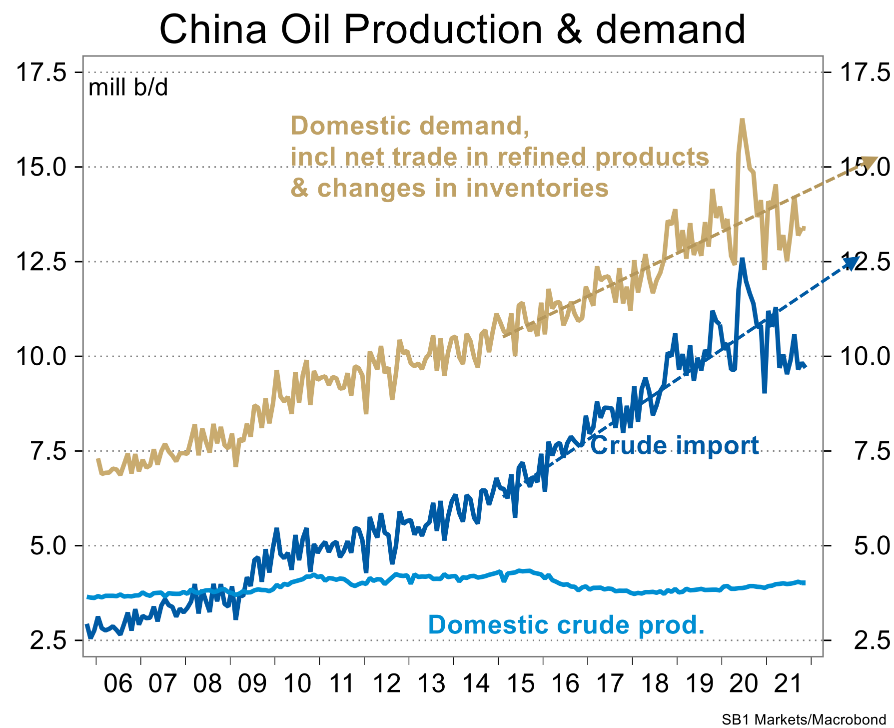
China Imports



SB1 Markets/Macrobond

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

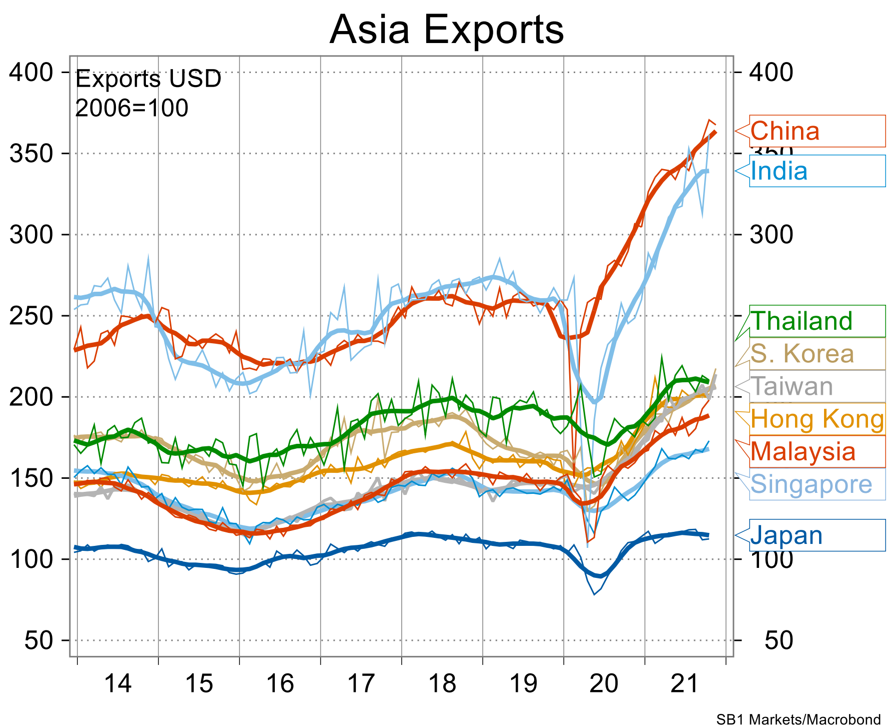


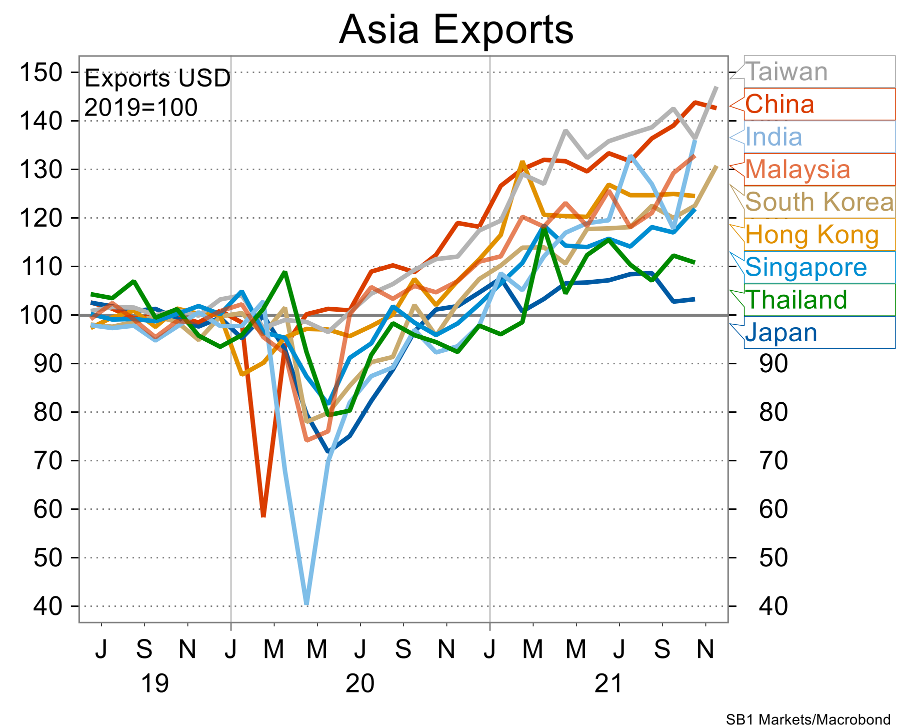


- 3 years without growth in oil import or domestic demand is rather surprising?
- Some inventory/reserve building/drawdowns may explain short term deviations

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

… but underlying growth has slowed somewhat





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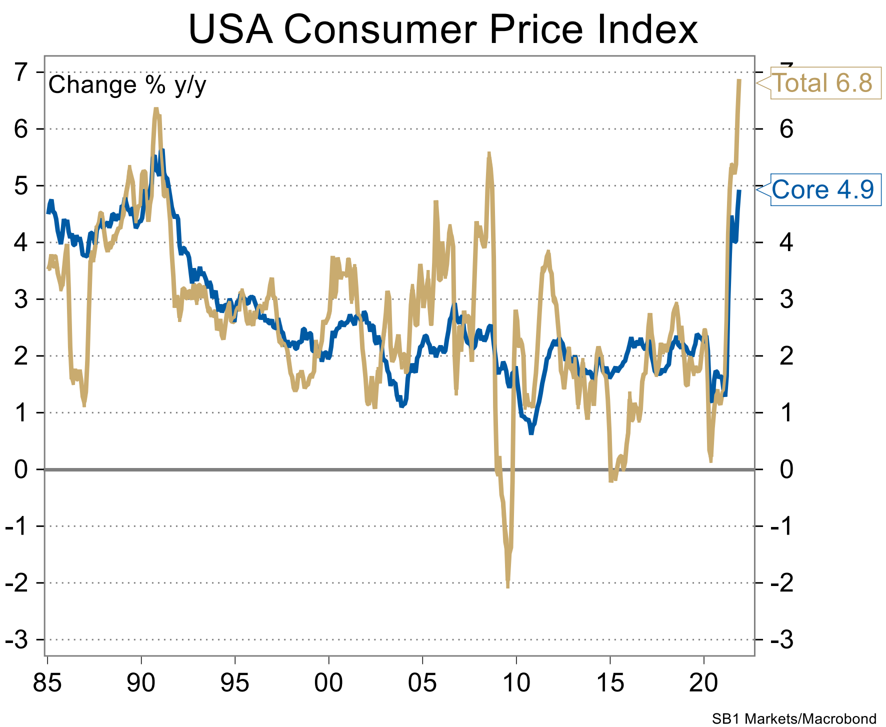
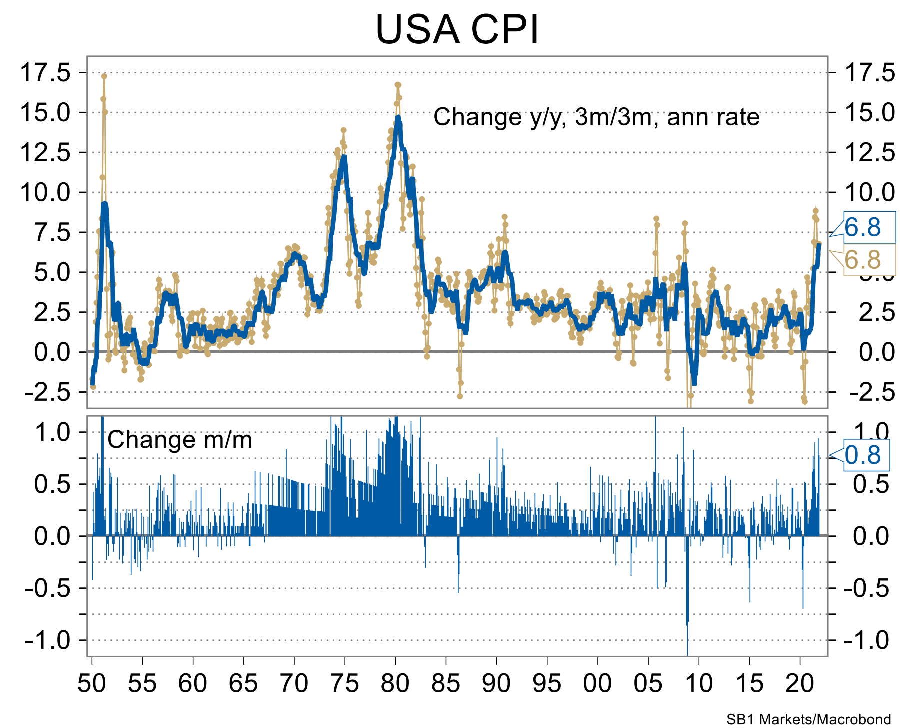
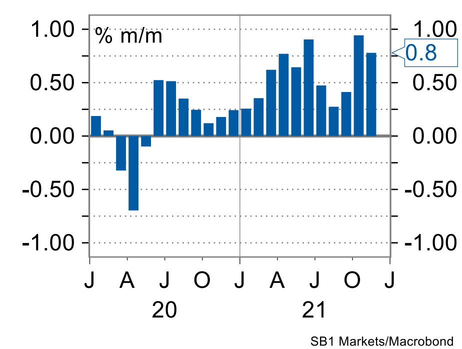
And then we are close to 7%, the highest CPI inflation since 1982!

But why worry? It was expected, and the Fed says it will take care of it. Cheers!!



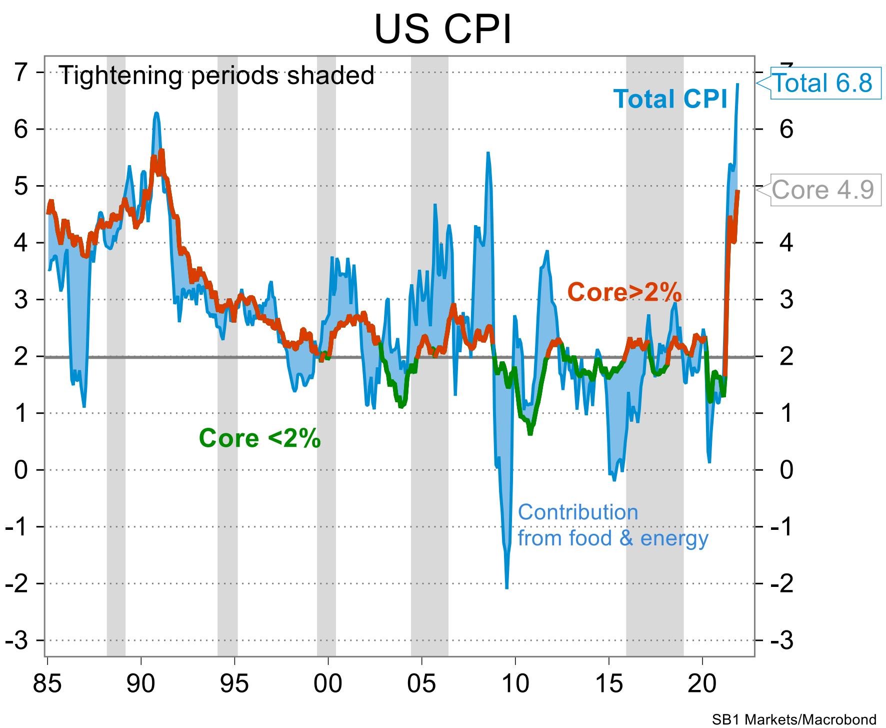


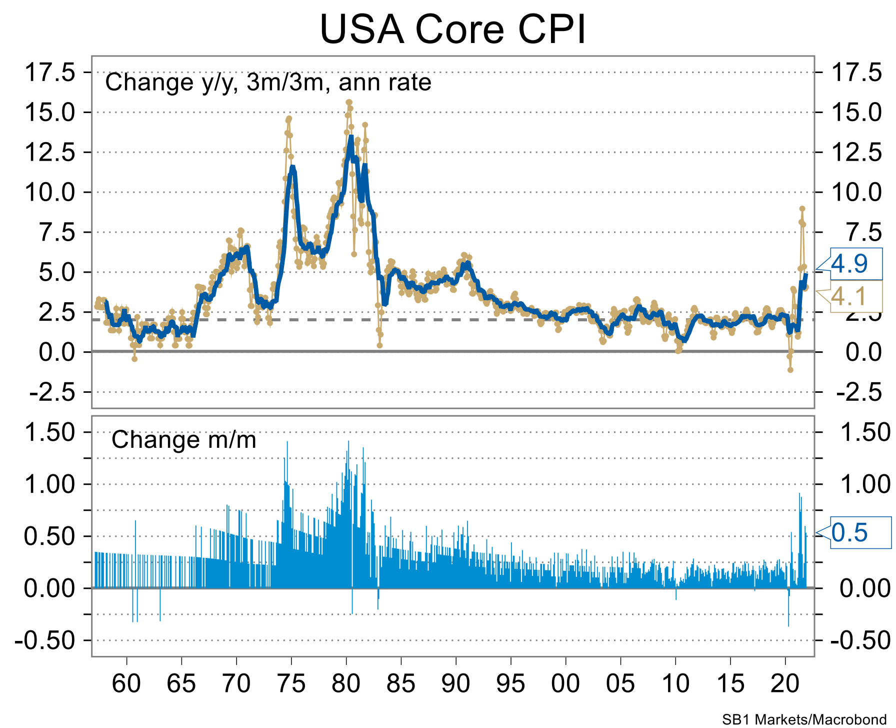
- **Headline CPI rose** 0.8% m/m in November, 0.1 pp more than expected, following the 0.9% gain in Oct. The annual rate accelerated 0.6 pp to 6.8% – but as expected (on the first decimal)
- **Energy prices** rose 3,5% m/m, and are up 34% y/y – and has lifted the overall index by 2.0 pp y/y. The upside risk from here is probably limited. At current oil & natural prices, a negative drag m/m the two coming months.
- Both new and used **auto prices** climbed further, and explains 1.4 pp of the annual rate
- However, price inflation broadened further in Nov. Cleveland Fed's **trimmed median CPI** is accelerated 0.2 pp to 6.2% (6 m pace), another ATH (with data from 1983). Other 'breath' measures tell the same story
- **Surveys** signal a further increase in prices the coming months, at least high m/m increased
- The **Federal Reserve/Powell** has now signalled that the surge in inflation may not be transitory. The Bank will formalise the change of tack at this week's FOMC meeting. Tapering will be sharply accelerated, paving the way for a lift in the Fed funds rate before next summer. The policy change should have been taken several months ago!



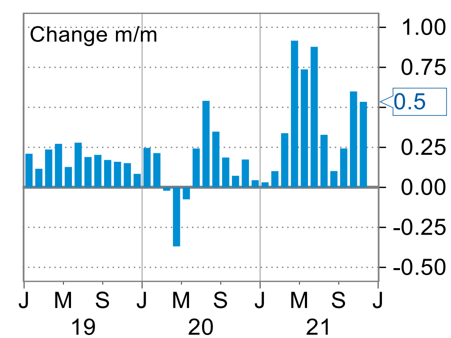
Core inflation sharply up too

Prices +0.5% m/m in Nov. The annual rate climbed 0.3 pp to 4.9% - both as expected



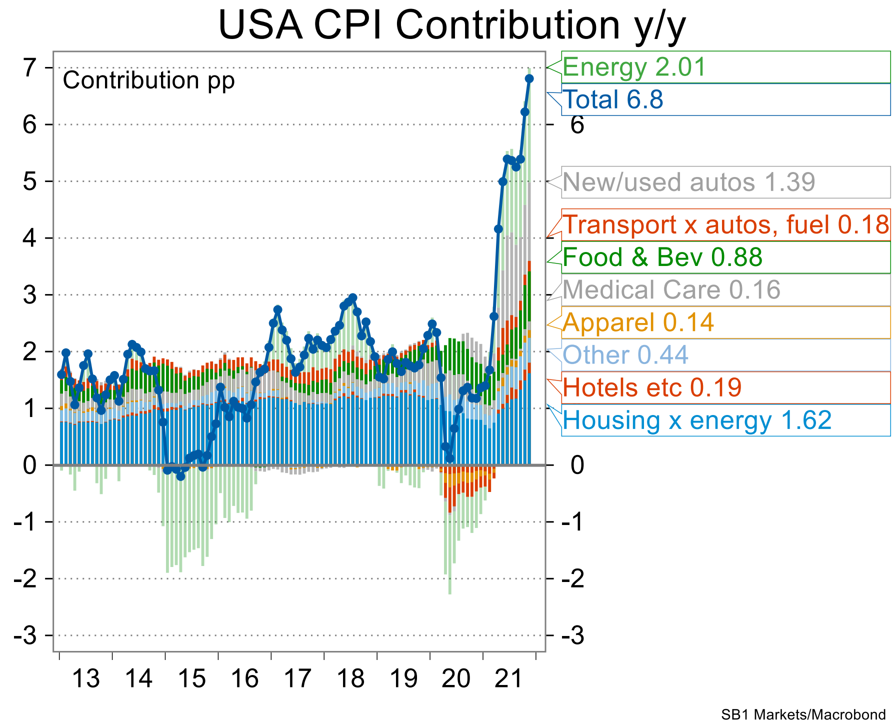


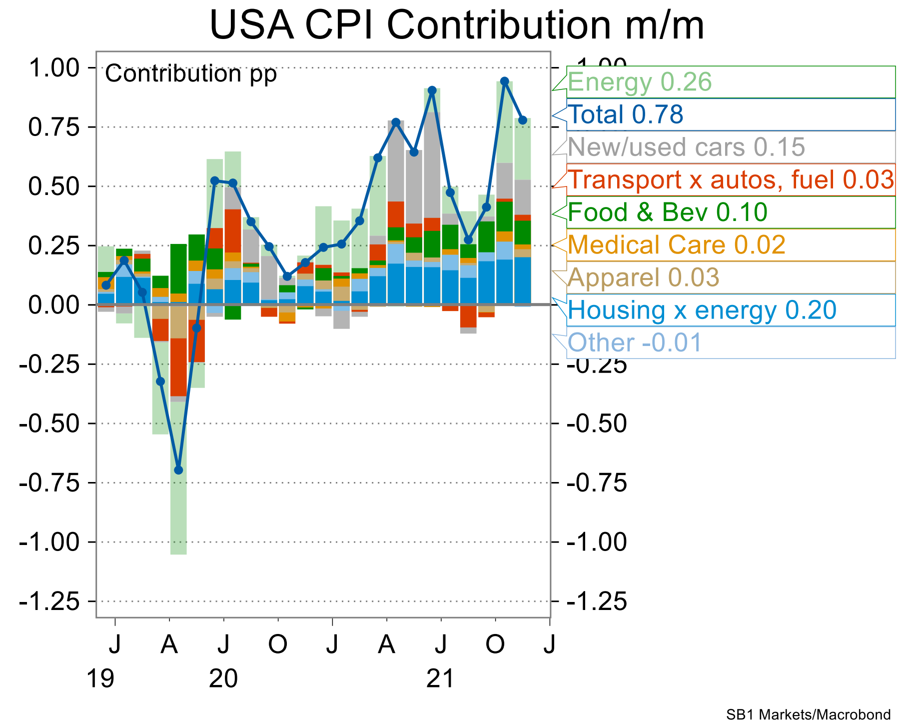
- **The 3rd wave: Core prices** rose rapidly last summer, during the spring and the 3rd time
  - » Both the monthly increases and the annual rate is the highest since 1990
- There are still some few 'base effects' left. Last year some prices fell, like apparel and lodging. As these prices are normalising, (or more than that in lodging), growth rates are pushed up transitory (yes, transitory!)



Transport & energy explain 3.6 pp of the 6.8 % lift in total CPI

… Thus, other sectors have contributed too. Housing ex energy (mostly rents) have gained speed



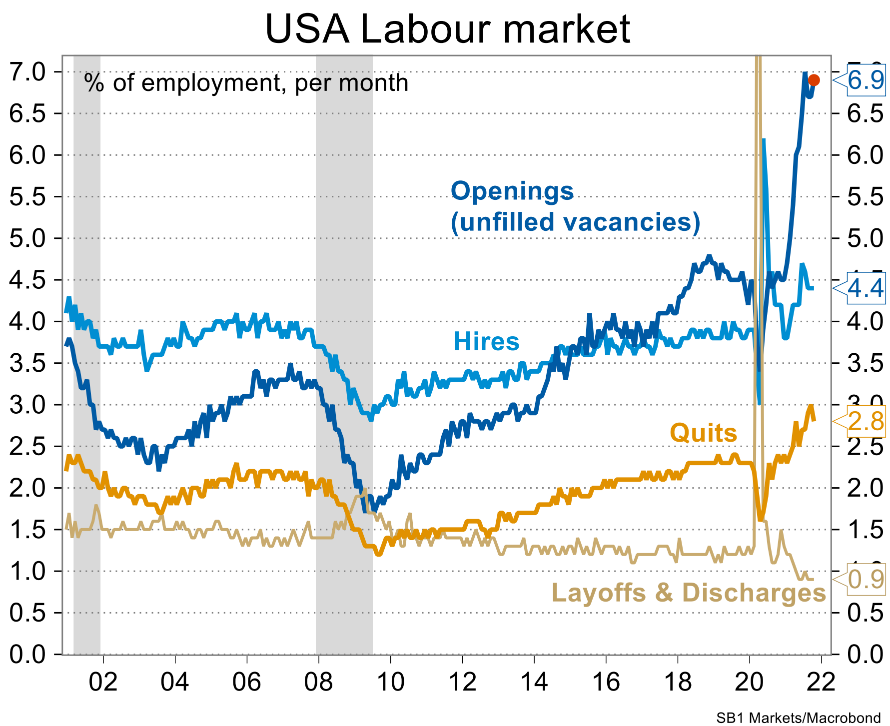


- **Energy** lifted the headline CPI by 0.26% in November, and by 2.0% over the past 12 months. Now, the oil price has fallen somewhat, and gasoline prices yielded marginally last week. Will we get a negative contribution in December? Anyway, a further lift seems unlikely
- As **used car prices** rose again in November, as did new auto prices – in sum a 0.15 pp contribution to the monthly 0.8% total gain
- However, **excluding** the 3.6 pp contribution the headline CPI from energy & transport, **"remaining" inflation** has accelerating rapidly
- **Housing x energy** is contributing by 1.6 pp, the highest rate in many years. Rents are on the way up – and still rather exposed (check 2 pages fwd) but a substantial contribution to housing also comes from household equipment & furnishings, and operations

Lodging away from home (incl hotels) is a part of housing at the charts above

More unfilled vacancies in October!

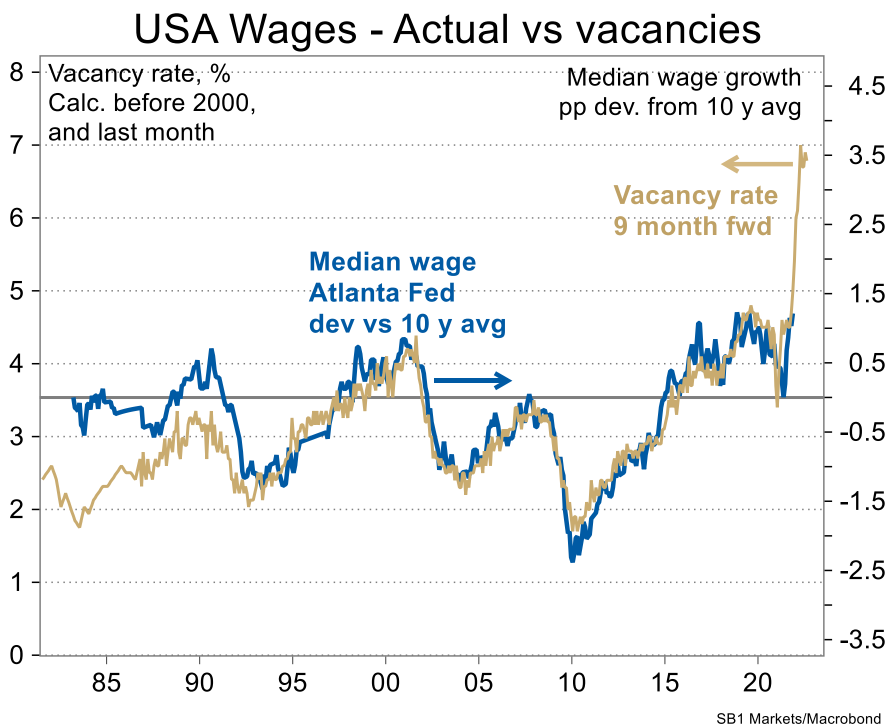
The mismatch at the labour marked may have peaked but it is still extraordinary

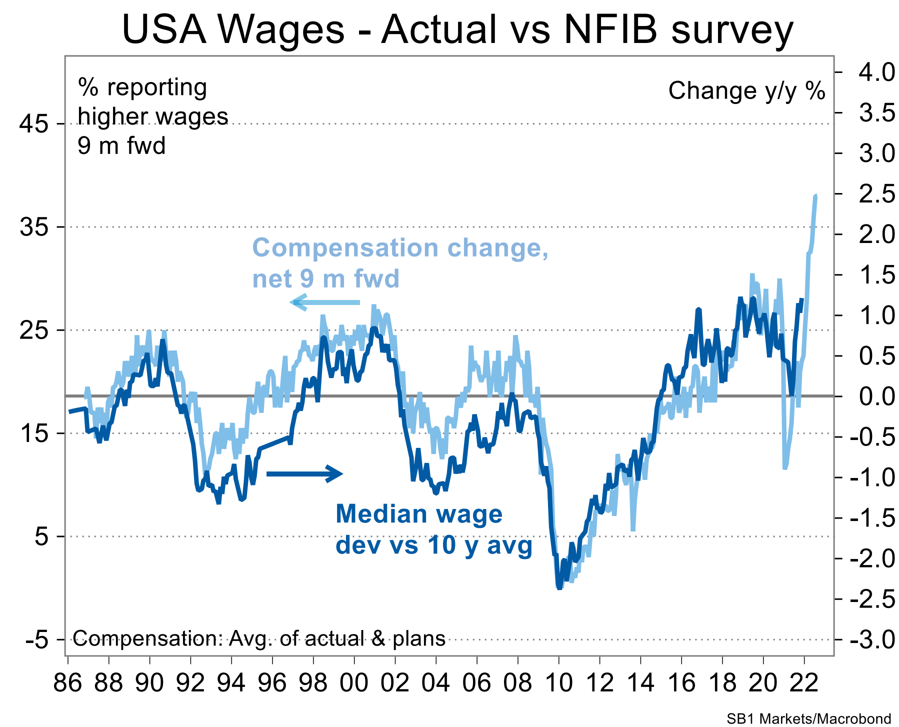


- The no. of **unfilled vacancies** rose by 0.4 mill to 11.0, from an 0.2 mill upward revised level in Sept. The print is the 2nd highest ever. The vacancy rate was 6.9%, up 0,3 pp.
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit.
  - » The increase in vacancies in Oct was rather broad, and all sectors report a higher vacancy rate than before the pandemic
  - » The SMBs (NFIB survey) reported marginally less trouble filling positions November. These two series are very closely correlated
- **New hires was unch at 6.5% mill in Nov,** equalling 4.4% of the no. of employed persons, still an unusual high level. No significant changes sector wise
- The rate of **voluntary quits** rose declined by 0.2 pp to 28% in Nov, still a very high level, signalling a very strong labour market. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** was unch at the lowest level ever, 0.9% in Nov
- **In sum:** These data confirm an extremely tight labour market

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

The correlation to changes in Atlanta Fed median wage index has been extremely very close

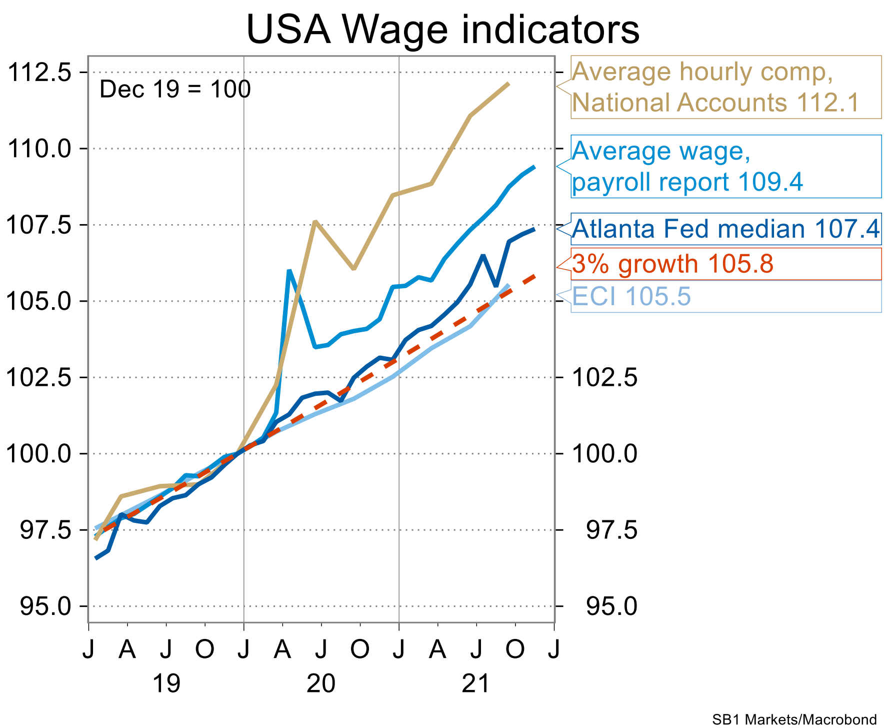


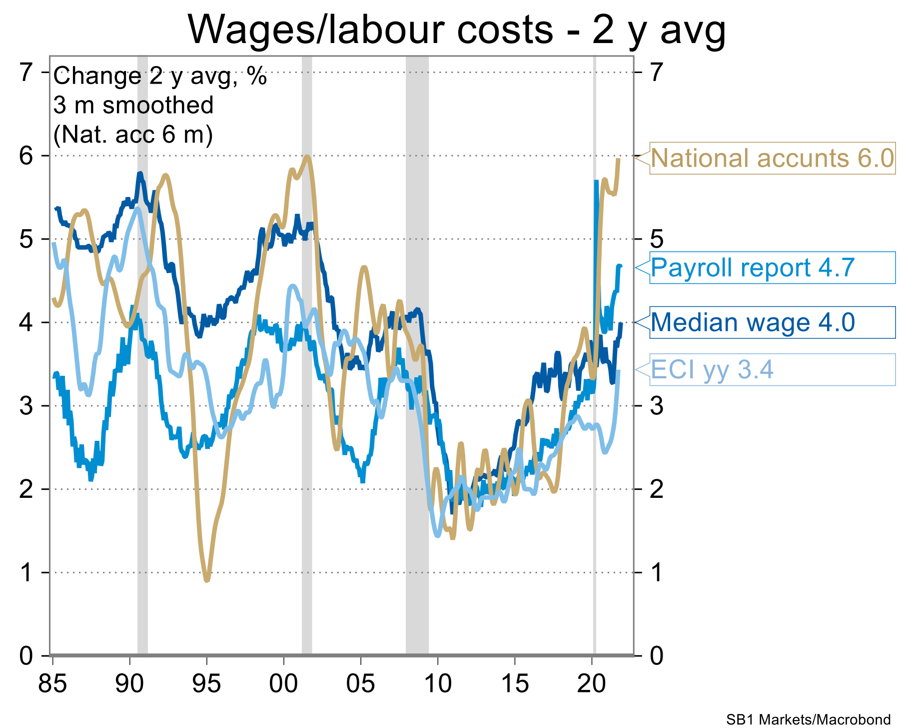


- More companies than ever before (data from 1986 though) reported in October that they have lifted compensation and that they plan to do so the over next months as well
  - The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- This is one of the reasons why the Federal Reserve has been forced to change tack

All wage indicators are reporting higher wage inflation

Wage inflation is the main risk vs higher inflation over time, not energy/commodities & profit margins

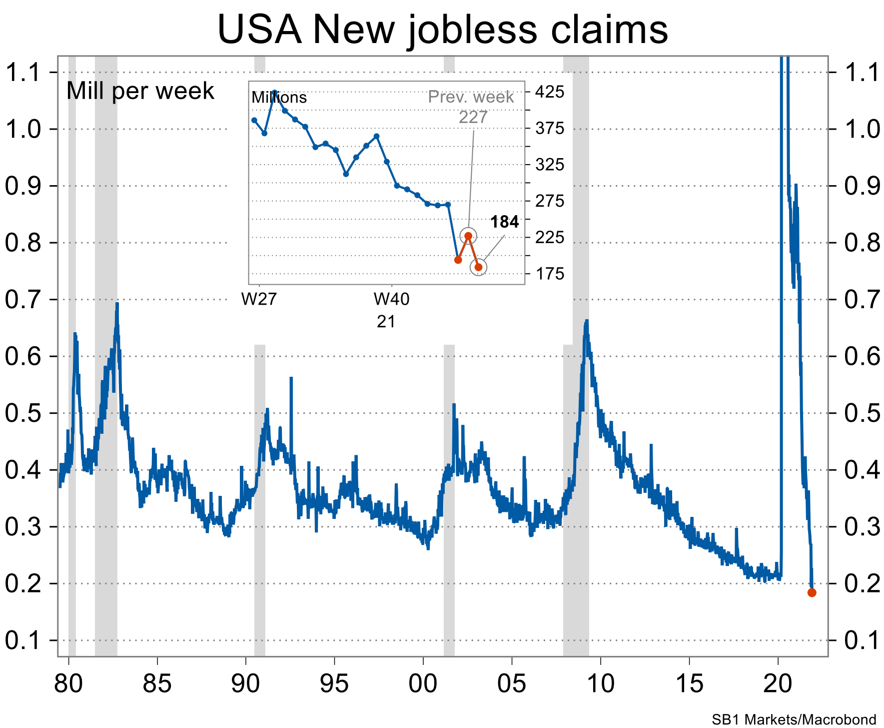


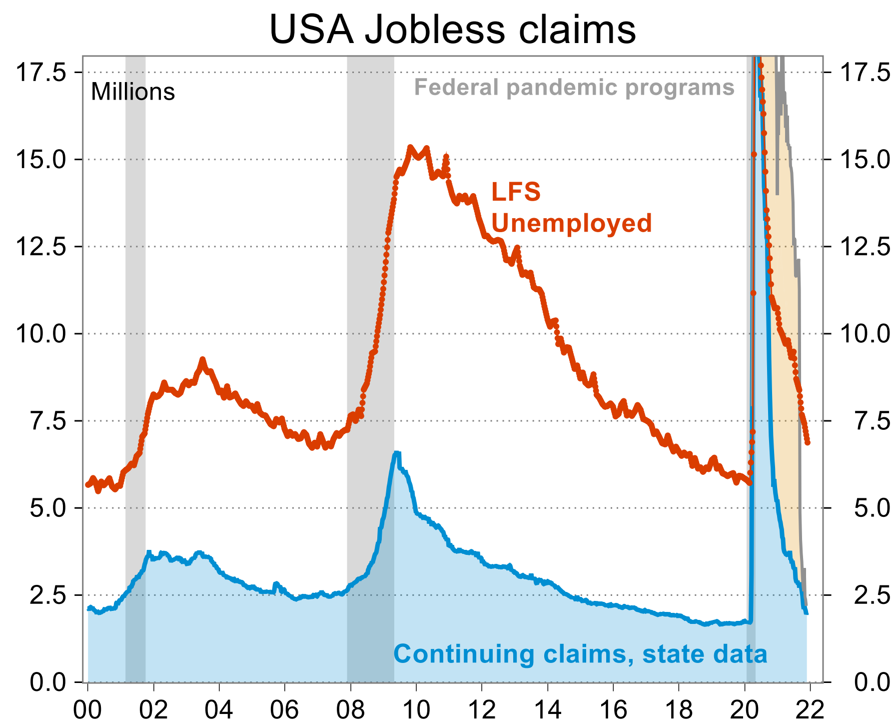


- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes in the first part of the pandemic (chart to the right)
- **Atlanta Fed's median wage tracke**r reported another lift in the annual growth rate in November, the 3 m average up to 4.3%
- 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
- Given current productivity trends, 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 somewhat higher wage inflation without higher price inflation

New jobless claims down to another ATL

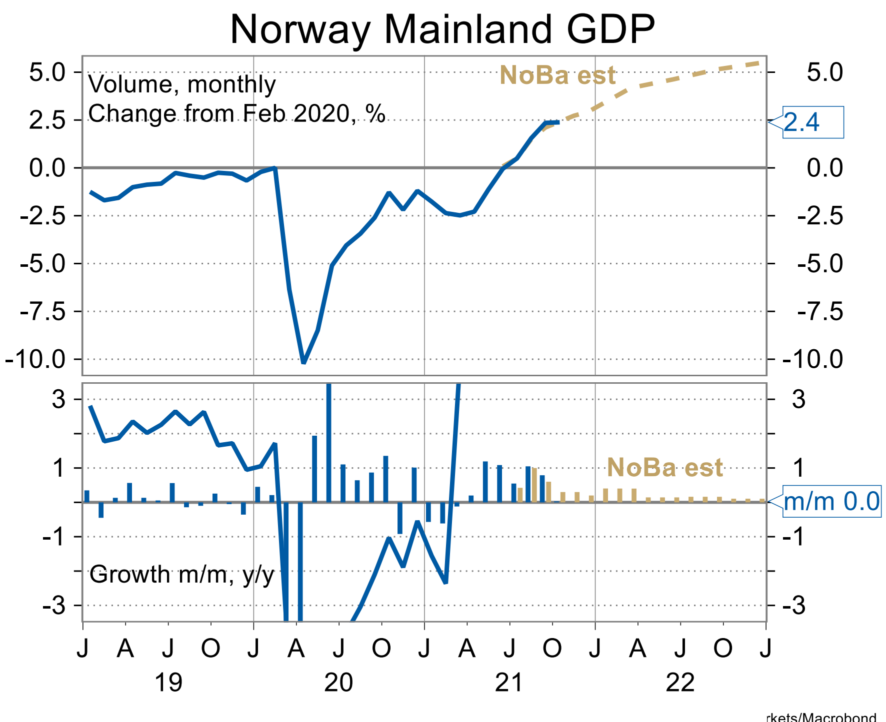
No of continued jobless claims is rapidly declining too

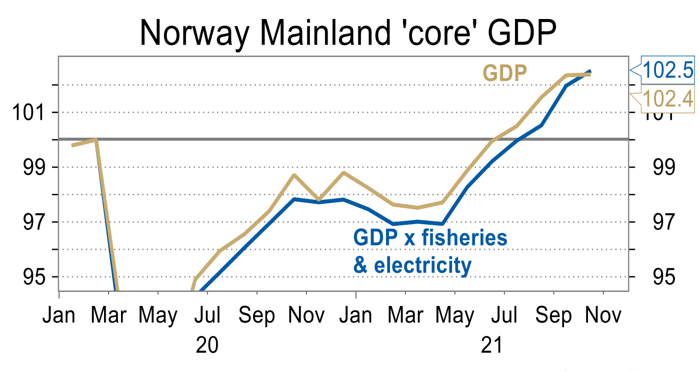




- **New jobless claims** fell to ALT at 184' in week 48, down from 227' - expected slightly up. This is the 2nd week ever with less than 200' new jobless claims
- **Ordinary continuing claims** rose marginally in week 47, but at 2 mill it is less than 0.3 mill above the pre-pandemic level – and the trend is sharply down
- This report surely confirms an **extremely tight labour market**

Mainland GDP flat in October, no more mackerel

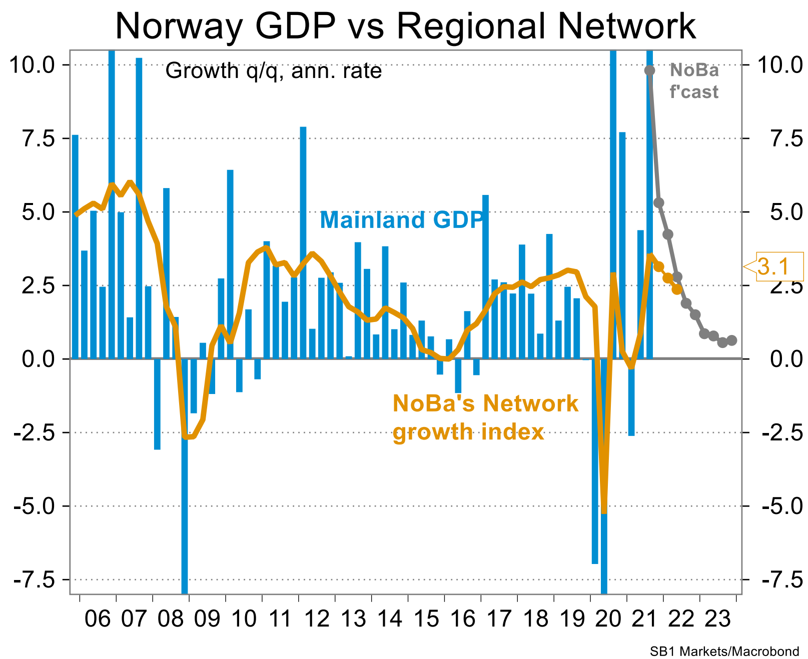




- **'Mainland' (including open water fisheries though) GDP** was flat in October, we expected, in line with consensus, +0.4%, Norges Bank assumed 0.3% (in the Sept MPR). GDP is now 2.4% above the pre-pandemic level
  - » Once again, the mackerel made the macroeconomist look stupid. The mackerel fishing season started earlier than normal (due to Brexit, they say), and GDP rose sharply in August, close to 1 pp contribution! By October, the mackerel had emigrated to British seas, deducting 0.4 pp from Mainland GDP growth. Electricity production was flat, and 'core' GDP rose by 0.8%, in line with growth in no. of employees
  - » **Production in other sectors:** Private services were up 1.5% in m/m with a substantial contrib. from restaurants/hotels up 11%, business surveys, +7%. transport 5% & culture -4%. Construction rose 1%
  - » **Demand:** Norwegians' spending at home was up flat, as spending abroad rose by 40%. Goods down, services up. Oil investments rose sharply, while Mainland business investments remain weak. Exports rose, imports fell. Inventories were drawn down
- **Mainland GDP is up 2.4% vs the Feb-20 level**
  - » **Production:** Services are back in black, Hotels & restaurants are in plus, while business services and transport is still below the Feb-20 level. Manufacturing is flat, construction is down 1.6%
  - » **Demand:** Norwegians' spending at home is up 7% from Feb-20, goods 10% (and now heading down), services up 1.5% - but still rapidly on the way up. Spending abroad is still down 56 %, and total household spending is up 1.8%. Oil investments are in plus, ML business investments are still below par
- **The recovery has been strong. Now, virus restrictions will dampen activity in parts of the service once more**

Norges Bank's (partly outdated) Network survey expects a continued recovery

Capacity utilisation is increasing rapidly, more widespread reports of lack of labour

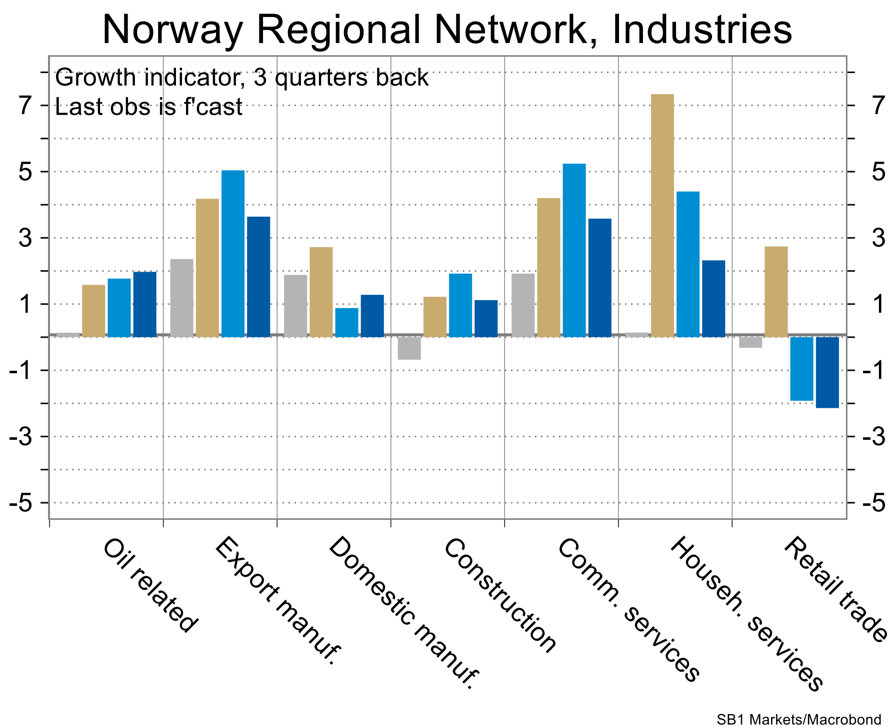


- **Implications**
  - » Taken face value, the network report delivers strong arguments for a more rapid pace in normalisation of Norges Banks policy rate. Capacity constraints and labour shortages are building faster than ever before, wage and price inflation is expected to accelerate.
  - » No doubt, the interest rate is well below a level which stabilises the Norwegian economy

- **Activity the past 3 months**
  - » The Network reports a 2.9% growth pace in Aug-Oct period, 0.4 pp less than the respondents expected 3 months ago. However, <u>actual grew at a 10% pace</u>, according to Nat. accounts. Capacity utilisation & labour shortages are now far above average levels
- **Expectations for the coming months**
  - » The Network expects a 1.9% growth pace the next 6 months. We expected a 3% signal. In September, Norges Bank assumed a 4% growth pace over the next 6 months, from November. The survey was conducted Oct 25 – Nov 11, and neither Delta nor Omicron challenges were at the table at that time. <u>So, the survey is already somewhat outdated</u>
    - ▪ 2 sectors expect higher growth the next six months, oil related (4%) and domestic manufacturing (3%)
    - ▪ All other sectors are reporting stable or lower growth:
      - ▪ Export manufacturing expect the highest growth rate, >7%
      - ▪ Commercial services are also expecting a continued, rapid recovery, 7%
      - ▪ Household services expects a further slowdown (from a high level recent months, >4% growth still expected).
      - ▪ Construction expect a modest 2% growth rate
      - ▪ Retail trade expect further a contraction (goods consumption is on the way down to a more normal level)
  - » **Investment** plans are revised further up to close to the highest level in 10 years
  - » **Wage inflation expectations are** steadily been revised up
  - » Companies expect to **lift prices** vs households sharply

Growth is peaking: most sectors expect a slowdown or stable growth

Just retail trade expect lower activity – like in Q3



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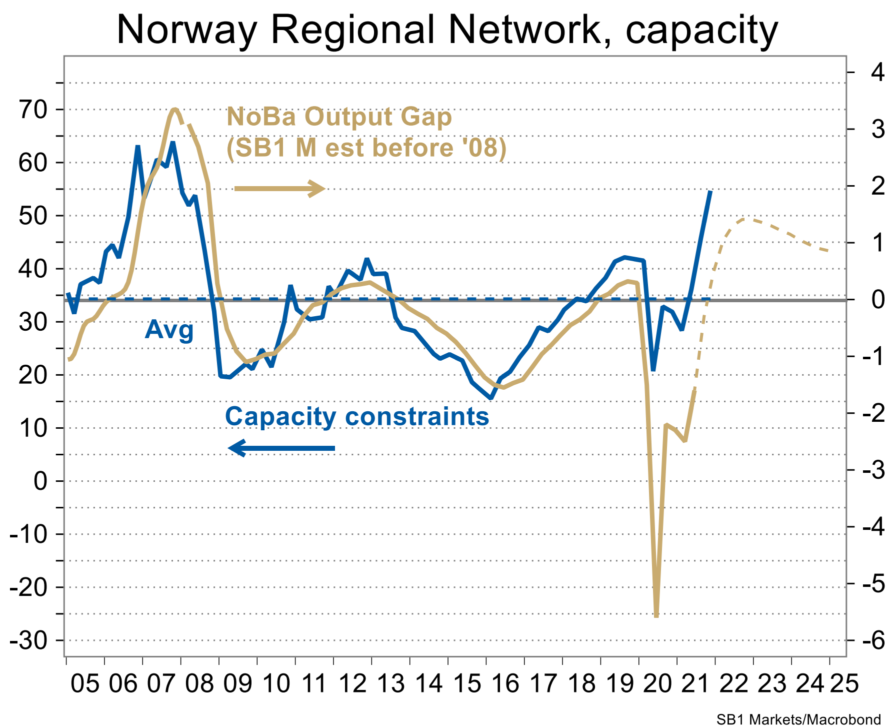
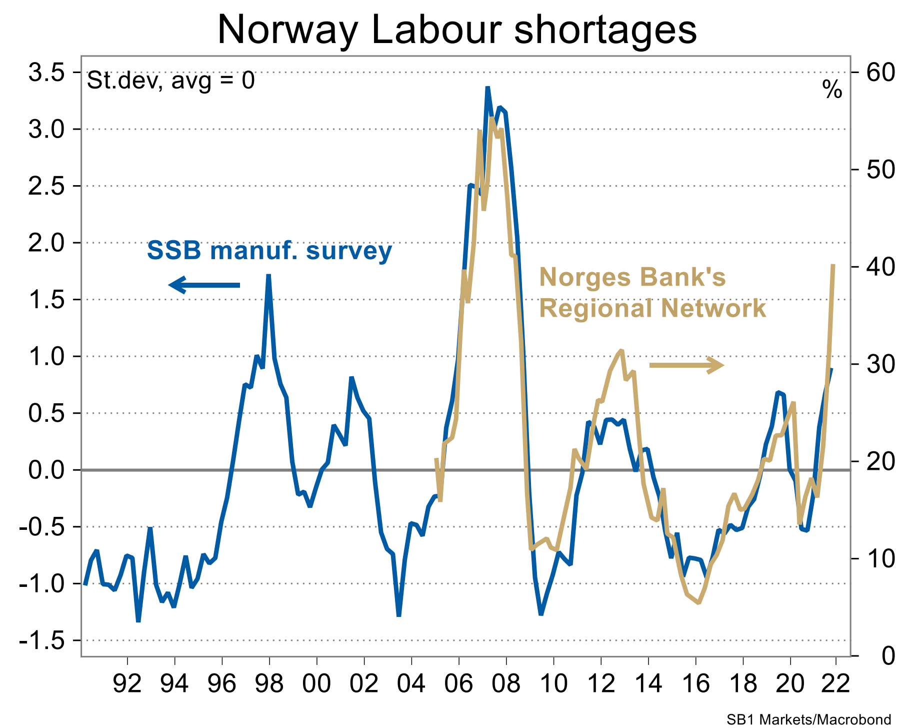
Capacity constraints sharply up, and is high vs. NoBa's output gap estimate

Labour shortages rose more than ever before q/q, to the highest level since 2008

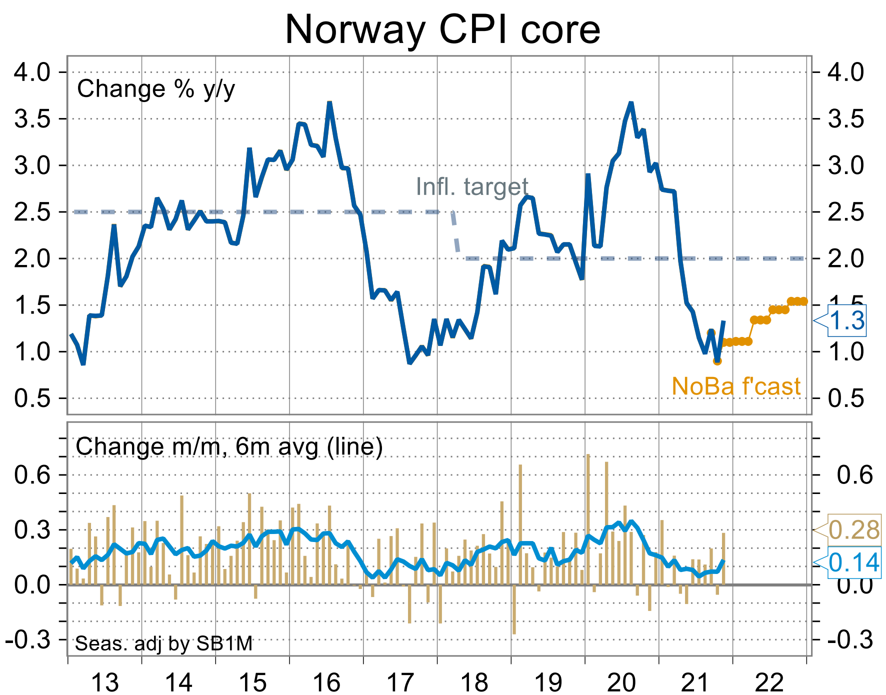


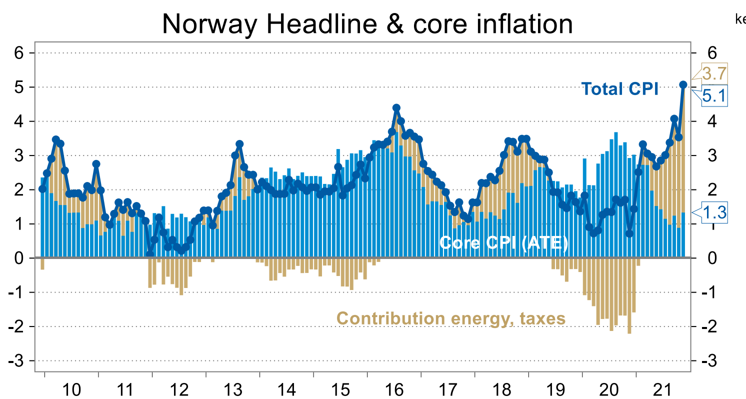


- More companies than since 2007 are reporting **capacity constraints** following the steepest surge ever, over the two past months
- **Labour supply** shortages are shooting up, like never before – but are still less wide spread then before the financial crisis

Core inflation still modest at 1.3%, total up to above 5% as electricity prices soars

Higher airfare ticket prices also rose sharply, as traffic, at least domestically, normalises.





- **CPI-ATE** (ex. energy and taxes) inflation accelerated to by 0.4 pp to 1.3% in Nov, in line with our f'cast but 0.1 pp above consensus and 0.2 pp above Norges Bank's estimate
  - » Prices rose 0.3% m/m (seas adj), after a 0.1% decline in Oct. Airline ticket contributed with 0.1 pp
  - » Prices are up 2.1% (annualised) over the past 4 months, as prices rose sharply last year, mostly due to a weak NOK
  - » Core inflation is running above 2% in just 4 sectors, and is below 2% in 9 sectors
  - » Prices on imported goods fell 0.2% in Oct, and the annual rate is just 0.3% - as the NOK has strengthened substantially
- **Total inflation** shot up to 5.1% from 3.5% in Oct, up to the highest level since 2008, and above our 4.8% estimate
  - » Electricity prices are up 123% from Nov last year, where prices were very low. However, prices are so far up 'just' 55% vs a normal level, equalling a 1.8% drag on real disposable income – a substantial amount but not a catastrophe either! Next month the drag could equal 3% - if the government does not come to the rescue
- **The outlook**
  - » **Electricity prices** will climb sharply in Dec, probably some 25%, and thus more than in Dec last year, and the headline inflation rate will accelerate further. However next spring prices will probably normalise and the almost 4 pp contribution will 'collapse' and later turn negative by several pp!
  - » **Core inflation have probably bottomed**. Strong growth at home and some impact from higher inflation abroad will contribute at the upside (even if the impact of the latter is not impressive, historically). We expect wage inflation to gain speed as well
- **Impact**
  - » Limited core inflation is muted, and the current report does not change that impression – and short term CPI movements are not important for Norges Bank. The tough electricity bill is an argument for not hiking rates next week

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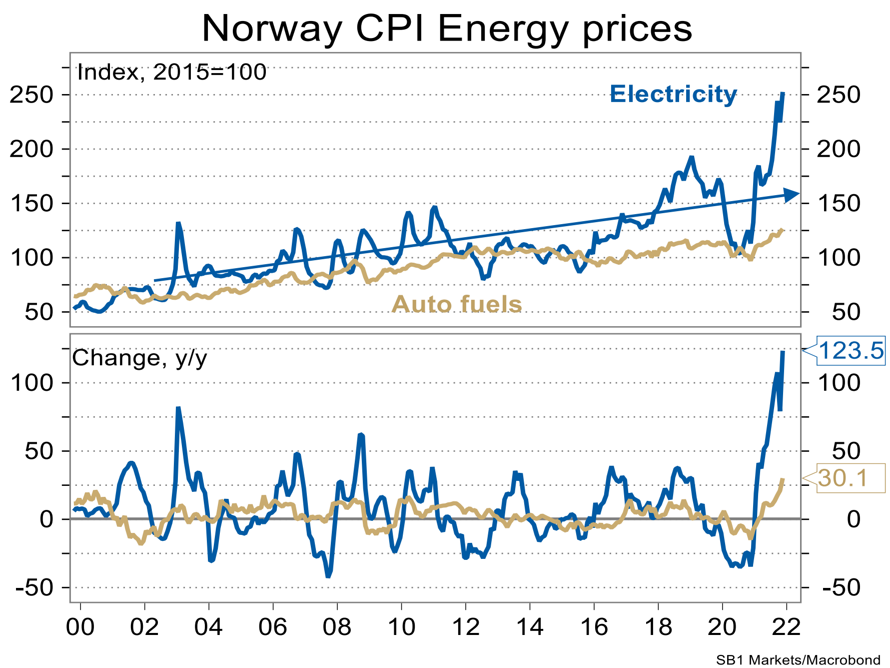
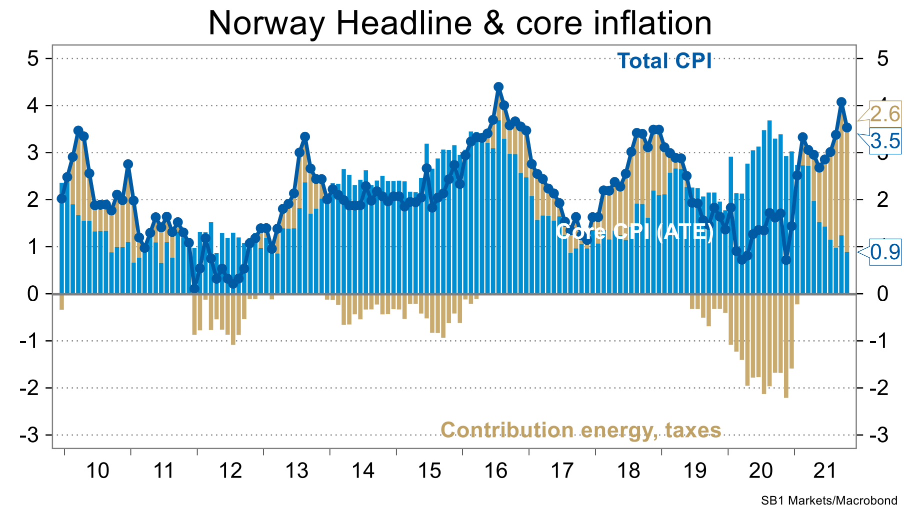
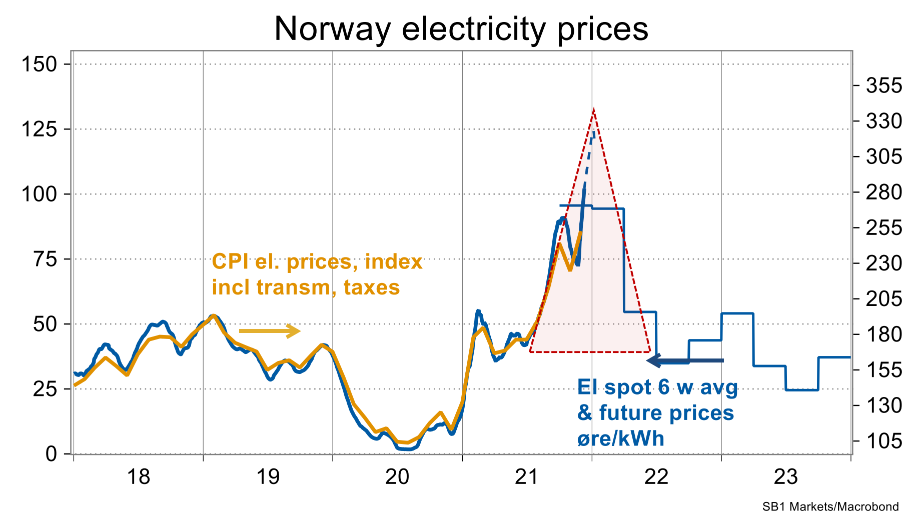
Electricity prices up in November, and more to come in December

However el. prices are so far 'just' 55% above a 'normal' level (but will be up 100% in December?)



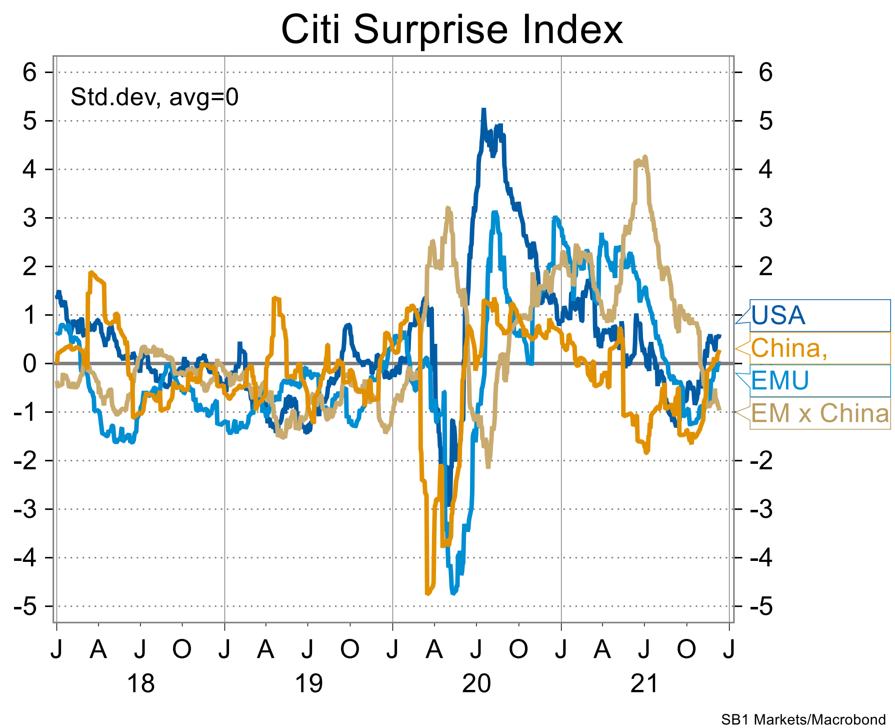


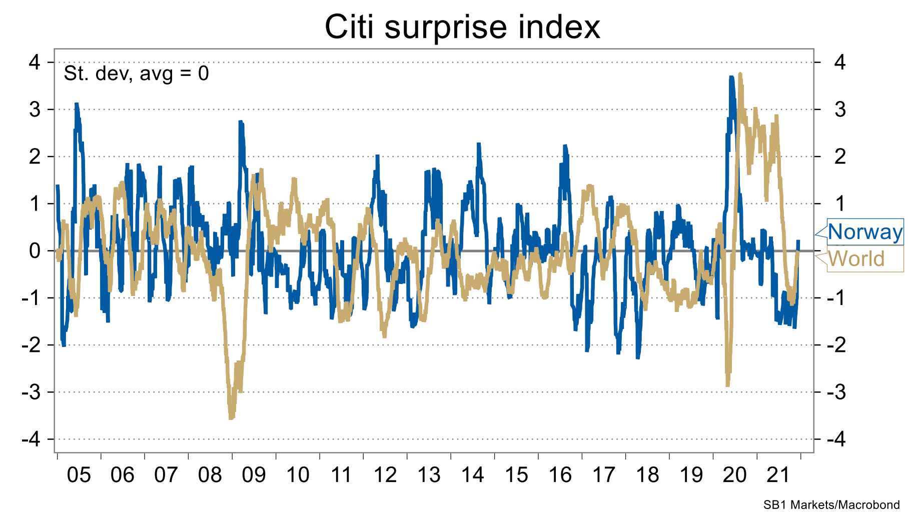


- **Electricity prices** (in the CPI) rose 12% in Nov (not seas adj), and will very could easily climb another 20 – 25% in December. **Gasoline prices** are just some few % above normal
- If the **forward market** is anything close to right on prices the coming months and quarters, the impact on household disposable income will be limited. Prices are expected almost back to a normal level next summer. The aggregated loss over a year with higher prices than normal will be <u>no more than some 1.5% of annual disposable income. The compensation program presented by the Government will reduce the bill furter</u>
- **The risk:** Market prices may be dead wrong vs. the actual outcome
- **A tip:** If you like the forward path, enter a fixed price contract!

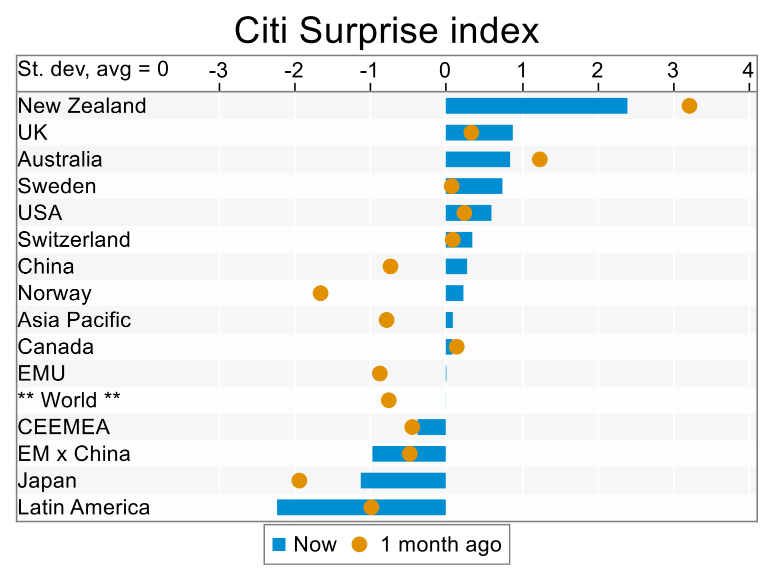
The global surprise index back in neutral

US above average, at China & the EMU crossed the line two weeks ago, 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 crossed the zero line!



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

Highlights

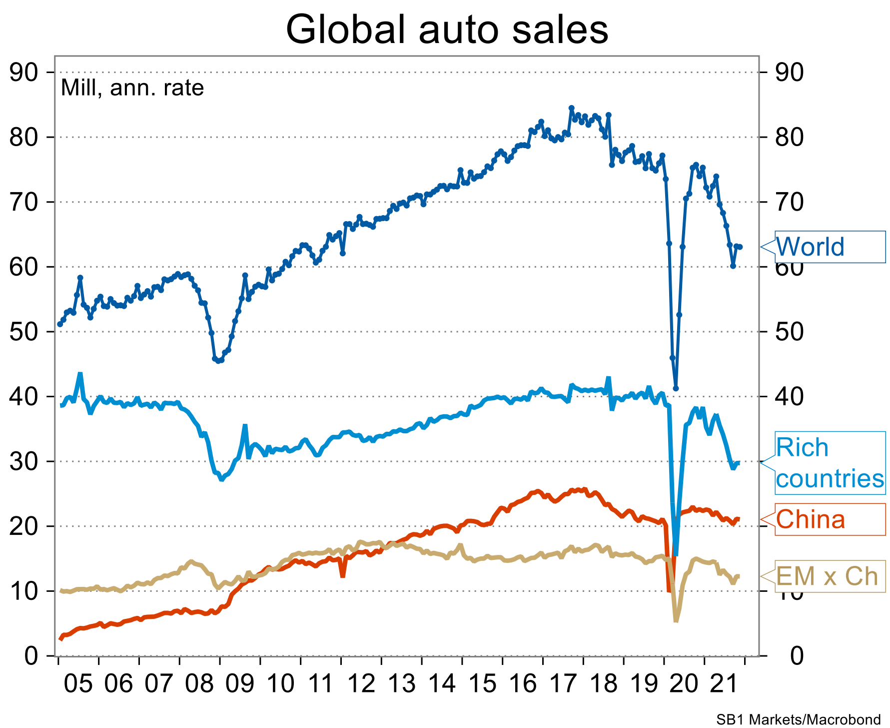
The world around us

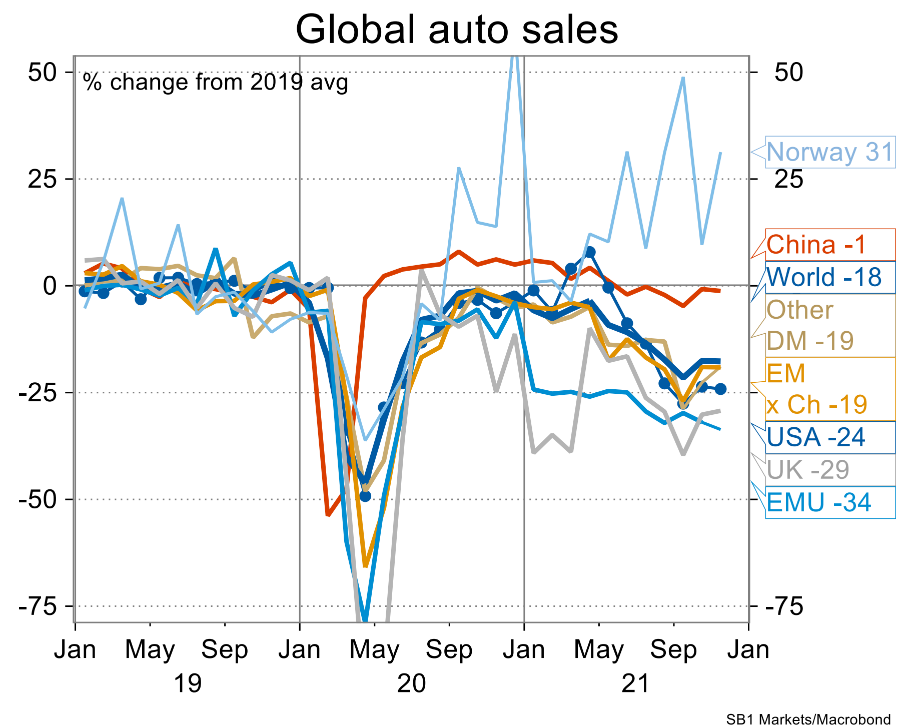
The Norwegian economy

Market charts & comments

Auto sales flat in Nov after the small lift last month – down 19% vs 2019 level

Small changes in main countries/regions in November





- Sales in **China** were flat m/m in Nov, and are down just 1% vs. the 2019 average – but are at the same level as first reached in 2015 (and sales are down 20% from the 2017 peak!) Sales in other Emerging Markets rose to, but are down 19 % vs. 2019. The trend was down before the pandemic
- **Sales in the US** and EMU fell slightly, and are down 24% and 34% resp. Sales in UK are down 24%
- **Norwegian** sales are up 31%, the only rich country up vs. 2019 (and Turkey & Malaysia the only EM countries)
- The recent decline in sales is of course not due to lack of demand but due to lack of supply, and the global auto industry has not been able to secure deliveries of semi-conductors. The upside is huge, as soon as components can be produced and delivered

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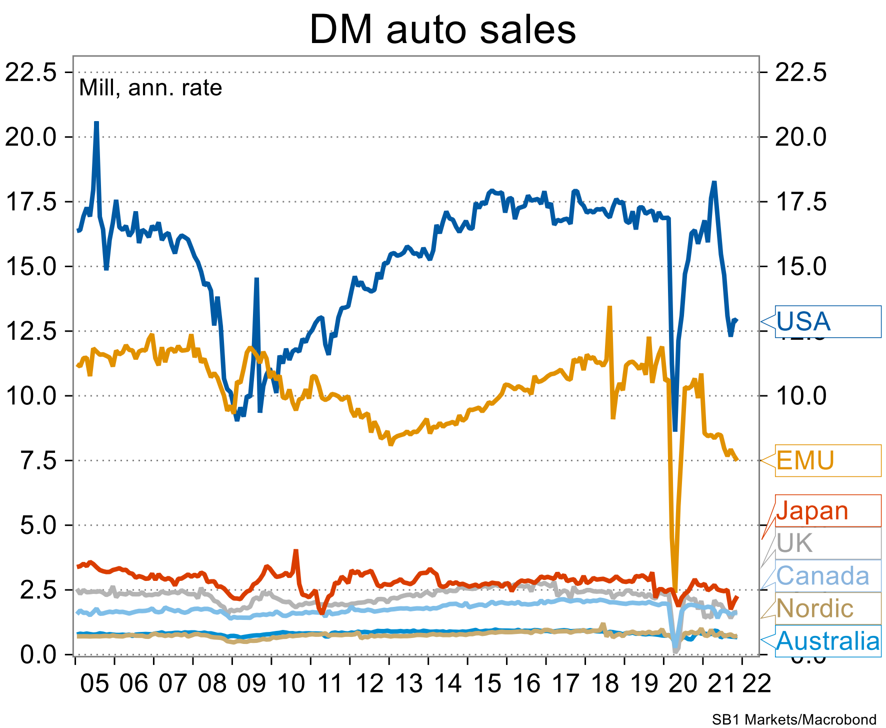
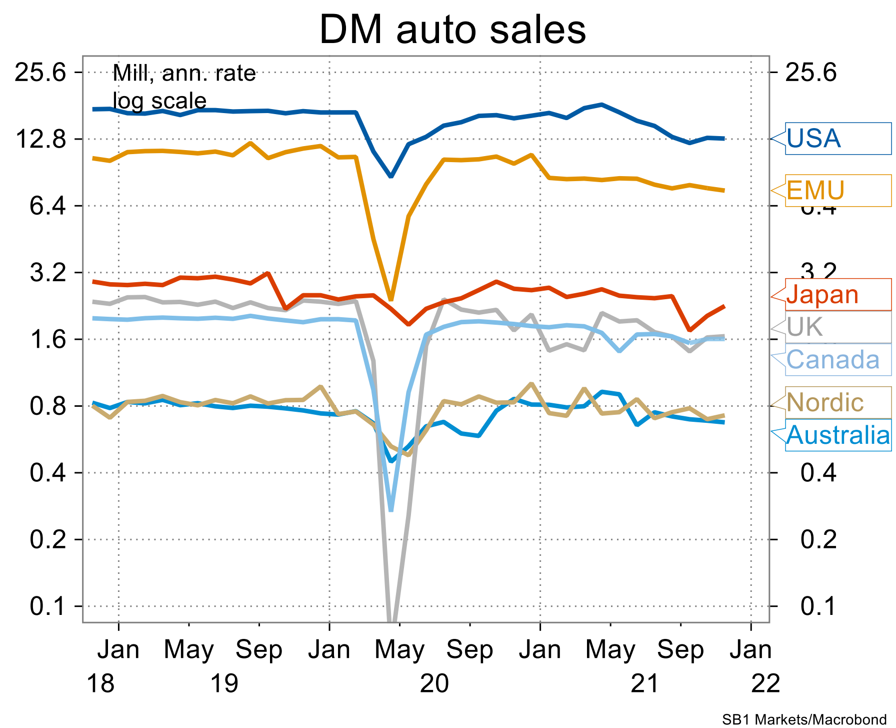
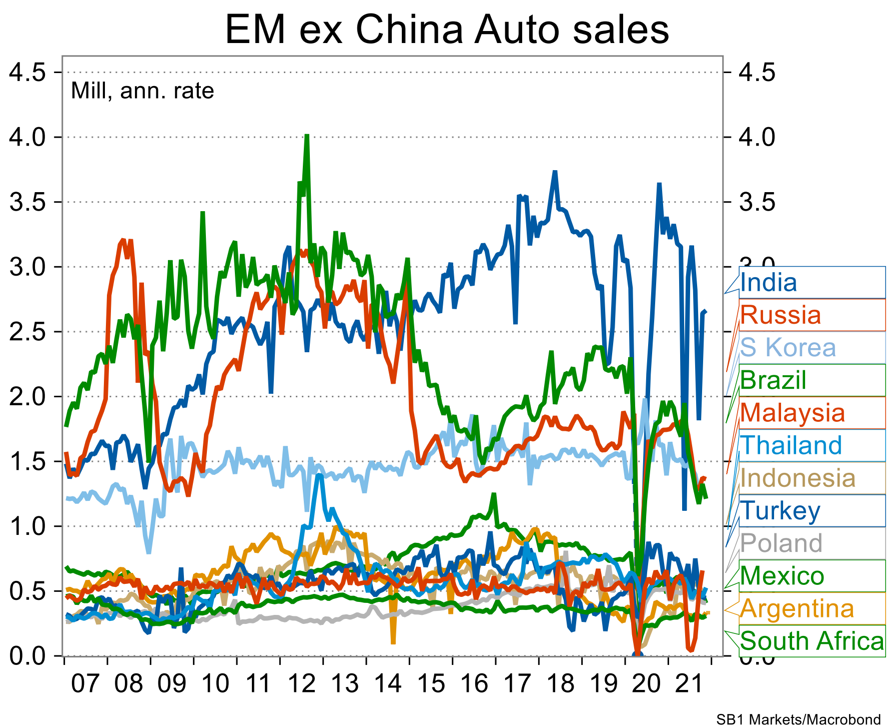
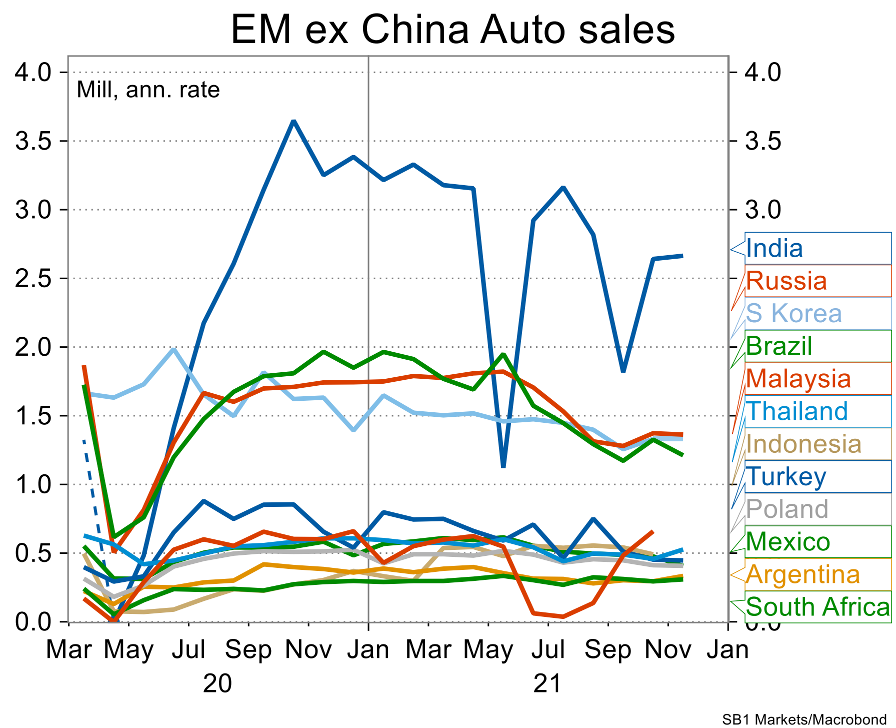
DM sales: Sharp cuts in sales almost everywhere recently





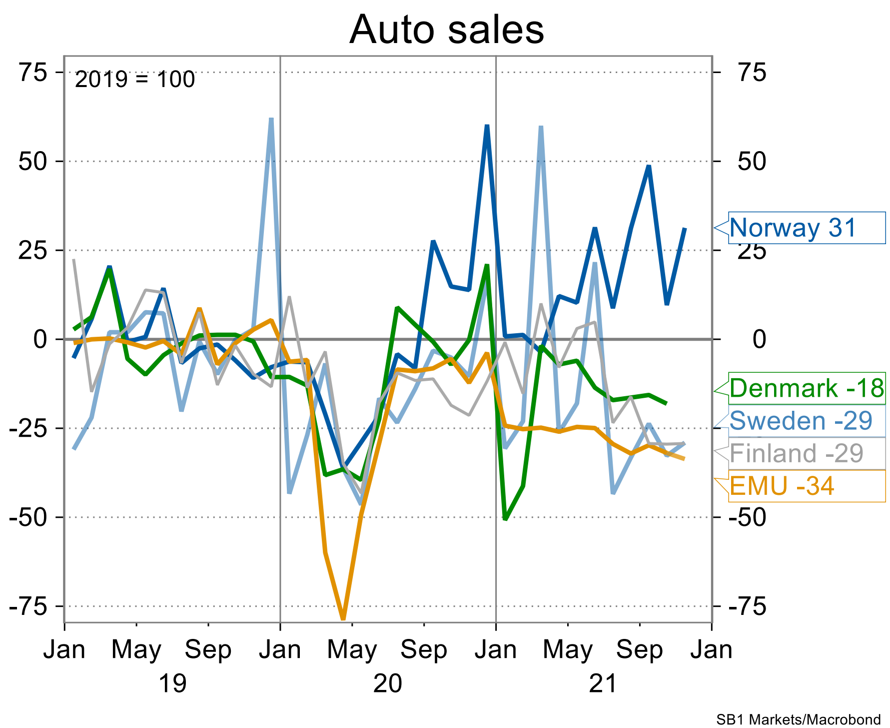
EM: Most are reporting lower sales than normal

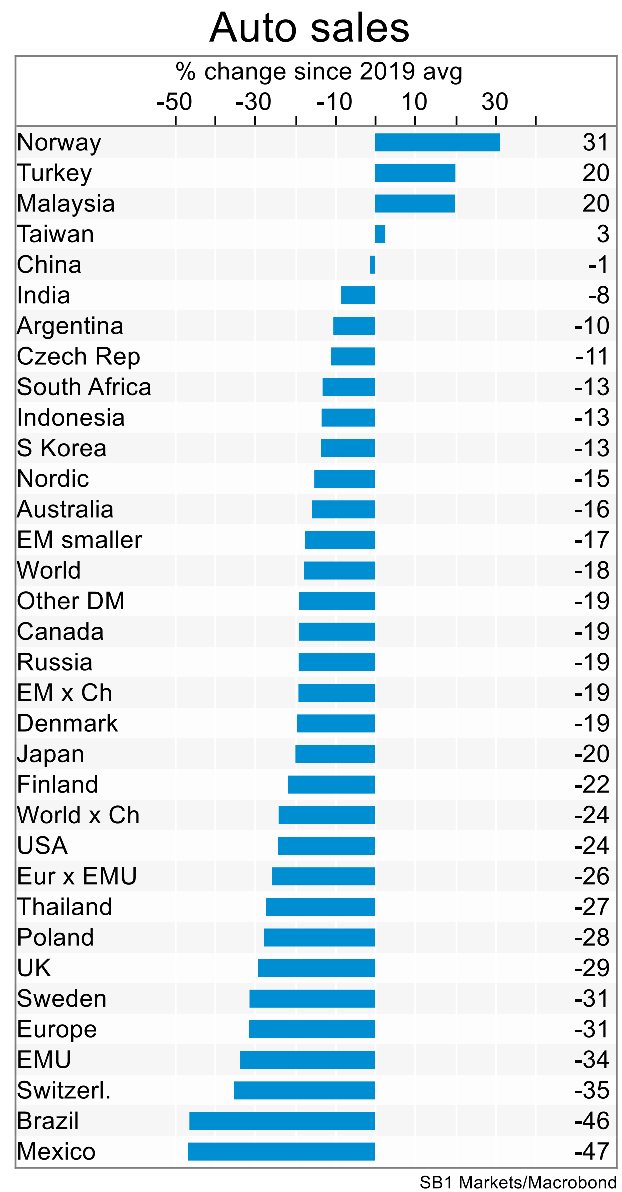




Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

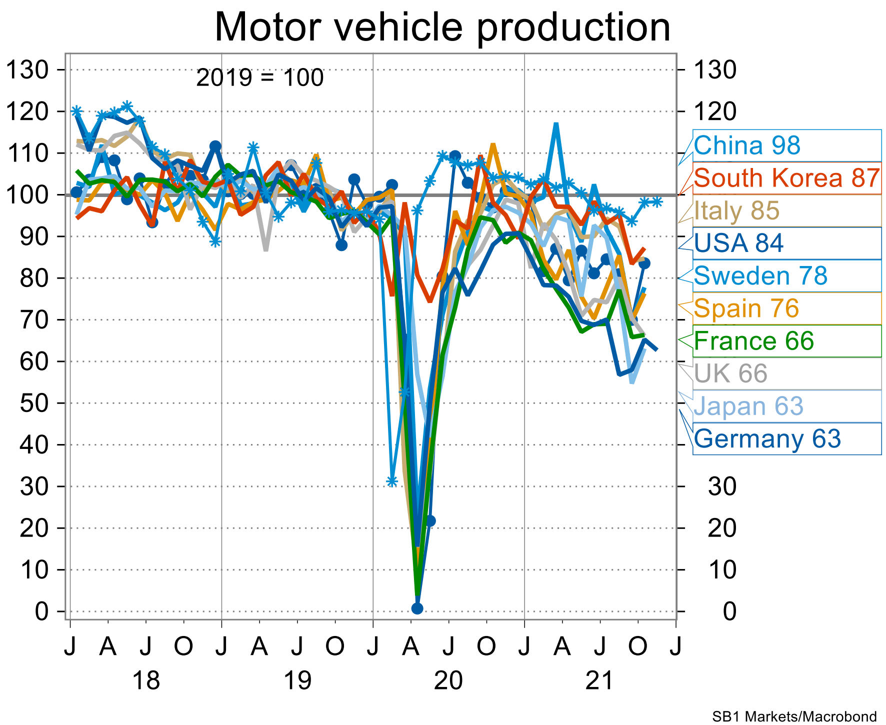
The Nordics: Strong sales just in Norway (+31% vs. 2019), the others are down





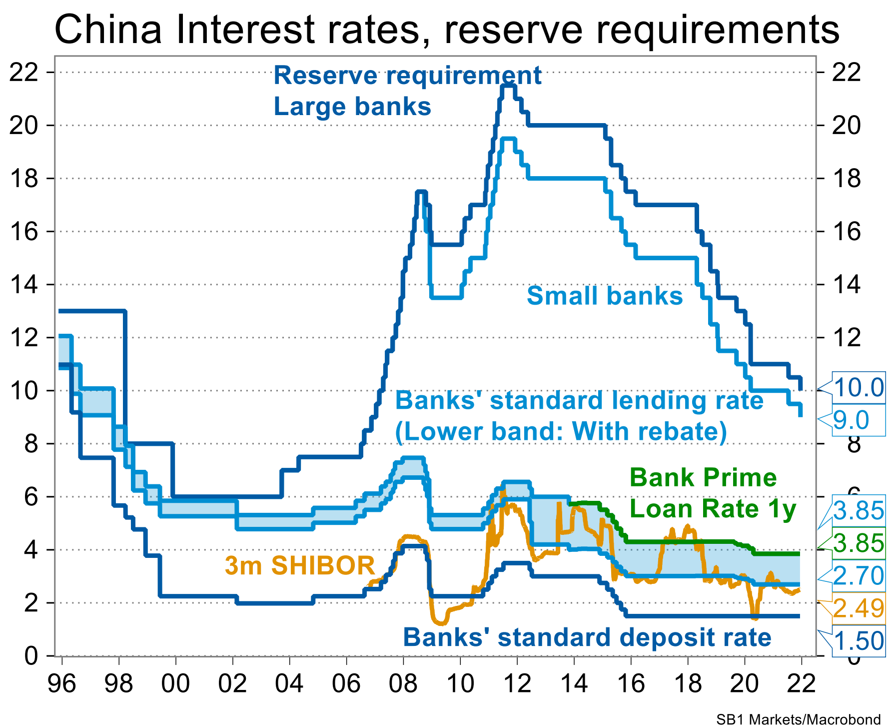
Auto production down everywhere

Production in Japan and German are down 37%, US 'just' 16%



A 2nd small cut in banks' reserve requirements

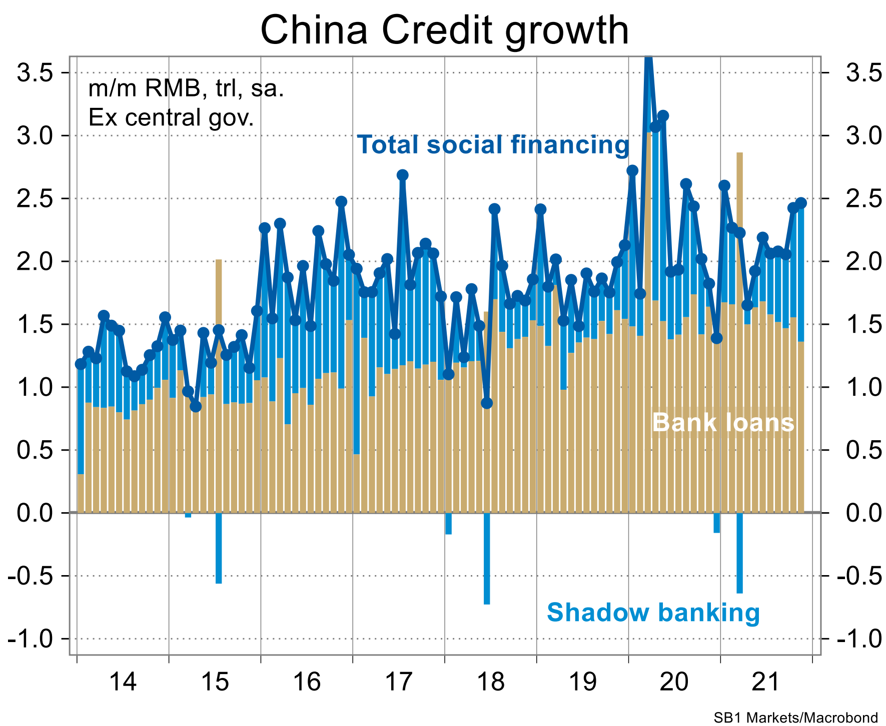
Authorities want to help banks lending more – but are not acting too aggressively either

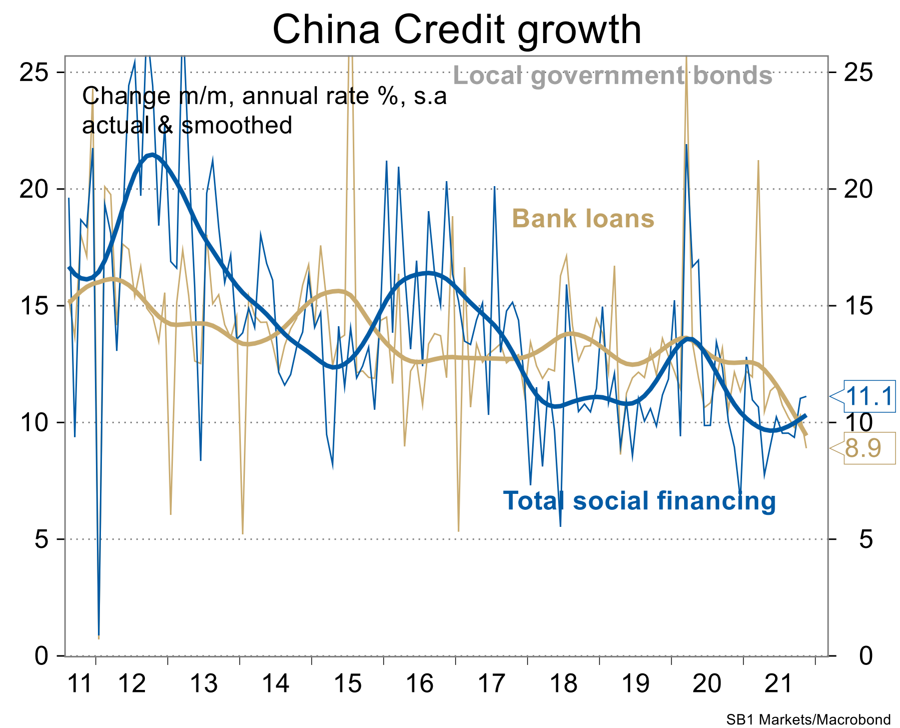


- In July, the reserve requirement was cut by 0.5 pp to 10.5% for large banks and to 9.5% for smaller banks
- Last week, the PBoC decided to cut the rates by another 0.5 pp, to the lowest level since 2006
- The cut will free up some RMB 1 trl in lending capacity in the banking system, equaling 3 weeks' growth in credit supply from banks. No more, no less
- Still, the measure signals that authorities do not want credit tightening to go too far, even if they at the same time are worried that credit has grown too fast for too long, bringing the debt/income ratio too high, increasing the risk for financial instability. The authorities may still want to curb credit to some highly indebted sectors, like property developers
- Such change of tack in credit/monetary policy is rather common in China – as in many other countries
- Interest rates are not yet touched – confirming than authorities are not panicking

Credit growth slightly higher in November too, no overall squeeze at least

Local governments tapped the bond market – because they were told to, or had to?

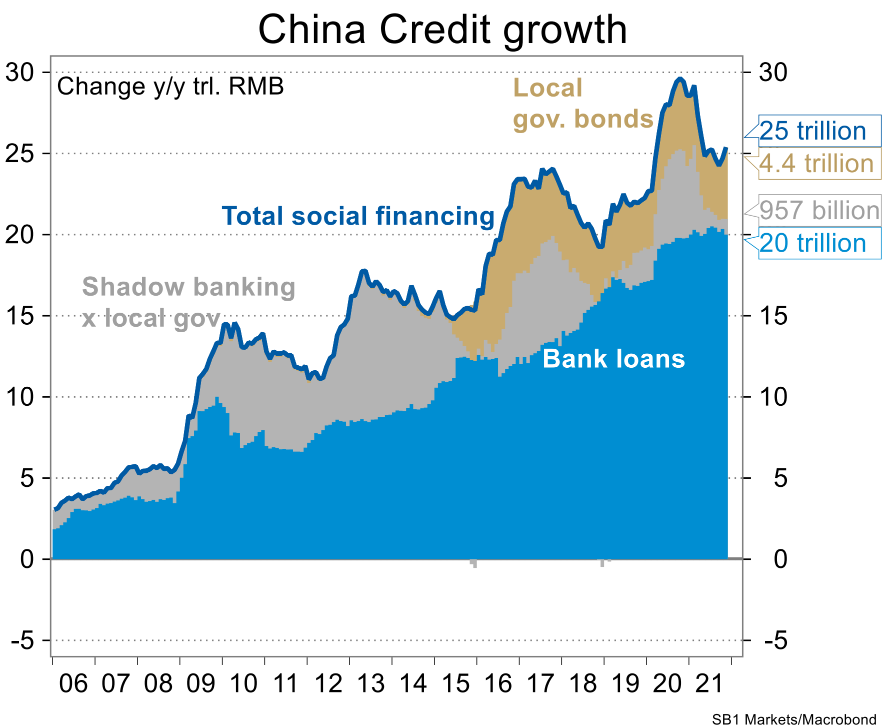


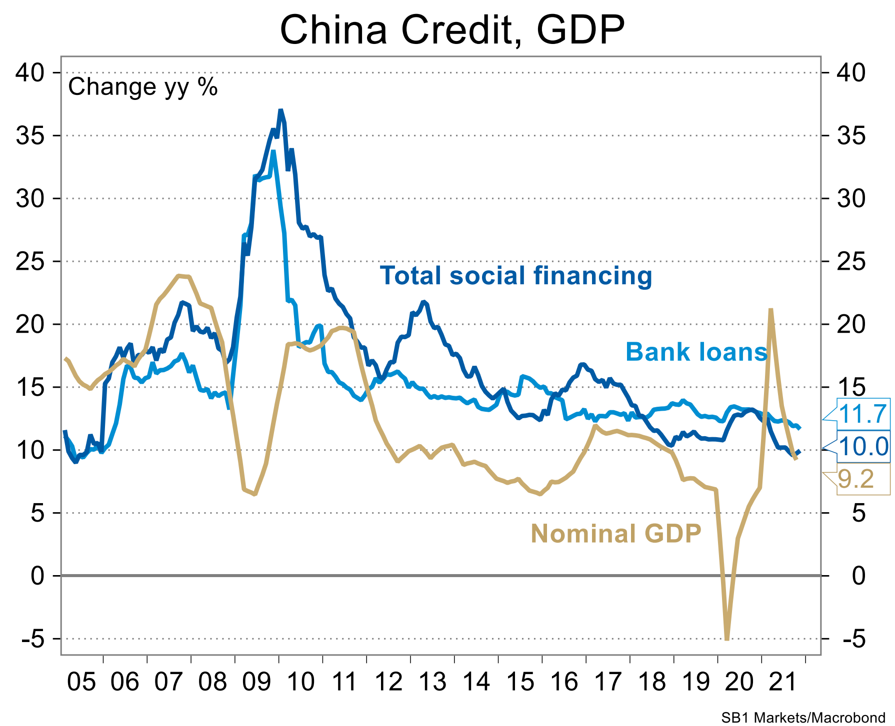


- **Total credit** grew at a 11.1% rate in Nov (m/m, seas. adj. annualised), up from 11% in Oct. Smoothed, the underlying rate is at some 10%. The underlying growth rate is still above the trend growth in nominal GDP (say 5.5% real growth, 2% price inflation). The annual rate accelerated to 10.0% from 9.7% in Sept.
  - **Total credit** rose by RMB 2.5 trl, expected 2.7 trl (not seas. Adj). The 'core' total social credit (total ex central gov bonds & corporate equites) grew by 2.5 trl (seas adj), up from 2.4 trl in Oct,both months 'best' since January. No credit supply chock following the Evergrande++ drama, at least not yet
  - **Bank loans** rose by RMB 1.1 trl, less than the expected 1.6 trl. Seas. adj loans rose by 1.6 trl or at a 8.9% pace, or by 9% smoothed - the lowest growth rate since 2006,. Loans are still up 10.7% y/y
  - **Shadow banking credit** rose by RMB 1.1 trl, further up from Sept. Of this, local governments took on 0.7 trl in bond funding, possibly to compensate for declining sales of land to builders - or in order to fund building projects, with or without being told so by the central government
- Since early 2020, credit growth has slowed, **the credit impulse** has turned negative, like it usually does every 4th year or so. The ramifications may be felt in many markets
- **The slowdown has been by purpose**, as authorities have tightened, especially vs. credit supply outside banks, and vs the construction sector. They have succeeded, perhaps more than they wanted for, witnessing the huge funding challenges for home builders following the breakdown of China Evergrande and some other builders. The authorities are now trying to secure funding to viable developers, in order to prevent a sudden halt in the construction sector. They may succeed – or not.

Credit growth growth has bottomed?

However, strong growth in local governments may not be sustainable. And bank lending is slowing

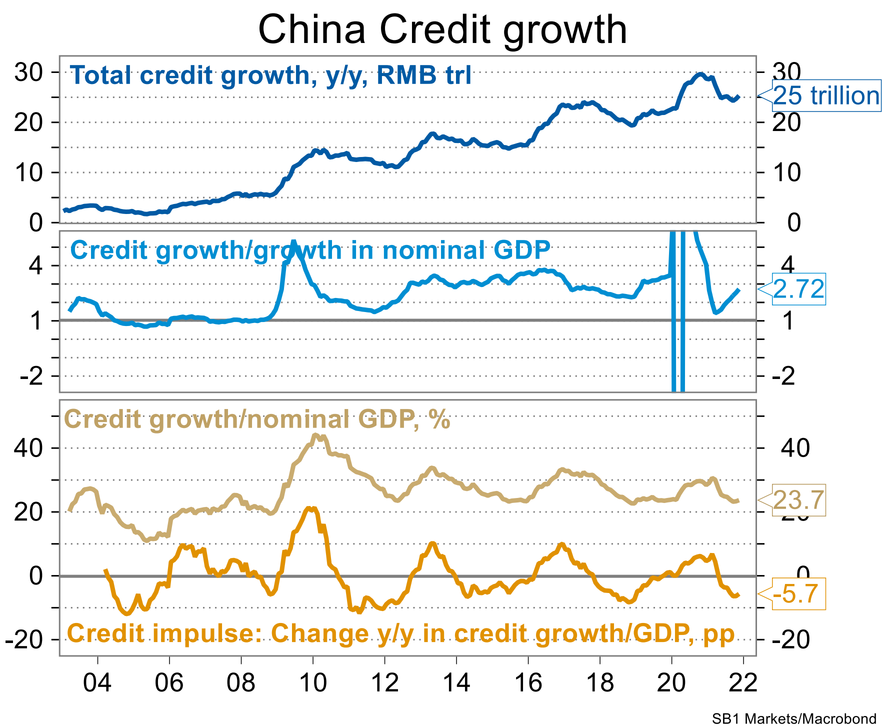


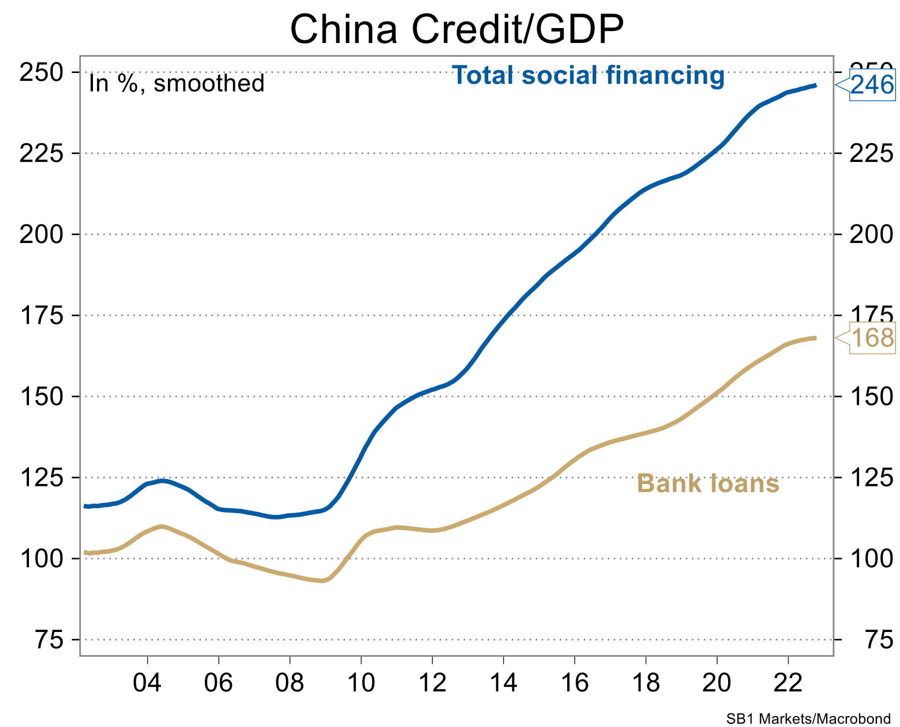


- Over the past year, **total credit** has expanded by RMB 25 trl, equalling almost 24% of annual GDP, down from RMB 30 trl at the peak in 2020
- **Banks** supplied RMB 20 trl of the y/y increase
- **Local governments** have accelerated their credit growth, now up 4.4 trl y/y
- Growth in other credit – via the **shadow credit market x local gov bonds** – has slowed to less than RMB 1 trl from 5 trl, a dramatic slowdown (like many times before) – and credit is up just 1% y/y
- **Total credit** growth accelerated 0.3 pp to 10% y/y, above nominal GDP growth before the pandemic, and above our best case estimate of 5.5% potential GDP growth + a 2% rate of inflation = 7.5% growth in nominal GDP

The credit impulse may have bottomed but no credit boom ahead?

The slowdown in credit supply has been substantial and has been felt in parts of the Chinese econon.



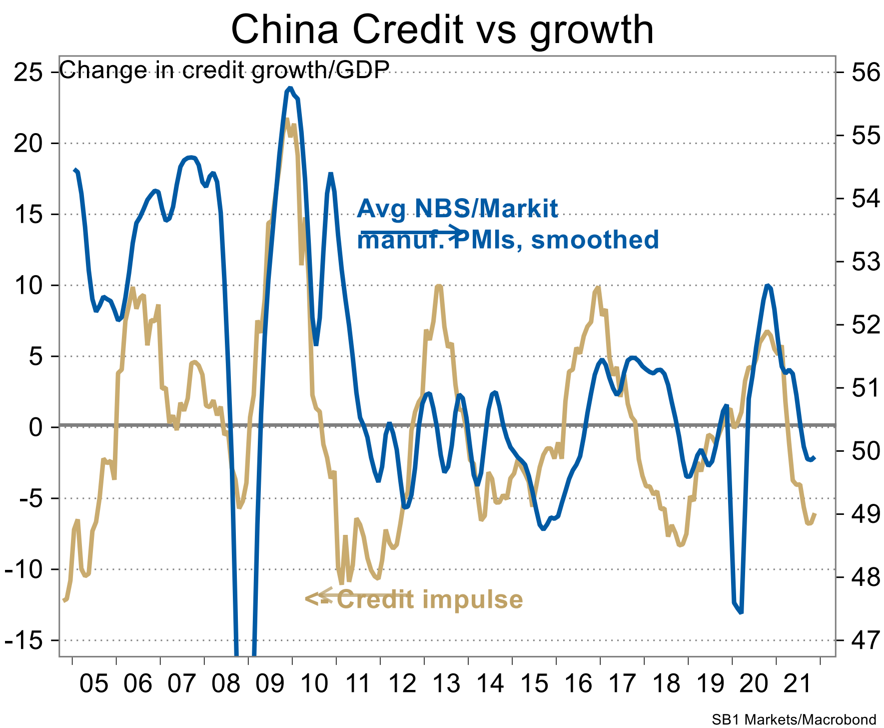


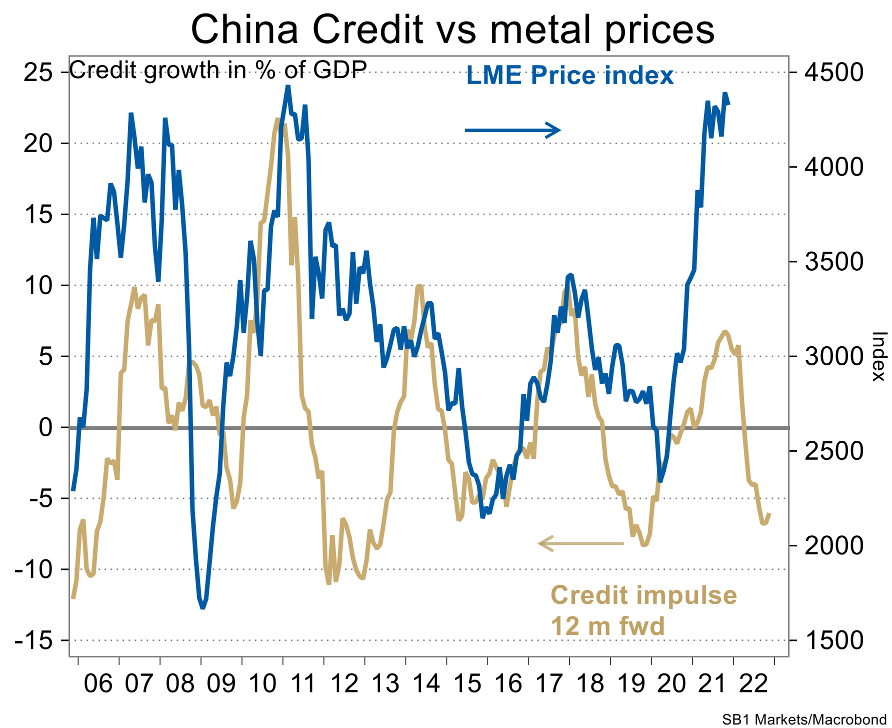
- A positive **credit impulse** implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy, which have had impacts at other markets
- The **credit impulse** (here measured as the 12 m change in the 12 m credit growth/GDP ratio) bottomed in late 2018, turned positive one year later, peaked last autumn, fell into negative territory in May, and is now at -5.7%, a small recovery the past two months
- Are authorities worried that they have tightened too much, in sum? Probably not too much, yet but reserve requirements for banks are cut twice (the last cut last week), but not any policy rate cut. We do not expect another credit boom, the risk for a bust may be larger

GDP is smoothed in the calculations at the charts above

Credit impulse vs. PMI, metals prices

Correlations are not tight but a tighter Chinese credit market tends to lead Chinese PMIs…

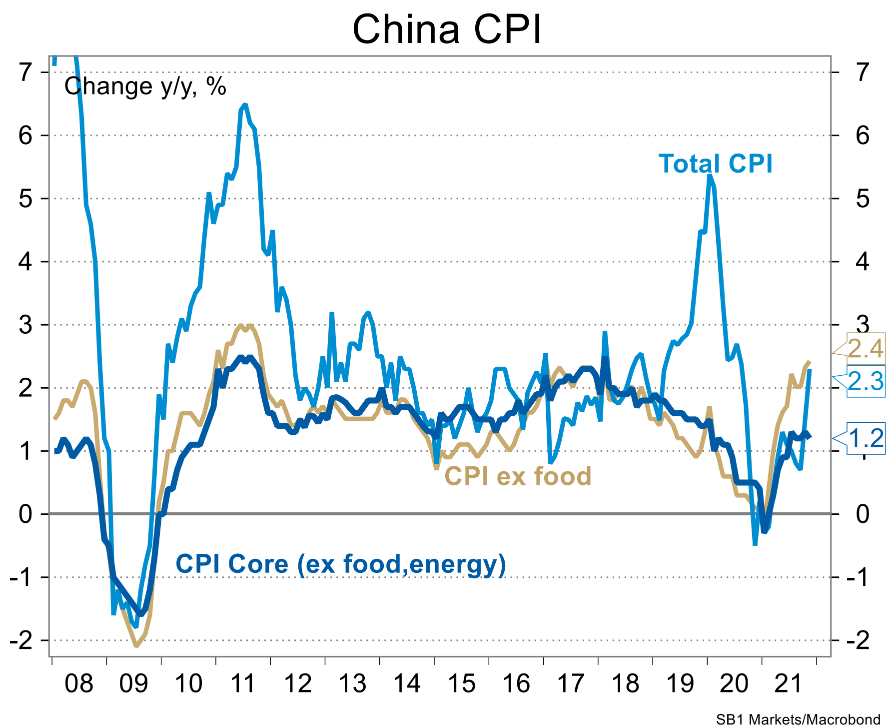


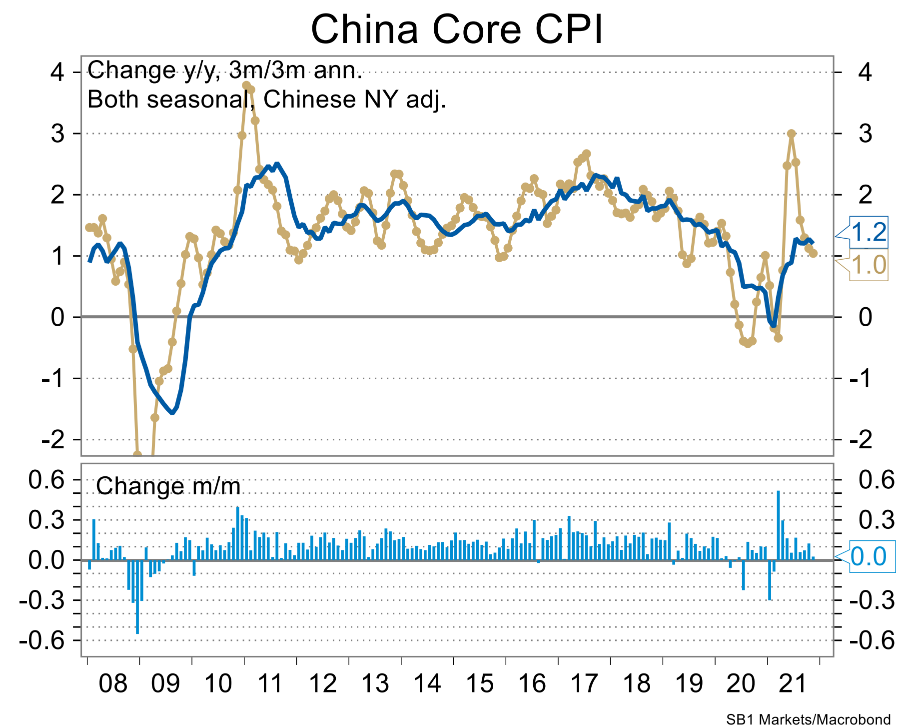


- ... by some few months
- And tightening leads global metal prices (here the LME metal index) by almost a year in average. The correlation was weak before the Financial crisis – but somewhat higher the past 15 years (chart to the right above)

Headline CPI up to 0.8 pp to 2.3% - but core down to 1.2%. *Just energy to blame*

No inflation challenge in China!

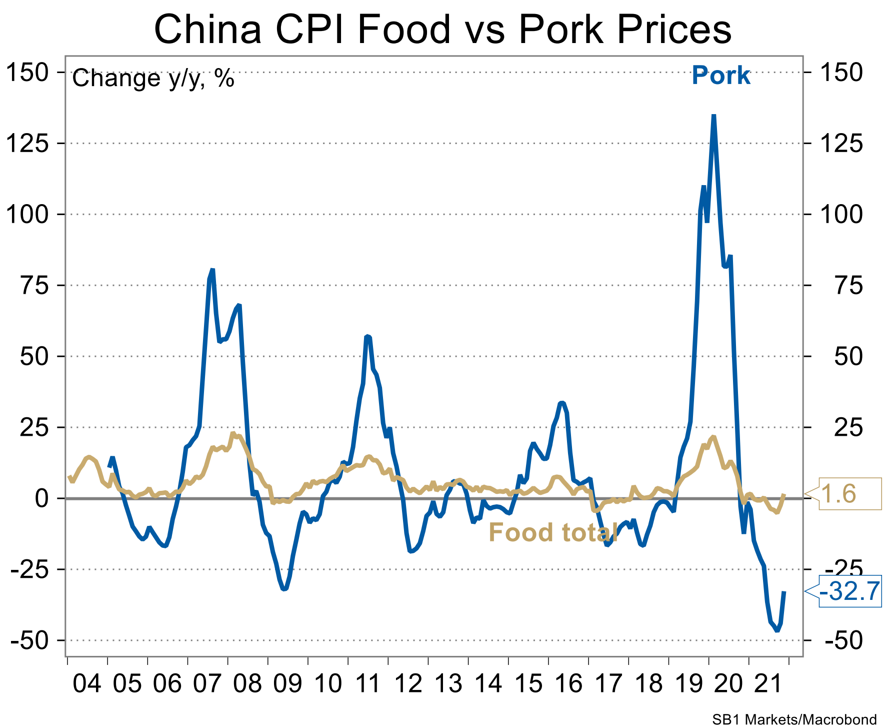


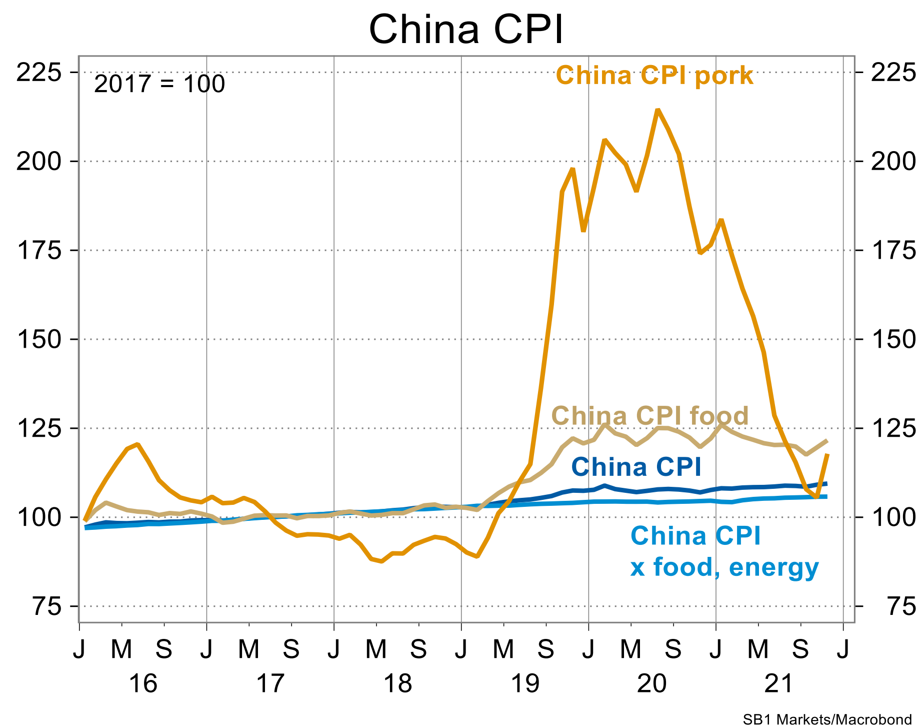


- **Total annual CPI** growth accelerated to 2.3% in November, from 1.5% in Oct (and 0.7% in Sept) – but was still lower than expected (2.5%)
- **The core CPI (x energy, food)** declined 0.1 pp back to 1.2%, and prices were flat m/m
- **Auto fuel** prices are up 38% y/y, up from 30% in Oct. (Household energy prices u just some few per cent)
- **Food prices** rose 1.7% m/m due to a lift in pork prices, and are now up 1.6% y/y. The negative drag from the normalisation of pork prices (from a very high level) is now history
- <u>**Underlying inflation** is low</u>. **Monetary policy** will not respond to actual inflation data if inflation is not really high or low, the real economy and the credit market is more important

Pork prices up in November but still at a more normal level

The negative contribution to headline CPI will now fade





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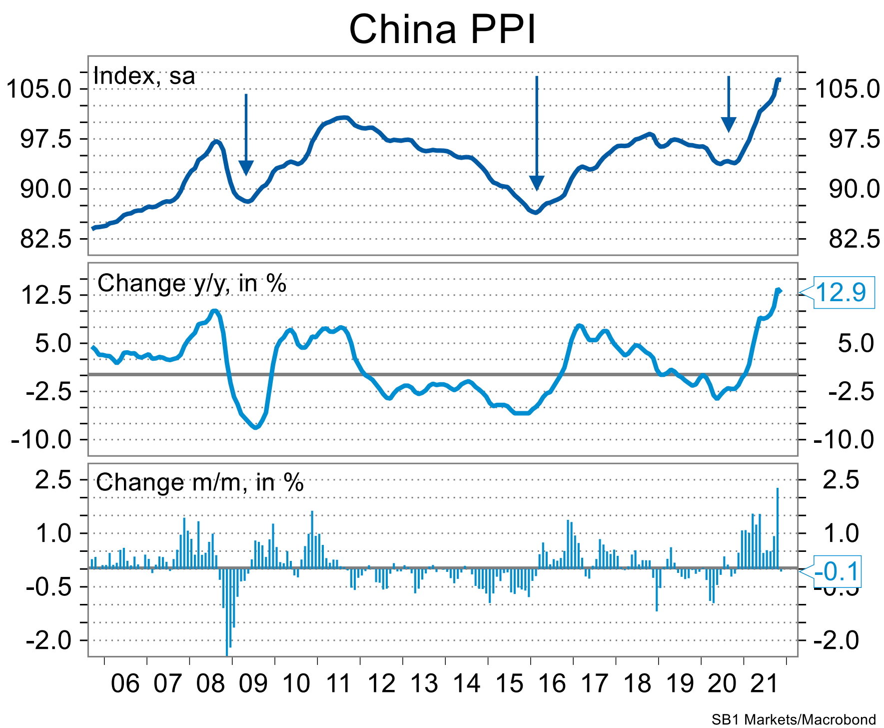
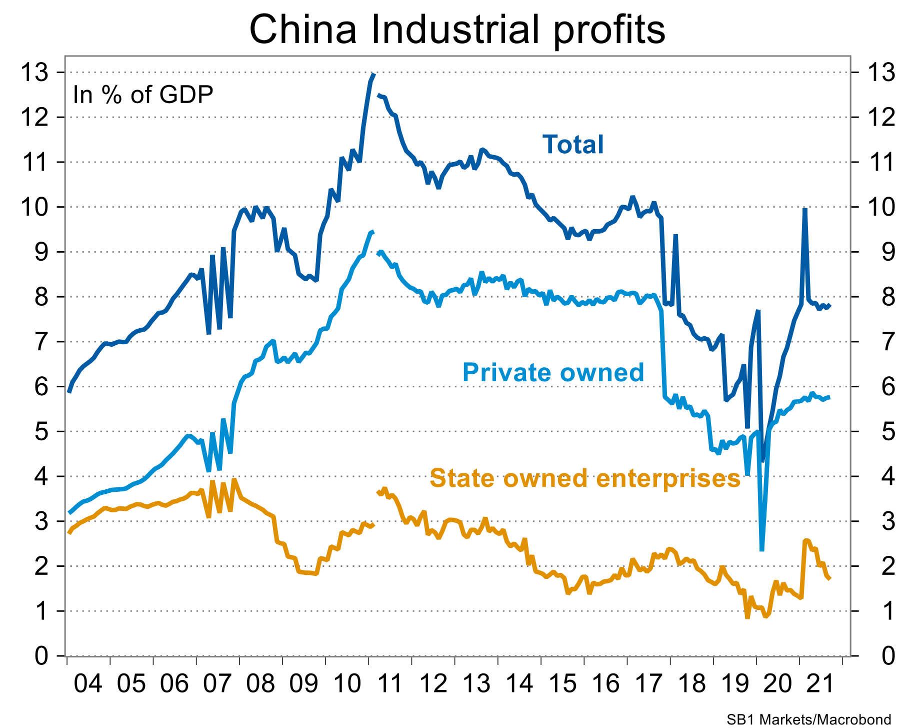
PPI down in November – annual inflation down to 12.9% from 13.5%

Annual growth was expected down to 12.0%. Industrial profits have stabilised

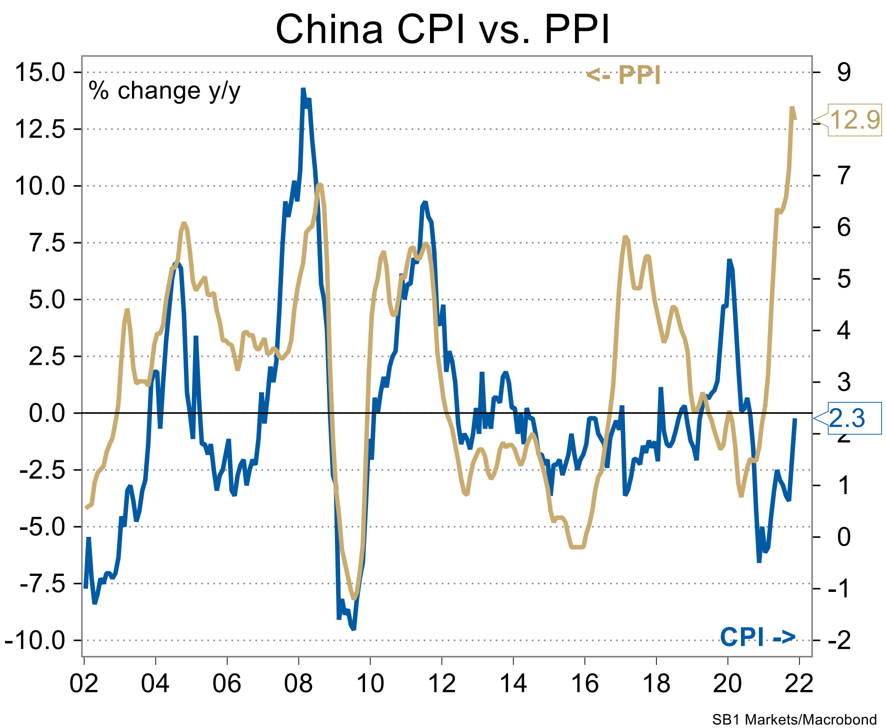


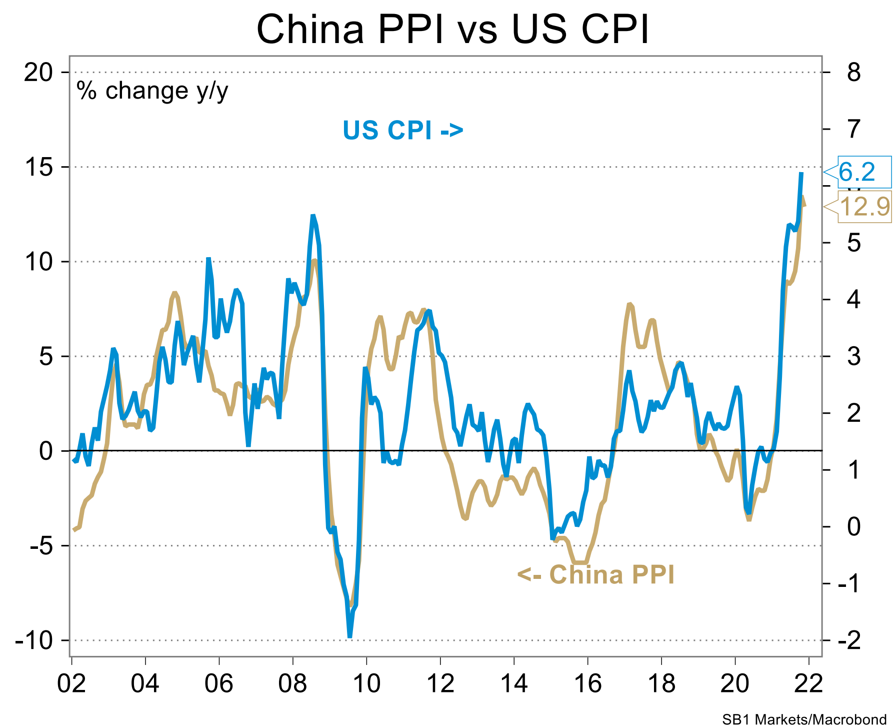


- **The rise in PPI** in the last few months can largely be contributed to an increase in commodities prices, especially energy prices
  - » Consumer goods are up 1% (one), durable consumer goods are up 0.1% y/y. The correlation between PPI and CPI in China is normally not impressive. However, vs the US CPI, check the next page
- **Profits in privately owned industrial enterprises** fell by 50% in February ‘20. Profits rose to a normal level in April/May ‘20 – if we label the profit level in 2019 and early 2020 as normal – at 5% of GDP – and now stable at some 5.8%
- **Profits in state owned enterprises profits** have fallen to below 2% of GDP

The Chinese PPI is even more important for the US CPI than for the Chinese CPI

… as food prices are important in the Chinese CPI but not in the Chinese PPI (nor in the US CPI)

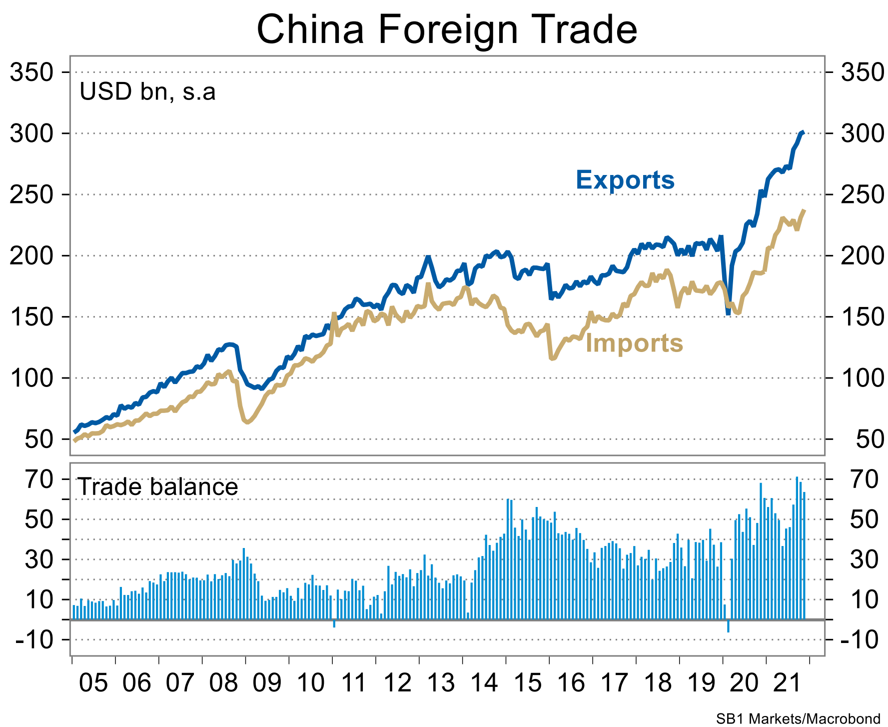




- However, the current Chinese PPI inflation does not signal an even higher US CPI inflation than the current rate

Exports slightly up in November, even volumes sky high!

Imports better than expected, and volumes back to the pre-pandemic trend



- **Exports** grew by 1% m/m in USD terms in Nov (our seas adj), and are up 22% y/y, down from 27% in Oct, expected down to 20%. Export volumes may have fallen slightly m/m but still are very strong, up more than 20% vs the pre-pandemic level and 14% above the p-p trend path! Signals still strong global demand for goods. Prices are up 13% y/y
- **Import** values added 3% m/m following a 5% lift in Oct, and are up 32% y/y, up from 21% in Oct, expected up 22%. Import probably rose in volume terms too but are no mort than 7% above the pre-pandemic level and in line with the pre-pandemic trend path, following two strong months. Import volumes are still below the March peak, signalling a softer growth in domestic demand. Prices are up 23% y/y. Coal imports rose to the highest level ever, while iron ore imports also recovered. Oil import volumes are flattish, well down from the 2018 peak
- The **trade surplus** fell further in Nov but remains one of the highest ever, at more than USD 60/m

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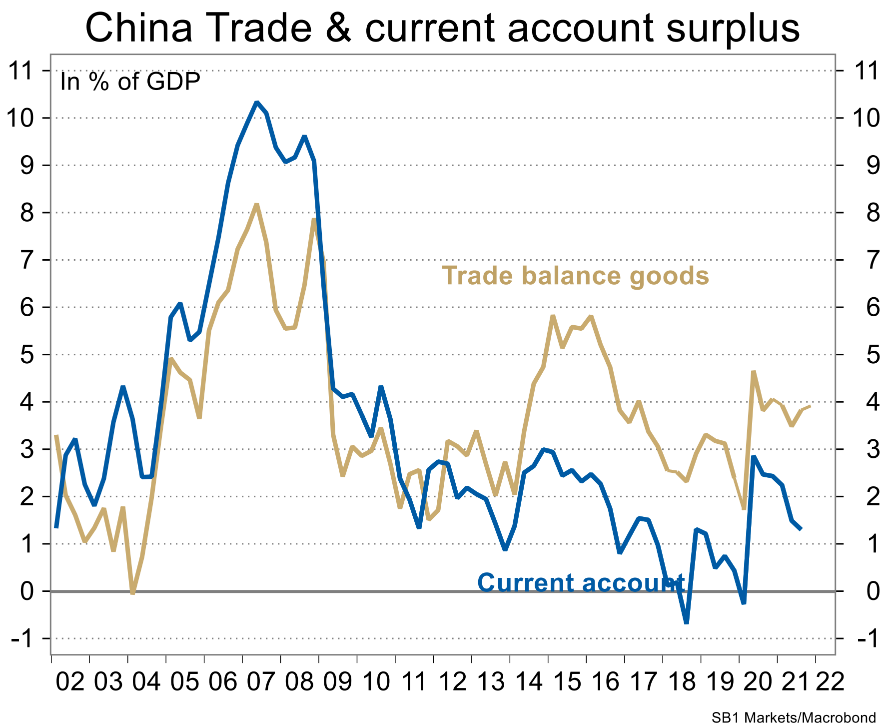
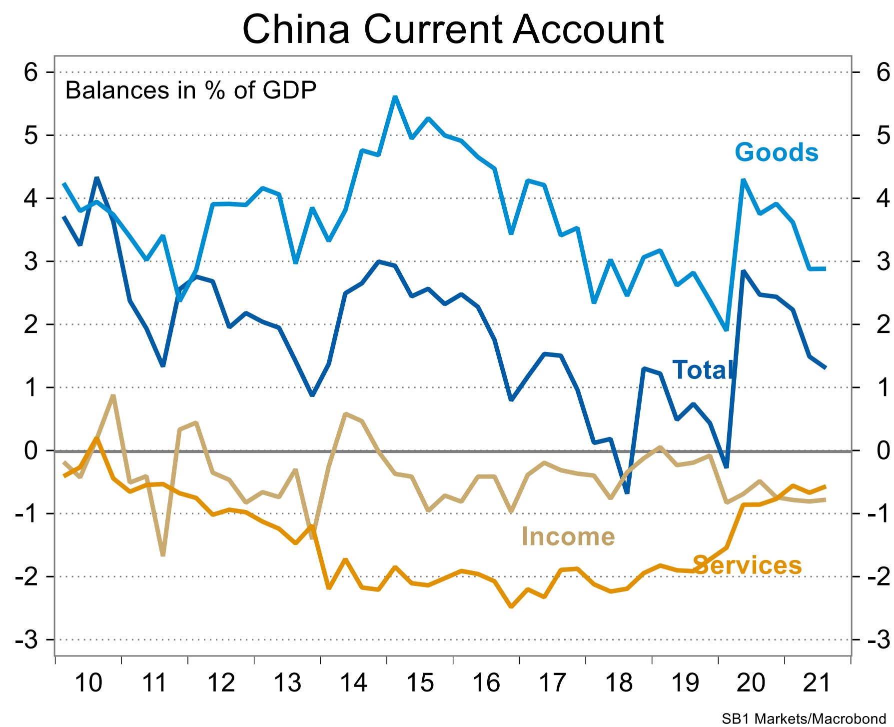
A large trade surplus but a smaller surplus at the current account

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

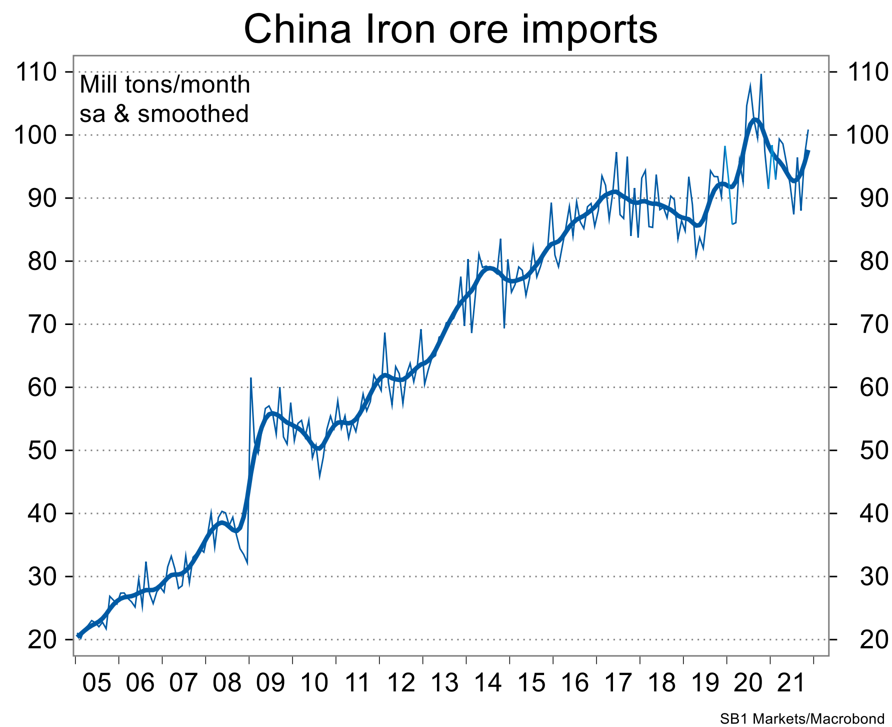


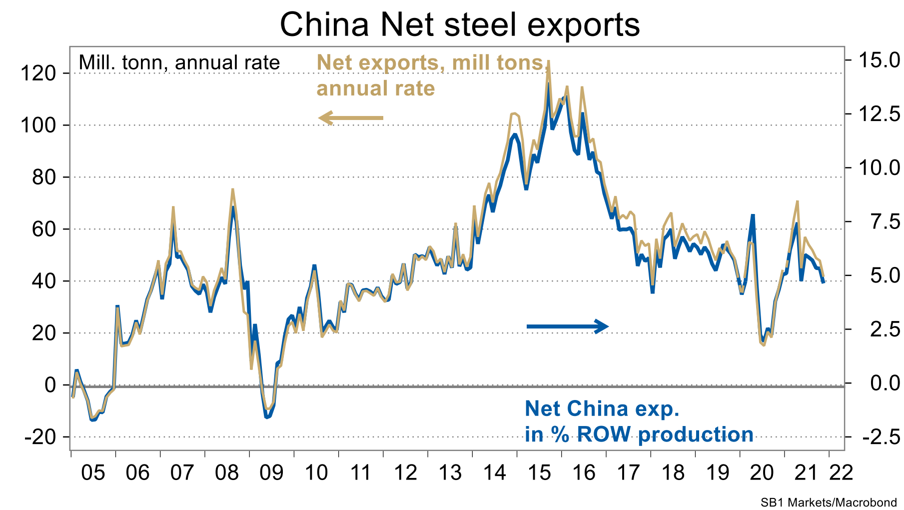


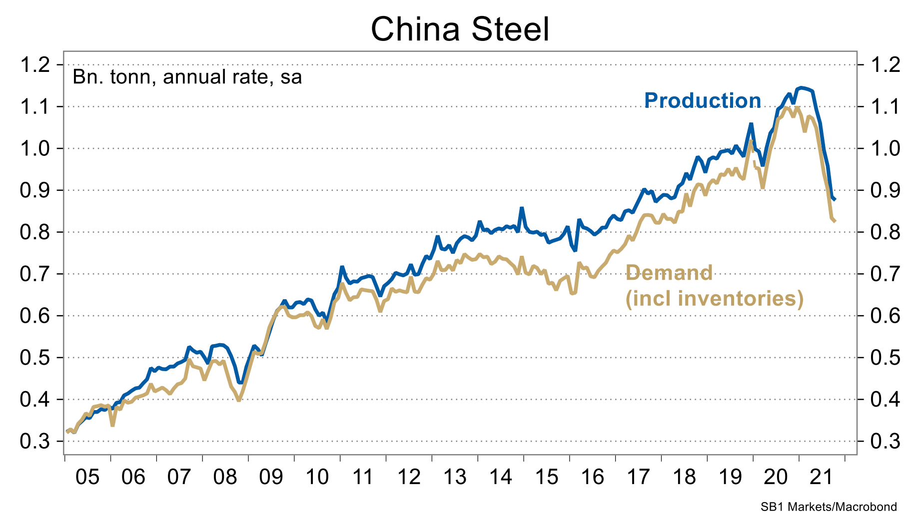
- The trade surplus in goods equalled almost 3% of GDP in Q3
- In services, China runs a 0.6% deficit (Q3), down from -2% in 2015 – 2019 (but from zero 10 years ago). For the time being, the Chinese do not travel abroad (and we do not visit them either)
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net positive financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

Iron ore imports are recovering – has domestic steel demand turned up?

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



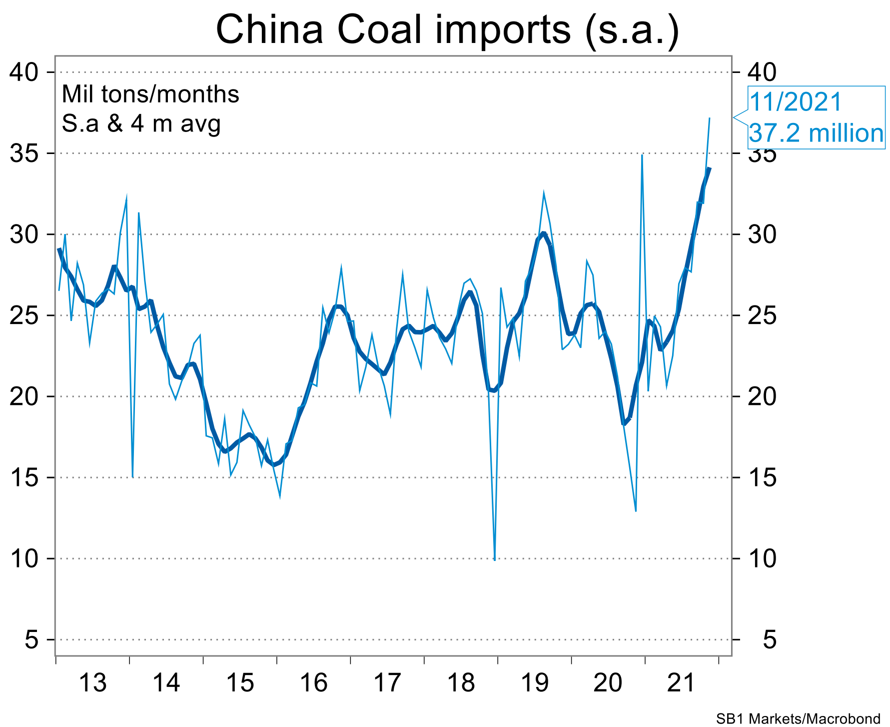


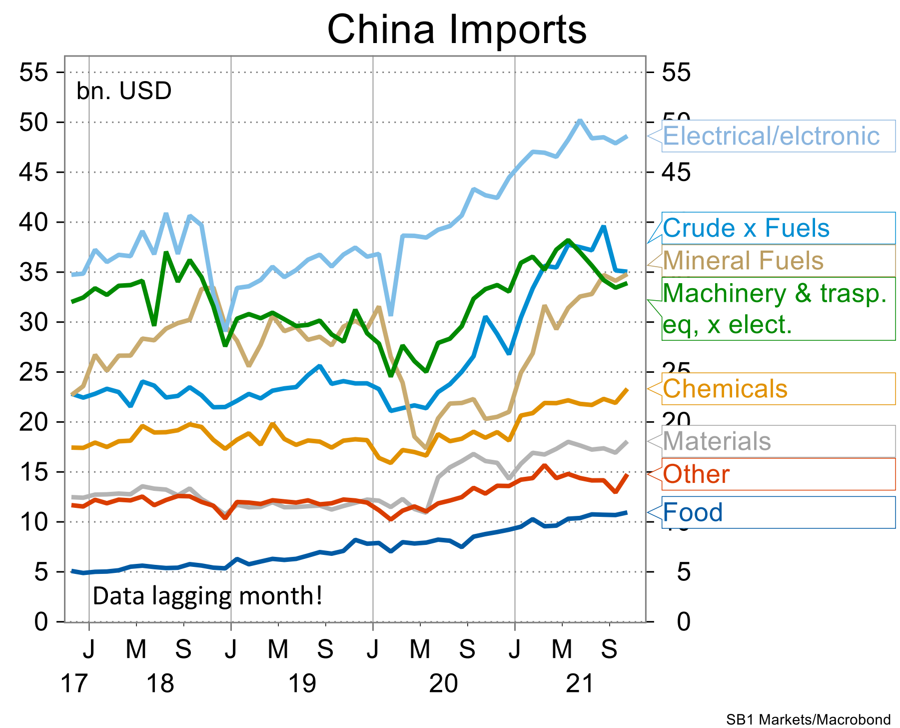


- **Iron ore** imports were almost back to a peak level in Nov, which is rather strange, given the more than 20% decline in domestic demand and production vs the peak levels in late 2020 or early 2021 – which again correlates to a similar decline in construction starts
- Steel exports have fallen too

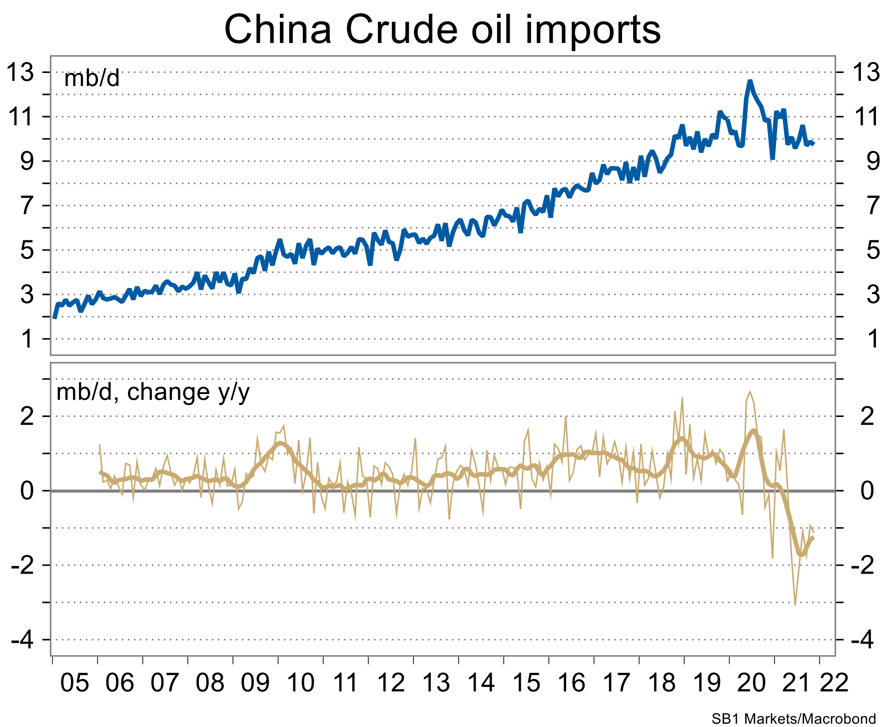
Coal imports up to ATH in November!

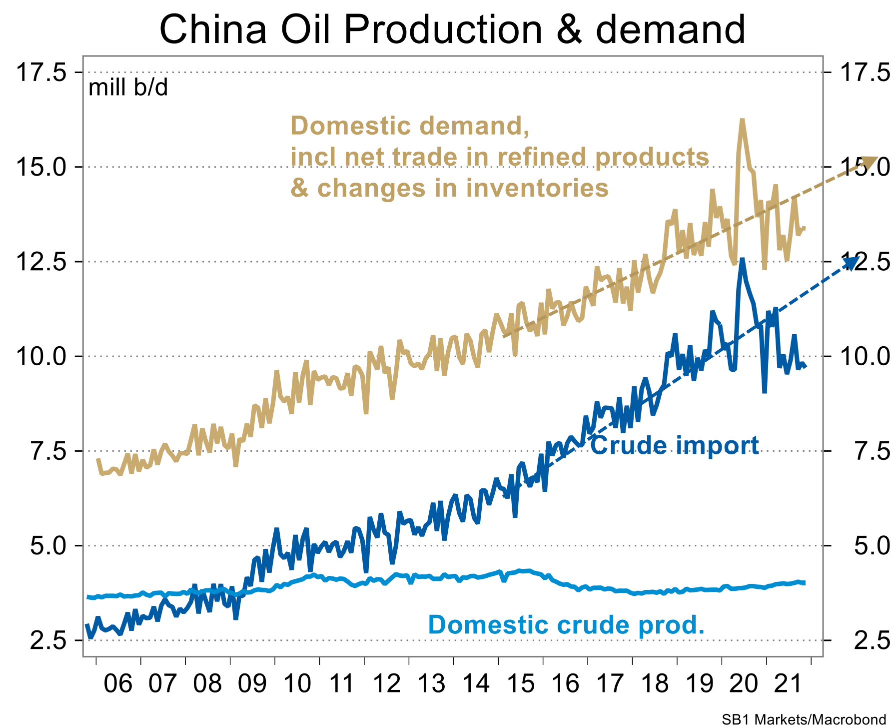
Guess they found out that they had too little of the dirty stuff





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

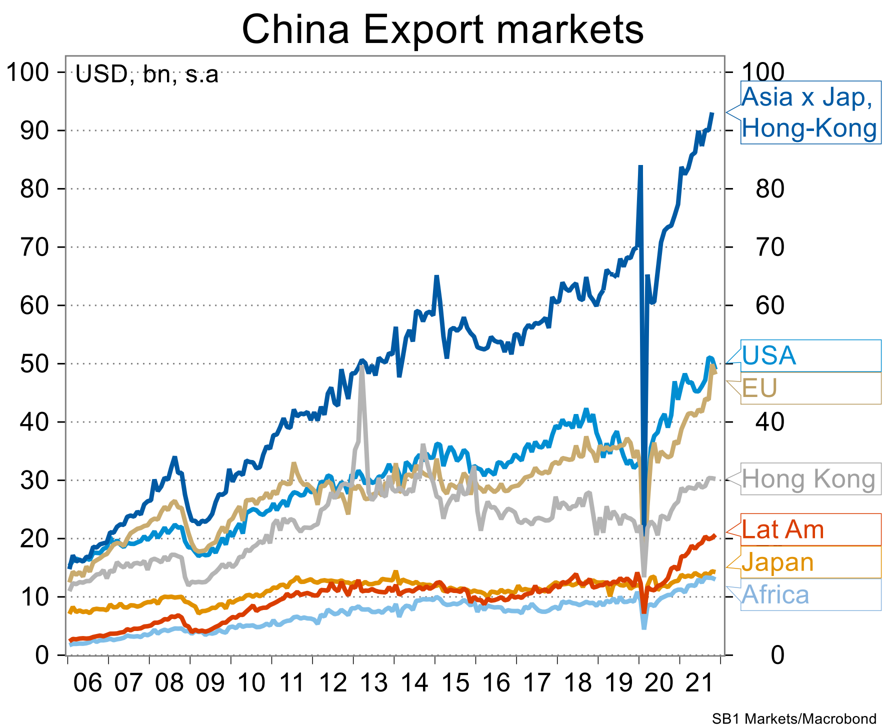




- 3 years without growth in oil import or domestic demand is rather surprising?
- Some inventory/reserve building/drawdowns may explain short term deviations

Chinese exports to all corners of the world sharply up

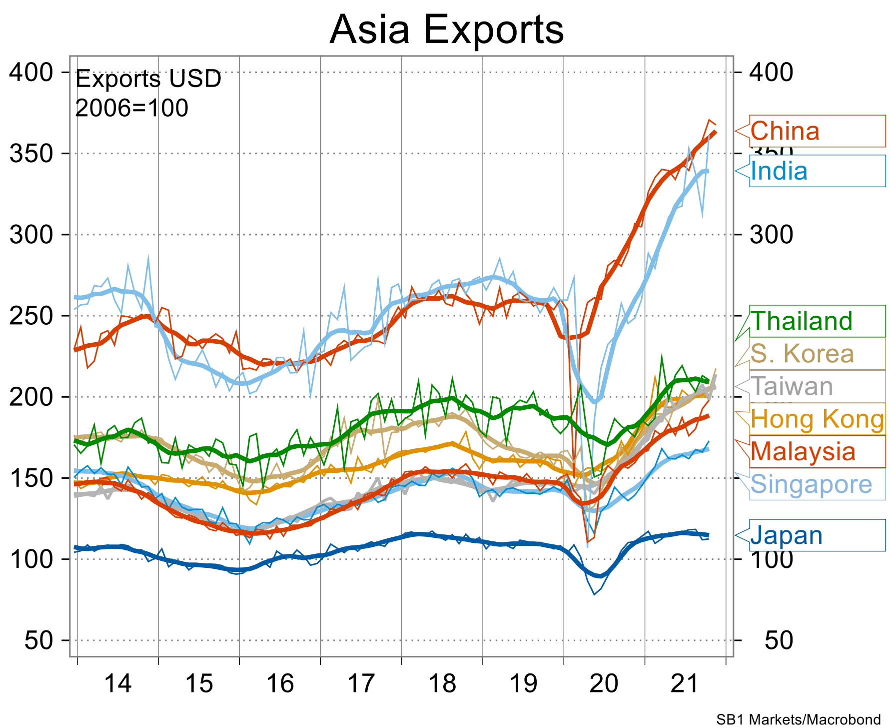
The recovery in exports through the pandemic has so far been impressive

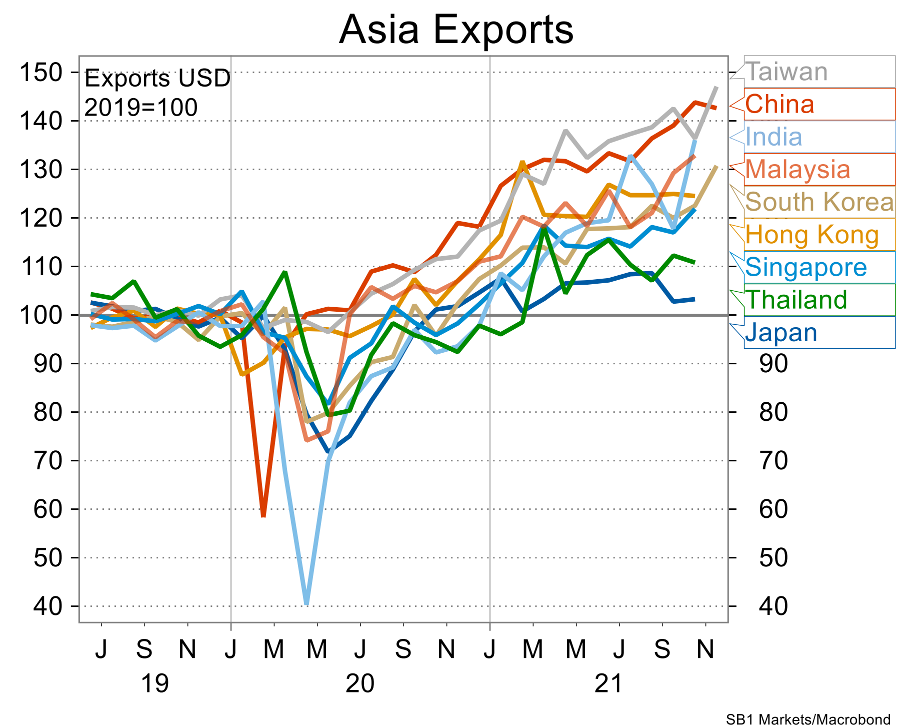


- Some slowing in exports to Hong Kong, Japan – and to rest of Asia

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

... but underlying growth has slowed somewhat





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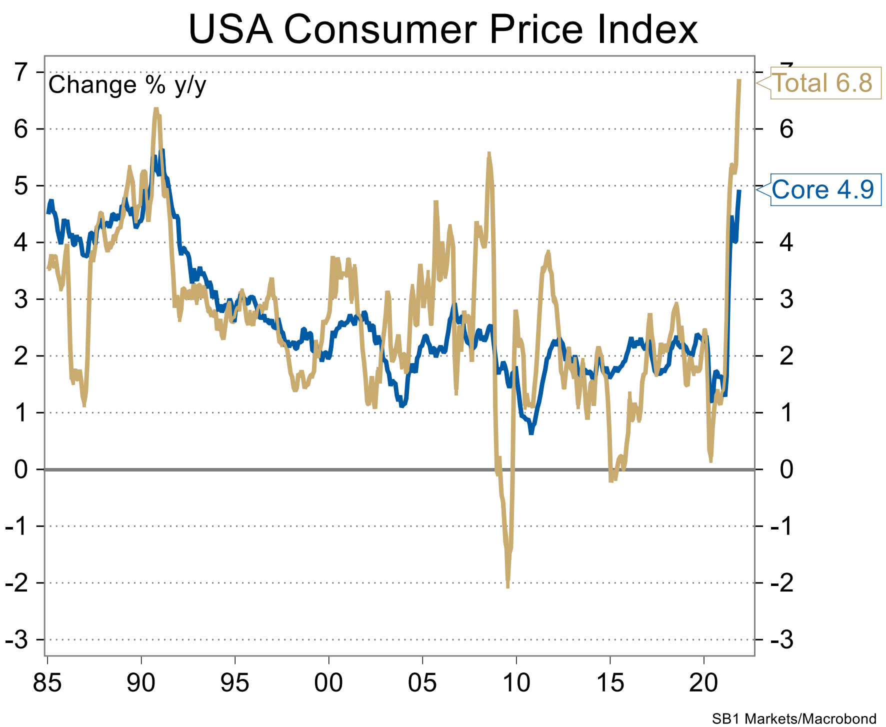
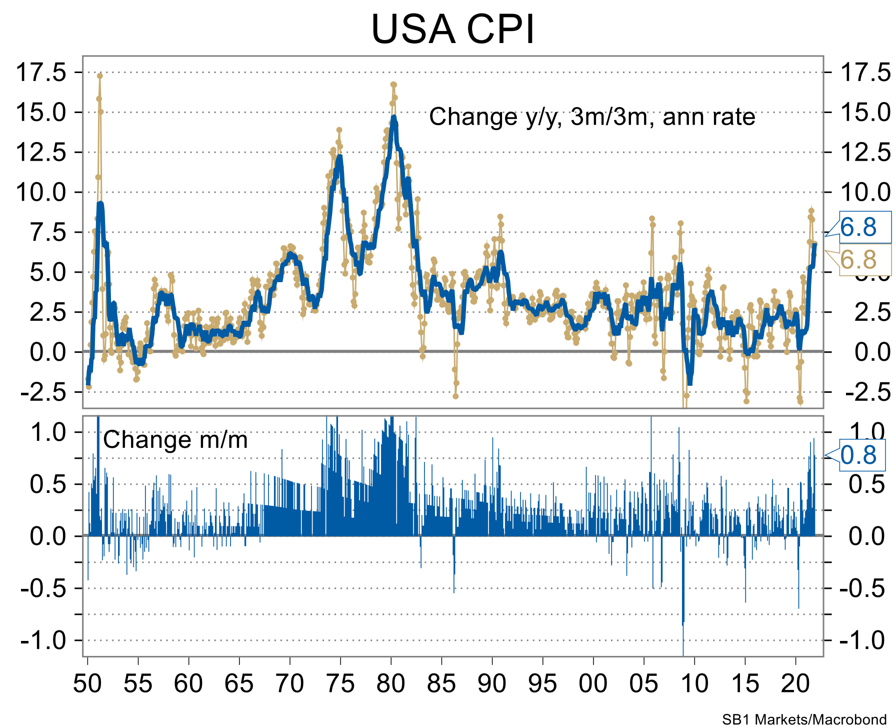
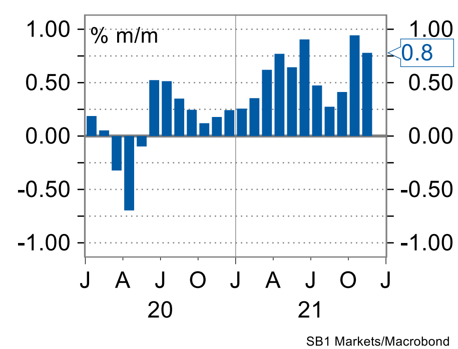
And then we are close to 7%, the highest CPI inflation since 1982!

But why worry? It was expected, and the Fed says it will take care of it. Cheers!!



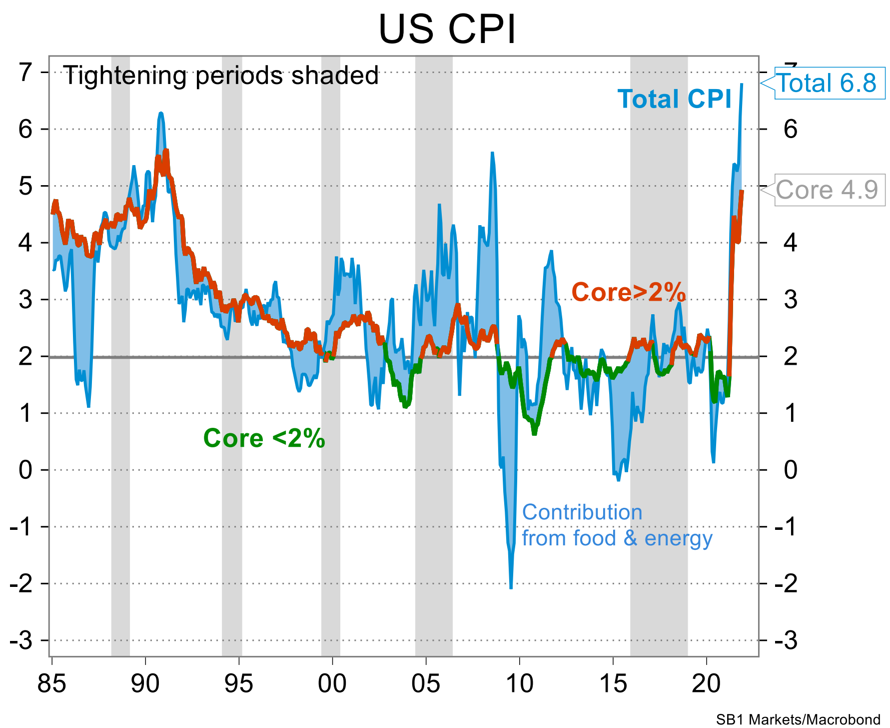


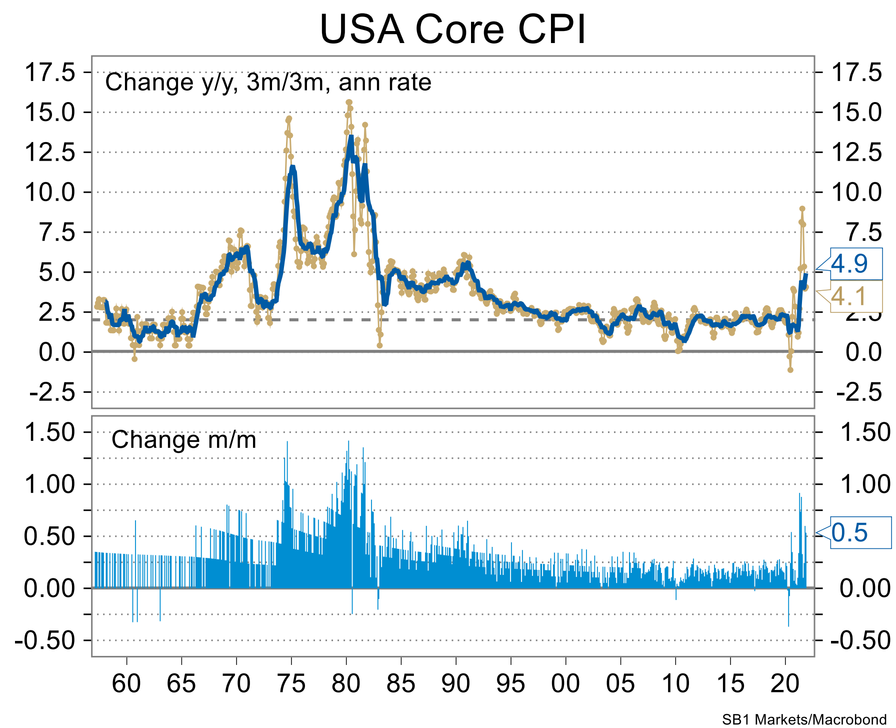
- **Headline CPI rose** 0.8% m/m in November, 0.1 pp more than expected, following the 0.9% gain in Oct. The annual rate accelerated 0.6 pp to 6.8% – <u>but as expected (on the first decimal)</u>
- **Energy prices** rose 3,5% m/m, and are up 34% y/y – and has lifted the overall index by 2.0 pp y/y. The upside risk from here is probably limited. At current oil & natural prices, a negative drag m/m the two coming months.
- Both new and used **auto prices** climbed further, and explains 1.4 pp of the annual rate
- However, <u>price inflation broadened further in Nov</u>. Cleveland Fed's **trimmed median CPI** is accelerated 0.2 pp to 6.2% (6 m pace), another ATH (with data from 1983). Other 'breath' measures tell the same story
- **Surveys** signal a further increase in prices the coming months, at least high m/m increased
- The **Federal Reserve/Powell** has now signalled that the surge in inflation may not be transitory. The Bank will formalise the change of tack at this week's FOMC meeting. <u>Tapering will be sharply accelerated</u>, paving the way for a lift in the Fed funds rate before next summer. The policy change should have been taken several months ago!



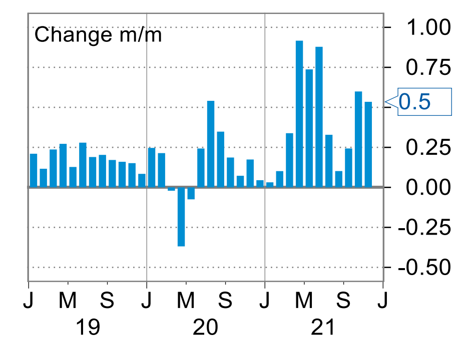
Core inflation sharply up too

Prices +0.5% m/m in Nov. The annual rate climbed 0.3 pp to 4.9% - both as expected





- **The 3rd wave: Core prices** rose rapidly last summer, during the spring and the 3rd time
  - » Both the monthly increases and the annual rate is the highest since 1990
- There are still some few ‘base effects’ left. Last year some prices fell, like apparel and lodging. As these prices are normalising, (or more than that in lodging), growth rates are pushed up transitory (yes, transitory!)



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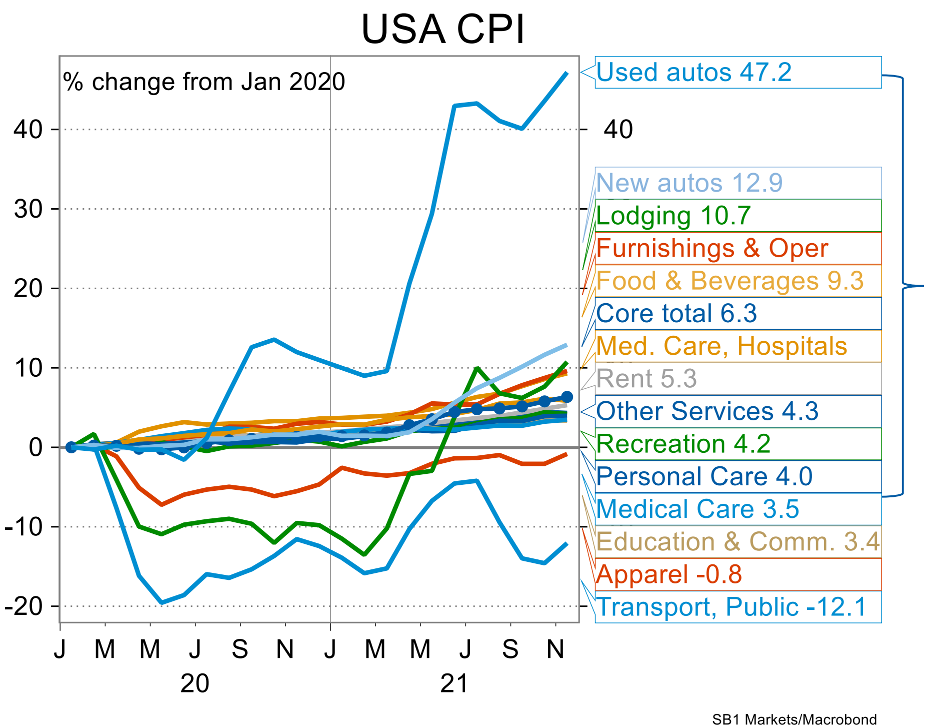
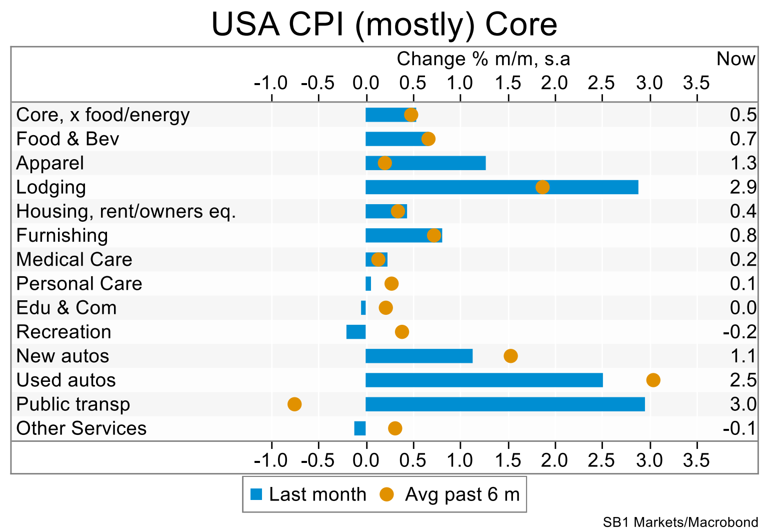
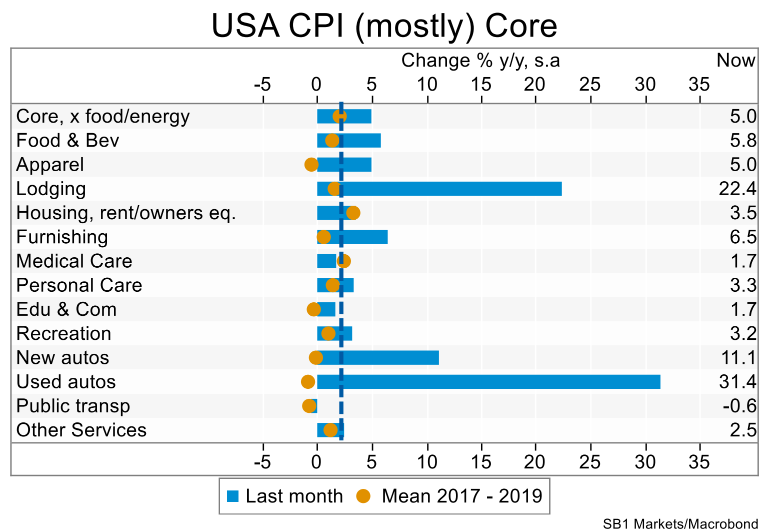
New & used auto prices further up, as were hotel & public transport prices

Almost no prices fell in November, and just public transport (airline tickets) down y/y



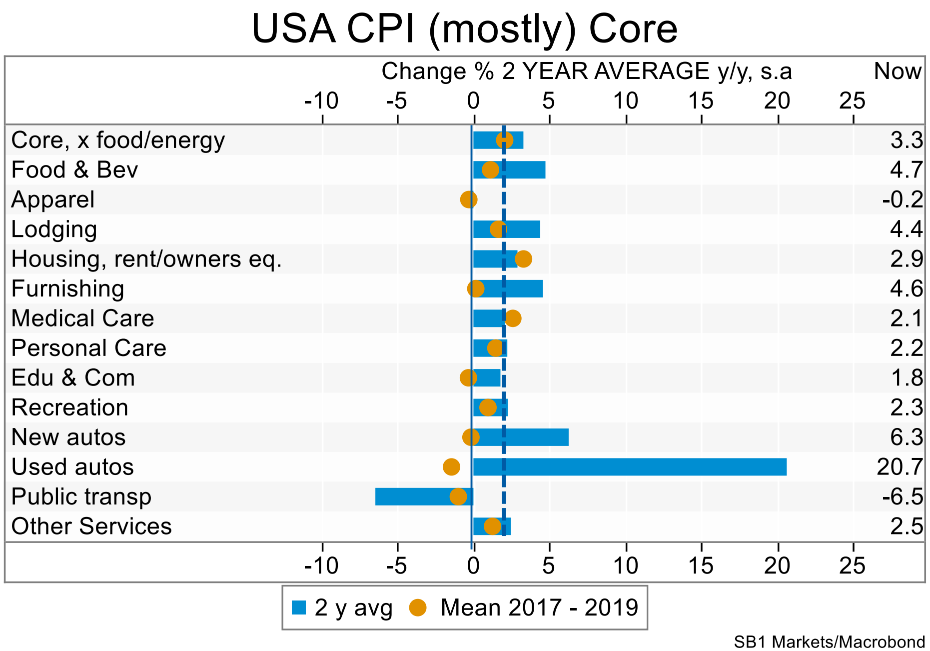


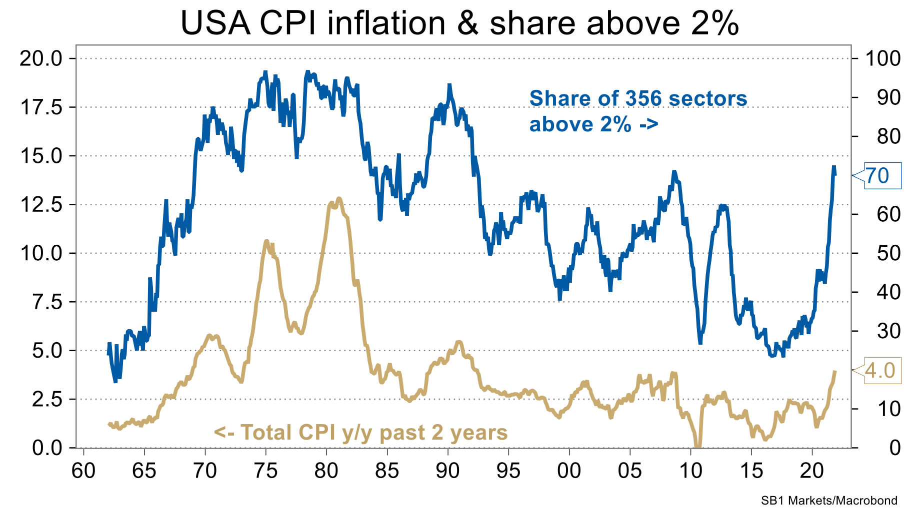


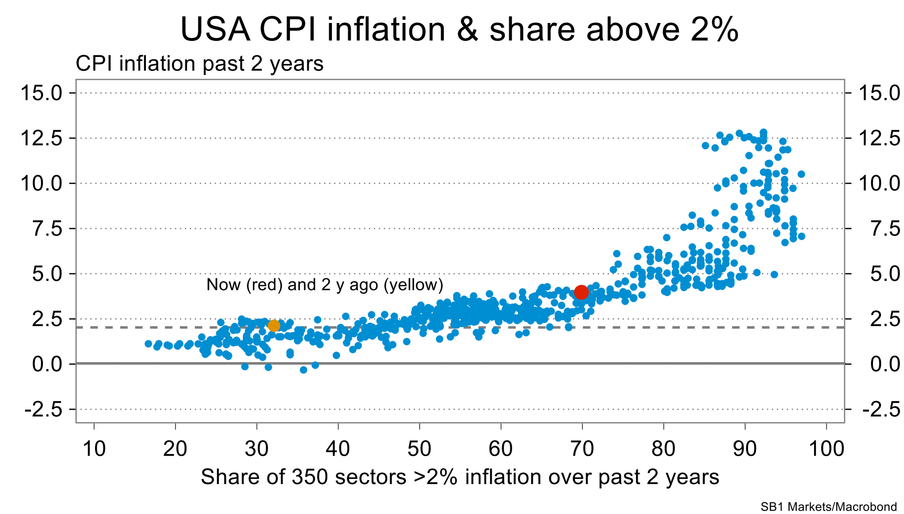
- In November, public transport (mostly airline fares), hotel prices and new/used auto prices rose 2.5 – 3% (m/m)
- Almost no prices fell m/m
- Most sectors report growth above 2% from before the pandemic (medical care, education, apparel and public transport are below)
- One day: A huge downside for used auto prices, some for new autos & furnishings

Inflation over the past 2 years: 11 sectors >2%, 3 below!

2 y avg core inflation 4%, up from a 2.1% average in 2017 – 2019 – and broadening, 70% up >2%



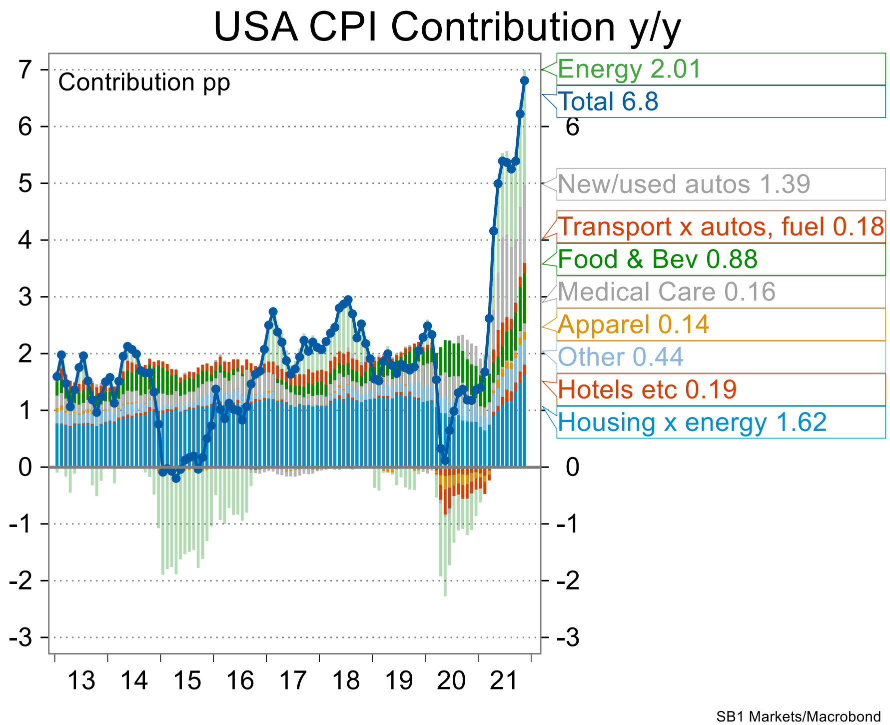


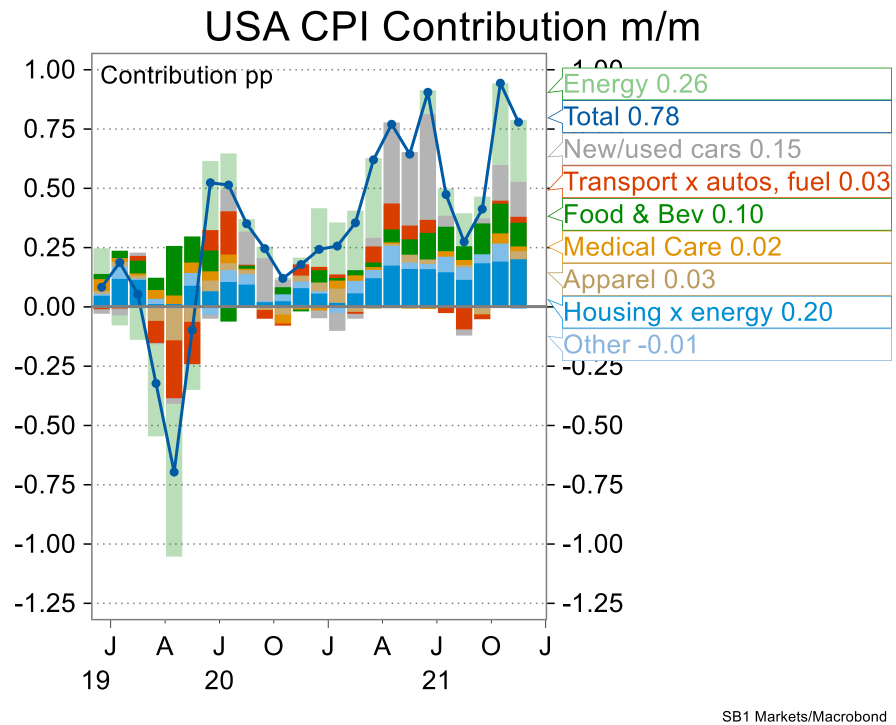


- Measured over the past 2 years vs the 2017-19 average, inflation has accelerated in 9 sectors, and slowed in 2 sectors
- Of 350 sub-sectors, 70% are up more than 2% over the 2 past years (from 70%), normally signalling an inflation rate above 3%

Transport & energy explain 3.6 pp of the 6.8 % lift in total CPI

… Thus, other sectors have contributed too. Housing ex energy (mostly rents) have gained speed



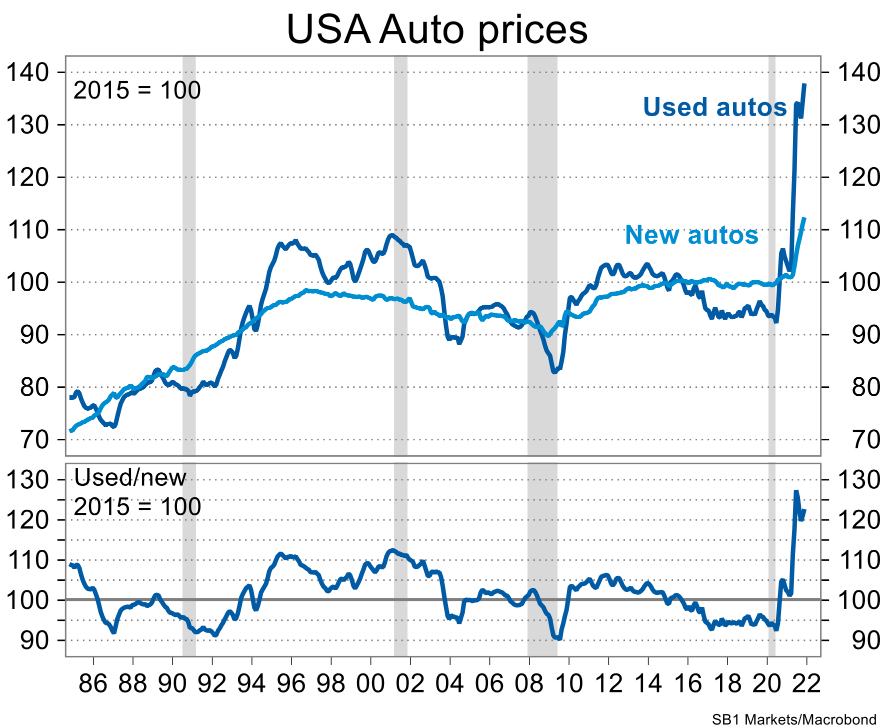


- **Energy** lifted the headline CPI by 0.26% in November, and by 2.0% over the past 12 months. Now, the oil price has fallen somewhat, and gasoline prices yielded marginally last week. Will we get a negative contribution in December? Anyway, a further lift seems unlikely
- As **used car prices** rose again in November, as did new auto prices – in sum a 0.15 pp contribution to the monthly 0.8% total gain
- However, **excluding** the 3.6 pp contribution the headline CPI from energy & transport, **"remaining" inflation** has accelerating rapidly
- **Housing x energy** is contributing by 1.6 pp, the highest rate in many years. Rents are on the way up – and still rather exposed (check 2 pages fwd) but a substantial contribution to housing also comes from household equipment & furnishings, and operations

Lodging away from home (incl hotels) is a part of housing at the charts above

Are 2nd hand car prices even further up – and new cars more expensive too

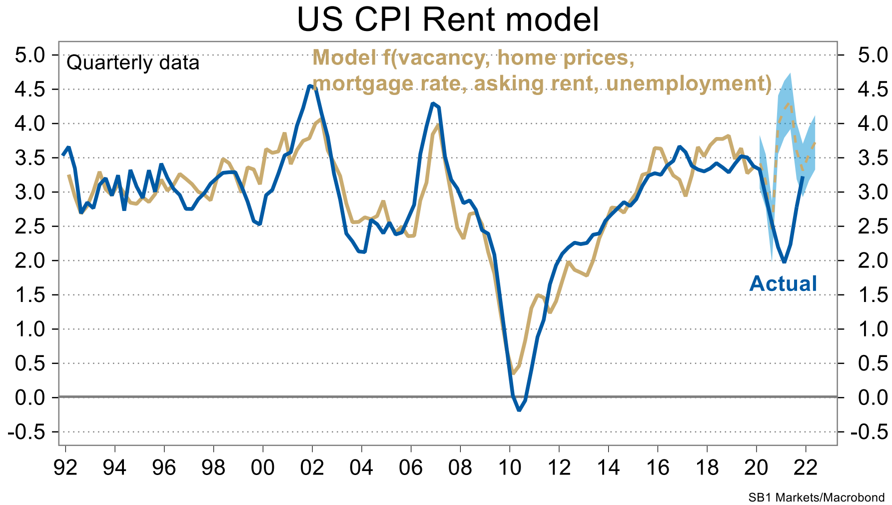
The downside is substantial as soon as new car production recovers



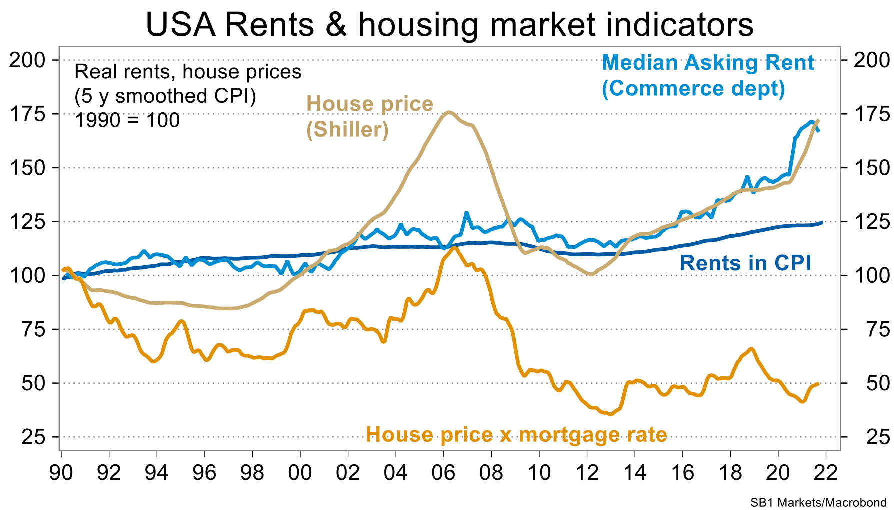
- Used car prices rose by 2.5% m/m November, and new car prices gained 1.1% - and prices are up 33% and 11% y/y resp.
- No signs of increased production capacity yet, and as long as demand remains strong, still an upward risk
- However, at one stage at least used auto prices will 'collapse', down to a normal level

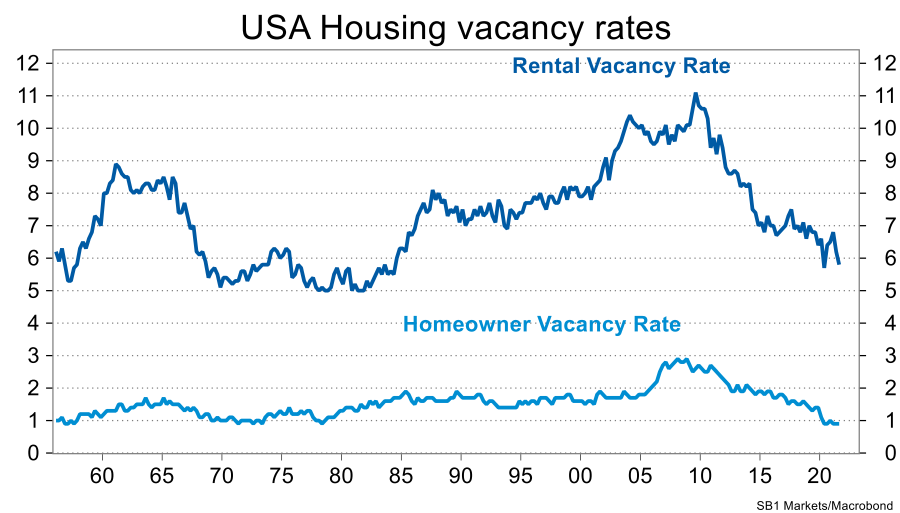
Rents are on the way up

A low vacancy rate, rental asking prices are up (according to most measures), house prices are up



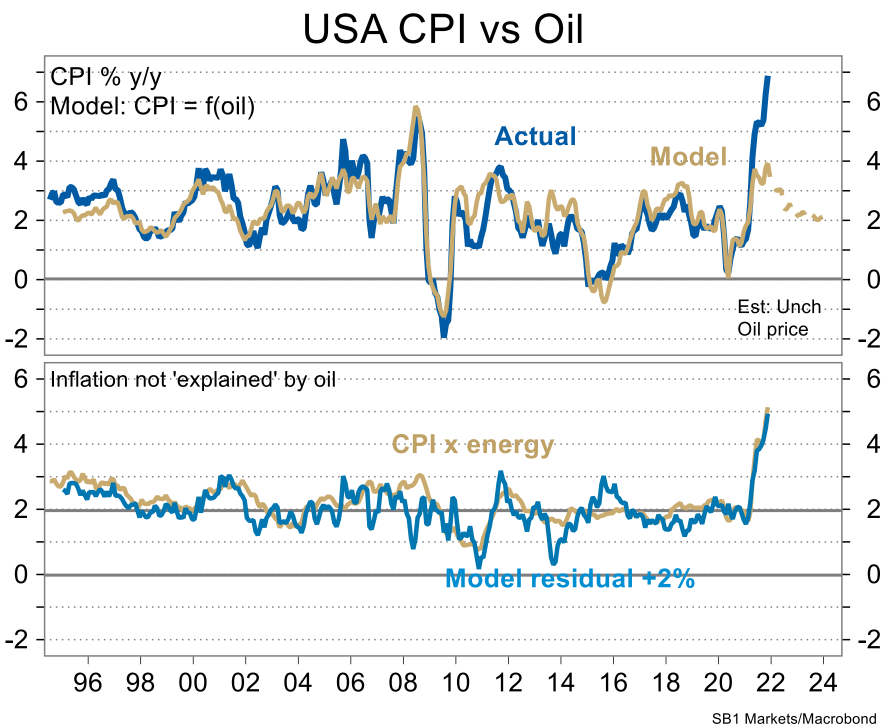
- **The official (Commerce dept) rental asking price** has flattened recent months and rents fell m/m in Sept. The annual growth rate has fallen to 4% y/y from 17% - but the market rent level is still very high. Other rental surveys have reported smaller increases in rents vs the pre pandemic level. **House prices** are up almost 20% y/y
- **The rental vacancy rate** fell in Q3, and is very low. **The homeowner vacancy rate** is at a record low level – but have flattened
- **Rent inflation measured in the CPI** has recovered to 3.4% from 2%, but that is still below the pre-pandemic rate at some 3.5%
- **Our model**, even assuming a market slowdown in rental asking price inflation and in house price inflation but adding a modest increase in mortgage rates, signals a sharp increase in rent inflation, as measured in the CPI, toward 4%, from the current 3% level. *Total CPI inflation will accelerate 0.3 pp per pp rent inflation climbs. The risk may be at the upside, due to the change in the market rent level*

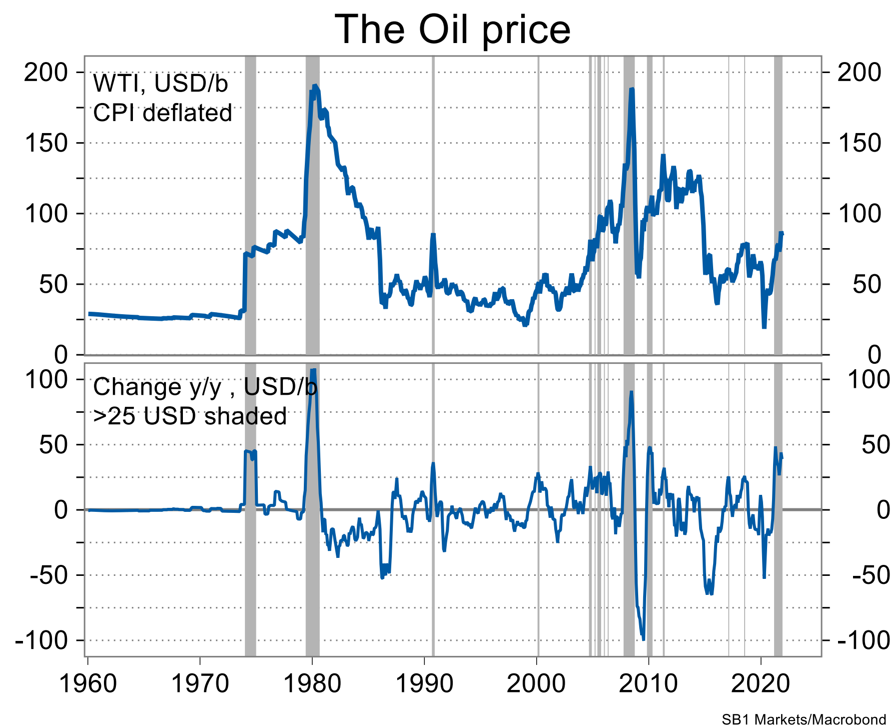




The oil price moves the CPI as usual – but now there is a lot of other prices too

CPI is up 3 pp more than explained by the oil price alone – totally unprecedented

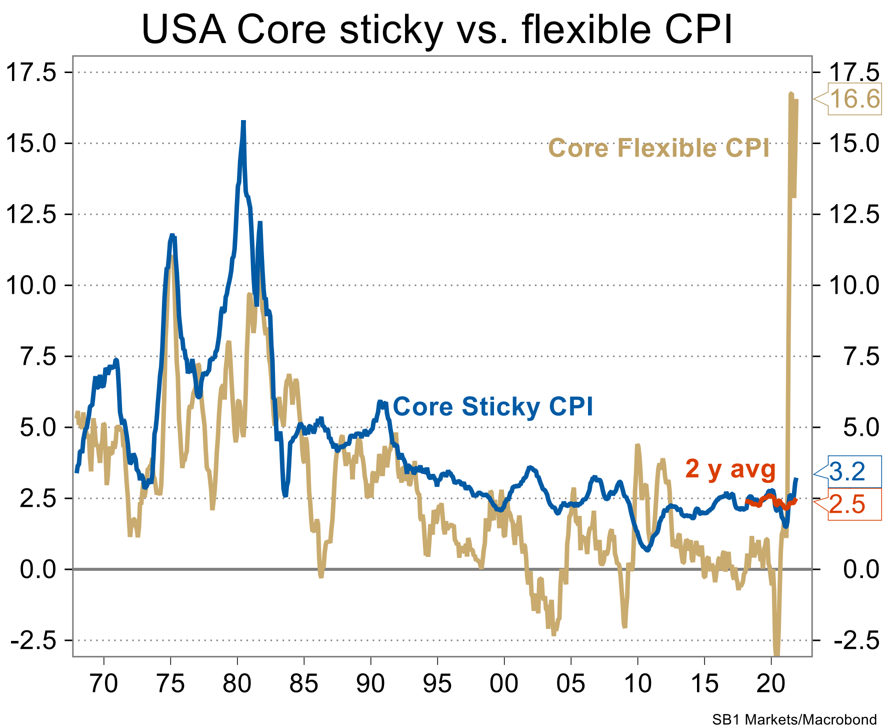


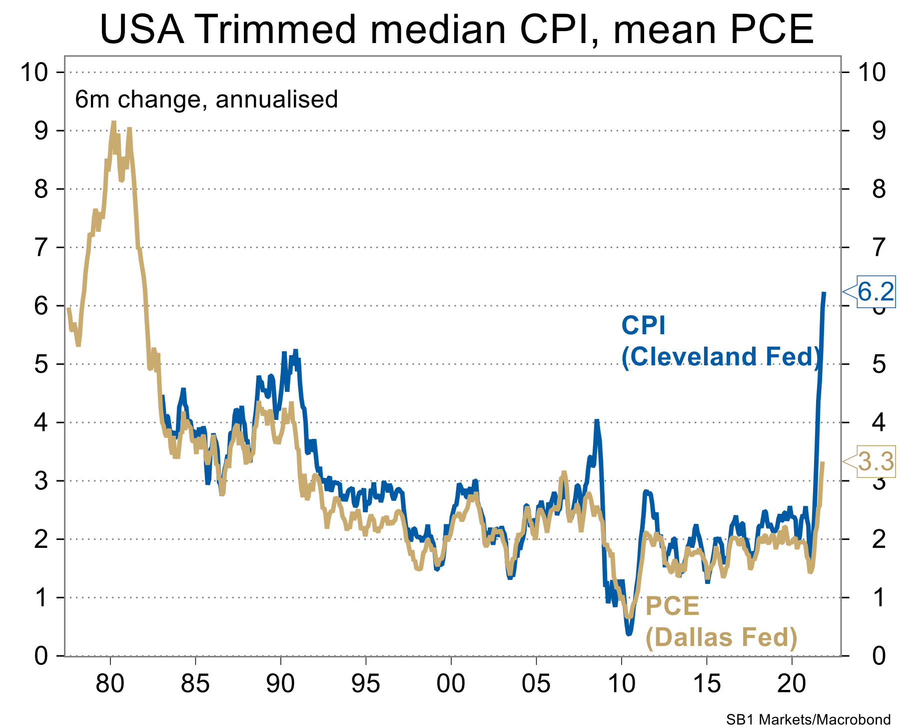


- **Oil price cycles** have explained some 80% of the changes in CPI growth the past 30 years
  - » In our model we incorporate all indirect impacts from changes in the oil price – as well as the impact from other factors that influenced inflation which correlates to the oil price
  - » If the oil price stabilises at the current level, the impact on the CPI will gradually fade the coming quarters
- From time to time, there are **substantial residuals**, like now: Headline inflation is 3% above the model forecast, and the CPI x energy index (which is close to the core CPI) has climbed by 3 pp too. Why?
  - » Auto prices (new and used) and airline ticket prices have lifted the CPI by 1.4 pp. Thus, there are many other goods & services that contributes!

Fewer excuses left, more prices are rising faster

The Federal Reserve & Powell had to acknowledge that the hike in inflation may not be transitory

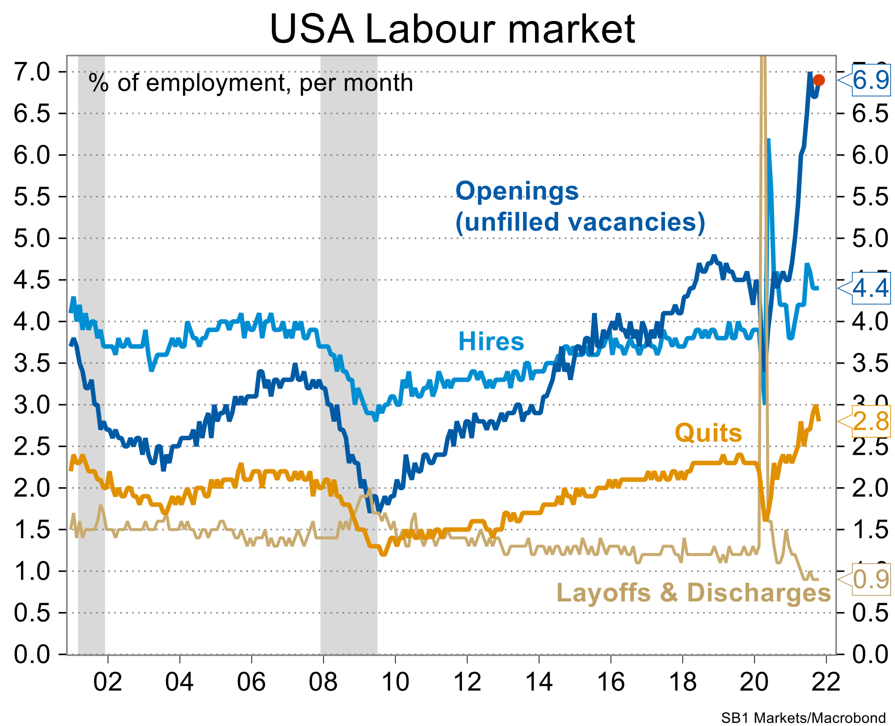




- The Cleveland Fed **trimmed median CPI** is up at a 6.2% pace over the past six months, the highest print (by far) in the 40 years this series have been calculated. Dallas Fed's **trimmed mean PCE** was up 3.3% in Oct, the highest since 1990
- In the CPI, almost all of the initial lift in core CPI was due to prices of good & services that often fluctuate, with rapid price increases followed by deep price cuts – these prices are **flexible**, and represent some 10% of the core CPI. These prices are up 17%, with a substantial contribution from 2nd hand auto prices. However, these prices are flexible both ways, and the cycles are normally short lived
- The **sticky components** (90 % of the core CPI) are up 3.2% y/y, the highest levels since 2009 – but as prices fell last year, the 2 y average is still at 2.5%, not a disaster print - but above 2%

More unfilled vacancies in October!

The mismatch at the labour marked may have peaked but it is still extraordinary

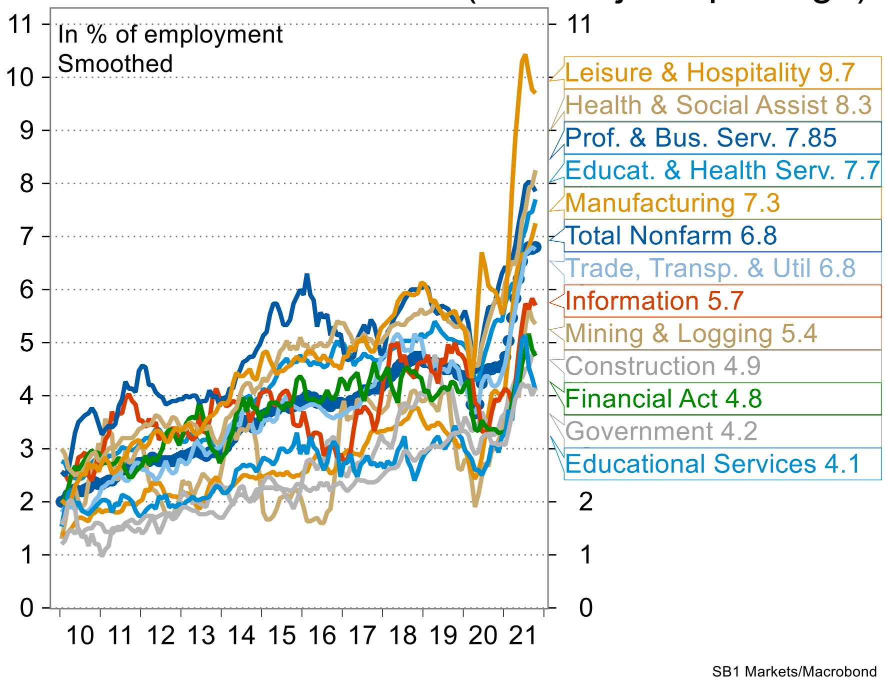


- The no. of **unfilled vacancies** rose by 0.4 mill to 11.0, from an 0.2 mill upward revised level in Sept. The print is the 2nd highest ever. The vacancy rate was 6.9%, up 0,3 pp.
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit.
  - » The increase in vacancies in Oct was rather broad, and all sectors report a higher vacancy rate than before the pandemic
  - » The SMBs (NFIB survey) reported marginally less trouble filling positions November. These two series are very closely correlated
- **New hires was unch at 6.5% mill in Nov,** equalling 4.4% of the no. of employed persons, still an unusual high level. No significant changes sector wise
- The rate of **voluntary quits** rose declined by 0.2 pp to 28% in Nov, still a very high level, signalling a very strong labour market. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** was unch at the lowest level ever, 0.9% in Nov
- **In sum:** These data confirm an extremely tight labour market

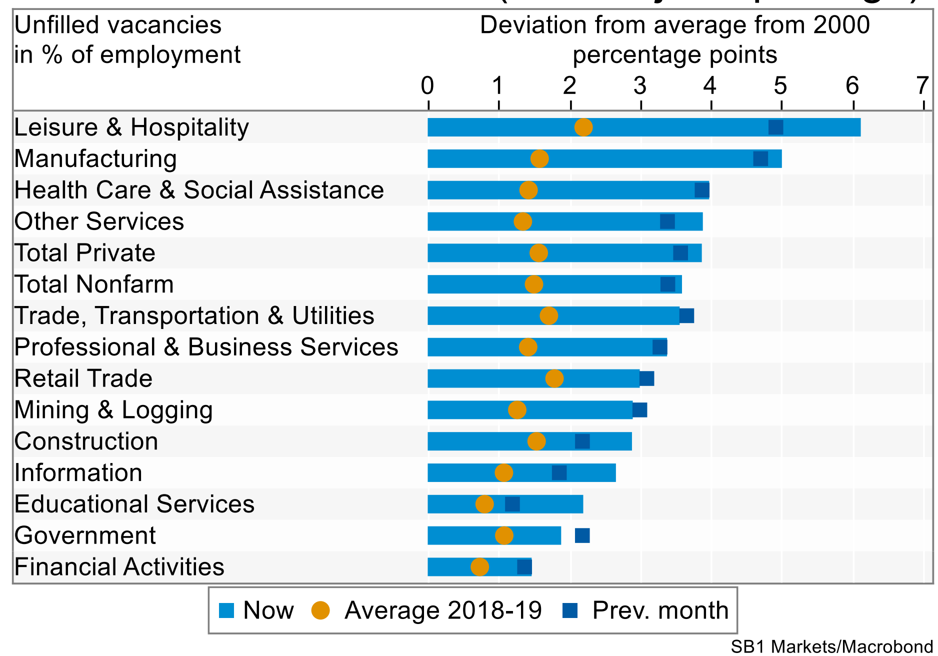
All sectors are reporting more vacancies than before the pandemic

8 out of 15 sectors reported more vacancies in October, just 1 sector clearly less unfilled openings

USA Unfilled vacancies (JOLTS job openings)

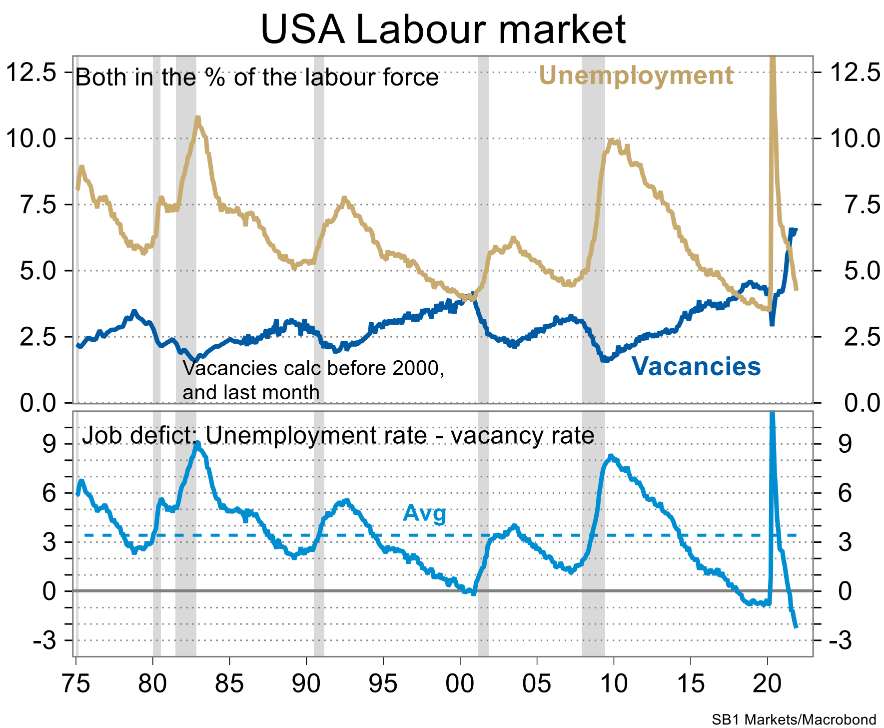


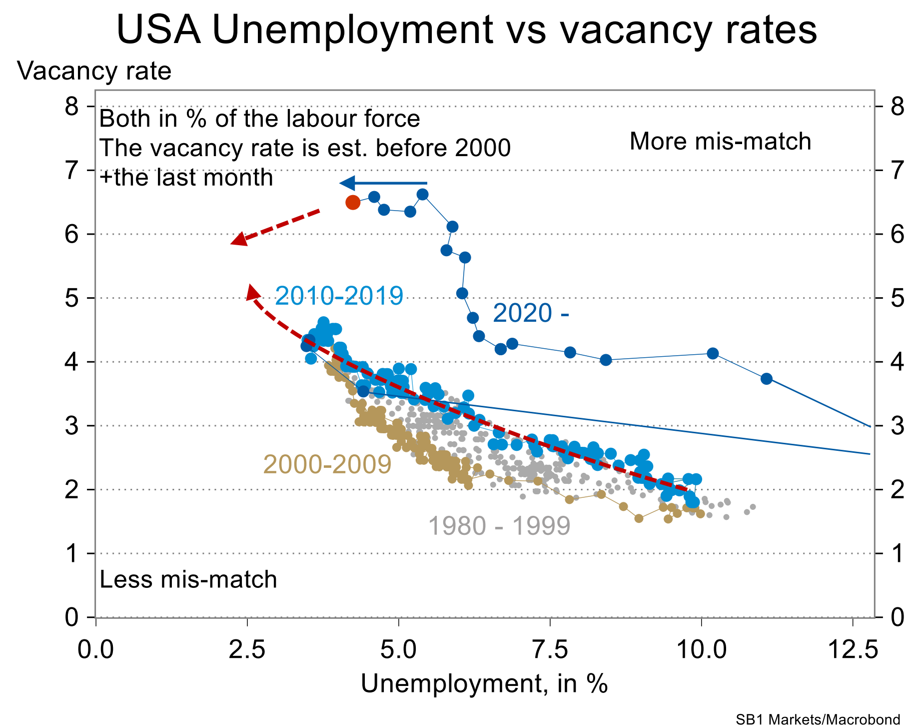
USA Unfilled vacancies (JOLTS job openings)



An unprecedented tightness on the labour market – and still a large mis-match

6.8 mill persons are unemployed – and there are 10 mill unfilled job openings!

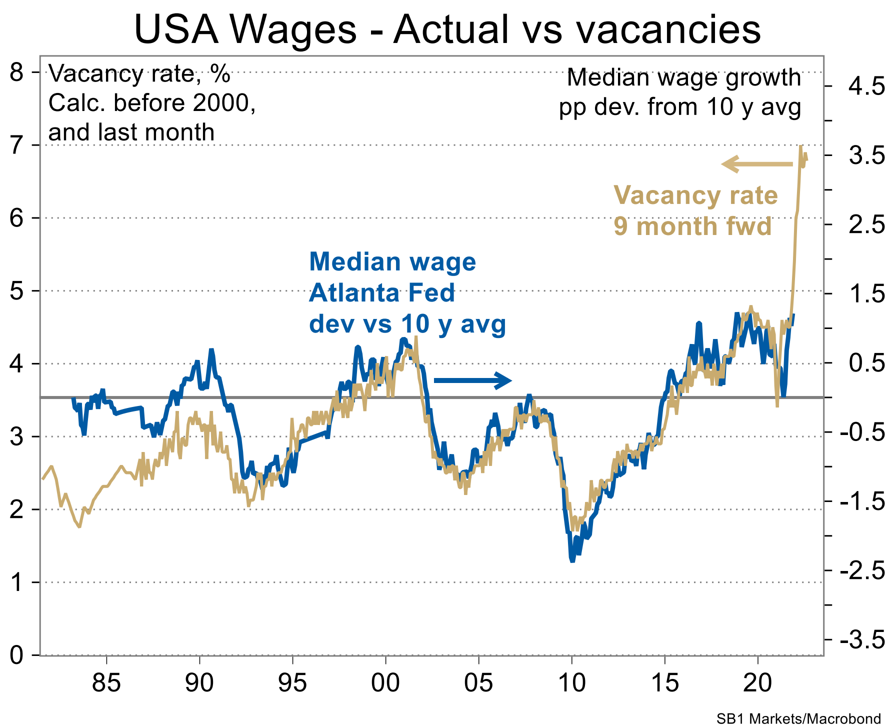


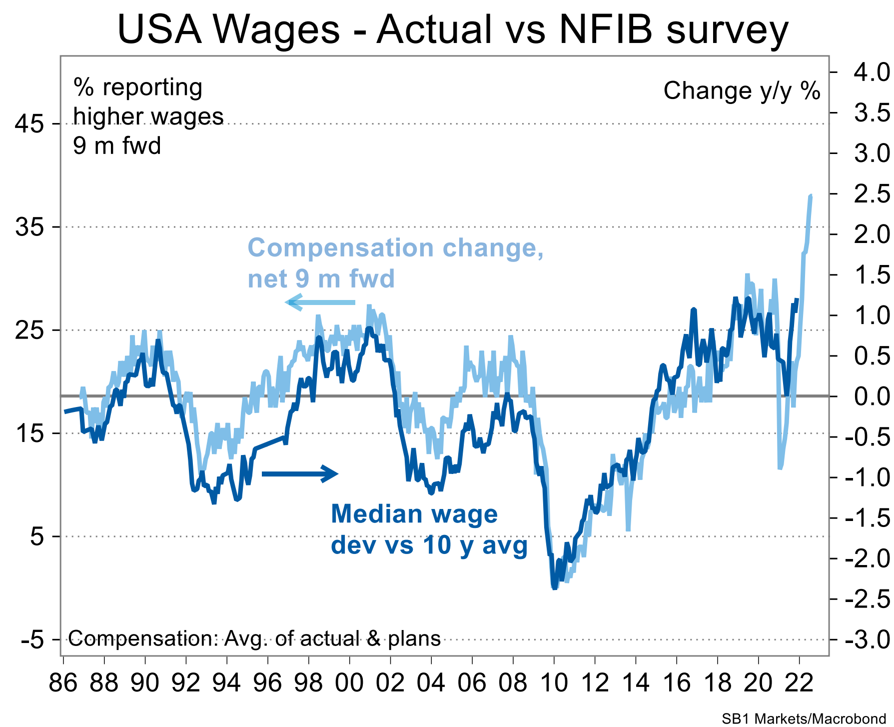


- 6.8 mill persons were **unemployed** in Nov- that is, they say they want a job and are actively search for a job but have not got a job
- t the same time, there are 10 mill **unfilled, vacant positions in Oct.** The record high gap equals >2% of the labour force (if all vacant positions were filled, 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 to the left, as unemployment has fallen, while the vacancy has been close to unch, signalling somewhat declining mis-match. 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)

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

The correlation to changes in Atlanta Fed median wage index has been extremely very close



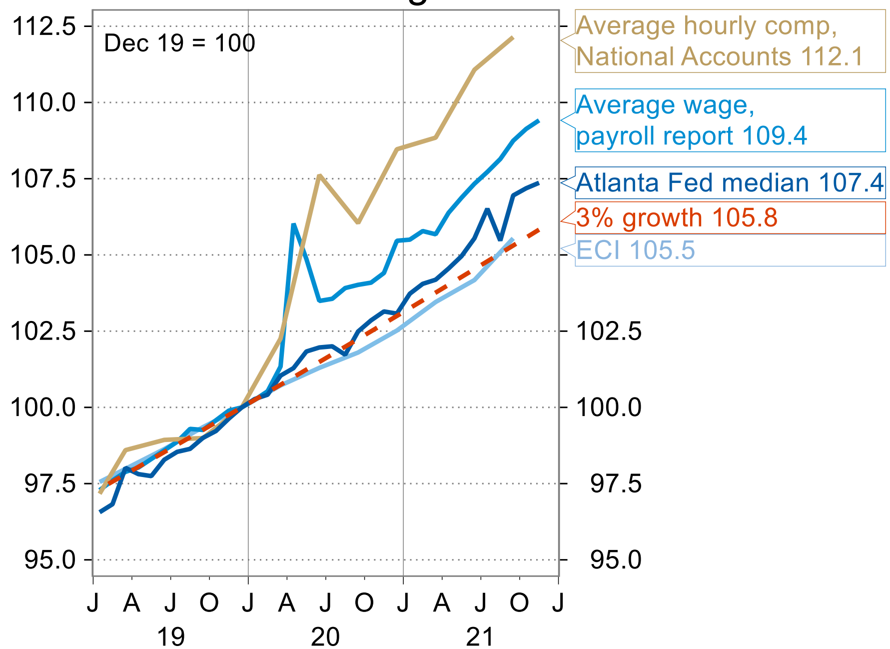


- More companies than ever before (data from 1986 though) reported in October that they have lifted compensation and that they plan to do so the over next months as well
  - » The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- This is one of the reasons why the Federal Reserve has been forced to change tack

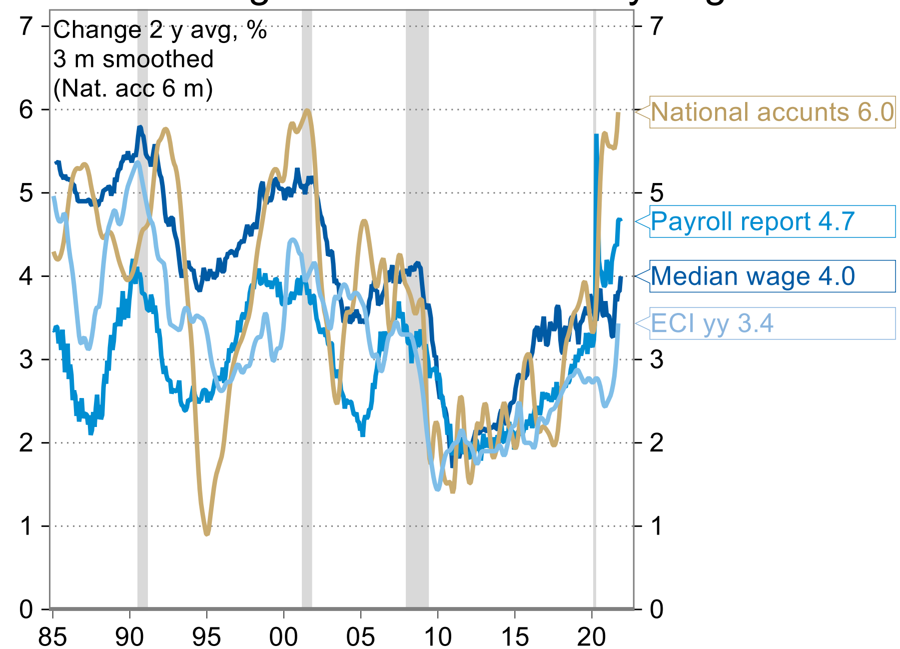
All wage indicators are reporting higher wage inflation

Wage inflation is the main risk vs higher inflation over time, not energy/commodities & profit margins

USA Wage indicators



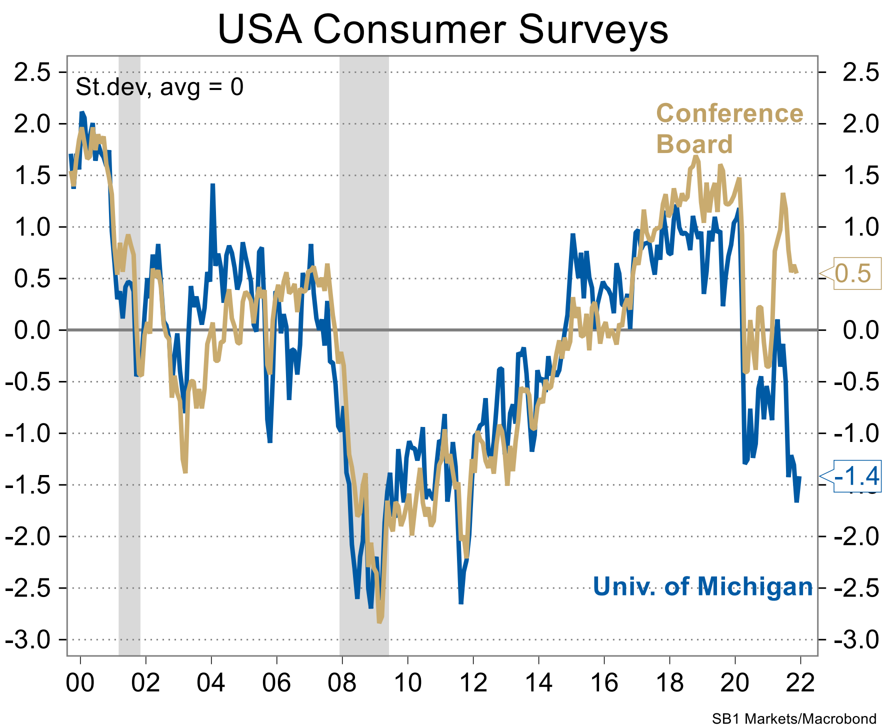
Wages/labour costs - 2 y avg



- **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)
- **Atlanta Fed's median wage tracke**r reported another lift in the annual growth rate in November, the 3 m average up to 4.3%
- 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
- Given current productivity trends, 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 somewhat higher wage inflation without higher price inflation

Univ. of Mich. consumer sentiment slightly up in early Dec, still strangely low

Given all of

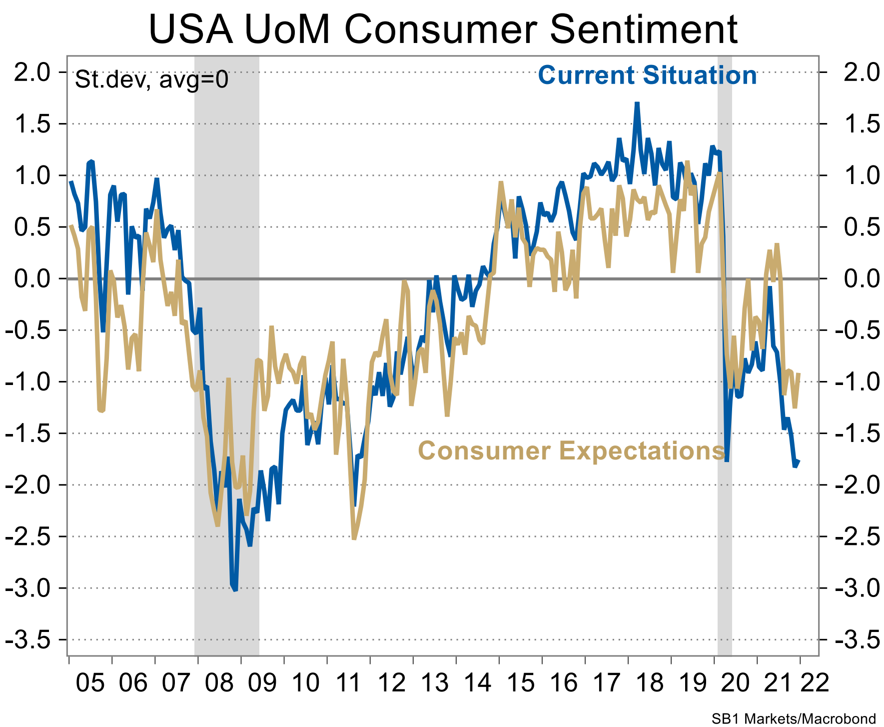


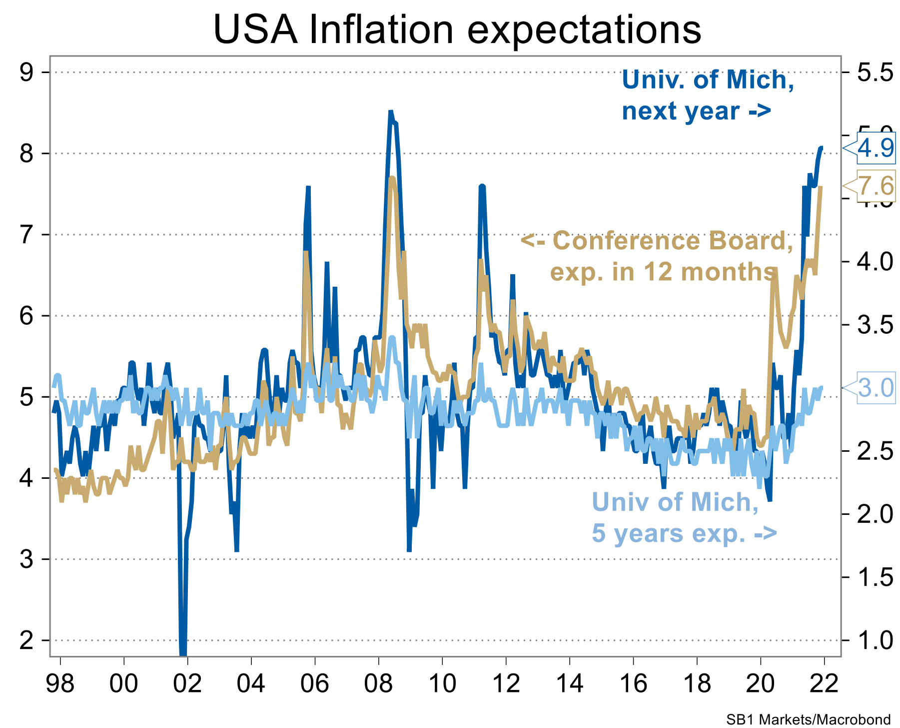
- **University of Michigan's consumer sentiment index** gained 3 p to 70.4 December, expected up 0.6 p. The index is still 1.4 st. dev below average, up from -1.7 in Oct. The level is the still the lowest since 2011 (except for Oct)
  - » **Both expectations** and assessment of the **current situation** rose in Dec, expectations the most, and expectations are 'just' 0.9 st.dev below average, the current situation -1.8, well below during the first Covid wave
- **Other surveys** are in sum down too. Just the Conference Board's consumer confidence survey remains above average
- Besides inflation, there are not many indicators that the economy is in a bad shape, and definitely not in a worse shape than say some months ago or during the 2nd Covid wave in Dec/Jan
  - » Employment, unemployment, consumption, housing, the stock market have all moved in the right direction – *check our model estimate 3 pages fwd*

  In addition
  - » Inflation expectations are still climbing but can still not explain the huge drop in sentiment (based on the normal correlations)
  - » … and the sentiment did not recover as the fight against the Delta was successful in Oct/Nov (the no. of hospitalised persons fell more than 60% from early September)
  - » Now, Covid angst may have resurfaced somewhat (but sentiment rose in early Dec…)
- The 'problem' is that the UM survey often has been an early bird in the cycle, and that the survey may be 'right'

Univ of M: Both the assessment of the current situation & expectations are weak

Inflation expectations are still inching upwards

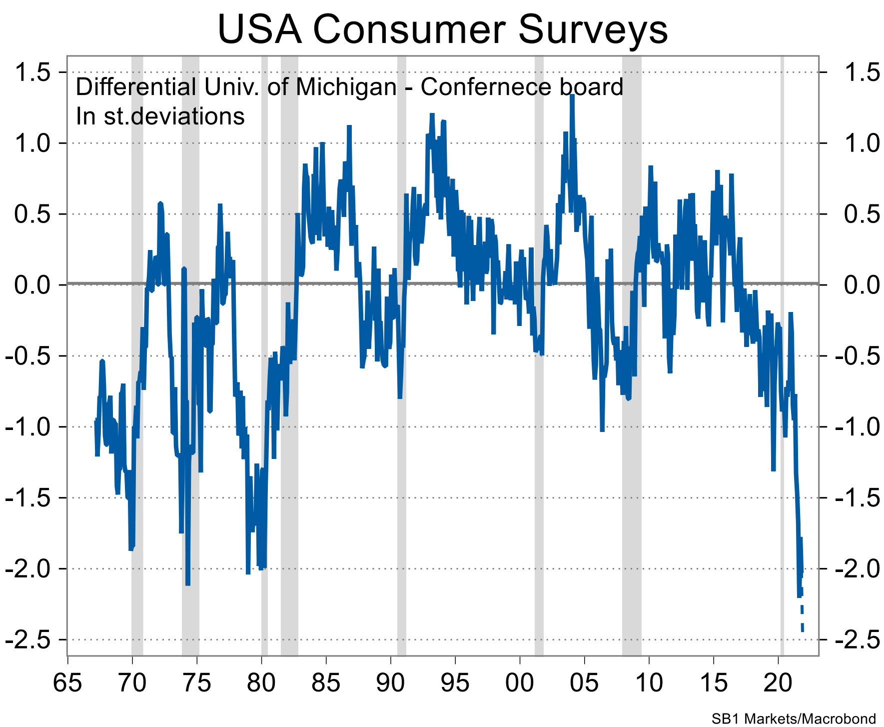


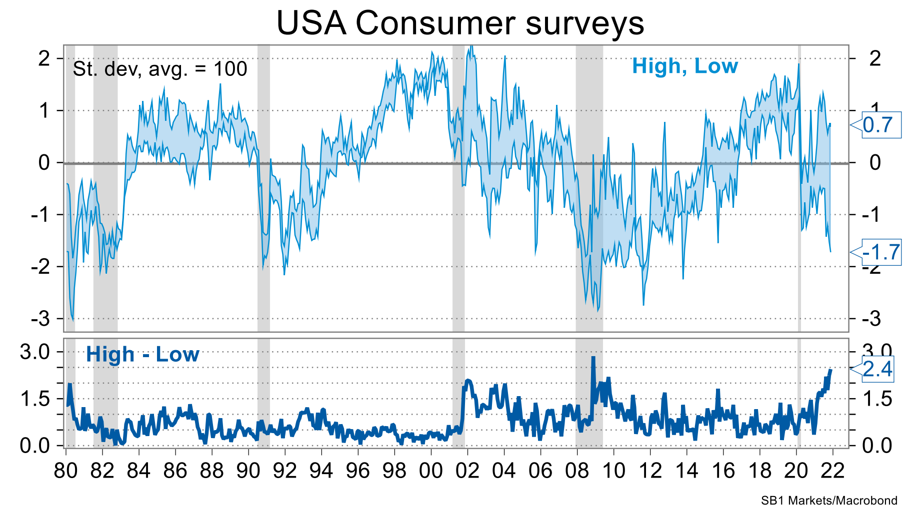


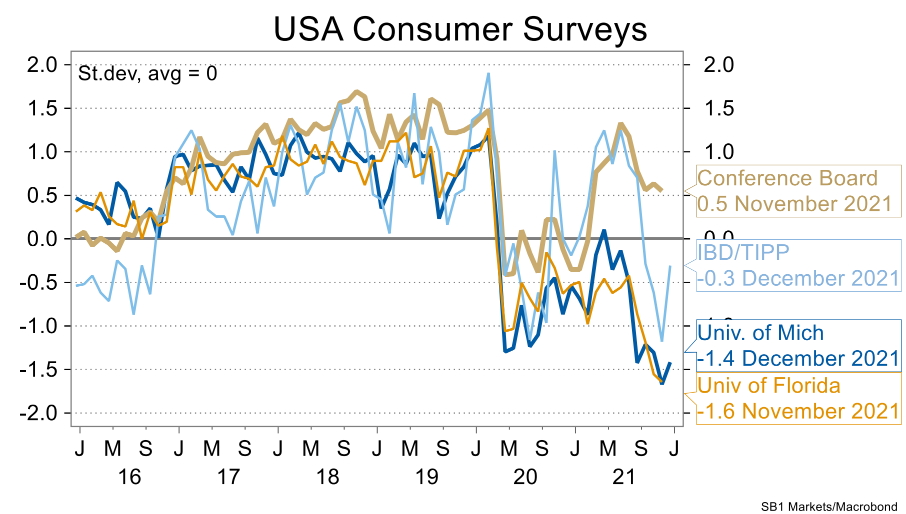
- The 12 m inflation f'cast rose one tenth to 4.9%, the highest level since 2008. The 5 y inflation expectation was stable at 3%, well above the average over the past 10 years

The gap between consumer surveys is highly unusual

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



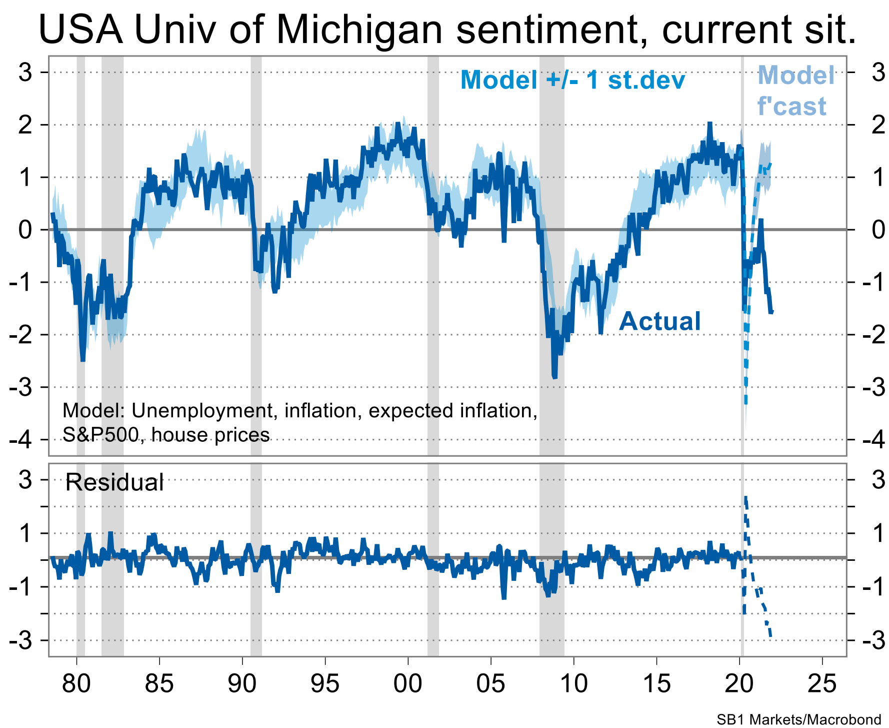


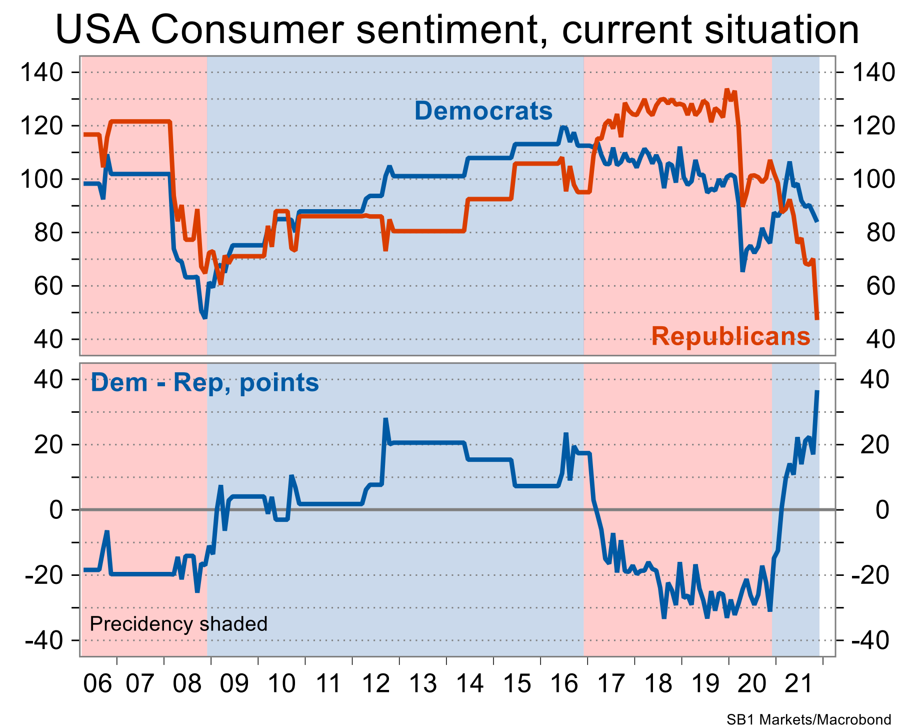


- However, we think a recession is rather unlikely now but the incredible decline in the UM survey is a warning sign, also vs. the stock market
- The **IBD/TIPP survey** rose sharply in December, up to 0.3 st.dev below par, form -1.1 in October. This survey is more volatile short term than the other surveys. **University of Florida's survey** fell to -1.6 st.dev in November (and it corelates closely to the Univ. of Mich survey)

Households should have been quite happy by now

The pandemic the only reasonable explanation for the bad mood? Or politics??

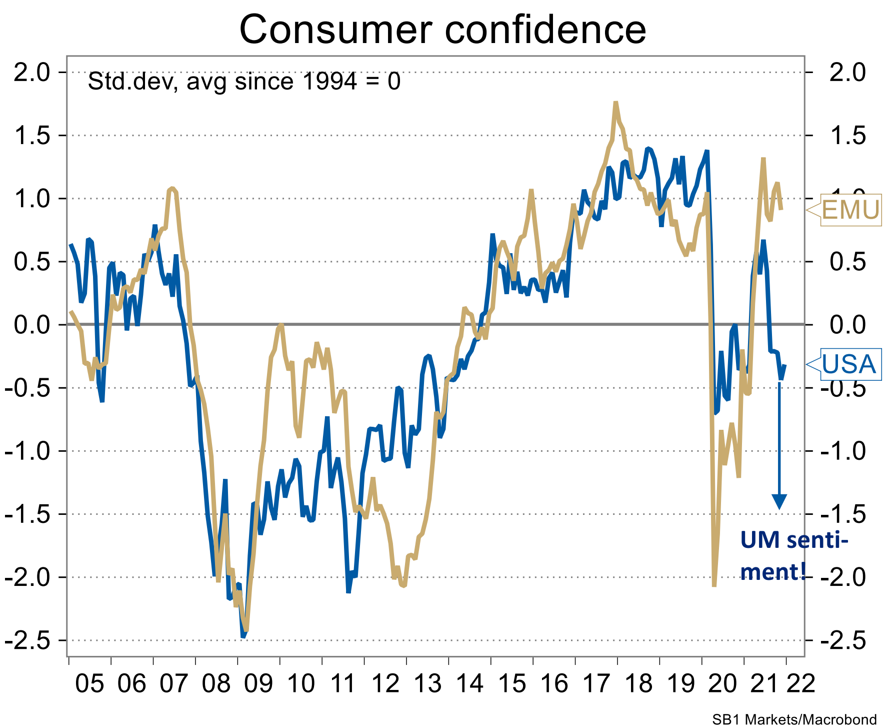




- **Our simple model** explaining the current situation part of UM's sentiment survey has worked pretty well, explaining all important ups and downs by standard economic indicators
  - » Unemployment, inflation w/expectations, growth (ISM), the stock & housing markets, all contributing significantly with the right signs. The deviation in the early phase of the pandemic is due to the unusual short lags vs. the economy
- However, given the normal drivers, <u>the UM sentiment should have far above an average level now</u> – even if both actual and expected inflation is far above normal – the other drives more than compensate for that
  - » Can it just be as simple as the **pandemic**?? However, the pandemic can not be deemed worse now, than say 6 or 12 months ago?
  - » **... Or politics??** The difference between voters have never been larger – and republicans have never ever been so negative vs. the current situation <u>in the economy</u> as now (at least, that's what they are asked about)

… and why are the (Continental) Europeans so happy??

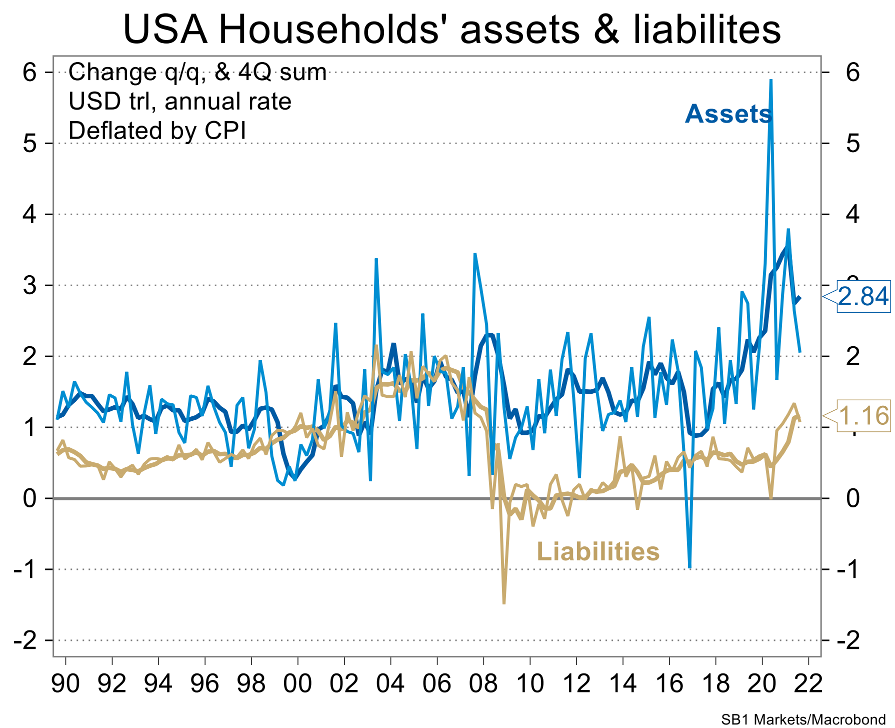
The gap between consumer confidence in Europe and the US UM survey is unprecedented, by far

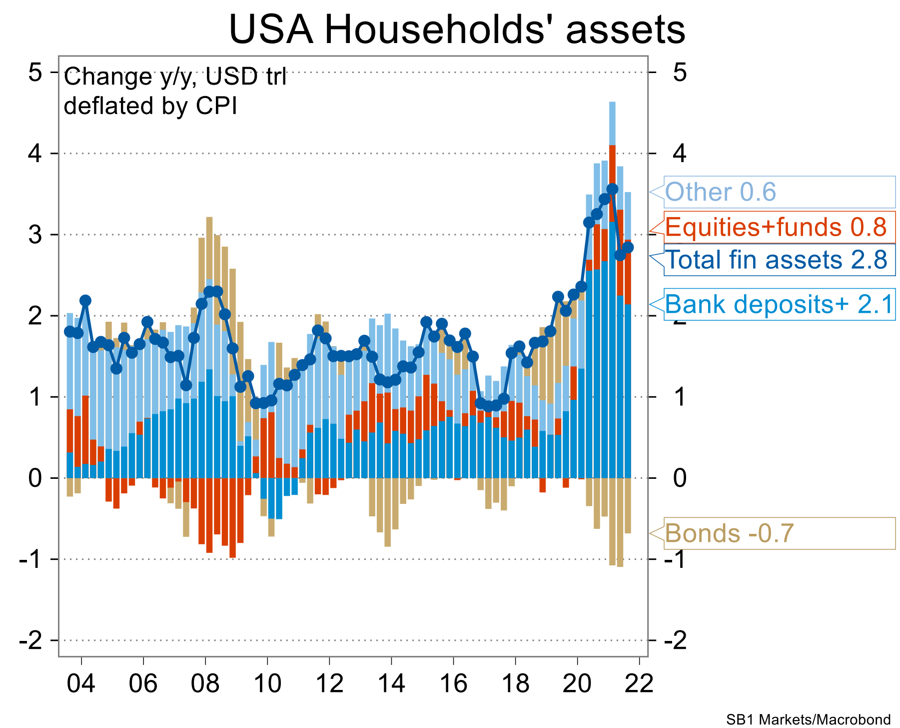


- **Inflation** is sharply up in the Euro zone too
- **Unemployment** is falling in the EMU but it is higher than in the US
- **House prices** are up in the EMU, but less than in the US
- **Stock markets** are less upbeat in Europe than in the US
- Still, the Americans are in a much weaker mood than Europeans

Flow of funds: Growth in financial assets are slowing, soon back to normal?

Equity investments are slowing too. Debt growth also slowed but remains far higher than pre-pand.



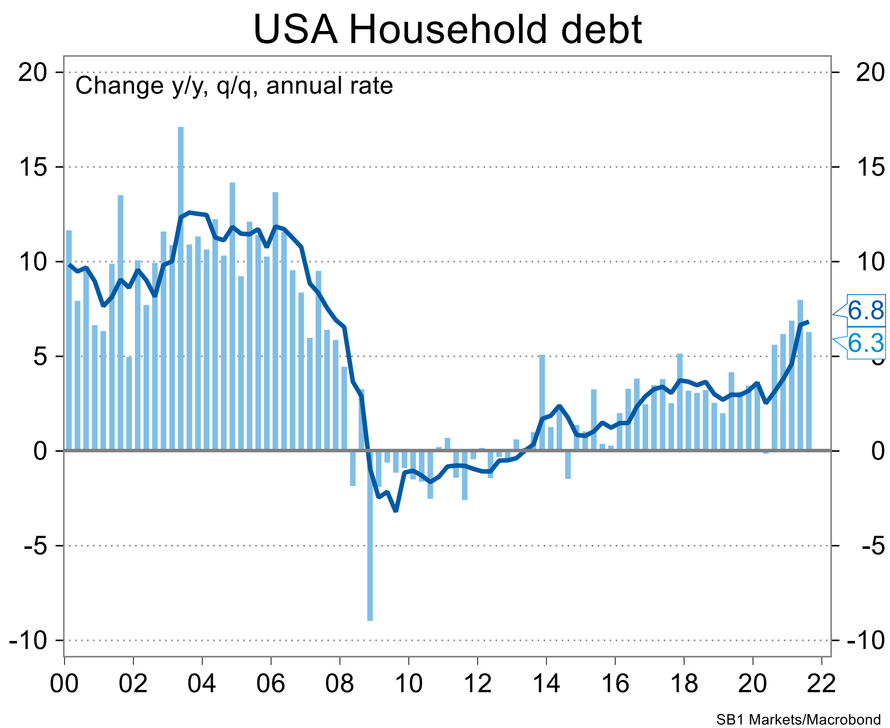


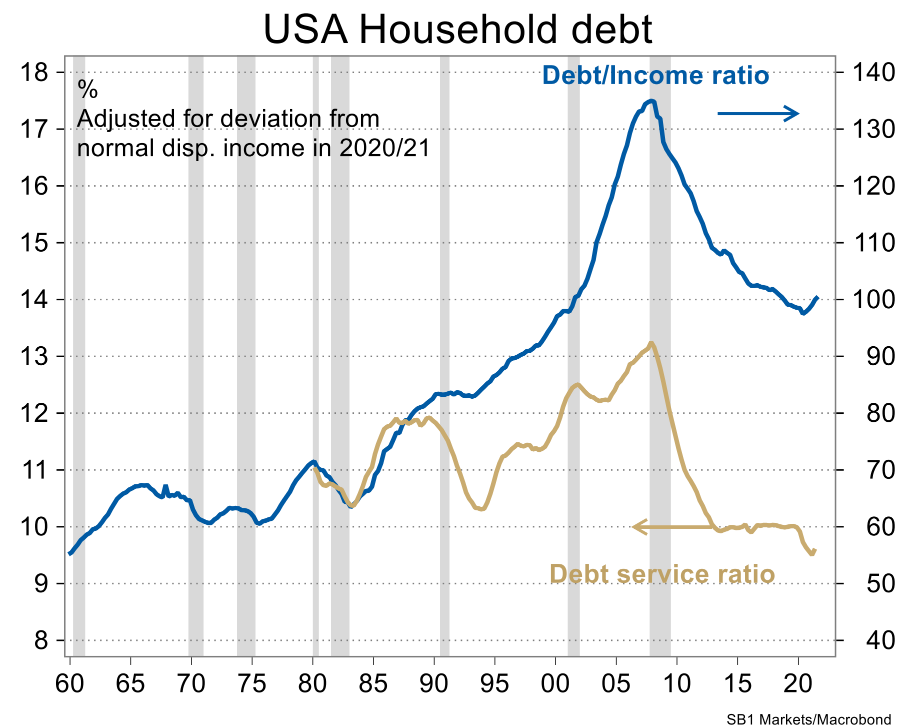
- **Households have increased their financial assets <u>through transactions</u>** by USD 2.8 trl over the past year through Q3, twice the 'normal' rate but down from 3.6 bn in early 2021. During the pandemic, savings exploded. Now the <u>savings rate</u> is back to a normal level
  - **Bank accounts** have swelled by USD 2.1 trl, or by 75% of the total (net) increase in assets over the past year. Normally, bank deposits grow by some ¾ trl per year. However, in Q3 bank deposits rose at a average pace!
  - Over the past 4 quarters, households have bought **equities and fund shares** for USD 0.8 trl (net), slightly down from the peak! In Q3, net investments equalled 0.3 trl (annual rate)
  - Households are still selling **bonds** at a close to unprecedented pace by USD 1 trl. Are they not an alternative??
  - In Q3, household has acquired assets equalling USD 2 bn, still higher than the pre-pandemic norm
- Growth in assets is partly supported by a much faster growth in debt (the balance sheet is boosted, check the chart above)

SpareBank 1 MARKETS

So low rates do have an impact? Household credit growth has accelerated

The debt/income ratio is growing again, though from far below the pre-financial crisis level



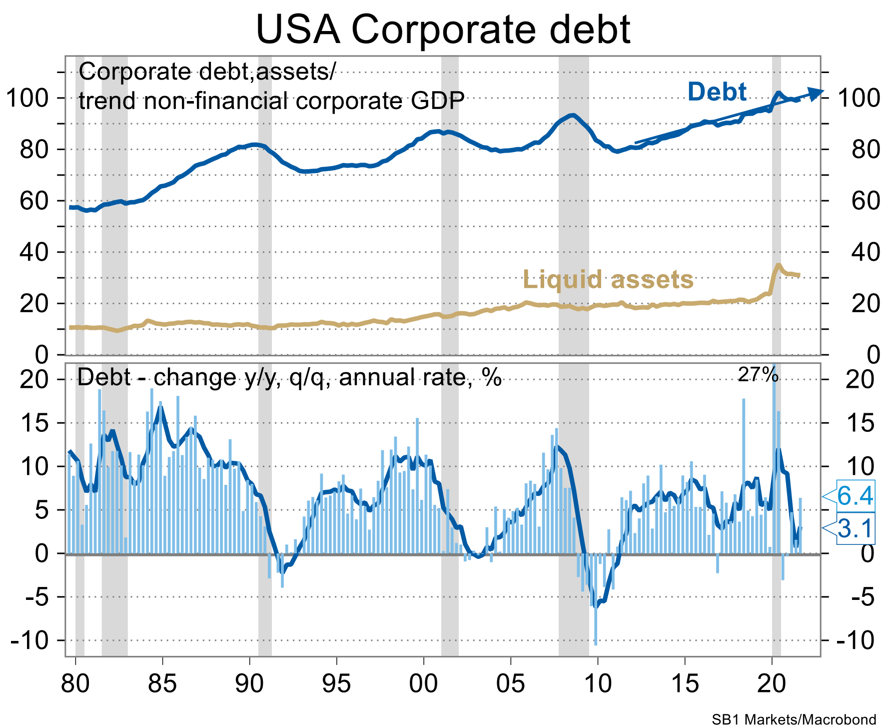


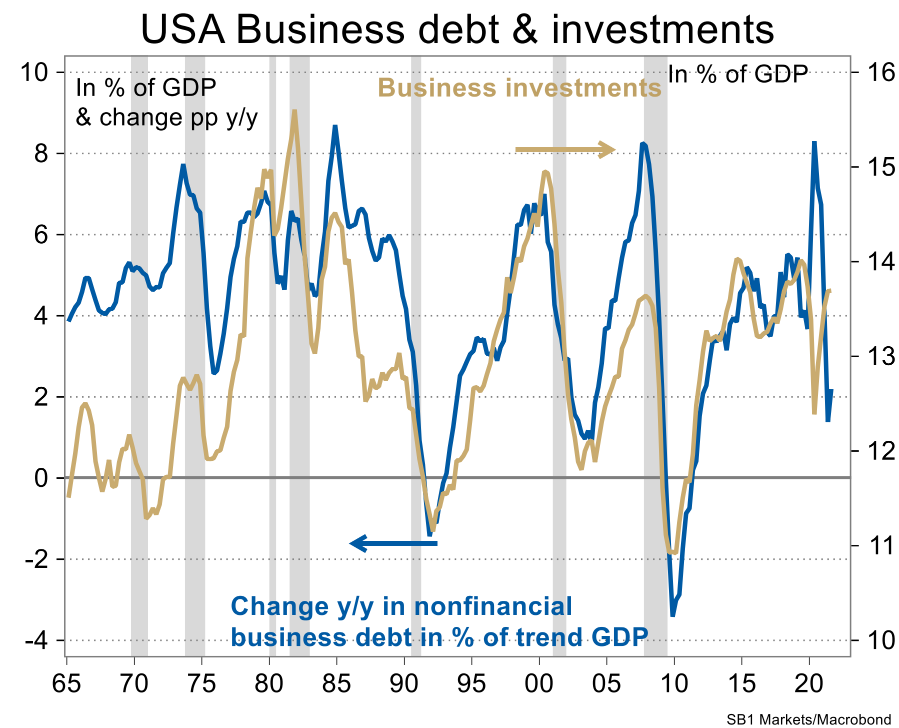
- Households have reduced their debt burden in an unprecedented way past 12 years – until Q1 last year
- From Q2-20, growth in household debt has outpaced income growth (adjusted for the income impact of the pandemic)
- In Q3-21, debt grew at a 6.3% pace, down from 8.1% in Q2 – which was the highest growth rate since 2007. In the years before the financial crisis, debt grew by some 12% per year over several years (2003 – 2006). Debt/income ratio rose from a level equal to the current level, 100%, to 135% of disposable income
  - » The more than a decade long consolidation period from 2007 was the toughest ever, in US history. And it almost killed the economy, when credit demand (and supply) collapsed in 2008
  - » Now, the deb/income ratio is at decent level – no reason to worry. (Norwegian households entertain a debt to income ratio that is > twice as high)
- The debt/income debt service ratio is record low, due to the low mortgage rate

SpareBank 1 MARKETS

Corporate debt growth has slowed, following the Q1-20 hike

However, the debt level is high – but so is the level of liquid assets too ☺

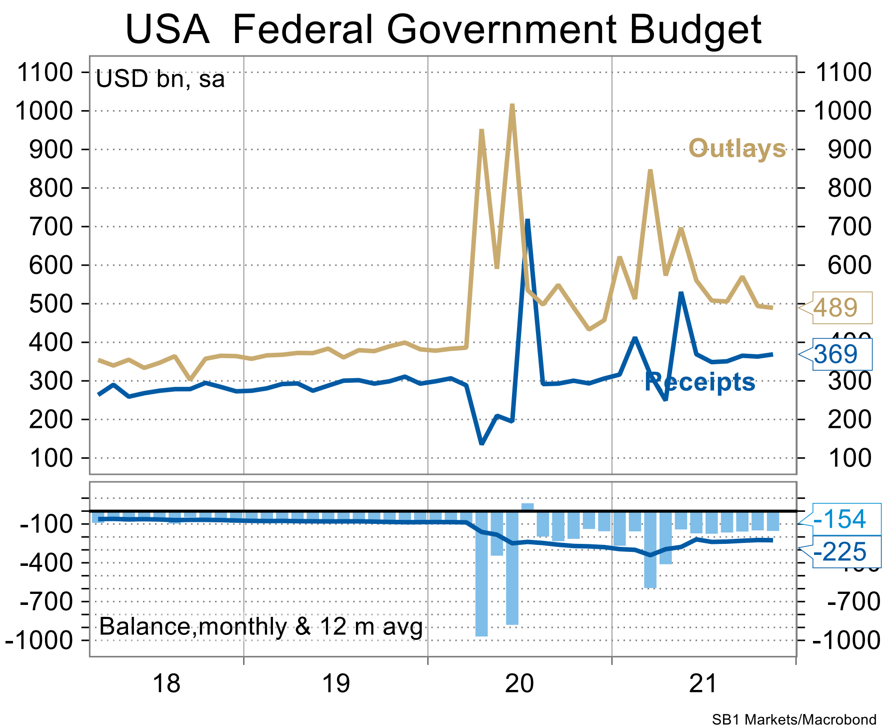


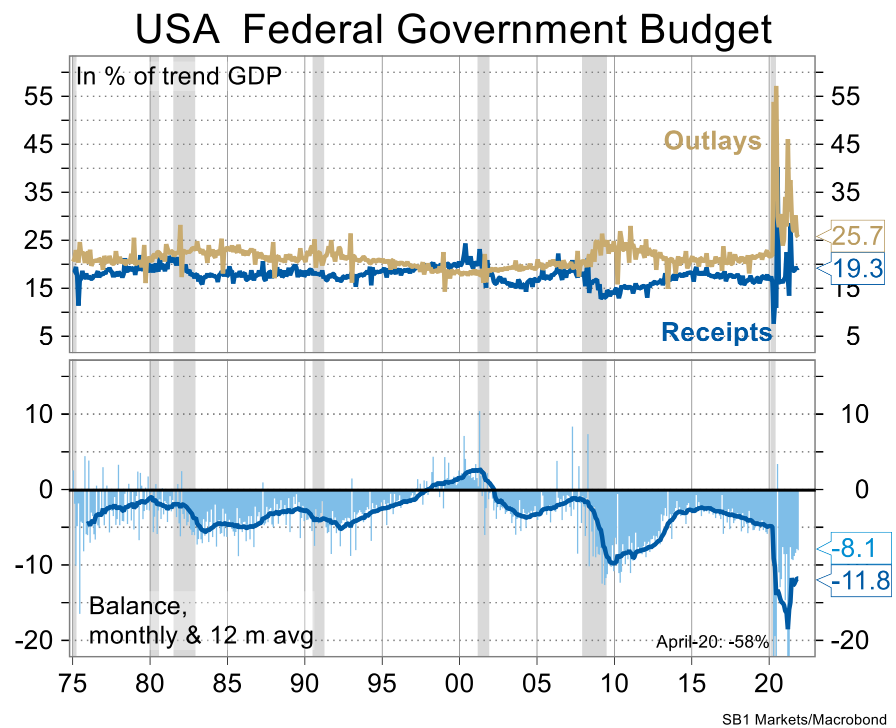


- Corporate debt rose 6.4% (annualised) in Q3, up from 1.1% in Q2. Measured y/y, debt is up by 3.1% a low level. However, debt rose sharply in Q2 last year, as companies secured funding, and slashed investments costs. The corp debt/GDP ratio is close to the long term trend. Barring the super-high borrowing last spring, this ratio is at a record high level
- On the other hand, companies have also increased their liquid assets sharply since before the pandemic, to the highest level ever
- In sum: Companies still have some capacity to further lift their investments – even if the profit cycle turns south

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

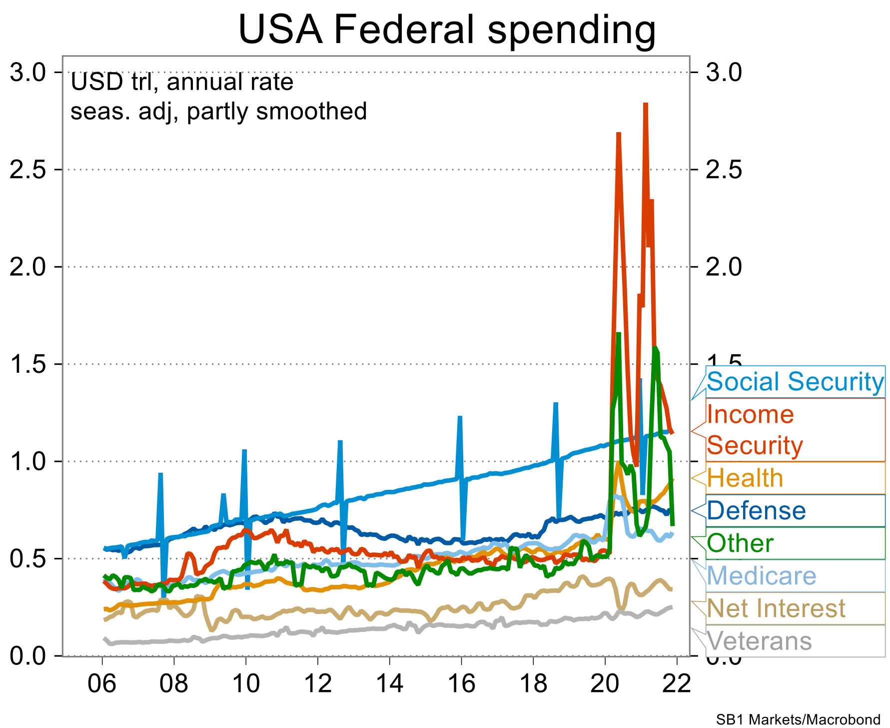
Spending is more than 1.000 bn above the pre-pandemic level (5% of GDP), revenues far less

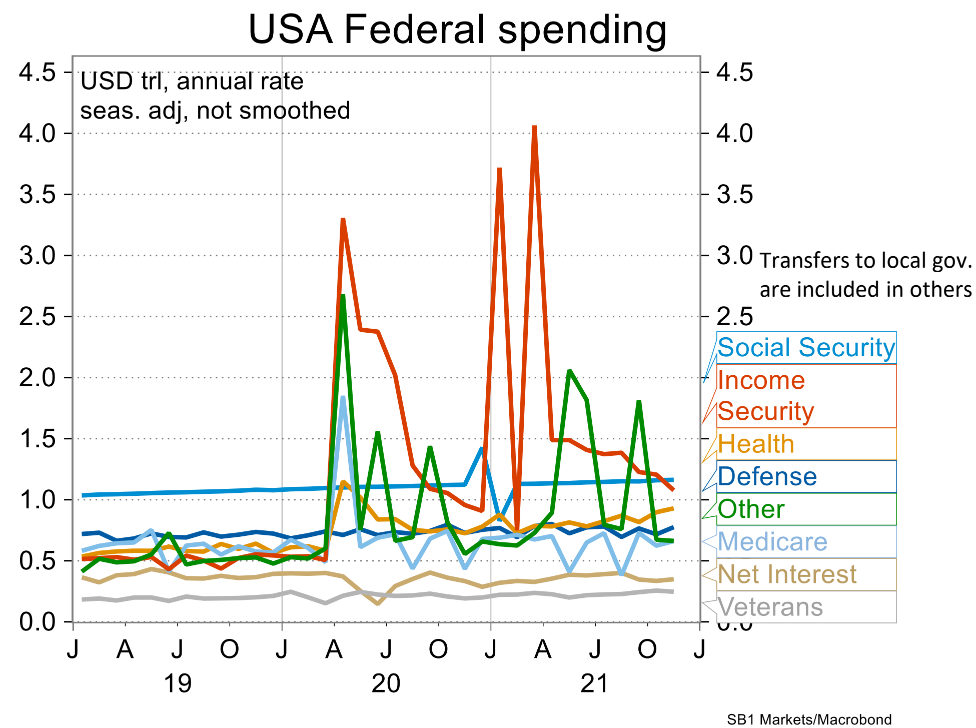




- **Federal expenses** are gradually declining as pandemic programs are scaled down. Spending equals 25.7% of GDP, up from a 21- 22% pre-pandemic level
- **Federal receipts** are gradually recovering due to robust growth in GDP and employment. Revenues equal 19.3% of GDP, which also is up vs pre-Covid level at some 17%
- The actual **deficit** was USD 191 bn Nov, expected 193 bn. The seas. adj deficit equalled USD 154 bn or 8.1% of GDP. Over the past 12 months the Federal deficit has equalled 11.8% of GDP. Before corona, the federal deficit was at close to 5%. Including other parts of the public sector, the overall deficit was 6.5% - in a booming economy with low unemployment!

Income security & ‘other’ spending (much to states) are normalising

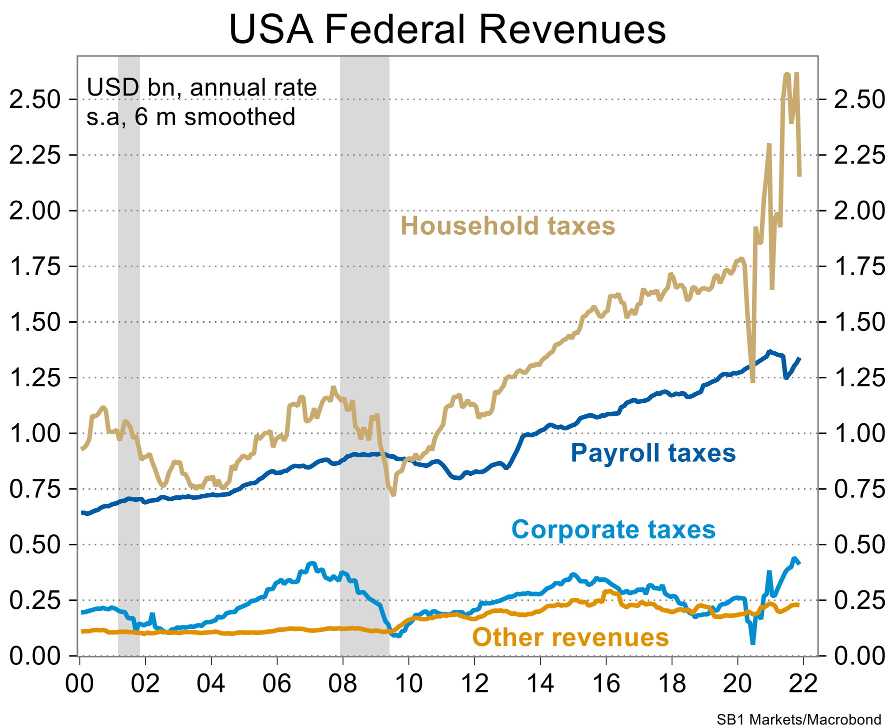


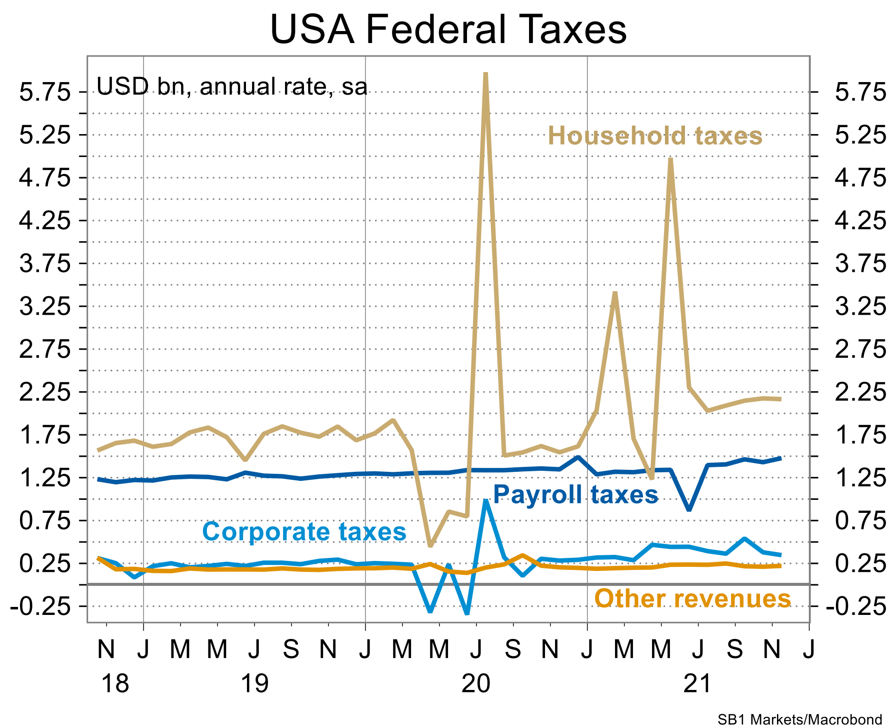


- Both Income security and ‘other spending’ is far above the pre-pandemic level. Health spending is up too
- We still deem most of this extra spending to be temporary and due to the stimulus packages, and other Covid related measures

Tax revenues have are significantly higher than before the pandemic

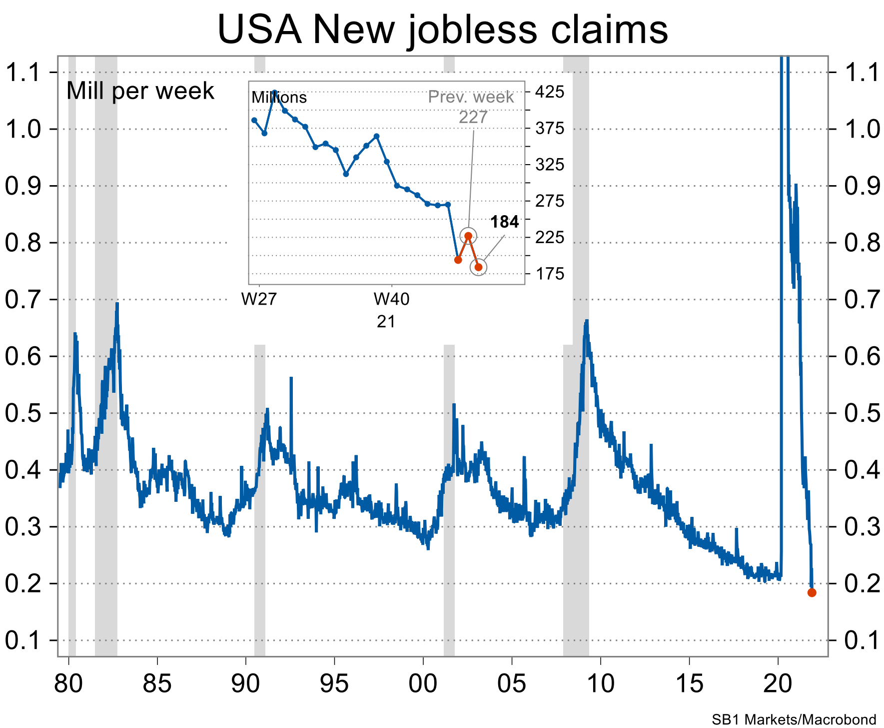
Especially taxes paid by household and corporates

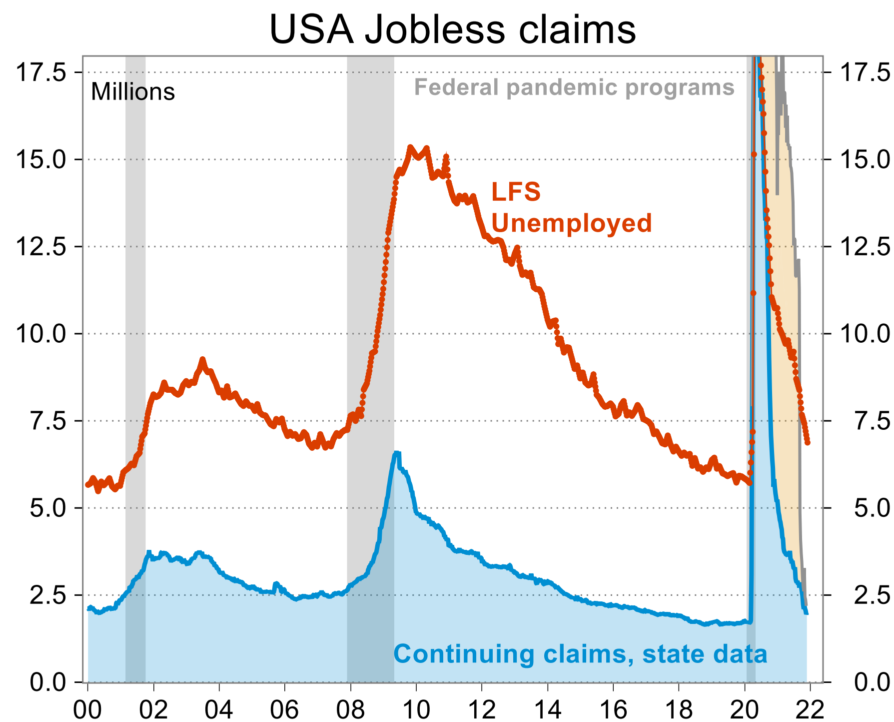




New jobless claims down to another ATL

No of continued jobless claims is rapidly declining too

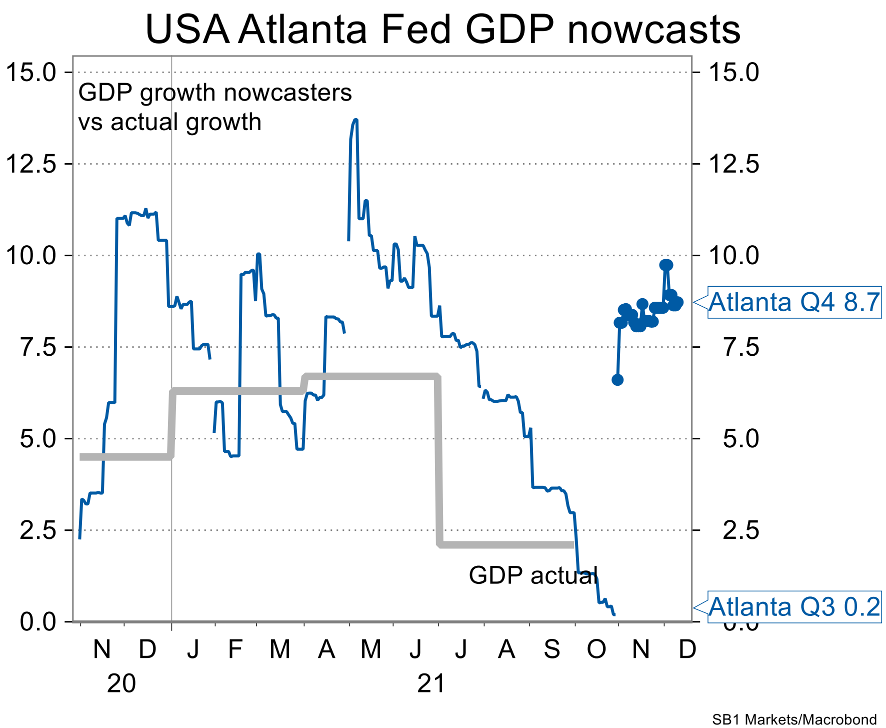


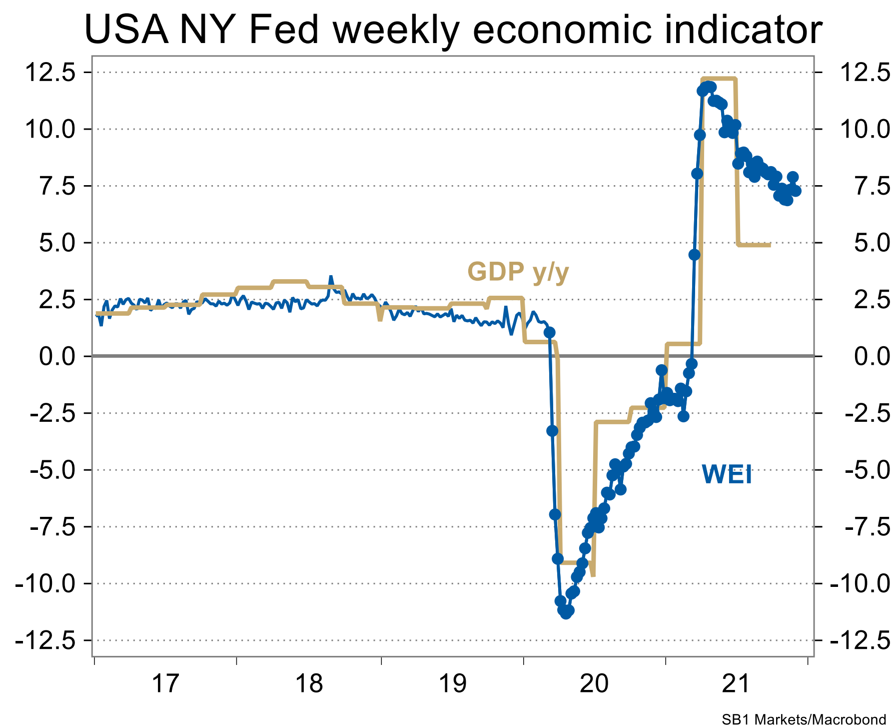


- **New jobless claims** fell to ALT at 184' in week 48, down from 227' - expected slightly up. This is the 2nd week ever with less than 200' new jobless claims
- **Ordinary continuing claims** rose marginally in week 47, but at 2 mill it is less than 0.3 mill above the pre-pandemic level – and the trend is sharply down
- This report surely confirms an **extremely tight labour market**

Atlanta Fed's nowcaster suggests 8.7% growth in Q4!

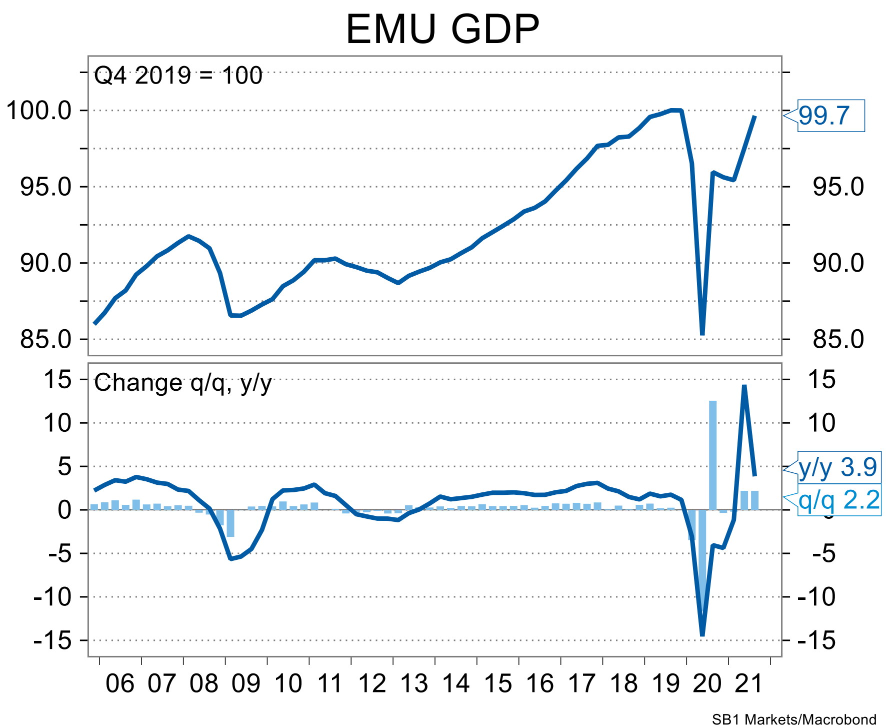
If so, GDP will be up 5.9% y/y in Q4, in line with Fed's forecast (so they were right on something)

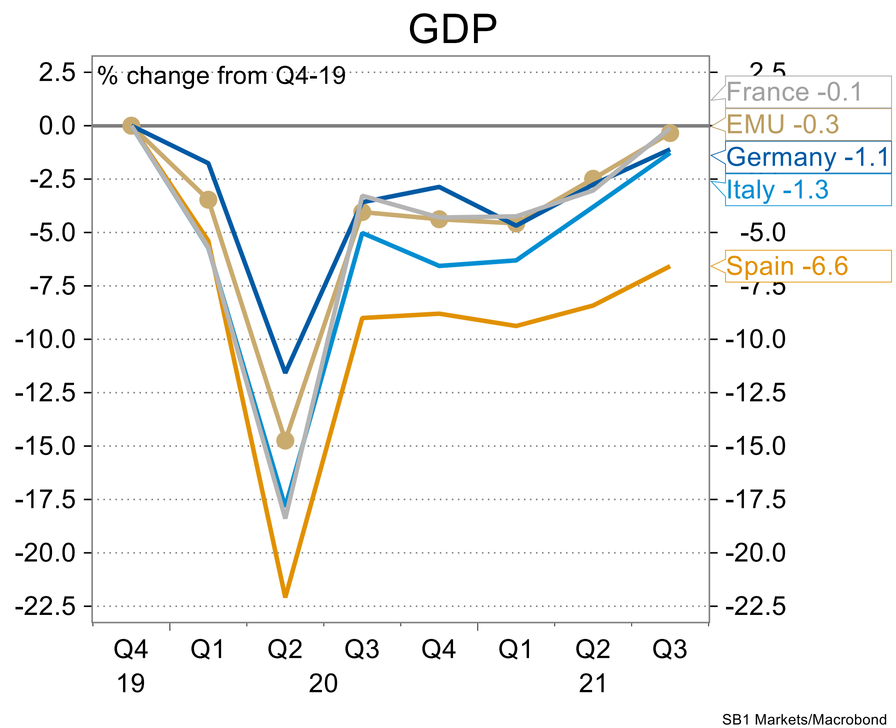




GDP confirmed up 2.2% in Q3 (9.1% annualised), 0.3% below the pre-pand. level

Growth all over the region in Q3. Household demand the main contributor, business invest. down



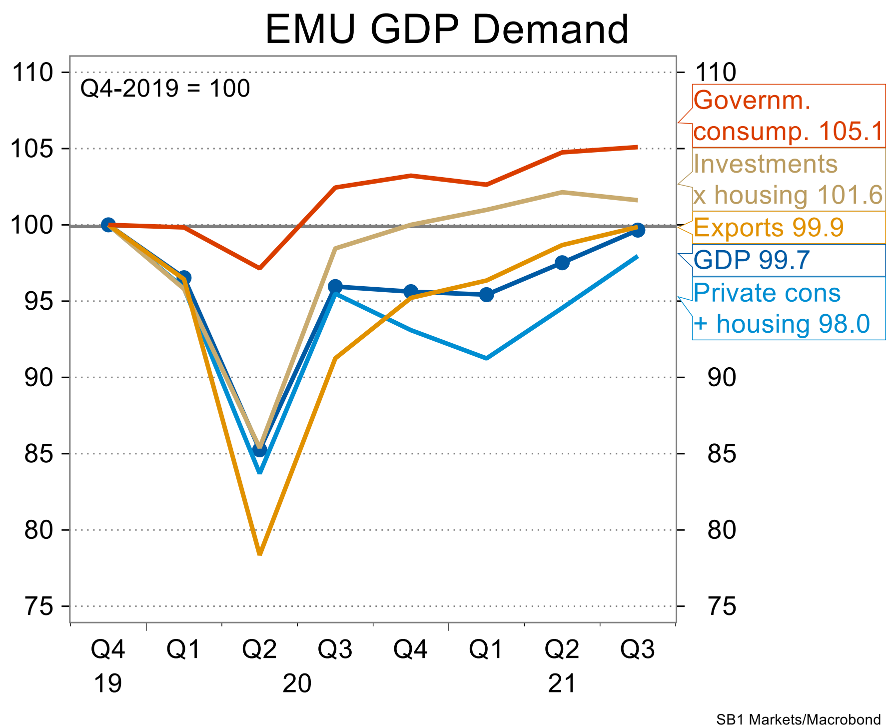


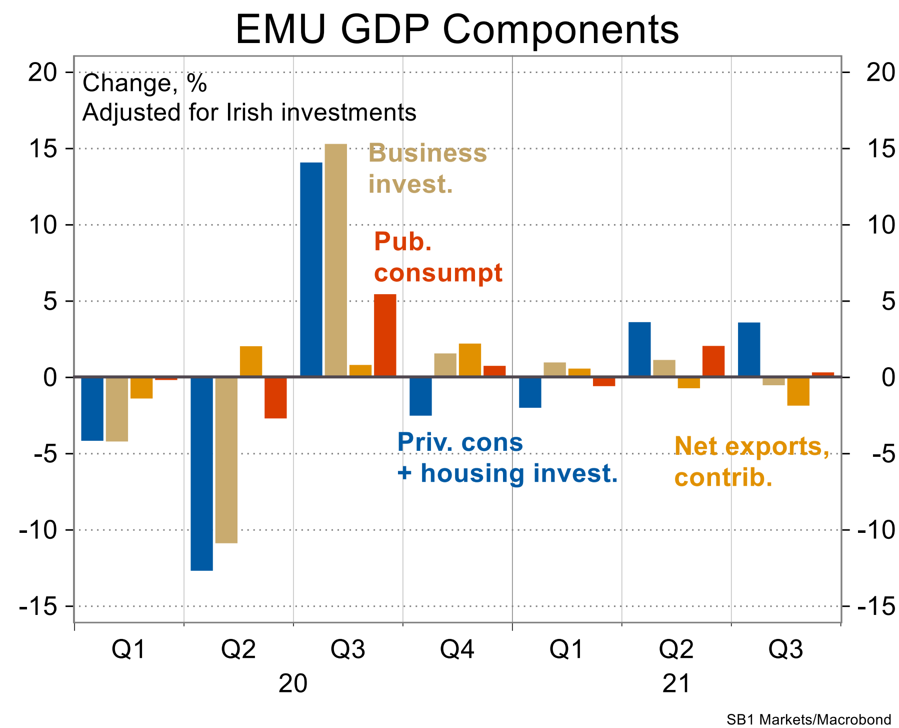
- None of the 4 big countries have returned to the pre-pandemic level. France is closest

SpareBank 1 MARKETS

Household demand the main demand driver, investments slipped in Q3

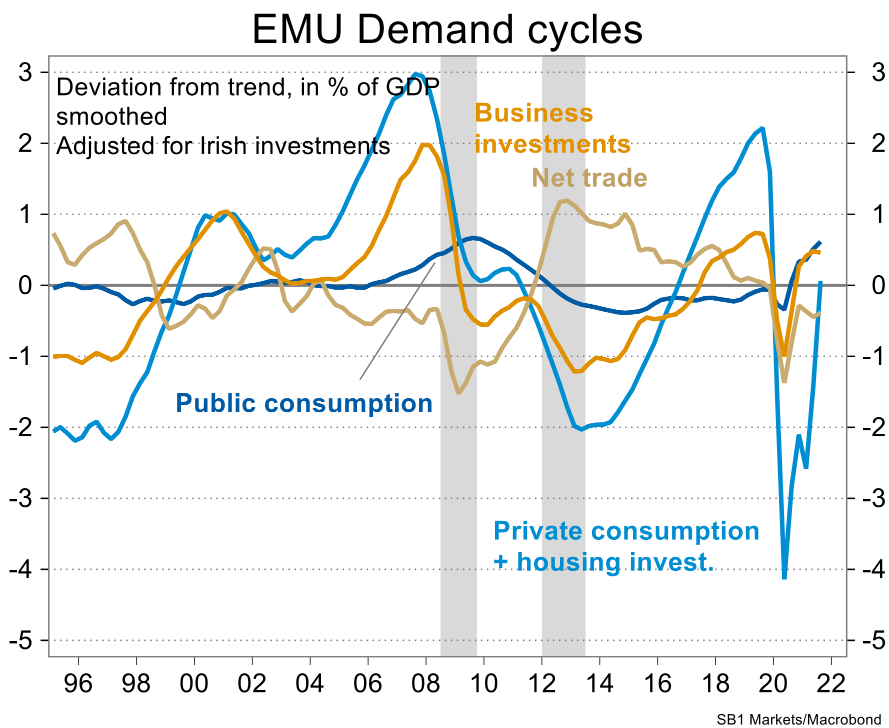
… And exports are recovering, but imports even more (net exports down in Q3)





Household demand back on track. Net trade is slowing

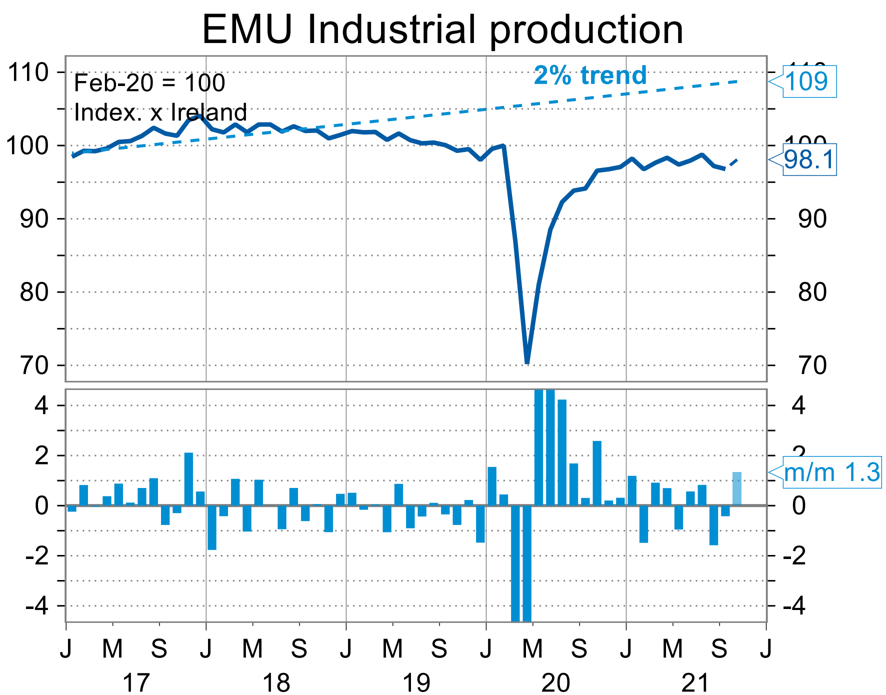
… as imports are growth in faster

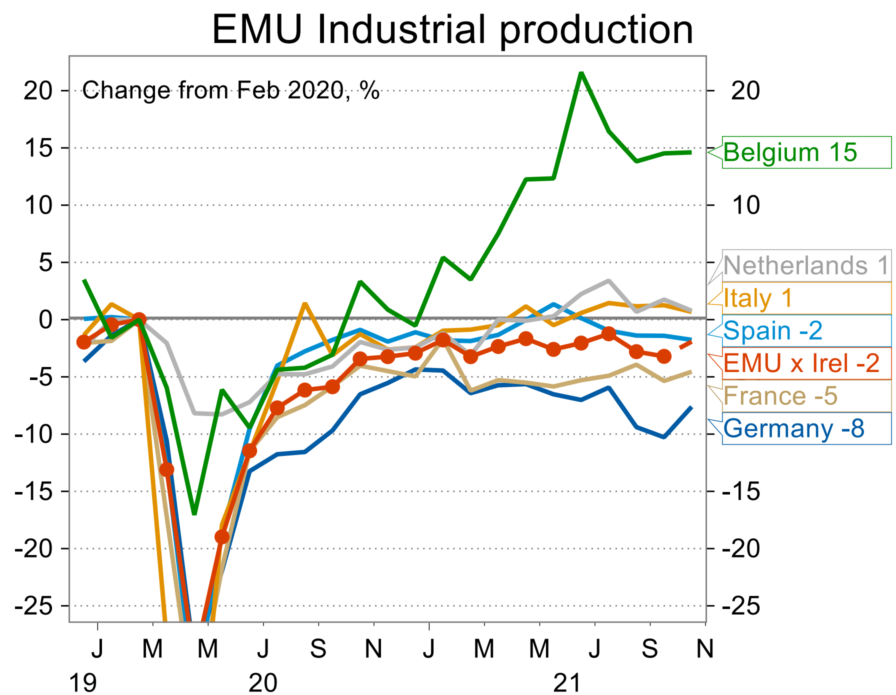


- Probably still an upside potential for **household demand**, as savings have been higher than normal during the pandemic
- **Business investments** are above the long term trend

German, French manufacturing production up in October

Italy and Spain reported a slowdown but total production in the Euro Zone probably rose >1%.

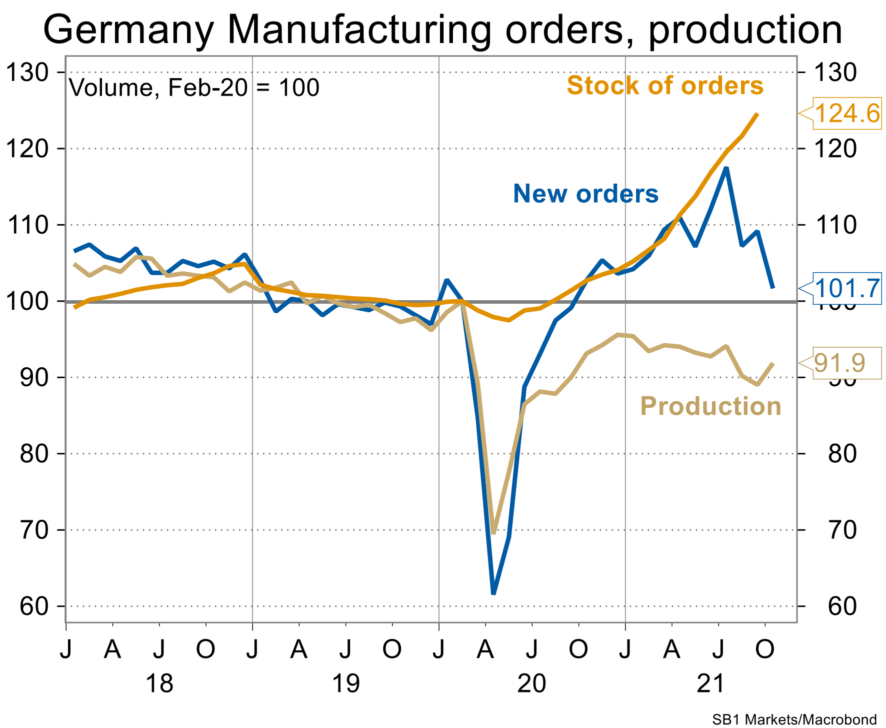


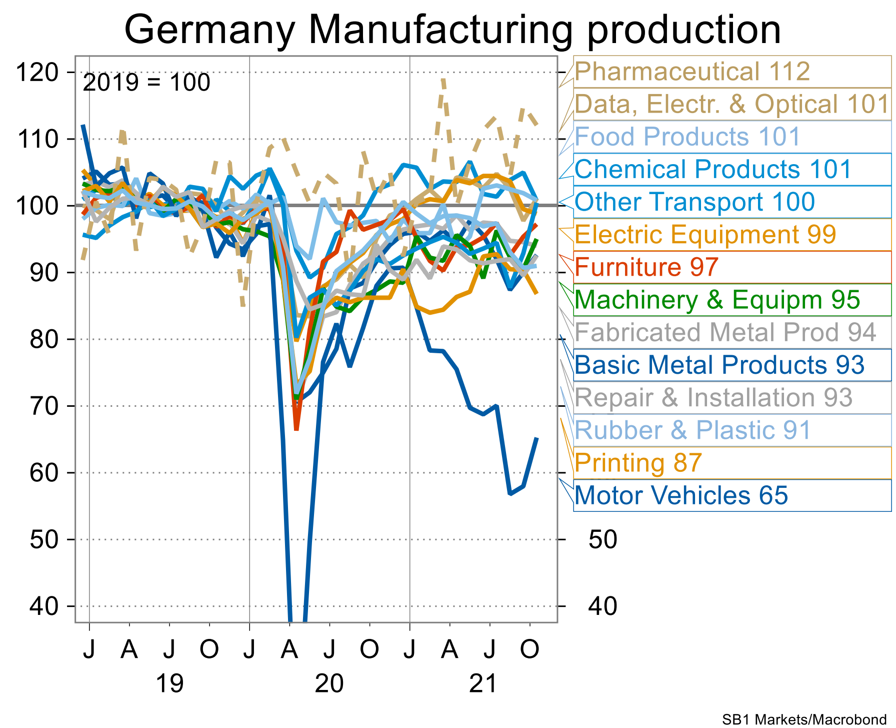


- In **Germany** production rose by 3%, and more than expected (1%) but the level remains low, down 8% vs. Feb-20
- **Production in the EMU** has trended flat so far in 2021, even if surveys have signaled more than decent growth. The sharp setback in auto production explains much of the overall 'weakness'

German factory orders plummets are nosediving but is demand really crumbling?

Order reserves are soaring as supply side problem have kept producting in check, at least in auto prod

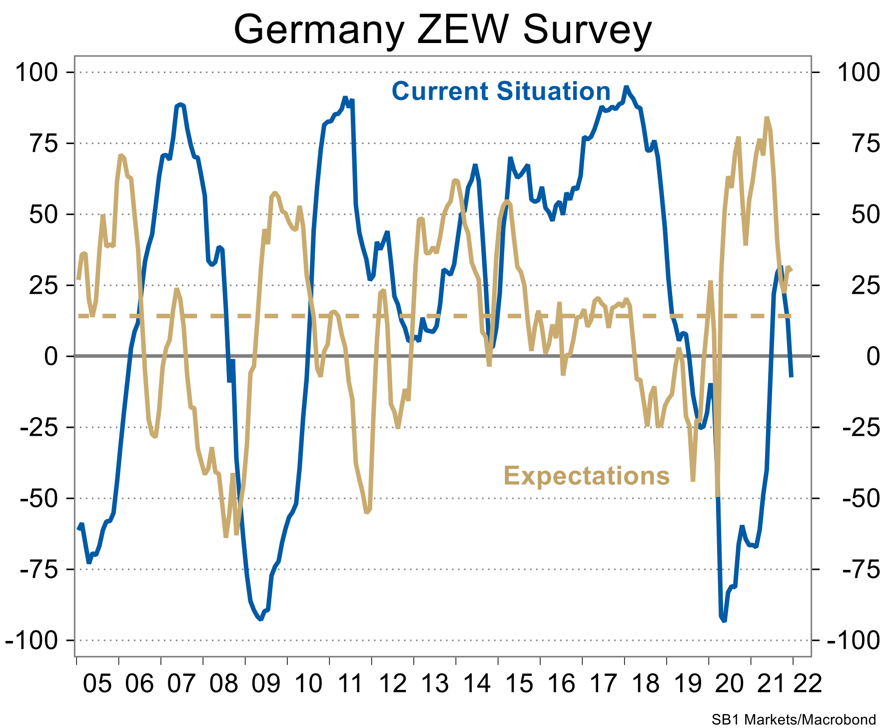


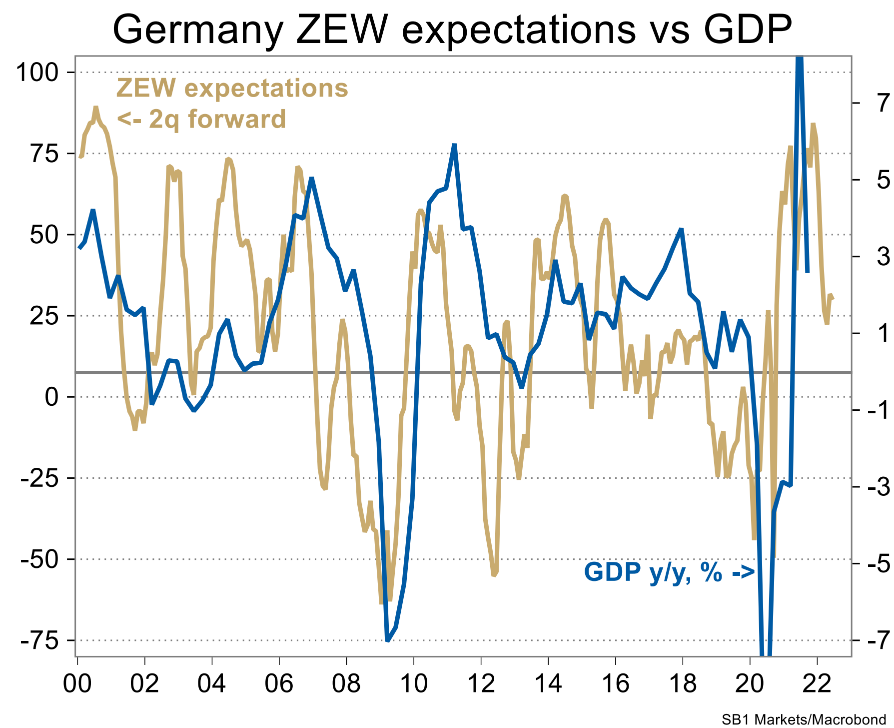


- Therefor, a slowdown in new orders does probably not signal weaker demand

ZEW expectations not hurt by the viruses but current situation weaker

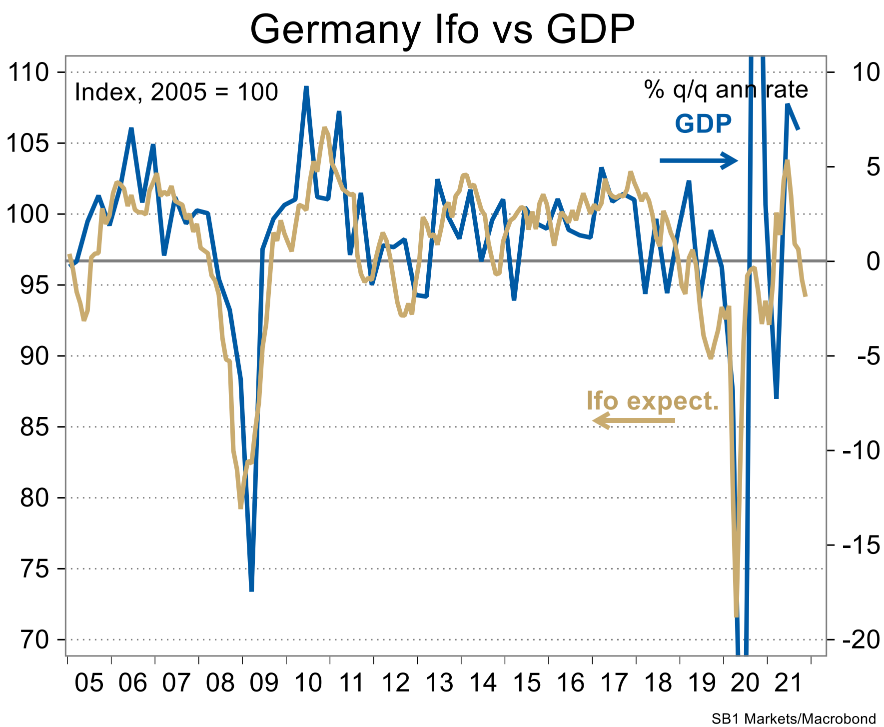
New restrictions, reduced activity in parts of the service sector to blame. Still current sit. at average

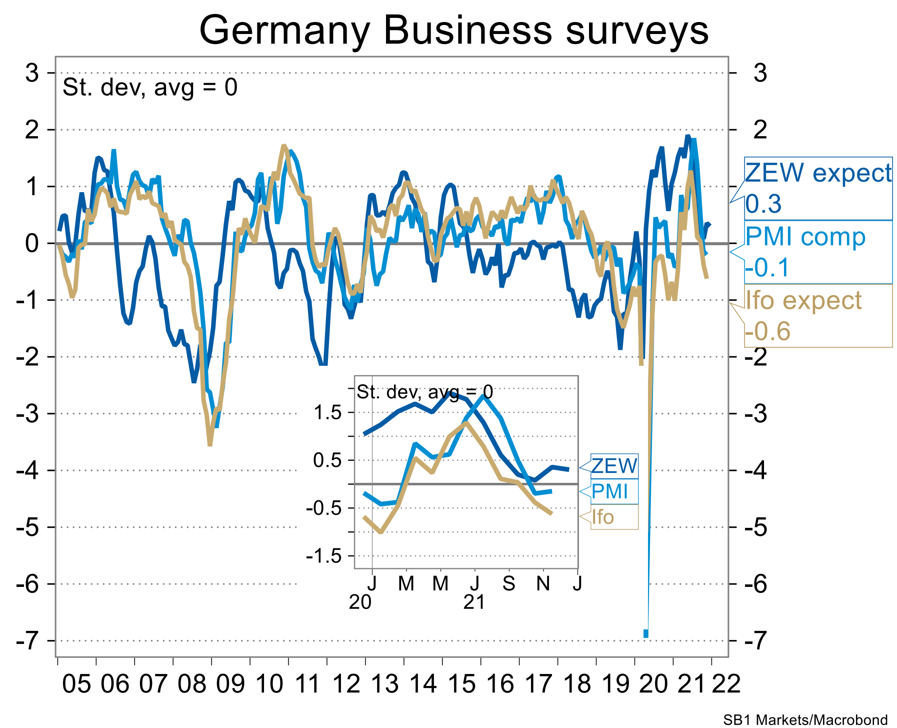




- The **ZEW expectation** index fell marginally, by 2 p to 29.9, expected down to 25.5
  - » The index is somewhat above average – and it signals a 1%+ growth rate
- **Assessment of the current situation** declined much more than expected, by 20 p to -7.5 p, but that is just down to an average level, signalling normal growth

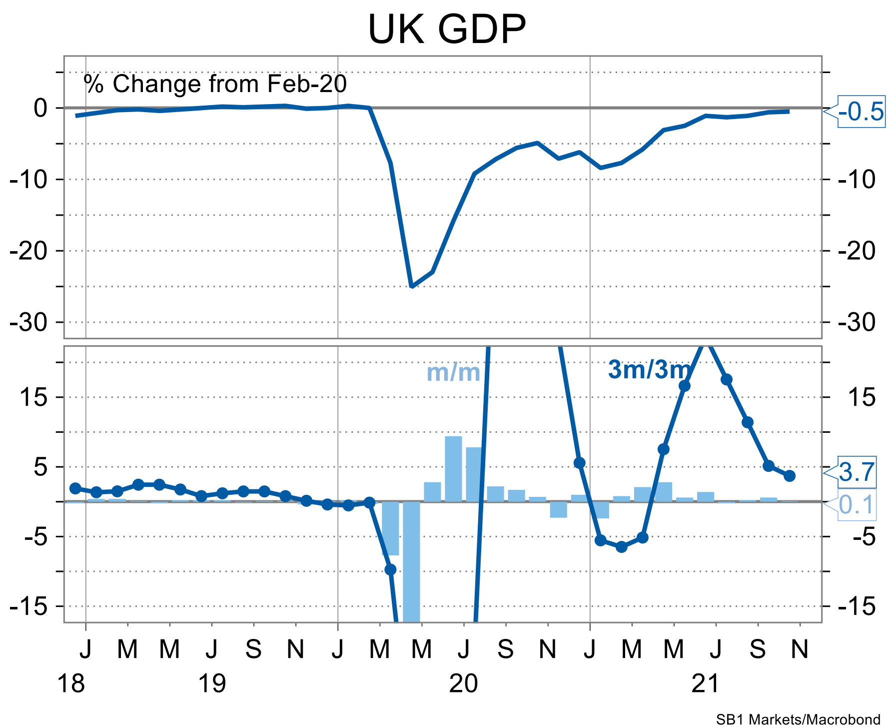
By and large, surveys signal growth slightly below or close to trend

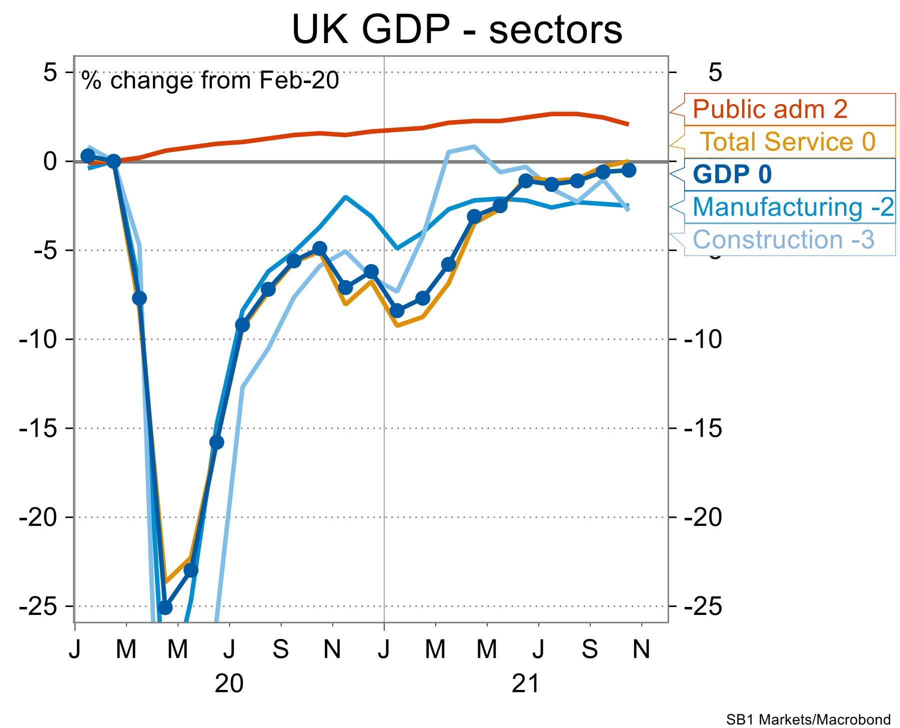




GDP up just 0.1% in Oct – and still 0.5% below the pre-pandemic level!

GDP was expected up 0.4%. Services still on the way up but construction and construction down

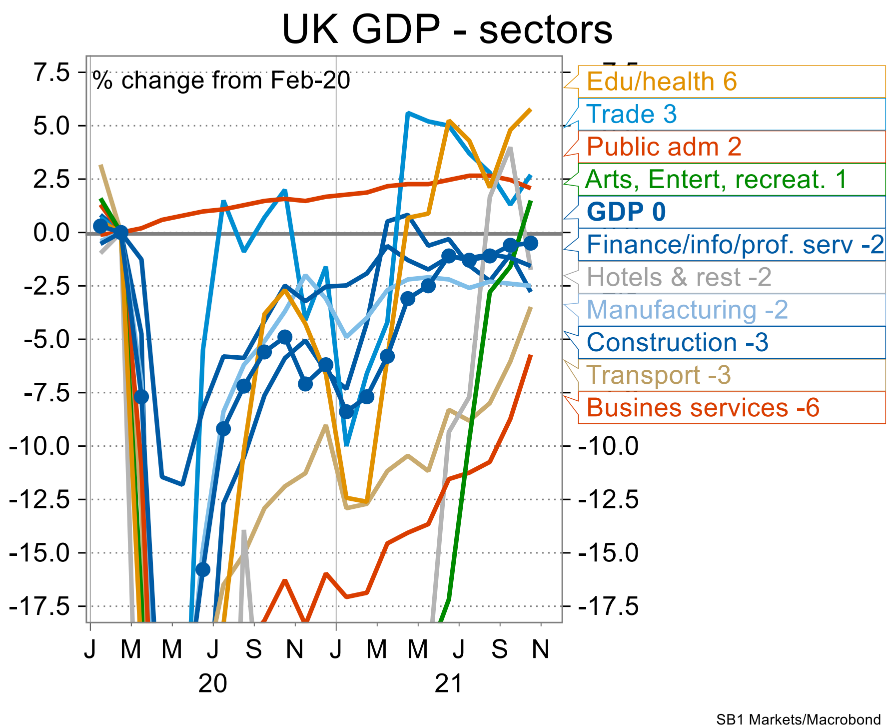




- **GDP growth has been modest since June, and GDP is still below the Feb-20 level. Many rich countries are now above**
- **Service production** was up 0.7% in September, while **manufacturing production** fell 0.1%. Services in total is back to the pre pandemic level
- **Public demand** has been the main growth engine through the pandemic. **Household demand** is now recovering but are still well below the pre-pandemic level. **Business investments** may have bottomed but remains well below par. Exports are down, but so are imports, and net trade is close to neutral

Hotels/restaurants down in October, but other pandemic hurt sectors up

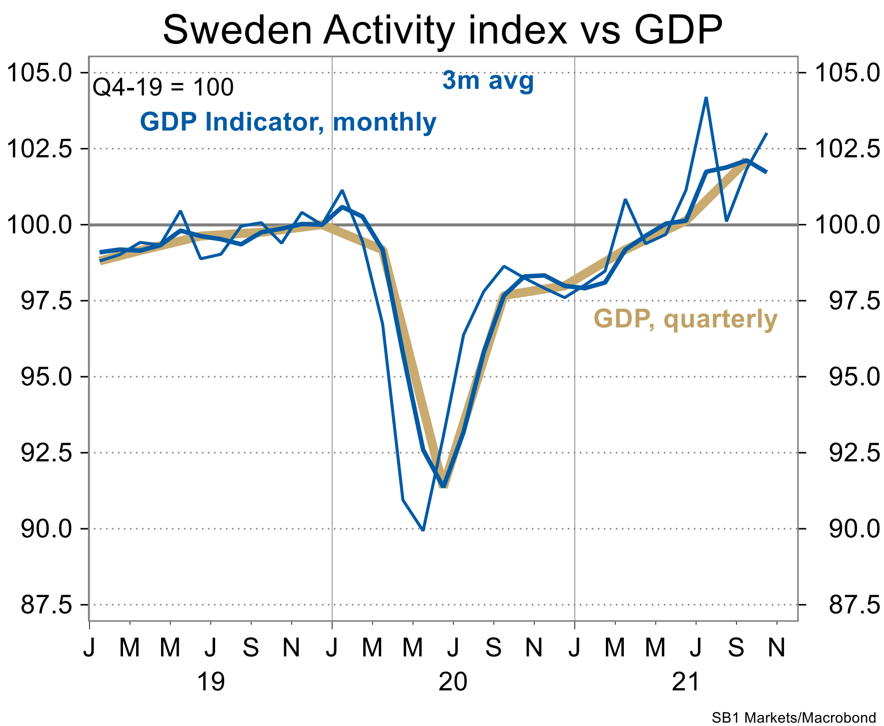
Business services are still down 6%, transport -3%. Hotels were up 4%, now down 2%. All vs. Feb-20

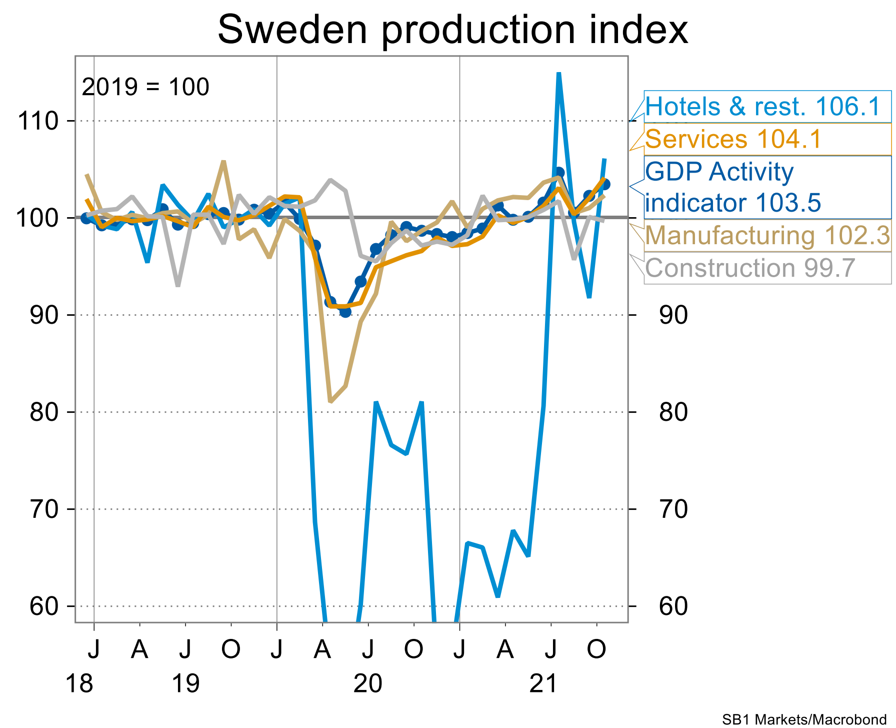


- Manufacturing production fell by 0.1% in October, expected up 0.2%. Production is still down 2.5% vs. Feb-20

GDP further up by 1.2% in October, to 3% above the pre-pandemic level

Both services and the manufacturing contributed to the lift





- **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 included in Markit's PMI universe). We still question if the Riksbank's extremely expansionary stance is appropriate

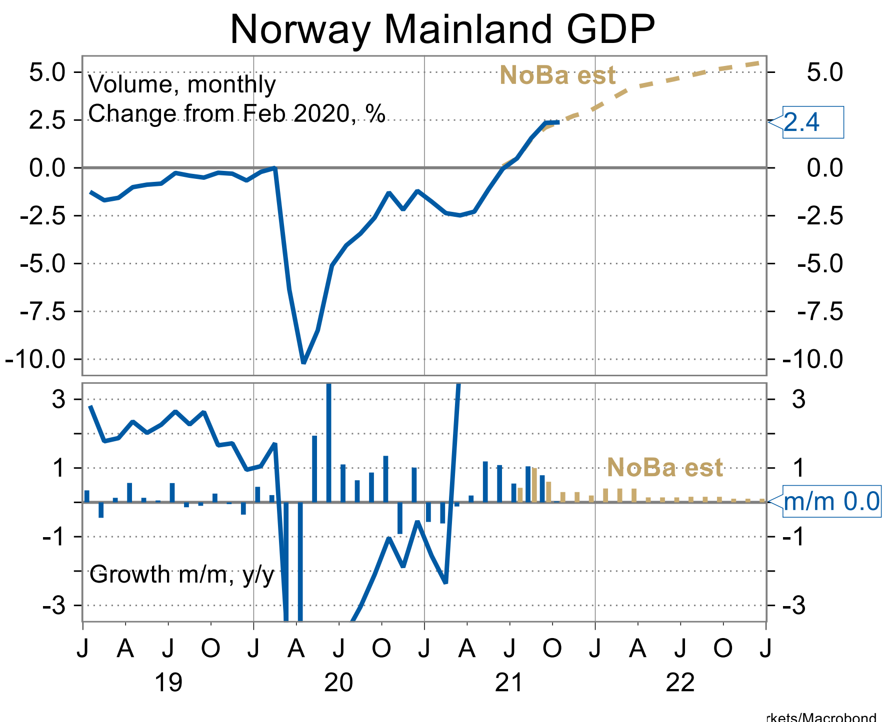
Highlights

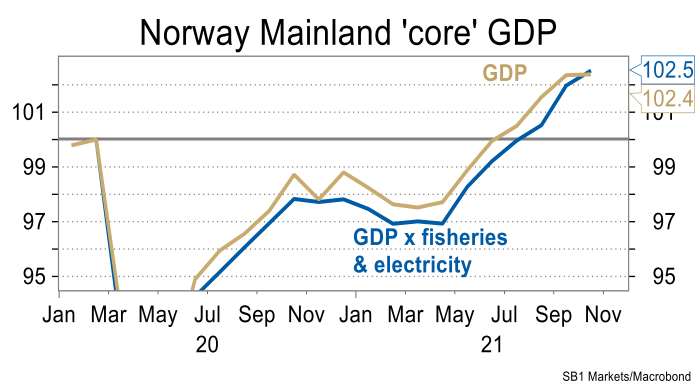
The world around us

The Norwegian economy

Market charts & comments

Mainland GDP flat in October, no more mackerel



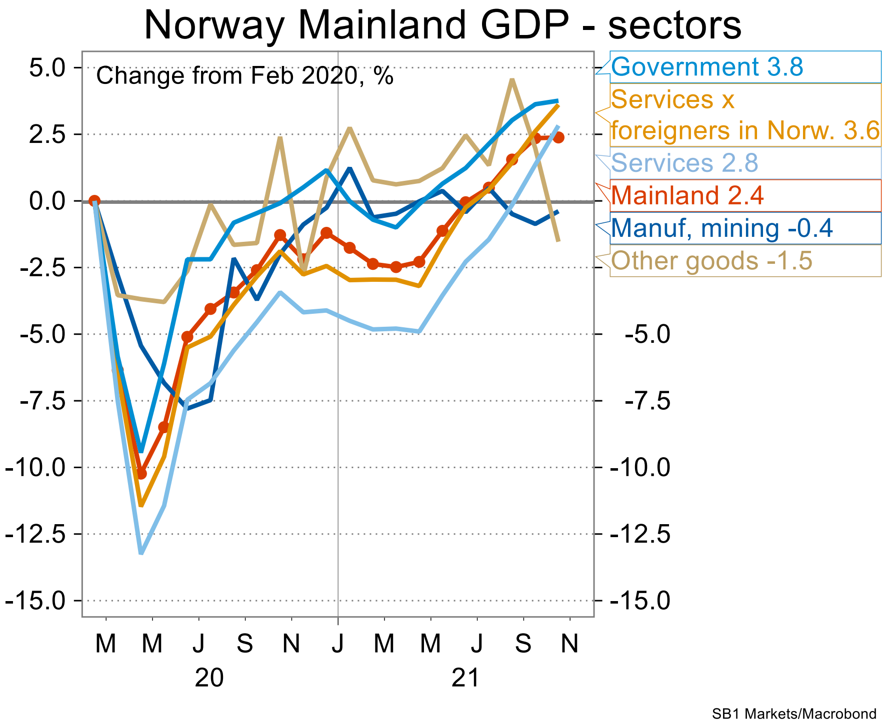


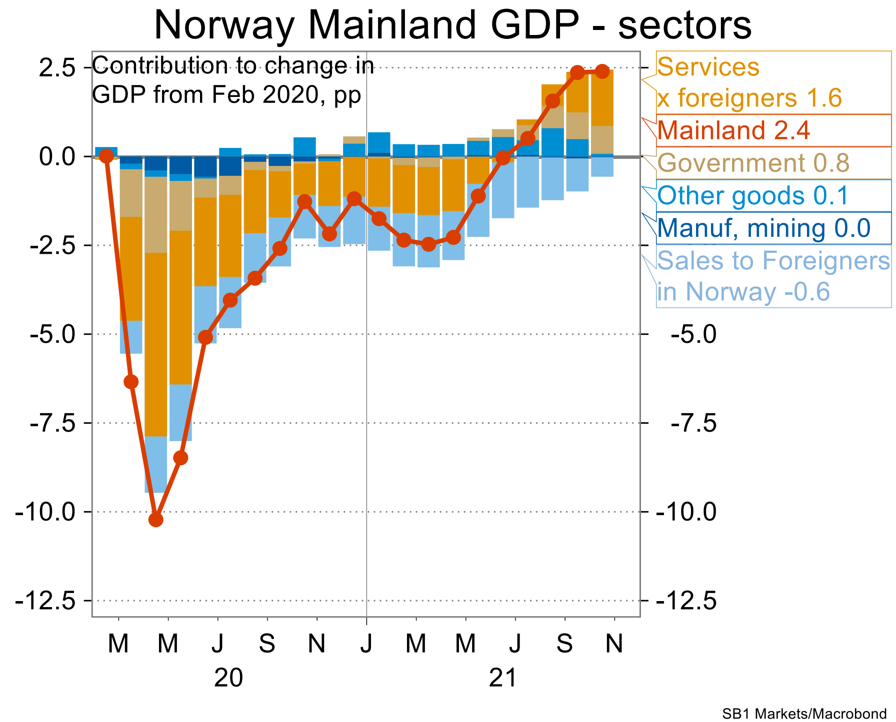
- **'Mainland' (including open water fisheries though) GDP** was flat in October, we expected, in line with consensus, +0.4%, Norges Bank assumed 0.3% (in the Sept MPR). GDP is now 2.4% above the pre-pandemic level
  - » Once again, the mackerel made the macroeconomist look stupid. The mackerel fishing season started earlier than normal (due to Brexit, they say), and GDP rose sharply in August, close to 1 pp contribution! By October, the mackerel had emigrated to British seas, deducting 0.4 pp from Mainland GDP growth. Electricity production was flat, and 'core' GDP rose by 0.8%, in line with growth in no. of employees
  - » **Production in other sectors:** Private services were up 1.5% in m/m with a substantial contrib. from restaurants/hotels up 11%, business surveys, +7%. transport 5% & culture -4%. Construction rose 1%
  - » **Demand:** Norwegians' spending at home was up flat, as spending abroad rose by 40%. Goods down, services up. Oil investments rose sharply, while Mainland business investments remain weak. Exports rose, imports fell. Inventories were drawn down
- **Mainland GDP is up 2.4% vs the Feb-20 level**
  - » **Production:** Services are back in black, Hotels & restaurants are in plus, while business services and transport is still below the Feb-20 level. Manufacturing is flat, construction is down 1.6%
  - » **Demand:** Norwegians' spending at home is up 7% from Feb-20, goods 10% (and now heading down), services up 1.5% - but still rapidly on the way up. Spending abroad is still down 56 %, and total household spending is up 1.8%. Oil investments are in plus, ML business investments are still below par
- **The recovery has been strong. Now, virus restrictions will dampen activity in parts of the service once more**

SpareBank 1 MARKETS

Production: Other goods down the drain with the decline in fisheries

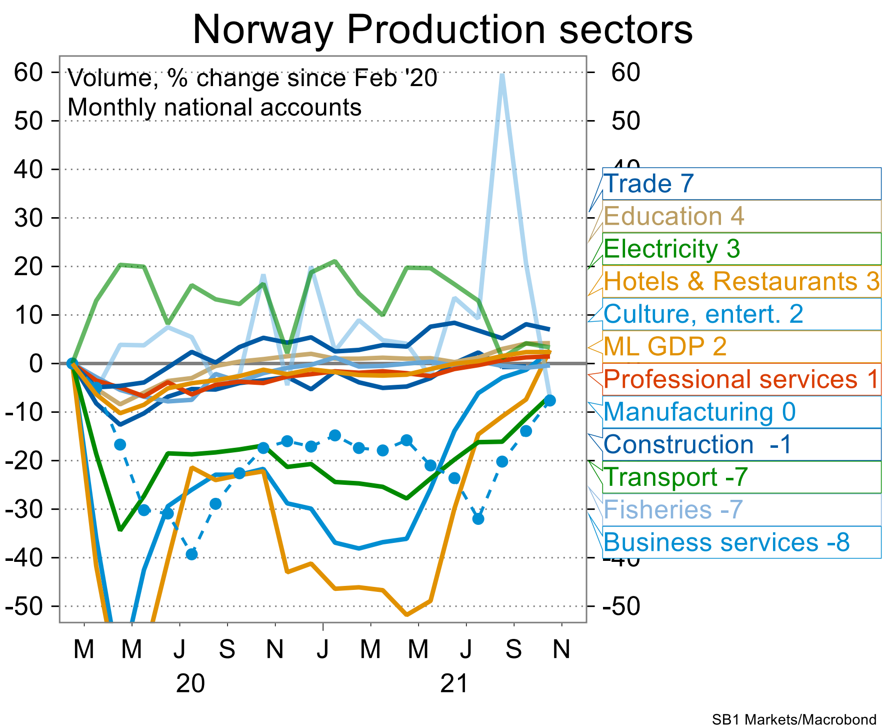
The recovery has been strong from the local through in March

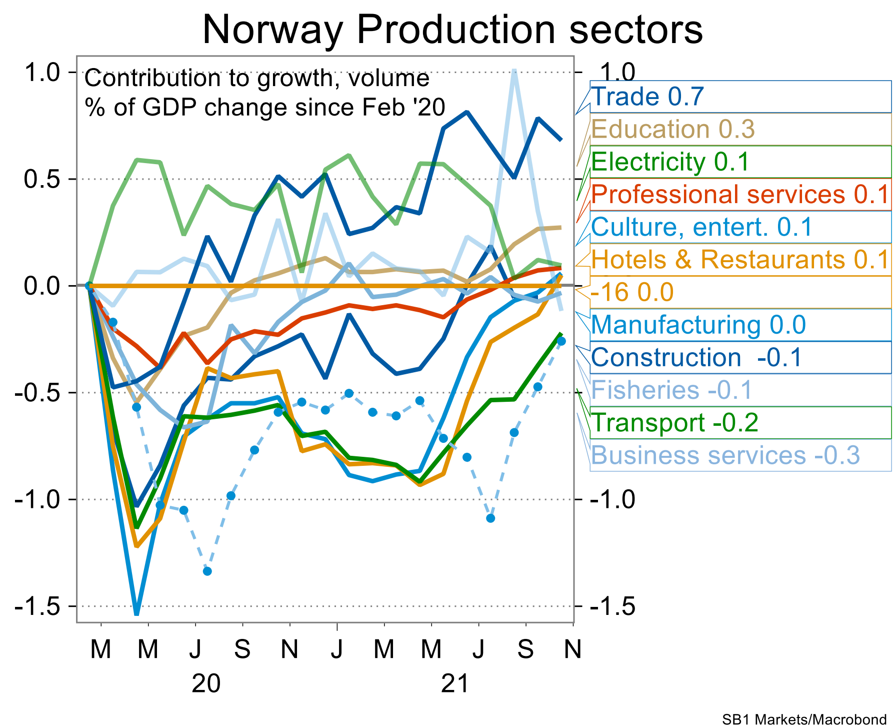




Prod. details: Just the mackerel on the dowside

Fisheries down more than 40% from the high peak in August, as fisheries started earlier than normal



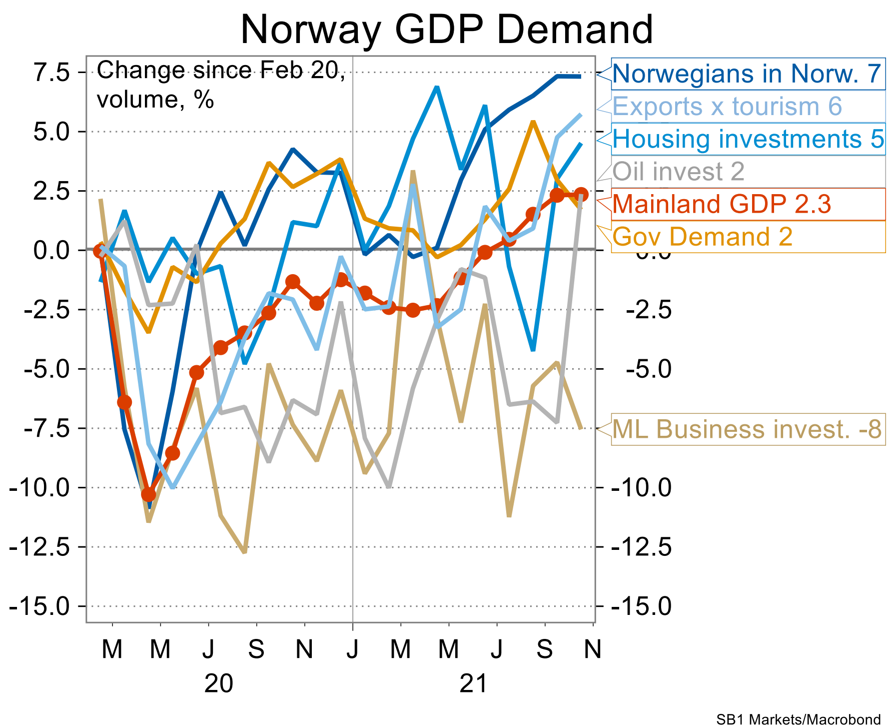


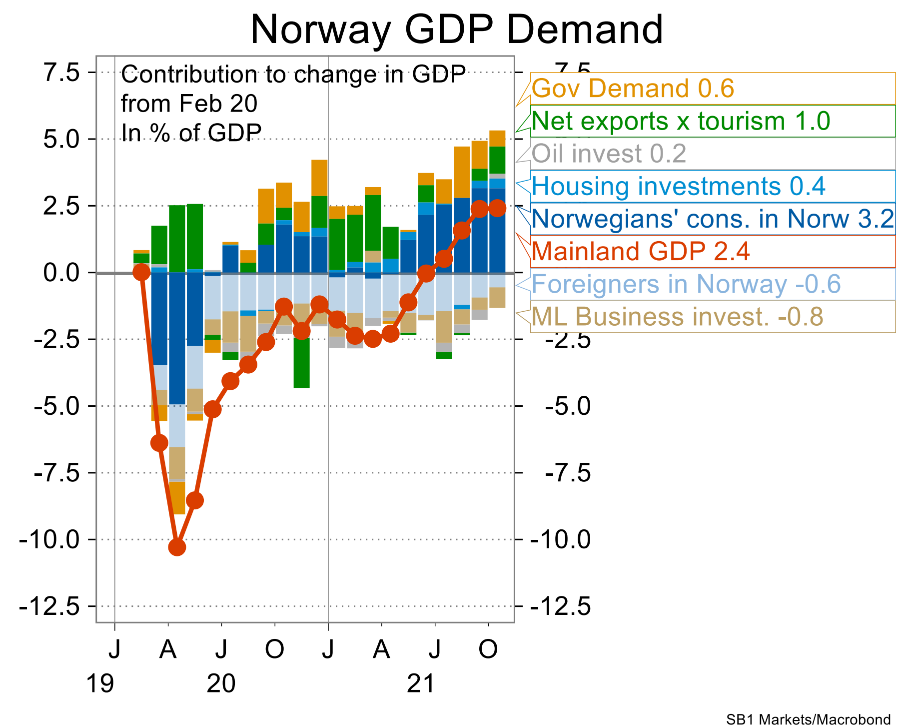
- Production in hotels & restaurants shot up 11% - to above the pre-pandemic level
- Culture & entertainment is back too!
- Transport is recovering rapidly but the level is still 7% below the Feb-20 level
- Business services are recovering further – and is now 'just' 8% down

Business services: Temp services, travel agencies, call centres, congresses, cleaning, canteens, property services, leasing

Demand: Mainland business investments are lagging, other demand is OK

Oil investments straight up in October but Mainland business investments remains low

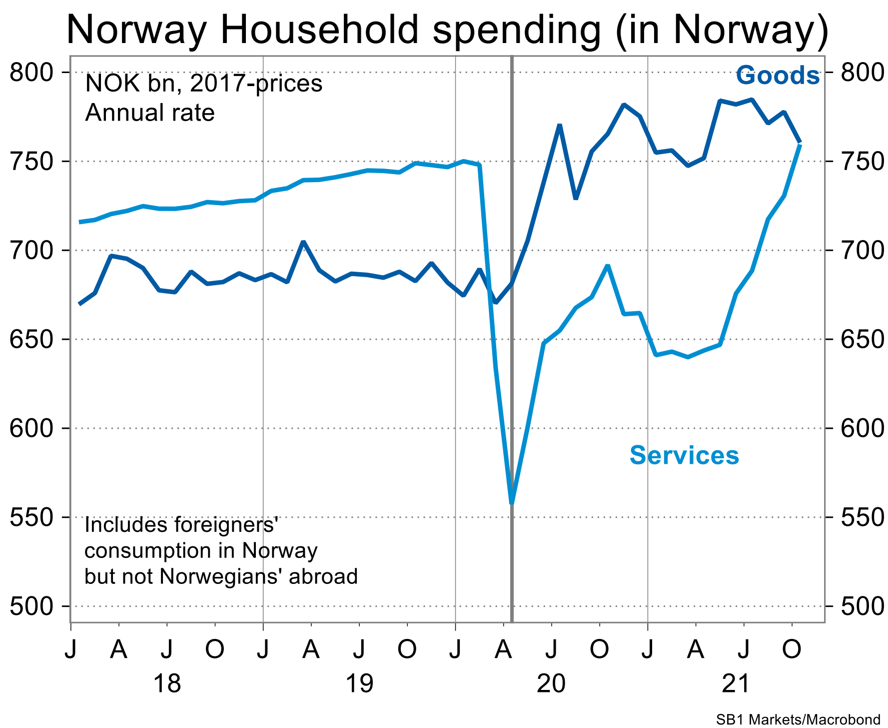


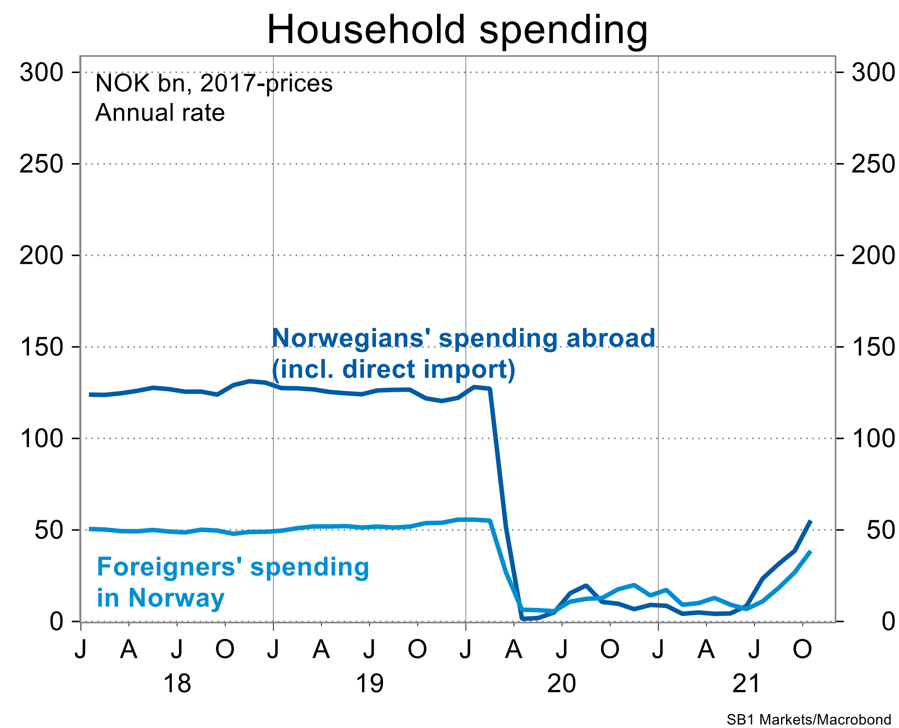


- **Norwegians' consumption in Norway** was flat in October, up 7% vs. Feb-20!
- **Foreigners consumption** rose sharply in Oct, but is still down equalling 0.6% from GDP (not adjusted for import content of goods they (used to) buy here)
- **Housing investments** have recovered in Sept/Oct, level 5% up vs. Feb-20
- **Mainland business** investments fell 3% - and is still weak, down 8% vs. Feb-20
- **Oil investments** suddenly gained 10% m/m in Oct, and is above par
- **Government demand** fell 0.2% but is 2% up vs. Feb-20
- **Mainland exports** (x tourism) is still on the way up, +6% above Feb-20, well above growth in imports

Services consumption in Norway finally above the Feb-20 level

A setback likely during the last (?) fight against the virus now, but still a substantial upside





- Consumption of goods is heading down – and more to come, the level is still too high
- Spending abroad is still muted, especially for Norwegians – foreign consumption in Norway has recovered far better!

SpareBank 1 MARKETS

More shopping in Sweden, goods demand in Norw -17 bn, spending abroad +17 bn

Services are recovering rapidly too, both by Norwegians and foreigners

Norway Consumption spending from Feb 20

Sales of consumer goods/ services & consumption	Change from Feb 20, NOK bn, annual rate, const. (-75, -25, 25, 75) bn	% Change (-60, -40, -20, 0, 20) %
Sales in Norway	**82**	**5.7**
Goods	71	10.3
Services	11	1.5
Norwegians in Norway	**99**	**7.2**
Goods	78	11.6
Services	21	3.0
Foreigners in Norw.	**-17**	**-30.1**
Norwegians' consumption	**27**	**1.8**
In Norway	99	7.2
Abroad	-72	-56.6

SB1 Markets/Macrobond

Norway Consumption spending m/m

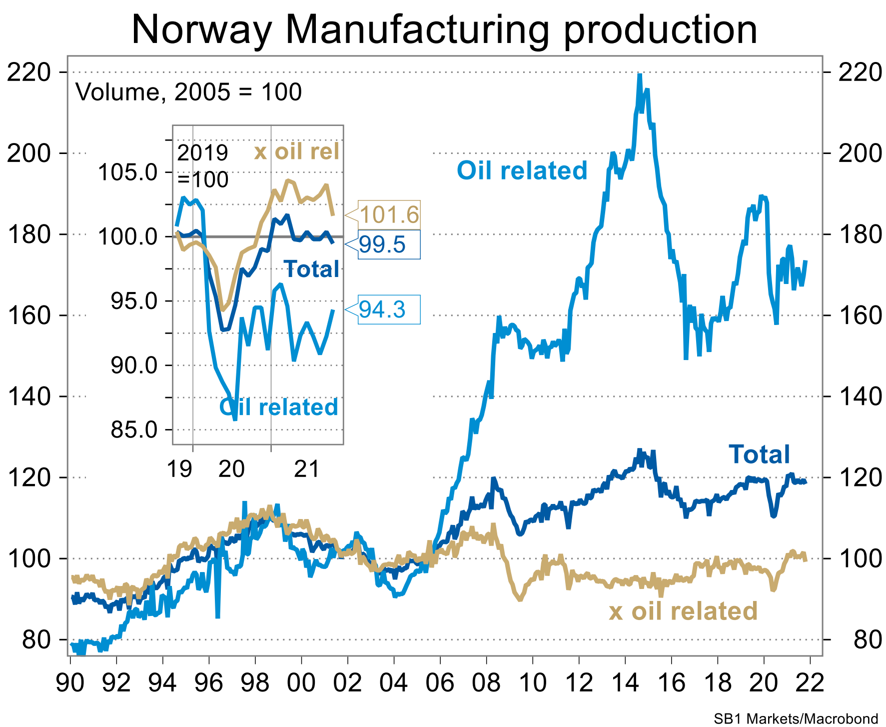
Sales of consumer goods/ services & consumption	Change m/m, NOK bn, annual rate, const. (-30, -20, -10, 0, 10, 20, 30) bn	% Change m/m (-3, -2, -1, 0, 1, 2, 3, 4, 5) %
Sales in Norway	**12**	**0.8**
Goods	-17	-2.2
Services	29	4.0
Norwegians in Norway	**0**	**0.0**
Goods	-22	-2.9
Services	22	3.1
Foreigners in Norw.	**12**	**43.7**
Norwegians' consumption	**17**	**1.1**
In Norway	0	0.0
Abroad	17	43.1

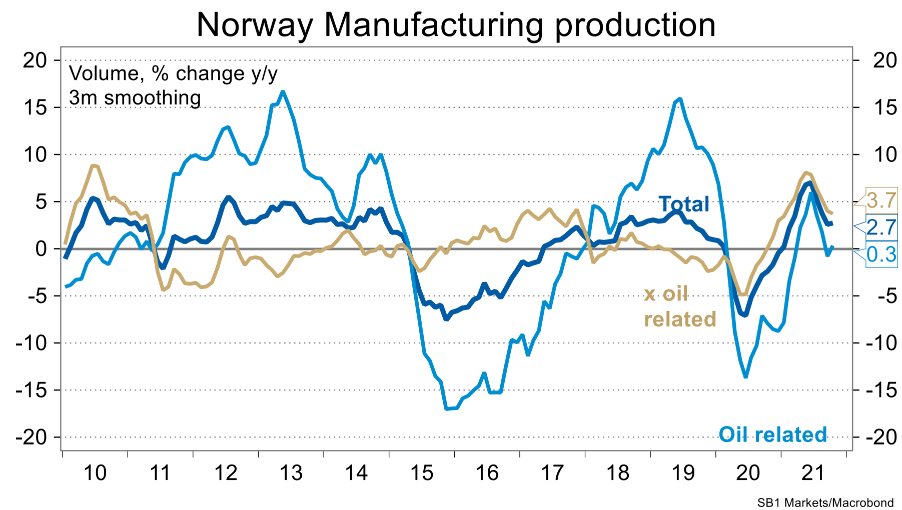
SB1 Markets/Macrobond

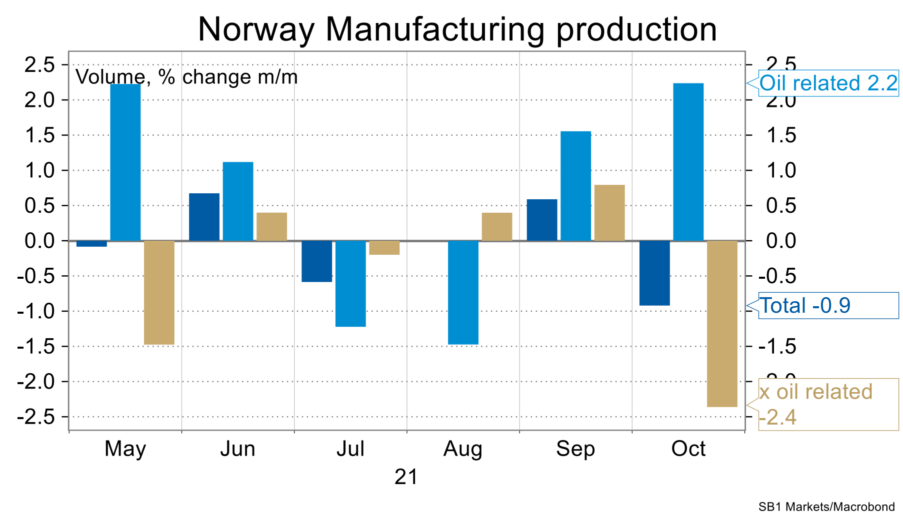
- **Sales of consumer goods** in Norway are up 10% vs. Feb-20, while services are up 1.5%, the sum up 5.7%
  - » **Norwegian households** have increased their consumption of goods <u>in Norway</u> by 12% but services is <u>up</u> 3%. The total up 7%
  - » **Foreigners demand in Norway** rose 44% m/m (from a low level…), and their spending in Norway is down 'just' 30%
- **Total (Norwegian) household consumption** is up 1.8% vs. Feb-20, even if spending abroad is still down 57%
- **The Delta virus measures (and the risk for Omicron trouble) now dampens the short term outlook. The long term picture is intact, a further normalisation of demand, back to the pre-pandemic patterns**
- **We expect consumption to normalise** further the coming quarters. Demand for goods is very likely above long term trend and will slow when spending on services picks further up, and even more when we can start spending abroad again. Still, as foreign travel (at least excl. x-border trading in Sweden, will probably remain subdued for several quarters. <u>We expect the savings rate to decline substantially, from still a high level in Q2</u>

Something fishy even in the manufacturing sector

Mackerel catches fell to normal level, and fish processing fell too! Oil related production up



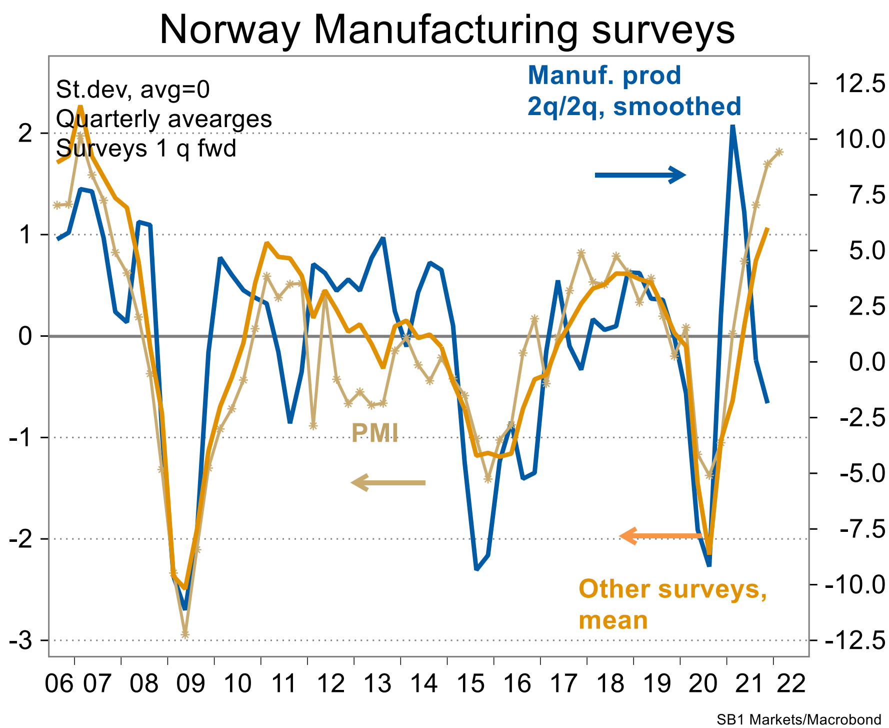




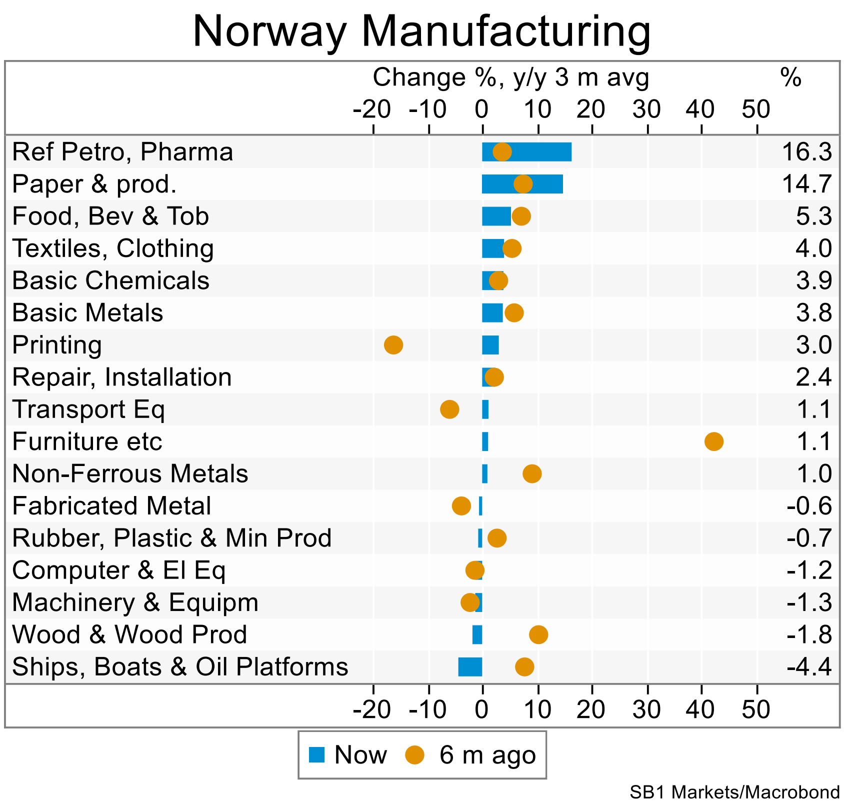
- Production fell by -0.9% in October, we expected a small increase
  - Oil related manufacturing production climbed by 2,2%,
  - Other sectors were down 2.4%, partly due to a 8% setback food production as the fish processing industry get less raw material from the fishing industry (less mackerel)
- Manufacturing surveys are signalling strong growth in activity, but actual production has been flat since April, and it is flat vs. the 2019 avg.
- However, production x oil related sectors is 1.6% above 2019 level, while oil related is down 6%!

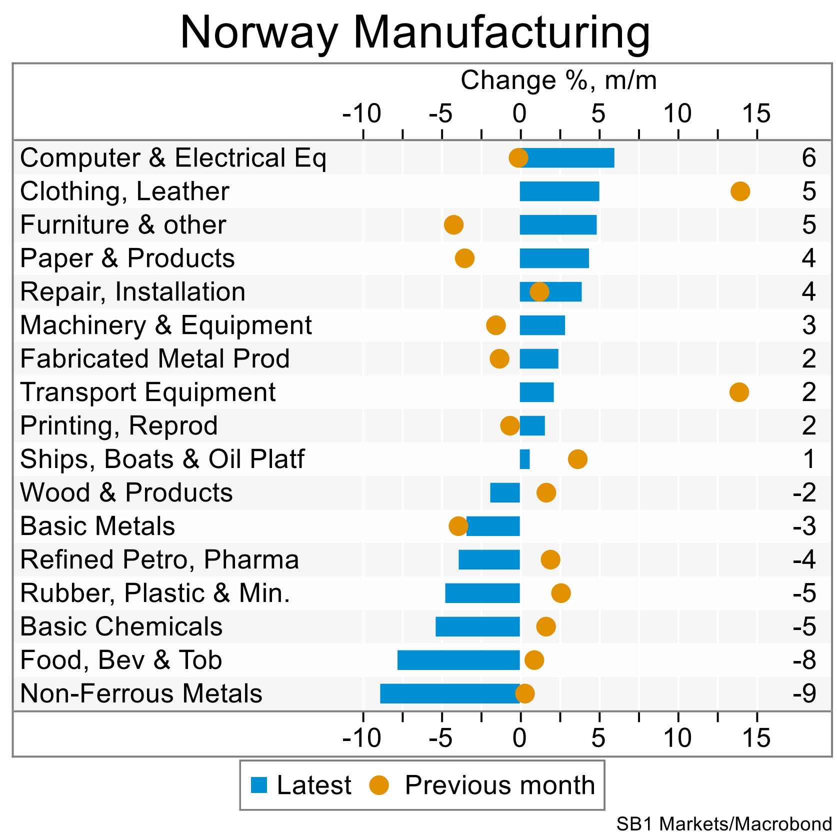
Surveys are signalling growth (like elsewhere)

… and production is not that impressive (like most most places)



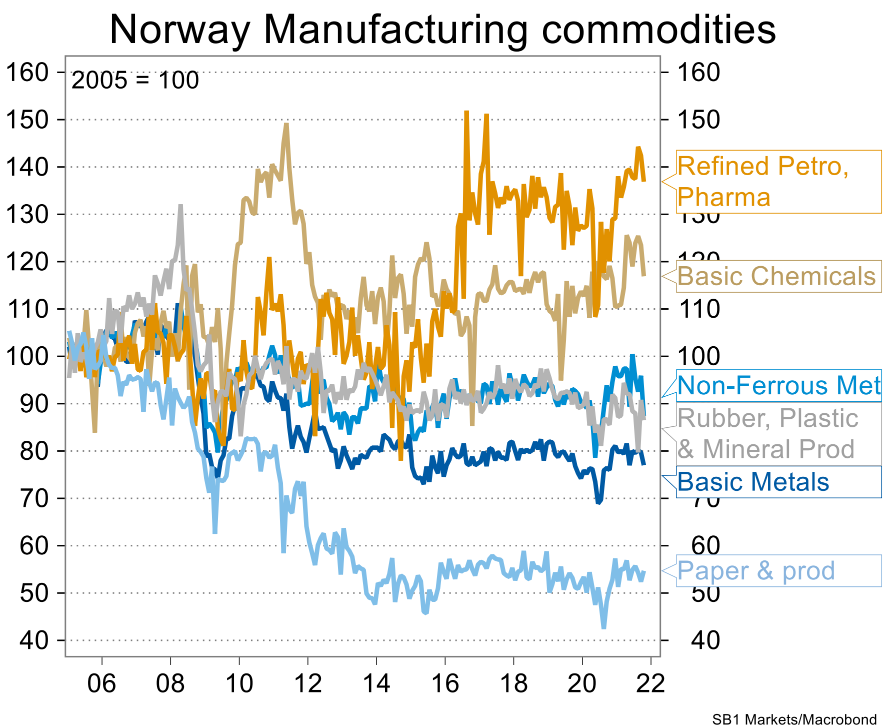
A majority of sectors are up y/y – almost ½ down m/m

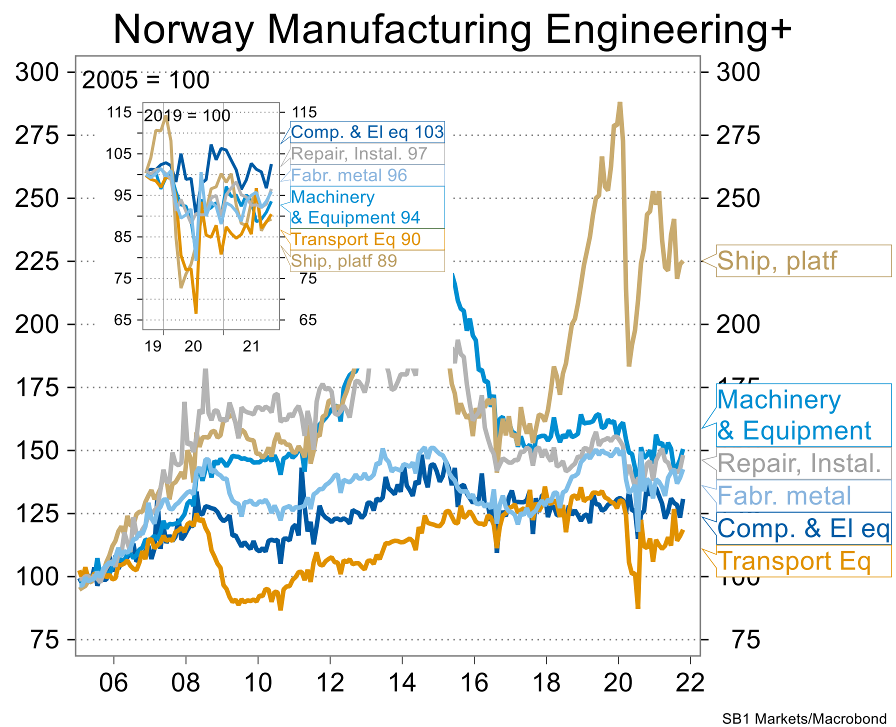




Engineering still hurt by lower demand form the oil sector

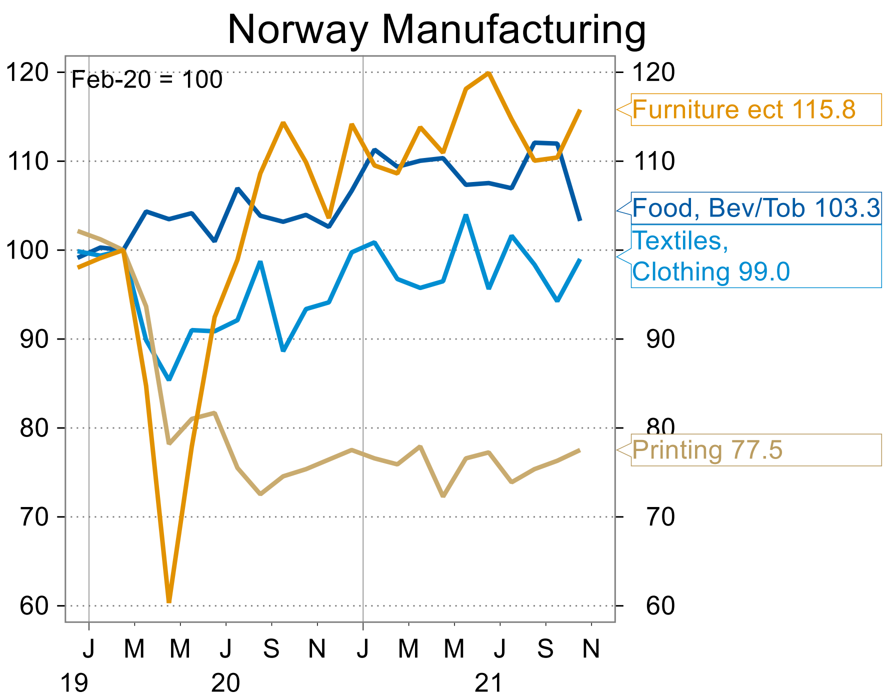
Some weakness in commodities, possibly due to high energy costs





- **Production of ships & platforms** has been heading down so far in 2021
  - » Corona measures (lack of foreign labor, contacts with foreign vendors/customers), supply chain challenges probably explained parts of the recent drop – but oil investments have recovered recently, according to National Accounts
  - » **Commodities** have been on the way up, but some branches are now reporting lower production during the autumn

Food production sharply down in October, following two strong months

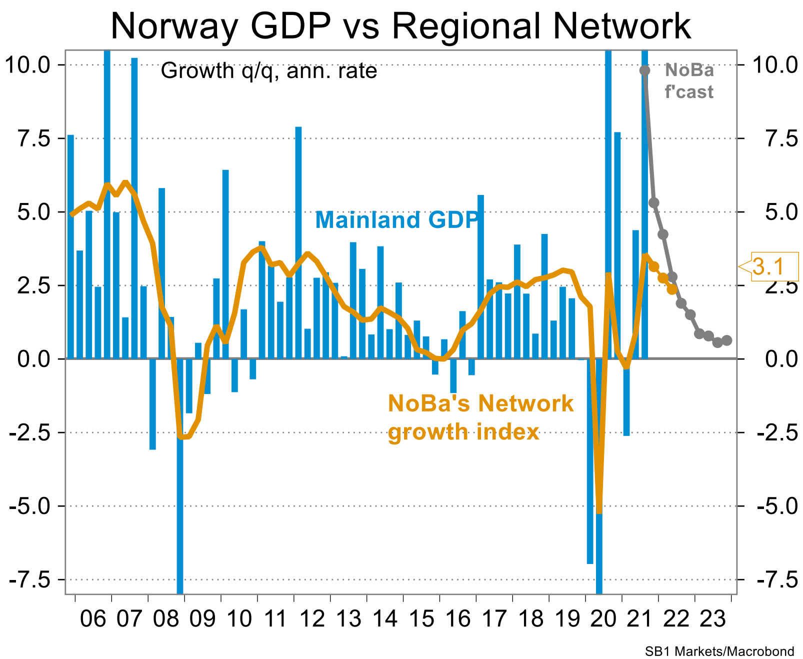


SB1 Markets/Macrobond

SpareBank 1 MARKETS

Norges Bank's (partly outdated) Network survey expects a continued recovery

Capacity utilisation is increasing rapidly, more widespread reports of lack of labour

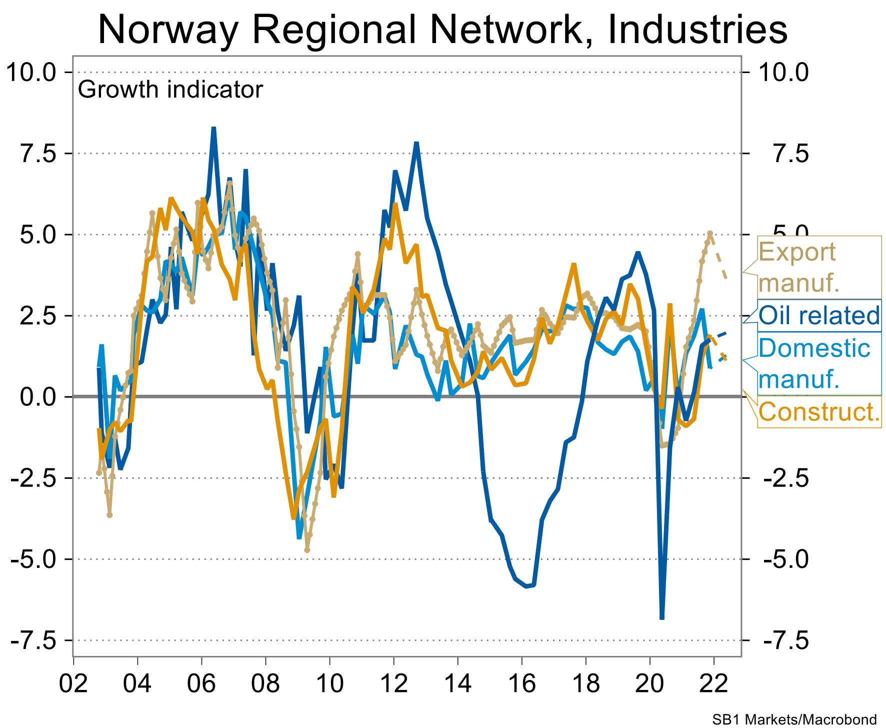


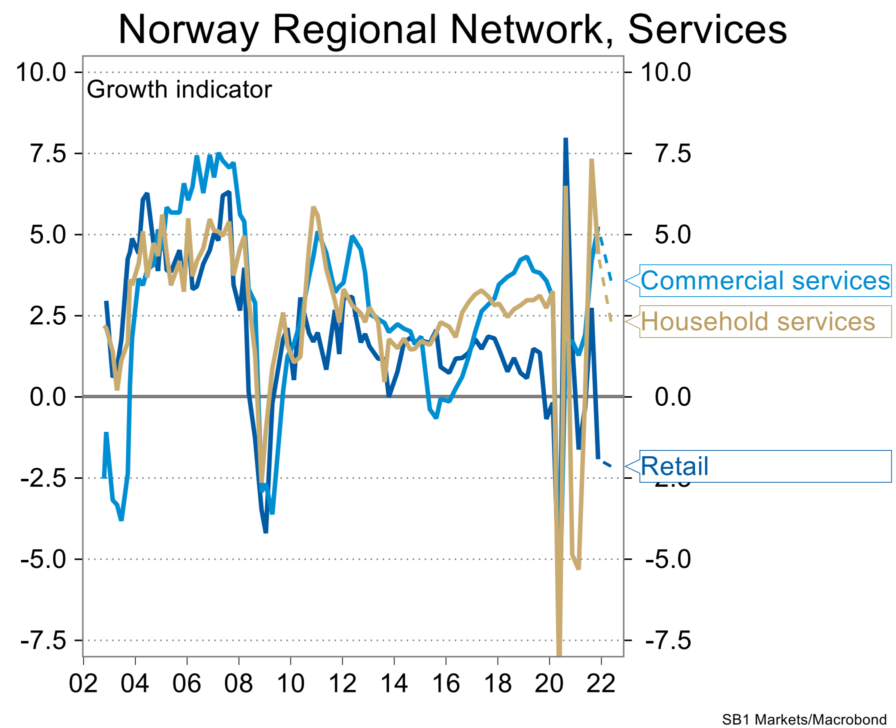
- **Implications**
  - » Taken face value, the network report delivers strong arguments for a more rapid pace in normalisation of Norges Banks policy rate. Capacity constraints and labour shortages are building faster than ever before, wage and price inflation is expected to accelerate.
  - » No doubt, the interest rate is well below a level which stabilises the Norwegian economy

- **Activity the past 3 months**
  - » The Network reports a 2.9% growth pace in Aug-Oct period, 0.4 pp less than the respondents expected 3 months ago. However, actual grew at a 10% pace, according to Nat. accounts. Capacity utilisation & labour shortages are now far above average levels
- **Expectations for the coming months**
  - » The Network expects a 1.9% growth pace the next 6 months. We expected a 3% signal. In September, Norges Bank assumed a 4% growth pace over the next 6 months, from November. The survey was conducted Oct 25 – Nov 11, and neither Delta nor Omicron challenges were at the table at that time. So, the survey is already somewhat outdated
    - ▪ 2 sectors expect higher growth the next six months, oil related (4%) and domestic manufacturing (3%)
    - ▪ All other sectors are reporting stable or lower growth:
      - ▪ Export manufacturing expect the highest growth rate, >7%
      - ▪ Commercial services are also expecting a continued, rapid recovery, 7%
      - ▪ Household services expects a further slowdown (from a high level recent months, >4% growth still expected).
      - ▪ Construction expect a modest 2% growth rate
      - ▪ Retail trade expect further a contraction (goods consumption is on the way down to a more normal level)
  - » **Investment** plans are revised further up to close to the highest level in 10 years
  - » **Wage inflation expectations are** steadily been revised up
  - » Companies expect to **lift prices** vs households sharply

Retail trade expects a contraction, for good reasons

All other sector expect stable or slower growth – except for commercial services

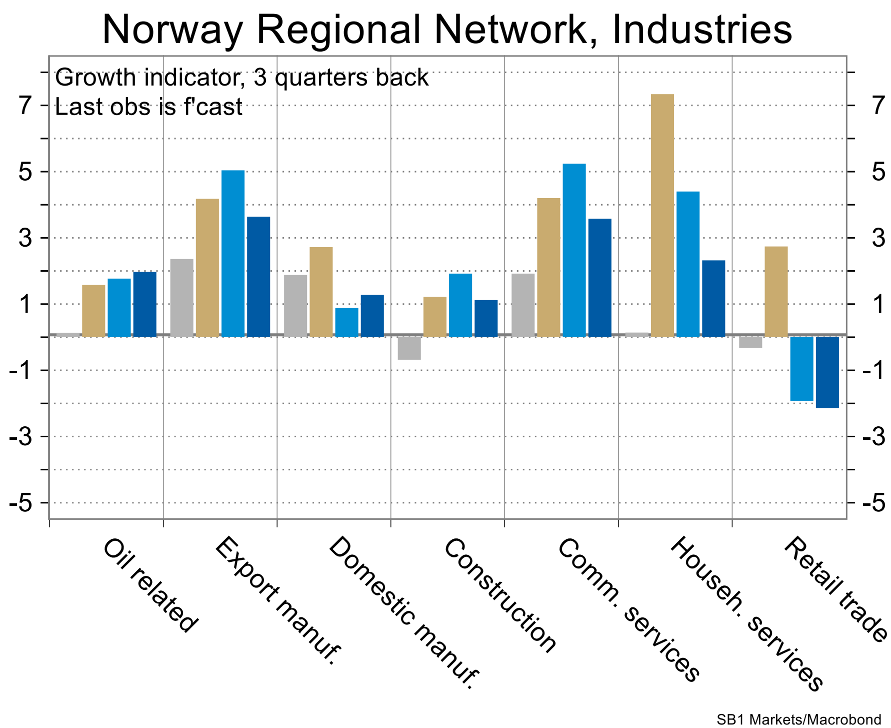




- Both household and commercial services expects strong growth – with household services in the lead (but still a tad slower growth in household related)
- The decline in expected growth in export oriented manufacturing is not dramatic – but the sector is still expecting the higher growth rate the coming 6 months

Growth is peaking: most sectors expect a slowdown or stable growth

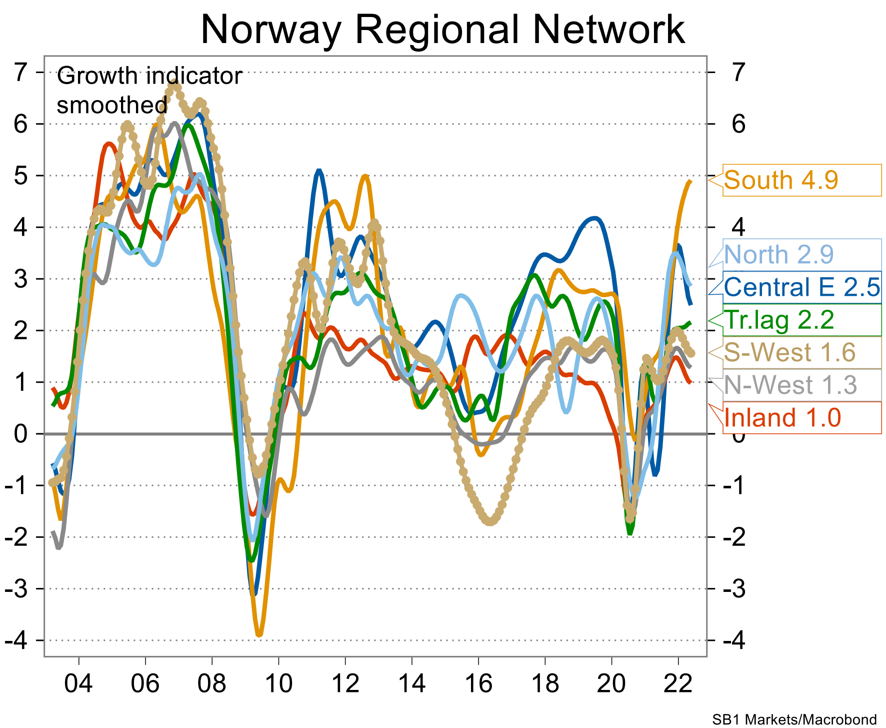
Just retail trade expect lower activity – like in Q3

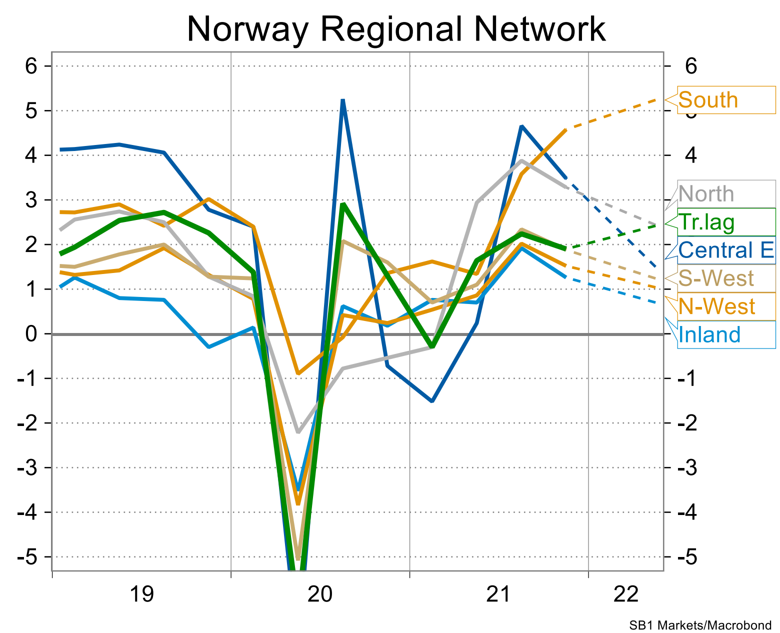


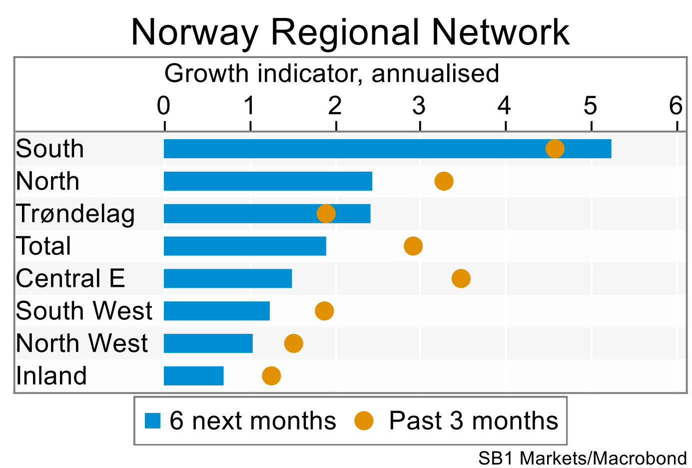
SpareBank 1 MARKETS

Regions: All but South expect growth to slow – and South was at the top past 3m

Lack of capacity may dampen the growth outlook

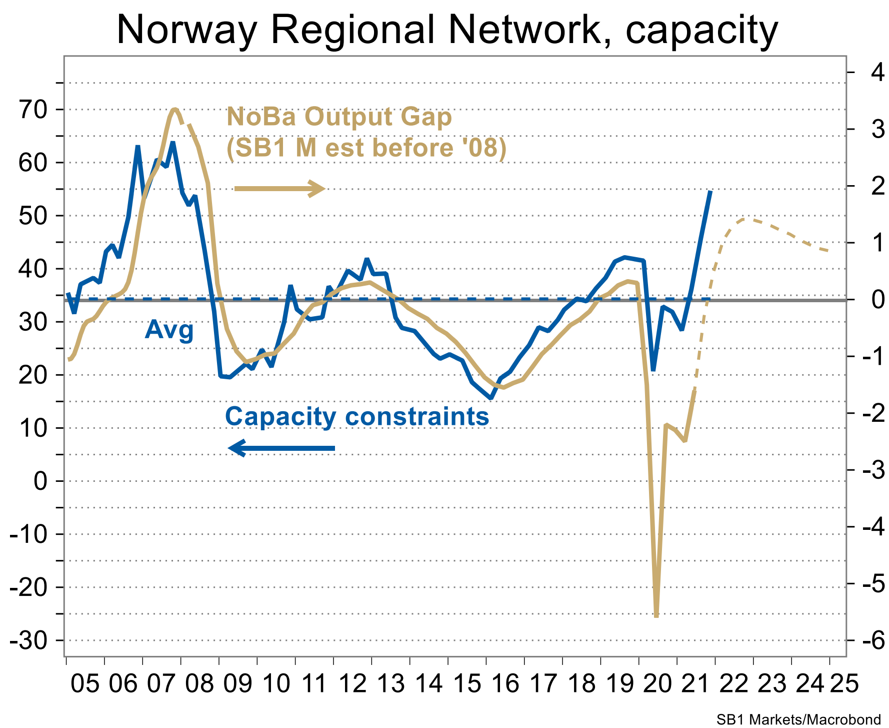


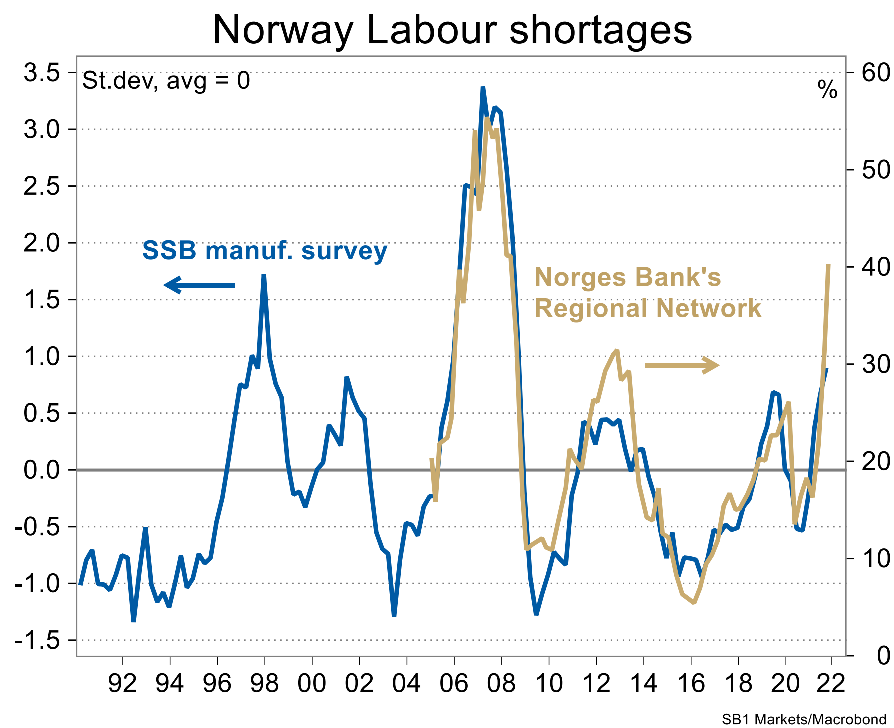




Capacity constraints sharply up, and is high vs. NoBa's output gap estimate

Labour shortages rose more than ever before q/q, to the highest level since 2008

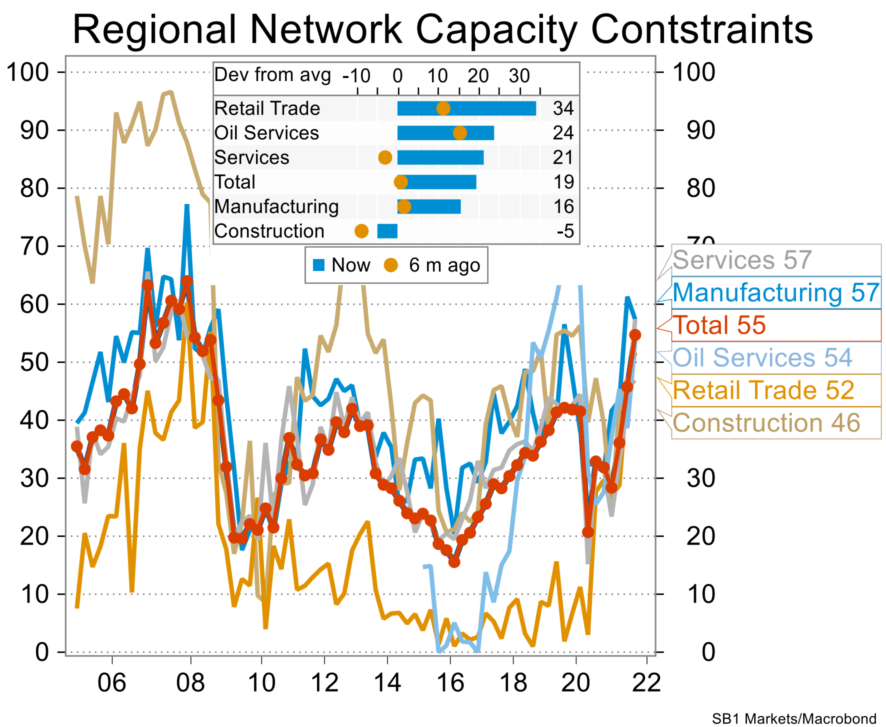


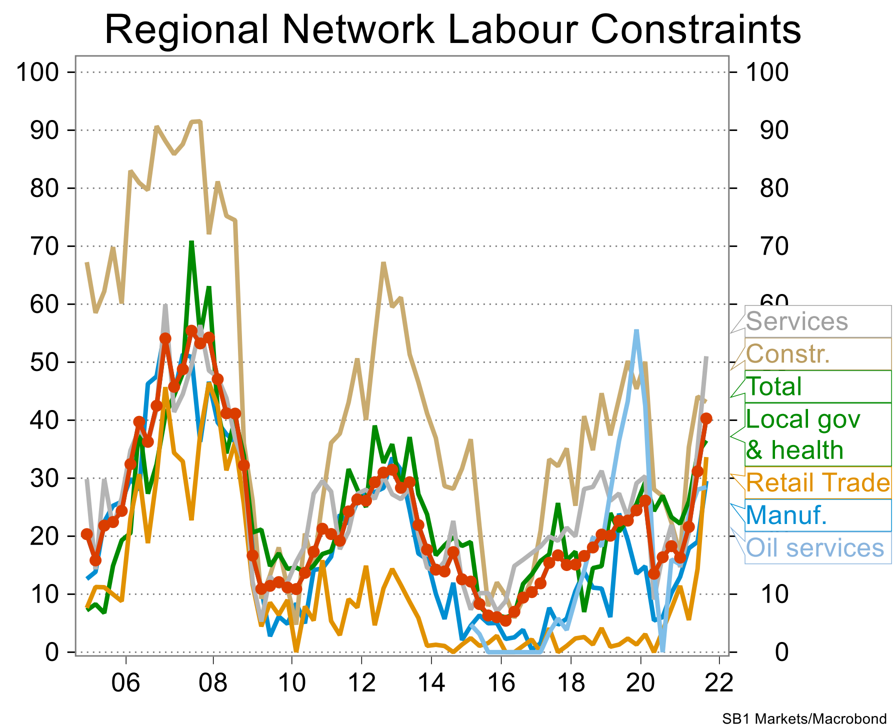


- More companies than since 2007 are reporting **capacity constraints** following the steepest surge ever, over the two past months
- **Labour supply** shortages are shooting up, like never before – but are still less wide spread then before the financial crisis

More companies are reporting capacity constraints than since 2008

Just construction is reporting less capacity constraints than average

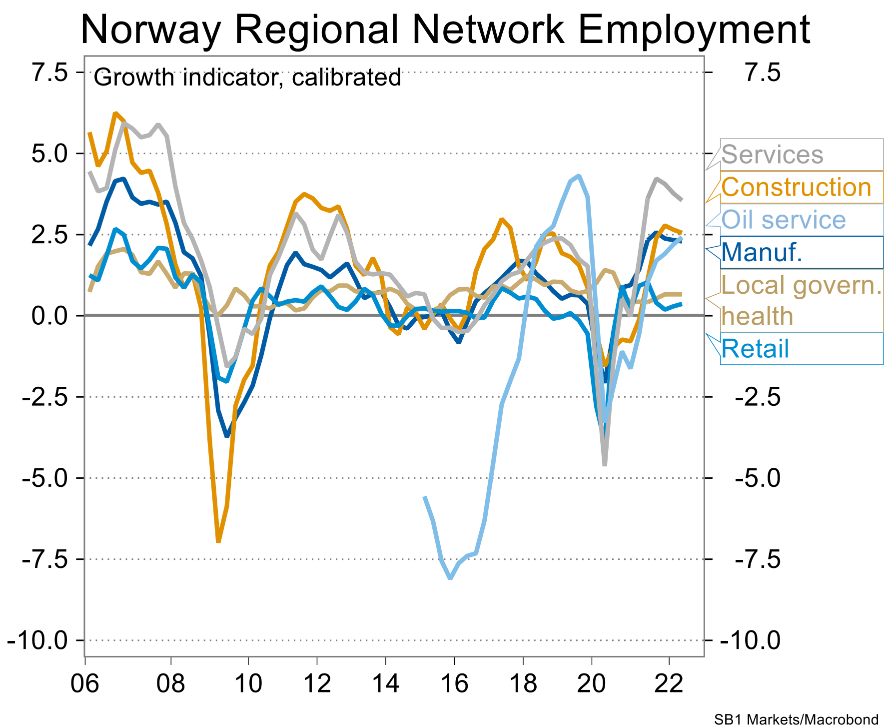


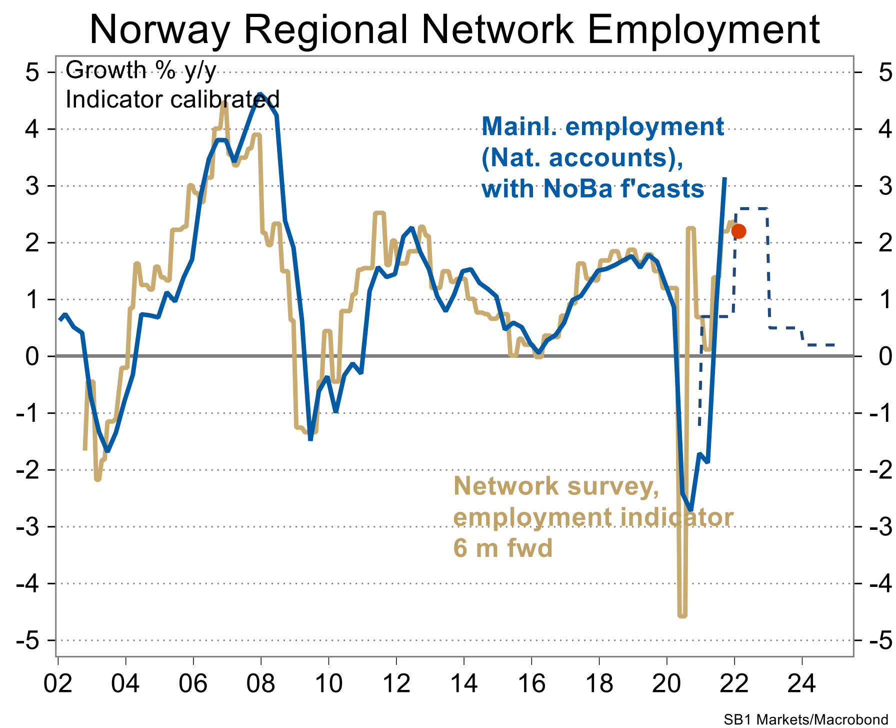


- All sectors are reporting a substantial increase in more labour shortages – except construction
- Lack of raw materials and delivery problems have also (of course) increased

The network reports & expects rapid employment growth

… but peak growth is behind us – for good reasons

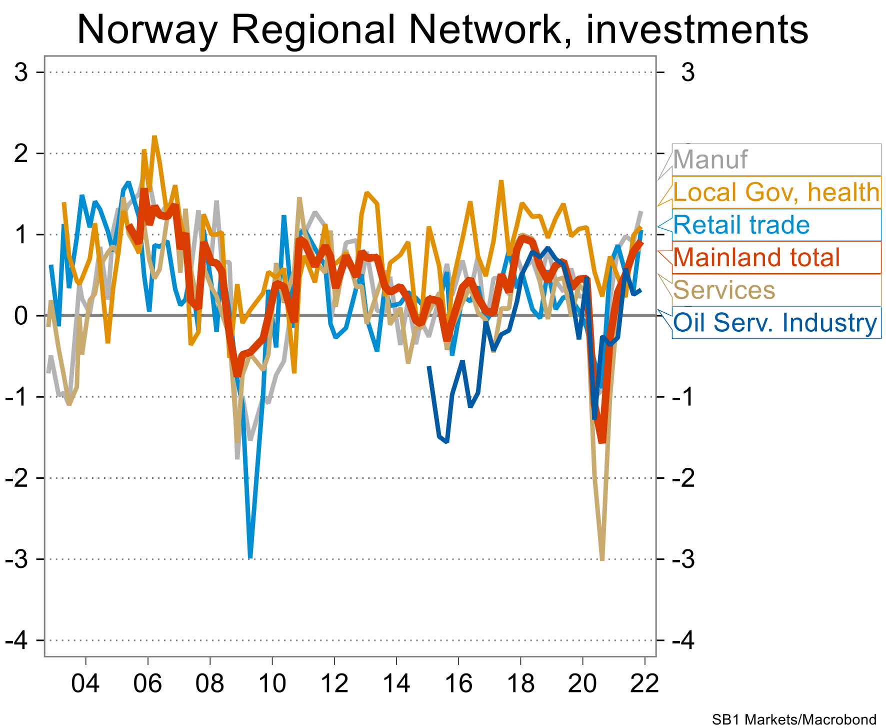


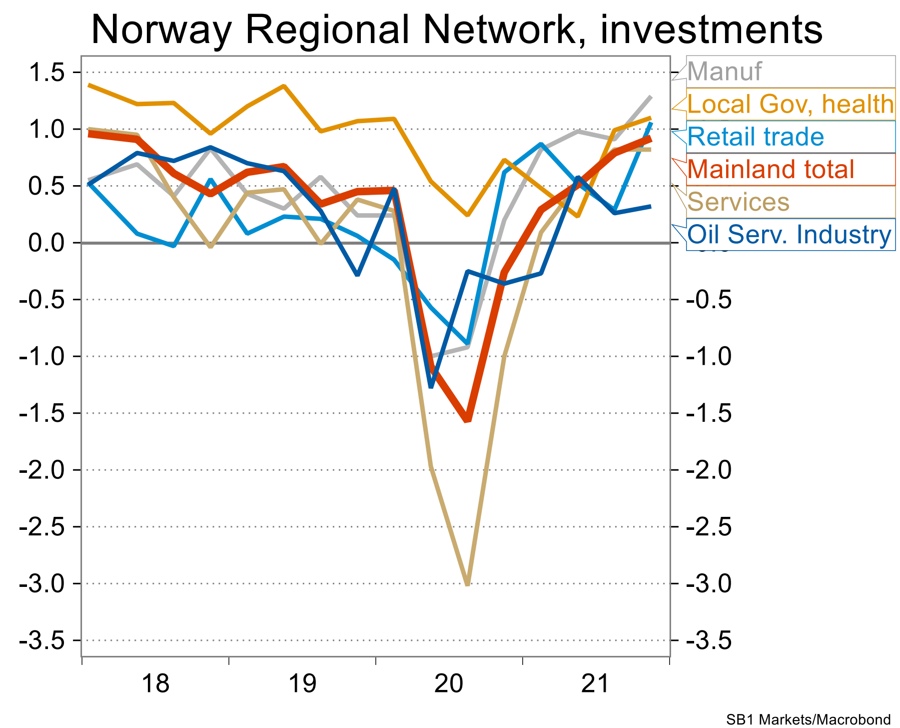


- Services & construction in the lead
- The NoBa forecast on the chart to the right represents the bank's annual averages

The Network signals faster, and solid growth in Mainland investments!

Businesses revised their investment estimates further upwards, close to the peak past 15 years

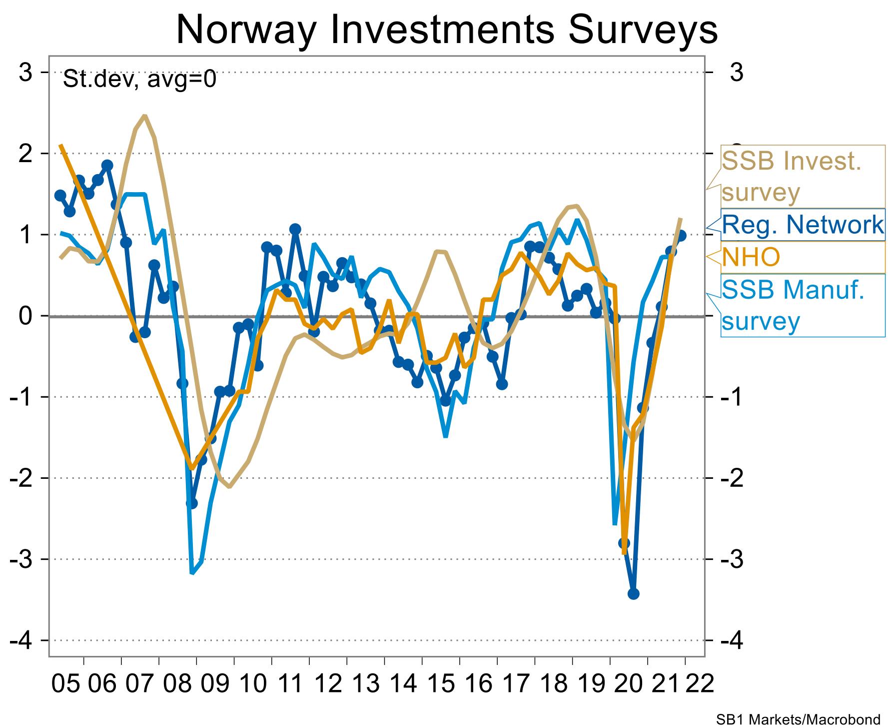


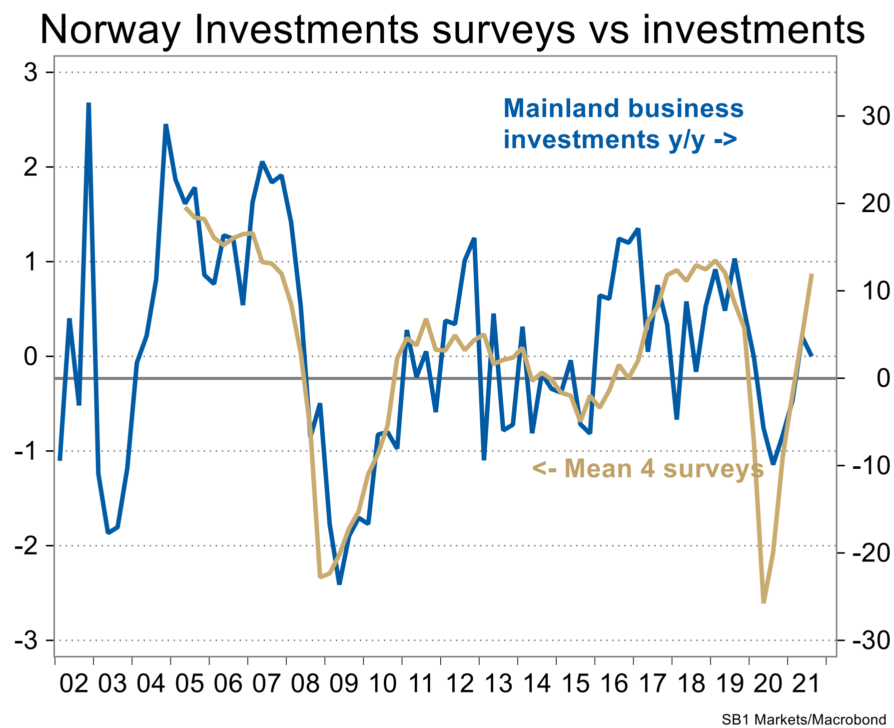


- All sectors revised their investment outlook upwards, barring services (services, which represents almost 50% of Mainland non-residential investments) which reported stable growth at the highest level in 10 years
- Manufacturers reported the most aggressive investment plans in 10 years
- Oil services companies (not the oil companies) (9% of total) revised their investment plans upwards but they are not above a average level. Retailers adjusted their plans sharply up
- Local governments (22%) have revised their investments plans upwards too, up to a high level
- <u>The total Mainland investments index climbed further from the Q3 survey – signalling growth far above average</u>

Other investment surveys tell the same story: a stronger outlook

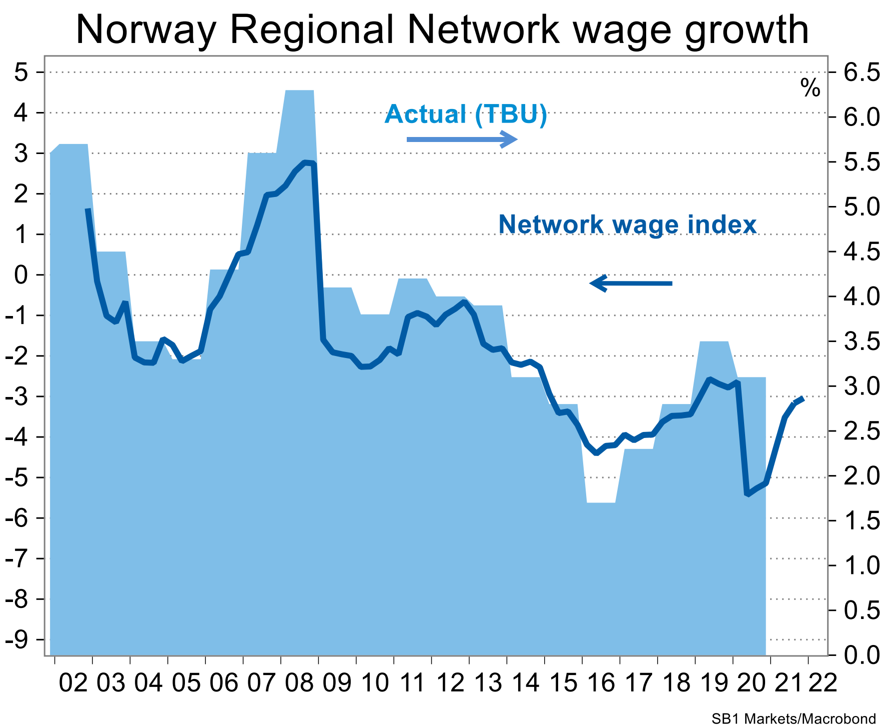
All are signal growth in investment <u>far above</u> trend



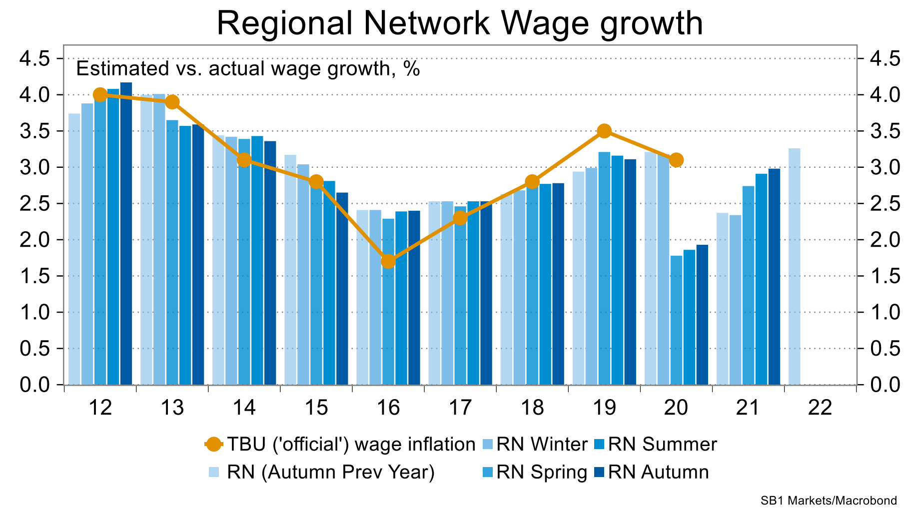


Tic toc, tic toc. Wage expectations are on the way up, still not high

The upward revision from the 2.3% February forecast was the 2. largest ever. NoBa to follow suit



- Just once, in 2011, the Network has revised up its wage expectations more in one go than between Feb and May

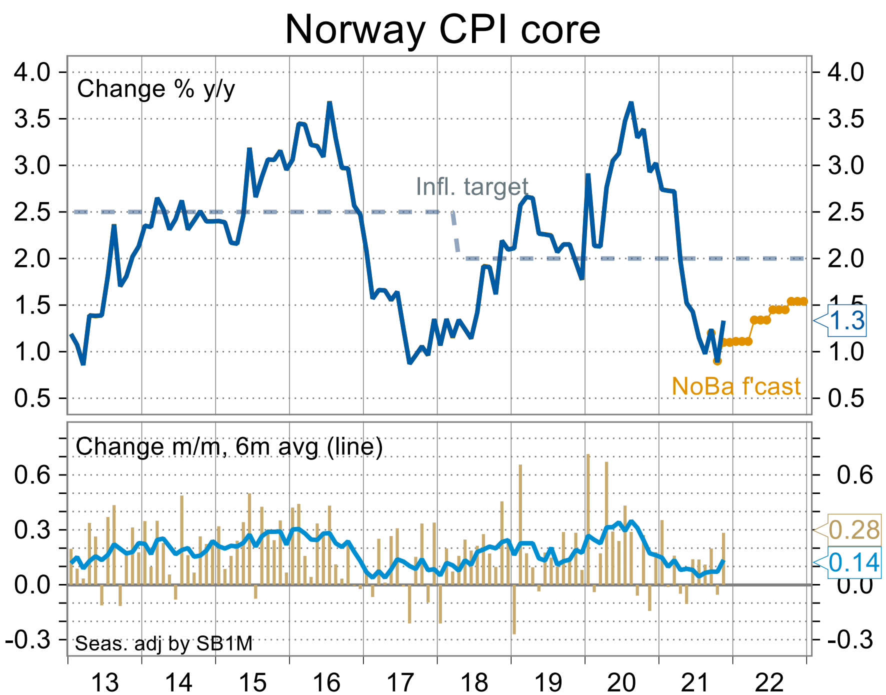


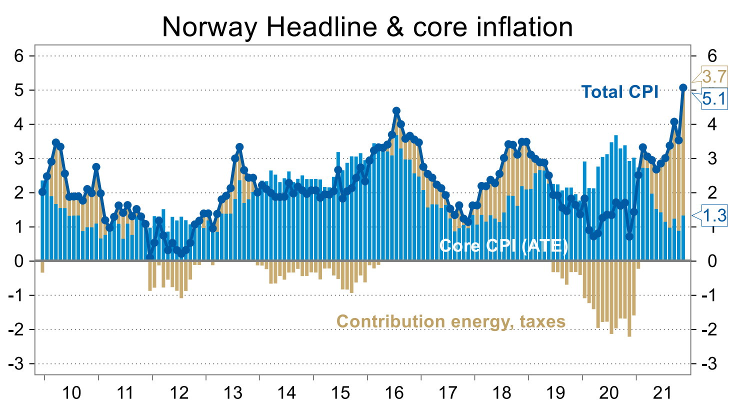
- **The negotiations between LO and NHO** yielded a 2.7% wage lift in 2021 vs 2020 in average (based assumptions on local wage drift). This guideline has been accepted by other parties in the private sector
- **In the Network survey**, the respondents assume wages grew by 3% in 2021, up from below 2½ % in the spring. Next year 3¼ % is expected
- **In Norges Bank Q4 expectation survey**, economists in trade unions expected 3.5% wage growth next year, while employers associations forecasted a 3.3 growth, both up by 0.3 pp vs. the Q3 survey
- **Norges Bank** assumed 3.1% wage growth in 2022 in its September MPR
  - » We expect Norges Bank to revise its wage inflation forecasts up in the upcoming MPR, by at least 0.2 pp

SpareBank 1 MARKETS

Core inflation still modest at 1.3%, total up to above 5% as electricity prices soars

Higher airfare ticket prices also rose sharply, as traffic, at least domestically, normalises.





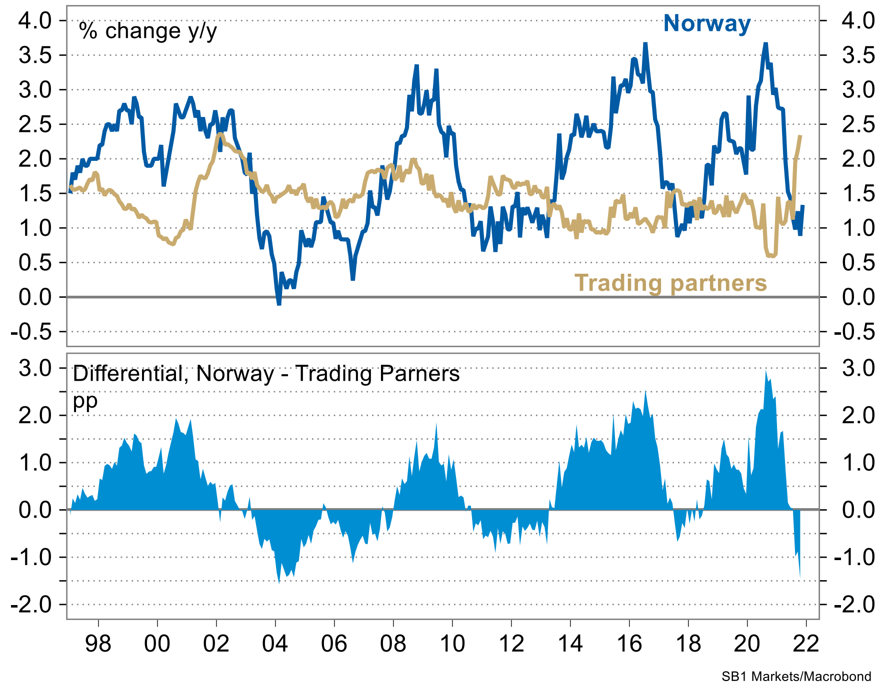
- **CPI-ATE** (ex. energy and taxes) inflation accelerated to by 0.4 pp to 1.3% in Nov, in line with our f'cast but 0.1 pp above consensus and 0.2 pp above Norges Bank's estimate
  - » Prices rose 0.3% m/m (seas adj), after a 0.1% decline in Oct. Airline ticket contributed with 0.1 pp
  - » Prices are up 2.1% (annualised) over the past 4 months, as prices rose sharply last year, mostly due to a weak NOK
  - » Core inflation is running above 2% in just 4 sectors, and is below 2% in 9 sectors
  - » Prices on imported goods fell 0.2% in Oct, and the annual rate is just 0.3% - as the NOK has strengthened substantially
- **Total inflation** shot up to 5.1% from 3.5% in Oct, up to the highest level since 2008, and above our 4.8% estimate
  - » Electricity prices are up 123% from Nov last year, where prices were very low. However, prices are so far up 'just' 55% vs a normal level, equalling a 1.8% drag on real disposable income – a substantial amount but not a catastrophe either! In December the drag could equal 3% - if the government had not come to the rescue, sharing the burden if prices are above 70 øre/kWh in average for a month
- **The outlook**
  - » **Electricity prices** will climb sharply in Dec, probably some 25%, and thus more than in Dec last year, and the headline inflation rate will accelerate further, even if parts of the bill is picked up by the Government. However next spring prices will probably normalise and the almost 4 pp contribution will 'collapse' and later turn negative by several pp!
  - » **Core inflation have probably bottomed.** Strong growth at home and some impact from higher inflation abroad will contribute at the upside (even if the impact of the latter is not impressive, historically). We expect wage inflation to gain speed as well
- **Impact**
  - » Limited core inflation is muted, and the current report does not change that impression – and short term CPI movements are not important for Norges Bank. The tough electricity bill is an argument for not hiking rates next week

SpareBank 1 MARKETS

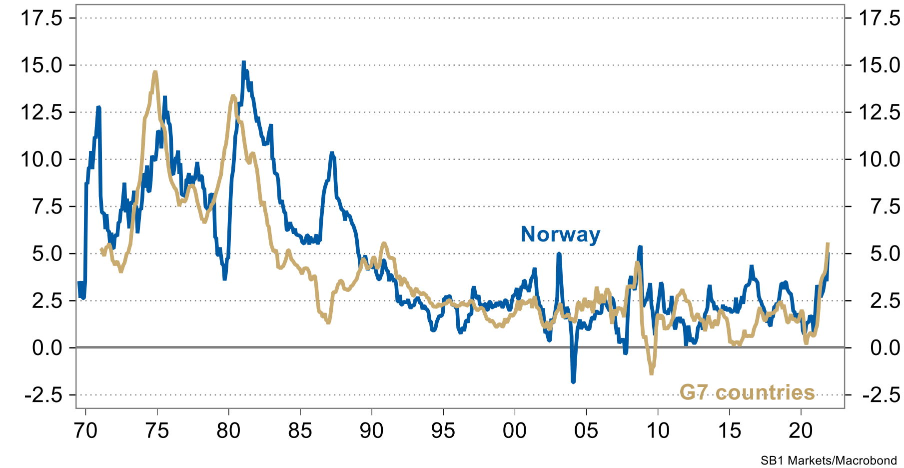
Norway vs ROW: Long term CPI ‘regimes’ have been correlated

But limited short term correlations, in the ‘low inflation regime’

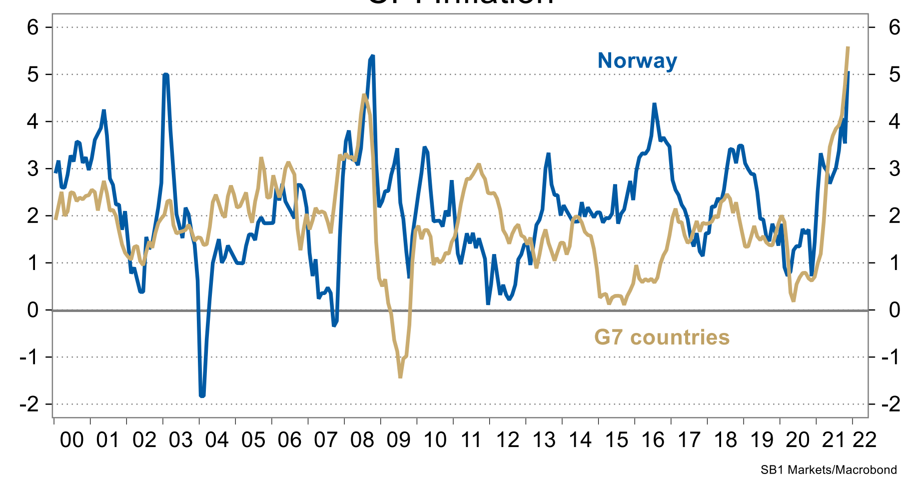
Core CPI



CPI Inflation



CPI Inflation



- Norwegian core CPI vs. trading partners’ core is close to uncorrelated past 20 years. The headline CPIs have been somewhat better correlated, due to co-movements in energy prices
- During the ‘70s early ‘80s Norwegian headline inflation was correlated to the global (G7) CPI cycle (and mostly lagging)

SpareBank 1 MARKETS

A lot of red: Prices were lower than we assumed, broad based

Electricity prices rose further of course, but are not that high

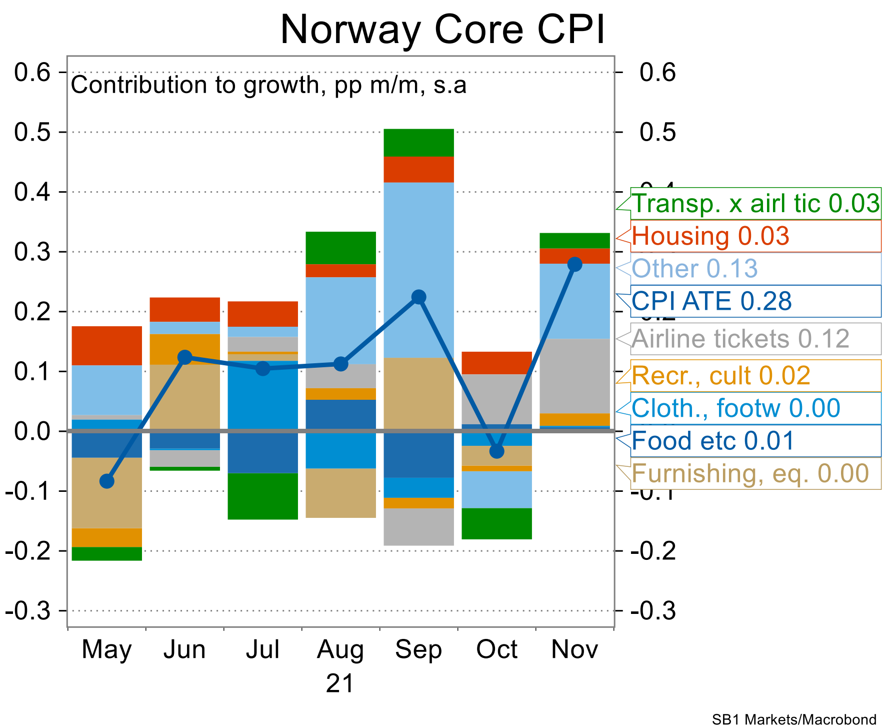
		Change m/m, seas. adj			Change y/y			Contribution, pp		
Nov-21	Weight	Out-	SB1M	Dev.	Prev.	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	13.0	0.1	0.2	-0.1	-1.9	-1.5	-1.2	0.01	-0.19	-0.02
Alcohol, tobacco	4.3	0.4	0.2	0.2	0.9	1.6	1.2	0.02	0.07	0.01
Clothing, footwear	4.9	0.0	0.3	-0.3	-1.2	-0.8	-0.5	0.00	-0.04	-0.01
Housing x. energy	20.5	0.1	0.2	-0.1	1.6	1.6	1.6	0.02	0.32	-0.02
Furnishing	6.8	-0.0	0.2	-0.2	1.1	1.8	2.3	-0.00	0.12	-0.01
Health	3.2	0.2	0.2	0.0	2.6	2.9	3.0	0.01	0.10	0.00
Transp. ex. gas, airl. tick	12.0	0.2	0.3	-0.1	-0.1	0.4	0.0	0.03	0.04	-0.01
Airline tickets	1.0	11.5	0.2	11.3	-6.1	12.7	-0.6	0.12	0.13	0.12
Communication	2.5	-0.2	0.1	-0.3	0.6	0.5	0.8	-0.00	0.01	-0.01
Recreation, culture	11.2	0.2	0.2	-0.0	1.8	1.9	1.9	0.02	0.22	-0.00
Education	0.5	-	-	-	1.7	1.7	1.7		0.01	0.00
Restaurants, hotels	5.9	1.2	0.3	0.9	4.3	5.7	4.5	0.07	0.33	0.05
Other	8.7	0.1	0.2	-0.1	2.3	2.3	2.4	0.01	0.20	-0.01
CPI-ATE	94	**0.3**	**0.2**	0.1	**0.9**	**1.3**	**1.3**			0.06
Norges Bank est.			**0.0**		**0.9**		***1.1***			
Imported	34	-0.0	0.2	-0.2	0.3	0.9	1.1	-0.00	0.29	-0.06
Domestic	60	0.4	0.2	0.2	0.9	1.3	1.3	0.27	0.81	0.12
Energy, housing	3.6	4.4	5.0	-0.6	77.6	122.1	107.8	0.16	4.37	-0.02
Energy, transport	2.0	3.0	4.0	-1.0	20.6	30.6	31.4	0.06	0.62	-0.02
CPI Total	100	**0.4**	**0.5**	-0.0	**3.5**	**5.1**	**4.8**	0.43	5.07	-0.04
Change m/m based on seasonally adjusted data (calc by SB1M)										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

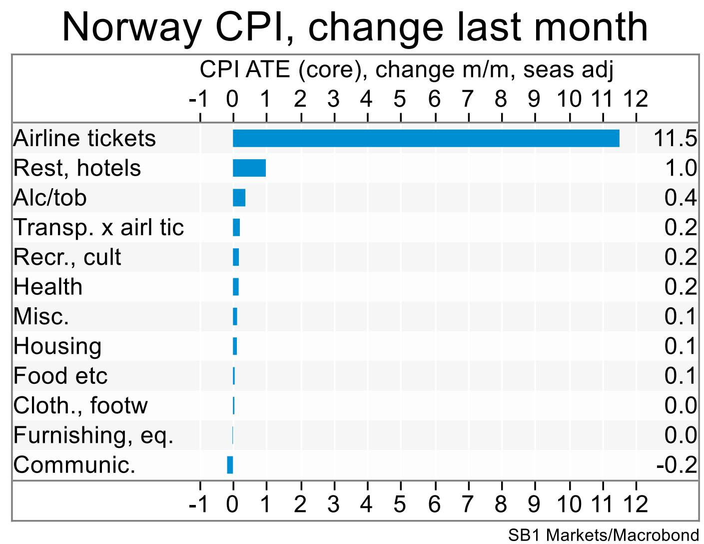
- **Food** prices rose 0.1%, and are down 1.5% y/y. No correlation to global food prices, as normal
- **Clothing** prices fell flattened, and are down 0.8% y/y
- **Furniture/hardware/equipm** prices were flat too, and the annual rate at 1.8% (was +10%)
- **Transport ex. gas/airfare tickets** up 0.2% m/m and are up just 0.4% y/y! Autos are up just 0.6% y/y!
- **Airline ticket** prices are volatile up 11% in Nov, as prices normalises
- **Recreation** prices up 0.2%% m/m, and up just 1.9% y/y
- **Restaurant/hotel** up 1.2% m/m and prices are up 5.5 y/y, down m/m
- **CPI-ATE** up 0.3% m/m, 1.3% y/y, 0.2 pp above NoBa f'cast
- Prices on **imported goods** were flat but are still up 0.9% m/m (on the way down
- Prices on **domestically produced** goods & services were up 0.4%, mostly due to airfare tickets. The annual rate at 0.9% is very low, according to Norwegian standards
- **Electricity** prices rose as we assumed – and the annual rate rose sharply, so that
- … **headline inflation** shot up to 5.1% from 3.5%

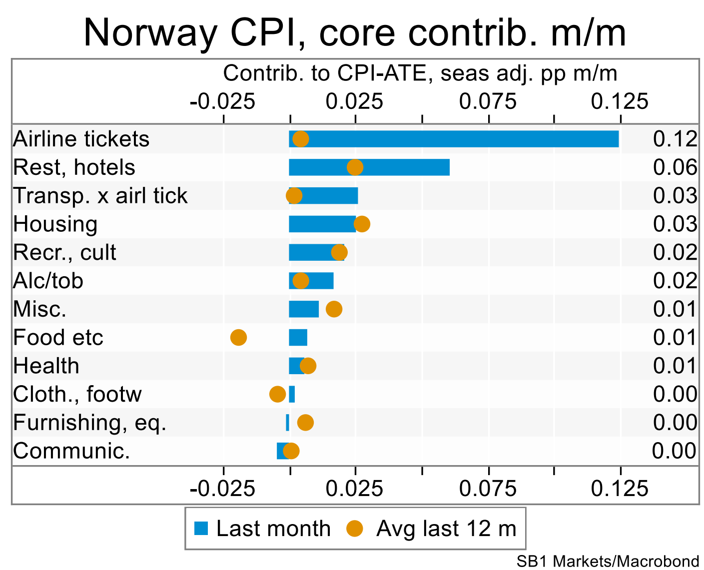
Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total, and deviations m/m and y/y do not necessarily add up. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

Airline tickets, restaurants/hotels, transport contributed at the upside in Nov

Airline tickets contributed with 0.1 pp (of the 0.3 core total

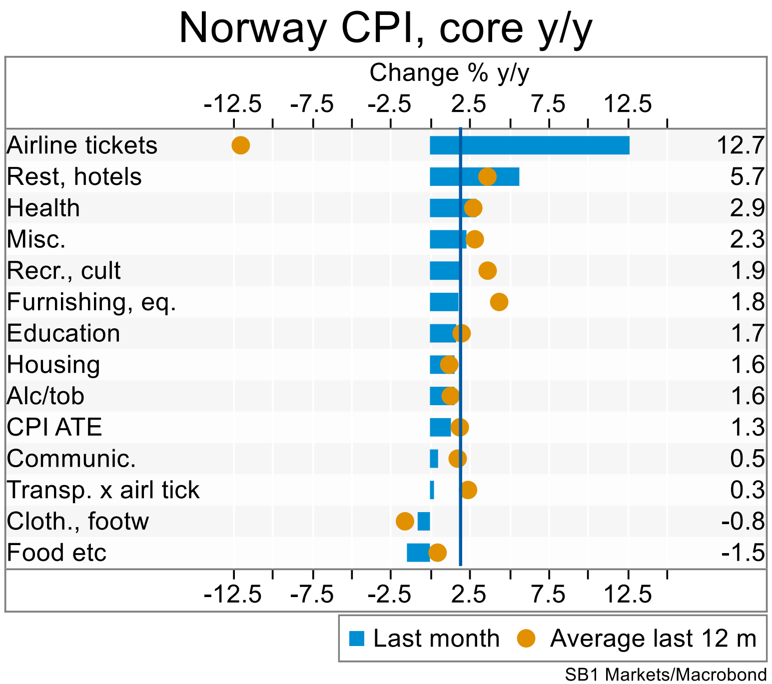


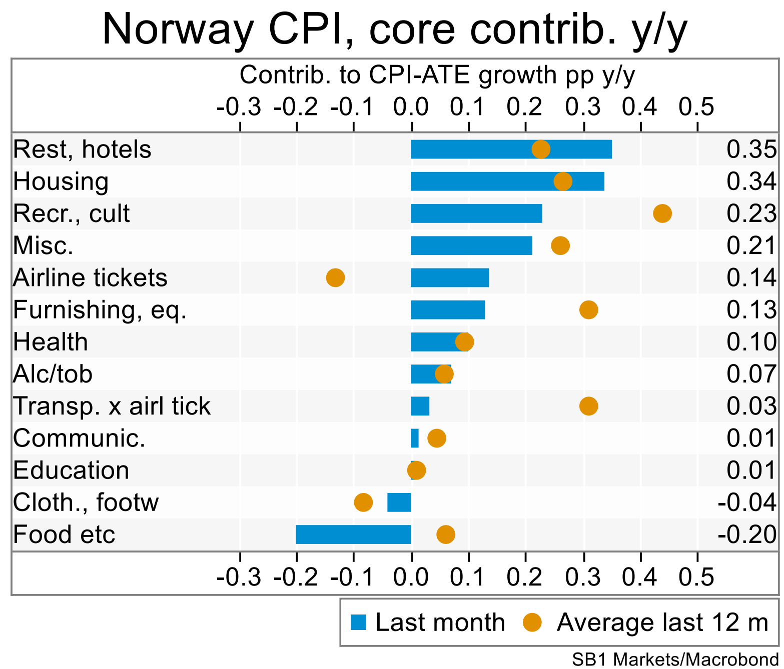




3 sectors report core inflation above 2%, 10 below!

Over the past year housing ,restaurants/hotels & recreation/culture have done the heavy lifting

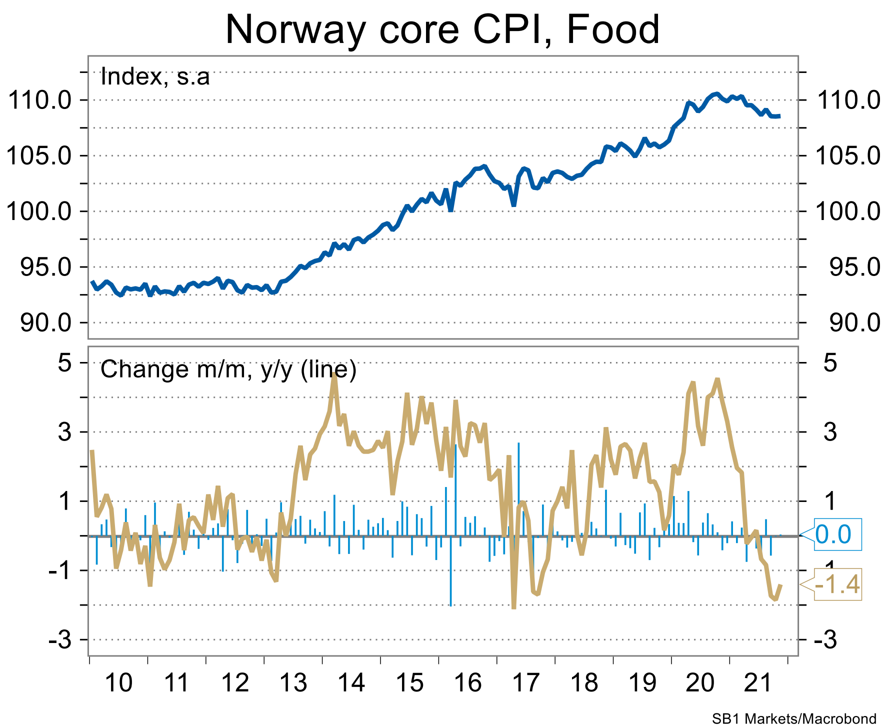


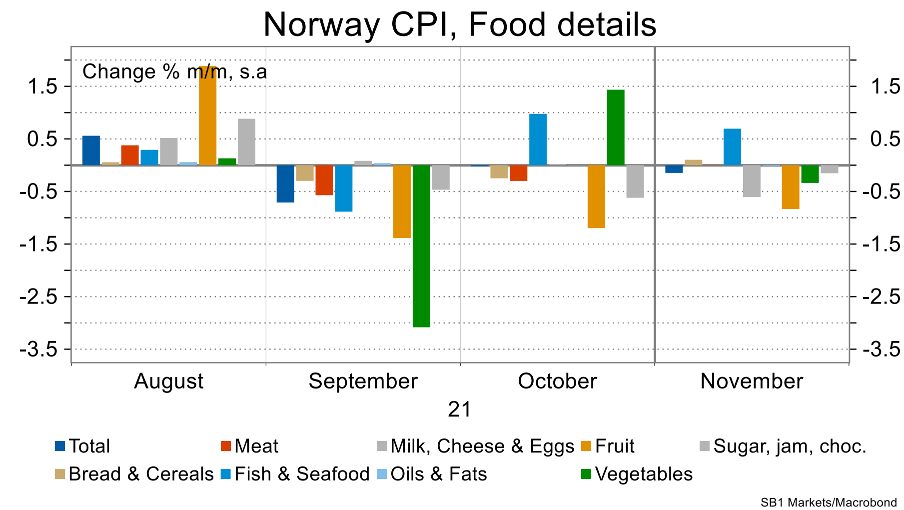


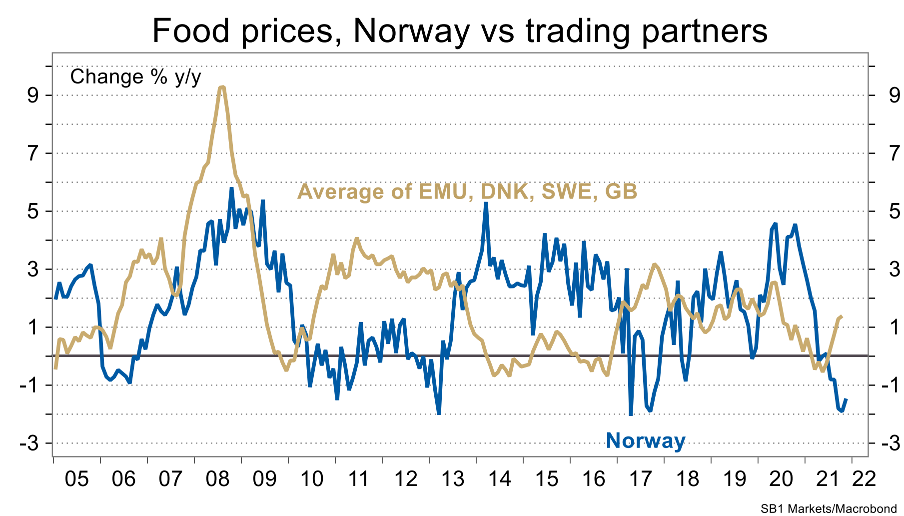
- Foods prices are falling – cutting the core CPI by ¼ pp!

Food prices are still trending down

Prices flat m/m, and are down 1.8% y/y!! Food prices slightly up abroad



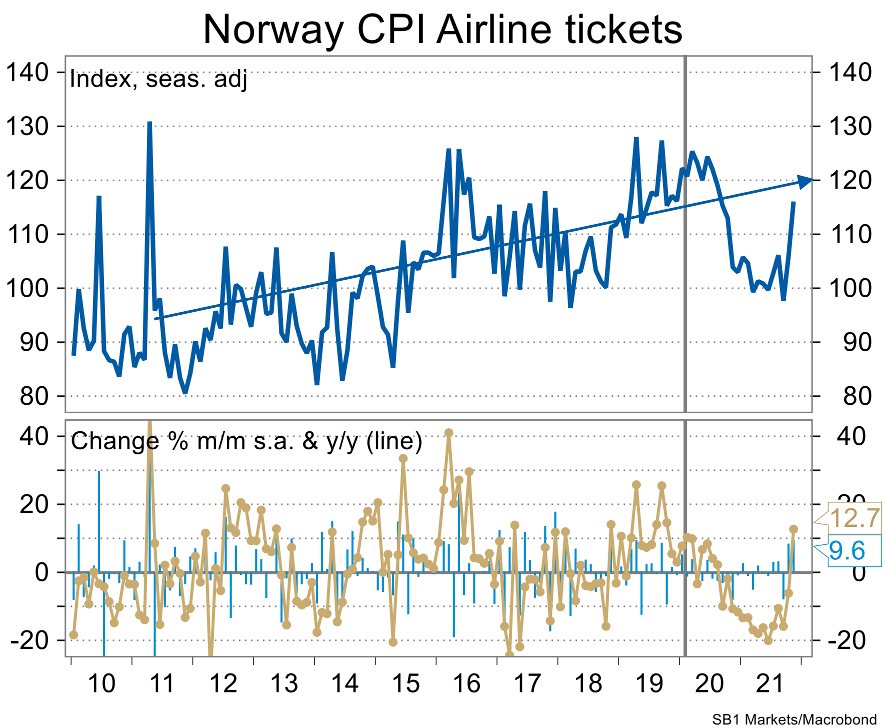




- Food prices have fallen since March
- Food prices have been kept in check among our European peers too, despite (moderate) lifts in agricultural commodities

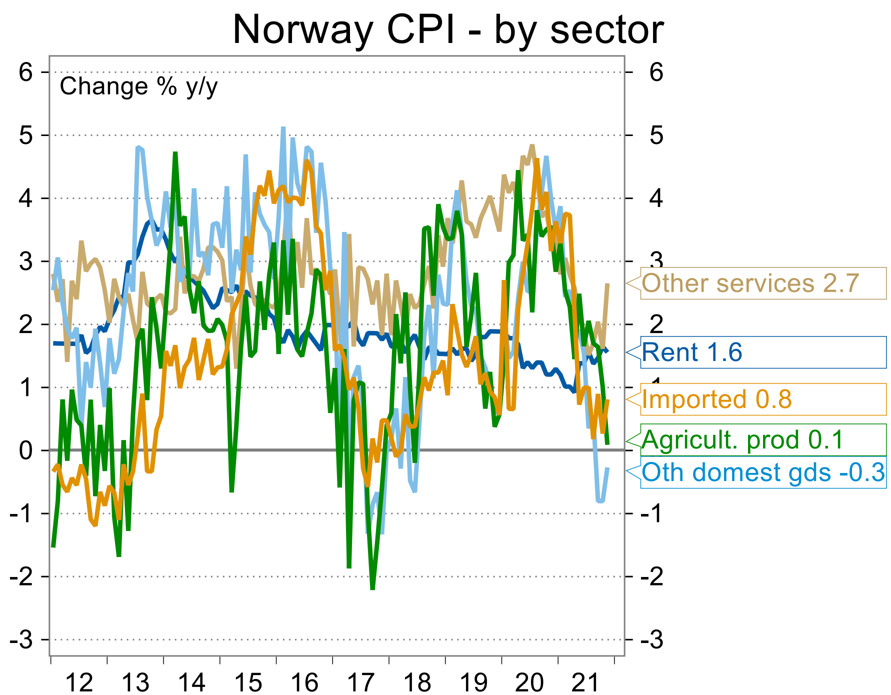
SpareBank 1 MARKETS

A good month for the airline industry – and prices are close to ‘normal’

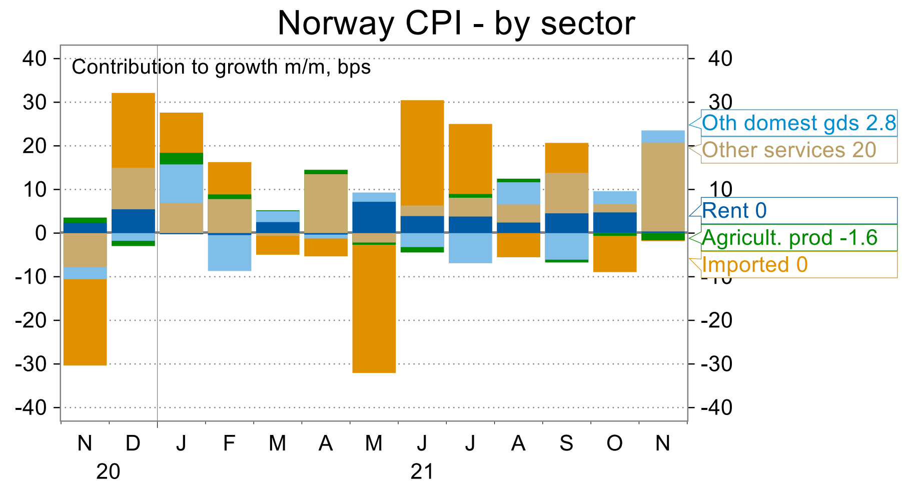


A broad decline in inflation bur more sectors are bottoming now?

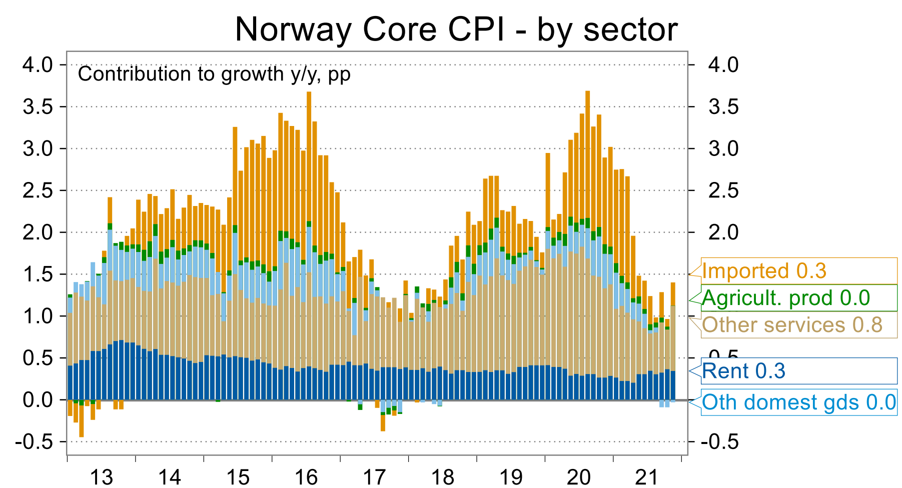
Service inflation has slowed substantially, to 1.6% from close to 5%



SB1 Markets/Macrobond



SB1 Markets/Macrobond

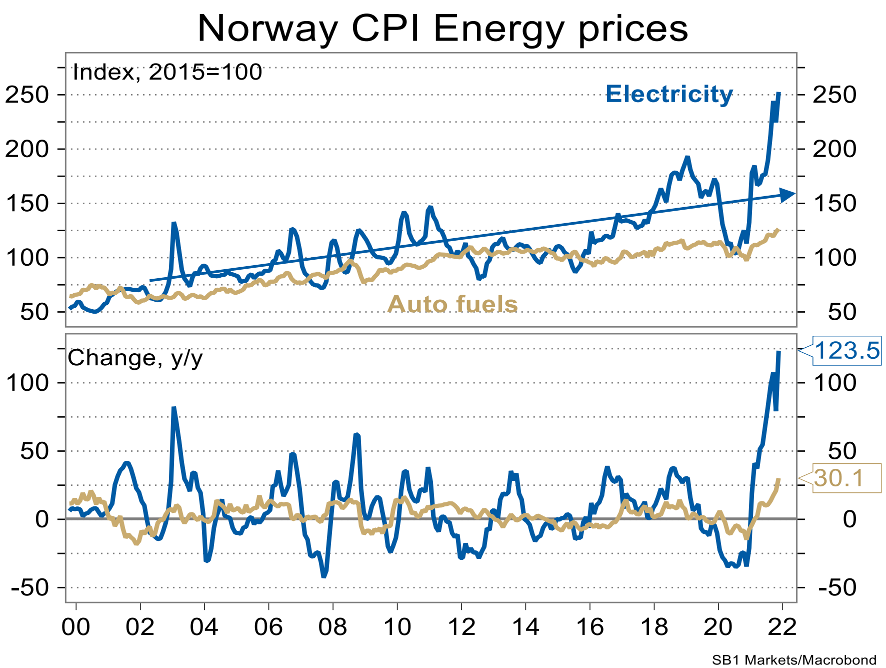


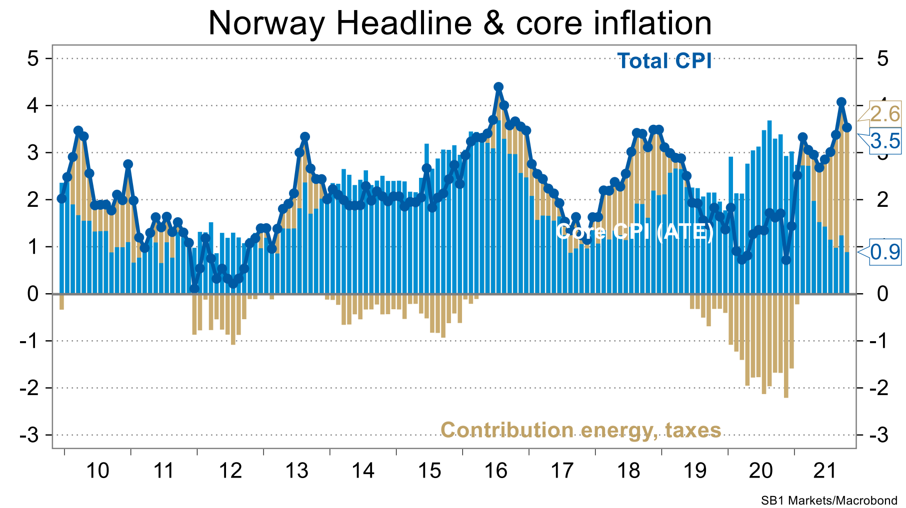
SB1 Markets/Macrobond

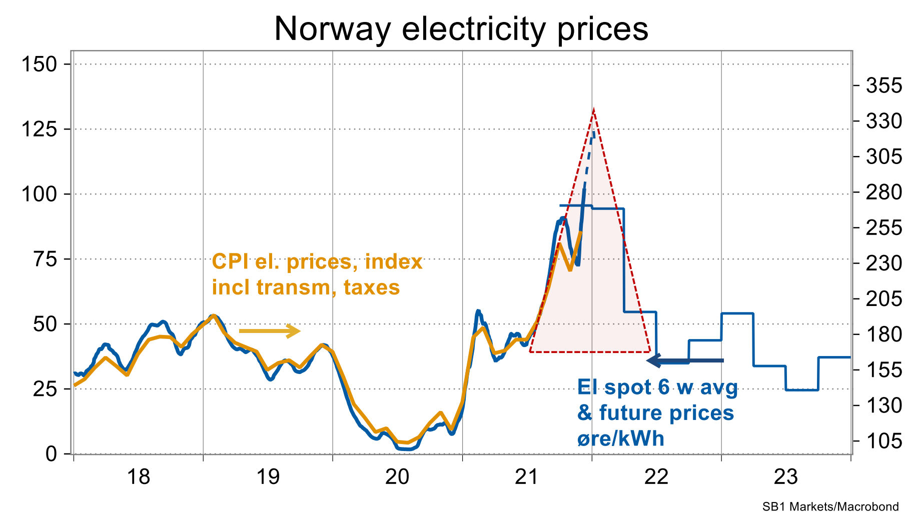
- **Domestic services inflation ex rents** slowed sharply during the corona crisis, and not just only due to cheaper airline tickets, other non-labour-intensive services have contributed as well
  - » The disinflation may have come to an end as prices are edging upwards again
- **Rent inflation** has accelerated to 1.6% from 1% in early 2021 but is still lower the 1.7% – 2% rate before corona
- **Other goods** than agricultural products are down 0.3% y/y, a bit surprising

Electricity prices up in November, and more to come in December

However el. prices are so far 'just' 55% above a 'normal' level (but will be up 100% in December?)



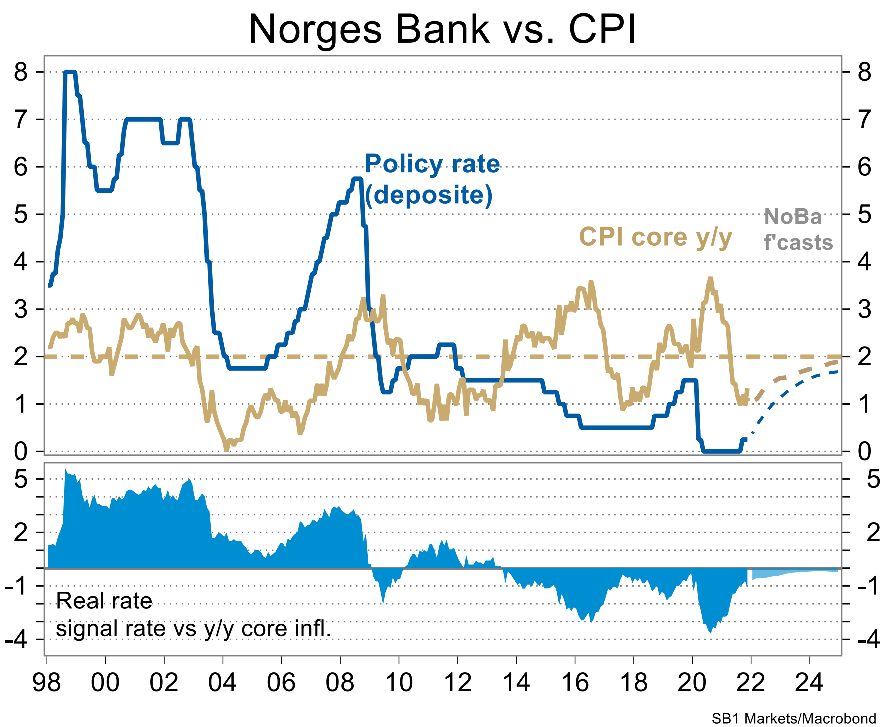


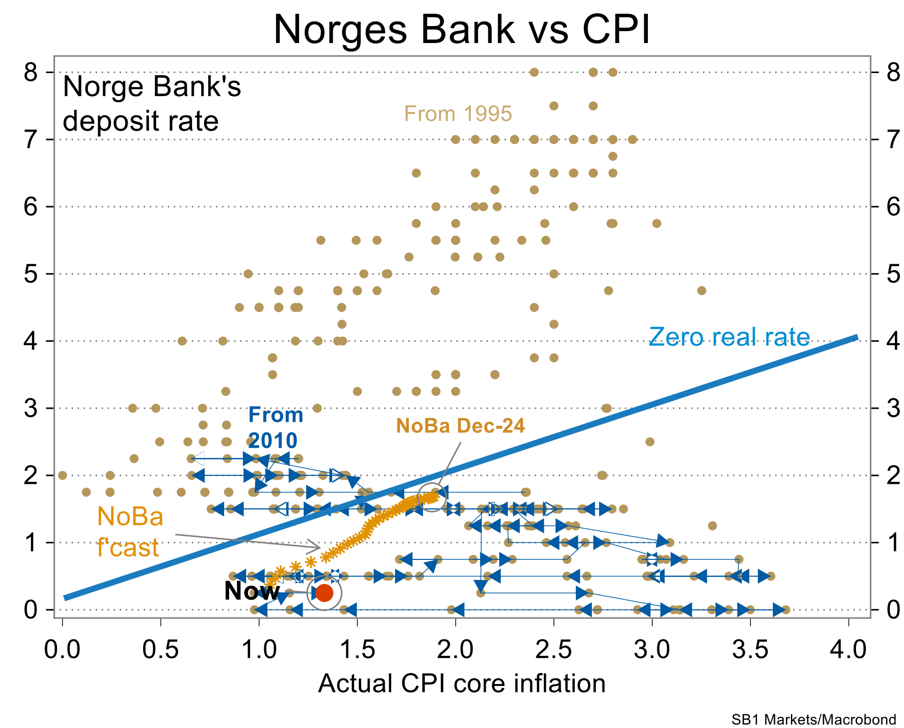


- **Electricity prices** (in the CPI) rose 12% in Nov (not seas adj), and will very could easily climb another 20 – 25% in December. **Gasoline prices** are just some few % above normal
- If the **forward market** is anything close to right on prices the coming months and quarters, the impact on household disposable income will be limited. Prices are expected almost back to a normal level next summer. The aggregated loss over a year with higher prices than normal will be <u>no more than some 1.5% of annual disposable income. The compensation program presented by the Government will reduce the bill furter</u>
- **The risk:** Market prices may be dead wrong vs. the actual outcome
- **A tip:** If you like the forward path, enter a fixed price contract!

Norges Bank has not been an inflation nutter (since 2010, at least)

Actual inflation has not been correlated to interest rates

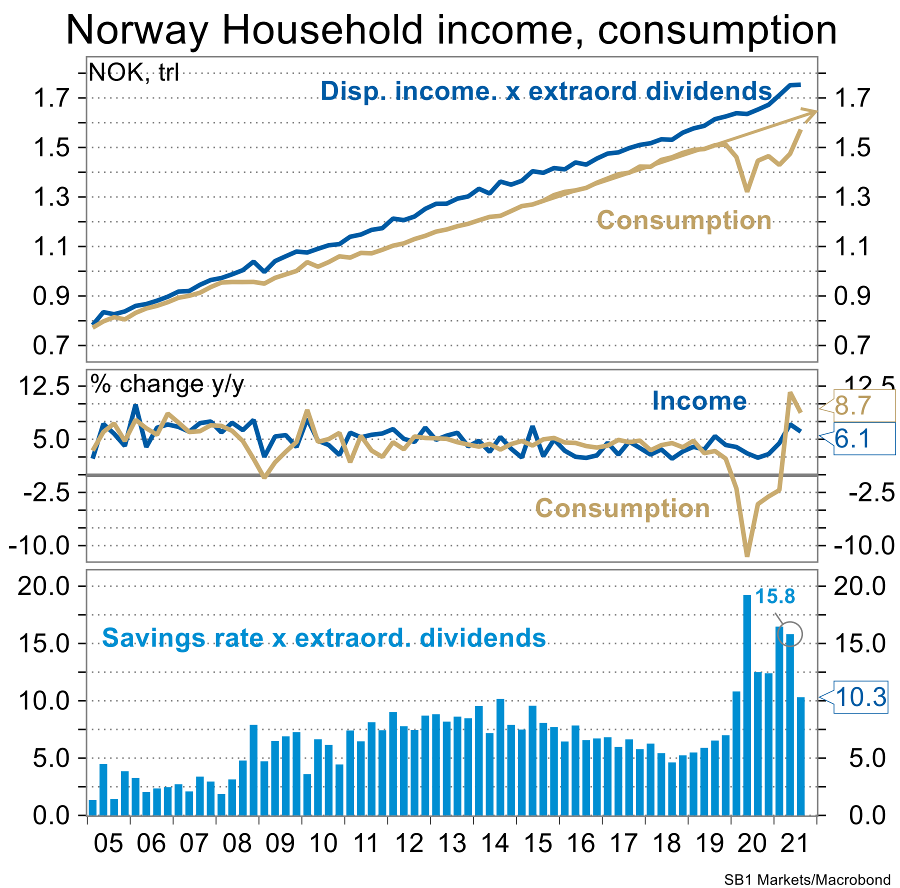




- In September, the Bank assumed the signal rate will be hiked gradually to approx 1.75%, while core inflation is expected to drift slowly up from the present level towards the 2% target in 2024

Consumption up 6.7% in Q3, income just 0.1%, the savings rate to 10% from 16%

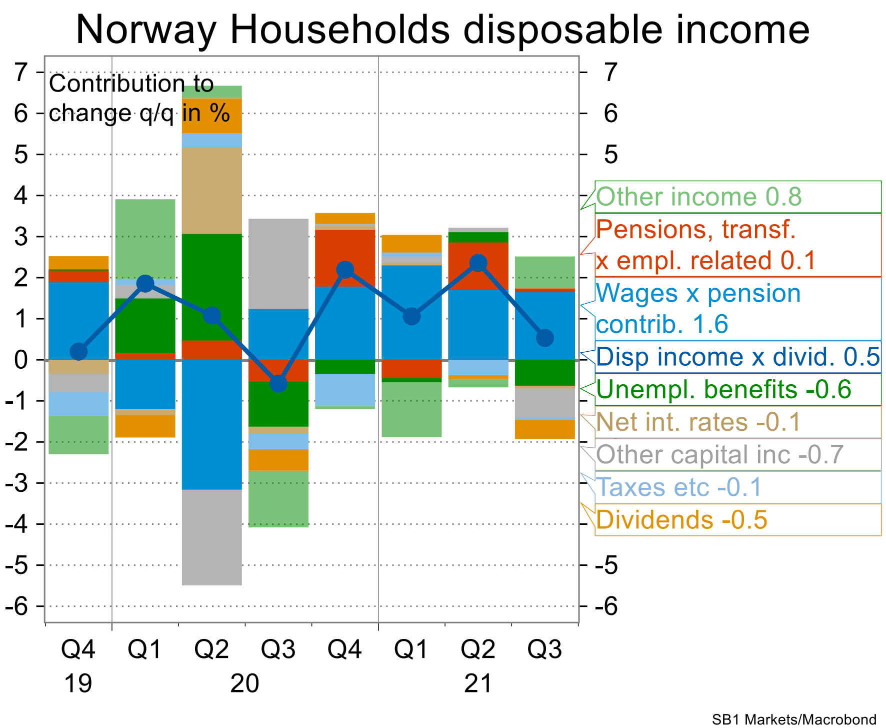
Spending on services still below par, as is spending abroad. The savings rate still some 4 pp above p-p

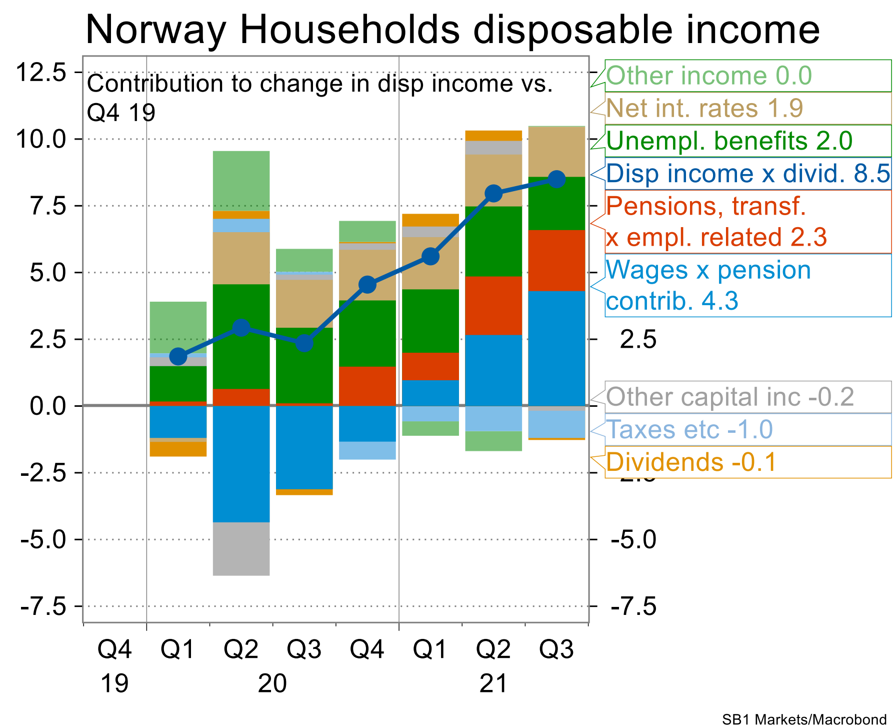


- **Household disposable** income rose by just 0.4% q/q in Q3 (nominally, adjusted for extraordinary dividends & pension rights, total 0.1%) – and the level is up 6.2% y/y. Nominal growth in consumption shot up 6.7%, as pandemic measures were eased
  - » The slow income growth was due to lower capital income (ex dividends), and reduced transfers. Wage income grew by 1.7%
- The adjusted savings rate fell by 5.5 p to 10.3%%, still above the pre-pandemic level at approx. 8% (but rising)
- The savings rate has been far higher than normal during the pandemic, in average by some 8.5 pp, accumulated more than NOK 230 bn, or 14% of annual disposable income. Extra net financial investments are of the same size. A decent 'Wall of Money' (but we are not able to find all these money in financial statistics, check some pages forward)
- In aggregate, households have not reduced their debts since before the pandemic, and just a minor part has covered higher residential investments, so their financial assets have increased substantially, like bank deposits
  - » By end of Q3, bank deposits were some NOK 70 bn higher than implied by the pre-covid trend

Wage revenues are coming back, less unemoployment benefits

Households are also compensated by higher unemployment benefits, but no ‘stimulus checks’





- Household net disposable income (before adjustments of pension rights), adjusted for short term volatility in dividends, rose by 0.5% - and are up by 8.5% vs. the pre-pandemic level
- In Norway, extra government transfers to households during the pandemic have been rather limited. Unemployment benefits are up but no ‘cheques for free’ have been distributed (at least not before now…)

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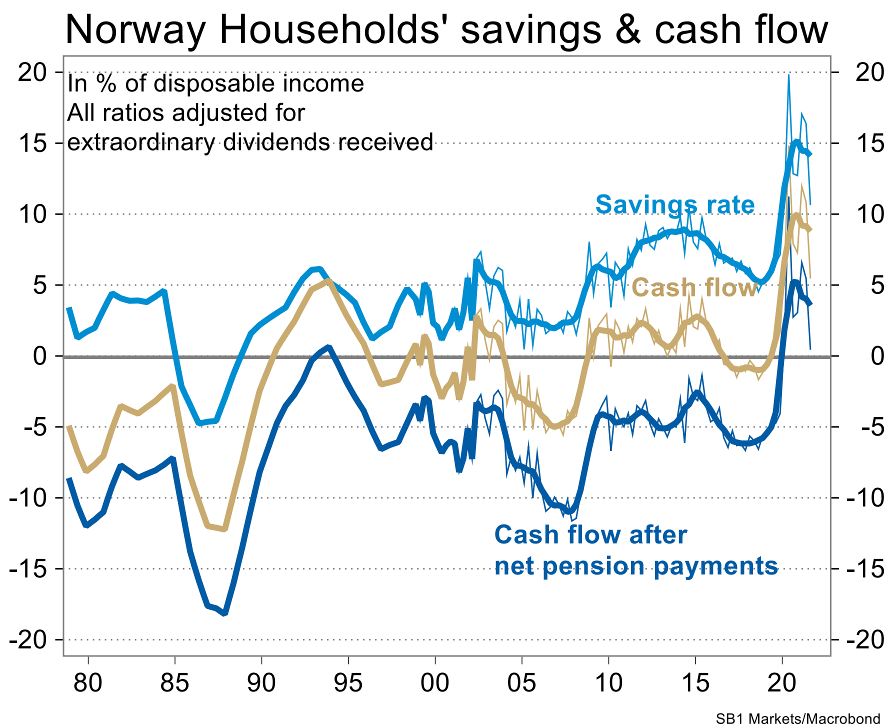
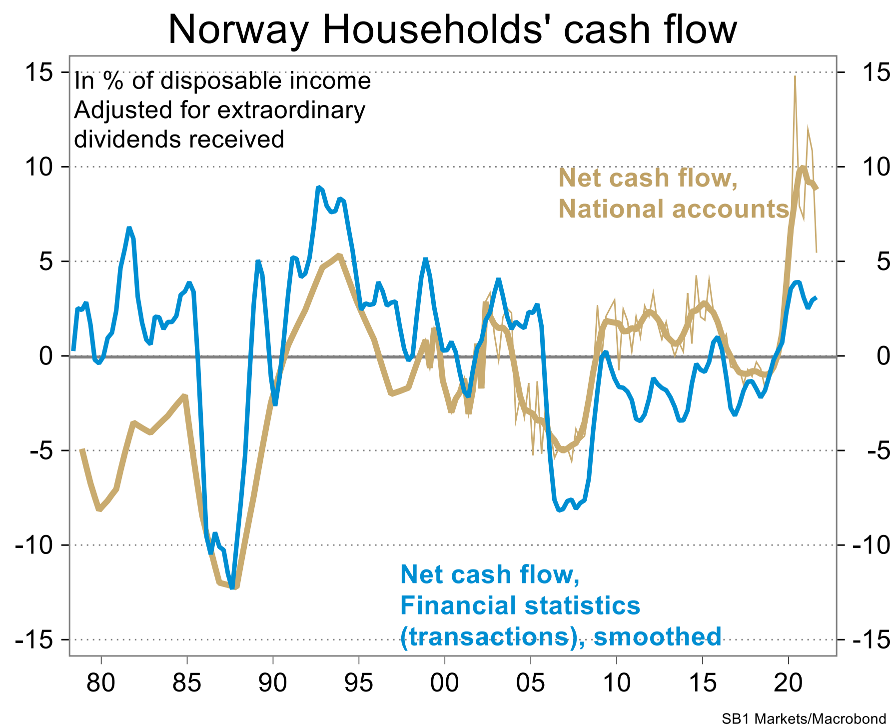
Savings down but still above the pre-p level. Financial stats reports less cash surpl

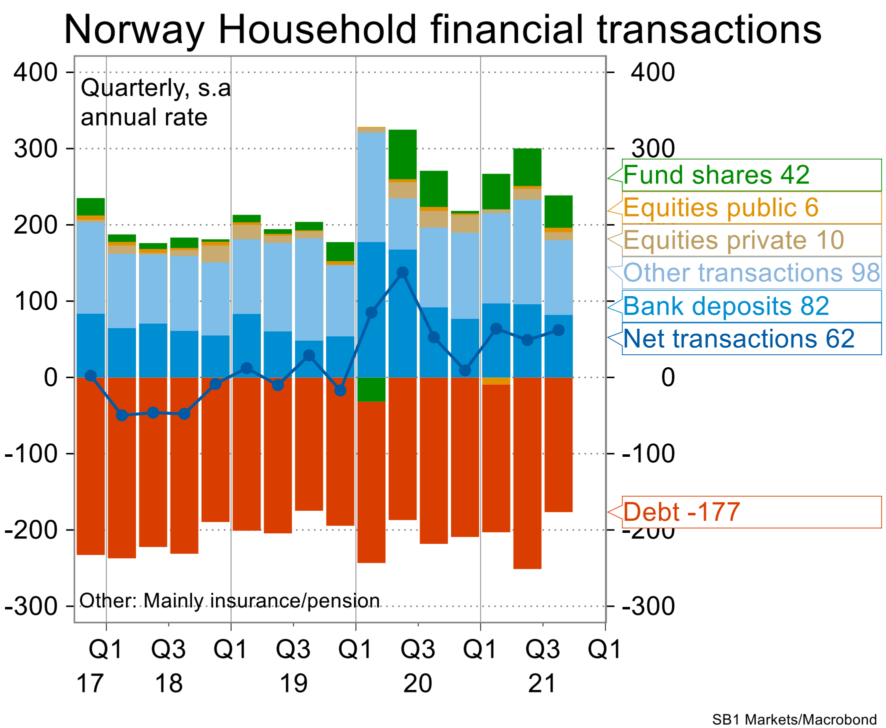


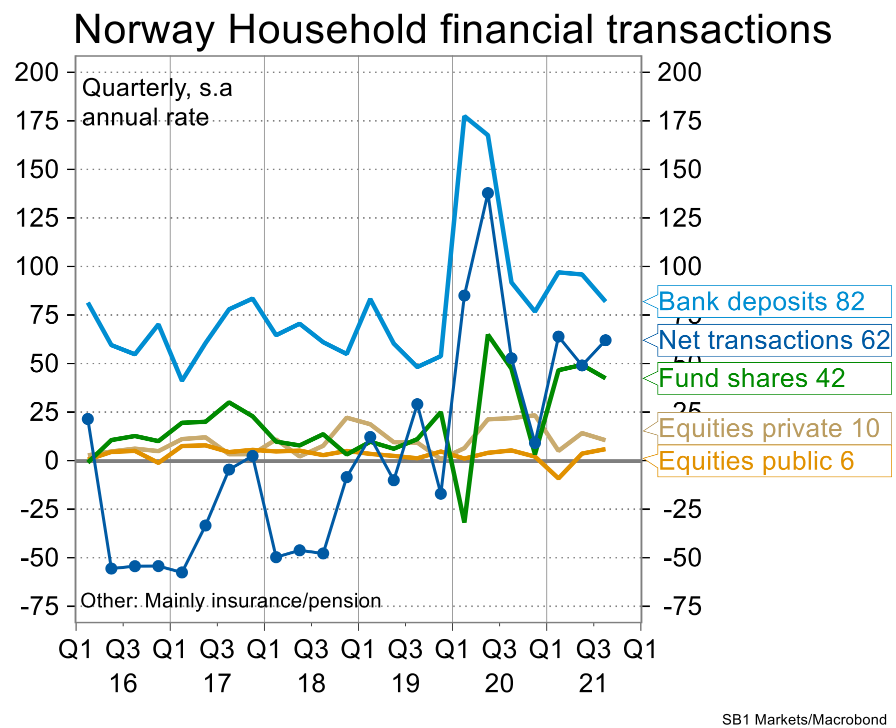


- As households normally invest more in new homes than depreciation on their old ones (which is included in total consumption), their cash flow is lower than their savings (savings = income – consumption).
- In addition, households have to fill up their pension contracts, and the 'free' cashflow is even lower. <u>However, even this free cash flow has been in positive territory since Q1 2020. I Q3 the 'free' cash flow approached zero</u>
- Q3 Financial Accounts confirms a more net positive cash flow than normal during the pandemic but SSB has not been able to track down were the cash surplus calculated from the National accounts has been invested. The gap – the missing cash – quals >5% of disposable income! This discrepancy has been large back in history too

Where is the (discovered) cash surplus invested?

Mostly in bank (and pension savings). However more in fund shares too. Nothing in debt repayments

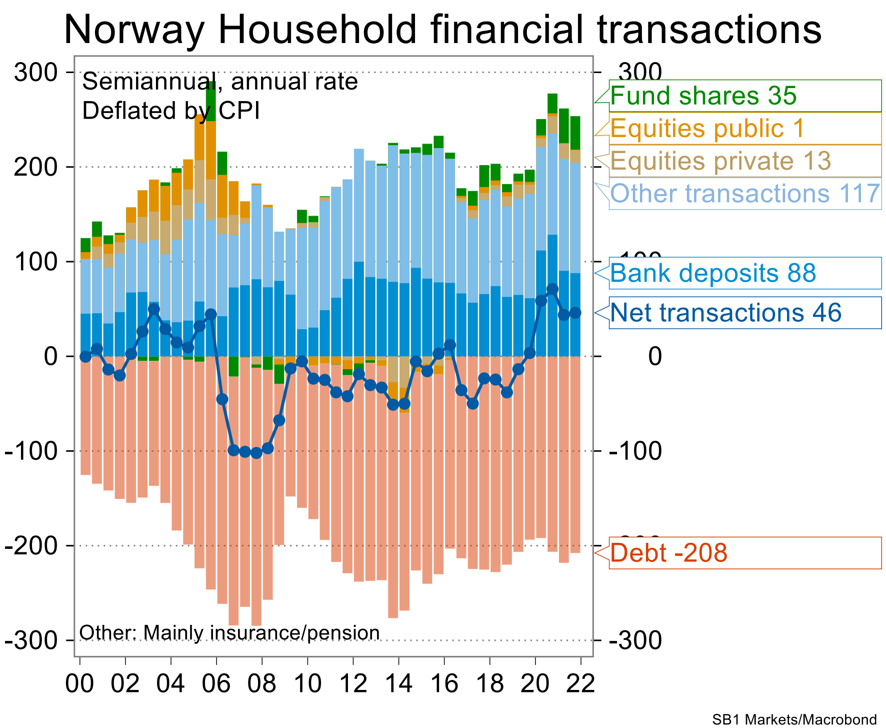


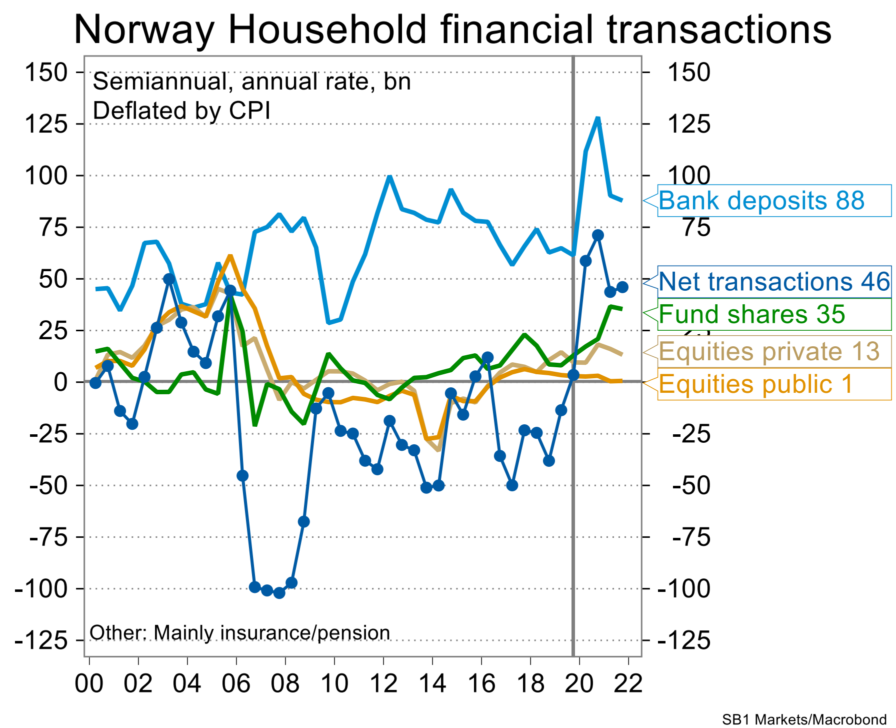


- During the pandemic households have accumulated some NOK 80 bn more than normal in bank deposits

A longer term view: Households are saving mostly in banks, but now also in funds

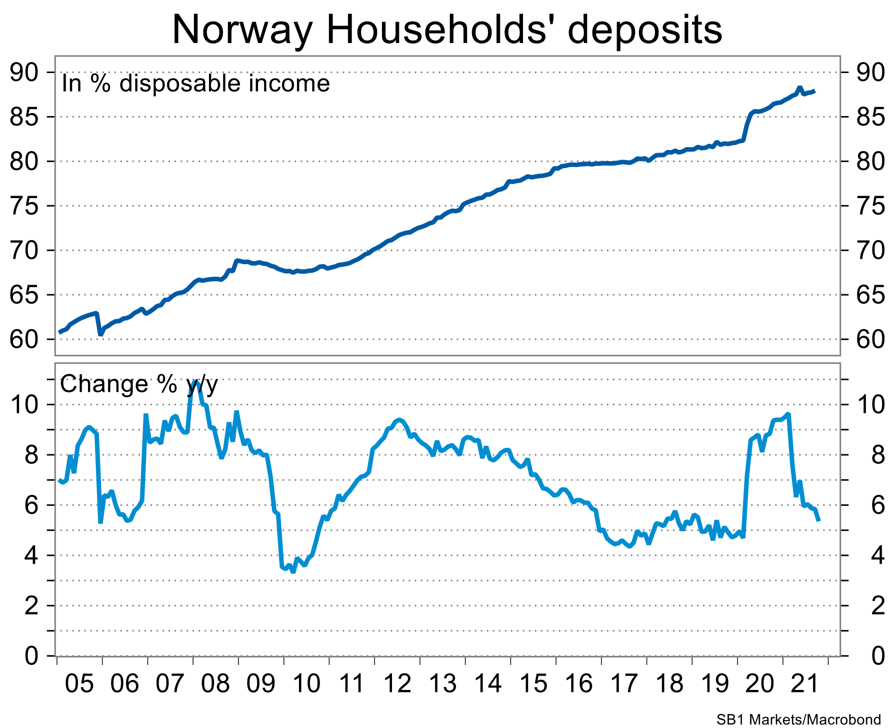
Investments in fund shares have been higher than normal – some NOK 20 bn extra (annual rate)

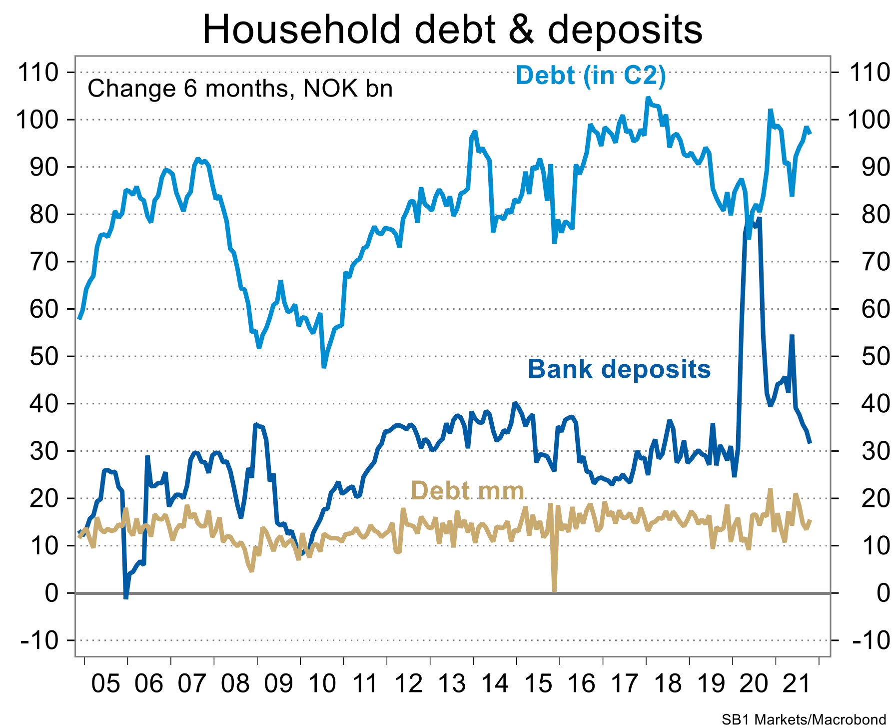




Growth in bank deposits slow, growth in household debt not

… and banks will a one stage need a normal funding of mortgages ☺

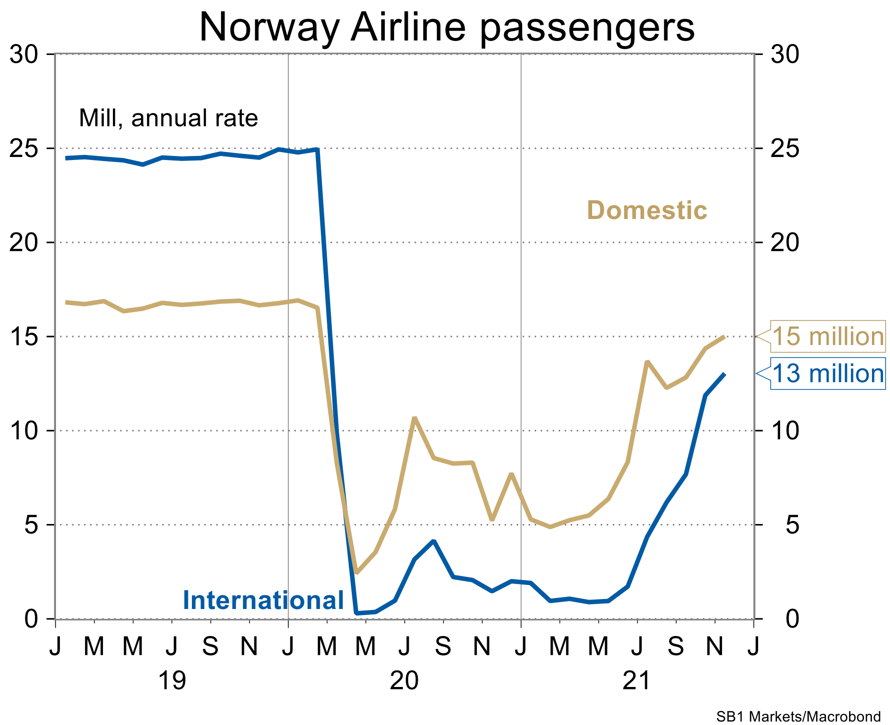


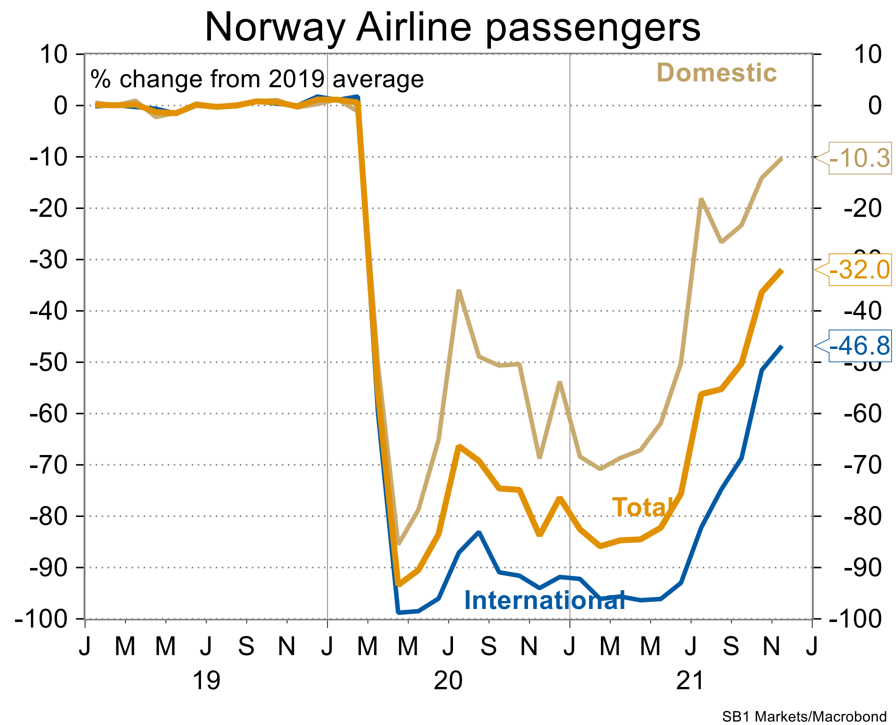


- For the first time 'ever' household deposits rose at the same rate as household debt, measured in NOK – for some few months
- Growth in deposits has slowed – and growth in debt has gained traction and household debt is once again growing faster than their bank deposits.

Airline traffic further up in Nov – domestic just down 10%, international -47%

In total down 32% vs the pre-pandemic level. Now, the outlook is more uncertain again





SpareBank 1 MARKETS

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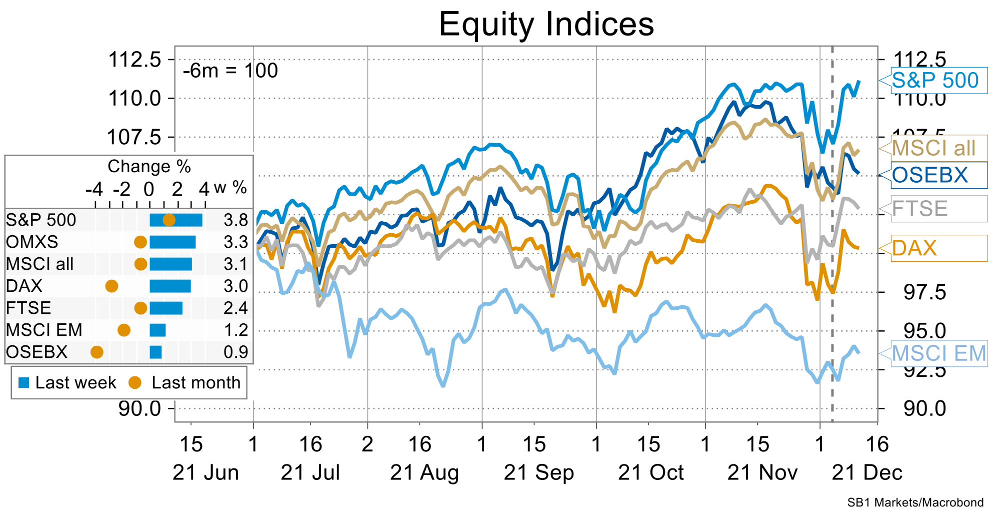
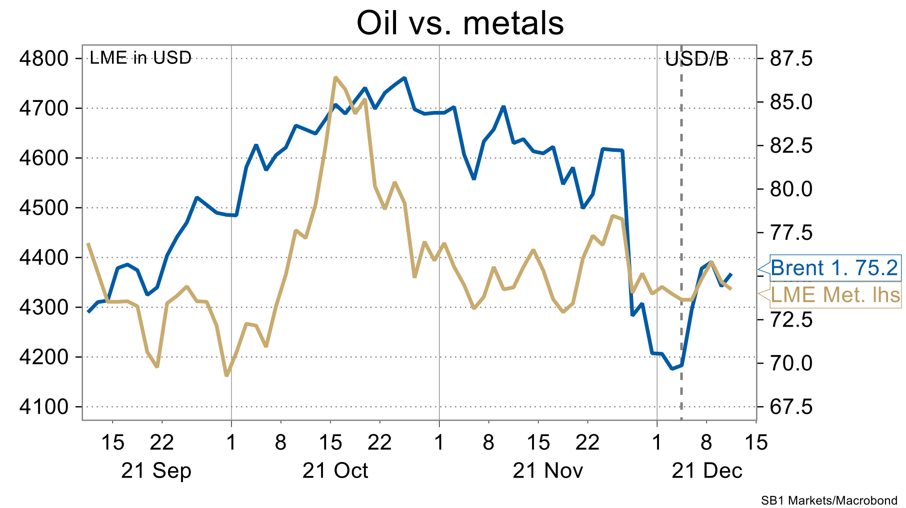
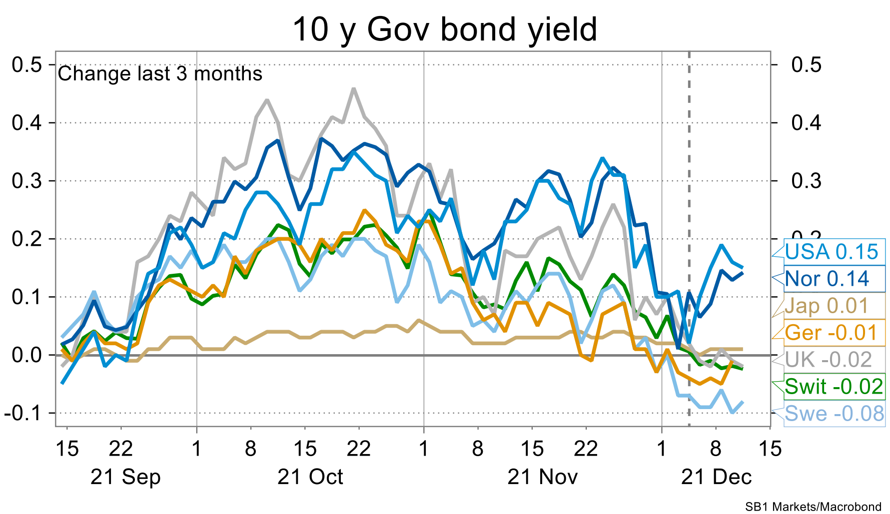
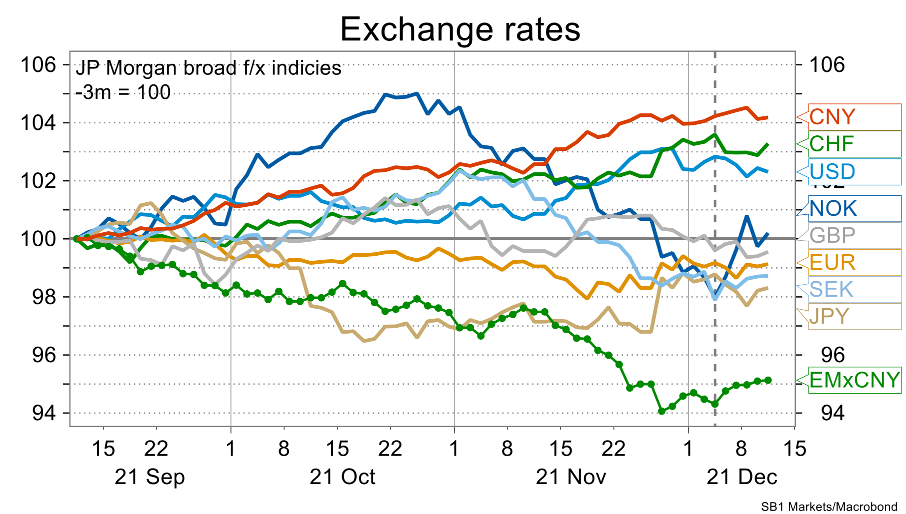
Risk on, Omicron will not kill us all! And neither will US inflation close to 7%

Nothing to fear, according to most markets. Which may be right, of course. Equities, bond yields, oil up









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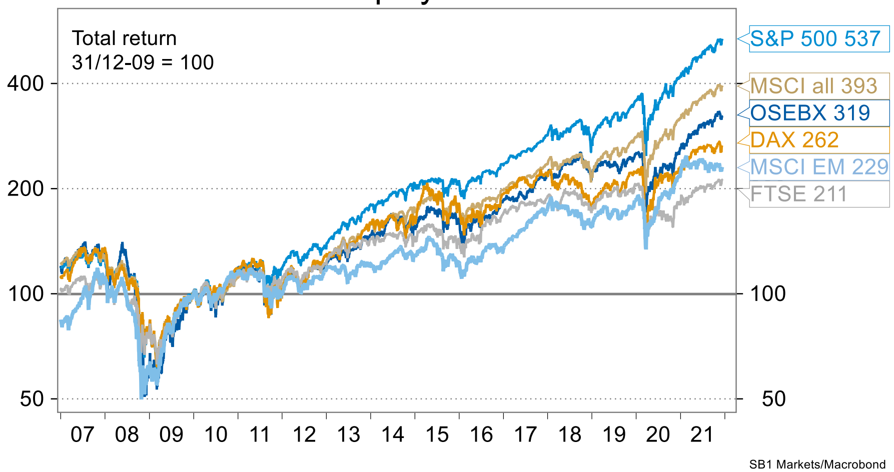
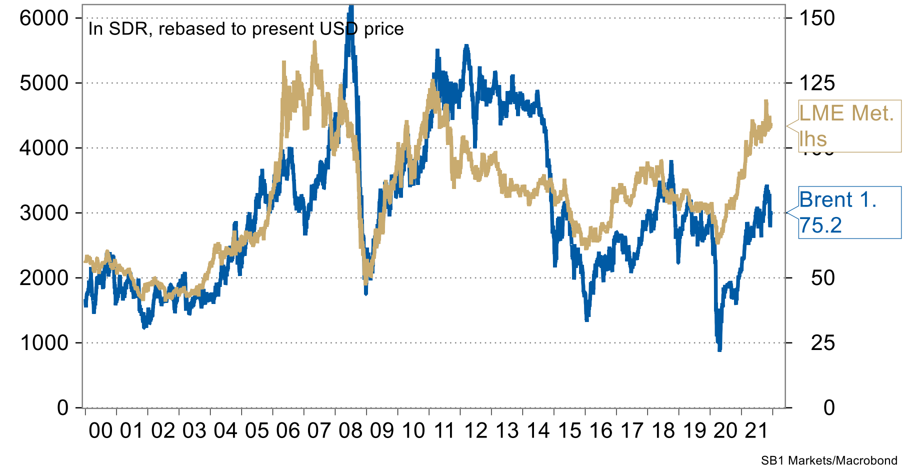
The big picture: Omicron may change everything but most likely not, for long

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

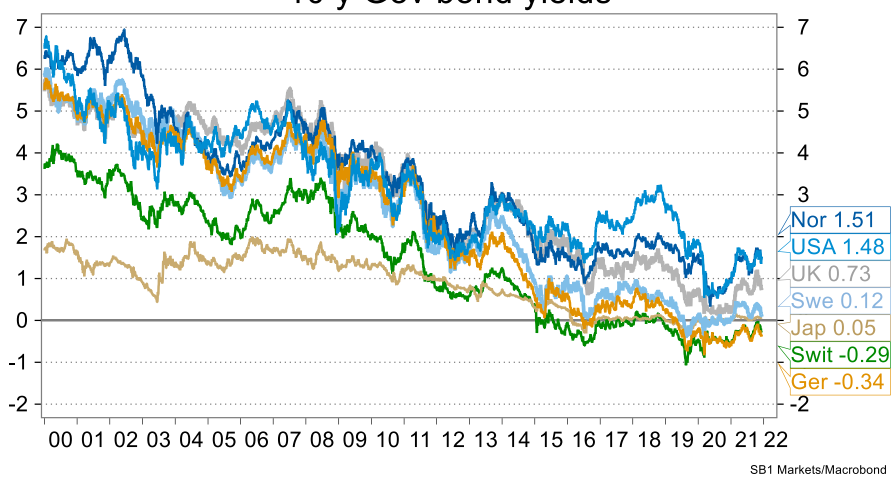
Equity Indices



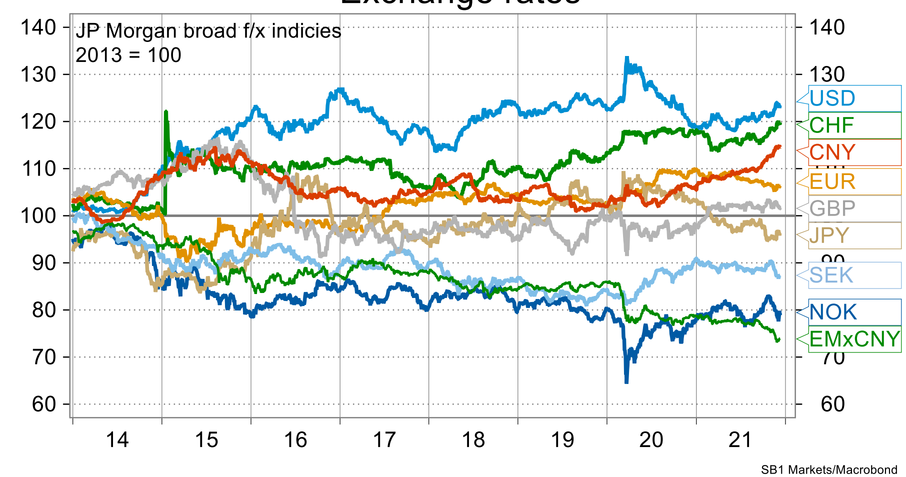
Oil vs. metals



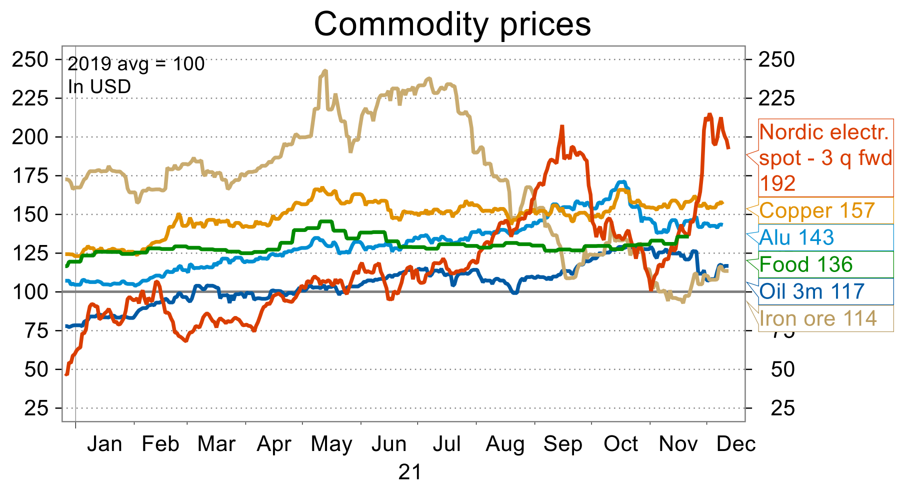
10 y Gov bond yields

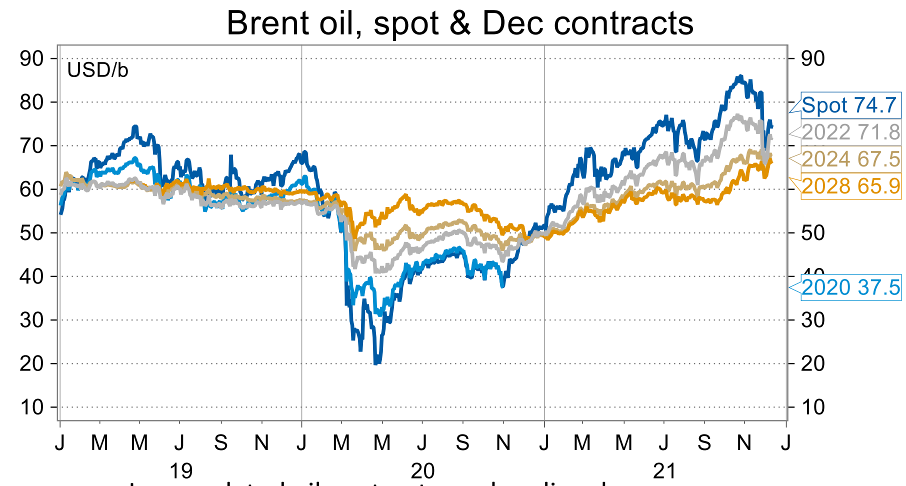


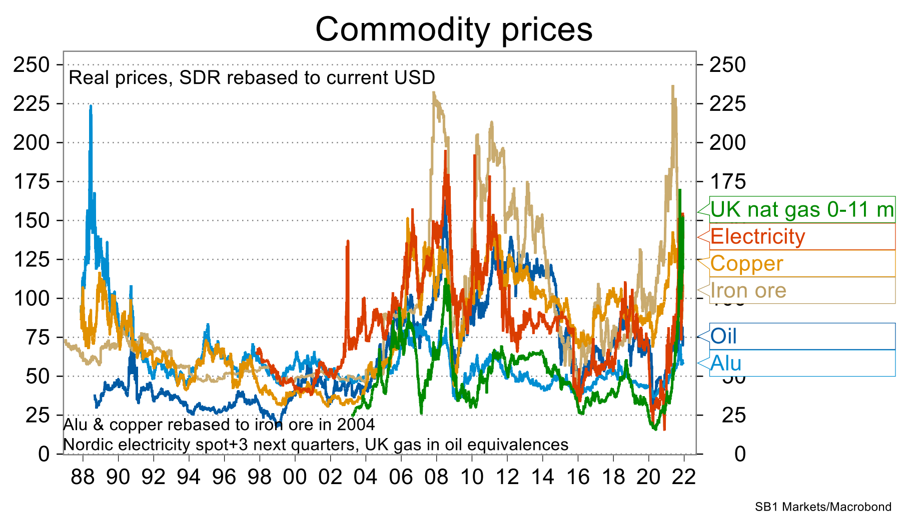
Exchange rates



The oil price up all over the curve. Metal markets not that impressed

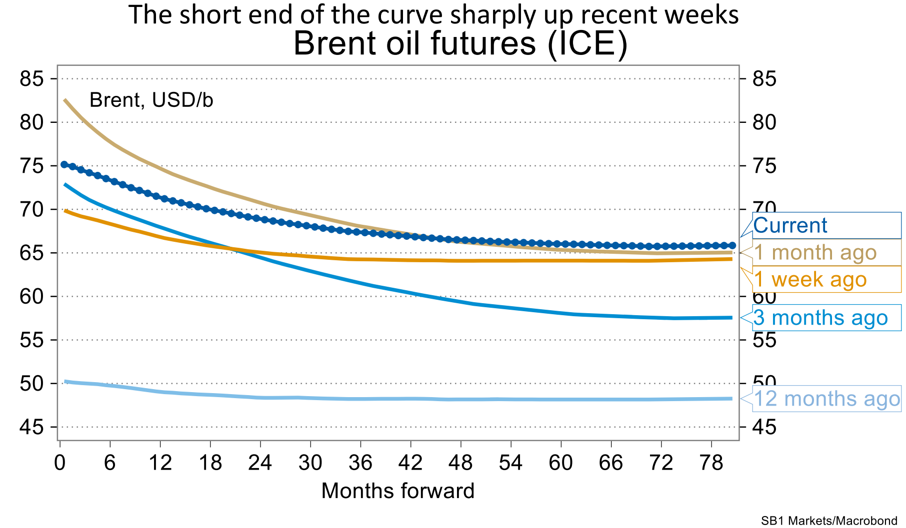






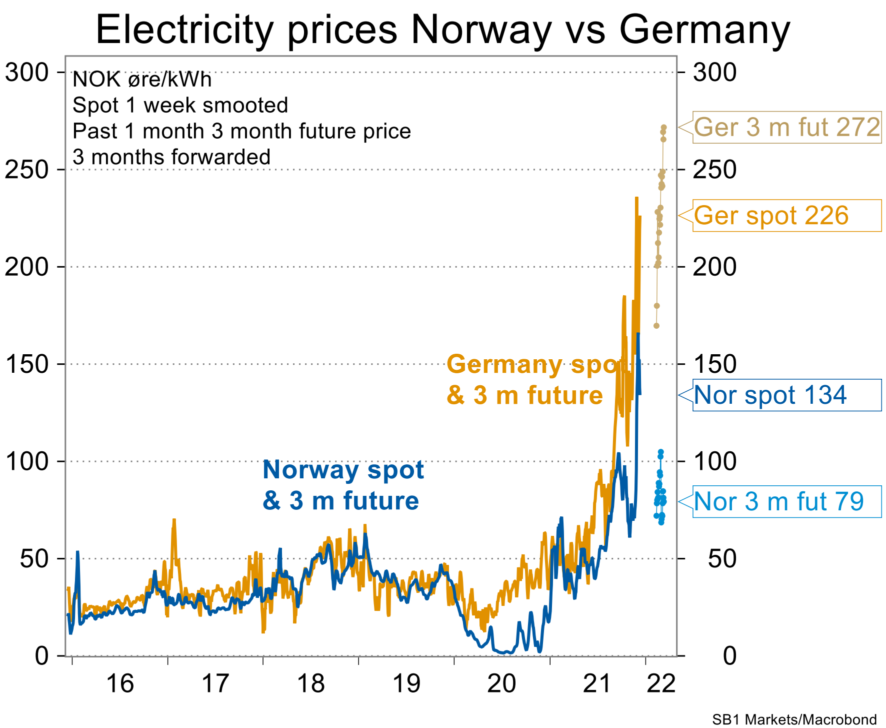
Longer dated oil contracts are heading down

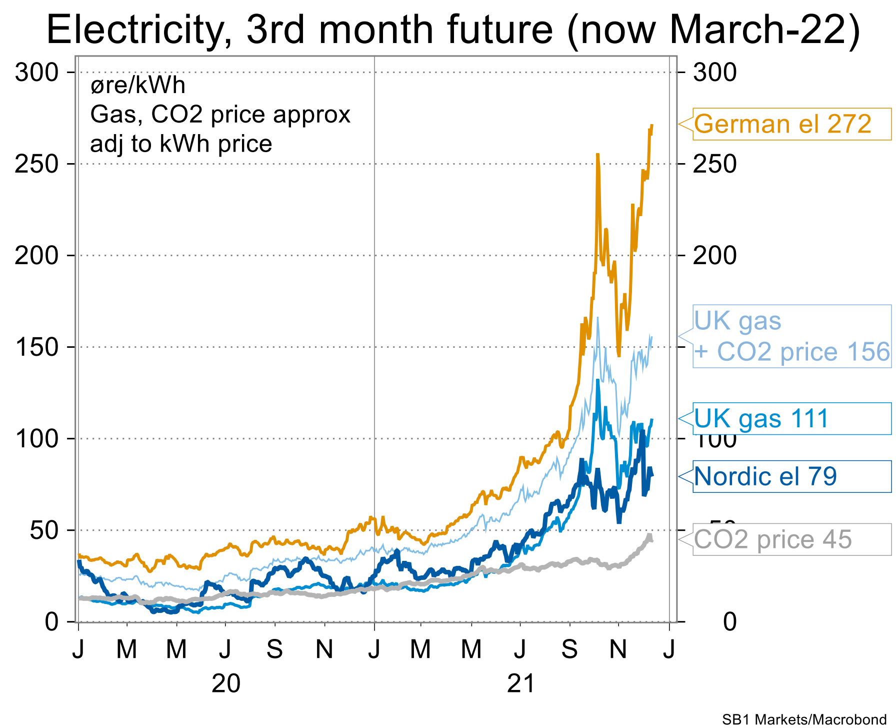
The short end of the curve sharply up recent weeks



European electricity prices up last week – to new ATHs

The gap between Nordic and German future prices are extremely large

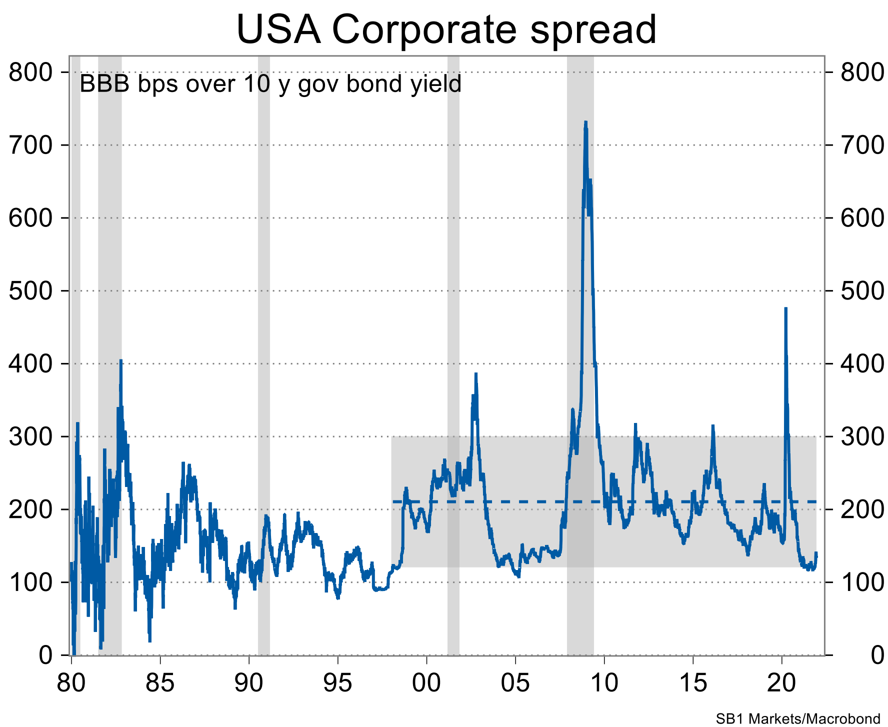


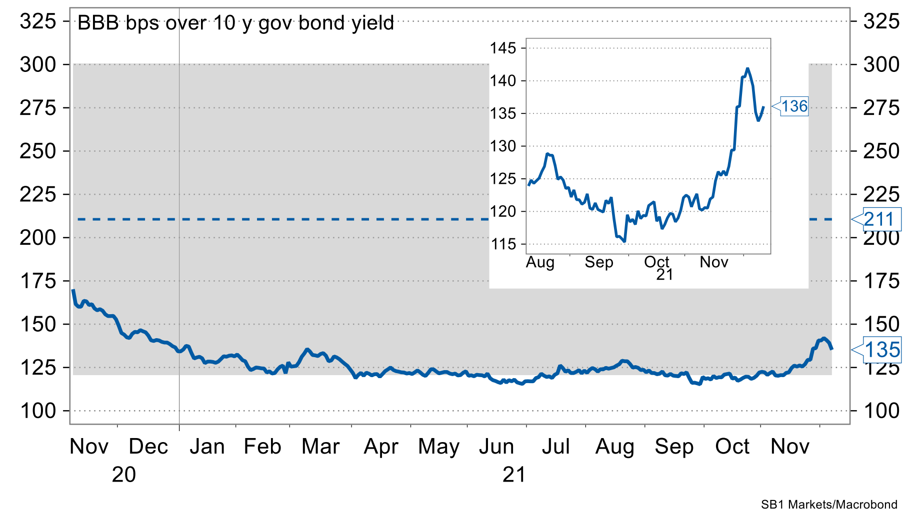


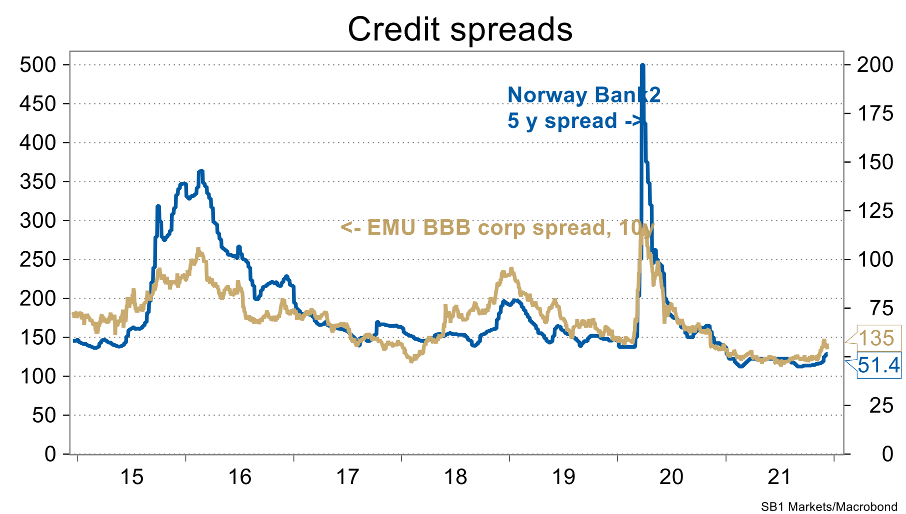
- Carbon quota prices rose to record high levels last week (the peak was at EUR 90/tonne!) as coal-fired power stations have to buy more quotas when they now gear up production

Credit spreads abroad slightly down last week but sill a little up from the bottom

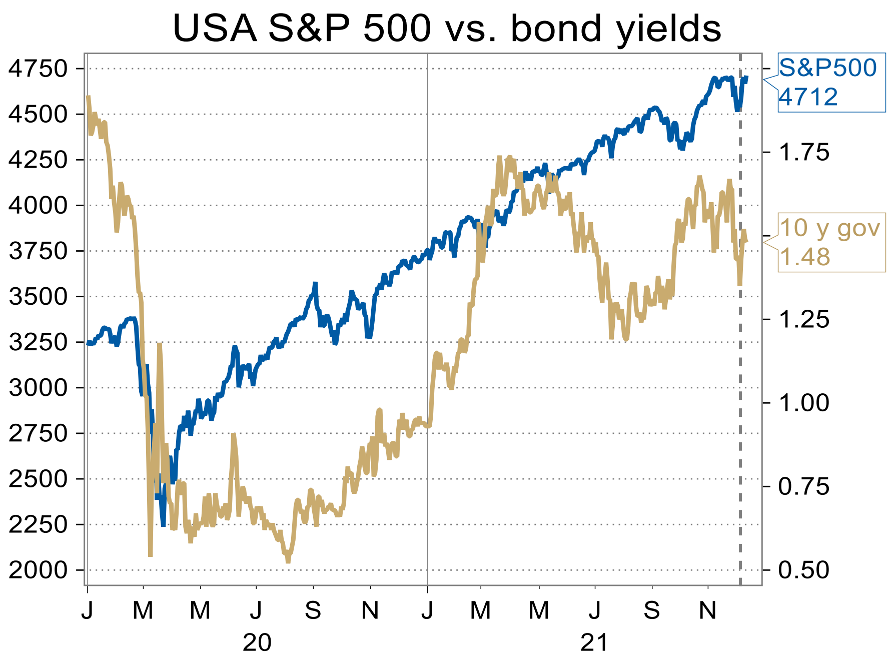
Norwegian bond spreads marginally up recent weeks

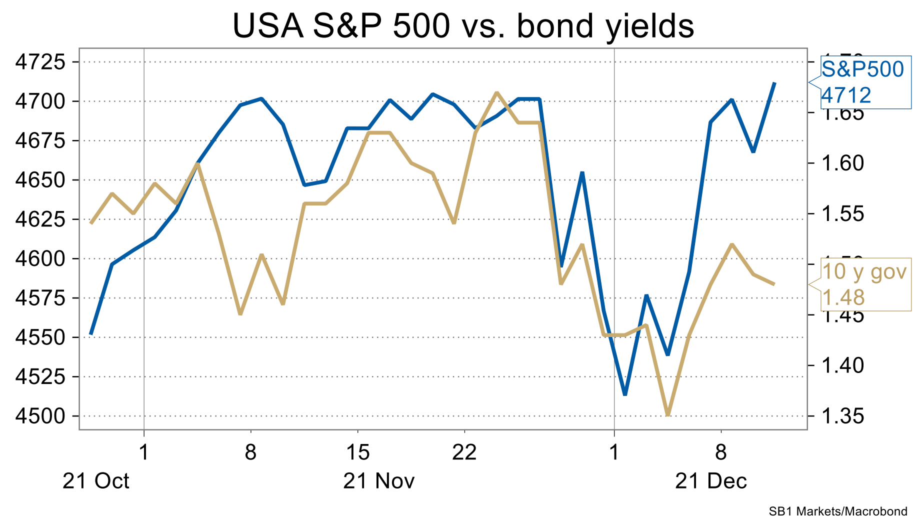


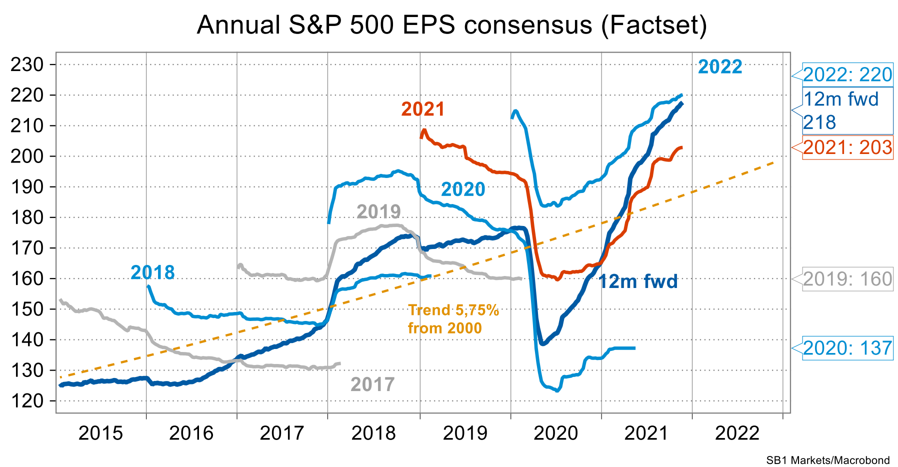


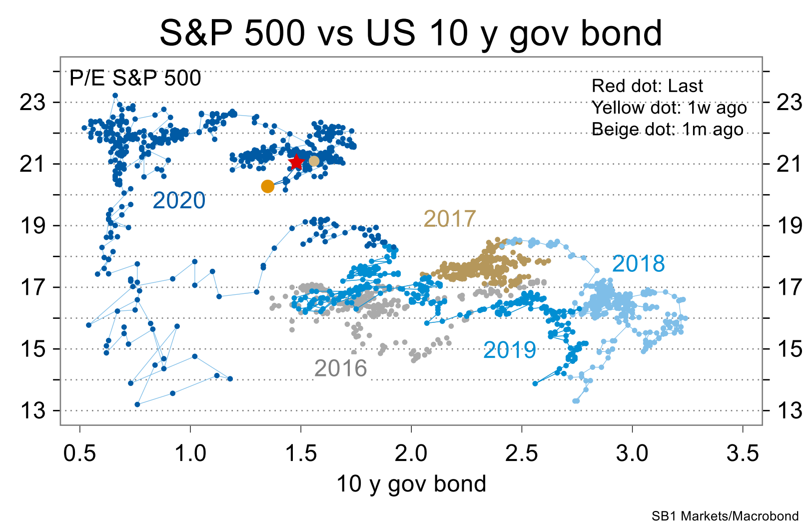


Happy days are back again! ATH at the S&P as the 10 y bond yield is kept in check



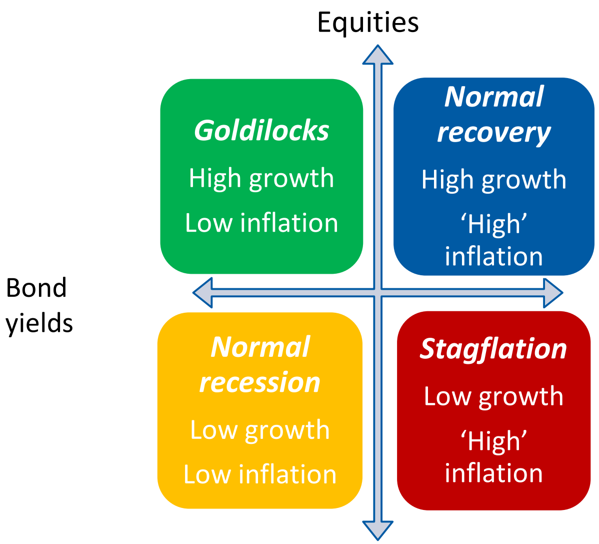


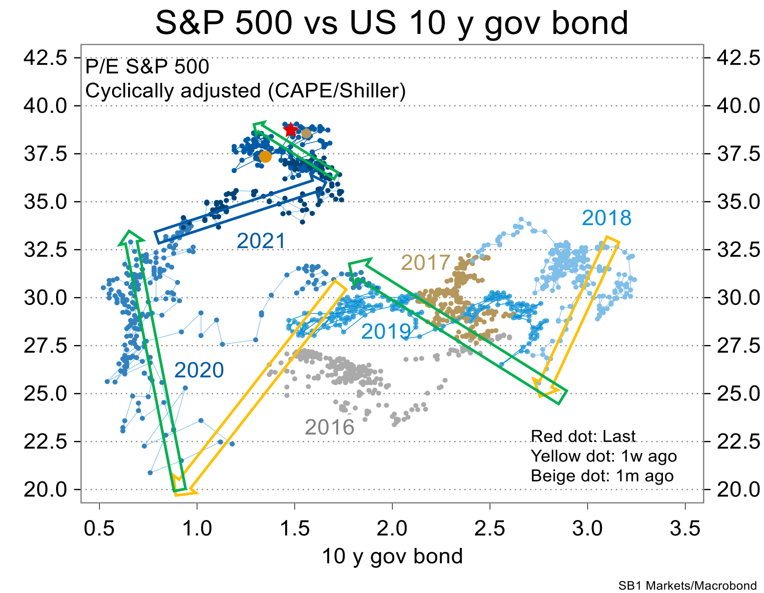




Still well inside the 'Goldilocks corner'!

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

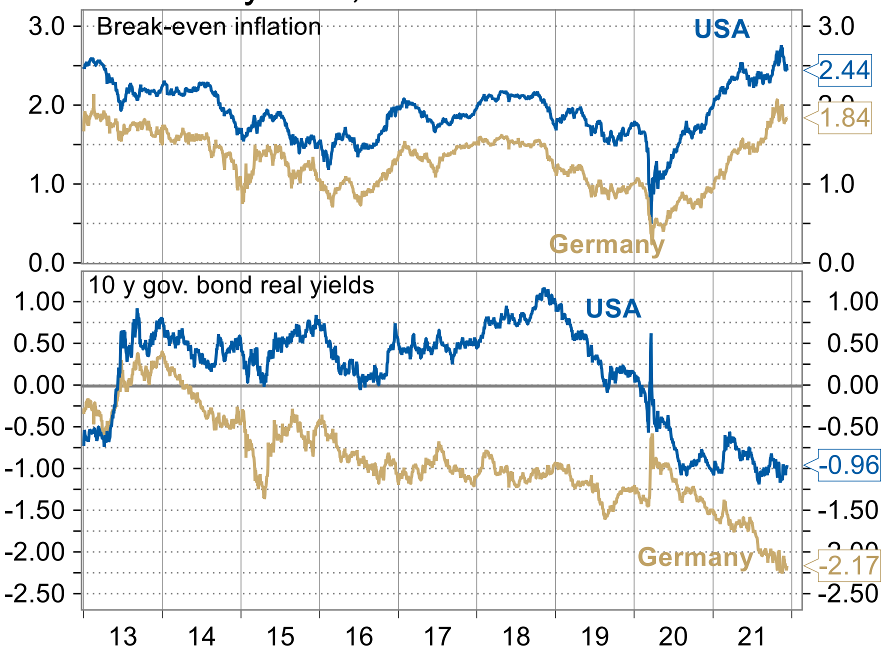


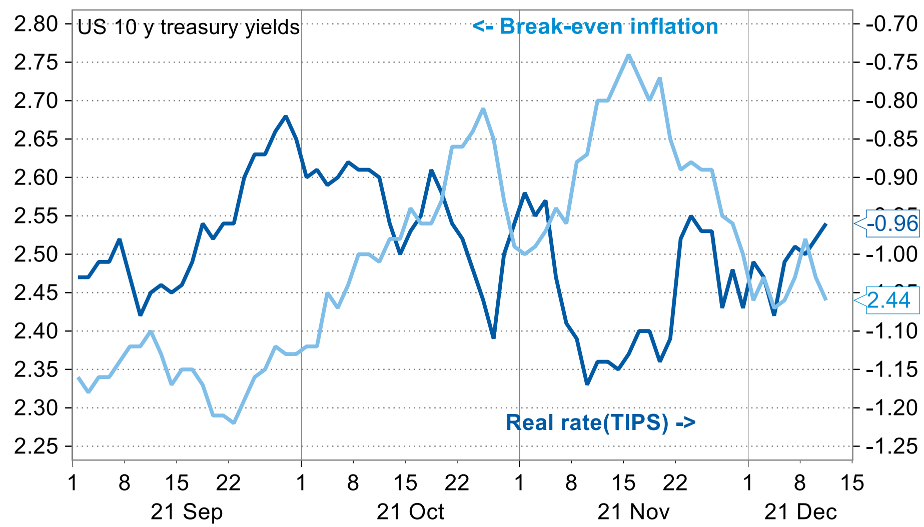


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield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

Suddenly, the US real rate rose 12 bps, while inflation expectations were flat

Still, at -0.96% the 10 y TIPS is just back to the same level is in early November





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.48	0.13	-0.08	0.52
.. break-even inflation	2.44	0.01	-0.26	1.06
.. TIPS real rate	-0.96	0.12	0.18	-1.19
Germany nominal bund	-0.34	0.02	-0.08	-0.65
.. break-even inflation	1.84	0.05	-0.15	0.40
.. real rate	-2.17	0.01	0.06	-2.26

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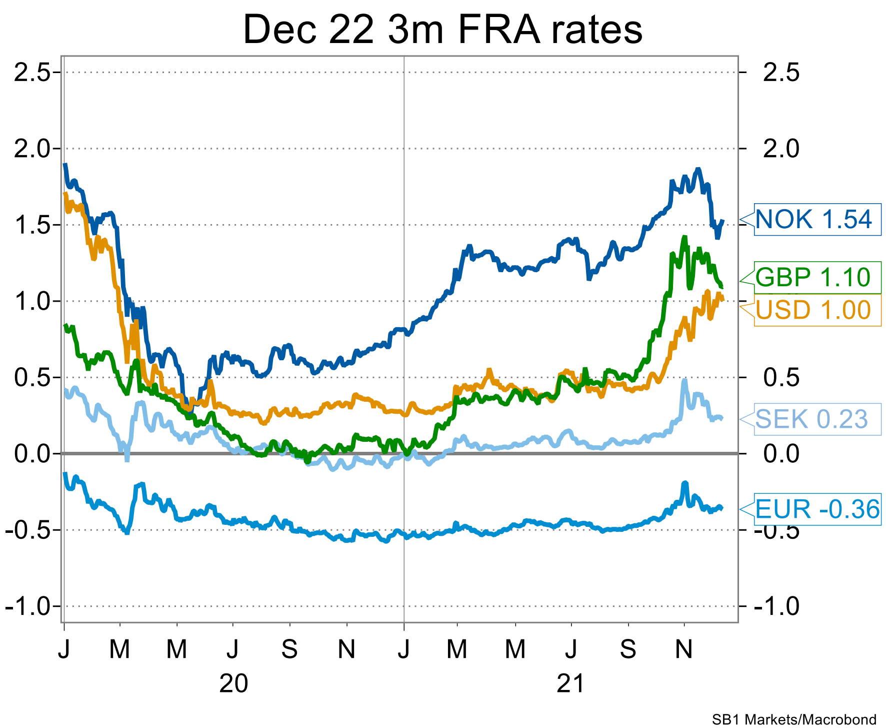
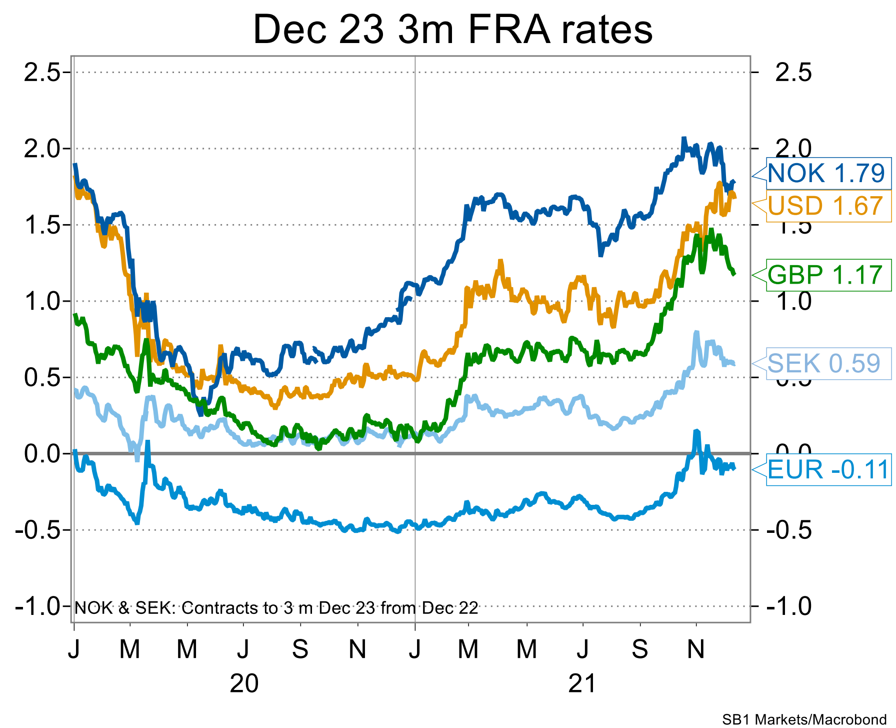
FRAs: Mixed last week, Omicron is scaring the UK market but not the others

A hike next week is prices out of the GBP curve – and 'just' 4 hikes next year is expected

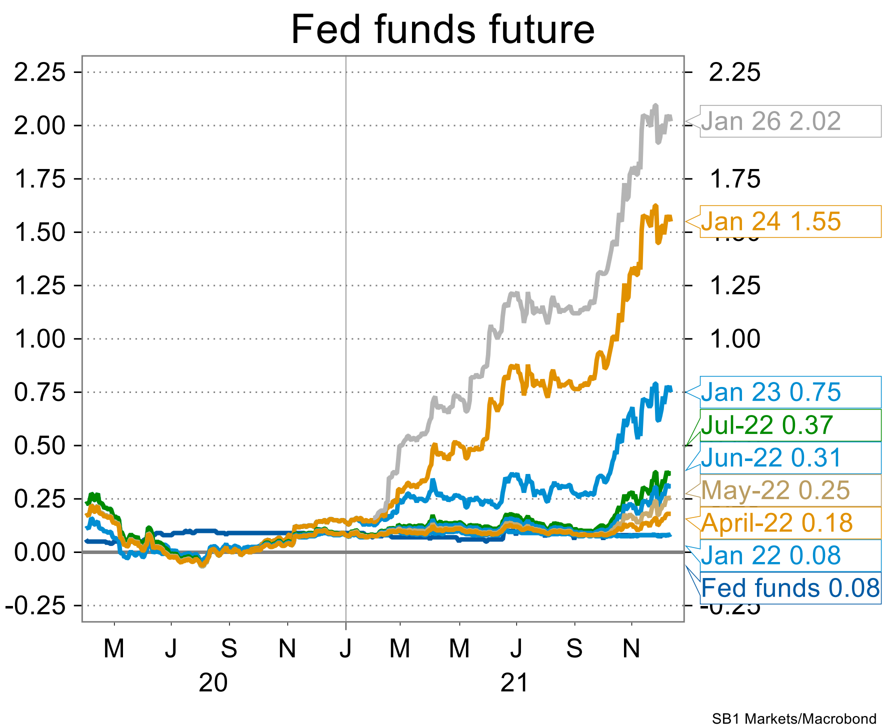


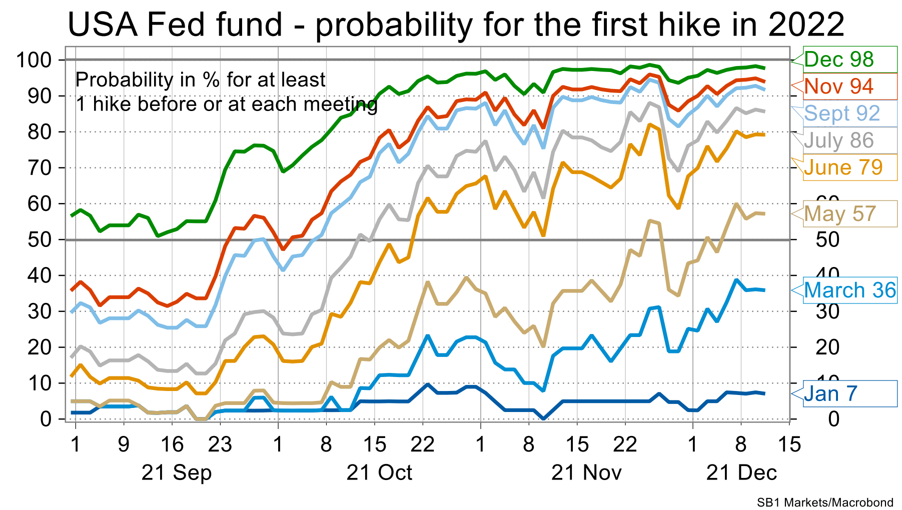


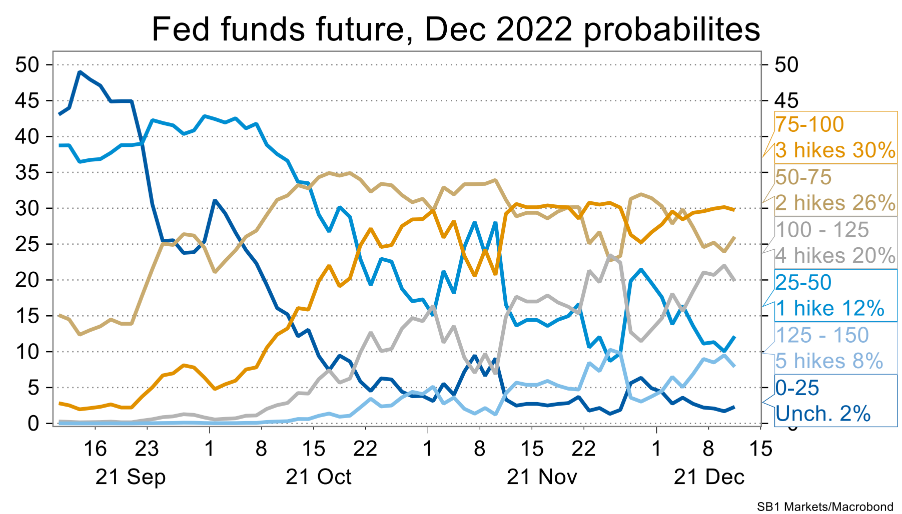
- **UK:** The market has postponed the hiking campaign by some 3 months
- **USA:** The Fed is expected to start hiking between May and July next year, and close to 2 more hikes before next Christmas
- **Sweden:** The Riksbank does not expect to start hiking before late 2024, the market expect the bank to start hiking late 2022

The market is prepared for a spring hike

A hike before the summer is over is very likely – and 50% probability for 2 or 3 more hikes in H2

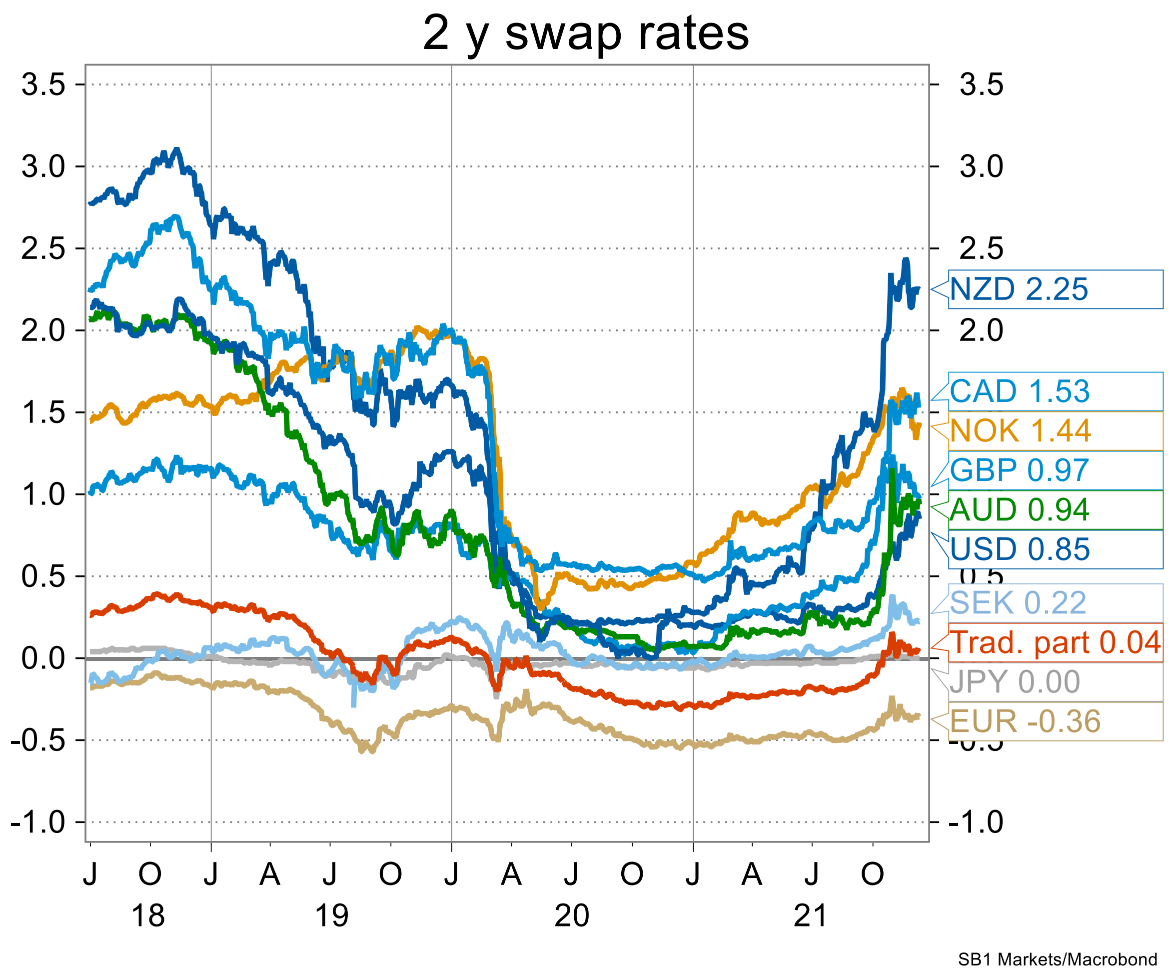


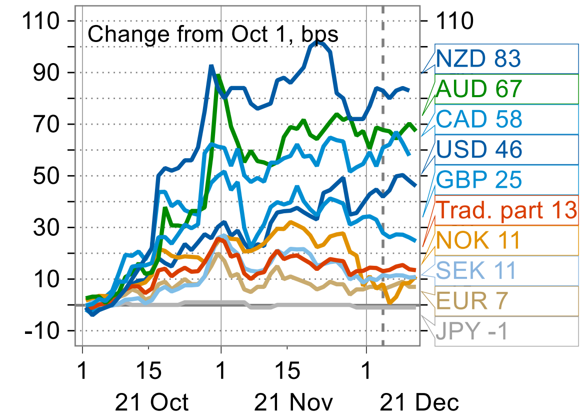


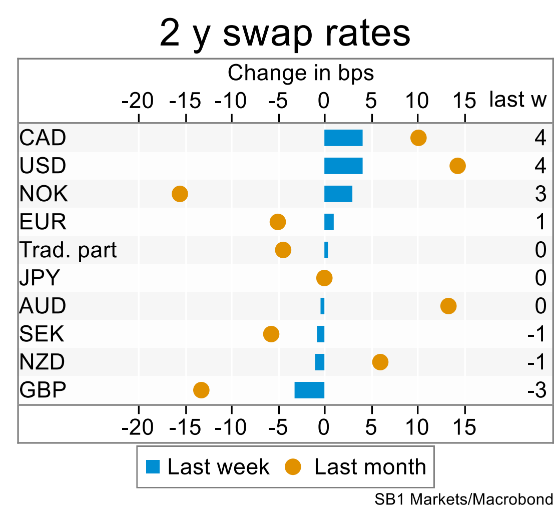


Mixed in the short end

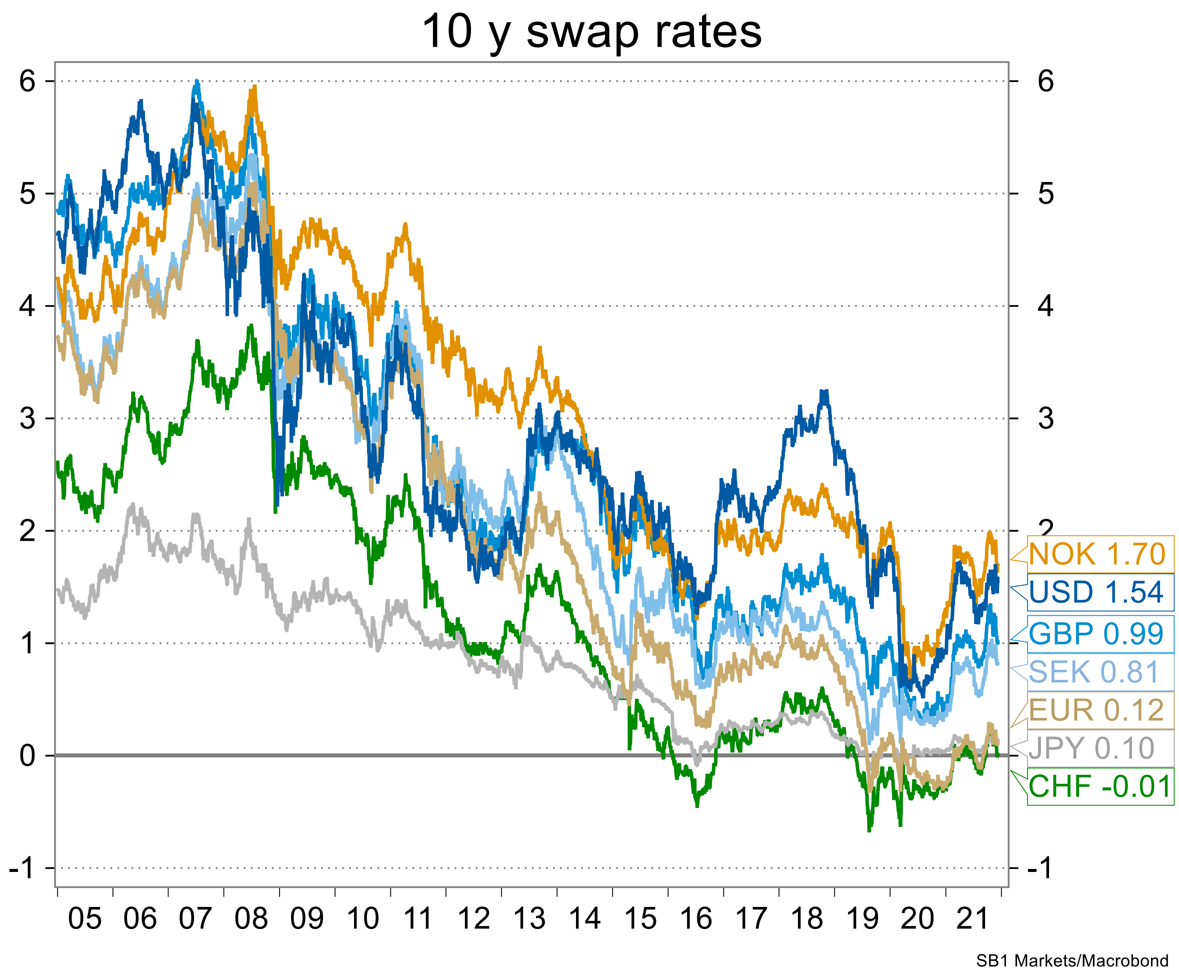
NOK rates fell the most – is still among the highest

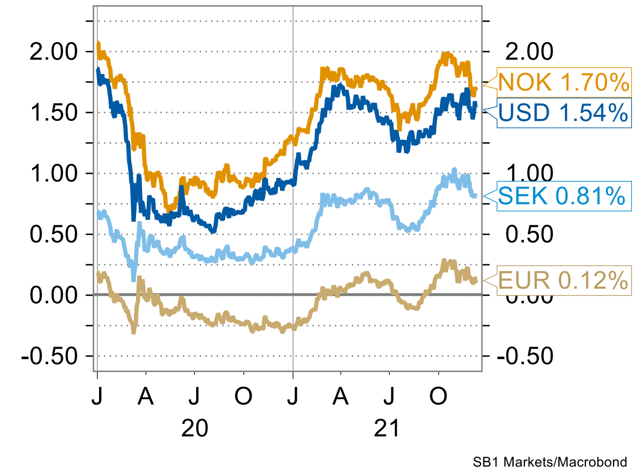


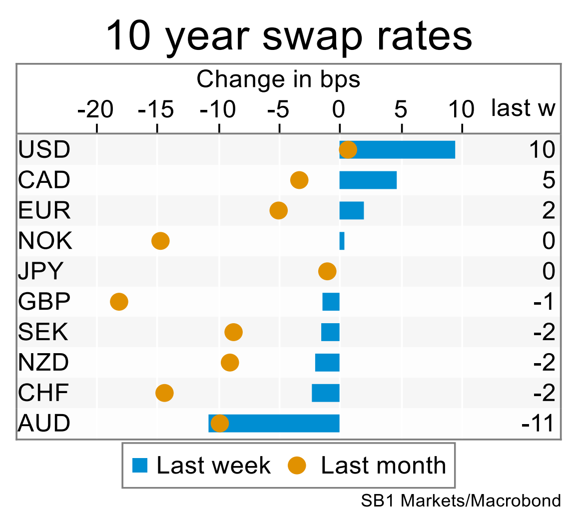




Risk off, the long end sharply down too – most where rates where the highest







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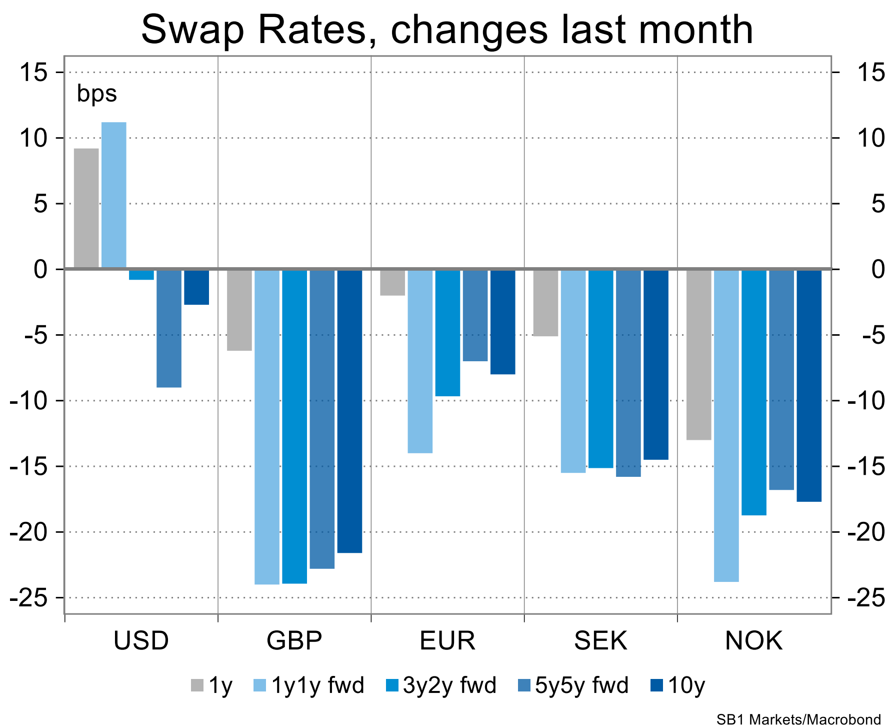
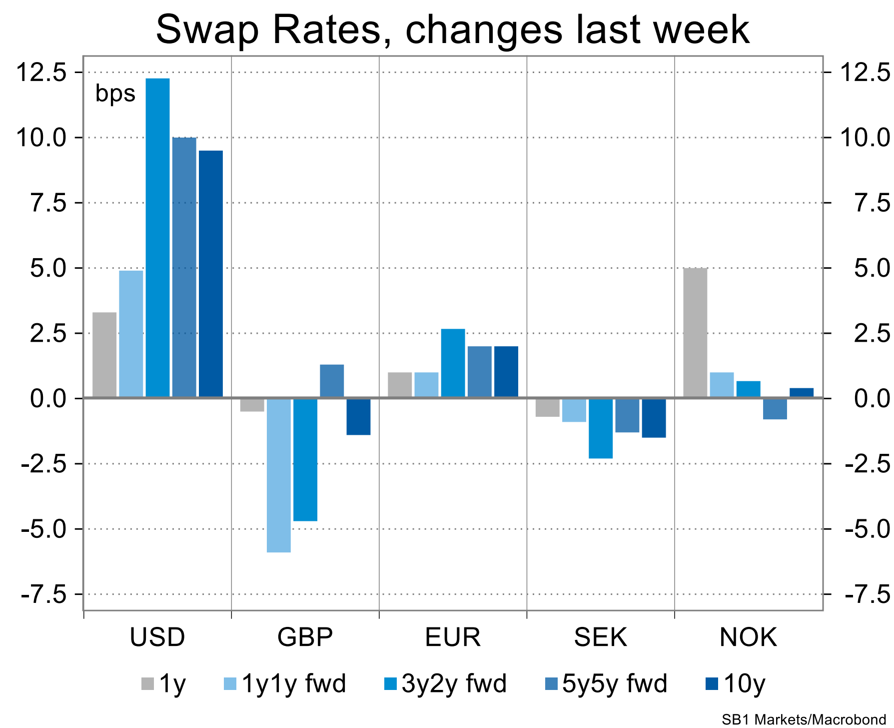
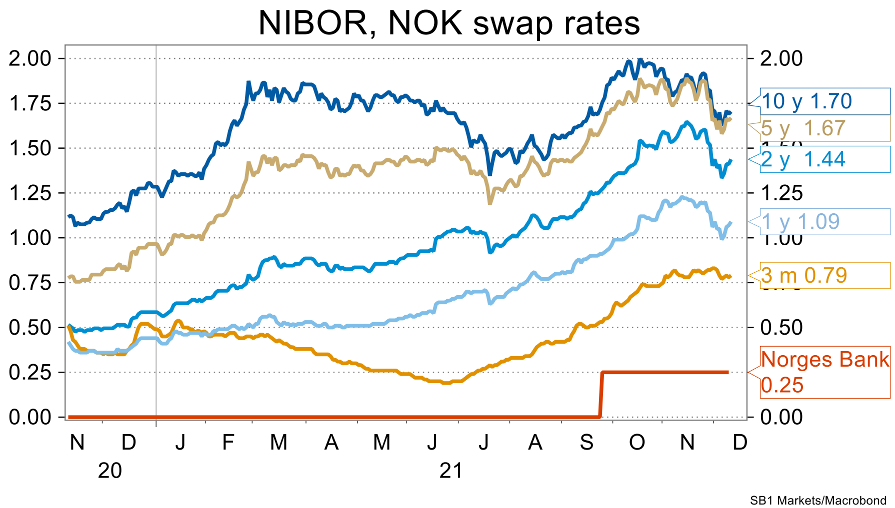
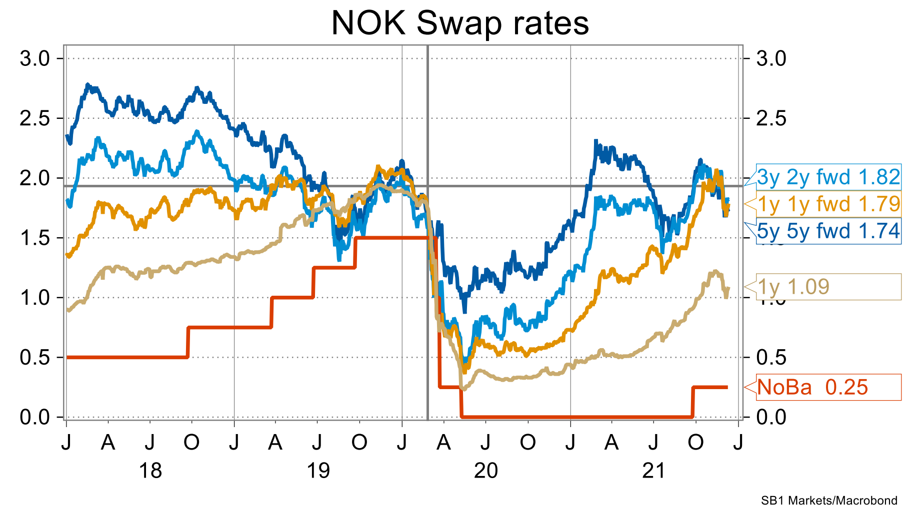
Powell talked the US short end up, while Omicron took care of the rest last week

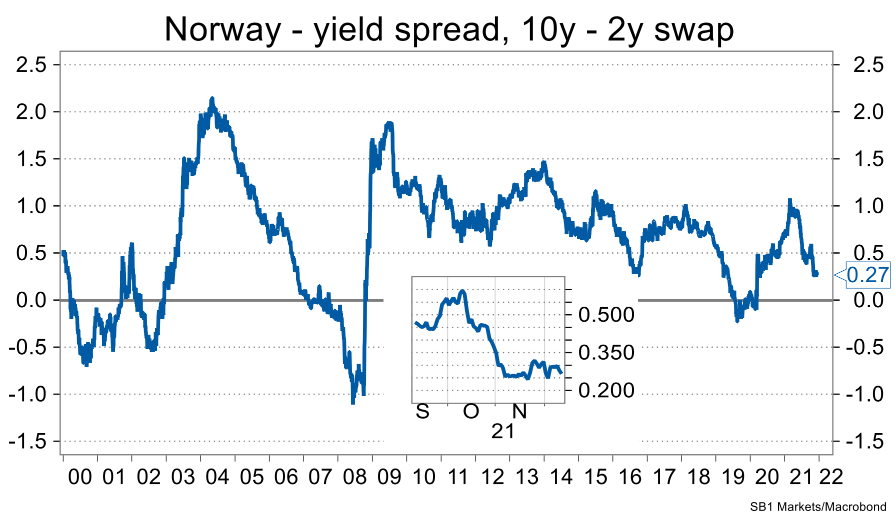


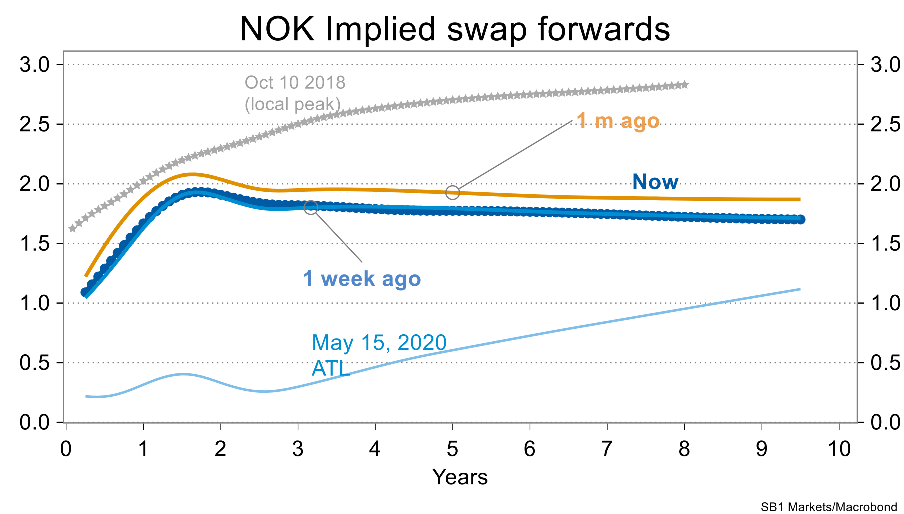


A substantial shift downwards last week









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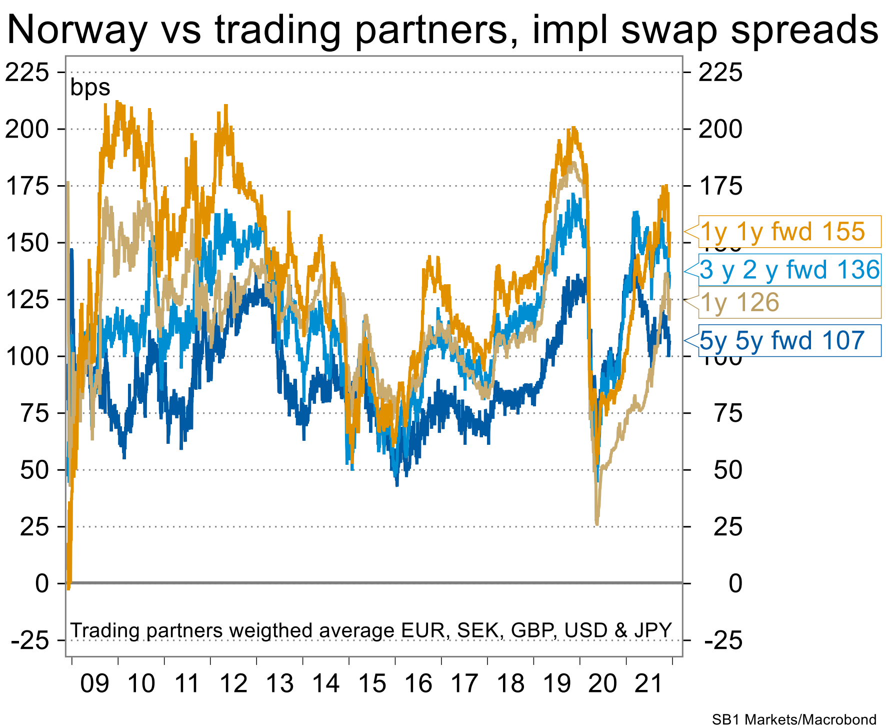
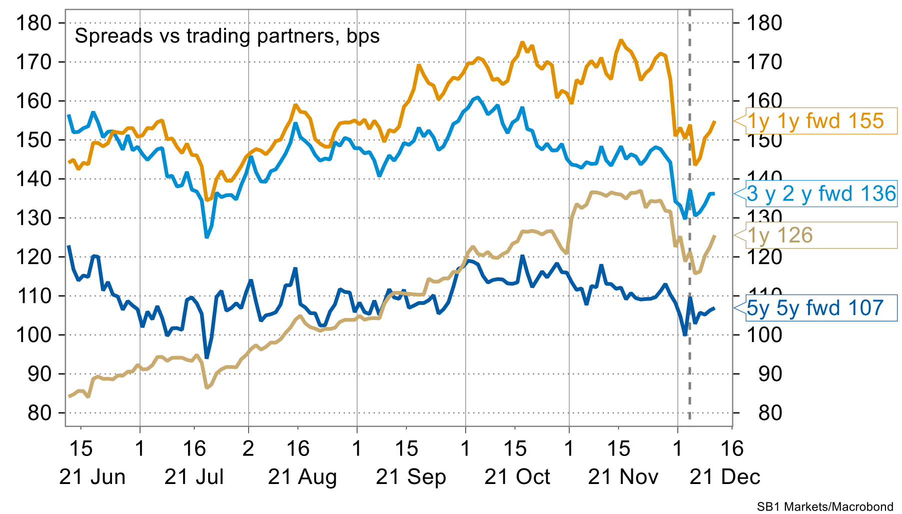
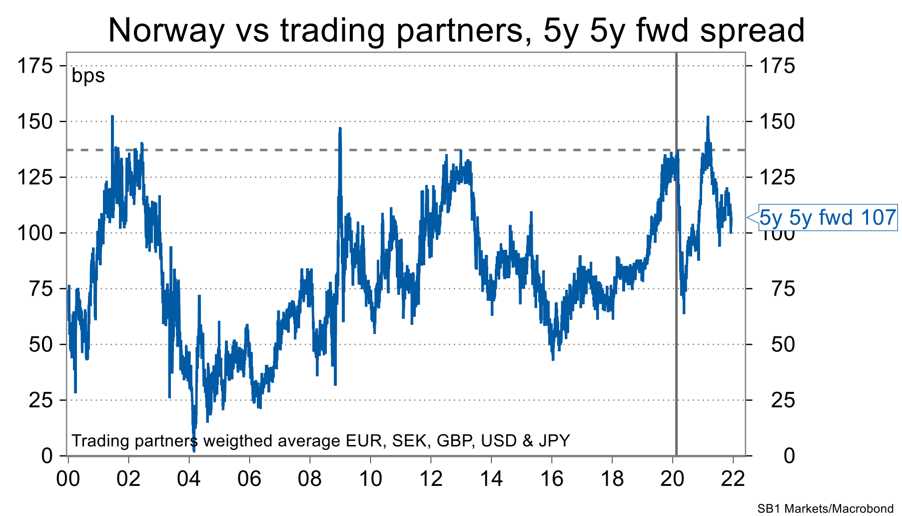
Implied fwd spreads fell sharply last week – even after the recovery at Friday

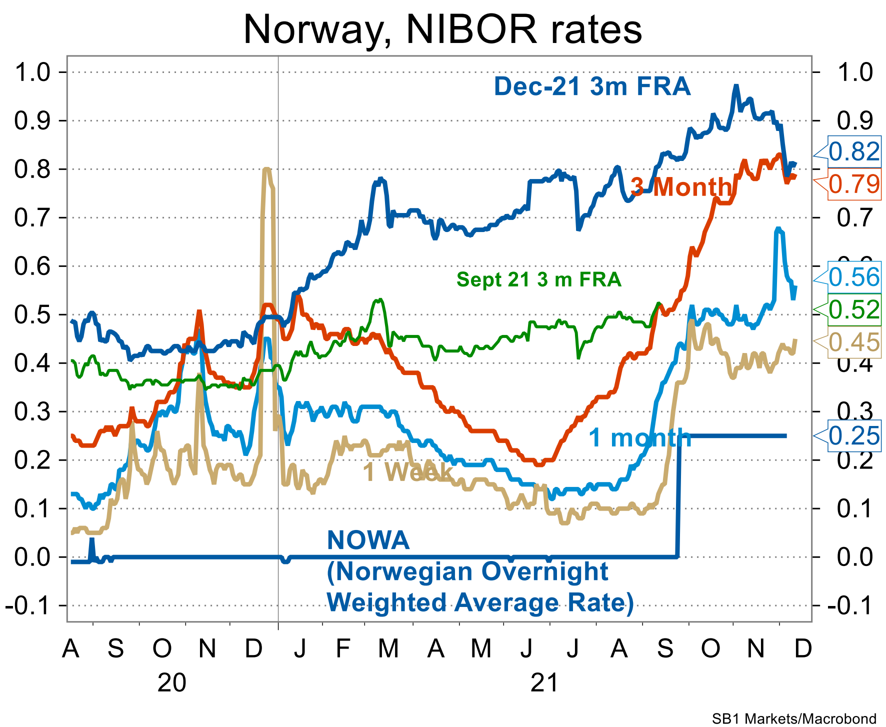


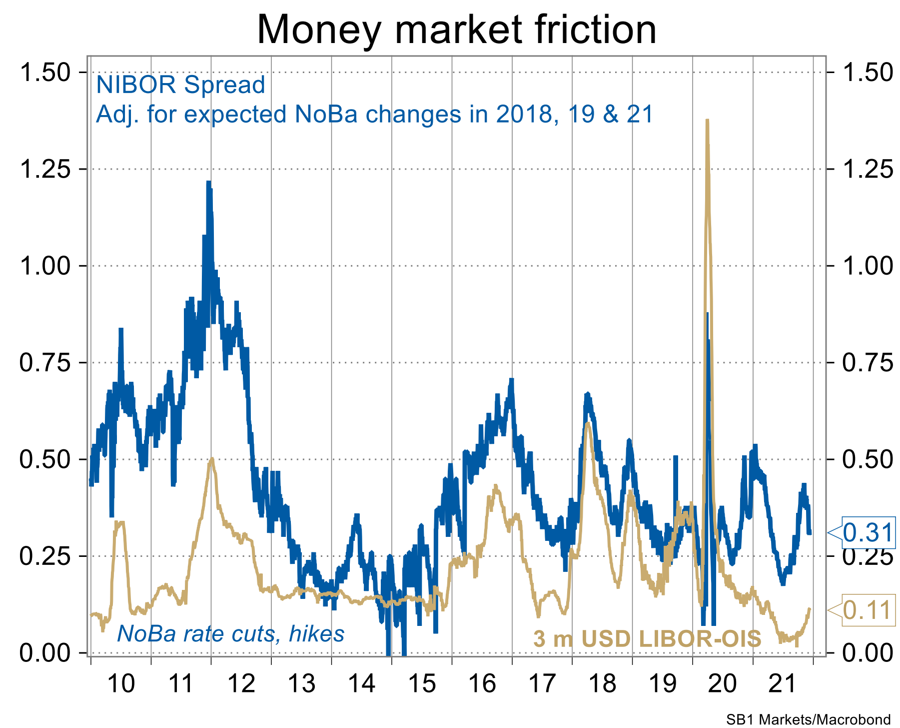




3 m NIBOR down 3 bps to 0.79% - a 25 – 40% probability for no hike next week

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

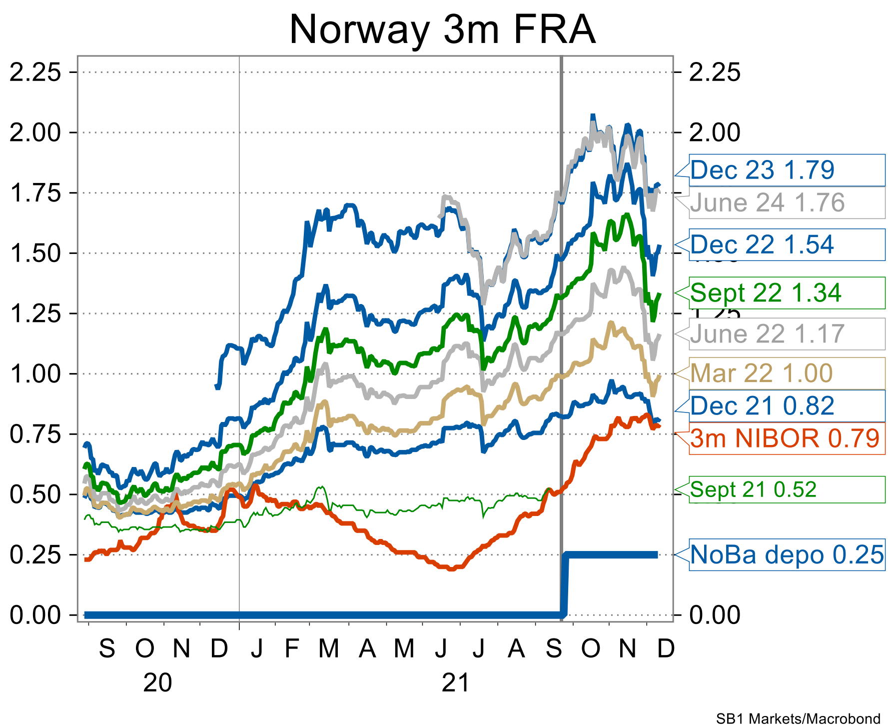


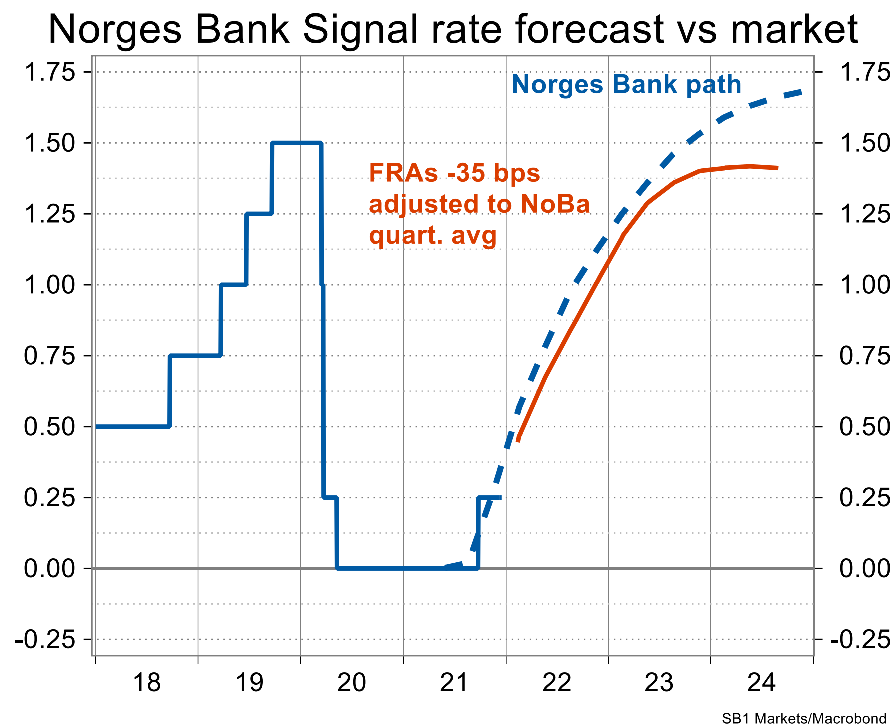


- The spread estimate at the chart to the right is based on a NoBa hike. Now, the probability for a hike is clearly less then 100%
- The Dec FRA has fallen by 15.5 bps from the early November peak, of which 10 bps since the Omicron news broke late Nov.
- The current Dec 3m FRA at 0.82% very likely signals 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 recove

The likelihood for a Dec hike has fallen to

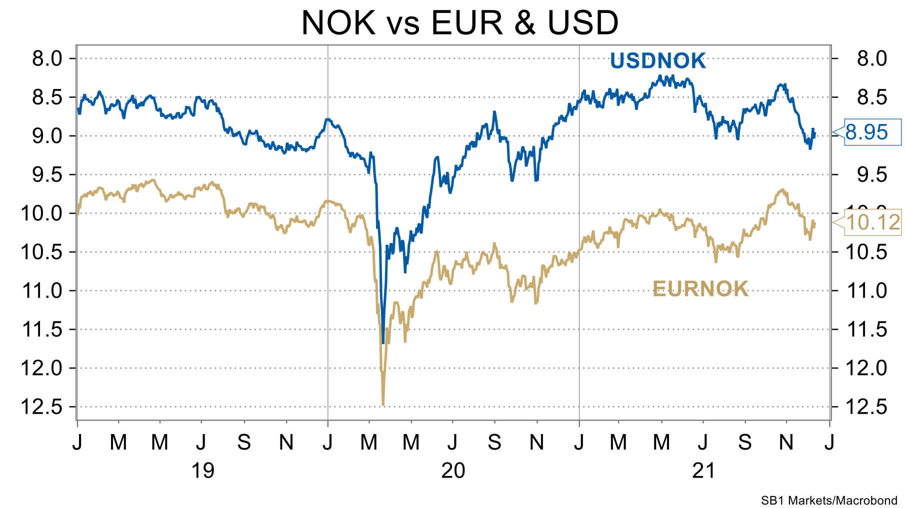


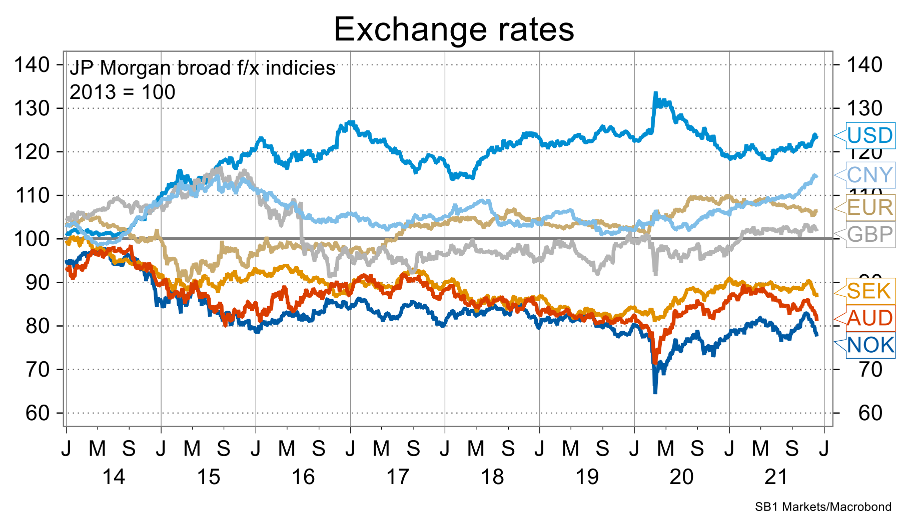


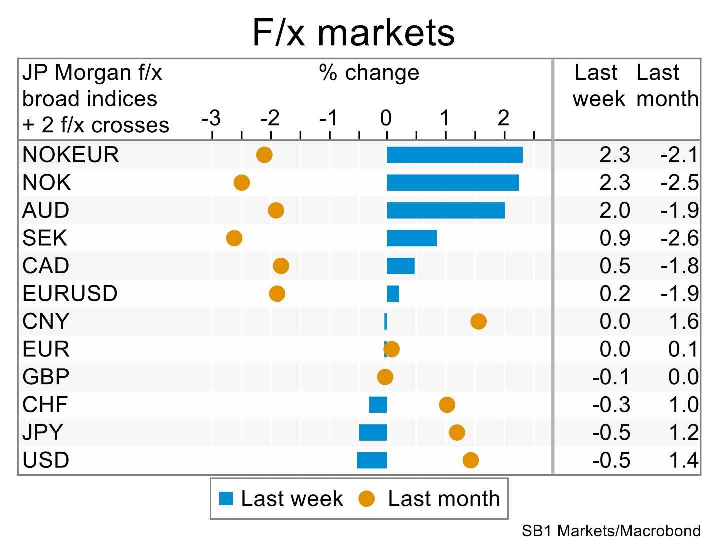
- FRA rates fell by up to 11 bps at Friday, a reasonable response
- Since last Friday, the near end of the curve fell by 5 bps, while the long end was marginally up!

NOK, AUD to the top of the list, from the bottom

The USD down, in a risk on market





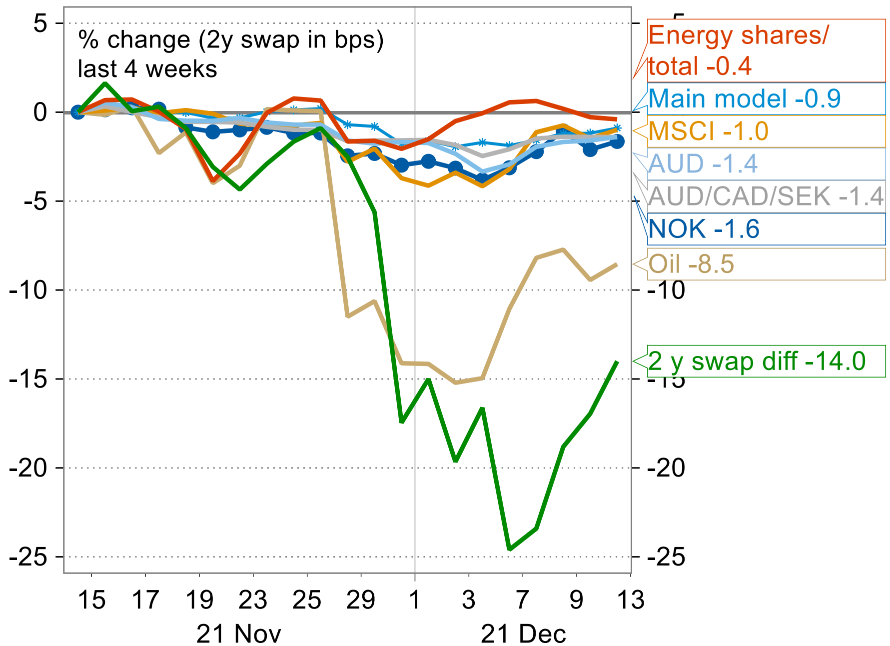


JP Morgan f/x broad indices + 2 f/x crosses	Last week	Last month
NOKEUR	2.3	-2.1
NOK	2.3	-2.5
AUD	2.0	-1.9
SEK	0.9	-2.6
CAD	0.5	-1.8
EURUSD	0.2	-1.9
CNY	0.0	1.6
EUR	0.0	0.1
GBP	-0.1	0.0
CHF	-0.3	1.0
JPY	-0.5	1.2
USD	-0.5	1.4

NOK 2.3% last week alongside the oil price and the AUD

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

NOK vs main drivers



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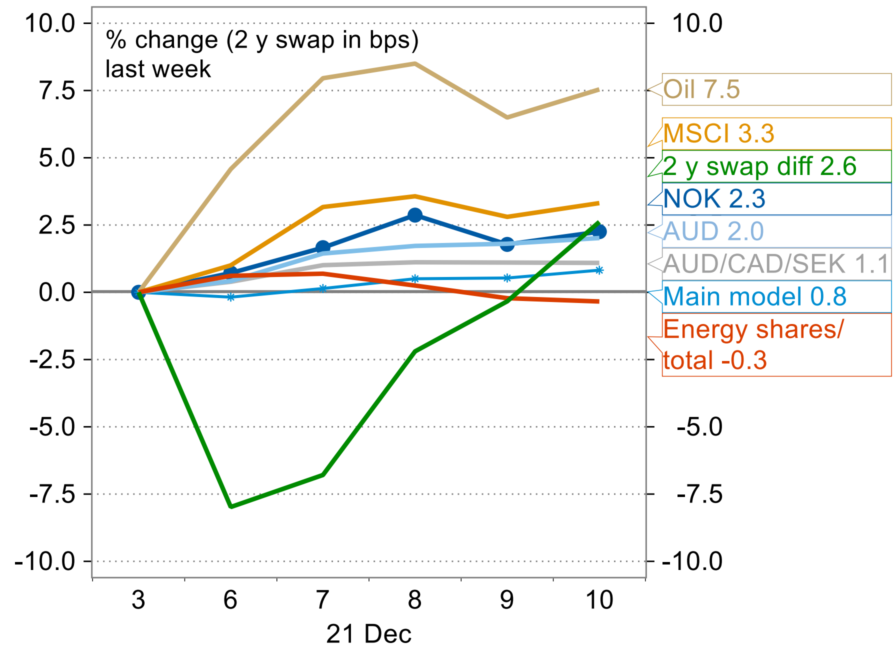
NOK vs main drivers



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The status vs. the normal drivers:

- ***The NOK gained 2.3%, more than our traditional model suggested (+0.8%), and the level less then 2% below the model est (from 3%)***
- The NOK is 6% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from unch%)
- NOK is far (8%) 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

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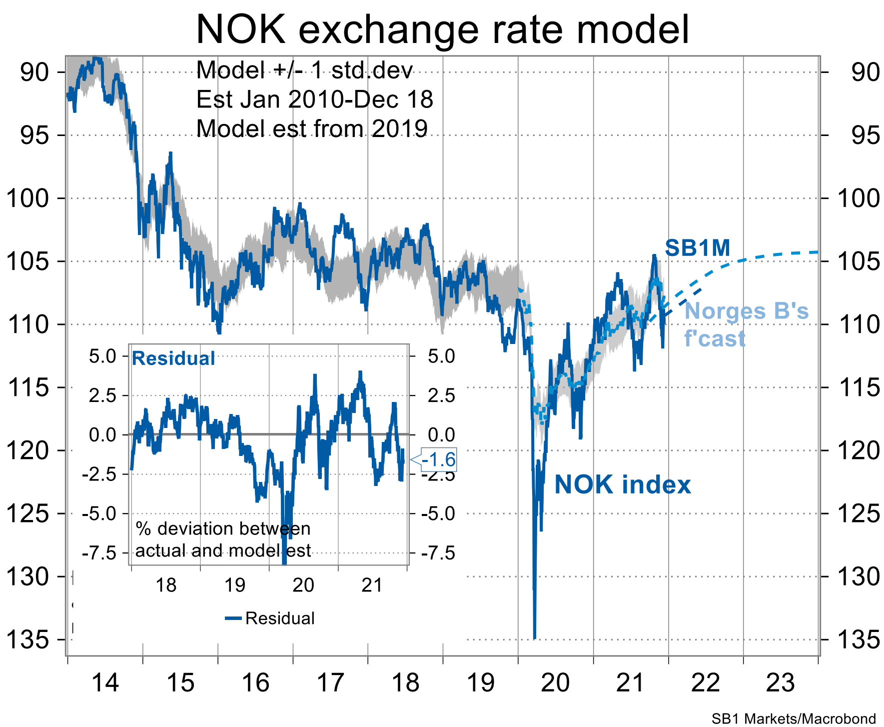
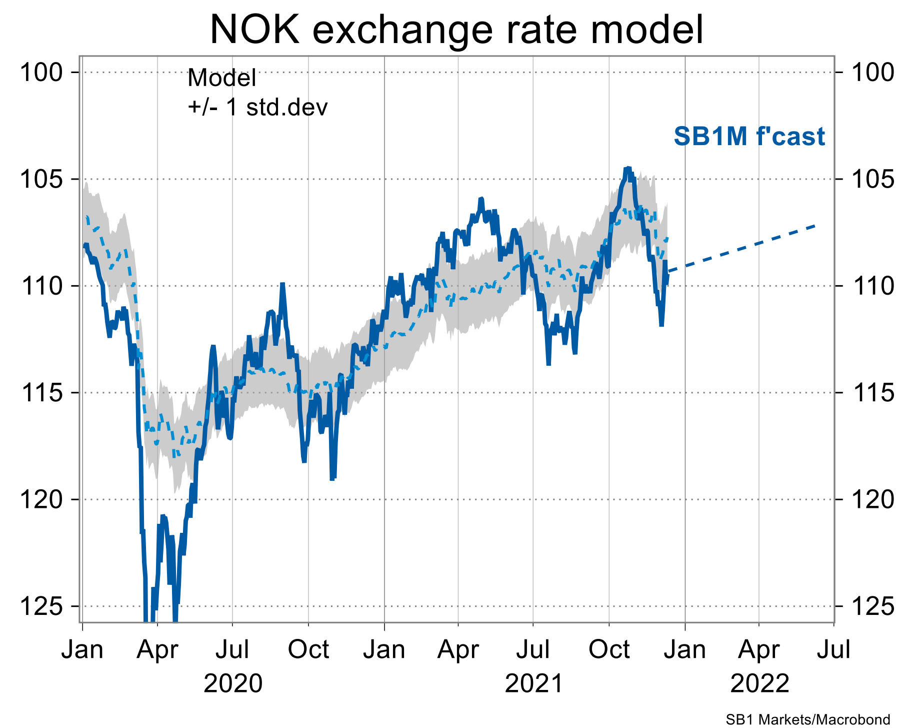
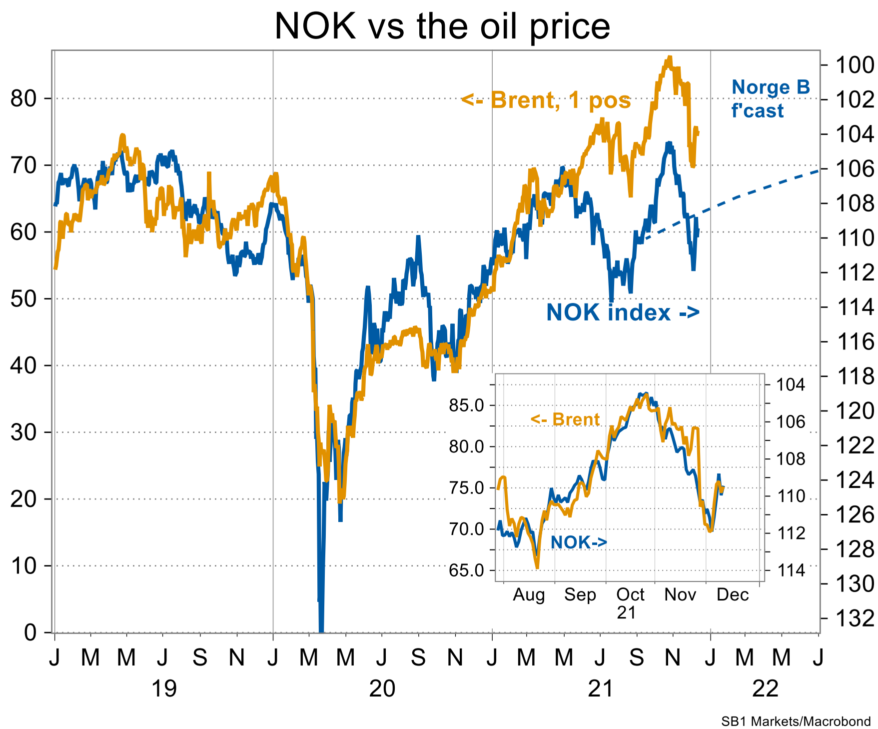
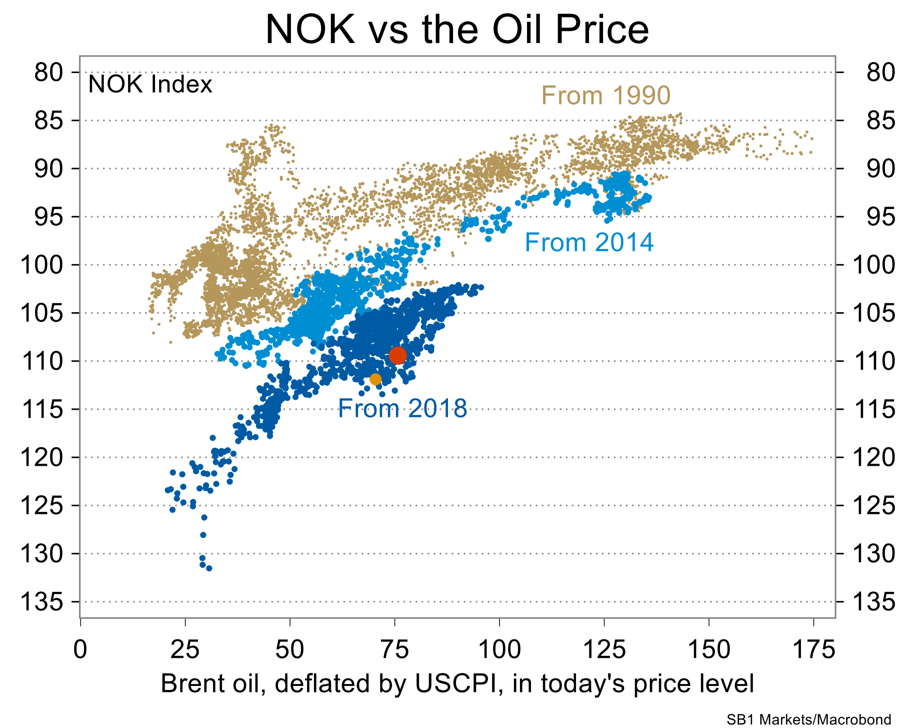
NOK less than 2% below our model estimate





NOK & the oil price rebounded





- 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

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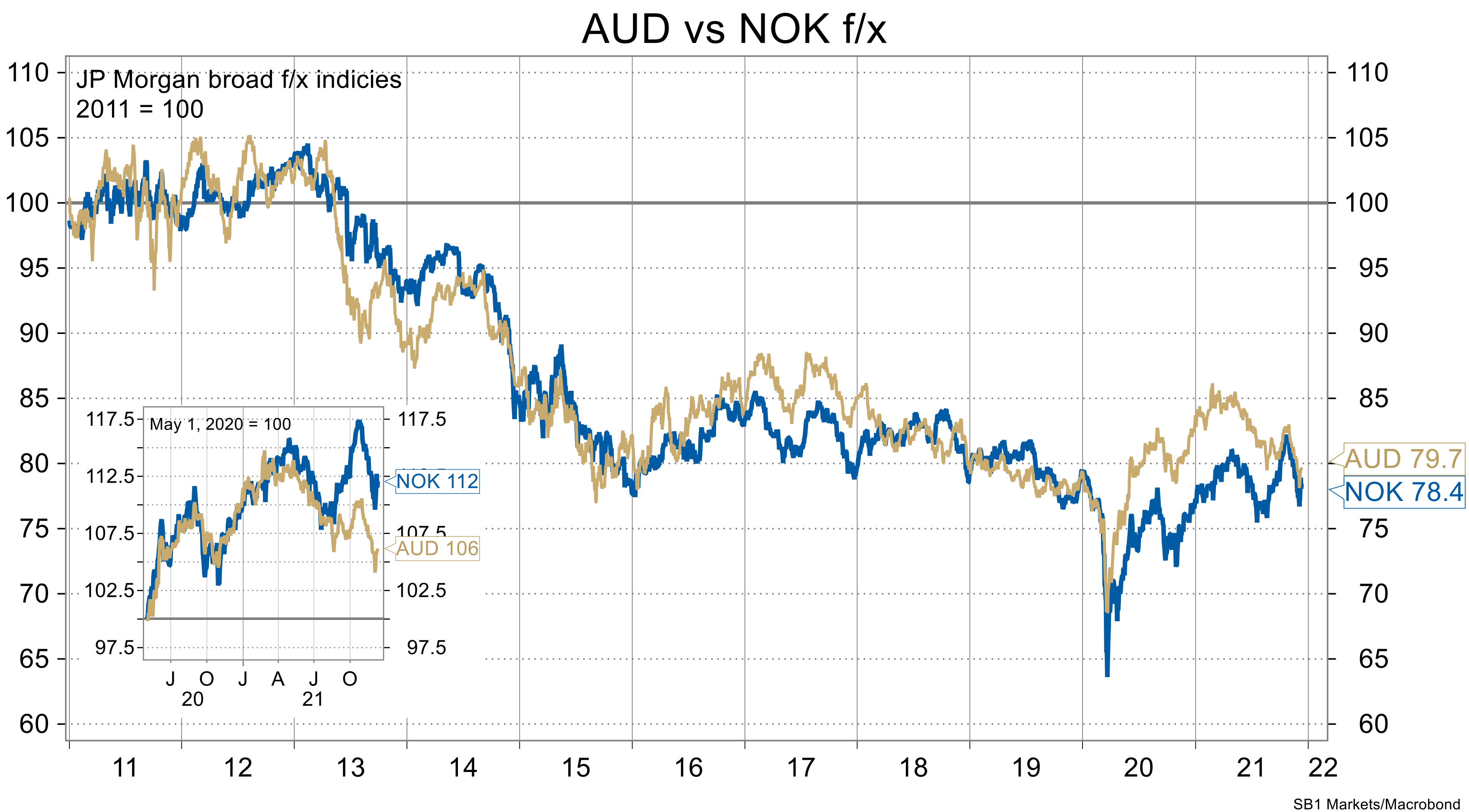
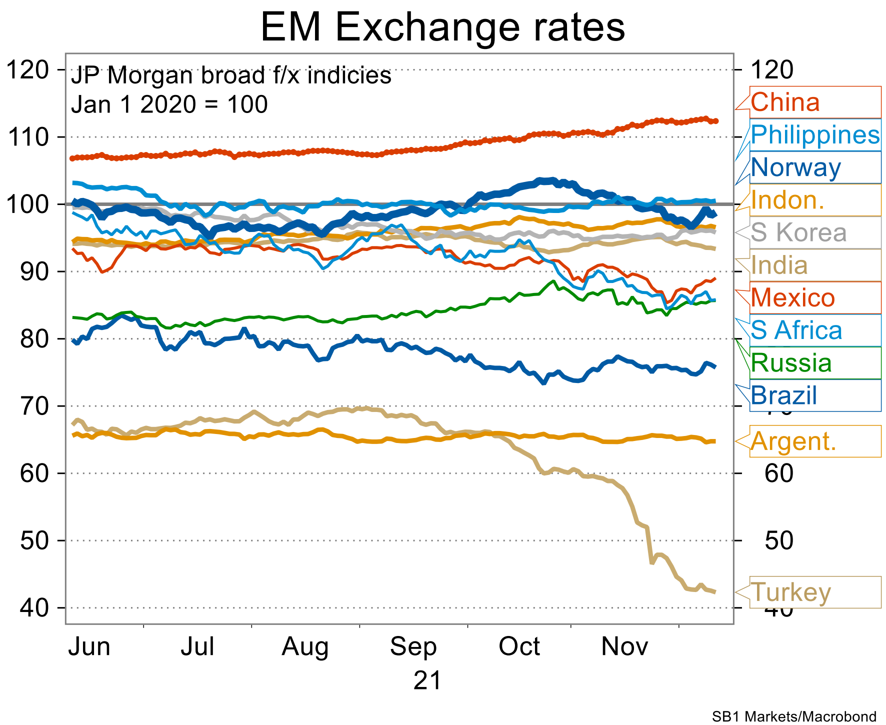
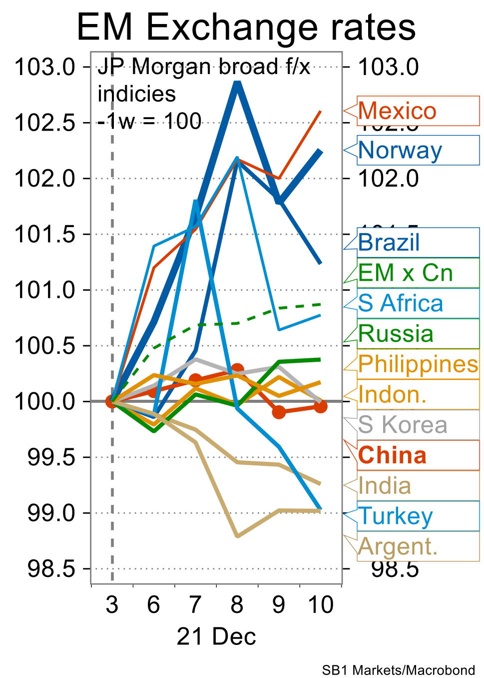
Both NOK and AUD down last week, NOK the most

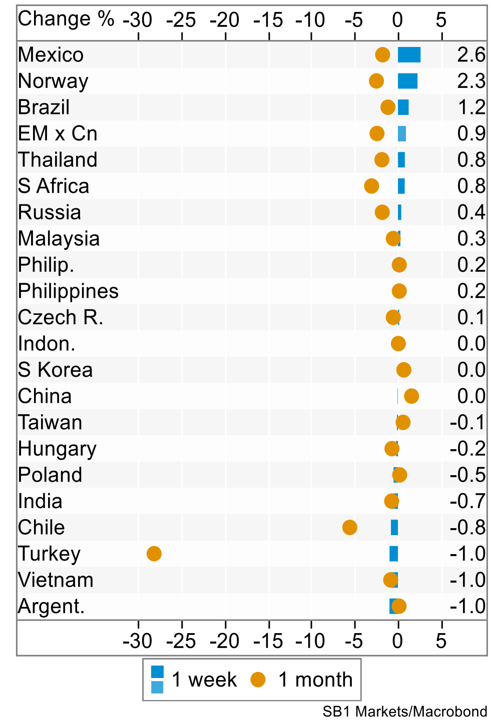


The two f/x indices are back to the 2011 parity (vs each other, from which they never since have deviated much)

Risk on – and EM f/x strengthened







- Even the Turkey almost stabilised

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