3 January 2022

Macro Weekly

Week 1/2022

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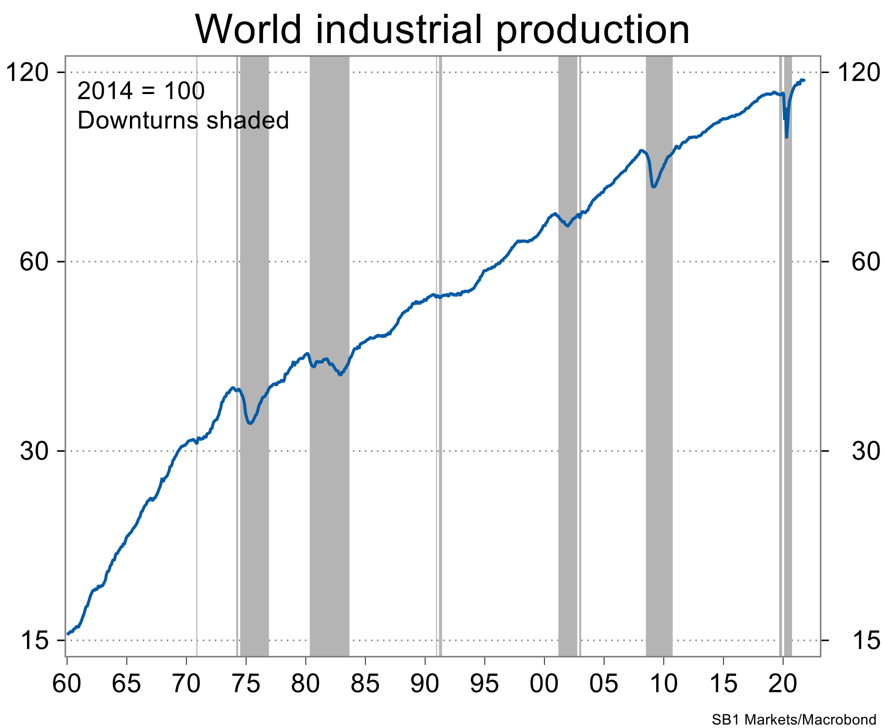
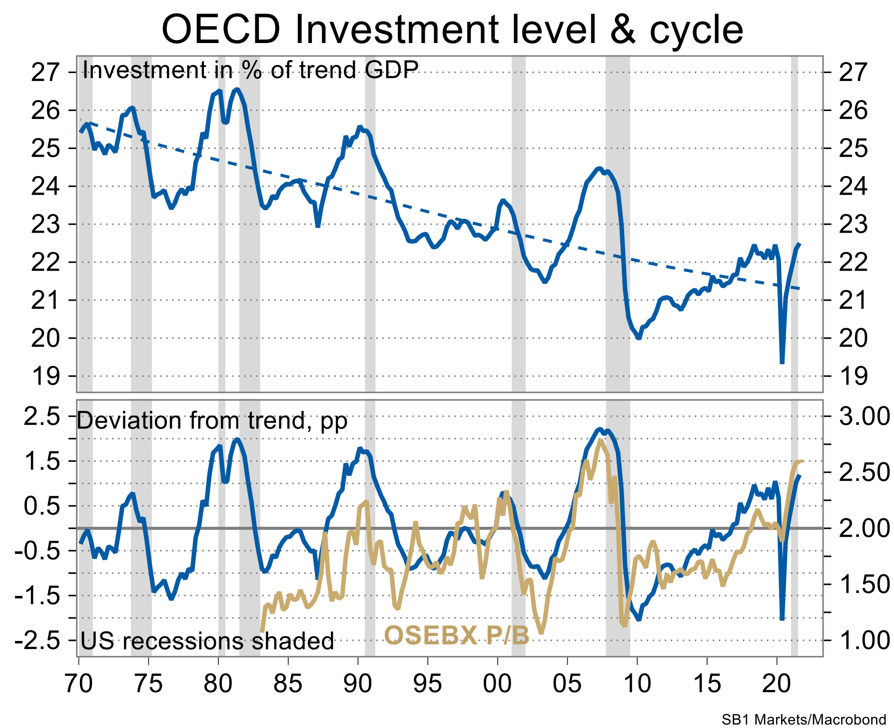
A New Year Bonus: The 11 most important 2021 charts

- … which also will define 2022, of course

This was not an economic recession. It was ‘a short pandemic break’

We are now soon (hopefully) leaving the pandemic straight into a booming economy

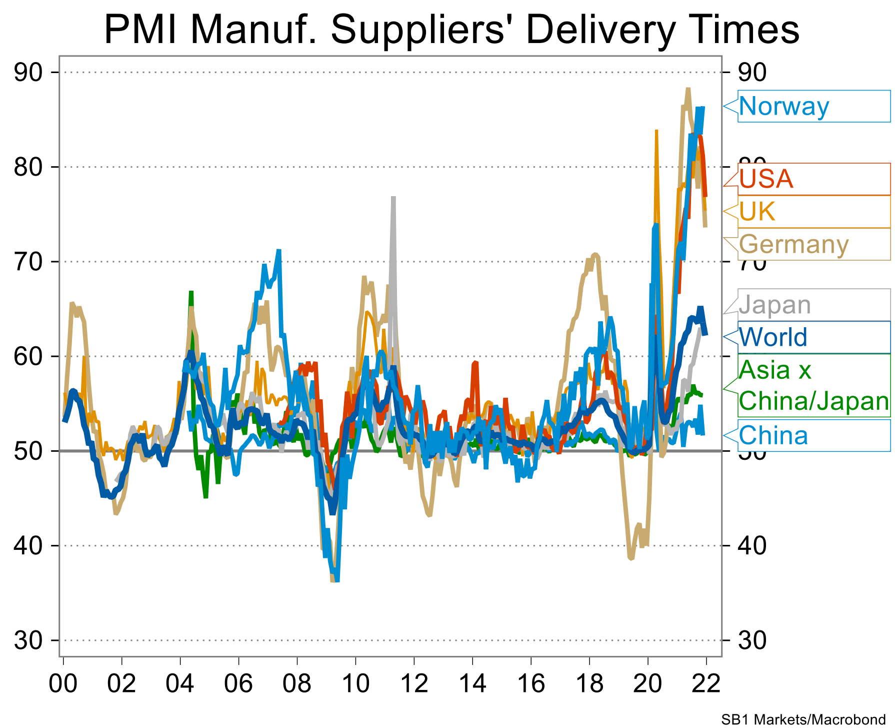


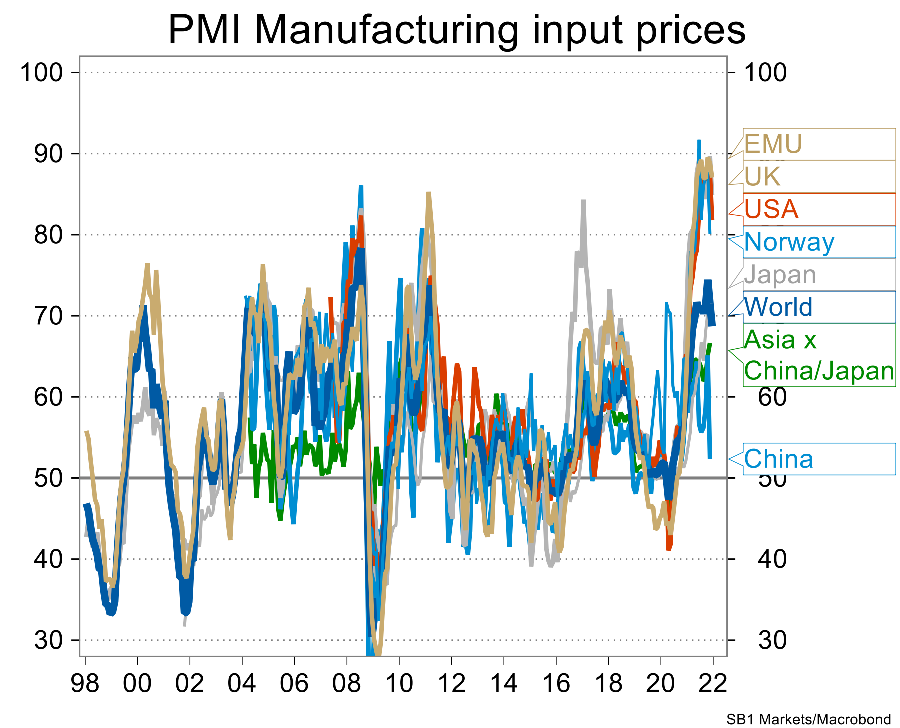


- … at least in goods, in several services – and at the labour markets!
- And do not forget where we are in the investment (or risk pricing) cycle (because they are usually rather equal)

Delivery times soared and prices surged

– where demand for goods was way above expectations. But not elsewhere

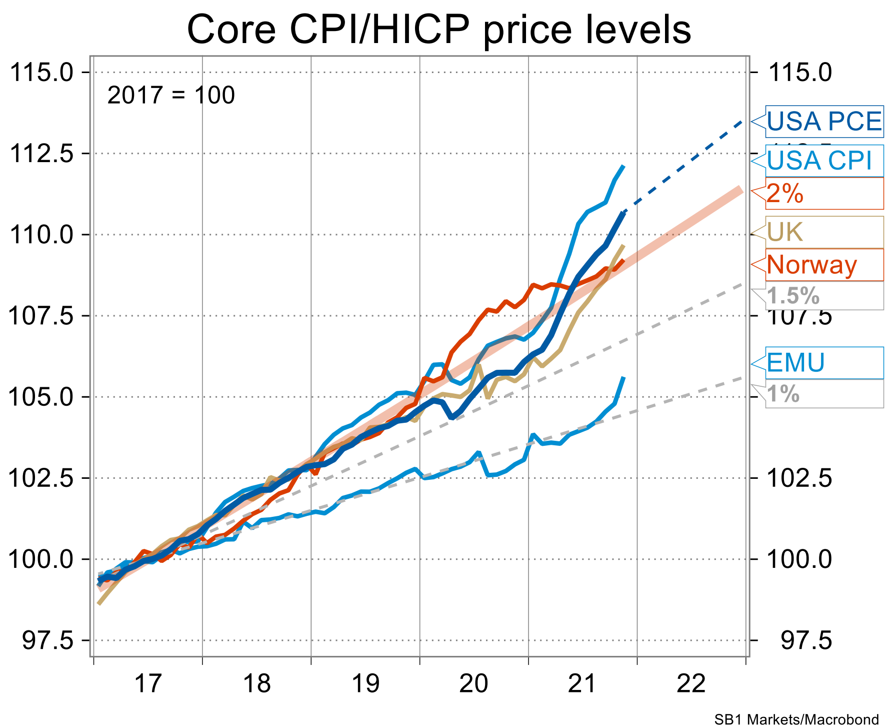


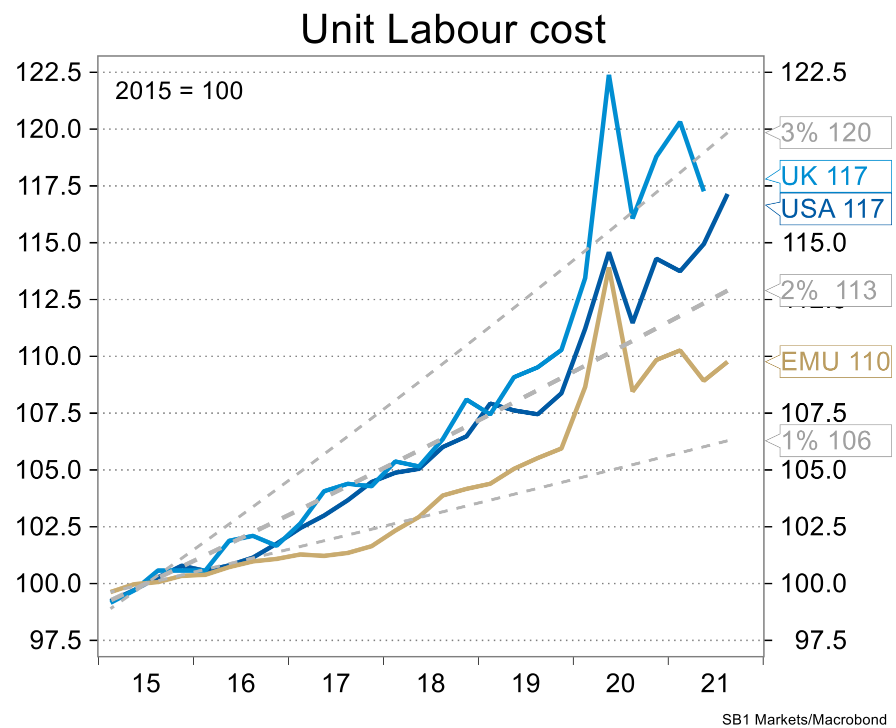


- However, at the end of last year, the stress in the supply chains eased somewhat?

So has inflation also, of course – more in the US than elsewhere

Cost inflation is higher in US than elsewhere – but UK is a borderline case





- The UK core CPI is still close to a longer term 2% trajectory, while the US is well above – and the Federal Reserve expects prices to deviate further from the long term 2% target – even if the employment target most likely also is soon met (if not already)
- The EMU price level is still hoovering around a 1% path, at least until the past month

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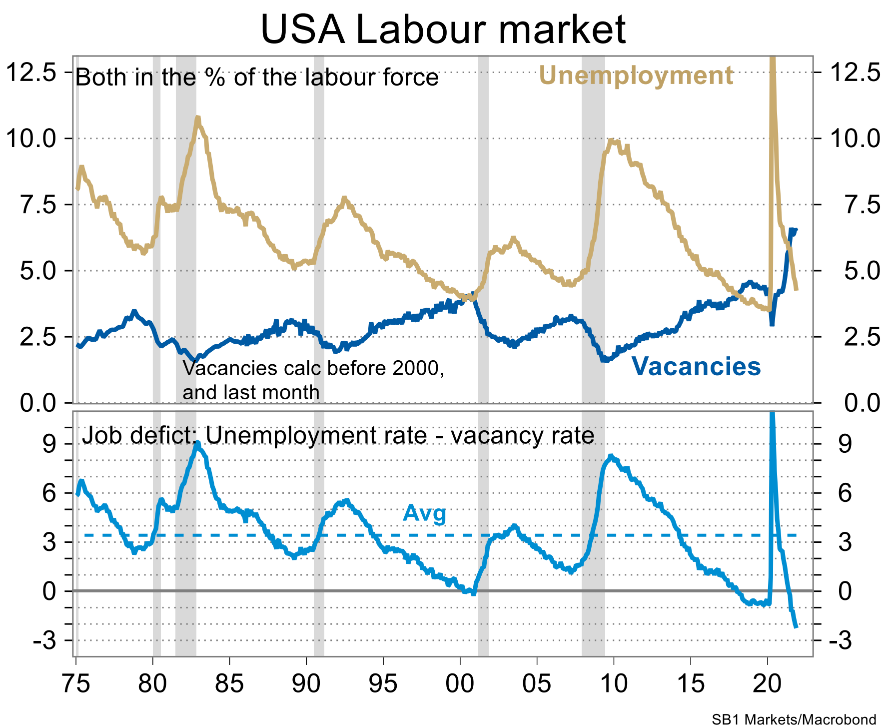
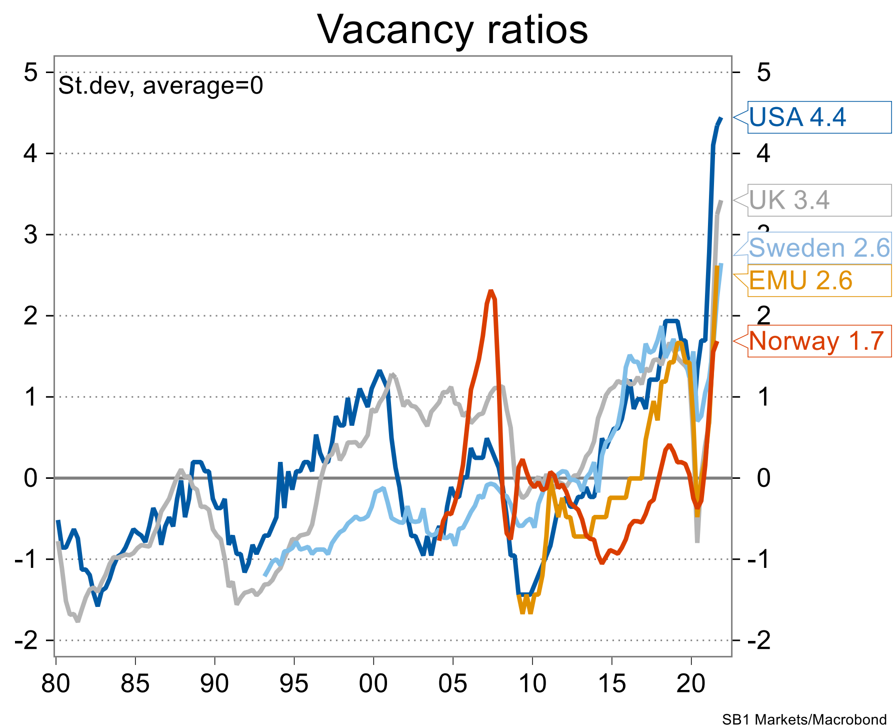
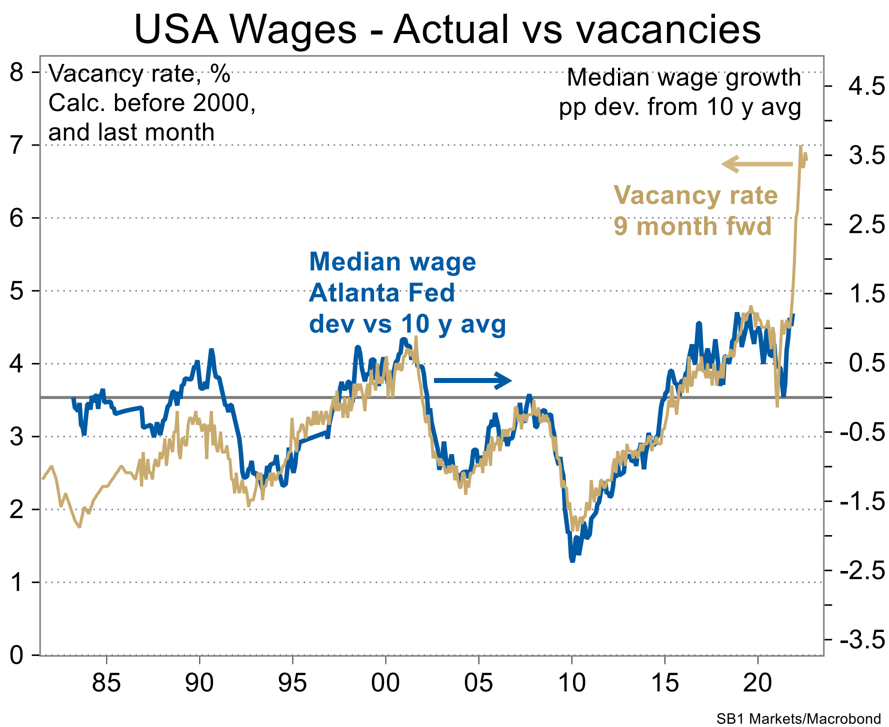
Unprecendented labour shortages in the US – and most other rich countries

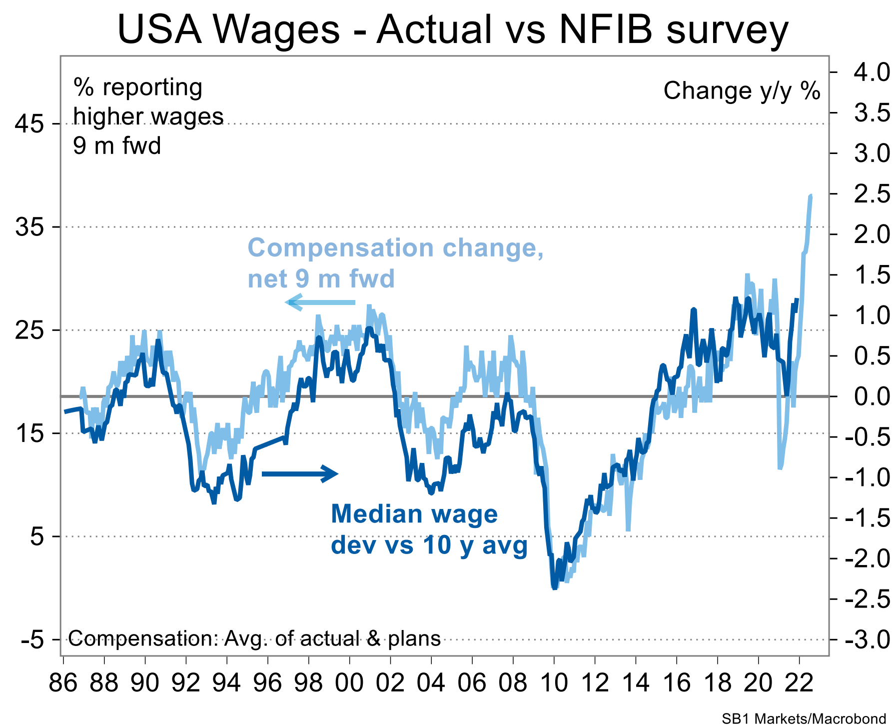




A tight labour market may well lead to substantially higher wage inflation

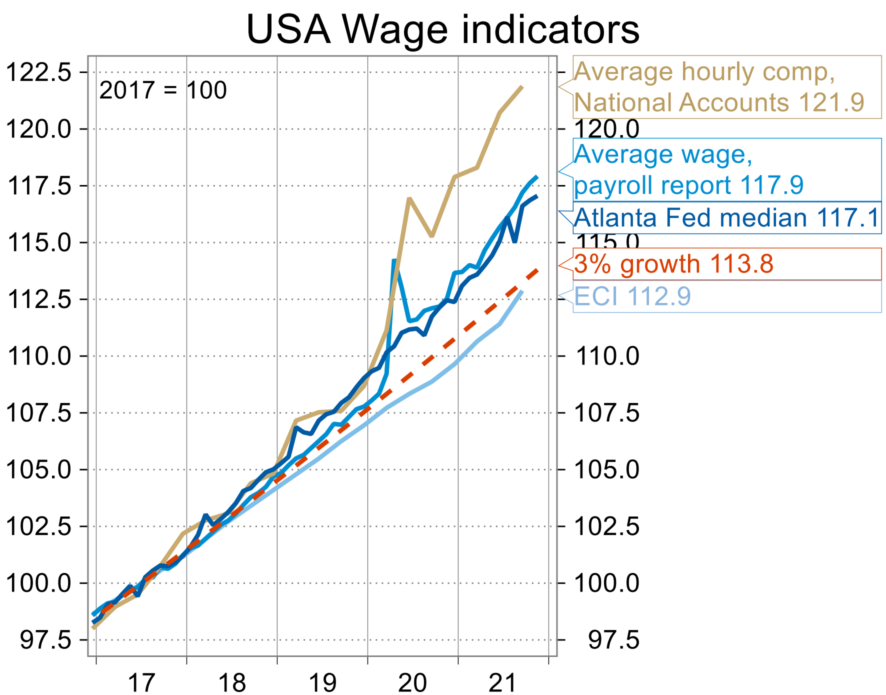
The vacancy ratio, and the share of businesses that plans to hike wages pretty well illustrates the real inflation risk



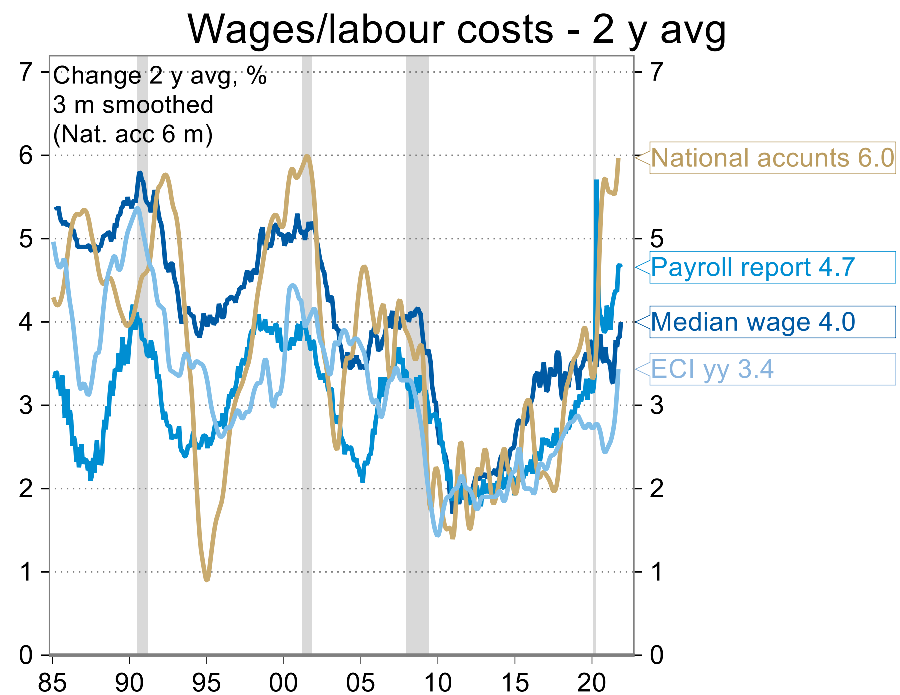


- More companies than ever before (data from 1986 though) reported in November that they have lifted compensation and that they plan to do so the over next months as well
  - » The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- This is one of the reasons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

Wage inflation has already picked up steam



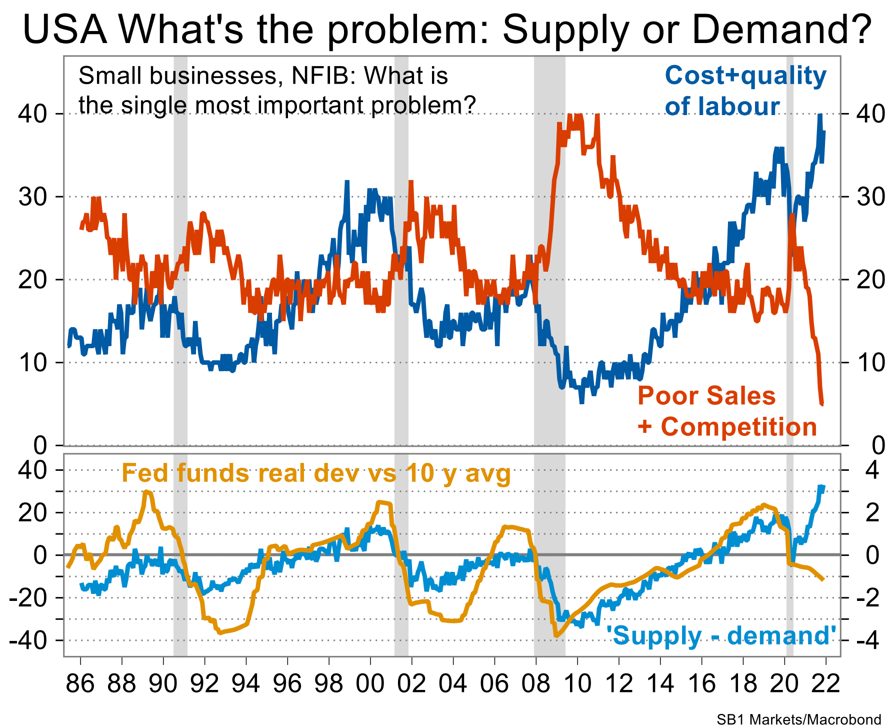
SB1 Markets/Macrobond

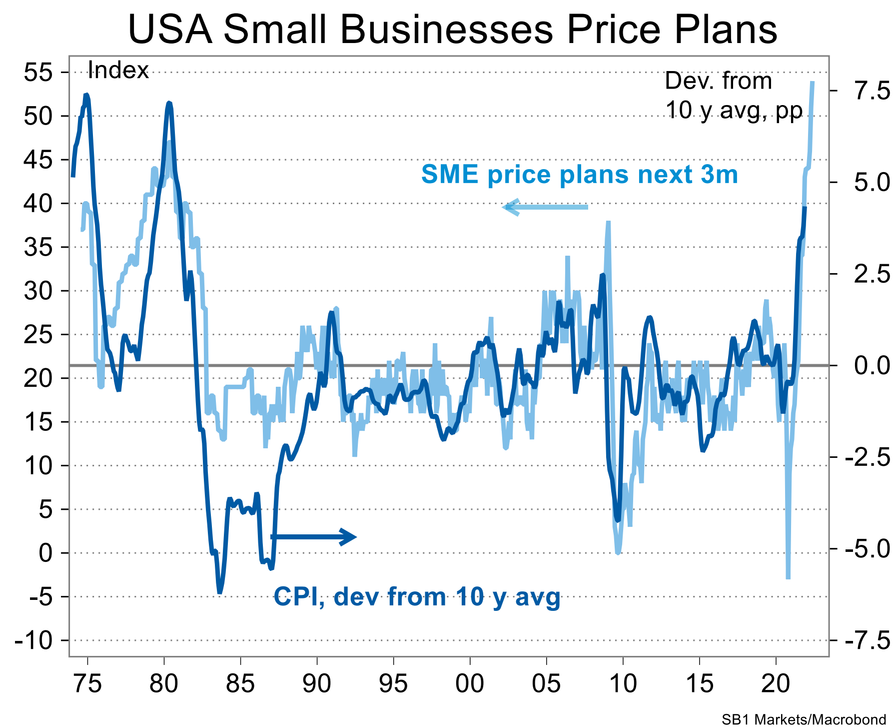


SB1 Markets/Macrobond

It's the supply side! And record share of companies report price hike plans!

In in December, the Federal Reserve finally officially changed tack





- Companies are not able to fill vacancies and they complain more than ever about the quality and cost of labour. Never before have so few companies complained about sales & competition
- Where should the Fed funds rate have been at this stage of a cycle? (Hint, the grids at the lower panel at the chart to the left above equals 100 bps)

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The tight labour market has always hurt profits

And that will very likely be the case this time as well. Because capialism works

The Chinese construction sector is struggling, but has not yet rocked the economy

The authorities clamped down on the highly leveraged homebuilders – and succeeded

- Several builders are heading towards bankruptcy – and construction starts have fallen 20 – 25%
- We think the authorities should be able to reconstruct the building sector
- The main risk: Home buyers will stop buying new homes as an investment vehicle
  - » House prices have fallen the past few months but so far just marginally
- Growth in China has slowed but not seriously
- For the rest of the world, a Chinese slowdown has been a benefit, given the shortages of materials & goods due to strong demand in the rich part of the world

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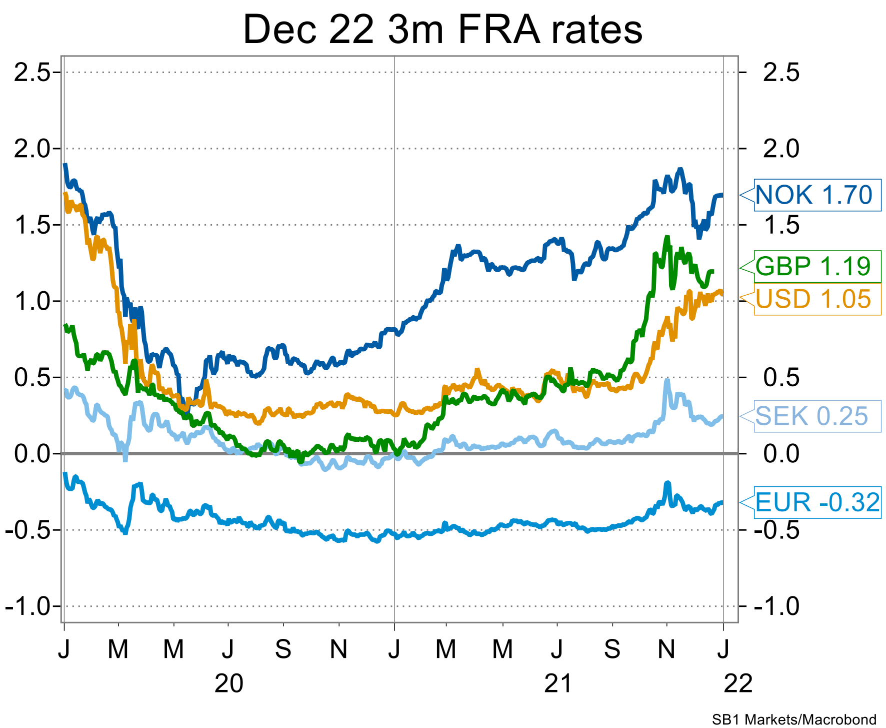
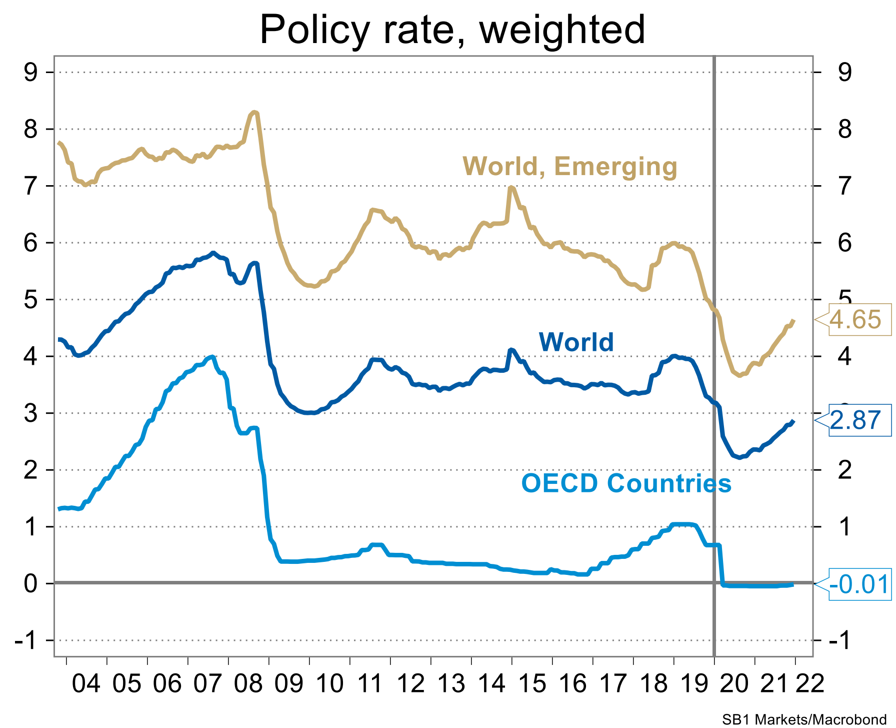
Suddenly, central banks and markets recognised that interest rate were too low

During just some few weeks last autumn, interest rate expectations rose sharply, specially in UK, US





- ... after central bankers started discussing if the current plan for normalisation of monetary policy
- Now, a gradual tightening is expected through 2022
- In Emerging Markets, a large number of central banks have hiked their interest rates
  - » In EM x China, rates are now higher than before the pandemic!

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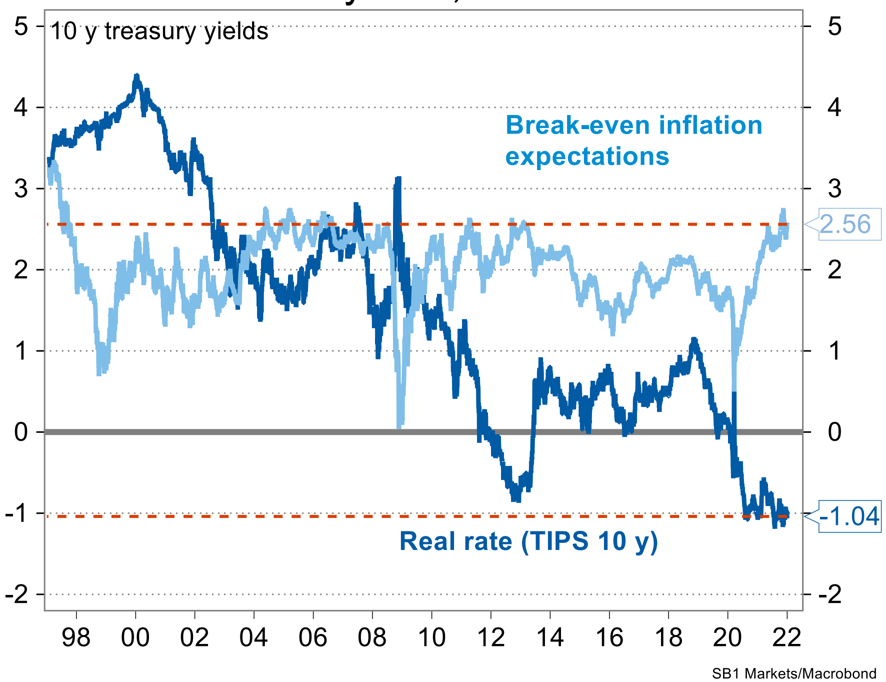
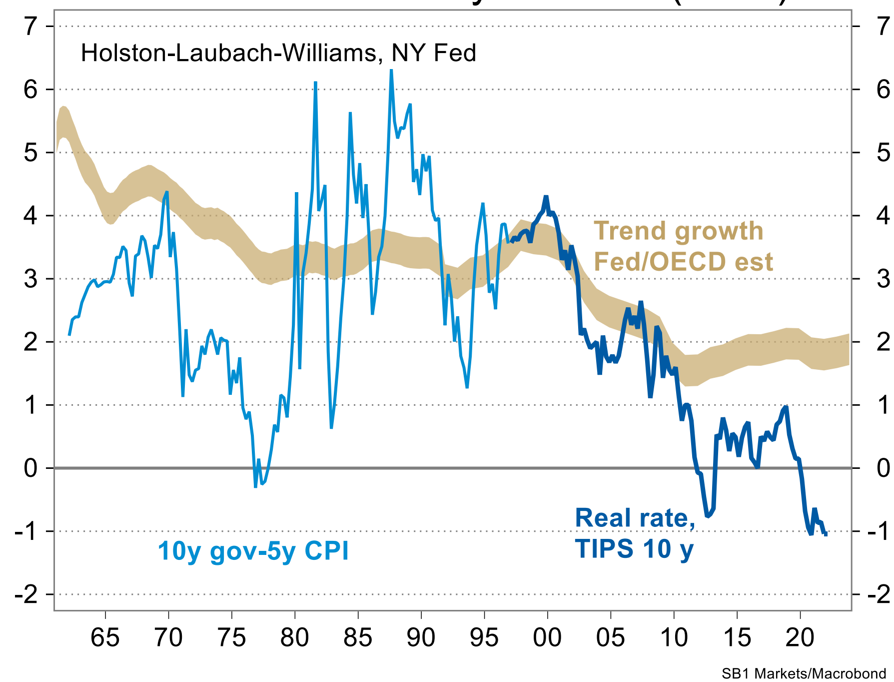
Mind the gap: Real interest rates at -1% (or lower)

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

USA TIPS Real yields, break-even inflation



USA Growth vs 10 y real rate (TIPS)



- We very much doubt the present -1% real rate vs. growth expectations at +2% is a long term equilibrium
- Inflation expectations have not been higher the past 20 years – but are not dangerously high either

Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week: The virus, part I

Omicron is spreading rapidly in several countries, health consequences are probably milder but by how much?

Research

- **Scotland/Edinburgh**: Risk for hospitalisation due to a Omicron infection is 1/3 vs Delta. A significant reduction in immunity from previous infections
- **England/Imperial Collage**: A 45 – 50% reduction in risk for hospitalisation. Vaccines work very well!
- **South Africa/NICD**: A 80% reduction in risk for hospitalisation vs. the Delta wave April – October, 70% reduction in risk for serious illness. The risk for serious illness, given admission to a hospital fell by 70% compared to the previous Delta wave. Taken together, a 94% reduction in serious illness
  - » However, the risk for illness due to a Delta infection has also fallen sharply recently, in fact down to the same level a Omicron patients. The reason may be a very high level of immunity through previous infections, and not that Omicron is less hazardous by itself. In addition. Thus, other countries may not observe the same decline in risk for serious illness before 'natural' herd immunity is reached or vaccination progresses further
- **South Africa/Africa Health Research Institute**: Omicron infection very likely creates immunity vs. Delta infections. As Omicron spread much easier, and creates less sickness, very good news!
- **Danish researchers:** 1% of those infected by Omicron need hospital treatment, in line with the earlier strains (which though have reported higher rates) . If they are correct, a huge challenge of course, given the explosion of cases
- **US & others:** Omicron creates less harm – and mostly just in the upper respiratory system, at least in hamsters and mice

Data: Cases/Hospitalisations & deaths

- **South Africa**
  - » **The number of new cases** have fallen sharply, and now new hospitalisation are following suit. The decline started in Gauteng
  - » **Our analysis of raw case & hospitalisation data** from S-A are not much changed vs the first estimate 4 weeks ago: The risk of hospitalisation due to an Omicron infection has fallen by 2/3 vs the Delta variant. The risk for ICU treatment, if hospitalised is down 40%, and the risk for ending up in a ventilator, if hospitalised is 1/3 - in sum a huge risk reduction
  - » **Official South-African death stats** confirm that Omicron is a milder variant, the CFR has fallen to 0.2%, less than 1/10 compared to earlier variants. Just over 50 Covid related deaths are reported per day
    - However, the **number of South African excess deaths** was 750 persons/day last week (and steeply rising), vs the 1.500/day recorded when the Delta variant hit during the summer (The Economist's calc., national data confirms). Normally, less then 1.500 persons are dying in S-A per day. The current excess death rate is not easily explainable, given the low hospitalisation rate

Last week: The virus, part II

Data: Cases/Hospitalisations & deaths, cont.

- **Denmark**
  - » **The number cases** has exploded over the past to weeks, to 4 x previous records, and 2% of the population was infected during last week. Omicron has almost overtaken the market but in new cases growth has slowed but remains high – up 90% w/w, while Delta is declining by 50%, implying R at 1.6 and 0.6 resp.
  - » **The hospitalisation rate** has fallen just marginally, to 1.4%, vs the 1.6 – 1.8% rate for Delta variant. We estimate a 0.8% hospitalisation rate for Omicron. However, as the no. of new admissions is already close to record high, and given the surge in cases recent days – and a continued 0.8% hospitalisation rate, trouble ahead. In addition, the share of hospital patients that need an ICU bed has not fallen, neither has the no. of days in hospital!
- **UK**
  - » **The number of cases** has exploded, to 3 x the peak 1 year ago. Growth has slowed marginally but is still 40% w/w
  - » **The hospitalisation rate** has fallen just marginally, to 1.6% from 1.8% - but if the rate not collapses, the no. of hospitalised patients will rise sharply the coming days, soon approaching the peak level one year ago. The ICU share has probably not fallen by much, even if data for the last few days are more encouraging
- **USA**
  - » **The number of cases** has increased 6 x through December, and the level is now 2 x higher then the previous record. No signs of any slowdown. **Omicron** has now probably captured some 80% of the virus market (58% at Dec 26)
  - » **The hospitalisation rate** has fallen to 4.4% from 7% in November, when Delta ruled. We assume a 3.5% hospitalisation rate for Omicron, given the US testing regime. The problem is that the number of new admissions has already climbed to close to record high levels – as will quite likely the no. of patients also do. ICU data are still somewhat uncertain, but until recently no signs of any reduction in the share of hospitals patients that need ICU treatment

So what?

- **Data are less encouraging** than our optimistic scenario. Omicron is less harmful, but hospitalisation rates are still high, and ICU data are far from conclusive – and anyway far higher than in South Africa.
- Last week 2% of the population in Denmark (before adjusting for hidden cases) were infected, increasing by a factor at 1.4 per week. Add on more vaccinations/boosters, and the immunity rate is increasing rapidly. <u>It will probably not take more than some few weeks before Denmark will approach herd immunity</u>. Several other European countries and the US is not far behind (and given the high hospitalisation rates in the US, the real no. of cases may be much higher than the 0.5% rate per week officially reported)
- However, given the current hospitalisation rates, the optics will not necessarily be nice in between time – and other countries may be encouraged to try slow the spread

Last two weeks: The economy

- **PMIs**
  - » The **Chinese Dec PMIs** were unchanged from November, and not that far below an average level
  - » In **rest of Asia**, other manufacturing PMIs were mixed but in average close to unchanged from November, at the best level in 10 years
- **USA**
  - » **Real personal spending** flattened in November, and real income fell. Thus, the savings rate fell – and it is now below the pre-pandemic level, at 6.9%. Consumption of goods fell, services rose further, and finally reached the pre-pandemic level. Goods are hovering 16% above – and will have to come down the coming months/quarters, at least when the virus is brought under reasonable control again. There is still a substantial upside in services – is companies are able to attract more workers
  - » **Durable orders** rose more than expected. Core investment goods orders fell 0.1% but trend is strong, and investment surveys have never before signalled stronger growth
  - » **New homes sales** were lower than assumed/expected in Oct/Nov but still at the pre-pandemic level – and sales stabilised during 2021. The inventory of new homes for sales are increasing rapidly except for completed homes. Prices are rising faster than construction costs – because demand is strong. **Existing home sales** rose – as did prices, according to the realtors. Better and broader **existing home price indices** confirm, even if price inflation is now slowing
  - » **New jobless claims** fell below 200' again just before Christmas, and the no. of continued claims fell to the same levels as before the pandemic
- **EMU**
  - » **Consumer confidence** was stable in December, at 0.9 st.dev above average, and higher than before the pandemic started – consumer were not frightened by Omicron, at least not during the first half of the months
  - » **Credit growth** is running at a 4% (households) – 6% (corporates) pace recent months – not too cold, not to hot
- **Norway**
  - » **The LFS (AKU) unemployment** was stable at 3.6% in October (Sept-Nov avg), we expected a decline to 3.5%. Employment rose, but so did also the participation rate after being unchanged since last summer (indicating that the easy part of 're-engagement' is behind us. Both participation and employment rate is at the highest levels in almost 10 years. The **payrolls stats** confirm growth in employment, the no. of employees rose by 0.3% in November – and is 1.6% above the pre-pandemic level. Among domestic residents, the level is 2.3% up!
  - » **Retail sales** rose in November but we are still confident the level above the long term trend

A calendar in full: Final PMIs/ISM, US labour market, EMU inflation. Norw. house prices

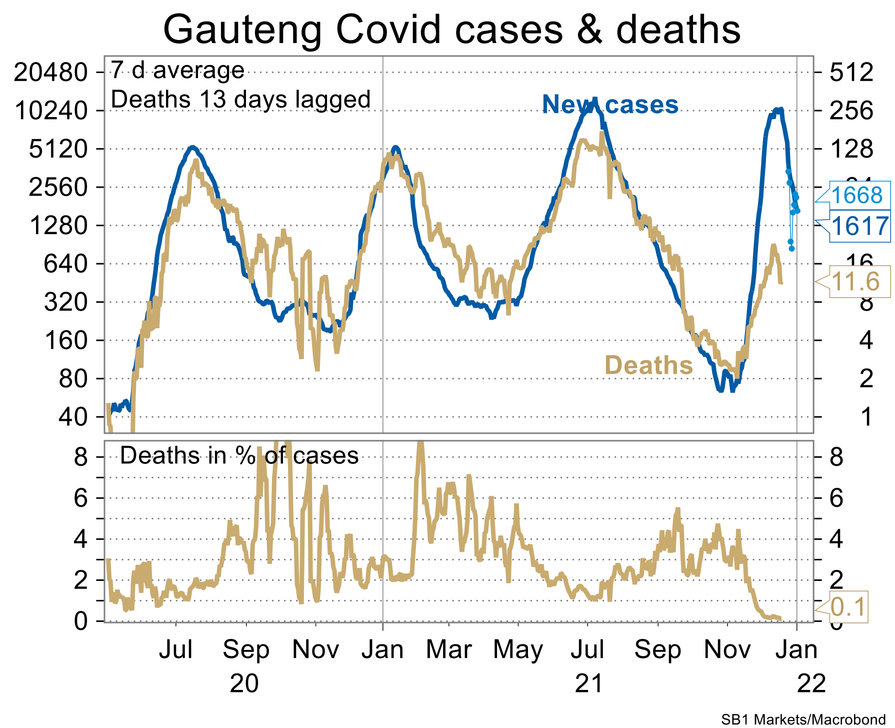
Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 3					
08:30	SW	Swedbank/Silf PMI	Dec		63.3
10:00	NO	Manufacturing PMI	Dec		63.7
10:00	EU	Manufacturing PMI	Dec F	58.0	58.0
15:45	US	Manufacturing PMI,Markit	Dec F	57.7	57.8
16:00	US	Construction Spending MoM	Nov	0.7%	0.2%
Tuesday Jan 4					
02:45	**CN**	**Manufacturing PMI, Caixin**	**Dec**	**50**	**49.9**
08:00	GE	Retail Sales MoM	Nov	-0.5%	-0.3%
10:00	NO	NAV Unemployment	Week		
16:00	**US**	**ISM Manufacturing**	**Dec**	**30.2**	**61.1**
16:00	**US**	**JOLTS Job Openings**	**Nov**		**11033k**
17:00	**WO**	**Manufacturing PMI**	**Dec**	**53.7**	**54.2**
	US	**Auto sales**	**Dec**	**13.1m**	**12.9m**
Wednesday Jan 5					
08:00	NO	Hotel guest nights	Nov		
08:30	SW	Services PMI	Dec		68.7
10:00	EU	Services PMI	Dec F	53.3	53.3
10:00	EU	Composite PMI	Dec F	53.4	53.4
11:00	**NO**	**Home prices, m/m s.a**	**Dec**	**0.2**	**0.2**
14:15	US	ADP Employment Change	Dec	410k	534k
15:45	US	Composite PMI, Markit	Dec F	--	56.9
15:45	US	Services PMI	Dec F	57.5	57.5
20:00	**US**	**FOMC Meeting Minutes**	**Dec-15**		
Thursday Jan 6					
02:45	CN	Services PMI, Caixin	Dec	51.9	52.1
11:00	EU	PPI YoY	Nov	22.8%	21.9%
14:00	GE	CPI YoY	Dec P	5.1%	5.2%
14:30	US	Trade Balance	Nov	-$69.5b	-$67.1b
14:30	US	Initial Jobless Claims	Jan-01	208	198
16:00	**US**	**ISM Services**	**Dec**	**67**	**69.1**
17:00	**WO**	**Services PMI**	**Dec**	**(54.4)**	**55.6**
17:00	**WO**	**Composite PMI**	**Dec**	**(53.9)**	**54.8**
	US	NFIB Employment report			
Friday Jan 7					
08:00	GE	Industrial Production SA MoM	Nov	1.0%	2.8%
08:00	NO	Credit Indicator YoY	Nov	(5.1%)	5.3%
08:00	NO	Manufacturing Production MoM	Nov	(1.0)	-0.9%
08:45	FR	Consumer Spending MoM	Nov	0.5%	-0.4%
08:45	FR	Manufacturing Production MoM	Nov	0.5%	0.9%
11:00	**EC**	**Retail Sales MoM**	**Nov**	**-0.5%**	**0.2%**
11:00	EU	CPI Estimate YoY	Dec	4.7%	4.9%
11:00	**EU**	**CPI Core YoY**	**Dec P**	**2.5%**	**2.6%**
11:00	EU	Economic Confidence	Dec	116.0	117.5
14:30	**US**	**Change in Nonfarm Payrolls**	**Dec**	**400k**	**210k**
14:30	**US**	**Unemployment Rate**	**Dec**	**4.1%**	**4.2%**
14:30	**US**	**Labor Force Participation Rate**	**Dec**	**61.9%**	**61.8%**
14:30	**US**	**Average Hourly Earnings MoM**	**Dec**	**0.4%**	**0.3%**

- **Final PMIs + ISMs**
  - » The first estimates from the rich part of the world implies a further decline in the global PMIs, both manufacturing & services (but not the manuf. output index). Delivery times & price indices eased significantly. The first set of Dec Chinese PMIs were unchanged
- **Auto sales**
  - » Several countries will report December auto sales. Auto production has recovered recently but reports on components shortages are still ample
- **USA**
  - » **The labour market** is no doubt the key for the economy & markets in 2022. Unprecedented labour shortages and wage pressures may be transitory but these challenges are more likely to persist. Demand for labour is strong, and unemployment is quite low and there are not many outside the labour market that state they want a job. The participation rate is together with the unemployment rate the most important figures, more than payrolls or wages. Check out the JOLTS report on **unfilled vacancies** the NFIB (SMB) survey on **lack of labour** and wage plans too
  - » Minutes from the Dec FOMC meeting will probably reveal a board support the dramatic policy shift the past 10 years
- **EMU**
  - » December **HICP** (CPI) data will probably not be nice, headline inflation is above 5%. However annual core inflation is pushed due to price cuts in 2020 – and in January the annual rate will drop significantly
  - » **Retail sales** data will be reported, as well as **manufacturing production** data from several countries
- **Norway**
  - » **House price** inflation has slowed substantially – but have not flattened completely. We do not expect much for the coming year, as Norges Bank very likely will continue hiking the signal rate
  - » Other data: **Weekly unemployment** data, we expect some reversal of the furlough announcements as a wage compensation scheme was decided before Christmas. We expect annual **domestic credit growth (C2)** to slow to 5.1% in November, from 5.3%, and **manufacturing production** to recover the October close to 1% loss in November

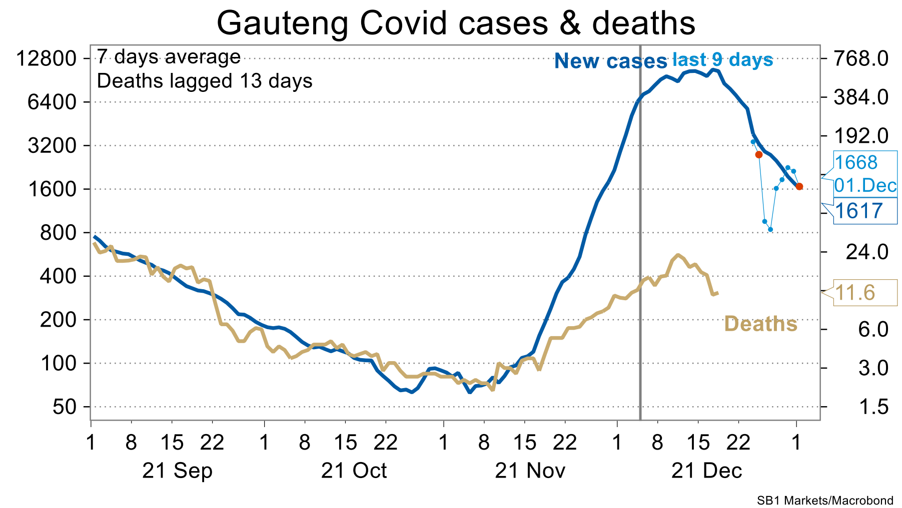
Sources: Bloomberg. SB1M est. in brackets. Key data are highlighted, **the most important in bold**

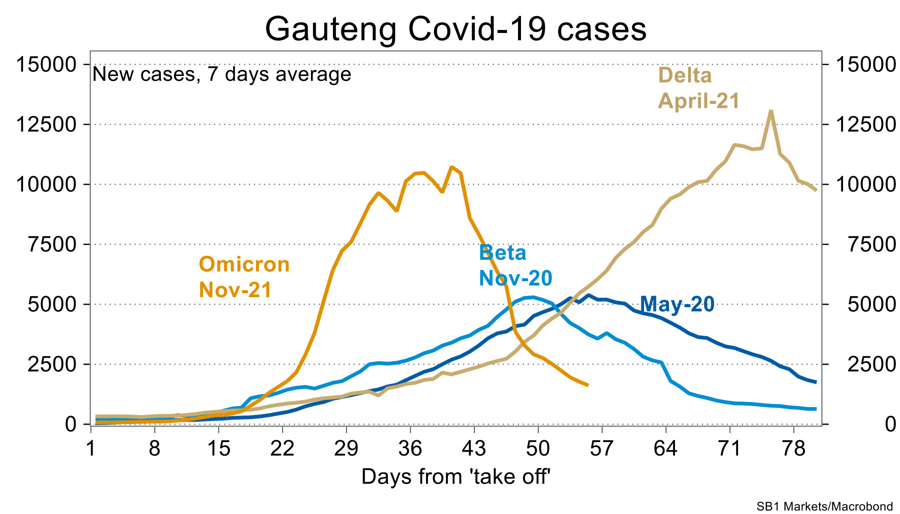
Gauteng, South Africa: It started here in November – and now it is over!

Mobility is not much altered – herd immunity must be reached



- Mobility has not changed much in South Africa, like we have seen during previous virus waves – because the population recognises that Omicron is not that dangerous, health wise?
- Gauteng has typically reported a Case Fatality Rate at 3% but with huge variations, 1 – 8%. Now the CFR is at 0.1% and this number probably includes patients that have been hospitalised before being infected, or have had other health problems, in addition to a Covid infection





One outlier for both new cases and deaths are corrected

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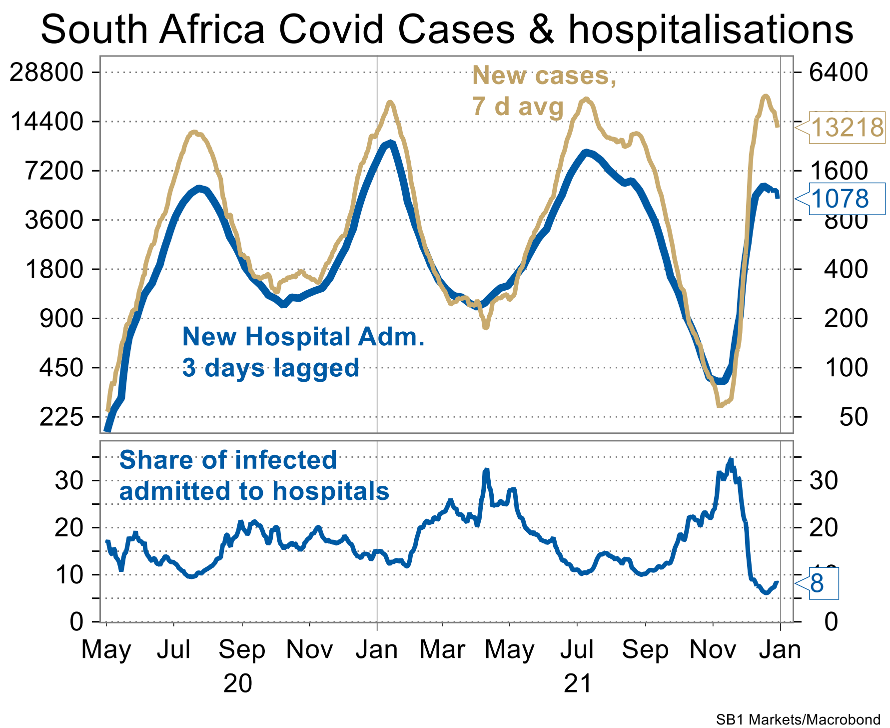
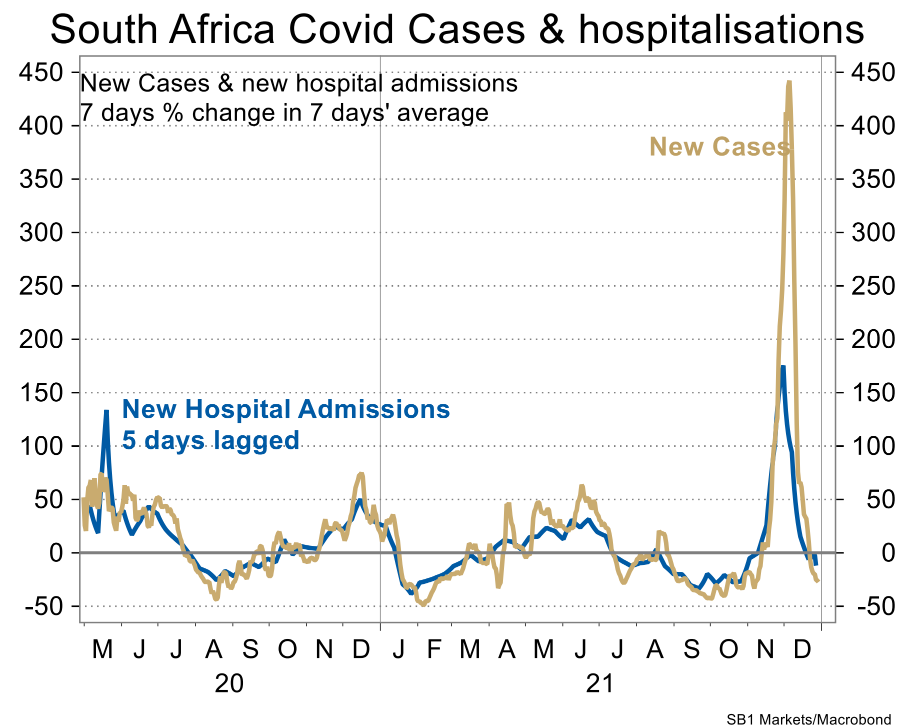
South Africa: New cases, new hospitalisations are on the way down



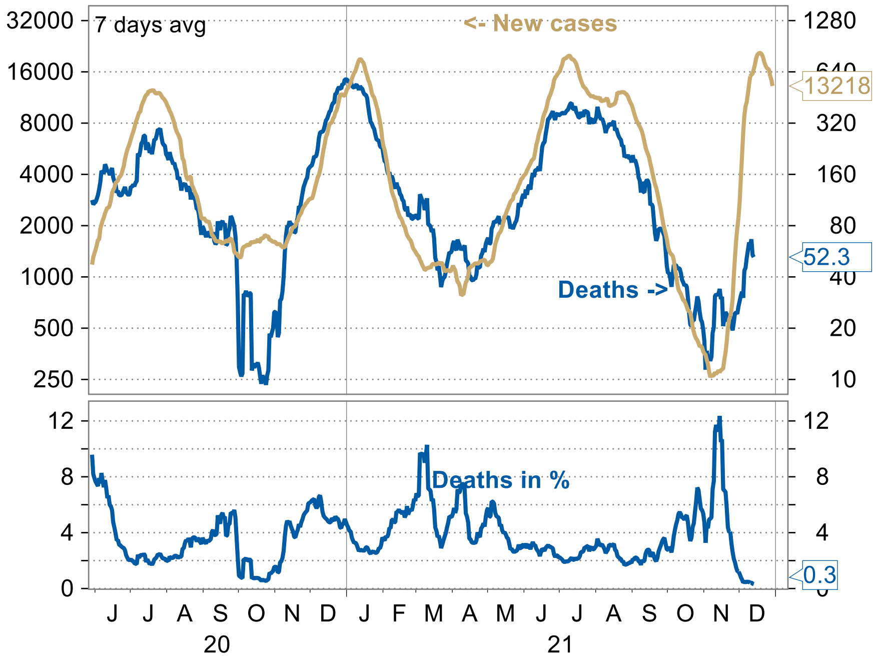


- **The average hospitalisation rate** has been cut to 6 – 8% from an average of some 20%. However, the rate has been rather volatile over time – but the present rate is the lowest ever measured
- **The number of patients still in hospital** is falling in Gauteng but is still up in the rest of South Africa – so is the no of patients in ICU or in ventilators. The no of patients are some 2/3 of earlier peaks
- **The share of hospitalised patients in ICU beds** are down more than 40%, and the share of patients that need a ventilator is down 2/3. Thus, the overall pressure on the health system has been much smaller than during the previous waves
- **The 'only important' question now is of course what the real case number has been**. The real no. is much, much higher than the no. of positive test cases. If herd immunity is reached (though depending of the rate of previous infections, vaccinations etc), it would of anyway of course be a terrific story – the virus is beaten down without serious problems in the hospital sector

South Africa: The official deaths rate at 0.3% of cases, just 1/10 of the normal CFR

The only problem, excess deaths are running at 50% of a normal number of daily deaths

South Africa Covid Cases & deaths



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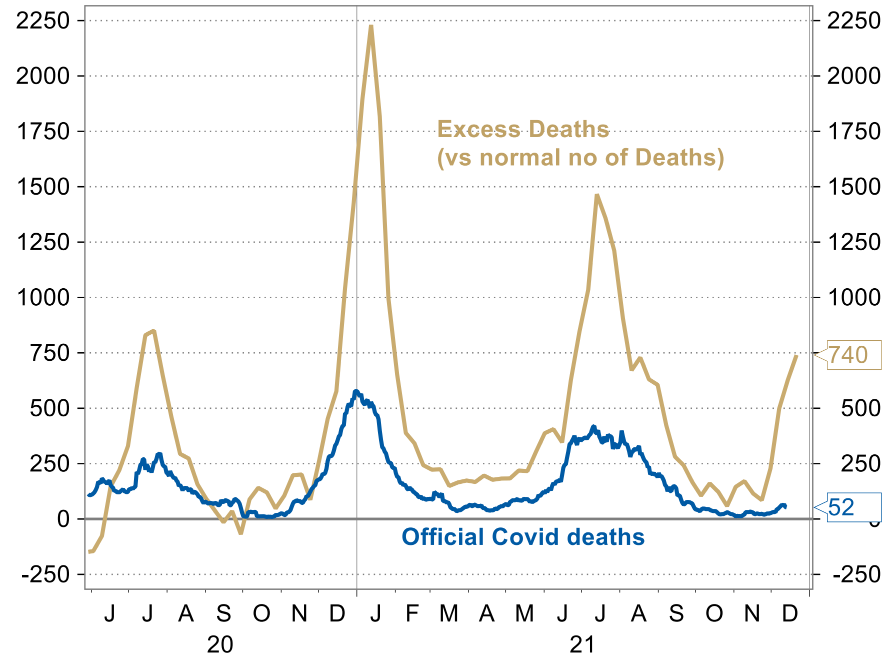
South Africa Covid Deaths vs Excess Deaths

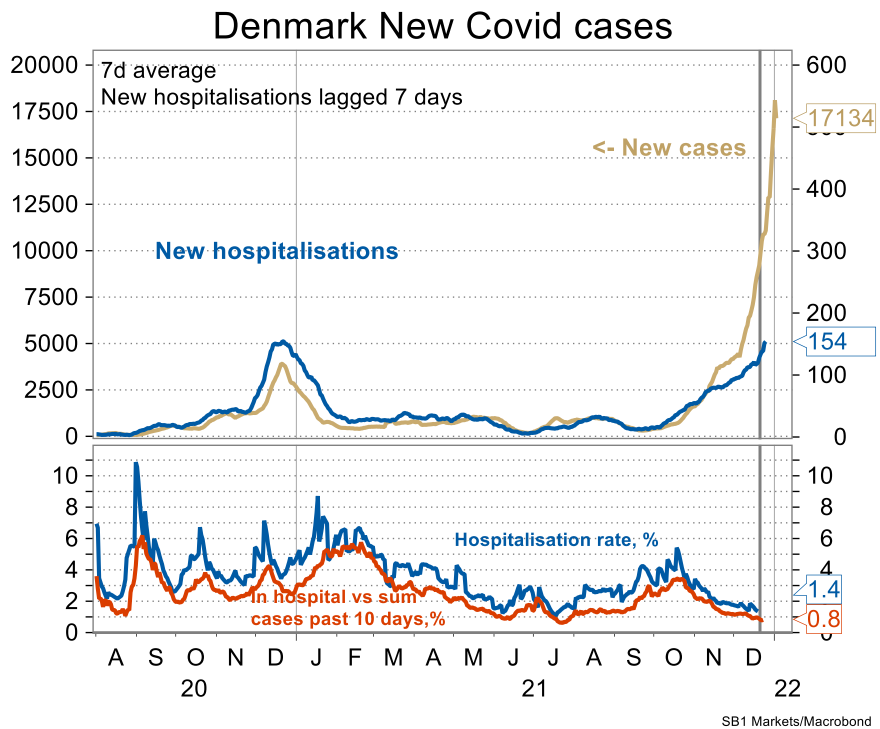


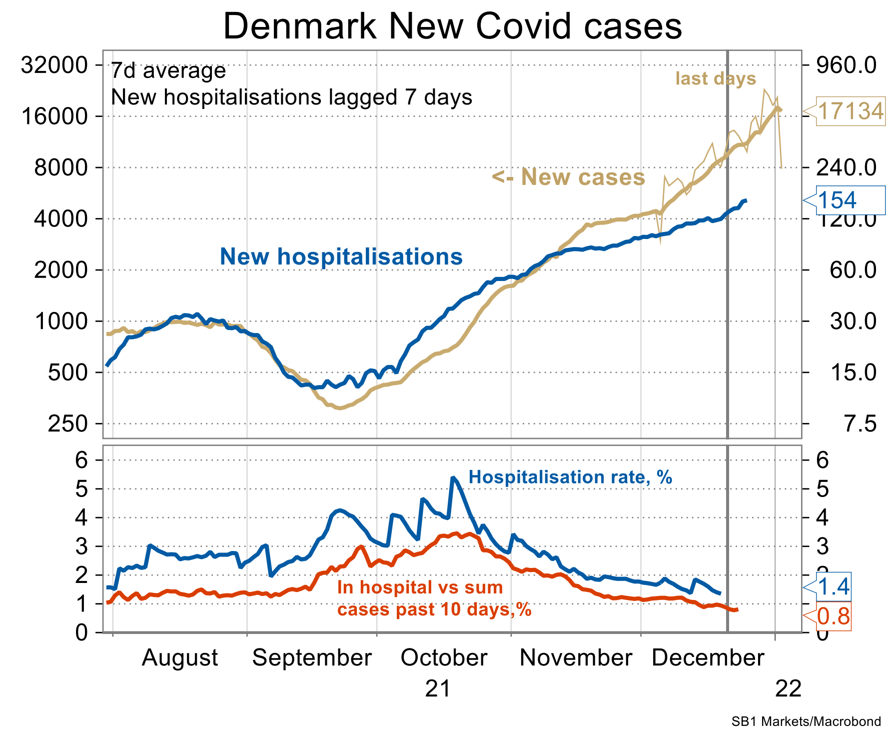
SB1 Markets/Macrobond

- The **number of South African excess deaths** was 740 persons/day last week (and steeply rising), vs the 1.500/day recorded when the Delta variant hit during the summer (The Economist's calc., national data confirms)
- Normally, less then 1.500 persons are dying per day in S-A. The current excess death rate is not easily explainable, given the low hospitalisation rate. Why are not sick persons turning up the hospitals, 'as usual'??

Denmark: Omicron 92% of cases, growth >40% w/w. 4 x more cases than ever bef

The hospitalisation rate has fallen to 1.4% from close to 2% for the Delta variant. But is that ‘enough’?

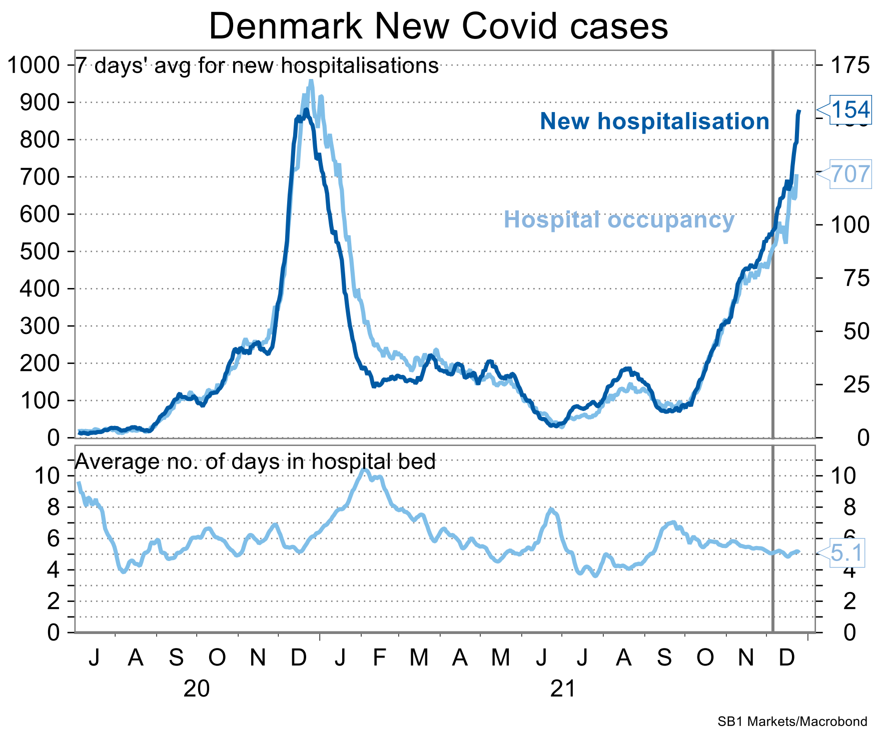


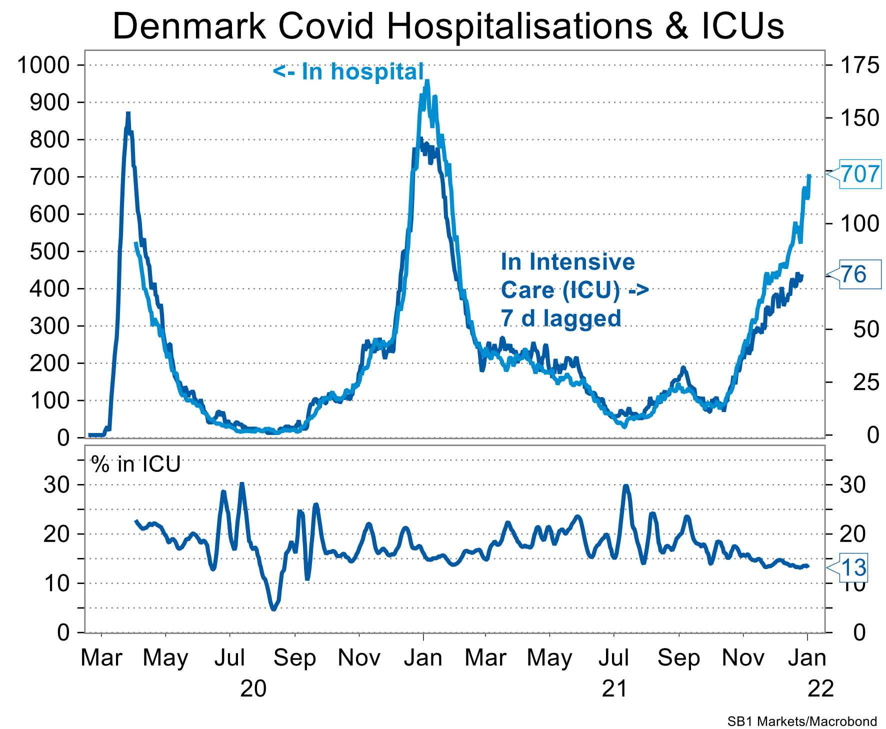


- 2% of the population was infected last week – and immunity is increasing rapidly – and very likely even faster this week
  - » Delta is down 50% w/w, but Omicron is up 90% w/w - implying R_t at 0.6 and 1.6 resp. If so, Omicron is some 2.5 x more transmissible than the Delta variant. Growth as slowed but not more recent days
- **The hospitalisation rate** has fallen to 1.4% from close to 2% in November, when the Delta variant ruled. We assume that the hospitalisation rate for Omicron is slightly below 1% (there are still some Delta cases left). Approx 150 persons are hospitalised daily (vs. 30+ in Norway)
- The no. new hospitalisations are growing slightly lower than no. of cases, but if the hospitalisation rate stabilises at 0.8% for Omicron, the no. of cases will climb rapidly the coming days – to levels not seen before in Denmark during the pandemic

Denmark: If hospitalised, not fewer days in hospital – nor much fewer in ICU beds

… which is not good news – and not in line with South African experiences





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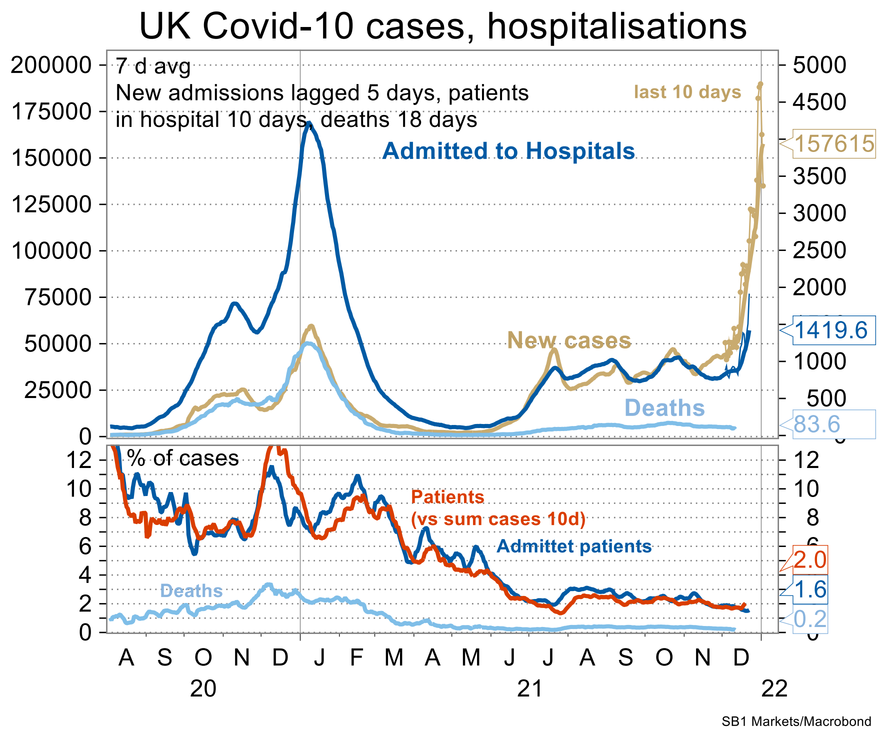
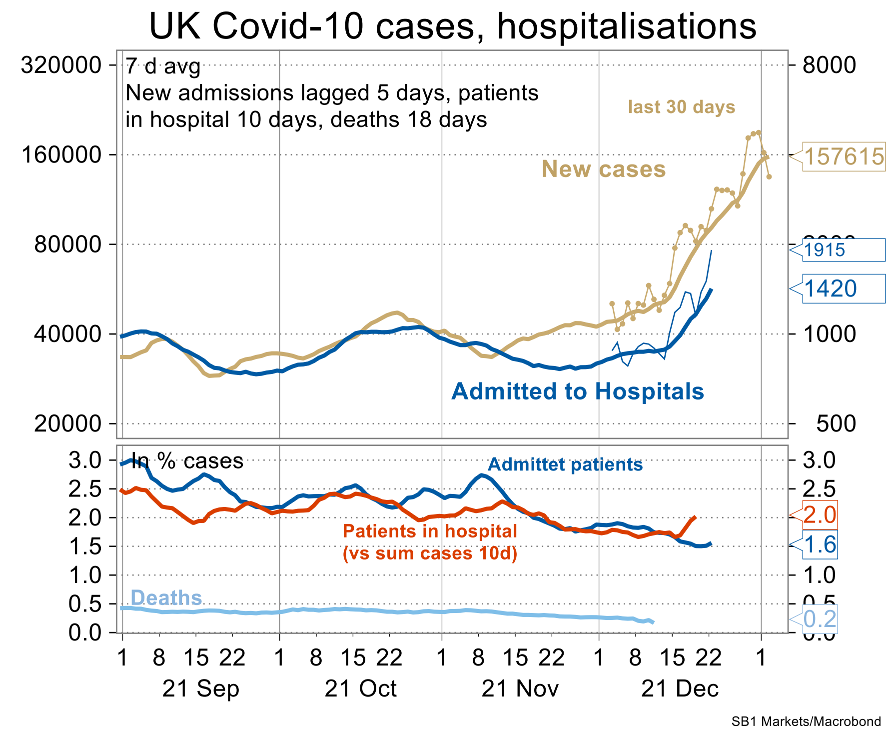
UK: Omicron cases are exploding, and so are hospitalisations

No of cases up almost 4x in December, and just a small decline in the hospitalisation rate

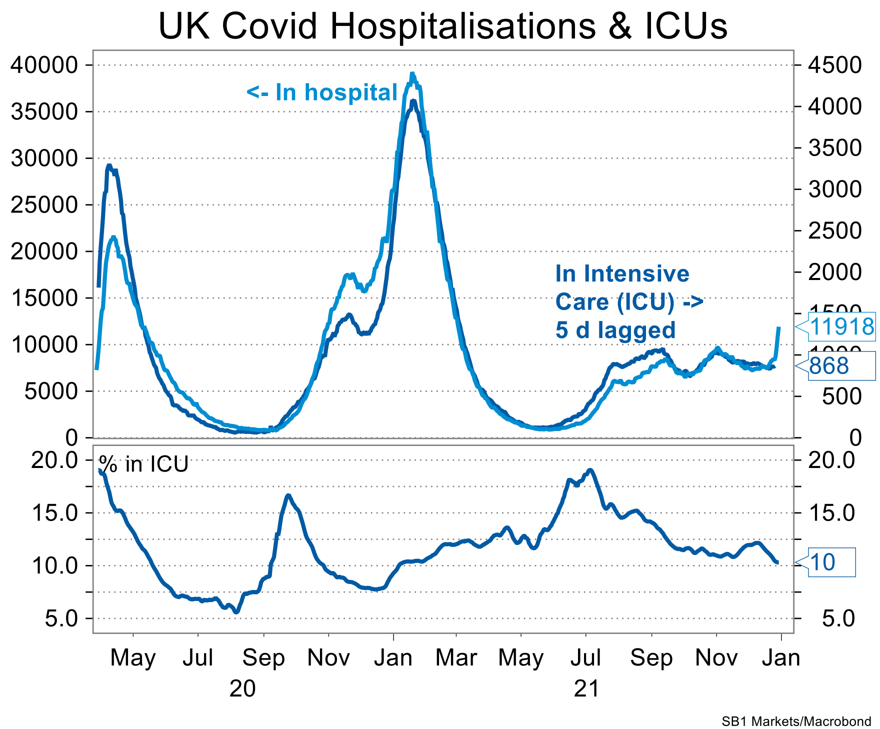




- **New cases** are 3 times higher than one year ago. Growth has slowed somewhat but no of cases are up more than 40% per week, as in Denmark. The Omicron variant is growing even faster (but still slower)
- **The hospitalisation rate** has fallen but just marginally, to 1.6% from 1.8% in late November, before the Omicron variant arrived. The no of new admissions is now growing at the same speed as new cases, and will probably reach the 4.500 per day record not before too long (1915 new patients yesterday)
- The coming days will be make or break: Will the no. of patients continue to rise in line with new cases? <u>If so, the hospitals will be completely overburdened in just 2 weeks time</u>
- **The CFR** has fallen to 0.2%, from 0.4% in November

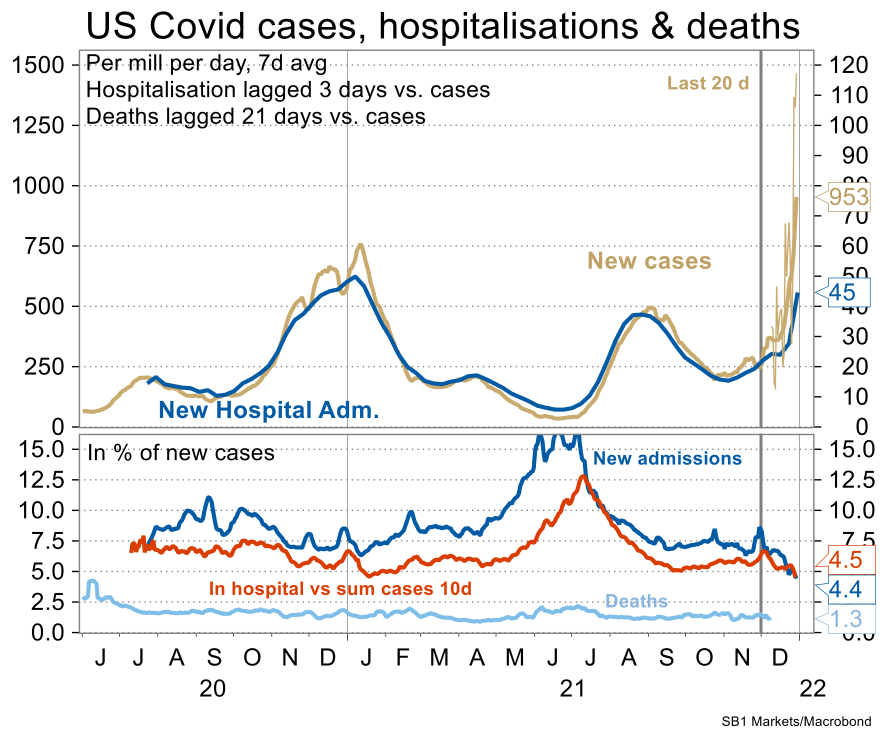
UK: No sign yet that fewer patients will need an ICU bed

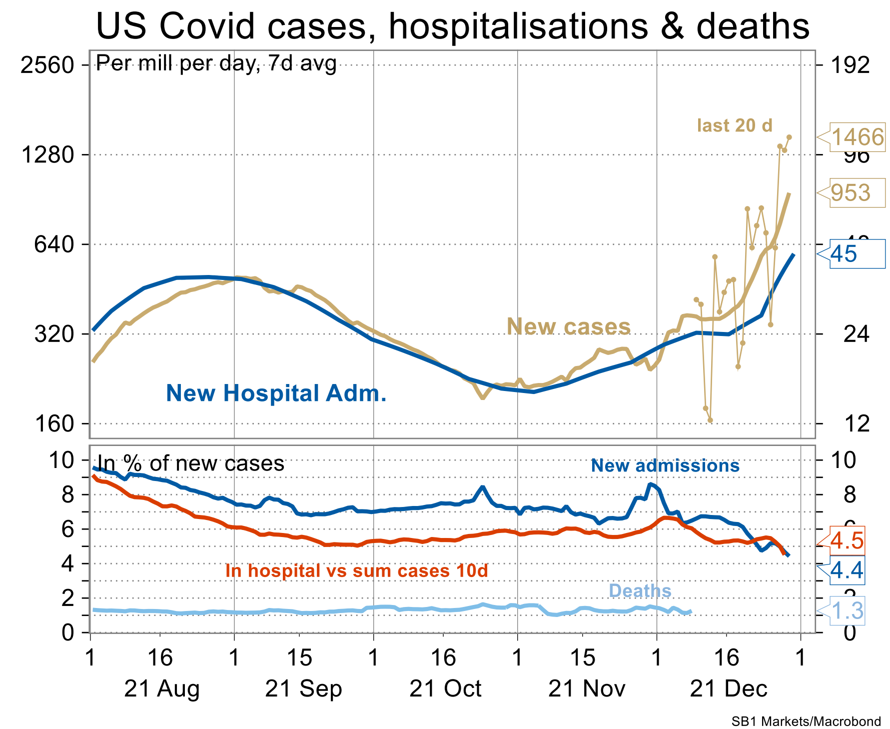
... If not a wonder happens this week, following the surge in new admissions, patients at hospitals



US: New cases straight up, and now hospitalisations are following suit

The hospitalisation rate have fallen somewhat, to 4.4% from 7% with Delta alone





- **New cases:** 2 times more than anytime before, up 6 x through December (not smoothed)! Rt at 1.4 – 1.5
  - » Delta cases are down 10% w/w, Omicron cases are up 3.6 x w/w. Implies Rt at 0.9 and 2.7 resp. Omicron spreads 3 x faster than Delta
- **The hospitalisation rate** has clearly fallen, but remains at 4.4%. We estimate the Omicron hospitalisation rate to just above 3% vs a 7% rate for Delta
- If so, the no. of new hospitalisations will climb rapidly the coming days – and it is already close to the peak, one year ago!

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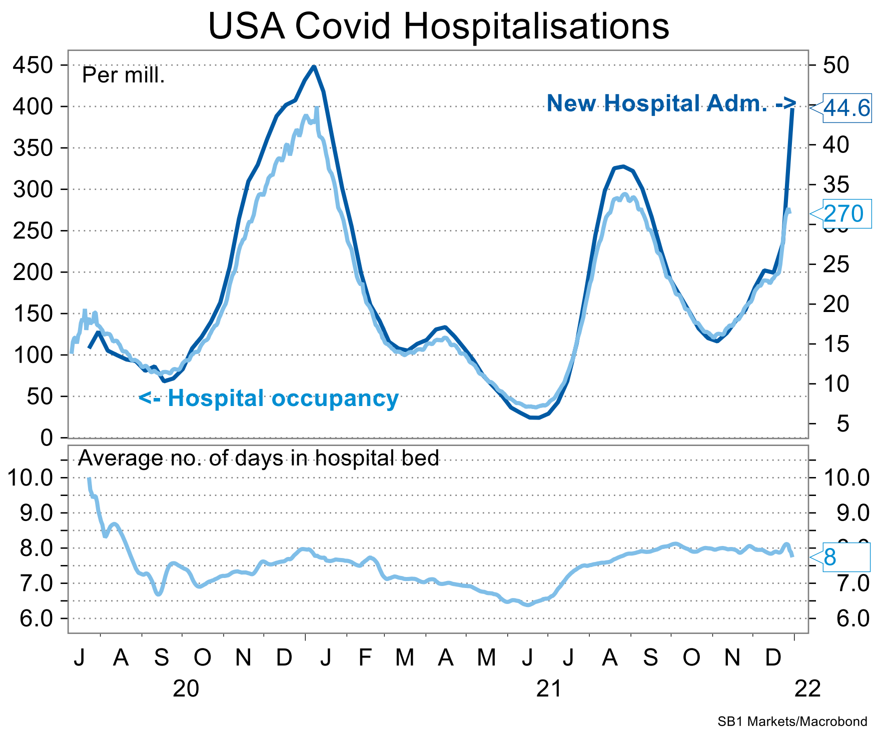
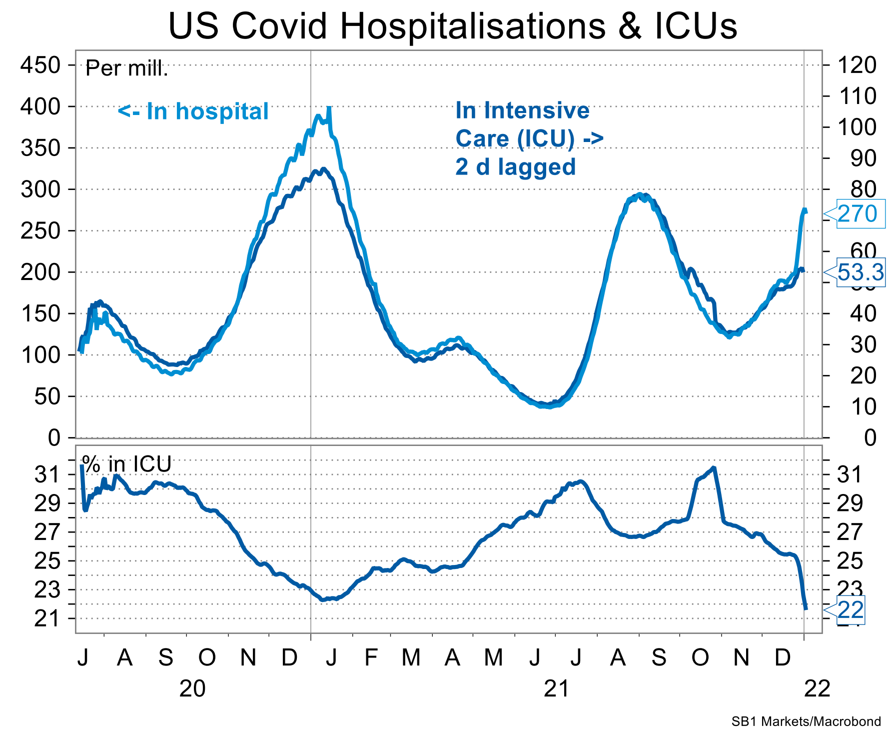
US: Given admissions last recent days, occupancy will climb. And if so....

No. of hospitalised persons and ICU beds have been very closely correlated too





- The past week, a signficant reduction in the share of patients in ICU beds – but if the real time lag is now just marginally stretched…
- Disclaimer: Next week's data will give a better picture, as will not be influenced by the holiday season

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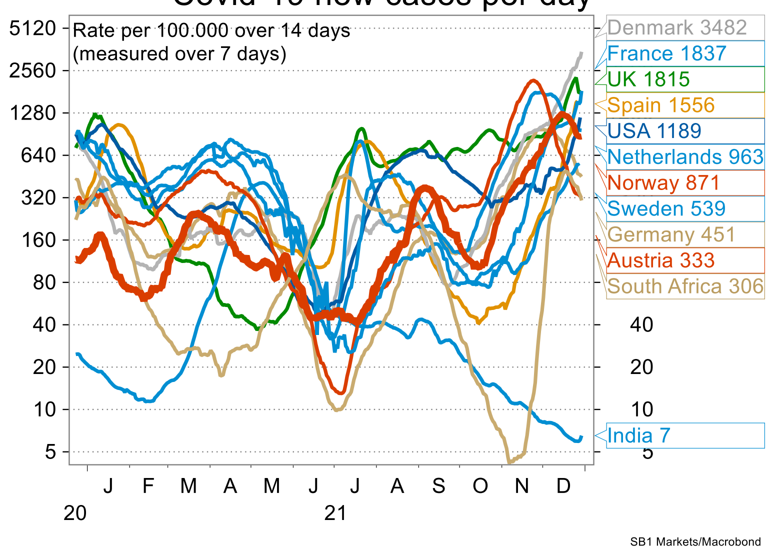
The ranking: Denmark still at the top of the list. By far!

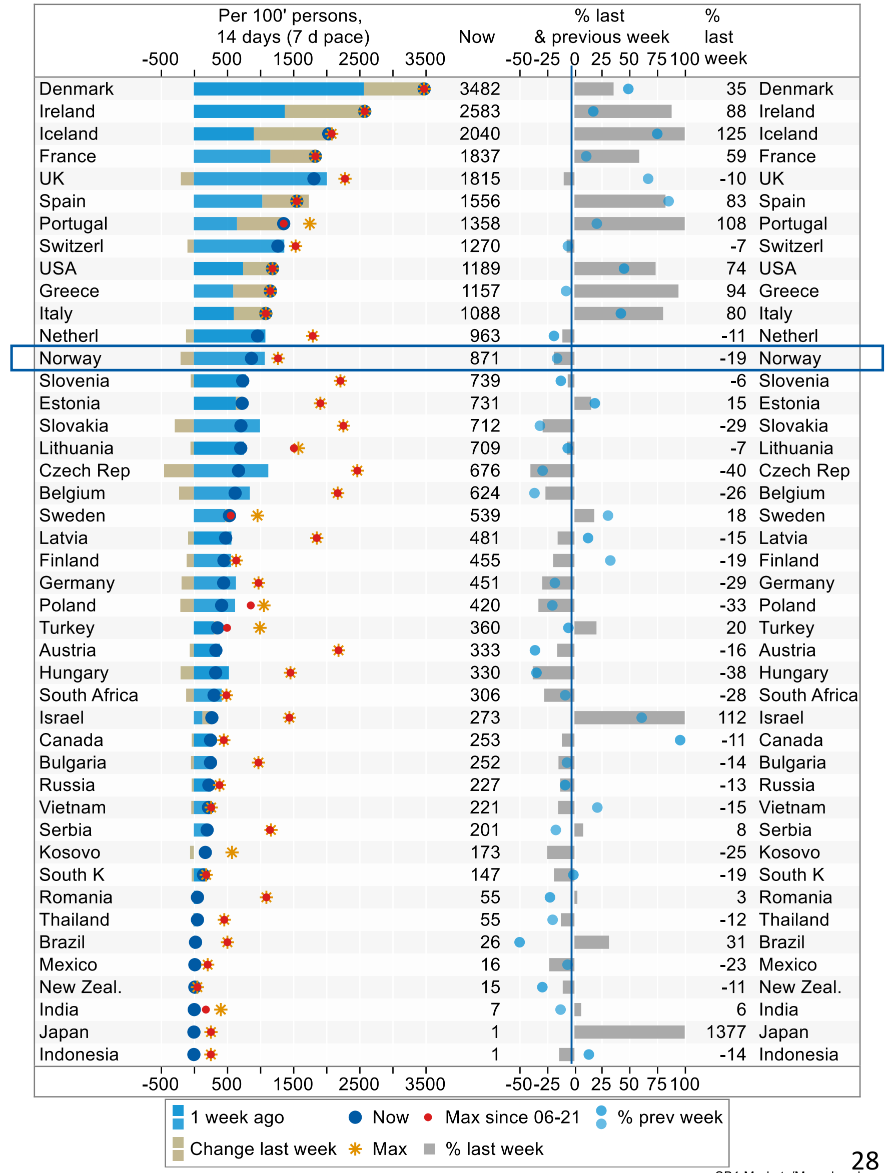
A superb testing regime – but many infections too

- <u>Just 14 countries were reporting more cases</u> the last week but lower testing activity during the holiday season may influence these results
- <u>26 countries reported fewer cases</u>
- **Several countries** are reporting very high growth rates, both in Europe as well as USA. Denmark is at the top of the list, followed by Ireland and Iceland and then France. Germany, Netherland and Austria are reporting fewer cases following their 'lockdowns'. Probably the Omicron wave will hit later here
- **Emerging markets** are not yet hit by the Omicron wave, except South Africa – where cases have fallen rapidly recent weeks
- **Norway** is reporting a decline in new cases but the risk is on the upside coming weeks, as vaccination is not better than elsewhere and far fewer have been through infections before. And Omicron is here too, of course

Covid-19 new cases per day

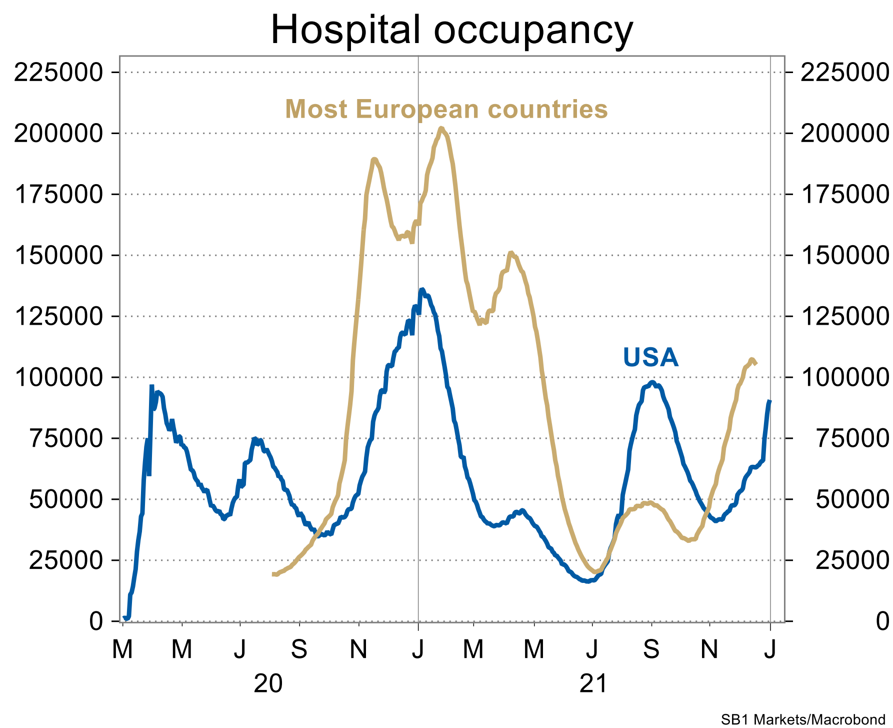


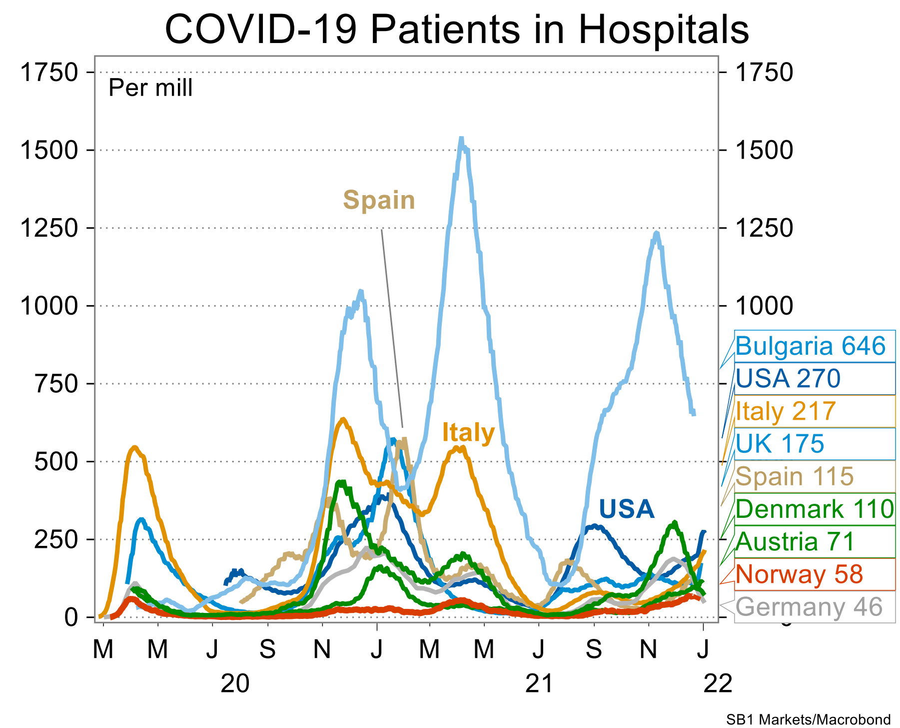
COVID-19, New Cases



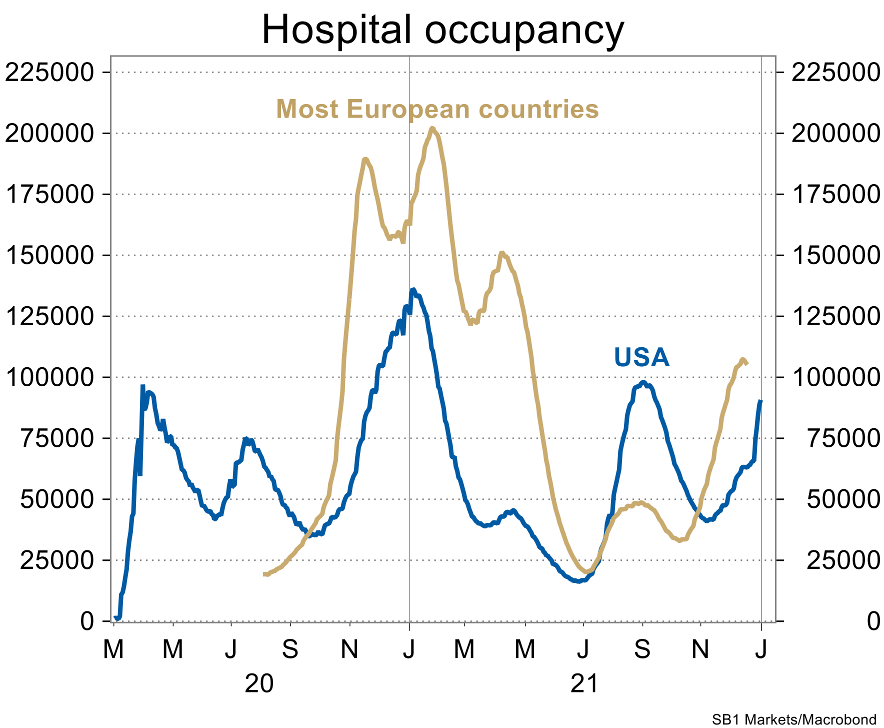
More hospitalisations in Europe, and the in the US as well

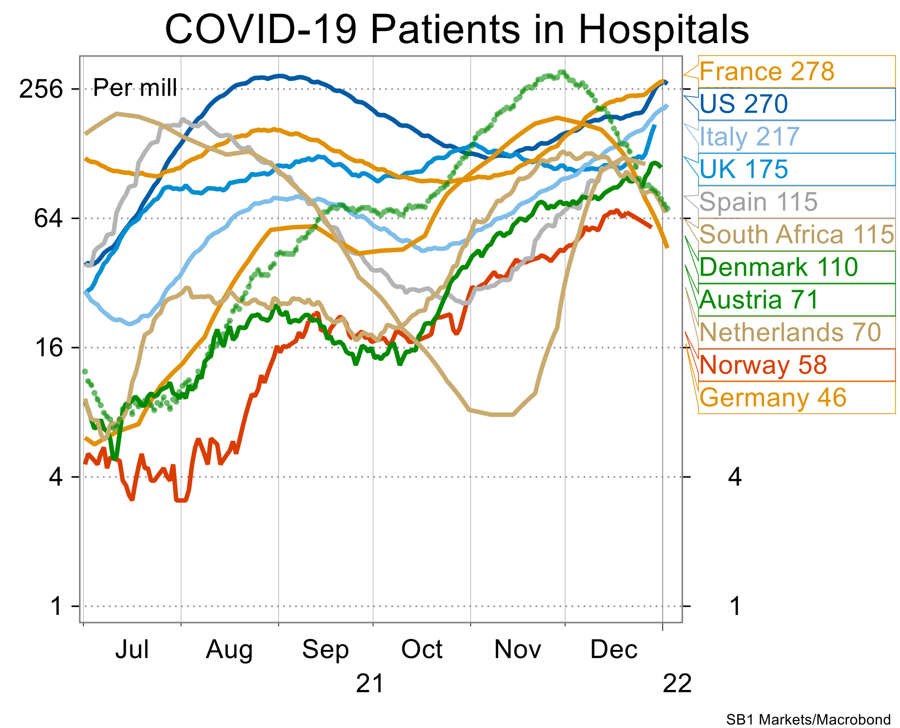
However, levels are still not low outside Eastern Europe





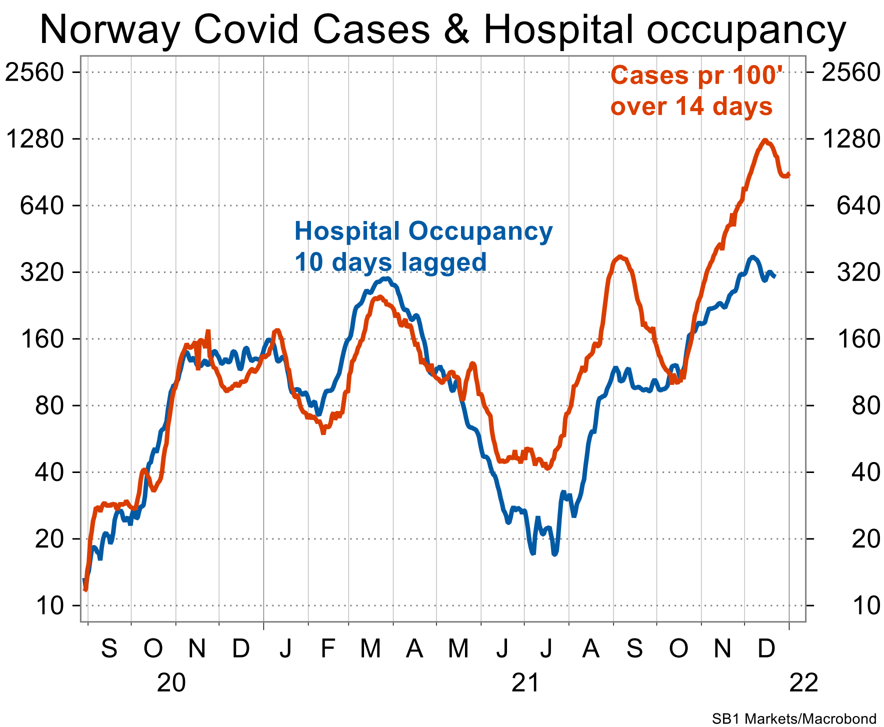
Some are still on the way down but several are not the way up



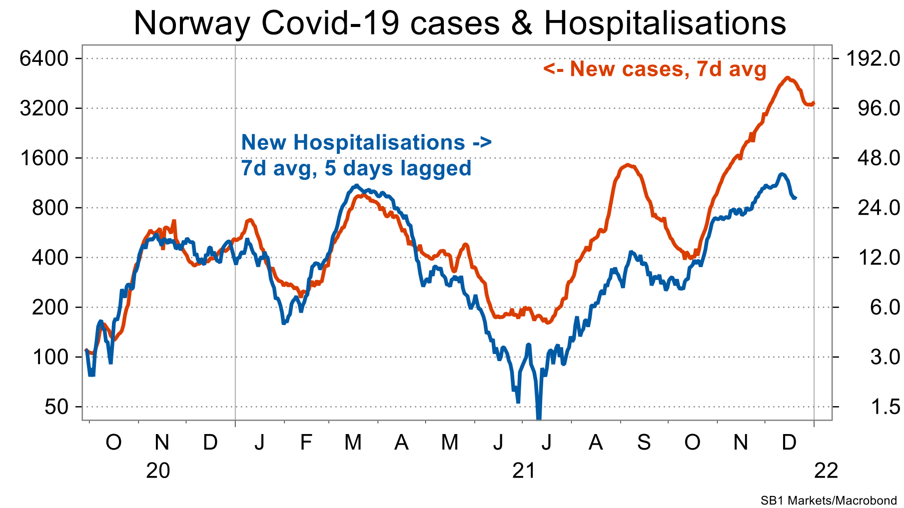


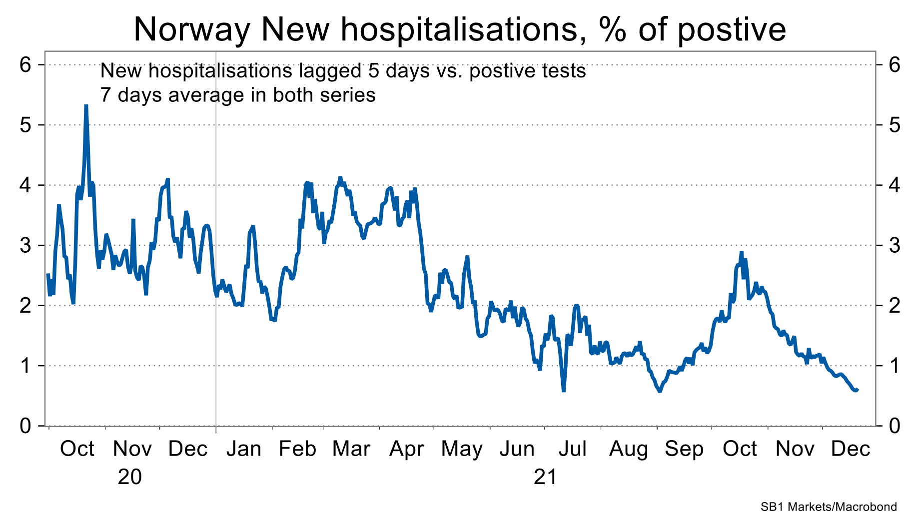
Norway: A decline in new cases, as we 'wait' for the Omicron surge

More booster vaccines –and a 30% Omicron share may explain a decline in the hospitalisation rate

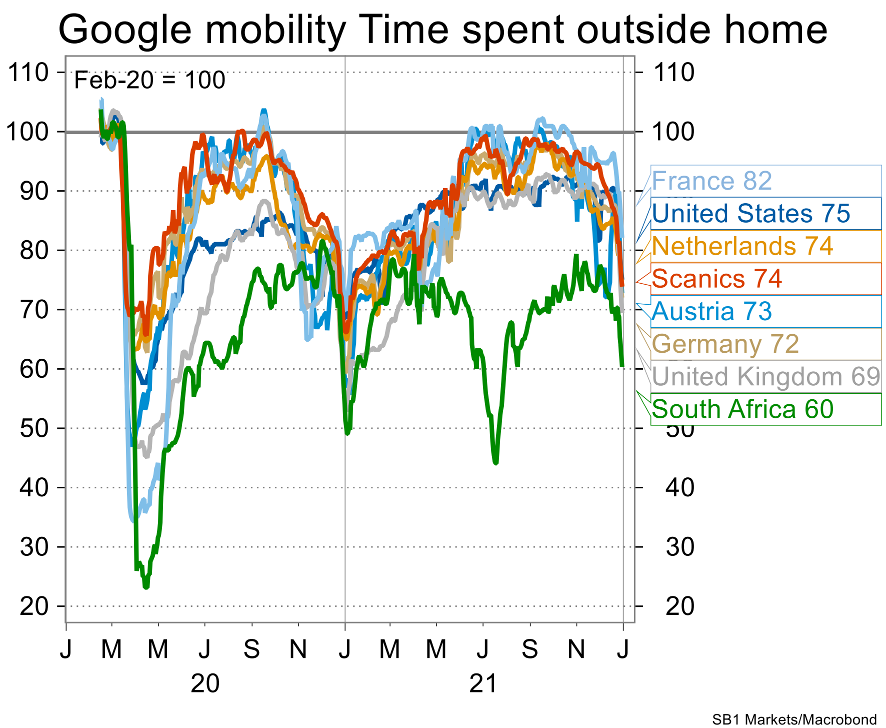


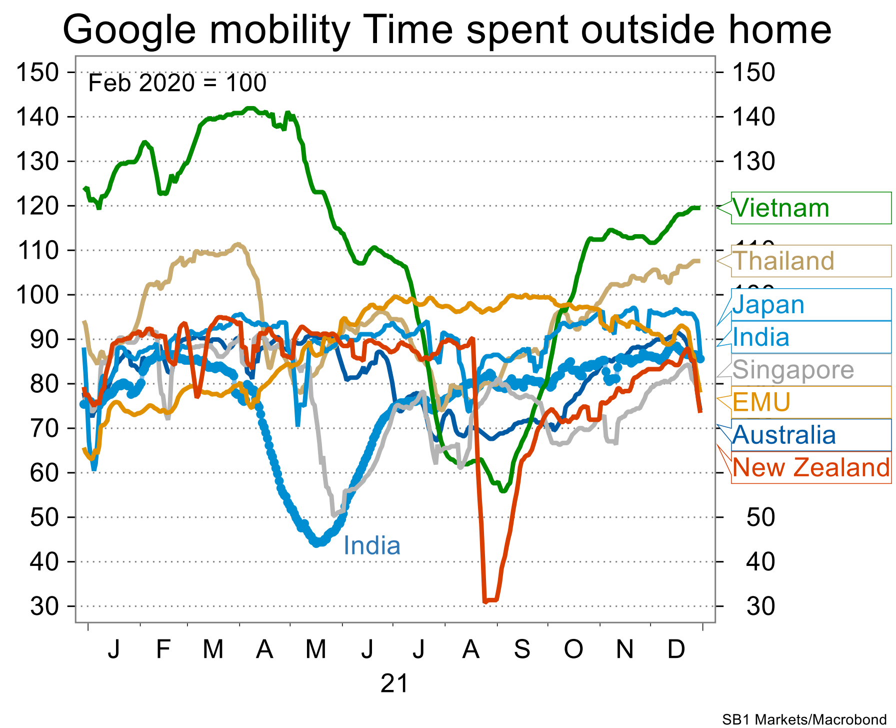
- Reduced mobility/and more Covid restrictions as well as more booster shots may explain the decline in new cases
- The **hospitalisation rate** has fallen too, towards 0.5% from 1% in early December. Boosters and an approx. 30% Omicron share (or could it now be higher?), probably explain the decline





Mobility 'hit' by the Christmas holidays – and some Omicron measures





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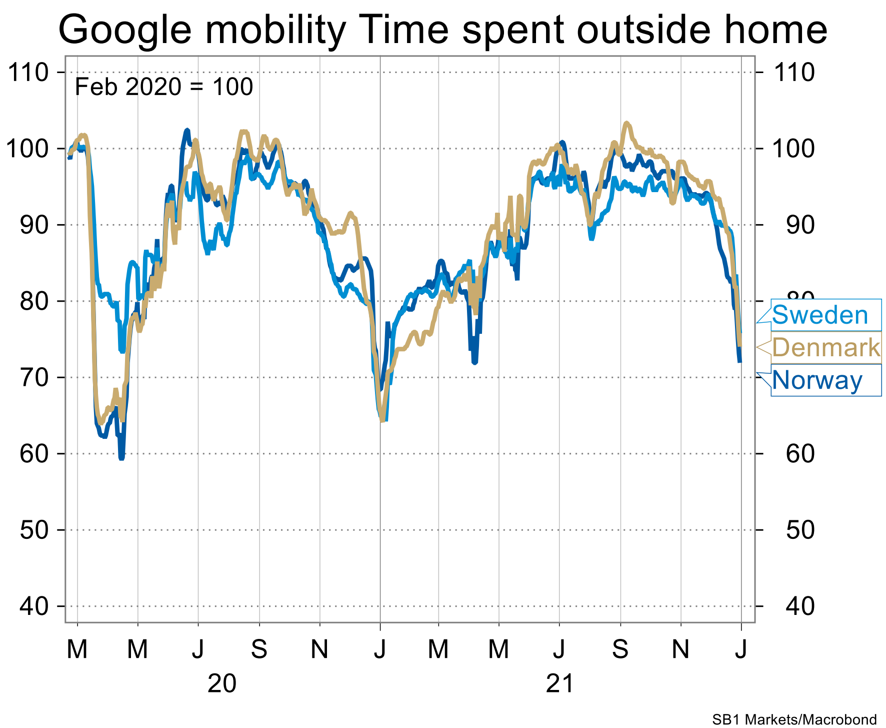
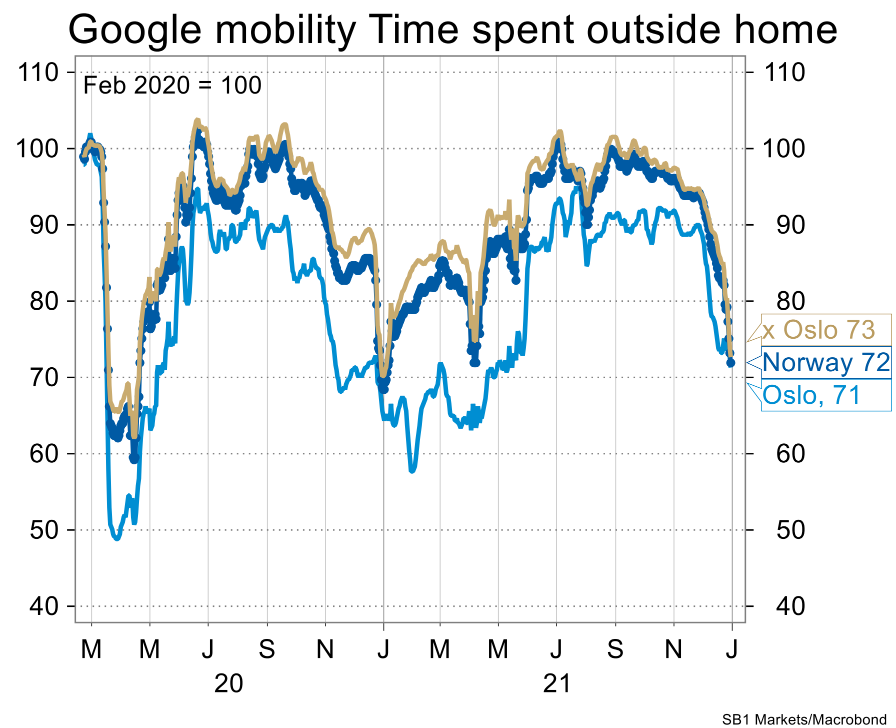
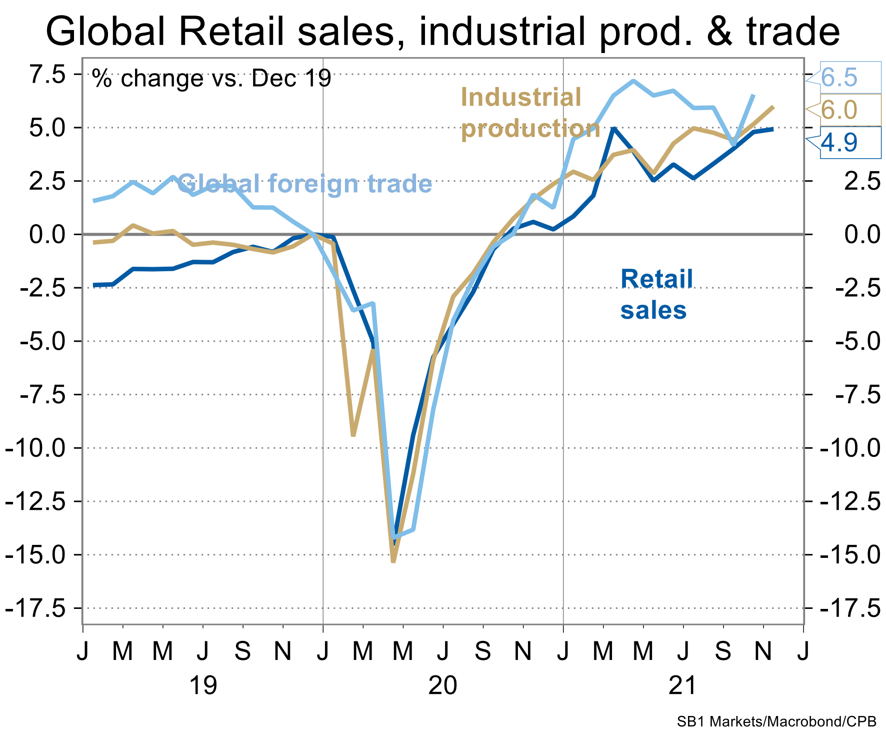
Mobility sharply down during the X-mas holidays, and some Omicron measures

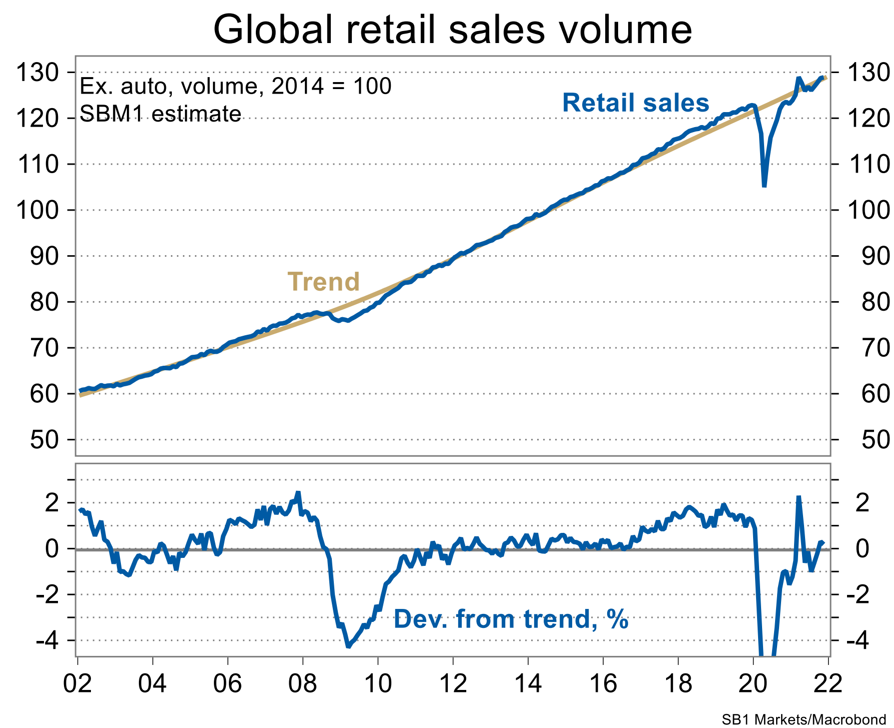




Global retail has strengthened recent months, global trade is sliding down

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





- **Global retail sales** stagnated in November, with slow/no growth in China, US & EMU, following strong growth the previous months, with a substantial contribution from India which recovered after the Delta blow in Q2. Global sales (mostly excluding autos) are 5% above the pre-pandemic level
- **Global manufacturing production** recovered since the summer and growth was strong in both October and November – the latter due to 6 – 7% growth in both South Korea and Japan. Production is up 6% from Dec-19
- **Global foreign trade** rose sharply in October, following the setback in September (and several weak months since last May)

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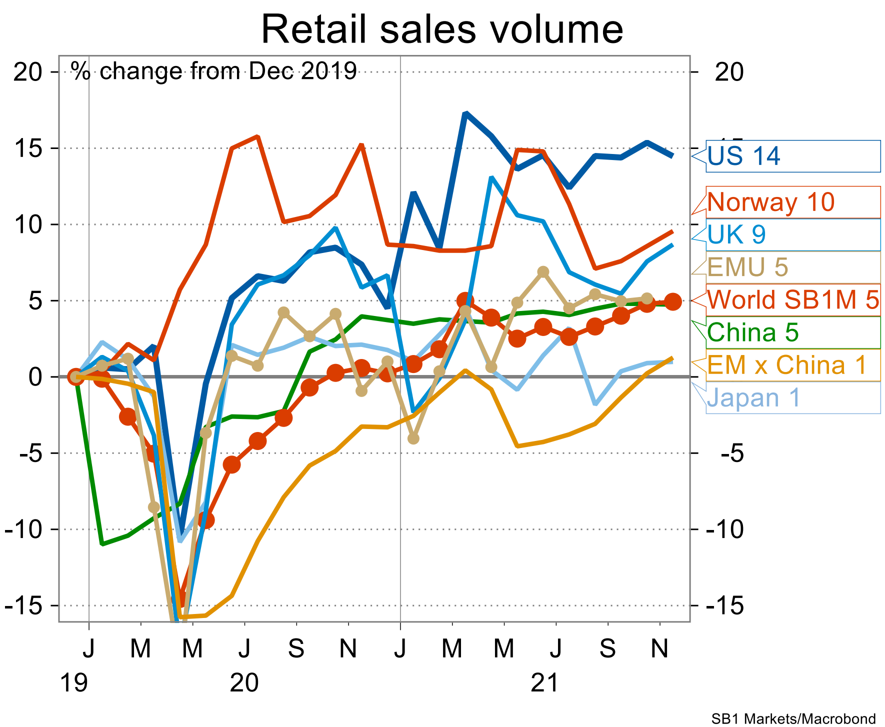
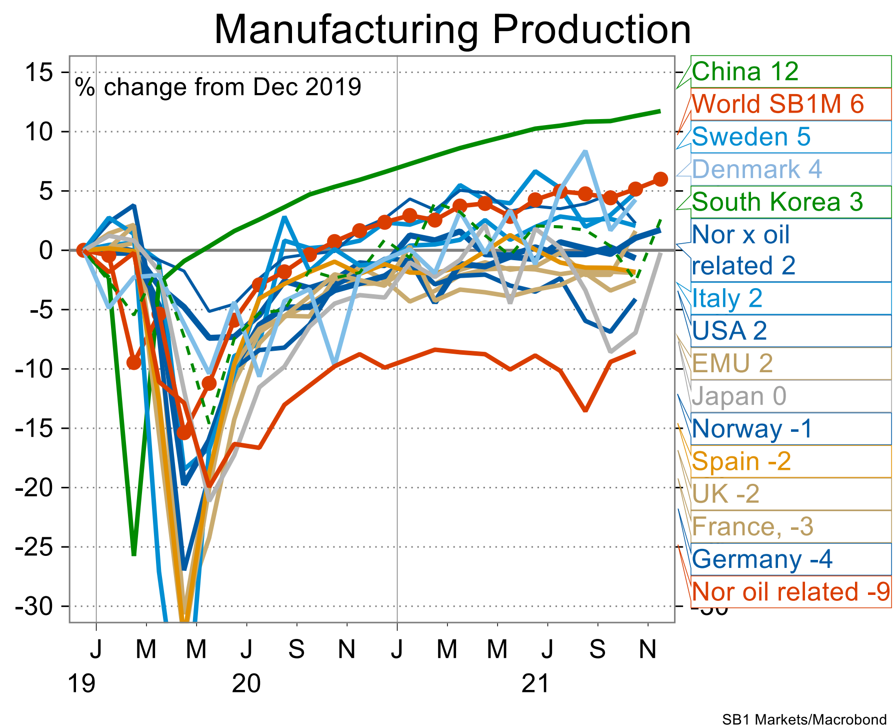
DM demand for consumer goods have peaked, EMs are recovering from a low lev.

The upside potential is large for Emerging Markets x China, and the recovery has started

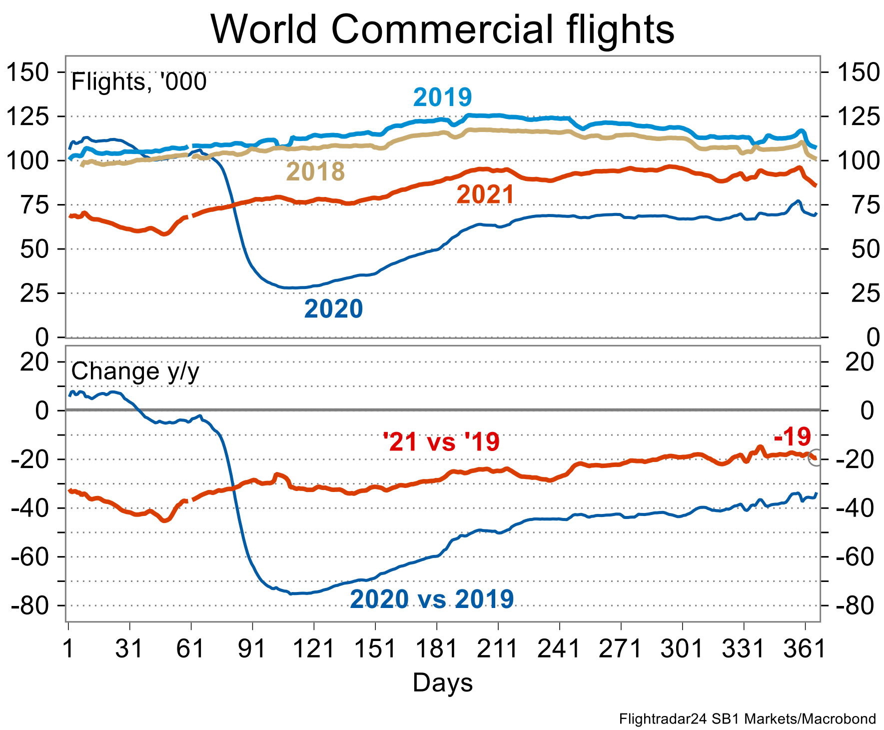


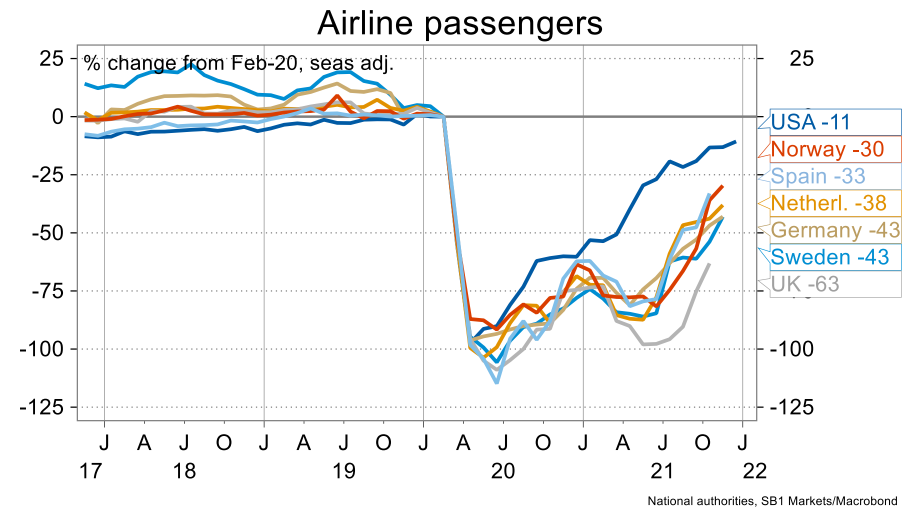


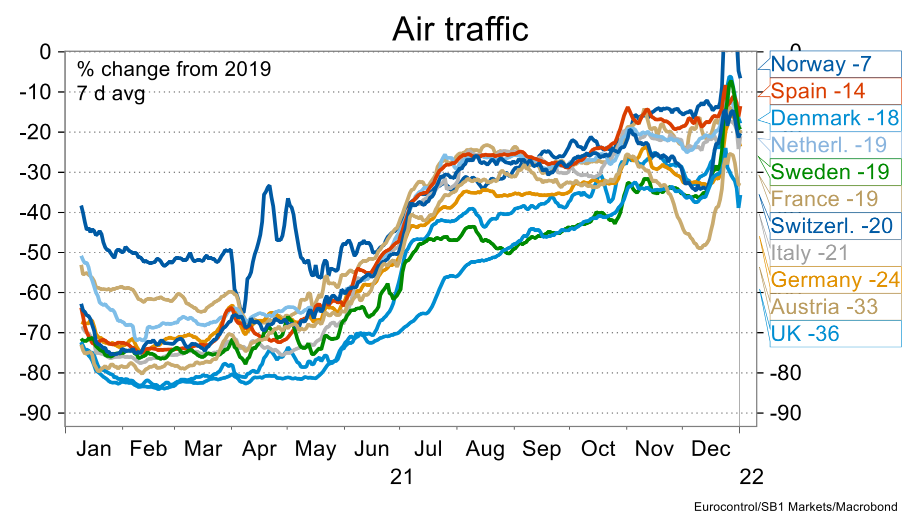
- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India, and thereafter in other parts of Asia. Now a substantial recovery is very likely underway
- **US retail demand is** still very strong, although marginally below the March peak
- **Manufacturing production** has been hampered by a deep decline in auto production. The manufacturing PMIs are still strong

Global airline down past two weeks, due to season, weather & sickness leaves

Airlines hit by Omicron infection among their staff, and many flights have been cancelled



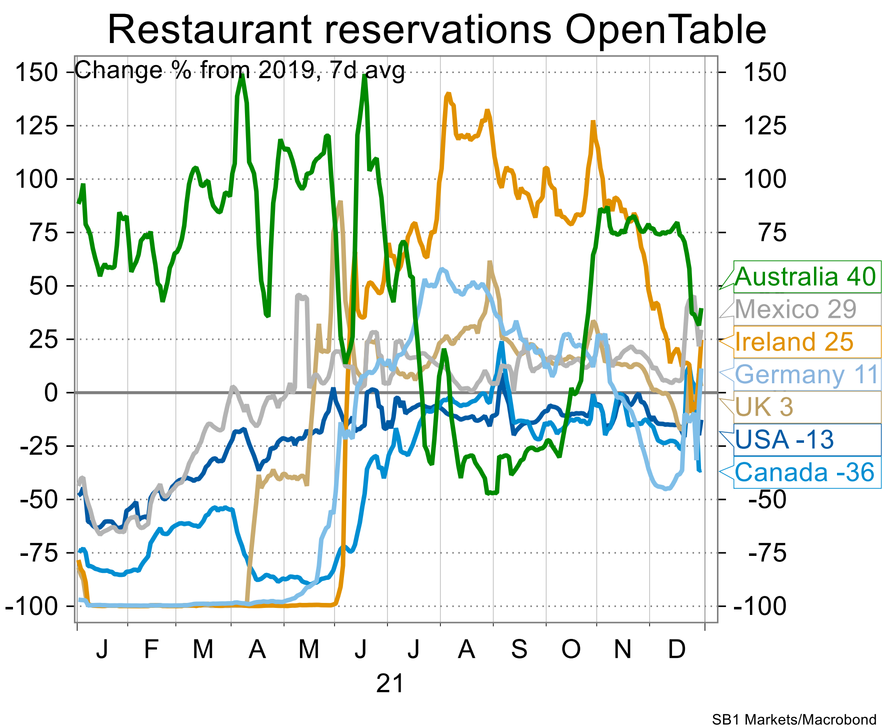


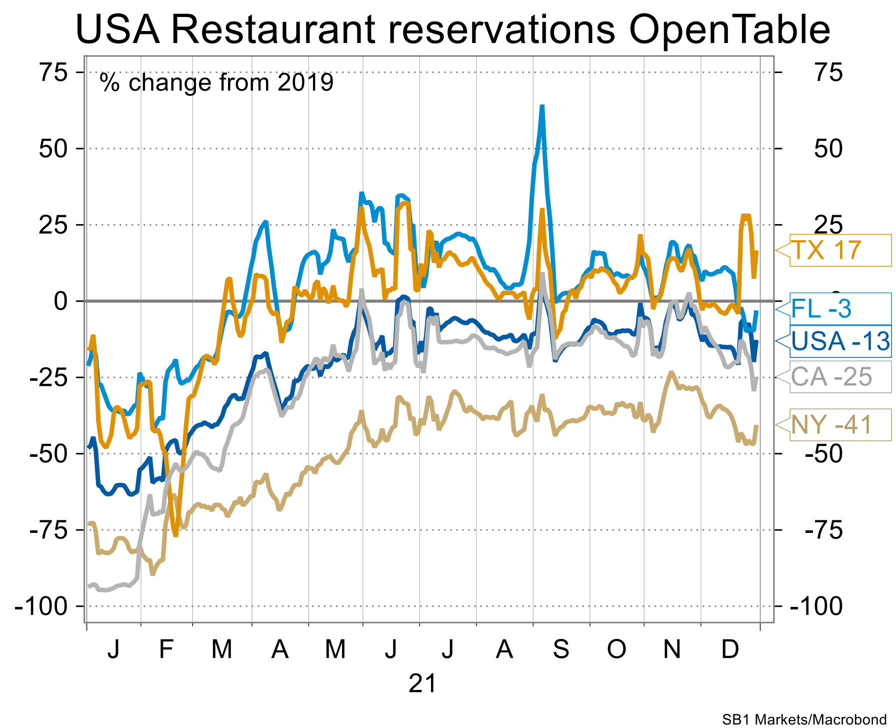


- Until November, strong growth in no. of passengers in Europe, and the gap vs the US was reduced
- The fight against the Delta has reduced aircraft movements in Europe somewhat, and the Omicron may create more havoc

Delta & Omicron create new challenges for the restaurant industry

However, data have been all over the place during the Christmas holidays





- Still, no country is locked down (at least not yet)

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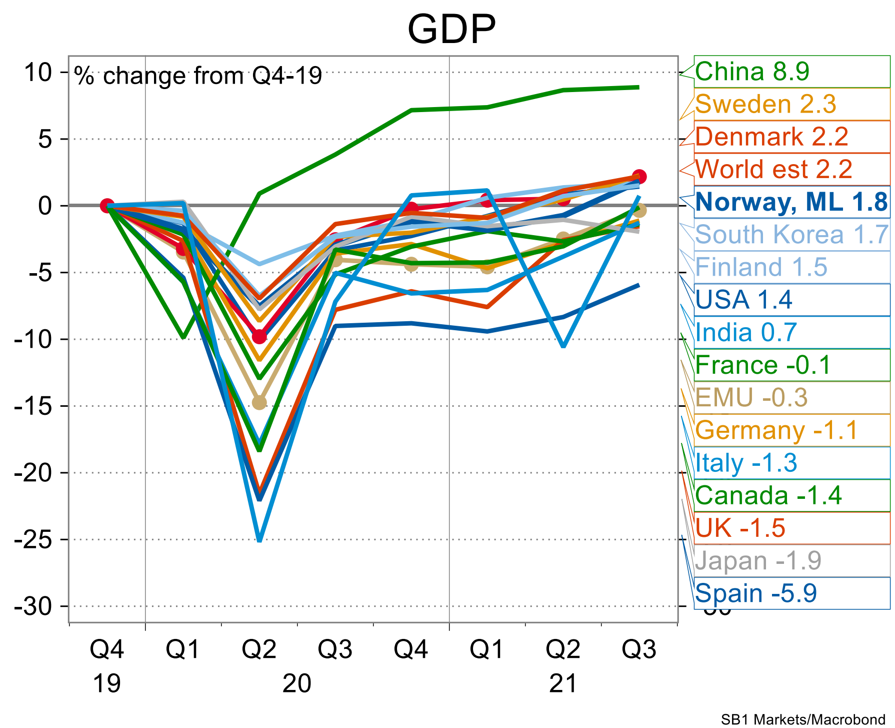
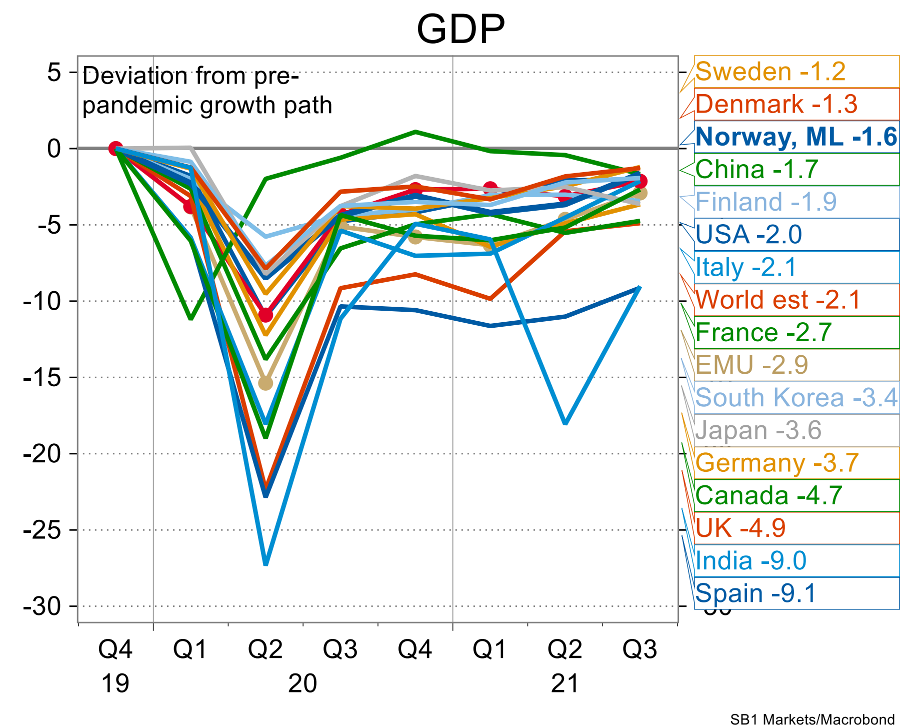
Global GDP on the way back – still well below the pre-pandemic growth path

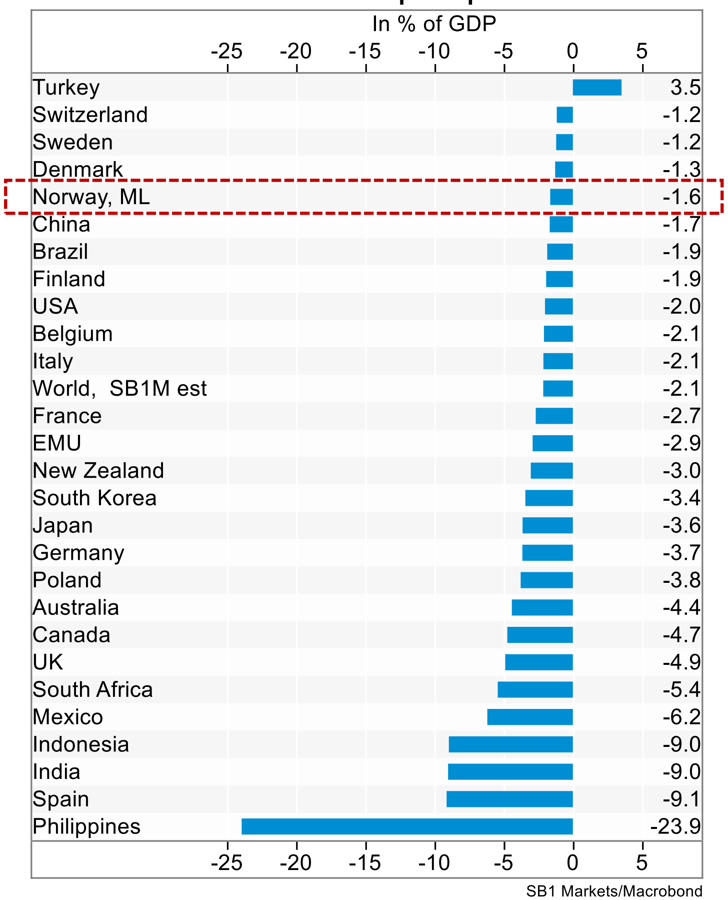




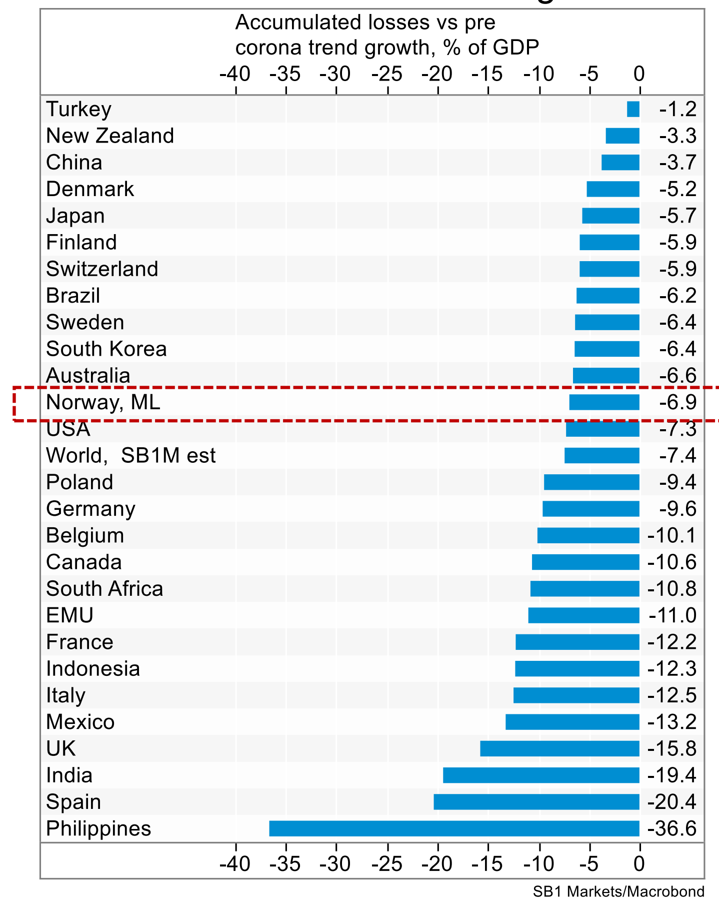
GDP still below the pre-pandemic trend growth paths (almost) everywhere

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

GDP Deviation vs. pre-pand. trend



GDP - Losses vs. trend through Q3-21



- At least according to Turkish data

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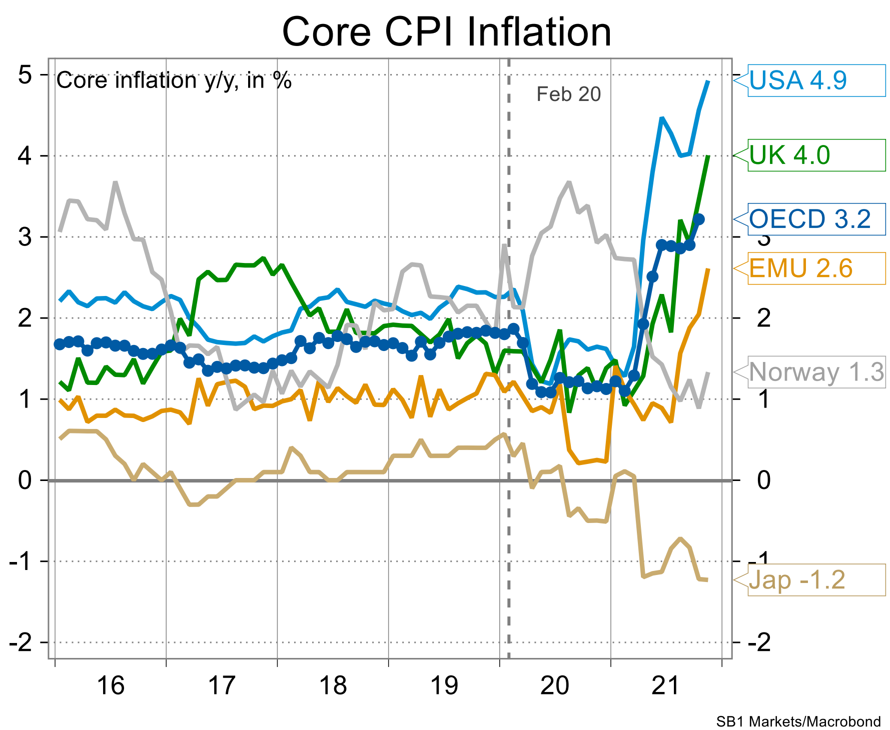
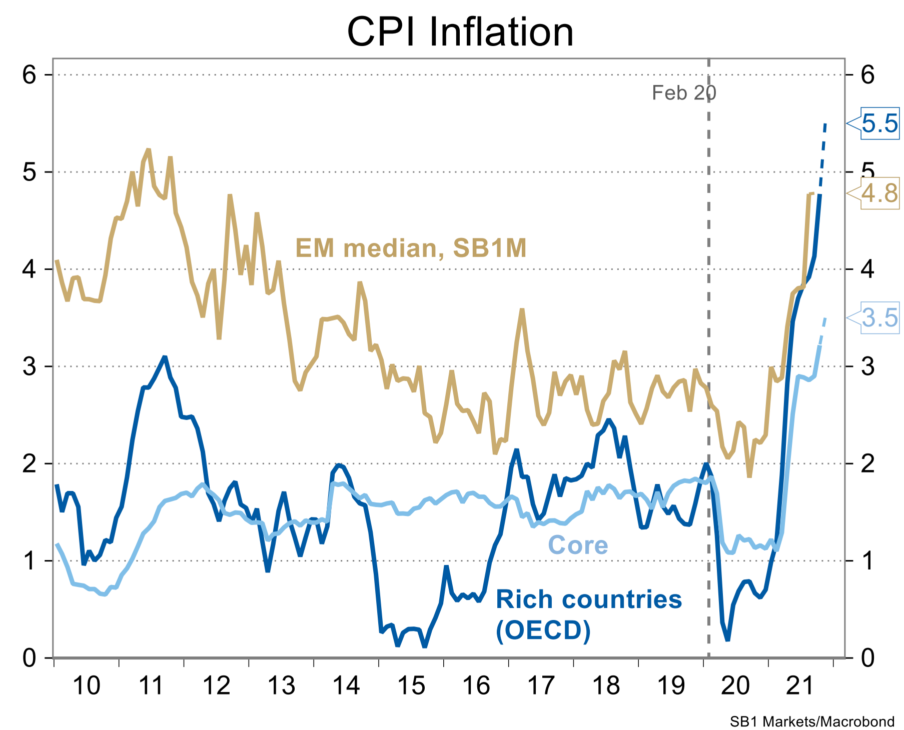
Inflation may be peaking ~~now~~ soon – at a high level

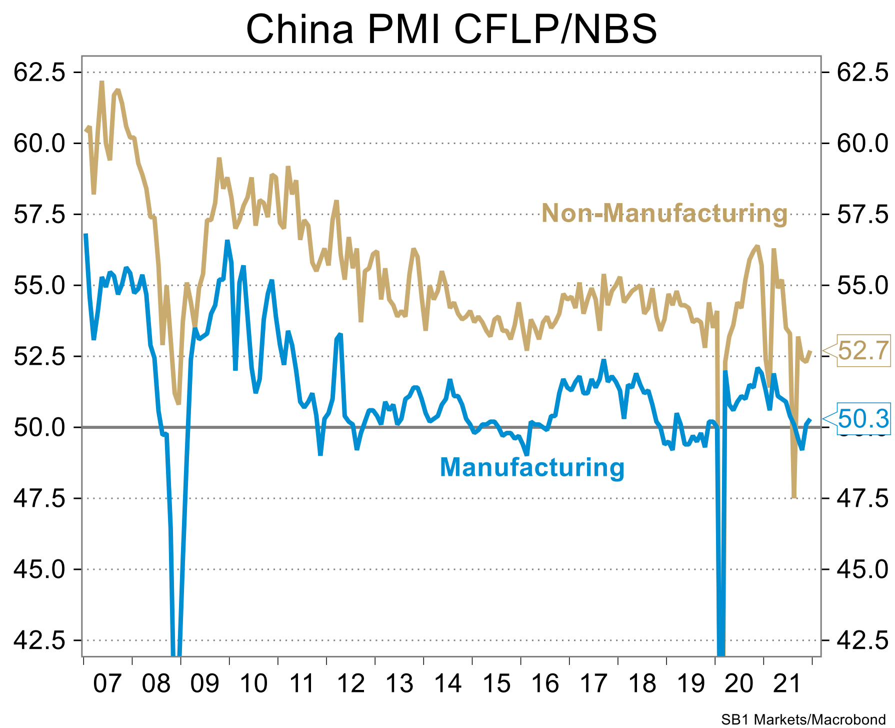
Energy prices the main culprit, but core inflation has turned up more places

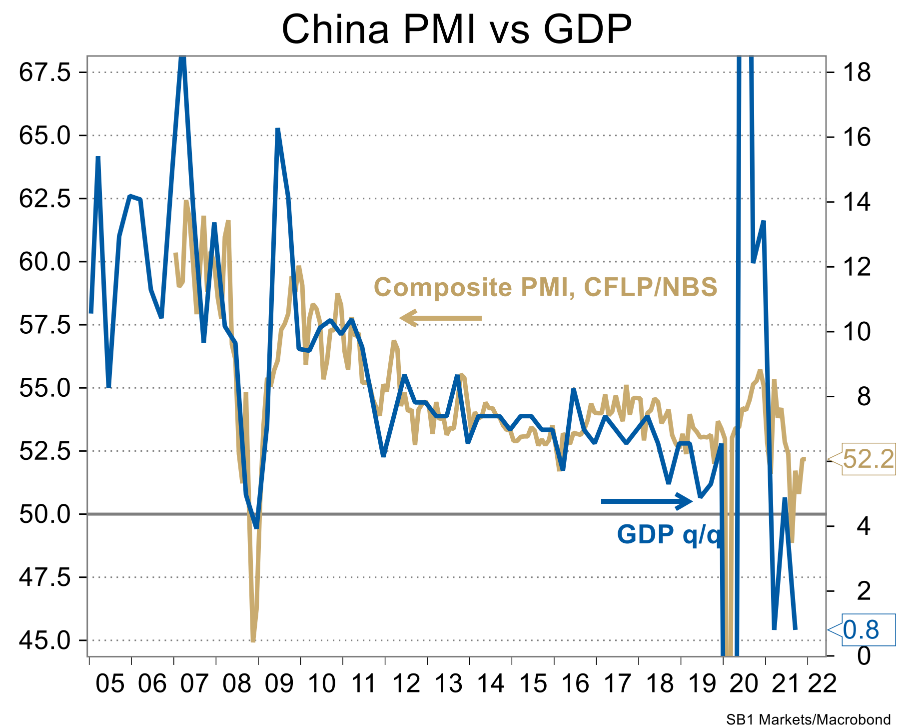




CFLF/NBS December PMIs flat, levels are not that low

The composite PMI was unchanged at 52.2, signals growth just slightly below par



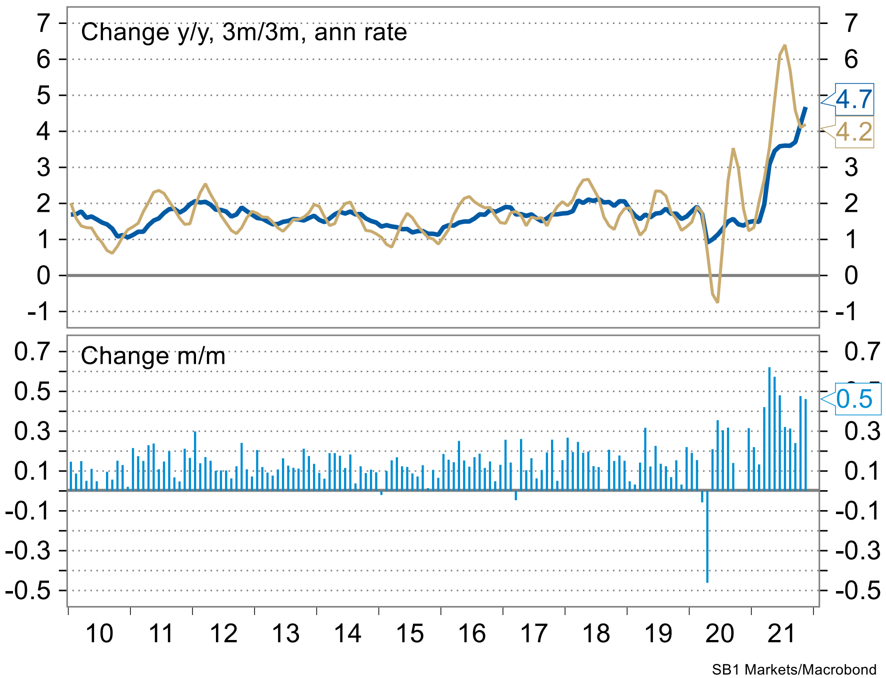


- The service sector PMI at 52.7 is somewhat weaker vs. the average over the previous years compared to the manufacturing index at 50.3

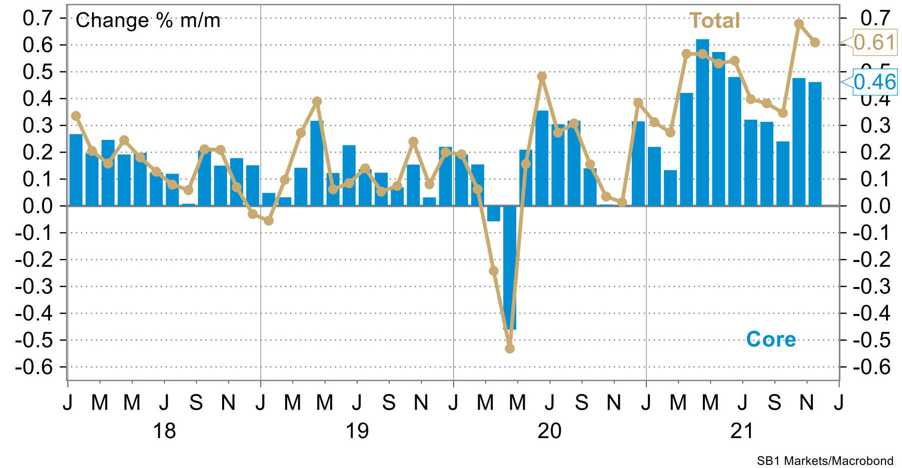
The PCE consumption deflator joined the CPI’s large ~~October~~ November hike

Inflation remains high, and its broadening. A substantial part of it is very likely is transitory but not all

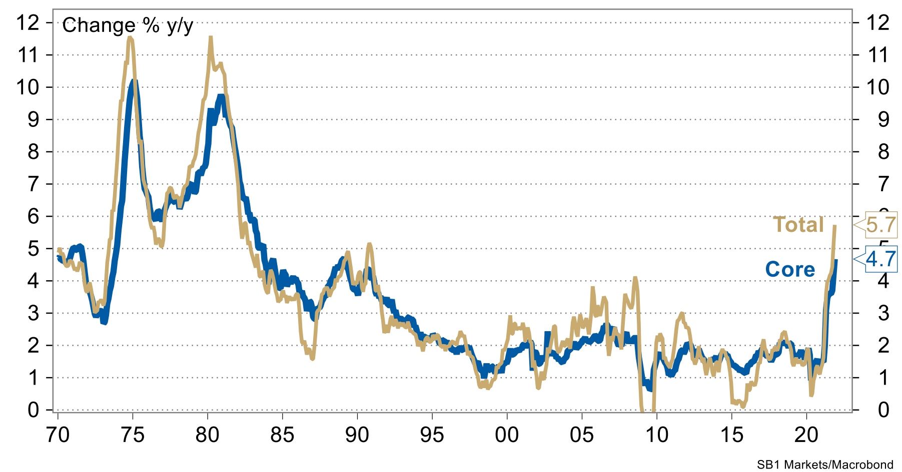
USA Core PCE deflator



USA PCE deflator



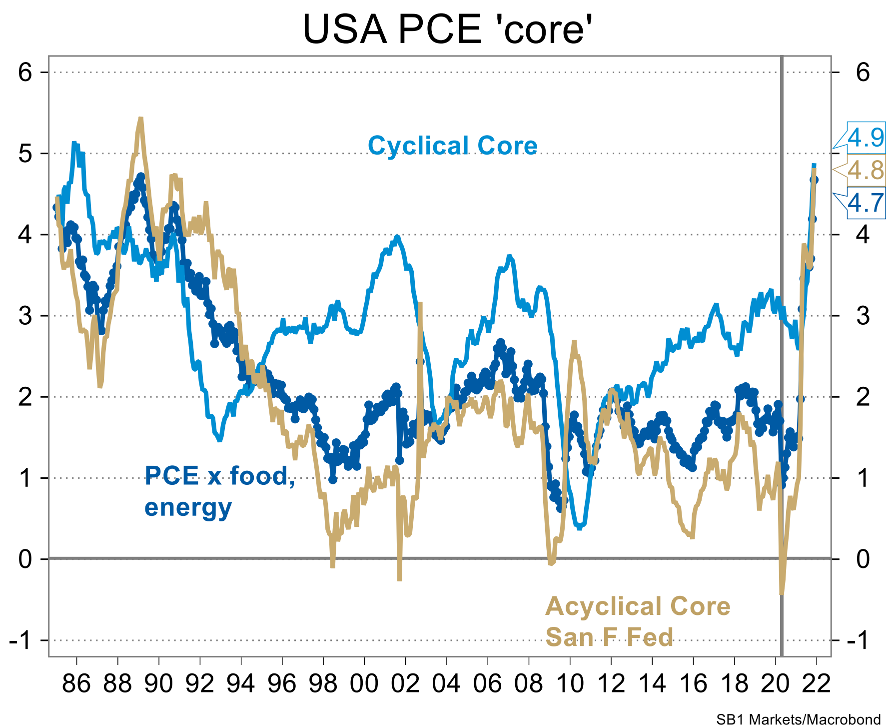
USA PCE deflator

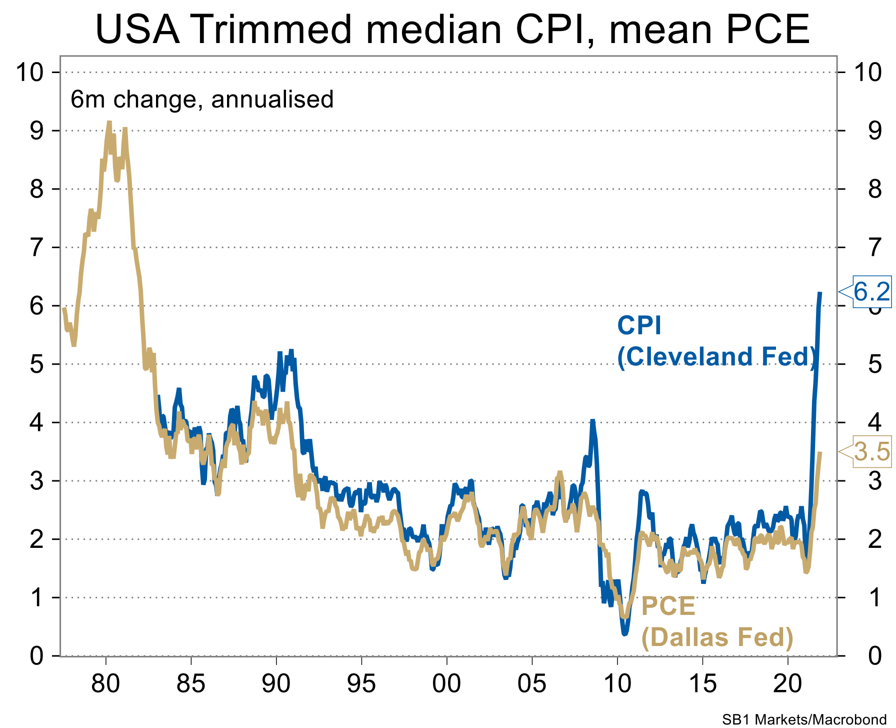


- **The total PCE deflator** rose by 0.6% in Nov, as expected up and the annual rate accelerated 0.7 pp to 5.7%, the highest since 1982
- **The core PCE** rose by 0.5% m/m, 0.1 pp above expectations. Measured y/y, the core gained 0.6 pp is up 4.7% - and has not been higher since 1983
  - » The 3m/3m rate has fallen but is still above 4%
- **The price level** is far above Fed’s 2% long term path target, and the FOMC members expect inflation to remain above 2% - and leaving the price level target even further behind

Inflation has broadened, more prices are climbing faster

All 'underlying' measures are now above the 3% line, not seen in decades

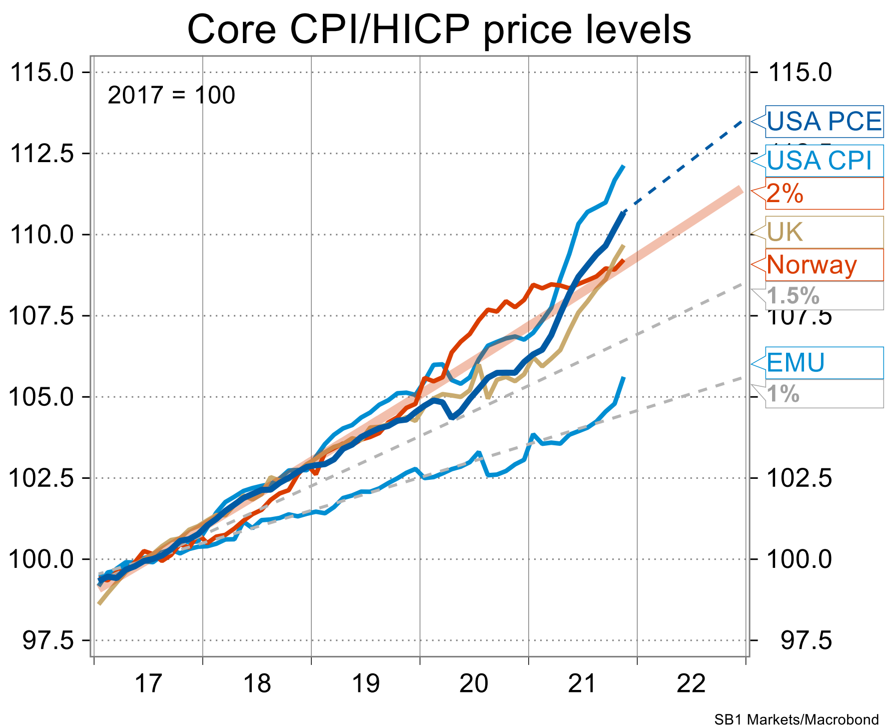


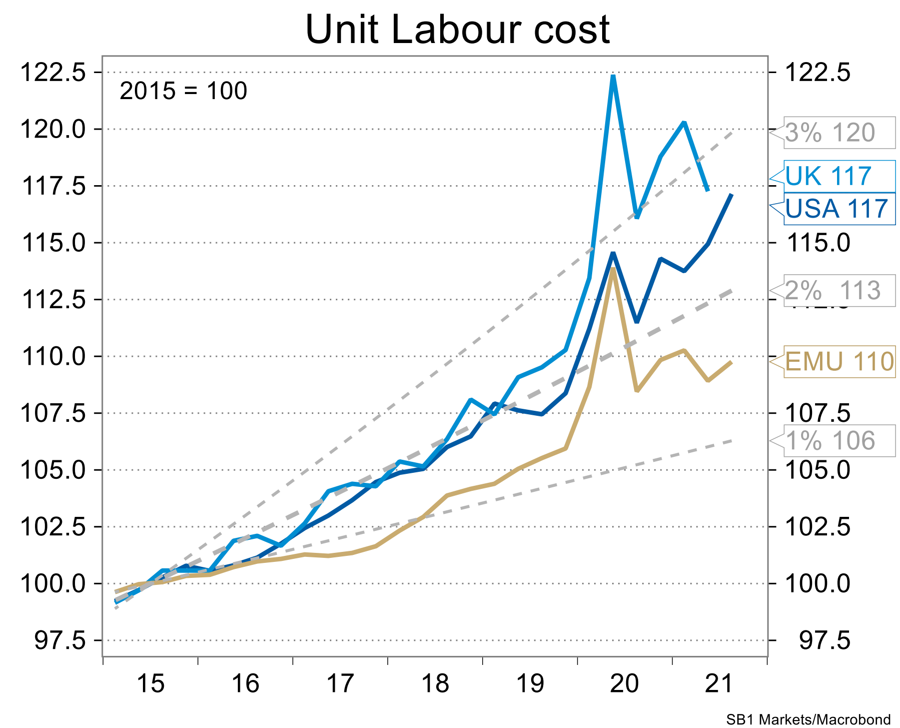


- The **trimmed PCE mean** (Dallas Fed) is up at a 3.5% pave over the past 6 months, up from 2% ahead of the pandemic. This indicator of underlying inflation has not been growing faster since 1991
- The trimmed median CPI is up 6.2% over the 6 months, the highest on record, data back to 1983
- Both core cyclical and acyclical PCE prices are up close to 5% 7/y
- Other measures of underlying inflation are also at the highest levels in 30 years
- And at that time, the Fed funds was not at zero

So far, inflation is mainly a US problem (excluding the common energy factor)

UK is also reporting high core inflation rates but prices slowed last year

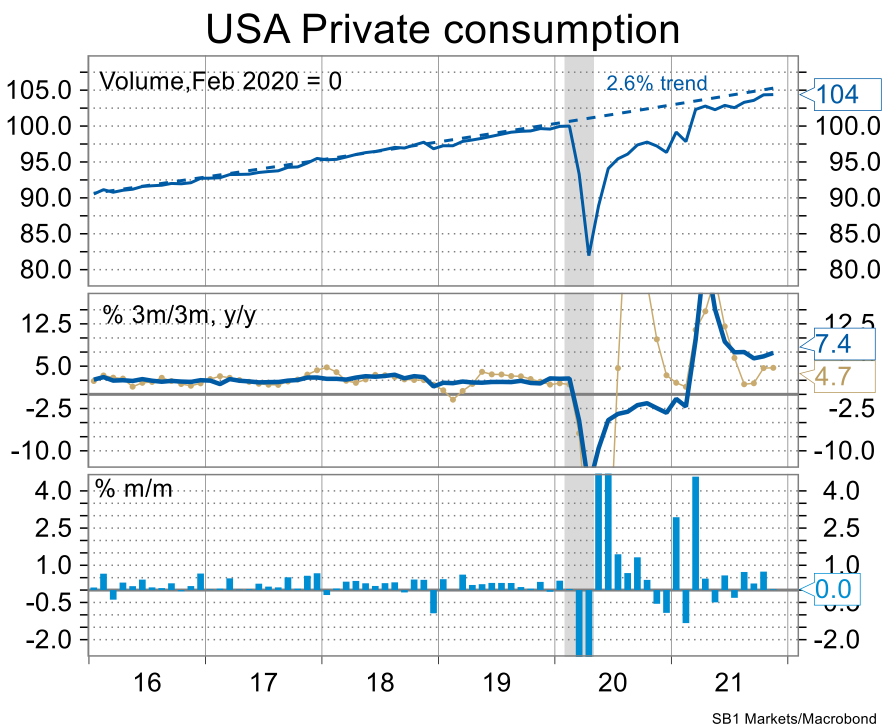


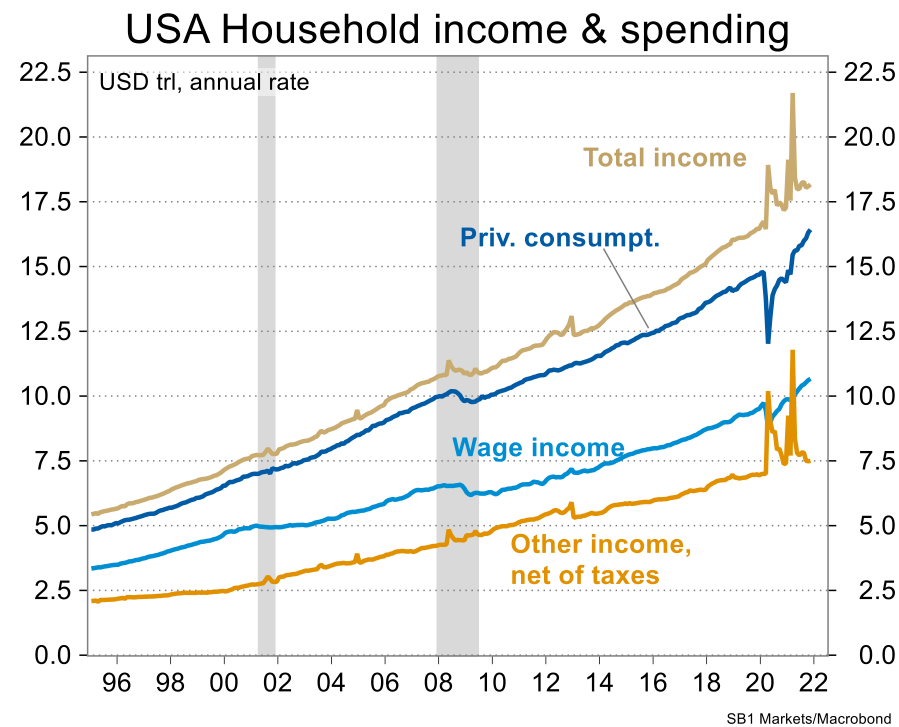


- UK is still close to a longer term 2% trajectory, while the US is well above
- The EMU price level is still hoovering around a 1% path but prices rose sharply in November
- The core Norwegian CPI is among the best heaved, now close to the 2% path, after being far above in 2020, when the NOK fell sharply

Real consumption flattened in November, real income fell as prices soared

The savings rate fell to below the pre-pandemic level, but the 13% (of income) 'Wall of Money' is intact





- **Private consumption** was unch in Nov, expected up 0.2% (spending rose 0.5% in nominal terms, 0.1 pp less than expected – prices rose 0.6%. Consumption in real terms have gained speed since the summer and is now up 4.7% 3m/3m. Consumption of goods has strengthened recent months and is 17% above the Feb-20 level – but will one day turn south! Services have been somewhat slowed by the Delta outbreak, but consumption is heading steadily upwards. Total consumption is up 4.2% vs. the Feb-20 level, and almost at par with 2.6% pre-pandemic growth path
- **Real personal disposable income fell by 0.2%** in Nov. Income before taxes rose by 0.4%, 0.1 pp less than expected. Wage revenues contributed the most at the upside. Underlying wage income growth is still strong – and nominal wage incomes are are still well above the pre-pandemic trend path
- **The savings rate fell** by 0.2 pp to 6.9% (from a 0.2 pp downward revised level in Oct). Savings are now slightly below the pre-pandemic level. However, households have saved an extra amount equalling 13% of one year's disposable income during the pandemic – in average, that is. Some of this 'Wall of Money' may well be spent the coming quarters, if so taking the savings rate further down

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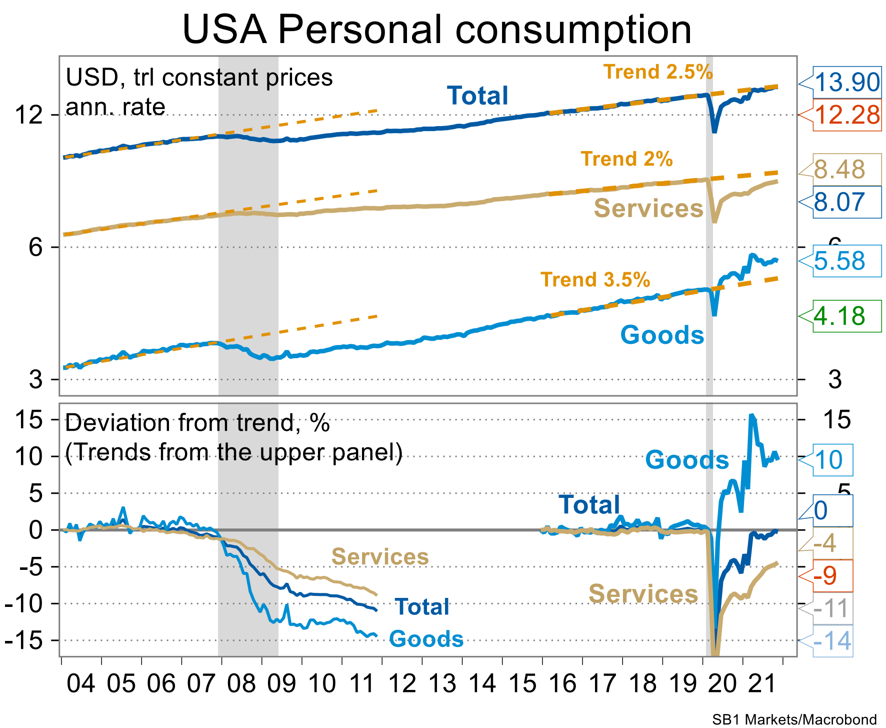
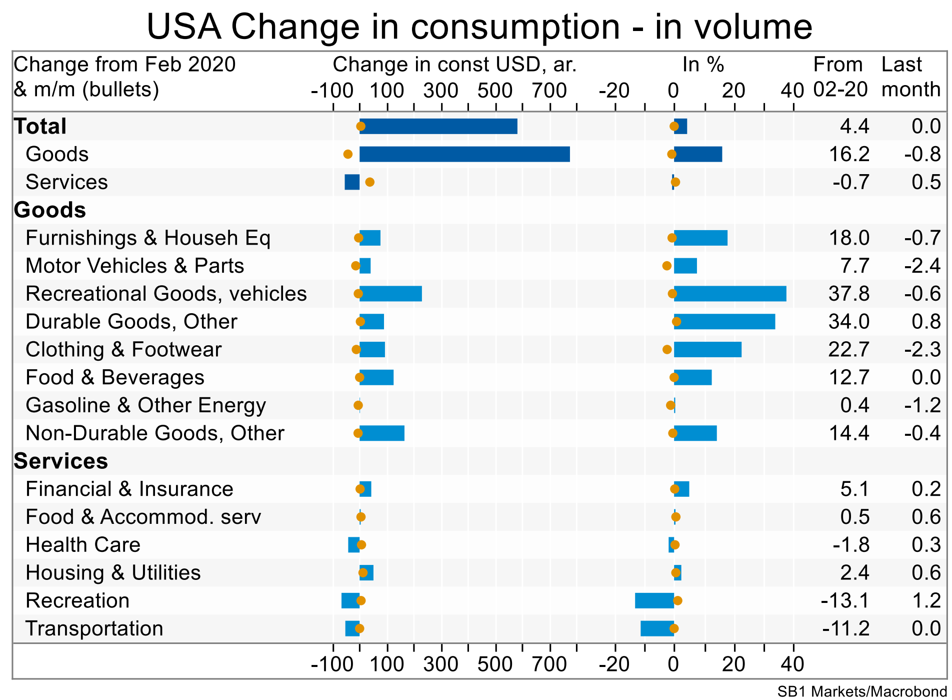
Service consumption still 4% below the pre-Covid trend, goods are 10% above!

Consumption of goods still way above a likely long term trend



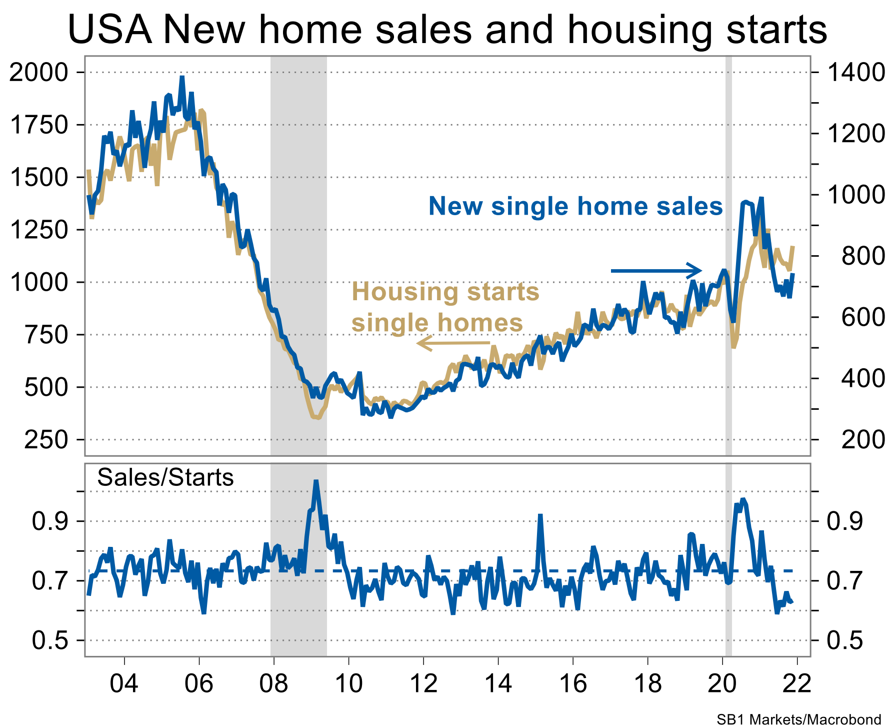


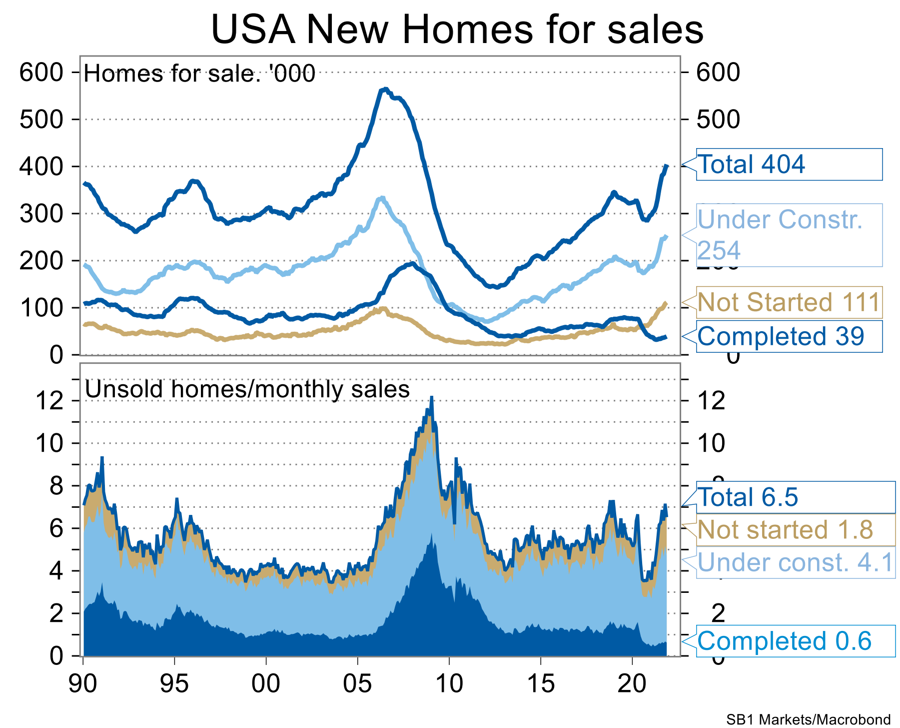
- Services are recovering, but even so down 0.7% vs. the Feb-20 level, and down 4% vs the pre-pandemic trend path
- Spot the difference between the Financial Crisis downturn and the pandemic ‘downturn’

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

New home sales weaker than assumed/expected in Oct/Nov – still not weak

The inventory is growing rapidly, as the supply side has responded

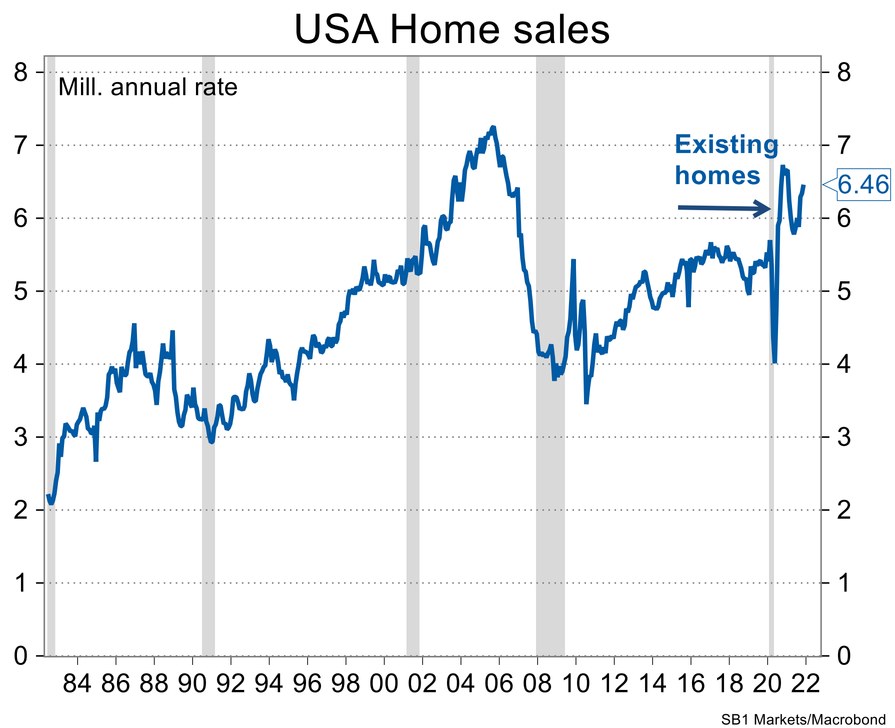


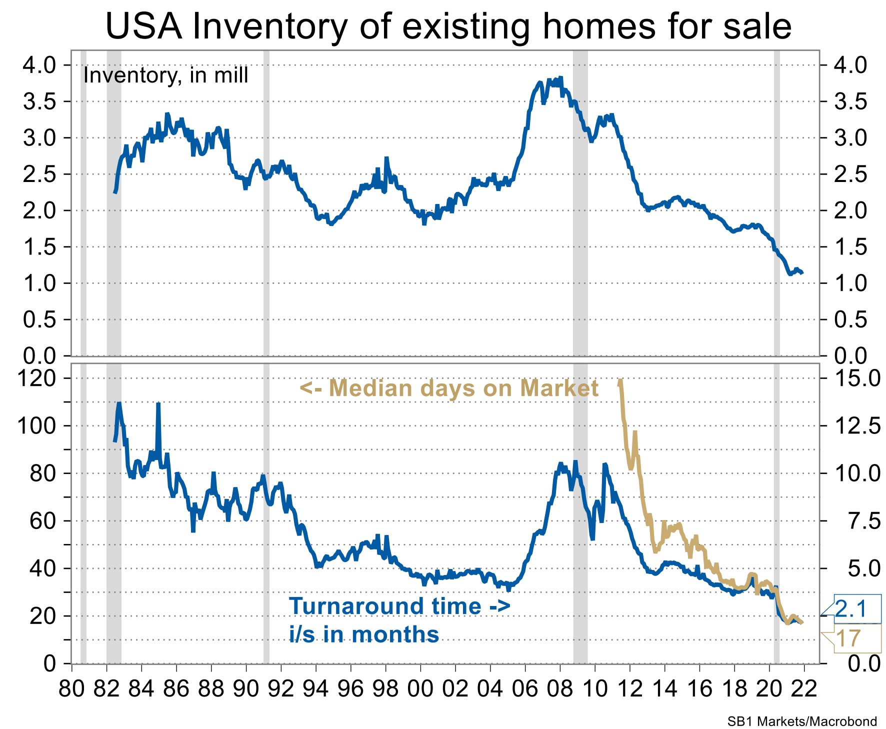


- **New single home sales rose to 744'** (annualised rate) in November – from a sharply downward revised 660' in Oct (first reported to 745') – and sales were expected up to 770'. These monthly figures are often revised substantially and the last observation is close to useless – but anyway weaker than expected
- **The big picture:** Following a 30% decline from January to June, sales were stable through H2 last year, at approx. the same level as before the pandemic. Sales are somewhat lower than normal vs. new single home starts (in avg. sales are 70%+ below sarts, as may homes are built by the homeowner)
- **The inventory of unsold homes** has increased by 43% since Oct 2020, and the level is the highest since Sept 2008. The inventory equals 6.5 months of sales, a bit higher than 'normal' – and up from the record low level at 3.5 months in Sept 2020
  - » The increase in the inventory is not due to large increase in completed house for sale (the most 'effective' supply), and the inventory just equals 19 days of sale (half of a normal level). However, the no. of projects not yet started (but for sale) has doubled, to the highest number ever, and the no. of new homes for sale but still under construction has climbed rapidly, to the highest level since 2007. So, there are lot of homes in the pipeline, and clearly a confirmation that the supply side is responding to the steep increase in demand. At one stage, combined with higher mortgage rates, that could change the housing market outlook

Existing home sales further up in November, the inventory is

Prices rose faster again but are up ‘just’ 13% y/y

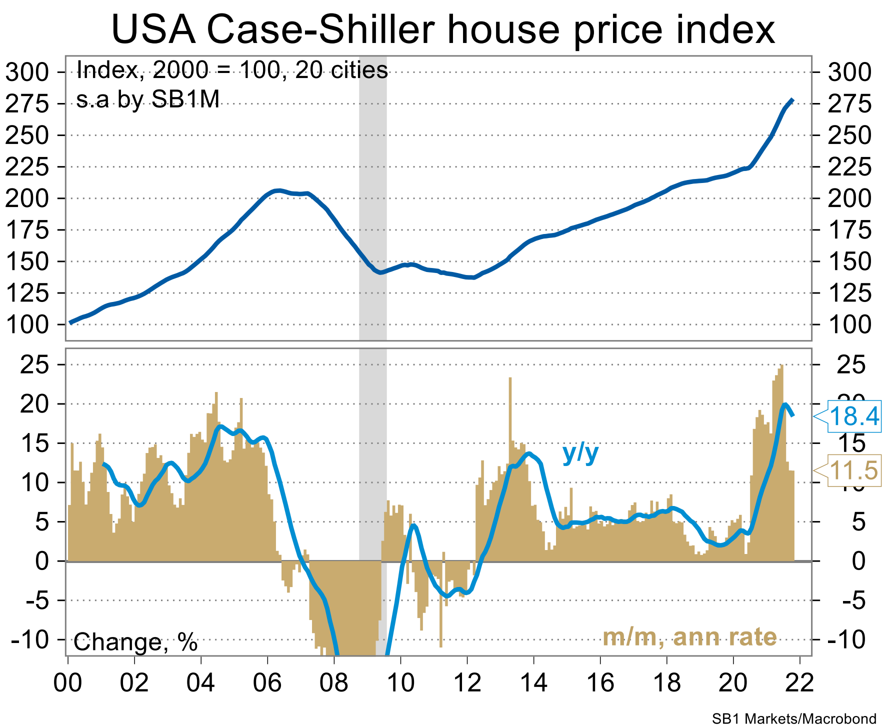


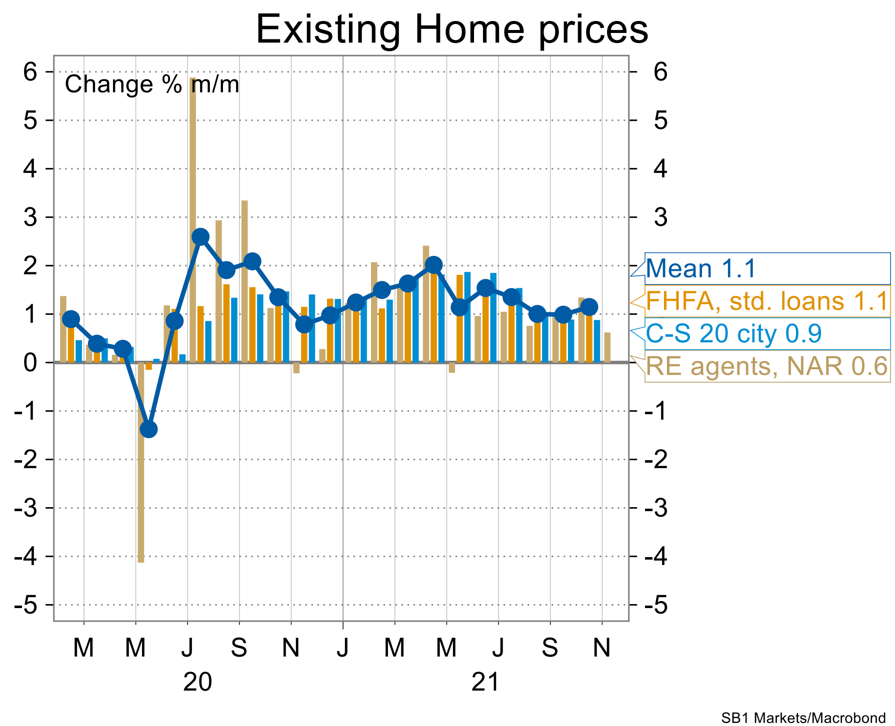


- Sales of **existing homes** rose marginally to 6.46 mill (ann. rate) in November, expected up to 6.53 mill’, from 6.34’’ . Sales are down 4% from the local peak last autumn, but are 20% above the pre-pandemic level – and not that far below the ATH level at 7.26 mill in Sept 2005
- Sales are no doubt kept down due to a very low inventory of unsold homes. However, there are reports on buyers becoming more cautious following the steep rise in prices, and households judge the timing is very bad for home buying
- **The inventory of unsold homes** fell marginally in Nov, and has been close to stable since early 2021, at the lowest level ever. The inventory equals 2.1 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months. The median time on the market for those homes sold is just 17 days, down from 30 days before the pandemic (and 120 days in 2011!)
- **Prices** rose 0.6% m/m in Nov, down from 1.3% in Oct. Still, the annual rate accelerated 1 pp to 13.9%. At the peak, prices were up 23% y/y

House prices inflation is slowing but is still strong

Prices up 'just' 0.9% m/m (11.5% annualised), the annual rate has turned south but remains high

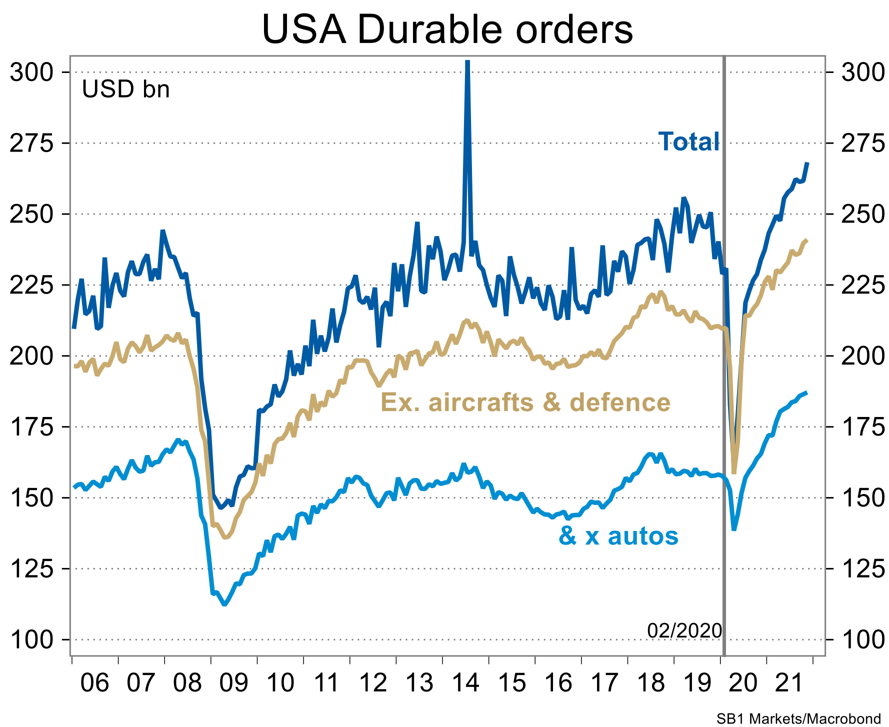


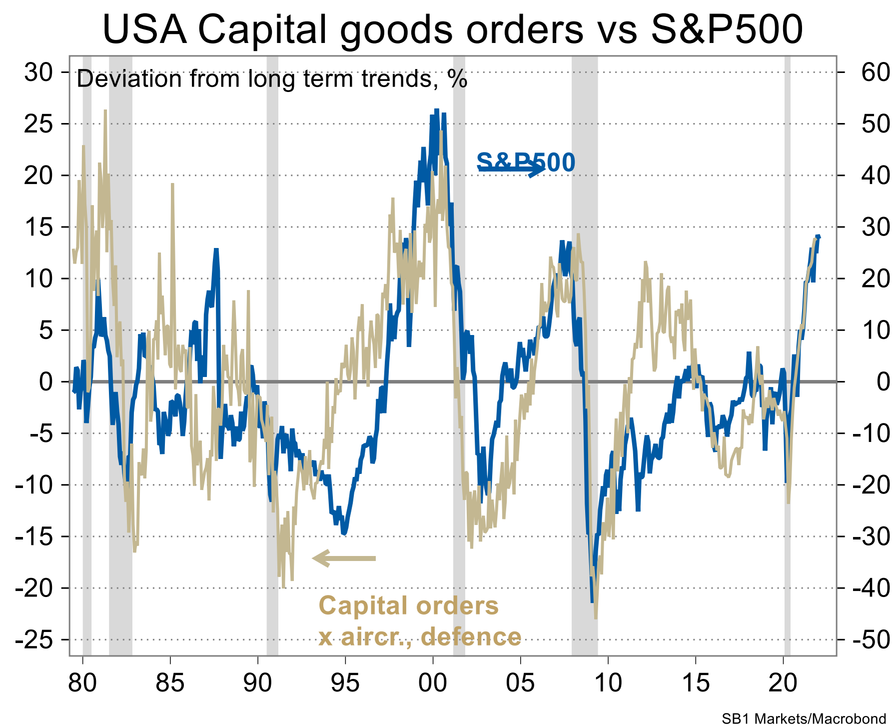


- **S&P's Case/Shiller's 20 cities** price index rose 0.9% m/m in October (Sept – Nov avg), equalling a 11.5% annualised pace, the slowest growth rate since July 2020. The annual growth rate was 18.4%, down from 19.0%, expected 18.5%. In July prices were up 20.0%, the highest growth rate since just after WWII. The **national C-S index** is up 19.1% y/y
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene", has a countrywide coverage), rose 1.1% in October, and are up 17.4% y/y. The peak annual rate before the pandemic surge was 11%, ahead of the housing crisis 15 years ago (chart next page)
- **Relators** reported a 0.6% price lift m/m in November, and the annual rate is 13.9%

Strong order inflow in November even if investment orders flattened

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

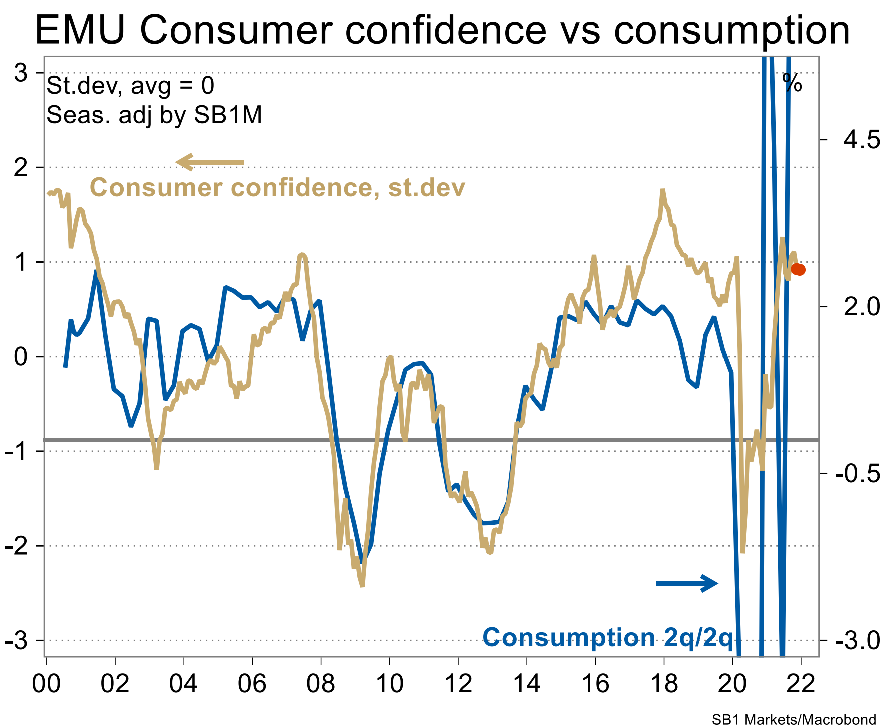


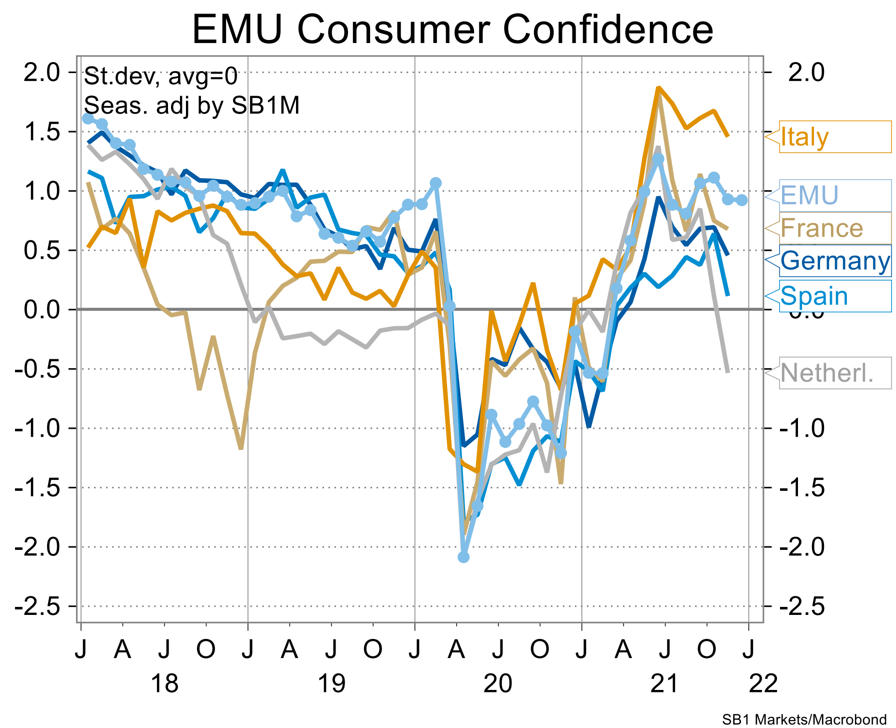


- **Total durable** orders climbed 2.5% in November, expected up 2.0%. Orders ex. aircraft & defence rose 0.5%. Underlying growth is still very strong
- **Core <u>investment</u> goods orders** fell 0.1%, expected up 0.7% - but the trend is still strong
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

The viruses have not killed consumer confidence

The level is 0.9 st.dev above average – and higher than before the pandemic

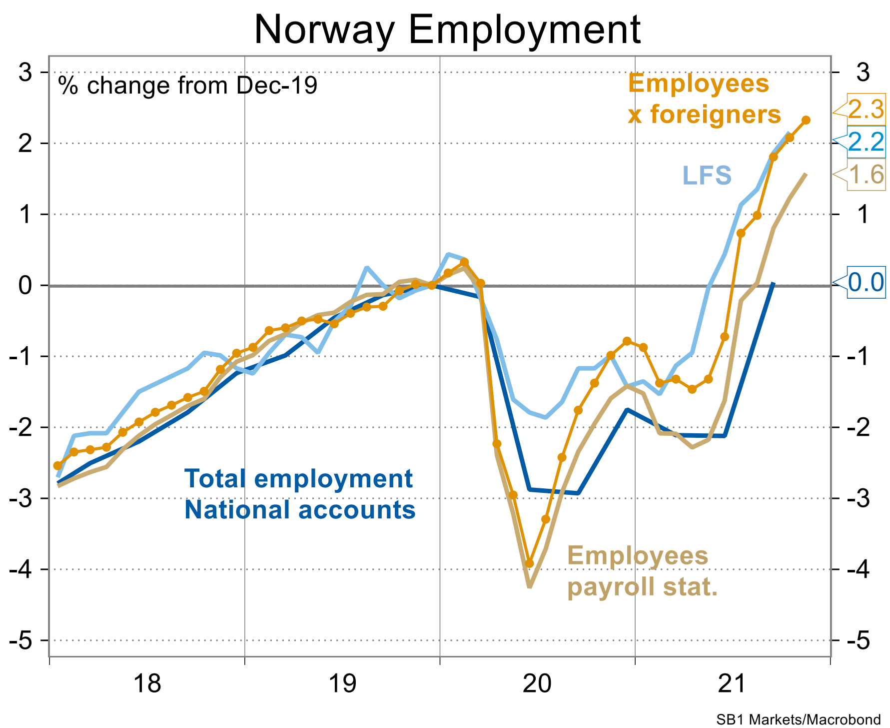




- **The consumer confidence index** fell marginally in December, according to the official preliminary estimate
  - » The index fell to -8.3 from -6.9, expected down to -8.1. However, the seasonally adjusted the index was close to unchanged at -6.1 – equalling -0.9 st.dev above average
- The index signals decent growth in household demand
- In November, confidence fell all over Europe but just Netherlands reported sentiment below par

Reg. employment up 0.3% m/m in November, 1.6% above the pre-pandemic level

Employment up 2.3% among persons living in Norway. The LFS confirms strong employment growth

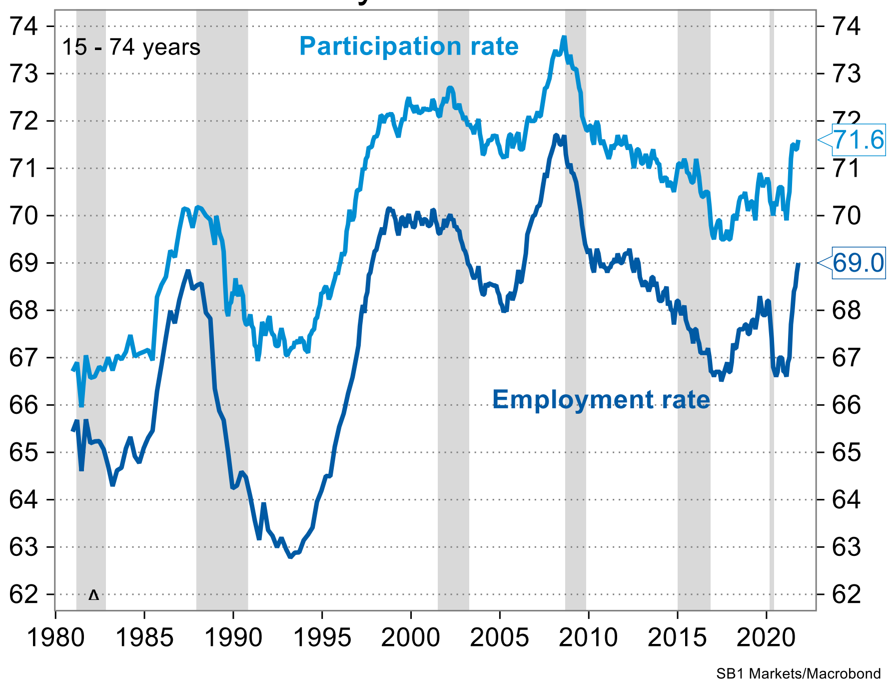


- The increase in the **register based no. of employees** in November suggests at continued growth in Mainland GDP above trend
  - » Payrolls grew by 0.3% m/m and is now 1.6% above the level in Dec-19
  - » We estimate the no. of employees among permanent residents (Norwegian and foreign born) to be 2.3% above the pre-pandemic level (based on our Q4 estimate for foreign workers on short-term stay)
  - » Growth has slowed the past two months but remains well above growth in working age population
  - » The increase in employment is broad based, check next page
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported a 8' (0.3%) growth in employment in October (avg Sep-Nov from avg Aug-Oct), and by 28' over the past 3 months, equalling 1.0% or a 4% annualised pace
  - » LFS employment is up 2.2% since before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate has 'collapsed' (more to come at the next pages)
- **National Accounts** reported a 2.1% growth in total employment in Q3 – up to the same level as in Q4-19. These NA data includes foreigners on short-term stay

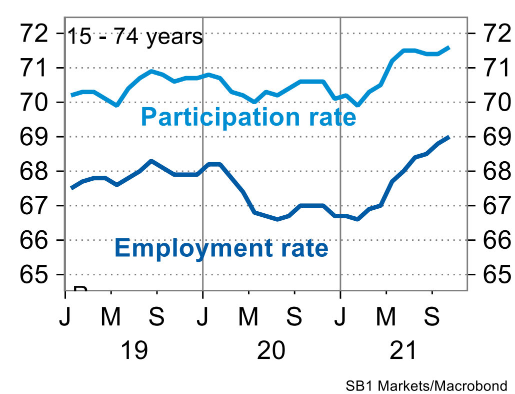
An impressive lift in both particiaption & employment rates!

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

Norway Labour market

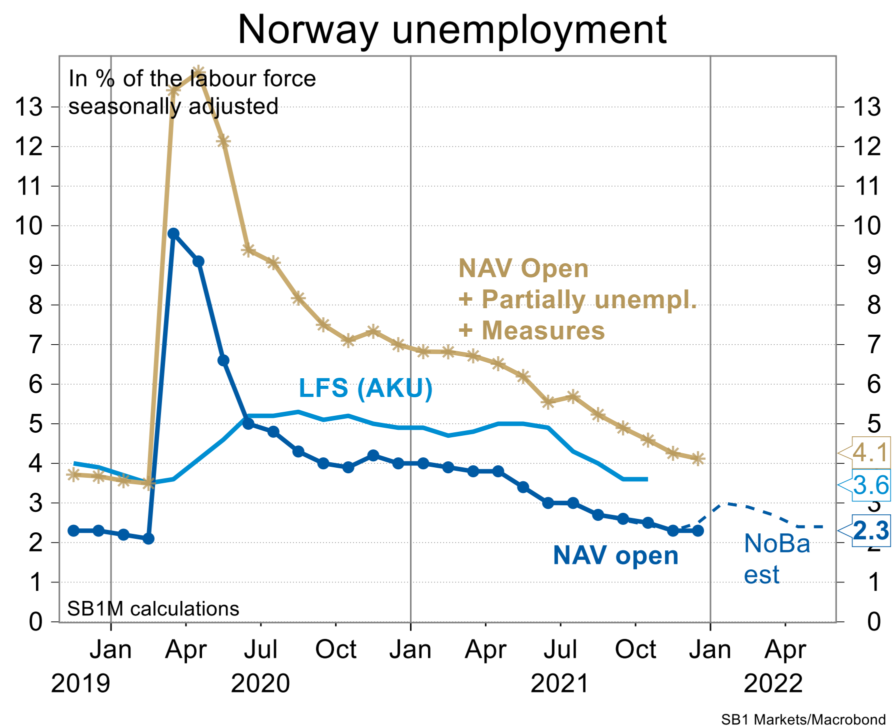


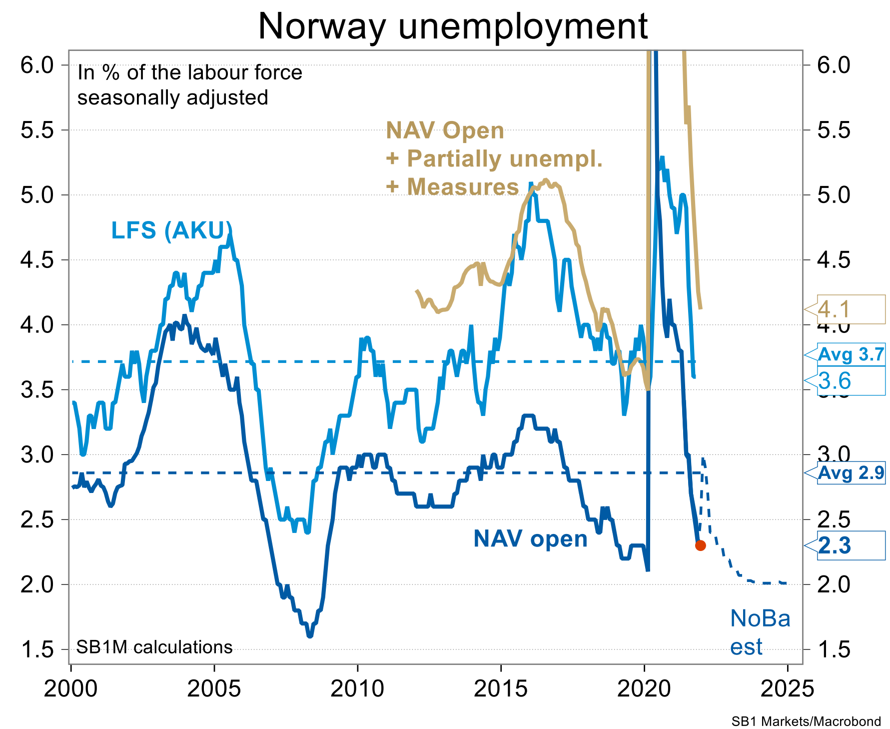
- **The employment rate** is climbing rapidly
  - In October, the rate rose by 0.2 pp to 69.0% (of the working age 15 - 74 y population). Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017, after the 'oil crisis')
  - The employment rate is the highest since 2012
- **The participation rate** is also well above the pre-pandemic level, and following a flattening since June, it gained 0.2 pp m/m to 71.6% in October, up from 70.8% before the pandemic. The participation rate is also at the highest level since 2012
- These monthly data are volatile but the flattening of the participation rate since the early summer even if demand for labour is still increasing may indicate that the easy part of 're-engagement' is behind us



The LFS unemploym. rate stable at 3.6% following the 1.4 pp decline since May

NAV and LFS (AKU) are now more or less in line, the labour market is tightening rapidly

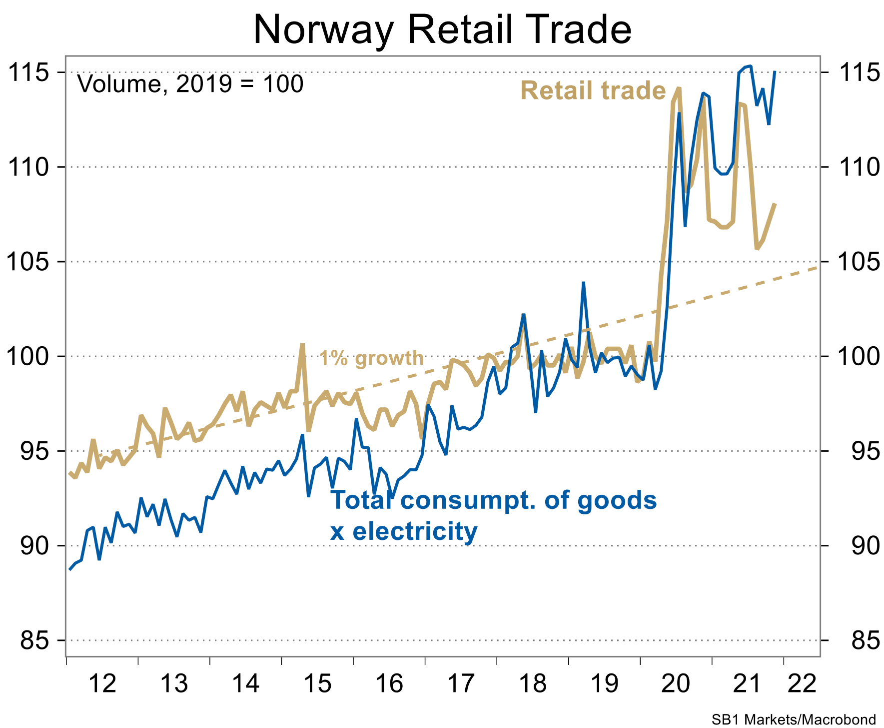


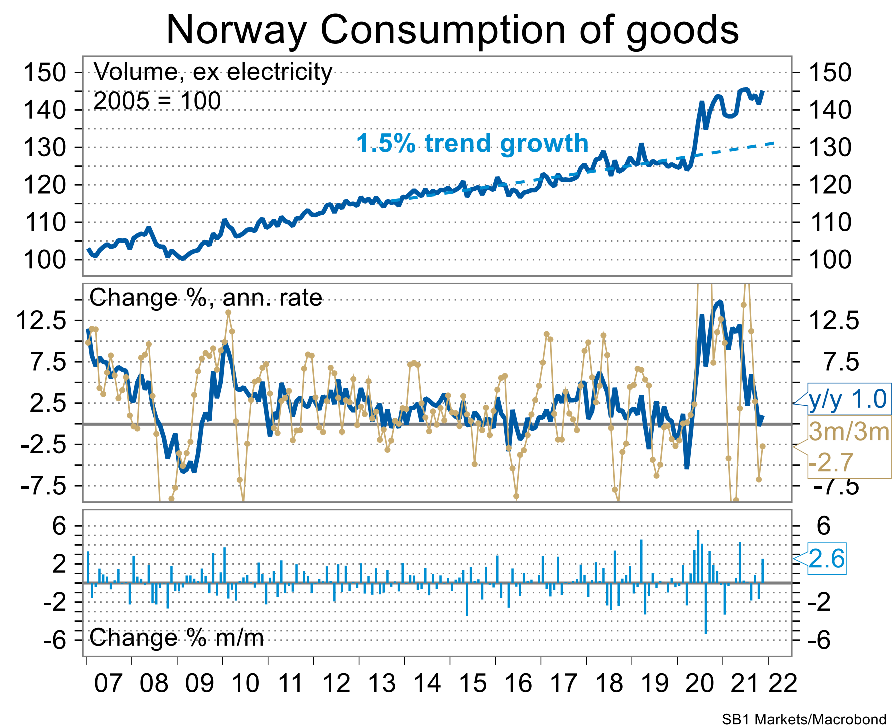


- **LFS unemployment** rose by 1’ m/m in November, but is down 19’ past 3 months. The rate was unchanged at 3.6%, we expected a decline to 3.5%. The rate is just 0.1 pp higher than in Feb-20 (but lower than in Jan-20 & Dec-19)
- The decline in the LFS unemployment rate during the 6 months since May – when it still was at 5.0% – is the steepest 6 m decline, ever (by a wide margin)
- **Norges Bank** expects an increase in the NAV unemployment rate to 3% in February from the current 2.3%, due to the virus restrictions implemented before Christmas

Retail sales further up in November, total consumption of goods close to ATH

Sales rose by 0.9%, as in Oct, better than expected – but the trend has been down since last summer

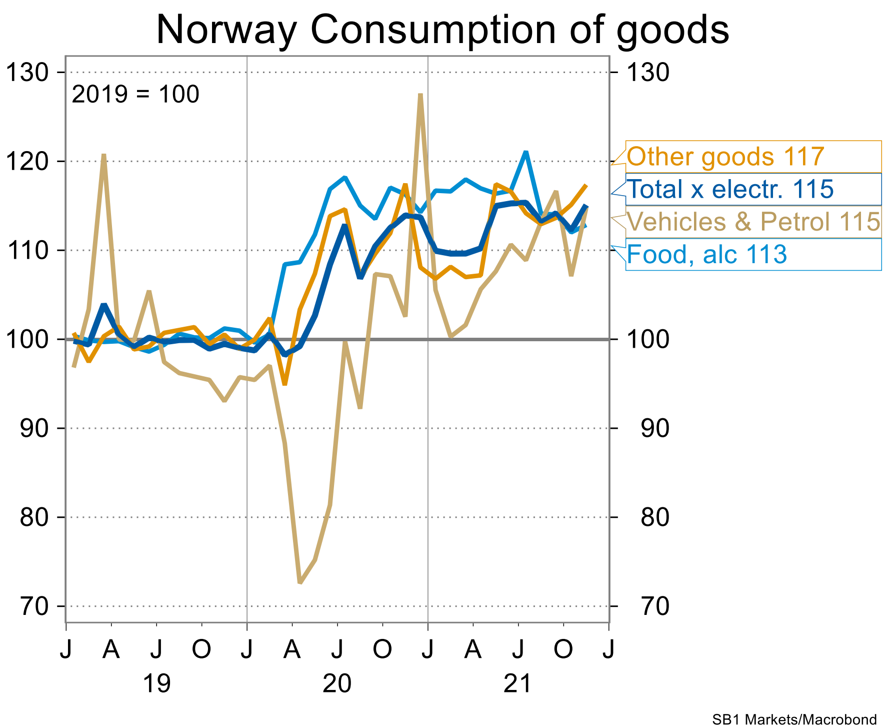


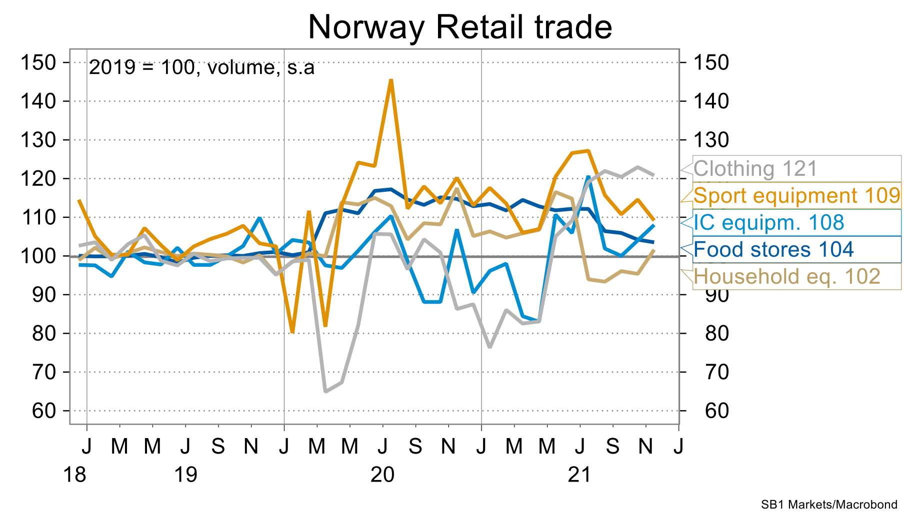


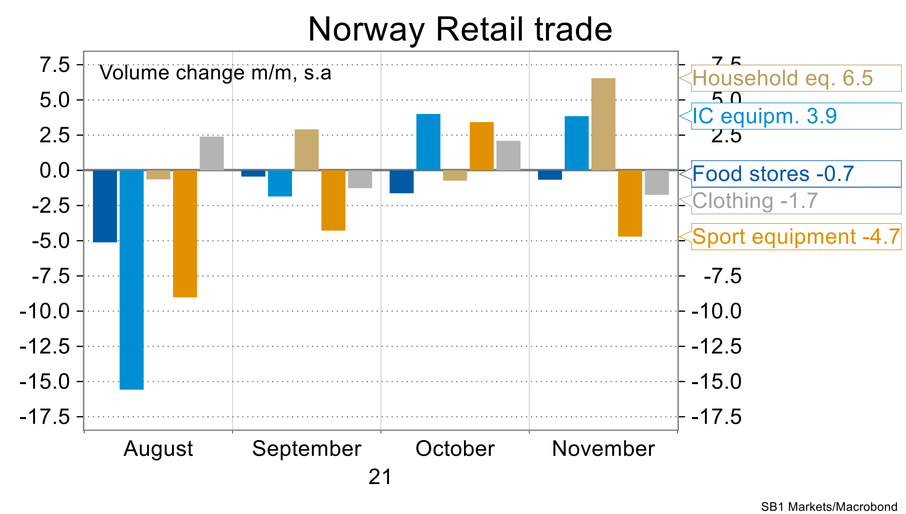
- **We expected** a 1.5 decline in retail sales, consensus was at -0.8%. Sale volumes are down from the peak, but are still up 8% vs. the 2019 level. However, measured towards a even a very modest 1% trend line from 2013, sales are just 4% above
- **Total household consumption of goods** (x electricity) shot up 2.6%, almost up to all time high, 15% above the pre pandemic level
  - » Auto sales rose sharply but 'other sales' (than auto & petrol, electricity, and food) are at close to all time high too, up 17% from the 2019 level
  - » The main reason for the difference between retail sales and consumption of goods is strong auto sales and the decline in sales of building materials, which is included in retail sales but not in consumption of goods

Food sales have been trending down as borders and restaurants opened up

Clothing sales up 21% vs. 2019. Housing & ITC equipment contributed most on the upside in Nov.



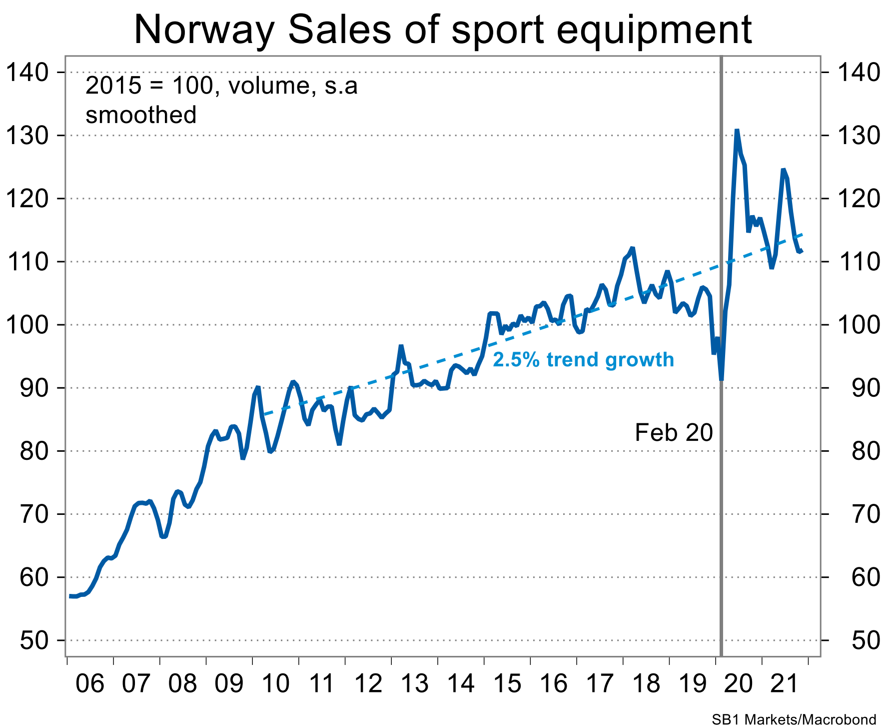




- Food store/grocery store sales have fallen some 5% since last summer
- Consumption of other goods (than food, electricity, vehicles & petrol) are up 17% vs. the pre-pandemic level – which is far above any reasonable long term trend

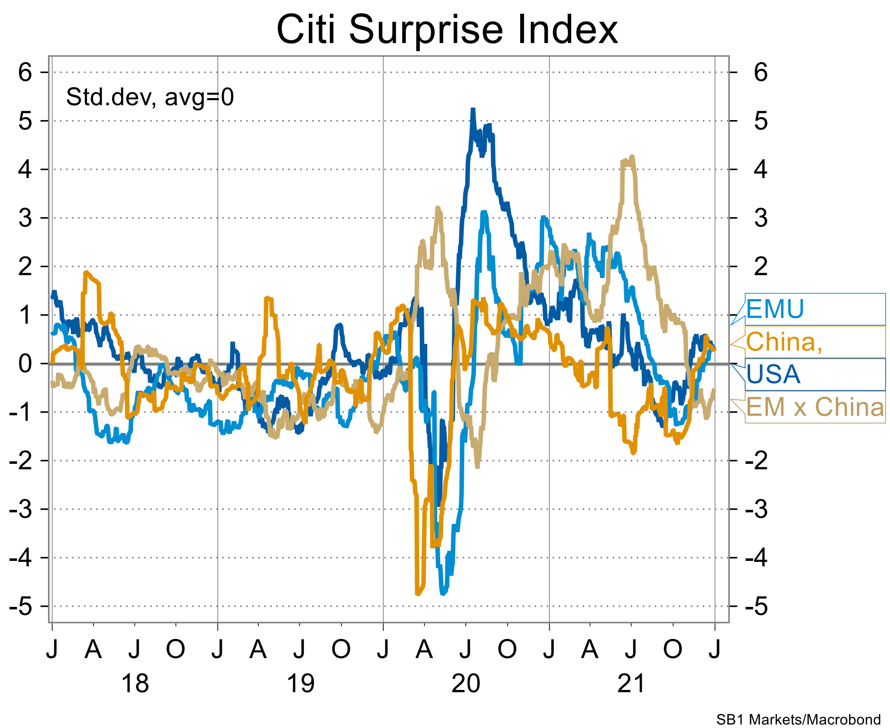
Where is the long term trend?

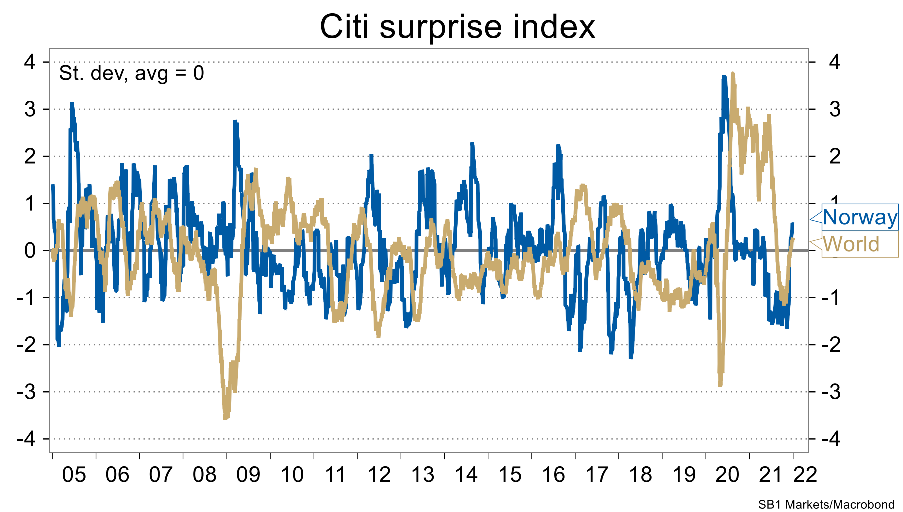
Sport equipment sales are up 9% vs the 2019 level but still in line with a 10 y reasonable trend?



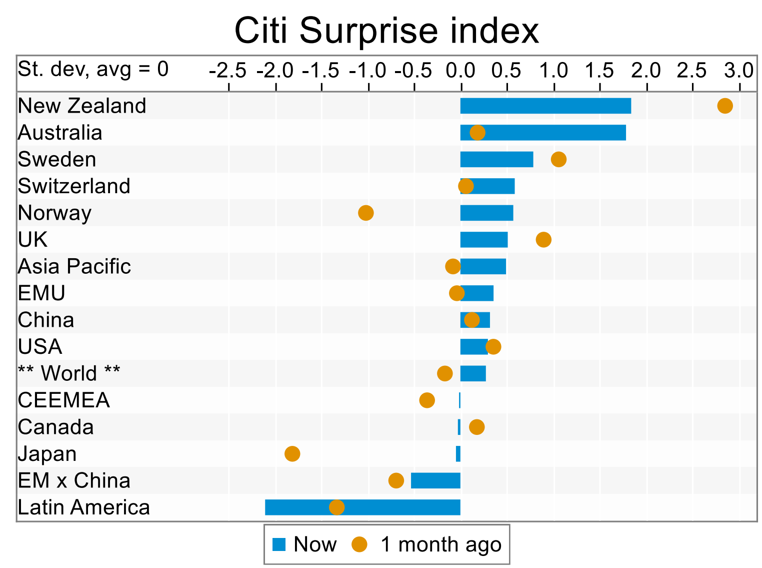
The global surprise index further up and slightly above par

Both EMU, US and China above. EM x China still below but less last two weeks





- **Norway** has been surprising sharply on the downside, according to Citi. But in early December 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

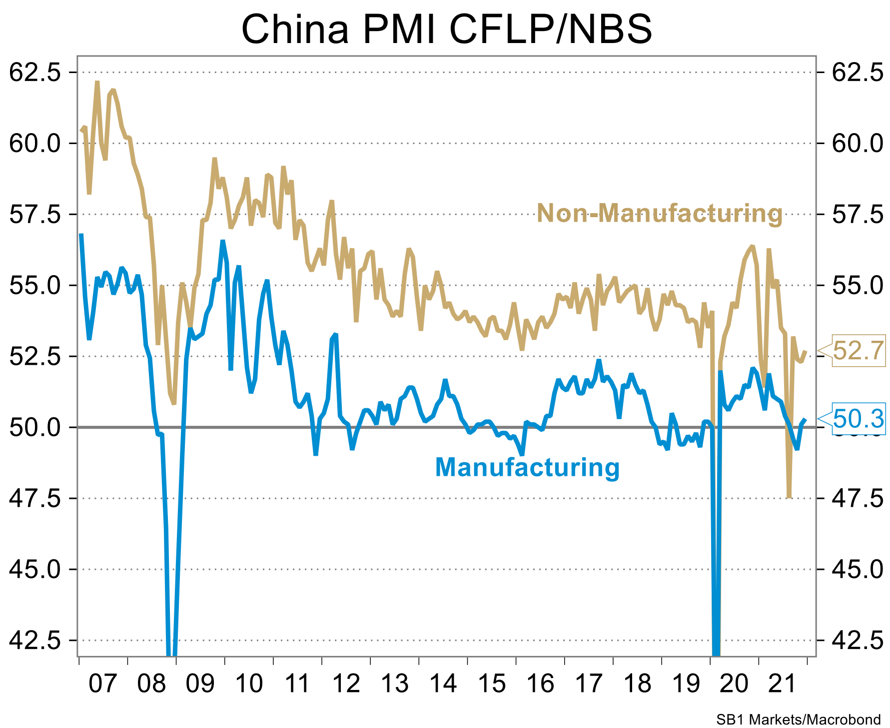
The Norwegian economy

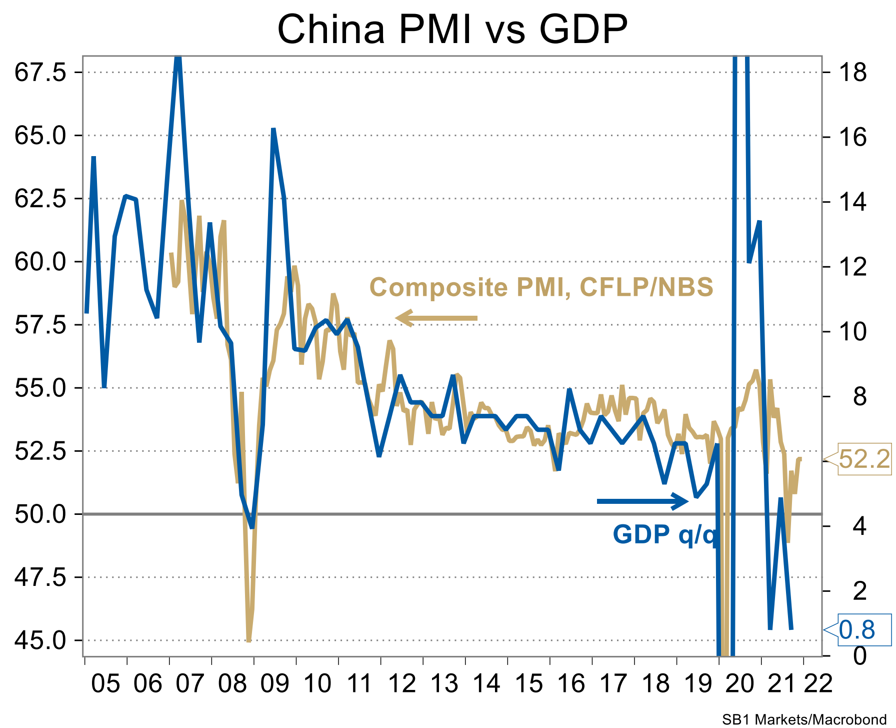
Market charts & comments

SpareBank 1 MARKETS

CFLF/NBS December PMIs flat, levels are not that low

The composite PMI was unchanged at 52.2, signals growth just slightly below par

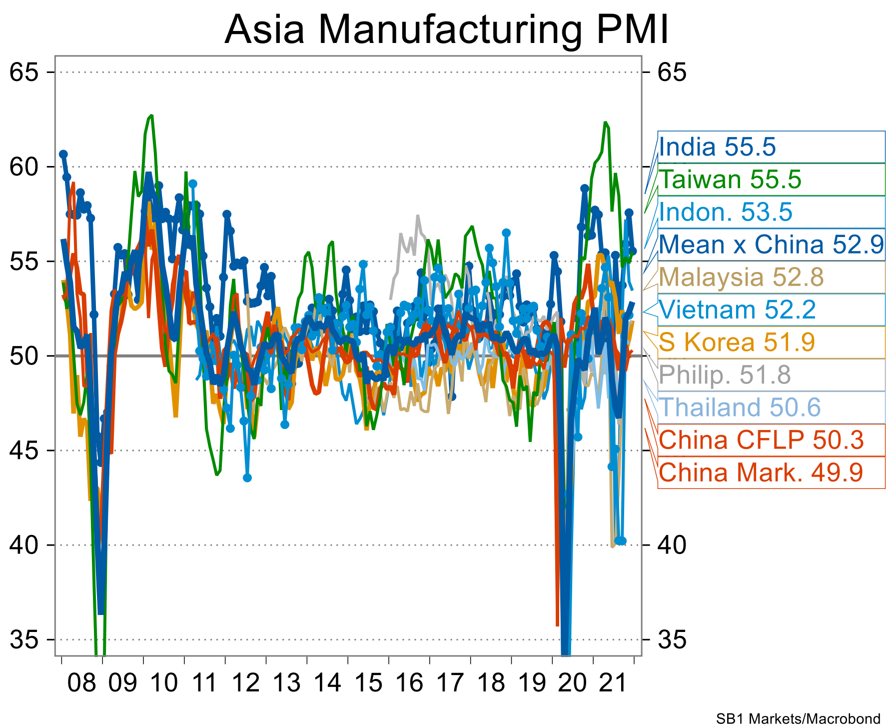


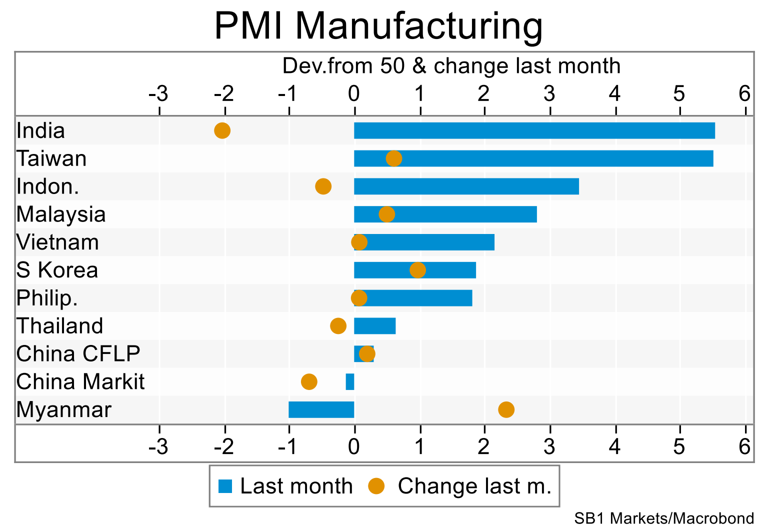


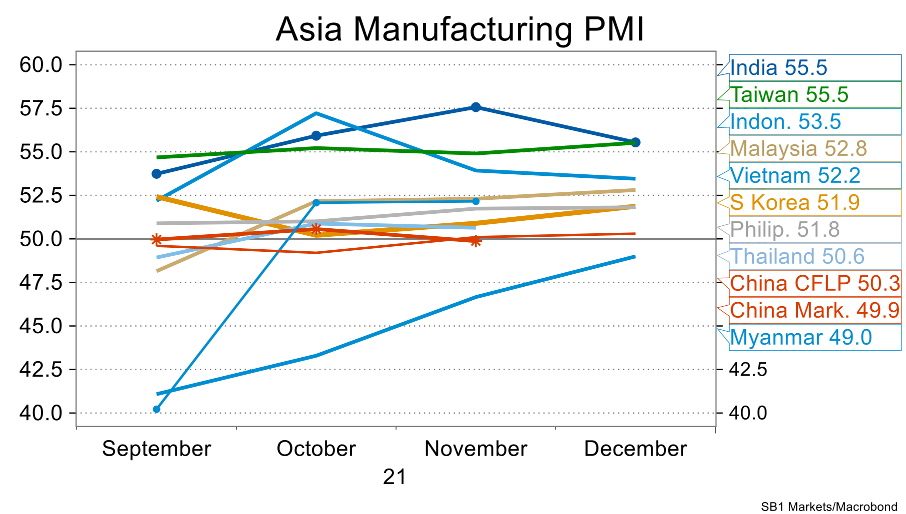
- The service sector PMI at 52.7 is somewhat weaker vs. the average over the previous years compared to the manufacturing index at 50.3

Rest of Asia: Manufacturing PMIs mixed

Signals that activity expanded in December but not faster than in November



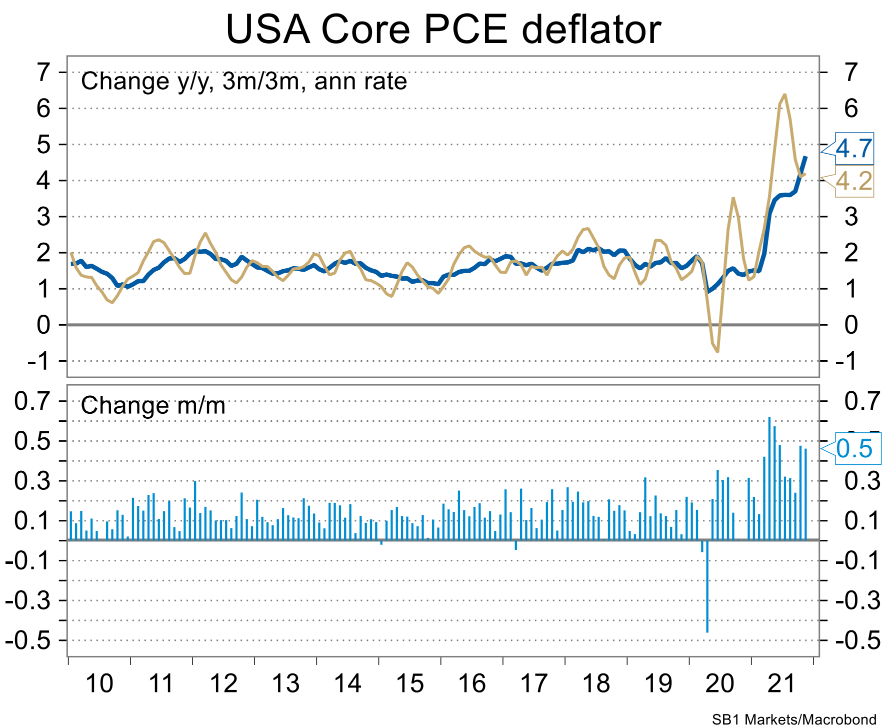




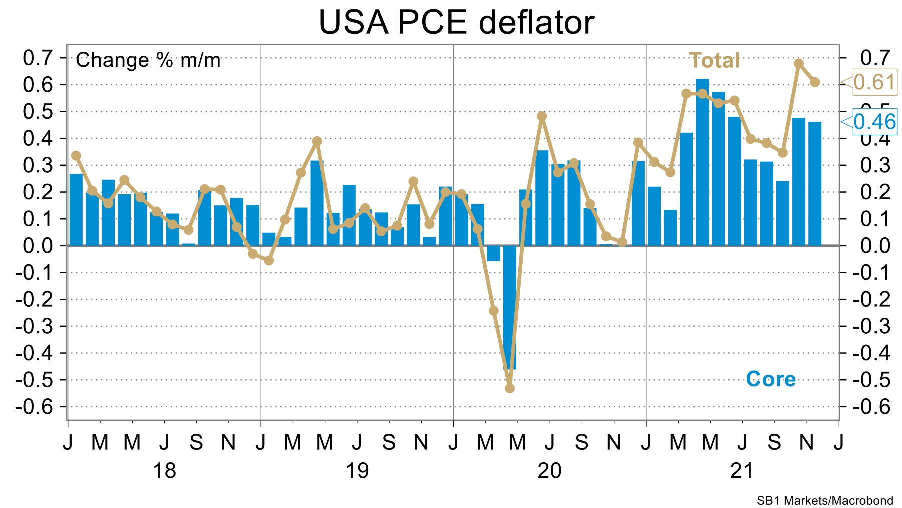
- India & Taiwan in the lead
- The average x China is among the best since 2011

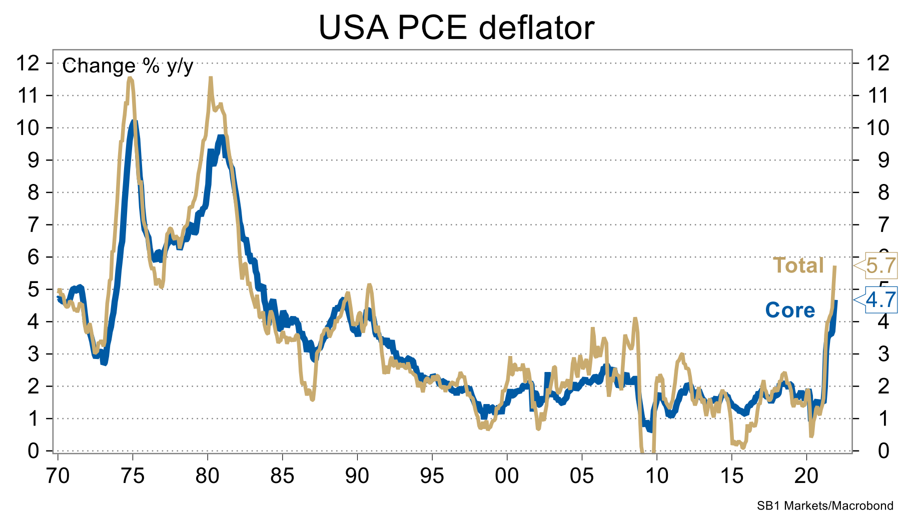
The PCE consumption deflator joined the CPI's large ~~October~~ November hike

Inflation remains high, and its broadening. A substantial part of it is very likely is transitory but not all



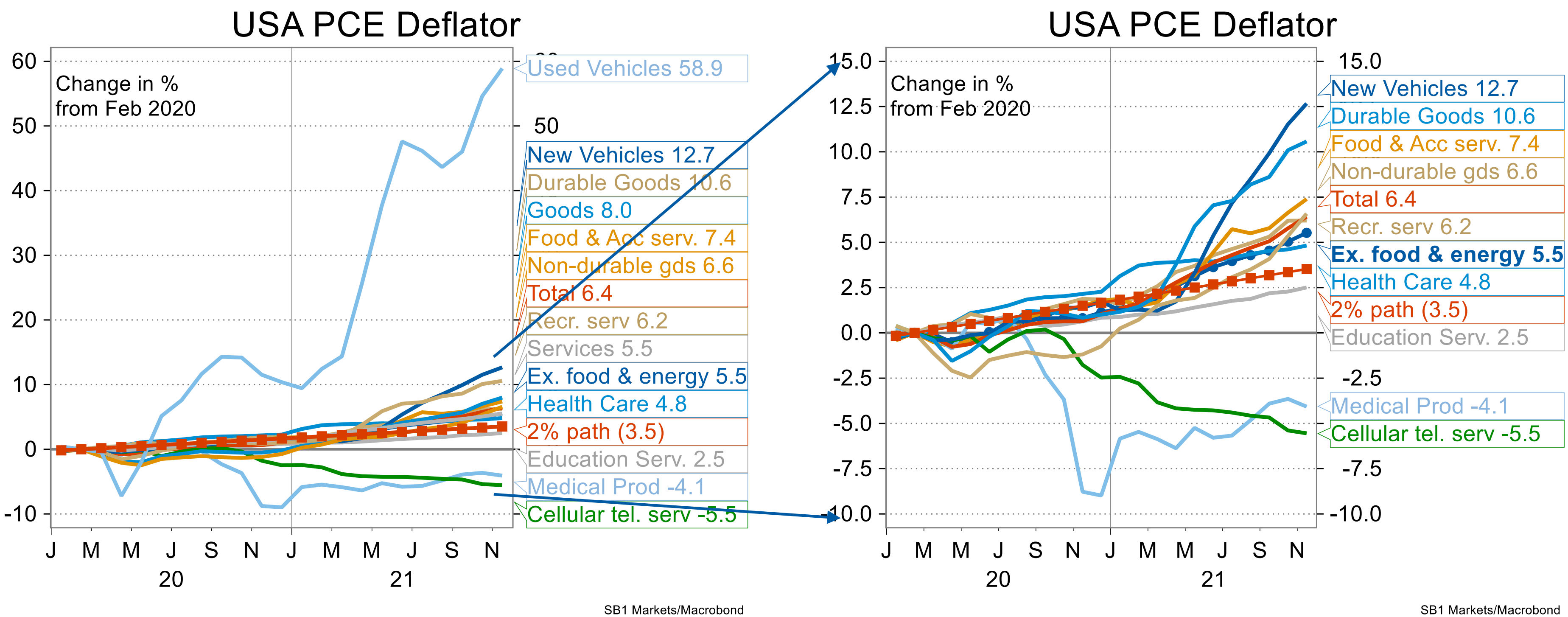
- **The total PCE deflator** rose by 0.6% in Nov, as expected up and the annual rate accelerated 0.7 pp to 5.7%, the highest since 1982
- **The core PCE** rose by 0.5% m/m, 0.1 pp above expectations. Measured y/y, the core gained 0.6 pp is up 4.7% - and has not been higher since 1983
  - » The 3m/3m rate has fallen but is still above 4%
- **The price level** is far above Fed's 2% long term path target, and the FOMC members expect inflation to remain above 2% - and leaving the price level target even further behind





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

We are still waiting for use car prices to come back to earth – thy are up more than 50%!!

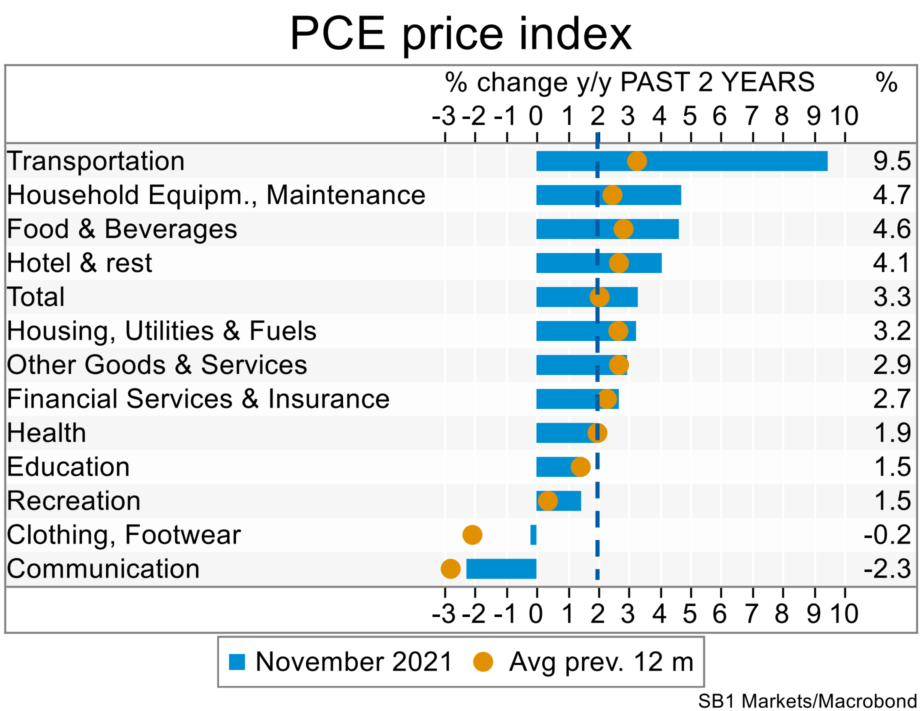


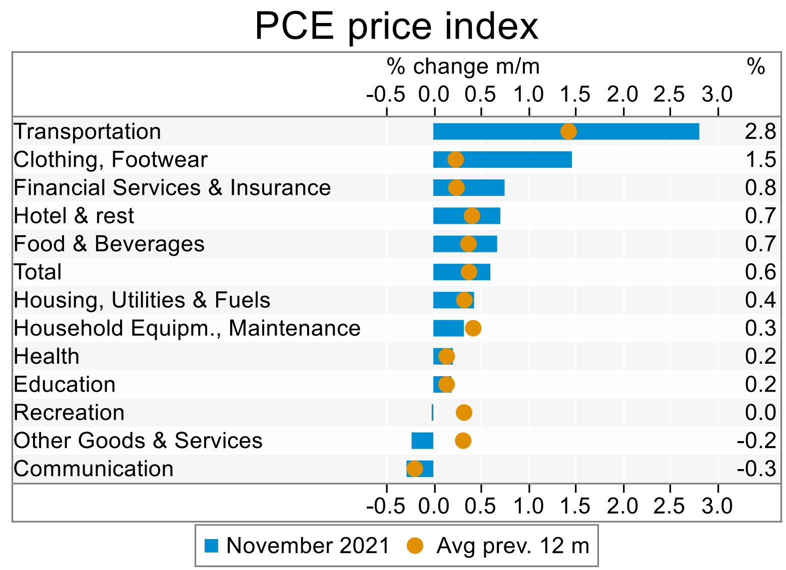
- **Hotel & restaurant prices** are up 7.4% since Feb-20

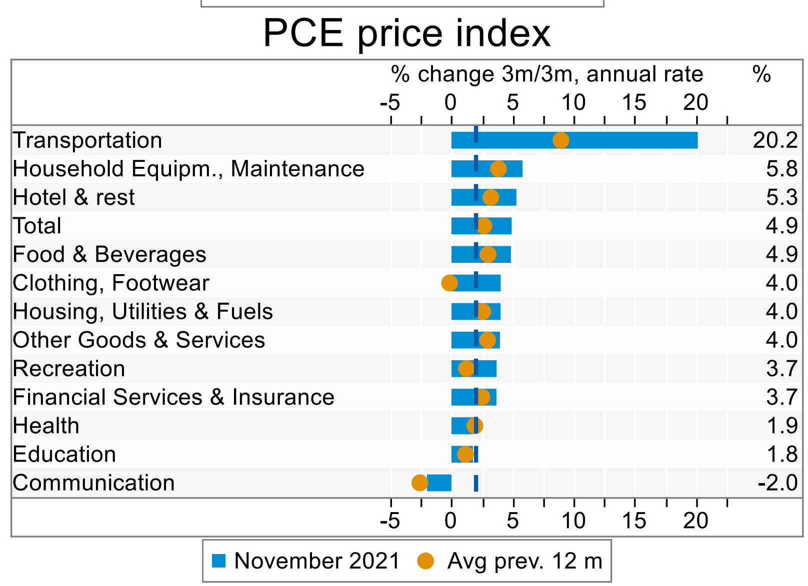
SpareBank 1 MARKETS

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

… and most sectors are up more than 2% measured 3m/3m, the total is up 4.9%



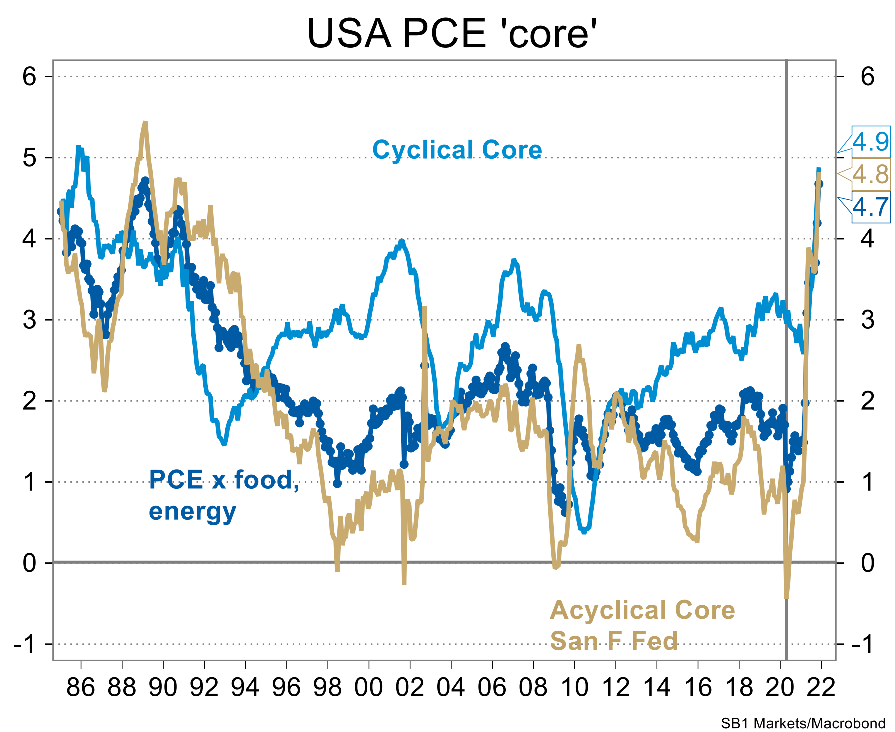


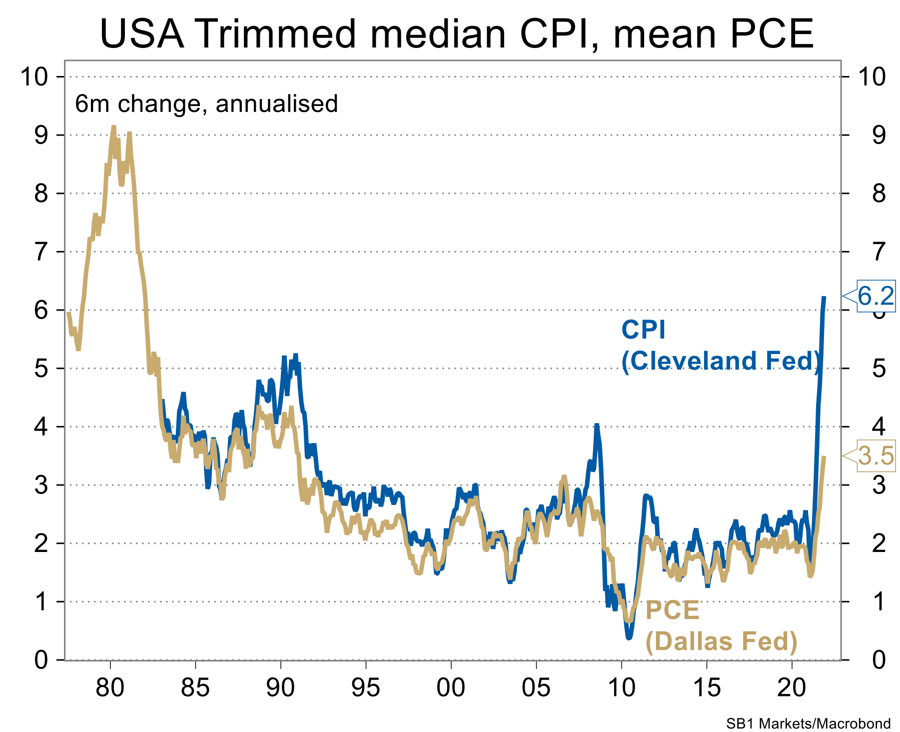


- Just health (!), clothing & footwear, communication, recreation and education prices are up less than 2% on average over the past 2 years
- The momentum is still strong, almost sectors report accelerating price growth (the 3m/3m is above the annual rate)

Inflation has broadened, more prices are climbing faster

All 'underlying' measures are now above the 3% line, not seen in decades

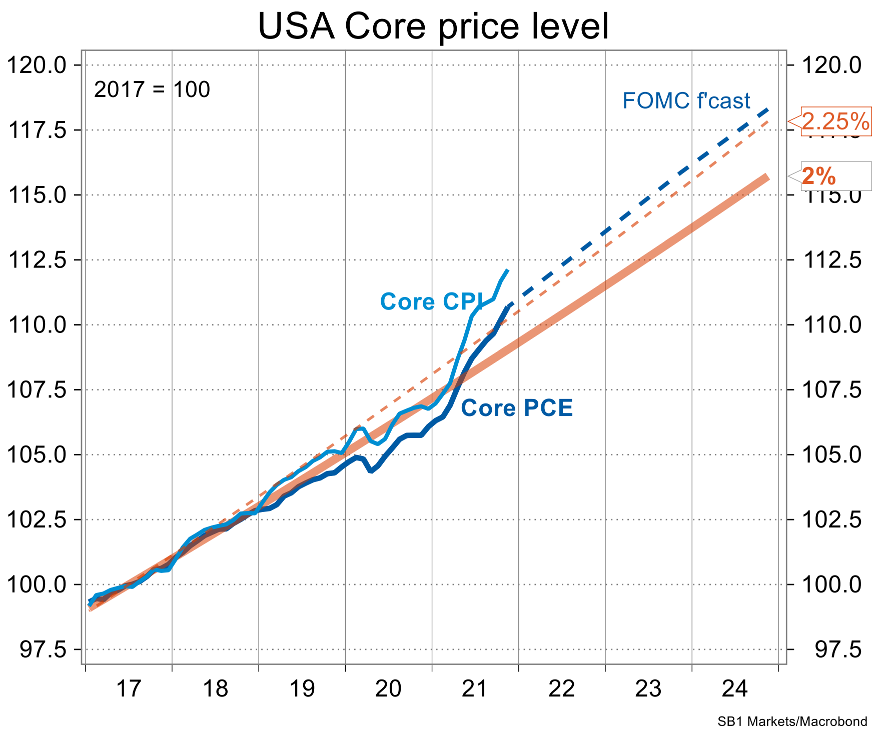




- The **trimmed PCE mean** (Dallas Fed) is up at a 3.5% pave over the past 6 months, up from 2% ahead of the pandemic. This indicator of underlying inflation has not been growing faster since 1991
- The trimmed median CPI is up 6.2% over the 6 months, the highest on record, data back to 1983
- Both core cyclical and acyclical PCE prices are up close to 5% 7/y
- Other measures of underlying inflation are also at the highest levels in 30 years
- And at that time, the Fed funds was not at zero

The Fed expects the 2% price target to slip, even if the employment target is met

… or more than that

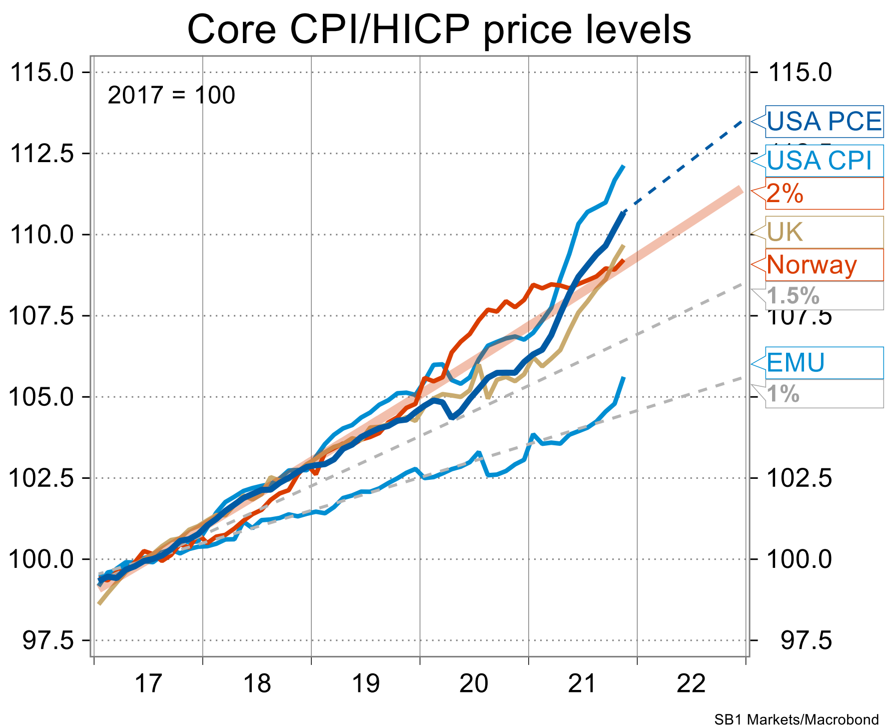


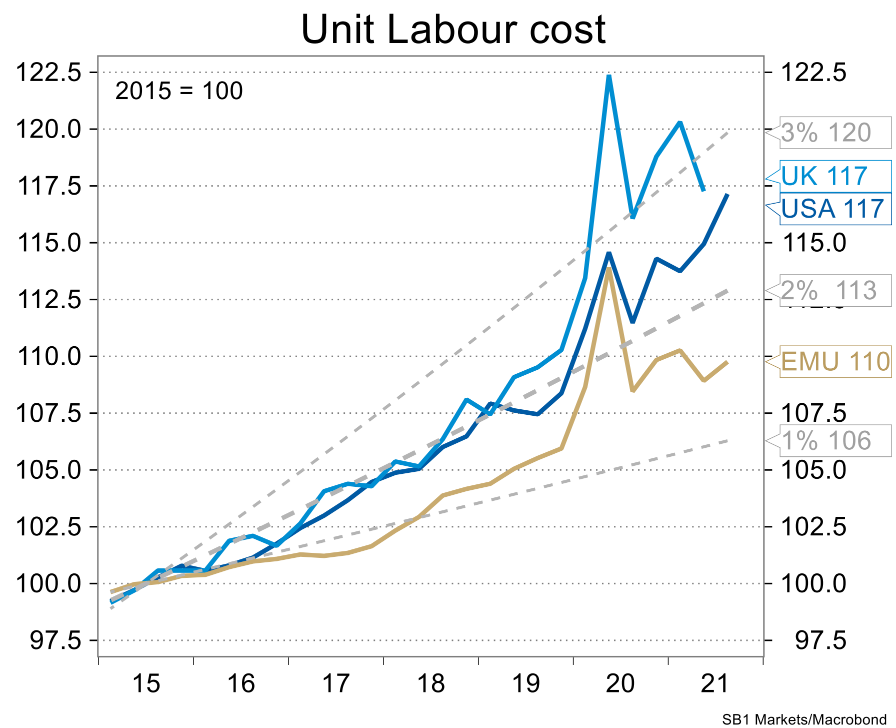
We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long, and the impacts on consumer prices are normally short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity growth
- **A tight labour market** normally implies higher wage inflation. Now, the vacancy rate is the highest ever, and <u>all wage cost indicators signal higher wage growth. This is the real challenge for the Fed</u>. At the Dec FOMC meeting, Powell acknowledged that <u>wage inflation in the end is the final criteria for judging if the maximum employment target is met. Thus, before soon, the Fed may be missing on both of its targets – at the same side</u>

So far, inflation is mainly a US problem (excluding the common energy factor)

UK is also reporting high core inflation rates but prices slowed last year



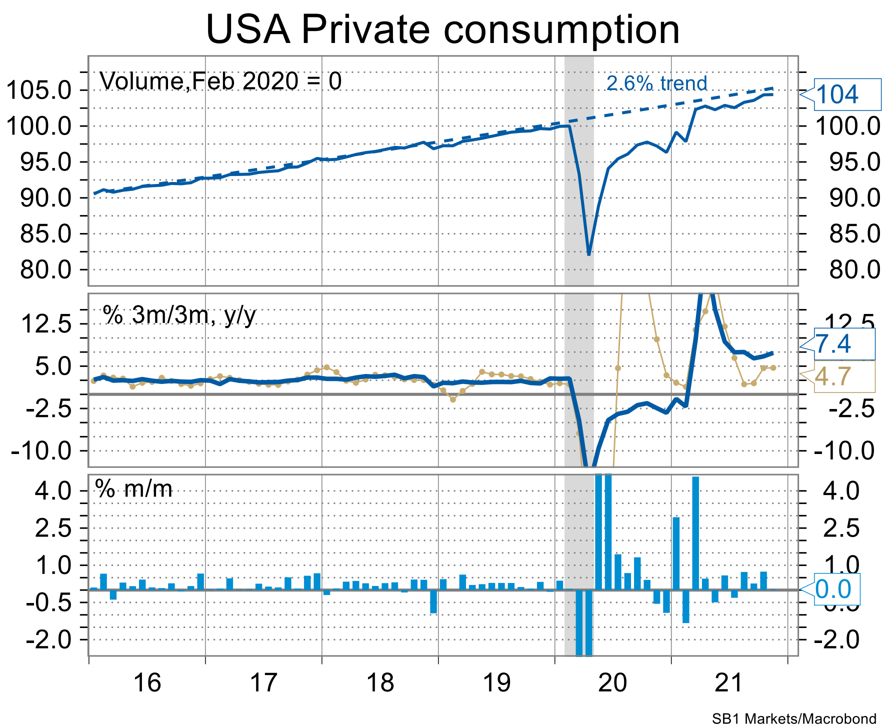


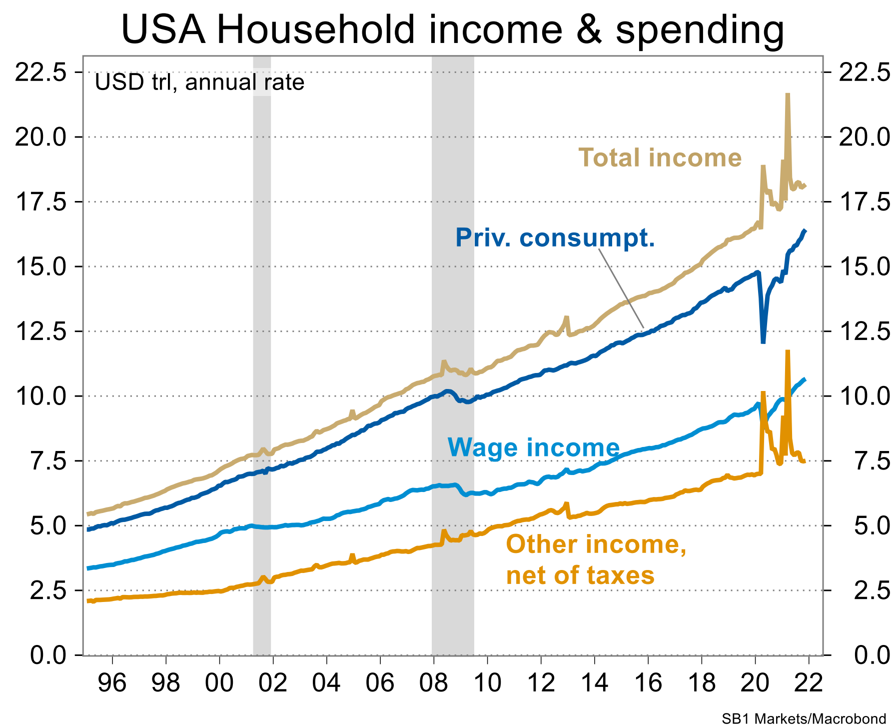
- UK is still close to a longer term 2% trajectory, while the US is well above
- The EMU price level is still hoovering around a 1% path but prices rose sharply in November
- The core Norwegian CPI is among the best heaved, now close to the 2% path, after being far above in 2020, when the NOK fell sharply

SpareBank 1 MARKETS

Real consumption flattened in November, real income fell as prices soared

The savings rate fell to below the pre-pandemic level, but the 13% (of income) 'Wall of Money' is intact

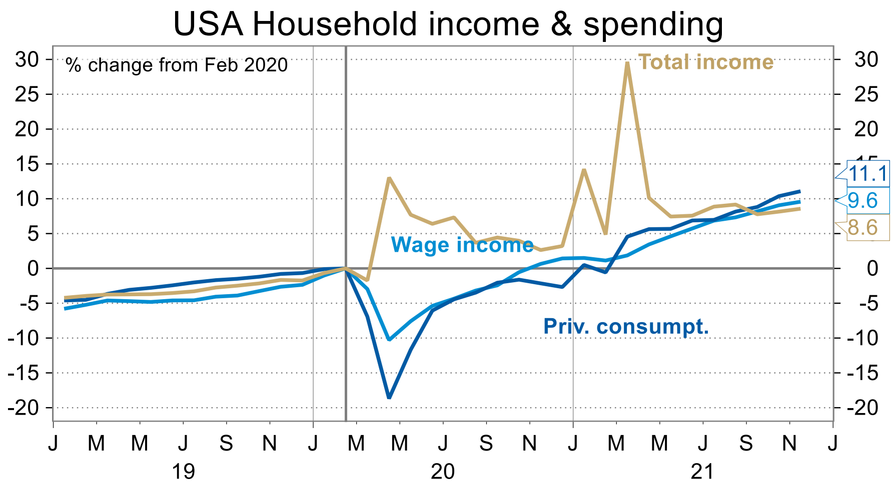


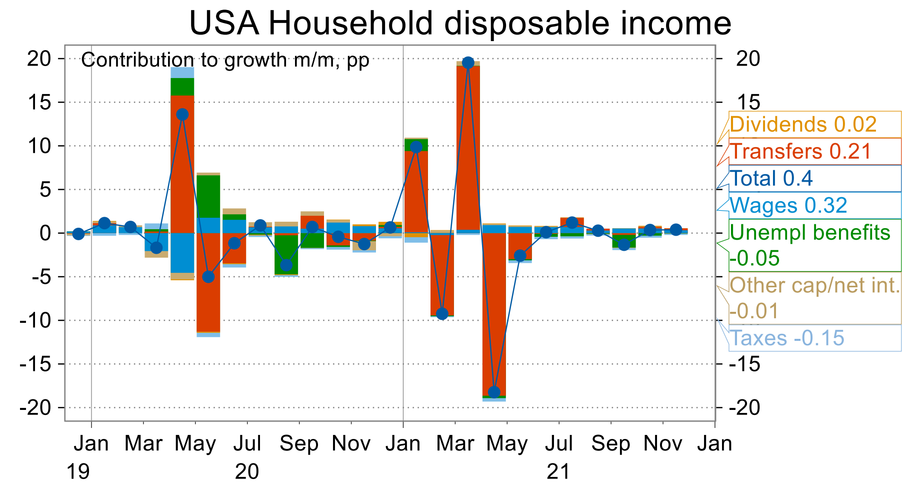


- **Private consumption** was unch in Nov, expected up 0.2% (spending rose 0.5% in nominal terms, 0.1 pp less than expected – prices rose 0.6%. Consumption in real terms have gained speed since the summer and is now up 4.7% 3m/3m. Consumption of goods has strengthened recent months and is 17% above the Feb-20 level – but will one day turn south! Services have been somewhat slowed by the Delta outbreak, but consumption is heading steadily upwards. Total consumption is up 4.2% vs. the Feb-20 level, and almost at par with 2.6% pre-pandemic growth path
- **Real personal disposable income fell by 0.2%** in Nov. Income before taxes rose by 0.4%, 0.1 pp less than expected. Wage revenues contributed the most at the upside. Underlying wage income growth is still strong – and nominal wage incomes are are still well above the pre-pandemic trend path
- **The savings rate fell** by 0.2 pp to 6.9% (from a 0.2 pp downward revised level in Oct). Savings are now slightly below the pre-pandemic level. However, households have saved an extra amount equalling 13% of one year's disposable income during the pandemic – in average, that is. Some of this 'Wall of Money' may well be spent the coming quarters, if so taking the savings rate further down

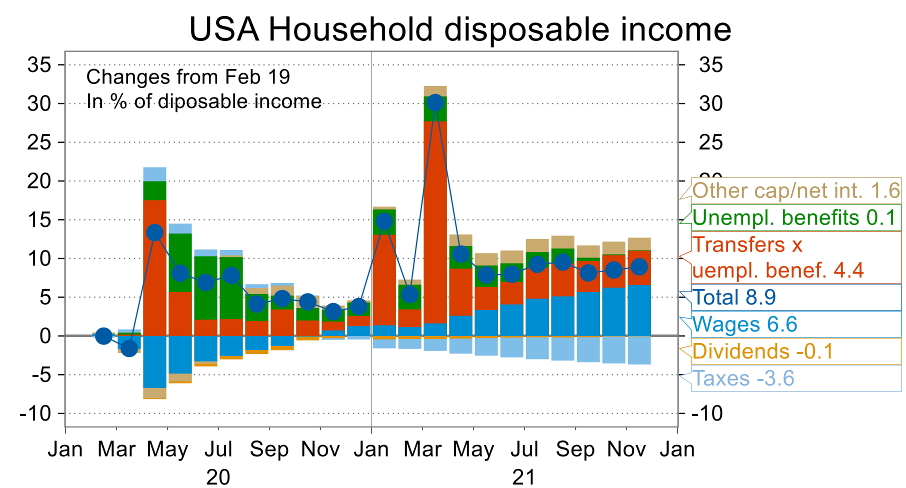
No more unempl. benefits than normal but more wage income above p-p trend

Wage revenues are climbing rapidly. Transfers ex. unemployment benefits are back on trend



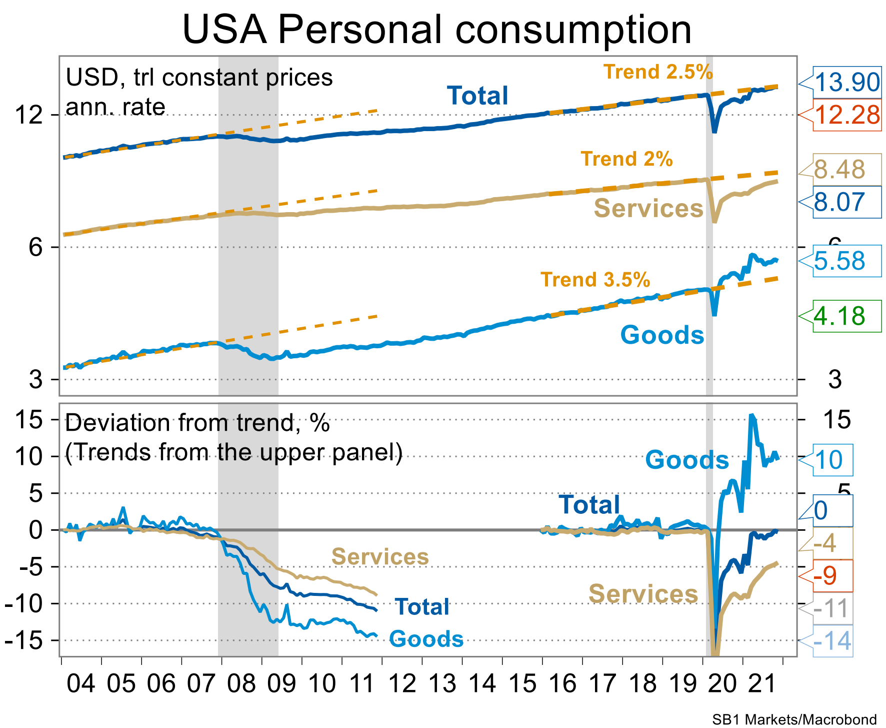


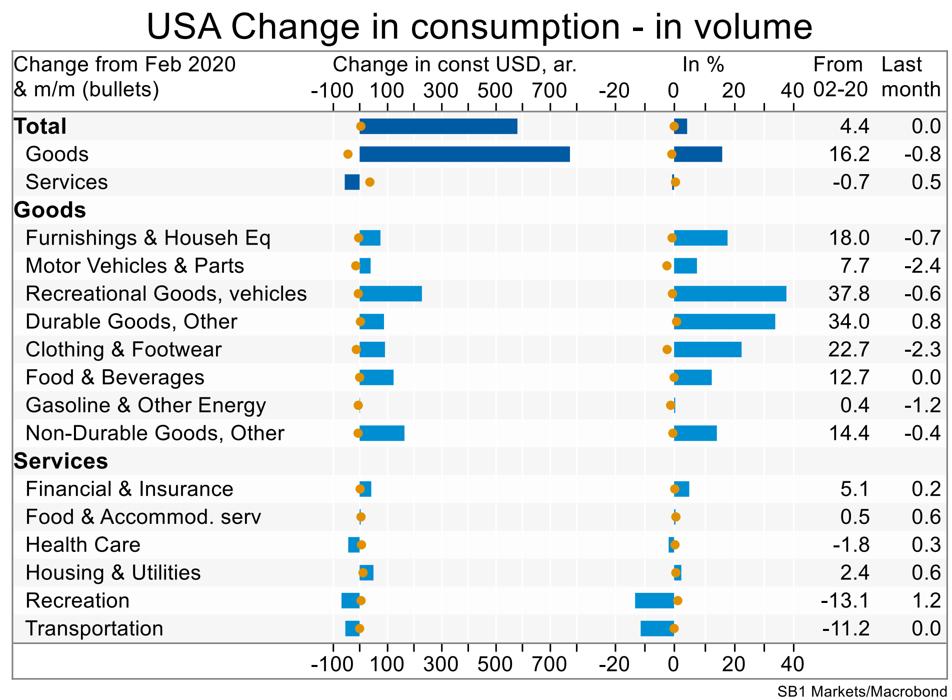
- **Total income has** flattened since the spring as ordinary public transfers and unemployment benefits have normalised
- **Total wage income** is growing rapidly and are above the pre-pandemic growth path at 4.25%, even if employment & hours worked remain well below the pre-pandemic level. The reason is of course the sharp increase in wage inflation



Service consumption still 4% below the pre-Covid trend, goods are 10% above!

Consumption of goods still way above a likely long term trend



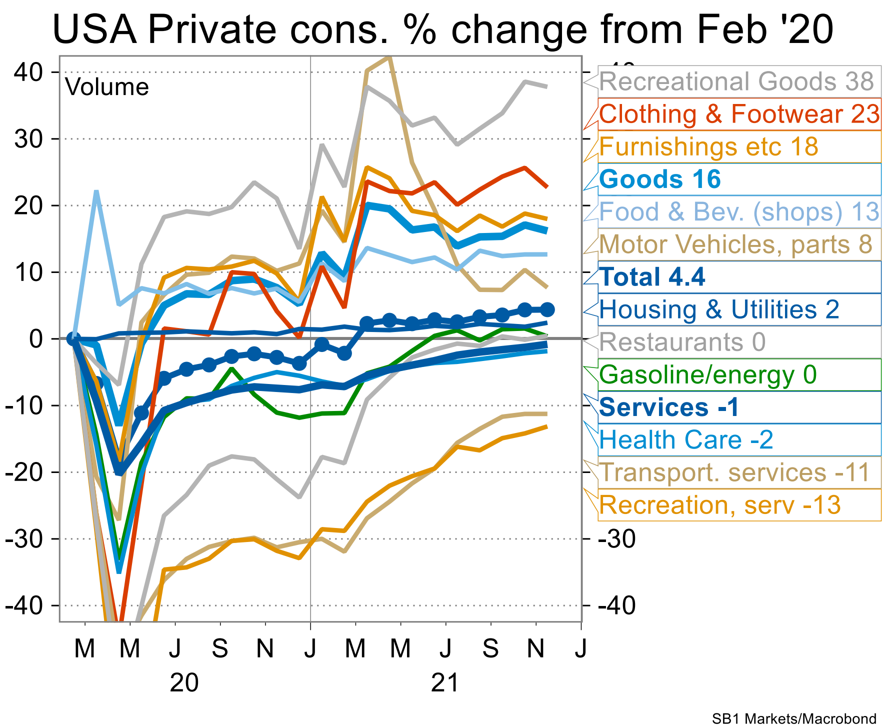


- Services are recovering, but even so down 0.7% vs. the Feb-20 level, and down 4% vs the pre-pandemic trend path
- Spot the difference between the Financial Crisis downturn and the pandemic 'downturn'

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

Consumption of goods down m/m, still 16% vs the pre-pandemic level

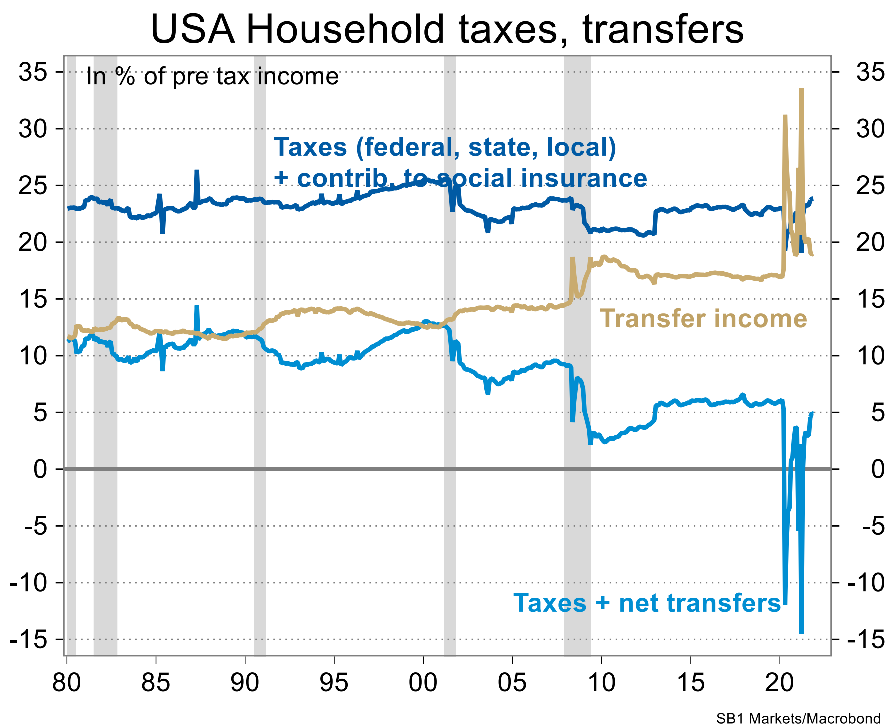
Services are recovering but none (x housing) are above the p-p level. Recr. services are still down 13%

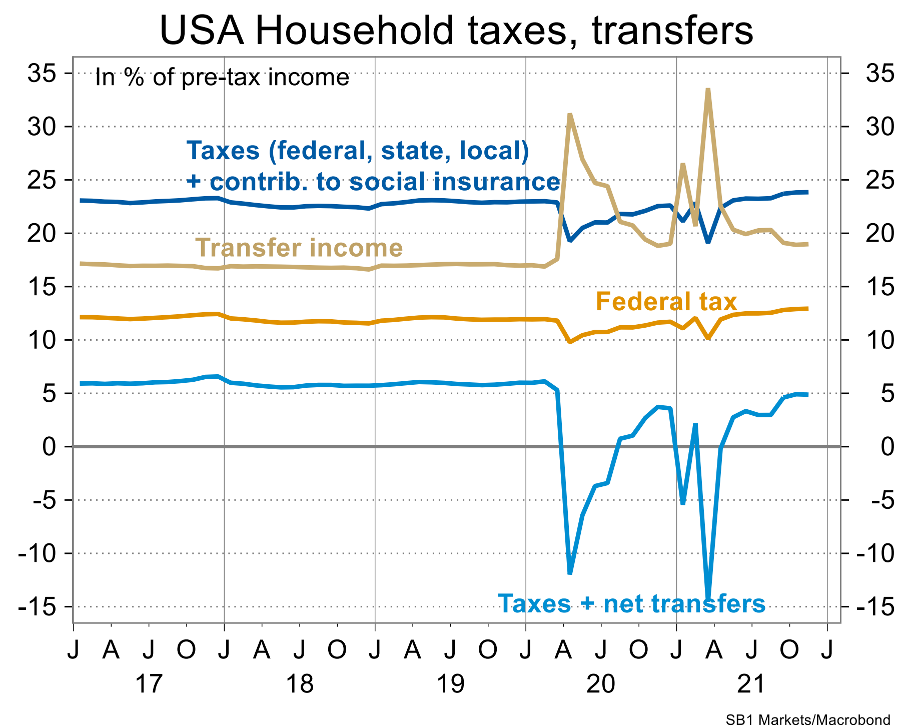


- **Consumption of goods** fell slightly in November. The downside is substantial – as the level is still very high, even in volume terms
- **Consumption of services** grew 0.5% in Nov. Spending is 1% below the Feb-20 level, in volume terms. Restaurants are back to the starting point, in volume terms ('meals served'), while transportation (-11%) and recreation (-17%) are far below – so there must be more to go the coming months/quarters, at least when (not if) the fight against Omicron is won)
- **Total consumption** is up 4.4% vs. Feb-20, equal to the pre-pandemic growth rate over these 19 months. Since March, growth in spending has been muted, but recent months growth has gained some speed., the 3m/3m rate is 4.7%, up from 1.6% in August

Towards more normal times – transfers still above par

Net taxes at 5% of pre-tax income is just 1% below the pre-p level – which though was far too low

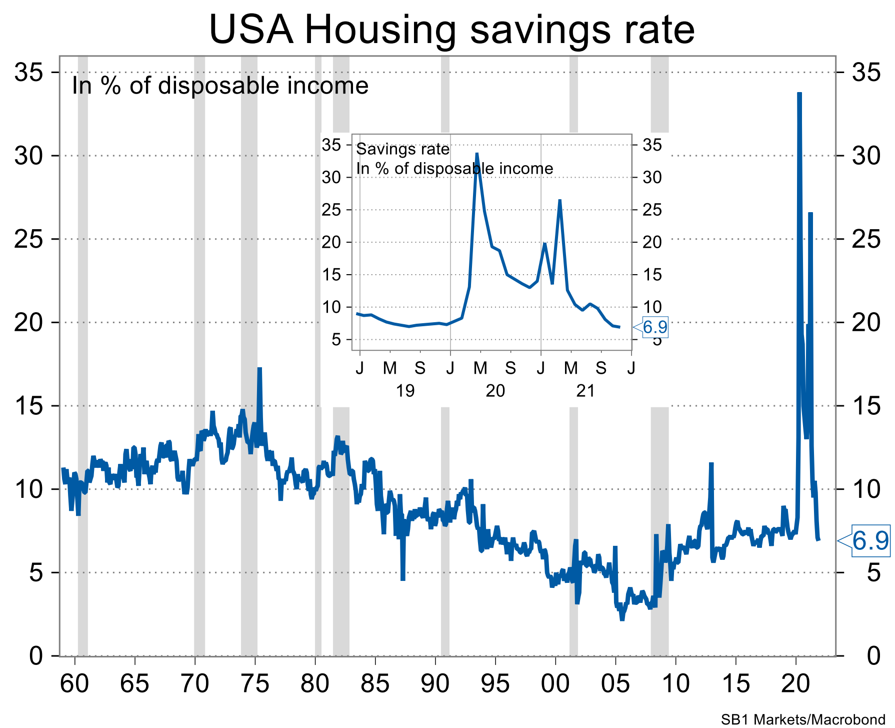


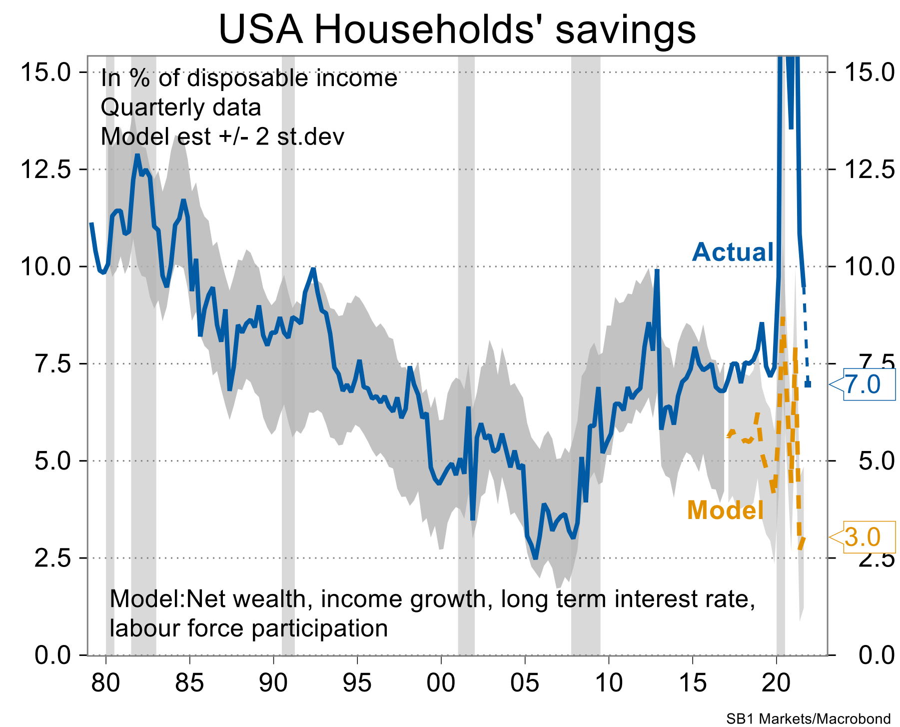


- The 'normal' net tax rate (taxes-transfers) implied a substantial government deficit – which was not sustainable
  - » Before year 2000, the net payment to the federal government equalled 10% - 12% of pre-tax income …. and somewhat below 10% until the Financial crisis. Since 2012, the net tax rate has been some 6% of GDP, and now at 5%
  - » Taxes are back to the pre-pandemic – or even a tad above – while transfers are

The savings rate down 0.2p to 6.9%, below the pre-pandemic level

The rate fell by 0.2pp in Nov, from a 0.2 pp downward revised 7.1% Oct level



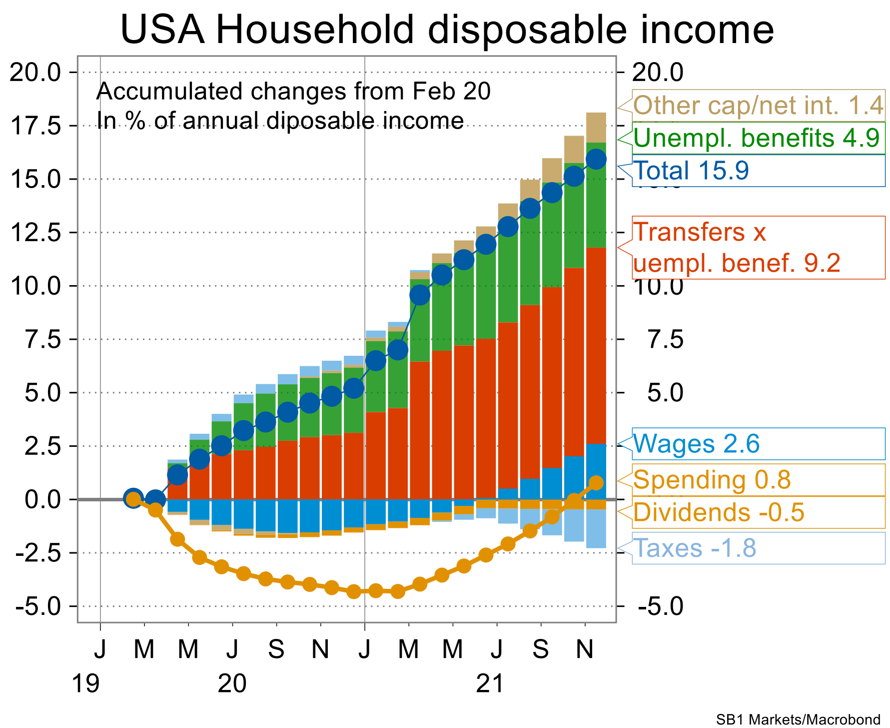


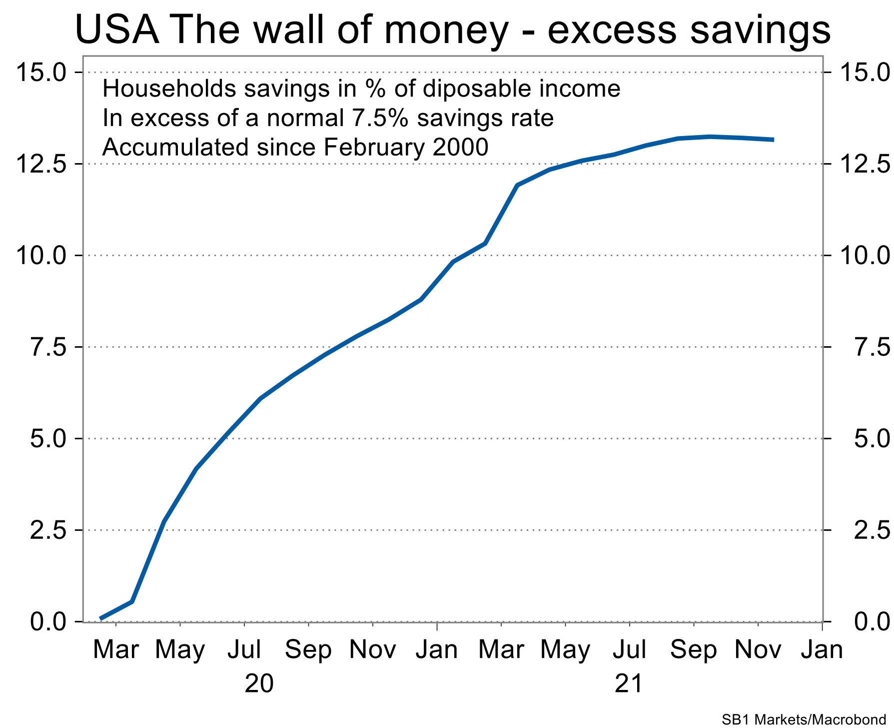
- Our old savings model, yields a 4.7% savings rate in Q3. During the 2016 – 19 period our old model has underestimated the savings rate systematically by some 2 pp
- The gap is now much larger – and it has been so during the pandemic, of understandable reasons – spending was not possible
- A downside potential for the savings rate (and upside for spending): **the accumulated households excess savings** during the covid crisis amount to some 13% of annual disposable income – the 'Wall of Money', check next page

SpareBank 1 MARKETS

The Wall of Money is still intact: Just marginally lower in Oct & Nov

The sum of 'excess savings' through the pandemic is at some 13% of annual disposable income

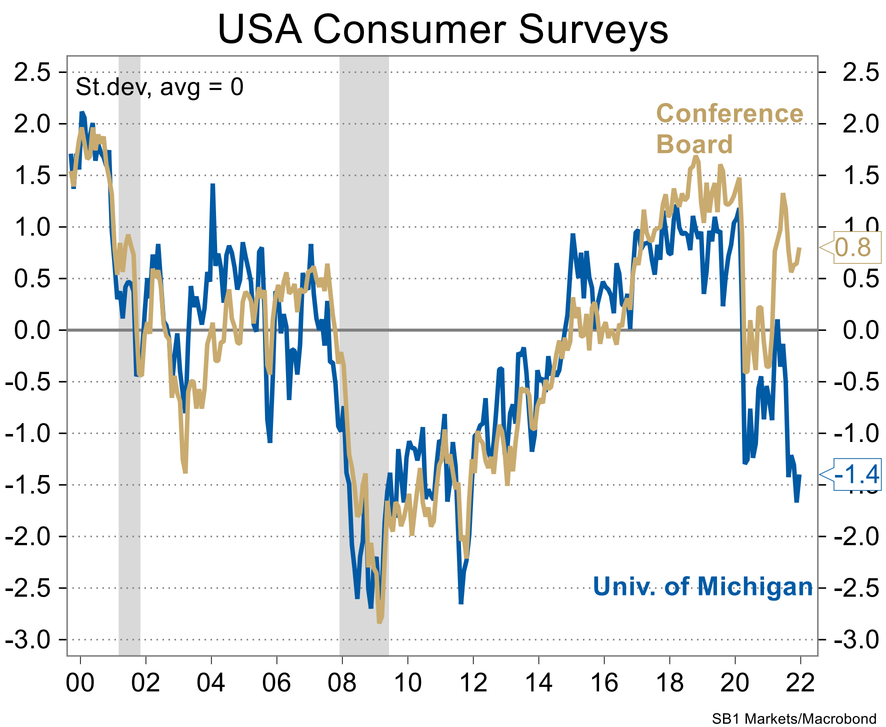




- Transfers from the government and low spending (on services) explained the lift in savings - but now spending is coming back, and the savings rate is now lower than before the pandemic

Conference Board's confidence further up in December

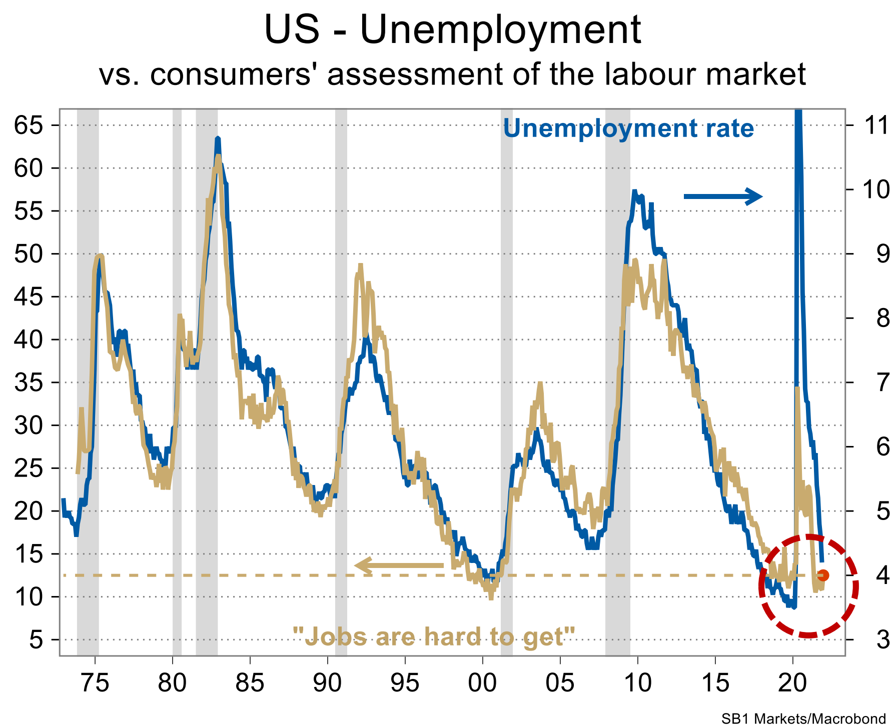
CB's index up 0.2 st.dev to +0.8, better than expected and miles above the Univ of Mich sentiment

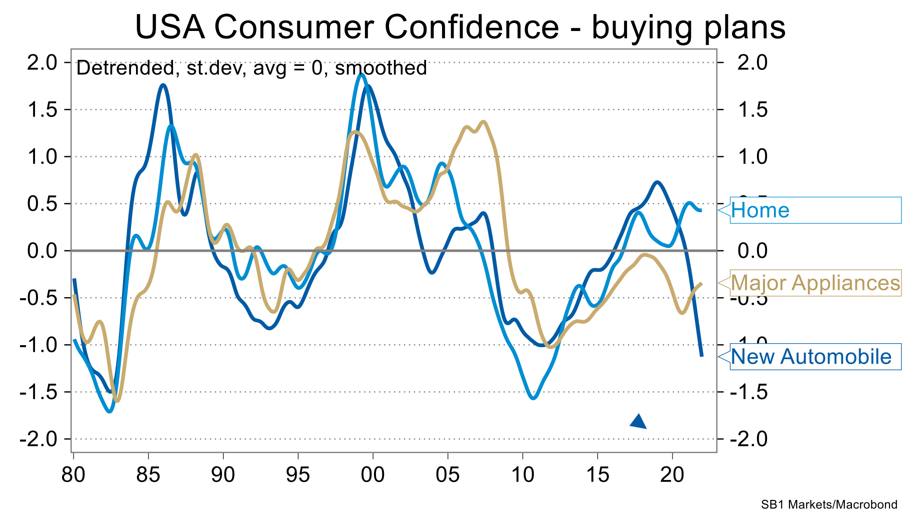


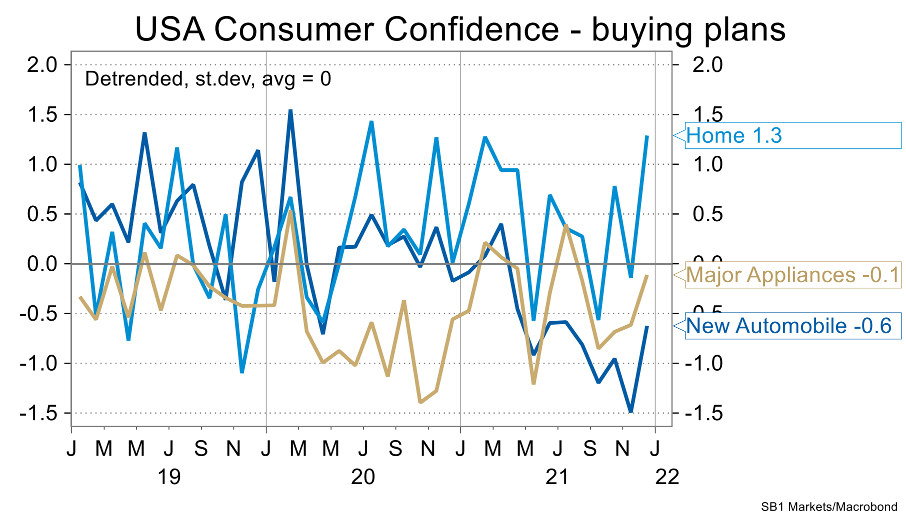
- The **Conference Board's consumer confidence** index rose to 115.8 December, from 111.9 in Nov (revised up 2.4 p), expected 111.0. The index is 0.8 st.dev above average. The assessment of the current situation was close to unch, at +1.0 st.dev, while expectations rose from below par to +0.2 st.dev.
  - » Households still report a tight labour market, and they adjusted their spending plans upwards in December
- **University of Michigan's sentiment** survey is still way below a normal level, at -1.4 st.dev – even weaker than during the first wave of virus outbreak last spring
  - » If the UM survey is falling faster than CBs survey, often something unfortunate happens afterwards, check next page

Jobs are very easy to get, buying plans revised up, also for buying a home

Households recognise that the economy is booming



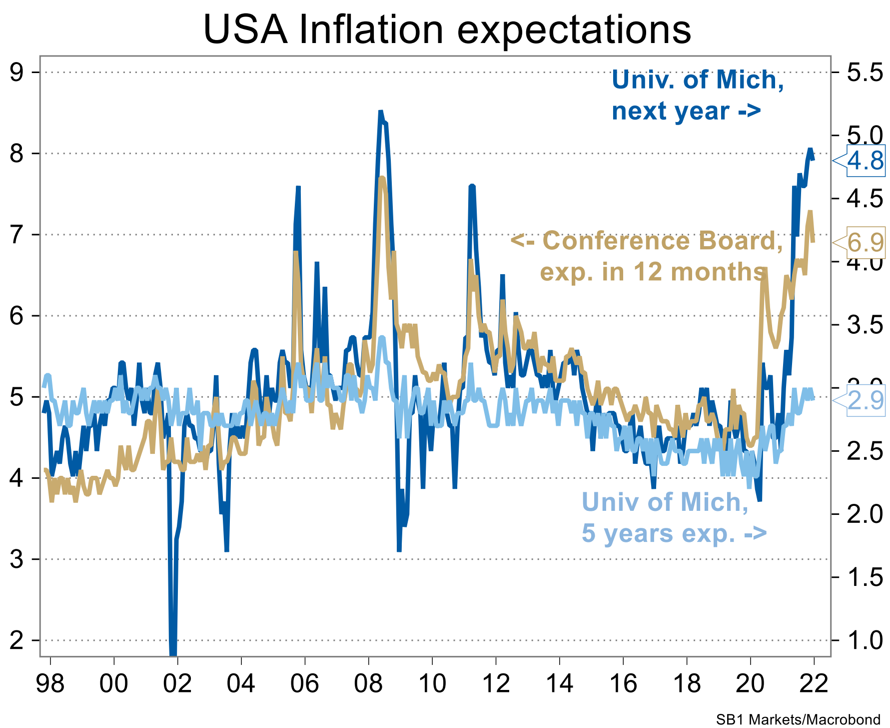




- Household spending plans are volatile, and in sum not aggressive – but in December home buying plans rise sharply, to the best level in almost a year
  - » Plans for buying a new care are still lower than normal, for good reasons – but recovered in December

Inflation expectations are higher than normal

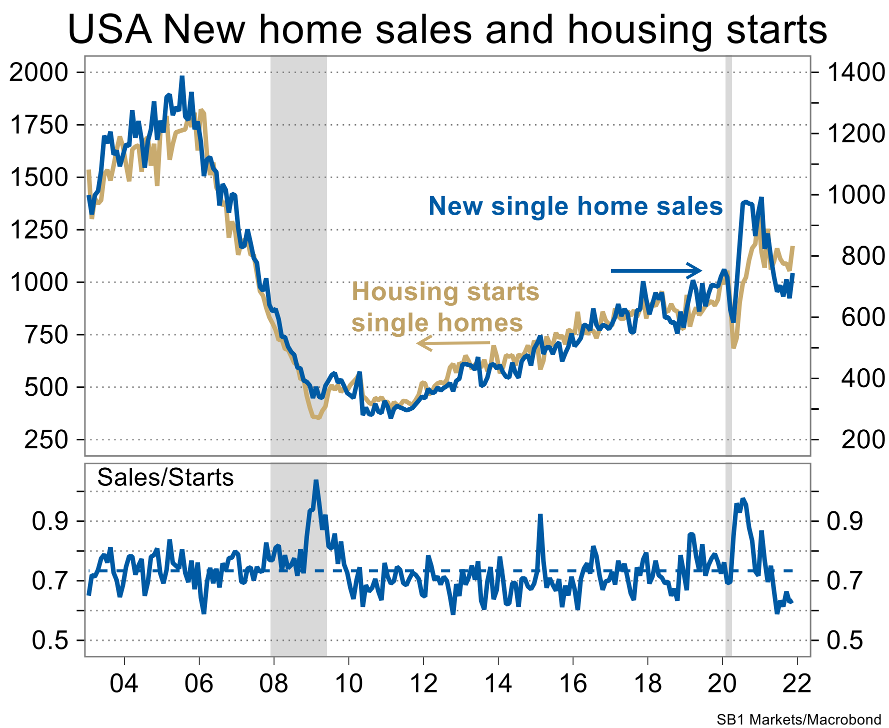
but long term expectation not that high – and short term expectations fell in December

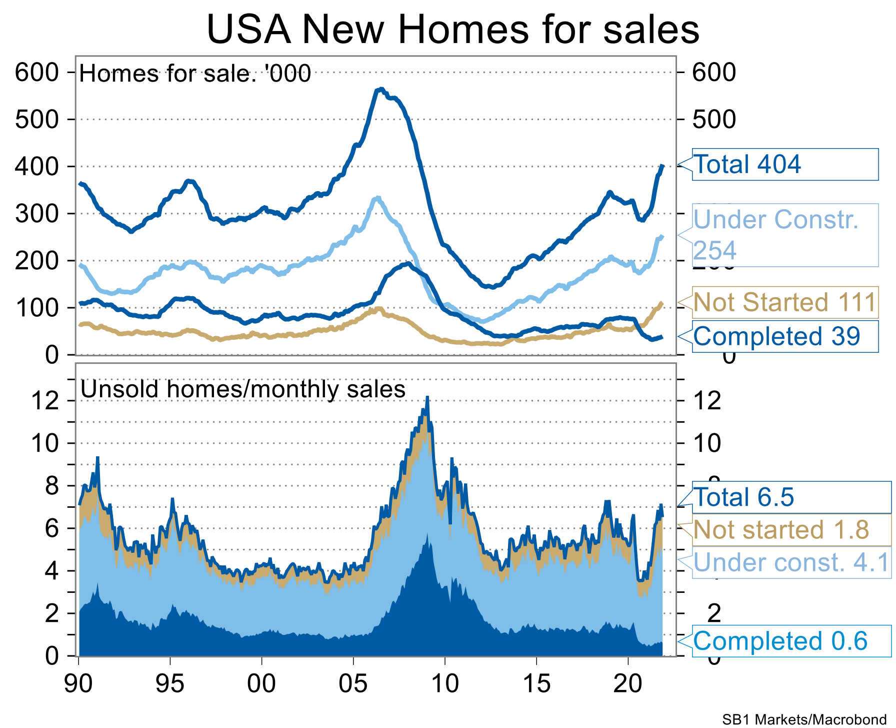


Rudd, Jeremy B. (2021). "Why Do We Think That Inflation Expectations Matter for Inflation? (And Should We?),

New home sales weaker than assumed/expected in Oct/Nov – still not weak

The inventory is growing rapidly, as the supply side has responded

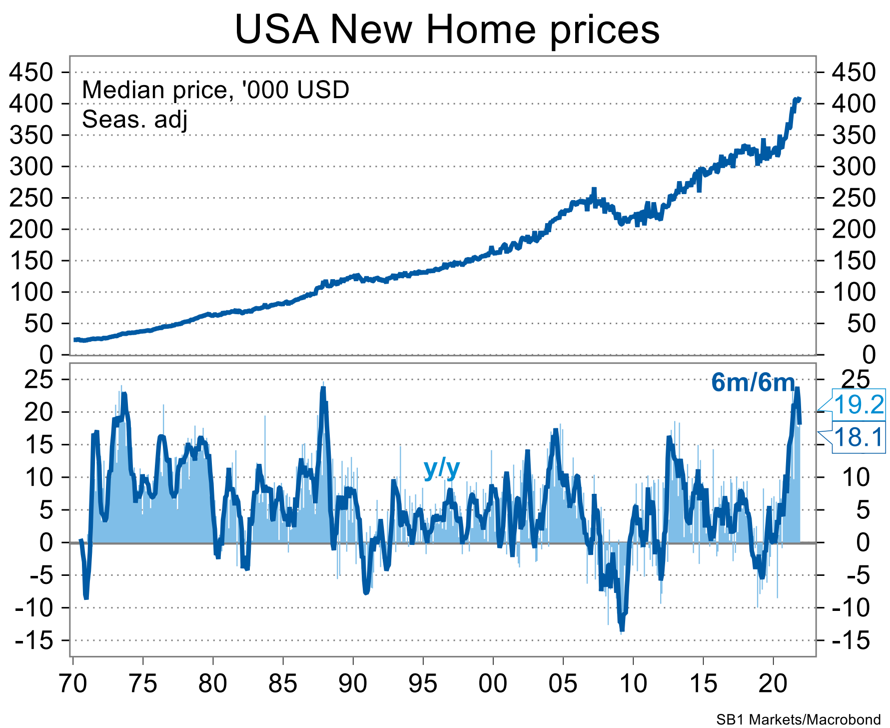


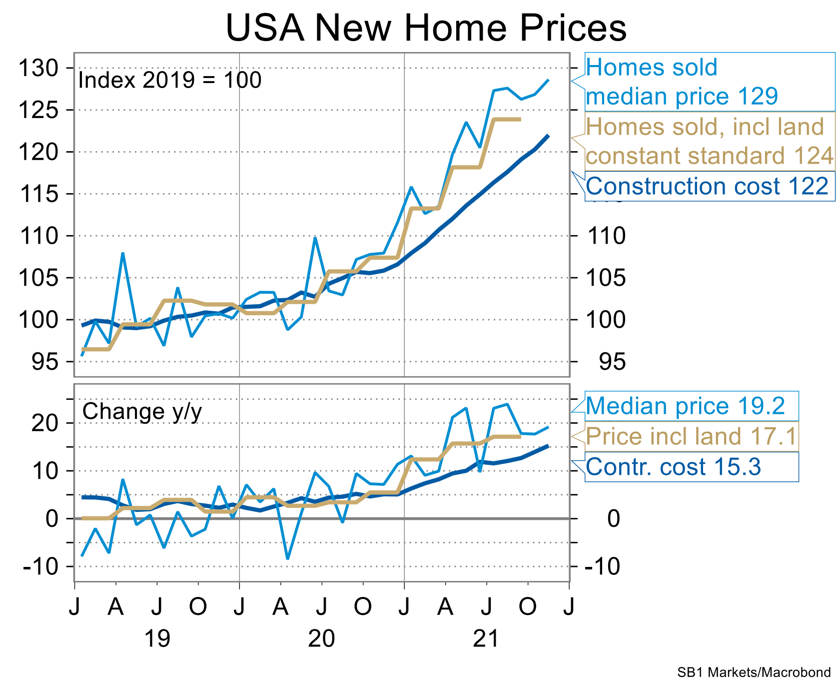


- **New single home sales rose to 744'** (annualised rate) in November – from a sharply downward revised 660' in Oct (first reported to 745') – and sales were expected up to 770'. These monthly figures are often revised substantially and the last observation is close to useless – but anyway weaker than expected
- **The big picture:** Following a 30% decline from January to June, sales were stable through H2 last year, at approx. the same level as before the pandemic. Sales are somewhat lower than normal vs. new single home starts (in avg. sales are 70%+ below sarts, as may homes are built by the homeowner)
- **The inventory of unsold homes** has increased by 43% since Oct 2020, and the level is the highest since Sept 2008. The inventory equals 6.5 months of sales, a bit higher than 'normal' – and up from the record low level at 3.5 months in Sept 2020
  - » The increase in the inventory is not due to large increase in completed house for sale (the most 'effective' supply), and the inventory just equals 19 days of sale (half of a normal level). However, the no. of projects not yet started (but for sale) has doubled, to the highest number ever, and the no. of new homes for sale but still under construction has climbed rapidly, to the highest level since 2007. So, there are lot of homes in the pipeline, and clearly a confirmation that the supply side is responding to the steep increase in demand. At one stage, combined with higher mortgage rates, that could change the housing market outlook

Construction costs up, but new home prices even more

Construction costs are up 13% y/y, selling prices 17%. Land prices are up even more, demand is strong

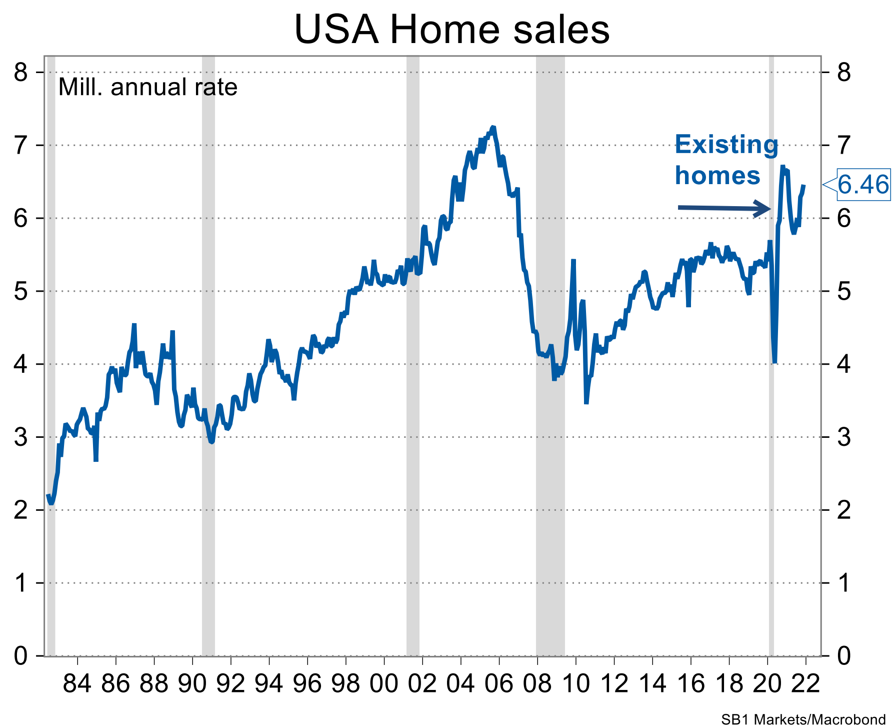


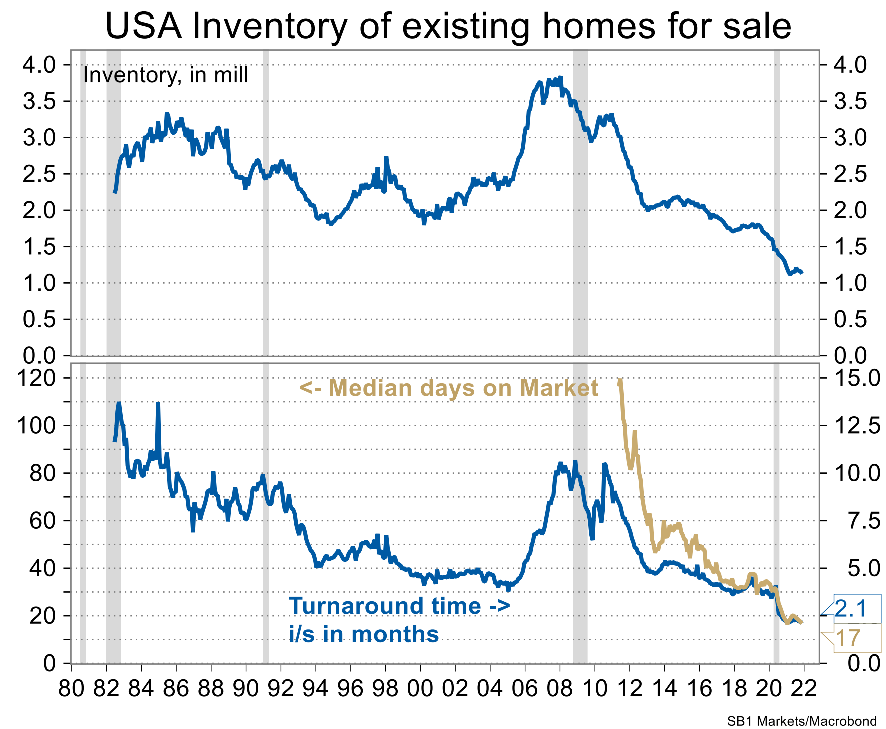


- Monthly **median new home sales prices** are volatile, but price appreciation may be easing. The 6m/6m (annualised) rate at 18% is still extremely high (and the annual rate is up 19%)
  - » This price index is influenced by changes in the mix of homes sold – and over time by changes in standards & size
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land, and they are up by 15% and 17% resp., measured y/y
  - » As prices including land are still up more than the construction cost index (which of course is influenced by higher material costs), which implies an even faster increase in land prices. Thus, demand must be the main driver for the hike in prices, not the construction cost (if demand was weak due to high prices, prices including land would have climbed less than construction costs)

Existing home sales further up in November, the inventory is

Prices rose faster again but are up ‘just’ 13% y/y

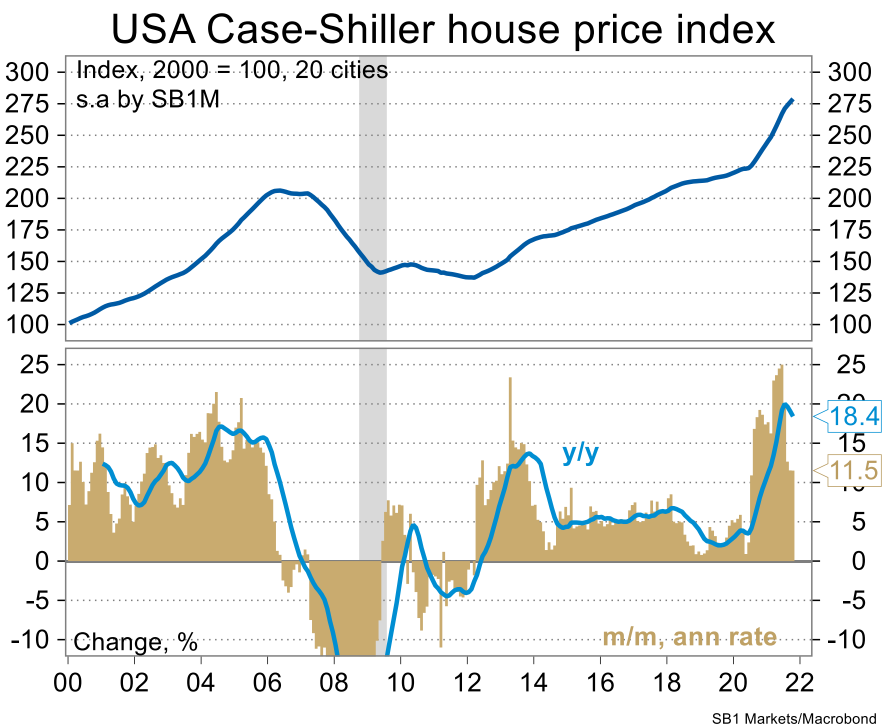


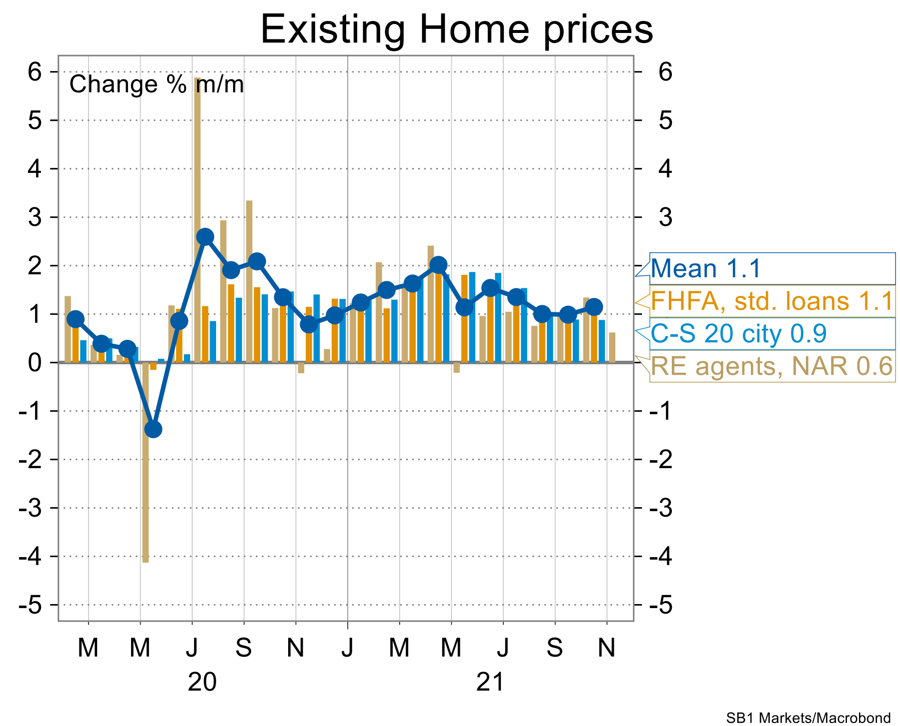


- Sales of **existing homes** rose marginally to 6.46 mill (ann. rate) in November, expected up to 6.53 mill’, from 6.34’’ . Sales are down 4% from the local peak last autumn, but are 20% above the pre-pandemic level – and not that far below the ATH level at 7.26 mill in Sept 2005
- Sales are no doubt kept down due to a very low inventory of unsold homes. However, there are reports on buyers becoming more cautious following the steep rise in prices, and households judge the timing is very bad for home buying
- **The inventory of unsold homes** fell marginally in Nov, and has been close to stable since early 2021, at the lowest level ever. The inventory equals 2.1 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months. The median time on the market for those homes sold is just 17 days, down from 30 days before the pandemic (and 120 days in 2011!)
- **Prices** rose 0.6% m/m in Nov, down from 1.3% in Oct. Still, the annual rate accelerated 1 pp to 13.9%. At the peak, prices were up 23% y/y

House prices inflation is slowing but is still strong

Prices up 'just' 0.9% m/m (11.5% annualised), the annual rate has turned south but remains high

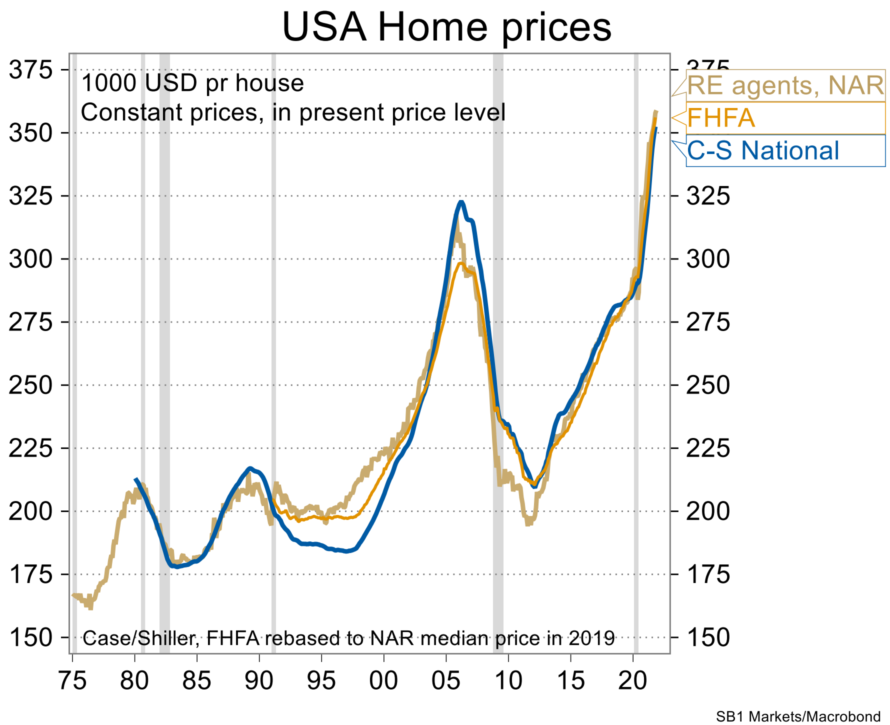


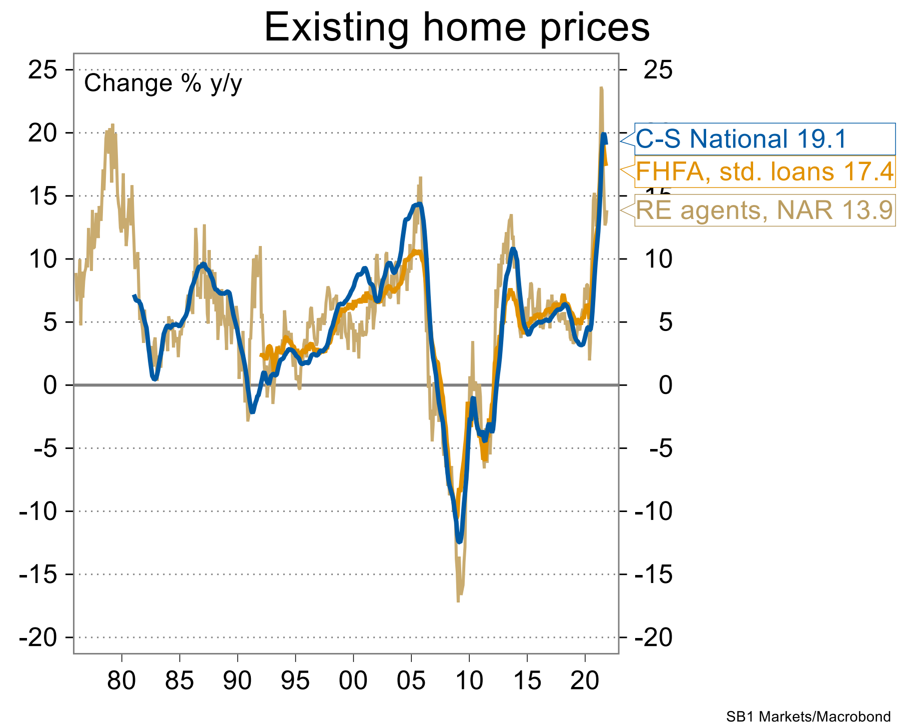


- **S&P's Case/Shiller's 20 cities** price index rose 0.9% m/m in October (Sept – Nov avg), equalling a 11.5% annualised pace, the slowest growth rate since July 2020. The annual growth rate was 18.4%, down from 19.0%, expected 18.5%. In July prices were up 20.0%, the highest growth rate since just after WWII. <u>The **national C-S index** is up 19.1% y/y</u>
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ("Husbankene", has a countrywide coverage), rose 1.1% in October, and are up 17.4% y/y. The peak annual rate before the pandemic surge was 11%, ahead of the housing crisis 15 years ago (chart next page)
- **Relators** reported a 0.6% price lift m/m in November, and the annual rate is 13.9%

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

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

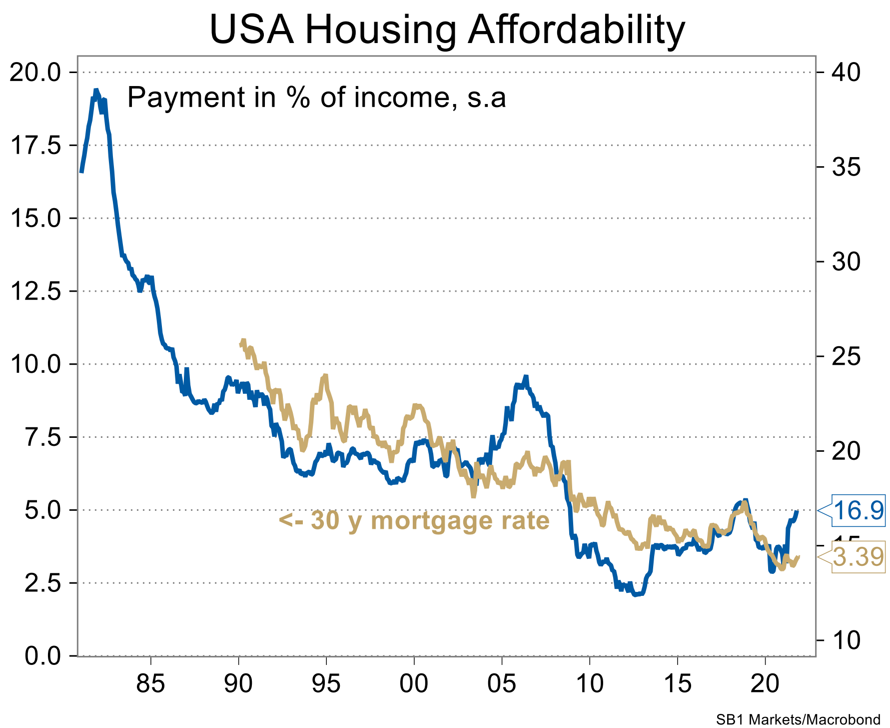


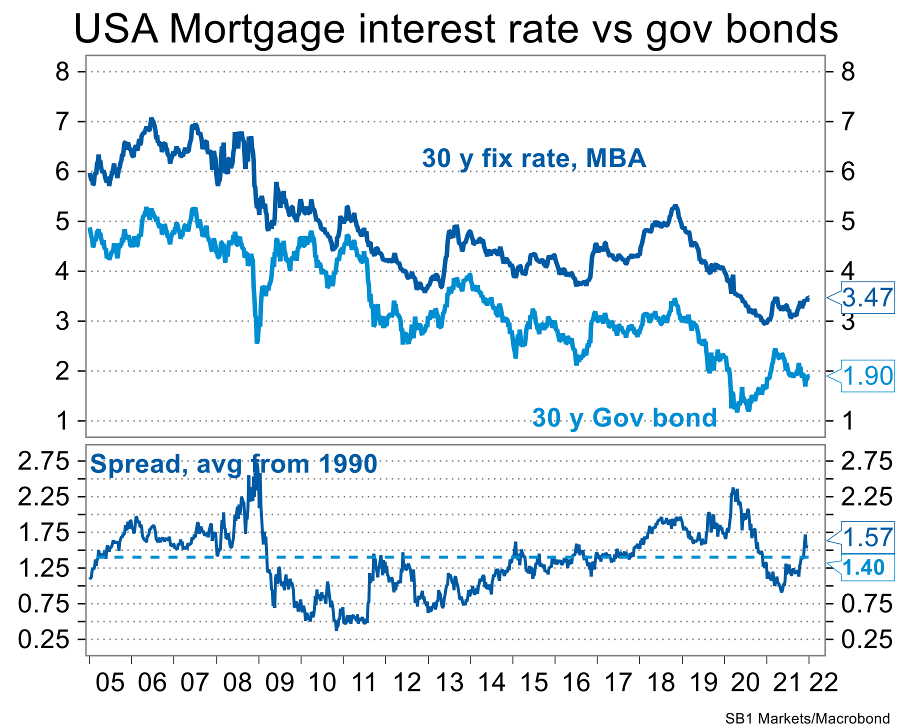


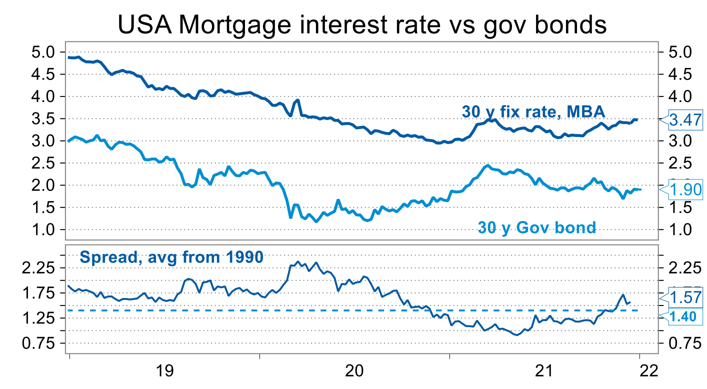
- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index reported the highest house price appreciation ever (or since 1948) during las year
- There are still some big differences vs the mid 2000 housing bubble
  - » Housing starts are at far lower level. The inventory of new & 2nd homes for sale is record low (vs high 15 – 16 years ago)
  - » The debt/income ratio has fallen sharply since the peak before the financial crisis. However, credit growth has accelerated during the pandemic
  - » The savings rate/net financial investment has now fallen to below the pre-pandemic level– far above the level in 2005

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

Federal Reserve is buying less mortgage backed bonds, and will halt buying in March



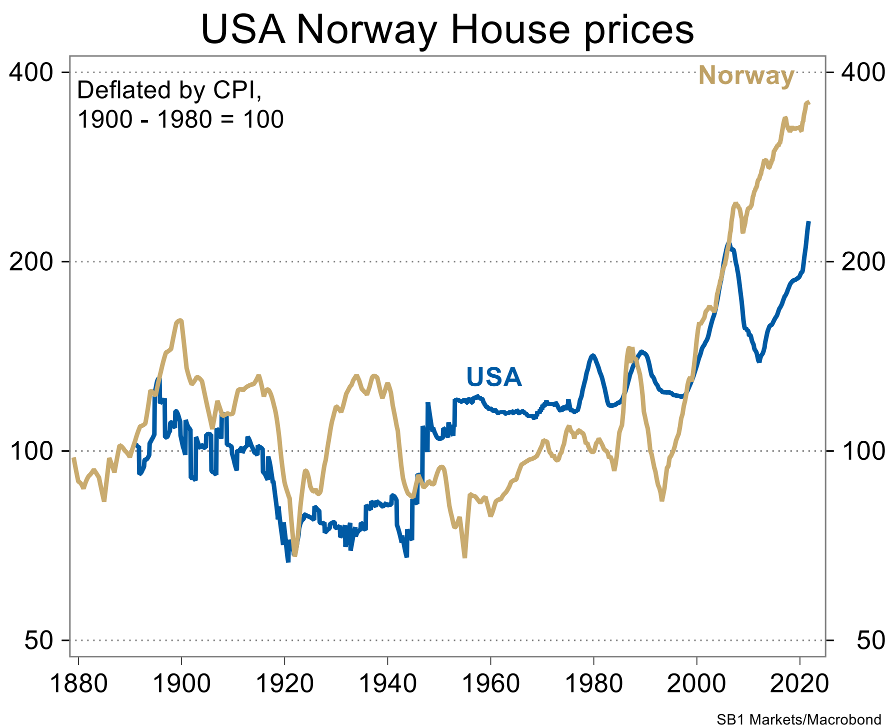


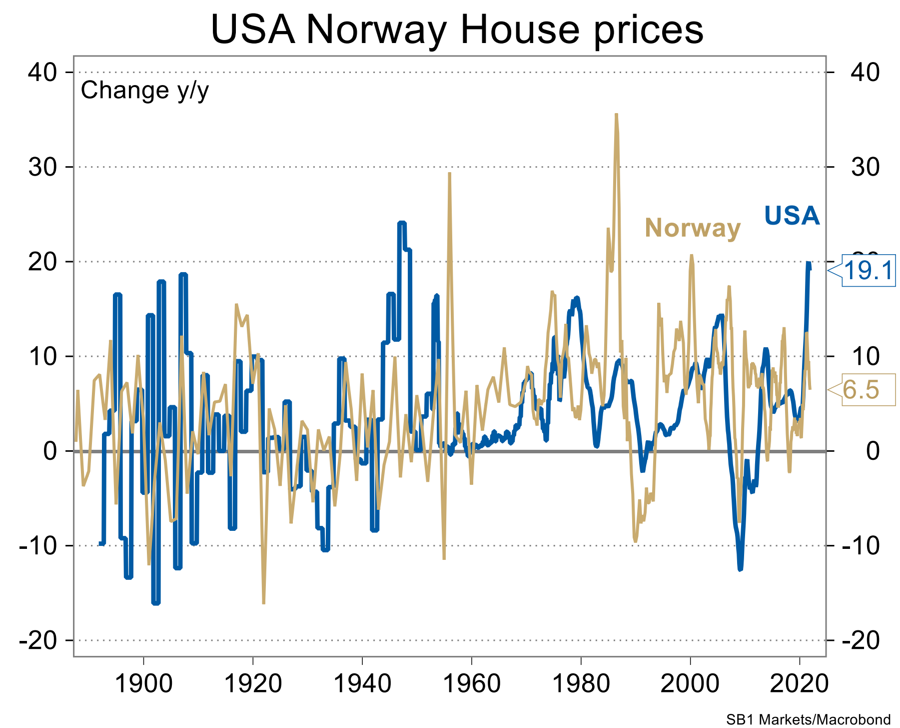


- **The 30 y fixed mortgage** rate has moved upward even if the 30 y Government bond rate has fallen substantially recent months, as the spread has widened to almost 160 bps from below 100
- **Household mortgage** debt grew by 300 bn per year in the years before the pandemic. During the pandemic the Federal Reserve has been buying USD 40 bn per month, 480 bn per year, as a part of the QE program. Growth in mortgages has accelerated to USD 900/b during the pandemic. In average through the pandemic, Fed has funded 2/3 of the growth in mortgages. <u>From March, the market will have to finance the increase in mortgage debt – all of it!</u>

For the record

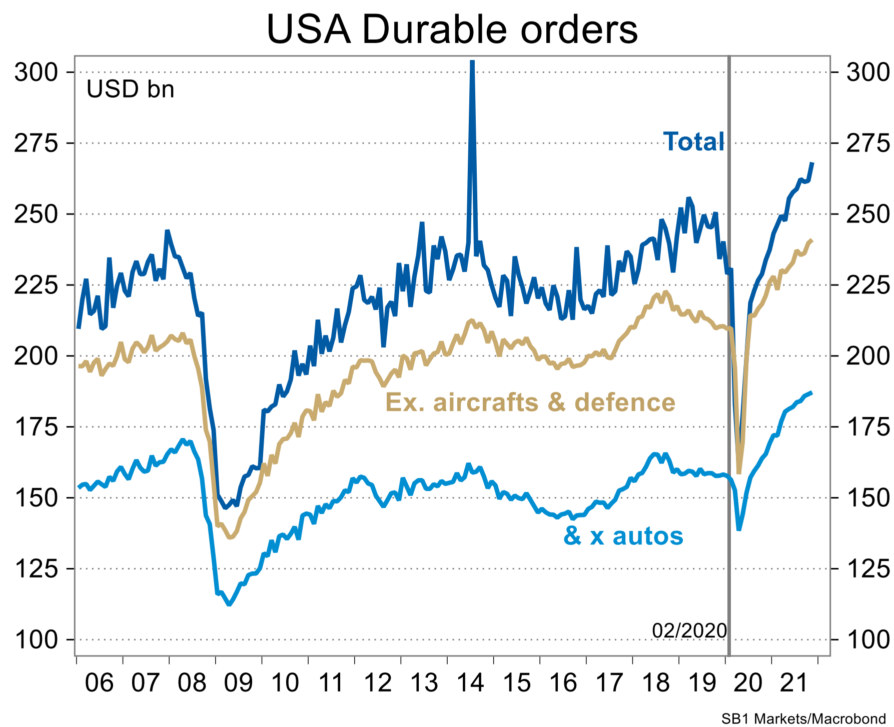
Some entertaining house price charts

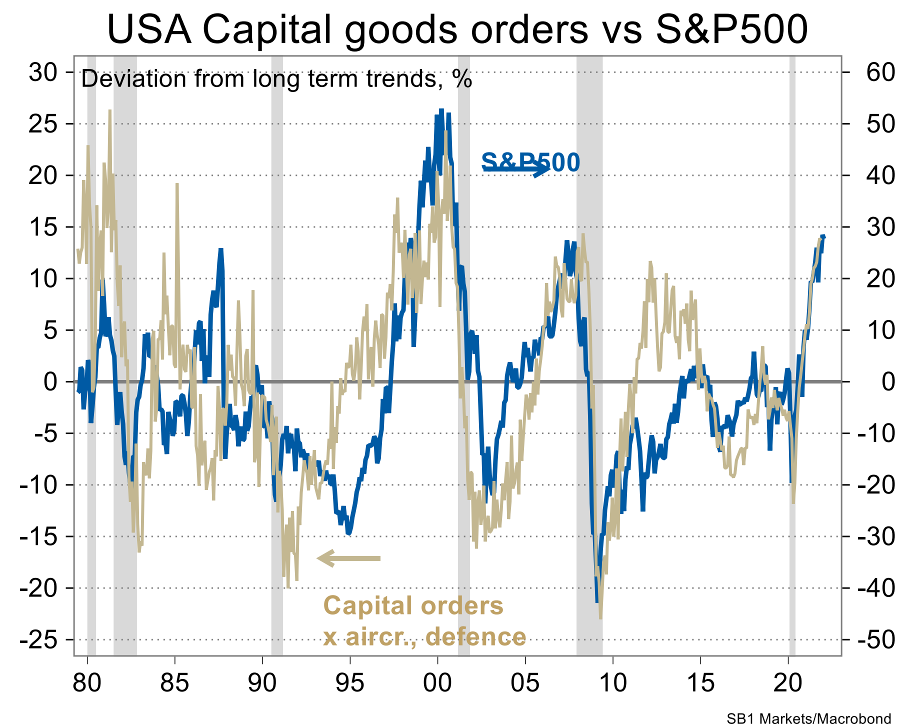




Strong order inflow in November even if investment orders flattened

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

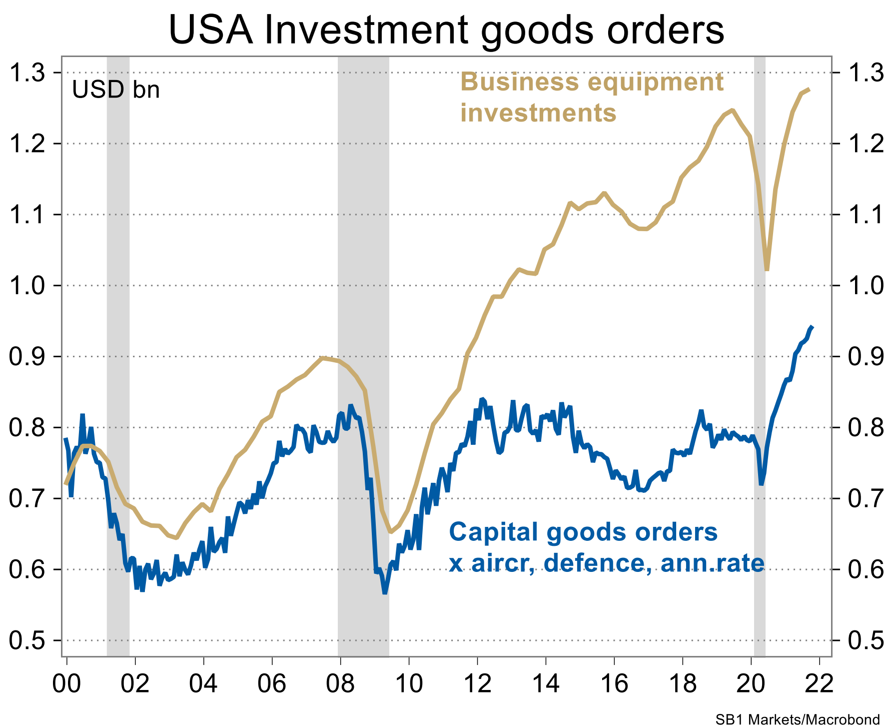


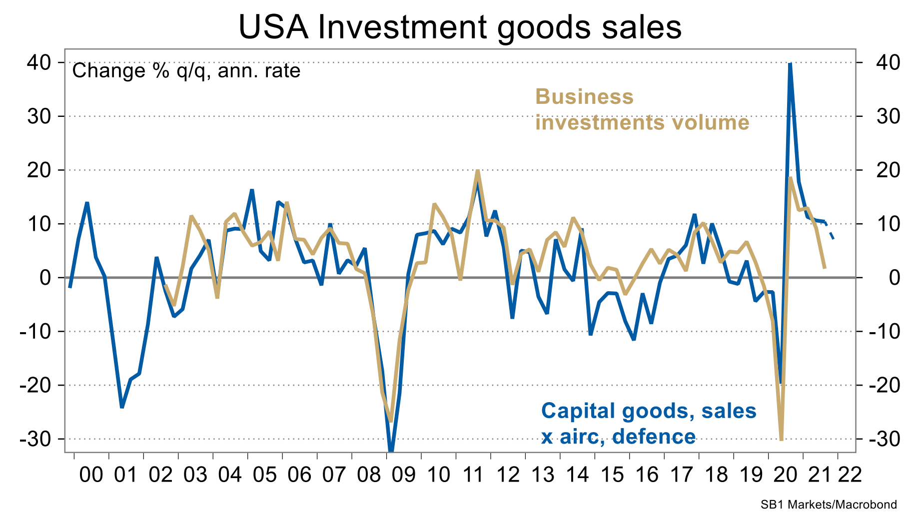


- **Total durable** orders climbed 2.5% in November, expected up 2.0%. Orders ex. aircraft & defence rose 0.5%. Underlying growth is still very strong
- **Core investment goods orders** fell 0.1%, expected up 0.7% - but the trend is still strong
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

Core capital orders are still trending up, a 0.1% Nov decline not significant

Signals decent growth in business investments in Q4



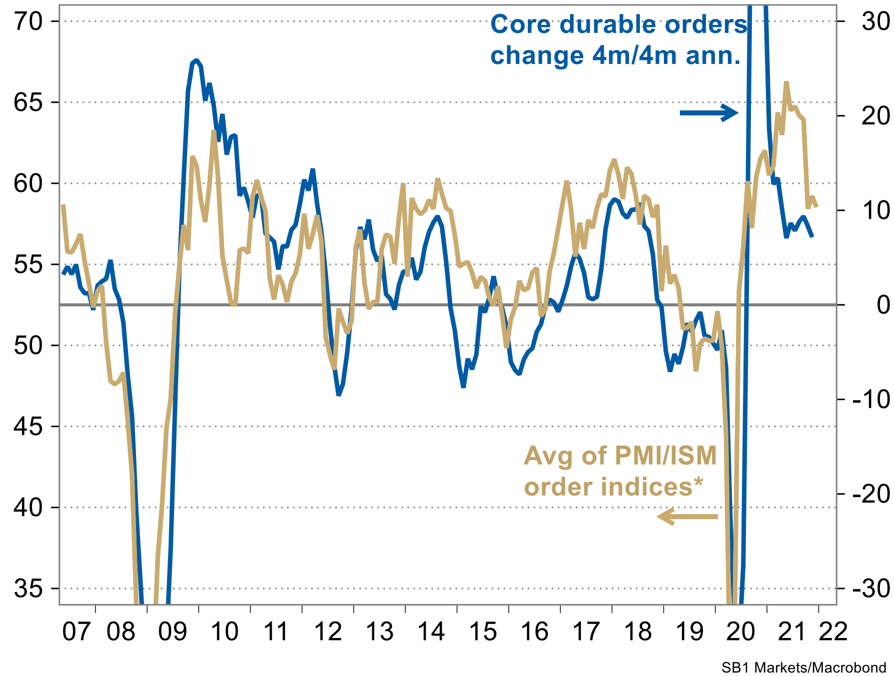


- **Core (x aircraft, defence) capital goods orders** fell 0.1% in November. Shipments were up 0.3%. Growth has slowed but still signals decent growth in business investments in Q4 (following a rather slow growth in Q3)
- **The business investment** level is well above the pre-pandemic level – and not at low vs. a reasonable long term trend. Investment surveys signal unusual strong growth in investments in 2022, check next page

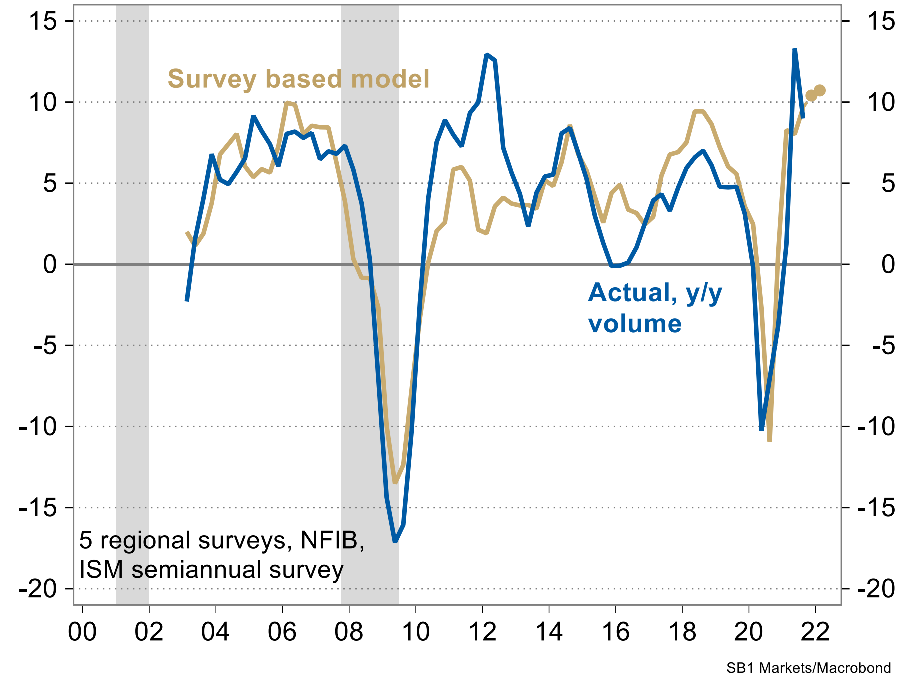
The ISM/PMIs are signalling a further growth in new orders

… and investment surveys have never before reported more upbeat investment plans

USA Durable orders vs PMI orders



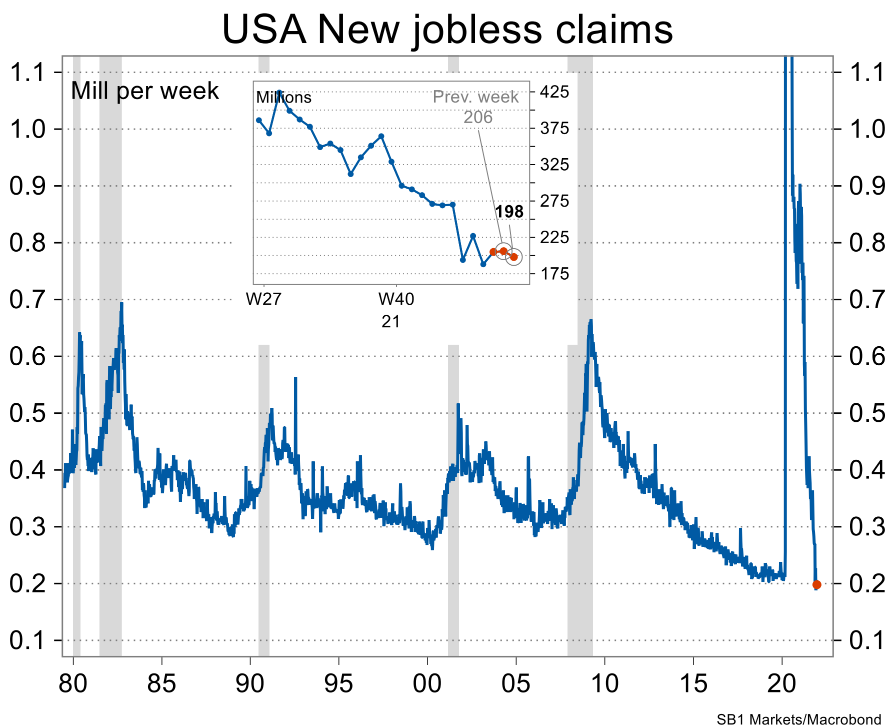
USA Business investments

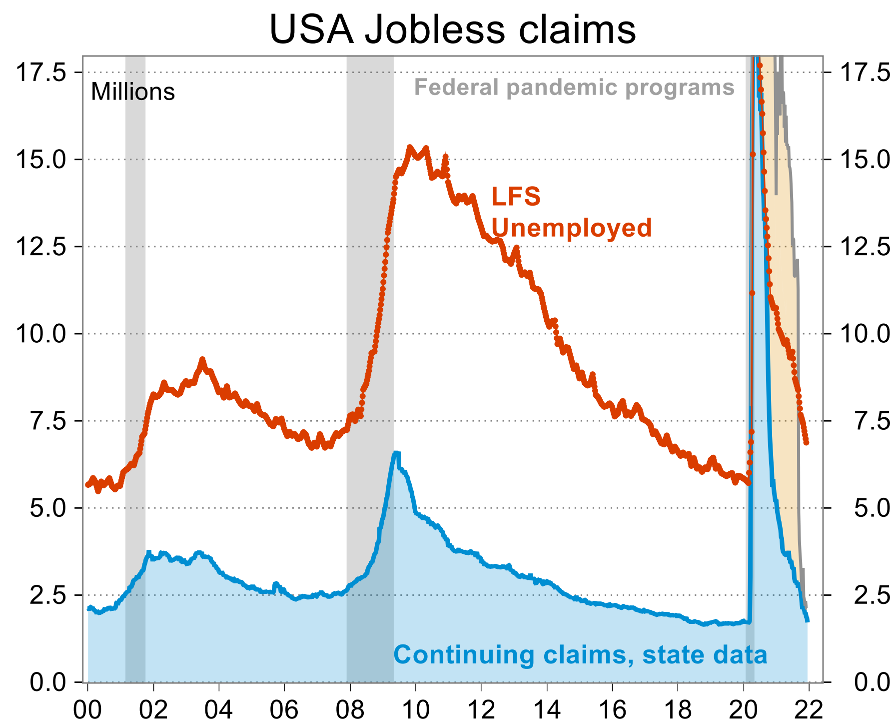


Aggregatet investment survey data just back to 2003

New jobless claims remain close to ATL

No of continued jobless claims is falling rapidly – and is now back to the pre-pandemic level!



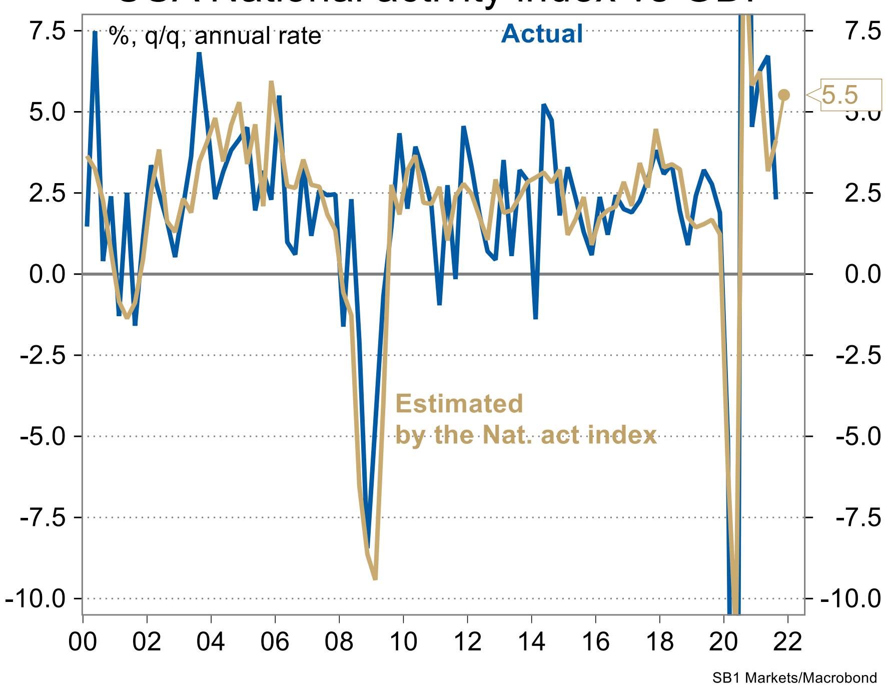


- **New jobless claims** fell to below 200' again in week 51 (before Christmas)
- **Ordinary continuing claims** declined 150' over the previous two weeks, down to 1.72 mill, to the same level as before the pandemic, in February 2020
- This report surely confirms an **extremely tight labour market**

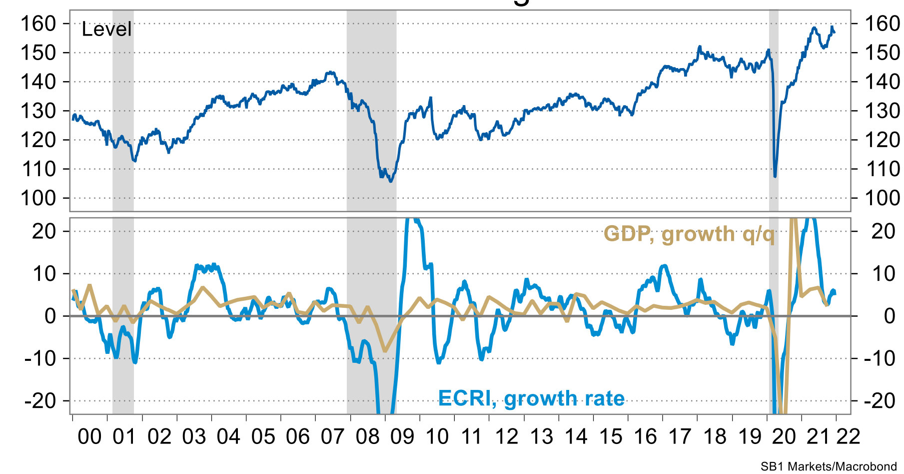
Growth is well above trend, according to Nat. activity index, ECRI & LEI

Conference Board's and ECRI's leading indicators join the party, both are reporting strong growth

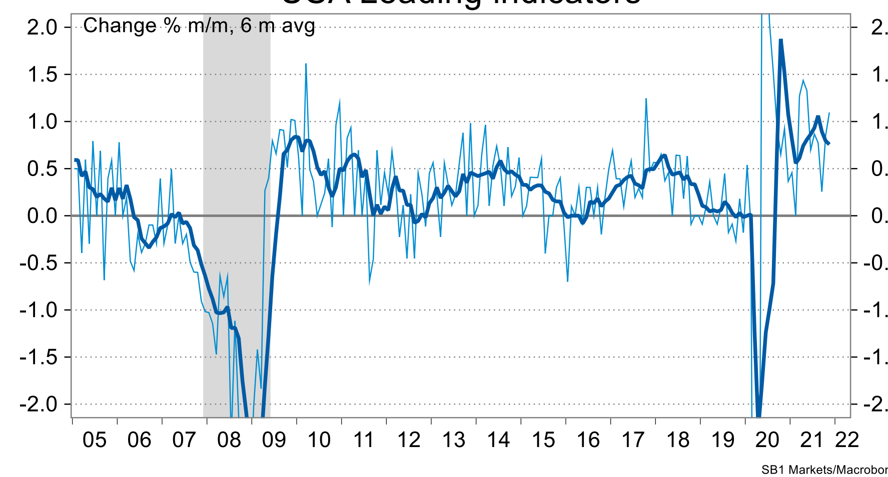
USA National activity index vs GDP



USA ECRI leading indicator

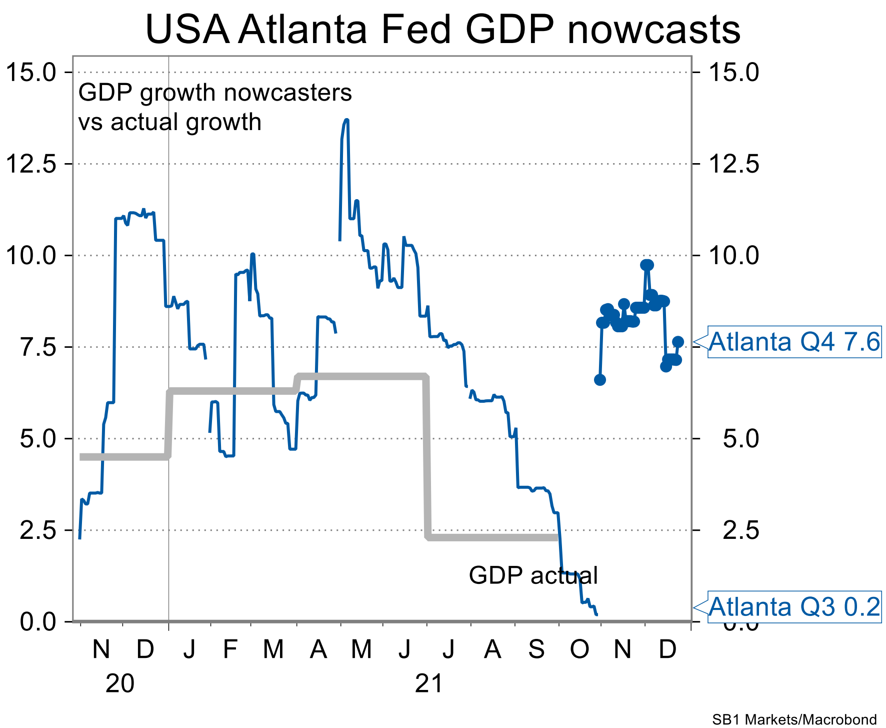


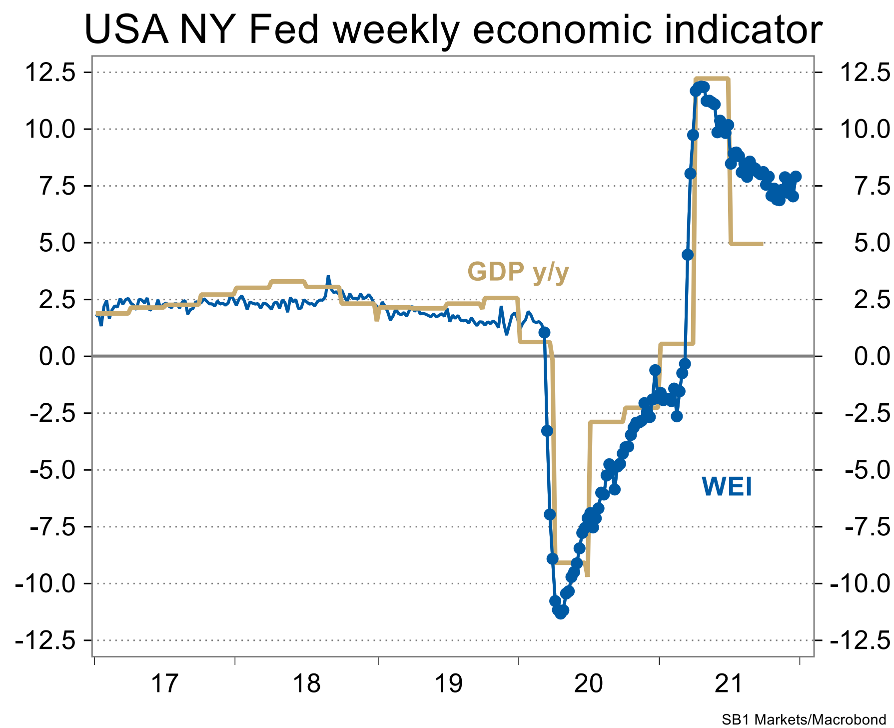
USA Leading indicators



Atlanta Fed's nowcaster suggests 7% growth in Q4, down from 8+

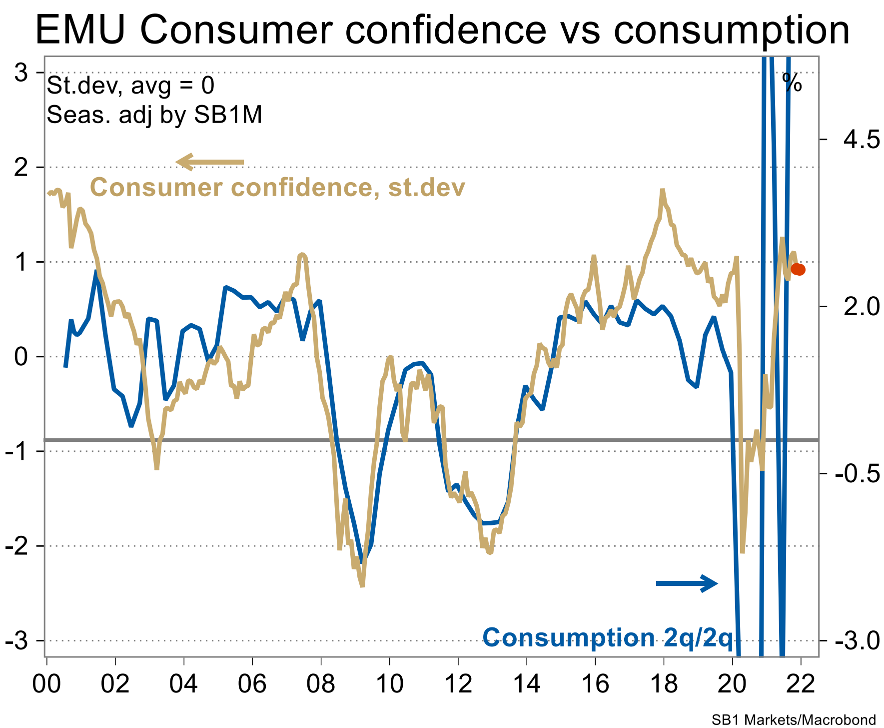
Retail sales surprised at the downside

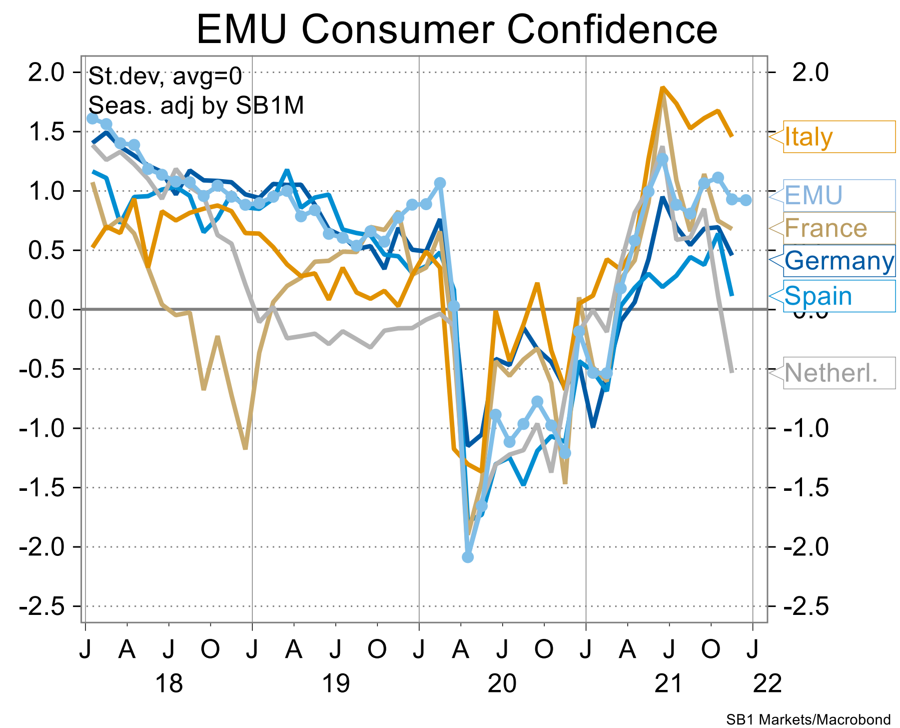




The viruses have not killed consumer confidence

The level is 0.9 st.dev above average – and higher than before the pandemic

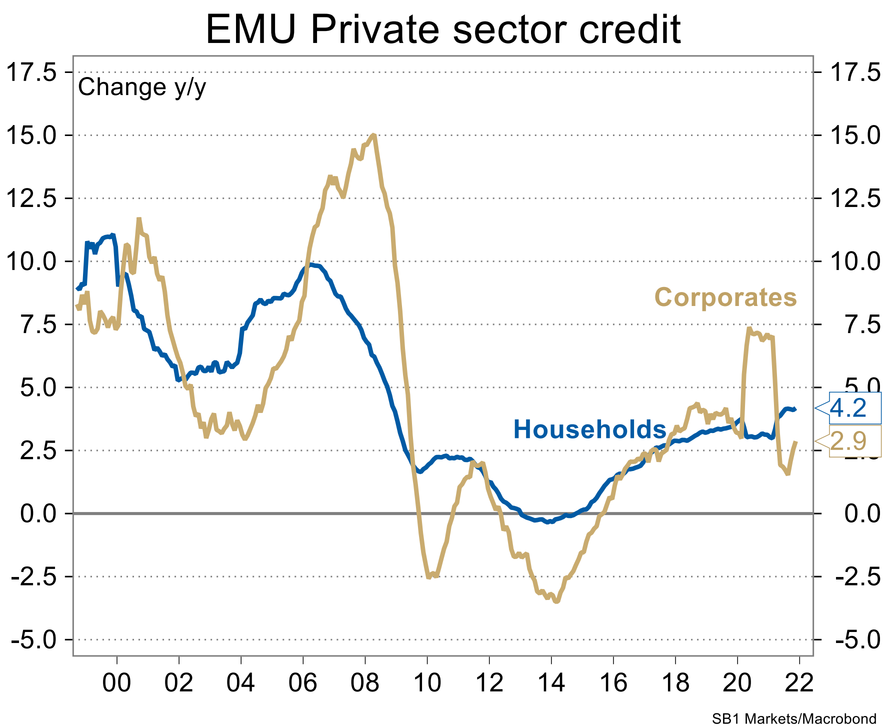


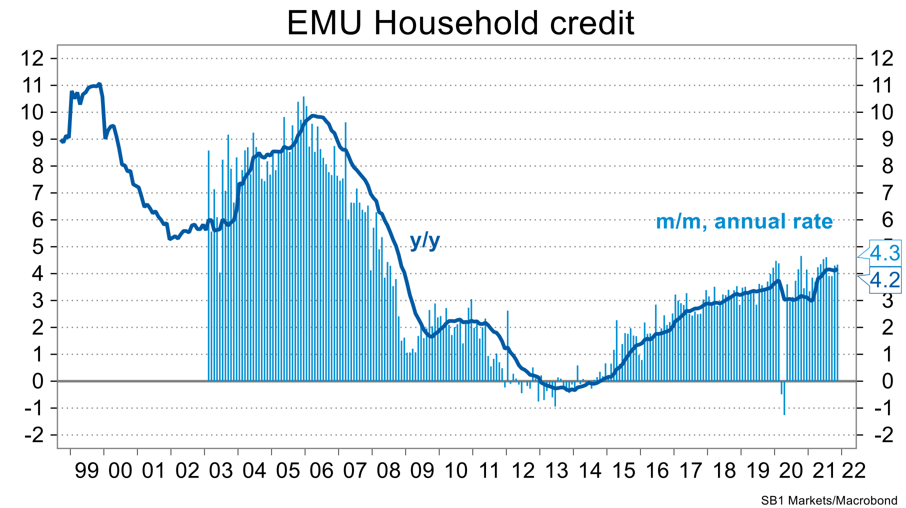


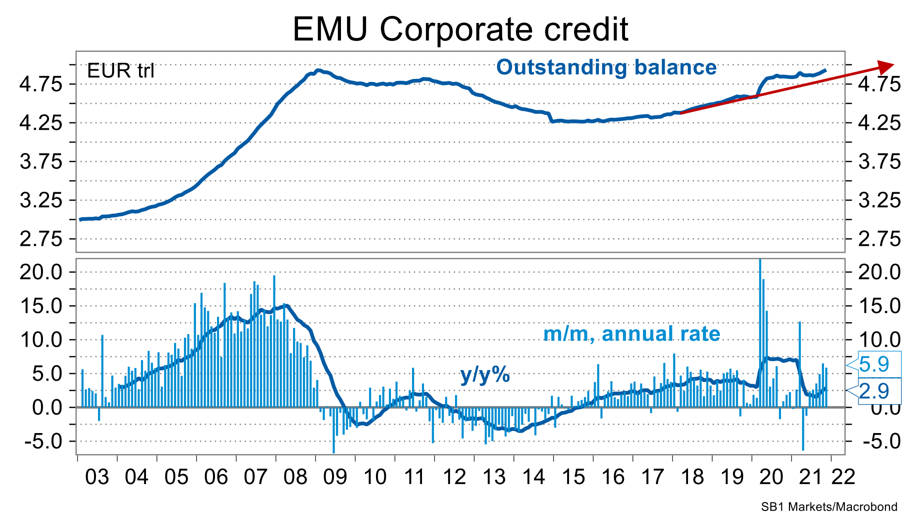
- **The consumer confidence index** fell marginally in December, according to the official preliminary estimate
  - » The index fell to -8.3 from -6.9, expected down to -8.1. However, the seasonally adjusted the index was close to unchanged at -6.1 – equalling -0.9 st.dev above average
- The index signals decent growth in household demand
- In November, confidence fell all over Europe but just Netherlands reported sentiment below par

Some life in corporate borrowing recent months, household debt up 4%+

Household debt is not accelerating – no credit boom to be seen



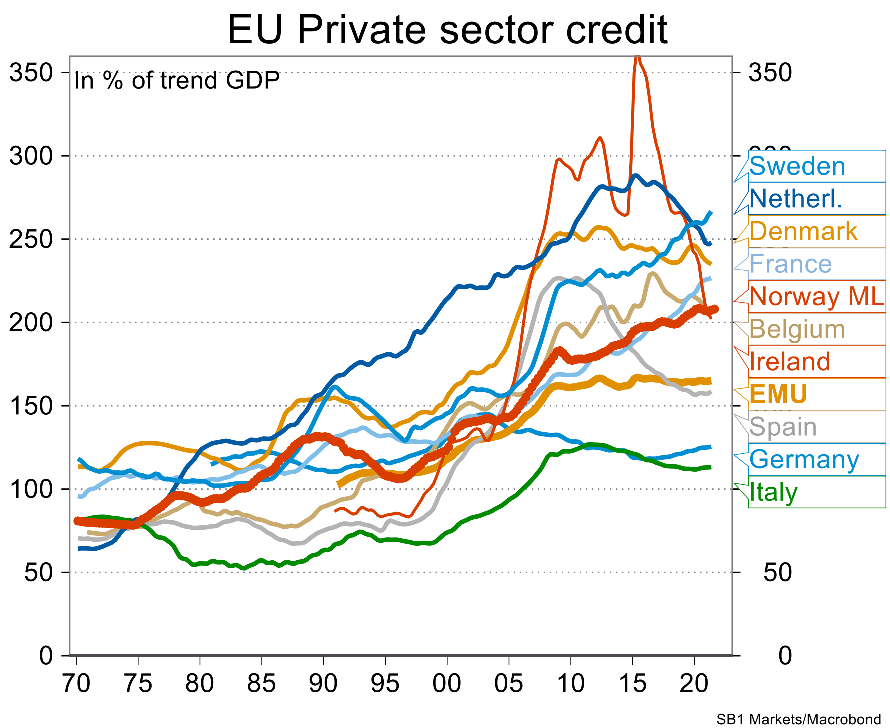


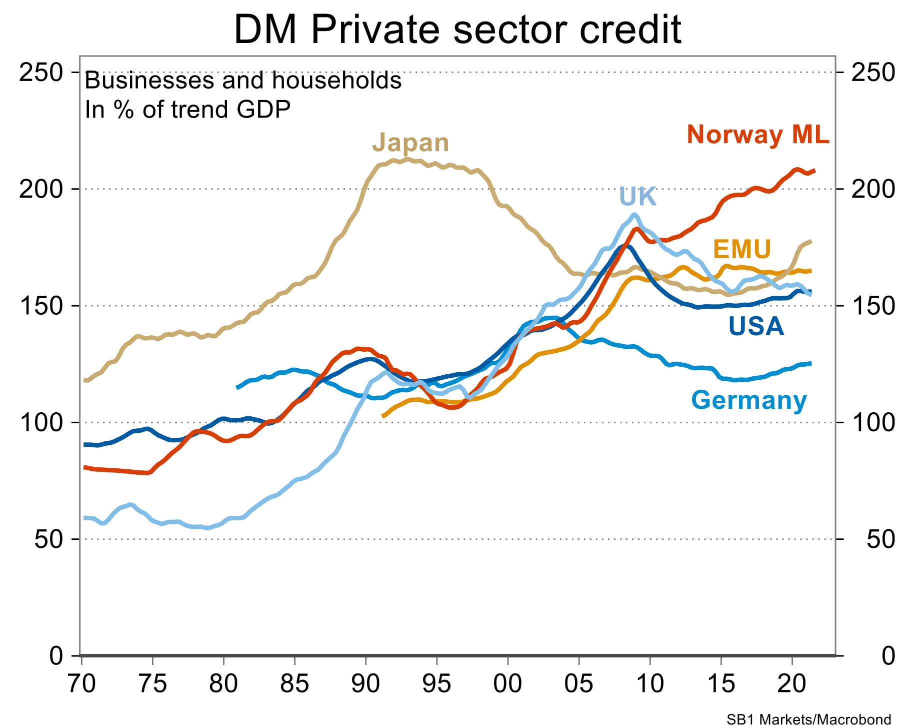


- The corporate debt level is still above the pre-pandemic trend growth path, and growth is now gaining some speed from month to month, now up at a 5.9% annualised pace in November
  - » The average growth over the past 2 years is 3.6%
  - » The credit volume is not higher than in 2008 in nominal terms – and sharply down in % of GDP or in real terms

The private sector has mostly been deleveraging since the Financial crisis

... and credit growth has been moderate during the pandemic, at least most places

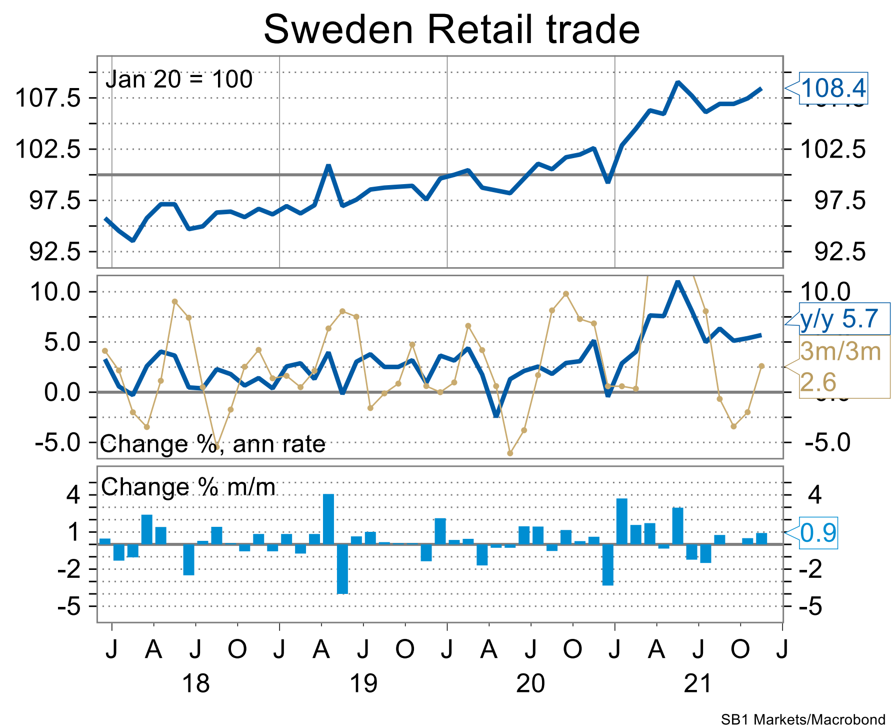


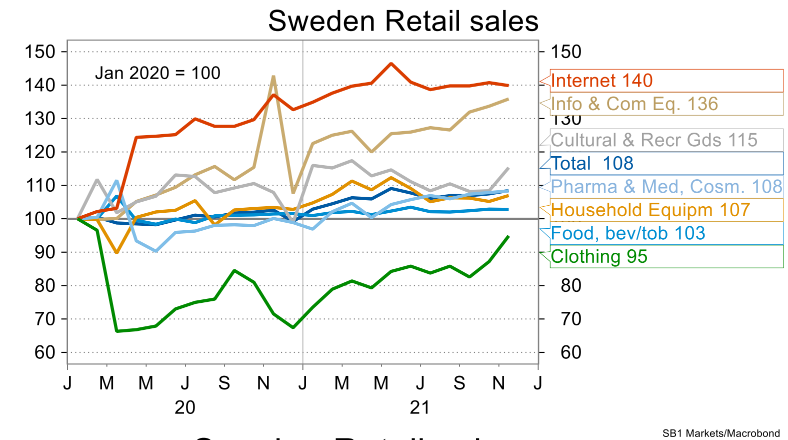


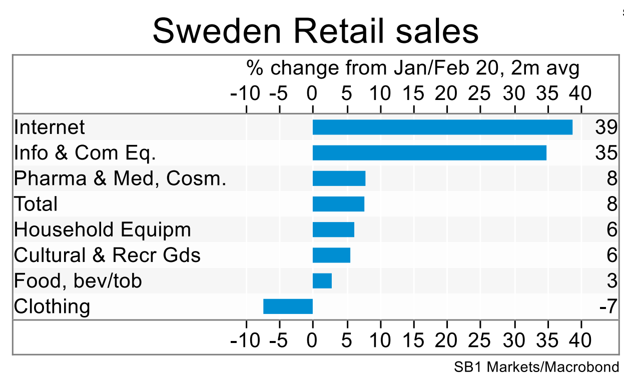
SpareBank 1 MARKETS

Retail sales up by 0.9% in November, short term trend slightly up too

Level is 8% higher than before the pandemic. Just clothing (of the main sectors) still below



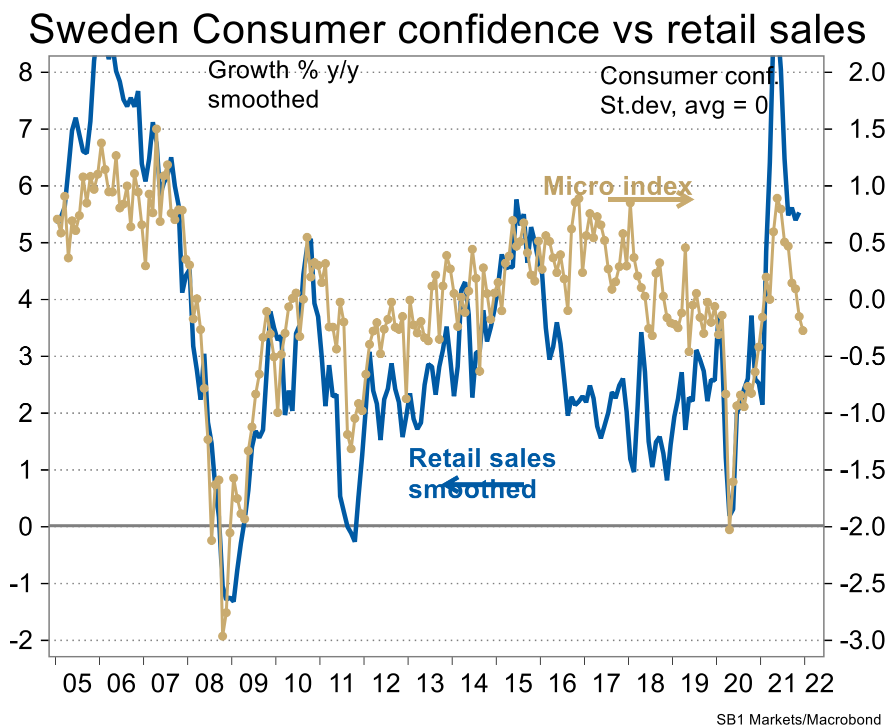


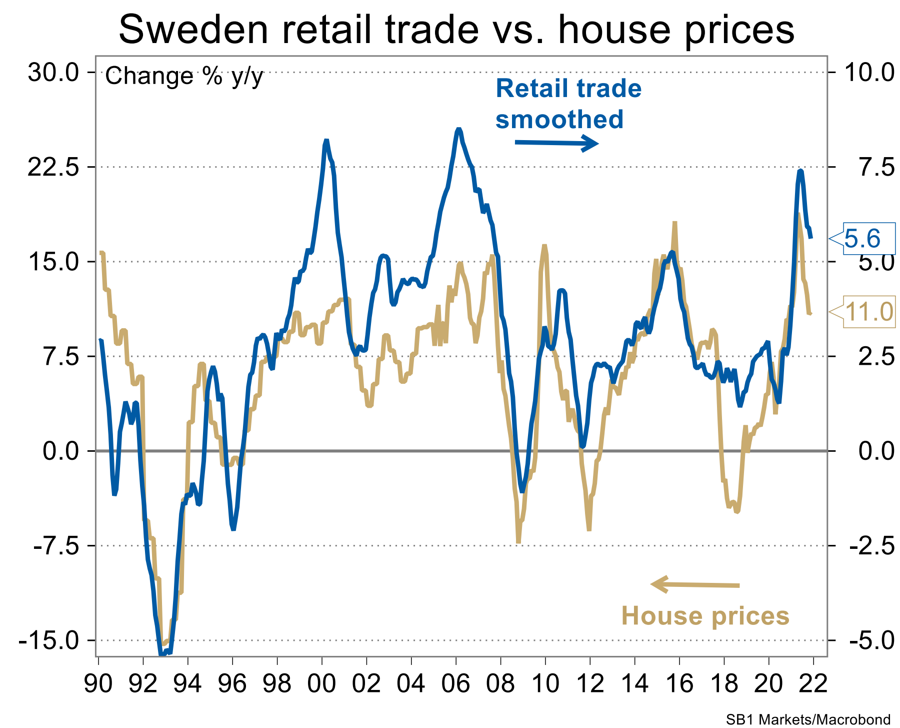


- Sales are still lower than in the early summer but has recovered the recent months
- Huge sectoral differences. Internet sales up 40% (here like in many other countries), info/communication +35%. Food sales are close to flat, which is strange, given far less activity at restaurants (and Norwegians do not normally buy that much in Sweden, do we??) Also, clothing sales are still down 7% vs Jan/Feb-20 (while sale volumes are up 23% in Norway – how come??)
- As for Norway and several other countries: Retail sales are very likely above a the long term trend – but less than in Sweden than in many other countries

Consumer confidence further down in December, to further below par

Virus fatigue? Electricity prices? Quite likely. The economy is OK

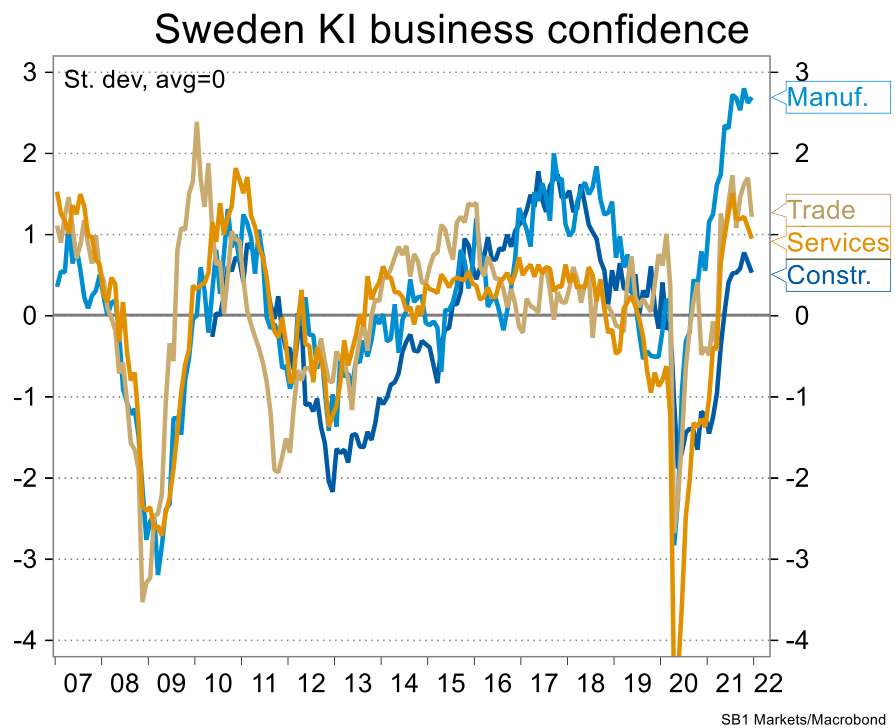


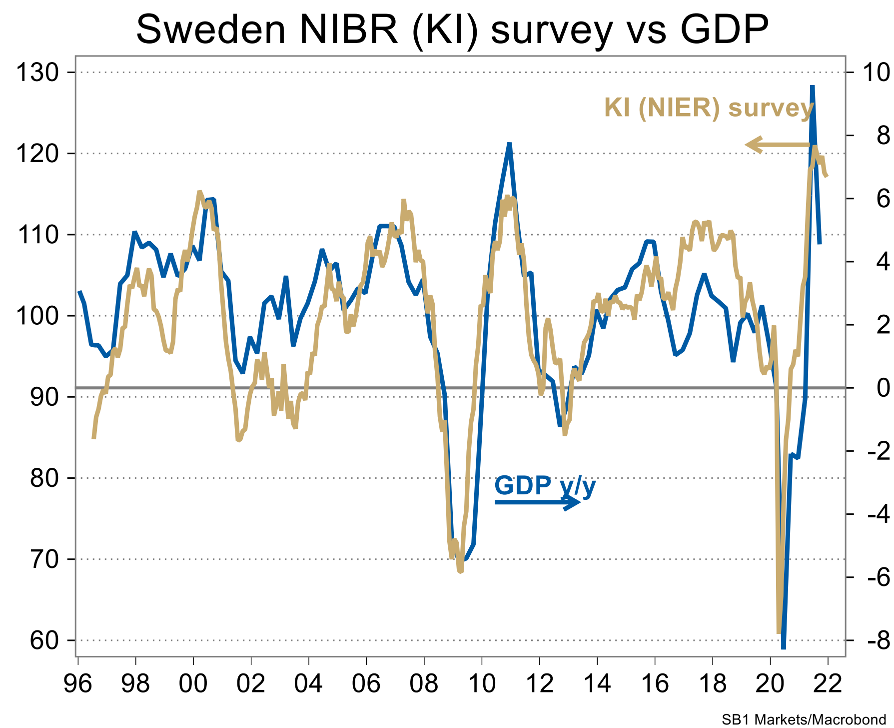


- **Confidence** is slightly below the pre-pandemic level – after being well above during most of last year
- Since 2015, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened. <u>The confidence level does not suggest a setback in household demand</u>

KI business survey marginally down in December, still at a very high level

All sectors report confidence above average, manufacturing in the lead. Total index signals 7% growth

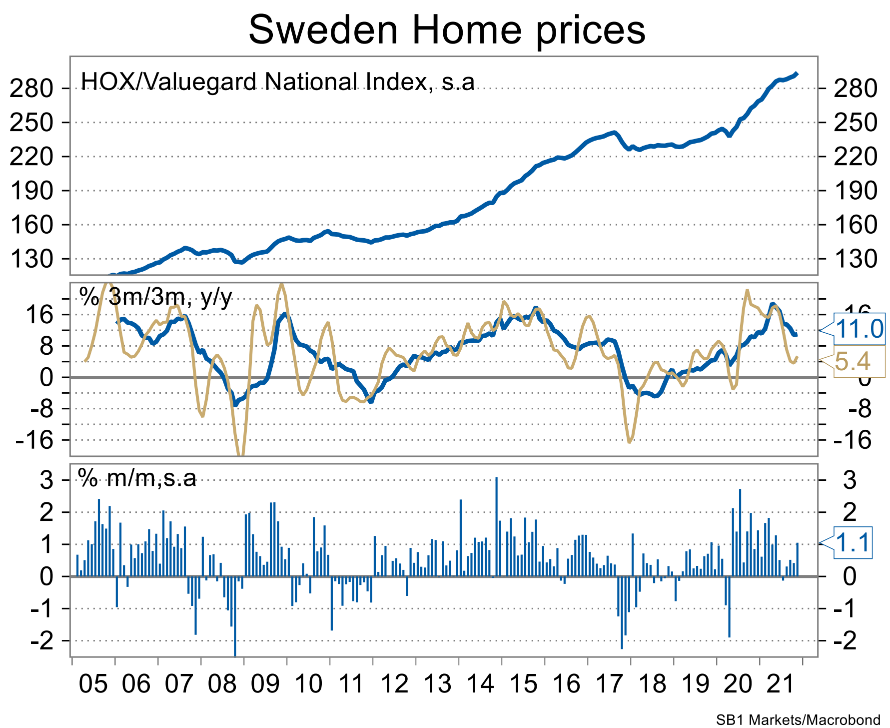


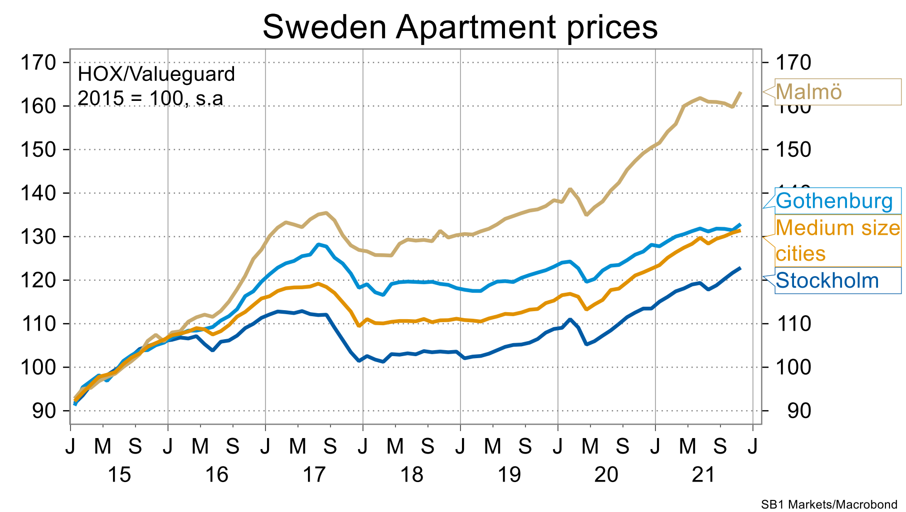


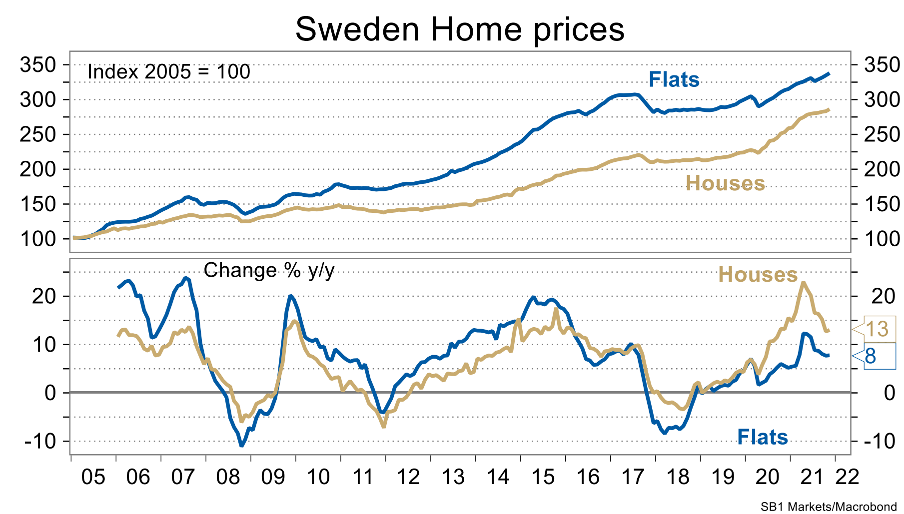
- **The composite index** fell to 0.5 p in Nov to 117.1 – and down from 121 p in July. The survey still signals a 7% GDP growth rate0
  - » The index is 1.7 st.dev above average, down from 2.1 at the peak in July. Even so, the Dec level is higher than anytime before, barring the previous few months
- **All 4 main sub-sectors** are reporting growth far above average. Trade slowed the most but is still second to manufacturing, where the confidence index rose slightly
- The **Riksbank** is still concerned about the impact of the corona crisis, and thinks it will keep the policy rate at zero until late 2024. If growth subsides rapidly, that may OK. If not..

Swedish house prices up 1.1% in Nov but underlying growth has slowed

The annual price growth has fallen to 11%, from the peak at 19%, the current pace at some 5%





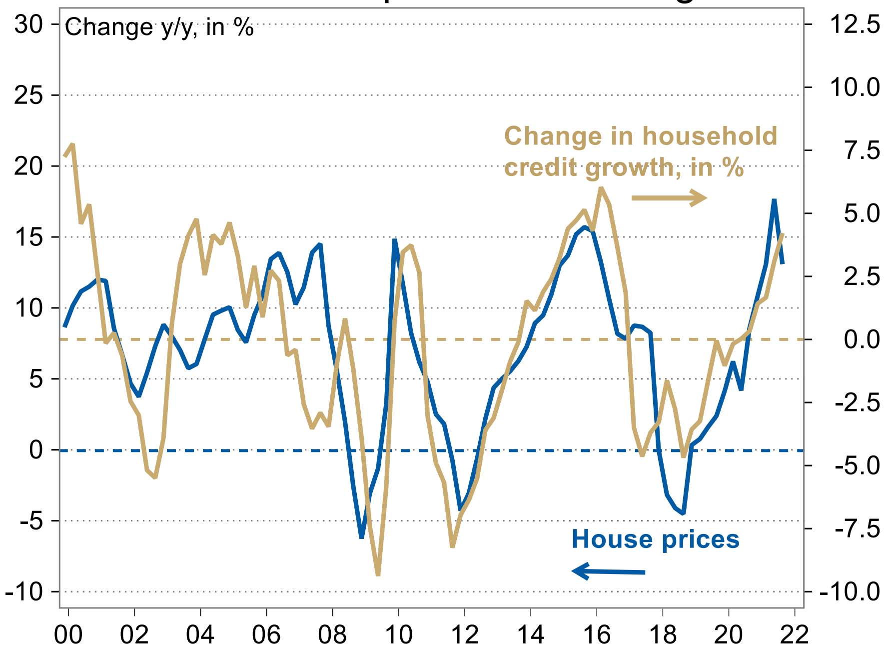


- The annual price inflation accelerated to 11% in Nov from 10.7% in Oct. In April the rate was 19% vs the local trough in Apr-20
  - » The underlying price growth (3m/3m) has fallen to 5%
- The 3 main cities reported higher prices in Nov. The trend is up in Stockholm but until the lift in Nov, prices had flattened in Malmö and Gothenburg
- House prices have slowed more than flat prices, reversing some of the opposite movement last year but houses are still up 13% y/y, flats 8%

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

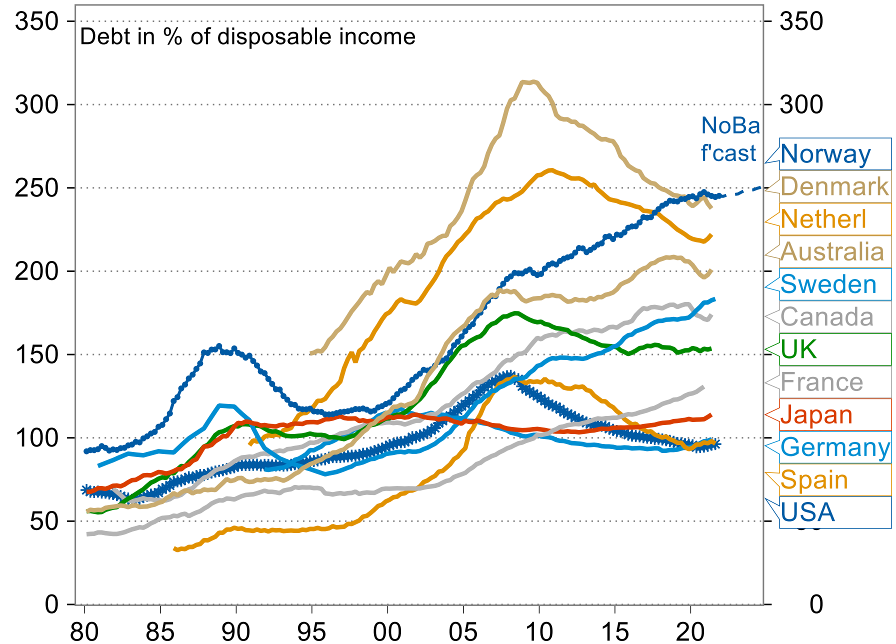
... and more than in any other rich country, without cuts in (record low) mortgage rates

Sweden House prices vs credit growth



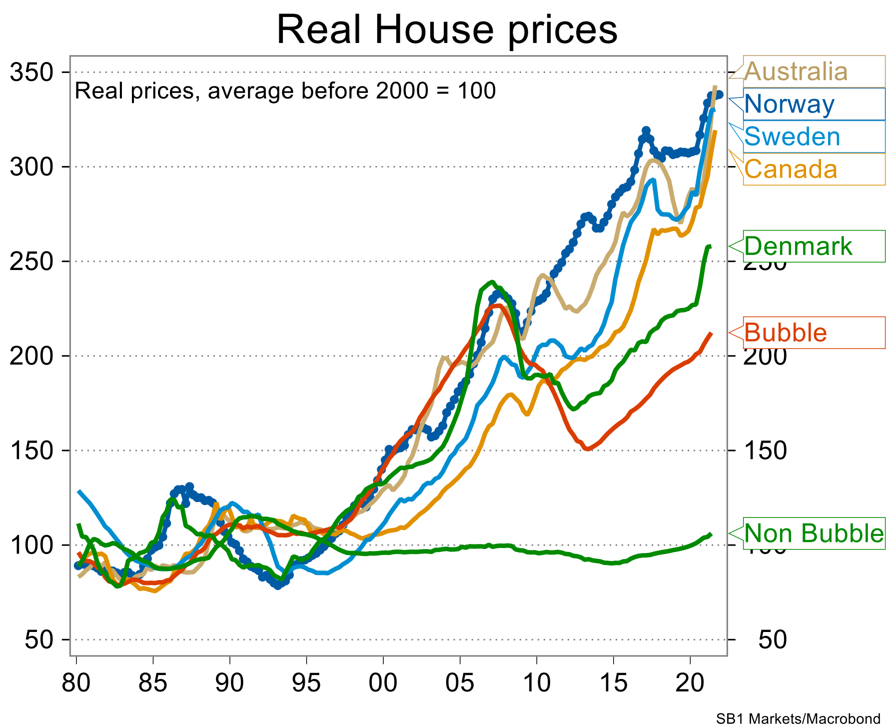
SB1 Markets/Macrobond

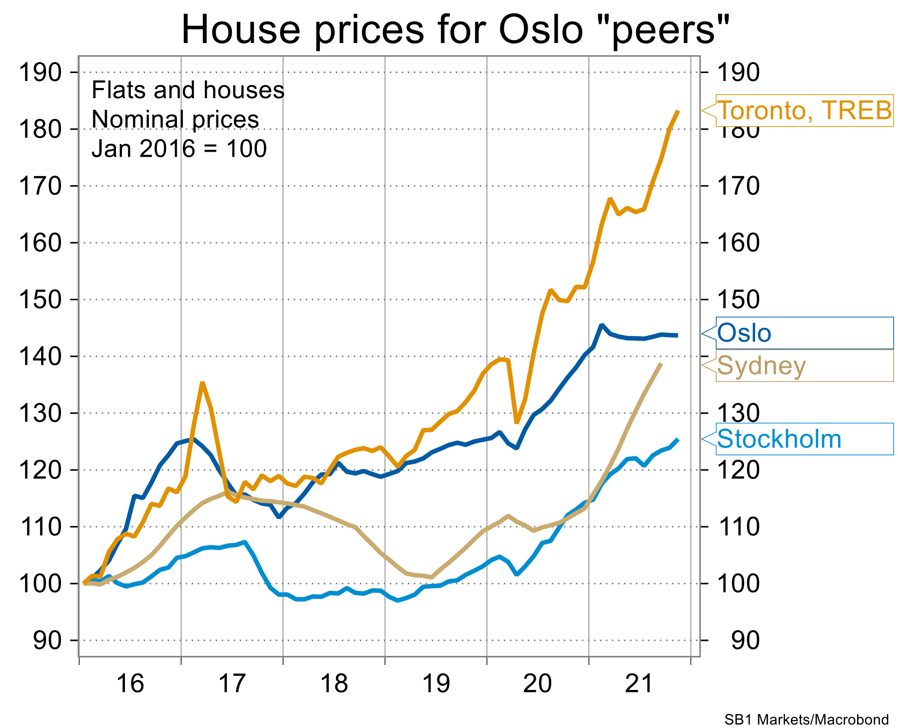
Household debt



SB1 Markets/Macrobond

Zero-interest rates are just wonderful!

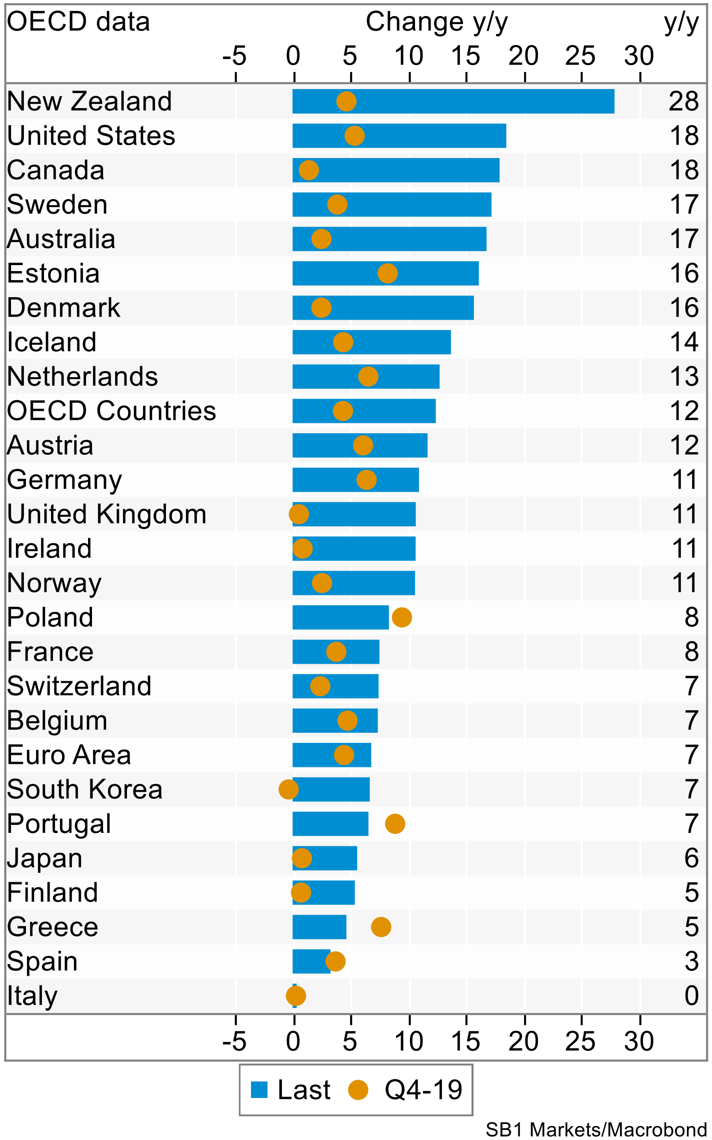




- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Home prices in the capitals in these countries are mixed recent months, as Oslo and Toronto have taken a break – but Sydney is probably still on the way up
- Other countries are following, like Denmark, New Zealand, US (check next page)

House prices up everywhere, and have accelerated in 21 of 26 countries

House prices



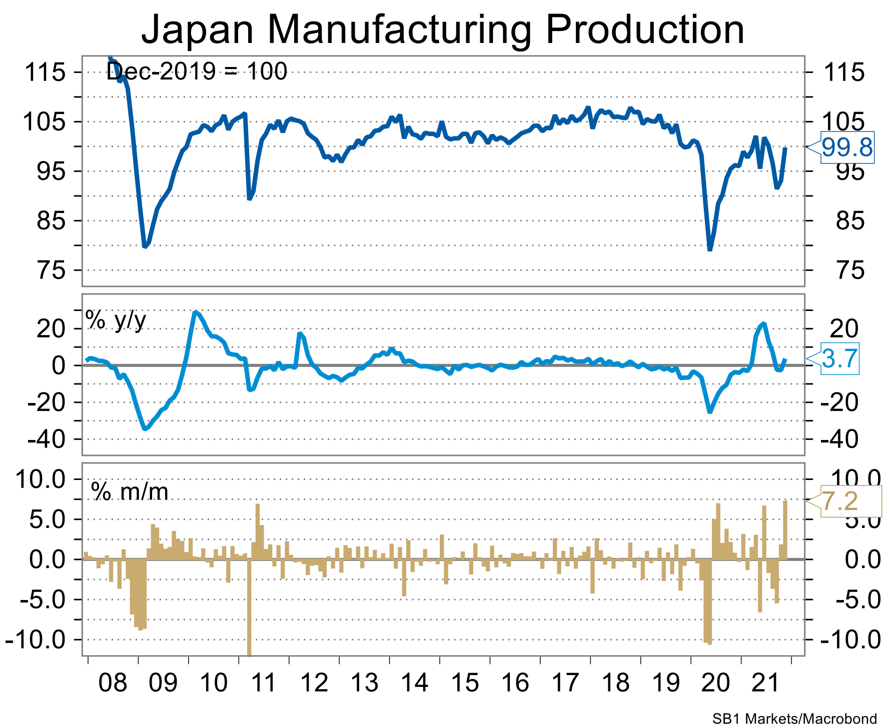
Sweden (was) close to the top of the list

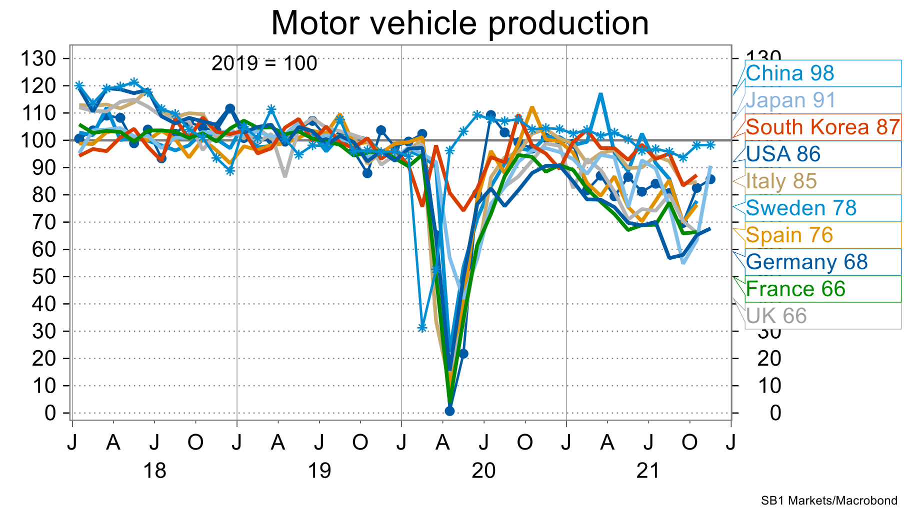
- The average price appreciation in the OEDC area was 12% in Q2, up from a 4% before the pandemic
  - 22 of 27 countries/regions report an acceleration in house prices since before the pandemic, 3 countries a slowdown
- New Zealand, Canada, Australia, Sweden, USA, and Denmark have reported the steepest acceleration vs. pre-corona growth rates
  - Sweden reported 17% in Q2, now the growth rate has fallen to 11%
- Price inflation has slowed the most in Greece, for good reasons – the tourist country has been through a harsh downturn. The house markets in Spain and Portugal have been hurting, for the same reason

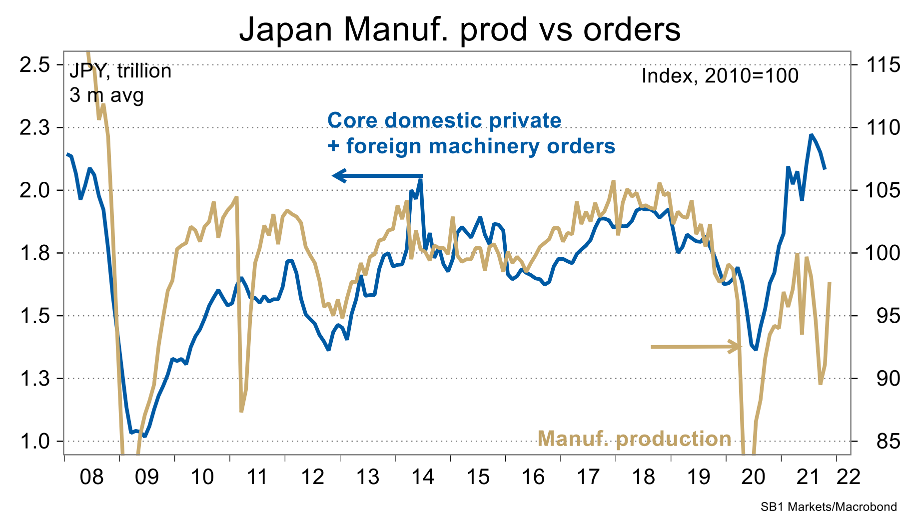
OECD quarterly data, the last quarter Q2 or Q3-21

Manufacturing production up 7.2 m/m in Nov, as auto production gained 44%

The surge was even sharper than expected. Still, production is just back at low pre-pandemic level



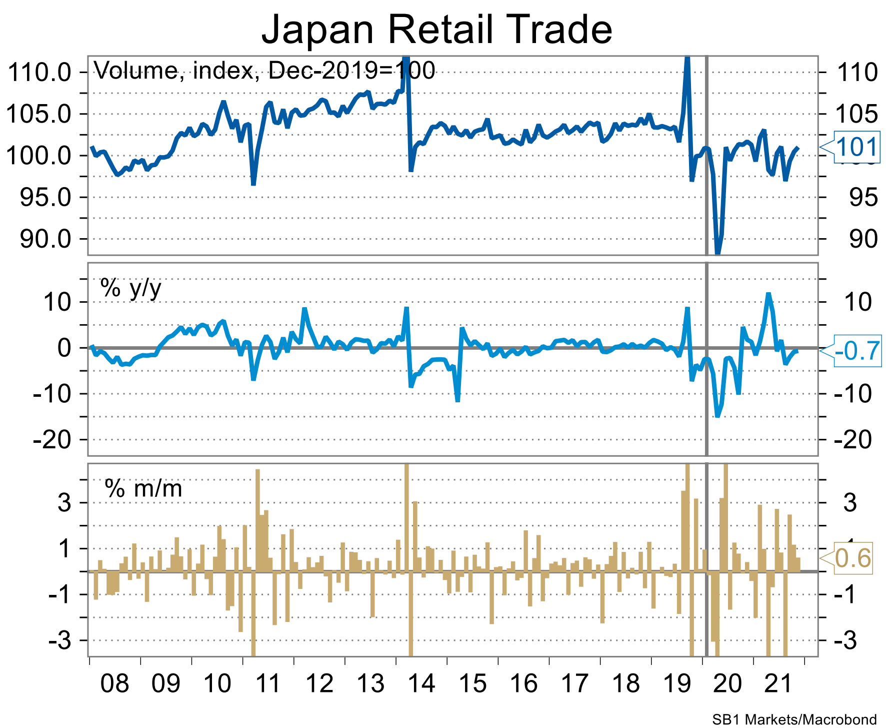


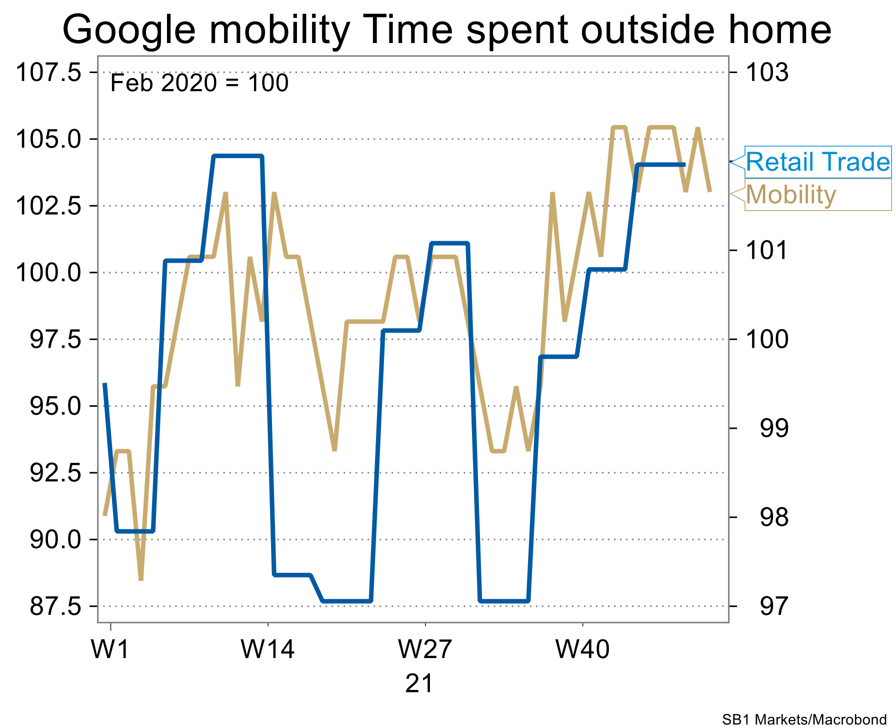


- **Motor vehicle production** was almost half the normal level in September, rose significantly in October, and then surged 44% to just 9% below the 2019 level in November
  - » However, auto producers are still reporting serious lack of components og production below par the coming months
- **Overall order inflow** has strengthened substantially through 2021, and signals a much higher production level than the present

Retail sales further up in November, level still not impressive

Sales are 1% above the pre-pandemic level – which was rather weak





- **Retail sales** climbed 1.2% m/m in value terms in November, expected up 1.1%
- In **volume terms** sales rose by 0.6%, but the short term trend still weak even if sales are 1% above the (very low) pre-pandemic level. Sales are down 0.7% y/y

Highlights

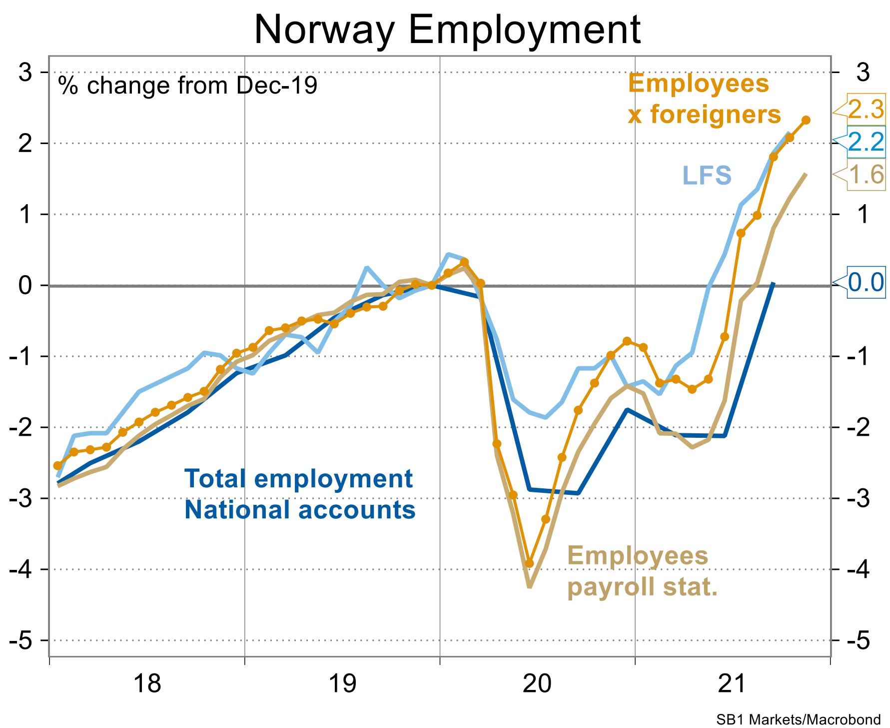
The world around us

The Norwegian economy

Market charts & comments

Reg. employment up 0.3% m/m in November, 1.6% above the pre-pandemic level

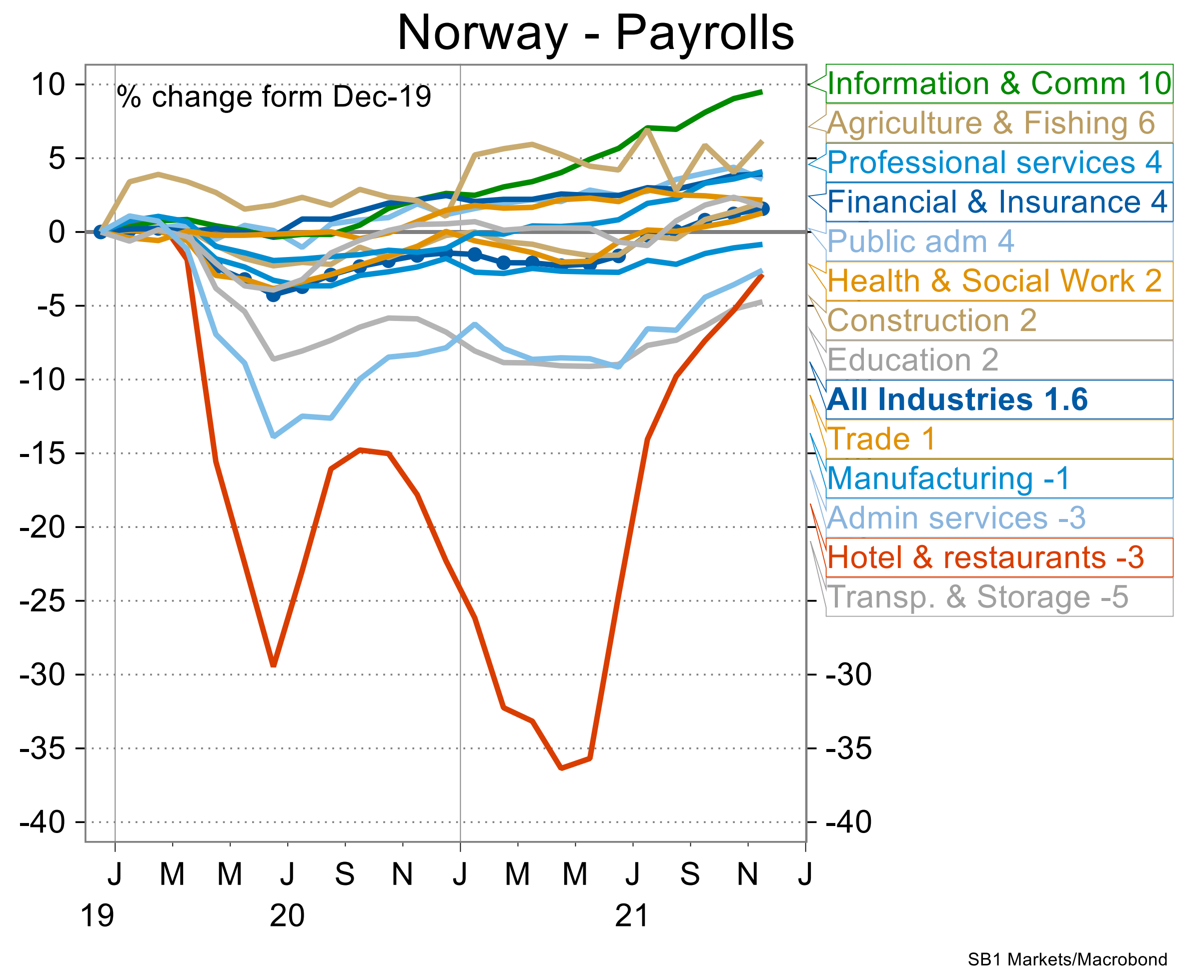
Employment up 2.3% among persons living in Norway. The LFS confirms strong employment growth

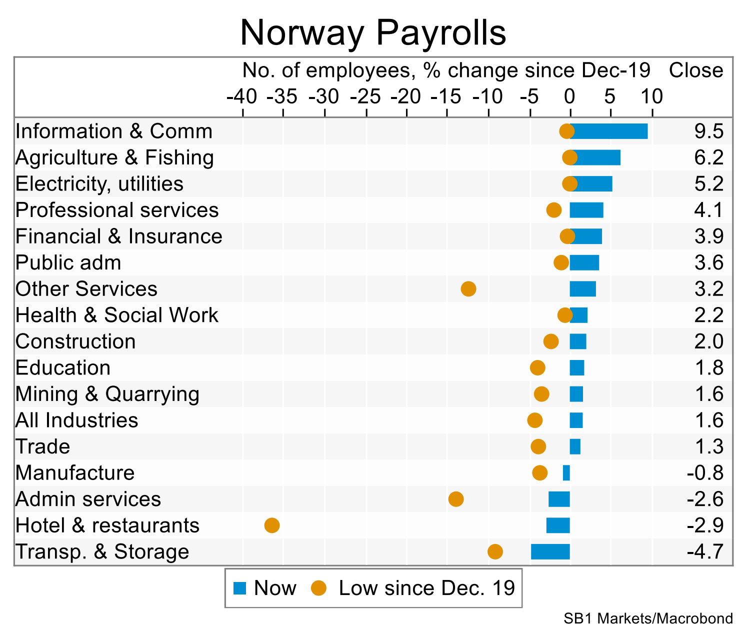


- The increase in the **register based no. of employees** in November suggests at continued growth in Mainland GDP above trend
  - » Payrolls grew by 0.3% m/m and is now 1.6% above the level in Dec-19
  - » We estimate the no. of employees among permanent residents (Norwegian and foreign born) to be 2.3% above the pre-pandemic level (based on our Q4 estimate for foreign workers on short-term stay)
  - » Growth has slowed the past two months but remains well above growth in working age population
  - » The increase in employment is broad based, check next page
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported a 8' (0.3%) growth in employment in October (avg Sep-Nov from avg Aug-Oct), and by 28' over the past 3 months, equalling 1.0% or a 4% annualised pace
  - » LFS employment is up 2.2% since before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate has 'collapsed' (more to come at the next pages)
- **National Accounts** reported a 2.1% growth in total employment in Q3 – up to the same level as in Q4-19. These NA data includes foreigners on short-term stay

More workers than before the pandemic in most sectors

Just the pandemic hit sectors administrative services, hotels & restaurants and transport still below



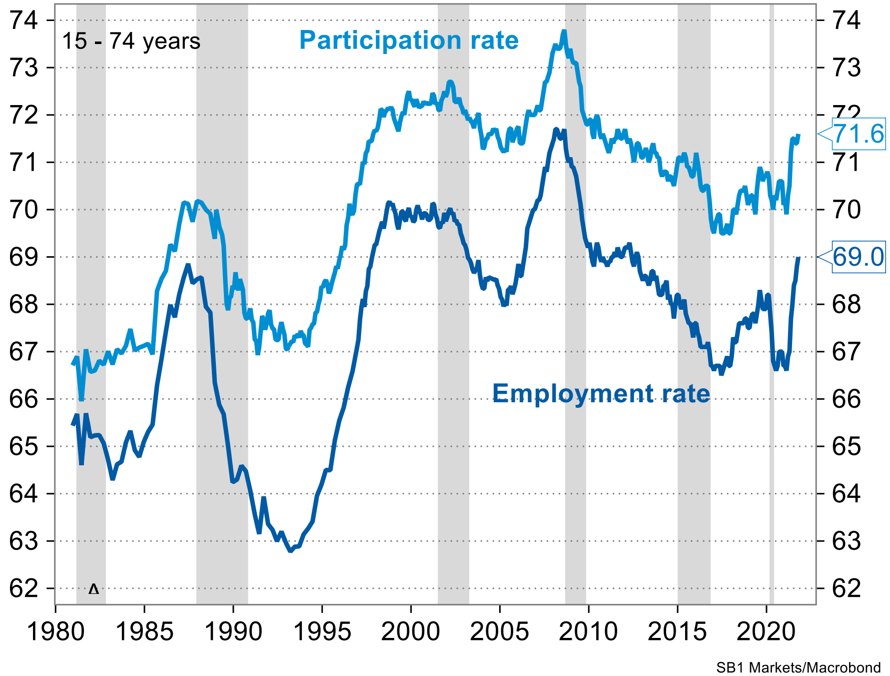


SpareBank 1 MARKETS

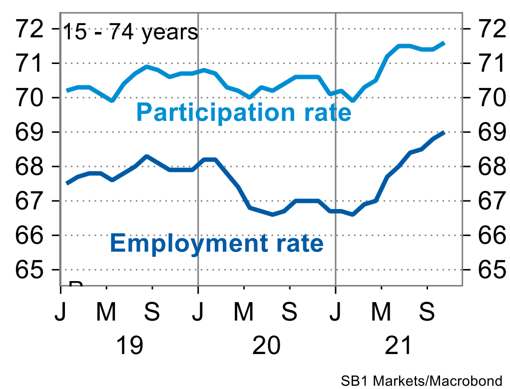
An impressive lift in both particiaption & employment rates!

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

Norway Labour market

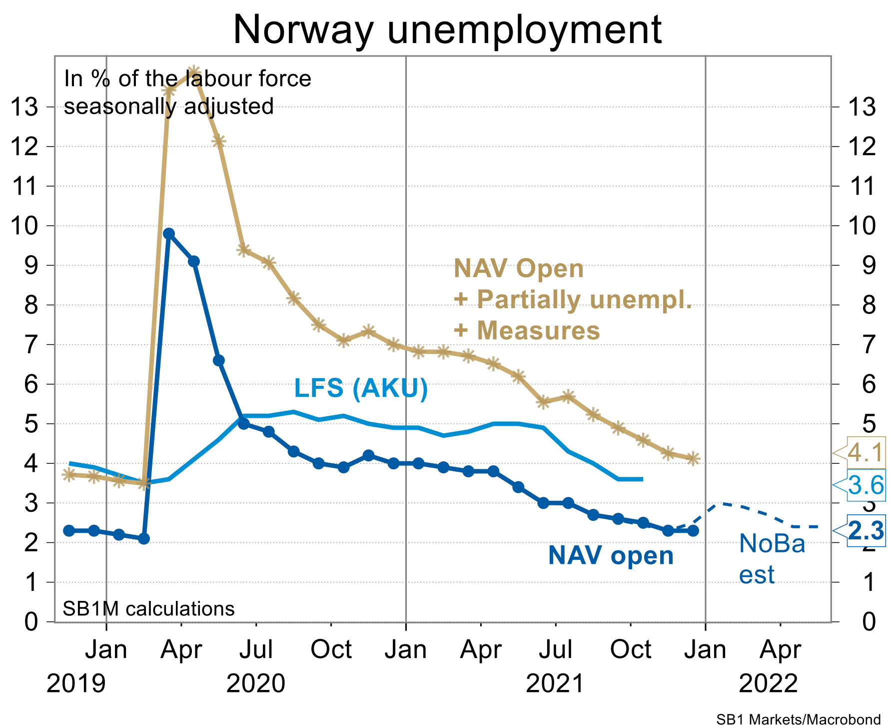


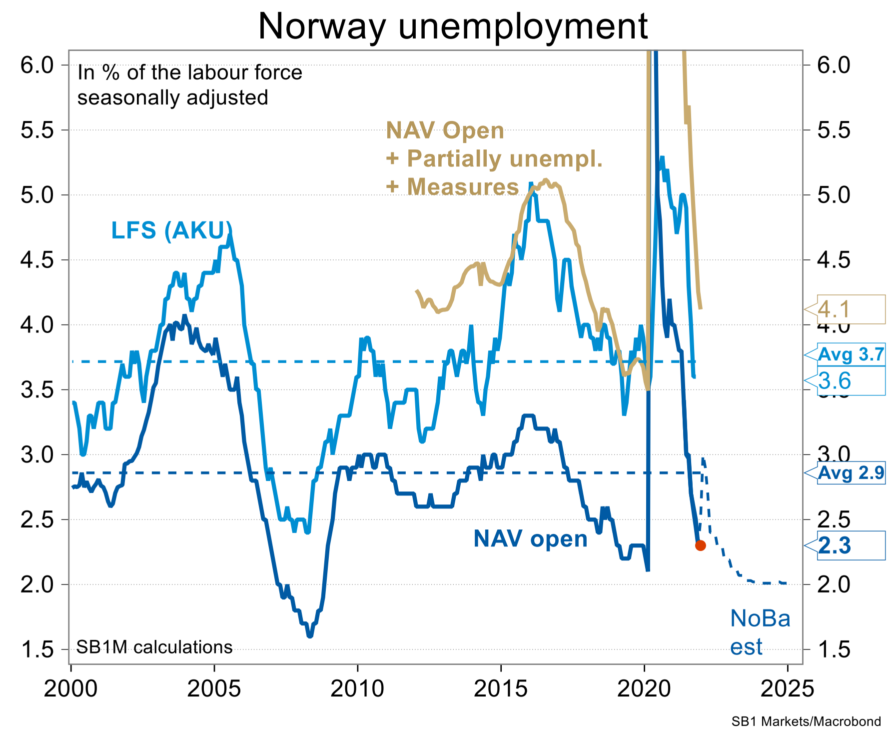
- **The employment rate** is climbing rapidly
  - » In October, the rate rose by 0.2 pp to 69.0% (of the working age 15 - 74 y population). Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017, after the 'oil crisis')
  - » The employment rate is the highest since 2012
- **The participation rate** is also well above the pre-pandemic level, and following a flattening since June, it gained 0.2 pp m/m to 71.6% in October, up from 70.8% before the pandemic. The participation rate is also at the highest level since 2012
- These monthly data are volatile but the flattening of the participation rate since the early summer even if demand for labour is still increasing may indicate that the easy part of 're-engagement' is behind us



The LFS unemploym. rate stable at 3.6% following the 1.4 pp decline since May

NAV and LFS (AKU) are now more or less in line, the labour market is tightening rapidly

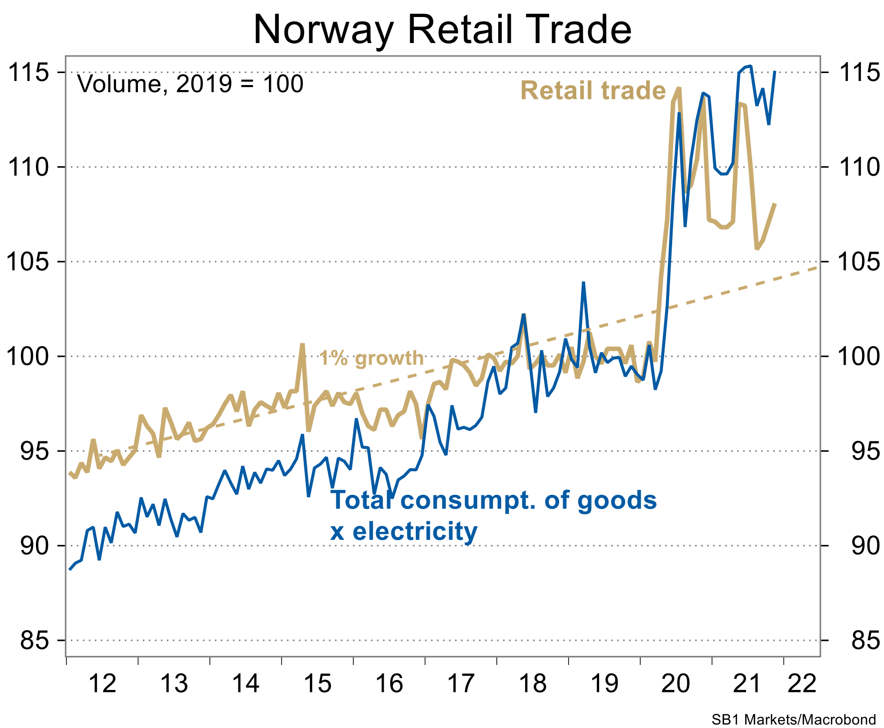


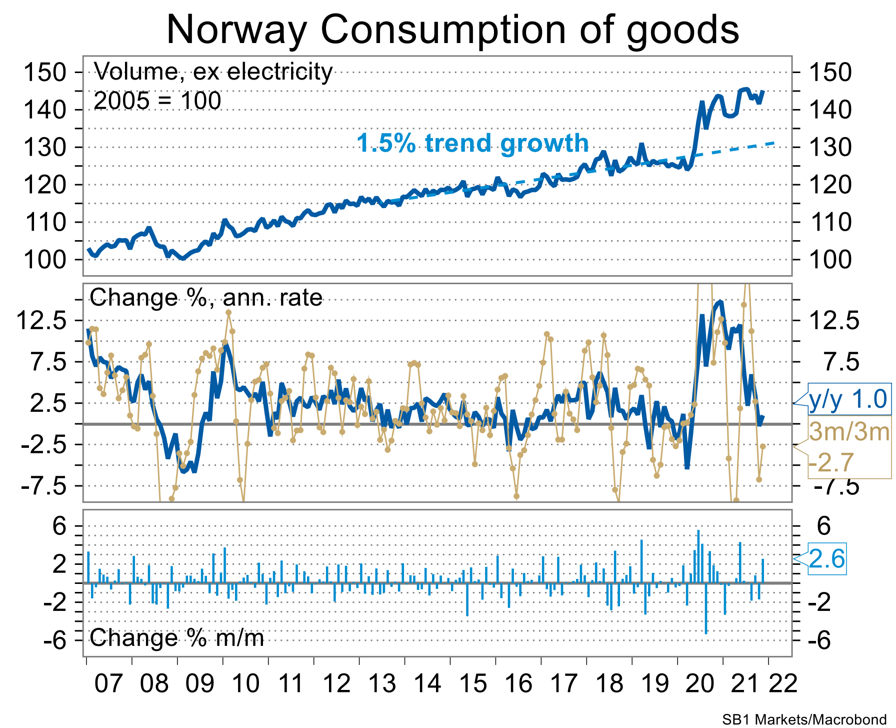


- **LFS unemployment** rose by 1’ m/m in November, but is down 19’ past 3 months. The rate was unchanged at 3.6%, we expected a decline to 3.5%. The rate is just 0.1 pp higher than in Feb-20 (but lower than in Jan-20 & Dec-19)
- The decline in the LFS unemployment rate during the 6 months since May – when it still was at 5.0% – is the steepest 6 m decline, ever (by a wide margin)
- **Norges Bank** expects an increase in the NAV unemployment rate to 3% in February from the current 2.3%, due to the virus restrictions implemented before Christmas

Retail sales further up in November, total consumption of goods close to ATH

Sales rose by 0.9%, as in Oct, better than expected – but the trend has been down since last summer

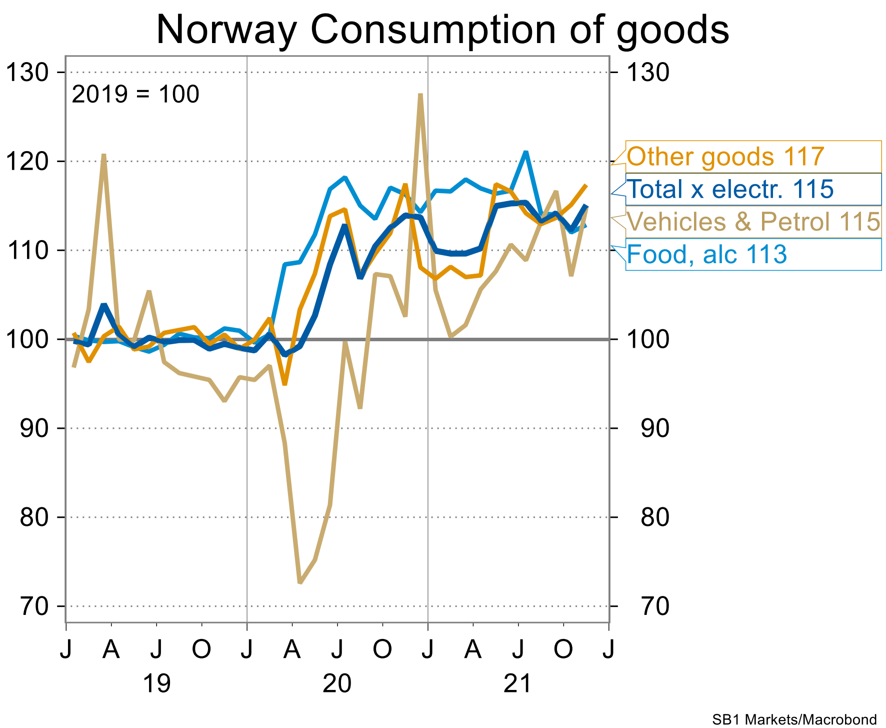


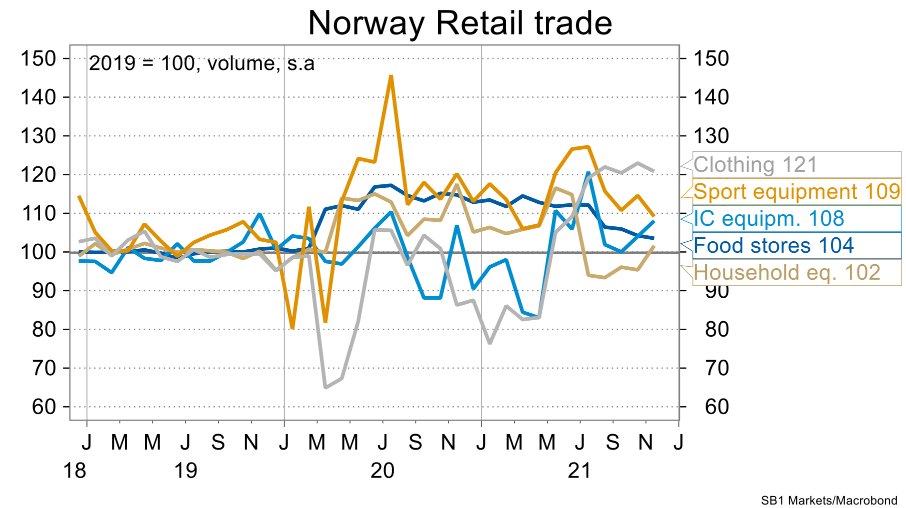


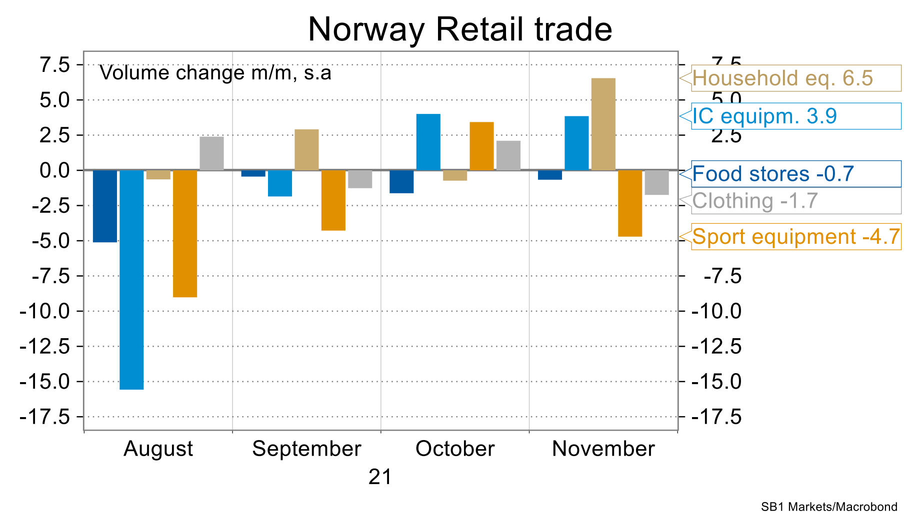
- **We expected** a 1.5 decline in retail sales, consensus was at -0.8%. Sale volumes are down from the peak, but are still up 8% vs. the 2019 level. However, measured towards a even a very modest 1% trend line from 2013, sales are just 4% above
- **Total household consumption of goods** (x electricity) shot up 2.6%, almost up to all time high, 15% above the pre pandemic level
  - » Auto sales rose sharply but 'other sales' (than auto & petrol, electricity, and food) are at close to all time high too, up 17% from the 2019 level
  - » The main reason for the difference between retail sales and consumption of goods is strong auto sales and the decline in sales of building materials, which is included in retail sales but not in consumption of goods

Food sales have been trending down as borders and restaurants opened up

Clothing sales up 21% vs. 2019. Housing & ITC equipment contributed most on the upside in Nov.



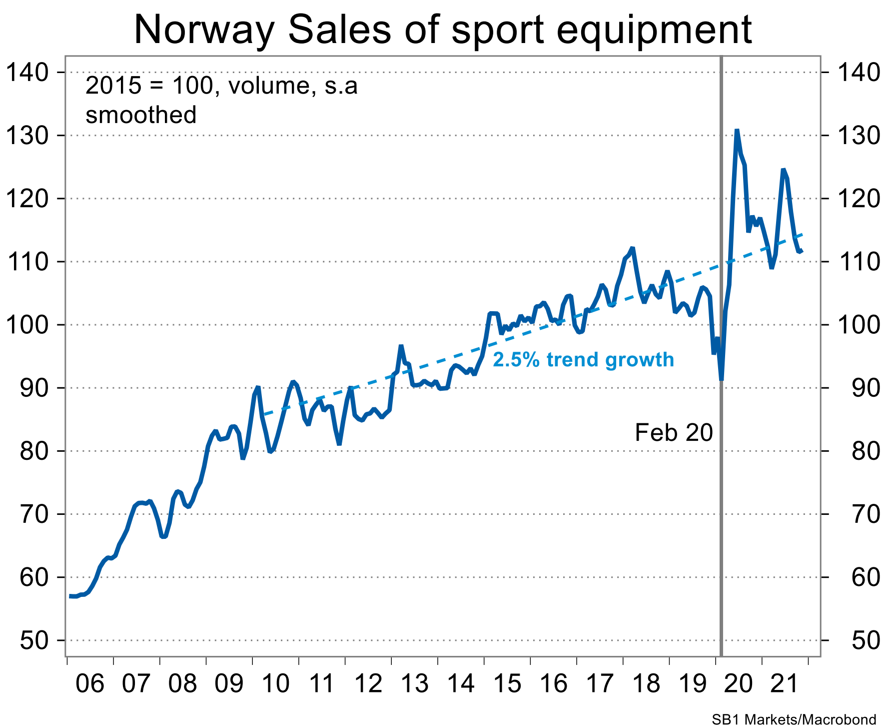




- Food store/grocery store sales have fallen some 5% since last summer
- Consumption of other goods (than food, electricity, vehicles & petrol) are up 17% vs. the pre-pandemic level – which is far above any reasonable long term trend

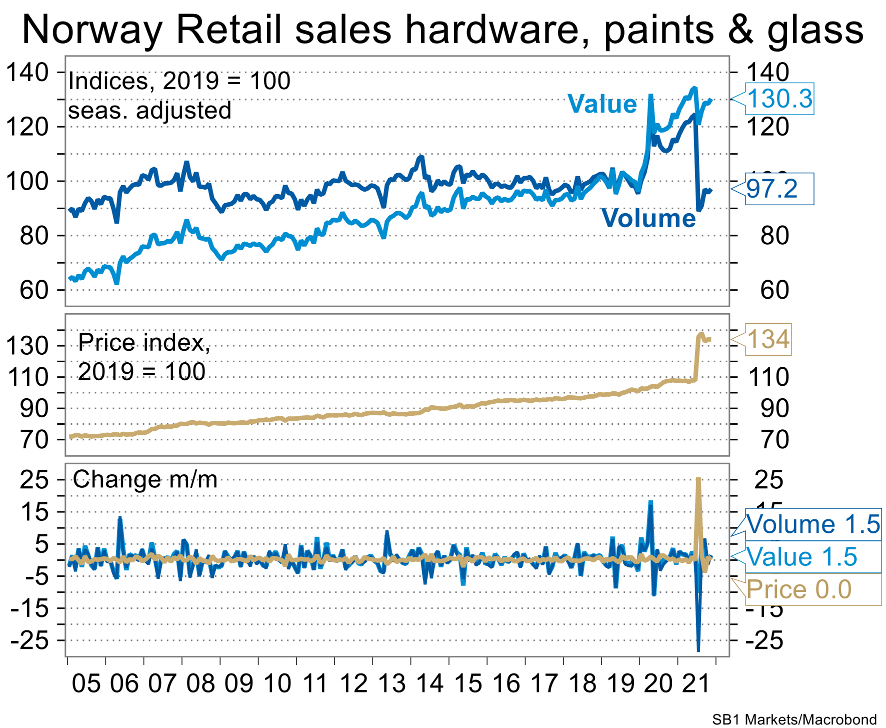
Where is the long term trend?

Sport equipment sales are up 9% vs the 2019 level but still in line with a 10 y reasonable trend?



Sales of building materials has come down to earth, in volume terms

Sale volume of hardware, paints & glass were extraordinary until last summer. Now prices are…

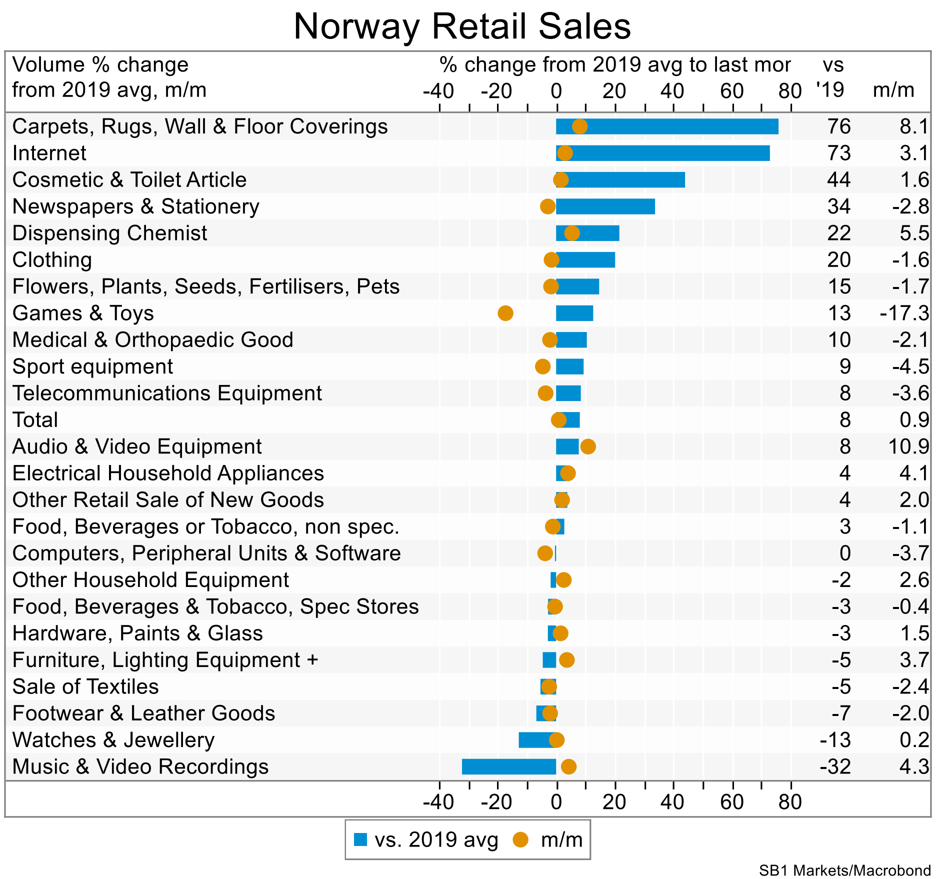


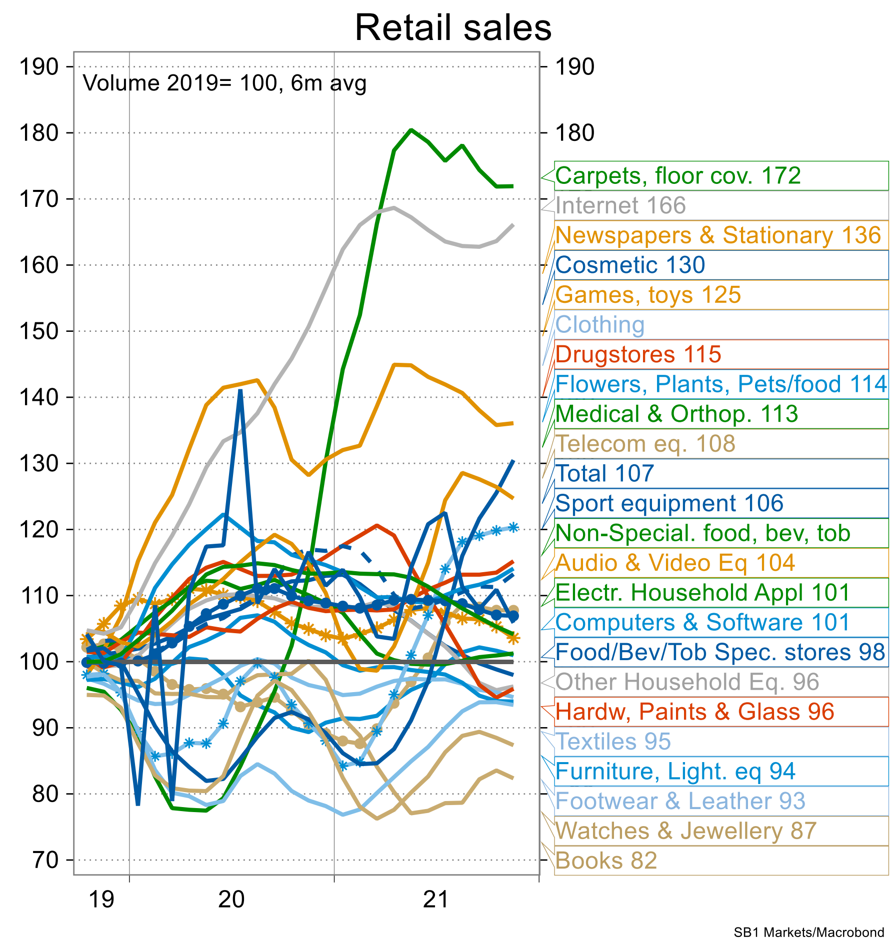
- A decline in new home sales and construction starts – may explain some of the decline in sales of hardware, paints & glass
  - » Until the decline last summer, the level almost was 20% above the pre-pandemic levels – obviously not sustainable

- **Hardware etc. prices** soared 26% m/m last July – and sales volumes collapsed, from a rather high level. Construction lumber was mostly to blame. Now, prices have stabilised, at 34% above the pre pandemic level
- **Households** buy just of small fraction of total retail sales of building materials, homebuilders and professionals are the main clients, and households' consumption is not much influenced by the ups and downs of retail sales of building materials

Since before the pandemic: Still huge sectoral differences

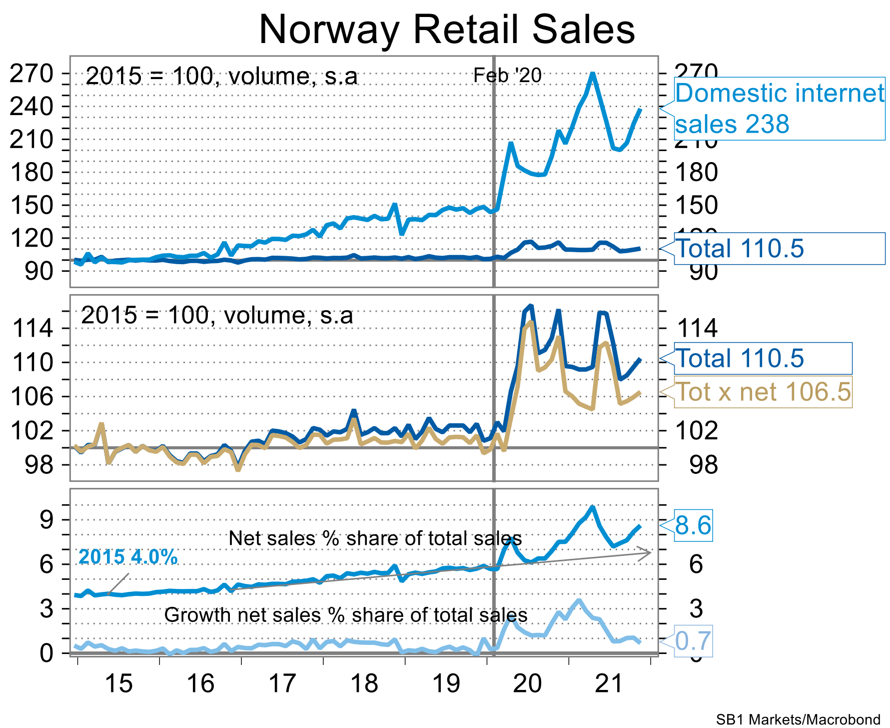
– net sales & home refurnishing at the top. The losers were mainly losers before the pandemic too

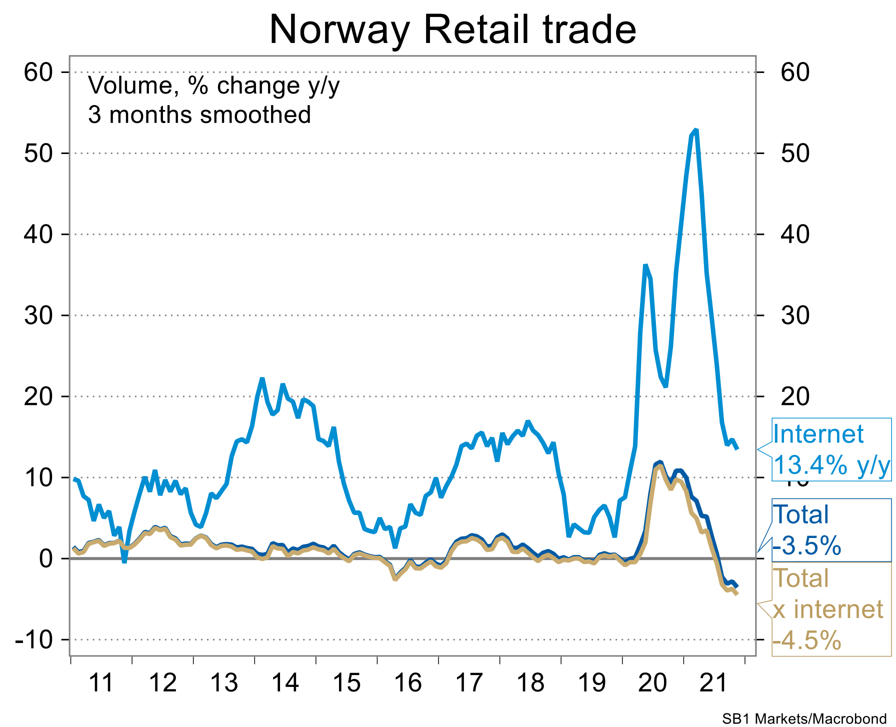




Internet sales (domestic) up again during the autumn

Sales are up 13% y/y, and the market share has recovered somewhat – still below the pandemic peak

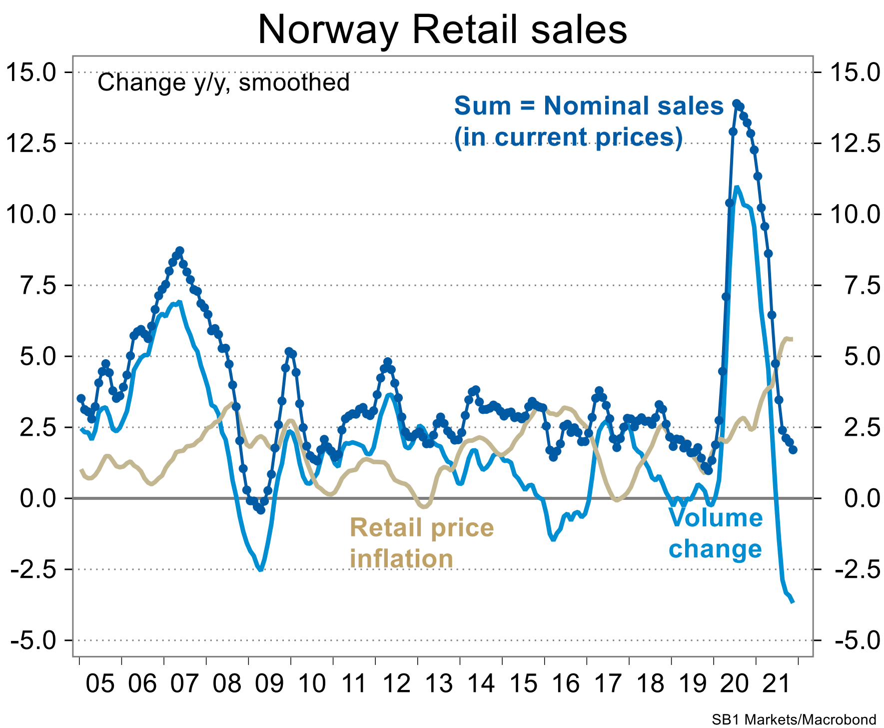


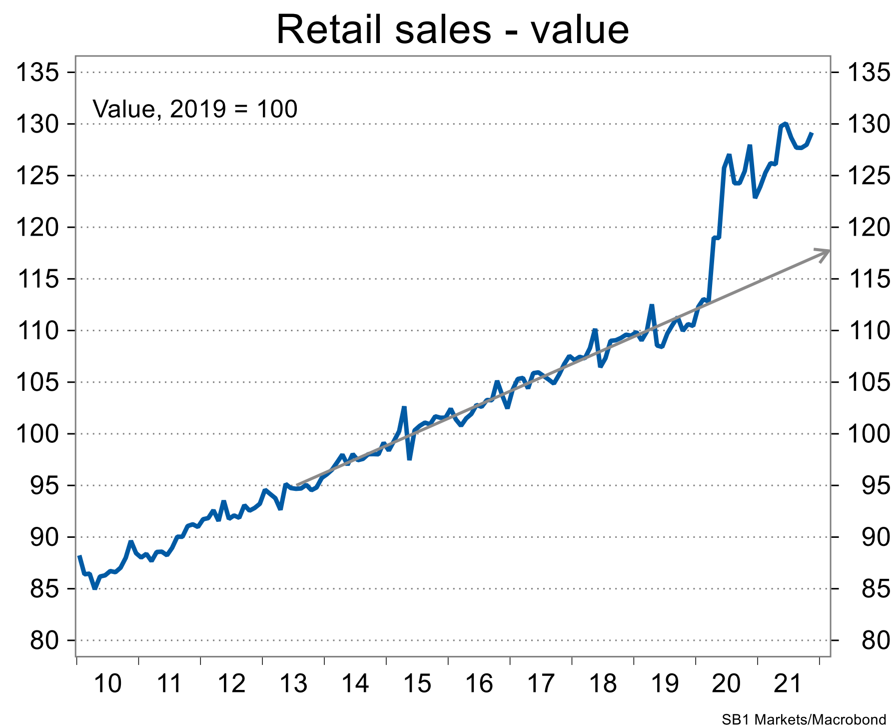


- Since 2015, **<u>domestic</u> internet sales** (not included direct import from <u>abroad</u>) have increased its market share to 8.6% from 4%, via 6% just before the pandemic, to 10% at the top in April. By now, the pre-pandemic trend would have yielded market share not far below 7%. Thus the pandemic gain has not been that impressive
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

Retail sales are down almost 4% y/y in volume terms. But prices are up 6%!!

Thus, in value terms, sales are up 2% y/y, mostly due to price increases in building materials, fuel

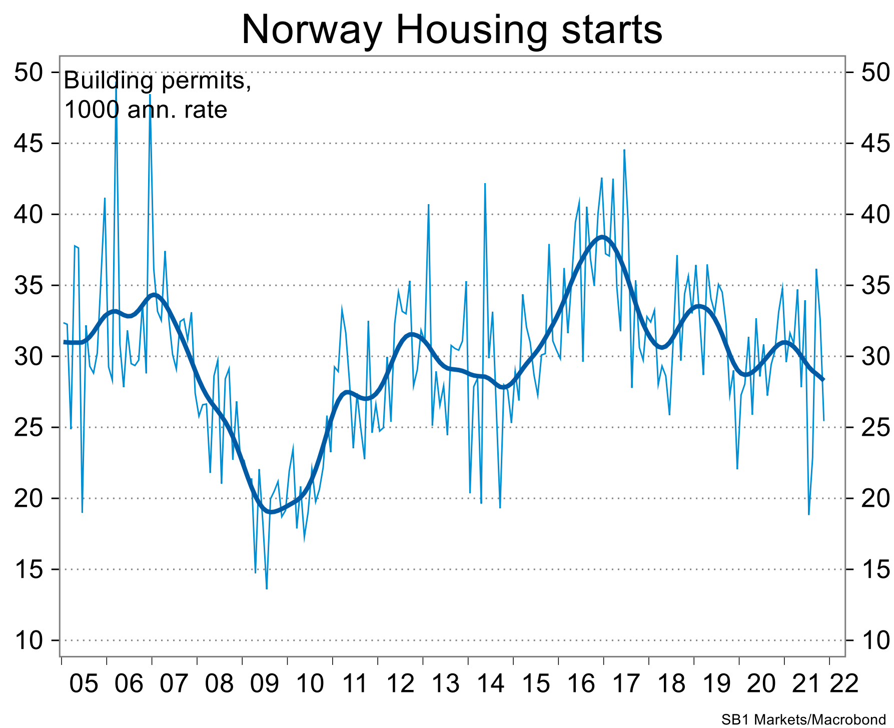


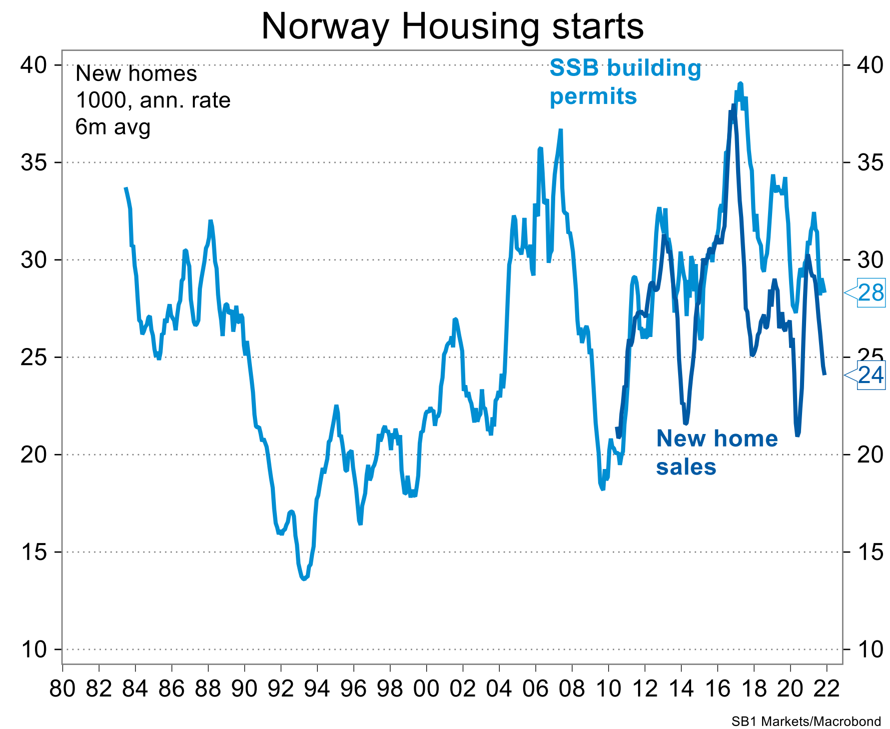


- In nominal terms, sales are up 10% above the pre-pandemic trend

SSB: Housing permits down in November. Trend flattish, at best

Permits down to 26' from 36' in Oct - in average a pretty normal figure

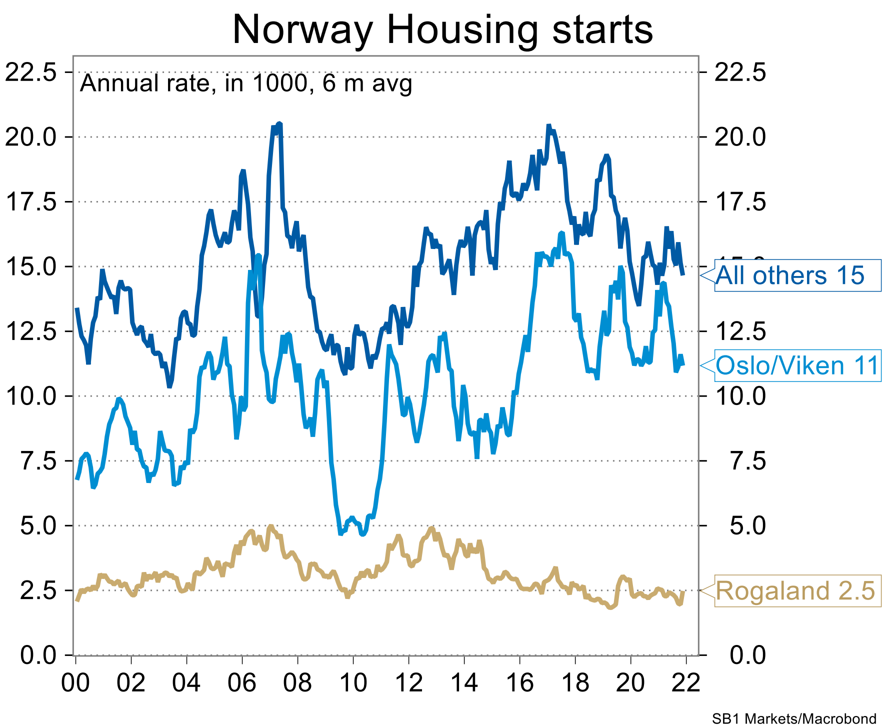


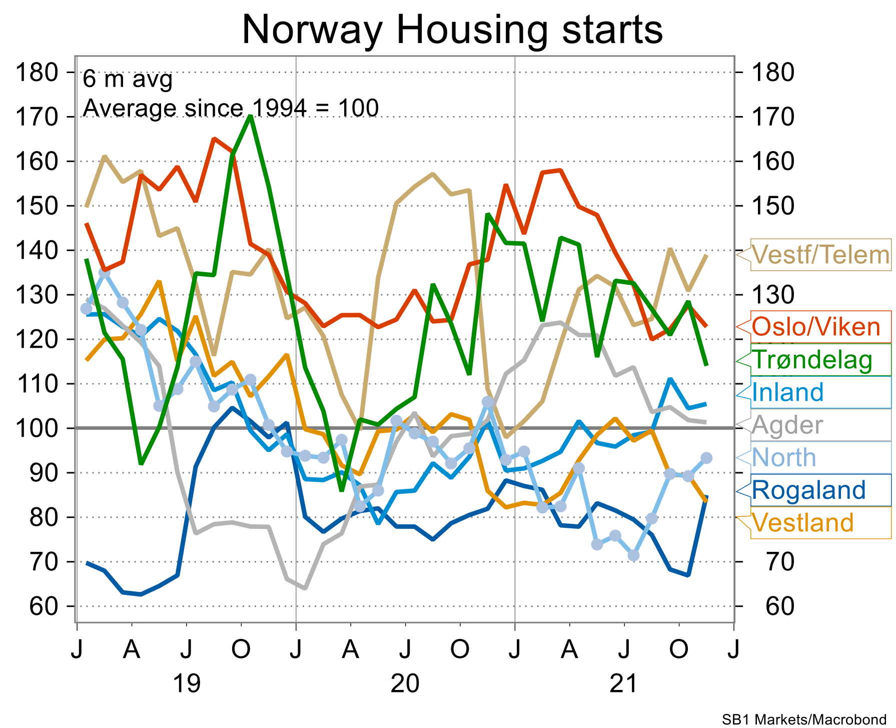


- The average no. of permits the past 6 months at 28', clearly above the estimate from the Homebuilders at 24'

More housing starts in Vestfold & Telemark, and Innland

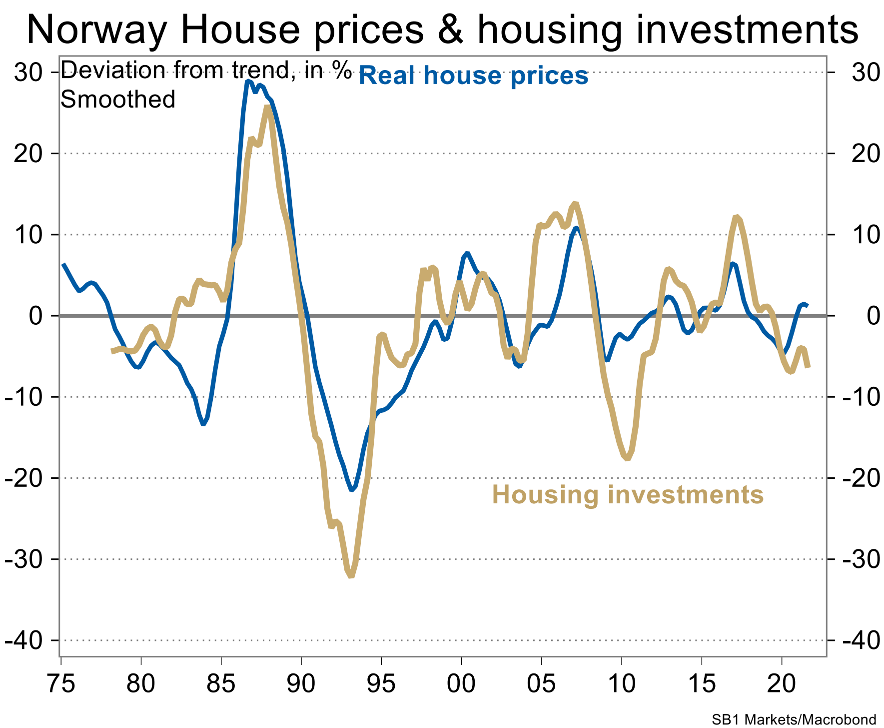
Rogaland is trending flat, others have softened, Oslo and Viken included

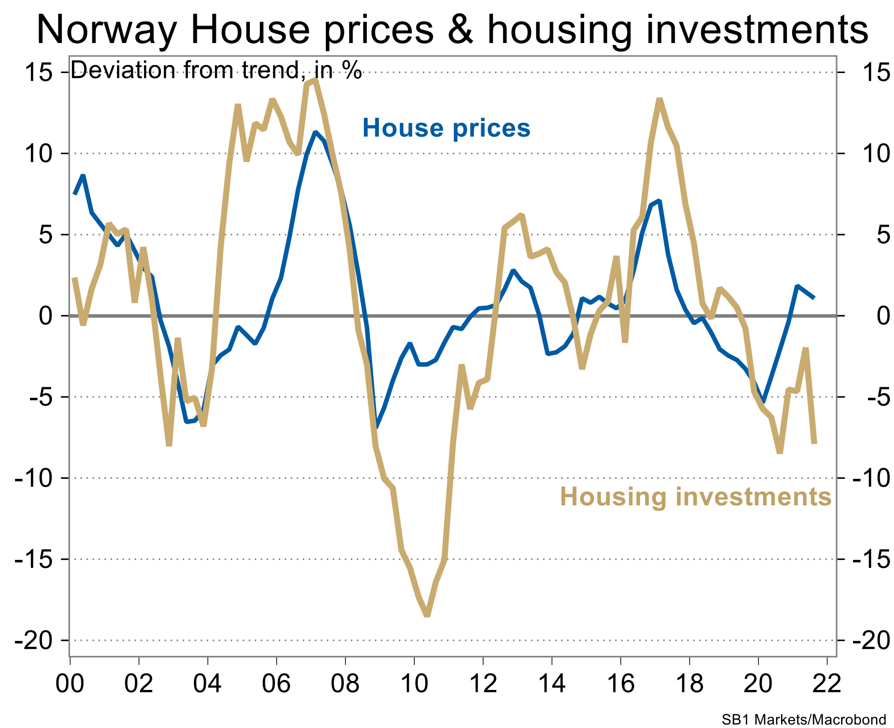




Housing starts/investments normally in tandem with house prices, no surprise

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

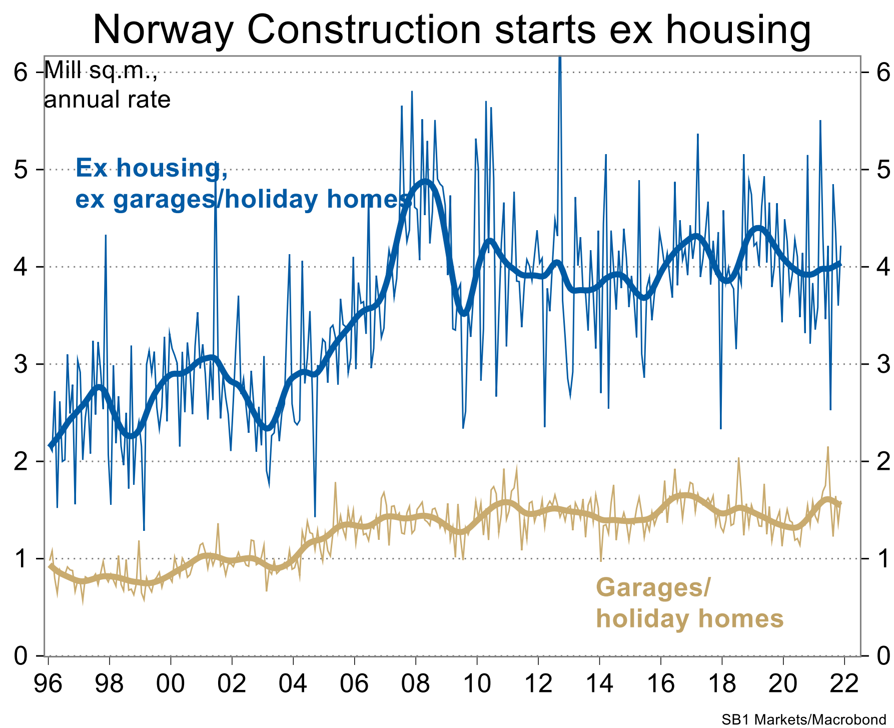


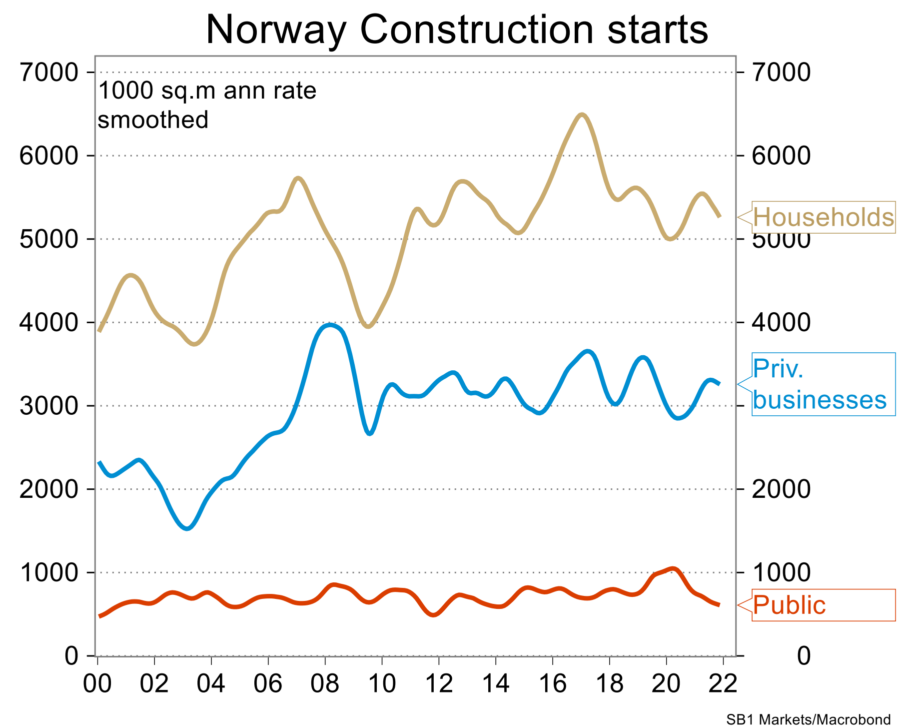


- .. At least until recently

Non-residential construction quite stable recent years

Garages/holiday homes may have peaked, following the ‘pandemic surge’

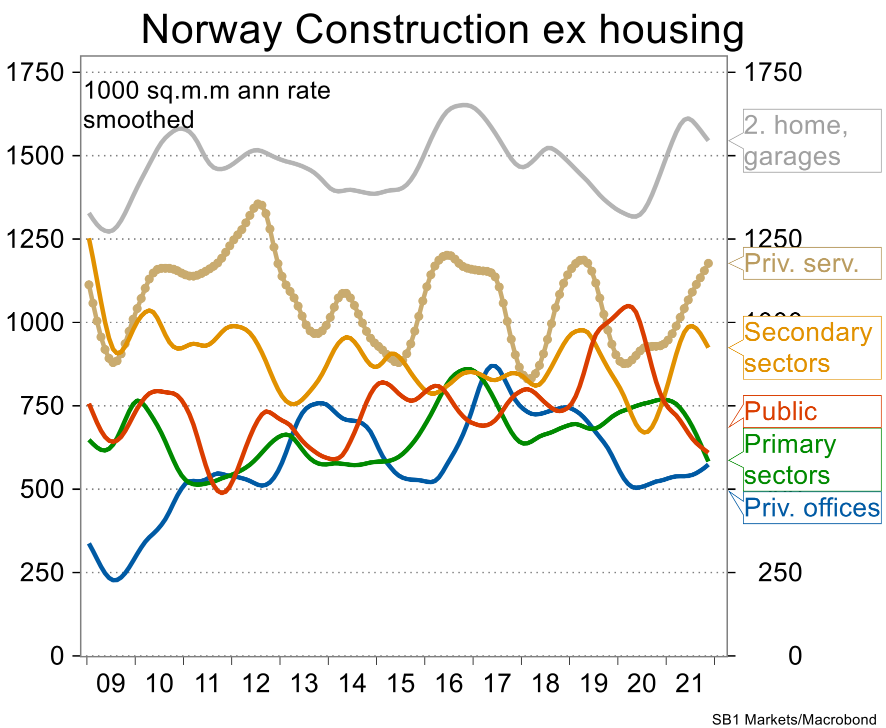


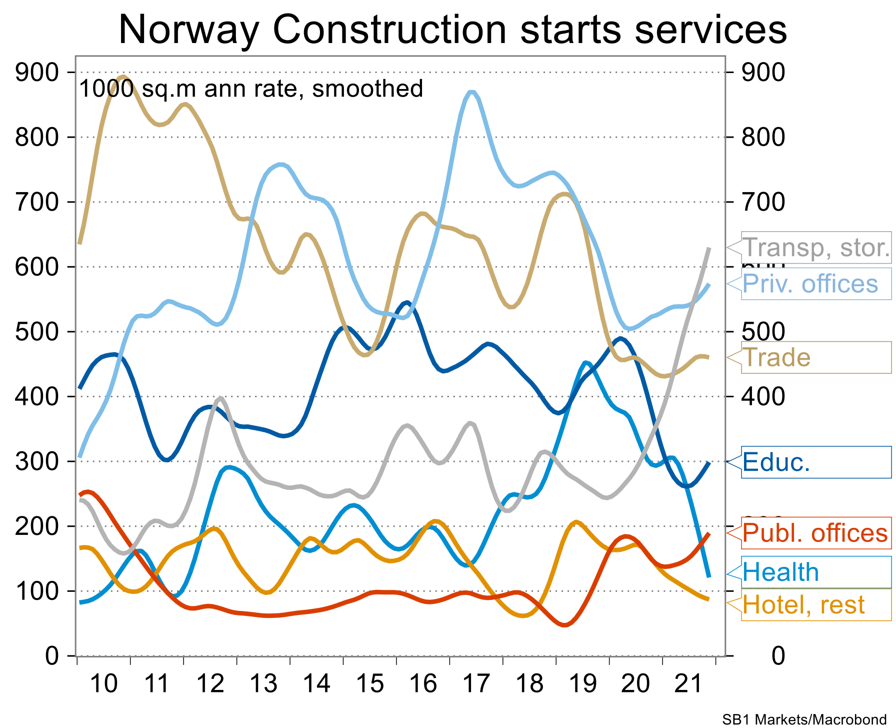


- **Construction starts ex housing & garages/cabins** are very volatile
  - » **Private non-residential starts** have stabilised
  - » **Public sector construction starts** have fallen almost 50% since early 2020
- **Construction starts of cabins/garages** are have climbed 30 – 40% from early 2020 –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

Volatile construction details: Hotels weak (of course), as is education/health

Trade has flattened past two years, transport & storage are rising rapidly, taking private services up

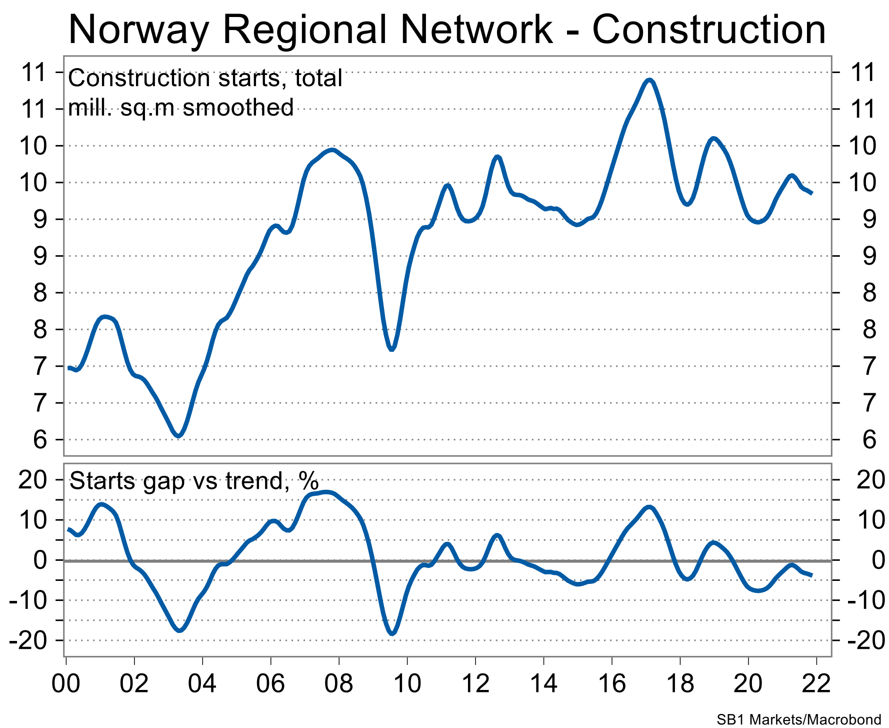


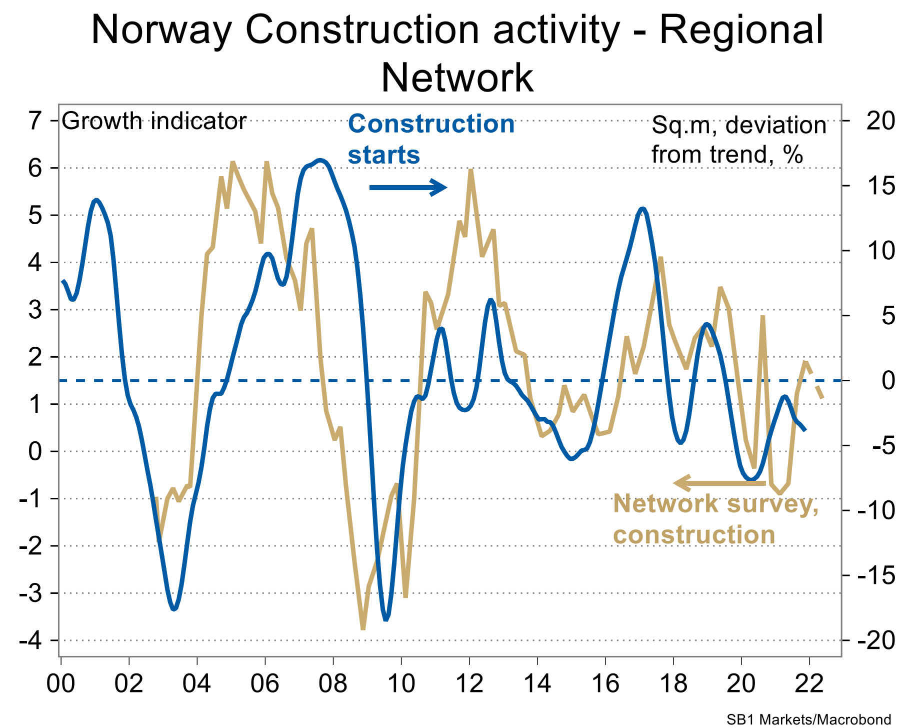


Public on the chart to the left, and at the previous page: Construction starts in public administration, education and health

The Q4 NoBa Regional Network signalled moderate growth

…and construction starts are trending down





- The 'long term' trend is down since early 2017

Highlights

The world around us

The Norwegian economy

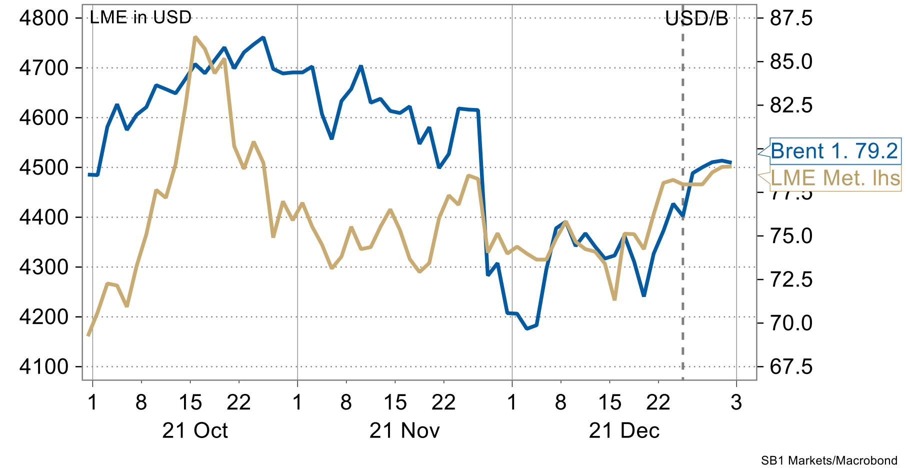
Market charts & comments

Risk on during the X-mas week, new S&P500 ATHs

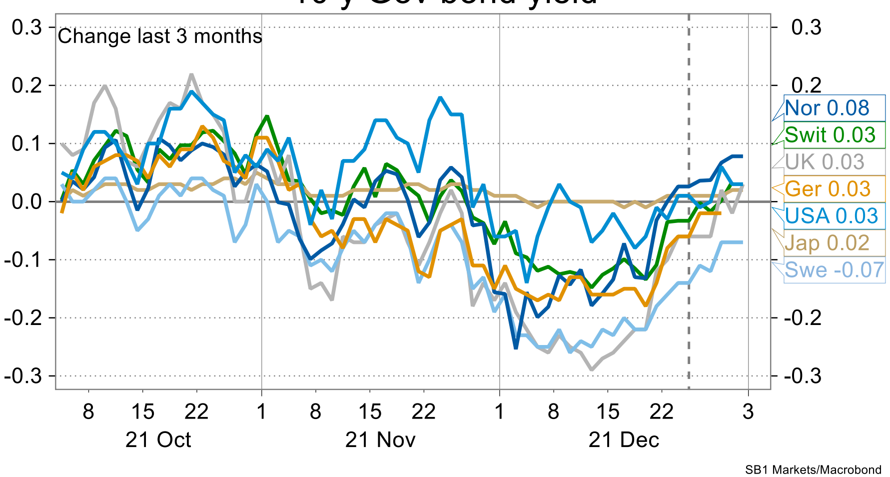
Bond yields up too, as were metals & oil (oil up USD 10/b to 79 through Dec). The NOK climbed further

Equity Indices

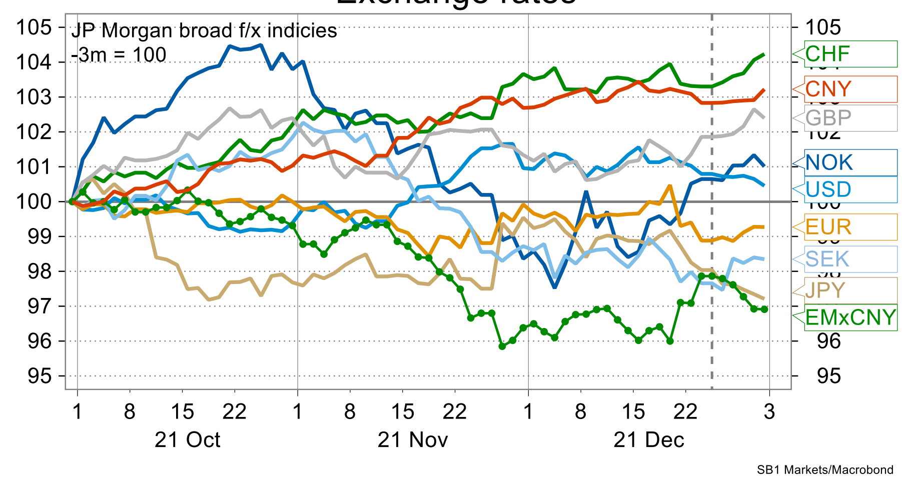
Oil vs. metals



10 y Gov bond yield

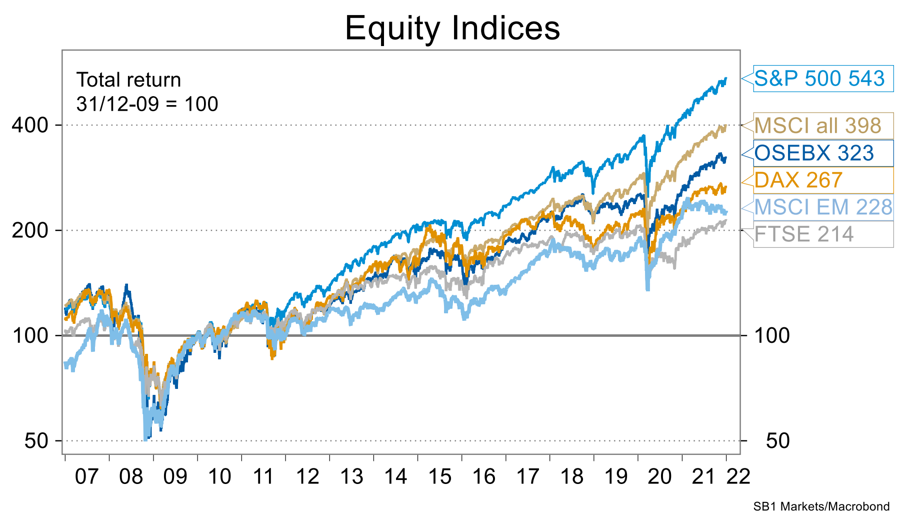


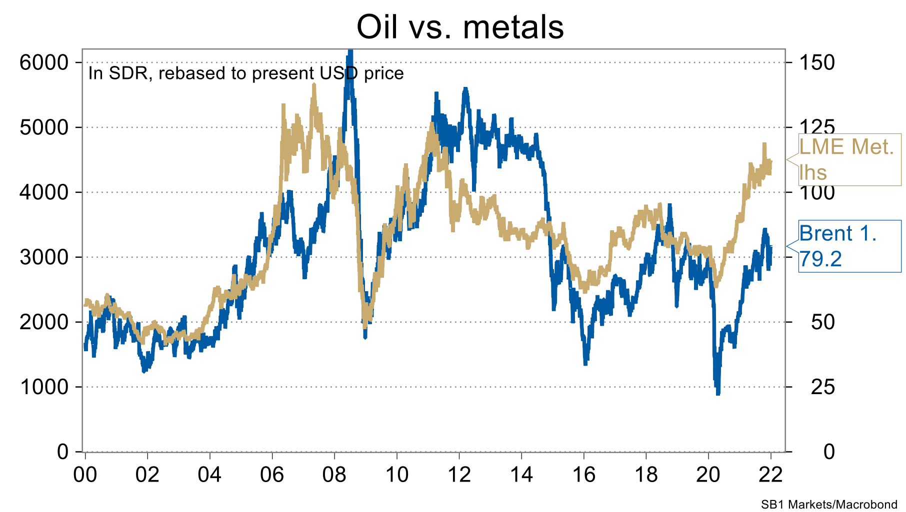
Exchange rates

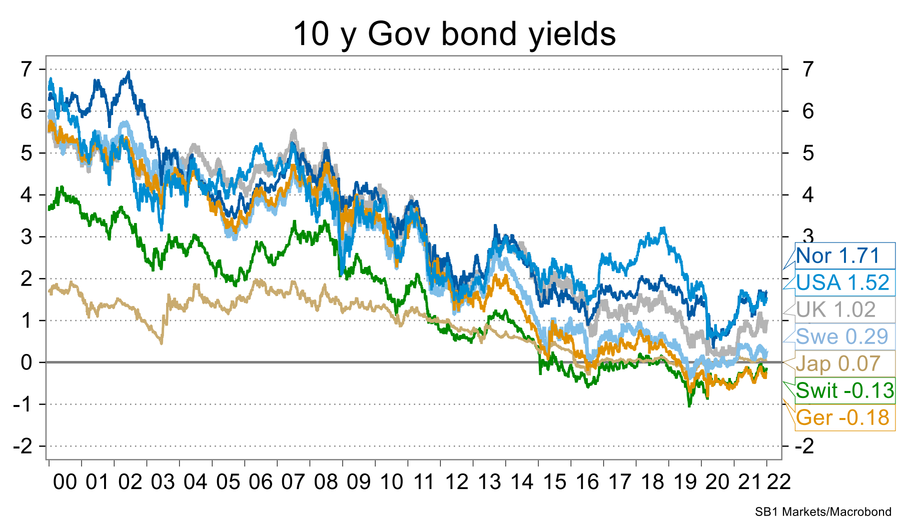


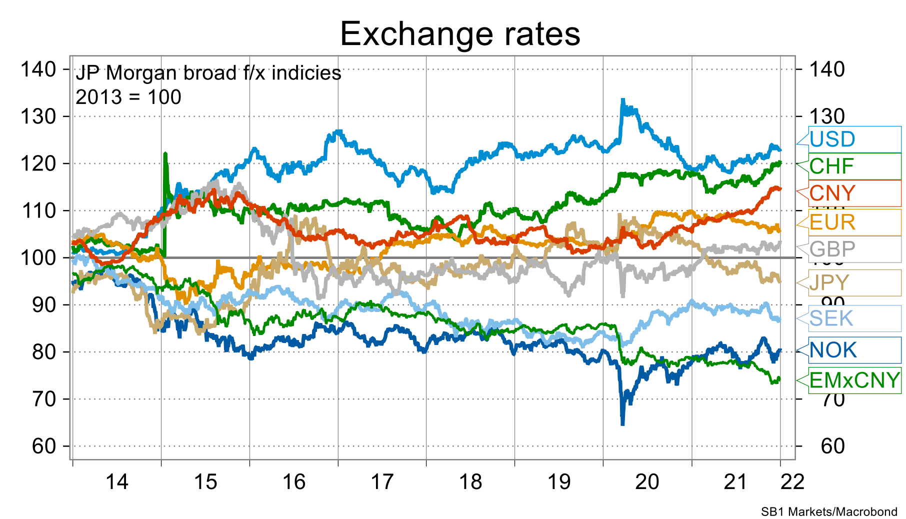
The big picture: Omicron may change everything but most likely not

... At least not for long. The bull market is still intact – <u>with a substantial medium term downside risk</u>







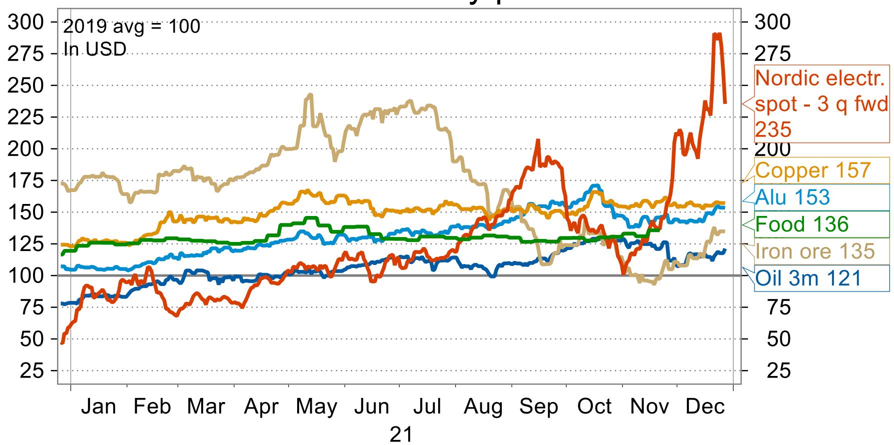


SpareBank 1 MARKETS

Metals in sum op, iron up 40% since mid Nov, electricity prices finally down

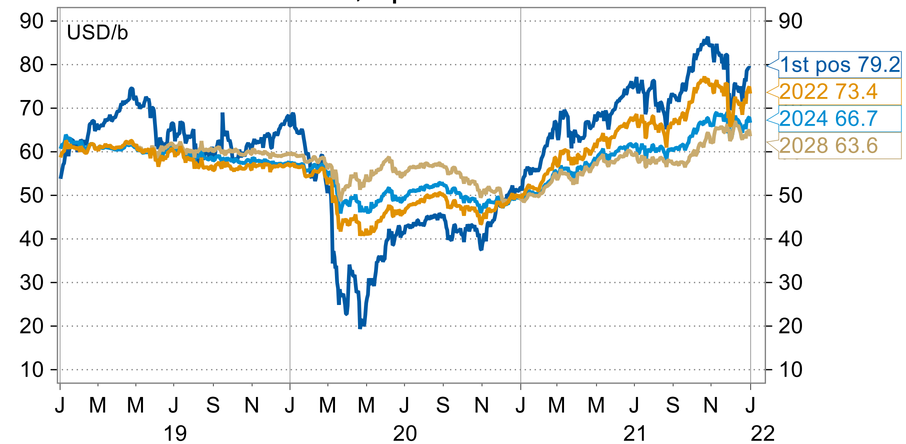
The oil up all over the curve

Commodity prices



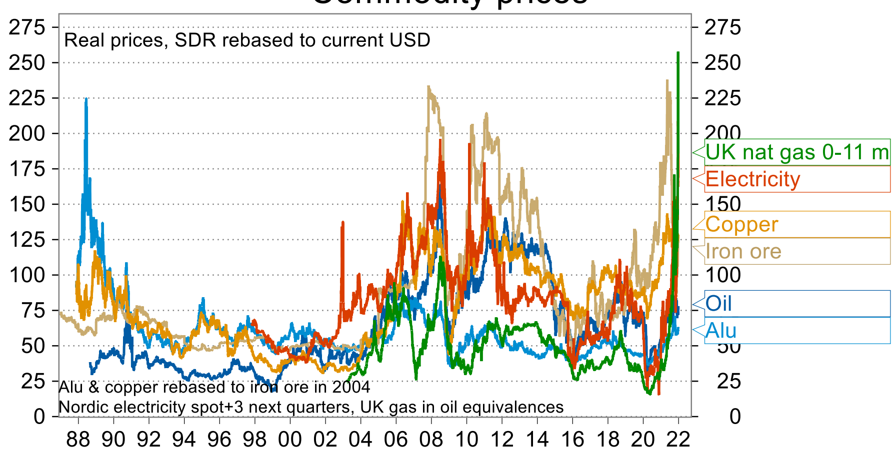
SB1 Markets/Macrobond

Brent oil, spot & Dec contracts



SB1 Markets/Macrobond

Commodity prices

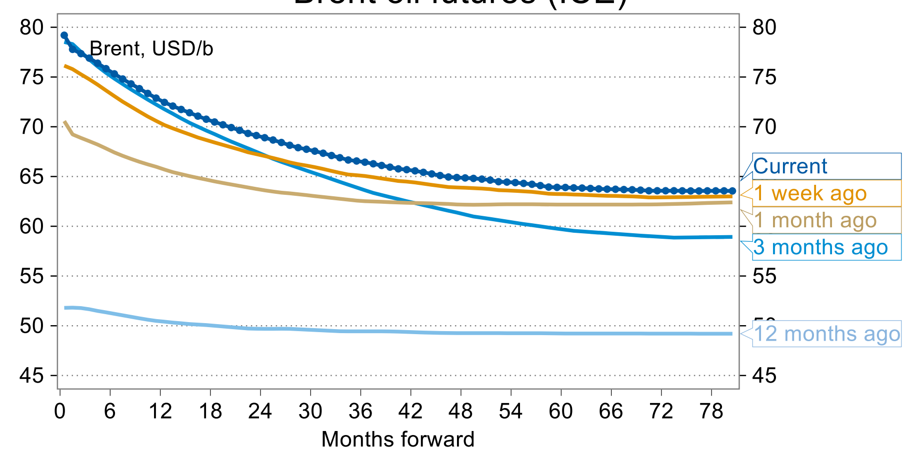


SB1 Markets/Macrobond

Longer dated oil contracts are heading down

The short end of the curve sharply up recent weeks

Brent oil futures (ICE)

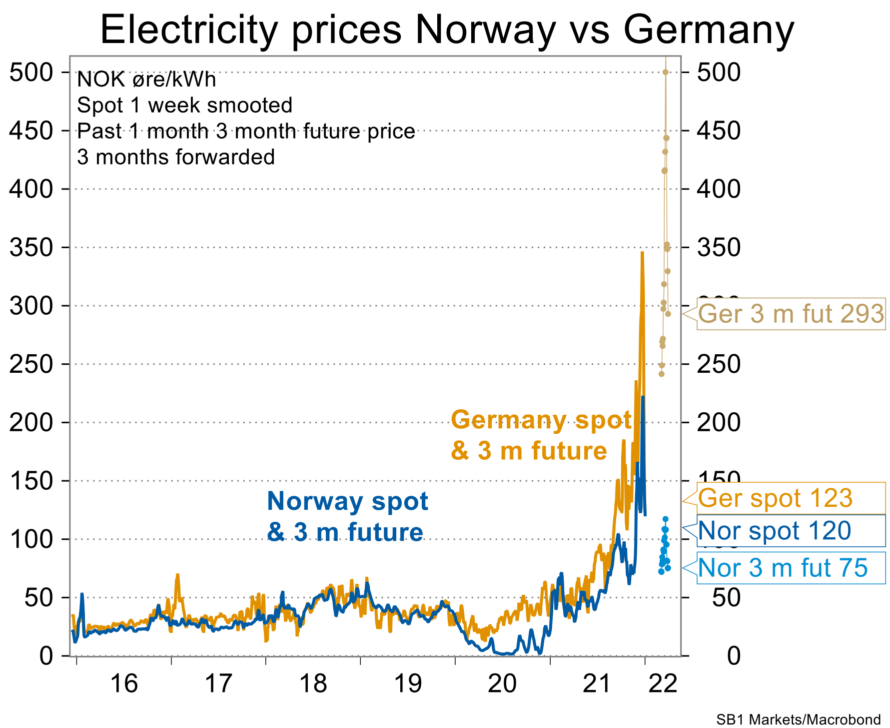


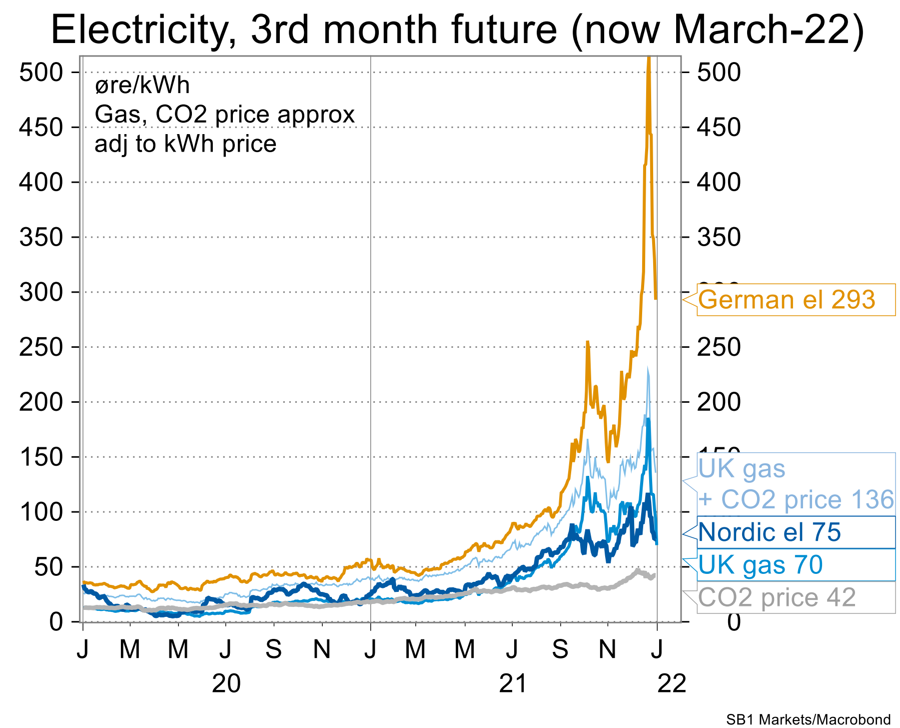
SB1 Markets/Macrobond

SpareBank 1 MARKETS

European energy markets are still struggling with unprecedented volatility

… as weather forecast and even more forecast for Russian gas supplies are all over the place

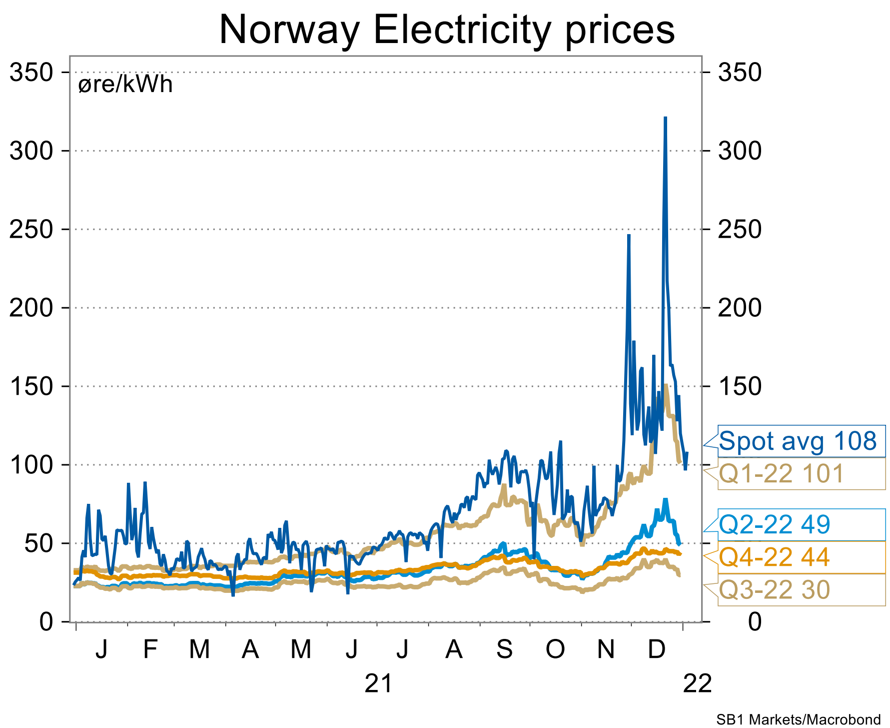


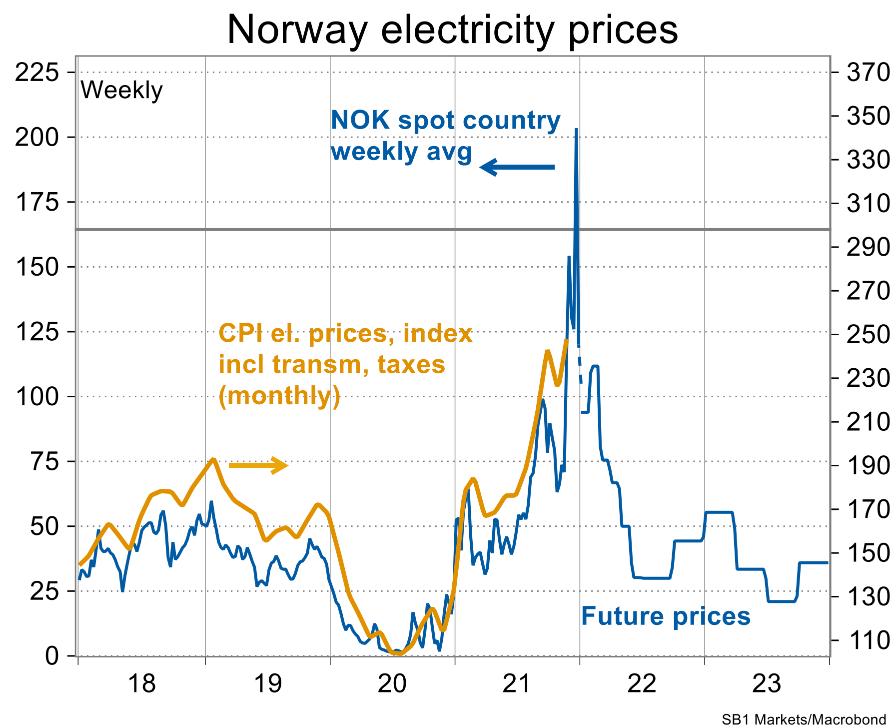


- Spot prices in Europe fell to below Nordic prices late last week (we are importing electricity)
- Future European prices have fallen sharply recently but remains far above normal levels – and far above Nordic prices

Norwegian electricyt prices have come down, and future prices are falling as well

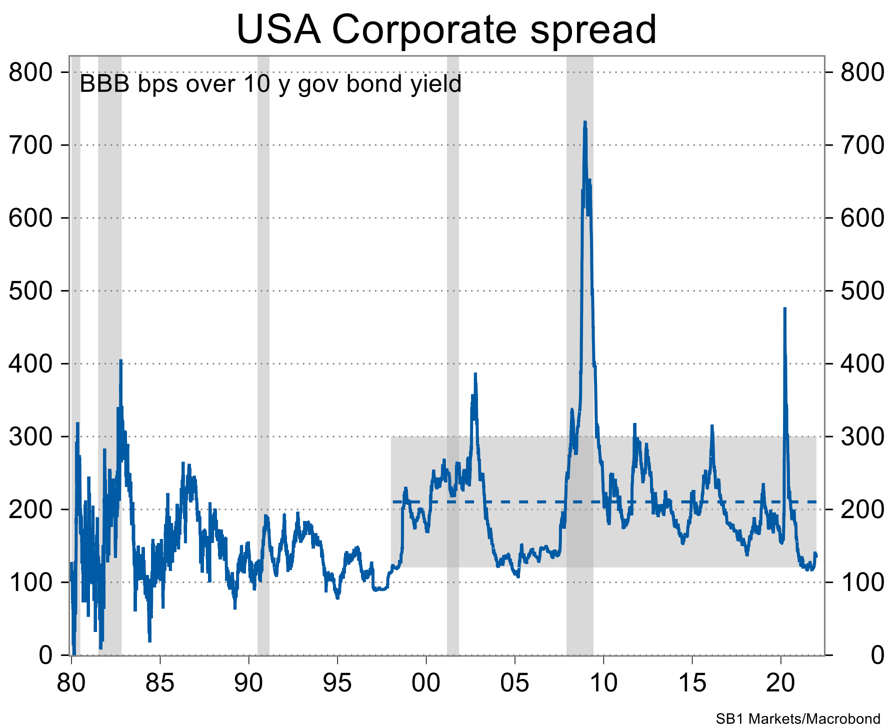
But given recent volatility: the outcome is quite uncertain

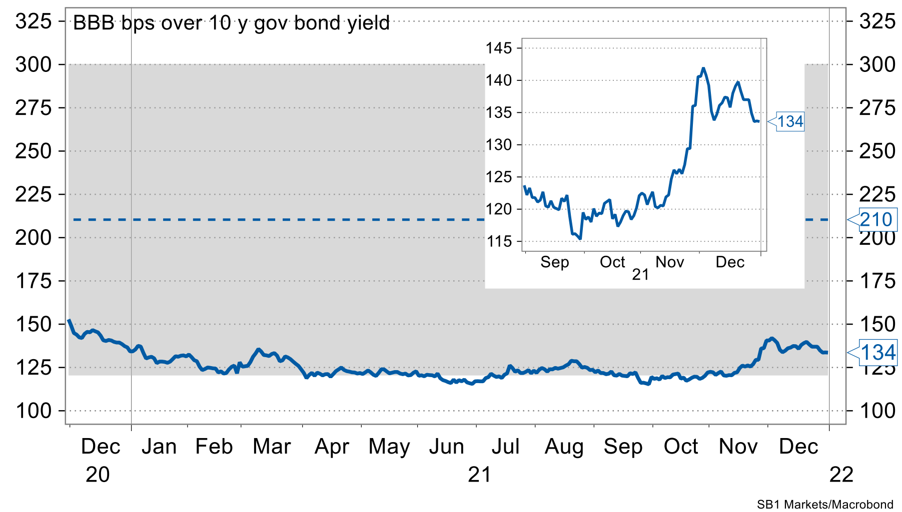


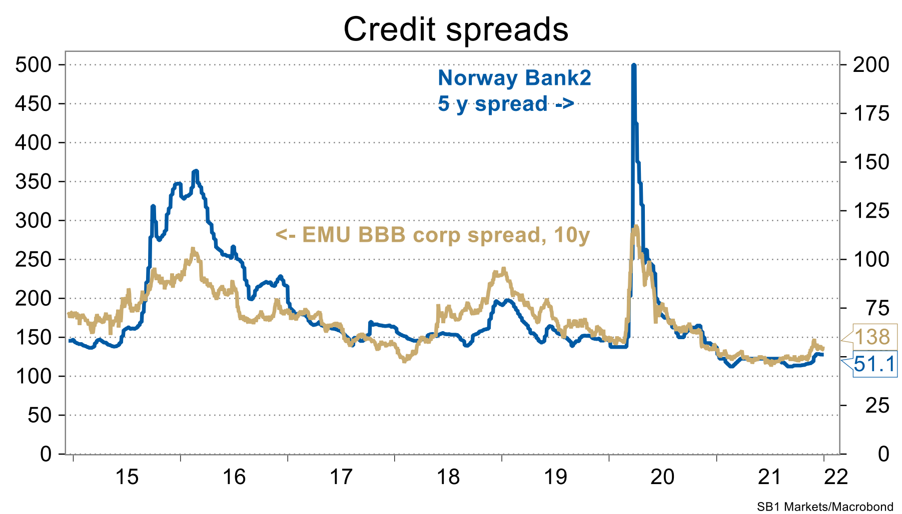


Credit spreads abroad are sliding down

Still up from the Oct/Nov trough







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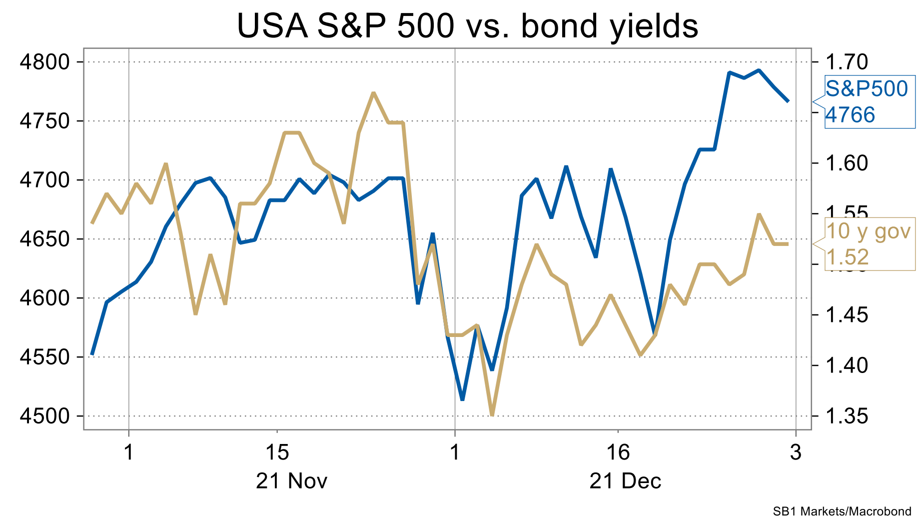
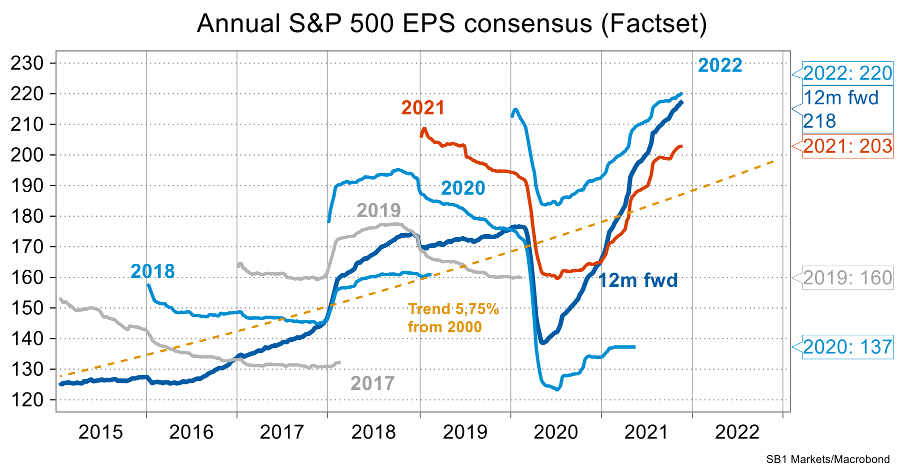
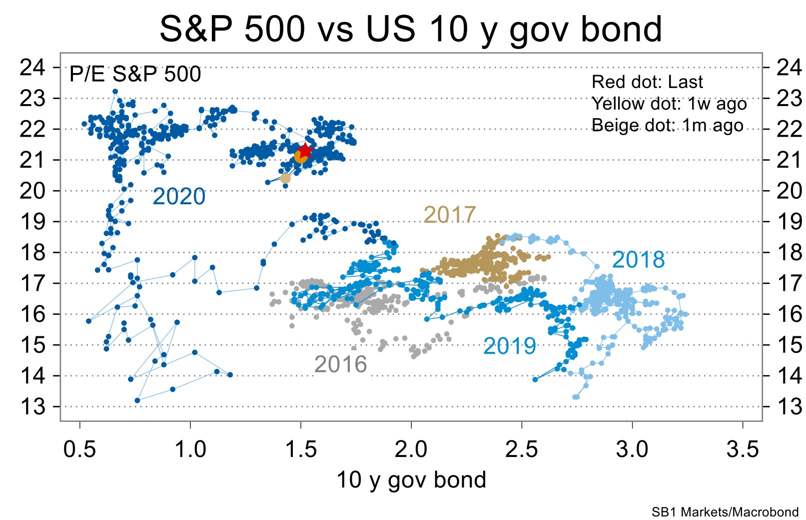
2 S&P500 ATHs last week, bond yields up too

S&P 500 in the end up 0.9%. The 10 y gov yield gained 2 bps, to 1.52%. Was 0.93% 1 y ago



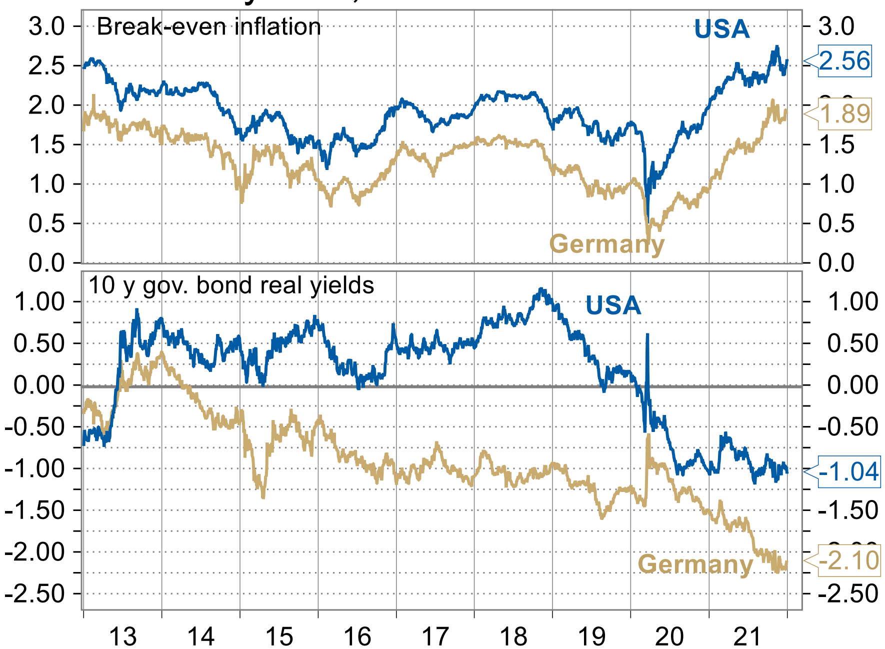




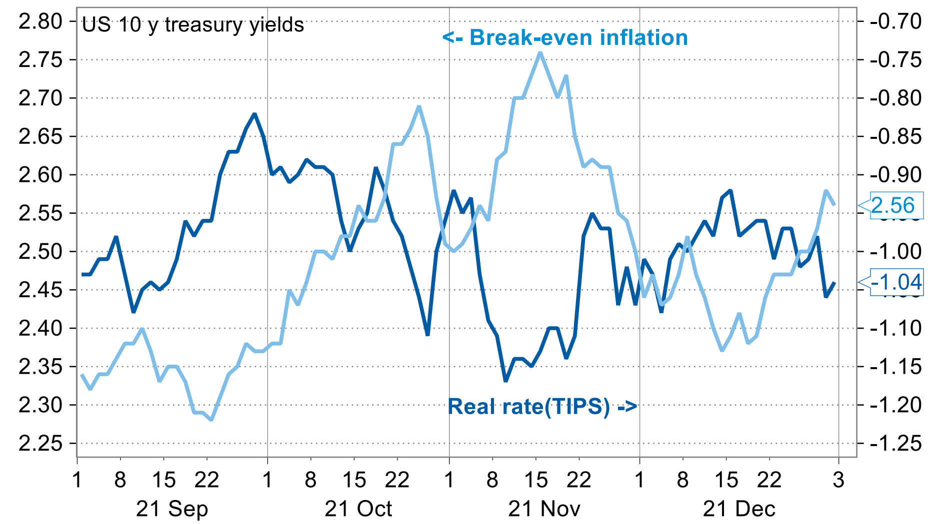
US inflation expectations up, real rates down again, to below -1%

German yields up on higher real rates – still at -2.10% (10y)

Real yields, break-even inflation



SB1 Markets/Macrobond



US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.52	0.02	0.09	0.52
.. break-even inflation	2.56	0.09	0.06	1.06
.. TIPS real rate	-1.04	-0.07	0.03	-1.19
Germany nominal bund	-0.18	0.09	0.18	-0.65
.. break-even inflation	1.89	0.00	0.12	0.40
.. real rate	-2.10	0.11	0.07	-2.26

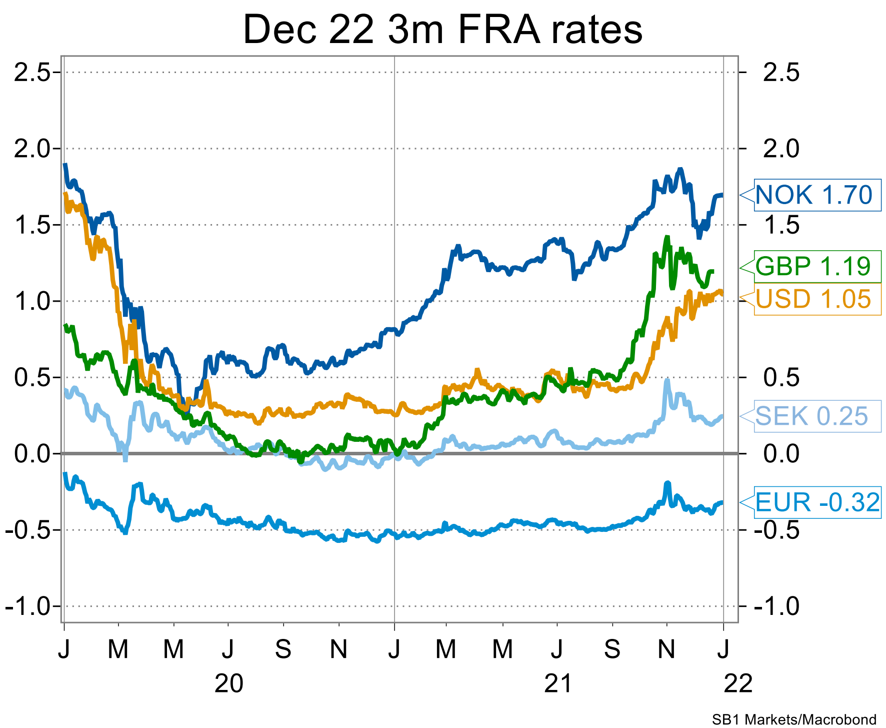
SB1 Markets/Macrobond

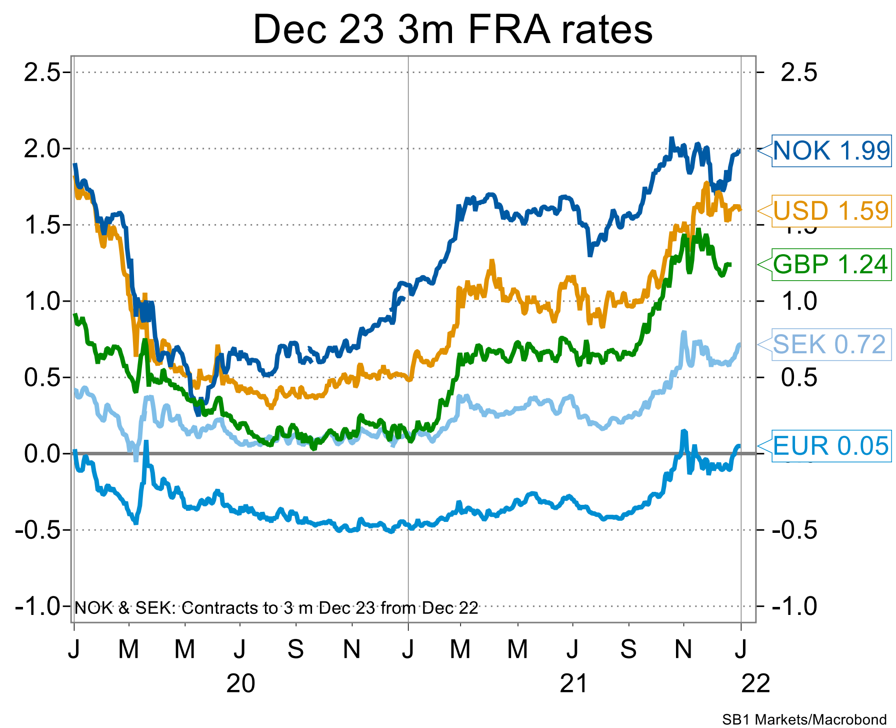
- Long term inflation expectations, 5y 5y fwd break-evens at 2.25% , measured vs. the CPI, is close to Fed's 2% PCE-deflator target

SpareBank 1 MARKETS

FRAs: Sharply up in GBP and NOK. 2023 expectations are falling in the US

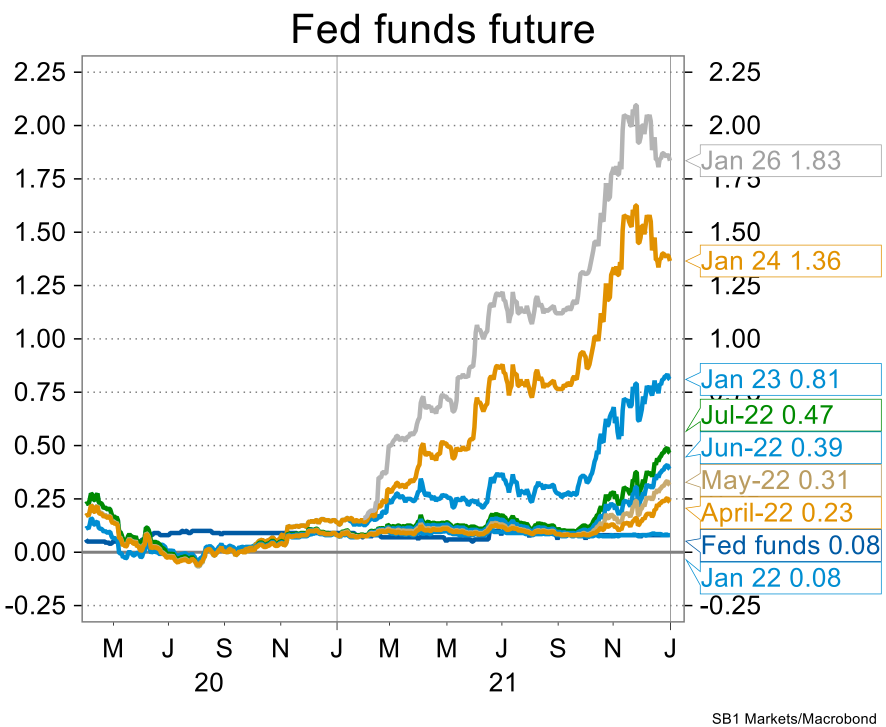
The market prices 4 x 25 bps in UK before end of next year. 3 more hikes in Norway

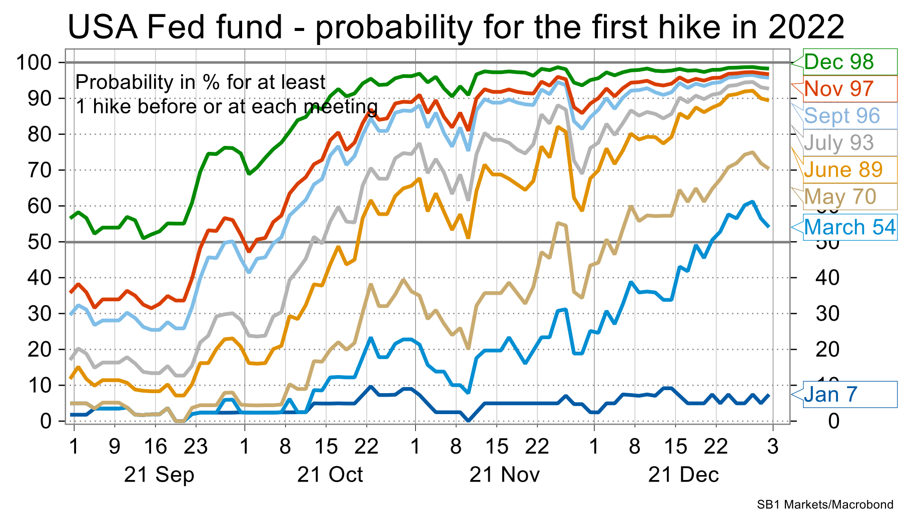


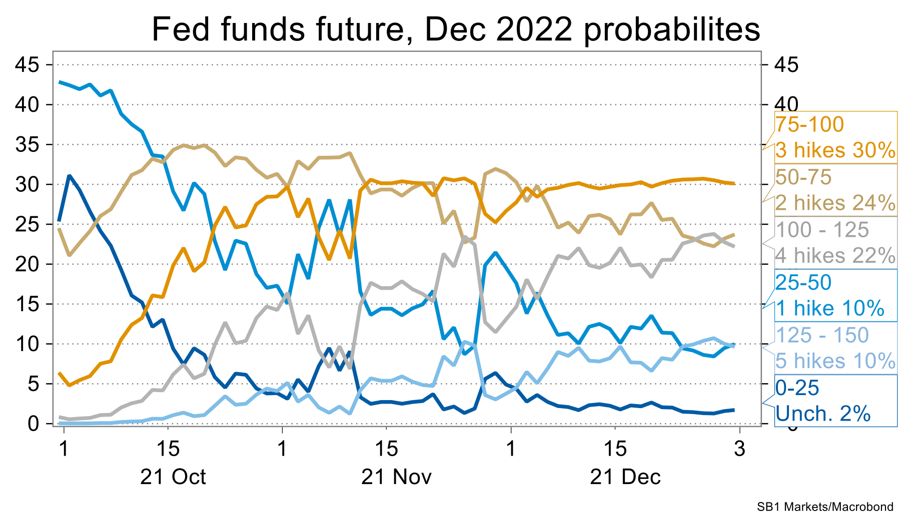


A 54% prob. for a March hike? Why not? A hike before the summer a done deal

However, further out, US interest rate expectations have come substantially down



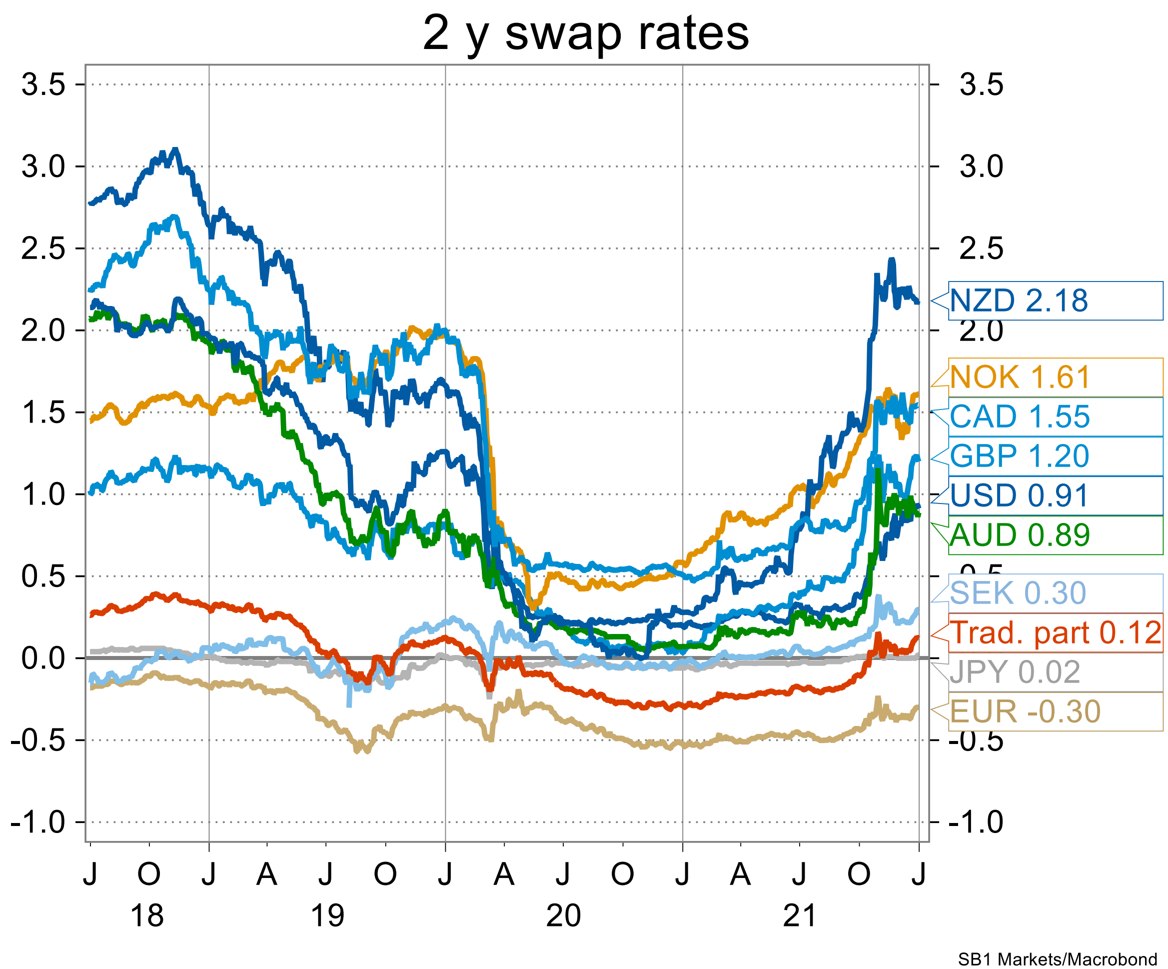


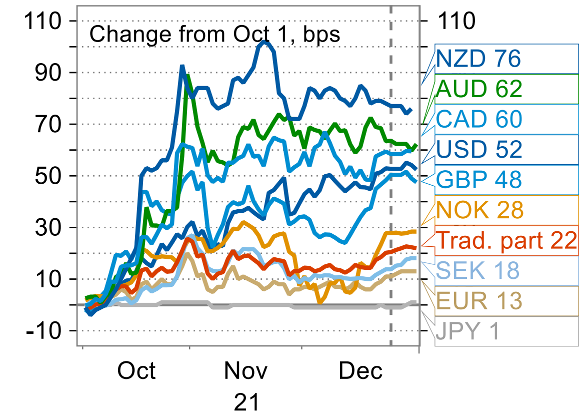


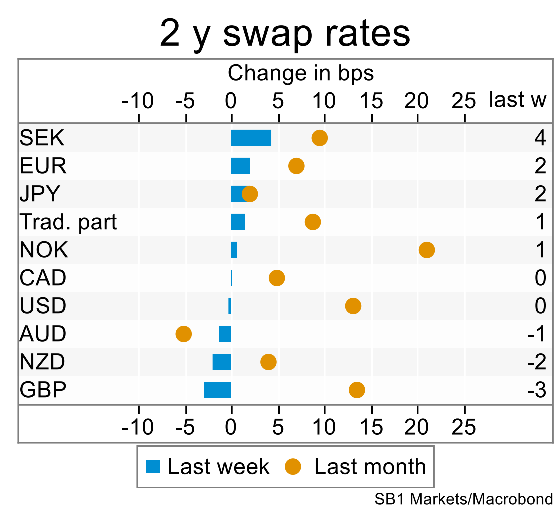
- 3 – 4 hikes are discounted this year

Quiet in the short end last week

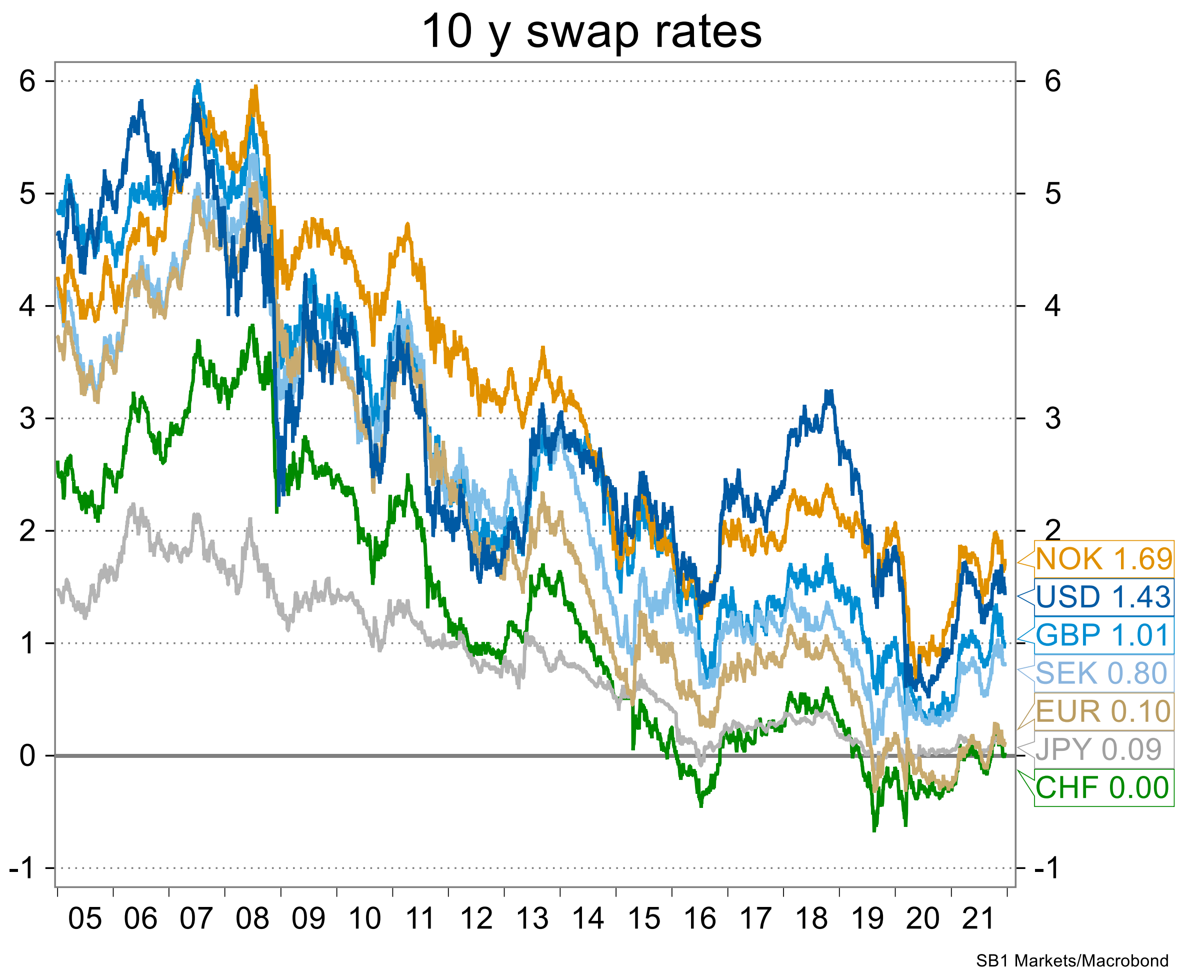
Justs some few bps up up or down. EUR, SEK up; GBP down, after the (BoE) surge before x-mas

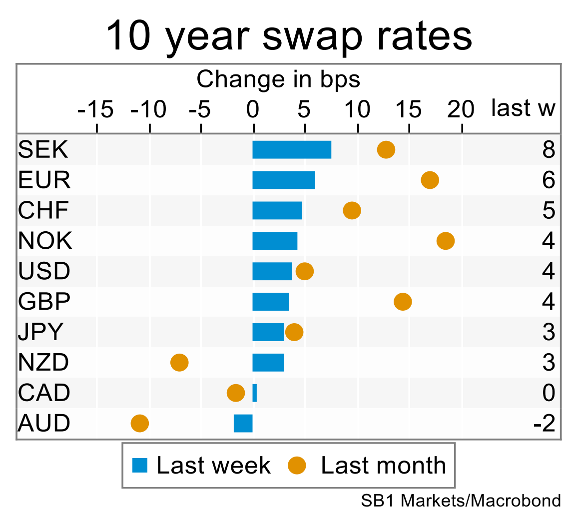




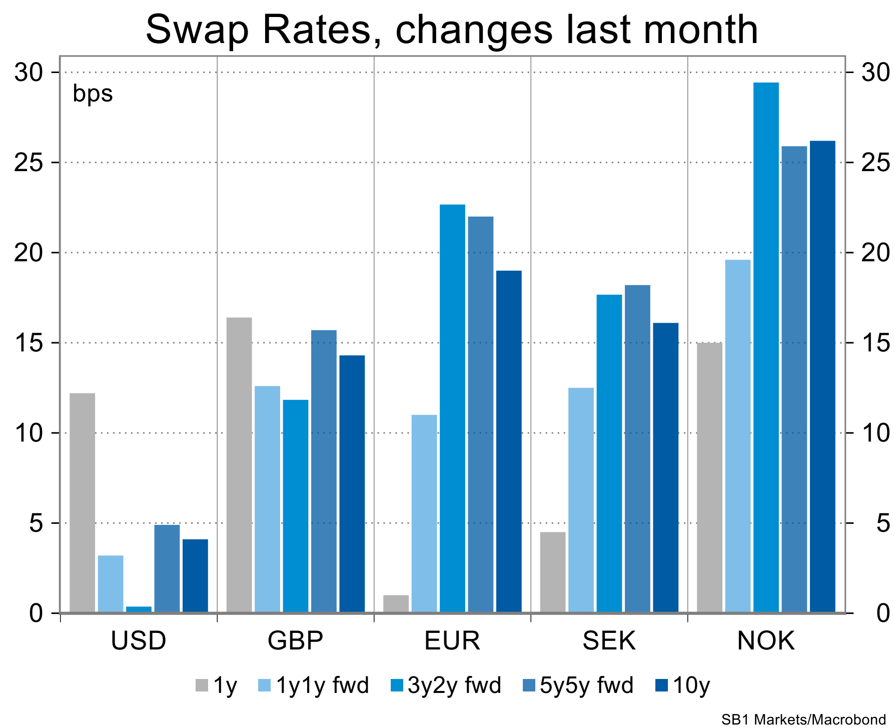


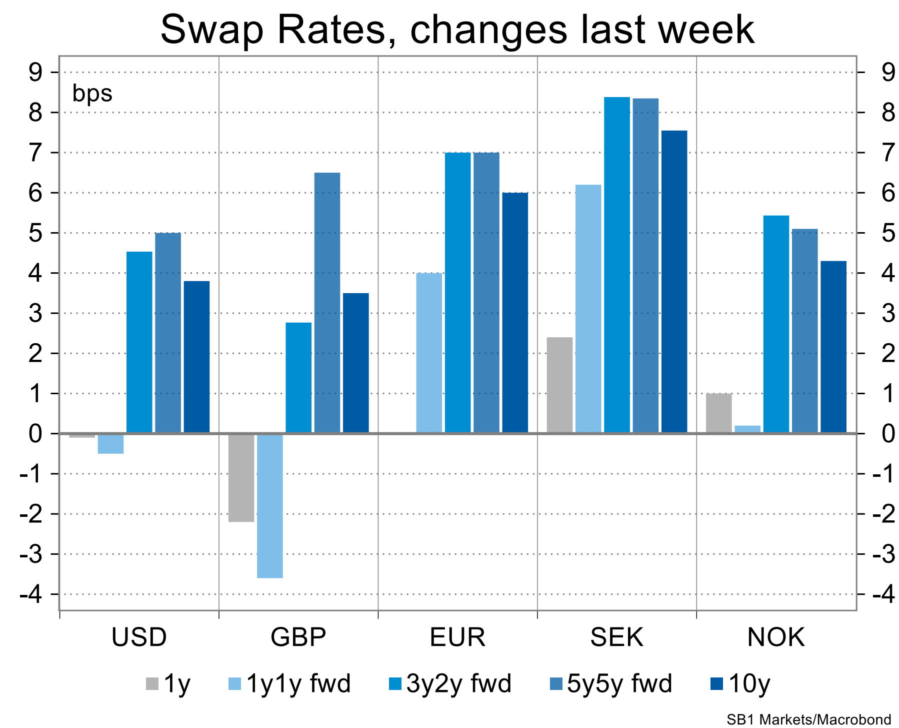
Longer dated swap rates up, but yields are still well below last Oct local peaks





European rates up in December - and most rates up last week too





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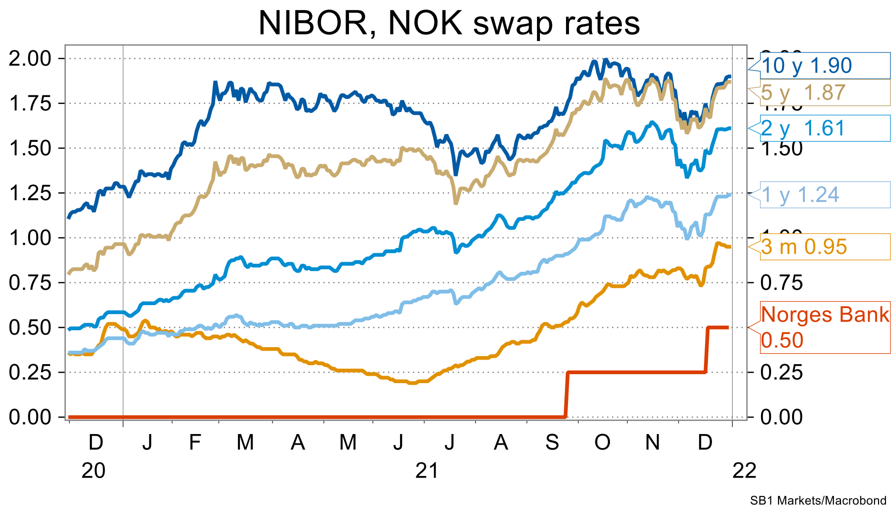
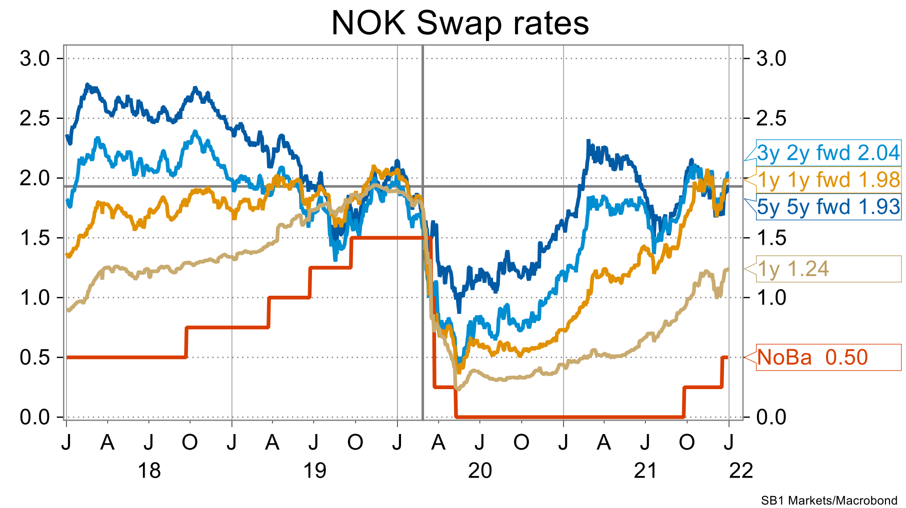
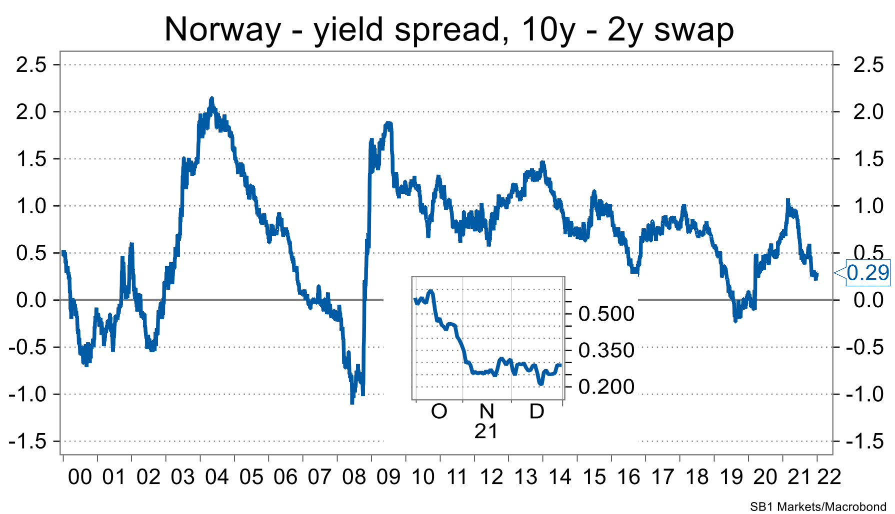
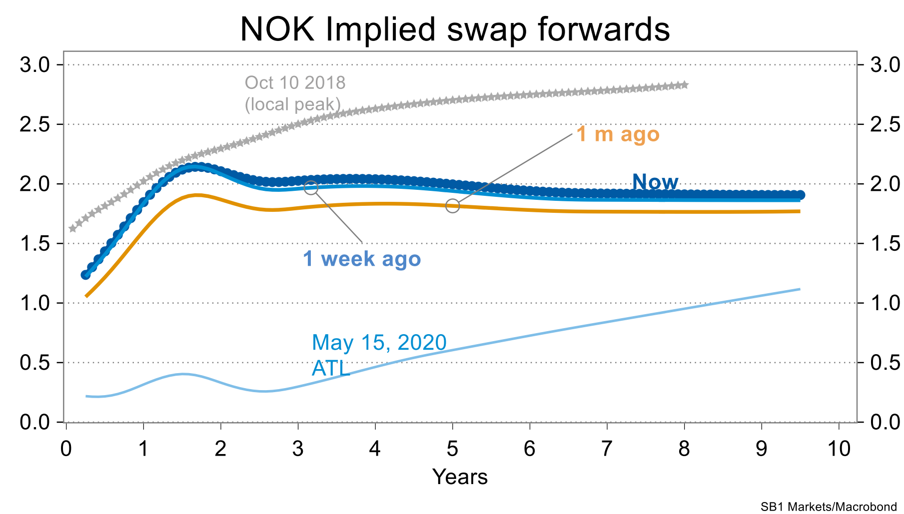
Rates slightly up at the long end of the curve

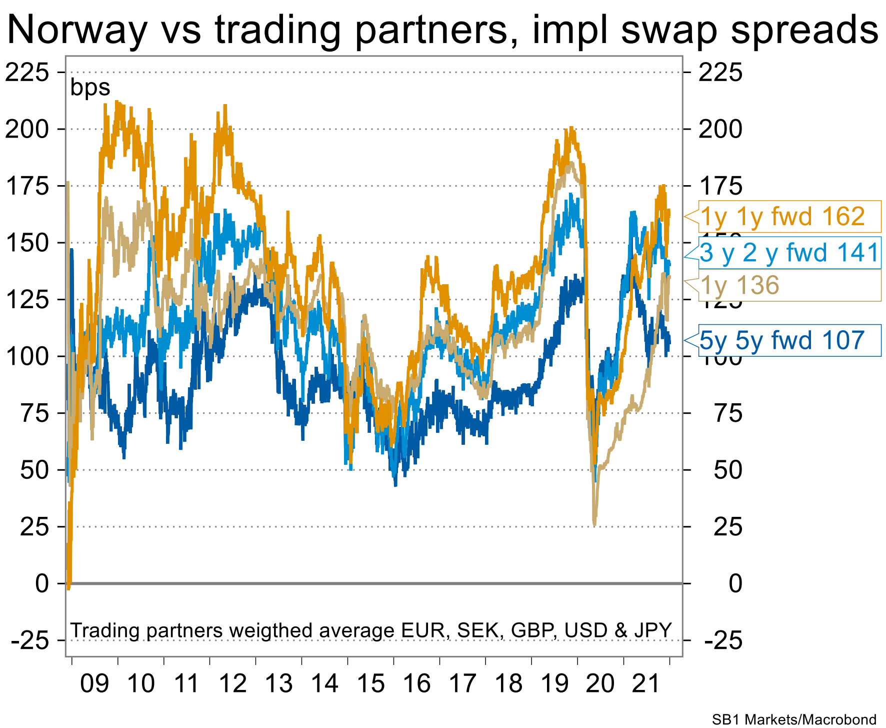


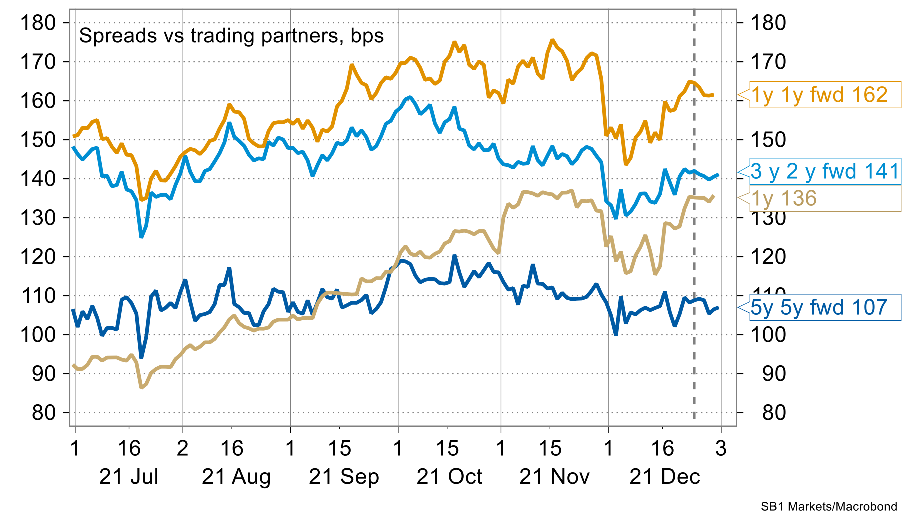


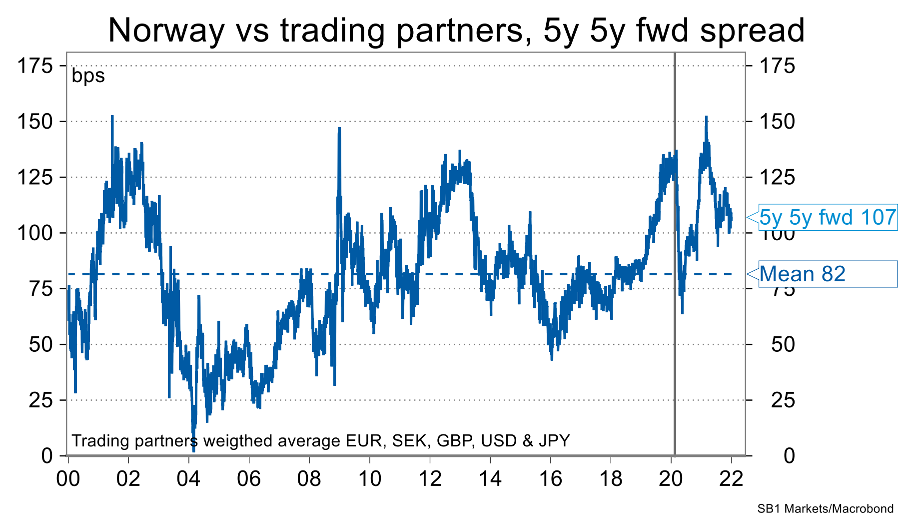




Small changes in spreads during the X-mas holidays







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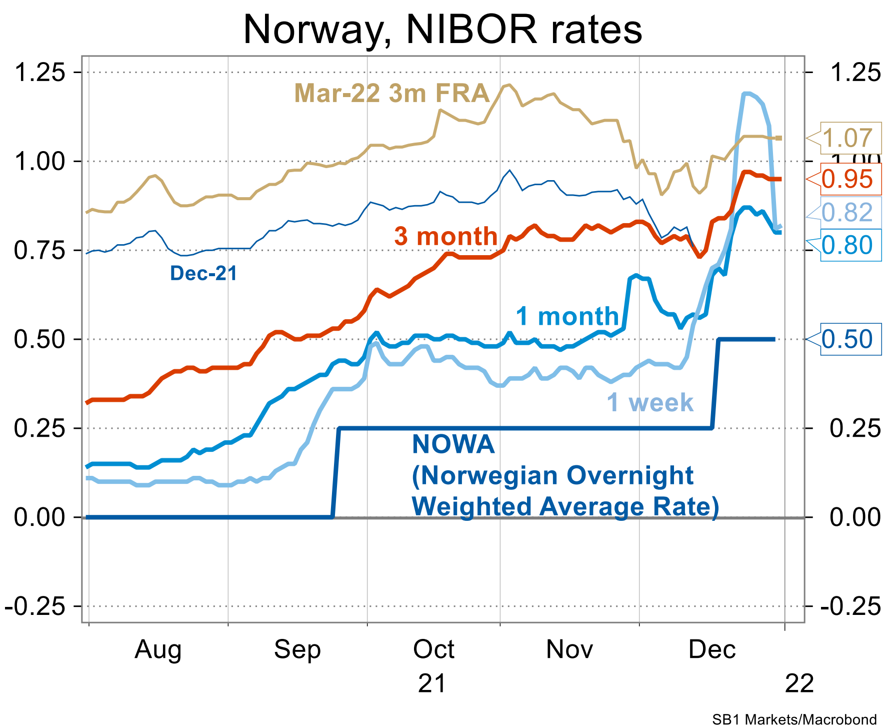
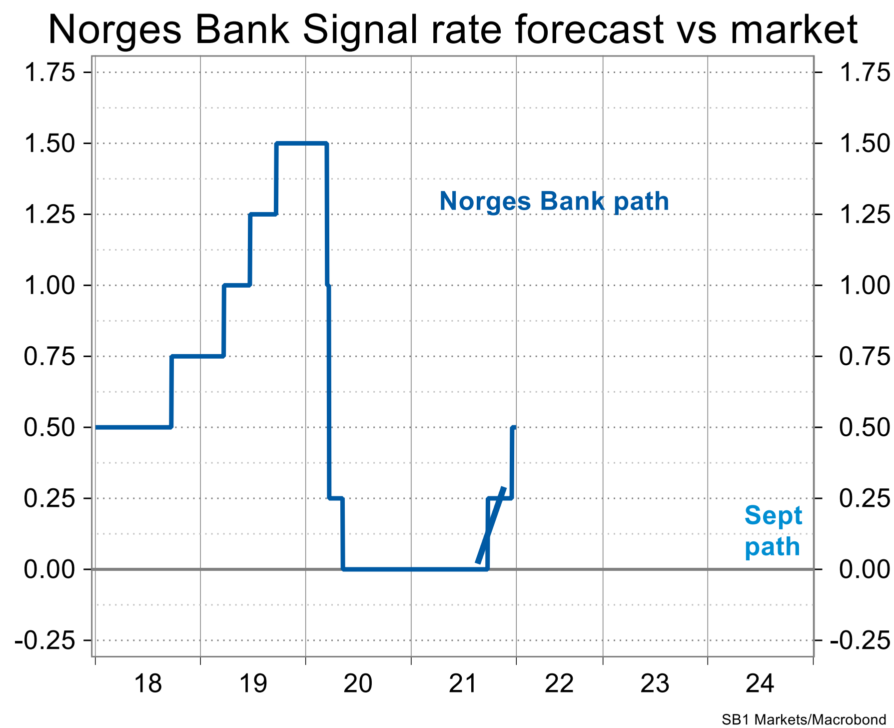
The 3m NIBOR shot up 13 bps before X-mas, down 2 bps last week

The surge no doubt due to year-end liquidity challenges, not due NoBa hike expectations





- The **3 m NIBOR** gained rose 13 bps 0.97% during the week before Christmas. Shorter dated NIBORs rose even more. Last week, rates fell back – the 1 week contract to 0.82%, from 1.19%. The 3 m NIBOR retreated 2 bps to 0.95%
- We expect a further decline, the surge was/is very just due to liquidity challenges – and definitely not due to expectations for another Norges Bank hike the coming days/weeks
- The March-22 3m FRA contract is up 5 bps over the 2 last weeks – in line with rate expectations abroad – and longer dated FRA

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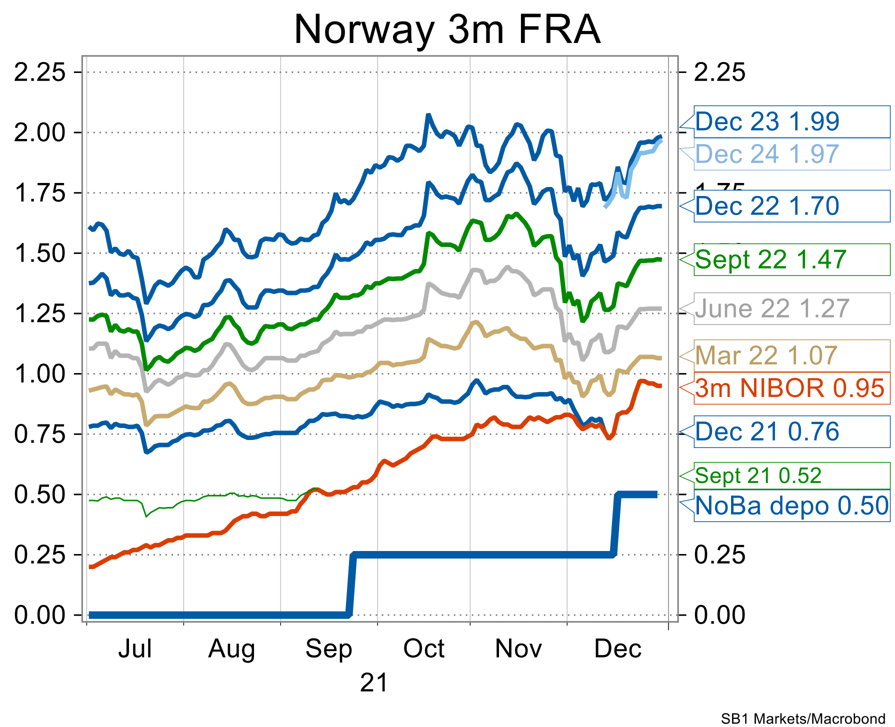
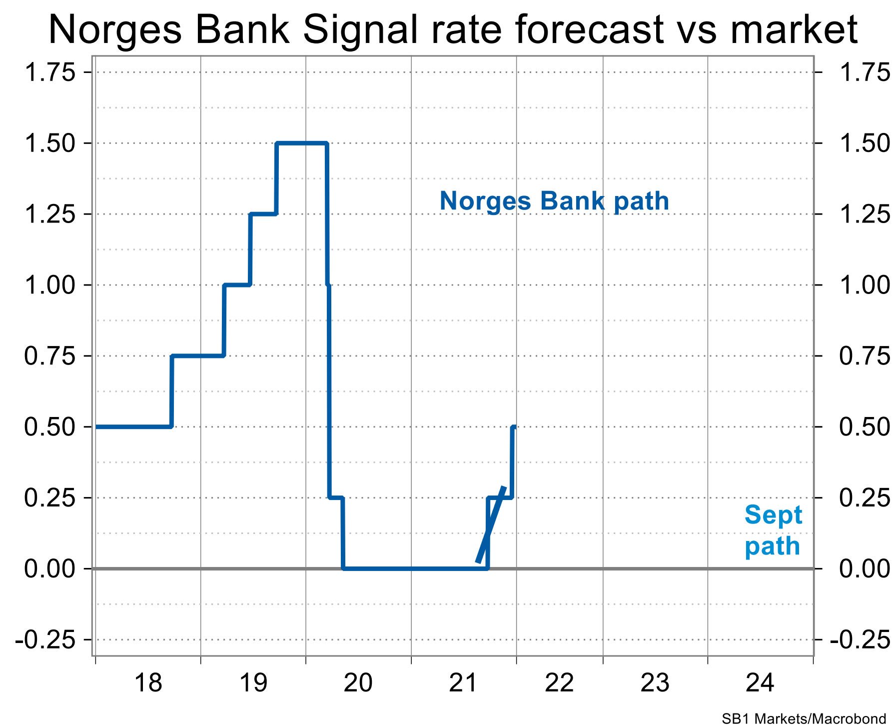
FRAs further up 10 – 14 bps over the past two weeks

Assuming a 35 bps NIBVP

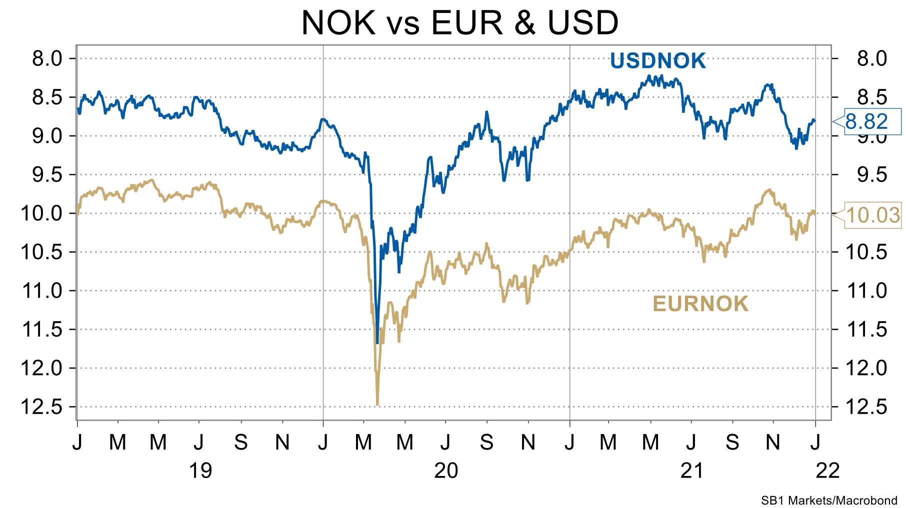


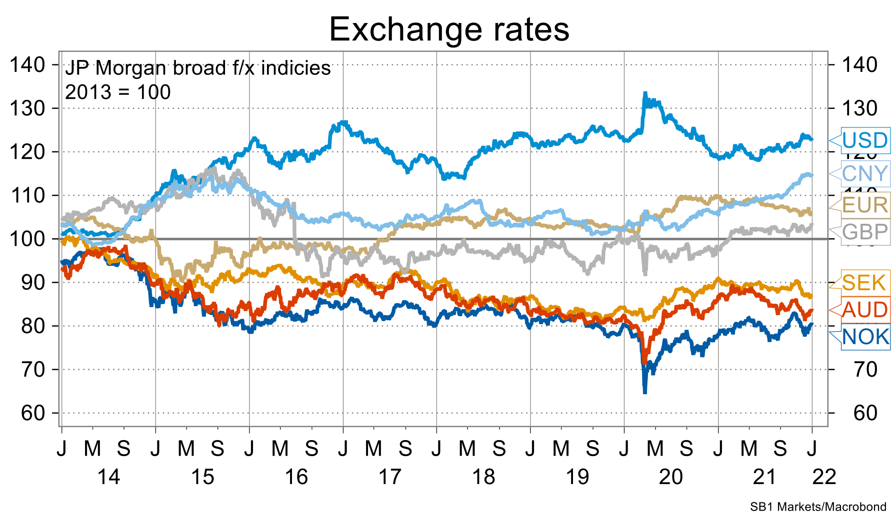


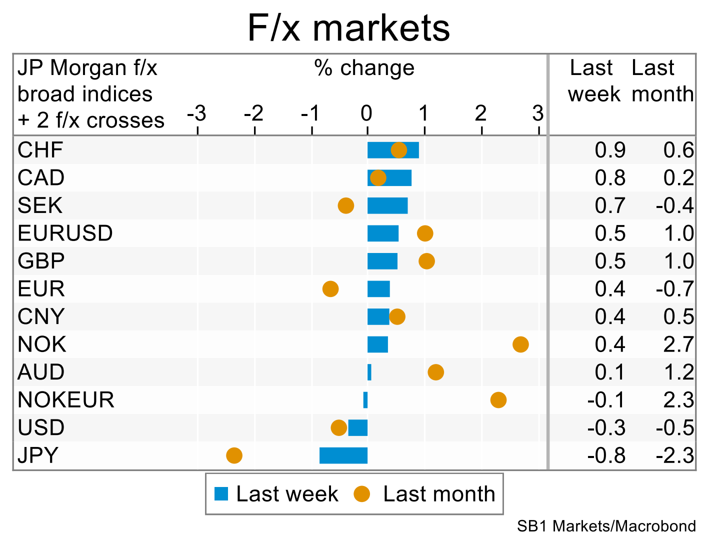
- We still assume a NIBOR spread at 35 bps longer term, even if the current spread is close to 45 bps
- If NoBa hikes March 24, the average NoBa rate will be 0.73% in the March FRA period
- Thus, the **March-22 3 m** contract at 1.07% and a 35 bps NIBOR spread implies an almost 100% probability for a March hike, above the 75% probability NoBa associated to a hike in March
  - » The expected NIBOR spread may of course be somewhat higher than the 35 bps we have assumed

EUR, GBP, super-cyclicals (NOK incl) up, the USD slightly down

The EURNOK ended 2021 at close to 10.00-- The CNY continues upwards, to a record strong

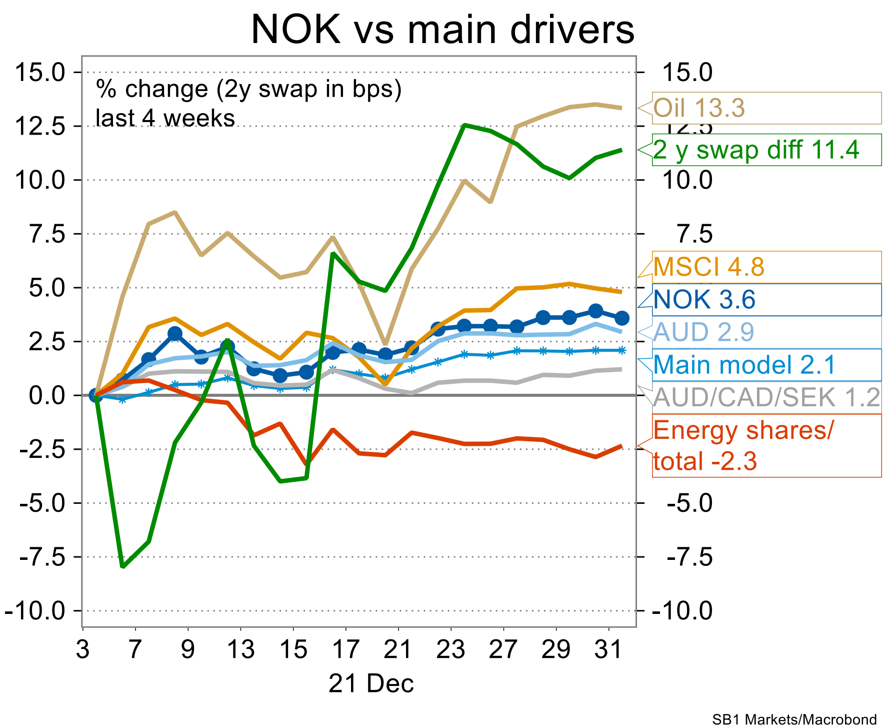


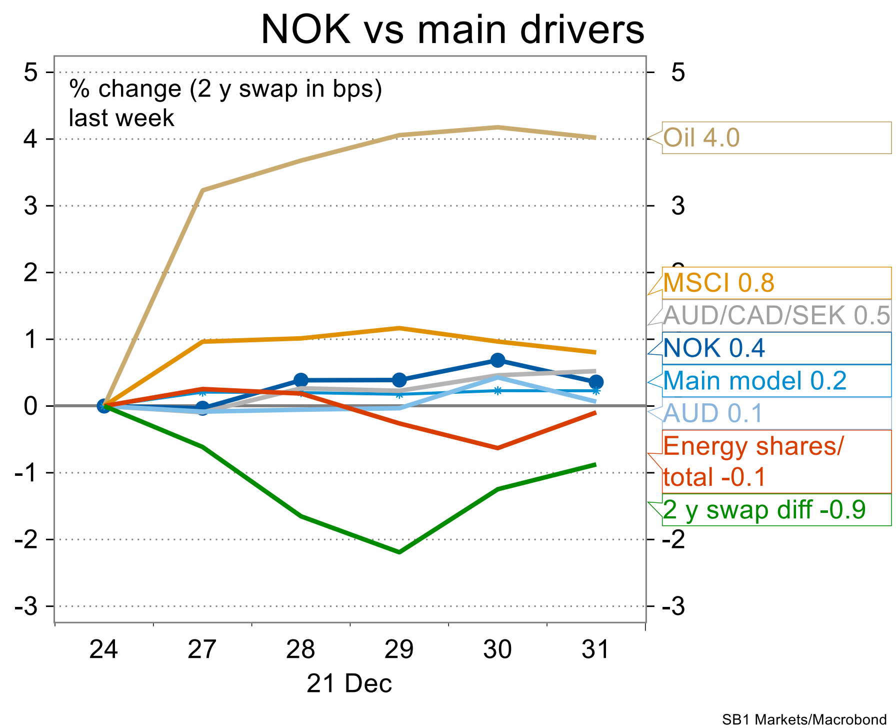




NOK further up during the Christmas week – together with the oil price

NOK up 3.6% since early December,



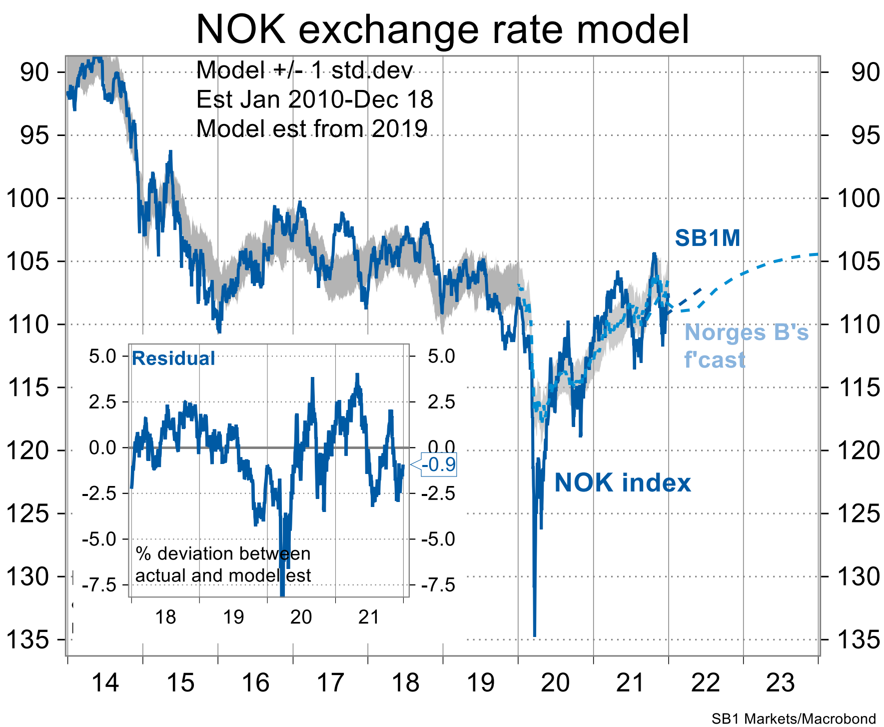


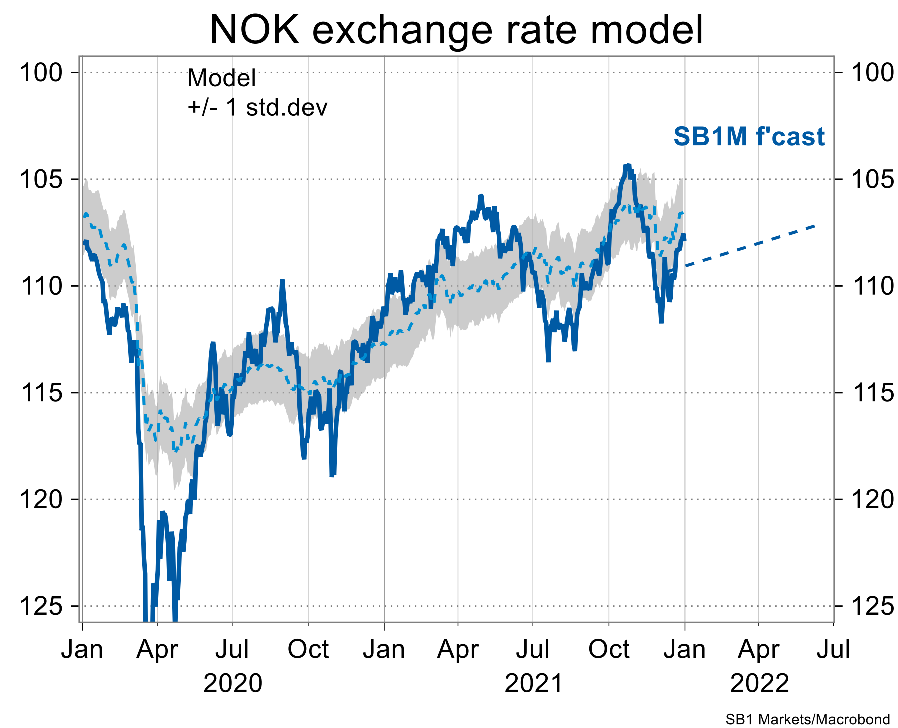
The status vs. the normal drivers:

- ***The NOK appreciated 0.4%, our model estimated 0.2%. The level less then 1% below the model est (unch)***
- The NOK is 4% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -6% one week before X-mas)
- NOK is far (9%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market) (from 8%)

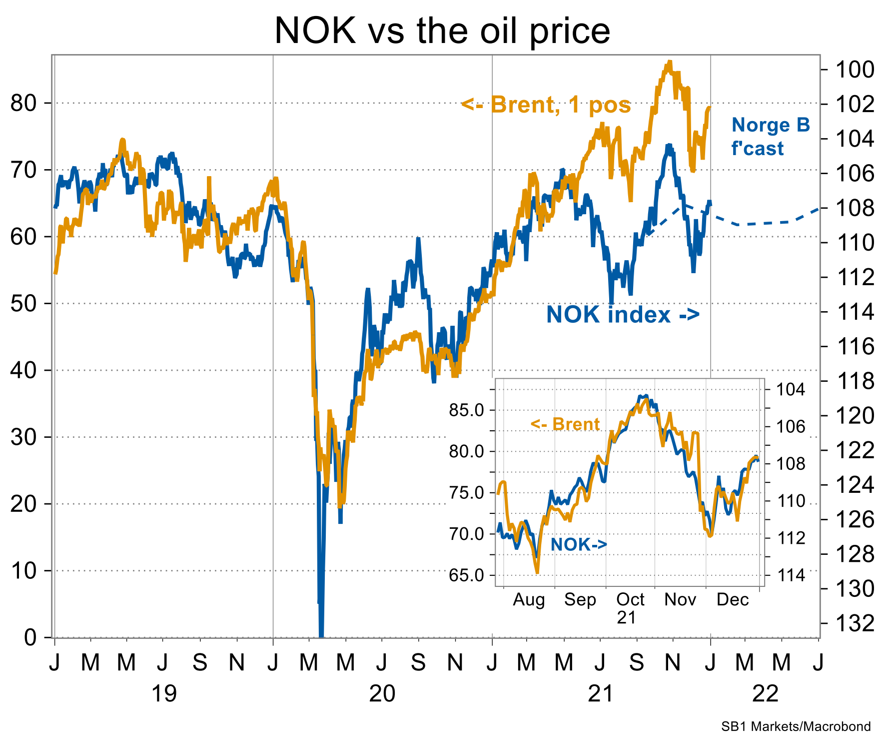
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices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

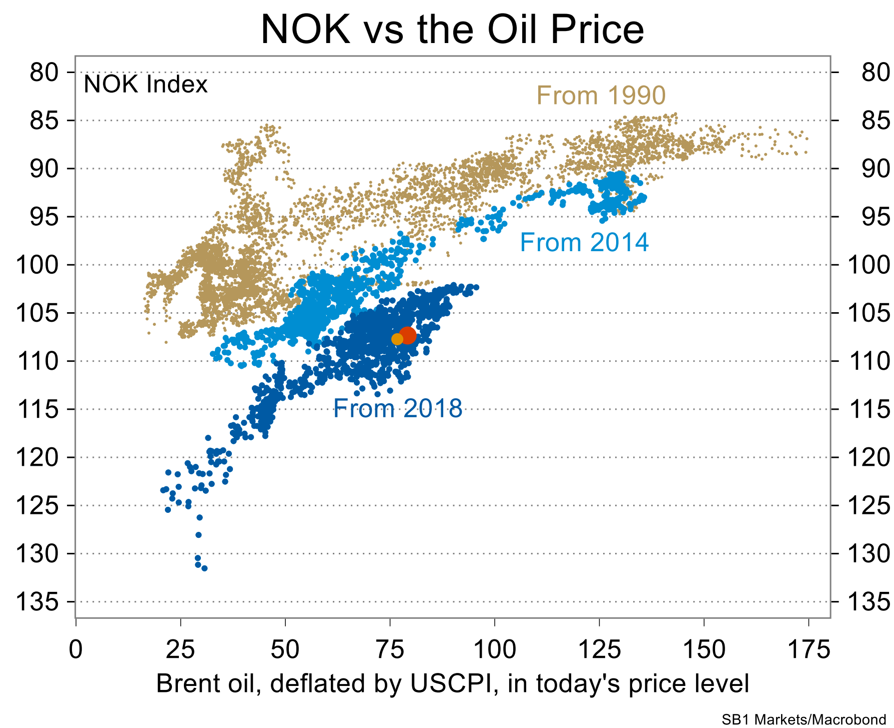
NOK less than 1% below our model estimate





NOK, oil ended the year on a strong note





- 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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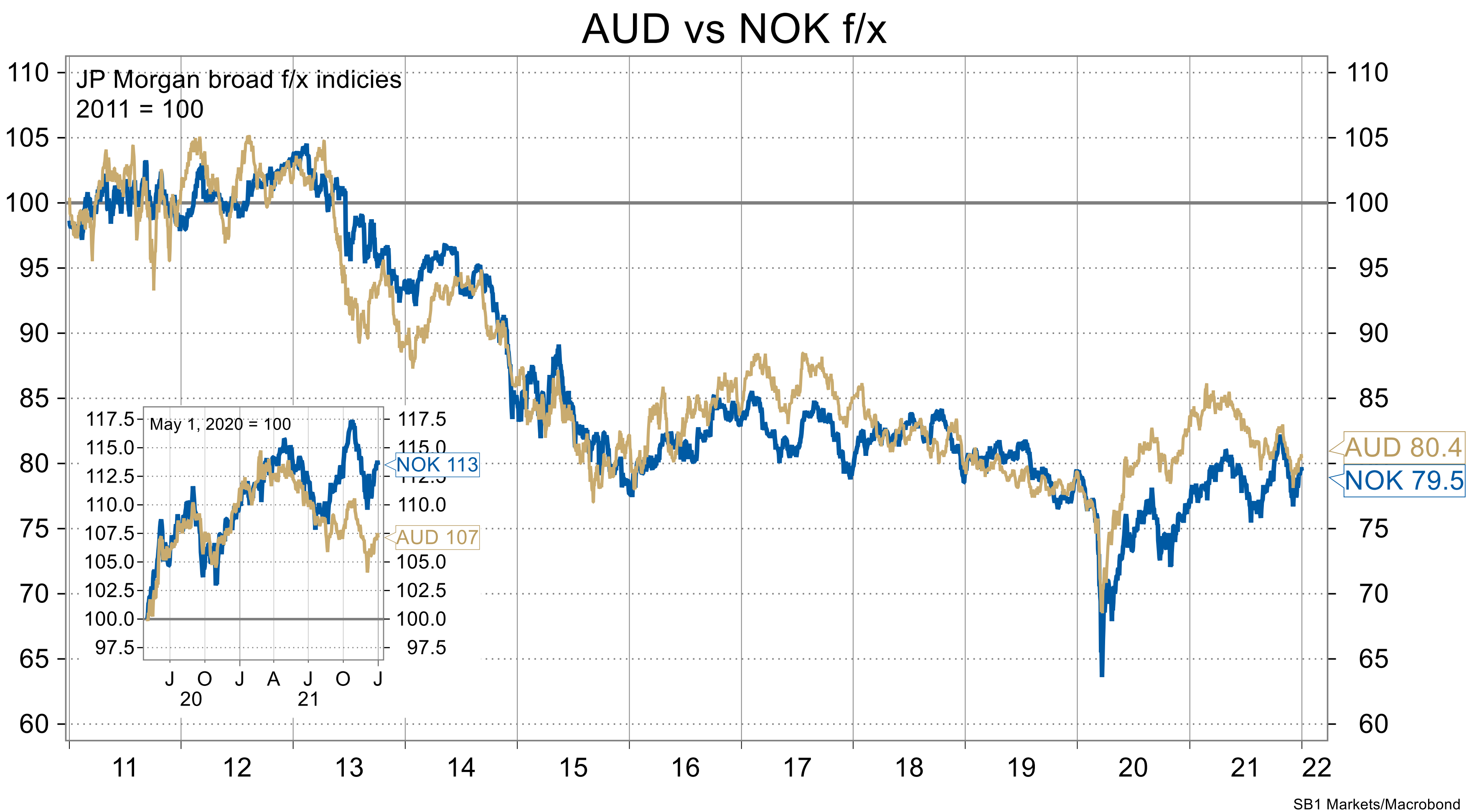
NOK and AUD are still walking hand in hand



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

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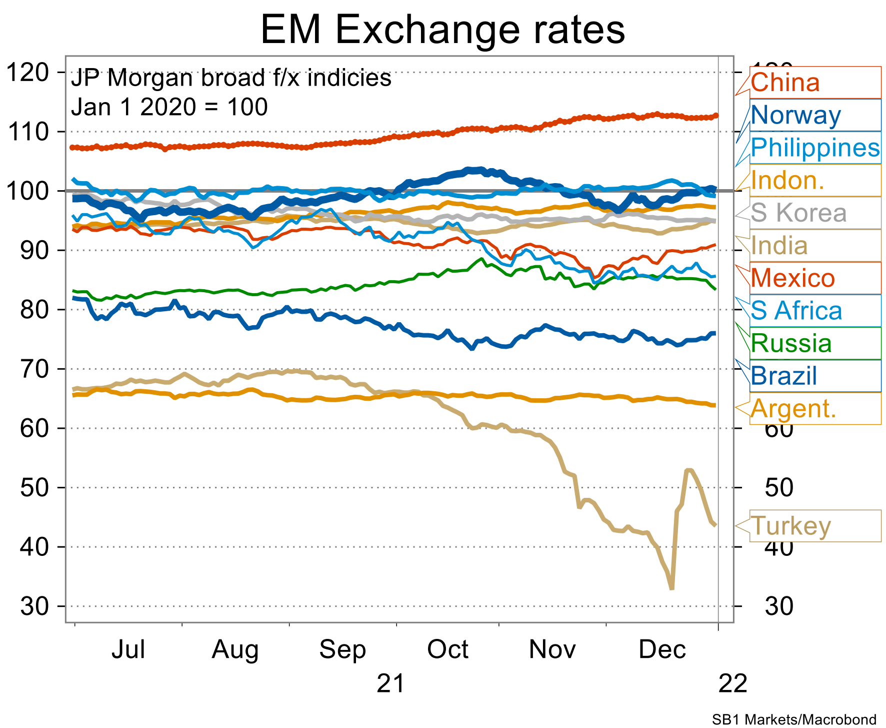
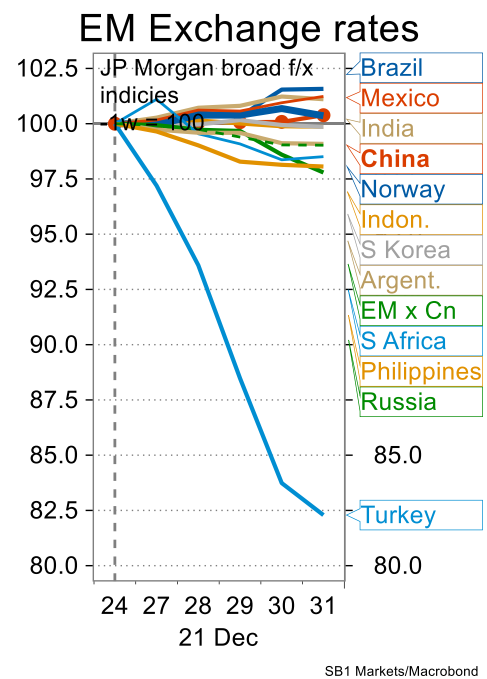
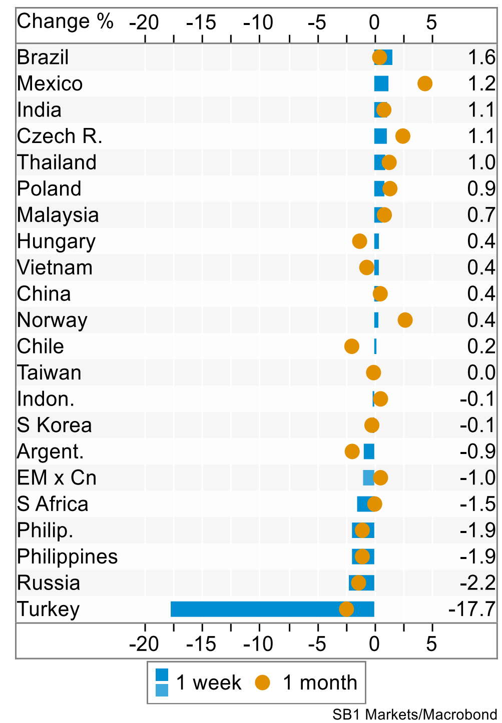
The Turkish lira last year's big loser – and down almost 20% last week

… following the 60% appreciation the prev. week as Erdogan introduced a state guarantee scheme



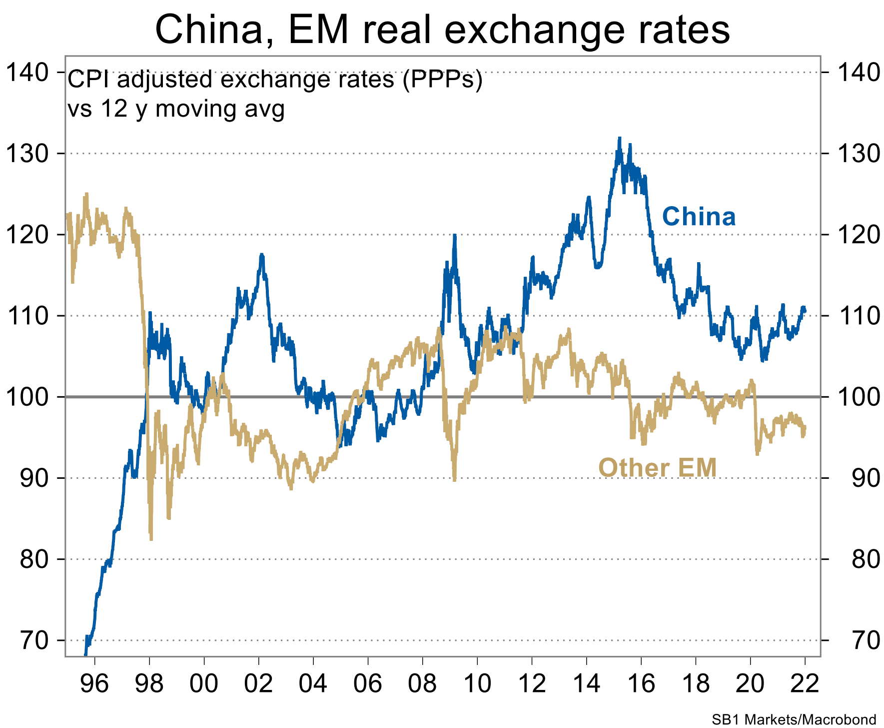


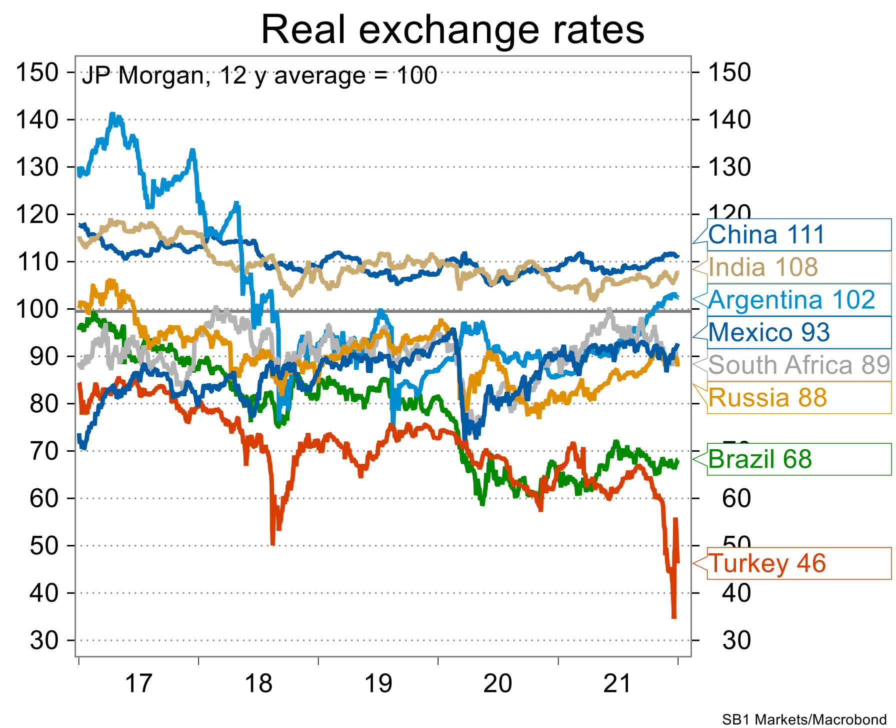


- The TRL is down 54% since Jan 1 2020. And by almost 90% since 2010
- The good news: This is a Erdogan/Turkish problem, not a problem for other parts of the Emerging Markets universe

Real EM x China exchange rates move (very) slowly upwards

… with some exceptions of course. The Chinese RMB trends slowly up too





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